INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

No.2 (184), February 2016

EXECUTIVE SUMMARY

HIGHLIGHT: EXTERNAL TRADE

Politics: Ukraine is on the brink of a government crisis. The most likely scenarios for the future include further decrease in political stability, which would block or slow down reforms and might end up in a snap parliamentary election.

Real sector: By December, 2015, drop in industrial output slowed to 2.1% yoy. This reflected high statistical base in the first half of 2014 as well as adjustment of supply chains and stabilization of economy in second half of 2015.

Energy sector: There is a serious warning to the state of information security at Ukrainian energy companies.

Agriculture: Gross agricultural production in 2015 decreased by 4.8%.

Transport: In January, Russia changed the transit rules for Ukrainian road carriers delivering goods to Kazakhstan.

External sector: Current account in December, 2015, turned to surplus of USD 0.4 bn due to balanced merchandise trade.

Fiscal policy: Burst of spending in the last weeks of 2015 does not conform to the best practices in public financial management.

Privatisation: In 2016, the Government plans to receive UAH 17.1 bn (USD 660 m) from privatization.

Social policy: The coverage of households by the housing and utility subsidies increased significantly.

Labour market: Average nominal wage in December, 2015, grew by 30.4% yoy due to wage indexation and minimum wage increase. Real wage decreased by 9.9% yoy.

Monetary policy: Consumer inflation in January remained moderate at 0.7% mom due to downward trend in crude oil prices and a number of one-off factors.

Exchange rate: Hryvnia in January lost 6% of its value vs. US dollar.

State debt: Increased political instability might result in further postponement of the third tranche of the IMF loan.

Highlight of the month: External trade

NEW REALITIES FOR THE UKRAINE'S EXTERNAL TRADE

Mykola Ryzhenkov

Since 2014 Ukraine's exporters are feeling impact of armed conflict in the Eastern Ukraine and receive less and less dollars for their products due to plummeting prices for steel, wheat and many other commodities. Since January 1, 2016, exporters face additional obstacles for sale of goods to Russian purchasers. At the same time, Ukrainian importers received some relief. On January 1, 2016, provisional application of the deep and comprehensive free trade area (DCFTA) with the EU started, which lowers duties on the EU goods. Import duty surcharge (at 5-10%) was cancelled.[1] Further we try to analyse impact of these events on international trade.

Effective from January 1, 2016, the Russian Federation suspended duty-free access for Ukrainian goods until further notice and introduced most favoured nation (MFN) duties. Import ban on Ukrainian agricultural and food products (mirroring import ban introduced for EU goods) was introduced from January 1, 2016, at least to August 7, 2016. Russia claimed that trade restrictions were made in response to provisional application of the DCFTA between Ukraine and the EU. The excuse was that EU producers will circumvent Russian duties and import restrictions on EU goods by exporting through Ukraine.

On New Year's day Russia also drastically changed rules for transit of Ukrainian goods to Kazakhstan. Now automotive and railway transit of Ukrainian goods to Kazakhstan is allowed only with the entry through the territory of Belarus. All the containers should be equipped with seals with GLONASS tracking devices issued at the Russia-Belarus border. The transit should be made through 2 checkpoints (1 railway and 1 automotive) at the Russia-Belarus border and 3 checkpoints at the Russia-Kazakhstan border (1 railway and 2 automotive).

According to the recent estimates of the IER and Germen Advisory Group, cancellation of the FTA and import ban by Russia could potentially reduce Ukraine's exports to Russia by USD 0.6 bn or 13% of 2015 exports. The impact of restricted transit on exports remains an open question, as higher cost, longer duration and limited capacity of alternative routes could significantly reduce Ukraine's exports to Kazakhstan, Central Asia and China.

Ukraine responded to new Russia's policies with mirror measures on Russian exports. It introduced MFN tariff rates for Russian goods from January 2, 2016, to December 31, 2016, with the provision that the FTA duties will be restored if Russia cancels application of MFN duties. Moreover, the Cabinet of Ministers of Ukraine introduced import ban on selected agricultural and foods products, as well as locomotives and railway equipment.[2] Import ban is applied since January 10, 2016, to August 5, 2016, or until Russia allows Ukrainian goods at its market. On January 20, the list of banned Russian goods was expanded. Ukraine did not block transit of the Russian goods justifying it by adherence to WTO rules. However, the number of checkpoints, where transit of banned by Ukraine Russian goods can cross the border, was decreased.

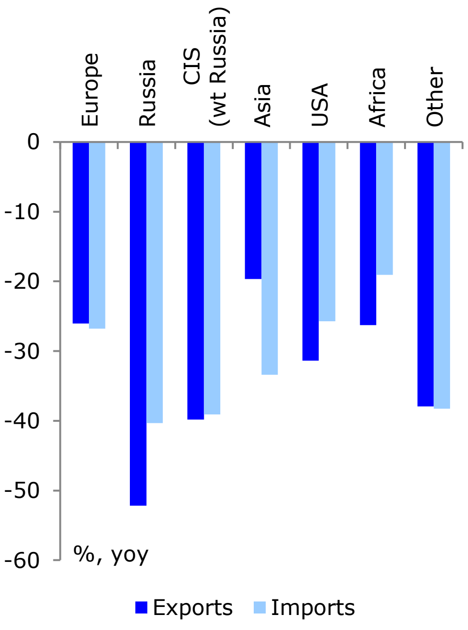
To deal with the problem of restricted transit through Russia to Kazakhstan, Ukraine launched the "Silk Road" through the Black Sea, Georgia, Caspian Sea and Azerbaijan. It is unclear how this alternative route will develop given almost twice higher cost and long turnaround times, dependence on weather conditions as well as limited capacity. Ukraine also use WTO dispute resolution framework for import ban and transit restrictions by Russia.

In, 2016 Ukraine and the EU started provisional implementation of Deep and Comprehensive Free Trade Area (DCFTA). Whereas Ukraine just opened its market for the European goods, the EU unilaterally opened its market for Ukrainian goods under conditions similar to the DCFTA since April 23, 2014 (as autonomous preferences). Since 2014, 94.7% of industrial exports and 83.4% of food exports had duty-free access to the EU market, whereas 15.9% of exports could be traded duty-free within tariff-rate quotas. So, Ukrainian producers already experience positive effects from the implementation of the Association Agreement between Ukraine and the EU.

During the first months of application of autonomous trade preferences (ATP), Ukraine's exports to the EU increased sharply (growth rate varied from 31.6% yoy in May 2014 to 9.4% yoy in August 2014). However, downward pressure of arm conflict and lower prices on exports magnified since the second half of 2014. As a result, Ukraine's exports to the EU started to contract. Overall, between May and December 2014 exports to the EU dropped by 2.6% yoy, while exports to Russia and other countries declined by 39.5% yoy and 15.3%, respectively.

Termination of production in the East of Ukraine, broken logistic chains and lower world commodities prices resulted in decline in Ukraine's exports in 2015. However, likely due to the positive impact of the ATPs exports to the EU declined less than exports to other

External merchandise trade trends, 2015



Source: NBU

countries (by 27.2% as compared to 31.8%). The difference of 4.6 p.p. is in line with our early evaluation of potential effect of the DCFTA on Ukraine's export to the EU (additional 4.5% to the exports to the EU in the first year of application comparing to status quo, later gradually increase to 5.1%).[3] We expect that when the downward pressure of general factors impacting trade weakens, Ukraine will be able to expand its exports to the EU.

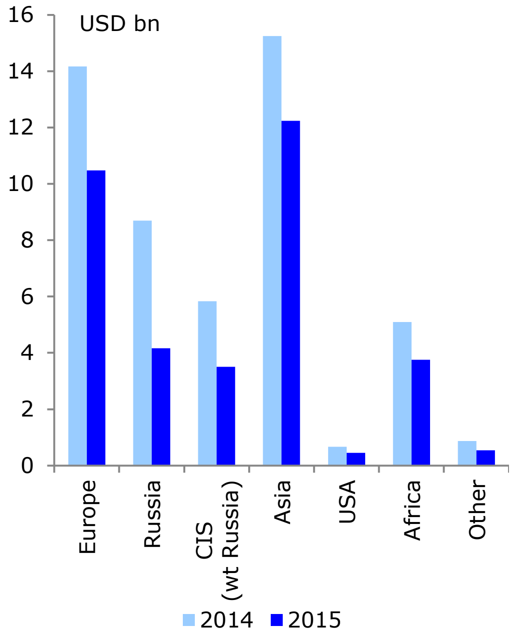
In 2015, Ukraine also improved utilization of tariff-rate quotas (TRQ): 9 out of 36 TRQs were fully utilized as compared to 6 TRQs in 2014. In future, when Ukraine completes the harmonization of technical regulation and sanitary and phytosanitary measures, we expect that the potential of TRQs will be used more.

Initial impact of introduction of the DCFTA on imports will be limited as Ukraine opens its market gradually (additional 2.3% to the imports from the EU in the first year of application is expected comparing to status quo, later imports will gradually increase by 4.8%). Weak demand for imports will also limit the effects of the DCFTA at the early stages of application.

Since January 1, 2016, Ukraine also completed application of temporary import surcharge of 5-10% under Article XII of GATT, which was aimed on improving balance of payments. This would positively contribute to imports in 2016. According to the IER estimates, this measure added 5.5 p.p. to imports drop in 2015.

To take into account new external trade realities Ukrainian government intensified policies that are expected to facilitate entrance of Ukrainian producers to other markets. In particular, Ukraine continued to harmonize its horizontal and sectoral legislation as well as technical regulations with the EU directives and regulations. This is expected to not only allow Ukrainian companies to receive access to the EU market, but also ease access to other countries. In particular, changed technical regulations have already allowed Ukrainian dairy producers to enter the markets of the EU and China. After Kazakhstan joined the WTO, Ukrainian dairy and meat producers renewed access to the Kazakhstan market. Another positive factor was lower antidumping duty by the EU on Ukrainian steel ropes and cables. Also, after investigation, Turkey decided not to impose antidumping measures on Ukrainian hot metal rolls.

Merchandise exports



Source: NBU

Besides, Ukraine continues negotiations with other countries on establishment of free trade areas and conclusion of international treaties. On July, 14, 2015, Ukraine and Canada completed negotiations on free trade area, which is expected to be ready for implementation in the fall of 2016. This FTA will open Canadian market for 98% of Ukrainian goods with producers of food, clothes, metals and minerals to benefit the most. Ukraine also intensified talks with Israel and Turkey on free trade area. Ukraine considers currently a possibility to sign the FTA with North African countries, which are one of the main consumers of Ukrainian agricultural goods.

Another trade facilitation effect could be obtained from the implementation of international trade-related treaties. In 2015, Ukraine ratified the WTO Trade Facilitation Agreement, which will allow reducing cost of trading externally. External trade is expected also to benefit from deregulation of export-import operations approved by the Ministry of Economic Development and Trade. Also, in 2015 Ukraine joined WTO Government Procurement Agreement, which opens access for Ukrainian companies to government procurements of WTO members. There are also intentions to join Regional convention on rules of origin Pan-Euro-Med, which allow 42 member-counties (EU, EFTA, Turkey, Montenegro, Israel, North Africa etc.) to apply principle of diagonal cumulation for identifying the country of origin.

To sum up, Ukrainian government has finally intensified policies aimed at trade facilitation. In particular, Ukrainian companies received better access to other markets due to technical regulation reform as well as establishment of FTA, primarily with the EU. Besides, as Russia has restricted access for Ukrainian goods, Ukraine has to look for new markets for the lost exports and new alternatives for transit.

1 5-10% of imports surcharge was introduced in February 2015.

2 The Decree of the Cabinet of Ministers of Ukraine №1147, from 30 December 2015

3 http://www.ier.com.ua/files//Projects/Ryzhenkov_Partial%20equilibrium_2014-11-27.pdf

Monthly Economic Monitor Ukraine

Politics: Ukraine is on the brink of a government crisis

The Government. On January 22, the Samopomich party called for resignation of the Government accusing it of corruption. The Samopomich became the second member of the ruling coalition to support the change of the Government, after the Batkivshchyna party. Their stance was partially supported by Petro Poroshenko's Solidarnist Bloc, the largest coalition member, who advocated for a change of several ministers. The position of the Government became more precarious on February 3, when Minister of Economic Development and Trade Aivaras Abromavičius announced his resignation. He explained this decision by existence of resistance to reforms, and by the pressure to get him to appoint corrupt officials. The minister said that the resistance and pressure came from a number of people, but named only one of them — Ihor Kononenko, a Member of the Parliament and a close ally of President Petro Poroshenko. Mr. Abromavičius' resignation caused a strong negative reaction from Western countries, calling into question the continuation of financial support to Ukraine.

Mr. Abromavičius was the fourth technocrat minister who expressed a desire to resign since July 2015, although no minister has been dismissed so far, and the other three ministers withdrew their resignations after Mr. Abromavičius' move to promote stability of the Government. The polls showed that at least 70% Ukrainians did not support the Government. The developments exposed the presence of escalating conflicts inside the government coalition. Tensions were growing between President Petro Poroshenko and Prime Minister Arseny Yatseniuk. Another conflict existed between reformist members of the Parliament from various parties and officials who were reluctant to implement reforms. The most likely scenarios for the future include further decrease in political stability, which would block or slow down reforms and might end up in a snap parliamentary election.

Law enforcement. Ukraine has finally started a reform of the judiciary. On February 1, the Constitutional Court considered a bill establishing a foundation for the reform, and declared that the bill met the necessary requirements laid out in the Constitution. On February 2, the Parliament preliminarily approved the bill. The reform is aimed at increasing independence and effectiveness of the judiciary. According to the bill, new judges will be selected on a competitive basis by the High Council of Justice, formed mainly by the judiciary and associations of lawyers. The Parliament will be stripped of powers to appoint judges, and the role of the President in their appointment will be reduced. Neither the Parliament nor the President will have right to dismiss judges (those powers will be transferred to the High Council of Justice). The bill also provides for competence and integrity checks for the incumbent judges. However, the bill preserves the influence of the President and the Parliament on the General Prosecutor through the procedures for his/her appointment and dismissal. Proposals to establish a completely new system of justice, which were prepared by civil society activists, were rejected.

The war in Donbas. In January, Ukraine, Russia, and the Organization for Security and Co-operation in Europe (OSCE) continued negotiations for settlement of the conflict in Donbas but with no results. The low intensity military conflict in the region went on. Russia-controlled insurgents continued a constant harassing fire against Ukrainian forces, which responded in a limited way. The front line did not change during the month.

Real sector: Improvements in the end of 2015

Sectoral trends. Industrial output in 2015 dropped by 13.4% due to impact of military conflict in the East, weak domestic and external demand. In particular, extraction of coal contracted by 38.1% due to closure of many mines in Donbas. Drop in domestic demand as well as non-tariff trade barriers introduced by Russia contributed to decline

Population (without Crimea): 42.7 m
Industry/GDP: 19%
Agriculture/GDP: 10%
Investment/GDP: 14%
Exports to: Russia 18%, EU 32%
Imports from: Russia 23%, EU 39%

Source: Ukrstat

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in food and machine building production. Decline in metallurgy and chemical production is partially explained by broken supply chains due to military conflict.

At the same time, by December drop in industrial output slowed to 2.1% yoy. This reflected high statistical base in the first half of 2014 when Donbas conflict just started as well as adjustment of supply chains and stabilization of economy in second half of 2015. Lower intensity of hostilities in the East, mild weather (allowing more extraction of building materials) and low statistical base contributed to growth of extractive industry by 2.7% yoy in December. At the same time, manufacturing production declined by 1.6% yoy. Drop in food production accelerated to 13.5% yoy as demand for non-essential food products remained weak. Besides, lower harvest of sugar beets led to decline in sugar production by 41.0% yoy. Chemical production fell by 8.5% yoy due to lower demand for consumer chemical products such as paints, soaps and cosmetics even as production of fertilizers and other general chemicals recovered significantly. Metallurgy declined by only 1.9% yoy, as raw steel production recovered but demand for tubes in Ukraine and Russia fell sharply. Moderate recovery in construction led to increase in output of structural metal products. At the same time, machine building production grew by 5.8% yoy from low base due to higher demand, which is explained by higher military orders, restart of car production as well as by imports substitution in machinery and equipment.

In December, retail sales by enterprises increased significantly as compared to November on seasonally adjusted basis. This reflected high year-end bonuses, large payouts to depositors of failed banks and higher consumer sentiment. Still, they dropped by 12.9% in 2015.

Construction in December grew by 10.4% yoy likely due to warmer weather and higher fiscal capital spending than in December 2014. Still, construction in 2015 dropped by 14.9% yoy due to financial constrains.

The Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol and the part of the territory under anti-terroristic operation in the East. The statistical base was also revised to make like-to-like comparison available.

Energy: Ukrainian energy system attacked by hackers

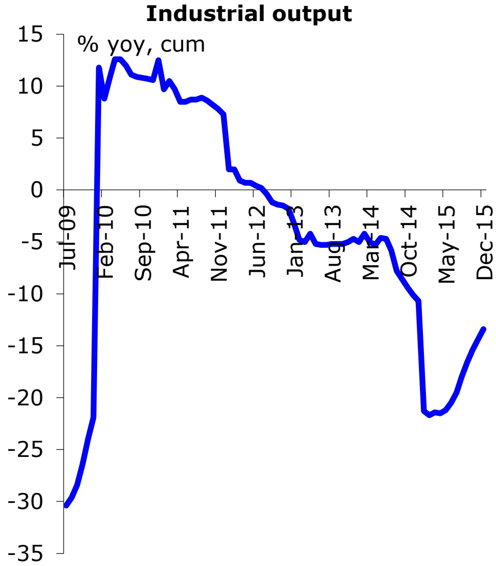
Electricity. In the end of December, Prykarpattyaoblenergo suffered from power shortages due to the computer virus BlackEnergy attack on its information systems. Several other Ukrainian energy companies, namely Kyiv-, Chernivtsi-, Khmelnytsk- and Kharkivoblenergo, were also attacked. According to Reuters, that was the first case of power blackout due to a cyber-attack. This is a serious warning to the state of information security at Ukrainian energy companies.

The National Energy and Utilities Regulatory Commission (NERC) increased the weighted average tariff for the Ukrenergo (national electric energy dispatcher) for 2016 by 20% to UAH 0.05 per KWt*h to finance liabilities. At the same time, the tariff for the Ukrhydroenergo was decreased by 44% to UAH 0.31 per KWt*h.

Gas. In January, the NERC switched to a new tariff system for gas transit and transportation, which led to an increase in gas transit tariff by 25-35%. The system sets a separate tariff for each entry and exit point of the Ukrainian gas transportation system. However, the changes will not affect the current gas transit contract between the Naftogaz and the Russian Gasprom.

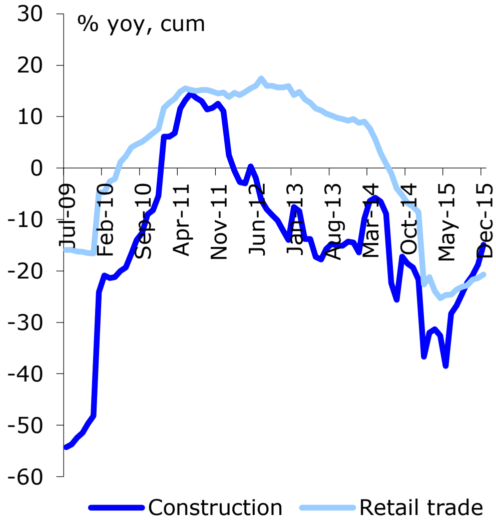
The Russian Gasprom issued an invoice for payment of USD 2.5 bn for the gas not used by the Naftogaz in the third quarter of 2015. According to the "take or pay" clause of the contract, the Naftogaz has to buy the minimum amount of gas each quarter. The Naftogaz refused to pay the bill as this clause is currently being disputed in the Stockholm Arbitrage court.

Industrial output



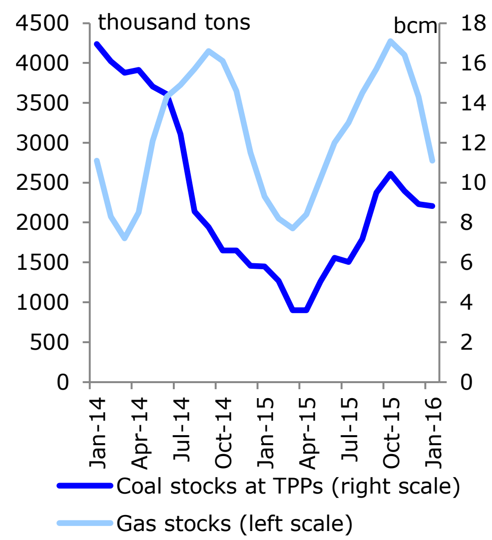
Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Real sector trends



Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Coal and gas stocks



Source: Ministry of Energy

Ukraine has used 6.2 bn cubic meters of gas from the storages from the start of the heating season, which is by 26% less than for the same period of 2015. The decrease in gas usage can be explained by relatively warm weather, decline in industrial production, and impact of energy efficiency measures. As of February 8, there were 10.8 bn cubic meters in storages (by 21% more than last year).

Agriculture: Deregulation continues

Production. Gross agricultural production in 2015 decreased by 4.8%. Particularly, increased prices for inputs and restricted access to financial resources led to lower harvested area (e.g. areas under rye, barley, sugar beet) and lower yields (e.g. for wheat, soya been). Meat production decreased by 1.4%, milk production decreased by 4.0% due to lower external demand explained by loss of Russian market.

Agricultural policy. In December, the Parliament adopted several laws important for the development of agricultural sector. The most important was the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine regarding deregulation in agriculture". The Law eliminates, makes voluntary or delegates to private firms 22 permits and procedures, which were defined as unnecessary and harmful in elaborated by the Government the Agricultural Strategy of Ukraine 2015-2020. In particular, requirement to have veterinary documents for plant transportation and obligatory registration of fertilizers was eliminated. Overall, administrative burden on producers and exporters of grains are expected to decrease which will stimulate export. The fertilizers prices are likely to decline, while new fertilizers suppliers are likely to have easier entry to the market.

The other two adopted laws harmonize the Ukrainian seed regulations with the EU legislation and simplify the clearance of land management projects. Both laws are expected to have a positive (though limited) effect on the investment attractiveness of Ukrainian agricultural sector.

Transport: Russia limits transit of goods from Ukraine

Transit. In January, Russia changed the transit rules for Ukrainian road carriers delivering goods to Kazakhstan. The drivers can no longer cross the Ukrainian-Russian border but have to go via Belarus, need to get accounting vouchers and special seals for their trucks. This together with the disagreement on the number of one-time permits for 2016 on road transportation between Ukraine and Russia significantly complicated transit of goods from Ukraine to Asia through Russia.

As an alternative route, Ukraine started developing a combined sea-railroad route via Georgia, Azerbaijan and Kazakhstan to China. On January 14, Azerbaijan, Kazakhstan, Georgia and Ukraine signed a protocol on setting the low tariffs for cargo transportation on the Trans-Caspian route. The first container train set off on January 15 from Ukrainian port of Illichivsk and reached Dostyk station on the Kazakhstan-China border on January 30. The tariff is USD 5559 per container from Izov (Ukraine-Polish border) to Dostyk, which is about USD 500-600 more and about 2-4 days longer (one way trip) than for the Russian route. The partner countries continue working on the possibilities to decrease tariff and duration of the route.

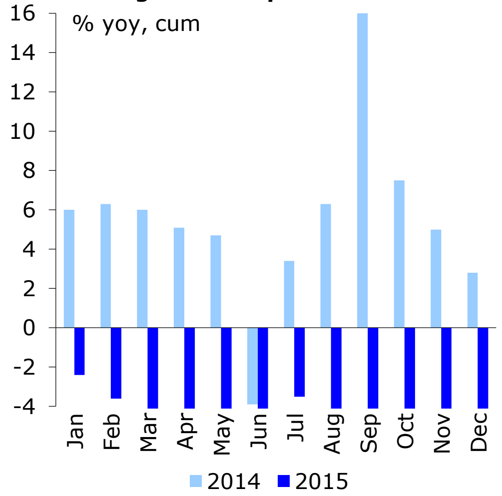
At the same time, to stimulate transit through Ukraine the Ukrzaliznytsya decreased transit tariffs for container transportation from the port of Illichivsk to Ukraine's western border by 60%.

External sector: Current account turned positive, financial account became negative

Current account. Current account in December turned to surplus of USD 0.4 bn due to balanced merchandise trade. In particular, decline in exports decelerated, while drop in imports accelerated. Trade in services surplus slightly widened to USD 0.2 bn. Balance of both primary and secondary income remained at the level of November.

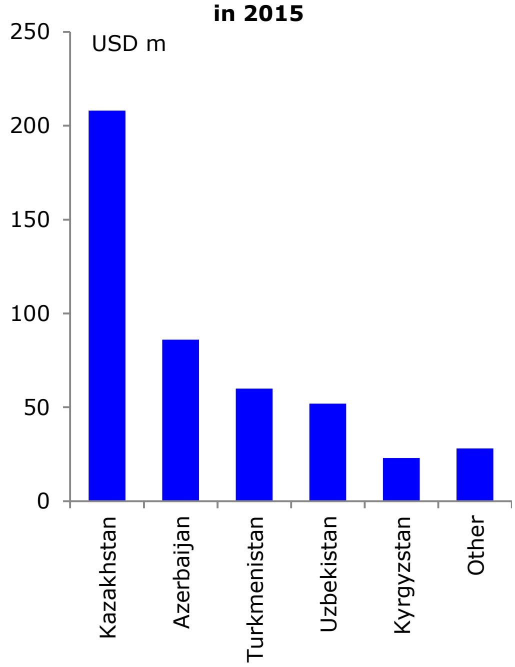
Merchandise exports drop decelerated to 14.1% yoy (as compared to 22.3% yoy in November). This is explained by that fact than exports

Agricultural production



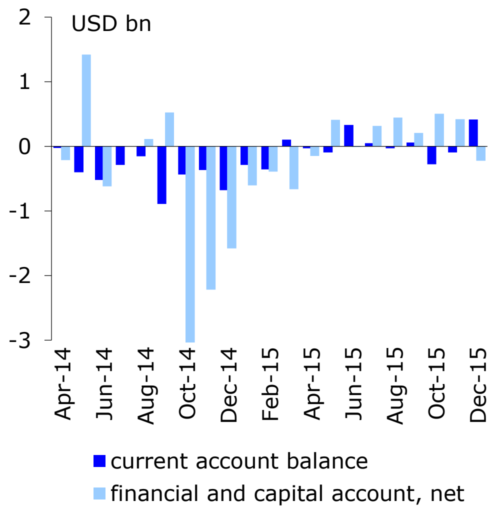
Source: Ukrstat

Transit of Ukrainian goods via Russia in 2015



Source: the NBU

Balance of payments



Source: NBU preliminary estimates

of all the product groups did not decline as compared to November. Commodity price decrease remained the main factor of exports contraction remained the main factor of exports contraction as compared to December of 2014. As a result, exports of food dropped by 2.4% yoy and exports of minerals declined by 27.7% yoy. Exports of metals dropped by 32.2% yoy due to smaller demand and lower prices. Decline in exports of machinery and chemicals slowed down to 11.4% yoy and 21.6% yoy, respectively. Exports of services decreased by 7.9% yoy, which was two times slower than a month ago.

Decline in imports of goods, on the contrary, accelerated to 34.0% yoy mainly due lower imports of food products and minerals. Contraction of food imports by 42.5% yoy (29.9% yoy in November) was mainly a result of statistical base effect. Imports of minerals contracted by 55.6% yoy as Ukraine drastically decreased purchases of natural gas. As investment demand remained limited, imports of machinery dropped by 11.4% yoy. Overall imports of manufactured products (including chemicals, wood, industrial goods, metals and machinery) decreased by 21.4% yoy. Contraction of services imports decelerated to 6.2% yoy (from 14.5% yoy in November).

Current account deficit significantly narrowed in 2015. It was equal to USD 0.2 bn as compared to the deficit at USD 4.6 bn in 2014. The major improvement occurred in merchandise trade, which deficit shrunk more than twice to USD 3.2 bn. This is explained by slower decline of export of goods as compared to drop of imports (30.5% yoy vs. 33.5% yoy). Commodity structure of exports shifted from metals, minerals and machinery to food, whereas reallocation in geography occurred from Russia to the EU and Asia. Share of imports of minerals and chemicals reduced, while share of food imports increased. Purchases of imports reallocated from Russia to the EU and the US.

Financial account. Financial account in December turned to deficit of USD 0.2 bn due to huge outflow of deposits from the banking system. Net FDI inflow increased and amounted to USD 0.8 bn. However, most of these investments were explained by bank recapitalization (USD 0.7 bn). Net borrowing by the Government sector shrunk to USD 0.3 bn as no significant external financing was received. Banks experienced increase of external position by USD 1.1 bn due to outflow of deposits. External position of real sector increased by USD 0.5 bn due to higher amount of trade credits. Foreign cash outside banks shrunk by another USD 0.2 bn.

Overall, in 2015, financial account turned to surplus of USD 0.5 bn, as compared to the deficit of USD 9.1 bn in 2014. Net inflow of FDI reached USD 3.1 bn, which were primarily directed to the banks recapitalization according to the requirements of the NBU. Foreign cash outside banks declined by USD 2.2 bn, whereas in 2014 it is increased by USD 3.5 bn. Government was able to attract external financing from international donors, whereas private sector had restricted access to external debt financing.

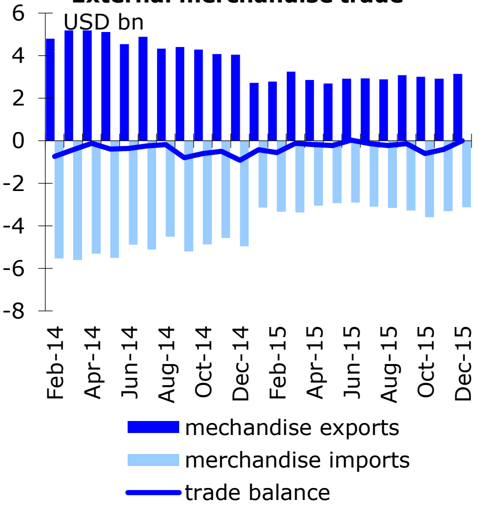
Overall balance of payments in 2015 turned to surplus of USD 0.8 bn, which along with USD 5.2 bn of IMF financing allowed NBU to increase international reserves by USD 6.0 bn.

Privatisation: New attempt to start big privatisation

In 2016, the Government plans to receive UAH 17.1 bn (USD 660 m) from privatization. Therefore, the plan remained almost at the level of target for 2015, when actual privatisation receipts reached only UAH 0.15 bn.

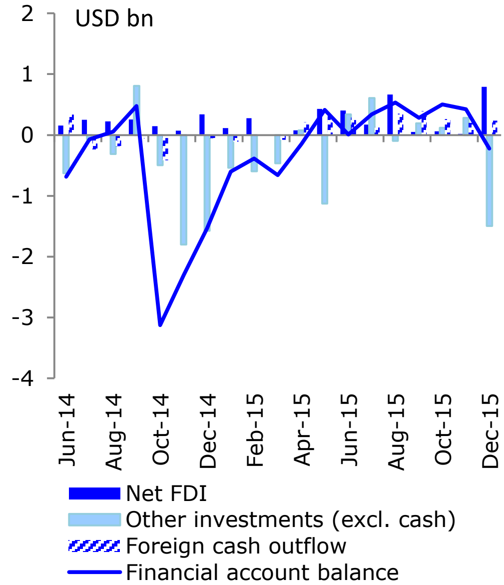
The list of the major assets that are planned to be privatised in 2016 remained almost unchanged since 2014. It includes a 99.57% stake in Odesa by-port plant (a large ammonia and fertiliser producer), a 50% stake in Azovmash (a large manufacturer of railway wagons and industrial equipment), and regional power distribution companies. In addition, a 75.22% stake in Turboatom (a power generation equipment manufacturer) might also be included in the list.

External merchandise trade



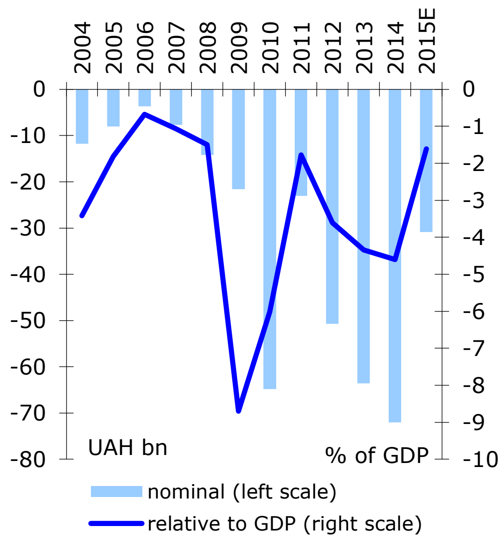
Source: NBU preliminary estimates

Financial account



Source: NBU

Consolidated fiscal balance



Note: E - IER estimate of GDP
* without funds for recapitalisation
Source: State Treasury Reports, IER calculations

The prospects for fulfilment of the plan are not clear. It may be difficult to sell the stakes at sufficiently high prices given the high economic and political uncertainty. One of the obstacles to privatisation named by the head of the State Property Fund of Ukraine (SPFU) is the requirement to sell 5-10% on a stock exchange. This requirement might be abolished by the Parliament in February. At the same time, the SPFU is going to make privatisation process more transparent (establishment of the clear requirements etc.), which is expected to increase competition among buyers.

Fiscal policy: Sharp increase in expenditures in December, 2015

Fiscal indicators 2015. In December 2015, the Government switched to spendthrift mode after conservative spending over previous months as fiscal revenues conformed to targets and government liquidity has risen to record levels. As a result, consolidated fiscal deficit was recorded at UAH 30.9 bn in entire 2015, as compared to the surplus of UAH 20 bn in eleven months of the year. Burst of spending in the last weeks of the year did not conform to the best practices in public financial management. This primarily contributes to low efficiency of capital expenditures and public procurements, which are typically postponed to the end of the year.

Consolidated fiscal revenues in 2015 grew by 40.9% due to high inflation and tax increases. PIT revenues increased by 33.0% due to increase in wages, introduction of military surcharge to income tax as well as higher taxation of passive income. High inflation and hryvnia depreciation contributed to rise in import VAT revenues. Collection of excise duties increased in response to higher tax rates and inflation. At the same time, introduction of 5/10% import duty surcharged was successful from fiscal standpoint and resulted in increase in revenues from international trade duties by 3.2 times (this contributed 6 p.p. to the increase in consolidated fiscal revenues). However, worsened financial situation of companies resulted in decline in EPT revenues by 2.9%. Overall tax revenues increased by 35.6%. Non-tax revenues grew by 74.1%. In particular, NBU profits to the budget ballooned to UAH 61.8 bn as compared to UAH 22.8 bn in 2014.

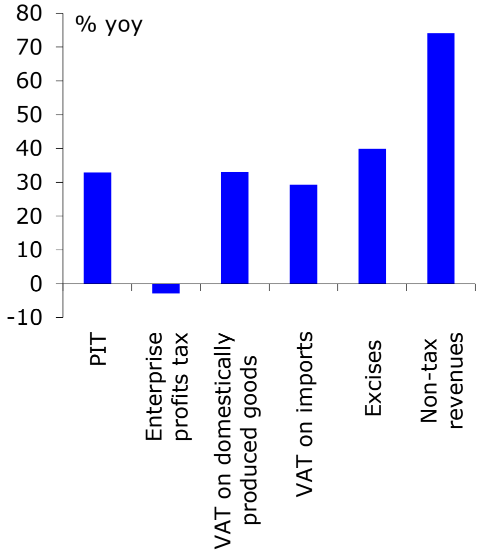
Consolidated fiscal deficit was financed by external borrowings in 2015. At the same time, of the Government issued UAH 75 bn in state domestic bonds for the recapitalisation of state-owned banks, the Naftogaz and Deposit Guarantee Fund. The Government did not offer domestic government bonds publicly for the largest part of the year. This led to the NBU owning 77% of the outstanding stock by the end of 2015 (up from 70% in the beginning of the year).

Social policy: Surge in financing of housing and utility subsidies

The Government massively simplified application for housing and utility subsidies (HUS) and eased eligibility criteria in spring 2015. Besides, gas, electricity and heating bills increased much faster than household incomes. This resulted in sharp increase in coverage of households by subsidies increased sharply by the end 2015. 30.5% of households were granted subsidies by December last year (this includes only households that received the HUS without cash subsidy for the purchase of liquefied gas and solid fuel). The cash spending on the HUS surged to UAH 12.7 bn in 2015 as compared to UAH 1.7 bn in 2014. The pool of HUS recipients expanded as previously mostly pensioners received subsidies, while now the share of their recipient households with three or more household members increased to 31.3% (from 11.6% in 2014). This means that large part of implicit energy subsidies through price support was replaced with more targeted direct measures. However, the HUS could provide more incentives towards energy efficiency.

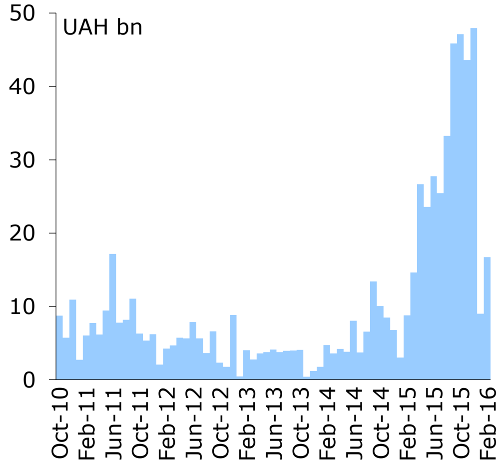
Cash financing of housing and utility subsidies and privileges reached UAH 18.0 bn in 2015 from UAH 6.2 bn in 2014. This indicates that privileges financing increased much less than HUS financing, which reflects efforts of the Government to make privilege provision more means tested. Planned financing of housing and utility subsidies and

Growth of central fiscal revenues in 2015



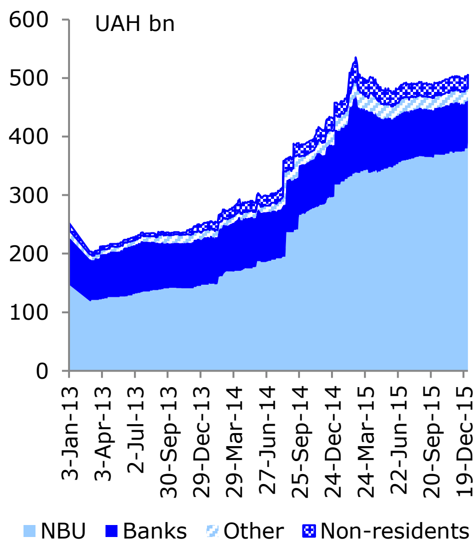
Source: State Treasury reports

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Domestic government bond holdings



Source: NBU

privileges in 2016 is envisaged at UAH 35 bn with increased allocations for HUS. The Government plans to revise the HUS design and eligibility criteria in May 2016. However, it is not clear what would be the nature of the changes are.

Labour market: Wage rises in the public sector

Wages. Average nominal wage in December, 2015, grew by 30.4% yoy to UAH 5230 due to wage indexation and minimum wage increase. Real wage decreased by 9.9% yoy.

Nominal wage in the industry increased on average by 24.9% yoy. As previously, this was driven by the adjustment to the increase in minimum wage and wage indexation. Wages grew more than on average in food and textile industries (by 33.0% yoy and 38.1% yoy, respectively) as these sectors benefited from imports substitution and rather stable consumer demand. Wages grew by 32.3% yoy in the manufacturing of computers, electronic and optic equipment. This was probably caused by the large military procurements and increased manufacturing of medical equipment, likely induced by the import substitution. Wages also sharply increased in the electricity and gas supply sector (by 22.7% yoy) likely due to improved financial situation of companies.

In December, wage growth in public sectors substantially accelerated due to increase in the base wage. In particular, wages increased by 35.3% yoy in education and by 47.2% yoy in health care. Wages in state administration grew by 28.9% yoy.

Wage regulation. In December, 2015, the Government revised the Single tariff grid used for wage payment to employees in public sectors. It increased base salaries for tariff classes from 5 to 25, while kept base salaries for classes 1-4 unchanged. The previous increase in base wages for all tariff classes of public employees was made in September, when base salary of the first tariff class was increased to the level of minimum wage. However, wage differentiation still remains comparatively low. In particular, full implementation of the Single tariff grid envisaged that the base salary of the highest tariff class (the 25th) was to be by 4.51 times higher than the base salary of the first tariff class, while according to newly approved base salaries schedule this coefficient increased only to 3.64.

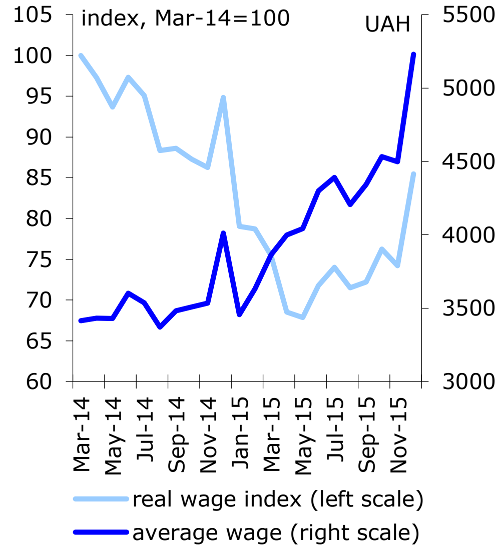
Moreover, the problem of low wages in public sectors still remains. In particular, the highest base wage (for the 25th class) was defined at UAH 5020, which is rather low when compared to average wage in economy. Public employees are eligible for different types of bonuses and premiums, which make their wages higher. However, this does not help sufficiently as wages in healthcare and education in December 2015 were by 22.1% and 20.7%, respectively, lower than average in economy.

Monetary policy: Acceleration in food prices

In January, monthly food price growth reached 2.3% mom or the second highest level over last seven months as seasonal prices increases for milk and vegetables were compounded by higher inflation expectations. However, consumer inflation remained moderate at 0.7% mom due to downward trend in crude oil prices and a number of one-off factors. For example, changes in excise rules prompted reduction in tobacco prices by 3.4% mom, while cancellation of import surcharge tempered price growth for imported items. Year-to-year inflation slowed 40.3% yoy due to high statistical base.

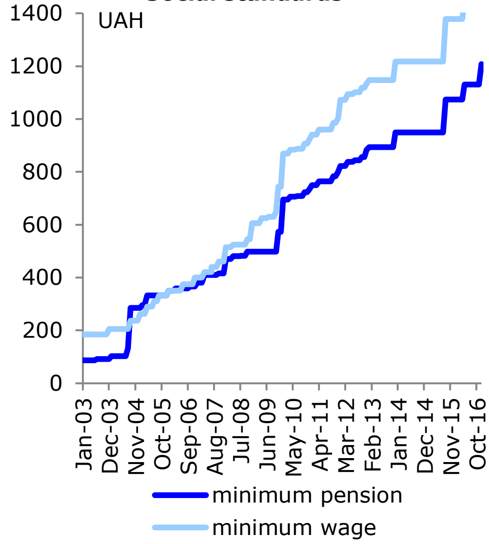
In January, monetary policy remained unchanged. The Government withdraw liquidity from the banking system as it increased funds on the Single Treasury Account by UAH 7 bn, while the NBU withdrew liquidity through FX interventions. Liquidity remained abundant with bank claims on the NBU at over UAH 140 bn and banks started to expand lending. Hryvnia loans to corporates grew by 4.7% mom in January.

Average wage*



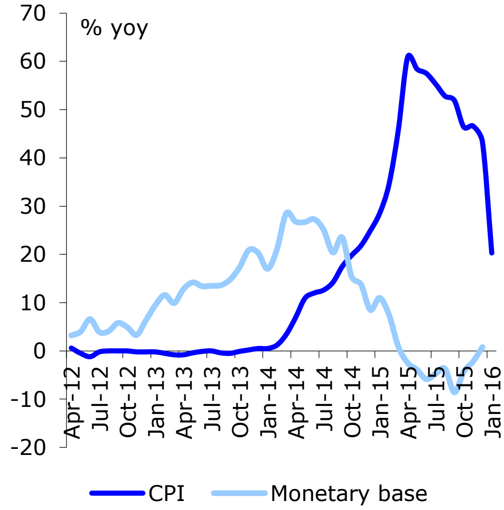
*not including AR Crimea
Source: Ukrstat

Social standards



Source: State Budget Laws for 2006-2016

CPI and monetary base development



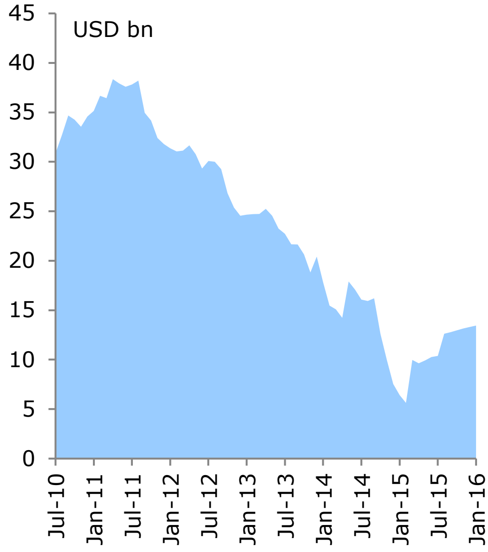
Source: Ukrstat, NBU

Exchange rate: New volatility

In January, interbank exchange rate moved in UAH 24-25 per USD range in the first half of January and increasingly weakened afterwards crossing UAH 25 per USD mark in the last week of the month. Overall hryvnia lost 6% of its value vs. dollar by the end of January. Pressure on hryvnia was caused by increased depreciation expectations (due to domestic political instability, global stock market selloff and falling commodity prices). Besides, demand for foreign currency increased due to high hryvnia liquidity and cancellation of imports duty surcharge while export revenues in January were seasonally low.

NBU did little to stop exchange rate from falling until it became closer to UAH 26 per USD in the beginning of February. Interventions were limited to net USD 74 m while administrative pressure on market participants didn't increase. This may have been caused by negotiations with IMF on third instalment of EFF loan. NBU's international reserves reached USD 13.4 bn by the end of January as government raised USD 486 m through domestic bonds.

NBU international reserves



Source: NBU

State debt: Domestic borrowings on primary market were resumed

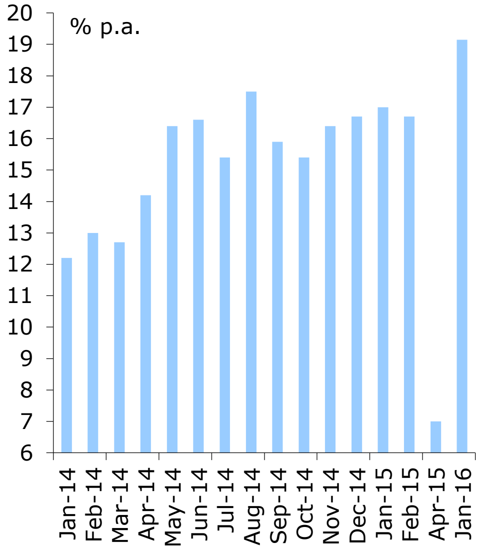
Domestic debt. In January, the Ministry of Finance resumed market domestic bonds issues after a break, which started in May 2015. The Government placed UAH 274 m of domestic bonds with weighted average yield at 19.2% p.a. (as compared to 7% p.a. for bonds placed in April, 2015). One- and two-year bonds accounted for near 91% of the total placement. The Ministry of Finance issued USD 486 m of short-term USD-denominated bonds with yields at 7.7% p.a., which would allow refinancing of a large part of FX-domestic debt repayments maturating in the first quarter of 2016.

On January 27, the Cabinet of Ministers made a decision on further recapitalization of two state banks at the expense of state domestic issues. This became necessary to respond to the NBU requirements made after conducted assets' quality and stress-test review. The statutory capital will be increased by UAH 5.0 bn to UAH 34.8 bn for the Oshchadbank, and by UAH 9.3 bn to UAH 31 bn for the Ukreximbank.

External debt. In late January, the Verkhovna Rada ratified the Agreement between the Cabinet of Ministers of Ukraine and the Federal Government of Germany on financial cooperation under the Municipal climate Protection Programme II. It will allow launching the project on the modernization of the water supply network in Chernivzi aimed at reducing the total water losses in the network to 22% (compared to the current losses of 50-60%). The loan of EUR 20.5 m will be granted for 30 years with a 10-year grace period at 2% p.a.

The Government expects to receive a third tranche (USD 1.7 bn) from the IMF under the four-year EFF program in late February after an updated Memorandum on cooperation between Ukraine and the Fund is signed. This tranche was scheduled to be received in 2015. However, late approval and amendments to the tax and budget legislation, including the adoption of the State Budget for 2016, resulted in termination of the loan. Increased political instability might result in further postponement of the loan.

Weighted average yield for domestic state bonds



Source: NBU

Tables

		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Feb[c]	Mar[c]	Apr[c]	May[c]	Jun[c]	Jul[c]	Aug[c]	Sep[c]	Oct[c]	Nov[c]	Dec[c]	Jan[c]
Industrial production (real)	% yoy cum.	-5.0	-4.7	-8.6	-10.1	-21.4	-20.5	-16.6	-21.7	-21.4	-21.5	-21.2	-20.5	-19.5	-18.0	-16.6	-15.4	-14.4	-13.4	…
Construction (real)	% yoy cum.	-6.4	-8.9	-17.2	-19.3	-31.3	-28.3	-22.8	-32.0	-31.3	-32.6	-38.5	-28.3	-26.7	-24.6	-22.8	-20.8	-18.8	-14.9	…
Agricultural production (real)	% yoy cum.	6.0	-3.9	16.0	5.0	-4.7	-9.3	-5.3	-3.6	-4.7	-4.8	-5.4	-9.3	-3.5	-5.8	-5.3	-4.4	-4.7	-4.8	…
Retail trade turnover (real)	% yoy cum.	7.7	0.8	-5.3	-7.5	-23.9	-24.6	-22.3	-21.2	-23.9	-25.3	-24.7	-24.6	-23.6	-23.1	-22.3	-21.7	-21.4	-20.7	…
Average wage	UAH	3245	3488	3463	3508	3650	4113	4313	3633	3863	3998	4042	4299	4390	4205	4343	4532	4498	5230	…
CPI	% yoy eop	3.4	12.0	17.5	21.8	45.8	57.5	51.9	34.5	45.8	60.9	58.4	57.5	55.3	52.8	51.9	46.4	46.6	43.3	40.3
PPI	% yoy eop	3.9	15.9	26.9	32.8	51.7	37.9	32.5	41.0	51.7	48.6	42.0	37.9	37.0	33.0	32.5	30.2	25.1	25.4	21.2
Exports (USD)*	% yoy cum.	-7.7	-6.5	-9.8	-13.1	-32.9	-35.4	-33.5	-32.3	-32.9	-34.5	-36.4	-35.4	-35.4	-34.6	-33.5	-32.6	-31.8	-30.5	…
Imports (USD)*	% yoy cum.	-14.7	-18.6	-24.5	-27.1	-36.0	-39.2	-36.2	-35.9	-36.0	-37.2	-39.3	-39.2	-38.8	-36.4	-36.2	-34.8	-33.5	-33.5	…
Merchandise trade balance	USD bn cum.	-1.9	-0.6	-5.2	-6.5	-1.0	-1.2	-2.0	-0.9	-1.0	-1.1	-1.3	-1.2	-1.4	-1.9	-2.0	-2.6	-3.2	-3.2	…
Current account**	USD bn cum.	-1.3	-0.6	-3.8	-4.6	-0.5	-0.3	0.0	-0.6	-0.5	-0.6	-0.6	-0.3	-0.2	-0.1	0.0	-0.3	-0.6	-0.2	…
Gross international reserves	USD bn eop	15.1	17.1	16.4	7.5	10.0	10.3	12.8	5.6	10.0	9.6	9.9	10.3	10.4	12.6	12.8	13.0	13.1	13.3	13.4
Monetary Base	% yoy eop	28.5	25.1	23.5	13.8	0.9	-5.9	-8.6	7.5	0.9	-2.5	-3.9	-5.9	-4.7	-3.7	-8.6	-4.3	-2.2	0.8	…
Lending rate on UAH credits	% pa, aop	18.5	17.5	16.4	16.4	19.9	23.1	21.1	18.8	23.6	23.8	23.6	22.0	21.2	21.2	21.0	20.9	20.7	20.4	…
Exchange rate (interbank)	USD aop	9.1	11.71	12.58	13.56	21.23	21.56	21.74	24.77	22.98	22.49	20.94	21.26	21.79	21.65	21.79	21.94	23.33	23.42	24.32
Exchange rate (official)	USD aop	8.9	12.71	12.58	13.56	21.18	21.62	21.69	24.48	23.26	22.71	20.92	21.23	21.76	21.54	21.78	21.84	23.31	21.84	24.26
Exchange rate (official)	EUR aop	12.14	13.71	16.67	17.21	23.88	23.88	24.11	27.78	25.32	24.47	23.32	23.84	23.94	23.93	24.46	24.56	25.07	24.23	26.35

Sources: Ukrstat, NBU, own calculations

* Monthly figures are only for merchandise exports and imports (source: NBU, preliminary data)

Quarterly figures are for trade in goods and services (source: NBU)

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

[c] Data excludes Crimea. Since 2015 the Ukrstat also does not include data for occupied territories in the East of Ukraine

Key Economic Indicators		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014[c]
Nominal GDP	UAH bn	170.1	204.2	225.8	267.3	345.1	441.5	544.2	720.7	948.1	913.3	1082.6	1302.1	1408.9	1454.9	1566.7
Nominal GDP	USD bn	31.3	38.0	42.4	50.1	64.9	86.2	107.8	142.7	179.9	117.2	136.4	163.4	176.3	182.0	132.0
GDP growth (real)	% yoy	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.9	2.3	-14.8	4.1	5.2	0.3	0.0	-6.8
Industrial production	% yoy	13.2	14.2	7.0	15.8	12.5	3.1	6.2	10.2	-3.1	-21.9	11.2	7.3	-0.5	-4.7	-10.7
Agricultural production	% yoy	9.8	10.2	1.2	-11.0	19.7	-0.1	0.4	-5.2	17.5	0.1	-1.0	17.5	-4.5	13.7	2.8
CPI	% yoy aop	28.2	12.0	0.8	5.2	9.0	13.5	9.1	12.8	25.2	15.9	9.4	8.0	0.6	-0.3	12.1
CPI	% yoy eop	25.8	6.1	-0.6	8.2	12.3	10.3	11.6	16.6	22.3	12.3	9.1	4.6	-0.2	0.5	24.9
PPI	% yoy aop	20.9	8.6	3.1	7.6	20.5	16.7	9.6	19.5	35.5	6.5	20.9	19.0	3.7	-0.1	17.1
PPI	% yoy eop	20.8	0.9	5.7	11.1	24.1	9.5	14.1	23.3	23.0	14.3	18.7	14.2	0.3	1.7	31.8
Exports (gs, USD)	% yoy	17.9	9.5	10.7	24.0	42.6	7.5	13.2	27.5	33.8	-36.7	27.1	28.2	1.0	-5.2	-0.2
Imports (gs, USD)	% yoy	18.9	14.1	4.9	28.7	31.3	20.4	22.0	35.5	38.6	-43.1	29.3	33.8	5.6	-3.4	-0.3
Current account	USD bn	1.5	1.4	3.1	2.9	6.9	2.5	-1.6	-5.3	-12.9	-1.9	-2.9	-9.3	-14.3	-16.4	-5.3
Current account	% GDP	4.7	3.7	7.6	5.9	10.6	2.9	-1.5	-3.7	-7.2	-1.7	-1.7	-5.7	-8.1	-9.0	-4.0
FDI (net)	USD bn	0.6	0.8	0.7	1.4	1.7	6.5	5.3	9.2	9.9	4.5	5.7	6.6	6.6	3.4	0.3
International reserves	USD bn	1.5	3.1	4.4	6.9	9.7	19.4	22.4	32.5	31.5	26.5	36.7	31.8	31.4	20.4	7.5
Fiscal balance'''	% GDP	-0.7	-1.9	0.8	-0.2	-3.0	-1.9	-0.7	-1.1	-1.5	-2.4	-6.0	-1.8	-3.6	-4.4	-4.6
Total state debt	% GDP eop	45.3	36.5	33.5	29.0	24.7	17.7	14.8	12.5	19.9	33.0	39.9	36.0	37.4	39.9	70.2
External state debt (total)	% GDP eop	33.0	26.3	24.1	21.4	18.6	13.4	11.7	9.8	15.0	21.5	25.6	22.8	22.0	20.6	39.0
Monetary base	% yoy eop	39.9	37.4	33.6	30.1	34.1	53.9	17.5	46.0	31.5	4.4	15.8	6.3	6.4	20.3	8.5
Exchange rate	USD aop	5.44	5.37	5.33	5.33	5.32	5.12	5.05	5.05	5.27	7.79	7.94	7.97	7.99	7.99	11.87
Exchange rate	USD eop	5.44	5.30	5.33	5.33	5.31	5.05	5.05	5.05	7.70	7.98	7.96	7.99	7.99	7.99	15.77
Exchange rate	EUR aop	5.03	4.81	5.03	6.02	6.61	6.39	6.34	6.92	7.71	10.87	10.53	11.09	10.27	10.61	15.72
Exchange rate	EUR eop	5.10	4.67	5.53	6.66	7.22	5.97	6.65	7.42	10.86	11.68	10.57	10.54	10.30	11.04	19.26

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

''' "Minus" denotes a consolidated fiscal deficit; without recapitalisation

[c] Data excludes Crimea

Notes:

avg	average	**ytd**	year-to-date	**NBU**	National Bank of Ukraine
cum	cumulative	**p.a.**	per annum	**EPT**	Enterprise profit tax
mom	month on month change	**eop**	end of the period	**VAT**	Value added tax
qoq	quarter on quarter change	**aop**	average of the period	**Ukrstat**	State Statistics Service of Ukraine
yoy	year-on-year change	**gs**	goods and services		

Quarterly trends

National accounts		Q2 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14[c]	Q2 14[c]	Q3 14[c]	Q4 14[c]	Q1 15[c]	Q2 15[c]	Q3 15[c]
GDP	UAH bn	256.8	257.7	311.0	369.8	363.6	293.5	349.2	387.6	378.6	302.9	353.0	394.7	404.3	313.6	375.9	434.2	443.1	367.6	449.6	555.0
GDP (real)	% yoy	5.4	5.1	3.9	6.5	5.0	2.5	3.1	−1.3	-2.3	-1.2	-1.3	-1.2	3.3	-1.2	-4.5	-5.4	-14.8	-17.6	-14.6	-7.2
Household consumption (real)	% yoy	6.8	13.2	14.2	16.1	18.5	7.8	12.3	11.0	5.5	6.5	9.5	8.4	6.8	2.2	-9.0	-15.5	-13.6	-20.7	-27.6	-17.8
State consumption (real)	% yoy	-4.0	2.0	2.9	-9.4	-6.6	3.3	4.8	9.9	1.5	1.1	-2.3	-3.3	-2.5	-6.0	4.5	-0.5	3.5	5.0	-6.7	-2.5
Gross fixed capital formation (real)	% yoy	-3.2	-1.8	3.7	9.7	12.0	13.8	17.5	-5.2	-4.9	7.0	-17.4	-7.7	-5.1	-19.9	-16.8	-26.7	-26.2	-25.1	-13.8	-7.4
Exports of goods and services (real)	% yoy	13.2	19.4	4.9	0.3	-4.1	-7.3	-8.1	-3.8	-9.6	-9.0	-14.3	-7.9	-4.1	-5.8	-2.6	-16.8	-31.0	-26.2	-22.5	-11.3
Imports of goods and services (real)	% yoy	17.2	38.1	23.3	12.5	5.2	-3.0	9.0	4.3	-2.6	-2.4	-18.4	-0.7	-1.8	-13.0	-11.1	-31.9	-29.0	-20.1	-32.2	-18.5
Agriculture, hunting, forestry (real)*	% yoy	0.5	4.9	1.3	16.7	38.1	0.5	11.5	-8.3	-4.0	5.7	20.8	-2.0	38.2	5.9	-9.0	25.7	-19.1	-4.8	-11.7	-3.8
Manufacturing industry (real)*	% yoy	10.1	7.8	3.4	4.6	-2.9	1.1	1.8	-4.8	-5.5	-9.5	-9.2	-9.8	-8.9	-8.8	-8.0	-14.8	-16.7	-25.6	-21.8	-9.9
Construction (real)*	% yoy	-5.8	1.7	10.9	0.1	2.0	1.2	3.4	-15.3	-20.8	-14.9	-20.8	-11.1	-7.7	4.4	-16.7	-24.1	-30.9	-35.3	-25.6	-12.1
Trade, repair services (real)*	% yoy	9.6	9.8	2.8	6.1	3.0	3.2	4.6	0.4	-1.2	1.6	-0.2	1.9	4.7	-3.2	-8.2	-17.5	-21.7	-24.8	-20.4	-15.1
Transport (real)*	% yoy	1.8	10.2	7.9	5.7	11.1	-2.3	-3.3	-8.4	-9.5	-2.7	-0.6	2.8	2.8	-2.3	-5.9	-5.6	-12.1	-13.2	-2.7	-0.2
Balance of payments																					
Current account balance	USD bn	0.5	-1.6	-1.7	-2.6	-4.3	-1.9	-3.7	-3.9	-4.8	-3.2	-2.3	-6.0	-5.0	-1.3	-0.8	-1.2	-1.4	-0.5	0.2	0.1
Current account balance	% of GDP	1.6	-4.9	-4.4	-5.6	-9.5	-5.2	-8.5	-8.1	-10.1	-8.5	-5.1	-12.2	-9.9	-3.6	-2.6	-3.4	-6.7	-3.1	1.0	0.3
Trade balance in goods	USD m	-978	-3951	-3211	-5098	-5771	-4292	-5818	-5503	-6233	-4635	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1104	-445	-660
Trade balance in services	USD m	1392	1614	1882	2523	1867	1864	1697	2361	1578	1349	1504	2575	1066	937	443	456	686	633	469	360
Current transfers	USD m	728	1039	878	988	803	683	805	777	711	533	589	480	547	241	494	306	500	443	592	…
Direct investment (FDI)	USD m	1196	880	2422	2090	1623	1663	1091	2002	1871	821	472	1199	859	-665	-319	725	558	-397	-907	-883
Portfolio investments (equity)	USD m	-18	149	113	42	207	-3	74	83	339	705	579	664	-757	-239	-50	-84	-17	-13	…	…
Gross international reserves	USD bn	29.5	36.4	37.6	35.0	31.8	31.1	29.3	29.3	24.5	24.7	23.2	21.6	20.4	15.1	17.1	16.4	7.5	10.0	10.26	12.77
Exchange rate (interbank), UAH/USD	aop	7.91	7.95	7.98	7.99	8.01	8.03	8.04	8.09	8.11	8.11	8.14	8.15	8.21	9.14	11.71	12.58	13.56	21.23	21.26	21.74
Exchange rate (official), UAH/USD	aop	7.91	7.94	7.97	7.97	7.98	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	8.86	12.71	12.58	21.18	21.33	21.23	21.69
Fiscal indicators																					
Consolidated fiscal revenues	% of GDP	30.4	32.8	30.0	29.5	30.7	33.6	31.6	28.2	33.7	35.3	29.5	29.1	28.9	35.8	29.9	25.1	27.7	38.2	35.2	37.6
Personal income tax	% of GDP	4.8	5.0	4.8	4.2	4.7	5.1	4.9	4.4	5.0	5.3	5.1	4.7	4.9	5.2	4.8	4.3	5.1	5.6	5.4	5.6
Enterprise profits tax	% of GDP	3.0	4.5	4.5	3.6	4.4	4.9	4.1	2.9	4.2	6.2	3.4	3.0	3.0	5.0	2.5	1.9	1.6	4.5	1.8	1.6
Value-added tax	% of GDP	9.8	7.6	12.9	9.6	9.6	10.8	10.3	8.6	10.0	9.7	9.1	8.2	8.5	8.8	9.7	6.9	10.2	11.7	9.3	10.1
Excise tax	% of GDP	3.0	2.1	3.0	2.7	2.4	2.8	2.9	2.8	2.4	3.1	2.6	2.3	2.2	2.5	3.0	3.1	2.8	3.4	3.5	3.8
Consolidated fiscal expenditures	% of GDP	38.7	32.8	33.1	26.9	35.6	33.7	33.8	30.7	41.4	37.0	36.0	30.4	36.3	35.6	35.3	27.6	35.9	34.3	35.4	32.9
Current expenditures	% of GDP	37.4	31.5	30.8	23.9	30.1	31.8	31.3	27.7	37.4	35.7	34.1	28.5	33.5	35.1	34.3	26.1	33.9	32.5	34.1	30.3
Capital expenditures	% of GDP	1.4	1.3	2.4	3.0	5.5	1.9	2.4	2.9	4.0	1.3	1.9	1.9	2.8	0.5	1.0	1.5	1.9	1.8	1.3	2.6
Consolidated fiscal balance	% of GDP	-8.0	-0.3	-3.4	-3.9	-5.5	-0.2	-2.6	-3.0	-7.8	-1.9	-6.3	-1.5	-7.4	0.1	-5.4	-2.8	-8.8	3.8	-0.4	4.5
Privatisation receipts	% of GDP	0.0	0.4	3.2	0.0	0.1	1.4	0.3	0.1	0.4	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Labour market																					
Average wage (real)	% yoy	8.7	11.1	5.5	7.7	10.8	14.7	16.5	13.3	12.9	9.9	9.3	8.1	5.9	3.5	-4.1	-11.0	-13.4	-20.1	-27.8	-20.0
Household income (real)	% yoy	11.8	7.8	1.9	7.3	7.7	6.0	13.0	10.4	9.4	8.9	5.7	2.5	4.7	-3.4	-6.8	-5.6	-19.2	-23.5	-34.0	-26.6
Unemployment rate (ILO methodology)	% cum	7.9	8.7	7.7	6.9	8.2	8.4	7.1	6.6	8.0	8.0	7.5	7.0	7.6	9.0	8.2	9.5	10.6	9.6	8.8	8.6
Banking system																					
Monetary aggregate M0	% yoy cum	9.9	15.7	11.5	8.6	6.3	4.7	6.7	5.2	5.5	9.7	9.8	12.3	17.0	19.2	31.9	28.8	19.0	6.0	-1.3	-6.2
Monetary aggregate M2	% yoy cum	13.2	25.5	22.0	16.0	14.4	11.2	9.0	10.7	13.1	16.0	17.9	19.2	17.5	17.7	13.4	14.2	5.4	9.0	3.1	5.6
Household deposits in national currency	% yoy cum	20.1	43.3	26.0	16.7	12.3	14.4	16.4	16.3	16.3	19.1	26.5	33.4	38.0	7.9	-2.3	-12.3	-22.1	-19.1	-17.7	-16.6
Household deposits in foreign currency	% yoy cum	21.5	19.7	21.0	15.7	13.4	12.4	10.8	17.0	21.8	17.0	14.7	8.4	0.9	19.8	10.2	5.5	18.0	25.4	11.6	3.7
Com. bank credits in national currency	% yoy cum	8.3	16.0	18.5	21.1	21.0	17.4	15.3	9.1	7.7	8.6	7.4	10.2	16.9	12.3	4.9	-0.8	-9.1	-11.0	-11.8	-15.8
Com. bank credits in foreign currency	% yoy cum	-10.5	-2.1	0.9	-2.3	-4.2	-7.0	-10.8	-9.9	-7.3	-4.4	-0.4	0.8	2.8	36.4	38.5	49.1	53.5	58.4	29.2	18.7
Long-term com. bank credits	% yoy cum	-2.8	5.0	6.3	5.3	2.9	-2.9	-7.0	-8.0	-6.6	-5.6	-2.7	-0.5	2.9	26.3	24.4	24.6	21.7	17.9	3.1	-5.7
Long-term com. bank credits	% of total	68.9	67.2	66.6	64.4	62.9	61.5	59.8	59.1	57.8	55.9	55.7	55.1	53.2	58.5	59.1	59.8	59.5	58.5	57.6	60.7
Average lending rate on national currency credits	% p.a.	15.0	13.1	13.5	14.1	18.4	15.5	15.6	19.5	20.8	16.2	15.3	15.3	16.5	18.4	17.5	16.4	16.6	19.9	23.1	21.1
Average lending rate on foreign currency credits	% p.a.	11.1	10.2	9.8	8.8	8.4	8.2	8.2	8.5	8.8	9.4	9.7	9.6	8.8	8.7	9.4	9.2	8.8	8.2	9.3	9.2

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates
* change in value added
[c] Data excludes Crimea, since 2015 data excludes part of the

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