Ukraine Economy and Sovereign Debt

Charged up to overcome another tough year

June 27, 2025

CONCORDE CAPITAL

Executive summary

As the nation that faced military aggression from a powerful neighbor, Ukraine is doing quite well. This is thanks to enormous international financial and military assistance which compares to the country's 46%-50% of GDP in 2023-2024 and is expected to be no less than 43% in 2025.

Economic performance of Ukraine looks strong:

- The nation demonstrated a gradual recovery of GDP in 2023-2024, and is set to recover further.
- In USD terms, Ukraine's GDP will likely reach a new record high this year, despite about 20% losses of human capital and assets.
- Its central budget revenue (net of external assistance) exceeded the pre-war level already in 2024 and is growing.
- Average salaries in Ukraine exceeded pre-war levels (in USD terms) in 4Q24.
- Financial self-assessment of Ukrainians remained at least as good as before the war, and their savings are growing.
- Ukrainian business is adopting fast to new realities, makes limited investments into its resilience and accumulates money for future investments once the war ends.
- All this, as well as the central bank's tight monetary policy, supports high liquidity and exceptional profitability of Ukraine's banking sector.

Among Ukraine's key military achievements of the last three years, it was able to liberate almost half of territory that was initially occupied by the aggressor state in early 2022, and it was able to lose no more than 0.8% of its territory during Russia's fierce offensive of the last 20 months, causing over 700,000 personnel losses to the aggressor.

In the short-term, we see little chances for Russian aggression against Ukraine to slow down, as it demonstrates no intention to de-escalate, while efforts of the West to bring the aggressor to any negotiations are inefficient.

To be able to withstand the aggression at least at the current level, as well as to keep state finances balanced, Ukraine needs about USD 80-90 bln of net international financial and military support annually. For the year 2025, such support looks committed. For a breakthrough in the war, however, Ukraine needs more military assistance and more radical pressure on the aggressor from the western partners. As neither looks probable in the short-term, Ukraine continues to face a challenge of the next year's adequate financing of its expenditures. This makes planning and forecasting for more than one year almost impossible.

The Ukrainian budget's net external financial support amounted to USD 130 bln in 2022-2024, of which USD 39 bln came in the form of grants. State debt increased by 1.72x over the period to USD 163 bln, or 85% of 2024 GDP. This year, most of financial assistance for the budget will come in the form of ERA financing at the cost of Russian assets (total amount agreed is USD 50 bln for the mid-term) that won't raise Ukraine's financial liabilities. We therefore expect Ukraine's state debt to GDP ratio will remain at 85% at the end of 2025.

Ukraine's sovereign international bonds account for 9% of total state debt and are lower than liabilities to state banks, the central bank, the IMF or EU. Servicing international bonds is not among the priorities of the Ukrainian government. While we expect the government to pay interest on the bonds on time, their repayment on maturity depends on the outcome of Russian aggression. Meanwhile, bond prices move along with a probability of a soon de-escalation.

Key indicators

	2021	2022	2023	2024	2025E
Nominal GDP, USD bln	200.6	162	181.2	190.7	207.2
Real GDP change	3.4%	-28.8%	5.5%	2.9%	2.2%
Total defense & budget exp., USD bln	54.6	109.9	137.5	139.1	144.8
Budget incomes (ex. grants & military support), USD bln	47.5	34.1	40.2	47.9	54.5
State & guaranteed debt, USD bln	94.4	107.8	141.7	162.5	177.1
CPI, eoy	10.0%	26.6%	5.1%	12.0%	10.0%
CPI, average	9.4%	20.2%	12.9%	6.5%	13.1%
UAH/USD rate, eoy	27.3	36.6	38.0	42.0	44.0
UAH/USD rate, average	27.3	32.3	36.6	40.2	42.2

War Update

War statistics

The Russian army has been fiercely attacking Ukrainian forces since October 2023, after Ukraine's mid-2023 counter-offensive operation finished with no significant gains.

Since the start of its newest offensive in October 2023, Russia lost in Ukraine over 700 ths wounded and killed, and managed to gain less than 0.8% of Ukrainian territory.

In August 2024, Ukrainian forces initiated the first offensive operation on Russian territory in the Kursk region and they still control some area there, even though the aggressor state had to involve North Korean forces to try squeezing out Ukrainians.

That said, there are no signs that could indicate Russia was successful in its 2022-2024 offensive: after its initial "success" in February-March 2022, when the aggressor managed to occupy more than 100,000 km² of new territories, it quickly lost about a half of occupied area in the next half a year, and as of now it controls about 70,000 km² of new territories (in addition to about 44,000 km² occupied in 2014-2015).

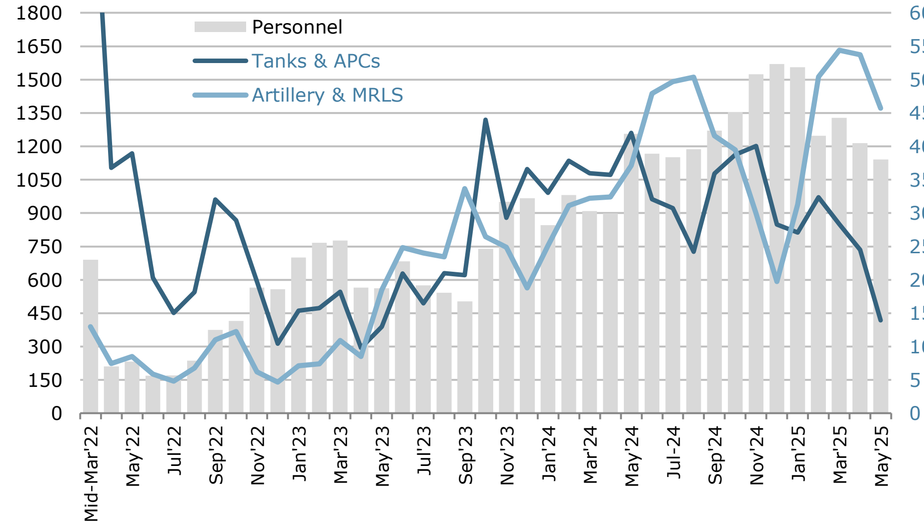
In addition to attacks on the battlefields, Russia is terrorizing the entire territory of Ukraine with missile and drone attacks.

- Daily average count of UAVs that reach Ukrainian territory increased from 32 in 2024, to over 120 in 2025. Damages from the attacks are counted in hundreds billions of dollars.
- In March-July 2024, Russian attacks damaged heavily Ukraine's power generation (see slide 18 for more details)
- In early 2025, Russia concentrated its attacks on Ukraine's gas production assets which is likely to lead to under-production of about 4 bcm of gas this year.

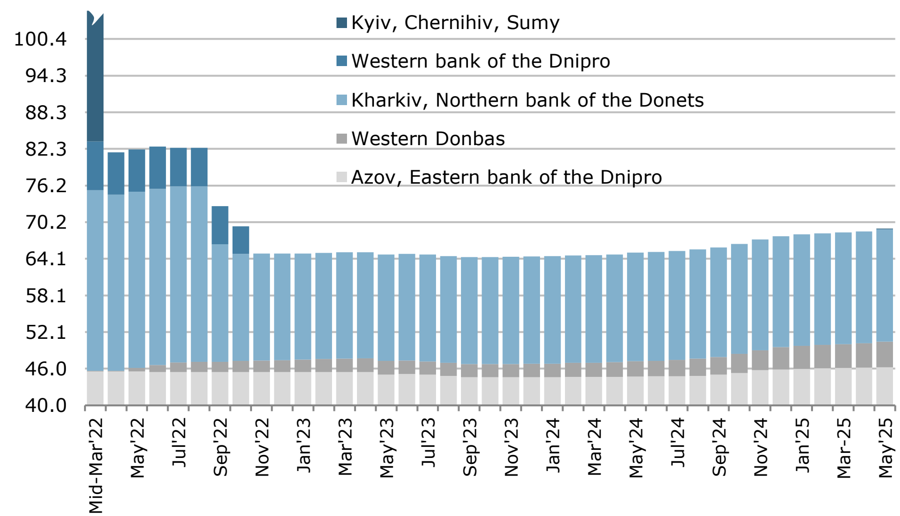
Despite unprecedented losses, Russia did not change its strategic plan to defeat Ukraine and "solve Ukrainian question," and we see no chances for altering its plans unless its leadership changes.

Aggressor's actions, daily average

Aggressor's losses, daily average



Occupied area of Ukraine since 2022*, eop, ths km²



** One notch on the axis represents 1% of Ukraine's territory (6,037 km²). Data includes only area captured by russia in 2022-2025. Does not include occupied Crimea (26.9 ths km²) and part of Donbas occupied in 2014 (16.8 ths km²). Sources: General Staff of Armed Forces, Deepstatemap.live, Concorde Capital research*

War map, end of May 2025

Russia's primary short-term target seems to be to occupy the Kramatorsk metropolitan area (four towns with 400K pre-war population), the most populated and industrialized part of Donetsk region which is controlled by Ukraine. Most intensive attacks on the entire front line have been happening in the south and east from this area.

Meanwhile, the aggressor will likely put pressure in the north, near Sumy, and in the south, towards Zaporizhia, to distract Ukraine's forces.

Russia's "major" gains since September 2023 were:

- Occupation of Bakhmut (71K pre-war population), Avdiivka (31K) and Kurakhove (18K)
- Nearly occupation of Toretsk (31K)
- Approaching the Pokrovsk-Myrnohrad metropolitan area (106K).

Sources: UkrStat, General Staff of Armed Forces, Concorde Capital research

Will war end soon?

Russian aggression against Ukraine could only finish when Kremlin decides so, or if one of the sides is defeated or exhausted. As there are no signs of either, we expect the war will continue with nearly the current intensity in at least in the next year.

Some hopes of a peace deal emerged with the election of Donald Trump in the US, who had promised to “end the war in a day”. That could have happened if:

- The U.S. stops supplying ammunition to Ukraine, while other countries won’t be able to substitute the shortage. Thus far, it looks like other than American military assistance of Ukraine is growing, while the U.S. is continuing some supplies.
- The US and the EU impose strict and painful sanctions against Russia and increase military aid to Ukraine radically. That has not happened, and the probability of such a move does not look high in the short-term.

Key result of the Trump-Putin call on May 19 was that Ukraine and Russia would try to negotiate on their own on a possible peace deal. Actually, this is what both sides failed to do in the last three years. Nothing suggests that they will be able to reach common ground this time. As a result of the call between the leaders of the U.S. and the aggressor-state on June 4, Trump effectively “allowed” Russia to continue its aggression.

Ukraine Government & Defense Finances

Total Ukraine budget & defense needs: About USD 130 bln p.a.

Ukraine's war and other government expenditures and sources of their coverage are interrelated, so here we present them together.

Based on our estimates, such expenditures were about USD 131 bln p.a. in each of the last two years (or 70% of Ukraine's GDP), including:

- USD 97 bln war-related costs (only part of which was reported as budget expenditures) and
- USD 34 bln of non-defense budget expenditures (net of interest costs).

In 2025, the amount should be comparable (providing all the attempts to force Russia concluding a peace deal fails): we estimate such needs will reach USD 136 bln, or 65% of GDP (including USD 102 bln of war expenditures).

The sources to finance such costs look available for this year:

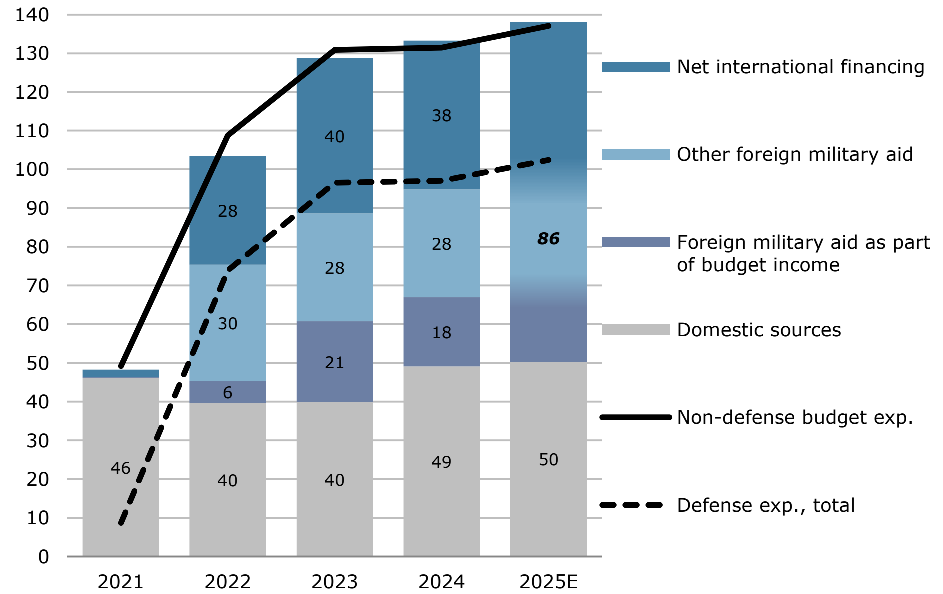
- In 2024, Ukraine's state budget was able to collect USD 49 bln of taxes and other incomes, as well as net domestic financing (up from USD 40 bln a year before). **In 2025, it could raise about USD 50 bln domestically** (after deducting interest costs). Notably, Ukraine's tax collections in 2024 (USD 41.0 bln) exceeded the pre-war level and are going to grow further this year.
- In this way, Ukraine needs to **secure about USD 86 bln of international assistance** in 2025, in the form of loans, grants and military support. This is comparable to 2024 (about USD 84 bln) and in 2023 (about 89 bln).
- The number does not look fantastic, even adjusted for the expectation that American military support this year won't be high. In particular, this year, Ukraine could count on:
    - About USD 30 bln of international (non-US) military assistance, in addition to about USD 9 bln expected carryovers from the previous U.S. military commitments.
    - About USD 48 – 52 bln of international financial assistance under ERA, EU's Ukraine Facility and various IFI programs.

On the background of war and huge defense needs, there is no sense to talk about a reported Ukrainian budget deficit, as the deficit depends on the profile of international financial support. For instance, foreign support in the form of financial grants and military assistance decrease the reported deficit.

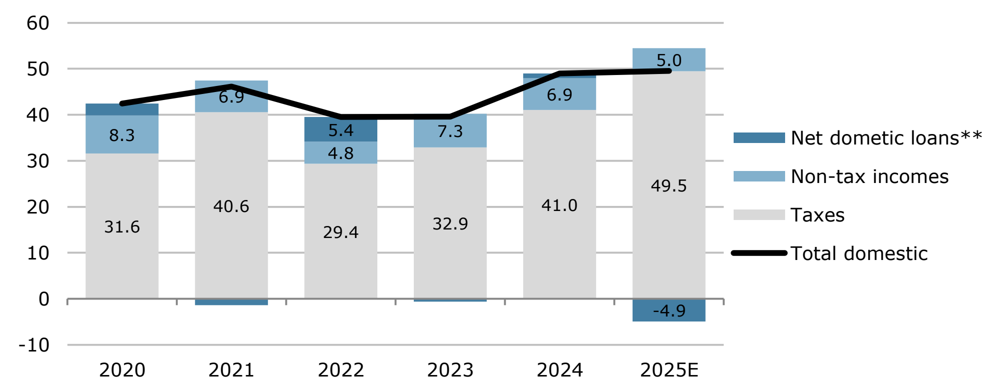
This year, the vast majority of international financial support will come in the form of ERA financing (which does not increase Ukraine's state debt, thus can be classified as grants) and military support.

The sources of possible support for the next year, however, are not clear yet.

Ukraine's total government and war expenditures and their sources, USD bln*



Domestic sources of state budget, USD bln



** Non-defense budget expenditures do not include interests on state debt (instead, debt service costs decrease the amounts of net foreign and domestic financing), domestic sources include all incomes of state budget (except foreign grants and foreign military assistance) plus net domestic borrowing (less interests). ** Net of interest costs*
Sources: Finance Ministry, U.S. Secretary of Defense, Kiel Institute for the World Economy, Concorde Capital research

War expenditures amount to half of Ukraine GDP

There is no official data on total Ukraine expenditures related to military resistance to Russia. Ukraine's president voiced numbers of about USD 320 bln for 2022-2024 and USD 100 bln for 2024.

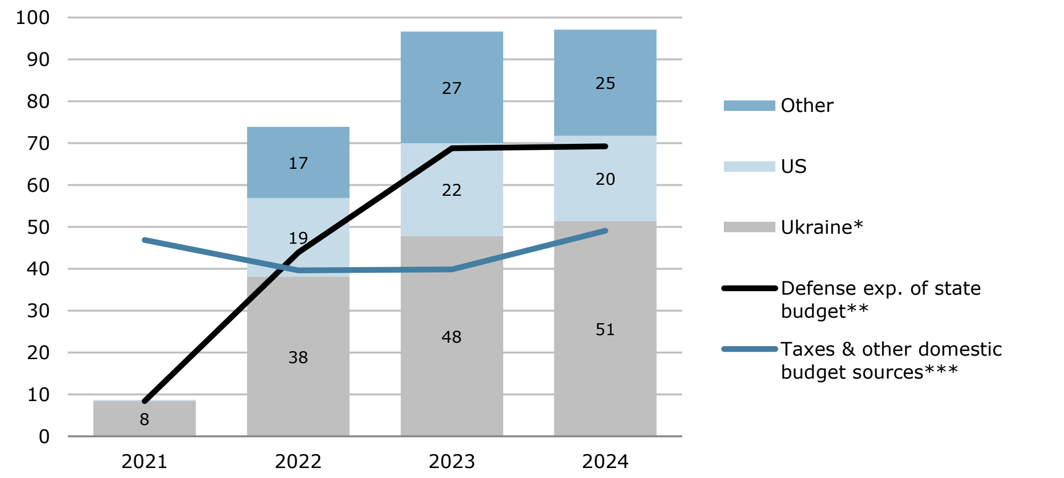
Based on apparent data (official budget reports, apparent committed support calculated by Kiel Institute for the World Economy, reports from Ukraine's partners) we calculate that total costs of Ukraine's defense were about 270 bln in 2022-2024 and USD 97 bln in each of the years 2023 and 2024. The actual number could be higher, as many countries tend to not report their military support numbers, and the data does not include direct assistance of various Ukrainian non-government funds.

Out of calculated USD 270 bln in 2022-2024:

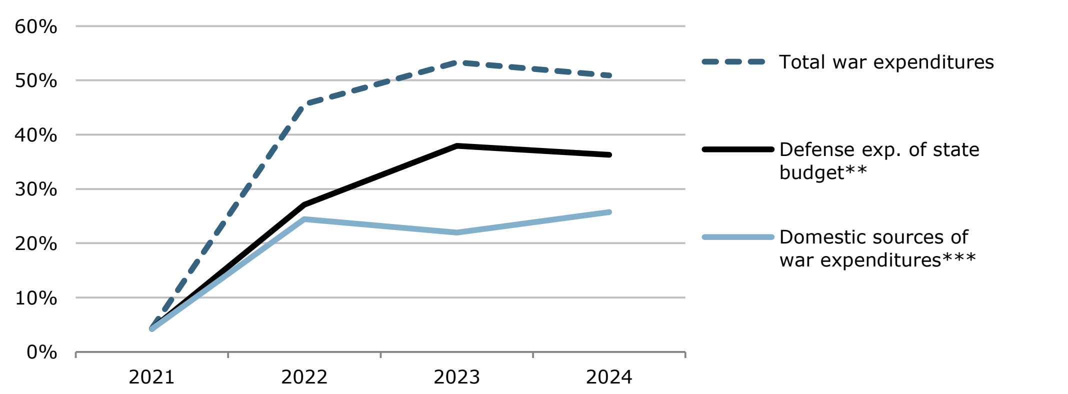
- USD 182 bln are reported as defense and security expenditures of Ukraine's state budget*. Part of this amount, or about **USD 137 bln** was collected from taxes, dividends and domestic loans, while the rest was financed by a part of international military aid which went though Ukraine's budget.
- About **USD 61 bln** have been provided by the U.S. (out of total announced commitment under PDA, USAI and FMF programs of about USD 70 bln).
- About **USD 69 bln** have been provided by other partners (Kiel Institute's calculated commitments are USD 71 bln).

Total war-related expenditures of Ukraine are comparable to 50% of Ukraine's GDP. Out of this amount, Ukraine's budget was only able to collect in the form of taxes & other charges, as well as net domestic borrowing (less borrowing costs) only about 25% of GDP.

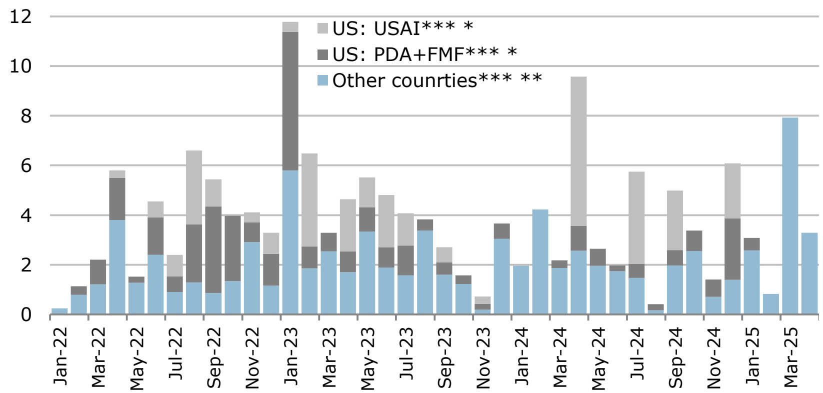
Apparent defense & security expenditures of Ukraine by sources, USD bln



Expenditures and sources as % of Ukraine GDP



Announced international military assistance of Ukraine, USD bln



** Using own incomes of the state budget and assumed net debt. **Includes expenditures on defense, state security and law enforcement ***All incomes of state budget (ex. "other" unbudgeted incomes and grants) plus net domestic debt less interest on domestic debt. Sources: Finance Ministry, U.S. Secretary of Defense (*** *), Kiel Institute for the World Economy(*** **), Concorde Capital calculations*

International support is essential for resistance to enemy, economy survival

As of end-April 2025, Ukraine has received about USD 284 bln of gross international support since the start of Russian open aggression, including:

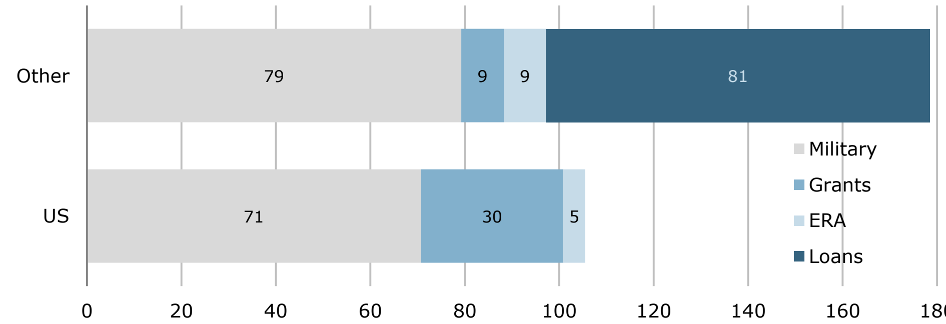
- About USD 150 bln of military commitments, of which USD 70.5 bln came from the U.S.
- USD 133 bln of financial assistance in the form of loans, grants and hybrid instruments (ERA program). This includes, among others, USD 34.9 bln from the U.S. (of which USD 30.2 bln were grants), USD 54.0 bln from the EU Commission (USD 4.5 bln grants), USD 20.7 bln from Canada, UK and Japan, and USD 19.2 bln from IFIs.
- About USD 105 bln of total assistance from the U.S. and USD 179 bln from other partners.

Ukraine's 2024 nominal GDP in dollar equivalent exceeds the result of COVID-affected 2020, and this year it will likely to exceed the record-high level of 2021. At the same time, a significant portion of reported GDP over the war years is a result of international support, without which Ukraine's economy would have not survived.

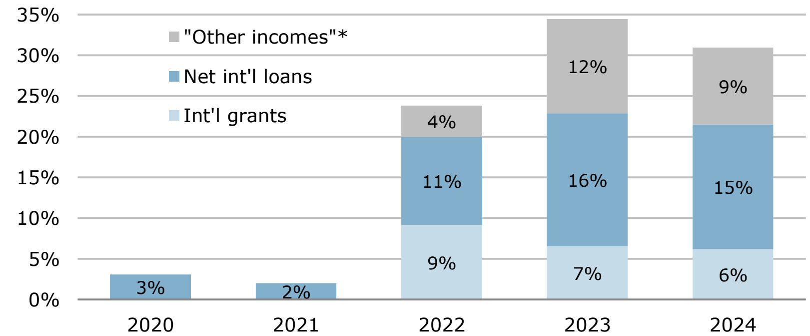
Without international support, Ukraine's GDP would be much weaker than in 2020 in any of the war years. Taking into account the multiplier effect, without such support the Ukrainian economy would have collapsed by more than 50% as compared to the pre-war years.

High dependence of Ukraine's economy on external financing and military aid poses a risk of deep economic downturn when the war ends (however the end will look like), unless international partners continue their financial assistance and help with investments.

Total international support of Ukraine during war, as of end-April 2025, USD bln



International financing of state budget as % of GDP



** "Other incomes of government institutions" is most likely part of international military assistance that is officially reported as income of state budget (see more details on the next slide). Sources: UkrStat, Finance Ministry, U.S. Secretary of Defense, Kiel Institute for the World Economy, Concorde Capital research*

Defense expenditures of state budget: Traditionally under-planned in 2025

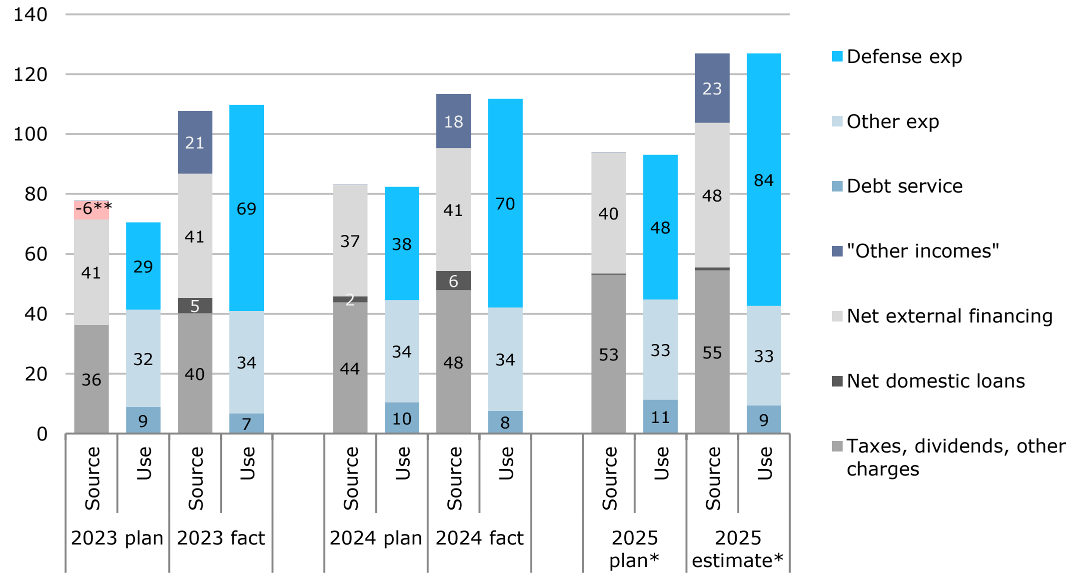
Ukraine's 2025 state budget plan foresees a decline of defense and security expenditures to about USD 48 bln, from USD 70 bln allocated in 2024.

Notably, this has become a tradition for the government to significantly under-plan its defense expenditures to "balance" total planned costs to the planned budget incomes. Meanwhile, actual budget incomes during the war years were far above the plans, mostly due to:

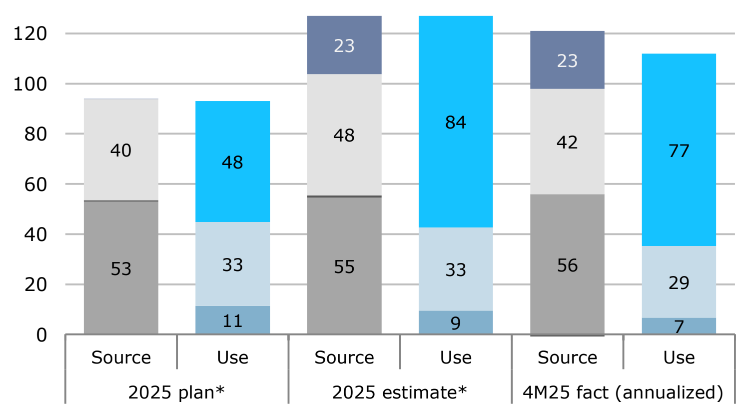
- "Other incomes of government institutions" which are close to zero in the plans, but appear to be USD 18-21 bln in fact. Most likely, such "unexpected" incomes are international military assistance that officially comes to the balance sheet of Ukrainian defense forces (and is reported as part of state budget income). In 2025, we expect such tradition to continue, with at least USD 23 bln to be collected by the state budget as "other incomes."
- Outperformance of tax collection, domestic bond issuance and international financing via grants and loans. In 2023 and 2024, such incomes were 33% and 15% above the initial plan, and we expect the outperformance this year as well.

All in all, Ukraine's state budget looks able to finance about USD 84 bln of defense-related expenditures in 2025 (or 20% more yoy). Such expenditures amounted to USD 25.6 bln in 4M25 (up 39% yoy).

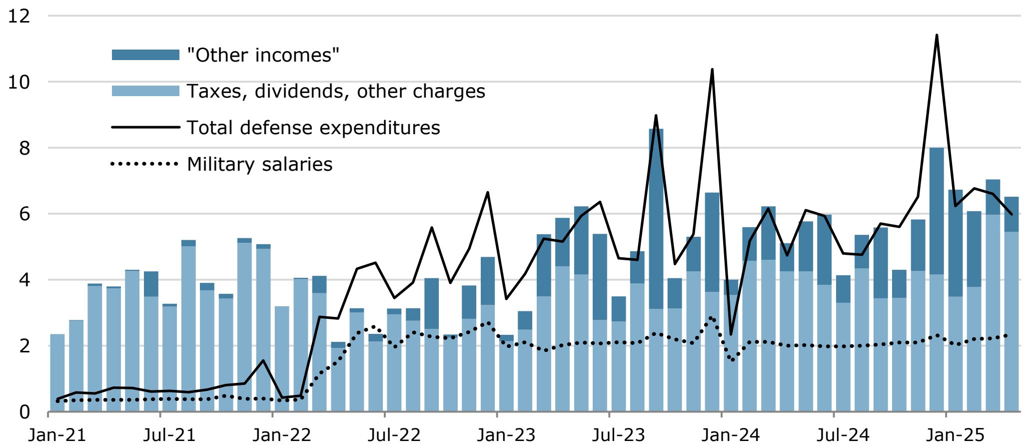
State budget inflows and expenditures, USD bln



State budget inflows and expenditures in 2025, USD bln***



State budget incomes (excluding grants) and defense expenditures, USD bln



** Assuming 42.2 UAH/USD rate in 2025. ** Net domestic financing was planned to decline by USD 6 bln in 2023. *** Legend is the same as for the upper chart*
Sources: Finance Ministry, Concorde Capital research

Financing of state budget: External sources for 2025 secured, leverage won't grow

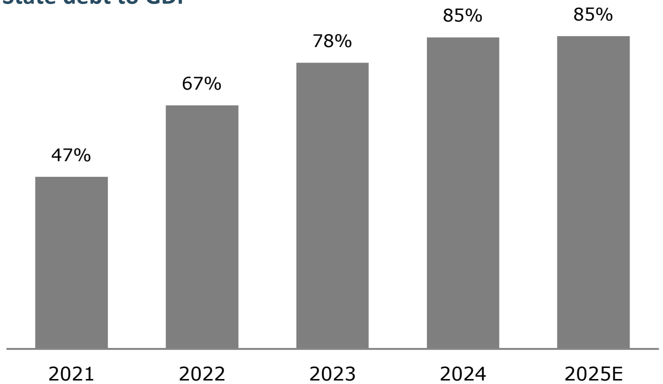
This year, Ukraine could receive a record-high external monetary financing of its budget, or over USD 50 bln gross, which comes from two main sources:

- At least USD 32 bln (and up to USD 49 bln) from ERA (Extraordinary Revenue Acceleration) program initiated by G7 countries in 2024. The program foresees about USD 50 bln in financing for Ukraine, with the source of debt service and repayment will be revenues from Russian frozen assets. Ukraine has received USD 15.9 bln of ERA assistance in December 2024 – June 2025.
- About USD 13.5 bln from EU's Ukraine Facility program (loans and grants). The program foresees total EUR 38.3 bln of loans and grants to the Ukrainian budget, including EUR 12.5 bln in 2025 (in addition to EUR 16.2 bln received last year).
- On top of that, Ukraine can count on about USD 3-5 bln in loans from IFIs and other partners.

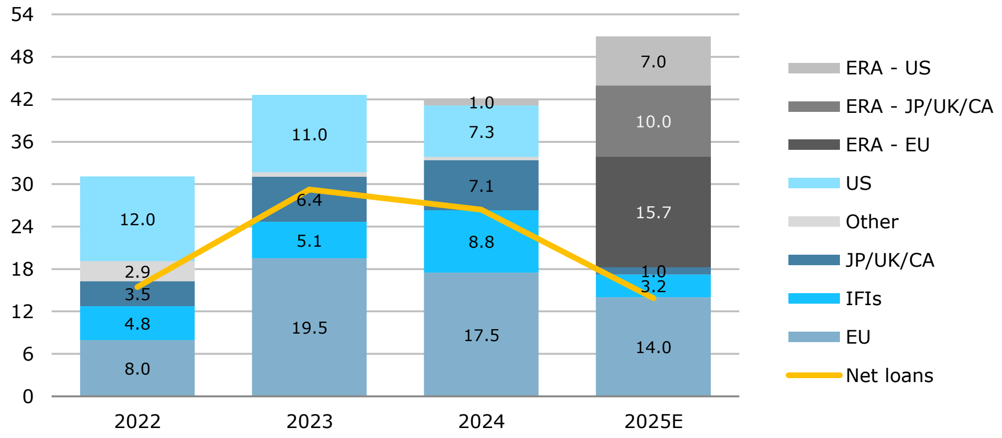
Good news is that despite the huge financial support that can be received this year, Ukraine's state debt will show the smallest annual increase since the start of the Russian invasion. This is because the ERA program does not affect Ukraine's public debt (as it won't affect future budget payments). In this way, the ratio of Ukraine's state debt to GDP (which nearly doubled over the last three years) will stop growing in 2025.

Namely, we expect that Ukraine's state debt will increase by USD 15 bln in 2025 (after USD 21-34 bln growth in the previous two years), and the ratio of Ukraine's state debt to GDP in 2025 will be 85%.

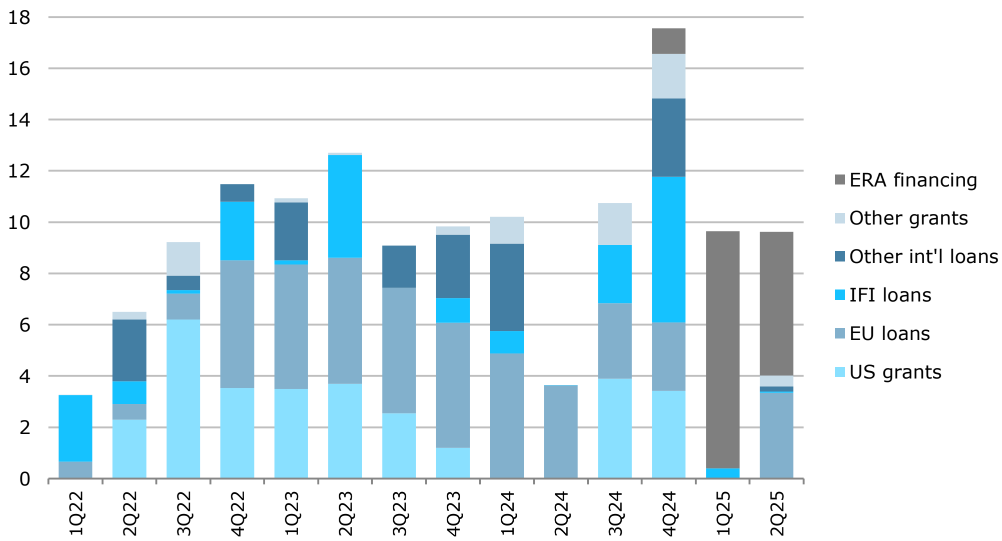
State debt to GDP*



Gross international financing of Ukraine budget by countries, USD bln



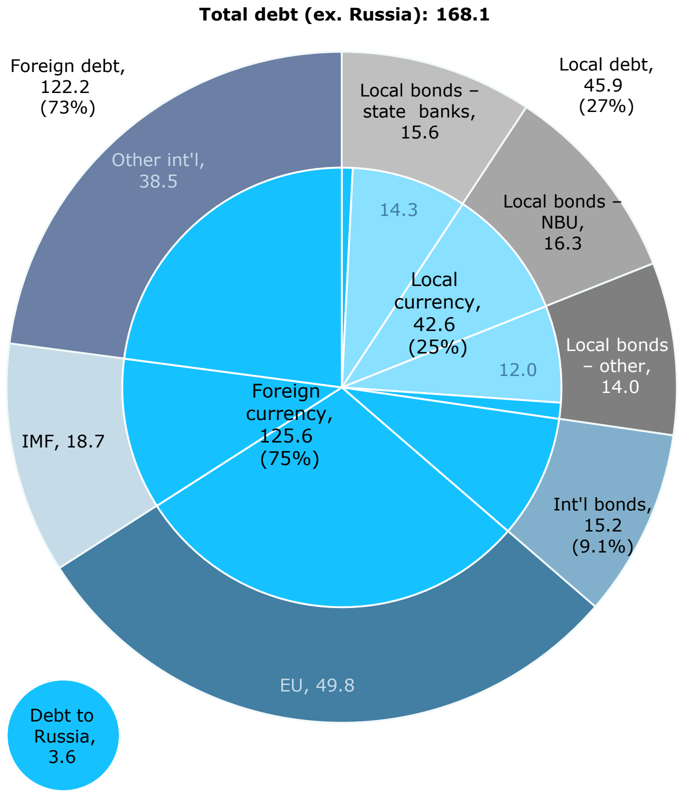
Gross international financing of Ukraine budget by instruments, USD bln



** Debt does not include USD 3.61 bln of liabilities to Russia, ERA financing for Ukraine*
Sources: Finance Ministry, European Commission, Concorde Capital calculations

State debt statistics

Ukraine's state & guaranteed debt, end-March 2025, USD bln equivalent



Majority of Ukraine's local debt is held by the National Bank and domestic state banks. Meanwhile, the vast majority of Ukraine's international debt is liabilities to other governments and international institutions.

Of all Ukraine's sovereign debt, restructuring is possible for international bonds and local bonds that are held by the National Bank:

- In case of emergency, the government has an option to address the NBU with a request to restructure certain local bonds which are exclusively held by Central Bank. However, the effect from such a restructuring on Ukraine's budget will be short-lived: all the government gains from the restructuring will decrease profits of the NBU. This decline, in its turn, will lower "dividends" from the NBU in the next year.
- Restructuring of international bonds has no such negative implications for the government.

Ukraine won't dare to restructure marketable local bonds as such an operation would harm state banks and would require their capital increase at the cost of state budget (or state debt).

That said, the Ukrainian Finance Ministry won't try to restructure local bonds, while international bonds is the least painful instrument for restructuring.

Sources: Finance Ministry, NBU. Concorde Capital calculations

Ukraine Eurobonds: Moving along with “de-escalation” bets

Ukraine international bonds trade on par with other C-rated sovereign bonds and above the curves of most bonds of corporate Ukrainian issuers.

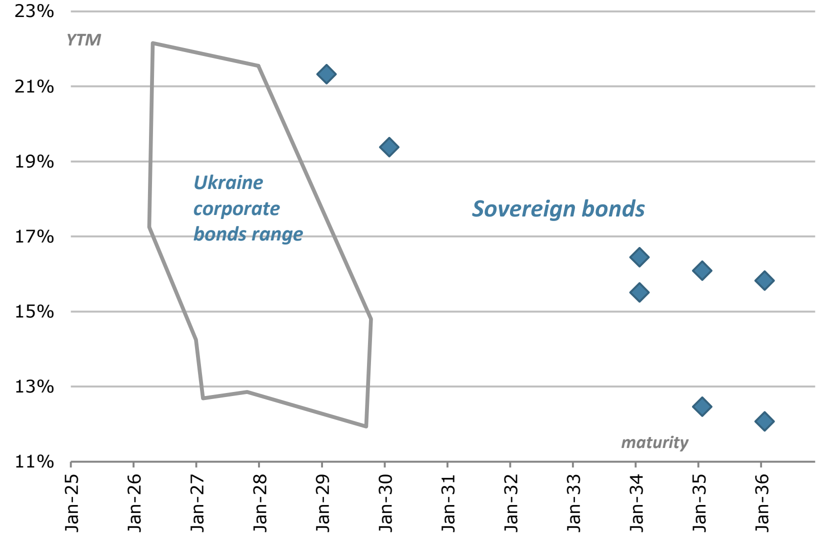
In our view, such pricing is justified as servicing of international bonds is a second priority for the Ukrainian government as of now.

News and speculations about a possible peace deal between Ukraine and Russia were the main driver of Ukraine Eurobonds price movements. For example, volatility of the bond price in 2025 correlates with a probability that Ukraine and Russia will agree on a ceasefire this year (see chart below):

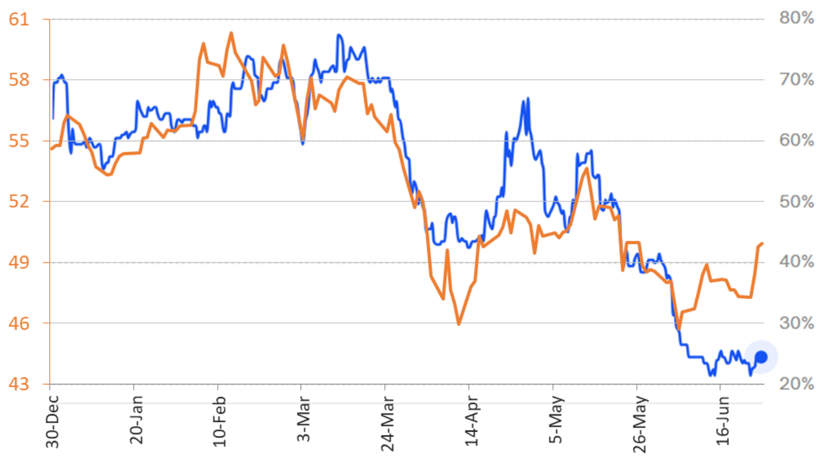
- The only visible divergence of two curves was observed after April 24. when Ukraine’s MinFin announced about the absence of a deal on GDP warrants, while “probability’ of a ceasefire increased for a while.
- In June, the 2035 bond “found” its support level at about 46% of par.

As there is little chance for any soon de-escalation in Ukraine, the bonds are likely to trade close to the current levels in the short-term.

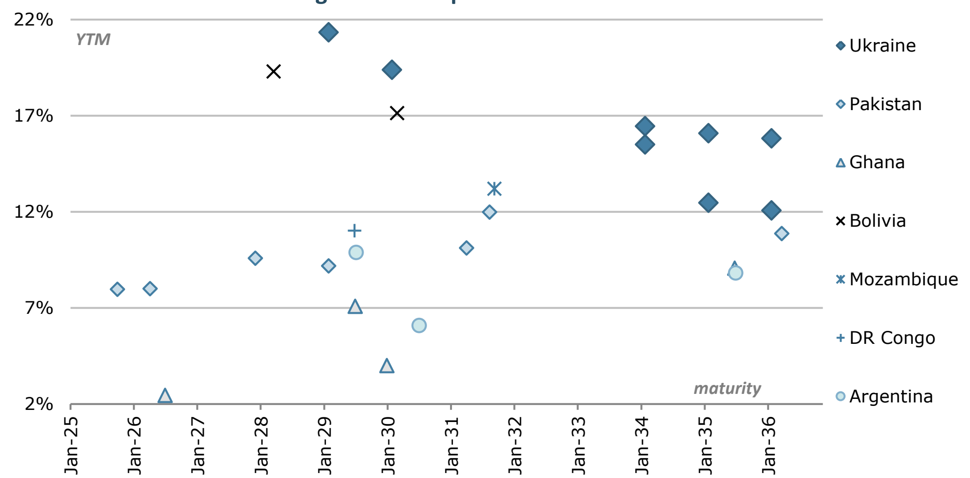
Ukraine Eurobonds map



Betting-based probability of ceasefire in 2025 vs. Ukraine Eurobond due 2035*



C-rated international sovereign bonds map



** Bond price line and price scale (left) are orange.*
Sources: Bloomberg, polymarket.com, Concorde Capital calculations

Ukraine Output and Incomes

GDP: Recovery momentum is weakening

Ukraine's real GDP increased by just 2.9% yoy in 2024, after a 5.5% yoy growth in 2023. The deceleration suggests the economy nears its pre-war level adjusted for the loss of territory (about 12% compared to 2021), population (over 20%) and industrial capacity (about 20%). As compared to 2021, Ukraine's constant-price GDP was 23% smaller in 2024.

The growth rate is steadily declining from the double-digit numbers observed in late 2023, as the comparison base is growing.

Key drivers of economic recovery in 2023 were investments which increased due to postponed demand, the need to invest in restoration and rebuilding of the economy due to new reality, as well as thanks to foreign military aid. Most likely, investments will remain a key GDP driver in 2025 as well.

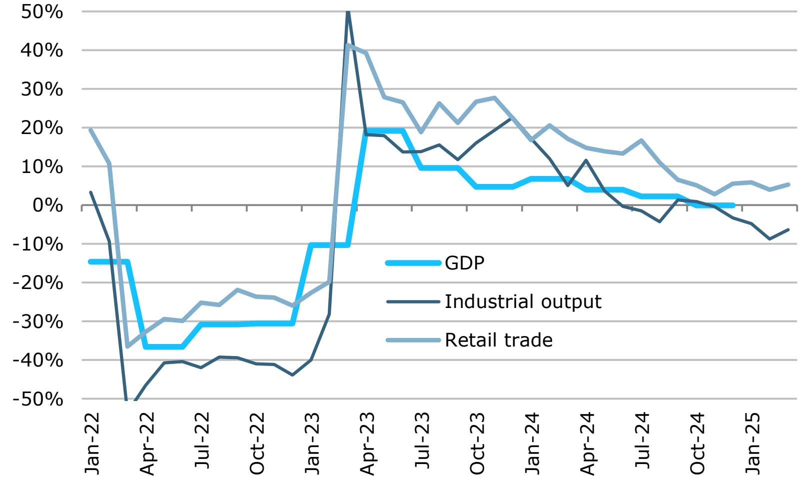
Private consumption was the biggest contributor to real GDP growth in 2024. It will likely drive the economy this year.

Public consumption, the only driver of the economy in 2022, showed a negative real growth in 2024, and it will likely show some moderate recovery in 2025.

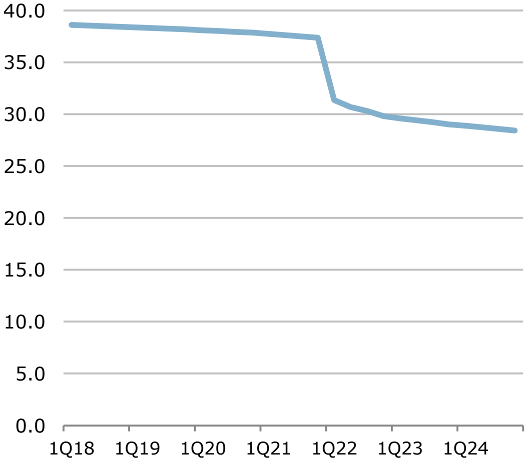
The weakest component of GDP of the last years was net exports as the trade balance of Ukraine has shifted radically since the Russian full invasion of 2022 (see slide 22 for more details). Besides the logistical bottlenecks that emerged in early 2022, Ukraine has lost many export-oriented industrial capacities in the east. Partial restoration of sea trade in late 2023 helped to improve trade balance, but we expect that net exports will continue to contribute negatively to the GDP in the near term.

We estimate Ukraine's real GDP to increase 2.2% in 2025.

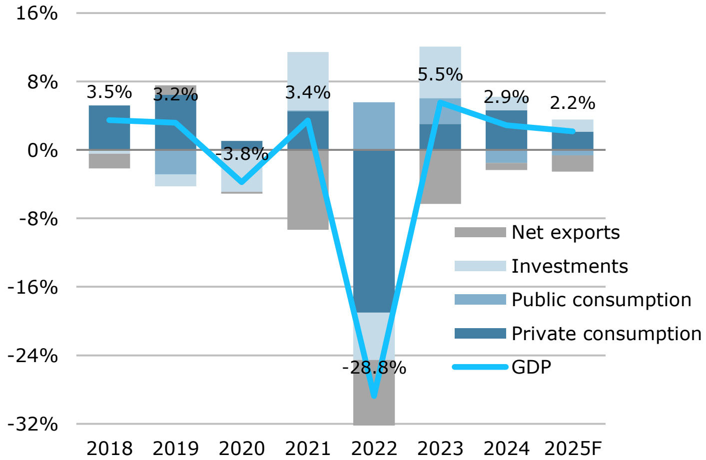
Real growth, yoy



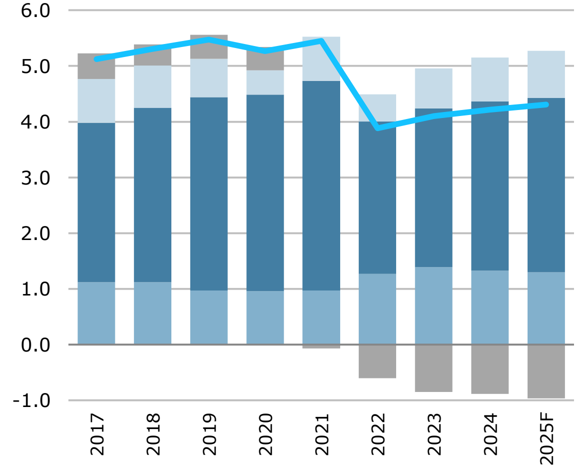
Population on controlled territories, mln



Drivers of real GDP change



GDP in constant 2021 prices, UAH trln



Sources: UkrStat, UNHCR, Concorde Capital research

Industrial output: Power supply was key bottleneck in 2024

Ukraine's industrial output reached 74% of the pre-war level in early 2024, before Russian attacks on power generation infrastructure. In May-September 2024, Ukraine faced a deficit of electricity due to heavy damages of thermal and hydro power plants, which forced power sector regulators to limit electricity consumption by business (and in some cases, residential) consumers. As a result of that, Ukraine's real industrial output decreased to less than 70% of the pre-war level in late 2024. Nevertheless, the annual result was positive with a reported 3.6% yoy growth in industrial output in 2024.

The damages to power sector infrastructure have affected Ukraine economy in different ways:

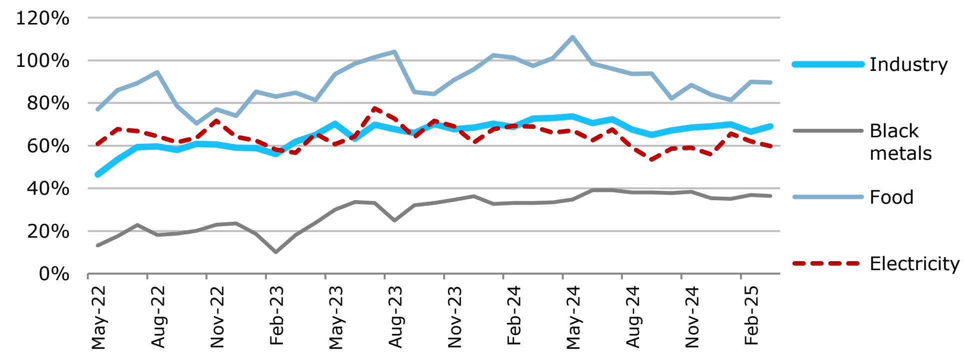
- The direct impact was a decline in industrial output in mid-2024 as more than half of enterprises had to decrease their output by more than 25% compared to the pre-war levels (as concluded by IER survey*). Later on, as soon as electricity supply recovered, many enterprises were able to increase their capacity utilization.
- The indirect impact was that many enterprises decided to invest into their energy security (alternative power generation or power storage). Some enterprises (like mobile operators, banks) were explicitly ordered by the government to secure their uninterrupted work during possible blackouts. This, as well as power companies' investments into reconstruction, should have resulted in higher gross capital formation in Ukraine, which should have supported economic growth in late 2024 and in 2025.

Among the sectors of Ukraine's industry, expectedly the best-performing are the defense industry (production of weapon and ammunition, up 38.5% yoy in 2024) and food production (+6.2% yoy). Outputs in these industries have reached or significantly exceeded the pre-war level. Defense industry (as well as industries related to electric/electronic equipment) will continue to grow fast in 2025, while food industry is likely to have reached its potential.

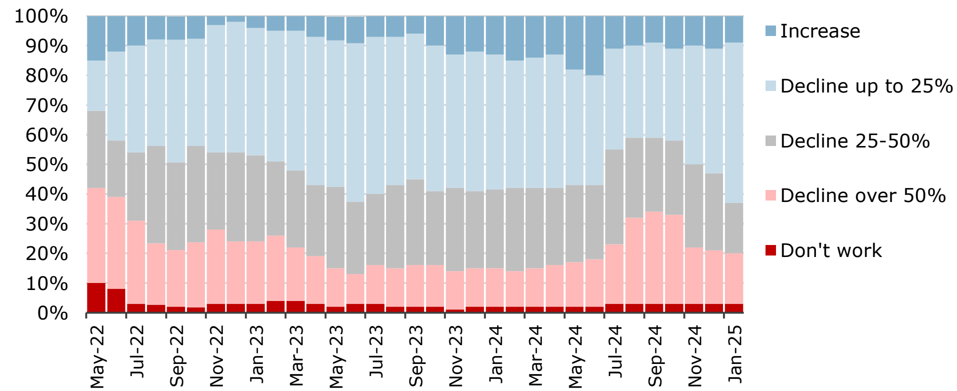
Notably, Ukrainian industry currently produces and sells military equipment and ammunition for over USD 200 mln monthly, which is more than annual result for 2019. The official size of military industry in Ukraine, however, does not impress, as it accounts for less than 3% of total industrial sector sales (vs. less than 0.5% before the war).

Among the weakest performers is metallurgy, the biggest victim of the Russian aggression: over 40% of steel making capacity has been occupied. Meanwhile, because of a low comparison base, Ukraine's metallurgy sector was among the best performing in 2024 (up 20% yoy). In January 2025, Ukraine has officially lost its only coking coal producer, which will increase hot iron and steel production costs this year and, therefore, could limit metallurgical output recovery.

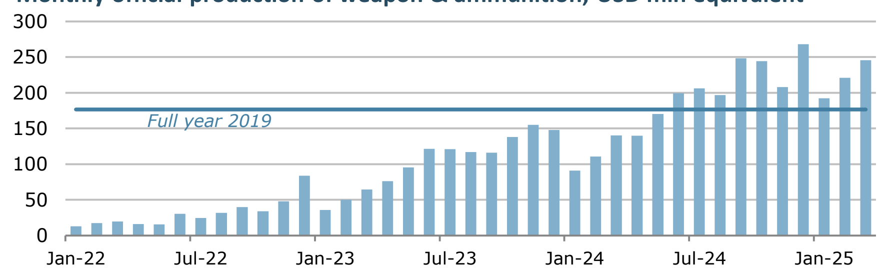
Real industrial output as compared to 2021



Enterprises' output vs. pre-war level, IER surveys*



Monthly official production of weapon & ammunition, USD mln equivalent



** http://www.ier.com.ua/files/Projects/2025/NRES/_NRES_January_2025_eng%20(1).pdf*
Sources: UkrStat, IER, Concorde Capital calculations

Power sector: Generation heavily hit by Russia, survived due to high nuclear share

The Russian aggression against Ukraine hit the electricity sector severely in 2022-2024.

As a result of occupation of eastern and southern regions, Ukraine has lost about 1/3 of its generation capacities (including 43% of nuclear capacity), still remaining self-sufficient in power supply as of late 2023.

In late 2022 and early 2023, most of the aggressor's strikes against the power sector affected its transmission infrastructure leading to temporary blackouts in October 2022-February 2023. Since then, the grid operator managed to recover its most important assets and build shields over them, making Russian attacks less efficient. Therefore, in early 2024, Russia shifted its focus to hitting power generation infrastructure.

In March-July 2024, most of the large power generation sources were hit by missiles at least once, and many objects were destroyed.

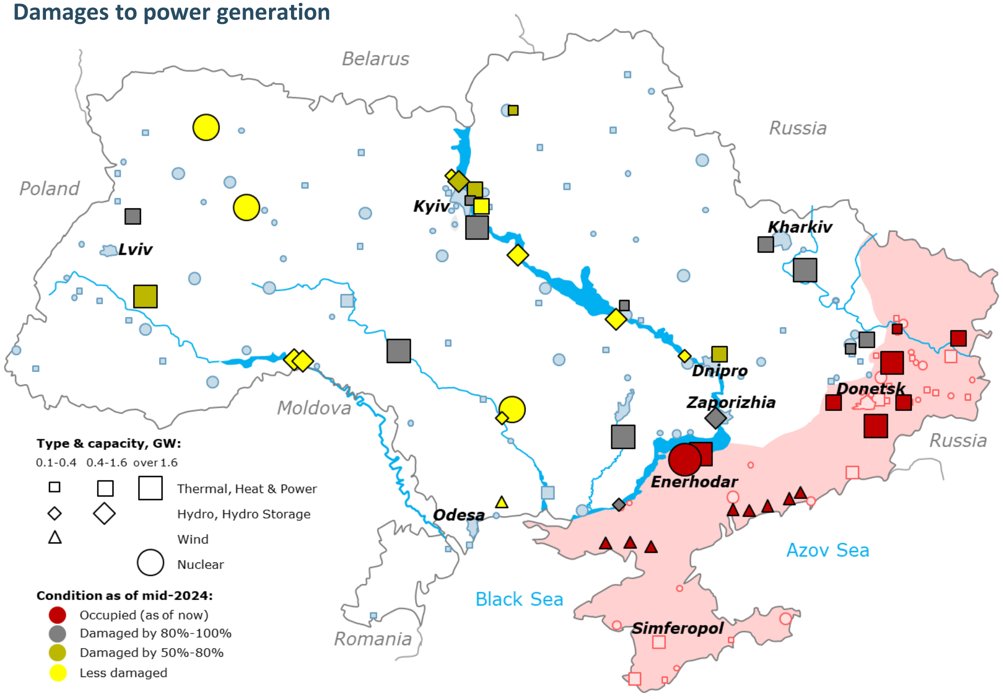
The exceptions were nuclear capacities (historically responsible for generation of about 50% of power in Ukraine) which were not hit directly. Large share of nuclear capacity was the factor that saved Ukraine from complete blackouts.

At the same time, the scheduled overhauls of nuclear units in summer 2024 resulted in a massive power deficit causing rotational blackouts. As nuclear units came back and other units were partially restored, the deficit decreased in late 2024.

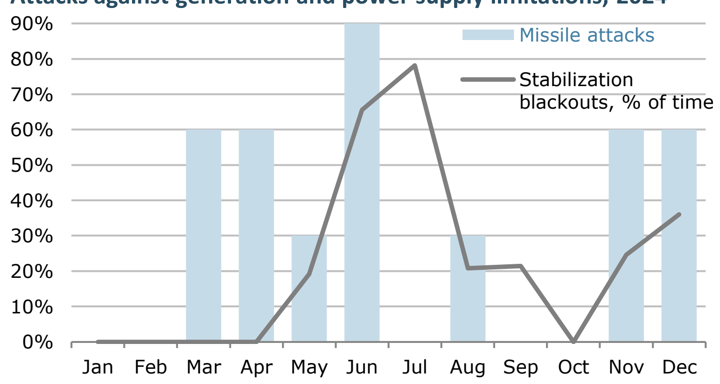
Power deficit of mid-2024 severely affected both residential and business consumers. In late 2024 and early 2025, the burden of power limits was mostly shifted to business.

As of spring 2025, Ukraine was able to solve the power deficit issue, so there is a chance that the debottlenecking will allow Ukraine's industry to improve its performance starting 2Q25.

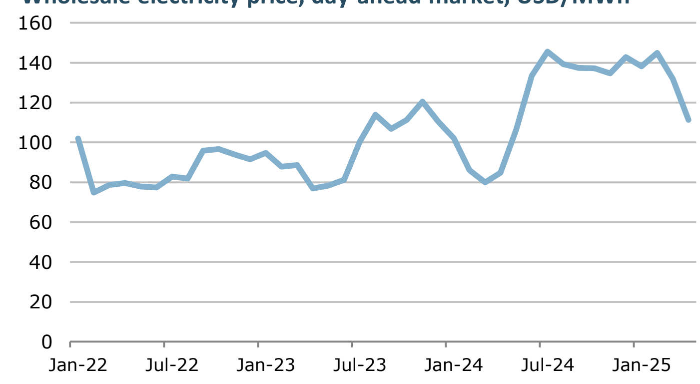
Damages to power generation



Attacks against generation and power supply limitations, 2024*



Wholesale electricity price, day-ahead market, USD/MWh



** Russian missile attacks targeting power generation (rhs); portion of time when power cuts were applied to households in at least half of regions, as estimated by DiXi Group*

Sources: Media, DiXi Group, Ukrenergo, StateCo Market Operator, Concorde Capital research

Farming sector: Another weak year ahead?

Farming sector was among the weakest performers of 2024 as it contributed about minus 0.9pp to Ukraine's real GDP change of 2.9%. Total harvest of grains and oil crops decreased 5% yoy to 77.5 mmt in 2024.

Thus far, forecasts of farming performance in 2025 are contradictory:

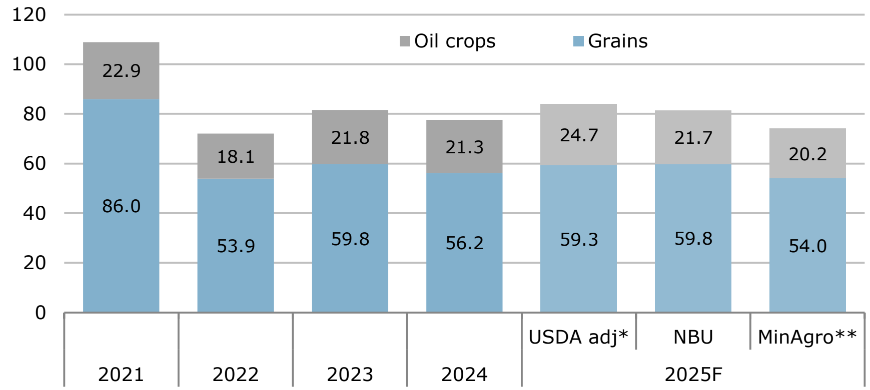
- Ukraine's MinAgro has not provided its official forecast so far (which is not usual), while the Minister told Reuters in early June that due to the dry winter and risky situation in northern regions, Ukraine's harvest may decline in 2025 by up to 10% yoy under a pessimistic scenario. Based on revealed numbers in Reuters' report, we estimate that MinAgro's less pessimistic expectations are that total grains and oil crops harvest could be about 4-5% lower yoy.
- USDA, according to its June report, expects a 5% yoy increase in crop harvest in Ukraine. Its optimism is based on better rains in May, as well as on an increase of areas of late crops sowing. The latter is not confirmed by sowing stats (especially for sunflowers).
- The National Bank, in its April report, assumed an 11% yoy increase in harvest, while its numbers look outdated.

The recent statistics (as provided by MinAgro) hints that the total sowing area of key crops is about 3% higher yoy in 2025.

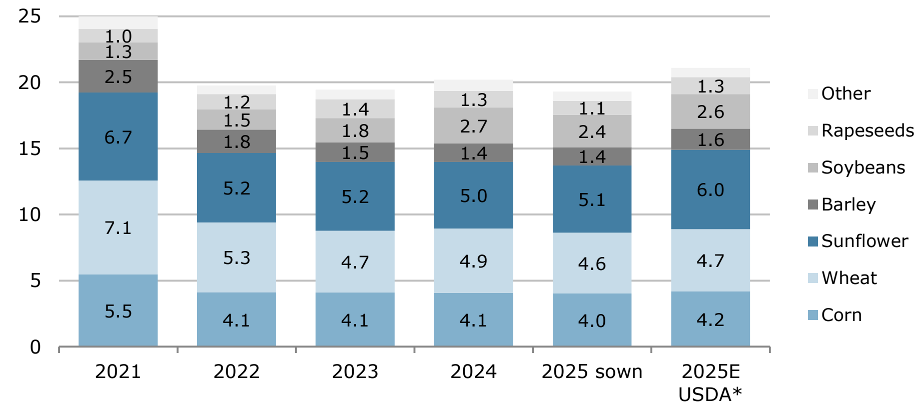
This gives some chance that the 2025 harvest won't be much weaker than in the last year, even taking into account drier start of the year and possible loss of harvested areas in northern districts of Ukraine due to Russia's aggression.

We estimate Ukraine's 2025 harvest of grains and oil crops will be 2% weaker yoy.

Harvest of key crops in Ukraine, mmt



Harvested area of key crops, mln ha



** Adjusted for performance in Crimea (which USDA included into Ukraine data): 0.3 mln ha (about 0.7 mmt) of wheat. **Our estimates based on Reuters report.*
Sources: UkrStat, MinAgro updates, USDA World Agricultural Production report, Reuters, NBU, Concorde Capital calculations

Living standards of Ukrainians remain intact, wages reach record highs

Contrary to a view that the war deteriorates living standards, there are no indicators that show financial stance of Ukrainians have worsen noticeably with Russia's full invasion:

- Sociological studies indicate no significant worsening of households' financial self-assessment over the last couple of years.
- Average salary in Ukraine in the last quarter of 2024 reached its historical high in USD equivalent, while official unemployment statistics "indicates" the economy is "close to its potential level".
- Consumption level per capita (in USD terms) has reached pre-war level in 2024, while household savings (bank deposits and "investments" into foreign currency) hit new record highs.

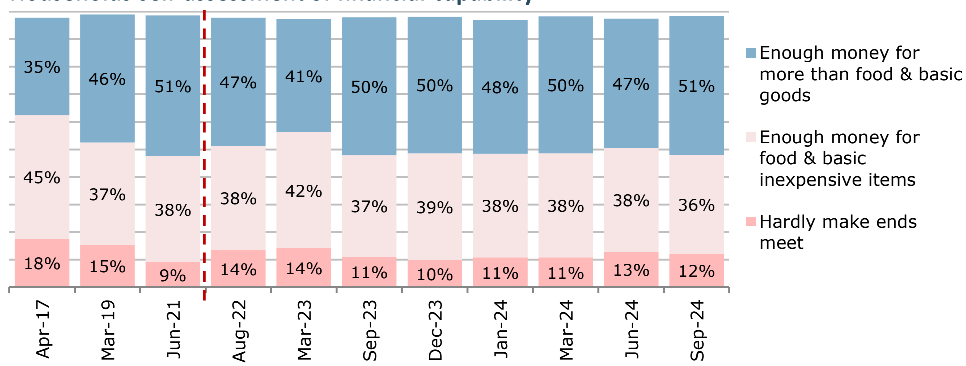
Such phenomenon can be explained by the following economic factors:

- Government's surge in expenditures for military servicemen (such incomes can cover about 20% of total private consumption), increased state orders for local producers of military equipment, as well as higher social payments. All this is mostly due to relevant financial support from Ukraine's western partners.
- Resilience of Ukrainian business which is adjusting fast to the new economic and security reality and is restoring fast any interruptions in supply chains.
- Labor deficit, due to outflow of refugees and mobilization for war, forces businesses to become more labor-efficient and offer higher salaries.

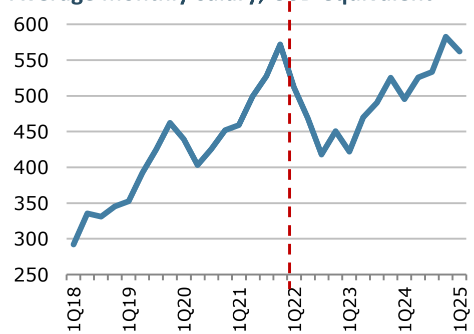
Among non-economic explanations, there are:

- War-related revaluation of living standards, re-assessment of what is essential and what is excessive, taking into account new reality, might have caused the households to be satisfied with lower income levels.
- Increase of transparency and reporting (de-shadowing of the economy) which makes reported salaries higher and brings more wages coming cashless.
- Worsened transparency of unemployment statistics due to fear that the registered unemployed will be conscripted.

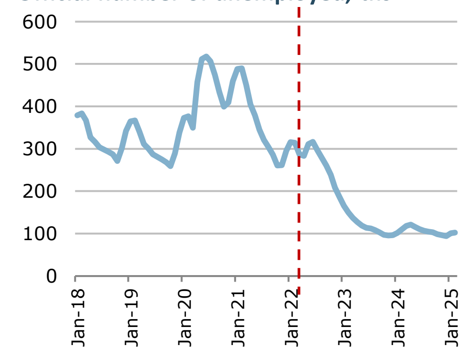
Households self-assessment of financial capability*



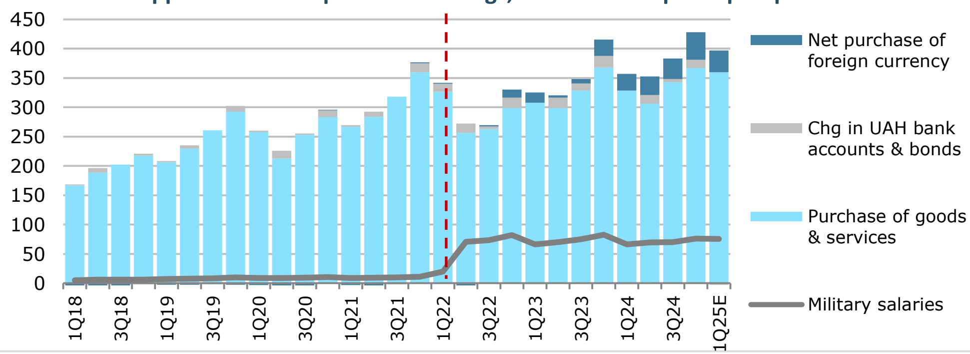
Average monthly salary, USD equivalent



Official number of unemployed, ths



Households apparent consumption and savings, nominal USD per capita per month



** According to representative nation-wide sociological surveys by Razumkov Center (margin of error ~2.3%).*
Sources: UkrStat, NBU, UNHCR, Razumkov Center, Concorde Capital research

Business deleverages, accumulates cash

Ukrainian business expectedly prefers not to invest much in its development. Instead, it tends to repay its borrowings and increase its savings (cash, bank deposits, investments in local government bonds).

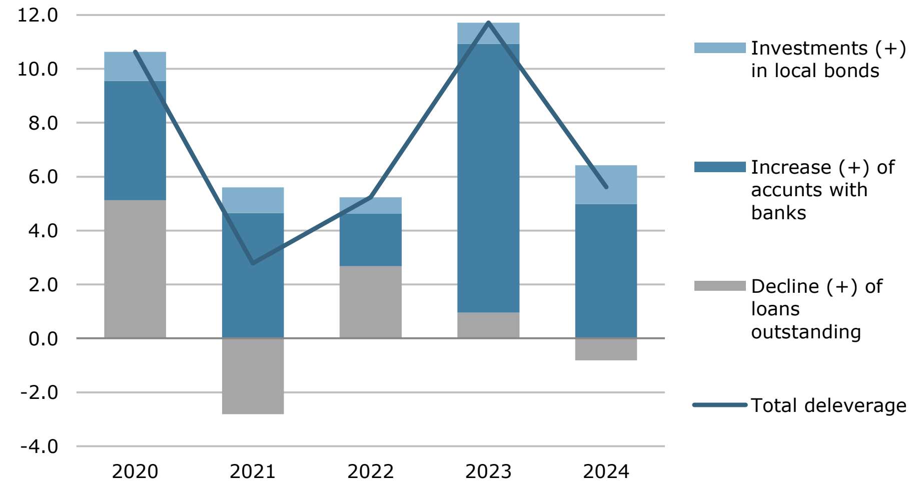
In 2022-2024, the net deleveraging of Ukrainian corporates reached an equivalent of USD 22.5 bln, or 4% of Ukraine's GDP for the same period. This amount consists of:

- Decline of borrowings from Ukrainian banks by an equivalent of USD 2.8 bln
- Increase of accounts/deposits in local banks by an equivalent of USD 16.9 bln
- Net purchase of local government bonds for about USD 2.8 bln

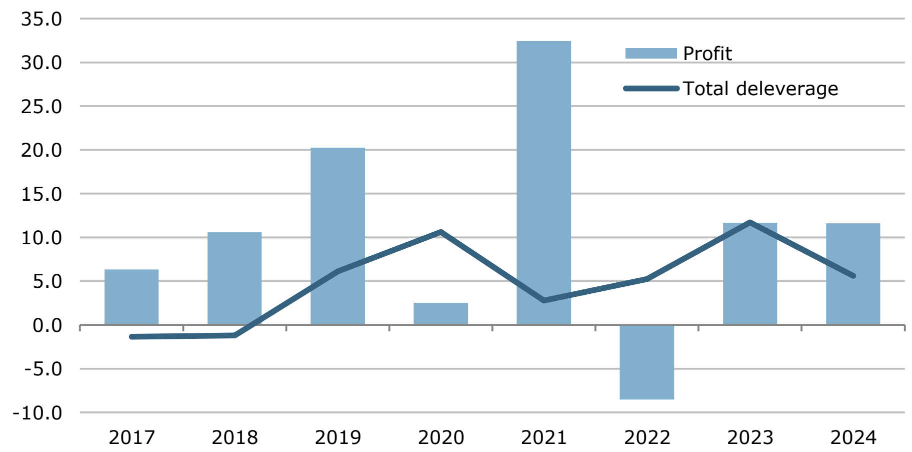
The accumulated pile of cash and liquid assets creates a potential resource for investments into recovery and new facilities, which, if leveraged by new loans, could result in up to USD 40-50 bln investments (20%-25% of annual GDP) solely involving Ukraine's internal resources. However, such a potential can be only realized in case of elimination of short- and mid-term security risks and favorable investment climate.

Under a pessimistic scenario, however, the majority of accumulated liquidity could leak out of Ukraine as soon as currency control measures are removed. This could create enormous liquidity flow from the banking sector, worsen Ukraine's balance of payments and undermine stability of its currency.

Deleveraging of corporate sector, USD bln



Net profit, deleverage of Ukraine business*, USD bln



** Excluding financial institutions*
Sources: NBU, UkrStat, Concorde Capital calculations

Trade balance: Deficit to grow from USD 3 bln monthly level seen in last two years

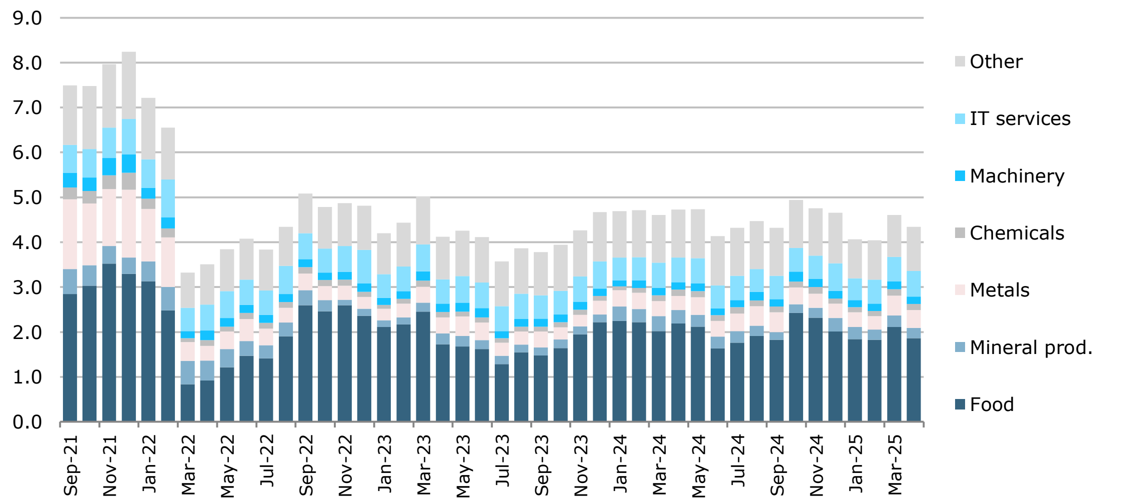
Since Russian full invasion to Ukraine, the country's trade balance of goods and services has fluctuated around USD 3.0 bln per month, with both exports and imports gradually increasing.

Imports of machinery increased 25% yoy in 2024, mostly due to supplies of military equipment and parts, as well as energy equipment. At the same time, imports of "travel services" (which is mostly expenditures of Ukrainian refugees abroad) are gradually declining from the peak of late 2022, and are down 18% yoy in 2024. Total imports increased only 3.6% yoy in 2024.

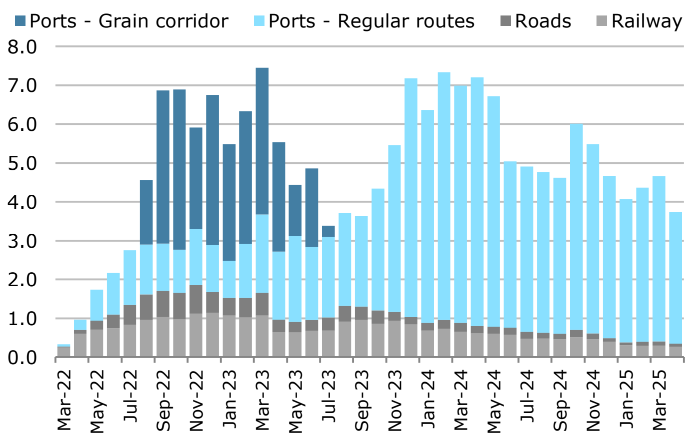
Exports of good and services jumped 9.8% yoy in 2024, fueled by mineral products (+39% yoy, mostly iron ore products), metals (+14% yoy) and food (+13% yoy). The latter item improved on stability of sea routes in 2024. Meanwhile, exports of IT services (second-biggest item) declined 4% yoy.

In 2025, we see imports of machinery and weapon to grow further. Also, Ukraine will have to intensify imports of natural gas and coal, due to the loss of the only coking coal producer and partially destroyed gas production facilities. Total imports, therefore, will increase by about USD 4.0-5.0 bln yoy (4-5% yoy), while exports are likely to grow by about USD 0.5 – 1.0 bln (less than 2% yoy). In this way, Ukraine's goods and services trade deficit is likely to worsen by about USD 4 bln yoy to USD 40 bln this year.

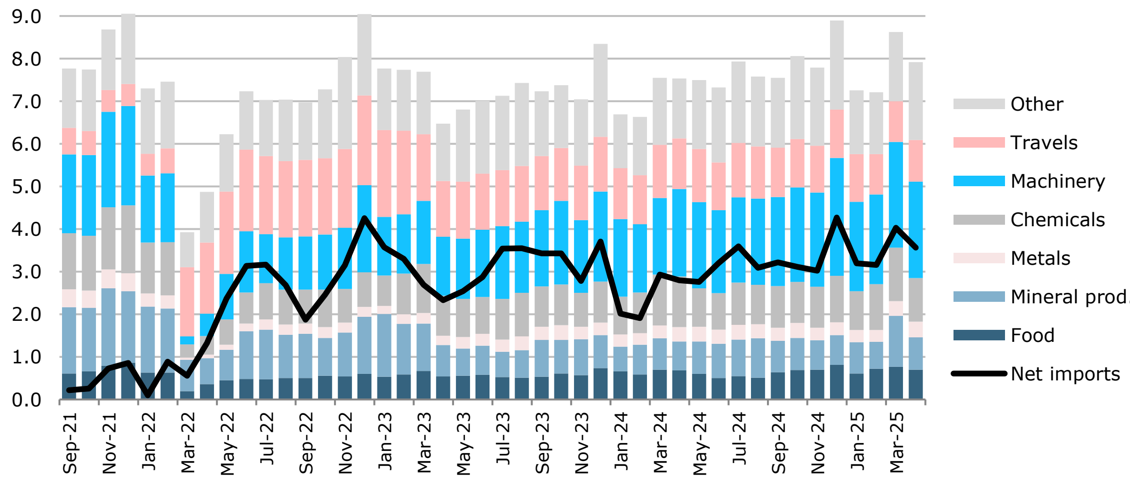
Exports of goods and services, USD bln



Agricultural exports by routes, mmt



Imports of goods and services, USD bln



Sources: NBU, Agrarian Ministry, Concorde Capital calculations

Ukraine macro indicators

USD bln, unless other indicated

	2020	2021	2022	2023	2024	2025E
Nominal GDP	155.8	200.6	162.0	181.2	190.7	207.2
Real GDP change	-3.8%	3.4%	-28.8%	5.5%	2.9%	2.2%
State & guaranteed debt, eoy*	86.6	94.4	107.8	141.7	162.5	177.1
% of GDP	56%	47%	67%	78%	85%	85%
CPI, eoy	5.0%	10.0%	26.6%	5.1%	12.0%	10.0%
CPI, average	2.7%	9.4%	20.2%	12.9%	6.5%	13.1%
UAH/USD rate, eoy	28.3	27.3	36.6	38.0	42.0	44.0
UAH/USD rate, avg	27.0	27.3	32.3	36.6	40.2	42.2
Goods & services trade balance	-2.4	-2.7	-25.7	-37.4	-35.9	-39.9
C/A balance	5.3	-3.9	8.0	-9.2	-13.7	-26.1
Budget expenditures	47.8	54.6	81.6	109.8	111.7	127.0
% of GDP	31%	27%	50%	61%	59%	61%
- Defense	8.0	8.5	45.6	68.8	69.7	84.3
% of GDP	5%	4%	28%	38%	37%	41%
- Other	39.8	46.1	36.0	41.0	42.1	42.7
% of GDP	26%	23%	22%	23%	22%	21%
Budget incomes, ex. grants & military aid	39.9	47.5	34.1	40.2	47.9	54.5
% of GDP	26%	24%	21%	22%	25%	26%
Total defense expenditures	8.0	8.5	73.9	96.6	97.0	102.1
% of GDP	5%	4%	46%	53%	51%	49%
Total defense + other gov't exp.	47.8	54.6	109.9	137.5	139.1	144.8
% of GDP	31%	27%	68%	76%	73%	70%
Debt financing of budget, net	6.7	6.5	26.6	34.7	35.1	14.8
- External	5.1	4.1	17.1	29.7	28.7	13.9
- Domestic	1.6	2.4	8.9	5.0	6.4	0.9
Foreign support of Ukraine, net	5.5	4.7	73.2	90.3	87.2	89.1
% of GDP	4%	2%	45%	50%	46%	43%
- Military support	0.4	0.7	35.8	48.8	45.7	39.1
- Financial grants	0.0	0.0	20.3	11.9	11.8	3.5
- Net loans	5.1	4.1	17.1	29.7	28.7	13.9
- ERA financing	-	-	-	-	1.0	32.7

**Without debt to russia (USD 3.6 bln) and ERA financing*
Sources: UkrStat, NBU, Finance Ministry, Concorde Capital research

Prices and Rates

ForEx policy: NBU interventions compensate trade deficit, funded by int'l support

After the start of Russian aggression in February 2022, the NBU introduced a policy of fixed UAH/USD rate and implemented tight currency control measures. In July 2022, it had to adjust the fixed USD rate allowing a 20% devaluation of hryvnia.

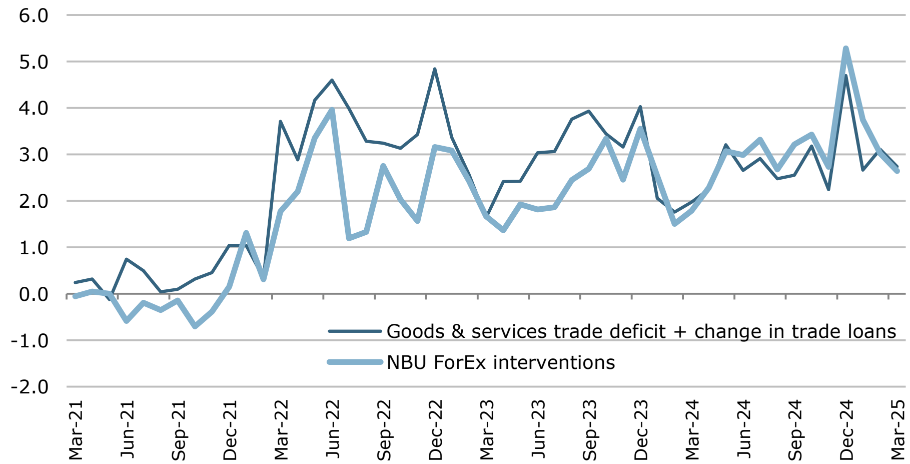
In October 2023, the NBU decided to shift to a "managed flexibility" of UAH/USD rate, allowing some ForEx fluctuations, as well as gradually releasing ForEx restrictions for individuals. This caused the official (interbank) rate of dollar converging with the cash rate. At the same time, most of ForEx restrictions for business remained in place.

Under the new policy, the NBU has committed to cover a "structural deficit" of hard currency with its interventions. As we can conclude, the NBU has been fully covering Ukraine's trade deficit with interventions since then. As excess demand for hard currency comes not only from the trade deficit, the new policy caused a slight devaluation of Ukrainian hryvnia.

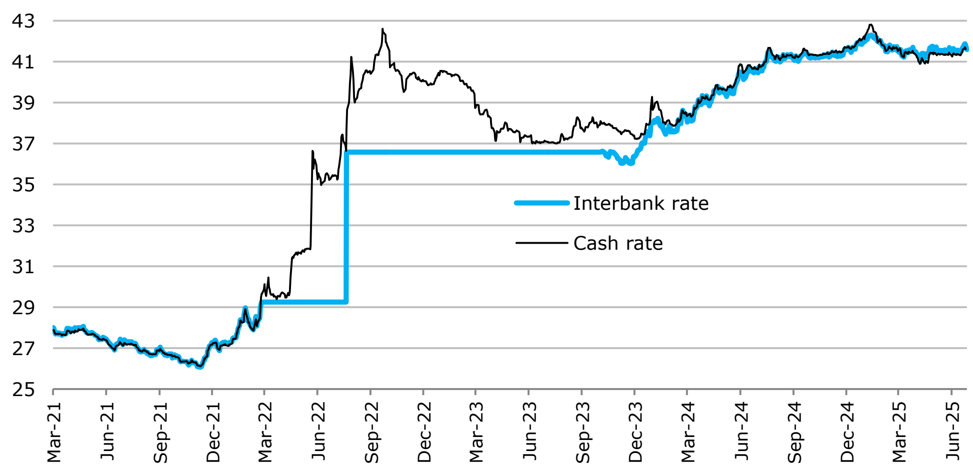
During the war period, the NBU is spending monthly about USD 2.5 – 3.0 bln on ForEx interventions, while its stock of foreign currency is being replenished by international financial assistance for Ukrainian budget. Despite such assistance lacking regularity since early 2024, its overall amount is more than enough to cover NBU's needs for ForEx interventions. In this way, the NBU is able to keep its gross international reserves growing and control the UAH/USD rate, only allowing for a gradual devaluation of hryvnia.

We forecast the UAH/USD rate will be 42.2x on average in 2025 (up 5.1% yoy) and 44.0 at the end of the year (up 4.7% yoy).

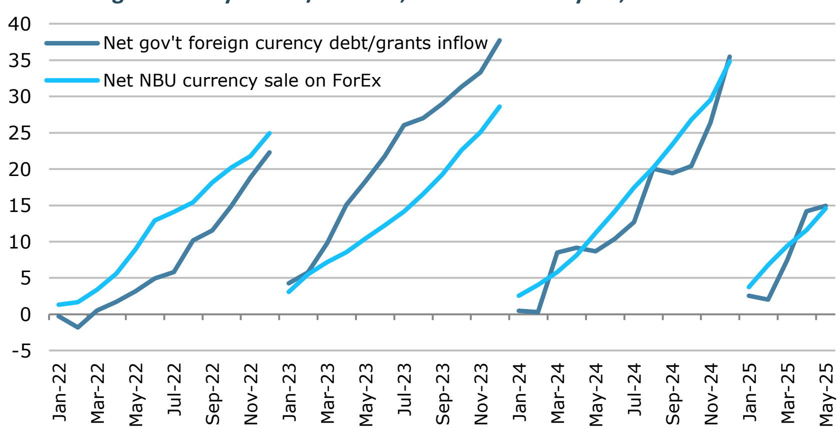
Trade balance and NBU interventions, USD bln



UAH/USD



NBU foreign currency inflow/outflow, cumulative for year, USD bln



Sources: NBU, Concorde Capital calculations

Prices: Weak 2024 harvest, rising production costs determine consumer inflation

Ukraine's consumer inflation reached a 15.9% yoy level in May 2025, up from 3.3% a year ago. Among the key drivers of raising consumer prices are:

- rising production costs in Ukraine (higher energy prices, growing wages and weakened local currency vs. U.S. dollar),
- weaker than average harvest of 2024, which inflated food prices,
- one-off increase of electricity prices for households effective June 2024.

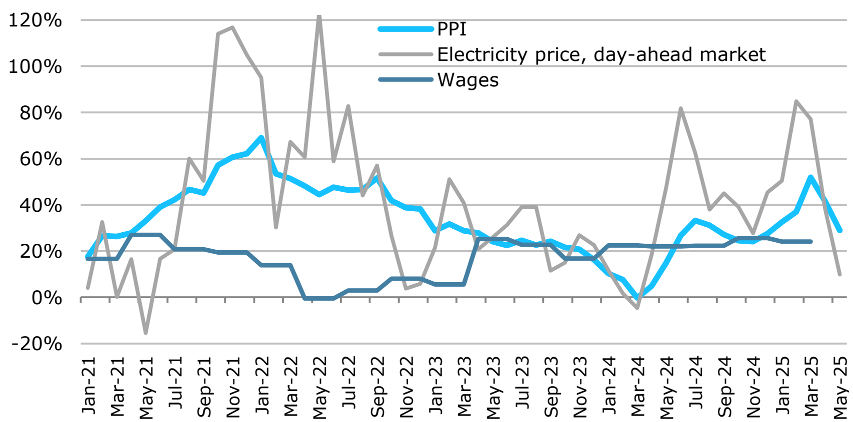
The effect of the latter two factors will fade away in summer 2025, so the official consumer inflation will likely slow down in June-July.

Effects of higher USD rate and energy prices are also likely to weaken in late 2025.

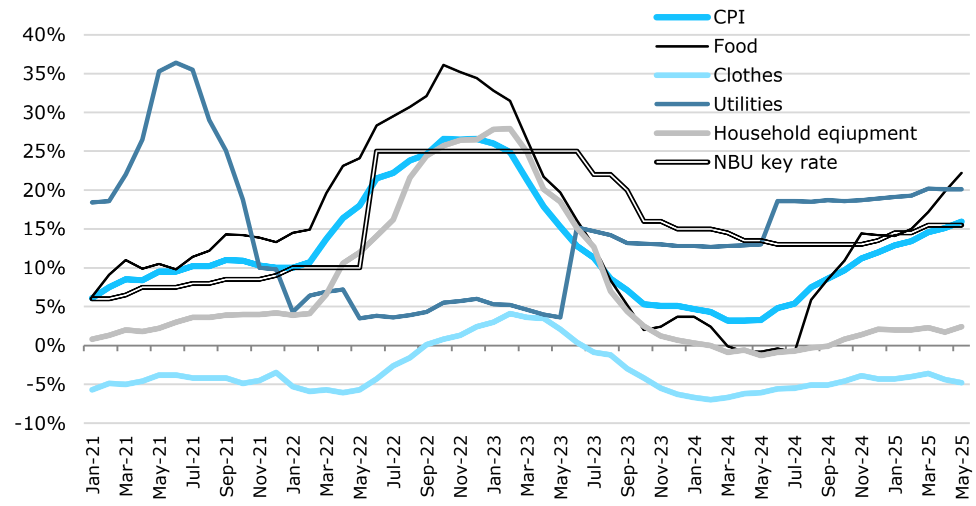
This, as well as NBU's recent steps toward tighter monetary policy (key rate increased from 13% in November 2024 to 15.5% in March 2025) should bring consumer inflation back to single-digit level in late 2025 or early 2026. Meanwhile, the growth of production costs will likely prevent CPI from falling into NBU's target range of 4%-6% in the near term. We estimate CPI will decline to 10.0% by the end of 2025 (annual average rate for 2025 will be 13.1%).

Notably, the deflator of private consumption, as reported by UkrStat, remains higher than the reported CPI statistics. We attribute this to a lag between the shift in consumption structure of Ukrainians and the rebalancing of CPI consumer basket. The discrepancy between CPI (which is NBU's target) and the deflator, as well as a supply nature of the inflation, make NBU's monetary policy not much efficient in controlling inflation.

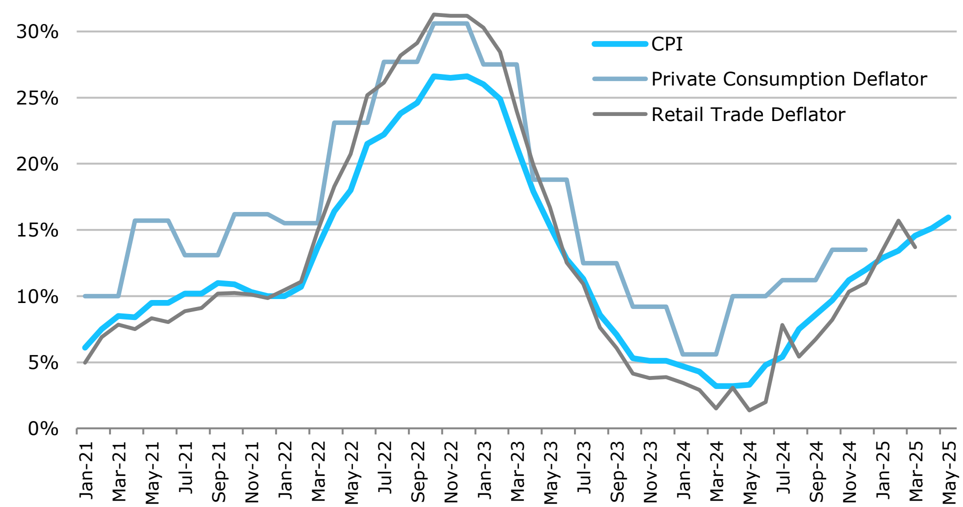
PPI and selected production cost indicators, yoy



Selected CPI components & NBU rate



Consumer inflation indicators



Sources: UkrStat, NBU, Concorde Capital calculations

Monetary policy: Tighten again, with no effect so far

As consumer inflation was declining in 2023-2024, the NBU lowered its key rate from 25% in June 2023 to 13% in June 2024.

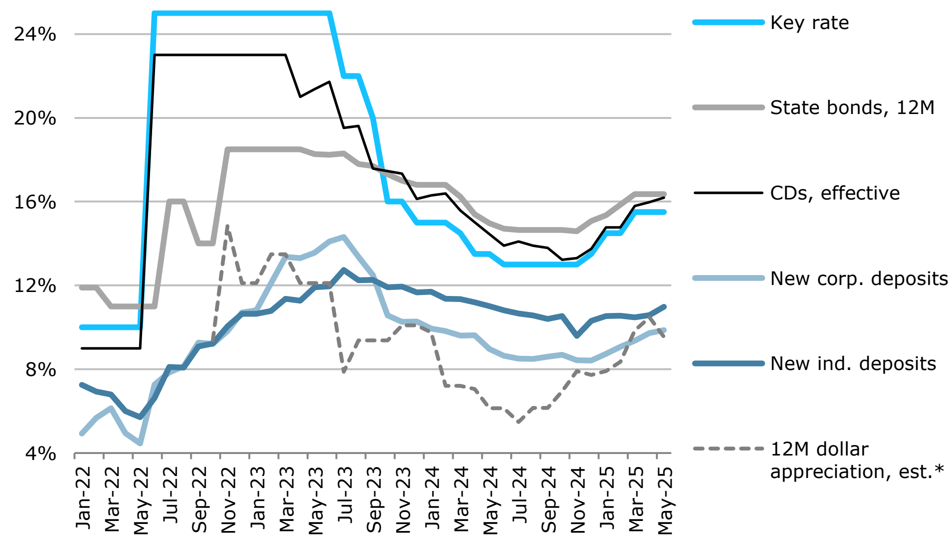
Meanwhile, for the NBU, it was important to keep rates certificates of deposits (CDs) for banks high enough to stimulate banks keeping retail deposit rates above the level of expected devaluation of hryvnia vs. U.S. dollar. In this way, the regulator tried to discourage households from purchasing dollars as a savings instrument.

As we can see from the chart below, this tactics did not work well: as soon as limits for households to purchase hard currency were removed in late 2023, residential "investments" into dollars exceeded investments into hryvnia deposits. Demand for hard currency from households declined only in April 2025, but the contribution of NBU's tight monetary policy to that does not look significant.

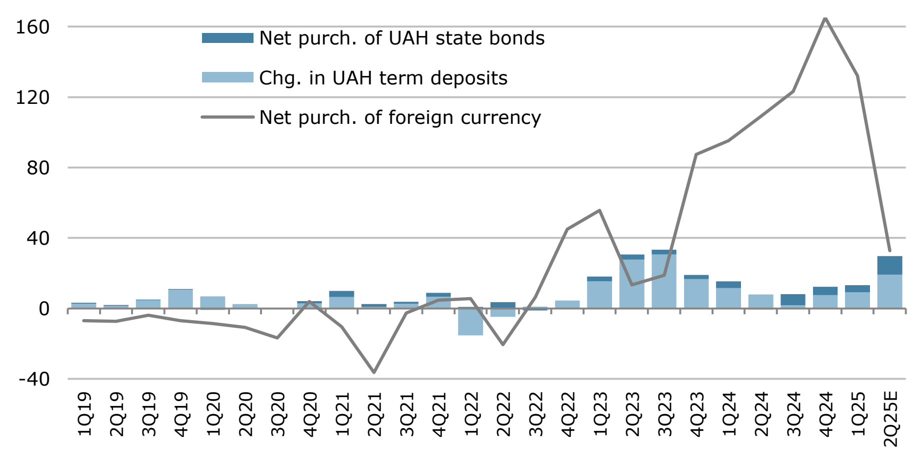
As consumer inflation sped up in mid-2024, the NBU had to turn to a tighter monetary policy: key rate increased from 13.0% in October to 15.5% in March 2025. Although effective CD rates grew even more (13.2% to 16.2%), the banks did not hurry to raise their deposit rates for households (the increase was from 10.5% in October to 11.0% in May).

Most likely, the "monetary transmission" was not working well because of the NBU's declaration (as presented in its April inflation report) that it would lower the key rate to 13% by end-2025. As it's becoming clear that consumer inflation will exceed the NBU's expectations for end-2025, it is likely that the regulator will revise its key rate outlook upward in the coming months, making market rates' transmission more visible.

UAH interest rates



Households allocation of hryvnia, UAH bln



** Expected appreciation of U.S. dollar vs hryvnia in 12 months based on consensus estimates of financial analysts (collected by the NBU)*
Sources: NBU, Concorde Capital calculations

CONCORDE CAPITAL

Banking financials: Abundant liquidity, tight monetary policy causes profits surge

Liquidity of banks is increasing as the build up of their deposit base outpaces their lending activity in both, local and foreign currency.

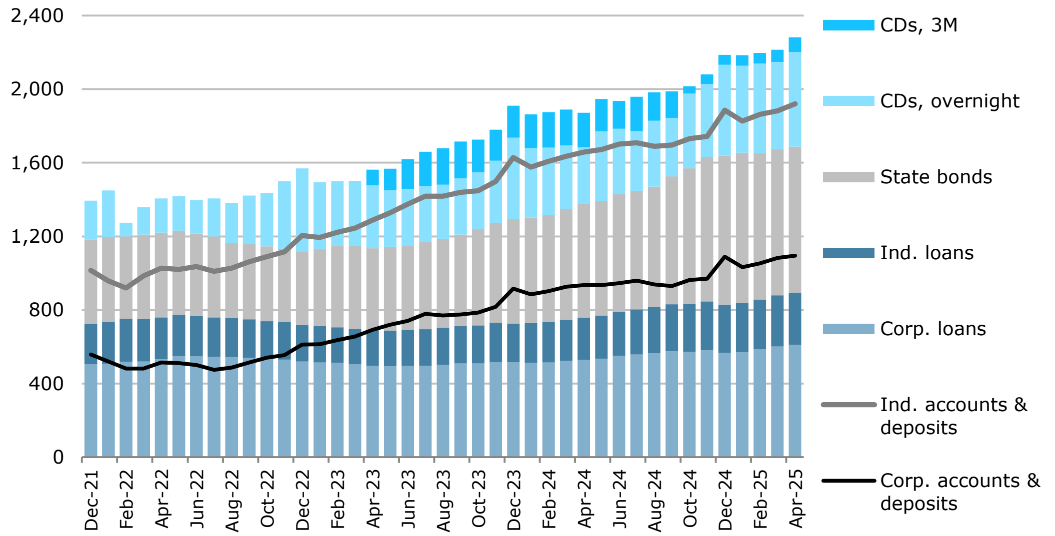
The National Bank's tight monetary policy allowed the banks to "invest" with a high return into risk-free instruments like the certificates of deposits (CDs): exposure into CDs has increased 2.6x since end-2021.

Availability of high-yielding local currency instruments discourage the banks from seeking new borrowers. Banking hryvnia investments into CDs and government bonds exceed their net hryvnia loan portfolio since November 2022.

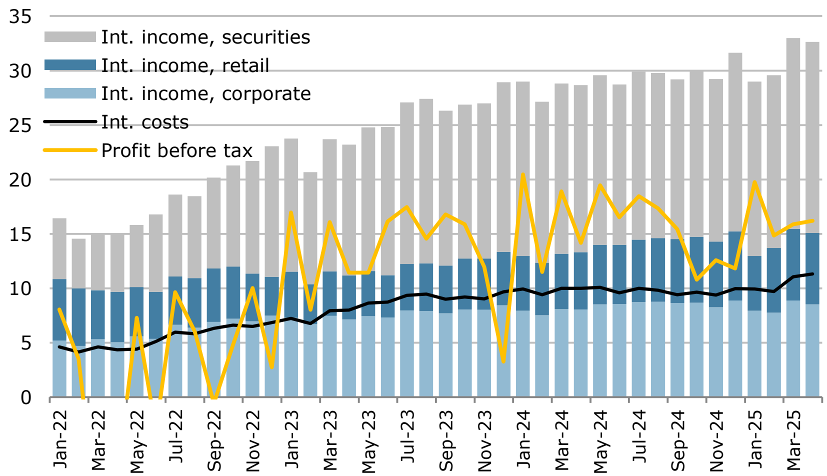
Banking lending in foreign currency is decreasing since early 2022 as banks prefer keeping their hard currency abroad, in the form of correspondent accounts and loans to foreign banks. Banking exposure to foreign banks exceed their net foreign currency loan portfolio since July 2022.

High exposure into "low-risk" and high-yielding local currency securities allowed the banks to generate super profits: the system's ROE, even after 50% income tax, was 32% in 2023 and 52% in 2024. This year, their profitability is likely to remain solid.

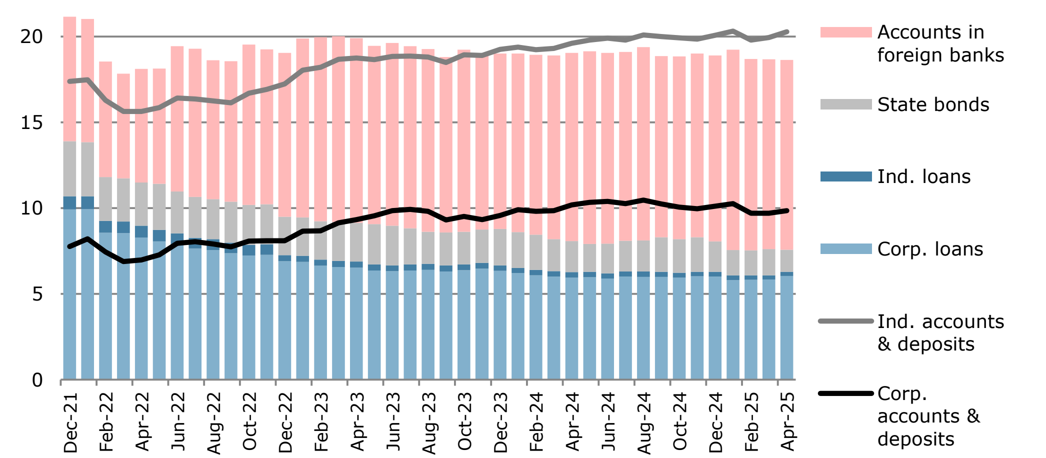
Key banking local currency accounts, UAH bln, eop



Banking system incomes, UAH bln



Key banking foreign currency accounts, USD bln equivalent, eop



Sources: NBU, Concorde Capital calculations

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