



March Economic Review

Special topic: Will the EU continue tariff-free trade with Ukraine?



EXECUTIVE SUMMARY

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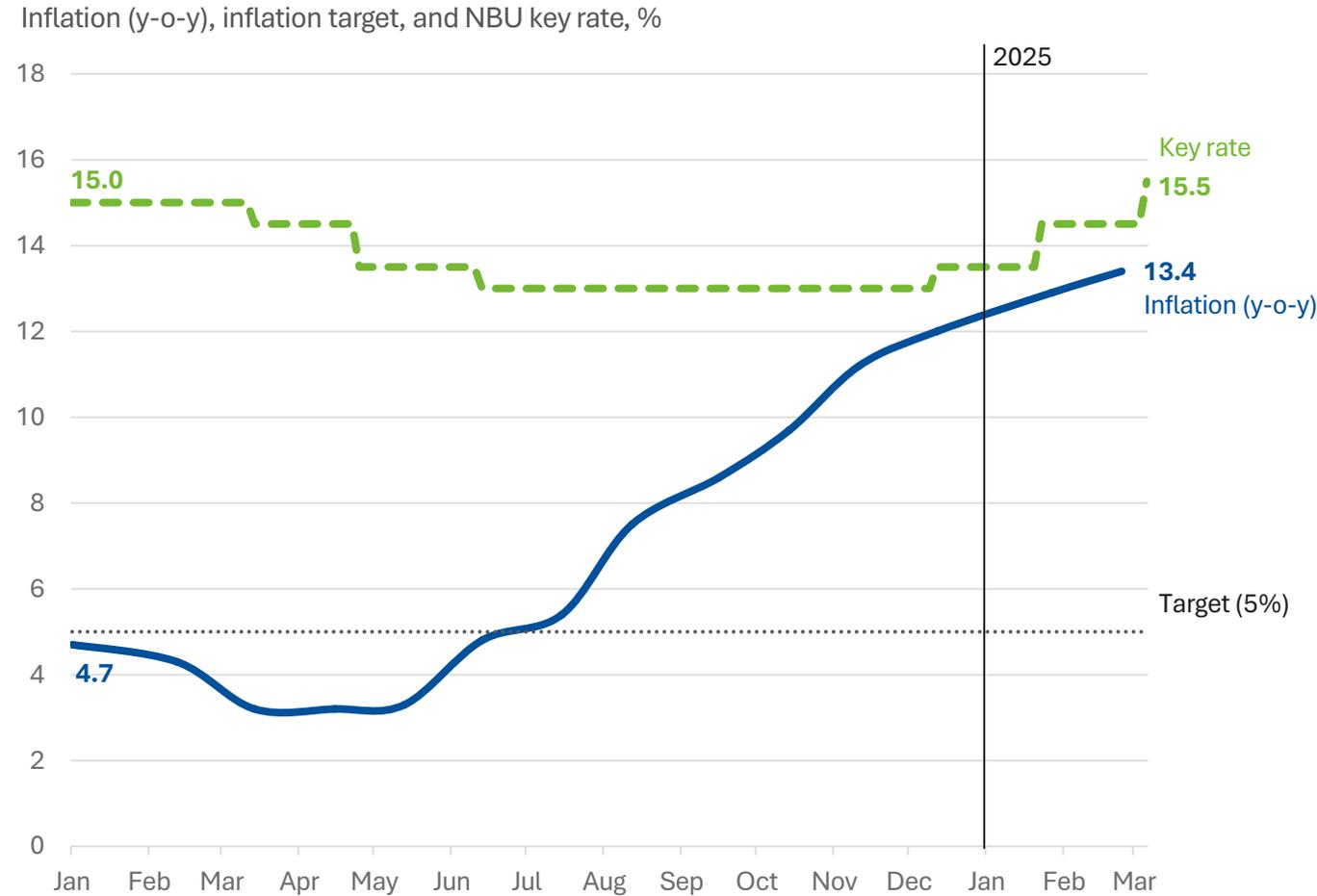
- **Monetary, FX, and Banking sector:** The NBU increased its key policy rate to 15.5% because inflation rose to 13.4% y-o-y in February. In February, Ukraine's international reserves dropped by 6.7% to \$40.1bn, but the hryvnia strengthened against the USD. In January, household deposits continued to grow in some categories; UAH retail and corporate loans exceeded pre-war levels, with retail lending seeing the strongest growth.
- **Sectoral analysis:** Ukraine restores power grid after Russian attacks: Electricity imports doubled in February to balance the power system. Daily output of steel products increased in February; however, monthly production declined due to fewer calendar days. Grain and oilseed exports remain low in February. Agricultural lands market volume surpassed 320,000 ha.
- **Fiscal sector:** February real tax revenues lower than in 2024. Strong VAT and excises did not offset low CPT revenues. Ukraine did not receive foreign financing in February: this was expected; financing resumes in March.
- **Foreign trade:** Agriculture remains the main export sector of Ukraine. Mechanical engineering products lead imports. Since January 2024, China has fallen from third place of Ukraine's top 10 export destinations, as exports dropped by more than half, declining from \$334m to \$142m. The top five importers to Ukraine remained the same compared to January 2024. IT services exports hit 4-year low in January.
- **Special topic:** In June 2022, EU countries unilaterally cancelled administrative barriers, fully opening their markets to Ukrainian products. The current Regulation on temporary trade-liberalisation measures expires in June. Will DCFTA terms be renewed? What should Ukrainian exporters expect?

See our report below for further details.



MONETARY, FX, AND BANKING SECTORS

KEY RATE UP TO 15.5%, INFLATION HIT 13.4%



Sources: NBU and State Statistics Service,

The NBU increased its key policy rate to 15.5% to make hryvnia savings more attractive, stabilise the FX market, and curb inflation expectations, aiming to return inflation to the 5% target.

The full-scale invasion remains the biggest inflation risk. Geopolitical uncertainty raises war-related pressures, including higher defence spending, infrastructure damage (especially in energy), rising production costs, worsening migration trends, and labour shortages.

In February 2025, inflation rose to 13.4% y-o-y (0.8% m-o-m), mainly due to higher business costs, especially labour expenses.

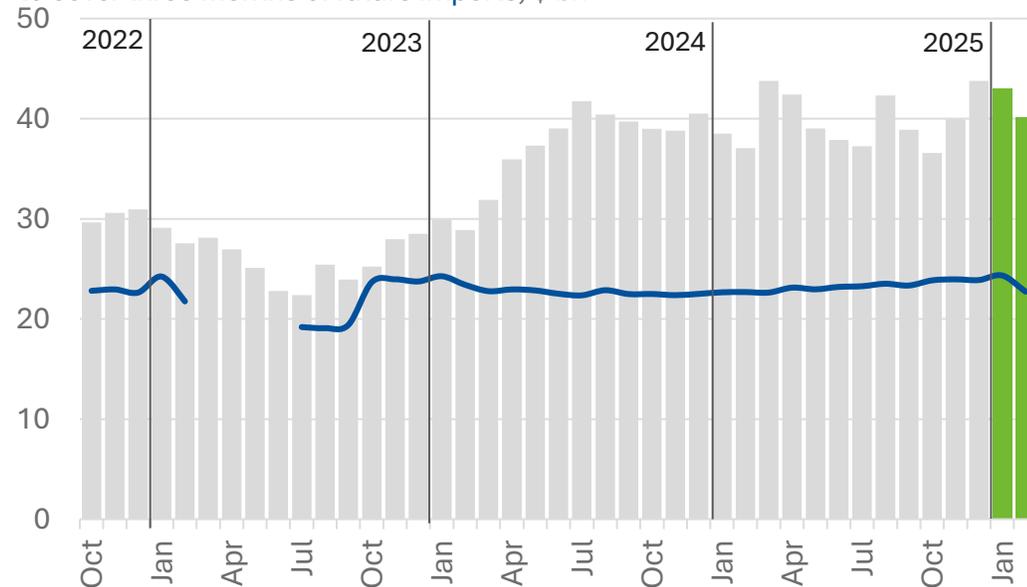
Inflation is expected to rise further in the coming months due to poor past harvests and increasing energy and labour costs.

RESERVES DROP TO \$40BN, UAH STRENGTHENS AGAINST THE USD

In February 2025, Ukraine’s international reserves dropped by 6.7% to \$40.1bn, covering 4.9 months of imports—well above the minimum requirement of 3 months. The decline was driven by NBU’s foreign exchange interventions and debt repayments, partially offset by domestic FX debt issuance, as international budget aid inflows were absent.

In February 2025, net FX demand fell across both market segments, driven by stable exports and improved exchange rate expectations due to the NBU’s tighter policy. As a result, FX sales dropped to \$3.1bn, while the hryvnia appreciated, keeping the cash-official rate spread below 0.7%.

Gross international reserves and their amount needed to cover three months of future imports, \$ bn



Source: NBU. No future imports data for March-June 2022

Average daily official and market exchange rates UAH/USD

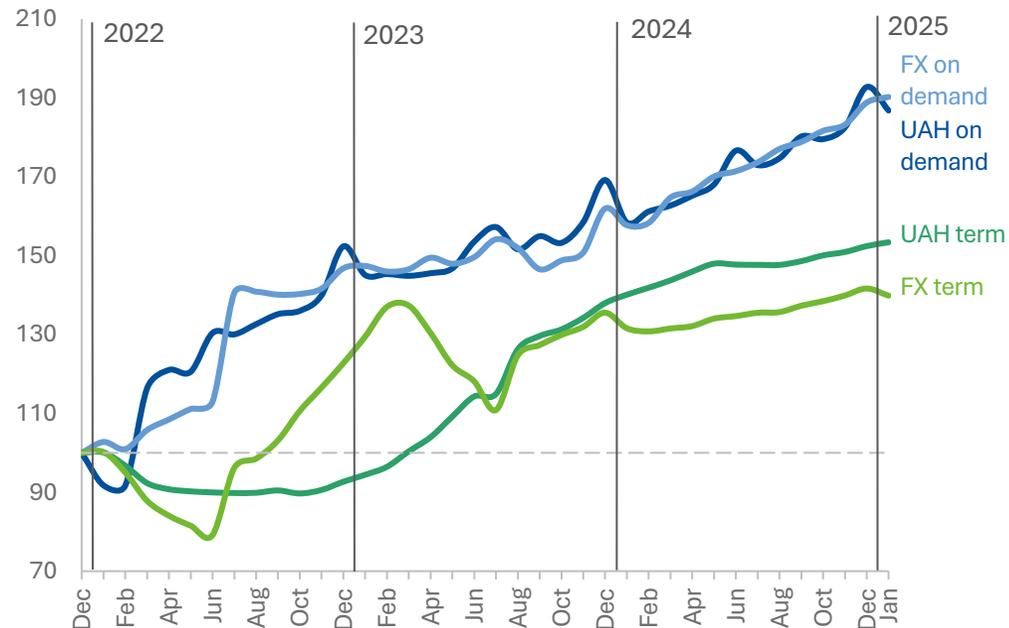


Source: NBU and minfin.com.ua

FRACTIONAL DEPOSIT GROWTH & RISE IN UAH LOANS

In January 2025, household deposits continued to grow in some categories. FX on-demand deposits reached nearly 190% of their December 2021 level, reflecting a strong preference for liquidity. UAH on-demand deposits also increased steadily, while UAH and FX term deposits remained stable, indicating a cautious approach to long-term savings.

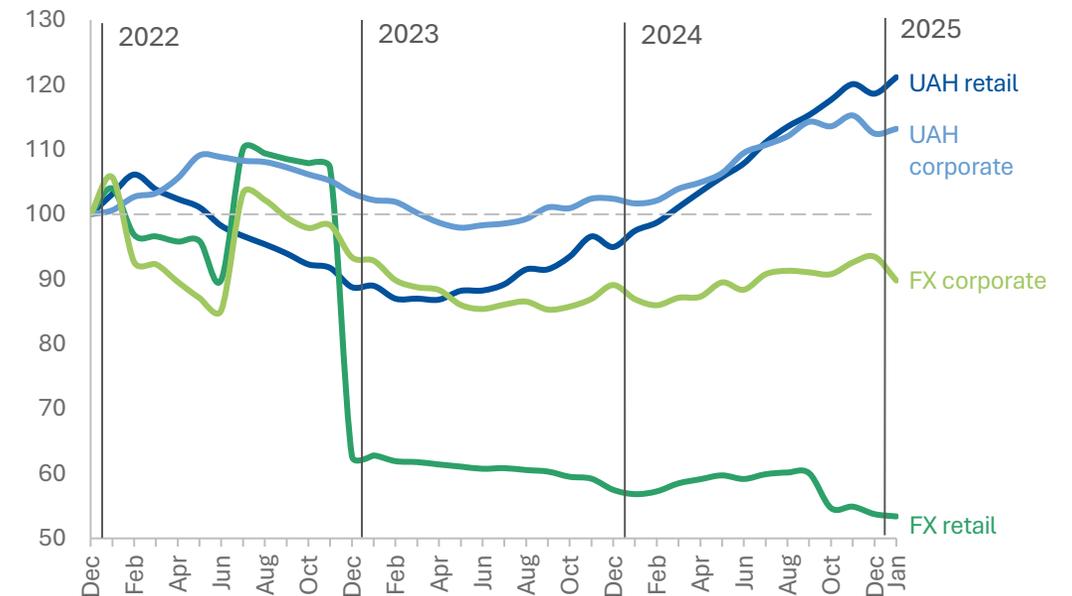
Household deposits by currency and maturity, index, December 2021 = 100



Source: NBU

In January 2025, UAH retail and corporate loans exceeded pre-war levels, with retail lending seeing the strongest growth. Meanwhile, FX corporate loans remained stable, and FX retail loans declined due to limited demand and stricter lending conditions. This trend highlights a recovery in UAH lending despite higher interest rates.

Loans to residents by currency and sector, index, December 2021 = 100



Source: NBU

SECTORAL ANALYSIS

UKRAINE RESTORES POWER GRID AFTER RUSSIAN ATTACKS

Electricity imports doubled in February to balance the power system

In February, **Russia continued targeting Ukraine's energy infrastructure**, causing emergency power outages and increasing the need for electricity imports.

Due to cold weather, **net electricity imports more than doubled** to 212 GWh, driven by 244 GWh of imports and 33 GWh of exports.

Ukraine was a net electricity importer for 24 days and a net exporter for just 4 days.

On March 2, Ukraine imported 21 GWh of electricity. This was the largest daily import since the beginning of the year.

Then an early spring came to Ukraine: unprecedented high temperatures allowed to reduce electricity imports, and **on 8-9 March Ukraine was a net exporter of electricity again.**

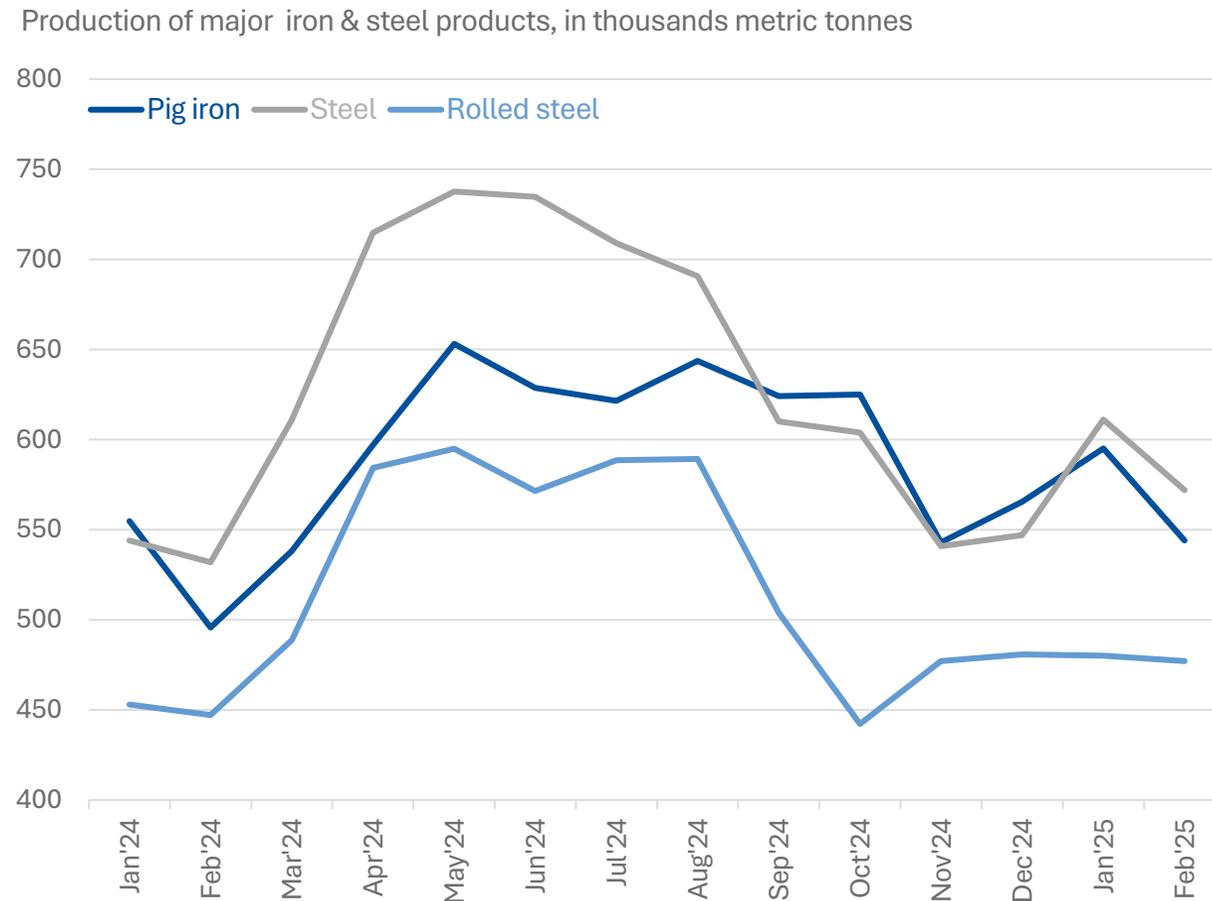
Ukraine net electricity commercial exports in 2024-2025, GWh



Source: ENTSO-E

DAILY OUTPUT OF STEEL PRODUCTS INCREASED IN FEBRUARY

However, monthly production declined due to fewer calendar days



Source: Ukrmetallurgprom

On March 12, **new US tariffs took effect, imposing a 25% duty on steel and aluminum imports** from all countries.

Meanwhile, **the US and Ukraine plan to fast-track a comprehensive agreement for developing Ukraine's critical mineral resources**, as stated in a joint declaration following their meeting in Saudi Arabia.

In February Ukraine produced 572 kt of steel (-6% m-o-m), 544 kt of pig iron (-9%), and 477 kt of rolled steel (-1%). The decline in production is completely driven by fewer calendar days in February.

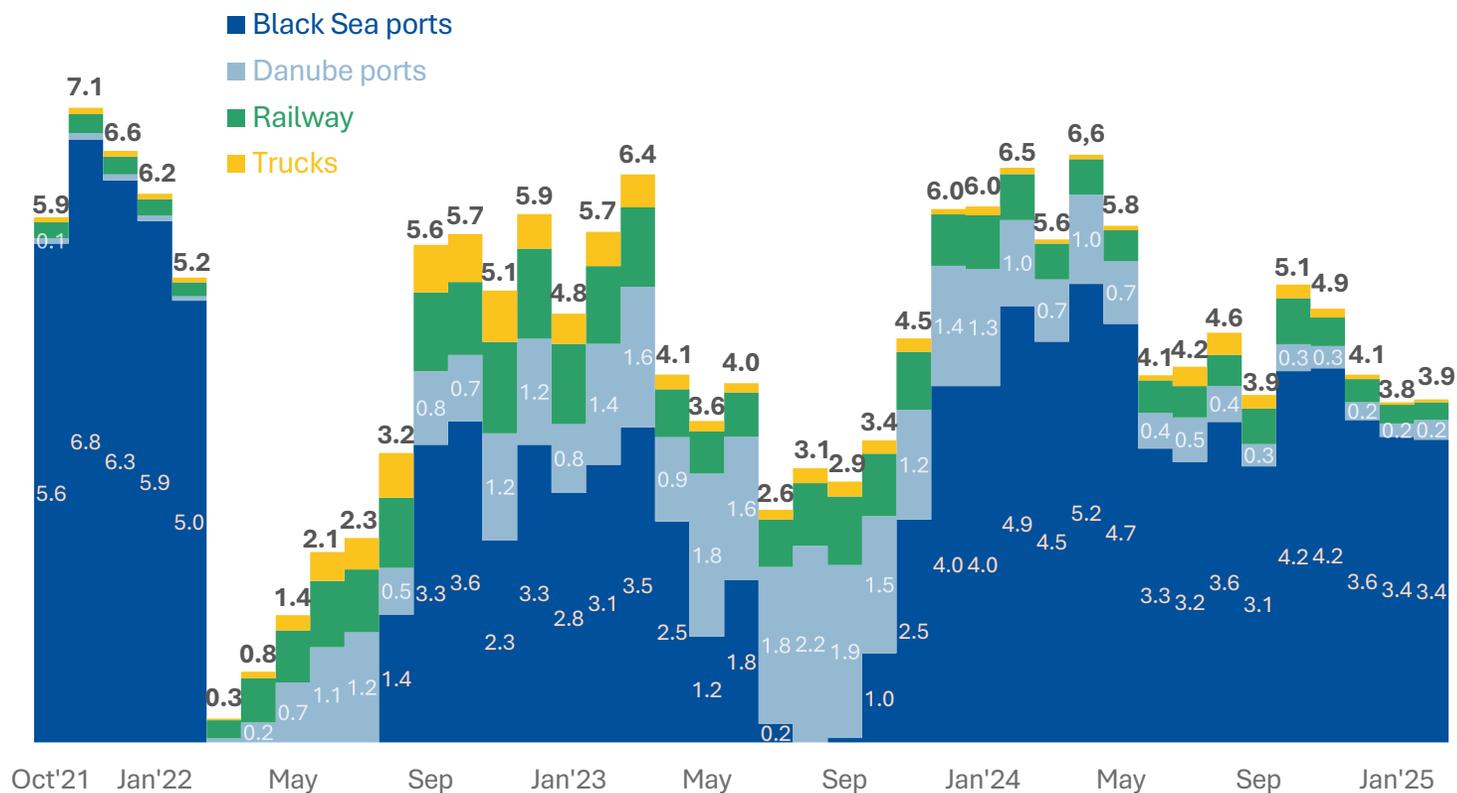
In 2024, **Ukraine imported 1.24 million tons of iron & steel products**, with Turkey supplying over half.

In 2024, Ukraine also produced 108,200 tons of ferroalloys, mostly silicomanganese (104,200 tons, 96%). However, ferroalloy exports plunged 4.5x to 77,300 tons, with Poland, Turkey, and Italy as the top buyers.

GRAIN AND OILSEED EXPORTS REMAINED LOW IN FEBRUARY

Meanwhile, Ukraine starts construction of a new agro-processing plant

Exports of grain and oilseeds by transport and total, mt



Source: Dragon Capital estimate

In February 2025, grain and oilseed exports grew 1% to 3.85 mt, the second-lowest volume in last 16 months.

As in 2021, **Black Sea ports remain the key export route**, handling over 88% of total agricultural shipments in February.

Seed exports grew to \$123m in 2024, with corn seeds making up 96.5% of the total.

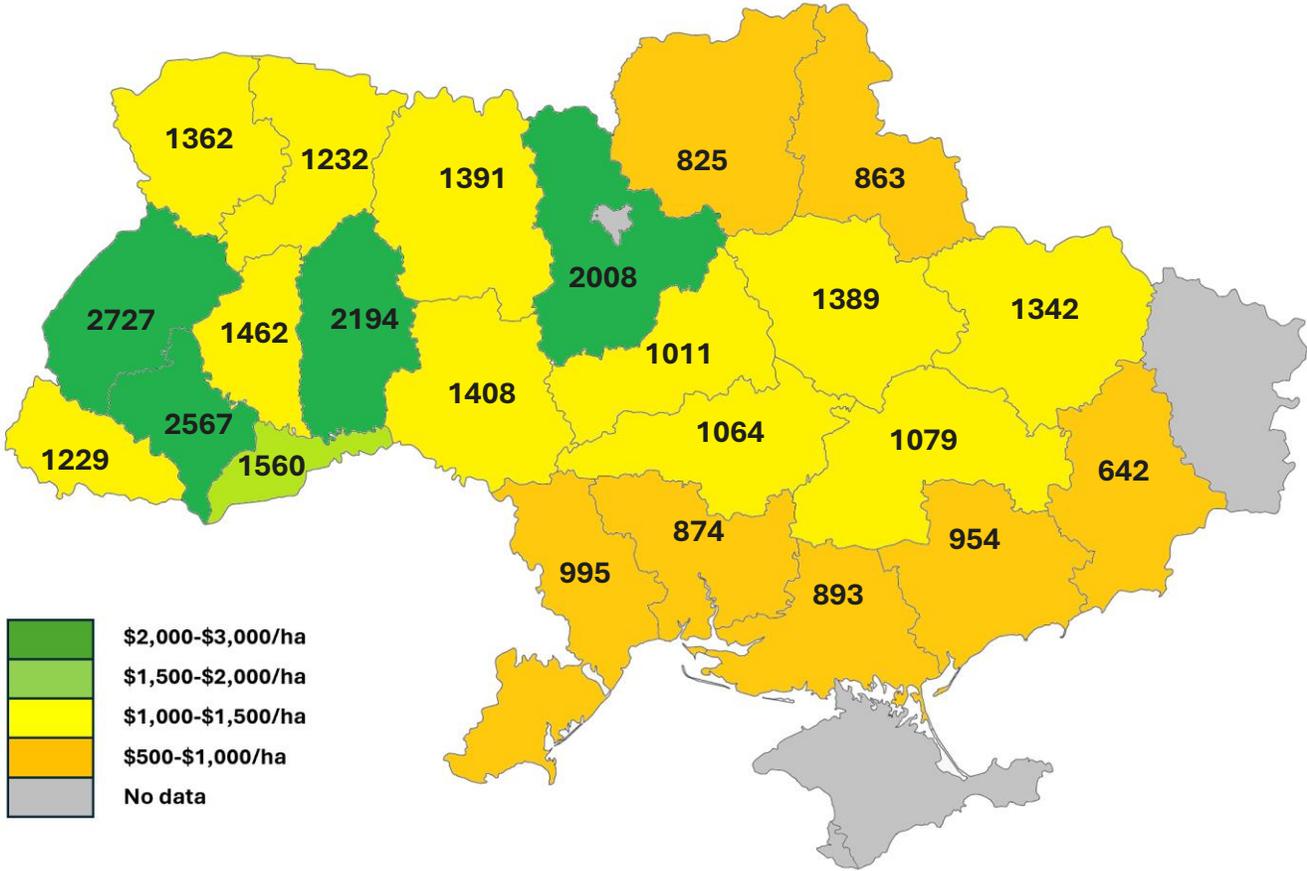
Astarta has announced the start of construction of a new oilseed processing plant, including soybean and rapeseed, in Khmelnytsky region. The planned capacity of the plant is 400,000 tons per year, with total investment of \$76 m.

Meanwhile, bird flu in Poland has led to an egg shortage. As the EU's largest egg supplier, Ukraine is well-positioned to fill the gap in the Polish market.

AGRICULTURAL LANDS MARKET VOLUME SURPASSED 320,000 HA

Lviv oblast has the priciest land; frontline regions the cheapest

Agricultural land price by region, \$/ha



In February 2025, the average price per hectare of agricultural land remained stable at \$1,315. Prices were highest in Lviv region (\$3,206) and lowest in frontline Donetsk region (\$642).

In 2024, a record 106,669 land plots covering 320,660 hectares were sold—the highest since the land market opened.

To support farmers, the Agrarian Committee of the Verkhovna Rada and the All-Ukrainian Congress of Farmers propose simplifying military exemptions for those cultivating up to 500 hectares. The plan allows:

- 1 exempt person (head, manager, or founder) for farms of 20–100 ha.
- 50% of employees exempt, up to 1 per 100 ha, for farms of 100–500 ha.

Source: Opendatabot

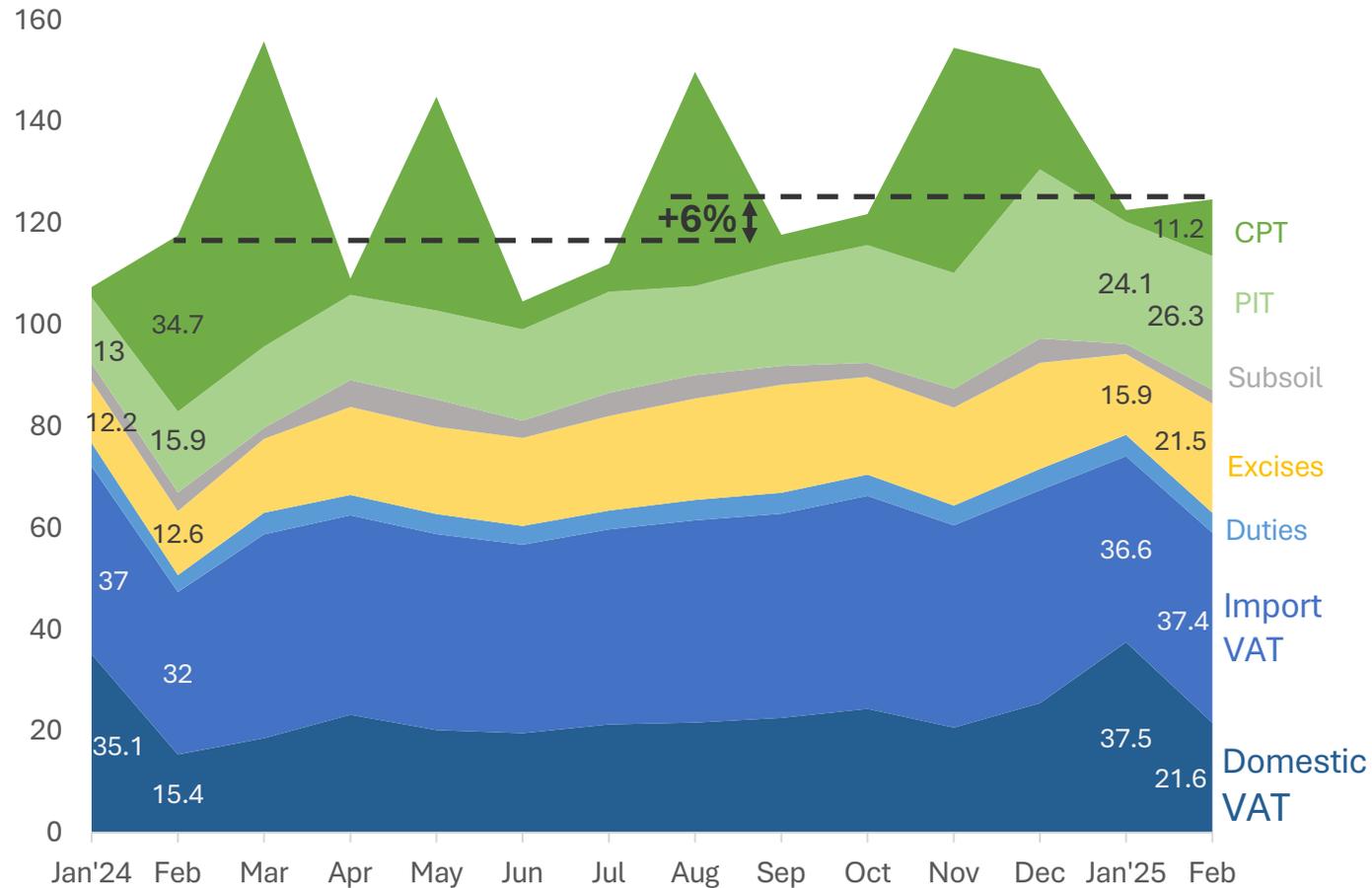
FISCAL SECTOR



FEBRUARY REAL TAX REVENUES LOWER THAN IN 2024

Strong VAT and excises did not offset low CPT revenues

State general budget fund tax revenues, UAH bn



Source: Ministry of Finance. Note: based on the Treasury's preliminary budget data released by the MoF

General budget's February tax revenues reached UAH 124.7 bn, adding just 6% y-o-y vs 13.4% CPI.

Domestic VAT rose 40% y-o-y, driven by strong gross revenues and moderate refunds. Growth in domestic VAT (+17%) outpaced VAT on imports (+7%) in the first two months.

If this trend continues, it may indicate changes in VAT administration under the new STS leadership.

Excise taxes grew 70% y-o-y, boosted by higher fuel rates, strong tobacco excise revenues, and better administration.

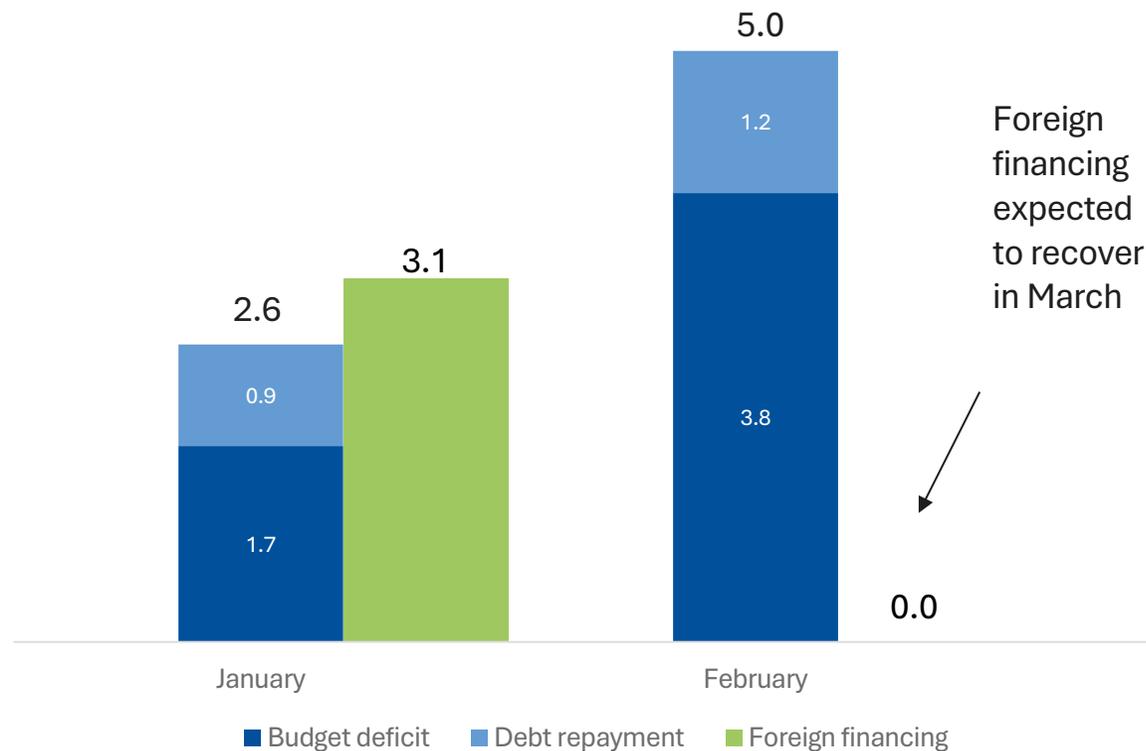
Corporate profit tax (CPT) revenue was only one-third of last year's level.

The law on increasing tobacco excise taxes is still awaiting the President's signature, resulting in an estimated UAH 1.8 bn revenue loss.

UKRAINE DID NOT RECEIVE FOREIGN FINANCING IN FEBRUARY

This was expected; financing resumes in March

Foreign financing, state budget deficit and debt repayment in 2025, \$bn



Sources: Ministry of Finance, NBU, CES calculations

- **No Foreign Aid in February** – For the first time since the full-scale invasion, Ukraine received no foreign budgetary aid.
- **Not a Funding Halt** – This gap is due to the 2025 payment schedule, not a suspension of funding.
- **Aid Resumes in March** – The EU has already announced a €3.5 bn tranche; Canada disbursed \$1.7 bn today.
- **Surplus Expected** – By the end of 2025, disbursed international funding should exceed needs.

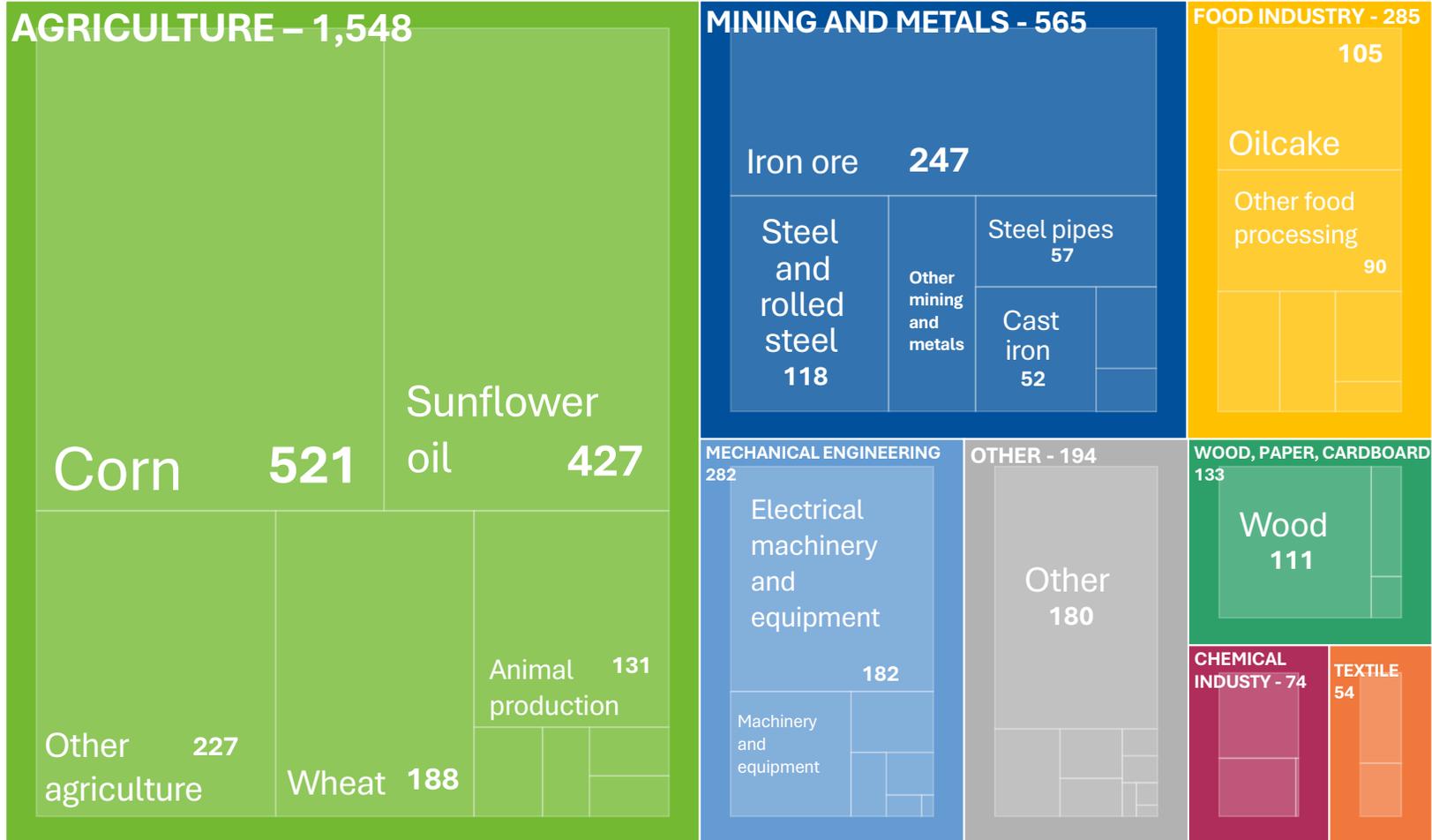


FOREIGN TRADE

AGRICULTURE REMAINS THE MAIN EXPORT SECTOR

Exports in January 2025: goods structure

Export of goods in January 2025, \$ million



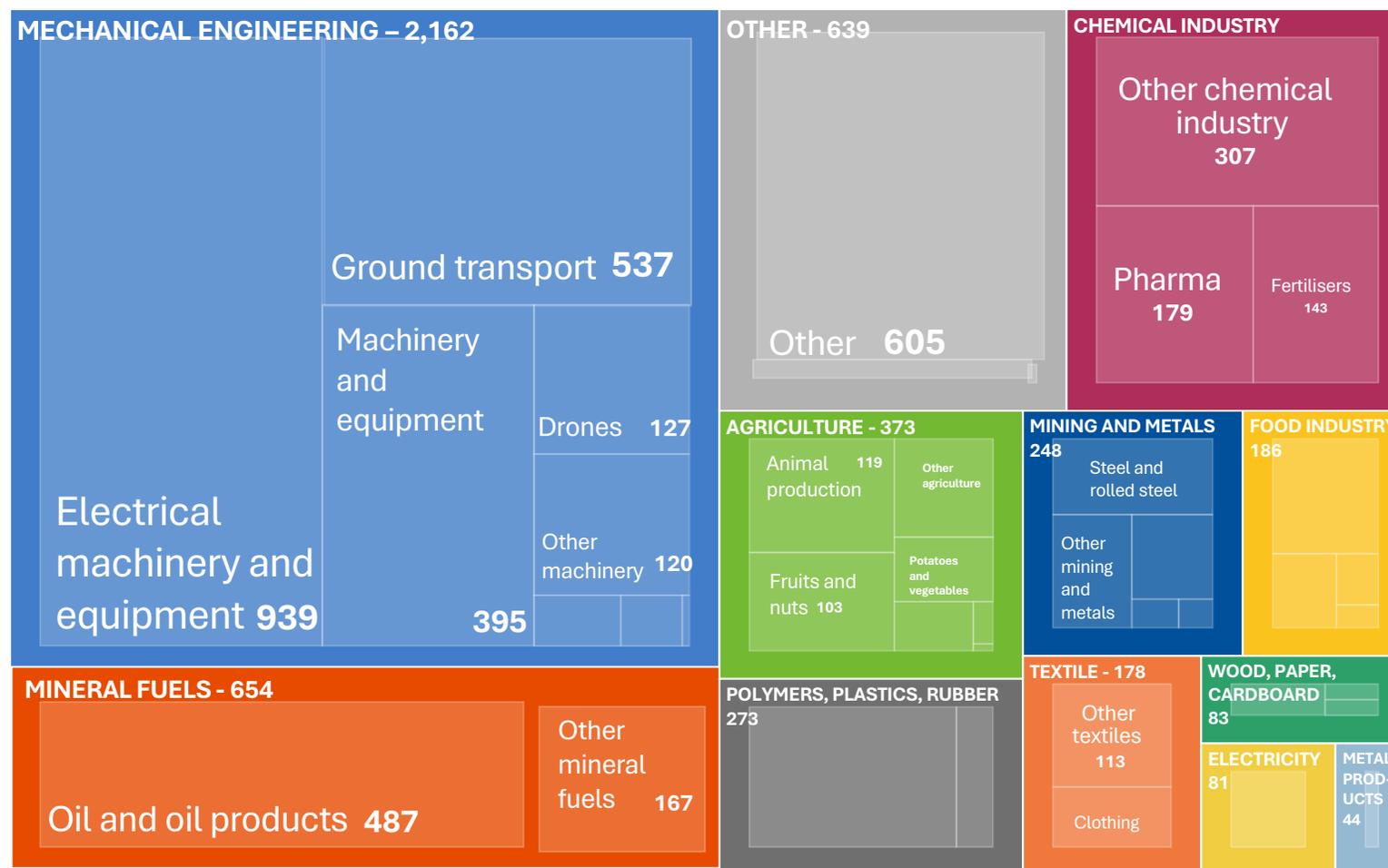
- In January 2025, Ukraine exported goods worth \$3.15 bn.
- Agricultural products led exports with nearly half (49%), totaling \$1.55 bn.
- Mining and metals came second at \$565 million (18%), while food processing (\$284.5 m) and machine building (\$282 m) each accounted for 9%.

Sources: State Customs Service, CES calculations

MECHANICAL ENGINEERING PRODUCTS LEAD IMPORTS

Imports in January 2025: goods structure

Imports of goods in January 2025, \$ million

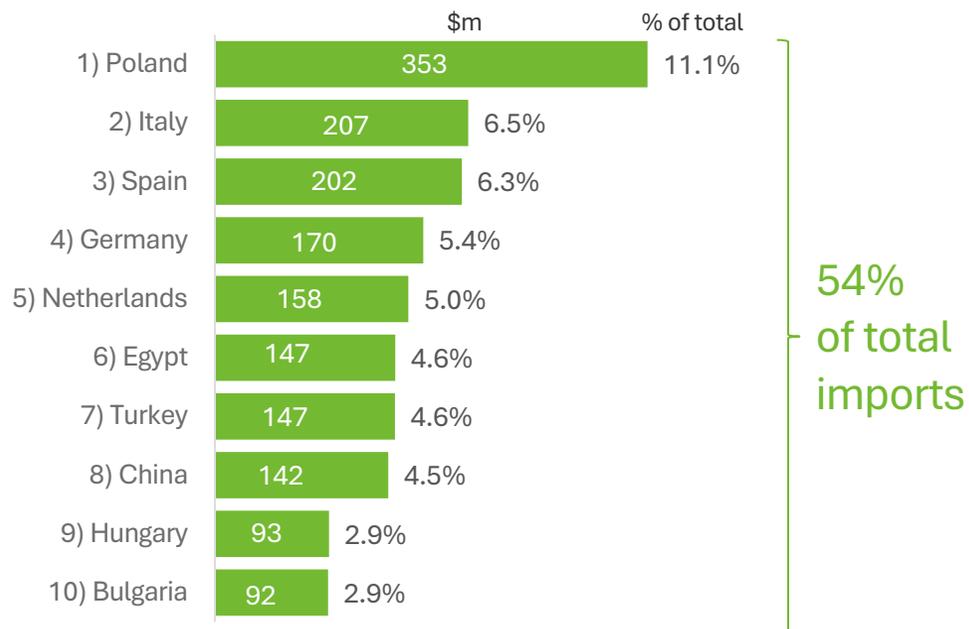


- In January 2025, Ukraine imported goods worth \$5.55 bn.
- **Mechanical engineering products dominated imports (39%)**, particularly electrical equipment such as generators and transformers.
- Mineral fuels, mainly oil and oil products, made up another 12%.

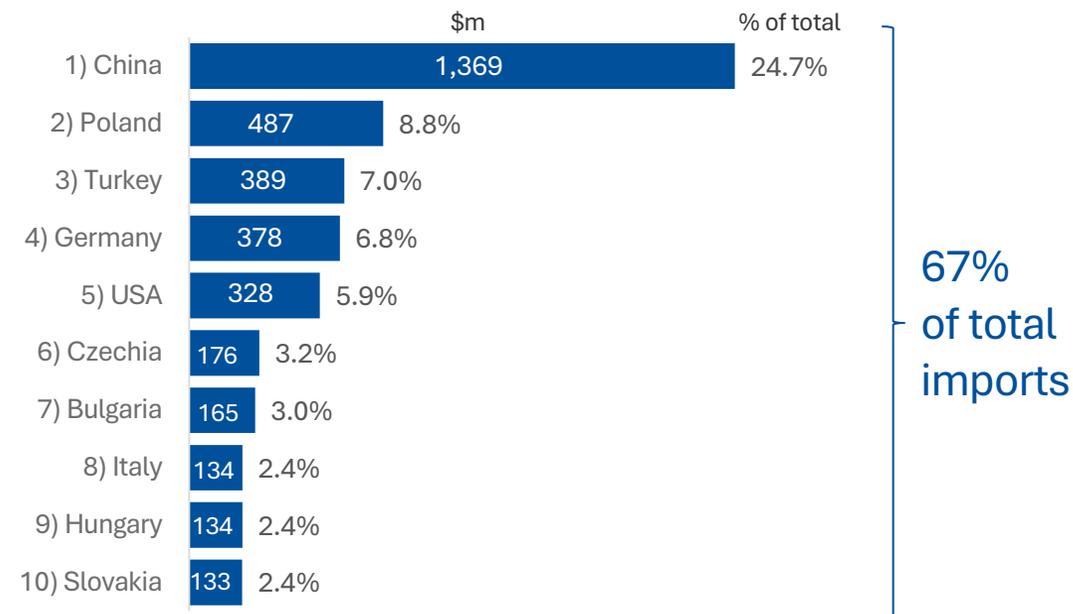
Sources: State Customs Service, CES calculations

FOREIGN TRADE OF GOODS IN JANUARY 2025: GEOGRAPHY

Ukraine's Top 10 Export Destinations



Ukraine's Top 10 Import Sources



- Since January 2024, China has fallen from third place of Ukraine's top 10 export destinations, as exports dropped by more than half, declining from \$334m to \$142m.

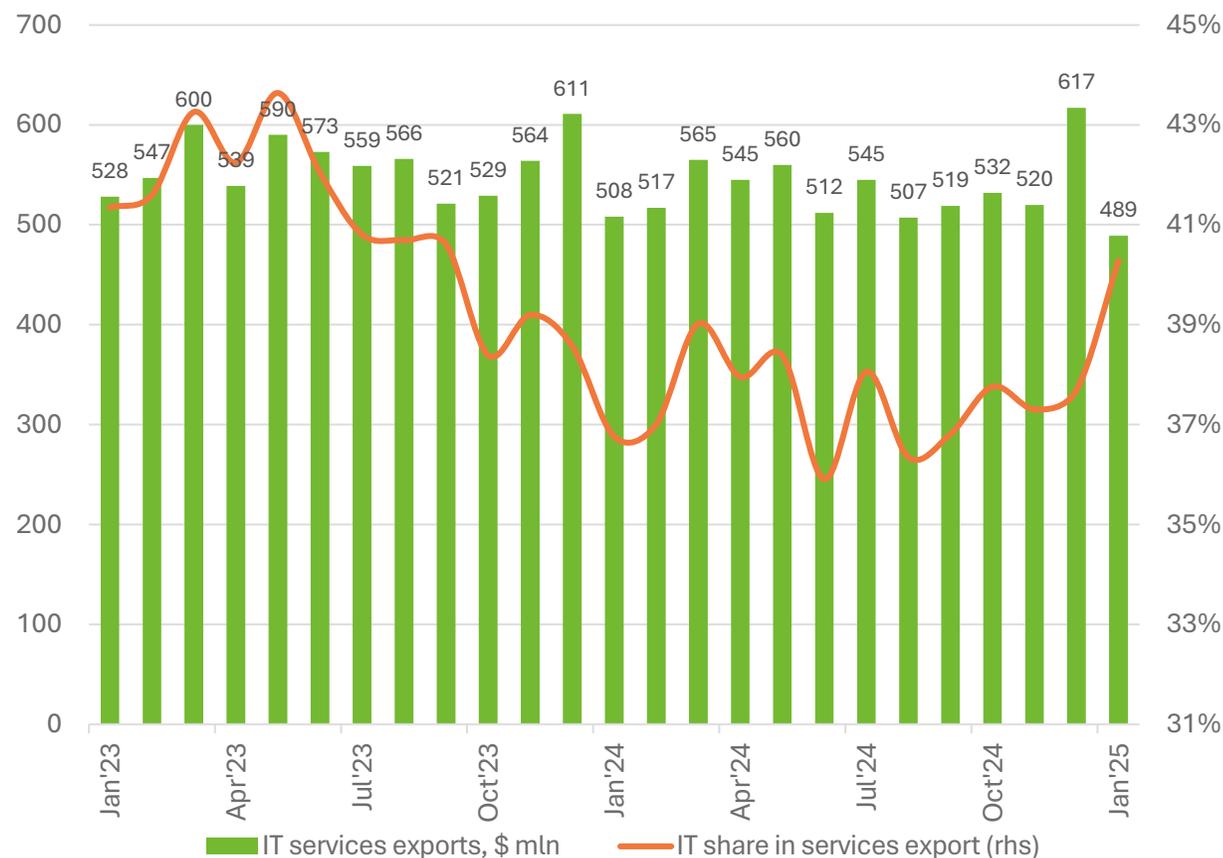
- The top five importers to Ukraine remained the same compared to January 2024, with Turkey and Germany swapping places—Germany moved down to fourth place.
- Imports from the Czech Republic and Bulgaria increased, while Greece fell out of the top 10.

Sources: State Customs Service, CES calculations

IT SERVICES EXPORTS HIT 4-YEAR LOW IN JANUARY

IT Exports decline, but outperform total services exports

IT services exports (\$m) and its share in total services exports (%) by month



Ukrainian IT services exports dropped sharply by 21% in January, falling to \$489m — the first time below \$0.5bn since February 2021.

The biggest factor was a decline in exports to the US, which fell to \$150m, a 55-month low. As a result, the US share in Ukraine’s IT exports dropped to 31%, the lowest since 2016.

Ukraine’s IT labor market continued to shrink in the second half of 2024. The top 50 companies lost 1.4% of their workforce, bringing the total to 79,388 employees—the smallest drop in five half-year periods. Since the start of the full-scale invasion, more than 20,000 IT jobs have been lost.

Sources: NBU, CES calculations

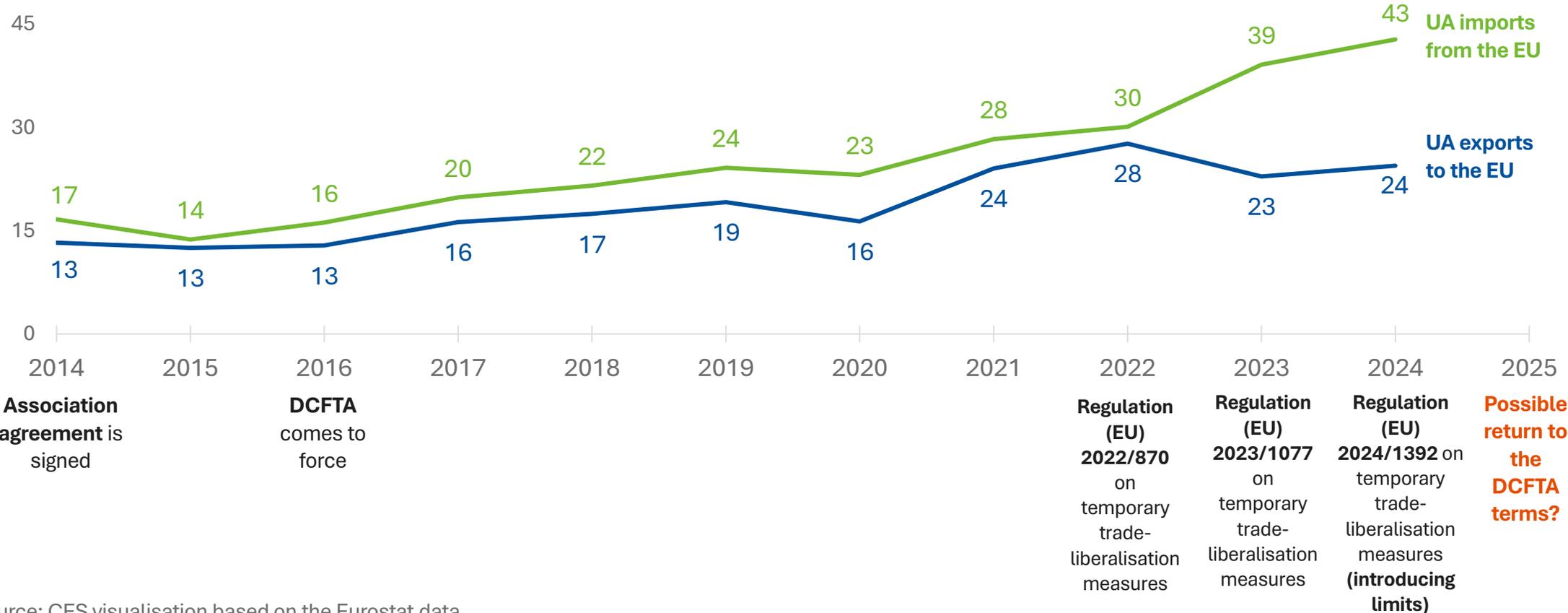


WILL THE EU CONTINUE FREE TRADE WITH UKRAINE?

UKRAINE-EU TRADE: A GROWING PARTNERSHIP

Bi- and unilateral trade liberalisation boosts trade between Ukraine and the EU

Ukraine-EU trade flows, EUR bn

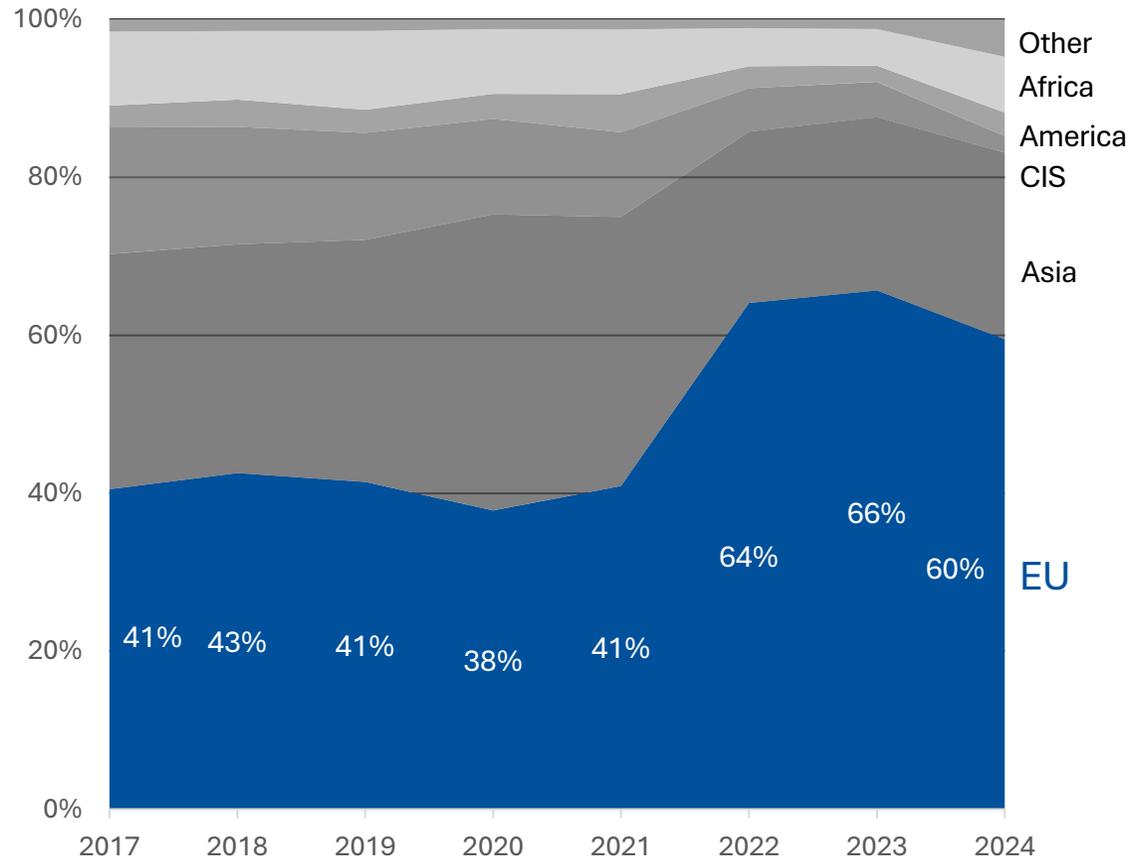


Source: CES visualisation based on the Eurostat data

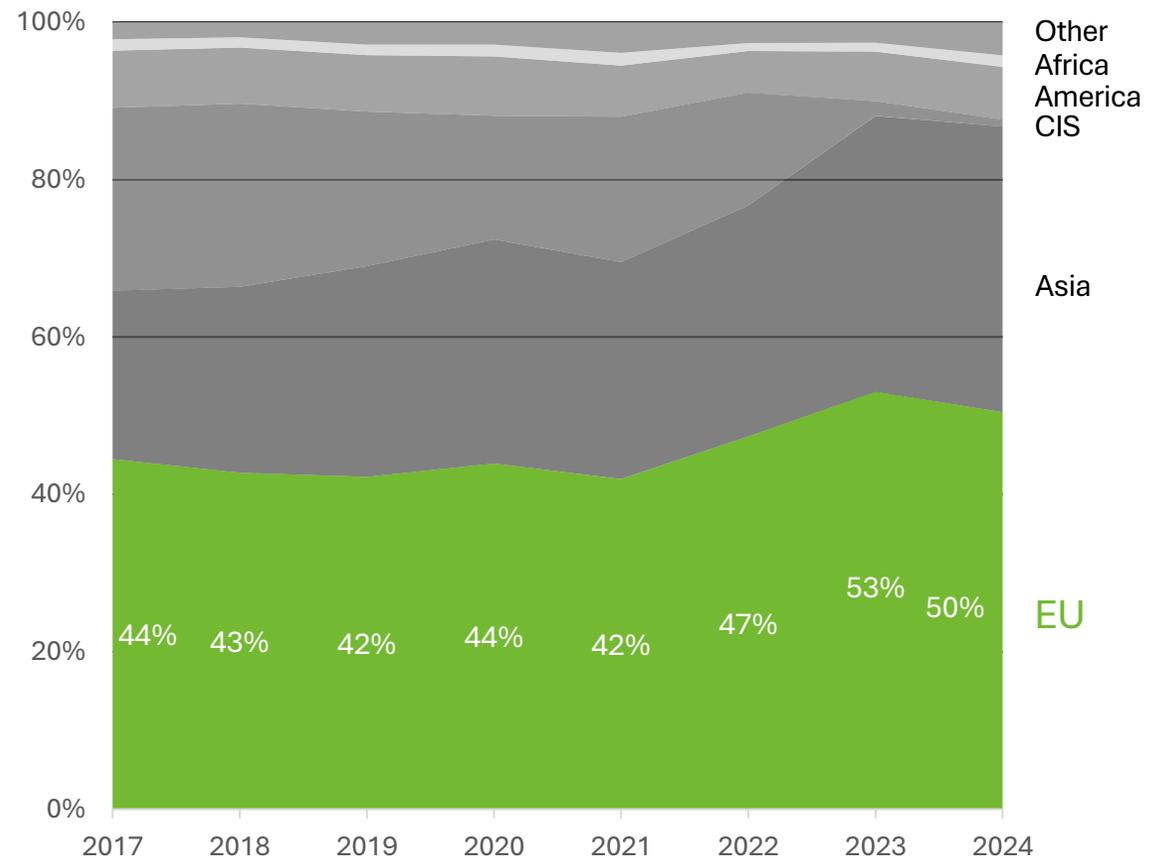
EU NOW UKRAINE'S #1 TRADING PARTNER

In 2024, the EU accounted for 60% of Ukraine's exports and 50% of imports

Ukraine's exports by geographic region



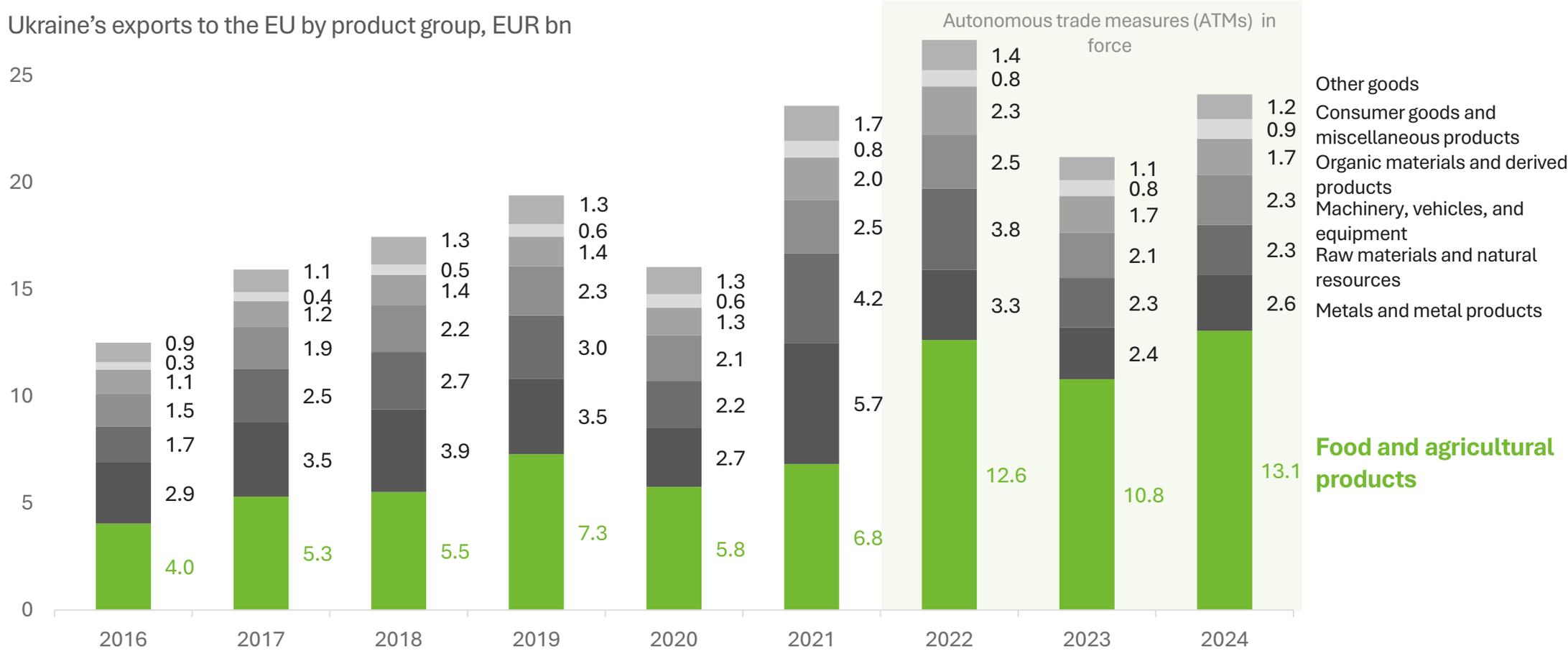
Ukraine's imports by geographic region



Source: CES calculations and visualisation based on the State Customs Service of Ukraine data

AGRICULTURAL EXPORTERS GAINED MOST FROM FREE TRADE

Ukraine’s agri-food exports to the EU jumped from 29% in 2021 to 54% in 2024

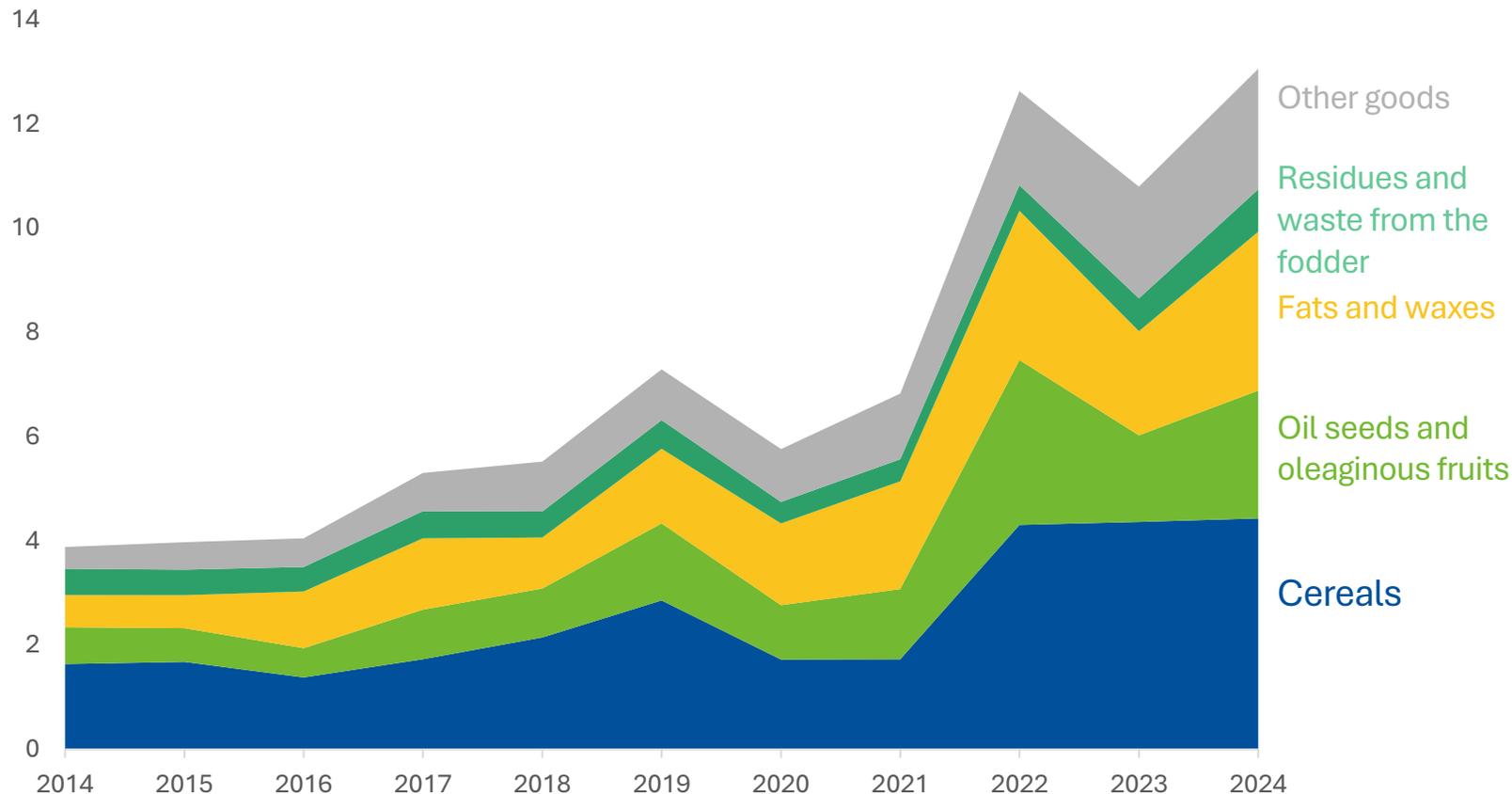


Source: CES calculations and visualisation based on the Eurostat data

CROP PRODUCTION DRIVES AGRICULTURAL EXPORTS TO THE EU

Since 2021, Ukraine's agri-exports to the EU have become less diversified

Composition of Ukraine's food and agricultural exports to the EU, EUR bn



Source: CES calculations and visualisation based on the Eurostat data

Ukraine's crop production sector is dominated by large farms that benefit from economies of scale and can propose a better price.

At the same time, **rising imports of Ukrainian crops have created opportunities for European producers** to expand their higher value-added agricultural production, such as livestock and processed food products.

TRADE BARRIERS WILL AFFECT KEY AGRICULTURAL SUBSECTORS

Selected industries have shown significant export expansion since 2022 and are the most vulnerable to the potential renewal of trade barriers. For most agricultural goods, trade barriers will come in the form of tariff quotas (TRQs)

Ukraine’s exports to the EU in comparison to the TRQ limits (in tons)



Source: CES calculations and visualisation based on the Eurostat data and Annex I-A to the Association Agreement. Note: classification of CN-8 codes performed based on the Annex I-A to the Association Agreement. Only products with exports in 2024 exceeding the respective TRQ limit are displayed on the graph.



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Team

THANK YOU.

This text reflects the opinion of the authors and does not necessarily represent the views of the German Economic Team.