EBS/08/114
Correction 3

December 15, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Ukraine—Request for Stand-By Arrangement**

The attached corrections to EBS/08/114 (11/3/08) have been provided by the staff.

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 8, Box 1, point 12: for "Limitation on hryvnia transactions by non-resident banks to export-import operations."
read "Limitation on hryvnia transactions by non-resident banks except for transactions in export-import operations."

Page 9, Box 2, 3rd para., **second sentence:** for "A drop in real GDP growth of 9 percent,"
read "A drop in real GDP growth of 9 percentage points,"

4th para.: for "(i) over 85 percent of retail loans"
read "(i) over 63 percent of retail loans"

Page 21, para. 28, Text table: minor data correction and addition of footnote 1 that was erroneously omitted in earlier version

Page 33, Table 1: Correction of social indicators data

Page 34, Table 2: minor revisions to Gross and Net International reserves numbers

Page 35, Table 3: minor revisions to Gross International reserves numbers

Page 36, Table 4: change to indication of sources

Page 37, Table 5: the number of banks in September 2008 revised

Page 38, Table 6: footnote 1 revised

Page 39, Table 7: minor revisions to Gross and Net International reserves numbers

Page 45, Table 13: change the title of the table and revised data in the lines "in percent of public sector external debt service"

Typographical Error

Page 6, Figure 2: correction of various typos

Questions may be referred to Ms. Pazarbasioglu (ext. 35967) and Mr. Flanagan (ext. 36724) in EUR.

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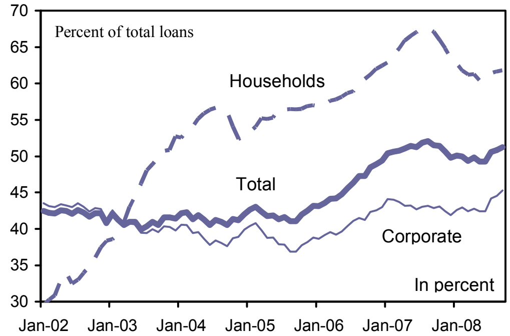
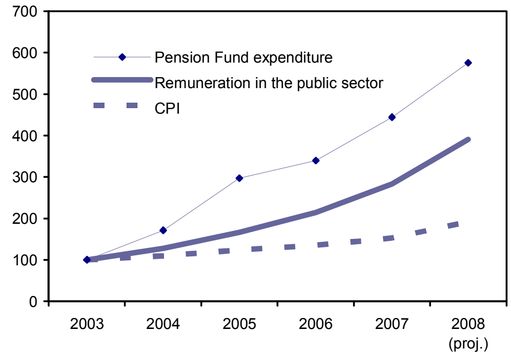
- **Household and corporate balance sheets** weakened, with increased borrowing from banks in foreign currency, encouraged by low interest rates and a rigidly managed exchange rate regime. Many corporates, however, are thought to be hedged by large export revenues and significant (and under reported) foreign assets.

Share Of Foreign Exchange Loans (percent of total loans)



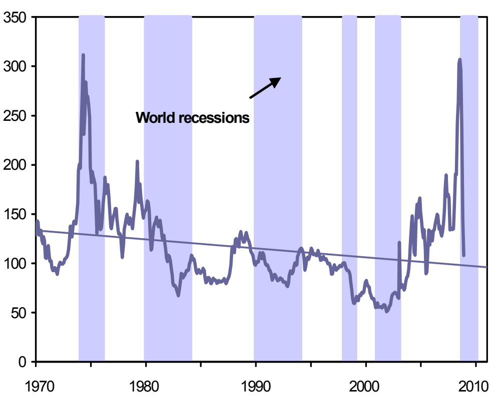
- The **underlying fiscal position** deteriorated sharply (Table 6, Figure 2). Windfall revenues from the commodity boom were spent largely on higher wages and social transfers, propelling them some 220 percent higher over 2004–08. Measures of the deficit, adjusted for the terms of trade, showed an underlying deficit of some 6 percent of GDP by 2008.

Developments in pensions and public wages since 2004



4. **The long-anticipated shock to Ukraine's terms of trade has materialized, with considerable impact on the real sector.** On the export side, the price of steel has declined by 65 percent since early July, to real levels associated with past global recessions. On the import side, Russia signaled its intention to phase out remaining gas subsidies (Ukraine currently pays $180/tcm, or $6.5 billion for gas imports, versus an expected transit-adjusted European equivalent of $330/tcm in 2009). While year-over-year GDP growth remained positive in September, at 5.5 percent, and growth through three quarters is estimated at 6.9 percent, the manufacturing sector is now contracting sharply (–5 percent in September).

Real Steel Prices, 1970-2008



5. **Ukraine has been subject to a sharp reversal of external capital flows in the context of the deepening global financial turmoil**. Ukraine has been shut out of the international capital markets, although direct credit lines have been for the most part rolled over. Sovereign CDS spreads now stand at about 2,300 bps, while corporate EMBI spread

5-Year Credit Default Swap
(Basis points)

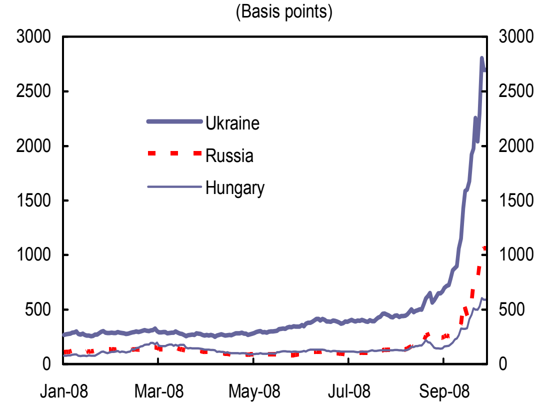
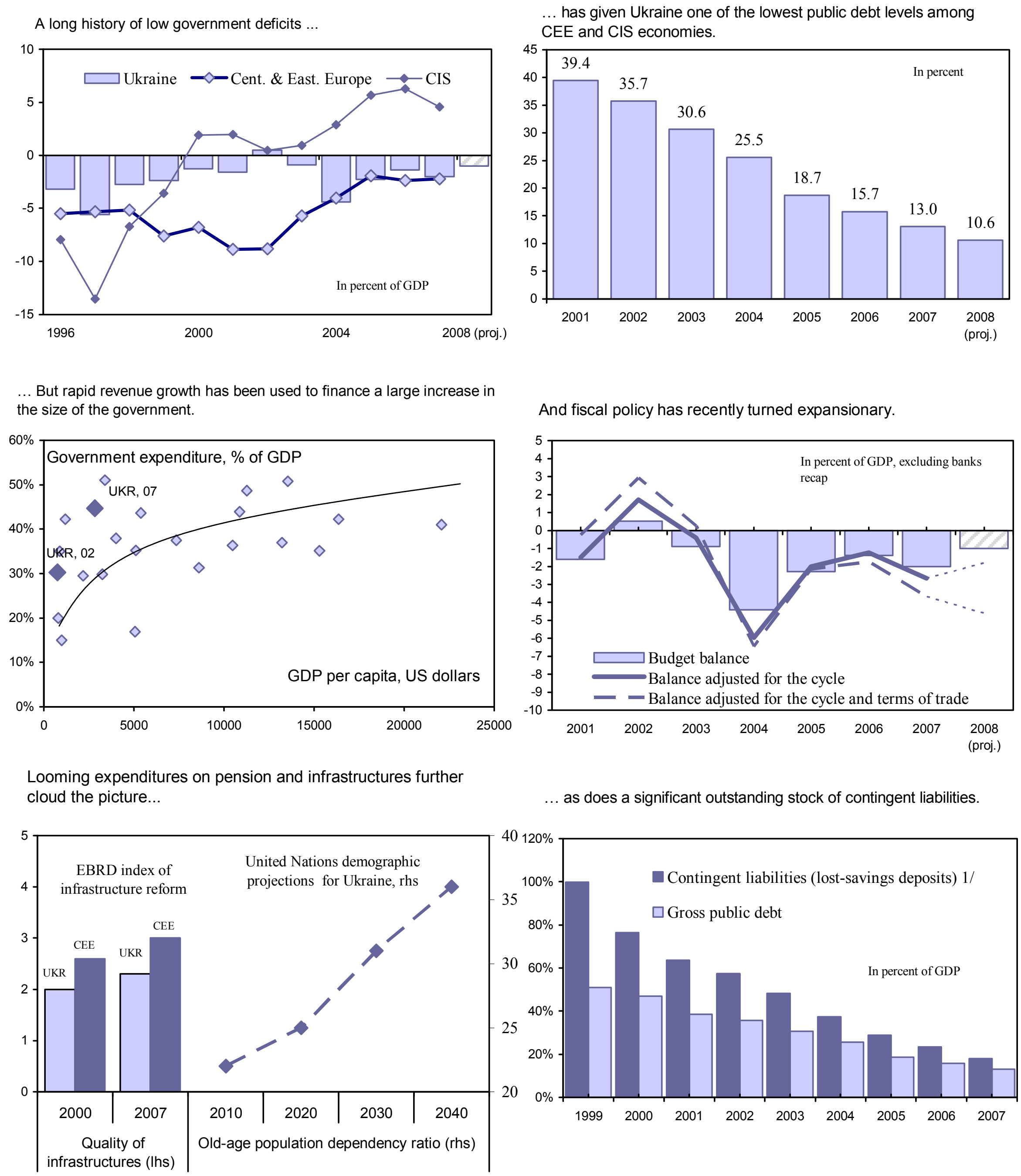


Figure 2. Ukraine: Fiscal Policy Indicators



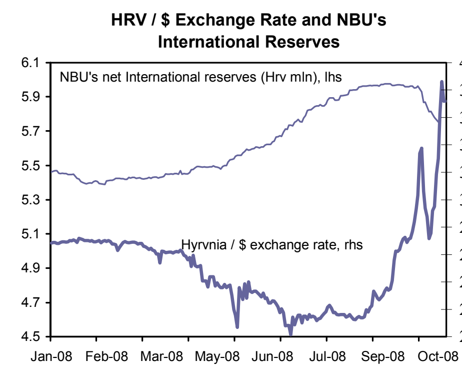
Sources: Ukrainian authorities; IMF *World Economic Outlook;* OECD; and staff estimates.
1/ Estimated contingent liabilities from the so-called lost-savings deposits.

exceed 4,000 bps. Fitch and S&P have both downgraded Ukraine (keeping it on negative outlook), while Moody's has also just downgraded a number of Ukrainian enterprises, and placed the sovereign on negative outlook.

6. **Political instability began to increasingly affect perceptions about the course of policies in 2008**. The prospect for Presidential election (scheduled for January 2010) and the call for early parliamentary elections (scheduled for December 2008) have exacerbated concerns that policies would not be used to reign in demand, or that as in recent election campaigns expensive promises would be made that would prove difficult to reverse.

7. **These developments and the intervention of the sixth largest bank in October significantly undermined confidence in the banking system and the currency:**

- **Major strains are showing in the banking system**. After the sixth largest bank was put under receivership, a more widespread outflow began, with at least $3 billion (4 percent of deposits) withdrawn during the first three weeks of October. The authorities responded by imposing limits on early withdrawal of time deposits (including non-resident deposits) which slowed the outflow, but confidence remains very fragile. The NBU has injected some 2½ percent of GDP in liquidity since late August (reserve requirements have been effectively eliminated, while refinancing has been allowed against an expanded collateral list).



- **The confidence crisis has spread to the foreign exchange market**. Intervention by NBU has amounted to over $4 billion in October (from reserves of $38 billion). Early in the month the intervention was often at non-market rates (at times deviating from the market rate by more than two percent). This temporarily kept the currency inside the weak end of a Hrv/$4.55–$5.35 band. However, increasing reserve losses have forced the NBU to step back and the currency is trading around Hrv/$5.90. The authorities also imposed a set of exchange controls to help stem outflows (Box 1).

Box 1. Ukraine: Exchange Controls Introduced in Response to the Crisis [1/]

1. Restriction on early withdrawal of time deposits (applies to both residents and non-residents).

2. Prohibition of early repayment of foreign exchange loans by banks.

3. Limitation on purchases of foreign currency by banks, in order to discharge foreign exchange loans due, to amounts within their open foreign exchange limit.

4. Controls over advanced payments for imports that do not enter the territory of Ukraine (subsequently repealed).

5. Six-day delay for investors wishing to convert hryvnia profits, revenues, or the sale of assets into foreign currency.

6. Ceiling for a monthly wiring by natural persons of foreign currency out of the country in the equivalent of Hrv 15,000 if no supporting documents are presented; Hrv 75,000 otherwise.

7. Limitation on payment order execution to one day within branch, two days within bank, and three days across banks.

8. Limitation of exchange market transactions limited to specific currency pairs.

9. Limitation on ceiling between bid and ask exchange rates to at most 5 percent.

10. Requirement that the foreign exchange open position of banks be calculated for each currency separately.

11. Requirement that hard currency foreign exchange deposits of banks abroad, be restricted to banks resident in the group of hard currency countries.

12. Limitation on hryvnia transactions by non-resident banks ~~to~~ except for transactions in export-import operations.

Source: NBU Resolutions 319, 328 and 336.

1/ As stated in paragraph 15, staff is still assessing whether any of these controls give rise to exchange restrictions subject to Article VIII, Section 2(a).

8. **The banking sector will need additional capital to help withstand the shocks faced**. Preliminary scenario analysis suggests that capital would be almost wiped out if the currency were to depreciate substantially and growth to slow significantly (both expected outcomes in the face of a terms-of-trade shock). This implies a capitalization need of at least 8 percent of 2008 GDP ($12 billion), including 4½ percent of 2008 GDP ($6–$9 billion) in recapitalization needs for foreign-owned banks (Box 2). It is expected that most banks, especially the large banks (most of which are foreign owned), will be able to raise capital on their own. However, there may be a need for the authorities to provide financial support to

Box 2. Banking-Sector Structure, Risks, and Scenario Analysis

The Ukrainian banking sector has experienced a formidable growth over the last four years, including through increased presence of foreign banks. With a market share of 50 percent, the top 10 banks consist of 5 domestic and 5 foreign banks, including Raiffeisen, BNP Paribas, Unicredit, OTP and Alfa Bank. ROA are notably higher for larger banks. A key advantage of foreign banks is their access to cheaper funding relative to local banks, which is mainly driven by the comparatively higher rating of the parent banks. The marked differences in profitability create incentives for further foreign-bank participation and consolidation of small size institutions, which are considerably less profitable.

Large banking-sector risks were built as a result of the exceptionally rapid credit growth with the loan-to-deposit ratio rising to 140 percent. Part of the foreign currency inflows into the system were used to fund corporate loans (some of which without natural currency hedges) and long-term foreign currency retail loans (mortgage and car loans) exposing the system to significant currency-induced credit risk. A rapid increase in long-term retail loans, in part funded through short-term foreign funds, raised asset-liability maturity mismatches. Significant sectoral risk concentration has also developed. Banks are highly exposed to metal-related industries, trade and consumer business, and construction (accounting for 72 percent of total loans). While it is difficult to document, market participants also raised concerns about high levels of related-party lending, especially in some domestic banks.

Under expected adverse macroeconomic conditions in 2009, current capital buffers are likely to be fully absorbed by the deterioration in banks' portfolios. A drop in real GDP growth of 9 percentage points, a nominal depreciation of the Hrv of 30 percent, high interest rates, and a sharp drop in real prices, will result in a sharp increase of bad loans (category 5 loans), which are estimated to rise to 15 percent by end 2009 (in mid-2008, they stood at 1 percent). As a result, the capital buffers of most banks would be wiped out.

The required capital injection to return to minimum CAR levels is estimated to be about Hrv 78 bn, corresponding to over 8 percent of 2008 GDP (Hrv 34 bn for domestic banks and 44 bn for foreign banks). The large impact on banks' portfolio is the result of several risk factors including (i) over ~~85~~63 percent of retail loans are denominated in foreign currency, of which the majority are to unhedged borrowers; (ii) the high concentration of corporate loans in sectors which are expected to suffer a large contraction in 2009; and (iii) a large external debt rollover risk for the corporate sector in the amount of $30 bn in 2009 (Table).

Table. Ukraine: Bank Scenario Analysis

	Baseline scenario				Soft landing scenario				Hard landing scenario			
	Capital injection to return to Oct. '08 CAR		Capital injection to meet 10% CAR		Capital injection to return to Oct. '08 CAR		Capital injection to meet 10% CAR		Capital injection to return to Oct. '08 CAR		Capital injection to meet 10% CAR	
	Hrv bn	As percent of '08 GDP	Hrv bn	As percent of '08 GDP	Hrv bn	As percent of '08 GDP	Hrv bn	As percent of '08 GDP	Hrv bn	As percent of '08 GDP	Hrv bn	As percent of '08 GDP
All banks	104	10.8	78	8.1	66	6.8	41	4.2	140	14.5	115	11.9
Domestic	47	4.9	34	3.5	30	3.1	17	1.8	51	5.3	51	5.3
Large	36	3.8	30	3.1	23	2.4	17	1.7	43	4.4	43	4.4
Small	11	1.2	5	0.5	7	0.7	1	0.1	9	0.9	9	0.9
Foreign	56	5.8	44	4.5	36	3.7	24	2.5	64	6.6	64	6.6
Large	49	5.1	41	4.3	31	3.3	24	2.5	59	6.1	59	6.1

Source: NBU and staff estimates. Large banks (34 institutions) account for 81percent of total system assets.

viable banks through a bank recapitalization scheme which will help to shield the real economy from a potential credit crunch (see below). Furthermore, it is likely that the authorities will need to inject capital to the sixth largest bank which was intervened in early October (the authorities estimate a financing need of about Hrv 8 billion).

II. The Authorities' Program

A. Objectives and Strategy

9. **The authorities' program aims to restore financial and macroeconomic stability and thereby facilitate better confidence.** To restore financial stability, measures are specified regarding (i) appropriate liquidity support and expansion of deposit guarantees; (ii) a stronger bank resolution framework, including availability of public funds for recapitalization; and (iii) a stronger framework for resolution of household and enterprise sector debts.

10. **To facilitate adjustment to potentially large external shocks and allow a gradual reduction of inflation**, the program supports several changes in Ukraine's macroeconomic policy framework, many of which the authorities were already pursuing to varying degrees. These include (MEFP ¶4): (i) a flexible exchange rate policy, supported by base money targets and an appropriate intervention strategy; (ii) transition to inflation targeting (as a new nominal anchor); (iii) resetting incomes policy in line with targeted inflation, while protecting the most vulnerable; (iv) maintaining a prudent fiscal stance; and (v) bringing energy sector prices more in line with costs. Output risks are addressed by fiscal contingency plans, and private sector debt resolution measures.

11. **The program is set up to respond flexibly to economic developments** (MEFP ¶7). Upside risks, such as a recovery of steel prices and/or resumption of capital inflows, would be met with higher reserve accumulation and adjustments to monetary policy (to safeguard inflation objectives). On the other hand, a substantial undershoot of commodity prices or longer loss of access to capital markets would be cushioned by the robust policy framework, especially the flexible exchange rate and the funds available for bank recapitalization. However, the authorities indicated that they stood ready to take additional measures if needed.

B. Macroeconomic Framework

12. **The program establishes conservative macroeconomic targets for 2009** (Table 7) (MEFP ¶5). The projections assume a global recession and continued deleveraging in international credit markets in 2009, implying a recession in Ukraine with deteriorating exports, limited external finance and a credit crunch. The projected impact on output—a 3 percent decline—is consistent with Ukraine's experience under similar circumstances (Box 3). The projected inflation rate for 2009 is 17 percent, reflecting currency depreciation (in real effective terms the hryvnia is projected to decline to its equilibrium level) and pass

determination to move forward with land reform (opening up the key agricultural sector to additional investment). They expressed a desire to accelerate the privatization of public enterprises despite difficult market conditions. They recognized that a reformed procurement law could unlock foreign financing (including the next tranche of the World Bank's Development Policy Loan). Staff encouraged progress in these areas and additional dialogue with the World Bank.

III. Program Modalities

Program financing

28. **Ukraine faces very large financing needs during the program period.** The staff estimates that at a constant current account deficit, and with debt amortizations totaling some $40 billion (including $13½ in trade credits), gross external financing requirements would amount to about $64 billion in 2009 and only slightly less in 2010.

Table. Ukraine: Gross Financing Requirements and Financing Gaps, 2006-2010
(In millions of U.S. dollars)

	2006	2007	2008	2009	2010
Gross external financing requirements	26,771	40,027	54,460	63,829	62,226
Current account deficit (assumed constant from 2008)	1,617	5,272	*11,686*	*11,686*	*11,686*
Amortization of private sector debt	12,583	18,953	28,762	38,172	39,415
Amortization of public debt	1,692	1,525	1,198	1,448	1,576
Short-term capital outflows	10,880	14,277	12,814	12,523	9,550
Available financing	27,201	40,455	50,105	44,769	50,727
FDI	5,740	9,221	11,659	9,204	10,120
Portfolio flows	2,822	4,423	64	614	1,064
Debt financing	20,680	36,241	38,245	34,233	43,621
Implied rollover rate (percent)	*145*	*177*	*128*	*85*	*106*
Reserve accumulation (- denotes increase)	-1,999	-8,980	138	718	-4,077
Current account adjustment (Cumulative) 1/	0	0	0	8,983	9,153
Remaining financing gap = net use of fund resources	-430	-428	4,355	10,077	2,346
Memorandum items					
Gross Reserves (US$ million)	22,256	32,463	31,445	30,727	34,804
Gross Reserves (in percent of ST debt)	109	108	79	75	78

Sources: Ukrainian authorities; and Fund staff estimates and projections.

1/ Note that this is an underestimation of the actual current account adjustment since the assumption that the deficit would stay at its 2008 level already implies full adjustment to the large terms-of-trade shocks that Ukraine faces.

29. **In the current climate of global deleveraging, these financing requirements are unlikely to be fully met**. Several groups are expected to have high annual debt rollover rates, including multinationals (intra-company credit lines), and Ukrainian-owned corporates who borrow from related entities offshore. Banks with foreign parents are expected to face moderate reductions in available financing (although some amount for bank recapitalization needs is expected to help prevent a steep drop in FDI). Other banks and corporates are

assumed to face much more significant refinancing problems in the period ahead. For 2009 as a whole, aggregate debt rollover would be 85 percent, a sharp drop from the net financing of previous years (and within year, the pattern is even more pronounced, since annual data obscures peak assumed effects in 2008Q4 through 2009Q2). In dollar terms, expected available external financing amounts to under $45 billion, versus the close to $50 billion in 2007–08 (abstracting from reserve movements).[3] Looking towards 2010, provided that global financial conditions improve, rollover problems should ease, although only limited amounts of net new financing are likely, at least in the first half of the year.

30. **The large financing gaps due to debt rollover complications can only be partially met by substantial domestic adjustment and funding from other sources**. The current account position is expected to adjust sharply under the program scenario, closing about $9 billion of the financing gap in 2009. Flows from other IFIs may help to reduce the gap further. In particular, the World Bank supports Ukraine under a Country Assistance Strategy that makes up to $1.5 billion per year available, while the EBRD also has extensive operations in Ukraine (Informational Annex II-III). Nonetheless, a sizable gap would remain, which, absent Fund financing, would cause official foreign exchange reserves to fall to far below the desirable minimum level, in particular given the large external financing risks associated with adverse global financial conditions.

31. **Against this background, the authorities are requesting a two-year Stand-By Arrangement in the amount of SDR 11 billion (802 percent of quota)**. Fund financing will contribute to covering Ukraine's balance of payments needs. Following expected initial reserves losses, associated with tactical interventions aimed at facilitating an orderly adjustment of the exchange rate, the financing will be utilized to build Ukraine's gross international reserves back to a level that is sufficient to cover at least 75 percent of short-term debt obligations. The authorities and the staff concur that such coverage will be crucial for bolstering the confidence of foreign investors in Ukrainian banks and corporates' ability to honor their international obligations. The arrangement is subject to exceptional access policy. An evaluation of the four substantive criteria for exceptional access in capital account crises is presented in Box 4.[4]

32. **It is proposed that exceptional access be provided on SBA terms.** There is a presumption that exceptional access in capital account crises will be provided using resources of the Supplemental Reserve Facility (SRF) where SRF conditions apply. While Ukraine is

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[3] As discussed below in paragraph 34, rollover assumptions should also be considered relative to program buffers, including conservative assumptions about high energy prices in 2009. Adjusting for the latter, and placing energy prices at what the market considers recession levels ($50 per barrel of oil), would allow for an aggregate rollover rate as low as 75 percent, or gross financing around $40 billion, while maintaining the same financing gap.

[4] The Executive Board discussed a preliminary report on exceptional access on 13 October.

Table 1. Ukraine: Selected Economic and Social Indicators, 2004–09 1/ 2/ 3/

	2004	2005	2006	2007	2008 Proj. 1/	2009 Proj. 1/
Real economy (percent change unless indicated otherwise)						
Nominal GDP (billions of hryvnias)	345	441	544	713	993	1,112
Real GDP	12.1	2.7	7.3	7.6	6.0	-3.0
Contributions:						
Domestic demand	9.1	13.2	13.1	16.1	14.4	-14.3
Net exports	3.0	-10.5	-5.8	-8.5	-8.3	11.3
Unemployment rate (ILO definition; percent)	8.6	7.2	6.8	6.4	6.0	9.5
Consumer prices (period average)	9.0	13.5	9.1	12.8	25.6	21.0
Consumer prices (end of period)	12.3	10.3	11.6	16.6	25.5	17.0
Nominal monthly wages (average)	27.5	36.7	29.2	29.7	37.1	10.5
Real monthly wages (average)	16.9	20.4	18.4	15.0	9.1	-8.7
Public finance (percent of GDP)						
Cash balance excluding banks. recap (both injection and interests)	-4.4	-2.3	-1.4	-2.0	-1.0	0.0
Augmented balance, including effects of banks recap. 3/	-4.4	-2.3	-1.4	-2.0	-2.0	-4.5
Privatization proceeds	3.1	5.0	0.4	0.6	0.2	0.1
Net domestic financing	-0.1	-3.3	-0.4	0.3	1.8	4.4
Net external financing	1.4	0.6	1.3	1.0	0.0	0.0
Public debt 3/	25.5	18.7	15.7	13.0	10.6	17.4
Of which: external debt (foreign currency denominated)	19.2	14.1	12.5	10.2	7.4	10.0
Money and credit (end of period, percent change)						
Base money	34.1	53.9	17.5	46.0	33.0	10.9
Broad money	31.9	54.4	34.5	51.7	37.2	9.4
Credit to nongovernment	30.2	61.8	70.6	74.0	40.9	-9.8
Velocity	2.7	2.3	2.1	1.8	1.8	1.9
Interbank overnight rate (annual average, percent)	6.3	4.2	3.6	2.3	…	…
Balance of payments (percent of GDP)						
Current account balance	10.6	2.9	-1.5	-3.7	-6.2	-2.0
Foreign direct investment	2.6	8.7	5.3	6.5	6.2	6.8
Gross reserves (end of period, billions of U.S. dollars)	9.5	19.4	22.3	32.5	31.4	30.7
In months of next year's imports of goods and services	2.6	4.4	3.7	4.0	5.1	4.5
Debt service (in percent of exports of goods and services)	5.3	4.9	5.1	3.9	2.8	4.2
Goods exports (annual volume change in percent)	18.2	-8.5	2.7	3.2	0.3	0.8
Goods imports (annual volume change in percent)	13.8	13.0	12.5	20.3	16.0	-19.7
Goods exports	51.5	40.7	36.1	35.2	35.3	39.9
Goods imports	45.8	42.0	40.9	42.7	44.8	46.4
Share of metals in merchandise exports (percent)	39.0	40.1	42.2	41.7	44.5	30.3
Net imports of energy (billions of U.S. dollars)	6.0	6.1	8.1	11.5	17.2	16.0
Goods terms of trade (percent change)	9.6	6.2	-0.2	9.0	7.8	-14.5
Goods and services terms of trade (percent change)	7.8	4.9	1.5	7.4	8.9	-10.5
Exchange rate						
Exchange rate regime	*de facto peg*				*managed float*	
Hryvnia per U.S. dollar, end of period	5.3	5.0	5.0	5.0	…	…
Hryvnia per U.S. dollar, period average	5.3	5.1	5.1	5.0	…	…
Real effective rate (CPI, percent change)	-1.4	12.0	4.8	2.6	…	…

Social indicators

Per capita GDP: US$ 3035 (2007); Poverty (percent of population): 8.0 (2006; World Bank estimate);
Life expectancy at birth: 68.3 years (2007); Infant mortality (per 1,000): 11.0 (2007); Gross primary enrollment (percent net): 90.2 (2007)

Sources: Ukrainian authorities; and staff estimates and projections.

1/ Policies assumed here include: (i) increased exchange rate flexibility as from 2008; (ii) convergence of natural gas import prices to Western European levels (adjusted for transit) by 2010; (iii) full pass-through of rising energy import prices in 2009; (iv) public-financed recapitalization of banks for a total amount of Hrv 54 bln (10 bln by end-2008 and 44 bln in the first half of 2009).
2 The public finance aggregates cover the whole of the general government sector, including local authorities and the social funds. Reported fiscal outturns are also adjusted by staff to ensure consistency with international accounting rules.
3/ Government and government-guaranteed debt, and NBU debt. Excludes debts by state-owned enterprises.
Debt figures do not include IMF money.

Table 2. Ukraine: Selected Vulnerability Indicators, 2004–08

	2004	2005	2006	2007	2008	Latest observation
Financial Market Indicators						
Short-term (ST) interest rate (in percent) 1/	16.3	2.9	2.1	3.8	15.0	24-Oct-08
EMBI secondary market spread (bps, end of period)	264	184	172	303	2,250	24-Oct-08
Foreign currency debt rating 2/	B1	B1	B1	B1	B1	24-Oct-08
Exchange rate NC/US$ (end of period)	5.3	5.1	5.1	5.1	5.9	24-Oct-08
Stock market index (PFTS)	260.1	353.0	498.9	1,174.0	230.9	24-Oct-08
Broad money to gross reserves (percent)	249.1	198.2	232.3	241.7	224.6	24-Oct-08
External Sector						
Exchange rate regime	de facto peg to U.S. dollar				managed float	
Current account balance (percent of GDP)	10.6	2.9	-1.5	-3.7	-6.2	Proj
Net FDI inflows (percent of GDP)	2.6	8.7	5.3	6.5	6.2	Proj
Exports (percentage change of US$ value, GNFS)	40.8	4.8	11.2	28.0	33.4	Proj
Real effective exchange rate (percent change) 3/	-1.4	12.0	4.8	2.6	12.2	Proj
Gross international reserves (GIR) in US$ billion	9.5	19.4	22.3	32.5	31.5	Proj
GIR in percent of ST debt at remaining maturity (RM)	87.4	161.0	108.7	108.3	79.4	Proj
GIR in percent of ST debt at RM and banks' FX deposits	57.3	92.0	79.0	84.7	57.3	Proj
Net international reserves (NIR) in US$ billion	7.9	18.2	21.4	32.0	26.7	Proj
Total gross external debt (ED) in percent of GDP 4/	46.3	45.1	49.7	57.8	54.3	Proj
o/w ST external debt (original maturity, in percent of total ED)	35.0	28.2	28.4	27.5	29.6	Proj
ED of domestic private sector (in percent of total ED)	57.2	65.2	72.3	81.0	80.9	Proj
ED to foreign official sector (in percent of total ED)	17.8	16.2	11.0	7.4	6.0	Proj
Domestically issued public debt held by non-residents (in percent of GDF	0.6	1.5	0.6	0.6	0.3	Proj
Total gross external debt in percent of exports of GNFS	74.4	87.1	106.8	128.0	121.4	Proj
Gross external financing requirement (in US$ billion)	6.4	14.1	16.2	18.7	26.4	Proj
Public Sector (PS) 6/						
Overall balance (percent of GDP)	-4.4	-2.3	-1.4	-2.0	-2.0	Proj
Debt-stabilizing primary balance (percent of GDP) 5/	-5.9	-5.4	-2.9	-3.4	-3.0	Proj
Gross PS financing requirement (in percent of GDP) 7/	7.6	3.6	2.4	3.0	3.1	Proj
Public sector gross debt (PSGD, in percent of GDP) 8/	25.5	18.7	15.7	13.0	10.6	Proj
o/w Exposed to rollover risk (in percent of total PSGD)	42.8	51.1	54.2	56.4	52.9	Proj
Exposed to exchange rate risk (in percent of total PSGD)	75.2	75.6	79.1	78.6	69.3	Proj
Public sector net debt (in percent of GDP)	23.3	13.9	11.7	10.3	9.2	Proj

Sources: Ukrainian authorities; and Fund staff estimates and projections.

1/ Overnight interbank rate. Monthly average for December or month of latest observation.
2/ Moody's Investors Service. Note that Fitch and Standard & Poor's upgraded Ukraine from B+ to BB- in January and May 2005, respectively.
3/ Period averages; (+) represents real appreciation; based on CPI and INS trade weights (1999-2001).
4/ June 2006 private sector debt is estimated.
5/ Does not include domestically issued public debt held by nonresidents.
6/ Public sector covers the consolidated government. It excludes public enterprises. Public debt also includes arrears and debt by the central bank.
7/ Overall balance plus debt amortization.
8/ Public debt figures exclude IMF money.

Table 3. Ukraine: Medium-Term Balance of Payments, 2006–13 1/ 2/ 3/
(In million of U.S. dollars, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012	2013
Current account balance	-1,617	-5,272	-11,686	-2,703	-2,534	-4,352	-4,564	-6,969
Merchandise trade balance	-5,194	-10,572	-17,779	-8,725	-7,829	-8,584	-9,609	-11,017
Exports	38,949	49,840	66,490	54,201	61,591	68,138	75,001	81,985
Imports	-44,143	-60,412	-84,269	-62,926	-69,420	-76,722	-84,610	-93,002
Services (net)	2,126	2,420	3,475	5,419	5,843	5,332	6,556	4,933
Receipts 2/	11,290	14,161	17,669	17,072	18,110	18,430	20,774	20,321
Payments	-9,164	-11,741	-14,194	-11,653	-12,267	-13,098	-14,218	-15,388
Income (net)	-1,722	-659	-1,311	-3,606	-5,138	-6,098	-6,944	-6,781
o/w: Interest on public debt 3/	-892	-1,001	-1,144	-1,555	-1,896	-1,894	-1,913	-1,870
Current transfers (net)	3,173	3,539	3,928	4,209	4,590	4,998	5,432	5,896
Financial and capital account	4,088	15,130	7,193	-8,092	4,265	9,439	14,103	18,020
Direct investment and capital transfers (net)	5,740	9,221	11,659	9,204	10,120	11,089	12,573	13,777
Portfolio investment (excluding government bonds)	2,822	4,423	64	614	1,064	1,464	2,164	2,564
Bonds and medium and long-term loans (net)	6,406	15,763	8,284	-5,386	2,630	4,480	5,999	7,472
Private sector loans	5,797	13,931	8,757	-5,380	2,420	3,320	4,120	4,920
Bonds and loans (official)	609	1,832	-473	-6	210	1,160	1,879	2,552
o/w: Disbursements	3,239	4,244	389	1,351	1,786	2,497	2,682	3,099
Repayments 2/ 3/	-2,630	-2,412	-862	-1,358	-1,576	-1,337	-802	-547
o/w: Foreign-currency	1,158	1,654	-203	119	-29	885	1,435	2,135
Domestic -currency	-549	178	-270	-125	239	275	444	417
Short-term capital (net)	-10,880	-14,277	-12,814	-12,523	-9,550	-7,594	-6,633	-5,793
Errors and omissions	-42	-450	0	0	0	0	0	0
Overall balance	2,429	9,408	-4,493	-10,795	1,731	5,087	9,538	11,051
Gross official reserves (- is increase)	-1,999	-8,980	138	718	-4,077	-5,087	-5,432	-3,182
Net use of IMF resources	-430	-428	4,355	10,077	2,346	0	-4,106	-7,869
Memorandum items:								
Total external debt 3/	53,633	81,939	102,218	106,171	111,566	117,067	120,470	121,922
Total external debt (In percent of GDP)	49.7	57.8	54.3	78.2	74.6	71.3	62.4	52.1
Current account (in percent of GDP)	-1.5	-3.7	-6.2	-2.0	-1.7	-2.6	-2.4	-3.3
Excluding transfers	-4.4	-6.2	-8.3	-5.1	-4.8	-5.7	-5.4	-6.1
Debt service ratio (in percent of exports of goods and services) 2/ 3/	5.1	3.9	2.8	4.2	4.4	3.7	7.1	10.1
o/w: Interest payments	1.8	1.6	1.4	2.2	2.4	2.2	2.0	1.8
Gross international reserves (end of period)	22,256	32,463	31,445	30,727	34,804	39,891	45,323	48,505
In months of next year's imports of goods and services	3.7	4.0	5.1	4.5	4.6	4.8	5.0	4.9
Over next year's official debt service	5.8	-13.8	10.5	8.9	10.8	5.8	4.4	...
Merchandise export values (percent change)	11.2	28.0	33.4	-18.5	13.6	10.6	10.1	9.3
Merchandise import values (percent change)	22.1	36.9	39.5	-25.3	10.3	10.5	10.3	9.9
Merchandise export volume (percent change)	2.7	3.2	0.3	0.8	10.7	8.0	7.6	6.9
Merchandise import volume (percent change)	12.5	20.3	16.0	-19.7	5.0	8.3	8.3	8.0
Goods terms of trade (percent change)	-0.2	9.0	7.8	-14.5	-2.3	0.4	0.5	0.4
Goods and services terms of trade (percent change)	1.5	7.4	8.9	-10.5	-0.2	0.9	0.8	0.8

Sources: Ukrainian authorities; and Fund staff estimates and projections.

1/ Recommended policies include increased flexibility of the hryvnia/U.S. dollar exchange rate, which would hold GIR above 3 months of imports.

2/ Includes lease receipts and offsetting repayments under the Black Sea Fleet debt swap agreement.

3/ Public and publicly-guaranteed debt, on a residency basis.

Table 4. Ukraine: Monetary Accounts, 2004–10 1/

	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.
	(In millions of hryvnias)						
Monetary Survey							
Net foreign assets	43,877	81,842	66,717	50,978	-17,080	-91,422	-94,120
Net domestic assets	81,828	112,229	194,346	345,179	560,607	685,773	794,226
Domestic credit	107,923	144,892	247,037	436,285	636,387	669,238	775,759
Net claims on government	13,509	-7,180	-7,821	-6,658	12,482	106,301	117,800
Credit to the economy	89,195	144,277	246,156	428,347	603,346	544,386	636,277
Other claims on the economy	5,220	7,796	8,702	14,597	20,560	18,551	21,682
Other items, net	-26,095	-32,663	-52,691	-91,107	-75,780	16,536	18,467
Broad money	125,705	194,071	261,063	396,156	543,527	594,352	700,106
Currency in circulation	42,345	60,231	74,984	111,119	160,994	172,317	199,366
Total deposits	83,138	132,914	184,430	280,154	375,833	414,708	492,109
Domestic currency deposits	52,835	87,296	114,274	190,287	221,228	241,729	279,997
Foreign currency deposits	30,303	45,617	70,155	89,867	154,605	172,979	212,112
Money market instruments	222	925	1,650	4,884	6,700	7,327	8,630
Accounts of the National Bank of Ukraine							
Net foreign assets	43,573	94,016	110,916	164,859	193,374	141,553	165,050
Net international reserves 2/	43,127	91,472	106,938	157,948	186,374	134,553	158,050
Net domestic assets	10,190	-11,256	-13,702	-22,958	2,394	74,766	86,407
Net domestic credit	15,089	-10,266	-8,127	-7,856	18,265	36,467	33,166
Net claims on government	12,736	-8,149	-8,949	-6,274	-1,090	-1,887	-11,188
Claims on government	18,001	10,315	9,676	9,058	9,058	9,058	9,058
Liabilities government	5,264	18,464	18,625	15,332	10,147	10,945	20,246
Net claims on the economy	41	76	169	165	165	165	165
Net claims on banks	2,312	-2,193	653	-1,748	25,189	40,189	45,189
Other items, net	-4,899	-991	-5,575	-15,102	-15,870	38,299	53,240
Base money	53,763	82,760	97,214	141,901	188,768	209,319	244,457
Currency in circulation	42,345	60,231	74,984	111,119	160,994	172,317	199,366
Banks' reserves	11,418	22,528	22,231	30,782	27,774	37,002	45,090
Cash in vault	3,324	5,178	7,150	11,352	14,924	16,797	19,932
Required reserves	5,862	9,853	4,080	9,683	0	10,368	12,303
Excess reserves	2,232	7,498	11,001	9,748	12,850	9,838	12,856
Deposit Money Banks							
Net foreign assets	303	-12,175	-44,199	-113,882	-210,454	-232,975	-259,170
Net domestic assets	82,656	144,919	228,433	393,620	586,287	647,683	751,279
Domestic credit	97,564	169,322	268,275	459,600	642,088	666,294	782,584
Net claims on government	773	969	1,128	-384	13,571	108,188	128,988
Credit to the economy	89,050	144,129	245,973	428,146	603,145	544,185	636,076
Other claims on the economy	5,220	7,796	8,702	14,597	16,786	15,108	16,618
Banks' reserves	11,418	22,528	22,231	30,782	27,774	37,002	45,090
Other items, net	-14,908	-24,402	-39,842	-65,981	-55,802	-18,612	-31,305
Banks' liabilities	82,959	132,745	184,234	279,738	375,833	414,708	492,109
Demand deposits	31,593	48,115	61,136	90,364	...	...	...
Time deposits	51,366	84,629	123,098	189,374	...	...	...
Memorandum items:							
	(Percentage change year-over-year)						
Base money	34.1	53.9	17.5	46.0	33.0	10.9	16.8
Broad money	31.9	54.4	34.5	51.7	37.2	9.4	17.8
Credit to the economy 3/	30.2	61.8	70.6	74.0	40.9	-9.8	16.9
	(Ratio)						
Velocity of broad money 4/	2.75	2.27	2.08	1.80	1.83	1.87	1.87
Money multiplier	2.34	2.34	2.69	2.79	2.88	2.84	2.86
	(In percent)						
Foreign currency loans to total loans	42.1	43.2	49.4	49.8	57.5	60.0	53.5
Foreign currency deposits to total deposits	36.4	34.3	38.0	32.1	41.1	41.7	43.1

Sources: National Bank of Ukraine and IMF staff calculations.

1/ Program scenario. See policy assumptions in footnote 1 of Selected economic Indicators Table.
2/ Projected NIR are at projected exchange rates.
3/ Adjusting for projected loan write-offs in 2009, the growth rate would be about 8 percent.
4/ Based on nominal GDP over the last four quarters.

Table 5. Ukraine: Financial Soundness Indicators for the Banking Sector, 2006–08
(In percent, unless otherwise indicated)

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Ownership								
Number of banks	170	173	173	174	175	176	178	181
Private	168	171	171	172	173	174	176	179
Domestic	133	131	129	128	126	127	127	129
Foreign	35	40	42	44	47	47	49	50
o/w: 100% foreign-owned	13	18	17	16	17	17	18	18
State-owned	2	2	2	2	2	2	2	2
Foreign-owned banks' share in statutory capital	27.6	29.8	32.8	35.0	35.0	36.7	40.5	39.8
Concentration								
Share of assets of largest 10 banks	52.4	53.0	52.5	51.6	49.7	49.8	49.4	...
Share of assets of largest 25 banks	74.3	74.6	75.4	75.2	75.2	75.0	74.9	...
Number of bank with assets less than $150 million	109	113	100	97	85	86	83	...
Capital Adequacy								
Regulatory capital to risk-weighted assets	14.2	14.0	14.0	13.9	13.9	13.3	13.4	13.6
Capital to total assets	13.3	12.9	12.4	12.5	12.5	13.1	12.9	13.0
Asset Quality								
Credit growth (year-over-year)	70.7	73.0	75.6	75.1	74.1	76.2	64.1	54.1
Credit to GDP ratio	45.2	47.7	51.6	55.6	60.1	62.7	60.8	63.1
Change of loan to GDP ratio (percentage points)	12.6	13.3	14.3	14.6	14.9	15.0	9.2	9.3
NPLs to total loans 1/ 2/	17.8	17.6	16.5	14.8	13.2	13.1	13.6	14.5
NPLs (excl. part of timely serviced substandard loans) 1/ 3/	4.2	4.2	3.7	3.3	3.2	3.2	3.7	3.6
NPLs net of provisions to capital	93.6	99.1	94.2	82.2	72.9	70.6	74.4	78.1
Specific provisions to NPLs 4/	23.1	20.8	23.7	25.9	26.3	26.7	26.3	26.0
Specific provisions to total loans	4.8	4.7	4.7	4.5	4.2	4.1	4.1	4.3
Foreign Exchange Rate Risk								
Loans in foreign currency to total loans	49.4	50.8	51.2	51.5	49.8	49.4	49.3	51.2
Deposits in foreign currency to total deposits	38.1	38.8	36.5	34.6	32.1	33.1	32.5	31.8
Foreign currency loans to foreign currency deposits	173.3	183.7	206.0	220.8	237.2	238.8	245.5	269.2
Total net open positions in foreign currency to regulatory capital	8.4	9.3	9.1	8.7	7.0	7.7	7.7	7.1
Banks net foreign assets to capital	-93.4	-100.5	-127.1	-137.7	-147.1	-143.8	-143.2	-160.7
Total foreign currency assets (incl. loans) to total foreign currency liabilities (incl. deposits)	106.3	108.3	106.4	107.6	105.3	106.3	107.7	107.5
Total short-term foreign currency assets (incl. loans) to total short-term foreign currency liabilities (incl. deposits)	158.6	149.7	129.7	131.5	115.6	130.7	133.6	158.5
Liquidity Risk								
Liquid assets to total assets	12.6	11.4	11.8	11.0	10.3	8.9	9.2	8.9
Customer deposits to total loans to the economy	74.9	71.2	67.9	67.2	65.3	62.4	61.8	59.8
Long-term assets to long-term liabilities	89.7	91.0	93.4	94.7	95.3	93.7	93.5	92.3
Short-term assets to short-term liabilities	120.6	118.2	112.9	110.7	110.0	114.2	114.2	119.4
Earnings and Profitability								
Return on assets (after tax; end-of-period)	1.6	1.6	1.4	1.4	1.5	1.4	1.3	...
Return on equity (after tax; end-of-period)	13.5	12.7	11.3	11.6	12.7	11.4	11.2	...
Net interest margin to total assets	5.3	4.9	4.9	4.9	5.0	4.8	5.0	...
Interest rate spreads (percentage points; end-of-period)								
Between loans and deposits in domestic currency	7.2	5.9	6.5	5.4	5.8	6.3	7.6	...
Between loans and deposits in foreign currency	5.4	5.6	5.5	5.5	4.9	5.2	8.3	...
Between loans in domestic and foreign currency	3.6	2.5	3.0	2.7	3.2	4.4	5.3	...
Between deposits in domestic and foreign currency	1.8	2.2	1.9	2.8	2.3	3.3	6.0	...
Number of banks not complying with banking regulations								
Not meeting capital adequacy requirements for Tier I capital	0	0	0	1	0	0	0	0
Not meeting prudential regulations	1	0	1	1	1	2	1	2
Not meeting reserve requirements	1	0	0	0	1	0	0	0

Sources: National Bank of Ukraine; and staff estimates.

1/ NPLs are those classified as substandard, doubtful, and loss.
2/ Increase in nonperforming loans (NPLs) in 2003 partly due to new classification rules.
3/ The NBU estimates that as of end-March 2004, 6.2 percent of loans classified as substandard were being timely serviced.
4/ About half of the drop in the provision to NPL ratio from end-2002 to end-2003 is due to new loan classification rules.

Table 6. Ukraine: General Government Finances, 2007–09 1/ 2/ 3/

	2007		2008 Budget	2008 Staff's Proj.		2009 Staff's Proj.	
	General Gov't	State	State	General Gov't	State	General Gov't	State
			(in millions of Hrv)				
Revenue	**301,618**	**163,073**	**214,850**	**424,931**	**234,353**	**469,048**	**257,825**
Tax revenue	263,394	133,930	178,005	379,088	199,391	418,263	217,508
Personal income tax	34,782	0	0	47,677	0	52,683	0
Enterprise profit tax	34,407	33,964	42,282	48,923	48,306	47,300	46,608
Payroll tax	82,733	0	0	114,318	0	126,725	0
Property tax	3,889	0	0	6,623	0	7,423	0
VAT	59,383	59,383	86,069	97,610	97,610	108,835	108,835
Other taxes on goods and services	25,844	22,933	27,017	33,411	29,204	41,395	36,102
Taxes on international trade	10,038	10,038	12,590	14,432	14,432	15,678	15,678
Other taxes	12,317	7,613	10,048	16,094	9,839	18,224	10,285
Non-tax, capital revenue, and grants	38,224	29,143	36,844	45,843	34,961	50,785	40,317
Expenditure	**315,852**	**175,755**	**234,022**	**444,861**	**253,882**	**519,498**	**308,179**
Current expenditures	275,594	148,407	204,179	380,135	207,139	420,270	228,088
Wages	72,677	32,576	42,996	100,189	45,597	108,190	47,534
Goods and services	45,991	29,621	37,829	58,523	37,385	59,112	36,703
Subsidies	19,921	14,582	19,743	28,947	21,235	27,163	19,224
Transfers	133,326	68,278	98,132	186,544	97,519	208,853	108,719
Interest	3,679	3,350	5,480	5,932	5,403	16,953	15,908
Capital spending	38,683	25,829	27,723	57,086	39,182	92,957	73,906
Net lending	1,575	1,519	1,650	5,570	5,491	5,571	5,484
Unallocated spending	0	0	470	2,070	2,070	700	700
Augmented balance, incl. banks recap. costs	**-14,233**	**-12,682**	**-19,172**	**-19,930**	**-19,530**	**-50,450**	**-50,354**
Cost of banks recap: upfront cost				10,000	10,000	44,000	44,000
Cost of banks recap: interests				0	0	6,450	6,450
Overall cash balance (excludes upfront recap. cost)	**-14,233**	**-12,682**	**-19,172**	**-9,930**	**-9,530**	**-6,450**	**-6,354**
Balance, net of all costs of banks recap.	**-14,233**	**-12,682**	**-19,172**	**-9,930**	**-9,530**	**0**	**96**
Financing	**13,450**	**12,601**	**19,172**	**19,930**	**19,530**	**50,450**	**50,354**
External	7,007	5,558	5,757	62	-424	185	-598
Disbursements	10,640	9,154	8,098	2,526	2,003	9,652	8,832
Amortization	-3,633	-3,595	-2,341	-2,464	-2,427	-9,467	-9,430
Domestic	2,235	4,583	4,515	17,782	17,968	48,853	49,839
Net Borrowing	1,385	1,712	4,162	12,599	12,009	49,650	49,575
Borrowing	3,881	4,079	7,821	16,405	15,681	62,655	62,331
Amortization	-2,496	-2,367	-3,659	-3,807	-3,672	-13,005	-12,755
Other, incl. deposit finance	850	2,871	353	5,183	5,959	-798	263
Privatization	4,209	2,460	8,900	2,086	1,986	1,412	1,112
			(in percent of GDP)				
Revenue	**42.3**	**22.9**	**24.2**	**42.8**	**23.6**	**42.2**	**23.2**
Tax revenue	36.9	18.8	20.0	38.2	20.1	37.6	19.6
Personal income tax	4.9	0.0	0.0	4.8	0.0	4.7	0.0
Enterprise profit tax	4.8	4.8	4.8	4.9	4.9	4.3	4.2
Payroll tax	11.6	0.0	0.0	11.5	0.0	11.4	0.0
Property tax	0.5	0.0	0.0	0.7	0.0	0.7	0.0
VAT	8.3	8.3	9.7	9.8	9.8	9.8	9.8
Other taxes on goods and services	3.6	3.2	3.0	3.4	2.9	3.7	3.2
Taxes on international trade	1.4	1.4	1.4	1.5	1.5	1.4	1.4
Other taxes	1.7	1.1	1.1	1.6	1.0	1.6	0.9
Non-tax, capital revenue, and grants	5.4	4.1	4.1	4.6	3.5	4.6	3.6
Expenditure	**44.3**	**24.7**	**26.3**	**44.8**	**25.6**	**46.7**	**27.7**
Current expenditures	38.7	20.8	23.0	38.3	20.9	37.8	20.5
Wages	10.2	4.6	4.8	10.1	4.6	9.7	4.3
Goods and services	6.5	4.2	4.3	5.9	3.8	5.3	3.3
Subsidies	2.8	2.0	2.2	2.9	2.1	2.4	1.7
Transfers	18.7	9.6	11.0	18.8	9.8	18.8	9.8
Interest	0.5	0.5	0.6	0.6	0.5	1.5	1.4
Capital spending	5.4	3.6	3.1	5.7	3.9	8.4	6.6
Net lending	0.2	0.2	0.2	0.6	0.6	0.5	0.5
Unallocated spending	0.0	0.0	0.1	0.2	0.2	0.1	0.1
Augmented balance, incl. banks recap. costs	**-2.0**	**-1.8**	**-2.2**	**-2.0**	**-2.0**	**-4.5**	**-4.5**
Cost of banks recap: upfront cost				1.0	1.0	4.0	4.0
Cost of banks recap: interests				0.0	0.0	0.6	0.6
Overall cash balance (excludes upfront recap. cost)	**-2.0**	**-1.8**	**-2.2**	**-1.0**	**-1.0**	**-0.6**	**-0.6**
Balance, net of all costs of banks recap.	**-2.0**	**-1.8**	**-2.2**	**-1.0**	**-1.0**	**0.0**	**0.0**
Financing	**1.9**	**1.8**	**2.2**	**2.0**	**2.0**	**4.5**	**4.5**
External	1.0	0.8	0.6	0.0	0.0	0.0	-0.1
Disbursements	1.5	1.3	0.9	0.3	0.2	0.9	0.8
Amortization	-0.5	-0.5	-0.3	-0.2	-0.2	-0.9	-0.8
Domestic	0.3	0.6	0.5	1.8	1.8	4.4	4.5
Net Borrowing	0.2	0.2	0.5	1.3	1.2	4.5	4.5
Borrowing	0.5	0.6	0.9	1.7	1.6	5.6	5.6
Amortization	-0.4	-0.3	-0.4	-0.4	-0.4	-1.2	-1.1
Other, incl. deposit finance	0.1	0.4	0.0	0.5	0.6	-0.1	0.0
Privatization	0.6	0.3	1.0	0.2	0.2	0.1	0.1

Sources: Ministry of Finance; NBU; and Fund staff estimates and projections.

1/ Based on implementation of IMF policy advice, staff macroeconomic and revenue estimates, and IMF staff estimatesof budget transfers necessary to fill financing gaps in the pension and social funds. The aggregates for the general government cover the whole of the general government sector, including local authorities and the social funds. The differences between staff's and the authorities' public finances numbers and deficit estimates (for both the State and general government) reflect accounting treatments to ensure consistency with international accounting rules, and a different economic classification of revenue and expenditure.

2/ State revenue are adjusted for the non-cash property income paid by Russia in exchange for amortization of Ukraine's debt to Russia.

3/ The forecast assumes a public-financed recapitalization of banks for a total amount of Hrv 54 bln (10 bln by end-2008 and 44 bln in the first half of 2009).

Table 7. Ukraine: Medium-Term Macroeconomic Framework, 2004-13 1/

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
					Program scenario					
Output and prices										
Nominal GDP (billions of hryvnias)	345	441	544	713	993	1112	1309	1478	1682	1909
Real GDP growth (percent change)	12.1	2.7	7.3	7.6	6.0	-3.0	3.3	5.5	6.8	6.4
Output gap	3.3	-0.6	-0.3	1.4	2.4	-5.6	-7.3	-6.8	-5.1	-3.7
Real domestic demand growth (percent change)	8.8	15.3	13.8	15.5	12.8	-12.0	2.4	6.5	7.0	8.0
Consumer prices (percent change; end of period)	12.3	10.3	11.6	16.6	25.5	17.0	8.0	5.4	4.7	5.0
Consumer prices (percent change; average)	9.0	13.5	9.1	12.8	25.6	21.0	12.5	6.7	5.1	4.9
Core inflation (end of period) 2/	12.0	13.8	7.2	13.4	22.0	13.1	7.0	5.5	5.0	5.0
Wages										
Minimum wage (percent change; average)	15.5	39.3	21.4	17.9	23.8	16.7	12.5	12.0	11.0	10.5
Nominal monthly wages (average)	27.5	36.7	29.2	29.7	37.1	10.5	11.8	11.3	11.0	11.1
Real monthly wages (average)	17.1	20.4	18.4	15.0	9.1	-8.7	-0.6	4.3	5.7	5.9
Public finances (percent of GDP)										
Augmented balance, including effects of banks recap. 3/	-4.4	-2.3	-1.4	-2.0	-2.0	-4.5	-2.1	-2.1	-2.1	-2.1
p.m. Balance excl. banks recap. (upfront cost and interests)	-4.4	-2.3	-1.4	-2.0	-1.0	0.0	-1.3	-1.3	-1.3	-1.4
Revenue and grants	37.1	41.8	43.7	42.3	42.8	42.2	41.5	41.3	41.3	41.2
Expenditure and net lending (cash basis)	41.5	44.1	45.1	44.3	43.8	42.2	42.8	42.6	42.7	42.5
of which: current expenditure	35.0	39.9	40.5	38.7	38.3	37.2	37.2	36.6	36.3	36.7
Privatization receipts	3.1	5.0	0.4	0.6	0.2	0.1	0.5	0.5	0.5	0.6
Net domestic financing	-0.1	-3.3	-0.4	0.3	1.8	4.4	1.0	0.8	0.9	0.8
Net external financing	1.4	0.6	1.3	1.0	0.0	0.0	0.5	0.7	0.7	0.7
Public debt (in percent of GDP; end of period) 4/	25.5	18.7	15.7	12.5	10.6	17.4	17.4	17.3	16.7	16.4
Domestic	6.3	4.6	3.3	2.7	3.3	7.4	8.0	8.2	8.2	8.2
External (foreign currency denominated)	19.2	14.1	12.5	9.8	7.4	10.0	9.4	9.0	8.5	8.2
Money and credit										
Base money (percent change, eop)	34.1	53.9	17.5	46.0	33.0	10.9	16.8	13.1	13.9	12.9
Credit to nongovernment (percent change, eop)	31.6	61.9	70.7	74.0	40.9	-9.8	16.9	13.8	15.7	15.1
Share of fx credit in total credit	42.1	43.2	49.4	49.8	57.5	60.0	53.5	53.6	53.4	53.2
External sector										
Current account balance (percent of GDP)	10.6	2.9	-1.5	-3.7	-6.2	-2.0	-1.7	-2.6	-2.4	-3.3
Total external debt (percent of GDP)	46.3	45.1	49.7	57.8	54.3	78.2	74.6	71.3	64.6	57.7
Goods exports, value (percent change)	40.8	4.8	11.2	28.0	33.4	-18.5	13.6	10.6	10.1	9.3
Goods imports, value (percent change)	23.7	21.8	22.1	36.9	39.5	-25.3	10.3	10.5	10.3	9.9
Foreign direct investment (percent of GDP)	2.6	8.7	5.3	6.5	6.2	6.8	6.8	6.8	6.7	6.5
Gross official reserves (end of period)										
In billions of U.S. dollars	9.5	19.4	22.3	32.5	31.4	30.7	34.8	39.9	45.3	48.5
In months of imports of goods and services	2.6	4.4	3.7	3.9	5.1	4.5	4.6	4.8	5.0	4.9
External debt service (in percent of exports of goods and servic	5.3	4.9	5.1	3.9	2.8	4.2	4.4	3.7	7.1	10.1
Hryvnia per U.S. dollar (end of period)	5.3	5.0	5.0	5.0	…	…	…	…	…	…
Goods terms of trade (percent change)	9.6	6.2	-0.2	9.0	7.8	-14.5	-2.3	0.4	0.5	0.4
Goods and services terms of trade (percent change)	7.8	4.9	1.5	7.4	8.9	-10.5	-0.2	0.9	0.8	0.8
Savings-Investment Balance (percent of GDP)										
Foreign savings	-10.6	-2.9	1.5	3.7	6.2	2.0	1.7	2.6	2.4	3.3
Gross national savings	31.8	25.6	23.3	23.2	20.9	21.2	21.1	21.3	22.6	23.0
Nongovernment	33.2	25.8	22.4	22.6	19.5	18.6	19.9	20.0	21.3	21.7
Government	-1.4	-0.3	0.9	0.7	1.4	2.6	1.2	1.3	1.2	1.2
Gross investment	21.2	22.6	24.8	26.9	27.0	23.2	22.7	23.9	25.0	26.3
Nongovernment	18.2	20.6	22.5	24.3	24.6	20.6	20.2	21.4	22.5	23.8
Government	3.0	2.0	2.2	2.7	2.4	2.6	2.6	2.6	2.6	2.6

Sources: Ukrainian authorities; and staff estimates and projections.

1/ Policies assumed here include: (i) increased exchange rate flexibility as from 2008; (ii) convergence of natural gas import prices to Western European levels (adjusted for transit) by 2010; (iii) full pass-through of rising energy import prices; (iv) a public-financed recapitalization of banks for a total amount of Hrv 54 bln (10 bln by end-2008 and 44 bln in the first half of 2009).
2/ Inflation excluding extreme price movements in the CPI components. The concept used here is the 65th percentile of the distribution of the monthly price changes.
3/ The public finance aggregates cover the whole of the general government sector, including local authorities and the social funds. Reported fiscal outturns are also adjusted by staff to ensure consistency with international accounting rules.
4/ Government and government-guaranteed debt, and NBU debt. Excludes debts by state-owned enterprises. Debt figures do not include IMF money.

Table 8. Ukraine: Moving to Inflation Targeting: Progress Report

Preconditions	Key Achievements in 2007-08	Further Steps Needed 1/
Institutional framework	• Published a draft Green paper, soliciting public input on options for NBU mandate and independence.	• Finalize the Green paper, and translate this into an Action Plan for 2008-09. • Adopt further amendments to the NBU Act that would provide the NBU with a clear mandate to achieve price stability and allow for greater NBU independence.
Exchange rate flexibility	• Gradually allow greater exchange rate flexibility, within a narrow but, over time, widening exchange rate corridor.	
Monetary policy instruments	• Introduced more active use of deposit facility, focused around two week CDs.	• Identify key policy rate; and actively steer the policy rate within a gradually narrowing interest rate corridor. • Apply monetary instruments in a consistent, transparent, and market-oriented manner.
Capacity to model and forecast	• Regular preparation of a macroeconomic survey assessing short term outlook, including under different monetary policy actions. • Developed an exclusion-based core inflation indicator, and began publishing this from January 2008 • Refined quarterly projection model and quarterly business outlook survey.	• Integrate macroeconomic survey into monetary policy decision making. • Develop full range of core inflation indicators.
Communication of monetary policies	• Introduced more frequent public discussion of monetary policy. • Outreach to financial sector and academia on IT	• Issue an Inflation Report. • Further modernize the NBU website. • Conduct press conferences and issue press releases on inflation targeting.
Financial market development	• Foreign exchange turnover tax reduced to 0.5 percent in 2008 budget. • Prepared a concept note, and draft legislation, on foreign exchange market liberalization	• Abolish the foreign exchange turnover tax. • Develop benchmarks for government securities. • Simplify procedures for working in the foreign exchange market.
Banking sector stability		• Gradually implement more risk-based supervision. • Further tighten banking supervision, regulation, and legislation.

1/ Steps identified in the NBU's 2006 Action Plan and Fund recommendations.

Table 13. Ukraine: Indicators of Fund Credit, 2006-2013

	2006	2007	2008	2009	2010	2011	2012	2013
			projections					
Existing and prospective Fund credit 1/ 2/								
In millions of SDRs	552	273	3,057	9,500	11,000	11,000	8,313	3,281
In percent of exports of goods and services	2	1	6	21	22	20	14	5
In percent of public sector external debt	6	3	25	50	54	52	42	20
In percent of gross reserves	3	1	15	48	49	43	29	11
In percent of quota	40	20	223	692	802	802	606	239
Existing Fund credit 1/ 2/								
In millions of SDRs	552	273	57	0	0	0	0	0
In percent of exports of goods and services	2	1	0	0	0	0	0	0
In percent of public sector external debt	6	3	0	0	0	0	0	0
In percent of gross reserves	3	1	0	0	0	0	0	0
In percent of quota	40	20	4	0	0	0	0	0
Prospective Fund credit 1/ 2/								
In millions of SDRs	0	0	3,000	9,500	11,000	11,000	8,313	3,281
In percent of exports of goods and services	0	0	6	21	22	20	14	5
In percent of public sector external debt	0	0	24	50	54	52	42	20
In percent of gross reserves	0	0	15	48	49	43	29	11
In percent of quota	0	0	219	692	802	802	606	239
Repurchases and charges due from existing and prospective drawings 2/ 3/								
In millions of SDRs	315	304	239	315	501	552	3,200	5,338
In percent of exports of goods and services	1	1	0	1	1	1	5	8
In percent of public sector external debt service 4/	18	18	17	19	23	27	73	81
In percent of gross reserves	1	1	1	2	2	2	11	17
In percent of quota	23	22	17	23	36	40	233	389
Repurchases and charges due from existing drawings 2/								
In millions of SDRs	315	304	224	58	0	0	0	0
In percent of exports of goods and services	1	1	0	0	0	0	0	0
In percent of public sector external debt service 4/	18	18	15	3	0	0	0	0
In percent of gross reserves	1	1	1	0	0	0	0	0
In percent of quota	23	22	16	4	0	0	0	0
Repurchases and charges due from prospective drawings 2/ 3/								
In millions of SDRs	0	0	16	257	501	552	3,200	5,338
In percent of exports of goods and services	0	0	0	1	1	1	5	8
In percent of public sector external debt service 4/	0	0	2	16	23	27	73	81
In percent of gross reserves	0	0	0	1	2	2	11	17
In percent of quota	0	0	1	19	36	40	233	389

Sources: Data provided by the Ukrainian authorities; and staff estimates.

1/ End of period.
2/ Existing drawings are under the expectations schedule. Prospective drawings are under the obligations schedule.
3/ Excluding commitment charges
4/ Public sector debt service including debt service from prospective drawings.

Ukraine—Stand-By Arrangement 2008–2010

Attached hereto is a letter from the Minister of Finance, the Governor of the National Bank of Ukraine (NBU), the Prime Minister and the President of Ukraine, dated October 31, 2008 (the "Letter"), with an attached Memorandum of Economic and Financial Policies (the "Memorandum") and Technical Memorandum of Understanding (the "TMU"), requesting a Stand-By Arrangement from the International Monetary Fund and setting forth:

(a) the objectives and policies that the authorities of Ukraine intend to pursue for the period of this Stand-By Arrangement;

(b) the policies and measures that the authorities of Ukraine intend to pursue during the first year of this Stand-By Arrangement; and

(c) understandings of Ukraine with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Ukraine will pursue for the remaining period of this Stand-By Arrangement.

To support these objectives and policies the International Monetary Fund grants this Stand-By Arrangement in accordance with the following provisions:

1. For a period of 24 months from November 5, 2008, Ukraine will have the right to make purchases from the Fund in an amount equivalent to SDR 11,000 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this Stand-By Arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 3,000 million until February 15, 2009, the equivalent of SDR 4,250 million until May 15, 2009, the equivalent of SDR 6,750 million until August 15, 2009, the equivalent of SDR 7,500 million until November 15, 2009, the equivalent of SDR 9,500 million until February 15, 2010, the equivalent of SDR 9,875 million until May 15, 2010, the equivalent of SDR 10,250 million until August 15, 2010, and the equivalent of SDR 10,625 million until October 15, 2010.

(b) None of the limits in (a) above shall apply to a purchase under this Stand-By Arrangement that would not increase the Fund's holdings of Ukraine's currency subject to repurchase beyond 25 percent of quota.

3. Ukraine will not make purchases under this Stand-By Arrangement that would increase the Fund's holdings of Ukraine's currency subject to repurchase beyond 25 percent of quota: