Monthly Economic Monitor Ukraine

No.3 (209), March 2018

EXECUTIVE SUMMARY

HIGHLIGHT: GAS MARKET

Politics: Ukraine adopted a draft law on Anti-Corruption Court in the first reading. The Parliament is expected to revise the Draft before the second reading to make it compliant with recommendations of the Venice Commission of the Council of Europe.

Real sector: Industrial output in January increased by 3.6% yoy due to the growth of manufacturing by 9.7% yoy. Retail sales increased, while the construction remained stable.

Energy sector: The net amount of payment the Gazprom should make in favour of the Naftogaz according to two ruling of the Stockholm Arbitrage Court is USD 2.6 bn.

Telecom: On March 6, the National Commission for the State Regulation of Communications and Informatization held an auction for 4G communication.

Agriculture: The Cabinet of Ministers approved the procedures for the provision of the UAH 6.3 bn of state support to the agricultural sector in 2018.

External sector: Current account remained in deficit in January at USD 61 m despite a seasonal reduction in imports.

Fiscal policy: Central fiscal revenues in the first two months of 2018 declined by 0.5% yoy due to higher VAT refunds.

Social policy: February and the beginning of March were marked by the debates on the need for the full-scale monetization of housing and utility subsidies.

Labour market: Growth of average wage in January decelerated to 28.4% yoy due to the high statistical base.

Monetary policy: Consumer inflation remained high at 14% yoy in February.

Exchange rate: Interbank UAH/USD exchange rate appreciated steadily in February due to higher export revenues, capital inflows, and lower depreciation expectations.

State debt: Non-residents' holdings of state domestic bonds increased in February.

Highlight of the month: Gas market

GAS MARKET REFORMS LEAD TO ENERGY INDEPENDENCE

By Oleksandra Betliy and Iryna Kosse

The late February was marked by the victory celebration at the Ukrainian gas market as Ukrainian Naftogaz won the case on gas transit against the Russian Gazprom at the Stockholm Arbitrage Court. The Gazprom has to pay the Naftogaz USD 4.6 bn for violating the "take or pay" clause. Together with almost USD 2 bn that the Naftogaz owes the Gazprom in the gas case, the Naftogaz net win is USD 2.6 bn. However, already on March 1, 2018, Russia used the same tactic against Ukraine as it did in 2009, namely refusing to supply gas to Ukraine. The Gazprom broke the decision reached in Stockholm on the obligation of the Naftogaz to purchase gas from Gazprom. The country was faced with the shortage of gas as well as reduced pressure in the pipeline used to transit gas to the EU. This time Russia did not reach the effect it created in 2009 and the shortage of gas was felt by Ukraine only for several days.

In 2009, the Naftogaz has signed the agreement with the Gazprom on the unfavourable conditions. 'Take or pay clause' for the 52 bcm of gas per year de facto granted the Gazprom the monopoly for the imports of gas. The defined in the agreement price was higher than USD 450. As a result, the Naftogaz in 2014 referred to the Stockholm Arbitrage Court for the renegotiation of the gas transit contract and for the decrease of the gas price in the gas supply contract for USD 30.3 bn. The Gazprom filed counterclaims for the violation of the "take or pay" clause and the gas price for USD 47.1 bn against the Naftogaz. The first decision of the Arbitrage Court on December 22 was about gas supplies: the Court ruled that the Naftogaz has to buy 5 bn cubic meters of gas annually (4 bn cubic meters on the "take or pay" condition) and has to pay the Gazprom for the gas consumed in 2014 at the German gas hub prices. The second Arbitrage ruling was on February 28 about gas transit. According to it, the Naftogaz' claims for compensation of the decrease in gas transit volumes to Europe were confirmed; however, the gas transit tariff remained unchanged.

These two seemingly unrelated rulings were nevertheless connected as both parties waited for the second ruling to determine a final course of action. The Naftogaz in January started negotiations with Gazprom on the supplementary agreement to the gas contract necessary to start buying gas in March. At the beginning of February, the head of the Naftogaz told in an interview that the agreement was ready to be signed. Other Naftogaz officials confirmed that they held two rounds of negotiations and that there is nothing to discuss with the Gazprom as all the conditions are described in the court ruling and that Gazprom understands the consequences of not signing.[1] However, the agreement was not signed. Apparently, the Gazprom waited for the second ruling to decide whether it would be profitable for it to follow the law or it would be better to ignore the decisions of the international court. As both rulings are not public, it is hard to say whether there are any penalties for the artificial delays in signing the supplementary agreement. As a result, after the second ruling taken in the favour of the Naftogaz, the Gazprom returned the Naftogaz the prepayment for gas supplies in March and rejected to supply gas to Ukraine. Besides, it reduced pressure in the pipe, which made it close to impossible to transit gas to the EU in the contracted volumes. As a result, Ukraine faced the gas shortage in the first two days of March.

In March 2018, the possibility to solve the problem of gas shortages was ensured by changes in the gas market that occurred in the last several years. Ukraine greatly reduced its dependence on Russia as the only gas supplier. It has not purchased any natural gas from Russia since November of 2015. In March 2018, it returned to Russia only to comply with the decision of the Stockholm Arbitrage Court to purchase gas from the Gazprom at 5 bcm per year. In turn, Ukraine developed other supply routes and purchased the gas from the EU. In 2017, it bought 10 bcm from Slovakia, 2.8 bcm from Hungary and 1.3 bcm from Poland. By the beginning of March, Ukraine also had sufficient amounts of natural gas stored in the underground gas storages. Already at the end of March 2, the Naftogaz was able to swiftly contract for additional gas supply from Poland (at 0.06 bcm) and increase the usage of gas from storages. Another change, which helped Ukraine to circumvent the negative impact of the Gazprom's action, was the decline in gas consumption (from 50.38 bcm in 2013 to 28.4 bcm in 2017). If the weather was not so freezing, the shortage of the gas was unlikely to be so heavily felt on the first day. The all-Ukraine public campaign "turn gas down" asking people to temporarily decrease their gas consumption initiated by the Naftogaz had also its impact on reducing gas consumption in the first day of disruption by 14%.[2]

Another component of changes that helped to solve the situation was the changes in roles played by different institutions in the gas market. The Naftogaz is now a strong independent player that can contract other companies for gas supply more easily. As a result, gas supplies are finally an economic issue rather than political contrary to many years before 2013. Besides, the Ministry of Energy created a 'crisis committee' in the first hours after the Gazprom refused to supply gas to Ukraine to explore possibilities to reduce gas consumption. In particular, the budget entities were suggested to shut down for several days (later this decision was cancelled as the gas shortage problem was solved) and thermal power stations used oil fuel instead of natural gas.

Overall, the relations with the Gazprom do not promise to be easy. It will be hard for the Naftogaz to plan its purchases this year with such an unpredictable partner. Another challenge for Ukraine is created by the chances that the Nord Stream II would be launched in the nearest future. As a result, Ukraine will lose its dominance in the transiting gas from Russia to the EU, which would reduce FX inflow to the country, but also reduce the attractiveness of Ukraine's gas transporting system for the EU member states.

Therefore, Ukraine should continue gas market reforms to ensure energy safety for the coming years. The measures are expected in several dimensions, primarily, to ensure higher own gas extraction and reduce gas consumption. Ukrainian state-owned gas extracting company Ukrgazvydobuvannya has to increase investments in geological surveys and development of new gas wells as the current wells are either on top of their capacity or nearing exhaustion. To stimulate private gas extraction companies, the Verkhovna Rada in December 2017 decreased the rent for gas extraction for the new wells from 29% to 12% for the wells up to 5 km and from 14% to 6% for the wells deeper than 5 km. These measures should help increase gas supply on the market.

Besides, the use of alternative energy should be further promoted. In particular, currently, there are already some programs that cover part of financing required to switch to alternative energy sources like pellets, straw, solar or wind energy. Ukraine might also import of liquefied natural gas as the construction of LNG terminals become economically effective investment due to decline in LNG prices.

To decrease gas consumption, Ukraine has to stimulate the population as the biggest gas consumer to save gas. The first step to this is to install gas meters in every residential building. This will help to prevent stealing gas, selling it to the industry at a lower price and will stimulate the population to avoid unnecessary gas consumption. This would require investments in the thermal insulation of the buildings, which requires the effective operation of the Energy Efficiency Fund, which is to be created in 2018. However, to be efficient the Fund requires more financing than currently foreseen for this year (at UAH 1.2 bn). Currently, Ukrainian government tries to stimulate gas savings through offering special programs "warm credits" where the state covers the majority of costs for the installation of energy efficient windows, improving the insulation of buildings. However, allocated for this financing is not sufficient to make a real impact. Besides, the Government has to finally monetize the housing and utility subsidies (HUS) to population, which would create incentives for households to save gas. This step is planned for 2019; however, there are risks of the delay in the implementation of this measure. Meanwhile, the allocated for the HUS UAH 71 bn do not create incentives for gas savings.

Energy market reforms are also needed to keep Ukraine's gas transportation and storage system attractive for the EU. Ukraine has to fulfill the obligations in the framework of the Third Energy Package of the Energy Community. This includes primarily unbundling of the Naftogaz into three companies: for extracting, transporting and selling of oil and gas. The EU needs the final decision on the unbundling procedure to understand what company will be the contractual partner. In April 2017, the Naftogaz, the Ukrtransgaz, Snam (Italy) and Eustream (Slovakia) signed a memorandum of understanding aimed at jointly evaluating opportunities for collaboration in the operation and enhancement of the gas transport system (GTS) in Ukraine and several other companies expressed their interest to join. The EU is interested in ensuring further transit of gas via Ukraine and in further usage of its underground storage facilities but needs certainty about transit mechanisms[3].

To sum up, Ukraine has launched gas market reform. It has led to higher energy independence and facilitated faster decision making during shocks at the gas market. However, the Government should stay on the reform path to ensure the EU interest in Ukrainian gas transportation system, the modernization of which requires substantial investments.

1 https://goo.gl/yd4aTa and https://goo.gl/BL8MU6
2 https://goo.gl/59jSWU
3 http://en.interfax.com.ua/news/economic/449896.html

Monthly Economic Monitor Ukraine

Politics: Ukraine adopted a draft law on Anti-Corruption Court in the first reading

Corruption. In early March, the Verkhovna Rada passed the law on Anti-Corruption Court in the first reading. The law envisages the creation of the specialized court that would complete the country's anti-corruption law enforcement system that already includes such agencies as the National Anti-Corruption Bureau, the National Agency on Corruption Prevention, and the Specialized Anti-Corruption Prosecutor's Office. The bill was submitted by President Petro Poroshenko amid the criticism by Ukraine's western donors that it is not compliant with the requirements of the IMF and with the recommendations of the Venice Commission of the Council of Europe. Civil activists, politicians, and international organisations expect that the draft law will be amended during its preparation for the second reading in compliance with these recommendations.

The war in Donbas. The armed conflict in the eastern Ukraine continued in February. Combined Russian-separatist forces attacked the positions of Ukrainian armed forces. A combat medic was killed by the combined Russian-separatist forces in Luhansk oblast where she was providing medical aid to civilians. A civilian was wounded in Donetsk oblast as a result of the attacks by the combined Russian-separatist forces. 8 service members of the Ukrainian Armed Forces were killed in the war in February, and 45 service members were wounded.

Customs. The European Union stopped financing the projects on modernization of six border crossing points on the western border of Ukraine. This happened because Ukraine was not able to finalize the projects in time. Now, Ukraine should reimburse allocated but unspent EU financing provided for this purpose. Therefore, if the financing is not restored Ukraine will lose a chance to modernize border crossing points, which was expected to shorten border crossing time and to improve customs procedures.

Judiciary and government appointments. The Constitutional Court judge Stanislav Shevchuk was elected as the Chairperson of the Constitutional Court of Ukraine. The position of the Chairperson had been vacant since March 2017.

The former manager of a private clinic Oleh Petrenko was appointed as the chief of the National Health Service of Ukraine (NHSU). The National Health Service is a government agency established within the healthcare reform. The NHSU will be responsible for setting tariffs for healthcare, contracting health facilities, and paying them for delivered healthcare. The first contracts are expected to be signed already in June, even though the NHSU has not yet been formed.

Real sector: Growth in industry, but stable construction

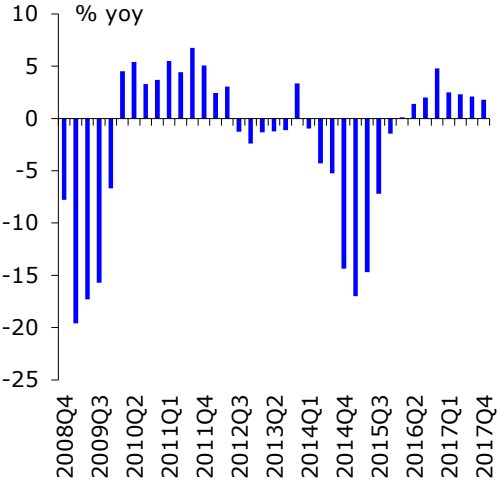
Sectoral trends. Industrial output in January increased by 3.6% yoy due to the growth of manufacturing by 9.7% yoy. Chemical production surged by 55.9% yoy from the low statistical base. Higher external demand supported the growth of metallurgy by 7.9% yoy. Machine building increased by 22.1% yoy due to strong domestic and external demand. In particular, production of locomotives and railway cars increased by 73.9% yoy and manufacturing of electrical equipment grew by 50.6% yoy. Food production increased by 4.8% yoy.

Extractive industry declined by only 0.2% yoy. Drop in the extraction of coal by 22.9% yoy was compensated by higher extraction of construction materials (by 18.5% yoy) and iron ore (by 6.8% yoy). Supply of gas and electricity declined by 8.1% yoy due to warmer weather and energy efficiency measures.

Retail sales increased by 9.6% yoy due to higher real disposable income. Increase in external trade resulted in the growth of wholesale trade turnover by 13.0% yoy.

Population (without Crimea): 42.6 m
Industry/GVA: 23%
Agriculture/GVA: 14%
Investment/GDP: 14%
Exports: EU 32%, Asia 35%, Russia 9%
Imports: EU 37%, Asia 20%, Russia 13%

Real GDP growth



Source: Ukrstat

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Construction dropped by 1.0% yoy from the high statistical base. Residential construction fell by 10.1% yoy, while infrastructural construction declined by 3.4% yoy. At the same time, commercial construction continued growing.

Energy: The Naftogaz wins at the Stockholm Arbitrage

Gas. The Stockholm Arbitrage Court at the end of February obliged the Russian Gazprom to pay the Naftogaz of Ukraine USD 4.6 bn for violating the "take or pay" condition of the gas transit contract. The contract covers the period of 2009-2019 and includes an obligation of the Gazprom to transport annually 110 bn cubic meters (bcm) of gas via Ukrainian gas transportation system (GTS) to Europe. In 2017, gas transit via Ukrainian GTS was 93 bcm, 82 bcm in 2016 and 67 bcm in 2015. The net amount of payment the Gazprom should make in favour of the Naftogaz according to two ruling of the Stockholm Arbitrage Court is USD 2.6 bn.

Corporatization. The Government continues reforms on the energy market. On February 28, the Ministry of Energy elected six members of the Supervisory Board of the new operator of the GTS of Ukraine, Mahystralni Gazoprovody Ukrainy (Trunk Gas Pipelines). Two members represent the Government, while four are independent. Mahystralni Gazoprovody Ukrainy was created according to the unbundling of the Naftogaz.

The Cabinet of Ministers adopted a new statute of the Enerhorynok, national operator of the wholesale electricity market of Ukraine. The new statute envisages the creation of the Supervisory Board of the company consisting of five members (two represent the state and three are independent).

The introduction of Supervisory Boards on the state-owned enterprises (SOE) is made in the framework of the improvement of corporate administration at SOE. They are aimed at ensuring effective management and improvement of financial results of companies.

Telecom: 4G is finally coming to Ukraine

4G communication. On March 6, the National Commission for the State Regulation of Communications and Informatization (NCCIR) held an auction for 4G communication (1800 MHz). All three major Ukrainian telecom operators (Lifecell, Kyivstar, and Vodafone Ukraine) bought 4G licenses for the total value of UAH 5.4 bn. This is the second auction for 4G licenses. The first one for the 2600 MHz range was held on January 31 and the companies spent UAH 2.5 bn. Lifecell, Kyivstar, and Vodafone Ukraine plan to start offering 4G communication in April (2600 MHz) and July (1800 MHz) this year.

Agriculture: State support programmes for 2018

Production. As of mid-February, around 97% of seeded winter crops sprouted on the area of 7.3 m ha, of which approximately 87% were in good or satisfactory condition. According to preliminary data, the harvested area in 2018 is expected at 27 m ha (with about 15 m ha under grain), which is similar to the last year.

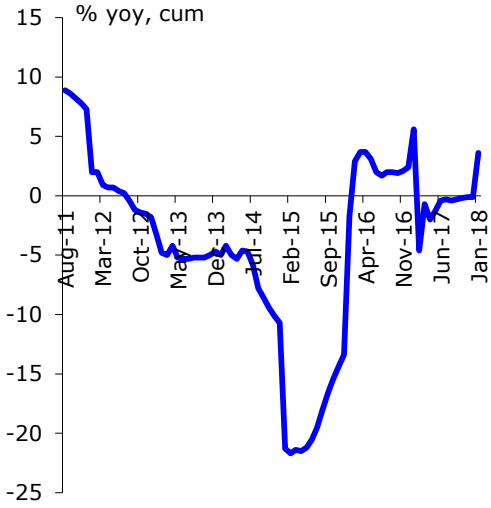
As of 1st of February, the number of cows decreased by 3.8% yoy, number of pigs by 8.2%, while poultry numbers increased by 2.5% yoy. In January, milk production remained on the similar level to last year's as average yields grew by 6.8% yoy. Egg production increased by 2.5% yoy due to strong domestic and external demand.

Trade. In 2017/2018 marketing year (between July 2017 and January 2018), Ukrainian exports of apples increased by 2.3 times as compared to the same period of the previous marketing year and reached 21 thousand t. Export of apples to the EU increased by nine times. Belarus remains to be the largest importer of Ukrainian apples.

At the same period, oilseed exports increased by 37% yoy due to strong external demand. Grain exports decreased by 7.8% yoy as grain harvest in 2017 declined by 7%.

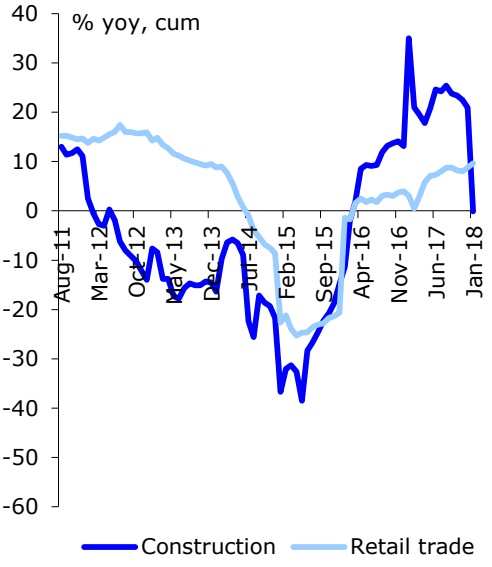
Policy. In February, the Cabinet of Ministers approved the procedures for the provision of the state support to the agricultural sector in

Industrial output



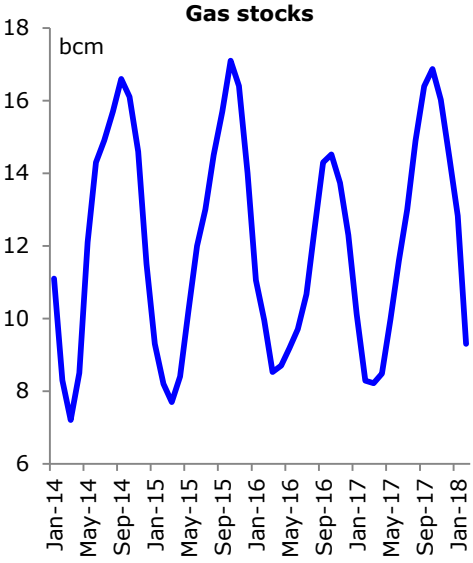
Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Real sector trends



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

Gas stocks



Source: Ministry of Energy

2018. Overall, the State Budget for 2018 envisages UAH 6.3 bn for such support.

The largest program at UAH 4 bn is planned for the support of livestock production. In particular, the compensation of 25% of loans (with the principle of up to UAH 500 m) for the construction of livestock complexes in specific subsectors is to be compensated by the Government. The livestock companies will also be eligible for the partial compensation of interest on credits used for capital spending. Besides, the subsidies for the cattle and young animals will be provided. At the same time, the transparency remains an issue in the financing of these programs. The exact forms for the application on a particular state support were not yet approved as of the beginning of March. Thus, the Government will start actual financing of the support programs with the delay. This might result in lower efficiency of financing state support of livestock companies. Besides, there are risks that the large share of support will again be received by the largest companies as in 2017.

Another state support program is the partial compensation of the costs of the purchased agricultural machinery of Ukrainian origin by 25%. Its financing is planned at UAH 945 m, even though last year the allocated financing at UAH 550 m was not executed in full.

The Government also allocates UAH 1 bn for the state support of the development of farming. In particular, it envisages partial compensation of interest on credits (UAH 500 m), partial compensation of the costs on Ukrainian seeds (UAH 240 m), the costs of agricultural machinery of Ukrainian origin (UAH 100 m).

In February, the Agrarian Committee of the Verkhovna Rada discussed challenges of the development of Forestry sector in Ukraine. Among others, there was made a decision to create national forest inventory and monitoring center in the structure of National Academy of Sciences of Ukraine.

External sector: Current account remained in deficit in January

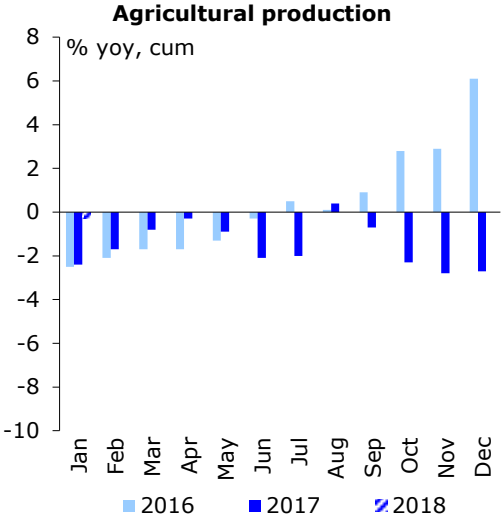
Current account. Current account remained in deficit in January at USD 61 m despite a seasonal reduction in imports. In January 2017, the current account was in USD 131 m surplus. The trade deficit was USD 0.38 bn as a seasonal reduction in imports was smaller than in previous years. The net inflow of secondary income and wage income increased from previous January to USD 0.77 bn, while net investment income payments were USD 0.46 bn.

Merchandise exports increased by 22% yoy in January. Agricultural product exports returned to growth and increased by 4% despite lower grain harvest in this marketing year. Metallurgy exports increased by 36% yoy as robust demand continued and prices remained higher than a year ago. Export of machine building goods increased by 42% yoy and exports of mineral products including iron ore increased by 29% yoy.

Merchandise imports surged by 30.5% yoy. Continued growth in consumer demand likely explain the increase in agricultural and food imports at 39% yoy and increase in machinery and equipment at 32% yoy. Imports of mineral products increased by 16% yoy as coal imports remained high and oil prices grew.

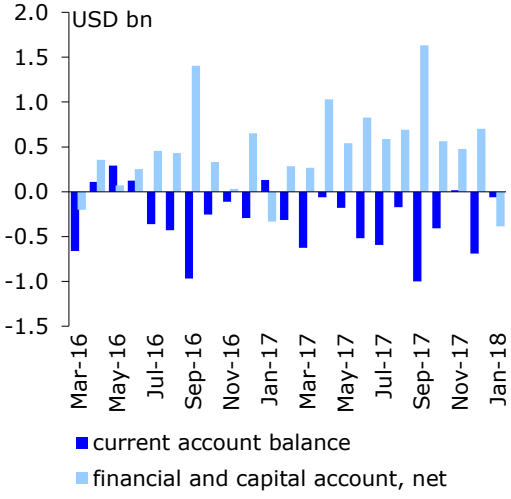
Financial account. Capital outflows under financial account were USD 0.3 bn in January. Public sector attracted USD 68 m in net capital inflows mostly through foreign purchases of domestic government bonds. Bank sector reported USD 96 m in capital outflows as non-resident deposits decreased. Real sector raised USD 76 m in net FDI in January. Real sector debt outflows were USD 0.53 bn as Ukrainian companies made their scheduled debt payments including Naftogaz and reduced trade debt liabilities Cash foreign currency outside the banking sector reduced by USD 189 m as sales of cash foreign currency to banks increased.

Agricultural production



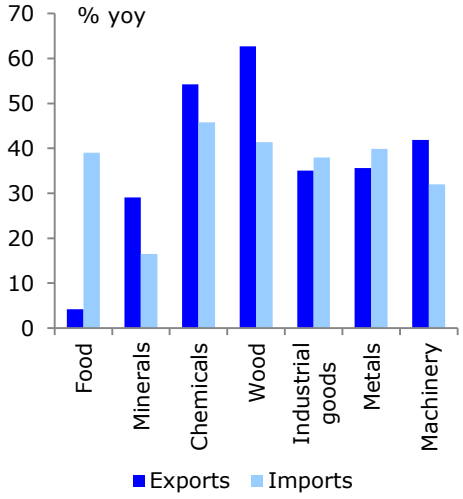
Source: Ukrstat

Balance of payments



Source: NBU preliminary estimates

Trade in goods in Janury 2018

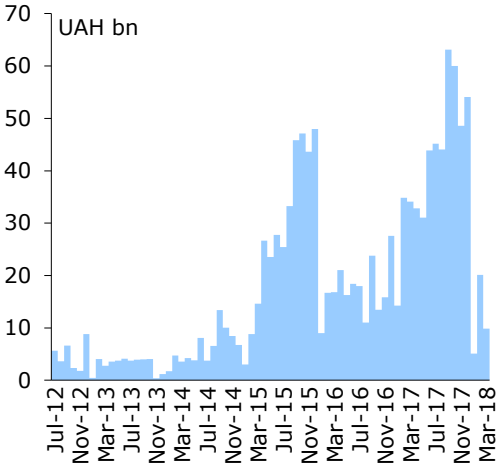


Source: NBU preliminary estimates

Fiscal policy: Decline in central fiscal revenues

According to the preliminary data of the State Treasury, central fiscal revenues in the first two months of 2018 declined by 0.5% yoy, while local fiscal revenues grew by 18.3% yoy. Lower central fiscal revenues are attributed to the increased VAT refunds, which increased by 38.5% yoy. Increase in refunds is explained by low statistical base (almost not VAT refunds were done in January 2017) and automatic VAT refunds introduced in April 2017. At the same time, expenditures increased, while the deficit financing was limited. As of March 1, accumulated at the Single Treasury Account funds totaled UAH 9.9 bn, which was twice lower than at the beginning of February.

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Social policy: Monetisation of housing and utility subsidies

February and the beginning of March were marked by the debates on the need for the full-scale monetization of housing and utility subsidies (HUS). The first stage of monetization that started in January involved the removal of the special scheme when most of the subsidies were paid out as a reduction of tax and other liabilities of the utility service providers. Now, they are supposed to receive a money transfer from the State Treasury on their accounts for the compensation of costs for the provision of utility services to households that receive the HUS. At the same time, households further on pay discounted utility bills.

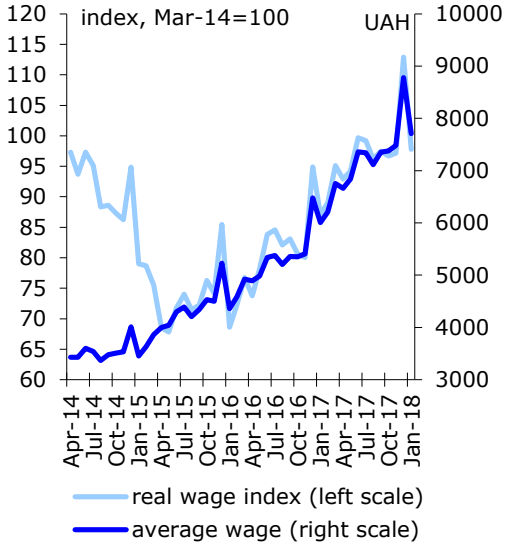
However, new system has created problems for the representatives of home owners associations (HOA), which cannot follow the new procedure. As a result, after long debates, the Government decided to monetize the subsidies at the level of households for the apartment buildings, which are organized as HOA, since April 2018. This means that the eligible for the HUS households that live in the HOA will receive monetary payments from the state, which would cover the HUS. For all households, the subsidies are to be monetized since January 1, 2019. The full-scale monetization would result in higher efficiency of budget spending on HUS and contribute to the energy efficiency.

Labour market: Slowdown in wage growth

The growth of average wage in January decelerated to 28.4% yoy (from 35.5% yoy in December 2017) to UAH 7711 due to high statistical base (doubling of the minimum wage in January 2017). The quickest wage growth was in state administration and defence as well as in transport and post services (by 45% yoy). Wages also surged in the financial sector (by 37.0% yoy). Wages in all other key sectors grew slower than average.

Wages in the industry grew by 27.5% yoy. Good performance of machine building and metallurgy allowed the companies in these sectors to increase wages to their employees by about 30% yoy.

Average wage*



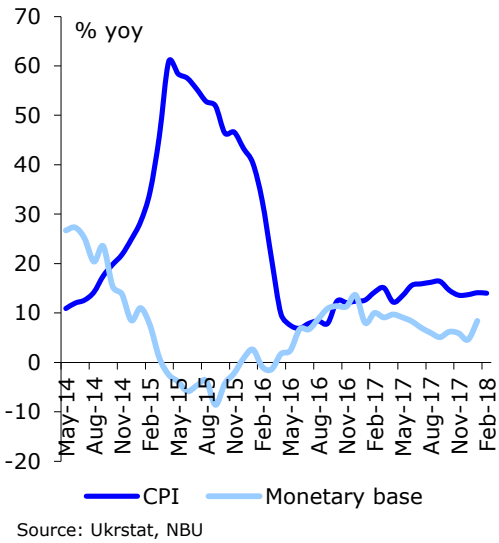
*not including AR Crimea
Source: Ukrstat

Monetary policy: Inflation moved to 14.0% yoy in February

Consumer inflation remained high at 14.0% yoy in February. Food price growth slowed slightly to 17.9% yoy but food prices remained much higher than in 2017 due to lower harvest and increased export supplies. Egg and fruit prices increased by over 50% yoy. Increase in oil prices drove up transport prices. Growing consumer demand also contributed to inflation as core inflation remained close to 10%.

The NBU increased policy rate from 16.0% p.a. to 17.0% p.a on March 1. This was the fourth policy rate increase in a row and it was expected. At the same time, the NBU signaled it may finish tightening cycle unless there are signs of inflation pressure increasing further. In response, banks increased lending costs but deposit rates increased only slightly. This may reflect high bank liquidity.

CPI and monetary base development



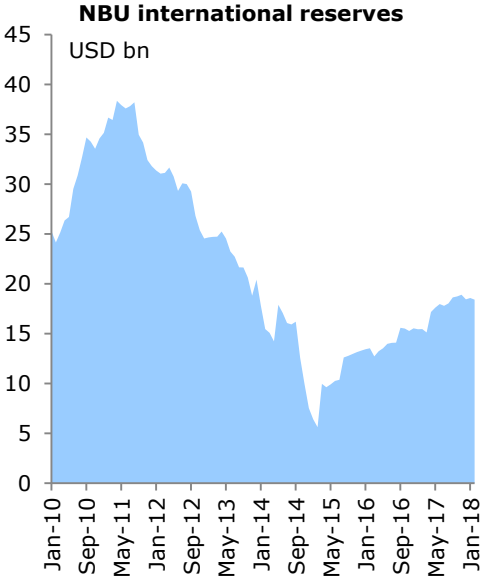
Source: Ukrstat, NBU

Exchange rate: Hryvnia appreciated in February

Interbank UAH/USD exchange rate appreciated steadily in February from UAH 28 per USD to under UAH 27 per USD. This reflected higher export revenues, capital inflows including investment in domestic

government bonds and lower depreciation expectations. In response, the NBU bought USD 397 m to reduce exchange rate fluctuations and service external debt. Sales of cash foreign currency to banks were slightly higher than purchases. The NBU international reserves remained at USD 18.4 bn as NBU purchases of foreign currency covered repayments to the IMF.

NBU international reserves



Source: NBU

State debt: Non-residents continued to invest in the domestic state bonds

In February, the Ministry of Finance placed UAH 8.9 bn of state domestic bonds with the weighted average yield at 16.3%. The yields remained almost stable compared to January. Near 93% bonds were with maturities of up to one year, which might be explained by the Government plans to place Eurobonds in the nearest months. Non-residents' holdings of state domestic bonds increased further by UAH 5,4 bn but still remained low at UAH 13,8 bn.

Tables

		Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Industrial production (real)	% yoy cum.	-13.0	4.5	2.6	2.5	2.8	-0.7	-0.4	-0.3	-0.7	-2.0	-1.3	-0.4	-0.3	-0.4	-0.3	-0.2	-0.1	-0.1	3.6	…
Construction (real)	% yoy cum.	-12.3	8.3	13.0	17.3	17.4	19.4	24.6	23.8	19.4	17.8	20.8	24.6	24.2	25.4	23.8	23.4	22.5	20.9	-1.0	…
Agricultural production (real)	% yoy cum.	-4.8	-1.7	-0.3	0.9	6.1	-0.8	-2.1	-0.7	-0.8	-0.3	-0.9	-2.1	-2.0	0.4	-0.7	-2.3	-2.8	-2.7	-0.3	…
Retail trade turnover (real)	% yoy cum.	-20.7	1.6	2.3	3.3	4.0	3.1	7.3	8.8	3.1	5.8	7.1	7.3	8.0	8.7	8.8	8.2	8.0	8.8	9.6	…
Average wage	UAH	4753	4622	5072	5311	5744	6323	6953	7268	6752	6659	6840	7360	7339	7114	7351	7377	7479	8777	7711	…
CPI	% yoy eop	43.3	20.9	6.9	7.9	12.4	15.1	15.6	16.4	15.1	12.2	13.5	15.6	15.9	16.2	16.4	14.6	13.6	13.7	14.1	14.0
PPI	% yoy eop	25.4	10.5	15.7	19.6	35.7	38.3	26.3	22.4	38.3	35.6	27.1	26.3	23.3	23.6	22.4	18.8	18.4	16.5	22.0	19.6
Exports (USD)*	% yoy cum.	-27.0	-16.4	-10.1	-8.0	-4.0	29.3	21.1	18.9	29.3	23.4	22.8	21.1	19.6	19.1	18.9	18.4	20.1	17.3	19.0	…
Imports (USD)*	% yoy cum.	-29.3	-10.9	-4.0	0.6	4.4	18.2	20.3	17.7	18.2	16.5	19.7	20.3	19.7	18.1	17.7	18.0	21.8	18.1	26.7	…
Trade balance*	USD bn cum.	-1.6	-2.3	-1.9	-4.1	-5.8	-0.9	-2.3	-4.3	-0.9	-1.1	-1.6	-2.3	-3.2	-3.6	-4.3	-5.0	-5.8	-6.8	-0.5	…
Current account**	USD bn cum.	-0.2	-1.5	-0.9	-2.8	-3.8	-0.8	-1.6	-3.0	-0.8	-0.9	-1.0	-1.6	-2.2	-2.1	-3.0	-3.3	-3.0	-3.8	-0.1	…
Gross international reserves	USD bn eop	13.3	12.7	14.0	15.6	15.5	15.1	18.0	18.6	15.1	17.2	17.6	18.0	17.8	18.0	18.6	18.7	18.9	18.8	18.6	18.4
Monetary Base	% yoy eop	0.8	-1.4	1.7	10.6	13.6	9.1	8.3	5.1	9.1	9.7	9.1	8.3	7.0	6.0	5.1	6.2	5.9	4.6	8.4	…
Lending rate on UAH credits	% pa, aop	20.7	20.0	20.9	17.3	14.7	15.8	14.7	14.9	15.8	15.3	15.2	14.7	14.0	14.3	14.9	15.1	16.3	17.0	16.3	…
Exchange rate (interbank)	USD aop	22.90	25.69	25.2	17.27	25.90	27.09	26.44	25.93	26.99	26.82	26.40	26.09	25.95	25.65	26.18	26.67	26.73	27.52	28.43	27.09
Exchange rate (official)	USD aop	22.33	25.68	25.3	25.40	25.67	27.06	26.46	25.91	27.00	26.86	26.42	26.11	25.97	25.64	26.11	26.65	26.71	27.54	28.43	27.17
Exchange rate (official)	EUR aop	24.91	28.34	28.6	25.58	28.18	28.81	29.06	30.38	28.82	28.77	29.16	29.26	29.84	30.23	31.08	31.38	31.32	32.58	34.60	33.59

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[CP]
Nominal GDP	UAH bn	170.1	204.2	225.8	267.3	345.1	441.5	544.2	720.7	948.1	913.3	1079.3	1300.0	1404.7	1465.2	1586.9	1988.5	2383.2
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	93.3
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	2.3
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
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	6.1
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
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
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
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
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
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
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
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	-4.1
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
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
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
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
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
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
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
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
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
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	0.00	0.00	11.04	19.26	26.22	28.42

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		Q3 12	Q4 12	Q1 13	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
GDP	UAH bn	387.1	379.2	303.8	354.8	398.0	408.6	316.9	382.4	440.5	447.1	376.0	456.7	567.0	588.8	455.6	535.3	669.2	723.1	583.9	657.0	821.3
GDP (real)	% yoy	-1.3	-2.4	-1.3	-1.2	-1.1	3.4	-1.0	-4.3	-5.3	-14.4	-16.0	-14.5	-7.0	-2.4	0.1	1.5	2.3	4.8	2.5	2.3	2.1
Household consumption (real)	% yoy	10.2	4.9	5.9	8.7	6.8	6.3	3.3	-7.8	-13.9	-12.2	-21.0	-27.8	-20.0	-14.6	-2.2	4.0	4.7	0.9	2.8	6.9	5.4
State consumption (real)	% yoy	9.7	1.1	2.0	-0.9	-1.5	-2.9	-5.9	5.2	0.1	4.5	0.9	-5.6	-0.8	11.1	2.7	-1.5	2.0	-2.2	4.2	-7.8	4.3
Gross fixed capital formation (real)	% yoy	-2.9	-2.1	6.1	-18.1	-8.9	-8.7	-19.9	-19.3	-28.0	-26.5	-23.8	-14.2	-5.0	1.5	4.5	17.8	23.9	27.1	20.1	23.7	15.8
Exports of goods and services (real)	% yoy	-1.8	-7.2	-7.4	-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	-3.7	9.7	-0.4	-2.1	6.9
Imports of goods and services (real)	% yoy	6.6	-0.2	1.3	-15.7	1.7	-0.6	-11.8	-10.9	-32.3	-29.6	-18.1	-28.1	-13.0	-11.9	-3.6	-0.1	16.1	19.6	2.9	4.6	13.2
Agriculture, hunting, forestry (real)*	% yoy	-8.0	-3.5	5.7	21.7	-2.8	36.5	5.7	-9.1	25.6	-20.6	-4.7	-11.6	-3.8	-2.5	-1.5	0.6	1.1	18.4	-0.7	-2.9	-0.1
Manufacturing industry (real)*	% yoy	-4.9	-6.6	-9.3	-9.9	-10.6	-9.8	-3.2	-5.4	-12.7	-13.2	-25.2	-22.5	-9.2	-2.3	8.0	4.0	0.2	2.7	11.7	4.2	4.8
Construction (real)*	% yoy	-14.3	-18.7	-16.1	-19.4	-8.0	-4.4	4.7	-14.0	-26.3	-30.8	-36.6	-30.6	-15.6	6.0	9.8	17.2	20.2	15.6	21.3	28.8	25.2
Trade, repair services (real)*	% yoy	-0.5	-2.0	0.2	-1.2	0.9	0.9	-3.0	-7.2	-18.4	-26.6	-26.5	-19.9	-14.2	2.6	3.6	6.7	3.7	1.9	3.1	3.8	5.7
Transport (real)*	% yoy	-8.3	-10.5	-1.7	-0.8	1.3	2.7	-7.8	-10.9	-10.1	-11.0	-10.5	-2.4	0.3	2.2	6.2	2.5	0.7	3.2	4.7	4.1	6.3
Balance of payments (BPM6)																						
Current account balance	USD bn	-3.9	-4.8	-3.2	-2.3	-6.0	-5.0	-1.3	-0.8	-1.2	-1.4	-0.4	0.3	0.2	-0.3	-1.5	0.5	-1.9	-1.0	-0.8	-0.3	-1.7
Current account balance	% of GDP	-8.1	-10.1	-8.4	-5.1	-12.1	-9.8	-3.5	-2.5	-3.3	-6.7	-2.4	1.5	0.9	-1.2	-8.4	2.6	-7.1	-3.4	-3.5	-1.0	-5.2
Trade balance in goods	USD m	-5503	-6233	-4635	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1147	-496	-689	-1123	-1941	-685	-2147	-2235	-1428	-1897	-2819
Trade balance in services	USD m	2361	1578	1349	1504	2575	1066	937	443	456	686	604	418	309	420	286	308	108	507	421	608	503
Direct investment (FDI)**	USD m	2037	1876	1082	496	1510	991	-665	-319	725	558	397	907	890	818	1366	760	999	143	464	1029	347
Gross international reserves	USD bn	29.3	24.5	24.7	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
Exchange rate (interbank), UAH/USD	aop	8.09	8.11	8.11	8.14	8.15	8.21	9.14	11.71	12.58	13.56	21.23	21.26	21.74	22.90	25.69	25.23	17.27	25.90	27.09	26.44	25.93
Exchange rate (official), UAH/USD	aop	7.99	7.99	7.99	7.99	7.99	7.99	8.86	12.71	12.58	21.18	21.33	21.23	21.69	22.33	25.68	25.26	25.40	25.67	27.06	26.46	25.91
Fiscal indicators																						
Consolidated fiscal revenues	% of GDP	28.2	33.6	35.2	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	27.8	35.6	37.8	75.5	112.8
Personal income tax	% of GDP	4.5	5.0	5.3	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	5.4	5.6	6.7	12.9	20.1
Enterprise profits tax	% of GDP	2.9	4.2	6.1	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	5.3	8.1
Value-added tax	% of GDP	8.6	10.0	9.7	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	13.7	22.5	34.1
Excise tax	% of GDP	2.8	2.4	3.1	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	8.3	13.1
Consolidated fiscal expenditures	% of GDP	30.7	41.3	36.9	35.8	30.1	35.9	35.2	34.7	27.2	35.5	33.5	34.9	26.1	41.9	35.1	35.6	30.8	38.6	37.1	67.6	106.5
Current expenditures	% of GDP	27.8	37.3	35.6	33.9	28.2	33.2	34.8	33.7	25.8	33.6	31.8	33.6	24.0	38.0	34.2	33.9	27.9	33.0	36.2	64.6	100.0
Capital expenditures	% of GDP	2.9	4.0	1.3	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	3.0	6.5
Consolidated fiscal balance	% of GDP	-3.0	-7.8	-1.9	-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	7.9	6.3
Privatisation receipts	% of GDP	0.1	0.4	0.0	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	0.5
Banking system																						
Monetary aggregate M0	% yoy cum	5.2	5.5	9.7	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
Monetary aggregate M2	% yoy cum	10.7	13.1	16.0	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
Household deposits in national currency	% yoy cum	16.3	16.3	19.1	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
Household deposits in foreign currency	% yoy cum	17.0	21.8	17.0	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
Com. bank credits in national currency	% yoy cum	9.1	7.7	8.6	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
Com. bank credits in foreign currency	% yoy cum	-9.9	-7.3	-4.4	-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
Long-term com. bank credits	% yoy cum	-8.0	-6.6	-5.6	-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
Long-term com. bank credits	% of total	59.1	57.8	55.9	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
Average lending rate on national currency credits	% p.a.	19.5	20.8	16.2	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
Average lending rate on foreign currency credits	% p.a.	8.5	8.8	9.4	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

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

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