

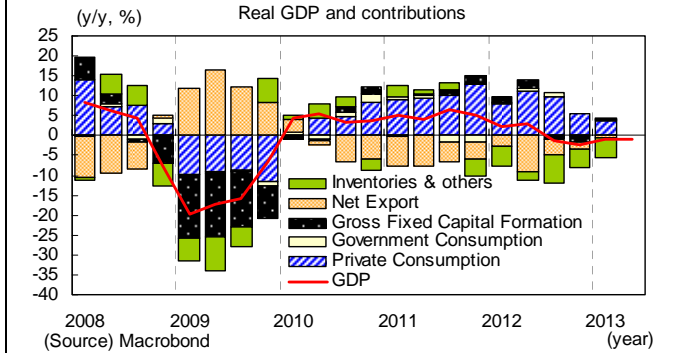
Main Economic & Financial Indicators: Ukraine

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Overview

The Ukrainian economy remained depressed as real GDP contracted again by 1.1% y/y in Q2. Detailed breakdown of this GDP figure is not yet released. More frequent economic indicators suggest that external demand remained sluggish reflecting a slowdown in the Russian economy as well as, although there are some signs of bottoming-out, weak European economy. Looking ahead, a strong recovery in external demand can hardly be expected as economic growth in Russia and Europe is likely to be weak. Adding to this, in an attempt to block Ukraine to conclude a free trade agreement with the EU which is planned in November, Russia restricted Ukrainian imports at their border in mid-August. This was only temporary, however, Vladimir Putin, the Russian President, later warned Ukraine of possibility of another action which may pose risk to economic outlook (Russia accounts for a quarter of Ukraine's exports). Meanwhile, domestic demand continued its robust growth albeit at a slower rate as household demand remained relatively healthy reflecting a strong wage growth and low inflation.

The Central Bank of Ukraine cut its policy rate by 1.0% in total in June and August. Meanwhile, as downward pressure on emerging market currencies mount since talk of reducing US monetary easing began, the central bank has been intervening the currency market to support the hryvnia (pegged to US dollar at around 1USD=8.14 hryvnia). However, as the bank's reserve has been reduced significantly, devaluation of hryvnia is becoming more likely.



Output

Industrial production in July fell by 4.9% y/y. Although the rate of contraction has been decelerating, this marked the fourteenth consecutive month of negative growth. The output in the manufacturing sector fell by 7.5% y/y reflecting a sharp contraction in chemical and fertiliser (down 18.8% y/y) and locomotives (down 33.3% y/y). Meanwhile, growth in steel output turned positive, up by 1.6% y/y.

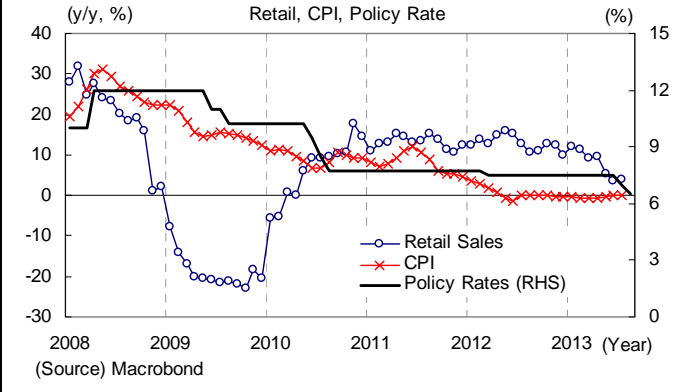
Consumption

Growth in retail sales accelerated slightly from 3.7% y/y in June to 3.9% y/y in July. Consumer spending has been supported by a strong wage growth and weak inflation reflecting the government's refusal to impose an increase in gas prices as well as the central bank's currency interventions. Consumer confidence in July improved to a three year high reflecting a better economic outlook albeit remaining at a low level. Growth in household lending turned positive in June after three years of year-on-year decline. That said, there remain risks to household spending including possible hryvnia devaluation which will lift import and consumer prices and increase the burden of FX loans.

Prices

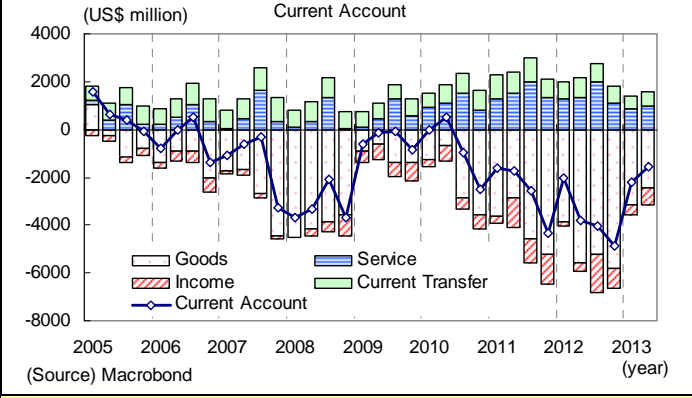
Consumer price inflation in July was flat compared to a year earlier after eight consecutive months of deflation. However, inflation may pick up rapidly if the government imposes an increase in retail gas prices given that gas subsidies put a massive pressure on the government budget. An increase in gas prices is also required in order to draw a loan agreement from the IMF. A possible devaluation of the hryvnia will also lift import and consumer prices.

On August 12<sup>th</sup>, the Central Bank of Ukraine decided to cut its policy rate by 0.5% to 6.5%. This follows 0.5% rate cut imposed in June aiming to stimulate domestic demand by lowering borrowing cost of credit.



Balance of Payments

The current account deficit for Q2 was more than halved to US\$1.6bn from US\$3.8bn a year earlier. This is owing to a decrease in trade deficit as import decreased faster than export. Export fell by 9.2% y/y reflecting weak external demand from Russia and Europe while import dropped sharply by 20.5% y/y as private consumption slowed down.



IMF loan negotiations

Ukraine's funding position is under scrutiny as the country's economy remains depressed as well as amid emerging market turmoil with the rising expectations of the US Federal Reserve scaling back its QE programme, increasing the country's need for a fresh IMF loan. However, negotiation with the IMF has seen no progress recently as the government still refuses to implement reforms required by the IMF including an increase in retail gas prices. At the end of July, the IMF announced it will put Ukraine under post-program monitoring (PPM) as the country's outstanding credit from the IMF loan in 2010 stands about US\$8bn, way above the country's threshold defined by the IMF. As the PPM requires more frequent and stringent monitoring on economic policy and structural reform, it is likely to be another barrier for a new loan agreement.

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### 1. Annual and quarterly data

	2010	2011	2012	12/Q2	12/Q3	12/Q4	13/Q1	13/Q2
GDP (at current prices) (US\$ bn)	136.2	163.0	174.3	43.3	47.8	46.5	37.2	-
Real GDP growth (% , y/y)	4.2	5.1	0.4	3.0	-1.3	-2.5	-1.1	-1.1
Private consumption (% , y/y)	6.9	15.5	11.9	15.7	14.0	6.9	4.5	-
Gross fixed capital formation (% , y/y)	2.8	5.9	3.5	16.2	-6.9	-7.5	4.0	-
Industrial production (% , y/y)	10.8	7.0	-2.2	-0.1	-4.2	-5.2	-4.8	-5.7
Retail sales (% , y/y)	6.5	13.1	12.9	15.4	11.5	11.7	10.9	6.2
Bank lending (% , y/y)	1.3	9.4	1.7	3.7	1.1	1.7	3.4	4.4
Consumer price index (% , y/y)	9.4	8.0	0.6	-0.4	0.0	-0.1	-0.5	-0.4
Average monthly wage growth (% , y/y)	17.7	17.5	14.9	16.0	13.5	12.6	9.6	8.8
Unemployment rate* (%)	1.6	1.8	1.7	1.7	1.5	1.6	2.0	1.8
Trade balance* (US\$ mn)	-9,309	-14,197	-15,848	-4,306	-4,259	-4,374	-1,987	-2,234
Exports (US\$ mn)	51,431	68,410	68,810	17,509	17,121	18,011	15,911	14,831
Export growth (%)	29.5	33.0	0.6	0.3	0.1	-2.4	-1.6	-15.3
Imports (US\$ mn)	60,740	82,607	84,658	21,815	21,379	22,385	17,898	17,065
Import growth (%)	33.7	36.0	2.5	10.0	1.1	-3.1	-6.2	-21.8
Current account balance (US\$ mn)	-3,018	-10,245	-14,761	-3,790	-4,045	-4,873	-2,183	-1,559
Capital and financial balances (US\$ mn)	9,937	6,804	5,770	2,411	3,123	63	3,657	-
Foreign direct investment in Ukraine (US\$ mn)	6,495	7,207	7,833	1,811	2,004	1,965	899	-
Foreign reserves (US\$ mn)	34,576	31,795	24,546	29,318	29,255	24,546	24,729	23,245
Gross external debt (US\$ mn)	117,346	126,236	135,065	128,955	132,447	135,065	136,277	-
NBU discount rate	7.75	7.75	7.50	7.50	7.50	7.50	7.50	7.50
Short-term int. rates (interbank one month ask)	7.22	9.92	19.82	14.22	22.68	25.52	13.37	9.56
UAH/USD	7.95	7.99	8.08	8.06	8.11	8.14	8.12	8.14
UAH/Euro	10.52	11.11	10.38	10.33	10.13	10.56	10.71	10.63
UAH/GBP	12.28	12.80	12.81	12.75	12.80	13.08	12.59	12.50

### 2. Monthly data

	12/12	13/01	2	3	4	5	6	7
Industrial production (% , y/y)	-7.6	-3.2	-6.0	-5.2	-2.2	-9.3	-5.7	-4.9
Retail sales (% , y/y)	9.9	12.0	11.2	9.4	9.7	5.3	3.7	3.9
Bank credits to the private sector (% , y/y)	1.7	2.8	3.1	3.4	3.4	3.9	4.4	5.3
Consumer price index (% , y/y)	-0.2	-0.2	-0.5	-0.8	-0.8	-0.4	-0.1	0.0
Average monthly wage growth (% , y/y)	10.6	10.2	8.8	9.9	9.9	7.9	8.7	8.8
Unemployment rate* (%)	1.8	2.0	2.1	2.0	1.9	1.8	1.7	1.6
Trade balance* (US\$ mn)	-2,072	16	-919	-1,084	-618	172	-1,787	-
Exports (US\$ mn)	5,725	5,126	5,351	5,434	6,064	5,218	3,549	-
Export growth (%)	-11.4	-3.8	7.8	-7.5	4.7	-16.4	-35.2	-
Imports (US\$ mn)	7,797	5,110	6,270	6,518	6,683	5,046	5,337	-
Import growth (%)	-1.2	-5.1	-7.2	-6.0	-8.0	-33.4	-23.5	-
NBU discount rate	7.50	7.50	7.50	7.50	7.50	7.50	7.00	7.00
Short-term int. rates (interbank one month ask)	24.37	16.55	12.75	10.83	9.98	9.62	8.94	8.95
UAH/USD	8.10	8.10	8.12	8.13	8.14	8.13	8.15	8.15
UAH/Euro	10.63	10.77	10.84	10.53	10.60	10.56	10.75	10.66
UAH/GBP	13.08	12.93	12.57	12.27	12.46	12.43	12.62	12.36

Note: Registered unemployment rate. Trade balance: based on a customs-cleared basis unless otherwise indicated. UAH: Ukraine Hryvnia  
Sources: National Bank of Ukraine, the State Statistics Committee of Ukraine etc.

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