INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

No.3 (137), March 2012

EXECUTIVE SUMMARY

***HIGHLIGHT:* TRADE WAR**

Politics: The West worries about compliance of rule of law in Ukraine.

Real Sector: Industrial output increase by 2.0% yoy in January due to weak domestic and external demand.

Sectoral news: The first steps towards restructuring of the Naftogaz have been initiated.

External sector: Current account balance was positive in January.

Fiscal policy: The central fiscal surplus in January was primarily explained by attempts of the Government to accumulate funds for peak debt payments.

Social policy: The approved budget of the Pension Fund envisages optimistic level of the deficit..

Labour market: Average wage grew by 18.5% yoy in January primarily due to minimum wage increase.

Monetary policy: CPI growth decelerated to 3.0% yoy in February.

Financial markets: The international reserves of the NBU declined by USD 0.3 bn to USD 31.0 bn.

Highlight of the month: Trade war

DAIRY TRADE DISPUTE: THE BEGINNING OF A NEW TRADE WAR?

By Oleg Nivievskyi

February and early March were marked by dairy trade restrictions imposed by Russia and Ukraine creating risk for developing a big agro-trade war. In February, Russia suspended imports of cheese from seven Ukrainian manufactures. In turn, on March 1, Ukraine suspended imports of meat and dairy products from Belarus, a member of a Customs Union with Russia and Kazakhstan (CU RBK). The CU RBK, as a result, threatens to ban the imports of Ukrainian sunflower oil, corn, confectionary, and sugar. These developments create a risk of a big agricultural trade war between the CU RBK and Ukraine.

The formal reasons for trade restrictions by both Russia and Ukraine were ensuring food safety and quality. Russia explained ban on cheese imports by violations of dairy technical standards by selected Ukrainian producers. In particular, Russian authorities reported about availability of palm oil in Ukrainian cheese. In turn, Ukraine suspended Belarusian meat and dairy imports because of the excessive amounts of veterinary drugs residues in dairy products. From the very onset, the evolution of these two disputes has been accompanied by non-transparent, swift and seemingly ad-hoc decisions. Moreover, there was not a single publicly available official document with scientific evidence on a breach of national food safety and quality standards. So, although food safety and quality standards might indeed be at stake in the ongoing dispute between Ukraine and members of the CU RBK, it seems that economic and political incentives dominate the entire play.

Traditionally Russia has been a key export market for export-oriented dairy industries in both Ukraine and Belarus. In particular, Russia has been a destination for about 80% of Ukrainian and for more than 90% of Belarusian dairy exports.

Such a high degree of export concentration on Russia is critical for Ukraine and Belarus as they export about 40% and more than 80% of its cheese output, correspondingly. Furthermore, according to the OECD forecast, Russia will remain a key and growing importer of dairy products, especially in the cheese segment. This will be driven by growing food demand due to global population growth and increasing income (especially in developing and emerging economics), and at the same time by its shift towards higher valued food and to livestock products (including dairy products). On the other hand, Russia has

been developing its own dairy industry that fiercely competes for its domestic market with Ukraine and Belarus, and the two trade wars with Ukraine in 2006 and with Belarus in 2009 clearly witness for this.

The dairy dispute is aggravated by the fact that Russia's formal entry to WTO is expected in mid-2012 only, following ratification of its WTO accession terms in accordance with its constitutional procedures. Only then Russia will be obliged to follow basic obligations for non-discrimination and apply similar requirements for the advance notification on sanitary and phytosanitary (SPS) measures. Furthermore, Russia's measures become then accessible for claims via SPS trade dispute settlement procedures. In the meantime, the Russian cheese market is lost for some of the Ukrainian dairy manufactures, while market shares of competitors increase.

Many experts emphasize more the political component of the trade dispute between Ukraine and Russia. Against the background of ongoing gas price and gas transport system negotiations between Ukraine and Russia, the dairy trade conflict is considered as an additional leverage to persuade Ukraine to the membership in the CU RBK. This becomes a real threat for Ukraine's aspirations towards the DCFTA with the EU.

The suspension of Belarusian dairy import to Ukraine might be considered as a counteraction against Russia's step. However, the volumes of Ukrainian cheese exports to Russia by far exceed Belarusian dairy export to Ukraine to talk about effective counteraction from Ukrainian side, if there is indeed any.

As in 2006, this conflict demonstrates that Ukraine urgently needs to reduce its high degree of dependence on the Russian market. In fact, the Ukrainian dairy sector made a good progress in diversification of dairy exports in the aftermath of the previous dairy war. Since 2009, however, Russia's share in Ukraine's dairy export structure returned to the pre-war level. Diversification of export markets could prevent significant losses in such situations. Ukraine could, for example, target countries in Northern Africa, the Middle East and East Asia, where the market for dairy products is forecast to grow rapidly in the coming years.

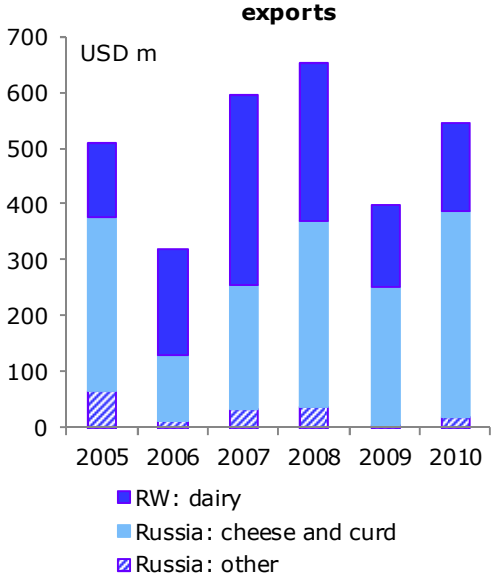
To successfully diversify its exports, Ukrainian dairy industry should improve productivity and competitiveness of the entire dairy supply chain, from the field to the shelf. The following factors, just to name a few, undermine the competitiveness of dairy supply chain in Ukraine, and consequently its ability to diversify exports:

- relatively low cow yields and shorter lifespans of dairy cows,
- high percentage (about 80%) of households in the total raw milk supply, and resulting low quality of milk and low milkfat and protein content,
- relatively extensive fodder production and far from optimal feeding practices,
- incompliance of Ukrainian food safety and quality standards with international ones,
- poor management practices and glaring shortage of human capital, and
- ad-hoc agricultural policy environment.

Last but not least, this conflict emphasizes important benefits of the WTO membership. This international organisation helps to converge standards and provides members with an access to trade conflict resolution mechanisms, making it more open, transparent and not so discretionary as in the current case

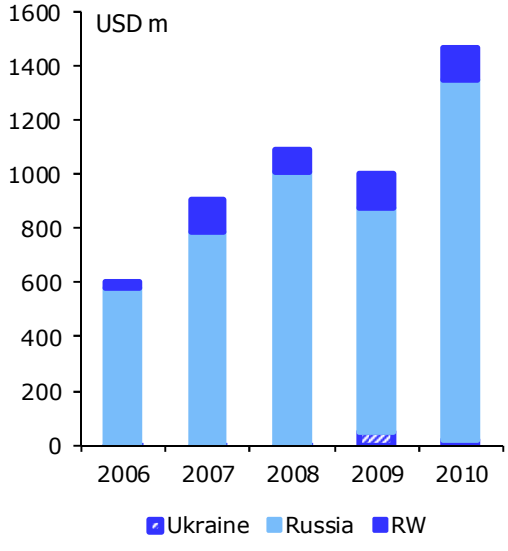
** This article is prepared in the framework of German-Ukrainian Agricultural Policy Dialogue at the Institute for Economic Research and Policy Consulting*

The destinations of Ukrainian dairy exports



Note: RW - Rest of the World
Source: UN Comtrade data as of 9.02.2012

The destinations of Belarus dairy exports



Note: RW - Rest of the World
Source: UN Comtrade data as of 9.02.2012

Monthly Economic Monitor Ukraine

Politics: Lutsenko's verdict draws a wave of international criticism

On 27 February former Ukrainian Minister of Internal Affairs Yuriy Lutsenko was sentenced to fours years for embezzlement and abuse of office. Yuriy Lutsenko was held in jail since December 2010 being charged with abuse of office and forgery. The court found him guilty and estimated that he caused to Ukraine's budget the total damages of USD 125 thsd. Lutsenko's verdict provoked a wave of criticism on Ukraine's politically motivated judiciary from its major international partners.

On the same day the EU High Representative for Foreign Affairs and Security Policy, Catherine Ashton, and the EU Commissioner for Enlargement and Neighbourhood Policy European, Stefan Fule, issued a joint statement voicing their disappointment at the verdict against Lutsenko "which signals the continuation of trials in Ukraine which do not respect international standards as regards fair, transparent and independent legal process". They also pointed at the importance of the Rule of Law for the speed of Ukraine's political association and economic integration with the EU. Whereas the European People's Party made a statement that the Association Agreement between Ukraine and the European Union should not be signed and ratified until Ukraine's political prisoners are released.

Criticism on Lutsenko's verdict was also voiced in the statements made by the United States Department of State, the Parliamentary Assembly of the Council of Europe (PACE) and Canada's Foreign Affairs Minister John Baird.

Real sector: Weak start of the year

Sectoral trends. Real industrial output grew by 2.0% yoy in January. In particular, electricity production and extractive industry output increased by 3.4% yoy. In turn, manufacturing grew on average by 1.2% yoy due to weak domestic and external demand for products of major sectors, including metallurgy and chemical production. At the same time, higher production of electric and electronic appliances and transport equipment resulted in increase in machine building output at 11.7% yoy. Overall, weak external conditions are likely to remain key determinants of real sector developments this year.

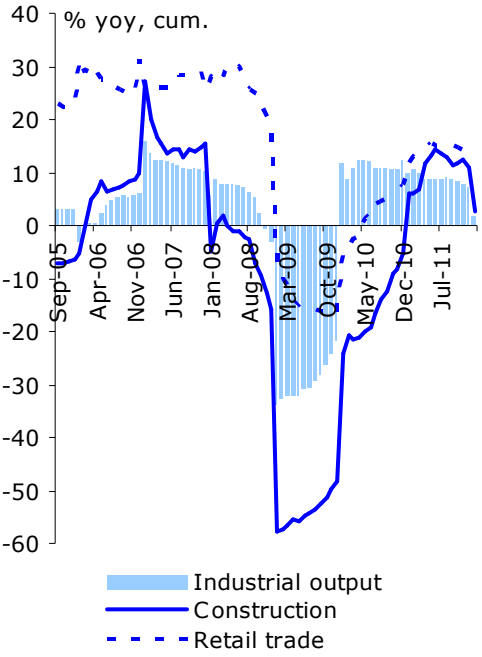
Favourable wage developments resulted in retail trade growth at 13.8% yoy. At the same time, freight turnover fell by 0.6% yoy in January due to logistics jams in ports as well as bad weather. The growth in construction decelerated to 2.5% yoy. In nominal terms construction output exceeded January 2007 level. Output in agriculture grew by mere 0.5% yoy due to lower production of meat and eggs. To reach growth in 2012 agricultural producers will have to reseed large part of winter crops, which heavily suffered from the cold weather in winter.

Sectoral news: Restructuring of the Naftogaz starts

Energy. The Naftogaz of Ukraine has started a two-stage tender procedure to select an evaluator for the Ukrainian gas pipeline transportation system, including the underground gas storage facilities. According to the bidding procedure, during the first stage the participants submit preliminary offers without prices and during the second stage participants, whose proposals are not rejected, submit the final proposals. The requirements to tender participants include the deposit at UAH 350,000 and experience in evaluating oil and gas assets in Ukraine and/or CIS during the last three years. On February 27, the preliminary offers for competitive bidding were disclosed. The offers were submitted by 4 companies, Duff & Phelps (New York, USA), Thomas & Simonova, Baker Tilly Ukraine EC and Ernst & Young (Kyiv). Evaluation of gas pipeline assets is a first step of restructuring the Naftogaz of Ukraine that envisages the allocation of the company's assets related to gas and oil transportation to a separate company with 100% state ownership. Thus, after the

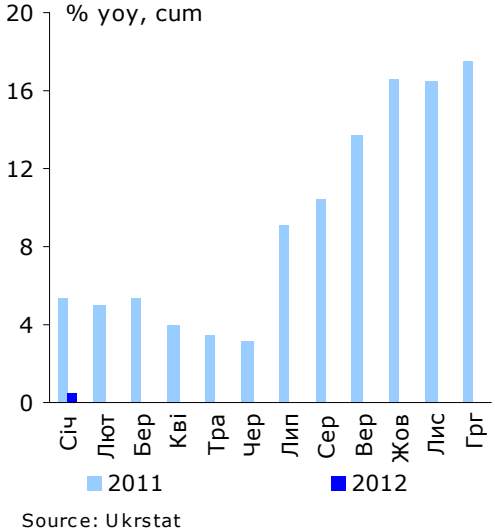
Population: 45.6 m
Industry/GDP: 28%
Agriculture/GDP: 8%
Investment/GDP: 19%
Exports to: Russia 25%, EU 28%
Imports from: Russia 22%, EU 35%

Real sector trends



Source: Ukrstat

Agricultural output



Source: Ukrstat

restructuring the Naftogaz will keep functions of mining and distribution of natural gas.

Energy balance. Ukrstat has formed a Ukraine energy balance for 2010. It was the first time that the balance was based on International Energy Agency (IEA) methodology. The volume of the total energy supply equalled 130.3 m t of oil equivalent (m toe). 39.5% of the country's energy supply was satisfied by import of energy and fuel resources. Own sources satisfied almost 58% of the total supply in 2010. Final energy consumption increased by 14.3% to 73.8 m toe in 2010. Final energy consumption increased in all sectors of the economy, which can be explained by the gradual country's economic recovery after the crisis.

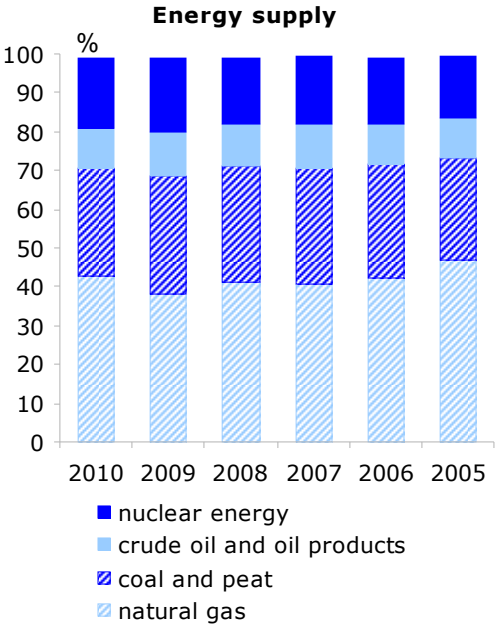
Privatisation. The State Property Fund of Ukraine (SPFU) approved month-by-month privatization plan for 2012 envisaging sale of 153 companies. The largest companies in the list are Zasyadko coal mine and Lviv coal company, communications producer Mayak plant, Chornomorskiy shipbuilding plant, Centerenergo and Donbasenergo.

Furthermore, the SPFU took decision to launch privatization of gas distribution and supply companies in May of 2012. In particular, it is planned to sell stakes in 48 companies that range from 1% to 26% during three-month period.

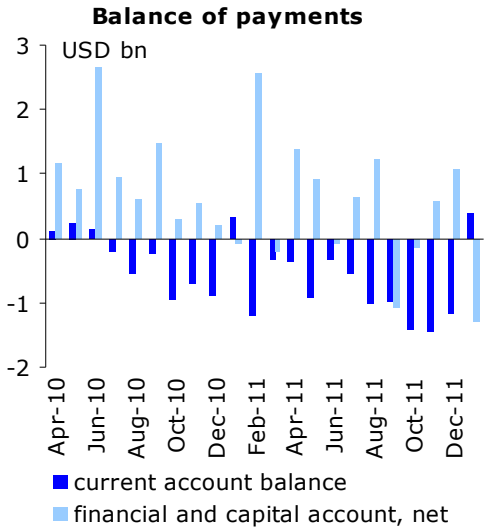
Meanwhile, privatisation in energy sector continues. In February 45% stake of Chernivtsioblenergo was sold to "VS Energy International Ukraine" for UAH 70 m and 50% stake of Vinnitsyaoblenergo was sold to "Lugansk energy union" for UAH 176.2 m. In both auctions the abovementioned companies competed with each other for lots. Company "Energetychna Ukraine TV" bought 50% stake of Zakarpattyaoblenergo for UAH 140.7 m.

The President signed the State Privatisation Programme for 2012-2014. The Program is aimed at finalization of privatization processes in Ukraine by the end of 2014 and requires additional sectoral legal acts to be adopted in future. Overall, privatisation receipts are estimated at UAH 40-60 bn. The approval of the Programme clarifies government plans on the privatisation, even tough clear schedule of privatisation by objects has not been defined yet.

Transport. The public railway transportation is managed by the Ukrzaliznytsia (UZ), which has a complex and antiquated structure, inherited from the Soviet Union. The UZ behaves simultaneously as a company and as a state body of administering railway transportation. It is currently comprised of 6 regional railways with their own management and a number of different enterprises, which provide goods and services related to the railway. Complex structure without a clear organizational framework harms the efficiency and transparency of the UZ's operations. Responding to these concerns, the Parliament approved a law needed to create a single state joint-stock company for public railway transportation, which will combine assets of all companies that are part of UZ. Reformed UZ will be able to make more efficient decisions while its operations will hopefully become less murky. Besides, the company will receive a better access to the credit market, which is necessary to modernize rolling stock and railway infrastructure.



Source: Ukrstat



Source: NBU preliminary estimates

External sector: Seasonal current account surplus

In January current account balance was positive due to seasonal decline in merchandise imports. Current account surplus was USD 0.3 bn as it was in January 2011. Merchandise trade deficit shrank to USD 0.1 bn from USD 0.4 bn a year ago. Exports grew by 14.0% yoy. Exports growth was supported by food exports, while steel exports remained stagnant. At the same time, mineral products imports fell by 9.5% yoy limiting imports growth to 7.0% yoy.

Financial and capital account deficit was USD 1.3 in January. Net FDI inflows increased to USD 0.5 bn, while cash foreign currency outflows from banking sector declined to USD 0.6 bn. Access of Ukrainian companies and banks to international capital markets remained

subdued leading to limited debt capital inflows. Other outflows were USD 1.6 bn in January.

Fiscal policy: The central fiscal balance was positive in January

According to the State Treasury, in January central fiscal revenues due to general fund increased by 15.5% yoy to UAH 18.1 bn. This growth was attributed to higher revenues from VAT and rental payments (by 14.5% and 18.4% yoy, respectively). At the same time, collections from the second major revenue source, namely enterprise profit tax (EPT), declined by 1.6% yoy likely due to reduction in tax rate by 2 p.p. to 21%. The revenues were partially suppressed by higher VAT refunds, which grew by 39.6% yoy. This might signal about decline in overdue VAT refund arrears. In particular, VAT refund arrears reached UAH 4.6 bn by the end of 2011. According to the State Tax Service (STS), in January near 57% of taxpayers received VAT refunds automatically, which is by 13 p.p. lower than the IMF target.

The central fiscal expenditures (general fund) increased by 3.8% yoy to UAH 17.9 bn. Total central fiscal surplus (general and special fund) reached UAH 1.5 bn as compared to deficit of UAH 0.9 bn in the first month of 2011. Privatisation receipts amounted to UAH 2.4 bn. As a result, the Government accumulated funds at the Single Treasury Account to be able redeem domestic and external borrowings maturing in the beginning of the year.

Social policy: The Pension Fund's deficit is planned to decline to UAH 9.7 bn

In February the Cabinet of Ministers approved a budget of the Pension Fund for 2012 envisaging unrealistic deficit of UAH 9.7 bn, which is much lower than actual deficit in 2011 (near UAH 30 bn). Such deficit target seems rather optimistic. Growth of wages will be somewhat faster than increases in pensions, but not sufficiently to cut the deficit by UAH 20 bn. Impact of 2011 pension reform will also be small, while steps towards wage de-shadowing need time for implementation and their impact is not straightforward. Thus, the Pension Fund will likely require additional funds from budget in the second half of the year.

Labour Market: Minimum wages as a push factor

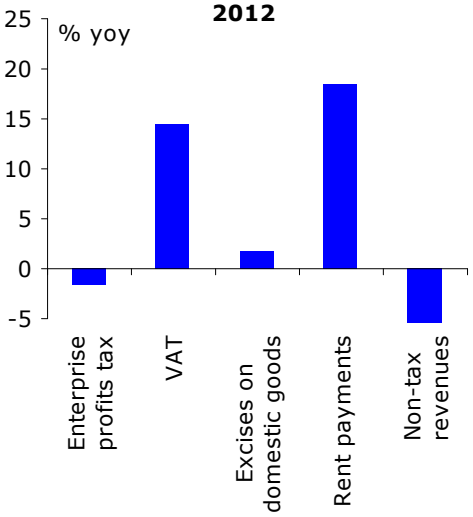
Nominal wages in January 2012 grew by 18.5% yoy to UAH . Gradual increase in minimum wage implemented throughout 2011 and starting 2012 is one of reasons for fast growth. In particular, minimum wage increased by 14.0% yoy in January. Public sector and large part of private sector pay wages based on tariff scale linked to minimum wage. Besides, in 2011 improved economic situation allowed companies and the Government to reduce wage compression that happened during the crisis and after sharp increase in minimum wage in 2010. In particular, wages in education and health care grew by 23.5% yoy and 20.0% yoy, respectively. However, there is still large way to go as wages in these sectors remain by 17.4% and 29.0% lower than average.

Monetary policy: Downward trend for CPI growth

In February, CPI growth further slowed to 3.0% yoy. As CPI in February was by 0.9% below June 2011 price level this trend is likely to continue. CPI remains below its June maximum as prices for fruit, vegetables and sugar fell by 17%, 54% and 32%, respectively over eight months. These goods have approximately 10.5% share in CPI basket. At the same time, prices for most other items displayed moderate growth (on average 5%).

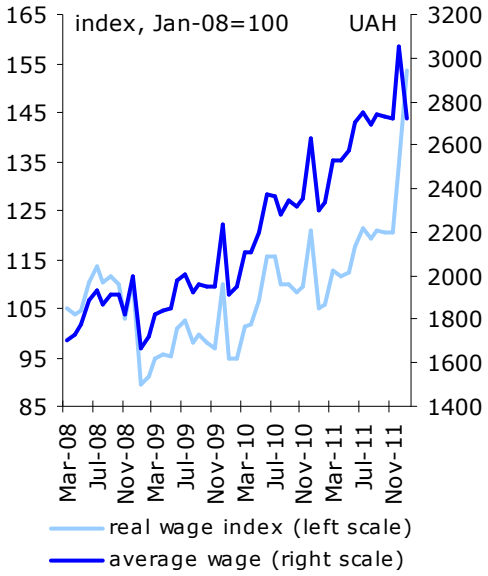
Liquidity in banking sector decreased in February, but remained sufficient to maintain single-digit interbank rates. At the same time, deposit rates remained elevated reflecting bank concerns about funding.

Growth of central fiscal revenues due to general fund in January 2012



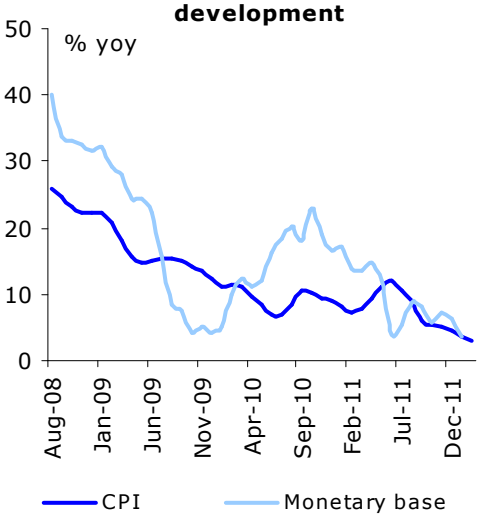
Source: State Treasury reports

Average wage



Source: Derzhkomstat

CPI and monetary base development



Source: Ukrstat, NBU

Financial markets: International reserves reached USD 31 bn

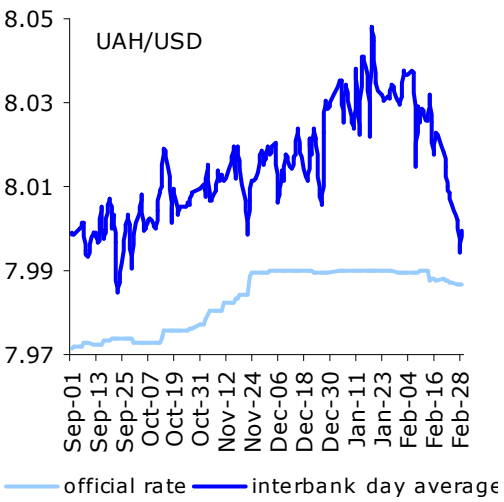
Exchange rate. In February international reserves of the NBU fell by USD 316 m to USD 31.0 bn. On the one hand, changes in reserves reflected first payment on the IMF loan by the NBU (USD 0.5 bn), support of Naftogaz payment for imported gas (USD 0.3 bn). On the other hand, the Government issued domestic foreign currency bonds, while the NBU purchased Australian dollars on interbank market. Overall, the NBU holdings of Australian dollars reached over AUD 2.2 bn. UAH/USD exchange rate appreciated slightly to UAH 8.02 per USD by the end of the month.

State debt. In February, the Government faced its first large debt repayments this year, which together with interest payment totaled to UAH 6.4 bn. To ensure sufficient funding, the Government intensified its borrowings. The Ministry of Finance placed UAH 3.5 bn of bonds denominated in hryvnia and USD 277.7 m of USD-denominated bonds with 13.9% and 9.3% weighted average yield, respectively. As previously, the maturity of 74.3% of bonds denominated in hryvnia was less than 6 months. The demand for USD-denominated bonds was primarily concentrated on one-year bonds. Amount of borrowings was lower than planned due to restricted banking liquidity and yields mismatch. Entire year is likely to remain difficult for the Government due to pick debt payments. According to the Ministry of Finance next large debt payments in 2012 are scheduled for March (near UAH 7.5 bn), June (UAH 26.3 bn), October (UAH 10.3 bn) and December (UAH 8.2 bn).

The Cabinet of Ministers decided to increase the authorized capital of NJSC Naftogaz in 2012. As a result, on March 6 the company received 3-year state domestic bonds with 9.95% yield at UAH 6.0 bn. According to the State Budget Law, the Government plans to issue state bonds for the needs of NJSC Naftogaz at total amount of UAH 12.0 bn in 2012. However, such an increase in authorized capital could appear insufficient if the Government does not increase gas tariffs for population and heating generating companies.

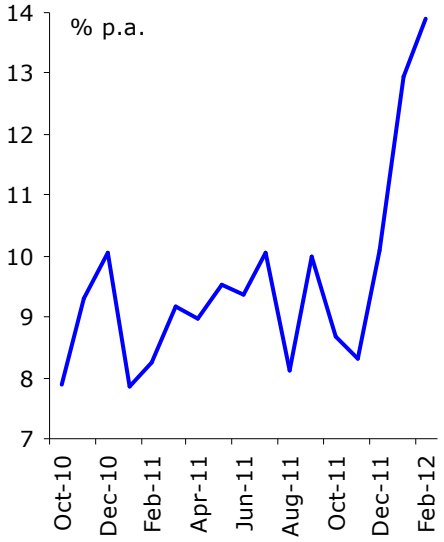
On February 16, the World Bank approved a new Country Partnership Strategy for Ukraine for 2012-2016 envisaging an lending program of USD 500 m per annum. Additionally, The International Finance Corporation (IFC) is expected to lend annually USD 400 m. The Strategy defines two priorities: increase in efficiency of government services and public finance system as well improvement of business climate. The IFC will continue to promote the development of financial markets, agribusiness, infrastructure, and energy efficiency. According to the document, the amount of financial assistance might be increased if reforms implementation accelerates in Ukraine.

Exchange rate



Source: NBU

Weighted average yield for domestic state bonds



Source: NBU

Economic Trends		Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Industrial production (real)	% yoy cum.	10.8	11.0	9.7	8.7	8.6	8.5	8.5	8.7	8.7	8.9	8.6	8.2	7.8	7.3	2.0	…
Construction (real)	% yoy cum.	-12.6	-5.4	6.8	14.5	11.4	11.6	13.2	14.5	13.6	13.0	11.4	11.7	12.5	11.1	2.5	…
Agricultural production (real)	% yoy cum.	-1.3	-1.0	5.3	3.2	13.7	4.0	3.5	3.2	9.1	10.5	13.7	16.6	16.5	17.5	0.5	…
Retail trade turnover (real)	% yoy cum.	5.1	7.6	13.5	15.2	15.2	14.9	15.5	15.2	15.0	15.2	15.2	14.9	14.5	14.7	13.8	…
Average wage	UAH	2332	2407	2389	2605	2737	2533	2573	2708	2749	2694	2737	2729	2727	3054	2722	…
CPI	% yoy	10.5	9.1	7.7	11.9	5.9	9.4	11.0	11.9	10.6	8.9	5.9	5.4	5.2	4.6	3.7	3.0
PPI	% yoy	19.2	18.7	20.3	20.0	21.3	20.8	18.8	20.0	20.3	19.9	21.3	16.3	17.3	14.2	11.8	7.5
Exports (USD)*	% yoy cum.	28.6	27.7	40.5	42.5	38.0	44.4	43.9	42.5	40.0	39.7	38.0	36.1^{e}	34.5^{e}	33.1^{e}	14.0^{e}	…
Imports (USD)*	% yoy cum.	28.2	30.1	52.8	50.8	44.1	52.3	52.5	50.8	46.7	46.1	44.1	41.8^{e}	39.8^{e}	37.5^{e}	7.0^{e}	…
Merchandise trade balance	USD bn cum.	-4.8	-8.4	-3.0	-5.5	-9.1	-3.8	-4.6	-5.5	-6.7	-7.8	-9.1	-11.1^{e}	-12.5^{e}	-13.8^{e}	-0.1^{e}	…
Current account**	USD bn cum.	-0.5	-2.9	-1.3	-2.9	-5.5	-1.6	-2.5	-2.9	-3.3	-4.5	-5.5	-7.0^{e}	-8.7^{e}	-9.3^{e}	0.4^{e}	…
Gross international reserves	USD bn eop	34.7	34.6	36.4	37.6	34.95	38.4	37.9	37.6	37.8	38.2	35.0	34.3	32.4	31.8	31.4	31.0
Monetary Base	% yoy	18.0	15.8	13.7	3.9	8.1	14.7	12.1	3.9	5.4	8.8	8.1	5.7	7.1	6.3	3.7	…
Lending rate on UAH credits	% pa, aop	13.0	13.6	13.3	13.5	15.5	13.0	13.4	14.0	13.9	14.9	15.5	18.7	18.9	19.0	…	…
Exchange rate (interbank)	USD aop	7.90	7.96	7.95	7.98	7.99	7.97	7.98	7.99	7.99	7.99	8.00	8.01	8.01	8.02	8.03	8.02
Exchange rate (official)	USD aop	7.90	7.93	7.94	7.97	7.97	7.96	7.97	7.97	7.97	7.97	7.97	7.97	7.98	7.99	7.99	7.99
Exchange rate (official)	EUR aop	10.18	10.79	10.85	11.48	11.27	11.49	11.48	11.47	11.38	11.42	11.03	10.91	10.84	10.54	10.30	10.54

Sources: Ukrstat, NBU, own calculations

* Monthly figures are only for merchandise exports and imports (source: Derzhkomstat)
Quarterly figures are for trade in goods and services (source: NBU)

** Monthly data are according to the preliminary estimates provided by the NBU

^{e} preliminary estimate provided by the NBU

Key Economic Indicators		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011P
Nominal GDP	UAH bn	170.1	204.2	225.8	267.3	345.1	441.5	544.2	720.7	948.1	914.7	1095	1314.0
Nominal GDP	USD bn	31.3	38.0	42.4	50.1	64.9	86.2	107.8	142.7	179.9	117.4	138.0	164.9
GDP growth (real)	% yoy	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.9	2.1	-15.1	4.2	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	-5.9	-4.3*
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	39.5	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	25.3	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		Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
GDP	UAH bn	276.5	244.1	189.0	214.1	250.3	259.9	219.4	260.2	304.7	310.3	263.6	316.5	388.0	346.0
GDP (real)	% yoy	4.3	-7.8	-19.6	-17.3	-15.7	-6.7	4.8	5.5	3.6	3.3	5.3	3.8	6.6	4.6
Household consumption (real)	% yoy	14.4	4.7	-14.5	-14.5	-14.3	-16.2	1.2	7.8	9.4	9.0	12.7	14.1	15.7	...
State consumption (real)	% yoy	-5.3	7.4	0.2	-1.6	-4.3	-3.7	4.1	-1.9	3.7	5.0	0.1	-0.4	-11.3	...
Gross fixed capital formation (real)	% yoy	-3.2	-23.1	-58.0	-55.9	-53.2	-33.7	-7.5	-1.2	12.6	10.6	4.5	8.6	15.2	...
Exports of goods and services (real)	% yoy	21.0	-13.2	-22.2	-34.1	-30.9	6.9	-0.2	10.8	2.6	4.9	19.0	4.9	-3.4	...
Imports of goods and services (real)	% yoy	34.8	-11.8	-37.4	-52.3	-47.6	-11.1	-7.8	16.7	20.2	14.3	39.3	24.2	13.6	...
Agriculture, hunting, forestry (real)*	% yoy	23.8	19.2	-1.1	3.4	2.2	-11.6	4.9	0.1	-3.3	0.3	5.8	1.1	16.5	...
Manufacturing industry (real)*	% yoy	-1.5	-27.0	-33.7	-26.1	-25.6	6.5	14.4	16.1	12.5	15.0	12.9	8.7	11.9	...
Construction (real)*	% yoy	-33.9	-39.5	-54.2	-42.7	-43.6	-32.8	-12.4	-8.7	7.4	1.3	7.8	21.7	10.5	...
Trade, repair services (real)*	% yoy	-0.7	-6.2	-15.6	-15.7	-22.0	-16.4	1.1	-1.6	1.7	0.3	9.7	1.6	7.1	...
Transport (real)*	% yoy	10.1	-0.3	-13.4	-9.2	-5.7	-0.4	5.5	6.8	5.2	3.0	4.4	5.8	7.2	...
Balance of payments															
Current account balance	USD bn	-2.1	-3.7	-0.6	-0.2	-0.1	-0.9	0.0	0.5	-1.0	-2.5	-1.3	-1.6	-2.7	-4.0[e]
Current account balance	% of GDP	-3.6	-9.4	-2.6	-0.6	-0.2	-2.7	-0.1	1.6	-2.5	-6.4	-3.8	-4.1	-5.6	-9.2[e]
Trade balance in goods	USD m	-3868	-3562	-882	-622	-1396	-1407	-1236	-697	-2870	-3585	-2880	-2320	-4.1	-4.5[e]
Trade balance in services	USD m	1341	15	116	432	1256	550	930	1115	1536	823	855	1047	1488	815[e]
Current transfers	USD m	831	723	632	667	640	722	608	728	797	842	1034	866	979	978[e]
Direct investment (FDI)	USD m	3324	1058	883	1279	1210	1282	923	1196	1470	2170	882	2284	2100	1275
Portfolio investments	USD m	-690	-967	-350	-351	-2286	1428	-307	804	2532	1288	1163	1841	-841	...
Gross international reserves	USD bn	37.5	31.5	25.4	27.3	28.2	26.5	25.1	29.5	34.7	34.6	36.4	37.6	35.0	31.8
Exchange rate(market), UAH/USD	aop	4.70	6.49	8.09	7.76	7.99	8.06	8.00	7.91	7.90	7.96	7.95	7.98	7.99	8.01
Exchange rate(official), UAH/USD	aop	4.85	6.21	7.70	7.66	7.82	7.99	7.99	7.91	7.90	7.93	7.94	7.97	7.97	7.98
Fiscal indicators															
Consolidated fiscal revenues	% of GDP	29.5	31.6	34.8	30.6	25.5	36.0	30.6	30.0	23.0	32.0	32.0	29.5	28.1	32.2
Personal income tax	% of GDP	4.3	4.9	5.2	5.3	4.4	4.7	4.9	4.8	4.3	4.8	4.9	4.7	4.0	4.9
Enterprise profits tax	% of GDP	5.0	6.3	3.9	3.3	3.7	3.6	4.3	3.0	3.4	4.2	4.4	4.5	3.5	4.6
Value-added tax	% of GDP	9.8	7.8	11.7	8.3	6.4	11.0	9.7	9.7	8.4	9.8	7.4	12.6	9.2	10.1
Excise tax	% of GDP	1.2	1.4	2.0	2.3	2.5	2.6	2.4	2.9	2.5	2.5	2.1	3.0	2.6	2.6
Consolidated fiscal expenditures	% of GDP	27.2	41.2	34.4	36.6	29.6	34.5	32.7	38.2	30.0	37.2	32.1	32.6	25.6	37.4
Current expenditures	% of GDP	22.4	33.8	33.5	34.9	27.0	31.4	32.1	36.9	26.3	32.5	30.8	30.2	22.8	31.6
Capital expenditures	% of GDP	4.8	7.4	0.9	1.7	2.6	3.1	0.6	1.4	3.7	4.7	1.2	2.3	2.8	5.8
Consolidated fiscal balance	% of GDP	1.9	-10.3	0.0	-6.2	-4.5	1.1	-2.0	-7.9	-7.4	-5.6	-0.3	-3.3	3.7	5.8
Privatisation receipts	% of GDP	0.0	0.0	0.0	0.2	0.1	0.0	0.1	0.0	0.1	0.2	0.4	3.1	0.0	0.1
Labour market															
Average wage (real)	% yoy	6.3	0.5	-11.7	-8.6	-10.7	-5.7	3.3	8.7	12.3	11.4	11.1	5.5	7.7	10.8
Household income (real)	% yoy	6.6	2.7	-10.8	-6.9	-8.6	-7.6	3.7	11.8	11.0	14.7	8.7	3.4	10.3	...
Unemployment rate (ILO methodology)	% cum	6.0	7.5	9.5	9.1	8.6	8.8	9.0	8.5	8.1	8.1	8.7	8.2	7.8	...
Banking system															
Monetary aggregate M0	% yoy cum	37.9	39.3	33.9	22.8	11.5	1.5	5.4	9.9	17.4	16.5	15.7	11.5	8.6	6.3
Monetary aggregate M2	% yoy cum	37.4	31.0	12.0	5.3	-1.4	-5.4	6.9	13.2	21.6	23.1	25.5	22.0	16.0	14.4
Household deposits in national currency	% yoy cum	53.3	7.5	-10.9	-16.1	-25.4	-8.5	7.1	20.1	38.6	41.4	43.3	26.0	16.7	12.3
Household deposits in foreign currency	% yoy cum	31.2	66.3	31.8	33.0	39.2	4.7	22.8	21.5	17.7	16.9	19.7	21.0	15.7	13.4
Com. bank credits in national currency	% yoy cum	54.9	40.4	27.6	27.8	25.2	16.9	13.6	8.3	6.0	11.2	16.0	18.5	21.1	21.0
Com. bank credits in foreign currency	% yoy cum	53.4	103.6	70.8	48.7	32.4	-15.2	-13.7	-10.5	-13.2	-8.3	-2.1	0.9	-2.3	-4.2
Long-term com. bank credits	% yoy cum	50.9	73.3	50.8	37.3	29.9	-3.8	-3.9	-2.8	0.6	-0.5	5.0	6.3	5.3	2.9
Long-term com. bank credits	% of total	66.8	69.8	69.9	68.2	67.3	68.1	68.5	68.9	67.5	66.3	67.2	66.6	64.4	62.9
Average lending rate on national currency credits	% p.a.	17.7	21.6	26.2	19.1	17.5	19.8	17.3	15.0	13.0	15.0	13.1	13.5	14.1	18.4
Average lending rate on foreign currency credits	% p.a.	12.4	11.9	9.6	9.6	10.0	10.1	10.9	11.1	10.3	10.1	10.2	9.8	8.8	8.4

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates
* change in value added
[e] preliminary NBU estimates for balance of payments

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