Monthly Economic Monitor Ukraine

No.2 (172), February 2015

EXECUTIVE SUMMARY

HIGHLIGHT: STATE DEBT

Politics: In January, Ukraine requested the IMF for an financial support, supported by the Extended Fund Facility (EFF), to replace the existing Stand-By Arrangement (SBA).

Real Sector: The industrial output in December contracted by 17.9% yoy due to military conflict in Donetsk and Luhansk oblasts.

Energy sector: The Cabinet of Ministers cancelled the possibility of selling oil of Ukrainian origin at oil auctions in Ukraine with a 15% discount from the world price.

Agriculture: Gross crop harvest in 2014 increased by 2.4% to 63.8 m t.

External sector: Current account deficit in December expanded to USD 0.7 bn mainly due to wider merchandise trade deficit.

Fiscal policy: Underfinanced capital fiscal outlays may undermine Ukraine's economic recovery and medium-term growth prospects.

Social policy: In December 2014, the number of families that received housing and utility subsidies increased by only 3.5% yoy despite sharp increase in housing and utility tariffs and much smaller growth of household income.

Labour market: In December 2014, average wage dropped by 13.6% yoy in real terms due to accelerated inflation and the introduction of military fee.

Monetary policy: In January, consumer inflation reached 28.5% yoy.

Exchange rate: In January, exchange rate paid by importers and consumers for foreign currency operations increasingly diverged from exchange rate recorded at "official" interbank market

State debt: In January, the Government repaid the regular coupon at USD 120 m of Eurobonds maturing in 2017.

Highlight of the month: State debt

STAT DEBT: CAN THE GOVERNMENT AVOID DEFAULT?

by Oleksandra Betliy, Vitaliy Kravchuk

Fiscal vulnerability in Ukraine was growing over recent years. The Government pursued unsustainable increases in social standards, and maintained fixed prices for gas, electricity and heating leading increasingly large energy subsidies. This resulted in high recurrent expenditures, which are difficult to cut during economic recession. The Government also raised short-term funding and had to refinance large part of the debt each year. As a result, during recession the Government faces low revenues against growing expenditures and large refinancing needs.

In the beginning of February foreign currency reserves (excluding gold) were down to USD 5.4 bn. At the same time, Ukraine needs about USD 7.3 bn to service foreign currency government debt over remaining 11 months of 2015 (including USD 1.2 bn in interest) and further USD 6 bn to service debt in 2016. From this, Eurobonds account for USD 4.5 bn and USD 2.3 bn, respectively. Ukraine will also have to serve domestic bonds denominated in foreign currency and repay the IMF loan received under old SBA. The NBU is also currently providing gas monopoly "Naftogaz" with funds for gas imports. Gas bill over 11 months of the year may total over USD 5 bn. Moreover, the NBU may need to provide foreign currency to help Ukreximbank repay USD 750 m Eurobond in April. Without international assistance the Government may have enough funds to avoid default in 2015 in narrow sense: i.e. to pay interest on Eurobonds and to cover maturing Eurobonds. This would allow the Government to avoid triggering cross-default clauses in bond contracts. But reserves are not sufficient to pay domestic debt nominated in foreign currency and to support gas purchases. Ukraine may also try legal manoeuvres to avoid paying Russia on USD 3 bn Eurobonds until Ukraine's claims to Russia are decided. This would still mean minimal reserves or no reserves at year-end unless the NBU purchases large part of foreign currency supply in the country (e.g. through administrative measures). Thus, without loans from the IMF and other international creditors default or restructuring of the external government debt would be necessary.

During recent years low demand at domestic capital market and restricted (rather absent) access to international capital market made Ukrainian governments to rely on printing money in the indirect way. In particular, the Government extensively "recapitalised" state-owned banks and companies (primarily the Naftogaz) by providing them with special issues of state domestic bonds (with long maturity and below-market coupons). The government debt was then monetised by the NBU, which now owns 65% of state domestic bonds. Moreover, the Government raised funding domestically in foreign currency to bring down yields, which made debt and fiscal position even more vulnerable to exchange rate risks. Overall, in the end of 2014 state debt is estimated to reach near 72% of GDP as compared to near 12% in 2007. However, the Government debt outside of public sector (i.e excluding NBU holdings) was lower at 51.3% of GDP.

Thus, negotiations with international partners are crucial to ensure orderly situation with external payments in 2015. It seems that negotiations with Eurobonds holders on restructuring bonds maturing in 2015-2016 are part of conditionality of economic assistance package led by IMF. The restructuring is binding on other holders, if two thirds of holders of particular Eurobond agree (the major holder is likely to be American investment fund Franklin Templeton with holdings at near USD 7 bn from all Eurobonds outstanding). As the sole holder only Russia can agree on restructuring of its Eurobond issue on its own. However, as part of restructuring talks with other holders Russian-held Eurobond can be excluded from cross-default clauses on other Eurobonds. In this case default on Russian Eurobond will not lead to claims on other securities. This possibility may induce Russia to participate in restructuring. At the same time, Russia may claim the default in Ukraine's promise to maintain its debt below 60% of GDP and demand early repayment of the bond before December 2015 when it is due. This may happen if Russia would be willing to reduce its chances to get its money back for political gain. Overall, restructuring supported by international assistance program will likely be perceived by bondholders as providing better value than other options. Thus, restructuring may be a success. In this case, debt service costs may reduce and larger part of loans from the IMF and other creditors could be used for other purposes than repaying old debts and paying for energy imports.

The main part of any international assistance program would be IMF loan. To this end, the Government requested a multi-year arrangement with the IMF, supported by the Extended Fund Facility (EFF), to replace the existing Stand-By Arrangement (SBA).[1] According to the IMF press-release new arrangement will include support immediate macroeconomic stabilization measures as well as broad and deep economic reforms over several years to ensure economic and financial stability and restore sustainable growth.

To receive new arrangement the Government will likely have to revise the budget and tax laws (as the current version of the budget looks overoptimistic on revenues and weak hryvnia will increase Naftogaz's deficit). Gas tariffs for population and heating generating companies are likely to be increased sharply above levels of previously approved schedule to ensure reduction in energy subsidies. Other energy market reforms are also likely to be conducted. Further steps to reduce the deficit of the Pension Fund may also be required: the Government might agree on gradual increase in retirement age (this would not provide immediate impact, but would contain growth of future pension liabilities). The EFF is also expected to be conditioned on structural reforms in many areas such as rule of law, fight on corruption and possibly infrastructure, education, healthcare and others. Other donors, such as World Bank, the US, the EU, will likely also include conditions on their lending. Thus, Ukraine's government will receive strong external anchor to conduct reforms. However, the largest issue is an ability of current government to move from promises to real change in economy and state machine.

[1] The EFF is aimed to help countries with medium and longer term BoP problems. It has a duration of 3-4 years (as compared to 1-2 years for the SBA) and repayment is due within 4.5-10 years from the date of disbursement (3.5-5 years for the SBA).

Monthly Economic Monitor Ukraine

Politics: New negotiations with the IMF

The IMF. In January, Ukraine requested the IMF for a financial support, supported by the Extended Fund Facility (EFF), to replace the existing Stand-By Arrangement (SBA). The requested amount of financing was not revealed. Ukrainian authorities discussed a new arrangement with an IMF mission, which worked in Kyiv since January 12, but as of February 10 the negotiations were not completed. The most difficult issues are fiscal consolidation and energy tariffs. The amount of financing under the current two-year SBA is SDR 11 bn (USD 16.7 bn). In 2014, Ukraine received two disbursements of the loan at SDR 3 bn. The next tranche was postponed.

East. Heavy fighting resumed in Donbas in mid-January. Pro-Russian insurgents and Russian troops launched a large-scale offensive against Ukrainian forces. However, the success of the offensive was very limited as insurgents were able to seize only a few villages after three weeks of fierce battles. The number of casualties increased substantially, especially among civilians. According to the United Nations, the conservative estimate of the total death toll from the conflict reached 5,338 on February 3 (it was 4,771 on December 24). The outbreak of hostilities, which ended the four-week lull, had no explicit reasons. It happened after a suspension of negotiation on Ukraine between Russia and the Western powers. The outbreak increased uncertainty over the development of the conflict. It may be asserted that Russia uses the war as a tool to destabilize Ukraine and influence policies of Ukrainian government. But the large-scale invasion into Ukraine also cannot be excluded.

Real sector: The economy suffers from military conflict

Industrial output in December contracted by 17.9% yoy due to military conflict in Donbas (according to official statistics companies that stopped reporting to Ukrstat (e.g. in the conflict zone) are assumed to have stopped working). Output in extractive industry decreased by 29.1% yoy (in 2012 extractive industry accounted for 67% of the gross regional product in Luhansk oblast and 15% in Donetsk oblast). Production of coke and lignite decreased by 57.3% yoy.

Manufacturing declined by 14.1% yoy due to military conflict in the East and low demand. The output in metallurgy decreased by 16.1% yoy, while the manufacture of chemicals dropped by 12.4% yoy as some companies in the occupied territory stopped their operation. Besides, companies in these industries faced logistic problems. Machine-building production dropped by 24.8% yoy. In particular, production of vehicles halved due to low domestic demand against the background of decreased purchasing power of population. Absent demand from Russia resulted in decline in production of locomotives by three times. Food production (excluding tobacco and beverages) dropped by 3.4% yoy likely due to lower exports to Russia, which imposed non-tariff barriers. Performance of food sector was supported by autonomous trade preferences by the EU.

Production and distribution of electricity and gas dropped by 11.1% yoy partly due to the applying of the "rolling blackouts" system.

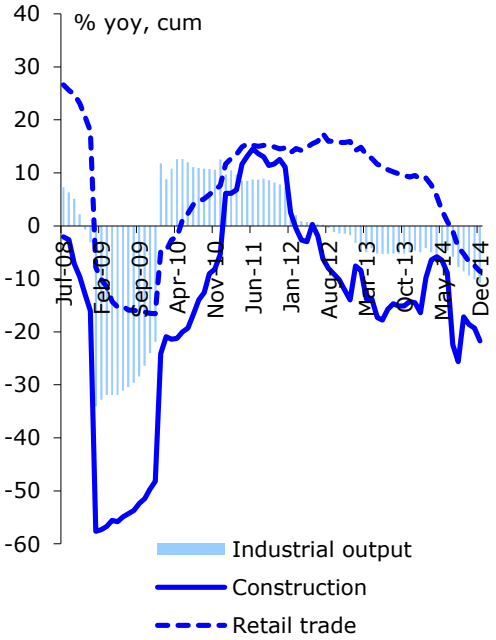
In 2014 2014 retail trade by enterprises dropped by 8.6% yoy, which reflects decline in real private final consumption. In particular, purchasing power of population declined due to lower real disposable income.

Construction in December declined by 39.8% yoy due to military conflict in the Eastern Ukraine, financial constraints faced by companies and low fiscal capital outlays.

Agricultural production in December dropped by 23.7% yoy due to the high statistical base. The production of meat and eggs contracted by 4.3% yoy as some capacities producing eggs and poultry are located on occupied territory in the East. Still, in 2014 agricultural production grew by 2.8% mainly due to good sugar beets' and crop harvest.

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

Institute for Economic Research
and Policy Consulting
Reytarska 8/5-A, 01034 Kyiv
Fax (+38044) 278-6336
E-mail: institute@ier.kiev.ua
http://www.ier.com.ua

Energy: The Government decreases tariffs for renewables and cancels oil discount

Electricity. The National Commission for State Energy and Public Utilities Regulation (NCEPUR) decreased the electricity tariffs paid to renewable energy producers: by 20% for solar energy producers with electricity generating capacities in operation since March 31, 2013; and by 10% for other renewable energy producers. The new tariffs came into force on January 31, 2015 and will be used for the period of the state of emergency in the energy sector. The emergency measures in energy sector were first introduced in August 2014 and had been constantly prolonged. The last prolongation came on January 14, 2015 and will last till February 26 if not prolonged further. Emergency measures include changing electricity tariffs, setting additional payments, introducing electricity consumption limits etc. This renewables tariff decrease will drive solar energy tariffs closer to European levels and might slightly decrease the share of non-balancing capacities in electric energy generation of Ukraine thus improving the stability of the energy system.

Oil. The Cabinet of Ministers cancelled the possibility of selling oil of Ukrainian origin at oil auctions in Ukraine with a 15% discount from the world price. However, the first oil auction set for January 31 under the new rules with the announced starting price of UAH 6357.51 per ton was blocked by Ukrnafta, Ukrainian oil company with 50%+1 state share. This move can be explained by the unwillingness of Privat Group, which is simultaneously a *de facto* manager of Ukrnafta and its main consumer, to buy oil at higher prices. The Government tries to lessen Privat Group's control over Ukrnafta but so far with little success.

Agricultural sector: Another good year

2014. In 2014 harvested area of cereal and leguminous crops (not including Crimea) decreased by 4.6%, while average yield increased by 7.4%. As a result, gross crop harvest increased by 2.4% to 63.8 m t. The most significant yield increase was in barley and oats (by 25.4% yoy and 27.4% yoy, respectively) as a result of good weather, more extensive usage of fertilizers and agri technologies. However, gross harvest of sunflower seed decreased by 7.7% yoy as a consequence of 11.4% yoy decrease in yield due to soil exhaustion.

According to the Ministry of Agriculture, as of February 5, 2015 grain exports in the first half of marketing year 2014/2015 reached to about 21.9 m t, including 8.7 m t of wheat and 9.2 m t of corn. Amount of export is comparable with the first half of 2013/2014 marketing year when 24 m t of cereals was exported.

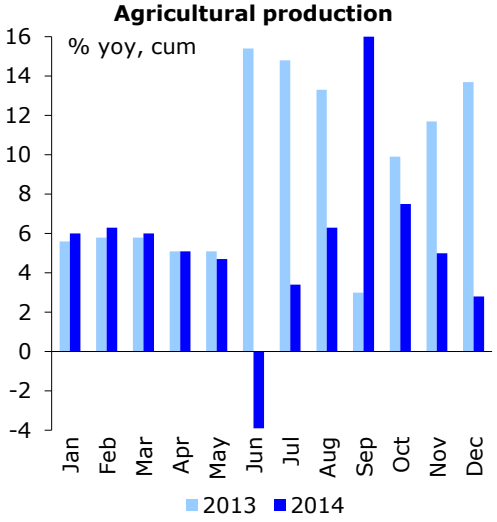
State aid. State Budget Law for 2015 allocates almost no direct support to agriculture (except for financing of the Agrarian Fund). This, however, will not substantially affect sector due to traditional low efficiency of state aid. At the same time, indirect state aid in the form of tax privileges, which is the most significant form of government support of the agriculture, is likely to remain intact until January 1, 2018.

External sector: Balance of payments was in deficit in 2014

2014. Current account deficit in 2014 reduced to USD 5.2 bn mainly due to shrink of merchandise trade deficit to USD 6.1 bn. Such improvement of trade balance is explained by reduction of imports at a faster pace comparing to exports. Trade in services remained in surplus, which amounted to USD 0.6 bn.

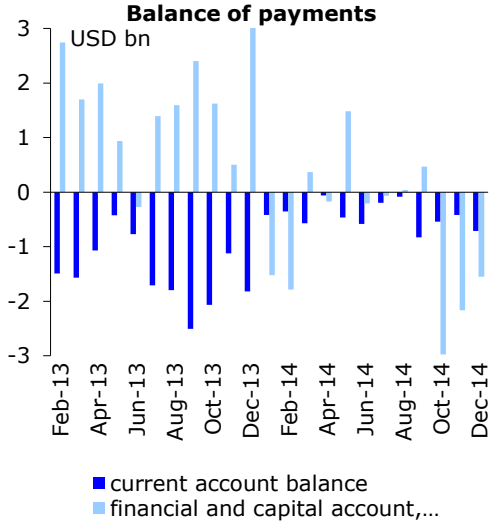
Exports of goods decreased by 14.4% in 2014. Downward pressure on exports was made by military conflict, which complicated access to mineral raw materials and resulted in stoppage of some enterprises, as well as trade tensions with Russia resulting in imports bans for a number of Ukrainian goods. However, hryvnia depreciation and domestic inflation, which improved real terms of trade of Ukrainian exports, as well as autonomous trade preferences by the EU supported exports. The major drop occurred for machinery (by

Agricultural production



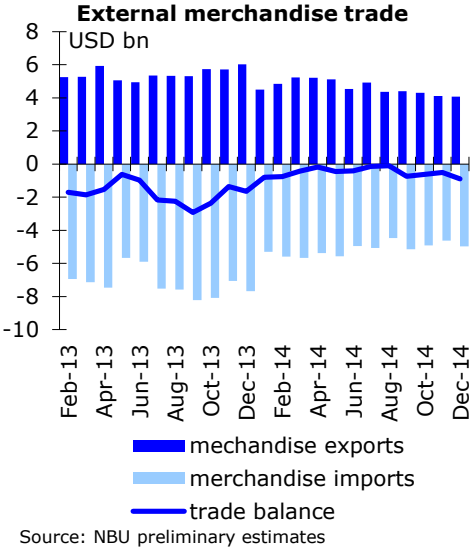
Source: Ukrstat

Balance of payments



Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

29.2%), which suffered from trade tensions with Russia, as well as military conflict (some important producers are located at the occupied territories). Exports of chemical produce resulted by 26.1% as some companies in occupied territories stopped they operation, while other faced restricted access to natural gas. Exports of minerals reduced by 19.1% as producers faced logistic problems due to lower production on occupied territory and reallocation to the domestic market. Reduction of metals exports by 13.2% is explained by lower prices at international markets and restricted access of Ukrainian producers to raw materials from the Donbas. At the same time, food exports declined by only 2.0% as exports was supported by high grain harvest and autonomous trade preferences by the EU, which compensated negative effect of trade bans by Russia. Exports of services decreased by 35.7% because of lower inflow of tourists (because of political instability), as well as less exports of transport services (due to lower economic activity and trade tensions with Russia).

Imports of goods decreased by 27.4% in 2014 due to lower purchasing power and worse financial results of companies, which depressed consumer and investment demand. Hryvnia depreciation resulted in imports substitutions. Delayed investments resulted in lower imports of machinery (by 38.0%), metals (by 33.4%) and chemicals (by 20.2%). At the same time, imports substitution resulted in lower imports of food (by 26.1%) and industrial goods (by 28.6%). Finally, imports of minerals decreased by 28.2% due to tensions with Russia regarding natural gas and substitution of Russian gas. Imports of services decreased by 22.5% due to lower both economic activity and purchasing power.

Balance of financial and capital account turned to negative in 2014 at USD 8.1 bn. Inflow of FDI shrunk to USD 0.4 bn due to lower confidence of foreign investors because of political and economic instability. Access of banks and real sector to external financing was restricted. As a result, both of them had a negative balance of loan and bond operations at USD 1.4 bn and USD 3.8 bn, respectively. Finally, hryvnia depreciation and negative expectations regarding further developments of exchange rate resulted in outflow of foreign cash currency from banking system at USD 2.6 bn (still, it did not exceed the level of 2013). On the other hand, financial support of official donors and credits of international organizations to Ukrainian government resulted in positive balance of loan and bond operations of public sector at USD 3.2 bn.

Overall, balance of payments was negative at USD 13.3 bn.

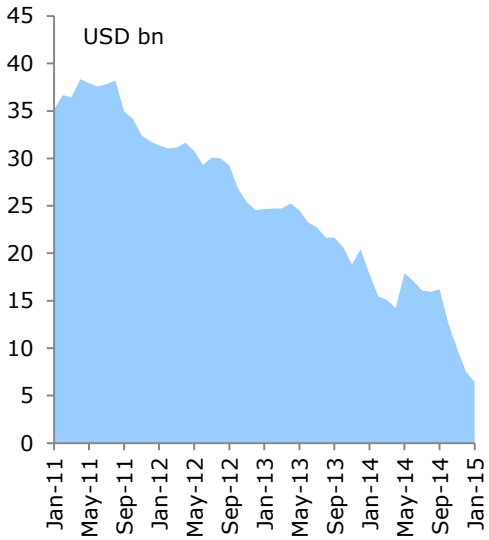
December 2014. Current account deficit in December expanded to USD 0.7 bn mainly due to wider merchandise trade deficit (USD 0.9 bn). Exports of goods decreased by 32.4% yoy as production capacities were limited due to continuing military conflict as well as access to the Russian market remained restricted. Lower world prices on grain contributed to decline in food exports by 20.6% yoy . Imports of goods reduced by 35.3% yoy due to lower domestic demand and imports substitution caused by sharp hryvnia depreciation and decline in real disposable income. Trade of services was balanced at USD 0.1 bn.

Financial and capital account deficit shrunk to USD 1.6 bn due to higher inflow of FDI and financing of public sector. Net inflow of FDI to Ukrainian economy in December was the highest during 2014 and reached USD 0.4 bn.

Fiscal policy: Low capital outlays undermine future growth

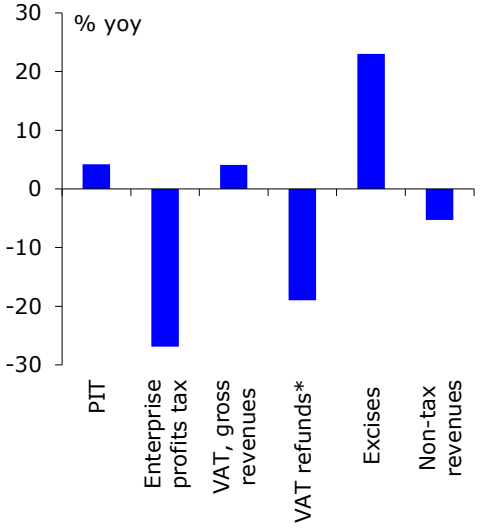
Consolidated fiscal revenues in 2014 grew by 4.5% (without taking into account VAT refunds covered by special issue of state domestic bonds) in nominal terms. Adjusted for inflation they dropped by 7.3% due Crimea annexation and war in the East of Ukraine despite repeated increases in tax rates. In particular, tax revenues grew by 5.8%. Hryvnia depreciation led to higher share of imports in consumption, which resulted in larger collection of VAT and excise

NBU international reserves



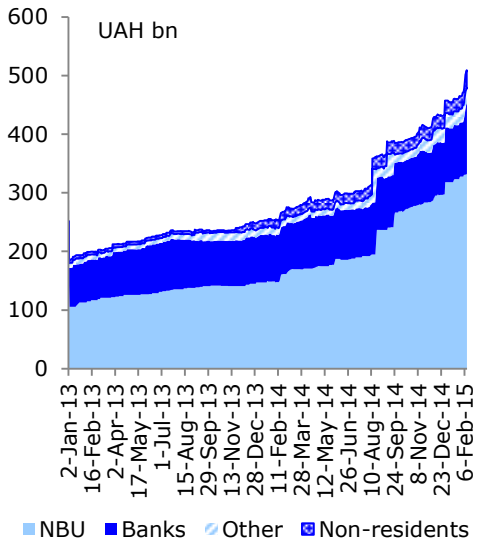
Source: NBU

Growth of Consolidated fiscal revenues in 2014



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

Domestic government bond holdings



Source: NBU

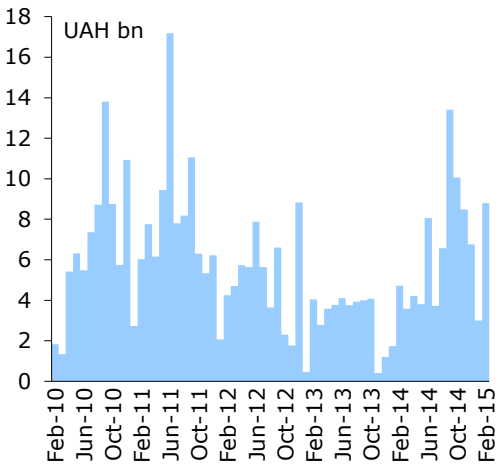
duties from imported goods. Reduction in VAT refund supported net VAT revenues. Tax increases were focused in of excise duties and rent payments and resulted in higher revenues. Overall, excise and VAT revenues increased by 23.0% and 13.8%, respectively. At the same time, PIT revenues increased by 4.2% despite sharp drop in number of taxpayers (number of employees dropped by 17% yoy in December) due to tax increases and slight increase in nominal wages. EPT revenues declined by 26.9% due to worse financial results of companies.

At the same time, non-tax revenues declined by 5.3%. In particular, transfer of the NBU profits to the budget dropped by 19.4%. Difficult economic situation as well as absence of lower flow of revenues from occupied territories resulted in decline of own revenues of budget entities (due to the special fund) by 16.7%. Overall, Consolidated fiscal revenues were by 6.6% lower than target due to optimistic plan of revenues from tax changes introduced in August 2014.

Consolidated fiscal deficit at UAH 72.0 bn was by 32.7% lower than target. In particular, privatisation receipts were executed only at 2.7% of planned UAH 17.0 bn due to cancelled privatisation against the background of high economic and political uncertainty.

Lower than planned financing resulted in under-execution of Consolidated fiscal expenditures by 11.3% of target (still, expenditures increased by 3.4%). As security spending and nondiscretionary social spending items were financed close to the target sharp cuts in discretionary spending were needed. Capital spending was one of the worst affected (with 50% cut) and will likely remain underfinanced in 2015 and 2016. This may undermine Ukraine's economic recovery and medium-term growth prospects.

Balance of the Single Treasury Account

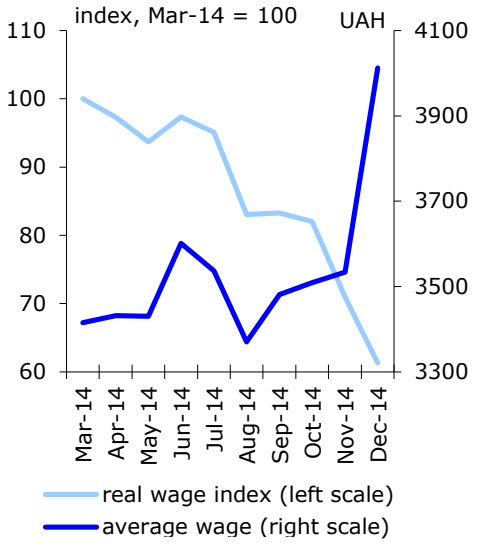


* in the beginning of month
Source: State Treasury

Social policy: Increased housing and utility subsidies

In December 2014 the number of families that received housing and utility subsidies increased by only 3.5% yoy (not taking into account Autonomous Republic of Crimea, Donetsk and Luhansk oblasts). This happened despite sharp increase in housing and utility tariffs (by 34.3% yoy in December) and much smaller growth of household income. However, subsidy per family did increase in response to higher tariffs on average by 60.9% yoy to UAH 335.3. 67% of families that received subsidies have only one member. Slow growth of number of recipients may reflect changes in subsidy rules and reduced eligibility of relatively better-off families (with incomes over two minimum wages). The coverage of this program is expected to increase in 2015 due to new hikes in tariffs and slow growth in nominal income. At the same time, the program suffers from comparatively large leakage to non-poor households.

Average wage*



*not including AR Crimea
Source: Ukrstat

Labour market: Real wage swoops down

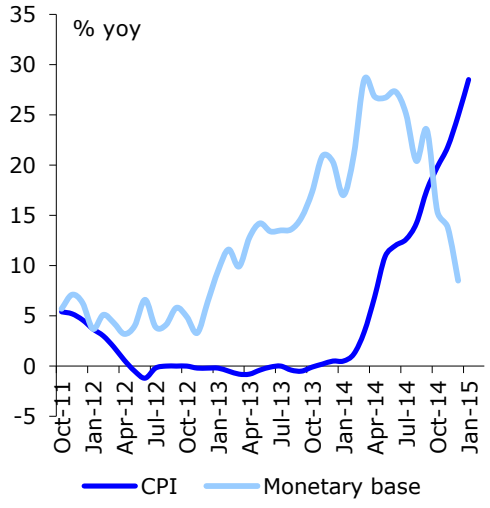
Average wage in December grew by 10.4% yoy in nominal terms due to indexation of wages for inflation. Nominal wages grew by 13.5% mom, which is similar to usual wage increase this month as employers in all sectors were able to pay bonuses to their employees despite financial constraints. Still, wage dropped by 13.6% yoy in real terms due to accelerated inflation and the introduction of military fee (as an additional subcharge to the PIT).

Average wage in industry grew by 11.8% yoy in nominal terms. Most significantly average nominal wage increased in pharmaceutical sector (by 19.5% yoy) as the sector likely benefited from imports substitution against the background of hryvnia depreciation. Textile industry raised wages by 33.9% yoy as the sector's performance was favored by stable domestic and external demand.

Volatility of exchange rate and restricted financing options of future operations likely constrained increase in wages in agriculture (by 10.4% yoy).

Fiscal consolidation measures continued to put a downward pressure on wage growth in public sector. Nominal average wage increased by 4.0% yoy in public administration and defence, by 5.2% yoy in education and 3.1% yoy in health care.

CPI and monetary base development



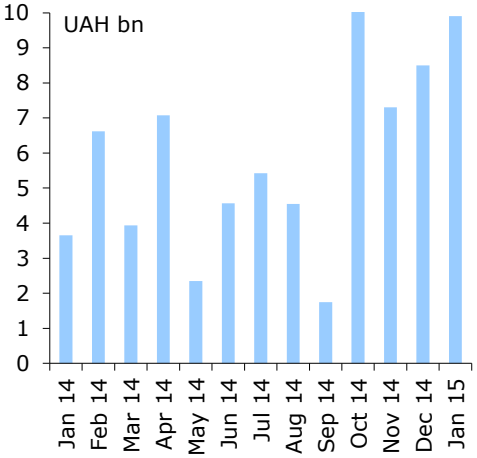
Source: Ukrstat, NBU

Monetary policy: Inflation reached 28.5% yoy in January

In January, consumer inflation reached 28.5% yoy. Month-to-month core inflation remained over 2.5% (35% in annualized terms) for four out of five last months. Continued weakening of hryvnia and resulting high inflation expectations led to broad-based increase in prices for food and non-food items by 2-3% mom. As in previous months, higher than average increase in prices was observed for goods with less elastic demand and higher share of imports, e.g. fruit, rice, gas, cars, pharmaceuticals. At the same time, price increases are more modest for goods with more elastic demand and lower imports share.

In January new reserve requirements for banks took effect. The NBU eliminated long-standing preferences for national currency funding and holdings of foreign currency government bonds by banks. As a result, single reserve requirement was introduced at 3% for most bank liabilities and at 6.5% for demand deposits. This lowered reserve requirements for foreign currency liabilities but reintroduced reserve requirements for national currency deposits (previously zero). 50% of cash holdings are now counted towards reserve requirements and compliance is now counted over 30-day periods as long as 40% of the total is available daily. This should eliminate some distortions in bank balance sheets and reduce influence of exchange rate changes on amount of required reserves.

State domestic bonds placement denominated in UAH*

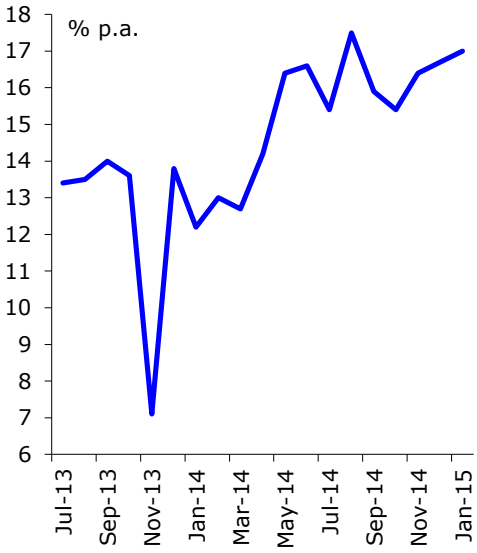


Source: NBU
*without recapitalisation

Exchange rate: Multiple exchange rates continued

In January, depreciation expectations remained and exchange rate paid by importers and consumers for foreign currency operations increasingly diverged from exchange rate recorded at "official" interbank market. For example, banks set exchange rate for payment card operations at close to UAH 20 per USD, while interbank rate remained at UAH 16 per USD due to the NBU pressure on banks. Prolonged negotiations with the IMF, low level of international reserves, and intensification of military conflict in the Eastern Ukraine reduced confidence in the national currency. NBU international reserves in January dropped further to USD 6.4 bn as the NBU used reserves to service foreign currency government debt and to supply "Naftogaz" with dollars to pay for imported gas.

Weighted average yield for domestic state bonds



Source: NBU

State debt: The Government continued to borrow domestically

Domestic debt. In January, the Ministry of Finance placed UAH 9.9 bn of hryvnia denominated bonds with weighted average yield at 17.0% compared to UAH 8.5 bn at 16.7% in December, 2014. The Government placed short-term bonds (with the maturity of 3-4 months). It is likely to be explained by expected international assistance with lower yields. In particular, the Government requested the IMF to approve an EFF program. The assistance is also expected from the EU and other official donors. New borrowings only partially covered the debt payments scheduled for January (near UAH 12.7 bn according to the State Treasury). In particular, the Government repaid the regular coupon at USD 120 m of Eurobonds maturing in 2017.

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]
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	…
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	…
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	…
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	…
Average wage	UAH	3064	3195	3085	3289	3331	3390	3245	3488	3463	3189	3398	3432	3430	3601	3537	3370	3481	3509	3534	4012	…
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
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
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	…
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	…
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	…
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	…
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
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	…
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	…
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
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
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

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

Contact information:

Institute for Economic Research
and Policy Consulting
Reytarska St. 8/5-A, 01030 Kyiv
Tel. (+38044) 278-6342
Fax (+38044) 278-6336
E-mail: institute@ier.kiev.ua
http://www.ier.com.ua

Head of the Board-Director

Igor Burakovsky
burakovsky@ier.kiev.ua

Chief Executive

Oksana Kuziakiv
kuziakiv@ier.kiev.ua

Academic Director

Veronika Movchan
movchan@ier.kiev.ua

Centre for Economic Studies

Oleksandra Betliy
betliy@ier.kiev.ua

Vitaliy Kravchuk
Kravchyk@ier.kiev.ua

Iryna Kosse
kosse@ier.kiev.ua

Kateryna Furmanets
furmanets@ier.kiev.ua

Artur Kovalchuk
kovalchuk@ier.kiev.ua

Dmytro Naumenko
naumenko@ier.kiev.ua

Mykola Ryzhenkov
ryzhenkov@ier.kiev.ua

Kostiantyn Kravchuk
k.kravchuk@ier.kiev.ua

Oleksa Stepaniuk
stepaniuk@ier.kiev.ua

Victor Grechyn
grechyn@ier.kiev.ua

Center for Contemporary Society Studies

Iryna Fedets
fedets@ier.kiev.ua

Hanna Opanasenko
opanasenko@ier.keiv.ua

Tetiana Oliinyk
oliinyk@ier.kiev.ua

German-Ukrainian Agricultural Policy Dialogue

Yuliya Ogarenko
ogarenko@ier.kiev.ua

Mariya Yaroshko
yaroshko@apd-ukraine.de

Disclaimer

The Monthly Economic Monitor of Ukraine has been prepared by the Institute for Economic Research and Policy Consulting for informational purposes only. All judgments in this report reflect authors' point of view as of date publication, and can be changed without notice. Although we used our best efforts in preparing this publication, we make no guarantees as to its accurateness. The IER does not take any responsibility for any losses or other problems that directly or indirectly resulted from the use of any part of this publication. Reproduction without prior permission is prohibited; when quoting please cite Institute for Economic Research and Policy Consulting.