



# Monthly Economic Monitor Ukraine

No.5 (187), May 2016

## EXECUTIVE SUMMARY

### **HIGHLIGHT: GAS TARIFFS**

**Politics:** In April, new Government was appointed. This allows resuming reforms required for further financial support of Ukraine by the IMF and other official international donors.

**Real sector:** Most industrial sectors improved their performance in March due to higher external and domestic demand as well as low statistical base of last year.

**Energy sector:** Gas and heating tariffs were increased ahead of previously announced schedule.

**Agriculture:** Gross agricultural production in March decreased by 1.0% yoy.

**External sector:** Current account in March was in deficit at USD 0.4 bn.

**Fiscal policy:** Growth of consolidated fiscal revenues decelerated to 9.6% yoy in March.

**Privatisation:** The State Property Fund of Ukraine failed to announce the starting price and conditions for the privatization of Odesa Port Plant.

**Social policy:** The Government announced sharper increase in subsistence minimum in December 2016.

**Labour market:** Average nominal wage in March grew by 27.4% yoy to UAH 4920.

**Monetary policy:** Consumer inflation slowed to 9.8% yoy in April.

**Exchange rate:** In April, hryvnia appreciated slightly from over UAH 26 per USD in the beginning of April to under UAH 25.5 per USD in the last weeks of the month.

**State debt:** In April, Ukraine received EUR 400 m loan from the European Investment Bank.

# Highlight of the month: Gas tariffs

## CONSEQUENCES OF NEW GAS PRICE SETTING

*By Iryna Kosse*

On April 27, ahead of the schedule agreed with the IMF the Ukrainian government introduced a new mechanism for setting the price of gas for households tying it to import prices. In the Memorandum with the IMF Ukraine committed to abolish “the two-tier pricing structure and raise the household price as needed to reach 75% of the level consistent with import parity in April 2016 and 100% of that level in April 2017”.<sup>1</sup> According to the schedule of price increases devised by the National Energy and Utilities Regulatory Commission (NERC) in February 2015, there were planned three stages of price increases: in March 2016 by 23%, in September 2016 by 26% and in March 2017 by 26%. While March-increase in tariff was cancelled due to political crisis, the new government headed by Volodymyr Groysman decided to go all the way in one big jump.

The Ministry of Economic Development and Trade on April 27 explained that the new tariff at UAH 6879 per 1000 cubic meters takes into account the wholesale gas price (at UAH 4942 per 1000 cubic meters), which was formed based on: the forecast gas price at German gas hub NCG; transportation costs from NCG to the western Ukrainian border via Germany, Czechia and Slovakia; and tariffs set by the NERC for transportation of gas via gas network of Ukraine.<sup>2</sup> In particular, the marginal level of retail prices of UAH 6879 then takes also into account the weighted average tariff for transportation (UAH 219), the weighted average tariff for distribution (UAH 513.7), the trade margin for the supplier (UAH 57.4), and VAT.

However, several issues remain. Part of the debate on methodology of setting tariffs relates to the issue of appropriateness to take the value of gas at a German hub as a base price. There are three key approaches to set the price: based on production costs plus profit margin, based on the imports price plus transportation costs and based on exports price minus transportation costs. Previously Ukraine used the first method and set the price of gas at lower level than imported gas prices arguing that the costs of domestic gas extraction are low. This caused underinvestment in geological surveys, new fields, and maintenance as well as increased corruption. Export gas prices cannot be taken as a benchmark because Ukraine is an importer of gas. Export price would not cover the full cycle production costs and, thus, would discourage investments. Ukraine might move to “exports parity” price setting regime once it becomes energy independent and stops gas imports. This leaves Ukraine with the appropriateness to apply “imports parity” mechanism. This mechanism favors domestic producers as it allows them to sell gas of Ukrainian origin on the domestic market at prices higher than in Europe. Extra profits then should be used for maintaining and increasing current extraction volumes.

Under the new scheme the benchmark price is the price of gas at German gas hub NCG. But if the purchased gas is of Russian origin then the gas price will double-count the transportation costs: from Russia to Germany and from Germany back to Ukraine. It seems that it would be better to use the price of gas at the Russian-Ukrainian border. However, this would be a tricky task as the price of gas purchased from Russian Gasprom is not set by the market, but is a part of confidential bilateral agreements. This price is not flexible and thus, cannot serve as a benchmark for import prices yet. The most liquid gas hubs are TTF (the Netherlands), NBP (UK) and NCG (Germany). NCG was taken as the nearest hub.

As Ukrainian gas extracting companies will earn high profits from selling gas at the domestic market, the Government might want to take back part of those profits in the form of gas rents or taxes on profits. Currently state gas extracting company Ukgazvydobuvannya pays 50% as rent payment as compared to 29% paid by private companies. Starting 2017, the rent payments for state and private companies will be set at 29%. Taking into account long history of underinvestment by state gas companies, increasing rents is not a good idea. Another option for the state to increase its revenues is to sell licenses for gas extraction at open auctions. But Ukraine has very few gas fields with high potential. Thus, they are not very attractive to investors and, so, the Government should not expect to receive high license payments. This might be possible in the future though when the auctions will be fully transparent and the rent will be stable. Then predictable future payments and stable business environment might encourage investors to pay high up-front price of licenses. No matter what path the Government chooses, all the steps from extraction costs to the final price and the distribution of profits should be transparent and fully accountable.

Increase in gas price increases heating and hot water tariffs and thus, the total utility bill for households. This in turn increases the number of people eligible for housing subsidies and the total expenditures on these subsidies from the state budget. The Cabinet of Ministers plans to increase the central fiscal expenditures on housing and utility subsidies by UAH 5.3 bn to over UAH 40 bn.<sup>3</sup> This sum should be enough to provide subsidy to 6 m households. However, current housing subsidies do not stimulate energy efficiency. They simply lower the bill and do not induce households to decrease consumption. To somewhat reduce the excessive gas consumption for individual heating by households with subsidies the Government reduced the gas consumption limits for households receiving subsidies from 7 to 5.5 cubic meters of gas per 1 square meter of heated area per month during the heating period.<sup>4</sup>

Summing up, abolishing the two-tier pricing structure and switching to a new price-setting mechanism based on “imports parity” is a welcomed step of the Government. It is called to fight corruption, attract investments, increase competition and provide incentives for the population to undertake energy efficiency measures. However, just by applying the new price-setting mechanism Ukraine will not get the competition on the gas market. According to the Law on Gas Market, starting April 2017 the Naftogaz will no longer be obliged to sell the gas to the population as a supplier with “special obligations” using banking accounts with “special usage regime”.<sup>5</sup> This means that by that time the competitive gas market has to be already formed. The Naftogaz



does an important part of the work by pushing for using world market prices for gas in Ukraine, opening new gas routes and debating the gas agreement condition with Russia in court but much should be done by the Government in other spheres. There is a need in adequate measures of consumer protection, market transparency and availability of information, enforcement of rule of law. These measures have to be augmented by reform of the gas distribution and supply sector, i.e. regional gas and heating companies, and by a revision of the housing subsidy system. The new price-setting mechanism hopefully will be a start of a huge reform in almost all the spheres of state policy.

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- <sup>1</sup> Attachment I. Ukraine: Memorandum of Economic and Financial Policies, p. 97 <http://www.slideshare.net/apizniuk/ss-45758009>
- <sup>1</sup> <http://goo.gl/w5o7QS>
- <sup>1</sup> [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=58918](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=58918)
- <sup>1</sup> <http://ua-energy.org/post/60295>
- <sup>1</sup> Law of Ukraine "On the Gas Market" of 09.04.2015, article 11.6 <http://zakon2.rada.gov.ua/laws/show/329-19/page2>

# Monthly Economic Monitor Ukraine

## Politics: A new government appointed

**The government.** On April 14, the Parliament dismissed Prime Minister Arseniy Yatseniuk, and replaced him with Volodymyr Groysman, the Speaker of the Parliament and a close ally of President Petro Poroshenko. The Parliament appointed a new Government, formed by the coalition of the Petro Poroshenko Bloc and the People's Front Party, which were complemented by a group of non-partisan Members of the Parliament to meet the minimum required number of coalition participants. The Petro Poroshenko Bloc obtained 17 seats in the new Government, the People's Front Party kept 6 seats. Another 2 seats were occupied by representatives of Petro Poroshenko as President (according to the Constitution, the positions of the Minister for Foreign Affairs and the Minister of Defence are a Presidential quota), and 1 seat remained vacant (the one of the Minister of Healthcare). 7 out of 25 current Government members retained their posts. A member of the People's Front Party, Andriy Parubiy, was elected the Speaker of the Parliament to replace Volodymyr Groysman. Appointment of a new Government eased the political crisis gripping Ukraine since November 2015, and allowed to resume reforms, although their pace may be slower than under the previous Government.

**Civil service.** On May 1, a law that laid a foundation for a civil service reform in Ukraine became effective. It aims at depoliticizing the civil service, enhancing the professional requirements for officials, and making their selection more transparent. The law *de facto* introduces a division between political and career staff in government bodies. The former (ministers, their deputies, members of the Parliament, et cetera) will be appointed through political procedures, while the latter will be selected based on competition (the only exception is moving an official to an equivalent or lower position). Political appointees will have no direct influence on selection of career staff, who will be forbidden to be members of political parties, and participate in political activities.

The law requires that a career civil servant has at least a degree of junior bachelor, and a servant at a managerial position has a master's degree. In addition, applicants for positions of the highest-ranked career officials are obliged to have a good command of English or French (although this requirement becomes effective in May 2018). The law also changes the terms of remuneration of civil servants. Specifically, it determines that the base salary of the lowest level officials cannot be less than two minimum wages, and limits the amount of discretionary bonuses to 30% of the base salary (since January 2019). The law also allows using foreign grants to pay salaries to civil servants. The reform is expected to increase the quality of public service in Ukraine, but this process will be slow because the reform does not provide for competence checks of incumbent officials, and the salaries will remain relatively low. Earlier it was expected that the number of civil servants would be reduced from 260,000 to 150,000 persons.

**Law enforcement.** On April 15, the second stage of the public prosecution reform started. Powers of selection of prosecutors were transferred to two self-governance bodies — the Board of Prosecutors, and the Qualification and Disciplinary Commission. The latter body will be responsible for selection of entry-level prosecutors, and the imposition of disciplinary sanctions on prosecutors. The former one will select prosecutors for administrative positions, including positions of the Deputy Prosecutor General. However, the Prosecutor General may refuse to appoint candidates recommended by the Board of Prosecutors. Earlier, the Prosecutor General had full discretion over selection and appointment of the key administrative staff. On April 26-28, a conference of prosecutors of Ukraine elected members of the mentioned bodies. The reform drew criticism from civil society since Prosecutor General's Office and local prosecutor's offices were not previously cleaned of corrupt officials. Under such

**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

conditions the introduction of the prosecutorial self-governance may hinder the fight against corruption in Ukraine's public prosecution and law enforcement systems.

**The war in Donbas.** On April 29, Ukraine, Russia, and the Organization for Security and Co-operation in Europe (OSCE) reached another agreement on a cease-fire in Donbas. The cease-fire had to become effective from April 30. However, the agreement was not fulfilled. Russia-controlled insurgents continued a harassing fire against Ukrainian forces, which responded in a limited way. The front line did not change during the month.

**Real sector: Improved performance**

**Sectoral trends.** Industrial output in March grew by 4.8% yoy. The performance of most sectors improved due to higher domestic and external demand as well as low statistical base of last year. These were the reasons for growth in metallurgy by 19.1% yoy and machine building by 8.7% yoy. Domestically oriented sectors, like textile and pharmaceutical production, benefited from imports substitution. Food production also increased in March if effect of sharp drop of production of alcohol beverages is excluded. In particular, producers of alcohol beverages increased stocks in February due to March increase in excise rates.

In March, retail sales by enterprises increased by 13.4% yoy as compared to decline by 1.5% yoy in February. This reflected low statistical base (due to hryvnia depreciation and imposition of import duty surcharge) and growing household incomes. Increased industrial production resulted in growth of wholesale turnover by 5.1% yoy in March according to the NBU estimate.

Construction in March increased by 1.1% yoy due to larger financing of infrastructural projects. At the same time, residential construction declined from high statistical base in previous year.

*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.*

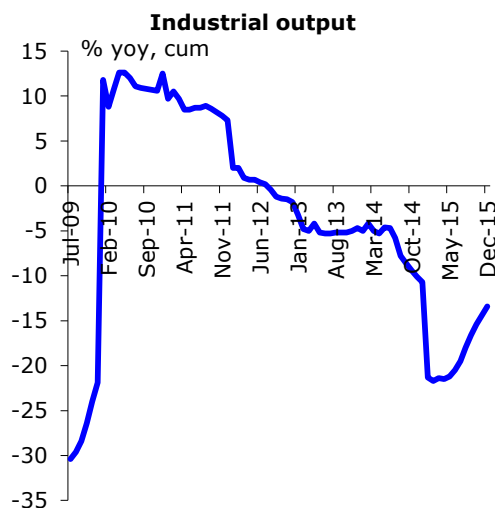
**Energy: Increase in tariffs**

**Gas and heating tariffs.** In May, the Cabinet of Ministers set the universal price of gas for households at UAH 6879 per 1000 cubic meters (tcm). This means 4% price decrease in basic gas tariff that was applicable for households without gas heating and for consumption exceeding 1200 cubic meters during 2015/2016 heating season (between November 2015 and April 2016). However, this represents 91% increase from "social" tariff of UAH 3600 that was applicable for the first 1200 cubic meters used for gas heating during the heating season.

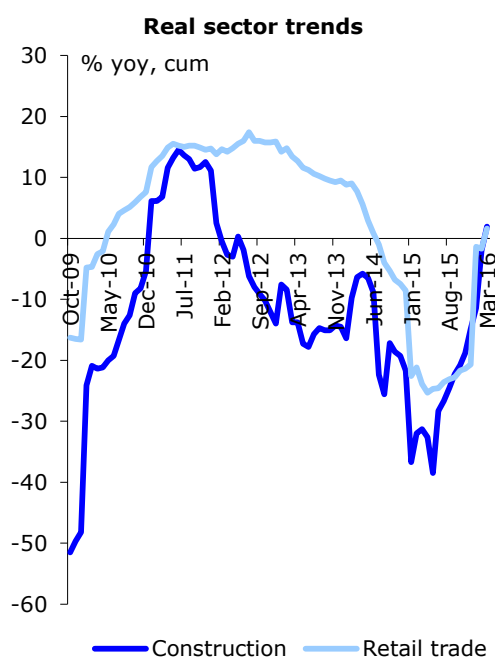
The Government also cancelled special price for gas used for central heating and hot water for households. As a result, gas prices for central heating companies jumped to UAH 6810 from UAH 3004 per tcm. So, energy regulator revised tariffs on heating and hot water for the households upwards by 75-110% depending on the provider. Increase in tariffs also takes into account higher electricity prices and increased labour costs.

The Cabinet of Ministers also increased the price for gas purchased by the Naftogaz from Ukrgazvydobuvannya by 3 times to UAH 4849 per tcm of gas. This price is close to imports price but receipts from gas sales are subject to 50% rent payment until the end of 2016. Increased revenues from rent payments would be used to cover extra expenditures on housing and utility subsidies.

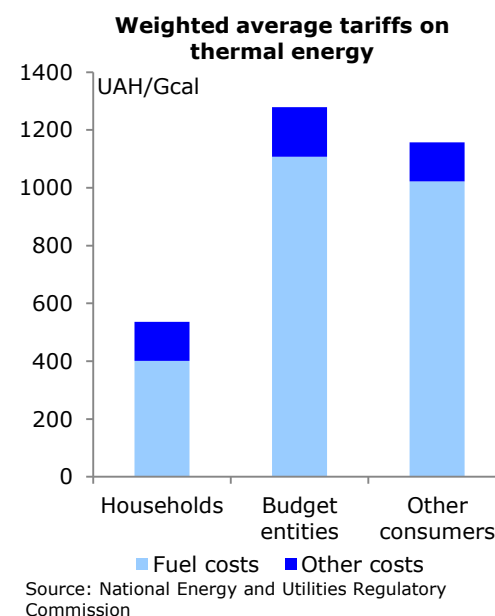
**Electricity tariffs.** The National Energy and Utilities Regulatory Commission set the wholesale forecast price for electricity (which is then used to compute the retail tariffs) for II-IV quarters of 2016 using the new methodology. The price of coal in the electricity tariff is now based on API2 index, an indicator of coal price index in the ports of Amsterdam, Rotterdam and Antwerp. The new methodology is transparent and eliminates the difference between domestic and world prices on energy resources.



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



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Source: Ukrstat



Source: National Energy and Utilities Regulatory Commission

## Agriculture: Trade conflict with Moldova

**Production.** Gross agricultural production in March decreased by 1.0% yoy primarily due to the decline in egg production (by 17.4% yoy). At the same time, volumes of milk and meat production remained close to 2015 levels. New instances of African swine fever were detected in Kirovohrad and Odesa oblast'; the spread of fever can further threaten the pork production.

At the beginning of May, 82.0% of winter crops were in good or favorable condition. 5.6 m ha of land was seeded during the spring seeding campaign as compared to 4.7 m ha a year ago. Spring campaign continues, and 24% of planned area still needs to be seeded.

**Trade policy.** Moldova introduced new quotas and import tariffs for Ukrainian milk and meat products since May until December 2016. According to estimates of the Ukrainian Agricultural Confederation this would result in USD 1.5 m losses for Ukrainian exporters. The Government of Moldova states that new rules are designed to defend the Moldavian producers that cannot compete with cheaper Ukrainian products. In turn, representatives of Ukrainian Ministry of Economic Development and Trade believe that new quotas and tariffs violate the WTO obligations of Moldova as well as rules of the CIS free trade area. Ukraine will try to persuade Moldova to cancel new rules earlier than in December. If negotiations fail, Ukraine will also introduce mirror measures in relation to Moldavian goods.

Two more companies received the right to export dairy products to the EU. Already 12 Ukrainian companies have this right.

**Agricultural policy.** In April, the Parliament adopted the Law "On amendments to the Land Code of Ukraine on holding land auctions". Now, all state land should be offered for use to third parties on the basis of land auction. This is a positive change that will reduce the corruption risks in the management of state-owned land.

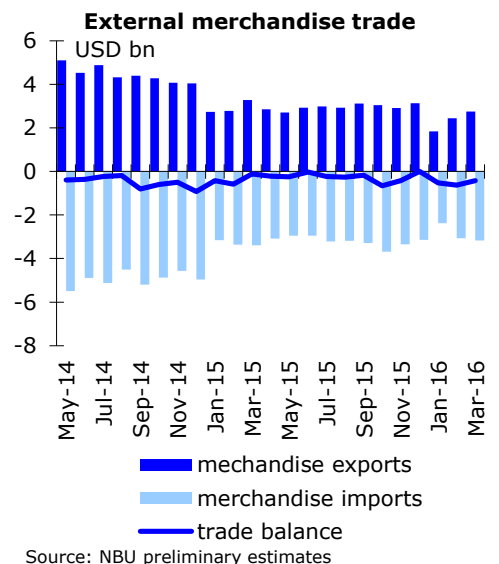
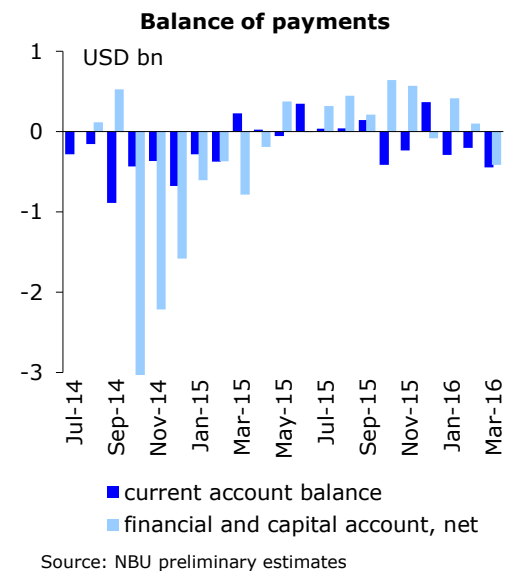
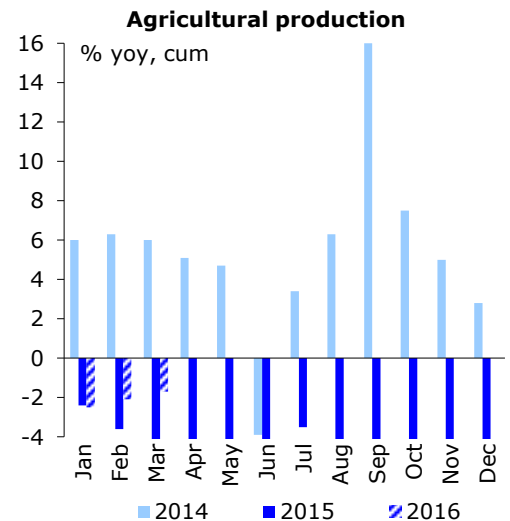
At the end of April, Ukrainian Parliament adopted the Law "On amendments to some laws of Ukraine to encourage the establishment and activities of family farms". The Law clarified the definition of family farm. This is important step to establishing the support system for small farmers.

## External sector: Financial account was in deficit

**Current account.** Current account in March was in deficit at USD 0.4 bn as compared to surplus at USD 0.2 bn in March 2015 mainly due to trade in goods deficit and repayment of interest on Eurobonds. Trade in goods deficit increased to USD 0.4 bn (USD 0.1 bn in March 2015) as exports contracted more than imports. Trade in services surplus contracted to USD 0.1 bn due to growth of imports. Net outflow of primary income increased sharply to USD 0.4 bn due to repayment of interest on Eurobonds, which was only partially compensated by growth of net secondary income to USD 0.3 bn.

Decline in exports of goods accelerated to 15.9% yoy in March (as compared to 12.0% yoy in February). Trade and transit restrictions by Russia negatively affected exports, while some rebound of world commodity prices and improved access to foreign markets for food producers positively contributed to exports. Higher statistical base resulted in acceleration of decline in exports of metallurgical products (to 33.0% yoy), machine building produce (to 15.5% yoy) and chemical industry products (to 41.9% yoy) despite of somewhat higher world prices and demand. Exports of minerals remained low and dropped by 33.8% yoy. Exports of food increased by 7.4% yoy (as compared to drop at 3.0% yoy in February) due to higher real volumes of sales as well as some rebound of world prices. Ukraine was able to increase shipments to Asia as well as found new markets for some products. Exports of services decreased by 1.9% yoy due to low statistical base in February (increased by 9.4% yoy in February).

Decline in imports of goods decelerate further to 6.2% yoy (from 8.8% yoy in February). Non-mineral imports increased by 15.3% yoy



due to liberalized access for the EU goods, cancellation of additional import surcharge as well as increase in demand. Imports of machinery accelerated to 38.8% yoy due to higher shipments of passenger cars. Higher demand resulted in increase of food imports by 24.4% yoy and industrial goods imports by 1.2% yoy. Growth of imports of chemicals accelerated to 21.8% yoy due to higher purchases of fertilizers. Imports of metals increase accelerated to 16.9% due to higher demand from machine building and construction. Minerals imports declined by 55.7% yoy because of lower need for imported natural gas against the background of high inventories. Imports of services increased by 6.0% yoy (as compared to 2.4% yoy in February).

**Financial account.** Financial account in March was in deficit at USD 0.4 bn. Net FDI inflow (at USD 0.4 bn) was primarily allocated to equity operations at the banking sector. The Government sector received long-term loan of USD 0.4 bn from Japan. External position of banks increased by USD 0.7 bn due to higher assets, including inflow of USD 0.6 bn of currency and deposits. Real sector increased its external position by USD 0.4 bn, including USD 0.2 bn of new trade loans. Foreign cash outside banks shrunk by another USD 0.3 bn.

### Fiscal policy: Sharp deceleration in growth of revenues

**Revenues.** Growth of consolidated fiscal revenues decelerated to 9.6% yoy in March from 16.2% yoy in February. This is explained by high share of one-off revenues in March 2015 including from import duty surcharge as well funds for two of three 3G licences. At the same time, growth of recurring tax revenues from PIT, EPT, excise duties and VAT (net of refunds) remained high at 22.3% yoy. In particular, higher imports and retail sales supported growth of revenues from VAT and excise duties. Wage growth and higher effective tax rate resulted in increase of PIT revenues by 42.4% yoy. Net VAT revenues grew by 15.1% yoy despite increase in VAT refunds.

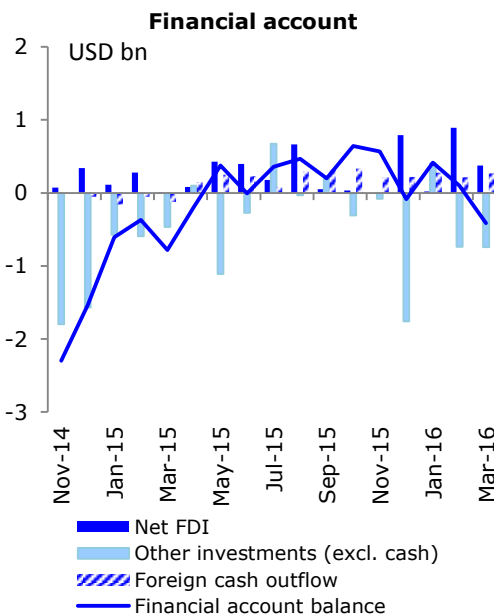
**Expenditures.** Consolidated fiscal expenditures in March grew sharply by 54.8% yoy (as compared to 19.3% yoy in February). In particular, debt servicing expenditures more than tripled as the Government paid coupon on new Eurobonds. Spending on social payments doubled due to the higher financing of the Pension Fund's deficit and larger coverage of population by housing and utility subsidies. Spending of wages increased by 27.3% yoy as savings from lower social contributions were used to increase wages. At the same time, consolidated fiscal capital expenditures remained low.

**Deficit.** Sharp increase in expenditures resulted in sharp contraction of consolidated fiscal surplus to UAH 3.9 bn in three months of 2016 (as compared to UAH 13.9 bn in the first quarter of 2015 and UAH 9.9 bn in the first two months of 2016). In particular, central fiscal deficit increased to UAH 10.6 bn, which was financed at the expense of external borrowings.

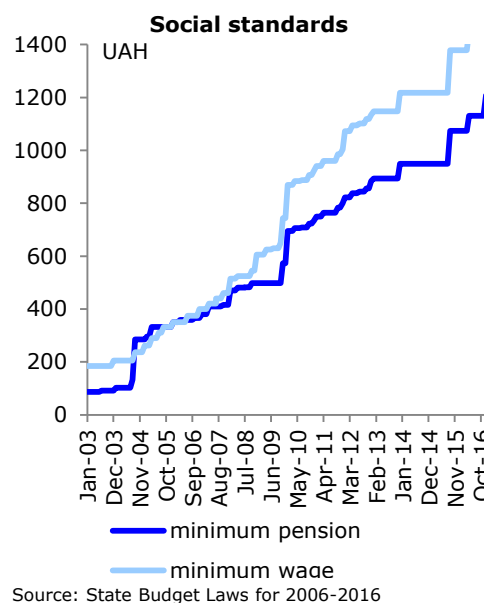
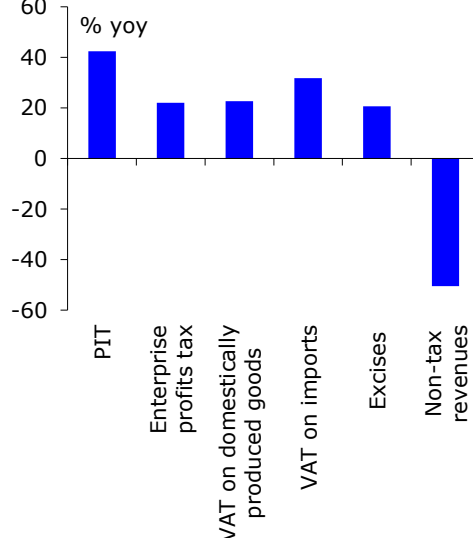
### Privatisation: OPP's privatization can be postponed?

On April 29, the State Property Fund of Ukraine (SPFU) failed to announce the starting price and conditions for the privatisation of Odesa Port Plant (OPP is one of the largest enterprises of chemical industry) due to 'technical reasons'. In particular, the Government did not conduct the meeting of OPP's stakeholders on April 28 as it was planned. According to the SPFU, the meeting is planned now for the beginning of June and, thus, the company can be put on sale as promised in the end of June. However, the risks for successful and timely privatisation of this company remain high.

On April 27, the Government submitted to the Parliament the draft law on the reduction of the list of companies that cannot be privatized by almost 400 companies (from them 116 are already liquidated, 78 are reorganized, and 180 do not have national importance). In particular, the Government is going to exclude from the list Ukrspyrnt (the largest manufacturer of alcohol and alcohol containing products in Ukraine), and Artemsil (one of the largest salt producer in the world).



### Growth of Consolidated fiscal revenues in October 2015



## Social policy: Higher social standards

The Government announced sharper increase in subsistence minimum in December 2016 - by 10.4% instead of previously planned 6.9%. This means higher minimum pensions and minimum wages. Higher minimum wages are likely to impact average wage growth in 2017 in both private and public sectors, but would have rather negligible impact for wage payments in December, when bonuses and premiums are traditionally paid.

The Government also plans to increase financing of housing and utility subsidies by UAH 5.3 bn to UAH 40 bn due to the sharp increase in gas and heating tariffs. As a result, it estimates to cover 6 m households with housing and utility subsidy. In March, 5.1 m households received subsidy.

These changes are foreseen in the draft law submitted to the Parliament. It is likely to be approved in May.

## Labour market: Average real wage increased

**Wages.** Average nominal wage in March grew by 27.4% yoy to UAH 4920 primarily due to wage indexation and minimum wage increase. For the first time since March 2014, average wage increased by 1.6% yoy in real terms due to the slowdown of inflation rate.

Nominal wage in the industry increased on average by 26.6% yoy. As previously, wage growth was weak in the extractive industry (at 17.7% yoy) likely due to difficult financial situation. Average wage in manufacturing increased by 29.1% yoy in nominal terms and by 6.8% yoy in real terms (real wages declined only in metallurgy). Wage growth was the largest in food, textile and pharmaceutical productions likely due to improved financial situation of companies against the background of imports substitution. Average wage in the manufacturing of computers, electronic and optical equipment increased by 89.0% yoy partially due to military procurements. Wage growth in the electricity and gas supply sector remained lower than average in economy (25.5% yoy).

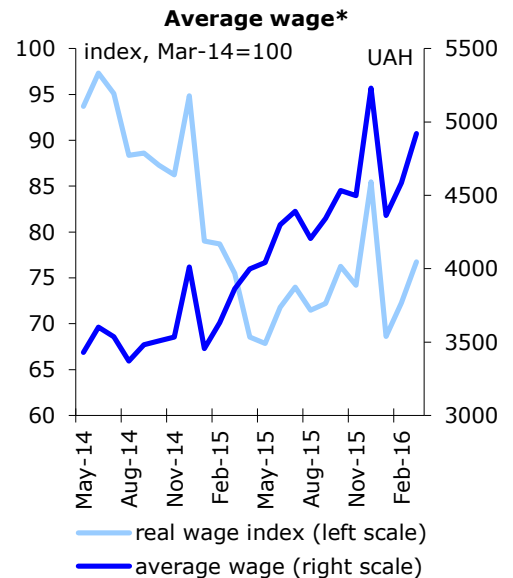
Wages increased by 22.9% yoy in education and by 23.1% yoy in health care. Wages in state administration and defense grew by 36.2% yoy. The main reason for growth was the increase in the base wage that took place at the end of 2015.

## Monetary policy: Consumer inflation returns to single digits

Consumer inflation slowed to 9.8% yoy in April 2016 becoming lower than 10% for the first time since hostilities in Donbas started in April 2014. This reflected still weak global commodity and food prices (despite recent increases FAO food price index was still down on year-to-year basis by 9.2% yoy in April) and moderate depreciation of hryvnia (over the last 12 months hryvnia lost 11% of its value vs. US dollar, but only 5% vs. Turkish lira and 8% vs. renminbi; it increased its purchasing power as compared to most CIS currencies). Price increases were further ameliorated by weak demand that likely resulted in lower margins and in some cases substitution with cheaper products. Low oil prices also helped to contain inflation.

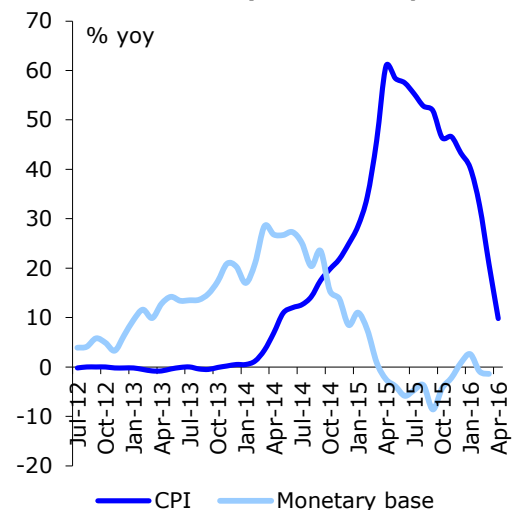
As a result, prices for most goods increased by less than 10% yoy in April. These included wide range from cars, home appliances, audiovisual equipment down to such essentials as bread, meat and pharmaceuticals. Prices for services grew slightly faster in response to growing labour costs with increases often in 10-15% yoy range. Government continued to increase utility tariffs over the last 12 months leading to 17% yoy increase in housing and utility costs.

In April, the NBU reduced overnight deposit rate from 18% to 17% p.a. and announced changes in monetary policy with policy rate closer to interest rates on deposit operations. Thus, interest rate on two-week NBU CDs is now equal to discount rate of the NBU at 19% p.a. This reflects prevalence of deposit operations in monetary policy due to excess liquidity in the banking sector. Decrease in the NBU deposit rates has yet to be reflected in bank interest rates.



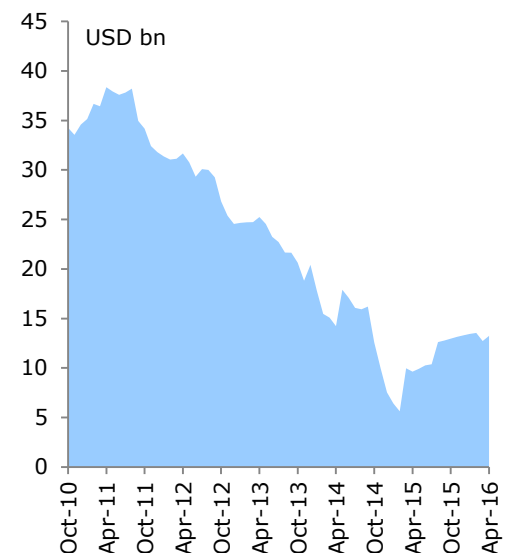
\*not including AR Crimea  
Source: Ukrstat

## CPI and monetary base development



Source: Ukrstat, NBU

## NBU international reserves



Source: NBU



## Exchange rate: Spring as usual

In April hryvnia appreciated slightly from over UAH 26 per USD in the beginning of the month to under UAH 25.5 per USD in the last weeks of April. This reflected decrease in depreciation expectations and seasonal increase in supply on the foreign exchange market. However, import demand likely remained strong and the NBU purchased USD 676 m on the market in smooth exchange rate fluctuations and increase reserves. NBU's international reserves increased to USD 13.2 bn as foreign currency borrowing in the public sector was slightly lower than repayments.

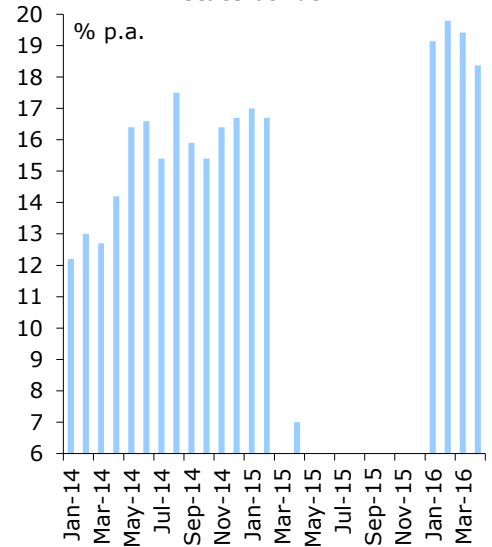
## State debt: Domestic borrowings grew significantly

**External debt.** In April, Ukraine received EUR 400 m loan from the European Investment Bank (EIB) in the framework of the investment project 'Core loan for small and medium-sized business and for companies with the middle level of capitalization'. The loan will be disbursed to selected list of commercial banks for financing mid- and long-term investment projects (up to 10 years) and provide resources for mid-term current assets of private companies. Maximum size of loan per company is defined at EUR 25 m.

**Domestic debt.** In April, domestic borrowings grew significantly. The Ministry of Finance placed UAH 8.6 bn of domestic bonds with weighted average yield at 18.4% p.a. compared to UAH 1.9 bn at 19.6% p.a. in the first quarter of the year. Three-year bonds accounted for near 69.8% of the total placement (compared to 21.7% in March). Besides, the Government issued USD 651 m of two-year USD-denominated bonds with yields at 7.9% p.a.

**Debt restructuring.** On April 27, the Government adopted a resolution on additional issue of Ukraine's external sovereign bonds maturing in 2019 (at USD 347 m) and state derivatives-VRIs (at USD 84 m) to technically complete last year sovereign debt restructuring. This issue of Eurobonds will be provided to bond holders who did not initially participate in the restructuring deal. Earlier, the Ministry of Finance restructured 13 out of 14 Eurobond issues and a significant share of state guaranteed loans (except debt held by Russia which refused to accept common restructuring terms).

Weighted average yield for domestic state bonds



Source: NBU

**Tables**

		Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial production (real)	% yoy cum.	-4.0	-8.0	-10.1	-20.5	-20.0	-16.1	-13.0	-20.5	-20.0	-19.0	-17.4	-16.1	-14.9	-14.0	-13.0	-1.7	2.9	3.7	...
Construction (real)	% yoy cum.	-7.8	-16.4	-20.4	-29.7	-26.2	-20.9	-12.3	-28.5	-26.2	-25.0	-22.8	-20.9	-18.9	-17.3	-12.3	-11.4	-2.0	1.9	...
Agricultural production (real)	% yoy cum.	-3.9	16.0	2.2	-4.7	-9.3	-5.3	-4.8	-5.4	-9.3	-3.5	-5.8	-5.3	-4.4	-4.7	-4.8	-2.5	-2.1	-1.7	...
Retail trade turnover (real)	% yoy cum.	0.8	-5.3	-7.5	-23.9	-24.6	-22.3	-20.7	-24.7	-24.6	-23.6	-23.1	-22.3	-21.7	-21.4	-20.7	-1.4	-1.7	1.6	...
Average wage	UAH	3488	3463	3508	3650	4113	4313	4753	4042	4299	4390	4205	4343	4532	4498	5230	4362	4585	4920	...
CPI	% yoy eop	12.0	17.5	21.8	45.8	57.5	51.9	43.3	58.4	57.5	55.3	52.8	51.9	46.4	46.6	43.3	40.3	32.7	20.9	9.8
PPI	% yoy eop	15.9	26.9	32.8	51.7	37.9	32.5	25.4	42.0	37.9	37.0	33.0	32.5	30.2	25.1	25.4	21.2	17.4	10.5	10.1
Exports (USD)*	% yoy cum.	-12	-16.4	-19.9	-31.4	-32.2	-29.8	-27.0	-33.5	-32.2	-31.9	-31.0	-29.8	-28.9	-28.1	-27.0	-30.0	-18.6	-16.4	...
Imports (USD)*	% yoy cum.	-18.0	-24.8	-28.1	-33.1	-34.2	-31.8	-29.3	-34.7	-34.2	-33.5	-32.2	-31.8	-30.4	-29.5	-29.3	-22.9	-14.0	-10.9	...
Trade balance	USD bn cum.	-2.0	-3.0	-4.6	-0.6	-0.6	-1.0	-1.7	-0.7	-0.6	-0.8	-1.0	-1.0	-1.5	-1.8	-1.7	-0.4	-0.9	-0.4	...
Current account**	USD bn cum.	-2.0	-1.2	-2.6	-0.4	-0.1	0.1	-0.2	-0.5	-0.1	-0.1	0.0	0.1	-0.3	-0.5	-0.2	-0.3	-0.5	-0.4	...
Gross international reserves	USD bn eop	17.1	16.4	7.5	10.0	10.3	12.8	13.3	9.9	10.3	10.4	12.6	12.8	13.0	13.1	13.3	13.4	13.5	12.7	13.2
Monetary Base	% yoy eop	25.1	23.5	13.8	0.9	-5.9	-8.6	0.8	-3.9	-5.9	-4.7	-3.7	-8.6	-4.3	-2.2	0.8	2.6	-0.9	-1.4	...
Lending rate on UAH credits	% pa, aop	17.5	16.4	16.4	19.9	23.1	21.1	20.7	23.6	22.0	21.2	21.2	21.0	20.9	20.7	20.4	20.0	19.8	20.3	...
Exchange rate (interbank)	USD aop	11.71	12.58	13.56	21.23	21.56	21.74	22.90	20.94	21.26	21.79	21.65	21.79	21.94	23.33	23.42	24.32	26.45	26.30	25.54
Exchange rate (official)	USD aop	12.71	12.58	13.56	21.18	21.62	21.69	22.33	20.92	21.23	21.76	21.54	21.78	21.84	23.31	21.84	24.26	26.39	26.39	25.63
Exchange rate (official)	EUR aop	13.71	16.67	17.21	23.88	23.88	24.11	24.62	23.32	23.84	23.94	23.93	24.46	24.56	25.07	24.23	26.35	29.33	29.33	29.06

Sources: Ukrstat, NBU, own calculations

\* Trade in goods and services

\*\* 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 <sup>c</sup>	2011 <sup>c</sup>	2012 <sup>c</sup>	2013 <sup>c</sup>	2014 <sup>c</sup>	2015 <sup>c</sup>
Nominal GDP	UAH bn	170.1	204.2	225.8	267.3	345.1	441.5	544.2	720.7	948.1	913.3	1079.3	1300.0	1404.7	1465.2	1568.9	1979.5
Nominal GDP	USD bn	31.3	38.0	42.4	50.1	64.9	86.2	107.8	142.7	179.9	117.2	136.0	163.1	175.8	183.3	132.2	90.6
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	5.5	0.2	0.0	-6.6	-9.9
Industrial production	% yoy	13.2	14.2	7.0	15.8	12.5	3.1	6.2	7.1	-5.0	-20.6	12.2	8.0	-0.7	-4.3	-10.1	-13.0
Agricultural production	% yoy	9.8	10.2	1.2	-11.0	19.7	-0.1	0.4	-5.2	17.5	0.1	-1.4	20.2	-3.9	13.6	2.2	-4.8
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	48.7
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	43.3
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	36.0
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	25.4
Exports (gs, USD)	% yoy	17.9	9.5	10.7	24.0	42.6	7.5	13.4	27.0	34.3	-36.9	26.0	27.5	3.4	-5.5	-19.9	-27.0
Imports (gs, USD)	% yoy	18.9	14.1	4.9	28.7	31.3	20.4	22.6	35.232	39.3	-44.2	28.8	34.8	7.5	-3.5	-28.1	-29.3
Current account	USD bn	1.5	1.4	3.1	2.9	6.9	2.5	-1.6	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-16.5	-4.6	-0.2
Current account	% GDP	4.8	3.7	7.3	5.8	10.6	2.9	-1.5	-3.7	-7.1	-1.5	-2.2	-6.3	-8.2	-9.0	-3.5	-0.2
FDI (net)	USD bn	0.6	0.8	0.7	1.4	1.7	7.5	5.7	9.218	9.9	4.7	5.8	7.0	7.2	4.1	0.3	3.0
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	13.3
Fiscal balance <sup>***</sup>	% 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	-1.6
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	40.0	36.0	37.5	39.9	69.4	79.4
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	22.1	20.5	38.5	52.7
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	0.8
Exchange rate	USD aop	5.44	5.37	5.33	5.33	5.32	5.12	5.05	5.05	5.27	7.79	7.94	7.97	7.99	7.99	11.87	21.84
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	24.00
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	24.23
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	26.22

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

<sup>\*\*\*</sup> "Minus" denotes a consolidated fiscal deficit; without recapitalisation

<sup>c</sup> Data excludes Crimea where available

**Notes:**
**avg** average

**cum** cumulative

**mom** month on month change

**qoq** quarter on quarter change

**yoy** year-on-year change

**ytd** year-to-date

**p.a.** per annum

**eop** end of the period

**aop** average of the period

**gs** goods and services

**NBU** National Bank of Ukraine

**EPT** Enterprise profit tax

**VAT** Value added tax

**Ukrstat** State Statistics Service of Ukraine



Quarterly trends

National accounts		Q4 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 <sup>c</sup>	Q2 14 <sup>c</sup>	Q3 14 <sup>c</sup>	Q4 14 <sup>c</sup>	Q1 15 <sup>c</sup>	Q2 15 <sup>c</sup>	Q3 15 <sup>c</sup>	Q4 15 <sup>c</sup>
GDP	UAH bn	306.3	258.6	310.3	368.5	362.6	292.3	346.0	387.1	379.2	303.8	354.8	398.0	408.6	316.9	382.4	440.5	447.1	375.5	455.2	563.9	584.8
GDP (real)	% yoy	3.7	5.5	4.4	6.7	5.1	2.4	3.0	-1.3	-2.4	-1.3	-1.2	-1.1	3.4	-1.0	-4.3	-5.3	-14.4	-17.0	-14.7	-7.2	-1.4
Household consumption (real)	% yoy	12.8	13.6	14.9	15.9	18.0	7.1	11.8	10.2	4.9	5.9	8.7	6.8	6.3	3.3	-7.8	-13.9	-12.2	-20.7	-28.1	-19.3	-13.0
State consumption (real)	% yoy	10.0	2.0	3.4	-9.4	-6.4	3.5	5.0	9.7	1.1	2.0	-0.9	-1.5	-2.9	-5.9	5.2	0.1	4.5	2.7	-5.9	-1.7	8.1
Gross fixed capital formation (real)	% yoy	10.5	-3.4	4.1	17.8	10.8	15.3	18.7	-2.9	-2.1	6.1	-18.1	-8.9	-8.7	-19.9	-19.3	-28.0	-26.5	-22.8	-13.8	-6.3	1.4
Exports of goods and services (real)	% yoy	0.9	17.6	2.7	-1.0	-5.5	-7.4	-6.3	-1.8	-7.2	-7.4	-13.5	-6.8	-4.5	-5.1	-2.3	-16.8	-31.1	-26.1	-22.1	-10.8	-5.8
Imports of goods and services (real)	% yoy	13.2	35.2	20.2	10.4	3.5	-2.9	11.9	6.6	-0.2	1.3	-15.7	1.7	-0.6	-11.8	-10.9	-32.3	-29.6	-19.8	-32.1	-18.2	-17.3
Agriculture, hunting, forestry (real)*	% yoy	0.9	3.5	0.4	18.1	35.6	0.4	11.4	-8.0	-3.5	5.7	21.7	-2.8	36.5	5.7	-9.1	25.6	-20.6	-4.7	-11.8	-3.8	-3.6
Manufacturing industry (real)*	% yoy	7.6	8.0	3.9	7.5	-4.2	2.5	0.5	-4.9	-6.6	-9.3	-9.9	-10.6	-9.8	-3.2	-5.4	-12.7	-13.2	-24.4	-20.7	-7.9	-0.2
Construction (real)*	% yoy	3.9	1.0	5.3	-7.7	-1.5	-4.9	1.7	-14.3	-18.7	-16.1	-19.4	-8.0	-4.4	4.7	-14.0	-26.3	-30.8	-30.4	-24.2	-9.1	10.8
Trade, repair services (real)*	% yoy	4.7	10.4	3.3	8.3	4.2	2.1	3.4	-0.5	-2.0	0.2	-1.2	0.9	0.9	-3.0	-7.2	-18.4	-26.6	-25.0	-19.8	-13.6	-6.1
Transport (real)*	% yoy	0.1	16.0	12.1	10.4	13.2	-2.6	-3.2	-8.3	-10.5	-1.7	-0.8	1.3	2.7	-7.8	-10.9	-10.1	-11.0	-8.2	-2.3	-0.2	4.9
<b>Balance of payments (BPM6)</b>																						
Current account balance	USD bn	-2.5	-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	-0.4	0.3	0.2	-0.3
Current account balance	% of GDP	-6.5	-4.9	-4.4	-5.6	-9.6	-5.2	-8.5	-8.1	-10.1	-8.4	-5.1	-12.1	-9.8	-3.5	-2.5	-3.3	-6.7	-2.4	1.5	0.9	-1.1
Trade balance in goods	USD m	-3903	-3951	-3211	-5098	-5771	-4292	-5818	-5503	-6233	-4635	-3677	-7881	-5935	-2195	-1185	-1412	-2336	-1111	-470	-662	-1066
Trade balance in services	USD m	1148	1614	1882	2523	1867	1864	1697	2361	1578	1349	1504	2575	1066	937	443	456	686	555	388	278	397
Current transfers	USD m	842	1039	878	988	803	683	805	777	711	533	589	480	547	241	494	306	500	558	715	644	711
Direct investment (FDI)*	USD m	2170	880	2422	2090	1623	2012	1270	2037	1876	1082	496	1510	991	-665	-319	725	558	397	907	890	818
Portfolio investments (equity)*	USD m	196	150	116	43	210	1	74	83	358	713	568	655	-756	-241	-49	-84	-17	141	10	13	13
Gross international reserves	USD bn	34.6	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	10.3	12.8	13.3
Exchange rate (interbank), UAH/USD	aop	7.96	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	22.90
Exchange rate (official), UAH/USD	aop	7.93	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	22.33
<b>Fiscal indicators</b>																						
Consolidated fiscal revenues	% of GDP	32.4	32.7	30.1	29.6	30.8	33.7	31.8	28.2	33.6	35.2	29.4	28.9	28.6	35.4	29.4	24.7	27.4	37.3	34.8	37.2	40.4
Personal income tax	% of GDP	4.8	5.0	4.8	4.2	4.7	5.1	4.9	4.5	5.0	5.3	5.1	4.6	4.8	5.1	4.7	4.2	5.0	5.5	5.3	5.6	6.6
Enterprise profits tax	% of GDP	4.2	4.5	4.6	3.6	4.4	4.9	4.1	2.9	4.2	6.1	3.4	3.0	3.0	4.9	2.5	1.9	1.5	4.4	1.7	1.5	1.7
Value-added tax	% of GDP	10.0	7.5	12.9	9.7	9.6	10.8	10.4	8.6	10.0	9.7	9.0	8.1	8.4	8.7	9.5	6.8	10.1	11.4	9.2	10.0	10.6
Excise tax	% of GDP	2.6	2.1	3.0	2.8	2.5	2.8	2.9	2.8	2.4	3.1	2.6	2.3	2.2	2.5	3.0	3.0	2.8	3.3	3.4	3.7	4.0
Consolidated fiscal expenditures	% of GDP	37.7	32.7	33.2	27.0	35.7	33.9	34.1	30.7	41.3	36.9	35.8	30.1	35.9	35.2	34.7	27.2	35.5	33.6	35.0	32.5	54.2
Current expenditures	% of GDP	32.9	31.4	30.8	24.0	30.2	31.9	31.6	27.8	37.3	35.6	33.9	28.2	33.2	34.8	33.7	25.8	33.6	31.8	33.7	29.9	49.2
Capital expenditures	% of GDP	4.8	1.3	2.4	3.0	5.6	1.9	2.5	2.9	4.0	1.3	1.9	1.9	2.8	0.5	1.0	1.4	1.9	1.7	1.3	2.6	5.0
Consolidated fiscal balance	% of GDP	-5.6	-0.3	-3.4	-3.9	-5.5	-0.2	-2.6	-3.0	-7.8	-1.9	-6.3	-1.5	-7.3	0.1	-5.3	-2.8	-8.8	3.7	-0.4	4.4	-13.9
Privatisation receipts	% of GDP	0.2	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	0.0
<b>Banking system</b>																						
Monetary aggregate M0	% yoy cum	16.5	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	-0.1
Monetary aggregate M2	% yoy cum	23.1	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	4.0
Household deposits in national currency	% yoy cum	41.4	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	-1.0
Household deposits in foreign currency	% yoy cum	16.9	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	-2.4
Com. bank credits in national currency	% yoy cum	11.2	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	-20.8
Com. bank credits in foreign currency	% yoy cum	-8.3	-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	15.9
Long-term com. bank credits	% yoy cum	-0.5	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	-10.5
Average lending rate on national currency credits	% of total	66.3	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	55.4
Average lending rate on foreign 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	20.7
Average lending rate on foreign currency credits	% p.a.	10.1	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	9.1

Sources: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, Reuters, IER estimates  
<sup>a</sup> change in value added  
<sup>c</sup> Data excludes Crimea, since 2015 data excludes pa

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