Monthly Economic Monitor Ukraine

No.10 (156), October 2013

EXECUTIVE SUMMARY

HIGHLIGHT: MOODY'S RATING

Politics: Ukraine made several steps to meet the requirements of the EU for signing the Association Agreement.

Real Sector: Manufacturing output in August dropped by 9.0% yoy due to weak domestic and external demand and low competitiveness of Ukrainian goods.

Energy sector: The non-conventional gas exploration in Ukraine is gaining speed. In particular, new signed agreements will help Ukraine to diversify gas supply and increase energy independence.

Agriculture: Approved in September Law "On the production and turnover of organic agricultural products and raw materials" defines legal, economic and organizational basis for production, processing, transportation, storage, certification and labeling of organic produce and raw materials.

External sector: Current account deficit stayed at USD 1.5 bn in August as merchandise trade deficit remained close to two-year highs at USD 1.95 bn and net payments of income reached USD 0.5 bn (the highest level in 2013).

Fiscal policy: The Draft State Budget Law for 2014 was not published, which violates the provisions of the Budget Code.

Social policy: Growth of real disposable income decelerated to 4.7% yoy in the second quarter of 2013 due to slowdown in growth of income from wages and social assistance.

Labour market: Unemployment rate (ILO methodology) declined to 6.9% of economically active population at age 15-70 years old in the second quarter of 2013.

Monetary policy: Headline consumer inflation remained negative at 0.5% yoy in September.

Financial markets: In September demand for foreign currency increased responding to seasonal patterns while supply remained steady.

Highlight of the month: Moody's rating

WERE THERE REASON TO DOWNGRADE THE RATING?

By Oleksandra Betliy, Vitaliy Kravchuk

On September 20 Moody's downgraded Ukraine's credit rating to Caa1. This precluded some investors from holding Ukrainian bonds due to the limitations of investment mandate. This also led to downgrades of other Ukrainian issuers rated by Moody's. As a result, the yields on Ukraine's Eurobonds of all maturities exceeded 10% p.a. Moody's justified its decision by three main risk factors: steady decrease in international reserves, decline in likelihood of the IMF program as well as risk of continued trade frictions with Russia. While these risks are high their combined impact is lower than may be expected.

International reserves net of the IMF debt may be more indicative of medium-term liquidity than gross reserves. Net reserves (excluding IMF debt owed by the NBU and the Government) remained in USD 14-16 bn range since October 2012. The only large external debt repayment expected by the end of 2014 is USD 1 bn Eurobonds maturing in June 2014. The Government will also have to repay about USD 3 bn of foreign currency and FX-linked domestic bonds over the next 15 months as well as pay interest. Nevertheless, domestic bonds may be easier to refinance than Eurobonds. Overall, the risk to external liquidity did not increase recently. Besides, Ukrainian government may raise funding in foreign currency on bilateral basis. In particular, it has recently attracted USD 750 m syndicated loan. Moreover, if drain on reserves will increase the Government will be more willing to increase exchange rate flexibility and to make other concessions to the IMF.

Aside from exchange rate the preconditions for successful talks with the IMF relates to the fiscal consolidation, including energy price increases. First, tax expenditures will need to decline in order to ease fiscal pressure and increase fiscal transparency. The Government might be forced to cut some tax privileges due to high fiscal gap, even though this step would be politically difficult. At the moment, the Government faces necessity to sequester the budget as available financing is not sufficient to cover planned expenditures. Second measure is increase in gas and heating tariffs for population, which would result in improved financial situation of the Naftogaz, which receives direct and indirect fiscal support. Even though these steps are required the Government tries to avoid them to maintain political goodwill. However, currency crisis is even more costly in political terms. Besides, poor households will likely be protected from higher expenditures on gas and heating through extended coverage by housing and utility subsidies. At the same time, targeted subsidies to poor households will be much lower than general subsidies to the Naftogaz. As a result, fiscal situation will improve.

Net international reserves



Source: Own calculations based on NBU, IMF data

Besides, the IMF expects Ukrainian government to approve the State Budget Law for 2014, which is based on realistic macroeconomic assumptions. At the moment, the Government still works on the document. While the main purpose may be to increase revenue to maintain entitlements at current level this is also an opportunity to put the budget on more solid economic footing. Among other things the Government considers reversing planned decline in rates of EPT and VAT.

The third reason for downgrade relates to possible continuation of trade frictions with Russia due to signing of the Association agreement with the EU. In the extreme case, Russia may withdraw from CIS FTA and apply customs duties as limited by Russia's WTO commitments. This means that Russian average import tariffs for Ukrainian goods would increase from 0% to 10.6%. According to IER estimates Ukraine's exports to Russia may drop by 20%. While some of the lost exports might be reallocated to other markets, including countries of Middle East and Africa real GDP may drop by 1.7%.

Nevertheless, we should remember that, on the one hand, signing of the Association Agreement and resulting tensions with Russia are not assured. On the other hand, successful signing of the Association Agreement may decrease other risks to Ukraine. Provisional application of the Association Agreement with the EU in 2014 will offset some of the lost exports to Russia directly and will have other short-term and medium-term benefits. Some of the reforms urged by international donors are also required by the Association Agreement. This may lead to increased capital inflows in Ukraine and will pave the way to the IMF program if required. This will also decrease pressure on international reserves.

Monthly Economic Monitor Ukraine

Politics: Ukraine moved closer to the Association with the EU

In September, Ukraine made several steps to meet the requirements of the EU for signing the Association Agreement (AA). On September 18, the Government of Ukraine formally approved the Draft Agreement. During the month, the Parliament passed three laws aimed at fulfilling the EU requirements, including the law that defines the date of new elections in five constituencies, the law amending the Penal Enforcement Code, and a new Customs Tariff. It also continued the process of amending the Constitution regarding the responsibilities of the Accounting Chamber and guarantees for judicial independence.

The EU requirement to solve the issue of selective justice is likely to be met in October. In particular, on October 4 Yulia Tymoshenko, Ukraine's former Prime Minister, who has been in jail since 2011, accepted an offer from European politicians to go to Germany for medical treatment.

However, the EU officials stated that Ukrainian authorities still have to fulfill other conditions for the AA to be signed. The most important of them include improvement of election procedures and progress in law enforcement reform (namely, approval of a law on Prosecutor General Office). Karel De Gucht, European Commissioner for Trade, stated also that Ukraine should resolve controversies in trade with the EU. In particular, Ukraine has to abolish the vehicle recycling tax, the special duty on passenger cars, and the quota for imports of coking coal. The AA is expected to be signed in November 2013.

Real sector: Industrial output declines due to weak demand

Sectoral trends. Industrial output in August declined by 5.4% yoy. In particular, manufacturing output dropped by 9.0% yoy due to weak domestic and external demand. External demand for Ukrainian goods was dampened to additional custom procedures introduced by Russia. For example, production of freight carriages dropped by 25% from July. Chemical production dropped by 25.0% yoy due to weak external demand for fertilisers and low competitiveness of Ukrainian products due to expensive natural gas. At the same time, higher global steel prices contributed to increase in steel production by 3.8% yoy.

Ban on exports of products of Confectionary plant *Roshen* imposed by Russia in the end of July did not result in drop of production of confectionary products and chocolates as it increased 17% mom. The drop in sunflower oil production remained high (33.3% yoy) reflecting low stock of sunflower seed but this will change in September. Overall, increased competition from imports and slowdown in demand led to decline in food production declined by 5.5% yoy.

As in July economic growth in August was supported by higher agricultural production (by 13.3% yoy). Crop production grew by 19.8% yoy due to higher yields of most crops. Besides, harvested areas were larger than a year ago for wheat, sunflower and rapeseed. However, bad weather conditions in September limited potential of record grain harvest this year.

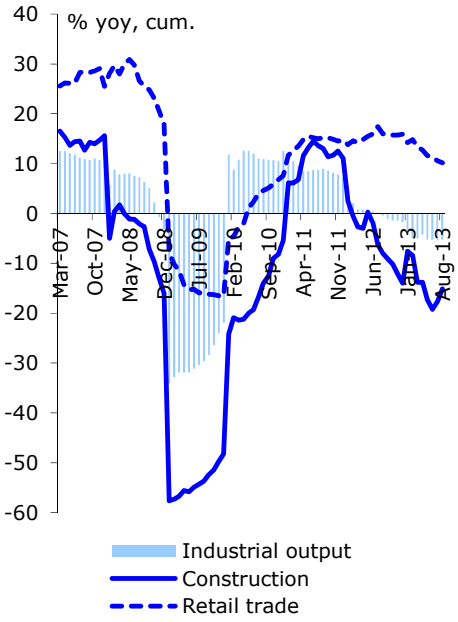
Construction decline decelerated to 15.1% yoy in the first eight months of the year due to improved performance of residential construction, which grew by 6.6% yoy. Retail trade growth slowed down further to 10.2% yoy as income growth decelerated.

Energy sector: Ukraine seeks to diversify gas supply sources

Non-conventional gas. The non-conventional gas exploration in Ukraine is gaining speed. New signed agreements will help Ukraine to diversify gas supply and increase energy independence. Two of them give start to shale gas exploration in Ukraine and the third one concerns offshore gas drilling in the Black Sea.

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 trends



Source: Ukrstat

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In September, Nadra Uzivska Ltd. signed an operational agreement with Royal Dutch Shell that allows to start drilling on the Uzivske gas field. According to the tender, Shell has to invest USD 10 bn, from which around USD 500 m are to be allocated to exploration works.

At the same time, the new draft of the agreement between Chevron and Nadra Oleska Ltd. on shale gas production took into account some suggestions of the Ivano-Frankivsk and Lviv oblast administrations, which allowed the administrations to ratify the agreement. In particular, the draft envisages giving 10% of the government share of the profits to Ivano-Frankivsk and Lviv oblast administrations. It also requires Chevron to disclose information on chemical substances used during fracking and to fully compensate any damage caused to the environment.

On September 25, the Cabinet of Ministers, as one party, and Exxon Mobil, Royal Dutch Shell, and OMV Petrom, as another party, signed a preliminary production sharing agreement on Skifska gas field in the Black Sea. The estimated gas output of the field is 8-10 bcm per year. The drilling is expected to start in 2014. This is the first deep sea exploration project of such a scale in Ukraine and the Government still has to develop the necessary legislation. Also the project will be profitable only if gas prices in Eastern Europe remain high.

Gas storage. The Government continues its efforts to attract third parties to use Ukrainian underground gas facilities (UGF). In September, the NERC decreased its tariffs for pumping natural gas to and from gas storages from UAH 32.9 to UAH 7.5 per thousand m^3, tariffs for gas storage were decreased from UAH 46.2 to UAH 18 per thousand m^3. At the same time, on September 5, the Naftogas extended its agreement with German RWE Supply & Trading to store gas in UGF. The agreement also allows RWE to supply annually up to 10 bcm of gas. Therefore, the agreement should help raise additional revenue on utilization of remaining 14 bn m^3 storage capacity after Naftogas pumped 17 bn m^3 of gas required for transit of Russian gas to Europe.

Agriculture: Legislative framework to regulate organic farming

The Law "On the production and turnover of organic agricultural products and raw materials" was approved by the Parliament with amendments of the President in September. The Law defines legal, economic and organizational basis for production, processing, transportation, storage, certification and labeling of organic produce and raw materials. Clear and strict labeling procedures are expected to result in higher trust to "organic" label. This will protect organic food producers from unfair competition of those who abuse the labels "eco", "bio", "organic", but do not meet required standards.

Although the Law establishes legal framework for the development of the domestic organic market, it still has some limitations. In particular, holders of international organic certificates should automatically obtain Ukrainian organic certificate, which is not yet envisioned in the Law. Currently, organic food producers, who already have international certificates, will also have to go through Ukrainian certification to sell their produce domestically. This will entail additional administrative and economic costs.

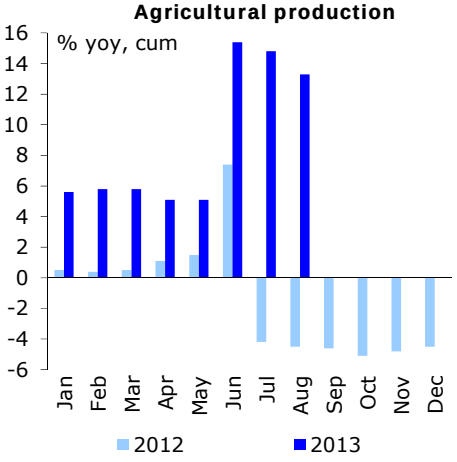
The Law will become effective as of 9th of January, 2014, but three months might not be enough to develop bylaws and enforce all necessary procedures.

External sector: Trade war with Russia had limited impact on current account

Current account deficit stayed at USD 1.5 bn in August as merchandise trade deficit remained close to two-year highs at USD 1.95 bn and net payments of income reached USD 0.5 bn (the highest level in 2013). Merchandise trade deficit was partly offset by successful tourist season as exports of services reached USD 2.2 bn.

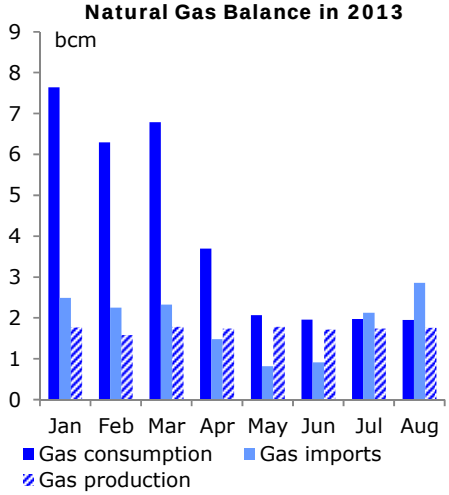
Exports of goods in August remained at July level. Disruption of trade with Russia was one of the factors to lower exports of metallurgy (by 15% yoy) and machine building products (by 33%

Agricultural production



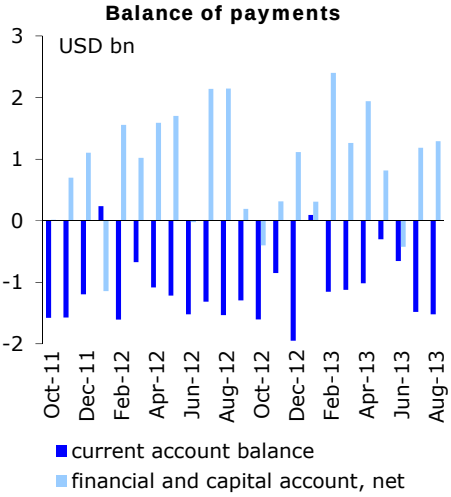
Source: Ukrstat

Natural Gas Balance in 2013



Source: Ministry of Energy

Balance of payments



Source: NBU preliminary estimates

yoy). At the same time, exports of agricultural products grew from USD 1.1 bn in July to USD 1.4 bn in August and, as a result, exceeded metallurgy exports. Merchandise imports did not change much from July. Imports of mineral products reached USD 2.0 bn as Naftogaz prepared for winter by increasing purchases of gas from Russia. It was offset by lower shipments of consumer goods.

Financial and capital account surplus widened to USD 1.3 bn in August as FDI and portfolio inflows were at USD 0.9 bn. Net debt inflows were at USD 0.5 bn as banks and real sector raised USD 2.1 bn in external (or offshore) medium-term financing. Foreign cash outflows from banks reached USD 0.5 bn while trade loans financing and unexplained inflows reached USD 1.2 bn.

Fiscal policy: The Draft State Budget Law for 2014 was not published

Budget execution. Between January and August central fiscal revenues fell by 1.3% yoy. Tax collections dropped by 5.6% yoy against the background of economic slowdown. In particular, revenues from VAT declined by 9.9% yoy due to imports decline and higher VAT refunds. EPT revenues fell by 1.1% yoy, which is attributed to lower corporate profits and reduction of tax rate by 2 p.p. to 19%. Sharp decline in imports resulted in reduction of revenues from excises on imported goods (by 17.6% yoy). Low tax revenues were partially offset by increase in non-tax collections by 18.5% yoy attributed primarily to higher transfer of NBU profit.

Central fiscal deficit widened further to UAH 34.8 bn in the first eight months, which is twice higher than in the same period of 2012. However, it was still lower than the target due to low privatization receipts and insufficient state borrowings on domestic and external capital market.

As a result, central fiscal expenditures were executed at only 58.2% of the annual plan in the first eight months of 2013. In particular, capital expenditures reached 32.9% of annual target. At the same time, the Government tried to finance in full such important items as social security programs, transfers to the Naftogaz and debt servicing. The issue of budget sequester remains high in agenda.

State Budget 2014. On September 14, the Draft State Budget Law for 2014 was formally submitted to the Verkhovna Rada. However, it was not published, which violates the provisions of the Budget Code.

Social policy: Saving rate declines

Growth of real disposable income decelerated from 7.6% yoy in the first quarter of 2013 to 4.7% yoy in the second quarter. This is attributed to slowdown in growth of income from wages and social assistance.

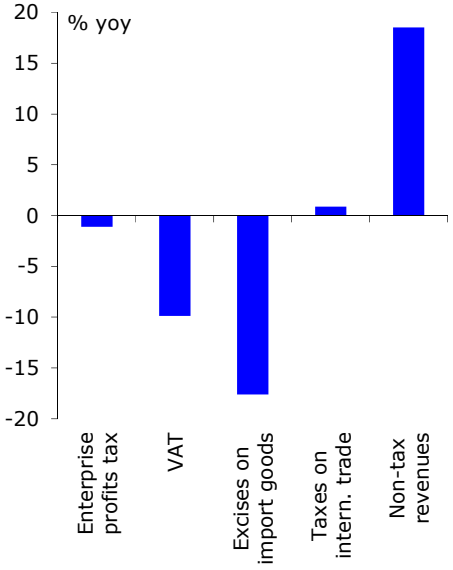
Total households' income grew by 5.0% yoy in nominal terms in the second quarter. Wage income grew only by 3.4% yoy due lower employment in official sector as well as to lower wages in shadow economy as average wage of employees grew by 8.8% yoy. At the same time, income from social assistance payments and current transfers grew by 5.5% yoy likely due to higher pensions. Income from entrepreneurship activity and subsidiary farming grew by 9.0% yoy, which might be attributed to good increase in crop and livestock production.

At the same time, saving rate declined further to 4.5% in the second quarter of 2013 likely due to several reasons. In particular, households reduced cash purchases of foreign currency, while their borrowing drew close to debt repayments. Households also increased purchases of durable and semi-durable goods, which might be considered by some households as investments at the time of economic uncertainty.

Labour Market: Unemployment rate declined to 6.9%

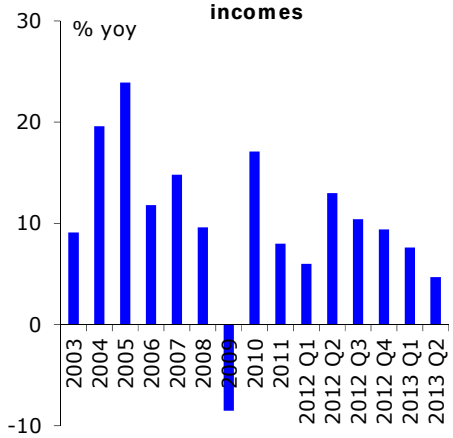
Despite economic recession unemployment rate (ILO methodology) declined to 6.9% of economically active population at age 15-70 years old in the second quarter of 2013 as compared to 7.1% in the same period of 2012. However, this decline is insignificant as it is in the

Growth of central fiscal revenues in January-August of 2013



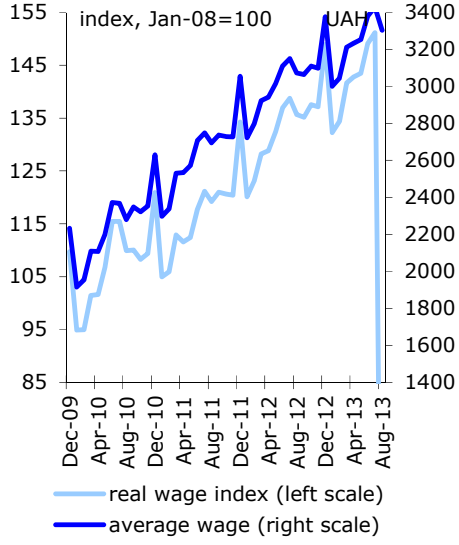
Source: State Treasury reports

Real disposable household incomes



Source: Ukrstat

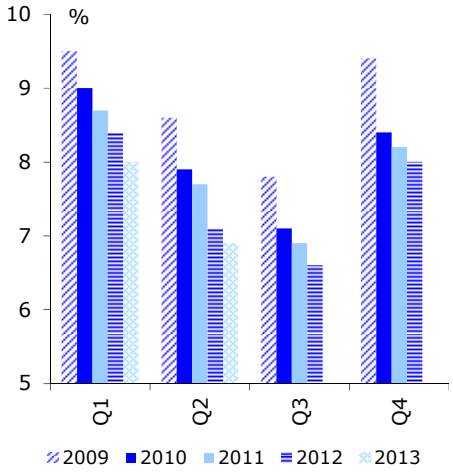
Average wage



Source: Ukrstat

range of standard error of unemployment rate is 0.3%. In any case total number of jobs in the economy did not drop probably due to higher employment in agriculture and larger number of self-employed. Besides, as previously companies try to avoid lay-offs and, thus, keep their employees hoping that demand for their products and services will recover soon. This, in particular, results in higher share of underemployed employees or those working in shadow economy.

Unemployment rate (ILO)



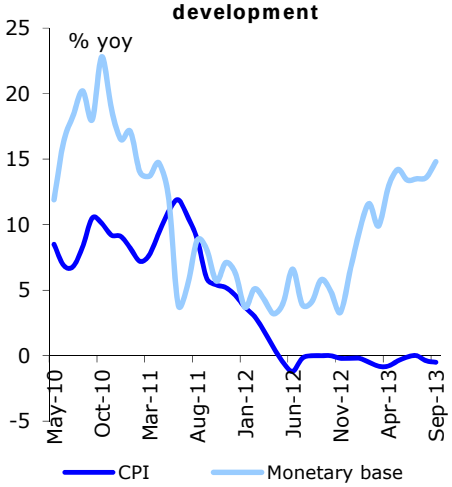
Source: Ukrstat

Monetary policy: Downward bias in inflation calculations

Headline consumer inflation remained negative at 0.5% yoy in September. According to the Ukrstat food prices dropped by 2.8% yoy reflecting slow income growth and good harvest. Unfortunately, reported drop in foods prices was also caused by flaws in the Ukrstat methodology. Price index for vegetables in September is 22% lower than in September 2006. Moreover, vegetable prices as reported by the Ministry of Economic Development and Trade jumped by over 40% yoy in September (simple average of vegetable prices collected by Price inspection in regional centres on September 20, 2013 as compared to September 21, 2012), while the Ukrstat reported 13% yoy drop in prices. While some of the difference may be explained by discrepancies in weighting and sampling this points to downward bias in the Ukrstat price indices for seasonal goods. Nevertheless, inflation will still be low (although not negative) even after correcting the bias. In August deflator of retail trade in goods was 0.7% yoy, while deflator of services was at 1.2% yoy.

Monetary conditions remained easy in September as bank liquidity increased slightly and interbank interest rates went down to 4% p.a on average. The NBU increased interest rate for overnight deposits providing floor for interbank interest rates at 2% p.a. However, since October 1 banks have to maintain higher reserves on external debt and long-term foreign currency deposits, which reduced liquidity.

CPI and monetary base development



Source: Ukrstat, NBU

Financial markets: Indirect measures for exchange rate stability

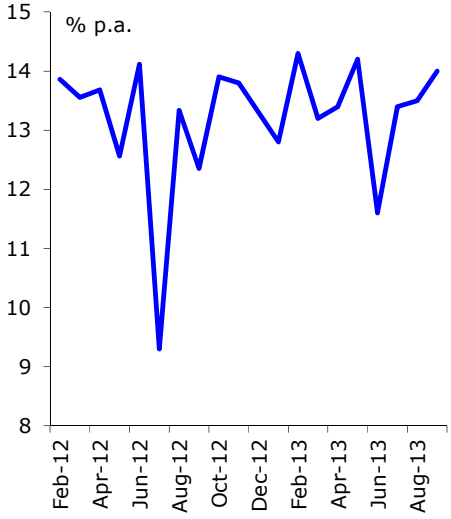
Exchange rate. In September demand for foreign currency increased responding to seasonal patterns while supply remained steady. In response the NBU allowed USD/UAH exchange rate to weaken by about 1% and sold foreign currency on the interbank market for the first time since April. In addition the NBU used indirect measures to support exchange rate by driving out dollars from the banking system. The NBU increased reserve requirements on external borrowing by banks and on long-term foreign currency deposits from 5% to 7% and introduced additional restrictions on foreign currency bank transfers within Ukraine.

State debt. In September 2013, the Government borrowed at domestic and external markets. The Ministry of Finance placed hryvnia denominated bonds at UAH 2.8 bn with weighted average yield at 14.0 p.a. (as compared to UAH 0.9 bn at 13.5 p.a. in August). 86.5% of issued bonds had 5 and 7 years maturity. Issues of domestic bonds denominated in USD and EUR was low and primarily short-term (USD 25 m and EUR 61.1 m, respectively).

Besides, the Government attracted USD 750 m syndicated loan from foreign banks. The loan was granted for two years at 6.5% per annum with one-time lending fee (commission) at 0.5% of the debt principal. Interest will be paid quarterly. The Government will likely spend the received funds to pay for natural gas, imported from Russia.

On September 20, Moody's downgraded Ukraine's credit rating to "poor quality" category (Caa1), which resulted in sell-off in Ukrainian bonds as yields exceeded 10% p.a. for all maturities.

Weighted average yield for domestic state bonds



Source: NBU

Economic Trends		Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Industrial production (real)	% yoy cum.	8.6	7.3	0.9	0.4	-1.2	-1.8	-5.0	-1.4	-1.5	-1.8	-3.2	-4.8	-5.0	-4.2	-5.2	-5.3	-5.3	-5.2	…
Construction (real)	% yoy cum.	11.4	11.1	-2.7	-1.9	-9.1	-14	-13.8	-10.2	-12.1	-13.8	-7.6	-8.4	-13.8	-13.8	-17.3	-19.2	-17.7	-15.1	…
Agricultural production (real)	% yoy cum.	13.7	17.5	0.5	7.4	-4.6	-4.5	5.8	-5.1	-4.8	-4.5	5.6	5.8	5.8	5.1	5.1	15.4	14.8	13.3	…
Retail trade turnover (real)	% yoy cum.	15.2	14.7	14.2	16.0	16.0	15.9	13.4	15.7	15.7	15.9	14.2	14.8	13.4	12.7	11.6	11.2	10.6	10.2	…
Average wage	UAH	2727	2837	2923	3109	3064	3195	3085	3110	3098	3377	3000	3044	3212	3233	3253	3380	3429	3304	…
CPI	% yoy eop	5.9	4.6	1.9	-1.2	0.0	-0.2	-0.8	0.0	-0.2	-0.2	-0.2	-0.5	-0.8	-0.8	-0.4	-0.1	0.0	-0.4	-0.5
PPI	% yoy eop	21.3	14.2	6.5	4.5	0.3	0.3	0.2	0.6	0.0	0.3	1.5	-0.9	0.2	-1.0	1.9	-1.6	-1.6	-0.9	-0.9
Exports (USD)*	% yoy cum.	26.8	21.8	5.2	2.5	2.6	1.0	-2.1	2.8	2.0	0.5	-3.6	2.0	-2.3	-0.9	-4.7	-5.9	-8.5	-8.6	…
Imports (USD)*	% yoy cum.	30.9	21.9	5.8	9.8	7.6	5.6	-4.7	7.3	5.8	5.3	-2.6	-5.5	-5.8	-6.4	-11.8	-13.5	-12.2	-9.8	…
Merchandise trade balance	USD bn cum.	-9.3	-13.8	-3.9	-9.5	-14.8	-20.5	-3.7	-16.6	-17.9	-20.5	-0.4	-2.0	-3.7	-5.1	-5.6	-6.5	-8.5	-10.7	…
Current account**	USD bn cum.	-5.0	-9.0	-2.0	-5.9	-10.0	-14.4	-2.7	-11.6	-12.4	-14.4	0.0	-1.4	-2.7	-3.8	-4.1	-4.7	-6.1	-8.2	…
Gross international reserves	USD bn eop	35.0	31.8	31.1	29.3	29.3	24.5	24.7	26.8	25.4	24.5	24.7	24.7	24.7	25.2	24.5	23.1	22.7	21.7	21.7
Monetary Base	% yoy eop	8.1	6.3	4.3	6.6	5.8	6.4	9.9	4.9	3.3	6.4	9.5	11.6	9.9	12.8	14.2	13.4	13.5	13.6	14.8
Lending rate on UAH credits	% pa, aop	14.8	18.4	15.5	15.7	19.6	20.8	16.2	21.7	23.2	17.6	16.5	15.9	16.1	15.3	15.6	15.3	15.7	15.0	15.2
Exchange rate (interbank)	USD aop	7.99	8.01	8.02	8.05	8.09	8.11	8.11	8.12	8.13	8.09	8.10	8.11	8.11	8.11	8.12	8.12	8.11	8.10	8.13
Exchange rate (official)	USD aop	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	7.99	7.99	7.99	7.99
Exchange rate (official)	EUR aop	11.27	10.76	10.46	10.26	9.99	10.37	10.55	10.37	10.26	10.49	10.60	10.70	10.36	10.40	10.38	10.41	10.45	10.64	10.67

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	2012
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
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
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	0.2
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	-1.8
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
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
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
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
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
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
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
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	-14.8
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	-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
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
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
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
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
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
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
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
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
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

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		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	Q4 12	Q1 13	Q2 13
GDP	UAH bn	214.1	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	301.6	351.9
GDP (real)	% yoy	-17.3	-15.7	-6.7	4.5	5.4	3.3	3.7	5.1	3.9	6.5	5.0	2.2	3.0	–1.3	–2.5	-1.1	-1.3
Household consumption (real)	% yoy	-14.5	-14.3	-16.2	0.2	6.8	7.8	12.8	13.2	14.2	16.1	18.5	8.6	15.7	14.0	6.9	4.5	7.4
State consumption (real)	% yoy	-1.6	-4.3	-3.7	3.8	-4.0	5.8	10.0	2.0	2.9	-9.4	-6.6	0.9	2.7	7.9	–1.3	2.1	-1.0
Gross fixed capital formation (real)	% yoy	-55.9	-53.2	-33.7	-5.7	-3.2	9.5	10.5	-1.8	3.7	9.7	12.0	12.3	16.2	–6.9	–7.5	4.0	-19.7
Exports of goods and services (real)	% yoy	-34.1	-30.9	6.9	0.4	13.2	2.0	0.9	19.4	4.9	0.3	-4.1	–8.2	–9	–4.9	–8.7	-6.8	-14.4
Imports of goods and services (real)	% yoy	-52.3	-47.6	-11.1	-6.2	17.2	20.2	13.2	38.1	23.3	12.5	5.2	–2.3	9.9	4.2	4.0	-4.6	-19.1
Agriculture, hunting, forestry (real)*	% yoy	3.4	2.2	-11.6	5.4	0.5	-3.2	0.9	4.9	1.3	16.7	38.1	0.4	11.3	-8.4	–3.9	3.2	20.9
Manufacturing industry (real)*	% yoy	-26.1	-25.6	6.5	10.9	10.1	7.6	7.6	7.8	3.4	4.6	-2.9	–0.1	–0.1	-6.1	–7.2	-9.5	-9.2
Construction (real)*	% yoy	-42.7	-43.6	-32.8	-7.7	-5.8	9.6	3.9	1.7	10.9	0.1	2.0	–3.4	–0.2	-15.1	–12.2	-14.8	-20.9
Trade, repair services (real)*	% yoy	-15.7	-22.0	-16.4	6.1	9.6	10.1	4.7	9.8	2.8	6.1	3.0	5.1	6.8	3.5	0.3	3.1	1.4
Transport (real)*	% yoy	-9.2	-5.7	-0.4	1.3	1.8	3.0	0.1	10.2	7.9	5.7	11.1	3.7	3.8	–1.8	–1.5	-3.3	-2.2
Balance of payments																		
Current account balance	USD bn	-0.2	-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	-2.7	-2.0
Current account balance	% of GDP	-0.6	-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	-7.2	-4.5
Trade balance in goods	USD m	-622	-1396	-1407	-1236	-697	-2870	-3585	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-3700	-2808
Trade balance in services	USD m	432	1256	550	930	1115	1536	823	1262	1514	2007	1312	1299	1362	1975	1084	859	992
Current transfers	USD m	667	640	722	608	728	797	842	1039	878	988	803	683	805	777	711	548	604
Direct investment (FDI)	USD m	1279	1210	1282	923	1196	1470	2170	880	2422	2090	1623	1663	1091	2002	1871	832	1088
Portfolio investments	USD m	-351	-2286	1428	-307	804	2532	1288	1163	1838	-938	-506	222	-369	2890	339	705	592
Gross international reserves	USD bn	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	24.5	24.7	23.1
Exchange rate (interbank), UAH/USD	aop	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	8.11	8.11	8.12
Exchange rate (official), UAH/USD	aop	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	7.99	7.99	7.99
Fiscal indicators																		
Consolidated fiscal revenues	% of GDP	30.6	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	35.4	29.6
Personal income tax	% of GDP	5.3	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
Enterprise profits tax	% of GDP	3.3	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	3.5
Value-added tax	% of GDP	8.3	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
Excise tax	% of GDP	2.3	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
Consolidated fiscal expenditures	% of GDP	36.6	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	37.2	36.1
Current expenditures	% of GDP	34.9	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	35.9	34.2
Capital expenditures	% of GDP	1.7	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
Consolidated fiscal balance	% of GDP	-6.2	-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	-6.4
Privatisation receipts	% of GDP	0.2	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
Labour market																		
Average wage (real)	% yoy	-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	13.3	12.9	9.9	9.3
Household income (real)	% yoy	-6.9	-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	7.6	…
Unemployment rate (ILO methodology)	% cum	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	7.9	8.0	…
Banking system																		
Monetary aggregate M0	% yoy cum	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	5.5	9.7	9.8
Monetary aggregate M2	% yoy cum	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	13.1	16.0	17.9
Household deposits in national currency	% yoy cum	-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	16.3	19.1	26.5
Household deposits in foreign currency	% yoy cum	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	21.8	17.0	14.7
Com. bank credits in national currency	% yoy cum	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	7.7	8.6	7.4
Com. bank credits in foreign currency	% yoy cum	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	-7.3	-4.4	-0.4
Long-term com. bank credits	% yoy cum	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	-6.6	-5.6	-2.7
Long-term com. bank credits	% of total	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	57.8	55.9	55.7
Average lending rate on national currency credits	% p.a.	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	20.8	16.2	15.3
Average lending rate on foreign currency credits	% p.a.	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	8.8	9.4	9.7

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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