INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

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Monthly Economic Monitor Ukraine

EXECUTIVE SUMMARY

HIGHLIGHT OF THE MONTH: **REGIONAL INTEGRATION**

Politics: Election law draft submitted to the Venice Commission.

Real Sector: Manufacturing growth slowed to 6.4% yoy in September due to output decline in export-oriented sectors and to statistical base effect.

Sectoral trends: Restructuring of Naftogaz continues.

External sector: Balance of payments returned to double current and financial account deficit.

Fiscal policy: Verkhovna Rada amended the Tax Code regarding the simplified taxation system.

Social policy: Government attempted to streamline social privileges to reduce volume of court-ordered social benefit payments.

Labour market: Average wage growth decelerated to 16.5% yoy in September due to slow growth of wages in most sectors.

Monetary policy: CPI growth set new record low at 5.4% yoy due to decreased price of fruits and vegetables.

Financial markets: Exchange rate slightly depreciated to UAH 8.01 per USD.

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Highlight of the month: Regional integration

October harvest: completion of talks for two complementary FTAs

By Veronika Movchan

In October 2011, Ukraine made an important step towards establishing tighter regional ties with its major neighbours and trading partners, the EU and the CIS. On the one hand, officials announced the completion of negotiations about deep and comprehensive free trade agreement (DCFTA) between the EU and Ukraine. On the other, Ukraine signed the FTA in framework of the CIS.

Both agreements formally provide same level of regional integration, namely free trade. However, de-facto they are quite different.

Trade negotiations with the EU have been aimed at producing the first of a new type of 'deep and comprehensive' free trade agreement (DCFTA) involving the EU, covering a wide range of trade-related matters, aiming to remove barriers to trade not only related to 'behind the border' obstacles to trade as well as deep regulatory harmonization.

Indeed, according to available information, the DCFTA with the EU has distinctive regulatory and institutional features. Important regulatory changes are foreseen in such spheres as competition policy, state aid, public procurement, sanitary and phyto-sanitary (SPS) measures, technical regulation, protection of intellectual property rights, sustainable development (ecological issues, labour and social issues) etc.

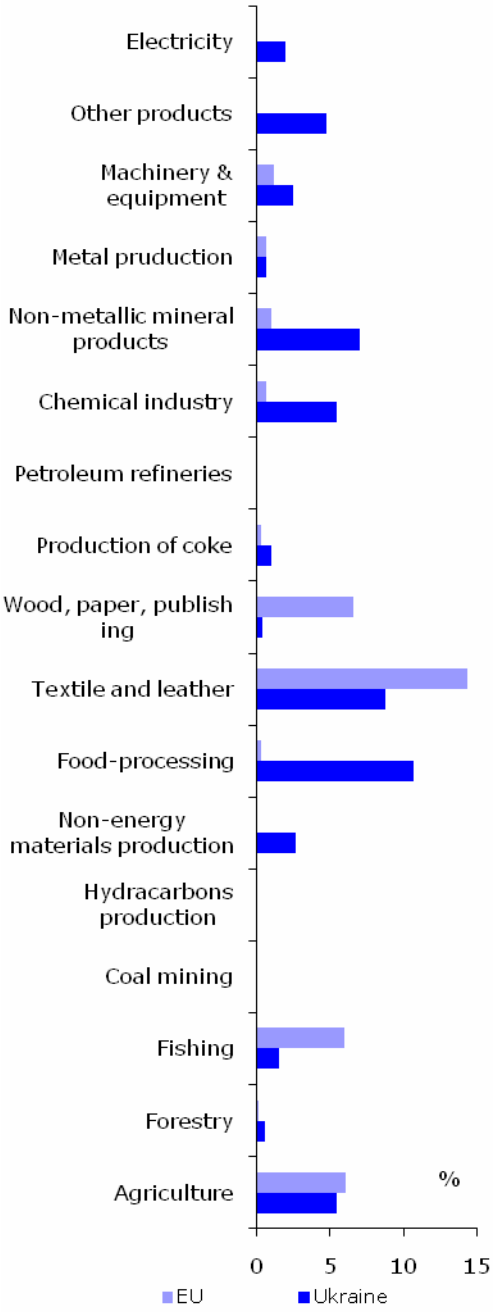
The Agreement envisages great liberalisation of merchandize trade between Ukraine and the EU, allowing mutual opening of markets. Key points include:

- Duty free exports to the EU for industrial products as soon as the Agreement comes into force;
- Significant quotas on duty-free exports of selected agricultural products, including dairy products, grain and cereals, and sugar, to the EU;
- Transition periods for import tariff liberalisation in Ukraine;
- Duty free imports of majority of EU agricultural products in Ukraine;
- Special regimes for imports of motor vehicles (HS code 8703) and of second-hand clothes in Ukraine;
- Removal of EU agricultural exports subsidies in trade with Ukraine; and
- Gradual elimination of Ukraine's export duties, but allowing introduction of temporary surcharges on exports of sunflower seeds, nonferrous metal scrap, and skins under so called "bilateral protection measures".

Implementation of this ambitious Agreement would allow duty-free access to the largest world market for vast majority of products creating considerable opportunities for Ukraine's exports; improved access to markets of the third countries through harmonization with the EU standards and thus removal of technical barriers in other countries with similar high standards; and better domestic investment climate. Altogether, the DCFTA with the EU would improve welfare of households.

The FTA signed between majority of the CIS member countries excluding Azerbaijan, Uzbekistan and Turkmenistan is much less ambitious. It adds little to existing status-quo. At present, trade regimes within the CIS have been defined by network of bilateral FTAs. These FTAs were focused on trade in goods, and aimed at the establishment of duty-free trade, but allowing for exemptions. None of these bilateral FTA's covers service sectors or majority of other

Current import duties in Ukraine and the EU, by sectors



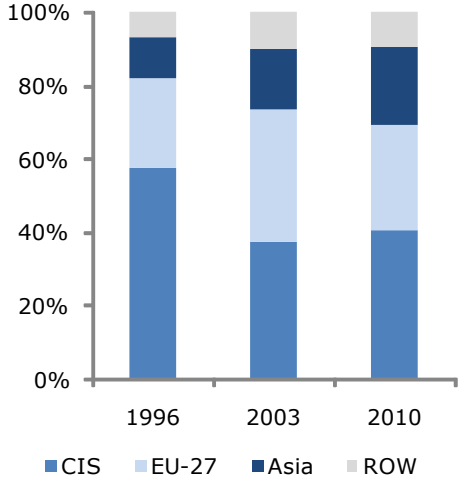
Sources: Ukraine Customs Tariff, Market Access Map, authors' estimates

trade-related topics. The same is true for the Agreement signed in October 2011. It is purely trade-in-goods agreement, and most of exemptions applied in bilateral FTAs will be retained in the CIS FTA.

Key benefit from signing the CIS FTA is its postulate that the trade in goods within the CIS will be governed on the WTO principles and practices. For instance, it envisages that technical regulation within the CIS FTA will be based on the WTO Technical Barriers to Trade Agreement, thus stimulating new phase of technical regulation convergence within the CIS based on international (including European) practices. The adoption of same regulatory platform for trade among countries, some of which are not the WTO members, could reduce costs associated with non-tariff trade measures and thus facilitate trade.

If both agreements are successfully ratified and implemented, they would definitely benefit Ukraine facilitating trade with key partners that together account for more than two thirds of its merchandise trade.

Structure of Ukraine's merchandize trade turnover



Source: State Statistics Service of Ukraine

Monthly Economic Monitor Ukraine

Politics: Venice Commission Criticized Ukraine's Parliamentary Elections Draft Law

In October, the Ministry of Justice handed over to the Venice Commission the final draft of the Parliamentary elections Law, which took into account the previous advice provided by the Commission. During its plenary session on October 14-15 the Venice Commission released a joint OSCE/ODIHR opinion with regard to this draft Law. According to the opinion, the electoral system chosen in the draft law doesn't match the one discussed by the Venice Commission representatives during their meetings with the Ukrainian authorities. Besides, the Commission critically assessed the return to mixed-member proportional system, raising the threshold for gaining mandates from 3% to 5% and banning the participation of blocs of political forces in the elections. Thus, OSCE/ODIHR and the Venice Commission welcomed the decision by President Victor Yanukovich not to introduce the draft law himself and to send it to the Verkhovna Rada for the discussion and elaboration by all political factions.

On November 3, an ad hoc commission of the Verkhovna Rada was established, with Our Ukraine-People's Self-Defense block MP Ruslan Kniazevych appointed as its head. The commission's task is to develop a consensus draft Law on Elections of People's Deputies by November 17 taking into consideration the proposals by the Venice Commission, which inter alia points out the necessity of introducing regional lists and open lists, which will keep party-based representation but will allow electors to reject unpopular candidates.

Real sector: Real GDP growth was supported by higher consumption

GDP: According to the preliminary Ukrstat estimates, real GDP growth accelerated to 6.6% yoy in the third quarter of 2011. The growth was likely supported by strong household consumption and increased inventories of recent grain harvest.

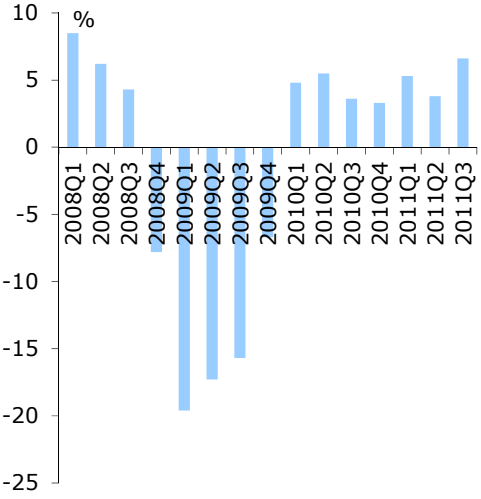
Sectoral trends: Real industrial output growth decelerated to 6.4% yoy in September as compared to 9.6% yoy in August due to several reasons. In particular, output of export-oriented sectors, including chemical industry and metallurgy, declined from August due to weaker external demand. Machine-building output decelerated primarily against the background of high statistical base. At the same time, food sector grew in September in annual terms due to statistical base effect and probably earlier start of processing sugar beets and sunflower seeds.

Freight turnover growth decelerated further to 7.4% yoy between January and September. Growth of construction further slowed down to 11.4% yoy likely due to statistical base effect. In particular, in the third quarter of 2010 capital outlays for financing projects in the framework of preparation to the EURO-2012 increased. Growth in agriculture accelerated to 13.7% yoy primarily due to increase in harvest of grains (by 17.0% yoy as of October 1), sugar beets (by 15.0% yoy), sunflower seeds (by 35.1% yoy), and potato (by 30.0% yoy). At the same time, livestock production maintained growth at 2.8% yoy.

Sectoral trends: Restructuring of Naftogaz continues

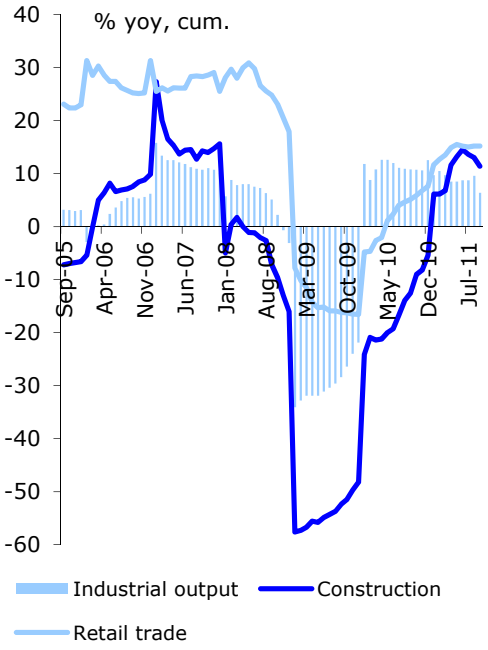
Energy. In October, NJSC "Naftogaz of Ukraine" continued restructuring of the company. In particular, it signed direct gas supply contracts with gas distribution companies. Previously, gas sales in the structure of "Naftogaz" were handled by a subsidiary "Gas of Ukraine". Accordingly, "Naftogaz" applied to the National Electricity Regulatory Commission to increase the maximum licensed volume of gas supplies sold by unregulated tariff from 3.5 to 17 billion cubic meters of gas a year. Also, state shares of 48 gas supply and gasification enterprises (misk- and oblgaz'es) were transferred from the charter capital of NJSC to the State Property Fund for their privatization.

Real GDP growth



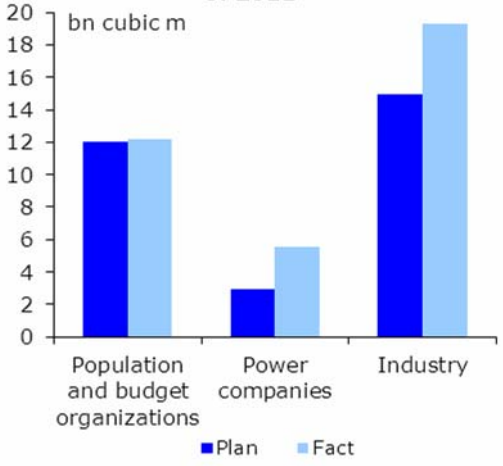
Source: Ukrstat

Real sector trends



Source: Ukrstat

Consumption of natural gas for 9 months of 2011



Source: Energobusiness

Reform of NJSC is done in connection with Ukraine's joining the Energy Community and the necessity to adapt Ukraine's legislation to European norms in the field of energy. Earlier the government aired plans to sell through IPO minority stakes of "Ukrgazvydobuvannya", "Ukrtransgaz", "Chornomornaftogaz", "Ukrtransnafta" and other companies included in the structure of "Naftogaz".

Agriculture. On October 22, 2011, grain export taxes for wheat and corn were cancelled. Export taxes for barley remained at the set before level: 14% but no less than 23 euro per ton. This decision contributed to revitalization of grain exports from Ukraine bringing income for the industry. It also sends assuring signal to the international community that Ukraine liberalizes its trading policy and improves investment climate in agricultural sector.

Besides, in October the Memorandum on mutual understanding between the Ministry of Agrarian and Food Policy of Ukraine and large grain exporters was signed. Exporters promised to consult with the Ministry over grain export volumes to maintain food security. In its turn, the Ministry promised to inform exporters on export restrictions at least two months before such restrictions take effect and maintain level playing field if restrictions are introduced.

Although it is a modest step by the government, if promises are kept it will contribute to the improvement of transparency and predictability in the sector. Further, it can attract investments to Ukrainian agriculture.

Transportation. On November 3, 2011, the Verkhovna Rada of Ukraine adopted the Law "On Sea Ports" after nine years of discussion. The first draft was passed back in 2007. The adopted law begins reforms in the port sector and starts the privatization of ports. Sea ports management and administration functions will be separated from each other, and stevedoring activities are liberalized substantially to attract private investors. Government will be able to privatize, offer for concession or lease port infrastructure. The state will still be responsible for maritime security, which will be performed by captains and port administration. The law provides guarantee mechanisms to investors and compensation of their contributions to docks building. However, docks and other waterworks cannot be privatized, but only offered for a long-term lease or concession. Land and water area of the port will also remain in state property.

External sector: Double deficit in September

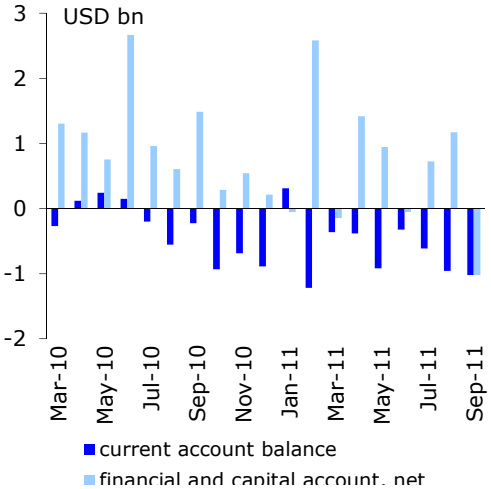
In September, balance of payments returned to double current and financial account deficit for the third time in 2011. Current account deficit widened slightly to USD 1.02 bn from USD 0.96 bn in August. Slight improvement of merchandise trade deficit was offset by seasonal decrease in service exports. Merchandise exports growth slowed to 26.8% yoy through high statistical base and restricted grain exports. Merchandise exports continued to stagnate when compared to previous months. Imports of goods grew 30.9% yoy in July due to higher mineral product imports as well as 39% yoy increase in imports of machinery, equipment and vehicles.

Financial and capital account moved into USD 1.0 bn deficit in September due to acceleration of outflows of the cash foreign currency from banks and removal of mysterious "other capital" inflows. Reported FDI remained strong at USD 0.7 bn while banks increased short-term debt by USD 0.7 bn. Decrease in cash foreign currency sales points to improved financial account in October.

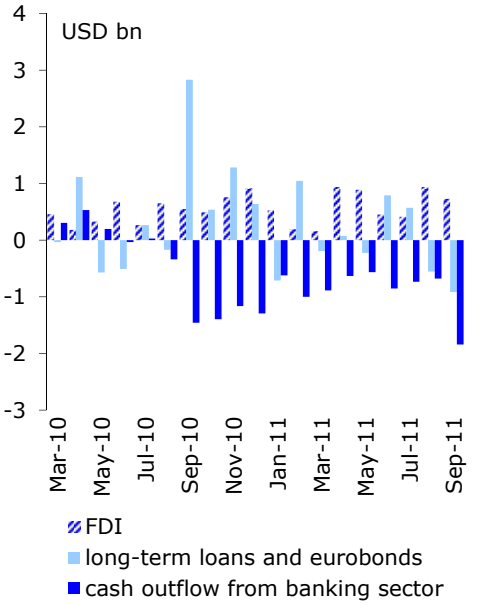
Fiscal policy: Simplified taxation was revised

Tax amendments. On October 20, the Verkhovna Rada amended the Tax Code regarding the simplified taxation system. In particular, the Parliament established four grades of the simplified taxation depending on sales, incorporation, types of activity and number of employees. Maximum turnover for simplified taxation was set at UAH 3 m for entrepreneurs and at UAH 5 m for legal entities. Also the companies which pay taxes on general terms were allowed to include costs on goods and services purchased from individuals who chose simplified taxation system for the calculation of the tax base.

Balance of payments



Selected financial account components



Source: NBU preliminary estimates

Table. New classification (groups) of entrepreneurs due to revised simplified taxation

Criteria	Group			
	1	2	3	4
Incorporation (individuals or legal persons)	Individuals	Individuals	Individuals	Legal persons
Max annual turnover, thousand UAH	150	1 000	3 000	5 000
Max number of employees	0	10	20	50
Tax rate	1-10% of min wage	2-20 of min wage	3% of turnover incl. VAT (or 5% without VAT)	3% of turnover incl. VAT (or 5% without VAT)

Source: Tax Code amendments as of 20, October, 2011

These changes were aimed at improvement of economic conditions for small business activities.

At the same time, consulting, accounting, information technology and several other professions were excluded from simplified taxation pushing these entrepreneurs to switch to general taxation system or pay taxes as self-employed. Another inconvenience for the taxpayers is quarterly recalculation of the tax rates as the latter were tied to minimum wage. In the second quarter of 2011, the number of new entrepreneurs was less than 40% of the level in the same period in 2010.

State Budget-2012. On October 20, the Verkhovna Rada adopted the Draft State Budget for 2012 in the first reading. The Cabinet of Ministers has two weeks to reconsider and improve the Draft. Then the finalized document should be submitted to the Parliament for the second (last) reading. Earlier, on September 15 the Government submitted the Draft State Budget Law for 2012 to the Verkhovna Rada. According to the Draft, central fiscal revenues and expenditures were planned at UAH 338 bn and UAH 362 bn respectively. Central fiscal deficit, including deficit of Naftogaz and the State Pension Fund, was set at 2.5% of GDP (down from 3.5% of GDP planned for 2011), which complies with fiscal target defined in the stand-by agreement with IMF.

Budget execution. According to State Treasury, central fiscal revenues (general and special fund) augmented by 39.3% yoy to UAH 227 bn primarily due to low statistical base of 2010 and economic recovery. Besides, significant amount of revenues were collected from tax overpayments and as a result of tax inspections (UAH 17.4 bn and UAH 5.4 bn respectively). The VAT revenues increased by 70.8% yoy due to growing production and imports. At the same time, the amount of VAT refund was 1.2% lower than a year ago (UAH 31.9 bn). Receipts from the enterprise profit tax (EPT) increased as well (by 42.6% yoy). It is mainly attributed to increasing profits of private manufacturing companies. The second largest sector which contributed to the EPT growth was trade.

Central fiscal expenditures (general fund) were under-executed by 6.1%. Total capital expenditures reached only 40.4% of this year plan. The central fiscal deficit (general fund) increased to UAH 10.9 bn from UAH 6.6 bn in January-August. At the same time, the incoming balance of single treasury account (TSA) decreased during October by 42.9% (to UAH 6.3 bn), which didn't favour fiscal sustainability.

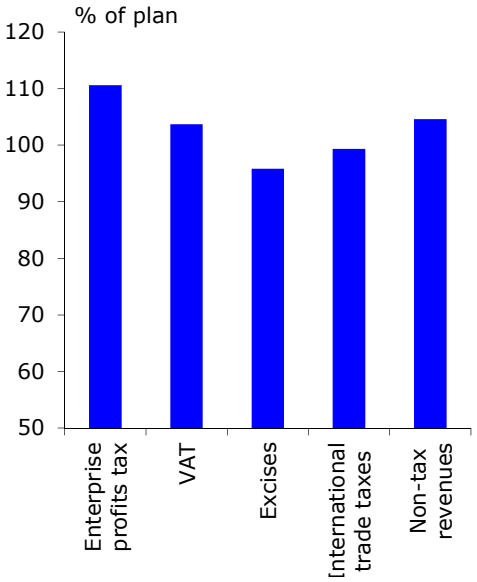
Social policy: Attempts to streamline social privileges

In Ukraine state budget usually foresees appropriations sufficient to fulfill most social privileges only partially. Over the last few years people increasingly obtained court orders for the state to pay out full amount of social privileges foreseen in the law while other recipients continued to receive reduced amounts foreseen in the budget. This has led to distortions of the social benefit system and limited availability of funds to fulfill court awards against the state. The Government attempted to streamline social privileges received by different groups of population to reduce volume of court-ordered social benefit payments. However, it tried to do this through introduction of complete control of executive over social benefit payments. As a result, such groups of privileged individuals as Afghan war veterans and victims of Chernobyl catastrophe has strongly protested near the Parliament against the approval of the respective draft law.

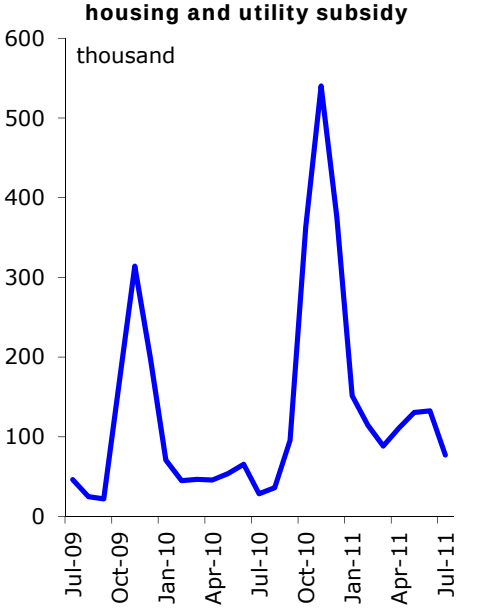
In particular, under the draft law, which was prepared for the second reading, level of privileges will be set by the Cabinet of Ministers within the limits mandated by the state budget although government is forbidden to reduce nominal amount of benefits. This provision will be in force until comprehensive revision of social benefit system is approved by the parliament.

On the one hand, benefits promised in legislation were never fully financed and in current form are not feasible. In particular, according to the estimates of the Vice-Prime-Minister Sergiy Tigipko, the fiscal

Central fiscal revenues (general fund) in January-September of 2011

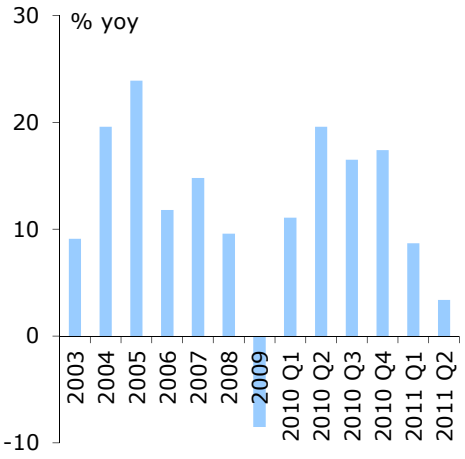


Number if families that were granted housing and utility subsidy



Source: Derzhkomstat

Real disposable household incomes



Source: Ukrstat

financing needed to pay social benefits in full is UAH 171 bn, which is not possible under current economic situation. On the other hand, current social welfare system is not efficient and middle- and high-income households receive most of the social spending. Therefore, the reform is required and should be conducted in the nearest future. However, the Government took the wrong approach to reforms focusing on restricting social benefit instead of better targeting.

In the meantime, Sergiy Tigipko has already announced the intentions of the Government to increase pensions at least for Afghan war veterans and victims of Chernobyl catastrophe. Overall, such step could be taken simultaneously with restriction of privileges to these groups of population, if properly introduced and communicated.

Labour Market: Wage growth decelerated

Average wage growth decelerated to 16.5% yoy in September as compared to 18.2% yoy in August due to slow growth of wages in most sectors. Average wage reached UAH 2737. Overall, the major drivers of wage growth this year remain improvement of financial stance of companies as well as gradual increase in minimum wage. Nominal wages grew at the highest pace in agriculture (by 26% yoy) due to good harvesting season this year. At the same time, average wage in the sector remained low at 73.2% of the average in economy. The lowest wages were paid in healthcare (65.6% of average), which puts the question of healthcare reform high in the agenda. In particular, low remuneration of health staff results in high corruption in the sector.

Monetary policy: Inflation sets new record lows

In October, CPI growth slowed to 5.4% yoy which is the level unseen since 2002. According to Ukrstat, fruit prices fell by 1.9% yoy, while vegetable prices fell by 42.7% yoy. Over the last four months fruit and vegetables defined most of the deceleration in CPI. Core inflation that excludes raw agricultural products, energy and regulated prices slowed only to 7.8% yoy from 8.3% yoy in June. Slow growth of consumer income and tight monetary policy maintained core inflation at single-digit level.

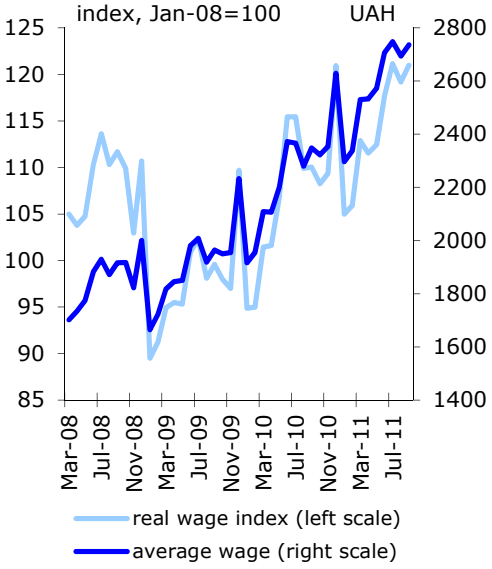
Bank liquidity became tighter in October with average interbank interest rates exceeding 20% p.a. on some days. Average interest rates almost doubled from September level. NBU withdrew UAH 12 bn of liquidity from bank sector through large foreign currency sales. NBU partly offset the impact through increased government bonds holdings and refinancing loans. Government also added liquidity in the banking sector through increased fiscal deficit.

Financial markets: Exchange rate slightly depreciated in October

Exchange rate. In October, interbank exchange rate slightly depreciated to UAH 8.01 per USD. Cash exchange rate depreciated somewhat more with average rate reaching 8.04 per USD from 8.01 UAH per USD. Demand for cash dollars decreased to USD 2.4 bn from USD 3.6 bn in part due to introduced passport requirements. As a result, NBU was forced to sell only net USD 1.5 bn of foreign currency to support exchange rate. The NBU foreign exchange reserves dropped to USD 34.2 bn from USD 38.2 bn as improved USD/EUR exchange rates partly offset outflow from interventions.

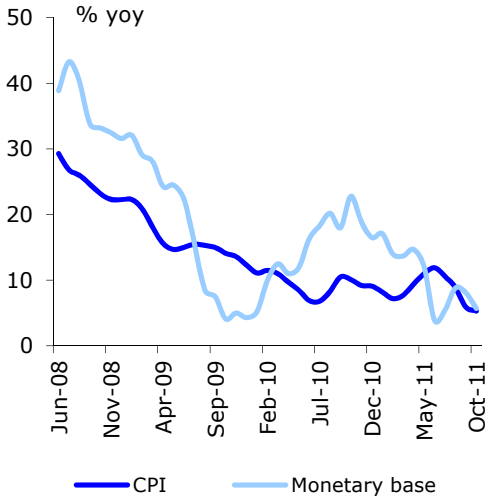
State debt. In October, the Ministry of Finance significantly increased domestic borrowings after failures of several previous months. It was mainly attributed to the introduction of the new financial tool (bonds indexed to the USD/UAH exchange rate) in September, which allowed buyers of state bonds to reduce their currency risks. The ordinary non-indexed bonds attracted no demand from the investors. At the same time, USD-indexed bonds were quite popular, especially among state- and foreign-owned private banks. As a result, the Government managed to place UAH 3.9 bn of domestic state bonds with average yield of 8.5% p.a. The demand was distributed between three-year and five-year bonds, which constituted 43.9% and 56.1% of the total bonds issued respectively.

Average wage



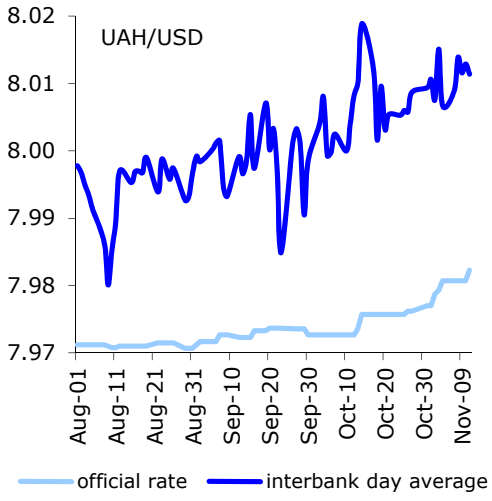
Source: Derzhkomstat

CPI and monetary base development



Source: Ukrstat, NBU

Exchange rate



Source: NBU

The amount of placement was enough for the bond redemptions of principal and interest repayments in this month (UAH 3.3 bn). The Ministry of Finance will likely continue to offer USD-indexed bonds till the end of this year.

The Cabinet of Ministers of Ukraine traditionally continued to increase the authorized capital of NJSC "Naftogaz of Ukraine". In early November it was increased by UAH 4.0 bn. Overall authorized capital of "Naftogaz" reached UAH 46.3 bn from UAH 5.5 bn in 2009.

Economic Trends		Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial production (real)	% yoy cum.	###	11,0	9,7	8,7	8,6	10,5	9,7	8,5	8,5	8,7	8,7	8,9	8,6	…
Construction (real)	% yoy cum.	-12,6	-5,4	6,8	14,5	11,4	6,1	6,8	11,6	13,2	14,5	13,6	13,0	11,4	…
Agricultural production (real)	% yoy cum.	-1,3	-1,0	5,3	3,2	13,7	5,0	5,3	4,0	3,5	3,2	9,1	10,5	13,7	…
Retail trade turnover (real)	% yoy cum.	5,1	7,6	13,5	15,2	15,2	12,7	13,5	14,9	15,5	15,2	15,0	15,2	15,2	…
Average wage	UAH	2332	2407	2389	2605	2727	2338	2531	2533	2573	2708	2749	2694	2737	…
CPI	% yoy	10,5	9,1	7,7	11,9	5,9	7,2	7,7	9,4	11,0	11,9	10,6	8,9	5,9	5,4
PPI	% yoy	19,2	18,7	20,3	20,0	21,3	21,4	20,3	20,8	18,8	20,0	20,3	19,9	21,3	16,3
Exports (USD)*	% yoy cum.	28,6	27,7	40,5	36,2	31,5	46,8	49,2	44,4	43,9	42,5	40,0	39,4	38,0	…
Imports (USD)*	% yoy cum.	28,2	30,1	51,6	47,4	39,9	64,1	58,5	52,3	52,5	50,8	46,7	44,6	44,1	…
Merchandise trade balance	USD bn cum.	-4,8	-8,4	-3,0	-5,5	-9,1	-2,1	-3,1	-3,8	-4,6	-5,5	-6,7	-8,1	-9,1	…
Current account**	USD bn cum.	-0,5	-2,9	-1,3	-2,9	-5,5	-0,9	-1,3	-1,7	-2,6	-2,9	-3,5	-4,5	-5,5	…
Current account	% GDP, cum.	-0,5	-2,1	-3,8	-4,0	x	x	x	x	x	x	x	x	x	x
Gross international reserves	USD bn eop	34,7	34,6	36,4	37,6	35,0	36,7	36,4	38,4	37,9	37,6	37,8	38,2	35,0	34,3
Monetary Base	% yoy	18,0	15,8	13,7	3,9	8,1	14,0	13,7	14,7	12,1	3,9	5,4	8,8	8,1	5,7
Lending rate on UAH credits	% pa, aop	13,0	13,6	13,3	13,5	14,8	12,9	13,3	13,0	13,4	14,0	13,9	14,9	15,5	18,7
Exchange rate (interbank)	USD aop	7,90	7,96	7,95	7,98	7,99	7,95	7,97	7,97	7,98	7,99	7,99	7,99	8,00	8,01
Exchange rate (official)	USD aop	7,90	7,93	7,94	7,97	7,97	7,94	7,94	7,96	7,97	7,97	7,97	7,97	7,97	7,97
Exchange rate (official)	EUR aop	10,18	10,79	10,85	11,48	11,27	10,83	11,10	11,49	11,48	11,47	11,38	11,42	11,03	10,91

Sources: Derzhkomstat, 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
Nominal GDP	UAH bn	170.1	204.2	225.8	267.3	345.1	441.5	544.2	720.7	948.1	914.7	1095.0
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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

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

''' "Minus" denotes a consolidated fiscal deficit

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	**Derzhkomstat**	State Statistics committee of Ukraine
yoy	year-on-year change	**gs**	goods and services		

Quarterly trends

National accounts		Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
GDP	UAH bn	236,0	276,5	244,1	189,0	214,1	250,3	259,9	219,4	260,2	304,7	310,3	263,6	316,5
GDP (real)	% yoy	6,2	4,3	-7,8	-19,6	-17,3	-15,7	-6,7	4,8	5,5	3,6	3,3	5,3	3,8
Household consumption (real)	% yoy	12,6	14,4	4,7	-14,5	-14,5	-14,3	-16,2	1,2	7,8	9,4	9,0	12,7	14,1
State consumption (real)	% yoy	2,2	-5,3	7,4	0,2	-1,6	-4,3	-3,7	4,1	-1,9	3,7	5,0	0,1	-0,4
Gross fixed capital formation (real)	% yoy	9,1	-3,2	-23,1	-58,0	-55,9	-53,2	-33,7	-7,5	-1,2	12,6	10,6	4,5	8,6
Exports of goods and services (real)	% yoy	13,8	21,0	-13,2	-22,2	-34,1	-30,9	6,9	-0,2	10,8	2,6	4,9	19,0	4,9
Imports of goods and services (real)	% yoy	29,7	34,8	-11,8	-37,4	-52,3	-47,6	-11,1	-7,8	16,7	20,2	14,3	39,3	24,2
Agriculture, hunting, forestry (real)*	% yoy	-4,1	23,8	19,2	-1,1	3,4	2,2	-11,6	4,9	0,1	-3,3	0,3	5,8	1,1
Manufacturing industry (real)*	% yoy	5,6	-1,5	-27,0	-33,7	-26,1	-25,6	6,5	14,4	16,1	12,5	15,0	12,9	8,7
Construction (real)*	% yoy	-18,7	-33,9	-39,5	-54,2	-42,7	-43,6	-32,8	-12,4	-8,7	7,4	1,3	7,8	21,7
Trade, repair services (real)*	% yoy	8,8	-0,7	-6,2	-15,6	-15,7	-22,0	-16,4	1,1	-1,6	1,7	0,3	9,7	1,6
Transport(real)*	% yoy	14,6	10,1	-0,3	-13,4	-9,2	-5,7	-0,4	5,5	6,8	5,2	3,0	4,4	5,8
Balance of payments														
Current account balance	USD bn	-3,3	-2,1	-3,7	-0,6	-0,2	-0,1	-0,9	0,0	0,5	-1,0	-2,5	-1,3	-1,6
Current account balance	% of GDP	-7,0	-3,6	-9,4	-2,6	-0,6	-0,2	-2,7	-0,1	1,6	-2,5	-6,4	-3,8	-4,1
Trade balance in goods	USD m	-4171	-3868	-3562	-882	-622	-1396	-1407	-1236	-697	-2870	-3585	-2880	-2320
Trade balance in services	USD m	308	1341	15	116	432	1256	550	930	1115	1536	823	855	1047
Current transfers	USD m	833	831	723	632	667	640	722	608	728	797	842	1034	866
Direct investment (FDI)	USD m	3091	3324	1058	883	1279	1210	1282	923	1196	1470	2170	882	2284
Portfolio investments	USD m	160	-690	-967	-350	-351	-2286	1428	-307	804	2532	1288	1163	1841
Gross international reserves	USD bn	35,5	37,5	31,5	25,4	27,3	28,2	26,5	25,1	29,5	34,7	34,6	36,4	37,6
Exchange rate(market), UAH/USD	aop	4,79	4,70	6,49	8,09	7,76	7,99	8,06	8,00	7,91	7,90	7,96	7,95	7,98
Exchange rate(official), UAH/USD	aop	4,96	4,85	6,21	7,70	7,66	7,82	7,99	7,99	7,91	7,90	7,93	7,94	7,97
Fiscal indicators														
Consolidated fiscal revenues	% of GDP	32,0	29,5	31,6	34,8	30,6	25,5	36,0	30,6	30,0	23,0	32,0	32,0	29,5
Personal income tax	% of GDP	5,1	4,3	4,9	5,2	5,3	4,4	4,7	4,9	4,8	4,3	4,8	4,9	4,7
Enterprise profits tax	% of GDP	4,5	5,0	6,3	3,9	3,3	3,7	3,6	4,3	3,0	3,4	4,2	4,4	4,5
Value-added tax	% of GDP	10,9	9,8	7,8	11,7	8,3	6,4	11,0	9,7	9,7	8,4	9,8	7,4	12,6
Excise tax	% of GDP	1,3	1,2	1,4	2,0	2,3	2,5	2,6	2,4	2,9	2,5	2,5	2,1	3,0
Consolidated fiscal expenditures	% of GDP	31,6	27,2	41,2	34,4	36,6	29,6	34,5	32,7	38,2	30,0	37,2	32,1	32,6
Current expenditures	% of GDP	28,5	22,4	33,8	33,5	34,9	27,0	31,4	32,1	36,9	26,3	32,5	30,8	30,2
Capital expenditures	% of GDP	3,1	4,8	7,4	0,9	1,7	2,6	3,1	0,6	1,4	3,7	4,7	1,2	2,3
Consolidated fiscal balance	% of GDP	0,4	1,9	-10,3	0,0	-6,2	-4,5	1,1	-2,0	-7,9	-7,4	-5,6	-0,3	-3,3
Privatisation receipts	% of GDP	0,0	0,0	0,0	0,0	0,2	0,1	0,0	0,1	0,0	0,1	0,2	0,4	3,1
Labour market														
Average wage (real)	% yoy	6,1	6,3	0,5	-11,7	-8,6	-10,7	-5,7	3,3	8,7	12,3	11,4	11,1	5,5
Household income (real)	% yoy	10,1	6,6	2,7	-10,8	-6,9	-8,6	-7,6	3,7	11,8	11,0	14,7	8,7	3,4
Unemployment rate (ILO methodology)	% cum	6,2	6,0	7,5	9,5	9,1	8,6	8,8	9,0	8,5	8,1	8,1	8,7	8,2
Banking system														
Monetary aggregate M0	% yoy cum	48,6	37,9	39,3	33,9	22,8	11,5	1,5	5,4	9,9	17,4	16,5	15,7	11,5
Monetary aggregate M2	% yoy cum	48,8	37,4	31,0	12,0	5,3	-1,4	-5,4	6,9	13,2	21,6	23,1	25,5	22,0
Household deposits in national currency	% yoy cum	67,0	53,3	7,5	-10,9	-16,1	-25,4	-8,5	7,1	20,1	38,6	41,4	43,3	26,0
Household deposits in foreign currency	% yoy cum	32,9	31,2	66,3	31,8	33,0	39,2	4,7	22,8	21,5	17,7	16,9	19,7	21,0
Com. bank credits in national currency	% yoy cum	70,6	54,9	40,4	27,6	27,8	25,2	16,9	13,6	8,3	6,0	11,2	16,0	18,5
Com. bank credits in foreign currency	% yoy cum	57,9	53,4	103,6	70,8	48,7	32,4	-15,2	-13,7	-10,5	-13,2	-8,3	-2,1	0,9
Long-term com. bank credits	% yoy cum	67,2	50,9	73,3	50,8	37,3	29,9	-3,8	-3,9	-2,8	0,6	-0,5	5,0	6,3
Long-term com. bank credits	% of total	68,6	66,8	69,8	69,9	68,2	67,3	68,1	68,5	68,9	67,5	66,3	67,2	66,6
Average lending rate on national currency credits	% p.a.	17,6	17,7	21,6	26,2	19,1	17,5	19,8	17,3	15,0	13,0	15,0	13,1	13,5
Average lending rate on foreign currency credits	% p.a.	11,9	12,4	11,9	9,6	9,6	10,0	10,1	10,9	11,1	10,3	10,1	10,2	9,8

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, GDP estimate by IER

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