Monthly Economic Monitor Ukraine

No.8 (202), August 2017

EXECUTIVE SUMMARY

HIGHLIGHT: RYANAIR

Politics: The Canada-Ukraine Free Trade Agreement came into force on August 1, 2017. In September, the full-scale implementation of the Association Agreement between Ukraine and the EU will start.

Real sector: Industrial production growth accelerated to 3.8% yoy in June in part due to the statistical base effect.

Energy sector: The National Energy and Utilities Regulatory Commission adopted the rules for tariff setting on thermal energy transportation using the regulatory asset base (RAB) approach.

Agriculture: In June, the agricultural production declined by 2.1% yoy due to decline in both crop and livestock production.

External sector: In June, merchandise trade deficit reached USD 0.81 bn, one of the highest values since 2014.

Fiscal policy: In July, the Parliament increased by plan of central fiscal revenues for 2017 by 5.4% to UAH 771 bn and not to UAH 757 bn as it was suggested by the Government.

Social policy: The pension reform that envisages changes on the solidarity pension pillar was approved in the first reading.

Labour market: Average wage in June grew by 37.9% yoy primarily due to increase in minimum wage.

Monetary policy: Consumer inflation accelerated to 15.9% yoy in July driven by growing food prices..

Exchange rate: Interbank UAH/USD exchange rate returned to below UAH 26 per USD in July for the first time since December 2016.

State debt: In the first half of 2017, state debt increased by 1.4% in hryvnia equivalent to UAH 1 958 bn.

Highlight of the month: Ryanair

CONFLICT OVER RYANAIR: QUESTIONS WITHOUT CLEAR ANSWERS

By Veronika Movchan

On July 10, 2017, Ryanair, the largest low-cost airline in Europe, announced that it cancels its plans to enter Ukraine due to the failure to agree the contract with Boryspil airport. The decision was a negative blow to the image of Ukraine aiming to prove that the country is open and friendly to foreign investors. However, the analysis shows that the situation is not straightforward, and all involved parties seem to share the responsibility for the failure of the talks. Below, we list some of the still open questions.

Why did Ryanair start selling tickets before reaching the agreements with the airports? Ryanair announced the decision to launch flights from Kyiv and Lviv on March 15, 2017, after signing the Memorandum with the Ministry of Infrastructure. Volodymyr Omelyan, the Minister of Infrastructure, said that talks lasted since 2011. Immediately after the announcement, Ryanair started selling tickets. However, it appeared later that the company had not signed contracts with airports and even had not received all international permissions. The publicity regarding the incomplete deal resulted in a misbalanced position of negotiators and the image losses for Ukraine after the deal failed.

Why Boryspil airport was offered as an unambiguous partner of Ryanair after the failure of talks with airport Kyiv? Many Ryanair flights in the EU are operated from non-central airports, and the same approach could be used in Ukraine. Initially, Ryanair was trying to negotiate the deal with airport Kyiv, the municipal privately operated airport with a new terminal specializing in low-cost flights. The airport already operates flights of Wizzair, another large European lowcoster. According to Pavel Ryabikin, director of Boryspil Airport, the talks with airport Kyiv failed due to high operational costs and inability to offer low enough tariffs to match the business model of Ryanair. According to the Minister of Infrastructure, it was because the operators of the airport were not interested.

Information about the failure of talks with airport Kyiv almost coincided with the deal announcement, and on March 15, at the press conference in Kyiv, the Minister of Infrastructure not only announced the deal, but also named Boryspil and Lviv as state airports that will work with Ryanair.

A possible reason for offering Boryspil airport could be the availability of unused terminals. However, Boryspil airport has an officially adopted Development Strategy (2015), according to which the airport is to become the transit hub. It means different development priorities compared to the strategy of becoming attractive to lowcosters. According to the Boryspil's information, in April 2017, about 30% of passengers were transit passengers, which is about a threshold needed to become an internationally recognized transit hub. It remains unclear whether a transit hub strategy and servicing lowcosters could be effectively implemented in parallel.

There are several other regional airports around Kyiv. There is a Zhytomyr airport, relaunched in late 2016 and currently operated by Yanair, a regional Ukrainian airline company. The airport is 138 km or 2-hour drive from the center of Kyiv. There is a Hostomel airport in Kyiv oblast used for cargo flights; although, it is definitely less attractive in short run, as it has no developed passenger infrastructure.

What are true service charges at Boryspil airport, and whether the discounts requested by Ryanair are indeed unacceptable? Pavel Ryabikin stated that Ryanair demanded charges at USD 7.5 per passenger for 5 years, and that it is too low unless the passenger flow generated by Ryanair grows at +150 thousands per year. According to the airport website, the airport charges USD 17 per passenger plus take-off/landing charge per aircraft, plus the system of discounts. The Anti-Monopoly Committee of Ukraine currently investigates potentially unlawful discounts that Boryspil airport provided to the Ukrainian International Airlines, the largest airline company in the country.

What institution could decide on free services (requested by the Ryanair) to the selected private company and is it possible in principle? According to Pavel Ryabikin, Ryanair demanded free services for air navigation, registration desks, taxi slots, areas in terminal, as well as provision of a land plot for new hotel and other concessions. It remains unclear whether the Boryspil airport could legally make such concessions. The Boryspil airport is a state owned company and, thus, has quite limited maneuver power. Likely, the decision of the public authorities would be necessary. Moreover, some lawyers questioned legality of several Ryanair requests. According to the Minister of Infrastructure, the Boryspil airport should have signed a base agreement without these concessions and continue talks regarding these additional demands.

Why did the failure to agree with Kyiv result in the cancellation of the flights to Lviv, with which the base agreement was signed? In July, Ryanair stated that it skips the entire Ukraine project regardless signed deal with Lviv. Moreover, the most of flights were planned from Lviv (7 routes) compared to Kyiv (4 routes).

Would the state budget be responsible for losses incurred by the airport in case of (temporary) unfavorable deal? According to Boryspil airport representatives, the requested discounts would result in the airport losses at UAH 2 bn per year, although no background calculations were provided.

The scandal erupted after the Ryanair decision forced the Ukrainian Government to seek the renewal of the talks. To find the solution, the negotiation team comprising the representatives of the Boryspil airport, the Ministry of Infrastructure and Ukraine Investment Promotion Office was established. Volodymyr Groisman, the Prime Minister of Ukraine, suggested building a new terminal in Hostomel especially for lowcosters, while the Boryspil or Kyiv airports could host Ryanair flights temporary. However, Ryanair has not publicly confirmed resumed talks.

Monthly Economic Monitor Ukraine

Politics: Immunity lifted for several MPs accused in corruption

Political instability. In July, on the appeal of Prosecutor's General Office the Parliament stripped parliamentary immunity from three MPs: Oles Dovhy (Volya Narodu faction), Maksym Polyakov (Narodny Front faction), and Boryslav Rozenblat (Petro Porosheno Bloc faction); but did not give the consent for their arrest. However, it allowed the arrest of MP Mykhailo Dobkin from the Opposition Bloc faction. Two other MPs – Yevhen Deidei (Narodny Front faction) and Andriy Lozovy (Oleh Lyashko's Radical Party faction) – kept the parliamentary immunity as there were not enough votes to lift it. These MPs were accused of embezzlement, tax evasion and abuse of office following the investigations by the National Anticorruption Bureau and the Prosecutor's General Office.

In July, the President of Ukraine stripped former President of Georgia and former head of Odesa State Oblast Administration Mikheil Saakashvili of his Ukrainian citizenship, which was granted in 2015. The official reason for this was the false information in Saakashvili's citizenship application, while Saakashvili states he was stripped of citizenship because of his critics of the President.

The war in Donbas. The armed conflict in the Eastern Ukraine continued in July. The number of civilians targeted and captured by combined Russian-separatist forces increased. According to the Security Service of Ukraine, illegal militants that control eastern parts of the country are holding 137 citizens of Ukraine in captivity. 24 service members of the Ukrainian Armed Forces were killed in the war in July, and 76 service members were wounded.

Violence and persecutions continued in Russia-occupied Crimea. Another Crimean Tatar was kidnapped, and a local resident was sentenced for more than three years in prison for "acts of sabotage", which human rights groups call a politically motivated verdict.

In July, the European Court of Human Rights (ECHR) ruled in favor of Ukraine in the case of a citizen of Ukraine who filed a complaint over inability of Ukraine to consider his appeal of criminal case. The reason for this is that the files of the case are currently located in the city of Luhansk and are not accessible for Ukrainian authorities. The court ruling recognized that Ukrainian authorities were not able to retrieve the criminal case files from the area beyond their control, and, thus, Ukraine is not responsible for the consequences of losing control over part of the territory of Luhansk oblast. This was the first case in which the ECHR studied the complaint related to the loss of Ukraine's control over a part of its territory in the east of the country.

Constitutional Court. The Verkhovna Rada amended the Law on Ukraine's Constitutional Court. The bill introduces competitive selection of candidates for the position of the Constitutional Court Judge. It also changes the procedure of voting for the Ombudsman (Ukrainian Parliament Commissioner for Human Rights) from secret ballot to open ballot, a move that was criticized as the one that will decrease political independence of the Ombudsman.

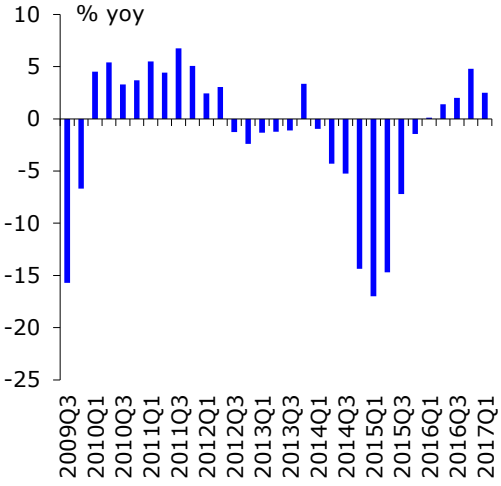
Free Trade Areas. The Canada-Ukraine Free Trade Agreement (CUFTA) came into force on August 1, 2017. The customs tariffs will either be eliminated immediately upon entry into force of the Agreement or will gradually decline over the period up to seven years. In July, the Council of Europe approved the Association Agreement with Ukraine. This was a final step of the ratification process that will allow the full implementation of the Agreement starting from September 1, 2017.

Real sector: Strong growth in retails sales

Sectoral trends. Industrial production growth accelerated to 3.8% yoy in June from 1.2% yoy in May in part due to the statistical base effect (in June 2016 industrial output declined due to strike on railways in the Eastern Ukraine). This was a main reason for increase

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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in metallurgy at 1.8% yoy and coal extraction at 7.2% yoy. Higher orders for defence equipment and railway machinery contributed to growth of machine building at 15.2% yoy. Chemical production increased by 1.0% yoy as the decline in production of fertilisers was compensated by increase in consumer chemicals production (e.g. soap, perfumes, cleaning supplies). Growth of food production decelerated but remain strong at 7.6% yoy. Decline in meat production explained by reduced number of cattle was offset by growing vegetable oil exports.

Increase in construction at 31.9% yoy stimulated extraction and production of construction materials. Surge in construction of infrastructural objects is likely explained by higher budget spending on maintenance and construction of roads (including above-target customs revenues earmarked for road construction).

Retail sales increased by 9.0% yoy in June. This likely reflects strong growth of average wages and improved consumer sentiment.

Energy: RAB regulation in thermal energy transportation

Regulation. On July 27, the National Energy and Utilities Regulatory Commission (NERC) adopted the rules for tariff setting on thermal energy transportation using the regulatory asset base (RAB) approach. RAB-based regulation aims to give operators a fair return on their investment in the business. The new rules set a 12.5% return on new investments and on the current assets of the company. However, this approach was criticized by energy experts. This 12.5% return is excessively high for the current assets of energy companies as private owners while purchasing the companies paid the price much lower than the asset value and, thus, the difference between the two is not investments. At the same time, this return is too low to stimulate new investments. Therefore, RAB methodology should be modified to differentiate between old and new investments.

Electricity. The NERC increased the tariff for electricity produced by hydro power plants by 52% to UAH 0.33 per KWt*h starting September 2017. The increase aims to cover investments in construction of the fourth energy unit of Dnistrovska hydro accumulating power plant. Between January and June 2017, hydro power plants produced 7.5% of the total electricity volume in the country or 5.9 bn KWt*h.

Agriculture: New step towards European sanitary and phytosanitary standards

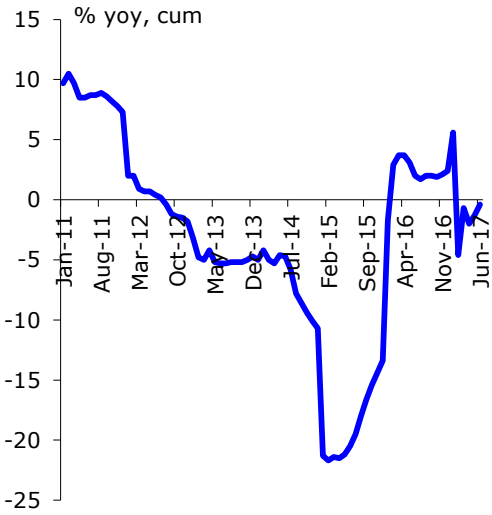
Production. In June, the agricultural production declined by 2.1% yoy. Crop production dropped by 8.5% yoy likely due to a later start of harvesting campaign explained by difficult weather conditions. Livestock production decreased by 0.9% yoy due to decline in milk production.

As of July 1, 2017, the number of cattle in agricultural enterprises decreased by 0.9% yoy. The number of cows and pigs declined by 2.5% yoy and 8.5% yoy, respectively. Poultry numbers increased by 0.5%. Thus, the shift towards poultry continues as it requires less investments than cattle or pigs breeding.

Trade. Foreign trade turnover of agricultural and food industry products in January-June 2017 reached USD 10.9 bn or 25.2% of the total foreign trade turnover of Ukraine. Agricultural exports, mainly crop commodities, increased by 28% yoy to USD 8.8 bn or 42.5% of Ukraine's total exports. The most important commodity groups in agricultural exports were cereals (37.8% of exports), oil (27.9%) and oilseeds (8%). Imports reached USD 2.1 bn, or 9.4% of Ukraine's total imports. In total, it grew by 1.2% yoy mainly due to increase in oil (mailnly palm oil) imports by 7%. Positive agriculture trade balance amounted to USD 6.6 bn.

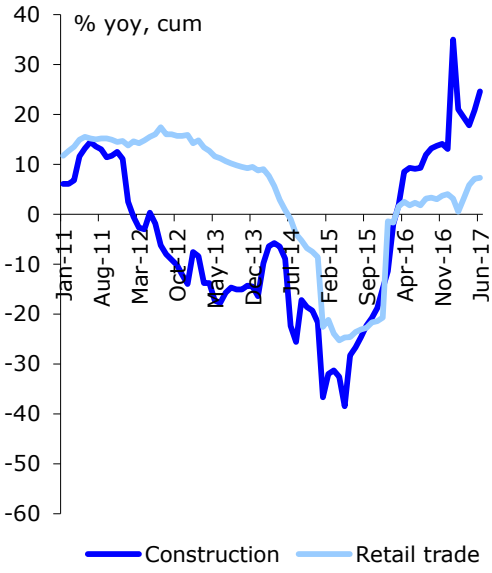
Policy. On July 12th, at the Government changed the rules for the compensation of interest on credits. Until 2017, partial compensation comprised 50% of the disount NBU rate. Since 2017, agricultural producers with income up to UAH 10 m and cattle breeders can be compensated the interest at the level of 100% of disount NBU rate.

Industrial output



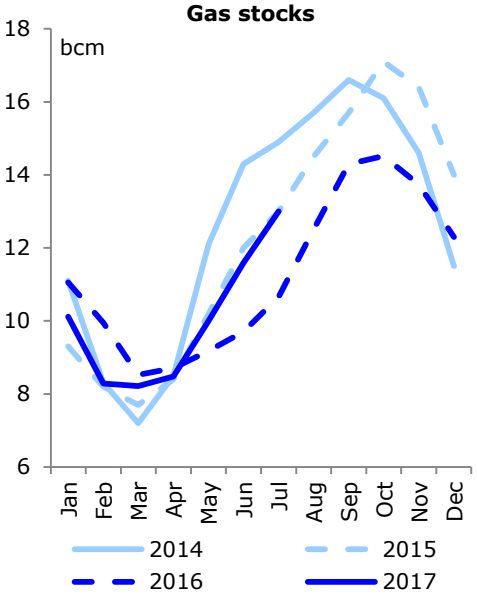
Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Real sector trends



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

Gas stocks



Source: Ministry of Energy

In July, the EU Council of Ministers of Agriculture approved the draft amendments to the Annex V of the Association Agreement between Ukraine and the EU. It incorporates a list of sanitary and phytosanitary (SPS) norms of the EU legislation that Ukraine has to conform to. If approved by the European Parliament it should be reflected in Ukrainian legislation. As of now, the Government gradually introduces measures foreseen in the Comprehensive strategy for the implementation of Chapter IV (Sanitary and phytosanitary measures) of Section IV "Trade and trade-related issues" of the Association Agreement, which was approved in February 2016.

External sector: Real sector increased capital inflows in June

Current account. Current account deficit surged to USD 0.52 bn in June as merchandise trade deficit reached USD 0.81 bn, one of the highest values since 2014. Net inflow of remittances reduced slightly to USD 0.63 bn while trade in services surplus was USD 0.15 bn. Growing services exports (by 11% yoy) helped mitigate seasonal increase in travel imports. Net investment income payments increased to USD 0.49 bn after the NBU allowed increased dividend payments abroad in April.

Merchandise exports increased by 13% yoy in June. Metallurgy exports increased by 15% yoy in dollar terms as global steel prices remained high. Growth in exports of agricultural products slowed to 11% yoy as some producers switched to domestic market in response to higher prices and domestic demand.

Merchandise imports increased by 30% yoy in June. Imports of mineral products remained much higher than in previous year (by 78% yoy) as Naftogaz continued gas imports to replenish gas reserves for winter that was done later in 2016 . Coal imports also remained high. Imports of machinery and equipment increased by 41% yoy reflecting strong imports of agricultural machinery and consumer items. Imports of other items grew by 10% yoy as consumer demand increased but curiously the NBU reported significant decrease in informal imports.

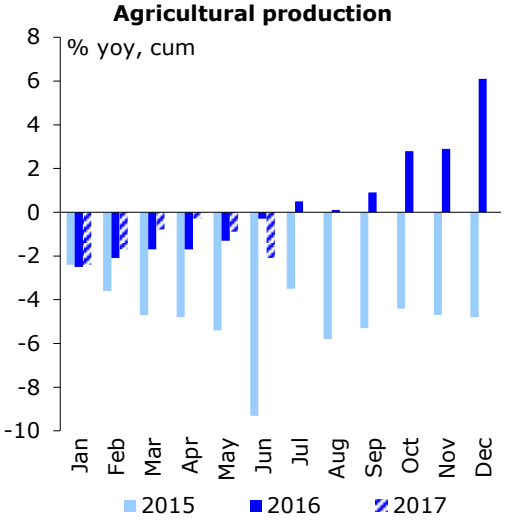
Financial account. Capital inflows under financial account grew to USD 0.8 bn in May due to surge in FDI. Bank sector raised USD 0.4 bn in FDI as part of recapitalization of banks but this was matched reduction of other bank liabilities that were converted to capital. Banks also increased foreign assets resulting in net bank sector capital outflows at USD 197 m. Government remained on summer vacation with very little capital flows. In contrast real sector raised USD 229 m in net FDI inflows, USD 224 m in net trade loans and USD 187 m in other net debt financing including USD 104 m in Eurobonds. Overall at least some real sector companies seem to regain access to external financing. Inflows of cash foreign currency to banks increased to USD 0.55 bn.

Fiscal policy: Fiscal risks increase due to budget amendments

Budget amendments. In July, the Parliament approved the amendments to the State Budget Law for 2017. Planned central fiscal revenues were increased by 5.4% to UAH 771 bn and not to UAH 757 bn as it was suggested by the Government. This unusual move reflected more optimistic revenues projections by MPs or their populism as no revenue-increasing legislation was passed in parallel.

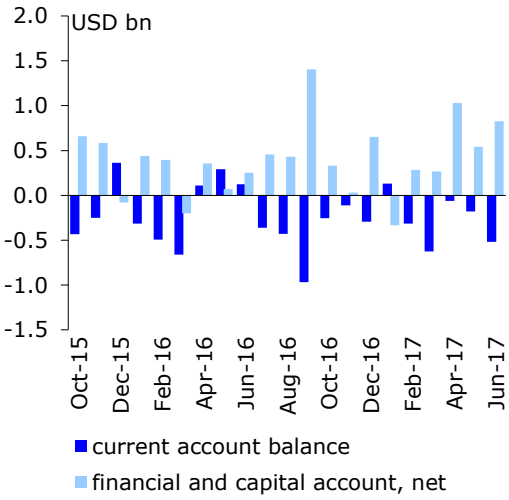
The Parliament increased more than it was initially suggested planned revenues from PIT and EPT. It also increased planned collections of VAT on domestically produced goods even though the Government suggested to reduce the target. At the same time, the Parliament did not agree with the Government on the suggested increase in VAT on imported goods. This means that more funds earmarked for road maintenance and construction will be transferred to local budgets from 50% of over-execution of customs revenues. As a result, there is a risk of higher fiscal gap in the end of the year and it may have to

Agricultural production



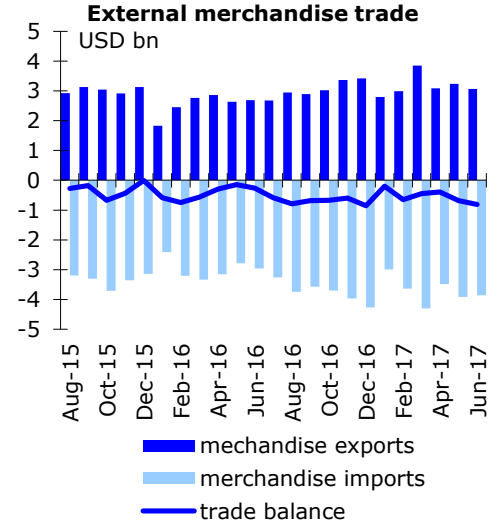
Source: Ukrstat

Balance of payments



Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

be covered by more borrowing or underspending taking into account likely failure of UAH 17 bn privatisation plan.

The Parliament also decided to spend additional UAH 10.8 bn from special confiscation, which the Government attempted to save for next year's debt payments. In particular, UAH 4 bn will be spent for defence, and the same amount will be directed towards healthcare system in rural area. The National Police and road construction will receive UAH 1 bn additionally each.

Overall, central fiscal expenditures target was raised by UAH 40.7 bn including UAH 14.1 bn for housing and utility subsidies. Central fiscal deficit in theory remained unchanged at UAH 77.6 bn.

2017H1. In the first half of 2017, consolidated fiscal revenues increased by 46.1% yoy due to one-off increase non-tax revenues and healthy growth in tax intake. Tax revenues increased by 28.5% yoy. As both wages and corporate profits received a boost from gradual economic recovery (with minimum wage and tariff hikes helping out) PIT revenues increased by 35.1% yoy and EPT revenues grew by 28.4%. VAT on domestically produced goods and services increased by 29.4% yoy largely due to cancellation of special VAT scheme for agricultural companies. At the same time, increase in exports and the introduction of autonomic VAT refunds resulted in surge of VAT refunds at 57.7% yoy. Higher consumption and investment demand resulted in increase of VAT on imported goods at 42.3% yoy.

Non-tax revenues more than doubled during this period. The NBU transferred to the budget profits at UAH 20 bn as compared to zero in the same period of last year. Besides, the Government received UAH 29.7 bn of funds from special confiscation. The Naftogaz again become a moneymaker for the budget and transferred Government's share of net profit at UAH 13.3 bn.

At the same time, consolidated fiscal expenditures increased by 26.7% yoy. Wage payments grew by 21.0% yoy due to increase in wages in state administration and in public sectors. Debt servicing increased by 11.4% yoy due to growing public debt. Improved financial situation of the Pension Fund resulted in lower spending for pensions and welfare by 12.8% yoy.

Consolidated fiscal balance was in the surplus of UAH 52.1 bn due to over-execution of revenues and under-financed expenditures. In particular, central fiscal revenues due to general fund were over-executed by UAH 20 bn or 6.3%. The Government also received funds from special confiscation at UAH 29.7 bn instead of initially planned UAH 11.6 bn. At the same time, central fiscal expenditures (general fund) were under-financed at UAH 38.9 bn (or by 10.2% of target).

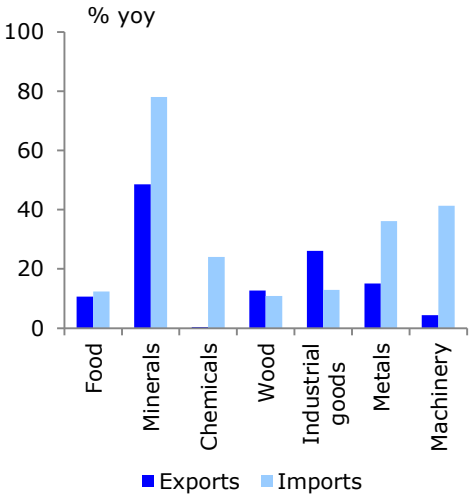
Preliminary data. According to the preliminary information of the State Treasury, in the first seven months of 2017 growth of consolidated fiscal revenues remained at near 47% yoy. As previously, this is explained by higher tax and non-tax revenues.

Social policy: The Pension Fund's revenues increased

2017. Between January and July, total revenues of the Pension Fund reached UAH 149.1 bn, which include central fiscal transfer for financing state pension programs, co-payment to pensions to the minimum level, and the Fund's deficit. Own revenues of the Fund (primarily generated from single social contribution) accounted for 57.9% of total revenues. They increased by 37% yoy due to increase in average wages. At the same time, expenditures of the Pension Fund increased by 9.2% yoy as pensions were raised less than wages.

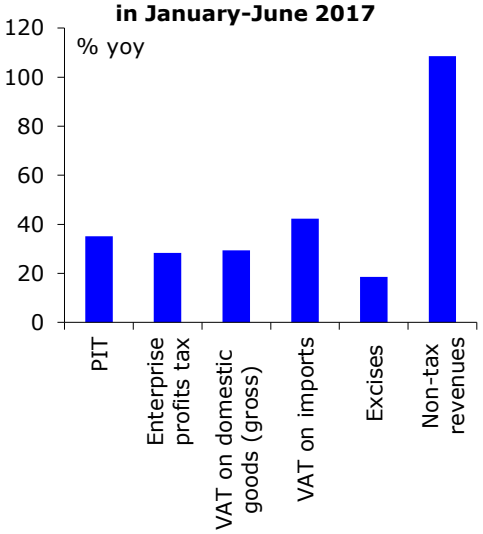
Pension reform. In July, the Parliament approved in the first reading the draft law on pension reform, which was submitted by the Government in June. The suggested pension reform is aimed at the streamlining of the first pension pillar – the pay-as-you-go system. It suggests that minimum insurance record necessary to receive pension when 60 years old would be increased from 15 to 25 years in 2018 and then gradually increased to 35 years until 2028. The standard retirement age is to remain at 60 years for women and men.

Trade in goods in June 2017



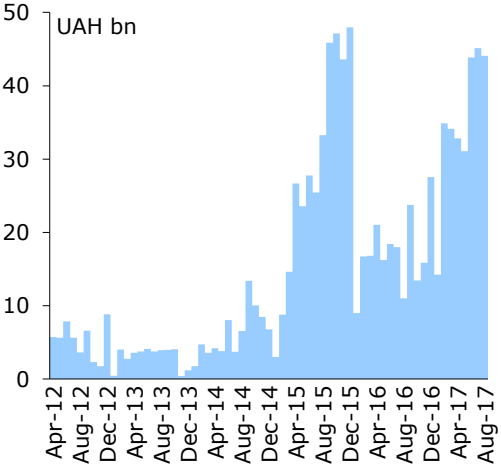
Source: NBU preliminary estimates

Growth of Consolidated fiscal revenues in January-June 2017



Source: State Treasury eports

Balance of the Single Treasury Account



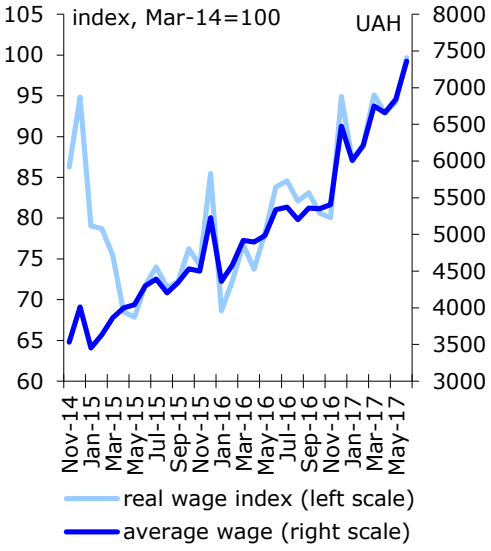
* in the beginning of month
Source: State Treasury

However, if a person does not have a minimum required insurance record at 60 years old, the person might work several more years or purchase the years of insurance record through payment of single social contribution for these years. Alternatively required years of insurance record reduce by up to 10 years at 63 and by even more at 65. Such measures are aimed to create stimulus for current employees to participate in the pension system. The draft law envisages that a year of insurance record would be worth 1% of average wage of individual versus current 1.35%. This will reduce the replacement rate for new pensioners at their retirement and, thus, may worsen welfare for some of them. At the same time, the Government suggests to index pensions by 50% of inflation or average wage growth.

The Government plans to revise pensions of current pensioners through the increase in the level of average wage, which is taken into account while updating pension payments. This measure is required to reduce the inequality of pension payments of pensioners with similar insurance record but with different year of retirement.

The members of the Parliament are likely to suggest many amendments to the current version of the draft Law before the second reading. Meanwhile, the Government has started discussions on the possibility of the introduction of the second pillar of the pension system – the accumulative pension system.

Average wage*

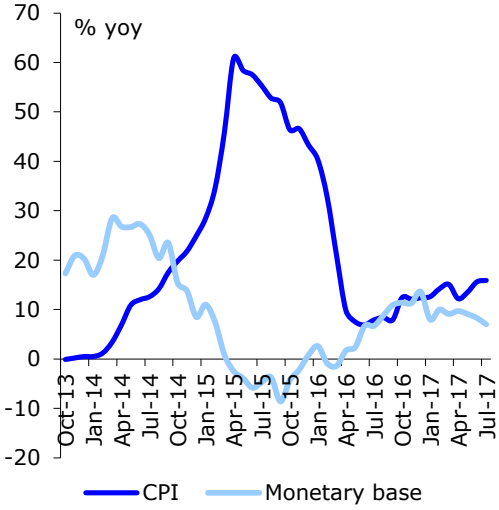


*not including AR Crimea
Source: Ukrstat

Labour market: Average wage increase rapidly

Average wage in June increased by 37.9% yoy. Increase in public sector wages and minimum wage increase (from UAH 1600 to UAH 3200 since January 2017) remain the major driving force for average wage growth this year. Sectors with traditionally low wages, including agriculture, healthcare and education, increased wages by near 50% yoy. Wages in state administration increased by 56.7% yoy due to the minimum wage increase and partial introduction of new rules of remuneration of civil servants as it was defined in new law on Civil Service. Industrial sectors increased wages by 31.3% yoy on average with higher wages increases in sectors that improved economic performance.

CPI and monetary base development



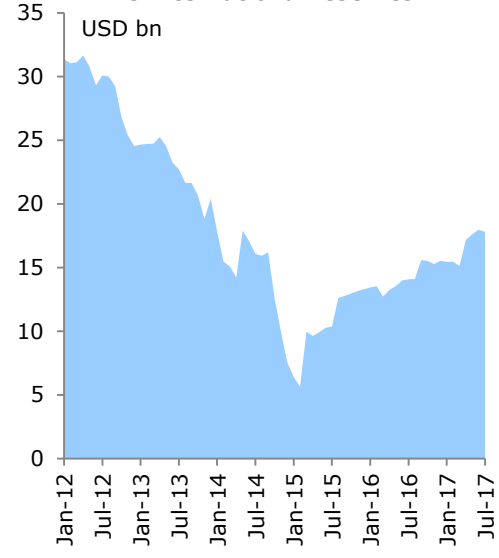
Source: Ukrstat, NBU

Monetary policy: Inflation accelerated to 15.9% yoy in July

Consumer inflation accelerated to 15.9% yoy in July driven by growing food prices. Prices for vegetables were much higher (by 60% yoy) than a year ago despite seasonal decreases in prices from previous months. Meat and milk products grew by 20-30% yoy due to growing domestic and external demand with stagnant production (that may reflect relatively low prices paid by food industry to agricultural producers). Core inflation was 7.3% yoy in July as compared to 6.2% yoy in January as domestic demand gradually increased pressure on prices.

The NBU maintained policy rate at 12.5% p.a. on August 3, thus continuing what it considers tight monetary policy due to increased inflation pressure. Still, the NBU refrained from tighter monetary policy stance as it apparently believes inflation will still go down to about 10% yoy by the end of the year. For this to happen food price inflation must slow significantly over the next months and consumer demand must grow slow enough to keep demand pressure on inflation low.

NBU international reserves



Source: NBU

Exchange rate: Hryvnia appreciated slightly in July

Interbank UAH/USD exchange rate returned to below UAH 26 per USD in July for the first time since December 2016. Export revenues remained healthy, cash foreign currency sales to banks high and US dollar weakened against other currencies. However demand for foreign currency also increased keeping exchange rate close to UAH 26 per USD and NBU net foreign currency purchases at USD 30 m. The NBU international reserves reduced to USD 17.8 bn as the Government repaid domestic bonds in foreign currency.

State debt: State debt increased in the first half of 2017

Debt. According to the Ministry of Finance, in the first half of 2017, state debt increased by 5.7% in the US dollar equivalent (to USD 75.0 bn) or by 1.4% in hryvnia equivalent (to UAH 1 958 bn).

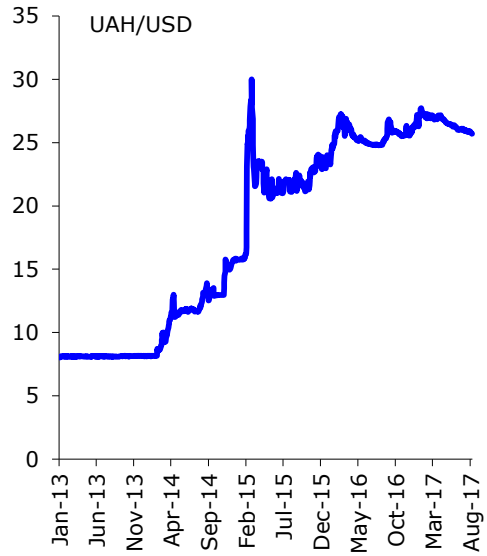
External debt accounts for 64.3% of the total. It grew by 5.8% in USD-equivalent mainly due to the receipt of the forth IMF tranche under the EFF at USD 1.0 bn and the EU macro-finance assistance at EUR 600 m. Domestic debt increased by 1.3% in hryvnia equivalent primarily due to further recapitalization of three state-owned banks (the PrivatBank, the Oshchadbank, and the Ukreximbank).

The share of hryvnia-denominated debt remained almost unchanged (30.9% of total state debt). Consequently, high debt vulnerability to exchange rate shocks remained high.

Domestic debt. In July, the Ministry of Finance placed UAH 1.4 bn of state domestic bonds with weighted average yield at 14.5% p.a. The yields remained steady with demand mostly for mid-term bonds. The demand was mostly concentrated on three-year bonds, which accounted for 51.2% of the total placement. The Government reduced the issuance of shorter term bonds as fiscal situation is currently encouraging.

The Government placed USD 158 m of two-year USD-denominated bonds at 5.3% p.a. even though it initially planned to issue only three-year bonds. It was likely a result of consultations with primary dealers.

Weighted average exchange rate at interbank



Source: NBU

Tables

		Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Industrial production (real)	% yoy cum.	-13.0	4.5	2.6	2.5	2.8	-0.7	-0.4	2.3	2.5	2.5	2.4	2.6	2.8	5.6	0.4	-0.7	-2.0	-1.3	-0.4	…
Construction (real)	% yoy cum.	-12.3	8.3	13.0	17.3	17.4	19.4	24.6	14.4	15.4	17.3	17.0	17.2	17.4	35.0	21.0	19.4	17.8	20.8	24.6	…
Agricultural production (real)	% yoy cum.	-4.8	-1.7	-0.3	0.9	6.1	-0.8	-2.1	0.5	0.1	0.9	2.8	2.9	6.1	-2.4	-1.7	-0.8	-0.3	-0.9	-2.1	…
Retail trade turnover (real)	% yoy cum.	-20.7	1.6	2.3	3.3	4.0	3.1	7.3	2.4	3.1	3.3	3.0	3.7	4.0	3.1	0.5	3.1	5.8	7.1	7.3	…
Average wage	UAH	4753	4622	5072	5311	5744	6323	6953	5374	5202	5358	5350	5406	6475	6008	6209	6752	6659	6840	7360	…
CPI	% yoy eop	43.3	20.9	6.9	7.9	12.4	15.1	15.6	7.9	8.4	7.9	12.4	12.1	12.4	12.6	14.2	15.1	12.2	13.5	15.6	15.9
PPI	% yoy eop	25.4	10.5	15.7	19.6	35.7	38.3	26.3	18.3	18.9	19.6	29.2	32.0	35.7	36.8	38.9	38.3	35.6	27.1	26.3	23.3
Exports (USD)*	% yoy cum.	-27.0	-16.4	-10.1	-8.0	-4.0	29.3	21.1	-9.9	-8.4	-8.0	-7.1	-5.1	-4.0	42.0	28.6	29.3	23.4	22.8	21.1	…
Imports (USD)*	% yoy cum.	-29.3	-10.9	-4.0	0.6	4.4	18.2	20.3	-2.9	-0.4	0.6	0.5	2.1	4.4	20.0	15.0	18.2	16.5	19.7	20.3	…
Trade balance*	USD bn cum.	-1.6	-2.3	-1.9	-4.1	-5.8	-0.9	-2.3	-2.7	-3.4	-4.1	-4.5	-5.0	-5.8	0.0	-0.5	-0.9	-1.1	-1.6	-2.3	…
Current account**	USD bn cum.	-0.2	-1.5	-0.9	-2.8	-3.8	-0.8	-1.6	-1.4	-1.9	-2.8	-3.1	-3.3	-3.8	0.1	-0.2	-0.8	-0.9	-1.0	-1.6	…
Gross international reserves	USD bn eop	13.3	12.7	14.0	15.6	15.5	15.1	18.0	14.1	14.1	15.6	15.5	15.3	15.5	15.4	15.5	15.1	17.2	17.6	18.0	18.0
Monetary Base	% yoy eop	0.8	-1.4	1.7	10.6	13.6	9.1	8.3	6.7	8.8	10.6	11.4	11.3	13.6	8.0	10.0	9.1	9.7	9.1	8.3	7.0
Lending rate on UAH credits	% pa, aop	20.7	20.0	20.9	17.3	14.7	15.8	14.7	18.0	17.0	16.8	14.2	13.7	16.1	15.9	15.5	15.8	15.3	15.2	14.7	…
Exchange rate (interbank)	USD aop	22.90	25.69	25.2	27.27	25.90	27.09	26.44	24.82	25.14	26.23	25.72	25.71	26.27	27.22	27.05	26.99	26.82	26.40	26.09	25.95
Exchange rate (official)	USD aop	22.33	25.68	25.3	25.40	25.67	27.06	26.46	24.82	25.65	26.28	25.76	25.70	25.55	27.15	27.03	27.00	26.86	26.42	26.11	25.97
Exchange rate (official)	EUR aop	24.91	28.34	28.6	25.58	28.18	28.81	29.06	27.49	28.65	29.47	28.45	27.78	28.29	28.80	28.81	28.82	28.77	29.16	29.26	29.84

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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
Direct investment (FDI)**	USD m	2037	1876	1082	496	1510	991	-665	-319	725	558	397	907	890	818	1366	760	999	143	469
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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

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

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