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Executive Summary

- According to the IER, GDP growth decelerated to 1.1% yoy in October from 4.0% yoy in September.
- There were no scheduled electricity outages in October, and electricity imports decreased by 58% mom to 181 thousand MWh.
- On November 1, Ukraine began the natural gas withdrawal season from its underground storage facilities, where it accumulated 12.9 bn cubic meters of gas.
- In October, transshipment in seaports increased by 16% mom to 8.1 m tons.
- Exports jumped to USD 3.8 bn in October, reaching its highest level this year.
- The President has not yet signed the amendments to the Tax Code of Ukraine, which were supposed to generate additional resources for the budget for this and the following year.
- The fifth review of the IMF program was successful and allowed Ukraine to receive USD 1.1 bn from the Fund.
- The United States and the EU have approved important decisions regarding their contribution to Ukraine under the USD 50 bn package from G7, which should be secured by russian assets.
- In October, inflation reached 9.7% yoy, primarily due to a significant rise in prices for several food products.
- The hryvnia has remained stable against the dollar since July. The key policy rate also remained at 13% per annum.

Authors: Oleksandra Betliy, Iryna Kosse, Vitaliy Kravchuk

IER. Kyiv

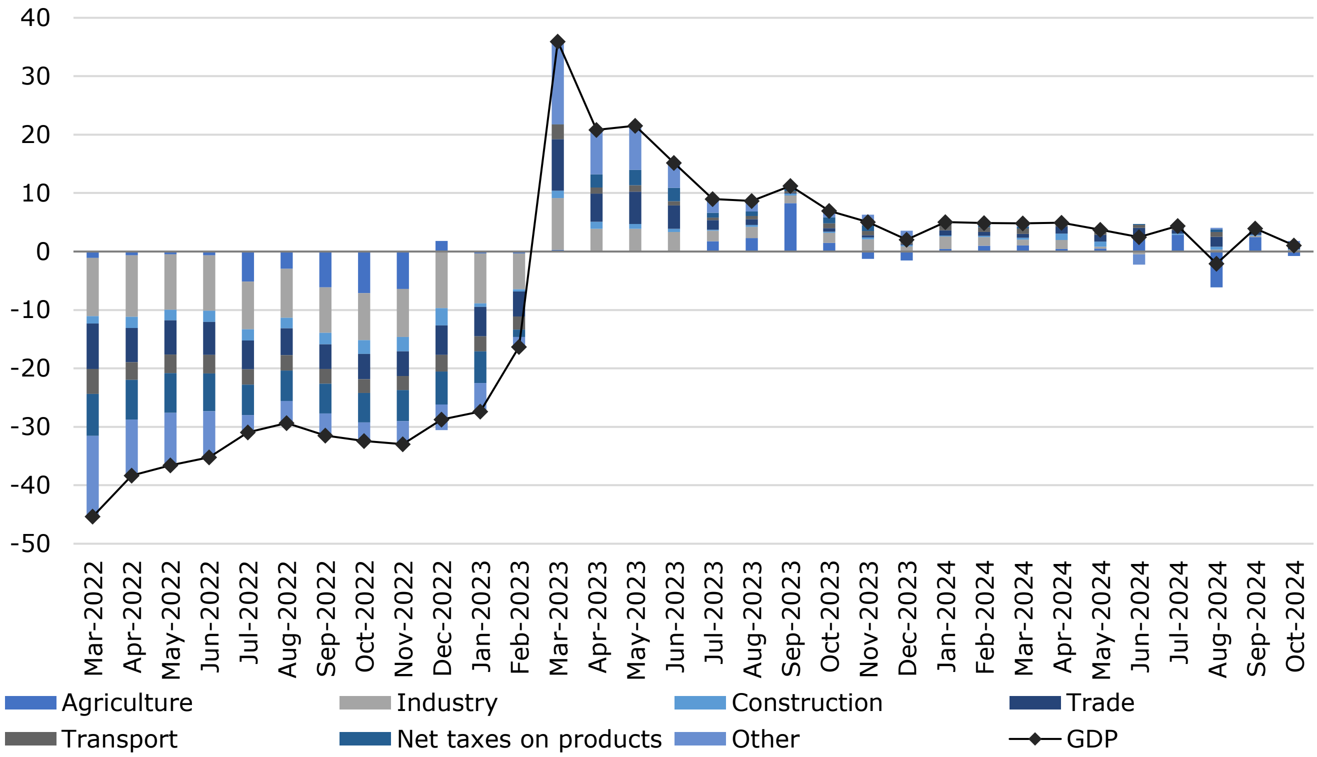
@IER_Kyiv

GDP and Real Sector: Real GDP Growth in October Estimated at 1.1% yoy

According to the IER estimate, real GDP growth decelerated to 1.1% yoy in October from 4.0% yoy in September. As in the previous three months, the change in dynamics is primarily due to the different pace of harvesting this year compared to last year. At the same time, in October, according to our estimates, the pace of recovery in the extracted industry and manufacturing slowed down somewhat, which is primarily due to the russian shelling of enterprises in Dnipropetrovsk oblast and the russian advance on the frontline in Donetsk oblast. The absence of planned power outages due to an increase in electricity production contributed to the development of the economy, although emergency electricity shutdowns occurred due to shelling.

According to our estimates, based on data from the Ministry of Agrarian Policy, the crops harvested in October was significantly lower than in October 2023 due to faster harvesting in September and lower yields this year. At the same time, this applies to all crops, except beets. In particular, corn was harvested by 19% yoy less and oilseeds almost halved. At the same time, the situation in livestock was developing as before. Egg and meat production somewhat increased, while milk production fell. Overall, according to the IER, real GVA in the sector fell by 8% yoy in October.

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



Source: IER assessment

In October, the situation in the industry developed under the influence of a number of multidirectional factors. On the one hand, the absence of planned power outages and the growth of domestic and external demand contributed to an increase in industrial production. On the other hand, russian shelling harmed the activities of a number of large enterprises, especially in Dnipropetrovsk oblast, but not only there. Some enterprises were damaged, some faced a lack of access to electricity due to damage to power grids. Also, the development of industry in Donetsk oblast was negatively affected by the approach of the front and the capture of a number of settlements by russian army, in particular the capture of Selydove and the shutdown of the mine there, as well as the risk of capturing Pokrovsk and, accordingly, the evacuation of employees of enterprises. According to a survey conducted by the IER, "danger to work" was the main impediment to the activities of enterprises in October for 62% of enterprises. Overall, according to the IER, real GVA in the extractive industry decreased by 1.1% yoy. At the same time, logistics continued to be available through the railway and the Ukrainian Sea Corridor for both agricultural products and iron ore and metallurgy products. However, unlike previous months, Ukrzaliznytsia's transportation of ore and rolled products to ports has significantly decreased. This was partly due to higher grain exports. The growth rate of real GVA in the manufacturing industry decelerated to 5.2% yoy in October from 6.0% yoy in September. GVA in electricity generation increased by 0.9% yoy.

Trade, construction and transport continued to grow at a pace comparable to August and September. According to estimates, the growth rate in trade remained almost unchanged (6.2% yoy in October) due to higher household incomes. Real wages are rising as a result of pressure on the labor market due to labor shortages: according to a business survey conducted by the IER, 57% of companies continued to report restrictions on activities due to labor shortages. Trade is also supported by the timely payment of pensions. Consumption is also significantly financed by military remuneration. Foreign trade also grew. Real GVA in transport is estimated to have increased by 9.2% yoy, slightly slower than in September. This is due, in particular, to the statistical base effect.

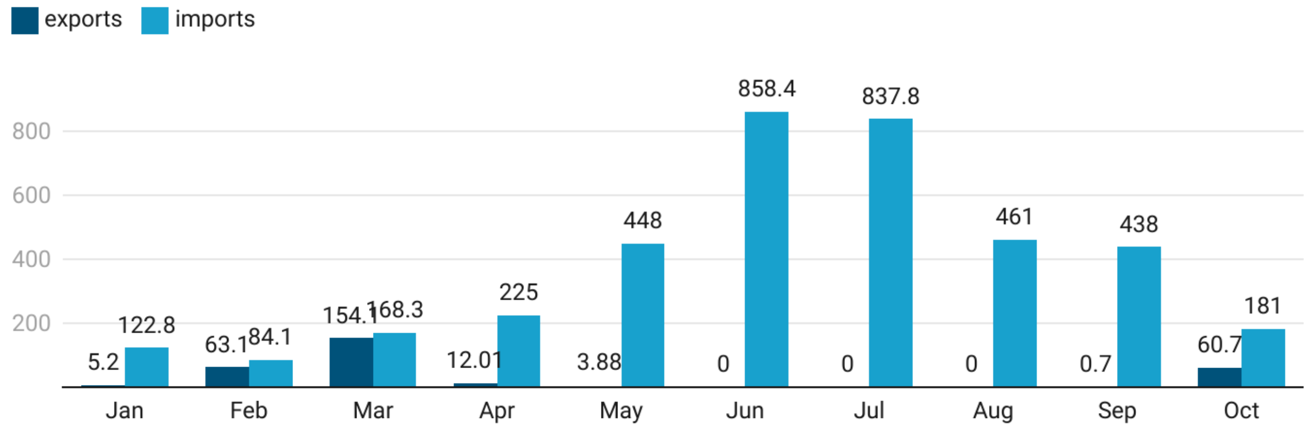
Energy: Electricity Imports Decreased by 58% in October

Electricity. On November 13, Ukrenergo began to disconnect industry and businesses from electricity supply on schedule due to russian shelling and a drop in temperature. Restrictions were recorded in Kyiv, Kherson, Ivano-Frankivsk, Volyn and other regions. Ukrenergo also introduced preventive emergency blackouts due to the threat of missile strikes in eight regions of Ukraine.

At the same time, there were no scheduled outages in October, and electricity imports decreased by 58% mom to 181 thousand MWh. In October, there were no massive russian missile attacks on the generation and distribution of electricity, the weather was warm, and all nine available nuclear power units had been operating since October 9, so domestic electricity generation was sufficient to cover demand. Most of the imported electricity was supplied from Hungary (32.8% of the total volume). Slovakia is in second place (25.4%), and Romania is in third place (24.8%). Electricity imports decreased in all directions – most of all from Poland, by 77% mom. From December 1, the maximum capacity for electricity imports from EU countries will be increased from the current 1.7 GW to 2.1 GW.

The Cabinet of Ministers has changed the list of facilities to which blackout schedules will not be applied and included facilities of the Defense Forces and mobile operators. The list also includes critical infrastructure facilities with a connected capacity of at least 100 kW and settlements located in a 20-kilometer zone along the state border with belarus, the russian federation and the territories of active hostilities.

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



Note: Figures are based on data on commercial electricity flows to/from Ukraine. Customs data may differ from these indicators.
Source: ExPro Consulting

Ukrenergo has suspended payments on state-guaranteed green bonds, which were issued in 2021 in the amount of USD 825 m with a yield of 6.875%. The funds received at that time were used to pay off debts to renewable energy generation, which sells electricity at a special increased tariff. In 2022, Ukrenergo and bondholders agreed to defer bond payments, which helped support the company during wartime and contributed to financial stability over the past two years. Payment of a semi-annual coupon and deferred interest payments for the previous two years for a total amount of at least USD 142 m were expected on November 9, 2024. According to the company, the decision to temporarily suspend payments will be in effect until the completion of the debt restructuring, which is planned for the coming months.

Gas. On November 1, Ukraine began the season of natural gas withdrawal from its underground storage facilities (UGSF). During the 2023/2024 heating season, Ukraine used about 6.7 bn cubic meters (bcm) of gas from storage facilities, and in the 2024/2025 season it expects the same indicators. Reserves in Ukraine's underground storage facilities as of November 1 amounted to 12.9 bcm.

Ukrgasvydobuvannya has put into operation a new well with a daily flow rate of 110 thousand m^3 of natural gas. According to the head of Naftogaz Oleksii Chernyshov, since the beginning of this year, more than a hundred new wells have already been laid in Ukraine by state and private mining companies. Gas production in Ukraine in October increased to the highest monthly level since the beginning of the full-scale invasion – 1.66 bcm, an increase of 2.3% yoy. The average daily gross production of natural gas in October amounted to 53.6 m m^3, which is 1.3% more than in September. In the first ten months of 2024, Ukrgasvydobuvannya produced 12.1 bcm of gross natural gas, and Ukrnafta produced 967 m m^3. Private companies produced 2.75 bcm of natural gas during this period, 12% less than in 2023.

Ukrnafta has drilled and commissioned the deepest oil and gas well in the last eight years. The actual depth of the facility is 4520 meters, as of November 3, the oil flow rate was 65 tons per day, gas — 21.5 thousand m^3 per day.

Coal. Ukraine entered the heating season with the maximum level of filling the warehouses of thermal power plants with coal – about 3.2 m tons. However, it should be recalled that most of the thermal power plants have not yet been restored after russian shelling, and therefore Ukraine still has very limited maneuvering capacity in electricity generation. Another risk remains the loss of mines near Pokrovsk due to the offensive of russian troops, while the mines of Selidove have already fallen under temporary occupation.

Transport: The State Sold Another Port

Maritime transport. Russia continues to intensively shell Ukraine's ports. According to the Ministry of Agrarian Policy, during the shelling of the port infrastructure by the russian federation in October 2024, damage of USD 30-40 m was caused.

As of November 4, more than 80 m t of cargo were transported by 2900 vessels, including 53.5 m t of grain. In October, this figure was 6.8 m t. In total, in October, Ukrainian seaports handled 8.1 m t of cargo (+16% mom), including 5 m t of grain and 1.4 m t of ore. According to the Ukrainian State Port Authorities (USPA), up to 95% of critical infrastructure facilities and port elements are protected in each port of Ukraine.

For the first nine months of 2024, USPA received a net profit of UAH 2.2 bn. This was probably due to an increase in the volume of sea cargo due to the operation of the Ukrainian corridor.

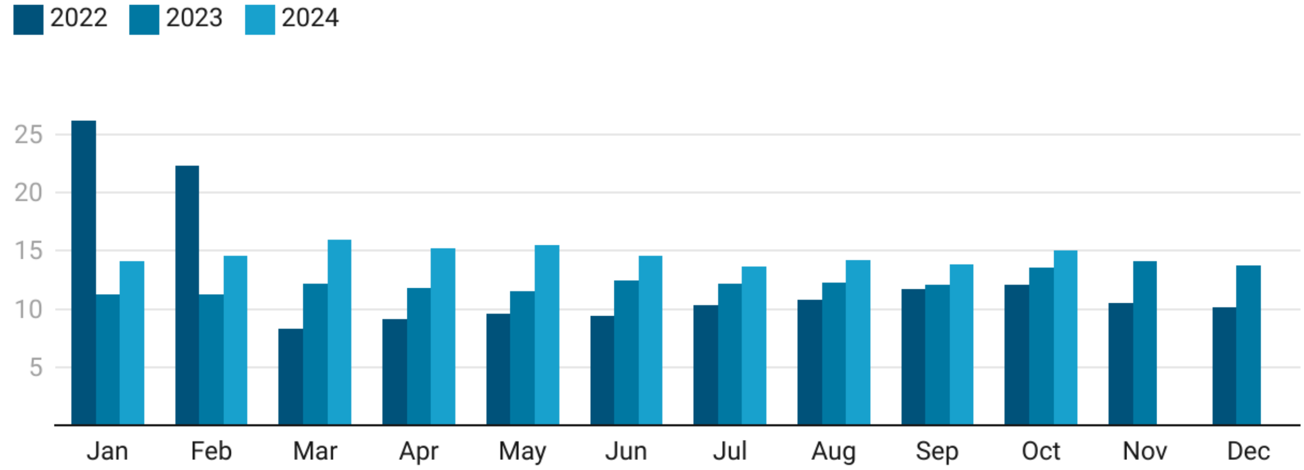
According to the business, since the start of the Ukrainian Sea Corridor, cargo traffic in the ports of Reni and Izmail on the Danube has significantly decreased: the port of Reni operates at 5%, and in the port of Izmail, cargo traffic has fallen by 40%. The main cargoes are fertilizers, metals, and ore.

Finally, the auction for the sale of the property complex of the state enterprise "Bilhorod-Dnistrovskyi Commercial Sea Port" was successfully held. This was the 13th auction for the sale, during which time the price of the lot fell from UAH 220 m to UAH 89 m. The winner of the auction, Top-Offer LLC, offered UAH 90 m for the asset. The port of Bilhorod-Dnistrovskyi is located on the western bank of the Dniester estuary. It is located on 59 hectares of the main territory of the port (has exits up to nine berths) and more than 5 hectares of the territory of the Bugaz port point (one berth) in the village of Zatoka.

Rail transport. Ukrzaliznytsia transported 15.1 m t of cargo in October, which is 9% more than in September and 11% more than in October 2023. Export shipments to the western border in October amounted to 2.6 m t, +12% mom. Transportation in the direction of seaports amounted to 4.6 m t (an increase of 18% mom). The railway transported to ports and the border mostly grain and flour were (3.1 m t), ores (2.5 m t) and construction materials (0.46 m t). Transportation of ferrous metals to ports and borders in October decreased by 31% mom, mainly due to a drop in their transportation in the direction of ports.

In October, Ukrzaliznytsia carried 2.3 m passengers. The most popular route continues to be train #128 Zaporizhzhya - Lviv, which carried 53 thousand passengers in October.

Figure 3: Transportation of goods by rail, m tons



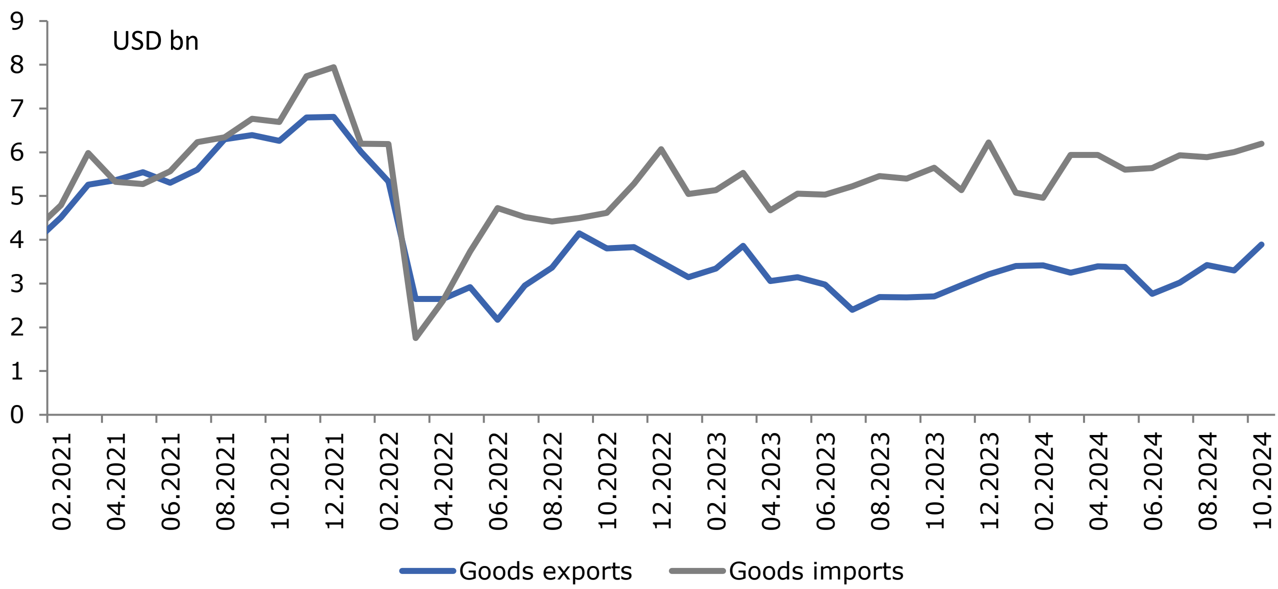
Source: Ukrzaliznytsia

Road transport. From November 1, Ukrainian road carriers traveling through Poland must register in the Polish Transport Electronic Surveillance System (SENT). This registration takes place before crossing the Polish border, regardless of the type of cargo being transported. The driver of a vehicle on the territory of Poland is obliged to carry the RMPD registration number from the SENT system or a replacement document at all times. In addition, the truck must have a locator or external localization system for continuous transmission of geolocation data of the vehicle.

External trade: The Highest Exports and Imports Since the Beginning of the Year

Exports of goods rose sharply to USD 3.89 bn in October from USD 3.26 bn in September and reached its highest value this year. Exports of agricultural products increased to USD 2.42 bn. compared to USD 1.83 bn. in September. In October, exports of corn and soybeans resumed, and oil exports continued to grow. At the same time, exports of wheat and rapeseed, the harvesting of which ended earlier, were lower. Exports of other agricultural and food products increased.

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



Source: State Customs Service of Ukraine

Exports of metallurgy products decreased to USD 378 m in October from USD 447 m in September. In particular, exports of semi-finished steel products and rolled products fell significantly. Exports of mineral products increased slightly due to higher volumes of iron ore exports against the background of a decrease in the production of metallurgical products. Exports of machinery and equipment, including wires and cables, as well as other industrial products also increased.

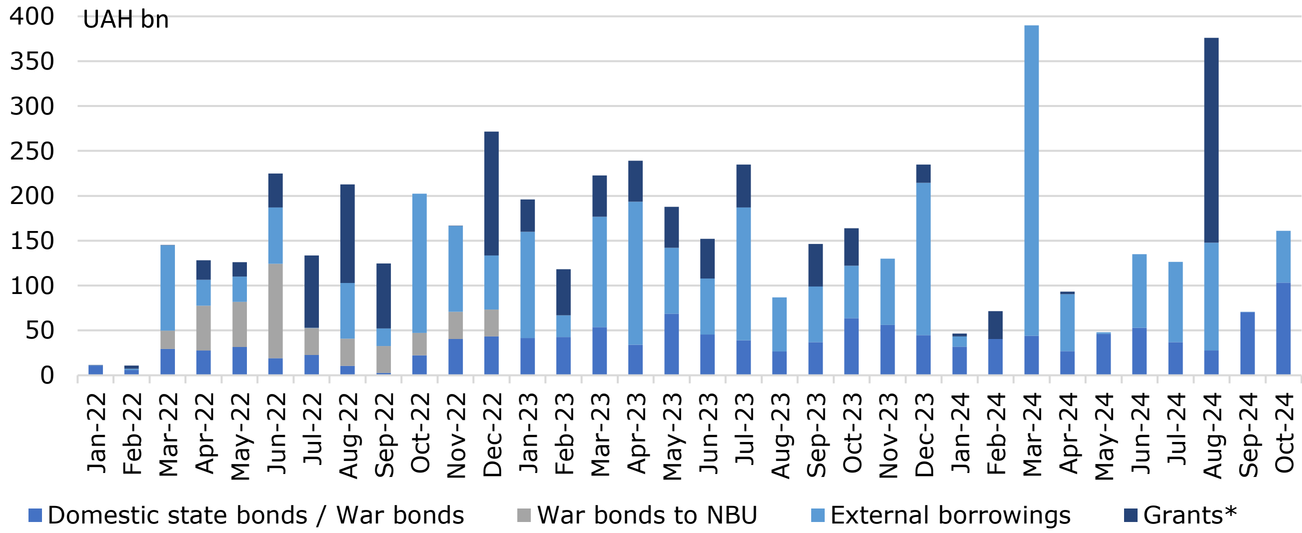
Imports of goods in October amounted to USD 6.20 bn, which was also the highest figure this year. Imports of machinery and equipment reached USD 2.31 bn in October: imports of energy equipment continued to grow as winter approached, and imports of cars and aerial vessels increased. Fuel imports increased due to higher physical volumes even as import prices went down. Imports of food products also continued to grow due to seasonal trends and low supply of certain goods of Ukrainian origin.

Fiscal Policy: More Funding, but Risks Still Present

State Budget. The President has not signed the amendments to the Tax Code adopted by the parliament in October, which, according to the Ministry of Finance, should have brought UAH 21.6 bn to the budget in 2024 and UAH 141 bn in 2025. At the same time, these funds have already been included in the revised indicators of the State Budget for 2024 and in the draft State Budget for 2025, which was submitted by the government after revision for the second reading. Therefore, this year we can talk about the most likely under-execution of plan for tax revenues, which means that expenditures will be also under-financed (the actual under-execution still depends on the government's ability to catch up with the accumulated unfinanced planned expenditures for this year). At the same time, the "gap" for next year will be more noticeable, and therefore the President's signature remains very important for ensuring budget expenditures in 2025.

Meanwhile, the government has successfully increased the amount of funds raised from the placement of domestic government bonds to a record UAH 105 bn in October 2024. This is the largest monthly amount of market placement of these securities. At the same time, in November and December, the government should attract even more funds than in October to meet ambitious budget targets. Most likely, the increase in demand was facilitated by a strong communication campaign by the Ministry of Finance and a change in the NBU's policy, according to which banks can use 60% of benchmark domestic government bonds in reserves, their list has increased and the rate on deposit certificates has been slightly reduced. Also, through ownership policies, the government can influence state-owned banks to increase their investments in government securities.

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



Note: * Grants are part of budget revenues, which are accounted for under the code 42000000 "Official transfers from the EU, foreign governments, international organizations, donor institutions".
Source: Ministry of Finance

Further, there is the problem of under-execution of customs revenues, which probably reflects the inflated dollar exchange rate included in the plans and the failure to take into account in the provided tax exemptions on import of a number of goods. Thus, the State Customs Service attributes the under-execution of the plan for import VAT revenues to the provision of benefits for a number of goods, primarily those that help facilitate or ensure access to electricity during planned or emergency outages. However, VAT revenues on imports reached a record UAH 41.9 bn, but the growth rate slowed down to only 8.5% yoy.

Revenues from VAT on goods/servicies produced in Ukraine increased by 21.1% yoy to UAH 39.7 bn, reflecting higher consumption, likely due to higher wages and other incomes. For the first time, the amount of VAT refunds differed significantly from previous periods and amounted to UAH 15.3 bn (UAH 12.2 bn in the first nine months of this year), most likely due to larger applications for refunds from grain exporters. Corporate profit tax (CPT) revenues were higher than planned and 2.3 times higher than last year due to bigger revenues from banks whose profits are growing, and the CPT rate for banks from this year is 25% instead of the standard 18%.

There were no grants from international partners in October. At the same time, concessional loans were received. As a result of the successful fifth review of the Program, the IMF provided USD 1.1 bn. Canada provided another CAD 400 m in October (equivalent to USD 289 m).

External assistance. The fifth revision of the IMF Program was successful due to the implementation of almost all structural benchmarks and all quantitative indicators. At the same time, Ukraine did not conduct an audit of the NABU, which was a structural benchmark at the end of September. Due to a rather flexible approach, the IMF postponed the implementation of this benchmark to the end of February 2025. At the same time, ten new structural benchmarks were added, including the entry into force of the law on the Accounting Chamber of Ukraine, further implementation of the public investment management reform, appointment of the heads of the Bureau of Economic Security and the State Customs Service, ensuring the independence of the National Energy and Utilities Regulatory Commission.

During the fifth revision of the IMF program, the key challenge was the revision of the macroeconomic framework, as the key assumption of the previous forecast, which predicted a slowdown in war hostilities as early as mid-2024, did not realise. This assumption has changed to the continuation of hostilities for the whole of 2025. As a result, the IMF downgraded its macroeconomic forecast and, accordingly, increased its estimate of the fiscal gap. Thus, the forecast of real GDP growth was reduced from 5.5% yoy to 2.5-3.5% yoy in 2025, while the financing needs in external financing of the budget were increased from USD 25.9 bn to USD 41.5 bn.

Table 1: New Macroeconomic and Financial Framework of the IMF Program for Ukraine

	2024E		2025F	
	4th review	5th review	4th review	5th review
Nominal GDP, UAH bn	7 485	5 442	8 744	8 543
Real GDP, % yoy	2,5-3,5	3,0	5,5	2,5-3,5
Budget deficit, % of GDP	14,2	18,7	7,5	19,2
Budget deficit without grants, % of GDP	20,9	24,5	10,4	20,0
Financial gap, USD bn	**42,6**	**45,8**	**25,9**	**41,5**
Including:				
EU	17,4	17,5	13,7	13,7
USA	7,8	6,2	0,0	0,0
Japan	4,3	4,3	0,0	0,0
Canada	1,8	1,8	0,0	0,0
United Kingdom	1,0	1,0	1,0	1,0
The World Bank	0,0	4,8	0,0	0,0
ERA (G7)	0,0	0,0	0,0	19,1
IMF	4,5	5,3	1,8	2,7

Source: 5th Revision of the IMF Program

As before, assistance from the EU under the Ukraine Facility and from the IMF under the current program is assumed. The difference was the inclusion of part of the G7 funding, which envisages the allocation of USD 50 bn to Ukraine. Funding is to be secured by russian assets through the Extraordinary Revenue Acceleration Loans (ERA) mechanism. As part of this package, the United States decided to provide Ukraine with USD 20 bn, but procedural decisions still need to be made to actually provide these funds to Ukraine. The EU has approved the provision of up to EUR 35 bn in aid to Ukraine under this package, although the contribution to G7 packages is about EUR 18.1 bn: in fact, the EU has gotten ready to the situation of less assistance from the United States and other partners. USD 3.6 bn is still to be received from Canada, USD 3 bn from Japan, USD 2.2 bn from the United Kingdom. The difference between this financial assistance and the previously provided is that the above-mentioned amounts include both budgetary and military assistance. In particular, the UK has already announced that its part of the loan will be provided for military purposes. Since so far the distribution of 50 bn US dollars. As for the directions, it is unknown, as well as the time and regularity of payments, then there is no complete certainty about the sufficiency of budget support in 2025. In particular, the EU plans to direct its entire contribution by the end of 2025: work is underway to sign the necessary agreements between Ukraine and the EU, as all conditions for the provision of assistance must be met this year.

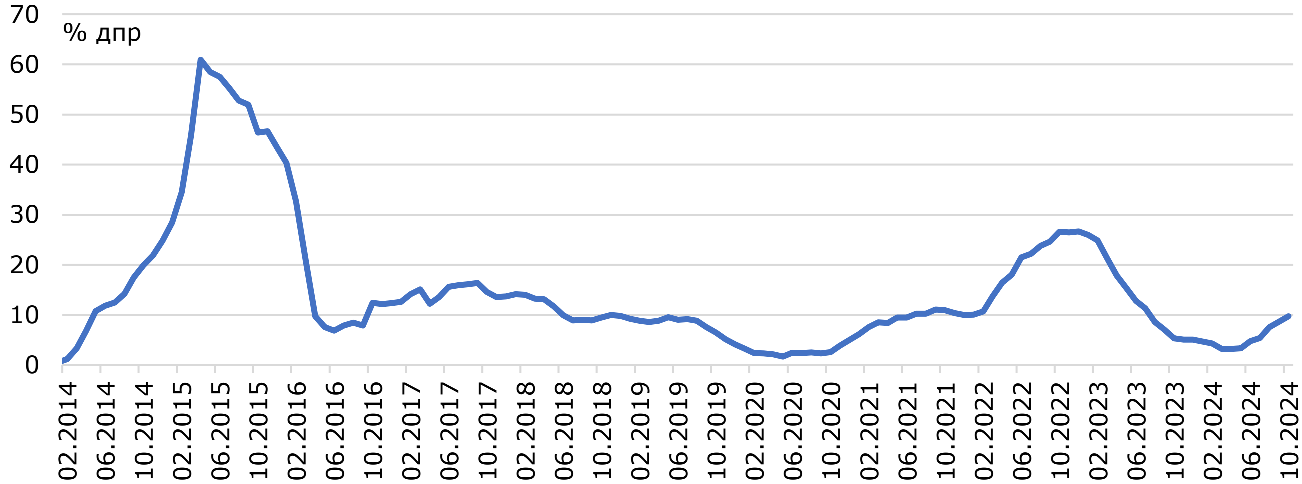
It is likely that the indicators for EU assistance under the ERA will be similar to those already defined in Ukraine's Plan for the Ukraine Facility. The next tranche under the current instrument may arrive at the end of November if the EU Council quickly approves a positive decision. On November 14, the European Commission proposed to the EU Council to allocate more than EUR 4.2 bn to Ukraine. This time, the government has risked not receiving a loan on time, as one of the indicators of the third quarter was fulfilled only at the end of October, and the European Commission has not yet approved a mechanism for providing partial tranches. Therefore, Ukraine could have lost the opportunity to receive the entire tranche of EUR 4.1 bn this year.

Inflation: Consumer inflation reached 9.7%

In October, inflation approached double-digit levels and reached 9.7% yoy. Inflation accelerated each month from 3.3% yoy in May. The acceleration of inflation was due to both fundamental factors, such as higher labor, energy, and import costs, gradual recovery in consumer demand, as well as a significant increase in prices for severa; food products in October.

In October, the monthly growth of consumer prices amounted to 1.8% mom. Goods with significant price increases included milk, cheese and eggs (by an average of 5% mom), vegetables, including potatoes, carrots and beets (by an average of 18% mom), cereals and apples. Prices for dairy products rose against the background of a decrease in milk yield and an increase in export prices. High vegetable prices likely reflect low stocks after a worse harvest than last year. The increase in prices for other goods and services was quite moderate and averaged 0.6-0.7% mom.

Figure 6: Consumer price inflation



Source: State Statistics Service of Ukraine

Monetary Policy and Exchange Rate: Stability Maintained

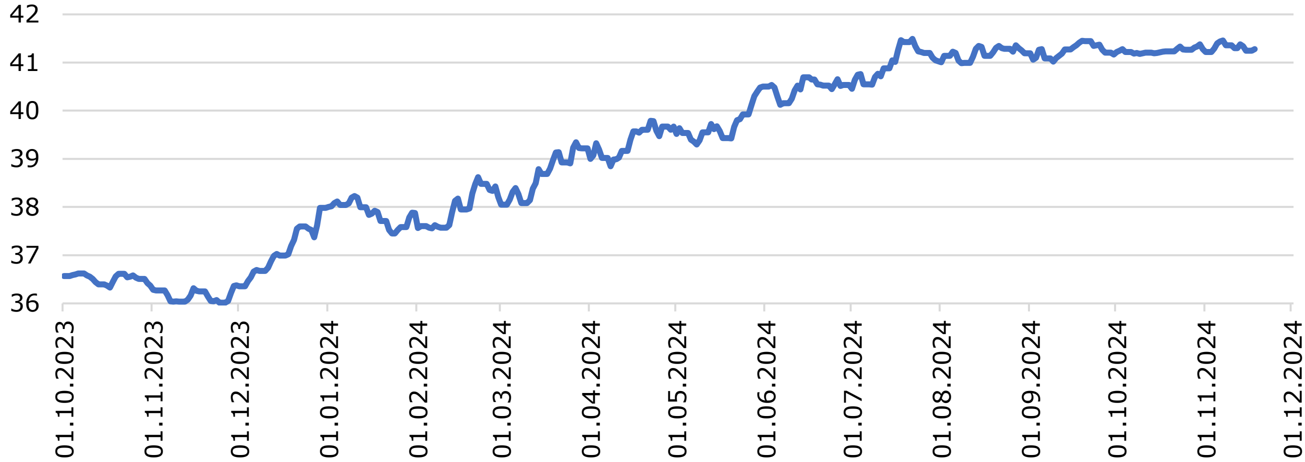
Monetary policy. For the third time in a row, the NBU left the key policy rate at 13% per annum during its meeting on October 30. This decision was in line with the NBU's previous statements that the key policy rate is likely to remain unchanged in the second half of 2024. Still, inflation surge that exceeded the NBU forecasts could have pushed the NBU to increase the policy rate but it remained steady.

According to the updated forecast, the NBU expects the rate to remain unchanged until the middle of next year but notes the possibility of raising the rate if inflationary pressures continue to increase. At the same time, the NBU raised its inflation forecasts for this and next year (to 9.7% yoy in December 2024 and 6.9% yoy in December 2025). However, October's results indicate that inflation in December this year will be higher than the NBU's forecast. The NBU also slightly improved its estimates of real GDP growth to 4.0% in 2024 and 4.3% next year, which is higher than the IER forecast.

Exchange rate. As in previous months, the hryvnia exchange rate remains in the range of UAH 41.0-41.5 per US dollar. Such limited exchange rate fluctuations may reflect on the one hand, the NBU's intentions to limit the depreciation of the hryvnia to curb inflation, and, on the other hand, the continued high demand for cash foreign currency and to cover the foreign trade deficit. The NBU's interventions needed to balance supply and demand for private-sector currency amounted to USD 2.6 bn in the four weeks ended November 17. This figure is close to the average in the second half of the year, but higher than interventions in the spring. Demand for cash foreign currency remained high and again exceeded USD 1 bn. US in four weeks.

The NBU's international reserves fell to USD 36.6 bn at the end of October. Net borrowings from donors were quite low at USD 1.1 bn, and the government also paid USD 141 m more for servicing foreign currency domestic government debt securities than it raised from their placement. At the same time, the NBU spent more than USD 3.4 bn in October. interventions to balance private demand for foreign currency. However, according to the NBU, significant inflows from donors are expected in November-December, And the existing reserves will be enough for 4.6 months of imports of goods and services.

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. USA.
Source: NBU

Contacts:

Institute for Economic Research
and Policy Consulting
st. Reytarska 8/5-A, 01030 Kyiv
Tel. (+38044) 278-6342
E-mail: institute@ier.kyiv.ua
http://www.ier.com.ua