INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Monthly Economic Monitor Ukraine

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EXECUTIVE SUMMARY

HIGHLIGHT: YEAR 2015

Politics: In December, the European Commission (EC) formally recommended the EU council to grant visa-free regime for short-time trips of Ukrainians to the EU. The regime may become effective in mid-2016 if Ukraine fulfils taken obligations.

Real sector: Real GDP in the third quarter of 2015 grew by 0.5% qoq. This reflected increase in economic activity in agriculture, construction and transport and stable nonfinancial services sector.

Energy sector: In January-November 2015 Ukraine imported 13 m t of coal worth USD 1.5 bn from Russia, the USA, Australia and other countries.

Agriculture: The Parliament amended special the VAT regime for agricultural producers since 2016 o reduce tax subsidy to agricultural producers.

External sector: Current account deficit in November shrunk to USD 0.1 bn because of lower merchandise trade deficit.

Fiscal policy: The Parliament approved the State Budget Law for 2016, which is based on the number of amendments to the Tax and Budget Codes as well as other legislative acts.

Privatisation: In eleven months of 2015, privatisation receipts reached UAH 145 m out of planned UAH 17 bn.

Social policy: Social standards will be increased twice in 2016 (in May and in December); however, they will still decline in real terms.

Labour market: Decline of real wage decelerated to 14.0% yoy due to slowdown in inflation as well as adjusting wages to the increase in minimum wage.

Monetary policy: Headline CPI was up by 0.7% mom in December bringing inflation in 2015 to 43.3% yoy.

Exchange rate: In December, interbank exchange rate moved in UAH 23-24 per USD range as in November.

State debt: The Cabinet of Ministers put moratorium on repayment of Russian USD 3 bn Eurobond, scheduled on December 31, 2015.

Highlight of the month: Year 2015

THE YEAR IN REVIEW

2015 was a year of many wins and losses for Ukraine. The year started with a big escalation of military conflict in the East of the country, which pushed economy to a larger recession than expected in the beginning of the year. It led to sharp hryvnia depreciation, inflation above 40%, drop in industrial output, and contraction of domestic demand. Fragile macroeconomic stabilisation was reached in the third quarter of 2015, while recovery is likely to be very slow. The Government has finally started implementing long delayed and necessary reforms. Deregulation was among largest successes in government policies last year. Some progress was also made in implementing anti-corruption measures, but they were slow and much remains to be done. Introduction of pilot project in electronic procurement in 2015 and the approval of the law on Public procurement (that becomes effective in 2016) are also among major achievements. The National Bank of Ukraine moved to more flexible exchange rate, though did not cancel administrative measures at the market. The banking sector became more sound as problem banks were liquidated. Fiscal situation improved last year as high inflation resulted in additional revenues from such taxes as VAT and excises. At the same time, the Government failed to approve comprehensive tax reform, but approved only fragmented amendments to the Tax Code. Overall, long list of reforms is still in the agenda.

Politics

- In 2015 there were no major changes in the Government in Ukraine. Ukraine lived the year 2015 almost without changes in the Government. However, relative political stability was jeopardized at the end of the year when a part of government coalition members demanded the resignation of the government. The local election in October 2015 also showed a decrease in popularity of the ruling parties, which might create grounds for political instability in 2016.
- Russia's undeclared war against Ukraine abated. The last major offensive carried out by Russia-controlled insurgents near Debaltseve ended in mid-February with the second Minsk ceasefire agreement. As the process of political settlement yielded almost no results, the war in Donbas turned into a smouldering conflict.
- Relative political stability and the fading of the war allowed the authorities to launch long-awaited reforms. Changes began in the political and administrative area (decentralisation of power, civil service reform, increased transparency), the law enforcement system (reforms of the police, the prosecution and the judiciary), and the economic area (deregulation, public procurement reform, tax reform). However, the reforms were perceived largely as insufficient and slow.
- Ukraine advanced on the path of the European integration. In December, the European Commission (EC) formally recommended the EU council to grant visa-free regime for short-time trips of Ukrainians to the EU. The regime may become effective in mid-2016 if Ukraine fulfils taken obligations.
- Ukraine failed to get a new Marshall plan. In April, Kyiv hosted a conference of international donors led by the EU to support reforms in Ukraine, but donors did not make any new financial commitments. However, Ukraine got extended support from the IMF. In March, the IMF approved a four-year USD 17.5 bn Extended Fund Facility (EFF) for the country. In 2015, Ukraine received USD 6.7 bn as the first two disbursements under the EFF.

Real sector

- Real GDP in the first three quarters of 2015 declined by 12.7% yoy. Loss of economic links with Eastern Donbas explains some of the decline in the economic activity. Sharp drop in domestic demand was another major driver of recession in Ukraine. Sharp decline in real disposable income in response to hryvnia depreciation explains loss of purchasing power by households. At the same time, net real exports made a positive contribution to real GDP growth as real imports contracted more than real exports.
- Real gross value added declined in all sectors of economy. Industrial output declined by 14.4% yoy over eleven months of 2015 in part due to destruction and closure of some companies in the occupied territory, broken supply links, and trade tensions with Russia. Low domestic demand contributed to lower production in domestic-oriented companies including in food industry.

Energy

- In 2015, the Government continued increasing energy tariffs as part of energy reform. This step is aimed to decrease energy subsidies and introduce market prices at the energy markets. In March, the National Commission for State Energy and Public Utilities Regulation (NERC) increased the price of gas for industrial consumers by 56% and gas tariffs for households by 2-6 times depending on the consumption volume. The highest increase came for households using gas for cooking: it was raised by seven times. Further increase of gas tariffs came in April and in May heating tariffs were increased by 72%.
- The NERC in March raised electricity tariffs by 5-104% depending on the consumption volume with average increase of 34%. Electricity tariffs for the households further increased in September on average by 23%. The tariffs are planned to increase in March and September 2016 and March 2017. Increase of energy tariffs improved the financial situation of the Naftogaz and induced the energy consumers to adopt energy saving policies.

- In the beginning of April, the Naftogaz of Ukraine and Russian Gasprom reached agreement on the supplies of gas in the second quarter of 2015 with price of USD 247.18 per thousand cubic meters. In September price of gas for the fourth quarter of 2015was set at USD 227.36. This was an important agreement before the start of the winter season as it allowed Ukraine to accumulate enough gas for own consumption and transit needs.
- In 2015, Ukraine imported 70% of its gas from Europe via reverse gas flows thus decreasing its dependency on Russian gas.
- In April, the Verkhovna Rada adopted the Law “On the natural gas market”. The Law separates the functions of the gas system operators from gas extraction and supply, reinforces the independence of the regulator and introduces free price setting on the gas market.
- On November 20-21 electricity transmission to Crimea from the continental part of Ukraine was stopped and partially resumed in December.
- In June, the Parliament adopted the law on transparency in extracting industries. The law obliges extracting companies to publish information on paid state and local taxes and other duties as well as other information on their production activities defined by the Cabinet of Ministers. Increased transparency on the energy market of Ukraine helps to fight corruption in the sector.

Transport

- In February, railway freight tariffs increased by 30% for all goods except coal, the tariff for which increased by 10%. Further increase by 25% was planned but not carried out due to lobbying by consumers.
- The National Security Council in September approved sanctions against all major Russian air carriers: Aeroflot, Transaero, S7 Airlines, and Rossiya. The companies are accused of violating Ukrainian laws and performing flights to the occupied territory of Crimea. Sanctions will be applied for one year since October 25. In response, Russia completely closed its airspace for Ukrainian air companies. Leading Ukrainian airline Ukraine International Airlines (UIA) estimated its direct losses from Russian counter-sanctions at USD 10 m annually.
- In September, the Cabinet of Ministers approved the Statute of the public joint stock company “Ukrainian railways” with 100% state ownership, which is formed on the base of Ukrainian railway operator Ukrzaliznytsya, which previously functioned as conglomerate of semi-independent entities. Creation of the public joint stock company will make the management and operations of the new company more transparent. It is the key step towards the corporatization of the company, which is expected to help attract investments into railway industry.

Agriculture

- Agricultural sector benefited from deregulation measures implemented in 2015. In particular, it is no longer required to license import of fertilizers which are approved for usage in the EU, also the license for pesticide trade and usage was cancelled. Besides, several bureaucratic procedures were eliminated in relation to the exports of grains and technical cultures.
- At the end of 2015 the Parliament adopted changes to special VAT regime for agricultural producers, which was traditionally the largest state aid measure to agriculture. The new rules are a step towards more efficient and transparent tax system. At the same time, these measures were not matched with the increase in efficiency of direct state support of the sector.
- In 2015 Russia banned imports of Ukrainian milk products and majority of meat products. The situation will further deteriorate in 2016 as Russia imposed agricultural embargo and cancelled the free trade area. At the same time, a number of Ukrainian producers were able to receive access to the EU and Chinese markets.
- The agricultural land sales moratorium was prolonged for one more year till 2017. As a result, uncertainty regarding the land market future further hampers the investment attractiveness of Ukrainian agricultural business. Moreover, producers again will be unable to use the land as a collateral.

External Sector

- Current account deficit significantly contracted in 2015 because of hryvnia depreciation and introduction of additional 5-10% import surcharge. Financial account improved and was in surplus due to FDI inflow (mainly as recapitalization of foreign-owned banks) and external financing received by the Government sector. As a result, balance of payments had slight surplus.
- Merchandise trade deficit reduced by USD 2.8 bn to USD 3.2 bn over 11 months of 2015 as imports dropped more than exports. Exports of goods decreased mainly due to disrupted production and broken logistic chains because of military conflict in the East, decline in world prices for most commodities, and trade tensions with Russia. High harvest of crops positively contributed to exports of goods. Non-energy imports declined due to drop in domestic demand against the background of lower real disposable income and worsened financial situation of companies. Besides, imports substitution was caused by hryvnia depreciation and introduction of additional imports surcharge. Decline in energy prices, lower industrial output and introduction of energy saving measures resulted in decrease of energy imports.
- During 11 months of 2015 exports of goods contracted by 31.8% with major drop occurred in exports to Russia (by54.4% yoy), whereas exports to Asia decreased the least (by 20.0% yoy). Geography of Ukrainian merchandise exports shifted from Russia (whose share declined by 5.9 p.p.) to Asia and the EU

(they share increased by 5.1 p.p. and 1.1 p.p., respectively). Imports of goods contracted by 33.5% yoy with imports from Russia dropped by 40.9% yoy. Share of imports from Russia declined by 2.5 p.p., while share of purchases from the EU increased by 2.6 p.p.

- During 11 months 2015 exports of minerals and machinery contracted the most (by 50.7% yoy and 44.8% yoy, respectively), whereas exports of food decreased by 14.3%. Merchandise imports drop was led by food (declined by 43.7% yoy) and metals (by 41.6 yoy), whereas imports of minerals decreased the least (by 24.3% yoy). Commodity structure of goods exports shifted from metals, minerals and machinery to food (whose share increased by 8.26 p.p.). In the structure of imports minerals and chemicals benefitted from lower share of food and metals.
- In 2015 the EU continued to apply autonomous trade preferences; however, their impact remained limited as exports to the EU dropped, but at a slower pace than overall fall in exports. Russia continued to apply non-tariff measures in 2015. Besides, Russian government passed a decree introducing ban for a number of agricultural and food products from January 1, 2016. In July 2015 Ukraine and Canada finalized negotiations on FTA.

Fiscal policy

- Consolidated fiscal revenues were over-executed over 11 months of 2015 as higher inflation resulted in larger revenues of major taxes, including VAT and excises. At the same time, quasi-fiscal spending reduced in 2015. In particular, the Government reduced off-budget support of the Naftogaz due to increased tariffs and increased direct housing and utility subsidies. Overall, the Government was able to meet fiscal targets envisaged in the IMF program.
- The consolidated budget was in UAH 20.0 bn surplus over eleven months of 2015. At the same time, overall consolidated fiscal balance was in deficit in entire 2015 due to high deficit in December. In particular, the Government provided the Pension Fund with a special transfer in the end of year to advance pension payments for January 2016.
- The Government and the Parliament Committee on Taxes and Customs were not able to reach an agreement on the comprehensive tax reform. As a result, only partial amendments were made in the Tax Code. Further changes in the Tax Code will be worked out in the first quarter of 2016. The major change is decline in single social contribution from average rate of 41% (ranging from 37 to 49%) to flat rate of 22%. However, this required substantially increased transfer to the Pension Fund.
- The Government continued non-transparent procedure of amending legislation and approval of the State Budget Law for next year. In particular, many draft laws and the Budget for 2016 were approved over one night session.

Privatisation

- Big privatisation failed again. In eleven months of 2015, privatisation receipts reached UAH 145 m out of planned UAH 17 bn. Privatisation of Odesa Port Plant, Centrehergo and other large companies was postponed to 2016.
- The Parliament did not approve the draft law aimed to make the privatization process more effective.

Social policy

- Real disposable income declined in 2015 due to real decline of all income components. It dropped by 26.6% yoy in the third quarter.
- The Pension Fund's deficit increased in 2015 due to small increase in nominal gross wages. Besides, the Fund continued paying pensions to over 80% of pensioners from the occupied territories (as they have registered at the territory controlled by Ukraine), while receiving minimal contributions from there.
- The Government expanded eligibility criteria for receiving housing and utility subsidies. As a result, number of their recipients increased to 4.6 m households (or 25.9% of all households) by November 2015.
- Taking into account sharp decline in purchasing power of households and higher than planned revenues the Government shifted planned increase in social standards from December to September of 2015. Social standards will be increased more or less in line with expected inflation in 2016.

Labour market

- Labour market in 2015 was weak. Real wages were declining on monthly terms between January and May and then started growing. In November real wage dropped by 14% yoy.
- Minimum wage was increased in September. It resulted in increase in base wage in the Unified tariff scale for payment of wages to employees of public sectors. Minimum wage increase stimulated growth of wages in all sectors.
- Unemployment rate was at 8.6% of economically active population in age of 15-70 years in the third quarter of 2015.

Inflation and monetary policy

- Consumer inflation was 48.7% on average in 2015. This was the highest inflation since 1996. This happened in response to sharp hryvnia depreciation in the end of 2014 and first half of 2015. Price of foreign exchange as expressed by NEER (trade-weighted average of exchange rates of hryvnia vs. currencies of main trading partners) on average increased by 42%. In addition, the Government sharply increased prices for natural gas, electricity and other utilities. As a result, price index for housing and utilities increased by 116%.

- Low demand and falling commodity prices helped to slow down inflation in the second half of 2015 when CPI increased only by 1.8% (this reflected rollback of excessive price increases after exchange rate stabilized and reduction in gas tariff during heating season).
- In 2015, the NBU strengthened the role of monetary policy. The NBU created the Monetary Policy Committee, started regular policy meeting and began to issue quarterly inflation reports. Banks kept significant part of liquidity in NBU CDs (certificates of deposit) and, as a result, interest rate on CDs had impact on short-term interest rates.
- Over 2015 the NBU dramatically tightened monetary policy to dampen inflationary impact of hryvnia depreciation. Between January and March, the NBU increased overnight deposit rate from 7.5% p.a. to 20% p.a. Deposit rate remained unchanged until July when it was decreased to 18% p.a. in response to more stable exchange rate. Quasi-fiscal operations also reduced. Tight monetary policy and bank failures restricted money supply. As a result, it remained at previous year's level in hryvnia terms (money supply includes foreign currency deposits).

Banking sector

- In 2015 the Deposit Guarantee Fund spent about UAH 50 bn on deposit repayments to depositors of failed banks. In all, 45 banks were liquidated over the year accounting for 18% of banking sector assets in the beginning of 2015.
- Over eleven months of 2015 hryvnia deposits of residents in functioning banks increased by about 20% or UAH 60 bn. This likely means that most of guaranteed deposits from failed banks returned to banks either directly or as payment for goods and services to companies.
- Hryvnia loans outstanding reduced by 15% in nominal terms over 11 months of 2015 and fell even more in real terms. This reflected high price of loans and low creditworthiness of borrowers. Share of reported nonperforming loans in bank portfolio exceeded 25% by the end of September 2015

Exchange rate

- UAH/USD exchange rate was very volatile in 2015. Interbank rate ranged from UAH 16 per USD to UAH 34 per USD averaging UAH 22 per USD. Since April exchange rate stabilized as the NBU introduced a number of administrative measures to reduce demand and increase supply of foreign currency. It remained in UAH 21-24 per USD range on the interbank market until the year-end. Demand and supply were broadly balanced as the NBU bought more foreign currency than sold to replenish international reserves.
- NBU international reserves reached USD 13.3 bn in the end of 2015 as the NBU bought foreign currency on the open market and received funds from international donors. Restructuring of Eurobonds helped to limit spending of reserves on foreign currency state debt repayments.

State debt

- Gross state domestic borrowings in 2015 (without recapitalization) reduced to UAH 10.0 bn from UAH 67.1 bn in 2014 due to low demand. The Government also recapitalized the Naftogaz and supported the Deposit Guarantee Fund with a special issue of state domestic bonds at UAH 29.7 bn and UAH 41.6 bn, respectively.
- The Government received near USD 9.8 bn of financial assistance from official international donors. In particular, Ukraine received two tranches at USD 6.7 bn (out of total USD 17.5 bn) from the IMF under the Extended Fund Facility (EFF), USD 1 bn from the World Bank, and EUR 0.85 bn within the second and the third EU macro-financial assistance loan programs. The Ministry of Finance placed USD 1 bn of five-year Eurobonds, guaranteed by the US government. Assistance was also provided by governments of Canada, Germany and Norway.
- After long negotiations the Ministry of Finance agreed on sovereign debt restructuring with debt holders. The debt restructuring envisaged a 20%-haircut on the principal (near USD 3 bn), the replacement of old bonds with new ones, including new Eurobonds and GDP-linked warrants (Value Recovery Instrument), which imply payments based on real GDP growth. Principal payments (USD 8.5 bn) were shifted from 2015-2023 to 2019-2027. Overall, the Government reduced financing needs for the next three years by USD 15.2 bn, which corresponds to the IMF Program. Additionally, there was agreed the reprofiling of debts of the state-owned banks (Oshchadbank and Ukreximbank), which resulted in postponement of payments at USD 2.8 bn.
- The restructuring deal did not include USD 3 bn Eurobond held by Russia (maturing on December 31, 2015) as the country refused to accept common restructuring terms. The Government had to put moratorium on this debt repayments, which is expected to result in legal complaint by Russia against Ukraine in a British court.

Monthly Economic Monitor Ukraine

Politics: The European Commission formally recommended to grant visa-free regime for Ukraine

The EU. On December 18, the European Commission (EC) determined that Ukraine met criteria for visa liberalization. The decision was based on a positive assessment of the progress of Ukraine in the implementation of the EU-Ukraine Visa Liberalisation Action Plan (VLAP). The EC formally recommended the EU Council and the European Parliament to lift visa requirements for Ukrainians. The exemption will be limited to short trips (up to 90 days in any 180-days period) and granted only to holders of biometric passports. The visa free regime is expected to become effective in mid-2016 if Ukraine fulfils taken obligations.

The decision of the EC to grant visa-free regime for Ukrainians concluded the EU-Ukraine visa liberalization dialogue that was launched in October 2008. The VLAP consisted of four blocks, specifically (1) document security, (2) border and migration management, (3) public order and security, and (4) external relations and fundamental rights. The latest steps taken by Ukraine to implement the VLAP included establishment of the National Anti-Corruption Bureau (NACB), the Special Anti-corruption Prosecutor's Office, and the National Agency for the Prevention of Corruption. Adoption of laws on prevention of discrimination and on the Asset Recovery Office was also a part of the VLAP.

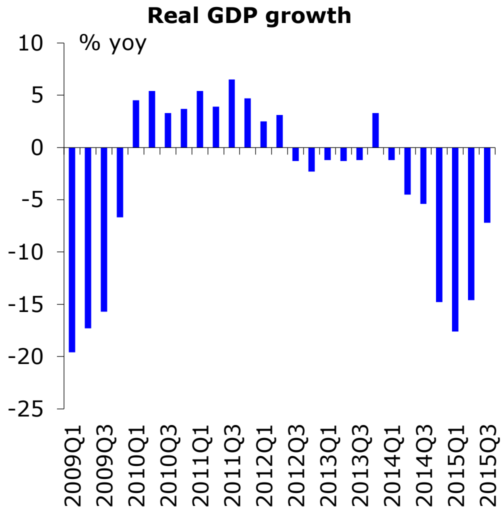
The Government. A political crisis that began unfolding in November, abated in December. Although a group of Members of the Parliament (MP's) conducted a campaign for resignation of the Government, the issue was not put to the vote. The Government led by Arseniy Yatseniuk received support from President Petro Poroshenko. However, the probability of aggravation of the political crisis remains high. Two out of four fractions of the government coalition (Batkivshchyna and Samopomich) declared that they supported the resignation of the Government.

Civil service. On December 31, President Petro Poroshenko signed a law that established a foundation for a reform of Ukraine's civil service. The law, which will become effective on May 1, 2016, determines that selection of civil servants will be based on competition. Civil society representatives will be involved in the selection process. In addition, the law aims at depoliticizing the civil service. Public servants will be forbidden to be members of political parties, participate in political activities and show any political affiliation (with the exception of a small number of top officials). However, the law was criticized for not resolving the issue of low wages of civil servants. After the reform the number of civil servants is expected to reduce from 260,000 to 150,000.

Public procurement. On December 25, the Parliament adopted a new law on public procurement. The most important innovation in the law is introduction of mandatory electronic procurement. Starting from August 1, 2016 public establishments and natural monopolies will have to make procurements through an electronic system run by a specialized government agency (with certain exceptions). The new law also cuts the number of public procurement procedures from five to three (public tender, competitive dialogue, negotiation). The law contributes to harmonization of Ukrainian public procurement laws with the EU *acquis*, which is a precondition for granting access for Ukrainian companies to the European public procurement market. In 2015, an electronic public procurement system (Prozorro) operated in Ukraine in pilot mode. It allowed saving in procurement spending at approximately 20%.

Law enforcement. On December 15, a new system of local prosecutor's offices began operating in Ukraine. The previous system included 639 prosecutor's offices at rayon or town level. In a new system, they were replaced with 178 local prosecutor's offices. Prosecutor General Viktor Shokin appointed 154 local prosecutors

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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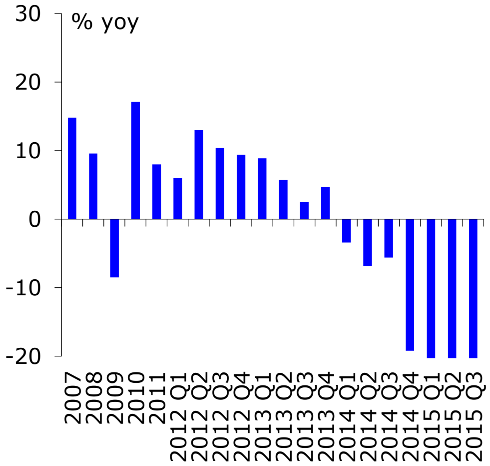
(heads of local prosecutor's offices) selected through a competitive process. However, the reform was seen as a failure by civil society activists. All appointed local prosecutors worked in leadership positions in old prosecutor's offices, which were heavily criticized for abuse of power and negligence. That stemmed from a flaw in the selection procedure. In particular, most members of selection committees were representatives of operating prosecutor's offices.

The war in Donbas. In December, the term for implementation of a part of key provisions of Minsk ceasefire agreements expired. In particular, by the end of 2015 Ukraine had to agree with Russia-controlled insurgents on principles of governance of the territories they occupied. Based on that, Ukraine had to change its Constitution, pass a law on special rights for local governments of the territories, and held a local election there. However, such agreement was not reached. On December 30, leaders of Germany, France, Russia and Ukraine (the Normandy Four) agreed to continue a dialog on modalities of local elections in Donbas in 2016, which implied that the period for implementation of the corresponding provisions of the ceasefire agreements was *de facto* extended. But the dialog is unlikely to be fruitful because Russia is not willing to lose control over the occupied territories. Russia and the insurgents persistently fail to implement other provisions of the agreements, including a withdrawal of foreign troops from Ukrainian territory and a full ceasefire. As a result, the conflict in Donbas may be frozen for a long time.

Real disposable household incomes



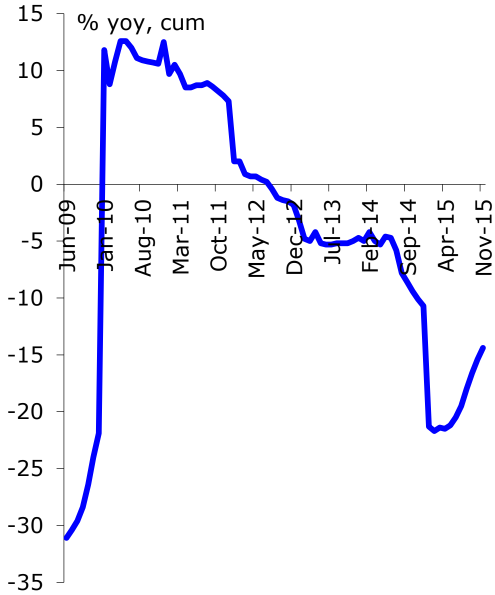
Source: Ukrstat

Real sector: Stagnation continues

GDP. The Ukrstat revised its previous estimate of real GDP decline in the third quarter of 2015 from 7.0% yoy to 7.2% yoy. As compared to previous quarter real GDP grew by 0.5% qoq. This reflected increase in economic activity in agriculture, construction and transport and stable nonfinancial services sector.

On demand side, net real exports contributed positively to economic growth as real exports declined less than real imports (11.3% yoy and 18.5% yoy, respectively). At the same time, decline in real disposable income (by 26.6% yoy) was softened by use of savings to smooth consumption. Still real private final consumption fell by 17.8% yoy. Low fiscal capital expenditures, and limited banking lending contributed to continued drop in investment in commercial property and engineering structures (roads, bridges, railways, electricity and other networks). Overall fixed capital accumulation dropped only by 7.4% yoy as investments in machines and equipment stabilized at very low level (and even inched up by 1.2% yoy). This may reflect long delayed critical repairs and replacements.

Industrial output



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

On the production side, real gross value added (GVA) declined in all sectors except for water supply, but at a much lesser degree than in the second quarter. Low domestic and external demand resulted in drop in real GVA in manufacturing by 9.9% yoy including 2.4% drop from the previous quarter (on seasonally adjusted basis). Drop in real GVA in extractive industry slowed to 5.0% yoy due to low statistical base. GVA in trade dropped by 15.1% yoy following drop in domestic consumption and exports. Lower harvest, later harvesting period as well as low domestic demand explain decline in real GVA in agriculture by 3.8% yoy. Sharply lower statistical base and stabilization of investment spending contributed to 12.1% yoy drop of GVA in construction which is much slower than 25% yoy drop observed in previous quarter.

Services sector was relatively resilient as GVA in IT dropped by 2% yoy, business services as well as real estate operations by 6% yoy. GVA in transport remained flat. This likely reflected stable or growing demand for transportation of bulky commodities (grain, iron ore, coal).

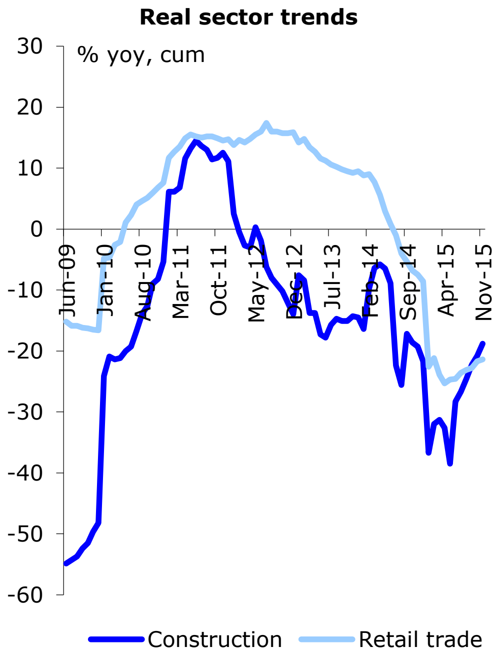
Sectoral trends. Industrial output dropped by 4.9% yoy in November. Decline in extractive industries accelerated to 2.7% yoy due to lower extraction of iron ore. At the same time, manufacturing output increased from previous month in November (on seasonally adjusted basis) and year-to-year decline slowed to 4.9% yoy. In particular, raw steel production increased from previous year's level.

Production in machine building increased by 4.1% yoy due to increased production of electrical and transport equipment from a low base. This likely reflected stabilization of domestic demand and some increase in investment spending.

In November retail sales by enterprises declined as compared to October on seasonally adjusted basis. This reflected slowdown in household incomes and higher utility bills during heating season. At the same time, consumer sentiment became less negative.

Drop in in construction decelerated to 9.5% yoy primarily due to higher fiscal capital spending.

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.



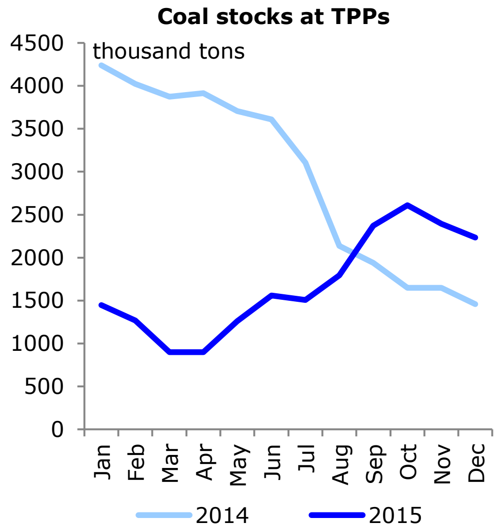
Note: Since April 2014 - data excludes Crimea
Source: Ukrstat

Energy: Ukraine follows transparency initiative

Gas. Ukraine published its first report on the Extractive Industries Transparency Initiative (EITI) for 2013. Due to a tedious process of data collection it took almost two years to prepare the report. The report discloses activities of subsoil users of oil and gas mineral resources and payments they made to the Government. The report is an important step in increasing transparency of the energy sector.

The Cabinet of Ministers decreased the requirements on insurance stock of gas for gas traders to 50% from 100% of their monthly supply volumes since January 1, 2016. This gives the traders more flexibility on the market but also makes the market more volatile.

The Parliament decreased rent payments for gas extraction by Ukrgazvydobuvannya from 70% to 50% for April 1 – December 31, 2016. After that the rent will return to 70%. Rent payments for commercial gas extraction were also decreased: from 55% to 29% for wells up to 5 km and from 28% to 14% for deeper wells since January 1, 2016. This decrease aims to stimulate own gas extraction in Ukraine and increase investments into gas extraction.

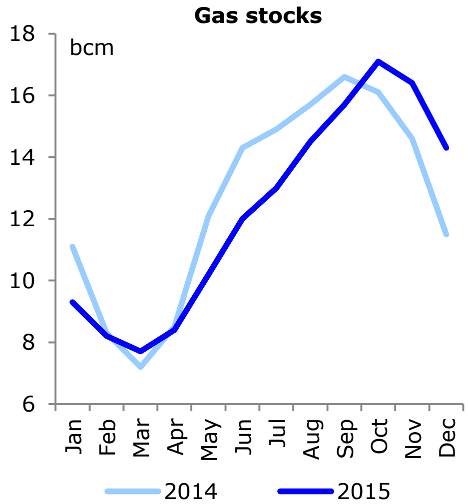


Note: data for November 2015 is given as of 27.11.15
Source: Ministry of Energy

Coal. At the beginning of December, Ukraine imported coal from the South Africa at USD 57 per ton. Overall, in January-November 2015 Ukraine imported 13 m t of coal worth USD 1.5 bn from Russia, the USA, Australia and other countries. In December, coal stocks at thermal power plants increased by 18% mom to 2.2 m t, while anthracite stocks increased by 18% mom to 0.9 m t.

Electricity. The Cabinet of Ministers introduced temporary emergency measures on the electricity market. The Ministry of Energy will be able to set the tariffs for electricity production including feed-in tariffs different from those required by the methodology. The measure is introduced for one month to increase the Ministry's ability to quickly react to unpredictable events on the market. Although it limits the free market, the measure is rather short-lived to create significant distortions.

Regulation. The Naftogaz changed its supervisory structure. The Supervisory Board of the Naftogaz has to be formed by April 2017 and its members will be appointed by the Ministry of Economic development and Trade. In the meantime, the Ministry of Economic development and Trade will form the transitory Supervisory Board with limited powers. Previously the Board members were appointed by the Cabinet of Ministers. The Board of the Naftogaz will appoint supervisory councils and boards of Ukrgazvydobuvannya, Ukrtransgaz and Ukrtransnafta. Also Naftogaz's shares were transferred from the Ministry of Energy to the Ministry of Economic development and Trade.



Note: data for November 2015 is given as of 27.11.15
Source: Ministry of Energy

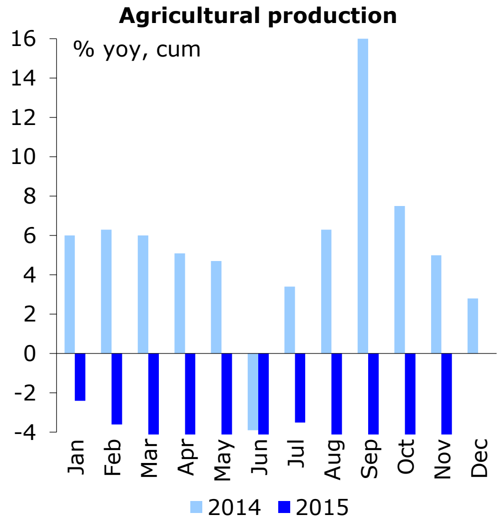
Agriculture: Change of agricultural tax system

Agricultural policy. In December, the Parliament amended special the VAT regime for agricultural producers (according to which producers kept all accrued VAT on their special accounts without transferring it to the budget) since 2016. In particular, grain and technical cultures producers will pay 85% of accrued VAT to the budget and keep the rest for themselves. Animal producers and milk producers pay only 20% of VAT to the budget, while other agricultural producers will pay 50% of VAT to the budget. Also, grain exporters will receive a tight for VAT refund. Starting from 2017 there will be no special VAT regime for agricultural producers. Such changes in special VAT regime mostly comply with the obligations taken according to the IMF Program.

Production. Gross agricultural production in November decreased by 4.7% yoy. Crop production decreased by 4.7% yoy. In particular, lack of financial resources resulted in smaller planted area for grains in 2015; also smaller amount of fertilizers was used. The latter resulted in average yield decline of most crops. Animal production decreased by 4.8% yoy, which was attributed to the loss of Russian market for all the milk exports and part of meat exports. Domestic demand for animal products declined due to lower household incomes.

Trade. In December the EU added ten Ukrainian milk producers to the list of allowed importers of milk products. They will be able to start exports from 10th of January. This will help to compensate the consequences of agricultural embargo and the liquidation of the FTA with Russia since 2016. Also, some of the exporters will be able to redirect their goods to Belarus, which refused to join the anti-Ukrainian sanctions, which were imposed by Russia.

The European Investment Bank provided a EUR 400 m loan to Ukraine for 12 years for funding investment projects of small and medium agricultural enterprises. In particular, these are projects related to growing grain and oilseeds, modernization of fish sector and aquaculture. The EIB loan funds will cover only up to 50% of investment projects. The rest will be financed either by own funds of participating banks or by final beneficiaries. Thus additional EUR 400 m will be acquired for planned investment projects. Small and medium agricultural enterprises are known for lack of access to financing, which is a major obstacle for their development.

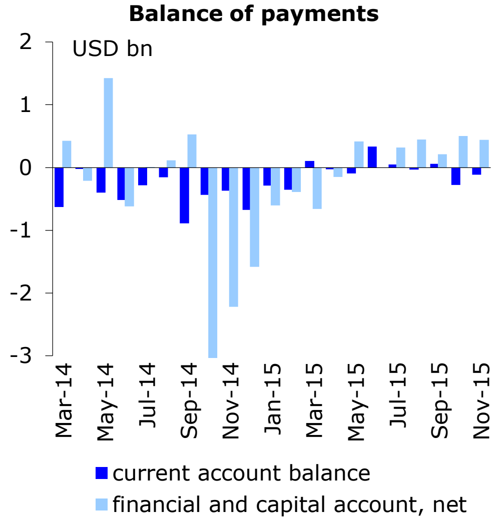


Source: Ukrstat

External sector: Current account is in deficit

Note: In the analysis, we use BPM6 methodology. In particular, since the third quarter of 2014 the NBU started to report balance of payment data based on the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual.

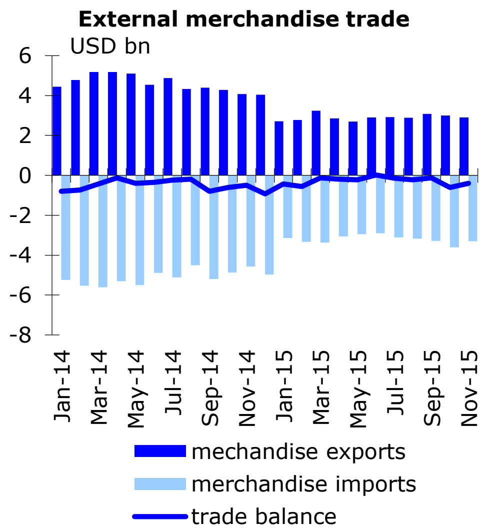
Current account. Current account deficit in November shrunk to USD 0.1 bn because of lower merchandise trade deficit. Merchandised trade deficit narrowed to USD 0.4 bn as drop of imports outpaced contraction of exports. Trade in services balance slightly deteriorated to USD 0.1 bn.



Source: NBU preliminary estimates

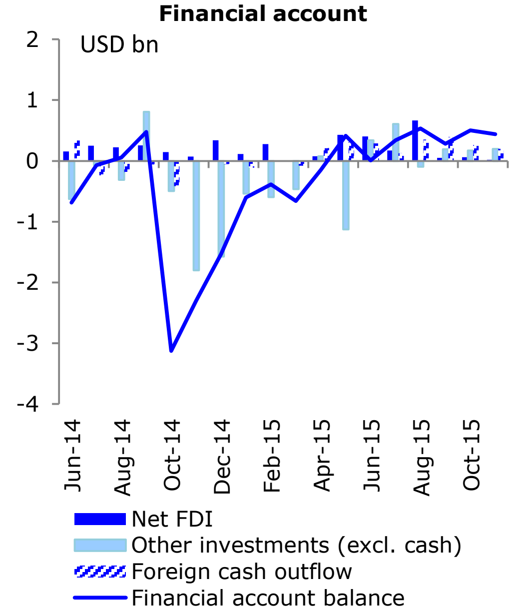
Exports of goods dropped by 22.3% yoy (as compared to 23.3% yoy in October) mainly because of lower sales of metals and minerals due to further decline in world commodity prices (by 40.5% yoy and by 41.8%, respectively). Decline in exports of machinery did not change significantly (24.5% yoy). Drop of exports of food significantly slowed down to 4.8% yoy as compared to 12.0% yoy in October due to statistical base effect. Reduction of food prices more than counterweighted increase in physical quantities. Exports of services contracted by 14.1% yoy.

Drop of imports of goods accelerated to 22.7% yoy (from 21.9% yoy a month before) mainly due to lower imports of minerals. Decline in imports of minerals accelerated to 31.5% yoy due to lower imports of oil. Food imports contracted by 29.9% yoy due to lower purchasing power of Ukrainians and import substitution. Deceleration of decline in food imports indicates that hryvnia depreciation shock is slightly absorbed; moreover disposable income of households also slightly improved. Termination of investment projects caused by restricted financing, higher costs of investment goods (due to hryvnia depreciation) and economic and political uncertainty resulted in contraction of machinery imports by 9.8% yoy. Overall, imports of manufactured products (including chemicals, wood, industrial goods, metals and machinery) decreased by 14.5% yoy. Imports of services contracted by 14.5% yoy.



Source: NBU preliminary estimates

Financial account. Financial account surplus decreased to USD 0.4 bn because of negligible inflow of FDI and other investments as well as outflow of portfolio investments. Government sector did not attract any significant financing in November. External investment position of banks improved by USD 0.1 bn, whereas the real sector improved investment position by USD 0.3 bn due to decrease of outstanding loans. Foreign cash outside banks shrunk by another USD 0.2 bn.



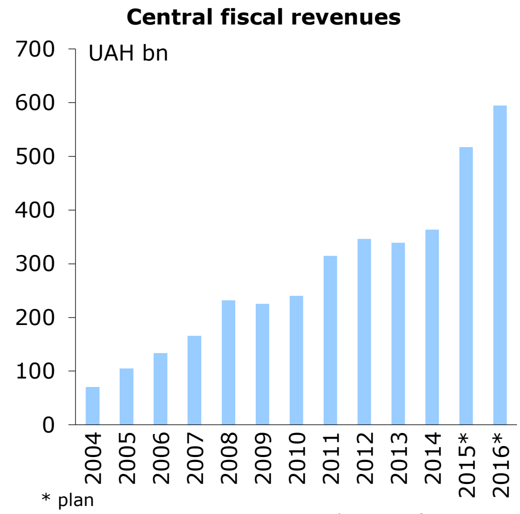
Source: NBU

Fiscal policy: New Budget on amended legislative base

Budget-2016. On December 25, the Parliament approved the Draft State Budget Law for 2016. The President signed the Budget on December 31 and it entered into force since January 1. The State Budget Law for 2016 is based on the number of amendments to the Tax and Budget Codes as well as other legislative acts, which were made the same day.

According to the Law, central fiscal revenues are projected at UAH 595 bn. Central fiscal deficit is envisaged at UAH 83.7 bn, which complies with fiscal target in the IMF Program. The deficit is to be financed predominantly by external borrowings. Besides, privatisation receipts are planned at UAH 17.1 bn. The list of objects for privatisation is to be approved by the Cabinet of Ministers by mid-January. At the same time, domestic debt is expected to decline in 2016. Besides, the Government was authorized to restructure state domestic bonds owned by the NBU, with a maturity in 2016 by substituting them with new bonds with longer maturities.

The central fiscal transfer to the Pension Fund is increased to UAH 145 bn in 2016 as compared to UAH 80.8 bn in 2015 to compensate lower revenues from Single social contribution (SSC). In particular, SSC rate was reduced to 22% from effective rate at near 41%. Central fiscal spending on education and healthcare will somewhat decline as some of the responsibility for financing these sectors was shifted to local budgets.

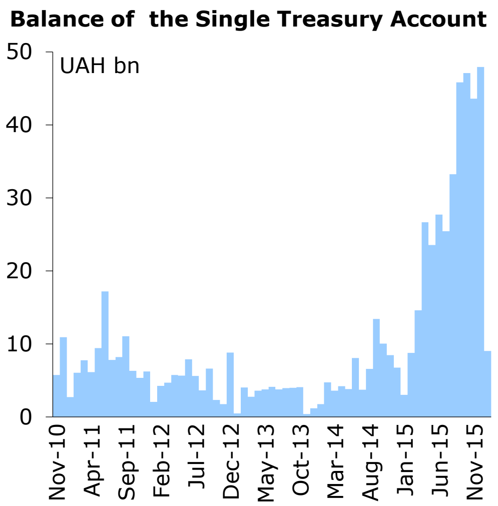


* plan
Source: State Treasury, State Budget Law for 2015 , Draft State Budget Law for 2016

Overall, general government expenditures will decline as a share of GDP in 2016 as was agreed with IMF. Besides, quasi-fiscal spending will also decline. In particular, the Naftogaz is expected not to need subsidies in 2016. Special issues of state domestic bonds at UAH 16.0 bn is envisaged for the recapitalisation of the State Deposit Guaranteed Fund. State guarantees are limited to UAH 29 bn next year.

Projected non-tax revenues will reduce to UAH 82.7 bn (from target of UAH 110 bn in 2015) primarily due to decline in transfer of the NBU profits to the budget by UAH 25 bn. At the same time, the Government plans to double revenues from state-owned companies.

Taxation changes. The Government and the Parliament Committee on Taxes and Customs were not able to reach an agreement on the comprehensive tax reform. As a result, only partial amendments were made in the Tax Code. Further changes in the Tax Code will be worked out in the first quarter of 2016.



* in the beginning of month
Source: State Treasury

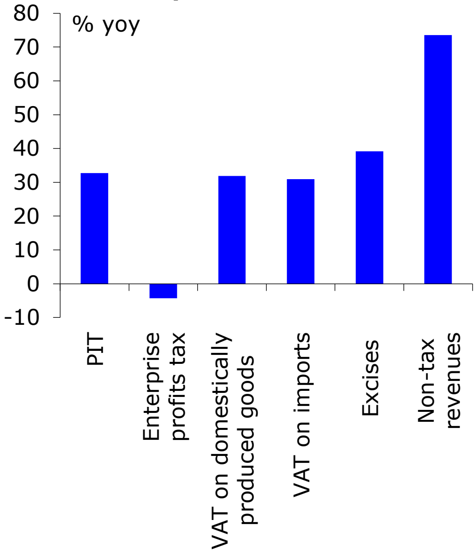
EPT rate will remain unchanged at 18%. PIT rate became flat at 18% from current rate at 15/20%, while military fee will remain at 1.5%. VAT rates will remain unchanged (with 20% standard rate and 7% for pharmaceutical and medical products), while special VAT regime for agriculture was revised to reduce tax subsidy to agricultural producers. Excise rates and property tax rates will be increased. Import duty surcharge was cancelled as planned in the end of 2015

There were only minor changes to "simplified taxation system" for small business despite concerns that it is used to avoid taxes by medium and large companies. As a political compromise maximum sales for taxpayers eligible for STS were lowered from UAH 20 m to UAH 5 m per year. The tax rate for the taxpayers of upper band of taxation (third group) was increased by 1 p.p. to 3% of sales for VAT taxpayers and 5% of sales for those not registered to pay VAT. These changes may reduce scope for tax avoidance.

Fiscal indicators 2015. In eleven months of 2015 consolidated fiscal revenues grew by 43.2% yoy due to high inflation and legislative changes. In particular, PIT revenues grew by 32.7% yoy due to the introduction of military surcharge to income tax as well as increased taxation of passive income. High inflation contributed to larger collections of VAT and excise duty. Introduction of 5/10% imports surcharged explain increase in revenues from international trade duties by 3.2 times. At the same time, worsened financial situation of companies resulted in decline in EPT revenues by 4.3% yoy. Non-tax revenues grew by 73.6% yoy due to transfer of the record NBU profits to the budget and higher own revenues of budget entities.

Consolidated fiscal surplus reduced to UAH 20 bn from UAH 26.8 bn in the first ten months. As a result, funds at the Single Treasury Account reached UAH 48.0 bn by the end of November 2015. This in part reflected high number of payments in transit. However, in December backlog of payments was processed successfully and Single treasury account balance was reduced to UAH 9.0 bn. In particular, the State Treasury transferred to the Pension Fund UAH 14.0 bn as advance for January pension payments. Last minute closing of contracts is unlikely to contribute to efficiency of public spending and it is a prominent drawback of single year budget planning.

Growth of central fiscal revenues January-November 2015



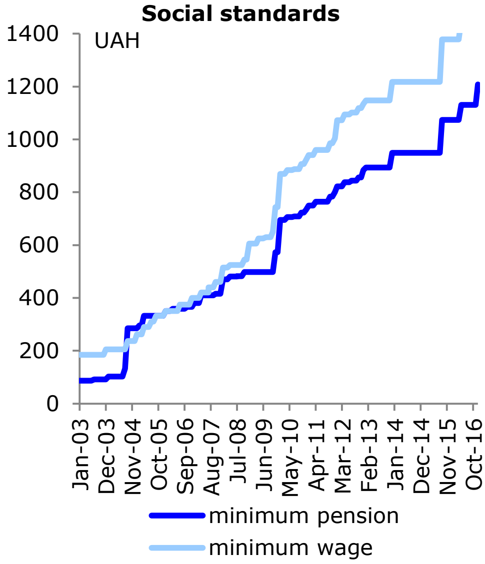
Source: State Treasury reports

Privatisation: Big privatisation failed in 2015

In eleven months of 2015, privatisation receipts reached UAH 145 m out of planned UAH 17 bn. Neither Odesa Port Plant nor Centrenergo or regional power generation companies, which were planned for the privatisation, were sold.

Despite the fact that initial target for privatisation receipts was unrealistic due to high political and economic uncertainty, there several other reasons that negatively impacted privatisation. First of all, the Parliament did not approve draft law that removes the need to sell 5-10% of the companies' stakes on stock exchanges, prohibits privatization of Ukrainian companies by Russian buyers and creates the possibility to attract advisers for the sale of large companies. Besides, privatisation of offered for sale companies was accompanied by political speculations or court decisions that stopped the process (e.g. this relates to the sale of the President Hotel).

Social standards



Source: State Budget Laws for 2006-2015,draft State Budget Law for 2016

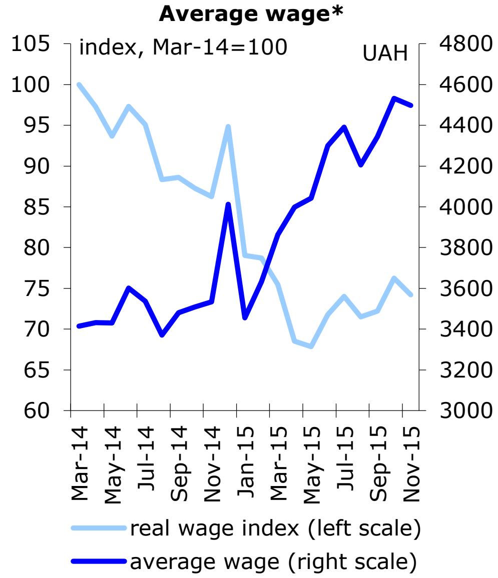
Social policy: Increase in social standards

As it was previously announced social standards will be increased twice in 2016: in May and in December. In particular, subsistence minimum (and, thus, minimum pension and minimum wage) will be increased by 12.8% on average next year and by 12.5% yoy in December (in 2015 4.4% and 13.1% yoy, respectively). Therefore, real social standards will remain stable next year (although on average they will be lower than in 2015). At the same time, the Government is responsible for conducting verification of pensions and social assistance payment, which is supposed save up to UAH 4.7 bn.

The taxation of pensions remained unchanged. In particular, pensions above three sizes of minimum wage (UAH 4137 per month) will be taxed by 15% PIT. Besides, portion of pensions of working pensioners exceeding 150% of minimum pension will be reduced by 15%. Maximum pension is capped by UAH 10740 per month in 2016.

The Government shifted responsibility for taking decisions on provision of social privileges to specified groups of individuals (e.g. disabled people, war veterans, etc.) to local government entities. Previously these privileges were financed at the account of subventions. This relates to such privileges as free of charge public transportation services, discounts on payments for housing and utility services and fixed phone lines. Such a measure is justified taking into account increase in decentralisation. At the same time, it might result in different level of social protection of specified groups of people depending on the region.

Average wage*



*not including AR Crimea
Source: Ukrstat

Labour market: Decrease in economic activity

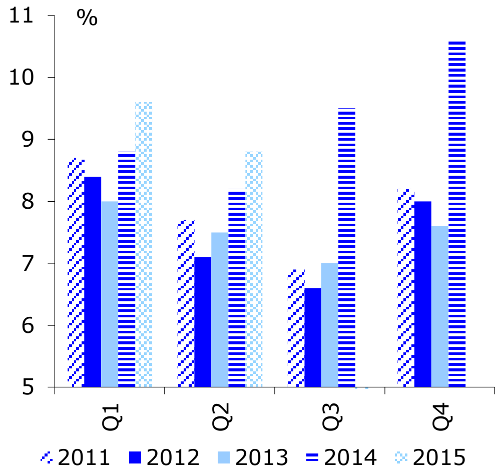
Wage. Average nominal wage in November grew by 27.3% yoy to UAH 4498 due to wage indexation. Decline of real wage decelerated to 14.0% yoy due to slowdown in inflation as well as adjusting wages to the increase in minimum wage.

Industrial companies increased nominal wages on average by 23.3% yoy likely due to minimum wage increase. Wage increase in three sectors did not reduce in real terms. Specifically, average wage grew by 41.6% yoy in textile industry increased and by 40.6% yoy in pharmaceutical industry likely due to gains of these sectors from import substitution. Wages in enterprises that produce electrical and optical equipment grew by 51.6% yoy probably due to increased military orders. On the other hand, wage increase in the electricity and gas supply sector continued to be low (at 15.3% yoy) due to unfavorable financial situation of companies in the sector.

In November, wages in budgetary sector substantially increased in comparison to previous year due to increase in the base wage in the Unified tariff scale used for paying wages to employees in these sectors that occurred in September. In particular, wages increased by 26.4% yoy in education and by 28.2% yoy in health care. Wages in state administration grew by 31.3% yoy.

Unemployment. Unemployment rate (ILO methodology) equaled 8.6% of economically active population in age of 15-70 in the third quarter of 2015. Unemployment rate in the third quarter in 2014 was at 9.5% yoy. However, this data cannot be directly compared as since 2015 data from temporarily occupied territory of Donetsk and Luhansk regions is no longer included. This change in the methodology can partially explain the decrease in the number of economic active population by 1.6 m yoy. Part of this reduction might be a result of increase in the number of non-active population due to the weakness of labour market.

Unemployment rate (ILO)



* 2014 - without Crimea, 2015 - without Crimea and occupied territory in the East
Source: Ukrstat

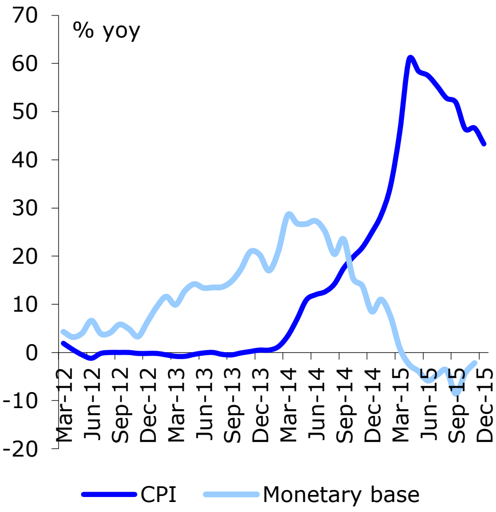
Monetary policy: 5% core inflation in the second half of 2015

Monthly core inflation in December was 0.4% mom. Overall core CPI increased by 5.0% in the second half of 2015 as compared to 28.2% in the first half of the year. Stable exchange rate and weak commodity prices (including energy, wheat and steel) kept production costs contained. Low export prices also helped to keep prices on domestic market moderate. Overall producer price index (PPI) increased by 1.9% in the second half of 2015 and agricultural commodity price index increased by 4.6%. It seems that weak demand (nominal retail sales increases only by 10% yoy between July and November) helped to keep retail margins in check.

Headline CPI was up by 0.7% mom in December bringing inflation in 2015 to 43.3% yoy. Monthly headline CPI change was higher than core inflation in response to increase in prices for some unprocessed food items including eggs, sugar and vegetables (ranging from 2.5% mom for sugar to 12% mom for eggs). Utility prices were unchanged in December.

In December, monetary policy was without major changes but bank liquidity experienced seasonal increase. The NBU injected UAH 15.6 bn in liquidity through government bond purchases and funds at the Single Treasury account decreased by UAH 38.9 bn. As a result, bank claims on the NBU exceeded 10% of bank assets. However, banks remained cautious and bank lending remained subdued.

CPI and monetary base development



Source: Ukrstat, NBU

Exchange rate: Stability at lower point

In December, interbank exchange rate moved in UAH 23-24 per USD range as in November. The NBU helped to keep the exchange rate in this range by buying USD 120 m on auctions at exchange rate close to UAH 23 per USD. In the last days of the year, the NBU sold USD 30 m to cover part of the usual increase in demand. NBU's international reserves reached USD 13.3 bn by the end of December, which was lower than planned due to delayed funding from the IMF.

State debt: The moratorium on Russian debt

External debt. In early December, the Ministry of Finance signed a loan agreement with the Japanese Agency for International

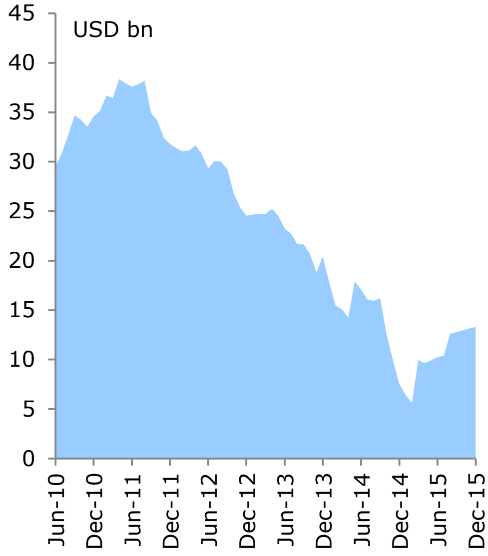
Development (JICA). The JICA is expected to provide USD 300 m loan in the framework of the 'Second loan for development policy' (DPL-II) approved by the World Bank in the autumn 2015. The funds will be granted for 20 years with a 6-year grace period at less than 1% p.a. The loan is targeted to the implementation of deregulation and improvement of fiscal transparency, as well as support to the financial system of Ukraine.

The agreement was also reached with Poland. In 2016 Poland will provide EUR 1 bn credit line for Ukraine to promote trade turnover between countries.

Domestic debt. In December, the Ministry of Finance provided the Deposit Guarantee Fund with UAH 5 bn special issue of state domestic bonds at 10.9% p.a. The total amount of the state domestic bonds issued for the recapitalization of the Fund reached UAH 41.5 bn in 2015.

Debt restructuring. On December 18, the Cabinet of Ministers imposed moratorium on repayment USD 3 bn Eurobond to Russia, which was scheduled on December 31, 2015. The moratorium included several state guaranteed loans (three loans from Ukravtodor and one from the Yuzhnoye construction bureau) at USD 0.5 bn. Earlier, Russia refused to accept common restructuring terms on all other sovereign Eurobonds. Even though this debt was classified by IMF as an official debt, the Government expects that new IMF policy of lending into arrears (LIA) will allow the IMF to continue financing Ukraine under EFF Program. The moratorium will lead to formal legal complaint by Russia against Ukraine in a British court.

NBU international reserves



Source: NBU

Tables

		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Jan^c	Feb^c	Mar^c	Apr^c	May^c	Jun^c	Jul^c	Aug^c	Sep^c	Oct^c	Nov^c	Dec^c
Industrial production (real)	% yoy cum.	-5.0	-4.7	-8.6	-10.1	-21.4	-20.5	-16.6	-21.3	-21.7	-21.4	-21.5	-21.2	-20.5	-19.5	-18.0	-16.6	-15.4	-14.4	…
Construction (real)	% yoy cum.	-6.4	-8.9	-17.2	-19.3	-31.3	-28.3	-22.8	-36.7	-32.0	-31.3	-32.6	-38.5	-28.3	-26.7	-24.6	-22.8	-20.8	-18.8	…
Agricultural production (real)	% yoy cum.	6.0	-3.9	16.0	5.0	-4.7	-9.3	-5.3	-2.4	-3.6	-4.7	-4.8	-5.4	-9.3	-3.5	-5.8	-5.3	-4.4	-4.7	…
Retail trade turnover (real)	% yoy cum.	7.7	0.8	-5.3	-7.5	-23.9	-24.6	-22.3	-22.6	-21.2	-23.9	-25.3	-24.7	-24.6	-23.6	-23.1	-22.3	-21.7	-21.4	…
Average wage	UAH	3245	3488	3463	3508	3650	4113	4313	3455	3633	3863	3998	4042	4299	4390	4205	4343	4532	4498	…
CPI	% yoy eop	3.4	12.0	17.5	21.8	45.8	57.5	51.9	28.5	34.5	45.8	60.9	58.4	57.5	55.3	52.8	51.9	46.4	46.6	43.3
PPI	% yoy eop	3.9	15.9	26.9	32.8	51.7	37.9	32.5	34.1	41.0	51.7	48.6	42.0	37.9	37.0	33.0	32.5	30.2	25.1	25.4
Exports (USD)*	% yoy cum.	-7.7	-6.5	-9.8	-13.1	-32.9	-35.4	-33.5	-30.8	-32.3	-32.9	-34.5	-36.4	-35.4	-35.4	-34.6	-33.5	-32.6	-31.8	…
Imports (USD)*	% yoy cum.	-14.7	-18.6	-24.5	-27.1	-36.0	-39.2	-36.2	-36.3	-35.9	-36.0	-37.2	-39.3	-39.2	-38.8	-36.4	-36.2	-34.8	-33.5	…
Merchandise trade balance	USD bn cum.	-1.9	-0.6	-5.2	-6.5	-1.0	-1.2	-2.0	-0.4	-0.9	-1.0	-1.1	-1.3	-1.2	-1.4	-1.9	-2.0	-2.6	-3.2	…
Current account**	USD bn cum.	-1.3	-0.6	-3.8	-4.6	-0.5	-0.3	0.0	-0.3	-0.6	-0.5	-0.6	-0.6	-0.3	-0.2	-0.1	0.0	-0.3	-0.6	…
Gross international reserves	USD bn eop	15.1	17.1	16.4	7.5	10.0	10.3	12.8	6.4	5.6	10.0	9.6	9.9	10.3	10.4	12.6	12.8	13.0	13.1	13.3
Monetary Base	% yoy eop	28.5	25.1	23.5	13.8	0.9	-5.9	-8.6	11.0	7.5	0.9	-2.5	-3.9	-5.9	-4.7	-3.7	-8.6	-4.3	-2.2	…
Lending rate on UAH credits	% pa, aop	18.5	17.5	16.4	16.4	19.9	23.1	21.1	17.2	18.8	23.6	23.8	23.6	22.0	21.2	21.2	21.0	20.9	20.7	…
Exchange rate (interbank)	USD aop	9.1	11.71	12.58	13.56	21.23	21.56	21.74	15.94	24.77	22.98	22.49	20.94	21.26	21.79	21.65	21.79	21.94	23.33	23.42
Exchange rate (official)	USD aop	8.9	12.71	12.58	13.56	21.18	21.62	21.69	15.81	24.48	23.26	22.71	20.92	21.23	21.76	21.54	21.78	21.84	23.31	21.84
Exchange rate (official)	EUR aop	12.14	13.71	16.67	17.21	23.88	23.88	24.11	18.53	27.78	25.32	24.47	23.32	23.84	23.94	23.93	24.46	24.56	25.07	24.23

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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