



# Monthly Economic Monitoring of Ukraine

No.233, June 2024

## *Resume*

- On June 11-16, several important international events were organized and they are expected to contribute to Ukraine's resilience and victory: URC2024, the G7 meeting, and the Global Peace Summit.
- According to the IER, real GDP growth slowed slightly to 3.5% yoy in May compared to 4.2% yoy in April due to significant damage caused by Russian attacks on electricity generation.
- Restrictions on electricity supply to industry and the population continue: efficient consumption and the installation of decentralized power generation capacities are a priority.
- The Ukrainian Sea Corridor allows an increase in the exports of ores and metallurgical products.
- Foreign aid was the lowest in May. However, already in June Ukraine should receive about USD 4 bn in loans.
- In May, as in the previous three months, consumer inflation was slightly above 3% (3.3% yoy).
- In June, the NBU again reduced the discount rate – from 13.5% to 13% per annum.
- The hryvnia exchange rate has surpassed UAH 40 per dollar due to the growing demand for cash currency.



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## URC2024, G7 Meeting and Peace Summit: New Agreements That Can Help Ukraine

**URC2024:** On June 11-12, the Ukraine Recovery Conference 2024 (URC2024) was held in Berlin, which was attended by 3400 participants from among the governments of different countries, representatives of civil society and business. Representatives of local authorities presented their projects to attract additional funding for their implementation. During the conference, several important agreements were signed, as well as memoranda of cooperation, which provide for the provision of financial assistance to Ukraine for reconstruction of energy infrastructure facilities and implementation of projects for decentralized electricity generation, construction of shelters, financing of businesses in various sectors. Among other things, several important initiatives have been launched. Thus, the Skills Alliance initiative aims to introduce a system of training and retraining of employees, given the high level of structural unemployment today. The SME Alliance is designed to increase funding to support SMEs. Importantly, it is also planned to introduce a reinsurance program for political, military and other risks, which can provide access to insurance for both Ukrainian and foreign companies and promote investment in Ukraine.

**G7 decision:** On June 13, G7 leaders approved the decision on the loan to Ukraine in the amount of USD 50 bn. The payment of interest and repayment on this loans will be covered by the profits received from frozen Russian assets. Accordingly, it was decided to further freeze such assets. So far, there is no detailed information on the distribution of these funds by areas. At the same time, not all funds are likely to be channeled through Ukrainian budget and that part of these funds will pay for defense orders in favor of Ukraine. This decision of the G7 is extremely important for increasing Ukraine's resilience, given the existing financial gap for 2025.

**Peace Summit:** On December 16, the Global Peace Summit was held in Switzerland, which was attended by representatives of 101 countries. As a result of the Summit, 78 states and four organizations signed a joint [communiqué](#). Three key topics of the communiqué relate to ensuring the operation of Ukraine's nuclear power plants, including the ZNPP, the safe export of agricultural products from Ukraine, and the return of all prisoners of war and children taken to Russia.

### GDP and Real Sector: Further Deceleration of Real GDP Growth

According to the IER, real GDP growth slowed slightly to 3.5% yoy in May compared to 4.2% yoy in April. Our estimates for May take into account data from the updated list of the largest three hundred enterprises based on the published financial statements for 2023, but the results, in our opinion, remained comparable to the estimates for previous months.

As in April, the slowdown in economic growth was the result of further destruction and damage to electricity generation capacities by Russian drones and missiles. Last year's higher base of comparison also played a role. Although, according to the IER survey, estimates of output growth remain positive, the indices have fallen, as well as the level of optimism. Unsafe working conditions have once again become a major obstacle to business operations. The second most important is the shortage of labor. Problems with access to electricity in May were in fourth place in terms of the weight of obstacles, while high commodity prices were in third place.

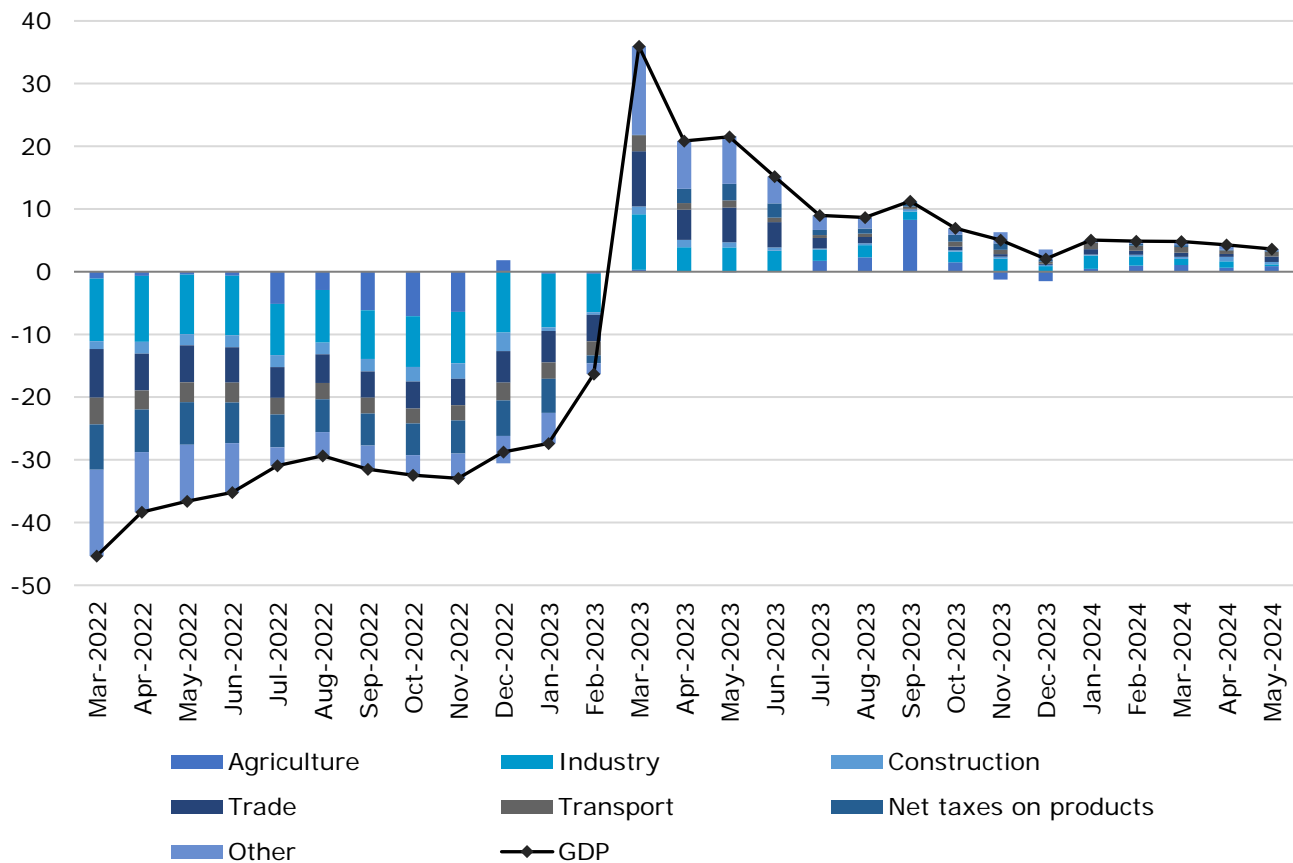
Due to damage to electricity generation, restrictions on the supply of electricity for businesses were applied. As a result, according to the IER, the growth rate in the manufacturing industry slowed down to 5% yoy from 11% yoy. At the same time, improved logistics supported the development of the sector, in particular, machine building and metallurgy. In the future, businesses face the need to invest in decentralized electricity generation.

Real GVA in the extractive industry is estimated to have increased by 2% yoy due to fairly stable production of gas, iron ore, and construction materials.

Real GVA in transport increased by almost 15% yoy compared to 11% yoy in April, in particular due to the unblocking of the western border, as well as due to the effect of the statistical base. In contrast to the weak operation of the grain corridor in 2023, the Ukrainian Sea Corridor allows Ukraine to keep exports through seaports high. At the same time, not only grain is transported, but also iron ore and metallurgy products. Ukrzaliznytsia continues to report an increase in transportation of goods by more than 30% yoy.

Real GVA growth in trade is estimated to accelerate. In particular, more expenditures were directed to the purchase of devices and appliances that can ensure the resilience of households during power outages. Trade is estimated to have increased by almost 6% yoy.

Figure 1: Contributions to real GDP, pp



Source: IER estimates conducted under the support of the USAID Competitive Economy Program in Ukraine

At the same time, after the assessment, new information was published with respect to the growth of metallurgy in May, which turned out to be much better than our estimates (in particular, we are talking about the growth of steel production by Ukrmetprom enterprises by more than 26% yoy). This is likely due to direct contracts for the import of electricity by individual companies, which are possible thanks to government decisions made at the beginning of 2023. Therefore, it is possible that we will slightly revise our current estimates in July.

**Energy: Electricity shortage is growing**

**Electricity.** In Ukraine, restrictions on electricity supply to industry and the population, which began in mid-May, continue. The most significant deficit is felt in the evening and night hours when solar power plants do not work. Russian shelling destroyed 50% of Ukraine’s power generating capacity (42 power units), and only 27% of the capacities of large thermal power plants remain operational. The Dnipro Hydroelectric Power Plant is also in critical condition. A total of 9.2 GW of Ukrainian generation was destroyed, half of the peak consumption of 18 GW. In addition, electricity consumption increased in May and June due to the heat wave and the use of air conditioning.

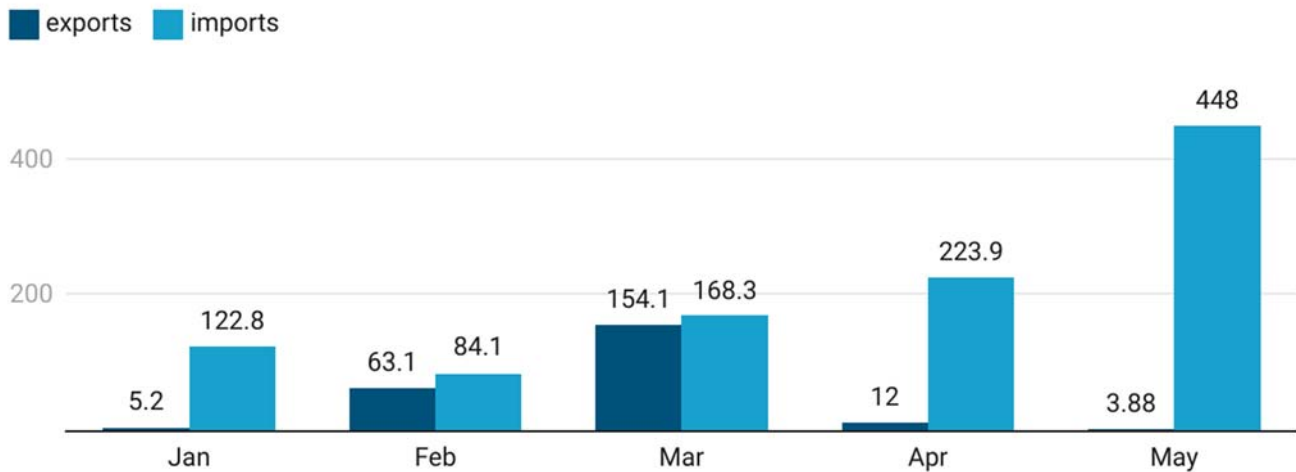
In May, Ukraine doubled electricity imports to 448 m kWh, worth USD 35 m. There have been no exports since May 12. In May 2024, the state-owned energy trader JSC Energy Company of Ukraine (ECU) imported the largest amount of electricity since the company’s commercial activities started in July 2022. It is more than a third more than in April and twice as much as in March.

The Government recommended that ministries, central authorities, and regional state administrations abandon the use of air conditioning and outdoor lighting in buildings. Local authorities should also limit street lighting. In June, to reduce electricity consumption, Ukrzaliznytsia temporarily changed the schedules of 74 suburban electric trains throughout Ukraine – some trains will temporarily not run, and some will change the frequency, or their route will be limited. In Odesa, to reduce the load on the power system, the number of trolleybuses and trams on routes has been reduced since June 5. For condominiums, there is the GreenDIM program, launched by the Energy Efficiency Fund, under which condominiums can receive compensation of up to UAH 1 m for the installation of solar power plants and up to UAH 2 m for the installation of heat pumps for heating.

From June 1, the National Energy and Utilities Regulatory Commission (NERC) increased electricity tariffs for the population to UAH 4.32/kWh. However, even this increase does not cover the market cost of electricity production for the population, which, according to Prime Minister Denys Shmyhal, is 7-8 UAH/kWh. Also in May, the marginal prices on the electricity market were increased to UAH 5.6-10 per kWh from UAH 3-8.25 per kWh, depending on the time of delivery and the type of contract. This raise, accordingly, increased the cost of electricity for industrial consumers.

The NERC has become an official Association of Issuing Bodies (AIB) member. This is a crucial step towards the launch of the Ukrainian system that guarantees the origin of green electricity according to EU principles.

**Figure 2: Electricity exports and imports in 2024, thousand MWh**



Source: DixiGroup

**Gas.** In the first five months of 2024, Ukrgasvydobuvannya increased natural gas production by 10% compared to last year. The increase in gas production and high air temperature in April allowed Naftogaz to accumulate fuel in its underground gas storage facilities faster than last year – the injection rate of 0.33 bcm exceeds the figures for the same period in 2023. According to ExPro's calculations, since the beginning of the current natural gas injection season (March 31), Ukraine has pumped about 1.06 bcm of natural gas into underground storage facilities.

**Coal.** The Cabinet of Ministers has allowed the export of coal from Ukraine. This year, the permitted volume is 1.1 m tons of coal, anthracite, and fuel derived from coal. The decision was made to ensure the operation of state-owned coal mining enterprises and the sale of thermal coal against the backdrop of falling domestic demand for coal from destroyed thermal power plants.

### Transport: Ukraine resumes container shipping

**Maritime transport.** In May, the seaports of Ukraine handled 8.3 m tons of cargo, which is 17% less than in April. The leaders of cargo turnover are grain (5.3 m tons) and ores (1.5 m tons). Cargo turnover through the Ukrainian Sea Corridor in May decreased by 13% mom and amounted to 6.7 m tons, of which 4.5 m tons were agricultural products.

Maersk, the world leader in container shipping, in cooperation with the Ukrainian company Iteris, is launching the first container service to the ports of Greater Odesa since the beginning of the full-scale invasion of the Russian Federation. A container ship with more than 1100 TEU capacity will sail between the port of Chornomorsk and the Romanian port of Constanta. Hapag-Lloyd and MSC also have plans to resume operations in Ukrainian ports.

**Rail transport.** Ukrzaliznytsia transported 15.5 m tons of cargo in May, 2% more than in April and 35% more than in May 2023. The transportation volume towards the western border amounted to 2.75 m tons (+3.8% mom); in the direction of ports, it was 4.9 m tons (+9.7% mom). It mainly was grain cargo (3.3 m tons), ore (2.7 m tons), and ferrous metals (0.4 m tons).

Since June 5, Ukrzaliznytsia has reduced the cost of export transportation of agricultural products for territories with ongoing hostilities by 30%. As of June 13, the discount was used to send 517 wagons and 17 fitting platforms.

In May, Ukrzaliznytsia carried almost 2.2 m passengers in domestic traffic (an increase of 22% yoy) and nearly 200 thousand passengers in international traffic (an increase of 21% yoy). Route Kyiv — Chop increased by 221% yoy, and routes Mykolaiv — Kyiv and Kyiv — Mykolaiv increased by 52% and 66%, respectively. The top also includes routes Kyiv — Khmelnytskyi — Kyiv, Kyiv — Chelm — Kyiv, and Kyiv — Vinnytsia — Kyiv.

**Figure 3: Transportation of goods by rail in export traffic, m tons**



Source: Ukrzaliznytsia

**Road transport.** In May, the volume of exports by road increased by 10.7% compared to April 2024, amounting to 893.3 thousand tons. This increase was due to the lack of a border blockade.

However, from June 4 to 8, protesters blocked the outward movement of trucks at the Rava-Ruska-Hrebenne checkpoint. Trucks were allowed to enter Ukraine according to the schedule: 12 vehicles per 12 hours and four trucks carrying humanitarian aid per hour.

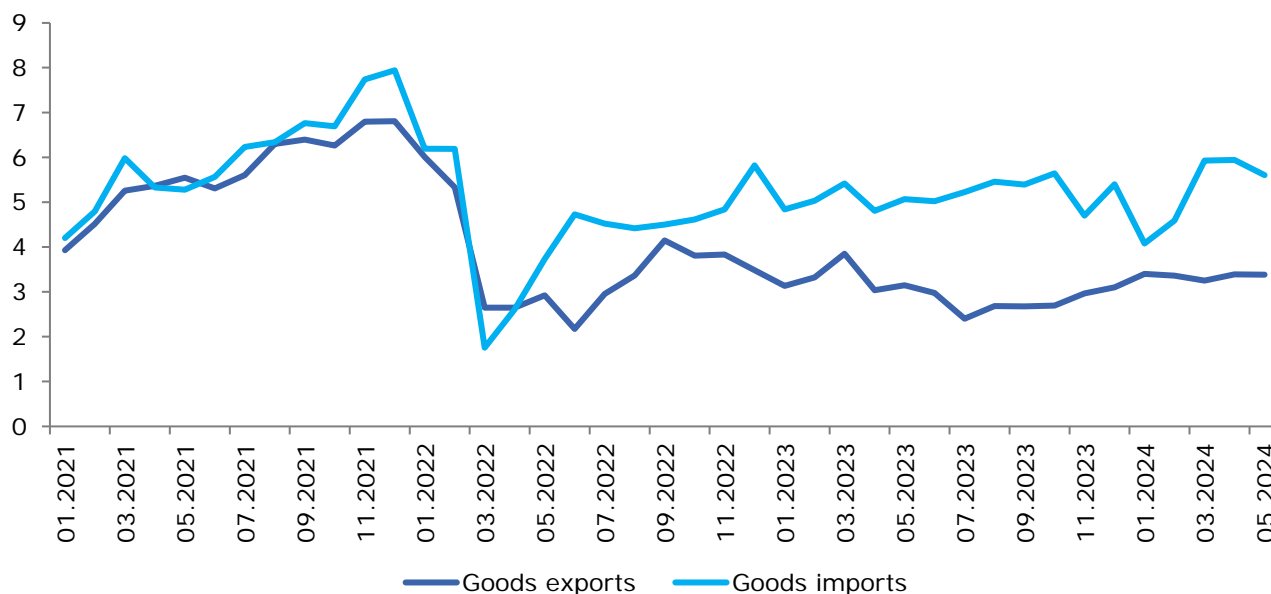
On May 31, Ukraine and Slovakia agreed to simplify the procedure for opening international bus routes between the countries – the rule on the need for a parity partner from another country was abolished. The parties also agreed to consider applications for opening routes within 30 days, which will significantly speed up the process of opening and launching new routes. At the same time, the Ministry of Transport of Slovakia stressed that only one bus can depart daily from one bus station on one international route.

**Foreign trade: Exports in May remained close to April level**

Customs data show that exports in May remained almost unchanged compared to April in dollar terms and amounted to about USD 3.4 bn. Exports of agricultural products decreased slightly to USD 2.11 bn from USD 2.19 bn in April. Exports of wheat and corn decreased, but exports of sunflower oil increased. This happened in line with lower stocks from last year's harvest. However, the decrease in volumes was partially offset by higher prices. Despite the shortage of electricity, exports of metallurgical products was the highest since the beginning of the year at USD 390 m. This reflected higher export volume (in tonnes). Exports of mineral products (primarily iron ore) were the lowest since the beginning of the year and amounted to USD 285 m due to the fall in iron ore prices and a decrease in physical export volumes. Exports of other goods gradually increased.

Imports in May decreased slightly compared to April: by USD 0.3 bn to USD 5.6 bn. Main factor in this change was lower imports of chemical products due to lower purchases of fertilizers and medicines (decrease from USD 1.18 bn to USD 0.89 bn). Imports of other items decreased slightly as well. The impact of the electricity shortage on imports has been limited so far: energy imports increased, but gradually. Imports of generators and batteries also increased, but volume of purchases was comparable to the imports in fall 2023, when households were preparing for winter with possible power outages.

**Figure 4: Trade in goods of Ukraine, 2021-2024, USD bn**



Source: State Customs Service of Ukraine

**State budget: The situation with budget financing in 2024 is quite favorable**

According to the preliminary information of the Ministry of Finance, the state budget revenues in May amounted to UAH 229 bn, of which UAH 152 bn went to the general fund of the budget. The revenues due to the general fund were lower than in March (in May, as well as in March, most companies pay income tax (CPT) for the previous quarter), as revenues from CIT were lower. In particular, in March, banks paid CIT at a rate of 50% based on the results of 2023, while in May the CIT was paid at the rate of 25% for profits received in the first quarter of 2024: respectively, revenues from CIT in March amounted to UAH 60.1 bn, and in May - UAH 42.1 bn.

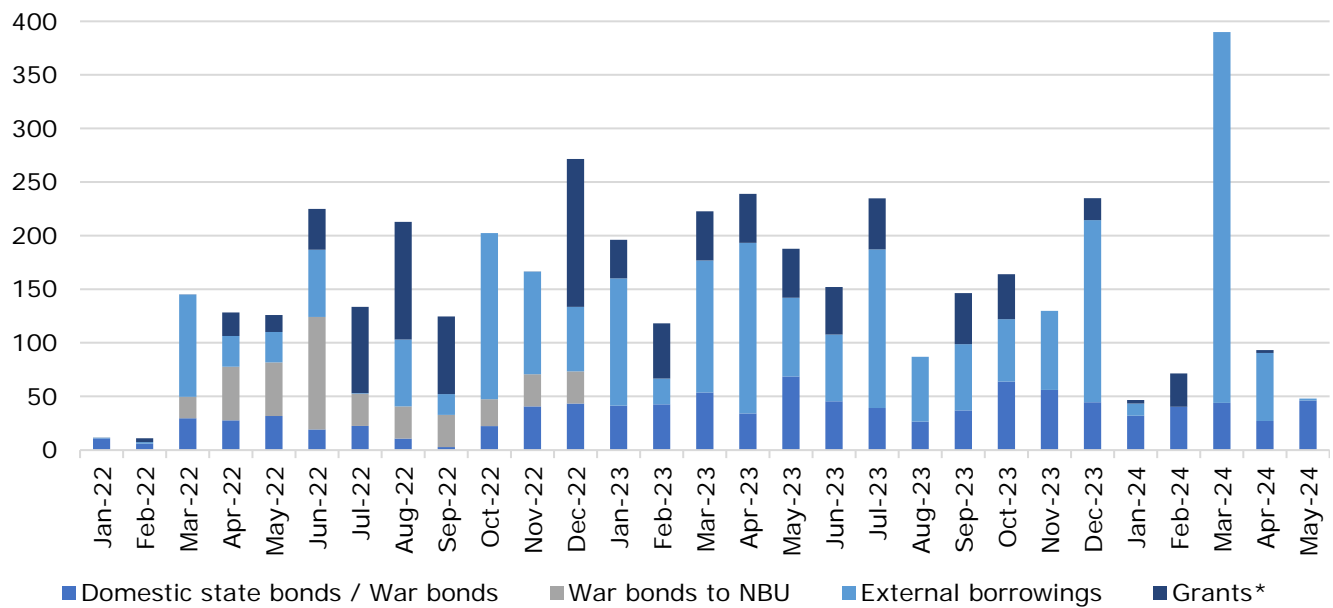
General fund revenues in May were also lower than in April. Thus, in April, the NBU transferred UAH 38.6 bn to the budget, and grants amounted to UAH 2.7 bn: these payments were not made in May. Gross VAT revenues also decreased slightly: by 6.6% of the mom, although they increased by 20.9% compared to last year, while the amount of VAT refunded increased slightly. Although the annual increase in revenues from import VAT remained high (42.9% yoy), they were slightly lower than in April.

At the same time, tax revenues administered by the State Tax Service were higher than planned by 11.3%, and those administered by the State Customs Service were exceeded by 9.1% (by UAH 44.7 bn and UAH 19.6 bn, respectively).

Although revenues were over-executed, the deficit remained smaller than planned. Thus, in May, there were the lowest external borrowings: only USD 20 m was received from the World Bank. UAH 46 bn was received from the placement of domestic government bonds, as the Ministry of Finance made efforts to reduce the borrowing rate, as well as limited borrowings denominated in foreign currency. As a result, the expenditures, although they were so far the largest this 2024, amounted to about 91% of the plan.



**Figure 5: Funding and grants received by the state budget, UAH bn**



Note: \* Grants are part of budget revenues, accounting under the code 42000000 "Official transfers from the EU, foreign governments, international organizations, donor institutions".

Source: Ministry of Finance, [openbudget.gov.ua](http://openbudget.gov.ua)

In May, Ukraine and the IMF reached a staff-level agreement on the fourth review of the program at the expert level. On June 20, a positive decision of the IMF Board on the revision of the program is expected, which will allow Ukraine to receive USD 2.2 bn. At the same time, the fifth revision may turn out to be more difficult both because of the more difficult structural benchmarks and because of the need to revise the macroeconomic forecast. Thus, assumptions about the end of the war in 2024 look optimistic, and a revision of this assumption will reduce the expected economic growth and increase financial needs. As for the latter, the impact of the G7 decision to provide Ukraine with a loan in the amount of USD 50 bn will be positive.

Also in June, Ukraine should receive EUR 1.9 bn from the EU under the Ukraine Facility support mechanism, which is related to Ukraine's ratification of the EU loan agreement. At the same time, further tranches of budget support under the Ukraine Facility will be provided only on the basis of an assessment of the implemented decisions, which are envisaged in Ukraine Plan approved by the Government. Also in June, the issuance of guarantees under the second component of the Mechanism for Ukraine in the amount of EUR 1.4 bn begins: EUR 1 bn of loans and EUR 0.4 bn of blended financing. The money will be provided primarily for energy restoration and support for SMEs.

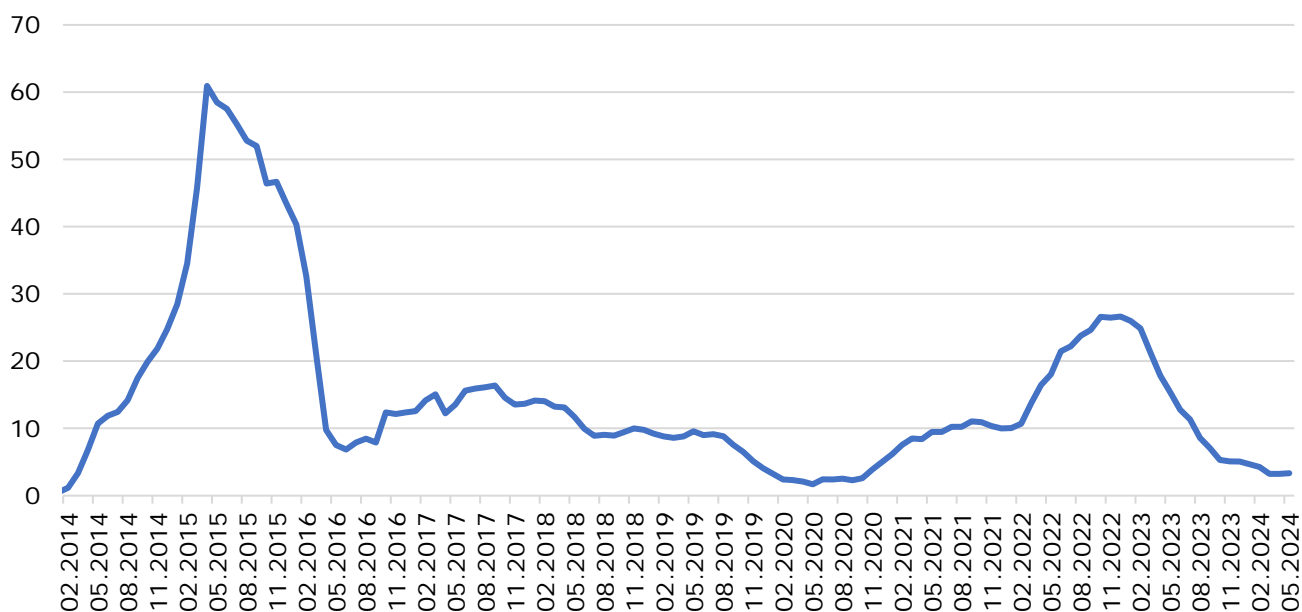
**Inflation: Consumer inflation remained close to 3% yoy**

In May, as in the previous three months, consumer inflation was slightly above 3% (3.3% yoy in May). This likely reflected a good harvest last year (and for some products this year), lower-than-last year's export prices for Ukrainian agricultural products, lower logistics costs for imports, and significant competition for consumer demand still significantly lower than in 2021. So far, this has compensated for the increase in business costs due to rising wages, an increase in the cost of fuel and electricity, and the weakening of the hryvnia against the dollar.

However, the balance between the factors containing price growth and the increase in the costs of suppliers and retail chains may change in the coming months and lead to an acceleration of inflation. Moderate inflation expectations and comparatively limited demand will continue to restrain price growth, so a sharp increase in prices for most goods is not expected. The exception was the electricity tariff, which the Government raised by 62% in June (from UAH 2.2 to UAH 3.6 per kWh excluding VAT): this increase bumped up the consumer price index by more than 1%.

Monthly inflation accelerated to 0.6% mom in May due to the rise in fruit prices by more than 10% mom. At the same time, egg prices continued to fall: they fell by 14% dpm and almost halved compared to December. Prices for other goods grew by an average of 0.3% yom.

**Figure 6: Consumer price inflation, % yoy**



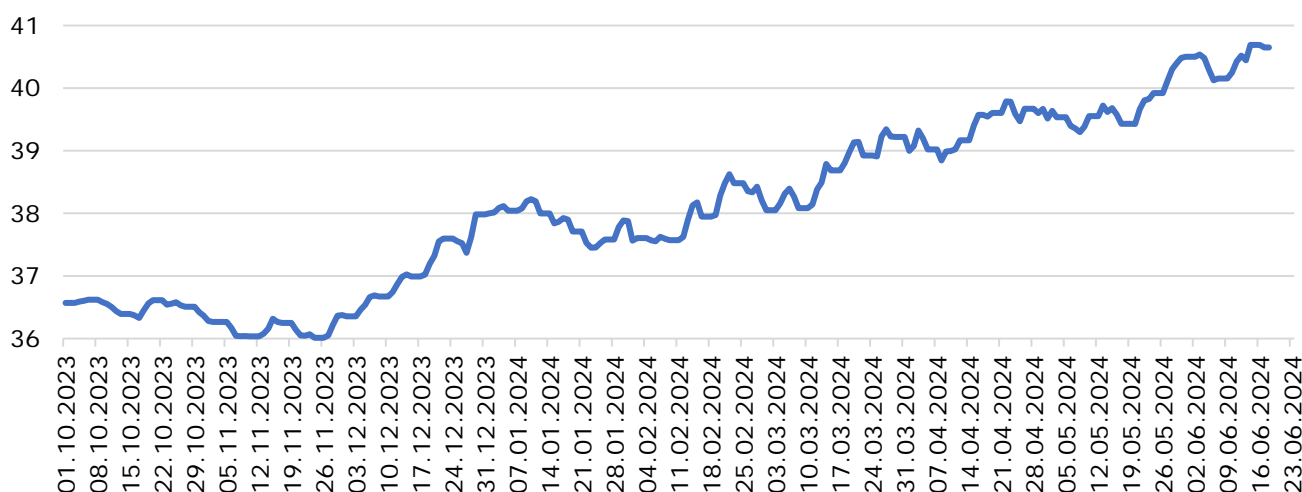
Source: State Statistics Service of Ukraine

**Monetary policy and the exchange rate: Hryvnia fell to more than UAH 40 per dollar, and the NBU once again lowered the policy rate**

**Monetary policy.** In June, the NBU once again reduced the policy rate: from 13.5% to 13% per annum. This decision was in line with the NBU's April forecast, according to which the key policy rate will be reduced to 13% in June and will remain at this level until the end of the year. The NBU also recalled the expected acceleration of inflation to over 8% by the end of the year, which explains this forecast of the key policy rate.

However, the NBU has already lowered its key policy rate forecasts several times, so further rate cuts this year are quite possible. And especially if prices grow more slowly than the NBU predicts.

**Figure 7: Official exchange rate of the hryvnia to the US dollar (UAH per USD)**



Note: Note that the exchange rate values in the figure start at UAH 36 per USD. United States

Source: NBU

**Monetary policy.** Over the past four weeks, the hryvnia exchange rate has exceeded UAH 40 per dollar, and reached UAH 40.6 per USD as of June 14. This happened against the backdrop of significant interventions by the NBU, which reached more than USD 3.3 bn during this period. In May, the demand for cash FX increased sharply, a significant deficit in foreign trade persisted, and demand for foreign currency for other items increased due to the NBU easing some of the currency restrictions. Crossing the psychological mark of 40 UAH per USD may have added to the demand for the foreign currency.



In May, the NBU's international reserves fell to USD 39.0 bn of USD 42.4 bn due to the break in attracting external financing in May and low foreign currency borrowing by the Government in the domestic market. As a result, the Government spent USD 510 m more to repay interest and principal to holders of foreign currency domestic government bonds, the IMF and other donors than it has raised. Against the backdrop of increased demand for dollars, the NBU spent almost USD 3.1 bn. to curb the depreciation of the hryvnia against the dollar. According to the NBU, the reserves still cover more than five months of Ukraine's imports. Also in June, funds from the IMF and the EU are expected to add to the reserves.

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