Monthly Economic Monitor Ukraine

No.7 (165), July 2014

EXECUTIVE SUMMARY

HIGHLIGHT: ASSOCIATION AGREEMENT

Politics: On June 27, leaders of Ukraine, the EU, and 28 EU Member States signed an essential part of the long-awaited Association Agreement between the EU and Ukraine.

Real Sector: Decline in industrial output in May decelerated to 2.1% yoy primarily due to statistical base effect.

Energy sector: Starting July 1, the Government increased tariffs on heating and water supply to cost-covering levels and, simultaneously, cancelled compensations from the state budget to utility companies.

Agriculture: Russia suspended imports of several Ukrainian food products.

External sector: In May merchandise trade deficit remained low at USD 0.2 bn but services exports dropped to levels slightly higher than in 2009 and resulted in very low surplus for trade in services.

Fiscal policy: According to the preliminary data of the State Treasury, central fiscal revenues in June dropped by 7.9% yoy.

Social policy: Disposable income growth in the first quarter of 2014 decelerated to 3.6% yoy in nominal terms and 1.9% yoy in real terms.

Labour market: In May average wage in Ukraine (not including Crimea) grew by 5.0% yoy in nominal terms but declined by 5.4% yoy in real terms.

Monetary policy: Monetary conditions were as before relatively accommodating for sound banks but interbank money market continued to be fragmented.

Exchange rate: In June interbank hryvnia exchange rate stabilized at UAH 11.6-11.9 per USD without direct interventions from the NBU.

State debt: New domestic and external borrowings allowed the Government to serve its debt on time.

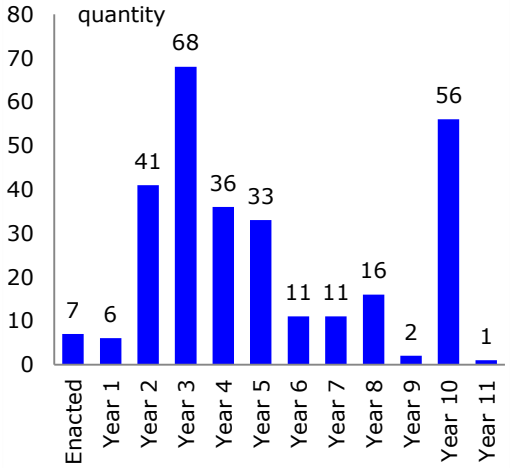
Highlight of the month: Association Agreement

ECONOMIC COMPONENT OF THE AGREEMENT: STIMULUS FOR REFORMS

Veronika Movchan

In June 2014, Petro Poroshenko, the newly elected President of Ukraine, signed a full text of the Association Agreement with the EU. It is the largest and the most ambitious international agreement ever signed by Ukraine. Its successful implementation will facilitate much needed reforms and stimulate economic growth.

Schedule of legislative approximation within the Association Agreement



Source: http://http://www.ier.com.ua/ua/Ukraine_EU_project/materials/

The cornerstone of the economic part of the Agreement is extensive regulatory approximation. Norms from over 300 EU directives and regulations are to be embedded into the Ukrainian legislation over next decade.[1] According to expert assessments, it constitutes approximately 80-90% of the EU trade *acquis*.[2] The most of legislative harmonization is scheduled to be completed by the end of the fifth year after the enactment of the Agreement. The harmonization with the EU *acquis* will concern a wide spectrum of topics including protection of environment, technical regulations, food safety, financial services, intellectual property rights protection, social policy, consumer protection etc.

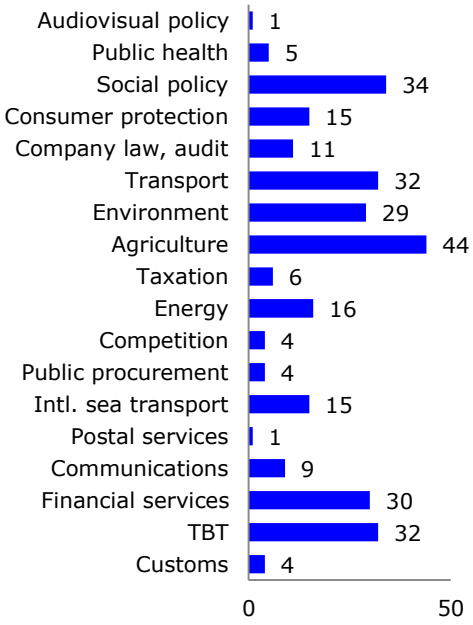
It is definitely a challenging task, especially in the areas of food safety and environment protection. This challenge should not be exaggerated. Ukraine has been gradually approximating its trade legislation to the EU norms and practices for at least a decade, and the process has been speeded up after the country joined the WTO in 2008. For instance, the Minister of the Agrarian Policy reported that by November 2013 Ukraine has already embedded over two thirds of the EU standards for agriculture and 40% for food industry in its legislation.[3]

Harmonization with the EU trade-related legislation is expected to bring benefits in terms of better access to the EU market in addition to gains related to the elimination of tariff protection. According to the IER estimates,[4] reduction of administrative barriers on the border between Ukraine and the EU by moderate 2.5% could result in additional 8% welfare gains of the DCFTA in long-term.

Moreover, harmonization of regulations and standards with the EU *acquis* will facilitate Ukraine's access to the markets of the third countries that recognize the EU standards. The EU has already signed trade agreements with some 50 partners in the world not counting June's agreements with Ukraine, Georgia and Moldova.[5] Other agreements are under negotiations. In particular, currently there is an active phase of negotiations between the EU and the USA regarding the Transatlantic Trade and Investment Partnership (TTIP). The TTIP aims to cut tariff barriers and significantly reduce non-tariff barriers in trade.

Expected regulatory changes in the sphere of public procurement and state aid are aimed to improve efficiency of public finances creating positive spill-over for all economic agents. Widespread legal approximation and establishment of the 'regulatory anchor' to the EU *acquis* is also aimed to improve business and investment climate in the country boosting investments and economic growth.

Legislative approximation within the Association Agreement by topics



Source: http://http://www.ier.com.ua/ua/Ukraine_EU_project/materials/

For people, regulatory approximation in food safety, social policy, consumer protection, public health, and environment is the most important. Respective changes are expected to improve quality of goods and services offered on the domestic market as well as ensure higher labour and social protection.

There are several challenges that Ukraine will face on the way of the implementation of commitments regarding legal approximation. First, these changes are to be financed. Here, Ukraine is expected to rely not only on domestic funds but also on international support, first of all, on the EU technical and budget assistance. Second, there are quite typical for Ukrainian politics risks of gradualism and populism as well as corruption. Thus, persistent and comprehensive reform efforts are needed to harvest 'fruits' embedded in the Agreement.

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1 IER (2014) Economic Component of Ukraine-EU Association Agreement: Impact on Households, Business and State. Available at: http://www.ier.com.ua/ua/Ukraine_EU_project/materials/

2 Wolczuk K. (2014) Ukraine and the EU: turning the Association Agreement into a success story. Policy brief, European Policy Centre, 23 April 2014

3 Available at: http://minagro.gov.ua/node/10322

4 IER (2011) Choice of Trade Policy for Ukraine: Pros and Cons of Different Regional Integration Options. Available at http://www.ier.com.ua/files/Projects/2011/2011_09/Regional_integration_2011_ukr.pdf (in Ukrainian)

5 EC (2013) The EU's bilateral trade and investment agreements – where are we? MEMO. Available at http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150129.pdf

Monthly Economic Monitor Ukraine

Politics: EU-Ukraine Association Agreement is signed

The EU. On June 27, leaders of Ukraine, the European Union (EU), and 28 EU Member States signed an essential part of the long-awaited Association Agreement (AA) between the EU and Ukraine. Specifically, the parties signed the remaining four chapters of the agreement that were not signed in March. Those chapters cover economic cooperation, including establishment of a free trade area between Ukraine and the EU, cooperation in the areas of justice and security, and sector cooperation. The agreement will become effective after ratification by all parties, including 28 EU Member States, which may take at least several months. But a part of the agreement, the implementation of which is within the authority of the EU (including establishment of a free trade area), is expected to be applied provisionally from November.

The signing of the agreement is an indication that Ukraine firmly embarked on the path towards European integration, putting aside its long standing policy of balancing between the EU and Russia. President of Ukraine Petro Poroshenko stated that the ultimate goal of Ukraine is to obtain membership in the EU. The agreement, however, may trigger a new trade war with Russia, which persistently tries to draw Ukraine into its sphere of influence.

Terrorist attack. In June, Ukrainian government failed to make significant progress in suppressing the pro-Russia terrorists' attacks that began in April in the East of Ukraine. The Government forces launched several offensives against terrorists, and cleared a few towns and villages of them, including the town of Mariupol, a large industrial centre with a population of 460,000. However, the terrorists continued to control about a third of the territory of Donetsk and Luhansk regions (together referred to as Donbas). Representatives of Ukrainian government and Russia conducted negotiation with representatives of terrorists, but it did not yield any apparent result.

The events confirmed that the military conflict in Donbas may be likely to be long lasting. The weak progress in suppressing the attacks can be partly explained by the fact that Russia, which tried to use the conflict as a tool of pressure on Ukrainian government, provided significant support to the terrorists, including unofficial supplies of heavy weapons. But the support was limited because Russia tried to avoid sector sanctions from Western countries.

Real sector: Deceleration of decline in industry

Since April the Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol. The statistical base was also revised in order to make like-to-like comparison available.

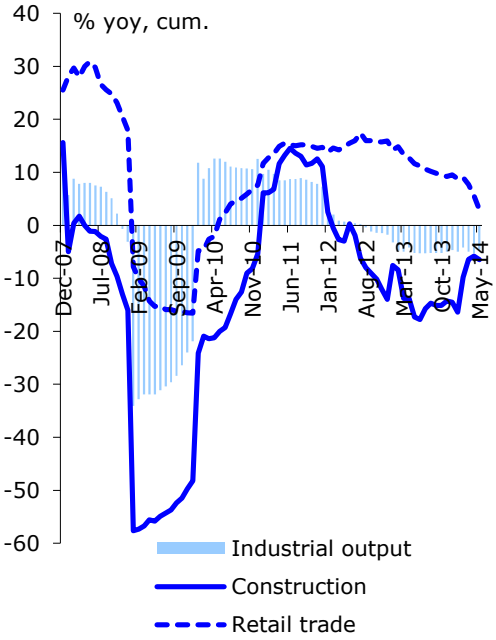
Sectoral trends. Decline in industrial output in May decelerated to 2.1% yoy primarily due to statistical base effect. Output in extraction industry decreased by 3.3% yoy, which might be explained by unrest in Donetsk and Lugansk regions. Output in manufacture dropped by 3.9% yoy due to weak domestic and external demand. The drop in production of metallurgy decelerated to 2.0% yoy from 12.8% yoy in the previous month due to statistical base effect. Machine building output declined by 15.3% yoy. Production of locomotives and railway carriages more than halved due to low demand from Russia. In particular, Russia installed own capacities in this subsector of machine building, which can largely cover its residual demand for railway produce after implementation of large modernisation project.

Output in chemical production declined sharply by 20.8% yoy as domestic and external demand remain weak. Besides, this is partially explained by stoppage of operation of two large chemical plants in Donetsk region in April, 2014 ("Stirol" in Gorlovka and "Azot" in Severodonetsk).

Rapid drop in construction continued (by 18.7% yoy in May). This is explained by restricted public and private financing as well as high economic and political uncertainty.

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

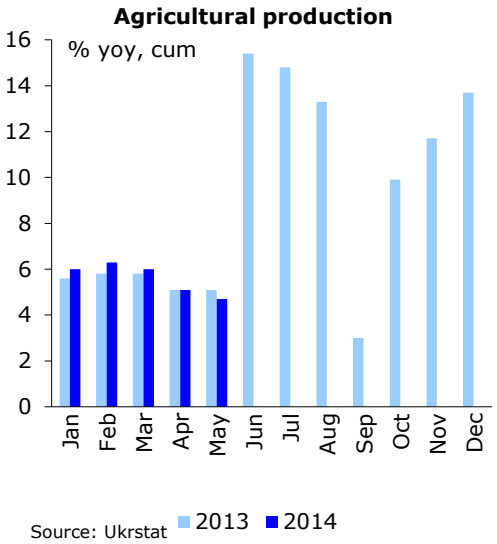


Note: In April 2014 - data excludes Crimea
Source: Ukrstat

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Agricultural production in May grew by 3.8% yoy as livestock production continued growing. At the same time, herd of cattle declined, while the number of sheep and goats increased.

Between January and May retail trade turnover growth decelerated to 2,9% yoy. This reflects decline in real consumption in April and May. Retail sales of enterprises in May dropped by 7.7% yoy.



Source: Ukrstat

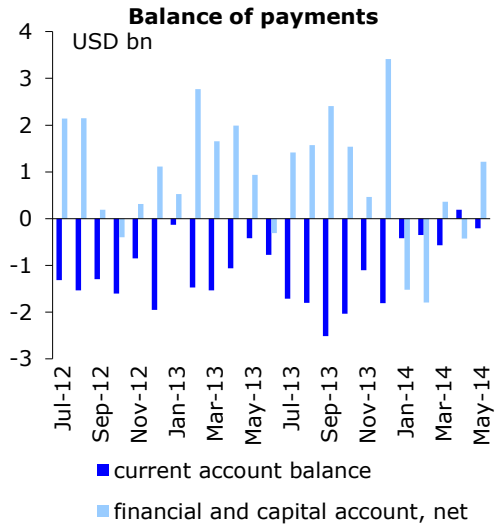
Energy. Another gas war with Russia

Natural gas. Ukrainian Naftogaz and Russian Gasprom sued each other in Stockholm Arbitrage Court. The Gasprom accused the Naftogaz of not paying USD 4.5 bn and switched the Naftogaz to prepaid regime since June 16. The Naftogaz requested the renegotiation of the gas contract, i.e. the recalculation of the gas price and the compensation of overpayment of USD 6 bn since 2010.

After Russia stopped gas supplies to Ukraine the Naftogaz more than doubled its reverse gas flows from Hungary (from 3.0 m to 7.5 m cubic meters of gas daily). Overall, Ukraine in June imported 317 m cubic meters of gas from Hungary and Poland. As of July 4, Ukraine had 14.4 bcm of gas in storages in comparison to 9 bcm in July 2013 and 15.7 bcm in August 2012. According to the Naftogaz this volume will be sufficient for covering demand till autumn, when it expects to start gas deliveries from Slovakia.

Legislation. The Verkhovna Rada finally cancelled the 35% export duty on natural and liquefied gas to members of the Energy Community. This law brings Ukrainian legislation in accordance with the Energy Community requirements which envisage that no export duty should be taken on gas and electricity deliveries from Ukraine to the EU countries.

Utility tariffs. Starting July 1, the Government increased tariffs on heating and water supply to cost-covering levels and, simultaneously, cancelled compensations from the state budget to utility companies. According to the Naftogaz, utility companies were entitled to compensations at UAH 7.9 bn in 2012 and UAH 12 bn in 2013 but did not receive the money from the state budget. Such budget arrears increased their indebtedness before the Naftogaz and prevented them from allocating funds to maintenance and modernisation of utility networks. The new mechanism is expected to solve these problems.



Source: NBU preliminary estimates

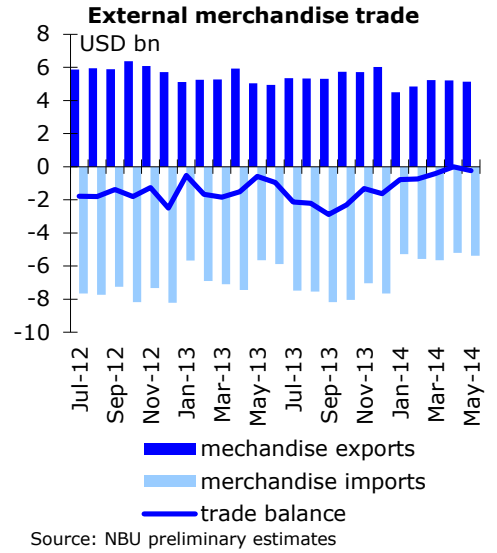
Agricultural sector: Russia suspended imports of several Ukrainian food products

As political tensions between Ukraine and Russia are escalating further, Russia again strengthened its protectionist measures at the food market. In June it introduced barriers for imports of several types of Ukrainian products.

Since 16th of June, potato imports were suspended because the Federal Service for Veterinary and Phytosanitary Surveillance of Russian Federation (Rosselkhoznadzor) claimed that quarantine pest was revealed in Ukrainian potatoes. The State Phytosanitary Inspection of Ukraine refuted this claim as particular pest was not found in the batches of potatoes exported to Russia. However, the decision of the Rosselkhoznadzor on potatoes imports restriction was not revised.

On 30th of June, the Rosselkhoznadzor also imposed temporary restriction on imports of dairy products of two more Ukrainian companies. Imports of products of other six companies were banned since April. Such actions were previously taken by Russia in 2006, 2010 and 2012. Moreover, imports of meat products to Russia are getting more complicated as new documents (on compliance with the legislation of the Customs Union) are required for imports of products containing raw material of animal origin starting from 30th of June.

Although Russia's share in Ukraine's food exports accounts for 21%, food processing sector in general does not seem to be very vulnerable to trade shocks from Russia because only 3% of sectors' output is exported to Russia. At the same time, the Ministry of Foreign Affairs of Ukraine informs that Ukraine did not cancel any agreements on



Source: NBU preliminary estimates

economic cooperation with Russia and currently is not going to restrict any food imports.

External sector: Current account deficit remains low

In May current account deficit was USD 0.2 bn, as compared to USD 0.4 bn a year ago. Merchandise trade deficit remained low at USD 0.2 bn but services exports dropped to levels slightly higher than in 2009 and resulted in very low surplus for trade in services.

Merchandise exports grew in May by 1.7% yoy but only from very low base of comparison (nominal exports dropped by over 11% from May 2011). Effect of low statistical base was most prominent for food products where exports increased by 34% yoy despite trade disruptions with Russia and steady grain export volumes over the last several months. Steel exports somewhat recovered and reached highest level in nominal terms over 24 months. Exports of machinery, equipment and transport dropped to one of lowest levels over the last several years due to low demand from Russia and production disruptions.

Merchandise imports dropped by 4.8% yoy. Imports of mineral products jumped to USD 1.9 bn although gas imports was accounted at USD 268.5 per 1000 cubic meters. Ukraine increased gas stocks preparing for supply disruptions from Russia. Imports of other products fell by 24.2% yoy and by 41.9% from May 2012. This reflected hryvnia depreciation and imports substitution as well as lower domestic demand. Thus, import of metals declined by 33% yoy and of machinery and equipment by 32% yoy.

Financial and capital account surplus widened in May to USD 1.2 bn reflecting increase in net public sector borrowing (excluding IMF funds0 at USD 1.8 bn and sharp slowdown of outflows from Ukrainian equity. Debt funding for private sector was scarce and was insufficient to cover scheduled repayments. Demand on foreign currency continued to shrink, reaching USD 0.1 bn in May. However, trade loans to Ukrainian companies decreased by USD 0.8 bn even after adding debt of the Naftogaz to the Gasprom for imported gas.

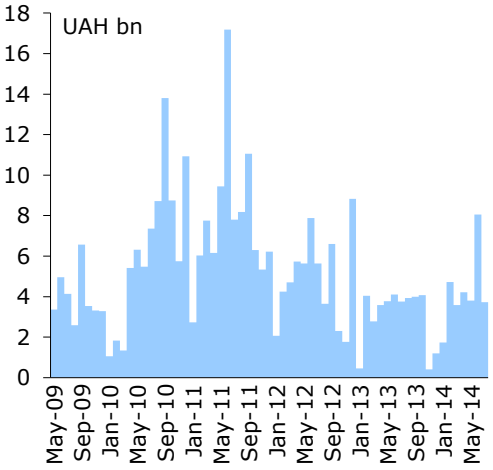
Fiscal policy: Fiscal revenues declined

Preliminary data. According to the preliminary data of the State Treasury, central fiscal revenues in June dropped by 7.9% yoy despite decline in VAT refunds (by 37.4% yoy). In particular, growth in revenues during previous months was attributed to significant increase in the transfer of the NBU profit to the budget. However, this transfer was likely very low in June as the annual target was almost fully executed in the first five months of the year.

5 months. Between January and May central fiscal revenues grew by 11.3% yoy, although in May revenues increased only by 3.0% yoy. In the first five months of the year the growth of revenues was ensured primarily by larger transfer of the NBU profit to the budget, which reached UAH 22 bn as compared to UAH 6 bn in the same period of 2013. Tax revenues during this period declined by 0.6% yoy due to economic slowdown. In particular, bad financial results of companies resulted in drop of EPT revenues by 14.3% yoy. Total collections of excise duties remained unchanged as smaller revenues from domestically produced goods (due to lower consumption) were compensated by larger revenues from imports (explained by hryvnia depreciation). Gross VAT revenues dropped by 6.7% yoy, which was compensated by decline in VAT refunds by 24.0% yoy. At the same time, VAT refund arrears likely increased, while the Government has not started yet issuing VAT-bonds for covering VAT refunds arrears accumulated in previous years.

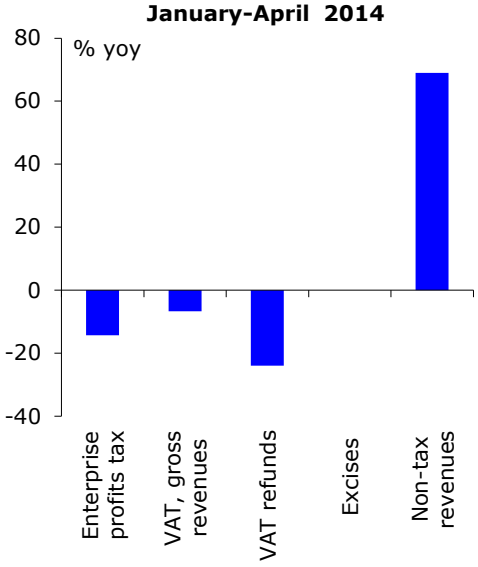
Cumulative central fiscal deficit increased to UAH 12.2 bn from almost zero over four months of the year and was predominantly financed at the expense of external borrowing. Although government net borrowing exceeded UAH 40 bn in May the Government accumulated over USD 3 bn on foreign currency accounts at the NBU for debt servicing as well as to ensure financing of protected items in later periods. Thus, central fiscal expenditures (general fund) were financed at only 91.5% of the target.

Balance of the Single Treasury Account



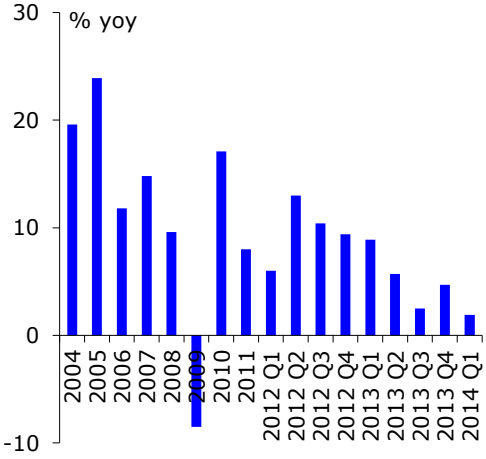
* in the beginning of month
Source: State Treasury

Growth of central fiscal revenues January-April 2014



Source: State Treasury reports

Real disposable household incomes



Source: Ukrstat

Social policy: Income growth decelerated

Disposable income growth in the first quarter of 2014 decelerated to 3.6% yoy in nominal terms and 1.9% yoy in real terms. Growth of all income components slowed down during this period.

In the first three months of the year wage income grew by mere 2.5% yoy in nominal terms due to deceleration of average wage growth in official economy and stagnant or even declining wages in shadow economy. Decline in number of employed by 3.4% yoy and frozen wages in public sector in response to fiscal pressure also contributed to low wage income. Fiscal pressure also constrained income from social assistance. As a result, nominal income from social assistance and current transfers grew by only 1.8% yoy (and declined in real terms).

Labour market: Decline in nominal wage growth rate

In May average wage in Ukraine (not including Crimea) grew by 5.0% yoy in nominal terms but declined by 5.4% yoy in real terms.

Average wage in industry grew by 6.7% yoy likely due to increase in minimum wage. Wage increased more than on average in metallurgy (by 11.1% yoy) and textile industry (by 11.3% yoy), probably as a result of sales increase due to hryvnia depreciation. Rapid wage growth continued in pharmaceutics industry (at 16.3% yoy) as a consequence of government policies to stimulate domestic production of medicine and import substitution policies. Wages remained almost the same in manufacture of electronic and optic equipment and transports as a result of decline in domestic and external demand.

Wage growth in agriculture further decelerated to 4.3% yoy likely due to attempts of companies to allocate more financing for harvesting campaign against the background of restricted financing. High fiscal pressure resulted in marginal wage growth in education (at 0.6% yoy) and health care (at 2.0% yoy). Increase of nominal wage in government administration and defence was larger (at 4.5% yoy) but still below the average.

Monetary policy: Consumer inflation increased to 12.0% yoy in June

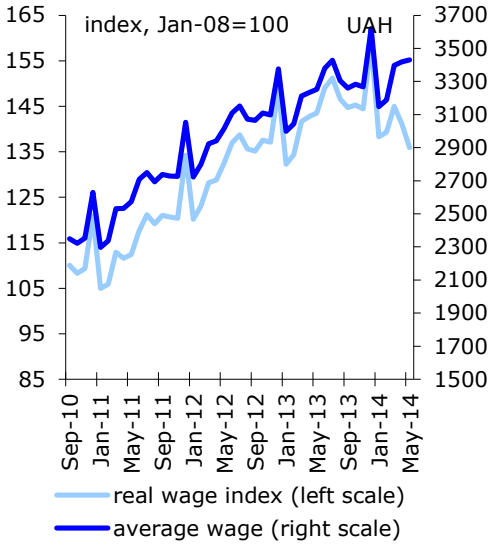
Consumer inflation reached 12.0% yoy in June. However, month-to-month increase in core CPI slowed third month in a row to 1.4% mom and CPI slowed down to 1.0% mom. In June increase in prices was less uniform than in previous months. Price indices for bread, cereals and meat continued to increase at 3% mom pace for the third month in a row in part driven by price increases for rice and poultry. At the same time, seasonal factors drove down price for milk, milk products and vegetables although systematic bias in methodology may have led the Ukrstat to overstate price decline for vegetables. Hryvnia depreciation and higher inflation expectations supported higher prices for non-food products with the exception of clothing and shoes. Clothing and shoes historically enjoyed high margins and experienced particularly inlarge drop in demand.

Monetary conditions were as before relatively accommodating for sound banks but interbank money market continued to be fragmented. Interbank interest rate was in 5-10% range supported by 4.5% p.a interest offered by NBU overnight deposit facility. Over 20 banks had excess liquidity and preferred to park it at the NBU instead of interbank market. The NBU injected liquidity in the banking system by government bond purchases, refinancing for problem banks. The Government also contributed by spending some of the cash accumulated from external borrowing.

Exchange rate: Hryvnia stabilized in June

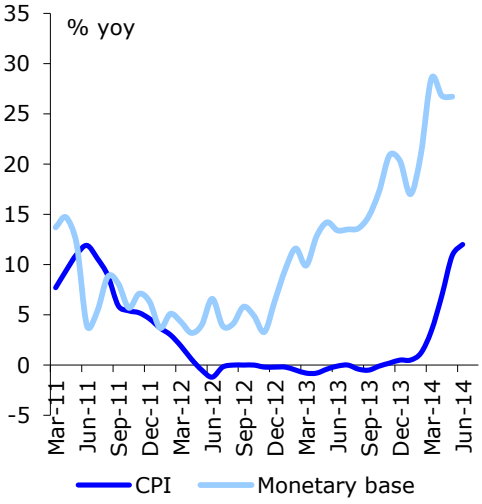
In June interbank hryvnia exchange rate stabilized at UAH 11.6-11.9 per USD without direct interventions from the NBU. This reflected sharp drop in imports and low demand for cash foreign currency. However, market liquidity was low due to drop in international trade volumes and pension fund duty on foreign exchange transactions.

Average wage



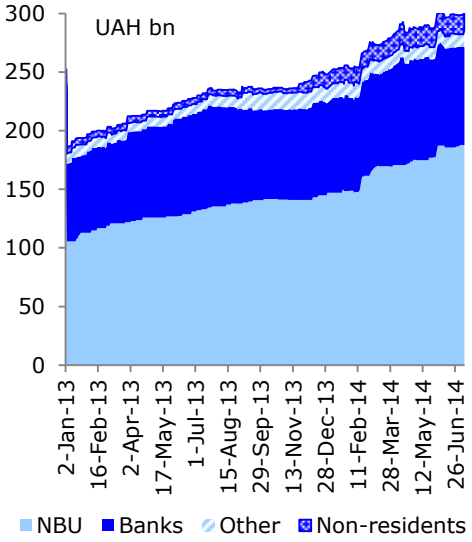
Note: since May 2014 - without Crimea
Source: Ukrstat

CPI and monetary base development



Source: Ukrstat, NBU

Domestic government bond holdings



Source: NBU

International reserves dropped to USD 17.1 bn by the end of June despite continued inflows of external aid as the NBU had to make peak foreign currency payments on domestic debt.

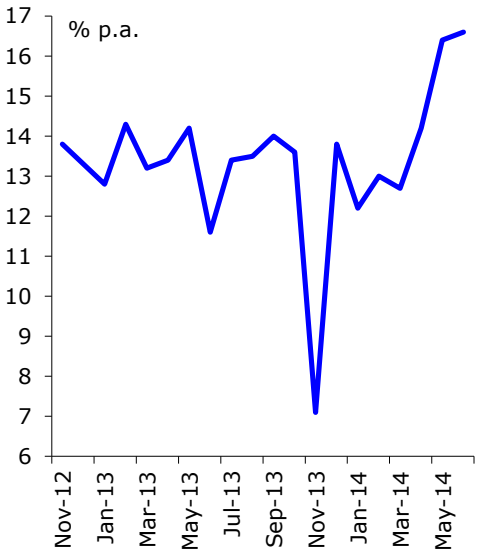
State debt: Further tranches of international aid package

Domestic debt. In June the Ministry of Finance placed UAH 4.6 bn of hryvnia denominated bonds as compared to UAH 2.3 bn in May. It was partially explained by larger demand for zero coupon bonds due to higher interest rates. The demand was fully concentrated on one- and two-year bonds. At the same time, the Government did not placed USD-denominated bonds likely due to large external borrowings in May.

External debt. In June Ukraine received EUR 500 m from the EU in the framework of the new EU Macro-Financial Assistance program (MFA II) approved in April at EUR 1 bn. It followed the EU's disbursement of EUR 100 m in May from the previous MFA program (MFA I) approved in 2010 at EUR 610 m. Next tranches of MFA programs will be conditional on the implementation of reform program. Reforms primarily relate to public finance management and anti-corruption measures, trade and taxation, energy and financial sector.

Overall, new borrowings allowed the Government to serve its debt on time. In particular, it repaid EUR 1 bn of Eurobonds, which were placed in 2012.

Weighted average yield for domestic state bonds



Source: NBU

Economic Trends		Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr[c]	May[c]	Jun[c]
Industrial production (real)	% yoy cum.	-1.2	-1.8	-5.0	-5.3	-5.2	-4.7	-5.0	-5.2	-5.2	-5.2	-5.0	-4.7	-5.0	-4.2	-5.0	-5.3	-4.6	…
Construction (real)	% yoy cum.	-9.1	-14	-13.8	-17.8	-15.1	-14.5	-6.4	-14.7	-15.1	-15.1	-14.3	-14.5	-16.4	-9.8	-6.4	-5.8	-6.5	…
Agricultural production (real)	% yoy cum.	-4.6	-4.5	5.8	15.4	3.0	13.7	6.0	13.3	3.0	9.9	11.7	13.7	6.0	6.3	6.0	5.0	4.7	…
Retail trade turnover (real)	% yoy cum.	16.0	15.9	13.4	11.2	9.8	9.5	7.7	10.2	9.8	9.5	9.2	9.5	8.8	9.0	7.7	5.6	2.9	…
Average wage	UAH	3064	3195	3085	3289	3331	3390	3245	3304	3261	3283	3268	3619	3148	3189	3398	3432	3430	…
CPI	% yoy eop	0.0	-0.2	-0.8	-0.1	-0.5	0.5	3.4	-0.4	-0.5	-0.1	0.2	0.5	0.5	1.2	3.4	6.9	10.9	12.0
PPI	% yoy eop	0.3	0.3	0.2	-1.6	-0.9	1.7	3.9	-0.9	-0.9	0.8	-0.5	1.7	1.9	3.3	3.9	6.1	8.8	15.9
Exports (USD)*	% yoy cum.	2.6	1.0	-4.7	-7.1	-6.2	-5.2	-6.5	-8.7	-8.8	-9.0	-8.8	-7.6	-12.2	-10.0	-6.8	-8.3	-6.4	…
Imports (USD)*	% yoy cum.	7.6	5.6	-0.8	-8.3	-4.1	-3.4	-16.7	-8.8	-6.4	-6.0	-5.7	-5.8	-6.7	-13.6	-16.1	-19.9	-17.3	…
Merchandise trade balance	USD bn cum.	-14.8	-20.5	-4.0	-7.1	-14.2	-19.6	…	-11.4	-14.2	-16.6	-18.0	-19.6	-0.8	-1.5	-1.9	-2.0	-2.2	…
Current account**	USD bn cum.	-10.0	-14.4	-3.1	-5.5	-11.4	-16.4	…	-8.9	-11.4	-13.4	-14.5	-16.1	-0.4	-0.8	-1.3	-1.1	-1.3	…
Gross international reserves	USD bn eop	29.3	24.5	24.7	23.2	21.6	20.4	14.2	21.7	21.6	20.6	18.8	20.4	17.8	15.5	15.1	14.2	17.9	17.1
Monetary Base	% yoy eop	5.8	6.4	9.9	13.4	14.8	20.3	28.5	13.6	14.8	17.3	20.9	20.3	17.0	21.0	28.5	26.8	26.7	…
Lending rate on UAH credits	% pa, aop	19.6	20.8	16.2	15.4	15.3	16.5	18.5	15.0	15.2	15.4	16.7	17.4	15.1	20.3	20.0	17.0	17.7	…
Exchange rate (interbank)	USD aop	8.10	8.15	8.12	8.14	8.15	8.21	9.1	8.12	8.17	8.18	8.20	8.24	8.37	9.08	9.98	11.61	11.78	11.79
Exchange rate (official)	USD aop	7.99	7.99	7.99	7.99	7.99	7.99	8.85	7.99	7.99	7.99	7.99	7.99	7.99	8.65	9.92	11.64	11.64	11.81
Exchange rate (official)	EUR aop	9.99	10.37	10.55	10.44	10.58	10.87	12.14	10.64	10.67	10.90	10.79	10.94	10.92	11.80	13.69	16.08	16.00	16.04

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		Q3 09	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
GDP	UAH bn	250.3	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
GDP (real)	% yoy	-15.7	-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
Household consumption (real)	% yoy	-14.3	-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
State consumption (real)	% yoy	-4.3	-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
Gross fixed capital formation (real)	% yoy	-53.2	-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
Exports of goods and services (real)	% yoy	-30.9	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
Imports of goods and services (real)	% yoy	-47.6	-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
Agriculture, hunting, forestry (real)*	% yoy	2.2	-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
Manufacturing industry (real)*	% yoy	-25.6	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
Construction (real)*	% yoy	-43.6	-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
Trade, repair services (real)*	% yoy	-22.0	-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
Transport (real)*	% yoy	-5.7	-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
Balance of payments																		
Current account balance	USD bn	-0.1	-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	-0.6
Current account balance	% of GDP	-0.2	-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	-1.8
Trade balance in goods	USD m	-1396	-1407	-1236	-697	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-4045	-3053	-7232	-5268	-1486
Trade balance in services	USD m	1256	550	930	1115	1262	1514	2007	1312	1299	1362	1975	1084	822	893	1919	480	820
Current transfers	USD m	640	722	608	728	1039	878	988	803	683	805	777	711	533	589	480	547	232
Direct investment (FDI)	USD m	1210	1282	923	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-543
Portfolio investments (equity)	USD m	32	41	-20	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-252
Gross international reserves	USD bn	28.2	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
Exchange rate (interbank), UAH/USD	aop	7.99	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
Exchange rate (official), UAH/USD	aop	7.82	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
Fiscal indicators																		
Consolidated fiscal revenues	% of GDP	25.5	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
Personal income tax	% of GDP	4.4	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
Enterprise profits tax	% of GDP	3.7	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
Value-added tax	% of GDP	6.4	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
Excise tax	% of GDP	2.5	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
Consolidated fiscal expenditures	% of GDP	29.6	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
Current expenditures	% of GDP	27.0	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
Capital expenditures	% of GDP	2.6	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
Consolidated fiscal balance	% of GDP	-4.5	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
Privatisation receipts	% of GDP	0.1	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
Labour market																		
Average wage (real)	% yoy	-10.7	-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
Household income (real)	% yoy	-8.6	-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	…
Unemployment rate (ILO methodology)	% cum	7.8	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	…
Banking system																		
Monetary aggregate M0	% yoy cum	11.5	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
Monetary aggregate M2	% yoy cum	-1.4	-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
Household deposits in national currency	% yoy cum	-25.4	-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
Household deposits in foreign currency	% yoy cum	39.2	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
Com. bank credits in national currency	% yoy cum	25.2	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
Com. bank credits in foreign currency	% yoy cum	32.4	-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
Long-term com. bank credits	% yoy cum	29.9	-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
Long-term com. bank credits	% of total	67.3	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
Average lending rate on national currency credits	% p.a.	17.5	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
Average lending rate on foreign currency credits	% p.a.	10.0	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

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates
* change in value added

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