INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

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EXECUTIVE SUMMARY

HIGHLIGHT: BUDGET 2018

Politics: The European Commission for Democracy through Law supported the creation of the Anti-Corruption Court in Ukraine, while criticizing a bill that would introduce the Anti-Corruption Chamber.

Real sector: Real GDP in the second quarter grew by 2.3% yoy, which is similar to the growth in the first quarter.

Energy sector: The new methodology for calculation of price of the coal, which is used for the production of electricity by thermal power plants, came into force.

Transport: the Ukrzalisnytsia has completed construction of the Beskydsky railway tunnel, which goes from Beskyd to Skotarske stations.

Agriculture: Between January and August, the agricultural production grew by 0.4% yoy due to increase in crop production in agricultural enterprises.

External sector: Current account deficit reduced to USD 0.23 bn in August as merchandise trade gap lowered to USD 0.87 bn.

Fiscal policy: The Government submitted the Draft State Budget Law for 2018 to the Verkhovna Rada on September 15.

Social policy: On October 3, the Parliament approved the amendments to the Pension Law.

Labour market: Unemployment rate was reported at 9.1% of economically active population of age 15-70 years old in the second quarter of 2017 as compared to 9.0% in the same period of last year.

Monetary policy: Consumer inflation accelerated to 16.4% yoy in September as CPI jumped by 2.0% from August level.

Exchange rate: UAH/USD exchange rate weakened in September in response to seasonal increase in FX demand and stronger depreciation expectations.

State debt: In September, Ukraine returned to international capital market and placed 15-years Eurobonds of USD 3 bn at the yield of 7.375% p.a.

Highlight of the month: Budget 2018

THE FISCAL POLICY IN UKRAINE REMAINS SHORT SIGHTED

by Oleksandra Betliy

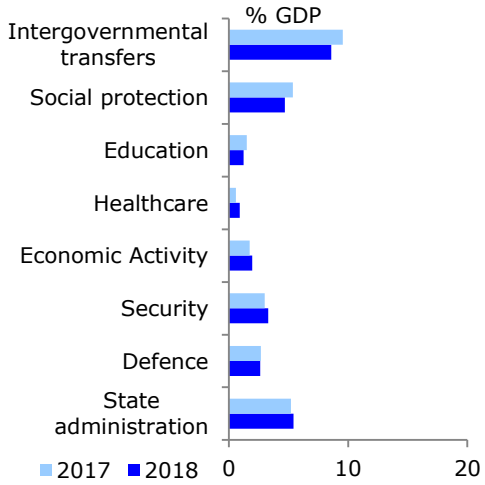
In March, the Budget code was amended to require Government in 2017 to submit three year (2018-2020) budget outline. This was announced to be an important step towards the introduction of the medium term expenditure budget framework (MTEF) as the Budget outline commonly known as Budget resolution was usually just for next year. The Resolution was submitted by the Cabinet of Ministers to the Parliament in June. Its text was rather declarative but contained the indicative numbers for major revenue headings, deficit, and expenditures of key spending units for three years. However, the Parliament did not approve the Resolution as criticized both declarative text as well as numbers. The Government submitted the Draft State Budget for 2018 is a traditional one-year budget.

Macroeconomic assumptions. Fiscal parameters of the Draft State Budget for 2018 are based on the realistic macroeconomic assumptions. Real GDP growth is estimated to increase by 3.0%, which is close to the consensus forecast. GDP is forecasted to reach UAH 3247.7 bn, CPI in December 2018 is expected at 7.0% yoy.

Revenues. The submitted in September Draft State Budget Law envisages planned central fiscal revenues at UAH 877 bn, which is by 11.8% more than revised plan for this year. At the same time, revenues will decline in relation to GDP by 0.6 p.p. to 27% due to lower non-tax revenues. Tax revenues are projected to increase by 0.9 p.p. to 23% of GDP due to higher VAT revenues. Improved economic activity, higher domestic demand, and improved administration are the reasons behind expected VAT collections growth. The Government might be overoptimistic on the VAT paid on imported goods but the forecast of other revenues looks realistic. The Draft Budget still includes the plans for the enterprise profit tax (EPT) as the exit capital tax (ECT) was not yet approved. If the Parliament approves the ECT effective in 2018, the Government will have to revise fiscal indicators, as planned ECT revenues will be lower than currently planned EPT collections.

According to the explanatory note to the Draft Budget, consolidated fiscal revenues will pass one trillion hryvnia mark next year. They are expected to reach UAH 1119 bn or 34.4% of GDP. The distribution of revenues between central and local budgets is not likely to change substantially. The Government envisages the increase in medical subventions to finance the planned reform of primary healthcare.

Planned central fiscal expenditures



Source: State budget law for 2017, Draft State Budget law for 2018

Expenditures. The allocation of spending by function is not planned to change substantially. Nominal expenditures on social protection remained unchanged as the transfer to the Pension Fund is not increased. The Pension Fund is expected to be able to finance increased obligations from higher revenues from single social contribution. Overall, subsistence minimum for individuals that lost ability to work (minimum pension) will increase by 8.8% on average during the year. Social assistance payments will increase, but the number of their recipients is likely to reduce. The financing of housing and utility subsidies and privileges are planned to be financed at UAH 55 bn, which is lower than in 2017 as the Government assumes lower coverage of population by subsidies. This will be a result of expected increase in income received by households from pensions and wages and expected low increase in utility tariffs (still, the Government likely underestimated required financing for the financing of subsidies). Wages will increase due to improved economic performance of most sectors and increase in minimum wage at 16.3%. Minimum wage increase and the upward revision of wages in state administration in the framework of state administration reform require the Government to increase wage spending from the budget. Healthcare reform will contribute to higher wages in the sector.

In 2018, the Government attempts to increase obligations that are to be financed at the expense of the local government entities (LGEs) arguing that LGEs received substantial revenues in the past without sufficient transfer of powers. In particular, LGEs will have to finance more of vocational education, if the Parliament does not change this during the voting. Overall, by October 1, 2017, the MPs submitted over three thousands suggestions to the Draft Budget law (the first reading is to be conducted by October 20). The Government also suggested abolishing the social-economic subventions, which were traditionally known for corruption. Instead, it transferred 1% of expenditures to the State Fund of Regional development, which should allocate money to local development projects on competitive basis.

Deficit. Central fiscal deficit is planned at 2.4% of GDP, which is consistent with the IMF program targets. UAH 22.5 bn is to be received from the privatization as the Government hopes for the implementation of the new Privatization law, which is currently in the Parliament. External borrowings will be another key source of financing.

MTEF. The introduction of the medium-term expenditure framework is necessary in Ukraine to increase the efficiency of expenditures. One-year budgeting results in inefficiency of capital spending, which are mostly financed in the end of the year (in the first eight months of 2017 capital consolidated fiscal expenditures were financed at only 33% of annual target) and large share of uncompleted infrastructural projects. Medium-term planning is also necessary for the implementation of various reforms, which require continuous financing. It will also increases transparency and predictability of future policies, which would improve business environment.

Monthly Economic Monitor Ukraine

Politics: Ukrainian citizens assaulted and imprisoned in Russia and occupied Crimea

Political prisoners. Ukrainian citizens were beaten, arrested and given prison sentences in Russia and in Russia-occupied Autonomous Republic of Crimea in September. The court of the Russian Federation in the occupied Crimea sentenced Deputy Chairperson of the Mejlis of Crimean Tatars Ilmi Umerov to two years in a penal colony settlement with a ban on civic activity for supporting Ukraine's sovereignty. For his criticism of the Russian occupation of the Crimea, Ukrainian journalist Mykola Semena was handed a two-and-a-half year suspended sentence in the Crimea. International organizations and human rights groups called these sentences politically motivated and illustrations of repressions.

Ukrainian filmmaker and political prisoner Oleh Sentsov said that he would be transferred from the Russian prison where his is serving a 20-year sentence to a far north prison in Russia. Crimean Tatar Renat Paralamov was arrested by Russian authorities in Crimea and later found alive, but wounded with traces of torture on his body.

The war in Donbas. The armed conflict in the eastern Ukraine continued in September. Combined Russian-separatist forces repeatedly violated the "back to school" ceasefire that started in August. In particular, they used the Grad rockets banned under Minsk peace process. Two Ukrainian border guards were killed as a result of the explosion of an unidentified explosive device in Luhansk oblast. 4 service members of the Ukrainian Armed Forces were killed in the war in September, and 30 service members were wounded.

In late September, a fire broke out at an ammunition depot in the central Ukrainian town of Kalynivka in Vinnytsya oblast, 20 kilometers outside of the regional center Vinnytysa. It led to explosions of the stored ammunition. Ukrainian military is considering the explosions and fire as an act of sabotage. No deaths or serious injuries were reported.

Law on education. The law on education was passed by the Parliament and signed by the President in September. The law specifies Ukrainian language as the main language to be used in secondary education. Several countries, including EU members Hungary and Romania, expressed concern over the law, saying that it violates the rights of ethnic minorities. Ukrainian authorities said that the law will strengthen the role of the Ukrainian language in education and will protect the rights of minorities to get education.

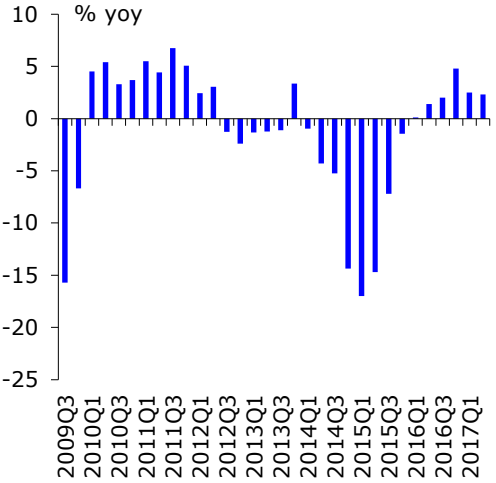
Corruption. President Petro Poroshenko who previously opposed the creation of independent Anti-Corruption Court agreed to this idea under the condition of simultaneous launching of an Anti-Corruption Chamber within the Supreme Court of Ukraine. The European Commission for Democracy through Law (the "Venice Commission") supported the creation of the Anti-Corruption Court in Ukraine, while criticizing a bill that would introduce the Anti-Corruption Chamber.

Real sector: Recovery continues

GDP. Real GDP in the second quarter grew by 2.3% yoy, which is similar to the growth in the first quarter at 2.5% yoy. Domestic demand remained the driver of economic recovery. Improved consumer confidence and increased real disposable income (by 1.7% yoy) resulted in growth of real private final consumption by 6.9% yoy. Growth of real gross capital accumulation accelerated to 23.7% yoy (from 20.1% yoy in the first quarter) due to higher investments in machinery and equipment as well as residential construction. Infrastructure and commercial property spending also increased. However, contribution of real net exports remained negative. Real exports declined by 2.1% yoy likely primarily due to drop in real exports services. At the same time, higher domestic demand in particular for imported investment goods resulted in increase in real imports by 4.6% 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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On production side, economic recovery was supported by surge in construction (by 28.8% yoy) and higher real gross value added (GVA) in manufacturing (at 4.2% yoy), trade and transport (at 3.8% yoy and 4.1% yoy, respectively). Decline in crop and livestock production resulted in drop of real GVA in agriculture at 2.9% yoy. Trade ban wit occupied territories and expropriation of companies at the occupied territories in Donbas resulted in drop of real GVA in extractive industry by 5.7% yoy.

Sectoral trends. Industrial output in August increased by 1.2% yoy due to growth of manufacturing at 5.6% yoy. Food production increased by 5.4% yoy as higher production of sunflower oil and dairy products compensated decline in output of other food products. Metallurgy production increased by 1.0% yoy due to higher demand for pipes and other steel products. Larger output of cars, optical and electric products as well as of railway cars resulted in growth of machine building production by 10.4% yoy. Chemical production surged by 33.0% yoy from low base of last year.

Retail sales growth accelerated to 9.7% yoy (in real terms) in August from 6.6% yoy in July. Trade increased due to improved consumer sentiment and increased income.

Construction grew by 23.6% yoy due to rapid increase in financing of commercial and infrastructural construction. Residential construction increased by only 4.1% yoy but from a high base.

Energy: Ukraine sets world coal prices at the domestic market

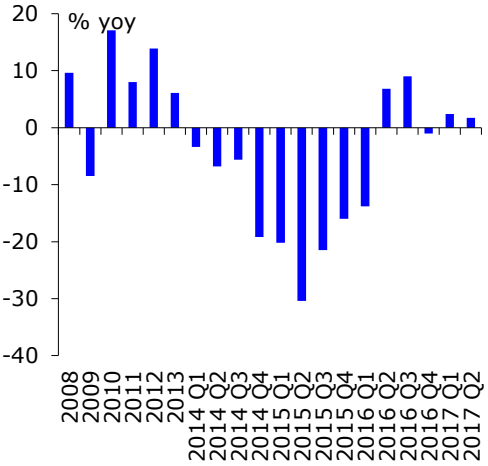
Coal. On September 29, the new methodology for calculation of price of the coal, which is used for the production of electricity by thermal power plants (TPPs), came into force. According to the methodology, the cost of coal is to comprise of two components. The first component includes an average futures price quotations of European Energy Exchange AG, magazines Coal Trader International (issued by Platts) and Argus Coal Daily International (by Argus Media Ltd.) for the coming six months. The second component is based on the coal transportation costs from sea ports of Amsterdam, Rotterdam or Antwerp for the previous 12 months. The cost of coal can be lowered if its quality is less than the defined characteristics. This methodology sets market prices for coal at the Ukrainian market regardless where that coal was produced. It is aimed to correct the imbalances created by the introduction of Rotterdam+ ruling for the setting electricity tariffs. In particular, electricity producers accumulated all mark-ups from higher electricity tariffs and continued paying low price for domestically produced coal. As a result, coal mines reported losses and lack of funds for wage payments.

Electricity. On October 1, a special low electricity tariff of UAH 0.9 per KWt*h for households that use electricity for heating came into force. It will be applied during the heating period from October to April instead of the regular tariff of UAH 1.68 per KWt*h. The households can consume up to 3000 KWt per month under the special tariff, for the volume over 3000 KWt the regular tariff will be used. This measure will mostly affect households living in private houses equipped with electric heating boilers and those living in apartments without gas or district heating supply.

Transport: The construction of Beskydsky tunnel is completed

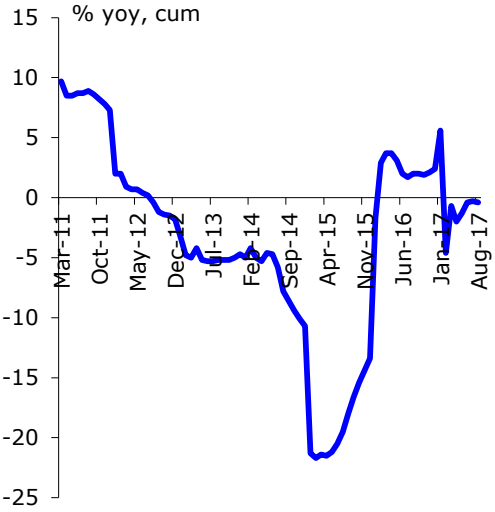
Railways. On October 4, the Ukrzalisnytsia has completed construction of the Beskydsky railway tunnel, which goes from Beskyd to Skotarske stations. It goes close to the existing tunnel, which was first built in 1886 and whose single-track railway created bottlenecks in the Pan-European Corridor V that goes via Venice - Trieste/Koper - Ljubljana - Maribor - Budapest - Uzhhorod - Lviv – Kyiv. The new tunnel will allow up to 100 pairs of trains per day at the speed of 60-70 km/h (up from 47 pairs of trains at the speed of 15-40 km/h of the old tunnel). The Ukrzaliznytsya expects to make the new tunnel operational by June 2018 after it finishes constructing the railway in

Real disposable household incomes



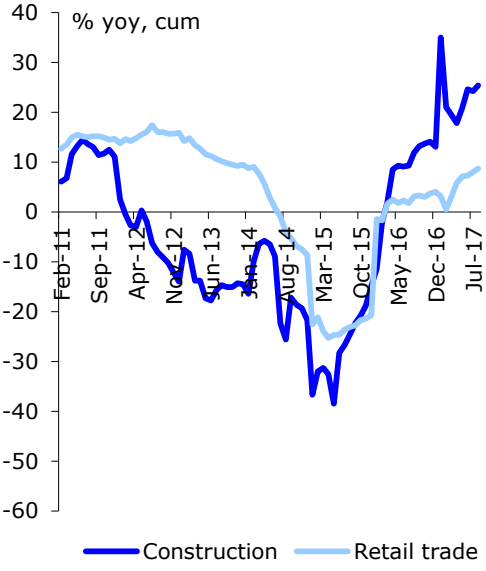
Source: Ukrstat

Industrial output



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

Real sector trends



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

the tunnel and laying the electricity cables. The tunnel will increase Ukraine's attractiveness as a transit country.

Agriculture: Development of farming and agricultural cooperation in the spotlight of the Government

Production. Between January and August, the agricultural production grew by 0.4% yoy due to higher increase of crop production in agricultural enterprises. In total, crop production increased by 1% yoy. At the same time, livestock production decreased by 0.7% yoy due to decline in the number of cattle in agricultural enterprises (by 0.5% yoy) and milk production (by 0.9% yoy). Egg production increased by 0.5% yoy and production of animals for slaughter grew by 0.3% yoy.

As of September 1, harvested grain decreased by 2.2% yoy, sunflower seeds fell by 37.9% yoy, potatoes reduced by 1.5% yoy. Such decline is explained by later start of the harvesting campaign.

Trade. In the first eight months of 2017, the export of Ukrainian agricultural and food products increased by 24.5% yoy to USD 11.5 bn. The main groups of products exported are sunflower oil, safflower or cotton oil (with a share of 26.25% of total agricultural exports), corn (20.3%), wheat and wheat mixture (12.87%). Agricultural imports accounted for USD 2.8 bn with main products: sunflower seeds (6.7% of agricultural imports), frozen fish (6%), tobacco raw materials and waste (5.8%), palm oil (3.5%).

In the 2016/2017 marketing year export of sugar reached record level of 769 thousand tonnes in comparison to 132 thousand tonnes in 2015/2016. The sugar production for 2017/2018 is expected to be close to the previous year's level.

Policy. In September, the Ministry of Agrarian Policy and Food (MAPF) introduced a new position of the Deputy Minister on Support of Farming and Rural Development. The position was occupied by Victor Sheremeta, who is the Deputy President of the Association of Farmers and Landowners of Ukraine. He will supervise the policies related to the agricultural cooperation.

The Cabinet of Ministers adopted the Concept on development of farms and agricultural cooperatives for 2018-2020. The state aid is to be provided to farms - with less than 100 ha of land. The financial instruments of support include provision of financial aid (which is to be paid back), compensation of interest on credits, financial leasing, partial compensation of purchased equipment (produced in Ukraine) and built livestock farms, state guarantees on investment credits. The annual budget financing of these and other measures, which are defined in the Concept, is defined to be no less than UAH 1 bn.

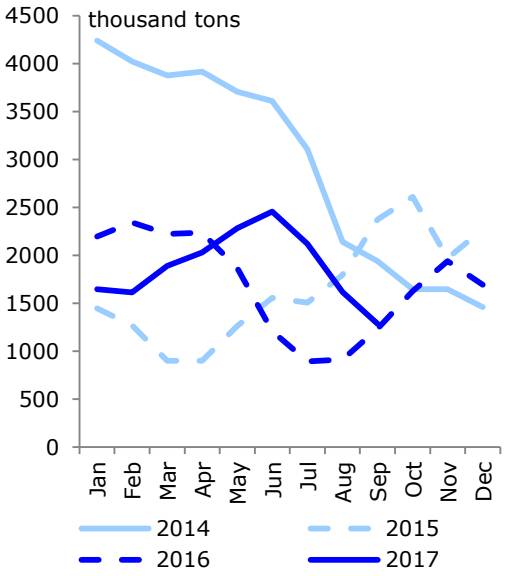
On September 14, the State Forestry Agency approved a Strategy of development and reforming of forestry sector. The Strategy envisages establishment of the Forestry Financial Fund that will finance activities of the forestry services. The Fund will be financed from forest tax revenues and fees from using forest land for recreation, hunting, harvesting of mushrooms, berries, medical plants and for non-forest related activities.

External sector: Merchandise trade deficit narrowed in August

Current account. Current account deficit reduced to USD 0.23 bn in August as merchandise trade gap lowered to USD 0.87 bn. Net inflow of remittances increased slightly to USD 0.70 bn, while trade in services surplus widened USD 0.37 bn. Service exports at USD 1.37 bn reached the highest level since Crimea was illegally annexed by Russia. This reflected growth in IT and transport services exports. Net investment income payments were steady at USD 0.36 bn.

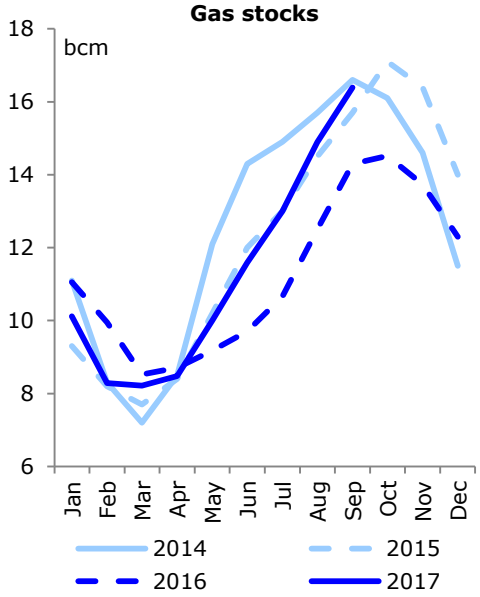
Merchandise exports increased by 13% yoy in August. Agricultural product exports increased by 18% yoy in response to higher export volumes of meat, milk and oilseeds to growing number of external markets. Metallurgy exports increased by 8% yoy in dollar terms as supply constraints eased. However, recent imposition of anti-dumping duties on Ukrainian steel exports to EU may reduce it in the future.

Coal stocks at TPPs



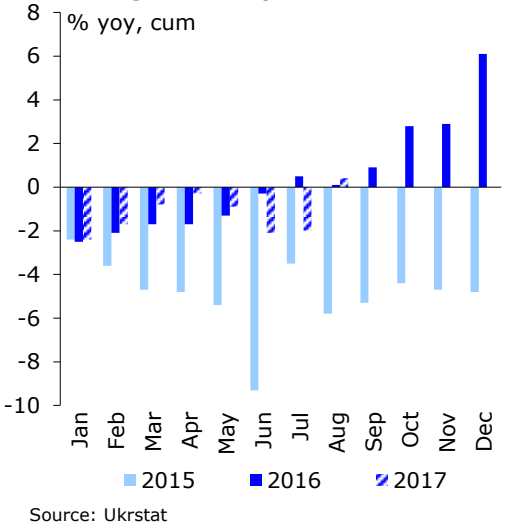
Source: Ministry of Energy, Ukrenergo

Gas stocks



Source: Ministry of Energy

Agricultural production

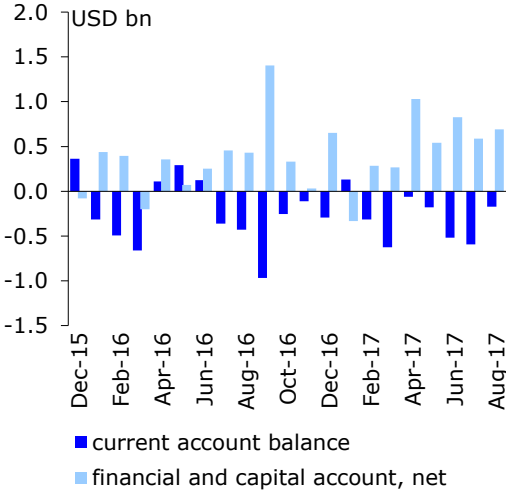


Source: Ukrstat

Merchandise imports increased by 10% yoy in August. Imports of mineral products grew by 33% yoy and exceeded USD 1 bn for the first time in 2017 as energy prices soared and coal imports remained high. Imports of machinery and equipment also remained at high level and increased by 14% yoy from high base of previous year. Imports of other items (excluding informal trade) grew by 10% yoy as consumer demand remained strong.

Financial account. Capital inflows under financial account increased to USD 0.74 bn in July. Public sector remained passive in August with USD 15 m net outflows. Bank sector received USD 30 m in FDI and reduced net foreign deposits by USD 215 m but debt flows were minimal. Overall, bank sector reported USD 235 m capital inflows. Real sector raised USD 164 m in net FDI in August including through privatisation. However flows of trade loans and other debt were low (with USD 67 m total outflows). Inflows of cash foreign currency to banks increased to USD 496 m.

Balance of payments



Source: NBU preliminary estimates

Fiscal policy: Draft State Budget for 2018 was submitted in time

2018. The Government submitted the Draft State Budget Law for 2018 to the Verkhovna Rada on September 15, which complies with the deadline in the Budget Code. The Draft is mostly based on current tax and social policy legislation. According to the Draft Law, central fiscal deficit is planned at UAH 77.9 bn or 2.4% of officially forecasted GDP, which is consistent with general government deficit target envisaged in the IMF Program. The deficit is to be financed mostly by external borrowing and privatization receipts.

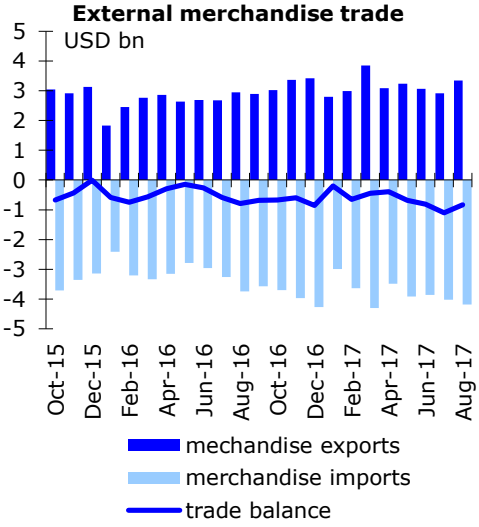
2017. In August, growth of consolidated fiscal revenues decelerated to 31.4% yoy from 43.4% yoy in July. Both tax and non-tax revenues increased slower than a month before mostly due to statistical base effect. Growth of EPT revenues remained strong (at 48.4% yoy).

Overall, during eight months of the year consolidated fiscal revenues grew by 42.4% yoy. Collections of VAT, EPT, PIT and rent payments increased by about 30% yoy due to improved economic activity. Non-tax revenues almost doubled due to the transfer of NBU profit to the budget at UAH 30.0 bn (zero during the same period of last year), increased profit of companies transferred to the budget, and funds from special confiscation.

Growth of consolidated fiscal revenues outpaced increase in expenditures (at 25.8% yoy). Spending on wages grew by 18.6% yoy due to increase in minimum wage and the wages under the unified tariff scale for public employees as well as higher wages of civil servants. Expenditure on purchasing of goods and services increased by 63.5% yoy. At the same time, payment of pensions and social assistance declined by 15.1% yoy due to lower central fiscal transfer to the Pension Fund as revenues from single social contribution grew faster than previously planned. Capital outlays increased by 44.5% yoy but reached only 32.6% of annual target.

Overall, consolidated fiscal surplus increased to UAH 68.6 bn from UAH 52.8 bn in the first seven months of the year due to higher growth of revenues than expenditures. In August, the Government received UAH 1.3 bn from the privatization of state-owned stakes in energy companies.

External merchandise trade

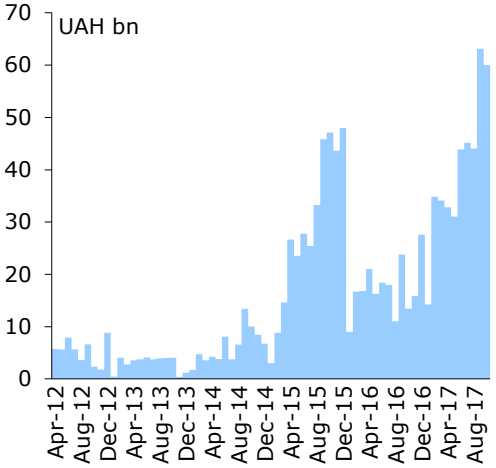


Source: NBU preliminary estimates

Social policy: The Parliament approved the pension reform

On October 3, the Parliament approved the amendments to the Pension Law. The approved draft law was a compromise between the Government version of the draft law and hundreds of amendments by the MPs. The pensions of current pensioners will be revised starting October 2017 due to the increase of average wage size taken into account while calculating the size of pension. Pensioners that retired longer time ago will increase higher pension increases. At the same time, some pensioners might receive no or very small increase in pensions if they retired recently or if recalculated pension is lower or close to the minimum level defined by Law.

Balance of the Single Treasury Account

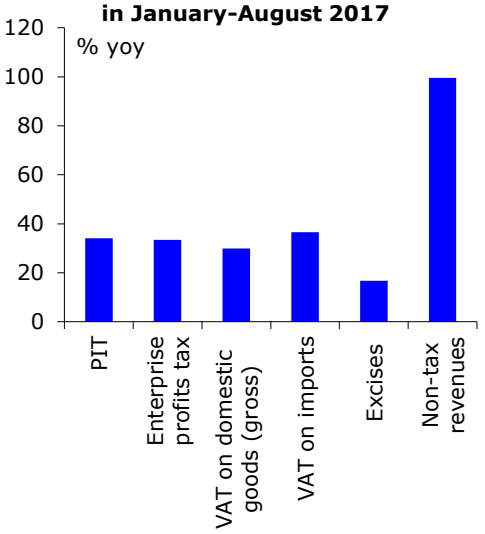


* in the beginning of month
Source: State Treasury

Since 2018, minimum social contribution record, which makes retired person eligible for old-age pension, will gradually increase from 25 years in 2018 to 35 years in 2028. Standard retirement age for individuals with full insurance record would remain 60 years. At the same time, individuals with insurance record lower than required but above 15 years would be able to retire at 63 years old. If individuals do not have 15 years of insurance record, they would be able to retire at 65 years old and would receive social pension at the level of subsistence minimum set for individuals that lost their ability to work. Minimum work-age pension will be equal to 40% of minimum wage. If a person does not have a required duration of pension insurance record, he/she can pay a lump sum insurance contribution to be eligible.

At the same time, new pensioners will receive lower pension when they retire as compared to old rules. Each year of insurance record now earns pension equal to 1.0% of wage in that year (indexed by average wage growth) as opposed to 1.35% before. But, the Government introduced automatic indexation of pension for average between consumer inflation and wage growth, which would protect pensioners from sharp decline in purchasing power in the period of macroeconomic instability.

Growth of Consolidated fiscal revenues in January-August 2017



Source: State Treasury eports

Labour market: Unemployment rate remains at one digit level

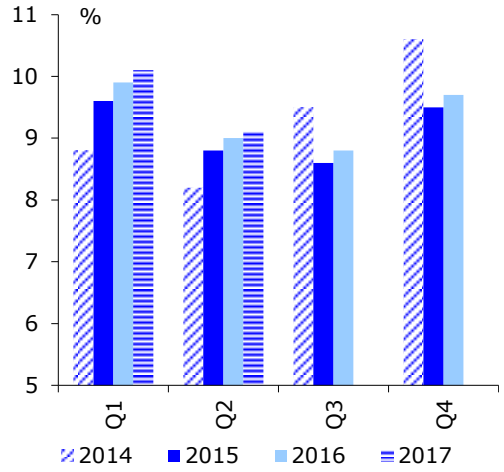
Unemployment. Unemployment rate (ILO methodology) was reported at 9.1% of economically active population of age 15-70 years old in the second quarter of 2017 as compared to 9.0% in the same period of last year. Unemployment rate increased somewhat for men from 10.4% to 11.0%, but reduced for women from 7.3% to 6.9%.

Wage. Average wage in August increased by 36.8% yoy in nominal terms and 17.2% yoy in real terms. Wage in state administration and defence increased by 59% yoy as wages in this sector was increased due to the increase of minimum wage (by twice) and revision of wage schedule.

Gap between wages in industry and other sectors reduced due to slower than average wage growth in industry (at 31.4% yoy). Machine building increased wages the most among industrial sectors due to improved economic performance.

Wage growth almost reached 50% yoy in sectors with traditionally low salaries as agriculture, education, and healthcare. Still, wages in these sectors remained among the lowest in economy.

Unemployment rate (ILO)



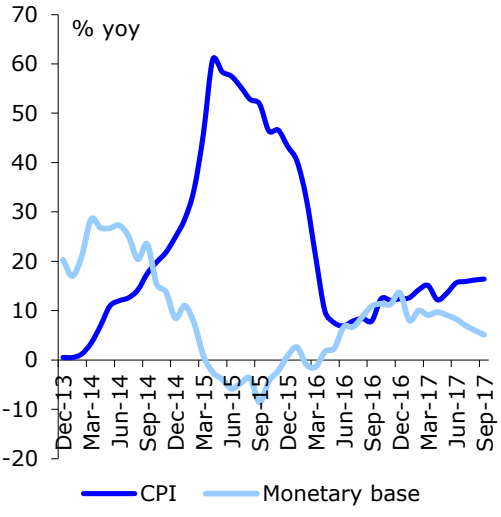
* 2014 - without Crimea, 2015 - without Crimea and occupied territory in the East
Source: Ukrstat

Monetary policy: Inflation accelerated to 16.4% yoy in September

Consumer inflation accelerated to 16.4% yoy in September as CPI jumped by 2.0% from August level. Seasonal increase in prices for education and clothing overlapped with 31% mom jump in prices for eggs and effects of increasing oil prices. Prices for food products other than eggs also increased by 1.1% mom. Core inflation moved to 7.7% yoy in September as demand pressure on prices remained moderate.

The NBU maintained policy rate at 12.5% p.a. during September 14 monetary policy meeting. The NBU acknowledged that inflation will likely overshoot its December 2017 target band. Still, it considered current policy stance sufficiently tight to bring inflation back to target in 2018. However, persistently high inflation over the last months may push the NBU to reconsider this position.

CPI and monetary base development



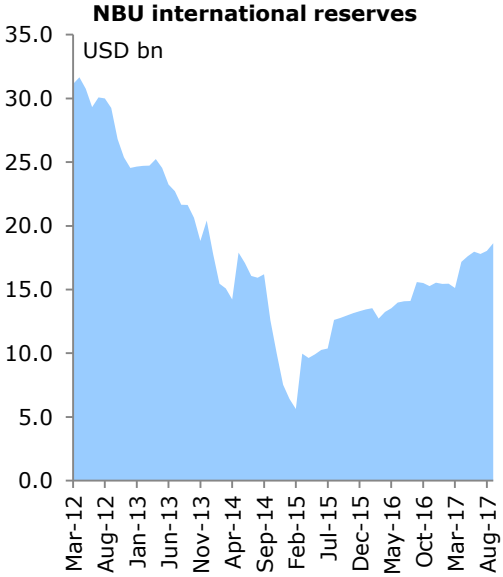
Source: Ukrstat, NBU

Exchange rate: Hryvnia weakened in September

UAH/USD exchange rate weakened in September in response to seasonal increase in FX demand and stronger depreciation expectations. Hryvnia lost over 3% of its value vs US dollar and interbank exchange rate exceeded UAH 26.5 per USD in the end of September. Export revenues remained healthy but demand for foreign currency both from imports and depreciation expectations

increased. The NBU spent USD 166 m to reduce exchange rate volatility. The NBU international reserves reached USD 18.6 bn as the Government received USD 0.8 bn in net proceeds from foreign currency operations. The Government raised over USD 1.3 bn from Eurobond placement (net) but also spent over USD 0.5 bn on biannual coupon on restructured Eurobonds.

NBU international reserves



Source: NBU

State debt: The Government reduces short-term state debt payments

External debt. In September, Ukraine returned to international capital market and placed 15-years Eurobonds of USD 3 bn at the yield of 7.375% p.a. This is the first market placement since 2013. Part of the received funds will be used for the purchase of Eurobonds with the maturity in 2019 and 2020 at USD 1.2 bn and USD 0.4 bn (nominal value), respectively. Therefore, the Government refinanced short-term Eurobonds with the longer-term bonds at somewhat lower interest rate. This would reduce the external state debt service for 2019 and 2020. Still, the FX public debt redemption for next two years approaches USD 10 bn.

Domestic debt. In the first week of October, the Government and the NBU completed reprofiling of state domestic debt, which were in the portfolio of the NBU. The state domestic bonds at UAH 220 bn (out of UAH 361 bn) were exchanged by long-term bonds with either indexed for inflation yields (about UAH 145 bn) or fixed yield. After reprofiling, government bonds in the NBU portfolio will mature in roughly equal chunks until 2047.

Tables

		Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Industrial production (real)	% yoy cum.	-13.0	4.5	2.6	2.5	2.8	-0.7	-0.4	2.4	2.6	2.8	5.6	0.4	-0.7	-2.0	-1.3	-0.4	-0.3	-0.4	…
Construction (real)	% yoy cum.	-12.3	8.3	13.0	17.3	17.4	19.4	24.6	17.0	17.2	17.4	35.0	21.0	19.4	17.8	20.8	24.6	24.2	25.4	…
Agricultural production (real)	% yoy cum.	-4.8	-1.7	-0.3	0.9	6.1	-0.8	-2.1	2.8	2.9	6.1	-2.4	-1.7	-0.8	-0.3	-0.9	-2.1	-2.0	0.4	…
Retail trade turnover (real)	% yoy cum.	-20.7	1.6	2.3	3.3	4.0	3.1	7.3	3.0	3.7	4.0	3.1	0.5	3.1	5.8	7.1	7.3	8.0	8.7	…
Average wage	UAH	4753	4622	5072	5311	5744	6323	6953	5350	5406	6475	6008	6209	6752	6659	6840	7360	7339	7114	…
CPI	% yoy eop	43.3	20.9	6.9	7.9	12.4	15.1	15.6	12.4	12.1	12.4	12.6	14.2	15.1	12.2	13.5	15.6	15.9	16.2	16.4
PPI	% yoy eop	25.4	10.5	15.7	19.6	35.7	38.3	26.3	29.2	32.0	35.7	36.8	38.9	38.3	35.6	27.1	26.3	23.3	23.6	22.4
Exports (USD)*	% yoy cum.	-27.0	-16.4	-10.1	-8.0	-4.0	29.3	21.1	-7.1	-5.1	-4.0	42.0	28.6	29.3	23.4	22.8	21.1	19.6	19.1	…
Imports (USD)*	% yoy cum.	-29.3	-10.9	-4.0	0.6	4.4	18.2	20.3	0.5	2.1	4.4	20.0	15.0	18.2	16.5	19.7	20.3	19.7	18.1	…
Trade balance*	USD bn cum.	-1.6	-2.3	-1.9	-4.1	-5.8	-0.9	-2.3	-4.5	-5.0	-5.8	0.0	-0.5	-0.9	-1.1	-1.6	-2.3	-3.2	-3.6	…
Current account**	USD bn cum.	-0.2	-1.5	-0.9	-2.8	-3.8	-0.8	-1.6	-3.1	-3.3	-3.8	0.1	-0.2	-0.8	-0.9	-1.0	-1.6	-2.2	-2.1	…
Gross international reserves	USD bn eop	13.3	12.7	14.0	15.6	15.5	15.1	18.0	15.5	15.3	15.5	15.4	15.5	15.1	17.2	17.6	18.0	17.8	18.0	18.6
Monetary Base	% yoy eop	0.8	-1.4	1.7	10.6	13.6	9.1	8.3	11.4	11.3	13.6	8.0	10.0	9.1	9.7	9.1	8.3	7.0	6.0	…
Lending rate on UAH credits	% pa, aop	20.7	20.0	20.9	17.3	14.7	15.8	14.7	14.2	13.7	16.1	15.9	15.5	15.8	15.3	15.2	14.7	14.0	14.3	…
Exchange rate (interbank)	USD aop	22.90	25.69	25.2	17.27	25.90	27.09	26.44	25.72	25.71	26.27	27.22	27.05	26.99	26.82	26.40	26.09	25.95	25.65	26.18
Exchange rate (official)	USD aop	22.33	25.68	25.3	25.40	25.67	27.06	26.46	25.76	25.70	25.55	27.15	27.03	27.00	26.86	26.42	26.11	25.97	25.64	26.11
Exchange rate (official)	EUR aop	24.91	28.34	28.6	25.58	28.18	28.81	29.06	28.45	27.78	28.29	28.80	28.81	28.82	28.77	29.16	29.26	29.84	30.23	31.08

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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