Monthly Economic Monitor Ukraine

No.9 (155), September 2013

EXECUTIVE SUMMARY

HIGHLIGHT: RECYCLING TAX

Politics: Russia imposed trade barriers on imports from Ukraine likely to discourage Ukraine from signing the Association Agreement (AA) with the EU.

Real Sector: Real GDP declined by 1.3% yoy in the second quarter of 2013 due to drop in investments. Real private final consumption and net exports made positive contribution to economic growth.

Energy sector: Ukraine managed to decrease gas consumption by 8.6% yoy due to decline in industrial output as well as somewhat higher energy efficiency of industry.

Agriculture: Record grain harvest is expected this year. However, profitability of producers is likely to be poor due to extremely low prices both at the domestic and international markets.

External sector: Financial and capital account returned to surplus of USD 1.1 bn as surprisingly FDI inflows reached USD 0.9 bn and portfolio inflows in equity jumped to USD 0.35 bn.

Fiscal policy: Lower than planned fiscal revenues and state borrowings resulted in low execution of central fiscal expenditures. As a result, the Government might be forced to sequester the budget in autumn.

Privatisation. The State Property Fund of Ukraine is not likely to ensure execution of planned privatization receipts in 2013.

Social policy: Number of applications for housing and utility subsidies declined by 3.0% yoy in the first seven months of 2013.

Labour market: Weak economic state of manufacturing was reflected in changed labour patterns at manufacturing companies.

Monetary policy: Fundamentals such as slower wage growth, stable global commodity prices and slowdown in demand contributed to low inflation in August. Headline consumer inflation fell to -0.4% yoy.

Financial markets: Demand for cash foreign currency increased only slightly in August with net demand of USD 0.14 bn.

Highlight of the month: Recycling tax

RECYCLING TAX: CHANGES NEEDED

By Vitaliy Kravchuk

This summer Ukraine decided to follow the example of Russia in the introduction of recycling fee for vehicles. This decision was officially explained by necessity to recycle and dispose of old cars but additional fiscal revenues or support domestic car producers may have also motivated the Government. It would be useful to review Russian experience in introducing recycling fee.

In July 2012 Russia ratified the WTO accession package that included lower barriers for imports of cars. However, Russian car manufacturers received protection from external competition through introduction of "recycling fee" on imported cars. In order to work around WTO rules this tax on foreign vehicles was framed as a fee for future recycling of these vehicles. Manufacturers of Custom Union of Russia, Belarus and Kazakhstan are also subject to the fee but they can avoid it by recycling cars they manufacture. However, other foreign cars are subject to the fee even if manufacturer is willing to recycle cars exported to Russia. Recycling fee has no obvious connection to the costs of recycling and it is much higher for imported used cars.

This prompted the EU and Japan to request consultations with Russia which is the first step in WTO dispute settlement. Violations of WTO rules asserted by Japan and the EU are very similar. They argue that by making exemptions from the recycling fee only for domestic manufacturers Russia violated principle of national treatment for imported goods. National treatment for imported goods means that WTO members have to charge taxes and apply other rules and regulations to domestic and imported products to avoid disadvantages for imported products (after customs duties are paid). They also claim national treatment principle was violated by higher recycling fees for used imported cars. In particular, domestically produced cars can only be subject to recycling fee at "new car" rates even if producer is not ready to assume responsibility for recycling cars. By providing exception to Belarus and Kazakhstan Russia also allegedly violated most favoured nation WTO rule. USA, Turkey, China and Ukraine joined consultations on the issue.

Ukrainian copycat measure became effective in September but it is not expected to be enforced until October. Ukrainian legislation is similar but not identical to Russian original. Ukrainian legislation refers to "ecological tax for recycling vehicles" rather than "recycling fee" and the tax applies to slightly different categories of vehicles (although most passenger and cargo vehicles are subject to tax in both Russia and Ukraine). However, Ukrainian manufacturers may also avoid the tax by promising to recycle cars themselves, while foreign cars are always subject to tax and higher rates apply to imported used cars. This means that complaints of the EU and Japan, which were joined by Ukraine, are equally valid for Ukrainian recycling tax as it does not provide national treatment for imported cars.

In response to concerns from trade partners Russia and Ukraine decided to change the recycling fee framework. Russian officials proposed to make all cars subject to recycling fee but increase difference between fees for new and used vehicles to maintain trade barriers for used vehicles. It is not clear how Ukraine intends to change the recycling tax but the Ministry of Environment reported that draft law was ready to be submitted to Parliament to make Ukrainian tax compatible with WTO rules.

Different tax treatment of importers and domestic manufacturers is a clear violation of WTO rules and any revision to the law will have to either abolish the fee, allow foreign manufacturers/importers to make undertakings to recycle cars or apply recycling fee equally for all cars.

It's not clear if difference in fees for new and used vehicles will be revised as the violation of WTO rules is less obvious. Arguably higher fees for used vehicles can be justified by the fact that they will have to be recycled sooner and on average they would be older when recycled. However, in Ukraine there is no stringent recycling targets that exist EU and other advanced countries. Over 75% of average car's weight is steel and other valuable metals with substantial scrap value, while costs of landfilling unusable residues are comparatively low. Thus many cars may be profitable to recycle without subsidies. Besides recycling is not mandatory, which means that old vehicles may be salvaged for parts and scrap and abandoned rather than transported at owner's cost to recycling operator. This further reduces costs of recycling for manufacturers/budget. Overall current large differences in recycling tax will be hard to justify as something other than veiled duty on used car imports. Thus to comply with WTO rules, Ukraine will have to apply recycling fees and any exemptions equally to domestic and foreign cars and any differentiation in fees must be related to recycling costs.

It should be noted that although recycling tax was introduced as protectionist measure, recycling of old cars is valid environmental concern. Abandoned and improperly disposed vehicles contribute to pollution and/or burden limited resources of landfills, while cars are highly recyclable (over 90%) under current state of the art. Ideally suppliers (manufacturers and importers) could be encouraged to invest in recycling infrastructure in Ukraine and enter in cooperative arrangements to support economies of scale. Depending on steel and metal prices car recycling may be entirely self-supporting or require small subsidies from the suppliers. Main consumers of scrap steel and metals may be encouraged to subsidize or provide initial investments in exchange for access to resources.

Monthly Economic Monitor Ukraine

Politics: Russia increases pressure on Ukraine

On August 14, Russia's customs authority introduced additional thorough inspection of Ukrainian goods and, as a result, substantially slowed down imports. Large Ukrainian manufacturers reported problems with supplies to Russia or were even forced to stop exports to the country. According to Viktor Suslov, Permanent Representative of Ukraine to the Eurasian Economic Commission, 27% of Ukrainian exports to Russia were subject to additional inspections. Russia is the second largest export destination for Ukrainian producers after the EU. In the first half of 2013 exports of goods to Russia were USD 7.6 bn or 24.7% of total merchandise exports. The Federation of Employers of Ukraine estimates a loss of USD 2.0-2.5 from trade barriers in the second half of 2013.

Trade barriers on imports from Ukraine were likely imposed by Russia to discourage Ukraine from signing the Association Agreement (AA) with the EU. "The Russia's action was aimed at preparing changes in customs clearance procedures for Ukrainian goods", - Advisor to the President of Russia Sergey Glazyev stated. The procedures can be tightened in case Ukraine signs the AA, which implies establishment of a Deep and Comprehensive Free Trade Area (DCFTA) between Ukraine and the EU. Sergey Glazyev warned that members of the Customs Union of Belarus, Kazakhstan, and Russia (CU) may also exit from the free trade agreement of the CIS if Ukraine signs the AA.

Despite pressure Ukrainian officials reaffirmed dedication to signing the AA and continued to work towards addressing the requirements of the EU. Respective requirements include progress in addressing the problem of selective justice, advancing law enforcement reform, and improving electoral procedures.

After Russia had imposed trade barriers the EU officials have softened the tone of their rhetoric. In particular, the High Representative of the EU for Foreign Affairs and Security Policy Catherine Ashton expressed hope that Ukraine would make necessary efforts and said that the EU could not lose Ukraine. The AA is expected to be signed in November 2013.

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

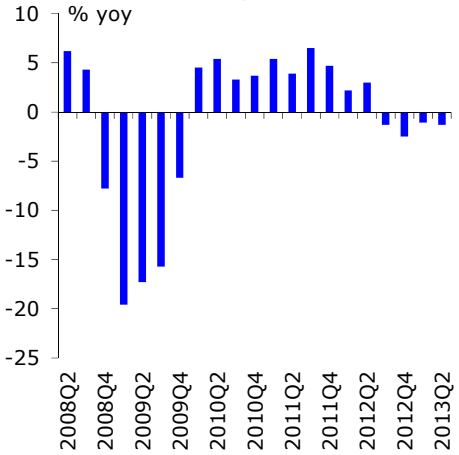
GDP. According to the Ukrstat real GDP declined by 1.3% yoy in the second quarter of 2013. Only agriculture demonstrated strong growth of real gross value added (GVA) at 20.9% yoy. At the same time, GVA in trade increased only by 1.4% yoy due to deceleration in households' income growth and decline in wholesale trade. Lower wholesale trade is explained by decline in manufacturing by 9.2% yoy as well as lower international trade. Financial constraints and high statistical base resulted in drop of construction at 20.9% yoy.

On demand side, real GDP was supported by positive contribution of real private final consumption, which increased by 7.4% yoy. Besides, net exports also made positive contribution to economic growth as real imports declined more than real exports (19.1% yoy and 14.4% yoy, respectively). Lower imports are attributed to lower energy imports, lower manufacturing demand as well as drop in investments. In particular, real gross fixed capital accumulation contracted by 19.7% yoy from high statistical base due to financial constraints as well as political and economic uncertainty.

Sectoral trends. Drop in industrial output in July decelerated to 4.9% yoy primarily due to statistical base effect. Situation in most sectors remained unchanged. Machine building reduced production by 11.5% yoy due to weak external and domestic demand. Food production dropped by 5.1% yoy due to lower production of sunflower oil. High gas prices and weak external demand resulted in decline in chemical industry. Drop of production of oil refineries was at 19.7% yoy despite low statistical base. The Government expects two oil refineries to renew work in September, which will result in growth of the sector. At the same time, metallurgy grew by 1.6% yoy due to

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 GDP growth



Source: Ukrstat

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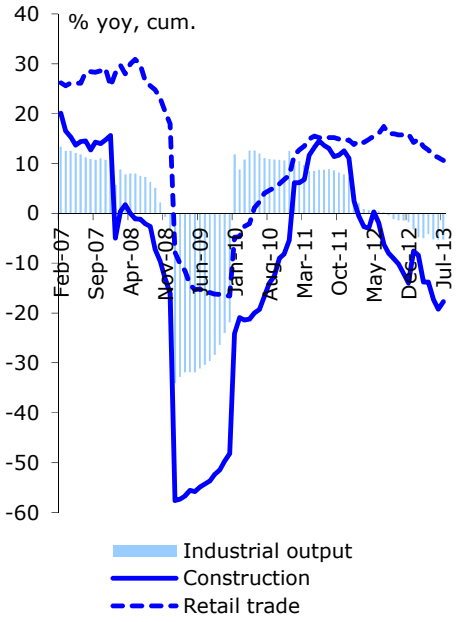
higher production of steel (by 8.0% yoy) likely explained by increase in external demand.

Economic growth in July was supported by increase in agricultural production. Overall, between January and July agricultural production grew by 14.8% yoy. Crop production grew by 25.4% yoy due to higher yields and earlier harvesting of crops. Growth of livestock production remained at 5.0% yoy and is likely to be further supported by lower prices for feedstock grain.

Construction declined by 17.7% yoy in the first seven months of the year. In particular, construction of engineering structures declined by 23.0% yoy likely due to low budget financing. At the same time, residential construction grew by 2.7% yoy, which might be explained by increase in household income, incentives by construction companies as well as implementation of government programs on affordable housing.

Retail trade growth slowed down to 10.6% yoy as income growth decelerated.

Real sector trends



Source: Ukrstat

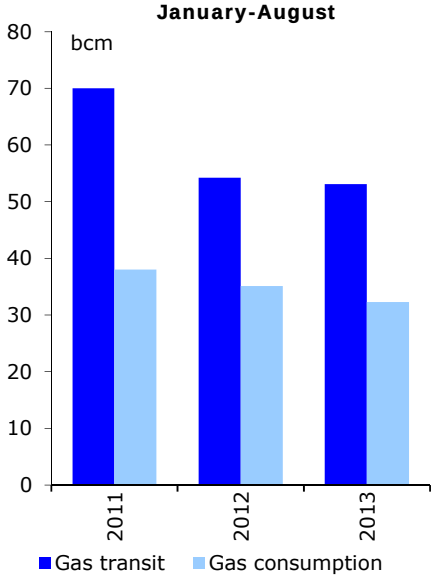
Energy sector: Ukraine decreases gas imports

Between January and August, Ukraine managed to decrease gas consumption by 8.6% yoy to 32.3 bn cubic meters (bcm) (including 2 bcm of technical gas) due to decline in industrial output as well as somewhat higher energy efficiency of industry. The biggest decrease was in metallurgy (by 19.4% yoy) and chemistry (by 6.1% yoy). At the same time, heating companies increased their gas consumption by 14.8% yoy to 6.2 bcm. This raises concerns about the ability of heating companies to provide heat and hot water services to the population since gas limit for these companies for entire 2013 was set at 6.3 bcm. These companies would have to negotiate agreement on additional gas supply with the Naftogaz likely at a higher price. This might result in further increase of indebtedness of heating companies to the Naftogaz and, thus, it would further worsen the company's financial situation.

During eight months of 2013 Ukraine decreased gas imports from Russia by 34.4% yoy to 14.1 bcm, while reverse gas supplies from Poland and Hungary reached 0.7 bcm and 0.4 bcm, respectively. However, the Naftogaz is likely to increase gas purchases from Russia in the rest of the year to ensure enough gas stock for heating season against the background of restricted capacities of reserve supplies.

At the same time, gas transit through Ukraine remained fairly constant, its volume for January-August 2013 decreased by 2% yoy to 53.1 bcm.

Consumption and transit of gas in January-August



Source: MinEnergy

Agriculture: Good harvest but low profit

As of September 1, 90% of agricultural lands have been successfully harvested. Taken into account new figures, the Ministry of Agricultural Policy and Food confirmed its earlier forecast of grains at 57.1 m t, which is close to historical record in 2011. In particular, it is expected that 21.5 m t of wheat, 0.7 m t of rye, 7.2 m t of barley, 25.9 m t of corn, 0.5 m t of oat, buckwheat 0.2 m t, 0.2 m t of millet and 0.7 m t of other grains will be harvested this year. Good harvest of 15 m t of oil crops (including unprecedented 9 m t of sunflower) is also expected this year.

Despite record harvests, profitability of producers is likely to be poor due to remarkably low prices both at the domestic and international markets. Wheat prices at the domestic market declined by 26-27% yoy in August (to 1540-1550 UAH per t). Experts of the "AgriSurvey" Agency estimate that profitability of wheat production would be close to zero this year, while in the previous year it was about 11%. Situation with corn and barley production is likely to be even worse. Producers of these crops would encounter losses from 5% to 10%, while in the previous year they worked with 11% to 20% profitability. Even rapeseed producers will incur losses up to 15-20% (UAH 1000 per ha) although rapeseed always was one of the most profitable crops. Experts in the field argue that losses of grain producers will reach record levels this year.

External sector: Current account deficit widened to USD 1.4 bn in July

Current account deficit widened to USD 1.4 bn in July from USD 0.7 bn in June as international trade increased to levels observed in March and April. Merchandise trade deficit reached the highest level in 2013 (and the second highest since February 2012) at USD 1.95 bn but it was partly offset by seasonal improvement in services exports. Exports of goods fell by 8.3% yoy with largest declines in machine building exports (by 31% yoy) and chemical product exports (by 24% yoy) due to high statistical base. Low demand from Russia and insufficient competitiveness also played a role. Steel exports grew by 8% yoy due to improved demand as well as lower statistical base. Exports of consumer goods also increased. Merchandise imports fell only by 5.4% yoy as imports of mineral products jumped to USD 1.7 bn (although it was still down 23% yoy). Imports of consumer and investment goods also increased significantly from previous months.

Financial and capital account returned to surplus of USD 1.1 bn in July as surprisingly FDI inflows reached USD 0.9 bn and portfolio inflows in equity jumped to USD 0.35 bn. Access of Ukrainian government and private sector to international financial market remained constrained while activity was low in summer. This led to outflow of debt capital at USD 0.5 bn. Foreign cash outside banks increased by USD 0.5 bn, although net purchases of foreign currency from banks remained near zero.

Fiscal policy: Public finances remained under strain

According to preliminary data of the State Treasury, revenues declined by 1.4% yoy in the first eight months of the year after growing by 1.8% yoy in July. In particular, central fiscal revenues in August dropped by 18.7% yoy due to statistical base effect and economic slowdown. In particular, EPT is now paid more smoothly over the year than before (when one of the peak payments was in August) due to introduction of obligatory advanced payments of this tax since January 2013. Revenues from excise declined likely due to lower consumption of excise goods. Lower imports resulted in smaller collections of VAT on imported goods. At the same time, VAT refunds remained higher than in 2012 even though exports declined. As these trends are expected to continue in the rest of the year the Government might be forced to sequester the budget in autumn.

Central fiscal deficit widened sharply to UAH 30.3 bn in the first seven months from UAH 22.8 bn in the first six month of 2013. However, it was lower than planned as the Government was not able to attract sufficient financing at domestic and external capital market and raise planned privatization receipts.

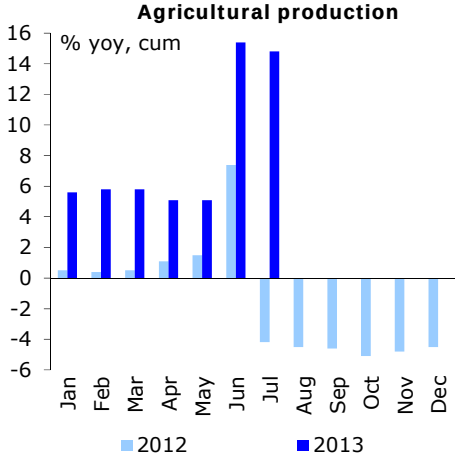
Lower than planned fiscal revenues and state borrowings resulted in low execution of central fiscal expenditures (51.6% of the annual plan in the first seven months of 2013). In particular, capital expenditures reached only 28.2% of annual pan, which hampers economic development in middle-term perspective. 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.

Privatisation: Privatisation plan is not likely to be executed

On August 21st, the State Property Fund of Ukraine (SPFU) sold 60.8% stake in Donbasenergo, a large power generation company, for UAH 718.9 m, which exceeded the initial price by 12.2%. Energoinvest Holding, which became new owner of the Donbasenergo, was established two months earlier. As a result, the compliance with the initially published requirements for the buyer is questionable.

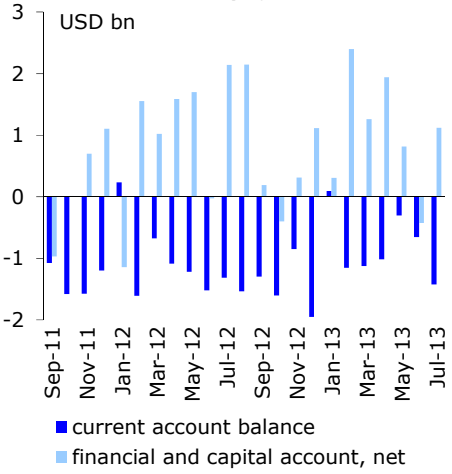
The SPFU postponed privatization of several companies, including Kharkivoblenergo and Sumyhimprom. Even if these companies are sold this year, the SPFU will be able to ensure only small fraction of planned privatization receipts (UAH 10.9 bn) in 2013.

Agricultural production



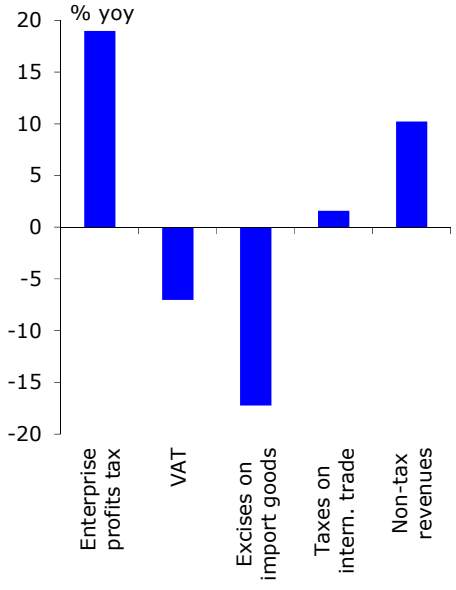
Source: Ukrstat

Balance of payments



Source: NBU preliminary estimates

Growth of central fiscal revenues in January-July of 2013



Source: State Treasury reports

Social policy: Less applicants for subsidies

Number of applications for housing and utility subsidies declined by 3.0% yoy in the first seven months of 2013 likely due to two major reasons. First, housing and utility tariffs during this period were growing slower than households' income, which reduced number of households eligible for the subsidy. Second, many households are eligible for automatic extension of subsidies without new application. In fact that in July number of households receiving subsidy increased by 0.1 p.p. as compared to July 2012 to 2.8% of total number of households. Nevertheless, subsidies due to utilities dropped by 11% as most tariffs remain unchanged due to lack of political will.

Labour Market: Wage grew by 8.8% yoy

Average wage in July grew by 8.8% yoy to UAH 3429. Good harvest and growth of livestock production resulted in increase of wages in agriculture by 13.4% yoy. Still, wage in the sector was by 25.0% lower than average in economy. Wages also grew faster than average in trade, real estate and education.

Industrial companies increased wages by 8.6% yoy due to minimum wage growth (at 4.1% yoy) as well as prior labour arrangements.

However, weak economic state of manufacturing was reflected in changed labour patterns at manufacturing companies. In particular, number of laid off employees exceeded number of new employees. Besides, companies increased number of employees in non-paid administrative leave or shortened working day/week. In the first half of year the share of employees working shortened day in the sector increased to 15.8%. If domestic and external demand for Ukrainian products does not increase in the nearest future some of these employees might be laid off.

Monetary policy: Money supply growth accelerated

Headline consumer inflation fell to -0.4% yoy in August. Food prices dropped by 2.8% yoy due to good harvest of fruit and vegetables, lower prices for which deducted 1.1 p. p. from inflation. Fundamentals such as slower wage growth, stable global commodity prices and slowdown in demand also contributed to low inflation. Consequently core inflation that excludes raw food and administered prices was at 0.1% yoy in August, while retail sales deflator in July was at 1% yoy.

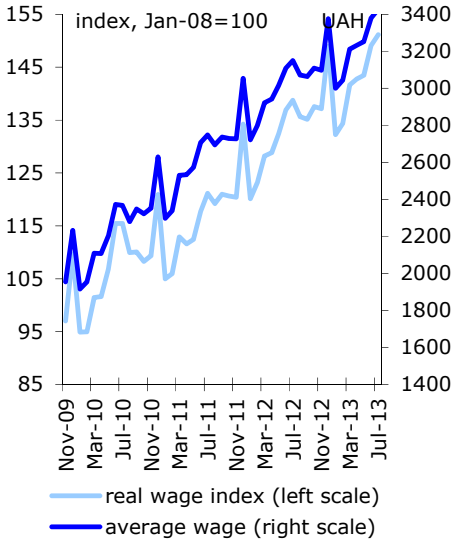
Money supply growth accelerated to 18.0% yoy in August as households continued to increase deposits in response to elevated interest rates. Growth in deposits did not translate into equally fast increase in lending as banks used deposits to replace other sources of funds and invested money in state bonds. Lending was also constrained by low demand from financially sound borrowers. Bank liquidity dropped slightly to UAH 26 bn on average but interbank interest rates remained below 5% p.a. The NBU dropped policy rate by 0.5 p.p. to 6.5% p.a leading to lower demand for CDs. The NBU also injected liquidity by purchasing UAH 4 bn of state bonds and issuing UAH 2.5 bn in 1-year refinancing to 5 banks to offset liquidity withdrawn through government debt repayments in foreign currency.

Financial markets: Low depreciation expectations

Exchange rate. Demand for cash foreign currency increased only slightly in August with net demand of USD 0.14 bn. This points to lack of depreciation expectations in August. As a result, the NBU was able to avoid interventions on interbank market for three months in a row. NBU international reserves continued to drop and reached USD 21.7 bn as compared to USD 24.5 bn in the beginning of 2013. Ukrainian debt to the IMF also declined to USD 6.7 bn as compared to USD 10.8 bn in the beginning of the year.

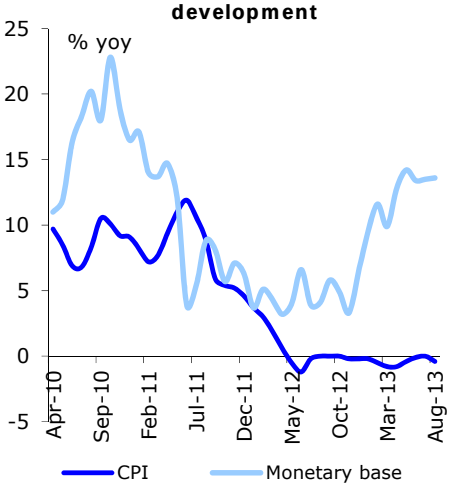
State debt. In August 2013 government borrowings were not sufficient to cover debt repayments. The Government placed hryvnia denominated bonds at UAH 0.9 bn and USD denominated bonds at USD 187 m (as compared to UAH 9.1 bn and USD 298 m, respectively, in July). In particular, demand was low likely due to unwillingness of the Government to increase yields on bonds. Overall, state government bonds outstanding declined by UAH 2.2bn.

Average wage



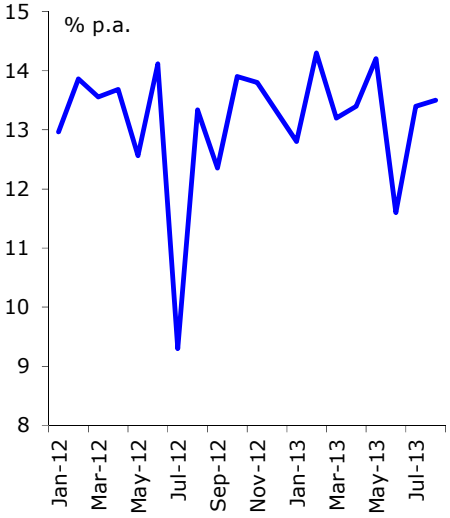
Source: Ukrstat

CPI and monetary base development



Source: Ukrstat, NBU

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	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial production (real)	% yoy cum.	8.6	7.3	0.9	0.4	-1.2	-1.8	-5.0	-1.2	-1.4	-1.5	-1.8	-3.2	-4.8	-5.0	-4.2	-5.2	-5.3	-5.3	…
Construction (real)	% yoy cum.	11.4	11.1	-2.7	-1.9	-9.1	-14	-13.8	-9.1	-10.2	-12.1	-13.8	-7.6	-8.4	-13.8	-13.8	-17.3	-19.2	-17.7	…
Agricultural production (real)	% yoy cum.	13.7	17.5	0.5	7.4	-4.6	-4.5	5.8	-4.6	-5.1	-4.8	-4.5	5.6	5.8	5.8	5.1	5.1	15.4	14.8	…
Retail trade turnover (real)	% yoy cum.	15.2	14.7	14.2	16.0	16.0	15.9	13.4	16.0	15.7	15.7	15.9	14.2	14.8	13.4	12.7	11.6	11.2	10.6	…
Average wage	UAH	2727	2837	2923	3109	3064	3195	3085	3064	3110	3098	3377	3000	3044	3212	3233	3253	3380	3429	…
CPI	% yoy eop	5.9	4.6	1.9	-1.2	0.0	-0.2	-0.8	0.0	0.0	-0.2	-0.2	-0.2	-0.5	-0.8	-0.8	-0.4	-0.1	0.0	-0.4
PPI	% yoy eop	21.3	14.2	6.5	4.5	0.3	0.3	0.2	0.3	0.6	0.0	0.3	1.5	-0.9	0.2	-1.0	1.9	-1.6	-1.6	-0.9
Exports (USD)*	% yoy cum.	26.8	21.8	5.2	2.5	2.6	1.0	-2.1	2.1	2.8	2.0	0.5	-3.6	2.0	-2.3	-0.9	-4.7	-5.9	-8.5	…
Imports (USD)*	% yoy cum.	30.9	21.9	5.8	9.8	7.6	5.6	-4.7	7.8	7.3	5.8	5.3	-2.6	-5.5	-5.8	-6.4	-11.8	-13.5	-12.2	…
Merchandise trade balance	USD bn cum.	-9.3	-13.8	-3.9	-9.5	-14.8	-20.5	-3.7	-14.8	-16.6	-17.9	-20.5	-0.4	-2.0	-3.7	-5.1	-5.6	-6.5	-8.5	…
Current account**	USD bn cum.	-5.0	-9.0	-2.0	-5.9	-10.0	-14.4	-2.7	-10.0	-11.6	-12.4	-14.4	0.0	-1.4	-2.7	-3.8	-4.1	-4.7	-6.1	…
Gross international reserves	USD bn eop	35.0	31.8	31.1	29.3	29.3	24.5	24.7	29.3	26.8	25.4	24.5	24.7	24.7	24.7	25.2	24.5	23.1	22.7	21.7
Monetary Base	% yoy eop	8.1	6.3	4.3	6.6	5.8	6.4	9.9	5.8	4.9	3.3	6.4	9.5	11.6	9.9	12.8	14.2	13.4	13.5	13.6
Lending rate on UAH credits	% pa, aop	14.8	18.4	15.5	15.7	19.6	20.8	16.2	18.8	21.7	23.2	17.6	16.5	15.9	16.1	15.3	15.6	15.3	15.7	15.0
Exchange rate (interbank)	USD aop	7.99	8.01	8.02	8.05	8.09	8.11	8.11	8.10	8.12	8.13	8.09	8.10	8.11	8.11	8.11	8.12	8.12	8.11	8.10
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	10.25	10.37	10.26	10.49	10.60	10.70	10.36	10.40	10.38	10.41	10.45	10.64

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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