



Monthly Economic Monitoring of Ukraine

No. 228, January 2024

Summary

- According to the IER, real GDP growth slowed from 3.5% yoy in November to 2.6% yoy in December. As a result, according to our calculations, real GDP grew by 4.9% in 2023.
- Electricity consumption has increased due to the onset of cold weather, with imports and emergency assistance covering the deficit.
- The Ukrainian sea corridor works better than the "grain deal" – the ports of Odesa region handled 15% more cargo in 2023 than in 2022.
- The strike of Polish carriers hinders Ukraine's foreign trade.
- The goods trade deficit was record-high at USD 27.3 bn in 2023 amid declining exports and growing imports.
- The receipt of international aid in the form of grants supported the revenues of the State Budget in 2023. Revenues from most taxes were lower than planned.
- The EU and the US have not yet decided on the assistance to Ukraine in 2024.
- At the end of 2023, consumer inflation remained at 5.1% yoy despite some weakening of the hryvnia.
- The hryvnia weakened in December amid record demand for cash currency since the start of the war and seasonal growth in imports.
- The NBU cut the key policy rate to 15% p.a. in December, but it may refrain from significantly reducing the rate in 2024



Funded by
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GDP and the real sector: According to the IER, real GDP grew by 4.9% in 2023

According to the IER, real GDP growth slowed from 3.5% yoy in November to 2.6% yoy in December. According to our calculations, real GDP in December 2023 was almost 27% lower than in December 2021. The slowdown in real GDP growth is primarily due to a decline in real gross value added (GVA) in agriculture by 37.6% yoy.

The drop in GVA in agriculture resulted from a high harvest in December 2022. Farmers harvested (primarily) corn much later than usual in 2022, and large harvesting volumes were registered in December. In 2023, the corn harvest continued in December, but the unharvested areas and harvesting volumes were significantly smaller and closer to the average of previous years. The performance of the livestock sectors was estimated to be slightly lower than last year.

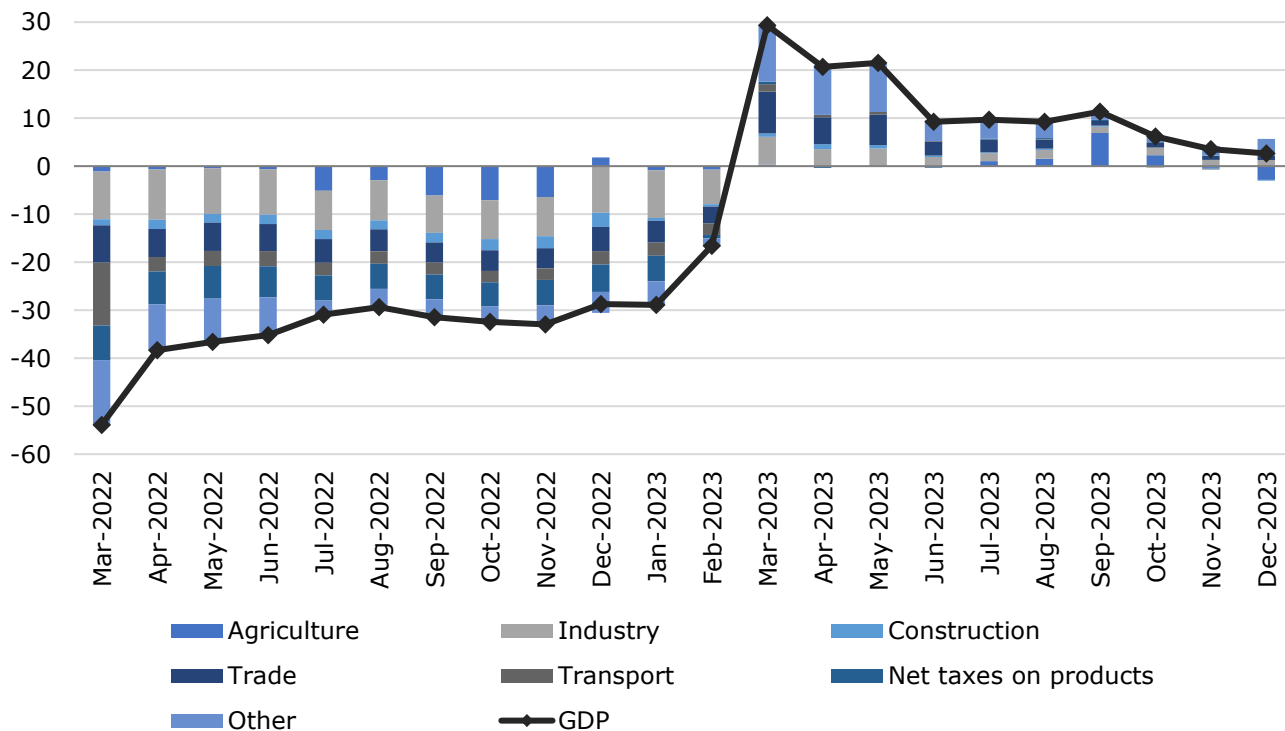
The growth rate of GVA in the manufacturing is estimated to accelerate to 18% yoy primarily due to the low statistical base effect. In partiaulr, in December 2022, there were rolling blackouts and emergency power outages due to russian attacks on the power grid, and businesses have just begun to adapt to the new realities of work. According to estimates, growth occurred in most sectors, including the food industry, mechanical engineering, and metallurgy. Public procurements supported mechanical engineering. The metallurgy benefited from better access to exports logistics, particularly through the Ukrainian Sea Corridor. The results of a monthly business survey conducted by the IER also showed positive trends in industrial production.

Economic recovery contributed to an increase in electricity production from a low base last year. At the same time, warm weather restrained growth of electricity consumption. Therefore, electricity generation is estimated to have increased by 8% yoy.

Output in extractive industries increased by about 8% yoy due to higher iron ore and natural gas production. The extraction of building materials decreased. According to estimates, real GVA in construction, as in November, decreased by 16% yoy, although the decline has deepened compared to 2021. The drop in construction results from lower funding for infrastructure projects, a high base in December of 2022, and a slow pace of housing construction.

Real GVA in transport, according to our estimates, increased slightly due to larger transportation by sea, while road transportation was limited. The resumption of foreign trade and stable payments of social assistance, pensions, and salaries contributed to the increase in trade indicators.

Figure 1: Contributions to real GDP, p.p.



Source: IER assessment supported by the USAID Competitive Economy Program in Ukraine

The December estimate of GDP growth was worse than the IER expected. According to our estimates, real GDP grew by 3.9% yoy in the fourth quarter and by 4.9% overall in 2023.

Energy: Energoatom is ready to switch to Westinghouse fuel completely

Electricity. The shelling of Ukraine continues, which affects the energy infrastructure. On the night of December 7, the enemy launched powerful strikes on Kyiv and central Ukraine for the first time since September 2023, launching at least 16 cruise missiles. On December 8, the shelling of thermal power plants in the front-line zone caused damage, and two units had to be switched off for repairs. On December 29, due to massive shelling, high-voltage lines and equipment of thermal power plants in the Donetsk region were damaged. On January 2, almost 260,000 users in several Kyiv districts were temporarily disconnected. Electricity consumption has increased due to the onset of winter, and imports and emergency assistance cover the deficit.

In December 2023, Ukraine imported 233 thousand MWh of electricity, which is almost four times more than in November and is a record figure for the year. Electricity was exported only on December 31 — 210 MWh was supplied to Moldova. In 2023, electricity imports amounted to 806.4 thousand MWh, and exports were 366 thousand MWh. Most of the electricity (69%) was imported from Slovakia.

In 2023, nine nuclear power units at three Ukrainian nuclear power plants generated 52.4 m MWh of electricity. This volume is almost 50% of the total production; thermal power plants are in second place, and 17% of all electricity is produced from renewable sources (hydroelectric power plants, solar power plants, wind farms, biomass, and biogas). Only 200 MW of new generating capacity was commissioned during the year, but more than 2 GW of CHP and HPP capacities damaged by Russian attacks were restored.

Energoatom has completed preparations for converting Ukrainian nuclear power plants to Westinghouse fuel. For all domestic power units with VVER-1000 and VVER-440 reactors to operate on American Westinghouse fuel, Energoatom installed the appropriate software, made calculations, justified the use of Westinghouse fuel, and purchased equipment for unloading nuclear fuel. Now, Energoatom can manufacture inserts for VVER-440 reactors on its own.

Gas. Ukraine produced more than 18.7 bn cubic meters (bcm) of natural gas in 2023, 0.9% more than in 2022. Ukrgasvydobuvannya remains the country's largest gas producer, producing more than 13.9 bcm of natural gas in 2023 (+5% yoy). Ukrnafta is in second place with 1.1 bcm (+6% yoy). On the other hand, private companies reduced natural gas production in 2023 by almost 14% to 3.7 bcm.

Figure 2: Natural gas production in Ukraine, bcm



Source: ExPro Consulting

Energy efficiency. At the end of December 2023, the Cabinet of Ministers approved the [Strategy for the Thermal Modernization of Buildings](#) of Ukraine until 2050 and the operational plan for its implementation in 2024-2026, which set out a long-term plan for the gradual renewal of the building stock of Ukraine, taking into account energy-saving technologies. Among the next steps are developing energy plans, collecting information on the energy efficiency of buildings, updating the minimum requirements for the energy efficiency of buildings, etc.

Transport: Ukrainian Sea Corridor works better than the "Grain Deal"

Maritime transport. Almost 15 m tons of cargo were exported through the Ukrainian (sea) corridor in 5 months, of which 10 m tons were agricultural products. During the five months of the corridor's operation, 469 new vessels entered Ukrainian ports for loading. In particular, in December, exports by sea increased by 30.7% mom to 7.34 m tons, of which 6.1 m tons were agricultural products.

In December, maritime exports of metallurgy products increased: semi-finished products increased by 40% mom, and flat products increased by 45% mom. Metinvest predicts that by the end of the first quarter of 2024, iron ore exports by sea will reach their maximum of 2-3 m tons per month.

Ukreximbank and Ukrgasbank issued letters of credit for USD 10 m each at the request of the Export Credit Agency in favour of a pool of 14 British insurance companies to reduce the cost of insuring

ships moving through the Black Sea corridor. The proposed mechanism for using letters of credit reduces the cost of risks for British insurers, which allows for the reduction of the prices of policies for shipowners. Thus, it makes the sea route more accessible to a broader range of exporters. However, the insurance applies to ships, not goods or port infrastructure.

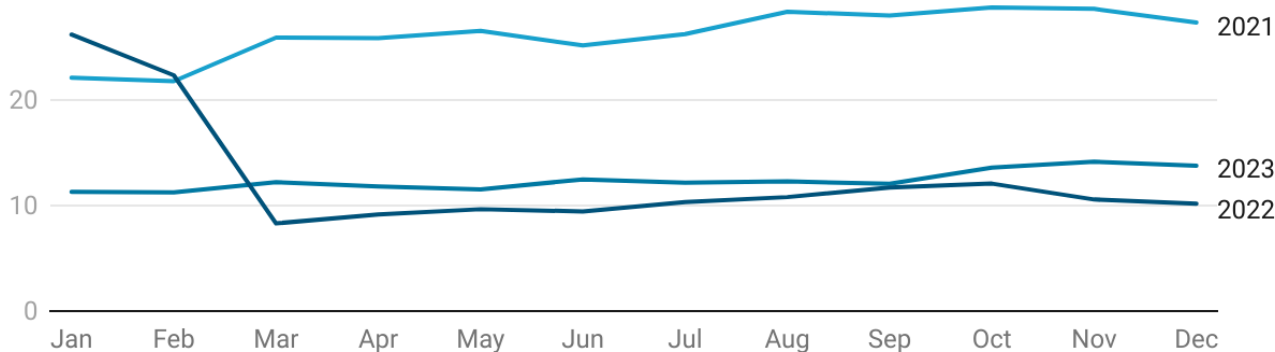
During the 11 months of 2023, more than 31 m tons of cargo were handled in the ports of the Danube cluster, which is an absolute record. In 2023, the ports of the Odesa region handled more than 50 m tons of cargo, which is 15% more than in 2022.

Rail transport. Ukrzaliznytsia transported 25 m passengers on long-distance trains in 2023, equal to 2021, and a record 2.1 m passengers were transported to European countries.

In December, Ukrzaliznytsia transported 13.7 m tons of cargo, 2.7% less than in November. The volume of grain transportation in the direction of the western border and ports increased by 13% mom to 2.74 m tons.

In 2023, 146.4 m tons of cargo were transported by rail, 1.4% less than in 2022. There was an increase in the transportation of construction materials (by 30% yoy, to 29.6 m tons) and grain cargo (by 6%, to 30.6 m tons), while transportation of other goods dropped – ore (by 13%, to 27.5 m tons), coal (by 11%, to 26.2 m tons) and ferrous metals (by 11%, to 8.2 m tons). In 2023, 22.3 m tons of all cargo were transported through seaports and 34.4 m tons through land crossings.

Figure 3: Transportation of goods by rail, m tons



Source: Ukrzaliznytsia

Road transport. On January 6, Polish farmers, after an agreement with their government, stopped the blockade of the Medyka – Shehyni checkpoint. However, as of the morning of January 8, 550 trucks remained in line there. The blockade of this checkpoint resumed on January 15, but this time, it was by Polish carriers. On January 16, Ukraine and Poland's governments agreed to temporarily unblock the checkpoints Rawa-Ruska – Hrebenne, Krakovets – Korczowa, Yahodyn – Dorohusk until March 1. In January, the Ukraine and Romania border blockade began by Romanian farmers. As of January 15, the Siret – Porubne and Vikova de Sus – Krasnoilsk checkpoints are blocked. Farmers in Romania are protesting against rising prices for auto insurance and fuel.

As of January 15, more than three thousand trucks were waiting in queues at the border with Poland, Slovakia, and Hungary. The largest number of trucks (two thousand) was waiting at the Polish border, and an additional 1000 trucks were at the borders with Slovakia and Hungary.

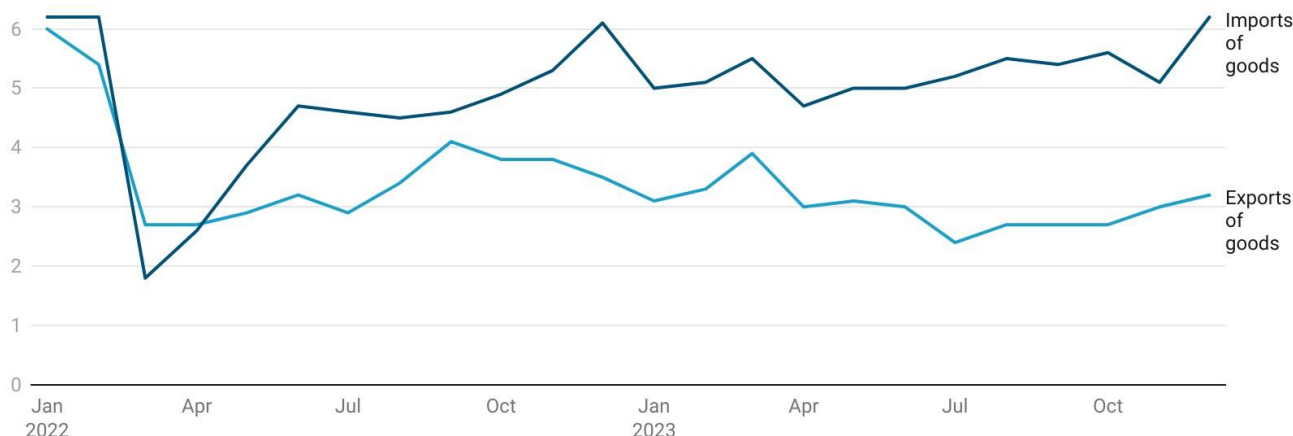
In 2023, Ukrainian carriers performed 362 thousand trips to Poland, of which 68 thousand were fuel transportation and about 15 thousand were humanitarian goods. Commercial shipments to Poland in 2023 amounted to 280 thousand trips compared to 307 thousand in 2022 and 229 thousand in 2021. Accordingly, Polish carriers performed more than 132 thousand trips to Ukraine in 2023. The share of Polish carriers in the transportation market between Ukraine and Poland fell from 40% in 2021 to 33% in 2023 due to Russian armed aggression and the blocking of traditional trade routes.

Foreign trade: In 2023, the goods trade deficit reached a record USD 27.3 bn

In 2023, according to the State Customs Service, exports of goods amounted to USD 36.2 bn, 19% less than a year ago. At the same time, imports increased to USD 63.5 bn (+15% yoy). That led to a record-high trade deficit in goods at USD 27.3 bn or about 16% of GDP.

Compared to previous months, exports accelerated to USD 3.2 bn in December. That happened primarily thanks to the intensification of the Ukrainian Sea Corridor, although exports remained lower than the monthly average before the eruption of the "Polish crisis" of April 2023. In addition to severe problems with logistics during the year and continued bans on imports of certain agricultural products by neighbouring countries, global prices were an essential factor in the decline in exports. For example, according to the FAO, global grain prices were, on average, 15% lower in 2023 than a year before, while vegetable oil prices fell by a third. Metal prices were also decreasing.

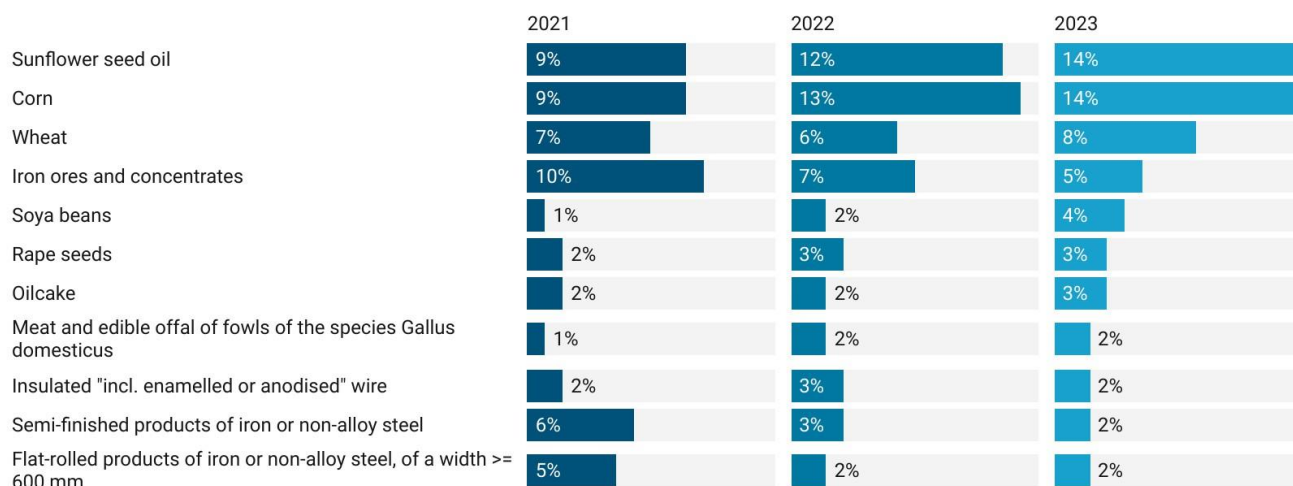
Figure 4: Ukraine's foreign trade in goods, 2022-2023, USD bn United States



Source: UN ComTrade, SCSU

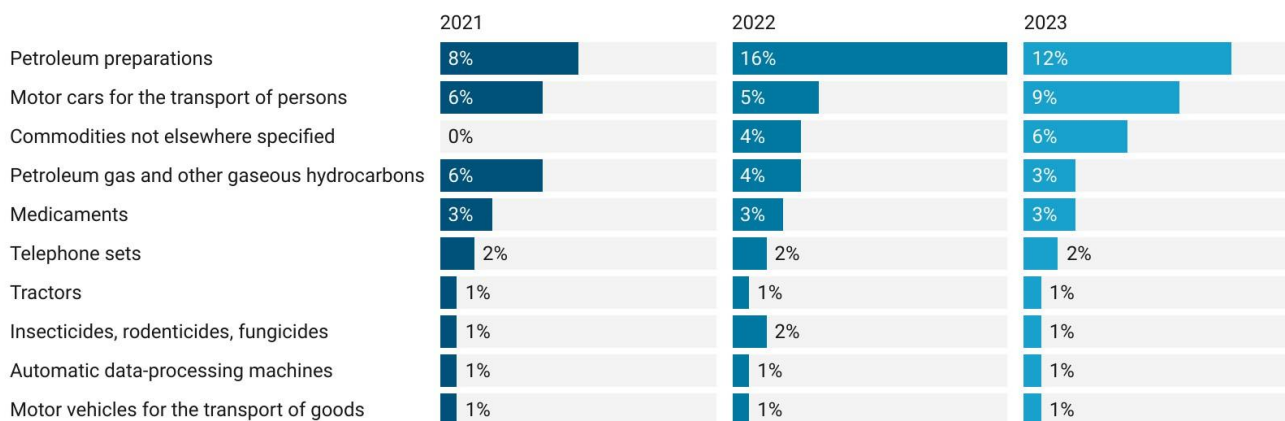
In 2023, the role of food products in Ukrainian exports continued to grow – up to 61% of the total exports compared to 53% in 2022 and 41% in 2021. The share of three essential commodities – sunflower seed oil, corn, and wheat – reached 36% (25% in 2021). Accordingly, the role of industrial exports continued to fall against the background of much worse logistics opportunities compared to those for agricultural exports. The share of iron ore decreased to 5% in 2023, half of those two years ago. The share of ferrous metals (HS 72) dropped to 7% compared to 20% before the full-scale invasion.

Figure 5: The structure of goods exports, top 10 positions, 2021-2023



Source: UN ComTrade, SCSU

There were also changes in the import structure, although not so striking. Machinery and equipment (HS 84-85) remained the largest category of imports, although their share reduced to 17% in 2022-2023 compared to 20% in 2021. The role of mineral fuel imports decreased to 16% in 2023 compared to 23% in 2022 and 20% in 2021. At the same time, the structure of mineral fuel imports changed: imports of petroleum products increased, while imports of gas and, especially, coal decreased. Motor vehicles (HS 87) remained in the third place in import importance, with the share at 11% in 2023 (10% in 2021) due to an increase in passenger car imports. In general, imports, as before, were comprised mainly of intermediate and investment goods, the key to the functioning of the economy in the country at war.

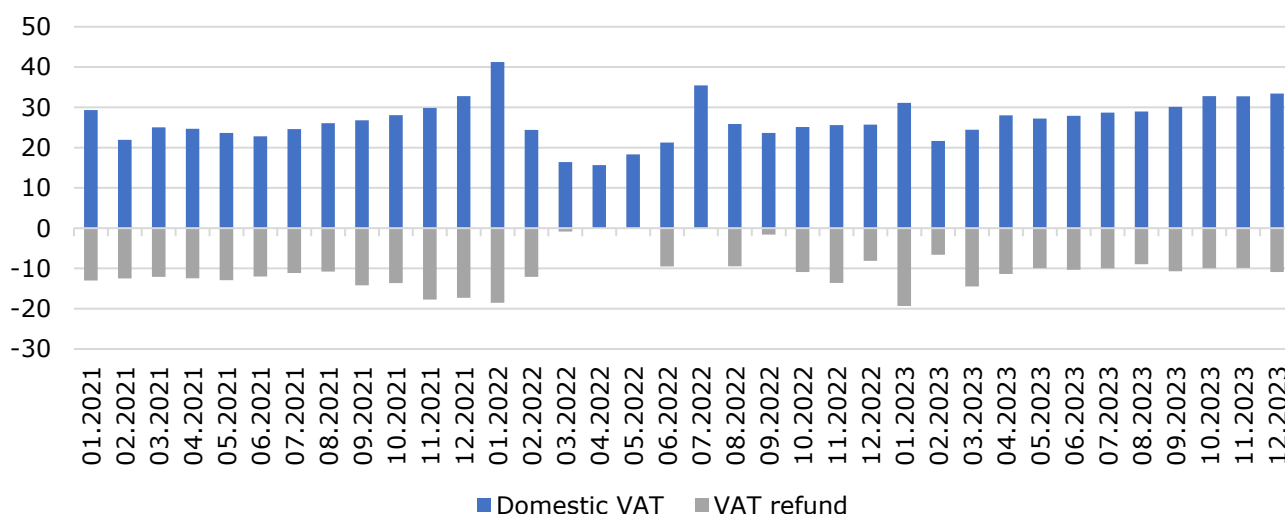
Figure 6: The structure of commodity imports, top 10 positions, 2021-2023


Source: UN ComTrade, SCSU

State Budget: Critical expenditures were financed in December

According to preliminary information, the revenues of the State Budget reached UAH 302 bn in December, including UAH 127 bn due to the general fund. Revenues were supported by grants of UAH 20.5 bn, received primarily from Japan and Norway.

Gross revenues from domestic VAT were at a record high during the full-scale war, amounting to UAH 33.4 bn. That is most likely due to the growth of final consumption. At the same time, VAT refunds reached UAH 10.9 bn. VAT on imports amounted to UAH 35.7 bn, more than in November but less than in October. The lower than October figures are further due to the border strikes, primarily by the Poles.

Figure 7: Domestic VAT, UAH bn


Source: Ministry of Finance, openbudget.gov.ua

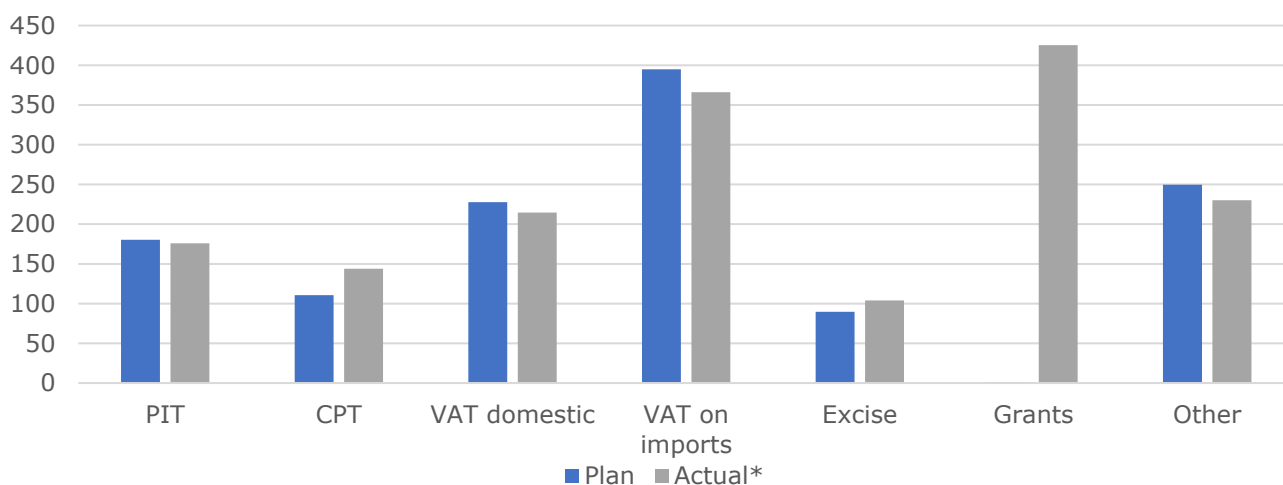
The PIT revenues due to the general fund of the State Budget in December amounted to UAH 20.9 bn, which is higher than the average of the previous indicators. That is due to the traditional payments of bonuses paid at the end of the year.

Overall, in 2023, the revenues of the general fund of the State Budget amounted to UAH 1.66 trillion, which is higher than the planned UAH 1.25 trillion due to the inflow of international grants at UAH 425 bn (in the planned revenue indicators, all international assistance was included in the form of loans). CPT revenues increased and were by almost 30% higher than the plan, primarily due to higher profit inflows from state-owned banks. At the same time, PIT revenues due to general fund of the budget increased by 30% yoy, primarily due to higher military revenues and partly due to some recovery in the labour market.

Gross revenues from domestic VAT increased by 16.2% yoy and were higher than in 2021 due to higher consumption (nominal). At the same time, although VAT refunds increased by 56.5% yoy in

2023, they remained 17% lower than in 2021. Import VAT revenues also increased by 44.7% yoy but were still slightly lower than in 2021 as imports did not fully recover. At the same time, the structure of imports changed, and exemptions were introduced for several goods essential for defence capability.

Figure 8: Revenues due to the general fund of the State Budget in 2023, UAH bn



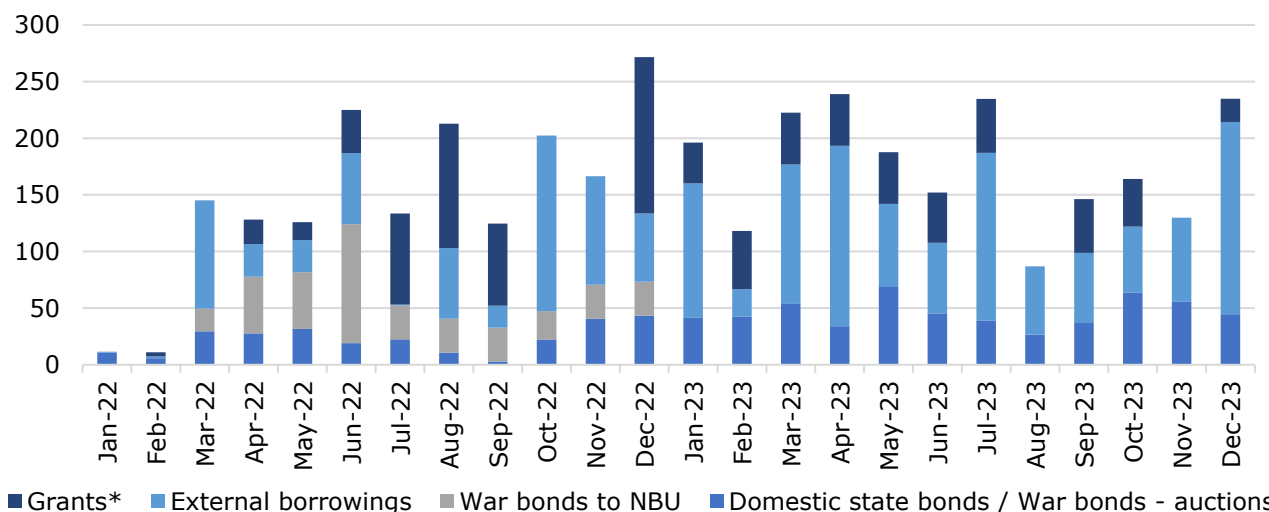
Note: * Preliminary data

Source: Ministry of Finance, openbudget.gov.ua

Financing: In 2023, State Budget expenditures exceeded UAH 4.0 trillion, of which UAH 3.0 trillion – general fund expenditures were executed by 98% of the plan. The expenditures were financed for a record amount in December. That became possible due to the high amounts of external borrowings the government received in December – UAH 169.8 bn and the traditional accumulation of budget expenditures at the end of the year. The funds raised included loans guaranteed by Japan for almost USD 2 bn and a direct loan, a monthly tranche from the EU loan, and the third tranche of an IMF loan. Domestic borrowings in December amounted to UAH 44.6 bn.

In 2023, the state budget deficit amounted to UAH 1.33 trillion. Domestic borrowings totaled UAH 566 bn, which was UAH 204 bn more than repayments on domestic government bonds. Concessional loans of USD 19.5 bn were received from the EU. The USA provided grants of almost USD 11 bn. Loans from the IMF amounted to USD 4.5 bn. Other major creditors were Japan and Canada.

Figure 9: Financing of the state budget, UAH bn



Note: * Grants are part of budget revenues, which are accounted for under the code 42000000 "From the European Union, foreign governments, international organizations, donor institutions".

Source: Ministry of Finance, openbudget.gov.ua

International support: The EU and the US have not yet approved the support for Ukraine

By the end of 2023, Ukraine has fulfilled all the structural benchmarks necessary to complete the third review of the IMF program. This review is expected to take place in the first weeks of March. In general, in 2024, Ukraine may receive slightly more than USD 5 bn from the IMF if it fulfills all obligations on time.

The EU has not yet approved the Ukraine Facility support program, which envisages the provision of EUR 50 bn to Ukraine over four years. Hungary still blocks the decision, but European diplomats are preparing a plan B in case of further blocking. The decision is expected to be made on February 1. Under the new program, it is planned to determine Ukraine's commitments to implement reforms and other policy steps, based on which the EU will provide Ukraine with tranches of assistance. The review of the fulfillment of obligations is expected to be quarterly. The European side will determine the commitment based on the Ukraine Plan adopted by the government, which envisages the action plan of reforms planned by the government, particularly in the field of public administration, public finance management, and the business environment. The government intends to continue judicial reform and anti-corruption measures. Separate priority sectors for development are also highlighted: agriculture, energy, transport, critical materials, digital transformation. The horizontal priority is the green transition and environmental protection.

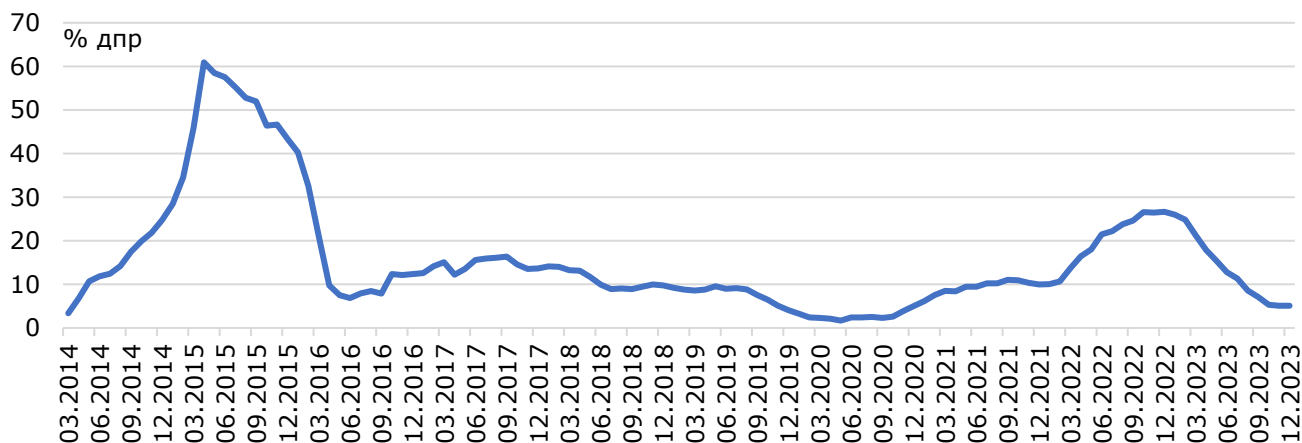
The USA has not yet made a decision on supporting Ukraine in 2024. This is related to domestic political difficulties that have complicated the adoption of any budgetary decisions, a decrease in support for Ukraine from some U.S. politicians, and tying assistance to Ukraine to a compromise on resolving the crisis on the Mexico border. It is hoped that a decision will be made within the next month. It is most likely that this time, the funds from the USA will also be provided in fulfillment of commitments.

This year, funds from other international partners are also anticipated. This includes assistance from Japan and Norway. A Development Policy Loan (DPL) from the World Bank is also expected under the fulfillment of commitments.

Inflation: Consumer price growth remained at 5% yoy

In December, consumer inflation remained at 5.1% yoy, within the NBU's pre-war target. That reflected lower prices for several goods and fixed prices for state-regulated services other than electricity. Prices for several food products, including cereals, sugar, and oil, fell in 2023 amid a good harvest and low world prices. The State Statistics Service also reported decreased prices for various non-food goods, including clothing and footwear, household appliances, laptops, smartphones and tablets. For a range of other non-food products, prices increased by only 1-3% per year (vehicles, fuel, furniture, home textiles). That likely reflected moderate consumer demand, lower supply costs compared to 2022, and a stable hryvnia exchange rate for most of the year. However, prices for services not subject to state regulation grew significantly faster than 5% yoy. That could reflect rising energy and labour costs.

Figure 10: Consumer price inflation



Source: State Statistics Service of Ukraine

Monthly inflation in December was 0.7% mom. Vegetable prices continued to rise after they collapsed in the fall amid a good harvest. As a result, vegetable prices were higher than in 2022.

Seasonal changes in prices for dairy products(↑), eggs(↑), clothing and footwear(↓) also continued. The State Statistics Service recorded slightly decreased prices for appliances, furniture and other household goods. That contrasted with a weaker exchange rate and thus increased import costs in December. As in previous months, prices were likely limited by increased competition for low consumer demand and possibly lower logistics costs.

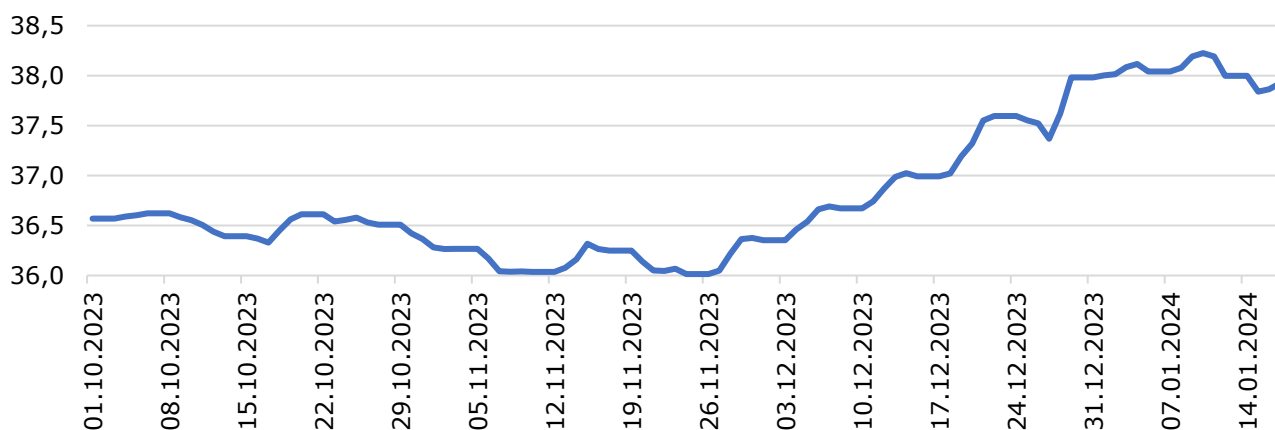
Monetary and exchange rate policy: The NBU allowed a moderate weakening of the hryvnia against the dollar

Exchange rate. In December, the hryvnia weakened from 36 to 38 UAH per USD against growing demand for foreign currency. Demand for cash foreign currency increased amid the premium season and the lifting of recent restrictions on the sale of cash foreign currency by the NBU. Banks and financial institutions sold more than USD 2 bn in cash foreign currency. That was the highest figure since the beginning of the full-scale war and one of the largest in recent years. Imports also increased amid easier logistics and seasonal growth in demand.

In response, the NBU increased interventions in the foreign exchange market to the highest level in 2023 (USD 3.55 bn), but at the same time, allowed the exchange rate to respond to the increase in demand. Interventions remained high in early January, and demand is likely to be stabilized. As a result, in the first half of January, the hryvnia exchange rate fluctuated around UAH 38 per dollar.

Monetary policy. In December, the NBU cut its key policy rate from 16% to 15% per annum. That was in line with the NBU's October forecast and did not come as a surprise, given a slowdown in inflation. However, according to the published results of the discussion of the NBU Monetary Committee, the approval of assistance to Ukraine will be a prerequisite for further interest rate cuts in 2024. Even after that, the majority of the committee expects the reduction in rates not to exceed 1-2 percentage points per year.

Figure 11: Official exchange rate of the hryvnia to the US dollar, UAH per USD



Note: The exchange rate values in the figure start at UAH 36 per USD.

Source: NBU

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