



Monthly Economic Monitor Ukraine

No.1 (159), January 2014

EXECUTIVE SUMMARY

HIGHLIGHT: YEAR 2013

Politics: The Ukrainian President and his Russian counterpart reached an agreement, according to which Russia promised to purchase Ukrainian Eurobonds at USD 15 bn and Russian Gazprom agreed on the reduction of gas price to USD 268 per thousand cubic meters.

Real Sector: Industrial output declined by 4.7% yoy as domestic and external demand remained weak.

Energy sector: Reduction of imported natural gas price by Russia discourages Ukrainian enterprises from investing into energy efficiency projects that might have increased the companies' competitiveness.

Agriculture: The Cabinet of Ministers changed rules for trade by agricultural products.

Privatisation: According to the draft State Budget for 2014 the planned privatization receipts are expected at UAH 17 bn.

External sector: Merchandise trade deficit narrowed to USD 1.4 bn in November from USD 2.3 bn in October reflecting stagnant exports and lower gas imports due to payment dispute with Russia.

Fiscal policy: The State Budget Law for 2014 was not approved due to the lack of political consensus.

Social policy: Real disposable income growth decelerated to 1.9% yoy in the third quarter of 2013 from 4.7% yoy in the second quarter due to slower growth of all income components.

Labour market: Unemployment rate (ILO methodology) declined to 6.2% of economically active population in age of 15-70 in the third quarter of 2013 despite economic recession.

Monetary policy: Headline consumer inflation was again positive at 0.5% yoy in December as compared to drop of 0.6% yoy in September.

Financial markets: Exchange rate remained broadly stable in December despite civil unrest.

Highlight of the month: Year 2013

THE YEAR IN REVIEW

In 2013 real GDP declined due to weak domestic and external demand. Real private final consumption growth was not sufficient to offset negative contributions of gross fixed capital accumulation and net exports to economic growth. In the end of the year economic and political uncertainty increased. The Government faced huge liquidity gap, which resulted in delays in financing even wages and social payments. During the year the Government did not introduce any economic reforms, which resulted in absence of new IMF program. In the end of the year Ukraine did not sign Association Agreement with the EU and slipped closer to Russia.

Politics

- The process of integration of Ukraine with the European Union (EU) was halted. In November, Ukrainian President Viktor Yanukovich refused to sign the Association Agreement with the EU and, thus, deferred establishment of a Deep and Comprehensive Free Trade Area with the Union. Ukraine intends to continue negotiations with the EU on the agreement, but their prospects remain uncertain. In 2013, Ukraine also failed to complete the first stage of the EU-Ukraine Visa Liberalization Action Plan.
- Ukraine started to slip into the Russian sphere of influence. In December, Ukraine received a financial aid from Russia in exchange for the decision to freeze integration with the EU. Specifically, Russia reduced the price of natural gas for Ukraine and purchased Ukrainian Eurobonds at USD 3 bn. Continuation of the aid for 2014 is conditional on coordination of policy-making with Russia, which tries to ensure a membership of Ukraine in the Customs Union of Belarus, Kazakhstan, and Russia.
- Refusal to sign the Association Agreement with the EU triggered an acute political crisis in Ukraine. In November, the wave of manifestations and civil unrest began across Ukraine. The protests have been the largest since the "Orange revolution" in 2004 as up to 800,000 people took part in rallies in Kyiv. Protesters, which demanded resignation of the Government and the President of Ukraine, occupied Maidan Nezalezhnosti, the central square of Kyiv, and a part of Kyiv City Hall. The Government refused to make any substantial concessions to protesters but avoided using heavy force to stop the civil unrest.
- Ukraine did not achieved progress in negotiations with the IMF. The Government and the National Bank continued discussions with the IMF about economic policies that could be supported by a new Stand-By Arrangement (SBA). The negotiations did not yielded results because of the absence of political will to conduct reforms in Ukraine.

Real sector

- Real GDP declined in the first nine months of 2013 due to lower real gross fixed capital accumulation and real exports. Real GDP growth in the fourth quarter was ensured by increase in gross value added in agriculture due to record grain harvest. Overall, real GDP declined in 2013.
- Main sectors, except for agriculture, worsened their performance in 2013. Industrial output declined by 5.0% yoy in eleven months of 2013, while construction dropped by more than 10% yoy. Fright turnover also reduced.

Energy

- The Naftogas of Ukraine and Russian Gazprom signed an addendum to the gas agreement of 2009 changing the coefficient k of the gas price formula so that the price of gas in the first quarter of 2014 equals USD 268.5 per thousand cubic meters of gas.
- Ukraine adopted the Law on Principles of Functioning of the Electricity Market. They liberalize the wholesale electricity market of Ukraine and de jure create competitive environment on the market that complies to the EU *acquis communautaire*.
- The National Commission that performs State Regulation in Energy Sphere (NERC) changed the rules for electricity export. Under the new rules any member of wholesale electricity market can take part in electricity auctions if it has a license to supply electricity at unregulated tariff and signed export contracts.
- Ukraine signed product sharing agreements with Shell, Chevron and Exxon on shale and traditional gas extraction. Thus, large international companies are positive about their investment prospects in Ukraine despite the high risks. At the same time, profitability of these projects became gloomy after the agreement between Ukraine and Russia on lower price of natural gas.

Agriculture

- In 2013 grain harvest and exports reached record levels. More than 61.5 m t of grain were harvested due to favorable weather conditions as well as use of improved technologies, high productive seeds and agrochemicals.
- According to the Agriculture Ministry the average crop yield increased by more than 25% to 40.3 dt/ha. The export volume of grain in 2013/2014 marketing year is expected by 31.6 m t making Ukraine the second largest grain exporter in the world (after the USA). However, profitability is likely to be low in 2013 due to low prices both at domestic and international markets.

- There have been two major concerns raised by agriculture producers in 2013: one is related to the land property and user rights; the other is linked to attempts of lifting the special tax system for agriculture. In particular, the Moratorium on land sale will remain effective until January 2016, while after long discussions special taxation of agriculture was kept.

Transport

- In the beginning of 2013, the largest air carrier of Ukraine, Aerosvit, went bankrupt. As a result, about 2 thousand employees lost jobs, passenger turnover of its base airport Boryspil went down by 18% in January and by 25% in February. New terminals at Boryspil airport became unprofitable and the airport decided to freeze terminal F. The majority of former Aerosvit routes and airplanes now belong to its biggest rival Ukraine International Airlines.
- During the Vilnius Summit of Eastern Partnership Ukraine signed a Common Airspace agreement with the EU. According to the agreement, starting 2015 Ukrainian air carriers can perform flights to any destination in Europe and European air carriers can fly to Ukraine without restrictions.
- In 2013, the Law on Seaports came into force. As a result, sea ports of Ukraine underwent reorganization. Strategic property (berths, water area, canals, public infrastructure) was given to the Administration of Sea Ports and its branches in individual ports. Such centralization should help to improve funding and attract investments.

Privatisation

- In 2013 SPFU planned to receive UAH 10.9 bn from privatization. As expected, the Fund received just 10.2% of that amount (UAH 1.107 bn), which was significantly lower than in 2012 (67.6%, or UAH 6.76 bn). The main source of receipts was privatization of a 60.8% stake in Donbasenergo, a power generation company (UAH 718.9 m).

External Sector

- Between January and November current account deficit widened to USD 14.2 bn. Exports fell by 8.7% yoy due to sluggish demand and unfavourable price dynamics. Imports fell by 6.0% yoy as the Naftogaz decreased gas imports and domestic demand almost stopped growing.

Fiscal policy

- Fiscal revenues were highly under-executed in 2013 due to economic slowdown, while fiscal parameters for 2013 were based on the assumption of real GDP growth at 3.5%. As a result, the Government was not able to finance its liabilities in time and in full in 2013. Capital expenditures were likely to be financed only at near 50% of annual plan.
- The fiscal deficit increased in 2013 due to higher state domestic borrowings. However, it was not sufficient to finance planned expenditures.
- The Government introduced long expected transfer pricing control. This control was expected to generate more fiscal revenues. However, envisaged in the Law privileges for several sectors undermined possible positive impact of such changes.
- The introduction of the real estate tax was again postponed until January 1, 2014.
- The State Budget Law for 2014 was not approved in 2013 due to high economic and political uncertainty. The approval of the document was postponed to January, 2014.

Social policy

- The Pension Fund's deficit increased in 2013, but was predominantly financed at the expense of central fiscal transfer. In particular, the Fund did not receive traditional loans from the Treasury for financing liquidity gaps due to lack of available liquidity at the Single Treasury account. As a result, there were some delays in pension payment the end of year.
- Real disposable income decelerated sharply in 2013 due to slowdown in growth of all income components.

Labour market

- Labour market remained weak in 2013.
- Minimum wage increase was the major reason for average wage growth in 2013, which sharply decelerated in 2013 due to economic slowdown.

Monetary policy, inflation and exchange rate

- CPI fell by 0.3% on average in 2013 in part due to downward bias in inflation measurement. Still stable commodity prices, modest growth in social standards and some anchoring of inflation expectations contained inflation for several years in the row.
- Deposit interest rates remained elevated and crossed 20% mark for major banks towards the end of the year. This allowed banks to replace external funding with domestic deposits which is more reliable source of funding. However, this maintained unsustainable financing cost for real sector (especially in real terms), discouraged enterprises from investing own funds, and limited bank revenues from financial intermediation.



- Government maintained exchange rate broadly fixed (despite slight depreciation up to UAH 8.30 per USD) in 2013 despite traditional round of pressure on exchange rate and political upheaval in late November. However, the NBU had to maintain supposedly temporary administrative measures for over a year and tighten them significantly in September. Cost in terms of lost reserves was also non-trivial despite much lower demand for cash foreign currency than in 2012.

State debt

- The State debt grew in 2013 against the background of revenue shortage and insignificant privatization receipts for financing planned expenditures.
- The Government successfully placed two issues of Eurobonds in the first 4 months of the year due to favourable situation at international capital market and expected deal with the IMF. However, lack of political will to conduct reforms and economic recession in Ukraine closed possibilities of the Government to enter the market again at acceptable rates in the rest of 2013. Only in December, the Ministry of Finance sold directly two-year Eurobonds at USD 3 bn to Russia, which was a result of negotiations of Ukrainian President and his Russian counterpart.
- Domestic debt increased due to extensive issue of domestic state bonds denominated both in national and foreign currency. The NBU holdings of the state domestic bonds increased by 2.6 p.p. to 59.4% of total state domestic bonds outstanding. In the end of the year the holdings of non-residents reached 4.8%.
- In 2013 domestic and external state debt denominated in foreign currency increased, which makes fiscal situation more vulnerable to exchange rate shocks.
- The Cabinet of Ministers approved the Medium-Term Government Debt Management Strategy for 2013-2015 replacing the previous similar document for 2012-2014. According to The Strategy, the target of state debt relative to GDP and weighted average debt maturity were increased in 2015 to 31% and 5.4 years respectively.

Monthly Economic Monitor Ukraine

Politics: Ukraine slips into the Russian sphere of influence

Russia. In December, Russia agreed to reduce the price of natural gas for Ukraine by approximately 30% in the first quarter of 2014. Russia also promised to purchase Ukrainian Eurobonds at USD 15 bn with the yield at 5% p.a. These steps were a part of the agreement reached after a series of negotiations between Ukrainian President Viktor Yanukovich and his Russian counterpart Vladimir Putin. It is still not officially known whether Ukraine made any obligations in return for Russia's concessions.

The financial aid is seen as a compensation for the decision of Ukraine to refuse to sign the Association Agreement (AA) with the European Union. That decision seemingly improved tense relations between Ukraine and Russia. Earlier in 2013, Russia banned imports of some goods from Ukraine, threatened to extend the ban on a number of products, and demanded Ukraine to pay USD 7 bn penalty for an alleged violation of a "take or pay" provision of gas import contract. Russia's pressure was intended to prevent Ukraine from signing the AA and ensure a full membership of the country in the Customs Union of Belarus, Kazakhstan, and Russia (CU). However, Ukraine has not yet made any public commitment regarding its membership in the CU.

It is expected that Russia will continue to provide aid to Ukraine in 2014 if Ukrainian authorities coordinate policy-making with Russia, at least in the area of foreign affairs. Therefore, Ukraine is not likely to sign the AA with the EU at least until the next Presidential election in 2015. The accession to the CU is also unlikely because of strong opposition to this idea in Ukraine.

Political crisis. The political crises that began in November after Ukraine refused to sign the Association Agreement (AA) with the EU persisted in December. Mass demonstrations continued to take place across the country. Their scale decreased at the end of the month, but remained large as hundreds of thousand people participate in rallies at each weekend. Protesters also continued to occupy Maidan Nezalezhnosti, the central square of Kyiv, and a part of Kyiv City Hall. Protesters demanded resignation of the Government and the President of Ukraine, and opposed to the accession of Ukraine to the Customs Union of Belarus, Kazakhstan, and Russia (CU). The situation looks like a stalemate because a large number of protesters are determined to continue manifestations until their demands are met but the authorities refuse to make any concessions. The authorities mostly avoid using heavy force to stop the civil unrest being afraid of sanctions from developed countries and further escalation of protests. The protests may last long in 2014 maintaining a high level of political uncertainty. The confrontation may aggravate because the most active protesters are exposed to frequent criminal attacks.

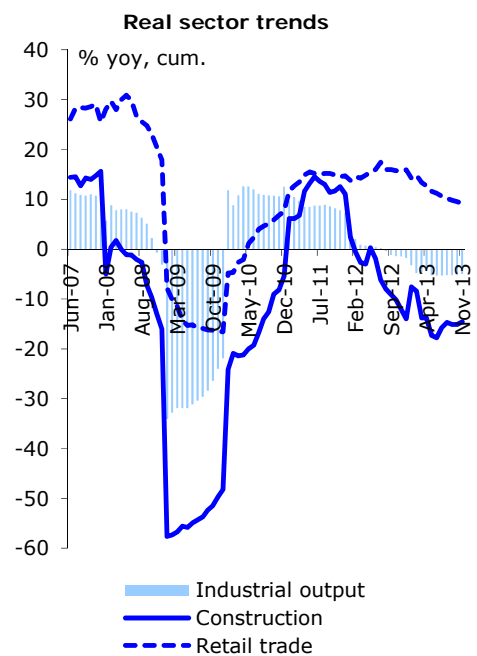
Real sector: Real industrial output continued to decline

Sectoral trends. The trends in industry did not change substantially in November. In particular, industrial output declined by 4.7% yoy as domestic and external demand remained weak. Output in metallurgy dropped by 11.8% yoy. Machine building reduced production by 17.2% yoy. In particular, production of railway carriages and locomotives dropped by 45.7% yoy due to sharp drop in demand from Russia. At the same time, production of cars grew by 8.8% yoy likely due to increased trade protection. As Odessa oil refinery renewed its work in end September, output of oil refineries grew by 7.8% yoy.

Good harvest contained costs in food production and led to increase in meat and milk processing as well as sunflower oil production. Nevertheless, sharp drop in sugar production by 29% yoy, and drop in confectionary production by 10% yoy led food production to drop by 7.8% yoy.

Overall, in eleven months of 2013 agricultural production grew by 11.7% yoy due to record grain harvest and high harvest of other crops. Livestock production grew by 4.5% yoy.

Population: 45.6 m
Industry/GDP: 24%
Agriculture/GDP: 8%
Investment/GDP: 21%
Exports to: Russia 25%, EU 28%
Imports from: Russia 22%, EU 35%



Between January and November retail trade growth decelerated to 9.2% yoy likely to slowdown in real disposable income growth. Lower coal production (largest component of rail freight) and lower rail transit (in part due to re-routing of cargoes to own ports by Russia) resulted in drop of freight turnover by 4.5% yoy.

In November drop in construction decelerated to 10.3% yoy due to statistical base effect. Residential construction as previously grew by 4.2% yoy but it accounts for less than 20% of construction work performed.

Energy sector: Ukraine receives cheaper gas

Gas prices. On December 17, the Naftogas of Ukraine and Russian Gazprom signed an addendum to the gas agreement of 2009. According to new arrangements the coefficient *k* in the gas price formula is set in a way that the price of gas in the first quarter of 2014 equals USD 268.5 per thousand cubic meters. However, the "take or pay" clause of the contract is left untouched while the *k* coefficient needs to be defined every quarter in additional agreements between the Naftogas and the Gazprom. Therefore, the predictability of the future gas price is under concern. Besides, there could also be other impacts. In particular, lower price of gas may make recently started projects on alternative gas sources unprofitable. As a result, diversification of energy resources would not be reached. Moreover, cheaper gas also discourages Ukrainian enterprises from investing into energy efficiency projects that might have increased the companies' competitiveness.

Electricity. On December 10, the Ukrenergo held the first electricity auction under the new procedure of access to electricity grid for export purposes. New rules lowered the entry deposit by 12 times and introduced bank guarantee as a new tool of fulfilling the obligations before the Ukrenergo. The holding DTEK remained an exclusive electricity exporter to Slovakia, Hungary, Romania, Poland and Belarus. Second auction winner was Donbasenergo that purchased the capacities to supply electricity to Moldova. Another auction participant was Ukrinterenergo.

Coal. In December, metallurgy and coal extracting enterprises signed a memorandum obliging the metallurgy enterprises to purchase 1 m tone of coking coal from state coal mines under three conditions: improved quality of coal, acceptable price of coal and absence of quotas on coking coal imports. The memorandum was signed by major metallurgical players - Metinvest, ISD, ArcelorMittal Kryvyi Rih, Donetskstal, EVRAZ-DMZ Petrovskoho and ISTEK.

Agriculture: Agro trade rules were changed

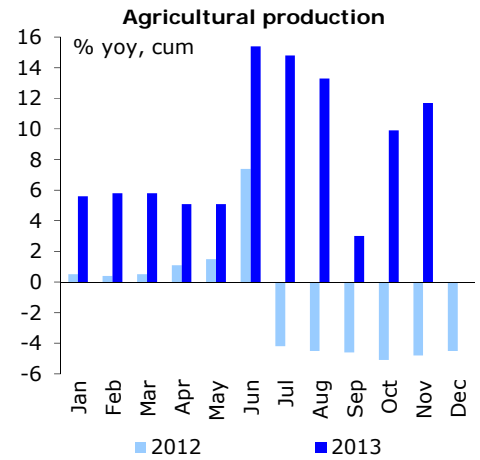
In December the Cabinet of Ministers extended the list of goods to be brought to the customs territory of Ukraine and/or be transported to Ukraine only after ensuring customs duty payment. In particular, the list now includes additional 27 positions, including animal feed, chemical weed-killers and fertilizers, agricultural machinery and tractors. Such changes mean tightening of customs control.

Besides, the Cabinet of Ministries excluded meat and fat from the list of licensed or quoted products for 2014. The previous licenses for export of fresh, cooled or frozen meat and eatable by-product from poultry, as well as fat, lard and poultry fat were introduced in April 2011. Such changes might stimulate exports of respective goods.

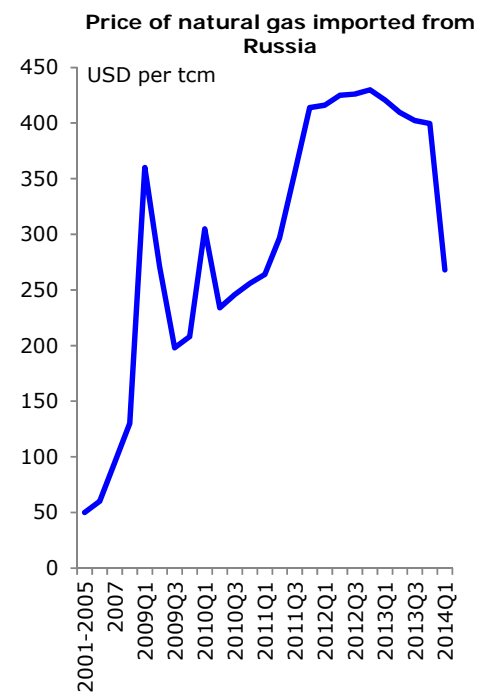
Privatisation: Continued privatization of the energy sector

On December 24th, the State Property Fund of Ukraine (SPFU) sold a 75% stake in Volynoblenerho, a power distribution company, for UAH 462 m. The selling price was marginally higher than the initial bid (UAH 457 m). The buyer was Ukreastgas LLC, which bought the Kharkiv combined heat and power generating plant No.5 in 2012. The SPFU has not disclosed yet whether the money were transferred to the State Budget till the end of the year.

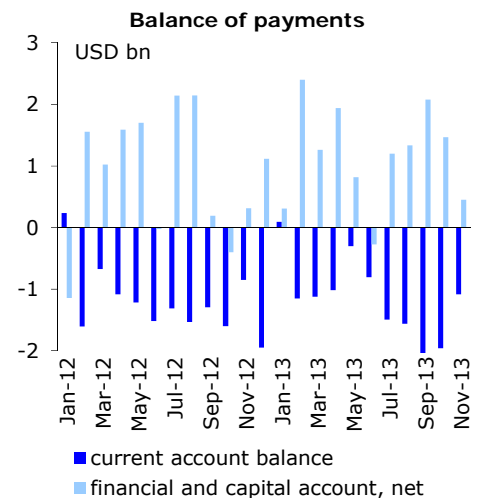
According to the draft State Budget for 2014 the planned privatization receipts are expected at UAH 17 bn. It is unclear which companies are



Source: Ukrstat



Source: MinEnergO



Source: NBU preliminary estimates

to be sold to ensure such high receipts. One of the companies, which is likely to be on sale, is Odesa by-port plant.

External sector: Current account deficit shrank to USD 1.1 bn

Current account deficit shrank to USD 1.1 bn in November from USD 2.0 bn in October. Merchandise trade deficit narrowed to USD 1.4 bn in November from USD 2.3 bn in October reflecting stagnant exports and lower gas imports due to payment dispute with Russia.

Exports of goods in November dropped by 6.5% yoy. Volume of agricultural exports continued to grow but lower export prices and increase in exports of low-priced corn resulted in drop in export value by 2.5% yoy. Exports of other items did not change much from previous months with the exception of machine building exports that continued to contract due to lower shipments to Russia.

Merchandise imports dropped by USD 0.95 bn to USD 7 bn from previous month. Imports of mineral products declined by 13% yoy to USD 1.8 bn. Imports of food products surged to the highest level in seven months, while imports of other goods was by 0.8% lower than a year ago.

Financial and capital account balance surplus dropped to USD 0.4 bn in November. FDI inflows surged to USD 0.45 bn, but portfolio outflows increased and FDI abroad also grew. The Government reported debt inflows of USD 0.8 bn from non-residents who purchased domestic government bonds (IMF repayments are counted "below the line"). Net debt outflows from private sector were at USD 0.1 bn as private sector was mostly able to refinance debt repayments but partly through short-term debt. Trade loans repayments and other outflows were at USD 0.5 bn as the Naftogaz started paying for at least some imported gas and decreased imports. Large increase in cash outside banks (by USD 0.8 bn) was offset by decrease in foreign deposits of Ukrainian residents.

Fiscal policy: 2014 starts without approved State Budget law

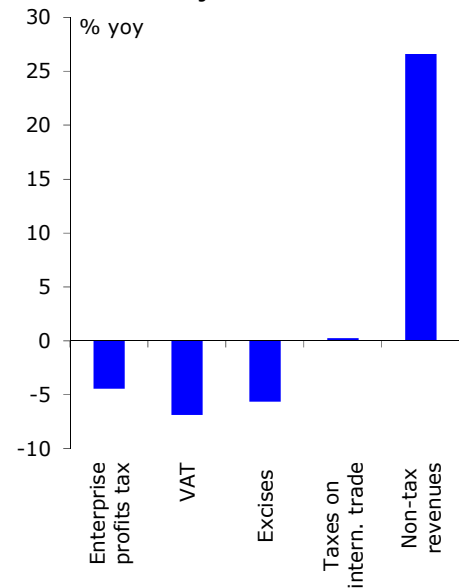
State Budget Law - 2014. On December 18, the Cabinet of Ministers finally submitted the Draft State Budget Law for 2014 to the Verkhovna Rada. The main budget indicators are based on optimistic real GDP growth forecast at 3.0% and more realistic forecast for inflation rate (CPI) at 4.3%. However, the information on exchange rate and price on natural gas for 2014 were not officially published. Central fiscal deficit is envisaged at 59.5 bn (or 3.6% of GDP) and is to be primarily financed at the expense of domestic borrowings. However, the planned figure for external borrowings (UAH 43.2 bn) is much lower than the amount promised by Russia (USD 12 bn). Summing up, fiscal consolidation is not envisaged in the Draft Budget Law, while fiscal sustainability risks increase. The approval of the document was postponed to January, 2014.

Tax changes. The Parliament approved amendments to the Tax Code, which are introduced since January 2014. In particular, EPT rate was reduced to 18% while previously reduction to 16% was envisaged. VAT rate was kept unchanged at 20%, while reduction to 17% is postponed to 2015.

Budget execution. Fiscal revenues were largely under-executed in 2013 due to economic slowdown. In particular, EPT revenues were lower than target due to weaker than expected profits. Slow growth of consumption against the background of vague increase in VAT refunds resulted in substantial under-execution of VAT revenues. Lower than planned tax revenues were only partially offset by higher non-tax collections primarily attributed to larger transfer of the NBU profits.

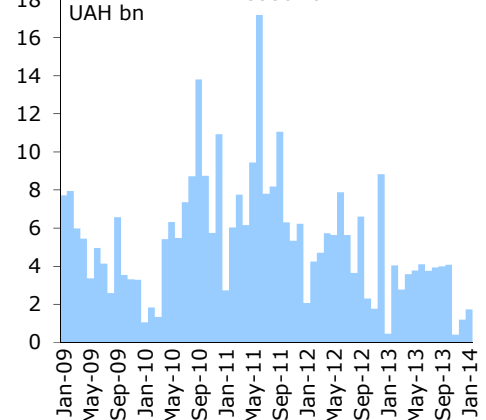
Even though the Government attracted substantial financing at domestic and external capital markets in December it was not able to finance all its liabilities in time and in full. Capital outlays were likely to be financed at less than 60% of annual target.

Growth of central fiscal revenues in January-November of 2013



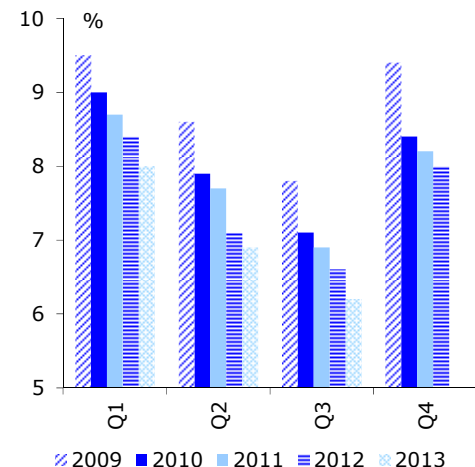
Source: State Treasury reports

Balance of the Single Treasury Account



* in the beginning of month
Source: State Treasury

Unemployment rate (ILO)



Source: Ukrstat

Social policy: Deceleration in income growth

Real disposable income growth decelerated to 1.9% yoy in the third quarter of 2013 from 4.7% yoy in the second quarter due to slower growth of all income components.

Overall, total household income grew by 2.9% yoy in nominal terms. Wage income increased only by 3.1% yoy likely due to weak labour market. Informal wages were likely growing at a lower pace than official wages reported by the Ukrstat. Fiscal constraints resulted in increase in social assistance by only 1.5% yoy.

Entrepreneurs profits and income from subsidiary farming grew by 1.7% yoy due to two reasons. In particular, business profits were suppressed by slowdown in economic activity, while agricultural production of households barely increased in the third quarter (by 1-2% yoy).

At the same time, purchases of goods and services grew by 6.4% yoy as saving rate declined.

Labour Market: Unemployment rate somewhat declined

Unemployment rate (ILO methodology) declined to 6.2% of economically active population in age of 15-70 in the third quarter of 2013 as compared to 6.6% in the third quarter of 2012 despite economic recession. In particular, number of unemployed declined to 1.4 m individuals. Unemployment declined primarily for men in urban areas, which is strange given fall in the industrial output. Two possible reasons for such decline could be either increase in informal employment and/or employment of these individuals in agriculture, which grew fast in 2013.

Monetary policy: Consumer prices grew by 0.5% yoy in December

Headline consumer inflation was again positive at 0.5% yoy in December as compared to drop of 0.6% yoy in September. Increase in prices of milk, vegetables and sugar (as opposed to significant drop in September) more than offset falling prices for unprocessed meat. Inflation for non-food items remained mostly unchanged.

It should be noted that significant downward bias likely remains in CPI calculations, although it may have decreased over the last few months. In November deflator of retail sales was 0.8% yoy.

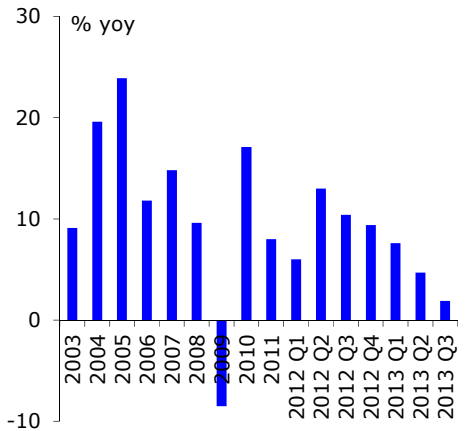
In December monetary conditions tightened significantly as double-digit interest rates returned to interbank market. Bank liquidity dropped in response to the NBU interventions on the currency market and likely slowdown of deposit growth. Although liquidity increased in the closing weeks of the year as usual, interbank rates remained high.

Financial markets: Exchange rate remained broadly stable

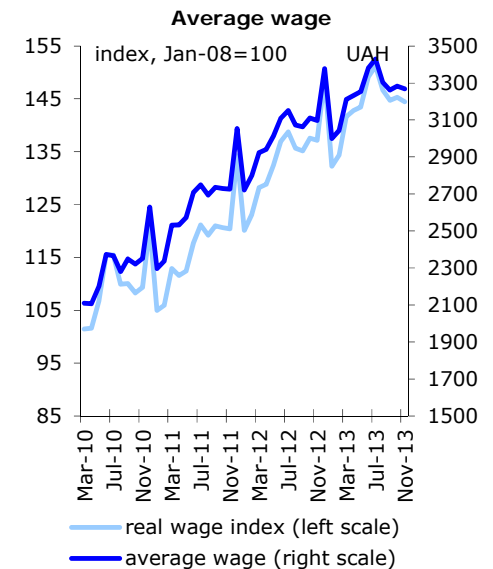
Exchange rate. Exchange rate remained broadly stable in December despite civil unrest. Increase in demand for cash foreign currency was significant but geographically limited and likely lower than could be expected. The NBU also supported exchange rate through interventions. Still, exchange rate weakened from average of UAH 8.20 per USD in November (daily close interbank rate as reported by ICAP) to over UAH 8.30 per USD in the middle of the month. In the second half of the month exchange rate was supported by the news of USD 15 bn investment in Ukrainian government bonds by Russia including immediate purchase of USD 3 bn of Eurobonds.

State debt. In December, the Government significantly increased domestic borrowings due to 'friendly' demand for the state bonds from banks and non-residents (likely Russian banks). In particular, the Ministry of Finance placed UAH 7.7 bn of hryvnia denominated bonds with weighted average yield at 13.8 p.a. The long-term bonds (seven- and five-year) accounted for 92.2% of the total placement. Besides, the Government placed USD 733 m. Moreover, to cover large liquidity gaps the Ministry of Finance placed government domestic bonds with a maturity of six and eight days.

Real disposable household incomes

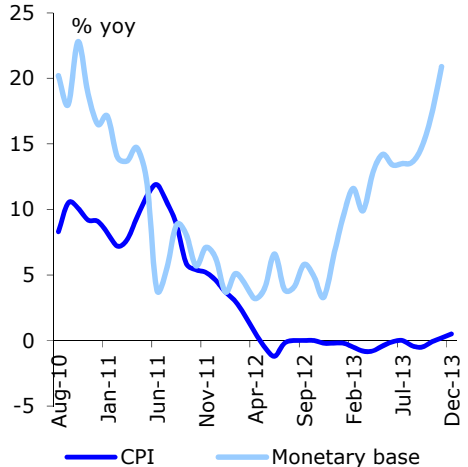


Source: Ukrstat



Source: Ukrstat

CPI and monetary base development

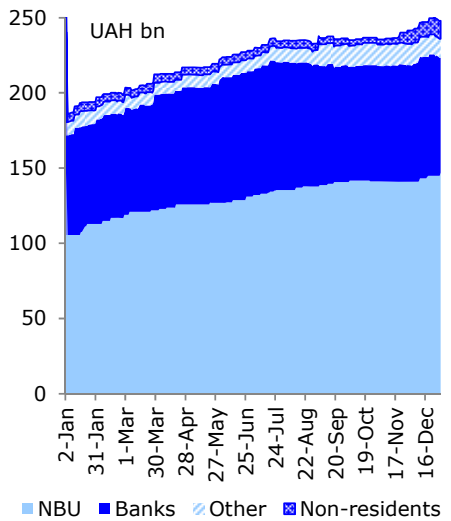


Source: Ukrstat, NBU

On December 24, the Government placed 2-years Eurobonds at USD 3 bn with the yield 5% p.a. This is the first deal under the agreement reached between the Ukrainian President and his Russian counterpart. Overall, Russia is expected to purchase Eurobonds at total amount of USD 15 bn. Substantial external borrowings in December helped the Government to finance the most urgent liabilities in the end of 2013.

According to the preliminary information of the State Treasury, in 2013 total state borrowings due to the general fund augmented by 46.1% to UAH 150.5 bn. Such an increase was explained by growing need for financing planned expenditures and rolling out its debt. Domestic borrowings accounted for 68.1% of total borrowings. While in the beginning of the year the Government made two placements of Eurobonds on the market, in December it directly sold Eurobonds to Russia. Overall debt payments (debt redemption and servicing) augmented by 21.9% to UAH 111.5 bn. As a result, state debt grew in 2013 increasing Ukraine’s fiscal vulnerability.

Domestic government bond holdings



Source: NBU

Economic Trends		Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industrial production (real)	% yoy cum.	0.9	0.4	-1.2	-1.8	-5.0	-5.3	-5.2	-3.2	-4.8	-5.0	-4.2	-5.2	-5.3	-5.2	-5.2	-5.2	-5.0	...	
Construction (real)	% yoy cum.	-2.7	-1.9	-9.1	-14	-13.8	-17.8	-15.1	-7.6	-8.4	-13.8	-13.8	-17.3	-17.8	-15.7	-14.7	-15.1	-15.1	-14.6	...
Agricultural production (real)	% yoy cum.	0.5	7.4	-4.6	-4.5	5.8	15.4	3.0	5.6	5.8	5.8	5.1	5.1	15.4	14.8	13.3	3.0	9.9	11.7	...
Retail trade turnover (real)	% yoy cum.	14.2	16.0	16.0	15.9	13.4	11.2	9.8	14.2	14.8	13.4	12.7	11.6	11.2	10.6	10.2	9.8	9.5	9.2	...
Average wage	UAH	2923	3109	3064	3195	3085	3289	3331	3000	3044	3212	3233	3253	3380	3429	3304	3261	3283	3268	...
CPI	% yoy eop	1.9	-1.2	0.0	-0.2	-0.8	-0.1	-0.5	-0.2	-0.5	-0.8	-0.8	-0.4	0.0	-0.4	-0.5	-0.1	0.2	0.5	...
PPI	% yoy eop	6.5	4.5	0.3	0.3	0.2	-1.6	-0.9	1.5	-0.9	0.2	-1.0	1.9	-1.6	-1.6	-0.9	-0.9	0.8	-0.5	1.7
Exports (USD)*	% yoy cum.	5.2	2.5	2.6	1.0	-2.1	-7.0	-6.5	-5.7	-1.2	-5.3	-3.9	-7.6	-8.3	-8.4	-8.6	-8.8	-9.0	-8.7	...
Imports (USD)*	% yoy cum.	5.8	9.8	7.6	5.6	-4.7	-8.8	-5.6	-2.1	-3.6	-3.5	-3.6	-9.7	-11.5	-10.4	-9.8	-8.0	-7.1	-6.0	...
Merchandise trade balance	USD bn cum.	-3.9	-9.5	-14.8	-20.5	-3.8	-6.8	-13.4	-0.5	-2.0	-3.8	-5.3	-5.9	-6.8	-8.8	-10.8	-13.4	-15.7	-17.7	...
Current account**	USD bn cum.	-2.0	-5.9	-10.0	-14.4	-2.9	-5.2	...	0.0	-1.5	-2.9	-4.0	-4.4	-5.2	-6.7	-8.2	-10.4	-12.3	-14.2	...
Gross international reserves	USD bn eop	31.1	29.3	29.3	24.5	24.7	23.2	21.6	24.7	24.7	25.2	24.5	23.2	22.7	21.7	21.6	20.6	18.8	20.4	...
Monetary Base	% yoy eop	4.3	6.6	5.8	6.4	9.9	13.4	14.8	9.5	11.6	9.9	12.8	14.2	13.4	13.5	13.6	14.8	17.3	20.9	...
Lending rate on UAH credits	% pa, aop	15.5	15.7	19.6	20.8	16.2	15.4	15.3	16.5	15.9	16.1	15.3	15.6	15.3	15.7	15.0	15.2	15.6	17.0	...
Exchange rate (interbank)	USD aop	8.02	8.05	8.09	8.11	8.11	8.11	8.11	8.10	8.11	8.11	8.11	8.12	8.12	8.11	8.10	8.13	8.14	8.15	8.14
Exchange rate (official)	USD aop	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99
Exchange rate (official)	EUR aop	10.46	10.26	9.99	10.37	10.55	10.44	10.58	10.60	10.70	10.36	10.40	10.38	10.41	10.45	10.64	10.67	10.90	10.79	10.94

Sources: Ukrstat, NBU, own calculations

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

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

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

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

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

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

Notes:

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

Quarterly trends

National accounts		Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	
GDP	UAH bn	250.3	259.9	217.3	256.8	301.3	307.3	257.7	311.0	369.8	363.6	293.5	349.2	387.6	378.6	301.6	351.9	392.6	
GDP (real)	% yoy	-15.7	-6.7	4.5	5.4	3.3	3.7	5.1	3.9	6.5	5.0	2.2	3.0	-1.3	-2.5	-1.1	-1.3	-1.3	
Household consumption (real)	% yoy	-14.3	-16.2	0.2	6.8	7.8	12.8	13.2	14.2	16.1	18.5	8.6	15.7	14.0	6.9	4.5	7.4	6.7	
State consumption (real)	% yoy	-4.3	-3.7	3.8	-4.0	5.8	10.0	2.0	2.9	-9.4	-6.6	0.9	2.7	7.9	-1.3	2.1	-1.0	-3.0	
Gross fixed capital formation (real)	% yoy	-53.2	-33.7	-5.7	-3.2	9.5	10.5	-1.8	3.7	9.7	12.0	12.3	16.2	-6.9	-7.5	4.0	-19.7	-7.1	
Exports of goods and services (real)	% yoy	-30.9	6.9	0.4	13.2	2.0	0.9	19.4	4.9	0.3	-4.1	-8.2	-9	-4.9	-8.7	-6.8	-14.4	-7.8	
Imports of goods and services (real)	% yoy	-47.6	-11.1	-6.2	17.2	20.2	13.2	38.1	23.3	12.5	5.2	-2.3	9.9	4.2	4.0	-4.6	-19.1	-1.1	
Agriculture, hunting, forestry (real)*	% yoy	2.2	-11.6	5.4	0.5	-3.2	0.9	4.9	1.3	16.7	38.1	0.4	11.3	-8.4	-3.9	3.2	20.9	-2.1	
Manufacturing industry (real)*	% yoy	-25.6	6.5	10.9	10.1	7.6	7.6	7.8	3.4	4.6	-2.9	-0.1	-0.1	-6.1	-7.2	-9.5	-9.2	-9.7	
Construction (real)*	% yoy	-43.6	-32.8	-7.7	-5.8	9.6	3.9	1.7	10.9	0.1	2.0	-3.4	-0.2	-15.1	-12.2	-14.8	-20.9	-11.7	
Trade, repair services (real)*	% yoy	-22.0	-16.4	6.1	9.6	10.1	4.7	9.8	2.8	6.1	3.0	5.1	6.8	3.5	0.3	3.1	1.4	3.4	
Transport (real)*	% yoy	-5.7	-0.4	1.3	1.8	3.0	0.1	10.2	7.9	5.7	11.1	3.7	3.8	-1.8	-1.5	-3.3	-2.2	1.4	
Balance of payments																			
Current account balance	USD bn	-0.1	-0.9	0.0	0.5	-1.0	-2.5	-1.6	-1.7	-2.6	-4.4	-2.1	-3.8	-4.0	-4.9	-2.7	-2.0	-5.2	
Current account balance	% of GDP	-0.2	-2.7	-0.1	1.6	-2.6	-6.5	-4.9	-4.4	-5.6	-9.5	-5.6	-8.7	-8.3	-10.3	-7.2	-4.5	-10.7	
Trade balance in goods	USD m	-1396	-1407	-1236	-697	-2870	-3585	-3597	-2851	-4580	-5224	-3867	-5577	-5215	-5833	-3700	-2808	-6576	
Trade balance in services	USD m	1256	550	930	1115	1536	823	1262	1514	2007	1312	1299	1362	1975	1084	859	992	2029	
Current transfers	USD m	640	722	608	728	797	842	1039	878	988	803	683	805	777	711	548	604	495	
Direct investment (FDI)	USD m	1210	1282	923	1196	1470	2170	880	2422	2090	1623	1663	1091	2002	1871	832	1088	1166	
Portfolio investments (equity)	USD m	32	41	-20	-18	135	197	149	113	42	207	-3	74	83	339	705	683	665	
Gross international reserves	USD bn	28.2	26.5	25.1	29.5	34.7	34.6	36.4	37.6	35.0	31.8	31.1	29.3	29.3	24.5	24.7	23.2	21.6	
Exchange rate (interbank), UAH/USD	aop	7.99	8.06	8.00	7.91	7.90	7.96	7.95	7.98	7.99	8.01	8.03	8.04	8.09	8.11	8.11	8.11	8.11	
Exchange rate (official), UAH/USD	aop	7.82	7.99	7.99	7.91	7.90	7.93	7.94	7.97	7.97	7.98	7.99	7.99	7.99	7.99	7.99	7.99	7.99	
Fiscal indicators																			
Consolidated fiscal revenues	% of GDP	25.5	36.0	30.9	30.4	23.3	32.3	32.8	30.0	29.5	30.7	33.6	31.6	28.2	33.7	35.4	29.6	27.7	
Personal income tax	% of GDP	4.4	4.7	4.9	4.8	4.4	4.8	5.0	4.8	4.2	4.7	5.1	4.9	4.4	5.0	5.3	5.1	3.9	
Enterprise profits tax	% of GDP	3.7	3.6	4.3	3.0	3.4	4.2	4.5	4.5	3.6	4.4	4.9	4.1	2.9	4.2	6.2	3.5	3.4	
Value-added tax	% of GDP	6.4	11.0	9.8	9.8	8.5	9.9	7.6	12.9	9.6	9.6	10.8	10.3	8.6	10.0	9.7	9.1	9.1	
Excise tax	% of GDP	2.5	2.6	2.4	3.0	2.5	2.6	2.1	3.0	2.7	2.4	2.8	2.9	2.8	2.4	3.1	2.6	2.6	
Consolidated fiscal expenditures	% of GDP	29.6	34.5	33.0	38.7	30.3	37.6	32.8	33.1	26.9	35.6	33.7	33.8	30.7	41.4	37.2	36.1	25.3	
Current expenditures	% of GDP	27.0	31.4	32.4	37.4	26.6	32.8	31.5	30.8	23.9	30.1	31.8	31.3	27.7	37.4	35.9	34.2	22.5	
Capital expenditures	% of GDP	2.6	3.1	0.6	1.4	3.7	4.8	1.3	2.4	3.0	5.5	1.9	2.4	2.9	4.0	1.3	1.9	2.8	
Consolidated fiscal balance	% of GDP	-4.5	1.1	-2.0	-8.0	-7.5	-5.6	-0.3	-3.4	-3.9	-5.5	-0.2	-2.6	-3.0	-7.8	-1.9	-6.4	3.6	
Privatisation receipts	% of GDP	0.1	0.0	0.1	0.0	0.1	0.2	0.4	3.2	0.0	0.1	1.4	0.3	0.1	0.4	0.0	0.0	0.0	
Labour market																			
Average wage (real)	% yoy	-10.7	-5.7	3.3	8.7	12.3	11.4	11.1	5.5	7.7	10.8	14.7	16.5	13.3	12.9	9.9	9.3	8.1	
Household income (real)	% yoy	-8.6	-7.6	3.7	11.8	11.0	14.7	7.8	1.9	7.3	7.7	6.0	13.0	10.4	9.4	7.6	4.7	...	
Unemployment rate (ILO methodology)	% cum	8.6	8.8	9.0	8.5	8.1	8.1	8.7	8.2	7.8	7.9	8.4	7.8	7.4	7.9	8.0	7.5	...	
Banking system																			
Monetary aggregate M0	% yoy cum	11.5	1.5	5.4	9.9	17.4	16.5	15.7	11.5	8.6	6.3	4.7	6.7	5.2	5.5	9.7	9.8	12.3	
Monetary aggregate M2	% yoy cum	-1.4	-5.4	6.9	13.2	21.6	23.1	25.5	22.0	16.0	14.4	11.2	9.0	10.7	13.1	16.0	17.9	19.2	
Household deposits in national currency	% yoy cum	-25.4	-8.5	7.1	20.1	38.6	41.4	43.3	26.0	16.7	12.3	14.4	16.4	16.3	16.3	19.1	26.5	33.4	
Household deposits in foreign currency	% yoy cum	39.2	4.7	22.8	21.5	17.7	16.9	19.7	21.0	15.7	13.4	12.4	10.8	17.0	21.8	17.0	14.7	8.4	
Com. bank credits in national currency	% yoy cum	25.2	16.9	13.6	8.3	6.0	11.2	16.0	18.5	21.1	21.0	17.4	15.3	9.1	7.7	8.6	7.4	10.2	
Com. bank credits in foreign currency	% yoy cum	32.4	-15.2	-13.7	-10.5	-13.2	-8.3	-2.1	0.9	-2.3	-4.2	-7.0	-10.8	-9.9	-7.3	-4.4	-0.4	0.8	
Long-term com. bank credits	% yoy cum	29.9	-3.8	-3.9	-2.8	0.6	-0.5	5.0	6.3	5.3	2.9	-2.9	-7.0	-8.0	-6.6	-5.6	-2.7	-0.5	
Long-term com. bank credits	% of total	67.3	68.1	68.5	68.9	67.5	66.3	67.2	66.6	64.4	62.9	61.5	59.8	59.1	57.8	55.9	55.7	55.1	
Average lending rate on national currency credits	% p.a.	17.5	19.8	17.3	15.0	13.0	15.0	13.1	13.5	14.1	18.4	15.5	15.6	19.5	20.8	16.2	15.3	15.3	
Average lending rate on foreign currency credits	% p.a.	10.0	10.1	10.9	11.1	10.3	10.1	10.2	9.8	8.8	8.4	8.2	8.2	8.5	8.8	9.4	9.7	9.6	

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates
* change in value added

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