INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

No.12 (206), December 2017

EXECUTIVE SUMMARY

HIGHLIGHT: FISCAL POLICY

Politics: Ukraine failed to receive financial assistance from the IMF and the EU.

Real sector: Retail sales growth slowed down to 4.2% yoy in October due to higher statistical base.

Energy sector: The National Energy and Utilities Regulatory Commission might partially lose its independence.

Agriculture: Between January and October, the agricultural production declined by 2.3% yoy due to decrease in crop production and livestock production.

External sector: Current account deficit remained high at USD 0.41 bn in October.

Fiscal policy: In one day, the Parliament approved amendments to the Tax and Budget Codes as well as adopted the State Budget Law for 2018.

Social policy: In October, the number of households that received housing and utility subsidies declined to 6.0 m likely due to changes of eligibility criteria.

Labour market: Growth of real wage in October accelerated to 19.9% yoy due to slowdown in inflation.

Monetary policy: Consumer inflation slowed to 13.6% yoy in November.

Exchange rate: Hryvnia appreciated in the middle of November but weakened again by the end of the month.

State debt: The Government approved the Medium-term State Debt Management Strategy for 2017-2019.

Highlight of the month: Fiscal policy

RAPID CHANGES IN FISCAL LEGISLATION AND LACK OF STABLE RULES

by Oleksandra Betliy

On December 7, the Parliament had the day of Budget-2018. During one day, the Verkhovna Rada amended the Budget Code and Tax Code, as well as adopted the State Budget Law for 2018. The decisions were taken in a very non-transparent way with changes approved from the voice. As a result, there is no 100% clarity on what was really approved by MPs. The deputies changed the legislation, which is a base for fiscal indicators foreseen in the Draft Budget for 2018. As a result, according to the Rules of procedures of the Verkhovna Rada the Draft Budget was to be sent to the third reading; instead, it was voted in one reading with more changed announced before the voting. Therefore, the budget sustainability next year remains under concern. Here, we attempt to shortly outline the major changes in these important legislative acts. In the mid-December, the Speaker of the Parliament has not signed the draft laws as their texts and figures were not finalized yet.

Budget Code: The amendments to the Budget Code were the least controversial. They mostly reflected new legislation on the formation of the united territorial communities and the healthcare reform. Distribution of some revenues between local and central budgets were changed. Local government entities (LGE) are responsible for the co-financing of the healthcare facilities, which would receive payments for the provided healthcare by the National Health Service after it starts operating. Besides, since the second half of 2018 the colleges (higher education institutions accredited at levels of I and II) are to become structures of institutes and universities (with accreditation levels of III and IV) to keep financing from central budget. Otherwise, they are to be financed at the account of LGEs.

Tax Code: The amendments to the Tax Code became very controversial in the day of voting. The VR Committee on Tax and Custom Policy submitted the text of respective Draft Law for the second reading only in the morning of the voting day. The Committee proposed approving 177 out of 244 amendments by the MPs. During voting, several of them were not supported by the Parliament.

Overall, drastic changes were approved for the VAT Section of the Tax Code. In particular, the MPs allowed paying VAT for 430 articles of imported machinery and equipment in equal monthly installments for up to 24 months without interest and penalties. This might substantially reduce the VAT base and result in lower than currently planned collections of VAT on imports.

Imports of electric cars is now not subject to VAT and excise. Deputies approved the VAT privileges for the purchase of software as well as extended VAT privileges for companies working in the aircraft construction and space programs.

The producers of sunflower seeds, soybeans, and rape will not be eligible for VAT refunds as the zero-rated VAT on their exports is to be introduced since March 2018. According to crop producers, they will lose about UAH 9-10 bn. Instead, the benefits will be received by processing companies.

Since 2018, 7% VAT will be applied to the supply of domestically produced and imported medical products and devices if they are included in the State Register of Medical Devices and Medicinal Products or meet the requirements of the relevant technical regulations. Imported medical products have to be allowed for entering and for use in Ukraine. There are no changes to 7% VAT on pharma products, but previously 7% VAT applied to non-pharma medical products in the Government-approved list.

The Parliament also revised rent payments for gas extraction from new gas wells, which will be set at 12% and 6% depending on the depth of the well. Rent payment for gas condensate is also to reduce from 45% to 29% and from 21% to 14% depending on the depth.

The MPs failed to approve the cap on the cash subsidy to livestock producers at UAH 150 m. This provision was necessary to ensure that respective subsidy is directed primarily to small and medium farmers.

Budget-2018: Between the first and the second reading the Government increased planned revenues by UAH 36.6 bn to UAH 914 bn. Tax revenues account for the third of this increase (mostly additional EPT revenues) due to the changes in macroeconomic forecast. Target of VAT on imports was increased by UAH 2 bn, which now does not seem to be realistic due to expected reduction in VAT paid on imported investment goods. Higher central fiscal revenues from ecology tax (by UAH 1.2 bn) was attributed to changes in distribution of this tax between local and central budgets. Non-tax revenues were increased by UAH 23.3 bn due to additional revenues planned from dividends of SOEs (UAH 13.8 bn), higher transfer of the NBU profit to the budget, the sale of the 4G licenses (UAH 6.2 bn), and money from special confiscation (UAH 4.7 bn). However, during the voting MPs increased target of central fiscal revenues further than it was suggested by the Government.

The distribution of added revenues reflects interests of particular deputies or their groups including local spending in electoral districts. Overall, the Budget received about new 40 programs without defined goals and KPIs. The spending on economic activity increased by UAH 7.3 bn. Positive news are increased spending on the Food security service, road safety, maintenance and construction as well as Energy Efficiency Fund. However, the Government substantially increased support of coal mines, which is not very justified. Additional UAH 2.2 bn were allocated for sports and culture (UAH 500 m for production of patriotic movies and the same amount for information security and promotion).

Subventions to the local budgets were increased by UAH 29.4 bn largely due to higher spending on housing and utility subsidies (by UAH 15.9% to UAH 71 bn, which reflects better real needs for the year). At the same time, the subvention for social and economic development of localities, which typically reflects vested interests, was renewed (UAH 5 bn).

It would take several weeks for the Parliament and the Government to finalize the texts of the approved draft laws. Even after the approved laws are published, the predictability will remain an issue. Some of the approved suggestions would require the regulations to be approved by the Cabinet of Ministers. In particular, it relates to the VAT instalments on imported equipment. The procedure of subsidies allocation for livestock companies might be also changed. Besides, during the voting the MPs asked the CMU will consider the possibility to revise upwards minimum wage from currently foreseen for 2018 level of UAH 3723 to UAH 4200. The Prime Minister agrees with this approach. Thus, new minimum wage might become a reality either in July or in December.

Monthly Economic Monitor Ukraine

Politics: Ukraine failed to receive financial assistance

Financial assistance. The EU did not disburse the third and the final EUR 600 m tranche within the MFA III package to Ukraine agreed in 2015 at EUR 1.8 m. Ukraine failed to fulfill four out of 22 policy commitments. In particular, Ukraine did not cancel the moratorium on untreated timber exports, did not launch automatic reviews of e-declarations of government officials and the verification of the information on beneficial owners of companies, and failed to adopt a law on the Credit register. As a result, Ukraine was not able to receive the final tranche of assistance under the MFA III; however, the country started negotiations on the MFA IV. The European Commission is likely to agree on the new MFA only if Ukraine fulfills the aforementioned commitments.

Ukraine also did not receive two tranches of the IMF loan under the EFF, which were scheduled for 2017. If Ukraine implements necessary steps in anti-corruption policy, namely creates the Anti-corruption court, and follows the fiscal consolidation approach, it might still receive these tranches in the first half of 2018. To receive further tranches of the IMF loan, the government will have to approve the land market reform. However, currently Ukraine moved in a wrong direction and prolonged the moratorium on agricultural land sale for another year.

Anti-corruption agencies. In November, the Security Service of Ukraine (SSU) detained an agent of the National Anti-Corruption Bureau (NABU) during a sting operation of the Bureau. The NABU accused the SSU of an attempt to sabotage its operations and to stop anti-corruption reform in Ukraine. Later, a draft law was submitted to Ukrainian Parliament that would allow the Parliament to fire the head of the NABU without any audit. The draft was initiated by the MPs from the major two factions in the Parliament. After criticism by the civil society and Ukraine's international donors, including, the U.S. State Department, the IMF, and the European Commission, the bill was removed from the Parliament's agenda.

Earlier in November, the NABU opened a criminal probe into suspected extortion by members of the National Agency for Corruption Prevention (NACP). This was a consequence of the report of one of the officials of the NACP, Hanna Solomatina, on the intervention of the Presidential Administration to the operations of the NACP.

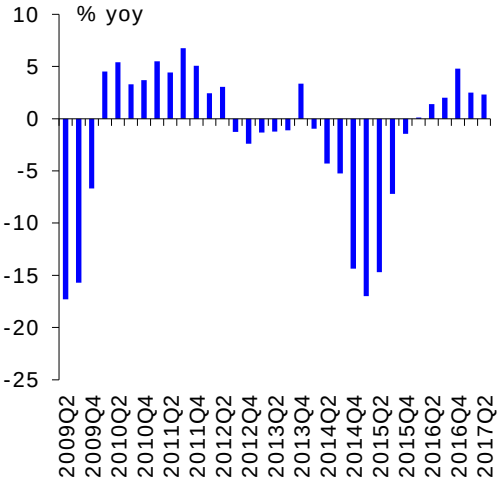
The war in Donbas. The armed conflict in eastern Ukraine continued in November. Combined Russian-separatist forces attacked positions of Ukrainian armed forces and residential areas. 12 service members of the Ukrainian Armed Forces were killed in the war in October, and 46 service members were wounded. In Luhansk, the conflict between Russia-backed separatists resulted in the change of the commanders who control the city of Luhansk and a part of Luhansk oblast under Russian supervision.

Judicial reform. In November, the President appointed 113 judges of the Supreme Court of Ukraine. 25 of them were vetoed by the Public Integrity Council, a civil society group that participated in the selection process. However, the High Council of Justice, the state body that nominates judges to be appointed by the President, overrode these vetoes. The new Supreme Court will begin its work on December 15, 2017.

Law enforcement reform. In November, the selection panel chose the Director and two Deputy Directors of the State Bureau of Investigations (SBI) – a law enforcement agency that will take over from the General Prosecutor's Office the task of pre-trial investigation of crimes (except for corruption-related crimes) committed by top government officials, judges and law enforcement officials. The selection process took more than 20 months to conclude. The selection procedure was criticized by watchdog NGOs as the selection panel did not include a single representative of the civil society.

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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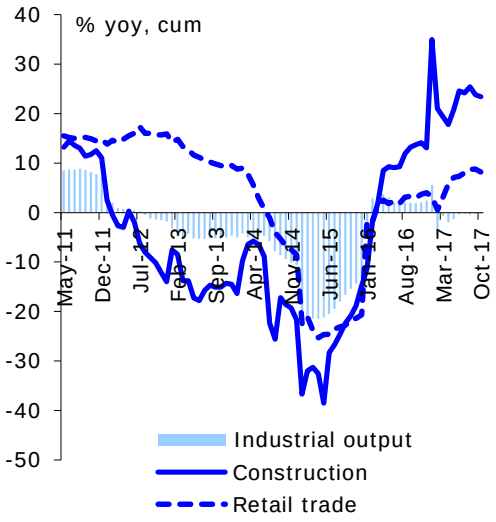
Real sector: Economic recovery continues

Sectoral trends. Industrial output in October remained close to previous year's level with growth by 0.4% yoy change in October after contraction by 0.3% yoy change in September. Growth of manufacturing by 5.7% yoy offset 25% lower extraction of coal and 7% decline in electricity production and distribution. Food production grew by 3.0% yoy due to higher domestic and external demand. Increase in chemical production was strong (at 38.9% yoy) as several plants returned to operation in recent months. Metallurgy increased output by 3.3% yoy due to higher demand for finished metal goods. Production of electronic and optical equipment grew by 38% yoy due to military orders. Higher demand and orders of the Ukrzaliznytsia resulted in growth of transport equipment production by 22.3% yoy. At the same time, production of other machinery and equipment declined. As a result, total machine building output grew by only 3.0% yoy.

Extractive industry output declined by 8.1% yoy due to loss of mines at the occupied territory of Donbas and lower demand for iron ore.

Construction increased by 13.1% yoy with growth of infrastructure construction at 21.9% yoy due to higher fiscal capital outlays. Retail sales growth slowed down to 4.2% yoy in October from 8.1% yoy in September due to higher statistical base.

Real sector trends



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

Energy: The NERC's operations are paralysed

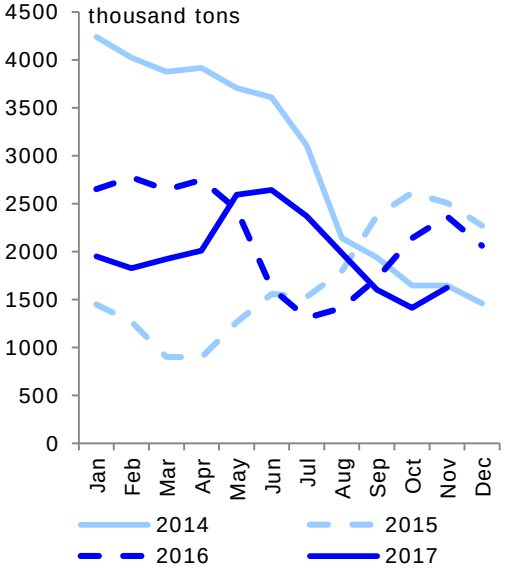
NERC. The National Energy and Utilities Regulatory Commission (NERC) lost its quorum on November 13 and thus cannot approve any decisions from that time. According to the law on the NERC approved in September 2016, new NERC's members should be selected by the special nomination committee instead of the members whose powers expired on June 8 and December 8. However, the selection procedure requires 75 days, while the nomination committee was fully formed only on November 24. To unfreeze the operation of the NERC, on December 7, the Parliament allowed the President to nominate members of the NERC for the period of up to three months without any competition. On the one hand, this is an important step as important decisions on tariffs setting, issuing licenses, approving investment programs are in the pipeline for the approval by the NERC. On the other hand, this temporary solution makes the NERC a dependant body from the President.

Naftogaz. As all members of supervisory board of the Naftogaz resigned the company during September and October, on November 10, the Cabinet of Ministers (CMU) changed the procedure of formatting the new supervisory board. Now, the Ministry of Economic Development and Trade nominates the candidates, while previously they were to be selected during the competition. This allowed the CMU to form the Board on November 22 with four foreign and three Ukrainian citizens as the members.

Ukrenergo. On November 22, the CMU approved the transformation of the state enterprise Ukrenergo, the national operator of the electricity network, into a private joint stock company with a 100% state ownership. Corporatisation of the company and its unbundling are the two prerequisites for its certification as an operator of the transmission system according to the Third energy package. The Ukrenergo will receive a Supervisory Board consisting of four independent members and three state representatives. Members of the Board will be selected during the competition.

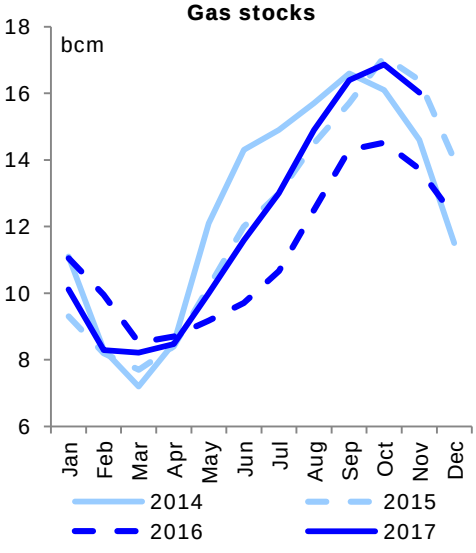
Gas. On November 7, the Gazprom filed an appeal against the interim decision of the Stockholm Arbitration Court in the dispute against the Naftogaz of Ukraine on the gas contract of 2009. Consequently, the Court moved the date of the final decision to December 30, 2017 (for the gas supply contract) and to February 28, 2018 (for the gas transit contract). On May 31, 2017, the Stockholm Arbitration Court in a separate decision on the "take or pay" clause of the contract ruled that the Naftogaz does not have to pay for the gas it did not consume.

Coal stocks at TPPs



Source: Ministry of Energy, Ukrenergo

Gas stocks

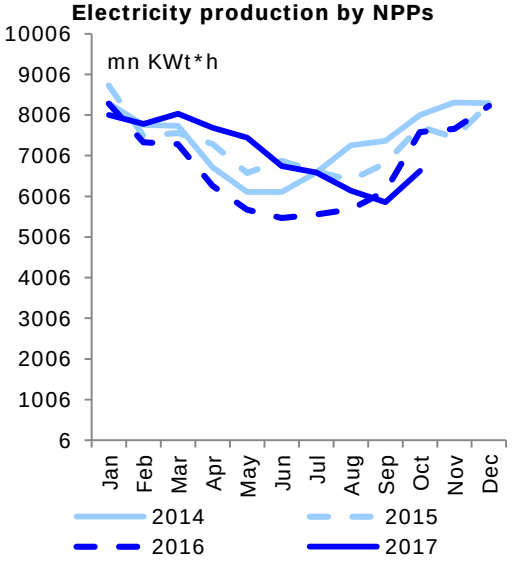


Source: Ministry of Energy

The European Federation of Energy Traders for the first time included Ukraine in its annual review of the gas hubs. Ukraine is on the 18th place out of 20 (before Romania and Bulgaria). To improve its position in the rating Ukraine will have to set the gas tariffs for the internal entry/exit points of its gas transportation system, introduce daily balancing and use short-term standardized products on the trading platform.

Nuclear energy. The Ukrainian operator of nuclear power plants Energoatom and Holtec (USA) started construction of the centralized storage of spent nuclear fuel near Chornobyl at 112 km from Kyiv. It is expected that by the end of the year Holtec will bring part of the equipment for the storage construction. Energoatom plans to take a loan of USD 250 mn from Bank of America Merrill Lynch with the state guarantees for the construction of the storage. The construction of the first stage will be finished in 2020-22, while the project will be fully completed (all 15 stages) in 16.5 years. Currently, spent nuclear fuel from Rivnenska, Yuzhno-Ukrainska and Khmelnytska nuclear power plants is stored in Russia. Apart from saving money on storage of the spent fuel Ukraine expects to use that fuel as an energy resource when the relevant technologies become available.

Electricity production by NPPs



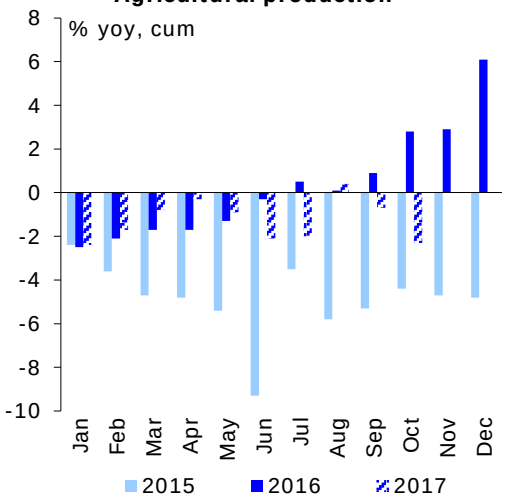
Source: Energoatom

Agriculture: Additional tariff quota for grain export to EU

Production. Between January and October, the agricultural production declined by 2.3% yoy due to decrease in crop production (by 2.9% yoy) and livestock production (by 0.5% yoy). Milk production declined by 0.8% yoy due to lower number of cows, which was only partially counterweighted by higher yields. Egg production increased by 2.5% yoy likely due to good exports perspectives.

As of November 1, harvest of grain and sunflower seeds decreased by 6% yoy and by 9.5% yoy, respectively, due to unfavourable weather in spring. Harvest of potatoes and sugar beet increased by 2.1% yoy and 2.5% yoy, respectively.

Agricultural output
Agricultural production



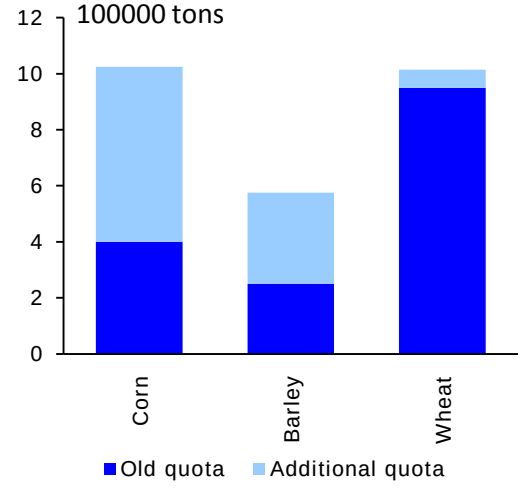
Source: Ukrstat

Trade. In the first ten months of 2017, Ukrainian agricultural export increased by 22.7% yoy to USD 14.7 bn. Structure of agricultural exports remained unchanged with leading positions of grains (71% of agricultural exports) and oils (9% of agricultural exports). Three main exported grains are corn (29% of agricultural export), wheat (27% of agricultural exports), and barley (9% of agricultural exports). Export of poultry meat and sub products increased by 14.4% yoy in physical volumes (to 228,6 thousand t) or by 34.6% yoy in nominal terms.

Export of dairy products increased by 73.2% yoy to USD 225.6 m due to higher demand. Whey exports grew by 34.7% yoy (92.2% yoy in monetary form) due to high demand from the Chinese market. Butter exports increased by 152% yoy due to high demand in Turkey, Morocco, and the Netherlands.

Agricultural imports increased by 8% yoy to USD 3.6 bn.

Tariff quota for exports of Ukrainian agricultural products to EU



Source: Ministry of Agrarian Policy and Food

Policy. On November 22, the Cabinet of Ministers amended the Typical Land Lease Agreement to improve the management mechanism of land use and protection, conservation and reproduction of soil fertility. The Typical Agreement envisages fixing qualitative characteristics of the soil cover at the time of transfer, reimbursement of losses due to deterioration of the quality of soil cover, determination of the term of payment of rent for use of the land plot and strengthening of liability in case of untimely payment (fine, penalty). The amendments are expected to protect landowner's interests and contribute to preventing soils deterioration.

On November 28, the European Commission published an Implementing Regulation No.2017/2200, which defines the procedure for administering additional tariff quotas for Ukrainian grain exports. They comprise 65,000 tons of wheat; 625,000 tons of maize; barley, barley flour and pellets at 325,000 tons per year. These quotas will come in force from January 1, 2018 for the period of three years.

External sector: Current account deficit remained high in October

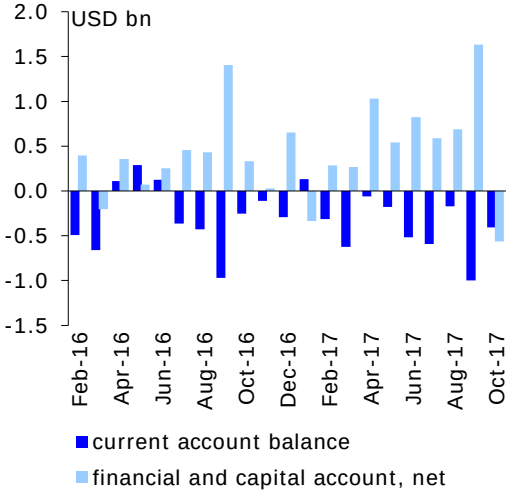
Current account. Current account deficit remained high at USD 0.41 bn in October. Net inflows of remittances increased to USD 0.79 bn, while net investment income payments were USD 0.45 bn. Trade in services surplus increased slightly to USD 0.25 bn despite slowdown in gas transit as exports of other services continued to grow. Merchandise trade deficit increased to USD 0.99 bn as imports growth outpaced exports.

Merchandise exports increased by 17% yoy in October. Agricultural product exports increased by 12% yoy. Grain exports slowed due to lower harvest. Still, increase in oil and oilseed exports and diversification in agricultural exports helped keep agricultural exports growing. Metallurgy exports increased by 23% yoy in dollar terms from low statistical base as steel prices remained high.

Merchandise imports increased by 22% yoy in October. Imports of machinery and equipment increased by 33% yoy due to new shipments of nuclear fuel elements and continued growth in demand for imported cars and agricultural machinery. Imports of mineral products grew by 30% yoy as oil prices increased and coal imports remained high. Imports of other items (excluding informal trade) surged by 24% yoy as consumer demand remained strong.

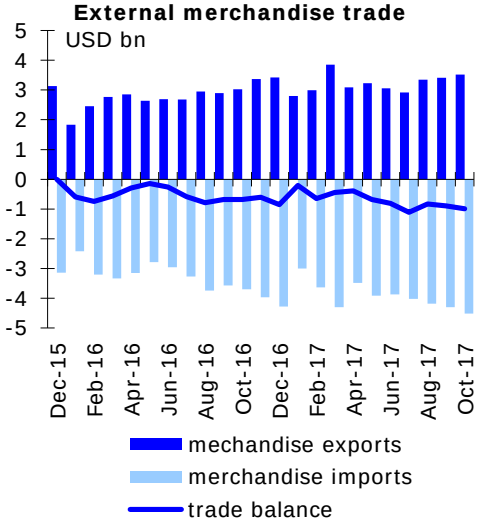
Financial account. Capital inflows under financial account were USD 0.6 bn in October. Public sector remained passive with USD 47 m in net inflows. Bank sector reduced external assets by USD 1.0 bn to purchase FX government bonds and conduct payments on external debt of real sector. Overall, bank sector reported USD 932 m in capital inflows. Real sector raised only USD 63 m in net FDI in October, while net repayments of debt including trade loans were USD 341 m. Increased depreciation expectations almost stopped inflows of cash foreign currency in the banking sector.

Balance of payments



Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

Fiscal policy: Budget business as usual

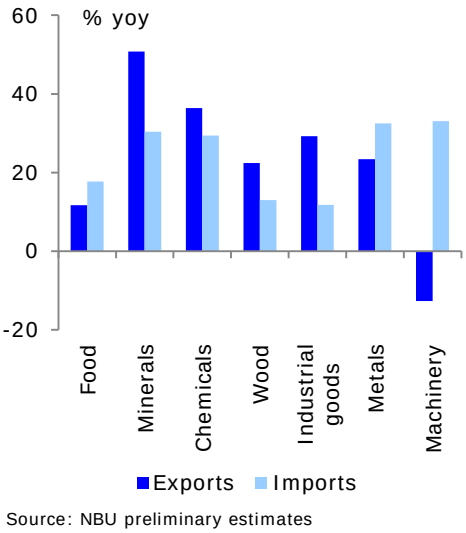
2018. On December 7, the Parliament approved several important draft laws including amendments to the Budget Code, amendments to the Tax Code, and the State Budget Law for 2018. As usual, these laws were not approved in transparent manner with many essential amendements introduced by voice. Therefore, the final versions of the approved laws are not available yet. Tax base was narrowed by the provision of some tax privileges on VAT payment (e.g. option paying VAT on imports of investment goods in 24 monthly instalments; zero VAT rate for imports of electrocars). The amendments to the Budget Code primarily related to the implementation of previously approved changes in other legislation.

The Government raised targets of central fiscal revenues and expenditures while preparing the Draft State Budget Law 2018 for the second reading (by UAH 36 bn and UAH 39 bn, respectively). Increase in revenues was partially explained by revised macroeconomic forecast for 2018. In particular, CPI forecast was increased by 1.4 p.p. to 10.9% on average next year. Forecast of imports was raised by USD 1.6 bn. Expected gross wage bill and companies' profits were also revised upwards. As a result, the Government plans high tax revenues. Target of non-tax revenues was also increased due to higher SOE's profits, larger transfer of NBU profit, and the sale of 4G licences. UAH 4.7 bn is now expected from special confiscation.

Expenditures were raised with the biggest increase in spending on economic activity and subventions to local budgets. As a result, central fiscal deficit target increased to 2.5% of GDP. However, if revenues from special confiscation and the sale of 4G licences are counted as deficit financing, the central fiscal deficit would increase to 2.9% of GDP.

2017. Growth of consolidated fiscal revenues decelerated further to 19.2% yoy in October (from 23.4% yoy in September and 31.4% yoy in August) due to high statistical base (including UAH 10.bn transfer of NBU profits in October 2016). Growth of tax revenues remained strong at 33.7% yoy. Higher revenues from VAT and excises were

Trade in goods in September 2017



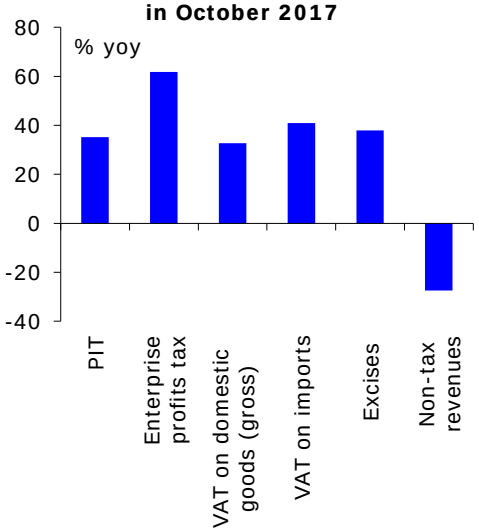
Source: NBU preliminary estimates

mainly explained by larger imports. PIT revenues growth remained strong due to high wage growth. At the same time, local fiscal revenues grew faster than central fiscal revenues in October.

At the same time, growth of expenditures surged to 42.2% yoy in October. This is mainly attributed to higher central fiscal transfer to the Pension Fund (by 27.6% yoy), which was caused by the upward revision of pensions after the approval of the pension reform. Reprofiling of bonds in the NBU's portfolio resulted in one-off surge of debt payments in October. Capital fiscal outlays surged by 69.3% yoy, but total capital spending over the ten months of 2017 accounted for only 44.7% of annual target. As usual, large part of capital spending is concentrated in the last two months of the year. It is explained by inadequate planning by local and central government entities as well as lengthy tender procedures.

As a result, consolidated fiscal deficit equalled UAH 10.3 bn in October due to the deficit of central fiscal budget at UAH 13.6 bn. However, the consolidated fiscal balance remained in surplus for the period of ten months (at UAH 31.2 bn) with positive balance of both central and local budgets. As a result, the Government accumulated UAH 54.1 bn at the Single Treasury Account in the beginning of November.

Growth of Consolidated fiscal revenues in October 2017



Source: State Treasury eports

Social policy: Coverage of households by housing and utility subsidies somewhat declined

In October, the number of households that received housing and utility subsidies (HUS) declined to 6.0 m from 6.2 m in September. This is explained by the enforcement of new eligibility criteria. Starting October, the social departments take into account household income for the first half of the year instead of the income for the previous four quarters. Wage income in the first two quarters of the year increased substantially due to minimum wage growth. This likely explains slight change in the structure of households with HUS: share of single member households (mostly pensioners) increased from 37.6% of HUS recipients to 38.5% and share of those with three and more members reduced from 34.1% to 33.2%.

Labour market: Strong wage growth in all industries

2017. In October, average wage growth remained at about 37.9% yoy in nominal terms. Growth of real wage accelerated to 19.9% yoy from 17.3% yoy in September due to slowdown in inflation. As previously, wages increased the most in government administration and defence (by 70.6% yoy) due to minimum wage increase and partial implementation of the State Service Law. Wages increased by 57.5% yoy in education and by 45.8% yoy in healthcare.

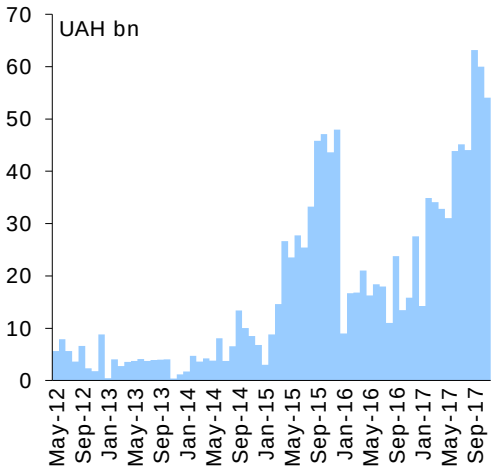
Wage in industry increased by 29.3% yoy in October. The pace of wage growth in October correlated with performance of particular sectors in September. Wage growth accelerated in pharmaceuticals, manufacturing of machinery and equipment, production of cars and other transports. At the same time, wages declined in production of optical and electronic equipment.

2018. Minimum wage will be increased to UAH 3723 since January 2018. However, the Government is requested to assess possibilities to increase minimum wage to UAH 4200 after the first quarter. Besides, the Prime Minister announced the goal to ensure wage at UAH 10000 in 2018. It is likely that this level relates to December of 2018, but not to average next year. However, to ensure such average wage the Government should ensure further implementation of reforms in the country.

Monetary policy: Inflation slowed to 13.6% yoy in November

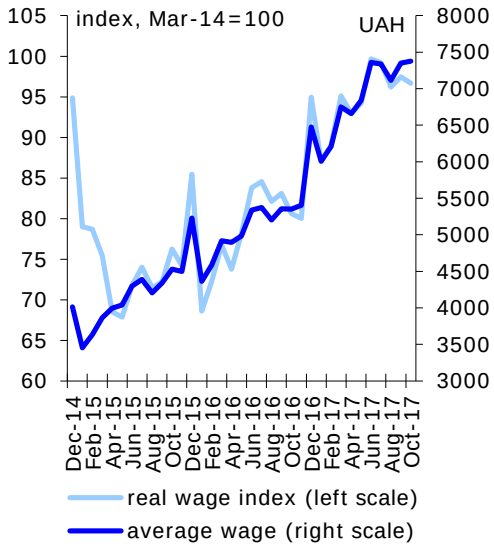
Consumer inflation slowed to 13.6% yoy in November. Growth in food prices remained at 18% yoy. Stable international meat prices and lower dairy prices may help contain food price growth in the next months. Utilities prices increased by 10% yoy from high statistical base. High oil prices, including increase in transport price index by over 15% yoy, continued to contribute to inflation. Core inflation

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Average wage*

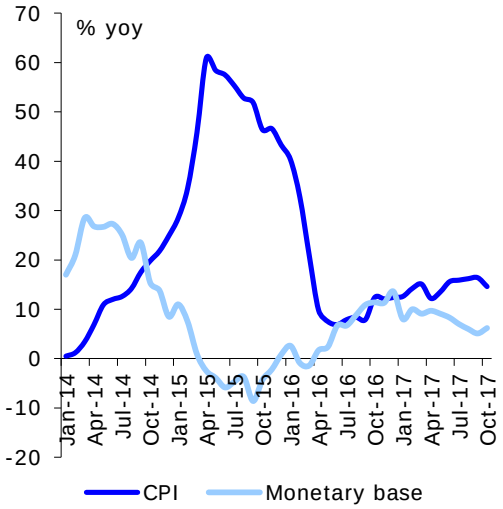


*not including AR Crimea
Source: Ukrstat

increased to 8.6% yoy in November in response to higher agricultural product costs and gradual increase in domestic demand.

Money supply increased by 8% yoy in November and monetary base by 5.9% yoy. Cash in circulation increased by 7.2% yoy not keeping pace with inflation. Deposit rates stopped falling in November in response to higher policy rate by the NBU. Ukrainian Index of Retail Deposit (UIRD) remained above 14% p.a. for maturities over 3 months.

CPI and monetary base development



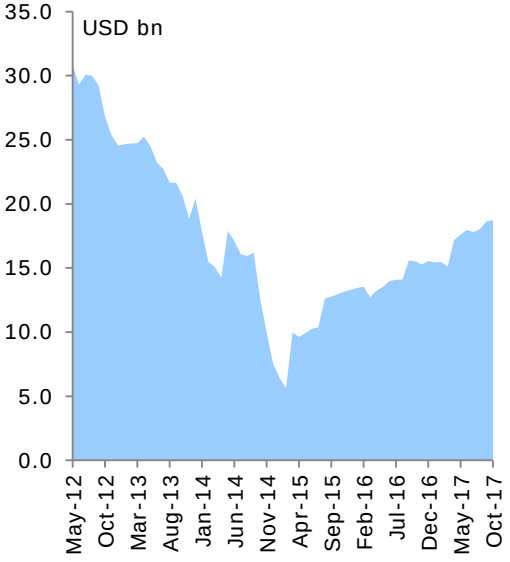
Source: Ukrstat, NBU

Exchange rate: Hryvnia was broadly stable in November

Interbank UAH/USD exchange rate fluctuated in UAH 26.5-27 per USD range in November. Hryvnia appreciated in the middle of the month but weakened again by its end. Sale of cash foreign currency to banks were again higher than purchases though by only USD 40 m. NBU purchased USD 139 m on net basis to replenish international reserves.

NBU international reserves reached USD 18.9 bn likely due to favourable exchange rate changes. NBU payments to IMF and return of foreign currency swap used USD 547 bn of reserves while net government receipts from foreign currency operations were lower at USD 312 m.

NBU international reserves



Source: NBU

State debt: State debt management strategy for 2017 - 2019 was approved

The Debt Management Strategy. On December 1, the Government approved the Medium-term State Debt Management Strategy for 2017-2019, which is aimed to improve the efficiency of state debt management. It is a successor of the Strategy approved in 2013 for 2013-2015. The target of direct state debt in relation to GDP was defined at 66%, 62% and 58%, respectively for 2017-2019. The average debt maturity is planned to increase to 7 years in 2017-2018 and 6 years in 2019.

As compared to the previous version, the Strategy envisages more in-depth risks assessment and overview of the debt policy in the previous period (2014-2016), which is in line with international practice. Besides, the document focuses more on further debt refinancing, full-scale access to foreign capital markets as well as the increase in the share of domestic borrowings.

Targets for 2017, albeit realistic, do not take into account a state-guaranteed debt which does not reflect the real situation with overalll public sector indebtedness. Meanwhile, the targets for 2018-2019 will not be achieved without prudent fiscal policy aimed at lowering public debt. Since 2018 external debt repayments will increase significantly, peaking in 2019-2020. Annual redemption and servicing of FX state and quasi-state debt will reach near USD 8 bn in 2018 and in 2019.

Domestic debt. In November, the demand was primarily concentrated on USD-denominated state domestic bonds. The Government placed USD 664 m of 1.5- and two-year USD-denominated bonds (at 4.06% p.a.). It was enough to cover current debt servicing payments denominated in US dollars. Placement of state domestic bonds in hryvnia was low at UAH1.1 bn at 14.8% as only one out of four scheduled auctions were successful due to low demand. The share of two- and three-year bonds accounted for 54.6% of the total placement.

Tables

		Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Industrial production (real)	% yoy cum.	-13.0	4.5	2.6	2.5	2.8	-0.7	-0.4	-0.3	2.8	5.6	0.4	-0.7	-2.0	-1.3	-0.4	-0.3	-0.4	-0.3	-0.2	...
Construction (real)	% yoy cum.	-12.3	8.3	13.0	17.3	17.4	19.4	24.6	23.8	17.4	35.0	21.0	19.4	17.8	20.8	24.6	24.2	25.4	23.8	23.4	...
Agricultural production (real)	% yoy cum.	-4.8	-1.7	-0.3	0.9	6.1	-0.8	-2.1	-0.7	6.1	-2.4	-1.7	-0.8	-0.3	-0.9	-2.1	-2.0	0.4	-0.7	-2.3	...
Retail trade turnover (real)	% yoy cum.	-20.7	1.6	2.3	3.3	4.0	3.1	7.3	8.8	4.0	3.1	0.5	3.1	5.8	7.1	7.3	8.0	8.7	8.8	8.2	...
Average wage	UAH	4753	4622	5072	5311	5744	6323	6953	7268	6475	6008	6209	6752	6659	6840	7360	7339	7114	7351	7377	...
CPI	% yoy eop	43.3	20.9	6.9	7.9	12.4	15.1	15.6	16.4	12.4	12.6	14.2	15.1	12.2	13.5	15.6	15.9	16.2	16.4	14.6	13.6
PPI	% yoy eop	25.4	10.5	15.7	19.6	35.7	38.3	26.3	22.4	35.7	36.8	38.9	38.3	35.6	27.1	26.3	23.3	23.6	22.4	18.8	18.4
Exports (USD)*	% yoy cum.	-27.0	-16.4	-10.1	-8.0	-4.0	29.3	21.1	18.9	-4.0	42.0	28.6	29.3	23.4	22.8	21.1	19.6	19.1	18.9	18.4	...
Imports (USD)*	% yoy cum.	-29.3	-10.9	-4.0	0.6	4.4	18.2	20.3	17.7	4.4	20.0	15.0	18.2	16.5	19.7	20.3	19.7	18.1	17.7	18.0	...
Trade balance*	USD bn cum.	-1.6	-2.3	-1.9	-4.1	-5.8	-0.9	-2.3	-4.3	-5.8	0.0	-0.5	-0.9	-1.1	-1.6	-2.3	-3.2	-3.6	-4.3	-5.0	...
Current account**	USD bn cum.	-0.2	-1.5	-0.9	-2.8	-3.8	-0.8	-1.6	-3.0	-3.8	0.1	-0.2	-0.8	-0.9	-1.0	-1.6	-2.2	-2.1	-3.0	-3.3	...
Gross international reserves	USD bn eop	13.3	12.7	14.0	15.6	15.5	15.1	18.0	18.6	15.5	15.4	15.5	15.1	17.2	17.6	18.0	17.8	18.0	18.6	18.7	19.9
Monetary Base	% yoy eop	0.8	-1.4	1.7	10.6	13.6	9.1	8.3	5.1	13.6	8.0	10.0	9.1	9.7	9.1	8.3	7.0	6.0	5.1	6.2	...
Lending rate on UAH credits	% pa, aop	20.7	20.0	20.9	17.3	14.7	15.8	14.7	14.9	16.1	15.9	15.5	15.8	15.3	15.2	14.7	14.0	14.3	14.9	15.1	...
Exchange rate (interbank)	USD aop	22.90	25.69	25.2	17.27	25.90	27.09	26.44	25.93	26.27	27.22	27.05	26.99	26.82	26.40	26.09	25.95	25.65	26.18	26.67	26.73
Exchange rate (official)	USD aop	22.33	25.68	25.3	25.40	25.67	27.06	26.46	25.91	25.55	27.15	27.03	27.00	26.86	26.42	26.11	25.97	25.64	26.11	26.65	26.71
Exchange rate (official)	EUR aop	24.91	28.34	28.6	25.58	28.18	28.81	29.06	30.38	28.29	28.80	28.81	28.82	28.77	29.16	29.26	29.84	30.23	31.08	31.38	31.32

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
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
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
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
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
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
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
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
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
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
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
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
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
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	-0.4
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	-3.7	-1.6
Trade balance in goods	USD m	-5503	-6233	-4635	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1147	-496	-689	-1123	-1941	-685	-2147	-2235	-1296	-1825
Trade balance in services	USD m	2361	1578	1349	1504	2575	1066	937	443	456	686	604	418	309	420	286	308	108	507	423	622
Direct investment (FDI)**	USD m	2037	1876	1082	496	1510	991	-665	-319	725	558	397	907	890	818	1366	760	999	143	469	1030
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates

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