Monthly Economic Monitor Ukraine

No.3 (185), March 2016

EXECUTIVE SUMMARY

HIGHLIGHT: POLITICAL CRISIS

Politics: The Parliament declared the Government's performance unsatisfactory but failed to get enough votes for no-confidence motion.

Real sector: Retail sales by enterprises in January increased by 0.1% yoy due to stabilization of consumer sentiments.

Energy sector: In March, the electricity tariffs for the population were increased as initially planned.

Agriculture: Gross agricultural production in January decreased by 2.5%.

External sector: Current account in January was negative at USD 0.4 bn as trade in goods deficit reached USD 0.6 bn.

Privatisation: The start of big privatisation is planned for the nearest future.

Fiscal policy: Consolidated fiscal expenditures in January reduced by 7.1% yoy.

Social policy: The Government has started the verification of social payments.

Labour market: Real wage declined by 13.2% yoy as a result of high inflation and weak labour market.

Monetary policy: In February, monthly core inflation remained low at 0.4% mom and CPI dropped by 0.4% mom.

Exchange rate: Interbank exchange rate moved from UAH 25 per USD in the beginning of February to over UAH 27 in the second half of the month.

State debt: Increased political instability resulted in further delay in the provision of the third tranche of the IMF loan.

Highlight of the month: Political crisis

REFORMS SHOULD GO ON

Oleksandra Betliy, Vitaliy Kravchuk

Instability is usual feature of Ukrainian politics. To some degree it is a price of the democracy: Ukraine changed five elected leaders over 25 years of the independence, which is the largest number among CIS states. However, average Ukrainian government rarely lasted over one-two years as it lost majority in the Parliament or was ousted by the President. On top of this, in last ten years Ukraine went through two "Maidans" that led to change in country' leadership. Ukraine may find itself with new Government in the very near future. Frequent government changes do not help the country as there is little to ensure continuity in government policies. Budget planning is done on single-year basis, senior civil servants are frequently replaced along with politically appointed Ministers. Strategic planning exercises are rarely seen to the end and even if they do often they are often ignored by new governments. As a result, each new Government that comes to power starts from scratch in many areas.

Ukrainian Constitution prohibits the Parliament to dismiss the Prime Minister for a year after the Government's program is approved. As this job protection came close to the end in November and December 2015, two junior coalition members (namely, Batkivshchyna and Samopomich) called for the Government reshuffle. Even before, the coalition was fractious and the Government frequently had to rely on votes for MP's outside the coalition to get laws passed. As negotiations on government reshuffle came nowhere a number of MPs called for Government's resignation.

The confrontation between the Government and the Verkhovna Rada came to a head in February 2016. The Parliament declared the Government's performance unsatisfactory but failed to get enough votes for no-confidence motion. Prolonged political instability resulted in further delays for third tranche of the IMF loan (which was initially scheduled for the end of 2015) and might also lead to postponed assistance from other international donors. It also slowed down the implementation of required reforms. If instability would continue for longer than a few months it may threaten macroeconomic stability. It has already contributed to higher volatility of the exchange rate, which may increase further if Ukraine loses access to external funding for prolonged period. This may also result in higher inflation. Thus, the immediate concern is settling the question of who should be the Prime Minister. This should help reduce uncertainty, preserve stability in the economy and prevent worsening of short-term economic prospects. However, economic recovery and medium-term growth prospects will depend on continued reforms. Ukraine will also have to work to modernize production capacity and replace aging equipment, revitalize infrastructure, and increase productivity.

The agenda for the reforms is long but over the last two years progress was made in many areas. The Government should continue efforts to increase efficiency of public spending and improve fairness of tax system. This includes more fair distribution of social contributions and personal income taxation (including wage de-shadowing) as well as introduction of means-tested social welfare assistance. The housing and utility subsidies should be revised to add incentive for energy efficiency. We think that the major taxes should remain effective. In particular, the Government should increase efficiency of EPT rather than substitute it with the tax on redistributed profit. The exporters should receive VAT refunds within reasonable time. Besides, the Government should continue moves for more open and inclusive public procurement.

The energy reform should continue. Increase in tariffs has already produced results in the form of massive reduction of the Naftogaz's deficit and the reduction of inefficient energy consumption. This helped to stabilize energy grid in winter and reduce reliance on imported gas from Russia. However, reduction in energy subsidies should be coupled with increasing efficiency of local utilities and continued protection of the vulnerable consumers. Recent reduction in world energy prices may help to ease the process.

The reform of state-owned entities should be finally completed. In particular, the Government should restart the privatization process as soon as possible and complete sale of most companies (except for strategic ones) within period of three years. At the same time, the corporate management of state-owned companies should be efficient while fulfilling public policy objectives. For this, the Government should finally complete competitions for the appointment of directors at these companies.

The deregulation and technical regulation reform removed a number of obstacles for doing business in the country. However, the EU-Ukraine Association Agreement requires efficient market supervision from Ukrainian authorities to ensure EU market access for Ukrainian companies. Moreover, a degree of government intervention is still needed to ensure safety, protect environment and reach other public policy goals. Continued reform of law and justice system is needed to make sure that laws are faithfully executed, enforce contracts and remove the spectre of corruption. Without these crucial steps simplification of procedures and removal of regulations will have little effect on business climate.

Equally important for economic recovery is ensuring that Ukraine has human and physical capital to develop new goods and produce them. This would require efforts on revitalizing transport infrastructure, successful financial sector reform that will help to channel savings to most efficient investments, science and education reform that will produce qualified workforce and intellectual property needed to compete in global marketplace. The Government should also ensure development of small and medium companies, which require better access to the financing.

Administrative reform should result in nimble and well-paid civil service with focus on policymaking functions, while most administrative services would be devolved to the local authorities as well as the revision of functions of most central executive entities. As a result, number of civil servants will decline. At the same time, those servants that remain at work should receive substantial increase in wages after check of their competences, which would reduce corruption.

To sum up, political instability is not good for economy. In the short-term, the clarity on who governs in Ukraine is needed to maintain fragile macroeconomic stabilization. In the medium term, the main cost of political crisis is loss of continuity and delay or derailment of reforms needed for economic recovery. On the bright side, reforms now have more momentum than at any time over the last fifteen years. If political crisis is resolved in the nearest future and current progress is continued Ukraine may be ready to return to growth over the next few years.

In the future Ukraine should make sure that economic policy and reform agenda would be more insulated from political instability. This can be ensured only if efficient and effective medium term planning is introduced. This relates not only to the implementation of full-scale medium-term budget expenditure framework, but also approval of clear-cut medium-term program with clearly defined policy priorities. This would increase transparency and predictability of Ukraine's development, which would increase its investment attractiveness. The Government should introduce promised reforms, which would improve business climate and attracted required foreign and domestic investments to the country.

Monthly Economic Monitor Ukraine

Politics: The Government survives, but its future remains uncertain

The Government. On February 16, the Parliament heard a report of the Government for the previous year, and declared its work unsatisfactory. However, it failed to dismiss the Cabinet by a no-confidence vote. This voting result was not accepted by two members of the ruling coalition, namely by the Batkivshchyna party and the Samopomich party, which decided to leave the coalition to destroy it and, thus, compel the Government led by Arseniy Yatseniuk to step down. The parties accused the Government of tolerating corruption and acting in the interests of oligarchs. After the two parties left the coalition, its membership should have been reduced to 217 Members of the Parliament (MP's), which was less than the minimum required number (226 MP's). However, it turned out unexpectedly that the Radical party, which announced its withdrawal from the coalition in September 2015, did not complete the necessary procedure and formally remained a coalition member. As a result, the Government withstood, but its ability to conduct reforms remained limited because of a lack of support from the Parliament.

President Petro Poroshenko, Prime Minister Arseniy Yatseniuk, and MP's continued negotiating a possible change of Government. Although a new Government might be appointed as soon as in March, it was not clear when the political crisis would be resolved. The political instability slowed down the reforms, and prevented Ukraine from receiving international financial aid, including the one from the IMF.

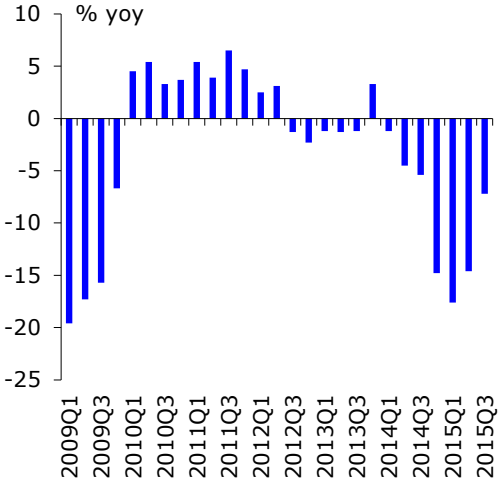
The EU. The EU decided to split the process of lifting visa requirements for nationals of Ukraine and Georgia. Earlier it was expected that a visa-free regime for short trips to the EU would be provided simultaneously for Ukrainians and Georgians. The EU's decision implied that Ukraine is to be granted the visa-free regime later than Georgia, and probably not in 2016. The visa requirements for Ukrainians might be lifted after Ukraine meets the necessary requirements, including a start of operations of the National Agency for the Prevention of Corruption, and a modification of the law on electronic declaration of income, expenditures, and assets by civil servants. In addition, the EU intended to wait for results of a referendum on the approval of the Association Agreement between the EU and Ukraine, which was expected to be held in the Netherlands on April 6. The referendum results are not legally binding, but might have political implications.

Law enforcement. On February 29, the Government decided to establish the State Bureau of Investigation of Ukraine (SBI). The Government also appointed six out of nine members of the commission mandated to select candidates for the head of the Bureau role. The SBI would be responsible for the investigation of crimes committed by high-ranked public officials, law enforcement officers and judges (the powers that were entrusted to the General prosecutor's office at the moment). Establishment of the SBI was prescribed by the Code of Criminal Procedure adopted in 2012. However, the Parliament passed the law on the SBI only in November 2015, and that law became effective on March 1, 2016. Previously it was expected that the SBI would start working no earlier than on January 1, 2017.

The war in Donbas. In February Ukraine, Russia, and the Organization for Security and Co-operation in Europe (OSCE) continued negotiations for settlement of the conflict in Donbas within the Trilateral Contact Group (TCG). As in the preceding months, the negotiations yielded no substantial progress. Russia argued that Ukraine did not want to secure special rights for Donbas in its Constitution. For its part, Ukraine stated that local election, a key component of the settlement process, could not be held in the conflict region because of continuing violence. Ukraine drew attention to an increase in intensity of firing and shelling against Ukrainian troops,

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

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including with the use of prohibited weapons. In February, Russia-controlled insurgents quitted the village of Shyrokyne near Mariupil, while the rest of the front line did not change.

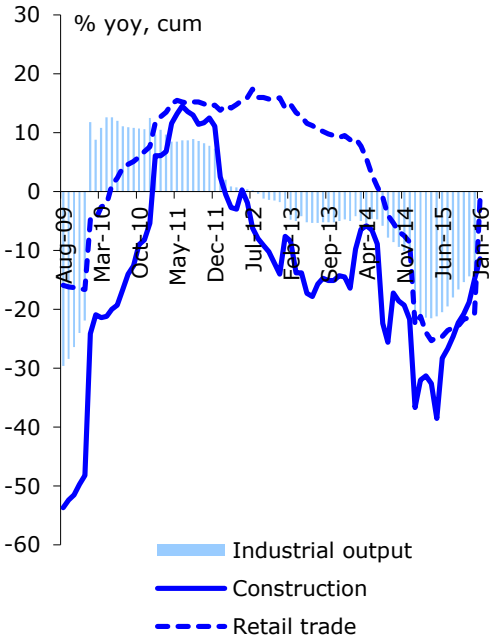
Real sector: Controversial developments

Sectoral trends. The decline in industrial output in January decelerated to 1.7% yoy from 2.1% yoy in December 2015. This is attributed to the increase in supply of electricity and gas at 2.2% yoy as January this year was colder than in 2015. At the same time, cold weather dampened output in extractive industry due to lower extraction of construction materials. Besides, construction in January declined by 11.4% yoy after growth at 10.4% yoy in December primarily due to weather changes. Manufacturing output fell by 2.8% yoy due to weak domestic demand. For example, car production more than halved due to termination of production by several producers. Still, production of first necessities such as meet, bread, clothes increased from January 2015. Interestingly, despite trade tensions with Russia, weak external demand, and downward trend in world commodity prices steel production still increased from January 2015. However, production of other export commodities including fertilizers dropped.

In January, retail sales by enterprises increased by 0.1% yoy. This reflected stabilization of consumer sentiments.

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.

Real sector trends



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

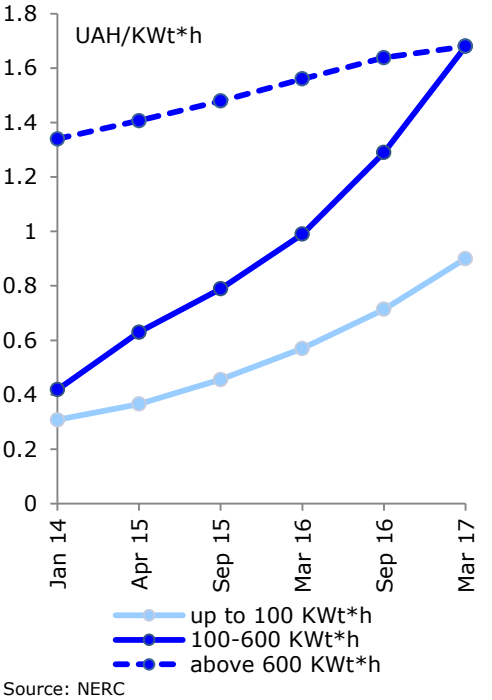
Energy: The households will pay more for electricity and gas

Electricity. In March, the electricity tariffs for the population were increased as initially planned by 5.5-25.2% depending on consumption volumes. In particular, tariffs were increased by 25% to UAH 0.57 per KWt*h for consumption up to 100 KWt*h, by 25.5% to UAH 0.99 for consumption of 100-600 KWt*h, and by 5.5% to UAH 1.56 for consumption above 600 KWt*h. This is the third stage of gradual increase of electricity tariffs to cost covering levels. The previous two increases were introduced in April and September, 2015. The tariffs increases are also planned for September 2016 and March 2017.

Gas. The Cabinet of Ministers increased the norms of gas consumption for households without meters by 47% to 4.4 cubic meters per month. That was a government response to a court ruling cancelling the previous resolution of the Cabinet of Ministers of April 2015, which decreased the abovementioned norm by 50% to 3 cubic meters. The decrease created shortage of funds for the regional gas supply companies who claimed that the norm was too low and even induced some consumers to refuse to install gas meters. The new norm is considered by the Government as a compromise.

On February 4, the Parliament adopted the amendments to the Customs Code on creating conditions for a new model of the natural gas market. The law introduces the definition of "natural gas replacement operation" otherwise known as "backhaul" or "virtual reverse" of gas, its customs control and customs clearance procedures. Adopted changes create legal grounds for future backhaul contracts and help diversify gas supply sources. New provisions will become effective on April 1, 2016.

Electricity tariff schedule



Source: NERC

Agriculture: Access to the meat market of the United Arab Emirates

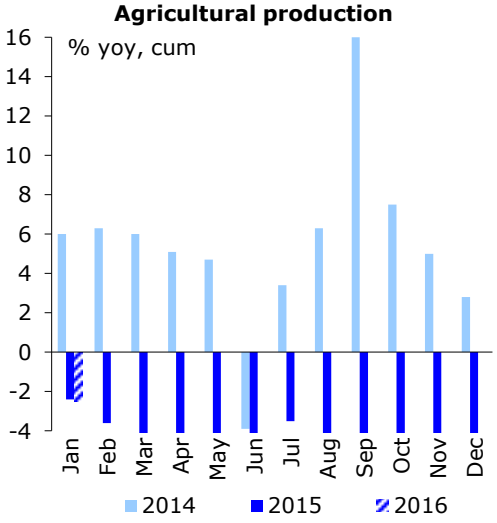
Production. Gross agricultural production in January decreased by 2.5%. This is the consequence of a decrease in animal production due to the loss of Russian export market and weak domestic demand.

According to the Ministry of Agrarian Policy and Food (MAPF) of Ukraine, 93% of planted area for winter crop is in a good or satisfactory condition and thus does not need to be seeded again.

Spring seeding campaign has been already started in four southern regions due to favorable weather. As a result, 3% of area reserved for spring planting campaign has been already seeded.

Agricultural policy. At the end of February, the MAPF signed the agreement with the representatives of Ministry of environment and water of the United Arab Emirates (UAE), which allows Ukrainian companies to export beef, sheep and poultry meat to the UAE. However, only companies that have a permission to export poultry to the EU will be eligible to sell poultry at the UAE market. The negotiations regarding access of Ukrainian companies to the OAE milk, fish, honey, confectionary and live animal markets are ongoing. According to the MAPF, the agricultural export to OAE is estimated to increase from USD 134 m in 2015 to USD 300 m in 2016.

Agricultural production



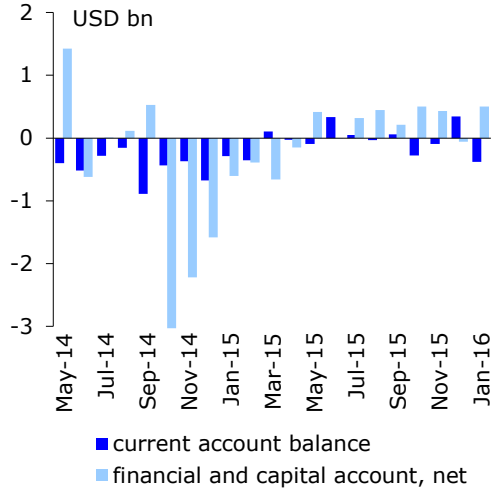
Source: Ukrstat

External sector: Non-mineral imports reached bottom

Current account. Current account in January was negative at USD 0.4 bn as trade in goods deficit reached USD 0.6 bn. Such changes occurred as exports drop significantly accelerated, whereas imports contraction moderated. Trade surplus in services decreased to USD 0.1 bn as exports of services contracted more than imports of services. Balance of both primary and secondary income remained unchanged at the level of December.

Exports of goods drop accelerated to 32.1% yoy (as compared to 14.1% in December) mainly due to both transit and trade restrictions imposed by Russia. Transit restrictions were more severe for Ukraine's foreign trade than cancellation of free trade area. Problems with transit resulted in decline in exports to Asia by 43.3% yoy, which contributed 14.2 p.p. to the overall exports drop, whereas exports to Russia dropped by 48.0% yoy and contributed only 3.1 p.p. The effect of these measures was accompanied by continued downward trends of world commodity prices, which resulted in lower export revenues. As a result, decline in exports of all major product groups accelerated (by 46.8% yoy for metals, by 44.5% yoy for minerals, by 40.3% yoy for chemicals, by 32.4% for machinery). As grains are transported mainly by ships, exports of food was affected the least and contracted by 19.8% yoy. Exports of services drop accelerated to 16.7% yoy (as compared to 7.9% yoy in December) due to lower exports of transport services resulted from disruptions of transit.

Balance of payments

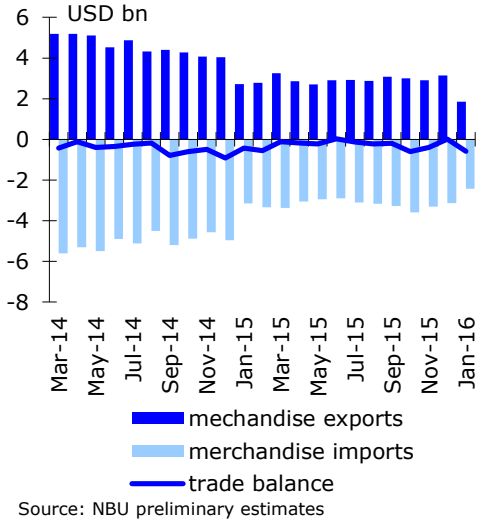


Source: NBU preliminary estimates

Decline in imports of goods decelerated to 22.9% yoy (as compared to 34.0% yoy in December) as most of non-energy imports remained close to the levels of January 2015. Imports of machinery and metals increased by 6.3% yoy and 1.6% yoy, respectively. Another reason for deceleration was somehow easier access to foreign currency purchases comparing to December. At the same time, imports of minerals contracted by 51.0% yoy due to lower purchases of gas. Imports of services declined by 5.5% yoy.

Financial account. Financial account in January was in surplus of USD 0.5 bn. Net FDI inflow was negligible. The Government sector did not received any external financing and repaid USD 0.1 bn of external obligations. External position of banks increased by USD 0.1 bn due to increase of external assets. External position of the real sector decreased by USD 0.7 bn due to inflow of cash to the banking system at USD 0.3 bn as well as increase in trade credits and long-term debt by USD 0.2 bn and USD 0.3 bn, respectively.

External merchandise trade



Source: NBU preliminary estimates

Transit. At the end of January 2016, Poland and Turkey delayed issuing transit permits to Russia and banned traffic of Russian trucks through their territory as a response to unilateral introduction of more severe rules for transit by Russia. As a result, majority of the Russian trucks went to the EU through the territory of Ukraine. Since February 11, 2016, Ukrainian activists started to block Russian trucks first in Zakarpattia oblast and then in nine other oblasts. Russia responded with a suspension of truck traffic since February 14, and Ukrainian government officially announced temporary ban on Russian trucks traffic. Two days later, after Russia banned traffic of all freight vehicles registered in Ukraine, the two countries agreed to allow blocked trucks to return home. This deal allowed almost 600 Ukrainian and the same amount of Russian trucks to return to their

home countries. At the same time, Russia tried to outflank Ukrainian restrictions on transit and hired Belarusian and Baltic trucks to ship its goods through Ukraine.

After Russia and Poland agreed to exchange transit permits on February 18, 2016, Russia asked Ukraine not to block its trucks. Since February 25, 2016, bilateral truck traffic was renewed. However, transit of Ukrainian goods to Kazakhstan still goes through Belarus or uses the New Silk Road.

The Ukrzaliznytsia announced that the test train to China, launched in January, will return to Illichivsk on March 15-17. It is expected that Ukraine, Georgia, Azerbaijan and Kazakhstan will negotiate on lowering the tariffs and decide on the tariff for a twenty-foot container, as currently only the tariff for a forty-foot container at USD 5559 was announced.

Privatisation: Big privatisation' framework is defined

On February 16, the Parliament approved the law that created grounds for the start of big privatization. This law removes the requirement to sell 5-10% of the companies' stakes on stock exchanges, prohibits privatisation of Ukrainian companies by Russian companies, and opens the possibility to attract advisers for the sale of large companies.

In 2016, the State Property Fund of Ukraine (SPFU) is going to privatise 450 companies, including 20 large companies. Even if the SPFU does not sell all of these stakes, the privatisation of just Odesa Port Plant (scheduled for the end of June) might ensure more than 50% of planned privatisation receipts for 2016.

Fiscal policy: Decline in expenditures

Consolidated fiscal revenues in January grew by UAH 9.4 bn or 32.7% yoy primarily due to higher tax revenues. PIT revenues increased by 36.8% yoy due to higher wages and higher effective tax rate. Increase in net VAT revenues explain half of the growth of consolidated fiscal revenues. In particular, gross VAT collections increased by 44.2% yoy likely due to better tax administration as retail sales increased only by 24% yoy and in response to depreciation of hryvnia. At the same time, VAT refunds increased by UAH 3.1 bn. Collections of excise duty grew due to higher rates. EPT revenues dropped by 75.6% yoy as compulsory monthly advanced EPT payments were cancelled starting January 2016.

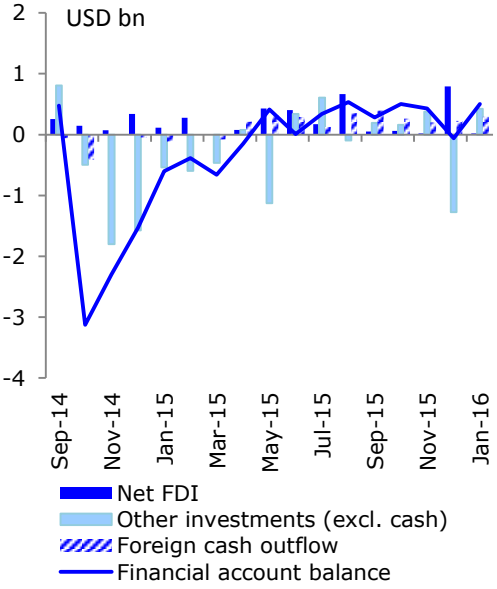
At the same time, consolidated fiscal expenditures reduced by 7.1% yoy in January as monthly transfer to the Pension Fund brought forward to December 2015 (this transfer was at UAH 5.7 bn in January 2015). Spending on debt service declined by 28.5% yoy. At the same time, other spending increased primarily due to higher wage payments. As a result, consolidated fiscal balance was positive at UAH 9.0 bn as compared to the deficit at UAH 2.6 bn in the same month of last year.

Social policy: Social payments verification

The Ministry of Social Policy has started the verification of social payments. It has started from verification of payments to the internally displaced persons (IDPs). The Ministry of Social Policy terminated social payments to 150 thousands of IPDs (out of 1.7 m persons registered as IDPs). According to the Ministry, these are mostly people that continue to live on the occupied territories and, thus, are not entitled receive social payments from Ukrainian Government. Overall, the procedures of the IDPs registration is not effective due to lack of unified electronic national database to be used by various government entities.

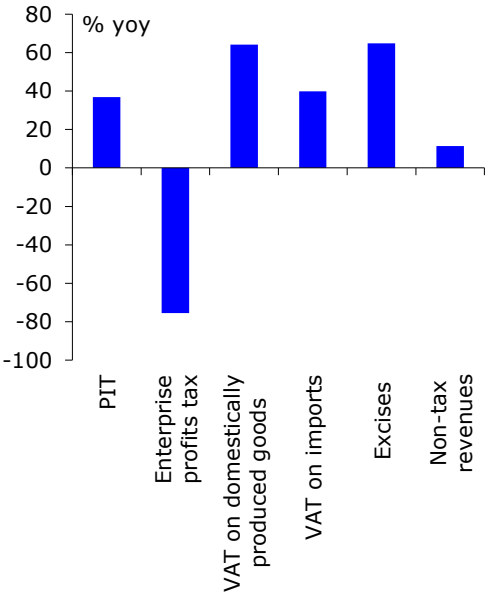
The decision to verify social payments was taken in December 2015 in order to ensure higher efficiency of fiscal spending. At the moment, there seem to be a conflict between the Ministry of Finance and the Ministry of Social Policy, which resulted in delays in approval of legislation needed for the verification (though the law has been already approved forcing the banks to make bank information on individuals available to government entities upon request). The

Financial account



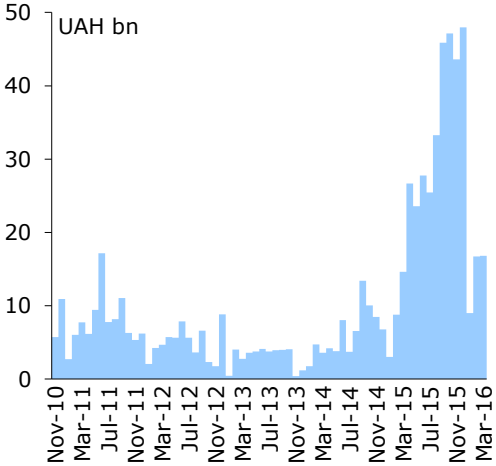
Source: NBU

Growth of Consolidated fiscal revenues in January 2016



Source: State Treasury reports

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

verification of social payments is officially projected to save UAH 5.0 bn to the budget. However, this amount is likely to be too optimistic especially taking into account delays in the implementation.

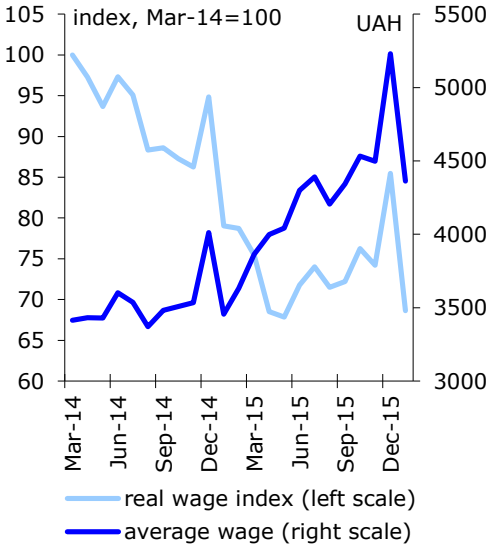
Labour market: Real wages declined

Wages. Average nominal wage in January grew by 26.3% yoy to UAH 4362 due to wage indexation and minimum wage increase. Real wage declined by 13.2% yoy as a result of high inflation and weak labour market.

Nominal wage in the industry increased on average by 24.0% yoy . due to the wage adjustment to the increase in minimum wage and wage indexation. Manufacturing companies increased wages by 30.1% yoy. Remarkable wage growth at 69.0% yoy was reported by the manufacturing of computers, electronic and optic equipment partially due to the statistical base effect. Wage in pharmaceutical industry increased by 46.0% yoy likely due to the impact of imports substitution. Despite new housing and utility tariffs companies in the electricity and gas supply sector increased wages by less than on average in economy (by 17.2% yoy).

Wage growth in budget sector was close to average wage growth across economy. Particularly, wages increased by 25.0% yoy in education and by 24.0% yoy in health care. Wages in state administration grew by 31.9% yoy. Such growth is explained by the increase in the base wage that took place in September and December 2015.

Average wage*



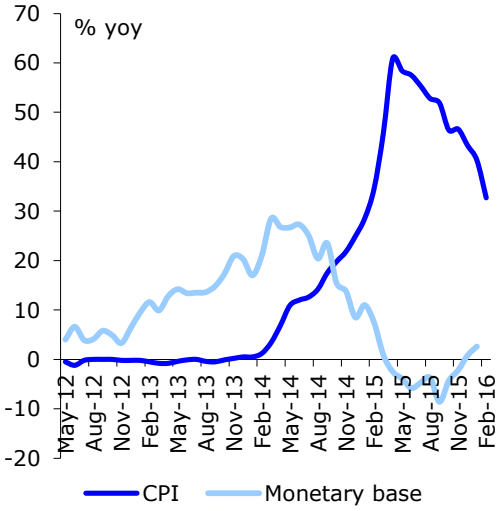
*not including AR Crimea
Source: Ukrstat

Monetary policy: Everyday low prices

In February, monthly core inflation remained low at 0.4% mom and CPI dropped by 0.4% mom as a number of factors combined to keep prices down. Reduction of Ukraine's food exports due to transit problems and phytosanitary restrictions on some goods increased competition on domestic market and pushed down prices for a number of food products. Low oil prices kept fuel costs under control, while retailers and importers reacted slowly to hryvnia depreciation. Finally, the Ukrstat reported seasonal price reductions for clothing and footwear, while price competition continued to drive down tobacco prices. For goods not affected by these factors prices increased by 1-2% mom. This has brought down 12-months inflation down to 32.7% yoy.

In February, monetary policy remained unchanged. Banking system liquidity also didn't change materially through the month. The NBU withdraw about UAH 4 bn of liquidity through foreign currency sales, while government funds at the State Treasury remained stable.

CPI and monetary base development

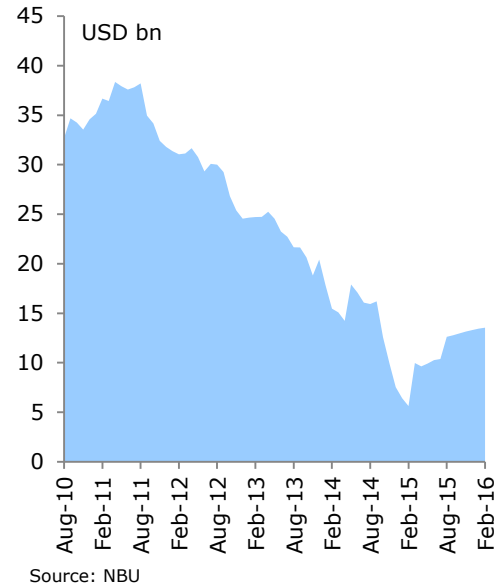


Source: Ukrstat, NBU

Exchange rate: Depreciation continued

Interbank exchange rate moved from UAH 25 per USD in the beginning of February to over UAH 27 in the second half of the month, when it stabilised in UAH 27-27.5 range. At the same time, "grey" market exchange rate remained at around UAH 27 per USD. Pressure on hryvnia reflected weak export receipts, and heightened demand for foreign currency due to political instability. The NBU spent USD 180 m to support hryvnia exchange rate and likely helped stabilize the exchange rate in the second half of February. NBU's international reserves continued growing and reached USD 13.5 bn as the Government raised USD 431 m through FX domestic bonds.

NBU international reserves



Source: NBU

State debt: The third tranche of the IMF loan has been postponed further

External debt. Increased political instability resulted in further delay in the provision of the third tranche of the IMF loan, which was initially scheduled for the end of 2015. This tranche is likely to be provided only when there will be certainty on the Government stability and ensured plans of authorities to implement promised reforms.

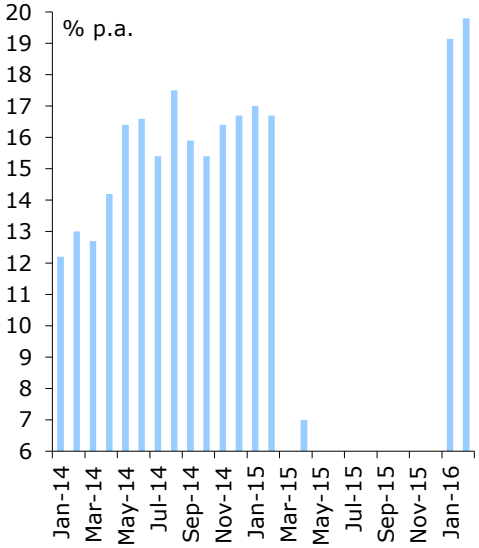
In early February, the Verkhovna Rada ratified the loan agreement in the framework of the 'Second loan for development policy' (DPL-II), which was signed in December 2015 between the Ministry of Finance

and the Japanese Agency for International Development (JICA). The funds (JPY 37 bn or near USD 300 m) will be granted for twenty years with a six-year grace period at a variable interest rate (JPY LIBOR+0.05 p.a). The loan is aimed at implementing economic reforms in Ukraine (primarily measures aimed at deregulation and improvement of fiscal transparency).

The Government of Ukraine signed the USD 50 m loan agreement with the Government of Turkey. The loan will be provided for at least 5 years at less than 2.5% p.a. and used primarily for budget purposes. Ukraine expects to receive the funds in the first half of the year.

Domestic debt. In February, the Ministry of Finance placed UAH 1.1 bn of domestic bonds with weighted average yield at 19.8% p.a. (in January it placed bonds at UAH 274 m at 19.2% p.a.). Short-term bonds accounted for near 52.4% of the total placement. Besides, the Government issued USD 431 m of two-year USD-denominated bonds with yields at 7.9% p.a. The demand for the bonds was ensured by free dollar liquidity in the banking system against the background of significant risks related to private sector loans.

Weighted average yield for domestic state bonds



Source: NBU

Tables

		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Feb[c]	Mar[c]	Apr[c]	May[c]	Jun[c]	Jul[c]	Aug[c]	Sep[c]	Oct[c]	Nov[c]	Dec[c]	Jan[c]	Feb[c]
Industrial production (real)	% yoy cum.	-5.0	-4.7	-8.6	-10.1	-21.4	-20.5	-16.6	-21.7	-21.4	-21.5	-21.2	-20.5	-19.5	-18.0	-16.6	-15.4	-14.4	-13.4	-1.7	…
Construction (real)	% yoy cum.	-6.4	-8.9	-17.2	-19.3	-31.3	-28.3	-22.8	-32.0	-31.3	-32.6	-38.5	-28.3	-26.7	-24.6	-22.8	-20.8	-18.8	-14.9	-11.4	…
Agricultural production (real)	% yoy cum.	6.0	-3.9	16.0	5.0	-4.7	-9.3	-5.3	-3.6	-4.7	-4.8	-5.4	-9.3	-3.5	-5.8	-5.3	-4.4	-4.7	-4.8	-2.5	…
Retail trade turnover (real)	% yoy cum.	7.7	0.8	-5.3	-7.5	-23.9	-24.6	-22.3	-21.2	-23.9	-25.3	-24.7	-24.6	-23.6	-23.1	-22.3	-21.7	-21.4	-20.7	-1.4	…
Average wage	UAH	3245	3488	3463	3508	3650	4113	4313	3633	3863	3998	4042	4299	4390	4205	4343	4532	4498	5230	4362	…
CPI	% yoy eop	3.4	12.0	17.5	21.8	45.8	57.5	51.9	34.5	45.8	60.9	58.4	57.5	55.3	52.8	51.9	46.4	46.6	43.3	40.3	32.7
PPI	% yoy eop	3.9	15.9	26.9	32.8	51.7	37.9	32.5	41.0	51.7	48.6	42.0	37.9	37.0	33.0	32.5	30.2	25.1	25.4	21.2	17.4
Exports (USD)*	% yoy cum.	-7.7	-6.5	-9.8	-13.1	-32.9	-35.4	-33.5	-32.3	-32.9	-34.5	-36.4	-35.4	-35.4	-34.6	-33.5	-32.6	-31.8	-30.5	-32.1	…
Imports (USD)*	% yoy cum.	-14.7	-18.6	-24.5	-27.1	-36.0	-39.2	-36.2	-35.9	-36.0	-37.2	-39.3	-39.2	-38.8	-36.4	-36.2	-34.8	-33.5	-33.5	-22.9	…
Merchandise trade balance	USD bn cum.	-1.9	-0.6	-5.2	-6.5	-1.0	-1.2	-2.0	-0.9	-1.0	-1.1	-1.3	-1.2	-1.4	-1.9	-2.0	-2.6	-3.2	-3.2	-0.6	…
Current account**	USD bn cum.	-1.3	-0.6	-3.8	-4.6	-0.5	-0.3	0.0	-0.6	-0.5	-0.6	-0.6	-0.3	-0.2	-0.1	0.0	-0.3	-0.6	-0.2	-0.4	…
Gross international reserves	USD bn eop	15.1	17.1	16.4	7.5	10.0	10.3	12.8	5.6	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	28.5	25.1	23.5	13.8	0.9	-5.9	-8.6	7.5	0.9	-2.5	-3.9	-5.9	-4.7	-3.7	-8.6	-4.3	-2.2	0.8	2.6	…
Lending rate on UAH credits	% pa, aop	18.5	17.5	16.4	16.4	19.9	23.1	21.1	18.8	23.6	23.8	23.6	22.0	21.2	21.2	21.0	20.9	20.7	20.4	20.0	…
Exchange rate (interbank)	USD aop	9.1	11.71	12.58	13.56	21.23	21.56	21.74	24.77	22.98	22.49	20.94	21.26	21.79	21.65	21.79	21.94	23.33	23.42	24.32	26.45
Exchange rate (official)	USD aop	8.9	12.71	12.58	13.56	21.18	21.62	21.69	24.48	23.26	22.71	20.92	21.23	21.76	21.54	21.78	21.84	23.31	21.84	24.26	26.39
Exchange rate (official)	EUR aop	12.14	13.71	16.67	17.21	23.88	23.88	24.11	27.78	25.32	24.47	23.32	23.84	23.94	23.93	24.46	24.56	25.07	24.23	26.35	29.33

Sources: Ukrstat, NBU, own calculations

* Monthly figures are only for merchandise exports and imports (source: NBU, preliminary data)
Quarterly figures are for trade in goods and services (source: NBU)

** Monthly data are according to the preliminary estimates provided by the NBU

[c] Data excludes Crimea. Since 2015 the Ukrstat also does not include data for occupied territories in the East of Ukraine

Key Economic Indicators		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014[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	1082.6	1302.1	1408.9	1454.9	1566.7
Nominal GDP	USD bn	31.3	38.0	42.4	50.1	64.9	86.2	107.8	142.7	179.9	117.2	136.4	163.4	176.3	182.0	132.0
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	5.2	0.3	0.0	-6.8
Industrial production	% yoy	13.2	14.2	7.0	15.8	12.5	3.1	6.2	10.2	-3.1	-21.9	11.2	7.3	-0.5	-4.7	-10.7
Agricultural production	% yoy	9.8	10.2	1.2	-11.0	19.7	-0.1	0.4	-5.2	17.5	0.1	-1.0	17.5	-4.5	13.7	2.8
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
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
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
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
Exports (gs, USD)	% yoy	17.9	9.5	10.7	24.0	42.6	7.5	13.2	27.5	33.8	-36.7	27.1	28.2	1.0	-5.2	-0.2
Imports (gs, USD)	% yoy	18.9	14.1	4.9	28.7	31.3	20.4	22.0	35.5	38.6	-43.1	29.3	33.8	5.6	-3.4	-0.3
Current account	USD bn	1.5	1.4	3.1	2.9	6.9	2.5	-1.6	-5.3	-12.9	-1.9	-2.9	-9.3	-14.3	-16.4	-5.3
Current account	% GDP	4.7	3.7	7.6	5.9	10.6	2.9	-1.5	-3.7	-7.2	-1.7	-1.7	-5.7	-8.1	-9.0	-4.0
FDI (net)	USD bn	0.6	0.8	0.7	1.4	1.7	6.5	5.3	9.2	9.9	4.5	5.7	6.6	6.6	3.4	0.3
International reserves	USD bn	1.5	3.1	4.4	6.9	9.7	19.4	22.4	32.5	31.5	26.5	36.7	31.8	31.4	20.4	7.5
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
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	39.9	36.0	37.4	39.9	70.2
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	22.0	20.6	39.0
Monetary base	% yoy eop	39.9	37.4	33.6	30.1	34.1	53.9	17.5	46.0	31.5	4.4	15.8	6.3	6.4	20.3	8.5
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
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
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
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

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

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

[c] Data excludes Crimea

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		Q2 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]
GDP	UAH bn	256.8	257.7	311.0	369.8	363.6	293.5	349.2	387.6	378.6	302.9	353.0	394.7	404.3	313.6	375.9	434.2	443.1	367.6	449.6	555.0
GDP (real)	% yoy	5.4	5.1	3.9	6.5	5.0	2.5	3.1	–1.3	-2.3	-1.2	-1.3	-1.2	3.3	-1.2	-4.5	-5.4	-14.8	-17.6	-14.6	-7.2
Household consumption (real)	% yoy	6.8	13.2	14.2	16.1	18.5	7.8	12.3	11.0	5.5	6.5	9.5	8.4	6.8	2.2	-9.0	-15.5	-13.6	-20.7	-27.6	-17.8
State consumption (real)	% yoy	-4.0	2.0	2.9	-9.4	-6.6	3.3	4.8	9.9	1.5	1.1	-2.3	-3.3	-2.5	-6.0	4.5	-0.5	3.5	5.0	-6.7	-2.5
Gross fixed capital formation (real)	% yoy	-3.2	-1.8	3.7	9.7	12.0	13.8	17.5	-5.2	-4.9	7.0	-17.4	-7.7	-5.1	-19.9	-16.8	-26.7	-26.2	-25.1	-13.8	-7.4
Exports of goods and services (real)	% yoy	13.2	19.4	4.9	0.3	-4.1	-7.3	-8.1	-3.8	-9.6	-9.0	-14.3	-7.9	-4.1	-5.8	-2.6	-16.8	-31.0	-26.2	-22.5	-11.3
Imports of goods and services (real)	% yoy	17.2	38.1	23.3	12.5	5.2	-3.0	9.0	4.3	-2.6	-2.4	-18.4	-0.7	-1.8	-13.0	-11.1	-31.9	-29.0	-20.1	-32.2	-18.5
Agriculture, hunting, forestry (real)*	% yoy	0.5	4.9	1.3	16.7	38.1	0.5	11.5	-8.3	-4.0	5.7	20.8	-2.0	38.2	5.9	-9.0	25.7	-19.1	-4.8	-11.7	-3.8
Manufacturing industry (real)*	% yoy	10.1	7.8	3.4	4.6	-2.9	1.1	1.8	-4.8	-5.5	-9.5	-9.2	-9.8	-8.9	-8.8	-8.0	-14.8	-16.7	-25.6	-21.8	-9.9
Construction (real)*	% yoy	-5.8	1.7	10.9	0.1	2.0	1.2	3.4	-15.3	-20.8	-14.9	-20.8	-11.1	-7.7	4.4	-16.7	-24.1	-30.9	-35.3	-25.6	-12.1
Trade, repair services (real)*	% yoy	9.6	9.8	2.8	6.1	3.0	3.2	4.6	0.4	-1.2	1.6	-0.2	1.9	4.7	-3.2	-8.2	-17.5	-21.7	-24.8	-20.4	-15.1
Transport (real)*	% yoy	1.8	10.2	7.9	5.7	11.1	-2.3	-3.3	-8.4	-9.5	-2.7	-0.6	2.8	2.8	-2.3	-5.9	-5.6	-12.1	-13.2	-2.7	-0.2
Balance of payments																					
Current account balance	USD bn	0.5	-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	-0.5	0.2	0.1
Current account balance	% of GDP	1.6	-4.9	-4.4	-5.6	-9.5	-5.2	-8.5	-8.1	-10.1	-8.5	-5.1	-12.2	-9.9	-3.6	-2.6	-3.4	-6.7	-3.1	1.0	0.3
Trade balance in goods	USD m	-978	-3951	-3211	-5098	-5771	-4292	-5818	-5503	-6233	-4635	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1104	-445	-660
Trade balance in services	USD m	1392	1614	1882	2523	1867	1864	1697	2361	1578	1349	1504	2575	1066	937	443	456	686	633	469	360
Current transfers	USD m	728	1039	878	988	803	683	805	777	711	533	589	480	547	241	494	306	500	443	592	…
Direct investment (FDI)	USD m	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-665	-319	725	558	-397	-907	-883
Portfolio investments (equity)	USD m	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-239	-50	-84	-17	-13	…	…
Gross international reserves	USD bn	29.5	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	10.26	12.77
Exchange rate (interbank), UAH/USD	aop	7.91	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
Exchange rate (official), UAH/USD	aop	7.91	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
Fiscal indicators																					
Consolidated fiscal revenues	% of GDP	30.4	32.8	30.0	29.5	30.7	33.6	31.6	28.2	33.7	35.3	29.5	29.1	28.9	35.8	29.9	25.1	27.7	38.2	35.2	37.6
Personal income tax	% of GDP	4.8	5.0	4.8	4.2	4.7	5.1	4.9	4.4	5.0	5.3	5.1	4.7	4.9	5.2	4.8	4.3	5.1	5.6	5.4	5.6
Enterprise profits tax	% of GDP	3.0	4.5	4.5	3.6	4.4	4.9	4.1	2.9	4.2	6.2	3.4	3.0	3.0	5.0	2.5	1.9	1.6	4.5	1.8	1.6
Value-added tax	% of GDP	9.8	7.6	12.9	9.6	9.6	10.8	10.3	8.6	10.0	9.7	9.1	8.2	8.5	8.8	9.7	6.9	10.2	11.7	9.3	10.1
Excise tax	% of GDP	3.0	2.1	3.0	2.7	2.4	2.8	2.9	2.8	2.4	3.1	2.6	2.3	2.2	2.5	3.0	3.1	2.8	3.4	3.5	3.8
Consolidated fiscal expenditures	% of GDP	38.7	32.8	33.1	26.9	35.6	33.7	33.8	30.7	41.4	37.0	36.0	30.4	36.3	35.6	35.3	27.6	35.9	34.3	35.4	32.9
Current expenditures	% of GDP	37.4	31.5	30.8	23.9	30.1	31.8	31.3	27.7	37.4	35.7	34.1	28.5	33.5	35.1	34.3	26.1	33.9	32.5	34.1	30.3
Capital expenditures	% of GDP	1.4	1.3	2.4	3.0	5.5	1.9	2.4	2.9	4.0	1.3	1.9	1.9	2.8	0.5	1.0	1.5	1.9	1.8	1.3	2.6
Consolidated fiscal balance	% of GDP	-8.0	-0.3	-3.4	-3.9	-5.5	-0.2	-2.6	-3.0	-7.8	-1.9	-6.3	-1.5	-7.4	0.1	-5.4	-2.8	-8.8	3.8	-0.4	4.5
Privatisation receipts	% of GDP	0.0	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
Labour market																					
Average wage (real)	% yoy	8.7	11.1	5.5	7.7	10.8	14.7	16.5	13.3	12.9	9.9	9.3	8.1	5.9	3.5	-4.1	-11.0	-13.4	-20.1	-27.8	-20.0
Household income (real)	% yoy	11.8	7.8	1.9	7.3	7.7	6.0	13.0	10.4	9.4	8.9	5.7	2.5	4.7	-3.4	-6.8	-5.6	-19.2	-23.5	-34.0	-26.6
Unemployment rate (ILO methodology)	% cum	7.9	8.7	7.7	6.9	8.2	8.4	7.1	6.6	8.0	8.0	7.5	7.0	7.6	9.0	8.2	9.5	10.6	9.6	8.8	8.6
Banking system																					
Monetary aggregate M0	% yoy cum	9.9	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
Monetary aggregate M2	% yoy cum	13.2	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
Household deposits in national currency	% yoy cum	20.1	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
Household deposits in foreign currency	% yoy cum	21.5	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
Com. bank credits in national currency	% yoy cum	8.3	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
Com. bank credits in foreign currency	% yoy cum	-10.5	-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
Long-term com. bank credits	% yoy cum	-2.8	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
Long-term com. bank credits	% of total	68.9	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
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
Average lending rate on foreign currency credits	% p.a.	11.1	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

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 part of the

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