

- On February 12, the IMF mission completed its visit to Ukraine that started on January 29. During their visit the IMF representatives discussed with Ukrainian government economic policies that could be supported by a Stand-By Arrangement (SBA) with the IMF. Ukraine's negotiations on a new SBA are complicated by the absence of political will to conduct reforms. It faces continuous IMF criticism for subsidies on gas and heating for households that "undermine Ukraine's budget and its balance of payments" especially at times of visible economic slowdown.
- Upon the conclusion of first stage of such discussions Mission Chief for Ukraine Christopher Jarvis noted significant progress in reaching understanding with Ukraine's authorities on policies that should address the issues of budget and current account deficits, strengthen reserves, and create jobs. However, he stressed that a number of important issues remain outstanding, and the IMF expects to continue their discussion during its next visit in March.
- In January 2013 industrial output declined by 3.2% yoy due to reduction in production of export-oriented goods. In particular, weak export demand resulted in drop of output in metallurgy (by 8.6% yoy) and in machine building (by 7.8% yoy). At the same time, downturn in these sectors became less severe to somewhat higher demand. Chemical production dropped by 19.9% yoy likely due to low domestic and external demand.
- As only one out of six oil refineries worked in January, output of oil refineries accounted only for 36.2% of production in January 2012. Production in extraction sector declined by 1.9% yoy. This is partially attributed to disruptions in coal supplies in 2012 and resulting increase in stocks. Other factor is depressed construction sector, resulting in lower demand for construction materials and raw inputs.
- At the same time, output in food industry increased by 9.5% yoy due to continued growth in consumer demand as well as high harvest of sugar beet. High consumer demand is also reflected in growth of real retail trade turnover by 14.2% yoy in January. Decline in industrial output and international trade resulted in drop of freight turnover at 13.0% yoy. Lower gas transit by Russia also weighed down transport turnover. Agricultural production increased by 5.6% yoy as livestock production enjoyed relatively low prices of feed attributed to good crop harvest.
- In January, central fiscal revenues (general and special fund) increased by 6.9% yoy to UAH 23.2 bn. This growth was mainly explained by higher revenues from enterprise profit tax (EPT), which augmented by four times compared to January 2012. This could be explained by the introduction of obligatory advance EPT payments from January, 2013. At the same time, VAT revenues declined by 6.4% yoy due to slowdown in economy as well as higher VAT refunds. Even though central fiscal expenditures grew by 23.3% yoy to 24.8 UAH bn, they reached only 82.4% of target. In particular, only social protection programs were financed almost in full. At the same time, transfers to local budgets, which were traditionally fully financed, were under-financed by 26.8% from plan. To finance fiscal expenditures and repayment of debt the Government run total central fiscal deficit at UAH 1.6 bn as compared to surplus of UAH 1.5 bn in the first month of 2012. It was primarily financed by domestic borrowings. The funds accumulated at the Single Treasury Account dropped to

only UAH 1.3 bn and UAH 6.8 bn in the beginning of January and February, respectively, as compared to UAH 14 bn in the beginning of 2012. Therefore, fiscal pressure remains high.

- In January, wage growth decelerated to 10.2% yoy from 18.5% yoy a year ago due to economic slowdown. Still increase in minimum wage supported wage growth. As 2013 Budget foresees slowdown of minimum wage to 7.4% yoy by December 2013, wage growth might decelerate further by the end of year. In January wages fell on seasonally adjusted basis and dropped to the level of April 2012. Such shifts are likely to be attributed to economic slowdown. Besides, more companies probably increased unpaid leave as well as shortened working week in order to cut labour costs. In the fourth quarter of 2012 1 m employees or near 5% of labour force worked part-time due to economic reasons and another 0.2 m employees were on unpaid leave.

Ukraine: Economic Indicators 2010 - 2013

		2010	2011	Q2 12	Q3 12	Q4 12	Dec	Jan	Feb
GDP (real)	% yoy	4.1	5.2	3.0	-1.3				
Industrial production (real)	% yoy cum.	11.2	7.3	0.4	-1.2	-1.8	-1.8	-3.2	
Agricultural prod. (real)	% yoy cum.	-1.0	17.5	7.4	-4.6	-4.5	-4.5	5.6	
CPI	% yoy eop	9.1	4.6	-1.2	0.0	-0.2	-0.2	-0.2	-0.5
Current account	% GDP. cum.	-1.7	-5.6						
Fiscal balance	% GDP	-6.0	-1.8						
External state debt (total)	% GDP eop	25.6	22.8						
Gross international reserves	USD bn cum.	36.7	31.8	29.3	29.3	24.5	24.5	24.7	24.7
Exchange rate (official)	EUR aop	10.53	11.09	10.26	9.99	10.37	10.49	10.60	10.70

Source: IER.

For further information: Institute for Economic Research and Policy Consulting (link: www.ier.kiev.ua).