Monthly Economic Monitor Ukraine

No.3 (173), March 2015

EXECUTIVE SUMMARY

HIGHLIGHT: UNHEALTHY BANKS

Politics: On March 11, the Executive Board of the International Monetary Fund (IMF) approved a four-year extended arrangement under the Extended Fund Facility for Ukraine in the amount of SDR 12.348 bn (about USD 17.5 bn).

Real Sector: The industrial output in January dropped by 21.3% yoy due to protracted military conflict in Donbas and weak demand.

Energy sector: The tariffs for gas, electricity and heating were increased in March.

Agriculture: Higher support of agriculture is expected to positively impact the sector's development.

External sector: Current account deficit in January shrunk to USD 0.3 bn due to lower merchandise trade deficit (USD 0.4 bn).

Fiscal policy: The Parliament approved amendments to the State Budget Law to take into account new macroeconomic assumptions and changes in other legislation.

Social policy: In early March the Parliament approved changes in pension provision to reduce the deficit of the Pension Fund.

Labour market: In January average wage dropped by 17.3% yoy in real terms due to accelerated inflation and the introduction of military fee.

Monetary policy: In February, consumer inflation reached 5.3% mom, the highest level since 1996.

Exchange rate: In February, hryvnia exchange rate was very volatile and significantly depreciated.

State debt: In February, the Government provided the Deposit Guarantee Fund with a special issue of state domestic bonds at UAH 5 bn and recapitalised the Naftogaz at the account of state domestic bonds at UAH 10 bn.

Highlight of the month: Unhealthy banks

IS THERE A HOPE FOR BANKING SYSTEM?

by Vitaliy Kravchuk

On the surface Ukraine until recently had vibrant banking sector. In the end of 2013 there were 179 active banks. Banking business was sufficiently exciting that 26 new banks were established in 2009-2013. Top 10 banks held 54% of banking system assets and Top-5 had 40%. This allowed for quite a lot of healthy competition. The banking sector managed to stay profitable for the second year in the row after several years of post-crisis losses. Non-performing loans (NPLs) were still high at 13% of gross loans but banks provisioned for most of related losses in previous years.

However, this belied harsher reality. Many of smaller banks were just part of money laundering or tax fraud schemes and refused to disclose their owners. Even larger banks frequently had dangerously large exposure to loans to other parts of business groups. Besides, quite a number of banks avoided showing losses by refusing to recognize NPLs and to make loan-loss provisions. Banks still owed the NBU UAH 80 bn for the refinancing issued during 2008-2009 crisis. Despite efforts of the NBU over several years banks still had exposure to foreign currency loans issued to unhedged borrowers that had no income in foreign currency. This made banks vulnerable to fluctuations in the exchange rate storm.

When crisis hit it was almost a perfect storm. Already weak banks faced growing NPLs due to hryvnia depreciation, loss of Crimea and military actions in Donbas. They also had to contend with occasional bank runs, owners scrambling to get their money out of the country and politicians attempting to prevent them from collecting on some of the loans issued. According to the NBU, from the beginning of 2014 to February 2015 households withdrew UAH 67 bn in national currency deposits and USD 10.3 bn in foreign currency deposits. In the beginning of 2015 banks acknowledged 19% of their loans as NPLs and there are likely plenty more.

Thus it is pretty amazing that out of largest 15 banks 13 are still working and out of next 20 – 15 are still in business and most of depositors still have access to their deposits. What is more some bank shareholders are willing to inject capital in their banks to keep them from failing, while other banks have extra UAH 26 bn in liquidity that they just keep invested in short-term NBU securities. While some banks received help from the NBU others repaid loans and managed to operate in good order. Overall, these facts points to a degree of resilience in banking system and if banking system managed to keep functioning until now we are likely to avoid meltdown going forward.

There are still risks. Individuals with hryvnia deposits within guaranteed limit will almost certainly get them back as the state may essentially print necessary money. However, legal entities with deposits in failed banks are having much more trouble recovering them and each new failed bank undermines further confidence in banking system. State essentially promised to bail out eight largest banks. However, it allowed "Delta bank" which is fourth largest bank to fail, which may have unintended consequences for market confidence through impact on other banks. So, if another "system" bank fails meltdown may still come.

Then there is a huge problem of lending and NPLs. Under policy rate at 30% p.a. banks can invest depositor's money in 27% one-month CD and pay out 23% interest with little risk. So, there is little incentive to lend. As a result, if a bank has large NPL portfolio it may always need extra liquidity to cover gap between debt repayments and deposit payouts. Thus, even relatively safe working capital lending may suffer and riskier types of lending may be either doomed or require ridiculous lending rate to cover the risk.

In all the IMF is right to devote large section of Program with Ukraine to reform in banking sector as banking sector meltdown will cripple any reforms and banking sector bogged down in undercapitalization and NPLs will hamper our best chance for economic recovery. So, rehabilitation of banking sector should be very high on reform agenda.

Monthly Economic Monitor Ukraine

Politics: The IMF mission agreed to extend financing to Ukraine

The IMF. On March 11, the Executive Board of the International Monetary Fund (IMF) approved a four-year extended arrangement under the Extended Fund Facility (EFF) for Ukraine in the amount of SDR 12.348 bn (about USD 17.5 bn). This Program replaces the existing Stand-By Arrangement (SBA), under which Ukraine received SDR 3 bn (USD 4.7 bn) in loans from the IMF in 2014 (the total amount of financing under the SBA was expected at SDR 11 bn in 2014-2016).

In particular, on February 12, the IMF mission to Ukraine reached an agreement with Ukrainian authorities on an economic reform program, which is to be supported by the EFF. The program includes immediate measures to ensure macroeconomic and financial stability and gradual structural reforms aimed at improvement of business climate and attracting investment. In early March, the Government announced that Ukraine implemented all prior actions for obtaining the IMF financing (e.g. amendments to the State Budget Law and the Pension Law were passed and utility tariffs were increased).

The war in the East. On February 12, leaders of Ukraine, Russia, Germany and France agreed on a new peace plan to end the war in Donbas (the second Minsk plan). The plan made provision, in particular, for a withdrawal of heavy weapons from the front line by both parties to the conflict. However, it was only a week later that pro-Russian insurgents and Russian troops stopped the fierce offensive they launched in January. As a result of the offensive Ukrainian forces lost control over some areas near the city of Donetsk and the town of Debaltseve. In turn, Ukrainian troops advanced the front line near the city of Mariupol, thus improving its security. It is expected that heavy fighting may resume in nearest months because Russia tries to use the war as a tool to destabilize Ukraine and influence policies of Ukrainian government.

Real sector: The decline continues

Sectoral trends. The industrial output in January dropped by 21.3% yoy due to protracted military conflict in Donbas and weak demand.

The output in extractive iindustry decreased by 24.1% yoy. Production of coke oven product decreased by 51.9% yoy as large coke processing plant in Avdeevka stopped working.

The decline in manufacturing accelerated to 21.1%yoy. Metallurgy and chemical production dropped by18.9% and 21.6%, as logistic problems of companies in controlled areas worsened. Drop in machine-building production accelerated to 32.5% yoy due to low domestic and external demand. In particular, production of vehicles decreased by five times, while production of locomotives dropped by almost six times.

Food production (excluding tobacco and beverages) dropped by 10.8% yoy likely due to weaker domestic demand and lower exports to Russia. The positive influence of autonomous trade preferences by the EU could not sufficiently offset the negative impact of non-tariff barriers imposed by Russia.

Production and distribution of electricity dropped by 16.5% yoy due to warmer weather this January.

In January the drop in retail trade by enterprises reached 23.6% yoy. This reflects decline in purchasing power of population due to lower real disposable income.

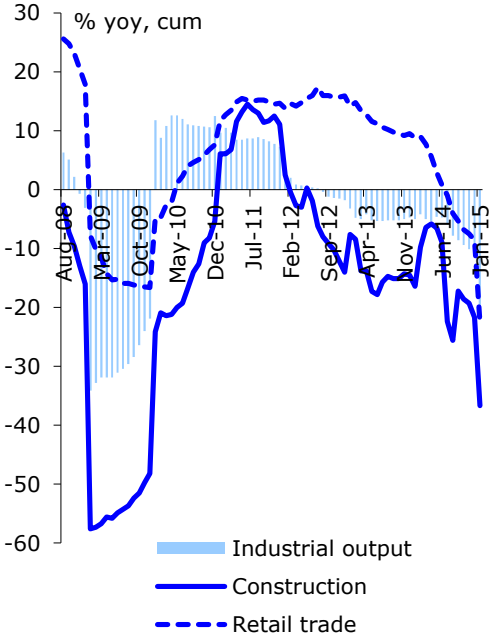
Construction dropped by 36.7% yoy due to military conflict, financial constraints faced by companies and low fiscal capital outlays.

Energy: Ukraine increases energy tariffs

Tariffs and prices. In March, the National Commission for State Energy and Public Utilities Regulation (NERC) increased the price of gas for industrial consumers by 56% from UAH 5700 to UAH 8900 per

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 sector trends



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

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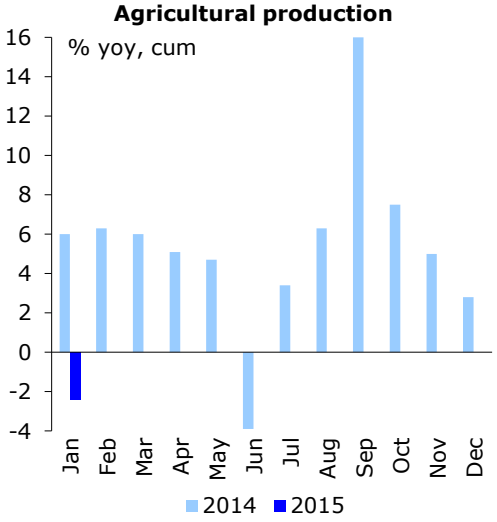
1000 cubic meters. The NERC increased the gas tariff for thermal energy producers twofold from April 1 from UAH 1309.20 per 1000 cubic meters to UAH 2994.30. At the same time, the tariff for thermal energy produced by these enterprises increased on average by 71.8% to UAH 537.2 per GCal depending on the producer. The NERC also increased gas tariffs for households from April 1 in 2-6 times depending on the consumption volume. The highest increase came for households using gas for cooking - it was raised by seven times.

The NERC also raised electricity tariffs from April 1 by 19% (to UAH 0.366 per kWt*h) for households using up to 100 kWt*h per month, by 104% (to UAH 0.63) for households using 100-150 kWt*h per month, by 50% (to UAH 0.63) for households using 150-600 kWt*h per month, by 3.3 times (to UAH 1.407) for households using 600-800 kWt*h per month and by 5% (to UAH 1.407) for households using more than 800 kWt*h per month. The tariffs will further increase in September 2015, March and September 2016 and March 2017. At the same time, the regulator decreased the coefficient for night electricity tariff from 0.7 of the regular tariff to 0.5. The night tariff can only be used by households with special meters.

Increase in energy tariffs will improve the financial situation of the Naftogaz and induce the energy consumers to adopt energy saving policies. Poor households are expected to be protected by the higher coverage of housing and utility subsidies.

Gas. In mid-February, the Naftogaz stopped gas supplies to the occupied territory in the East of Ukraine due to the damage of gas pipes. In turn, the Gasprom announced that it starts direct supplies of natural gas to this territory as a part of the general contract with the Naftogaz. The Ukrainian company refused to pay for the volume of gas supplied to the occupied territories directly and accused the Gasprom of not fulfilling the contract and not supplying the requested daily volumes of gas. The gas dispute resulted in new arrangement reached on March 2 that the Naftogaz will pay only for the gas supplied via gas stations agreed with the Ukrtransgas. This arrangement is expected to ease the concerns of the EU regarding gas transit to Europe and prevent disruption of gas supplies from Russia to Ukraine.

Agricultural production



Source: Ukrstat

Agricultural sector: Increased support to agriculture

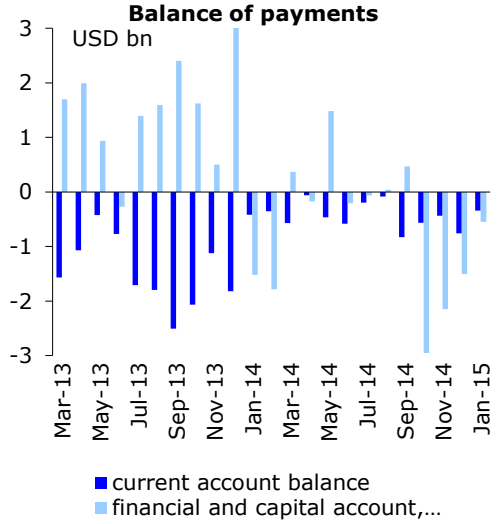
Production and sales. Gross agricultural production in January decreased by 2.4% yoy. In particular, meat production declined by 3.2% yoy and milk production fell by 2.1% yoy. Households' gross production decreased by 4.1% yoy, which is likely due to higher increase in prices for fuels and feed as compared to increase in prices for grown products. At the same time, production of enterprises decreased by only 0.7% yoy.

Despite economic difficulties, agricultural sales increased by 13.0% yoy. There was a considerable increase in the sales of export oriented cultures that gained from hryvnia devaluation. Specifically, sales of sunflower seeds surged by 120.6% yoy, sales of soybean increased by 38.1% yoy. On the other hand, sales of meat and milk, which are mostly consumed domestically, increased by only 2.7% yoy and 5.3% yoy, respectively.

Policy. Ukrainian Parliament approved amendments to the State Budget Law in the beginning of March. As a result, UAH 300 m was appropriated for compensating interest for bank loans provided to agricultural producers. This might positively impact agricultural producers - according to surveys, lack of financial resources is the main growth barrier for small and middle-sized producers. Moreover, significant capital from the agriculture sector has been transferred to foreign countries due to high political risks in Ukraine.

The governments of Canada and Israel provided a UAH 350 m grant to foster development of small and medium farms in Southern Ukraine. In 2015 one thousand farms are expected to participate in this project. They will receive grants for training, expert help and purchase of new machines. Such programs are valuable as small

Balance of payments



Source: NBU preliminary estimates

farmers are in a disadvantage in comparison to large agriculture enterprises in terms of access to finance and knowledge.

Fixed agricultural tax was reclassified as a subcategory of single tax. The criteria for fixed agricultural tax eligibility remained unchanged. The innovation will probably have no effect on producers, but will make the tax administration easier. Also, the maximum rates of land payments for arable land, hayfields and pastures was increased from 0.1% of normative value to 1.0% of normative vale. It is not yet clear, whether maximum rates will be actually used.

External sector: The deficit of financial account shrunk

Current account deficit in January shrunk to USD 0.3 bn due to lower merchandise trade deficit (USD 0.4 bn). Trade in services remained almost balanced at USD 0.1 bn.

Exports of goods decreased by 31.6% yoy due to stoppage of operation by some producers at occupied territories as well as restricted access to the Russian market. Minerals exports declined the most (by 56.9% yoy) because of lower overall production as well as reallocation to the domestic market. Exports of machinery contracted by 45.2% yoy as access to Russia, which is a key trading partner for these goods, remained restricted. Stoppage of operation of some companies in the occupied territories and logistic problems (including restricted access to raw materials) resulted in drop of exports of metals by 32.5% yoy and decline in chemicals exports by 25.3% yoy. Finally, exports of food products decreased by 15.8% yoy due to non-tariff measures imposed by Russia, impact of which was not fully compensated by autonomous trade preferences by the EU. Export of services contracted by 42.2% yoy because of high economic and political uncertainty.

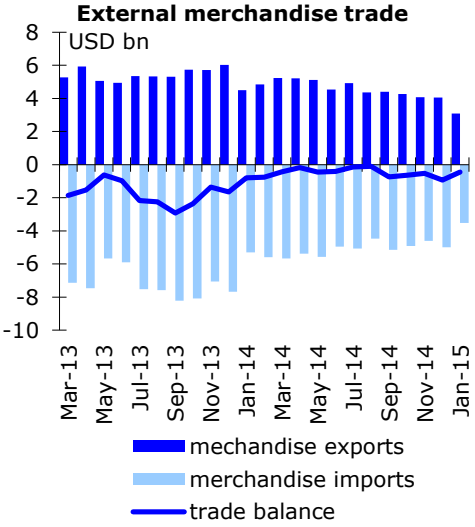
Imports of goods reduced by 33.4% yoy due to decline in purchasing power and imports substitution. Non-energy imports contracted by 59.1% yoy, including 61.8% yoy drop for food because of low consumer demand, as well as 63.3% drop for manufactured products. Contraction of minerals imports amounted to 21.4% yoy as renewed purchases of gas from Russia and reverse supplies from Europe were less than gas imports in January 2014. Imports of services decreased by 32.2%.

Financial and capital account deficit shrunk to USD 0.5 bn mainly due to positive balance of trade loans. In December a huge repayment by trade loans occurred, which created a significant downward pressure on financial account balance. In January, net FDI inflow amounted to USD 0.1 bn. Balance of bond and loan operations was in deficit of USD 0.7 bn. Banks and real sector has restricted access to external sector (deficit of USD 0.2 bn and USD 0.4 bn, respectively). The deficit of USD 0.1 bn was also reported for the Government sector. Finally, in January a net inflow of cash foreign currency to the banking system was observed (USD 0.1 bn) due to restrictions on foreign currency purchases and foreign currency loan repayments.

Fiscal policy: The State Budget Law amended as a prior action for the IMF Program

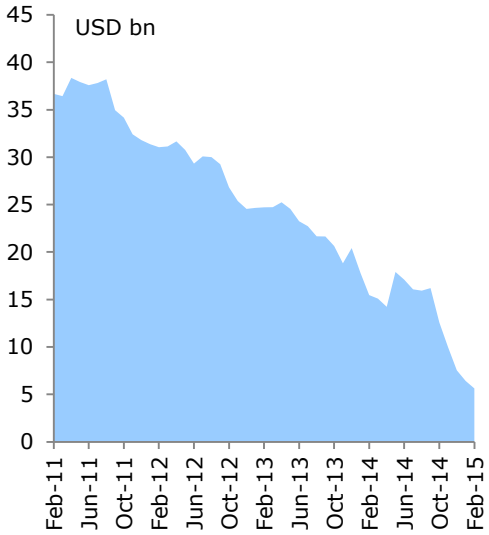
Amendments. The Parliament approved amendments to the State Budget Law for 2015 to take into account new macroeconomic assumptions and changes in tax and other laws. In particular, new fiscal indicators are based on exchange rate at UAH 21.7 per USD (before UAH 17 per USD) and real GDP decline at 5.5% (before 4.7%). Higher exchange rate and inflation are expected to generate larger fiscal revenues, but also require more financing for debt servicing. The Government also introduced additional surcharge to import tariffs at 10% for food and 5% for other goods in February (to be effective for 12 months). As a result, central fiscal revenues target was increased by 4.7% to UAH 498 bn. Such target looks optimistic if the Government does not succeed in fighting with tax fraud and tax minimisation. At the same time, the Government increased central fiscal deficit further (by AUAH 12.6 bn to UAH 76.3 bn), which is too optimistic. In particular, privatisation receipts at UAH 17 bn are

External merchandise trade



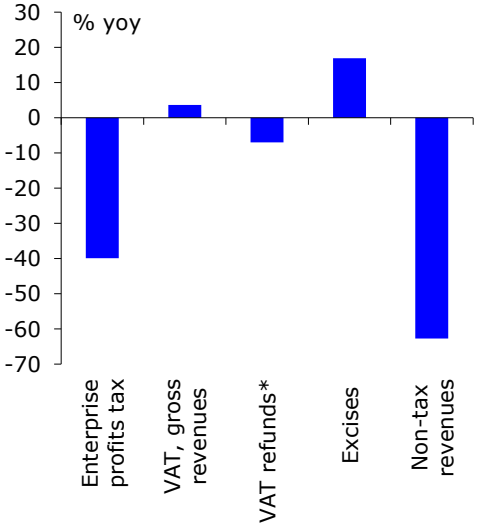
Source: NBU preliminary estimates

NBU international reserves



Source: NBU

Growth of Consolidated fiscal revenues in 2014



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

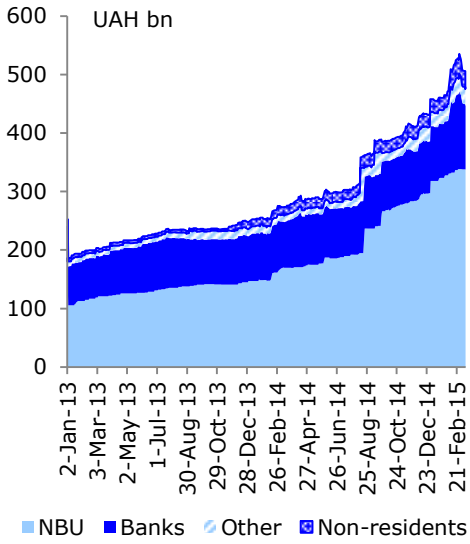
unlikely to be executed taking into account high economic and political uncertainty.

Budget Execution. In January central fiscal revenues declined by 11.7% yoy due to drop in non-tax revenues. In particular, the NBU did not transfer any profit to the State budget (as compared to UAH 4.0 bn in January 2014). At the same time, central tax revenues increased by 6.0% yoy due to legislative changes, inflation and hryvnia depreciation. In particular, PIT revenues increased by 3 times due to higher share of PIT due to central budget, higher rates on passive income and introduction of military fee. Hryvnia depreciation resulted in surge of collections of VAT and excise rates on imported goods by 29.1% yoy and 86.7% yoy, respectively. At the same time, lower domestic production and consumption resulted in decline of VAT on domestically produced goods by 12.0% yoy. Net VAT revenues were supported by lower VAT refunds (by 7.0% yoy), even though according to the official reporting VAT refund arrears are absent at the moment. Worsened financial situation of companies and likely lower advance payments resulted in drop of EPT revenues by drop of EPT revenues by 39.9% yoy.

Central fiscal revenues due to general fund were executed by only 62.7% of the target as non-tax revenues accounted for only 10.1% of the plan (due to absent transfer of NBU profit). Tax revenues were under-executed by 16.3% of target due to lower than planned revenues of all major taxes, except for VAT. Therefore, the Government might still be forced to sequester the budget later this year.

Higher than planned central fiscal deficit (at UAH 9.2 bn) was not sufficient to compensate for lower revenues. As a result, central fiscal expenditures (general fund) were by 10.5% lower than target. The highest execution rates was for social protection items (at 97.8%) and state administration functions (at 93.6%), and defence (at 82.8%). Other functions were executed largely by less than 80% of target.

Domestic government bond holdings



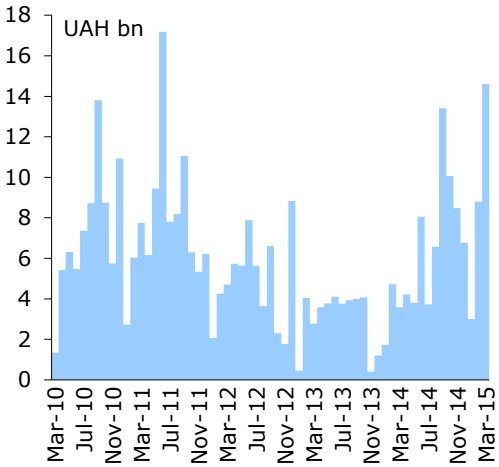
Source: NBU

Social policy: Further changes in pensions

Pensions. In early March the Parliament approved changes in pension provision, which were suggested by the Government with an attempt to reduce the deficit of the Pension Fund. In particular, the pensions paid to pensioners that continue working are to be reduced by 15% until they fully go to retirement. Moreover, pensioners to prosecutors, judges, people deputies and civil servants will not be paid if their continue working in these occupations. The early retirement schemes were also revised towards higher retirement age for a number occupations (miners, aircrafts, agriculture, etc.). Further steps in pension reform are expected in the nearest future. Such steps might include abolishment of special pensions as well as the introduction of accumulative pension scheme. While the first step is welcome, the latter should be postponed as it requires higher financial stability of the Pension fund and trust of people to the Government.

USC. The Parliament revised the criteria for eligibility of companies to pay lower unified social contribution (USC) as previous rules restricted most companies from this right. Under the scheme companies can pay the same social contributions, while increasing wages. In particular, the minimum USC at UAH 700 per month was abolished. Now minimal increase of average wage is 20% instead of 30%. The coefficient of discount of regular USC rate will depend now on difference between new level of wage and previous one. If companies increase wages by 150% or more social contribution is set at 40% of full rate. As a result, more companies are likely to start paying higher official wages with a respective reduction of wages paid informally. However, the impact still might be restricted by not very high credibility of the Government.

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Labour market: Further drop of real wages

Average wage in January grew by 9.1% yoy in nominal terms due to indexation of wages for inflation. Wage dropped by 17.3% yoy in real

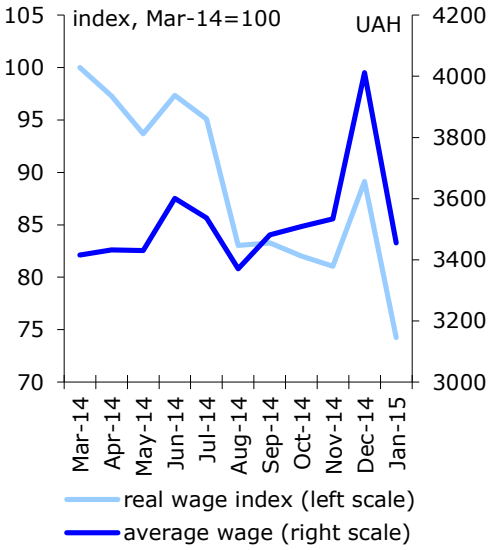
terms due to accelerated inflation and the introduction of military fee (as a surcharge to the PIT).

Increase in nominal average wage in industry at 8.5% yoy was one of the lowest across economy. For instance, wages in electrical equipment production increased by mere 3.8% yoy as a consequence of dependency on the foreign inputs. On the other hand, textile producers substantially increased wages (by 21.5% yoy) likely due to high domestic demand, which surged due to imports substitution.

Wages in information and telecommunication sector grew by 31.6% yoy as a result of large share of foreign currency profits in the sector. Average wage for professional, scientific and technical activities also increased by 21.4% yoy. It might be attributed to exports of services of private professional/technical firms. Wage in agriculture increased by 12.7% yoy as agricultural companies received higher export revenues in hryvnia equivalent. Wage growth in the sector was constrained by necessity to pay more in hryvnia for fuel and imported fertilizers.

Fiscal consolidation measures continued to put a downward pressure on wage growth in public sector. Particularly, nominal average wage increased by 1.7% yoy in public administration and defence, by 2.9% yoy in education and by 4.1% yoy in health care.

Average wage*

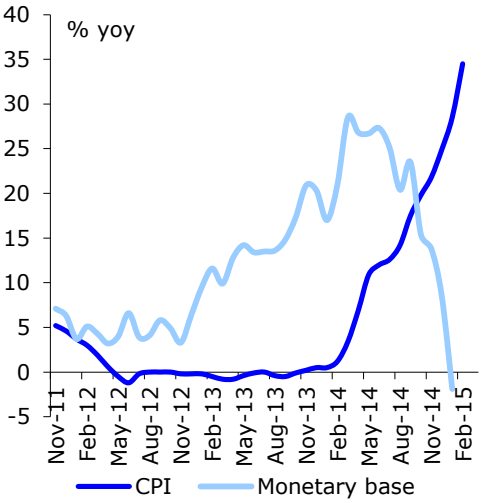


*not including AR Crimea
Source: Ukrstat

Monetary policy: Inflation reached 34.5% yoy in February

In February, consumer inflation reached 34.5% yoy as month-to-month consumer inflation reached 5.3%, the highest level since 1996. This reflected extreme volatility in the exchange rate of hryvnia vs. US dollar as grey market rate increased from over UAH 20 per USD in the beginning of the month to about UAH 33 per USD on February 26. Price increases for imported goods or goods that could be exported (e.g bread, sunflower oil) were predictably larger. Prices for cars and fuel grew by 34% mom and 20% mom respectively, while price increase for fruit reached 17% mom. However, reported price increases for most goods were in single digits. This was the case even for mostly imported household appliances, and exportable sugar and sunflower oil (although prices grew by 9-10%). At the same time, the Ukrstat reported modest price increases for milk, meat and clothing (at 1-2% mom). Relatively low impact of sharp hryvnia depreciation (by about a third through the month) may reflect lags in decision-making and reporting as well as very limited purchasing power of households. Lagged effect of hryvnia depreciation and huge utility tariff hikes planned for April mean that we can expect high price increases for at least two following months.

CPI and monetary base development



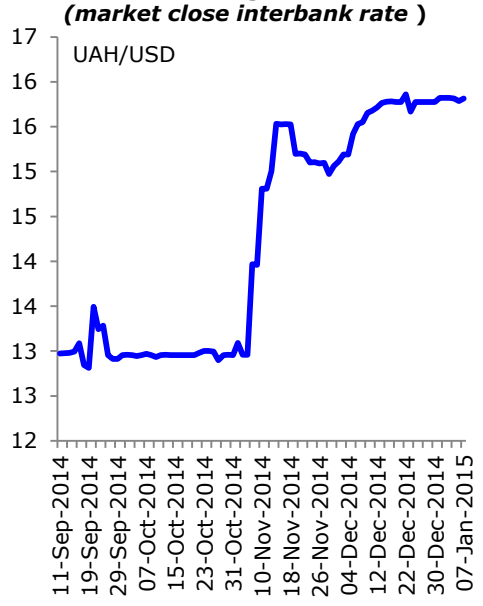
Source: Ukrstat, NBU

In the beginning of March the NBU sharply increased policy rate to 30% p.a. and accordingly raised interest rates on Certificates of deposits. This along with automatic increase in reserve requirements is expected to limit free bank liquidity and help support the exchange rate.

Exchange rate: Effort to move to market pricing

In February, the NBU announced its intention to allow banks to conclude deals in foreign exchange market at market-clearing price that would match demand with supply and remove unofficial commissions for sellers of foreign currency. Previously banks were required to settle their deals at rate close to UAH 16 per USD, but they had to induce exporters to supply dollars with commissions or other incentives. The NBU likely hoped that "formal" exchange rate would move to the level observed on "grey" and black market deals and liquidity of the "formal" market would increase. Unfortunately, this move was perceived as a sign of further weakness of hryvnia and even news of agreement with the IMF and a ceasefire in Donbas were insufficient to rally the hryvnia. Seasonal drop in grain exports and unfavourable conditions for steel exports lowered market liquidity and supply of foreign currency. This along with panic and speculations dropped floor from hryvnia exchange rate.

Exchange rate
(market close interbank rate)



Source: Tullett Prebon

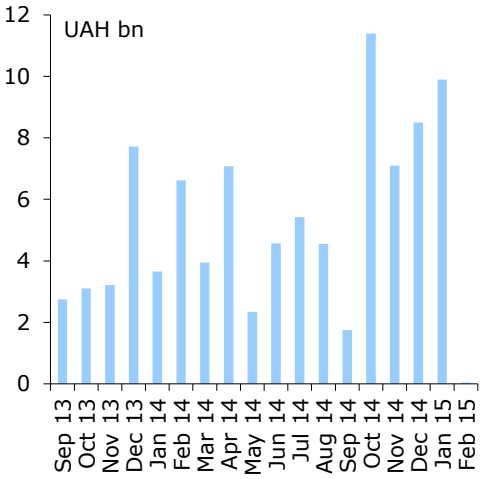
As a result, "formal" exchange rate and "grey" exchange rate equalized at around UAH 25-26 per USD in a few days after February, 6 and continued weakening until "formal" and "grey" market rate exceeded UAH 30 per USD in the end of the month. In response, the NBU introduced harsh administrative measures that restricted advance payments for imports to those secured with investment-grade letter of credit and put all foreign currency purchases under the NBU scrutiny. Later all purchasers of foreign currency were required to provide certificate of no tax indebtedness and to prove they do not have any foreign currency on bank account that could be used for external payment before they were allowed to purchase foreign currency. Practical effect of these measures was to exclude most of the demand from the market for several days, while companies were still required to sell 75% of all FX receipts. The NBU purchased extra foreign currency and guided exchange rate to gradually return to "fundamental" level of UAH 22 per USD. However it is unclear if the NBU will be able to keep the exchange rate at this level when importers return to the market.

State debt: The Government recapitalised the Naftogaz

Domestic debt. In February, the Ministry of Finance placed only UAH 42.7 m of two-year bonds with weighted average yield at 16.7% due to low demand. At the same time, the Ministry of Finance issued USD 298 m of short-term USD-denominated bonds with yields at 8.8% p.a., which was sufficient to serve FX debt this months (including regular coupon at USD 59.6 m and repayment of FX state bonds at USD 219 m).

In February the Government provided the Deposit Guarantee Fund with a special issue of state domestic bonds at UAH 5 bn and recapitalised the Naftogaz at the account of state domestic bonds at UAH 10 bn.

State domestic bonds placements in UAH (without recapitalisation)



Source: NBU

Tables

Economic Trends		Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Feb	Mar	Apr[c]	May[c]	Jun[c]	Jul[c]	Aug[c]	Sep[c]	Oct[c]	Nov[c]	Dec[c]	Jan[c]	Feb[c]
Industrial production (real)	% yoy cum.	-1.2	-1.8	-5.0	-5.3	-5.2	-4.7	-5.0	-4.7	-5.8	-4.2	-5.0	-5.3	-4.6	-4.7	-5.8	-7.8	-8.6	-9.4	-10.1	-10.7	-21.3	...
Construction (real)	% yoy cum.	-9.1	-14	-13.8	-17.8	-15.1	-14.5	-6.4	-8.9	-22	-9.8	-6.4	-5.8	-6.5	-8.9	-22.4	-4.0	-17.2	-18.6	-19.3	-21.7	-36.7	...
Agricultural production (real)	% yoy cum.	-4.6	-4.5	5.8	15.4	3.0	13.7	6.0	-3.9	3.4	6.3	6.0	5.0	4.7	-3.9	3.4	6.3	16.0	7.5	5.0	2.8	-2.4	...
Retail trade turnover (real)	% yoy cum.	16.0	15.9	13.4	11.2	9.8	9.5	7.7	0.8	-1	9.0	7.7	5.6	2.9	0.8	-1.0	-4.0	-5.3	-6.8	-7.5	-8.6	-22.6	...
Average wage	UAH	3064	3195	3085	3289	3331	3390	3245	3488	3463	3189	3398	3432	3430	3601	3537	3370	3481	3509	3534	4012	3455	...
CPI	% yoy eop	0.0	-0.2	-0.8	-0.1	-0.5	0.5	3.4	12.0	12.6	1.2	3.4	6.9	10.9	12.0	12.6	14.2	17.5	19.8	21.8	24.9	28.5	34.5
PPI	% yoy eop	0.3	0.3	0.2	-1.6	-0.9	1.7	3.9	15.9	22.5	3.3	3.9	6.1	8.8	15.9	22.5	24.2	26.9	25.9	32.8	31.8	34.1	41.0
Exports (USD)*	% yoy cum.	2.6	1.0	-4.7	-7.1	-6.2	-5.2	-7.7	-6.5	-13.9	-10.0	-6.8	-8.3	-6.4	-6.7	-6.8	-8.2	-9.1	-10.8	-12.6	-14.4	-31.6	...
Imports (USD)*	% yoy cum.	7.6	5.6	-0.8	-8.3	-4.1	-3.4	-14.7	-18.6	-38.5	-13.6	-16.1	-19.9	-17.3	-17.3	-19.5	-22.4	-24.8	-26.3	-26.7	-27.4	-33.4	...
Merchandise trade balance	USD bn cum.	-14.8	-20.5	-4.0	-7.1	-14.2	-19.6	-1.9	-0.6	-0.6	-1.5	-1.9	-2.0	-2.2	-2.5	-2.7	-3.0	-3.6	-4.2	-5.1	-6.1	-0.4	...
Current account**	USD bn cum.	-10.0	-14.4	-3.1	-5.5	-11.4	-16.4	-1.3	-0.6	-1.0	-0.8	-1.3	-1.2	-1.5	-1.9	-2.3	-2.7	-3.3	-4.0	-4.5	-5.2	-0.3	...
Gross international reserves	USD bn eop	29.3	24.5	24.7	23.2	21.6	20.4	15.1	17.1	16.4	15.5	15.1	14.2	17.9	17.1	16.1	15.9	16.4	12.6	10.0	7.5	6.4	5.6
Monetary Base	% yoy eop	5.8	6.4	9.9	13.4	14.8	20.3	28.5	25.1	23.5	21.0	28.5	26.8	26.7	27.3	25.1	20.4	23.5	15.4	13.8	8.5	-1.9	...
Lending rate on UAH credits	% pa, aop	19.6	20.8	16.2	15.4	15.3	16.5	18.5	17.5	16.4	20.3	20.0	17.5	17.9	17.2	16.1	16.8	16.2	16.3	16.7	16.9	17.2	...
Exchange rate (interbank)	USD aop	8.10	8.15	8.12	8.14	8.15	8.21	9.1	11.71	12.6	9.08	9.98	11.61	11.78	11.79	11.74	12.98	13.01	12.93	14.75	15.63	15.94	24.77
Exchange rate (official)	USD aop	7.99	7.99	7.99	7.99	7.99	7.99	8.9	12.71	12.6	8.65	9.92	11.64	11.64	11.81	11.76	12.95	13.02	12.95	14.70	15.62	15.81	24.48
Exchange rate (official)	EUR aop	9.99	10.37	10.55	10.44	10.58	10.87	12.14	13.71	16.67	11.80	13.69	16.08	16.00	16.04	15.93	17.25	16.83	16.43	18.36	19.26	18.53	27.78

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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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	40.1
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
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
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
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
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
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

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

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

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	Q2 14[c]	Q3 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	313.0	372.7	428.2
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	-1.1	-4.6	-5.3
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	5.7	-2.3	-13.2
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	-9.1	6.9	-0.8
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	-19.1	-18.5	-29.9
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	-2.0	-7.4	-19.3
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	-7.0	-11.3	-32.2
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	6.0	-8.8	25.9
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	-6.8	-8.4	-15.2
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	-3.9	-16.9	-26.1
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	3.1	-9.1	-17.8
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	-5.8	-6.1	-7.1
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	-1.3	-0.6	-1.0
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	-3.8	-2.1	-2.9
Trade balance in goods	USD m	-1407	-1236	-697	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-4045	-3053	-7232	-5268	-1949	-567	-585
Trade balance in services	USD m	550	930	1115	1262	1514	2007	1312	1299	1362	1975	1084	822	893	1919	480	589	142	-325
Current transfers	USD m	722	608	728	1039	878	988	803	683	805	777	711	533	589	480	547	232	472	284
Direct investment (FDI)	USD m	1282	923	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-713	-292	606
Portfolio investments (equity)	USD m	41	-20	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-239	-53	-77
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
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
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
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	30.1	29.2
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
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
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	8.1
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
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	35.7	35.6	32.2
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	35.2	34.6	30.5
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
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	-5.5	-3.3
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
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	-10.9
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	1.9	-1.9	…
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	8.8	8.2	…
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
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	23.8
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
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
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
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
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
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
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
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

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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