

September 2016

*Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura*

Executive Summary:

- ❖ The ceasefire agreed in Minsk is continuously violated by Russian-backed separatists. Despite the fact that both sides started the separation of forces process on September 1st, the number of casualties is still significant. During the month of September, Ukrainian military forces lost 45 people in the zone of Antiterrorist Operation (ATO) in the Eastern part of the country. Russia also continues to use all possible elements of its hybrid war, including measures aimed at increasing tensions on Ukrainian borders.
- ❖ Ukrainian authorities are hard-pressed by both local civil society and its international partners to move forward the country's reform agenda. The major short- and medium- term goals are concentrated in the area of fighting corruption and ensuring law and order in the country. As a result, Ukraine is showing some progress in several corruption fighting initiatives.
- ❖ According to the latest release of the State Statistics Committee, in the second quarter of 2016, real GDP grew by 1.4% yoy, compared to a decline of 14.7% yoy in the second quarter of 2015. The major sources of GDP growth were gross capital formation, with a growth rate of 17.6% yoy, and household consumption, with a 4.3% yoy growth rate. On the other hand, Ukrainian general government expenditures dropped by 2.4% yoy, and net foreign trade declined by 6.5% yoy.
- ❖ High-frequency data show that Ukraine's economic activity has continued to improve. Manufacturing output in August increased by 5.5% yoy, compared to a growth rate of 2.6% yoy during January-July 2016.
- ❖ The recent revival of economic activity led to large increases in both fiscal budget revenues and expenditures in August. The significant growth of state budget revenues in August (67.9% mom; 20.3% yoy) was more than nine times higher than monthly growth of expenditures, leading to a UAH 7 bln surplus of the state budget in August. Furthermore, local budgets were also executed with a surplus of UAH 4.6 bln in August. This expanded their total local budget surplus from the beginning of the year to UAH 31.6 bln. Consequently, the consolidated budget deficit for January-August was reduced to UAH 11.3 bln, which is one-half lower than a month ago. By the end of the year, the overall consolidated fiscal deficit (including the Pension Fund and Naftogaz) is likely to be about 4% of GDP.
- ❖ In August, consumer prices posted the third consecutive monthly decline, dropping by 0.3% mom, thanks to lower prices in food, wearing apparel, and footwear categories. For the year 2016, inflation is likely to be 12%, going down to 10% in 2017.
- ❖ At the beginning of September, the UAH/USD exchange rate continued to depreciate because of appreciation of dollar in the international foreign exchange market. Subsequently, the exchange rate remained relatively stable at high dollar prices for some time as speculators and exporters tried to maximize their profits. However, following the decision of the IMF to provide the next tranche to Ukraine, the exchange rate appreciated to around UAH/USD 25.8.
- ❖ In August 2016, the overall balance of payments was in balance, maintaining the level of international reserves at USD 14.3 bln. This balance was caused by a surplus in the financial account of USD 417 mln, and despite a deficit in the current account of USD 414 mln.

September 2016

 Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
 Edilberto L. Segura

<i>Main Macroeconomic Indicators</i>	2011	2012	2013	2014	2015	2016f	2017f
<i>GDP, USD billion</i>	163	173	180	130	98	95	100
<i>Real GDP Growth, % yoy</i>	5.5	0.2	0.0	-6.6	-9.9	1.5	3.0
<i>Fiscal Balance (incl. Naftogaz & Pension Fund), % of GDP</i>	-4.3	-5.5	-6.5	-11.7	-8.0	-4.0	-3.0
<i>Public Debt, External and Domestic, % of GDP</i>	36.4	36.6	40.4	69.4	79.4	84.4	82.0
<i>Consumer Inflation, eop, % yoy</i>	4.6	-0.2	0.5	24.9	43.3	12.0	10.0
<i>Hryvnia Exchange Rate per USD, eop</i>	8.0	8.1	8.2	15.8	24.0	27.0	28.0
<i>Current Account Balance, % of GDP</i>	-6.3	-8.3	-9.0	-4.1	0	-2.0	-2.0
<i>FDI, Net Annual Inflow, USD billion</i>	7.0	7.2	4.1	0.3	2.3	3.0	3.0
<i>International Reserves, USD billion</i>	31.8	24.5	20.4	7.5	13.3	17.0	20.0
<i>Public External Debt, USD billion</i>	33.3	32.1	31.7	34.9	47.0	55.0	60.0
<i>Private External Debt, USD billion</i>	84.6	92.0	99.2	82.0	70.0	65.0	62.0

Political and Reform Developments

The new ceasefire agreed in Minsk is continuously violated by Russian-backed separatists. Despite the fact that both sides started the separation of forces process on September 1st, the number of casualties is still significant. During the month of September, Ukrainian military forces lost 45 people in the zone of Antiterrorist Operation (ATO) in the Eastern part of the country.

Russia continues to use all possible elements of its hybrid war, including measures aimed at increasing tensions on Ukrainian borders. In September, Russia organized a massive military training operation and concentrated a large number of its troops in the Southern and Northern borders of Ukraine. The same month Russia arrested and imprisoned a Ukrainian journalist from Ukrinform News Agency, accusing him of a falsified case of espionage. Moreover, Ukrainian diplomats were not able to get access to this illegitimately accused Ukrainian citizen, despite the number of requests sent to Russian officials.

Separatists are trying to create an illusion of a “normal life” on the territories under their control. In particular, they are trying to move forward a local elections agenda, which might help them to show some degree of legitimization. With this purpose, at the beginning of October they held fake “primaries”, which were criticized by the international community.

Ukrainian authorities are hard-pressed by both local civil society and its international partners to move forward the country’s reform agenda. The major short- and medium- term goals are concentrated in the area of fighting corruption and ensuring law and order in the country. As a result, Ukraine is showing some progress in several corruption fighting initiatives. Progress was made in three areas: (i) putting in place three anticorruption bodies, which include the Corruption Prevention Committee, National Anticorruption Bureau (NABU) and Anticorruption Prosecutor; (ii) setting an electronic income and asset declaration for government officials, which started in the country on October 1st; and (iii) implementing a ProZorro system for major contracts in public procurement.

Nevertheless, the implementation of these initiatives has met a number of barriers and even sabotage on the side of the old bureaucracy. In particular, the country witnessed public conflicts between the office of the General Prosecutor (GP) and National Anticorruption Bureau recently, when the GP tried to get several cases from the NABU and to put them under its own supervision. This happened despite the fact that by law clear cases of high-level corruption are supposed to be under the NABU’s responsibility. This case was brought to the attention of the international partners of Ukraine by Ukrainian civil society representatives.

Headquarters
 123 N. Post Oak Ln., Suite 410
 Houston, TX 77024 USA
 Tel: +1 (713) 621-3111
 Fax: +1 (713) 621-4666
 Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine
 4A, Baseyna Street, «Mandarin Plaza», 8th floor
 Kyiv 01004, Ukraine
 Tel: +38 (044) 284-1289
 Fax: +38 (044) 284-1283
 Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine
 Meytin House, 49 Sumska Street, Office 4
 Kharkiv 61022, Ukraine
 Tel: +38 (057) 714-1180
 Fax: +38 (057) 714-1188
 Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura

Ukrainian authorities received strong signals that such violations are not acceptable and should be avoided in the future. Corruption investigations against high-level officials should be under the responsibility of the newly formed anticorruption agencies, which should not compete with the GP's office.

The system of electronic income and asset declaration for government officials, which is now operational, was also put to test by different groups including members of Parliament. Those against the new system used a number of arguments to block this initiative. However, all these attempts failed. Currently, the implementation of e-declaration is under the strict control of Ukrainian civil society and international partners including the EU and IMF. Moreover, the visa free regimen for Ukraine and financial support programs are dependent on the success of the e-declaration system. As a first stage, according to the law, all top-level government officials including members of Cabinet of Ministers and Verhovna Rada should submit their income and asset statements in an electronic format. This is due on October 31st. The general public should immediately receive free access to this information. According to the law, those government officials who declared wrong information should be a subject to criminal investigation. The implementation of such initiative should significantly decrease the room for corruption.

Progress in the reform of the judicial system is still very limited. In particular, there was no real illustration of the judge corp. As a result, the level of trust on existing judges is at extremely low levels. Based on different sociological surveys, it is below the 5%-level. Moreover, the current legal immunity enjoyed by judges, helps them to avoid responsibility for their actions including clear cases of corruptions. In particular, in September-October around 10 judges who were caught committing corruption by NABU were able to dodge investigations and court proceedings. Knowing this, a complete reform of the judicial system remains as a high priority reform and conditionality for future Ukrainian cooperation with IFIs. Moreover, the first results should be demonstrated in the course of this year.

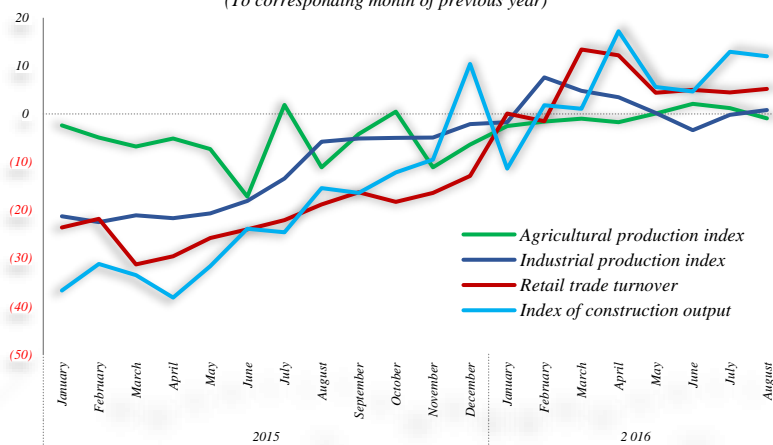
Economic Growth

According to the latest release of the State Statistics Committee, in the second quarter of 2016, real GDP grew by 1.4% yoy, compared to a decline of 14.7% yoy in the second quarter of 2015. The mayor sources of GDP growth were gross capital formation, with a growth rate of 17.6% yoy, and household consumption, with a 4.3% yoy growth rate. On the other hand, Ukrainian general government expenditures showed a reduction of 2.4% yoy; and net foreign trade had a decline of 6.5% yoy.

On the supply side of GDP, in the second quarter of 2016, the sectors that showed the highest recovery were the construction sector, which expanded by 14.9% yoy; the water supply, sewerage, and waste management sector, which grew by 7.7% yoy; and the wholesale and retail trade sector, which expanded by 7.1% yoy. Administrative and support service activities expanded by 6.4% yoy. Public administration and defense, and social security sectors grew by 5.0%

Economic Performance of Ukraine by Sector, % yoy

(To corresponding month of previous year)



Source: The Bleyzer Foundation

Headquarters

123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine

4A, Baseyna Street, «Mandarin Plaza», 8th floor
Kyiv 01004, Ukraine
Tel: +38 (044) 284-1289
Fax: +38 (044) 284-1283
Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine

Meytin House, 49 Sumaska Street, Office 4
Kharkiv 61022, Ukraine
Tel: +38 (057) 714-1180
Fax: +38 (057) 714-1188
Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura

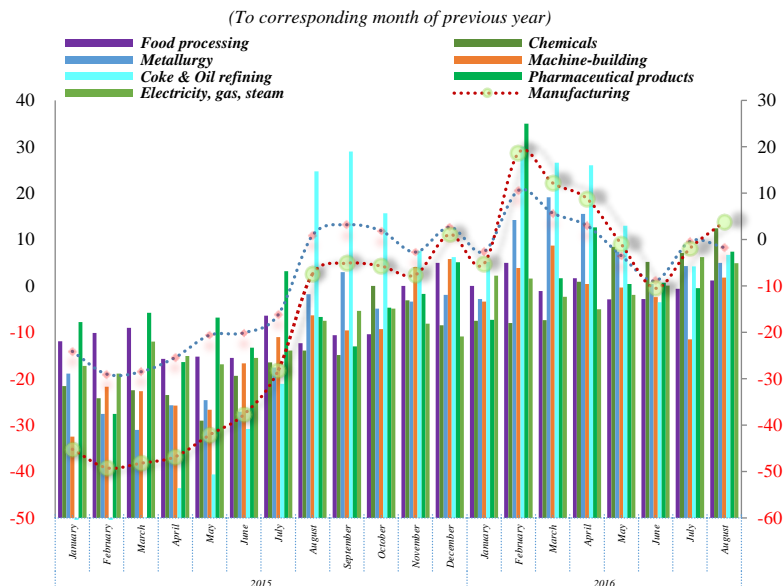
yoy. Real estate activities expanded by 5.3% yoy.

On the other hand, the following subsectors continued to have negative rates of GDP growth in Q2 2016: electricity, gas, steam and air conditioning supply (-1.9% yoy), mining and quarrying (-3.7% yoy), human health and social work activities (-4.1% yoy), arts, entertainment and recreation (-4.3% yoy), subsidies on products (-4.4% yoy), education (-7.9% yoy), and financial and insurance activities (-24.6% yoy).

High-frequency data shows that Ukraine's economic activity has continued to improve. Manufacturing output in August increased by 5.5% yoy, compared to a growth rate of 2.6% yoy during January-July 2016. Within manufacturing, the following subsectors had significant growth rates in August: chemicals (12.4% yoy), pharmaceutical products (7.4 % yoy), coke and oil refining (6.7 % yoy), metallurgy (5.0 % yoy), machine-building (1.8% yoy), and food processing (1.2 % yoy). The sectors that had negative performances in August 2016 were mining (-1.7% yoy) and production of electricity (-2.3% yoy).

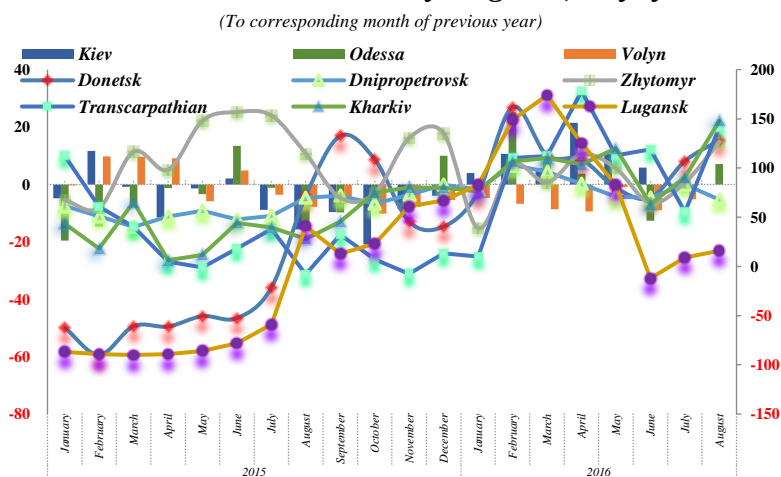
Regarding regional growth, the following oblasts had the largest growth in industrial output in August 2016: Cherkasy (25.4 % yoy), Kharkiv (22.1 % yoy), Kyiv City (21.4 % yoy), Transcarpathia (19.8 % yoy), Mykolayiv (19.0 % yoy), Lugansk (16.0 % yoy), Donetsk (15.4 % yoy); Zhytomyr (14,8 % yoy), Kirovograd (14.1 % yoy), Chernivtsi (12.8 % yoy), Ternopil (8.1 % yoy), Rivne (7.3 % yoy), Odessa (7.1 % yoy), Vinnytsia (6.4% yoy), Chernihiv (1.5 % yoy), and Lviv (0.9 % yoy). In Augusts, negative rates of growth in industrial output were experienced in seven oblasts: Khmelnytsky (-12.2 % yoy), Herson (-6.1 % yoy), Dnipropetrovsk (-5.3 % yoy), Sums (-2.4 % yoy), Poltava (-0.5 % yoy), Ivano-Frankivsk (-0.3 % yoy), and Zaporizhia (-0.2% yoy).

Industrial Production by Sectors, % yoy



Source: State Statistics Committee, The Bleyzer Foundation

Industrial Production by Regions, % yoy



Source: State Statistics Committee, The Bleyzer Foundation

Headquarters
123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine
4A, Baseyna Street, «Mandarin Plaza», 8th floor
Kyiv 01004, Ukraine
Tel: +38 (044) 284-1289
Fax: +38 (044) 284-1283
Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine
Meytin House, 49 Sumska Street, Office 4
Kharkiv 61022, Ukraine
Tel: +38 (057) 714-1180
Fax: +38 (057) 714-1188
Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura

Fiscal Policy

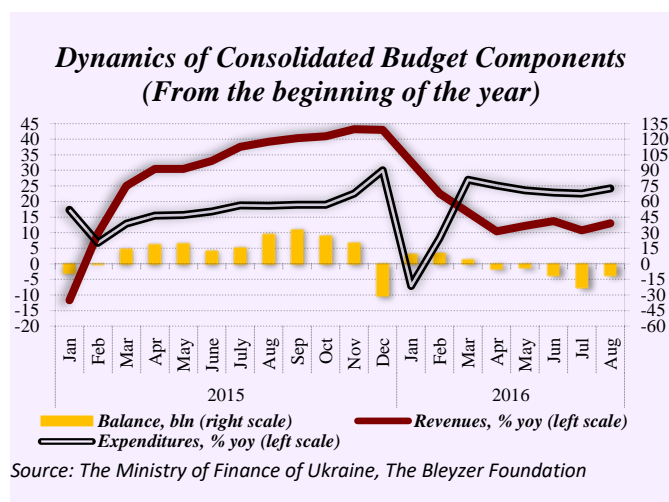
Recent revival of economic activity led to large increases in both fiscal budget revenues and expenditures in August. The significant growth of state budget revenues in August (67.9% mom; 20.3% yoy) was more than nine times higher than monthly growth of expenditures, leading to a UAH 7 bln surplus of the state budget in August. This August result cut the total state budget deficit from the beginning of the year to UAH 42.9 bln. Furthermore, local budgets were also executed with a surplus of UAH 4.6 bln in August. This expanded their total local budget surplus from the beginning of the year to UAH 31.6 bln. Consequently, the consolidated budget deficit for January-August was reduced to UAH 11.3 bln, which is one-half lower than a month ago.

The 20.3% yoy increase in total state budget revenues in August was due to a large (36% yoy) increase in state tax revenues. In particular, receipts from all key taxes posted increases but receipts from corporate profit taxes expanded most (quadrupled in year-over-year terms). This was the result of both increases in profits of enterprises and changes in tax administration procedures (transfer to a quarterly payment scheme). Activation of retail trade and the depreciation of the exchange rate caused faster growth of receipts from excise taxes and VATs. Growth of nominal wages led to further expansion of receipts from personal income taxes. Non-tax

revenues saw a deceleration of their decline, but the situation did not change dramatically as there were still no transfers from the NBU to the state budget. All these increases in state budget revenues during August pushed the growth of total state budget revenues from the beginning of the year to almost 7.0% yoy from 4.7% yoy observed in January-July. Revenues at the local budgets continued to grow faster than revenues at the central level. Therefore, the consolidated budget revenues also grew at a higher rate of 13.0% yoy.

Growth of the state budget expenditures also accelerated and reached 32.8% yoy in August. Significant growth was observed in expenditures on goods and services and on social security. A high rate growth also continued for payroll expenditures. Expenditures on servicing of state debt returned to growth. The state budget expenditures from the beginning of the year also saw some acceleration in growth.

Total fiscal expenditures grew by 22.4% yoy in January-August, which is 1.4 percentage points faster than in January-July. Growth of current expenditures accelerated by 1.4 percentage points to 21.9% yoy, while growth of capital expenditures accelerated by almost 3.0 percentage points to 58.0% yoy. From the point of view of functional classification, social security expenditures remained the largest item in terms of size and reported the most significant acceleration of growth (by 4.4 percentage points to 60.2% yoy). Expenditures on general state administration remained the second largest line of state budget expenditures in terms of size but their growth remained relatively modest at around 8.0% yoy. Defense expenditures and expenditures on public order, security, and judiciary continued to grow at high rates (25.3% yoy and 30.1% yoy respectively). Similar to the evolution of consolidated budget revenues, consolidated budget expenditures grew at higher rates than state budget expenditures at 24.2% yoy, which is 1.7 percentage points faster than in January-July.



Headquarters

123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine

4A, Baseyna Street, «Mandarin Plaza», 8th floor
Kyiv 01004, Ukraine
Tel: +38 (044) 284-1289
Fax: +38 (044) 284-1283
Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine

Meytin House, 49 Sumska Street, Office 4
Kharkiv 61022, Ukraine
Tel: +38 (057) 714-1180
Fax: +38 (057) 714-1188
Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura

Monetary Policy

Inflation. In August, consumer prices posted the third consecutive monthly decline, dropping by 0.3% mom, thanks to lower prices in food, wearing apparel, and footwear categories. At the same time, the August year-over-year inflation increased slightly to 8.4% yoy, which is 0.5 percentage points more than in July. This increase was due statistical-base effects, but it did not exceed forecasted levels.

The major drivers of the August inflation decline were the same as in previous months, with prices of wearing apparel and footwear decreasing by 3.3% mom and prices of foodstuffs dropping by 1.0% mom. At the same time, the decline in consumer prices was supported by slower growth of housing and utilities tariffs, at 0.7% mom (1.7% mom in July), about twice as low growth in prices of restaurants and hotels (at 0.6% mom), and a 0.2% mom decline in prices of educational services (0.5% mom growth in July). Monthly changes in prices of other groups of goods and services remained very similar to that observed in July.

During August, in year-over-year terms, some groups of goods and services saw deceleration in growth of prices ranging from 0.1 percentage point deceleration for healthcare to 2.6 percentage point deceleration for wearing apparel and footwear. However, the rest of major

groups of goods and services saw accelerated growth in prices. Price acceleration was reported in such important groups as foodstuffs, housing and utilities tariffs, and transport. This explains why total consumer inflation accelerated from 7.9% yoy, as the share of those goods and services within the consumer basket remains very high. As inflation followed the forecasted pattern and its over-year acceleration was within the expected margins, we leave our forecast for the consumer inflation unchanged at 12% yoy in 2016.

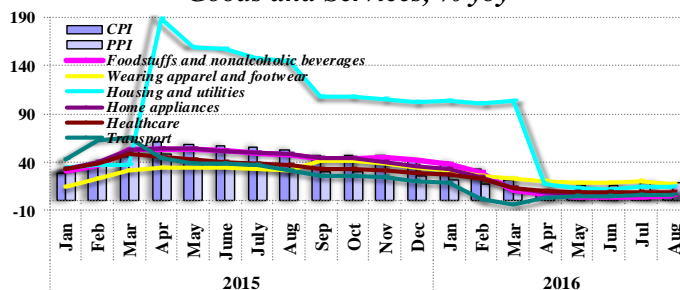
Steady softening of inflationary pressures, as well as improved inflationary expectations, allowed the NBU to soften its monetary policy stance. In particular, the regulator lowered the policy rate to 15.0% starting on September 16th.

Banking Sector.

Bank deposits in national currency and in foreign exchange moved in opposite directions in August. Fluctuations of the exchange rate at the end of the month increased demand for foreign currency resources that were purchased using national currency. As a result, national currency deposits posted the first decline over the last four months. The decrease was significant at 2.2% mom. Deposits of the corporate sector declined by 3.1% mom, compared to 1.8% mom decline in the household sector. Seasonal activation of business activities was another reason of a sharper decline in corporate sector deposits. This negative monthly dynamics led to a deceleration of growth of the national currency deposits in the year-over-year terms from 14.3% to 11.9%.

As for foreign currency deposits denominated in USD, they posted a 1.1% mom growth in August compared to no growth a month ago. Corporate sector deposits outperformed household deposits. In particular, foreign exchange deposits of businesses denominated in USD posted a 1.0% mom growth, which is 0.3 percentage

CPI, PPI, and Growth of Prices for Select Goods and Services, % yoy



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

Headquarters
123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine
4A, Baseyna Street, «Mandarin Plaza», 8th floor
Kyiv 01004, Ukraine
Tel: +38 (044) 284-1289
Fax: +38 (044) 284-1283
Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine
Meytin House, 49 Sumska Street, Office 4
Kharkiv 61022, Ukraine
Tel: +38 (057) 714-1180
Fax: +38 (057) 714-1188
Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura

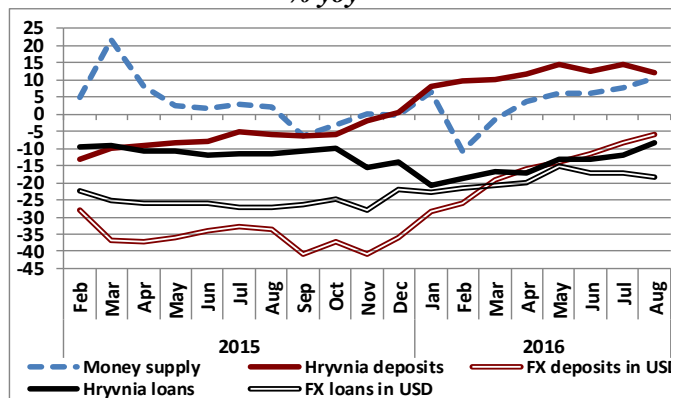
points higher than the correspondent growth of household deposits. Monthly growth and statistical-base effects caused improvements in the year-over-year dynamics of foreign exchange deposits denominated in USD as their decline decelerated from 8.4% to 5.8%.

On the bank lending side, the activation of business activities and higher spending by households on durables led to a 4.9% mom growth of national currency loans in August. On the other hand, foreign exchange loans denominated in USD dropped by 2.6% mom. These changes are explained in part by the restructuring of foreign exchange loans by several banks. The corporate sector posted a better performance than households in terms of dynamics of loans in both national and foreign currency. In particular, corporate national currency loans expanded by 6.2% mom, which is more than 3.5 times faster than the growth of the household loans (1.7% mom). The decline in corporate foreign currency loans denominated in USD at 1.4% mom was twice as low as the decline in correspondent household loans.

In the balance sheet of the NBU, growth in the balances at the correspondent accounts of commercial banks overcompensated declines in cash resources. Therefore, the monetary base expanded again in August (by 0.8% mom and 8.8% yoy). Money supply also increased during the reporting period thanks to both growth of foreign exchange deposits denominated in USD and their reevaluation because of the exchange rate fluctuations. The monthly growth was not very significant at 0.3% but together with statistical-base effects, it accelerated the year-over-year growth of money supply by 2.6 percentage points to 10.4%.

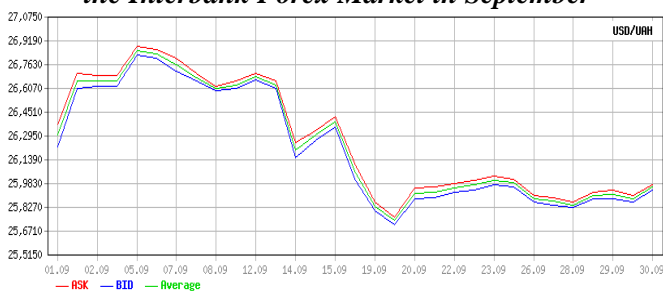
Hryvnia Exchange Rate. At the beginning of September, the UAH/USD exchange rate continued to depreciate because of appreciation of dollar in the international foreign exchange market. Subsequently, the exchange rate remained relatively stable at high dollar prices for some time as speculators and exporters tried to maximize their profits. However, following the decision of the IMF to provide the next tranche to Ukraine, the exchange rate appreciated significantly. The NBU tried to mitigate fluctuations in the foreign exchange market during both depreciation and appreciation of hryvnia. Nevertheless, it was actually more active in purchasing dollars during the appreciation period, which stopped the fall of dollar price around 26 UAH/USD. By doing so, the regulator helps the government to execute the state budget, the deficit of which is now above the planned level. The IMF tranche was transferred to international reserves. In case the country will receive one more tranche by the end of the year as planned,

*Dynamics of Money Supply, Deposits, and Loans,
% yoy*



Source: The NBU, The Bleyzer Foundation

*Dynamics of UAH/USD Exchange Rate Quotations in
the Interbank Forex Market in September*



Source: Ukrdealing, The Bleyzer Foundation

Headquarters
123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine
4A, Baseyna Street, «Mandarin Plaza», 8th floor
Kyiv 01004, Ukraine
Tel: +38 (044) 284-1289
Fax: +38 (044) 284-1283
Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine
Meytin House, 49 Sumskya Street, Office 4
Kharkiv 61022, Ukraine
Tel: +38 (057) 714-1180
Fax: +38 (057) 714-1188
Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
Edilberto L. Segura

the international reserves will reach USD 17.2 billion. Taking this into account, the measures of the regulator in the interbank forex market, and the fact that Naftogaz has accumulated significant amount of dollar to pay for imported gas, we do not expect any shocks to the exchange rate by the end of the year and leave our forecast for it unchanged at around 26 UAH/USD at the end of the year.

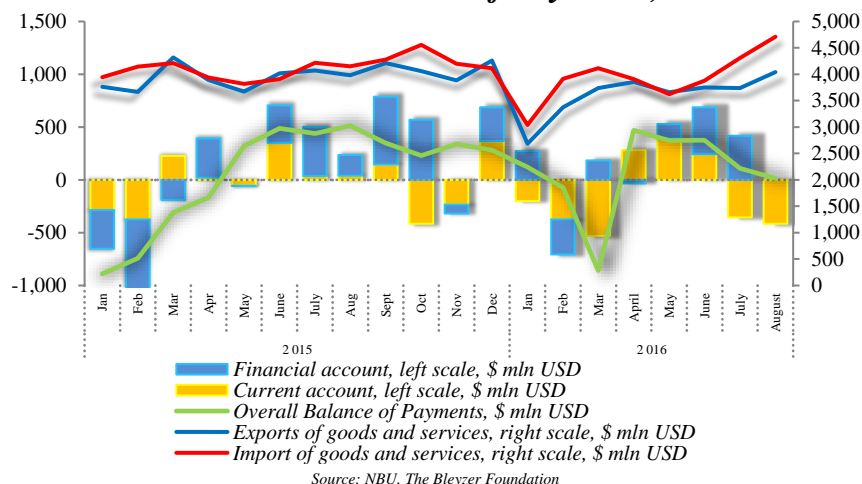
The NBU made several adjustments to its foreign exchange rate regulations, aiming at further liberalization of the market. In particular, clients of banks are now allowed to receive in cash foreign currency or banking metals from current or deposit accounts either via a cash desk or automatic cash dispensers up to UAH 250,000 equivalent per day per one person (previously up to UAH 100,000). In addition, resident companies are now allowed to purchase foreign currency even in cases when they have more than USD 25,000 at their accounts but only for the purposes of loan repayment to non-residents and in case both purchased foreign currency and foreign currency at their accounts will be directed on this purpose.

International Trade and Capital

In August 2016, Ukraine's current account of the balance of payments showed a deficit of USD 414 mln (compared to a surplus of USD 38 mln in August 2015), raising the cumulative current account deficit for January-August to USD 1,375 mln (or 2.4% of GDP). This current account deficit was fully covered by net financial account inflows of USD 417 mln, which were provided by international loans made equally to local banks and the corporate sector.

The major cause of the current account deficit in August was a negative merchandise trade balance of USD 721 million, which was due to the continued fall of export and increases of imports (principally in energy). This merchandise trade deficit was partly offset by surpluses in remittances from abroad (USD 252 mln) and compensation of employees (USD 387 mln).

Ukraine's External Balance of Payments, mln USD



In August 2016, Ukraine's merchandise export reached USD 2,951 mln. Exports increased in the following categories: food products (by 5.5% yoy), metallurgy (by 4.7% yoy), and minerals (by 13.2% yoy.) On the other hand, exports decreases were experienced in the following categories: chemicals (by 9.4% yoy), and machinery and equipment (by 31.8% yoy.) Regarding the regional destination of exports, in January-August 2016, exports to Russia declined by 31.7% yoy, and now account for 9% of total exports, compared to 11.8% a year ago. On the other hand, Ukraine's exports to Europe increased by 3.9% yoy, and now represent 33.2% of total exports, compared to 28.8%, in January-August 2015. Meanwhile, Asia's share in total exports declined by 12.3% yoy (principally to CIS countries) and now amount to 34.8% of the total.

Headquarters
123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine
4A, Baseyna Street, «Mandarin Plaza», 8th floor
Kyiv 01004, Ukraine
Tel: +38 (044) 284-1289
Fax: +38 (044) 284-1283
Email: kiev.office@sigmableyzer.com.ua

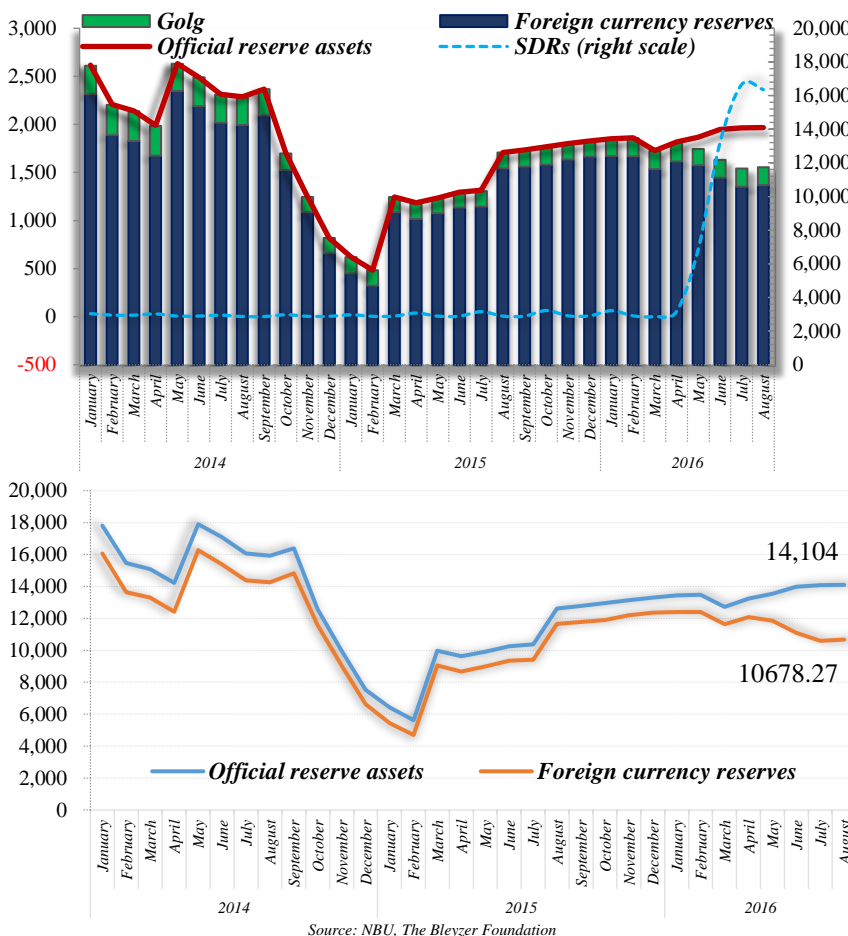
Kharkiv Office, Ukraine
Meytin House, 49 Sumska Street, Office 4
Kharkiv 61022, Ukraine
Tel: +38 (057) 714-1180
Fax: +38 (057) 714-1188
Email: kharkov.office@sigmableyzer.com.ua

September 2016

Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk
 Edilberto L. Segura

On the imports side, in August, Ukrainian merchandise imports increased by 14.9% yoy to USD 3,672 mln. Energy imports fell by 15.2% yoy, while the volume of non-energy imports increased by 25.4% yoy. The major reduction in imports took place in mineral products imports (-16.9% yoy), while imports increased in machinery and equipment (57.7% yoy), agricultural products (30.6% yoy), ferrous and nonferrous metals (25.7% yoy), industrial goods (20.4% yoy), chemicals (13.7% yoy), and timber and wood products (9.6% yoy). Regional-wise, the largest drop in imports was from Russia with a reduction of -37.7% yoy, which brought imports from Russia to 12.3% of the total. On the other hand, imports from the EU increased by 0.5% yoy and now represent 39.5% of the total amount. Merchandise imports from Asia showed a 21.5% yoy growth, bringing Asia's share in total imports to 20.8%.

International Reserve of Ukraine, mln USD



Source: NBU, The Bleyzer Foundation

As a result of a small but positive overall balance of payments surplus, as of September 1st, 2016, the level of international reserves amounted to USD 14.1 billion (about 3.6 months of future imports.)

Headquarters
 123 N. Post Oak Ln., Suite 410
 Houston, TX 77024 USA
 Tel: +1 (713) 621-3111
 Fax: +1 (713) 621-4666
 Email: sbleyzer@sigmableyzer.com

Kyiv Office, Ukraine
 4A, Baseyna Street, «Mandarin Plaza», 8th floor
 Kyiv 01004, Ukraine
 Tel: +38 (044) 284-1289
 Fax: +38 (044) 284-1283
 Email: kiev.office@sigmableyzer.com.ua

Kharkiv Office, Ukraine
 Meytin House, 49 Sumska Street, Office 4
 Kharkiv 61022, Ukraine
 Tel: +38 (057) 714-1180
 Fax: +38 (057) 714-1188
 Email: kharkov.office@sigmableyzer.com.ua