# Ukraine Macroeconomic Situation

October 2011

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- **Real sector performance kept improving in September, underpinned by buoyant consumption and a rich agricultural harvest.**
- **A more challenging external environment started weighing on export-oriented industries, which caused industrial production growth to decelerate to 6.4% yoy in September.**
- **Due to a better than expected harvest, we are slightly upgrading the real GDP growth forecast to 4.5% yoy in 2011.**
- **Consumer price inflation eased to 5.9% yoy in September. Despite an expected pick up through the rest of the year, year-end inflation should stay in single digits.**
- **The state budget deficit stood at UAH 5.2 billion over Jan-Aug 2011, or 15% of the full-year target, thanks to robust tax revenue growth. However, the broad fiscal deficit target of 3.5% of GDP may still be missed due to larger Naftogaz imbalances.**
- **The IMF mission arrived in Kyiv on October 25th. Although it's a positive sign, further cooperation with the IMF appears uncertain.**
- **In September, the current account kept widening on faster growth of imports than exports. In addition, the financial account switched to a large deficit amid larger capital outflows from the banking system and a high population demand for foreign currency.**
- **A worsened Balance of Payments is exerting depreciation pressure on the Hryvnia. But due to sizable NBU interventions on the forex market, the Hryvnia exchange rate with respect to the US Dollar remained virtually stable.**

## Executive Summary

The Ukrainian economy maintained a solid pace of economic activity in September, principally thanks to strong domestic demand and booming agriculture. Retail sales turnover, an early indicator of private consumption, was up by 15.2% yoy over January-September. Strong private consumption growth was underpinned by solid real wage growth and increasing consumer credit. In 2011, Ukraine harvested about 53 million tons of grain, the second largest crop in history. Thus, agricultural output was up by 13.7% yoy over the first nine months of 2011.

However, as expected, worsening export prospects started to weigh on performance of export-oriented industries. The growth in metallurgy, chemicals and machine-building notably slowed in September. As the industrial sector structure is heavily biased towards these industries, total industrial production slowed from 9.6% yoy in August to 6.4% yoy in September 2011. Although the external environment will be challenging for Ukraine for the rest of 2011, thanks to the rich agricultural harvest we have slightly upgraded the real GDP growth forecast to 4.5% in 2011, but have revised downwards real GDP growth to 3.5% yoy in 2012.

Thanks to the generous harvest, a slower increase in regulated prices and easing inflationary pressures from abroad, Ukraine's consumer inflation slowed to 5.9% yoy in September. However, due to re-instatement of higher excise taxes, a low base effect and higher likelihood of an increase in natural gas tariffs to the population, the consumer price index is forecast to increase by about 9% yoy in 2011.

Exports of agricultural and food products accelerated to 33% yoy in September due to the good harvest. However, this improvement did not compensate for slower export growth of metallurgical products, machinery and transport equipment. Although imports also lost speed, the pace of imports kept outpacing exports. Thus, Ukraine's current account balance widened to $5.5 billion for January-September, or 4.8% of estimated period GDP.

In September, Ukraine's financial account switched to a large deficit of more than $1 billion. Deterioration in the financial account occurred due to high population demand for foreign currency, large debt repayments by the banking system and lower debt rollover by the private sector. Worsening current and financial accounts pressured the Hryvnia to depreciate. However, the NBU heavily intervened in the market to support the Hryvnia exchange rate. Due to large interventions and negative valuation changes (mainly Euro depreciation to the US dollar), the NBU gross international reserves fell by 8.5% in September to $35 billion. As the NBU continued to keep banking sector liquidity tight, tightened requirements on cash foreign exchange transactions and the level of international reserves still remains high, the Hryvnia is projected to stay at around UAH 8.0 per USD through the end of 2011.

Solid economic growth over the first nine months of the year helped collect 39% yoy higher revenues to the state coffers. However, the reluctance of Ukrainian authorities to raise natural gas tariffs is likely to result in missing the general government fiscal deficit target of 3.5% of GDP in 2011. In mid-October, the 2012 state budget law was approved in the first reading, targeting a 1.6% of GDP deficit. However, given the rather optimistic macroeconomic forecast (5% real GDP growth) and the absence of a clear strategy to sustain Naftogaz's financial stance, the broad fiscal deficit target of 2.5% of GDP looks difficult to achieve. In addition, there is a risk of policy loosening in the run-up to parliamentary elections scheduled for late October 2012. As a result, although top Ukrainian officials have recently signaled that tariffs may be raised at the end of 2011 and the IMF mission came to Ukraine on October 25th, further co-operation with the IMF still looks uncertain.



Where Opportunities Emerge.

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Editor Rina Bleyzer O'Malley

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011f |
|---|---|---|---|---|---|---|
| GDP growth. % yoy | 7.3 | 7.9 | 2.3 | -14.8 | 4.2 | 4.5 |
| GDP per capita. $ | 2 300 | 3 070 | 3 880 | 2 540 | 3 030 | 3 530 |
| Industrial production. % yoy | 6.2 | 10.2 | -3.1 | -21.9 | 11.0 | 6.5 |
| Retail sales. % yoy | 24.8 | 28.8 | 18.6 | -16.6 | 7.6 | 14.5 |
| Budget deficit. % GDP* | -0.7 | -1.7 | -2.0 | -8.8 | -6.5 | -4.0 |
| Government external debt. % GDP | 11.0 | 8.7 | 9.3 | 20.5 | 23.8 | 25.3 |
| Inflation. eop | 11.6 | 16.6 | 16.6 | 12.3 | 9.1 | 9.0 |
| Gross international reserves. $ billion | 22.4 | 32.5 | 32.5 | 26.5 | 34.5 | 35.0 |
| Current account balance. % GDP | -1.5 | -3.7 | -7.0 | -1.7 | -1.9 | -4.8 |
| Gross external debt. % GDP | 50.6 | 56.0 | 56.4 | 88.6 | 88.1 | 80.0 |
| Exchange rate. Hryvnia/US Dollar. eop | 5.1 | 5.1 | 7.7 | 7.99 | 7.96 | 8.0 |

**Including implicit pension fund deficit in 2007-2009. and including Naftogaz and pension fund deficits since 2009 (not including bank recapitalization expenditures and VAT bonds)*
*Sources: State Statistics Committee of Ukraine. NBU. Ministry of Finance of Ukraine. 2011 Budget Law. The Bleyzer Foundation*

## Economic Growth

The Ukrainian economy maintained a solid pace of economic activity in September, principally thanks to strong domestic demand and booming agriculture. Indeed, private consumption grew by 14.1% yoy in 2Q 2011, further up from 12.7% yoy a quarter ago. Retail sales turnover, up by 15.2% yoy over the first 9 months of the year, the same pace of growth as for January-August 2011), signaled the continuing strength of private consumption in September. The growth in private consumption was supported by a 7.7% yoy growth in real wages(over January-August 2011) and increasing consumer credit (+26% yoy in August 2011[1]).Furthermore, a more uncertain growth outlook and intensified Hryvnia depreciation pressures spurred population demand for foreign currency, cars, home appliances, and other durables. According to Auto-Consulting Group, new car sales picked up by 43% yoy in September. Although the growth moderated compared to the previous month (54% yoy), the number of units sold during the month was the highest since 2008.

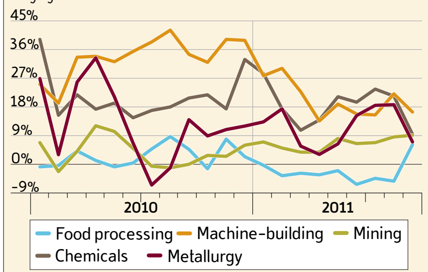
**Real Sector Performance of Ukraine**
% yoy

| | Jan-Sep 2011 | Jan-Sep 2010 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Agriculture | 13.7 | -1.3 | -1 | -1.8 | 17.1 |
| Industrial output | 8.6 | 10.8 | 11 | -21.9 | -3.1 |
| Construction works | 11.4 | -12.6 | -5.4 | -48.2 | -15.8 |
| Domestic trade turnover | | | | | |
| Wholesale trade | 0.2 | 2.4 | 0.4 | -19.3 | -6 |
| Retail trade | 15.2 | 5.1 | 7.6 | -17.4 | 18.1 |
| Restaurants | 12.5 | 1.8 | 3.5 | -15.6 | 4.6 |
| Transportation turnover | | | | | |
| Cargo | 7.4 | 8.7 | 6.4 | -22.5 | -0.2 |
| Passenger | 3.4 | -1.9 | -0.2 | -11.5 | 4.5 |
| Services, non-financial | 18.3 | 1.4 | 2.9 | -16.8 | 15.8 |

*Source: State Statistics Committee of Ukraine, The Bleyzer Foundation*

Good budget financing of large infrastructure projects and rising profitability of Ukrainian enterprises supported robust investment activity. In 2Q 2011, investment into fixed assets accelerated to 8.5% yoy, up from 4.5% yoy in the previous quarter. Although growth in construction activity has moderated in recent months, which may be attributed to both a number of large projects near completion and a rising statistical base, the sector reported decent growth of 11.4% yoy for January-September 2011.

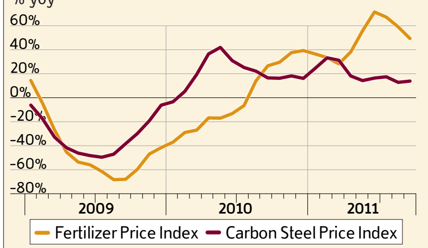
**Industrial Production Growth by Select Branches**
% yoy




*Source: State Statistics Committee of Ukraine, The Bleyzer Foundation*

A larger sown area, favorable weather conditions, better fertilizer and equipment use allowed Ukraine to collect more than 53 million tons of cereals, according to the Ministry of Agricultural Policy and Food. In addition, preliminary data showed that the country enjoyed a record high harvest of selected vegetables (such as potato and cabbage) and industrial crops and products (sugar beets[2], sunflower seeds). As a result, agriculture advanced by an outstanding 13.7% yoy over January-September. The good harvest also helped the food-processing industry to rebound. In September, manufacturing of food and beverages grew by 6.2% yoy compared to a 3.4% yoy decline in production over the first eight months of the year. The industry improvement was, however, restricted by continuing contraction in cattle breeding. The dairy cow number kept declining and was 3.1% yoy lower as of the end of September 2011, exerting a toll on production of milk and manufacturing of dairy products. Thus, output production of dairy products fell by 10% yoy in September.

**World Steel and Fertilizer Price Indices**
% yoy




*Source: MEPS, WB GEM databank*

As expected, already in September export-driven industries finished much weaker than in the previous months as overseas demand slowed amid continuing turbulence in developed countries and concerns over the global slowdown. Although world commodity prices, particularly steel and fertilizers, demonstrated resilience that month, a worsened export outlook may have prompted industrial companies to revise their production plans. Thus, the growth in metallurgy and chemicals moderated from 18.7% yoy and 21.4% yoy in August to 7% yoy and 9.4% yoy in September, respectively. Sharp deceleration in the Russian industrial economy may explain growth moderation in Ukraine's machine building industry. However, thanks to robust domestic demand for automobiles, the slowdown was

[1]The change in Hryvnia-denominated consumer credit stock. The issuance of foreign-currency denominated loans to households was very restricted since end-2008.
[2]Record high for the last 14 years.

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relatively moderate (16.4% yoy in September from 22.1% yoy a month before). Production of refined petroleum products fell by a notable 41.6% yoy in September as Ukrainian oil-refineries face strong competition from cheaper fuel imports from Belarus and Russia. As these four industries account for about half of total industrial production, their weaker performance explains the growth moderation in the industrial sector from 9.6% yoy in August to 6.4% yoy in September.

Sharp decline of oil-refining in Ukraine, the existence of grain export restrictions, complicated and time-consuming customs clearance procedures[3], as well as deceleration of industrial production contributed to weak wholesale trade performance and easing growth in freight traffic volume and freight turnover. Thus, wholesale trade turnover growth virtually stalled, advancing by a meager 0.2% yoy in January-September, while cargo transportation turnover rose by 7.4% yoy over the period, down from 8.2% yoy in the previous period.

Although agriculture will support real sector performance and exports[4] through the rest of the year, economic growth is expected to notably decelerate in 4Q 2011 due to a more challenging external environment. However, the higher than expected agricultural harvest led us to upgrade our real GDP growth forecast to 4.5% yoy in 2011. At the same time, our real GDP growth forecast was revised downwards to 3.5% yoy in 2012. The downward revision mainly reflected worsening global economic growth prospects, and thus outlook for Ukraine's exports, in 2012. Investment activity is projected to ease amid higher political uncertainty in the run-up to parliamentary elections, likely subdued bank credit, high external debt financing needs and expensive energy resources[5]. Furthermore, although larger social expenditures from the budget will support private consumption, the latter will also stimulate imports given the low competitiveness of domestically manufactured consumer goods on the domestic market (excluding food).

## Fiscal Policy

According to the State Treasury of Ukraine, revenues to the state budget grew by 40.7% yoy over January-August 2011 and only lightly moderated to 39.3% yoy over the first nine months of the year. Although solid economic growth over the first nine months of the year evidently supported tax collections to the state coffers, such a notable acceleration compared to the 24% yoy increase over January-July 2011 is attributed to a very low statistical base effect. The latter was caused by a one-off repayment of VAT refund arrears of the previous years in August 2010 via the special issuance of domestic securities called VAT bonds. Excluding this amount, state budget revenues were 26.3% yoy higher over the first eight months of the year.

**State Budget Execution in 2011**

| | January-August | | Jan-Jul |
|---|---|---|---|
| | UAH billion | % yoy | |
| **Total Revenues** | **201.9** | **26.3*** | **23.4*** |
| Total taxes | 168.6 | 47.3* | 44.9 |
| EPT | 36.4 | 47.6 | 49.8 |
| VAT | 83.7 | 30.1* | 26.1 |
| Excise taxes, total | 20.9 | 19.6 | 14.7 |
| Duties | 6.4 | 27.2 | 32.6 |
| Non-tax revenues | 30.9 | -22.9 | -23.1 |
| **Total Expenditures**** | **204.5** | **8.2** | **6.3** |
| **State Budget Balance** | **-5.2** | **8.5 times lower** | **3.2 times lower** |
| New public debt borrowings | 63.7 | 0.1* | -24.2 |
| Public debt principal payments | 31.4 | 2 times higher | 70.7 |
| Privatization receipts | 11.0 | - | - |

*Excluding VAT refund of UAH 16.4 billion in August 2010 though issuance of special domestic debt securities called VAT bonds
**Excluding net lending from the budget
*Source: Ministry of Finance, The Bleyzer Foundation*

Within tax proceeds, corporate profit tax (EPT) collections surged up by more than 47% yoy over the period. The high growth of EPT collections is explained by the rising profitability of Ukrainian enterprises as well as changes in the administration of this tax.[6] At the same time, some deceleration in EPT growth in August may be attributed to a 2 percentage point decline in the tax rate since April 1st 2011. Thanks to robust domestic demand, high imports and introduction of grain export duties, collections from the VAT tax and foreign trade duties went up by a nominal 30% yoy (excluding VAT refund arrears in tax collections in 2010) and 27% yoy over January-August respectively.

On the expenditure side, despite much higher public debt service payments and capital spending related to realization of large infrastructure projects, overall state budget expenditures grew by 8.2% yoy over the first eight months of the year. Such a slow increase was achieved mainly on account of a moderate growth in social security expenditures (up by 8% in nominal terms) and lower transfers to the Pension Fund of Ukraine to cover its deficit. So far, thanks to high budget revenues, the state budget deficit narrowed to UAH 5.2 billion, or less than 15% of the full-year target. At the same time, as state budget expenditures typically skew higher towards the end of the year and the authorities did not report execution rates of planned budget expenditures for the period, it's too early to judge whether the state budget deficit will be below the targeted 2.7% of GDP. Hence, given larger Naftogaz imbalances as a result of the Ukrainian authorities' reluctance to raise natural gas tariffs and higher imported natural gas prices, the broad fiscal deficit is projected at 4% of GDP in 2011, in excess of the targeted and IMF required 3.5% of GDP.

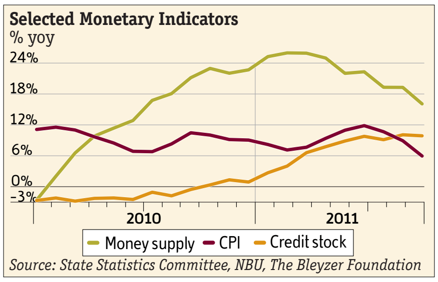
Despite a likely higher general government deficit this year, the Ukrainian economy seems to be committed to continuing fiscal

[3]Special security operations in Odessa and Ilyichevsk ports and increased number of inspections led to substantial delays in import containers handling during August-September 2011.
[4]In mid-October 2011, duties on exports of wheat and corn were abolished.
[5]Although low global economic growth will pressure energy prices down, continuing political turbulence in the MENA region may keep them high. In addition, due to the presence of a 9-month lag to crude oil prices, the average cost of imported natural gas in 2012 is estimated to be higher than in 2011.
[6]The new Tax Code changed accounting of financial losses of previous periods, according to which financial losses of only 1Q 2011 but not of the previous periods were allowed being carried forward to 2Q and the two subsequent reporting periods. This created a very favorable base for comparison.

consolidation measures. Thus, in mid-October, the 2012 state budget law was approved in the first reading, targeting a 1.6% of GDP deficit. According to the government authorities, this would allow narrowing of the broad fiscal deficit to 2.5% of GDP, fully in accordance with IMF requirements. In addition, the authorities recently signaled that increases in natural gas tariffs, one of the principal conditions to resume IMF cooperation, might be enacted before the end of 2011. Given the progress made on IMF loan conditions over the last few months, an IMF mission arrived in Kyiv on October 25th. However, an agreement over 2012 fiscal budget parameters will be necessary in addition to the previous conditions. Given that the 2012 draft budget law was developed based on a rather optimistic macroeconomic forecast (5% real GDP growth) and the government still lacks a clear strategy to sustain Naftogaz's financial stance, further cooperation with the IMF looks uncertain.

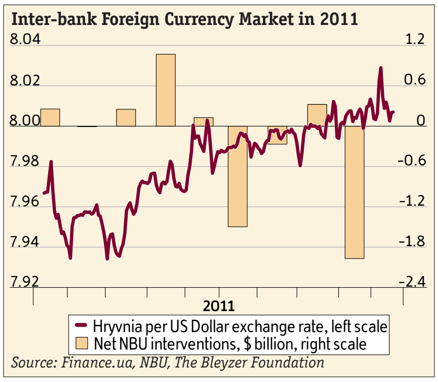
## Monetary Policy

In September 2011, the consumer price index advanced by a meager 0.1% month-over-month (mom). In annual terms, inflation eased to 5.9%, the lowest level since August 2003. Substantial progress in disinflation was achieved thanks to a generous agricultural harvest. A record high crop of vegetables caused a sharp fall in domestic prices for potato, cabbage and other vegetables, which in annual terms were almost half of what they were in September of last year. In anticipation of an oversupply, prices on sugar declined by 8.5% mom. On the upside, due to supply shortages of raw milk, prices on milk, dairy products and cheese added 2.5-2.7% mom. However, due to a high statistical base effect, the annual change in prices for these products was rather moderate (2.3%-6.5% yoy in September).



Source: State Statistics Committee, NBU, The Bleyzer Foundation

Despite easing world crude oil prices, domestic fuel prices and the cost of transportation services grew by 0.3% mom and 0.6% mom respectively in September, reflecting re-instatement of higher excise taxes on petroleum products since the beginning of September. In annual terms, they were 37.5% and 18.7% more expensive than a year ago. On the downside, the reluctance of the Ukrainian authorities to raise natural gas tariffs to the population, which could have prompted adjustments in other utility tariffs (e.g., heating and hot water), helped keep the cost of utility services virtually unchanged from the previous month. Amid a continuing pass-through of higher excise taxes and a low statistical base effect, consumer inflation is projected to accelerate during the last three months of the year. In addition, recently the government signaled that natural gas tariffs might be raised by the end of the year if there is no progress in negotiations with Russia to reduce the cost of natural gas imports to Ukraine. However, thanks to significant disinflation progress in recent months, consumer price growth is forecast to stay in single digits at about 9% yoy at year-end.



Source: Finance.ua, NBU, The Bleyzer Foundation

The tighter monetary policy stance also contributed to easing inflationary pressures. Higher reserve requirements, large NBU sterilization operations, foreign capital outflow and Hryvnia deposit withdrawals by the population led to a substantial liquidity squeeze in the Ukrainian banking system. Thus, the NBU extracted more than UAH 10 billion from the banking system in September, while refinancing operations remained limited. For the second month in a row, commercial banks experienced a run on Hryvnia-denominated population deposits. The stock of these deposits fell by 1.8% mom in September. Intensified Hryvnia depreciation pressures, the lack of population confidence in the Ukrainian banking system and worsening prospects for the European banks' support of their subsidiaries in Ukraine may explain deposit outflow. As a result, average daily cash balances on commercial banks correspondent accounts declined to about UAH 14 billion in September-early October compared to UAH 18 billion over January-August 2011.

Furthermore, persistently high population demand for cash foreign currency and worsening current and financial account balances of Ukraine's Balance of Payments prompted the NBU to heavily intervene in the forex market. In September, net purchases of foreign currency amounted to $2.1 billion, the largest amount since November 2008. The surge in population demand may be attributed not only to increased uncertainties amid a worsened growth outlook and renewed depreciation expectations but also to the NBU tightening of cash foreign exchange transactions. Thus, since September 23rd, commercial banks and cash foreign exchange outlets were required to demand purchaser passport data. The new regulation was aimed at reducing foreign currency demand from the unofficial economy. However, many people cast doubts on the safety of collected passport data, causing a surge in cash foreign exchange demand prior to new regulation enforcement. As this factor can be considered temporary, population demand for cash foreign exchange may ease in the coming months, although the amount of cash purchased is likely to continue exceeding that of sold.

To support the Hryvnia exchange rate, the NBU sold about $2 billion of its gross international reserves. The decline in reserves was

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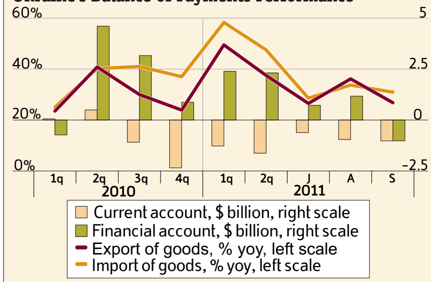
even deeper due to negative valuation effects (depreciation of the Euro with respect to the US Dollar). As a result, gross international reserves fell by 8.5% to less than $35 billion at the end of September. As Hryvnia sterilization operations and the sale of international reserves are mirrored in the monetary base, the latter declined by 2.3% mom in September. Affected by deposit outflow and a decrease in the monetary base, the money supply fell by 0.6% mom over the period. So far, however, liquidity shortages had a limited impact on commercial banks credit activity. On the contrary, the stock of Hryvnia-denominated bank loans grew by 3.1% mom in September and was 21.2% higher than the year before. Moreover, the stock of Hryvnia loans to households expanded by a solid 27% yoy. Acceleration of credit growth may be attributed to higher credit demand due to the resumption of economic activity after the vacation season amid a relatively low base for comparison (due to sluggish credit activity in 2010). At the same time, tight liquidity and the rising risk of Hryvnia depreciation may weigh on credit growth in the near term.

## International Trade and Capital

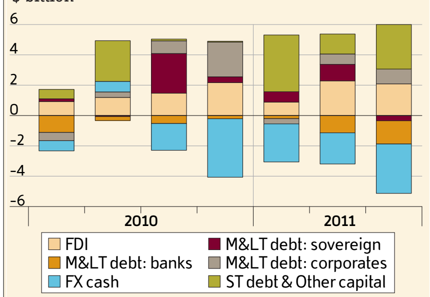
A rich agricultural harvest stimulated Ukraine's export of agricultural and food products in September, despite the existence of duties on cereals exports. As a result, overseas sales of these commodities were 33% yoy higher in US Dollar terms. However, more challenging external conditions for steel products, a key export commodity of Ukraine, caused a notable deceleration in metallurgical exports to 11.8% yoy in September from about 42% yoy in the previous month. Machinery and transport equipment exports rose by 27% yoy in September, down from 59% yoy in August, reflecting industrial growth moderation in the Russian Federation. On the upside, export of chemicals and mineral products accelerated to 49% yoy and 45% yoy (up from 36% yoy and 27.5% yoy in August) underpinned by high fertilizer and energy prices and strong foreign demand for ores and fuels. Despite improvements in exports of agricultural, chemical and mineral products, the overall export of goods decelerated from 36.1% yoy in August to 27% yoy in September as metallurgical products are the biggest commodity group in the structure of goods exports (34.5%).

**Ukraine's Balance of Payments Performance**




*Source: State Statistics Committee of Ukraine, The Bleyzer Foundation*

**Financial Account Balance by Main Components**
$ billion




*Source: NBU, The Bleyzer Foundation*

On the import side, the growth of energy resources imports, which account for 34% of total imports, accelerated to 31.3% yoy in September, up from 20% yoy a month before amid higher volume of natural gas imports prior to another price increase in 4Q 2011. However, as imports of other commodities, particularly machinery and transport vehicles, lost speed in September, overall imports growth moderated to 31% yoy from 33.7% yoy in August. However, as import growth outpaced exports, foreign trade and current account balances kept widening. For January-September 2011, the current account deficit reached $5.5 billion, or 4.8% of estimated period GDP.

In September 2011, the financial account turned into a large deficit of more than $1 billion. The deterioration occurred due to high population demand for foreign currency, large debt repayments by the banking system and lower debt rollover by the private sector. Thus, the banking sector of Ukraine redeemed $1.1 billion on its medium and long-term debt. At the same time, new foreign debt inflow to the sector in September stood at only $31 million, the lowest amount over the last several years. These developments may prove our concerns that parent European banks, facing financial difficulties due to the sovereign debt crisis, may reduce exposures to their subsidiaries in foreign countries, particularly Eastern European and CIS countries. In addition, amid continuing turmoil on international financial markets and intensified risk aversion, maintaining the external debt rollover ratio at the previous highs may be challenging. Already in September, inflow of other capital, which includes trade credits and other short-term capital, notably slowed compared to the previous two months. On the upside, Ukraine attracted $0.7 billion of net FDI that month, bringing the cumulative number to $5.3 billion.

The widening current account gap and a deficit on the financial account created Hryvnia depreciation pressures in September, which were, however, mitigated by sizable NBU forex interventions. Despite the worsened outlook for Ukraine's exports and foreign capital inflows to the country as well as currency depreciation in neighboring countries[7], we believe that the Ukrainian authorities are keen in keeping the Hryvnia exchange rate stable. The reason is that stability of the national currency is still considered one of the key indicators of current economic policy success. In addition, still high gross international reserves and the NBU measures to reduce demand for foreign currency[8] will help alleviate depreciation pressures through the rest of the year. Hence, we have kept out Hryvnia exchange rate forecast at UAH 8.0 per USD at the end of 2011. At the same time, as external conditions are projected to remain challenging, the risk of Hryvnia depreciation in 2012 has been rising. However, the next year Hryvnia exchange rate evolution will crucially depend on the state of cooperation with the IMF. The resumption of the IMF program, stalled since March 2011, will not only give access to scarce and cheap foreign financing, but will help maintain foreign investors' confidence, thus supporting high external debt rollover ratios.

[7]For instance, the Russian ruble lost about 10% of its value with respect to the US Dollar from mid-August to mid-October 2011.
[8]E.g., by keeping banking liquidity tight, strengthening regulation on cash foreign exchange transactions, etc.

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