Monthly Economic Monitor Ukraine

No.7 (189), July 2016

EXECUTIVE SUMMARY

HIGHLIGHT: BREXIT

Politics: The war hostilities in Donbas escalated in June.

Real sector: Real GDP in the first quarter of 2016 declined by seasonally adjusted 0.7% qoq and increased by only 0.1% from first quarter of 2015.

Energy sector: The NERC almost doubled tariffs for thermal energy and heating for households since July 1.

Agriculture: Gross agricultural production in May increased by 0.1% yoy.

External sector: Current account in May was in surplus at USD 0.4 bn as compared to deficit at USD 0.1 bn in May 2015

Fiscal policy: According to the preliminary information of the State Treasury, consolidated fiscal revenues in the first half of 2016 grew by 29.4% yoy partially due to negligent of VAT refunds.

Social policy: Disposable income of households in the first quarter of 2016 increased by 11.3% yoy in nominal terms.

Labour market: Unemployment rate increased to 9.9% of economically active population in age of 15-70 in the first quarter of 2016 as compared to 9.6% in the same period of last year.

Monetary policy: Consumer inflation slowed to 6.9% yoy in June 2016 from 57.5% yoy in June 2015.

Exchange rate: In June, hryvnia interbank exchange rate remained stable in the range of UAH 24.8-25.1 per USD.

State debt: According to the Ministry of Finance, as of April 30, state debt grew by 7.5% in hryvnia equivalent or by 2.4% in the US dollar equivalent as compared to the end of 2015.

Highlight of the month: Brexit

BREXIT: IS IT A BIG DEAL?

By Vitaliy Kravchuk

During 2014 election campaign in Britain ruling Conservative party promised to negotiate better terms of membership with the EU and then submit the deal to the voters for "in-or-out" referendum. After Conservatives won the election and the EU and the UK concluded negotiations, referendum was set for June 2016. Most UK politicians favoured staying in the EU but "Yes" campaign was complicated by years of shifting blame for unpopular political decisions to EU bureaucrats and by weak economic growth. On June 23, 2016, 52% of British voters chose to leave the European Union. Scotland, Northern Ireland and London voted to stay but the rest of England and Wales were not in favour of the EU.

Vote against the EU membership was not widely expected. All voter polls reported tight race but majority of them showed higher support for staying in the EU than leaving EU. It was also expected that most undecided voters would eventually support the status quo. As a result, contingency planning was done half-heartedly and both the EU and the UK Government were not well prepared for the "No" vote.

On UK side, the Prime Minister promised to resign in autumn and let the new PM chosen by the Conservative party to deal with the Brexit. To complicate the situation, the referendum does not have any direct legal effect. This means that the UK government has yet to set timetable and conditions of withdrawal from the EU and it can in principle even ignore the referendum's results (at a steep political cost).

On the EU side, remaining 27 members promised unity and called on the UK to start withdrawal from the Union as soon as possible but otherwise revealed little of their plans to deal with the problem. According to the Article 50 of the Lisbon treaty, the UK has to notify the EU that it wants to leave. This will trigger two-year period over which the EU and the UK may negotiate withdrawal treaty that will set the transitional arrangements and optionally future relationship between them. If negotiation fails the EU treaties will cease to apply in the UK after two years end.

So far, the UK has not started Article 50 process and remains full member of the EU and all EU rules apply in the UK. Political discussions in the UK indicate that it may start withdrawal in 2017 and finish it in 2019. It is difficult to say what the relationship between the EU and the UK would be afterwards. The EU indicated that if the UK wants to stay in the Single market they will continue to be bound by many of the EU economic regulations including freedom of movement for EU nationals. At the same time, EU rules and free migration of the EU citizens was one of the key reasons for Brexit vote. In any case, the referendum has little direct consequences and terms of UK exit will likely be known only in a few years.

However, the referendum had significant and immediate impact on "hearts and minds" and medium-term plans. Companies that operate throughout the EU started planning moving HQ from London to other EU states; investors scrambled to get out of investment in the UK real estate (expected to lose value due to lower foreign demand); and British pound exchange rate vs. US dollar plummeted to lowest level in over 30 years. In the EU, voting in favour of Brexit cheered up Eurosceptic/nationalist parties and potentially boosted their popularity. British MEPs and UK representatives in Brussels likely lost much of their power to influence EU decisions although they retain full voting rights. Nevertheless, City of London continued to work as usual and FTSE index is now higher than it was before referendum. The EU also does not seem in immediate danger of breaking down.

Effect outside the UK and the EU also seems muted. Brexit added uncertainty for investors and other economic agents all over the world but there is enough uncertainty coming from US, the China, Middle East and other parts of the world. Unless Brexit somehow becomes "last straw" that would break global financial market's back it would likely muddle through.

For Ukraine, Brexit will have limited impact on bilateral trade and investment with the UK if free trade with the UK is maintained. This may happen for example if the UK joins Lichtenstein, Norway, Iceland and Switzerland in European Free Trade Association (EFTA) and its free trade agreement with Ukraine. Even if this is not the case the UK represents about 1% of Ukraine's exports and less than 5% of FDI. Links between Ukrainian and British financial sector are also limited right now.

Effect of Brexit on global confidence is the key immediate impact on Ukrainian economy. If we are right in expecting this effect to be muted then external demand for Ukrainian goods and services will remain weak but stable. In the medium term, impact of Brexit on Ukraine would primarily be through its effect on the EU economy. Brexit, if and when it comes, may make the EU economy even weaker or may herald long-delayed recovery for the Eurozone. The EU may be unable to cope with surge of nationalism and become even more unwieldy than it is now. This may mean less trade and less FDI from EU countries. Still, the EU without the UK may become more manageable with less competing centres of influence especially if UK's exit is used as opportunity of reform. However, the most likely scenario may be that the EU will "muddle through" as it did with bank crisis, Greek crisis, migrant crisis and a lot more.

Monthly Economic Monitor Ukraine

Politics: WAR IN DONBAS ESCALATES

The war in Donbas. The war hostilities in Donbas escalated in June 2016. Ukrainian armed forces suffered a considerable loss, while international observers reported that both sides used heavy weaponry, which is prohibited under Minsk accords. The shelling was registered at Luhansk, Donetsk and Mariupol directions. According to the ATO Press Center, 20 service members and one civilian were killed in June, and 142 service members and three civilians were injured.

Combined Russian-separatist forces shot down an unmanned aerial vehicle of the OSCE Special Monitoring Mission to Ukraine in early June, and later the observers of the Mission were caught in shelling while conducting a foot patrol in Ukraine-controlled settlement of Donetsk oblast.

According to the report of the Speaker of Verkhovna Rada of Ukraine Andriy Parubiy, 68 children were killed and 186 children were injured in the ATO zone since April 2014. Ukraine's Ministry of Defense reported that 623 service members of Ukraine were killed or injured in the ATO zone in 2016. And President Poroshenko presented the data that state that 35 military medics were killed during the ATO.

In June 2016, the military personnel of the fifth wave of mobilization were demobilized.

IMF. In June, Ukrainian officials reported that the work on the Memorandum with the IMF was almost completed and Ukraine is to receive a third tranche under the EFF program in July. The expected tranche was reduced by the IMF from USD 1.7 bn to USD 1.0 bn due to slow reforms in the sphere of fight against corruption, improvement of management of public enterprises and strengthening of public finances. However, the provision of this tranche is again under the risk as the Parliament has not approved all expected legislation.

Corruption. In June, the National Anti-Corruption Bureau of Ukraine opened a case against the Member of Parliament Oleksandr Onyshchenko (the "Will of the People" faction) in establishing schemes of embezzlement of the property of the state enterprise "Ukrgasvydobuvannya" ("Ukrainian Gas Extraction"). According to investigators, this scheme allowed Oleksandr Onyshchenko, along with other twenty state officials to sell gas to the company "Ukrgazvydobuvannya" that was purchased under the contract on joint activities at fictitious auctions. The investigation claims that sham companies affiliated with Oleksandr Onyshchenko have purchased gas at discounted prices and later sold it at market value. Financial losses of the budget of Ukraine from this scheme were estimated as UAH 3 bn. In early July, the Verkhovna Rada voted for lifting the parliamentary immunity of Oleksandr Onyshchenko and allowed his detention and arrest. However, Oleksandr Onyshchenko left Ukraine before this decision was taken.

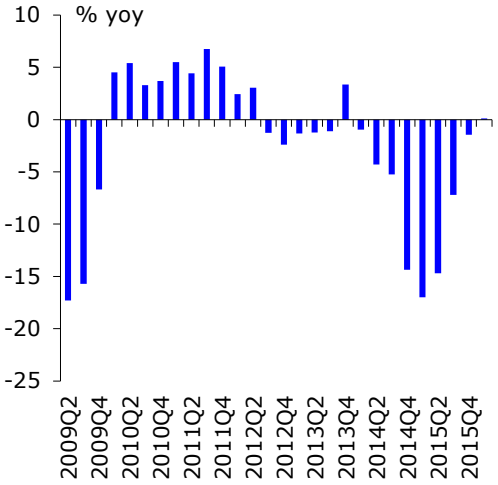
Real sector: Slow recovery

GDP. Real GDP in the first quarter of 2016 declined by seasonally adjusted 0.7% qoq and increased by only 0.1% from first quarter of 2016. On demand side, real private final consumption declined by only 2.2% yoy despite drop in real disposable income. This reflected stabilization of consumer confidence and spending of savings. Real exports declined by 3.8% yoy as exports was disrupted by Russian restriction on transit in February. Russia also imposed food embargo, introduced MFN tariffs for Ukrainian goods. Gross fixed capital accumulation increased by 4.2% yoy as companies again spent on machinery and equipment after sharp drop in 2015. Real imports declined by 7.2% yoy due to lower energy imports despite sharp increase in demand for imported machinery and equipment.

On production side, the decline in gross value added (GVA) in financial sector (at 32% yoy) contributed negatively to real GDP

Population (without Crimea): 42.7 m
Industry/GDP: 19%
Agriculture/GDP: 10%
Investment/GDP: 14%
Exports to: Russia 18%, EU 32%
Imports from: Russia 23%, EU 39%

Real GDP growth



Source: Ukrstat

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

growth. Real GVA also declined in agriculture, education and healthcare. At the same time, real GVA in extractive industry and manufacturing grew by 5.2% yoy and 6.9% yoy, respectively, but from very low base of 2015. Warmer weather supported growth in construction at 6.8% yoy. Real GVA in trade likely increased due to higher retail sales of goods.

Sectoral trends. Growth of industrial output in May decelerated sharply to 0.2% yoy from 3.5% in April due to worse performance of extractive industry and food production. Logistics difficulties in Donbas and high statistical base caused decline in coal extraction by 9.5% yoy. Food production contracted by 2.9% yoy due to lower production of bread, milk and cereals. Growth of metallurgy decelerated to 7.4% yoy from 15.5% yoy in April due to higher statistical base. Output in machine building declined by 0.3% yoy.

In May, growth of retail sales by enterprises decelerated to 4.4% yoy from 12.2% yoy in April. Construction in May increased by 5.6% yoy as compared to growth by 17.2% yoy in April.

The Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopil and the part of the territory under anti-terroristic operation in the East.

Energy: Increase in electricity tariffs

Electricity. State hydro power plants operator Ukrhydroenergo finished connecting the third hydraulic unit of the state Dniester hydro-accumulating power plant (HAPP) to the energy system of Ukraine. Construction of the three units of the first stage of the plant was completed in December 2015, the first unit was finished in 2009 and the second in 2013. The joint capacity of three hydraulic units is 972 MWt. As of July 4, the total daily capacity of energy units used to produce electricity was 16496 MWt, 1119 MWt of which was produced by hydro power plants.

The NERC increased the electricity tariff for state nuclear power plants (NPP) regulator Energoatom in July by 9% to UAH 49.54 per KWt*h. It also increased the electricity tariff for Ukrhydroenergo by 45% to cover the costs of Dniester HAPP construction. As a result of this and amendments to the energy balance for 2016 made in May, the wholesale price for electricity for the third quarter increased by 6% to UAH 1358.83 per MWt*h and for the fourth quarter it increased by 8% to UAH 1490.63 per MWt*h.

Tariffs. The NERC almost doubled tariffs for thermal energy and heating for households since July 1: the weighted average tariff increased by 95% to UAH 1043 per 1 Gcal. The decision was explained by the increased cost of gas used to produce thermal energy. Gas prices for central heating companies jumped in May by 2.3 times to UAH 6810 per thousand cubic meters of gas when the Government cancelled special price for gas used for central heating and hot water for households.

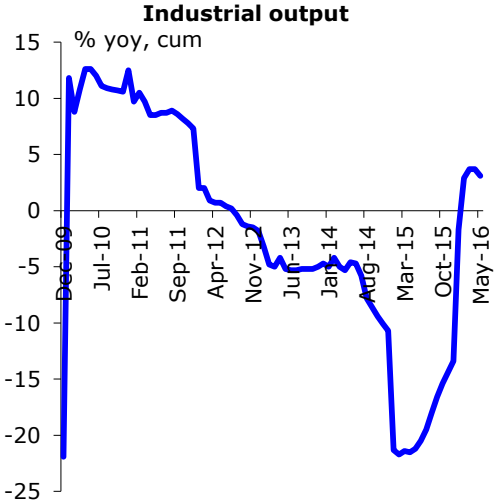
In July, electricity tariffs for industrial consumers were increased by 10% to UAH 143.75 per KWt*h for the first voltage class consumers and by 8% to UAH 182.25 per KWt*h for the second voltage class. The NERC explains the change by decreased planned electricity output for NPPs due to repairs which had to be covered by increasing production at more expensive thermal power plants.

Agriculture: Tiny increase in gross production

Production. Gross agricultural production in May increased by 0.1% yoy. Production of meat decreased by 4.2% due to low demand prevailent during last years. Production of milk decreased by 0.9% from already low level of previous year. Production of eggs decreased by 4.7% yoy. In comparison to previous month (when production was by 15.0% yoy lower) production of eggs increased due to the renovation of exports to Iraq.

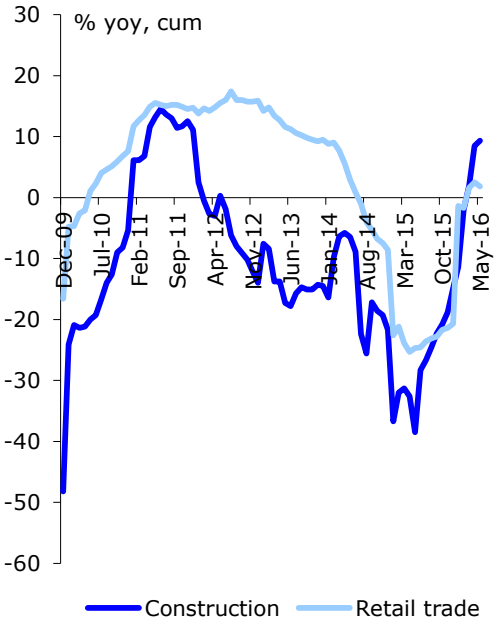
Cases of African swine fewer were detected in the Chernivetska and Mykolaivska oblast. As in the previous year, this will lead to the preventative destruction of farm animals. This can also lead to the

Industrial output



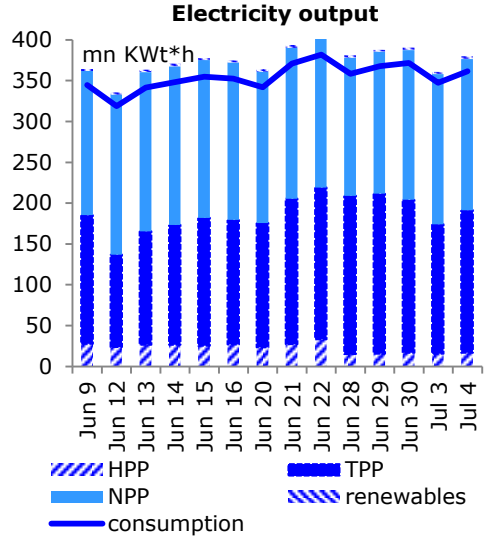
Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Real sector trends



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

Electricity output

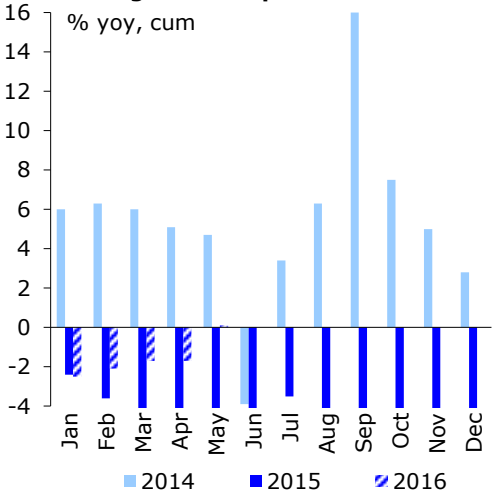


Source: Ukrenergo

termination of Ukrainian exports of pork and, in the worst case scenario, termination of Ukrainian grain exports.

Abnormally large amount of rain in May positively affected the crop of both winter and spring grains but negatively affected fruit crops. Also, due to unusual amount of rain many farmers were unable to apply plant protection products to their crops. As a result, there are already reports on negative impact of pests (aphids) on sunflower crops in Southern regions.

Agricultural production



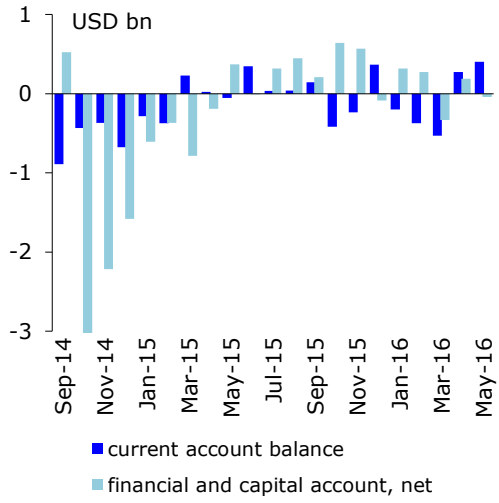
Source: Ukrstat

External sector: Trade in goods and financial account were balanced

Current account. Current account in May was in surplus at USD 0.4 bn as compared to deficit at USD 0.1 bn in May 2015 mainly due to lower merchandise trade deficit and lower outflow of primary income. Trade in goods deficit narrowed from USD 0.2 bn to USD 0.1 bn as exports contracted at a slower pace than imports. Surplus in trade in services slightly narrowed to USD 0.1 bn as imports recovered slightly faster than exports. Lower outflow of investment income and unchanged inflow of salary from abroad resulted in higher positive inflow of primary income. Stable remittances led to net inflow of secondary income at USD 0.2 bn.

Decline in merchandise exports accelerated to 2.3% yoy (as compared to drop at 0.2% yoy in April) mainly due to food exports. Drop of food exports decelerated to 11.1% yoy from 18.5% yoy in April as impact of lower demand on maize from China was compensated by higher exports of wheat. Increase in exports of minerals accelerated to 8.4% yoy due to higher nominal exports of iron ore. Exports of wood increased by 6.1% yoy due to low statistical base in May 2015. Decline in exports of metals decelerated to 11.5% yoy due to favorable situation at the world markets. Exports of machinery continued to drop (by 26.4% yoy in May); however, exports of railway cars expanded. Exports of chemicals remained low and decreased by 26.8% yoy. Exports of services increased by 5.0% yoy (as compared to decrease by 2.9% yoy in April).

Balance of payments

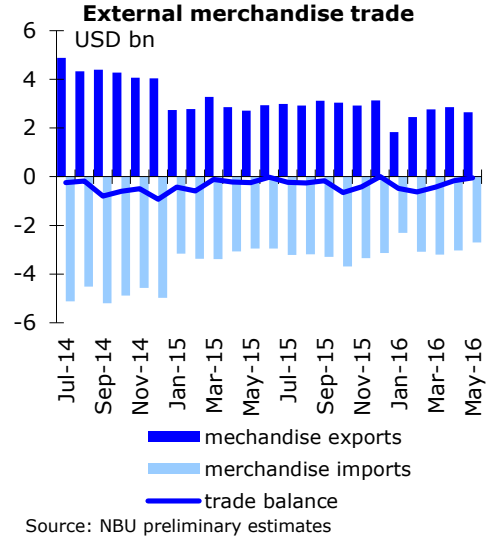


Source: NBU preliminary estimates

Decline in merchandise imports accelerated to 8.5% yoy from 1.6% yoy in April due to decline in minerals imports by 59% yoy. Non-mineral imports increased by 19.7% yoy (as compared to 21.9% yoy in April). Liberalized access for the EU goods as well as cancellation of additional import surcharge still positively impacted imports, but somehow lower demand had a negative impact on purchases of foreign goods. Increase in food imports decelerated to 4.5% yoy (as compared to 28.3% yoy in April) due to earlier sowing campaign in Ukraine. Slight deceleration of growth of machinery imports to 56.6% was explained by expected reduction of excise tax on used cars. Increase in imports of services accelerated to 5.2% yoy (as compared to 2.3% yoy in April).

Financial account. Financial account in May was balanced as net FDI inflow was minimal. Government sector did not attract any significant external financing. Investment position of banking sector decreased by USD 0.1 bn due to higher short-term loans. Investment position of the real sector slightly increased by USD 0.1 bn as real sector repaid some trade loans and long-term debt. Foreign cash outside banks shrunk by another USD 0.5 bn due to stabilization of hryvnia.

External merchandise trade



Source: NBU preliminary estimates

Fiscal policy: Again delays in VAT refunds

Revenues. Consolidated fiscal revenues in May increased by 18.8% yoy after decline by 4.2% yoy in April due to 2016 change in schedule of EPT collections. In particular, companies now pay EPT on quarterly basis. As a result, EPT collections more than tripled. Revenues from personal income tax grew by 37.2% yoy due to higher effective rate and increase in wages. Increase in prices, better administration, higher nominal consumption as well as narrowed VAT exemptions to agricultural companies explain increase in gross VAT revenues by 37.5% yoy. The Government also increased VAT refunds (by 34.6% yoy) likely due to the restoration of legislative provision to refund VAT to grain exporters. Increase in rates resulted in higher revenues from excise duties and rent payments. At the same time, non-tax revenues

reduced by 29.1% yoy due to later transfer of NBU profit to the budget.

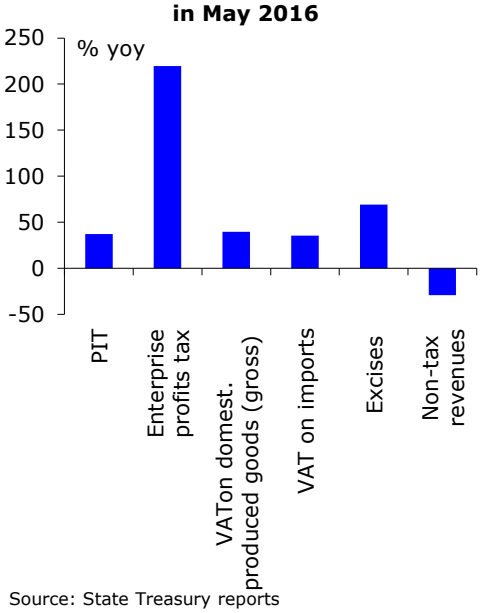
Expenditures. Consolidated fiscal expenditures in May increased by 18.0% yoy (20.8% yoy in April). Spending on social protection increased by 65.2% yoy due to higher transfer to the Pension Fund (to compensate for decline in own Pension Fund's revenues) and larger subventions for housing and utility subsidies. Wage payment increased by 20.8% yoy due to increase in wages in public sectors. At the same time, spending on debt servicing declined by 20.9% yoy due to debt restructuring. Spending on purchase of goods and services declined by 1.1% yoy probably due to changes in procurement legislation. Even though capital spending almost doubled, they still remained low accounting for 4.9% of total consolidated fiscal expenditures.

Deficit. Overall, consolidated fiscal balance was in deficit at UAH 3.8 bn in the first five months of the year (UAH 5.1 bn in the first four months). Central fiscal deficit of UAH 26.4 bn was financed by domestic borrowing as the Government has not yet started announced large privatization and external borrowing was delayed. At the same time, local budgets ran UAH 22.7 bn surplus as local budget revenues exceeded projections.

January-June. According to the preliminary information of the State Treasury, consolidated fiscal revenues in the first half of 2016 grew by 29.4% yoy. However, acceleration of growth rates of revenues was explained by drop in VAT refunds to UAH 0.11 bn. Average monthly VAT refunds equalled UAH 7.2 bn in the first five months of the year. According to the official explanation of the State Fiscal Service (SFS), this delay was explained by restructuring of the Tax Taxpayers Office. However, the likely reason is the investigation of the Ministry of Finance for fraudulent VAT refunds in the first five months of the year. In the beginning of July, the Prime Minister requested the SFS to provide the list of companies that applied for the VAT refunds to the Treasury to restore VAT refunds. The traditional problem with VAT refunds arrears substantially hampers investment climate in Ukraine.

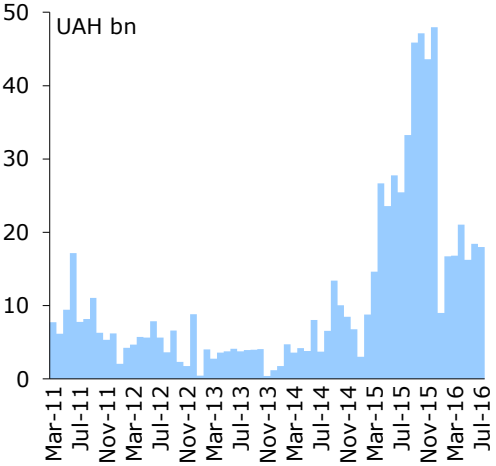
Budget-2017. The Government approved the Budget Resolution for 2017. Fiscal indicators are to be based on rather realistic macroeconomic forecast: real GDP growth at 3% and CPI at 8.1% yoy in December 2017. The share of GDP to be distributed through the budget is expected to remain at the level of 2016. The Government plans to increase subsistence minimum (including minimum wage and minimum pensions) by 2% in real terms. Wages in public sectors will also increase in real terms On the revenues side, the Government currently did not announced any plans to increase tax rates, but rather introduce measures aimed to ensure better and more fair tax administration as well as to discourage tax avoidance. Currently, on the request of the Prime Minister the Ministry of Finance works on the draft Law on amendments to the Tax Code.

Growth of Consolidated fiscal revenues in May 2016



Source: State Treasury reports

Balance of the Single Treasury Account



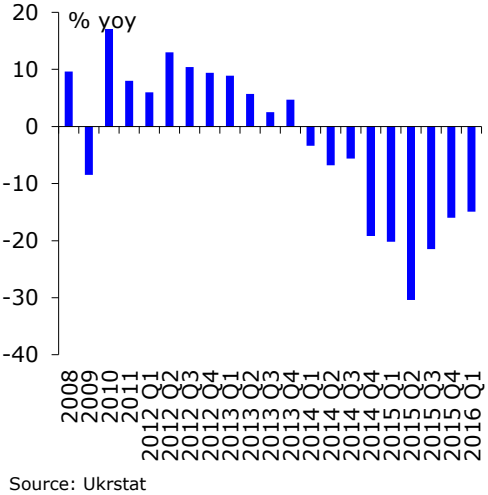
* in the beginning of month
Source: State Treasury

Social policy: Decline in income in the first quarter

Disposable income of households in the first quarter of 2016 increased by 11.3% yoy in nominal terms but declined by 14.9% yoy in real terms. All key categories of income grew slower than inflation.

Wage income increased by 26.1% yoy as wages grew in all sectors due to indexation for inflation as well as increase in minimum wage. Moreover, the Government increased wages in public sectors through revising upwards wages along entire unified tariff scale. Income from entrepreneurs activity and subsidiary farming increased by 13.4% yoy as price increase in this segment was likely restricted by weak demand. Income from property (likely from interest on deposits) increased by only 1.7% yoy. At the same time, social payment declined by 13.8% yoy as pensions due to in January were paid by the Government in December, 2015.

Real disposable household incomes



Source: Ukrstat

Labour market: Real wage continues to grow

Wage. Average nominal wage in May grew by 23.3% yoy to UAH 4984 primarily due to wage indexation and minimum wage

increase. For the third month in a row, average wage increased in real terms (by 12.2% yoy) due to the slowdown of inflation.

Nominal wage in industry increased on average by 20.4% yoy. Due to financial hardships of coal mines in the Eastern Ukraine, average wage in extractive industry increased by only 13.6% yoy. Wage grew by 24.3% yoy in electricity and gas supply sector likely due to improved financial situation of companies after increase in utility tariffs. Sectors that benefited from import substitution, namely textile industry and manufacturing of computers, electronic and optical equipment showed strong wage growth (at 33.0% yoy and 45.5% yoy, correspondingly).

Wages increased by 27.9% yoy in education and by 26.2% yoy in healthcare. Wages in state administration and defense grew by 27.6% yoy. In comparison to the previous month, average wage in state administration and defense grew by only 0.3% regardless approved by the Cabinet of Ministers decision to increase base salaries of civil servants since May 1. This is partially explained by the lag in payment of wages. Another reason for small actual increase in wages in May as compared to April is lack of required financing. As a result, bonuses and premiums which account for substantial share of total remuneration of civil servants were reduced, while base salaries were increased.

Unemployment. Unemployment rate of economically active population in age of 15-70 (ILO methodology) increased to 9.9% in the first quarter of 2016 as compared to 9.6% in the same period of last year.

Increase in the unemployment rate was primarily caused by the decrease in the number of economically active individuals (by 163.9 thous. individuals). At least half of this decrease was caused by the lingering stagnation of Ukrainian economy. People that both stopped working and stopped actively looking for a job represented primarily urban population. Also, the economically active population decreased due to increase in the number of non-working pensioners.

Monetary policy: Prices remain stable

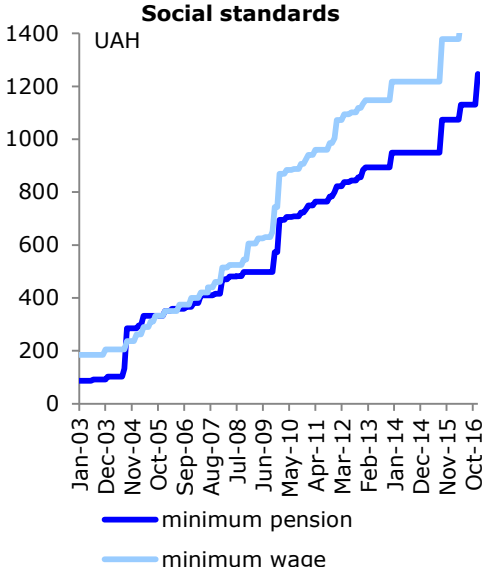
Consumer inflation slowed to 6.9% yoy in June 2016 from 57.5% yoy in June 2015. This reflected low volatility of exchange rate, weak domestic demand (nominal retail sales were up by only 11% yoy in May) and moderate global commodity prices. Lower prices for fruit and vegetables thanks to good harvest helped contain growth of food price index to 3.2% yoy. Prices of non-food items also increased mostly in single digits. Prices for services grew faster due to higher share of labor costs (average nominal wage was up by 23% yoy in May). Monthly core inflation was negative at 0.1% mom due to reported decrease in clothing and footwear prices by 2% mom.

On June 24, the NBU reduced policy rate by 1.5 p.p. to 16.5% p.a. with overnight deposit rate going down to 14.5% p.a. This was third decrease of the policy rate over the last three months. Change in policy rate was explained by lower inflation expectations, low demand and stable exchange rate. Reduction in the NBU policy rate helped to reduce deposit rates but lending is still hampered by structural problems of the banking sector.

Exchange rate: No surprises in June

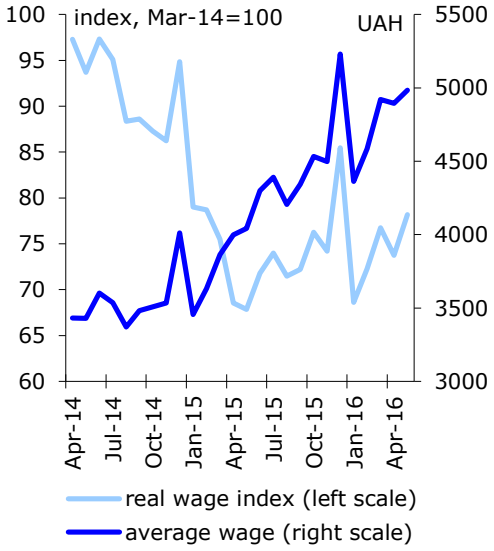
In June, hryvnia interbank exchange rate remained stable in the range of UAH 24.8-25.1 per USD. This reflected stable supply and moderate demand on the interbank foreign exchange market. The NBU purchased USD 429 m to increase international reserves, while net sales of cash foreign currency to banks increased to USD 380 m. In the first half of 2016, households (and possibly small businesses) sold USD 1.6 bn in foreign cash to banks. As a result, international reserves of the NBU reached USD 14.0 bn in June 2016 as compared to USD 10.2 bn in June 2015.

Social standards



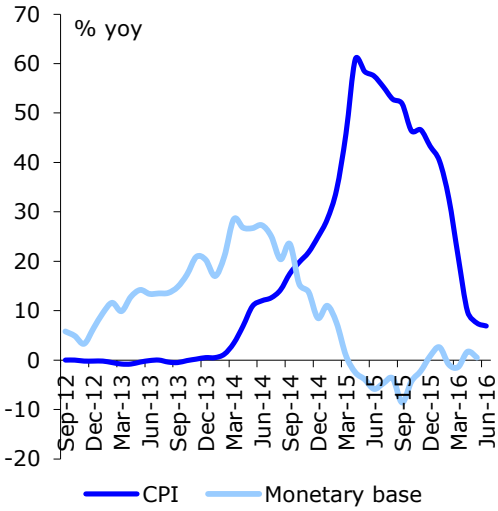
Source: State Budget Laws for 2006-2016

Average wage*



*not including AR Crimea
Source: Ukrstat

CPI and monetary base development



Source: Ukrstat, NBU

State debt: The debt increased

Debt. According to the Ministry of Finance, as of April 30, state debt grew by 7.5% in hryvnia equivalent or by 2.4% in the US dollar equivalent as compared to the end of 2015.

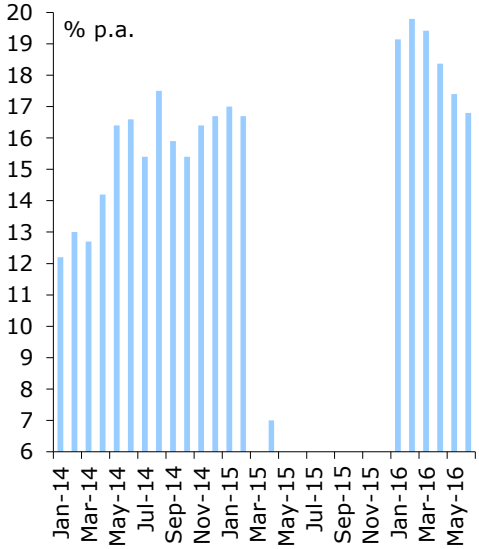
Domestic debt grew by 7.3% as the Ministry of Finance placed domestic bonds denominated in hryvnia and foreign currency at UAH 10.4 bn and USD 1.6 bn, respectively, to finance fiscal expenditures. The Government also recapitalised state-owned banks (at UAH 14.3 bn). As a result, the share of domestic debt increased by 2.3 p.p. to 33.6%.

External debt increased by 7.6% (or by 2.6% in USD-equivalent) mostly due to additional issue of derivatives to finalize the technical side of debt restructuring negotiated in November 2015 (near USD 431 m) and the loan provided by Japan (near USD 300 m).

The share of hryvnia-denominated debt remained almost unchanged (at near 29% of total state debt).

Domestic debt. In June, the Ministry of Finance placed UAH 6.0 bn of domestic bonds with weighted average yield at 16.8% p.a. as compared to UAH 5.4 bn at 17.4% p.a. in May. Five-year bonds accounted for near 71.7% of the total placement. Besides, the Government issued USD 50 m of two-year USD-denominated bonds with yields at 7.4% p.a.

Weighted average yield for domestic state bonds



Source: NBU

Tables

		Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Industrial production (real)	% yoy cum.	-8.0	-10.1	-20.5	-20.0	-16.1	-13.0	-1.7	-19.0	-17.4	-16.1	-14.9	-14.0	-13.0	-1.7	2.9	3.7	3.7	3.1	…
Construction (real)	% yoy cum.	-16.4	-20.4	-29.7	-26.2	-20.9	-12.3	1.9	-25.0	-22.8	-20.9	-18.9	-17.3	-12.3	-11.4	-2.0	1.9	8.5	9.3	…
Agricultural production (real)	% yoy cum.	16.0	2.2	-4.7	-9.3	-5.3	-4.8	-1.7	-3.5	-5.8	-5.3	-4.4	-4.7	-4.8	-2.5	-2.1	-1.7	-1.7	-1.3	…
Retail trade turnover (real)	% yoy cum.	-5.3	-7.5	-23.9	-24.6	-22.3	-20.7	1.6	-23.6	-23.1	-22.3	-21.7	-21.4	-20.7	-1.4	-1.7	1.6	2.5	1.8	…
Average wage	UAH	3463	3508	3650	4113	4313	4753	4622	4390	4205	4343	4532	4498	5230	4362	4585	4920	4895	4984	…
CPI	% yoy eop	17.5	21.8	45.8	57.5	51.9	43.3	20.9	55.3	52.8	51.9	46.4	46.6	43.3	40.3	32.7	20.9	9.8	7.5	6.9
PPI	% yoy eop	26.9	32.8	51.7	37.9	32.5	25.4	10.5	37.0	33.0	32.5	30.2	25.1	25.4	21.2	17.4	10.5	10.1	16.4	15.7
Exports (USD)*	% yoy cum.	-16.4	-19.9	-31.4	-32.2	-29.8	-27.0	-16.4	-31.9	-31.0	-29.8	-28.9	-28.1	-27.0	-30.0	-18.6	-16.4	-12.3	-10.3	…
Imports (USD)*	% yoy cum.	-24.8	-28.1	-33.1	-34.2	-31.8	-29.3	-10.9	-33.5	-32.2	-31.8	-30.4	-29.5	-29.3	-22.9	-14.0	-10.9	-8.3	-7.3	…
Trade balance	USD bn cum.	-3.0	-4.6	-0.6	-0.6	-1.0	-1.7	-1.6	-0.8	-1.0	-1.0	-1.5	-1.8	-1.7	-0.4	-1.1	-1.6	-1.7	-1.3	…
Current account**	USD bn cum.	-1.2	-2.6	-0.4	-0.1	0.1	-0.2	-1.0	-0.1	0.0	0.1	-0.3	-0.5	-0.2	-0.3	-0.5	-1.0	-0.6	-0.4	…
Gross international reserves	USD bn eop	16.4	7.5	10.0	10.3	12.8	13.3	12.7	10.4	12.6	12.8	13.0	13.1	13.3	13.4	13.5	12.7	13.2	13.5	14.0
Monetary Base	% yoy eop	23.5	13.8	0.9	-5.9	-8.6	0.8	-1.4	-4.7	-3.7	-8.6	-4.3	-2.2	0.8	2.6	-0.9	-1.4	1.7	0.5	…
Lending rate on UAH credits	% pa, aop	16.4	16.4	19.9	23.1	21.1	20.7	20.0	21.2	21.2	21.0	20.9	20.7	20.4	20.0	19.8	20.3	20.9	21.1	…
Exchange rate (interbank)	USD aop	12.58	13.56	21.23	21.56	21.74	22.90	25.69	21.79	21.65	21.79	21.94	23.33	23.42	24.32	26.45	26.30	25.54	25.21	24.93
Exchange rate (official)	USD aop	12.58	13.56	21.18	21.62	21.69	22.33	25.68	21.76	21.54	21.78	21.84	23.31	21.84	24.26	26.39	26.39	25.63	25.21	24.95
Exchange rate (official)	EUR aop	16.67	17.21	23.88	23.88	24.11	24.62	28.34	23.94	23.93	24.46	24.56	25.07	24.23	26.35	29.33	29.33	29.06	28.50	28.09

Sources: Ukrstat, NBU, own calculations

* Trade in goods and services

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]
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	1568.9	1979.5
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	132.2	90.6
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	-9.9
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
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
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
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
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
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
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
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
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
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	-3.5	-0.2
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
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
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
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	79.4
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	52.7
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
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
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
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
Exchange rate	EUR eop	5.10	4.67	5.53	6.66	7.22	5.97	6.65	7.42	10.86	11.68	10.57	10.54	10.30	11.04	19.26	26.22

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

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

[c] Data excludes Crimea where available

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		Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14[c]	Q2 14[c]	Q3 14[c]	Q4 14[c]	Q1 15[c]	Q2 15[c]	Q3 15[c]	Q4 15[c]	Q1 16
GDP	UAH bn	306.3	258.6	310.3	368.5	362.6	292.3	346.0	387.1	379.2	303.8	354.8	398.0	408.6	316.9	382.4	440.5	447.1	375.5	455.2	563.9	584.8	453.2
GDP (real)	% yoy	3.7	5.5	4.4	6.7	5.1	2.4	3.0	-1.3	-2.4	-1.3	-1.2	-1.1	3.4	-1.0	-4.3	-5.3	-14.4	-17.0	-14.7	-7.2	-1.4	0.1
Household consumption (real)	% yoy	12.8	13.6	14.9	15.9	18.0	7.1	11.8	10.2	4.9	5.9	8.7	6.8	6.3	3.3	-7.8	-13.9	-12.2	-20.7	-28.1	-19.3	-13.0	-2.2
State consumption (real)	% yoy	10.0	2.0	3.4	-9.4	-6.4	3.5	5.0	9.7	1.1	2.0	-0.9	-1.5	-2.9	-5.9	5.2	0.1	4.5	2.7	-5.9	-1.7	8.1	0.1
Gross fixed capital formation (real)	% yoy	10.5	-3.4	4.1	17.8	10.8	15.3	18.7	-2.9	-2.1	6.1	-18.1	-8.9	-8.7	-19.9	-19.3	-28.0	-26.5	-22.8	-13.8	-6.3	1.4	4.2
Exports of goods and services (real)	% yoy	0.9	17.6	2.7	-1.0	-5.5	-7.4	-6.3	-1.8	-7.2	-7.4	-13.5	-6.8	-4.5	-5.1	-2.3	-16.8	-31.1	-26.1	-22.1	-10.8	-5.8	-3.8
Imports of goods and services (real)	% yoy	13.2	35.2	20.2	10.4	3.5	-2.9	11.9	6.6	-0.2	1.3	-15.7	1.7	-0.6	-11.8	-10.9	-32.3	-29.6	-19.8	-32.1	-18.2	-17.3	-7.2
Agriculture, hunting, forestry (real)*	% yoy	0.9	3.5	0.4	18.1	35.6	0.4	11.4	-8.0	-3.5	5.7	21.7	-2.8	36.5	5.7	-9.1	25.6	-20.6	-4.7	-11.8	-3.8	-3.6	-1.6
Manufacturing industry (real)*	% yoy	7.6	8.0	3.9	7.5	-4.2	2.5	0.5	-4.9	-6.6	-9.3	-9.9	-10.6	-9.8	-3.2	-5.4	-12.7	-13.2	-24.4	-20.7	-7.9	-0.2	6.9
Construction (real)*	% yoy	3.9	1.0	5.3	-7.7	-1.5	-4.9	1.7	-14.3	-18.7	-16.1	-19.4	-8.0	-4.4	4.7	-14.0	-26.3	-30.8	-30.4	-24.2	-9.1	10.8	6.8
Trade, repair services (real)*	% yoy	4.7	10.4	3.3	8.3	4.2	2.1	3.4	-0.5	-2.0	0.2	-1.2	0.9	0.9	-3.0	-7.2	-18.4	-26.6	-25.0	-19.8	-13.6	-6.1	3.7
Transport (real)*	% yoy	0.1	16.0	12.1	10.4	13.2	-2.6	-3.2	-8.3	-10.5	-1.7	-0.8	1.3	2.7	-7.8	-10.9	-10.1	-11.0	-8.2	-2.3	-0.2	4.9	5.4
Balance of payments (BPM6)																							
Current account balance	USD bn	-2.5	-1.6	-1.7	-2.6	-4.3	-1.9	-3.7	-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	-1.1
Current account balance	% of GDP	-6.5	-4.9	-4.4	-5.6	-9.6	-5.2	-8.5	-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	-1.1	-6.2
Trade balance in goods	USD m	-3903	-3951	-3211	-5098	-5771	-4292	-5818	-5503	-6233	-4635	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1111	-470	-662	-1066	-1534
Trade balance in services	USD m	1148	1614	1882	2523	1867	1864	1697	2361	1578	1349	1504	2575	1066	937	443	456	686	555	388	278	397	263
Current transfers	USD m	842	1039	878	988	803	683	805	777	711	533	589	480	547	241	494	306	500	558	715	644	711	…
Direct investment (FDI)*	USD m	2170	880	2422	2090	1623	2012	1270	2037	1876	1082	496	1510	991	-665	-319	725	558	397	907	890	818	1334
Portfolio investments (equity)*	USD m	196	150	116	43	210	1	74	83	358	713	568	655	-756	-241	-49	-84	-17	141	10	13	13	11
Gross international reserves	USD bn	34.6	36.4	37.6	35.0	31.8	31.1	29.3	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
Exchange rate (interbank), UAH/USD	aop	7.96	7.95	7.98	7.99	8.01	8.03	8.04	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
Exchange rate (official), UAH/USD	aop	7.93	7.94	7.97	7.97	7.98	7.99	7.99	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
Fiscal indicators																							
Consolidated fiscal revenues	% of GDP	32.4	32.7	30.1	29.6	30.8	33.7	31.8	28.2	33.6	35.2	29.4	28.9	28.6	35.4	29.4	24.7	27.4	37.3	34.8	37.2	40.4	36.1
Personal income tax	% of GDP	4.8	5.0	4.8	4.2	4.7	5.1	4.9	4.5	5.0	5.3	5.1	4.6	4.8	5.1	4.7	4.2	5.0	5.5	5.3	5.6	6.6	6.3
Enterprise profits tax	% of GDP	4.2	4.5	4.6	3.6	4.4	4.9	4.1	2.9	4.2	6.1	3.4	3.0	3.0	4.9	2.5	1.9	1.5	4.4	1.7	1.5	1.7	3.6
Value-added tax	% of GDP	10.0	7.5	12.9	9.7	9.6	10.8	10.4	8.6	10.0	9.7	9.0	8.1	8.4	8.7	9.5	6.8	10.1	11.4	9.2	10.0	10.6	11.7
Excise tax	% of GDP	2.6	2.1	3.0	2.8	2.5	2.8	2.9	2.8	2.4	3.1	2.6	2.3	2.2	2.5	3.0	3.0	2.8	3.3	3.4	3.7	4.0	4.2
Consolidated fiscal expenditures	% of GDP	37.7	32.7	33.2	27.0	35.7	33.9	34.1	30.7	41.3	36.9	35.8	30.1	35.9	35.2	34.7	27.2	35.5	33.6	35.0	32.5	54.2	35.3
Current expenditures	% of GDP	32.9	31.4	30.8	24.0	30.2	31.9	31.6	27.8	37.3	35.6	33.9	28.2	33.2	34.8	33.7	25.8	33.6	31.8	33.7	29.9	49.2	34.4
Capital expenditures	% of GDP	4.8	1.3	2.4	3.0	5.6	1.9	2.5	2.9	4.0	1.3	1.9	1.9	2.8	0.5	1.0	1.4	1.9	1.7	1.3	2.6	5.0	0.9
Consolidated fiscal balance	% of GDP	-5.6	-0.3	-3.4	-3.9	-5.5	-0.2	-2.6	-3.0	-7.8	-1.9	-6.3	-1.5	-7.3	0.1	-5.3	-2.8	-8.8	3.7	-0.4	4.4	-13.9	0.9
Privatisation receipts	% of GDP	0.2	0.4	3.2	0.0	0.1	1.4	0.3	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
Banking system																							
Monetary aggregate M0	% yoy cum	16.5	15.7	11.5	8.6	6.3	4.7	6.7	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
Monetary aggregate M2	% yoy cum	23.1	25.5	22.0	16.0	14.4	11.2	9.0	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
Household deposits in national currency	% yoy cum	41.4	43.3	26.0	16.7	12.3	14.4	16.4	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
Household deposits in foreign currency	% yoy cum	16.9	19.7	21.0	15.7	13.4	12.4	10.8	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
Com. bank credits in national currency	% yoy cum	11.2	16.0	18.5	21.1	21.0	17.4	15.3	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
Com. bank credits in foreign currency	% yoy cum	-8.3	-2.1	0.9	-2.3	-4.2	-7.0	-10.8	-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
Long-term com. bank credits	% yoy cum	-0.5	5.0	6.3	5.3	2.9	-2.9	-7.0	-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
Long-term com. bank credits	% of total	66.3	67.2	66.6	64.4	62.9	61.5	59.8	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
Average lending rate on national currency credits	% p.a.	15.0	13.1	13.5	14.1	18.4	15.5	15.6	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
Average lending rate on foreign currency credits	% p.a.	10.1	10.2	9.8	8.8	8.4	8.2	8.2	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

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates
* change in value added
[c] Data excludes Crimea, since 2015 data excludes pa

Contact information:

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

Head of the Board-Director

Igor Burakovsky
burakovsky@ier.kiev.ua

Chief Executive

Oksana Kuziakiv
kuziakiv@ier.kiev.ua

Academic Director

Veronika Movchan
movchan@ier.kiev.ua

Centre for Economic Studies

Oleksandra Betliy
betliy@ier.kiev.ua

Vitaliy Kravchuk
Kravchyk@ier.kiev.ua

Iryna Kosse
kosse@ier.kiev.ua

Kateryna Furmanets
furmanets@ier.kiev.ua

Artur Kovalchuk
kovalchuk@ier.kiev.ua

Dmytro Naumenko
naumenko@ier.kiev.ua

Mykola Ryzhenkov
ryzhenkov@ier.kiev.ua

Oleksandr Krinitsyn
krinitsyn@ier.kiev.ua

Andrii Butin
butin@ier.kiev.ua

Center for Contemporary Society Studies

Iryna Fedets
fedets@ier.kiev.ua

Tetiana Oliinyk
oliinyk@ier.kiev.ua

Victoria Bespalko
bespalko@ier.kiev.ua

German-Ukrainian Agricultural Policy Dialogue

Oleksa Stepaniuk
stepaniuk@ier.kiev.ua

Mariya Yaroshko
yaroshko@apd-ukraine.de

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