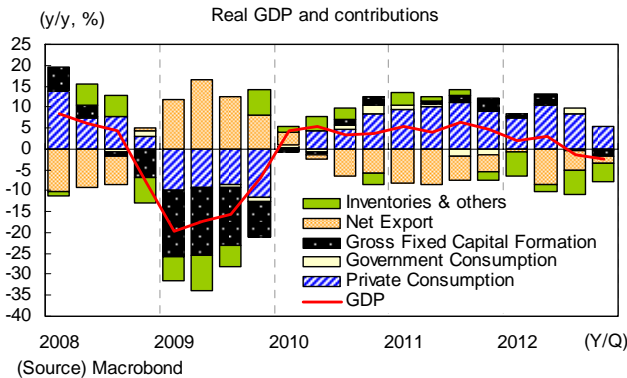


Main Economic & Financial Indicators: Ukraine

Economic Research Office
(Akiko Darvell, akiko.darvell@uk.mufg.jp)

Overview

Uncertainty for the economic outlook of Ukraine is rising. The country's GDP contracted further in Q4; shrinking by 2.5% y/y. Private consumption was the only force to push the economy higher, up 6.9% y/y. However, the strength of household demand is fragile as it is artificially supported by the government suspending domestic gas price increases and the central bank insisting on keeping its hryvnia peg while wages continue their strong growth. But, to get the much needed IMF loan of US\$15bn, Ukraine needs to agree to raise domestic gas prices and to devalue the hryvnia. If these measures are adopted, however, household disposable income will be squeezed, weakening their purchasing power. With external demand also expected to remain sluggish thanks to weak demand prospects in Europe, it is unlikely that the Ukrainian economy will see a strong growth.



Output

Growth in industrial production in January declined 3.2% y/y. Although the rate of contraction has decelerated somewhat from 7.6% y/y decrease a month earlier, this marked the eighth consecutive month of negative growth. The output in the manufacturing sector decreased 4.5% y/y reflecting a sharp contraction in the country's main export commodities; steel (down 10.6% y/y) and chemical (down 19.9%). Growth in output will remain subdued as external demand from Europe continues to be weak.

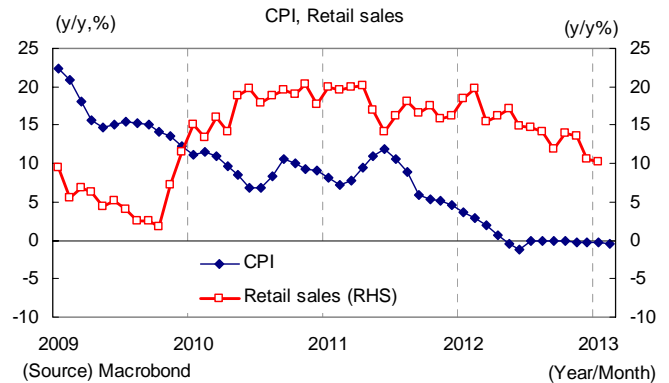


Consumption

Retail sales in January rose by 12.0% y/y, accelerating from 9.9% y/y in December. Strong growth is supported by wage growth and lower inflation. However, the outlook is uncertain. Inflation may jump up if the government raises domestic gas prices in order to get a loan from the IMF, squeezing household's budget.

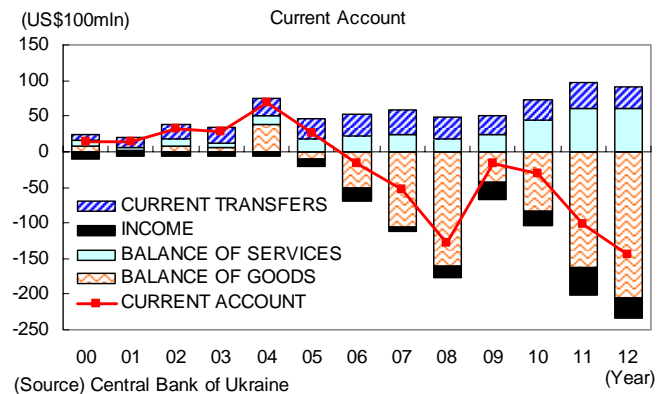
Prices

Consumer price inflation in February was down 0.5% y/y, marking fourth consecutive decrease in a row in y/y terms. However, it is likely that inflation will pick up soon again as demand-side inflation pressure will be more visible reflecting the recent strong private consumption growth.



Balance of Payments

The current account deficit for 2012 deteriorated to US\$14.4bn from US\$10.2bn in 2011. Export stood at US\$69.76bn, almost unchanged from a year earlier while import increased 5.3% y/y to US\$90.24bn on the back of strong domestic demand. As a result, the trade deficit widened to US\$20.48bn. The income deficit narrowed from US\$3.8bn in 2011 to US\$2.97.



IMF loan negotiations

The country's debt repayments this year are estimated at around US\$9bn. Ukraine's foreign currency reserves decreased significantly as a result of the central bank's recent currency market interventions. Foreign reserves at the end of December last year covered only 3.1 months of total imports compared to the recent years' average of 6 months. The government's budget deficit has widened at the same time reflecting the fact that its costs in terms of gas subsidies ballooned with unsuccessful negotiations with Russia to cut the gas import prices. The government also increased its spending ahead of the last October's general election. The government tapped the capital market by issuing USD1bn Eurobond (10 year maturity at 7.625%) in February. However, market financing is not a sustainable solution for Ukraine considering the volatile nature of investors' risk appetite. In light of these circumstances, an IMF loan of US\$15bn is urgently needed to plug the country's financing shortfall. But in order to reach an agreement with the IMF, the government needs to commit itself to painful structural reforms which will be politically very costly. The second phase of negotiation is scheduled at the end of March.

Main Economic & Financial Indicators: Ukraine

1. Annual and quarterly data

		2010	2010	2011	11/Q4	12/Q1	12/Q2	12/Q3	12/Q4
GDP (at current prices)	(US\$ bn)	136.2	163.0	174.3	45.4	36.6	43.3	47.8	46.5
Real GDP growth	(%, y/y)	4.1	5.2	0.2	5.0	2.2	3.0	-1.3	-2.5
Private consumption	(%, y/y)	7.1	15.7	11.7	18.5	11.0	15.7	14.0	6.9
Gross fixed capital formation	(%, y/y)	3.9	7.1	0.9	12.0	12.3	16.2	-6.9	-7.5
Industrial production	(%, y/y)	10.8	7.0	-2.2	2.7	0.8	-0.1	-4.2	-5.2
Retail sales	(%, y/y)	6.5	13.1	12.9	11.5	13.0	15.4	11.5	11.7
Bank lending	(%, y/y)	1.3	9.4	1.7	9.4	6.3	3.7	1.1	1.7
Consumer price index	(%, y/y)	9.4	8.0	0.6	5.1	2.9	-0.4	0.0	-0.1
Average monthly wage growth	(%, y/y)	17.7	17.5	14.9	16.5	17.8	16.0	13.5	12.6
Unemployment rate*	(%)	1.6	1.8	1.7	1.6	1.9	1.7	1.5	1.6
Trade balance	(US\$ mn)	-9,309	-14,197	-15,848	-4,654	-2,910	-4,306	-4,259	-4,374
Exports	(US\$ mn)	51,431	68,410	68,810	18,458	16,169	17,509	17,121	18,011
Export growth	(%)	29.5	33.0	0.6	21.6	5.1	0.3	0.1	-2.4
Imports	(US\$ mn)	60,740	82,607	84,658	23,112	19,079	21,815	21,379	22,385
Import growth	(%)	33.7	36.0	2.5	21.3	3.0	10.0	1.1	-3.1
Current account balance	(US\$ mn)	-3,018	-10,245	-14,407	-4,350	-2,043	-3,820	-4,142	-4,402
Capital and financial balances	(US\$ mn)	10,124	6,804	-	1,536	66	2,359	3430	-
Foreign direct investment in Ukraine	(US\$ mn)	6,495	7,207	-	1,793	2,053	1,822	2,154	-
Foreign reserves	(US\$ mn)	34,576	31,795	24,546	31,795	31,128	29,318	29,255	24,546
Gross external debt	(US\$ mn)	117,346	126,236	-	126,236	126,884	128,955	132,446	-
NBU discount rate		7.75	7.75	7.50	7.75	7.50	7.50	7.50	7.50
Short-term int. rates (interbank one month ask)		7.22	9.92	19.82	19.64	15.33	14.22	22.68	25.52
UAH/USD		7.950	7.987	8.084	8.010	8.029	8.056	8.106	8.142
UAH/Euro		10.524	11.107	10.385	10.786	10.522	10.330	10.134	10.561
UAH/GBP		12.276	12.804	12.809	12.589	12.611	12.746	12.804	13.075

2. Monthly data

		12/07	8	9	10	11	12	13/01	2
Industrial production	(%, y/y)	-0.9	-4.7	-7.0	-4.2	-3.7	-7.6	-3.2	-
Retail sales	(%, y/y)	12.9	10.6	10.9	12.9	12.4	9.9	12.0	-
Bank credits to the private sector	(%, y/y)	1.8	1.1	1.0	2.8	1.7	2.8	-	-
Consumer price index	(%, y/y)	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.5	-
Average monthly wage growth	(%, y/y)	14.1	11.9	14.0	13.6	10.6	10.2	-	-
Unemployment rate*	(%)	1.5	1.5	1.4	1.6	1.8	2.0	-	-
Trade balance	(US\$ mn)	-1,443	-1,441	-1,374	-1,295	-1,006	-2,072	-	-
Exports	(US\$ mn)	5,753	5,836	5,532	6,400	5,886	5,725	-	-
Export growth	(%)	7.2	1.2	-7.4	12.0	-6.3	-11.4	-	-
Imports	(US\$ mn)	7,196	7,277	6,906	7,695	6,892	7,797	-	-
Import growth	(%)	10.3	1.0	-6.8	2.0	-10.2	-1.2	-	-
NBU discount rate		7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Short-term int. rates (interbank one month ask)		21.46	22.81	23.88	24.19	27.57	24.37	16.55	12.73
UAH/USD		8.086	8.108	8.127	8.152	8.170	8.100	8.099	8.124
UAH/Euro		9.934	10.057	10.458	10.576	10.483	10.629	10.767	10.843
UAH/GBP		12.604	12.746	13.098	13.107	13.041	13.076	12.933	12.571

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

The Bank of Tokyo-Mitsubishi UFJ, Ltd., London Branch ("BTMU LONDON") is based in England at Ropemaker Place, 25 Ropemaker St., London EC2Y 9AN. BTMU LONDON is authorised and regulated by the Japanese Financial Services Authority. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

This report shall not be construed as solicitation to take any action such as purchasing/selling/investing in financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee, and do not accept any liability whatsoever for, its accuracy and we accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by copyright. No part of this report may be reproduced in any form without express statement of its source.

The Bank of Tokyo-Mitsubishi UFJ, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and The Bank of Tokyo-Mitsubishi UFJ, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.