Monthly Economic Monitor Ukraine

No.4 (174), April 2015

EXECUTIVE SUMMARY

HIGHLIGHT: REFORM AGENDA

Politics: On March 11, the Executive Board of the IMF approved a four-year extended arrangement under the Extended Fund Facility for Ukraine.

Real Sector: Real GDP in 2014 declined by 6.8% due to drop in domestic demand.

Energy sector: The Naftogaz of Ukraine and Russian Gasprom negotiated price for gas at USD 247.18 per thousand cubic meters for the second quarter of 2015.

Agriculture: Between January and February Gross agricultural production decreased by 3.6% yoy.

External sector: Current account deficit in February was USD 0.4 bn, which is close to the deficit in February 2014.

Fiscal policy: Between January and February tax revenues due to general fund of central fiscal were by 7.9% higher than the target primarily due to higher than expected hryvnia depreciation and larger resulting inflation.

Social policy: The Government revised the procedures and eligibility criteria for the housing and utility subsidies, which would result in higher coverage of Ukrainian population by this program.

Labour market: Unemployment rate in the last quarter of 2014 exceeded 10% for the first time since the first quarter of 2002.

Monetary policy: In March, consumer prices exceeded 10% mom for the first time since 1995.

Exchange rate: In March, the NBU *de facto* introduced the exchange rate band at UAH 21.5-23.5 per USD.

State debt: The Ministry of Finance initiated consultations with Eurobonds holders on restructuring.

Highlight of the month: Reform agenda

CASH FOR REFORMS

by Oleksandra Betliy, Vitaliy Kravchuk

In March, Ukraine's government adopted the Action plan for reforms in 2015 and 2016 while the IMF board approved four-year USD 17.5 bn extended arrangement under the Extended Fund Facility (EFF). The EFF supports ambitious program of Ukrainian authorities, which would in IMF words 'put the economy on the path to recovery, restore external sustainability, strengthen public finances, and support economic growth by advancing structural and governance reforms, while protecting the most vulnerable'. The first disbursement of the loan was made immediately after the approval of the Program. To continue receiving IMF money the Government has to deliver rather quickly an ambitious reform program. Complying with the IMF program is also one of the conditions for assistance from other official donors. However, the EU, the World Bank and other donors add also other required reforms to the agenda. In total, donors are ready to provide about USD 25 bn in cheap foreign currency loans, while Ukraine does not have access to commercial financing (IMF aired USD 40 bn figure but it includes USD 15 bn in postponed debt payments after sovereign debt restructuring expected in the nearest months). Ukraine also committed to change its legislation under EU-Ukraine Association agreement.

This means that most of the points in reform agenda are part of external commitments. On bright side, it gives political cover for Ukrainian politicians as each reform not only stands on its own merits but is also a precondition for vital external aid. It also creates external deadlines for reform, which is useful where ruling coalition is fractured and slow to act. Most obvious downside is hasty decision making leading to second best solutions and lack of legislative certainty. External influence on reform agenda also may lead to externally imposed priorities/reforms, but so far all proposed reforms are supported by at least part of coalition and are clearly needed for the country. Overall, upside of the external drivers for reforms clearly outweighs downside.

There is a perception that reforms are progressing slowly in Ukraine, which led some of Ukraine's international partners to express frustration. For example, key appointment for anti-corruption reform, that of the head of the Anti-Corruption Bureau, is still under way. Complaints of slow reforms are only half-right. Reforms should go faster, if we want to economy to really recover and achieve sound economic growth. However, we should remember that the Government has to deal with war and preventing economy from crumbling under the current crises. On the institutional side, the Government has to work with entrenched soviet-style bureaucracy, relatively weak discipline in coalition and backward-looking elites used for politics done Byzantium-style. The Government itself is a coalition government. Under these circumstances, reform progress is spectacular.

Substantial changes in public finances were made in the early March as prior actions to receive IMF support under the EFF. Most measures were implemented to achieve fiscal consolidation, including the following:

- The Government has finally reduced energy subsidies, i.e. central fiscal transfers to the Naftogaz. In particular, it approved gradual increases in tariffs for housing and utility tariffs for households (e.g. gas, electricity, heating) and gas prices for heating generating companies with immediate increases taken place already in April. Such changes were required by not only the IMF, but also by other official donors. Instead, the coverage of population by housing and utility subsidies will increase and the procedure for the application for the subsidy was eased. For this the Government increased financing of this subsidy by UAH 12.5 bn to UAH 25 bn, which is likely to be partially financed at the expense of the loan to be received from the World Bank with the focus to protect the poor.
- The Government used a political window of opportunity and reduced state aid to coal mining as many mines are allocated at the occupied territory. In previous years, state aid to coal mining was equal near 1% of GDP.
- The Government attempted to narrow the deficit of the Pension Fund (required by the IMF and the World Bank) through cuts of pensions to pensioners that continue working, elimination of pensions to retired prosecutors, judges, people deputies and civil servants if their continue working in these occupations and approximation of reduced retirement age for a number occupations (miners, aircrafts, agriculture, etc.) to general retirement wage.
- The Government revised some rules for providing in-kind benefits to different categories of population making them more means-tested.

Even though these measures are still fragmented and should be complemented with other measures including increase in efficiency of public spending and deeper structural reforms, they are already a step forward. Besides, the Government has already made some progress in shifting to e-procurements of goods up to UAH 100 000 and services up to UAH 1 m.

Another area of partial success of reforms is a deregulation, which was among priorities for financing by the World Bank as well as were required by the obligations within the Association Agreement with the EU. In particular, the Parliament approved two laws (which were elaborated by the Government), which reduced the number of licenses and permissions required for business operations in Ukraine. This is expected to improve business climate in the country.

Energy reform, which is one of the priorities of international donors, is also on a way. In particular, on April 9 the Parliament approved a law on the Natural gas market, which is in compliance with the Third Energy Package. The Law envisages the restructuring of the Naftogaz, which was demanded by official donors as well as expert community for a long time.

Overall, Ukrainian authorities move into right direction with the help of international donors. Reforms are slower than needed but faster than could be expected under weak institutions realities and lack of unity of policy makers. Ukraine will likely be able to remain on track with main aid programs providing external financing necessary for macroeconomic stabilisation. However, perceived slow pace of reforms may lead to lower external investments and may make raising additional funds for reconstruction of Donbas and modernization of economy more difficult.

Monthly Economic Monitor Ukraine

Politics: The IMF granted USD 17.5 bn to Ukraine

The IMF. On March 11, the IMF Executive Board approved a four-year USD 17.5 bn Extended Fund Facility (EFF) for Ukraine. Already on March 13, Ukraine received USD 5 bn as the first disbursement. About USD 2.8 bn from the disbursement were allocated to budget support.

The EFF supports an economic reform program aimed at ensuring macroeconomic stability and implementing structural reforms. In 2015, Ukraine is expected to receive another three disbursements (each at near USD 1.6 bn) provided that it meets the program performance criteria. The disbursements are scheduled for June, September, and December.

The war in the East. In March, the low intensity military conflict continued in Donbas despite the peace arrangement that was reached on February, 12, in Minsk. Pro-Russian insurgents and Russian troops continued a constant harassing fire against Ukrainian forces. That tactic, which included up to a few dozen shelling attacks per day, was evidently aimed at undermining the morale of Ukrainian troops and refusing them the opportunity to rest and resupply. Ukrainian troops responded to the attacks. Russia also continued to reinforce insurgents and resupply them heavy weapons, ammunition and fuel. The number of casualties continued to increase. According to the United Nations, the conservative estimate of the total death toll from the conflict reached 6,083 on March 27 (it was 5,809 as of February 28). A new escalation of the conflict may be expected in May, when emerged leaves on trees and bushes will facilitate covert deployment of troops.

Real sector: Sharp decline in domestic demand in 2014

GDP. Real GDP in 2014 declined by 6.8% due to drop in domestic demand. Real private final consumption declined by 9.6% due to slow growth in nominal income and high inflation. Low own cash flows, limited public spending on investment and sharp drop in bank lending for investment purposes (by 50% in real terms) resulted in drop of real gross fixed capital accumulation by 23.0%. At the same time, international trade added to GDP as imports declined more than exports. Lower demand and imports substitution resulted in drop of real imports of goods and services by 22.1%. This was an effect of hryvnia losing half of its value versus US dollar in 2014. Exports dropped by 14.5% due to military conflict in the East of Ukraine and weak external demand.

On the production side, real gross value added (GVA) increased only in agriculture (by 2.9%) due to high crops harvest. Stop of statistical reporting, destruction or stop of operations by companies in the East, disruption of supply chains and weak external demand resulted in drop in real GVA in industry by 12.0%. Construction fell by 19.9% due to financial constraints and reversal of investment plans. Lower domestic and external demand caused decline in real GVA in trade by 12.8%.

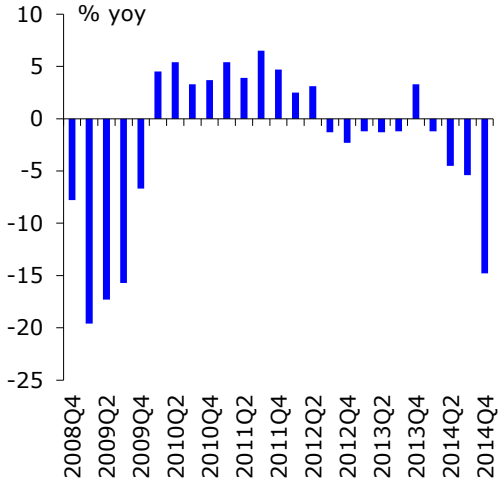
Sectoral trends. Decline in industrial production in February accelerated by 22.5% yoy as more companies in the East of Ukraine stopped operation due to military conflict.

Only several types of products manufacturing demonstrated the growth. However, their share is insignificant in the total volume of industrial output (i.e. manufacture of machinery and equipment for agriculture and forestry increased by 15.4% yoy, manufacture of parts and accessories for motor vehicles increased by 8.1% yoy, sawmilling and planning of wood increased by 2.4% yoy etc.) The core sectors of industry continue suffering from war and weak demand.

So far, output in extractive industry dropped by 24.1% yoy. Production of coke and lignite decreased by 61.7% yoy as some of mine in the occupied territory stopped operation or did not report the

Population: 45.5 m
Industry/GDP: 23%
Agriculture/GDP: 10%
Investment/GDP: 18%
Exports to: Russia 24%, EU 26%
Imports from: Russia 30%, EU 35%

Real GDP growth



Source: Ukrstat

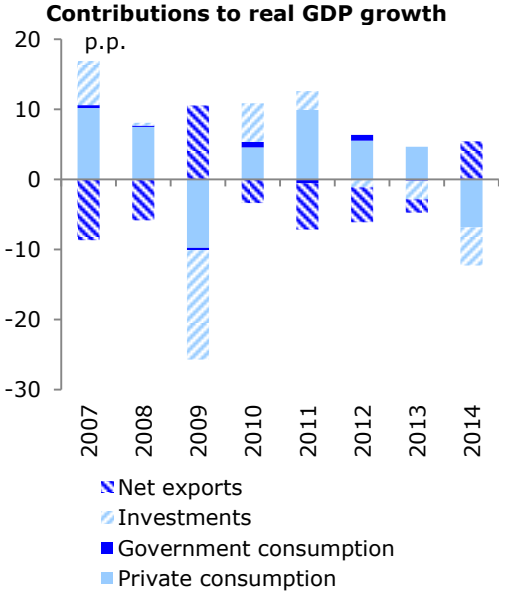
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statistics operating. Mining of metal ores fell by 10.1% yoy due to weak external demand against the background of world overproduction of ores.

Manufacturing decline by 20.2% yoy due to military conflict in the East and low external demand. Particularly, the metallurgy dropped by 28.9% yoy also partially due to disruption of supply chain. The chemical production fell by 24.2% yoy. Drop in machine-building production at 21.7% yoy due to low domestic and external demand. Law domestic demand for vehicles is also attributed to ceased bank lending, which resulted in drop of the manufacturing of vehicles by 87.5% yoy. The manufacturing of locomotives fell by 77.8% yoy due to extremely low external demand. Food production (excluding tobacco and beverages) dropped by 9.8% yoy likely due to bans on food imports from Ukraine imposed by Russia. Production and distribution of electricity dropped by 18.6% yoy likely due to warmer weather this February.

Between January and February the drop in retail trade by enterprises reached 21.2% yoy. This reflects decline in purchasing power of population due to lower real disposable income.

Contributions to real GDP growth



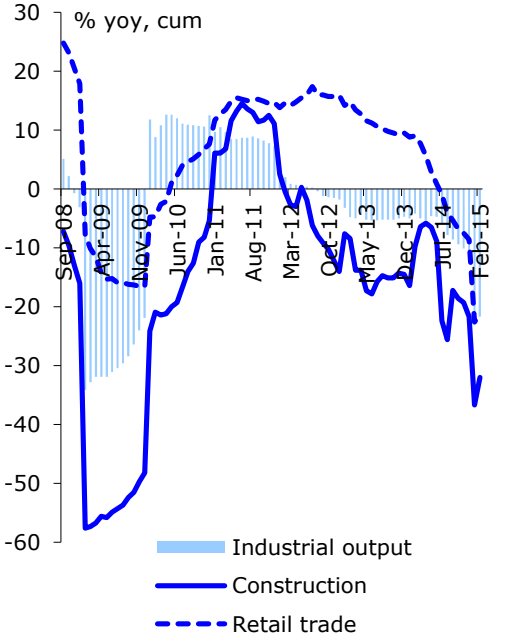
Source: Ukrstat

Energy. Temporary gas deal

Gas. In the beginning of April, the Naftogaz of Ukraine and Russian Gasprom signed an addendum to the Gas agreement of 2009 on the supplies of gas in the second quarter of 2015. With a USD 100 customs duty discount the price of gas for Ukraine will be USD 247.18 per thousand cubic meters. Ukraine will buy gas on prepayment conditions, with the maximum possible daily volume of 114 m cubic meters and without the "take or pay" clause. This agreement is a temporary solution until the new "winter gas package" is signed. However, the terms are very favourable for Ukraine and will allow it to start pumping gas into the underground storage facilities to prepare for the next winter season. Ukraine will have to buy around 10 bcm of gas by the start of the heating season in October.

On April 9, the Verkhovna Rada adopted the Law "On the natural gas market". The document has not been signed by the President yet. The draft was developed in the cooperation with the Energy Community Secretariat. The Law aims to create a competition on the Ukrainian gas market. It envisages the separation of operators of the transportation and distribution networks, defines the role of the national regulator, and obliges operators of the gas storages, transportation system and distribution networks to strictly follow the Code of the gas distribution system.

Real sector trends



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

Agriculture: Pressure on livestock production

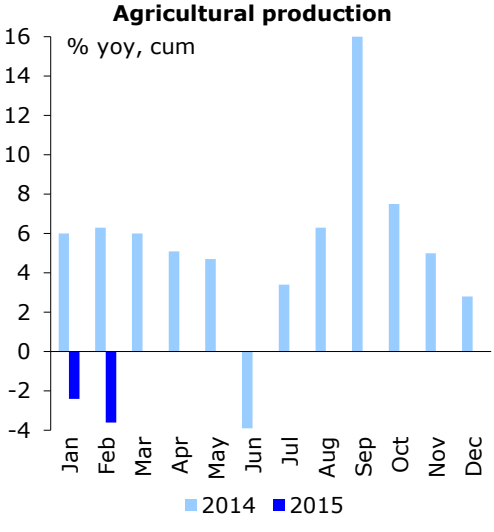
Production and sales. Between January and February agricultural production decreased by 3.6% yoy. Households are less resilient to economic recession as their production decreased by 5.0% yoy, while production of enterprises declined by 2.3% yoy.

Specifically, households milk production fell by 5.6% yoy in response to large increase in feed prices and only 4.0% yoy increase in milk producer prices. At the same time, enterprises increased their milk production by 4.0% yoy. Probably this is caused by the expectations that exporting of dairy products to EU will become available in the short run. Similar situation was in the meat production: households decreased production by 4.3% yoy, while output of enterprises dropped by mere 0.4% yoy.

In February, sales of most crops increased. In particular, sales of barley and soya skyrocketed by 55.7% yoy and 75.8% yoy, respectively. This is explained by the large increase in the producer prices and low statistical base. On the other hand, sales of cattle fell by 3.7% yoy, sales of pigs increased only by 0.4% yoy. Milk sales rose by moderate 5.7% yoy.

Agricultural policy. In March, the Minister of Agrarian Policy and Food presented results of 100 days of Minagro work. Particularly, several important changes were made in the field of liberalisation and deregulation of agricultural sector of Ukraine.

Agricultural production



Source: Ukrstat

Minagro launched audit of 571 state enterprises that it owns. As a result, 254 enterprises are to be privatized. 158 companies are planned to be reorganised and then privatised. The Ministry launched public tenders for management positions in public enterprises to eliminate corruption schemes, prevent theft of public funds and implement effective management. It is planned that managers of state companies are not be appointed by the Minagro but elected by the leading experts on the competition basis.

Besides, the Minagro supported abolition of obligatory status for quarantine certificate for grains and oilseeds; reduction of the maximum term of phitosanitary certificate issuing from 5 days to 24 hours; cancellation licensing for import of plant protection products. Overall, 14 permissions and 6 licenses were cancelled. According to the Minagro, this should create positive economic effect of UAH 5 bn.

External sector: Financial account deficit continued to shrunk

Current account. Current account deficit in February was USD 0.4 bn, which is close to the deficit in February 2014. Merchandise trade deficit reduced to USD 0.6 bn as compared to USD 0.7 bn last year. Trade in services was balanced.

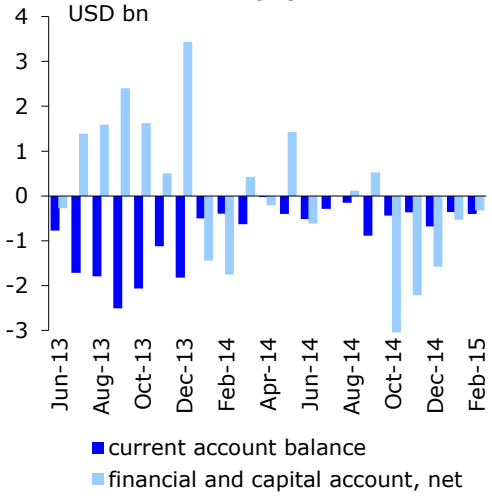
Drop in exports of goods in February accelerated to 34.1% yoy due to larger stoppage and termination of production of companies at occupied territories as well as further trade bans on Ukrainian goods imposed by Russia. Lower production and partial reallocation to domestic market resulted in substantial drop in minerals exports by 58.0% yoy. Exports of machinery dropped by 48.7% yoy because of restricted access to the key Russian market. Lower exports of metals by 44.0% yoy was driven by termination of work of companies in the occupied territory, disruption of supply chains, and decline in world prices. Stoppage of production at occupied territories, restricted access to natural gas and depreciation-driven increase in prices for imported inputs resulted in lower chemicals exports (by 38.3% yoy). The lowest reduction was reported for exports of food products (8.8% yoy), which is likely to be attributed to reallocation of sales to the EU market due to autonomous trade preferences. This partially counterweighted lower access to the Russian market. Exports of services contracted by 36.7% yoy because of high economic and political instability.

Imports of goods reduced by 32.9% yoy due to continuing decline of purchasing power and imports substitution driven by acceleration of hryvnia depreciation. Non-energy imports contracted by 41.4% yoy. Food imports dropped by 41.7% yoy as a result of low consumer demand. Imports of industrial produce (including chemicals, wood, industrial goods, metals and machinery) decreased by 41.3% yoy due to low economic activity and, as a result, delays in investment projects. Imports of minerals increased by 1.7% yoy due to low base of comparison in February 2014. Imports of services decreased by 25.0% yoy.

Financial account. Financial and capital account deficit narrowed to USD 0.3 bn mainly due to some improvement of FDI as well as net inflow of other capital. In February net FDI inflow amounted to USD 0.3 bn as foreign owners recapitalized banks. The deficit of bond and loan operations increased to USD 1.0 bn as both banks and real sector experienced restricted access to external financing. The negative balance of loan and bonds at USD 0.1 bn was also reported for the Government sector as no significant external financing occurred in February. A net inflow of cash foreign currency to the banking system increased to USD 0.2 bn due to higher volumes of currency sales.

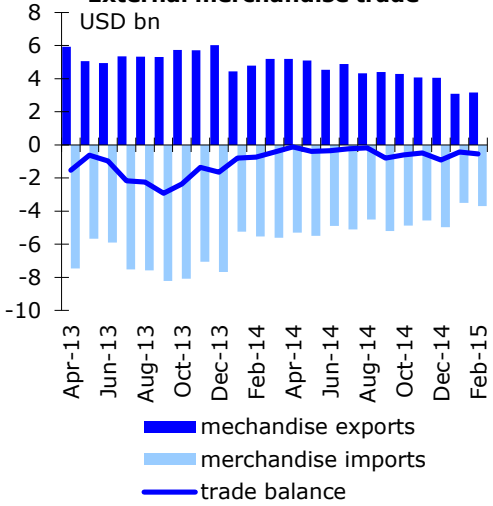
Trade Policy. Since February 26, imports surcharge was introduced for a majority of goods irrespective of country of origin. Energy imports and medicines are exempted from surcharge. Agricultural and food product will be charged with 10% rate, whereas industrial produce with 5% rate. This surcharge is expected to create an

Balance of payments



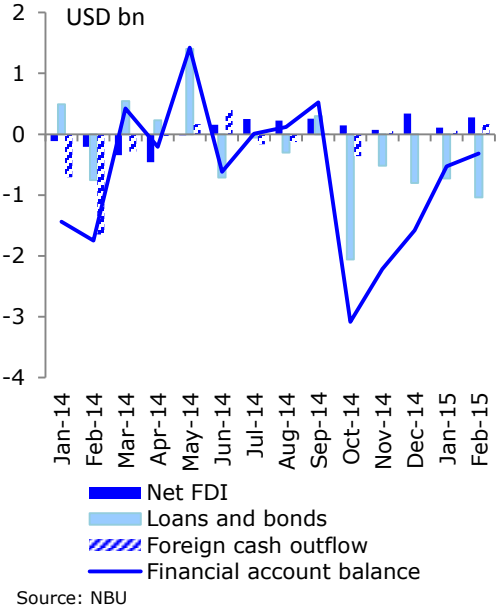
Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

Financial account



Source: NBU

additional downward pressure on imports. This surcharge will be effective for 12 months.

Fiscal policy: Improved performance

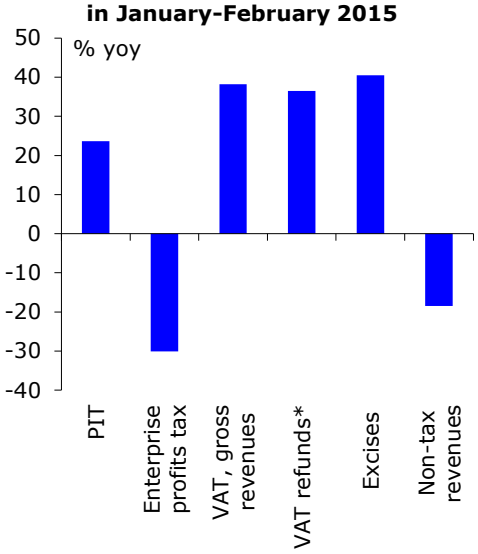
Budget Execution. Execution of fiscal revenues improved in the first two months of 2015. In particular, between January and February tax revenues due to general fund of central fiscal were by 7.9% higher than the target. This happened primarily due to higher than expected hryvnia depreciation and larger resulting inflation. At the same time, non-tax revenues were lower than planned due to smaller transfer of NBU profit to the central budget (which declined by 38.1% yoy or UAH 3.4 bn). As a result, central fiscal revenues due to general fund were by 11.0% lower than planned.

In February, consolidated tax revenues surged by 33.4% yoy. In particular, revenues from VAT and excises on imported goods doubled due to better collection rates as hryvnia imports (excluding VAT-free gas imports) increased by about 80% in hryvnia terms. Transmission of depreciation to prices resulted in increase in collections of VAT and excises on domestically produced goods.

Legislative amendments are another reason for increase in consolidated fiscal revenues as compared to last year. In particular, PIT revenues grew by 31.1% yoy due to introduction of military fee and taxation of passive income (e.g. interest on deposits). Collection of excises and rent payments grew also due to increase in rates. The State Fiscal Service might have also contributed to larger revenues through somewhat reduced tax fraud. Still, further efforts in improvement of tax administration are required.

Lower than planned fiscal revenues and usual delays in spending appropriated money in the beginning of the year resulted in under-execution of central fiscal expenditures (general fund) by 10.2% of target. This was particularly pronounced for functions, such as defence where procurement is large part of the spending. They were under-financed by more than 20% of target. As usual, social protection items were almost fully financed (at 96.9% of plan).

Consolidated fiscal revenues in January-February 2015



* cash VAT refunds (without VAT-bonds)
Source: State Treasury reports

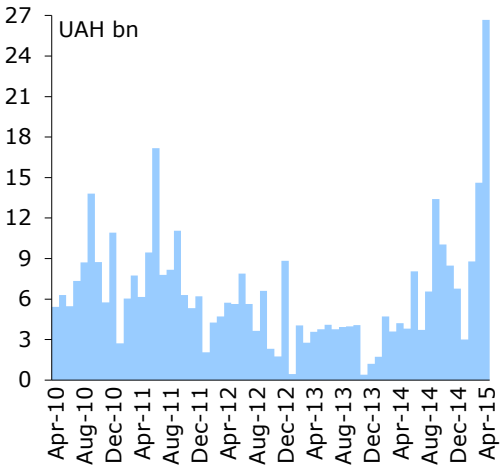
Social policy: Changes in housing and utility subsidies provision

Subsidies. The Government revised the procedures and eligibility criteria for the housing and utility subsidies. New rules will become effective since May 2015. The Government aims to simplify access to subsidies for eligible individuals after sharp increase in housing and utility tariffs. In particular, the Government allowed to apply with only 1-page application form and simplified declaration of income and large expenditures (above UAH 50 000 for recent year). These documents could be submitted either personally or through mail. Cross-checking of application with state databases including the State fiscal service and verification will be fully a responsibility of social inspectors.

Such simplification is welcome; however, there is a risk that social welfare departments will not be able to process all documents timely in April and provide eligible households with subsidies since May as promised by the Government. Subsidies are to be provided for next 12 months (previously for 6 months) and automatically prolonged for other 12 months if eligibility criteria are met. If later the fraud or incorrect data is found, the household should then repay back double amount of received subsidy.

The Government eliminated most obstacles to eligibility for granting housing and utility subsidies. Previously, the individuals were required to be registered as unemployed if they do not work or study. The scope of indirect means-testing (for lifestyle indicators of informal income) was reduced. Now only households with large purchases above UAH 50 000 over the last 12 months will not be able to receive a subsidy (previously 12 sizes of subsistence minimum). As a result, the Government expects that number of households that receive housing and utility subsidy will increase from 1 m to 4 m.

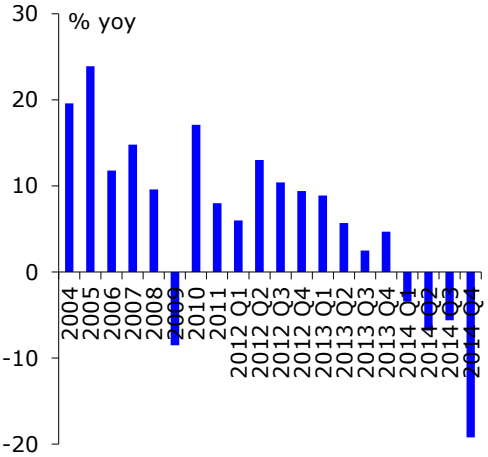
Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Household income. Real disposable income in 2014 dropped by 8.4% due to decline in all income sources. Other current transfers paid by households increased in real terms as insurance rates were hiked and transfers abroad grew in hryvnia terms. At the same time, wage income declined by 8.6% in real terms due to drop in real wages and decline in employment. High fiscal constraints resulted in lower real income from social assistance by 9.3%. However, good harvest and higher demand for domestically produced goods (against the background of imports substitution) resulted in decline of real income from entrepreneurs activity and subsidiary farming at only 0.6%. Real income from property, received primarily from interest on deposits, reduced only by 2.0% as hryvnia depreciation and sharp increase in nominal interest rates almost compensated inflation, withdrawal of deposits by households and introduced taxation of interest.

Real disposable household incomes



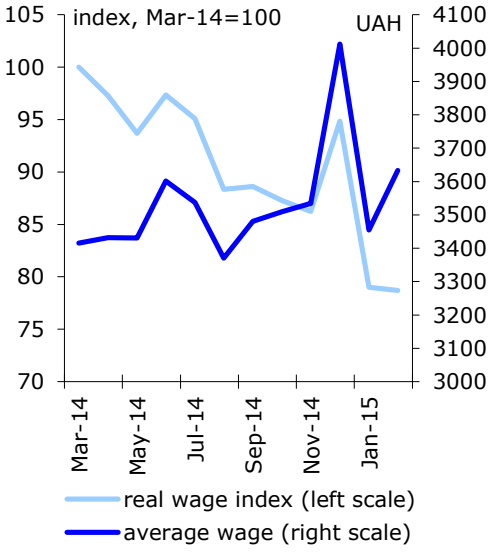
Source: Ukrstat

Labour market: Wage continuous to fall

Wage. Average wage in February grew by 13.2% yoy in nominal terms due to indexation of wages for the inflation. At the same time, high inflation and introduction of military fee resulted in drop of real wages at 18.2% yoy.

Increase in nominal average wage in industry at 9.5% yoy was by 3.8 p.p. lower than average across economy. This is likely to be explained by decline in sales. Moreover, minimum wage, which was traditionally a push factor for increase in industrial wages, was not raised in 2015. Overall, average wage in coal mining increased only by 4.5% yoy. At the same time, average wage grew by 40.8% yoy in the manufacturing of computers, electrical and optical equipment. This sector goes through large decrease in production and one third of its workers are not fully employed. Thus, it can be assumed that due to reduced production, wage fund of sector now includes only the healthiest enterprises which are still able to perform wage indexation. Also, those enterprises that continued to operate benefited from higher sales of equipment used in the military conflict zone in the East. Likewise, increase in the prices of imported goods resulted in larger sales by Ukrainian textile companies, which allowed increasing wages in the sector by 30.1% yoy. Wage growth in information and telecommunication sector and financial and insurance sector outpaced increase in the CPI, which might be explained by comparatively large share of foreign owners and customers in these sectors.

Average wage*

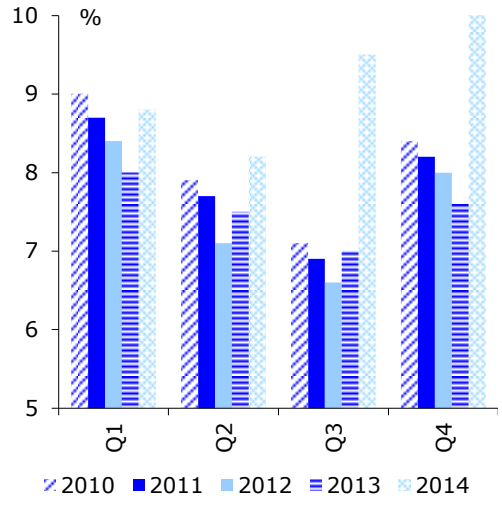


*not including AR Crimea
Source: Ukrstat

Wage in the agriculture increased by 19.7% yoy, which was ensured by good harvest as well as higher exports revenues in hryvnia equivalent. Meanwhile, fiscal consolidation measures continued to put a downward pressure on wage growth in public sector. Particularly, nominal average wage increased by 2.1% yoy in public administration and defence, by 4.8% yoy in education and by 5.4% yoy in health care.

Unemployment. In the fourth quarter of 2014 unemployment rate (ILO methodology) reached 10.6% of economically active population in the age of 15-70 years old. Double-digit unemployment rate was last observed in the first quarter of 2002. Unemployment rate increased significantly for men due to sharp decline in industrial output and construction. In particular, lower demand as well as termination of operation due to military conflict in the Eastern Ukraine forced many companies to reduce employment.

Unemployment rate (ILO)



Source: Ukrstat

Monetary policy: Inflation reached record 45.8% yoy in March

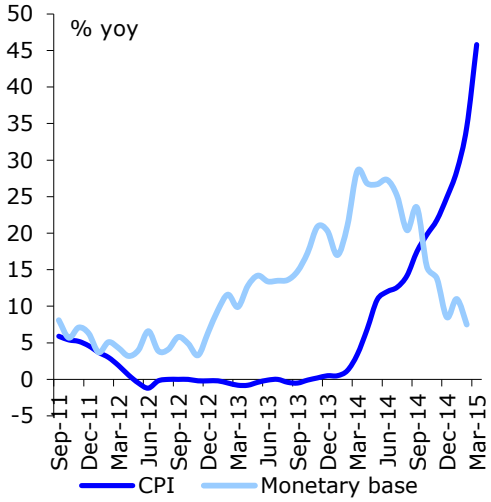
In March, consumer prices increased by 10.8% mom bringing year-to-year consumer inflation to 45.8% yoy. Double-digit monthly price increases were last observed twenty years ago in 1995. 1995 was probably also the last year with the volatility of national currency on the scale observed in February (grey market rate moved from UAH 18-20 per USD in the beginning of the month to about UAH 33 per USD on February 26 and down to UAH 23-25 in the middle of March). The result was 16.7% increase in CPI over two months. In practice, prices increased the most in late February and in early March, while in

the last 20 days of March price increases slowed or in some cases prices went down (rice, sugar, eggs, gasoline, diesel fuel). This means that reported February inflation figures were probably too low and March inflation was too high.

Individual price increases were influenced by share of inputs with prices tied to exchange rate (these would include both imported goods and goods available for exports such as metals, nitrogen fertilizers, grain, sugar, sunflower oil) and level of competition for consumer spending (both between suppliers of the same goods and through elasticity of consumer demand). For example high competition likely led prices for household appliances to increase by only 20-27% over two months and for clothing by 16%. Prices for some food products where foreign currency component is lower were increased by 30-50%. Prices for meat and milk products increased moderately by 6-7% over two months.

There are grounds to believe that monthly core inflation will go down sharply in April and May, if exchange rate remains stable. In this case, this episode of very high inflation will cut down purchasing power of Ukrainians and will weaken domestic demand but inflation will be contained and will not spiral out of control.

CPI and monetary base development



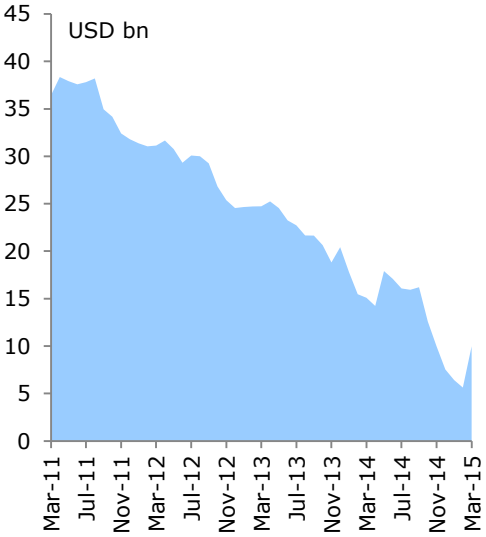
Source: Ukrstat, NBU

Exchange rate: Fragile stability

In March, the NBU *de facto* introduced the exchange rate band at UAH 21.5-23.5 per USD using foreign currency acquired during weeklong restriction on foreign currency purchases. The NBU purchased USD 726 m in February and March on the interbank market but spent only USD 182 m to support exchange rate on the open market. Hryvnia moved to the weaker part of the band in the second half of March and stabilized around UAH 23-23.5 per USD. Stability remained fragile as export revenues remained low and any escalation in Donbas may destabilize the foreign exchange market.

Cash exchange rate and exchange rates for card operations stabilized at around UAH 25-27 per USD which is significantly higher than exchange rate at more tightly regulated interbank market. As the NBU received USD 4.9 bn in IMF funds in March Ukraine's international reserves reached USD 10.0 bn by the end of month. This means that the NBU has some room to stabilize the exchange rate over the next months.

NBU international reserves



Source: NBU

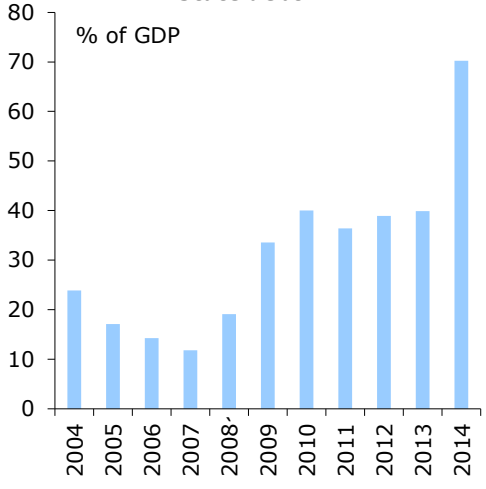
State debt: The first EFF tranche from the IMF received

External debt. On March 13, Ukraine received the first tranche under the Extended Fund Facility (EFF) of the IMF at USD 5 bn (out of total USD 17.5 bn). USD 2.8 bn was allocated for budget purposes. Approval of new Program by the IMF opens a window for the support of Ukrainian government by other official donors. Total amount of international financial package for the four year period is estimated at USD 40 bn. The Government will be able to receive further assistance from the IMF and other donors only if it implements promised reforms.

Already on March 31, the EU approved the third package of macro-financial assistance (MFA) to Ukraine at EUR 1.8 bn (EUR 1.2 bn for 2015 and EUR 0.6 bn for 2016). Besides, the EU decided to disburse to Ukraine a final tranche of EUR 250 m under the previous MFA in April. At the same time, the Government is likely to receive previously agreed USD 1 bn in loan guarantees from the USA, EUR 500 m from Germany, EUR 100 m from Poland and 300 m from Japan during next months.

In mid-March, the Ministry of Finance initiated consultations with Eurobonds holders on restructuring of external state debt. It may result in extension of maturity of debt, which is to be reimbursed in 2015-2018, for five to eight years, the revision of the coupon rate and the reduction of the face value of debt. The Government expects to restructure sovereign debt at near USD 15 bn by mid-June 2015.

State debt



Source: State Treasury Reports

Tables

Economic Trends		Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Mar	Apr[c]	May[c]	Jun[c]	Jul[c]	Aug[c]	Sep[c]	Oct[c]	Nov[c]	Dec[c]	Jan[c]	Feb[c]	Mar[c]
Industrial production (real)	% yoy cum.	-5.3	-5.2	-4.7	-5.0	-4.7	-8.6	-10.7	-5.0	-5.3	-4.6	-4.7	-5.8	-7.8	-8.6	-9.4	-10.1	-10.7	-21.3	-21.7	…
Construction (real)	% yoy cum.	-17.8	-15.1	-14.5	-6.4	-8.9	-17.2	-21.7	-6.4	-5.8	-6.5	-8.9	-22.4	-4.0	-17.2	-18.6	-19.3	-21.7	-36.7	-32.0	…
Agricultural production (real)	% yoy cum.	15.4	3.0	13.7	6.0	-3.9	16.0	2.8	6.0	5.0	4.7	-3.9	3.4	6.3	16.0	7.5	5.0	2.8	-2.4	-3.6	…
Retail trade turnover (real)	% yoy cum.	11.2	9.8	9.5	7.7	0.8	-5.3	-8.6	7.7	5.6	2.9	0.8	-1.0	-4.0	-5.3	-6.8	-7.5	-8.6	-22.6	-21.2	…
Average wage	UAH	3289	3331	3390	3245	3488	3463	3685	3398	3432	3430	3601	3537	3370	3481	3509	3534	4012	3455	3633	…
CPI	% yoy eop	-0.1	-0.5	0.5	3.4	12.0	17.5	24.9	3.4	6.9	10.9	12.0	12.6	14.2	17.5	19.8	21.8	24.9	28.5	34.5	45.8
PPI	% yoy eop	-1.6	-0.9	1.7	3.9	15.9	26.9	31.8	3.9	6.1	8.8	15.9	22.5	24.2	26.9	25.9	32.8	31.8	34.1	41.0	51.7
Exports (USD)*	% yoy cum.	-7.1	-6.2	-5.2	-7.7	-6.5	-9.1	-14.4	-6.8	-8.3	-6.4	-6.7	-6.8	-8.2	-9.1	-10.8	-12.6	-14.4	-30.7	-34.1	…
Imports (USD)*	% yoy cum.	-8.3	-4.1	-3.4	-14.7	-18.6	-24.8	-27.4	-16.1	-19.9	-17.3	-17.3	-19.5	-22.4	-24.8	-26.3	-26.7	-27.4	-33.0	-32.9	…
Merchandise trade balance	USD bn cum.	-7.1	-14.2	-19.6	-1.9	-0.6	-3.6	-6.1	-1.9	-2.0	-2.2	-2.5	-2.7	-3.0	-3.6	-4.2	-5.1	-6.1	-0.4	-0.6	…
Current account**	USD bn cum.	-5.5	-11.4	-16.4	-1.3	-0.6	-3.3	-5.2	-1.3	-1.2	-1.5	-1.9	-2.3	-2.7	-3.3	-4.0	-4.5	-5.2	-0.3	-0.4	…
Gross international reserves	USD bn eop	23.2	21.6	20.4	15.1	17.1	16.4	7.5	15.1	14.2	17.9	17.1	16.1	15.9	16.4	12.6	10.0	7.5	6.4	5.6	10.0
Monetary Base	% yoy eop	13.4	14.8	20.3	28.5	25.1	23.5	8.5	28.5	26.8	26.7	27.3	25.1	20.4	23.5	15.4	13.8	8.5	11.0	7.5	…
Lending rate on UAH credits	% pa, aop	15.4	15.3	16.5	18.5	17.5	16.4	16.6	20.0	17.5	17.9	17.2	16.1	16.8	16.2	16.3	16.7	16.9	17.2	18.8	…
Exchange rate (interbank)	USD aop	8.14	8.15	8.21	9.1	11.71	12.58	14.44	9.98	11.61	11.78	11.79	11.74	12.98	13.01	12.93	14.75	15.63	15.94	24.77	22.98
Exchange rate (official)	USD aop	7.99	7.99	7.99	8.9	12.71	12.58	14.42	9.92	11.64	11.64	11.81	11.76	12.95	13.02	12.95	14.70	15.62	15.81	24.48	23.26
Exchange rate (official)	EUR aop	10.44	10.58	10.87	12.14	13.71	16.67	18.02	13.69	16.08	16.00	16.04	15.93	17.25	16.83	16.43	18.36	19.26	18.53	27.78	25.32

Sources: Ukrstat, NBU, ICAP, 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

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		Q4 09	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]
GDP	UAH bn	259.9	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
GDP (real)	% yoy	-6.7	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
Household consumption (real)	% yoy	-16.2	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
State consumption (real)	% yoy	-3.7	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
Gross fixed capital formation (real)	% yoy	-33.7	-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
Exports of goods and services (real)	% yoy	6.9	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
Imports of goods and services (real)	% yoy	-11.1	-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
Agriculture, hunting, forestry (real)*	% yoy	-11.6	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
Manufacturing industry (real)*	% yoy	6.5	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
Construction (real)*	% yoy	-32.8	-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
Trade, repair services (real)*	% yoy	-16.4	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
Transport (real)*	% yoy	-0.4	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
Balance of payments																				
Current account balance	USD bn	-0.9	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
Current account balance	% of GDP	-2.7	-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	-4.8
Trade balance in goods	USD m	-1407	-1236	-697	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-4045	-3053	-7232	-5268	-1956	-869	-1216	-2024
Trade balance in services	USD m	550	930	1115	1262	1514	2007	1312	1299	1362	1975	1084	822	893	1919	480	444	-55	89	304
Current transfers	USD m	722	608	728	1039	878	988	803	683	805	777	711	533	589	480	547	241	494	306	500
Direct investment (FDI)	USD m	1282	923	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-665	-319	725	558
Portfolio investments (equity)	USD m	41	-20	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-239	-50	-84	-17
Gross international reserves	USD bn	26.5	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
Exchange rate (interbank), UAH/USD	aop	8.06	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	14.44
Exchange rate (official), UAH/USD	aop	7.99	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	14.42
Fiscal indicators																				
Consolidated fiscal revenues	% of GDP	36.0	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	29.0	32.6
Personal income tax	% of GDP	4.7	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	5.0	6.0
Enterprise profits tax	% of GDP	3.6	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	2.2	1.8
Value-added tax	% of GDP	11.0	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	8.0	12.0
Excise tax	% of GDP	2.6	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	3.6	3.3
Consolidated fiscal expenditures	% of GDP	34.5	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	31.9	42.3
Current expenditures	% of GDP	31.4	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	30.2	40.0
Capital expenditures	% of GDP	3.1	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	1.7	2.3
Consolidated fiscal balance	% of GDP	1.1	-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	-3.2	27.9
Privatisation receipts	% of GDP	0.0	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
Labour market																				
Average wage (real)	% yoy	-5.7	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
Household income (real)	% yoy	-7.6	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
Unemployment rate (ILO methodology)	% cum	9.4	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
Banking system																				
Monetary aggregate M0	% yoy cum	1.5	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
Monetary aggregate M2	% yoy cum	-5.4	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
Household deposits in national currency	% yoy cum	-8.5	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
Household deposits in foreign currency	% yoy cum	4.7	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
Com. bank credits in national currency	% yoy cum	16.9	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
Com. bank credits in foreign currency	% yoy cum	-15.2	-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
Long-term com. bank credits	% yoy cum	-3.8	-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
Long-term com. bank credits	% of total	68.1	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
Average lending rate on national currency credits	% p.a.	19.8	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
Average lending rate on foreign currency credits	% p.a.	10.1	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

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 paymer

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