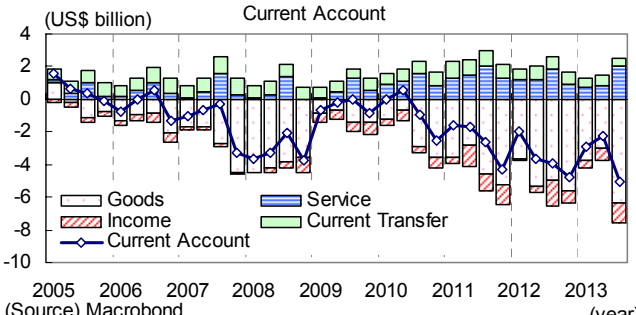


**Main Economic & Financial Indicators: Ukraine**

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Overview	Output
<p>Uncertainties over the Ukrainian economy are rising. Real GDP in Q3 shrank by 1.3% y/y, contracting for five consecutive quarters. The recent turmoil in domestic politics is aggravating the economic recession. At the end of November, Ukraine failed to sign the Association Agreement with the EU which included a free trade agreement. It is widely speculated that this was the result of a political pressure put by Russia in order to lure Ukraine into the Custom Union led by Russia, by banning imports from Ukraine while also suggesting possible price cuts on gas prices and provision of loans. Public frustration with the government, particularly in more EU-friendly western parts of Ukraine led to massive demonstrations in the capital Kiev demanding that the President, Vladimir Yanukovich, to resign. Yanukovich has promised to hold discussions with opposition parties and to continue the effort to strengthen ties with the EU. However, tensions are rising as he is also seeking to increase economic cooperation with Russia while trying to remove demonstrators from the centre of Kiev by using riot police.</p> <p>Concerns over Ukraine's external financing are mounting. The rating agencies, S&amp;P and Fitch, downgraded their credit ratings for Ukraine from B to B- in November (Moody's downgraded it from B- to Caa1 in September) reflecting the widening current account deficit and a sharp decline in international reserves. Adding to this, the anti-government demonstrations pushed up yields on government bonds, leaving the CDS spread (five-year bonds) above 1000bps since the end of November. Ukraine's international reserves are declining fast, too, as downward pressure on hryvnia grows. The Ukraine Central Bank repeatedly intervened in foreign exchange markets in order to support the hryvnia (pegged at around 1USD=8.14 hryvnia) since May as expectations of QE tapering in the US have risen. Considering the further downward pressure on hryvnia due to the recent political turmoil, the currency could be devalued. While debt financing in the capital market is becoming increasingly difficult, loans from other sources are urgently needed. However, the government is facing tough choices. While strengthening a tie with the EU may provoke further economic sanctions from Russia, forging a partnership with Russia may also encourage the anti-government movements in the country, causing further damage to the economy. Furthermore, the Ukrainian government is being given strict conditions by the IMF in order to obtain a loan agreement which include hryvnia devaluation and a rise in gas prices.</p>	<p>Industrial production in September fell by 4.9% y/y. The manufacturing sector declined by 9.8% y/y, reflecting a sharp contraction in the main export products, steel (-8.0% y/y), chemicals and fertilizer (-18.9% y/y) and food, drinks and tobacco (-12.5% y/y).</p>
	<p><b>Consumers and Prices</b></p>
<p><b>GDP</b></p> <p>Real GDP in Q3 shrank by 1.3% y/y, recording five consecutive quarters of negative growth. A look at the breakdown of this figure indicate that private consumption expanded by 6.7% y/y, while gross fixed capital formation continued to contract, down 7.1% y/y but at a slower pace. Exports declined by 7.8% y/y, being hit by weak demand from Europe as well as Russia's ban on Ukrainian products in mid August. Net export's contribution to overall GDP growth remained negative at -2.3%.</p>  <p>(Source) Macrobond</p>	<p>Growth in retail sales is decelerating, up only by 1.2% y/y in October. Consumer confidence in September was at the lowest level in the last 18 months reflecting the sluggish economy. Although it rebounded slightly in October, consumer confidence is likely to decline in the coming months due to the recent political turmoil. Also, if the currency is devalued, a rise in import prices and an increase in foreign currency loan repayments would put household budgets under pressure.</p> <p>Consumer price inflation in November increased 0.2% y/y after three consecutive months of negative growth. Although inflationary pressures remain weak, if Ukraine accepts loan conditions from the IMF in the future, the inflation rate is likely to increase with a rise in gas prices which are subsidised by the government as well as the hryvnia devaluation.</p>
	<p><b>Monetary policy</b></p>
	<p>The Central Bank of Ukraine has been keeping its policy rate at 6.5% since the rate cut in August. Meanwhile, Ukraine's international reserves have been decreasing sharply reflecting the widening current account deficit and the bank's interventions to support hryvnia. It declined to US\$18.79bn at the end of November, down 23.4% from the beginning of the year. In order to ensure foreign currency liquidity, the Central Bank introduced a new regulation ordering exporters to convert 50% of their foreign currency income to hryvnia in November 2012. In May 2013, the same regulation was extended to all companies, individual entrepreneurs and private residents who earn more than 150,000 hryvnia in foreign currencies per month. Furthermore, last month, regardless of their foreign currency earnings, the same rule applied to all companies and individual entrepreneurs.</p>  <p>(US\$ billion) International Reserves (Source) Macrobond</p>
	<p><b>Balance of Payments</b></p>
	<p>The current account deficit for Q3 expanded from US\$3.94bn in the previous year to US\$5.05bn, the worst level seen since 1998. The decreasing pace of imports moderated from a sharp decline of 18.4% y/y in Q2 to 1.3% y/y in Q3 while exports continued to decline, being partly affected by the temporary ban on Ukrainian imports by Russia in August. As a result, the trade deficit widened to US\$6.39bn.</p>  <p>(US\$ billion) Current Account (Source) Macrobond</p>

## Main Economic & Financial Indicators: Ukraine

### 1. Annual and quarterly data

	2010	2011	2012	12/Q3	12/Q4	13/Q1	13/Q2	13/Q3
GDP (at current prices) (US\$ bn)	136.2	163.0	174.3	47.8	46.5	37.2	43.2	48.2
Real GDP growth (% , y/y)	4.2	5.1	0.4	-1.3	-2.5	-1.1	-1.3	-1.3
Private consumption (% , y/y)	6.9	15.5	11.9	14.0	6.9	4.5	7.4	6.7
Gross fixed capital formation (% , y/y)	2.8	5.9	3.5	-6.9	-7.5	4.0	-19.7	-7.1
Industrial production (% , y/y)	10.8	7.0	-2.2	-4.2	-5.2	-4.8	-5.7	-5.1
Retail sales (% , y/y)	6.5	13.1	12.9	11.5	11.7	10.9	6.2	4.4
Bank lending (% , y/y)	1.3	9.4	1.7	1.1	1.7	3.4	4.4	6.6
Consumer price index (% , y/y)	9.4	8.0	0.6	0.0	-0.1	-0.5	-0.4	-0.3
Average monthly wage growth (% , y/y)	17.7	17.5	14.9	13.5	12.6	9.6	8.8	7.6
Unemployment rate* (%)	1.6	1.8	1.7	1.5	1.6	2.0	1.8	1.6
Trade balance* (US\$ mn)	-9,309	-14,197	-15,848	-4,259	-4,374	-1,987	-2,234	-5,488
Exports (US\$ mn)	51,431	68,410	68,810	17,121	18,011	15,911	14,831	15,552
Export growth (%)	29.5	33.0	0.6	0.1	-2.4	-1.6	-15.3	-9.2
Imports (US\$ mn)	60,740	82,607	84,658	21,379	22,385	17,898	17,065	21,040
Import growth (%)	33.7	36.0	2.5	1.1	-3.1	-6.2	-21.8	-1.6
Current account balance (US\$ mn)	-3,018	-10,245	-14,315	-3,936	-4,765	-2,918	-2,253	-5,047
Capital and financial balances (US\$ mn)	9,937	6,804	5,346	3,024	-44	4,000	922	-
Foreign direct investment in Ukraine (US\$ mn)	6,495	7,207	7,833	2,004	1,965	887	527	-
Foreign reserves (US\$ mn)	34,576	31,795	24,546	29,255	24,546	24,729	23,245	21,640
Gross external debt (US\$ mn)	117,346	126,236	135,065	132,447	135,065	136,276	134,368	-
NBU discount rate	7.75	7.75	7.50	7.50	7.50	7.50	7.50	6.50
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	8.11	8.14	8.12	8.14	8.15
UAH/Euro	10.52	11.11	10.38	10.13	10.56	10.71	10.63	10.79
UAH/GBP	12.28	12.80	12.81	12.80	13.08	12.59	12.50	12.63

### 2. Monthly data

	13/04	5	6	7	8	9	10	11
Industrial production (% , y/y)	-2.2	-9.3	-5.7	-4.9	-5.4	-4.9	-	-
Retail sales (% , y/y)	9.7	5.3	3.7	3.9	6.7	2.5	1.2	-
Bank credits to the private sector (% , y/y)	3.4	3.9	4.4	5.3	5.8	6.6	6.9	-
Consumer price index (% , y/y)	-0.8	-0.4	-0.1	0.0	-0.4	-0.5	-0.1	0.2
Average monthly wage growth (% , y/y)	9.9	7.9	8.7	8.8	7.5	6.4	5.6	-
Unemployment rate* (%)	1.9	1.8	1.7	1.6	1.6	1.5	1.4	-
Trade balance* (US\$ mn)	-618	172	-1,787	-1,592	-1,584	-2,312	-	-
Exports (US\$ mn)	6,064	5,218	3,549	5,184	5,201	5,167	-	-
Export growth (%)	4.7	-16.4	-35.2	-9.9	-10.9	-6.6	-	-
Imports (US\$ mn)	6,683	5,046	5,337	6,776	6,785	7,479	-	-
Import growth (%)	-8.0	-33.4	-23.5	-5.8	-6.8	8.3	-	-
NBU discount rate	7.50	7.50	7.50	7.00	6.50	6.50	6.50	6.50
Short-term int. rates (interbank one month ask)	24.37	25.37	26.37	27.37	28.37	29.37	30.37	31.37
UAH/USD	8.14	8.13	8.15	8.15	8.13	8.17	8.19	8.21
UAH/Euro	10.60	10.56	10.75	10.66	10.82	10.91	11.17	11.07
UAH/GBP	12.46	12.43	12.62	12.36	12.60	12.96	13.17	13.21

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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