Monthly Economic Monitor Ukraine

No.7 (177), July 2015

EXECUTIVE SUMMARY

HIGHLIGHT: ASSOCIATION AGREEMENT

Politics: On July 1, President Petro Poroshenko submitted to the Parliament a bill to amend the Constitution, which provides a framework for decentralization of power in Ukraine.

Real Sector: Real GDP in the first quarter of 2015 declined by 17.2% yoy due to sharp reduction of domestic demand.

Energy sector: Gas negotiations between Ukraine, the EU and Russia held on June 30 were unsuccessful as the consensus between the Naftogaz and the Gasprom on gas price was not reached.

Agriculture: Decline in gross agricultural production in May accelerated to 7.3% yoy.

Privatisation: More companies were added to the list for privatisation, but sale at fair prices is doubtful.

External sector: Balance of payment in May was in surplus due to balanced current account and positive balance of financial and capital account.

Fiscal policy: Consolidated fiscal surplus in the first five months of the year widened further to UAH 19.4 bn (as compared to deficit of UAH 8.0 bn in the same period of 2014).

Social policy: In the first quarter of 2015, real disposable income dropped by 23.5% yoy due to sharp acceleration in inflation.

Labour market: Unemployment rate (ILO methodology) in the first quarter of 2015 was at 9.6% of economically active population in the age between 15 and 70 years old.

Monetary policy: In June, monthly core inflation was at 0.4% mom, the lowest level since the 2014 crisis started.

Exchange rate: In June, interbank exchange rate continued to fluctuate in the UAH 21-22 per USD range with the help of the NBU.

State debt: In June, the Cabinet of Ministers amended the Statute of the Naftogaz to increase company's statutory capital by almost three times

Highlight of the month: Association Agreement

ONE YEAR AFTER SIGNATURE OF THE ASSOCIATION AGREEMENT WITH THE EU: ECONOMIC REFORMS UNDER WAY

Veronika Movchan

In June 2014, Ukraine finally signed the Association Agreement with the EU. A provisional application of the Agreement started on November 1, covering such areas of Ukraine-EU cooperation as the respect for human rights, fundamental freedoms and rule of law; political dialogue and reform; justice, freedom and security; and economic and financial cooperation.[1] The application of Title IV – deep and comprehensive free trade agreement (DCFTA) – will start in January 2016 as its implementation was postponed under the pressure from Russia. To compensate the delay in the implementation of the DCFTA, the EU prolonged a regime of autonomous trade preferences (ATPs) till the end of 2015.

The ATPs mean unilateral opening of the EU market for the Ukrainian products under trade regime envisaged for the first year of the implementation of the DCFTA itself. According to the Ministry of Economic Development and Trade of Ukraine, the ATPs allows duty-free access to the EU markets for 95% of industrial products (HS 25-97) and 84% of agricultural products (HS 1-24). Tariff rate quotas (TRQs), an instrument of partial liberalization envisaging zero tariffs within quota limits and regular MFN tariffs outside, are applied to the rest of agricultural products.

Survey of exporters conducted by the Institute for Economic Research and Policy Consulting showed that about one third of exporters have used the ATPs, and 65% of the ATPs users said that it was beneficial for them, while the rest reported neutral result. Moreover, 56% of exporters expect that they will gain from the implementation of the DCFTA immediately in the first year of its implementation.

In 2014, Ukrainian exporters fully utilized only six out of 36 existing TRQs, another 14 TRQs were used partly, and the rest were not used at all.[2] Non-compliance with the EU standards, insufficient domestic production, and existence of other (more attractive for a particular product) export destinations are among reasons for incomplete usage of the TRQs. Among TRQs fully utilized in 2014 and already in 2015, TRQs on processed tomatoes, wheat and poultry meat are potentially limiting meaning that duty rate outside TRQs is prohibitively high and thus exports stops as soon as TRQ is filled.

The delay with the implementation of the DCFTA had caused some concerns that important economic reforms associated with the Agreement could be delayed. However, in the year after the Agreement signature, reforms are moving forward. Important progress was achieved in such areas as technical barriers to trade (TBT), government procurement, and energy reform. For instance, in the sphere of the TBT, the country has already harmonized its horizontal legislation (i.e legislation cuts across all sectors) with the EU *acquis*. The Laws on Standardization and on Metrology and Metrological Activity were passed in June 2014, the Law on Technical Regulations and Conformity Assessment was approved in January 2015. The current task is to establish institutions able to implement changed policies, build necessary infrastructure and also to progress in harmonization of vertical (sectoral) legislation and adaptation of standards.

Still, the implementation of the Association Agreement is facing at least several challenges. On the one hand, there is a growing risk of populism or sectoral lobbyism causing violations of Ukraine's obligations and thus potential backlash of the EU partners. For instance, on July 7, 2015, the President signed the law envisaging ten-year moratorium (i.e. ban) on exports of logs.[3] The law envisages no exemption for log exports to the EU thus de facto violating provisions of the Association Agreement that stipulate the Parties standstill commitment. According to Article 31.1, "*Parties shall not institute or maintain any customs duties, taxes or other measures having an equivalent effect imposed on, or in connection with, the exportation of goods to the territory of each other*". In March, the draft law suggesting increase in export duty on metal scrap – the suggestion also violating the provision of the DCFTA – was registered in the Parliament but later it was withdrawn.

On the other hand, there are Russian concerns. The provisional application of the DCFTA was postponed largely in attempt to pacify Russia. Currently, triparty consultations among Ukraine, the EU and Russia are taking place with the aim to identify and find practical solutions regarding the Russian concerns over impacts that Ukraine-EU DCFTA could have on the Russian economy. The consultations covering three topics, namely TBT, sanitary and phytosanitary measures and customs control, are reported to have some progress.[4]

Meanwhile, the ratification of the Association Agreement has been progressed. Out of 28 EU member states, 18 have already completed all ratification procedures and deposited the Agreement, another 8 are in the process, and two – Cyprus and Greece – have not started necessary procedures. Ukraine ratified the Agreement on September 16, 2014.

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1 http://www.eeas.europa.eu/top_stories/2014/011114_ukraine_agreement_en.htm

2 http://www.beratergruppe-ukraine.de/wordpress/wp-content/uploads/2014/06/PB_06_2015_en.pdf

3 http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=52828

4 http://trade.ec.europa.eu/doclib/press/index.cfm?id=1351

Monthly Economic Monitor Ukraine

Politics: Ukraine prepares for decentralization of power

Constitution. On July 1, President Petro Poroshenko submitted to the Parliament a bill to amend the Constitution. The bill provides a framework for decentralization of power in Ukraine. The locally elected bodies (councils) at the rayon and oblast level are to establish local governments (executive committees), which will resume the functions that are currently delegated or granted to local state administrations (umbrella organisations for branches of central government bodies at the local level). Those functions include communal property management and preparation of local budgets. The local state administrations will be eliminated and replaced with prefects — officials who will coordinate the work of local branches of central government bodies and supervise the compliance of local self-government bodies with the law. The bill also determines that local self-government in some areas of Donetsk and Lugansk regions may have peculiarities (a requirement of the Minsk agreements, which are intended to settle the conflict in Donbas), but the respective provision will not be included into the Constitution.

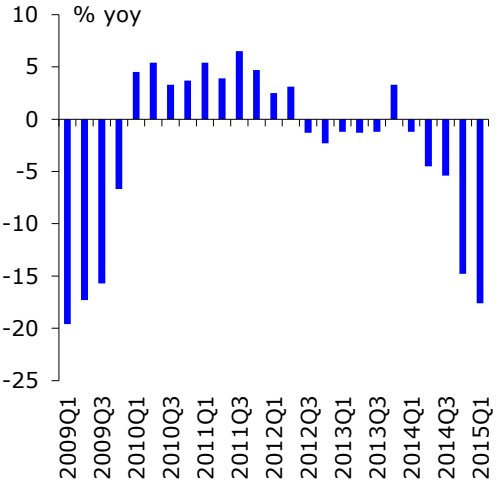
The bill also contains several provisions that are not directly related to decentralization. First, it establishes a framework for modification of administrative division of Ukraine, namely for consolidation of the lowest level administrative units. It is expected that 1,500-2,000 communities will be created instead of about 11,000 villages, towns, and cities (higher level units, rayons and oblasts, will be preserved). Second, the bill expands the powers of the President, who will have the right to terminate the powers of locally elected officials and bodies if their decisions pose a threat to national security or territorial integrity of Ukraine. Third, the bill reduces the powers of prosecutors by depriving them of the right to supervise the observance of the human rights and freedoms and the compliance of officials with the law (the latter function will be partly transferred to prefects). It is expected that the bill will be approved this year, and will become effective no later than March 2016. However, the decentralization will occur only after the local election scheduled for October 2017.

Law enforcement. On July 2, the Parliament passed two laws that created a framework for a police reform in Ukraine: the Law on the National Police and the Law on Internal Affairs Bodies. These laws make provision for establishment of the National Police as a new government agency, which serves as a civilian police force in Ukraine, and is governed by the Minister of Internal Affairs. The National Police will replace the current police force that is officially called 'militia' and is a direct part of the Ministry of Internal Affairs (MIA). The current 'militia' staff may be hired by the National Police both on a competitive and non-competitive basis, but the laws do not specify in which case which method will be used. The law on the National Police determines that a local elected body (council) may express no confidence to the chief of the local police department, which entails his or her resignation. The police reform will be implemented in three months after the laws become effective, presumably in October or November. The MIA expects to replace a significant part of the current 'militia' staff by new officers. On July 4, first 2000 new police officers started to patrol Kyiv.

The IMF. On May 12-June 11, an IMF mission visited Kyiv for the first review under the Extended Fund Facility Arrangement (EFF). The mission reached an agreement with Ukraine's authorities on a set of policies needed to complete the review. In particular, the Parliament has to approve five laws in the areas of deposit insurance, bank regulation, fighting with corruption, as well as energy market and utilities regulation. If the Parliament passes those laws and the IMF Executive Board approves the agreement and the review, Ukraine may get the second disbursement of SDR 1.18 bn (about USD 1.7 bn) in August. Ukraine received USD 5 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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The war in Donbas. In early July, the intensity of fighting in Donetsk and Luhansk regions decreased. According to Ukrainian military officials, pro-Russian insurgents and Russian troops reduced the number of attacks on Ukrainian forces. In early July, pro-Russian insurgents also left Shyrokyne, a village to the west of Mariupil, but the rest of the front line did not change in June-early July. The number of casualties continued to increase, but at a slower pace. According to the United Nations, the conservative estimate of the total death toll from the conflict reached 6,500 on June 29 (it was 6,417 as of May 30). Nevertheless, the conflict is not likely to end soon.

Real sector: Sharp drop in real GDP

GDP. Real GDP in the first quarter of 2015 declined by 17.2% yoy. On the demand side, decline in real disposable income resulted in drop of real private final consumption by 20.7% yoy. Real fixed capital accumulation decreased by 25.1% yoy due to the cancelation of most investment projects by companies and restricted fiscal capital outlays. Decline in domestic demand and imports substitution (due to sharp hryvnia depreciation) resulted in contraction of real imports of goods and services by 20.1% yoy. Military conflict in the East of Ukraine resulted in significant decline in exports capacities. This along with trade tensions with Russia and weak external demand resulted in drop of real exports of goods and services by 26.2% yoy.

On the production side, real gross value added (GVA) decreased in all sectors, except for state administration and defence. Military conflict in the East and low domestic and external demand resulted in drop of real GVA in extractive industry and manufacturing by 29.4% yoy and 25.6% yoy, respectively. Real GVA in construction fell by 35.3% due to restricted financing. Decline in real consumption and contraction of industrial output caused drop in real GVA in trade by 24.8%. Transport fell by 13.2% due to lower trade as well as smaller transit.

Sectoral trends. Decline in industrial production in May slightly decelerated to 20.7% yoy. This indicates that industry might have passed the bottom in April, if the military conflict in the East does not escalate in the future.

The output in extractive industry decreased by 20.6% yoy. Production of coke and lignite decreased by 52.3% yoy as some of mine stopped working. Decline in extraction of ore decelerated to 6.7% yoy due to higher demand from domestic metallurgy. In particular, steel production increased to levels of July 2014 as several metallurgical plants started recovering their production. At the same time, production decline in chemical industry accelerated to 29.0% yoy as several companies faced limited access to natural gas. Low domestic and external demand resulted in drop of machine building production at 26.7% yoy. Food production (excluding tobacco and beverages) declined by 15.9% yoy due to lower domestic demand as well as bans on food imports from Ukraine imposed by Russia. Overall, manufacturing production dropped by 21.5% yoy.

In May retail trade by enterprises dropped by 25.8% yoy, which reflects decline in real private final consumption. Financial constraints resulted in drop in construction by 31.7% yoy.

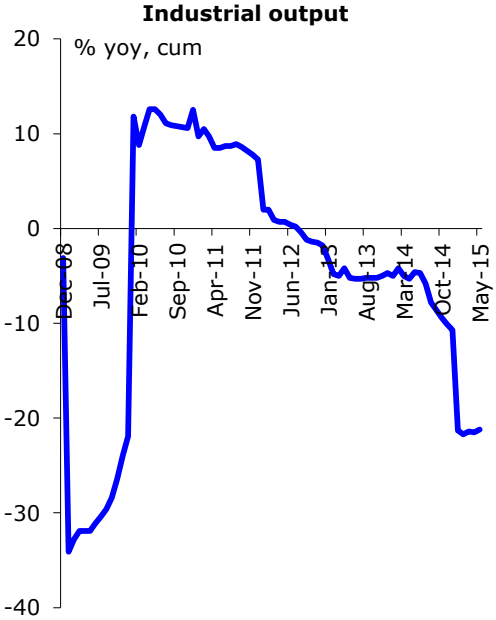
Between January and May freight turnover declined by 22.2% yoy due to logistic problems caused by military conflict in the East of Ukraine, decline in trade as well as fall in transit of gas.

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.

Energy sector: Gas negotiations failed

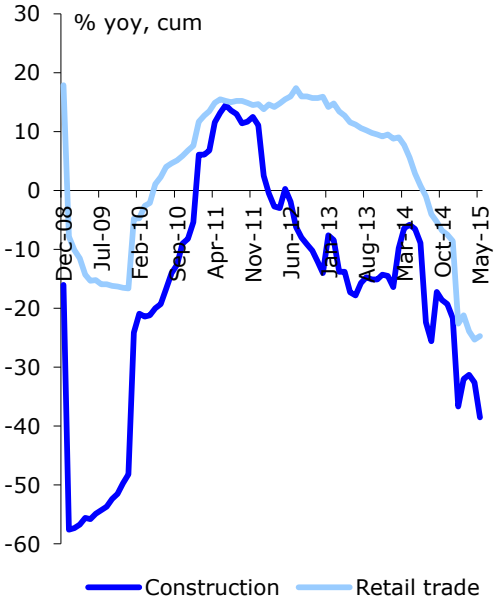
Gas negotiations between Ukraine, the EU and Russia held on June 30 were unsuccessful. The Russian Gasprom offered the Naftogaz to buy gas with a discount of USD 40 per tcm (at a price of USD 247.18 per tcm) in the third quarter of 2015. The Naftogaz insisted on a bigger discount and a price around USD 200 per tcm till the end of the first

Industrial output



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

Real sector trends



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

quarter of 2016. According to the Ministry of Energy, the price offered by the Gazprom was higher than the price of gas that Ukraine purchases from Europe. As a result, the Naftogaz stopped gas purchases from Russia on July 1. At the same time, gas transit to Europe is performed according to contractual obligations. The parties agreed to continue negotiations on gas supplies in September. In the meantime, Ukraine will continue to buy gas from Europe and expects that it will be able to store enough gas for the next heating season.

The Cabinet of Ministers ordered the Naftogaz to create a Stabilisation Energy Fund for purchases of natural gas, transit and storage of gas in 2015 in the amount of USD 1 bn (financing is expected to be raised at international capital market under state guarantees). The gas purchased with the Fund's money should be stored in underground gas storage facilities and used according to special decrees of the Cabinet of Ministers. Creation of such a Fund can be a way of allowing the Naftogaz to finance gas purchases without actually increasing its support from the budget. Currently the Naftogaz is holding negotiations on the possibilities to receive a loan with the World Bank and the EBRD.

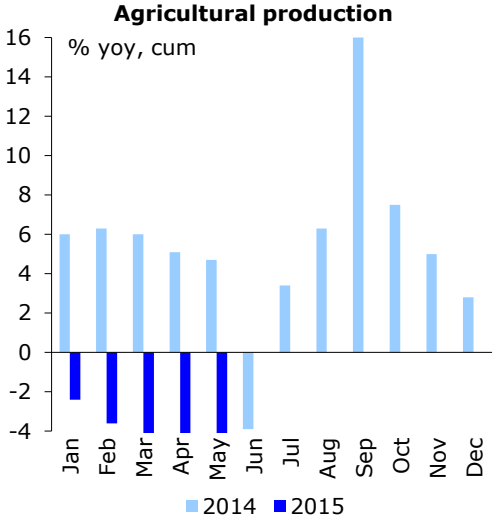
Agriculture: Decline of sown area

Sowing campaign. As of 1st of June 2015, the area of spring sowing campaign was by 6.4% lower than in 2014. Decline was caused by smaller sown areas in the controlled by Ukraine parts of Donetska oblast (by 38.0% yoy) and Luhanska oblast (by 28.6% yoy). Still, total sown area in 2015 is only by 2.0% smaller than in 2014 as the area of winter seeding was by 7.3% higher.

Production. Decline in gross agricultural production in May accelerated to 7.3% yoy. Between January and May production fell by 5.4% yoy. In particular, meat production declined by 3.3% and milk production dropped by 4.2% yoy. Livestock production likely declined due to lower purchasing power of Ukrainians as well as trade tensions with Russia.

Exports. Decline in world prices for grain restricted growth of agricultural exports. Between January and April 2015, exports of wheat increased in real terms by 41.3% yoy to 2.2 m tones, but grew only by 11.2% yoy in the equivalent of US dollar. Exports of maize increased by 12.8% yoy in real terms, but fell by 30.0% yoy in nominal terms. At the same time, sunflower oil exports decreased by 4.1% yoy in real terms and by 13.6% yoy in nominal terms.

Agricultural production



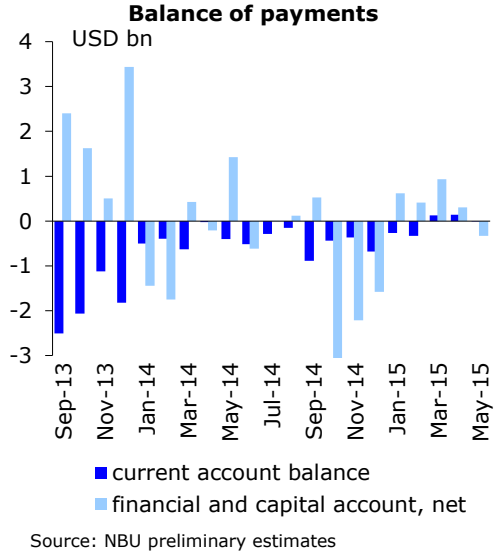
Source: Ukrstat

Privatisation: More companies for sale

On June 15, the State Property Fund of Ukraine (SPFU) approved the list of companies from group "E" (state owned stakes (shares) in companies) that can be privatised in 2015. The list consists of 26 stakes, including President Hotel (entirely owned by state), Ukrainian Bank of Reconstruction and Development (ranked 157th out of 158 Ukrainian banks as of January 1, 2015) and 50% of Azovmash (largest machine building enterprise of Ukraine in the field of car building, heavy and general engineering industry located in Mariupol). But, some of these companies are located in the regions near anti-terrorist operation zone, which reduces chances for their sale at fair price.

At the same time, on June 23, the SPFU withdrew 45 stakes from selling on Ukrainian stocks exchanges, including 46% stake in Cherkasyoblenergo and 25% stake in Sumyoblenergo. The future of sale of these stakes is not clear.

Balance of payments



Source: NBU preliminary estimates

External sector: Positive balance of payment

Current account in May was balanced as trade in goods and services was balanced.

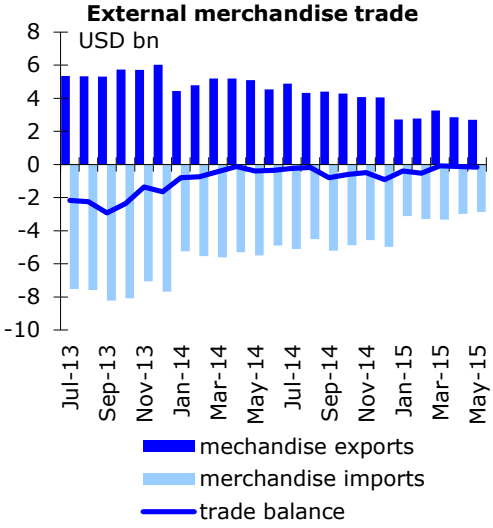
Exports of goods dropped by 40.7% yoy both due to decline in real exports as well as drop in prices of commodities. Trade tensions with Russia and low grain prices resulted in drop of food exports by 27.4% yoy. Lower sales to Russia was the major reason for decline in machinery exports by 45.7% yoy. Decline in exports of metals (by 46.7% yoy) was explained by lower prices, weak demand as well as

lower exports capacities caused by disruption of supply chains (i.e., restricted access to raw materials extracted at the East). Restricted access to natural gas supplies and harmful impact of military conflict in the East resulted in drop of exports of chemical products by 40.1% yoy. Contraction of minerals exports by 60.4% yoy was attributed to crash in prices due to global overproduction and resulting low margins on export sales. Exports of services decreased by 25.2% yoy.

Imports of goods in May dropped by 44.3% yoy due to lower domestic demand and imports substitution. Low consumer demand led to contraction of food imports by 44.6% yoy and decline in imports of industrial goods by 36.4% yoy. Termination of investment projects against the background of financial constraints and high political and economic uncertainty resulted in drop of imports of machinery (by 44.1% yoy) and metals (by 44.4% yoy). Overall imports of industrial products (including chemical products, wood, industrial goods, metals and machinery) decreased by 40.1% yoy. Drop of minerals imports by 43.3% yoy was a result of lower prices and smaller volumes of purchased natural gas. Imports of services decreased by 27.2% yoy.

Financial and capital account was in surplus at USD 0.3 bn. Net FDI inflow increased to USD 0.4 bn due to banks recapitalization by foreign investors. Loan and bond operations surplus of USD 0.2 bn was a result of positive inflow of debt funding to the Government sector, which counterbalanced repayments of short-term obligations by banks and long-term obligations by the real sector. Net sale of cash foreign currency by population reached USD 0.2 bn likely due to stabilisation of hryvnia exchange rate.

External merchandise trade



Source: NBU preliminary estimates

Fiscal policy: Fiscal surplus remains high

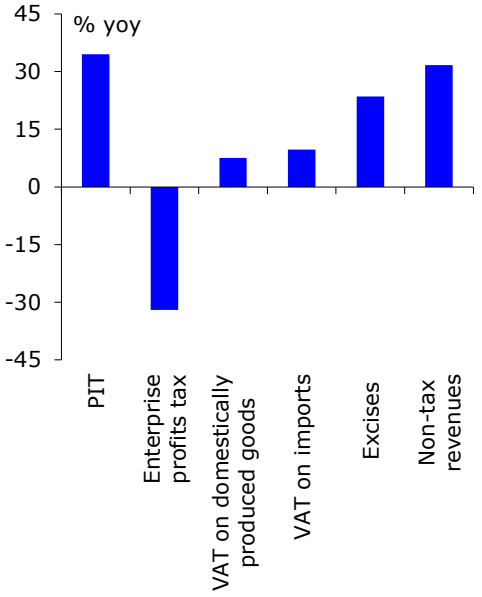
Preliminary data. According to the preliminary information of the State Fiscal Service (SFS), growth of consolidated fiscal revenues decelerated to 23% yoy in June as compared to near 31% yoy in May and 46% yoy in April. Slowdown is likely to be explained by higher statistical base. Moreover, hryvnia imports growth decelerated.

According to the SFS, in the first half of 2015 collection to the central budget were by 6.0% higher than target. In particular, revenues from VAT on domestically produced goods were by 13.7% higher than target, while collections on VAT on imports exceeded the plan by 5.0%. Higher than planned revenues were also received from excise duty and PIT. This likely partially reflected conservative planning by the Ministry of Finance.

Execution of revenues. In May, consolidated fiscal revenues increased by 30.7% yoy, which is by 15.2 p.p. slower than a month before. In particular, growth of VAT and excise duties collection decelerated due to higher statistical base as well as slower growth of nominal imports in hryvnia equivalent (due to lower demand). In particular, revenues from VAT on imports decelerated to 9.7% yoy as compared to 68.3% yoy growth in March. Increase in PIT revenues at 34.6% yoy was ensured primarily by introduced military tax. At the same time, EPT revenues dropped by near 30% yoy due to worsened financial situation of companies. Growth of non-tax revenues at 30% yoy was ensured by larger transfer of the NBU profit to the budget.

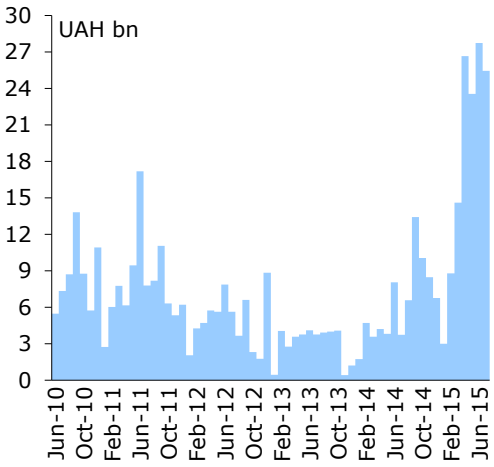
Surplus. Consolidated fiscal surplus in the first five months of the year widened further to UAH 19.4 bn (as compared to deficit of UAH 8.0 bn in the same period of 2014). This reflects higher than planned fiscal revenues as well as under-executed expenditures. Surplus of local governments reached UAH 13.8 bn. Central fiscal expenditures (general fund) were under-executed by 8.2% of target. Moreover, the Government accounted UAH 8.9 bn received from sale of frequencies for 3G as part of revenues and not as a deficit financing item.

Growth of Consolidated fiscal revenues in May 2015



Source: State Treasury reports

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Social policy: Sharp decline in purchasing power

In the first quarter of 2015, disposable income grew by only 4.2% yoy in nominal terms. It dropped by 23.5% yoy in real terms due to sharp

acceleration in inflation. Income from all sources declined in real terms.

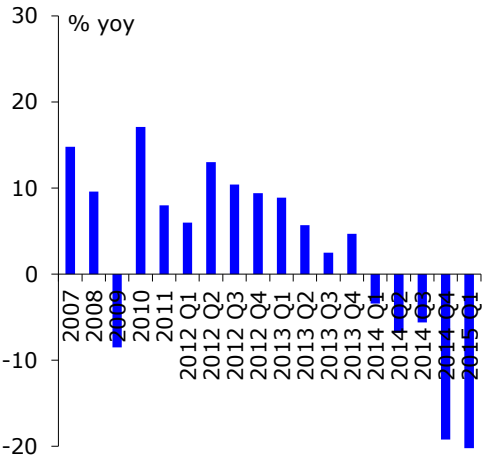
Wage income grew by only 3.2% yoy in nominal terms due to reduction in employment and slow increase in average wage. Fiscal constraints resulted in decline in nominal income from social assistance by 0.7% yoy.

At the same time, nominal income from entrepreneurs activity and subsidiary farming grew by 20.4% yoy as respective individuals likely benefited from imports substitution and increased prices. Still, income from this source declined by 11.6% yoy in real terms.

Property income (the one of the sources of which is interest on deposits) declined by 1.4% yoy in nominal terms even though bank interest income grew due to higher interest rates and wealth effects from hryvnia depreciation. At the same time, spending on property, particularly payment of interest on bank credits, grew by 18.4% yoy in nominal terms likely due to hryvnia depreciation and high interest rate. Paid taxes grew by 30.1% yoy in response to tax rate increases further undermining disposable income growth.

In the first quarter, wage income accounted for only 40.0% of total household income, which is by 0.7 p.p. lower than income received from social assistance and current transfers. Share of income received from entrepreneurs activity and subsidiary farming grew by 1.6 p.p. to 13.9%.

Real disposable household incomes



Source: Ukrstat

Labour market: Unemployment at near 10%

Wage. Average wage in May grew by 17.8% yoy in nominal terms but declined by 37.6% yoy in real terms due to acceleration of inflation.

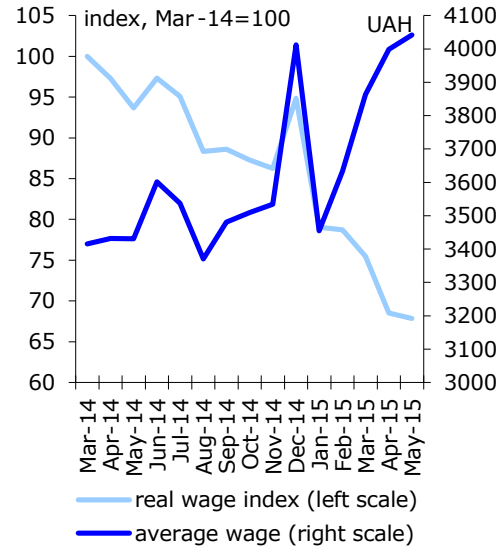
Average wage in manufacturing increased by 26.2% yoy, which might be primarily explained by wage indexation for inflation. The highest wages growth was in domestic oriented industries, which benefited from imports substitution. In particular, wages grew by 31.9% in food sector, by 34.0% yoy in textile industry and by 34.4% yoy in pharmaceutical industry. At the same time, average wage in extractive industry increased by mere 9.9%. This might be caused by the worsened financial situation in coal mining due to disrupted production resulting from military conflict in the East.

Wage in agriculture increased by 34.1% yoy likely due to favourable performance of companies.

As previously, wage growth was the lowest in public sectors as a result of previously approved decisions to reduce bonuses and premiums and cuts in basic wages. Consequently, wage in public administration and defence increased by 12.1% yoy, wage in education and healthcare grew by 7.8% yoy and 9.6% yoy, respectively.

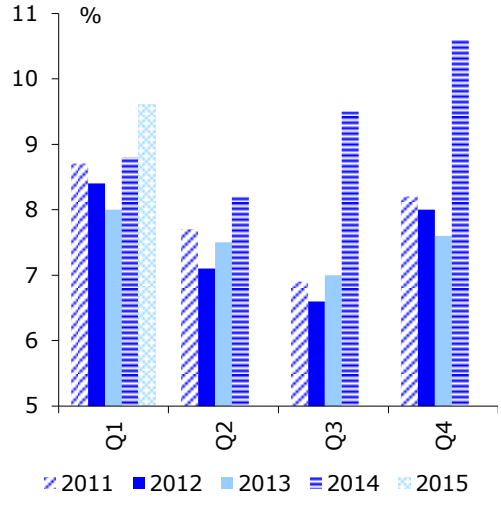
Economic activity. Unemployment rate (ILO methodology) in the first quarter of 2015 was at 9.6% of economically active population in the age between 15 and 70 years old. This data does not cover the occupied territory in the East, which does not allow for direct comparison with published data for the same period of last year, when the unemployment rate was at 9.0% (the Ukrstat did not publish the revised data for previous periods). However, the unemployment rate likely increased due to difficult financial situation of companies in all sectors, which forces them to lay off employees.

Average wage*



*not including AR Crime a
Source: Ukrstat

Unemployment rate (ILO)



Source: Ukrstat

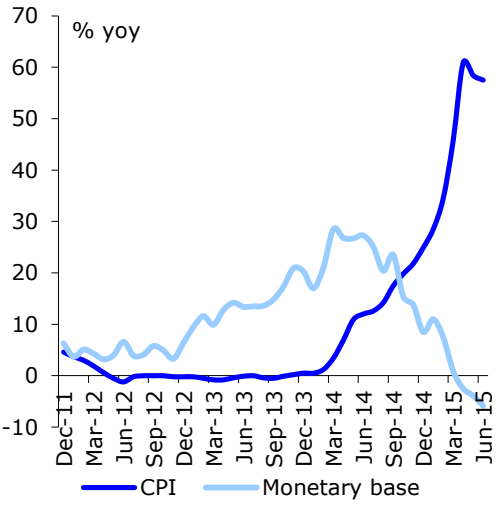
Monetary policy: Prices bounce back

In June, monthly core inflation was at 0.4% mom, the lowest level since the 2014 crisis started. Prices for most goods with high share of imports were either stable or down by 1-2% mom in response to low demand and stable exchange rate. Prices decreased for rice, fruit, clothing and footwear, home appliances, pharmaceuticals, TV, phones and computers. At the same time, prices for services and goods with high share of domestic costs continued to go up (by 1-2% mom). Domestic prices were influenced by inflation expectations and rising costs of labour and other inputs. Headline inflation was 0.4% mom or

57.5% yoy as increases in tariffs for cold and hot water were offset by reported sharp drop of prices for some vegetables.

The NBU did not change monetary policy in June but fiscal operations had significant impact on liquidity. The NBU increased purchases of government bonds to UAH 10 bn from UAH 8 bn in May and continued payouts of profits to the Government. The NBU injected another UAH 4 bn through purchases of foreign currency. However, banks used most of the extra liquidity to increase holdings of NBU certificates of deposit. Bank deposit and lending rates remained stable in June. Bank deposits in national currency increased both for households and legal entities but foreign currency deposit withdrawals continued.

CPI and monetary base development



Source: Ukrstat, NBU

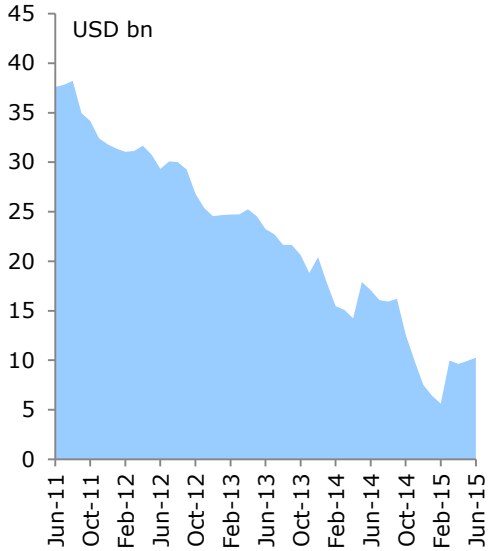
Exchange rate: Supply (on average) exceeded demand

In June, interbank exchange rate continued to fluctuate in the UAH 21-22 per USD range with the help of the NBU. Supply was on average higher than demand as the NBU bought USD 239 m at UAH 21 per USD and the Naftogaz covered most of its foreign currency needs on the open market. Net interventions of the NBU were at USD 209 m but demand was still restricted by strict administrative measures. Depreciation sentiments likely decreased as net sales of cash foreign currency to banks were at USD 189 m and withdrawals of foreign currency deposits slowed down significantly (from USD 0.4 bn in May to USD 0.2 bn in June). International reserves reached USD 10.2 bn by the end of June as the NBU utilized swap arrangement with China to offset payouts on foreign currency government debt.

State debt: The Naftogaz statutory capital was increased three-fold

Domestic debt. In June, the Ministry of Finance placed only USD 140 m of short-term USD-denominated state domestic bonds with weighted average yield at 8.7% and semi-annual coupon payments. The last time when the Ministry of Finance issued FX state domestic bonds (at USD 298 m at 8.8% p.a.) was in February. According to the IMF Program the Government has to refinance FX state domestic bonds at domestic capital market.

NBU international reserves



Source: NBU

In June, the Cabinet of Ministers amended the Statute of the Naftogaz to increase company's statutory capital by almost three times (from UAH 55.8 bn to UAH 160 bn). This partially reflects the fact that actual statutory capital of the company has already exceeded the size defined in the Statute. In 2015 the Government has already recapitalized the company at the account of special issue of state domestic bonds at the amount of UAH 26.1 bn. Overall, the State Budget Law envisages the recapitalization of the Naftogaz at UAH 29.7 bn this year.

External debt. The President of Ukraine signed the Law on the ratification of the memorandum between Ukraine and the EU on the provision of EUR 1.8 bn within the third macro-financial assistance loan program. The memorandum itself was signed earlier in May, 2015. The first tranche of EUR 600 m is expected in July. Next two tranches (each at EUR 600 m) are scheduled for the end of 2015 and 2016, respectively. Their provision is conditional on the success in the implementation of reforms.

Tables

		Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Jul[c]	Aug[c]	Sep[c]	Oct[c]	Nov[c]	Dec[c]	Jan[c]	Feb[c]	Mar[c]	Apr[c]	May[c]	Jun[c]
Industrial production (real)	% yoy cum.	-5.2	-4.7	-5.0	-4.7	-8.6	-10.1	-21.4	-5.8	-7.8	-8.6	-9.4	-10.1	-10.7	-21.3	-21.7	-21.4	-21.5	-21.2	…
Construction (real)	% yoy cum.	-15.1	-14.5	-6.4	-8.9	-17.2	-19.3	-31.3	-22.4	-4.0	-17.2	-18.6	-19.3	-21.7	-36.7	-32.0	-31.3	-32.6	-38.5	…
Agricultural production (real)	% yoy cum.	3.0	13.7	6.0	-3.9	16.0	5.0	-4.7	3.4	6.3	16.0	7.5	5.0	2.8	-2.4	-3.6	-4.7	-4.8	-5.4	…
Retail trade turnover (real)	% yoy cum.	9.8	9.5	7.7	0.8	-5.3	-7.5	-23.9	-1.0	-4.0	-5.3	-6.8	-7.5	-8.6	-22.6	-21.2	-23.9	-25.3	-24.7	…
Average wage	UAH	3331	3390	3245	3488	3463	3508	3650	3537	3370	3481	3509	3534	4012	3455	3633	3863	3998	4042	…
CPI	% yoy eop	-0.5	0.5	3.4	12.0	17.5	21.8	45.8	12.6	14.2	17.5	19.8	21.8	24.9	28.5	34.5	45.8	60.9	58.4	57.5
PPI	% yoy eop	-0.9	1.7	3.9	15.9	26.9	32.8	51.7	22.5	24.2	26.9	25.9	32.8	31.8	34.1	41.0	51.7	48.6	42.0	37.9
Exports (USD)*	% yoy cum.	-6.2	-5.2	-7.7	-6.5	-9.8	-13.1	-32.9	-7.5	-8.9	-9.8	-11.5	-13.1	-15.0	-30.8	-32.3	-32.9	-34.5	-36.4	…
Imports (USD)*	% yoy cum.	-4.1	-3.4	-14.7	-18.6	-24.5	-27.1	-36.0	-19.7	-22.6	-24.5	-26.3	-27.1	-27.8	-36.3	-35.9	-36.0	-37.2	-39.3	…
Merchandise trade balance	USD bn cum.	-14.2	-19.6	-1.9	-0.6	-5.2	-6.5	-1.0	-4.0	-4.3	-5.2	-6.0	-6.5	-7.6	-0.4	-0.9	-1.0	-1.1	-1.3	…
Current account**	USD bn cum.	-11.4	-16.4	-1.3	-0.6	-3.8	-4.6	-0.5	-2.7	-2.9	-3.8	-4.2	-4.6	-5.3	-0.3	-0.6	-0.5	-0.3	-0.3	…
Gross international reserves	USD bn eop	21.6	20.4	15.1	17.1	16.4	7.5	10.0	16.1	15.9	16.4	12.6	10.0	7.5	6.4	5.6	10.0	9.6	9.9	10.3
Monetary Base	% yoy eop	14.8	20.3	28.5	25.1	23.5	13.8	0.9	25.1	20.4	23.5	15.4	13.8	8.5	11.0	7.5	0.9	-2.5	-3.9	-5.8
Lending rate on UAH credits	% pa, aop	15.3	16.5	18.5	17.5	16.4	16.4	19.9	16.1	16.8	16.2	16.3	16.7	16.9	17.2	18.8	23.6	23.8	23.6	22.4
Exchange rate (interbank)	USD aop	8.15	8.21	9.1	11.71	12.58	13.56	21.23	11.74	12.98	13.01	12.93	14.75	15.63	15.94	24.77	22.98	22.49	20.94	21.26
Exchange rate (official)	USD aop	7.99	7.99	8.9	12.71	12.58	13.56	21.18	11.76	12.95	13.02	12.95	14.70	15.62	15.81	24.48	23.26	22.71	20.92	21.23
Exchange rate (official)	EUR aop	10.58	10.87	12.14	13.71	16.67	17.21	23.88	15.93	17.25	16.83	16.43	18.36	19.26	18.53	27.78	25.32	24.47	23.32	23.84

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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