INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

No.5 (163), May 2014

EXECUTIVE SUMMARY

HIGHLIGHT: STAND-BY ARRANGEMENT

Politics: April was marked by further escalation of tensions with Russia and unrest in the Eastern Ukraine. The outlook for the conflict in Donetsk and Luhansk regions is likely to be negative as all attempts to resolve the situation through negotiation, including at the international level, failed.

Real Sector: Manufacturing output in March dropped by 8.1% yoy due to weak domestic and external demand.

Energy sector: Confrontation between the Naftogaz and Gasprom increased. In particular, the Naftogaz did not pay for received gas in April due to disagreement on price for gas.

Agriculture: The overall expectation on the current marketing season remains rather optimistic due to favourable weather conditions.

External sector: Current account deficit in March narrowed to USD 0.2bn a due to decline in merchandise imports.

Fiscal policy: As the Government did not receive external funding it expected central fiscal expenditures (general fund) reached only 90.2% of target.

Social policy: The Government has not approved this year's budget of the Pension Fund so far.

Labour market: In March, average wage growth accelerated to 5.8% yoy.

Monetary policy: Consumer inflation surged to 6.9% yoy in April as effects of hryvnia depreciation trickled through to consumer prices.

Exchange rate: In April hryvnia continued to weaken sharply in response to political instability as the NBU committed to the IMF to maintain flexible exchange rate.

State debt: External financial support is expected in May.

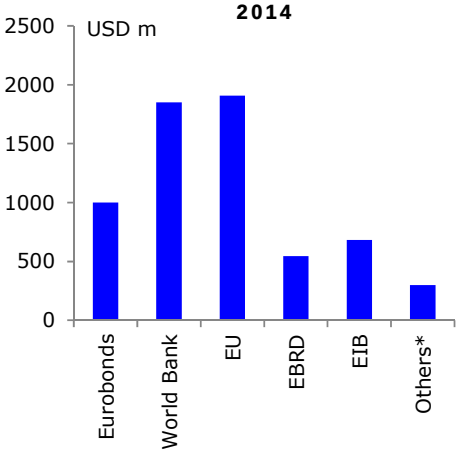
Highlight of the month: Stand-by Arrangement

MORE REFORMS, MORE SUPPORT – HIGHER STABILITY

Oleksandra Betliy, Vitaliy Kravchuk

On April 30, the IMF Executive Board approved SDR 11.0 bn (USD 17.1 bn at current exchange rate) Stand-by Arrangement (SBA) for Ukraine. It is divided in eight tranches ending in March 2016. On May 7 Ukraine has already received SDR 2058 m including SDR 1290 m for budget supports. The conclusion of the SBA was a precondition for support from IFIs and bilateral official creditors. It is also likely to unlock access to private financial markets after political situation stabilizes. New SBA as well as other international funding will support comprehensive program of economic reforms. The initial goal of reforms is to restore macroeconomic and financial stability with ambitious structural reforms further on the road. Reform agenda will be developed in close consultations with the IMF and other donors. In 2014 reviews of the SBA are planned in June-July, August-September and November-December. The next three instalments of the IMF loan are contingent on these reviews and new reforms will likely be planned as a result of studies mandated by the SBA.

Expected external financing in 2014



*Note: * Canada, Japan*
Source: IMF country report No.14/106

New Government renewed negotiations with the IMF on new program almost immediately after appointment in the end of February. In particular, external financing was almost closed and international reserves would have covered foreign currency debt payments in 2014 but the Naftogaz would have had to purchase foreign currency for gas imports on open market. Hryvnia sharply depreciated and timely financing of wages and pension would have been questionable. Approval of the new SBA had several preconditions. In particular, the Government had to consolidate state budget through expenditure cuts and higher taxes, increase in prices for gas and heating to reduce energy subsidies, approval of new public procurement law and diagnostic studies for largest banks. These initial steps confirmed political commitment to reforms as they included unpopular steps.

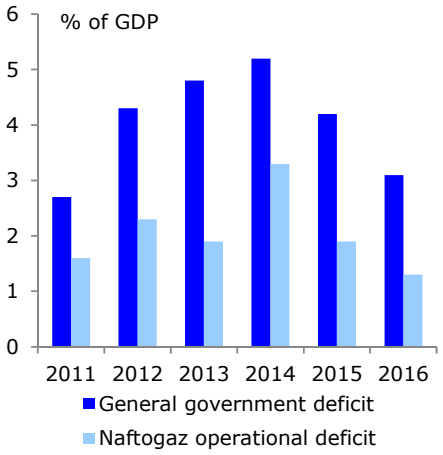
In the future we expect move to inflation targeting, measures to ensure well-capitalized banking sector, efforts to increase efficiency of public spending and fiscal consolidation. Structural reforms are also expected including balancing finances of the Naftogaz (through reducing waste and losses as well as price hikes for households), ensuring energy efficiency, improving business climate and reducing corruption.

Structural fiscal adjustment at 2% of GDP between 2013 and 2016 is to be achieved by ensured higher revenues and restrained expenditures. The IMF also expects the Government to solve VAT refund issue. Special state domestic bonds are to be issued to repay VAT refund arrears and the criteria for automatic VAT refunds are to be revised. While most revenue side measures were already introduced in April, more is expected on the expenditures side. In particular, public wages and minimum wage should not be increased above productivity growth. Pensions and improved means testing of the social assistance will also likely to be part of expenditure measures. Implementation of new public procurement law is expected to strengthen the governance and result in higher expenditure efficiency. Further public sector efficiency measures are expected to be introduced in 2015 and 2016.

Energy subsidies should be sharply reduced with the objective to cut the Naftogaz's deficit to zero by 2018. In particular, gas and heating prices for households are to be increased on average by 56% and 40%, respectively, in 2014. Further tariff increases are planned in 2015, 2016 and 2017. At the same time, the most vulnerable groups are expected to be protected from tariff hikes due to higher coverage by current housing and utility subsidies, which are to be preserved under the IMF program. The Government also approved new assistance program, which will fully offset the difference in tariffs for the most poor for 12 months. However, the Naftogaz is also expected to improve revenues collection and rationalise costs. In the meantime, the Naftogaz deficit at 3.3% of GDP in 2014 is to be financed through government capital infusion.

The Government and the NBU promised to maintain flexible exchange rate and focus monetary policy on price stability. Administrative restrictions at foreign exchange markets are to be gradually removed starting end-July. This decision may be overly ambitious as foreign exchange market is illiquid and excessive exchange rate volatility will be harmful for economic recovery. Still, three SBA reviews by the end of 2014 should provide ample opportunity to fine-tune the Program.

Fiscal deficit



Note: Program 2014-2016
Source: IMF country report No.14/106

Inflation targeting (IT) is to be introduced within twelve months. It will be based on extensive technical preparations made over the last years as plans to move to the IT existed since early 2000s. However, successful IT will turn on credible central bank and ability of the NBU to move away from policy focused on administrative measures. Last but not least problem is the degree of the NBU influence on inflation.

The risks of the implementation of ambitious reform agenda remain high. These include internal risks of backsliding and populism inherent in Ukrainian politics. This may become particularly dangerous after initial stabilization is achieved. Outside risks include escalation of tensions with Russia and further unrest in the Eastern Ukraine. These risks may not allow Ukraine to achieve macroeconomic stability and may increase external assistance needed.

Monthly Economic Monitor Ukraine

Politics: Russia incites a separatist rebellion in Eastern Ukraine

Separatist rebellion. In April, groups of gunmen demanding secession from Ukraine seized some local government buildings and law enforcement offices in at least eight towns in Donetsk and Luhansk regions, two densely populated old industrial provinces in the South-East. Takeovers began on April 6 in Donetsk and Luhansk, later they also covered other towns, including Slavyansk, Kramatorsk, and Horlivka. The separatists declared establishment of independent Donetsk and Luhansk people's republics. However, as of May 7, the separatists did not have a complete control of the towns except for Slavyansk. The central government maintained a partial control of its local branches in the two regions, including a full control of all military forces. On April 13, the Government launched a counter-terrorist operation, which turned later into a limited military operation in Slovyansk and Kramatorsk, but that operation had little success. A number of separatist gunmen were regular soldiers or mercenaries from Russia and Crimea, which was annexed by Russia in March. Russia also supported separatists by deploying troops on the border with Ukraine and conducting a massive propaganda campaign. Evidently, the Russia's ultimate goal was to undermine fragile political stability in Ukraine in order to disrupt presidential election, which were scheduled on May 25, and establish a pro-Russian government in Kyiv.

The outlook for the conflict in Donetsk and Luhansk regions is likely to be negative as all attempts to resolve the situation through negotiation, including at the international level, failed. The Government faces a choice between two options: intensify military actions against separatists or lose effective control of the regions. Both options will have negative economic consequences, including a possible disruption of the economy in the two regions. The conflict may also spread to other regions in the East and in the South of Ukraine. The risk of civil war also exists as pro-Ukrainian activists may start resisting separatists by force. However, the risk of cancellation of the presidential election in Ukraine is rather low. On the bright side, the conflict gave a stronger incentive to developed countries to provide financial and technical aid to Ukraine.

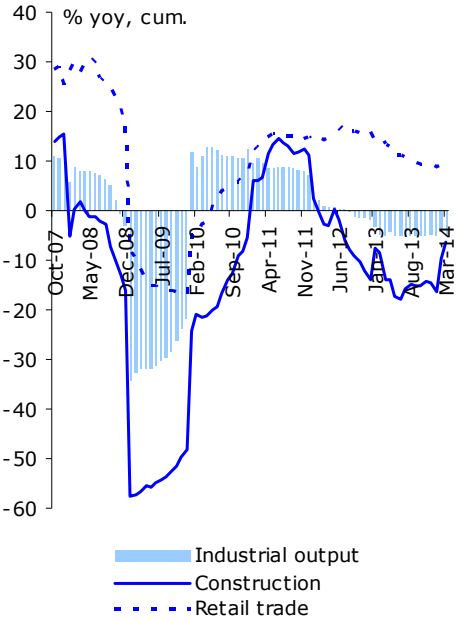
The EU. On April 23, the European Union's regime of autonomous trade preferences to Ukraine came into force. Specifically, the EU removed tariffs for 94.7% of industrial products (except for processed food products), 82.2% of agricultural goods, and 83.4% of processed food products exported from Ukraine. For some other goods, including cereals, pork, beef, and poultry, duty-free tariff rate quotas were introduced. The action was intended to support Ukraine before the country signs the remaining chapters of the Association Agreement (AA) with the EU, thus establishing a Deep and Comprehensive Free Trade Area (DCFTA) with the Union. Those chapters are expected to be signed and come into force by November, 2014. The benefit of Ukraine from these preferences is estimated at EUR 497 m in annual terms, including EUR 340 m from export of agricultural products.

Real sector: Industrial production continues to decline

Sectoral trends. Industrial output in March declined by 6.8% yoy. Manufacturing output dropped by 8.1% yoy due to weak domestic and external demand. Production of metallurgy contracted by 11.1% yoy from low statistical base primarily due to decline in exports to Russia. Machine building output declined by 17.4% yoy primarily due to the protracted and significant drop in production of locomotives and railway carriages (by 57.7% yoy) due to lower demand from Russia. At the same time, manufacture of vehicles increased by 34.9% yoy from low statistical base likely due to recycling fee introduced in September 2013. Decline in chemical production decelerated to 2.8% yoy from 5.9% yoy a month before likely due to higher price competitiveness against the background of hryvnia depreciation.

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

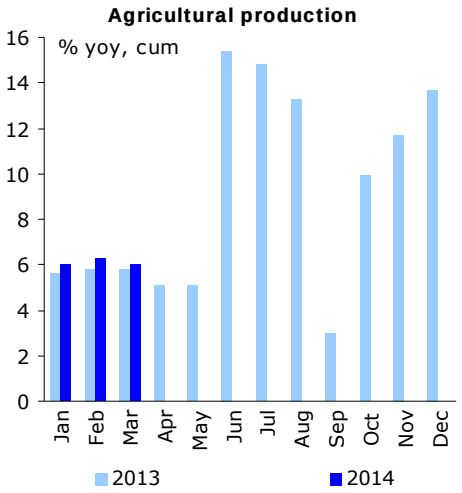


Source: Ukrstat

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Agricultural production in March grew by 5.6% yoy primarily due to higher production of meat and eggs. Drop in construction decelerated to 5% yoy in March from 9.4% in February primarily due to statistical base effect.

Between January and March retail trade turnover growth decelerated to 7.7% yoy likely due to slower increase in households' consumption. Moreover, retail sales of enterprises in March grew by only 0.5% yoy.



Source: Ukrstat

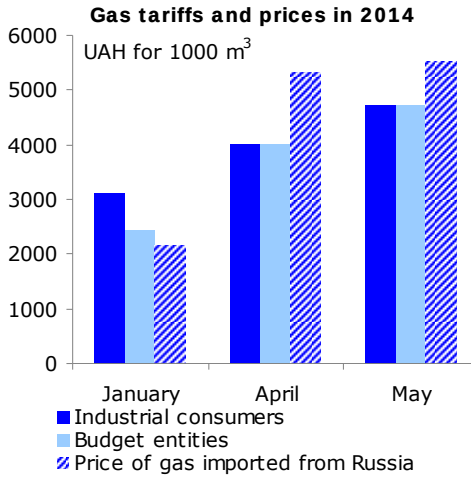
Energy. Larger confrontation between Naftogaz and Gasprom

Reverse gas flows. In April, the Naftogaz started receiving gas from Poland under the contract with German RWE, under which Ukraine is expected to get daily 4.08 m of cubic meters of gas. Total annual capacity of this route is 1.5 bcm of gas.

The Ukrtransgaz offered Slovak Eustream to sign an agreement on uniting the gas transportation systems of Ukraine and Slovakia. So far Slovakia only agreed to unite the gas systems on the Vojany-Uzhgorod line.

On April 28, the Ukrtransgaz and Eustream signed a memorandum on reverse gas supplies from Slovakia to Ukraine. Ukraine expects to receive annually 8 bcm of gas via this route. The supplies may start in August this year. Ukraine's efforts to diversify gas supply sources should help it to negotiate a new gas contract with the Gasprom.

Conflict with Gasprom. Russian Gasprom claimed that Ukrainian Naftogaz owes it USD 18.5bn for not meeting the "take or pay" condition of the contract. Under the contract, the Naftogaz was obliged to purchase 41.6 bcm of gas but it purchased only 12.9 bcm in 2013. The Ukrainian Energy Minister noticed that Naftogaz asked Gasprom in advance to change the volumes of gas to be purchased but received no reply. Ukraine considers going into court about the debt under "take or pay" clause. According to the Ukrtransgaz data, Ukraine imported 25.84 bcm of gas in 2013 including direct purchase of 12.92 bcm by Ostchem Group. Moreover, the details of the "take or pay" mechanism are not specified in the contract. Therefore, Ukraine has high chances to win its case against the Gasprom. The Naftogaz has already sent Gasprom pre-arbitrage note giving it 30 days to reach an agreement.



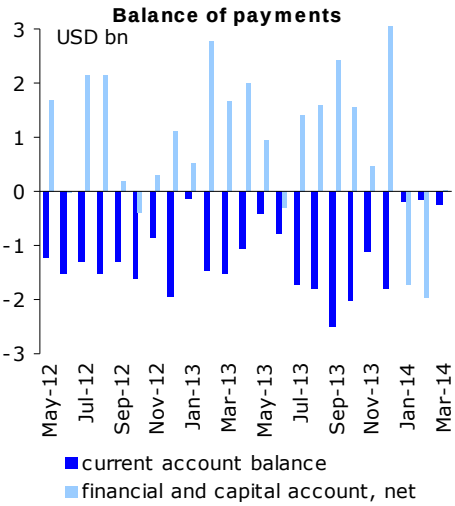
Source: NERC, Naftogaz

Meanwhile, Naftogaz's debt before Gasprom for gas received continues to grow as the Ukrainian company did not pay for the gas consumed in April. The Energy Minister explained the situation by uncertainty with the price of gas after the Gazprom increased it to USD 485 per thousand cubic meters with which Ukraine disagrees. As of April 1, the amount of gas debt reached USD 2.2bn (based on the price of gas of USD 268.5), the exact amount is being debated.

Tariffs. Ukrainian energy regulator the National Energy Regulation Committee increased the marginal price of gas for industrial consumers and budget entities by 17.5% to UAH 4724 per thousand cubic meters starting May 1 due to hryvnya depreciation. This is the second increase in gas price this year.

Agricultural sector: First steps on the deregulation

Overall situation. Although several agricultural enterprises in Donetsk and Luhansk oblasts were affected by deteriorated political situation, the overall expectation on the current marketing season remains rather optimistic due to favourable weather conditions. The Ministry of Agricultural Policy reports that 94% of winter crops are in good or satisfactory condition. According to the Ministry, sowing campaign was started two weeks earlier than usually and sowing of early spring grains is already completed. Spring cereals and legumes were sown at 64% of expected area. While official forecast of grain harvest is not yet available consensus forecast of market analysts at around 57 m t, which is by about 9.5% lower than in the previous year.



Source: NBU preliminary estimates

Regulation. In April, the Parliament approved the Law on the reduction of the number of permits in order to improve business climate. It envisages the elimination of unnecessary duplications of

permits and legislative inconsistencies. Overall, 113 different permits and procedures were cancelled, including 14 related to the agricultural sector.

In particular, the certificate on the quality of grain and its products was abolished. In fact, grain quality certificate issued by the State Agriculture Inspectorate was an absolutely idle document as it duplicated mandatory international quality certificates for exports. Moreover, mandatory certification of warehouses on the compliance of services for grain (and products of its processing) was cancelled as it caused additional financial burden on business and contributed to corruption. The mandatory approval of each batch of plant protection products for imports into the territory of Ukraine was cancelled as well.

Such changes are expected to result in reduction of corruption through simplification of administrative procedures. This, in turn, should foster development of the agricultural sector. However, agricultural business is waiting for further steps on deregulation, including simplification of registration of leases on land, abolishment of mandatory inspection of agricultural machinery, etc.

External sector: Financial account is again in surplus

Current account deficit in March narrowed to USD 0.2bn as compared to USD 1.5 bn a year ago due to decline in merchandise imports. Merchandise trade deficit amounted to USD 0.2 bn.

Decline in merchandise exports decelerated to 0.6% yoy. The only contributors to this decline were lower exports of metals (by 12.8% yoy) and machine building products (by 10.2%yoy) primarily due to drop in exports to Russia. At the same time, exports of food products increased by 15.3% yoy as grain exports surged. Besides, hryvnia depreciation likely contributed to increase in exports of mineral and chemical products.

Merchandise imports dropped by 23.0% yoy primarily due to high political uncertainty. Drop in imports of minerals by 26.5% yoy was explained by lower purchases of natural gas from Russia and smaller imports of crude oil due to termination of work of Odessa oil refinery. Lower investment and consumer demand resulted in drop of machine building imports by 41.1% yoy. Moreover, hryvnia depreciation contributed to imports substitutions. As a result, imports of manufactured goods declined by 30.8% yoy.

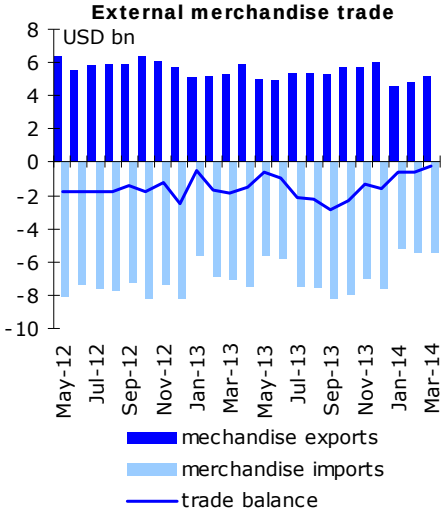
Financial and capital account balance turned positive at USD 0.04 bn after two months of deficit. In particular, net FDI outflow at USD 0.4bn was more than compensated by positive balance of loan and bond operations. Cash foreign currency outflow from banking sector declined to USD 0.7 bn after a surge to USD 1.9 bn a month before.

Fiscal policy: Fiscal expenditures are not fully financed

According to the preliminary data of the State Treasury central fiscal revenues growth accelerated to 13.5% yoy in the first four months of 2014. This is partially attributed to decline in VAT refunds by 29% yoy to UAH 13.1 bn. Besides, the Government likely received higher revenues from increase in some tax rates as well as larger transfer of the NBU profits.

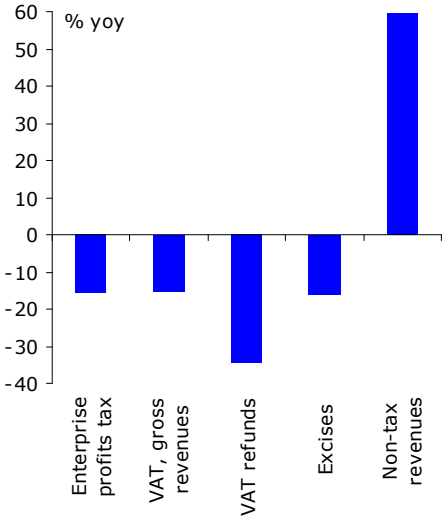
Between January and March central fiscal revenues grew by 6.0% yoy due to higher non-tax revenues. In particular, transfer of NBU profits to the budget grew by almost four times to UAH 15.8 bn. Larger NBU profits are primarily explained by scheduling revenues earlier in the year and increased transfers requested from the NBU. At the same time, tax revenues declined by 6.5% yoy due to lower collections of all major taxes. Decline in EPT revenues (by 15.8% yoy) might be explained by worse financial results of companies. Besides, receipts from advance EPT payments likely declined. VAT collections contracted due to lower imports and domestic production, despite lower VAT refund. Decline in imports also led to lower revenues from excise on imported goods. At the same time, central fiscal revenues due to general fund reached a target for the first quarter.

External merchandise trade



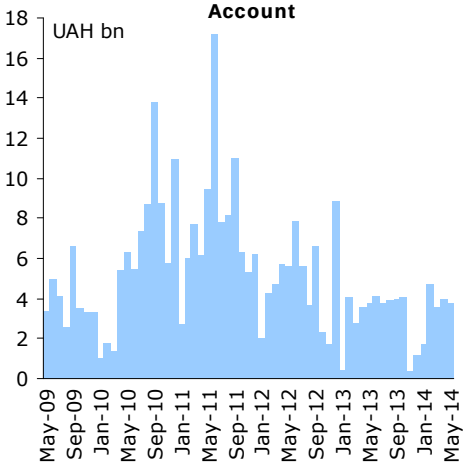
Source: NBU preliminary estimates

Growth of central fiscal revenues in the first quarter of 2014



Source: State Treasury reports

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

As the Government did not receive external funding it expected central fiscal expenditures (general fund) reached only 90.2% of target. They grew by 4.8% yoy. In particular, higher expenditures were allocated for general government functions and defence.

Social policy: Pensions are mostly paid in time

The Government has not approved this year's budget of the Pension Fund so far. This delay might be explained by changes in legislation. In particular, starting April the special duty on currency exchange operations (at 0.5%) was introduced. Revenues from this duty are expected to help the Fund to finance pensions.

In the first quarter of the year the Fund's revenues amounted to UAH 63.7 bn, from which 61% were received from own revenues of the Fund. Funding of the Pension Fund's deficit was close to the level of previous year. Pensions were paid in time and in full. However, in April and May the Fund reported difficulties in paying pensions in Crimea, which is explained by annexation of the peninsula by Russia.

Labour market: Further slowdown in wage growth

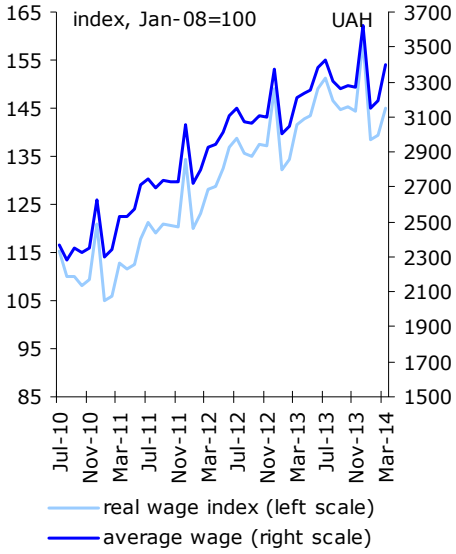
In March, average wage growth accelerated to 5.8% yoy. Minimum wage growth (at 6.2% yoy) is likely to remain a major factor of wage increase.

Average wage in industry grew by 5.5% yoy regardless decline in production. Salaries in manufacture of pharmaceutical products and equipment sector grew by 14.9% yoy as a result of 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 manufacturing of electronic and optic equipment and transportation manufacturing, which might be attributed to financial problems in these sectors.

Agriculture increased wages the most (at 15.7% yoy) due to good performance. Salary growth in education was far below average (2.9%yoy) likely due to fiscal constraints. At the same time, wages in government administration and national defence were increased by 10.1% yoy, probably due to better funding of the defence forces.

Overall, average wage growth in March slowed down to 2.4% yoy in real terms due to acceleration of inflation.

Average wage



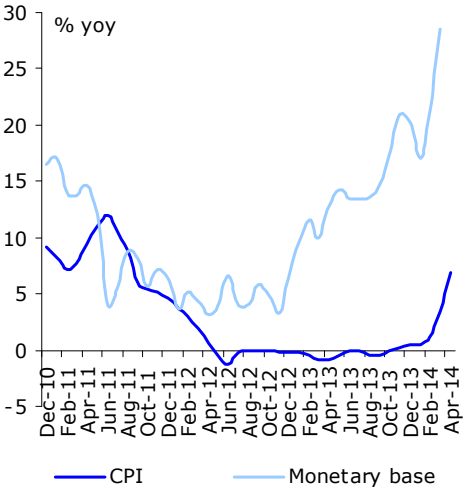
Source: Ukrstat

Monetary policy: Consumer inflation surged to 6.9% yoy in April

Consumer inflation surged to 6.9% yoy in April (reflecting second highest month-to-month price increase since 2000) as effects of hryvnia depreciation trickled through to consumer prices. Food prices increased by 8.3% yoy with higher price growth for imported products. Prices for bread and meat reportedly increased only by 2-3% yoy reflecting price declines in previous months and low share of imports in production. Sugar prices increased by 59% yoy due to lower production and vegetables appreciated by 32% yoy adding 4 percentage points to food price growth. Pass-through of exchange rate depreciation remained low for imported goods with high elasticity of consumption but prices for pharmaceuticals, cars and gasoline grew by 16%-33% yoy. In particular, higher prices for medicines also reflect introduction of 7% VAT tax.

Monetary conditions eased in April for at least some banks as the NBU continued to inject funds in the banking system through refinancing and government bond purchases. Liquidity was abundant in healthier banks, while more problematic banks continued to receive refinancing from the NBU. In the middle of April the NBU tried to limit inflation (and support the exchange rate) by dramatic increase in refinancing and deposit interest rates (to 14.5% and 4.5% for overnight loans and deposits). Overnight deposit rate provided a floor for interbank interest rate but policy rate hike had limited effect on deposit and lending rates for bank clients.

CPI and monetary base development



Source: Ukrstat, NBU

Exchange rate: Hryvnia was highly volatile in April

In April hryvnia continued to weaken sharply in response to political instability as the NBU committed to the IMF to maintain flexible

exchange rate. Interbank UAH/USD exchange rate increased from UAH 11 per USD in the beginning of the month to UAH 13 per USD in the middle of the month. As market liquidity was very low imbalances between demand and supply were minimal. In response, the NBU increased policy rate sharply and suspended forex operations of several banks that were accused in driving up exchange rate. This brought down exchange rate to UAH 11-12 per USD.

International reserves dropped to USD 14.2 bn by the end of April as the NBU made USD 0.96 bn payments on foreign currency government debt.

State debt: External financial support is expected

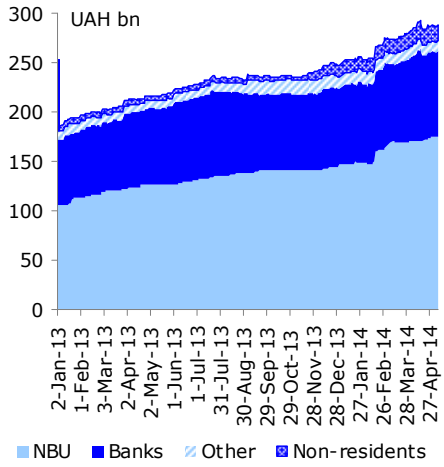
In April, the Ministry of Finance placed UAH 7.1 bn of hryvnia denominated bonds, which was almost twice higher than in previous month. Weighted average yield was increased to 14.2 p.a. compared to 12.7 p.a. in March to ensure higher demand. The demand was concentrated on one- and three year-bonds.

Absence of external financing and insufficient demand for state domestic bonds resulted in under-execution of borrowing plan. According to the State Treasury Service, between January and April state borrowing reached only 37.7% (or UAH 31.1 bn) of the target.

At the same time, the long-awaited international financial assistance programs were officially launched by the end of April (with expected first disbursements in May, 2014). In particular, the IMF approved USD 17.0 bn to support Ukraine's economic reform program under two-year Stand-By Arrangement (SBA). First tranche of the loan (UAD 3.2 bn) was provided on May 7, 2014. Besides, the loan guarantee agreement between governments of Ukraine and the USA (at USD 1 bn) was signed. It is aimed at policies ensuring economic recovery and adequate social protection.

Moreover, the EU has officially approved new Macro-Financial Assistance loan program (MFA) for Ukraine at EUR 1.0 bn in addition to previous program of EUR 610 m, approved in 2010. The funds will be granted for maximum 15 years after resumption of cooperation between Ukraine and the IMF. The loan is to be provided under the condition of the implementation of structural reforms, inlcuding public finance reforms.

Domestic government bond holdings



Source: NBU

Economic Trends		Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	May	Jun	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial production (real)	% yoy cum.	0.4	-1.2	-1.8	-5.0	-5.3	-5.2	-4.7	-5.2	-5.3	-5.2	-5.2	-5.2	-5.0	-4.7	-5.0	-4.2	-5.0	…
Construction (real)	% yoy cum.	-1.9	-9.1	-14	-13.8	-17.8	-15.1	-14.5	-17.3	-17.8	-14.7	-15.1	-15.1	-14.3	-14.5	-16.4	-9.8	-6.4	…
Agricultural production (real)	% yoy cum.	7.4	-4.6	-4.5	5.8	15.4	3.0	13.7	5.1	15.4	13.3	3.0	9.9	11.7	13.7	6.0	6.3	6.0	…
Retail trade turnover (real)	% yoy cum.	16.0	16.0	15.9	13.4	11.2	9.8	9.5	11.6	11.2	10.2	9.8	9.5	9.2	9.5	8.8	9.0	7.7	…
Average wage	UAH	3109	3064	3195	3085	3289	3331	3390	3253	3380	3304	3261	3283	3268	3619	3148	3189	3398	…
CPI	% yoy eop	-1.2	0.0	-0.2	-0.8	-0.1	-0.5	0.5	-0.4	-0.1	-0.4	-0.5	-0.1	0.2	0.5	0.5	1.2	3.4	6.9
PPI	% yoy eop	4.5	0.3	0.3	0.2	-1.6	-0.9	1.7	1.9	-1.6	-0.9	-0.9	0.8	-0.5	1.7	1.9	3.3	3.9	6.1
Exports (USD)*	% yoy cum.	2.5	2.6	1.0	-4.7	-7.1	-6.2	-5.2	-7.7	-8.4	-8.7	-8.8	-9.0	-8.8	-7.6	-11.6	-9.4	-6.5	7.5
Imports (USD)*	% yoy cum.	9.8	7.6	5.6	-0.8	-8.3	-4.1	-3.4	-9.0	-10.8	-8.8	-6.4	-6.0	-5.7	-5.8	-8.8	-15.6	-18.3	…
Merchandise trade balance	USD bn cum.	-9.5	-14.8	-20.5	-4.0	-7.1	-14.2	-19.6	-6.2	-7.1	-11.4	-14.2	-16.6	-18.0	-19.6	-0.6	-1.2	-1.5	…
Current account**	USD bn cum.	-5.9	-10.0	-14.4	-3.1	-5.5	-11.4	-16.4	-4.7	-5.5	-8.9	-11.4	-13.4	-14.5	-16.1	-0.2	-0.4	-0.6	…
Gross international reserves	USD bn eop	29.3	29.3	24.5	24.7	23.2	21.6	20.4	24.5	23.2	21.7	21.6	20.6	18.8	20.4	17.8	15.5	15.1	14.2
Monetary Base	% yoy eop	6.6	5.8	6.4	9.9	13.4	14.8	20.3	14.2	13.4	13.6	14.8	17.3	20.9	20.3	17.0	21.0	28.5	…
Lending rate on UAH credits	% pa, aop	15.7	19.6	20.8	16.2	15.4	15.3	16.5	15.6	15.3	15.0	15.2	15.4	16.7	17.4	15.1	20.3	20.0	…
Exchange rate (interbank)	USD aop	8.06	8.10	8.15	8.12	8.14	8.15	8.21	8.13	8.15	8.12	8.17	8.18	8.20	8.24	8.37	9.08	9.98	11.64
Exchange rate (official)	USD aop	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	8.65	9.92	11.64
Exchange rate (official)	EUR aop	10.26	9.99	10.37	10.55	10.44	10.58	10.87	10.38	10.41	10.64	10.67	10.90	10.79	10.94	10.92	11.80	13.69	16.08

Sources: Ukrstat, NBU, ICAP, own calculations

* Monthly figures are only for merchandise exports and imports (source: NBU, preliminary data)

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	Q3 10	Q4 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
GDP	UAH bn	250.3	259.9	217.3	256.8	301.3	307.3	257.7	311.0	369.8	363.6	293.5	349.2	387.6	378.6	302.9	353.0	394.7	404.3
GDP (real)	% yoy	-15.7	-6.7	4.5	5.4	3.3	3.7	5.1	3.9	6.5	5.0	2.5	3.1	–1.3	-2.3	-1.2	-1.3	-1.2	3.3
Household consumption (real)	% yoy	-14.3	-16.2	0.2	6.8	7.8	12.8	13.2	14.2	16.1	18.5	7.8	12.3	11.0	5.5	6.5	9.5	8.4	6.8
State consumption (real)	% yoy	-4.3	-3.7	3.8	-4.0	5.8	10.0	2.0	2.9	-9.4	-6.6	3.3	4.8	9.9	1.5	1.1	-2.3	-3.3	-2.5
Gross fixed capital formation (real)	% yoy	-53.2	-33.7	-5.7	-3.2	9.5	10.5	-1.8	3.7	9.7	12.0	13.8	17.5	-5.2	-4.9	7.0	-17.4	-7.7	-5.1
Exports of goods and services (real)	% yoy	-30.9	6.9	0.4	13.2	2.0	0.9	19.4	4.9	0.3	-4.1	-7.3	-8.1	-3.8	-9.6	-9.0	-14.3	-7.9	-4.1
Imports of goods and services (real)	% yoy	-47.6	-11.1	-6.2	17.2	20.2	13.2	38.1	23.3	12.5	5.2	-3.0	9.0	4.3	-2.6	-2.4	-18.4	-0.7	-1.8
Agriculture, hunting, forestry (real)*	% yoy	2.2	-11.6	5.4	0.5	-3.2	0.9	4.9	1.3	16.7	38.1	0.5	11.5	-8.3	-4.0	5.7	20.8	-2.0	38.2
Manufacturing industry (real)*	% yoy	-25.6	6.5	10.9	10.1	7.6	7.6	7.8	3.4	4.6	-2.9	1.1	1.8	-4.8	-5.5	-9.5	-9.2	-9.8	-8.9
Construction (real)*	% yoy	-43.6	-32.8	-7.7	-5.8	9.6	3.9	1.7	10.9	0.1	2.0	1.2	3.4	-15.3	-20.8	-14.9	-20.8	-11.1	-7.7
Trade, repair services (real)*	% yoy	-22.0	-16.4	6.1	9.6	10.1	4.7	9.8	2.8	6.1	3.0	3.2	4.6	0.4	-1.2	1.6	-0.2	1.9	4.7
Transport (real)*	% yoy	-5.7	-0.4	1.3	1.8	3.0	0.1	10.2	7.9	5.7	11.1	-2.3	-3.3	-8.4	-9.5	-2.7	-0.6	2.8	2.8
Balance of payments																			
Current account balance	USD bn	-0.1	-0.9	0.0	0.5	-1.0	-2.5	-1.6	-1.7	-2.6	-4.4	-2.1	-3.8	-4.0	-4.9	-3.1	-2.3	-6.0	-4.9
Current account balance	% of GDP	-0.2	-2.7	-0.1	1.6	-2.6	-6.5	-4.9	-4.4	-5.6	-9.5	-5.6	-8.7	-8.3	-10.3	-8.3	-5.1	-12.2	-9.8
Trade balance in goods	USD m	-1396	-1407	-1236	-697	-2870	-3585	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-4045	-3053	-7232	-5268
Trade balance in services	USD m	1256	550	930	1115	1536	823	1262	1514	2007	1312	1299	1362	1975	1084	822	893	1919	480
Current transfers	USD m	640	722	608	728	797	842	1039	878	988	803	683	805	777	711	533	589	480	547
Direct investment (FDI)	USD m	1210	1282	923	1196	1470	2170	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859
Portfolio investments (equity)	USD m	32	41	-20	-18	135	197	149	113	42	207	-3	74	83	339	705	579	664	-757
Gross international reserves	USD bn	28.2	26.5	25.1	29.5	34.7	34.6	36.4	37.6	35.0	31.8	31.1	29.3	29.3	24.5	24.7	23.2	21.6	20.4
Exchange rate (interbank), UAH/USD	aop	7.99	8.06	8.00	7.91	7.90	7.96	7.95	7.98	7.99	8.01	8.03	8.04	8.09	8.11	8.11	8.14	8.15	8.21
Exchange rate (official), UAH/USD	aop	7.82	7.99	7.99	7.91	7.90	7.93	7.94	7.97	7.97	7.98	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99
Fiscal indicators																			
Consolidated fiscal revenues	% of GDP	25.5	36.0	30.9	30.4	23.3	32.3	32.8	30.0	29.5	30.7	33.6	31.6	28.2	33.7	35.3	29.5	29.1	28.9
Personal income tax	% of GDP	4.4	4.7	4.9	4.8	4.4	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
Enterprise profits tax	% of GDP	3.7	3.6	4.3	3.0	3.4	4.2	4.5	4.5	3.6	4.4	4.9	4.1	2.9	4.2	6.2	3.4	3.0	3.0
Value-added tax	% of GDP	6.4	11.0	9.8	9.8	8.5	9.9	7.6	12.9	9.6	9.6	10.8	10.3	8.6	10.0	9.7	9.1	8.2	8.5
Excise tax	% of GDP	2.5	2.6	2.4	3.0	2.5	2.6	2.1	3.0	2.7	2.4	2.8	2.9	2.8	2.4	3.1	2.6	2.3	2.2
Consolidated fiscal expenditures	% of GDP	29.6	34.5	33.0	38.7	30.3	37.6	32.8	33.1	26.9	35.6	33.7	33.8	30.7	41.4	37.0	36.0	30.4	36.3
Current expenditures	% of GDP	27.0	31.4	32.4	37.4	26.6	32.8	31.5	30.8	23.9	30.1	31.8	31.3	27.7	37.4	35.7	34.1	28.5	33.5
Capital expenditures	% of GDP	2.6	3.1	0.6	1.4	3.7	4.8	1.3	2.4	3.0	5.5	1.9	2.4	2.9	4.0	1.3	1.9	1.9	2.8
Consolidated fiscal balance	% of GDP	-4.5	1.1	-2.0	-8.0	-7.5	-5.6	-0.3	-3.4	-3.9	-5.5	-0.2	-2.6	-3.0	-7.8	-1.9	-6.3	-1.5	-7.4
Privatisation receipts	% of GDP	0.1	0.0	0.1	0.0	0.1	0.2	0.4	3.2	0.0	0.1	1.4	0.3	0.1	0.4	0.0	0.0	0.2	0.1
Labour market																			
Average wage (real)	% yoy	-10.7	-5.7	3.3	8.7	12.3	11.4	11.1	5.5	7.7	10.8	14.7	16.5	13.3	12.9	9.9	9.3	8.1	5.9
Household income (real)	% yoy	-8.6	-7.6	3.7	11.8	11.0	14.7	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	7.1	8.4	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	17.4	16.5	15.7	11.5	8.6	6.3	4.7	6.7	5.2	5.5	9.7	9.8	12.3	17.0
Monetary aggregate M2	% yoy cum	-1.4	-5.4	6.9	13.2	21.6	23.1	25.5	22.0	16.0	14.4	11.2	9.0	10.7	13.1	16.0	17.9	19.2	17.5
Household deposits in national currency	% yoy cum	-25.4	-8.5	7.1	20.1	38.6	41.4	43.3	26.0	16.7	12.3	14.4	16.4	16.3	16.3	19.1	26.5	33.4	38.0
Household deposits in foreign currency	% yoy cum	39.2	4.7	22.8	21.5	17.7	16.9	19.7	21.0	15.7	13.4	12.4	10.8	17.0	21.8	17.0	14.7	8.4	0.9
Com. bank credits in national currency	% yoy cum	25.2	16.9	13.6	8.3	6.0	11.2	16.0	18.5	21.1	21.0	17.4	15.3	9.1	7.7	8.6	7.4	10.2	16.9
Com. bank credits in foreign currency	% yoy cum	32.4	-15.2	-13.7	-10.5	-13.2	-8.3	-2.1	0.9	-2.3	-4.2	-7.0	-10.8	-9.9	-7.3	-4.4	-0.4	0.8	2.8
Long-term com. bank credits	% yoy cum	29.9	-3.8	-3.9	-2.8	0.6	-0.5	5.0	6.3	5.3	2.9	-2.9	-7.0	-8.0	-6.6	-5.6	-2.7	-0.5	2.9
Long-term com. bank credits	% of total	67.3	68.1	68.5	68.9	67.5	66.3	67.2	66.6	64.4	62.9	61.5	59.8	59.1	57.8	55.9	55.7	55.1	53.2
Average lending rate on national currency credits	% p.a.	17.5	19.8	17.3	15.0	13.0	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
Average lending rate on foreign currency credits	% p.a.	10.0	10.1	10.9	11.1	10.3	10.1	10.2	9.8	8.8	8.4	8.2	8.2	8.5	8.8	9.4	9.7	9.6	8.8

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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