Monthly Economic Monitor Ukraine

No.11 (169), November 2014

EXECUTIVE SUMMARY

HIGHLIGHT: GAS DEAL

Politics: On October 26, Ukrainians elected a new Verkhovna Rada, in which a majority of seats went to parties that support European integration of Ukraine. New coalition government is to be formed. It is expected to generally continue the policies of the current one.

Real Sector: According to the 'flash' estimate of Ukrstat real GDP declined by 5.1% yoy in the third quarter of 2014.

Energy sector: The Government continues measures to stimulate energy saving.

Agriculture: Ukrainian government and business in Ukraine are rather optimistic about perspectives of exports of dairy products to the EU market starting the second half of 2015.

External sector: Current account deficit in September widened to USD 0.6 bn. Both merchandise and services trade balances were in deficits.

Fiscal policy: The Government will not be able to execute fiscal indicators in 2014.

Social policy: In November, the Government decided to formally suspend pension payouts for residents of occupied area in Donbas, even though pensions will be accrued.

Labour market: Average wage in September grew by 6.3% yoy in nominal terms due to higher minimum wage as well as wage indexation for inflation.

Monetary policy: In October consumer inflation reached 19.8% yoy as wide-based prices increases continued.

Exchange rate: In October most foreign exchange deals on the interbank market were concluded at exchange rate close to UAH 13 per USD in response to sales of foreign currency by the NBU, informal pressure and administrative restrictions.

State debt: The Government nearly completed planned issue of VAT-bonds for 2014.

Highlight of the month: Gas deal

HOW WILL UKRAINE SURVIVE THE WINTER?

By Iryna Kosse

Ukraine and Russia have been negotiating the gas deal since April of 2014 after Russia increased the gas price from USD 268.5 to USD 485 for 1000 cubic meters. The parties could not reach the deal because Russia insisted on Ukraine paying its debts for gas consumed in 2013 and for the gas consumed in the second quarter of 2014 at the new price while Ukraine disagreed with the price and with the price-setting mechanism (i.e. a USD 100 export tariff discount not as a change in contract). Ukraine wanted to change the formula for the price of gas and to be independent of the whims of the Russian government. From May till June the parties held nine rounds of negotiations which proved to be unsuccessful. Talks intensified later as Russia completely stopped gas flows on June 16, 2014. The Naftogaz filed a complaint to the Stockholm Arbitrage court requesting a change in the gas contract with the Gasprom. With winter approaching the parties resumed the negotiations with the European Union serving as an intermediary.

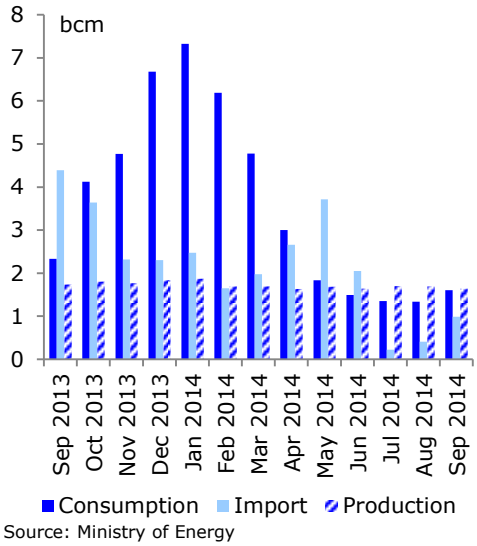
On the last day of October 2014, Ukraine signed an agreement with Russia under intermediation of the EU on gas supplies, which hopefully ended the longest in the history of Ukraine-Russia relations confrontation on natural gas supplies. The parties signed three documents:

- the binding intergovernmental protocol on the conditions of Russian gas supplies from November 2014 till March 31, 2015 signed by the Minister of Energy of Russia Aleksander Novak, the Minister of Energy of Ukraine Yuriy Prodan and the European Commissioner for Energy in the European Commission Gunter Oettinger. The Protocol sets basic conditions for restructuring the gas debt of Ukraine and for resuming the gas supplies starting November 2014. By the end of 2014, Ukraine agreed to pay USD 3.1 bn of debt for the gas consumed in November-December 2013 and the first quarter of 2014. The payment will be done in two tranches. The first tranche of USD 1.45 bn was paid by the Naftogaz on November 5.
- a technical amendment #33 to the gas contract of January 19, 2009 between the Gasprom and the Naftogaz signed by Aleksander Miller and Andriy Kobolev, which describes the details of daily supplies.
- and a letter by Jose Manuel Barroso, the President of the European Commission, to Petro Poroshenko, the President of Ukraine. The letter gives guarantees on behalf of the European Union to help Ukraine financially in case Russia does not follow its obligation on the gas price as well as the readiness of the European Commission to facilitate reverse gas flows from the EU countries to Ukraine.

According to the reached agreement the Naftogaz will be able to buy gas from the Gasprom at a price of USD 378 per 1000 cubic meters on the condition of advance payments and without the "take or pay" clause. The Naftogaz expects to buy 4 bcm of gas this year which will cost around USD 1.52 bn. Besides, it might purchase 4 bcm of gas thanks to reverse supplies from the EU. Will that amount of gas be enough for the winter?

In winter 2013/14[1], Ukraine's gas consumption was 29.8 bcm of gas. Gas imports in winter of 2013/14 were 20 bcm and gas extraction was 8.9 bcm, and the rest of consumption was covered by the gas in storages accumulated in previous months. According to estimates[2], in case of no gas imports from Russia, no reduction in gas consumption, full usage of Hungarian and Polish routes and 50% usage of the Slovakian route[3] Ukraine will run out of gas by the end of January 2015. With additional 4 bcm of gas purchased from all suppliers in 2014 Ukraine will run out of gas by the beginning of March. The current consumption trend for the first week of November (when the heating season started) shows that Ukraine decreased consumption of gas by around 10%. If this trend continues, Ukraine might have enough gas for the winter even without additional purchases from Russia in 2015.

Gas balance



Source: Ministry of Energy

Ukraine reserved USD 3.1 bn for paying off the gas debt and was given permission by the IMF to use international reserves for gas payments. Rough estimates show that Ukraine will need USD 2-2.5 bn to pay for 4 bcm of gas from Russia and for the current level of gas supplies from Hungary, Poland and Slovakia (taking into account Russia's payments for gas transit). The National Bank reserves are sufficient to cover this amount even if the combined third and fourth tranches from IMF are delayed.

Therefore, the signed deal on gas supplies from Russia allows Ukraine to be fairly optimistic about its energy future: Ukraine will have enough gas to last it for the winter and enough money to pay for it.

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[1] November through March
[2] Georg Zachman "Can Ukraine secure enough gas for the winter? A scenario analysis", GAG, August 2014. TN/05/2014
[3] From October 2014 to February 2015, 35% of the capacity of the Slovakian route is sold as "interruptible", while 65% is sold as "firm".

Monthly Economic Monitor Ukraine

Politics: Parliamentary election marks Ukraine's strategic shift towards Europe

The Parliament. On October 26, Ukrainians elected a new Verkhovna Rada, in which a majority of seats went to parties that support European integration of Ukraine. On the whole, five major pro-European parties gained 288 seats in the Verkhovna Rada, which is 64% of the total number of seats as provided by the Constitution. Specifically, Petro Poroshenko Bloc, the Presidential party, won 29.3% of the seats, and the People's Front party, led by Prime Minister Arseniy Yatsenyuk, got 18.2%. The Samopomich party, the Radical party and the Batkivshchyna party gained 7.3%, 4.9%, and 4.2%, respectively. Most of the other seats were won by independent candidates, while the Opposition bloc, a pro-Russian party led by former high ranking members of the Party of Regions, got only 6.4% of the seats. For the first time since 1994 the Communist party will not be represented in the Parliament. The five pro-European parties started negotiations on forming a coalition government as required by the Constitution. It may be expected that a new government will generally continue the policies of the current one.

The election marked a radical change in Ukraine's electoral landscape. As a result of Russia's annexation of the Crimean peninsula and occupation of a part of the Donbas region, a large number of pro-Russian voters were deprived of the opportunity to participate in Ukraine's election. In addition, the Russian aggression changed sentiments of a number of voters in the other regions of Ukraine in favour of pro-European parties. Although a number of independent MP's may be seen as allies of the Opposition Bloc, those changes preclude the participation of a pro-Russian parliamentary group in forming a government in the foreseeable future. The emergence of the new electoral landscape may be irrevocable, at least until Ukraine regains control over the Crimea and the Donbas. On the other hand, the changes increase the probability of a new large-scale Russian aggression against Ukraine as Russia, which tries to bring Ukraine into its sphere of influence, cannot expect an appointment of a pro-Russian government in Ukraine.

The war in the East. In October, the low intensity military conflict continued in Donetsk and Luhansk regions (together referred to as the Donbas) in the East of Ukraine. Pro-Russian insurgents, strongly backed by Russia, and Russian troops kept on shelling and attacking Ukrainian troops in several places, which resulted in a few hundred casualties among Ukrainian servicemen and civilians, but the front line remained almost unchanged. The incessant attacks indicated an actual failure of the peace process based on the Minsk protocol on a permanent ceasefire dated September 5. The failure became more evident after leaders of the insurgents tried to legalize their power in the region through the election that was held on November 2 (and which de-facto looked like an imitation of an election). The outlook is unclear, but the conflict does not appear to end in the nearest months. The most likely scenarios include continuation of a low intensity military conflict, and its transformation into a large-scale war between Russia and Ukraine.

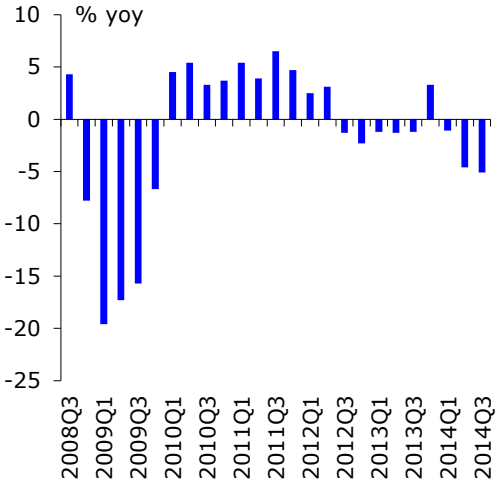
Real sector: Economic downturn continues

GDP. According to the 'flash' estimate of Ukrstat real GDP declined by 5.1% yoy in the third quarter of 2014. On the demand side, real consumption and investments contributed negatively to economic growth, while real net exports had likely positive contribution. On the production side, real gross value added likely increased in agriculture and some services sectors.

Sectoral trends. In September the contraction of industrial output decelerated to 16.6% yoy from 21.4% yoy in August. The sharpest decline in industrial output was in Donetsk and Luhansk oblasts, where many companies were forced to stop operation due to military

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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conflict. At the same time, contraction in output in other oblasts was much milder (on average at near 3% yoy).

The extraction of coke and lignite contacted by 57.4% yoy as some mines terminated their operation due to military conflict. At the same time, contraction in manufacturing in September decelerated to 11% yoy from 19% yoy in August due to earlier processing of sugar beets into sugar. Moreover, in September as compared to August some industries that are oriented at domestic demand (e.g. textiles, pharmaceuticals, food industry, and electrical equipment) increased their output likely due to imports substitution and low statistical base. Still, the output declined by 28.3% yoy in metallurgy and by 22.8% yoy in machine building.

In September retail trade by enterprises dropped by 10.9% yoy, which reflects decline in real private final consumption.

The drop in construction continued (at 30.3% yoy in September). It is explained by military conflict in Eastern Ukraine and financial constraint faced by companies.

Agricultural production in September increased significantly by 46.9% yoy primarily due to low statistical base. In particular, rains in September 2013 disrupted harvesting. Besides, yields of most crops increased as compared to last year.

Energy. Ukraine looks for gas and coal

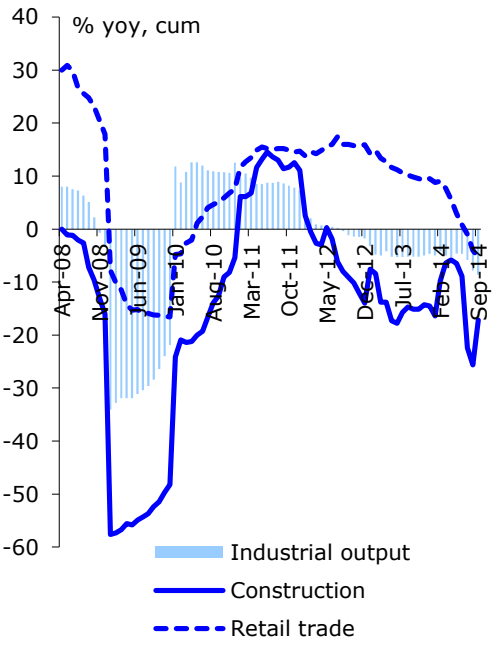
Gas. In January-September, gas consumption in Ukraine decreased by 16.6% yoy to 28.9 bcm due to economic downturn as well as energy saving. To further decrease gas consumption in the country on a more permanent basis the Cabinet of Ministers adopted the Action plan till 2017. First, it prohibited producers of mineral fertilisers to use gas from the underground storage facilities as well as gas extracted in Ukraine from October 1 till the end of the heating period 2014/2015 or if this decision is cancelled. Second, it allowed the local governments to use some of the transfers on modernisation of heating equipment and gas substitution measures. Third, UAH 50 m was allocated for the compensations to the population for purchases of electric and hard fuel boilers. Fourth, gas consumption limits for chemical plants and other enterprises were established.

Since November 1, Ukraine uses a new methodology for gas transit tariffs ("input/output" method) where the company ordering gas transportation has to pay a separate tariff at each point of entering and exiting the gas transportation system of Ukraine. However, the new rules will have no effect on the Gasprom as the current payments are done according to its contract from 2009 with the Naftogaz. In mid-October, the Naftogaz filed another lawsuit against the Gasprom concerning the renegotiation of the gas transit agreement. The Naftogaz asks to eliminate or change the inactive clauses of the contract and change the contract party from the Naftogaz to the Ukrtransgaz.

Coal and electricity. The Secretariat of the Energy Community opened a case against Ukraine concerning the local component requirement in the Law "On electric energy". The Secretariat considers the requirement discriminatory and a violation of the Directive 2009/28/EC and of the Article 7 of the Energy Community Agreement. Ukraine has two months to react to the announcement.

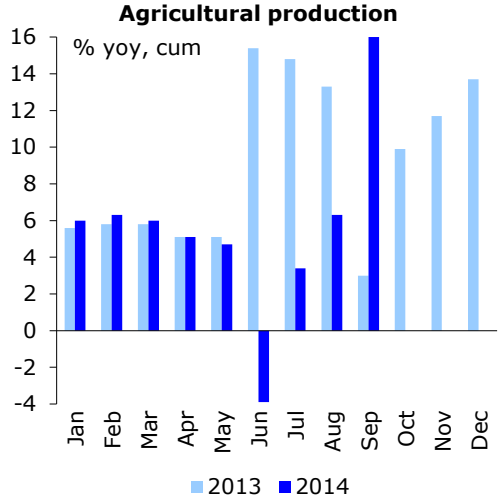
The Cabinet of Ministers prolonged for another month extraordinary measures on the electricity market. The extraordinary situation on the market emerged due to the lack of coal used at thermal power plants (TPP). According to the Energy Minister, private and state energy producers have contracted 5.6 m tons of imported coal till the end of 2014. To aid the energy companies in paying for this coal the National Commission for State Energy and Public Utilities Regulation (NCEPUR) decreased the electricity tariff for nuclear power plants by 6.8% to UAH 0.2826 per kWt/h and allowed to spend the money designated for TPP modernisation on fuel purchases among other measures. The NCEPUR estimates that these measures are equivalent to the financial support of UAH 650 m which can be used for coal purchases.

Real sector trends



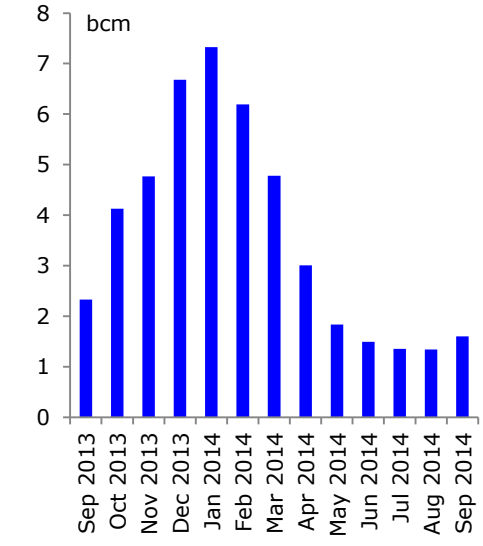
Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Agricultural production



Source: Ukrstat

Gas consumption



Source: Ministry of Energy

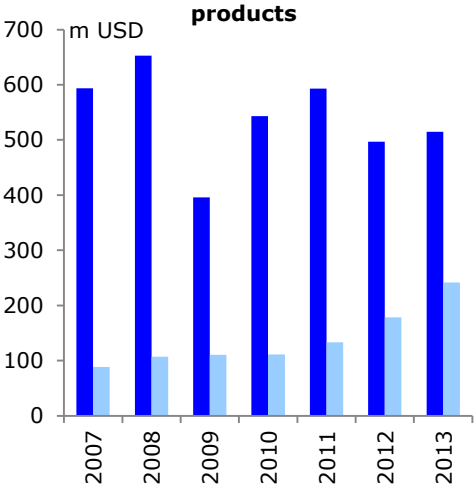
Agricultural sector: Favourable outlook for the Ukrainian dairy products at the EU market

Autonomous trade preferences introduced by the EU in April envision tariff quotas for dairy products. However, exports of these products (particularly, yogurts and dairy spreads) have not yet started because Ukrainian producers first have to prove compliance with the EU food quality and safety standards.

In October, the Commission of the Food and Veterinary Office (FVO) of the EU Directorate General for Health and Consumer Protection inspected readiness of Ukrainian dairy producers to export to the EU. The Commission revealed certain deficiencies, which are to be corrected for producers to comply with the EU standards. Then, FVO's representatives will start consultations with national bodies of the EU member states regarding the decision whether dairy processing units in Ukraine could be included in the EU registry. Civil servants and business in Ukraine are rather optimistic about perspectives of exports of dairy products to the EU market starting the second half of 2015.

The EU dairy market is already saturated and highly competitive. Thus, it will be quite hard for the Ukrainian producers to enter and obtain considerable share for the market. However, acquisition of a number in the EU register (as a verification of compliance with the EU quality and safety standards) is also important to increase Ukrainian exports to other markets.

Export and import of dairy products



Source: http://comtrade.un.org

External sector: current account deficit widened

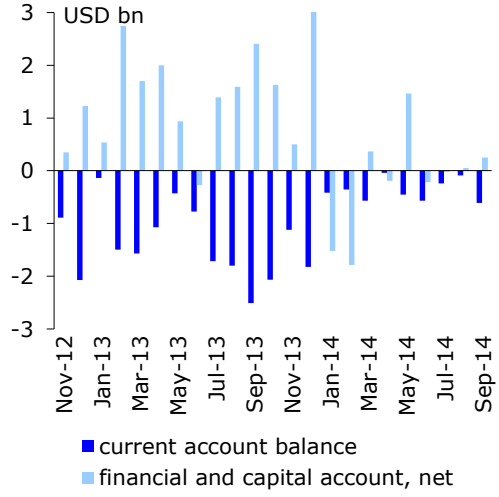
Current account deficit in September widened to USD 0.6 bn. Merchandise trade deficit reached USD 0.5 bn, reflecting seasonal increase in imports and continued difficulties in steel exports. Services trade balance remained negative at USD 0.1 bn due to lower travel and transport services exports.

Exports of goods declined by 16.5% yoy reflecting disruptions in production due to military conflict in Donbas and further trade tensions with Russia. Exports of machinery declined the most (by 36% yoy) due to destruction of some production facilities, low demand from Russia and trade disruptions on the Eastern border. Exports of minerals drop (by 34.5% yoy) occurred because of lower shipments of ore and coal. Fewer shipments of metals (by 28.9% yoy) were contributed by shortage of raw materials and decrease in Black Sea export capacity as wells as other logistical disruptions. It should be noted that production capacity of working steel mills is sufficient for exports at previous year's levels. Food products was the only group that demonstrated increase in exports (by 8.3% yoy) due to record harvest of grains, in particular wheat, and positive effect of autonomous trade preferences by the EU on trade of meat, fats and oils.

Imports of goods declined by 40.0% yoy while non-energy imports dropped by 31.0% yoy. This reflected sharp drop in investment and consumer demand as well as imports substitution. At the same time, imports of consumer goods as well as machinery and equipment increased in September as compared to August (In total, imports excluding mineral goods increased by 10% mom). This means that, despite deep recession that continues in Ukraine, a seasonal pickup in demand occurred in September.

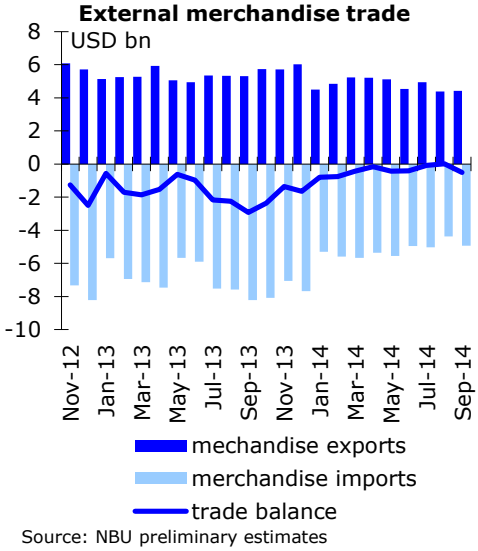
Financial and capital account was in surplus at USD 0.3 bn. Net FDI inflow remained positive for the fourth consecutive month, but still lower than in previous years. This may reflect inflows from offshore arms of Ukrainian business groups or emergency injections of capital from foreign owners. As a result, in September net FDI inflow was reported at USD 0.2 bn. Outflow of foreign cash from banking system remained stable at USD 0.2 bn. Ukrainian banks and real sector companies weren't able to refinance external debts. However, the net balance of loans and bonds operations of the government was positive as it received funds from World Bank, as well as Canada and Japan.

Balance of payments



Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

Fiscal policy: Fiscal indicators will not be executed fully in 2014

Note: The *State Treasury reported on-going settlement of VAT refund arrears with government bonds as cash refund of VAT. In our opinion this is incorrect (it is more properly accounted for as reduction in payables) and we adjusted data from Treasury reports to exclude the effect of VAT refund arrears settlement on budget revenues.*

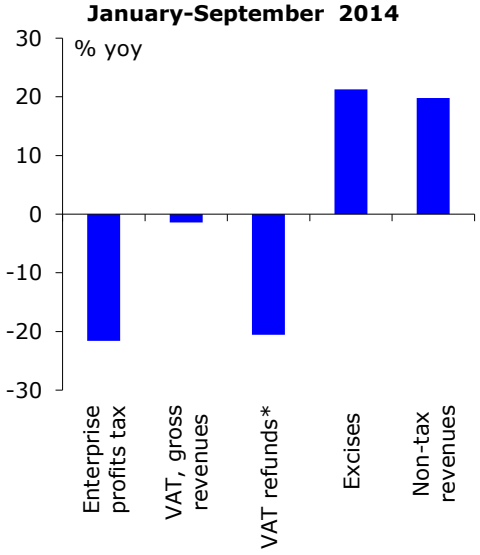
Preliminary data. According to preliminary data of the State Treasury total central fiscal revenues (before VAT refund) in ten months of 2014 reached UAH 335 bn and were by 4.7% (or UAH 16.5 bn) lower than the target. Tax revenues were likely lower than planned due to too optimistic budget plan. Budget entities were not able to receive planned own revenues (special fund of the budget).

Central fiscal revenues in October increased by 3.7% yoy after declining by 7.7% yoy in September. This is explained by lower statistical base of last year. Besides, the Government ensured higher revenues by introduction of military fee and increase in natural resources payments and excise rates. This resulted in over 20% increase in tax revenues. However, it is practically impossible to make up shortfall in planned revenues in the last two months of 2014.

9 months. Central fiscal revenues in nine months of 2014 increased by 6.5% yoy. Despite 22% yoy drop in EPT revenues tax revenues grew by 3.7% yoy due to tax amendments and hryvnia depreciation. In particular, PIT revenues surged by 30.5% yoy due to introduction of military surcharge to tax rate directed to central budget (note: previously only 50% of PIT revenues from Kyiv were directed to central budget). Revenues from excise duties increased by 21.2% yoy due to higher rates and hryvnia depreciation. VAT revenues increased by 6.8% yoy due to higher collections on imports and lower VAT refunds. At the same time, growth of non-tax revenues decelerated to 6.5% yoy in nine months as compared to 34.1% yoy in seven months due to ceased NBU transfer of profits to the budget.

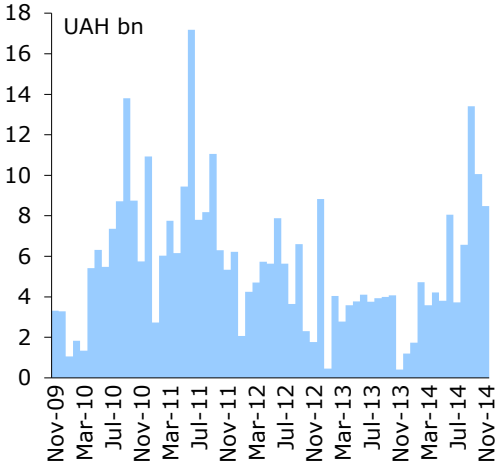
Central fiscal deficit at UAH 40.1 bn was lower than planned due to restricted access to financing and cancelled privatisation. As a result, the Government had to cut discretionary spending. Capital outlays reached only 25.2% of annual target.

Growth of central fiscal revenues January-September 2014



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

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Social policy: The Pension Fund's revenues declined

In the first eight months of 2014 the revenues of the Pension Fund declined by 0.6% yoy to UAH 163 bn including decline in own Fund's revenues (pension insurance contributions) by 0.5% yoy. This is likely to be attributed to annexation of Crimea as well as military conflict in Donbas. At the same time, immediate need in funds also decreased. In October pension expenditures at UAH 19.1 bn were financed, which is lower than planned level. This reflected inability of the Pension Fund to finance pensions in several areas of Donetsk and Luhansk oblasts. In October accrued but not paid pensions in this area were at UAH 6.6 bn.

In November, the Government decided to formally suspend pension payouts for residents of occupied area in Donbas, even though pensions will be accrued. Previously residents of occupied areas were able to receive pensions by travelling to centrally-controlled areas but now they will have to register at non-occupied areas.

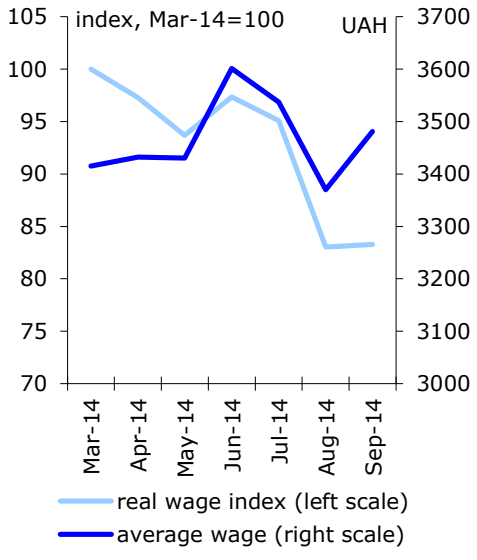
Labour market: Some rebound

Average wage in September grew by 6.3% yoy in nominal terms and declined by 11.4% yoy in real terms. Nominal wage increase was likely predominantly explained by higher minimum wage as well as wage indexation for inflation.

Good crop harvest and increase in livestock production allowed agricultural companies to sharply increase wages (by 20.5% yoy). As a result, wages in the sector exceed wages in education and health care, where the Government restricted wage growth due to fiscal constraints.

Disruption in work of large part of coal mines likely explained low wages earned on averages in extractive industry. At the same time,

Average wage*



*not including AR Crimea
Source: Ukrstat

increase in manufacturing wages at 9.5% yoy again was higher than minimum wage growth, reflecting somewhat improved performance of some branches in manufacturing and some degree of stabilisation in economic situation.

Monetary policy: Inflation reached 19.8% yoy in October

In October consumer inflation reached 19.8% yoy as month-to-month core inflation remained at 2.7% mom for the second month in a row. Wide-based prices increases continued and were felt for most categories of goods and services. Exchange rate volatility in August and September remained the main factor of inflation. High inflation expectations and low inventories of imported goods amplified the effect.

Banking system in October retained significant volumes of liquidity even after the NBU expanded foreign currency sales to stabilize the exchange rate. The NBU increased holdings of government bonds by UAH 8 bn, while weak lending activity likely contributed to high aggregate liquidity position of banks.

Exchange rate: False stability

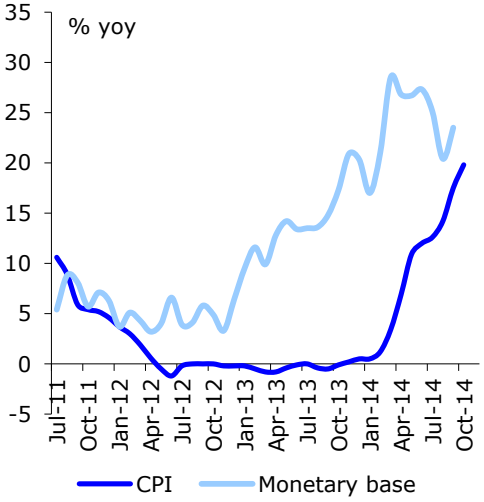
In October most foreign exchange deals on the interbank market were concluded at exchange rate close to UAH 13 per USD in response to sales of foreign currency by the NBU, informal pressure and administrative restrictions. This led to more expanded black market operations and delayed demand for foreign currency. In the beginning of November volatility of exchange rate increased sharply after the NBU reduced sales of foreign currency.

NBU international reserves dropped sharply to USD 12.6 bn in October as it spent USD 2.2 bn to service public and publicly guaranteed debt and USD 1.6 bn on interventions including sales of foreign currency to support gas purchases. In the beginning of November international reserves dropped further as the NBU transferred USD 1.45 bn from restricted account opened by the Naftogaz to the Gasprom.

State debt: The fourth tranche of VAT-bonds was issued

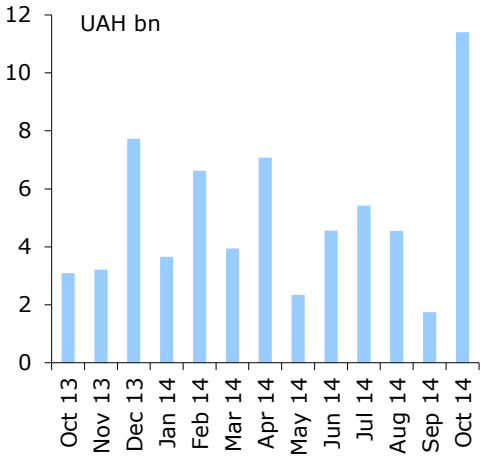
The Ministry of Finance in October placed UAH 11.4 bn of hryvnia denominated bonds with weighted average yield at 15.4%, compared to UAH 1.7 bn at 15.9% in September. Mid- and long-term bonds accounted for 76.1% of the total placement. At the same time, the Government issued only EUR 40 m of two-year EUR-denominated bonds (with yields at 7.5% p.a.) due to lack of demand. It accounted for was only 65.5% of sum needed to refinance previous EUR-denominated bonds. Besides, the Ministry of Finance issued the fourth tranche of special state domestic bonds at UAH 125 m to cover VAT refund arrears. They were provided to near 20 taxpayers.

CPI and monetary base development



Source: Ukrstat, NBU

Placement of state domestic bonds denominated in UAH*



Source: NBU
*without recapitalisation

Tables

Economic Trends		Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Nov	Dec	Jan	Feb	Mar	Apr[c]	May[c]	Jun[c]	Jul[c]	Aug[c]	Sep[c]	Oct[c]
Industrial production (real)	% yoy cum.	-1.2	-1.8	-5.0	-5.3	-5.2	-4.7	-5.0	-4.7	-5.0	-4.7	-5.0	-4.2	-5.0	-5.3	-4.6	-4.7	-5.8	-7.8	-8.6	…
Construction (real)	% yoy cum.	-9.1	-14	-13.8	-17.8	-15.1	-14.5	-6.4	-8.9	-14.3	-14.5	-16.4	-9.8	-6.4	-5.8	-6.5	-8.9	-22.4	-4.0	-17.2	…
Agricultural production (real)	% yoy cum.	-4.6	-4.5	5.8	15.4	3.0	13.7	6.0	-3.9	11.7	13.7	6.0	6.3	6.0	5.0	4.7	-3.9	3.4	6.3	16.0	…
Retail trade turnover (real)	% yoy cum.	16.0	15.9	13.4	11.2	9.8	9.5	7.7	0.8	9.2	9.5	8.8	9.0	7.7	5.6	2.9	0.8	-1.0	-4.0	-5.3	…
Average wage	UAH	3064	3195	3085	3289	3331	3390	3245	3488	3268	3619	3148	3189	3398	3432	3430	3601	3537	3370	…	…
CPI	% yoy eop	0.0	-0.2	-0.8	-0.1	-0.5	0.5	3.4	12.0	0.2	0.5	0.5	1.2	3.4	6.9	10.9	12.0	12.6	14.2	17.5	19.8
PPI	% yoy eop	0.3	0.3	0.2	-1.6	-0.9	1.7	3.9	15.9	-0.5	1.7	1.9	3.3	3.9	6.1	8.8	15.9	22.5	24.2	26.9	25.9
Exports (USD)*	% yoy cum.	2.6	1.0	-4.7	-7.1	-6.2	-5.2	-7.7	-6.5	-8.8	-7.6	-12.2	-10.0	-6.8	-8.3	-6.4	-6.7	-6.8	-8.2	-9.1	…
Imports (USD)*	% yoy cum.	7.6	5.6	-0.8	-8.3	-4.1	-3.4	-14.7	-19	-5.7	-5.8	-6.7	-13.6	-16.1	-19.9	-17.3	-17.3	-19.5	-22.4	-24.8	…
Merchandise trade balance	USD bn cum.	-14.8	-20.5	-4.0	-7.1	-14.2	-19.6	-1.9	-0.6	-18.0	-19.6	-0.8	-1.5	-1.9	-2.0	-2.2	-2.5	-2.7	-3.0	-3.6	…
Current account**	USD bn cum.	-10.0	-14.4	-3.1	-5.5	-11.4	-16.4	-1.3	-0.6	-14.5	-16.1	-0.4	-0.8	-1.3	-1.2	-1.5	-1.9	-2.3	-2.7	-3.3	…
Gross international reserves	USD bn eop	29.3	24.5	24.7	23.2	21.6	20.4	14.2	16.1	18.8	20.4	17.8	15.5	15.1	14.2	17.9	17.1	16.1	15.9	16.4	12.6
Monetary Base	% yoy eop	5.8	6.4	9.9	13.4	14.8	20.3	28.5	25.1	20.9	20.3	17.0	21.0	28.5	26.8	26.7	27.3	25.1	20.4	23.5	…
Lending rate on UAH credits	% pa, aop	19.6	20.8	16.2	15.4	15.3	16.5	18.5	17.5	16.7	17.4	15.1	20.3	20.0	17.5	17.9	17.2	16.1	16.8	16.2	…
Exchange rate (interbank)	USD aop	8.10	8.15	8.12	8.14	8.15	8.21	9.1	11.71	8.20	8.24	8.37	9.08	9.98	11.61	11.78	11.79	11.74	12.98	13.01	12.93
Exchange rate (official)	USD aop	7.99	7.99	7.99	7.99	7.99	7.99	8.9	12.71	7.99	7.99	7.99	8.65	9.92	11.64	11.64	11.81	11.76	12.95	13.02	12.95
Exchange rate (official)	EUR aop	9.99	10.37	10.55	10.44	10.58	10.87	12.14	13.71	10.79	10.94	10.92	11.80	13.69	16.08	16.00	16.04	15.93	17.25	16.83	16.43

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]
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
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
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
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
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
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
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
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
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
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
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
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
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
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
Trade balance in goods	USD m	-1407	-1236	-697	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-4045	-3053	-7232	-5268	-1949	-567
Trade balance in services	USD m	550	930	1115	1262	1514	2007	1312	1299	1362	1975	1084	822	893	1919	480	589	142
Current transfers	USD m	722	608	728	1039	878	988	803	683	805	777	711	533	589	480	547	232	472
Direct investment (FDI)	USD m	1282	923	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-713	-292
Portfolio investments (equity)	USD m	41	-20	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-239	-53
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	14.2	16.1
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
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
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
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
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
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
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
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
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
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
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
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
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	-10.6
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
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
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
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
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
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
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
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
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
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

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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