Monthly Economic Monitor Ukraine

No.8 (178), August 2015

EXECUTIVE SUMMARY

HIGHLIGHT: REFORM AGENDA

Politics: On July 31, the IMF Executive Board completed the first review under the Extended Fund Facility Arrangement (EFF), allowing for the second disbursement of the loan to the country at USD 1.7 bn.

Real Sector: Decline in industrial production in June decelerated to 18.1% yoy due to improved performance of both extractive industry and manufacturing.

Energy sector: In July, Ukrainian energy sector experienced liquidity and logistical problems.

Agriculture: In June, gross agricultural production decreased by 17.2% yoy due to the later start of the harvesting.

External sector: Current account balance in June was positive at USD 0.4 bn due to surplus in trade in goods and services as well as positive balance of private transfers.

Fiscal policy: Surge in local fiscal revenues and under-execution of expenditures resulted in consolidated fiscal surplus of UAH 12.3 bn in the first six months of the year.

Social policy: Between January and June, the number of households that receive housing and utility subsidies tripled.

Labour market: Average real wage declined by 26.3% yoy due to weak economic performance and high inflation.

Monetary policy: In July, monthly core inflation was at -0.1% mom.

Exchange rate: In July, interbank exchange rate remained in UAH 21-23 range set by the NBU.

State debt: The Ministry of Finance continued talks with the Committee of Ukraine's International Commercial Creditors on the restructuring of the sovereign debt.

Highlight of the month: Reform agenda

THE GOVERNMENT PROMISES MORE REFORMS TO INTERNATIONAL DONORS

Oleksandra Betliy, Vitaliy Kravchuk

On July 31, the IMF Executive Board completed the first review of Ukraine's Extended Fund Facility (EFF) arrangement and approved disbursement of SDR 1.2 bn (USD 1.7 bn). Ukrainian Government met all performance criteria including structural indicators (reforms required). Budget deficit was better than planned, while exchange rate stabilised without sales of foreign currency reserves. The Verkhovna Rada implemented required changes in the NBU law, approved energy market reforms, and increased court fees. The Government proceeded on reforms of fiscal service and improved AML framework. The NBU continued efforts to clean up and stabilize financial sector. The National Anti-corruption Bureau was established. Besides, the Government made progress in deregulation and moved towards more efficient governance of state-owned companies. Still, more changes are promised to ensure continuation of the financial assistance from the IMF and other official donors.

In foreign currency market, the NBU will likely maintain existing range for exchange rate of hryvnia at UAH 21-23 per USD as the IMF report hints that hryvnia may weaken to lower end of this range by the end 2015. The IMF also kept its support for administrative restrictions on the foreign exchange operations, which are likely to continue in the nearest future. Although a road map to gradually abolish the restrictions exists, liberalisation will happen only if certain preconditions are met (including successful government debt restructuring, increase in international reserves to levels targeted by the program and completion to bank recapitalisation). Future monetary policy changes are conditional on the level of inflation expectations and exchange rate stability. We believe that some easing might occur in the end of 2015 under the assumption of no escalation of war in the East and decrease in political uncertainty.

The NBU also committed to conduct new round of stress tests and recapitalizations for the largest banks based on the new macroeconomic conditions, to continue process for unwinding related party exposure. It intends to ensure that bank report their financial state honestly. In all, the IMF and the NBU seem to bet that decisive action on cleaning the financial sector will allow banks to expand lending sufficiently to offset corporate losses from deposits in the failed banks.

Fiscal policy remains one of the key elements of the future reform agenda. The Government is on track to reach general government deficit target for 2015 and plans to reduce deficit even further in 2016. The government support of the Naftogaz is to be eliminated since 2017. For this the Government will have to proceed with planned increases in gas and heating tariffs and continue efforts to increase competition on energy market.

As increase in utility tariffs are harmful for households, while housing and utility privileges and subsidies are expensive, the Government plans to streamline further respective programs of social protection. In particular, the Government is committed to modify the formula used for estimating eligibility for housing and utility subsidies by May 2016. New formula is expected to reduce leakage of subsidies to upper income levels.

The Government is committed to finally eliminate the special VAT arrangement for agriculture since January 1, 2016. Currently they accumulate VAT on special accounts and they can spend accumulated funds for investments in production. This system harms competition as it favours larger companies and skews investment incentives. Cancellation of VAT exemptions will help agricultural companies to pay its share in taxes and will allow removing restrictions on VAT refunds for grain exports. However, it will likely encounter opposition from vested interests. The Government also committed to maintain VAT accounts, reduce some natural resource royalties, and continue increasing excise rates.

The Government also plans to continue social security reform. The IMF, business and the Government agree that the rate of payroll and income taxes in labour costs is excessive. Current scheme of lower payroll tax rate in exchange for higher declared wages is not effective due to too restrictive eligibility criteria. One of the options, which is currently under discussion, relates to differentiated minimum social contributions for different occupations. Such draft law was already elaborated by the Pension Fund. However, to our point of view, introduction of indicative wages is not likely to be the best solution taking into account large regional disparities and expected high administrative costs. SSC reform is planned to raise 0.5% of GDP in extra revenue from current level.

The Government again promised to cut the number of employees in budget sector. As of June 2015, number of employees in public administration and defence, education, healthcare and social services reduced by 10% yoy. The employment should be cut further to allow for smaller but much better-paid and more professional workforce. Deregulation and measures to increase productivity in public administration (e.g. e-governance) should help these efforts.

The Government continues to work on pension system changes. After the review, the Government agreed that current priority is to eliminate structural deficit of the pay-as-you-go system (rather than work on funded pensions) and promised to prepare another pension reform. Parameters of this reform are yet unclear but there is promise to eliminate special pensions to different occupational groups and tighten eligibility for early retirement. This step may produce savings in 2016, but savings will depend on what will happen with built up entitlements to special pensions. It is highly likely that any cancellation of built up pensions or entitlements will be challenged as unconstitutional and it is doubtful that it will pass constitutional muster.

Over the next nine months, the Government promised to work on several other priorities: Anti-corruption bureau, privatisation and restructuring of state-owned enterprises, new measures to increase creditor protection, improve bankruptcy law and resolve bad loans. These measures are all designed to improve investment climate, reduce corruption and ensure rule of law. This should help restart lending, attract more FDI and increase fixed capital investment

At the same time, the IMF urges Ukrainian politicians from stepping back to populist measures on the eve of local elections scheduled for October. In particular, recently there were already several attempts to undo implemented reforms as well as introduce measures, which would result in higher fiscal spending. If such decisions are approved Ukraine is unlikely to receive following disbursement under the EFF, which would threaten the receiving of assistance from other international donors. As a result, the fragile macroeconomic stability will be ruined. Hryvnia will depreciate, while inflation will not decelerate. Real GDP will drop by more than currently expected 9% in 2015 and will not increase in 2016. Therefore, the costs of returning back or doing nothing are very high for the Government.

Monthly Economic Monitor Ukraine

Politics: Negotiations to resolve the conflict in Donbas make little progress

The war in Donbas. In July, Ukraine continued negotiations aimed at resolving the conflict in Donbas, but achieved little progress. The negotiations took place within the Trilateral Contact Group (TCG), which included the representatives of Ukraine, Russia and the Organization for Security and Co-operation in Europe (OSCE). The ultimate goal of the negotiations was to ensure implementation of the Minsk agreements, under which the occupied by Russia territory has to return to the control of Ukrainian government, but be granted specific self-governance features. In July, the TCG drafted an agreement for withdrawal of tanks and certain weapons under 100 mm calibre from the front line, but failed to sign it. In early August, the parties also reached agreements regarding restoration of the railway traffic and reconstruction of damaged water supply infrastructure. The negotiations will go on, but their success is unlikely because Russia is interested in using the conflict as a tool to destabilize the country to bring to power a pro-Russian government in Kyiv.

Meanwhile, the low intensity military conflict in Donbas continued. In July, pro-Russian insurgents and Russian troops continued a constant harassing fire against Ukrainian forces, which responded to the attacks. The front line did not change during July. According to the United Nations, the conservative estimate of the total death toll from the conflict reached 6,832 on July 27 (it was 6,500 as of June 29).

The Constitution. In July, Ukraine started a procedure for amending the Constitution to establish a framework for decentralization of power. On July 16, the Parliament voted to submit an amending bill to the Constitutional Court. On July 31, the Court declared that the bill met the necessary requirements laid out in the Constitution. Now, the Parliament has to vote twice to adopt the bill (at two different regular sessions), and the whole procedure may be completed no earlier than February 2016. The bill makes provision for establishment of local governments (executive committees), which will resume the functions that are currently delegated or granted to local state administrations, directed by the President and the central government. The Constitution will also determine that local self-government in some areas of Donetsk and Luhansk regions (Donbas) may have peculiarities defined by a special law (a requirement of the Minsk agreements, which are intended to settle the conflict in Donbas).

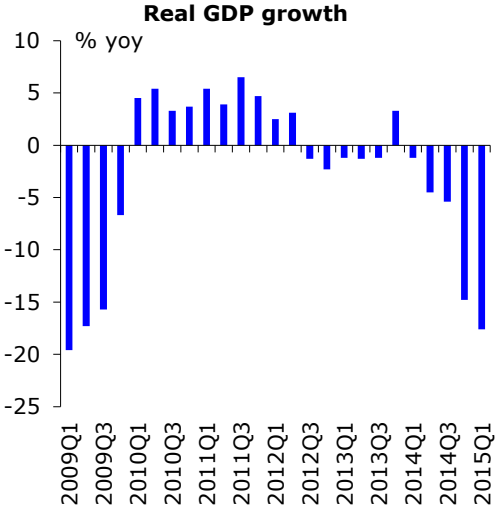
Foreign trade. In July, Ukraine and Canada concluded the five-year-long negotiations of the bilateral free trade agreement. Once the agreement becomes effective, Ukraine will eliminate duties on 86% of current imports from Canada, and Canada will eliminate duties on 99.9% of current imports from Ukraine. Ukraine will also introduce a tariff rate quota for imports of pork products from Canada. In 2014, the merchandise trade between Ukraine and Canada totalled USD 264.1 m (export to Canada — USD 72.6 m, import from Canada — 191.5 m). It is expected to increase by 19% as a result of the implementation of the agreement.

On July 14, Ukraine signed an Open Skies agreement with the United States. The agreement eliminates all restrictions on flights between the countries. It is expected that it will increase the number of flights between Ukraine and the United States. Ukraine also plans to conclude bilateral Open Skies agreements with the EU countries.

IMF. On July 31, the IMF Executive Board completed the first review under the Extended Fund Facility Arrangement (EFF), allowing for the second disbursement of the loan to the country at USD 1.7 bn (SDR 1.2 bn). The disbursement, which was received on August 4, was fully allocated to the NBU. It is expected that an IMF mission will visit Kyiv for the second review under the EFF in September. If it is successful, Ukraine will get the third disbursement also at SDR 1.2 bn. Ukraine received USD 5 bn (SDR 3.6 bn) as the first disbursement under the EFF in March.

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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Real sector: Small steps from the bottom

Sectoral trends. Decline in industrial production in June decelerated to 18.1% yoy from 20.7% yoy in May due to improved performance of both extractive industry and manufacturing. Manufacturing production fell by 17.6% yoy (as compared to 21.5% yoy in May) due to better results of most sectors. In particular, coke production and refineries as well as chemical production improved their performance. Machine building production declined by 16.7% yoy as compared to 26.7% yoy in May partially due to lower statistical base. Food production (excluding tobacco and beverages) still declined by 14.8% yoy due to lower domestic demand and sharp drop in exports to Russia. Situation in metallurgy worsened as steel producers in Mariupol faced gas supply disruptions due to military conflict in the East (gas pipeline was destroyed during the terroristic attack).

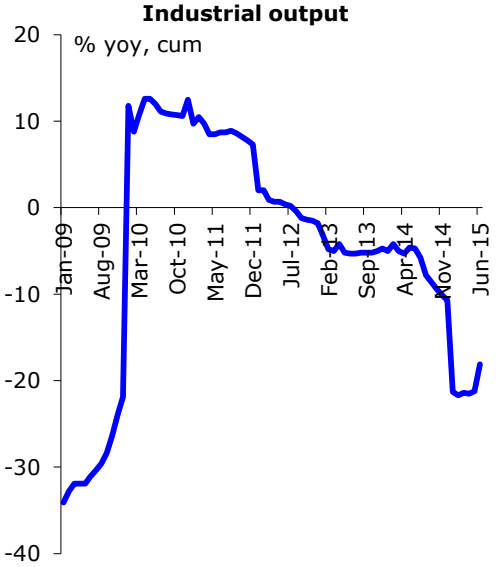
Lower purchasing power of Ukrainians resulted in drop of production of durable consumption goods by 29.6% yoy. At the same time, production of other consumption goods declined less (by 14.9% yoy) partially due to imports substitution resulting from sharp hryvnia depreciation. Imports substitution and higher purchases of defence items are likely reasons for decline in production of investment goods only by 15.7% yoy as drop in capital investments is more significant.

In June, retail trade by enterprises increased by 0.4% mom, after 0.5% mom increase in May. This reflects stabilization in real private final consumption.

Drop in construction decelerate to 23.9% yoy as compared to 31.7% yoy a month before due to improved performance of commercial construction.

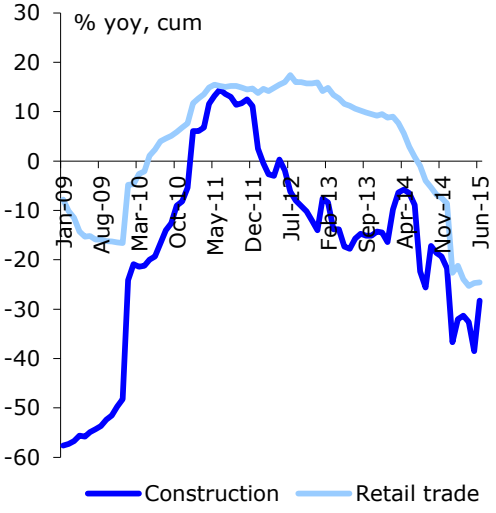
The Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol and the territory under anti-terroristic operation in the East. The statistical base was also revised to make like-to-like comparison available.

Industrial output



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

Real sector trends



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

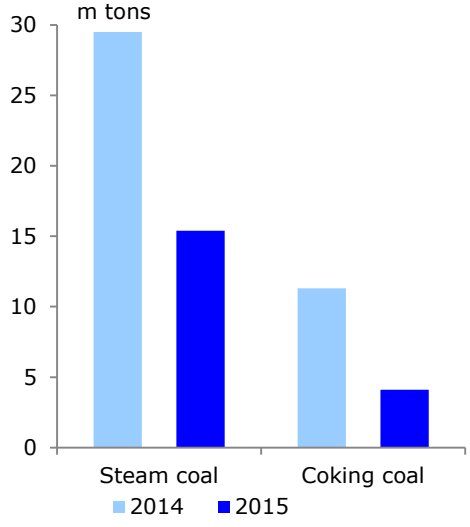
Energy sector: Coal deficit may cause blackouts

Coal. Ukrainian energy sector experiences liquidity and logistical problems. After the subsidies to the state coal mines were cancelled in the State Budget Law for 2015, the mines failed to adjust to new conditions, although the coal price increased significantly in hryvnia terms. As a result, wage arrears started to grow. At the same time, thermal power plants claim that tariff for electricity set for them by the regulator is insufficient to cover coal purchases. Moreover, extraction of coal is limited by delivery capacities as railway connections are disrupted in the East of Ukraine. As a result, there is a deficit of coal at thermal power plants which threatens adequate heat and power generation during the winter season.

Electricity. The electricity system of Ukraine in July had difficulties balancing demand and supply due to problems with coal deliveries at thermal power plants and higher than usual need for repairs of aged power plants. In particular, on July 27 there was capacity deficit of 2800 MW that was covered by reserve capacities (used inefficiently) and balancing flows from Russian electricity system. By the end of July, there were 1.4 m tons of coal at thermal power plants including 0.56 m tons of anthracite but large part of coal was concentrated in Donbas and Burshtyn "island" where it cannot be used to generate electricity for the main part of Ukrainian energy system. On July 30, Ukraine had to use 827 MW of Russian electricity as an emergency.

Transparency in energy production. The President signed the law on transparency in extracting industries, which was adopted by the Parliament in June. The Law obliges extracting companies to publish information on the volume of state and local taxes and other duties paid to the budget as well as other information on their production activities defined by the Cabinet of Ministers. At the same time, state authorities have to publish information on the use of deposits. Increased transparency on the energy market of Ukraine will help to fight corruption in the sector.

Coal extraction for 6 months of 2014 and 2015



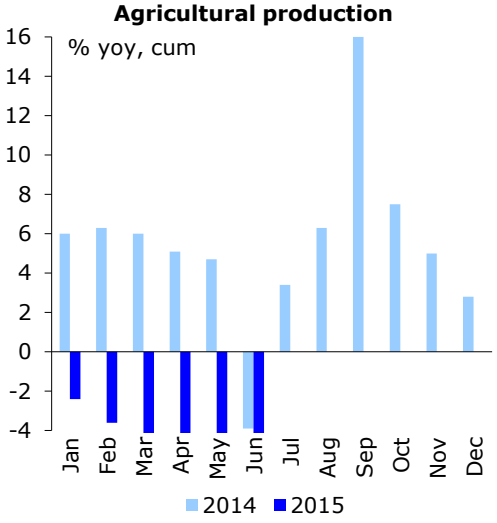
Source: Energobusiness

Agriculture: Recession gains momentum

Production. In June, gross agricultural production decreased by 17.2% yoy. This was caused by the later start of the harvest due to unfavourable weather conditions. In June grain harvest was only 31.4% of the previous year's level. Nevertheless, this year harvest is expected to be at least at the level of the previous year. Animal production also declined by 5.1% yoy in the first half of 2015. This reflected primarily lower production of eggs.

Policy. The cases of African swine fever virus were registered in the Kyiv region in July 2015. Later cases of fever were registered also in Chernihiv, Rivne, Zhytomyr and Sumy regions. The immediate consequences of this were 150 m UAH loses of farmers due to killed animals and destroyed feed and infected equipment. Kazakhstan already refused to accept pork and feed imports from Kyiv, Rivne and Zhytomyr regions. Government plans to spend 45 m UAH on measures to tame the disease, while FAO and EBRD promised 450 thousands USD of help. According to official African swine fever instructions, Ukraine has to stop feed grain export (USD 2.5 bn of loses) and pork export (30 m USD of loses). However, it is unlikely to happen as in time of economic crisis the country is highly dependent from the foreign currency inflows from grain export.

Agricultural production



Source: Ukrstat

External sector: Twin surplus

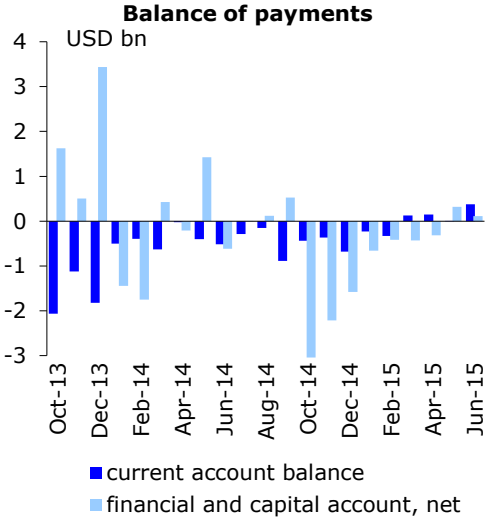
Current account balance in June was positive at USD 0.4 bn due to surplus in trade in goods and services as well as positive balance of private transfers. Merchandise trade was in surplus at USD 0.1 bn as exports contracted less than imports. Export of services also exceeded imports by USD 0.1 bn. Net outflow of primary income shrunk almost to zero, while net inflow of secondary income remained at USD 0.2 bn.

Drop of merchandise exports slowed down to 29.1% yoy as compared to almost 41% yoy in a previous month. Exports declined in response to several factors. Exports to Russia contracted by 55.5% yoy in June in response to trade restrictions and disruption of exports from Donbas. Downward trend in global prices for key export commodities also negatively contributed to Ukraine's exports. In particular, export prices for cereals dropped by 31% yoy in June. Impact of hryvnia depreciation and autonomous trade preferences by the EU was influenced by supply limitations and non-tariff barriers (exports to EU in June dropped by 34.1% yoy). However, high crop yields and reallocation of sales to the rest of the world allowed food exporters to grow by 10.4% yoy despite lost Russian market and downward price trend at the world markets. Exports of services dropped by 18.0% yoy because of lower exports of transit and outsourcing services.

Decline in imports of goods slowed down to 37.0% yoy due to lower statistical base, but hryvnia deprecation led to further import substitution. In particular, imports of food decreased by 41.9% yoy. Termination of investment projects against the background of restricted financing and high economic and political uncertainty resulted in contraction of machinery imports by 34.9% yoy. Overall imports of industrial products (including chemicals, wood, industrial goods, metals and machinery) decreased by 31.0% yoy. Imports of minerals decreased by 38.7% yoy as Ukraine purchased lower amounts of natural gas at lower effective price than in the same period of last year. Imports of services declined by 28.1% yoy.

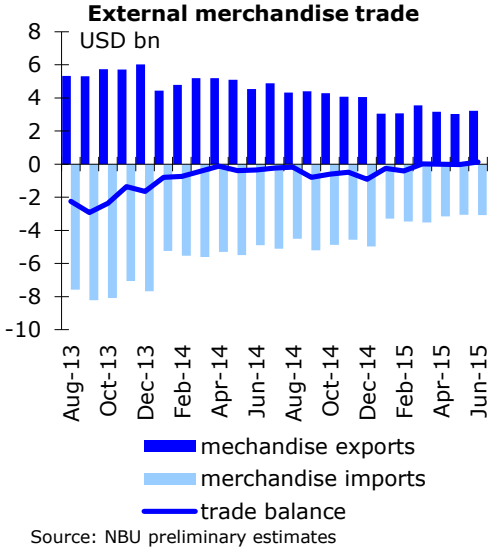
Financial and capital account balance was positive at USD 0.1. Net FDI inflow was USD 0.4 bn due to continuing banks recapitalization by foreign investors. The deficit of loan and bond operations was USD 1.0 bn as the Government sector did not receive significant foreign debt financing, and banks and real sector still had restricted access to foreign loans. Amount of foreign cash outside banks shrunk by another USD 0.2 bn.

Balance of payments



Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

Fiscal policy: Under-executed expenditures

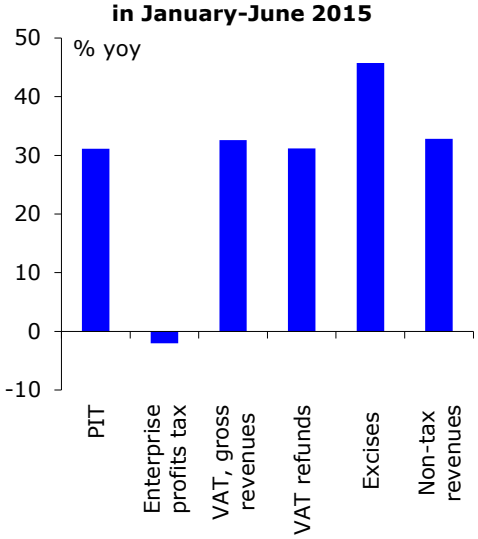
Revenues. In the first half of 2015, consolidated fiscal revenues grew by 33.0% yoy. In particular, rapid hryvnia depreciation and resulting

inflation led to larger revenues from VAT and excise taxes (by 32.3% yoy and 45.7% yoy, respectively). Introduction of military fee and higher taxation of passive income explain increase of PIT revenues by 31.1% yoy. Inflows from duties on international trade almost tripled due to temporary imports surcharge with the rate of 5-10%. At the same time, worsened financial situation of companies resulted in decline in EPT revenues by 2.0% yoy. Non-tax consolidated fiscal revenues increased by 32.8% yoy due to higher transfer of NBU profits to the budget and larger own revenues of budget institutions.

Expenditures: Between January and June, consolidated fiscal expenditures increased by 16.8% yoy. In particular, military conflict in the East resulted in increase of spending on defence by 2.7 times as compared to the same period of last year. Spending on debt service nearly doubled due to higher debt level in hryvnia equivalent. New approach of financing healthcare, expanded local budgets and increased demand for inpatient care (partially due to the military conflict) resulted in increase in spending on healthcare by 17.2% yoy. At the same time, expenditures on education remained almost unchanged. Consolidated fiscal spending on social protection were at the level of previous year regardless increase in spending for housing and utility subsidies likely due larger means-testing of housing and utility privileges, lower transfer to the Pension Fund, smaller spending on some other social protection programs. Expenditures on housing and utility sector dropped by 41.5% yoy.

Surplus. Surge in local fiscal revenues and under-execution of expenditures (central fiscal expenditures (general fund) were by 8.1% lower than target) resulted in consolidated fiscal surplus of UAH 12.3 bn (resulting from UAH 14 bn local government surplus) as compared to the deficit of UAH 20.8 bn in the same period of 2014. The Government is likely to run a deficit by the end of year, as revenues growth is expected to decelerate, while execution of expenditures might improve.

Consolidated fiscal revenues in January-June 2015

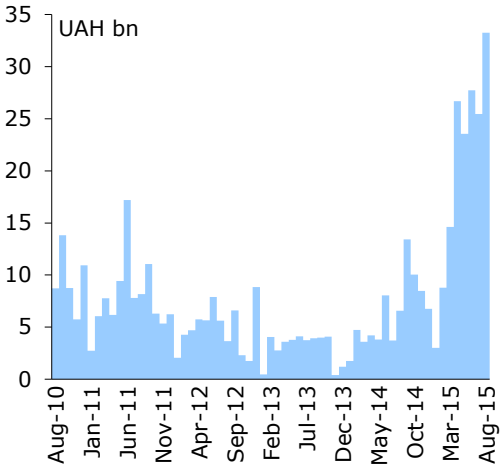


Source: State Treasury reports

Privatisation: Big privatization is promised to be started in September

The State Property Fund of Ukraine (SPFU) took to reschedule the sale of the 94.5% stake of the Odesa Port Plant from November to September. This is one of the key objects for privatization in 2015. The SPFU expects to receive USD 500 m from this sell, which accounts for almost 63% of annual target of privatization receipts at the current exchange rate. Still, to receive better understanding of the possible value of the larger stake, the SPFU plans to offer for sale 5% stake of the company on the Perspektiva Stock Exchange on August 25th. After the selling of the 5% stake, it will be clearer whether it will be possible to reach the annual target.

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Social policy: Increase in coverage by housing and utility subsidies

Between January and June 2015, the number of households that receive housing and utility subsidies (HUS) tripled. Such a rapid increase in coverage by HUS is explained by increase in housing and utility tariffs as well as legislative changes. In particular, households with per capita income below two sizes of subsistence minimum became eligible for expanded HUS.

In June, 5.7% of all Ukrainian households received HUS as compared to 2.6% in 2013 and 2014. Modified HUS formula (according to which the share of housing and utility bill in income, that makes a household eligible for the HUS, depends on the per capita household income in relation to the subsistence minimum) is a likely reason for changed structure of recipients by household size. Number of HUS recipients with three and more household members increased by 6 times. This might signal about better targeting of new program, as data indicates that families with children are in higher risk to be poor in Ukraine.

Labour market: Continuation of recession

Nominal wage growth in June accelerated to 19.4% yoy from 17.8% yoy growth in May as nominal wages started to react to sharp drop in

purchasing power of hryvnia in the first quarter of 2015. Average real wage still declined by 26.3% yoy as economic performance remained weak.

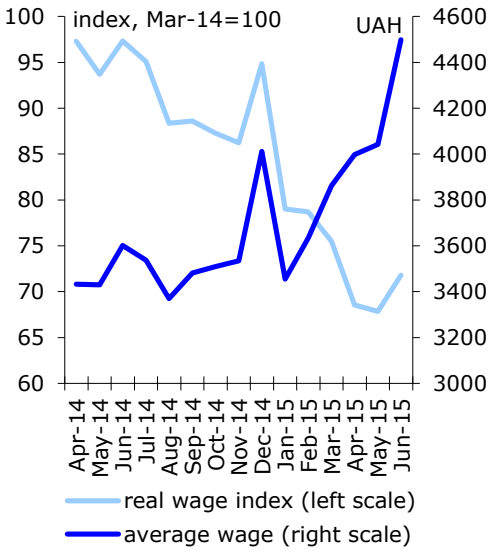
Wages in private sector services grew faster than average at about 37.0% yoy. In particular, employees in air transport and private sector professional services on average received wage increases sufficient to cover inflation.

Wage growth in manufacturing was held back by weak performance of export oriented sectors. In the extractive industry, wages increased only by 9.6% yoy due to loss of budget subsidies for coal mines and low prices for iron ore. At the same time, there were considerable wage rises in domestic oriented manufacturing industries: textile industry (by 39.2% yoy), pharmaceuticals (by 38.2% yoy) and manufacturing of computers, electronics and optical equipment (by 50.1% yoy). This was motivated by the import substitution and increased government procurement of the defence items.

Wages in agriculture increased by 26.0% yoy in June 2015, as a consequence of increased number of seasonal workers employed at collecting harvest. Still, wages in agriculture remain to be among the lowest across different sectors of economy (70.1% of economy average).

Basic wages in public sectors were frozen since 2014 and funds for bonuses and premiums were limited. Thus, wagei increased by 12.4% yoy in public administration and defence, 8.1% yoy in education and 7.1% yoy in healthcare.

Average wage*

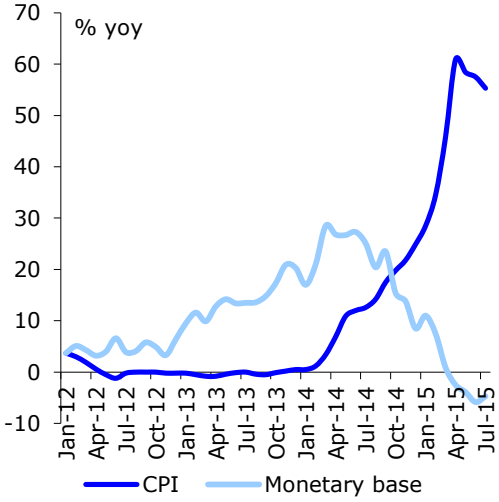


*not including AR Crimea
Source: Ukrstat

Monetary policy: Prices continue to bounce back

In July, monthly core inflation was at -0.1% mom. Since 2008 negative core inflation was only observed six times (twice in 2014 and three times in 2013). This may be attributed to significant drop in prices for clothing and footwear reported by the Ukrstat (by 4.7% mom). Drop in clothing and shoe prices reduced core CPI by about 0.7%. Food prices included in core CPI were broadly stable with prices changes in the range from -1 to +2%. Prices for services and goods with high share of domestic costs continued to go up (but at a slower pace) due to high inflation expectations and rising costs of labour and other inputs. Headline CPI dropped by 1.0% mom leading inflation to decelerate to 55.3% yoy. However, this reflected seasonal drop in prices for vegetables.

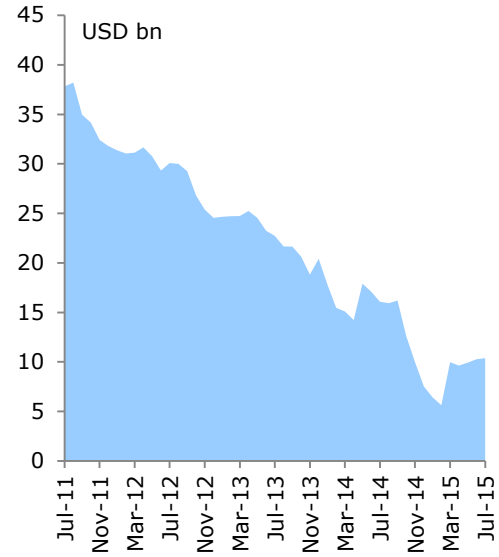
CPI and monetary base development



Source: Ukrstat, NBU

The NBU maintained policy rate unchanged in July but it reduced interest rates on deposit facilities sharply on July 15. Overnight deposit rates were down to 18% p.a. from 20% p.a., while interest rates on 7, 14 and 30-day CDs were decreased to 19-22% p.a. from 26-27% p.a. The NBU also signalled possible decrease in policy rate if inflation will continue to slow down over the next months. The NBU also continued to inject liquidity through fiscal operations as it increased holdings of government bonds by UAH 6 bn and continued previous year's profit transfers to the government. The NBU injected another UAH 2 bn through net purchases of foreign currency. Bank deposit and lending rates decreased by 0.2-0.5 p.p in July.

NBU international reserves



Source: NBU

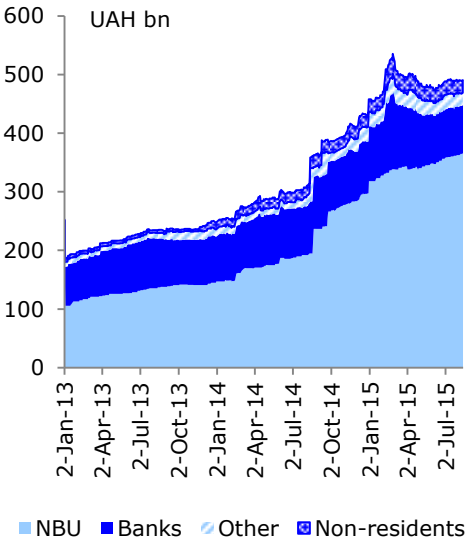
Exchange rate: Balance remained

In July, interbank exchange rate remained in UAH 21-23 range set by the NBU. Volatility of exchange rate was slightly higher in July than in May and June. Supply and demand on interbank market were close to the balance. The NBU bought USD 89 m in foreign currency on net basis, while net sales of cash foreign currency to banks were at USD 136 m. International reserves reached USD 10.4 bn by the end of July, but they reached about USD 12 bn after the second disbursement of the IMF loan under the EFF program was received in the beginning of August. Continued financing from the IMF should help contain depreciation expectations.

State debt: Talks on sovereign debt restructuring continue

The Ministry of Finance continued talks with the Committee of Ukraine's International Commercial Creditors on the restructuring of the sovereign debt. The latest meeting was conducted on August 12. The Ministry has presented the Committee new proposal on the restructuring after the successful reprofiling of Oschadbank's 2016 and 2018 USD 1.2 bn Eurobonds (which were restructured for seven years). However, so far there is no open information on changes in official proposal. According to the IMF program, the restructuring should result in reaching three major targets aimed at returning the country to the debt sustainability in the medium run. First, it should reduce the pressure on Ukraine's balance of payments over the next four years by USD 15.3 bn. Second, the debt to GDP ratio by 2020 should not exceed 71%. Third, the financing needs after the IMF program (through 2025) should remain on average not higher than 10% of GDP. Ukraine needs to complete talks in the nearest future to avoid technical default.

Domestic government bond holdings



Source: NBU

Tables

		Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Aug[c]	Sep[c]	Oct[c]	Nov[c]	Dec[c]	Jan[c]	Feb[c]	Mar[c]	Apr[c]	May[c]	Jun[c]	Jul[c]
Industrial production (real)	% yoy cum.	-5.2	-4.7	-5.0	-4.7	-8.6	-10.1	-21.4	-7.8	-8.6	-9.4	-10.1	-10.7	-21.3	-21.7	-21.4	-21.5	-21.2	-18.1	…
Construction (real)	% yoy cum.	-15.1	-14.5	-6.4	-8.9	-17.2	-19.3	-31.3	-4.0	-17.2	-18.6	-19.3	-21.7	-36.7	-32.0	-31.3	-32.6	-38.5	-28.3	…
Agricultural production (real)	% yoy cum.	3.0	13.7	6.0	-3.9	16.0	5.0	-4.7	6.3	16.0	7.5	5.0	2.8	-2.4	-3.6	-4.7	-4.8	-5.4	-9.3	…
Retail trade turnover (real)	% yoy cum.	9.8	9.5	7.7	0.8	-5.3	-7.5	-23.9	-4.0	-5.3	-6.8	-7.5	-8.6	-22.6	-21.2	-23.9	-25.3	-24.7	-24.6	…
Average wage	UAH	3331	3390	3245	3488	3463	3508	3650	3370	3481	3509	3534	4012	3455	3633	3863	3998	4042	4499	…
CPI	% yoy eop	-0.5	0.5	3.4	12.0	17.5	21.8	45.8	14.2	17.5	19.8	21.8	24.9	28.5	34.5	45.8	60.9	58.4	57.5	55.3
PPI	% yoy eop	-0.9	1.7	3.9	15.9	26.9	32.8	51.7	24.2	26.9	25.9	32.8	31.8	34.1	41.0	51.7	48.6	42.0	37.9	37.0
Exports (USD)*	% yoy cum.	-6.2	-5.2	-7.7	-6.5	-9.8	-13.1	-32.9	-8.9	-9.8	-11.5	-13.1	-15.0	-30.8	-32.3	-32.9	-34.5	-36.4	-35.4	…
Imports (USD)*	% yoy cum.	-4.1	-3.4	-14.7	-18.6	-24.5	-27.1	-36.0	-22.6	-24.5	-26.3	-27.1	-27.8	-36.3	-35.9	-36.0	-37.2	-39.3	-39.2	…
Merchandise trade balance	USD bn cum.	-14.2	-19.6	-1.9	-0.6	-5.2	-6.5	-1.0	-4.3	-5.2	-6.0	-6.5	-7.6	-0.4	-0.9	-1.0	-1.1	-1.3	-1.2	…
Current account**	USD bn cum.	-11.4	-16.4	-1.3	-0.6	-3.8	-4.6	-0.5	-2.9	-3.8	-4.2	-4.6	-5.3	-0.3	-0.6	-0.5	-0.3	-0.3	0.0	…
Gross international reserves	USD bn eop	21.6	20.4	15.1	17.1	16.4	7.5	10.0	15.9	16.4	12.6	10.0	7.5	6.4	5.6	10.0	9.6	9.9	10.3	10.4
Monetary Base	% yoy eop	14.8	20.3	28.5	25.1	23.5	13.8	0.9	20.4	23.5	15.4	13.8	8.5	11.0	7.5	0.9	-2.5	-3.9	-5.9	-4.7
Lending rate on UAH credits	% pa, aop	15.3	16.5	18.5	17.5	16.4	16.4	19.9	16.8	16.2	16.3	16.7	16.9	17.2	18.8	23.6	23.8	23.6	22.0	21.5
Exchange rate (interbank)	USD aop	8.15	8.21	9.1	11.71	12.58	13.56	21.23	12.98	13.01	12.93	14.75	15.63	15.94	24.77	22.98	22.49	20.94	21.26	21.40
Exchange rate (official)	USD aop	7.99	7.99	8.9	12.71	12.58	13.56	21.18	12.95	13.02	12.95	14.70	15.62	15.81	24.48	23.26	22.71	20.92	21.23	21.76
Exchange rate (official)	EUR aop	10.58	10.87	12.14	13.71	16.67	17.21	23.88	17.25	16.83	16.43	18.36	19.26	18.53	27.78	25.32	24.47	23.32	23.84	23.94

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		Q1 10	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]
GDP	UAH bn	217.3	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
GDP (real)	% yoy	4.5	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
Household consumption (real)	% yoy	0.2	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
State consumption (real)	% yoy	3.8	-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
Gross fixed capital formation (real)	% yoy	-5.7	-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
Exports of goods and services (real)	% yoy	0.4	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
Imports of goods and services (real)	% yoy	-6.2	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
Agriculture, hunting, forestry (real)*	% yoy	5.4	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
Manufacturing industry (real)*	% yoy	10.9	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
Construction (real)*	% yoy	-7.7	-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
Trade, repair services (real)*	% yoy	6.1	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
Transport (real)*	% yoy	1.3	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
Balance of payments																				
Current account balance	USD bn	0.0	0.5	-1.6	-1.7	-2.6	-4.4	-2.1	-3.8	-4.0	-4.9	-3.1	-2.3	-6.0	-4.9	-1.5	-0.9	-1.3	-1.5	-0.5
Current account balance	% of GDP	-0.1	1.6	-4.9	-4.4	-5.6	-9.5	-5.6	-8.7	-8.3	-10.3	-8.3	-5.1	-12.2	-9.8	-4.3	-3.2	-3.8	-7.1	-2.6
Trade balance in goods	USD m	-1236	-697	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-4045	-3053	-7232	-5268	-1956	-869	-1216	-2024	-798
Trade balance in services	USD m	930	1115	1262	1514	2007	1312	1299	1362	1975	1084	822	893	1919	480	444	-55	89	304	180
Current transfers	USD m	608	728	1039	878	988	803	683	805	777	711	533	589	480	547	241	494	306	500	443
Direct investment (FDI)	USD m	923	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-665	-319	725	558	460
Portfolio investments (equity)	USD m	-20	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-239	-50	-84	-17	-13
Gross international reserves	USD bn	25.1	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
Exchange rate (interbank), UAH/USD	aop	8.00	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
Exchange rate (official), UAH/USD	aop	7.99	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
Fiscal indicators																				
Consolidated fiscal revenues	% of GDP	30.9	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
Personal income tax	% of GDP	4.9	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
Enterprise profits tax	% of GDP	4.3	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
Value-added tax	% of GDP	9.8	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
Excise tax	% of GDP	2.4	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
Consolidated fiscal expenditures	% of GDP	33.0	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
Current expenditures	% of GDP	32.4	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
Capital expenditures	% of GDP	0.6	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
Consolidated fiscal balance	% of GDP	-2.0	-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
Privatisation receipts	% of GDP	0.1	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
Labour market																				
Average wage (real)	% yoy	3.3	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
Household income (real)	% yoy	3.7	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
Unemployment rate (ILO methodology)	% cum	9.0	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
Banking system																				
Monetary aggregate M0	% yoy cum	5.4	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
Monetary aggregate M2	% yoy cum	6.9	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
Household deposits in national currency	% yoy cum	7.1	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
Household deposits in foreign currency	% yoy cum	22.8	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
Com. bank credits in national currency	% yoy cum	13.6	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
Com. bank credits in foreign currency	% yoy cum	-13.7	-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
Long-term com. bank credits	% yoy cum	-3.9	-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
Long-term com. bank credits	% of total	68.5	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
Average lending rate on national currency credits	% p.a.	17.3	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	20.1
Average lending rate on foreign currency credits	% p.a.	10.9	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	8.0

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, preliminary NBU estimates for balance of pa

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