INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

No.8-9 (213), August-September 2018

EXECUTIVE SUMMARY

HIGHLIGHT: MACRO OUTLOOK

Politics: The negotiations between the Government and the IMF started in early September. Key topics for the negotiations included gas and heating tariffs for population, fiscal sustainability, and privatisation.

Real sector: Real GDP grew in the second quarter by 3.8% yoy. This reflected continued growth in real consumer demand and steady growth in capital investment.

Energy sector: The Government again postponed the decision on gas price increase for population.

Agriculture: Between January and July, agricultural production decreased by 1.0% yoy due to decline in crop production by 1.7% yoy.

External sector: Current account deficit reached USD 1.7 bn over the first seven months of 2018 as July current account deficit was USD 1.1 bn.

Fiscal policy: The Government submitted the Draft State Budget Law for 2019. Targets for fiscal indicators are based on realistic macroeconomic scenario.

Social policy: The Draft State Budget Law for 2019 envisages the increase in subsistence minimum calculated for all demographic groups in July and December by 4.5% and 4.7%, respectively.

Labour market: Minimum wage is envisaged to increase by 12.1% to UAH 4173 in 2019.

Monetary policy: Consumer inflation slowed to 9.0% yoy in August from 9.9% yoy in June and 13.7% yoy in December 2017.

Exchange rate: Interbank UAH/USD exchange rate weakened from UAH 26 per USD in the beginning of July and passed UAH 28 per USD mark in the end of August.

State debt: In late August, Ukraine returned to the international capital markets despite of unfavorable market conditions for public placement and suspension of the IMF financing.

Highlight of the month: Macro outlook

CHALLENGING THE FUTURE: UP OR DOWN?

By Oleksandra Betliy

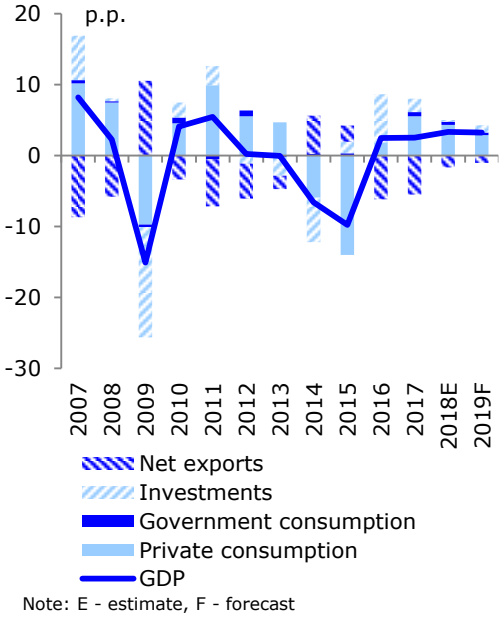
Over the recent weeks, the discussions on the macroeconomic outlook for Ukraine were high on the agenda taking into account high external and domestic risks. The FX payments on state debt are high for next several years, while the NBU was not able to increase international reserves to more safe level. The Government liquidity was also low with UAH 13 bn on government accounts at the NBU in the end of July down from peak of UAH 105 bn in November 2017. Even though the fiscal revenues improved in recent months, lower than planned deficit financing resulted in the under-execution of expenditures. This raised concerns on the possibility of the Government to finance key liabilities timely and in full. However, the hottest debates were about the future relations the IMF and the needed revision in gas pricing for households to continue cooperation.

According to the initial plan, the Government expected to receive another tranche of loan from the IMF in March or April, which would help the planned placement of Eurobonds. However, the late approval of the law on the creation of the Anticorruption Court pushed back the timeline for negotiations. As a result, the IMF mission came to discuss the terms of the next loan installment only in September. Meanwhile, the Ministry of Finance postponed the issue of regular Eurobonds bud it has secured USD 0.7 bn through private placement of six month Eurobonds at a relatively high yield estimated at 9.1% p.a. Short-term Eurobond was likely meant as bridge financing until more long-term financing is secured after conclusion of talks with the IMF. Recently, the media announced that the current EFF program with the IMF might be substituted by the new USD 4-5 bn stand-by program with revised conditionalities. In any case, to receive a loan under either old or new programme the Government will definitely have to increase gas prices for population according to its commitments taken in 2016. At that time, the Government approved the import parity approach to set gas tariffs for population, but it repeatedly delayed its application. Over time, the difference between import parity rate and tariff for population increased substantially.

If received, the IMF loan will supplement the NBU international reserves but it will not contribute directly to fiscal deficit financing. However, the IMF deal will unlock significant donor funds and will ease access to private financing for the Government. For example, continued cooperation with the IMF is among key conditions for the latest loan from the EU (MFA-IV), recently signed between Ukrainian government and the European Commission. First tranche of the MFA at EUR 0.5 bn is expected to be received in autumn 2018. The second and the last tranche under this program in the equivalent amount is scheduled for spring 2019 if the Government approves the reforms of the SFS and the Customs, ensure progress with the minimum OECD requirements on fighting tax evasion, introduce automatic verification of e-declarations, etc. The World Bank is preparing USD 650 m in policy-based guarantees to Ukraine where cooperation with the IMF is again a key condition for support. Guarantees are expected to support USD 0.8 bn in external borrowing. The Government is also expected to proceed with Eurobond issue after the IMF deal under more favourable conditions than the August placement.

Under such scenario, the Institute expects real GDP to grow by 3.3% in 2018 and by 3.2% in 2019. Consumer price inflation is projected to decelerate to 9.3% yoy in the end of this year and 8.1% in the end of 2019. Domestic demand will remain a driver of economic growth. However, it will drive both consumption and investment imports. As a result, real net exports is forecasted to make a negative contribution to real GDP growth at 1.7 p.p. in 2018 and 0.7 p.p. in 2019.

Contributions to real GDP growth



Note: E - estimate, F - forecast

The IER forecast is close to the official forecast, which is taken as a base for the Draft State Budget Law for 2019. The Government submitted the Draft Law on September 15, which complies with the Budget Code. The fiscal indicators are mostly based on the effective legislation (accounting for usual increase in excise rates, rent payments and ecology tax and few other changes in taxation) and, thus, do not account for increase in gas tariffs, which will result in higher revenue from the Naftogaz but also will increase spending for housing and utility subsidies. The Draft also does not envisage the introduction of exit capital tax. Overall, according to the official forecast, consolidated fiscal revenues are expected to reduce by 1.1 p.p. to 32.8% of GDP. Fiscal deficit is planned at about 2% of GDP, which complies with current IMF program.

However, if Ukraine loses the chance to receive assistance from the IMF and other international donors the Government will be hard-pressed to execute planned fiscal expenditures in 2018. The fiscal indicators will be also revised for 2019 to take into account lower real GDP growth, higher inflation.

Monthly Economic Monitor Ukraine

Politics: Important negotiations with the IFIs

IMF. On September, 6, the IMF mission arrived to Ukraine. The negotiations between the Government and the IMF are harsh taking into account the need to increase gas and heating tariffs for population, ensure fiscal sustainability, and launch the land market reform among other measures that also need to be introduced. Another tranche of the IMF loan to Ukraine (which will expectedly go to the NBU international reserves) will open the chances of Ukraine to receive macro-finance assistance from the EU at EUR 500 m and the World Bank guarantees for external borrowings at USD 1 bn, which would support fiscal situation.

Law enforcement and judiciary. Two competitions to the highest judicial institutions took place in Ukraine in September. The calls for applications for the positions of the judges of the Anti-corruption court and of the Supreme Courte had been opened. The deadlines were September 14 for both competitions. The results of the competitions will be important to ensure the efficient work of the judicial system in the country.

Nazar Kholodnytsky, the Chief Anti-Corruption Prosecutor (SAP), kept his position after the investigation of the Qualification and Disciplinary Commission of Prosecutors. Still, the tensions between the important anti-corruption institutions – the SAP and the NABU – remained.

In August, Roman Truba, Director of the State Bureau of Investigations, rejected all the 27 candidates that applied for senior posts in the Bureau as they did not comply with requirements. This puts the launch of the operation by the State Bureau of Investigations planned for October, 2018, under risk.

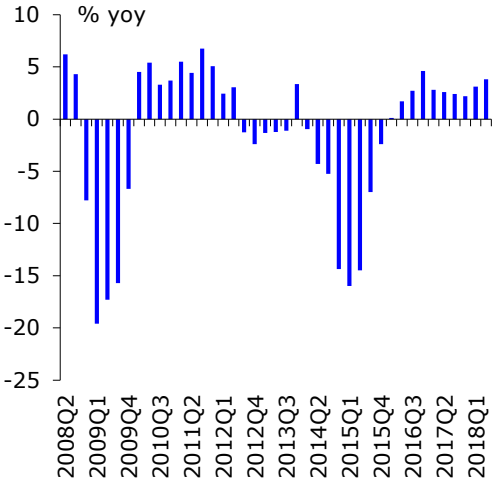
War in Donbas. The armed conflict in the eastern Ukraine continued in July and August. Combined Russian-separatist forces attacked the positions of Ukrainian armed forces. A "back to school" ceasefire set up at the end of August was repeatedly violated by the combined Russian-separatist forces. In response to the expansion of Russia's military presence in the Azov Sea, Ukraine has announced intention to increase the presence of the Navy there. It also conducted military training to deflect possible attacks from the sea. 25 service members of the Ukrainian Armed Forces were killed in the war in July and August, and 86 service members were wounded.

Attacks on activists. In July and August, attempted assassinations and physical attacks were made on several activists in different regions of Ukraine. In July, Kherson activist and city official Kateryna Handziuk was attacked with acid, which caused severe burns. She has been a critic of local police accusing them of corruption. In August, Vitaliy Oleshko, a veteran of the war in the eastern Ukraine and civic activist known for speaking out against corruption, was killed in Zaporizhya oblast. An attempt on life of investigative journalist Hryhoriy Kozma and lawyer and activist Mykhailo Kuzakon was made in August in Odesa. The string of these and other attacks on activists raised concerns of political intimidation and police inaction.

Environmental emergency. Toxic gas sulphur dioxide was released into the air by the chemical plant Crimea Tytan, which is located in the northern part of Russia-occupied Crimea in August as a result of the evaporation of acid. Due to the wind, toxic emissions have also reached some parts of Kherson oblast in mainland Ukraine. As a result, residents of the two regions suffered chemical burns and had breathing problems. As a result, Ukraine started evacuation of children and pregnant women from several localities. At the same time, Russian authorities understated the environmental impact of the contamination for weeks after it happened insisting that it was not a threat to public health. The statements from Russian authorities on the alleged suspension of the plant operation had not been confirmed.

Population (without Crimea): 42.5 m
Industry/GVA: 26%
Agriculture/GVA: 12%
Investment/GDP: 16%
Exports: EU 35%, Asia 27%, Russia 13%
Imports: EU 72%, Asia 19%, Russia 13%

Real GDP growth



Source: Ukrstat

Institute for Economic Research
and Policy Consulting
Reytarska 8/5-A, 01034 Kyiv
Fax (+38044) 278-6336
E-mail: institute@ier.kiev.ua
http://www.ier.com.ua

Real sector: Real GDP growth grew by 3.8% yoy in the second quarter

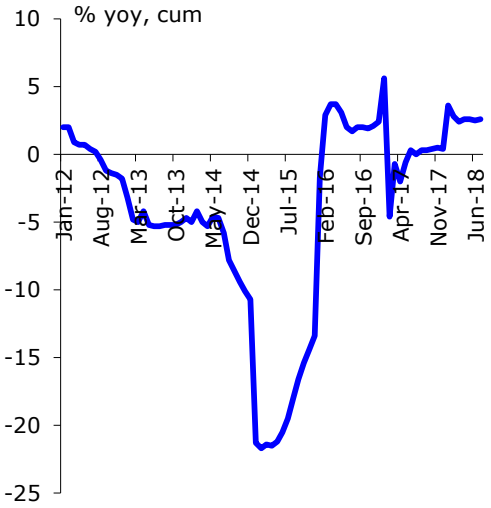
GDP. Real GDP grew in the second quarter by 3.8% yoy. This reflected continued growth in real consumer demand at 4% yoy and steady growth in capital investment at 14% yoy. Consumer demand and capital investment growth slowed down slightly from previous quarter due to higher statistical base. At the same time general government consumption increased by 11% yoy after falling in the first quarter. Real exports was almost unchanged as lower agricultural exports offset growth in steel export volumes. Real imports increased by 3% yoy as imports of machine building products continued to grow. Contribution of net real exports to GDP growth remained negative at 2.7 p.p.

On the production side, agriculture and service sectors such as trade, IT and transport led the growth. Real value added in agriculture jumped by 19% yoy due to earlier start of harvesting. Real GVA in the industry grew by 2.0% yoy.

Sectoral trends. Industrial output increased by 2.9% yoy in July. Mining production grew by 4.5% yoy as oil extraction jumped by 20% yoy and metal ore extraction grew by 8% yoy. This reflected new capacities coming online. Manufacturing output grew by 2.3% yoy in July due to higher production in the chemical industry, metallurgy and machine building. Metallurgy output grew by 6% yoy in response to increase in external demand despite logistical difficulties. Machine building output grew by 1% yoy as strong growth in production of auto parts and railway equipment offset lower defence orders. Food production dropped 5% yoy as lower input stocks limited output. Among others, sunflower oil production dropped by over 37% yoy.

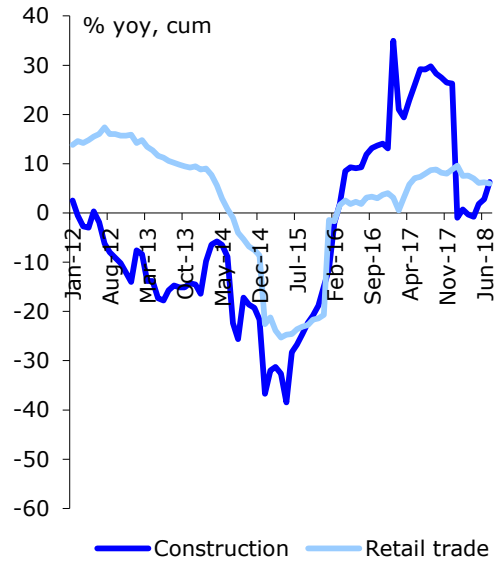
Retail sales in July grew by 6.6% yoy as consumer incomes continued to grow. Construction increased by 11% yoy in July as spending on road construction and other infrastructure grew significantly. Building construction was lower than in previous year.

Industrial output



Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Real sector trends



Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Energy: State coal mines are in crisis

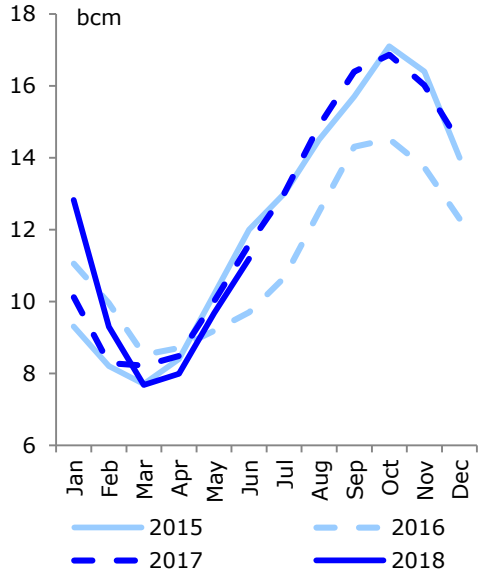
Coal. On July 13, the Parliament transferred UAH 1.4 bn for subsidies to the state coal mines to cover wage payments from a special budget program "Support of implementation of the electricity market". Additional UAH 100 m were transferred to wage payments of coal miners on August 22 from the occupational safety at coal mines program. According to the Ministry of Energy data, the total losses of the state coal mines in the first half of 2018 reached UAH 1.7 bn, coal production by state mines decreased by 10.5% yoy to 16.5 m tones. Cost of coal production exceeds the coal price partially due to low productivity and excessive number of employees. This results in wage arrears and requires UAH 3 bn of subsidies annually.

Gas. On August 3, the National Energy and Utilities Regulatory Commission (NERC) adopted the Development Plan for the Ukrtransgaz gas storage facilities for 2018-2027. The company plans to modernize four compressor stations and remove bottlenecks in the gas transportation system for UAH 13 bn.

The Government again postponed the decision on gas price increase for population. However, it is expected that a respective decision will be likely taken in mid-October as this is among the key topics for the negotiation with the IMF mission.

Energy efficiency. The Ministry for Regional Development, construction and utilities on August 28 created a nomination committee for selecting the members of the Supervisory board of the Energy Efficiency Fund. The committee consists of six members representing the EU (Head of the Projects Department of the "Economic Cooperation, Electricity, Infrastructure and Habitat" Project of the Ukrainian Delegation of the European Union Johannes Bauer and expert of the Support Group for Ukraine Krzysztof Gierulski), German government (Project Manager of GIZ Robert Kuenne) and the Cabinet of Ministers of Ukraine (Deputy Regional Development Minister Eduard Kruhliak, Deputy Finance Minister Yuriy Heletey and Director of the economic development department of the Cabinet's

Gas stocks in 2015-2018



Source: Ministry of Energy

Secretariat Valentyna Yashchuk). The commission would determine requirements for candidates and define the list of documents for participating in the competition, as well as the procedure and stages of selection, including the criteria for evaluating members of the fund's supervisory board.

Agriculture: Results of early grain harvesting campaign

Production. Between January and July, agricultural production decreased by 1.0% yoy due to decline in crop production by 1.7% yoy. By the end of August, harvesting campaign of early grains and leguminous crops has been finalized. Harvest of early grain and leguminous crops declined by 7.5% yoy to 34.5 m t due to decrease in average yields from 3.9 t per ha (in 2017) to 3.5 t per ha. Still, the total grain harvest is expected to increase this year. Recently, the Ministry of Agrarian Policy and Food increased its grain forecast from 60 m t to 63 m t.

During first seven months of the year total livestock production remained on the level of 2017 due to increase in egg production (by 2.6% yoy) and poultry slaughter (by 5.0% yoy) as poultry number increased by 4.5% yoy. However, milk production decreased by 2.0% yoy. As of 1st of August, the number of cows decreased by 4.3% yoy and the number of pigs fell by 4.9% yoy.

Trade. In the first half of 2018 agricultural and food exports reached USD 8.5 bn (decreased by 1.7% yoy) comprising 36.7% of total Ukrainian export. Crops and vegetable oils constituted largest share of agricultural exports. However, exports of fats and vegetable oils dropped by 7% yoy or USD 172 m due decline in the supply of sunflower oil to Turkey, Egypt and China. Moreover, exports of crop production declined by 2.4% yoy or USD 102 m due to decrease of corn and barley exports.

Asian countries' share in the total exports of agrarian products amounted to 43.2%. Ranking main importers' has been traditionally led by India (USD 1.1 bn), the second place is held by Egypt (USD 576 m) and the third – by China (USD 527 m). Ukrainian horticultural exports increased by 59% yoy reaching USD 100 m, of which USD 64 m constituted exports of walnuts. Imports amounted to USD 2.6 bn (increased by 23% yoy), which contributed to a positive foreign trade balance of USD 5.9 bn.

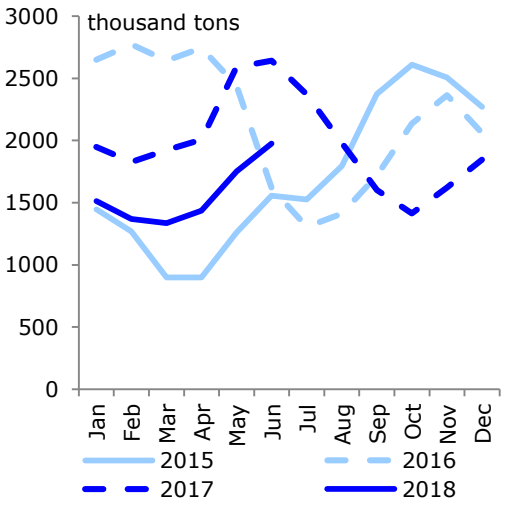
Policy. In August the President signed several laws in the sphere of agricultural regulation and food security, which were approved by the Verkhovna Rada during previous parliament session. First, the Law on stimulation of the creation and development of family farms envisages that family farmers can register as tax payers under the fourth group of simplified taxation system. All land taxes are to be paid at the location of the land plot.

On July, 30, the President of Ukraine signed Law on basic principles and requirements for organic production, circulation and labeling of organic products. The law sets requirements to the production and distribution of organic goods in accordance with European and world standards and introduces state control over the economic activity of the participants of the organic market.

Second, the President signed the Law on amending certain legislative acts of Ukraine on regulating the implementation of certain phytosanitary procedures, which envisages the involvement of the private sector to the conducting phytosanitary examination of crop production. That will expand the network of phytosanitary laboratories, reduce the time to follow the relevant procedures and help avoid duplication of operations, improve the quality of procedures and help minimize the costs for farmers. The Law contributes to the harmonization of Ukrainian legislation in the field of quarantine of plants with the requirements of the EU.

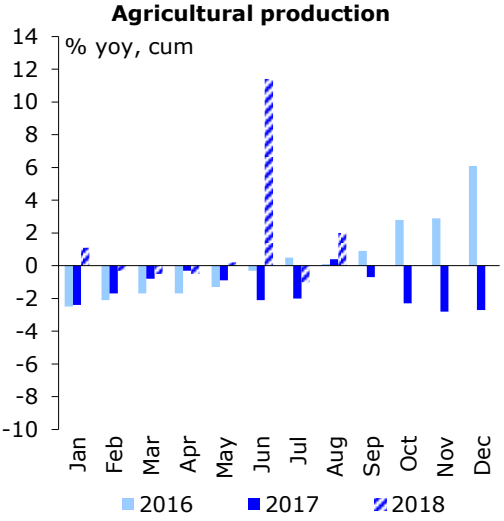
Another important Law attempts to solve the issue of collective ownership of land, improve agricultural land use regulations, prevent land raiding and stimulate irrigation in Ukraine. The Law, in particular, recognizes that the land of liquidated collective agricultural enterprises will be transferred to the property of the territorial

Coal stocks at TPPs



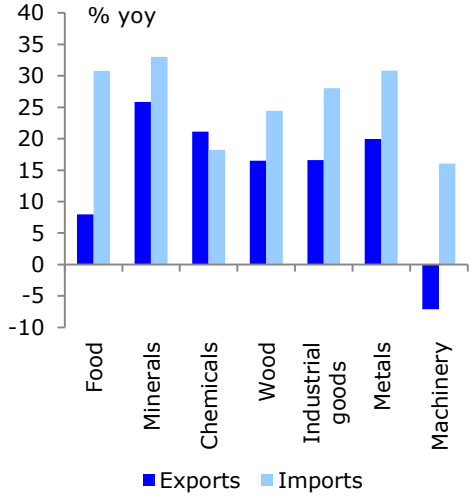
Source: Ministry of Energy, Ukrenergo

Agricultural production



Source: Ukrstat

Trade in goods in Jan-May 2018



Source: NBU preliminary estimates

communities. The Law allows to lease field roads and field-protective forest bands. Tenants of the land in a particular land "masiv" will be able to exchange land plots without the consent of the lessor, while remaining responsible for the execution of the lease agreement. Moreover, tenants that lease 75% of the total land "masiv" area will receive a preferential right to lease/sublease other land plots, with the provision that its owners (leaseholders) will receive equivalent land plots in the same land "masiv".

The President also signed the Law on amendments to the Tax Code the exemption from VAT on export operations outside the customs territory of Ukraine will be valid from September, 2018, to end of December, 2021, for soybeans and from January, 2020, to end of December, 2021, for rapeseed producers of the indicated oilseeds.

External sector: Current account deficit widened to USD 1.7 bn between January and July

Current account. Current account deficit reached USD 1.7 bn over the first seven months of 2018 as July current account deficit was USD 1.1 bn. Large current account deficit in July reflected record merchandise trade deficit at USD 1.7 bn (largest since 2013). Trade in services was close to balance in July due to seasonal increase in travel imports. Net investment payments reached USD 0.7 bn due to higher dividend pay-outs. Increase in net inflow of secondary income and wages (remittances) to USD 1.3 bn limited current account deficit.

Merchandise exports grew by 12% yoy in dollar terms in July. Steel exports increased by 20% yoy from low statistical base despite logistical problems and repairs on some of the steel mills. Agricultural exports grew by 8% yoy due to higher wheat exports and expansion of meat exports to the EU. Exports of other goods increased by 12% yoy.

Merchandise imports jumped by 25% yoy in July after it slowed in June possibly due to enhanced customs checks. Imports of mineral products jumped by 33% yoy due to higher energy prices. Growing investment and consumer demand pushed imports of machinery and equipment up by 16% yoy to the second highest level since 2013. Imports of other items grew by 26% yoy as importers adapted to changes in customs procedures.

Financial account. Capital inflows under financial account reached USD 1.8 bn in the first seven months of 2018. Public sector was mostly inactive over the period and recorded USD 56 m in net capital outflows. Bank sector recorded USD 679 m in FDI inflows (mostly debt-to-equity conversions and reinvested profits) and USD 477 m in other outflows. Real sector raised USD 644 m in net FDI between January and July. Real sector debt inflows were USD 750 m mostly reflecting increase in external debt of private sector companies while trade credit transactions were balanced.

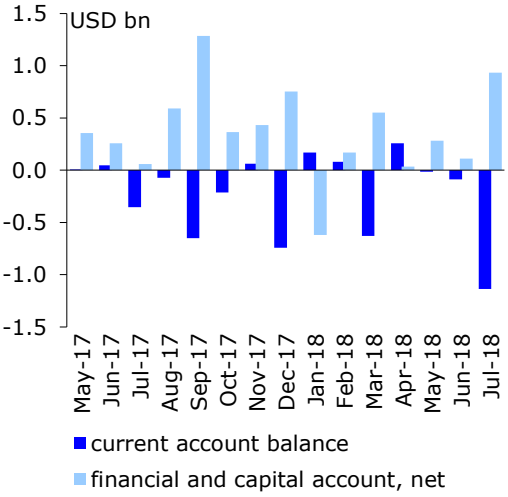
Fiscal policy: Realistic Draft State Budget for 2019

Fiscal situation in 2018. The fiscal situation improved in August 2018. At the beginning of September there were UAH 27.1 bn at the Single Treasury Account as compared to about UAH 2.0 bn one month before. The likely reason for such improvement were good collection of enterprise profit tax, which is paid quarterly and which likely exceeded UAH 22 bn received in May. The funds attracted from the Eurobonds placement likely remained in foreign currency at the government account at the NBU.

According to the preliminary information of the State Treasury, central fiscal revenues in first eight months of the year were still by 3% lower than planned. Tax revenues were close to the plan, while non-tax revenues lagged behind. This likely reflected lower than projected profit transfers from state-owned enterprises and the NBU

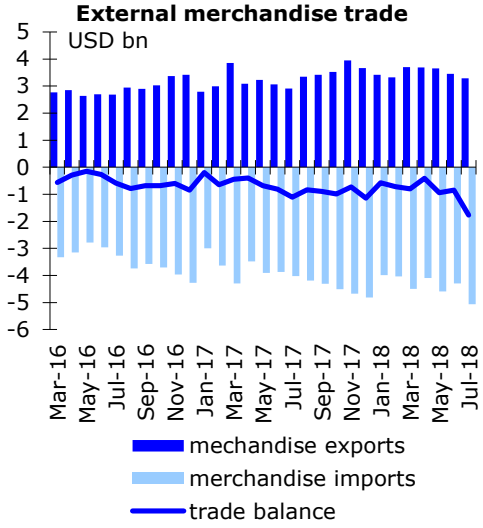
Draft Budget – 2019. The Government submitted the Draft State Budget Law for 2019 to the Parliament. Targets for fiscal indicators are based on realistic macroeconomic scenario. Real GDP is forecasted to grow by 3.0% in 2019, and CPI is projected at 7.4%

Balance of payments



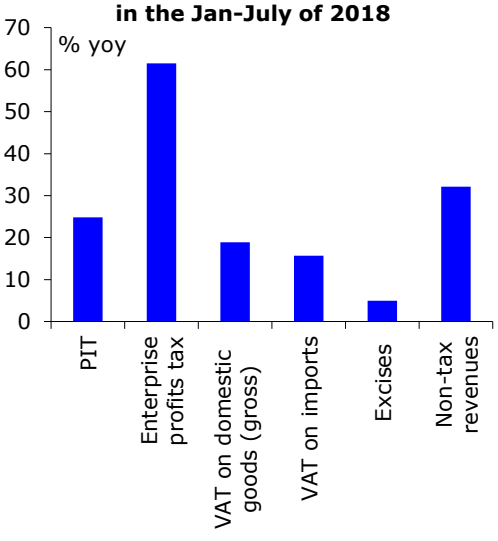
Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

Growth of Consolidated fiscal revenues in the Jan-July of 2018



Source: State Treasury reports

yoy in December. Currently, the Draft Budget is based mainly on existing tax legislation. Only minor changes in the Tax Code and Budget Codes including the indexation of rates of excises, rent payments, and ecological tax are accounted for in the budget. It does not include the impact of the likely increase in gas tariffs for population and the possible introduction of exit capital tax on the revenues and expenditures.

Central fiscal revenues are planned to increase by 9.9% as compared to the 2018 plan, but they will reduce in relation to GDP by 1 p.p. to 25.5%. Tax revenues will grow by 11.7% due to higher revenues from all key taxes; the structure of tax revenues will not change significantly. At the same time, non-tax revenues will decline due to lower NBU transfer of profit and absent one-off revenues from sale of 4G license.

Central fiscal expenditures target will increase by 9.8%. Distribution of expenditures will not change substantially. Still, the share of expenditures on general government functions and inter-budgetary transfers is expected to reduce (the latter reduces largely due to lower planned subvention for housing and utility subsidy). The Government envisages the financing of healthcare reform, including several regional pilots in secondary healthcare level and in emergency medicine.

Central fiscal deficit is envisaged at UAH 89 bn or 2.25% of GDP, which complies with the criteria in the IMF program. However, the sources of deficit financing raise concerns, if the Government does not continue cooperation with the IMF. The privatization receipts are planned at UAH 17 bn, while external borrowings are envisaged at USD 4.2 bn.

The Budget debates in the Parliament are likely to be hot considering coming Presidential and Parliament elections. The fiscal indicators in the finally approved Law may be much more optimistic than in currently submitted by the Government draft.

Social policy: Restricted increase in social standards in 2019

The Draft State Budget Law for 2019 envisages the increase in subsistence minimum calculated for all demographic groups in July and December by 4.5% and 4.7%, respectively. On average, it will remain close to 2018 level in real terms.

Minimum pension for retired individuals that have required insurance record (26 years in 2019) will be set at 40% of minimum wage or UAH 1669 for all year. Minimum pension for all other individuals that reached retirement age will increase in line with subsistence minimum from UAH 1497 in December 2018 to UAH 1638 in December 2018. Pensions will also be indexed in March 2019 (at the level fixed by the separate Government decision). Overall, the central fiscal transfer to the Pension Fund for financing state pension programs and the Fund's deficit will be increased by about 20% to UAH 166.5 bn.

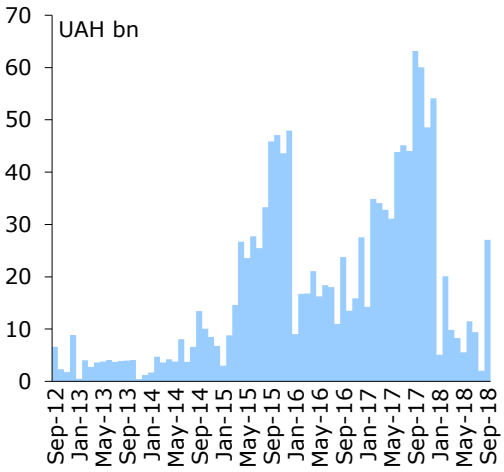
Labour market: Careful increase in minimum wage

Minimum wage is envisaged to increase by 12.1% to UAH 4173 in 2019. It is estimated to grow by about 3% in real terms on average next year. This is a conservative increase considering scheduled elections. Besides, in 2018 Budget Law the government was required to consider increasing minimum wage to UAH 4200 by the middle of 2018. Thus, there is a risk that MPs will increase minimum wage further for next year.

Monetary policy: Inflation slowed to 9.0% yoy in August

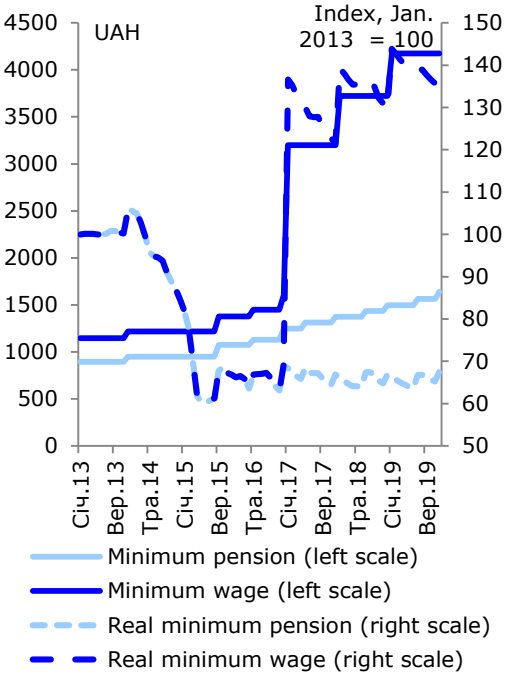
Consumer inflation slowed to 9.0% yoy in August from 9.9% yoy in June and 13.7% yoy in December 2017. Food price growth slowed down even more to 7.1% yoy from 18.3% yoy in December. This reflected good harvests of cereals, fruit and vegetables and falling global food prices (apart from wheat and maize). Non-food inflation remained low despite recent increase in exchange rate volatility. The

Balance of the Single Treasury Account



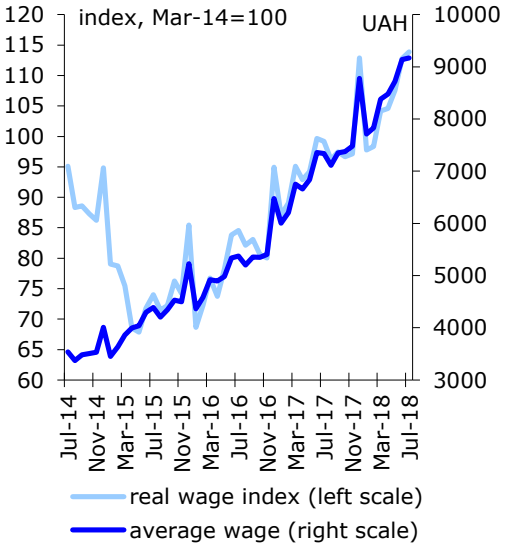
* in the beginning of month
Source: State Treasury

Minimum wage and minimum pension



Source: State Budget Laws, Draft Budget law for 2019 , IER estimate

Average wage*

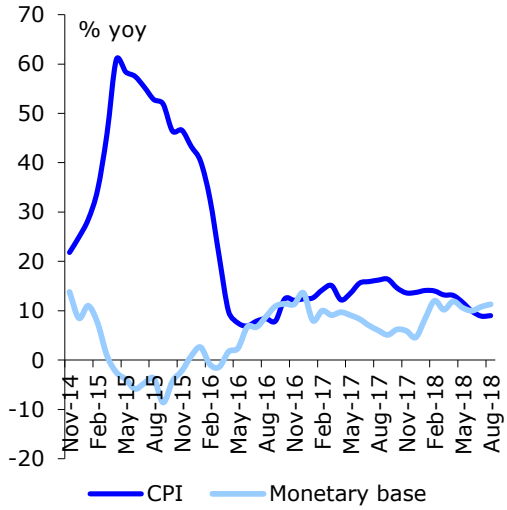


*not including AR Crimea
Source: Ukrstat

Government also so far kept electricity and natural gas tariffs for households unchanged. Still, prices for services grew faster than headline inflation due to wage growth and higher oil prices added to prices of transport services.

The NBU in September again increased policy rate to counter rising inflation risks and to rein in inflation expectations. Policy rate in total increased by 2 p.p. to 18% p.a. so far in 2018. This decision was expected as inflation pressure increased in response to weakening hryvnia.

CPI and monetary base development



Source: Ukrstat, NBU

Exchange rate: Hryvnia weakened to over UAH 28 per USD

Interbank UAH/USD exchange rate weakened from UAH 26 per USD in the beginning of July and passed UAH 28 per USD mark in the end of August. This reflected increase in depreciation expectations, higher demand for cash foreign currency, seasonal weakening of export revenues and increase in imports. The NBU worked to reduce volatility and sold USD 0.6 bn in July and August. As a result, the NBU international reserves reduced to USD 17.2 bn in August from USD 18.0 bn in June.

State debt: Medium-term State Debt Management Strategy for 2018-2020 was approved

The Debt Management Strategy. On August 22, the Ministry of Finance approved the Medium-term State Debt Management Strategy for 2018-2020. The targets of direct state debt in relation to GDP was set at 60.0%, 52.2% and 49.0%, respectively for 2018-2020. The Government decreased the targets compared to the Debt Strategy for 2017-2019 (66% of GDP, 62% of GDP and 58% of GDP, respectively).

The Strategy includes measures aimed at decreasing the share of FX-denominated debt, which remains high (70% of total state debt as of the 31th of July). In particular, domestic market development as well as issuance of government bonds in hryvnia for international investors are expected to improve the currency structure of the state debt and contribute to higher debt sustainability.

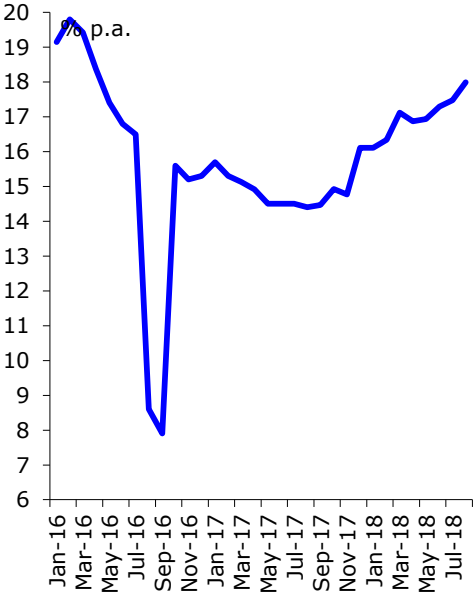
Positive feature of new Strategy is the creation of the Debt Management Agency aimed at the strengthening institutional capacity in the sphere of state debt management. Such agencies exist in some countries to ensure efficient debt management.

Domestic debt. In July and August, domestic borrowings increased to UAH 4.5 bn and UAH 8.0 bn respectively. The weighted average yield increased to 18.0% compared to 17.3 in June (and 16.1% in January) at the background of increased key policy rate by the NBU. Short-term bonds prevailed: near 91.0% of bonds were with maturities of up to one year, including 3-6-month bonds, which had the most demand.

The yields for FX-denominated government domestic bonds increased as well (from 5.47% to 5.79% for USD and 5.25% to 5.79% for EUR) due to higher needs for FX-debt refinancing and lower than expected demand for local currency bonds with longer maturities. The Ministry of Finance placed USD 513 m of USD-denominated bonds (mostly half-year) and EUR 130 m of 2- and 11-month EUR-denominated bonds.

External debt. In late August, Ukraine returned to the international capital markets despite of unfavorable market conditions for public placement and suspension of the IMF financing. It made a private placement of short-term Eurobonds with principle of USD 725 bn at a high yield of 9.11% p.a. The bonds have only 6-months maturity, which signals expectations of the Government to reach an agreement with the IMF on further assistance.

Weighted average yield for domestic state bonds



Source: NBU

Tables

		Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial production (real)	% yoy cum.	2.5	2.8	-0.7	0.3	0.3	0.4	2.4	2.5	0.3	0.4	0.5	0.4	3.6	2.8	2.4	2.6	2.6	2.5	2.6	…
Construction (real)	% yoy cum.	17.3	17.4	25.4	29.2	28.3	26.3	-0.3	2.8	28.3	27.5	26.5	26.3	-1.0	0.7	-0.3	-0.8	1.8	2.8	6.3	…
Agricultural production (real)	% yoy cum.	0.9	6.3	-0.8	-2.1	-0.7	-2.7	-0.5	11.4	-0.7	-2.3	-2.8	-2.7	1.1	-0.3	-0.5	-0.5	0.2	11.4	-1.0	2.0
Retail trade turnover (real)	% yoy cum.	3.3	4.0	3.1	7.3	8.8	8.8	7.6	6.2	8.8	8.2	8.0	8.8	9.6	7.5	7.6	7.0	6.1	6.2	6.6	7.5
Average wage	UAH	5311	5744	6323	6953	7268	7878	7974	8749	7351	7377	7479	8777	7711	7828	8382	8382	8725	9141	9170	…
CPI	% yoy eop	7.9	12.4	15.1	15.6	16.4	13.7	13.2	9.9	16.4	14.6	13.6	13.7	14.1	14.0	13.2	13.1	11.7	9.9	8.9	9.0
PPI	% yoy eop	19.6	35.7	38.3	26.3	22.4	16.5	15.9	18.4	22.4	18.8	18.4	16.5	22.0	19.6	15.9	14.1	16.5	18.4	18.1	19.3
Exports (USD)*	% yoy cum.	-7.9	-3.9	28.7	21.3	19.0	16.9	9.4	11.3	19.0	18.7	18.1	16.9	19.0	15.0	9.4	11.4	11.7	11.3	11.4	…
Imports (USD)*	% yoy cum.	0.9	4.5	20.6	22.4	19.7	18.9	12.1	12.6	19.7	20.1	19.7	18.9	27.4	17.7	12.1	12.9	13.2	12.6	14.0	…
Trade balance*	USD bn cum.	-2.3	-4.1	-1.3	-3.1	-5.8	-8.6	-1.9	-3.8	-5.8	-6.7	-7.4	-8.6	-0.5	-1.2	-1.9	-2.2	-3.0	-3.8	-5.5	…
Current account**	USD bn cum.	-1.2	-1.3	-0.4	-0.1	-1.2	-2.1	-0.7	-0.6	-1.2	-1.4	-1.3	-2.1	0.1	0.1	-0.7	-0.5	-0.5	-0.6	-1.7	…
Gross international reserves	USD bn eop	15.6	15.5	15.1	18.0	18.6	18.8	18.2	18.0	18.6	18.7	18.9	18.8	18.6	18.4	18.2	18.4	18.2	18.0	17.8	17.2
Monetary Base	% yoy eop	10.6	13.6	9.1	8.3	5.1	4.6	10.2	6.2	5.1	6.2	5.9	4.6	8.4	12.0	10.2	11.9	10.6	10.0	10.8	11.3
Lending rate on UAH credits	% pa, aop	17.3	14.7	15.7	15.1	14.4	16.1	16.9	17.9	14.9	15.1	16.3	17.0	16.3	17.0	17.5	17.7	17.9	18.0	17.9	18.8
Exchange rate (interbank)	USD aop	17.27	25.90	27.09	26.44	25.93	26.97	27.27	26.18	26.18	26.67	26.73	27.52	28.43	27.09	26.29	26.13	26.17	26.23	26.44	27.55
Exchange rate (official)	USD aop	25.40	25.67	27.06	26.46	25.91	26.97	27.32	26.18	26.11	26.65	26.71	27.54	28.43	27.17	26.34	26.15	26.18	26.20	26.40	27.48
Exchange rate (official)	EUR aop	25.58	28.18	28.81	29.06	30.38	31.76	33.56	31.27	31.08	31.38	31.32	32.58	34.60	33.59	32.50	32.14	31.01	30.65	30.83	31.75

Sources: Ukrstat, NBU, own calculations

* Trade in goods and services

** Monthly data are according to the preliminary estimates provided by the NBU

Key Economic Indicators		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010[C]	2011[C]	2012[C]	2013[C]	2014[C]	2015[C]	2016[C]	2017[CP]
Nominal GDP	UAH bn	170	204	226	267	345	442	544	721	948	913	1079	1300	1405	1465	1587	1989	2385	2983
Nominal GDP	USD bn	31.3	38.0	42.4	50.1	64.9	86.2	107.8	142.7	179.9	117.2	136.0	163.1	175.8	183.3	133.7	91.0	93.4	112.2
GDP growth (real)	% yoy	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.9	2.3	-14.8	4.1	5.5	0.2	0.0	-6.6	-9.8	2.4	2.5
Industrial production	% yoy	13.2	14.2	7.0	15.8	12.5	3.1	6.2	7.1	-5.0	-20.6	12.2	8.0	-0.7	-4.3	-10.1	-13.0	2.8	0.4
Agricultural production	% yoy	9.8	10.2	1.2	-11.0	19.7	-0.1	0.4	-5.2	17.5	0.1	-1.4	20.2	-3.9	13.6	2.2	-4.8	6.3	2.7
CPI	% yoy aop	28.2	12.0	0.8	5.2	9.0	13.5	9.1	12.8	25.2	15.9	9.4	8.0	0.6	-0.3	12.1	48.7	13.9	14.4
CPI	% yoy eop	25.8	6.1	-0.6	8.2	12.3	10.3	11.6	16.6	22.3	12.3	9.1	4.6	-0.2	0.5	24.9	43.3	12.4	13.7
PPI	% yoy aop	20.9	8.6	3.1	7.6	20.5	16.7	9.6	19.5	35.5	6.5	20.9	19.0	3.7	-0.1	17.1	36.0	20.5	26.4
PPI	% yoy eop	20.8	0.9	5.7	11.1	24.1	9.5	14.1	23.3	23.0	14.3	18.7	14.2	0.3	1.7	31.8	25.4	35.7	16.5
Exports (gs, USD)	% yoy	17.9	9.5	10.7	24.0	42.6	7.5	13.4	27.0	34.3	-36.9	26.0	27.5	3.4	-5.5	-19.9	-27.0	-4.0	16.9
Imports (gs, USD)	% yoy	18.9	14.1	4.9	28.7	31.3	20.4	22.6	35.232	39.3	-44.2	28.8	34.8	7.5	-3.5	-28.1	-29.3	4.4	18.9
Current account	USD bn	1.5	1.4	3.1	2.9	6.9	2.5	-1.6	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-16.5	-4.6	-0.2	-3.8	-2.1
Current account	% GDP	4.8	3.7	7.3	5.8	10.6	2.9	-1.5	-3.7	-7.1	-1.5	-2.2	-6.3	-8.2	-9.0	-3.4	-0.2	-4.0	-1.9
FDI (net)	USD bn	0.6	0.8	0.7	1.4	1.7	7.5	5.7	9.218	9.9	4.7	5.8	7.0	7.2	4.1	0.3	3.0	3.3	2.2
International reserves	USD bn	1.5	3.1	4.4	6.9	9.7	19.4	22.4	32.5	31.5	26.5	36.7	31.8	31.4	20.4	7.5	13.3	15.5	18.8
Fiscal balance'''	% GDP	-0.7	-1.9	0.8	-0.2	-3.0	-1.9	-0.7	-1.1	-1.5	-2.4	-6.0	-1.8	-3.6	-4.4	-4.6	-1.6	-3.1	-1.4
Total state debt	% GDP eop	45.3	36.5	33.5	29.0	24.7	17.7	14.8	12.5	19.9	33.0	40.0	36.0	37.5	39.9	69.4	79.1	81.0	71.8
External state debt (total)	% GDP eop	33.0	26.3	24.1	21.4	18.6	13.4	11.7	9.8	15.0	21.5	25.6	22.8	22.1	20.5	38.5	52.4	52.0	46.1
Monetary base	% yoy eop	39.9	37.4	33.6	30.1	34.1	53.9	17.5	46.0	31.5	4.4	15.8	6.3	6.4	20.3	8.5	0.8	13.6	18.8
Exchange rate	USD aop	5.44	5.37	5.33	5.33	5.32	5.12	5.05	5.05	5.27	7.79	7.94	7.97	7.99	7.99	11.87	21.84	25.55	26.60
Exchange rate	USD eop	5.44	5.30	5.33	5.33	5.31	5.05	5.05	5.05	7.70	7.98	7.96	7.99	7.99	7.99	15.77	24.00	27.19	28.07
Exchange rate	EUR aop	5.03	4.81	5.03	6.02	6.61	6.39	6.34	6.92	7.71	10.87	10.53	11.09	10.27	10.61	15.72	24.23	28.29	30.00
Exchange rate	EUR eop	5.10	4.67	5.53	6.66	7.22	5.97	6.65	7.42	10.86	11.68	10.57	10.57	10.30	11.04	19.26	26.22	28.42	33.50

Sources: Ukrstat, NBU, Ministry of Finance, own calculations

''' "Minus" denotes a consolidated fiscal deficit; without recapitalisation

[C] Data excludes Crimea where available

P - preliminary data

Notes:

avg	average	**ytd**	year-to-date	**NBU**	National Bank of Ukraine
cum	cumulative	**p.a.**	per annum	**EPT**	Enterprise profit tax
mom	month on month change	**eop**	end of the period	**VAT**	Value added tax
qoq	quarter on quarter change	**aop**	average of the period	**Ukrstat**	State Statistics Service of Ukraine
yoy	year-on-year change	**gs**	goods and services		

Quarterly trends

National accounts		Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
GDP	UAH bn	354.8	398.0	408.6	316.9	382.4	440.5	447.1	376.0	456.7	567.0	588.8	455.3	535.7	671.5	722.9	591.0	664.8	833.1	894.0	700.4	807.3
GDP (real)	% yoy	-1.2	-1.1	3.4	-1.0	-4.3	-5.3	-14.4	-16.0	-14.5	-7.0	-2.4	0.1	1.7	2.7	4.6	2.8	2.6	2.4	2.2	3.1	3.8
Household consumption (real)	% yoy	8.7	6.8	6.3	3.3	-7.8	-13.9	-12.2	-20.3	-27.0	-19.0	-13.6	-1.8	4.6	5.3	2.7	5.1	10.4	6.6	11.1	5.6	4.2
State consumption (real)	% yoy	-0.9	-1.5	-2.9	-5.9	5.2	0.1	4.5	0.9	-5.6	-0.8	11.1	1.5	-2.3	1.0	-1.6	7.9	-4.6	7.4	3.2	-1.4	11.0
Gross fixed capital formation (real)	% yoy	-18.1	-8.9	-8.7	-19.9	-19.3	-28.0	-26.5	-23.8	-14.2	-5.0	1.5	5.4	17.9	24.0	27.4	20.0	23.4	15.0	16.7	17.0	14.2
Exports of goods and services (real)	% yoy	-13.5	-6.8	-4.5	-5.1	-2.3	-16.8	-31.1	-21.9	-18.0	-6.8	-3.5	-4.1	-7.2	-4.6	9.8	-0.9	-2.1	7.2	8.8	-9.9	0.1
Imports of goods and services (real)	% yoy	-15.7	1.7	-0.6	-11.8	-10.9	-32.3	-29.6	-17.1	-27.0	-11.5	-10.5	-3.0	0.8	17.9	20.1	5.4	9.4	13.3	20.5	-5.4	3.0
Agriculture, fishing, forestry (real)*	% yoy	21.7	-2.8	36.5	5.7	-9.1	25.6	-20.6	-4.7	-11.6	-3.8	-2.5	-1.7	0.6	1.8	18.3	-0.7	-2.9	-0.1	-6.4	-0.5	19.3
Manufacturing industry (real)*	% yoy	-9.9	-10.6	-9.8	-3.2	-5.4	-12.7	-13.2	-25.2	-22.5	-9.2	-2.3	8.2	4.1	0.3	2.7	3.6	5.3	5.0	6.1	2.7	2.0
Construction (real)*	% yoy	-19.4	-8.0	-4.4	4.7	-14.0	-26.3	-30.8	-36.6	-30.6	-15.6	6.0	8.6	14.5	19.5	15.1	25.2	32.5	27.9	22.9	2.2	7.2
Trade, repair services (real)*	% yoy	-1.2	0.9	0.9	-3.0	-7.2	-18.4	-26.6	-26.5	-19.9	-14.2	2.6	3.7	7.6	3.8	1.9	3.1	3.9	5.1	7.9	5.8	3.4
Transport (real)*	% yoy	-0.8	1.3	2.7	-7.8	-10.9	-10.1	-11.0	-10.5	-2.4	0.3	2.2	6.2	3.5	0.9	2.6	4.6	3.8	5.4	3.3	0.3	2.7
Balance of payments (BPM6)																						
Current account balance	USD bn	-2.3	-6.0	-5.0	-1.3	-0.8	-1.2	-1.4	-0.1	0.8	0.8	0.1	-1.1	1.1	-1.2	-0.1	-0.5	0.2	-1.2	-0.9	-0.6	0.0
Current account balance	% of GDP	-5.1	-12.1	-9.8	-3.5	-2.5	-3.3	-4.3	-0.4	3.8	2.9	0.5	-6.0	5.2	-4.7	-0.5	-2.2	0.8	-3.8	-2.8	-2.2	0.1
Trade balance in goods	USD m	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1147	-496	-689	-1123	-1924	-665	-2128	-2225	-1451	-1923	-2828	-3170	-2091	-2186
Trade balance in services	USD m	1504	2575	1066	937	443	456	686	487	255	110	241	152	103	-170	404	103	193	134	332	238	233
Direct investment (FDI)**	USD m	496	1510	991	-665	-319	725	558	397	907	890	818	1,366	760	999	143	593	1,062	503	435	428	753
Gross international reserves	USD bn	23.2	21.6	20.4	15.1	17.1	16.4	7.5	10.0	10.3	12.8	13.3	12.7	14.0	15.6	15.5	15.1	18.0	18.6	18.8	18.2	18.0
Exchange rate (interbank), UAH/USD	aop	8.14	8.15	8.21	9.14	11.71	12.58	13.56	21.23	21.56	21.74	22.90	25.69	25.23	17.27	25.90	27.09	26.44	25.93	26.97	27.27	26.18
Exchange rate (official), UAH/USD	aop	7.99	7.99	7.99	8.86	12.71	12.58	13.56	21.18	21.62	21.69	22.33	25.68	25.26	25.40	25.67	27.06	26.46	25.91	26.97	27.32	26.18
Fiscal indicators																						
Consolidated fiscal revenues	% of GDP	29.4	28.9	28.6	35.4	29.4	24.7	27.4	37.3	34.7	29.8	31.3	35.9	32.9	27.7	35.6	37.3	41.4	29.4	30.8	35.5	32.9
Personal income tax	% of GDP	5.1	4.6	4.8	5.1	4.7	4.2	5.0	5.5	5.3	4.5	5.1	6.3	6.3	5.3	5.6	6.6	6.9	5.7	6.0	7.0	7.0
Enterprise profits tax	% of GDP	3.4	3.0	3.0	4.9	2.5	1.9	1.5	4.4	1.7	1.2	1.3	3.5	2.1	1.9	2.8	2.5	3.1	2.2	2.3	4.5	3.1
Value-added tax	% of GDP	9.0	8.1	8.4	8.7	9.5	6.8	10.1	11.4	9.1	8.0	8.2	11.7	11.4	8.1	9.3	13.6	10.2	9.1	10.1	12.1	11.1
Excise tax	% of GDP	2.6	2.3	2.2	2.5	3.0	3.0	2.8	3.3	3.4	3.0	3.1	4.1	5.1	4.1	3.9	4.4	4.3	3.7	4.0	3.7	3.7
Consolidated fiscal expenditures	% of GDP	35.8	30.1	35.9	35.2	34.7	27.2	35.5	33.5	34.9	26.1	41.9	35.1	35.5	30.7	38.6	36.6	34.2	30.7	39.9	36.0	37.8
Current expenditures	% of GDP	33.9	28.2	33.2	34.8	33.7	25.8	33.6	31.8	33.6	24.0	38.0	34.3	33.9	27.8	33.0	35.7	32.0	27.9	33.6	34.9	34.7
Capital expenditures	% of GDP	1.9	1.9	2.8	0.5	1.0	1.4	1.9	1.7	1.3	2.1	3.9	0.9	1.7	2.9	5.6	0.9	2.2	2.8	6.3	1.0	3.1
Consolidated fiscal balance	% of GDP	-6.3	-1.5	-7.3	0.1	-5.3	-2.8	-8.8	-3.7	-0.4	3.6	-10.8	0.8	-2.8	-3.0	-3.2	0.7	7.2	-1.3	-9.4	-0.4	-0.8
Privatisation receipts	% of GDP	0.0	0.2	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Banking system																						
Monetary aggregate M0	% yoy cum	9.8	12.3	17.0	19.2	31.9	28.8	19.0	6.0	-1.3	-6.2	-0.1	-5.3	0.3	8.0	11.2	7.8	7.2	4.7	5.8	11.2	11.7
Monetary aggregate M2	% yoy cum	17.9	19.2	17.5	17.7	13.4	14.2	5.4	9.0	3.1	5.6	4.0	-1.7	6.3	12.6	10.9	6.7	6.5	6.6	9.6	8.7	9.7
Household deposits in national currency	% yoy cum	26.5	33.4	38.0	7.9	-2.3	-12.3	-22.1	-19.1	-17.7	-16.6	-1.0	4.3	9.4	15.1	5.4	10.5	12.8	13.5	20.4	20.6	22.0
Household deposits in foreign currency	% yoy cum	14.7	8.4	0.9	19.8	10.2	5.5	18.0	25.4	11.6	3.7	-2.4	-16.1	-2.7	12.1	10.9	-1.5	1.4	-0.8	3.3	2.2	2.5
Com. bank credits in national currency	% yoy cum	7.4	10.2	16.9	12.3	4.9	-0.8	-9.1	-11.0	-11.8	-15.8	-20.8	-16.6	-13.3	-1.5	16.4	17.1	21.3	19.0	13.0	15.2	13.1
Com. bank credits in foreign currency	% yoy cum	-0.4	0.8	2.8	36.4	38.5	49.1	53.5	58.4	29.2	18.7	15.9	-15.0	-2.0	2.0	-9.9	-21.4	-18.3	-19.4	-9.7	-2.9	0.4
Long-term com. bank credits	% yoy cum	-2.7	-0.5	2.9	26.3	24.4	24.6	21.7	17.9	3.1	-5.7	-10.5	-18.1	-10.3	-1.1	19.2	14.8	18.7	-6.8	-5.7	-12.9	-12.1
Long-term com. bank credits	% of total	55.7	55.1	53.2	58.5	59.1	59.8	59.5	58.5	57.6	60.7	55.4	55.6	55.8	55.9	64.9	67.2	66.8	53.0	60.1	54.6	54.7
Average lending rate on national currency credits	% p.a.	15.3	15.3	16.5	18.4	17.5	16.4	16.6	19.9	23.1	21.1	20.7	20.0	20.9	17.3	14.7	15.7	15.1	14.4	16.1	16.9	17.8
Average lending rate on foreign currency credits	% p.a.	9.7	9.6	8.8	8.7	9.4	9.2	8.8	8.2	9.3	9.2	9.1	8.9	9.1	8.3	8.5	8.0	8.0	7.2	6.8	6.4	6.6

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates
* change in value added

Contact information:

Institute for Economic Research
and Policy Consulting
Reytarska St. 8/5-A, 01030 Kyiv
Tel. (+38044) 278-6342
Fax (+38044) 278-6336
E-mail: institute@ier.kiev.ua
http://www.ier.com.ua

Head of the Board-Director

Igor Burakovsky
burakovsky@ier.kiev.ua

Chief Executive

Oksana Kuziakiv
kuziakiv@ier.kiev.ua

Academic Director

Veronika Movchan
movchan@ier.kiev.ua

Centre for Economic Studies

Oleksandra Betliy
betliy@ier.kiev.ua

Vitaliy Kravchuk
Kravchyk@ier.kiev.ua

Iryna Kosse
kosse@ier.kiev.ua

Kateryna Furmanets
furmanets@ier.kiev.ua

Olha Krasovska
krasovska@ier.kiev.ua

Yevhen Anhel
anhel@ier.kiev.ua

Andrii Butin
butin@ier.kiev.ua

Center for Contemporary Society Studies

Iryna Fedets
fedets@ier.kiev.ua

Veronika Yatsyshyna
yatsyshyna@ier.kiev.ua

German-Ukrainian Agricultural Policy Dialogue

Mariya Yaroshko
yaroshko@apd-ukraine.de

Anastasiia Pylaieva
pylaieva@apd-ukraine.de

Disclaimer

The Monthly Economic Monitor of Ukraine has been prepared by the Institute for Economic Research and Policy Consulting for informational purposes only. All judgments in this report reflect authors' point of view as of date publication and can be changed without notice. Although we used our best efforts in preparing this publication, we make no guarantees as to its accurateness. The IER does not take any responsibility for any losses or other problems that directly or indirectly resulted from the use of any part of this publication. Reproduction without prior permission is prohibited; when quoting please cite Institute for Economic Research and Policy Consulting.