INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

# Monthly Economic Monitor Ukraine

No.1 (147), January 2013

## EXECUTIVE SUMMARY

***HIGHLIGHT: YEAR 2012***

***Politics:*** The President appointed new Government headed by Mykola Azarov.

***Real Sector:*** Real GPD declined by 1.3% yoy in the third quarter of 2012.

***Energy sector:*** The Naftogaz attracted loan to improve reliability of national gas transportation system.

***Agriculture:*** State aid to agriculture will remain low and inefficient in 2013.

***External sector:*** Current account deficit narrowed to USD 0.8 bn in November, while financial account turned to surplus.

***Fiscal policy:*** Targets of fiscal revenues and expenditures were under-executed in 2012.

***Social policy:*** In the third quarter of 2012 real disposable income increased by 13.5% yoy.

***Labour market:*** Unemployment rate declined only to 6.6% in the third quarter of 2012.

***Monetary policy:*** In December 2012 core inflation slowed to 0.8% yoy.

***Financial markets:*** UAH/USD exchange rate returned below UAH 8.10 per USD mark in the end of year.

# Highlight of the month: Year 2012

## THE YEAR IN REVIEW

In 2012 real GDP growth almost stopped primarily due to decline in demand for exports. Real private final consumption remained major driving force of growth. In the end of the year, the economy faced two major challenges. First, fiscal pressure increased substantially as the available financing was not sufficient to cover fully and timely budget expenditures. Second, high pressure on foreign exchange market pushed the NBU to introduce administrative measures at the market. The economic situation has again signalled about the necessity to conduct structural reforms.

**Politics**

- The President continued power consolidation. In October parliamentary elections the ruling Party of Regions (PR) obtained 187 seats out of 450 in the Verkhovna Rada of new convocation. Their faction in Rada increased to 206 including several non-partisan winning candidates and several MPs from other parties. In December, new government was appointed with Mykola Azarov preserving Prime-Minister's post.
- Ukraine and Poland co-hosted UEFA European Football Championship (Euro 2012). Although the international political context was unfavourable for Ukraine, the Championship received mostly positive feedback and media coverage.
- In 2012, the IMF did not come to terms with Ukraine on the Stand-By Arrangement signed in 2010. The SBA expired in 2012 and might be renegotiated during IMF future talks with Ukraine's newly appointed government.
- In relations with the EU Ukraine's main accomplishments were the initialling of the Association Agreement and progress on visa talks. However, the prospects of Association Agreement will be determined in 2013 with regard to Ukraine's progress in conducting democratic reforms and implementing the Association Agenda.
- Ukraine did not achieve any progress in relations with Russia neither in gas talks, nor in other sensitive issues, e.g. Black Sea Fleet status regulation. Moreover, Moscow's pressure as to Ukraine's joining the Russia-led Customs Union established within the frames of Eurasian Economic Community (EurAsEC) was steadily growing during the year.

**Real sector**

- After steady growth in 2010 and 2011 Ukraine's real GDP declined in the third quarter of 2012 due to drop in real exports and decline in investments.
- Main sectors worsened their performance in 2012. Output in agriculture and manufacturing declined. Construction sharply dropped and fright transportation turnover also declined. Retail trade was the sector that grew at 15.7% in the first eleven months of the year reflecting strong households' consumption.

**Energy**

- In 2012, Ukraine continued its efforts to diversify gas supply: Naftogaz purchased two new drilling rigs worth USD 1.2 bn for offshore drilling; the national project "LNG-terminal" officially started as the Naftogaz started building connecting pipeline; Ukraine signed USD 3.7 bn loan agreement with China Development Bank for the project to convert combined heating plants from gas to coal and to construct coal gasification plants.
- Alternative sources of energy were subsidized to favorable "green" tariffs on electricity produced by solar, wind, hydro and biogas power plants. Feed-in tariffs were introduced for electricity produced from biogas and solid waste, and tariffs for hydro power stations were differentiated according to their capacity. However, local component requirements and unclear procedures are likely to counterbalance new incentives created by introduction of green tariff.
- Efforts to attract foreign investments face administrative obstacles. Production sharing agreements on exploration of Yuzivska, Oleska and Skifska fields have not been signed despite the tenders held in spring and summer of 2012 (the winners were Shell and Chevron).

**Agriculture**

- In 2012, effective dialog between the Ministry of Agriculture and key players at the grain market was established and formally arranged in the Memorandum signed in July. As a result, 14 m tonnes grain was successfully exported in the first half of the 2012/2013 marketing year.
- Second reading of the draft Law "On land market" was postponed to 2013. Moratorium on the land sale was extended to January, 2016.
- The Government attempted to stimulate domestic agrimachinery manufacturing/assembling but policy measures such as local component requirements and increased import tariffs are likely to create inefficient local production capacities and impose higher costs on farmers.

**Transport**

- The major infrastructure projects in 2012 were connected to the Euro-2012 football championship held in Ukraine and Poland this summer: reconstruction of roads, airports and railway stations, construction of new terminals and runways at Boryspil, Donetsk and Lviv airports, introduction of high-speed trains, etc.
- In air transportation, UTair Ukraine, subsidiary of Russian UTair, and AirOnyx opened domestic flights. Growing competition forced two major Ukrainian air carriers, Ukrainian International Airlines and Aerosvit, to tighten their cooperation by signing code-sharing agreements. However, this didn't solve escalating financial problems of Aerosvit and the company filed for bankruptcy at the end of December.
- Ukrainian Parliament in 2012 adopted the Presidential version of Law on Sea Ports. Among other things it allowed the Government to include 18 Ukrainian ports in the list of objects being offered for concession. The exact mechanism of concession is still being developed by the Ministry of Infrastructure.
- Reforms in railroad transportation were not very successful. Transfer of rolling stock to the balance of Ukrainian Transport and Logistics Center's enterprises increased the cost of freight by around 30% leaving tariffs unchanged; hasty introduction of high-speed railway passenger transportation resulted in trains unprepared for cold weather and frequent many-hour delays, decreased the trust of the population to this mode of transportation. Still restructuring continues: Ukrzaliznitsia is on track to become the stock company in 2013/14.

**Privatisation**

- Privatization process on the energy market continued. Most regional gas distribution companies were bought by Gaztek, affiliated with Dmytro Firtash, state-owned shares of energy generating companies Dniproenergo, Dniprooblenergo, Krymenergo and Donetskoblenergo were bought by DTEK. Therefore, monopolisation of market remained high. Privatisation process remained mostly non-transparent.
- In 2012 privatisation receipts reached UAH 6.8 bn or 67.6% of annual plan.

**External Sector**

- In 2012 combined share of agriculture and machinery in goods exports was larger than share of traditional export drivers, steel and chemicals.

- Euro-2012 failed to make any noticeable direct impact on balance of payments but contributed to larger imports during preparation for football championship.
- Ukrainian private sector and the Government maintained access to global financial markets despite failure of talks with the IMF.

**Fiscal policy**

- President's social initiatives incorporated into the State Budget Law for 2012 went in opposite direction from fiscal consolidation needed. As a result, unrealistic fiscal planning combined with economic slowdown resulted in under-execution of fiscal revenues and expenditures in 2012.
- The Parliament approved numerous amendments to the Tax Code. In particular, the SME taxation rules were partially changed with the aim of simplification, but these changes are unlikely to impact business climate substantially. Besides, the introduction of the real estate tax was postponed until January 1, 2013.
- The State Tax Service and the State Customs Service were reorganized into the Ministry of Revenues and Duties. Earlier, most policy-related functions of the State Tax Service were transferred to the Ministry of Finance. Such centralization of tax revenue bodies may strengthen the administrative pressure on businesses.
- The problem of VAT refund arrears was not solved despite the introduction of automatic VAT refund.
- The Verkhovna Rada approved the State Budget Law for 2013 with further increase of central fiscal deficit. The main budget indicators are based on optimistic macroeconomic outlook for 2013.

**Social policy**

- New social initiatives announced by the President in March and approved by the Parliament in April boosted income from social assistance and other current transfers. At the same time, they resulted in rapid increase in fiscal pressure. The deficit of the Pension Fund remained high and was largely financed at the expense of State Treasury's loans.
- As in previous years pensions were paid without delays, although it required substantial central fiscal transfer and short-term loans provided by the State Treasury.
- Real disposable income continued rapidly growing in 2012 due to higher social standards, other transfers and wages.

**Labour market**

- Labour market remained weak in 2012.
- Minimum wage increase was the reason for average wage growth in 2012.

**Monetary policy**

- CPI fell by 0.2% yoy in December 2012 due to tight monetary policy, modest growth in social standards, favourable external conditions and government price regulation.
- Tight monetary conditions led to unprecedented growth of interest rates including deposit rates over 20% from major banks under falling inflation. If continued financial position of banks may become unsustainable.
- Exchange rate remained fixed over 2012 although this required drastic administrative measures and threat of 10-15% tax on sales of cash foreign currency.

**State debt**

- The State debt increased in 2012 due to substantial need for financing fiscal expenditures against the background of lower than planned fiscal revenues.
- The Government extensively issued domestic state bonds denominated in foreign currency (primarily USD) due to low hryvnia liquidity. The NBU holdings of the state domestic bonds increased to 56.8% of total state domestic bonds outstanding.
- The Government successfully placed USD 3,9 bn of Eurobonds. However, external debt decreased due to significant debt repayments to the IMF and the Russian VTB and previous Eurobond issues.
- The Cabinet of Ministers approved the Medium-Term Government Debt Management Strategy for 2012-2014 replacing the previous similar document for 2011-2013. It envisaged deeper annual reduction of state debt relative to GDP (to 25% of GDP in 2013-2014) and lower weighted average debt maturity (4.3 years in 2014), which may appear unrealistic.

# Monthly Economic Monitor Ukraine

## Politics: New Government Appointed

On December 24, Ukraine's President Victor Yanukovych signed a series of decrees appointing a new Cabinet of Ministers. Besides, there were some structural changes in the Government, which might be a step back in the administration reform that was launched in December 2010. For instance, the Ministry of Emergency was eliminated and the Service for Emergency Situations was established instead. Besides, two new ministries were established. First, State Tax Service and State Customs Service were merged into a new Ministry of Revenues and Duties, headed by loyal to the President former Head of the State Tax Service Oleksandr Klymenko. Second, the State Agency of Ukraine for State Corporate Rights and Property was reorganized into the Ministry of Industrial Policy.

Despite rumours, Mykola Azarov preserved the Prime Minister's post. However, his alleged rival Serhiy Arbuzov, former NBU Chairman, was appointed as the First Vice Prime Minister. Contrary to the previous government, all four vice prime ministers in the current government have no portfolios. Former Head of the Ministry of Foreign Affairs Kostyantyn Gryshchenko was appointed as the Vice Prime Minister, and President's former advisor Leonid Kozhara was appointed as a new Foreign minister. Some other ministers from the previous government stayed on their positions, and two ministerial posts - of the Minister of Culture and the Minister of Industrial Policy - have remained vacant yet.

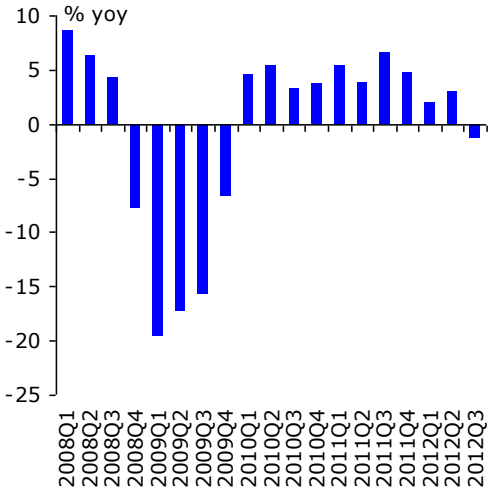
**Population: 45.6 m**
**Industry/GDP: 24%**
**Agriculture/GDP: 8%**
**Investment/GDP: 21%**
**Exports to: Russia 25%, EU 28%**
**Imports from: Russia 22%, EU 35%**

## Real sector: Real GDP declined by 1.3% yoy in the third quarter

***GDP.*** According to Ukrstat real GDP declined by 1.3% yoy in the third quarter of 2012. Real private final consumption remained the major driving force of economic growth. Gross capital accumulation declined by 2.9% yoy after increase at 16.9% yoy in the second quarter due to completed projects related to the EURO–2012. Lower demand resulted in decline of real exports at 5.8 % yoy. At the same time, imports increased by 5.5% likely due to higher imports of machine–building items.

On production side, gross value added (GVA) in construction dropped by 15.6% yoy due to statistical base effect and lack of financing. Lower grain harvest resulted in declined of GVA in agriculture by 8.4% yoy. Manufacturing also fell by 6.4% yoy primarily due to lower external demand for Ukrainian products.

**Real GDP growth**




Source: Ukrstat

***Sectoral trends.*** In November decline in industrial output further narrowed to 3.7% yoy primarily due to statistical base effect. In particular, output in metallurgy declined only by 2.1% yoy as external demand for its products was mainly on downward trend since October 2011. Machine building production dropped by 6.8% yoy. Lower demand for fertilisers resulted in decline of chemical industry production by 5.7% after it was growing in other months of the year. At the same time, food industry growth was at 2.5% yoy.

Between January and November, retail trade turnover growth remained at 15.7% yoy likely reflecting strong consumption against the background of increased economic and political uncertainty. Construction contraction deepened to 12.1% yoy due to financial constraints and high statistical base. Economic slowdown and lower transit of Russian gas resulted in decline in fright turnover at 6.9%.

Output in agriculture in 2012 declined by 4.5% yoy. In particular, crop production dropped by 8.2% primarily due to lower grain harvest (decline at 28.6%). At the same time, livestock production increased by 3.8%.

## Energy sector: Attempts to improve reliability of gas transportation system

The Ukrtransgas, subsidiary of the Naftogaz, and Deutsche Bank signed a credit line agreement for EUR 53.5 m to modernize the compression station Bar of the gas pipeline Soyuz. The loan will help

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the Naftogaz to improve the reliability of the national gas transportation system as it will extend the service life of Bar station for another 15 years, reduce the volume of gas consumption by 28% and increase the efficiency of the compressors. The crediting period is 10 years and 9 months from the date of disbursement.

For 11 months of 2012 energy production by Ukrainian companies increased by 2.1% yoy to 171.8 bn Kwt/h. 42% of all electricity were produced by TPPs, 5% - by CHPs, 6% - by HPPs, 47% - by NPPs, the rest was produced by wind, solar and biomass power plants.

## Agriculture: State aid to the sector declines

In December, Parliament approved the State Budget Law for 2013, which allocates near 3.8% of central fiscal expenditures for financing programs administered by the Ministry of Agricultural Policy and Food. Overall, this is by 13.9% lower than the target for 2012. In particular, about 50% of this sum is to be spent to guarantee food security and price control (interventions fund and inputs purchase program). Market players argue that envisaged state support of agricultural producers is too low to make any difference in the agricultural sector. At the economic point of view, producer subsidies are not efficient and often not effective instruments of achieving desired goals. The Government should better halt direct state support and deregulate the sector instead.

## External sector: Current account deficit narrowed to USD 0.8 bn in November

According to the NBU preliminary estimates current account deficit narrowed to USD 0.8 bn in October as trade deficit narrowed and net income outflows reached lowest value over the last six months probably as one-off fluctuation. Merchandise trade deficit narrowed to USD 1.3 bn as imports decreased more than exports. Imports fell by 7.8% yoy in dollar terms reflecting lower imports of energy as well as lower demand for investment goods. Imports of food products and manufactured goods increased in dollar terms due to substitution of domestic products and maybe increased enforcement of customs valuation. Exports of goods fell by 5.1% yoy in dollar terms as increase in grain exports as well as exports of machinery and equipment was offset by falling steel prices and lower exports of chemical products. Cessation of imports of crude oil for refining in Ukrainian refineries and further exports also contributed to lower exports and imports.

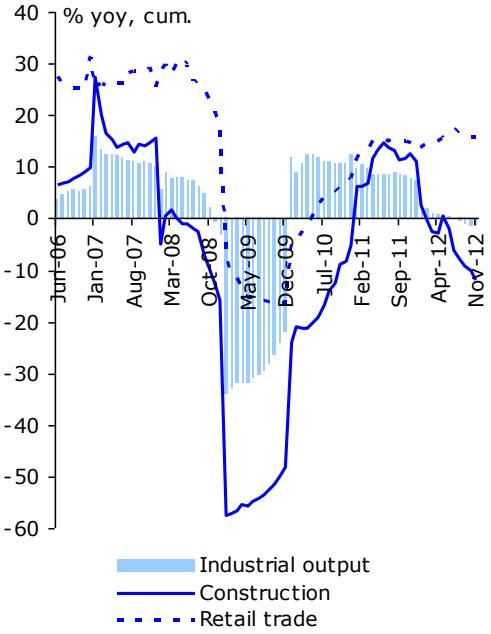
Financial and capital account returned to surplus at USD 0.3 bn in November as external government borrowing in this month was sufficient to cover repayment of debt to IMF and provide net inflow of USD 0.9 bn. Net FDI inflows increased to USD 0.6 bn, while private sector debt flows remained mostly balanced. Outflow of cash foreign currency from banks decreased but remained high at USD 1.5 bn.

## Fiscal policy: The State budget was failed

Between January and November growth of central fiscal revenues decelerated to 7.5% yoy. They reached UAH 306 bn accounting only for 80.0% of annual plan. Such low revenues execution is mostly explained by economic slowdown and unrealistic fiscal revenues projections. Revenues from all major sources except for EPT collections were lower than expected. EPT revenues were over-executed due to persistent advance tax payments. Non-tax revenues were under-executed as well (by 5.5%) despite higher than planned transfer of profits by the NBU (by 48.3%).

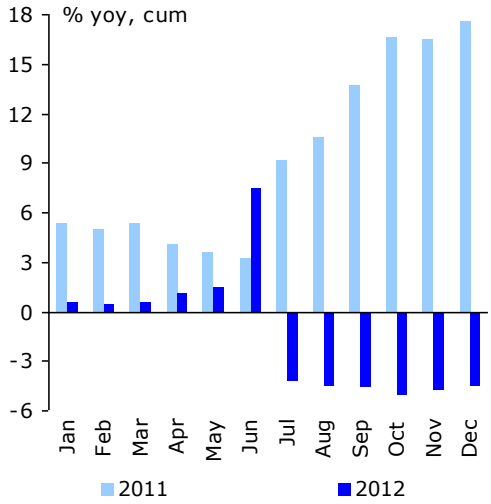
Central fiscal expenditures (general fund) were lower than projected by 8.1%. They accounted for 80.4% of annual plan, which is lower than usual for November. In particular, capital expenditures reached only 56.0% of the annual target. At the same time, financing of protected items were partially delayed. Nevertheless, central fiscal deficit continued to grow rapidly to UAH 41.2 bn in eleven months of

**Real sector trends**



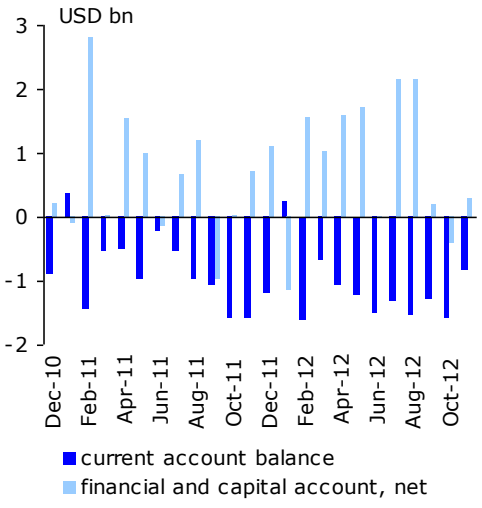

Source: Ukrstat

**Agricultural output**




Source: Ukrstat

**Balance of payments**

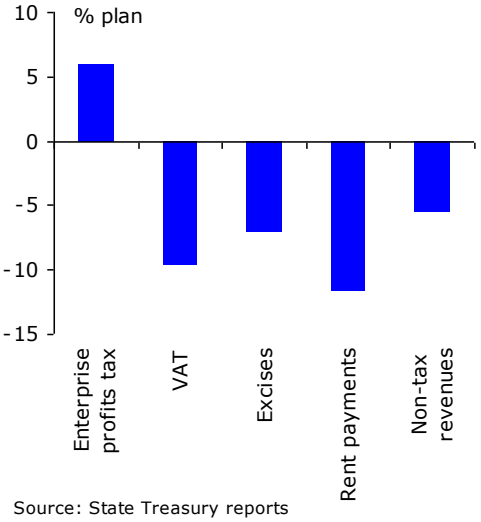



Source: NBU preliminary estimates

the year from UAH 33.2 bn between January and October (the annual target was defined at UAH 42.9 bn).

According to the preliminary information of the State Treasury central fiscal revenues reached UAH 346.0 bn in 2012, which is by 9.4% lower than the annual target. Evidently, the Government was not able to fully execute the revenues and expenditures plan in 2012.

**Execution of central fiscal revenues due to general fund in January-November 2012**



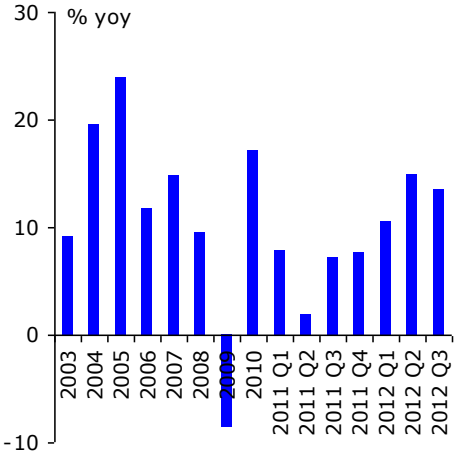

Source: State Treasury reports

## Social policy: The Pensions Fund's deficit remained high

***The Pension Fund.*** According to the information of the State Treasury in 2012 the Pension Fund received UAH 64.5 bn from the State Budget, which was equal to annual target. This central fiscal transfer finances special pension programs as well as the Fund's deficit. Besides, the Treasury provided the Pension Fund with loans at UAH 45.1 bn to cover the short-time liquidity gap in the Fund's budget. This is likely to be gross amount of loans reported, while the net amount was probably higher than in 2011 approaching to UAH 15-20 bn.

***Disposable income.*** In the third quarter of 2012 disposable income of households grew by 13.5% yoy in nominal and real terms. Contrary to previous periods social payments and other current transfers made major contribution to income growth. Income from these sources increased by 19.2% yoy and 37.0% yoy, respectively. It might be related to increase in pensions and other social assistance payments as well as pay-outs to former depositors of the Soviet Sberbank. These payments were initiated by the President in March and approved by the Parliament in April 2012. Besides, income from property, primarily interest on deposits, increased by 25.0% yoy. At the same time, wage income grew only by 12.0% yoy mainly due to increase in minimum wages, while financial situation of companies deteriorated. Lower crop harvest and economic slowdown restricted growth of income received from subsidiary farming and entrepreneurs activity to 3.4% yoy.

**Real disposable household incomes**

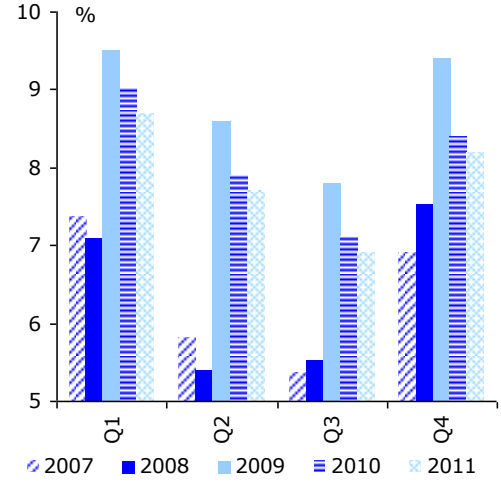



Source: Ukrstat

## Labour Market: Labour market remains weak

Unemployment rate (ILO methodology) in the third quarter somewhat declined to 6.6% of economically active individuals of age between 15 and 70 years old as compared to 6.9% in the same period of 2011. It remained higher than before the crisis as economy did not fully recovered. Unemployment rate remained higher for men than for women and in urban area than in rural. Still relatively high unemployment rate signal about weak labour market. Somewhat higher economic activity rate at times of economic slowdown could also indicate partial formalisation of employment relations.

**Unemployment rate (ILO)**




Source: Ukrstat

## Monetary policy: Stable prices

In December CPI dynamics remained negative as CPI fell by 0.2% yoy. Core inflation that excludes unprocessed food, energy and government-regulated prices remained positive but slowed to 0.8% yoy. On demand side nominal retail sales growth and increases in social standards slowed down significantly over the last 24 months. On supply side several years with good harvests, moderate global commodity prices, fixed exchange rate contributed to stable consumer prices. Importantly several years of one-digit inflation dampened inflation expectations of economic agents. Government also did its piece through insistence on keeping prices on gas and electricity stable despite large subsidies required and continued price regulation on a number of food products.

Money supply and monetary base in December grew by 12.5% and 6.4% yoy respectively. Monetary base expanded in December as NBU continued quasi-fiscal and monetary operations with government bonds and provided UAH 3 bn of one-year refinancing to four banks(probably government-owned). More importantly in December government spent about UAH 10 bn of funds kept at NBU. This more than liquidity withdrawn through interventions in the foreign currency market. As a result, interbank rates became lower in December but

remained volatile. Lending and deposit rates also fell somewhat but deposit rates for households continued to rise.

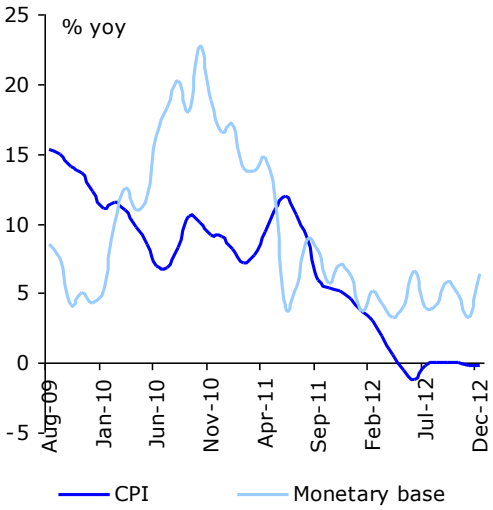
## Financial markets: Stable exchange rate

***Exchange rate.*** In December UAH/USD exchange rate returned below UAH 8.10 mark both on interbank and cash market. This probably reflected higher supply on the market, due to administrative measures and decreased incentives to hoard foreign currency assets, NBU interventions as well as lower demand for cash foreign currency. International reserves decreased by USD 0.8 bn to USD 24.5 bn.

***State debt.*** In December, the Government made only scarce borrowings despite the shortage of revenues for financing planned expenditures likely due to limited demand. It placed only USD 48.2 m of USD-denominated two-year state domestic bonds with 8.5% weighted average yield. This sum covered near 21.6% of the amount required for debt principal and interest repayments in December, while the rest payments were financed by earlier borrowings.

According to the preliminary information of the State Treasury, in 2012 total state borrowings (due to the general fund) grew by 45.0% to UAH 103 bn accounting for 103.0% of the annual target. The most significant increase was in domestic borrowings due to 'friendly' demand for domestic bonds from state-owned banks and introduction of new financial instruments. However, The Government made several successful Eurobond issues at USD 3.9 bn, entering the international capital market during the year. It became possible due to favourable conditions. At the same time, overall debt payments (debt redemption and servicing) augmented by 31.8% to UAH 91.5 bn.

**CPI and monetary base development**




Source: Ukrstat, NBU

| Economic Trends | | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Mar | Apr | May | June | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Industrial production (real) | % yoy cum. | 9.7 | 8.7 | 8.6 | 7.3 | 0.9 | 0.4 | -1.2 | 0.9 | 0.7 | 0.7 | 0.4 | 0.2 | -0.4 | -1.2 | -1.4 | -1.5 | ... |
| Construction (real) | % yoy cum. | 6.8 | 14.5 | 11.4 | 11.1 | -2.7 | -1.9 | -9.1 | -2.7 | -3.0 | 0.3 | -1.9 | -6.2 | -8.0 | -9.1 | -10.2 | -12.1 | ... |
| Agricultural production (real) | % yoy cum. | 5.3 | 3.2 | 13.7 | 17.5 | 0.5 | 7.4 | -4.6 | 0.5 | 1.1 | 1.5 | 7.4 | -4.2 | -4.5 | -4.6 | -5.1 | -4.8 | ... |
| Retail trade turnover (real) | % yoy cum. | 13.5 | 15.2 | 15.2 | 14.7 | 14.2 | 16.0 | 16.0 | 14.2 | 14.8 | 15.5 | 16.0 | 17.4 | 16.0 | 16.0 | 15.7 | 15.7 | ... |
| Average wage | UAH | 2389 | 2605 | 2727 | 2837 | 2923 | 3109 | 3064 | 2923 | 2942 | 3015 | 3109 | 3151 | 3073 | 3064 | 3110 | 3098 | ... |
| CPI | % yoy eop | 7.7 | 11.9 | 5.9 | 4.6 | 1.9 | -1.2 | 0.0 | 1.9 | 0.6 | -0.5 | -1.2 | -0.1 | 0.0 | 0.0 | 0.0 | -0.2 | -0.2 |
| PPI | % yoy eop | 20.3 | 20.0 | 21.3 | 14.2 | 6.5 | 4.5 | 0.3 | 6.5 | 6.9 | 4.3 | 4.5 | 1.4 | 1.4 | 0.3 | 0.6 | 0.0 | 0.3 |
| Exports (USD)* | % yoy cum. | 40.5 | 39.3 | 26.8 | 21.8 | 5.2 | 2.5 | 2.1 | 5.2 | 4.7 | 5.7 | 2.5 | 3.2 | 2.9 | 2.1 | 2.8 | 2.0 | ... |
| Imports (USD)* | % yoy cum. | 52.8 | 51.0 | 30.9 | 21.9 | 5.8 | 9.8 | 7.8 | 5.8 | 9.2 | 10.6 | 9.8 | 10.3 | 9.4 | 7.8 | 7.3 | 5.8 | ... |
| Merchandise trade balance | USD bn cum. | -3.0 | -5.4 | -9.3 | -13.8 | -3.9 | -9.5 | -14.8 | -3.9 | -5.8 | -7.7 | -9.5 | -11.4 | -13.3 | -14.8 | -16.6 | -17.9 | ... |
| Current account** | USD bn cum. | -1.3 | -2.9 | -5.0 | -9.0 | -2.0 | -5.9 | -10.0 | -2.0 | -3.1 | -4.3 | -5.9 | -7.2 | -8.7 | -10.0 | -11.6 | -12.4 | ... |
| Gross international reserves | USD bn eop | 36.4 | 37.6 | 35.0 | 31.8 | 31.1 | 29.3 | 29.3 | 31.1 | 31.7 | 30.8 | 29.3 | 30.1 | 30.0 | 29.3 | 26.8 | 25.4 | 24.5 |
| Monetary Base | % yoy eop | 13.7 | 3.9 | 8.1 | 6.3 | 4.3 | 6.6 | 5.8 | 4.3 | 3.2 | 4.0 | 6.6 | 3.9 | 4.1 | 5.8 | 4.9 | 3.3 | ... |
| Lending rate on UAH credits | % pa, aop | 13.3 | 13.6 | 14.8 | 18.4 | 15.5 | 15.7 | 19.6 | 15.4 | 14.6 | 14.7 | 17.7 | 19.6 | 20.3 | 18.8 | 21.7 | 23.2 | |
| Exchange rate (interbank) | USD aop | 7.95 | 7.98 | 7.99 | 8.01 | 8.02 | 8.05 | 8.09 | 8.02 | 8.03 | 8.05 | 8.07 | 8.08 | 8.09 | 8.10 | 8.12 | 8.13 | 8.09 |
| Exchange rate (official) | USD aop | 7.94 | 7.97 | 7.97 | 7.98 | 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 |
| Exchange rate (official) | EUR aop | 10.85 | 11.48 | 11.27 | 10.76 | 10.46 | 10.26 | 9.99 | 10.53 | 10.51 | 10.27 | 10.01 | 9.83 | 9.89 | 10.25 | 10.37 | 10.26 | 10.49 |

Sources: Ukrstat, NBU, 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

| Key Economic Indicators | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nominal GDP | UAH bn | 170.1 | 204.2 | 225.8 | 267.3 | 345.1 | 441.5 | 544.2 | 720.7 | 948.1 | 914.7 | 1082.6 | 1316.6 |
| Nominal GDP | USD bn | 31.3 | 38.0 | 42.4 | 50.1 | 64.9 | 86.2 | 107.8 | 142.7 | 179.9 | 117.4 | 136.4 | 165.2 |
| GDP growth (real) | % yoy | 5.9 | 9.2 | 5.2 | 9.6 | 12.1 | 2.7 | 7.3 | 7.9 | 2.1 | -14.8 | 4.1 | 5.2 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 | -5.6 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |

Sources: Ukrstat, NBU, Ministry of Finance, own calculations

''' "Minus" denotes a consolidated fiscal deficit

P - preliminary data

**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 | | Q1 09 | Q2 09 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | UAH bn | 189.0 | 214.1 | 250.3 | 259.9 | 217.3 | 256.8 | 301.3 | 307.3 | 261.9 | 314.6 | 376.0 | 364.1 | 297.0 | 351.8 | 392.1 |
| GDP (real) | % yoy | -19.6 | -17.3 | -15.7 | -6.7 | 4.5 | 5.4 | 3.3 | 3.7 | 5.4 | 3.9 | 6.5 | 4.7 | 2.0 | 3.0 | -1.3 |
| Household consumption (real) | % yoy | -14.5 | -14.5 | -14.3 | -16.2 | 0.2 | 6.8 | 7.8 | 12.8 | 13.8 | 15.3 | 17.8 | 12.8 | 9.8 | 14.3 | 12.0 |
| State consumption (real) | % yoy | 0.2 | -1.6 | -4.3 | -3.7 | 3.8 | -4.0 | 5.8 | 10.0 | 3.5 | 4.0 | -10.5 | -5.7 | 1.9 | 2.5 | 9.4 |
| Gross fixed capital formation (real) | % yoy | -58.0 | -55.9 | -53.2 | -33.7 | -5.7 | -3.2 | 9.5 | 10.5 | 2.1 | 5.2 | 11.0 | 16.9 | 7.6 | 16.5 | -14.8 |
| Exports of goods and services (real) | % yoy | -22.2 | -34.1 | -30.9 | 6.9 | 0.4 | 13.2 | 2.0 | 0.9 | 17.0 | 2.9 | -2.2 | -5.6 | -6.8 | -6.8 | -5.8 |
| Imports of goods and services (real) | % yoy | -37.4 | -52.3 | -47.6 | -11.1 | -6.2 | 17.2 | 20.2 | 13.2 | 37.2 | 23.1 | 12.0 | 3.3 | -4.3 | 10.8 | 5.5 |
| Agriculture, hunting, forestry (real)* | % yoy | -1.1 | 3.4 | 2.2 | -11.6 | 5.4 | 0.5 | -3.2 | 0.9 | 5.4 | 2.0 | 17.4 | 28.9 | 0.5 | 11.4 | -8.4 |
| Manufacturing industry (real)* | % yoy | -33.7 | -26.1 | -25.6 | 6.5 | 10.9 | 10.1 | 7.6 | 7.6 | 13.3 | 8.9 | 10.2 | 2.2 | 0.2 | -0.3 | -6.4 |
| Construction (real)* | % yoy | -54.2 | -42.7 | -43.6 | -32.8 | -7.7 | -5.8 | 9.6 | 3.9 | 6.4 | 19.4 | 7.3 | 9.8 | -3.1 | 0.3 | -15.6 |
| Trade, repair services (real)* | % yoy | -15.6 | -15.7 | -22.0 | -16.4 | 6.1 | 9.6 | 10.1 | 4.7 | 8.9 | 2.8 | 6.8 | 5.8 | 5.5 | 6.9 | 2.1 |
| Transport (real)* | % yoy | -13.4 | -9.2 | -5.7 | -0.4 | 1.3 | 1.8 | 3.0 | 0.1 | 7.2 | 7.5 | 3.4 | 9.4 | 3.8 | 3.8 | -0.2 |
| **Balance of payments** | | | | | | | | | | | | | | | | |
| Current account balance | USD bn | -0.6 | -0.2 | -0.1 | -0.9 | 0.0 | 0.5 | -1.0 | -2.5 | -1.6 | -1.7 | -2.6 | -4.4 | -1.8 | -3.5 | -4.1 |
| Current account balance | % of GDP | -2.6 | -0.6 | -0.2 | -2.7 | -0.1 | 1.6 | -2.6 | -6.5 | -4.8 | -4.3 | -5.5 | -9.5 | -4.9 | -8.0 | -8.4 |
| Trade balance in goods | USD m | -882 | -622 | -1396 | -1407 | -1236 | -697 | -2870 | -3585 | -3084 | -2267 | -3928 | -4526 | -2910 | -5308 | -5252 |
| Trade balance in services | USD m | 116 | 432 | 1256 | 550 | 930 | 1115 | 1536 | 823 | 1007 | 1227 | 1686 | 967 | 1088 | 1413 | 1946 |
| Current transfers | USD m | 632 | 667 | 640 | 722 | 608 | 728 | 797 | 842 | 1039 | 878 | 988 | 803 | 672 | 785 | 765 |
| Direct investment (FDI) | USD m | 883 | 1279 | 1210 | 1282 | 923 | 1196 | 1470 | 2170 | 882 | 2284 | 2100 | 1275 | 1663 | 1102 | 2152 |
| Portfolio investments | USD m | -350 | -351 | -2286 | 1428 | -307 | 804 | 2532 | 1288 | 1163 | 1838 | -938 | -506 | 222 | -369 | 2890 |
| Gross international reserves | USD bn | 25.4 | 27.3 | 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 |
| Exchange rate (interbank), UAH/USD | aop | 8.09 | 7.76 | 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 |
| Exchange rate (official), UAH/USD | aop | 7.70 | 7.66 | 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 |
| **Fiscal indicators** | | | | | | | | | | | | | | | | |
| Consolidated fiscal revenues | % of GDP | 34.8 | 30.6 | 25.5 | 36.0 | 30.9 | 30.4 | 23.3 | 32.3 | 32.2 | 29.7 | 29.0 | 30.6 | 33.2 | 31.3 | 27.8 |
| Personal income tax | % of GDP | 5.2 | 5.3 | 4.4 | 4.7 | 4.9 | 4.8 | 4.4 | 4.8 | 4.9 | 4.8 | 4.1 | 4.7 | 5.0 | 4.8 | 4.4 |
| Enterprise profits tax | % of GDP | 3.9 | 3.3 | 3.7 | 3.6 | 4.3 | 3.0 | 3.4 | 4.2 | 4.4 | 4.5 | 3.6 | 4.4 | 4.8 | 4.1 | 2.8 |
| Value-added tax | % of GDP | 11.7 | 8.3 | 6.4 | 11.0 | 9.8 | 9.8 | 8.5 | 9.9 | 7.5 | 12.7 | 9.5 | 9.6 | 10.6 | 10.2 | 8.5 |
| Excise tax | % of GDP | 2.0 | 2.3 | 2.5 | 2.6 | 2.4 | 3.0 | 2.5 | 2.6 | 2.1 | 3.0 | 2.7 | 2.4 | 2.7 | 2.9 | 2.8 |
| Consolidated fiscal expenditures | % of GDP | 34.4 | 36.6 | 29.6 | 34.5 | 33.0 | 38.7 | 30.3 | 37.6 | 32.3 | 32.8 | 26.5 | 35.6 | 33.3 | 33.5 | 30.3 |
| Current expenditures | % of GDP | 33.5 | 34.9 | 27.0 | 31.4 | 32.4 | 37.4 | 26.6 | 32.8 | 31.0 | 30.4 | 23.5 | 30.1 | 31.4 | 31.1 | 27.4 |
| Capital expenditures | % of GDP | 0.9 | 1.7 | 2.6 | 3.1 | 0.6 | 1.4 | 3.7 | 4.8 | 1.2 | 2.3 | 2.9 | 5.5 | 1.9 | 2.4 | 2.9 |
| Consolidated fiscal balance | % of GDP | 0.0 | -6.2 | -4.5 | 1.1 | -2.0 | -8.0 | -7.5 | -5.6 | -0.3 | -3.3 | -3.8 | -5.5 | -0.2 | -2.6 | -2.9 |
| Privatisation receipts | % of GDP | 0.0 | 0.2 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 | 0.4 | 3.1 | 0.0 | 0.1 | 1.4 | 0.3 | 0.1 |
| **Labour market** | | | | | | | | | | | | | | | | |
| Average wage (real) | % yoy | -11.7 | -8.6 | -10.7 | -5.7 | 3.3 | 8.7 | 12.3 | 11.4 | 11.1 | 5.5 | 7.7 | 10.8 | 14.7 | 16.5 | |
| Household income (real) | % yoy | -10.8 | -6.9 | -8.6 | -7.6 | 3.7 | 11.8 | 11.0 | 14.7 | 7.8 | 1.9 | 7.3 | 7.7 | 13.9 | 15.0 | 13.5 |
| Unemployment rate (ILO methodology) | % cum | 9.5 | 9.1 | 8.6 | 8.8 | 9.0 | 8.5 | 8.1 | 8.1 | 8.7 | 8.2 | 7.8 | 7.9 | 8.4 | 7.8 | 7.4 |
| **Banking system** | | | | | | | | | | | | | | | | |
| Monetary aggregate M0 | % yoy cum | 33.9 | 22.8 | 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 |
| Monetary aggregate M2 | % yoy cum | 12.0 | 5.3 | -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 |
| Household deposits in national currency | % yoy cum | -10.9 | -16.1 | -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 |
| Household deposits in foreign currency | % yoy cum | 31.8 | 33.0 | 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 |
| Com. bank credits in national currency | % yoy cum | 27.6 | 27.8 | 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 |
| Com. bank credits in foreign currency | % yoy cum | 70.8 | 48.7 | 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 |
| Long-term com. bank credits | % yoy cum | 50.8 | 37.3 | 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 |
| Long-term com. bank credits | % of total | 69.9 | 68.2 | 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 |
| Average lending rate on national currency credits | % p.a. | 26.2 | 19.1 | 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 |
| Average lending rate on foreign currency credits | % p.a. | 9.6 | 9.6 | 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 |

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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