



UKRAINE MONTHLY REPORT

February 2025

Some positive trends are developing as negotiations look set to start

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FORECAST SUMMARY

Forecasts as of February 1, 2025, Subject to Monthly Revision

	2022	2023	2024f	2025f
GDP, %YOY	-28.2	5.3	3.8	3.9
Inflation, %YOY	20.6	12.9	6.3	10.9
Consumer Spending, %YOY	-16.9	6.3	5.0	5.2
Investment, %YOY	-33.9	52.9	9.0	12.0
USD:UAH (avg)	32.70	36.80	40.11	43.70

High labor costs continues to sustain elevated inflation



Forecast Revisions

Compared to January, we have adjusted our forecasts for:

Inflation: Raised 2025 again as labor, food, and energy costs drive up prices.

BUSINESS & ECONOMIC TRENDS

Consumer demand continues to drive the economy as weaknesses appear elsewhere

- **Preliminary estimates indicate GDP in 2024 was 3.8% YOY**, with growth slowing each quarter across the year given pressure on the energy grid and labor shortages. For seasonal reasons, business sentiment is always weakest in January, as it was this year. Compared to January 2024, the central bank's business sentiment index was similar (41), indicating no real improvement nor deterioration in economic moods. Positively, retail was more optimistic than a year ago – 40 compared to 38.9; however, companies in this sector still reported expectations of reduced demand and lower margins. Anecdotes from businesses across sectors, though, reported better economic performance this winter than initially expected.
- **For the 2025 outlook, however, optimism is clearly picking up.** An American Chamber of Commerce poll of 145 companies in January showed that 53% of investors expect sales growth in 2025 compared to 2024, and 37% see sales as flat (only 10% expect declining sales). Meanwhile, ~40% see a growth in sales relative to 2021, and 27% are seeing stable growth – meaning ~two-thirds of the market expect to be back to pre-war sales levels this year. Some 77% of companies predict continued or increased US aid, and only 23% a decline. These figures coincide with our own surveys and reports from our business community as well.
- **Trump abruptly cut global USAID funding, including to Ukraine**, which received \$5.5 bn in 2024. Most of the funding went to the government budget, particularly to the energy and agricultural sectors, veterans initiatives, and public infrastructure. Funding is being reviewed currently.
- **Consumer spending trends remain positive.** Drivers of demand are consistent: unemployment has fallen to a historic low of ~14% and average nominal wages rose in 2024 by ~20%. While savings in bank deposits in 2024 increased, they grew at half the rate as in 2023, indicating increased consumption. Also, demand for consumer loans continues to rise, thanks to buoyant sentiment and greater spending on durable goods, while banks are easing lending conditions. As a result, retail sales in 2024 grew by ~6% YOY (in real terms), with continued growth expected this year.
- **Inflation will remain elevated in H1, which in turn has pushed up interest rates.** In December, prices rose by 12% YOY, driven largely by food prices (14%) and producer prices (28%). Prices rose further in January and will approach 15% in Q2, before moderating starting in Q3. In turn, the higher-than-predicted inflation caused the central bank again to raise the key rate by 100 basis points to 14.5%. The rate will likely be raised again in the coming months, before falling in H2.
- **The coal and metallurgy sectors took another major hit recently with the loss of the Pokrovsk mine.** Output slowed notably in December and January, worsened by shortages of electricity as well. In 2024, metallurgy had grown solidly: pig iron output rose by 18% YOY, steel by 22%, and rolled steel by 16%. However a 50% fall in steel output – to just 2-3 mn tons – is expected this year now due to a shortage of coking coal. Imports of coking coal are 30% more expensive, making exports of Ukrainian-produced steel less competitive. Rising costs were already problematic: despite last year's increase in production, Ukraine's largest mining and metallurgical company, ArcelorMittal, failed to reach profitability.

BUSINESS & ECONOMIC TRENDS

What It Means For Business

- Businesses should plan for mild growth and continued demand hesitance across most sectors this year. Unless there is a pickup from investment on account of an end to the war later this year, there is little reason to expect growth to accelerate beyond 2024 levels, leaving the economy still ~20% smaller than it was in 2021 before the full-scale invasion. Businesses should have plans for an upside scenario of an end to the war and opening of the investment environment towards the end of the year.
- Downside scenarios remain possible with economic pressures building amid the prolongation of the war into its fourth year. While consumer demand has driven the economy's recovery, threats to purchasing power exist and could worsen. Inflation has been much higher and for longer than the central bank had forecast, and businesses are increasingly passing on their costs to consumers to protect their margins spending. Should interest rates rise notably higher, constraining both corporate and consumer lending, demand could moderate. In addition, private remittances are on the decline, having fallen by 15% to \$9.6 bn in 2024. The trend is concerning as Ukrainians abroad are spending more of their money to support their lives outside Ukraine, indicating more Ukrainians are settling for the long term and less likely to return.
- To date, businesses should not be too concerned yet by the cuts to USAID money for Ukraine amid this review. While chaotic and disorderly, US officials are not seeking to end foreign aid but rather review aid disbursements to ensure they align with US interests. As the vast majority of humanitarian and development aid programs to Ukraine - unlike many other USAID programs globally - is both in line with the policy interests of the Trump administration and is spent relatively effectively, funding is likely to be protected and revived in due course. In the meantime, a combination of domestic resources and EU funding will help cover these reductions.
- Taxes could still potentially be raised in the coming months, though with much less need than earlier, encouraging hopes among businesses that greater tax pressure could be avoided. Ukraine's budgetary support is in its best position since the onset of the full-scale invasion, with approved Western funding able to effectively cover budgetary expenses through most of 2026. Even in the case of an end to military support from the US (very unlikely), the EU can use approved funding and/or Russia's frozen fx reserves – as Kellogg suggested – to purchase US weaponry. Still, the National Bank of Ukraine warned that the VAT rate and banking tax, among others, could be raised as worries rise that domestic budget revenues are inadequate.

MAJOR DEVELOPMENTS

Encouraging signs for Ukraine are appearing as Russia weakens while Western resolve grows

- **Talks appear imminent, with both Russia and the US strengthening their hardline positions.** For its part, Russia's deputy foreign minister reiterated demands for "ironclad guarantees" Ukraine never joins NATO and no Western troops in Ukraine. Meanwhile, Trump's foreign policy team have indicated plans for Western security guarantees and Western troops in Ukraine as part of the settlement. In addition, they have vowed to intensify long-range attacks on Russia and oil sanctions to bring Putin to the table. Trump's envoy to the war, Kellogg, will reveal elements of the peace plan in Munich later this month.
- **The Trump administration pushed for Ukraine to call elections after a ceasefire.** Zelenskiy rejected the idea as a "gift to Putin", but also noted there will "absolutely" be elections once peace is achieved. Ex-president Petro Poroshenko spoke out against elections too, while most the population is against elections.
- **Russia's offensive has clearly slowed, though remains threatening.** For two months in a row, Russian casualties were nearly 50,000 while capturing half the territory as in October and November. Though winter plays a role, worsening combat capability and supply issues indicate this may be a trend. With offensives stuck in the south and various other areas of the front, Russia is consolidating its forces around Pokrovsk, where attacks have likewise slowed to a minimum. Russian minor tactical successes will continue but strategic victories remain far off. Meanwhile, Ukrainian long-range drone strikes have intensified, with nearly 30 successful attacks since the start of the year, mostly on Russian oil infrastructure.
- **Europe's support for Ukraine continues to strengthen,** driven in part by pressure from Trump. Ukraine and at least six different European nations are discussing the deployment of some 50,000 peacekeepers to enforce a ceasefire. While these troop levels are inadequate, the start of public discussion is a major development. In addition, the EU approved the extension of its sanctions against Russia once Orban conceded given the fact that Trump is not relaxing sanctions and the EU will discuss with Ukraine allowing Russian gas to transit into Europe. The EU's foreign policy chief, Kaja Kallas, and US Secretary of State Marco Rubio agreed to keep "maximum pressure" on Russia.
- **The Russian economy continues its downward trajectory,** with energy exports down the last two months and the outlook worsening. Following sanctions on the shadow fleet by Biden in his final week, Russia is facing issues selling its oil to India and China while also selling at a larger discount to Brent crude prices. Also, a sharp rise in preferential lending to defense firms caused a 71% increase in corporate borrowing since mid-2022, amounting to a level of 19% of GDP (\$415 bn). Repayment of these loans will be costly and demand state support. Financial problems are looming: the National Welfare Fund is being depleted quickly and only a third of what remains is liquid and able to plug budget holes. Meanwhile the 2024 deficit was 1.7%, double initial plans. Still, a crisis remains at least months away and will depend on oil prices and Trump's plans for strengthening sanctions on Russia's oil exports.

MAJOR DEVELOPMENTS

What It Means For Business

- Trump's policy towards Russia and Ukraine is taking shape, with plans to increase pressure on both Ukraine and Russia. The US administration recognizes both the need to achieve an end to the war, not simply an operational pause for Putin to rebuild and attack later, and also that Russia cannot be allowed to win. Putin is also currently seen as the obstacle to peace as Zelenskyi is seen as open to making a deal. As anticipated, pressure is also building on Zelenskyi, though, in terms of US demands for him to mobilize more men in order to receive another crucial military support package from the US in the coming months. As a result, mobilization has intensified lately, which is troubling for business but also necessary in order to stabilize the front, satisfy US demands, and move towards peace.
- Trump revealed several other positive angles that encourage optimism towards an end to the war in Ukraine's favor later this year. In his Davos speech, Trump not only called on Xi to help push Putin to end the war, but more importantly in part blamed the Saudis for helping Putin sustain the war by artificially inflating oil prices. While Saudi Arabia and OPEC rejected his demand to raise output to lower prices, a focused policy to compel Saudi Arabia to lower prices via sticks and carrots would be instrumental in pushing Putin to end the war. Later, Trump made explicit his demand for access to Ukraine's natural resources in exchange for US weapons. Positively, Zelenskyi included this transaction in his "Victory Plan" last year when he visited Washington, DC, indicating his openness to a deal of this nature.
- Executives should monitor closely Trump's domestic policies, as the chaos and dysfunction could inadvertently and indirectly undermine US foreign policy. Sweeping cost-cutting and wide dismissals of personnel will have unintended impacts. Should institutions be understaffed and under-resourced for many months, there could be unintended and unforeseen consequences for all of US foreign policies, including Ukraine.
- Businesses should not be too concerned yet by the Trump administration's call for elections to be held in Ukraine, which would in fact be highly destabilizing if held before a genuine peace deal with credible Western security guarantees is achieved. In reality, Trump's team is speaking primarily to the US domestic audience, which wants confirmation that Ukraine is a western-oriented, democracy deserving the support of US taxpayers. However, it is also possible – though less likely – the administration is appealing to Putin's demand that Zelenskyi be deposed and a new leader be installed in order to conduct negotiations.
- Ukraine's increased intensity of attacks in Russia, matched with support from the US for long-range strikes with Western weapons, has become a critical component of any future peace talks. Ukraine's own ability to attack Russia will serve as a strong deterrent against Russia and feature in any negotiations. Critically, Ukraine's rising domestic defense capabilities are not reliant on the West and cannot be taken away, providing Kyiv with a growing capacity to bring about peace sooner than later.

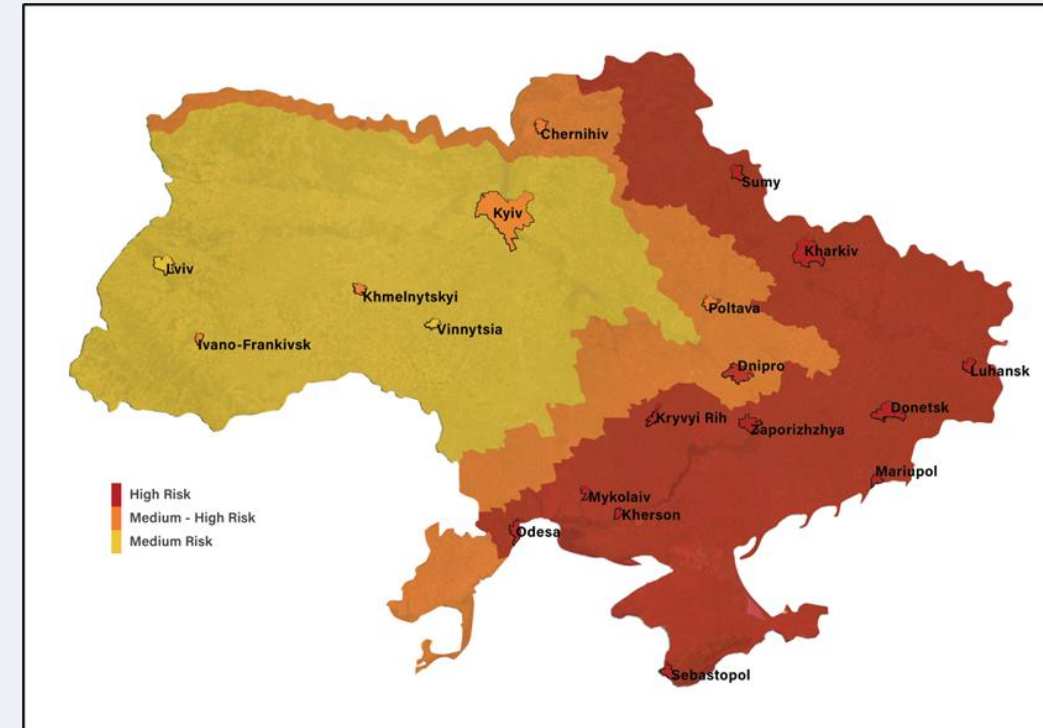
SECURITY UPDATE

Provided in conjunction with Bright Bird Risk

- **January saw relative calm from air attacks and a general decrease in ground combat.** Russian countrywide missile attacks have decreased, with the last strike on January 15, but loitering munition attacks have surged compared to late December, keeping risk levels unchanged except for Vinnytsia, where risk level was lowered to Medium. While overall fighting has slightly decreased, it has intensified in Kursk, where Russian gains in the northwest and southeast of the Ukrainian salient have worsened security in the Sumy region. Russian advances toward Pokrovsk remain slow but have already impacted Ukraine's economy, as the country's only bituminous coal mine ceased operations, likely due to a Ukrainian strike to prevent its use by Russian forces. January also saw the capture of Kurakhove by Russian forces.
- **AIR:** Russian countrywide missile attacks have decreased, with the last strike on January 15 occurring 21 days after the previous one, likely due to an unusually warm winter that limits the potential damage. However, the risk remains unchanged as attacks could resume at any time as Russia has enough stockpile. Meanwhile, loitering munition attacks have risen by 40% compared to late December, though it is unclear if this is a trend. The Odesa region experienced a relatively calm January, marked by fewer aerial attacks and no disruptions to maritime infrastructure. However, on January 31, a missile strike targeted the historical centre of Odesa city, severely damaging the landmark Bristol Hotel. An attack on Poltava city, where a residential building was bombed, resulted in the death of 11 civilians. Similarly, the city of Zaporizhzhia endured missile strikes, marking the first such attacks in over a month. On another note, to reduce disruption, a pilot project in Cherkasy region has adjusted air alerts, activating region-level alarms for loitering munitions while maintaining oblast-wide alerts for missiles, minimizing the impact on key sectors such as education, healthcare, and industry. If successful, this strategy will be implemented in other areas of the country.
- **LAND:** The border with Poland has remained clear, but some difficulties persist. Poland has designated border crossings as critical infrastructure to prevent blockades by Polish farmers. While land goods transportation remains largely unaffected, the new SENT system has disrupted some operations and led to multiple fines for truck drivers. Meanwhile, the ongoing driver shortage has worsened in recent months.
- **SEA:** The maritime security situation remains stable. Ports continue to operate normally within logistical and safety limits, and shipped cargo increased in 2024 due to adaptation to new operating conditions and alternative logistical solutions. As of January 2025, freight rates from Ukraine's deep-water ports have declined, driven by a surplus of available vessels and a shortage of new cargo in the maritime market.

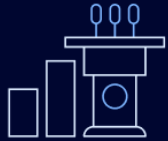
Security Risk Heat Map

Vinnytsia risk lowered to Medium Risk



The UBN Network Membership Offering

UBN Network Membership Is Available To Ukraine Business News Readers



4 LIVE EVENTS IN KYIV / YEAR

- Discussions with panelists from different sectors, with 80-100 attendees
- Macroeconomic, political, and business briefing, including best management practices
- Forum for in-person networking and live benchmarking of issues and expectations



RESEARCH REPORTS AND SURVEYS

- 4 Benchmarking Surveys focused on Budgeting, Talent Management, Channel Management, Digitization, etc...
- 4 Quarterly reports on Ukraine's political, economic, and business outlook
- Monthly reports with macroeconomic forecasts for Ukraine, as well as analysis for the broader region and global markets



NETWORK AND INSIGHTS

- Ad hoc webinars and unlimited analyst briefings for your company with our in-house Ukraine expert
- Facilitation of introductions and relationship-building in the Ukraine business community

Interested in Being a Member? Reach Out to Get Started — network@ubn.news

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