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STRATEGY



German
Economic
Team

June Economic Review

Special topic: How has Russia's invasion
changed German-Ukrainian economic relations?

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Authors: CES Team



Executive summary

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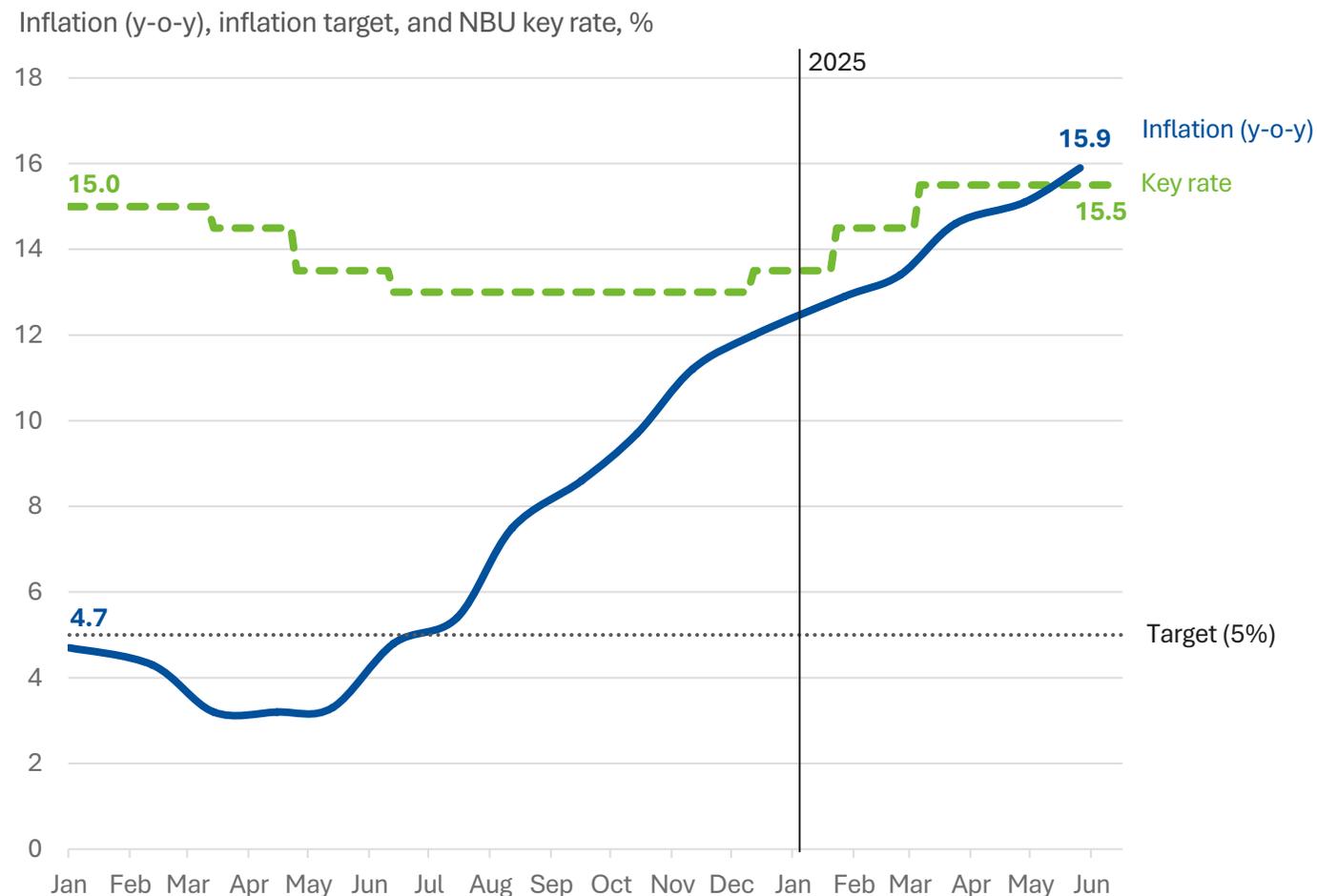
- **Monetary, FX, and banking sectors:** Inflation hits 15.9%, key policy rate steady at 15.5%. Despite a May decline, Ukraine's reserves remain sufficient, supported by a weaker dollar and a stronger euro.
- **Fiscal sector:** Every fourth Hryvnia of tax revenues in May was CPT: the state budget received UAH 173 bn of taxes, adding 19% y-o-y. State budget expenditures decreased in April despite the increase in debt service.
- **Sectoral analysis:** Ukraine triples net electricity imports in May and the energy gap was filled thanks to steady power imports. Production of all major iron & steel products fell in May with both external and internal factors led to a decline in production and exports. Autonomous Trade Measures (ATMs) in Ukraine–EU trade expired on June 6. Now Ukraine is back to regular free trade regime with quotas for 40 agrarian categories. IT Exports grows for three consecutive months: \$569 m of IT exports in April correspond to 4% growth, both m-o-m and y-o-y. Machinery accounts for 43% of trade between Ukraine and Germany.

See our report below for further details.



Monetary and FX sectors

Inflation hits 15.9%, key policy rate steady at 15.5%



Sources: NBU and State Statistics Service

In May 2025, inflation accelerated to 15.9% year-on-year (1.3% m/m). The main drivers of this acceleration were a sharper increase in raw food prices due to adverse spring weather and active food exports.

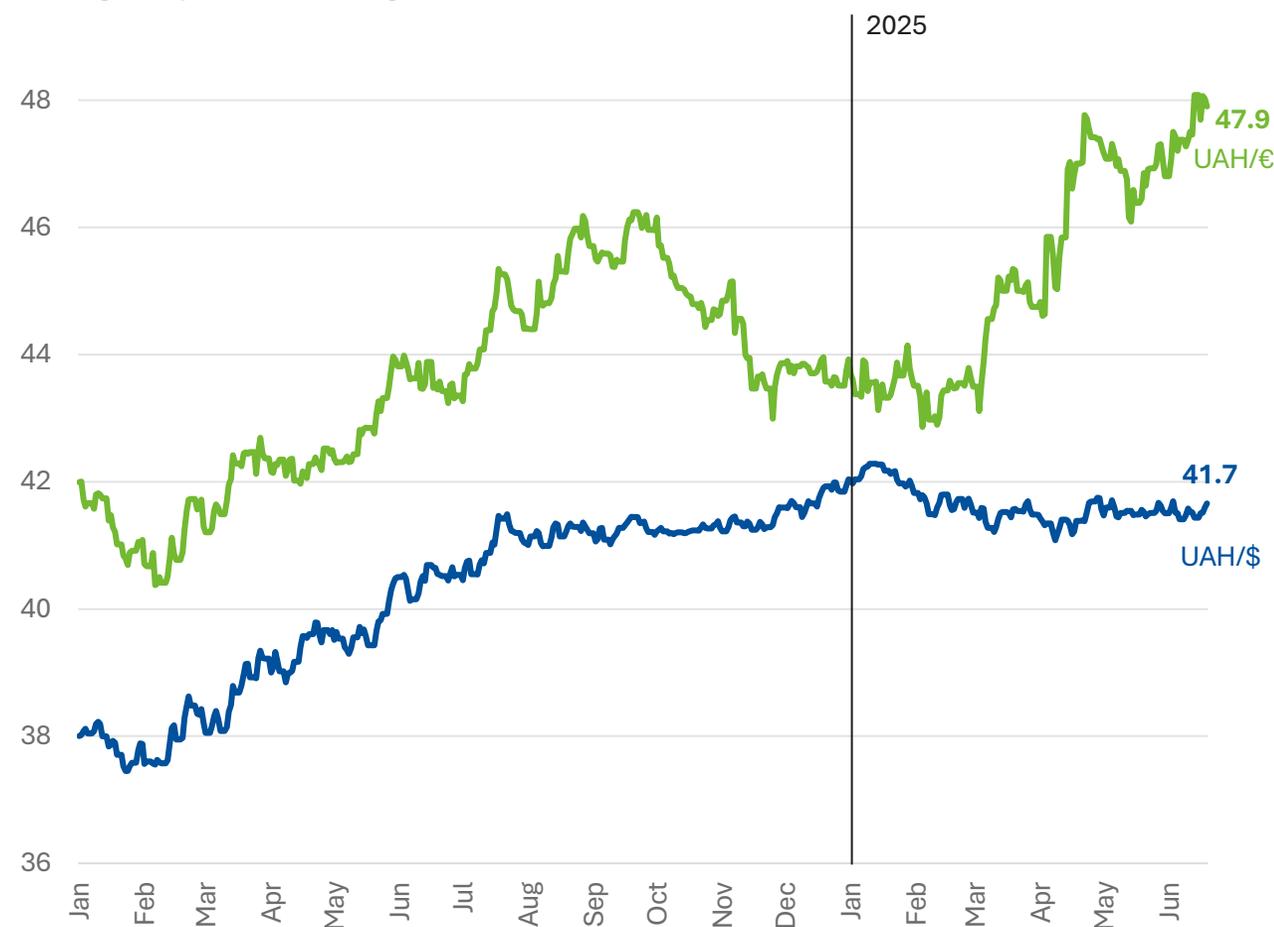
The highest price increases in May were recorded for fruits (+17.6% m/m) and meat (+5.4%).

According to the NBU, inflation likely peaked in May and is expected to slow due to a better harvest, improved energy supply, lower oil prices, and the continued effects of the NBU policy. A high base from last year will also contribute to the slowdown.

In early June, the NBU kept the key policy rate at 15.5% to support FX market stability and anchor inflation expectations, aiming for a steady return to the 5% inflation target.

Reserves down, Hryvnia stable to Dollar but weaker to Euro

Average daily official exchange rates UAH/USD and UAH/EUR



Source: NBU

As of late May, Ukraine’s foreign exchange reserves decreased by 4.6% to \$44.5 billion. The decline was driven by NBU FX interventions and debt repayments, partially offset by foreign aid and FX bond inflows. Despite this, reserves remained above early-year levels and sufficient to support FX market stability. This level of reserves is enough to cover 5.4 months of imports, well above the three-month benchmark.

In May, net FX demand increased amid a seasonal decline in export earnings, and **the NBU’s net FX sales rose to \$2.9 billion.**

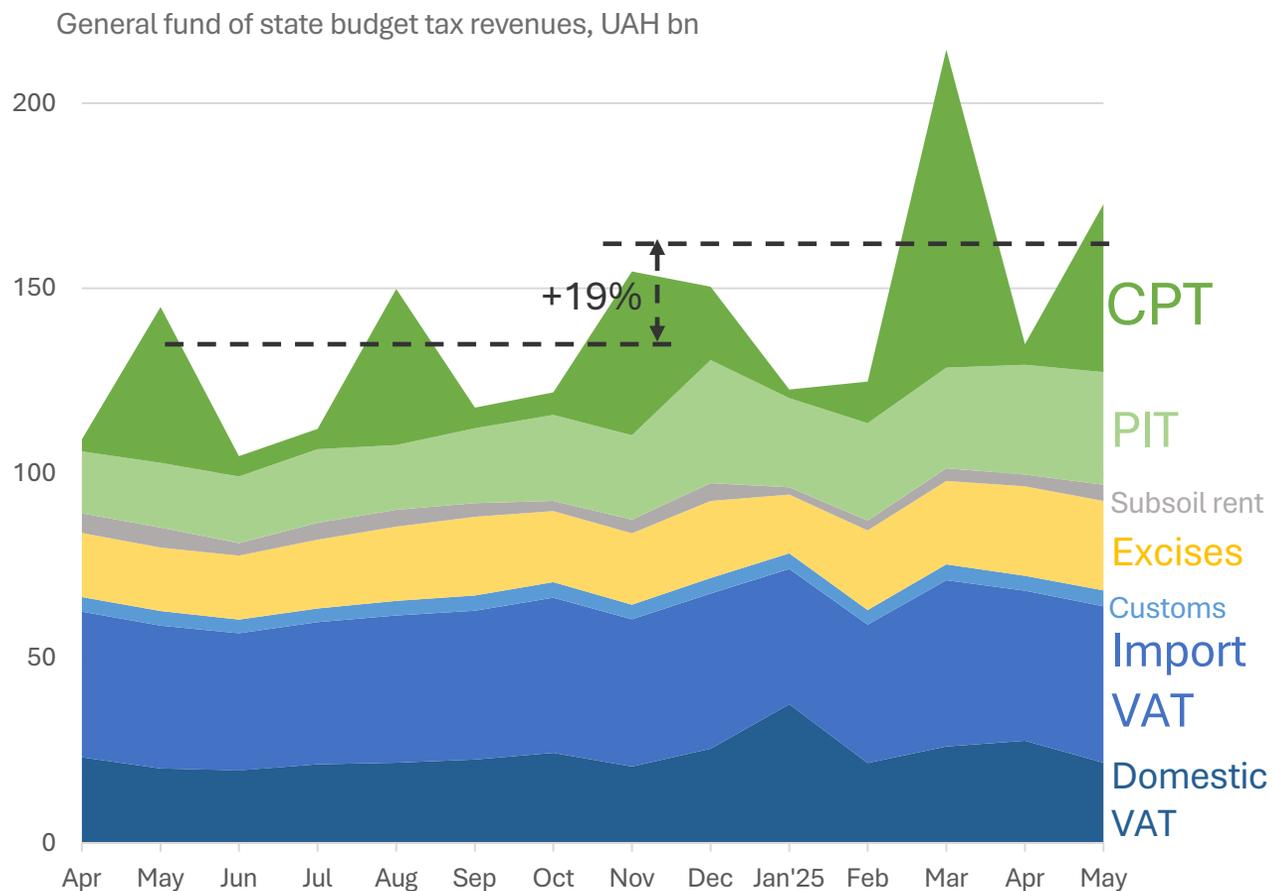
Since early 2025, the U.S. dollar has weakened and stabilised at around 41.7 UAH/\$, while the hryvnia has continued to depreciate against the euro, with the exchange rate rising from 43.5 to nearly 48 UAH/€, due to the euro’s global strengthening and ongoing uncertainty surrounding the actions of the US administration.



Fiscal sector

Every fourth Hryvnia of tax revenues in May was CPT

The state budget received UAH 173 bn of taxes, adding 19% y-o-y



In May 2025, corporate profit tax (CPT) was the top contributor to state tax revenues, making up 26% of the total. However, its year-on-year growth was relatively low — just +8%.

Personal income tax (PIT) saw the strongest performance. Revenues jumped by 74% compared to May 2024 — the highest monthly growth recorded. The same 74% increase applies to total PIT revenues for January–May 2025 versus the same period last year.

Import VAT grew by 10% compared to May 2024. Domestic VAT dropped by 21% month-on-month (vs April), but still rose 7% year-on-year.

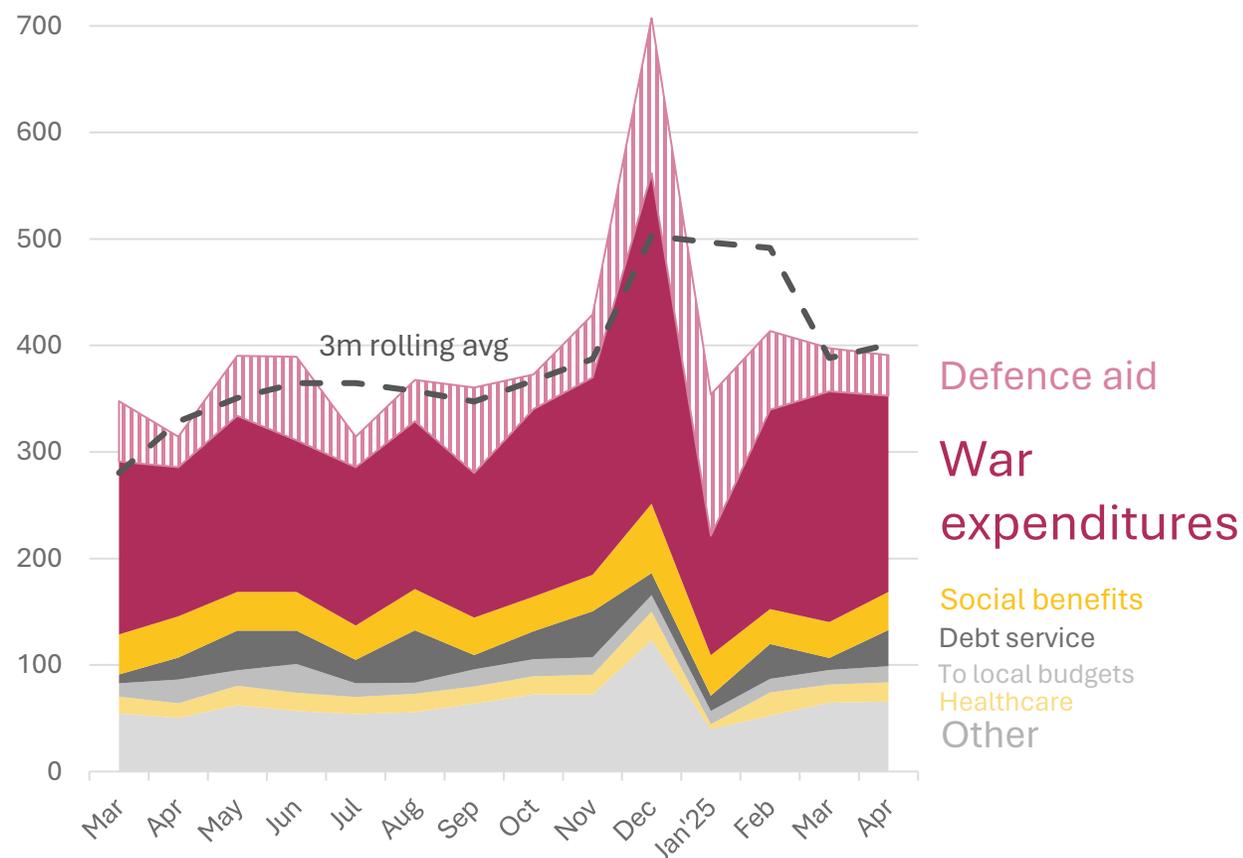
Excise revenues held steady in May compared to April, but were up 41% year-on-year. Over the 12-month period from June 2024 to May 2025, they rose by 80% compared to the previous year.

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

State budget expenditures decreased in April

Despite the increase in debt service

State budget expenditures, UAH bn



Source: OpenBudget, CES calculations.

Total state budget expenses amounted to UAH 391 bn in April 2025, which is 2% less than in month before.

April's debt service expenditures were the highest in the first four months of 2025 — three times higher than in March, and were up 66% year-on-year.

As usual, the largest share of the budget was allocated **to the war** — almost half of all public spending. Compared to the previous month, it decreased by 15% but increased by 31% year-on-year.

Defence aid declined slightly after a significant spike in support at the beginning of the year.

Social benefits accounted for only 9% of total state spending and are 7% lower than in April 2024.



Sectoral analysis

Ukraine triples net electricity imports in May

Energy gap filled thanks to steady power imports

Net electricity imports surged 2.9x in May to 105 GWh (194 GWh in, 89 GWh out).

Since 26 March, Ukraine has traded electricity daily — both importing and exporting. However, the last day of net imports was 28 May, meaning exports have exceeded imports since then.

Ukraine hands over data on **Russian threat to nuclear energy** to IAEA and US.

Ukrenergo amended its charter to boost state oversight of key decisions — including grid development, investment plans, and CEO appointments. The Supervisory Board must now appoint a new CEO within 90 days of a vacancy, enabling leadership continuity and debt restructuring.

Ukrenergo's debt to the participants of the balancing market decreased to UAH 15 bn, while electricity consumers in this market owe the company UAH 38 bn.

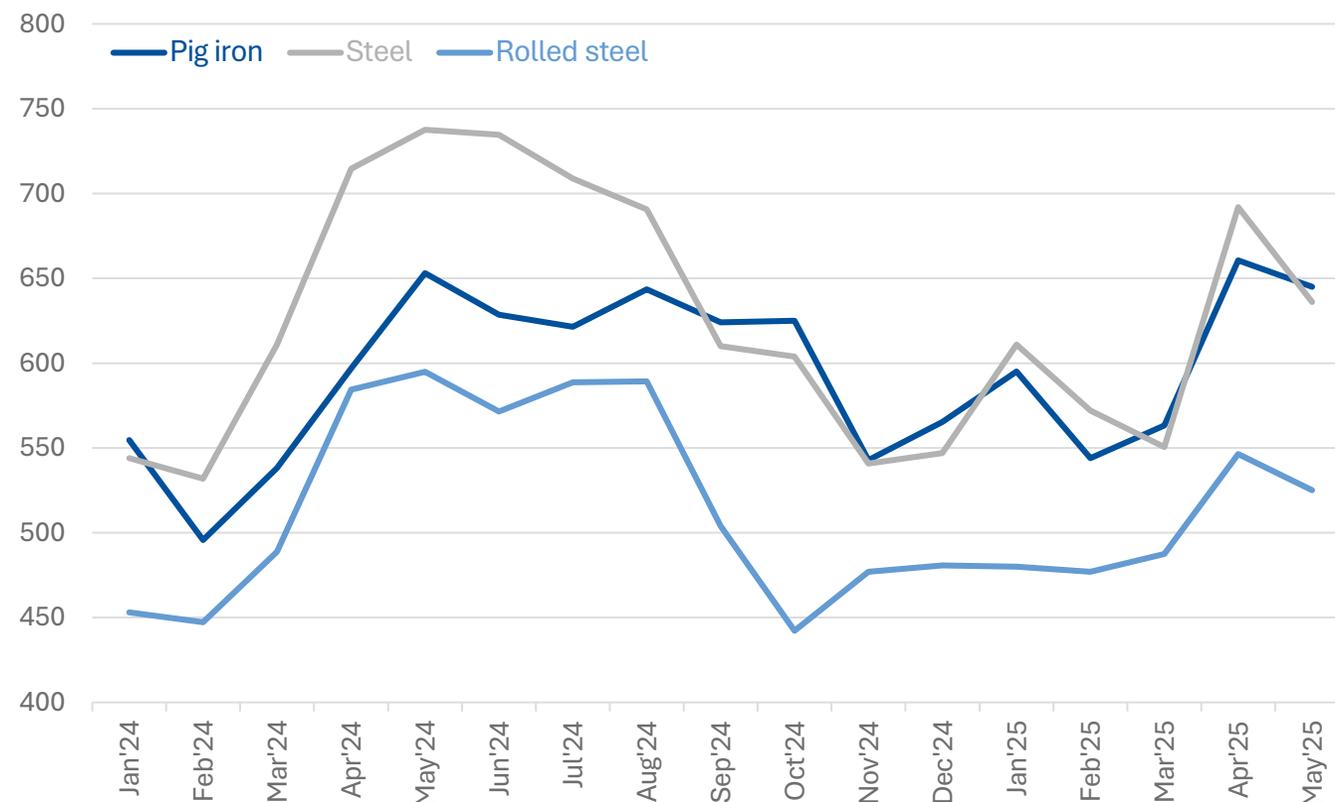


Source: ENTSO-E

Production of all major iron & steel products fell in May

Both external and internal factors led to a decline in production and exports

Production of major iron & steel products, in thousands metric tonnes



In May, production of all major steel products declined. Pig iron production fell by 2% to 645 kt, steel production by 8% to 636 kt, and rolled products by 4% to 525 kt.

In 5M2025, steel and rolled products production decreased by 2% to 3.06 mt and 2.51 mt, respectively. At the same time, pig iron production is 6% higher than in 5M2024, at 3.01 mt.

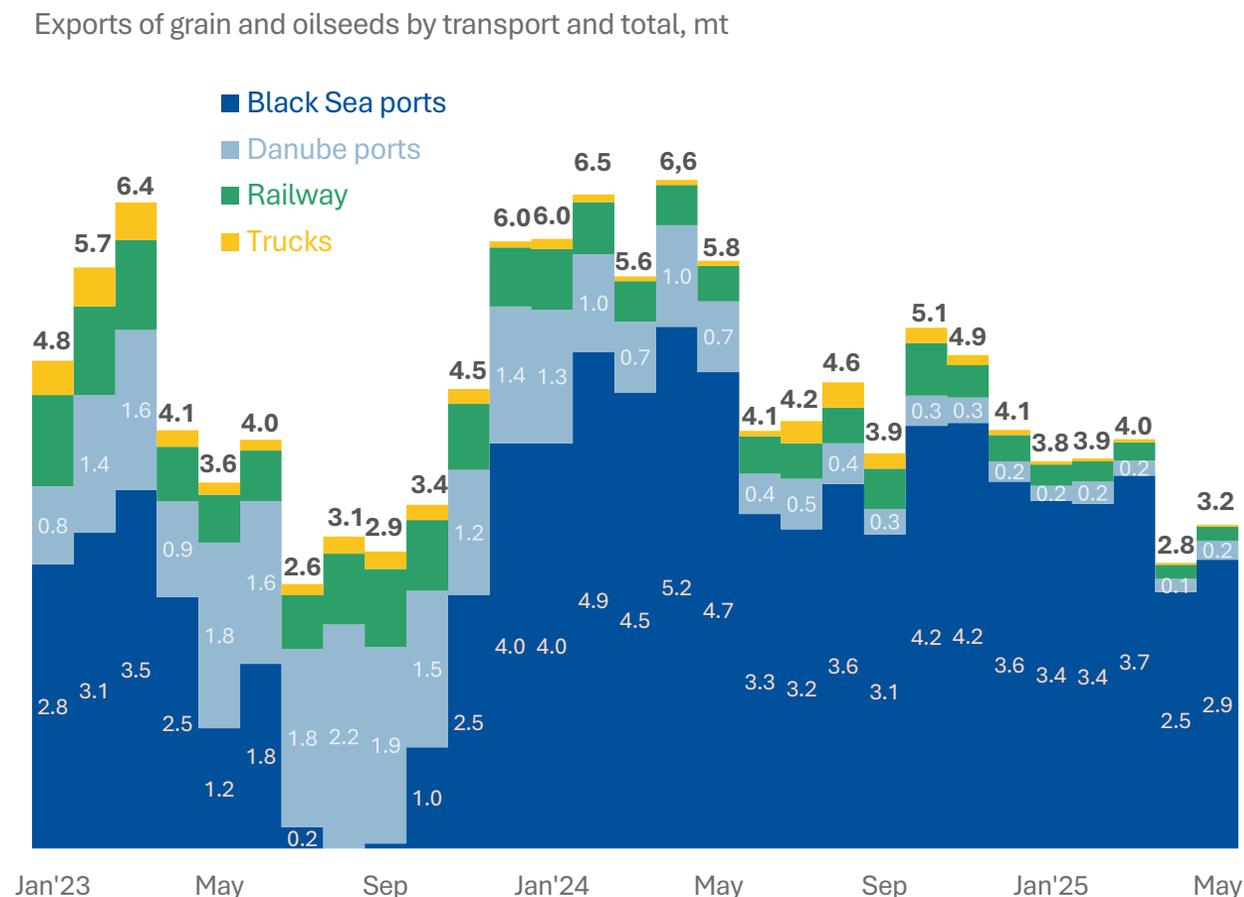
The decline in global steel prices reduced export revenues for Ukrainian steelmakers in January-April. Most commodities showed a negative trend, with the exceptions for long products and pipes, which does not affect the overall picture. Iron ore exports were hit hardest, falling by 10.2% to 11.15 mt and by 20.9% to \$893 mn.

Consolidation in the global steel market: Donald Trump approves the \$14.9bn takeover of US Steel by Nippon Steel.

Source: Ukrmetalurgprom

Autonomous Trade Measures in Ukraine–EU trade expired on June 6

Now Ukraine is back to regular free trade regime with quotas for 40 agrarian categories



Source: Dragon Capital estimates

In May, Ukraine’s exports of grains and oilseeds rose by 13%, reaching 3.2 million tonnes. More than 89% of this volume was shipped through Black Sea ports.

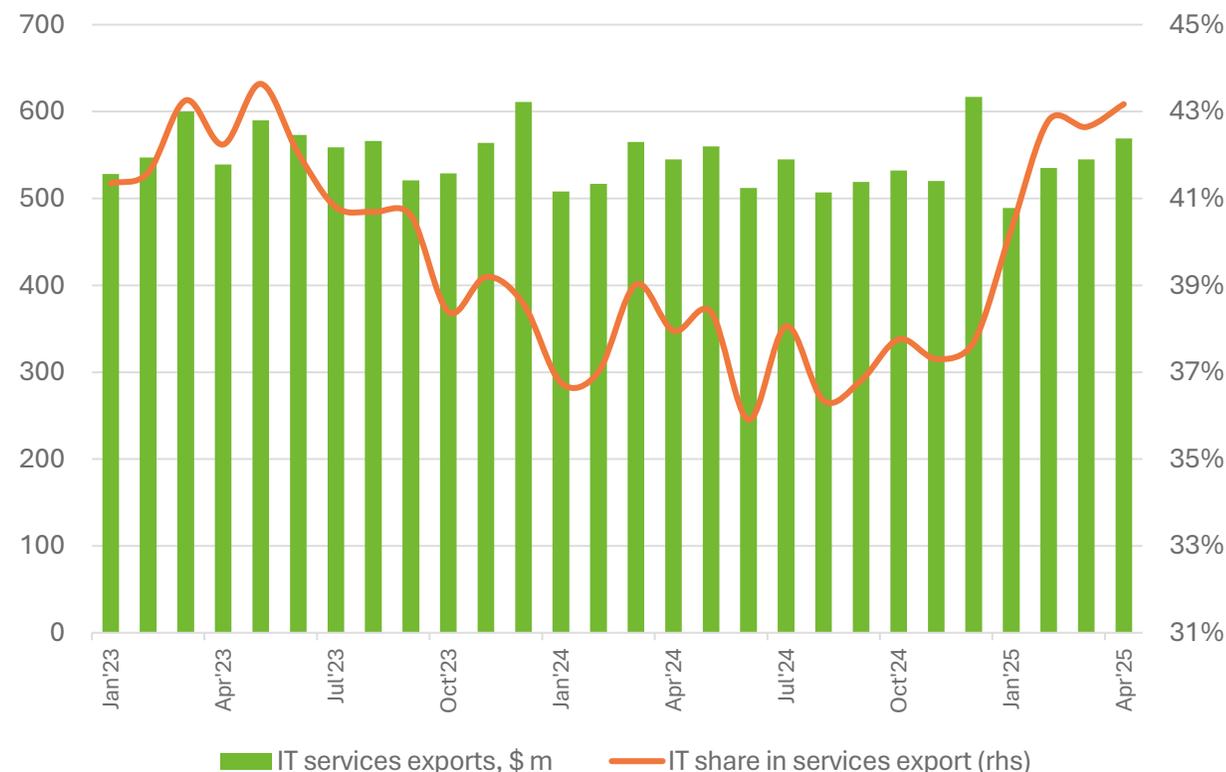
On 6 June, the EU’s additional liberalisation measures expired. While the free trade regime remains, no new concessions were granted. According to Economy Minister Yulia Svyrydenko, this affects \$3.5 billion worth of trade and could cut export revenues by up to \$800 million. Quotas still apply to 40 agricultural product categories, though 23 of them had exports below quota levels.

Ukraine has started creating a Paying Agency to manage agricultural support in line with EU rules. This institution is key for accessing EU pre-accession funding and preparing for participation in the Common Agricultural Policy.

IT Exports grows for three consecutive months

\$569 m of IT exports in April correspond to 4% growth, both m-o-m and y-o-y

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



In April, IT service exports grew to \$569m, more than a 4% up comparing to \$545m, the volume of IT exports both in March 2025 and April 2024. Share of IT in total services exports overpassed 43% for the first time since May 2023.

Since the beginning of the year, **most IT services have been exported to the United States** (\$798m, or 37% of total exported IT services). The UK (9%), Malta (8%), Cyprus (6%), and Israel (5%) are traditionally in top-5 destinations.

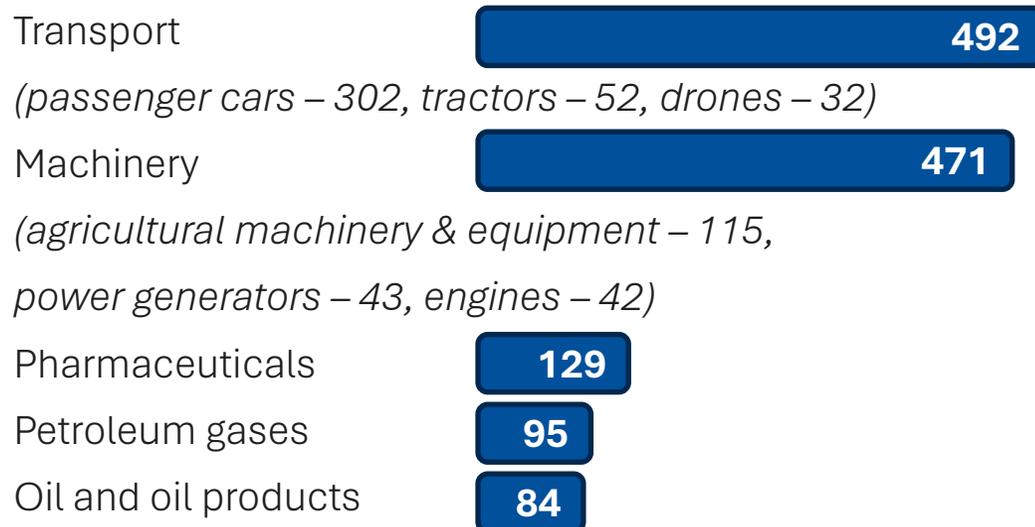
Despite a 20% decline in imports of IT services in April to \$78m, the overall figure for 4M2025 increased by 31% to \$360 million in January-April. Most services were imported from Ireland (15%), the US (12%) and Germany (9%).

Source: NBU, CES calculations

Ukraine-Germany foreign trade in January-April 2025

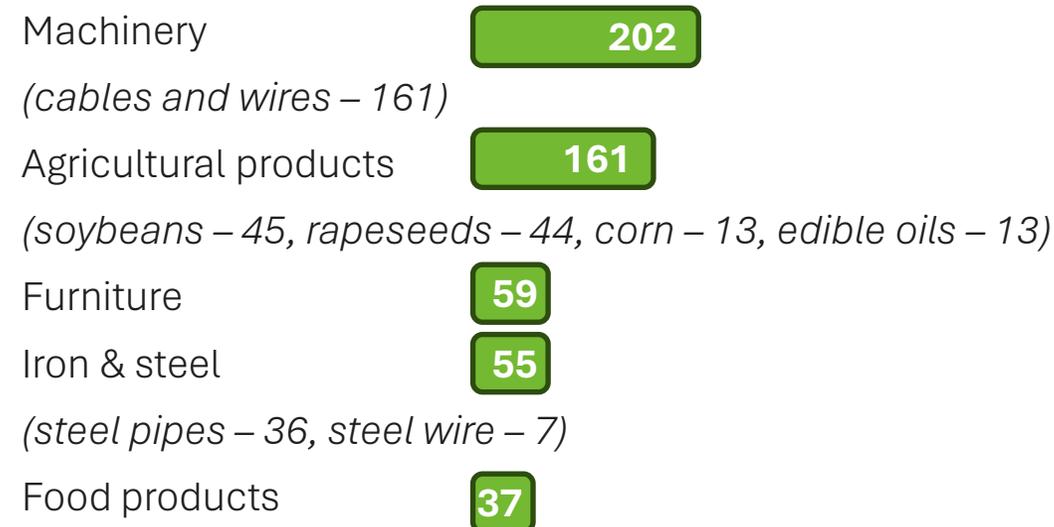
Machinery accounts for 43% of trade between Ukraine and Germany

Imports from Germany to Ukraine in 4M2025, \$m



TOTAL IMPORTS: \$2057 m (8,3%)

Exports from Ukraine to Germany in 4M2025, \$m



TOTAL EXPORTS: \$701 m (5,3%)



Thank you! Danke schön!

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