Monthly Economic Monitor Ukraine

No.6 (164), June 2014

EXECUTIVE SUMMARY

HIGHLIGHT: WAR IN DONBAS

Politics: On May 25, Petro Poroshenko was elected the new President of Ukraine. He gained a majority of votes in all regions of Ukraine for the first time in 23 years of its independence.

Real Sector: Real GDP declined by 1.1% yoy in the first quarter of 2014. Investments dropped due to high political and economic uncertainty.

Energy sector: The Naftogaz repaid only partially its debt to the Gasprom due to absence of agreement on the debt level, which is to be repaid in total.

Agriculture: Exports of grain is expected to reach 32 m t in 2013/2014 marketing year, which is 28% higher than in the previous year.

External sector: Current account balance (not including Crimea) in April was positive at USD 0.2 bn. Surplus was explained by decline in merchandise imports.

Fiscal policy: According to the preliminary data of the State Treasury, central fiscal revenues grew by 11.2% yoy between January and May primarily due to higher transfer of NBU profits to the budget.

Social policy: In July the Government will start paying special subsidies to households with per capita income below subsistence minimum to compensate for increase in utility tariffs.

Labour market: In April average wage in Ukraine (not including Crimea) grew by 5.5% yoy in nominal terms, but declined by 1.3% yoy in real terms.

Monetary policy: In May consumer inflation returned to double digits at 10.9% yoy for the first time since 2011.

Exchange rate: In May hryvnia volatility decreased as average interbank exchange rate remained in UAH 11.4-11.8 per USD range.

State debt: Ukraine received first tranches of loans from the IMF, the EU and the World Bank.

Highlight of the month: War in Donbas

CIVIL WAR OR RUSSIAN AGGRESSION?

Kostiantyn Kravchuk, Igor Burakovsky

In May, Ukraine, which has not experienced any internal military conflict for the last 60 years, is close to slip into a full-fledged war. The government launched a large-scale military operation against rebels that tried to separate Donetsk and Luhansk regions from Ukraine by declaring them independent republics which would join Russia as soon as possible. The conflict may last long as rebels are strongly supported by Russia, whose ultimate goal is to bring Ukraine into its sphere of influence.

The rebellion in the South-East of Ukraine began in April, when armed separatists seized a number of local government buildings and law enforcement departments in some towns in Donetsk and Luhansk regions (usually named as Donbas), important industrial regions with the total population of 6.6 m. In May rebels gradually took control of those towns, established a network of checkpoints on roads, seized some Ukrainian military bases, and took control of local TV broadcasting. The government in fact lost control over about a half of the territory of Donbas and started a military operation to counteract an outbreak of hostilities in the region. Government troops blocked the spread of the rebellion, and cleared a few towns of rebels. According to the Ministry of Health of Ukraine, as of June 11, the number of people killed during the conflict amounted to 270.

The conflict has characteristics of both civil war and external aggression. On the one hand, the bulk of the rebels were locals, supported by many regional officials and law enforcement officers. According to the central government estimates, about a third of local residents participated in the so-called referendum on “independence” of Donetsk and Luhansk regions from Ukraine on May, 11. Donbas was a stronghold of former President Viktor Yanukovych, which had fled Ukraine in February, and, unlike other regions of Ukraine, generally did not favour the new government. The intransigency of Donbas residents stems from a lengthy and massive propaganda campaign, which was organized by regional authorities and by Russia. The campaign persuaded a significant portion of locals that people from other regions of Ukraine were hostile to them, and that the new government in Kyiv was a “fascist junta”.

On the other hand, the conflict had clear signs of external aggression. Gunmen from Russia were the core of the most effective rebel troops. The most influential separatist leaders were Russian citizens that had come to Ukraine recently. Rebels got weapons from suppliers located in Russia, including tanks, man-portable air-defence systems and the latest assault rifles. Besides, the Russian government supported separatists by deploying troops on the border with Ukraine and conducting a massive propaganda campaign.

The war should be considered in the context of persistent attempts by Russia to bring Ukraine into its sphere of influence. In March, Russia annexed Crimea, a peninsula with population of 2.4 m in the south of Ukraine, after it failed to divert Ukraine from the course for European integration. The escalation in Donbas could have been a first step of a large scale Russian intervention into the mainland Ukraine. However, those plans were stopped after Western countries threatened Russia with sectoral sanctions. As a result, Russia started a kind of hybrid war against Ukraine, which combined irregular warfare, civil war, and terrorism, to achieve its goals and avoid sanctions. It implies that the conflict is likely to be long lasting.

In May, the central government tried to resolve the conflict by negotiations and offered to grant more powers to local authorities and guarantee the right to use the Russian language in the region. But those attempts were unsuccessful as rebel leaders rejected any compromise with the government.

However, the intensity of fighting was rather low. Troops were constantly fighting only in the area near the adjacent towns of Slaviansk and Kramatorsk, located at the north of Donetsk regions. Occasional hostilities took place also near a few other cities and towns. Low intensity of fighting was due to several reasons. First, the military strength of rebels was very limited. Their troops numbered only a few thousand as rebels failed to get involved a large number of locals in fighting. Second, rebels concentrated in towns and in fact used local residents as a human shield. It prevented government troops from entering the towns because the government strongly tried to avoid casualties among civilians. Third, the wealthiest local businessmen might influence both rebels and the central government. It may be surprising that, despite the military conflict, the largest production facilities in the region neither stopped nor significantly reduced production (with only a few exceptions). Given those reasons, it may be assumed that intensity of military operation will continue to be rather low.

Although the conflict affected mostly banks and trade companies in the region, it will have a large negative impact on the economy if it is not stopped. In May, the EBRD downgraded the outlook for economic development in Ukraine form growth at 1.5% to drop at 7%. In 2013, Donbas accounted for 14.5% of the population and 25.2% exports from Ukraine. Its main industries are steel industry and coal mining. On the positive side, the conflict provides incentives to western countries to increase financial aid to Ukraine. It also may provide stimulus to accelerate economic reforms in Ukraine as it increased public demand for effective governance and law enforcement.

Monthly Economic Monitor Ukraine

Politics: Petro Poroshenko elected President

Presidential elections. On May 25, Petro Poroshenko, a billionaire and a centrist politician who supported Euromaidan, was elected new President of Ukraine. He received 54.7% of votes, while his closest opponent Yulia Tymoshenko got 12.8%. Poroshenko's victory was expected because he had constantly been leading the polls in recent months. The questions were whether the election would take place at all oblasts given an unfolding military conflict in the East of Ukraine, and whether Poroshenko would win in the first round (receiving more than 50% of votes). The election took place in all regions of Ukraine with the exception of Crimea, although about 82% of voters in Donetsk and Luhansk regions did not have an opportunity to participate in it because the election in their towns and villages was disrupted by pro-Russian rebels. Nevertheless, Poroshenko has become a Presidential candidate who gained a majority of votes in all regions of Ukraine for the first time in 23 years of its independence.

New President has more moderate views on solving the conflict in Donbas than most of his main election rivals. He stated that negotiations with Russian President Vladimir Putin would be needed to stop the war. Poroshenko also called for decentralization and granting official status to the Russian language in the Donbas. However, he also said that the military operation against rebels in Donbas must be more effective. New President also called for an early parliamentary election. He expected to sign the remaining chapters of the Association Agreement with the European Union (EU) in June.

On June 7, Poroshenko took over power from Oleksandr Turchynov, who had been acting President since February after former President Viktor Yanukovych fled Ukraine. Earlier Poroshenko had been a member of the Parliament for a long period of time (in 1998-2005, 2006-2007, and 2012-2014), and had held various executive and non-executive positions under Presidents Viktor Yushchenko and Viktor Yanukovych (Minister of Foreign Affairs, Minister of Trade and Economic Development, Head of the Council of the National Bank of Ukraine). Poroshenko's wealth is estimated at USD 1-1.3 bn. He owns 'Roshen', a major Ukrainian confectionery manufacturer.

The EU. On May 27, the European Commission concluded that Ukraine had completed the first phase of the EU-Ukraine Visa Liberalisation Action Plan (VLAP) as it adopted all necessary legislative and planning changes. The Parliament passed the last four laws that were necessary for the completion of the first stage of the VLAP on May, 13. Those laws were aimed at (1) fighting corruption, (2) eliminating discrimination on the labour market, (3) enhancing protection of asylum seekers, and (4) improving protection of personal data. The goal of the VLAP is to ensure conditions that allow the EU to lift the short-stay visa obligations for Ukrainians. It will be achieved when Ukraine completes the second phase of the VLAP (effective and sustainable implementation of relevant measures). In particular, Ukraine has to start issuing biometric passports. According to President Petro Poroshenko, Ukraine intends to get a visa-free regime for short trips between Ukraine and the European Union starting from January 1, 2015.

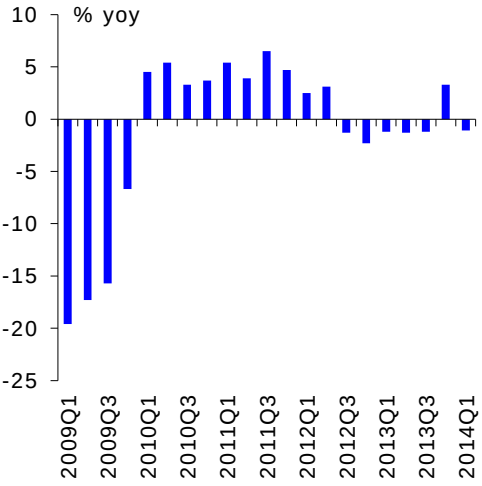
Real sector: Investments dropped in the first quarter

GDP. Real GDP declined by 1.1% yoy in the first quarter of 2014. Real private final consumption grew by 5.7% yoy due to increase in real disposable income. Real net exports also made a positive contribution to GDP growth. At the same time, real gross fixed capital accumulation dropped by 19.1% yoy primarily due to lower investments into machinery and equipment and high statistical base (massive investments in solar power plants).

On the production side, real gross value added (GVA) in manufacturing declined by 6.8% yoy due to weak domestic and external demand. Construction declined by 3.9% yoy from low

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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statistical base. Lower industrial output and external trade volumes resulted in drop in real GVA in transport by 5.8% yoy.

***Sectoral trends**. 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.*

Industrial output in April declined by 6.0% yoy. Output in extraction industry decreased by 1.6%. In particular,extraction of coal and lignite declined by 5.1% yoy, which may be explained by unrest in Donetsk and Lugansk regions. Output in manufacture dropped by 9.6% yoy due to weak domestic and external demand.Production of metallurgy fell by 12.8% yoy due to low external demand as well as logistical problems due to unrest in the east of Ukraine. Machine building output declined by 18.9% yoy primarily due to the protracted and significant drop in production of locomotives and railway carriages (by 53.4% yoy) due to lower demand from Russia.

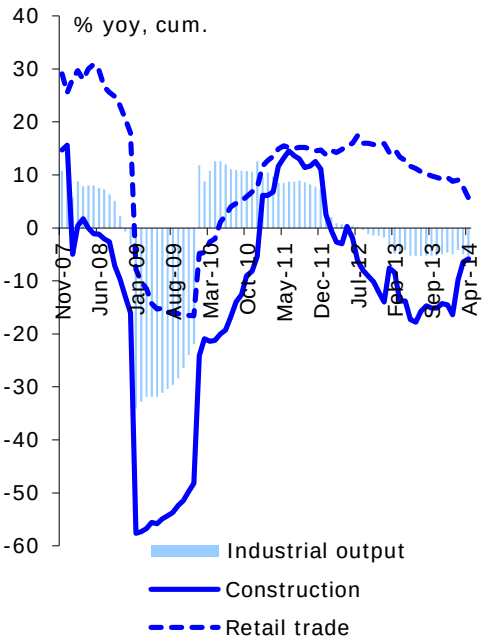
Output in chemical production declined sharply by 23.3% yoy. In particular, operation of two large chemical plants in Donetsk region ("Stirol" in Gorlovka and "Azot" in Severodonetsk) was stopped. Data now excludes the performance of chemical plants situated on temporarily occupied territory of the Autonomous Republic of Crimea (namely, "Kryms'kyi Titan" and "Crimean Soda Plant").

Rapid drop in construction at 24.9% yoy in April may be primarily explained by drop in fiscal capital outlays due to high fiscal pressure. Besides, residential and commercial construction likely declined also due to financing constraints against the background of hryvnia depreciation, high economic and political uncertainty.

Agricultural production in April grew by 2.7% yoy.

Between January and April retail trade turnover growth decelerated to 5.6% yoy. In particular, real disposable income growth slowed down against the background of high fiscal pressure and financial constraints of companies.

Real sector trends



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

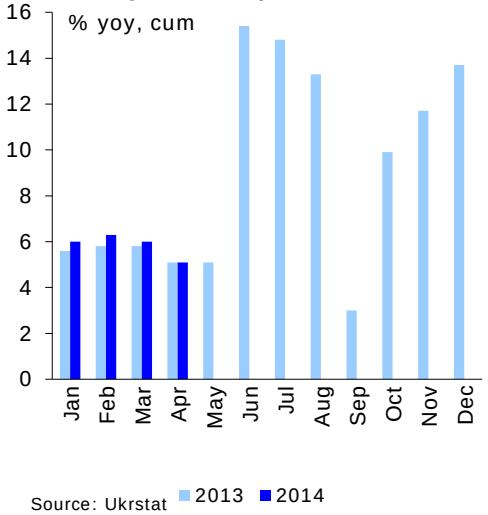
Energy. Ukraine pays debts and starts reforms

Gas prices. The Naftogaz paid USD 786 m for Russian gas consumed in February and March of 2014. This was the debt not questioned by either the Naftogaz or Russian Gasprom. Gas consumed in January was paid for in March. The rest of the debt as well as the gas price starting from April 2014 is still under negotiation. Naftogaz considers the gas price that it paid in 2013 as well as the gas price that Gazprom set from April 2014 as too high. Ukrainian side also insists on changes in gas formula in the gas contract and shifting the point of measuring gas volumes from western to eastern border of Ukraine.

Gas market reform. Ukrainian government announced the start of reforms in gas sector of Ukraine. According to the Prime-Minister, gas transportation and gas storage functions of the Naftogaz are to be passed to newly created companies: Ukrainian Gas Transportation System and Ukrainian Gas Storages. The first company will transport gas, while the second company will offer gas storage services to all gas market players. This is a great step towards transparency of the gas market. Another step was made by the Ukrtransgaz, which started to disclose data on gas transit volumes on its website. It shows data for six gas measuring stations. This decision is in line with the EU requirements.

Electricity. The National Energy Regulation Committee (NERC) raised the electricity tariff for households on average by 12% from July 2014. The exact increase in tariff depends on the monthly consumption of electricity: households that consume less than 150 kWt*h per month will face an increase of 10%. Tariffs for electricity volumes consumed by households above 800 kWt*h will be increased by 40%. At the same time, the NERC increased the forecast wholesale price for electricity by 4.8% to UAH 827.76 per 1 MWt*h. According to NERC estimates, this increase in tariffs will lead to a decrease in cross subsidies by 4% next year. Retail electricity prices for industrial consumers and budget entities will also be increased from June by

Agricultural output
Agricultural production



Source: Ukrstat

4.8% to UAH 89.08-113.39 kWt*h depending on the class of consumption.

Agricultural sector: Grain export volumes are stable but prices increased

According to the Ministry of Agricultural Policy and Food, Ukraine has already exported more than 31 m t of grains (including 9 m t of wheat, about 20 m t of corn and 2 m t of barley) in 2013/2014 marketing year. In addition, other 0.7 m t is either in port elevators or loaded on ships. Thus, more than 32 m t of grains will be surely exported by the end of 2013/2014 marketing year. This is about 28% higher than in the previous year.

Although complicated political and economic situation did not affect grain export volumes, domestic prices increased considerably. According to the Food Price Watch report of the World Bank, between January and April wheat and corn prices in Ukraine increases by record 37% and 73% (in UAH equivalent), respectively. This is explained by increase in world prices, currency depreciation, increasing demand for grain exports and increased production costs. Considerable increase of wheat and corn prices (18% and 12%, respectively, in USD equivalent) was also observed at the international market due to weather concerns, growing import demand and, probably, to a lesser extent, unstable political situation in Ukraine. At the same time, global food prices increased by 4%.

The Ministry reports that current domestic market prices for 3rd class of wheat are UAH 2416 per t, feed wheat – UAH 2286 per t, average barley prices are UAH 1934 per t, corn prices – UAH 2125 per t.

External sector: Current account balance turns to surplus

Preliminary data on the balance of payment, which is published by the NBU, does not include Crimea since April 2014. At the same time, the NBU did not revise historical data.

Current account balance (not including Crimea) in April was positive at USD 0.2 bn. Surplus was explained by decline in merchandise imports.

Exports of goods declined by 12.1% yoy primarily due to weak demand. Chemicals exports dropped the most (by 23.4% yoy) partially due to natural gas price increase. Besides, Crimea, where several chemical enterprises are situated, was *de facto* excluded from the custom territory of Ukraine. Lower demand from Russia also resulted in drop of exports of machinery (by 22.0% yoy). Exports of metals and minerals, also declined. At the same time, exports of food products increased by 8.9% yoy.

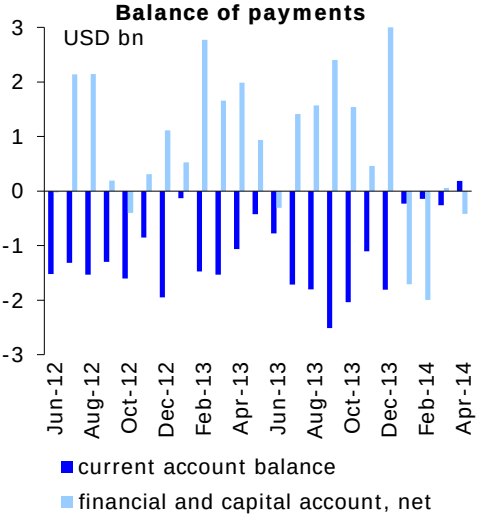
Merchandise imports contracted by 30.0% yoy. In particular, hryvnia depreciation resulted in imports substitution. Demand for imported investment goods was weak also due to high economic and political uncertainty. Overall, imports of all major items but mineral products dropped by more than 30%. Decline in imports of mineral products by only 6.8% yoy was likely attributed to higher volumes of imported gas, while the NBU used price for imported from Russia gas at USD 268.5 per thous. m^3.

Financial and capital account balance in April was negative at USD 0.4 bn. The main contributor to such dynamics was net FDI outflow a USD 0.4 bn. Positive balance of loan and bond operations was driven by higher short-term crediting of financial and non-financial corporations. Net outflow of assets from banking system in April was equal to USD 0.2 bn due to cash foreign currency outflow from banking sector.

Fiscal policy: Fiscal revenues continue growing

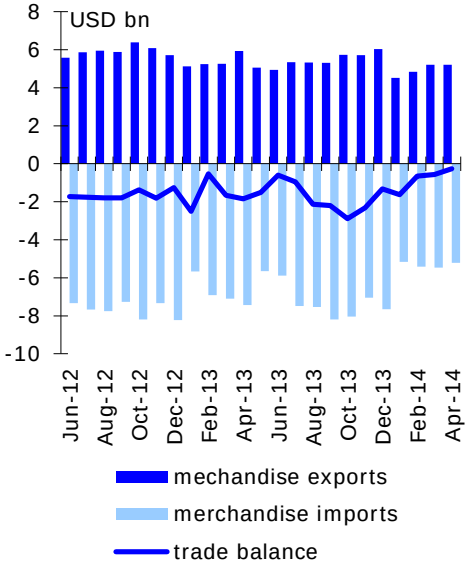
According to the preliminary data of the State Treasury central fiscal revenues grew by 11.2% yoy between January and May to UAH 151 bn despite problems with tax collections in Donetsk and Lugansk oblasts. According to the Prime-Minister Arseniy Yatseniuk tax collections from these two regions were about 50% of plan in May. Central fiscal revenues due to general fund were by 0.2% below the target. Higher revenues were primarily explained by larger transfer of

Balance of payments



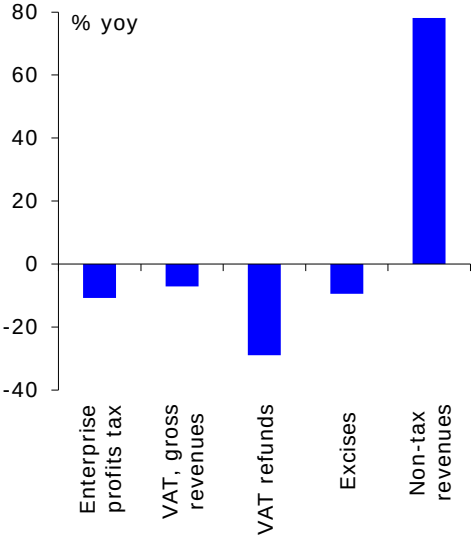
Source: NBU preliminary estimates

External merchandise trade



Source: NBU preliminary estimates

Growth of central fiscal revenues January-April 2014



Source: State Treasury reports

NBU profits to the budget. Besides, revenues were likely supported by higher prices in particular for imports, increase in tax rates and lower VAT refunds.

Between January and April central fiscal revenues grew by 13.6% yoy predominantly due to fivefold increase in NBU profits transferred to budget. Net VAT revenues grew by 3.3% yoy due to lower VAT refunds. Excise tax on imported goods grew due to hryvnia depreciation. At the same time, EPT revenues fell by 10.7% yoy due lower receipts from advance EPT payments and economic downturn. Overall tax revenues remained at the level of previous year.

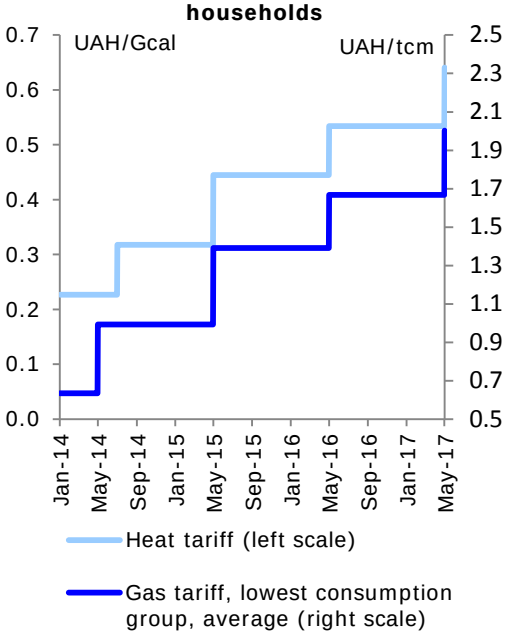
Central fiscal deficit at UAH 6.9 bn was smaller than last year (at UAH 16.1 bn) as external financing was planned for May. Central fiscal expenditures remained below target, even though they grew by 4.6% yoy.

Social policy: Compensation for increase in utility tariffs

In July the Government will start paying special subsidies to households with per capita income below subsistence minimum. This additional subsidy will be equal to difference in utility bill of households before and after hikes in tariffs for gas, electricity and heating. This is intended to guarantee that the poorest households fill the increase in tariffs until the end of 2014/2015 heating season. As special subsidy is fixed poorest households will pay less if they consume less.

New compensation program will complement regular utility subsidy, which limits utility bill to 15% of household income (10% for households, which are comprised of only pensioners and children). Therefore, the Government attempts to ease the burden for poor households from increase in utility tariffs, which is demanded by fiscal consolidation measures. According to the Institute's estimates, the decline in energy subsidies provided universally through discounted gas tariffs will be higher than additional costs for housing and utility subsidy, including compensation.

Planned increase in utility tariffs for households



Source: National Utility Regulation Commission

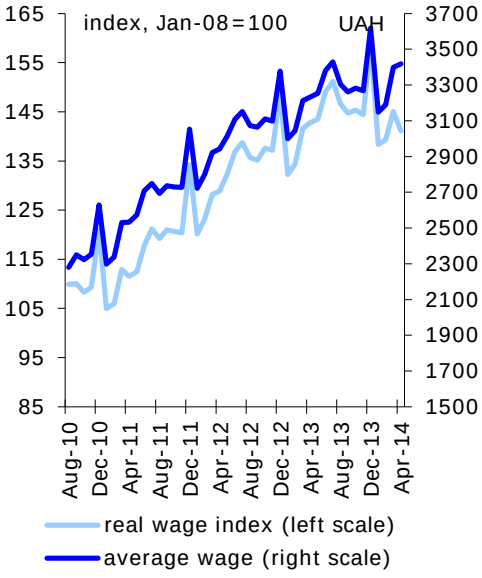
Labour market: Decline in real wage

In April average wage in Ukraine (not including Crimea) grew by 5.5% yoy in nominal terms, but declined by 1.3% yoy in real terms.

Average wage in industry grew by 6.5% yoy primarily due to increase in minimum wage at 6.2% yoy. The largest wage increase was in manufacture of coke and refined petroleum products (by 17.1% yoy) primarily due to statistical base effect. Increase in wages in metallurgy at 11.9% yoy might be partially explained by higher sales of metallurgical companies due to hryvnia depreciation. Wage in pharmaceutics industry also increased by 12.5% yoy due to government policies to stimulate domestic production of medicine and substitution of imported medicines by domestic ones in public procurement. On the other hand, wages declined in manufacture of electronic and optic equipment and transports, which might be attributed to financial problems in these sectors.

Wage growth in agriculture decelerated to 6.5% 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 decline or cancellation of premiums and benefits in public sector. As a result, wages declined by 1.5% yoy in education and grew by only 2.8% yoy in health care. At the same time, wages in government administration and defence grew by 7.0% yoy likely due to wage increase in defence.

Average wage



Source: Ukrstat

Monetary policy: Consumer inflation surged to 10.9% yoy in May

In May consumer inflation returned to double digits at 10.9% yoy for the first time since 2011. Transmission of hryvnia depreciation effects to consumer prices continued for the third month in a row. Weak demand capped price increases, but cost pressure on prices was also strong given thin retail margins and constrained bank financing. Increase in gas tariffs by 63% translated into 1.4% increase of the CPI.

The NBU in May increased interest rate on stabilisation and liquidity loans to double discount rate, but later decreased it for older stabilisation loans to 1.5 times discount rate. This made emergency refinancing more costly for banks. At the same time, the NBU made reserve requirements more flexible for banks requiring them to hold less reserves on daily basis since June.

Monetary conditions remained relatively easy for sound banks in May. They continued to keep significant amounts of liquidity at the NBU overnight deposit facility. Interbank interest rate continued to fluctuate in 6-8 p.a. range.

Exchange rate: Hryvnia volatility decreased in May

In May hryvnia volatility decreased as average interbank exchange rate remained in UAH 11.4-11.8 per USD range. As expected the NBU maintained 50% mandatory sales requirement on foreign currency inflows and other administrative measures. Nevertheless, inflow of USD 5.1 bn from official loans and guaranteed Eurobonds was not sufficient to result in expected appreciation of hryvnia. This is probably explained by political factors and international trade disruptions in the Eastern Ukraine.

International reserves increased to USD 17.9 bn by the end of May as the NBU received USD 3.2 bn from the IMF and USD 2.1 bn from other creditors. The NBU also conducted net interventions of USD 0.6 bn to support payment for imported gas and made payments on foreign currency government debt.

State debt: First tranches of external financial aid received

Domestic debt. In May domestic borrowings significantly decreased against the background of received first tranche of the IMF loan (UAD 3.2 bn) and expected international financial assistance. The Ministry of Finance placed UAH 2.3 bn of hryvnia denominated bonds as compared to UAH 7.1 bn in April, while the weighted average yield increased by 2.2 p.p. to 16.4 p.a. It was primarily explained by low demand for the bonds and the Government's unwillingness to borrow at high interest rates. The share of short-term bonds increased to 23.4% of the total placement. Besides, the Government placed USD 255 m of two-week USD-deniminated bonds.

The Government increased statutory capital of the Naftogaz by UAH 10.0 bn through special issue of seven-year state domestic bonds at 14.3% p.a. Overall, the Government plans to recapitalise the company with UAH 33,3 bn in 2014, which is expected to ensure timely payments for imported natural gas.

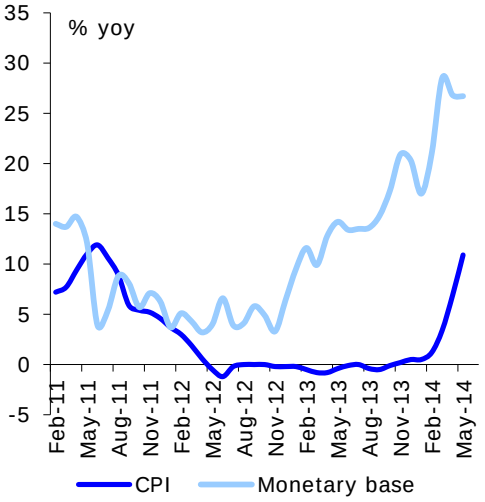
External debt. The Ministry of Finance placed USD 1 bn of five-year Eurobonds at 1,844 p.a, which is the lowest historical yield. This placement was supported by the loan guarantee agreement between the governments of Ukraine and the USA, which is a part of a international financial aid package to Ukraine.

Besides, the Government received sixteen-year loan from the World Bank at USD 750 m in the framework of the first development policy loan (DPL-1). This loan is to be allocated for institutional reforms and stabilization of financial situation. Finally, the EU transferred the first loan tranche of EUR 100 m to Ukraine as part of the EUR 1.6 bn macro-financial assistance loan program. Next tranche of EUR 500 m is expected in June and is to be spent on external financing needs.

The IMF. On May 6, Ukraine received USD 3.2 bn (SDR 2.1 bn) from the International Monetary Fund (IMF) as the first disbursement under the two-year Stand-By Arrangement (SBA), which was approved by the IMF in April. About USD 2 bn (SDR 1.3 bn) from the first disbursement were allocated to budget support. The rest was provided to the NBU.

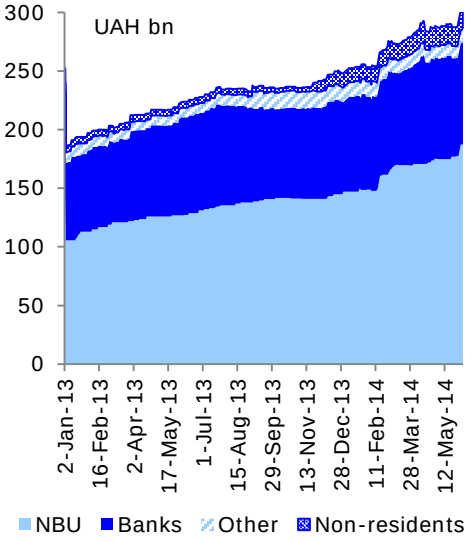
In late June, a mission from the IMF is expected to visit Ukraine to assess whether Ukraine meets the program's performance criteria as of the end of May. If the criteria are fulfilled, the second tranche at SDR 0.9 bn will be disbursed on July, 25. It is expected that the criteria will be assessed as met.

CPI and monetary base development



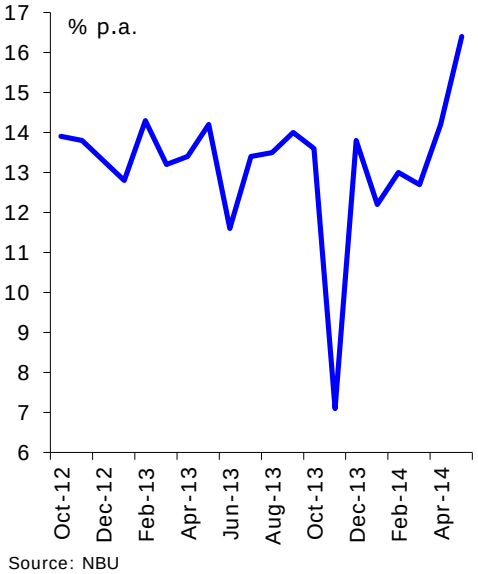
Source: Ukrstat, NBU

Domestic government bond holdings



Source: NBU

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	Jun	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr[c]	May[c]
Industrial production (real)	% yoy cum.	-1.2	-1.8	-5.0	-5.3	-5.2	-4.7	-5.0	-5.3	-5.2	-5.2	-5.2	-5.0	-4.7	-5.0	-4.2	-5.0	-5.3	...
Construction (real)	% yoy cum.	-9.1	-14	-13.8	-17.8	-15.1	-14.5	-6.4	-17.8	-14.7	-15.1	-15.1	-14.3	-14.5	-16.4	-9.8	-6.4	-5.8	...
Agricultural production (real)	% yoy cum.	-4.6	-4.5	5.8	15.4	3.0	13.7	6.0	15.4	13.3	3.0	9.9	11.7	13.7	6.0	6.3	6.0	5.0	...
Retail trade turnover (real)	% yoy cum.	16.0	15.9	13.4	11.2	9.8	9.5	7.7	11.2	10.2	9.8	9.5	9.2	9.5	8.8	9.0	7.7	5.6	...
Average wage	UAH	3064	3195	3085	3289	3331	3390	3245	3380	3304	3261	3283	3268	3619	3148	3189	3398	3432	...
CPI	% yoy eop	0.0	-0.2	-0.8	-0.1	-0.5	0.5	3.4	-0.1	-0.4	-0.5	-0.1	0.2	0.5	0.5	1.2	3.4	6.9	10.9
PPI	% yoy eop	0.3	0.3	0.2	-1.6	-0.9	1.7	3.9	-1.6	-0.9	-0.9	0.8	-0.5	1.7	1.9	3.3	3.9	6.1	8.8
Exports (USD)*	% yoy cum.	2.6	1.0	-4.7	-7.1	-6.2	-5.2	-6.5	-8.4	-8.7	-8.8	-9.0	-8.8	-7.6	-11.9	-9.8	-6.8	-8.3	...
Imports (USD)*	% yoy cum.	7.6	5.6	-0.8	-8.3	-4.1	-3.4	-16.7	-10.8	-8.8	-6.4	-6.0	-5.7	-5.8	-8.7	-15.9	-18.4	-21.6	...
Merchandise trade balance	USD bn cum.	-14.8	-20.5	-4.0	-7.1	-14.2	-19.6	...	-7.1	-11.4	-14.2	-16.6	-18.0	-19.6	-0.7	-1.2	-1.5	-1.5	...
Current account**	USD bn cum.	-10.0	-14.4	-3.1	-5.5	-11.4	-16.4	...	-5.5	-8.9	-11.4	-13.4	-14.5	-16.1	-0.2	-0.4	-0.3	-0.1	...
Gross international reserves	USD bn eop	29.3	24.5	24.7	23.2	21.6	20.4	14.2	23.2	21.7	21.6	20.6	18.8	20.4	17.8	15.5	15.1	14.2	17.9
Monetary Base	% yoy eop	5.8	6.4	9.9	13.4	14.8	20.3	28.5	13.4	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	15.3	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	8.15	8.12	8.17	8.18	8.20	8.24	8.37	9.08	9.98	11.61	11.78
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	7.99	8.65	9.92	11.64	11.64
Exchange rate (official)	EUR aop	9.99	10.37	10.55	10.44	10.58	10.87	12.14	10.41	10.64	10.67	10.90	10.79	10.94	10.92	11.80	13.69	16.08	16.00

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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