Focus
**Ukraine**

Scope
**Economics**

Analyst
**Alexander Valchyshen**

Quarterly Report

# A quiet recovery

**24 MAY 2016**

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

# Contents

# Executive summary

**Below is a brief overview of our base-case scenario of Ukraine's economy for 2016-18.**

**State of the economy: The economy will recover, albeit slowly.** Our analysis of the monthly data on the key economic sectorssuggests that a recovery is taking hold. Official reading of the preliminary data for 1Q16 showed the economy contracted 0.7% on seasonally adjusted and quarter-on-quarter terms, adding a mere 0.1% YoY. Despite this weakness in the first quarter, we expect a slight acceleration after 2Q16, allowing us to forecast an increase of 2.1% YoY for full-year 2016. This represents a mere 0.5ppt decline from the previous forecast of +2.6% YoY in our March 1 *Quarterly Report*. This decline in our forecast came on the back of a worse-than-expected performance of fiscal and monetary policies that were quite restrictive in the face of uncertain conditions in both international financial markets and domestic politics. For the next two years, our forecast is broadly in line with the previous one of 2.3% and 2.8% real GDP increases for 2017 and 2018, respectively. On average, this forecast yields a 2.5% real GDP increase per year for 2016-18, the same as our previous call (see *Quarterly Report* "Fortifying a fragile economy", dated 1 March 2016).

**Domestic politics & geopolitics: We forecast a lull.** Newly appointed PM Groysman appears determined to make breakthroughs on at least two fronts. First, on the social front, his fiscal policy should show slightly higher spending than the previous administration, which was forced to operate in a quite challenging environment of daunting external-financing requirements. The current environment is more amenable to increased spending for PM Groysman. Second, regarding the IMF, Groysman followed through with raising natural-gas tariffs, thus winning the approvals of official lenders, namely of the IMF. Because of this, the IMF program should resume as early as this June. As Groysman's administration has one year of immunity from a no-confidence vote in the parliament, he will have from 2Q16 to late 3Q16 until dirty politics continue in the fall as is routine before elections.

**Global economy: A slowdown still is our base-case scenario despite the recent upswing in commodity prices and an EM rally.** We maintain our previous call that the global economy is experiencing a slowdown that will force the US Fed to maintain a softened stance on the pace of increasing the Fed funds rate. The dollar lost some weight versus major currencies in both developed and emerging economies, which helped produce a rally in commodities. As prospects improved for some EM economies, Ukraine in particular, the expected recessions in others, namely Russia, are likely to be a bit shallower than previously anticipated. Indeed, Russia has tamed its militaristic stance for a while, as it aims to stage parliamentary elections this September. The next political target for the authorities will be presidential elections in early 2018. Between these dates, it is rational to assume that the Kremlin could revert to its militarist intervention agenda to bolster prime news at state-run TV channels for a short period of time (likely in late 2016 or 1H17). Despite the recently observed marginal improvements among EM economies, our base-case scenario is wary of future increased risks, as key parts of the global economy now are running at their limits. As an example, while Germany's current-account surplus has reached another record high level in April, its surplus relies on the likely overextended deficits in other economies.

**Money in the Ukraine's economy: Debt deflation to reverse in 2H16.** The money creation process over 2014-15 and 1Q16 relied solely on the authorities, as banks saw their balance sheets contract via the process of debt deflation. The NBU's strict stance on eradicating the past practice of lending to related parties is a prime cause of the debt deflation, another is the slow-paced recapitalisation of the top banks (despite the increase of FDI flows into banks, see Chart 32 on p.25).

The government is likely to turn to a deficit from 2Q16, after maintaining a surplus in 1Q16. Our base-case scenario envisages that the budget deficit in 2016 will reach 3.7% of GDP, the limit allowed under the IMF program. This deficit level is still considered to be safe, as it allows for a primary surplus because debt servicing is forecast at 4% of GDP. Eventually, this budget stance will allow for a gradual reduction of public debt toward 80% this year. The same assumption applies for the next two years.

Money creation by banks, which was non-existent in 2014-15 and 1Q16, is likely to come back in 2H16 as was assured by the NBU back in 2015. Although our previous view was more optimistic, and assumed banks would resume lending in 1H16 or earlier than 2H16, we are now aligned with the central bank's stance. Overall, renewal of bank lending and net spending by the government—hence, more active money creation and broad money-supply growth—is likely to be supportive of economic activity for the remainder of 2016.

**Inflation, NBU policy rate: Softer stance ahead.** Our previous inflation forecast turned wrong as faster-than-expected disinflation unfolded over January–April, sending both headline CPI and PPI into a nosedive below 10%. Our current projections for CPI and PPI assume that there will be a rebound of year-on-year inflation in 4Q16 and early 2017 back into double-digit territory (10–15% range). Before that inflation is likely to tread inside high single-digit territory during 2Q16 and 3Q16. This should provide some space for the NBU to lower its key policy rate that now stands at 19% toward 15% later in this year.

**External balance: Continued weakness.** We expect the country's external accounts to remain weak as exports continue to underperform (partially due to Russia's continued hostility to Ukraine's trade flows). The current-account deficit in 1Q16 of US$0.9bn turned larger than in the same period last year of US$0.5bn. This, together with our analysis of sectoral balances in 1Q16 (see "Sector balances: What they say to us", p.18-19), indicates that a macro adjustment could take place in 2016, quite likely via FX rate weakness, which would reduce demand for foreign goods. This could occur despite the much-anticipated resumption of the IMF program and further increases in official FX reserves to US$19bn as of the end of 2016 (see "External balance: Weakness still there " on p.24 and Table 3 on p.26).

**UAH view: Previous stance revised due to a bit stronger hryvnia.** We revised our view on the hryvnia, and see it a bit stronger relative to the US dollar. There rationale: (1) lower-than-expected inflation in 1Q16, which pushed down our forecast for 2016-18, and (2) the softened stance of the US Fed on its policy of normalization, which should push the US dollar lower versus other major currencies including the currencies of Ukraine's main trade partners. We forecast a UAH/USD rate at 28 as of the end of 2016 and see an average yearly rate of 26.34 for 2016, instead of our previous forecast of 32 and 29.25, respectively. More details are in "View on UAH: Upward revision" on p.27.

# Geopolitics & domestic politics

**This year should be a relatively smooth one for domestic politics. The newly appointed government led by Volodymyr Groysman (38) has a formal, one-year immunity from a no-confidence vote in the parliament. On the other hand, there is risk that the Minsk 2 agreement will be pushed through Ukraine's legislature. Should this happen, it will be unpopular and controversial. The implementation of Donbas's special status is likely to fail due to lack of support. The Kremlin has been busy preparing for September's parliament elections, and its militarism has been tamed until they are over.**

## Domestic politics: Quiet . . . for now

In our previous *Quarterly Report*[1] published on 1 March this year, we expected the Yatsenyuk-led government to survive the political upheaval by merely reshuffling the ministers. Instead, real-life developments in March and April resulted in an upheaval such that Yatsenyuk ended up resigning.

However, the coalition of the two largest parties de-facto survived the political turmoil thanks to Yatsenyuk's graceful move upon his departure to cement his party's place in the coalition with the President's party. In should be noted, however, that three smaller factions of the ruling coalition also departed including the Self-Reliance Party led by mayor of city of Lviv, the Batkivshyna Party led by Julia Tymoshenko, and the Radical Party. Distancing themselves from the coalition at the end of 2015 on the grounds of the waning popularity of the ruling politicians and possibly hoping for early parliamentary elections occurring sooner than later, their hopes faded quickly. President Poroshenko and outgoing PM Yatsenyuk were unwilling to go for snap elections as a means of forming a new government. Instead, they de-facto moved toward a new coalition with independent MPs. Occasionally, it is supported by two out of the three of the remaining parts of the now defunct Party of Regions. These two factions—People's Will (19 MPs) and the Renaissance Party (23 MPs)—account for a total of 42 MPs. In theory, this allows the ruling coalition to enjoy a majority of 264 MPs.

However, in practice, there are always a few absentees when MPs convene for a vote. This reduces the actual number of total MPs that the President and government can rely upon in passing laws. Thus, Volodymyr Groysman, Arseniy Yatsenyuk's replacement as prime minister, was appointed on 14 April with the support of 239 MPs, just a slim margin over the required majority of 226 MPs. Still, parliament is not going to rubber stamp the bills coming from the government or the president's office. As evidence, on the same day that PM Groysman was appointed, the parliament approved the government's program, a document that formally outlines governmental policies in different spheres and legally provides a one-year immunity from a no-confidence vote, in the third attempt (243 MPs). The previous two were just short of the required majority.

Ultimately, the fact that Groysman's government has one-year immunity from a no-confidence vote provides the country with a more stable domestic political landscape than

---

[1] *Quarterly Report* "Fortifying a fragile economy", 1 March 2016.
https://www.icu.ua/download/1523/ICUQtlyReport-20160301.pdf

in 2H15. In effect, Groysman's immunity expires in mid-1H17. And for sure, this government will be under attack in the most hot political season of any year, i.e., in the fall.

## Who is Groysman

Volodymyr Groysman[2] (38) is ex-governor of the city of Vinnytsa, a 200,000 people city in the central part of Ukraine. He brings a successful record of governing at the municipal level, where he was re-elected as the mayor with an overwhelming 78% vote.

It is likely not a coincidence that President Poroshenko—regarding the Vinnytsa oblast as his home base in the same way as previous presidents, including Kuchma and Yanukovych, treated their home oblasts, Dnipro and Donbas, respectively—asked then-mayor Groysman to join his team in early 2014.

Groysman is viewed as a politician who can make successful compromises, quite likely a required quality for whoever runs Ukraine's parliament given the many differences of opinion coming from numerous conflicting viewpoints. His first minutes as prime minister are to be remembered by a spontaneous outburst of statesman-like posturing. He replied to the MPs protesting of his appointment by saying, "I will show you how to govern the country." This counterbalances the perception of a Groysman as a compromiser with that of a Groysman full of ambition and commitment to govern successfully.

Like Yatsenyuk, he is from the same generation of young politicians who are gradually taking over the reins of the country, particularly in Kyiv, from the older generation that includes Tymoshenko and Poroshenko. We emphasize that Groysman and Yatsenyuk are political peers even though Yatsenyuk is slightly older. Both are barely middle-age, and they survived Ukraine's politics by becoming head of parliament. The difference between them is that Yatsenyuk has been pro-NATO, while Groysman carefully deferred to President Poroshenko to handle foreign affairs. Yatsenyuk departed from his position grandly, stating that he would pursue Western policies in the future. Groysman is set to remain steady on this front, as President Poroshenko negotiates the settlement of the Donbas and Crimea territories with the leading developed nations and the Kremlin. In the economic sphere, Groysman likely will retain Yatsenyuk's middle-of-the-road political-economic views, avoiding extremes, and resume the IMF program, albeit under more nuanced negotiations. We do not support the view that casts doubt on Groysman's pro-reformist credentials. Instead, we expect him to grasp and deal with economic issues both quickly and progressively.

There are some vocal critics of the Groysman administration, and some ministers are unable to be approved by some politicians, the media and expert community. Odessa governor Saakashvilli claims that the Groysman administration is not serious about a reforms agenda. Despite Saakashvilli's current popularity, his proposals to downsize big government as quickly as possible are so extreme that they would cause a deeper recession rather than support a fast recovery. Groysman certainly is not an extremist.

The IMF, as well as EBRD, forecast a full-year real GDP increase in 2016 at 1.5% and 2.0% respectively. In fact, the economy has been growing on quarter-on-quarter and seasonally adjusted terms since 3Q15. This quarterly trend should be supported by the Groysman administration. We would expect him to prevent the economy from derailing and falling into another recession.

[2] His personal page with short resume at the official web portal of Ukraine's government (in Ukrainian) http://www.kmu.gov.ua/control/uk/publish/article?art_id=248981615&cat_id=247077361

# Geopolitics: Kremlin aggression tamed . . . for now

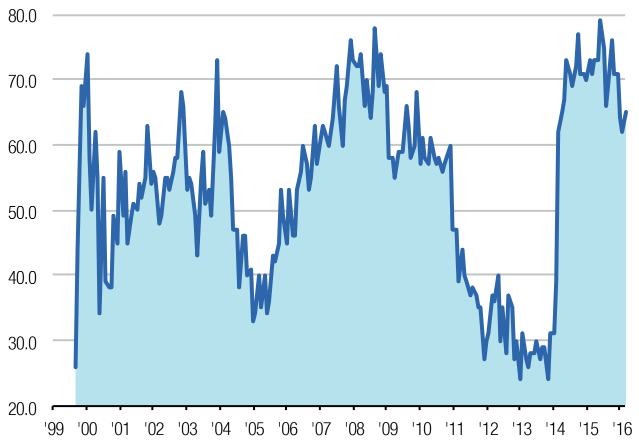
We expect the current status quo—the Russia army remaining in the occupied parts of Donbas and Crimea, backing the militants there and cultivating hate toward the rest of Ukraine—to remain intact through year end, at least. This is partially due to the mere fact that Kremlin's policy of militarism aimed abroad has yielded the intended consequences at home, which is cementing Putin's personal approval rating at a record-high level. We tend to measure it via Levada.ru produced data from the monthly surveys of opinion polls (see charts below). The Putin approval index, albeit sliding just a bit over 1Q16, has never remained so high for so long[4]. Kremlin's key political issue this year is for a smooth outcome to the parliamentary elections, which are scheduled on 18 September. In our view, in the run up to the elections, Kremlin is not going to pursue foreign military interventions. More likely, they will happen after the elections are over.

Ukraine's domestic political agenda is going to resolve the Donbas issue in favour of the Kremlin. That is, Ukraine will provide special status to the territories that are under *de-facto* occupation by the Russian military. Western pressure on President Poroshenko is going to be high to make a compromise; however, this is likely to be a hugely controversial issue domestically. The domestic factor—staunch opposition to the move from Self-Reliance and Svoboda parties (for ideological reasons) and from Batkivschyna (for political opportunism reasons)—will not allow a smooth resolution on its terms, of a geopolitical crisis that was created by the Kremlin. President Poroshenko will not be able to convince the public that a special status for occupied parts of Donbas is a good idea for the country.

[4] We consider 60 points as a threshold. Currently, this index stands at 65 points as of March 2016, which is 25th consecutive month for the index being above this threshold. In the past, this index was above 60 points exactly 25 months consecutively during since January 2007 through January 2009. In our view, current high level of the index is to break that 25-month record as this April it is likely to stay in the same area.

### Chart 1. Putin approval index*

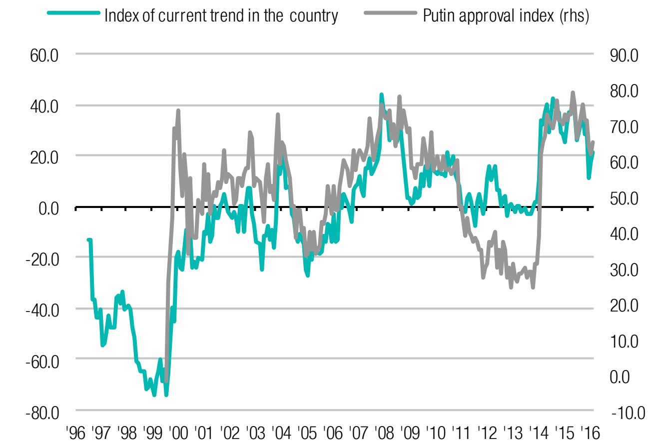
*Monthly history from January 1999 through March 2016*




* this index was suspended by Levada for publication October 2014 (ICU's communication with Levada on this issue is here). The index is calculated as difference between those who approve and those who disapprove Putin. Levada continues publishing these series of data on those who approve and disapprove Putin.
Source: Levada.ru, ICU.

### Chart 2. Putin approval index versus index of current trends in Russia

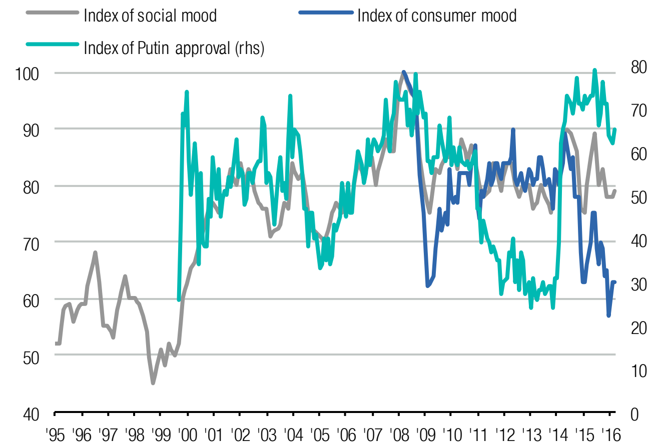
*Monthly history from January 1996 through March 2016*




Source: Levada.ru, ICU.

### Chart 3. Putin approval index versus indices social and consumer moods in the Russian public

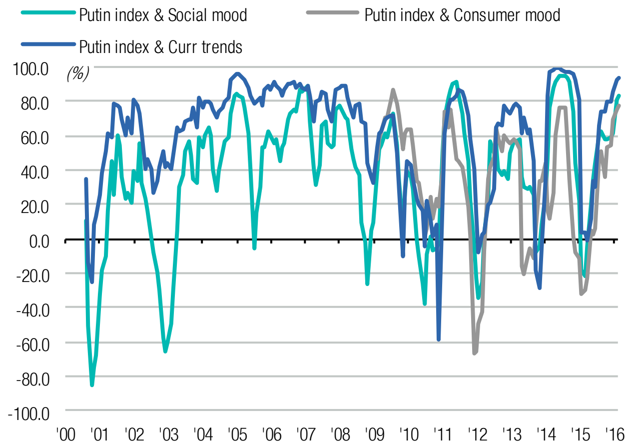
*Monthly history from January 1995 through March 2016*




Source: Levada.ru, ICU.

### Chart 4. Correlation between Putin approval index and the indices of social and consumer moods as well as current trends

*Monthly history from January 1995 through March 2016*




Source: Levada.ru, ICU.

# Global economy

**The global economy passed a turning point in 1Q16. The US monetary authority—the Fed—is widely expected to stay quite dovish with its 'normalisation' policy. Hence, there is no expectation for serial rate increases. The market's expectation is now skewed to just one rate increase for the remainder of 2016, likely in September. Economic growth in the US continues to be slow. After a mere 1% real GDP increase for 4Q15, 1Q16 is confirmed as weak, too. This news drove the US dollar down versus other major currencies. The euro and yen were affected, as they strengthened in opposition to efforts by the central banks to stimulate those economies via creation of reserves. Commodities rebounded, which benefitted EM economies greatly. This was also quite beneficial to Ukraine's economy.**

## G4 economies: Monetary policy hits limits, makes the case for fiscal policy

Over the course of 1Q16, limitations have been exposed in the quantitative easing (QE) monetary policy of the G4 developed-market economies—US, UK, Eurozone and Japan. So far in 2016, all steps undertaken in monetary easing by the Eurozone and Japanese central banks have failed. There has been no wide-spread positive effect on their real economies that would boost external competitiveness following what they expected would be a weakening of the exchange rates.

Instead, the euro and yen have strengthened, much to the surprise of policymakers and widespread market expectations. The hoped-for impact of QE on the economy via net exports and foreign demand failed to produce the desired results. Previously, across G4 economies, the impact of QE on reviving bank lending fell short of expectations, except in the US where businesses rely more on bond financing.

In particular, the Eurozone's recent monetary statistics for March 2016 show that the annual growth rate of credit to the private sector was 1.1%[5], far below base-money growth, which is influenced by QE and should approximate the M1 growth rate of 10.1%. The same development was observed in the UK and Japan.

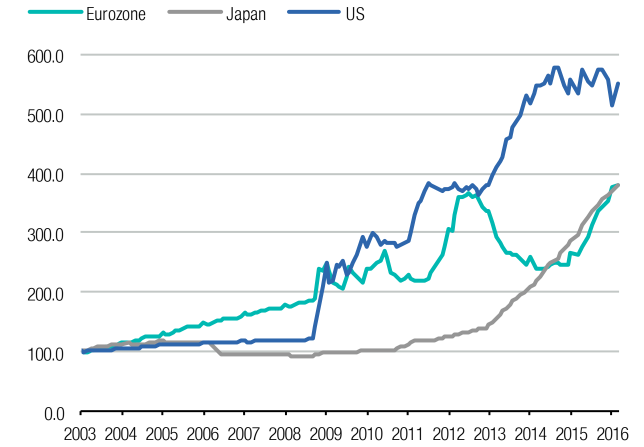
In the US, however, bank lending has expanded faster than base-money growth for the past two years, according to bank-loan data (see charts below). This has enabled a relatively faster recovery in the US. It has also led financial markets to believe that monetary normalization would occur first in the US. This expectation resulted in sizable US-dollar appreciation from June 2014—when the dollar index (DXY) was last at the 80-point level—through late 2015—when it crossed the 100-point level. (Albeit, this was for a short period of time and then it slid back, trending toward the 95-point level now). It also aided the slowing US economy, which underperformed in 4Q15. The growth rate in 4Q15 was just slightly above 1% SAAR. 1Q16 was a repeat, as *GDP now* yielded just 0.4%, according to estimates as of April 26[6]. The preliminary reading of real GDP growth for the period is +0.5%. The IMF's spring update of its global forecast yielded a 0.4ppt reduction for US' real

[5] See details here http://www.ecb.europa.eu/press/pdf/md/md1603.pdf

[6] See https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=3

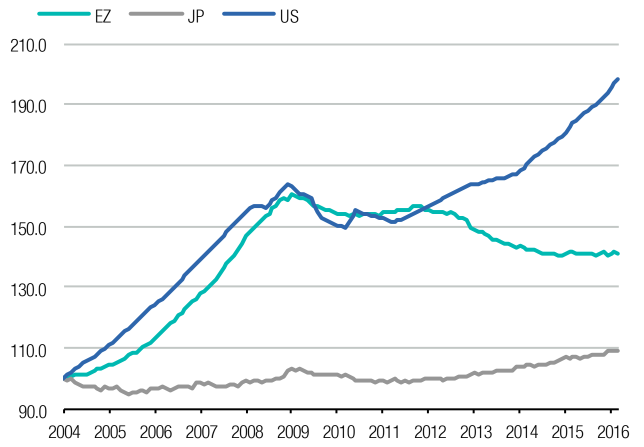
GDP growth rate for 2016 from 2.8% made last fall, to 2.4% now[7]. Lastly, at the FOMC, Fed officials tamed their rhetoric of 'normalization', forcing markets to reassess their views on the issue. The current trend of a gradual step-back in the DXY indicates that financial-market participants are bracing for cautious Fed for full-year 2016. Hence, we retain the view that this year, the Fed will make only one rate increase and then take a pause until spring 2017. In general, there is no compelling case for another USD rally like what we have seen over the past two years.

**Chart 5. Monetary base evolution in US, Eurozone, Japan**
*Rebased at 100 points as of January 2003*




Source: Bloomberg, ICU.

**Chart 6. Bank loans in US, Eurozone, Japan**
*Rebased at 100 points as of January 2004*




Source: Bloomberg, ICU.

The recent appreciation of the EUR and JPY vs. the US dollar contradict the norm wherein monetary easing via QE supports monetary-base growth and then currency weakness results as a by-product of investment choices of financial-market players. We see this as an indication that FX valuations of developed-market economies have reached limits that go beyond the rational expectations of those same players. Logic dictates very limited room for further slippage of interest-rate policies by key central banks into near-zero and negative territory. A similar case can be made for the limits of competitive FX valuations. This has been especially true for the USD (which strengthened in 2014-15) and JPY (which weakened massively during 2013-15).

Again, developed economies have been dealing with low inflation in the years since the 2007-09 crisis. Attempts to revive GDP have yielded modest results. Hence, in our view, there is a compelling case for developed nations to think about expansion via fiscal policy, i.e., increasing spending into the real economy and stimulating consumption. From a political point of view, this kind of shift appears unrealistic in all of the G4 economies. Hence, our base-case forecast for 2016-18 is for mediocre growth and economic performance.

## BRICS economies: Fractured, indeed

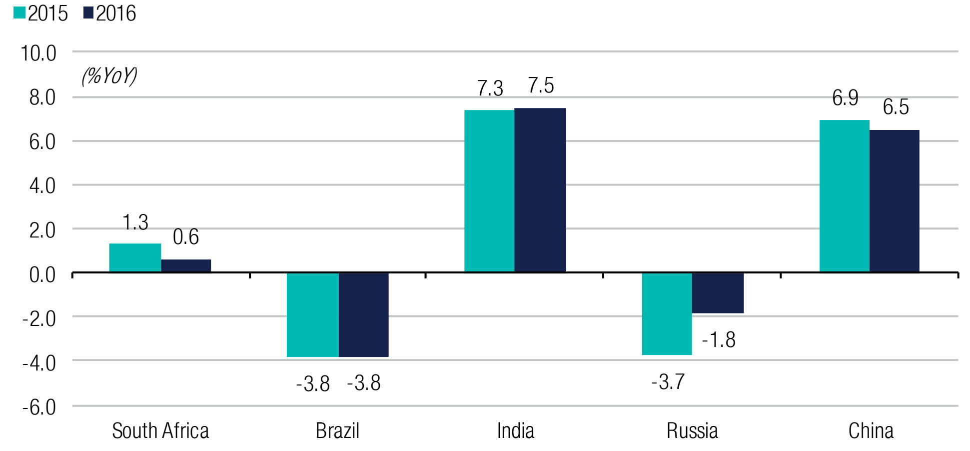
Of the five BRICS economies, only China and India are not in outright recession. Brazil and Russia are in recession for two straight years. South Africa registered a slowdown only this year. We expect quarterly data to reveal that it, too, is in a recession. Brazil and South Africa have been mired in political crises, a consequence of the protracted slowdowns that

[7] Details are in this database http://www.imf.org/external/pubs/ft/weo/data/WEOhistorical.xlsx

have extended from 2011-12. Russia has embraced highly active militarism as an ideology to disguise domestic economic failures and capitalize on popular nostalgia to re-establish a lost empire.

The chart below highlights that this group of countries have limited similarities. Each, except India—which historically has been closed to foreign FDIs and portfolio inflows—and China—which most of the time relies on domestic credit—has sizable external debt, which put limitations on local government policies.

**Chart 7. BRICS: real GDP growth in 2015 and IMF forecast for 2016 (%YoY)**




Source: IMF.

### China: Slowing economy remains a key theme

In China, authorities now face a formidable dilemma: how to support a manageable transition toward steadying the economy, when consumption dominates other components of economic development (as party leadership tends to refer to GDP growth). China is painstakingly introducing an appropriate mix of reforms: maintaining steady, albeit slowing growth and employment; and shifting fixed investments lower while maintaining an upward trend in consumption.

However, in 1Q16, developments in China indicate that authorities have reverted to past, proven policies of boosting bank lending and supporting them with liquidity from the central bank. These measures are likely supporting the 'old structure' of the economy, i.e., aiding the operations of industrial enterprises and construction. This is contrary to the general trend and, hence, we expect it to be temporary.

There are wide-spread concerns over the continued build-up of debt in the Chinese economy. Over the last six years there has been a second wave of increased international concern over this issue. (The previous wave of concern was in the wake of the 2008-09 crisis. China managed to get through it relatively smoothly by boosting bank lending that financed fixed investments).

The current relative calm in the yuan FX market is cyclical, too. Our calculations show that in real trade-weighted terms if based upon the CPI data, the CNY should tend toward 6.8–6.9/USD going forward. However, the PPI-based valuation in real trade-weighted terms reveals that the CNY is not that overvalued; fair value is 5.9–6.0/USD. Several-years-long deflation of producers' prices has helped the CNY undergo a kind of internal devaluation, if judged by PPI. This saved the currency from a drastic devaluation. However, we retain the view that the market rate of the CNY is likely to weaken further over the next 6–12 months toward 6.8–6.9/USD.

### Russia: A weird policy mix of militarism, half-liberal and half-sovereign money

Politics is deeply integrated into the Russian economy. Its high-stake militarism—including warmongering with the threat of using nuclear missiles—is self-imposed. We see it as posturing and an attempt to insure a smoother transition of the country through the unknown severity of an economic adjustment from an oil-export driven model toward a totally different one. This process is ongoing; the Kremlin's militarism has merely paused currently.

The next round of aggressive rhetoric and the possibility of military action may be timed for post-Duma elections in September 2016 or in 2017. In 2018, Russia should have presidential elections. We expect that all the political manoeuvring, the economic decisions, and the corresponding surprise moves will occur before 2018 (i.e., before 3Q17, the last quarter before the presidential campaign shifts into high gear). Before that, the Kremlin most likely will show the public that it has the economic transition under control. In our view, over the 12-month period of 4Q16 and through 3Q17, the Kremlin will shift into more active economic policymaking. This is going to be a mix of policy decisions being developed by all members of Putin's economic team.

The team that has been formulating and implementing government policies since the mid-2000s—central bank governor Nabiulina, finance minister Siluanov, and ex-government official Kudrin, who recently was named head of a president-linked think-tank to formulate a program of Russian economic development through 2030—will stay in power and represent a liberal camp.

However, the Kremlin’s clear tendency is to embrace a sovereign monetary paradigm. One of the legs of this tendency was realized over 2014-15, when the central bank moved away from a tightly managed float toward a near-free float of the ruble. That move was camouflaged as a transition toward an inflation-targeting regime, a simplified explanation. In reality, a then quite-dear currency was set to devalue. Authorities abandoned that FX regime in order to save official FX reserves. There are other legs of this transition, which are yet to be implemented. One of them will likely take place this year. The Kremlin appointed a business ombudsman as the head of a pseudo-independent and pro-business party called the Growth Party (Partiya Rosta), formerly known as Right Business (Pravoye Delo).

This party is representing the views of medium-size and large businesses. It is set to implement economic policies now being developed and discussed by the Stolypin Club, a pro-Kremlin circle of economists who tend to adhere to a post-Keynesian school of economic thought. The Kremlin intentionally has not pushed the ideas and policies of this club when the economy began the transition in late 2013 and early 2014. Instead, it has included this camp in the political elections as a confirmation to international observers of the democratic process. Most likely, the Kremlin's logic has been to throw the club and its economic ideology into the fray for public discussion, campaigning and then the elections. If they get enough votes, the Kremlin could use it as the official explanation of its change in economic policy. Under the current political regime, elections could assure decent support for the Growth Party.

Then, after the Duma elections, the Kremlin will try to add to the now prevailing policies of the Nabiulina-Siluanov-Kudrin camp with policy proposals from Stolypin Club economists.

Surely, there will be rivalries between these groups, but the Stolypin Club's ideas are likely to be tried. The liberal camp will be retained not only because the Kremlin does not allow people to leave office under the cloud of scandal, but also to insure a still-balanced stance of the government. Indeed, the Kremlin nurtures continuity and consistency.

However, it realizes that the old model will not yield a fast recovery from the crisis, hence, it will add new ideas into its portfolio. At the same time, the Kremlin will keep the camp of militarists (security service, domestic and foreign intelligence, army) at the ready to act aggressively as a counterweight of failures of domestic economic policies if they arise, which we see as a quite real possibility. Also, a new wave of foreign militaristic actions is possible in late 2016 and most likely in 2017, as policies aimed at restraining 'near abroad' from 'unfriendly' behaviour is very popular with the Russian populace.

We forecast inflation in Russia at the high, one-digit level. This means headline CPI will be well above consumer inflation of Russia's key trade partners. This will weigh down the Russian currency over the next few years, as the real effective exchange rate—or real trade-weighted index—is set to appreciate. This will result in future weakness of the currency in the FX markets in 2017-18. However, in 2016, it is possible that the ruble's appreciation could extend from the current 65/USD level toward 60/USD, if the Fed resumes its cautiousness and the US economy underperforms, as we expect.

# Key indicators vital for the Ukraine's economy

### Growth assumption

As a rule, our analysis of global growth relies on IMF projections. They were recently updated and presented at April's World Economic Outlook (more details here[8]). There is a 3.2% YoY real increase of global output projected in the current quarter, a reduction of only 0.1ppt from their previous view dated October 2015. Next year, the IMF is looking for 3.5% or again 0.1ppt lower than previously. There is no change from the previous view in the 2018 projection, which stands at +3.6% YoY.

The Russian economy is forecast to stay in recession for most of 2016; recovery is likely to start in the second half of the year. Overall, Russia's real GDP is expected to decline 1.5% YoY in 2016. Our previous projection was for a 2.0% decline. In the next two-year period, we forecast Russia's economy to recover modestly: +1.4% in 2017 and +2.0% in 2008. This period of forecast (2016-18) is squeezed into a tight election season. Parliamentary elections are in September 2016, and then presidential elections will be held in the first half of 2018.

During this period, the Kremlin will be eager to reignite growth, albeit while keeping inflation below 10%. It is going to be a hefty task to engineer spectacular growth with the country still under sanctions over Crimea and Donbas. The latter area is a likely candidate for being turning into a frozen conflict zone, similar to Moldova's Transdnistrea region and the parts of Georgia under Russia occupation. The Kremlin will try to spur economic growth, but we hardly expect the outcome to be successful. Hence, our forecast for mediocre growth.

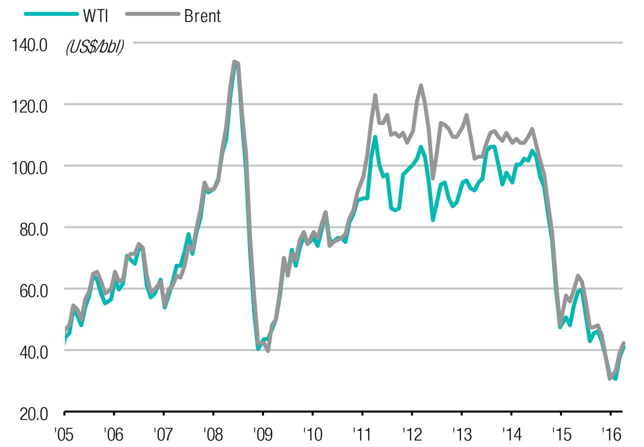
[8] http://www.imf.org/external/pubs/ft/weo/2016/01/

## Commodities

There has been an unprecedented rise in prices in the commodities markets. Month-on-month growth rates in average crude-oil and steel prices (see Chart 10 and Chart 11 on p.15) were at an all-time high in March 2016. WTI recorded a 24% MoM jump, the best-ever one-month increase since early 1991. Similarly, monthly average prices for slab with CIS origin rose 29% MoM, the largest rise in last 10 years. The price for cold-rolled coil jumped 30% in March. These spectacular increases in the commodities prices were from a low base; indeed, they took place against the background of signs of evident slowdown of the US economy and a softened stance by the Fed. Going forward, there is no compelling case for another fast rise in commodity prices. Our base-case scenario envisages that the recent rally fades and prices stabilise.

**Chart 8. Crude oil price (US$ per barrel)**

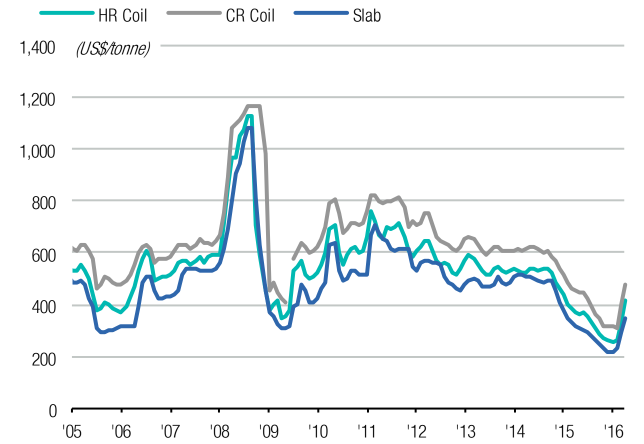
*Monthly averages since January 2005 through April 2016*




Sources: Bloomberg, ICU.

**Chart 9. CIS export steel prices (US$ per tonne)**

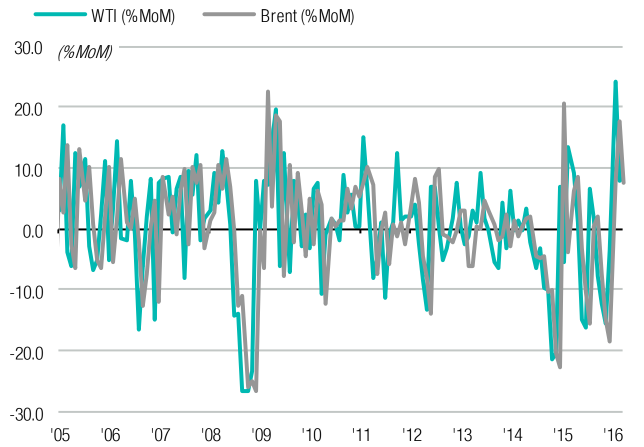
*Monthly averages since January 2005 through April 2016*




Sources: Bloomberg, ICU.

**Chart 10. Monthly changes in crude oil prices: WTI, Brent (% MoM)**

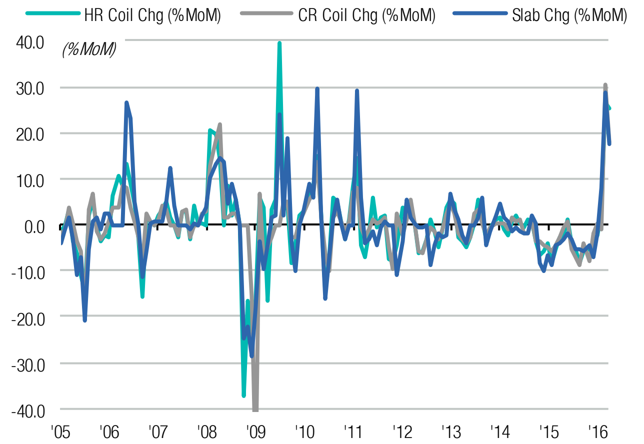
*Monthly averages since January 2005 through April 2016*




Sources: Bloomberg, ICU.

**Chart 11. Monthly changes in CIS steel prices (% MoM)**

*Monthly averages since January 2005 through April 2016*




Sources: Bloomberg, ICU.

**Table 1. ICU's 3-year quarterly and yearly forecast for the global economy's key indicators vital to Ukraine's economy, according to our base-case scenario for 2016-18**

| | Quarterly forecast | | | | | | | | | | | | Annual forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q16F | 2Q16F | 3Q16F | 4Q16F | 1Q17F | 2Q17F | 3Q17F | 4Q17F | 1Q18F | 2Q18F | 3Q18F | 4Q18F | 2016F | 2017F | 2018F |
| World real GDP (%YoY) | 3.2 | 3.2 | 3.2 | 3.2 | 3.5 | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.2 | 3.5 | 3.6 |
| Russia real GDP (%YoY) | -1.8 | -2.0 | -1.0 | -1.0 | 1.0 | 2.0 | 1.0 | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 | -1.5 | 1.4 | 2.0 |
| Crude oil (US$/bbl, avg) | 33.4 | 48.0 | 49.0 | 50.0 | 49.0 | 48.0 | 47.0 | 45.0 | 46.0 | 47.0 | 48.0 | 50.0 | 45.1 | 47.3 | 47.8 |
| Steel (US$/tonne, avg) | 282.0 | 416.0 | 327.0 | 352.0 | 365.0 | 377.0 | 390.0 | 402.0 | 402.0 | 402.0 | 402.0 | 402.0 | 344.3 | 383.5 | 402.0 |
| EUR in US$ (eop) | 1.14 | 1.10 | 1.09 | 1.08 | 1.08 | 1.10 | 1.10 | 1.10 | 1.11 | 1.12 | 1.13 | 1.13 | 1.08 | 1.10 | 1.13 |
| US$ in RUB (eop) | 66.90 | 66.00 | 65.00 | 66.00 | 67.00 | 68.00 | 69.00 | 70.00 | 70.00 | 70.00 | 70.00 | 70.00 | 66.00 | 70.00 | 70.00 |

Notes: [1] real GDP growth rate to previous year; [2] crude oil price is WTI crude and priced as per barrel; [3] steel price is HR coil price and priced as per tonne; [4] crude oil and steel prices are the average for the period.
Source: ICU.

# Ukraine's economy: quarterly update of the outlook

**The Ukraine economy has been recovering since 3Q15, if slowly. We expect this trend to continue during the forecast period of 2016-18.**

## Key sectors of the real economy in 1Q16

The economy is in recovery having registered three quarters of positive, real GDP increase from 3Q15 through 1Q16 in seasonally adjusted quarter-on-quarter terms. Official statistics for 3Q15 and 4Q15 yielded 0.5% and 1.4% real GDP increases, respectively. In the absence of official data for 1Q16, we give our estimate of the pace of the economic performance in the table below. It contains seasonally adjusted data for key sectors of the economy for March and the three-month period from January through March. This data indicates that 1Q16, if compared with the previous quarter, appears to be another growth quarter. Our composite index, which is used as a proxy for GDP, was up 2.6% over the previous quarter in seasonally adjustment terms and up 0.5% if measured by the underlying trend. Overall, this reading of the statistical data was based on our assumptions, before a preliminary official figure for 1Q16 was published[9], which will likely translate into an official estimate of real GDP increase of 0.5% QoQ and 1.5% YoY (see table below).

However, an official preliminary report on 1Q16 brought by a far lower-than-expected figure that we anticipated. It turned out that real GDP declined 0.7% QoQ SA, but grew by mere 0.1% YoY rate of increase.

**Table 2. Performance of key sectors of Ukraine's economy in March and January-March**

| Sector's Indicator | Seasonally adjusted* | | | Trend* | | |
|---|---|---|---|---|---|---|
| | Change[1] (%MoM) | Change[2] (%QoQ) | Change[3] (%YoY) | Change[1] (%MoM) | Change[2] (%QoQ) | Change[3] (%YoY) |
| Agriculture index | -0.1 | -3.4 | -1.4 | +0.4 | -2.8 | -0.7 |
| Retail trade, retailers (UAHm, CPI-adj) | -3.3 | +10.1 | -5.0 | +0.5 | +1.7 | -9.9 |
| Transport turnover, cargo (tonne*km) | -0.7 | +1.3 | +9.5 | +1.2 | +0.5 | +5.2 |
| Transport turnover, passenger (passenger*km) | +1.9 | +1.2 | +3.5 | +0.8 | +1.7 | +2.1 |
| Industrial production index | -2.8 | +2.7 | +4.3 | +0.1 | +2.1 | +3.4 |
| Construction (UAHm, CPI-adj) | +0.5 | -3.3 | -2.3 | +0.6 | +0.02 | -2.6 |
| **Composite index** | -1.9 | +2.6 | +0.7 | +0.4 | +0.5 | -1.2 |

Notes: * adjusted by Demetra using adjustment method of Tramo-Seats; [1] month-on-month change of March of 2016 to Ferbruary 2016; [2] quarter-on-quarter change of January-March of 2016 to October-December of 2015; [3] year-on-year change of March of 2016 to March of 2015.

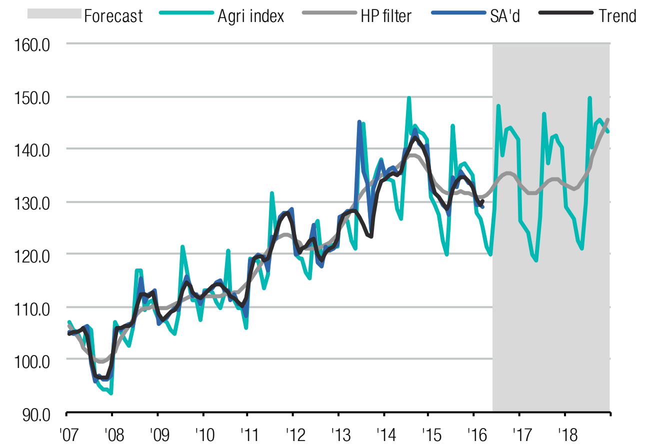
Source: State Statistics Service of Ukraine, ICU.

[9] On May 16th, 2016. More details are here: http://ukrstat.gov.ua/Noviny/new2016/zmist/vvp_I_2016_u.htm (Ukrainian).

For 2016, our full-year forecast of real GDP increase was revised down to 2.1% YoY (previously, 2.6% YoY). For the next two years, 2017-18, it is 2.3% and 2.8%. Previously, it was 2.4% and 2.6%. These changes in the forecast are mostly due to technical issues, i.e., revisions of the expected pace of sectors performance being impacted to some extent by the sectors' performance during 1Q16, while the general view on the economy remains the same compared with our previous *Quarterly Report*[10].

**Chart 12. Agriculture production index**

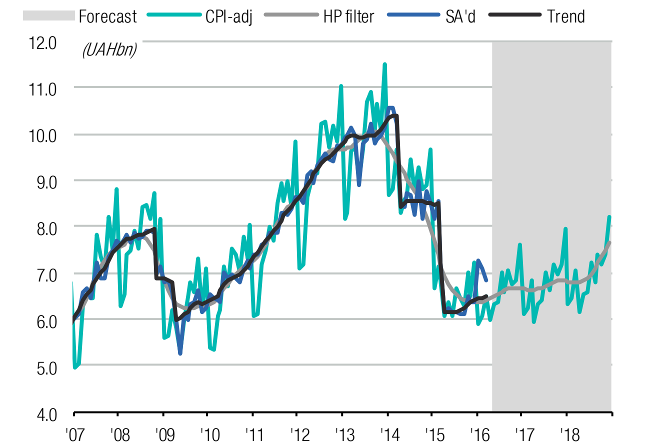
*History (from January 2007 through August 2015), forecast for the rest of 2015 and 2016-18*




Source: State Statistics Service of Ukraine, ICU.

**Chart 13. Retail trade (UAHbn, at constant prices of Dec-1999)**

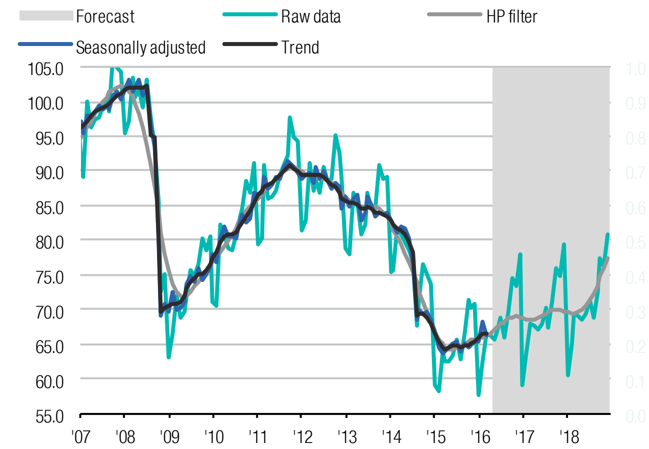
*History (from January 2007 through August 2015), forecast for the rest of 2015 and 2016-18*




Source: State Statistics Service of Ukraine, ICU.

**Chart 14. Industrial production index**

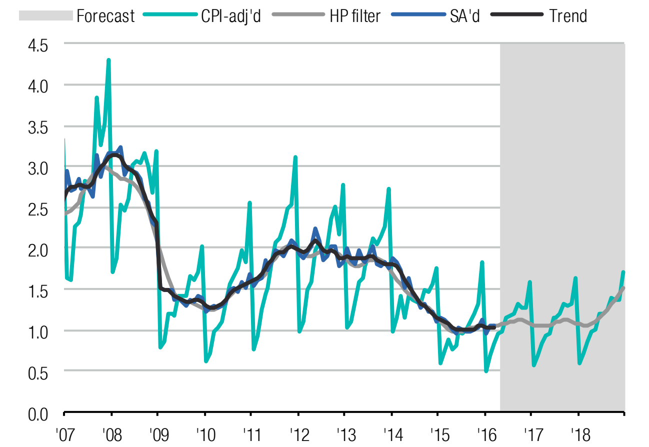
*History (from January 2007 through August 2015), forecast for the rest of 2015 and 2016-18*




Source: State Statistics Service of Ukraine, ICU.

**Chart 15. Construction (UAHbn, at constant prices of Dec-2001)**

*History (from January 2007 through August 2015), forecast for the rest of 2015 and 2016-18*

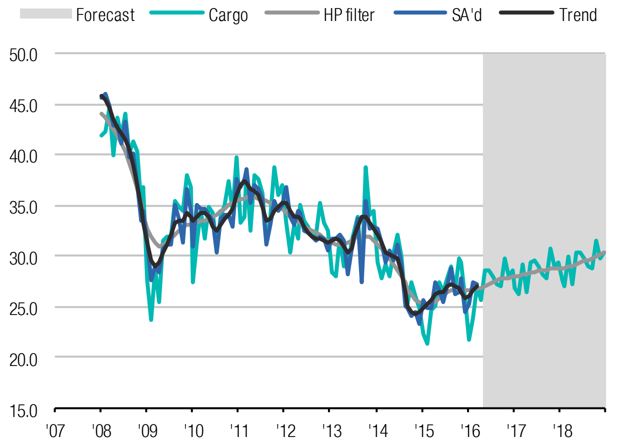



Source: State Statistics Service of Ukraine, ICU.

[10] *Quarterly Report* "Fortifying a fragile economy", 1 March 2016. https://www.icu.ua/download/1523/ICUQtlyReport-20160301.pdf

**Chart 16. Cargo transportation turnover (m tonne * km)**

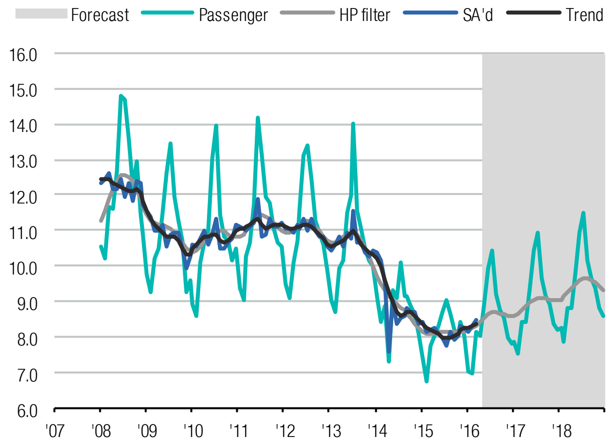
*History (from January 2007 through August 2015), forecast for the rest of 2015 and 2016-18*




Source: State Statistics Service of Ukraine, ICU.

**Chart 17. Passenger transportation turnover (m * km)**

*History (from January 2007 through August 2015), forecast for the rest of 2015 and 2016-18*




Source: State Statistics Service of Ukraine, ICU.

## Sector balances: What they say to us

The sectoral balances are a useful tool to look at the composition of macro developments in the economy and what the possible outcomes are likely to be.

While there is no official statistical data for national accounts for 1Q16, we derived sectoral balances from other sources. First, there is data available on state budget (we use consolidated fiscal accounts excluding social funds), which showed a surplus of UAH3.4bn or 0.8% of GDP. Second, external accounts showed that in 1Q16, the current account deficit was US$0.94bn or 5.5% of GDP. By sectoral balances identity, which say that sum of the sectors' balances equals to zero, we drive the quarterly balance of non-government domestic sector (private sector for short), which amounted to a 6.3% deficit.

History tells us three things: (1) sizable private sector deficits (of more than 5% of GDP size) are quite rare; (2) once they appear, future developments in the economy make them shrink in the next quarter, see charts below; (3) the private sector deficit of 6.3% in 1Q16 is among top four quarterly deficits in the Ukraine's available history of national accounts, and two out of three deficits that were bigger than last quarter—9.3% in 1Q08 and 8.9% in 3Q13—happened in the year after which economy tipped into recession.

We are not going conclude from the 1Q16 available data that economy may soon to face another recession. Still, history tells us too that in 3Q11 economy registered a 7.0% deficit within private sector and then, there was no outright recession taking place within the space of one year, however.

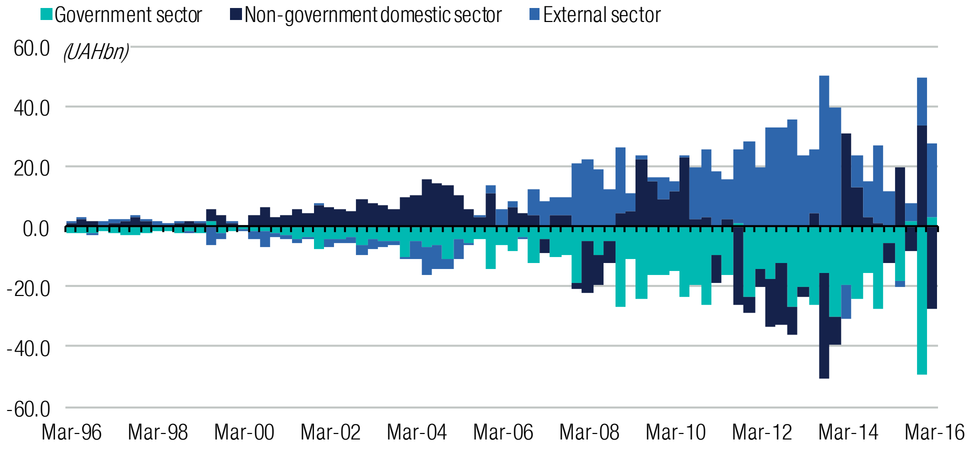
In our view, sizable private sector deficit in 1Q16 points to either the government sector moving into deficit, or the external sector moving to a smaller surplus versus domestic economy (or, in other words, to a smaller current account deficit). This imposes a mix of political and economic constraints' on the Ukrainian authorities: (1) the government cannot afford to go into deficit while current account is in the deficit too as this situation would constitute additional net borrowing by the government in FX, (2) debt sustainability may be potentially harmed by sizable deficits, (3) intentional weakening of the exchange rate to reduce current account deficit a bit will most likely backfires politically.

Out of all these options for a likely outcome in the near future, we think a combination of measures will take place: from a bit larger government deficit to FX rate weakness that would cut down demand for narrower quarterly current account deficits.

The above mentioned depiction back our own view on hryvnia's FX rate going forward.

**Chart 18. Ukraine's sectoral balances: quarterly volumes (UAHbn)**

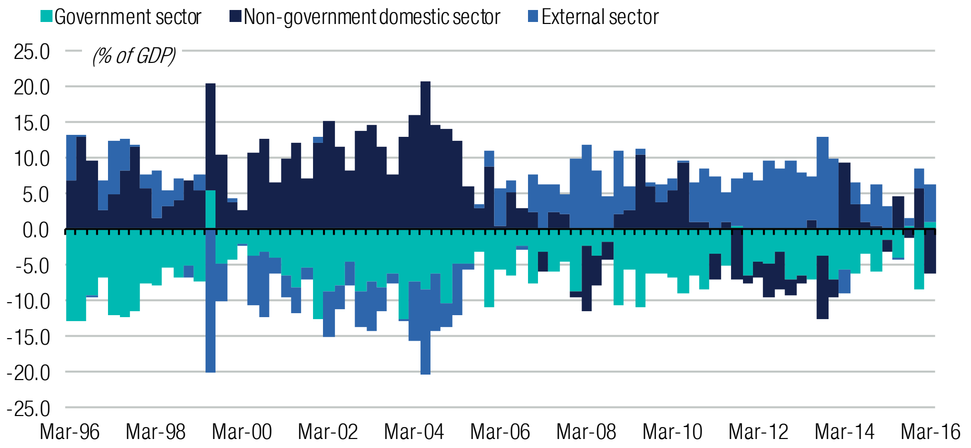
*History from 1Q of 1996 through 1Q of 2016, at current prices*




Source: State Statistics Service of Ukraine, ICU.

**Chart 19. Ukraine's sectoral balances: quarterly volumes (% of GDP)**

*History from 1Q of 1996 through 1Q of 2016, as percentage of quarterly GDP*



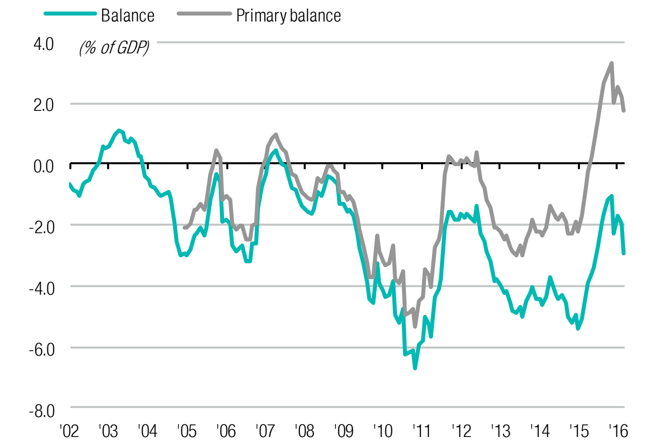

Source: State Statistics Service of Ukraine, ICU.

# Fiscal stance poised to be loosened

Although we believe that the tight fiscal stance as adhered to by PM Yatsenyuk and Finance Minister Yaresko since early 2015 through March 2016 is likely to be loosened, PM Groysman will most likely not run the state budget with a primary deficit. Instead, Groysman will probably aim to lower the primary surplus from the current 2.9% of GDP (by consolidated accounts), or 1.7% of GDP (by central government accounts), toward 0.5% of GDP (see Chart 20 and Chart 22, on p.20). This strategy should gradually reduce public debt from 87% of GDP (in local currency terms) as of February 2016 toward 80% in December 2016. This is likely despite a smaller primary surplus, as real GDP growth is forecast to be slightly above 2% in 2016. Also, inflation is forecast to be double-digit despite the rapid trend toward disinflation observed in 1H16.

**Chart 20. Central government budget balance (% of GDP)**

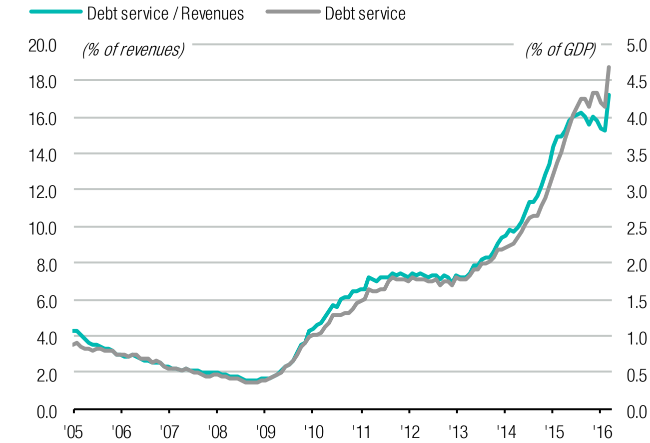
*Monthly history from January 2002 through March 2016*




Source: Ministry of Finance of Ukraine, ICU.

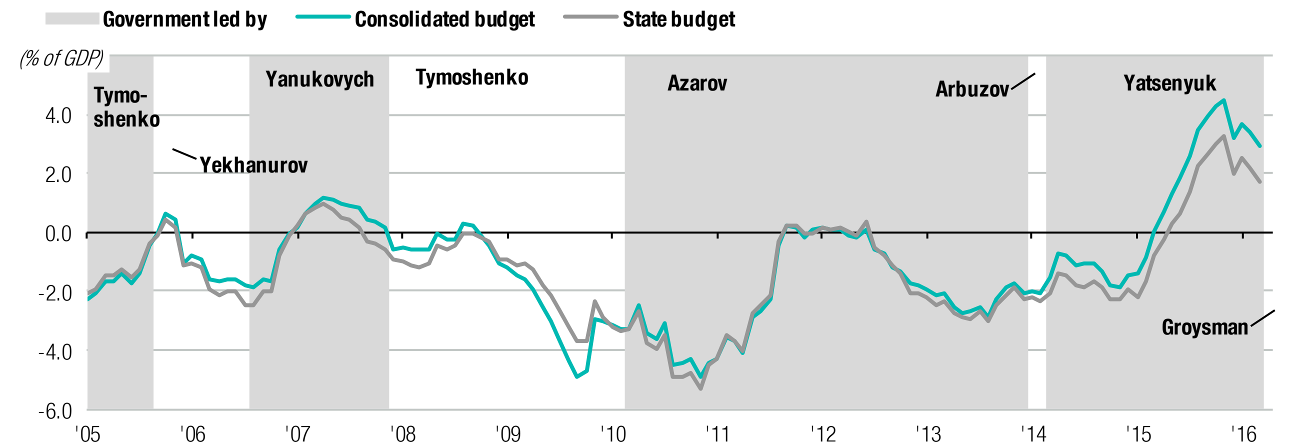
**Chart 21. Debt service expenditure as share of budget revenues and GDP size (%)**

*Monthly history from January 2005 through March 2016*




Source: Ministry of Finance of Ukraine, ICU.

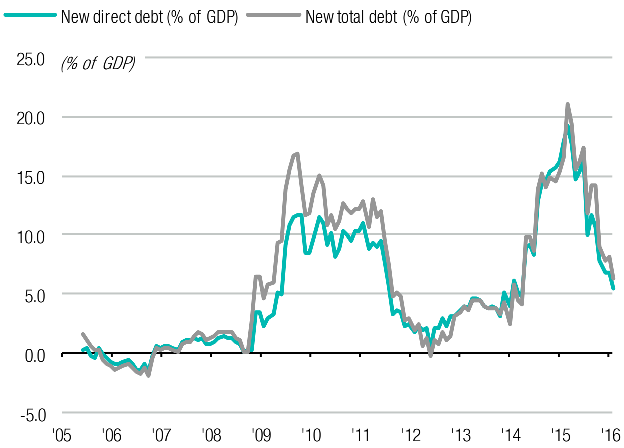
**Chart 22. Primary balance of the state budget: consolidated state budget and central government budget (% of GDP)**




Source: Ministry of Finance of Ukraine, ICU.

**Chart 23. Pace of public debt level change* (% of GDP)**

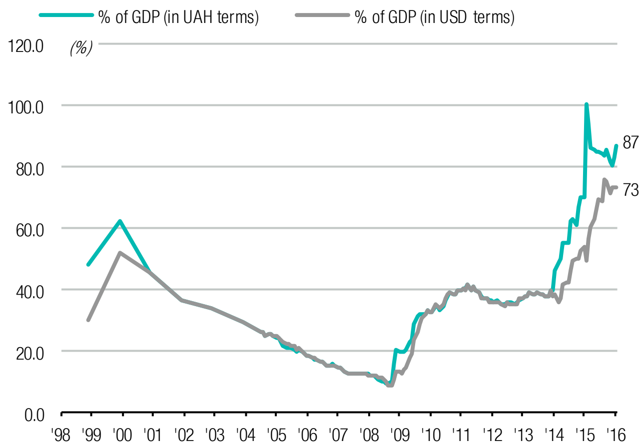
*History from January 2005 through December 2015*




Note: * 12-month rolling volume debt increase adjusted for FX rate changes. Source: Ministry of Finance of Ukraine, ICU.

**Chart 24. Public debt level (% of GDP)**

*History from January 1998 through February 2016*




Source: Ministry of Finance of Ukraine, ICU.

# Monetary stance: A gradual loosening ahead

In April, the NBU moved to reduce its policy rate from 22% to 19% citing faster-than-expected disinflation in consumer prices and the reduced risk of excessive demand for foreign currencies.

Indeed, weak domestic demand, tight fiscal policy and subdued bank lending has helped inflation subside at a rapid pace. If correct, we predict that April's inflation statistics should decline from 20.9% YoY toward 10% YoY or even into high single-digits.

This should provide additional ground for the central bank to consider another key policy rate cut during its next meeting on May 26. We expect this to occur, although cautiously, with a maximum 2ppt rate cut because of an anticipated on-year inflation increase in the second half of 2016. Overall, we expect the key policy rate at the end of this year to settle at 15%.

The NBU's stance on the banks' recapitalisation process has been quite thorough. To date, banks that failed to comply with the pre-agreed upon schedule of re-capitalisation have been forced into receivership. The recapitalisation process has been fraught with foot-dragging by private bank owners, who have lobbied for extensions. This sector-wide repair of banking operations from the prior norm of related-party lending to more rigid lending based on profit criteria rather than relationships, has drastically reduced loan issuance. Thus, in constant prices, the volume of new loans issued to the non-government sector has declined to half of what is was before the 2014-15 recession. Moreover, the interest rate for local-currency loans has reached 20% per year, a quite punitive level for businesses (Chart 29, p.24). Such anaemic ban- lending conditions contributed to the fast disinflationary trend, which helps the NBU to cut its key policy rate after the past year's aggressive hikes.

# Money: Debt deflation likely subsiding

### Base money

Ukraine's tight fiscal policy over the past year restrained the growth of the base money supply (please see Chart 25, p.23). The government's effort to replenish the banks' capital base was severely limited following the 2014-15 shock to the economy from the Donbas war and currency run. The resulting bank failures demanded steady injections into the pool of reserves for the banking system. Moreover, the government's influence on bank reserves via net spending (of the consolidated budget deficit) amounted to UAH27.8bn, less than half (in current prices) of what it spent compared with the previous two years: UAH63bn in 2013 and UAH67.1bn in 2014. In constant prices, these numbers would indicate a significant reduction of the government's influence on banks' reserves. Instead, money was progressively added to build up the State Deposit Guarantee Fund in 2014-15. Eventually, the banking system managed with excess liquidity forced the central bank to maintain a high policy rate and create money to compensate banks for storing reserves at the NBU: UAH7.8bn in 2015, and UAH5.0bn in January-April (please see Chart 30, p.24). Thanks to reduced inflation and decreased FX risk, the NBU adjusted its policy to reduce money creation and allow banks to seek higher yields on reserves in the local government bond market. The government is under pressure to reduce its funding cost as debt service as share of revenue increased 17%, an all-time high, as of the end of 1Q16 (please see Chart 21, p.20). Although a surplus was seen in the first quarter of the year, i.e., reserves being withdrawn from banks, we expect to see reserves being created yet again for the remainder of 2016—to the tune of UAH61.8bn for full-year 2016. As this should occur over the rest of the year, we expect authorities to be quite cautious in 3Q16 (hence, limiting reserves creation) as this quarter is usually active politically and financial market risks should be escalated (as global expectations of the Fed's next rate hike is skewed for the FOMC meeting in September). Because of this, most of the government's reserves creation should be skewed toward 4Q16.

### Broad money

Despite the excess volume of UAH reserves in banks' accounts with NBU, money supply (in the sense of broad money) has been depressed as the net flow of credit from banks into the non-government sector has been negative from 1Q14 through 1Q16 (please see Chart 26 and Chart 27, p.23). We refer to this trend over 2014-15 and 1Q16 as debt deflation due to the NBU's much more rigid oversight of the commercial banks, especially over lending to related parties and recapitalization.

We tend to think that the NBU's policy on reducing the policy rate from 22% as of the beginning of this year to 19% now—and continuing toward 15% by the end of this year—will assist in fulfilling the central bank's earlier forecast (made in 2H15) that, overall, banks would restart lending in 2H16. Only then will the broad money supply begin to recover.

### Inflation

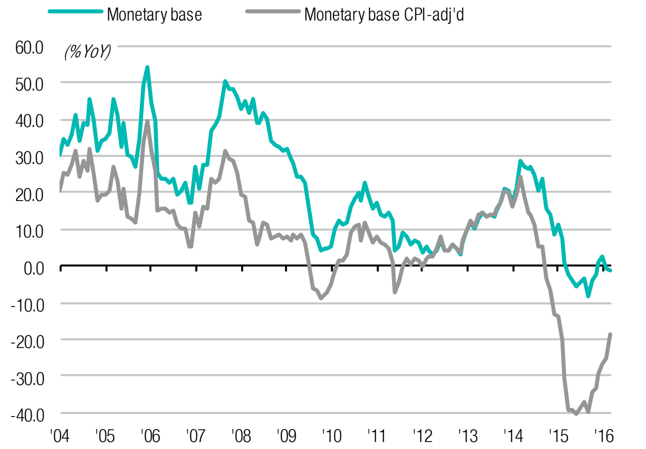
The path of inflation was challenging to forecast. Our attempt to grasp its trajectory from the very end of 2015 through this year failed to account for many factors. We wrongly assumed that there would be political pressure on the authorities to loosen their tight policies required for macro stabilization. The latter happened in mid-2H15, but authorities had to withstand pressure from both sides of the political spectrum through 1Q16. Unexpectedly, there were extreme right-wing calls for more austerity measures that were disguised as breakthrough reform policies.

In April, both headline CPI and PPI dropped below 10% for the first time since early 2014 when the currency devaluation and tariff hikes on home utilities caused inflation to spike. They now stand at 9.8% YoY and 9.7% YoY, respectively, down from the previous month's 20.9% YoY and 10.1% YoY, respectively. Our current projections for CPI and PPI anticipate on-year inflation will rebound in 4Q16 and early 2017 after it treads within high single digits during 2Q16 and 3Q16.

As discussed above, the central bank will have room to lower its key policy rate from its current 19% toward 15% later this year.

**Chart 25. Monetary base growth (%YoY)**

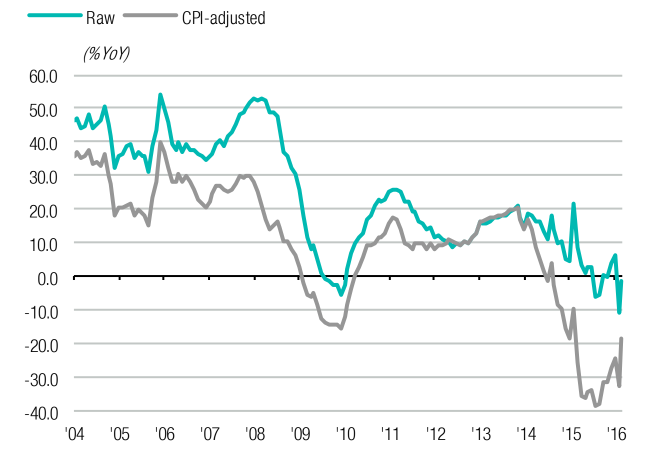
*Monthly history from January 2004 through March 2016*




Source: National Bank of Ukraine, ICU.

**Chart 26. Money supply* growth (%YoY)**

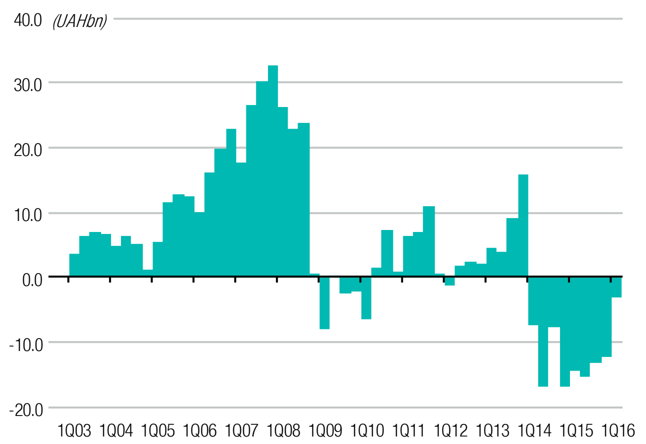
*Monthly history from January 2004 through March 2016*




Note: monetary aggregate M3. Source: National Bank of Ukraine, ICU.

**Chart 27. Bank credit net flow to private sector (UAHbn)**

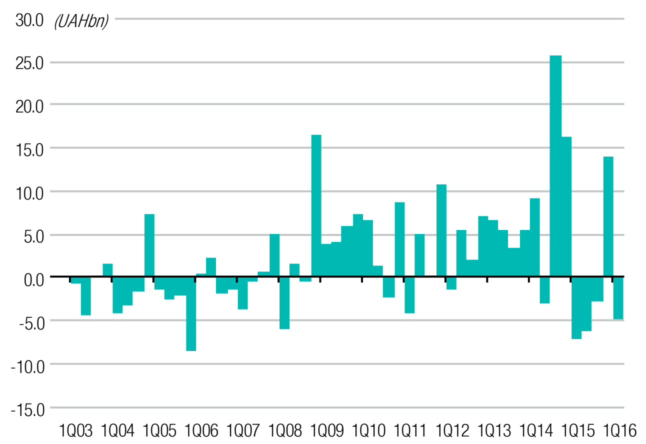
*Quarterly history from 1Q of 2003 through 1Q of 2016. CPI-adjusted volume*




Source: National Bank of Ukraine, ICU.

**Chart 28. Bank credit net flow to government sector (UAHbn)**

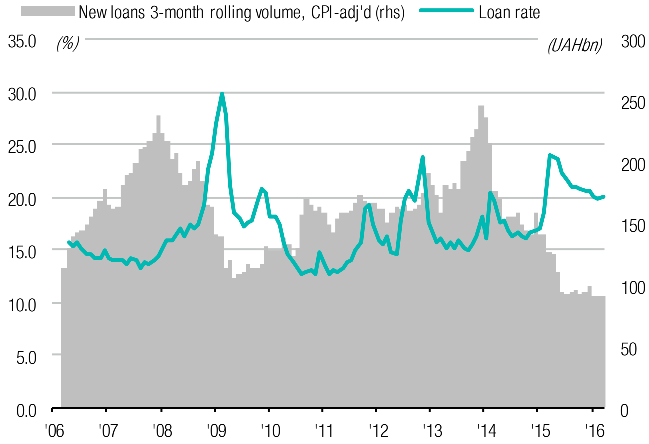
*Quarterly history from 1Q of 2003 through 1Q of 2016. CPI-adjusted volume*




Source: National Bank of Ukraine, ICU.

**Chart 29. New bank lending: volume and rate* (UAHbn)**

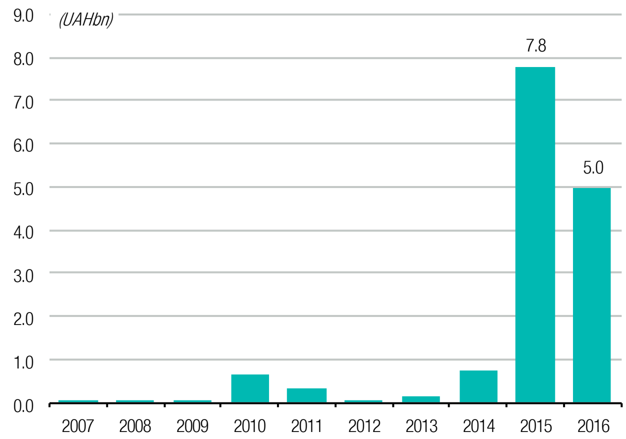
*Quarterly history from January of 2006 through March of 2016*




Note: * volume comprises all loans in UAH and FX, interest rate is for UAH loans only. Source: National Bank of Ukraine, ICU.

**Chart 30. NBU's money creation via CDs* (UAHbn)**

*Yearly nominal volumes for 2007-15, January-April for 2016*




Note: CDs – certificates of deposit, a short-term security issued by NBU to absorb excess reserves from banks' accounts at the central bank. Source: National Bank of Ukraine, ICU.

## External balance: Weakness still there

The foreign trade data, which is available through March 2016, suggests that the downturn has bottomed (please see Chart 31). However, the monthly volume of exports and imports in 1Q16 are quite sluggish versus the same period a year ago. Due to Russia's ongoing trade war on Ukrainian foreign trade, exports were weaker than imports this year, yielding a larger current account deficit in 1Q16 (US$0.9bn) than in 1Q15 (US$0.5bn). If the weakness in exports continues into 2Q16, authorities quite reasonably could allow greater FX flexibility and, should there be pressure for a weaker UAH, the NBU could allow it.

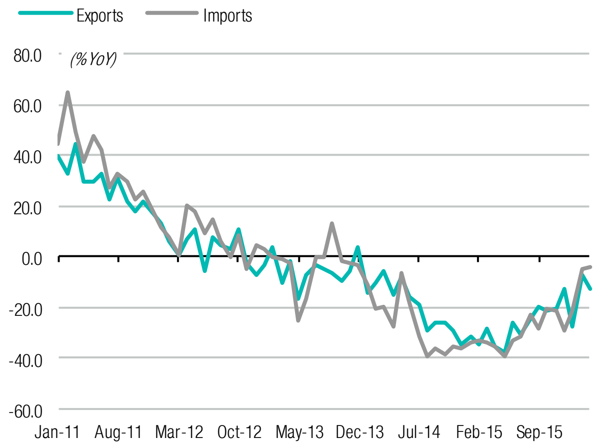
On the financial account, FDI inflows, which totaled nearly US$4bn in the last 12-month period through March 2016, has been directed primarily to banks, which reached a six-year high of more than 80% of the total. At the same time, FDI into the non-banking sector of the domestic economy has been stagnating throughout 2015 and into 1Q16, sliding from a 12-month rolling US$1.5bn as of mid-2015 to US$0.6bn as of this March. This suggests that the current upward momentum in FDI is driven by the regulatory requirement imposed on banks by the NBU's strict recapitalization policy. However, FDI inflows will not assure an outright economic expansion via business spending. For full-year 2016, we forecast that the pace of FDI inflows should stabilize at slightly more than US$4bn (please see Table 3, p.26) as the non-banking sector receives an increasing share to as much as 40-50%.

Overall, the financial account still relies heavily on official financing from the IMF and other donors. Combine this with a flexible approach to the exchange rate policy, and we forecast a modest current account deficit of just US$0.1bn, effectively yielding a balanced current account this year. Following this, however, we expect the deficit to widen on the back of a recovery in domestic demand, with a US$2.2bn deficit (3.1% of GDP) in 2017, falling to US$1.7bn (2.4% of GDP) in 2018.

As we forecast a second, consecutive nearly-zero, current-account deficit in 2016, we expect that official FX reserves should increase toward US$19.4bn at the end of 2016 from US$13.3bn a year ago. Over the next two years, FX reserves could contract to US$18bn.

**Chart 31. Growth rates of monthly export and imports* (%YoY)**

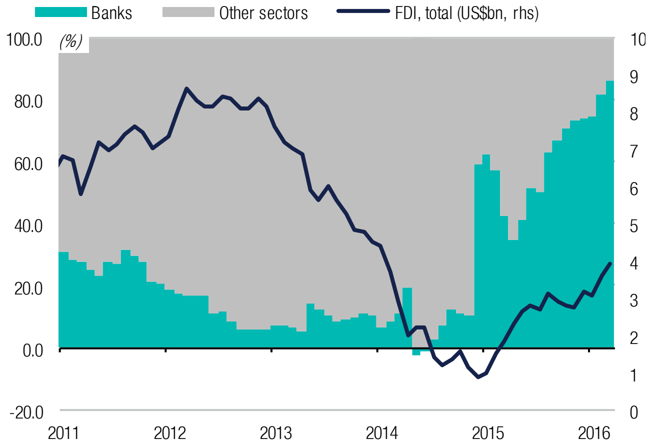
*Monthly history from January 2011 through March 2016*




* goods and services. Source: National Bank of Ukraine, ICU.

**Chart 32. Gross FDI into Ukraine, breakdown by destination**

*12-month rolling volumes, history from January 2011 through March 2016*




Source: National Bank of Ukraine, ICU.

**Table 3. Balance of payments forecast for 2016-18 (US$m)**

Base-case scenario with an assumption that IMF's programme is implemented with delays (probability = 60%).

This assumes that over 2016-18, Ukraine authorities would use IMF funds under US$17bn EFF programme **not** by full extent and pace of execution would amount to just 50% (see row "Borrowing" under the subsection "D2. Official lending from IMF, net" for 2015 and forecast period of 2016-18).

| Balance of payments | | | | | | Forecast | | |
|---|---|---|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **A. Current account, net** | | -14,335 | -16,518 | -4,596 | -204 | -89 | -2,194 | -1,709 |
| **B. Capital account, net** | | 40 | -60 | 400 | 565 | 236 | 236 | 236 |
| **Net lending (+) / borrowing (-)** | [=A+B] | -14,295 | -16,578 | -4,196 | +361 | +148 | -1,958 | -1,473 |
| **C. Financial account, net** | [=C1+C2+C3] | +7,334 | +15,802 | -10,476 | +700 | +3,074 | +358 | +798 |
| **C1. Short-term debt due next 12-month period by** | | -51,890 | -52,188 | -51,281 | -45,536 | -35,732 | -29,521 | -24,365 |
| **Government** | | | | | | | | |
| Russian banks (VTB) | | -2,000 | -750 | 0 | 0 | 0 | 0 | 0 |
| Eurobonds | | -500 | -1,000 | -1,000 | 0 | 0 | 0 | 0 |
| Other | | -831 | -9 | -466 | -131 | 0 | 0 | 0 |
| **Central bank** | | | | | | | | |
| Other | | 0 | 0 | 0 | -101 | -3,100 | -3,100 | -2,325 |
| **Banks** | | | | | | | | |
| Eurobonds | | -1,065 | 0 | -736 | 0 | 0 | 0 | -485 |
| Loans | | -709 | -395 | -876 | -1,850 | -509 | -732 | -736 |
| Cash & deposits | | -12,195 | -10,178 | -9,431 | -9,078 | -8,739 | -8,412 | -8,097 |
| Other | | -113 | -859 | -682 | -752 | -329 | -474 | -476 |
| **Corporations** | | | | | | | | |
| Eurobonds | | -225 | 0 | -1,645 | 0 | 0 | 0 | 0 |
| Loans | | -16,502 | -17,960 | -11,877 | -17,859 | -10,401 | -7,580 | -5,525 |
| Trade loans | | -17,086 | -20,560 | -24,017 | -14,643 | -12,191 | -8,885 | -6,475 |
| Other | | -665 | -478 | -551 | -1,123 | -463 | -338 | -246 |
| **C2. Financing** | [=F1+F2+F3+F4] | 60,617 | 67,350 | 41,338 | 44,601 | 38,718 | 29,792 | 25,076 |
| **FDI, net inflows**[1] | | 7,195 | 4,079 | 299 | 3,058 | 4,261 | 4,249 | 4,282 |
| Banks | | 475 | 469 | 499 | 2,333 | 2,131 | 3,187 | 3,212 |
| Corporations | | 6,720 | 3,610 | -200 | 725 | 2,131 | 1,062 | 1,071 |
| **Financing by sector** | | | | | | | | |
| F1. Government | | 5,754 | 6,511 | 4,763 | 3,218 | 2,100 | 500 | 1,000 |
| F2. Central bank | | 291 | 137 | 361 | 1,633 | 3,100 | 2,325 | 1,744 |
| F3. Banks | | 9,115 | 15,468 | 11,916 | 6,400 | 9,212 | 9,252 | 9,421 |
| F4. Corporations | | 45,458 | 45,235 | 24,298 | 33,350 | 24,306 | 17,715 | 12,911 |
| **C3. Errors & omissions** | | -1,393 | 640 | -533 | 1,635 | 87 | 87 | 87 |
| **E. Aggregated balance** | [=A+B+C] | -6,961 | -776 | -14,672 | +1,061 | +3,222 | -1,600 | -674 |
| **D. Reserves and associated funding** | [=E; =D1-D2] | -6,961 | -776 | -14,672 | +1,061 | +3,222 | -1,600 | -674 |
| **D1. Use of reserves** | | -10,395 | -6,611 | -13,741 | +6,847 | +6,126 | -1,236 | -1,505 |
| **D2. Official lending from IMF, net** | | -3,434 | -5,835 | 931 | 5,786 | 2,904 | 364 | -831 |
| **Redemptions** | | -3,434 | -5,835 | -3,657 | -1,135 | 0 | -882 | -2,085 |
| Government | | -769 | -2,600 | -2,594 | -692 | 0 | -567 | -1,363 |
| Central bank | | -2,665 | -3,235 | -1,062 | -443 | 0 | -315 | -722 |
| **Borrowings** | | 0 | 0 | 4,588 | 6,922 | 2,904 | 1,246 | 1,254 |
| Government | | 0 | 0 | 2,997 | 2,625 | 1,452 | 623 | 627 |
| Central bank | | 0 | 0 | 1,591 | 4,296 | 1,452 | 623 | 627 |
| **FX reserves** | | | | | | | | |
| At the start of year | | 31,795 | 24,546 | 20,416 | 7,533 | 13,300 | 19,426 | 18,190 |
| At the end of year | | 24,546 | 20,416 | 7,533 | 13,300 | 19,426 | 18,190 | 16,685 |
| Change (US$m) | | -7,248 | -4,131 | -12,883 | 5,767 | 6,126 | -1,236 | -1,505 |
| Change (%YoY) | | -22.8 | -16.8 | -63.1 | 76.6 | 46.1 | -6.4 | -8.3 |

**Table 3. Balance of payments forecast for 2016-18 (US$m)**

Base-case scenario with an assumption that IMF's programme is implemented with delays (probability = 60%).

This assumes that over 2016-18, Ukraine authorities would use IMF funds under US$17bn EFF programme **not** by full extent and pace of execution would amount to just 50% (see row "Borrowing" under the subsection "D2. Official lending from IMF, net" for 2015 and forecast period of 2016-18).

| Balance of payments | | | | | Forecast | | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **FX reserves (% of GDP)** | | | | | | | |
| At the start of year | 18.3 | 14.1 | 11.4 | 5.7 | 15.0 | 26.0 | 26.1 |
| At the end of year | 14.1 | 11.4 | 5.7 | 15.1 | 26.0 | 26.1 | 23.4 |
| Change (ppt) | -4.2 | -2.7 | -5.6 | 9.4 | 11.0 | 0.1 | -2.7 |
| **FX reserves imports coverage (months)** | | | | | | | |
| At the start of year | 4.1 | 2.9 | 2.5 | 1.3 | 3.3 | 4.7 | 3.9 |
| At the end of year | 2.9 | 2.5 | 1.3 | 3.3 | 4.7 | 3.9 | 3.4 |
| Change (months) | -1.1 | -0.4 | -1.2 | 2.0 | 1.4 | -0.8 | -0.5 |

Notes: [1] FDI data is provided in the table for informational purposes, they are part of the rows under "Financing by sector" subsection.

Sources: National Bank of Ukraine, ICU.

## View on UAH: Upward revision

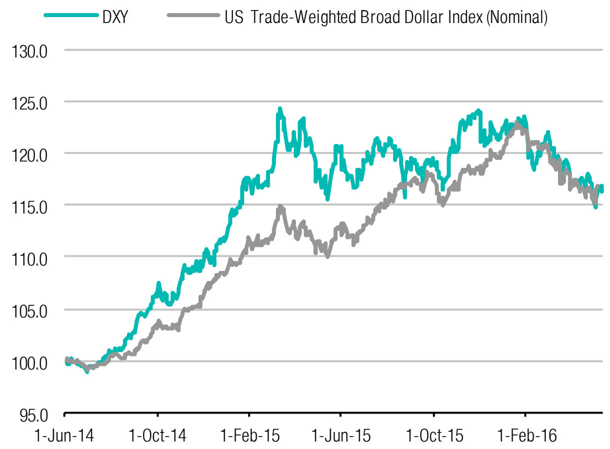
Given the better-than-expected path of inflation, we have revised our valuation of the hryvnia upward to 28/USD for year-end 2016 from our 32.0/USD forecast just a few months ago. Although we still project weakness ahead in the exchange rate, the following factors shape our view:

- **Domestic inflation.** We changed our forecast of double-digit inflation lasting throughout 2016 and most of 2017. Both headline CPI and PPI have nosedived into the high single-digit area as of the end of this April. Our forecast now is based on the idea that consumer inflation should remain within the high single-digit range through this summer and then weaken to the double-digits (around 10-15%) in 2H16 and 1H17, only to strengthen back to single-digits in 2017-18. This should benefit the hryvnia as the impact of lower inflation should have less of an impact on the hryvnia's real appreciation.
- **US Dollar & Fed monetary stance.** The stance of the US Fed is quite crucial for the hryvnia's future exchange rate. The Fed's softened stance has recently aided the recovery in commodities and EM currencies, including the hryvnia. As a result, the US dollar declined in value against a broad range of global currencies, including the currencies of Ukraine's main trading partners, which include Eurozone countries, non-euro EU member states, Turkey, and Russia. Quite remarkably, the dollar also stepped back a bit against the Chinese currency. Thanks to a wider scope of ICU's in-house techniques on FX analysis using trade-weighted indices (which was extended to embrace new currencies like the EUR, JPY, GBP, CNY, etc), we revised our own views on the path of the nominal exchange rates of several of Ukraine's trading partners. This revision chipped away at previous assumptions of a bit stronger USD versus other currencies. For example, our previous view on the CNY was that it would probably weaken beyond 7/USD in 2017-18. Now, using the PPI-based trade-weighted index as an additional tool for analysis, we expect the Chinese currency to be as much as 6.8/USD over that period of time. Inevitably, this revision also had an impact on our UAH forecast.

- **Conclusion.** Weakness in the local currency is yet to unfold in 2H16 and 2017 due to higher domestic inflation relative to key trade partners. However, better-than-expected developments in the global financial markets, where a softer US Fed stance was a key driving force behind a market rally in risk assets like EM FX, pushed our forecast on the USD/UAH to amend the previous forecast dated 1 March 2016 to yearly average rates of 26.34/USD in 2016 (versus the previous forecast of 29.25/USD), 29.25/USD in 2017 (versus 33.75) and 30/USD in 2018 (versus 34/USD).

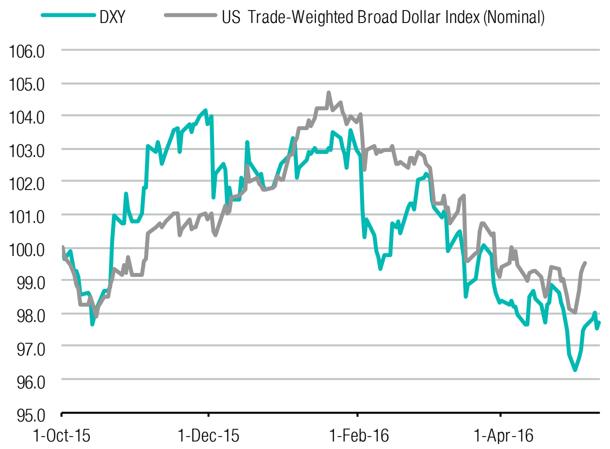
**Chart 33. US dollar value as measured versus: (1) a basket of currencies of major DM market economies (DXY or narrow index); and (2) a basket of currencies of DM and EM economies (broad index)**

*Rebased at 100 points at **1 June 2014**. History through 12 May 2016*




Source: Bloomberg, ICU.

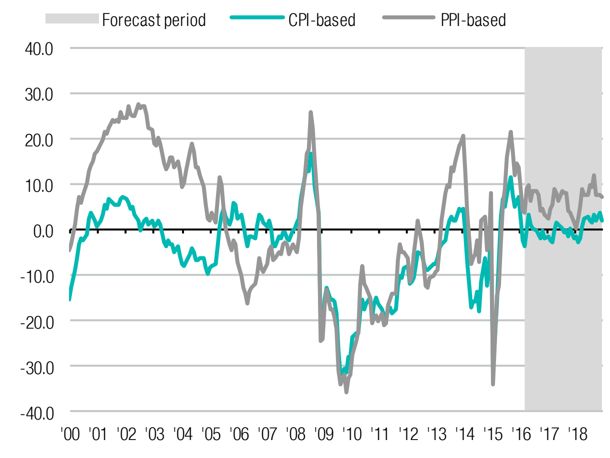
*Rebased at 100 points at **1 October 2015**. History through 12 May 2016*




Source: Bloomberg, ICU.

**Chart 34. Misalignment of the UAH's FX rate, as implied by the UAH real trade-weighted indices**

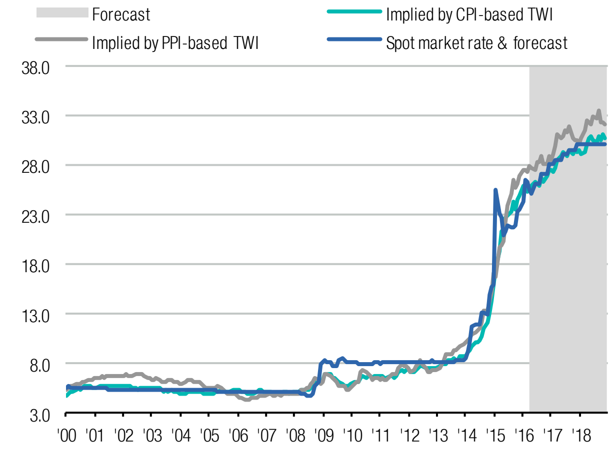
*History 2000-15 and forecast for 2016-2018*




Source: ICU.

**Chart 35. UAH's FX rate versus rates implied by the UAH real trade-weighted indices**

*History 2000-15 and forecast for 2016-2018*




Source: ICU.

# Forecast for 2016-18

**The following two pages of statistics are our yearly and quarterly key macroeconomic indicators with forecasts through 2018.**

# Yearly forecast for 2016-18, base case scenario

**Table 4. Forecast of key macroeconomic indicators for 2016-18 (annual)**

| | Historical data for 2004-15 | | | | | | | | | | Forecast by ICU | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015F | 2016F | 2017F | 2018F |
| **Activity** | | | | | | | | | | | | | |
| Real GDP (%YoY) | 7.3 | 7.9 | 2.3 | -14.8 | 4.1 | 5.2 | 0.2 | -0.1 | -6.6 | -10.3 | **2.1** | **2.3** | **2.8** |
| Nominal GDP (UAHbn) | 544 | 721 | 948 | 913 | 1,083 | 1,302 | 1,409 | 1,465 | 1,567 | 1,939 | **2,361** | **2,725** | **3,031** |
| Nominal GDP (US$bn) | 108 | 143 | 184 | 114 | 136 | 163 | 174 | 180 | 131 | 88 | **88** | **93** | **101** |
| GDP per capita (US$, ann) | 2,319 | 3,091 | 3,986 | 2,474 | 2,978 | 3,572 | 3,823 | 3,962 | 3,069 | 2,061 | **2,070** | **2,189** | **2,382** |
| Unemployment rate (%) | 6.2 | 6.4 | 6.4 | 8.8 | 8.1 | 7.9 | 7.5 | 7.2 | 9.3 | 9.0 | **8.2** | **7.5** | **7.5** |
| **Prices** | | | | | | | | | | | | | |
| CPI headline (%YoY, eop) | 11.6 | 16.6 | 22.3 | 12.3 | 9.1 | 4.6 | -0.2 | 0.5 | 24.9 | 41.8 | **13.8** | **7.6** | **7.6** |
| CPI headline (%YoY, average) | 9.1 | 12.8 | 25.3 | 16.0 | 9.4 | 8.0 | 0.6 | -0.3 | 12.1 | 48.2 | **16.3** | **12.2** | **7.6** |
| PPI (%YoY, eop) | 15.4 | 23.2 | 21.1 | 15.3 | 18.8 | 17.4 | 0.4 | 1.7 | 31.8 | 24.0 | **23.2** | **5.3** | **5.3** |
| PPI (%YoY, average) | 9.6 | 20.5 | 33.6 | 7.4 | 21.4 | 19.9 | 6.0 | -0.1 | 17.0 | 36.5 | **17.2** | **11.2** | **5.3** |
| **Fiscal balance** | | | | | | | | | | | | | |
| Consolidated budget bal. (UAHbn) | -3.5 | -6.1 | -11.3 | -34.4 | -63.3 | -18.3 | -46.9 | -63.0 | -67.1 | -27.8 | **-74.7** | **-70.6** | **-68.5** |
| Consolidated budget bal. (% of GDP) | -0.6 | -0.8 | -1.2 | -3.8 | -5.9 | -1.4 | -3.3 | -4.3 | -4.3 | -1.4 | **-3.2** | **-2.6** | **-2.3** |
| Budget balance (UAHbn) | -3.8 | -9.8 | -12.5 | -35.5 | -64.3 | -23.6 | -53.4 | -64.7 | -78.1 | -45.4 | **-87.9** | **-74.7** | **-74.2** |
| Budget balance (% of GDP) | -0.7 | -1.4 | -1.3 | -3.9 | -5.9 | -1.8 | -3.8 | -4.4 | -5.0 | -2.3 | **-3.7** | **-2.7** | **-2.4** |
| **External balance** | | | | | | | | | | | | | |
| Exports (US$bn) | 50.2 | 64.0 | 85.6 | 54.3 | 69.3 | 88.8 | 90.0 | 85.3 | 68.8 | 47.4 | **48.1** | **52.2** | **56.3** |
| Imports (US$bn) | 53.3 | 72.2 | 100.0 | 56.2 | 73.2 | 99.0 | 104.4 | 100.8 | 74.1 | 48.6 | **49.4** | **55.8** | **59.4** |
| Trade balance (US$bn) | -3.1 | -8.2 | -14.4 | -2.0 | -4.0 | -10.2 | -14.3 | -15.5 | -5.2 | -1.2 | **-1.3** | **-3.5** | **-3.1** |
| Trade balance (% of GDP) | -2.8 | -5.7 | -7.8 | -1.7 | -2.9 | -6.2 | -8.2 | -8.6 | -4.0 | -1.3 | **-1.6** | **-4.4** | **-3.9** |
| Current account balance (US$bn) | -1.6 | -5.3 | -12.8 | -1.7 | -3.0 | -10.2 | -14.3 | -16.4 | -5.2 | -0.2 | **-0.1** | **-2.2** | **-1.7** |
| Current account balance (% of GDP) | -1.5 | -3.7 | -6.9 | -1.5 | -2.2 | -6.3 | -8.2 | -9.1 | -4.0 | -0.2 | **-0.1** | **-2.7** | **-2.1** |
| Net FDI (US$bn) | 5.7 | 9.2 | 9.9 | 4.7 | 5.8 | 7.0 | 7.2 | 4.1 | 0.3 | -3.1 | **4.3** | **4.2** | **4.3** |
| Net FDI (% of GDP) | 5.3 | 6.4 | 5.4 | 4.1 | 4.2 | 4.3 | 4.1 | 2.3 | 0.2 | -3.5 | **5.2** | **5.3** | **5.3** |
| C/A bal. + net FDI (% of GDP) | 3.8 | 2.8 | -1.6 | 2.6 | 2.0 | -2.0 | -4.1 | -6.8 | -3.7 | -3.7 | **5.1** | **2.6** | **3.2** |
| External debt (US$bn, eop) | 54.5 | 80.0 | 101.7 | 103.4 | 117.3 | 126.2 | 134.6 | 142.1 | 134.1 | 145.2 | **141.6** | **139.7** | **137.0** |
| External debt (% of ann'd GDP, eop) | 50.4 | 55.8 | 55.3 | 90.9 | 86.1 | 77.4 | 77.3 | 79.1 | 102.2 | 164.9 | **172.7** | **174.1** | **169.9** |
| FX reserves (US$bn, eop) | 22.3 | 32.5 | 31.5 | 26.5 | 34.6 | 31.8 | 24.5 | 20.4 | 7.5 | 14.4 | **20.5** | **19.3** | **17.8** |
| FX reserves (% of ann'd GDP, eop) | 20.6 | 22.6 | 17.2 | 23.3 | 25.4 | 19.5 | 14.1 | 11.4 | 5.7 | 16.3 | **25.0** | **24.0** | **22.0** |
| External debt / FX reserves (x, eop) | 2.4 | 2.5 | 3.2 | 3.9 | 3.4 | 4.0 | 5.5 | 7.0 | 17.8 | 10.1 | **6.9** | **7.2** | **7.7** |
| FX reserves imports cov (months) | 5.0 | 5.4 | 3.8 | 5.7 | 5.7 | 3.9 | 2.8 | 2.4 | 1.2 | 3.6 | **5.0** | **4.1** | **3.6** |
| **Interest rates** | | | | | | | | | | | | | |
| Central bank key rate (%, eop) | 8.50 | 8.00 | 12.00 | 10.25 | 7.75 | 7.75 | 7.50 | 6.50 | 14.00 | 22.00 | **15.00** | **12.00** | **10.00** |
| 3-month rate (%, eop 4Q) | 9.90 | 7.58 | 21.60 | 17.59 | 6.12 | 19.72 | 25.52 | 11.71 | 18.37 | 23.86 | **23.34** | **22.00** | **21.00** |
| **Exchange rates** | | | | | | | | | | | | | |
| UAH trade-weighted index (nominal) | 70.90 | 64.93 | 45.89 | 46.09 | 53.28 | 56.87 | 54.63 | 49.59 | 32.29 | 20.86 | **17.57** | **16.58** | **16.40** |
| UAH trade-weighted index (real) | 123.61 | 120.06 | 100.21 | 90.26 | 97.73 | 98.76 | 94.72 | 100.84 | 85.40 | 99.67 | **90.93** | **89.51** | **92.40** |
| UAH/US$ (eop) | 5.05 | 5.05 | 7.80 | 8.00 | 7.94 | 8.00 | 8.05 | 8.24 | 15.82 | 24.03 | **28.00** | **30.00** | **30.00** |
| UAH/US$ (average) | 5.03 | 5.03 | 5.25 | 8.03 | 7.94 | 7.99 | 8.08 | 8.16 | 12.01 | 21.96 | **26.67** | **29.25** | **30.00** |
| UAH/€ (eop) | 6.66 | 7.36 | 10.90 | 11.45 | 10.63 | 10.37 | 10.62 | 11.32 | 19.14 | 26.10 | **30.52** | **33.00** | **33.90** |
| UAH/€ (average) | 6.64 | 7.32 | 7.10 | 11.70 | 10.51 | 10.50 | 10.60 | 11.17 | 14.79 | 23.91 | **29.55** | **31.88** | **33.45** |
| US$/€ (eop) | 1.32 | 1.46 | 1.40 | 1.43 | 1.34 | 1.30 | 1.32 | 1.37 | 1.21 | 1.09 | **1.09** | **1.10** | **1.13** |
| US$/€ (average) | 1.32 | 1.46 | 1.35 | 1.46 | 1.32 | 1.32 | 1.31 | 1.37 | 1.23 | 1.09 | **1.11** | **1.09** | **1.12** |
| **Population** | | | | | | | | | | | | | |
| Population (million, eop) | 46.6 | 46.4 | 46.1 | 46.0 | 45.8 | 45.6 | 45.6 | 45.3 | 42.8 | 42.7 | **42.6** | **42.5** | **42.4** |
| Population (%YoY) | -0.7 | -0.6 | -0.5 | -0.4 | -0.4 | -0.3 | -0.2 | -0.5 | -5.7 | -0.5 | **-0.4** | **-0.2** | **-0.1** |

Notes: eop – end of period; cov – coverage; con'd – consolidated; ann – annualised. Sources: State Statistics Service of Ukraine, NBU, ICU.

# Quarterly forecast for 2016-18, base case scenario

**Table 5. Forecast of key macroeconomic indicators for 2016-18 (quarterly)**

| | | | | Forecast by ICU | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3Q15 | 4Q15 | 1Q16E | 2Q16F | 3Q16F | 4Q16F | 1Q17F | 2Q17F | 3Q17F | 4Q17F | 1Q18F | 2Q18F | 3Q18F | 4Q18F |
| **Activity** | | | | | | | | | | | | | | |
| Real GDP (%YoY) | -7.2 | -1.4 | 0.1 | 2.5 | 3.0 | 2.7 | 2.9 | 1.5 | 1.9 | 3.1 | 2.8 | 2.7 | 2.8 | 2.8 |
| Nominal GDP (UAHbn) | 555.0 | 584.8 | 431.5 | 521.1 | 661.5 | 716.5 | 567.3 | 605.7 | 750.0 | 801.9 | 630.9 | 673.5 | 834.6 | 892.4 |
| Nominal GDP (US$bn) | 25.5 | 25.4 | 16.8 | 20.0 | 24.5 | 25.6 | 19.9 | 20.9 | 25.4 | 26.7 | 21.0 | 22.4 | 27.8 | 29.7 |
| GDP per capita (US$, ann) | 2,195 | 2,076 | 2,070 | 2,082 | 2,061 | 2,066 | 2,112 | 2,133 | 2,156 | 2,185 | 2,212 | 2,249 | 2,306 | 2,378 |
| Unemployment rate (%) | 9.0 | 9.0 | 9.0 | 8.2 | 8.2 | 8.2 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| **Prices** | | | | | | | | | | | | | | |
| CPI headline (%YoY, eop) | 51.9 | 43.3 | 20.9 | 9.8 | 10.4 | 13.8 | 15.9 | 13.3 | 11.3 | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| CPI headline (%YoY, average) | 53.3 | 45.4 | 31.3 | 9.6 | 10.7 | 13.8 | 14.6 | 13.7 | 12.5 | 8.2 | 7.6 | 7.6 | 7.6 | 7.6 |
| PPI (%YoY, eop) | 32.5 | 24.0 | 10.1 | 16.2 | 18.2 | 23.2 | 17.6 | 9.2 | 5.8 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |
| PPI (%YoY, average) | 34.2 | 26.5 | 16.0 | 13.2 | 17.6 | 21.8 | 21.1 | 11.6 | 6.5 | 5.5 | 5.3 | 5.3 | 5.3 | 5.3 |
| **Fiscal balance** | | | | | | | | | | | | | | |
| Consolidated budget bal. (UAHbn) | 21.3 | -62.6 | 3.4 | -42.5 | -11.5 | -24.1 | -5.3 | -33.3 | -0.9 | -31.1 | -4.1 | -34.5 | 1.3 | -31.2 |
| Consolidated budget bal. (% of GDP) | 3.8 | -10.7 | 0.8 | -8.2 | -1.7 | -3.4 | -0.9 | -5.5 | -0.1 | -3.9 | -0.7 | -5.1 | 0.2 | -3.5 |
| Budget balance (UAHbn) | 10.9 | -54.0 | -10.6 | -39.6 | -13.1 | -24.6 | -7.3 | -32.0 | -4.3 | -31.2 | -6.5 | -33.3 | -2.7 | -31.7 |
| Budget balance (% of GDP) | 2.0 | -9.2 | -2.5 | -7.6 | -2.0 | -3.4 | -1.3 | -5.3 | -0.6 | -3.9 | -1.0 | -4.9 | -0.3 | -3.6 |
| **External balance** | | | | | | | | | | | | | | |
| Exports (US$bn) | 12.1 | 12.0 | 9.8 | 12.2 | 13.1 | 13.0 | 10.3 | 13.1 | 14.2 | 14.6 | 10.9 | 14.3 | 15.3 | 15.8 |
| Imports (US$bn) | 12.4 | 12.5 | 11.0 | 11.4 | 13.6 | 13.4 | 13.3 | 12.2 | 15.2 | 15.1 | 14.2 | 13.0 | 16.0 | 16.2 |
| Trade balance (US$bn) | -0.3 | -0.4 | -1.1 | 0.8 | -0.6 | -0.4 | -2.9 | 0.9 | -1.0 | -0.6 | -3.3 | 1.3 | -0.8 | -0.4 |
| Trade balance (% of GDP) | -1.2 | -1.6 | -6.8 | 4.2 | -2.5 | -1.6 | -16.8 | 5.3 | -4.6 | -2.4 | -19.5 | 7.3 | -3.5 | -1.6 |
| Current account balance (US$bn) | 0.1 | 0.0 | -0.9 | 1.0 | -0.2 | 0.0 | -2.6 | 1.3 | -0.6 | -0.2 | -3.0 | 1.6 | -0.4 | 0.0 |
| Current account balance (% of GDP) | 0.3 | 0.2 | -5.6 | 5.6 | -0.9 | 0.1 | -15.3 | 7.0 | -2.9 | -0.7 | -17.6 | 9.2 | -1.8 | 0.1 |
| Net FDI (US$bn) | 0.9 | 0.9 | 1.3 | 1.0 | 1.0 | 0.9 | 1.1 | 1.0 | 1.1 | 1.0 | 1.1 | 1.1 | 1.1 | 1.0 |
| Net FDI (% of GDP) | 3.5 | 3.4 | 7.7 | 5.4 | 4.5 | 4.0 | 6.6 | 5.7 | 4.9 | 4.4 | 6.5 | 5.9 | 4.9 | 4.4 |
| C/A bal. + net FDI (% of GDP) | 3.8 | 3.6 | 2.1 | 10.9 | 3.6 | 4.0 | -8.7 | 12.7 | 1.9 | 3.7 | -11.1 | 15.1 | 3.1 | 4.5 |
| External debt (US$bn, eop) | 137.2 | 138.5 | 139.3 | 140.0 | 140.8 | 141.6 | 139.7 | 142.0 | 142.0 | 142.0 | 140.0 | 140.0 | 140.0 | 140.0 |
| External debt (% of ann'd GDP, eop) | 145.9 | 155.8 | 157.3 | 162.3 | 168.5 | 172.7 | 169.2 | 173.3 | 175.2 | 177.0 | 175.3 | 175.6 | 175.0 | 173.6 |
| FX reserves (US$bn, eop) | 12.7 | 14.4 | 15.9 | 17.4 | 19.0 | 20.5 | 20.2 | 19.9 | 19.6 | 19.3 | 18.9 | 18.5 | 18.1 | 17.8 |
| FX reserves (% of ann'd GDP, eop) | 13.5 | 16.2 | 18.0 | 20.2 | 22.7 | 25.0 | 24.5 | 24.3 | 24.2 | 24.0 | 23.7 | 23.2 | 22.7 | 22.0 |
| External debt / FX reserves (x, eop) | 10.8 | 9.6 | 8.8 | 8.0 | 7.4 | 6.9 | 6.9 | 7.1 | 7.3 | 7.4 | 7.4 | 7.6 | 7.7 | 7.9 |
| FX reserves imports cov (months) | 2.9 | 3.6 | 4.0 | 4.4 | 4.7 | 5.0 | 4.7 | 4.5 | 4.3 | 4.1 | 4.0 | 3.9 | 3.7 | 3.6 |
| **Interest rates** | | | | | | | | | | | | | | |
| Central bank key rate (%, eop) | 22.00 | 22.00 | 22.00 | 19.00 | 18.00 | 15.00 | 15.00 | 15.00 | 15.00 | 12.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| 3-month rate (%, eop 4Q) | 25.80 | 23.86 | 23.34 | 22.00 | 21.00 | 18.00 | 18.00 | 18.00 | 18.00 | 15.00 | 12.00 | 12.00 | 12.00 | 12.00 |
| **Exchange rates** | | | | | | | | | | | | | | |
| UAH trade-weighted index (nominal) | 22.52 | 20.86 | 18.61 | 18.51 | 17.93 | 17.57 | 17.38 | 17.16 | 16.88 | 16.58 | 16.60 | 16.58 | 16.55 | 16.40 |
| UAH trade-weighted index (real) | 104.52 | 99.67 | 89.28 | 94.48 | 92.49 | 90.93 | 89.48 | 93.17 | 91.72 | 89.51 | 89.15 | 93.88 | 93.85 | 92.40 |
| UAH/US$ (eop) | 21.20 | 24.03 | 26.20 | 26.00 | 27.00 | 28.00 | 28.50 | 29.00 | 29.50 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| UAH/US$ (average) | 21.77 | 22.99 | 25.69 | 26.00 | 27.00 | 28.00 | 28.50 | 29.00 | 29.50 | 30.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| UAH/€ (eop) | 23.70 | 26.10 | 29.82 | 29.64 | 29.70 | 30.52 | 30.78 | 31.32 | 32.45 | 33.00 | 33.00 | 33.30 | 33.60 | 33.90 |
| UAH/€ (average) | 24.47 | 25.04 | 28.62 | 29.61 | 30.24 | 30.66 | 30.92 | 31.32 | 32.16 | 33.00 | 33.00 | 33.15 | 33.45 | 33.75 |
| US$/€ (eop) | 1.12 | 1.09 | 1.14 | 1.14 | 1.10 | 1.09 | 1.08 | 1.08 | 1.10 | 1.10 | 1.10 | 1.11 | 1.12 | 1.13 |
| US$/€ (average) | 1.12 | 1.09 | 1.11 | 1.14 | 1.12 | 1.10 | 1.09 | 1.08 | 1.09 | 1.10 | 1.10 | 1.11 | 1.12 | 1.13 |
| **Population** | | | | | | | | | | | | | | |
| Population (million, eop) | 42.80 | 42.72 | 42.72 | 42.67 | 42.65 | 42.57 | 42.62 | 42.57 | 42.54 | 42.46 | 42.56 | 42.51 | 42.49 | 42.41 |
| Population (%YoY) | -0.4 | -0.5 | -0.4 | -0.4 | -0.4 | -0.4 | -0.2 | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | -0.1 | -0.1 |

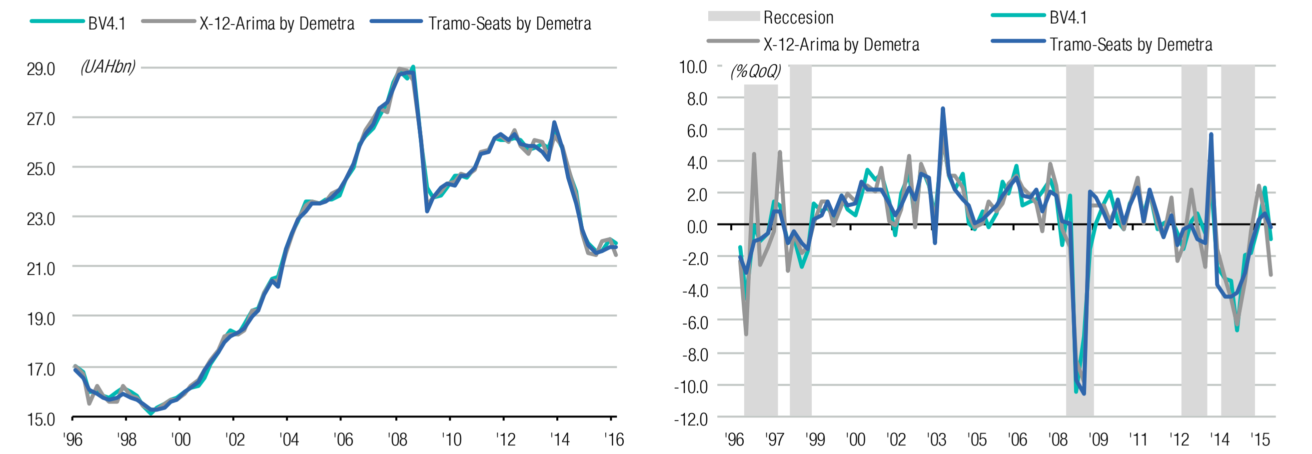
Notes: eop – end of period; cov – coverage; con'd – consolidated; ann – annualised. Sources: State Statistics Service of Ukraine, NBU, ICU.

# Appendices: Research details, thematic charts & tables

**The following pages contain the data charts and tables as referenced in this report.**

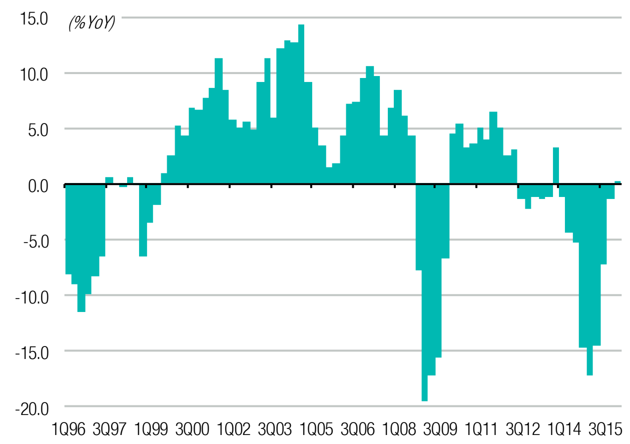
# Quarterly GDP: Reported statistics and ICU's calculations

**Chart 36. Ukraine's economy from the perspective of quarterly GDP volumes (left) and on-quarter growth rates (right)**
1Q96-1Q16
Data is adjusted for inflation and seasonal factors; seasonally adjusted by three methods BV4.1, X-12 Arima and Tramo-Seats
*Quarterly GDP size in constant prices of Dec-95* *Quarterly GDP growth rates (% QoQ)*



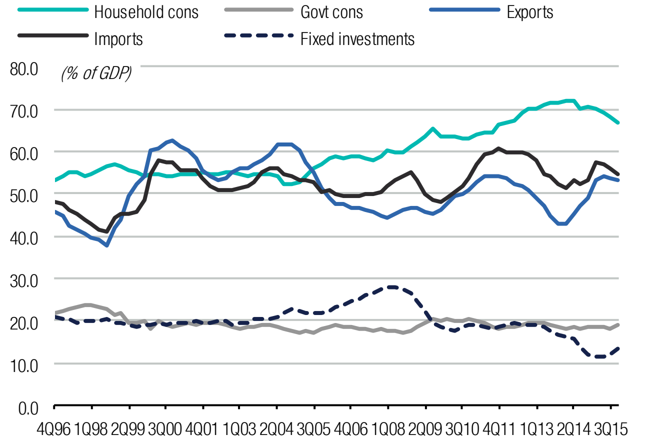

Sources: State Statistics Service of Ukraine, ICU. Sources: State Statistics Service of Ukraine, ICU.

**Chart 37. Reported on-year quarterly GDP growth (% YoY)**
*1Q96-1Q16*




Source: State Statistics Service of Ukraine.

**Chart 38. Demand-side components of GDP (% of total, LTM)**
*1Q96-4Q15*




Sources: State Statistics Service of Ukraine, ICU.

**Table 6. Ukraine quarterly GDP size: History from 4Q96 till 4Q15 (UAHm, if not otherwise indicated)**
Reported statistics and ICU calculations of quarter-on-quarter growth in real and seasonally-adjusted terms

| Period | Reported statistics on quarterly GDP | | | | ICU calculations | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GDP at current prices (UAHm) | Real growth (% YoY, qtly) | Real growth (% QoQ, SA) | Deflator (% YoY) | Real growth (% YoY, ann'd) | GDP at cons prices[1] (UAHm, NSA) | GDP at cons prices[1] (UAHm, SA) | | | Real GDP growth (%QoQ, SA) | | |
| | | | | | | | BV4.1 | X-12-Arima by Demetra | Tramo-Seats by Demetra | BV4.1 | X-12-Arima by Demetra | Tramo-Seats by Demetra |
| 4Q96 | 24,454 | -10.0 | | 40.1 | -9.7 | 17,404 | 16,075 | 16,228 | **15,824** | 0.8 | 4.6 | 0.8 |
| 1Q97 | 18,728 | -8.3 | | 22.3 | -9.8 | 14,114 | 15,777 | 15,780 | **15,779** | -1.9 | -2.8 | -0.3 |
| 2Q97 | 20,485 | -6.6 | | 22.7 | -9.1 | 14,117 | 15,758 | 15,586 | **15,750** | -0.1 | -1.2 | -0.2 |
| 3Q97 | 26,076 | 0.5 | | 15.3 | -6.2 | 17,544 | 16,049 | 15,531 | **15,687** | 1.8 | -0.4 | -0.4 |
| 4Q97 | 28,076 | 0.0 | | 14.8 | -3.7 | 17,405 | 16,122 | 16,258 | **15,984** | 0.5 | 4.7 | 1.9 |
| 1Q98 | 20,871 | -0.3 | | 11.8 | -1.6 | 14,068 | 16,011 | 15,744 | **15,762** | -0.7 | -3.2 | -1.4 |
| 2Q98 | 23,367 | 0.5 | | 13.5 | 0.2 | 14,188 | 15,795 | 15,701 | **15,724** | -1.4 | -0.3 | -0.2 |
| 3Q98 | 28,908 | -0.1 | | 10.9 | 0.0 | 17,538 | 15,379 | 15,435 | **15,479** | -2.6 | -1.7 | -1.6 |
| 4Q98 | 29,447 | -6.6 | | 12.3 | -1.7 | 16,256 | 15,177 | 15,236 | **15,165** | -1.3 | -1.3 | -2.0 |
| … | … | … | … | … | … | … | … | … | **…** | … | … | **…** |
| 1Q08 | 191,459 | +8.5 | | 26.6 | +7.4 | 26,303 | 28,874 | 28,931 | 28,703 | +1.8 | +2.4 | +1.9 |
| 2Q08 | 236,033 | +6.2 | | 33.2 | +6.5 | 26,824 | 28,521 | 28,834 | 28,782 | -1.2 | -0.3 | +0.3 |
| 3Q08 | 276,451 | +4.3 | | 32.9 | +6.5 | 31,892 | 29,030 | 28,447 | 28,800 | +1.8 | -1.3 | +0.1 |
| 4Q08 | 244,113 | -7.8 | | 23.3 | +2.6 | 27,233 | 25,970 | 26,047 | 26,009 | -10.5 | -8.4 | -9.7 |
| 1Q09 | 189,028 | -19.6 | | 22.8 | -4.8 | 21,148 | 24,159 | 23,476 | 23,244 | -7.0 | -9.9 | -10.6 |
| 2Q09 | 214,103 | -17.3 | | 9.7 | -10.6 | 22,181 | 23,795 | 23,757 | 23,734 | -1.5 | +1.2 | +2.1 |
| 3Q09 | 250,306 | -15.7 | | 7.4 | -15.2 | 26,886 | 23,809 | 24,037 | 24,145 | +0.1 | +1.2 | +1.7 |
| 4Q09 | 259,908 | -6.7 | | 14.1 | -15.0 | 25,412 | 24,134 | 24,327 | 24,326 | +1.4 | +1.2 | +0.8 |
| 1Q10 | 217,286 | +4.5 | +0.7 | 10.7 | -9.2 | 21,959 | 24,626 | 24,378 | 24,276 | +2.0 | +0.2 | -0.2 |
| 2Q10 | 256,754 | +5.4 | +1.4 | 15.1 | -3.5 | 23,110 | 24,672 | 24,695 | 24,670 | +0.2 | +1.3 | +1.6 |
| 3Q10 | 301,251 | +3.3 | +0.4 | 17.5 | +1.5 | 27,539 | 24,597 | 24,616 | 24,680 | -0.3 | -0.3 | +0.0 |
| 4Q10 | 307,278 | +3.7 | +0.7 | 15.6 | +4.2 | 25,989 | 24,936 | 24,909 | 24,969 | +1.4 | +1.2 | +1.2 |
| 1Q11 | 257,682 | +5.1 | +2.0 | 12.9 | +4.4 | 23,066 | 25,507 | 25,637 | 25,540 | +2.3 | +2.9 | +2.3 |
| 2Q11 | 311,022 | +3.9 | +0.3 | 16.6 | +4.0 | 24,009 | 25,645 | 25,657 | 25,592 | +0.5 | +0.1 | +0.2 |
| 3Q11 | 369,818 | +6.5 | +2.5 | 15.2 | +4.8 | 29,347 | 26,169 | 26,191 | 26,156 | +2.0 | +2.1 | +2.2 |
| 4Q11 | 363,557 | +5.0 | +0.3 | 12.6 | +5.1 | 27,309 | 26,084 | 26,214 | 26,298 | -0.3 | +0.1 | +0.5 |
| 1Q12 | 293,493 | +2.5 | -0.8 | 11.4 | +4.5 | 23,584 | 26,105 | 26,004 | 26,109 | +0.1 | -0.8 | -0.7 |
| 2Q12 | 349,212 | +3.1 | +0.5 | 9.0 | +4.3 | 24,731 | 26,191 | 26,459 | 26,275 | +0.3 | +1.8 | +0.6 |
| 3Q12 | 387,620 | -1.3 | -1.5 | 6.2 | +2.3 | 28,963 | 26,059 | 25,843 | 25,930 | -0.5 | -2.3 | -1.3 |
| 4Q12 | 378,564 | -2.3 | -0.8 | 6.6 | +0.5 | 26,681 | 25,670 | 25,502 | 25,868 | -1.5 | -1.3 | -0.2 |
| 1Q13 | 303,753 | -1.2 | +0.6 | 4.8 | -0.4 | 23,301 | 25,733 | 26,058 | 25,850 | +0.2 | +2.2 | -0.1 |
| 2Q13 | 354,814 | -1.3 | +0.4 | 3.8 | -1.5 | 24,208 | 25,913 | 26,031 | 25,611 | +0.7 | -0.1 | -0.9 |
| 3Q13 | 398,000 | -1.2 | -0.1 | 4.0 | -1.5 | 28,595 | 25,760 | 25,346 | 25,311 | -0.6 | -2.6 | -1.2 |
| 4Q13 | 408,631 | +3.3 | +2.1 | 4.3 | -0.1 | 27,612 | 26,415 | 26,271 | 26,753 | +2.5 | +3.6 | +5.7 |
| 1Q14 | 313,568 | -1.2 | -1.1 | 4.5 | -0.1 | 23,018 | 25,722 | 25,872 | 25,751 | -2.6 | -1.5 | -3.7 |
| 2Q14 | 375,903 | -4.5 | -4.4 | 11.1 | -0.9 | 23,084 | 24,853 | 24,985 | 24,591 | -3.4 | -3.4 | -4.5 |
| 3Q14 | 434,166 | -5.4 | -3.1 | 15.4 | -2.0 | 27,031 | 23,990 | 23,817 | 23,492 | -3.5 | -4.7 | -4.5 |
| 4Q14 | 443,091 | -14.8 | -3.9 | 27.2 | -6.6 | 23,538 | 22,390 | 22,315 | 22,502 | -6.7 | -6.3 | -4.2 |
| 1Q15 | 367,577 | -17.2 | -5.3 | 41.5 | -10.7 | 19,069 | 21,975 | 21,544 | 21,835 | -1.9 | -3.5 | -3.0 |
| 2Q15 | 449,575 | -14.6 | -0.5 | 40.1 | -13.1 | 19,706 | 21,596 | 21,457 | 21,563 | -1.7 | -0.4 | -1.2 |
| 3Q15 | 555,044 | -7.2 | +0.5 | 37.8 | -13.5 | 25,077 | 21,628 | 21,988 | 21,627 | +0.2 | +2.5 | +0.3 |
| 4Q15 | 584,781 | -1.4 | +1.4 | 32.7 | -10.3 | 23,410 | 22,125 | 22,121 | 21,778 | +2.3 | +0.6 | +0.7 |
| 1Q16E | 431,506 | +0.1 | -0.7 | 17.3 | -6.0 | 19,088 | 21,922 | 21,429 | 21,749 | -0.9 | -3.1 | -0.1 |

Notes: [1] at constant prices of December 1995; SA – seasonally adjusted data; NSA --- non-seasonally adjusted data; [E] estimated by ICU.
Sources: State Statistics Service of Ukraine, Investment Capital Ukraine LLC.

# ICU consumer basket: Observation of Kyiv, New-York and Moscow prices

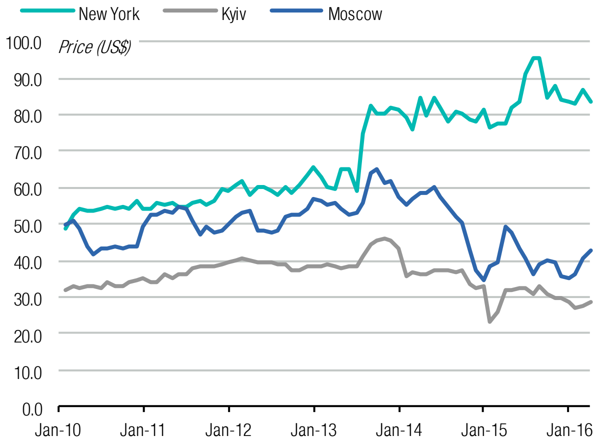
**Table 7. ICU consumer basket as of end of January 2016**
Prices of consumer goods in Kyiv, New-York, and Moscow

| Item of the basket | Description | Kyiv, central district 29-Apr-16 Price (UAH) | New York metro-politan area 29-Apr-16 Price (US$) | Moscow, central district 29-Apr-16 Price (RUB) |
|---|---|---|---|---|
| **Consumer goods** | | | | |
| Coca-cola (0.5 litre, plastic bottle) | Non-alcohol beverages | 8.99 | 2.00 | 53.00 |
| Beer Corona Extra (0.33 litre, glass bottle) | Alcoholic beverages | 17.95 | 1.83 | 92.50 |
| Bunch of fresh bananas (1 kg) | From Ecuador | 33.35 | 1.94 | 95.00 |
| Pack of milk (1 litter) | Locally produced, soft package, i.e., not glass bottle | 14.61 | 1.57 | 79.00 |
| Chicken meat (1 kg pack) | Locally produced and branded package, boneless breast | 70.85 | 10.98 | 169.00 |
| Canned pineapple (0.85 kg, can) | Pineapple circles, Dole brand | 61.80 | 3.27 | 218.74 |
| Pasta (0.5 kg) | Soft package, produced in Italy | 34.56 | 1.75 | 108.00 |
| Sugar (1 kg) | | 20.50 | 2.86 | 56.00 |
| Package of table salt (0.5 kg) | | 12.35 | 0.80 | 20.80 |
| Chicken eggs (10 units pack) | White eggs, standard size | 24.75 | 3.07 | 105.00 |
| Chocolate (100 g) | Made by Craft Foods Corp, Milka brand | 28.49 | 2.00 | 89.30 |
| Toothpaste (100ml package) | Colgate | 49.95 | 3.54 | 222.00 |
| Shampoo (200ml package) | Head & Shoulders brand, for normal hair | 53.00 | 3.11 | 220.00 |
| Toilet paper (4 rolls package) | Kleenex Cottonelle brand, white paper, Regular toilet tissue | 21.10 | 3.43 | 132.00 |
| Magazine | Men's Health, local edition, A4 format (standard one, not a pocket book format) | 33.95 | 4.99 | 140.00 |
| Gasoline (1 litre) | Lukoil, regular | 21.99 | 0.63 | 38.90 |
| Batteries (AA x 4 pack) | A 4-pack of AA Duracell batteries, Alkaline | 53.99 | 4.99 | 188.00 |
| Coffee (250 g, vacuum pack) | Jacobs Monarch, brick-like vacuum pack | 90.40 | 13.65 | 251.00 |
| **Services** | | | | |
| Underground commute ticket | Within the central part of the city | 4.00 | 2.75 | 50.00 |
| Cinema ticket | Thursday's night price for the seat with good location, Hollywood film | 65.00 | 14.59 | 450.00 |
| **Total basket value (in local currency)** | | **721.58** | **83.75** | **2,778.24** |
| Exchange rate versus US dollar at spot market as of date of observation | | 25.125 | 1.000 | 64.767 |
| **Total basket value (in US$)** | | **28.72** | **83.75** | **42.90** |
| **Overvalued "+" / undervalued "-" (%)** | | | | |
| UAH vs. USD | | **-65.71** | | |
| UAH vs. RUB | | **-33.05** | | |
| **Fair value in the long-run as of observation date** | | | | |
| UAH per USD | | **8.616** | | |
| UAH per RUB | | **0.260** | | |

Source: ICU.

**Chart 39. ICU consumer basket value (US$)**

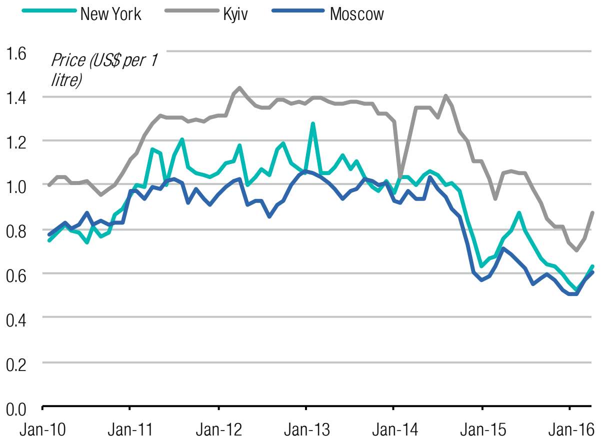
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 40. Gasoline A95 equivalent 1 litre (US$)**

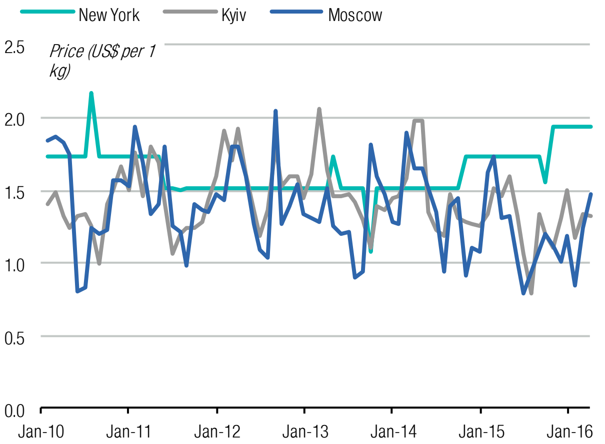
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 41. Fresh banana 1 kg bunch (US$)**

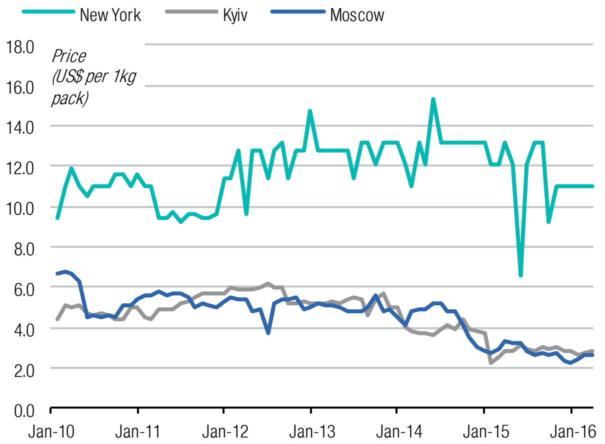
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 42. Chicken meat 1 kg pack of boneless breast (US$)**

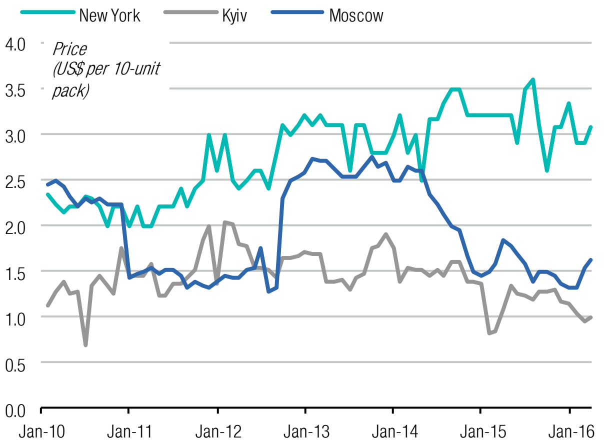
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 43. Chicken eggs 10-unit pack (US$)**

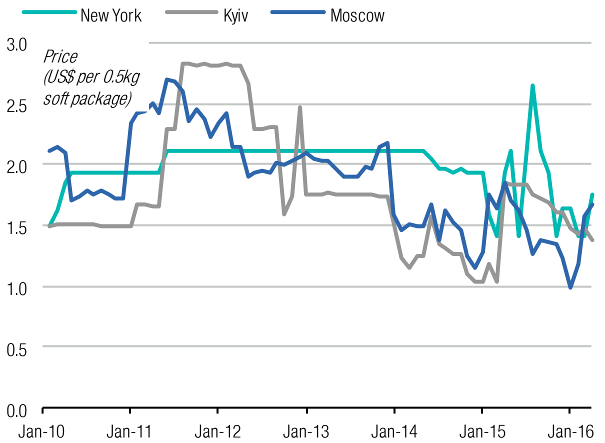
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 44. Pasta 0.5 kg soft package Italy-made (US$)**

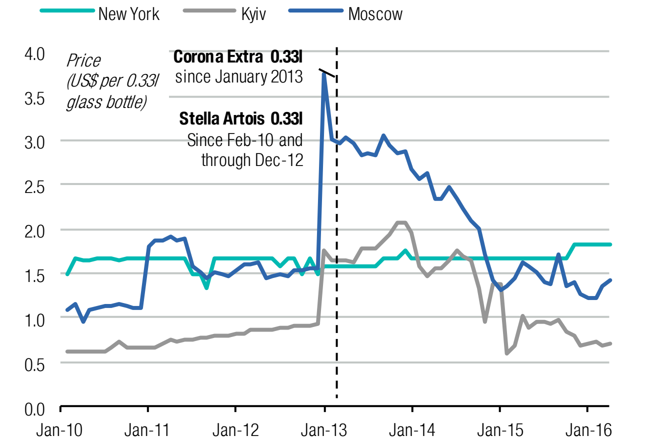
*Price history February 2010 - April 2016*




Source: ICU.

### Chart 45. Beer Corona Extra 0.33 litre glass bottle (US$)

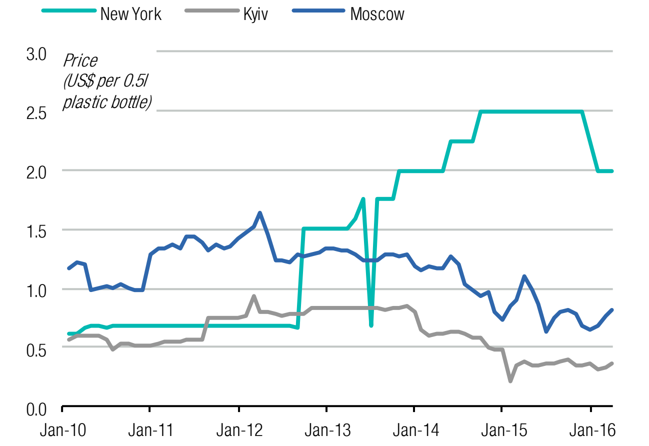
*Price history February 2010 - April 2016*




Source: ICU.

### Chart 46. Coca-Cola 0.5 litre plastic bottle (US$)

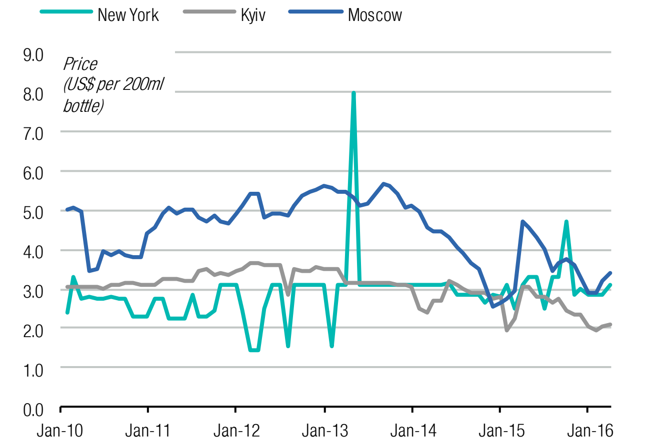
*Price history February 2010 - April 2016*




Source: ICU.

### Chart 47. Shampoo 200ml bottle Head & Shoulders (US$)

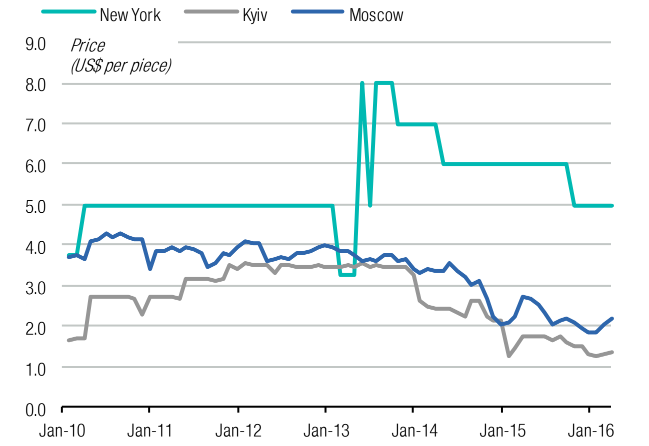
*Price history February 2010 - April 2016*




Source: ICU.

### Chart 48. Magazine *Men's Health,* A4 format (US$)

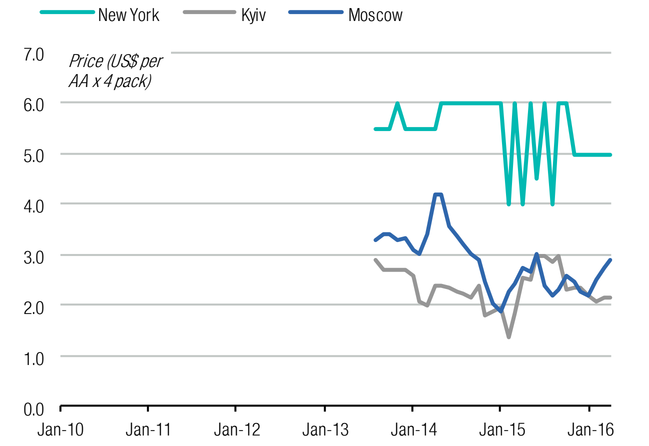
*Price history February 2010 - April 2016*




Source: ICU.

### Chart 49. Duracell batteries (AA x 4 pack) (US$)

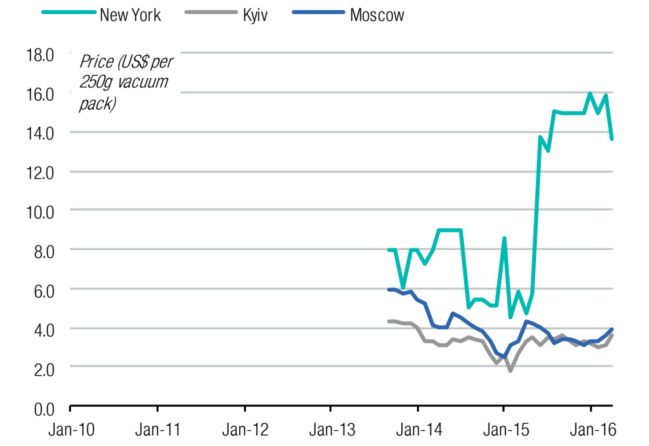
*Price history February 2010 - April 2016*




Source: ICU.

### Chart 50. Jacobs Monarch coffee, 250 g vacuum pack (US$)

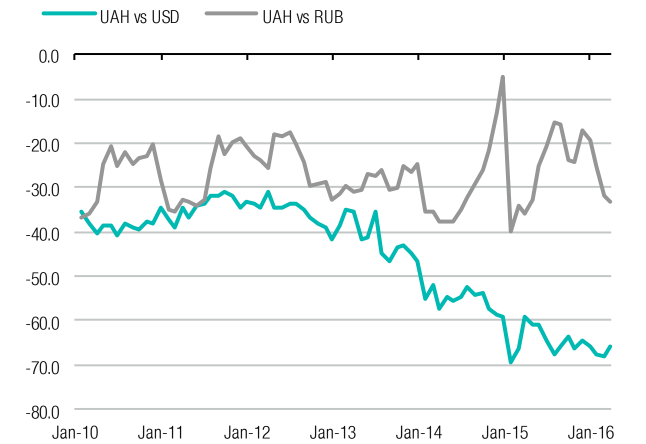
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 51. Value gap of ICU basket in UAH vs. USD and RUB (%)**

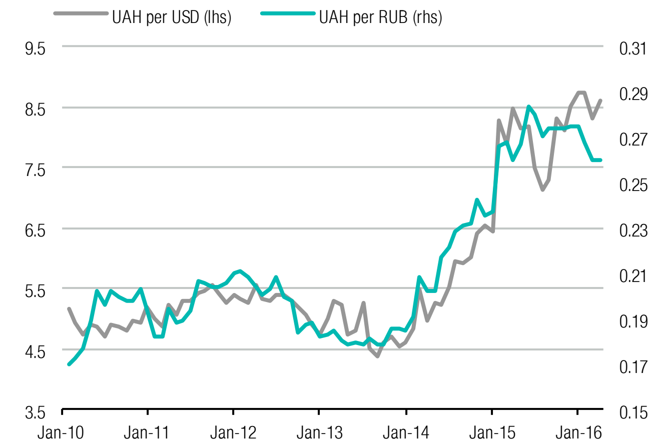
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 52. An exchange rate level of UAH per USD and UAH per RUB, which would eliminate the value gap of ICU basket**

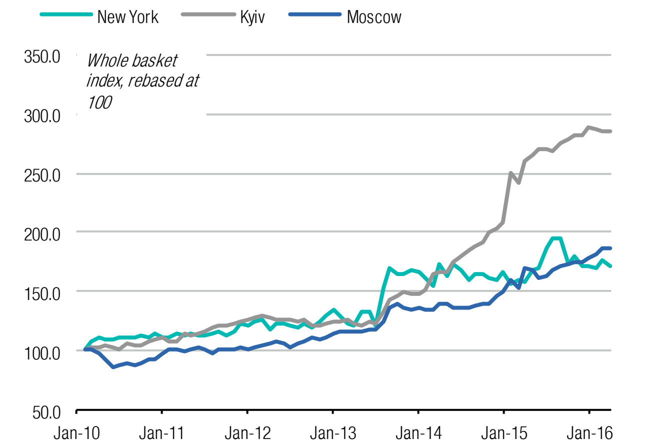
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 53. Index of the ICU consumer basket value in local currency (points, rebased at 100 as of February 2010)**

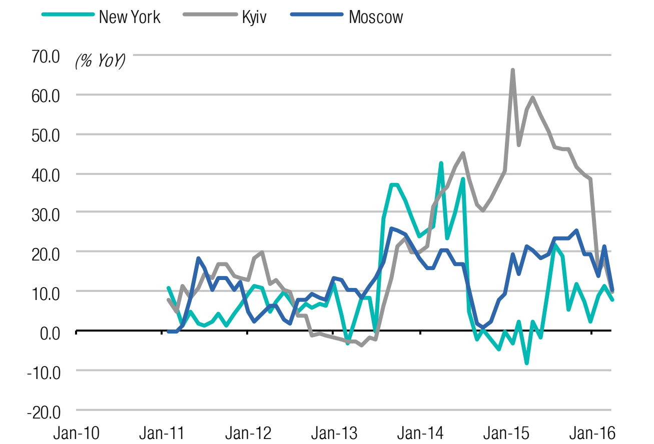
*Price history February 2010 - April 2016*




Source: ICU.

**Chart 54. Growth rate of the index of the ICU consumer basket value in local currency (% YoY)**

*Price history February 2010 - April 2016*




Source: ICU.

# Disclosures

## ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

## EQUITY RATING DEFINITIONS

**Buy:** Forecasted 12-month total return greater than 20%

**Hold:** Forecasted 12-month total return 0% to 20%

**Sell:** Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

## DEBT RATING DEFINITIONS

**Buy:** Forecasted 12-month total return significantly greater than that of relevant benchmark

**Hold:** Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

**Sell:** Forecasted 12-month total return significantly less than that of relevant benchmark

11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

**WEB** www.icu.ua @ICU_UA

**CORPORATE FINANCE**

**Makar Paseniuk, CFA**, Managing Director
makar.paseniuk@icu.ua

**Roman Nikitov, ACCA** Director
roman.nikitov@icu.ua

**Ruslan Kilmukhametov**, Director
ruslan.kilmukhametov@icu.ua

**Ivan Shvydanenko**, Director
ivan.shvydanenko@icu.ua

**Yuriy Kamarytskyi**, Vice President
yuriy.kamarytskyi@icu.ua

**Ruslan Patlavsky,** Director
ruslan.patlavsky@icu.ua

**STRATEGY AND CORPORATE DEVELOPMENT**

**Vlad Sinani**, Director
vlad.sinani@icu.ua

**SALES AND TRADING**

**Konstantin Stetsenko**
Managing Director
konstantin.stetsenko@icu.ua

**Sergiy Byelyayev**
Fixed-Income Trading
sergiy.byelyayev@icu.ua

**Vitaliy Sivach**
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

**Liliya Kubytovych**
Asset Management Product Sales
liliya.kubytovych@icu.ua

**Yevgeniya Gryshchenko**
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

**RESEARCH DEPARTMENT**

**Alexander Valchyshen**
Head of Research
alexander.valchyshen@icu.ua

**Alexander Martynenko**
Head of corporate research
alexander.martynenko@icu.ua

**Bogdan Vorotilin**
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

**Taras Kotovych**
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

**Mykhaylo Demkiv**
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

**Lee Daniels, Rolfe Haas**
Editors

**Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).**

## DISCLAIMER



**Additional information is available upon request.**