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Summary

- According to the Ukrstat, industrial output declined in Q1 2025.
- IER estimates real GDP growth at 1.1% yoy in May, up from 0.7% yoy in April.
- In May, electricity imports rose 3.6% mom to 198,000 MWh; exports dropped 41% mom to 93,000 MWh.
- Ukraine faces a potential gas shortage unless extraction capacities recover from russian strikes.
- Grain export slowdown caused port ship delays and a 30% fall in rail grain shipments.
- Goods exports grew by near 5% yoy in May; imports rose by 16% yoy.
- International aid in May was limited to EUR 1bn loan from the EU (ERA).
- In May, inflation reached 15.9 % yoy, which is expected to become the highest inflation figure this year.
- Hryvnia remained stable vs. USD but weakened vs. EUR.
- The NBU kept the key policy rate unchanged at 15.5%, as expected. It noted a decrease in some inflationary risks, but the emergence of others.

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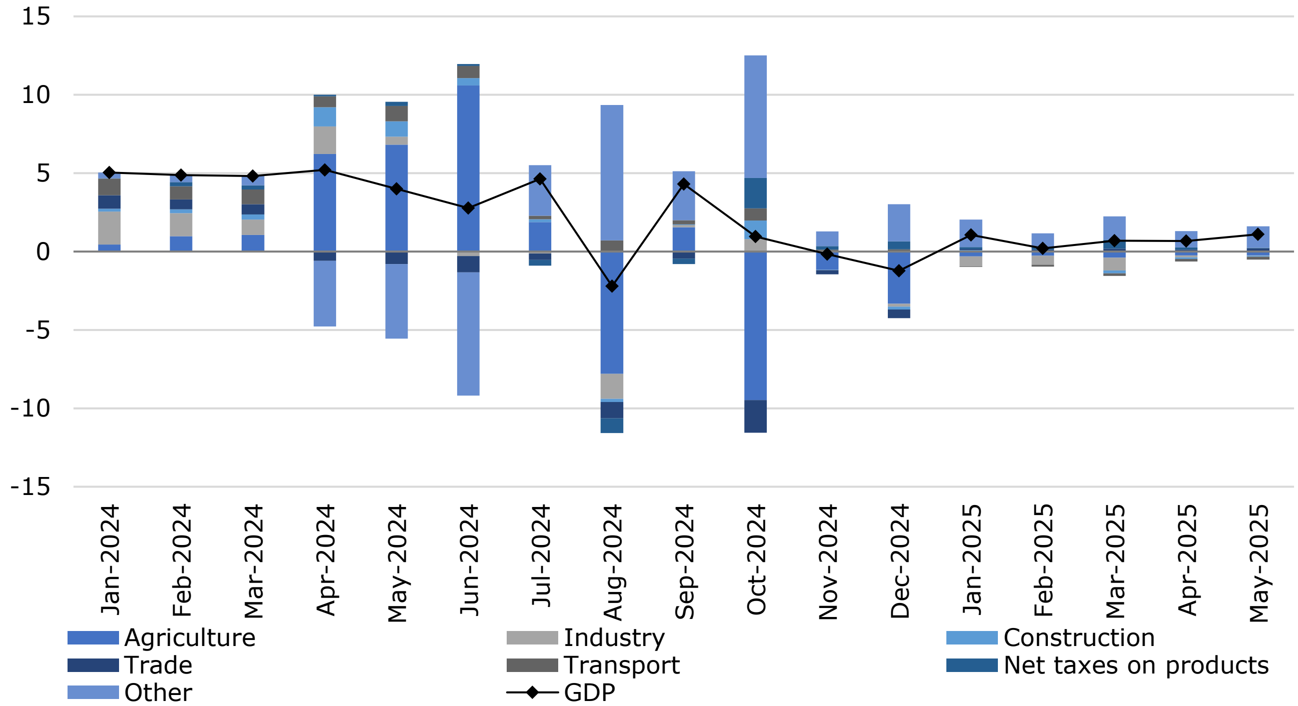
GDP and Real Sector: Growth Rates Remain Low

The Ukrstat has accelerated the provision of industrial data and now appears to publish indicators with approximately a two-months delay after the end of the reporting period. In February and March 2025, the extractive industry fell by 24.5% yoy and 19.8% yoy respectively, resulting from the loss of coal mines in Pokrovsk and Selidove, as well as damage to gas extraction due to russian strikes. Manufacturing industry moved from a 4.6% yoy decline in February to 0.3% yoy growth in March. However, consumer goods production was falling. The food industry fell by almost 10% yoy in February due to raw material shortages for oil production, as well as the return to seasonal sugar production (traditionally sugar factories manage to process all available raw materials within a few months after sugar beet harvest, but last season they worked longer). Machine building fell by 5.7% yoy in February, but grew by 12.2% yoy in March, likely related to defense orders. Metallurgy continued to grow due to stable demand. Electricity supply fell by 9.3% yoy in March due to emergency power cuts.

According to IER estimates, growth of real gross value added (GVA) in manufacturing accelerated to 2.4% yoy in May from 1.4% yoy in April after declining in March. Manufacturing was supported by more stable domestic demand. Additionally, in May companies faced fewer problems with electricity access. Thus, according to estimates, real GVA in electricity grew by 3.0% yoy in April and 4.8% yoy in May. The decline in extractive industry slowed to an estimated 10.4% yoyr in May due to some recovery in gas extraction and growth in construction materials extraction.

According to the Ukrstat data, retail trade turnover grew by 4.8% yoy in the first quarter. However, wholesale trade data has not been published yet, but we assume it continued to decline somewhat due to further transition to direct sales and less use of warehouses due to their shelling by the russian army. Therefore, according to IER estimates, real GVA growth in trade in April and May was around 2% yoy, although wages continue to increase rapidly.

Figure 1: Contributions to real GDP, percentage points



Source: IER estimate

Real GVA in agriculture in May declined by an estimated 2.4% yoy, which is close to April indicators. This reflects a decrease in livestock production by households, which was not compensated by small growth in enterprise production.

According to our estimates, real GVA in transport declined by 6.4% yoy in May. The slowdown in rail freight transportation continued, and the impact of gas transit cessation persisted, although we observe growth in other transport subsectors.

Overall, according to IER estimates, real GDP grew by 0.7% yoy in the first quarter. In May, its growth accelerated to 1.1% yoy compared to 0.7% yoy in April.

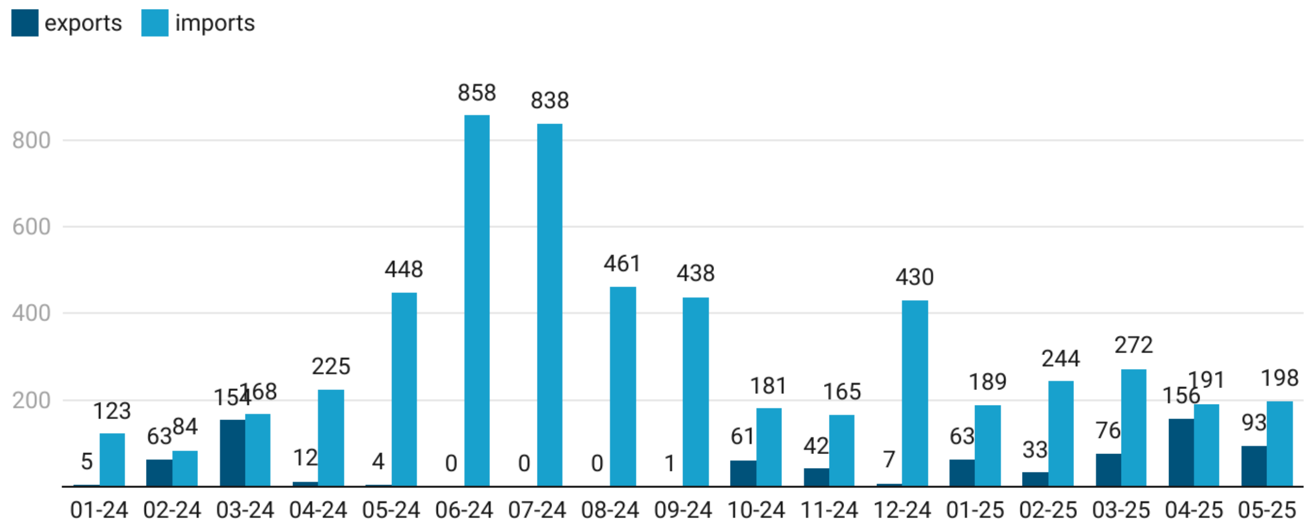
Energy: Ukraine Faces Gas Shortage Threat

Electricity. In May, electricity imports rose by 3.6% mom to 198 thousand MWh. The largest amount of electricity was supplied from Hungary (40%). Electricity exports in May fell by 41% mom to 93 thousand MWh.

In Ukraine in 2025, seven wind power plants are under construction with a total project capacity of about 4 GW, of which over 800 MW are planned to be commissioned this year. In particular, construction of the second phase of the Tylihul Wind Power Plant has begun, which is the largest wind project in Ukraine. Last year, Ukraine installed about 45 MW of commercial wind generation.

From July 1, 2025, Ukraine officially changes the voltage standard in the electrical grid, now it will be 230 V instead of the usual 220 V. NERC adopted this decision in April to harmonize the Ukrainian energy system with the European one, where this standard applies. Possible deviation from nominal voltage will range from 207 V to 253 V.

Figure 2: Electricity exports and imports in 2024-2025, thousand MWh



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

Gas. Ukraine faces a gas shortage threat if not all extraction capacities are restored after russian strikes. Currently, the resource shortage is estimated at about EUR 1 bn. By mid-May, 6.14 billion m³ (bcm) of gas had been accumulated in underground storage facilities (UGS). The May UGS filling level was the lowest in the last 11 years. In May, 11.7 TWh or over 1.1 bcm of gas was directed to UGS - 49% more than in May last year. Of these, about 500 million m³ came from abroad, while a year ago such inflows were close to zero. This indicates that the injection of Ukrainian-produced gas into storage in May was not much lower than last year's figure. The average daily injection rate in May was 376 GWh or approximately 36 million m³, and for the first 16 days of June it increased to 463 GWh or 45 million m³.

NERC approved the provision of gas transportation services by the GTS Operator together with gas transmission system operators of Bulgaria (Bulgartransgaz), Greece (DESFA SA), Moldova (VestMoldTransgaz SRL), and Romania (Transgaz SA). The first unified auction for booking monthly capacities for June to allocate capacities at all points of the Trans-Balkan Corridor along the natural gas transportation route from Greece to Ukraine (3 million m³ per day) ended with zero results - capacities for June were not booked due to the high tariff rate of EUR 7.8/MWh.

The GTS operators of Ukraine and Poland (Gaz-System) extended the guaranteed input capacity to Ukraine of 6.4 million m³ (at temperature +20°C) per day until October 1, 2026. The interconnector with Poland allows offering Ukraine capacities of 2.2-2.3 bcm/year. The Polish direction is important for access to LNG supplies from around the world through Polish terminals.

Oil. Ukrnafta began geological exploration at the Oleska area - a large oil and gas bearing site of 6.32 thousand km² in western Ukraine. Extraction will take place under a production sharing agreement between Ukrnafta and the government. At the Oleska site, the discovery of both traditional and unconventional oil and gas deposits (shale gas, tight reservoir gas) is expected. Successful exploration and subsequent development could mean the start of unconventional hydrocarbon extraction in Ukraine.

Transport: Rail Grain Transportation Fell by 30%

Maritime Transport. According to Odesa Regional Military Administration data, the level of port protection from russian attacks increased from 50% to 95% thanks to implemented measures. This cardinal improvement in the security situation demonstrates the effectiveness of investments in air defense and other protective systems of port infrastructure. Increasing the security level to 95% brings Ukrainian ports closer to international security standards and could be a decisive factor for restoring the confidence of international shipping companies.

Grain exports from Ukrainian ports slowed down, leading to an increase in free tonnage. Market participants report increased ship idle time due to lack of new contracts. This trend reflects the difficult situation in the global grain market and indicates the need to diversify export routes. Ship idle time means additional costs for shipowners and may lead to increased freight rates in the long term. At the same time, this creates opportunities for Ukrainian exporters to negotiate more favorable transportation terms.

COSCO Shipping Europe announced the launch of the Black Sea Feeder Service (BFS) from Chornomorsk port in Ukraine to the Turkish port of Kumport near Istanbul. COSCO Shipping Europe, a subsidiary of COSCO Corporation, serves the European region and has been operating since 1989 with headquarters in Hamburg. Bilhorod-Dnistrovskyi seaport and APM Terminals Poti (a Maersk division) signed a memorandum and plan to launch a ferry route from Georgia within the Trans-Caspian route. The participation of such a powerful international operator as COSCO in restoring maritime routes from Ukraine is a positive signal for the entire industry. Cooperation with APM Terminals, which is part of the global logistics giant Maersk, can provide Ukrainian exporters with access to an extensive network of international transportation.

Railway Transport. During the five months of 2025, Ukrzaliznytsia transported 22.2 m t of cargo to ports. Specifically, 12.7 m t of grain cargo were transported, of which 11.4 m t in export traffic (to ports and western border). This figure is 30% lower than the January-May volumes of last year. The reduction in rail transportation reflects the seasonal trend of decreased grain sales in anticipation of the new harvest.

The Cabinet of Ministers of Ukraine allocated UAH 4.3 bn to the Ministry of Development for Ukrzaliznytsia to ensure uninterrupted functioning of railway transport under martial law. These funds will likely be directed to restoring damaged infrastructure, strengthening transportation security, and modernizing rolling stock. Investments in railway transport are also important for supporting population social mobility and ensuring evacuation capabilities.

Ukrzaliznytsia signed an agreement with Kryukiv Railway Car Building Works for the supply of 95 passenger cars worth approximately USD 110 m, financed from the state budget. Under the contract terms, the enterprise must deliver by December 31, 2028, 88 compartment cars and 7 specialized ones, including those with places for people with disabilities and train conductor compartments. The contract with the plant is part of the state program to renew Ukrzaliznytsia's fleet, which provides for the purchase of 100 cars by the end of the year.

Road Transport. Ukraine and Romania agreed to exchange 2,000 universal single-use permits for irregular passenger transportation. Such permits allow bus trips that do not belong to regular routes and are not permitted under the INTERBUS Agreement. They are particularly relevant during the summer period when demand for bus trips abroad significantly increases. Currently, over 50 regular bus routes operate between Ukraine and Romania, but demand for irregular transportation remains high.

Ukraine and Norway extended the agreement on liberalization of freight road transportation until the end of 2025. Cargo transportation between countries, as well as transit, can be carried out without special permits if the truck meets Euro-5 standard or higher. The agreement also provides for the possibility of automatic extension of this liberalization after 2025.

The European Union, through the International Organization for Migration in Ukraine, provided funding for technical support of the eQueue project for border crossing. Previously, eQueue was supported by USAID, but at the beginning of the year funding was frozen. The project plans include further integrations with other registers, ensuring legislatively defined priority for vehicle passage, launching an electronic queue for passenger cars, and installing automatic recording cameras at checkpoints. By the end of May, eQueue recorded 2 m border crossings (1.77 m by trucks and 0.23 m by buses) through online registration since the system launch.

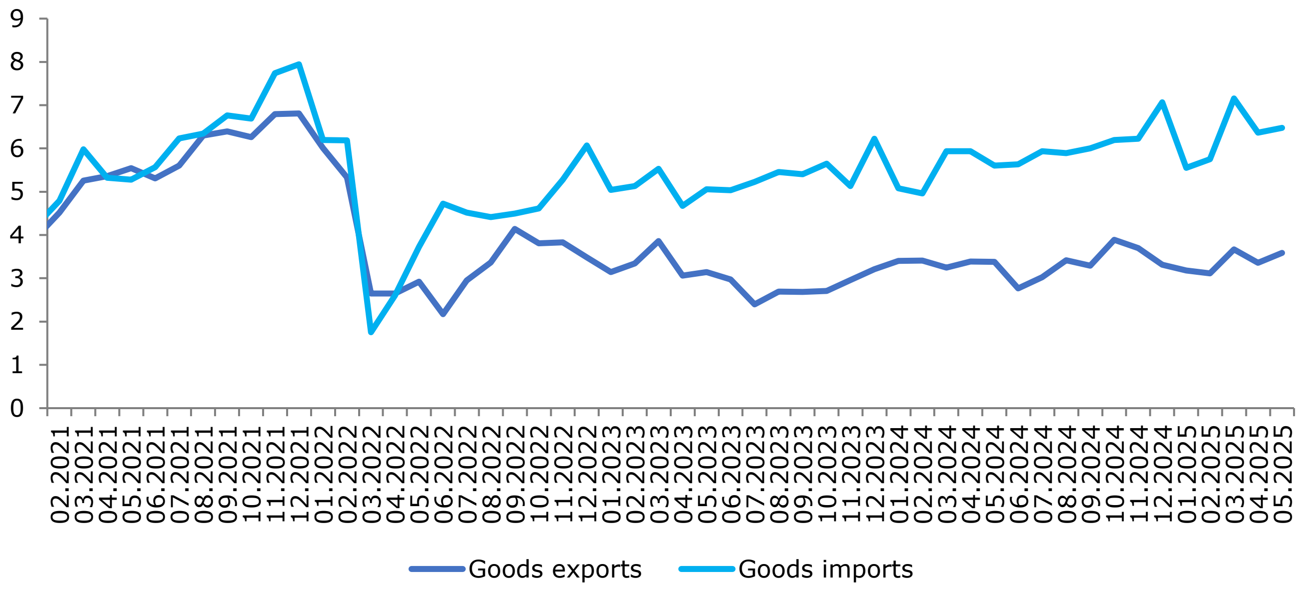
Due to construction work (pipeline laying and road surface dismantling in the direction of exit from Ukraine) at the "Shehyni - Medyka" checkpoint on the border with Poland, starting May 30, 2025, the number of traffic lanes for freight transport in both directions was reduced, and there is no place for vehicle accumulation. This caused slower truck movement and increased queues at this checkpoint. This checkpoint also closed one lane due to repair work during April 22 - May 10.

External Trade: Exports and imports grow Somewhat in May

Goods exports in May improved compared to April and grew by approximately 5% yoy to USD 3.6 bn. Agricultural exports grew compared to April and were likely only slightly lower than last year. This likely reflects the end of EU trade preferences in early June. Metallurgical product exports likely grew, and machinery exports remained significantly higher than last year. Other goods exports were close to April and last year's levels.

Goods imports in May increased somewhat compared to April to USD 6.5 bn and by 16% yoy. Energy imports returned to normal levels after the March spike and fell by approximately 9% yoy due to lower import prices. Machinery and equipment imports sharply increased compared to previous months and approached the record December figure of USD 2.7 bn and grew by 31% yoy. Chemical product imports decreased somewhat from previous months in line with the end of sowing season but grew by approximately 7% yoy.

Figure 3: Ukraine's Goods Trade, USD bn



Source: State Customs Service of Ukraine

Fiscal Policy: Financial Gap in 2026

According to preliminary Ministry of Finance data, total state budget revenues in May decreased to UAH 274 bn from UAH 336 bn in April due to the absence of grants. General fund state budget revenues amounted to UAH 205 bn (UAH 275 bn in April). Revenues were supported by the NBU's transfer of an additional UAH 20.3 bn in profit that exceeded the budget's planned indicators of UAH 63.9 bn. The NBU fully transferred this amount to the budget in April.

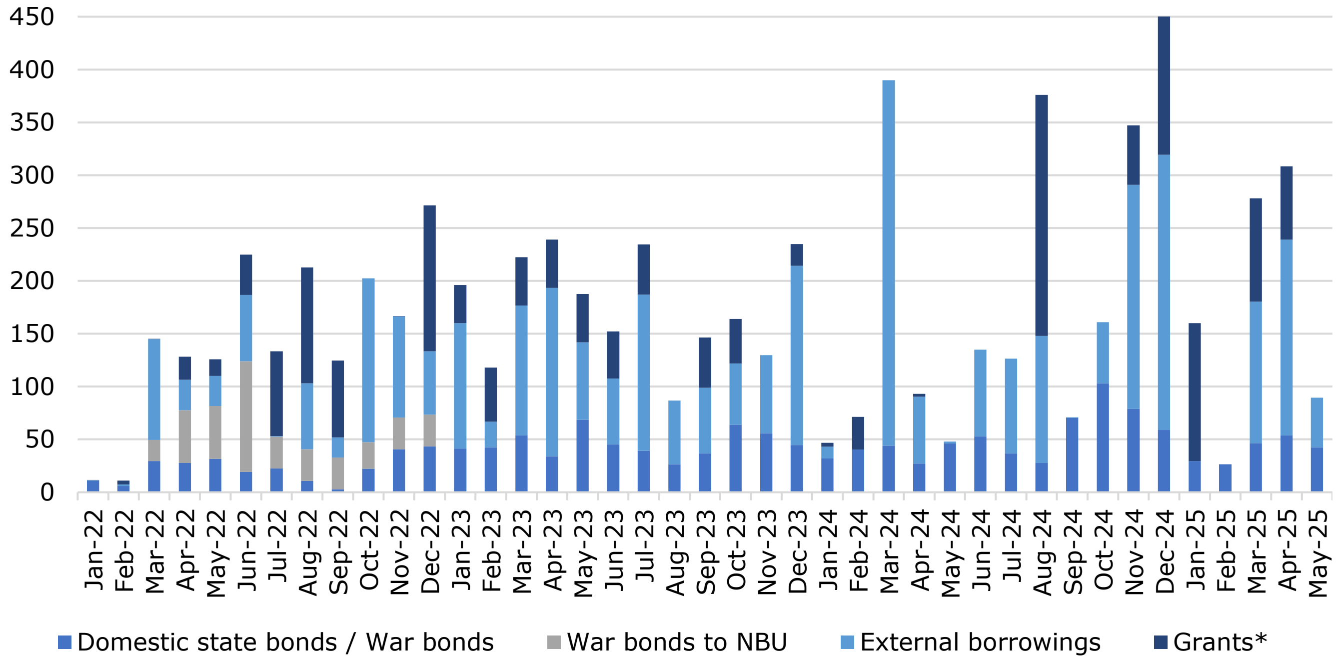
May is the calendar month for corporate profit tax (CPT) payment for the first quarter of 2025. CPT revenues grew by 7.9% yoy to UAH 45.4 bn. Financial companies now pay tax at the 25% level. Non-financial companies' profits also grew.

State budget revenues from personal income tax again sharply increased by 59% yoy. This resulted from the increase in the military levy rate. Business also rapidly increased wages due to labor shortages, which, according to IER's business survey, is the first obstacle to company operations. Additionally, the minimum wage increased during this time. It's likely that wage growth is influenced by business attempts to reserve their employees, for which the average wage at the enterprise and such employee's wage must exceed UAH 20,000.

VAT gross receipts growth slowed to 13.2% yoy, reflecting slower private consumption growth. Meanwhile, VAT refunds increased by 22.5% yoy to UAH 15.5 bn, higher than the average monthly figure for the previous six months. VAT revenues from imports increased by 9.6% yoy to UAH 42.3 bn, but they were lower than planned.

General fund state budget expenditures amounted to UAH 355 bn and were 11% below plan, which may be partially explained by delays in procurements and partially by lower financing receipts. Government bond placements amounted to UAH 42.6 bn (22% in foreign currency), with an average yield of 16.2%. So far, funds raised from government bonds (in the first five months of the year) were lower than expenses for redemption and servicing of these securities. In May, Ukraine did not receive grants, and loans amounted to only EUR 1 bn - a tranche from the EU under ERA. However, due to non-fulfillment of three indicators of Ukraine's Plan, the government has not yet submitted a report to the European Commission on Plan implementation. Therefore, in June Ukraine will not receive a tranche under Ukraine Facility, and will later receive its reduced volume since all indicators are unlikely to be fulfilled.

Figure 4: Financing and grants received in the state budget, billion hryvnias



Note: * grants are part of budget revenues accounted for under code 42000000 "Official transfers from the EU, foreign governments, international organizations, donor institutions"
External aid from ERA is included in grants if received from the USA through World Bank account, and in loans if received from other partners.
Source: Ministry of Finance

Meanwhile, an staff level agreement on the 8th review of the IMF program was reached. The IMF Executive Board decision is expected at the end of June. Before this, the government must likely submit amendments to the 2025 State Budget to parliament, and parliament must adopt them. So far there is no draft law text, but according to open information, the main need to adopt changes is to find additional UAH 400 bn for defense and security financing. The budget was based on assumptions of less military activity in the second half of 2025 and continuation of military aid from international partners. Instead, the war is much more intensive, and the US has significantly reduced its military aid. Sources of additional expenditure financing will likely be increasing the net government bond placement plan, over-performance of revenues in the first five months of 2025, and redistribution of other expenditures. Plans for all these additional sources are quite ambitious and optimistic.

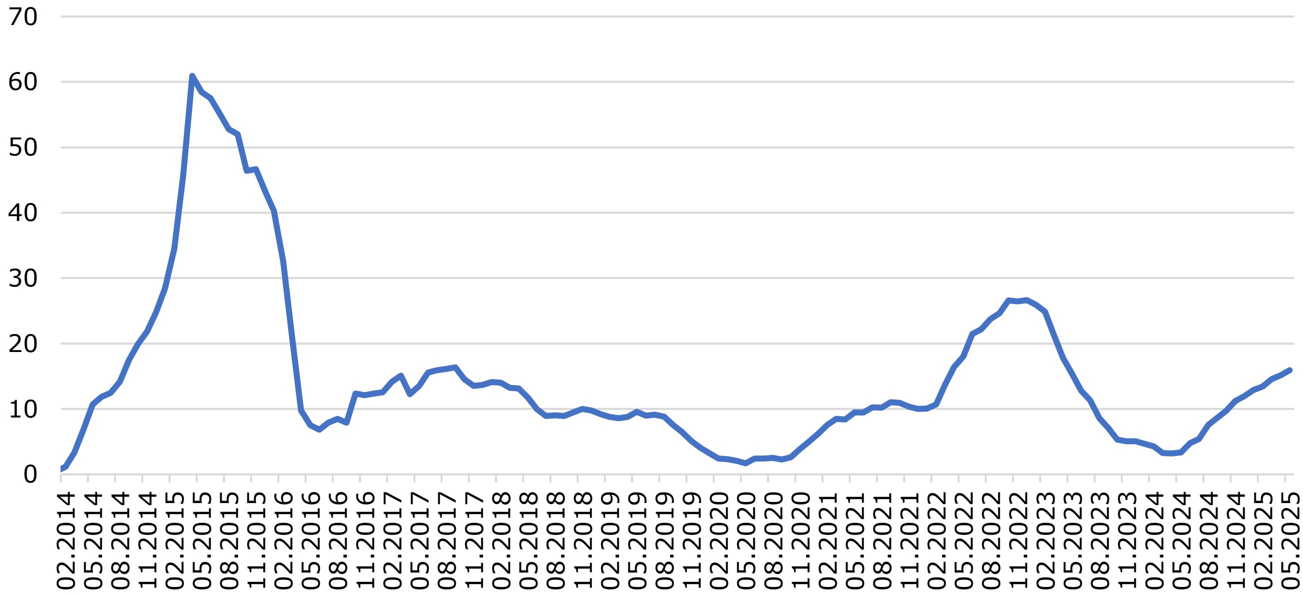
The Budget Declaration and official Government economic forecast for 2026-2028 have not yet been published due to high uncertainty about the military situation and financing (a similar situation occurred in 2024): their approval is expected by the end of June 2025, as provided in the IMF Program. This story is similar to last year's: due to lack of certainty about 2026 financing, the IMF does not revise the forecast, while the government cannot base Budget Declaration indicators on the old forecast.

Overall, for 2026 a financial gap of at least USD 10-15 bn (equivalent) is expected for budget financing without clarity on new instruments for coverage. Possibly, frozen Russian assets could become such instruments, but there is still lack of political will in the EU. A shift could also occur if the EU finances part of Ukraine's military expenses through the SAFE (Security Action for Europe) mechanism, which provides for 150 billion euros in joint defense procurement.

Inflation: Consumer Inflation Expected to peak at 15.9% yoy

In May, consumer inflation reached 15.9% yoy compared to 15.1% yoy in April. Due to the Government's decision to keep electricity tariffs unchanged at least until the end of October, the annual change in electricity prices from June will be 0% yoy compared to 63% yoy in May. Inflation accelerated amid sharp increases in meat and fruit prices over the last two months. Fruit prices in May on average rose by 27% compared to March. Apple prices grew by 39% from March due to low last year's harvest and depletion of available stocks. Meat and meat product prices rose by 9.4% from March (chicken by 13%, pork by 19%) due to lack of production growth amid growing exports and domestic demand.

Figure 5: Consumer Price Inflation, % year-over-year



Source: Ukrstat

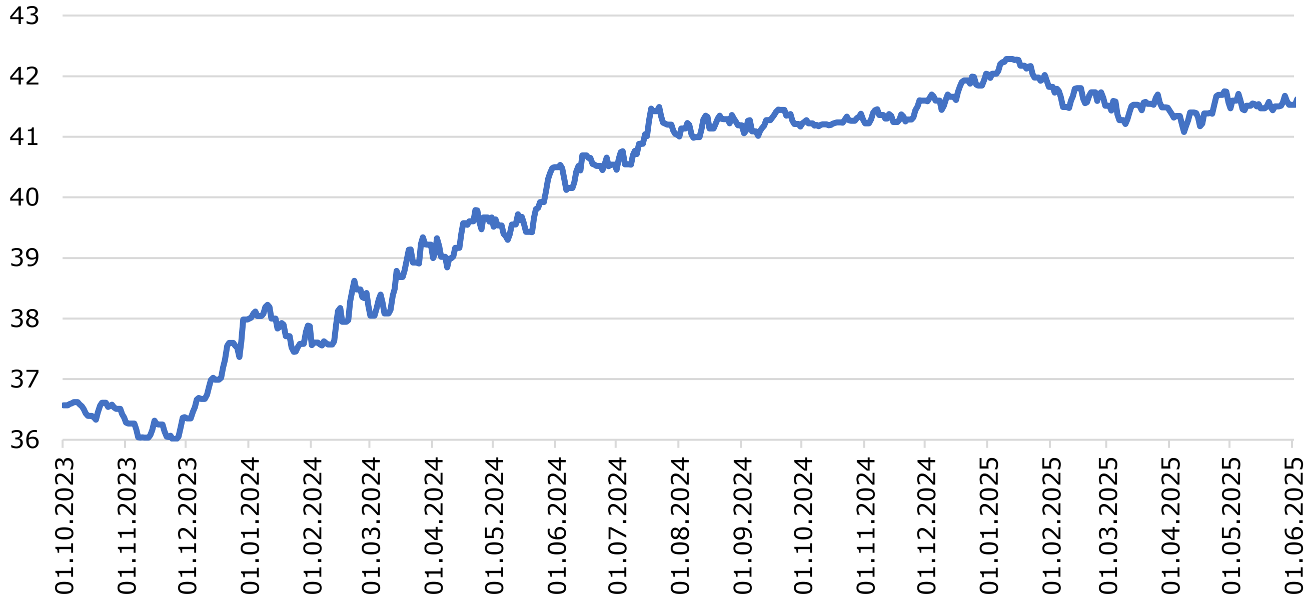
Monthly inflation in May again exceeded 1% and amounted to 1.3% mom. Here too, the sharp increase in meat and fruit prices played the main role. Meanwhile, there was a seasonal decrease in clothing and footwear prices, as well as dairy products. Fuel became somewhat cheaper. Prices for the rest of the consumer basket grew by 0.6% mom. This is more than in April but remained moderate and reflected reduced inflationary pressure in recent months.

Exchange Rate and Monetary Policy: Hryvnia Rate Remained Stable Against Dollar, Key Rate Unchanged

Monetary Policy. In June, the NBU kept the key rate unchanged at 15.5% per annum, which met expectations and was in line with previous NBU statements that the key rate would not be lowered until inflation is on a sustainable path to decline. This decision was unanimous. The NBU's decision reflected the still high level of annual inflation and existence of significant inflationary risks despite positive results in recent months. For example, risks of attacks on energy infrastructure, uncertain geopolitical situation, and risk of lower than expected this year's harvest remain. Due to these risks, most Monetary Policy Committee members noted that the NBU may have to keep the rate at the current level longer than previously planned.

Exchange Rate. The hryvnia remained stable against the US dollar in recent weeks and the exchange rate fluctuated in a narrow range of UAH 41.4-41.6 per USD. However, dollar weakening against the euro led to corresponding hryvnia depreciation against the euro and the euro rate exceeded UAH 48 per USD. If the dollar-to-euro rate does not return to historical levels, this may create additional inflationary pressure. Demand for cash foreign currency increased somewhat but remained quite close. NBU interventions for the four weeks ending June 15 amounted to approximately USD 2.5 bn, somewhat lower than this year's average.

Figure 6: Official Hryvnia to US Dollar Exchange Rate (hryvnias per USD)



Note: Note that exchange rate values in the figure start from 36 hryvnias per USD.
Source: NBU

In May, NBU international reserves amounted to USD 44.5 bn compared to USD 46.7 bn in April. In May, Ukraine received from donors only a monthly tranche of EUR 1 bn from the EU under the ERA initiative, and the Government also attracted USD 43 m net from foreign currency government bonds. USD 427 m went to external debt servicing. NBU interventions in May reached USD 2.2 bn.

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