



YEAR 2007: ECONOMIC SUMMARY FOR UKRAINE

- In 2007 real GDP grew by 7.3% yoy backed by the strong private domestic demand.
- Investment activity remained high despite political turmoil.
- Industrial output increased by 10.2% yoy driven by a high growth in machine building.
- Tariffs for transportation were raised, though the service quality and transparency of tariff setting remained low.
- The current account deficit at USD 2.2 bn in the nine months of 2007 was compensated by the significant foreign capital inflows.
- Ukraine completed the WTO accession negotiations.
- Strong growth of household incomes and consumption credits remained the driving force for the consumption growth.
- The unemployment rate (ILO methodology) fell to 6.2% thanks to high economic activity.
- Central fiscal deficit was 1.8% of GDP in 2007 and is planned at 2.1% of GDP in 2008.
- Privatisation plans were not fulfilled second year in a row, and the execution of plans for 2008 will depend on political consensus.
- Inflation accelerated to 16.6% yoy in 2007 reflecting the growth in food prices.
- Money supply expanded by record 52.2% yoy fuelled by capital inflows.
- The NBU continued policy of *de-facto* fixed exchange rate against the U.S. dollar despite strong appreciation pressures.
- The Ukrainian stock market showed high resilience to internal political shocks.

Prepared on the basis of information available as of March 11, 2008

Population: 46.4 m

Industry/GDP: 32%

Agriculture/GDP: 8%

Investment/GDP: 27%

Exports to: Russia 26%, EU 28%

Imports from: Russia 28%, EU 37%

GDP: The real GDP growth was preserved at 7.3% in 2007 despite internal and external shocks

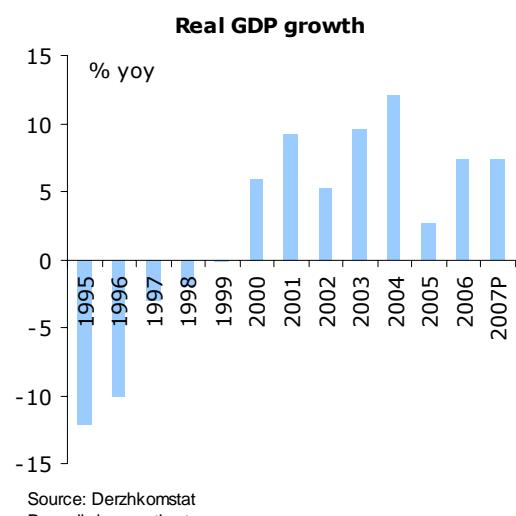
Despite a political turmoil and external shocks, the economic growth in the country remained high. According to the Derzhkomstat, in 2007 real GDP grew by 7.3% yoy, thus preserving the growth pace of the previous year. In nominal terms, the GDP reached UAH 709.4 bn, or USD 140.5 bn.

In line with expectations, the real GDP growth has gradually decelerated during the year, as the effect of low statistical base of the previous year vanished, while the impact of poor harvest revealed in the figures (see *Agricultural output*). The latter effect became obvious in August, when the value added in agriculture dropped sharply after high growth rates in June and July provoked by early harvesting season.

The contribution to value added growth was the highest in trades and manufacturing. While the growth of manufacturing significantly decelerated during the year from 18.9% yoy in January to 12.3% yoy by the end of the year, the growth of trade and repair services accelerated and reached 18.6% yoy backed by a strong development of domestic market and foreign trade.

The major contributor to manufacturing growth was machine building, followed by food and metal production. The expansion of machine building was based on high investment activity in Ukraine and other CIS countries, driving up the demand on equipment and machinery. Also, production of durables, especially passenger cars, was stimulated by private demand in the region. Though, a significant portion of demand on investment and durable goods was satisfied by imports.

On demand side, the most of growth was due to high private domestic demand. According to the preliminary information of the Derzhkomstat, in 2007 real households consumption increased by





17.4% yoy, thus continuing the expansion started several years ago. The high consumption is stimulated by both stable growth in households' incomes (see *Wages and incomes*) and continued expansion of household credits (see *Financial sector*).

The growth in real consumption is registered for almost all major components. The major exclusion was consumption of housing services, gas, water and electricity that dropped by a 15.1% yoy in the nine months of the year. At the same time, prices for these services increased by 55.3% yoy. Thus, in line with expectations, higher prices stimulated thrifty behaviour of households.

The second extremely important component of GDP growth was the expansion of gross fixed capital accumulation that increased by 21.9% yoy between January and December. It is stimulated by higher competition and necessity to cope with increased energy prices (see *Investments*). On supply side, the growth in investments is mirrored by expansion of construction and machine building.

The growth in domestic demand triggered high growth in imports of goods and services that increased by 19.7% in real terms in 2007. Thus, despite the recovery of real exports that grew by 3.1% yoy after a reduction a year before, the negative trade balance was maintained (see *Balance of payments*).

Investments: Investment activity remains high

Investment activity seems to become quite immune to the political uncertainty that remained high for the several years in Ukraine. According to the Derzhkomstat, investments in fixed capital increased by 28.5% yoy in real terms in the nine months of 2007 compared to a 16.1% yoy in the same period of 2006. The acceleration of investment activity could be attributed to increased domestic demand, intensified competition, as well as the need to implement energy saving technologies in the situation of growing energy prices.

The highest growth of investments was registered in services, in particular financial activity (60.3% yoy), research and development (76.6% yoy), and leasing (132.5% yoy). Also, the growth of investments in industry significantly accelerated compared to the previous periods and, in particular, in manufacturing reached 42.7% yoy. For instance, higher gas prices stimulated investments in energy-saving projects in metal production.

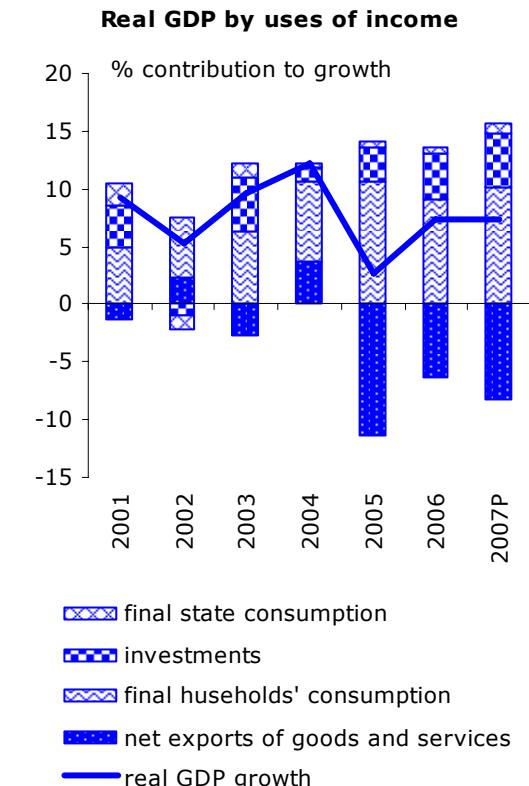
The only major sector where fixed capital investments dropped was production and distribution of electricity, gas, and water. Thus, the major infrastructure sectors in the country remain heavily underinvested, while the growing economic activity in the country exerts even higher pressure on these sectors, threatening the serious sector services' breakdowns.

Thanks to high growth of investment in services, the share of these sectors in total fixed capital investments increased and reached 53.1%, followed by industry (38.2%).

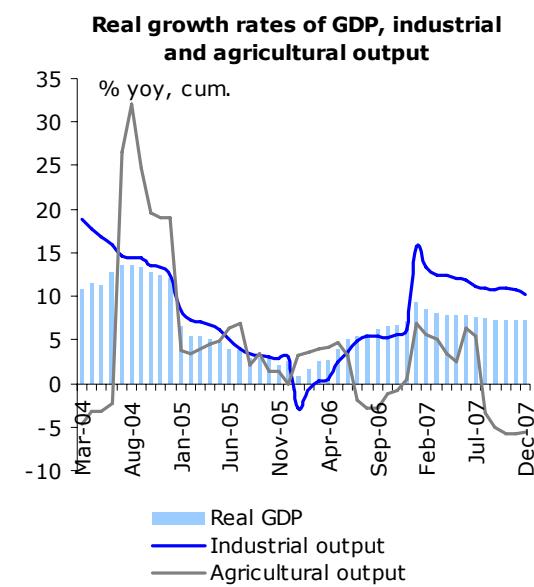
Although the financing of the investments was predominantly from own enterprise funds, a higher share of enterprises started to use borrowings, including the foreign borrowings. It seems that the international financial crisis started in August had a minor impact on investment activity in 2007. Though, the higher risk estimates in the world and lower liquidity led to higher interest rates that could adversely affect the availability of the funds for investments in 2008.

In 2007 Ukraine and Poland won the bid to host the UEFA Football Championship in 2012. Though no major investment projects were realised in 2007, it is expected that the Championship preparations will stimulate investments in such sectors as transport, hotels, and sporting facilities.

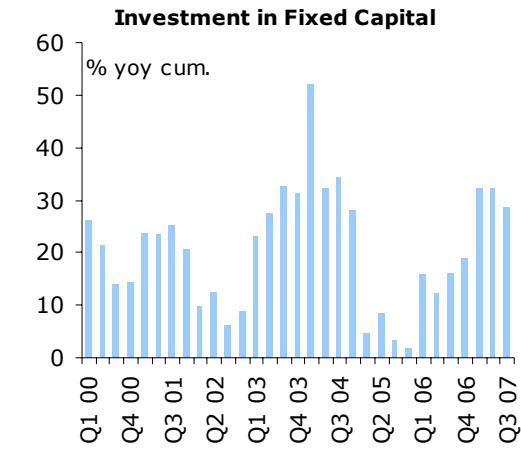
In addition to improved domestic investment activity, Ukraine managed to attract high foreign direct investment (FDI) inflows in 2007 (see *Balance of payments*), particularly in the banking sector (see *Banking*). In the nine months of 2007, net FDI inflow grew by



Source: Derzhkomstat



Source: Derzhkomstat



1.6 times compared to the same period of 2006 and totalled USD 7.1 bn.

Thus, despite political instability and world financial markets turmoil, investment activity was high in Ukraine in 2007.

Industrial output: Industrial growth remained high

The economic development of Ukraine in 2007 was to the large extent grounded on strong industrial growth. According to the Derzhkomstat, industrial output increased by 10.2% yoy in 2007 in comparison with a 6.2% rise a year ago. This growth was driven mainly by manufacturing that raised by 11.7% yoy, while the extractive industry and production and distribution of electricity, gas and water lagged behind, growing at around 3% each.

The largest contributors to industrial growth remained machine building, metal production and food industry. In 2007 Ukrainian enterprises actively invested in modernization and renewal of their fixed capital (see *Investments*).

Machine building was the backbone of the industrial growth in 2007. Sector output increased by 28.6% yoy contributing more than one third to overall industrial growth. The most rapid expansion was in production of vehicles due to rising households' demand for passenger cars and availability of bank loans to finance this demand. The high investment activity (see *Investments*) stimulated the domestic demand for investment goods by enterprises. In addition, Ukraine expanded the exports of machine building products, predominantly to the CIS markets.

Despite some deceleration during the year, the contributions of metal production and food industry to industrial growth remained substantial. Thanks to strength on the world markets and high export-orientation of the sector, Ukrainian metal production increased by 8.3% yoy explaining approximately one fifth of the overall industrial growth. At the same time, this year domestic producers faced tougher competition on domestic market as the imports of metal products accelerated.

Food industry production increased by 10.0% yoy contributing another 15% to overall industrial growth. Some deceleration of the food industry production in the end of the year could be partially attributed to increased costs and decreased supply of agricultural products (see *Agro-food production*).

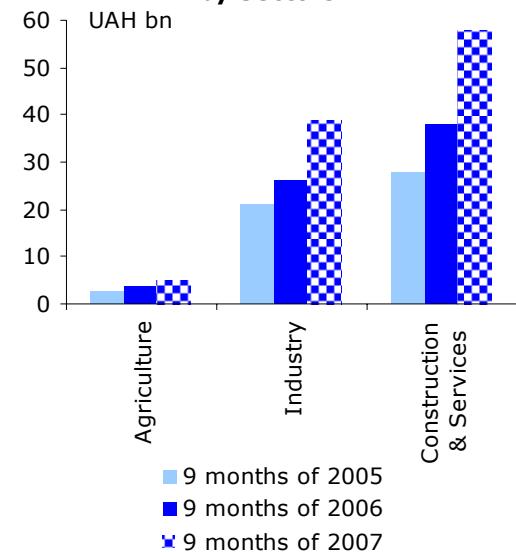
Despite high world energy prices, the extraction of energy materials dropped by 2.0% in 2007 in Ukraine, likely due to both diminished extraction capacity and inadequate state regulatory policy in this sector. At the same time, the strong demand by metal producers stimulated the development of non-energy materials extraction that increased by 8.8% yoy, ensuring small but positive growth of the whole extractive industry.

The drop in production and distribution of electricity, gas and water registered at the beginning of the year – in January the output of this sector declined by 5.8% yoy in real terms – was combated later, and annual sector growth reached 3.2% yoy. The reduction of sector products demand due to higher tariffs was to the large extent counterweighted by the economic expansion continued in the country.

Agro-food production: Agricultural production declined due to severe drought

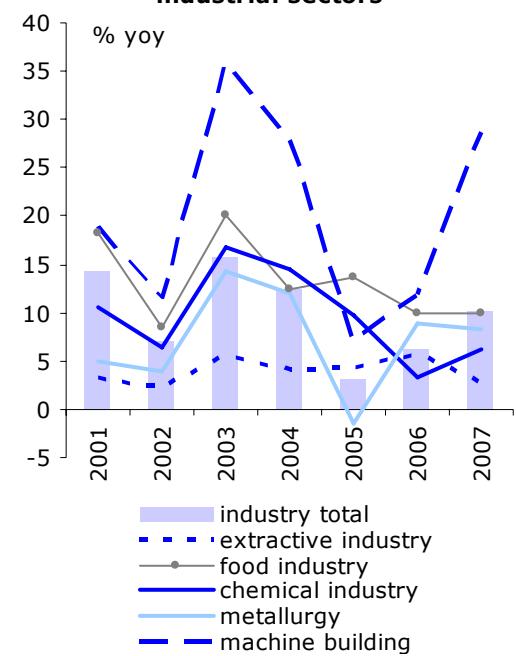
The agriculture was among few large sectors that demonstrated the reduction of output in 2007. According to the Derzhkomstat, the total agricultural production declined by 5.6% yoy due to significant drop in the crop production (by 9.4% yoy). The livestock production reduced by much smaller percentage (0.4%), as the reduction of production by households plots, still the major livestock producer, was to the large extent compensated by its growth in agricultural enterprises. Despite reduction in agricultural output, total food

Investments in Fixed Capital by Sectors



Source: Derzhkomstat

Growth of output in key industrial sectors



Source: Derzhkomstat

industry production increased by 10.0% yoy driven by domestic demand and investment.

The main factor of low agricultural performance was severe drought in Southern and Eastern Ukraine that resulted in the reduction of grain harvest from 34.2 m tons in 2006 to 29.3 m tons in 2007, according to the Derzhkomstat. The lower grain harvest has also negatively affected livestock production, as feeding became more expensive.

Small-scale production continued to be a problem of the Ukrainian agriculture, adversely affecting its efficiency. Households are major producers of Ukrainian raw milk, beef and pork that do not stimulate efficiency in dairy and meat sectors. However, in 2007 a tendency towards vertically integrated large agricultural holdings driven by investors of the food industry was strengthened.

Trade restrictions and sanitary and phytosanitary control issues still create serious bottlenecks in agro-food sector. The import ban for meat and dairy products has been partly lifted but remained a major concern. By the end of 2007, 23 out of 47ⁱ milk and meat enterprises were allowed to export their products to Russia.

A further key issue for the agriculture and food sector was price growth. Driven by international and national agricultural commodity markets the increase of prices has mainly concerned dairy, meat, grain, sunflower seed, and rapeseed. This situation became a reason for government interventions by restricting foreign trade to limit price increases (see *Agricultural policy*), and signing memoranda on price stabilisation with producers, e.g. in meat and sunflower seed industries. However, these measures had only limited impact on agro-food price growth since it is driven by world market trends. Furthermore, these measures create welfare losses mainly at farm level limiting investments and growth in the sector. Ukrainian agricultural production remains a sector with strong government interference, in particular, with respect to grain and meat markets.

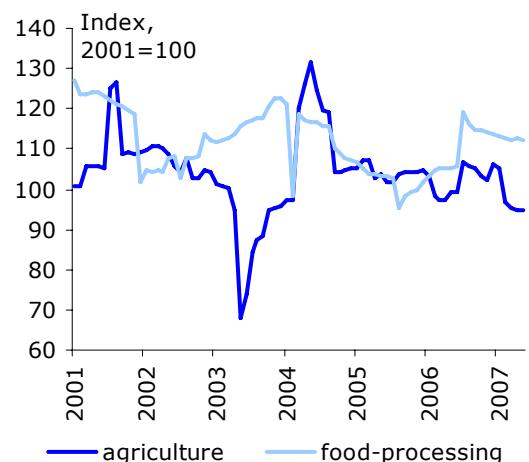
Agricultural policy: The Government continued using non-tariff barriers on exports

Export quotas. Export quotas on grain severely harmed market development in 2007. Quotas were initially introduced in October till December 2006ⁱⁱ in the attempt to prevent sharp growth of domestic grain prices, and then prolonged for the rest of 2006/2007 marketing year. In February 2007 the quotas were lifted for barley and corn, but wheat and rye quotas remained untouched till June. In July the quotas for all four key types of grain were re-introduced till Septemberⁱⁱⁱ, as the expectations of the low harvest due to long lasting drought drove the domestic grain prices up again. In September the Government introduced grain export quotas of 1.2 m tons for the period from November 1, 2007 to March 31, 2008^{iv}. However, as registration of applications on grain exports started on December, 31, 2007, grain exports *de facto* did not occur till the end of the year.

The grain export quotas broadened the gap between world and Ukrainian grain prices, keeping domestic prices artificially low. However, it brings welfare losses for the Ukrainian economy. Export quotas effectively decrease farm-gate prices as well as farm profits. This affects the incentives to invest in "politically sensitive" crops.

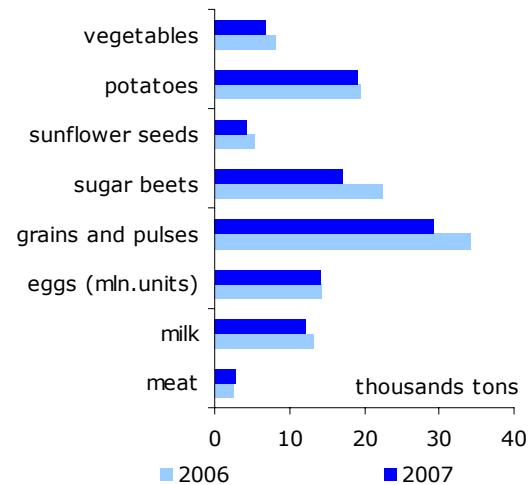
Agricultural land. The existence of the moratorium on the sales of agricultural land still prevents effective and competitive usage of land, and rather creates black market for its trade. It also has a negative impact on the development of rural financial markets. In the end of 2006 the moratorium was prolonged till January 1, 2008 since appropriate legislation has not been prepared. In the end of 2007 the Verkhovna Rada further prolonged the land moratorium by the State Budget Law 2008 citing the same reason. Two most important laws on land cadastre and land market are not in force yet. While the former one was passed by the Parliament in March

Production in agriculture and food industry in 2001-2007



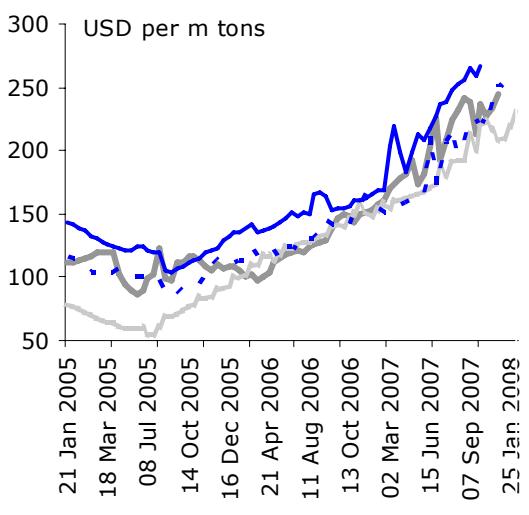
Source: Derzhkomstat

Production of major crop and livestock products



Source: Derzhkomstat

Prices for grains in 2005-2008



Source: UkrAgroConsult



2007, but vetoed by the President, the latter has been passed only in the first reading.

Biofuels. Biofuels continued to lead policy talks in 2007. In particular, in April the draft Law 'On biological fuels production and consumption development' aiming at promoting biodiesel and bioethanol production and consumption in Ukraine was passed in the first reading. The main policy objective is to decrease Ukraine's energy dependency from foreign suppliers. The major measures suggested to achieve these goals are tax breaks, mandatory blending and interest rates compensations. Economic reasoning and some rough-cut estimations of the economic impact demonstrate that reducing the energy dependency of Ukraine by using more biofuels is rather expensive and would cost about UAH 1.4 bn annually to the Government and UAH 2.08 bn to consumers. So, there might be more efficient options to reduce the energy dependency.

Energy policy: Imported gas price continued growing in 2007 and 2008

Gas deals. Following the world trends, the import gas prices continued to grow in Ukraine. Though, the price setting mechanisms remained politically influenced and non-transparent.

In October 2006 UkrGasEnergo and RosUkrEnergo signed a contract to supply 55 billion cubic meters (bcm) of gas in 2007 for USD 130 per thousand cubic meters (tcm) on Ukrainian-Russian border as compared to USD 95 per tcm in 2006. Despite this 37% price increase, chemical and metallurgical enterprises – main industrial consumers of gas – showed a 30% average growth in their earnings thanks to favourable world price dynamics for both steel and chemical products.

In December 2007 an agreement on gas deliveries was signed between Ukrainian Government and the Russian company "Gazprom", further raising the price at the Ukrainian-Russian border to USD 179.5 per tcm in 2008. The change in price was explained by higher purchase price for Turkmen gas and anticipated increase in Kazakh and Uzbek gas price. RosUkrEnergo will deliver to UkrGasEnergo not less than 55 bcm of natural gas in 2008. Although the new price is expected to influence trade balance and enterprise profits, no major macroeconomic consequences are expected.

The price for Russian gas transit through the territory of Ukraine was raised from USD 1.6 per tcm to USD 1.7 per tcm in 2008, *de-facto* abolishing the long-term binding for transit rates envisaged in earlier agreements. Moreover, it was agreed that Russia would increase gas transit volume by 3.4% to 113.7 bcm in 2008.

Production of hydrocarbons. Despite proclaimed official strategy of energy supply diversification, the Government failed to make the domestic production of hydrocarbons attractive. In December 2006 the Government increased rent payments on gas extraction in 2007 by 38.9% up to UAH 50 per tcm, and on oil and gas condensate by 24.4% up to UAH 1090 per ton. Also, in 2007 companies with more than 50% state ownership were required to sell all extracted gas to households at low prices, and were punished by sharp increases in rents if they sell gas to other consumer categories. Both factors have contributed to contraction of hydrocarbon extraction by 1.2-1.7% yoy for different types of hydrocarbons in 2007.

Electricity exports. In 2007 Ukraine introduced the practice of open bids on exports of electricity, according to which only electricity produced by Burshtyn energy power station was proposed for auctioning. Two open auctions were held in March and June. In both cases Hungarian company Energy Capital ZRt bought all proposed electricity for USD 0.09/kWh on average (comparing to USD 0,054/kWh initial price), as the company long-term contracts on electricity supply was stalled. But in October the Energy Capital ZRt asserted its right to buy electricity according to its previously signed long-term contracts at court. As a result, in November state company "Ukrinterenergo" and Energy Capital ZRt signed an

Supply-demand balances for grains			
Season	2005/06	2006/07	2007/08
Opening stocks	2466	2704	2774
Acreage seeded	15100	14771	15467
Yield, mln/ha	2.56	2.45	2.08
Production	36622	34396	28201
Imports	165	177	205
Total Supply	39253	37277	31180
Food industry	7910	8185	7995
Feed usage	10475	12030	11182
Seeds	2830	2795	2880
Exports	13429	9789	3605
Losses	2015	1705	1525
Total Demand	36659	34504	27187
Ending stocks	2594	2773	3993
Stocks/ Use %	14.13	12.44	6.81

Source: UkrAgroConsult

Rent payment for oil, gas condensate and natural gas extraction in 2006-2007

Fuel	Units	Depth of resources horizon, meters	Rent payments	
			2006	2007
Oil	UAH/ton	below 4000	876.1	1090
		above 4000	550	1090
		above 5000	325	404
Gas condensate	UAH/ton	below 5000	876.2	1090
		above 5000	325	404
Natural gas	UAH/tcm	below 5000	30.6	50
		above 5000	15	40

Source: State Budgets Laws 2006 and 2007

agreement envisaging a delivery 105 MWt of electricity in 2008-2010 to Hungary at wholesale market price plus 20%, which is approximately 1.5 times lower than the price set at auction. As no extra supply of electricity was available for auctioning, the practice of auctions ceased. Though, the auctions showed that the price of electricity set in long-term contracts seriously underestimates its market prices, and the switch to common practice of electricity auction could be more profitable for the industry.

In October National Electricity Regulatory Commission of Ukraine (NERC) prohibited to export electricity at prices lower than electricity wholesale market prices. As a result, Ukraine stopped to export electricity to Poland. It also ceased to export electricity to Belarus from July 2007 and Russia from October 2007 because of the coal deficit and increased domestic electricity consumption.

Nuclear energy. The attempt to establish the vertically integrated state company in the nuclear energy sector failed. The State Concern "Ukratomprom" including the various state enterprises of nuclear energy sector was created in December 2006^{vi}. One of the main declared goals was to decrease the energy dependence on Russian supplies and to meet the strategic goal to double the amount of nuclear energy production by 2030. However, in August 2007 the President suspended the process of "Ukratomprom" creation^{vii}. The official reason was to prevent possible alienation of property, in particularly, of power stations operating within the country's power grid and to ensure its integrity, as such alienation would contradict to the Law «On basis of national security in Ukraine». In December 2007 the new Government abolished the Decree of the Cabinet of Ministers on "Ukratomprom" creation^{viii}.

Transport: Transportation tariffs were sharply raised in 2007

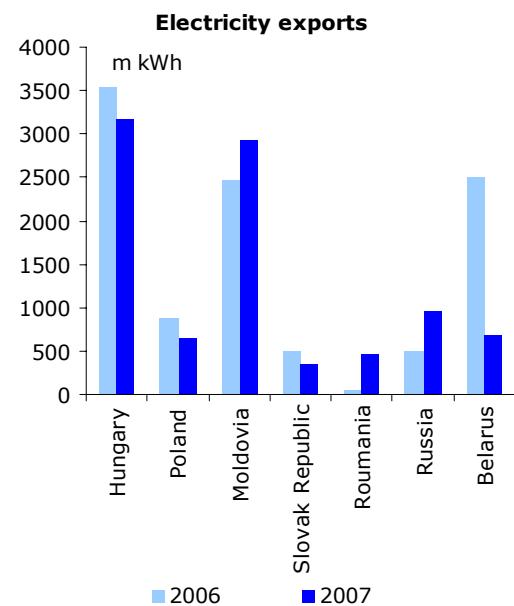
Tariffs. In 2007 tariffs for transportation services continued to grow, in particular for ports and rail.

In the spring prices for international passenger tickets were revised upwards by 10-23% depending on the type of service^{ix}. Also, in May 2007 the Ministry of Transport and Communications (MTCU) finally introduced gradual indexation of freight tariffs: from June till December basic tariffs were raised by 2-3% each month^x. Also, the MTCU increased domestic rail passenger transportation tariffs by 5% in March, May and July, but banned further growth in September and November, though it was planned initially^{xi}. The official explanation for the ban was the absence of quality improvements in the service; though, the most likely reason for the ban was the Government unwillingness to add up to the inflationary pressure at the end of the year. Starting from January 2008 further tariff increase was approved^{xii}. Despite higher tariffs and, thus, money inflow, the Ukrzaliznytsya now experiences lack of equipment. This fact forced the company to introduce discounts at the level of 15-51% for the freight forwarders with their own cars^{xiii}.

Prices for ports services were also increased with the cumulative growth of 25% compared to the rate in April^{xiv}. Though, discount rates for port services were introduced later to secure stable freight volumes through Ukrainian ports^{xv}.

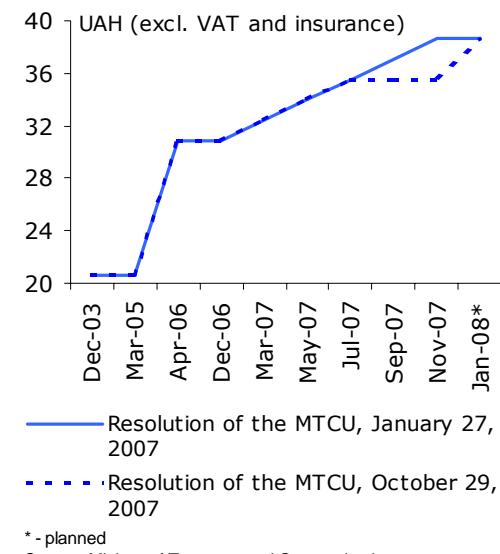
Thus, the MTCU persistently pushed tariffs up in 2007. It explained the tariff revisions mostly by the necessity to cover the growing costs of transportation and replace outdated equipment. However, service quality and the transparency of tariff setting remains low. If tariffs increase is not followed by visible improvements in the sectors operation in the following years, transportation is likely to become huge barrier for a further growth in economy.

Market structure. Transport markets experienced some structural changes in 2007. In particular, in October 2007 the Antimonopoly Committee of Ukraine allowed the airline company Aerosvit to acquire control stake (74.99%) of the Donbasaero airline. It was the first deal of such significance on the Ukrainian air passenger



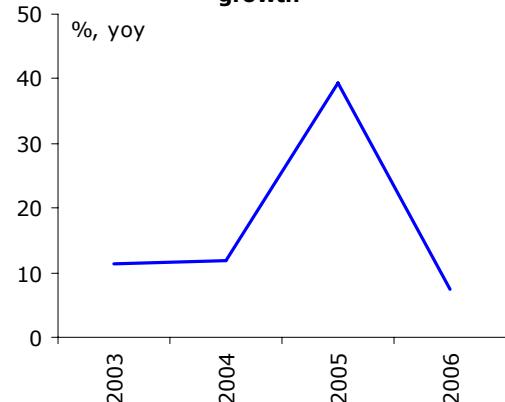
Source: Ministry of Fuel and Energy

**Passenger railway transportation tariffs
(distance = 500 km, passenger train/compartment)**



Source: Ministry of Transport and Communications

Freight railway transportation tariffs growth



Source: Derzhkomstat

transportation market. It could strengthen monopolistic power of these airlines on the domestic market as well as their competitiveness and efficiency, which is vital for the success on the market after the Open Sky Agreement between the EU and Ukraine will be fully implemented.

The inverse process was observed in the ports sector in the end of 2007, when the State Concern Ukrmorport, responsible for seaports management, was liquidated^{xvi}. Therefore, it made possible separation of the government sector policy provision and ports economic activities. It is expected that such decision should have positive impact on sector development through strengthening market competition, increasing ports efficiency, and attracting new investments.

Thus, transport markets are just developing. Their sustainable growth should be ensured by considerable government efforts to establish independent regulator, which will be able to balance all interests and follow the rule of "fair play".

Telecommunications: The struggle for impact on the regulator has been continuing

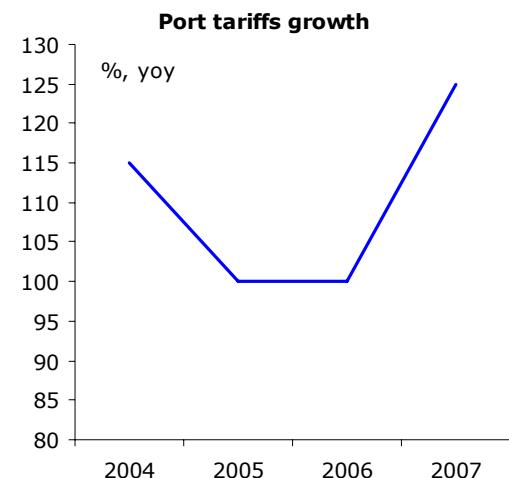
The issue of legal status of the National Commission for the Regulation of Communications (NCRC) was and remains the most crucial for telecommunications sector. The NCRC could not regulate market effectively because, first, it was the subject under different political impacts, second, its activities are based on uncertain legal grounds. Regulations on the NCRC^{xvii}, which transferred the regulator under subordination of the CMU, undermined regulator's independence and created the prerequisites for government interference. It was suspended by the Decree of the President^{xviii}, which, however, also caused immediate negative impacts on the sector and the regulator by blocking the NCRC activities. The new Government abolished the re-subordination of the NCRC^{xix}. At the moment the position of the NCRC remains unclear and weak. Unless consensus on the NCRC is achieved, performance and the reason for existence of such agency in Ukraine will be questionable.

Utilities: The Government changed utilities tariff regulation

Regulation. In the spring 2007 the Government reorganized the Ministry of Construction, Architecture, Housing and Municipal Services of Ukraine and established the Ministry of Housing and Utility Services as a separate executive body. The Ministry was created to take charge of the government policy in the utilities sector to guarantee investments and acceleration of market reforms. During the year the Ministry has already attracted some funds on technical re-equipment through collaboration with international financial organizations.

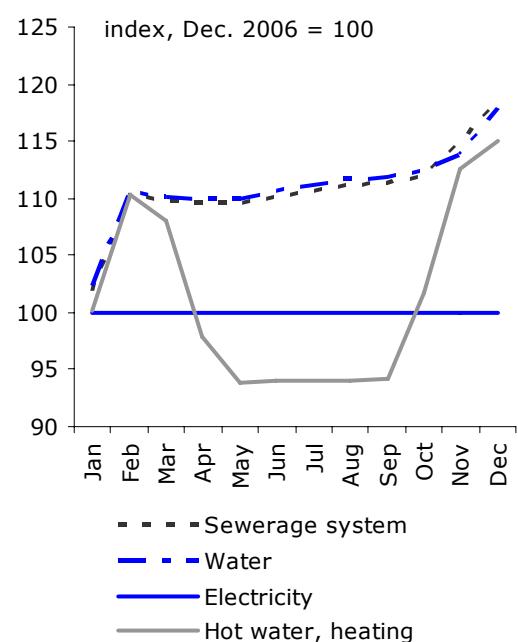
At the same time, utility sector still has no independent regulator, which would regulate the market and conduct tariff reform. In September 2007 the President adopted the Concept on improvement of natural monopolies state regulation that foresees the mandatory creation of independent regulatory bodies for natural monopolies. Although the same issues are covered by the Law "On natural monopolies", the Concept extends the law, suggesting to make such regulators more transparent and provide them with additional authority to determine price-setting procedures, grant licenses, and settle the disputes. To improve natural monopolies regulatory policy, the key issue is due implementation of effective legislation.

Tariffs. In 2007 utilities tariff regulation was changed. In particular, in October the Cabinet of Ministers adopted changes to the procedure of tariff formation on production, transportation, delivery of heat energy and central heating services^{xx}. The changes foresee introduction of tariff correction mechanism, set price cap regulation and create stimulus for resource saving. As according to the information of the Ministry of Housing and Utility Services current tariffs do not cover costs of services, the changes are definitely the



Source: Ministry of Transport and Telecommunications

Price indices for utilities in 2007



Source: Derzhkomstat

step forward. However, the important issue remains the implementation of the reform.

The planned increase of resident electricity tariffs was halted in 2007. To remind, in 2006 Ukraine introduced two resident electricity tariffs increases of 25% each in May and September. And the Government planned to further raise tariffs in 2007 to levels sufficient enough to cover the cost of electricity production, distribution and transmission. It was envisaged that tariffs would go up by 25% each half a year until the cost covering level would be reached in April 2008. But strong opposition from trade unions forced the Government to revise these plans. Thus, now resident tariffs cover 60% of costs compared to just 36% before first revision in May 2006. The recommended raise of resident tariffs to economically justifiable levels would lead to a decrease and, ultimately, the elimination of cross-subsidisation, allowing distribution companies to expand their investment into maintenance and upgrades of transmitting and distributing facilities.

Balance of payments: Growing current account deficit is covered by significant capital inflow

According to the National Bank of Ukraine (NBU) in the nine months of 2007 the current account deficit enlarged and reached USD 2.2 bn (2.2% of GDP). It happened regardless of commodity export growth recovery and was attributed primarily to a strong rise in commodity imports (see *Commodity trade*). The additional factor contributing to persistence of the current account deficit was a sharp contraction of a positive balance of service trade to USD 0.05 bn in the first quarter due to the reduction in gas transit. Although, after nine months of 2007 service trade balance reached USD 2.0 bn, the increase was to the large extent seasonal as supported by high number of tourists.

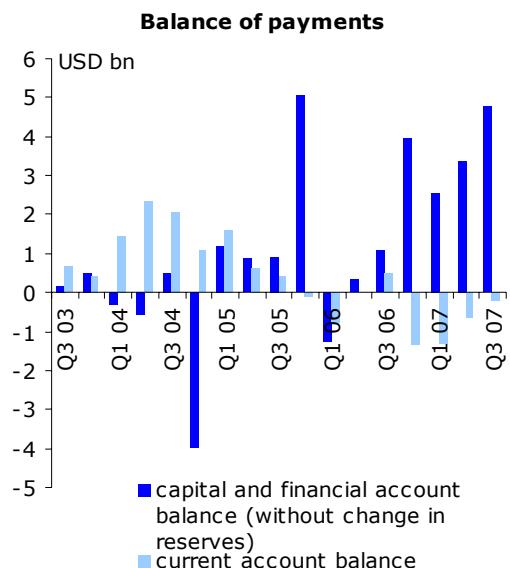
The sustainability of current account deficit was ensured by inflow of long- and medium-term capital. In particular, between January and September 2007 the net foreign direct investment (FDI) inflow was USD 7.1 bn. As of October 1, Germany remained the major investor into Ukrainian economy accounting for 21.4% of inward FDI stock. It is followed by Cyprus and the Netherlands that contributed 18.5% and 8.1% of the stock, respectively. As in 2006, the most attractive sectors for the FDI were services, in particular financial sector (34.7% of the inflow), real estate transactions, and business services. As of October 1, the FDI inward stock per capita reached USD 672, still significantly lagging behind other transition countries.

The nine-months net inflow of long- and medium-term borrowings reached USD 9.9 bn that is 2.3 times more than in the same period of 2006. Though banking sector remained the main borrower, accumulating 52% of net foreign borrowings (see *Banking*), the real sector also actively entered the market and, for instance, in the third quarter attracted USD 2.4 bn of net credits. The Government started selling Eurobonds only in the second quarter (see *State debt*). Those inflows have not only compensated the deficit of the current account, but also covered a USD 8.2 bn outflow of short-term capital and increase in international reserves by USD 7.5 bn in the nine months of 2007 (see *Monetary policy*).

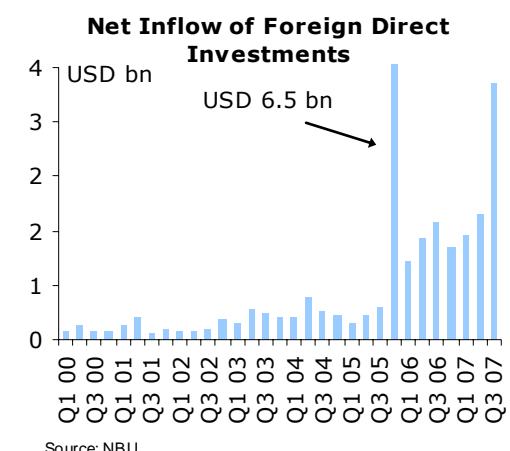
Commodity trade: Commodity trade remained in deficit

According to the Derzhkomstat, between January and December 2007 commodity export grew by 28.4% yoy in dollar terms, while import faced 34.7% yoy growth. Although export growth significantly accelerated during the year, high growth of imports led to further expansion of commodity trade deficit that reached USD 11.4 bn compared to USD 6.7 bn a year ago.

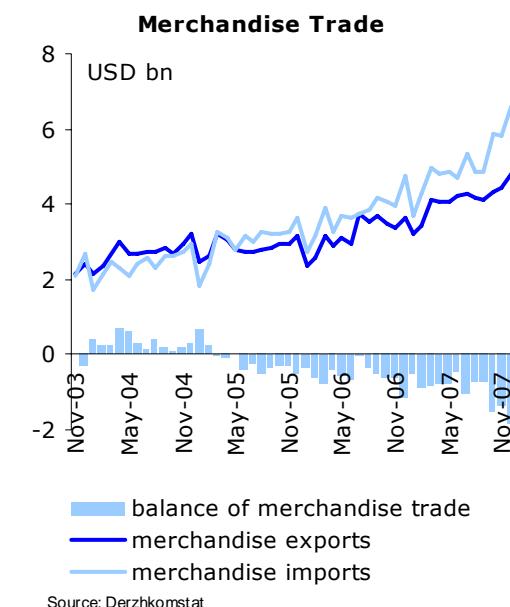
High export growth was maintained to the large extent by growth in exports of ferrous metals (28.2% yoy), machinery (49.5% yoy), and transport equipment (59.0% yoy), while favourable conditions on the world market contributed to the growth of exports of vegetable oils (76.9% yoy). At the same time, poor harvest and grain quotas (see *Agricultural policy*) led to the reduction of this category exports by



Source: NBU



Source: NBU



Source: Derzhkomstat



43.6% yoy. Strong domestic demand, both for consumption and investments (see *GDP*), and higher energy prices explain the growth of import value. In particular, imports of vehicles and associated transport equipment grew by 59.6% yoy, of chemical products by 36.7% yoy, and of mineral products by 27.9% yoy.

Geography of commodity trade remained almost the same, though the role of the CIS markets somewhat increased. Exports to the CIS countries grew by 47.0% yoy in dollar terms, while imports by 27.0% yoy, with Russia remaining the main single-country trading partner accounting for 25.7% of overall commodity exports and 27.8% of imports. Despite strong growth of exports, the deficit in commodity trade with the CIS was preserved due to much higher volumes of imports dominated by mineral products.

The EU as a single customs territory remained the largest commodity trade partner for Ukraine accounting for 28.3% of overall exports and 36.6% of imports. As in the case with the CIS, Ukraine remained the net importer as much higher growth rates of imports surpassing the growth of exports were preserved for the third year in a row. In 2007 the exports to the EU increased by 15.1% yoy in dollar terms, while imports grew by 37.2%, dominated by machinery and equipment.

WTO: WTO accession negotiations completed

In 2007 Ukraine *de-facto* completed the WTO accession negotiations started fourteen years ago. In May the Verkhovna Rada passed eleven laws required for harmonization of the legislation with the WTO rules and requests. The laws concern the VAT regime, genetically modified organisms, export tariffs, counterfactual products, among others. The request to adopt these pieces of legislation was formulated in early 2007 after the Working Party studied the laws passed in November-December 2006.

Also, Ukraine and the Working Party finally agreed on the aggregate measure of support (AMS) cap that includes 'amber' or subject to reduction subsidies at USD 0.6 bn. The AMS cap is based on 2004-2006. Ukraine will have to decrease its AMS by 20% over the 5 years transition period. As a result, the state support policy in agriculture is likely to be revised shifting towards more productive subsidies, for instance outlays to education, extension services, quality and food safety systems, etc.

In November Ukraine signed two last bilateral protocol on access to markets of goods and services with Kyrgyzstan and Vietnam. The latter became the member of the WTO only in early 2007 and then joint Ukraine's Working Party. Altogether, Ukraine signed 51 protocols on access to markets of goods and services.

The conclusion of negotiations was delayed from December 2007 to January 2008, as the EU unexpectedly put forward additional questions concerning export tariffs applied by Ukraine. The problem was resolved only in early 2008.

Migration: Ukraine intensified the migration policies in 2007

The role of Ukraine in international migration substantially increased over the recent years. Admitting the change, in July the Council of National Security and Defence passed the Decision on Guidelines of state migration policy^{xxi}, discussing the impacts of migration on Ukraine's development. The document contains the list of expected actions^{xxii}, including the proposal to the Cabinet of Ministers to create the administrative authority dealing with migration.

One of the most painful issues for Ukraine is a transit migration. According to World Bank report^{xxiii} Ukraine is ranked the fourth in international transit migration flows. In 2007 Ukraine and the EU signed and ratified the Agreement on readmission^{xxiv} directed on seamless and fast readmission of illegal migrants. The similar readmission agreement between Ukraine and Russia was signed in the end of 2006. Two agreements complement each other allowing

Commodity trade structure in 2007					
	Exports		Imports		
	USD m	% yoy	USD m	% yoy	
Total	49248.1	28.4	60669.9	34.7	
I - Live animals, animal products	747.2	88.5	771.4	18.9	
II - Vegetable products	1726.4	-11.5	860.5	28.1	
III - Animal or vegetable fats and oils and their cleavage	1718.0	76.9	388.2	103.1	
IV - Prepared foodstuffs	2056.2	47.5	2090.9	26.4	
V - Mineral products	4275.2	10.4	17280.4	27.9	
VI - Products of the chemical or allied industries	4047.2	19.5	5316.5	36.7	
VII - Plastics, rubber and articles thereof	987.1	22.9	3412.9	35.0	
VIII - Leathers, skins and articles thereof	394.1	28.6	159.5	17.0	
IX - Wood and articles thereof	827.2	37.2	374.5	41.3	
X - Pulp, paper, paperboard and articles thereof	767.7	28.8	1523.0	29.8	
XI - Textile and textile articles	990.3	8.2	1487.0	8.9	
XII - Footwear, headgear, umbrellas	148.6	14.1	217.9	-19.2	
XIII - Articles of stone, plaster, cement, asbestos, glass	358.7	40.4	991.6	34.3	
XIV - Precious and semi-precious stones and metals	147.5	19.0	269.2	55.2	
XV - Base metals and articles of base metal	20787.3	26.5	4742.7	42.5	
XVI - Machinery and mechanical appliances, electrical equipment	4976.6	49.5	10571.7	34.2	
XVII - Vehicles, aircraft, vessels and associated transport equipment	3304.7	59.0	8216.6	59.6	
XVIII - Instruments and apparatus	202.3	32.9	1008.5	44.9	
XX - Miscellaneous manufactured articles	360.1	30.6	594.5	34.1	
XXI - Works of art, collectors' pieces and antiques	2.1	193.7	3.6	1.1	
Goods purchased at ports	41.5	50.9	323.5	20.7	
Other	382.1	2.4	65.5	-0.4	

Source: Derzhkomstat

Ukraine to pass illegal immigrants to Russia, thus preventing long retentions in Ukraine. Still, the EU committed to finance the creation of illegal migrants' retention centres in Ukraine. The centres will deal with the illegal migrants who will re-enter the territory of Ukraine in accordance with agreement on readmission. In 2007 financing of these centres amounted to EUR 10 m, accounting for one third of the resources planned for the whole period of program financing.

The readmission agreement was signed together with the agreement on the EU visa facilitation for Ukrainian citizens^{xxv}. It envisages new procedure of obtaining visa and defines the groups of people entitled for free of charge visa or longer visa period. The agreement on visa regime is expected to facilitate legal migration flows.

The European convention on status of labour migrants^{xxvi} ratified by Ukraine in 2007 is another important step in facilitating legal migration. The convention includes the obligation of foreign employers to provide migrants with the same working conditions as native-born employees and a range of additional possibilities for migrants, such as possibility to take a family to the country of work while having enough financial resources. The convention, the adoption of which was one of cornerstones of the EU-Ukraine Action Plan – could significantly improve the position of the Ukrainian migrants, but only of officially registered.

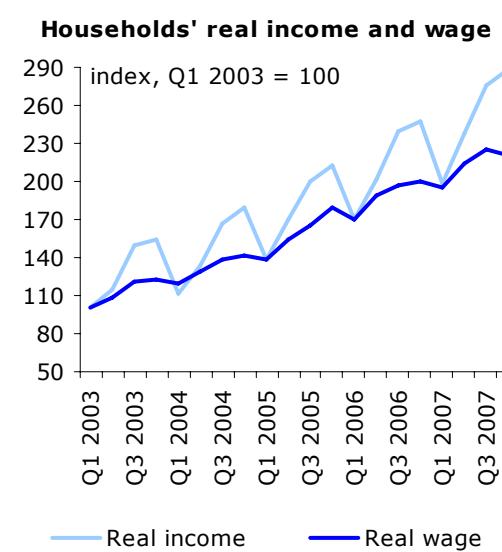
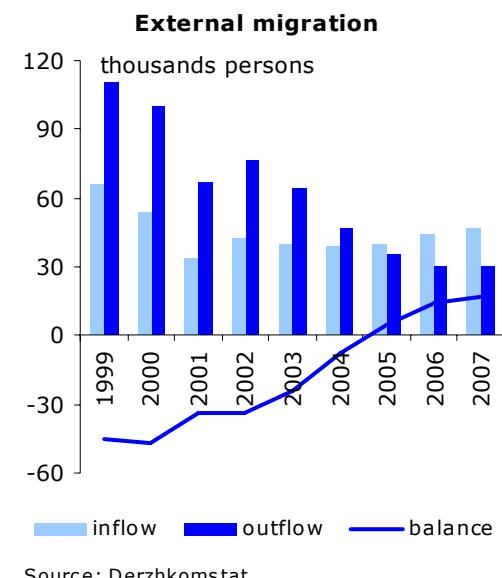
Among other international documents coming into force soon is the European convention on counteraction human trafficking. As this problem is especially acute for Ukraine, in 2007 the Cabinet of Ministers approved the National program against human trafficking^{xxvii}. The document contains the plan of actions, including legislation monitoring, dissemination of information about human trafficking, control over the activities of recruitment and tourist companies, and search of victims and their rehabilitation.

Wages and incomes: Household incomes continued growing rapidly

In 2007 Ukraine kept high consumption growth (see *GDP*), supported by continued growth of households' incomes and consumption credits. In 2007 real households' income grew by 16.7% yoy as compared to 19.1% in 2006. This growth was backed by growth of all income components.

In particular, during 2007 of the year real wages increased by 15.0% yoy, although slowed down as compared to 21.3% yoy rise in the same period of 2006. The average wage in December reached UAH 1675 (USD 332). The slowest wage growth was in state administration, mainly due to statistical base effect as the sector witnessed the record growth in 2006. At the same time, other sectors relying on budget financing, in particular education and healthcare, faced the acceleration of wage growth in the second half of 2007 mostly due to the implementation of the second stage of the Unified Tariff Scale (see *Social sector*). In industry, the real wage growth somewhat slowed to 13.6% yoy as compared to 15.0% yoy last year. The deceleration could be attributed to further redistribution of funds from wage payments to other needs stimulated among others by increased energy costs. The wages were growing at the maximum pace in financial sector, which pays the highest wages (UAH 3676 in December 2007). Though wage growth in agriculture was among the highest, the wages in this sector remained the lowest at UAH 876 in December.

Wages incomes, though growing at a slower pace than in 2006 (15.5% yoy and 26.9% yoy, respectively), remained the primary source of household income, accounting for 42.7% of total households' income. The social payments and current transfers grew by 13.1% yoy, which is 2.0 p.p. higher than a year ago. The growth rates of incomes received from agricultural and entrepreneurship activities decelerated in the second half of the year most likely due to the bad-harvesting season. Due to the rapid increase of property incomes (55.9% yoy), their share in total income increased to 3.4%.



Labour market: The unemployment rate fell to 6.2%

Thanks to high economic activity in the country, the situation on the labour market gradually improves. According to the Derzhkomstat the level of economic activity in first three quarters of 2007 increased and reached 63.0% of population aged 15-70 comparing to 62.3% a year ago. Also, the level of unemployment (ILO methodology) fell to 6.2% of people aged 15-70 years between January and September, which is 0.2 p.p. lower than in the same period of 2006. Moreover, the decrease in unemployment was accompanied by a considerable rise in wages (see *Wages and incomes*).

Despite the improvements, the labour market development was rather uneven spotting several important problems, like high unemployment among youth, in rural areas, the mismatch in demand and supply for certain professions. In April 2007 the Cabinet of Ministers (CMU) passed the Order on realization of the state employment policy^{xxviii}, aimed at reduction of unemployment and its duration, improvement of labour force quality, and de-shadowing of employment. Among listed actions the most important is the monitoring of the demand for employees of certain professions and the altering of the quantity of publicly financed education places accordingly.

Also, to cope with the mismatch of demand and supply of labour force the Ministry of Labour and Social Policy, and the Ministry of Education passed a Decree on professional training and retraining^{xxix}. It envisages coaching registered unemployed by the State Employment Office to gain necessary skills of work with new equipment and to get acquainted with new technologies, work organization, and basics of entrepreneurship. The coaching is aimed at improving labour force quality and changing it according to the requirements of technological progress.

Yet other point of concern was the labour situation in rural areas, addressed by the CMU Decree on the National program of rural development^{xxx}. Among others, the Decree targets the reduction in rural unemployment via infrastructure development and higher investments into agriculture, raising the attractiveness of rural areas.

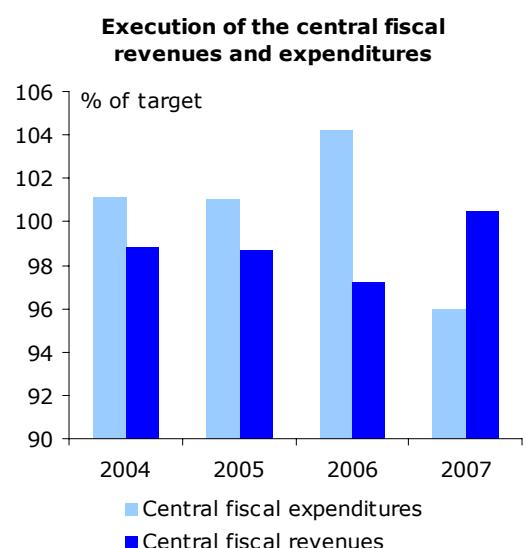
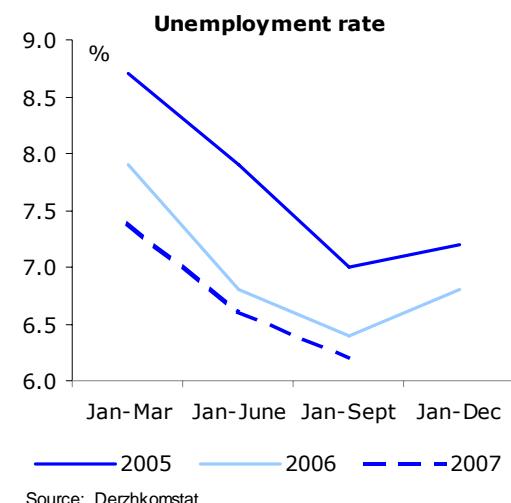
Fiscal policy: continued growth of social expenditures and tax reform postponement

Approval and amendments to State Budget 2007. In December 2006 the President from the second attempt signed the State Budget Law for 2007 after the Parliament passed the resolution promising the revision of social standards in the first quarter of 2007. Initially, the central fiscal revenues and expenditures were planned at UAH 147.9 bn (24.9% of GDP) and UAH 161.8 bn (27.2% of GDP), respectively. The central fiscal deficit was 2.6% of GDP.

During the first half of 2007 the government amended the State Budget Law 2007 several times. In March the Parliament approved the first amendments. The central fiscal expenditures were raised by 4.7% to UAH 169.4 bn to fund increased minimum wages and subsistence minimum. It was planned to finance it partially from higher the central fiscal revenues that were increased by UAH 4.6 bn due to higher than officially estimated economic growth during the first two months of the year. At the same time, the planned fiscal deficit was increased by UAH 2.9 bn to 2.9% of GDP. This increase was projected to finance from the funds accumulated at the unified treasury account.

In May the Parliament approved the second amendments. Central fiscal revenues were increased by UAH 3.7 bn, which were to be received from VAT and enterprise profit tax, UAH 3.3 bn and UAH 0.4 bn respectively. The additional funds were directed for wage increases in public sector and higher social payments.

On May 30, the Parliament agreed another turn of budget amendments mostly related to financing of pre-term Parliament elections and compensation of agrarians' losses. As a result, central



fiscal expenditures were increased by UAH 1.2 bn, which had to be financed at the expense of increased VAT collection (UAH 0.8 bn) and funds at the unified treasury account (UAH 0.4 bn). The amount of central fiscal deficit was not changed.

So, the budget process 2007 followed the previous year tendency of social spending increases during the budget year.

Budget 2007 execution. In 2007 the central fiscal revenues were executed at 100.5% of the plan. In particular, the revenues from enterprise profit tax (EPT) were over-executed by 17.7% due to strong growth of enterprises profits. Moreover, extra revenues were received from taxes on international trade, which were above the target by 4.9%. The transfers of profits of state-owned enterprises to the state coffers exceeded the plan by 20.3%. At the same time, the revenues from VAT and excises on domestic products remained below the target (by 7.6% and 4%, respectively). The VAT under-execution was partially attributed to the provision of tax credit to the National JCK 'Naftogaz Ukraine'.

Traditionally, the execution of central fiscal expenditures improved by the end of year and reached 96.0% of the plan. Financing of education and social protection, as well as transfers to local budgets had the highest execution rate. Furthermore, execution of the central fiscal expenditures on utility sector, which was below 50% during eleven months of the year, significantly improved in December and reached 91.3% of the annual target.

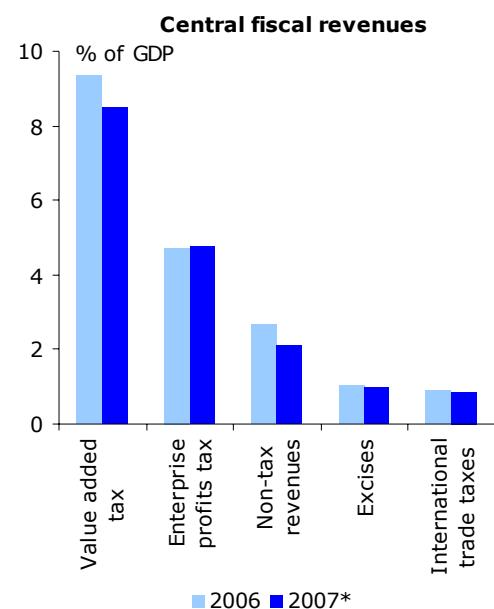
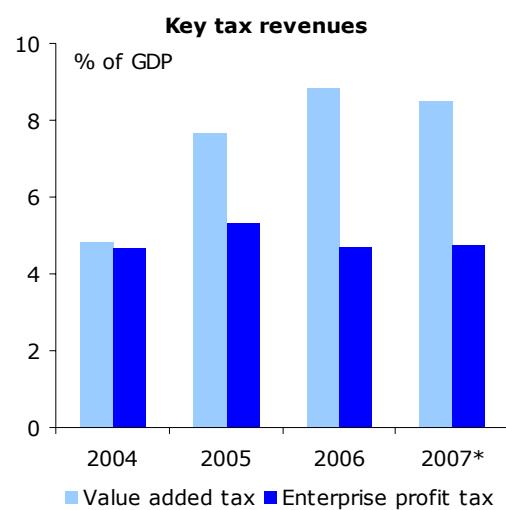
The resulting central fiscal deficit reached UAH 11.4 bn or 1.8% of GDP. The deficit was mainly financed at the expense of funds accumulated on unified treasury account and borrowings (see *State Debt*) as the privatisation receipts were executed only at 23% of the annual target (see *Privatization*).

Approval of State Budget 2008. The approval of the Budget 2008 was heavily determined by the political process in the country. The pre-term Parliament elections were held at the end of September, and the new Government was formed only in December. The new Cabinet of Ministers submitted a revised draft Budget to the Verkhovna Rada only on December 26. During only one day, i. e. on December 28, the Parliament approved the Budget 2008, thus breaking the procedures defined in the Budget Code.

For 2008 the central fiscal revenues and expenditures are planned at UAH 215.4 bn (24.2% of GDP) and UAH 232.4 bn (26.1% of GDP), respectively. The central fiscal deficit is envisaged at 2.1% of GDP and is to be financed by borrowings (UAH 10.0 bn) and privatisation receipts (UAH 8.9 bn). At the same time, the government expects over-execution of the privatisation receipts by UAH 12 bn, which are to be spent for repaying devalued savings in the Oshchadbank. If so, the expected central fiscal deficit could *de-facto* reach 3.4% of GDP.

The fiscal parameters for 2008 are based on the numerous amendments to around a hundred of legislative acts approved as a separate chapter of the Budget 2008. At the same time, the zero VAT rate for the agricultural producers will be abolished only in the year following the joining the WTO by Ukraine.

The new Cabinet of Ministers did not revise the already high social standards foreseen in the Draft State Budget Law prepared by the previous Government. The compensation of devalued savings in Oshchadbank – one of the key social promises of Yulia Tymoshenko Bloc's election campaign – has been only partially addressed in the Budget 2008. It is planned to direct UAH 6.0 bn for cash compensations. Also, in addition to the economically questionable repayment of savings from an expected over-execution of privatisation receipts, the government plans to introduce the procedure, according to which individuals would be able to use the devalued savings in Oshchadbank for utility payments and for the purchase of domestically produced goods. While the first type of payments might worsen transparency, the implementation of the second remains very unclear.



Thus, the adopted Budget 2008 retained its high social bias, while the execution of the privatisation plan remains very challenging and uncertain. According to the adopted Budget Law, the amendments to the State Budget-2008 are to be submitted by March 1, 2008 (due to parliamentary crisis approval of the amendments was postponed to April). Thus, the current Budget is by definition of a temporary nature.

Tax reform. In February the Government approved the Concept of Tax System Reform for 2007-2015 that foresaw the adjustment of Ukrainian tax legislation to the EU standards by 2015. Also, the Concept envisaged the simplification of tax administration and tax rates reduction. The EPT rate was planned to go down from current 25% to 20%. Another important suggestion was an annual 1 p.p. reduction of the VAT rates up to 17% in 2010 and increase in excise and resource payments rates. The tax reform priority was given to the stimulation of innovation and investments via tax privileges on VAT and EPT. Also, the document envisaged the reform of local taxes, including property tax introduction.

The Concept became the starting point of tax reform initiative. The Tax Code was presented by the Government in October 2007. It was mainly based on the Concept except property tax, promised in the Concept but not included in the Draft Code. The approval of the Tax Code planned for 2007 was postponed due to political turmoil.

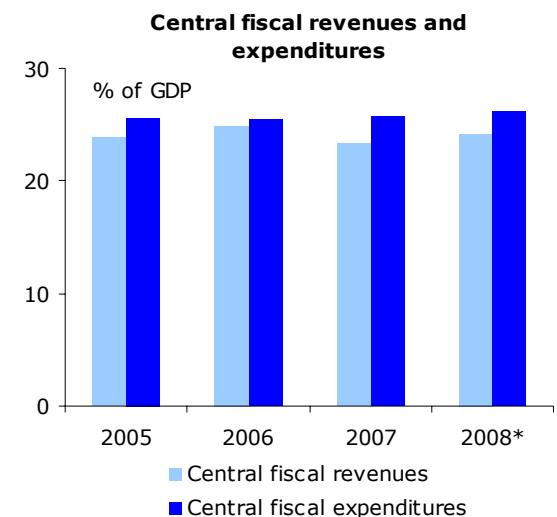
Local budget reform. In May 2007 the Cabinet of Ministers approved the Concept of Local Budgets Reform, declaring the main principles of inter-budgetary relations. The reform envisaged the improvement of local government performance, introduction of new revenue sources, and the revision of the methodology of subvention calculations. The share of local revenues in consolidated fiscal revenues was to grow by 1-2 percentage points annually. Also, the reform foresaw the introduction of medium-term expenditure planning, and separation of expenditures for own and delegated tasks. The reform was planned to be introduced in two stages: 2007-2008 and 2009-2011, improving sustainability of local government and solving the urgent problems of regional development. Unfortunately, in 2007 the reform was not started.

The State Budget 2008 does not follow the main principals, envisaged in the Concept, in particular, promotion of local financial autonomy, fiscal decentralization and transparency of formation and execution of local budgets. Besides, the inter-budgetary transfer distribution formula remained unchanged though the Concept foresees its change. Though, the positive feature of the State Budget 2008 is the improvement of taxable capacity index for local budgets revenues.

Social sector: Social privilege financing will remain non-transparent in 2008

Social standards in 2007. In March 2007 according to the amendments to the State Budget Law for 2007 the subsistence minimum and minimum wage were revised upwards. By October, the minimum wage and average subsistence minimum reached UAH 460 and UAH 532, respectively. The minimum pension was defined at the level that is 1% higher than the subsistence minimum for people that lost their ability to work (UAH 415 in October). Thus, the government has returned to the harmful practice of the revision of social standards and minimum wage during the budget year. At the same time, the government has not increased levels of social assistance to low-income households, disabled individuals, and other vulnerable groups, which are set at so-called guaranteed levels of subsistence minimum.

Social standards in 2008. The Draft State Budget Law for 2008 foresees further gradual increase in social standards, including minimum wage, subsistence minimum, minimum pension and other social payments. At the same time, important social payments will remain *de-facto* at low level. In particular, the payments to low-



* Government plan

Source: the State Treasury reports, the State Budget Law for 2007 with amendments, the State Budget Law for 2008.

Local fiscal indicators (% of consolidated budget)

	2006	2007	2008*
Share of local revenues including transfers in consolidated fiscal revenues	46.3	48.7	45.9
Share of local revenues net of transfers in consolidated fiscal revenues	22.2	28.5	26.9
Share of total local expenditures in consolidated fiscal expenditures	43.2	46.4	43.8

Source: the State Treasury reports, the State Budget Law for 2007 – 2008.

* Consolidated fiscal revenues and expenditures are taken from the State Budget Law Draft for 2008

Subsistence minimum in 2008 (UAH)

	from January	from April	from October
General level	564	573	586
For children less than 6 years old	508	516	528
For children of 6-18 years old	633	643	658
For working able individuals	602	611	626
For individuals that lost ability to work*	446	453	464

* minimum pension level

Source: the State Budget Law for 2007 with amendments, the Draft State Budget Law for 2008.



income households will again depend not on the subsistence minimum level but on its guaranteed level. The growth rates of social payments are foreseen higher than in 2007. On the one hand, higher social standards will stimulate growth of income and thus real consumption. On the other hand, they will also increase already high inflationary pressure.

Childbirth grants in 2008. In 2008 childbirth grants will be raised with the differentiation of their size depending on the number of children in the family. The grants are to be paid during certain period. This measure is aimed at improvement of the demographic situation in Ukraine, which is characterized by the negative balance of birth rates with mortality rates. At the same time, as the previous evidence of higher childbirth grants indicates, this step is not sufficient. The Government should also increase payments for taking care of children, as well as implement reforms in education, including pre-school education, and healthcare, and improve access to housing.

Wages in public sector in 2007 and 2008. To increase wages in public sectors, in particular education and health care, in May the government allocated UAH 4.2 bn for implementation of the second stage of the Unified Tariff Scale. As a result, the wage difference between the highest and the lowest paid employees was to increase from 3.35 to 3.93 times, which results in higher wage differentiation of public employees based on their qualification (see *Wages and incomes*). The third and last stage of the Unified Tariff Scale is to be implemented in November 2008, which would further increase wages in public sectors important for human capital accumulation.

Social privileges. In July 2007 the Constitutional Court of Ukraine published its decision on the unconstitutionality of the articles of the State Budget Law for 2007 that cancelled privileges for public sector employees and military personnel, reduced payments to war veterans, restricted pension payments of those under the retirement age, etc. This decision *de jure* renewed numerous privileges, which were suspended for 2007. However, these privileges *de facto* remained cancelled or terminated due to several reasons. First of all, there was no effective Parliament to amend the State budget Law and allocate the necessary spending. Second and more important, the execution of the decision was *de facto* impossible, as according to the government estimations, the implementation of the Constitutional Court's decision would require UAH 70 bn (44.5% of the central fiscal revenues in 2007). For 2008 the government planned to amend the legislation on some social privileges. In particular, it was foreseen to limit groups of eligible individuals by the income level at 1.4 times subsistence minimum set for working able individuals. Besides, the text contained the vague article, according to which privileges to certain occupation groups are to be financed in the limits of budget appropriations to the respective budget entities. This article substantially restricted financing of these privileges. Therefore, in 2008 the privileges financing could be lower, but rather non-transparent.

Pension system: Pension Fund Budget is planned to be balanced in 2008

In 2007 the Government approved the budget of the Pension Fund twice due to the minimum pension revision during the year. After the updating, the Fund's budget was approved with zero deficit and expenditures at UAH 95.6 bn (13.7% of GDP). At the same time, central fiscal transfer to the Pension Fund was planned at UAH 24.9 bn, from which UAH 13.1 bn^{xxxii} were foreseen to be spent for different state pension programs and UAH 10.4 bn for financing pensions to military pensioners and retired judges. Thus, the high central fiscal transfer were not related to the Fund's deficit.

According to the Ministry of Labour and Social Policy, between January and December the average monthly pension increased by 30% and reached UAH 590 due to gradual minimum pension increase and several recalculations of pension payments made by the

The level of guaranteed subsistence minimum level (UAH)

	2007	2008
For working able individuals	121.0	133.0
For individuals that lost ability to work	170.5	187.5
For disabled	181.5	200.0

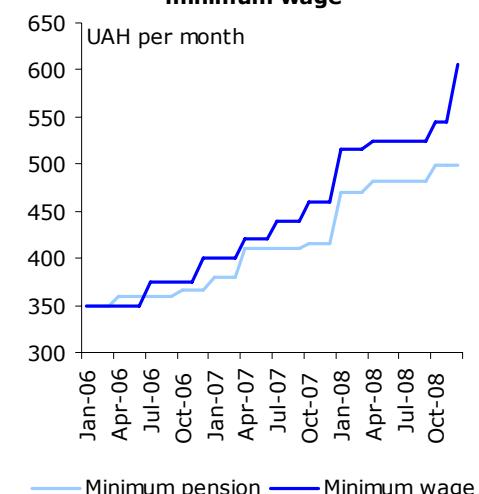
Source: the State Budget Law for 2007 with amendments, the Draft State Budget Law for 2008.

Childbirth grants

	Amount (UAH)	First payment (UAH)	Duration of payment (months)
1 st child	11700	4800	12
2 nd child	25000	4840	24
3 rd and next child	50000	5000	36

Source: the Draft State Budget Law for 2008.

Monthly minimum pension and minimum wage



Source: the State Budget Laws for 2006, 2007 and 2008

Pension Fund. As a result, the average pension exceeded the minimum one by 42% compared to 25% in 2006, indicating higher differentiation of pensions. The trend is likely to accelerate in 2008 due to higher minimum pensions as well as planned increase an importance of seniority in computing pension benefits.

According to the State Budget Law for 2008, the budget of the Pension Fund is to be balanced in 2008. The central fiscal transfer remains high at UAH 34.8 bn, from which UAH 20.9 bn are foreseen for financing different state pension programs, UAH 12.7 bn for paying pensions to military pensioners and retired judges, and UAH 1.2 bn for compensating the Pension Fund for the losses caused by lower contributions envisaged by fixed agricultural tax scheme. The Government restricted the maximum size of pension benefits by 12 sizes of minimum pensions (UAH 5640 as of January 1, 2008). At the same time, the pensions of retired members of the Cabinet of Ministers, people deputies, and prosecutors were capped with UAH 10 thousands. Such restrictions, though being a positive step, are still rather high as compared to the average pension level in Ukraine and are likely to have limited impact on the Fund's expenditures.

Privatisation: Privatisation remains one of the fiscal risks

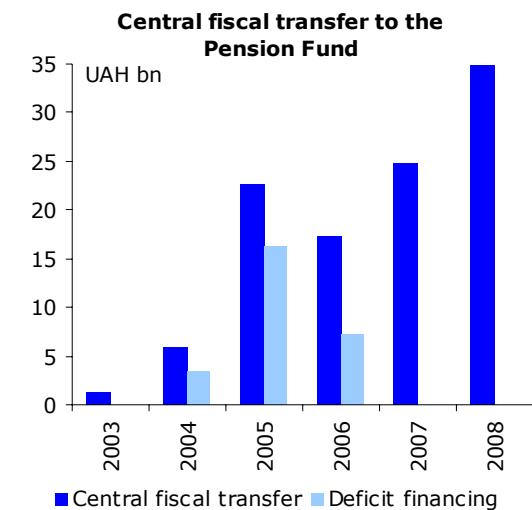
Execution in 2007. The Budget Law 2007 foresaw quite ambitious plan for privatisation receipts at UAH 10.6 bn, but it failed. The list of objects proposed to investors included such attractive enterprises as chemical enterprise "Odessa by-port plant", telecommunication company "Ukrtelecom" as well as small companies, including shares in "oblenergoes". Nevertheless, the privatisation receipts brought to state coffers only UAH 2.45 bn or only 23% of the planned amount. Receipts from other activities of the State Property Fund of Ukraine (SPFU) amounted to UAH 3.1 bn.

The objects, the sale of which had to be most profitable, such as JSC "Odessa by-port plant"^{xxxii} and JSC "Ukrtelecom", were not sold. The SPFU planned to sell 99.54% of the Odessa by-port plant shares at the auction and 42.86% of the JSC "Ukrtelecom" shares on the stock markets (5% on the national and 37.86% on international stock markets)^{xxxiii}. But political instability in the country hampered the property transformation. In autumn the President suspended the privatisation of the JSC "Odessa by-port plant" citing the need to ensure economic and ecological stability in the sector. The failure to sell the JSC "Ukrtelecom" shares might be partly explained by the Government decision to keep the control shareholding of the telecommunication operator. The SPFU managed to sell only 0,07% of the JSC "Ukrtelecom" shares for UAH 15.5 m. Thus, both objects could be sold during 2008 privatisation campaign.

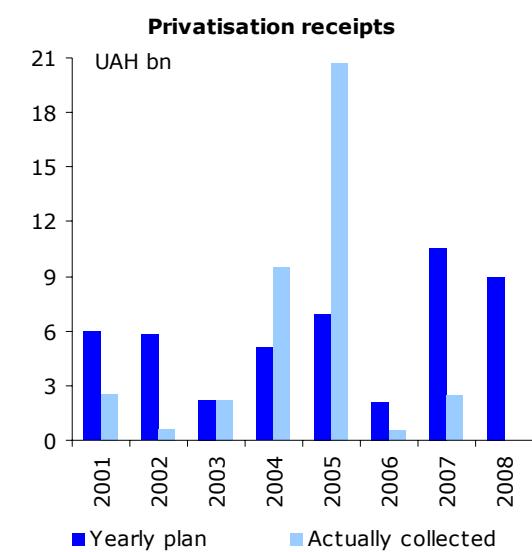
The sale of the declared minority shareholdings of oblenergoes was complicated by the absence of the state concept of energy sector reform. In April 2007 the Government passed the decision to sell shares (25-27%) of six oblenergos by 2008^{xxxiv}, as well as to sell stakes in 16 energy companies, and issue additional shares in 8 companies during next several years. But in September the President suspended the sale of oblenergoes, claiming that such decision was the threat of bankruptcy and worsening of the financial state of the NJSC "Energy company of Ukraine".

The procedure of selling non-agricultural land lots, which are in the state property and on which objects for privatisation are situated, was first applied only at the end of 2007. In November took place the first auction, where the big object was sold together with the land lot. The sale price was UAH 108.8 thousands, including land lot (UAH 39 thousands). The main difficulties were in cooperation with local government and unclear issue of licensing the land haggle. So, the procedure, which might be quite profitable for the budget, does not work because of the regulatory imperfection.

Out of the sale of the 76 state-owned shareholding in 2007, the most disputable object was the privatisation of the locomotive building



Source: State Budget Laws for 2002-2008



Source: State Treasury reports

company "Luganskteplovoz". The purchase price was UAH 292.5 m, only UAH 0.5 m more, than the start price of the object. Immediately after the tender the procedures started challenging the fairness of the competition and tender conditions. Only two companies both belonging to Russian company "Transmashholding" out of four bidders were allowed to participate in the competition. The official buyer of the object was "Bryansk machine-building plant".

Thus, the execution of the privatisation plan failed for the second years in a row. The privatisation policy of the recent years in Ukraine has not favoured the property transformation, and the SPFU activities have shifted towards property management. Also, the privatisation plan was slowed by the absence of the State privatisation program in the country.

Regulatory framework. The Law "On the State Property Fund of Ukraine", quickly passed in times of political instability, was not signed by the President. Though, this Law would be very important for setting the official status of the SPFU and regulating its activities, ensuring effective functioning of the check and balances system in the country. In autumn the SPFU adopted the Order of its activity^{xxxv} according to the list of its duties, formulated in the aforementioned Law. The Order defines the SPFU as the central executive authority with special status, which has the privatisation and state property management functions. Certain positions of the Order concern the cooperation with other authorities. The formulation of the clear legislative framework of the SPFU activity should contribute to the successful privatisation policy in Ukraine.

Plans for 2008. The Budget Law 2008 foresees privatisation receipts at UAH 8.9 bn (0.96% of GDP). Besides, the government expects over-execution of the privatisation receipts by UAH 12 bn, which are to be directed to the compensation payments of devalued Oshchadbank savings. Thus, the government intends to receive around UAH 20 bn from 2008 privatisation campaign.

It is likely that such "blue chips" as the JSC "Ukrtelecom", the JSC "Odessa by-port plant", and the JSC "Turboatom" will be finally privatised. That would help to ensure the execution of privatization plan. The Ukrtelecom's price might be sufficient to receive the planned amount of receipts (the government plans to sell 68% of the enterprise, the starting price of the shareholding is around USD 3 bn). Also, it is expected to receive a substantial share of revenues from the sale of non-agricultural land lots, which are in the state property and on which objects for privatisation are situated.

The Budget 2008 innovation is that the payment for the privatised object is allowed in the hard currency. This might also be an attempt to attract foreign investors to buy the Ukrainian property.

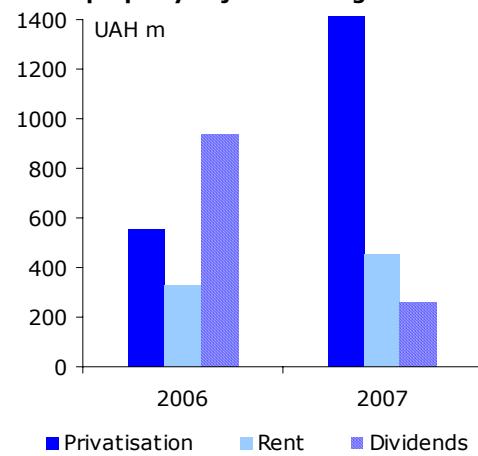
The success of the 2008 privatisation highly depends on the coordination of governmental actions, such as the approval of the privatisation program.

Property rights: The Government failed to fight raiding

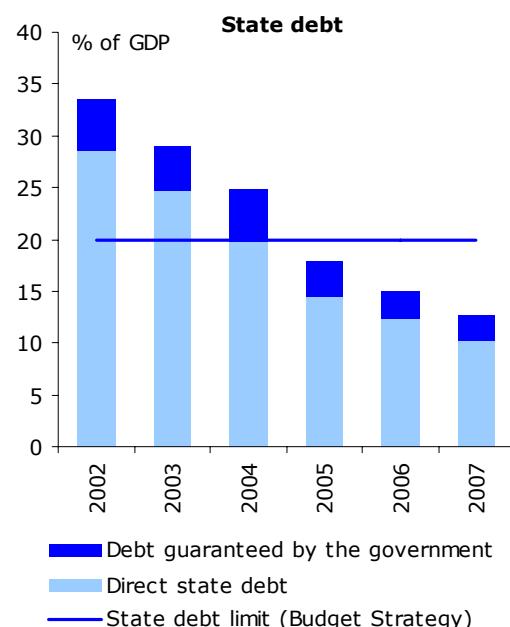
Raiding remained one of the most vitally discussed topics of the year, but only few attempts were made to combat this problem. In February 2007, the Cabinet of Ministers established the Commission on combating raiding^{xxxvi}, aimed at improving legislation, ensuring cooperation of law-enforcement bodies, information monitoring, and development of measures to counteract unlawful mergers. Necessity of the criminal responsibility in the case of raiding was stipulated in the Presidential decree.^{xxxvii} The Law "On amendments to several legislative acts on defining jurisdiction of cases on privatisation and corporate disputes" largely contributed to the specialization of judges and reduction of the misuse of judicial decisions in the property rights violation. Nevertheless, the number of raiding schemes and its occurrences seems not to decrease.

The President signed the Cooperation Memorandum with representatives of business. The sides expressed their readiness to favour the regulation of issues concerning procedures of privatisation

Receipts from privatisation and state property objects management



* Data on 13.12.2007
Source: the SPFU reports



Source: the Ministry of Finance
* estimated GDP figure for 2007

of strategic objects; competition for the control shareholding; cutting down the list of state-owned objects; program development for certain industries in order to attract investments and clarify the procedures of sale of leading enterprises; rejection of rating provisions, which limit the participation of investors in the competition; ensuring the transparency of privatisation. All these steps are very essential for granting an effective property structure in Ukraine.

State debt: The Government fulfilled the borrowing plan for 2007

In June the Ministry of Finance finally entered both domestic and foreign borrowing markets. In June Ukraine placed 5-year eurobonds at 6.385% yield. Issue size was reduced to USD 0.5 bn from previously planned USD 1.0 bn. Four months later, in November, the Ministry of Finance continued placing 10-year eurobonds on the Ireland stock exchange totalling USD 0.7 bn at 6.75% yield. So, the annual plan for external borrowings at USD 1.2 bn was fulfilled.

In June the Government also started to borrow money on domestic market. Till the end of 2007, the Government made a set of small issues of the state domestic bonds at total amount of UAH 3.6 bn, which is UAH 0.2 bn lower than annual plan for 2007. The weighted-average yield of these issues with the maturity from 1 to 4 year was 6.7%. At least the half of the issued bonds was bought by state banks. Although this fact may just reflect the willingness of the state banks to improve the asset structure, it may also occur that the practice of the state banks financing fiscal deficit returned.

Thus, the state debt policy orientation on external borrowings remained unchanged, accumulating significant risks for debt service costs in the future. Moreover, the orientation on external borrowings further delays the development of domestic state bond market, which could provide benchmark prices crucial for financial markets development. To increase domestic borrowings, the government should bring state bonds yield to levels attractive for investors.

Inflation: Consumer inflation accelerated to 16.6% yoy

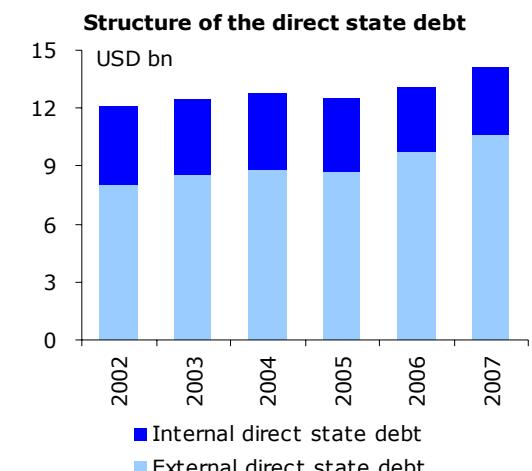
In December 2007 consumer prices increased by 16.6% yoy. Food that constitutes roughly the half of official consumer basket defined inflation dynamics in the country. In particular, food prices increased by 22.9% yoy showing the highest growth over the last seven years.

The severe drought and thus low grain harvest in Ukraine (see *Agro-food production*) contributed the most to the food price growth driving up prices for bakery, dairy and meat products. Yet another factor for higher prices was the clampdown on "grey" meat imports. The increased demand for agricultural products worldwide and lower world supply caused strong external demand and thus became the additional push factor for higher prices. Rising utility and transport costs contributed to higher prices of services that grew by 12.0% yoy.

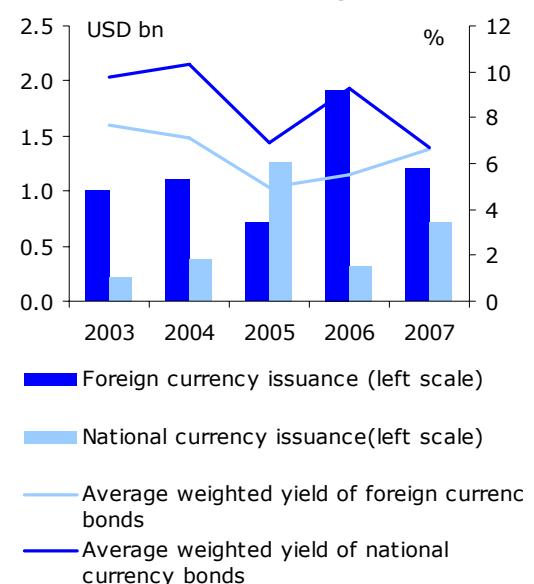
On the demand side, inflation was pushed up by high domestic households demand (see *GDP and Wages and incomes*), fostered by the increase of social standards (see *Social sector*). Also, strong capital inflows expanded internal demand as the NBU was accumulating international reserves and selling hryvnia. Moreover, high price volatility and poorly managed government anti-inflation campaign reinforced inflationary expectations. This resulted in increased demands for higher wages adding pressure on both demand and supply.

Monetary policy: Capital inflows fuel monetary expansion

Foreign borrowings, the FDI and portfolio inflows in Ukraine that more than compensated current account deficit caused high inflow of liquidity in Ukraine. Largely non-sterilised interventions of the NBU to support fixed exchange rate were in turn the main factor behind rapid growth of monetary aggregates in 2007. The NBU net



Issuance and average yield of state bonds in national and foreign currencies





purchases of foreign currency totalling USD 7.6 bn triggered growth of money supply by 52.2% and monetary base by 46.0%.

Thus, in the fourth quarter of 2007 the NBU turned to restrictive short-term measures to constrain money growth. First, the issuance of certificates of deposit (CDs) was increased to sterilize excess liquidity in the banking sector. While interest rates on sterilisation debt were very low until recently (1% p.a. for two-week CDs), the NBU started to sell the CDs more aggressively in November 2007, offering higher interest rates and raising the amount of sterilized liquidity. Second, mandatory reserve requirements on foreign currency borrowing by local banks from foreign financial institutions^{xxxviii} were extended, also dampening credit and money growth. Finally, the reference refinancing interest rate was revised upwards. On November 9, it was raised from 9.0% to 12.0% p.a. for secured loans, while another increase from 12.0% to 14.5% took place on December 11.

While these measures had positive short-term effect, fixed exchange rate regime seriously constrained their effectiveness in the longer term.

Foreign exchange policy: The NBU maintained fixed exchange rate in 2007

In 2007 the NBU continued policy of *de-facto* fixed exchange rate against the U.S. dollar despite strong appreciation pressures. Official U.S. dollar exchange rate remained unchanged at 5.05 UAH per USD, while inter-bank exchange rate was allowed to fluctuate in the tight band of 5.00-5.06 UAH per USD. As supply of foreign currency was larger than demand during the most of the year, the NBU had to conduct large interventions buying the excess supply into foreign reserves (see *Monetary policy*). As a result, the NBU nearly doubled international reserves to USD 32.5 bn that can pay for 4.5 months of future imports. Thus, the NBU created quite a large cushion to support exchange rate peg.

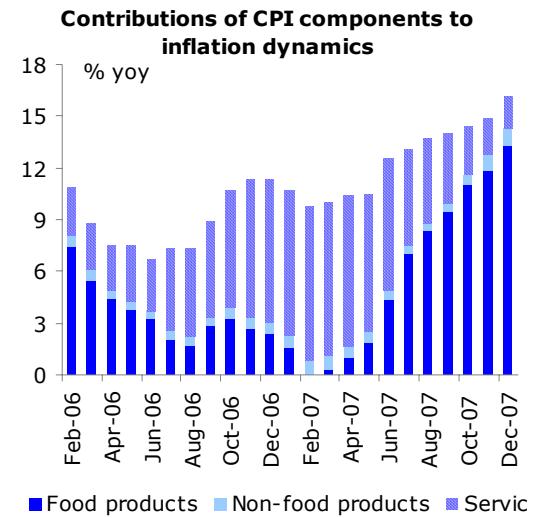
However, facing mounting currency risks the NBU indicated its desire to move to greater flexibility of exchange rate in 2008^{xxxix}. Moreover, already in December 2007 the NBU several times allowed inter-bank exchange rate to temporarily exceed the 5.00-5.06 UAH per USD band before intervening to support exchange rate. Thus, there is a reasonable probability of wider band in 2008.

Depreciation of the U.S. dollar against other major currencies that started in 2006 and continued in 2007 caused similar movement of UAH exchange rates against the main trading partners. In particular, hryvnia depreciated against euro, the currency of its main trading partner, by 10.3% in 2007. However, nominal depreciation of hryvnia did little to help export competitiveness as growing labour and inputs costs more than balanced any exchange rate gains.

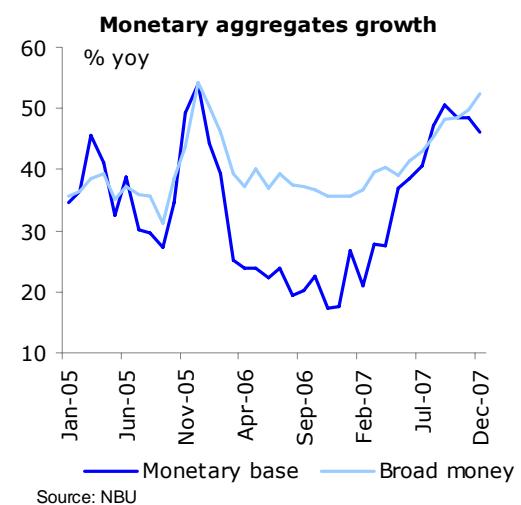
Financial markets: The NBU strengthens the security of banking system

Banking. In 2007 banking sector growth was among the highest in the economy. According to the NBU, in 2007 commercial banks earned UAH 7.1 bn compared to UAH 4.6 bn in 2006. Bank assets grew by 75.9% yoy mostly due to rapid increase in lending. Credit outstanding increased by 80.3%, with credits to households growing at higher rates (97.6% yoy) than credits to legal entities (64.7% yoy). This credit growth was partially financed by external resources, with the share of external funds in total bank liabilities reaching 28.8% as of October 1.

Despite declining dollarization level as the share of foreign currency in money supply dropped from 27.0% as of January to 23.9% as of December, increasing external liabilities raise concerns about quality of credits and dependence from external resources, aggravated by the severe turmoil on the world financial markets. To reduce the banking sector exposure to currency risk, the NBU introduced higher reserve requirements^{xl} for credits in foreign currency to borrowers



Source: own calculations based on Derzhcomstat data



Source: NBU



Source: NBU

without foreign currency income and for consumer loans. For some credit types reserve requirements were increased more than by 1.5 times. Also, commercial banks could assess credit risks for portfolios of similar consumer loans instead of classifying them individually.

Also, in autumn the NBU revised the regulation on the cost of external borrowing^{xlii}. Since January 1, 2008, the cap on the external borrowing cost should be set taking into account average yield on state Eurobonds, average spread between state and corporate Eurobonds, and rating of Ukrainian borrowers assigned by international rating agencies. Though, as the precise mechanism is not defined, the cap setting remains at the NBU discretion^{xliii}.

High credit growth rates forced the series of regulatory changes aimed at strengthening the security of the banking system. In addition to amended loan loss reserves described above, rules on real credit costs^{xliii} were adopted to deal with the credit quality. According to them, banks should inform customers about "real" (effective) annual percentage rate, which reflects all payments related to credit services, and total finance charge. This rate disclosure simplifies comparison of lending rates among different banks. Although the rules came into force on June 5, the question of implementation is still unclear. Moreover, there is still a discussion about who should supervise its implementation: the NBU or the Derzhspozhyvstandart, the authority responsible for consumer protection.

Rules for banks owing securities were also strengthened^{xliv}. Since March 15 "non-standard" securities should be backed by reserves. The reserves are formed according to the current quotes of the "non-standard" securities and risk prescribed to their rank. Reserves for state bonds and for investments in shares of credit bureaus, depositors, etc. are not required. Such innovations make banks invest more in state bonds and switch to safer securities, as long as these investments are cheaper and leave more freedom for operation.

The recent regulatory changes are expected to contribute to the safety and sustainability of the banking system, ensuring its security and providing backgrounds for further growth of the sector.

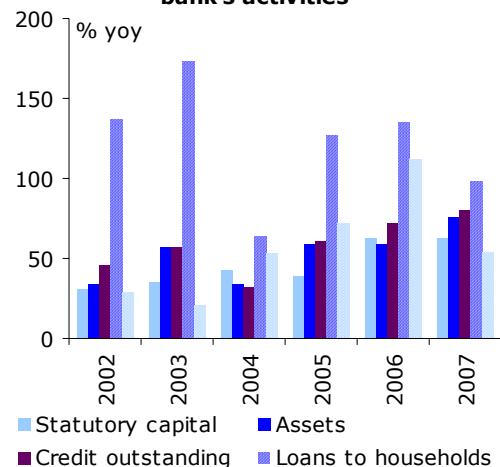
Stock market. During 2007 the Ukrainian stock market showed extremely high rates of growth and high resilience to politic shocks. The PFTS index increased by 137.8% yoy and reached 1183.72. There were no sharp declines in the PFTS index during the year. Even political turmoil and pre-term Parliament elections had no considerable impact on the stock market.

This growth could be partially explained by the inclusion of Ukraine into the list of the most attractive countries for investment in the beginning of 2007^{xlv}. In turn, this status was received thanks to high economic growth, rapid development of domestic industrial companies, as well as undervalued Ukrainian stocks, especially the shares of machinery and energy companies.

During the year several attempts were made to introduce innovations in a trading system. In May order-driven trading platform was introduced that allowed investors to submit multiple orders during trading. This innovation was expected to increase the number of deals on the Ukrainian stock market and improve its liquidity. Nevertheless, stock market participants almost did not use the technology, possibly due to inability to correct bargain conditions allowed only at quote driven market. Another attempt to modernize stock market technology was made in September when the first Internet transaction was held at the PFTS. This new way of trading is expected to increase trade turnover and market liquidity.

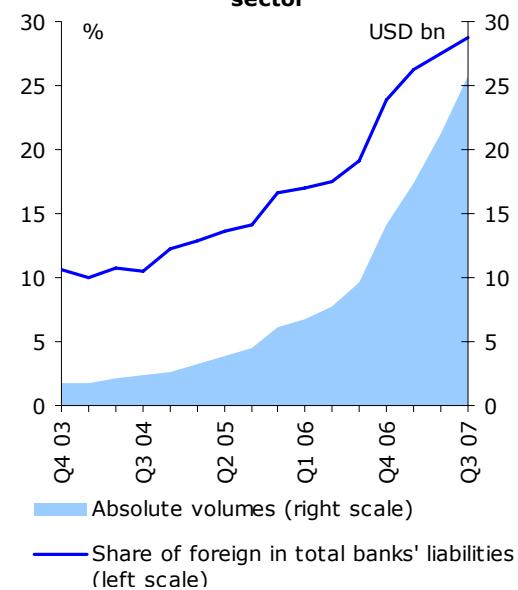
Reporting standards. In 2007 the Cabinet of Ministers adopted the Strategy on the introduction of international financial reporting standards in Ukraine, aimed at bringing the national financial reporting standards in compliance with international standards. According to the Strategy, the EU bookkeeping and financial account

Growth rates of selected indicators of bank's activities



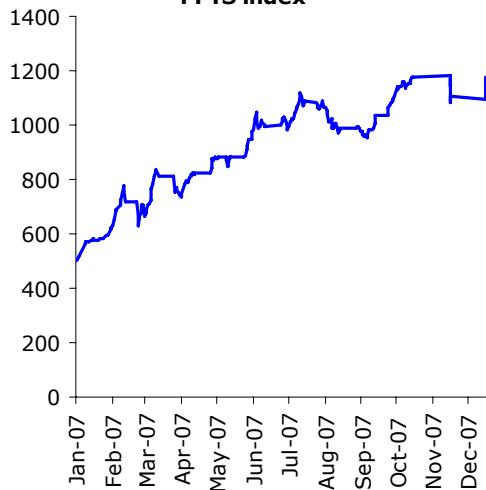
Source: the NBU

Foreign liabilities of banking sector



Source: NBU

PFTS index



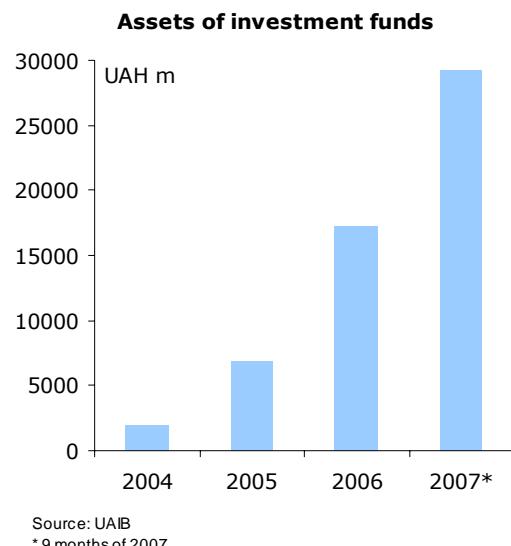
Source: PFTS



standards are to be implemented in Ukraine by 2010. If the standards are put into practice, that will positively affect Ukraine's investment climate and increase transparency of capital markets.

Investment funds. In line with other financial institutions, investment funds demonstrated record profitability. While the growth of the assets of mutual funds in 2007 was slower than a year before (70.5% yoy in the nine months of 2007 compared to 96.2% yoy in the same period of 2006), the profitability was much higher. Between January and September the profits of investment funds increased by 52.9% yoy compared to 33.1% yoy a year ago. The significant increase could be attributed to the overall high growth of stock market. Besides, during 2007 investment funds began to popularise their activity through regional branches, stock shops, and active advertising attracting many new investors.

In 2008 the profitability might fall, since according to the new PFTS rules the third-level securities were excluded from the listing. As securities in the first and the second levels have lower potential for price growth, the rules implementation may decrease income of financial intermediaries. Especially pension funds and insurance companies profitability could be affected, as these financial institutions are limited in purchases of unlisted securities.



- i 47 meat and milk enterprises exported their products to Russia before the introduction of a ban.
- ii The Cabinet of Ministers Resolution No.1418
- iii The Resolution No. 844 "On amendments of the Cabinet of Ministers of Ukraine resolution No.1852 as of 25th of December 2006", from June 20, 2007.
- iv The Resolution No. 1179 "On quotas volumes confirmation on the separate types of agricultural products, the export of which is subject to licensing till March, 31, 2008, and order of license delivery", from September 26, 2007.
- v See the Verhovna Rada's Resolution No. 921-V as of April 12, 2007
- vi The Cabinet of Ministers Decree No. 1854/2006, from December 29, 2006.
- vii The Presidential Decree No. 706/2007, from August 13, 2007.
- viii The Resolution of Cabinet of Ministers No. 1403, from December 24, 2007.
- ix The Resolution of the Ministry of Transport and Communications (MTCU), No. 246, March 29, 2007
- x The Resolution of the MTCU, No. 402, from May 15, 2007.
- xi The Resolution of the MTCU, No. 58, from January 27, 2007.
- xii The Resolution of the MTCU, No. 977, from October 29, 2007
- xiii The Resolution of the MTCU, No. 402, from May 15, 2007.
- xiv The Resolution of the MTCU, No. 321, from April 19, 2007.
- xv The Resolution of the MTCU, No. 1128, from December 6, 2007.
- xvi The Decree of the CMU, No. 1403, from December 24, 2007.
- xvii The Decree of the CMU, No. 971, from July 25, 2007.
- xviii The Decree of the President of Ukraine, No. 708/2007, from August 15, 2007.
- xix The Decree of the Cabinet of Ministers, No. 1403, from December 24, 2007.
- xx The Cabinet of Ministers Resolution # 1267, from October 24.
- xxi The Council of National Security and Defense of Ukraine Decision No. 657 "On the Guidelines of governmental policy in the sphere of migration in Ukraine and urgent measures on its implementation", from July 20, 2007.
- xxii The list of following actions includes: protection of rights of Ukrainian migrants, amendments of respective Ukrainian legislation according to EU requirements, regulation of migration inflows, approval of law, which is aimed to protect the rights of refugees etc.



- xxiii Manssor, A. and B. Quilin (eds.) (2007) *Migration and Remittances: Eastern Europe and the Former Soviet Union*. World Bank.
- xxiv The President of Ukraine Decree No. 121/ 2007 "Agreement between Ukraine and EU "On readmission" and Agreement between Ukraine and EU "On facilitation of visa-regime", from June 15, 2007.
- xxv The President of Ukraine Decree No. 121/2007 "Agreement between Ukraine and EU "On readmission" and Agreement between Ukraine and EU "On facilitation of visa-regime" June 15, 2007.
- xxvi The Verkhovna Rada of Ukraine Decree No. 755- V On ratification of European convention "On Status of Labor Migrants", from March 16, 2007.
- xxvii The Cabinet of Ministry of Ukraine Decree No. 410 "On National program against human trafficking for the period by 2010," from March 7, 2007.
- xxviii The Cabinet of Ministry of Ukraine Order No. 156-p "On approval of plan of actions in the field of realization in 2007-2008 years Main directions of governmental policy realization in the sphere of employment for the period till 2009 year", from April 13, 2007.
- xxix The Ministry of Labor and Social Policy, The Ministry of Education of Ukraine Resolution No. 1292/14559 "On Alteration of Rule of Fund's of social insurance for the case of unemployment provision of services of professional training, retraining and gaining qualification", from November 5, 2007.
- xxx The Cabinet of Ministry of Ukraine Resolution No. 1158 "On National target program of Ukrainian rural development for the period till 2015", from September 19, 2007.
- xxxi Including UAH 1.4 bn for compensating the Pension Fund for the losses caused by lower contributions envisaged by fixed agricultural tax scheme.
- xxxii The SPFU Order from April 16, 2007 N 605 "On defining the plan for distribution of JSC "Odessa by-port plant shares"
- xxxiii The SPFU Order from March 21, 2007 N 450 " On defining the plan for distribution of JSC "Ukrtelecom""
- xxxiv The Cabinet of Ministers Resolution #226-r of April 26, 2007
- xxxv The SPFU Order from October 10, 2007 No.1684 «On approval of the regulations for the State Property Fund of Ukraine»
- xxxvi The Cabinet of Ministers Order from 21.02.2007 No.257 „Interdepartmental Commission for counterfeiting illegal takeovers and capture of enterprises”
- xxxvii The Presidential Order from 12.02.07 No.103 „On measures for enforcement the private property protection”
- xxxviii The NBU Resolution No. 403 from November 8, 2007
- xxxix According to the statements of the NBU governor and chairmen of NBU council and other NBU officials in September-December 2007.
- xl The NBU Resolution No. 83 from March 19, 2007.
- xli The NBU Resolution No. 350 from September 27, 2007.
- xlii The current cap is LIBOR + 6.5 basic points, in line with NBU Resolution No. 270 from June 17, 2004.
- xliii The NBU Resolution No. 168 from May 10, 2007.
- xliv The NBU Resolution No. 31 from February 2, 2007.
- xlv The Report of the UN Conference on Trade and Development devoted to investment perspectives in 2007 - 2009



Economic Trends		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
GDP growth (real)	% yoy	9.3	7.9	7.0	7.6	7.7	7.8	7.2	5.8	6.2	7.0	6.9	...
GDP growth (real)	% yoy cum.	9.3	8.6	8.0	7.9	7.9	7.9	7.7	7.5	7.3	7.3	7.2	7.3
Industrial production (real)	% yoy cum.	15.8	13.4	12.5	12.5	12.1	11.8	11.2	10.9	10.7	11.0	10.7	10.2
Agricultural production (real)	% yoy cum.	6.9	5.6	5.0	3.4	2.4	6.3	5.5	-3.4	-5.1	-5.7	-5.7	-5.6
CPI	% yoy eop	10.9	9.5	10.1	10.5	10.6	13.0	13.5	14.2	14.4	14.8	15.2	16.6
PPI	% yoy eop	15.6	16.5	17.9	18.7	20.2	20.6	21.2	20.4	19.6	19.7	20.0	23.3
Exports (USD)***	% yoy cum.	37.2	34.5	33.0	35.3	34.4	32.9	31.9	30	25.7	27.4	27.9	28.4
Imports (USD)***	% yoy cum.	36.5	35.7	32.2	35.9	35.0	33.8	35	33.8	31.2	32.9	34.2	34.7
Merchandise trade balance	USD bn cum.	-0.5	-1.4	-2.2	-3.0	-3.8	-4.19	-5.25	-5.96	-3.71	-8.22	-9.59	-11.4
Gross international reserves	USD bn eop	22.4	22.4	22.9	23.5	24.7	25.9	27.3	28.9	30.6	31.7	32.8	32.5
Monetary Base	% yoy eop	26.7	21.7	27.7	27.7	36.9	38.4	40.6	47.2	50.6	48.5	48.4	46.0
Lending rate on UAH credits **	% pa, aop	14.2	13.9	14.0	14.1	13.4	14.1	13.9	13.3	13.8	13.7	14.0	14.4
Exchange rate (official)	USD aop	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Exchange rate (official)	EUR aop	6.57	6.60	6.68	6.81	6.83	6.77	6.90	6.87	7.00	7.18	7.40	7.36

SOURCES: Derzhkomstat, Ministry of Finance, NBU, IFS, own calculations

" Monthly figures are only for merchandise exports and imports (source: Derzhkomstat)

* Monthly figures do not include the regular quarterly revision of the GDP series

**Weighted average for different maturities (source: NBU)

*** Growth rate in dollar terms

Key Economic Indicators		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Nominal GDP	UAH bn	102.6	130.4	170.1	204.2	225.8	267.3	345.1	441.5	544.1	709.4
Nominal GDP	USD bn	41.9	31.6	31.3	38.0	42.4	50.1	65.0	86.2	107.7	140.5
GDP growth (real)	% yoy	-1.9	-0.2	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.3
Industrial production	% yoy	-1.0	4.0	13.2	14.2	7.0	15.8	12.5	3.1	6.2	10.2
Agricultural production	% yoy	-9.6	-6.9	9.8	10.2	1.2	-11.0	19.7	-0.1	0.4	-5.6
CPI	% yoy aop	10.6	22.7	28.2	12.0	0.8	5.2	9.0	13.5	9.1	16.6
CPI	% yoy eop	20.0	19.2	25.8	6.1	-0.6	8.2	12.3	10.3	11.6	12.8
PPI	% yoy aop	13.2	31.5	20.9	8.6	3.1	7.6	20.5	16.7	9.6	19.5
PPI	% yoy eop	35.4	15.7	20.8	0.9	5.7	11.1	24.1	9.5	14.1	23.3
Exports (gs, USD)	% yoy	-13.4	-7.9	17.9	9.5	10.7	24.0	42.6	7.5	13.2	27.0 ^e
Imports (gs, USD)	% yoy	-14.0	-19.1	18.9	14.1	4.9	28.7	31.3	20.4	22.0	34.1 ^e
Current account	USD bn	-1.3	0.9 °	1.2 °°	1.4	3.1	2.9	6.9	2.5	-1.6	-6.2 ^e
Current account	% GDP	-3.1	2.9 °	3.8 °°	3.7	7.6	5.9	10.6	2.9	-1.5	-4.4 ^e
FDI (net)	USD bn	0.7	0.5	0.6	0.8	0.7	1.4	1.7	6.5	5.3	9.0 ^e
International reserves	USD bn	0.79	1.09	1.48	3.09	4.42	6.94	9.52	19.39	22.26	32.48
Fiscal balance"	% GDP	-2.7	-2.1	-0.7	-1.9	0.8	-0.2	-3.0	-1.9	-0.9	-1.5 ^e
Total state debt	% GDP eop	49.4	61.0	45.3	36.5	33.5	29.0	24.7	17.7	15.0	12.6
External state debt (total)	% GDP eop	38.4	49.9	33.0	26.3	24.1	21.4	18.6	13.4	11.7	10.1
Monetary base	% yoy eop	21.9	39.3	39.9	37.4	33.6	30.1	34.1	53.9	17.5	46.0
Exchange rate	USD aop	2.45	4.13	5.44	5.37	5.33	5.33	5.31	5.12	5.05	5.05
Exchange rate	USD eop	3.43	5.07	5.44	5.30	5.33	5.33	5.31	5.05	5.05	5.05
Exchange rate	EUR aop	2.77	4.39	5.03	4.81	5.03	6.02	6.62	6.40	6.32	6.92
Exchange rate	EUR eop	4.02	5.20	5.10	4.67	5.53	6.66	7.22	5.97	6.65	7.42

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

"" "Minus" denotes a consolidated fiscal deficit

° The value of goods transferred to Russia according to the inter-governmental agreement reached in May 1997 on the Black Sea Fleet division totaling USD 726 m is not included

°° The value of the aircraft complexes transferred to Russia as repayment of a gas debts according to the inter-governmental agreement reached in October 1999 totaling USD 274 m is not included.

Notes:

avg average
cum. cumulative
mom month on month change
qoq quarter on quarter change
yoy year on year change

ytd year-to-date
p.a. per annum
eop end of the period
aop average of the period
gs goods and services