Monthly Economic Monitor Ukraine

No.4 (186), April 2016

EXECUTIVE SUMMARY

HIGHLIGHT: PUBLIC PROCUREMENT

Politics: New Government is expected to be appointed in early April.

Real sector: Military conflict in the Eastern Ukraine, high inflation, drop in domestic demand and weak external demand were among the reasons of decline in real GDP by 9.9% in 2015.

Energy sector: The Ukrtransgaz launched a backhaul gas transportation mechanism on the Ukrainian border with Slovakia, Poland and Hungary.

Agriculture: Ukrainian producers have already fully utilized EU tariff-rate quotas for poultry, grapes and apple juice, tomatoes, maize, honey, sugar, flour and barley cereals.

External sector: Current account in February was negative at USD 0.3 bn.

Fiscal policy: Growth of consolidated fiscal revenues decelerated to 16.2% yoy in February from 32.7% yoy in January.

Social policy: Real disposable income in 2015 dropped by 22.2% due to high inflation.

Labour market: Decline in real wage decelerated to 8.3% yoy (as compared to 13.2% yoy in January).

Monetary policy: Monthly core inflation in March increased to 1.9% mom, what reflected effect of hryvnia exchange rate volatility in February and seasonality in clothing and footwear prices.

Exchange rate: Interbank exchange rate remained stable in March in UAH 26-27 per USD range.

State debt: Over two months of 2016, state debt (in hryvnia equivalent) increased by 5.8% primarily due to hryvnia depreciation.

Highlight of the month: Public procurement

REFORM OF PUBLIC PROCUREMENT: TOWARDS HIGHER EFFICIENCY OF PUBLIC SPENDING

Oleksandra Betliy

Public procurement legislation was revamped four times since 2008 and amended over seventy times. The goal of all four revisions was increasing efficiency of public sector spending, widely known for high level of corruption. According to the estimates of the Ministry of Economic Development and Trade losses from corruption and low competitiveness in the public procurement reached near 20% of procurement spending in 2014.

All four major changes in procurement legislation were part of the reforms agreed with the IMF and the EU. Old law on procurement was abolished in 2008 as part of IMF stand-by agreement and replaced with the Government regulation on procurement. New law on state procurement was approved in 2010 as part of revised stand-by arrangement with the IMF. The Law envisaged more transparent rules for state procurements, even though it did not fully comply with the EU acquis. However, the Parliament almost immediately started to adopt numerous amendments to the Law to expand the number of exceptions from full competitive procedures (e.g. the purchases of energy, housing and utility services were taken out of the scope of the Law). In April 2014, new arrangement with the IMF prompted the Parliament to approve yet another new State Procurement Law. This time, key provisions of the law were harmonized with the EU rules. It was aimed to increase transparency and openness in the area of procurement, simplify procedures, and approximate legislation to the EU norms. However, some loopholes remained and procedures remained burdensome enough to attract only a few new suppliers.

This prompted creation of a pilot e-procurement platform ProZorro. The system was initially used for small-scale (below threshold required for full tender) e-procurement: up to UAH 200 000 for procurement of goods and services and up to UAH 1.5 m for procurement of works (before October 1, 2015, it was UAH 100 000 and UAH 1 m, respectively). The platform allows for online submission of bids and tender documentation while most of the bids are public.

On February 12, 2015, the Ministry of Justice, the Ministry of Defence, the State Management of Affairs and the state-owned company Energoatom conducted first e-procurements through ProZorro. Other central executive bodies have joined e-procurement during 2015. Six auction sites were connected to the ProZorro allowing competition for better design and accessibility. During the pilot the ProZorro was administered by the Transparency International and its creation and operation was financed by international donors as well user fees.

During the year of work 73.5 thousands tenders were conducted through ProZorro at the total amount of UAH 15.3 bn. The savings are officially estimated to reach 14% of allocated financing. These are substantial savings taking into account that the system was used only for procurement below certain thresholds.

In the end of December 2015 the Parliament approved the Public Procurement Law, which envisages the introduction of compulsory e-procurement for the public sector. The Public Procurement Law complies with the provisions of the EU Procurement Directives. However, Ukrainian law envisages compulsory e-auctions, which does not follow EU acquis. The application of electronic procurement is explained by traditionally high corruption of paper-based procurement. All central executive bodies and state-owned natural monopolies should conduct procurement through ProZorro since April 1, 2016, and other public entities will have to conduct procurement through this system starting August 1. ProZorro should be used for purchases of goods and services above UAH 200 000 and for works above UAH 1.5 m (these thresholds are raised for procurement of natural monopolies to UAH 1.0 m and UAH 5.0 m, respectively). At the same time, the system is also used for procurement for smaller purchases to ensure better prices. If procurement exceed UAH 50000, but are lower threshold for full tender the entity that conducts procurement should make the contract public even if it is conducted not through the ProZorro.

The ProZorro platform was transferred to the state company Zovnishtorgvydav in the beginning of April. In the first week of April, three e-trading markets received accreditation, while the rest are still going through the procedure. The participation in e-procurement is on cost recovery basis (it also helps to filter spurious bids). This is expected to allow the ProZorro to be self-financed, ensure higher competition between e-trading markets for new suppliers and increase quality of services provided by e-trading markets.

The e-tenders through the ProZorro have also such build-in mechanisms to reduce possibilities of corruption. Even for small tenders the duration the time for clarifications of terms and for provision of proposals cannot be less than one day each (for tenders above UAH 50000 minimum time rises to 3 and 2 days, respectively). Besides, the step of price change cannot be larger than 0.5%-3% of expected value of tender. To increase the transparency and public control over procurement, business intelligence module of the platform is public (bi.prozorro.org). The suppliers have a right to appeal results of the tender. The special department at the Ministry of Economic Development and Trade considers appeals below the compulsory threshold, while the Antimonopoly Committee will investigate other cases.

Overall, transparent procurement procedures through the ProZorro is likely to increase efficiency of procurement and save up to 20% of financing allocated for procurement. The positive side of the public procurement reforms is that it is supported by good informational campaign as well as provision of training

both to business and public entities. Ukrainian companies (including SME) are expected to receive better access to public procurement under fair rules. Besides, they could try to find additional demand for their products and services at the markets of WTO members. In particular, in March the Verkhovna Rada ratified the WTO GPA agreement, which means that Ukrainian companies received an opportunity to access public procurement of 48 countries (estimated at total amount of USD 1700 bn). The Government is expected to continue efforts to increase transparency, openness and efficiency of procurement, while fighting corruption and enhancing competition. Along with the introduction of e-procurement, the Government transferred procurement of medicines (known for the highest level of corruption), which were traditionally conducted by the Ministry of Healthcare, to international organisations.

Monthly Economic Monitor Ukraine

Politics: The Government coalition dissolved

The Government. On March 28, the Petro Poroshenko Bloc decided to leave the government coalition. It implied that the coalition *de facto* ceased to exist, although it was not clear whether all necessary procedures were completed for this to happen *de jure*. The parties that constituted the former coalition (with the exception of Samopomich) started negotiations to establish a new one. As before, the Petro Poroshenko Bloc and the People's Front Party are expected to comprise the core of the coalition (their factions included 216 Members of the Parliament as of March 28, while the minimum required number for a coalition was 226). The coalition may be created by those two parties if the number of MP's in their factions increases sufficiently. It is also possible that another party or a group of non-partisan MP's joins the coalition. Establishment of a new coalition is expected to ease the political crisis gripping Ukraine since November 2015. However, if a new Government resumes reforms, it is likely that their pace will be slower than under the current Government. A new Government may also resort to populist measures reversing reforms that were already implemented.

Volodymyr Groysman, Speaker of the Parliament and a close ally of President Petro Poroshenko, was discussed as the most likely person to be appointed as a Prime Minister. However, in the first decade of April the political confrontation increased due to lack of consensus on the composition of new government.

Law enforcement. On March 29, the Parliament gave its consent to the dismissal of Prosecutor General Viktor Shokin. On April 3, he was dismissed by President Petro Poroshenko. Mr. Shokin was Prosecutor General since February 2015. Upon appointment he committed to revamp the prosecutor's offices, and fight corruption. However, Mr. Shokin failed to comply with those promises, and his work received widespread disapproval from the public and Ukraine's international partners (including regular public criticism for hindering the fight against corruption from US Ambassador to Ukraine Geoffrey R. Pyatt). Mr. Shokin was considered responsible for an actual failure of the reform of local prosecutor's offices, which was conducted in the second half of 2015. It is expected that a new Prosecutor General will be appointed in April.

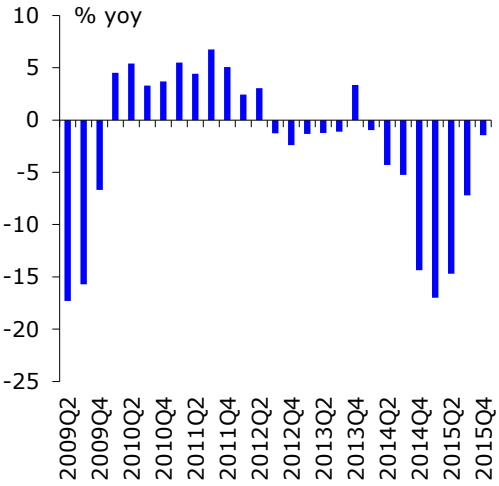
The war in Donbas. In late March-early April, Russia-controlled insurgents launched an offensive against Ukrainian forces near the town of Avdiyvka, located to the north of Donetsk. The attacks were repelled, and the front line did not change. The insurgents also continued a constant harassing fire against Ukrainian forces in other locations. In March, Ukraine, Russia, and the Organization for Security and Co-operation in Europe (OSCE) continued negotiations for settlement of the conflict in Donbas but with no results. They discussed exchange of prisoners and preconditions for a local election in Donbas (specifically, mechanisms for verification of security, and a transitional justice system), but did not reach any substantive agreement.

Real sector: Drop in domestic demand in 2015

GDP. Military conflict in the East, high inflation, drop in domestic demand and weak external demand were among the reasons of decline in real GDP by 9.9% in 2015. Decline in real disposable income and conflict in Donbas resulted in contraction of real private final consumption by 20.2%. At the same time, real gross fixed capital accumulation reduced by 9.3% overall in the year, as it increased by 1.4% yoy in the last quarter. This may have reflected influence of favourable weather on construction. Net real exports made positive contribution to GDP growth at 3.2 p.p. as imports declined more than exports. Imports contracted due to imports substitution as well as lower natural gas imports (explained by the drop in industry and energy saving measures). Moreover, 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 was supported by the positive contribution from increased inventories (by 2.5 p.p.).

On the production side, real gross value added (GVA) declined in all sectors, except for health care. Value added in agriculture declined by 4.7% due to lower crop harvest and decline in livestock production. Military conflict in the East of Ukraine and low domestic demand are the major reason for drop in real GVA in extracting industry and manufacturing by 14.3% and 13.7%, respectively. Decline in purchasing power of households and lower international trade resulted in drop of wholesale and retail trade by 16.8%. At the same time, the need for more complex logistic routes growing bulk exports such as grain, iron ore and scrap metal are likely to be a reason for small contraction of transport (by 1.4%).

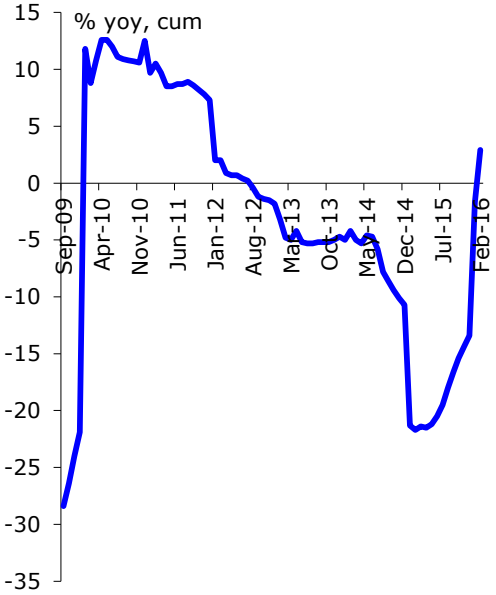
Sectoral trends. Industrial output in February increased for the first time since 2012. It increased by 4.9% yoy on working and calendar day adjusted basis. Coal extraction surged by 27.9% yoy due to statistical base effect (many mines and other companies in the Eastern Donbas suspended work in the first months of 2015). Statistical base was also low for metallurgical plants and chemical producers. As a result, in February 2016 coke producers and metallurgy increased output by 45% yoy and 14.2% yoy, respectively. At the same time, food production increased by only 0.9% yoy likely due to weak demand. Machine building increased production by 3.9% yoy as production of investment products increased by 5.9% yoy

In February, retail sales by enterprises declined by 1.5% yoy after growing by 0.1% yoy in January.

Construction grew by 1.8% yoy due to higher commercial construction and larger financing of infrastructural projects. At the same time, residential construction declined from high statistical base in previous year.

The Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol and the part of the territory under anti-terroristic operation in the East. The statistical base was also revised to make like-to-like comparison available.

Industrial output



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

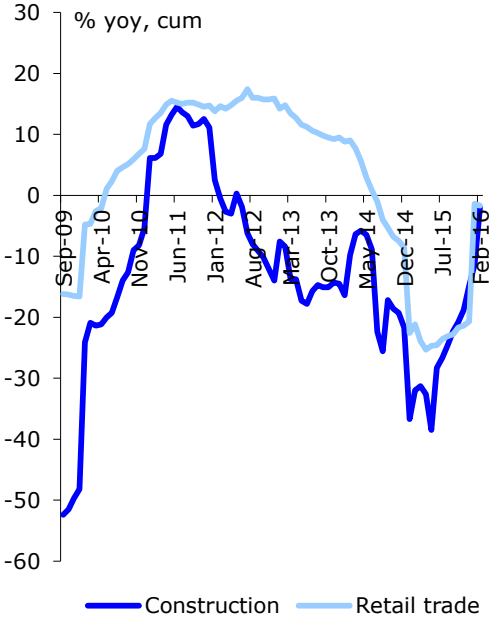
Energy: New possibilities for gas transit

On April 1, the Ukrtransgaz launched a backhaul gas transportation mechanism on the Ukrainian border with Slovakia, Poland and Hungary. In addition, the company started to use operational balancing accounts for the difference between the volumes of ordered gas and the actual volumes of gas transferred between the countries. The Naftogaz, the mother company, notes that this mechanism would allow Ukraine to better use its gas transit facilities and, for example, supply gas from Poland to Hungary.

Between January and March 2016, Russian gas transit via Ukraine increased by 51% yoy due to the low base in 2015 (to 19.4 bn cubic meters).

The Cabinet of Ministers set a new norm for gas consumption of 4.4 cubic meters per person per month for households without the gas meters. Earlier, the Cabinet of Ministers increased the consumption norm from 3 to 6 cubic meters per person. So, the current decision appears as a compromise between the two. The norm is based on the calculations of the Ministry of Energy and the energy regulator. The new norms came into force on March 23.

Real sector trends



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

Agriculture: EU quotas are too small for Ukraine

Production. Gross agricultural production in February decreased by 1.6% yoy. Egg production declined by 17.6% yoy due to decline of exports. The main reasons for the export decline were problems with the shipping to Iraq (due to war in the region) and problems with Turkish border control. At the same time, production of meat and milk increased by 1.6% yoy and 0.03% yoy, respectively. According to the estimates of the Ministry of Agricultural Policy and Food of Ukraine (MAPF), both milk and meat production volumes will continue to increase in 2016.

The weather at the end of March was favourable for the maturation of winter crops. 6.6 m ha of fields seeded with the winter crops gave shoots, which is by 1.3 m ha lower than in 2015. Due to drought in the autumn 2015, winter crops require larger than usual amount of fertilizers and herbicides. However, agricultural companies are not likely to be able to purchase full amount of required fertilizers due to the lack of financial resources. As a result, Ukraine is expected to harvest this year more feed grains and less grains for food.

Weather at the end of March was favourable for the spring seeding campaign. 1.8 m ha of area designated for grains is already seeded (74% of the planed area), which is by 159 thousands ha more than in 2015.

Trade. Ukrainian producers have already fully utilized EU tariff free quotas for poultry, grapes and apple juice, tomatoes, maize, honey, sugar, flour and barley cereals. As a result, largest agricultural exporters addressed Ukrainian government with the request to negotiate with the EU the expansion of these quotas.

Agricultural policy. The State Budget Law for 2016 envisages that UAH 300 m is to be allocated for the support of agricultural producers through the provision of the compensation of part of interest on banking credits. According to the Minister Pavlenko, this program allowed agricultural companies to receive credits at UAH 7.8 bn in 2015. In 2016 additional UAH 50 m will be allocated to the support of animal sector. At the same time, UAH 1.4 bn are to be allocated for the interventions of Agrarian Fund. This amount is 4 times higher than all the direct support, even though effectiveness of Agrarian Fund interventions is often questioned by the experts.

In April, the State Service of Ukraine for Food Safety and Consumer Protection was officially launched. Its priorities include elaboration of food safety legislation, implementation of the Association Agreement with EU, and export facilitation (in particular meat and sunflower meal exports to China).

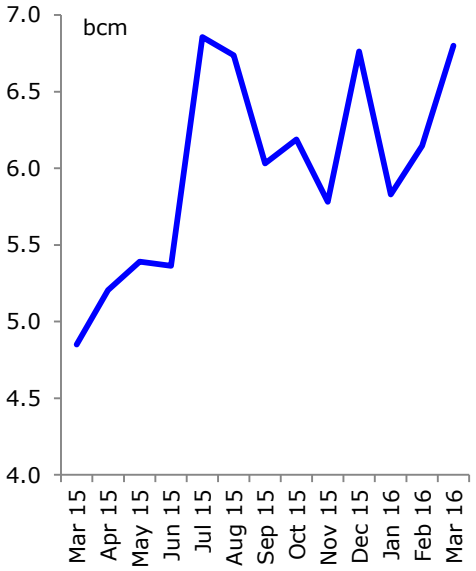
Ukraine reached agreement with Israel that allows Ukrainian producers to export frozen beef and poultry meat. On the other hand, export of Ukrainian eggs to Israel continues to be banned starting from January 2016. The reason for the ban was Salmonellosis infection, found in the shipping that included, among others, eggs from Ukraine. It was not proven that infected eggs were of Ukrainian origin and while Israelian authorities continue investigation, Ukraine continues to export eggs to other countries without restrictions.

External sector: Increase in non-mineral imports

Current account. Current account in February was negative at USD 0.3 bn. Trade in goods deficit increased to USD 0.7 bn as exports of goods dropped more than imports. At the same time, trade in services surplus slightly improved to USD 0.2 bn. Net inflow of primary income was in surplus due to higher inflows of labor compensation from abroad. Net secondary income inflow did not change significantly from previous level at USD 0.2 bn.

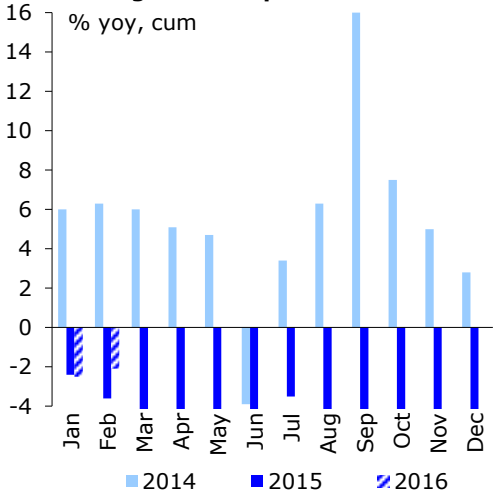
Decline in exports of goods decelerated to 12.0% yoy (as compared to 32.6% yoy in January) mainly because of bad results of January. The deceleration also reflected some improvement at the world commodity markets as prices for food, iron ore and metals started to recover in February. Ukrainian exporters started to adjust to the new rules of transit through the territory of Russia (exports to Asia contracted by 43.3% yoy in January and by 8.7% yoy in February). Improved access of Ukrainian food companies to the EU market as well as EU anti-dumping duties for some metals suppliers (e.g. from Russia and China) also positively contributed to Ukraine's exports (exports to the EU increased by 5.9% yoy). One more day in February of 2016 comparing to 2015 also made positive impact on deceleration of decline in exports. Suspension of free trade regime and import bans by Russia negatively contributed to Ukraine's exports of goods (exports to Russia contracted by 31.1% yoy). As a result, decline in exports of all major product groups decelerated (to 34.1% yoy for minerals, 29.1% yoy for chemicals, 18.1% yoy for metals, 15.3% yoy

Gas transit



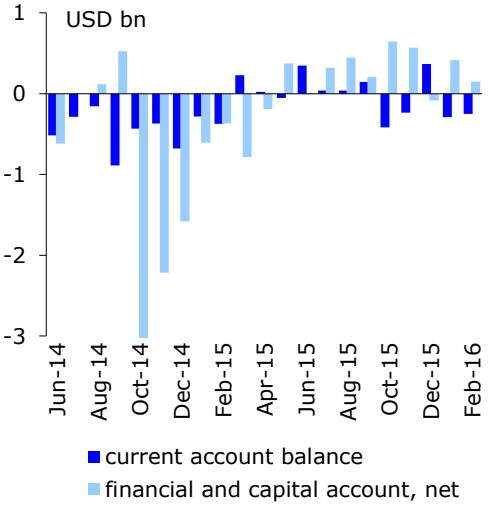
Source: Ministry of Energy, Ukrtransgaz

Agricultural production



Source: Ukrstat

Balance of payments



Source: NBU preliminary estimates

for industrial products, 7.6% yoy for machinery). Exports of food and wood remained close to the levels of February of 2015. Services exports grew by 9.4% yoy due to recovery of transport services.

Decline in imports of goods decelerated to 7.3% yoy (as compared to 25.0% yoy in January). Lower tariff protection due to cancellation of additional import surcharge and liberalized access for the EU goods to the Ukrainian market, as well as some recovery of demand positively contributed to imports growth. However, lower than a year ago purchases of natural gas and Ukraine's mirror sanctions against the goods originating from Russia created downward pressure on imports. As a result, non-mineral imports increased by 10.4% yoy (includes food, chemicals, wood, industrial goods, metals and machinery). Food imports remained close to the level of last year likely due to imports substitution. Geography of imports further changed: imports from the EU increased by 5.9% yoy, whereas imports from Russia dropped by 31.1% yoy. Imports of services started to recover and increased by 2.4% yoy in February.

Financial account. Financial account surplus in February narrowed to USD 0.1 bn. Net FDI inflow amounted to USD 0.9 bn and were allocated for equity operations in banking sector. The Government sector did not receive any external financing due to delays in reforms. External position of banks increased by USD 0.7 bn as banks repaid external obligations. External position of real sector decreased by USD 0.5 bn due to inflow of cash to banks at USD 0.2 bn, additional trade credits of USD 0.5 bn as well as repayment of USD 0.2 bn of debt.

Fiscal policy: Still positive outlook

Revenues. Growth of consolidated fiscal revenues decelerated to 16.2% yoy in February from 32.7% yoy in January primarily as fiscal revenues jumped in previous year (due to another round of hryvnia depreciation). Gross VAT revenues increased in February this year by 35.8% yoy (as compared to 52.6% yoy increase in January). At the same time, VAT refunds surged by 89.5% yoy due to higher share of automatic refunds and increase in hryvnia exports. At the same time, collection of excise duties increased by 71.4% yoy due to higher rates. PIT revenues increased by 40.6% yoy due to increase in wages and somewhat higher effective tax rate. Non-tax revenues dropped sharply in February as the NBU did not make any transfers to the budget (in contrast NBU transferred UAH 5.5 bn in February 2015).

Reduction in the single social contribution (SSC) rate from near 43% to 22% resulted in drop in revenues from this contribution by 23.3% yoy in the first two months of the year. This drop in revenues was lower than officially expected probably due to increase in average wage and some de-shadowing. However, decline in informal wage payments will be constrained by low trust in tax authorities and the Government. Moreover, tax base for employees with higher wages increased due to revised cap on wages, from which SSC is paid (from 17 to 25 sizes of minimum wage). This made tax base for SSC closer to 2013 level in real terms (minimum wage growth grew much slower than inflation and average wage in 2014 and 2015).

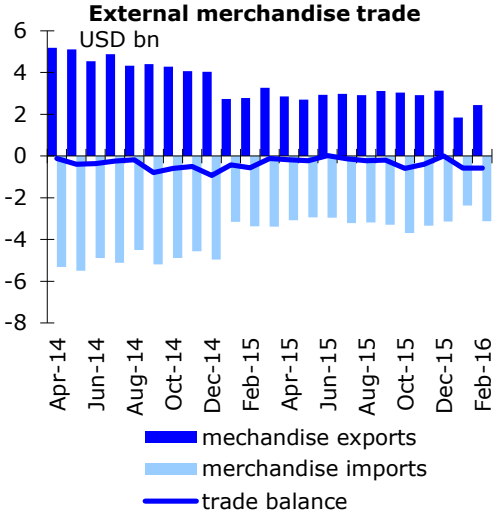
Expenditures and deficit. Consolidated fiscal expenditures in February increased by 19.3% yoy primarily due to increase in the central fiscal transfer to the Pension Fund by 82.4% yoy. Expansion was required to compensate decline in the Fund's in own revenues after the reduction of the SSC. Expenditures for wage payments (including payroll) grew by 20.2% yoy due to increase in wages in public sectors. At the same time, capital outlays declined by 13.5% yoy.

Central fiscal expenditures due to general fund were under-executed by 18.0% yoy of target in two months of the year. This explains the consolidated fiscal surplus at UAH 9.9 bn during this period.

Social policy: Drop in purchasing power in 2015

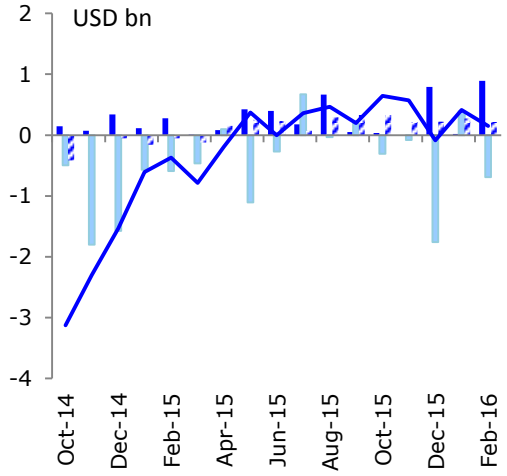
Disposable income in 2015 grew by 15.6% in nominal terms. However, real income dropped by 22.2% due to high inflation.

External merchandise trade



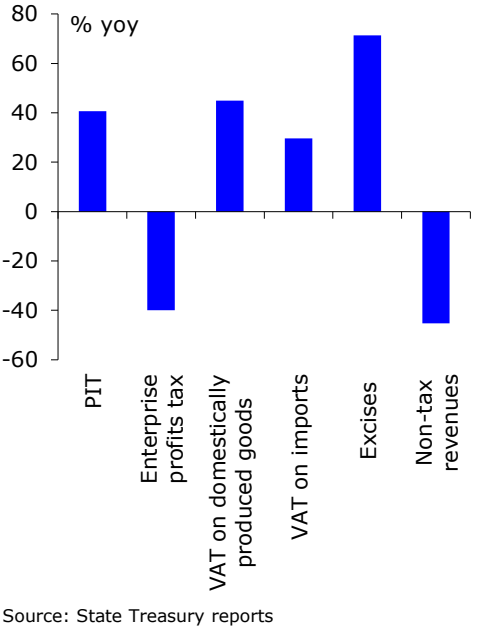
Source: NBU preliminary estimates

Financial account



Source: NBU

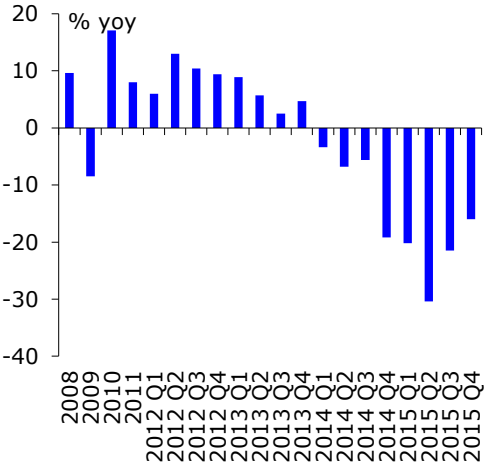
Growth of Consolidated fiscal revenues in February 2016



Source: State Treasury reports

Income from all sources declined in real terms. Weak labour market resulted in drop in real wage income by 25.6%. Low demand due to decline in purchasing power did not allow entrepreneurs and individual farmers to maintain their margins; however, sales were to some degree supported by imports substitution. As a result, real income from entrepreneurs activity and subsidiary farming declined by 15.3%. High budget constrains resulted in drop of real income from social payments and current transfers by 21.2%. Sharp real decline in deposits and steady interest rates likely explain decline in property income from (primarily interest on banking deposits) by 32.6%.

Real disposable household incomes



Source: Ukrstat

Labour market: Real wages increased in several sectors

Wages. Average nominal wage in February grew by 26.2% yoy to UAH 4585 due to wage indexation and minimum wage increase. Decline in real wage decelerated to 8.3% yoy (as compared to 13.2% yoy in January) primarily due to slowdown in CPI growth.

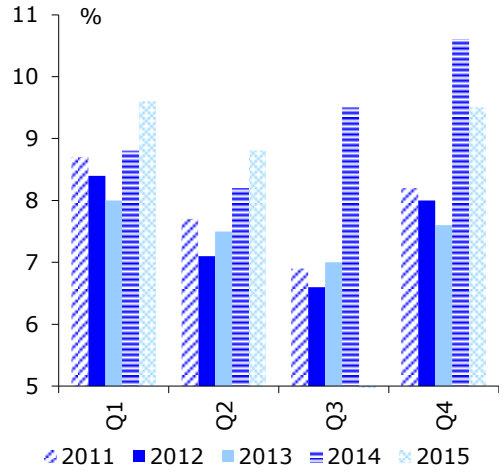
Nominal wage in the industry increased on average by 29.2% yoy. As previously, wages increased the most in the pharmaceutical industry (by 56.2% yoy) and textile industry (by 39.0% yoy) due to import substitution effect. Also, average wage in the manufacturing of computers, electronic and optical equipment increased by 70.6% yoy due to military procurements as well as import substitution. Wage growth in the electricity and gas supply sector remained lower than average in economy (22.2% yoy).

Wages increased by 23.8% yoy in education and by 23.4% yoy in health care. Such growth is explained by the increase in the base wage that took place in the end of 2015. Wages in state administration and defense grew by 36.6% yoy.

Unemployment. In the last quarter of 2015, unemployment rate (ILO methodology) reached 9.5% of economically active population in the age of 15-70 years old. Share of urban population in the unemployment structure equaled 67.3%, share of men in the unemployment structure equaled 59.0%.

The number of registered unemployed increased by 51 100 persons in comparison to the last quarter of 2014 to 490 800 individuals (2.7% of economically active population in the age of 15-70 years old).

Unemployment rate (ILO)



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

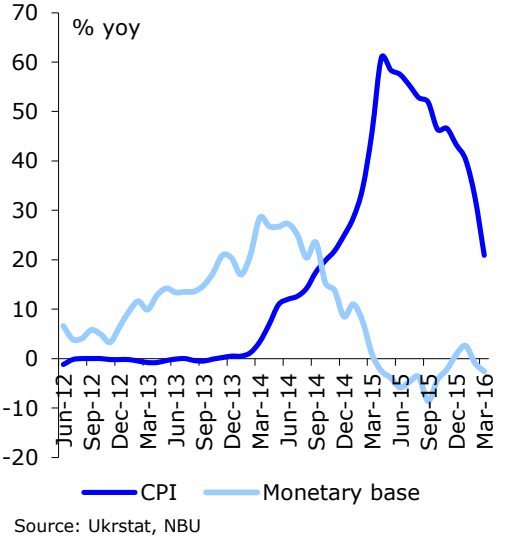
Monetary policy: Core inflation slowed to 15% yoy

Inflation. In March, monthly core inflation increased to 1.9% mom. This reflected effect of hryvnia exchange rate volatility in February and seasonality in clothing and footwear prices. Still, 12-month core inflation slowed down to 15.0% yoy. Year-to-year price increases for most items in core consumer basket ranged from 11% yoy to 18% yoy. This reflected low volatility of exchange rate for large part of the last 12 months that helped stabilize inflation expectations. Weak income growth in private sector and even lower increases of social standards limited consumer demand and helped contain inflation.

Prices for non-core components of consumer basket were more diverse. Fuel prices dropped by 14.7% yoy in response to collapse in oil prices but low competition prevented higher drop in prices. On the other end of the spectrum, natural gas prices almost quadrupled (3.7 times increase) and electricity prices more than doubled (with 2.1 times increase) from March 2015. Overall CPI increased by 20.5% yoy.

Monetary policy. In March, the NBU kept monetary policy constant with overnight deposit rate still at 18 % p.a. Monetary base remained almost unchanged (with 0.4% mom decrease) at UAH 327 bn as the NBU operations had little impact on bank liquidity. Bank deposits in hryvnia continued increasing slowly but banks were restrained in granting loans and increased lending rates. This may have reflected higher inflation expectations.

CPI and monetary base development



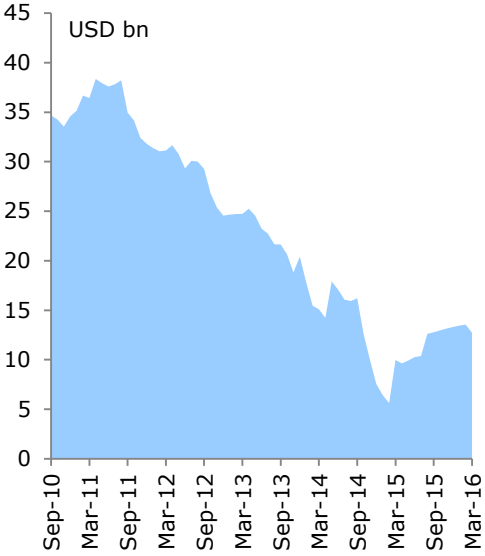
Source: Ukrstat, NBU

Exchange rate: Return of stability

Interbank exchange rate remained stable in March in UAH 26-27 per USD range. "Grey" market exchange rate remained close to official

exchange rate. Stabilization of exchange rate likely reflected decrease in depreciation expectations as seasonal increase in export revenues was offset by seasonal increase in import demand. The NBU sales of foreign currency were offset by purchases in March. NBU's international reserves dropped to USD 12.7 bn in March due to peak in interest payments on external debt and redemption of foreign currency domestic bonds.

NBU international reserves



Source: NBU

State debt: The debt increased in hryvnia but declined in US dollars

Over two months of 2016, state debt (in hryvnia equivalent) increased by 5.8% primarily due to hryvnia depreciation. At the same time, it declined by 1.8% to USD 64.3 bn in dollar terms. Hryvnia-denominated debt increased by 2.6% as the Government recapitalised state-owned banks (by UAH 14.3 bn) and placed domestic bonds. Foreign currency debt increased by 1.3% as the Ministry of Finance placed foreign currency domestic bonds.

The share of external debt reached 67.5% in the end of February. At the same time, only 27.6% of total state debt is denominated in hryvnia, as part of state domestic bonds were denominated in US dollars and euros. Therefore, vulnerability of state debt to the exchange rate shocks remains high.

Tables

		Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Industrial production (real)	% yoy cum.	-4.0	-8.0	-10.1	-20.5	-20.0	-16.1	-13.0	-20.5	-20.6	-20.5	-20.0	-19.0	-17.4	-16.1	-14.9	-14.0	-13.0	-1.7	2.9	…
Construction (real)	% yoy cum.	-7.8	-16.4	-20.4	-29.7	-26.2	-20.9	-12.3	-29.7	-30.3	-28.5	-26.2	-25.0	-22.8	-20.9	-18.9	-17.3	-12.3	-11.4	-2.0	…
Agricultural production (real)	% yoy cum.	-3.9	16.0	2.2	-4.7	-9.3	-5.3	-4.8	-4.7	-4.8	-5.4	-9.3	-3.5	-5.8	-5.3	-4.4	-4.7	-4.8	-2.5	-2.1	…
Retail trade turnover (real)	% yoy cum.	0.8	-5.3	-7.5	-23.9	-24.6	-22.3	-20.7	-23.9	-25.3	-24.7	-24.6	-23.6	-23.1	-22.3	-21.7	-21.4	-20.7	-1.4	-1.7	…
Average wage	UAH	3488	3463	3508	3650	4113	4313	4753	3863	3998	4042	4299	4390	4205	4343	4532	4498	5230	4362	4585	…
CPI	% yoy eop	12.0	17.5	21.8	45.8	57.5	51.9	43.3	45.8	60.9	58.4	57.5	55.3	52.8	51.9	46.4	46.6	43.3	40.3	32.7	20.9
PPI	% yoy eop	15.9	26.9	32.8	51.7	37.9	32.5	25.4	51.7	48.6	42.0	37.9	37.0	33.0	32.5	30.2	25.1	25.4	21.2	17.4	10.5
Exports (USD)*	% yoy cum.	-12	-16.4	-19.9	-31.4	-32.2	-29.8	-27.0	-31.4	-32.4	-33.5	-32.2	-31.9	-31.0	-29.8	-28.9	-28.1	-27.0	-30.0	-18.6	…
Imports (USD)*	% yoy cum.	-18.0	-24.8	-28.1	-33.1	-34.2	-31.8	-29.3	-33.1	-33.6	-34.7	-34.2	-33.5	-32.2	-31.8	-30.4	-29.5	-29.3	-22.9	-14.0	…
Trade balance	USD bn cum.	-2.0	-3.0	-4.6	-0.6	-0.6	-1.0	-1.7	-0.6	-0.6	-0.7	-0.6	-0.8	-1.0	-1.0	-1.5	-1.8	-1.7	-0.4	-0.9	…
Current account**	USD bn cum.	-2.0	-1.2	-2.6	-0.4	-0.1	0.1	-0.2	-0.4	-0.4	-0.5	-0.1	-0.1	0.0	0.1	-0.3	-0.5	-0.2	-0.3	-0.5	…
Gross international reserves	USD bn eop	17.1	16.4	7.5	10.0	10.3	12.8	13.3	10.0	9.6	9.9	10.3	10.4	12.6	12.8	13.0	13.1	13.3	13.4	13.5	
Monetary Base	% yoy eop	25.1	23.5	13.8	0.9	-5.9	-8.6	0.8	0.9	-2.5	-3.9	-5.9	-4.7	-3.7	-8.6	-4.3	-2.2	0.8	2.6	-0.9	-2.6
Lending rate on UAH credits	% pa, aop	17.5	16.4	16.4	19.9	23.1	21.1	20.7	23.6	23.8	23.6	22.0	21.2	21.2	21.0	20.9	20.7	20.4	20.0	19.8	…
Exchange rate (interbank)	USD aop	11.71	12.58	13.56	21.23	21.56	21.74	22.90	22.98	22.49	20.94	21.26	21.79	21.65	21.79	21.94	23.33	23.42	24.32	26.45	26.30
Exchange rate (official)	USD aop	12.71	12.58	13.56	21.18	21.62	21.69	22.33	23.26	22.71	20.92	21.23	21.76	21.54	21.78	21.84	23.31	21.84	24.26	26.39	26.39
Exchange rate (official)	EUR aop	13.71	16.67	17.21	23.88	23.88	24.11	24.62	25.32	24.47	23.32	23.84	23.94	23.93	24.46	24.56	25.07	24.23	26.35	29.33	29.33

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]
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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

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

Kostiantyn Kravchuk
k.kravchuk@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

Disclaimer

The Monthly Economic Monitor of Ukraine has been prepared by the Institute for Economic Research and Policy Consulting for informational purposes only. All judgments in this report reflect authors' point of view as of date publication, and can be changed without notice. Although we used our best efforts in preparing this publication, we make no guarantees as to its accurateness. The IER does not take any responsibility for any losses or other problems that directly or indirectly resulted from the use of any part of this publication. Reproduction without prior permission is prohibited; when quoting please cite Institute for Economic Research and Policy Consulting.