MARKET REVIEW: UKRAINE

GRADUAL RECOVERY

In 2024, Ukraine's economy continued to function amid elevated security risks and operational uncertainty. Additional external support and moderating inflation alleviated some pressures from the evolving security developments.

NAVIGATING A CHALLENGING ENVIRONMENT

In 2024, the full-scale war remained the defining factor for Ukraine's economic trajectory. Military activity in several regions and sporadic aerial attacks by Russia nationwide sustained pressure on economic activity. This was driven by heightened security risks, impacts on human capital, constraints on and damage to critical infrastructure, and disruptions to transport and logistics. Notwithstanding these difficulties, further financial support from international partners and gradually stabilising international reserves helped the country to navigate the economic turbulence.

The displacement of millions of Ukrainians, both internally and abroad, continues to put strain on communities and impact the domestic labour market. As of the year-end, there were an estimated 3.7 million people[1] considered internally displaced and another 6.9 million reported as refugees in other countries[2].

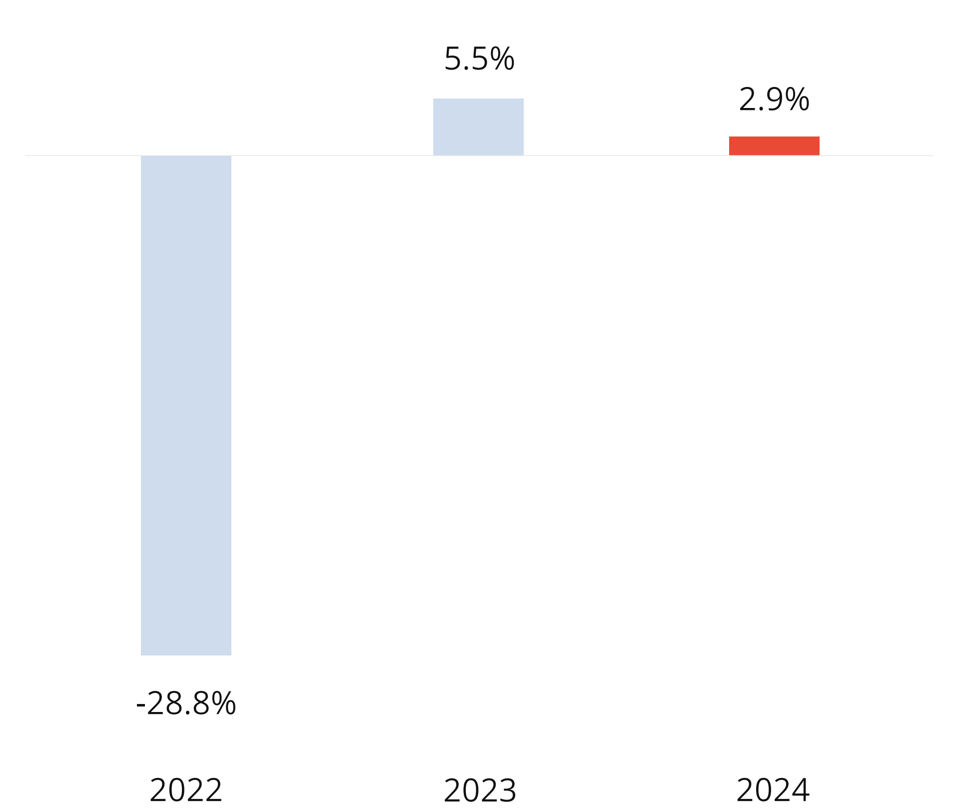
Export routes through the Black Sea expanded incrementally, building on the maritime corridor established in the second half of 2023. This proved instrumental in supporting Ukraine's exports, moving beyond grain to include metals and other goods. The reactivation of seaborne channels also helped to lessen pressure on overland routes.

Amid escalating risks, personnel shortages and a poorer harvest in 2024, real GDP growth slowed to 2.9%[3] year-on-year, down from 5.5% in 2023. Nominal GDP went up from US$181 billion in 2023 to US$191 billion in 2024.

Among the year-on-year changes in the expenditure components of GDP[3], household consumption expanded by 6.8%, government consumption dropped by 4.5%, gross fixed investment grew by 3.5%, exports climbed by 10.3% and imports rose by 7.7%.

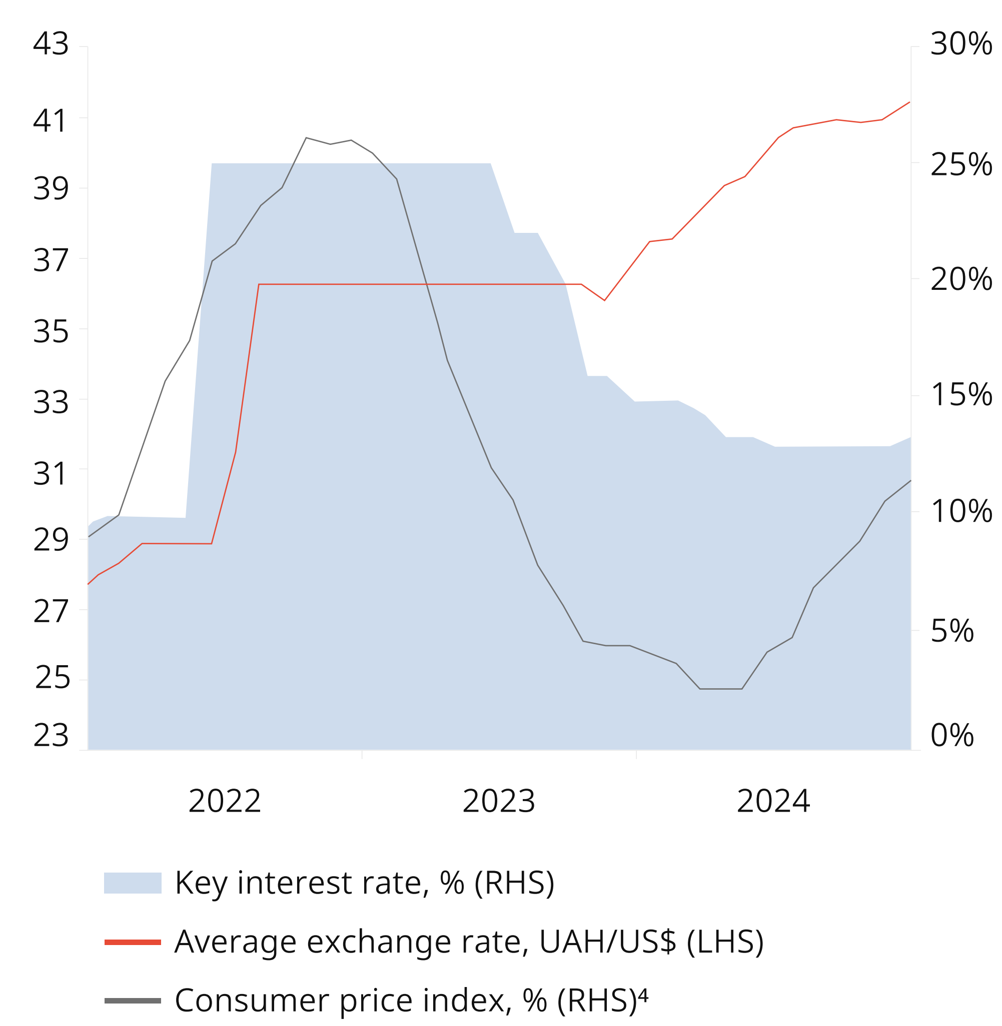
Among the production components of GDP[3] there were year-on-year increases of 27.4% for financial and insurance activities, 2.4% for public administration, 6.0% for manufacturing, 11.4% for transportation and storage, 10.8% for education, and 8.3% for information and communication. Meanwhile, there were decreases of 7.3% for agriculture and 4.1% for wholesale and retail trade.

REAL GDP DYNAMICS



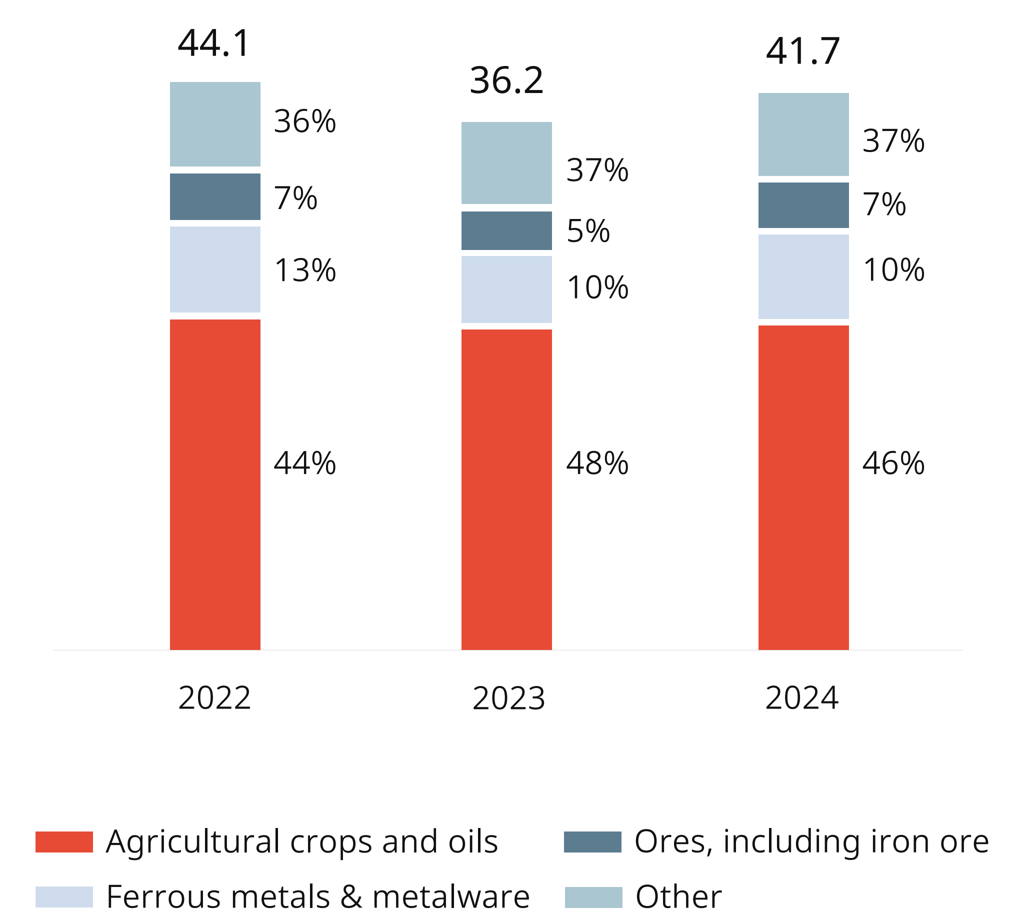
Source: State Statistics Service of Ukraine

MONETARY POLICY



Source: NBU, State Statistics Service of Ukraine

EXPORTS OF GOODS STRUCTURE, US$ BN



Source: State Statistics Service of Ukraine

[1] The UN International Organization for Migration.
[2] UN High Commissioner for Refugees.
[3] State Statistics Service of Ukraine.
[4] For CPI, the year-on-year change is for the individual monthly periods.

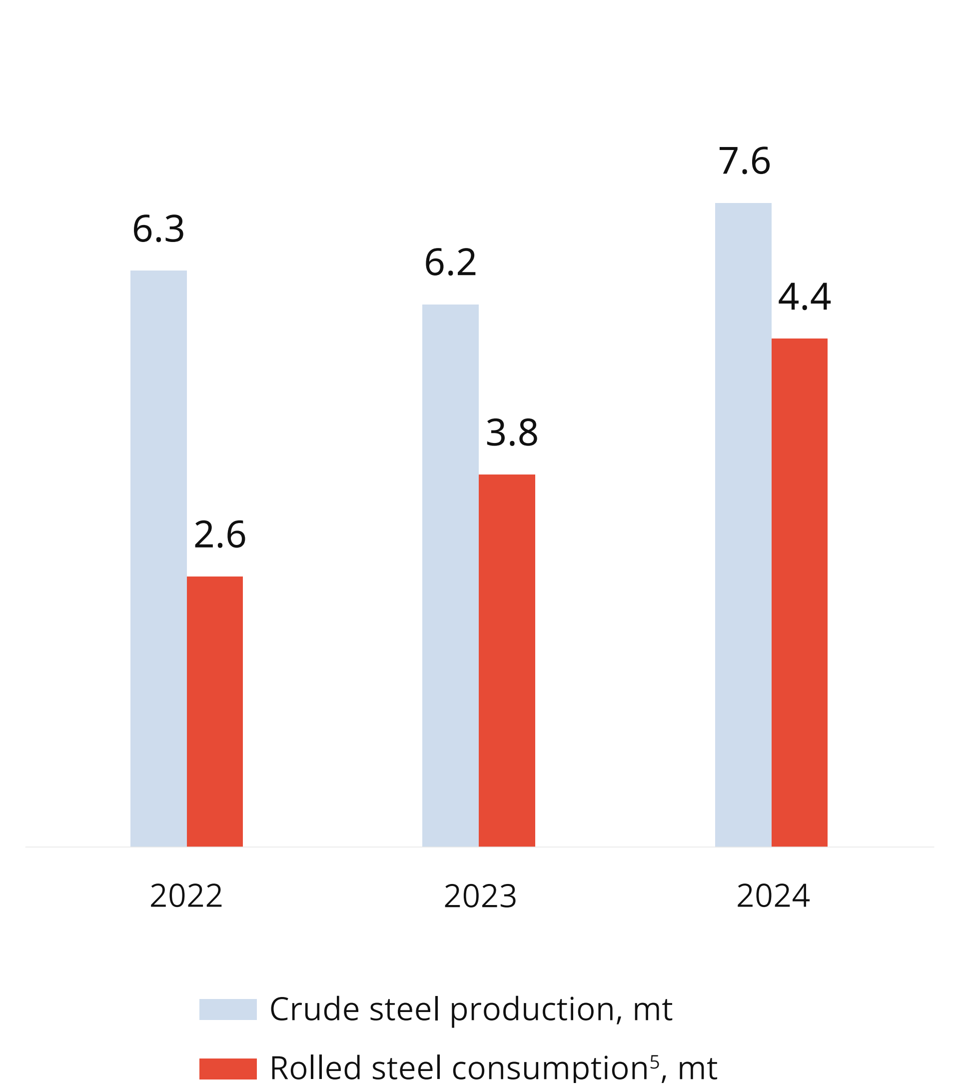
Annual inflation continued to trend towards economic stabilisation early in the reporting period, enabling the National Bank of Ukraine (NBU) to further ease monetary policy and gradually lower its key rate to 13.0% by June 2024. However, an uptick in inflation towards the year-end prompted the NBU to reverse course and increase the rate to 13.5% in December. The annual CPI shrank from 12.9% in 2023 to 6.5% in 2024, while the period-end CPI increased from 5.1% in December 2023 to 12.0% in December 2024.

The NBU maintained an approach of managed flexibility in the official Ukrainian hryvnia exchange rate, which stood at 42.04 against the US dollar as of the end of 2024, compared with 37.98 at the end of 2023. The average official rate was 40.15 in 2024, a weakening of 9% versus 12% in 2023.

Lower average inflation over the year as well as imbalances in the labor market contributed to a notable acceleration in real wage growth, which rose by 15.6% compared with 3.7% in 2023, bringing real wages above the level of 2021.

Ukraine continues to rely significantly on external funding to meet government expenditure commitments and the considerable financial demands associated with national defence.

STEEL INDUSTRY



Source: WSA, Metal Expert

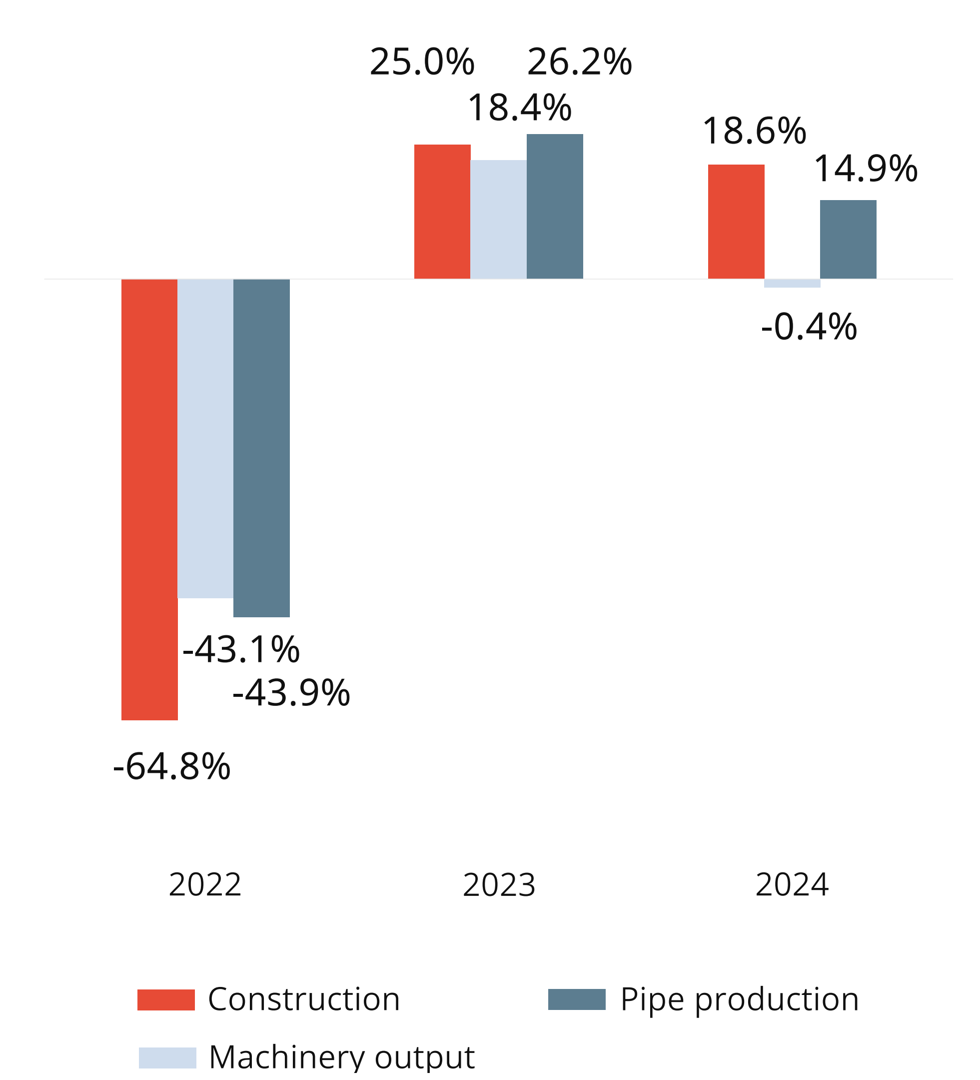
In 2024, spending on these needs accounted for around 67% of the total state budget. The state budget deficit narrowed from US$37 billion in 2023 to US$34 billion in 2024. Ukraine's international partners continued to provide substantial monetary support.

During the reporting year, the country received a total of more than US$41 billion in financial assistance, primarily US$17 billion from the EU, US$8 billion from the US, US$5 billion from the IMF, US$4 billion from Japan, US$3 billion from the World Bank and US$2 billion from Canada.

Consequently, the NBU was able to maintain record levels of international reserves, which rose by 8.1% year-on-year to c. US$44 billion at the end of 2024. Ukraine's public debt rose from US$145 billion to US$166 billion, driving the ratio of public debt to GDP up from 83% in 2023 to 91% in 2024.

In September 2024, Ukraine restructured its sovereign Eurobonds through an exchange offer, although the restructuring of some other instruments continues. As a result, the country's sovereign credit ratings were adjusted downward by S&P to 'Selective Default' (SD) and by Fitch to 'Restricted Default'. While Moody's also reviewed its rating, it remained unchanged at 'Ca', the outlook 'stable', at the year-end.

KEY STEEL-CONSUMING SECTORS



Source: State Statistics Service of Ukraine, Metal Expert

GAINS AMID ADVERSITY

Throughout 2024, Ukraine's steel industry operated in a highly complex environment shaped by continued security challenges and downward price pressure on export markets. Nonetheless, the sector demonstrated resilience, helped by the debottlenecking of logistical constraints, the gradual stabilisation of power supplies and a measured uptick in domestic demand.

The stable operation of Ukraine's maritime corridor in the Black Sea was a key factor driving the industry's partial recovery. Building on the naval route regained by the Armed Forces in late 2023, Ukrainian steelmakers were able to ship higher tonnages of slab, billets and rolled products to international customers, relieving pressure on the rail network and expanding export options.

In 2024, Ukrainian steelmakers' production of crude steel surged by 21.6% year-on-year to a total of 7.6 million tonnes. At the same time, Metinvest's crude steel output totalled 2.1 million tonnes, up 3.7% year-on-year, as its steelmaker operated two blast furnaces effectively at maximum capacity.

Meanwhile, Ukraine's apparent steel consumption climbed by 17.4% year-on-year to 4.4 million tonnes, driven primarily by an 18.6% year-on-year increase in construction and a 14.9% year-on-year rise in pipe production.

Several steel products are no longer manufactured in the country following the occupation of Mariupol and the shutdown of Metinvest's steelmakers in the city: Azovstal and Ilyich Steel. This includes railroad rails and hot-rolled plates, which are now imported.

In 2024, steel imports into Ukraine increased by 6.4% year-on-year to c.1.3 million tonnes. Imports of flat products rose by 8.3% year-on-year to c.1.0 million tonnes, amounting to 78% of total steel imports (77% in 2023).

The reopening of seaborne trade also had a strongly positive impact on Ukraine's iron ore production. The country's merchant iron ore product output increased by 50.0% to 43.2 million tonnes, according to the Group's estimates based on Ukrainian Industry Expertise (UEX) data. Meanwhile, Metinvest's overall output of iron ore concentrate surged by 41.8% year-on-year to 15.7 million tonnes.

Consequently, exports of iron ore products rose by 68.8% year-on-year to 32.1 million tonnes. The ability to resume shipments to China made it the top destination country once again, only slightly lower than the deliveries to the entire Europe.

DEVELOPMENTS AFTER THE REPORTING PERIOD

In early 2025, uncertainty remained as a result of an unclear outlook for a potential ceasefire. Despite ongoing security challenges, Ukraine's international partners sustained financial support, helping to preserve overall macroeconomic stability.

[5] Consumption in Ukraine includes flat, long and certain semi-finished products, but excludes pipes.