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# Ukraine: Recent Economic Developments

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INTERNATIONAL MONETARY FUND

UKRAINE

**Recent Economic Developments**

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Approved by the European II Department

April 22, 1999

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# Ukraine: Basic Data

## I. Social and Demographic Indicators

| | |
|---|---|
| Area | 603,700 sq.km. |
| Population density | 84 per sq.km. |
| Population Mid-1997 | 50.5 million |
| GDP per capita in U.S. dollars (1997, Atlas method) | 1,040 |

## II. Economic Indicators

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| Real gross domestic product (GDP) | -12 | -10 | -3 | -2 |
| Industrial production | -11 | -5 | -2 | -2 |
| Employment | 3 | -2 | -1 | ... |
| Consumer prices | | | | |
| Year average | 377 | 80 | 16 | 11 |
| End of period | 181 | 40 | 10 | 20 |
| Producer prices | | | | |
| Year average | 489 | 52 | 8 | 13 |
| End of period | 172 | 17 | 5 | 35 |
| Average nominal wages | | | | |
| Year average | 424 | 72 | 13 | 1 |
| End of period | 261 | 22 | 9 | -1 |
| Average real wages 1/ | | | | |
| Year average | 10 | -5 | -2 | -9 |
| End of period | 28 | -13 | -1 | -18 |
| Net domestic credit of the banking system (end of period) | | | | |
| Nominal | 166 | 22 | 32 | 47 |
| Real 1/ | -6 | -13 | 20 | 24 |
| Broad money (end of period) | | | | |
| Nominal | 117 | 35 | 34 | 25 |
| Real 1/ | -23 | -3 | 22 | 5 |
| Base money (end of period) | | | | |
| Nominal | 132 | 38 | 45 | 22 |
| Real 1/ | -18 | -1 | 31 | 2 |
| NBU refinance rate (end of period) | 40 | 35 | 82 | 60 |
| | | (In percent of GDP) | | |
| State budget revenue 2/ | 37.8 | 36.7 | 38.0 | 35.2 |
| State budget expenditure 2/ 3/ | 42.7 | 39.9 | 43.6 | 37.9 |
| State budget balance | -4.9 | -3.2 | -5.4 | -2.6 |
| Extrabudgetary funds balance | 0.0 | 0.0 | ... | ... |
| General government balance | -4.9 | -3.2 | -5.6 | -2.7 |
| Current account balance | -4.4 | -2.7 | -2.7 | ... |
| Exchange rates | | | | |
| Hryvnia per dollar 4/ | | | | |
| Year average | 1.473 | 1.829 | 1.862 | 2.453 |
| End of period | 1.794 | 1.889 | 1.899 | 3.427 |
| Hryvnia per ruble 5/ | | | | |
| Year average | 0.320 | 0.360 | 0.320 | 0.171 |
| End of period | 0.390 | 0.340 | 0.320 | 0.166 |

Sources: Ukrainian authorities; World Bank Country-at-a-Glance, 1997; and Fund staff estimates.

1/ Deflated by the consumer price index.
2/ Including the Pension Fund.
3/ Including off-budget items.
4/ Exchange rates before September 1996 were converted into hryvnia by dividing rates in karbovanets by 100,000.
5/ Exchange rates before January 1, 1998 were converted by multiplying actual rates by 1,000.

The Republic of Ukraine covers 603,700 square kilometers. The population is 50.5 million, of which three quarters are ethnic Ukrainians and about one fifth are Russians. The Ukrainian Republic was proclaimed on November 22, 1917. It became part of the U.S.S.R. on December 30, 1922. Ukraine declared independence on August 24, 1991.

Ukraine's principal natural resource is its agricultural land, which forms part of the extremely fertile "black earth" zone. It also possesses some 60 percent of the former U.S.S.R.'s bitumen and anthracite coal reserves, although most easily accessible deposits have been depleted. It has a variety of minerals, including manganese, uranium, and substantial reserves of iron ore. Despite its fertile land, agriculture accounts for only 11 percent of GDP. Industry accounts for some 23 percent of GDP. Principal exports include metallurgical and chemical products, food products, minerals, and machinery. Ukraine is a major importer of energy, especially natural gas and oil.

Ukraine has faced serious economic difficulties since independence, and the cumulative decline in recorded output is estimated at more than 50 percent.[1] Since late 1994, the government has been implementing a series of reform and stabilization programs which have been supported by the Fund, the World Bank, and other multilateral and bilateral donors and creditors. In September 1998 a three-year Fund Extended Arrangement was approved under which two purchases were made in 1998.

[1]For details of developments through early 1997 see "IMF Economic Reviews," March 1995, IMF Staff Country Report No. 96/21, March 1996, and IMF Staff Country Report 97/109, October 1997.

## I. Introduction

1. Since regaining independence, Ukraine has made uneven progress in the implementation of economic adjustment and market reform policies. During the first three years following independence (1992–94), Ukraine implemented inflationary policies which resulted in a sharp depreciation of the currency (inflation peaked at 10,200 percent in 1993) and in a rapid decline of the economy. In mid-1994, the new government decided to change course and to embark on a program of adjustment and reforms which sought to correct the mistakes of the past and liberalize the economy. The international community provided substantial financial support for this program. Benefits from this new course followed rapidly in 1995 and 1996: inflation fell sharply, the exchange rate began to stabilize; the budget deficit was reduced by cutting subsidies and other government expenditure; foreign trade benefitted from the elimination of export restrictions and the unification of exchange rates; exports to non-BRO countries increased significantly; the decline of GDP slowed down and some industrial sectors began to record a recovery of output; foreign investment started to increase from a very low level; and the public expressed its confidence in the new currency introduced in 1996. Despite these first signs of progress, substantial problems remained at the end of 1996 and had to be addressed by renewed efforts to reform and adjust the economy. The lack of control on budgetary expenditure was a particularly worrying problem, as witnessed by the increase in budgetary arrears on wages, pensions, and social benefits. Excessive regulation, a continuously changing tax and legal system, corruption, and general uncertainties created an unfriendly business environment and encouraged the growth of the underground economy. Reforms also had to be pursued in the areas of privatization, the energy and agricultural sectors, public administration, and banking sector restructuring.

2. Output decline continued in 1997 and 1998, especially following the August 1998 crisis in Russia. During this period, Ukraine made substantial progress in reducing inflation, mainly through the implementation of a monetary policy that aimed at keeping the exchange rate broadly stable. However, the fiscal situation remained difficult, despite a sizeable adjustment in 1998. Throughout the period, economic policy was influenced by developments in international capital markets, first as foreign investors sought outlets in emerging markets and capital flowed in, and subsequently when market sentiment changed in the wake of the crisis in Asia and investors pulled out of Ukraine. As explained below, the pace of economic reforms slowed down considerably, and although some progress was made in 1997 and 1998, this fell short from what was needed to restore the conditions for economic growth and reduce macroeconomic imbalances.

3. Inflation declined from 40 percent in 1996[1] to 10 percent in 1997, and to 7 percent at end-August 1998. Inflation picked up in September and October of 1998, mainly as a result of the sharp devaluation that took place during September in the wake of the crisis in Russia. It slowed down in November as the exchange rate stabilized and the National Bank of Ukraine

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[1]Twelve-month rate as measured by the consumer price index, end-of-period basis.

(NBU) continued to pursue a tight monetary policy. For 1998 as a whole inflation was 20 percent.[2] The real GDP decline showed signs of bottoming out. After a decline of about 3 percent in 1997 (period-average basis), output did not fall during the first eight months of 1998 compared to the same period in the previous year. Price stability and signs of output recovery were supported by a favorable grain harvest and by a pick-up in construction activity. However, the global financial crisis, and particularly developments in Russia, compressed international trade, choking off the nascent output recovery. In the event, real GDP fell by about 2 percent during 1998.

4. The fiscal situation remained difficult throughout 1997 and 1998. The cash deficit of the general government surged from 3.2 percent of GDP in 1996 to 5.6 percent in 1997, financed in significant measure by nonresident purchases of treasury bills and external borrowing. At the same time, the government reduced the stock of arrears on wages, pensions and social benefits by around 0.4 percent of GDP. In the event, the deficit on a commitment basis fell by one percentage point to 5.2 percent of GDP in 1997.[3] Following the departure of nonresidents from the treasury-bill market starting in August 1997, the authorities borrowed from international capital markets at increasingly high interest rates. This served to delay the needed fiscal consolidation and increased Ukraine's vulnerability to external shocks. The cash deficit was trimmed significantly to 2.7 percent of GDP in 1998 despite weak revenues, although expenditure arrears increased and the budget deficit reached 3.0 percent on a commitment basis. In the second half of 1998, the authorities successfully restructured part of the domestic and foreign debt maturing in 1998.The weak financial position of the government reflected the difficulties in collecting cash revenues and in rationalizing government expenditures. Cash revenue performance was adversely affected by the general economic decline, an increasing reliance of economic agents on barter trade, and the netting-out operations carried out by the government. The expenditure reduction program was hampered by lack of clear priorities and slow structural reforms, often reflecting the inability of government and parliament to reach consensus on difficult issues.

5. Short-term capital inflows in the first half of 1997 (mostly in the form of treasury-bill purchases by nonresidents) and borrowing from domestic banks made it easier for the authorities to postpone adjustment and to finance a budget deficit that was not sustainable. As the underlying factors affecting the public finances were not addressed, the fiscal situation became increasingly difficult in late 1997 and early 1998, and debt service payments became a significant burden for the budget. The change in market sentiment toward emerging markets compounded this problem, requiring the government to offer increasingly high interest rates to encourage investors to roll over their treasury-bill holdings. Even after nonresidents started to

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[2]On a period-average basis, inflation declined from 80 percent in 1996 to 16 percent in 1997 and to 11 percent in 1998.

[3]The fiscal balance on a commitment basis is obtained by adjusting the fiscal balance on a cash basis for the net accumulation of arrears on wages, pensions, and benefits.

withdraw from the treasury-bill market, Ukraine was able to obtain resources through the placement of Eurobonds in the first half of 1998. However, as borrowing from international and domestic creditors came to a halt, the government reduced the fiscal deficit in the last three months of 1998, but also accumulated budgetary arrears, and resorted to heavy borrowing from the NBU.

6. Prudent monetary policy in support of an exchange rate band and a favorable external environment contributed importantly to price and exchange rate stability until the summer of 1997. During this period, base money grew moderately as the NBU purchased significant amounts of foreign exchange associated with sizeable purchases of treasury bills by nonresidents. Starting in August-September 1997, however, the capital outflows associated with the pull-out of investors from the treasury-bill market put pressure on the exchange rate and led to a sizeable loss of NBU reserves during the remainder of 1997 and the first several months of 1998. Given the loss of access to international capital markets and the substantial decline in international reserves, the NBU ceased to sell foreign exchange to protect the exchange rate in late August 1998. Credit policy was expansionary for most of 1998 due to the government's heavy reliance on the NBU. Nevertheless, monetary expansion was relatively limited due to the loss of foreign reserves, and for the year as a whole, base and broad money increased by 22 and 25 percent, respectively.

7. These developments were reflected in Ukraine's external reserve position which, after improving sharply during the first half of 1997, deteriorated significantly in 1998. By end-December 1998, gross reserves of the NBU had declined to just under $1 billion (about 2 weeks import coverage), lower than at end-1996 and about one third of the peak level in mid-1997.

8. As noted, the NBU pursued a policy of net sales of its international reserves during the latter part of 1997 and the first several months of 1998, while gradually widening the exchange rate band, in order to keep the exchange rate broadly stable at Hrv 2–2 ¼ per dollar. As reserves declined, the authorities could no longer protect the stability of the hryvnia, especially after the crisis in Russia. In early September 1998 the NBU tightened monetary policy by increasing the required reserve ratio, moved the exchange rate band to Hrv 2.5–3.5 per dollar, and introduced administrative measures[4] to control the demand for foreign exchange. The hryvnia depreciated rapidly to Hrv 3.4 per dollar by end-September following the introduction of the new band, although it was kept broadly stable at Hrv 3.43 per dollar during the remainder of 1998.

9. Throughout the period, structural reforms continued, although progress was modest in a number of important areas. Small-scale privatization was basically completed. Privatization of medium and large enterprises moved ahead—on occasion at a slow pace—but it was not complemented by other reforms to promote restructuring of newly privatized enterprises.

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[4]Some were already introduced in late August.

Progress was also made in the areas of rationalizing the size of budgetary organizations, deregulation of business activity, demonopolization, and trade liberalization. In the energy and agricultural sectors, however, little restructuring was undertaken. Steps were taken to develop a market in the electricity sector but the coal sector remained a significant drain on the economy and the budget. In the gas sector, while some reforms were introduced, steps to create a more transparent market were not successful. Agriculture continued to be hampered by extensive formal and informal state controls and, as a result, production declined. Insufficient structural reform made it more difficult for the authorities to adjust quickly to the worsening external environment.

10. The parliamentary elections—held on March 29, 1998—dominated the political scene for most of the second half of 1997 and the first quarter of 1998.[5] Of the many factions that were elected to parliament, none had a controlling majority (either directly or through a coalition). As a result, the election of the new Speaker took nearly two months. Despite efforts to improve working relations, difficulties between parliament and the government continued to complicate the outlook for economic reform.

## II. The Real Sector

11. ***Output fell by 3 percent in 1997 and, despite signs of an economic recovery early in the year is estimated to have declined by about 2 percent in 1998. Inflation fell to 7 percent in the 12 months ending in August 1998, before rising to 20 percent at end-December due to the depreciation of the hryvnia in early September. While output and price developments in part reflected external shocks, they also stemmed from the lack of progress in fiscal consolidation and structural reform, particularly in the agricultural and energy sectors.***

### A. Overview

12. The decline in real GDP that had started in 1991 decelerated gradually from over 8 percent in the first quarter of 1997 (with respect to the first quarter of 1996) to a virtual standstill in the first half of 1998.[6] Output started to recover in some industrial and service activities in 1997, and this spilled over to a number of other sectors in early 1998, mainly due to relatively stable prices, and an export-led recovery in the metals sector. Furthermore, for

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[5]The Constitution of Ukraine stipulates that parliamentary elections are organized every four years to select the 450 members of the parliament (Verkhovna Rada).

[6]Between 1991 and 1998, based on official data, Ukraine's GDP fell by some 60 percent. Ukraine and Turkmenistan were the only two countries in the BRO where output did not grow in any year since 1991.

most of 1997, there was greater availability of working capital, as credit to the economy grew in real terms.[7]

13. Following the global financial crisis in late 1997 and 1998, demand for Ukrainian products declined in several important markets in Asia. This was compounded in August–September 1998 by the crisis in Russia, which led to a sharp drop in exports and an increase in input prices due to a sharp devaluation of the hryvnia.[8] Furthermore, imports of intermediate goods fell due to the introduction of exchange restrictions in September 1998. As a result, real GDP declined by about 2 percent in 1998 (Text Table 1).

Table 1. Ukraine: Basic Economic Indicators
(In percent)

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| Real GDP | -10.0 | -3.0 | -1.7 |
| Inflation (end-period) | 39.7 | 10.1 | 20.0 |
| Official unemployment rate (end-period) | 1.3 | 2.3 | 3.7 |

Source: State Statistics Committee of Ukraine.

14. Considerable progress was made in 1997 and most of 1998 in reducing inflation. Consumer price inflation was contained to about 10 percent in 1997, despite a significant increase in the money supply, as money demand rose. During the first eight months of 1998, inflation was less than 3 percent, partly due to the seasonal impact of food production, but also because of a limited increase in the money supply. Inflation picked up in September–December 1998 due to the depreciation of the hryvnia. The consumer price index (CPI) increased by 20 percent in 1998.

15. Registered unemployment roughly doubled during the 18 months that ended in December 1998, but the rate continued to be low (under 4 percent of the labor force).[9] Real wages declined in 1997 and the first nine months of 1998.[10]

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[7]With limited structural reforms in the enterprise sector the positive impact of this credit was short-lived.

[8]A substantial portion of imported inputs are valued in dollars.

[9]Household survey data indicate that actual unemployment reached nearly 9 percent in 1997. Even the latter figure likely understates the effective unemployment rate because many workers were on forced leave or working part time.

[10]Effectively, they declined even further as wage arrears continued to grow.

## B. Output Developments

16. The decline in real GDP decelerated in late 1997 and early 1998; output grew by 0.1 percent during the first half of 1998, for the first time since Ukraine's independence in 1991 (Table 11).[11] These positive developments were reversed in the second half of 1998, although some of the underlying factors had already started to manifest themselves earlier. In particular, export performance started to deteriorate (See Chapter V) as markets in Asia, and subsequently in Russia, weakened. Furthermore, with a significant decline in external financing, imports started to contract, reducing the availability of inputs. The import squeeze was amplified by the depreciation of the hryvnia and the ensuing exchange controls introduced by the NBU in September 1998. As a result, output performance deteriorated markedly starting in August 1998, especially in industries that were closely linked with traditional trading partners (such as metallurgy, machine-building and chemicals, see below). The decline was somewhat mitigated by the good performance of the food-processing industry, which benefitted from availability of raw agricultural commodities, partly due to a temporary export ban.

17. During 1997, there was no increase in private investment, and the national savings rate dropped by about 2 percentage points of GDP, entirely due to a decline in net government saving.[12] The lower savings rate was reflected in a decrease in gross investment, which contracted by about 1½ percentage points to about 21 percent of GDP (Table 13).[13] Available information indicates that net investment continued to decline in real terms in 1998 (Table 14). Foreign direct investment and bank lending to the economy together accounted for less than 2 percent of GDP, as investors showed more interest in purchasing treasury bills.[14] Moreover, most firms classified as profitable (e.g., in the power generation and fuel sectors) could not invest their profits because a considerable part of their earnings was in the form of claims associated with arrears (Appendix II).

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[11]Other indicators showed robust growth for 1997, with retail sales increasing in real terms starting in May 1997 (Table 12).

[12]These estimates should be interpreted with caution given the continuing problems with estimating Ukraine's national accounts, including the role of the informal economy (Box 1).

[13]This figure likely overstates the true extent of investment, since a significant portion of it represents depreciation.

[14]In comparison, commercial banks and nonresidents made net purchases of treasury bills totaling more than 5 percent of GDP during 1997, at a time when yields ranged from 20 to 40 percent in dollar terms.

**Box 1. The Unofficial Economy and Data Quality in Ukraine**

According to most observers, the unofficial economy plays an important role in Ukraine, although estimates of its size fluctuate widely from between 20 to 80 percent of official GDP.[1] This would be in addition to the official estimate of GDP, which already includes some measure of informal activity. The higher range of estimates is based on the evolution of most easily observable indicators, like power generation. On the other end, an attempt is made to estimate the shadow economy directly by deriving estimates of activities that are not believed to be adequately covered by official statistics, subsequently aggregating them with the official data.

In recent years, Ukraine's State Statistics Committee has improved its efforts to estimate the informal economy, by adjusting the official data for the information provided by household budget surveys, surveys of activity in informal markets, and more extensive coverage of agriculture through the use of a number of imputed measures. Official GDP for 1996 included such estimates for informal activity, with an overall impact of 12 percent, with the largest entries for agriculture (50 percent) and retailing (30 percent). Preliminary GDP estimates for 1997 incorporated some measures of economic activity that were not recorded previously, including 2 percent in industrial production, 3 percent in trade, and 2 percent in transport and other services.

However, further improvements in estimating the formal and informal economic activities are necessary. First, GDP estimates in Ukraine still rely in large measure on complete censuses of enterprises. However, information provided by enterprises (except for small enterprises) is presumed accurate and thus aggregated without significant adjustments. Misreporting (most likely understating economic activity) is not strongly discouraged. The pervasiveness of the indicators of the noncash economy introduces another bias in GDP estimates, probably overstating these relative to the estimates in a would-be cash-based economy. In addition, household budget survey data likely understate true expenditures by households as they appear to capture inadequately expenditures by the wealthiest part of the population. Finally, some methodological problems persist with a number of official indicators that enter into the GDP calculation, including quarterly GDP estimates, constant price measures for industrial production, and valuation adjustments for inventories. While the authorities are working to correct these problems, this will take some time.

In view of these considerations, a constrained-best estimate of total, informal and formal, GDP should ideally be obtained with the use of full raw information, on the basis of a reconciliation of expenditure- and production-based GDP measures according to economic criteria and an assessment of the relative quality of these measures.[2] For Ukraine, a number of independent observers have estimated that the size of the total economy at 120–130 percent of measured GDP, with the informal economy accounting for up to half of the total.[3]

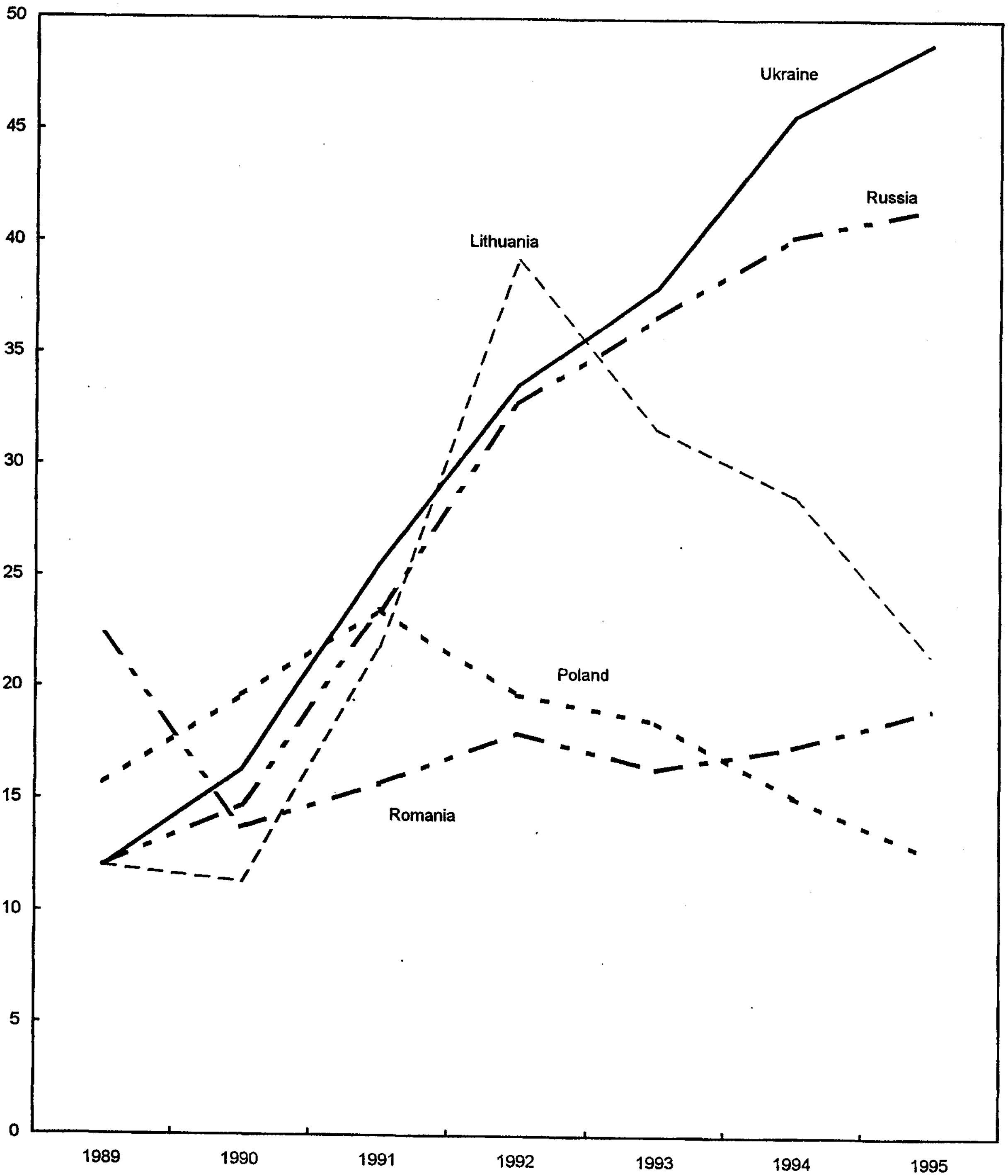
[1] In addition, Johnson, Kaufman and Shleifer (1997) estimated that Ukraine's informal economy is larger than that of the neighboring countries (Figure 1).

[2] An outline of the methodological approach for arriving at such estimates is given in Bartholdy K. (1996) "Old and New Problems in Estimating National Accounts," in G. Mureddu and M. T. Salvemini (Eds.) "Russia in the World Economy," University of Rome "La Sapienza", S/D 1996.

[3] "Virtual Statistics," HIID-CASE, November, 1998, mimeo.

18. There were no significant changes in the composition of output (Table 15). The contribution of net exports to aggregate demand declined by about 1 percent of GDP during 1997, in contrast to some other successful transition economies. In that year, only ferrous and nonferrous metals industries exhibited some output growth due to increased exports (Table 16), while agricultural exports declined significantly. At the same time, Ukraine continued to import energy, and remained one of the most energy-intensive economies in the

Figure 1. Ukraine and Neighboring Countries: Share of the Unofficial Economy, 1989-95
(In percent of official GDP)




Source: Johnson, Simon, Daniel Kaufmann, and Andrei Shleifer. "The Unofficial Economy in Transition." *Brookings Papers on Economic Activity*, Fall (2) 1997, pp. 159-239.

world,[15] partly because penalties for failure to pay energy consumption have not been enforced widely.

19. The slow pace of structural reforms appears to have contributed to the difficult economic conditions. Little progress has been made in hardening enterprise budget constraints. Reforms in the energy and agricultural sectors have been slow and distortions persist. The heavy borrowing by government and weaknesses in the commercial banking system have reduced resources for the private sector, which has remained small and continues to be affected by red tape and other obstacles. While progress was made in privatization during 1997–98, the benefits from these reforms accrue with a substantial lag.[16]

20. The size of the noncash economy continued to increase as suggested by interenterprise arrears and barter (Appendix II). These trends were an indication of soft budget constraints and cross-subsidization, since the most (notionally) profitable sectors such as energy and transportation accumulated net receivables vis-à-vis other sectors, including metallurgy and agriculture. Furthermore, arrears and barter continued to interfere with the development of market-based price signals.

**Sectoral output developments**

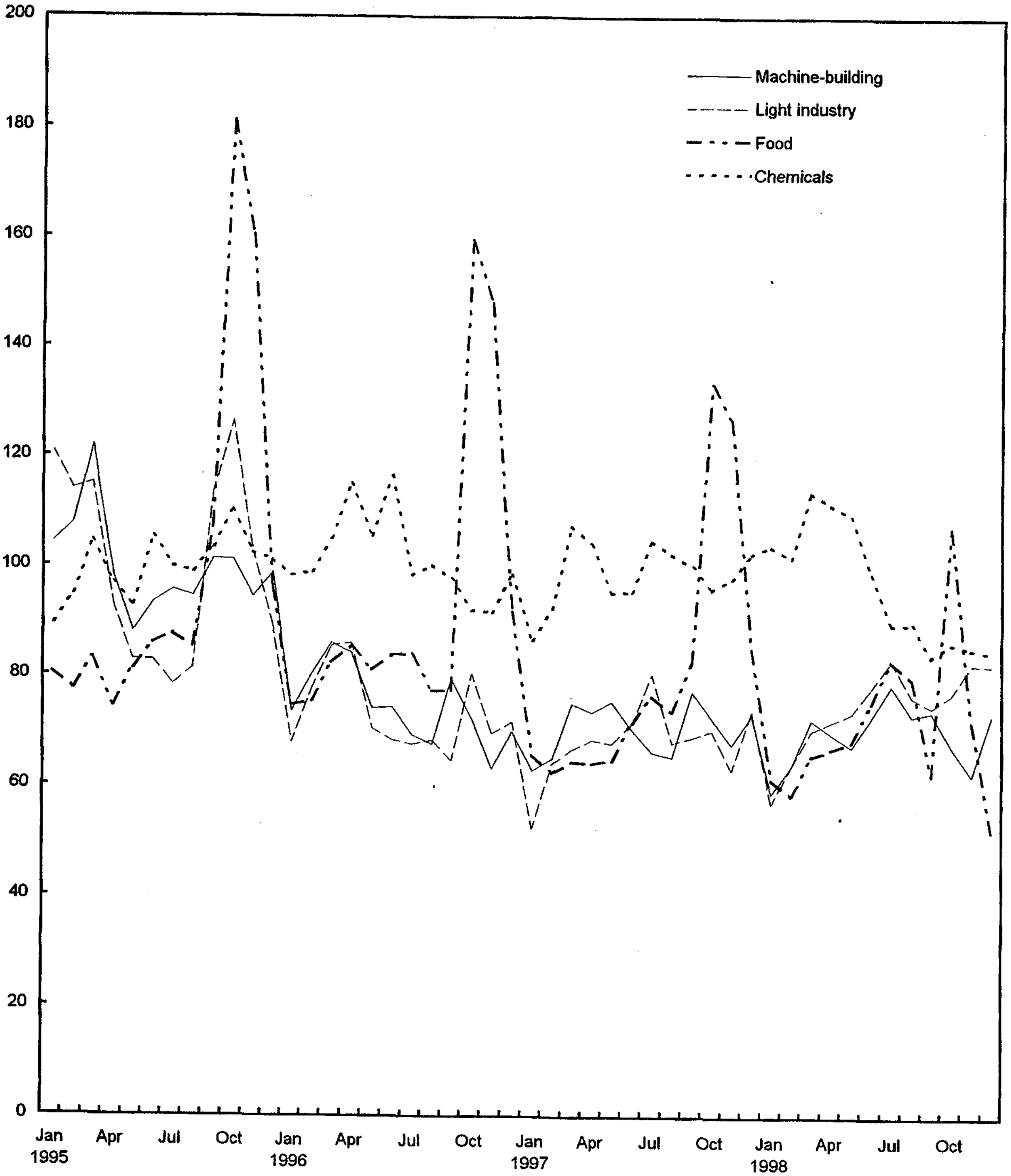
21. Total industrial output is estimated to have declined by about 2 percent in 1997 and recovered slightly (0.7 percent) during the first half of 1998, before starting to decline in September 1998. Performance was uneven across industrial sectors (Table 16, Figure 2). In 1997, only a few sectors (mainly ferrous and nonferrous metals) exhibited growth. By early 1998, the chemical and petrochemical industries, wood and pulp, construction materials, consumer-oriented industries (such as food and apparel) also experienced positive growth rates. By mid-1998, machine building remained the only industrial sector where output had not increased with respect to any comparable period since independence, although, even for this activity, the annual rate of decline had slowed down significantly. Since September 1998, industries such as chemicals, fuels, ferrous metallurgy, and machine building, relapsed into double-digit year-on-year output declines.

22. Interenterprise arrears and barter transactions in the industrial sector continued to increase as a share of GDP. At end-November 1998, industrial arrears were Hrv 68 billion, or

[15]In 1995, Ukraine, on average, consumed about 6 times more energy per capita, in terms of kilograms of oil equivalent, than developing countries with similar GDP levels (World Development Report, World Bank, 1997).

[16]See Havrylyshyn and McGettigan (1998), "Privatization in Transition Countries: A Review of Progress," IMF Working Paper, forthcoming.

Figure 2. Ukraine: Industrial Production by Sector, 1995-98
(Index, 1995=100)




Sources: Ukrainian authorities; and Fund staff estimates.

about 65 percent of 1998 GDP.[17] Electricity was the only major industrial sector with positive net receivables vis-à-vis the rest of the economy (Appendix II). Most other industrial sectors were net debtors, with ferrous metallurgy the largest in volume terms. Barter transactions in the economy grew from about 35 percent of sales of industrial output in early 1997 to slightly over 40 percent by late 1998 (Table 17). The share of barter transactions appeared to be highest in construction materials, fuels, and wood and pulp industries and lowest for nonferrous metals and food industries.

23. Agriculture accounted for about 11 percent of official GDP during 1997–98.[18] It is also a significant source of inputs to the large food processing industry, as well as demand for machinery and other industrial goods. Agricultural output, which by 1996 was less than 60 percent of its 1990 level, decreased further in 1997 and 1998. Despite the significant weather-related improvement in the grain harvest, which rose by more than 40 percent, total output declined by 2 percent in 1997 (Tables 18 and 19). The livestock sector continued to contract, with the output of milk and meat declining by more than 10 percent, in part due to the lagged impact of the large drop in the production of fodder in 1996. In 1998, agricultural output decreased by more than 8 percent. While there was some increase in livestock-related activity, plant-growing suffered a major slump. The grain harvest was 26.5 million tons (preliminary estimate), some 25 percent lower than in 1997; the relative share of fodder crops was small.[19]

24. Trends in agricultural productivity and marketing have been alarming. In 1998, yields for cereals and sunflower decreased by 13 percent and 17 percent, respectively. Sugar yields also deteriorated significantly. The decline in productivity is mainly due to the use of outdated equipment and insufficient or substandard fertilizer. Productivity indicators for livestock also continued to plummet, although there was some improvement in 1998 as noted above. Ukrainian agriculture continued to experience high harvest losses (7 percent, compared to 2 percent in western Europe), largely because of a lack of proper equipment and poor infrastructure. Barter continues to be the prevalent form of trade (ninety percent of sugar beet production). Storage losses and trade margins have been high. The role of futures trade continues to be very limited, mainly because of the difficulties with contract enforcement.

## C. Price Developments

25. During early 1997 and the first half of 1998, the Ukrainian economy made significant progress in reducing inflation. Consumer and producer price inflation rates were reduced to

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[17]This figure may be compared with a stock of 52 percent at end-December 1997.

[18]Agriculture's effective share in GDP would be much higher if the official data were adjusted for estimates of activities in the unofficial economy.

[19]For a more detailed description of the agricultural sector, see Appendix III.

single digits, mainly due to a monetary policy that aimed at keeping the exchange rate stable. The ensuing devaluation of the hryvnia in early September 1998 rekindled inflationary pressures, but the initial passthrough into prices appears to have been modest.

26. Consumer price inflation in 1997 was 10 percent on an end-period basis, and fell further to 7 percent in the twelve-month period that ended in August 1998 (Tables 20 and 21, Figure 3). The CPI broadly followed the normal seasonal pattern, with inflation subsiding to virtual price stability in the summer months of both years. This pattern is attributable to the behavior of food prices, which have a weight of about 50 percent in the CPI and usually decline during the summer.[20] Food prices, after increasing by almost 19 percent in 1996, grew by 3 percent during 1997 and actually declined during the first eight months of 1998. This performance could in part be explained by increased production of certain agricultural products (e.g., fruits), as well as some trade restrictions that contributed to an oversupply of food products in the domestic market.[21] The prices for nonfood items were broadly unchanged during the first eight months of 1998, as maintenance of a broadly stable exchange rate helped stabilize prices of imported goods. The prices of services, after increasing by 113 percent in 1996 on an end-period basis (nearly three times faster than the change in CPI), grew by only 8 percent (less than the CPI) in 1997, and accelerated to over 10 percent in 1998, due in part to the administrative price increases for electricity and gas in May 1998.

27. Producer price inflation declined from 52 percent in 1996 to 8 percent in 1997, and to 5 percent through mid-1998.[22] Historically, producer prices have been somewhat less closely related to the seasonality of the agriculture cycle than consumer prices, but more closely related to the maintenance of government subsidies to the enterprise sector, as well as exchange rate changes.[23] During 1997 and the first eight months of 1998, producer price changes were relatively uniform across sectors, except that prices of meat products rose more sharply in 1997, which probably reflected the sharp contraction in their supply.

28. The depreciation of the hryvnia in September 1998 led to an acceleration of inflation. Consumer prices increased by about 4 percent in September and by over 6 percent in October, and 3 percent per month in November and December. Prices of food and nonfood products increased at a faster pace than the CPI, while prices for services increased by only 1–2 percent

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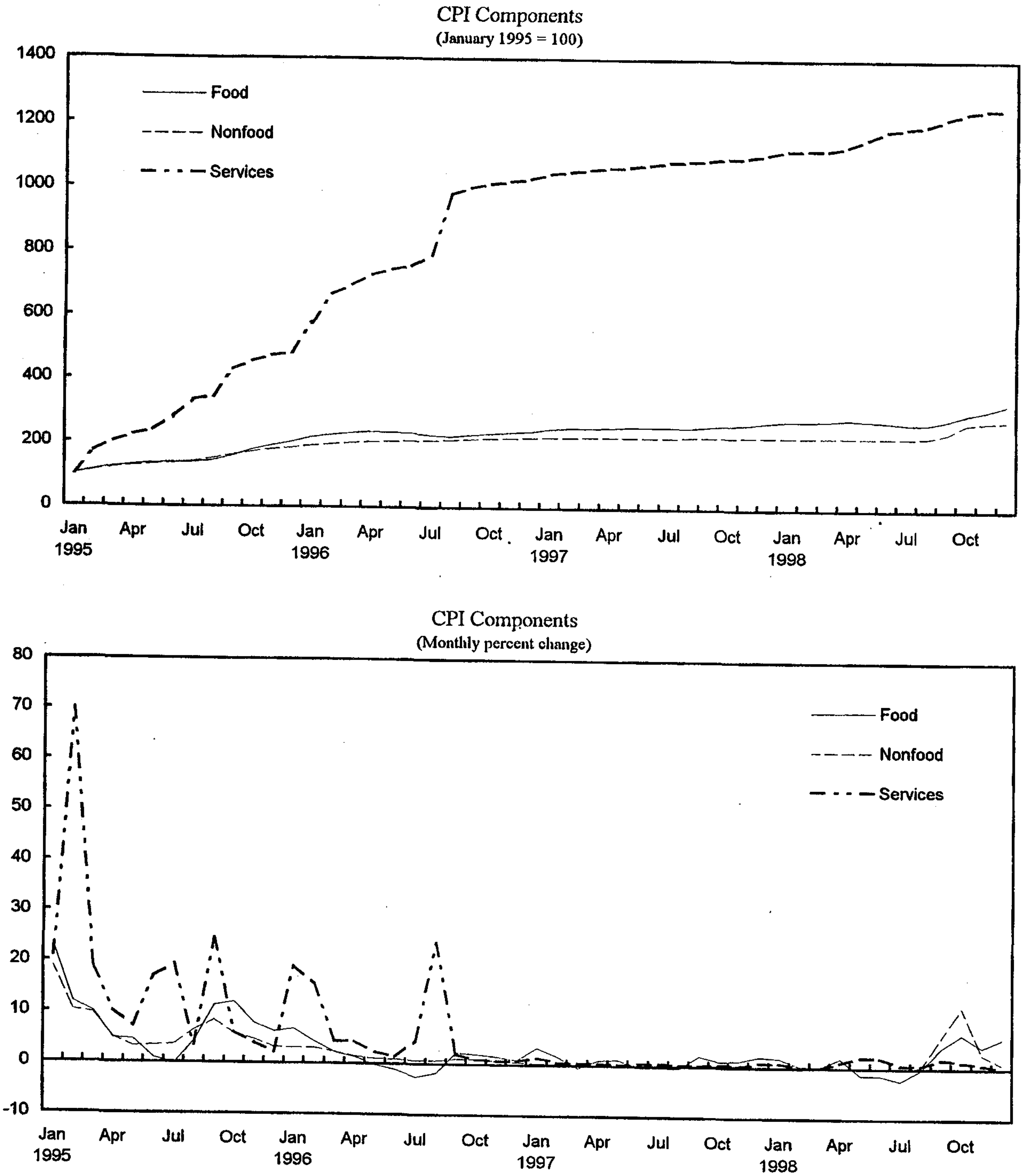
[20]The underdevelopment of forward and futures markets in Ukraine appears to have contributed to this pattern.

[21]For instance, the sugar quota imposed by Russia and a (temporary) restriction imposed by Ukraine in 1998 on exports of sunflower seeds.

[22]There are methodological problems with the producer price index, mostly related to data on the weights.

[23]The latter is because some key producer prices are indexed to the dollar, e.g., for energy.

Figure 3. Ukraine: Components of the CPI, 1995-98




Sources: Ukrainian authorities; and Fund staff estimates.

per month. Producer prices rose by 9 percent in September, 11 percent in October, and 3½ percent in November. The exchange rate passthrough was 70–100 percent for tradables prices such as ferrous and nonferrous metals, oil, and gas. Electricity prices also increased roughly in line with the depreciation.

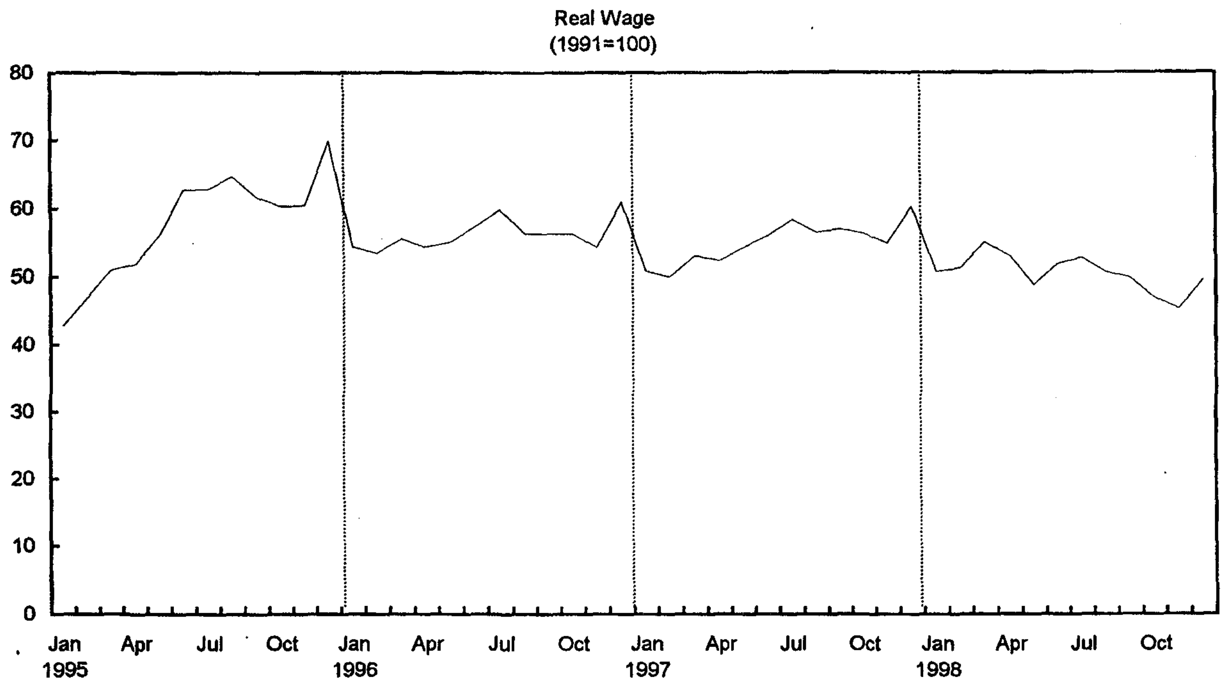
### D. Labor Market Developments

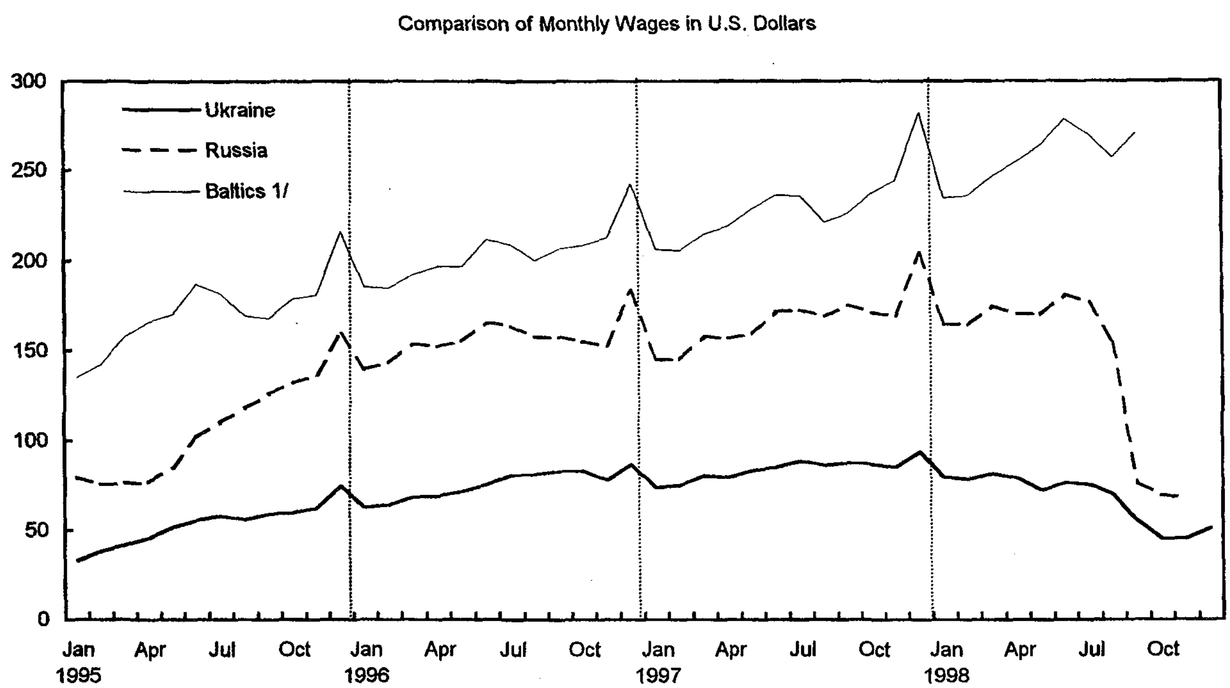
29. Developments in the labor market continued to indicate substantial rigidities, as manifested in a slow reallocation of labor to new economic activities and growing wage arrears. Labor market trends during 1997 continued much as in 1996 (Tables 22–26). Total employment decreased by 3 percent. The share of employment in the state sector declined from 41 percent to 38 percent, while the share of employment in the private sector increased from 20 percent to 23 percent reflecting both privatization and the emergence of new enterprises.

30. Officially recorded unemployment, which is based only on those who register with state employment centers, remained very low but increased, from about 1½ percent (of a labor force of about 28 million) at the beginning of 1997 to nearly 4 percent in December 1998. However, there has been little labor-shedding, in large part because enterprises continue to be responsible for many social services—schooling, housing, medical care—so that workers prefer to remain notionally employed even if they are not being paid on time, if at all. Also, workers who are laid off must be given three months' notice, effectively at full pay, paid by enterprises. As a result many workers are placed on unpaid leave since it is too costly for firms to lay them off. The household survey conducted every October shows that the unemployment rate increased from 5.6 percent in 1995 to 7.6 percent in 1996 and 8.9 percent in 1997, with substantial regional variations. Even the household surveys underestimate the true unemployment rate inasmuch as persons over 55/60 are deemed to be inactive whereas in fact the incidence of unemployment may be higher among such workers, and the full extent of underemployment was not adequately captured. Indeed, in 1997 nearly 23 percent of employed workers were either on forced leave (at some point during the year) or were working less than full time.

31. Real wages (deflated by the CPI) fell by about 2 percent in 1997 and 17 percent in 1998 (Table 25, Figure 4). In addition, wages were frequently not paid on time. The stock of wage arrears at end-November 1998 is estimated at Hrv 6.7 billion (of which about Hrv 1 billion was owed to budgetary workers), compared to Hrv 5.8 billion at end-1997.

Figure 4. Ukraine: Real and Dollar Wages, 1995-98




Sources: Ukrainian authorities; and Fund staff estimates.

1/ Average of Estonian, Latvian, and Lithuanian dollar wages.

## E. Structural Reforms

### Privatization

32. Privatization of medium and large enterprises slowed in early 1997 but recovered later in the year, bringing the number of privatized units during 1997 to 2,123 (Figure 5).[24] One reason may have been that demand for compensation certificates, which can be used for privatization, fell after parliament passed a law that authorized direct cash compensation for lost savings.[25] Also, shares were sold mainly through nontransparent tenders, thereby discouraging investors from participating in the process. Finally, parliament intervened actively in privatization during 1997 including by moving oversight for privatization from the State Property Fund (SPF) to parliament and by stopping the sale of strategic enterprises through international tenders.

33. Momentum was reestablished in mid-1997. However, in late 1997 and 1998, the government sought to raise as much revenue as possible through cash privatization (via stock exchange sales, commercial cash tenders and starting in July 1998 "mass cash" auctions) which led to a reduction in the number of enterprises offered through certificate auctions and in the number of shares sold. The problem was that the government was reluctant to offer for privatization significant shares of large and attractive enterprises. Some analysts have argued that it would have been more efficient to follow through with plans to offer the many less attractive enterprises through certificate auctions as envisaged in the mass privatization program and at the same time implement plans to offer for sale share packages in large and attractive enterprises through transparent international tenders.

34. In the event, 9,504 medium and large enterprises (defined as those with fixed assets exceeding Hrv 1 million) were privatized (at least 70 percent of shares were sold) between January 1995 and December 1998,[26] in addition to the 1,240 enterprises privatized before the mass privatization program was instituted in 1994. According to official data, privatized enterprises accounted for about 60 percent of industrial production and more than 50 percent of industrial employment in the first quarter of 1998.

35. Progress was made in privatizing the agro-industrial sector although further reform is needed to promote competition in this sector. Of the 6,000 medium and large AIC enterprises

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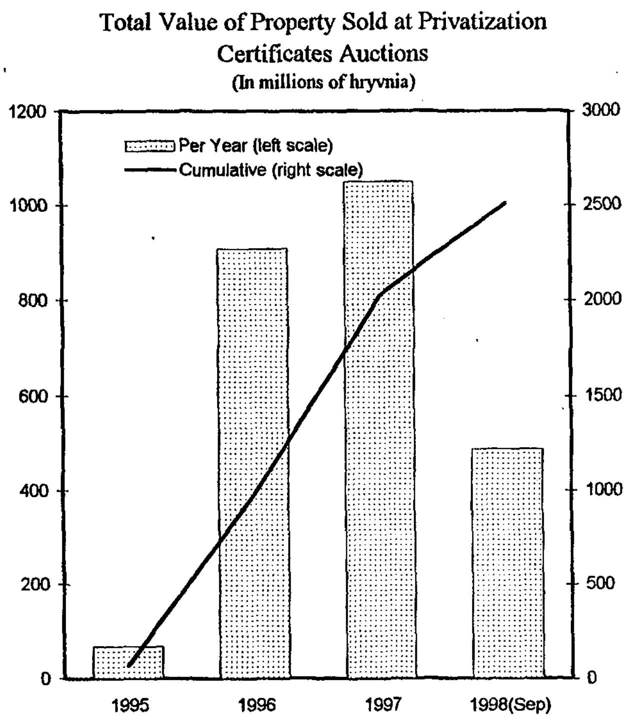
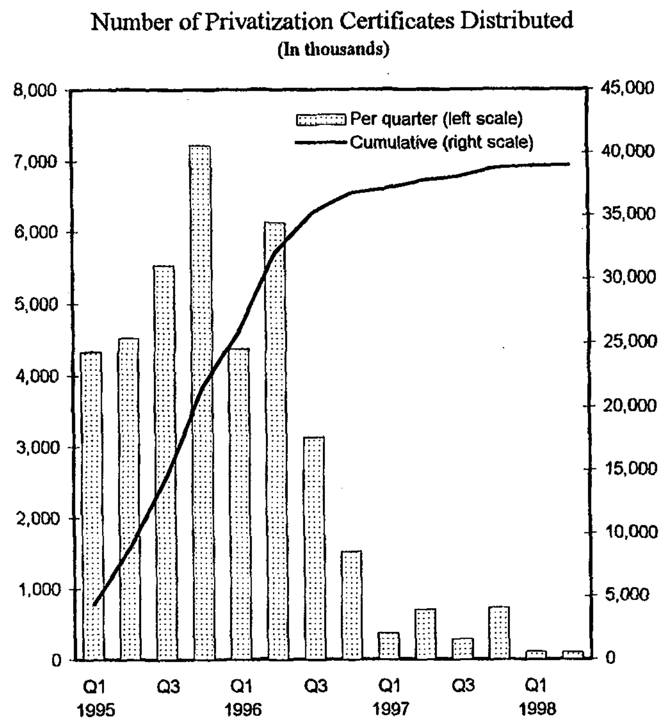
[24]For a description of developments in privatization prior to 1997, including a description of Ukraine's "mass privatization" program, please see Box 2.

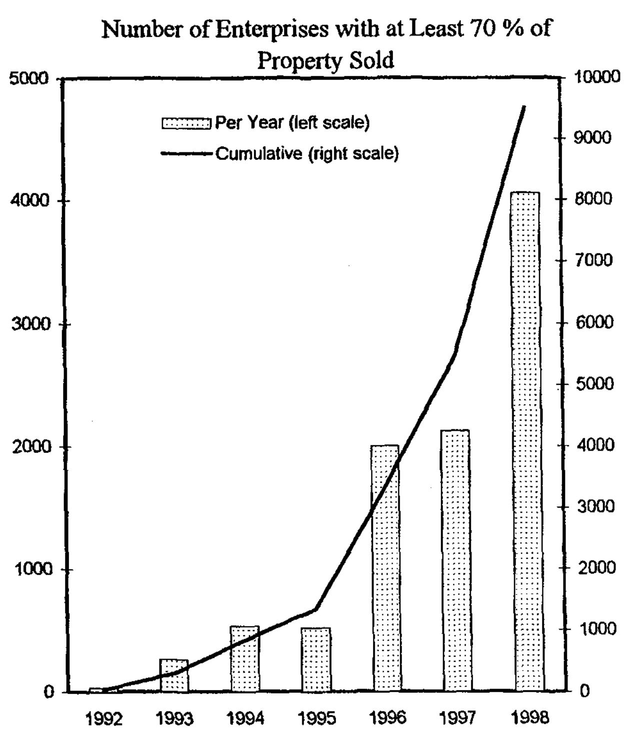
[25]These certificates were offered in 1996 to compensate the population for erosion of their savings by inflation. The law could not be implemented because the size of compensation exceeded GDP and no resources were available.

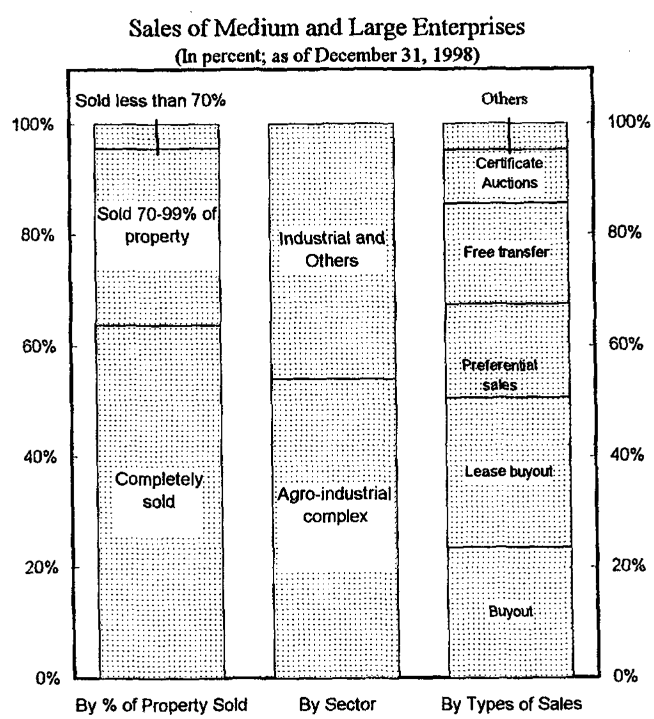
[26]During 1998, 4,050 medium and large enterprises were privatized.

Figure 5. Ukraine: Mass Privatization of Medium and Large Enterprises, 1992-98




Sources: Ukrainian authorities.

**Box 2. Privatization: Developments Prior to 1997**

From 1992 to 1994 Ukraine's privatization program involved mainly lease buy-outs by employees and managers of medium and large enterprises. There was little public participation in the privatization process and only 1,240 enterprises were privatized during the period. In October 1994, a Presidential decree was issued implementing a new privatization program, referred to as "mass privatization," that involved the privatization of 8,000 medium and large industrial enterprises through auctions and to be paid for using newly issued "privatization certificates." The objective was to distribute shares of public enterprises rapidly and equitably to the public, develop capital markets, and create a critical mass of privately owned enterprises to allow restructuring under the direction of the new owners. Generation of revenue for the state budget was not an objective of the mass privatization program.

Subsequent progress was impeded by parliamentary opposition, administrative delays in the supply of enterprises to certificate auctions, and by enterprise directors and regional officials, so that 1,332 enterprises were privatized (meaning at least 70 percent of shares were sold) during 1995. The mass privatization program was refocused in 1996 including through organizing share auctions with no floor price and using "compensation certificates" which were distributed in February 1996 to those citizens who held savings accounts, the value of which was destroyed by hyperinflation during the previous four years; the first auction was held in April 1996. With more active support by the Cabinet of Ministers and leadership of the SPF (the government agency responsible for privatization), the number of enterprises privatized during 1996 rose to 1,999.

While the principles for privatization of enterprises in the agro-industrial complex (AIC) were similar to those for industrial enterprises, certain differences appeared following passage of a law covering such privatization in 1996. First, 51 percent of shares were distributed free to the enterprise's suppliers, a process that could take up to four months; next employees and management were given an opportunity to purchase shares on preferential terms, with the average share allocation having been 30 percent; preferential share sales (for certificates) to employees were allowed for up to one year. If unsold shares remained, they could be sold in certificate auctions or for cash. The state could retain shares in "strategic" enterprises (including AIC enterprises) for up to five years.

currently in the mass privatization program, 5,600 had begun share sales, and 4,800 had sold more than 70 percent of their shares, as of end-December 1998. Furthermore, some 443 grain processing, storage, and distribution enterprises, which until recently belonged to the Khlib Ukrainy (Bread of Ukraine) state grain sector monopoly and which represent some of the largest AIC enterprises (grain elevators), are undergoing privatization.[27] According to the SPF, 227 of the grain silos and procurement enterprises under the Khlib Ukrainy had been privatized (at least 70 percent of shares) by end-December 1998. A decision has now been made to sell 100 percent of shares (instead of 70 percent) in 100 of these enterprises.

36. Case-by-case privatization gained momentum during the latter part of 1998. Reflecting this, 24 large enterprises were offered for sale through non-commercial tenders by end-1998, including five from the top-200 most attractive industrial enterprises. Although the SPF did

[27]Khlib Ukrainy will continue to control some 80 additional enterprises. The company has substantial market power and plays a key role in the provision of inputs (by the state) to the agricultural sector.

not use the international tender procedures recommended by a working group in 1998, it did employ its own revised tender procedures, which were much improved from the regulations issued in 1997. Notwithstanding these improvements, the SPF's revised procedures use noncommercial selection criteria including willingness of the bidder to invest in the company, willingness to pay back wages, and proposed business plan. So far, few units have been sold.

37. Finally, the small-scale privatization program was virtually completed in 1998 with about 49,000 (about 95 percent) shops and other small retail establishments (defined as those with fixed assets of less than Hrv 1 million) sold via lease/buy out agreements to employees and sold through cash auctions.[28]

**Deregulation**

38. Development of private business in Ukraine continued to be hampered by excessive regulations, red tape, and cumbersome inspection procedures. A good basis for significant progress in deregulating the economy was laid with a Presidential decree in February 1998, which emphasized simplifying registration procedures, cutting down on activities subject to licensing, limiting inspection and control procedures, simplifying customs procedures, and the need to provide gradual and stable regulation of enterprises. The decree also established the State Committee of Ukraine on Entrepreneurship Development which was given the power to review and implement changes in regulations of state and local governments that affect entrepreneurship, with the aim of mitigating excessive state regulation. Based on the decree, a review of all normative acts related to licensing and registration has been completed. This involved analyzing the regulatory environment of the Ministry of Transport, State Construction Committee, Ministry of Foreign Trade and Economic Relations, Ministry of Internal Affairs, and State Standards Committee. The effort by the Committee resulted in important changes in the regulatory environment but much more work remains to be done, including by undertaking comprehensive reviews of each economic sector (for instance public transportation and rail and truck transport), and by conducting pilot projects at the local level.

39. On July 3, 1998, the President of Ukraine issued a decree that simplified taxation and accounting procedures for small businesses. To improve transparency, most license fees were transferred to the treasury during the second half of 1998. Another presidential decree, issued on July 23, 1998, regulated scheduled and unscheduled inspections of businesses. Inspections can now only be carried out once a year, the company must be notified 10 days in advance, and inspections by different agencies (including the tax administration, customs, state treasury and auditing department) must be conducted on the same day. While this represented a significant step forward, there have been problems with implementation, especially because of simultaneous efforts to improve tax payment compliance.

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[28] As shown in Table 27, the role of state property declined rapidly in retail trade and catering enterprises between 1995 and 1997.

**Demonopolization**

40. Significant progress was made in late 1997 and 1998 in establishing independent agencies to regulate the activities of natural monopolies, in breaking up some state monopolies, and in separating out other activities from natural monopoly enterprises in order to improve competition (Table 28). With regard to regulation, the National Energy Regulatory Commission was given responsibility for regulating natural monopolies in the oil and gas sector in April 1998. Considerable preparatory work was also done to establish independent agencies to regulate natural monopolies in telecommunications and in transportation. Five large state monopolies were either liquidated or reorganized, mostly in the agricultural sector (Ukragrokhim Ukrkhlibprom, Ukrptakhoprom, Ukragrotekhsevice, and Khlib Ukrainy). However, as noted above, Khlib Ukrainy still retains substantial market power despite a weakened financial position and a sell-off of some of its enterprises. In addition, hundreds of monopolies operating in regional markets have been broken up. Finally, the government has taken steps to separate natural monopoly from participating in related activities in order to promote competition, including for communications and air and rail transport sectors. There are now 15 operators in the communications sector, and 43 in the air transport sector; the necessary regulatory framework has also been put in place in the rail transport sector.

**Bankruptcy Procedures**

41. Bankruptcy procedures have been improved with the assistance of the World Bank, TACIS, and other donors. A workable bankruptcy procedure, in line with international practice, was put in place in 1998 by Presidential decree, and a draft law based on this decree was adopted in the second reading by parliament in November 1998. Final passage is expected shortly. This procedure represents a considerable improvement in the bankruptcy law enacted in 1992 since the earlier law did not explicitly specify the steps in the bankruptcy process or the timing of these steps, and did not identify the rights of parties to an arbitration hearing. Also, a Presidential decree was issued that instructed oblasts to commit a certain number of judges to bankruptcy cases, and seminars with international experts have been held to improve levels of training and skills of bankruptcy judges. Finally, the government completed two pilot projects, with the assistance of TACIS, that have resulted in the successful restructuring of two enterprises (in the optics and ceramics sectors). As a result of these reforms, and also reflecting the general economic situation, the number of bankruptcy cases has grown from about 5,000 in 1996 to 8,000 in 1997 and to 9,000 in 1998.

**Agricultural Sector**

42. The slow pace of reforms, especially in the areas of land market development, domestic trade liberalization, and demonopolization and privatization of agricultural enterprises, appears to have contributed to deterioration of the agriculture sector in 1997–98 (Appendix III). While some progress was made in reducing central government regulations in 1997 and early 1998, reforms in this sector stalled following the March 1998 parliamentary elections. Recent difficulties include a series of controversial decisions taken in 1998 at all

levels of government regarding operations in the markets for agricultural products. Furthermore, during 1997 and 1998, local governments continued to interfere in the distribution of crops.

43. Ongoing land reform in Ukraine has not produced a workable market for land and the role of the private sector in agriculture remains limited. While some progress was made in transferring ownership from the state to collective farms, and with the issuance of land share certificates to farm members, the actual transfer into private individual ownership of land plots was only barely started with the adoption of the law on leasing of land in September 1998. However, plots of land used by private farmers are still not allowed to be either sold or used as collateral for loans, and this severely limits the availability of financing. As a result, independent private farming as a share of arable land increased only marginally from 2 percent at end-1995 to 2.6 percent at end-1997 (Table 29). The productivity of new private farms is only marginally better than Ukraine's average, mostly because of the small size of land plots.[29] The bulk of private sector activity in agriculture continues to be generated by small household farms that operate on small plots dating back to the days of the former Soviet Union. There are 11.5 million of these small farms but they account for only 14 percent of total arable land (Table 29). Nevertheless, more than half of livestock, and the bulk of potatoes, fruits, and garden vegetables are grown by these farms.

**Energy Sectors**

44. Developments in the gas sector continued to indicate a low level of efficiency. While total consumption of natural gas has fallen from 115 billion cubic meters in 1990 to about 80 billion cubic meters in 1997,[30] Ukraine has continued to be one of the most gas-intensive economies in the world. Domestic production declined from 28 billion cubic meters in 1990 to 18 billion cubic meters in 1997 (Table 30). Ukraine imported 62 billion cubic meters of natural gas in 1997, of which about 30 billion cubic meters was received as a fee from RAO Gazprom for the transit of natural gas through Ukraine to Europe; Ukraine is on the main export route from Russia to the rest of Europe. The proceeds of the in-kind transit fee were not generally transferred to the Ukrainian budget because domestic payments discipline remained weak, especially for households, budgetary organizations, and district heating plants. RAO Gazprom reportedly has argued that the Ukrainian government is responsible for the arrears accumulated by private traders because the traders were pressured by central and local

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[29]However, these productivity comparisons are based on official data and could be biased due to the role of the unofficial economy. For example, the data show higher relative productivity of private farms for products that have to be processed before they are sold, such as sugar beets.

[30]There was a substantial increase (43 percent from 1990 to 1997) in the use of gas in the household, budgetary, and communal sectors, while gas consumption in the power and industrial sectors declined by 62 percent and 40 percent, respectively.

government officials to maintain supplies to certain customers in oblasts assigned to them. A poor record of payments to RAO Gazprom and Turkmenistan led to a reduction in supplies of gas to Ukraine in 1997. Turkmenistan stopped all supplies to Ukraine in 1997, but in December 1998 agreed to resume shipment of 20 billion cubic meters in 1999. RAO Gazprom is to supply 55 billion cubic meters in 1999. Furthermore, an agreement between RAO Gazprom and Ukraine was reached in late 1998 on the repayment of gas arrears accumulated in 1997 and 1998. Under the agreement Ukraine will deliver over $1 billion in goods to Russia in 1999.

45. Reform of the gas sector is incomplete as pressures to establish vertically integrated, opaque, and monopolistic market structures have competed with those favoring a transparent, competitive gas market. Until recently, Ukrgazprom (a state-owned company) was the main domestic gas producer and operated the gas transmission and storage facilities. Gas transmission and distribution pipelines formally belong to the SPF and cannot be privatized under a 1994 parliamentary decision. Oblast and city based distribution companies were responsible for the distribution networks and Ukrgaz (an association of gas distribution companies) managed state-owned shares in the distribution companies. Following a change of government in mid-1997, the gas market was segmented into two parts, namely: industrial consumers, whose supply was assigned to private traders with no price restrictions (Table 31); and others (households, budgetary organizations, and district heating companies), whose supply was assigned to gas distribution companies selling Ukrgazprom's domestically produced and transit-fee gas at prices fixed by the Ministry of Economy. The SPF sold majority shares in several gas distribution companies at very low prices during 1997.

46. In early 1998, the authorities established the Naftogaz Ukrainy, a company whose assets include all state-owned assets in the oil and gas industry including those of Ukrgazprom. Following discussions with the World Bank, an action plan was agreed in May 1998 that called for gas sector reform during 1998–2001, including: quarterly gas auctions by Naftogaz; establishment of a state-owned company to operate the transmission network in 1998 and appointment of a consortium of domestic and foreign companies to manage the company's shares starting in 1999; separation and privatization of production activities of Ukrgazprom and exploration activities of the State Geology Committee; and improved collection by gas distribution companies. Several gas auctions were held in the second half of 1998, but only 27.5 million cubic meters of gas were sold, partly because the minimum price was set too high to attract buyers and also because consumers had little incentive to pay in cash as long as they could rely on barter and arrears. However, 575 million cubic meters of gas were sold during January-March 1998.

47. Reforms are ongoing in the coal sector, financed by a $300 million World Bank Coal Sector Adjustment Loan (of which $150 million has been disbursed), although progress has been slow. A detailed plan for restructuring the coal sector was drawn up in early 1996 that called for closure of 20 mines per year (out of a total of 276 coal mines, the great majority of which are not economically viable according to the World Bank), payment of statutory benefits (including severance and back pay) for miners displaced as a result of mine closures,

and the transfer of social assets to municipalities or industry associations. This involved utilizing economic criteria for selecting mines for closure and establishment of a separate agency for mine closure (UDKR). The agency was set up and 20 mines were closed and budgetary support was somewhat refocused on restructuring, with $300 million earmarked in the 1997 budget to cover the restructuring. In the event, there was a shortfall in funds for restructuring the coal sector in 1997 as funds instead were allocated to production subsidies and there were pressures to reverse the reforms. Little restructuring took place during 1998, although later in the year, the government decided to revitalize the process in 1999. As of end-December 1998, a total of 28 mines had been closed and orders had been issued for closure of an additional 17 mines. The coal sector has been an important drain on the economy and the government budget.

48. A wholesale electricity market was established in early 1997 but cash collection has remained low and the financial position of the sector has deteriorated. Retail tariffs do not yet fully reflect the wholesale market price. A Financial Recovery Plan (FRP) for the electricity sector, developed in consultation with the World Bank and other international agencies, was approved by the Cabinet of Ministers in April 1998. The plan contained 23 actions designed to reduce costs, raise retail tariffs to cost-recovery levels by end-1998, strengthen payments discipline through cutting off nonpayers, reduce customer arrears, privatize regional electricity distribution companies (oblenergos), and improve management. While good progress was made in August 1998 in raising retail tariffs to competitive levels, owing to the depreciation of the hryvnia in September, tariffs (which are set in hryvnia) have again fallen below cost-recovery levels as input costs are mostly priced in dollars. On September 23, 1998, parliament adopted a law banning an increase in prices for public utilities (and transportation), including residential electricity tariffs. An appeal regarding the constitutionality of this law was presented by the President to the Constitutional Court in November 1998, and the appeal was upheld in March 1999. Substantial progress has been made in privatizing oblenergos (with over 25 percent of shares sold), but little progress has been made in privatizing the four energy generation companies.

## III. Public Finance

49. ***In 1997, with growing interest by nonresidents in Ukrainian treasury bills, and Ukraine gained access to international capital markets, the cash fiscal deficit increased sharply from 3.2 percent of GDP in the previous year to 5.6 percent. The deficit increased partly due to shortfalls in cash revenue, accompanied by weak expenditure controls and reluctance to reduce expenditures. While the higher cash deficit allowed for some repayment of arrears, its financing made Ukraine very vulnerable to developments in international capital markets. In 1998, despite the continued weak revenue performance the overall fiscal deficit was reduced to 2.7 percent of GDP on a cash basis and 3.0 percent on a commitment basis. Due to resource constraints, the government—in discussions with the creditors—restructured most of the debt falling due to commercial nonresidents***

***in 1998. Progress has been made in improving the transparency of government operations and reducing the tax burden, but difficult decisions on reform of government expenditure programs have been postponed, and there has been some backtracking on tax policy reforms.***

## A. Overview

50. The fiscal position deteriorated markedly in 1997, in part because the availability of financing weakened fiscal discipline in wake of parliamentary elections scheduled for early 1998 (Figure 6). Despite a significant revenue shortfall, the government did not undertake sufficient fiscal and structural adjustment. As a result, the cash deficit of the general government widened by nearly 2½ percentage points in 1997. Budgetary arrears, however, fell modestly, as government used the foreign financing to pay arrears on wages, pensions, and other social expenditures.

51. The picture changed considerably in 1998 as access to international capital markets dried up and the treasury-bill market became dormant except for the NBU's participation. To preserve the stabilization gains achieved in the previous year, in response to continued weak revenues, the cash budget deficit of the general government was reduced by nearly 3 percentage points to 2.7 percent of GDP in 1998. However, progress toward fiscal consolidation was not uniform during the year. Fiscal performance deteriorated markedly during the first quarter due mainly to the parliamentary elections in March and the deficit reached the equivalent of about 1.3 percent of annual GDP. Following this, as sources of financing other than the NBU dried up, expenditures were cut dramatically and the deficit was reduced considerably. Overall, expenditures were cut by nearly 6 percentage points of GDP in 1998, although difficult decisions regarding reforms in education, energy, and agriculture, and to a lesser extent health, law and order, and defense were postponed. At the same time, some new budgetary arrears accumulated.

## B. Fiscal Developments During 1997

52. The 1997 budget, which was approved by parliament only in late-June 1997, projected revenues optimistically at 42 percent of GDP and targeted a deficit of 4.6 percent of GDP. This implied a substantial improvement in revenue performance, during the second half of the year. However, cash revenue did not improve during the second half of 1997. In response, the government focused on borrowing and on daily cash management instead of cutting expenditures. As a result, the cash deficit of the general government reached 5.6 percent of GDP in 1997 (Tables 32 and 33). At the same time, budgetary arrears on wages, pensions, and social benefits were reduced by about 0.4 percent of the 1997 GDP (Table 34).[31] Adjusted for payment of these arrears, the deficit amounted to 5.2 percent of GDP in 1997, compared to 6.1 percent in 1996.

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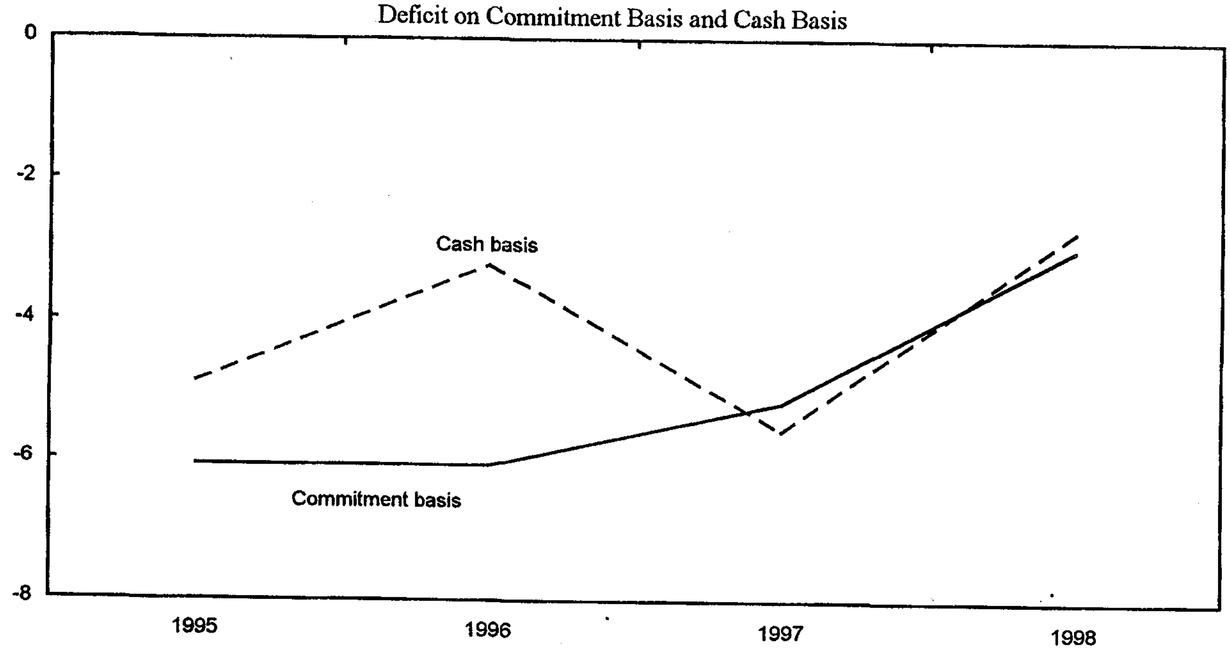
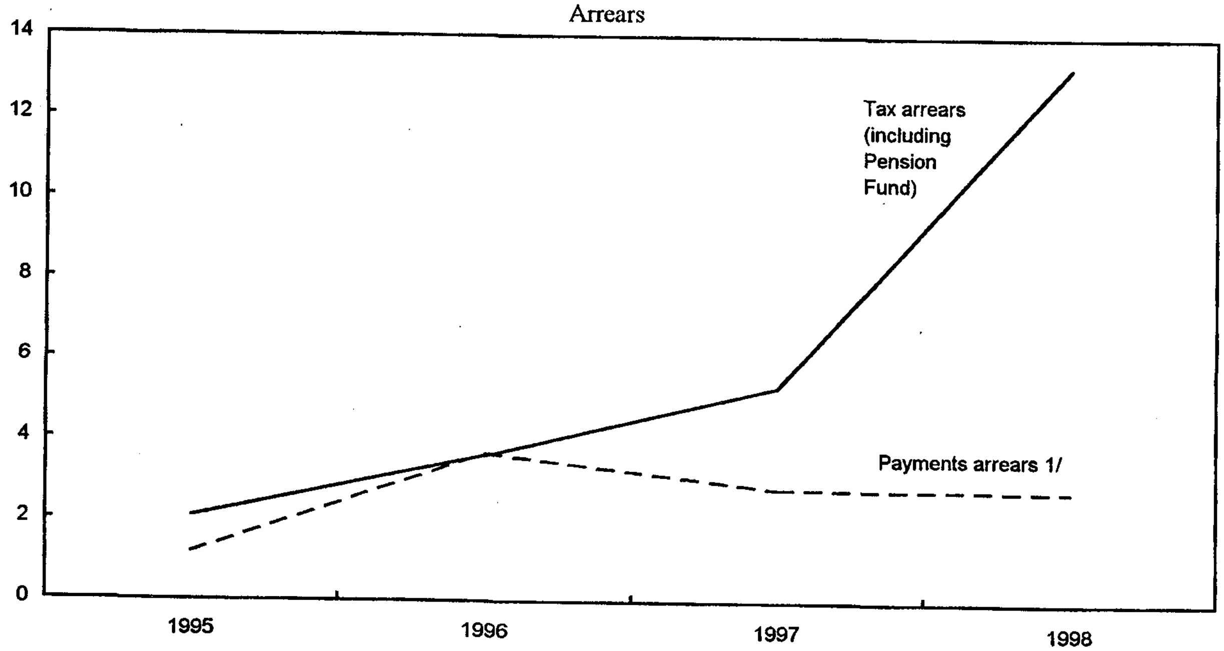
[31]Information on other budgetary arrears in not available on a consistent basis.

## Figure 6. Ukraine: Fiscal Indicators, 1995-98
(In percent of GDP)

Deficit on Commitment Basis and Cash Basis




Arrears




Sources: Ukrainian authorities; and Fund staff estimates.

1/ Defined as government payments arrears on wages, pensions, and social benefits more than 30 days overdue.

53. Revenues increased from 36.7 percent of GDP in 1996 to 38.0 percent in 1997, thus remaining relatively high, compared to other BRO countries (Tables 32 and 35, Figure 7). However, the share of cash revenue in total revenue declined substantially, from 80 percent in 1996 to 70 percent in 1997, as the volume of netting operations increased. While some of the revenue increase was due to incorporating three extrabudgetary funds into the budget (the road, environment, social protection funds), it also reflected an increase in nontax revenue. Revenues from income and profit taxes fell, due mainly to reduced royalties from oil and gas transit fees. However, this was more than offset by a strong increase in revenue from taxes on goods and services (mostly related to inclusion of the Road Fund in the budget). At the same time, tax arrears increased sharply from 3.6 percent of GDP at end-1996 to 5.3 percent at end-1997 (Table 36).

54. Total expenditures rose by almost 4 percentage points of GDP, to 43½ percent in 1997 (Tables 32, 37, and 38). This was accompanied by a shift away from outlays to support the national economy and for investment, and toward social activities. Indeed, social spending returned nearly to 1995 levels following the decline in 1996. Most of this shift in the pattern of spending reflected the fact that expenditures had been artificially contained during 1996, albeit through accumulation of arrears. While expenditure for the coal sector increased considerably, substantial cuts were made in other programs designed to support the national economy, and in investment expenditures. At the same time, social spending increased significantly compared to 1996. Expenditures in the health sector were lower than in 1995 and 1996 as a result of expenditure rationalization measures (some fees were introduced and means-testing for selected programs was implemented at the end of 1996). Finally, defense spending remained at its 1996 level (Figure 8).

55. Unofficial data suggest that the accumulation of total budgetary arrears slowed considerably during 1997, increasing by less than Hrv 1 billion compared to an increase of Hrv 4 billion during 1996 (including Hrv 1.9 billion of arrears on wages, pensions and social benefits). The central government appears to have reduced arrears by a small amount; virtually all of the arrears accumulated during 1997 were liabilities of local governments.[32]

## C. Fiscal Developments During 1998

56. The 1998 budget was approved early in the year, for the first time allowing meaningful budget planning. Faced with limited budgetary financing and weak revenues, a substantial fiscal consolidation was achieved during 1998. However, budget implementation was uneven during the year, and in the first quarter, which was dominated by parliamentary elections, the budget deficit actually reached about 1.3 percent of annual GDP, while for the year as a

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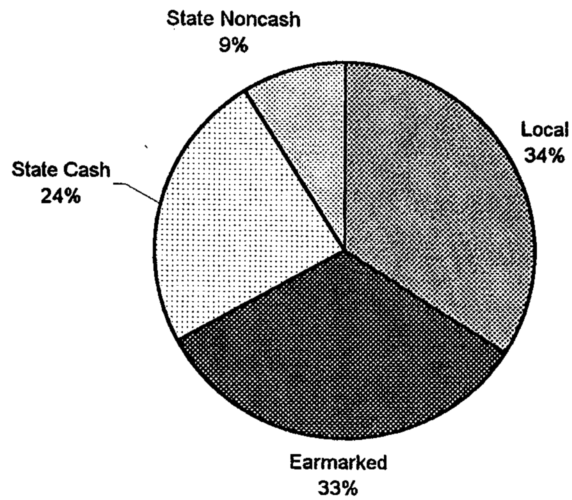
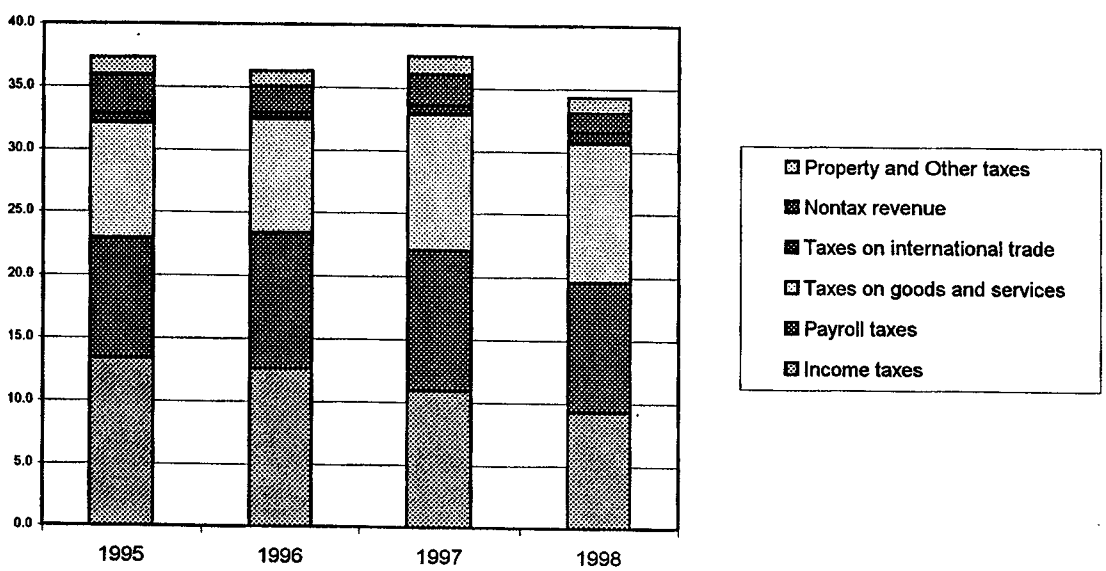
[32]Unofficial data on the stock of expenditure arrears at end-1997 show that arrears were concentrated in the social sectors, including education (30 percent of the total stock of arrears), health care (16 percent), benefits (15 percent), and housing and communal subsidies (19 percent).

## Figure 7. Ukraine: Consolidated Revenues, 1995-98

Revenues in Percent of Total, 1997



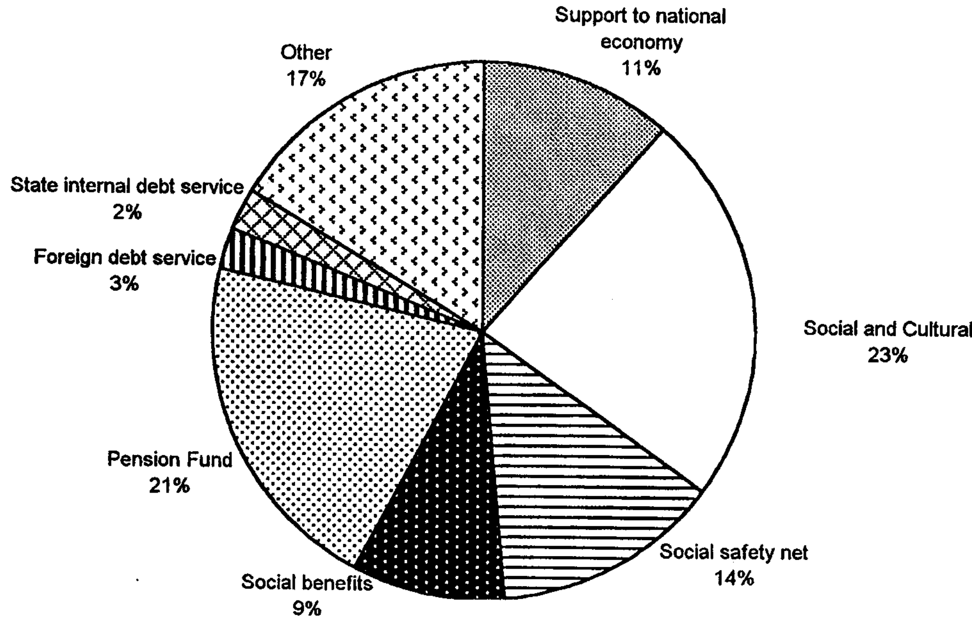

Revenues in Percent of GDP, 1995-98



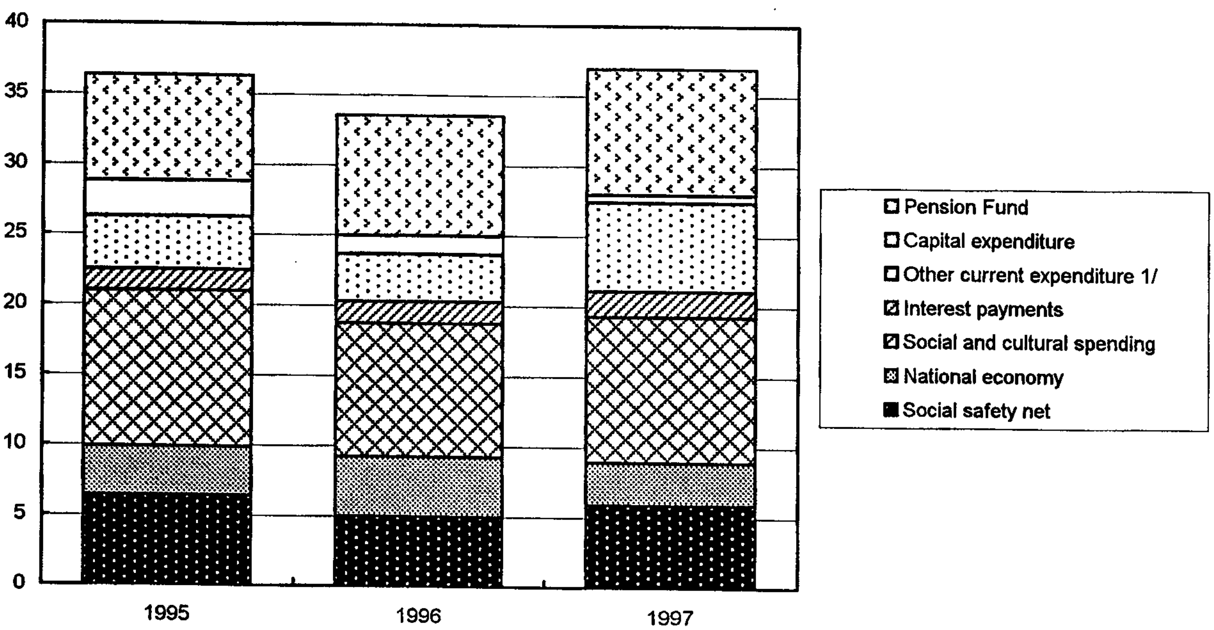

Sources: Ukrainian authorities; and Fund staff estimates.

# Figure 8. Ukraine: Expenditures, 1995-97

Expenditures in Percent of Total, 1997




Expenditure in Percent of GDP, 1995-97




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

1/ Includes balances of extrabudgetary funds and statistical discrepancy with financing.

whole, the cash deficit fell by nearly 3 percentage points to 2.7 percent of GDP.[33] This was accomplished by reducing expenditure by nearly 6 percentage points of GDP, more than enough to offset the drop in revenue of nearly 3 percentage points. Notwithstanding these accomplishments, budgetary arrears on wages, pensions, and social benefits rose somewhat (by around Hrv 300 million) so that the commitment deficit shrank by around 2 percentage points of GDP in 1998.[34]

57. While total revenue increased by 4 percent during 1998, there was a sharp decline in state budget revenues.[35] In particular, VAT collection (the major revenue source for the state budget) fell during the first quarter because fraudulent VAT refund claims increased.[36] While the central government made some effort to contain netting operations, local governments continued these operations on an ad hoc basis. The central government's efforts, however, faltered in the last three quarters and netting operations increased, from 13 percent of revenues collected by STA during the first quarter, to 28 percent for the year as a whole.[37] Encouraged by a generous tax amnesty for the agricultural sector and frequent individual tax restructuring by STA, tax arrears (excluding the Pension Fund) more than quadrupled, from Hrv 2.3 billion at end-December 1997 to Hrv 10.3 billion at end-December 1998, mostly on account of the VAT and the enterprise profit tax. In order to reduce tax arrears, a Presidential decree was introduced in March 1998 that allows for tax liens, seizure and sale of property,

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[33]The presentation of the fiscal accounts was improved considerably in the context of the 1998 budget; a functional classification roughly in line with GFS was adopted for both central and local budgets (Tables 39, 40, and 41). The central government budget was also presented using an economic classification.

[34]As in 1997, the arrears figure cited in the text refers to arrears 30 days or more overdue on wages, pensions, and social benefits only. Reliable data on other arrears are not available. Even if arrears less than 30 days overdue are included in the deficit, the fiscal consolidation during 1998 was substantial.

[35]Some details on local government revenues are given in Box 3.

[36]This new law, which had come into effect on October 1, 1997, imposed a very short period between filing the VAT declaration and payment of the refund by the State Tax Administration (STA). This was compounded by STA's weak auditing capacity and by low penalties (the interest rate was 30 percent). After parliament extended the period for refunding and STA strengthened its auditing, VAT revenues recovered somewhat, although they were still significantly below 1997 levels.

[37]The 1998 state budget explicitly allowed netting operations only for certain projects in rural areas and defense. However, numerous exceptions to this rule were granted throughout the latter part of 1998.

**Box 3: Intergovernmental Finance**

Ukraine has a unitary system of government, which includes (in addition to the central government) 24 oblasts, two city districts, one autonomous republic, 480 rayon district governments, 139 cities and almost 30,000 villages and settlements. Oblasts and rayons have a somewhat decentralized role acting as agents of the central administration through a centrally-appointed executive. At the same time, they also play a coordinating role for the smaller local self-governments through democratically-elected councils (radas). Over the course of the transition, local governments have been assigned increasing responsibilities. Oblasts focus on items that are oblast-wide in scope such as special hospitals and schools, and local villages and settlements are concerned largely with expenditures that directly affect their communities such as provision of water, primary and secondary education, etc. Most social protection spending is done by local governments.

The share of revenues for the oblast budgets has fallen from about 50 percent of consolidated revenues at the time of independence to 41 percent in 1997. In 1998, the local budgets were assigned either the majority or the full amount of the following revenues: corporate and personal income taxes; motor vehicle tax; licences; land tax; and the Road Fund tax, though they have no control over the rate or base of the tax. Local governments have discretion concerning some 16 local taxes, but these are generally nuisance taxes and amount to only 2 percent of local government revenues. In addition, most local governments receive transfers from the central government. The system of transfers lacks transparency and is determined through budget negotiations on an annual basis. Transfers are also subject to drastic mid-year corrections, as was the case in 1998, when transfers were reduced by some 50 percent in response to the fiscal crisis. Some local governments frequently resorted to netting operations and mutual settlements as a source of finance. In addition, imbalances between expenditure responsibilities and revenue availability led to a considerable arrears problem.

Budget planning at the lower levels is difficult because annual budgets, which determine allocations to oblasts, are sometimes passed after the current budget year has started. The 1997 budget was not passed until June 1997, while the 1998 budget was approved in early 1998. In addition, execution and implementation of the budget is weak. Revenues are directly transferred from STA to the local budgets. Oblasts outperformed the central government in revenue collection during 1997, collecting 24 percent more than budgeted.

Efforts to address the imbalance in the system of intergovernmental finance and to improve its predictability, transparency, and implementation, are being undertaken with the help of the World Bank and other donors. Key measures will be clarifying the roles and responsibilities of different levels of government, establishing incentives for increasing local government revenue sources, moving toward a formula-based system of transfers, improving for budget implementation, building local government capacity for expenditure control, and strengthening the legal and regulatory framework to enhance control over subnational borrowing.

and arrangement of installment plans. The STA started to implement this decree during the fourth quarter of 1998.

58. Significant improvements were made in the area of tax policy during 1998,[38] although there was some backsliding as well. Given the high rate of overall payroll taxes in Ukraine, the reduction from 49 to 39 percent through eliminating the contribution rate to the Chernobyl

[38]Other significant changes including to the profit tax and a reduction in payroll taxes by 3 percentage points had taken place in 1997.

Fund was an important step forward.[39] In addition, several changes in the VAT came into effect in October 1998, including the elimination of tax exemptions on transportation, some critical imports, and gas for households. This also specified the transition to the accrual accounting method effective October 1, 1998 and changed the rules for VAT registration. Notwithstanding these favorable developments, in December 1998 parliament passed a two-year moratorium on all taxes paid by the agricultural sector, and a Presidential decree exempted agriculture from VAT for 5 years. Also, there were a number of legislative acts introducing tax exemptions in the context of special economic zones (including for Sivash, Donetsk, Azov, Slavutych and Yavoriv). Finally, the President raised excise tax rates on alcohol, tobacco, and petroleum products in August, although parliament subsequently lowered some of them; a proposed decrease for petroleum products was vetoed by the President in January 1999.

59. Central government expenditures were constrained throughout 1998, although local government spending expanded somewhat in response to buoyant revenues. Faced with reduced financing and a shortfall in revenues, the central government made very substantial cuts in expenditure during 1998. Given parliamentary opposition to such cuts, the President issued reduced expenditure limits by decree to spending agencies. In addition, the MoF controlled spending on a monthly basis through setting cash limits and developed a list of priority cash expenditures (including wages, benefits, interest payments, and allocations for medicine, food, clothing, and science) for which approval was given on a daily basis. In the event, the majority of expenditure cuts occurred in nonpriority expenditure items, with some cuts also in the areas of health, education, and the social safety net. While these cuts were made under increasingly difficult circumstances, they were not always accompanied by policy reforms that promoted attainment of a sustainable fiscal position. For instance, the government was not successful in limiting direct and indirect government subsidies to the agricultural sector.[40] Also a coal miners' strike forced the authorities to increase allocations to the coal sector substantially. It is estimated that the coal sector received about Hrv 2 billion of direct and indirect (i.e., channeled through allocations to other ministries) cash payments during 1998, compared to its annual budget allocation of Hrv 1.5 billion.

60. Public sector employment was reduced substantially, especially during 1998. In 1997, almost 5 million people, or 10 percent of Ukraine's population, were employed by budgetary organizations. Most public employees worked for the education (1.6 million), health (1.2 million) and defense and internal security sectors (around 1 million); less than 10 percent were in public administration. Public sector employment has fallen by more than 1 million

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[39]The tax was reduced by 5 percentage points in July 1998 and the remaining 5 percentage points were eliminated effective January 1, 1999.

[40]The 1998 budget excluded the State Reserve Fund but it still received an allocation of approximately Hrv 100 million. Also, the Leasing Fund was endowed with starting capital of around Hrv 300–400 million to finance agricultural equipment for farmers.

since 1994, with an additional substantial decrease of about 280,000 in 1998. Notwithstanding these accomplishments, there is still scope for further reductions. In the education sector, the pupil-to-teacher ratio of 13.5 is still substantially below the OECD average of 17. Moreover, the 0.5 ratio of teaching personnel to nonteachers is far below international standards. Similarly, for the health sector, the number of physicians per thousand is about four to six times higher than in OECD countries. While wages in public administration are higher than the average wage in the economy, budgetary employees in other sectors receive below-average wages.

61. An interim treasury that records most central government cash and noncash expenditures is now fully operational, although spending by the Pension Fund is not monitored. From May 1, 1997 onward, budgetary payments were progressively taken over by the treasury, and ministerial and departmental bank accounts were closed. The treasury now executes all budgetary payments except for three security agencies (the State Security Service, the Main Department of Government Communications, and the Presidential Committee of Intelligence Affairs), although there were some delays in completing this transition. In addition, many spending agencies kept accounts outside the treasury. The flow of revenues and expenditures through these extrabudgetary accounts is estimated to have been about 2½ percent of GDP in 1998. The treasury developed interim software to handle and record central government transactions in treasury ledgers and to link with the client-bank payments system of the NBU. The number of commercial banks authorized to handle budgetary transactions was reduced from 17 to 6. Finally, a cash management unit was established in June 1998 to improve the system of cash forecasting, and in October 1998 the same unit appointed staff to implement a system of operational cash management. The treasury produced an expenditure report by economic categories and a first compilation of accounting-based data on expenditure arrears in November 1998. However, expenditure data on a commitment basis are not yet available.

### D. Financing of the Consolidated Deficit

62. Interest by foreign investors in Ukrainian treasury bills started in 1996 and steadily grew. As a result, during the first seven months of 1997, the treasury-bill market became the major source of financing for the budget, apart from a disbursement of $100 million from the World Bank. During this period, domestic institutions and nonresident investors purchased some Hrv 800 million of treasury bills on average per month. Over time, however, due to the increasing loss of confidence in transition economies, this instrument became less attractive and investors started to pull out or were interested only in hedged operations. This prompted Ukraine to seek access to international capital markets. Ukraine made its debut and floated its first Eurobond in August 1997. Despite the instability in the international capital markets, Ukraine borrowed again in October 1997 although the amount was smaller and the terms were less favorable.

63. During 1998, activity in the treasury-bill market came to a halt. Domestic banks and nonresidents, concerned with the sustainability of the fiscal position, were increasingly

reluctant to purchase treasury bills, and the government had to rely on the NBU to finance the budget deficit and service public debt. In early 1998, Ukraine borrowed three times from international capital markets but increasingly had to use the proceeds to repay obligations to treasury-bill holders and external creditors. In mid-1998, finally Ukraine lost its access to all external markets while debt payments created a significant cash-flow problem for the budget. During the latter part of 1998, the authorities successfully negotiated voluntary exchange programs with domestic and external creditors for the conversion of short-term debt into longer-term government bonds. It also negotiated a fiduciary loan.

**1997**

64. Domestic and foreign creditors continued to enjoy unrestricted access to the treasury-bill market during 1997 and the amounts borrowed from the treasury-bill market increased nearly three-fold compared to 1996 and covered the major portion of financing needs of the budget.[41] The bulk of the treasury bills were bought by nonresidents. The MoF placed some Hrv 8.7 billion of treasury bills in the primary market,[42] through conducting multiple-maturity auctions on most days of the week. Receipts from the auctions were used to cover the daily cash needs of the budget. While the frequent auctions raised the necessary resources, they did not help promote an efficient market; participants had an incentive not to make their best offer given the option to wait for subsequent auctions. In addition, the development of a secondary market was adversely affected by the differential tax treatment of securities purchased in the primary and secondary markets.[43] In August 1997, parliament unified the tax treatment, and income from treasury bills was taxed at a 30 percent rate.

65. The interest of investors in the treasury-bill market remained high during the first nine months of 1997. The MoF took the opportunity to lengthen the average maturity and the placement of 3-month bills was discontinued in May,[44] while the threshold price below which investors' bids were rejected was progressively increased. As a result, treasury-bill yields declined significantly, from around 60 percent (for 12-month treasury bills) at end-1996 to about 22 percent at end-September 1997 (Table 42).

66. The rapid accumulation of government obligations, together with the turbulence in Asian markets, affected investors' assessment of the Ukrainian economy and reduced their

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[41]The budget received Hrv 128 million from the government's privatization program.

[42]Net proceeds, defined as receipts minus amortization, amounted to Hrv 48 billion.

[43]Income from treasury bills held until maturity was not taxed, while income from treasury bills traded prior to maturity was subject to a 30 percent withholding tax.

[44]The introduction of longer-term (1.5 year) treasury bonds was not well received by investors in April.

interest in the treasury-bill market. In an effort to preserve investors' interest the MoF allowed yields to rise progressively to about 45 percent at end-December. Despite this, foreign investors appeared concerned about the sustainability of the authorities' policies and the outlook for the exchange rate, and became increasingly reluctant to purchase treasury bills without hedging or some type of forward contract. In December 1997, the MoF issued Hrv 750 million of 9- and 12-month maturity treasury bills denominated in hryvnia, with coupons on the bonds linked to the exchange rate according to a formula that guaranteed a minimum yield of 22 percent in dollar terms. At end-1997, foreign investors held 45 percent of the outstanding stocks of treasury bills, while banks held 28 percent and the NBU, whose share had started rising in September, held 24 percent.

67. Ukraine accessed international capital markets for the first time in August 1997, raising $396 million from a one-year Eurobond issue at a 12 percent interest rate. In October, the MoF raised an additional $99 million through a one-year fiduciary loan organized by Chase Manhattan Bank at a 10 percent interest rate. In addition, during the year, Ukraine borrowed $310 million from international institutions.[45] External borrowing was about sufficient to cover foreign amortization that amounted to about $680 million. Net external financing covered only 5 percent of the 1997 deficit (Text Table 2).

Table 2. Ukraine: Financing of the Budget Deficit, 1997

(In millions of hryvnia, unless otherwise specified)

| | 1997 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Year |
| Deficit | 1,093 | 982 | 2,041 | 1,073 | 5,189 |
| Net external financing | -223 | -29 | 424 | 64 | 236 |
| External borrowing | 0 | 186 | 941 | 371 | 1,498 |
| (In dollars) | 0 | 100 | 506 | 200 | 806 |
| External amortization | 223 | 215 | 517 | 307 | 1,262 |
| (In dollars) | 121 | 116 | 277 | 165 | 679 |
| Domestic financing | 1,279 | 981 | 1,584 | 981 | 4,825 |
| Placement of treasury bills | 2038 | 2407 | 2318 | 1959 | 8,722 |
| Amortization of treasury bills | 823 | 1,165 | 931 | 991 | 3,910 |
| Other | 64 | -261 | 197 | 13 | 13 |
| Privatization | 37 | 30 | 33 | 28 | 128 |

Source: Ukrainian authorities; and Fund staff estimates.

[45]The World Bank disbursed a total of $200 million ($100 million in April and $100 million in October) and the EU disbursed $110 million in September.

**1998**

68. Ukraine raised $1.1 billion in the international capital markets during the first half of 1998. It issued a three-year Eurobond equivalent to DM 750 million at a 16 percent interest rate in February, a two-year Ecu 500 million Eurobond with a 14.75 percent annual yield in March, and in May floated a second tranche of the February Eurobond for DM 260 million with a three-year maturity and a yield of 14.99 percent. Foreign borrowing covered the $700 million of foreign amortization falling due and offered temporary relief to the budget at a time when proceeds from the treasury-bill market were dwindling (Text Table 3).

Table 3. Ukraine: Financing of the Budget Deficit, 1998

(In millions of hryvnia, unless otherwise specified)

| | 1998 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Year |
| Deficit | 1,399 | 742 | 267 | 415 | 2,822 |
| Net external financing 1/ | 1,538 | -46 | 944 | -569 | 1,867 |
| External borrowing | 1,896 | 299 | 1,935 | 520 | 4,650 |
| (in dollars) | 941 | 145 | 620 | 152 | 1,858 |
| External amortization | 358 | 345 | 991 | 1,089 | 2,783 |
| (in dollars) | 181 | 169 | 461 | 321 | 1,131 |
| Domestic financing | -301 | 665 | -776 | 896 | 484 |
| Placement of treasury bills 1/ | 2,095 | 2,412 | 3,945 | 515 | 8,967 |
| Amortization of treasury bills 1/ | 2,033 | 2,120 | 3,897 | 570 | 8,620 |
| Other | -363 | 373 | -824 | 952 | 138 |
| Privatization | 161 | 123 | 99 | 88 | 471 |

Source: Ukrainian authorities; and Fund staff estimates.

1/ The presentation differs from the authorities' in that the reschedulings of domestic and foreign debt are treated as new financing.

69. The departure of investors from the treasury-bill market that started in 1997, continued in 1998. This, combined with the reluctance of banks to purchase significant amounts of treasury bills put the budget under significant strain. On a net basis, the primary market, excluding the effect of the NBU's participation, drained resources from the budget.

70. On several occasions, the MoF tried to promote investor participation, including by raising yields to about 60 percent at end-June and by issuing certain short-term maturities. In addition, the MoF started to announce the dates of the auctions, the maturities of the securities, and the amount of cash it wished to raise during the following week, in advance, in an effort to disseminate more information to the market. Nevertheless, activity remained depressed. Operations continued to be nontransparent, maturities were often longer than what

the market was prepared to buy, and the price was determined administratively. Investors' departure from the treasury-bill market was accelerated by their loss of confidence in Ukraine's ability to repay.

71. As a result, to cover budgetary financing needs, the NBU became the primary participant in the treasury-bill market. The MoF placed Hrv 4.5 billion of treasury bills through the auctions during the first six months of 1998, 65 percent of which were purchased by the NBU.[46] Even taking account of the NBU's participation, the treasury-bill market did not provide any funds to the budget on a net basis.[47]

72. Obtaining budgetary financing became increasingly difficult starting in the summer of 1998. Efforts by the MoF to borrow from the international capital markets in July and early August were only partially successful. In early August, the MoF obtained $150 million through a treasury-bill placement organized by ING Barings. The treasury bills had a maturity of 10 months, carried an interest rate of 55 percent in hryvnia terms, and a featured coupon that guaranteed a minimum dollar return of 17.5 percent. That amount only partly covered repayment of the $450 million Eurobond that matured on August 9. The MoF started facing a serious liquidity shortage as the servicing of domestic and external debt absorbed significant budgetary resources. Furthermore, the debt service profile was skewed toward the last part of 1998.

73. In 1998, the MoF placed some Hrv 9.0 billion in the treasury-bill market. The NBU purchased Hrv 6.0 billion (about 73 percent of the total). Commercial banks purchased Hrv 1.6 billion. Nonresidents purchased less than Hrv 0.6 billion (mostly in the first nine months of the year).

*Debt conversion*

74. Starting in August, the MoF negotiated with three major groups of creditors regarding a voluntary conversion of short-term instruments into longer-term ones. On August 28, the MoF agreed with domestic commercial banks on a voluntary program for the exchange of short-term treasury bills with long-term hryvnia-denominated government bonds. The annual return offered to participants under this exchange program was 40 percent during the first year, followed by a yield linked to a floating benchmark interest rate. The bonds were scheduled to mature during 2002–04. Commercial banks agreed to exchange Hrv 803 million of treasury bills (one-third of their portfolio).

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[46]The NBU continued to buy treasury bills at an uncompetitive price. However, active participation by the NBU allowed the MoF to keep the treasury-bill yields below market rates.

[47]The budget received only Hrv 1 million on a net basis from the treasury-bill market during the first six months.

75. In September 1998, the MoF notified nonresident holders of treasury bills that the government had decided to launch a voluntary exchange program. Those nonresident investors that had instruments carrying an exchange-rate guarantee, or that had entered into forward contracts with the NBU, were eligible to receive an up-front cash payment equivalent to 20 percent of the present value of their treasury bills as well as a two-year dollar denominated Eurobond for the remaining 80 percent. Nonresident holders of unhedged treasury bills were offered the same dollar Eurobond but no up-front cash payment. Investors agreed to exchange Hrv 1.1 billion (out of an eligible stock of Hrv 1.3 billion). The remainder was paid into blocked accounts at the NBU. The Eurobond carried an annual yield of 20 percent. The face value of the bond was estimated at about $500 million. The MoF made an up-front cash payment of $76 million.

76. This was followed in October 1998 by the rescheduling of a fiduciary loan that Chase Manhattan Bank had placed with the MoF in October 1997. Chase Manhattan clients agreed to receive an up-front cash payment of 25 percent of the original loan ($27.3 million) and to roll over the remaining 75 percent ($81.8 million) into a new instrument with an interest rate of 16.75 per annum and a maturity of two-years.[48]

### E. Social Safety Net

77. A viable and effective social safety net is essential for the success of Ukraine's economic transformation. While Ukraine has made improvements in the structure of social protection programs in recent years, many of the programs remain poorly targeted and complex. These deficiencies, combined with severe financing constraints, have limited the provision of assistance to those most in need.

78. In order to preserve a minimum standard of living for all pensioners, the pay-as-you-go Pension Fund system was allowed to degenerate over the last several years into a system that effectively amounts to a minimum pension system. The average pension in 1998 amounted to Hrv 57 per month, below the official poverty line of Hrv 73.7 per month. In response to parliament's decision to increase the minimum monthly pension from Hrv 16.6 to the poverty line (which would have required a considerable increase in outlays of the Pension Fund), the authorities raised pensions in April 1998 for almost half of pensioners by around Hrv 10 per month. The Pension Fund is financed through payroll contributions, as well as direct transfers from the central government for the Chernobyl Fund and military pensions (Tables 43 and 44). Despite recent attempts to enforce payment contributions by noncompliant enterprises, total debt to the Pension Fund doubled, from Hrv 1.5 billion at end-1996 to Hrv 3.6 billion at end-December 1998. At the same time, pension arrears increased from Hrv 0.8 billion to Hrv 1.5 billion (of which around Hrv 600 million was a direct liability

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[48]The instrument carries quarterly amortization payments of $2 million plus interest during the first year, and quarterly amortization payments of $18.4 million plus interest during the second year.

of the Pension Fund; the other arrears were related to the Chernobyl Fund and budgetary pensions). The share of in-kind revenues in total revenue of the Pension Fund increased during 1997, particularly from the agro-industrial sector (more than 400 thousand tons of grain were collected during 1997). In 1998, the Pension Fund collected Hrv 8.9 billion, or 91 percent of its 1998 budget projection of Hrv 9.8 billion. The Pension Fund is usually close to balance; it was in a slight surplus in 1997 and 1998. A Presidential decree issued in June 1998 called for a major overhaul of the pension system, including the introduction of a fully-funded element, individual record keeping, and an increase in the pension age. While at present there is no consensus for a major pension reform, two draft laws that would offer some improvements in the current system have been submitted to parliament during the third quarter of 1998 (on private pension funds and on improving the compulsory state pension insurance).

79. The Chernobyl Fund, founded to absorb the human and environmental costs of the nuclear accident of 1986, generated and spent funds equivalent to about 2 percent of GDP in 1997. The number of registered Chernobyl victims reached more than 3 million at end-1997. The vast majority of the fund's expenditures are for social protection, including compensation payments, social insurance and pension payments (around 80 percent of total expenditure in the first half of 1998). The fund also finances some capital investments for housing, urban infrastructure, schools, and hospitals in the affected areas and in other oblasts as part of the resettlement program. As noted previously, the 10 percent payroll tax which financed the fund was completely eliminated by January 1, 1999, leaving the central government budget with the responsibility for the social outlays of the fund. To assure resources, a portion of the VAT tax revenues is now earmarked for this purpose.

80. The extrabudgetary Social Insurance Fund, which is administered by trade unions and financed through payroll contributions, had a balanced budget of more than 1 percent of GDP in 1997. The bulk of the fund's expenditure is for sickness benefits (more than half) and the maintenance of sanatoria and health resorts (around 30 percent). However, since the Social Insurance Fund pays the wages for sick workers, enterprises are able to shift some wage costs to the Social Insurance Fund. This appears to be used in lieu of laying off workers. Moreover, the benefit covers up to 100 percent of the wage for as much as four months at a time, thus encouraging frequent use of sick leaves. The provision of medical rehabilitation/recreation services is inefficient and nontransparent. Vouchers for these services are often provided to workers at substantial discounts (the average rate of cost recovery for vouchers is estimated at around 10–12 percent), with the remainder being financed by the Social Insurance Fund. There may also be some arbitrariness in the determination of the voucher price since the enterprise trade union committee fixes the price based on the earning and employment record, age and family status, previous use of the facilities, and other qualitative criteria.

81. The Employment Fund provides mainly unemployment benefits (limited to 12 months paid over a three year period), but also training and job creation activities. While the latter accounted for more than 20 percent in 1996, an increase in registered unemployment from 351,000 in 1996 to over 1 million by end-December 1998 forced the fund to shift its focus

more toward financing unemployment benefits. However, unemployment benefits are only extended to a small fraction of the truly unemployed, since Ukrainian enterprises avoid laying off workers and instead place them on unpaid leave, sick leave, or involuntary part-time work. The fund's revenues stem from a 2 percent payroll tax rate which yielded revenues of almost ½ percent of GDP in 1998. The Employment Fund was balanced in 1997.

82. Households receive direct and indirect support for housing services (including for heating, water, sewage, rent, and transportation). Prices of these services were increased to 80 percent cost recovery in August 1996; the difference between the price charged and cost is financed by local governments. The central government's attempt to increase housing payments to full cost recovery was blocked by parliament, as noted in Chapter II. In addition to the subsidized pricing, housing payments by households are capped at 20 percent of household income[49] through a targeted housing subsidy program which was introduced in May 1995 (around Hrv 1 billion was envisaged in the 1998 budget). About 4.7 million households participated in the program, including in rural areas where the housing program assists families with their annual purchase of liquid gas and solid fuel. There are some indications that arrears to the communal services sector have accumulated, although there are no official data on such arrears and, in any event, it is possible they were settled through netting operations by local governments.

83. There is a complex system of budgetary privileges which, if paid, would require budgetary resources of more than 10 percent of GDP. While these privileges are granted under a plethora of social laws, very few were actually funded or paid. The privileges cover activities in the health, education, culture, and transport sectors and apply to various groups of the population, including adolescents, military personnel, and war and labor veterans.

## IV. Monetary and Exchange Rate Policy

84. ***The financial crisis that hit many Asian economies during August and September 1997 disrupted the favorable external environment that had facilitated Ukraine's progress toward financial stabilization. Until summer 1997, Ukraine had experienced significant capital inflows encouraged by stable and open foreign exchange markets. During this period, base money expanded moderately, largely due to capital inflows to purchase treasury bills. By September 1997, year-on-year inflation had fallen to around 10 percent. The reversal of investor sentiment in fall 1997, and the ensuing capital outflows the latter part of 1997 and the first nine months of 1998, put financial policy and external reserves under considerable pressure. With little or no access to international or domestic creditors, the government relied heavily on borrowing from the NBU to finance the deficit and service public debt. The decision to support the hryvnia, at a time of substantial downward pressures on the exchange rate, required heavy intervention by the***

[49]This threshold was increased from 15 to 20 percent in July 1998.

***NBU in the foreign exchange markets. In September 1998, the NBU stopped selling foreign exchange to the market, introduced a number of administrative measures to control the foreign exchange market, and moved the exchange rate band to Hrv 2.5–3.5 per dollar.***

## A. Overview

85. Ukraine made further progress toward financial stabilization during the first nine months of 1997. The NBU maintained a relatively tight credit policy while the strong participation of nonresidents in the treasury-bill market allowed the budget to be financed without recourse to borrowing from the NBU. Base money grew by 32 percent, mostly due to the NBU's unsterilized purchases of foreign exchange, reflecting increased demand for hryvnia (Figure 9). Accordingly, the 12-month inflation rate in September 1997 dropped to 10 percent, from 40 percent at end-December 1996. Nominal interest rates fell gradually following the decrease in the inflation rate. The openness of the foreign exchange market and the stability of the exchange rate during this period encouraged significant inflows of foreign capital. Commercial banks and nonresidents found treasury bills an attractive investment as real returns remained high despite the gradual decline in yields.

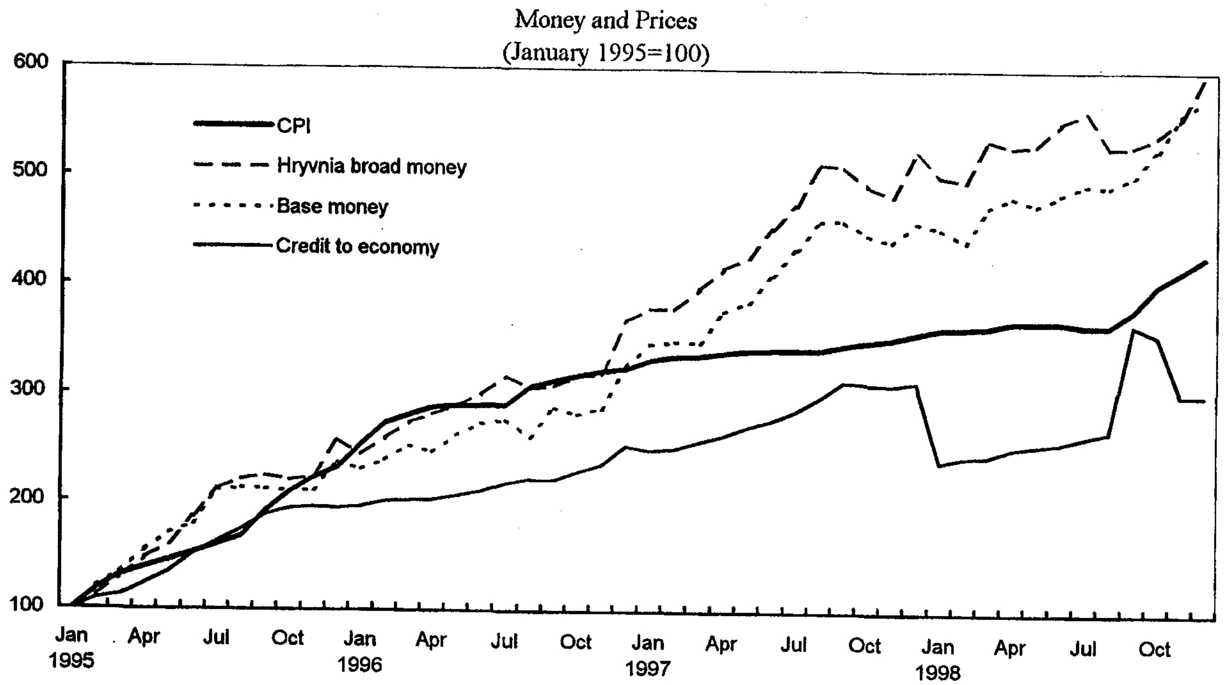
86. Government borrowing, however, delayed fiscal adjustment and structural reforms. This, coupled with the financial crisis that hit many Asian economies during August and September 1997, influenced investor perceptions of Ukraine. The foreign exchange and treasury-bill markets became increasingly nervous during the fourth quarter of 1997, as investors started withdrawing due to concerns regarding the stability of the exchange rate and Ukraine's ability to repay.

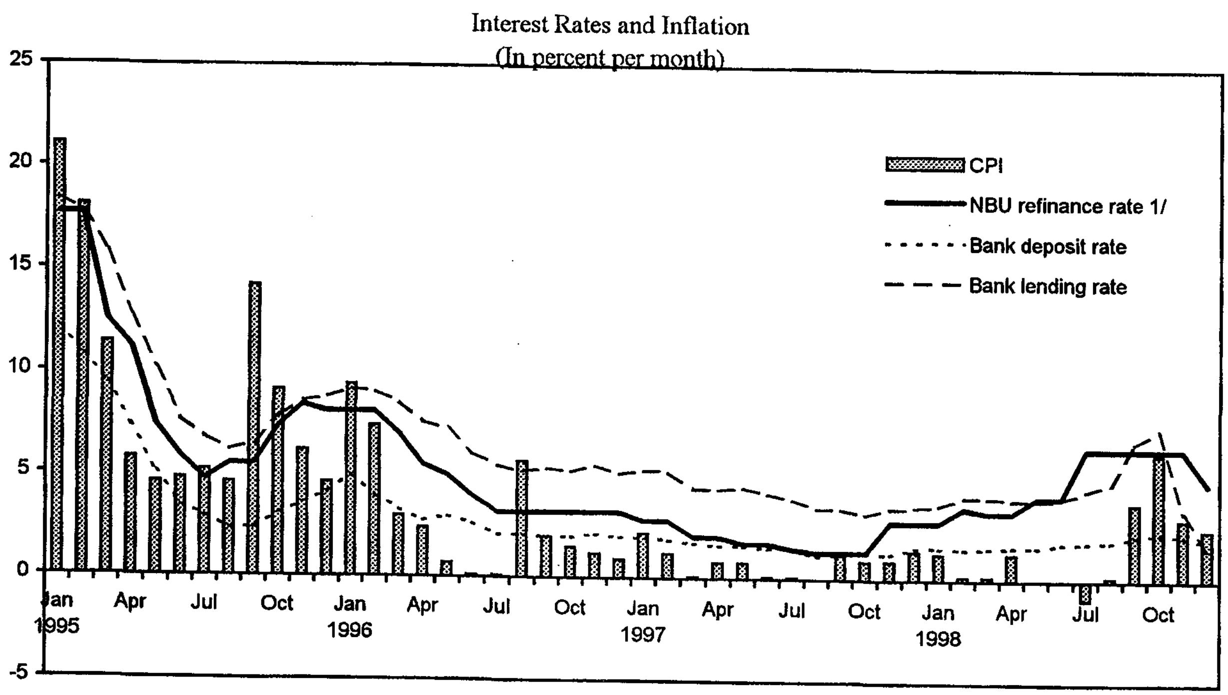
87. Indeed, capital outflows, associated mostly with repatriation of nonresident investment earnings, drove monetary developments during the September 1997 to August 1998 period. Throughout this period, the NBU sold a considerable amount of foreign reserves to protect the exchange rate (Figure 10). In January 1998, a new band of Hrv 1.80–2.25 per dollar was announced[50] that the authorities hoped would bolster market confidence in the stability of the hryvnia and thereby would help relieve pressure on the exchange market. In the event, nonresidents continued to leave the treasury-bill market. However, during the first five months of 1998, the authorities were able to sell two Eurobonds for a total of $1.1 billion, thus switching their exposure from domestic currency denominated instruments to foreign currency denominated instruments. The Eurobonds provided financing to the budget and temporarily replenished NBU reserves.

88. During the third quarter of 1998, continuing loss of investor confidence in Ukraine's domestic economic policies, combined with the crisis in Russia, eliminated Ukraine's access to international capital markets. In the absence of international borrowing but with sizable

[50] The previous band was Hrv 1.7–1.9 per dollar.

Figure 9. Ukraine: Monetary Indicators, 1995-98

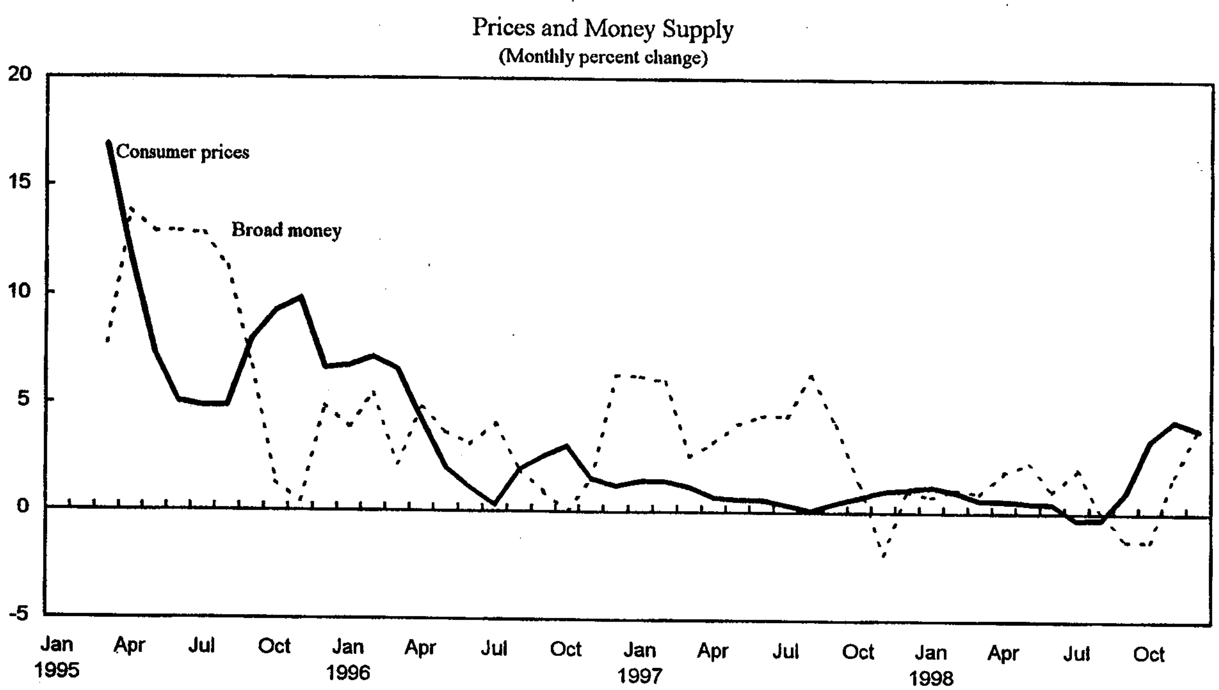


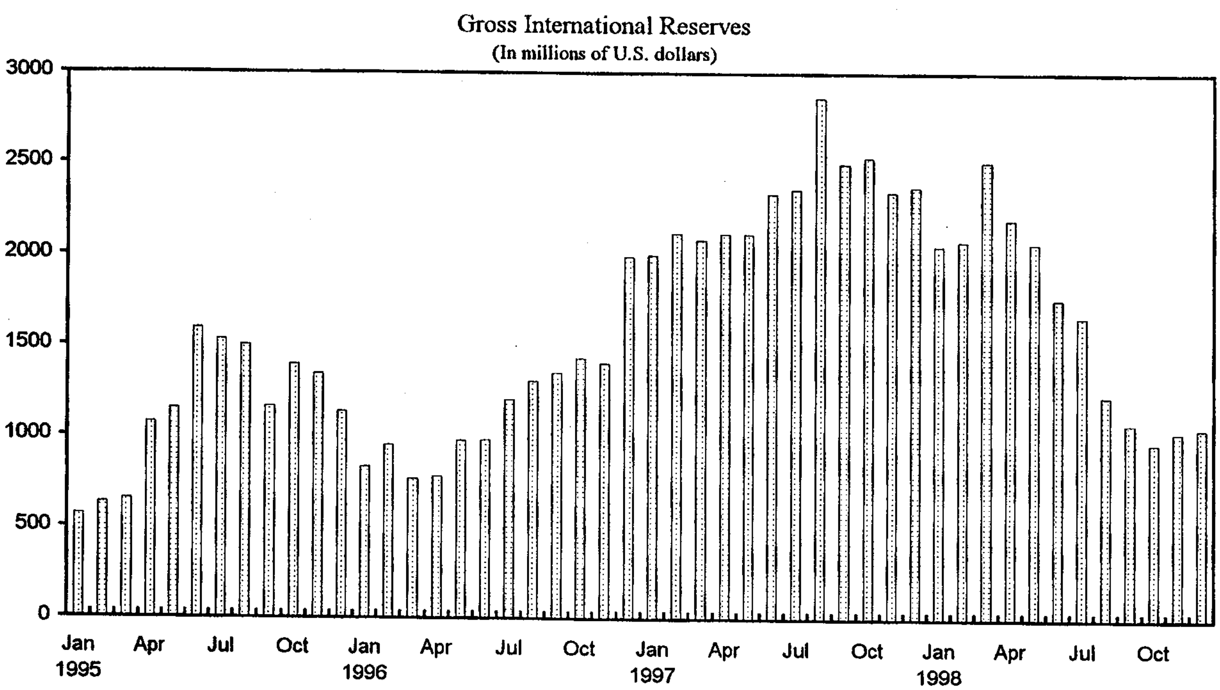




Sources: Ukrainian authorities; and Fund staff estimates.

1/ End of month observations.

Figure 10. Ukraine: Money, Prices, and Gross Reserves, 1995-98




Sources: Ukrainian authorities; and Fund staff estimates.

external debt service obligations, the NBU's international reserves declined to less than $1 billion at end-August 1998, compared to $2.4 billion at end-1997. During this period, the NBU became the primary source of credit to government and net domestic assets (NDA) of the NBU expanded rapidly, albeit from a low base. The effect of growth in NDA on base money was largely offset by the loss of international reserves, as the NBU tried to keep the exchange rate broadly stable. During the first eight months of 1998 inflation remained subdued, averaging less than ½ percent per month.

89. In response to the loss of access to international capital markets and in order to prevent further loss of international reserves, the NBU stopped selling foreign exchange to protect the exchange rate band and announced a number of administrative measures in early September 1998 to suppress demand for foreign exchange. At the same time, it also moved the band to Hrv 2.5–3.5 per dollar. Absent foreign exchange sales by the NBU, and despite the other measures, the hryvnia depreciated sharply in September 1998 (Table 45, Figure 11). Subsequently, the rate stabilized in October at about Hrv 3.4 per dollar. As noted in Chapter II, reflecting the depreciation, consumer prices increased moderately; the comparatively modest passthrough effect of the exchange rate depreciation was largely due to tightened financial policies. However, some temporary price controls were imposed on selected products.

90. During 1997, the NBU made some progress in improving its operations, including through greater reliance on indirect monetary instruments, the lifting of some restrictions on banking activity, and development of an accounting system consistent with international accounting standards. However, these reforms stalled in 1998. Also, while the NBU continued to strengthen its capacity for banking supervision, no major banking sector reforms were implemented during 1998.

## B. Monetary and Exchange Rate Developments

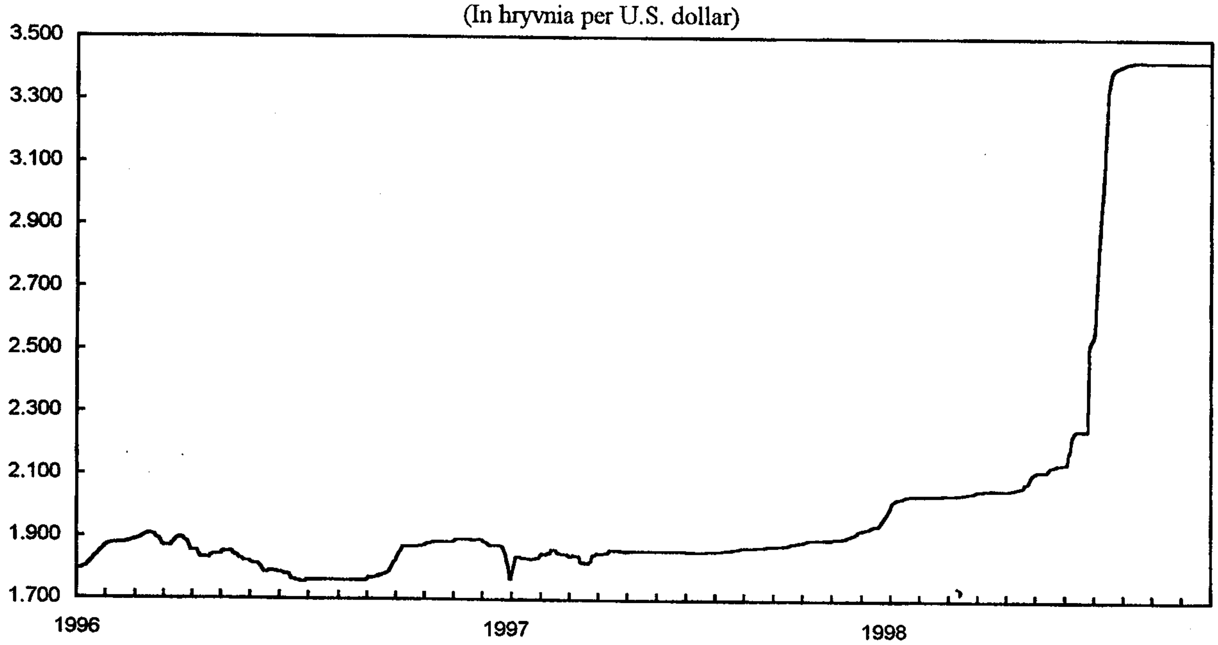
91. Monetary and exchange rate developments during 1997–98 may be divided into three periods. First, the period from January to September 1997 was characterized by stable financial markets, capital inflows, and the introduction of certain reforms by the NBU. Second, the period from October 1997 to August 1998 was marked by the NBU's efforts to lessen pressures on the hryvnia stemming from persistent capital outflows, while aiming at a stable exchange rate; the NBU's reform efforts were suspended during this period. Finally, the most recent period, September to December 1998, was characterized by changes in the foreign exchange regime, the introduction of administrative controls, and a sharp depreciation of the hryvnia.

### January–September, 1997

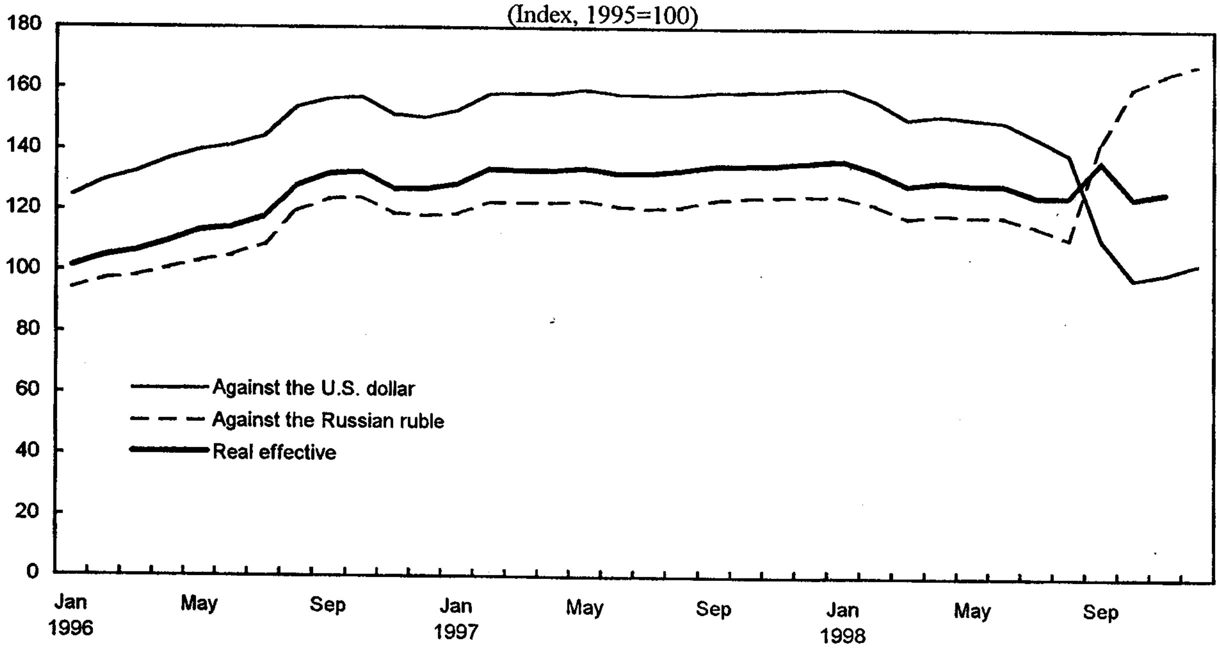
92. The main features during the first three quarters of 1997 were significant capital inflows and persistent upward pressures on the hryvnia. The capital inflows, to a large extent associated with purchases of treasury bills by nonresidents, reflected increased confidence in

Figure 11. Ukraine: Exchange Rate Developments, 1996-98

Daily Exchange Rates, January 1996-98
(In hryvnia per U.S. dollar)




Real Exchange Rates, 1996-98
(Index, 1995=100)




Sources: Ukrainian authorities; and Fund staff estimates.

the hryvnia, stability in international financial markets, the liberalization of capital account restrictions, and unrestricted access of foreign residents to the treasury-bill market. Throughout this period, the NBU kept the exchange rate near the edge of the band of Hrv 1.7–1.9 per dollar.[51]

93. The NBU let the hryvnia appreciate only temporarily against the dollar, from Hrv 1.89 in January to Hrv 1.83 in mid-March 1997, in view of its concern that appreciation of the currency would erode competitiveness. Starting from mid-March, and despite the inflows, the NBU moved the rate to Hrv 1.857 at end-June, where it remained until late August. Although the hryvnia appreciated by about 1 percent against the dollar during the first nine months of 1997, it strengthened considerably in nominal terms vis-à-vis the currencies of two of its major trading partners, Russia and Germany (by 6 percent and 13 percent respectively). Reflecting these developments, the real effective exchange rate rose by 7 percent during this period. Nevertheless, as noted in Chapter V, export growth to western countries remained strong, indicating that Ukrainian products remained competitive internationally.

94. To help stem upward pressure on the hryvnia and build reserves, the NBU intervened regularly in the foreign exchange market. Purchases of foreign currencies by the NBU totaled $190 million during the first quarter of 1997, $490 million during the second quarter, and $100 million during the third quarter. Foreign reserves increased to almost $3 billion in August 1997, before declining to about $2.5 billion at end-September.

95. Given the success in reducing inflation, the NBU began to gradually reduce interest rates. The refinance rate fell, from 40 percent per annum in late 1996 to 16 percent in early August, and the Lombard rate moved from 45 percent to 25 percent over the same period. The weighted average credit rate fell from 61 percent to 42 percent, and the deposit rate from 24 percent to 15 percent (Table 42). Treasury-bill yields tracked the declines in the refinance rate, falling from 60 percent for one-year maturities at the beginning of 1997, to 22 percent at end-September. Notwithstanding these developments, the yields remained high in real terms reflecting the size of domestic borrowing needs of the budget as well as the risk premium needed to attract investment into Ukraine. Throughout this period, Ukrainian treasury bills continued to offer a premium over Russian GKOs.

96. Growing activity in the domestic treasury-bill market made it possible to finance the budget without recourse to borrowing from the NBU. While the NBU did purchase a limited amount of treasury bills, to some extent this reflected the need to build up a stock of treasury bills for repo operations. In fact, at end-September 1997, the NBU held less than 20 percent of the outstanding stock of treasury bills. This stable environment allowed the NBU greater flexibility in conducting its credit and monetary policies than had been the case in previous years (Box 4).

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[51]This band was unofficially announced in April 1997; subsequently (in September 1997), it was formalized.

**Box 4. Monetary Policy Instruments at the Disposal of the NBU in 1997**

- Reserve requirements: the NBU unified the required reserve ratio at 11 percent in April 1997;
- Credit auctions: widely used in 1996, but their use declined gradually in early 1997;
- Bilateral repos: they were largely operated as a standing facility providing collateralized credit to banks;
- Reverse repos: the NBU used them mostly in March 1997 to sterilize its purchases of foreign reserves;
- Repo tenders: they were introduced in the first half of 1997. The NBU intended to use them as the primary open market operations tool, gradually replacing the credit auctions;
- Lombard credit: a discretionary standing facility. The interest rate on Lombard finance had traditionally been 1,000 basis points higher than the refinance rate;
- Foreign exchange operations: with the NBU as a regular participant in the foreign exchange market, a bank in need of liquidity could sell foreign exchange knowing that the NBU was prepared to step into the market and provide hryvnia.

97. During the first nine months of 1997, broad money increased by over 30 percent and the NBU welcomed the build-up of real balances from the depressed levels of previous years (Tables 46 and 47). The expansion in monetary aggregates reflected greater confidence in, and demand for, hryvnia, thereby limiting inflationary pressures. In particular, hryvnia deposits grew by 27 percent while foreign currency deposits remained flat. The share of foreign currency deposits to total deposits declined and thereafter remained at around 30 percent, as a part of business activity continued to be conducted in foreign currency while a significant portion of household savings were held in dollars. Reflecting partly banks' increased willingness to lend to the economy, net credit to nongovernment from the banking system increased by 24 percent (13 percent in real terms) (Table 48). Notwithstanding these favorable developments, the financial system remained weak and demand for cash from the shadow economy continued to grow, as reflected in the nearly 50 percent growth of cash held outside banks.

## C. Developments during October 1997–September 1998

### October–December, 1997

*Exchange rate and reserves*

98. Owing to a lack of progress in fiscal reform and the financial turmoil in Asia, the capital inflows that Ukraine enjoyed for about one year came to an abrupt halt in September 1997. For the first time that year, the NBU started to sell dollars to support the

hryvnia.[52] At end-October, the authorities announced a number of measures to ease pressures in the foreign currency market and thereby help keep the hryvnia within the band (Box 5).

**Box 5. Measures to Ease Pressure on the Hryvnia**

**October 31, 1997**

- the refinance rate was increased to 17 percent from 16 percent;
- treasury-bill yields increased to 35 percent from 27 percent (12-month bills);
- the NBU announced that starting January 1, 1998, the exchange rate band would be moved to 1.75–1.95 and be in effect until June 30, 1998;
- the government announced a lower budget deficit target for 1998.

**November 14, 1997**

- the refinance rate was raised to 25 percent and Lombard rate to 27 percent;
- reserve requirements were tightened by lowering the share of cash counted in required reserves from 30 to 20 percent;
- treasury-bill yields increased further to 38 percent (12-month bills).

**November 20, 1997**

- the refinance rate was raised to 35 percent and the Lombard rate to 37;
- reserve requirements were raised to 15 percent. To encourage banks to purchase treasury-bills, banks could count against the required reserves the amount of treasury-bills they purchased after November 17;
- the NBU started auctions of deposits to attract funds from commercial banks;
- bank credits in foreign currencies were prohibited except for foreign trade transactions;
- short-term (one-month) treasury-bills were introduced;
- banks could not have open positions in foreign exchange at the end of any business day.

These included increased interest rates, tightened reserve requirements, large-scale open market operations, and measures to enhance the attractiveness of treasury bills (including by lowering the cut-off price and shortening their maturity). These measures, however, were not sufficient to stem the loss of reserves associated with the decision to maintain the band. During the fourth quarter of 1997, net international reserves declined by about $250 million. Base money grew by 2.5 percent, largely due to the expansion of NBU's net credit to government by 11 percent (Tables 48 and 49). In the 12 months to December, broad money increased by 34 percent while inflation was contained to about 10 percent. Broad money as

[52]The NBU started selling dollars in late August but this reflected mostly a higher demand for dollars by households after the Ministry of Finance (MoF) cleared a large amount of budgetary arrears on wages and pensions.

a percent of GDP increased from 11 percent in 1996 to about 14 percent in 1997 as some remonetization took place, especially during the first part of the year.[53]

**January–August 1998**

99. In early 1998, as investors continued to leave the treasury-bill market, the exchange rate remained under pressure. The NBU's external position continued to deteriorate due to the government's external loan repayments and the authorities' intervention to support the hryvnia (Text Table 4). The NBU was increasingly under pressure to provide large amounts of

Table 4. Ukraine: Government's External Debt Payments
(In millions of U.S. dollars)

| | 1998 | | |
|---|---|---|---|
| | Q1 | Q2 | Q3 |
| Nonresidents, treasury bills | 382 | 591 | 415 |
| Other debt payments | 253 | 214 | 614 |
| Total | 635 | 805 | 1,029 |

Source: National Bank of Ukraine; and Fund staff estimates.

budgetary financing through the treasury-bill market given the weak demand for treasury bills. In the event, the NBU raised interest rates and reduced banks' liquidity in order to ease pressures in the exchange market and thereby limit the need for intervention.

**Exchange and interest rate policies**

100. The pressure on the exchange rate that had become evident in 1997 continued in 1998. On January 21, in view of instability in financial markets and the large volume of capital outflows, the NBU announced a new band of Hrv 1.80–2.25 per dollar.[54] The authorities believed that, on the one hand, by adopting a wider band instead of letting the hryvnia float, markets would be reassured regarding the authorities' commitment to a stable exchange rate

[53]These ratios might overestimate the degree of re-monetization of the economy as GDP estimates do not take into a account the growth of the informal sector. Ukraine continued to be less monetized than other countries in the region (Table 50).

[54]In November 1997, the NBU had announced that the band of Hrv 1.75–1.95 per dollar would have been adopted effective January 1, 1998 but this was not implemented.

while, on the other hand, the wider band would reduce the need to intervene in the foreign exchange market and thus minimize any loss in reserves.

101. To support the new band, the NBU again tightened liquidity by limiting the extension of refinance credit to banks. In addition, on February 12, the NBU increased the refinance rate to 44 percent and resumed daily auctions of deposits.[55, 56] However, the substantial amount of maturing treasury bills held by commercial banks posed difficulties for the conduct of monetary policy. The treasury-bill redemptions were a constant source of liquidity for the banks that decided not to roll over partly because the government decided to restrict yields on newly-issued bills. Also, increases in the official refinance rate did not always succeed in raising the interbank rates by equivalent amounts. Finally, the auctions of deposits were only partially effective because the NBU was reluctant to raise the rates offered on deposits substantially.[57]

102. New pressures appeared again in late May, following the financial difficulties in Russia. To help defend the exchange rate band, the NBU raised the discount and Lombard rates by 4 percentage points (to 45 and 50 percent respectively) on May 20. These two rates were each raised by an additional six percentage points on May 28 following the tripling of the refinance rate in Russia.

103. During the first six months of 1998, the NBU continued to intervene regularly to control the hryvnia's depreciation within the band.[58] The NBU's reserves were replenished when the MoF issued two Eurobonds in February and March for a total of about $1.1 billion.[59] Investors, increasingly concerned with the stability of the hryvnia, switched their exposure from domestic currency denominated treasury bills to foreign currency denominated Eurobonds. Despite this, the NBU's reserves fell from $2.4 billion at end-December 1997 to $1.9 billion at end-June 1998. This decline was largely due to the heavy external debt service payments that amounted to about $1.4 billion during the first six months (Text Table 4). The large budgetary needs for foreign exchange drained the reserves of the NBU while the lack of

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[55]Deposits could be for 5, 10, 15, 20, 25, or 30 days. The starting rate was the refinance rate.

[56]On March 18, just before the parliamentary elections, the refinance rate was reduced to 41 percent.

[57]The NBU deposits were competing directly with treasury bills and the government was reluctant to let treasury-bill yields increase further.

[58]The NBU sold $1.1 billion in the birzha (foreign exchange market) during the first six months of 1998.

[59]This figure includes the second tranche of the February Eurobond placed in May 1998 for $150 million (see Chapter III for details).

economic reforms deferred foreign investment that could have been a source of foreign exchange. In the event, the hryvnia depreciated by about 9 percent (in domestic currency terms) to reach Hrv 2.064 per dollar at end-June.

104. In July, the financial environment again worsened partly due to increasing uncertainty concerning developments in the region. Ukraine's efforts to raise additional resources in international capital markets were not successful. On July 7, the NBU raised the refinance rate to 82 percent while allowing the exchange rate to depreciate faster within the band (Text Table 5). Subsequently, in mid-August, the economic situation deteriorated further following the onset of the financial crisis in Russia. In response, the NBU increased the Lombard rate from 82 to 92 percent and let the exchange rate move to the limit of the band, Hrv 2.25 per dollar. On a few occasions, at end-August, the rate moved outside the band and operation of the foreign exchange market was temporarily interrupted.

Table 5. Ukraine: Interbank and Refinance Rates, 1998

(In percent)

| | 1998 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | January | February | March | April | May | June | July | August | September |
| Refinance rate | 35 | 44 | 41 | 41 | 51 | 51 | 82 | 82 | 82 |
| Interbank rate, avg. | 34 | 32 | 31 | 27 | 23 | 27 | 38 | 42 | 81 |
| Overnight | 31 | 28 | 29 | 23 | 18 | 19 | 31 | 35 | 79 |
| 7-day | 34 | 34 | 30 | 27 | 25 | 28 | 41 | 48 | 88 |

Source: National Bank of Ukraine.

## Credit to the government, NDA, and monetary aggregates

105. As noted previously, credit policy during the January–August 1998 period was influenced by the government's financing needs and its ability to borrow from the treasury-bill and international financial markets. Domestic and foreign investors' interest in the treasury-bill market remained weak, partly because of the uncertain economic environment, but also because of the government's reluctance to let the yields rise to levels that would be attractive to market participants and to issue short-term maturities. As a result, the NBU provided budgetary financing by its purchases of a significant amount of treasury bills. In the first quarter of 1998, the NBU purchased Hrv 1.7 billion of treasury bills (or 80 percent of all treasury bills placed in the primary auction) and Hrv 1.2 billion in the second quarter (Text Table 6). As a result, net credit to government grew by 32 percent during the first half of 1998.

Table 6. Ukraine: Purchases of Treasury Bills in the Primary Market

| | 1998 | | |
|---|---|---|---|
| | Q1 | Q2 | Q3 |
| | (In millions of hryvnia) | | |
| NBU | 1,684 | 1,155 | 2,556 |
| Commercial banks | 308 | 993 | 264 |
| Nonresidents | 79 | 210 | 299 |
| Other | 24 | 55 | 23 |
| Total | 2,095 | 2,412 | 3,141 |
| | (In percent of total) | | |
| Memo item: | | | |
| NBU purchases of treasury bills | 80 | 48 | 81 |
| NBU holdings of treasury bills 1/ | 34 | 48 | 65 |

Source: National Bank of Ukraine.
1/ NBU holdings of treasury bills at end-December 1997 were 24 percent of total.

106. Given the substantial expansion of credit to the government, the NBU reduced credit to banks in an effort to tighten the amount of banks' liquidity. During the first quarter, net credit to banks was reduced by approximately Hrv 300 million, and remained flat during the second quarter. Overall, NDA of the NBU grew by 21 percent during the first half of the year. Nevertheless, reflecting the large loss of reserves, base money grew by only about 3 percent and broad money by 7 percent during the first six months of 1998 (although base money was broadly unchanged during the first quarter). The remonetization of the Ukrainian economy, which appeared to have begun during 1997, leveled off during 1998.

**September–December 1998**

107. In early September, to attempt to safeguard the already low level of international reserves, the NBU introduced a number of administrative measures to restrict the demand for foreign exchange.[60] The exchange rate band was moved to Hrv 2.5–3.5 per dollar and monetary policy was tightened further by increasing the required reserve ratio from 15 percent to 16.5 percent.[61] Despite these measures, in the absence of net intervention by the NBU, the hryvnia depreciated sharply to Hrv 3.4 per dollar by end-September.

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[60]See Chapter V.

[61]On September 7, the NBU eliminated the option of counting cash in vault and all treasury bill holdings as part of required reserves, except for those linked to the deposit insurance scheme. The reserve requirement was to be met on a daily basis.

108. So far, the depreciation of the hryvnia does not appear to have had a severe impact on the banking system. Despite a withdrawal of household deposits during the first few weeks of September, hryvnia deposits remained stable in October and grew somewhat during the remainder of the year (Tables 51 and 52). Foreign currency deposits remained stable in dollar terms, after having dropped in September.

109. Exchange rate pressures eased temporarily in October and November. This, coupled with the rescheduling of external debt falling due in the fourth quarter, enabled the NBU to purchase a significant amount of foreign exchange. However, following the restructuring of treasury bills in late August, the NBU was the only participant in a dormant treasury-bill market. Reflecting the expansion in NDA, base money increased by 14 percent during the fourth quarter.

110. Substantial redemptions of treasury bills, combined with exchange restrictions that prevented banks from taking the money out, contributed to creating excess liquidity in several banks during October–December 1998. Although the NBU refrained from providing refinance credits to banks, it was not able to absorb liquidity successfully. Interest rates in the interbank market dropped below 15 percent during the first weeks of December. Under political pressure, in mid-December, the NBU lowered the refinance rate from 82 to 60 percent and the Lombard rate from 92 to 70 percent. In addition, the required reserve ratio was reduced to 15 percent, effective January 1, 1999.[62]

111. Despite the loosening of monetary policy in December, administrative measures allowed the NBU to keep the hryvnia stable at Hrv 3.43 per dollar. However, the offshore parallel market, that had disappeared briefly in late October and early November, reappeared in late November. Rates in this market were quoted as high as Hrv 4.1 per dollar in late December.

### D. Banking Sector

112. Ukraine's banking system appears so far to have withstood the high interest rates and the depreciation of the hryvnia, despite weaknesses such as low levels of capital and high proportions of nonperforming loans. During 1997 and early 1998 there was progress in introducing reforms particularly in banking system supervision. At end-1998 renewed efforts to restructure the banking system were underway with the assistance of international experts and donors, including from the IMF. These developments are described in more detail in Appendix IV.

113. Ukraine has a large number of banks although the level of financial intermediation is low. At end-June 1998, there were 221 banks registered by the NBU, of which two were state-owned banks (Exim Bank and Oschadny Bank), 131 were created as open joint stock

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[62]Banks were allowed to count 20 percent of cash in vault against their required reserves.

companies, 52 as closed stock companies, and 36 were limited liability companies. There were a total of 28 banks founded as joint ventures with foreign capital participation (including 8 banks with 100 percent foreign ownership) but these banks mostly focused on corporate financing and were not engaged in retail banking. The number of active banks was 186. There were 53 problem banks, of which 17 were under various rehabilitation programs and 34 were earmarked for liquidation. Despite the large number of banks, their role as financial intermediaries continued to be constrained by the weak public trust in banks.

114. The seven largest banks continued to dominate the Ukrainian banking system and accounted for 58 percent of the assets, 64 percent of deposits and 61 percent of total lending (Text Table 7). These banks also account for many problems of the banking sector and will be key in future restructuring efforts.

Table 7. Ukraine: Overview of Banking Sector Structure, July 1, 1998
(In millions of hryvnia, unless otherwise indicated)

| | Number of banks | Statutory capital | Total capital | Total assets | Total lending | Profits for year | Deposits |
|---|---|---|---|---|---|---|---|
| Total assets more than Hrv 500 million | 7 | 537 | 2,164 | 10,127 | 5,778 | 143 | 5,220 |
| (In percent of total) | | 29 | 54 | 58 | 61 | 46 | 64 |
| Total assets more than Hrv 100 million | 20 | 439 | 695 | 3,847 | 2,029 | 60 | 1,402 |
| Total assets more than Hrv 10 million | 90 | 650 | 933 | 3,187 | 1,486 | 100 | 1,415 |
| Total assets from Hrv 1–10 million | 69 | 197 | 224 | 399 | 231 | 6 | 107 |
| Total | 186 | 1,823 | 4,016 | 17,559 | 9,524 | 309 | 8,144 |

Source: National Bank of Ukraine.

115. The NBU's supervisory capacity has been strengthened over the past two years with the assistance of international donors. In June 1997, the NBU endorsed a detailed plan for reorganization of the Banking Supervision Department. New departments were set up[63] and

[63]Namely, the Bank Registration and Licensing Department, the Off-Site Supervision Department, the Inspection Department, the Bank Resolution Department, and the Bank Supervision Coordination Unit. The decision to create an additional Department, the Off-Site Monitoring Department for the Largest Banks was taken in 1998.

the NBU's Deputy Governor became responsible for the banking supervision functions of the NBU.

116. In late 1997, the NBU improved its monitoring of the financial status of banks and adopted an improved version of the NBU's core prudential regulation, Regulation 10, which provided norms and instructions to banks and defined 18 prudential ratios. These included 4 ratios on capital regulations,[64] 3 ratios on liquidity regulations, and 11 ratios on risk regulations. In addition, the NBU developed an early warning system and introduced a Uniform Performance Report that summarized information on the financial performance of all commercial banks. Overall, steps to restructure the banking system were not comprehensive and a number of weak banks continued to operate. While procedures for bank liquidations are in place and have been implemented, to a limited extent by the Bank Resolution Unit of the NBU, the legal basis for effective workouts remains weak.

117. The prevailing accounting practices continued to obscure the true financial position of banks. Additional efforts were needed to increase the reliability of data submitted to the NBU, improve banks' procedures for credit classification, and ensure adequate provisioning for bad loans. The NBU began on-site examinations in 1997; by June 1998, three banks had undergone on-site inspections. As the seven largest banks represented the largest part of banking activity, in the second half of 1998, the NBU conducted full diagnostic analyses of these banks in an effort to assess their financial strength and develop a strategy for strengthening the banking system with technical assistance from a team of 35 foreign experts[65] under IMF coordination. Preliminary results of the studies suggest that several of the seven banks face serious difficulties.

## V. External Sector

118. ***Both the current account and the overall balance of payments were broadly unchanged during 1997. However, this masks significant changes in some accounts; in particular, while exports to nontraditional trading partners continued to perform well, exports to traditional partners (particularly Russia) declined substantially. Moreover,***

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[64]During the past year, and in order to bring the statutory capital of commercial banks up to international standards, the NBU raised the statutory capital requirement from Ecu 0.5 million at end-1996, to Ecu 0.75 billion in July 1997, and to Ecu 1 million on January 1, 1998. Starting from April 1998, banks registered before 1997 were required to have capital of no less than Ecu 2 million. For those registered after January 1, 1997, the minimum capital requirement was to have been observed within one calendar year following the beginning of their operation.

[65]Funded by the IMF, EU, TACIS, Canada, France, Germany, the Netherlands, Italy, and USAID.

***short-term capital flows were positive during the first half of the year, turning negative thereafter as nonresident investors in government treasury bills decided not to roll over their investments. During the first nine months of 1998, the overall balance of payments deteriorated significantly, despite heavy borrowing from international capital markets during the first quarter, due to the intensification of short-term capital outflows and the financial crisis in Russia. As a result, there was a substantial loss of reserves and exchange restrictions were imposed in an attempt to defend the exchange rate. Trade policy remained generally liberal during 1997–98. The response to the crisis in Russia has been to attempt to liberalize the export regime further, while the changes in the exchange system have effectively restricted imports.***

### A. Overview

119. The current account deficit was broadly unchanged during 1997, with a modest improvement in the trade balance and an increase in current transfers having been offset by an increase in nonfactor service payments (Table 53). Both overall exports and imports—including energy imports—declined slightly and trade with traditional partners fell significantly, in large part due to a trade dispute with Russia.[66] Trade with nontraditional trading partners, however, continued to increase; exports and imports grew by 28 percent and 13 percent, respectively. As a result, the trade balance with these countries moved from a deficit of $224 million in 1996 to a surplus of $773 million in 1997. The share of barter transactions in total trade declined from 15 percent in 1996 to 9 percent in 1997.

120. The capital account strengthened by nearly $500 million in 1997, largely reflecting higher disbursements from credit lines as well as project disbursements. Net foreign direct investment remained modest, at $581 million (or 1.2 percent of GDP). There was a net short-term capital inflow of $264 million, despite significant outflows (of about $500 million) during the second half of the year as nonresident investors in Ukrainian treasury bills began to leave the market. The outflows may have been larger given that errors and omissions were negative.

121. For the year as a whole, gross reserves increased by nearly $400 million (to $2.4 billion, or 6 weeks of imports). The reserve increases were concentrated in the first six months of 1997, as reserves were drawn down in the latter part of the year to help support the exchange rate. The improvement in the reserve position was largely due to the exceptional financing received during the year, including the proceeds from Ukraine's first Eurobond in August 1997.

122. Preliminary data for the first nine months of 1998 point to a significant deterioration in the balance of payments. Much of the deterioration in the first half of the year stemmed from the withdrawal of nonresidents from the domestic treasury-bill market that contributed to

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[66]For information on the origin of the dispute, see Box 9, IMF Staff Country Report 97/109, October 1997.

short-term capital outflows exceeding $1 billion. As a result, gross reserves fell by more than $600 million at end-June 1998 relative to end-December 1997, despite a significant increase in external financing from international capital markets during the first quarter and a slight improvement in the trade account due to a sharp reduction in energy imports from Russia.

123. While it is too early to assess the impact of the financial crisis that emerged in Russia in August 1998, the immediate impact during the third quarter was a sharp contraction in both exports to Russia and non-energy imports from Russia of about 30 percent in value terms relative to the same quarter of 1997. Trade with other countries was also depressed, as exports continued to suffer from declining international commodity prices and imports were constrained by the slowdown in economic activity as well as the introduction of exchange controls. However, as discussed in more detail in Section III.D., Ukraine was able to reach agreements with the majority of its nonresident creditors to roll over debt obligations falling due during the second half of 1998. As a result, Ukraine has managed to avoid the emergence of arrears on its debt obligations to nonresidents.

## B. Trade and Current Account

### Merchandise trade

124. While total exports declined slightly during 1997, exports to nontraditional trading partners continued to expand very rapidly, increasing by around 30 percent (Table 54). In contrast, exports to BRO countries declined by more than 20 percent. As a result, the share of BRO exports in total exports declined to less than 50 percent for the first time since Ukraine's independence. While a steady shift in exports away from the BRO had been occurring in previous years—reflecting the gradual weakening of pre-independence trade links—a sharp decline in such trade started in late 1996, as a result of a dispute between Ukraine and Russia over the collection of value-added tax (VAT) and of excise duties as well as over the imposition of import tariffs on sugar and other items. Nonetheless, Russia remained the single largest export market, accounting for nearly 25 percent of total exports. Exports to most of the other BRO countries (except Turkmenistan and Lithuania) performed well during 1997.[67] China, Turkey, and Germany remained the key export markets among the nontraditional trading partners; indeed, China surpassed Belarus in 1997 as the second biggest market for Ukrainian exports. In terms of the composition of exports, the importance of ferrous and nonferrous metals continued to increase, accounting for more than 40 percent of total exports in 1997 (Table 55). At the same time, the share of food items and raw materials —commodities for which Ukraine has traditionally been a major producer and exporter—fell

[67]It is possible, however, that the data underestimate trade with Russia given that trade via third countries increased. For example, Belarus may have been used as a transit point in trade with Russia to circumvent the changes in VAT and excise tax rules being applied to Ukrainian goods, which may explain the increase in exports to Belarus. In addition, there is a large residual of trade with unidentified BRO countries.

from 21 percent in 1996 to 13 percent in 1997. Policy shortcomings explain part of the decline in food production and exports, in particular the absence of a functioning land market and the generally slow pace of agricultural reform. The trade dispute with Russia also had a significant impact.

125. Despite the apparent resolution of the trade dispute with Russia in early 1998,[68] preliminary data for the first six months of 1998 show that Ukraine's exports to the BRO performed poorly, even before the financial crisis in Russia during the third quarter. While it will take time before trade returns to normal levels, some export market share may have been lost permanently as alternative sources were found. The latter effect appears to have been particularly pronounced for sugar exports. There has also been a deceleration in the growth of exports to nontraditional trading partners, particularly of metal products, as a result of lower prices stemming from reduced demand in the Asian market. In value terms, exports to nontraditional partners declined by 7.5 percent during the first nine months of 1998 relative to the same period in 1997, including a decline of more than one third in exports to China. The decline was concentrated in the third quarter.

126. Ukraine's imports also fell slightly during 1997, largely on account of an 8 percent decline in imports from BRO countries; imports from nontraditional partners increased by 13 percent (Table 56). The decline in imports from the BRO is entirely due to lower imports from Russia and Turkmenistan, which are the major sources of Ukraine's energy imports. Gas imports (which account for 65 percent of Ukraine's energy imports) fell in volume terms by over 12 percent in 1997 (Table 57), with the decline of gas imports from Turkmenistan being particularly large.[69] This decline is due to lower demand (energy consumption has declined by 26 percent since 1991),[70] nonpayment of energy bills by Ukrainian enterprises which forced foreign suppliers to reduce their exports,[71] and pricing differences. Accordingly, the share of imports from nontraditional partners increased from 32 percent in 1996 to 40 percent in 1997.

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[68]The two sides agreed in January 1998 to use the origin principle in the collection of VAT and excise duties. Moreover, they agreed that 600,000 tons of sugar could be exported by Ukraine duty-free. Russia could impose a tariff of 25 percent on amounts in excess of 600,000 tons.

[69]The volume of gas imports from Russia fell from 51.2 cubic meters in 1996 to 49.4 cubic meters in 1997. The volume of gas imports from Turkmenistan fell from 20 billion cubic meters in 1996 to 11 billion cubic meters in 1997.

[70]At the same time, recorded GDP has fallen by about 60 percent, suggesting that efficiencies in the use of gas remain limited.

[71]Beginning in 1996, the Government stopped providing payment guarantees for energy imports.

Leading imports include machinery and equipment, chemicals, and some food and agricultural items (Table 58).

127. During the first nine months of 1998, non-energy imports declined by 12 percent in dollar terms, due to the depreciation of the hryvnia, the general weakness of global commodity prices, the disruption of trade with Russia, and the introduction of administrative controls on foreign exchange allocation. Energy imports declined even more sharply, by over 25 percent relative to the same period of 1997, reflecting a combination of lower world prices for oil products and lower domestic demand. Gas imports declined by almost 20 percent in volume terms as a result of the hardening of enterprise budget constraints. Imports of gas from Turkmenistan were halted during 1998 as a result of the dispute between Russia and Turkmenistan on the terms of access to the pipeline network.

**Nonfactor services**

128. Nonfactor service receipts increased by about 3 percent in 1997 despite a slight decline in the pipeline fees that Ukraine collects for gas transit (Table 59).[72] Other nonfactor service receipts, including notably freight services, increased by about 15 percent. The increase in nonfactor service receipts was more than offset by a 40 percent increase in nonfactor payments. There was a large increase in payments for construction services but the bulk of the increase in 1997 is recorded in the "other" category and likely reflects modifications to the statistical methodology used to estimate them as well as to estimate private transfers. Nonfactor service receipts declined further during the first nine months of 1998, reflecting further declines in the pipeline fees received for transit of gas from Russia in response to the decline in world gas prices.

**Investment income**

129. Total interest payments during 1997 were $646 million, of which $261 million was to Russia (including RAO Gazprom) and $108 million to the IMF—Russia and the IMF are the two largest creditors (Table 60). Beginning in 1997, the interest payment entry includes payments to nonresident holders of domestic debt. These amounts were relatively small ($85 million) in 1997 but increased substantially (by over $200 million) during the first nine months of 1998 as treasury bills issued in 1997 matured.[73] As a result of the Black Sea fleet agreement[74] interest payments to Russia amounted to only $100 million during 1998 because

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[72]The Ukrainian government owns and operates 34,500 kilometers of gas transmission pipelines which are used to transport Russian gas to western European markets.

[73]The government issued around $1.5 billion of treasury bills to nonresidents during 1997.

[74]In May 1997, Russia agreed in principle to cancel Ukraine's debt obligations to it (except for (continued...)

Ukraine's debt service obligations to Russia (except for the Gazprom bonds) were effectively wiped out.

**Current transfers**

130. Current transfers in 1997 are estimated to have increased by over 60 percent. However, revisions to the statistical methodology used to estimate private transfers likely explain a large part of this increase. Official transfers consisted primarily of security-related aid (including nuclear disarmament and defense conversions), the decommissioning of the Chernobyl nuclear power plant, and other technical assistance.

## C. Capital Account

**Medium- and long-term loans**

131. Disbursements of medium- and long-term loans (excluding exceptional financing which is included below the line as a financing item[75]) increased from $234 million in 1996 to nearly $700 million in 1997. Trade credits from Germany, United States, and Japan—as well as project support from the EBRD and the World Bank—accounted for nearly 90 percent of new loans (excluding exceptional assistance) during 1997.

132. The structure of external financing changed in 1997 following Ukraine's entry into international capital markets. While the largest source of exceptional financing had been the IMF followed by the World Bank and the EU prior to 1997, the largest source during 1997 was from private creditors. Financing from private creditors amounted to nearly $400 million in 1997, followed by financing from the IMF under two stand-by arrangements ($286 million),[76] the World Bank ($200 million), the EU ($110 million), and other creditors, including Japan ($35 million).

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[74](...continued)
the Gazprom bonds) in exchange for Ukraine's cession of its share of the Black Sea fleet and connected properties (as well as the rental of land plots and infrastructure facilities). The agreement was to come into effect in January 1998, although as of mid-February 1999 the agreement was still awaiting formal ratification by respective parliaments.

[75]Exceptional financing includes IMF net purchases and disbursements on cash loans designed for general balance of payments or budgetary support. Thus IMF net purchases, World Bank adjustment loans, and loans from the EU and bilateral creditors, in addition to the proceeds from the issuance of Eurobonds, have been included as exceptional financing items.

[76]One stand-by arrangement expired in January 1997 while the second was approved in August 1997.

133. Reliance on financing from international capital markets increased dramatically during the first half of 1998 with the issuance of two Eurobonds totaling around $1.1 billion; however, new financing from private capital markets subsequently dried up. Reflecting the difficult conditions in emerging markets worldwide and perceived policy shortcomings, the terms of the bonds were very expensive. At the same time, exceptional financing from other creditors, particularly international financial institutions, fell significantly (to $50 million).

134. Repayments of principal to Russia and Turkmenistan represented nearly 80 percent of all principal repayments during 1997, mostly on account of the debt arising from consolidation of gas debts (to Russia and Turkmenistan) and overdrafts early in independence (to Russia only). Payments on bilateral loans, all of which have a government guarantee, amounted to $163 million, with more than half going to Germany. In theory the final borrower (Ukrainian enterprises) rather than the government is expected to pay the debt but, in the event, the government's guarantee was exercised in servicing nearly the entire amount.[77] In 1998, the bulk of debt service payments was made to private creditors as the bond placements organized by Nomura, Merrill Lynch and Chase Manhattan all matured. However, as described in Section III.D, creditors in the latter two placements did roll over the bonds as they matured, albeit with an up-front cash payment.

**Direct investment**

135. Foreign direct investment grew, albeit from a low base, by about 10 percent during 1997. Gross investment flows into Ukraine amounted to $746 million, while overseas investment by Ukrainian residents amounted to $122 million. Investment flows during the first nine months of 1998 were slightly higher than in the same period of 1997. Total recorded foreign direct investment since Ukraine's independence was $2.5 billion, or less than $50 per capita, as of end-June 1998. As noted in chapter IV, foreign direct investment inflows into Ukraine are among the lowest in the region on a per capita basis (Text Table 8).[78]

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[77]Prior to 1997, the budget assumed that 85 percent of commercial enterprise debt that is government guaranteed would be serviced by these entities directly. In the event, the government was servicing more than 95 percent of these loans, requiring the government to go to parliament to authorize these additional payments. Accordingly, starting with the 1997 budget, the government decided to include in the budget all debt service obligations of enterprises that are guaranteed by the state. Moreover, in order to address the moral hazard problem associated with such a policy, the government issued a decree in mid-1998 requiring any commercial entity that requests an official guarantee of debt to receive a reciprocal guarantee from a commercial bank to help ensure that the government would not need to cover debts incurred by enterprises.

[78]While there appears to be substantial interest among foreign investors to bring capital to Ukraine, foreign inflows may have been discouraged by political and macroeconomic

(continued...)

Table 8. Ukraine: Foreign Direct Investment Inflows, 1991–97[1]
(In millions of U.S. dollars)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | Cumulative Inflows | Cumulative per capita inflows |
|---|---|---|---|---|---|---|---|---|---|
| Armenia | 0 | 0 | 0 | 3 | 19 | 18 | 51 | 90 | 24 |
| Azerbaijan | 0 | 0 | 0 | 22 | 275 | 601 | 638 | 1,536 | 202 |
| Belarus | 0 | 7 | 0 | 0 | 0 | 70 | 192 | 268 | 26 |
| Estonia | 0 | 80 | 154 | 212 | 202 | 150 | 261 | 1,060 | 693 |
| Georgia | 0 | 0 | 0 | 8 | 6 | 20 | 65 | 99 | 18 |
| Kazakhstan | 0 | 100 | 473 | 635 | 964 | 1,137 | 1,320 | 4,629 | 276 |
| Kyrgyz Republic | 0 | 0 | 10 | 45 | 61 | 31 | 53 | 200 | 43 |
| Latvia | 0 | 43 | 51 | 155 | 180 | 382 | 415 | 1,226 | 481 |
| Lithuania | 0 | 10 | 23 | 60 | 55 | 152 | 355 | 655 | 174 |
| Moldova | 25 | 16 | 14 | 18 | 73 | 53 | 79 | 277 | 62 |
| Russia | -25 | 700 | 900 | 630 | 2,020 | 2,500 | 6,200 | 12,925 | 87 |
| Tajikistan | 0 | 9 | 12 | 12 | 37 | 94 | 152 | 316 | 51 |
| Turkmenistan | 0 | 11 | 79 | 103 | 64 | 80 | 100 | 437 | 104 |
| Ukraine | 0 | 170 | 200 | 91 | 266 | 526 | 581 | 1,834 | 36 |
| Uzbekistan | 0 | 9 | 48 | 73 | 100 | 50 | 280 | 560 | 24 |
| | | | | | | | | | |
| Bulgaria | 56 | 42 | 0 | 105 | 165 | 109 | 477 | 954 | 107 |
| Croatia | 0 | 13 | 95 | 102 | 88 | 529 | 346 | 1,174 | 245 |
| Hungary | 1,462 | 1,479 | 2,350 | 1,144 | 4,519 | 1,982 | 2,108 | 15,044 | 1,483 |
| Poland | 117 | 284 | 580 | 542 | 1,134 | 2,741 | 3,041 | 8,439 | 218 |
| Romania | 40 | 77 | 94 | 341 | 407 | 427 | 447 | 1,833 | 81 |

Source: WEO database, December 1998.

1/ Data refer to foreign direct investment into the reporting country. Per capita data are calculated relative to population estimates for 1997. Data sources and compilation methods differ by country.

136. The largest sources of foreign direct investment into Ukraine have been the United States (17.4 percent), the Netherlands (9.5 percent), Germany (7.9 percent), and South Korea (7.5 percent), followed by the United Kingdom, China, and Russia. Food processing, wholesale and retail trade, machine-building, and metal industries have attracted the largest shares of foreign direct investment. There has also been a small amount of foreign direct investment overseas by Ukrainian enterprises; this amounted to $122 million during 1997, or about one sixth of foreign direct investment inflows.

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[78](...continued)
uncertainties as well as nontransparent legislation and regulations.

**Short-term capital flows**

137. The $264 million net inflow of short-term capital during 1997 masks considerable fluctuations within the year and, in particular, the significant outflows during the second half of the year. These outflows continued during 1998. In the first half of 1997, net capital inflows amounted to over $750 million, largely reflecting nonresident purchases of treasury bills (about $950 million). Increased confidence in monetary and exchange rate policies as well as substantial margins over dollar-denominated securities, contributed to the inflow of foreign capital. However, nonresidents gradually started to leave the domestic treasury-bill market during the second half of 1997. Inconsistent fiscal policy, uncertainties regarding parliamentary elections, and the financial turmoil in Asia contributed to a net capital outflow of $500 million during the second half of the year, of which about $450 million was accounted for by nonresidents' unwillingness to roll over their treasury-bill holdings. The situation worsened during the first half of 1998 as the fiscal stance, combined with financial difficulties in Russia and domestic political uncertainties, resulted in further capital outflows. Net capital outflows during the first half of 1998 amounted to nearly $1.3 billion, of which more than $700 million was accounted for by nonresidents leaving the treasury-bill market. Consequently, the stock of domestic debt held by nonresidents fell from $1.6 billion at end-1997, to $0.9 billion at end-June 1998. Net capital outflows continued at a high rate during the third quarter of 1998 as the financial crisis in Russia added to existing pressures on emerging capital markets.

**External debt**

138. The outstanding stock of government and government-guaranteed debt increased to $11.8 billion at end-1997, principally due to the sharp increase in borrowing from international capital markets (Table 60).[79] The debt stock actually declined in 1998 as a result of the withdrawal of nonresident investors from the domestic treasury-bill market. As discussed in Section III.D., the relatively short maturity and expensive terms of the debt obtained from international capital markets, compounded by the shift in investor sentiment away from emerging markets, contributed to the liquidity crisis experienced during the second half of 1998. Nonetheless, the size of the debt stock (24 percent of GDP at end-1997) is not high relative to other developing or transition countries (Text Table 9).

## D. Trade Policies

139. Ukraine maintained a relatively liberal trade regime during 1997 and 1998. However, while export restrictions were generally absent and average import tariffs were not high by regional standards, a variety of nontariff barriers (including the recently reintroduced export surrender requirements and the new administrative mechanism for foreign exchange allocation

[79]Indicators of total public debt are presented in Table 61.

Table 9. Ukraine: Comparison of External Debt Stocks and External Debt Service in Transition and Other Countries

(In percent of GDP)

| | Debt Stock (In percent of GDP) | | | Debt Service (In percent of exports GNFS) | | |
|---|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1995 | 1996 | 1997 |
| Armenia | 28.8 | 42.3 | 55.1 | 20.5 | 34.7 | 20.4 |
| Azerbaijan | 17.6 | 16.3 | 16.8 | 5.2 | 5.6 | 12.5 |
| Belarus | 14.6 | 6.9 | 7.3 | 3.6 | 2.2 | 3.8 |
| Estonia | 3.7 | 7.2 | 15.5 | 0.4 | 1.3 | 0.9 |
| Georgia | 42.1 | 29.8 | 30.3 | 36.6 | 16.8 | 37.9 |
| Kazakhstan | 18.6 | 16.4 | 17.5 | 3.5 | 9.1 | 7.4 |
| Kyrgyz Republic | 39.1 | 49.1 | 63.8 | 19.3 | 11.2 | 12.8 |
| Latvia | 8.9 | 8.2 | 9.2 | 1.7 | 4.0 | 6.2 |
| Lithuania | 12.6 | 21.3 | 24.7 | 2.9 | 6.6 | 10.3 |
| Moldova | 26.4 | 30.5 | 39.3 | 8.2 | 6.3 | 11.5 |
| Russia | 30.0 | 25.0 | 26.1 | 6.7 | 6.7 | 5.8 |
| Tajikistan | 133.6 | 83.2 | 75.1 | 12.1 | ... | ... |
| Turkmenistan | 125.3 | 45.0 | 72.9 | ... | ... | ... |
| Ukraine | 23.6 | 21.2 | 23.8 | 9.3 | 6.0 | 9.4 |
| Uzbekistan | 16.5 | 13.4 | 11.2 | 15.4 | 8.1 | 11.7 |
| Bulgaria | 62.7 | 80.9 | 77.5 | 13.9 | 18.7 | 13.4 |
| Croatia | 19.7 | 21.6 | 30.8 | 7.8 | 7.5 | 11.2 |
| Hungary | 63.5 | 54.4 | 46.2 | 44.1 | 35.7 | 29.9 |
| Poland | 35.0 | 27.9 | 25.4 | 12.3 | 6.2 | 4.9 |
| Romania | 14.1 | 15.3 | 17.7 | 10.8 | 7.3 | 8.5 |
| Developing Countries | ... | ... | ... | 8.5 | 8.3 | 7.6 |
| Africa | ... | ... | ... | 10.4 | 10.2 | 8.3 |
| Asia | ... | ... | ... | 6.0 | 5.9 | 5.2 |
| Middle East and Europe | ... | ... | ... | 3.5 | 3.8 | 3.5 |
| Western Hemisphere | ... | ... | ... | 16.4 | 15.6 | 15.1 |

Source: WEO database and WEO, October 1998.

(see Appendix V for more details) served to complicate the regime and make its operation nontransparent.

140. On the export side, there were no quotas except on goods for which Ukraine has international obligations under voluntary export restraints or orderly market arrangements (primarily for steel and textiles). The only remaining export taxes (which ranged from 30 percent to 75 percent) were on exports of live animals and skins, which accounted for less

than 1 percent of total exports. An advance deposit requirement for exports of sunflower seeds was introduced in mid-1998 but was eliminated in early September.

141. On the import side, the weighted average tariff rate was 7.5 percent as of end-1997 (1996 weights) and the simple average (excluding energy, which is exempt from import tariffs) was 11.52 percent. Less than 0.5 percent of all imports were subject to tariff rates in excess of 30 percent. While it is difficult to undertake cross-country comparisons of trade regimes, it would appear that Ukraine's trade restrictiveness falls in the middle of the group of BRO countries, although it is somewhat more restrictive than the transition countries in eastern and central Europe (Text Table 10).

Table 10. Ukraine: Comparison of the Restrictiveness of Trade and Exchange Regimes in Transition Countries[1]

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| BRO | | | |
| Armenia | 0.71 | 0.94 | 0.94 |
| Azerbaijan | 0.47 | 0.47 | 0.53 |
| Belarus | 0.47 | 0.47 | 0.24 |
| Estonia | 0.94 | 0.94 | 0.94 |
| Georgia | 0.47 | 0.71 | 0.94 |
| Kazakhstan | 0.71 | 0.94 | 0.94 |
| Kyrgyz Republic | 0.94 | 0.94 | 0.94 |
| Latvia | 0.94 | 0.94 | 0.94 |
| Lithuania | 0.94 | 0.94 | 0.94 |
| Moldova | 0.94 | 0.94 | 0.94 |
| Russia | 0.71 | 0.94 | 0.94 |
| Tajikistan | 0.47 | 0.47 | 0.47 |
| Turkmenistan | 0.24 | 0.24 | 0.24 |
| Ukraine | 0.71 | 0.71 | 0.71 |
| Uzbekistan | 0.47 | 0.47 | 0.41 |
| Average | 0.68 | 0.74 | 0.74 |
| Average (excluding Baltics) | 0.61 | 0.69 | 0.69 |
| Selected ECE | | | |
| Bulgaria | 0.94 | 0.94 | 0.94 |
| Hungary | 1.00 | 1.00 | 1.00 |
| Poland | 1.00 | 1.00 | 1.00 |

Source: "Growth Experience in Transition Economies", IMF SM/98/228.

1/ These indexes are based on the EBRD's trade and exchange system indicator. A value closer to one represents a more liberal regime.

142. Throughout most of 1997, trade policy aimed to achieve greater liberalization: the number of mixed (specific and ad valorem) tariffs was reduced from 251 to 80 (at the four-digit level of the tariff schedule); the number of tariff bands was reduced to six (except those covering less than 1 percent of total imports); and excise taxes on domestic and foreign production were harmonized (except for a few alcoholic and other products that by legislation could not be changed until the years 2000 and 2001).

143. As the balance of payments weakened in late 1997, the trend toward liberalization was reversed somewhat, with increases in some tariff rates and an increase in the number of commodities subject to mixed tariffs. In October 1997, parliament passed the "Law on State Regulation of Agricultural Imports," which increased the number of commodities subject to mixed tariffs to 217. Furthermore, tariff rates on a wide variety of products were increased in three steps during early 1998. In total, tariff rates for 5–10 percent of total non-energy imports were increased, resulting in an increase in the weighted average tariff rate to 7.7 percent (using 1996 weights). Subsequently, the government reversed these tariff increases so that the weighted average tariff rate was reduced to about 5 percent (using 1996 weights). The weighted average tariff rate excluding energy products was reduced to 7.5 percent and the simple average tariff rate was reduced to 12.7 percent. However, the rate of trade protection was increased in May 1998 due to the introduction of a system of seasonal tariffs for imports of key agricultural products at rates equal to double the existing tariff rates. The seasonal duties were designed to be in effect during the local harvest periods of the products, typically a three-month period. In order to provide greater stability and transparency to the tariff regime, a decree was issued that limits the frequency of revisions to the tariff schedule to once every six months.

144. The initial trade policy response to the Russian crisis has been to liberalize exports further. To this end, the number of commodities subject to indicative prices has been reduced to three (those for which anti-dumping concerns have been raised, such as steel) and draft legislation has been prepared to reduce registration requirements further. Another step toward liberalization was taken in December 1998, when the number of commodities subject to mixed tariffs was reduced to 25. However, as discussed in detail in Appendix V, a number of administrative measures were introduced in the foreign exchange market to counter mounting pressure on the exchange rate. One impact of these measures has been to restrict trade.

### E. Exchange Arrangements

145. Ukraine accepted the obligations of Article VIII of the Fund's Articles of Agreement in September 1996. This acceptance signaled the authorities' intention not to restrict convertibility of the hryvnia for making international payments for current account transactions. The authorities were able to maintain this commitment until August 1998 when, in the face of mounting pressure on the exchange rate and dwindling reserves, the authorities reimposed a number of restrictions on current payments (see Appendix V). Capital account transactions are subject to registration/licensing requirements.

146. Prior to August 1998, the bulk of foreign exchange transactions were conducted in an interbank market between licensed banks. The interbank market covered both convertible and nonconvertible currencies. In addition, formal foreign exchange auctions were conducted at the currency exchanges located in Kyiv and Crimea.

## Table 11. Ukraine: Gross Domestic Product, 1995–98

(In billions of hryvnia; at current prices) 1/

| | 1995 | 1996 | | | | 1997 | | | | 1998 2/ | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sep | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sep | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sep | Jan-Dec |
| Gross domestic product (GDP) | 54.5 | 17.1 | 35.9 | 56.7 | 81.5 | 19.1 | 40.2 | 65.6 | 93.4 | 20.8 | 44.7 | 73.4 | 104.7 |
| Labor payments | 23.7 | 8.3 | 17.7 | 26.0 | 38.9 | 9.2 | 19.6 | 30.8 | 45.4 | 10.3 | 21.2 | 33.3 | 47.7 |
| Consumption of fixed capital and net profit | 20.4 | 6.6 | 13.0 | 21.6 | 24.7 | 5.6 | 11.3 | 19.8 | 29.9 | 5.7 | 13.2 | 24.2 | 35.8 |
| Net taxes on production and imports | 10.4 | 2.2 | 5.3 | 9.1 | 17.9 | 4.2 | 9.4 | 14.9 | 18.1 | 4.8 | 10.3 | 16.0 | 21.2 |
| Memorandum items: | | | | | | | | | | | | | |
| Cumulative change of real GDP | -12.2 | -8.6 | -8.6 | -10.1 | -10.0 | -8.3 | -7.6 | -4.9 | -3.0 | -0.3 | 0.1 | -0.5 | -1.7 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Data in billions of hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.
2/ Preliminary Fund staff estimates, based on the official Goskomstat unrevised estimate of 1998 GDP at Hrv 103.9 billion, and the observed historical pattern of upward revisions.

Table 12. Ukraine: Retail Turnover in Goods and Services, 1996–98 1/

| | 1996 | | 1997 | | 1998 | |
|---|---|---|---|---|---|---|
| | Goods | Services | Goods | Services | Goods | Services |
| | (Percentage change at comparable prices relative to the same period of the previous year) | | | | | |
| January | 0.4 | -23.9 | -9.5 | -13.8 | 3.3 | -0.4 |
| February | 2.3 | 13.4 | -9.4 | -17.5 | 2.4 | -3.4 |
| March | -3.0 | 6.2 | 0.5 | -12.9 | 0.1 | -3.4 |
| April | 1.0 | -5.1 | 3.8 | -9.6 | -2.0 | 0.0 |
| May | -12.2 | -3.5 | 6.6 | -3.8 | -0.8 | -5.2 |
| June | -16.8 | -15.5 | 11.9 | -6.5 | -2.5 | -4.8 |
| July | -14.6 | -4.0 | 12.2 | -3.1 | -6.0 | -7.6 |
| August | -19.0 | -16.0 | 3.5 | -0.2 | -6.2 | -4.5 |
| September | -21.6 | -13.6 | 15.4 | 5.5 | -6.0 | -9.7 |
| October | -20.4 | -7.9 | 9.4 | 0.4 | -7.2 | -8.7 |
| November | -14.8 | -18.3 | 5.3 | -1.0 | -12.1 | -3.9 |
| December | -10.3 | -19.6 | 8.6 | -2.5 | -10.5 | -7.1 |
| | (Cumulative percentage change at comparable prices relative to the same period of the previous year) | | | | | |
| January | 0.4 | -23.9 | -9.5 | -13.8 | 3.3 | -0.4 |
| January–February | 0.8 | -2.1 | -9.8 | -15.8 | 2.9 | -2.5 |
| January–March | -1.0 | -3.5 | -2.1 | -14.7 | 0.4 | -3.0 |
| January–April | -0.4 | -3.3 | -1.6 | -13.5 | -0.4 | -2.5 |
| January–May | -3.1 | -8.2 | 0.3 | -12.1 | -0.8 | -2.5 |
| January–June | -6.0 | -9.0 | 3.0 | -12.7 | -1.5 | -2.3 |
| January–July | -6.8 | -5.3 | 4.2 | -11.3 | -2.3 | -3.8 |
| January–August | -9.3 | -10.5 | 4.2 | -10.2 | -3.1 | -3.6 |
| January–September | -11.2 | -11.8 | 5.6 | -7.9 | -3.4 | -4.3 |
| January–October | -12.1 | -10.8 | 5.8 | -7.1 | -3.6 | -4.3 |
| January–November | -11.8 | -12.7 | 5.3 | -6.4 | -4.5 | -4.6 |
| January–December | -5.1 | -13.5 | 0.2 | -5.8 | -5.4 | -4.8 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Retail trade of all registered enterprises in the state and cooperative sectors.

## Table 13. Ukraine: Utilization of Gross Domestic Product, 1995–98

(In billions of hryvnia; at current prices) 1/

| | 1995 | 1996 | | | | 1997 | | | | 1998 2/ | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sep | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sep | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sep | Jan-Dec |
| Gross domestic product | 54.5 | 17.1 | 35.9 | 56.7 | 81.5 | 19.1 | 40.3 | 65.7 | 93.4 | 20.8 | 44.7 | 73.4 | 104.7 |
| Final consumption | 41.7 | 14.3 | 29.7 | 45.8 | 65.1 | 16.7 | 35.3 | 55.3 | 76.2 | 18.3 | 39.0 | 62.3 | 86.1 |
| Households | 27.1 | 9.8 | 20.3 | 30.7 | 43.5 | 11.5 | 24.1 | 37.8 | 50.6 | 12.6 | 27.5 | 44.4 | 58.4 |
| Nonprofit organizations | 3.0 | 0.7 | 1.5 | 2.4 | 3.9 | 0.9 | 1.9 | 2.4 | 3.3 | 0.9 | 1.7 | 2.5 | 3.4 |
| Government | 11.6 | 3.8 | 7.9 | 12.6 | 17.7 | 4.3 | 9.4 | 15.1 | 22.3 | 4.8 | 9.7 | 15.4 | 23.6 |
| Gross accumulation of fixed assets | 12.8 | 3.0 | 6.8 | 11.3 | 17.0 | 3.3 | 6.9 | 11.6 | 18.5 | 3.6 | 7.7 | 13.2 | 20.2 |
| Change in inventories and net acquisition of valuables | 1.8 | 0.8 | 0.5 | 0.7 | 1.5 | 0.5 | 0.4 | 1.0 | 1.5 | 0.2 | -0.5 | 0.3 | 1.5 |
| Exports of goods and services | 25.7 | 8.5 | 18.5 | 27.5 | 37.2 | 8.6 | 17.9 | 27.7 | 37.9 | 8.3 | 18.0 | 27.3 | 41.4 |
| Imports of goods and services | -27.3 | -9.5 | -19.6 | -28.5 | -39.3 | -10.0 | -20.2 | -30.0 | -40.8 | -9.7 | -19.5 | -29.6 | -44.5 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Data in billions of hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.

2/ Preliminary Fund staff estimates, based on the official Goskomstat unrevised estimate of 1998 GDP at Hrv 103.9 billion, and the observed historical pattern of upward revisions.

Table 14. Ukraine: Investment, 1995–98

(In millions of hryvnia) 1/

| | 1995 | 1996 | 1997 | 1998 2/ |
|---|---|---|---|---|
| Total investment | 9,378 | 12,557 | 12,437 | 11,543 |
| Material sphere | 5,573 | 8,098 | 8,174 | 7,851 |
| Industry | 3,489 | 5,055 | 5,157 | 4,615 |
| Agriculture | 743 | 978 | 885 | 579 |
| Construction | 47 | 227 | 161 | 259 |
| Transport and communications | 1,033 | 1,606 | 1,698 | 2,230 |
| Trade and other material services | 262 | 233 | 273 | 168 |
| Nonmaterial sphere | 3,705 | 4,459 | 4,263 | 3,692 |
| Housing | 1,986 | 2,443 | 2,390 | 2,197 |
| Other nonmaterial services | 1,819 | 2,016 | 1,873 | 1,495 |
| | (Real percentage change) 3/ | | | |
| Total investment | -20.5 | -22.0 | -8.6 | -17.9 |
| Material sphere | -34.7 | -16.8 | -8.1 | -15.1 |
| Industry | -40.0 | -17.4 | -8.1 | -20.9 |
| Agriculture | -40.1 | -24.5 | -17.6 | -42.1 |
| Construction | 36.7 | -8.1 | -34.8 | 42.0 |
| Transport and communications | 16.1 | -11.0 | -0.8 | 16.1 |
| Trade and other material services | -55.1 | -12.5 | 8.2 | -45.7 |
| Nonmaterial sphere | -16.5 | -29.9 | -9.4 | -23.4 |
| Housing | -19.9 | -27.1 | -7.0 | -18.7 |
| Other nonmaterial services | -12.4 | -33.0 | -12.2 | -29.4 |
| | (Share in current prices) | | | |
| Total investment | 100.0 | 100.0 | 100.0 | 100.0 |
| Material sphere | 59.4 | 64.5 | 65.7 | 68.0 |
| Industry | 37.2 | 40.3 | 41.5 | 40.0 |
| Agriculture | 7.9 | 7.8 | 7.1 | 5.0 |
| Construction | 0.5 | 1.8 | 1.3 | 2.2 |
| Transport and communications | 11.0 | 12.8 | 13.7 | 19.3 |
| Trade and other material services | 2.8 | 1.8 | 2.2 | 1.5 |
| Nonmaterial sphere | 40.6 | 35.5 | 34.3 | 32.0 |
| Housing | 21.2 | 19.5 | 19.2 | 19.0 |
| Other nonmaterial services | 19.4 | 16.1 | 15.1 | 12.9 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Data in millions of hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.
2/ Preliminary.
3/ Deflated by Producer Price Index.

## Table 15. Ukraine: Gross Domestic Product by Sector, 1995–98

| | 1995 | 1996 | | | | 1997 | | | | 1998 1/ | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sept | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sept | Jan-Dec | Jan-Mar | Jan-Jun | Jan-Sept | Jan-Dec |
| | (In billions of hryvnia; at current prices) 2/ | | | | | | | | | | | | |
| Gross domestic product | 55 | 17 | 36 | 57 | 82 | 19 | 40 | 66 | 93 | 21 | 45 | 73 | 105 |
| Of which: | | | | | | | | | | | | | |
| Industry | 17 | 6 | 12 | 18 | 22 | 6 | 12 | 19 | 23 | 6 | 13 | 19 | 26 |
| Construction | 4 | 1 | 2 | 3 | 5 | 1 | 2 | 3 | 5 | 1 | 2 | 3 | 5 |
| Agriculture | 8 | 1 | 2 | 6 | 10 | 1 | 2 | 6 | 11 | 1 | 3 | 8 | 12 |
| Trade | 3 | 1 | 2 | 3 | 5 | 1 | 2 | 3 | 7 | 1 | 3 | 4 | 8 |
| Transportation | 5 | 2 | 4 | 7 | 8 | 3 | 5 | 7 | 12 | 3 | 6 | 10 | 14 |
| Other services | 14 | 5 | 11 | 16 | 23 | 5 | 12 | 17 | 24 | 6 | 12 | 19 | 26 |
| | (Real percent change) | | | | | | | | | | | | |
| Gross domestic product | -12.2 | -8.3 | -8.3 | -9.8 | -10.0 | -8.3 | -7.6 | -4.9 | -3.0 | -0.3 | 0.1 | -0.5 | -1.7 |
| Of which: | | | | | | | | | | | | | |
| Industry | -11.2 | -2.3 | -2.5 | -1.3 | -4.6 | -5.7 | -4.7 | -2.3 | -1.1 | 1.5 | 0.5 | -0.3 | -1.5 |
| Construction | -31.9 | -42.5 | -34.1 | -34.4 | -34.0 | -23.8 | -23.9 | -15.6 | -11.7 | 1.7 | 4.6 | 1.7 | ... |
| Agriculture | -4.6 | -5.2 | -7.4 | -14.2 | -10.3 | -13.5 | -13.0 | -3.2 | -0.8 | -7.4 | 4.4 | 2.6 | -3.3 |
| Trade | -19.4 | -12.0 | -16.5 | -18.6 | -15.1 | -3.7 | 1.1 | 2.5 | 3.0 | -1.4 | -0.6 | -3.9 | ... |
| Transportation | -18.0 | -23.8 | -20.6 | -19.5 | -14.9 | -13.7 | -13.3 | -13.6 | -11.8 | 2.4 | 1.0 | 0.3 | ... |
| Other services | -5.6 | -1.4 | -2.2 | -3.7 | -5.5 | -5.1 | -5.5 | -4.1 | -4.5 | -1.2 | -1.5 | -1.5 | ... |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Preliminary Fund staff estimates, based on the official Goskomstat unrevised estimate of 1998 GDP at Hrv 103.9 billion, and the observed historical pattern of upward revisions.
2/ Data in billions of hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.

Table 16. Ukraine: Gross Industrial Production, 1995–98

| | 1995 | 1996 | 1997 | 1998 1/ | | | |
|---|---|---|---|---|---|---|---|
| | | | | Jan–Mar | Jan–Jun | Jan–Sept | Jan–Dec |
| | | | (In billions of hryvnia; at current prices) 2/ | | | | |
| Total industry | 59 | 73 | 75 | 19 | 38 | 58 | 83 |
| Of which: | | | | | | | |
| Power generation | 6 | 9 | 9 | 3 | 5 | 8 | 12 |
| Fuels and energy 3/ | 8 | 9 | 8 | 2 | 4 | 7 | 10 |
| Ferrous metallurgy | 13 | 16 | 17 | 4 | 9 | 14 | 19 |
| Non-ferrous metallurgy | 1 | 1 | 1 | 0 | 1 | 1 | 1 |
| Chemical and petrochemical | 4 | 5 | 5 | 1 | 3 | 4 | 5 |
| Machine building | 9 | 11 | 12 | 3 | 6 | 9 | 13 |
| Wood and paper | 1 | 2 | 2 | 0 | 1 | 1 | 1 |
| Construction materials | 2 | 2 | 2 | 0 | 1 | 2 | 3 |
| Light industry | 2 | 2 | 1 | 0 | 1 | 1 | 1 |
| Food industry | 9 | 12 | 13 | 2 | 5 | 8 | 12 |
| | | | (Share in total) | | | | |
| Total industry | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Of which: | | | | | | | |
| Power generation | 11.0 | 12.6 | 12.6 | 16.9 | 13.8 | 13.1 | 14.7 |
| Fuels and energy | 13.4 | 12.1 | 11.1 | 12.5 | 11.9 | 11.6 | 11.5 |
| Ferrous metallurgy | 21.8 | 21.6 | 22.7 | 23.1 | 23.7 | 23.9 | 23.1 |
| Nonferrous metallurgy | 1.6 | 1.4 | 1.5 | 1.4 | 1.4 | 1.5 | 1.6 |
| Chemical and petrochemical | 7.4 | 7.3 | 6.6 | 6.6 | 6.9 | 6.7 | 6.5 |
| Machine building | 16.1 | 15.0 | 15.8 | 15.0 | 15.7 | 16.1 | 15.5 |
| Wood and paper | 2.2 | 2.2 | 2.0 | 1.7 | 1.7 | 1.7 | 1.7 |
| Construction materials | 3.9 | 3.3 | 3.3 | 2.6 | 3.2 | 3.5 | 3.3 |
| Light industry | 2.8 | 2.1 | 1.8 | 1.5 | 1.5 | 1.5 | 1.5 |
| Food industry | 15.1 | 16.3 | 16.9 | 12.6 | 13.9 | 14.6 | 15.0 |
| | | | (Real percent change) 4/ | | | | |
| Total industry | -12.0 | -5.1 | -1.8 | 1.7 | 0.7 | -0.3 | -1.5 |
| Of which: | | | | | | | |
| Power generation | -6.0 | -6.9 | -2.6 | 0.4 | -2.1 | 0.4 | -0.3 |
| Fuel and energy | -9.7 | -6.7 | 4.5 | 3.4 | 2.9 | 0.1 | -0.7 |
| Ferrous metallurgy | -4.6 | 11.9 | 7.7 | 4.1 | -1.5 | -5.6 | -6.8 |
| Nonferrous metallurgy | -3.5 | 8.0 | 2.7 | 15.2 | 15.7 | 15.7 | 12.4 |
| Chemical and petrochemical | -9.1 | -3.4 | -0.6 | 12 | 10.6 | 3.9 | 0.9 |
| Machine building | -23.9 | -26.1 | -3.6 | -3.8 | -4.3 | -2.5 | -4.5 |
| Wood and paper | -17.4 | -18.6 | -5.1 | 25.7 | 21.7 | 13.2 | 10.4 |
| Construction materials | -28.0 | -34.2 | -7.9 | 14.9 | 11.7 | 8.3 | 4.1 |
| Light industry | -32.6 | -24.6 | -5.2 | 4.4 | 4.8 | 1.2 | -5.2 |
| Food industry | -12.6 | -7.2 | -14.6 | -3.8 | 1.2 | 3.3 | -0.5 |

Sources: State Statistics Committee of Ukraine; and Fund staff estimates.

1/ Preliminary data.
2/ Data in billions of hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.
3/ Fuel and energy complex includes fuel and nuclear energy.
4/ Percentage change over corresponding period of the previous year.

## Table 17. Ukraine: Barter Operations in Industry, 1997–98
(In percent of total sales)

| | Total | Power generation | Fuels industry | Ferrous metallurgy | Nonferrous metallurgy | Chemicals and petrochemicals | Machinebuilding | Wood and paper | Construction materials | Light industry | Food industry |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1997 Jan-Jun | 35.7 | 33.2 | 36.6 | 42.7 | 35.1 | 38.8 | 45.8 | 53.3 | 54.6 | 33.6 | 15.0 |
| Jan-Sep | 39.2 | 43.9 | 44.7 | 41.2 | 33.9 | 50.1 | 48.4 | 54.3 | 57.8 | 33.8 | 16.1 |
| Jan-Dec | 42.4 | 45.8 | 50.1 | 46.5 | 36.8 | 49.0 | 46.7 | 54.3 | 59.5 | 36.7 | 21.8 |
| 1998 Jan-Mar | 41.0 | 48.1 | 46.7 | 38.6 | 20.1 | 47.2 | 46.0 | 49.9 | 64.2 | 40.1 | 22.1 |
| Jan-Jun | 41.7 | 50.6 | 48.1 | 40.0 | 20.5 | 48.5 | 45.5 | 52.1 | 64.3 | 42.5 | 20.9 |
| Jan-Sep | 41.4 | 50.3 | 47.9 | 39.9 | 21.2 | 46.9 | 46.1 | 51.1 | 64.7 | 41.8 | 20.4 |
| Jan-Dec | 42.5 | 47.0 | 57.8 | 40.8 | 20.2 | 46.2 | 42.9 | 48.6 | 65.8 | 40.0 | 24.8 |

Source: Ukrainian State Committee on Statistics; and Fund staff estimates.

## Table 18. Ukraine: Output of Major Agricultural Products, 1995–98

| | 1986–1990 Average | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| | (In thousand tons, unless otherwise stated) | | | | |
| Crop production | | | | | |
| Grains | 47,431 | 33,930 | 24,571 | 35,472 | 26,462 |
| Potatoes | 17,965 | 14,729 | 18,410 | 16,701 | 15,336 |
| Sugar beets | 43,845 | 29,650 | 23,009 | 17,663 | 15,333 |
| Vegetables | 7,449 | 5,880 | 5,070 | 5,168 | 5,456 |
| Fruits (including grapes) | 3,376 | 2,355 | 2,423 | 3,113 | 1,180 |
| Flax | 110 | 48 | 18 | 9 | 10 |
| Animal products | | | | | |
| Meat | 4,309 | 2,294 | 2,113 | 1,875 | 2,635 |
| Milk | 24,059 | 17,274 | 15,821 | 13,768 | 13,739 |
| Eggs 1/ | 17,215 | 9,404 | 8,763 | 8,242 | 8,270 |
| Wool | 30 | 14 | 9 | 7 | 5 |
| | (Percentage change from previous year) | | | | |
| Crop production | | | | | |
| Grains | ... | -4.4 | -27.6 | 44.4 | -25.4 |
| Potatoes | ... | -8.5 | 25.0 | -9.3 | -8.2 |
| Sugar beets | ... | 5.4 | -22.4 | -23.2 | -13.2 |
| Vegetables | ... | 14.4 | -13.8 | 1.9 | 5.6 |
| Fruits (including grapes) | ... | 52.1 | 2.9 | 28.5 | -57.8 |
| Flax | ... | -2.0 | -62.5 | -50.0 | 1.4 |
| Animal products | | | | | |
| Meat | ... | -14.3 | -7.9 | -11.3 | -11.0 |
| Milk | ... | -4.8 | -8.4 | -13.0 | -0.1 |
| Eggs | ... | -7.4 | -6.8 | -5.9 | 0.3 |
| Wool | ... | -27.8 | -33.1 | -28.3 | -33.0 |
| | (Index) | | | | |
| Crop production | | | | | |
| Grains | 100.0 | 71.5 | 51.8 | 74.8 | 55.8 |
| Potatoes | 100.0 | 82.0 | 102.5 | 93.0 | 85.4 |
| Sugar beets | 100.0 | 67.6 | 52.5 | 40.3 | 35.0 |
| Vegetables | 100.0 | 78.9 | 68.1 | 69.4 | 73.3 |
| Fruits (including grapes) | 100.0 | 69.8 | 71.8 | 92.2 | 38.9 |
| Flax | 100.0 | 43.6 | 16.4 | 8.2 | 8.3 |
| Animal products | | | | | |
| Meat | 100.0 | 53.2 | 49.0 | 43.5 | 38.7 |
| Milk | 100.0 | 71.8 | 65.8 | 57.2 | 57.1 |
| Eggs | 100.0 | 54.6 | 50.9 | 47.9 | 48.0 |
| Wool | 100.0 | 46.7 | 31.2 | 22.4 | 15.0 |

Sources: State Statistics Committee of Ukraine; and Fund staff estimates.

1/ In millions.

Table 19. Ukraine: Agricultural Production, 1995–97

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| | (In billions of 1996 hryvnia) | | |
| Total gross agricultural production | 31.6 | 28.6 | 28.1 |
| Crop production | 17.9 | 16.4 | 17.4 |
| Of which: | | | |
| Grains | 5.0 | 3.8 | 5.7 |
| Potatoes | 6.3 | 6.8 | 6.4 |
| Vegetables | 2.8 | 2.1 | 1.8 |
| Fruits | 1.4 | 1.4 | 1.8 |
| Animal production | 13.7 | 12.2 | 10.7 |
| Of which: | | | |
| Livestock for slaughter 1/ | 6.6 | 5.8 | 5.0 |
| Milk | 5.3 | 4.8 | 4.2 |
| Eggs | 1.2 | 1.1 | 1.0 |
| | (In millions of hryvnia) | | |
| Total gross agricultural production | 16,980 | 26,746 | 29,582 |
| Crop production | 8,743 | 15,038 | 17,261 |
| Animal production | 7,874 | 11,332 | 11,940 |
| Agricultural services | 362 | 377 | 381 |
| Material inputs | 9,700 | 17,162 | 19,571 |
| Crop production | 4,304 | 8,987 | 10,569 |
| Animal production | 5,210 | 7,996 | 8,817 |
| Agricultural services | 186 | 179 | 185 |
| Net material product | 7,280 | 9,585 | 10,011 |
| Crop production | 4,439 | 6,051 | 6,692 |
| Animal production | 2,665 | 3,336 | 3,123 |
| Agricultural services | 176 | 198 | 196 |
| | (Real changes from the same period of the previous year) | | |
| Total gross agricultural production | -3.6 | -9.5 | -1.9 |
| Crop production | 2.8 | -8.7 | 6.0 |
| Animal production | -10.9 | -10.4 | -12.3 |
| Material inputs | -5.6 | -8.9 | -2.6 |
| Net material product | -4.1 | -10.3 | -0.7 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Cattle and poultry breeding.

## Table 20. Ukraine: Monthly Price Movements, 1996–98
(In percent)

| | Consumer Price Index | | Producer Price Index | |
|---|---|---|---|---|
| | Change over preceding month | Change over 12 months 1/ | Change over preceding month | Change over 12 months 1/ |
| 1996 | | | | |
| January | 9.4 | 154.2 | 3.4 | 117.7 |
| February | 7.4 | 131.2 | 2.9 | 101.1 |
| March | 3.0 | 113.8 | 2.9 | 89.3 |
| April | 2.4 | 106.9 | 1.5 | 82.9 |
| May | 0.7 | 99.2 | 0.8 | 72.1 |
| June | 0.1 | 90.2 | 0.4 | 59.1 |
| July | 0.1 | 81.0 | 0.6 | 53.5 |
| August | 5.7 | 82.9 | 0.4 | 44.7 |
| September | 2.0 | 63.4 | 1.0 | 33.0 |
| October | 1.5 | 52.0 | 0.1 | 22.8 |
| November | 1.2 | 44.8 | 1.2 | 19.2 |
| December | 0.9 | 39.7 | 0.9 | 17.3 |
| Average | 2.8 | 80.0 | 1.3 | 52.1 |
| 1997 | | | | |
| January | 2.2 | 30.0 | 0.4 | 13.9 |
| February | 1.2 | 23.0 | 0.4 | 11.1 |
| March | 0.1 | 19.5 | 0.6 | 8.6 |
| April | 0.8 | 17.7 | 0.9 | 8.0 |
| May | 0.8 | 17.8 | 0.3 | 7.4 |
| June | 0.1 | 17.8 | 0.4 | 7.4 |
| July | 0.1 | 17.8 | 0.4 | 7.2 |
| August | 0.0 | 11.4 | 0.0 | 6.8 |
| September | 1.2 | 10.6 | 0.1 | 5.8 |
| October | 0.9 | 9.9 | 1.1 | 6.9 |
| November | 0.9 | 9.6 | -0.2 | 5.4 |
| December | 1.4 | 10.1 | 0.5 | 5.0 |
| Average | 0.8 | 15.9 | 0.4 | 7.7 |
| 1998 | | | | |
| January | 1.3 | 9.1 | 0.8 | 5.4 |
| February | 0.2 | 8.1 | 0.9 | 5.9 |
| March | 0.2 | 8.2 | 0.7 | 6.1 |
| April | 1.3 | 8.7 | 0.5 | 5.6 |
| May | 0.0 | 7.9 | 0.0 | 5.3 |
| June | 0.0 | 7.7 | 0.2 | 5.1 |
| July | -0.9 | 6.7 | 0.6 | 5.3 |
| August | 0.2 | 6.9 | 1.2 | 6.6 |
| September | 3.8 | 9.6 | 9.4 | 16.5 |
| October | 6.2 | 15.4 | 10.7 | 27.5 |
| November | 3.0 | 17.8 | 3.5 | 32.1 |
| December | 3.3 | 20.0 | 2.9 | 35.3 |
| Average | 1.6 | 10.6 | 2.6 | 13.2 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Calculated from the monthly rates of change.

Table 21. Ukraine: Components of the Consumer Price Index, 1995–98
(Monthly rates of change)

| | Overall Index | Nonfood | Food | Services |
|---|---|---|---|---|
| 1995 | | | | |
| January | 21.2 | 18.8 | 23.2 | 21.0 |
| February | 18.1 | 10.3 | 11.9 | 70.0 |
| March | 11.4 | 9.7 | 10.0 | 18.6 |
| April | 5.8 | 4.9 | 4.8 | 10.2 |
| May | 4.6 | 3.2 | 4.6 | 7.1 |
| June | 4.8 | 3.4 | 1.0 | 16.9 |
| July | 5.2 | 3.6 | -0.1 | 19.5 |
| August | 4.6 | 6.5 | 4.3 | 3.4 |
| September | 14.2 | 8.4 | 11.3 | 24.6 |
| October | 9.1 | 5.8 | 12.0 | 6.1 |
| November | 6.2 | 4.7 | 7.9 | 4.1 |
| December | 4.6 | 3.2 | 6.3 | 2.1 |
| Dec. 95 to Dec. 94 | 181.7 | 120.0 | 150.1 | 484.4 |
| 1996 | | | | |
| January | 9.4 | 3.1 | 6.8 | 19.3 |
| February | 7.4 | 3.1 | 4.4 | 15.7 |
| March | 3.0 | 2.4 | 2.3 | 4.5 |
| April | 2.4 | 1.5 | 1.4 | 4.4 |
| May | 0.7 | 1.1 | -0.2 | 2.4 |
| June | 0.1 | 1.0 | -1.0 | 1.4 |
| July | 0.1 | 0.8 | -2.5 | 4.7 |
| August | 5.7 | 0.8 | -1.7 | 24.0 |
| September | 2.0 | 1.1 | 2.4 | 2.0 |
| October | 1.5 | 1.1 | 2.0 | 1.1 |
| November | 1.2 | 0.8 | 1.6 | 0.8 |
| December | 0.9 | 0.6 | 1.0 | 0.8 |
| Dec. 96 to Dec. 95 | 39.7 | 18.8 | 17.4 | 112.7 |
| 1997 | | | | |
| January | 2.2 | 0.5 | 3.4 | 1.5 |
| February | 1.2 | 0.4 | 1.8 | 0.7 |
| March | 0.1 | 0.3 | -0.4 | 0.6 |
| April | 0.8 | 0.2 | 1.1 | 0.6 |
| May | 0.8 | 0.1 | 1.3 | 0.4 |
| June | 0.1 | 0.1 | -0.2 | 0.6 |
| July | 0.1 | 0.1 | -0.2 | 0.7 |
| August | 0.0 | 0.1 | -0.3 | 0.3 |
| September | 1.2 | 0.2 | 2.1 | 0.3 |
| October | 0.9 | 0.3 | 1.2 | 0.7 |
| November | 0.9 | 0.5 | 1.3 | 0.3 |
| December | 1.4 | 0.1 | 2.2 | 0.9 |
| Dec. 97 to Dec. 96 | 10.1 | 2.9 | 14.1 | 7.9 |
| 1998 | | | | |
| January | 1.3 | 0.1 | 1.9 | 1.0 |
| February | 0.2 | 0.0 | 0.3 | 0.1 |
| March | 0.2 | 0.0 | 0.3 | 0.1 |
| April | 1.3 | 0.1 | 1.9 | 1.1 |
| May | 0.0 | 0.0 | -1.2 | 2.1 |
| June | 0.0 | 0.0 | -1.2 | 2.1 |
| July | -0.9 | 0.1 | -2.3 | 0.8 |
| August | 0.2 | 0.3 | -0.1 | 0.6 |
| September | 3.8 | 6.1 | 4.0 | 1.9 |
| October | 6.2 | 12.0 | 6.7 | 1.4 |
| November | 3.0 | 2.9 | 4.3 | 0.9 |
| December | 3.3 | 0.9 | 6.0 | 0.2 |
| Dec. 98 to Dec. 97 | 20.0 | 24.1 | 22.1 | 13.0 |

Sources: Ukrainian authorities; and Fund staff estimates.

Table 22. Ukraine: Population, Labor Force, and Employment, 1995–98
(In thousands of persons)

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| Population 1/ | 51,474 | 51,079 | 50,639 | 50,245 |
| Outside active age | 22,785 | 22,552 | 22,294 | 22,037 |
| Active age | 28,689 | 28,527 | 28,345 | 28,208 |
| Total employment 2/ | 23,725 | 23,232 | 22,598 | ... |
| State sector | 11,185 | 9,606 | 8,562 | ... |
| Collective and cooperative sector | 8,640 | 8,990 | 8,854 | ... |
| Private sector | 3,940 | 4,636 | 5,182 | ... |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Beginning of period
2/ Annually-reporting information (average).

Table 23. Ukraine: Average Employment by Branches, 1995–97
(In thousands of persons)

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Total 1/ | 21,962 | 20,868 | 19,835 |
| Industry | 5,761 | 5,335 | 4,882 |
| Agriculture 2/ | 5,258 | 5,006 | 4,903 |
| Construction | 1,485 | 1,366 | 1,194 |
| Transportation and communications | 1,449 | 1,398 | 1,308 |
| Trade and material services 3/ | 1,614 | 1,552 | 1,522 |
| Health and social services | 1,516 | 1,481 | 1,443 |
| Education and culture | 2,247 | 2,141 | 1,997 |
| Other | 2,632 | 2,589 | 2,586 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Annual average, without self-employed.
2/ Including employment in private farms, personal farms (sales and storage).
3/ Including public catering, technical procurement, sales, and storage.

Table 24. Ukraine: Unemployment and Vacancies, 1996–98 1/
(In thousands of persons)

| | Registered Unemployed | Recipients of Unemployment Benefits | Reported Vacancies | Unemployment Rate 2/ |
|---|---|---|---|---|
| 1996 | | | | |
| January | 139.2 | 82.7 | 77.6 | 0.5 |
| February | 172.1 | 97.0 | 74.4 | 0.6 |
| March | 199.9 | 114.7 | 75.4 | 0.7 |
| April | 216.6 | 129.6 | 74.9 | 0.8 |
| May | 219.6 | 140.5 | 75.8 | 0.8 |
| June | 221.2 | 146.7 | 69.4 | 0.8 |
| July | 229.3 | 156.5 | 70.5 | 0.8 |
| August | 242.1 | 163.3 | 63.6 | 0.9 |
| September | 257.7 | 167.2 | 59.3 | 0.9 |
| October | 277.5 | 172.7 | 53.2 | 1.0 |
| November | 308.4 | 186.0 | 44.8 | 1.1 |
| December | 351.1 | 214.6 | 35.2 | 1.3 |
| 1997 | | | | |
| January | 380.3 | 232.8 | 35.6 | 1.4 |
| February | 431.9 | 272.4 | 34.6 | 1.6 |
| March | 468.9 | 307.8 | 37.5 | 1.7 |
| April | 497.3 | 329.9 | 36.3 | 1.8 |
| May | 510.0 | 339.0 | 44.8 | 1.9 |
| June | 520.6 | 333.3 | 42.4 | 1.9 |
| July | 542.6 | 341.2 | 43.8 | 2.0 |
| August | 564.3 | 340.5 | 43.2 | 2.1 |
| September | 577.7 | 341.5 | 44.9 | 2.1 |
| October | 589.2 | 340.4 | 44.8 | 2.2 |
| November | 609.8 | 346.0 | 38.8 | 2.2 |
| December | 637.1 | 361.6 | 34.8 | 2.3 |
| 1998 | | | | |
| January | 675.5 | 379.1 | 37.6 | 2.5 |
| February | 724.3 | 459.7 | 38.9 | 2.6 |
| March | 759.7 | 496.8 | 42.5 | 2.8 |
| April | 779.4 | 504.0 | 47.3 | 2.9 |
| May | 787.0 | 500.3 | 49.3 | 2.9 |
| June | 790.9 | 473.6 | 52.4 | 2.9 |
| July | 816.8 | 478.9 | 52.1 | 3.0 |
| August | 838.8 | 481.4 | 47.4 | 3.1 |
| September | 866.5 | 487.2 | 46.6 | 3.2 |
| October | 908.3 | 500.5 | 43.2 | 3.3 |
| November | 954.1 | 521.2 | 36.5 | 3.5 |
| December | 1003.2 | 532.8 | 34.6 | 3.7 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ End of period.
2/ In percent of working age population, excluding disabled persons.

Table 25. Ukraine: Wages and Prices, 1996–98

| | Average Wage in the State Sector | | Consumer Price Index | Real Wage | |
|---|---|---|---|---|---|
| | (In thousands of hryvnia per month) | (Monthly percent change) | (Monthly percent change) | (Index, 1991=100) | (Monthly percent change) |
| 1996 | | | | | |
| January | 114.5 | -14.8 | 9.4 | 0.54 | -22.1 |
| February | 120.9 | 5.5 | 7.4 | 0.53 | -1.7 |
| March | 129.3 | 6.9 | 3.0 | 0.56 | 3.8 |
| April | 129.6 | 0.2 | 2.4 | 0.54 | -2.1 |
| May | 132.1 | 1.9 | 0.7 | 0.55 | 1.2 |
| June | 137.7 | 4.3 | 0.1 | 0.57 | 4.2 |
| July | 143.7 | 4.3 | 0.1 | 0.60 | 4.2 |
| August | 143.1 | -0.5 | 5.7 | 0.56 | -5.8 |
| September | 146.1 | 2.1 | 2.0 | 0.56 | 0.1 |
| October | 148.2 | 1.5 | 1.5 | 0.56 | 0.0 |
| November | 144.8 | -2.3 | 1.2 | 0.54 | -3.5 |
| December | 163.7 | 13.1 | 0.9 | 0.61 | 12.1 |
| 1997 | | | | | |
| January | 139.5 | -14.8 | 2.2 | 0.51 | -16.6 |
| February | 138.9 | -0.4 | 1.2 | 0.50 | -1.6 |
| March | 147.7 | 6.4 | 0.1 | 0.53 | 6.3 |
| April | 146.8 | -0.7 | 0.8 | 0.52 | -1.5 |
| May | 153.4 | 4.5 | 0.8 | 0.54 | 3.7 |
| June | 158.3 | 3.2 | 0.1 | 0.56 | 3.1 |
| July | 165.1 | 4.3 | 0.1 | 0.58 | 4.1 |
| August | 159.9 | -3.1 | 0.0 | 0.56 | -3.1 |
| September | 163.4 | 2.2 | 1.2 | 0.57 | 0.9 |
| October | 162.9 | -0.3 | 0.9 | 0.56 | -1.2 |
| November | 160.2 | -1.6 | 0.9 | 0.55 | -2.5 |
| December | 178.3 | 11.3 | 1.4 | 0.60 | 9.7 |
| 1998 | | | | | |
| January | 152.2 | -14.7 | 1.3 | 0.51 | -15.8 |
| February | 153.7 | 1.0 | 0.2 | 0.51 | 0.8 |
| March | 165.8 | 7.9 | 0.2 | 0.55 | 7.6 |
| April | 161.6 | -2.6 | 1.3 | 0.53 | -3.8 |
| May | 163.7 | 1.3 | 0.0 | 0.49 | -8.0 |
| June | 173.0 | 5.7 | 0.0 | 0.52 | 6.3 |
| July | 173.3 | 0.2 | -0.1 | 0.53 | 1.7 |
| August | 166.4 | -4.0 | 0.2 | 0.51 | -4.0 |
| September | 170.0 | 2.1 | 3.8 | 0.50 | -1.7 |
| October | 171.0 | 0.6 | 6.2 | 0.47 | -6.0 |
| November | 170.5 | -0.3 | 3.0 | 0.45 | -3.2 |
| December | 188.3 | 10.4 | 3.3 | 0.50 | 9.5 |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 26. Ukraine: Average Monthly Wage by Branch, 1996–98
(In hryvnia)

| | 1996 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Total | 114.52 | 120.93 | 129.33 | 129.59 | 132.10 | 137.74 | 143.73 | 143.05 | 146.09 | 148.21 | 144.76 | 163.69 |
| Industry | 125.44 | 129.44 | 142.76 | 143.65 | 143.66 | 148.43 | 157.70 | 160.13 | 160.26 | 165.43 | 160.50 | 182.59 |
| Agriculture | 54.06 | 55.55 | 63.61 | 69.41 | 76.97 | 86.07 | 92.59 | 91.44 | 89.02 | 91.35 | 88.87 | 108.16 |
| Transportation | 141.40 | 140.77 | 144.65 | 146.14 | 155.53 | 160.64 | 178.81 | 172.52 | 175.96 | 164.11 | 156.00 | 165.66 |
| Communication | 134.56 | 146.10 | 147.47 | 157.86 | 161.94 | 170.46 | 178.23 | 181.92 | 174.20 | 175.87 | 187.08 | 205.50 |
| Construction | 118.84 | 123.22 | 133.18 | 139.05 | 144.16 | 157.55 | 164.33 | 171.25 | 163.65 | 164.91 | 158.43 | 193.59 |
| Trade | 81.61 | 84.95 | 89.59 | 89.39 | 91.71 | 93.68 | 99.86 | 103.91 | 102.87 | 100.01 | 99.48 | 111.55 |
| Public catering | 48.84 | 55.01 | 58.51 | 60.15 | 63.45 | 63.42 | 61.95 | 64.77 | 71.81 | 69.42 | 64.80 | 69.32 |
| Computing | 112.10 | 118.46 | 132.63 | 137.26 | 141.04 | 158.13 | 155.69 | 174.69 | 156.30 | 149.60 | 154.34 | 180.49 |
| Housing | 101.01 | 118.47 | 129.05 | 121.91 | 114.73 | 122.60 | 132.76 | 133.51 | 134.05 | 134.23 | 129.32 | 153.50 |
| Communal services | 129.10 | 139.18 | 150.26 | 149.79 | 151.51 | 154.09 | 164.88 | 168.31 | 168.94 | 168.46 | 170.61 | 200.95 |
| Consumer services | 61.35 | 64.00 | 74.18 | 77.48 | 69.73 | 84.39 | 87.34 | 88.95 | 87.87 | 85.96 | 84.26 | 93.58 |
| Education | 102.36 | 117.54 | 118.87 | 115.06 | 118.47 | 126.60 | 119.65 | 104.36 | 129.64 | 126.62 | 122.78 | 126.58 |
| Health | 112.05 | 121.62 | 123.26 | 121.17 | 122.16 | 120.88 | 116.73 | 110.11 | 114.01 | 129.07 | 126.23 | 128.89 |
| Social security | 75.37 | 82.20 | 84.73 | 85.24 | 85.00 | 84.34 | 86.39 | 88.05 | 115.12 | 134.76 | 114.97 | 114.10 |
| Culture | 87.36 | 95.35 | 99.63 | 98.19 | 101.09 | 95.77 | 86.51 | 81.13 | 100.33 | 101.26 | 102.90 | 103.95 |
| Arts | 85.36 | 91.49 | 90.64 | 94.90 | 94.19 | 95.22 | 90.52 | 94.12 | 93.64 | 101.36 | 99.27 | 110.32 |
| Science | 113.15 | 128.16 | 134.34 | 132.11 | 132.97 | 143.09 | 146.65 | 141.64 | 147.45 | 155.09 | 157.02 | 180.42 |
| Finance | 254.02 | 245.92 | 246.12 | 261.85 | 254.31 | 259.16 | 294.18 | 312.48 | 299.07 | 294.45 | 282.73 | 324.08 |
| Public administration | 128.93 | 142.74 | 153.81 | 148.81 | 154.66 | 165.59 | 172.59 | 176.32 | 171.54 | 165.99 | 169.37 | 224.50 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Data is in hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.

Table 26 (Cont'd). Ukraine: Average Monthly Wage by Branch, 1996–98

(In hryvnia)

| | 1997 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| Total | 139.50 | 138.90 | 147.73 | 146.75 | 153.39 | 158.33 | 165.06 | 159.92 | 163.36 | 162.92 | 160.24 | 178.32 |
| Industry | 152.70 | 153.67 | 162.93 | 163.59 | 167.19 | 169.45 | 182.33 | 178.46 | 180.03 | 183.61 | 178.36 | 194.77 |
| Agriculture | 75.81 | 75.34 | 83.63 | 87.21 | 95.03 | 99.91 | 111.25 | 114.14 | 112.19 | 105.01 | 100.66 | 121.14 |
| Transportation | 153.08 | 142.84 | 151.81 | 153.35 | 163.30 | 164.19 | 176.38 | 175.15 | 174.61 | 177.05 | 170.40 | 199.34 |
| Communication | 182.54 | 192.60 | 203.40 | 196.85 | 207.11 | 197.05 | 204.57 | 209.12 | 204.47 | 201.34 | 217.23 | 224.01 |
| Construction | 130.09 | 130.05 | 145.33 | 141.46 | 152.11 | 169.47 | 178.09 | 182.07 | 189.43 | 183.28 | 176.54 | 207.88 |
| Trade | 100.79 | 100.77 | 108.18 | 107.67 | 111.59 | 116.41 | 123.68 | 121.54 | 124.58 | 122.05 | 120.43 | 130.54 |
| Public catering | 63.25 | 61.77 | 65.46 | 65.97 | 70.08 | 69.83 | 68.99 | 67.64 | 77.24 | 76.06 | 71.41 | 77.36 |
| Computing | 151.22 | 155.69 | 160.55 | 158.48 | 180.94 | 182.73 | 203.12 | 191.01 | 194.64 | 184.55 | 183.69 | 220.77 |
| Housing | 125.85 | 129.64 | 137.10 | 126.52 | 129.10 | 132.21 | 139.80 | 136.18 | 133.35 | 138.30 | 136.19 | 154.89 |
| Communal services | 171.28 | 174.18 | 189.59 | 176.80 | 185.52 | 181.10 | 186.35 | 183.21 | 189.89 | 183.00 | 185.54 | 218.62 |
| Consumer services | 84.85 | 83.91 | 94.41 | 94.36 | 94.83 | 92.24 | 103.66 | 103.86 | 102.79 | 98.88 | 94.87 | 103.06 |
| Education | 118.43 | 119.82 | 125.67 | 123.58 | 129.17 | 140.09 | 130.69 | 110.62 | 129.34 | 127.23 | 127.17 | 135.83 |
| Health | 120.59 | 116.51 | 120.07 | 118.80 | 124.75 | 130.54 | 127.44 | 122.85 | 121.70 | 120.44 | 125.75 | 130.12 |
| Social security | 105.68 | 101.24 | 106.12 | 104.03 | 107.19 | 108.88 | 110.43 | 106.77 | 107.47 | 112.60 | 108.24 | 121.97 |
| Culture | 97.22 | 95.93 | 95.15 | 91.57 | 96.82 | 100.29 | 94.87 | 82.15 | 96.65 | 95.95 | 93.68 | 104.44 |
| Arts | 102.30 | 96.75 | 102.63 | 97.23 | 105.44 | 107.19 | 103.28 | 93.91 | 111.41 | 102.51 | 107.91 | 128.90 |
| Science | 158.88 | 142.38 | 154.98 | 156.28 | 163.52 | 179.05 | 179.22 | 171.48 | 198.61 | 184.45 | 189.24 | 231.24 |
| Finance | 268.01 | 263.03 | 282.76 | 296.61 | 283.37 | 292.61 | 325.19 | 338.71 | 303.79 | 315.17 | 303.85 | 360.46 |
| Public administration | 184.94 | 191.09 | 197.14 | 189.97 | 218.86 | 226.11 | 232.45 | 214.98 | 207.36 | 200.09 | 193.68 | 226.44 |

Sources: Ukrainian authorities; and Fund staff estimates.

Table 26 (Cont'd). Ukraine: Average Monthly Wage by Branch, 1996–98
(In hryvnia)

| | 1998 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| Total | 152.17 | 153.73 | 165.82 | 161.58 | 163.71 | 172.98 | 173.33 | 166.43 | 169.98 | 171.01 | 170.54 | 188.30 |
| Industry | 168.57 | 172.52 | 186.07 | 179.49 | 179.08 | 186.77 | 191.78 | 186.08 | 188.21 | 191.38 | 189.64 | 208.04 |
| Agriculture | 87.61 | 88.78 | 95.65 | 101.34 | 104.71 | 114.15 | 119.61 | 117.98 | 118.13 | 112.33 | 107.93 | 118.61 |
| Transportation | 181.83 | 172.91 | 185.80 | 185.12 | 189.82 | 195.74 | 204.54 | 200.19 | 198.81 | 204.80 | 200.73 | 217.49 |
| Communication | 207.03 | 205.59 | 216.99 | 209.56 | 209.72 | 225.07 | 215.12 | 216.55 | 224.78 | 227.69 | 244.29 | 264.58 |
| Construction | 144.30 | 152.58 | 169.79 | 169.46 | 174.17 | 192.81 | 195.33 | 193.01 | 194.94 | 186.15 | 184.80 | 207.93 |
| Trade | 118.48 | 118.95 | 128.35 | 126.47 | 127.20 | 130.81 | 133.59 | 132.16 | 139.92 | 141.99 | 138.40 | 150.34 |
| Public catering | 65.87 | 68.08 | 74.48 | 77.42 | 78.98 | 78.30 | 72.97 | 72.81 | 84.15 | 83.81 | 80.88 | 91.50 |
| Computing | 178.04 | 186.47 | 203.10 | 200.47 | 215.75 | 215.10 | 227.17 | 209.02 | 223.39 | 216.58 | 212.27 | 246.94 |
| Housing | 125.66 | 132.43 | 145.33 | 135.26 | 135.43 | 139.03 | 141.37 | 139.45 | 141.16 | 142.00 | 147.97 | 160.89 |
| Communal services | 184.19 | 188.02 | 202.99 | 192.32 | 193.55 | 198.55 | 198.54 | 196.69 | 202.41 | 200.04 | 209.00 | 243.11 |
| Consumer services | 95.49 | 95.61 | 103.34 | 108.22 | 103.87 | 106.57 | 109.81 | 110.16 | 105.21 | 107.39 | 104.42 | 114.41 |
| Education | 121.32 | 124.32 | 131.61 | 128.81 | 133.62 | 142.10 | 132.95 | 112.44 | 129.58 | 130.15 | 130.09 | 135.92 |
| Health | 122.73 | 120.72 | 125.75 | 123.74 | 128.57 | 136.37 | 128.48 | 124.96 | 122.33 | 120.42 | 123.33 | 131.78 |
| Social security | 102.79 | 100.50 | 106.74 | 105.54 | 108.43 | 111.25 | 109.95 | 105.57 | 107.68 | 107.06 | 104.56 | 119.50 |
| Culture | 95.49 | 95.95 | 101.21 | 97.98 | 100.72 | 104.95 | 93.46 | 84.25 | 96.03 | 97.23 | 98.33 | 105.85 |
| Arts | 111.43 | 112.47 | 121.26 | 117.06 | 117.54 | 118.85 | 114.24 | 104.22 | 111.69 | 123.71 | 126.45 | 134.60 |
| Science | 167.73 | 168.81 | 181.49 | 183.77 | 180.93 | 192.45 | 190.17 | 176.89 | 179.23 | 186.04 | 183.92 | 220.58 |
| Finance | 333.82 | 286.54 | 334.81 | 316.83 | 312.25 | 335.09 | 349.57 | 348.40 | 329.27 | 337.66 | 325.79 | 385.55 |
| Public administration | 170.42 | 176.54 | 201.05 | 193.68 | 202.78 | 226.83 | 220.44 | 203.11 | 205.08 | 202.79 | 206.74 | 250.92 |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 27. Ukraine: Retail Trade and Catering Enterprises, 1995–97

| | Retail trade as of: | | | Catering as of: | | |
|---|---|---|---|---|---|---|
| | Dec. 31, 1995 | Dec. 31, 1996 | Dec. 31, 1997 | Dec. 31, 1995 | Dec. 31, 1996 | Dec. 31, 1997 |
| Collective property | 94,822 | 101,710 | 99,454 | 22,939 | 25,165 | 26,615 |
| Of which: | | | | | | |
| Cooperative | 198 | 275 | 219 | 53 | 56 | 69 |
| Leased enterprises | 7,062 | 2,902 | 2,100 | 2,687 | 1,180 | 802 |
| State property | 28,236 | 20,295 | 16,616 | 16,074 | 10,934 | 9,395 |
| Central government property | 15,579 | 11,990 | 9,144 | 9,045 | 6,728 | 5,703 |
| Communal property | 12,657 | 8,305 | 7,472 | 7,029 | 4,206 | 3,692 |
| Private property | 10,599 | 9,956 | 11,410 | 1,266 | 1,685 | 2,287 |
| Foreign- owned property | 4 | 12 | 19 | 2 | 4 | 5 |
| Total | 133,661 | 131,973 | 127,499 | 40,281 | 37,788 | 38,302 |

Sources: Ukrainian authorities; and Fund staff estimates.

Table 28. Ukraine: Incidence of Monopolies in Major Industrial Branches, January 1996–98

| | January 1, 1996 | | | January 1, 1997 | | | January 1, 1998 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Enterprises 1/ | Number of Monopolists | Percent of Monopolists in the Branch | Number of Enterprises 1/ 2/ | Number of Monopolists | Percent of Monopolists in the Branch | Number of Enterprises 1/ | Number of Monopolists | Percent of Monopolists in the branch |
| Machine-building and military-industrial complex | 2,006 | 215 | 10.7 | 1,312 | 176 | 13.4 | 1,312 | 199 | 15.1 |
| Heavy industry 3/ | 182 | 43 | 23.6 | 149 | 41 | 27.5 | 149 | 36 | 24.2 |
| Light and textile industry 4/ | 754 | 36 | 4.8 | 776 | 22 | 2.8 | 868 | 15 | 1.7 |
| Food processing 4/ | 2,519 | 12 | 0.5 | 2,558 | 9 | 0.3 | 2,779 | 4 | 0.1 |
| Energy | 84 | 29 | 34.5 | 70 | 29 | 41.4 | 125 | 29 | 23.2 |
| Chemicals and pharmaceuticals 4/ | 36 | 13 | 36.1 | 38 | 6 | 15.8 | 41 | 4 | 9.8 |
| Building materials | 1,007 | 15 | 1.5 | 988 | 15 | 1.5 | 988 | 18 | 1.8 |
| Construction 5/ | 3,088 | ... | ... | 3,198 | ... | ... | 3,198 | 2 | 0.6 |
| Cement | 16 | ... | ... | 16 | ... | ... | 16 | 1 | 6.3 |
| Transportation 4/ | 8,317 | 3 | 0.0 | 2,299 | 3 | 0.1 | 1,734 | 3 | 0.2 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Data from branch ministries.
2/ Data for 1997 construction as of October 1, 1996.
3/ Covers regional markets.
4/ Data from State Committee on Statistics, December 1, 1996 data for 1997 information.
5/ Data from Ministry of Transportation; covers only state enterprises.

Table 29. Ukraine: Ownership Structure in Agriculture, 1996–98

| | Number of farms/plots | Area | | | Annual average number of workers | |
|---|---|---|---|---|---|---|
| | | Hectares per farm/plot | Thousands of hectares | Shares (in percent) | Thousands | Shares (in percent) |
| January 1, 1996 | | | | | | |
| Collective farms (kolkhozes) | 10,356 | 2,631 | 27,246 | 66.8 | 2,945 | 53.6 |
| State farms (sovkhozes) | 5,253 | 1,355 | 7,116 | 17.5 | 713 | 13.0 |
| Interfarm enterprises | 37,113 | 22 | 822 | 2.0 | 60 | 1.1 |
| Private | 11,249,196 | 0 | 5,589 | 13.7 | 1,774 | 32.3 |
| Total | ... | ... | 40,773 | 100.0 | 5,492 | 100.0 |
| January 1, 1997 | | | | | | |
| Collective farms (kolkhozes) | 11,299 | 2,631 | 29,726 | 73.0 | 2,938 | 55.8 |
| State farms (sovkhozes) | 4,440 | 987 | 4,384 | 10.8 | 397 | 7.6 |
| Interfarm enterprises | 38,988 | 23 | 906 | 2.2 | 61 | 1.2 |
| Private | 11,433,123 | 0 | 5,694 | 14.0 | 1,864 | 35.4 |
| Total | ... | ... | 40,710 | 100.0 | 5,258 | 100.0 |
| January 1, 1998 | | | | | | |
| Collective farms (kolkhozes) | 12,019 | 2,590 | 31,126 | 76.6 | 2,765 | 54.2 |
| State farms (sovkhozes) | 3,965 | 681 | 2,701 | 6.6 | 255 | 5.0 |
| Interfarm enterprises | 39,880 | 26 | 1,037 | 2.6 | 59 | 1.2 |
| Private | 11,547,374 | 0 | 5,789 | 14.2 | 2,025 | 39.6 |
| Total | ... | ... | 40,653 | 100.0 | 5,104 | 100.0 |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 30. Ukraine: Production of Major Energy Products, 1996–98

| | 1996 | 1997 | 1998 Jan-Mar | 1998 Jan-Jun | 1998 Jan-Sep | 1998 Jan-Dec | In percent of domestic consumption 1996 | In percent of domestic consumption 1997 | In percent of domestic consumption 1998 |
|---|---|---|---|---|---|---|---|---|---|
| Crude petroleum (in millions of tons including gas condensate) | 4.1 | 4.1 | 1.0 | 2.0 | 2.9 | 3.9 | 30.8 | 33.6 | ... |
| Natural gas (in billions of cubic meters) | 18.4 | 18.1 | 4.6 | 8.9 | 13.4 | 17.9 | 21.4 | 22.3 | ... |
| Coal (in million of tons) | 54.3 | 58.5 | 16.4 | 29.9 | 44.0 | 59.4 | 84.6 | 89.3 | ... |
| Electricity (in billions of kilowatts) | 181.3 | 176.7 | 50.2 | 88.0 | 124.6 | 172.0 | 101.9 | 100.6 | ... |
| | | | (In percent change from the same period of the previous year) | | | | | | |
| Crude petroleum | -0.1 | 0.8 | -4.4 | -5.7 | -5.8 | -5.5 | -23.6 | -8.3 | ... |
| Natural gas | 1.1 | -1.6 | 2.3 | -0.1 | -0.8 | -1.1 | 0.8 | -5.6 | ... |
| Coal | -35.2 | 7.8 | 8.8 | 2.3 | 2.3 | 1.5 | -20.3 | -1.1 | ... |
| Electricity | -6.6 | -2.5 | -2.4 | -4.0 | -3.2 | -2.7 | -5.3 | -1.5 | ... |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 31. Ukraine: Energy Prices, 1996–98 (Q3)

| | 1996 | | | | 1997 | | | | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| | (In hryvnia) | | | | | | | | | | |
| Coal (in hryvnia per ton) | | | | | | | | | | | |
| Producer price | 49.8 | 51.5 | ... | ... | 70.1 | 69.8 | 72.5 | 70.8 | 70.5 | 73.0 | ... |
| Consumer price | | | | | | | | | | | |
| Industry | 58.6 | 65.4 | 60.2 | 69.5 | 70.1 | 69.8 | ... | ... | ... | ... | ... |
| Households 1/ | 56.0 | 56.0 | 101.0 | 101.0 | 130.0 | 130.0 | ... | ... | ... | ... | ... |
| Natural gas (in hryvnia per thousand $m^3$) 2/ | 93.3 | 92.2 | 88.4 | 92.0 | 111.4 | 110.9 | 92.9 | 94.1 | 100.0 | 103.6 | 119.1 |
| Average import price 3/ | 149.3 | 147.6 | 141.4 | 147.1 | 143.6 | 147.9 | 148.6 | 150.5 | 158.3 | 164.0 | 188.6 |
| Consumer price | | | | | | | | | | | |
| Industry | 155.0 | 153.1 | 146.7 | 152.7 | 154.1 | 153.5 | 154.2 | 156.2 | 186.1 | 192.8 | 221.7 |
| Households 1/ | 113.0 | 113.0 | 123.3 | 126.7 | 126.7 | 126.7 | 126.7 | 126.7 | 126.7 | 126.7 | 148.5 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Retail prices.
2/ Producer prices.
3/ Includes gas tax.

Table 32. Ukraine: General Government Operations, 1995–98 (first half) 1/
(In percent of GDP)

| | 1995 | 1996 | 1997 | 1st half 1997 | 1st half 1998 |
|---|---|---|---|---|---|
| A. State budget balance, including directed credits | -4.9 | -3.2 | -5.6 | -5.2 | -4.9 |
| State budget balance | -4.8 | -3.2 | -5.6 | -5.2 | -4.9 |
| Total budget revenue 2/ | 37.8 | 36.7 | 38.0 | 37.2 | 36.0 |
| Tax revenue | 32.6 | 32.2 | 31.8 | 31.2 | 29.1 |
| Taxes on income and profit | 11.8 | 10.0 | 9.6 | 8.6 | 9.0 |
| Taxes on sales of goods and services | 9.8 | 9.2 | 10.1 | 10.4 | 9.0 |
| Pension Fund revenues 3/ | 7.7 | 8.6 | 9.1 | 9.7 | 9.0 |
| Other tax revenue | 3.3 | 4.3 | 3.0 | 2.5 | 2.1 |
| Nontax revenue | 5.2 | 5.0 | 6.2 | 5.1 | 6.9 |
| Total budget expenditure | 42.5 | 39.9 | 43.6 | 42.5 | 40.9 |
| Consumer subsidies | 4.2 | 2.8 | 1.9 | 2.4 | 3.1 |
| Producer subsidies | 3.6 | 3.1 | 5.0 | 2.4 | 2.3 |
| Socio-cultural | 11.0 | 9.6 | 10.4 | 9.9 | 8.3 |
| Defense | 1.9 | 1.5 | 1.6 | 1.7 | 1.3 |
| Chernobyl | 1.7 | 1.9 | 1.9 | 1.8 | 1.6 |
| Pension Fund outlays 3/ | 7.6 | 8.6 | 9.0 | 9.7 | 9.3 |
| Other 4/ | 12.4 | 12.5 | 13.9 | 14.7 | 15.0 |
| Directed credits | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| B. Balance of extrabudgetary funds 5/ | 0.0 | 0.0 | ... | ... | ... |
| Total revenue | 1.3 | ... | ... | ... | ... |
| Total expenditure | 1.3 | ... | ... | ... | ... |
| C. General government balance (A+B) | -4.9 | -3.2 | -5.6 | -5.2 | -4.9 |
| Total revenue | 39.1 | 37.2 | 38.0 | 36.2 | 36.0 |
| Total expenditure | 43.9 | 40.4 | 43.6 | 42.5 | 40.9 |
| D. Financing | 4.9 | 3.2 | 5.6 | 5.2 | 4.9 |
| External | -0.9 | -0.1 | 0.3 | -0.6 | 3.3 |
| Domestic | 5.6 | 3.1 | 5.2 | 5.7 | 0.9 |
| Central bank | ... | 2.0 | 1.2 | 0.4 | 3.8 |
| Commercial banks | ... | 0.2 | 1.3 | 1.8 | -0.2 |
| Nonbank | 0.1 | 0.9 | 2.3 | 3.4 | -3.2 |
| Privatization receipts | 0.1 | 0.2 | 0.1 | 0.2 | 0.6 |
| Memorandum item: | | | | | |
| GDP (in millions of hryvnia) | 54,516 | 81,519 | 93,365 | 40,245 | 44,721 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ All data are on a cash basis. Figures before 1996 were converted in hryvnia by dividing figures in karbovanets by 100,000.
2/ The classification of revenue is different than the new classification in Table 37.
3/ The Pension Fund was incorporated in the budget in 1994 and in 1996.
4/ Includes balances of extrabudgetary funds and statistical discrepancy with financing.
5/ There are still several extra budgetary funds, including the Social Insurance Fund. Data for these funds are not available.

Table 33. Ukraine: Consolidated Budget, 1995–98

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| | | (In millions of hryvnia) | | |
| Revenue and grants | 20,618 | 29,943 | 35,476 | 36,892 |
| Tax revenue | 18,956 | 28,266 | 33,237 | 35,236 |
| Taxes on income, profit | 7,275 | 10,276 | 10,190 | 9,696 |
| Taxes on payroll | 5,186 | 8,743 | 10,369 | 10,803 |
| o/w: Pension Fund | 4,160 | 6,988 | 8,455 | 8,930 |
| Property taxes | 670 | 802 | 1,002 | 1,105 |
| Domestic taxes on goods and services | 5,036 | 7,437 | 10,162 | 11,605 |
| Taxes on international trade and transactions | 429 | 444 | 704 | 972 |
| Other taxes 1/ | 359 | 563 | 811 | 1,054 |
| Nontax revenue 2/ | 1,648 | 1,677 | 2,239 | 1,656 |
| Grants | 14 | 0 | 0 | 0 |
| Expenditure 3/ | 23,280 | 32,551 | 40,665 | 39,714 |
| General public services | ... | ... | ... | 1,875 |
| Defense | 1,033 | 1,262 | 1,485 | 1,338 |
| Public order and safety affairs | ... | ... | ... | 1,599 |
| Education affairs and services | 2,932 | 3,961 | 4,959 | 4,483 |
| Health affairs and services | 2,536 | 3,126 | 3,912 | 3,620 |
| Social security and welfare affairs and services | ... | ... | 13,840 | 14,411 |
| o/w: Pension Fund | 4,119 | 7,025 | 8,394 | 8,801 |
| Housing and community services | ... | ... | ... | 1,582 |
| Recreational, cultural, religious affairs | ... | ... | ... | 521 |
| Energy, agriculture, manufacturing, transport | ... | ... | ... | 5,983 |
| Interest payments | 830 | 1,281 | 1,689 | 2,424 |
| Other | 11,830 | 15,895 | 14,780 | 1,878 |
| o/w: repayment of arrears 4/ | ... | ... | 1,086 | 320 |
| Overall cash balance | -2,662 | -2,608 | -5,189 | -2,822 |
| Financing | 2,662 | 2,608 | 5,189 | 2,822 |
| Net external | -478 | -92 | 235 | 1,867 |
| Privatization | 72 | 200 | 128 | 471 |
| Domestic | 3,068 | 2,500 | 4,826 | 484 |
| Central bank | ... | 1,607 | 1,086 | 4,418 |
| Commercial banks | ... | 186 | 1,171 | -489 |
| Nonbank | ... | 200 | 2,569 | -3,446 |
| | | (In percent of GDP) | | |
| Revenue | 37.8 | 36.7 | 38.0 | 35.2 |
| Expenditure | 42.7 | 39.9 | 43.6 | 37.9 |
| Overall cash balance | -4.9 | -3.2 | -5.6 | -2.7 |
| Commitment balance 5/ | -6.1 | -6.1 | -5.2 | -3.0 |
| Primary balance | -3.4 | -1.6 | -3.7 | -0.4 |
| Memorandum items: | | (In millions of hryvnia) | | |
| Net arrears accumulation 5/ | 641 | 2,339 | -367 | 285 |
| Commitment balance 5/ | -3,303 | -4,947 | -4,822 | -3,108 |
| GDP | 54,516 | 81,519 | 93,365 | 104,729 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Until 1997, the Energy Stabilization Fund is included under excises; in 1998, it is reclassified as other taxes.
2/ Includes capital revenue. For 1996, includes also unclassifiable items.
3/ Due to a new budget classification introduced for the 1998 budget, the 1998 column is not strictly comparable with the columns for 1996 and 1997.
4/ The stock of arrears on wages, pensions and social benefits (more than 30 days overdue) is estimated to amount to Hrv 2.6 billion at end-1997.
5/ Balance adjusted for net accumulation of measurable arrears on wages, pensions, and benefits (more than 30 days overdue).

Table 34. Ukraine: Selected Budgetary Arrears, 1995–98 1/

| | 1995 | 1996 | | | | 1997 | | | | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep |
| | (In millions of hryvnia, end of period) | | | | | | | | | | | |
| Total arrears 2/ | 641 | 1,288 | 2,456 | 2,705 | 2,981 | 3,619 | 3,721 | 2,929 | 2,614 | 2,706 | 3,371 | 2,726 |
| Wages | 384 | 591 | 919 | 1,305 | 1,231 | 1,764 | 1,733 | 1,356 | 1,278 | 1,237 | 1,289 | 912 |
| Social insurance 3/ | 155 | 275 | 364 | 387 | 399 | 383 | 341 | 313 | 368 | 414 | 401 | 319 |
| Stipends | 0 | 0 | 0 | 85 | 96 | 92 | 89 | 84 | 100 | 93 | 81 | 70 |
| Pensions 4/ | 102 | 421 | 1,173 | 928 | 1,255 | 1,380 | 1,559 | 1,176 | 869 | 962 | 1,216 | 1,424 |
| of which: budgetary and Chernobyl Fund pensions | 43 | 22 | 43 | 63 | 484 | 501 | 641 | 518 | 644 | 650 | 574 | 818 |
| | (In percent of annual GDP) | | | | | | | | | | | |
| Total arrears 2/ | 1.2 | 1.6 | 3.0 | 3.3 | 3.7 | 3.9 | 4.0 | 3.1 | 2.8 | 2.6 | 3.2 | 2.6 |
| Wages | 0.7 | 0.7 | 1.1 | 1.6 | 1.5 | 1.9 | 1.9 | 1.5 | 1.4 | 1.2 | 1.2 | 0.9 |
| Social insurance 3/ | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 |
| Stipends | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Pensions 4/ | 0.2 | 0.5 | 1.4 | 1.1 | 1.5 | 1.5 | 1.7 | 1.3 | 0.9 | 0.9 | 1.2 | 1.4 |
| of which: budgetary and Chernobyl Fund pensions | 0.1 | 0.0 | 0.1 | 0.1 | 0.6 | 0.5 | 0.7 | 0.6 | 0.7 | 0.6 | 0.5 | 0.8 |
| Memorandum item: | | | | | | | | | | | | |
| Nominal annual GDP | 54,516 | 81,519 | 81,519 | 81,519 | 81,519 | 93,365 | 93,365 | 93,365 | 93,365 | 104,729 | 104,729 | 104,729 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Overdue payments are considered arrears after 30 days.
2/ Consolidated budget wage arrears (including military), pension arrears, and consolidated budget social benefit arrears.
3/ Includes Chernobyl Fund arrears (pensions excluded) and other social benefits.
4/ Includes arrears of the Pension Fund, Chernobyl Fund, and budgetary pension arrears to the military and security services.

Table 35. Ukraine: Consolidated Budget Revenues, 1995–98
(In millions of hryvnia)

| | 1995 | 1996 | 1997 | 1998 Preliminary |
|---|---|---|---|---|
| Total revenues and grants | 20,618 | 29,943 | 35,476 | 36,892 |
| Tax revenue | 18,956 | 28,266 | 33,237 | 35,236 |
| Taxes on income, profit | 7,275 | 10,276 | 10,190 | 9,696 |
| Enterprise profit tax | 4,834 | 5,451 | 5,689 | 5,620 |
| Personal income tax | 1,601 | 2,639 | 3,293 | 220 |
| Royalties | 494 | 2,121 | 1,194 | 3,561 |
| Mineral resources | 0 | 38 | 62 | 43 |
| Oil and gas 1/ | 385 | 1,873 | 932 | 62 |
| Forestry | 6 | 18 | 32 | 39 |
| Geological prospecting | 102 | 192 | 168 | 144 |
| Other | 346 | 65 | 13 | 7 |
| Price differential 1/ | 333 | ... | ... | ... |
| Consumption Fund excess | 14 | 65 | 13 | 7 |
| Taxes on payroll | 5,186 | 8,743 | 10,369 | 10,803 |
| Chernobyl Fund | 1,026 | 1,488 | 1,698 | 1,416 |
| Employment Fund | 0 | 268 | 215 | 457 |
| Pension Fund | 4,160 | 6,988 | 8,455 | 8,930 |
| Property taxes | 670 | 802 | 1,002 | 1,105 |
| Property tax | 0 | 0 | 0 | 0 |
| Land tax | 635 | 802 | 1,002 | 1,105 |
| Domestic taxes on goods and services | 5,036 | 7,437 | 10,162 | 11,605 |
| VAT | 4,517 | 6,293 | 7,602 | 7,238 |
| Funds based on sales tax on certain products | 42 | 292 | 1,048 | 1,968 |
| Road Fund | 0 | 0 | 779 | 1,285 |
| Industrial Development Fund | 0 | 2 | 3 | ... |
| Innovation Fund | 42 | 290 | 266 | 683 |
| Excises 2/ | 401 | 652 | 1,158 | 1,249 |
| Other | 76 | 200 | 354 | 1,150 |
| Taxes on special services | 22 | 69 | 179 | 458 |
| Water usage fee | 22 | 69 | 179 | 136 |
| Gas transit fee 1/ | ... | ... | ... | 322 |
| Taxes on use of goods or on permission to use goods or to perform activities | 54 | 131 | 175 | 692 |
| Motor vehicle tax | 54 | 131 | 175 | 193 |
| Licenses | ... | ... | ... | 499 |
| Taxes on international trade and transactions | 429 | 444 | 704 | 972 |
| Import duties | 429 | 444 | 704 | 972 |
| Other taxes 2/ | 359 | 563 | 811 | 1,054 |
| Stamp tax | 85 | 176 | 275 | 286 |
| Local | 125 | 285 | 357 | 391 |
| Energy Stabilization Fund | 149 | 102 | 178 | 378 |
| Nontax revenue | 1,648 | 1,677 | 2,239 | 1,656 |
| of which: | | | | |
| NBU profits | 0 | 21 | 93 | 375 |
| State Reserve Fund | 189 | 264 | 281 | 39 |
| Environment Pollution Fund | 0 | 0 | 4 | 44 |
| Invalids' Fund | 33 | 0 | 58 | 51 |
| Other nontax revenue | 1,425 | 1,392 | 1,803 | 1,147 |
| Official transfer from UN | ... | ... | ... | 4 |
| Capital revenue | ... | ... | ... | 50 |
| Grants | 14 | 0 | 0 | 0 |
| Memorandum items: | | | | |
| Earmarked | ... | ... | 11,839 | 14,337 |
| GDP | 54,516 | 81,519 | 93,365 | 104,729 |

Table 35 (Cont'd). Ukraine: Consolidated Budget Revenues, 1995–98
(In percent of GDP)

| | 1995 | 1996 | 1997 | 1998 Preliminary |
|---|---|---|---|---|
| Total revenues and grants | 37.8 | 36.7 | 38.0 | 35.2 |
| Tax revenue | 34.8 | 34.7 | 35.6 | 33.6 |
| Taxes on income, profit | 13.3 | 12.6 | 10.9 | 9.3 |
| Enterprise profit tax | 8.9 | 6.7 | 6.1 | 5.4 |
| Personal income tax | 2.9 | 3.2 | 3.5 | 0.2 |
| Royalties | 0.9 | 2.6 | 1.3 | 3.4 |
| Mineral resources | 0.0 | 0.0 | 0.1 | 0.0 |
| Oil and gas 1/ | 0.7 | 2.3 | 1.0 | 0.1 |
| Forestry | 0.0 | 0.0 | 0.0 | 0.0 |
| Geological prospecting | 0.2 | 0.2 | 0.2 | 0.1 |
| Other | 0.6 | 0.1 | 0.0 | 0.0 |
| Price differential 1/ | 0.6 | ... | ... | ... |
| Consumption Fund excess | 0.0 | 0.1 | 0.0 | 0.0 |
| Taxes on payroll | 9.5 | 10.7 | 11.1 | 10.3 |
| Chernobyl Fund | 1.9 | 1.8 | 1.8 | 1.4 |
| Employment Fund | 0.0 | 0.3 | 0.2 | 0.4 |
| Pension Fund | 7.6 | 8.6 | 9.1 | 8.5 |
| Property taxes | 1.2 | 1.0 | 1.1 | 1.1 |
| Property tax | 0.0 | 0.0 | 0.0 | 0.0 |
| Land tax | 1.2 | 1.0 | 1.1 | 1.1 |
| Domestic taxes on goods and services | 9.2 | 9.1 | 10.9 | 11.1 |
| VAT | 8.3 | 7.7 | 8.1 | 6.9 |
| Funds based on sales tax on certain products | 0.1 | 0.4 | 1.1 | 1.9 |
| Road Fund | 0.0 | 0.0 | 0.8 | 1.2 |
| Industrial Development Fund | 0.0 | 0.0 | 0.0 | ... |
| Innovation Fund | 0.1 | 0.4 | 0.3 | 0.7 |
| Excises 2/ | 0.7 | 0.8 | 1.2 | 1.2 |
| Other | 0.1 | 0.2 | 0.4 | 1.1 |
| Taxes on special services | 0.0 | 0.1 | 0.2 | 0.4 |
| Water usage fee | 0.0 | 0.1 | 0.2 | 0.1 |
| Gas transit fee 1/ | ... | ... | ... | 0.3 |
| Taxes on use of goods or on permission to use goods or to perform activities | 0.1 | 0.2 | 0.2 | 0.7 |
| Motor vehicle tax | 0.1 | 0.2 | 0.2 | 0.2 |
| Licenses | ... | ... | ... | 0.5 |
| Taxes on international trade and transactions | 0.8 | 0.5 | 0.8 | 0.9 |
| Import duties | 0.8 | 0.5 | 0.8 | 0.9 |
| Other taxes 2/ | 0.7 | 0.7 | 0.9 | 1.0 |
| Stamp tax | 0.2 | 0.2 | 0.3 | 0.3 |
| Local | 0.2 | 0.3 | 0.4 | 0.4 |
| Energy Stabilization Fund | 0.3 | 0.1 | 0.2 | 0.4 |
| Nontax revenue | 3.0 | 2.1 | 2.4 | 1.6 |
| of which: | | | | |
| NBU profits | 0.0 | 0.0 | 0.1 | 0.4 |
| State Reserve Fund | 0.3 | 0.3 | 0.3 | 0.0 |
| Environment Pollution Fund | 0.0 | 0.0 | 0.0 | 0.0 |
| Invalids' Fund | 0.1 | 0.0 | 0.1 | 0.0 |
| Other nontax revenue | 2.6 | 1.7 | 1.9 | ... |
| Official transfer from UN | ... | ... | ... | 0.0 |
| Capital revenue | ... | ... | ... | 0.0 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum item: | | | | |
| Earmarked | ... | ... | 12.7 | 13.7 |

Source: Ukrainian Ministry of Finance.

1/ For 1996 and 1997, the price differential and the gas transit fee are classified as royalties from oil and gas.
2/ Until 1997, the Energy Stabilization Fund is included under excises; from 1998 onward, it is reclassified as other taxes.

Table 36. Ukraine: Tax Arrears, 1995–98

| | 1995 | 1996 | 1997 | 1998 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Mar | Jun | Sep | Dec | Year |
| | | | | (In millions of hryvnia) | | | | |
| End-period stock | 1,135 | 2,946 | 4,972 | 6,499 | 9,001 | 11,687 | 13,876 | 13,876 |
| State Tax Administration | 545 | 1,365 | 2,342 | 3,669 | 5,882 | 8,312 | 10,302 | 10,302 |
| VAT | 222 | 575 | 920 | 1,490 | 2,306 | 2,918 | 4,070 | 4,070 |
| Excises | 22 | 35 | 63 | 224 | 280 | 460 | 509 | 509 |
| Enterprise profit tax | 164 | 318 | 335 | 561 | 1,249 | 1,362 | 1,508 | 1,508 |
| Personal income tax | 1 | 3 | 7 | 13 | 30 | 35 | 35 | 35 |
| Land | 82 | 166 | 220 | 265 | 358 | 398 | 419 | 419 |
| Other | 55 | 268 | 797 | 1,117 | 1,660 | 3,140 | 3,761 | 3,761 |
| Pension Fund | 590 | 1,581 | 2,630 | 2,830 | 3,118 | 3,375 | 3,574 | 3,574 |
| Period Flow | ... | 1,811 | 2,027 | 1,527 | 2,501 | 2,686 | 2,189 | 8,903 |
| State Tax Administration | ... | 820 | 977 | 1,327 | 2,213 | 2,430 | 1,989 | 7,960 |
| VAT | ... | 353 | 345 | 570 | 816 | 612 | 1,152 | 3,150 |
| Excises | ... | 13 | 28 | 161 | 56 | 180 | 49 | 446 |
| Enterprise profit tax | ... | 154 | 17 | 226 | 688 | 113 | 146 | 1,173 |
| Personal income tax | ... | 2 | 5 | 5 | 17 | 5 | 0 | 28 |
| Land | ... | 85 | 54 | 45 | 93 | 40 | 21 | 199 |
| Other | ... | 213 | 529 | 320 | 543 | 1,480 | 621 | 2,964 |
| Pension Fund | ... | 991 | 1,049 | 200 | 288 | 256 | 199 | 943 |
| | | | | (In percent of GDP) | | | | |
| Stock 1/ | 2.1 | 3.6 | 5.3 | 6.2 | 8.6 | 11.2 | 13.2 | 13.2 |
| State Tax Administration | 1.0 | 1.7 | 2.5 | 3.5 | 5.6 | 7.9 | 9.8 | 9.8 |
| Pension Fund | 1.1 | 1.9 | 2.8 | 2.7 | 3.0 | 3.2 | 3.4 | 3.4 |
| Period Flow | ... | 2.2 | 2.2 | 7.3 | 10.5 | 9.4 | 7.0 | 8.5 |
| State Tax Administration | ... | 1.0 | 1.0 | 6.4 | 9.3 | 8.5 | 6.4 | 7.6 |
| Pension Fund | ... | 1.2 | 1.1 | 1.0 | 1.2 | 0.9 | 0.6 | 0.9 |
| Memorandum item: | | | | | | | | |
| Nominal GDP | 54,516 | 81,519 | 93,365 | 20,803 | 23,918 | 28,728 | 31,280 | 104,729 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Stocks are calculated in percent of annual GDP.

## Table 37. Ukraine: Consolidated Budget Expenditures 1995–98 1/
(In millions of hryvnia)

| - | 1995 | 1996 | 1997 |
|---|---|---|---|
| Expenditures | 23,280 | 32,551 | 40,665 |
| General public services | ... | ... | ... |
| Executive and legislative organs | ... | ... | ... |
| Fundamental research | ... | ... | ... |
| Defense | 1,033 | 1,262 | 1,485 |
| Public order and safety | ... | ... | ... |
| Police and fire protection | ... | ... | ... |
| Law courts | ... | ... | ... |
| Prison administration and operation | ... | ... | ... |
| Other | ... | ... | ... |
| Education | 2,932 | 3,961 | 4,959 |
| Health | 2,536 | 3,126 | 3,912 |
| Social security and welfare | ... | ... | 13,840 |
| Social security affairs and services | ... | ... | ... |
| o/w: Consumer subsidies for gas | 0 | 0 | 512 |
| Consumer subsidies for coal | 0 | 142 | 93 |
| Employment Fund | 0 | 89 | 193 |
| Pension Fund | 4,119 | 7,025 | 8,394 |
| Chernobyl Fund | ... | ... | ... |
| Welfare affairs and services | ... | ... | ... |
| o/w: Chernobyl Fund | ... | ... | ... |
| Other | ... | ... | ... |
| Housing and community services | ... | ... | ... |
| Housing affairs and services | ... | ... | ... |
| o/w: Environment Fund | ... | ... | 4 |
| Chernobyl Fund | ... | ... | ... |
| Water supply | ... | ... | ... |
| Recreational, cultural, religious affairs | ... | ... | ... |
| Fuel and energy | ... | ... | ... |
| Fuel affairs | ... | ... | ... |
| o/w: Coal mines | 0 | 133 | 1,083 |
| Other | ... | ... | ... |
| Agriculture, forestry, fishing, and hunting | ... | ... | ... |
| Agricultural affairs and services | ... | ... | ... |
| Fishing and hunting | ... | ... | ... |
| Other | ... | ... | ... |
| Mining, manufacturing and construction | ... | ... | ... |
| Mining of mineral resources | ... | ... | ... |
| Manufacturing affairs and services | ... | ... | ... |
| Construction affairs and services | ... | ... | ... |
| o/w: Chernobyl Fund | ... | ... | ... |
| Other | ... | ... | ... |
| o/w: Innovation Fund | 0 | 135 | 236 |
| Transportation and communication | ... | ... | ... |
| Road transport | ... | ... | ... |
| o/w: Road Fund | 0 | 0 | 779 |
| Other transport | ... | ... | ... |
| Railways | ... | ... | ... |
| Other | ... | ... | ... |
| Interest payments | 830 | 1,281 | 1,689 |
| Domestic | 609 | 445 | 930 |
| Foreign | 221 | 836 | 759 |
| Expenditure not classified by other group | ... | ... | ... |
| o/w: State Reserve Fund | 0 | 1,485 | 1,386 |
| Net lending | ... | ... | ... |
| Memorandum items: | | | |
| Chernobyl Fund expenditure | 949 | 1,524 | 1,717 |
| GDP | 54,516 | 81,519 | 93,365 |

Table 37 (Cont'd). Ukraine: Consolidated Budget Expenditures, 1995–98 1/
(In percent of GDP)

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Expenditures | 42.7 | 39.9 | 43.6 |
| General public services | ... | ... | ... |
| Executive and legislative organs | ... | ... | ... |
| Fundamental research | ... | ... | ... |
| Defense | 1.9 | 1.5 | 1.6 |
| Public order and safety | ... | ... | ... |
| Police and fire protection | ... | ... | ... |
| Law courts | ... | ... | ... |
| Prison administration and operation | ... | ... | ... |
| Other | ... | ... | ... |
| Education | 5.4 | 4.9 | 5.3 |
| Health | 4.7 | 3.8 | 4.2 |
| Social security and welfare | ... | ... | 14.8 |
| Social security affairs and services | ... | ... | ... |
| o/w: Consumer subsidies for gas | 0.0 | 0.0 | 0.5 |
| Consumer subsidies for coal | 0.0 | 0.2 | 0.1 |
| Employment Fund | 0.0 | 0.1 | 0.2 |
| Pension Fund | 7.6 | 8.6 | 9.0 |
| Chernobyl Fund | ... | ... | ... |
| Welfare affairs and services | ... | ... | ... |
| o/w: Chernobyl Fund | ... | ... | ... |
| Other | ... | ... | ... |
| Housing and community services | ... | ... | ... |
| Housing affairs and services | ... | ... | ... |
| o/w: Environment Fund | ... | ... | 0.0 |
| Chernobyl Fund | ... | ... | ... |
| Water supply | ... | ... | ... |
| Recreational, cultural, religious affairs | ... | ... | ... |
| Fuel and energy | ... | ... | ... |
| Fuel affairs | ... | ... | ... |
| o/w: Coal mines | 0.0 | 0.2 | 1.2 |
| Other | ... | ... | ... |
| Agriculture, forestry, fishing, and hunting | ... | ... | ... |
| Agricultural affairs and services | ... | ... | ... |
| Fishing and hunting | ... | ... | ... |
| Other | ... | ... | ... |
| Mining, manufacturing and construction | ... | ... | ... |
| Mining of mineral resources | ... | ... | ... |
| Manufacturing affairs and services | ... | ... | ... |
| Construction affairs and services | ... | ... | ... |
| o/w: Chernobyl Fund | ... | ... | ... |
| Other | ... | ... | ... |
| o/w: Innovation Fund | 0.0 | 0.2 | 0.3 |
| Transportation and communication | ... | ... | ... |
| Road transport | ... | ... | ... |
| o/w: Road Fund | 0.0 | 0.0 | 0.8 |
| Other transport | ... | ... | ... |
| Railways | ... | ... | ... |
| Other | ... | ... | ... |
| Interest payments | 1.5 | 1.6 | 1.8 |
| Domestic | 1.1 | 0.5 | 1.0 |
| Foreign | 0.4 | 1.0 | 0.8 |
| Expenditure not classified by other group | ... | ... | ... |
| o/w: State Reserve Fund | 0.0 | 1.8 | 1.5 |
| Net lending | ... | ... | ... |

Source: Ukrainian Ministry of Finance.

1/ This presentation is based on the new budget classification; thus, entries from 1998 are not strictly compara

## Table 38. Ukraine: Consolidated Budget Expenditures by Policy Item, 1995–98 (first half)
(In percent of GDP)

| | 1995 | 1996 | 1997 | 1st half 1997 | 1st half 1998 |
|---|---|---|---|---|---|
| Total expenditures (including directed credits) | 42.7 | 40.4 | 44.0 | 42.5 | 42.3 |
| Support to national economy | 5.8 | 6.5 | 5.0 | 4.8 | 3.5 |
| Coal price differential | 0.5 | 0.2 | 1.2 | 1.6 | 1.6 |
| State reserve | 0.0 | 1.8 | 1.5 | 1.1 | 0.2 |
| Agricultural support (state purchases) | 1.4 | 0.4 | 0.1 | 0.0 | 0.0 |
| State lending for agricultural procurement | 0.3 | ... | ... | ... | ... |
| Budget loans and credits | 0.3 | 0.3 | 0.1 | 0.1 | 0.3 |
| Of which: investment (mainly agriculture) | 0.3 | 0.3 | ... | 0.0 | ... |
| Military conversion | 0.1 | 0.1 | ... | ... | 0.0 |
| Other 1/ | 3.3 | 3.1 | 2.2 | 1.9 | 1.3 |
| Social and cultural | 11.0 | 9.6 | 10.4 | 9.9 | 8.9 |
| Education | 5.4 | 4.9 | 5.4 | 5.2 | 4.4 |
| Health care | 4.7 | 3.9 | 4.2 | 4.0 | 3.7 |
| Cultural | 0.9 | 0.6 | 0.6 | 0.6 | 0.4 |
| Other | 0.2 | 0.1 | 0.2 | 0.2 | 0.3 |
| Social safety net | 6.4 | 5.1 | 6.0 | 5.3 | 5.6 |
| Consumer subsidies | 4.2 | 1.5 | 1.9 | 2.4 | 1.2 |
| Communal services | 1.8 | 1.2 | 1.1 | 0.8 | 0.7 |
| Natural gas | 1.7 | 0.0 | 0.6 | 0.0 | 0.0 |
| Transport | 0.3 | 0.2 | 0.1 | 0.1 | 0.4 |
| Solid fuels | 0.5 | 0.2 | 0.1 | 0.1 | 0.1 |
| Construction materials, housing | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| Social benefits | 2.2 | 3.5 | 4.1 | 2.9 | 4.4 |
| Pensions for armed forces, police | 0.9 | 0.9 | 1.5 | 1.7 | 1.1 |
| Additional support for WWII veterans | 0.0 | 0.3 | 0.3 | 0.3 | 0.7 |
| Credits for rural housing construction | 0.0 | 0.0 | 0.0 | 0.0 | ... |
| Children's allowances | 0.2 | 0.1 | 0.2 | 0.3 | 0.3 |
| Children's bread allowance | ... | ... | ... | ... | ... |
| Support for single mothers | 0.1 | 0.1 | 0.1 | 0.1 | ... |
| Support for disabled | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other | 1.0 | 2.1 | 2.0 | 0.5 | 2.1 |
| Pension Fund outlays 2/ | 7.6 | 8.7 | 9.1 | 9.7 | 9.6 |
| External economic activities | 0.2 | 0.2 | 0.2 | 0.1 | 0.3 |
| Foreign debt service (excluding principal) | 0.4 | 1.0 | 0.8 | 1.1 | 0.5 |
| State internal debt service (to the NBU) | 1.1 | 0.6 | 1.0 | 1.1 | 2.3 |

Table 38 (Cont'd.). Ukraine: Budget Expenditures by Policy Item, 1995–98 (first half) 1/
(In percent of GDP)

| | 1995 | 1996 | 1997 | 1st half 1997 | 1st half 1998 |
|---|---|---|---|---|---|
| Investment | 1.4 | 1.3 | 0.6 | 0.5 | 0.5 |
| Chernobyl Fund | 1.9 | 1.9 | 1.9 | 1.8 | 1.7 |
| Defense | 1.9 | 1.6 | 1.6 | 1.6 | 1.3 |
| Military housing | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Municipal housing and road repairs | 1.3 | 0.6 | 1.4 | 0.5 | 3.2 |
| Law enforcement | 1.8 | 1.1 | 1.3 | 2.4 | 1.7 |
| Legislative and executive branch | 0.8 | 1.7 | 1.9 | 1.0 | 1.4 |
| Other 3/ | 1.0 | 0.4 | 2.8 | 2.7 | 1.9 |
| GDP (in millions of hryvnia) | 54,516 | 81,519 | 93,365 | 40,245 | 44,721 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ "Other" expenditure on the national economy covers several small programs, including for irrigation and satellite launching, and the Energy Stabilization Fund.
2/ The pension fund was incorporated into the budget beginning in 1994.
3/ Includes environmental spending, unemployment insurance and discrepancy to financing.

Table 39. Ukraine: Consolidated Budget (Old Classification), 1995–98 (first half) 1/
(In millions of hryvnia)

| | 1995 | 1996 | 1997 | 1st half 1997 | 1st half 1998 |
|---|---|---|---|---|---|
| Total revenue | 20,618 | 29,943 | 35,476 | 14,785 | 16,116 |
| Tax revenue | 17,794 | 25,930 | 29,710 | 12,729 | 12,914 |
| Turnover tax/VAT | 4,530 | 6,293 | 7,602 | 3,427 | 3,072 |
| Excises | 406 | 652 | 1,158 | 512 | 502 |
| Enterprise tax | 4,861 | 5,451 | 5,689 | 2,048 | 2,420 |
| Personal income tax | 1,595 | 2,639 | 3,293 | 1,465 | 1,615 |
| Chernobyl Fund receipts | 1,026 | 1,488 | 1,698 | 735 | 757 |
| Pension Fund receipts 2/ | 4,189 | 6,988 | 8,455 | 3,955 | 4,015 |
| Foreign trade receipts | 429 | 444 | 704 | 302 | 435 |
| Other tax revenue | 758 | 1,975 | 1,110 | 285 | 98 |
| Nontax revenue | 2,824 | 4,013 | 5,766 | 2,070 | 3,202 |
| Total expenditure | 23,188 | 32,551 | 40,665 | 16,870 | 18,287 |
| Current expenditure | 21,805 | 31,456 | 40,129 | 16,454 | 18,087 |
| Social safety net | 3,500 | 4,066 | 5,504 | 2,163 | 2,406 |
| Communal services, subsidies, housing program | 687 | 1,426 | 3,743 | 969 | 523 |
| Other | 2,813 | 2,640 | 1,762 | 1,194 | 1,883 |
| National economy | 1,890 | 3,453 | 2,830 | 967 | 1,504 |
| Social and cultural spending | 6,021 | 7,718 | 9,633 | 4,056 | 3,830 |
| Education | 2,932 | 3,961 | 4,959 | 2,110 | 1,968 |
| Health care | 2,536 | 3,126 | 3,912 | 1,639 | 1,580 |
| Other | 553 | 631 | 762 | 307 | 283 |
| Interest payments | 830 | 1,281 | 1,689 | 763 | 1,225 |
| Administration and justice | 1,417 | 2,267 | 2,975 | 1,383 | 1,343 |
| Defense | 1,033 | 1,377 | 1,485 | 679 | 581 |
| Chernobyl Fund outlays | 949 | 1,524 | 1,717 | 715 | 736 |
| Pension Fund outlays | 4,119 | 7,025 | 8,394 | 3,968 | 4,151 |
| Other current expenditure 3/ | 2,046 | 2,745 | 5,903 | 1,760 | 2,311 |
| Capital expenditure | 1,383 | 1,058 | 536 | 218 | 201 |
| State budget balance | -2,570 | -2,608 | -5,189 | -2,085 | -2,171 |
| Directed credits | 92 | 0 | 0 | 0 | 0 |
| State budget balance including directed credits | -2,662 | -2,608 | -5,189 | -2,085 | -2,171 |
| Financing | 2,662 | 2,608 | 5,189 | 2,085 | 2,171 |
| External | -478 | -92 | 235 | -245 | 1,492 |
| Domestic | 3,140 | 2,700 | 4,955 | 2,330 | 679 |
| *of which:* | | | | | |
| Privatization receipts | 72 | 200 | 128 | 69 | 284 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ All data are on a cash basis. Figures before 1996 were converted into hryvnia by dividing figures in karbovanets by 100,000. The 1998 budget was presented using a new classification system which conforms more closely to GFS standards.

2/ The Pension Fund was incorporated in the budget in 1994 and in 1996.

3/ Includes balances of extrabudgetary funds and statistical discrepancy with financing.

Table 40. Ukraine: Central Government Budget, 1995-98

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| | | (In millions of hryvnia) | | |
| Revenue and grants | 11,514 | 19,633 | 24,145 | 24,622 |
| Tax revenue | 10,116 | 17,876 | 22,005 | 22,909 |
| Taxes on income, profit | 2,540 | 4,924 | 1,145 | 691 |
| Taxes on payroll | 5,186 | 8,743 | 10,369 | 10,803 |
| o/w: Pension Fund | 4,160 | 6,988 | 8,455 | 8,930 |
| Property taxes | 100 | 213 | 0 | 0 |
| Domestic taxes on goods and services | 1,873 | 3,478 | 9,658 | 9,887 |
| Taxes on international trade and transactions | 413 | 428 | 691 | 972 |
| Other taxes 1/ | 4 | 90 | 143 | 555 |
| Nontax revenue 2/ | 1,276 | 1,440 | 1,311 | 1,152 |
| Grants | 14 | 0 | 0 | 0 |
| Transfers from local budgets | 109 | 317 | 829 | 511 |
| Expenditure | 14,196 | 22,256 | 29,206 | 27,333 |
| Defense | 1,033 | 1,262 | 1,485 | 1,328 |
| Education affairs and services | 714 | 1,111 | 1,238 | 1,095 |
| Health affairs and services | 194 | 266 | 389 | 396 |
| Pension Fund | 4,119 | 7,025 | 8,394 | 8,801 |
| Interest payments | 830 | 1,281 | 1,689 | 2,424 |
| Other , of which: | 7,306 | 11,311 | 16,011 | 13,288 |
| Transfers to local budgets | 1,125 | 1,121 | 2,229 | 1,944 |
| Arrears repayment 3/ | ... | ... | 1,086 | 0 |
| Overall cash balance | -2,682 | -2,622 | -5,061 | -2,711 |
| Financing | 2,682 | 2,622 | 5,061 | 3,734 |
| Net external | -478 | -92 | 235 | 1,867 |
| Privatization | ... | ... | 0 | 360 |
| Domestic | ... | ... | 4,826 | 1,507 |
| | | (In percent of GDP) | | |
| Revenue | 21.1 | 24.1 | 25.9 | 23.5 |
| Expenditure | 26.0 | 27.3 | 31.3 | 26.1 |
| Overall cash balance | -4.9 | -3.2 | -5.4 | -2.6 |
| Memorandum items: | | (In millions of hryvnia) | | |
| GDP | 54,516 | 81,519 | 93,365 | 104,729 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Until 1997, the Energy Stabilization Fund was included under excises; in 1998, it is reclassified as other taxes.
2/ Includes capital revenue. For 1996, includes also unclassifiable items.
3/ Covers only arrears on wages, pensions and social benefits; thus, this entry does not reflect the overall commitment of the authorities.

Table 41. Ukraine: Local Government Budget, 1995–98

| | 1995 | 1996 | 1997 | 1998 Preliminary |
|---|---|---|---|---|
| | | (In millions of hryvnia) | | |
| Revenue and grants | 10,338 | 11,747 | 14,389 | 14,724 |
| Tax revenue | 8,841 | 10,390 | 11,232 | 12,327 |
| Taxes on income, profit | 4,735 | 5,352 | 9,045 | 9,005 |
| Taxes on payroll | 0 | 0 | 0 | 0 |
| o/w: Pension Fund | 0 | 0 | 0 | 0 |
| Property taxes | 570 | 589 | 1,002 | 1,105 |
| Domestic taxes on goods and services | 3,163 | 3,960 | 504 | 1,718 |
| Taxes on international trade and transactions | 17 | 17 | 13 | 0 |
| Other taxes | 355 | 473 | 668 | 499 |
| Nontax revenue 1/ | 372 | 236 | 986 | 454 |
| Grants | 0 | 0 | 0 | 0 |
| Transfers from state budget | 1,125 | 1,121 | 2,229 | 1,944 |
| Expenditure | 10,318 | 11,732 | 14,517 | 14,835 |
| Defense | 0 | 0 | 0 | 9 |
| Education affairs and services | 2,218 | 2,850 | 3,721 | 3,388 |
| Health affairs and services | 2,342 | 2,860 | 3,523 | 3,223 |
| Interest payments | 0 | 0 | 0 | 0 |
| Other | 5,757 | 6,022 | 7,274 | 7,704 |
| Transfers to state budget | 109 | 317 | 829 | 511 |
| Overall cash balance | 20 | -10 | -128 | -111 |
| Financing | -20 | 10 | 128 | 111 |
| Net external | 0 | 0 | 0 | 0 |
| Privatization | ... | ... | 128 | 111 |
| Domestic | ... | ... | 0 | 0 |
| | | (In percent of GDP) | | |
| Revenue | 19.0 | 14.4 | 15.4 | 14.1 |
| Expenditure | 18.9 | 14.4 | 15.5 | 14.2 |
| Overall cash balance | 0.0 | 0.0 | -0.1 | -0.1 |
| Memorandum items: | | (In millions of hryvnia) | | |
| GDP | 54,516 | 81,519 | 93,365 | 104,729 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Includes capital revenue. For 1996, also includes unclassifiable items.

Table 42. Ukraine: Interest Rates, 1996–98 1/

| | Statutory refinance rate 2/ | Average refinance rate 3/ | Average lending rate 4/ | Average deposit rate | Effective yield on Treasury bills 3-month 5/ | Effective yield on Treasury bills 12-month 5/ |
|---|---|---|---|---|---|---|
| 1996 | | | | | | |
| January | 105 | 105 | 110 | 57 | 110 | ... |
| February | 105 | 105 | 111 | 45 | 106 | 133 |
| March | 90 | 98 | 102 | 44 | 96 | 147 |
| April | 70 | 76 | 91 | 32 | 77 | 140 |
| May | 63 | 68 | 87 | 36 | 100 | 144 |
| June | 50 | 53 | 73 | 32 | 82 | 89 |
| July | 40 | 42 | 66 | 25 | 57 | 53 |
| August | 40 | 40 | 64 | 27 | 57 | 89 |
| September | 40 | 41 | 63 | 26 | 57 | 62 |
| October | 40 | 40 | 64 | 28 | 57 | 61 |
| November | 40 | 35 | 66 | 26 | 42 | 61 |
| December | 40 | 40 | 61 | 24 | 51 | 61 |
| 1997 | | | | | | |
| January | 35 | 38 | 64 | 24 | 30 | 45 |
| February | 35 | 35 | 63 | 23 | 27 | 38 |
| March | 25 | 27 | 53 | 21 | 24 | 38 |
| April | 25 | 25 | 52 | 19 | 24 | 39 |
| May | 21 | 24 | 54 | 19 | 21 | 32 |
| June | 21 | 21 | 50 | 18 | ... | 30 |
| July | 18 | 19 | 47 | 18 | ... | 28 |
| August | 16 | 16 | 42 | 14 | ... | 22 |
| September | 16 | 16 | 42 | 15 | ... | 22 |
| October | 16 | 16 | 38 | 16 | ... | 35 |
| November | 35 | 23 | 42 | 15 | 40 | 40 |
| December | 35 | 35 | 43 | 19 | 44 | 46 |
| 1998 | | | | | | |
| January | 35 | 35 | 44 | 19 | 51 | 46 |
| February | 44 | 42 | 49 | 18 | 49 | 49 |
| March | 41 | 43 | 49 | 19 | 48 | 49 |
| April | 41 | 41 | 48 | 20 | ... | 49 |
| May | 51 | 43 | 47 | 20 | 58 | 53 |
| June | 51 | 51 | 48 | 22 | ... | 63 |
| July | 82 | 76 | 53 | 23 | ... | 64 |
| August | 82 | 82 | 57 | 23 | ... | 60 |
| September | 82 | 82 | 81 | 26 | ... | 40 |
| October | 82 | ... | 89 | 28 | ... | 40 |
| November | 82 | ... | 41 | 27 | ... | 40 |
| December | 60 | ... | 19 | 24 | ... | 37 |

Sources: National Bank of Ukraine, and Ministry of Finance.

1/ All rates reported on simple annual basis.
2/ End of period data.
3/ Includes preferential rates; average interest rate on refinancing credits outstanding.
4/ Average of major banks, weighted by size of loan portfolios.
5/ Last auction in month.

Table 43. Ukraine: Financial Operations of Principal Social Funds, 1995–

| | 1995 | 1996 | 1997 | 1998 | 1995 | 1996 |
|---|---|---|---|---|---|---|
| | (In millions of hryvnia) | | | | (In perce | |
| Employment Fund balance 1/ | 20.8 | -22.7 | 24.5 | ... | 0.0 | 0.0 |
| Revenues | 169.0 | 89.0 | 215.0 | ... | 0.3 | 0.1 |
| Payroll contributions | 162.5 | 9.6 | ... | ... | 0.3 | 0.0 |
| Budget transfers | 0.0 | 79.4 | ... | ... | 0.0 | 0.1 |
| Other | 6.5 | 0.0 | ... | ... | 0.0 | 0.0 |
| Expenditures | 148.2 | 111.7 | 190.5 | ... | 0.3 | 0.1 |
| Unemployment compensation | 9.7 | 36.8 | 126.8 | ... | 0.0 | 0.0 |
| Job creation schemes | 4.1 | 0.1 | 0.0 | ... | 0.0 | 0.0 |
| Training and retraining | 10.9 | 14.8 | 12.5 | ... | 0.0 | 0.0 |
| Public works | 0.6 | 0.3 | 0.7 | ... | 0.0 | 0.0 |
| Other | 122.9 | 59.7 | 50.5 | ... | 0.2 | 0.1 |
| Pension Fund balance | 97.1 | 57.0 | 303.3 | 257.7 | 0.2 | 0.1 |
| Revenues | 4,409.1 | 7,629.7 | 9,675.8 | 9,930.5 | 8.1 | 9.5 |
| Payroll contributions | 4,148.4 | 6,996.0 | 8,459.1 | 8,855.9 | 7.6 | 8.7 |
| Budget transfers | 133.6 | 342.2 | 1,034.6 | 734.9 | 0.2 | 0.4 |
| Other | 127.1 | 291.5 | 182.1 | 74.0 | 0.2 | 0.4 |
| Expenditures | 4,312.0 | 7,572.7 | 9,372.5 | 9,672.8 | 7.9 | 9.4 |
| Retirement pensions | 3,792.9 | 6,623.0 | 8,090.6 | 8,801.2 | 7.0 | 8.2 |
| Military pensions | 132.0 | 451.0 | 591.6 | 534.0 | 0.2 | 0.6 |
| Child allowances | 127.0 | 152.6 | 176.0 | 59.4 | 0.2 | 0.2 |
| Other | 260.1 | 346.0 | 514.4 | 278.2 | 0.5 | 0.4 |
| Social Insurance Fund balance | 33.6 | 20.2 | -9.5 | ... | 0.1 | 1.3 |
| Revenues | 644.3 | 1,057.8 | 1,177.3 | ... | 1.2 | 1.3 |
| Payroll contributions | 605.7 | 989.4 | 1,111.6 | ... | 1.1 | 1.2 |
| Budget transfers | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| Other | 38.6 | 68.4 | 65.7 | ... | 0.1 | 0.1 |
| Expenditures | 610.6 | 1,037.5 | 1,186.8 | ... | 1.1 | 1.3 |
| Sickness benefits | 315.9 | 540.9 | 621.3 | ... | 0.6 | 0.7 |
| Maternity benefits | 55.2 | ... | ... | ... | 0.1 | ... |
| Child allowances | 7.9 | ... | ... | ... | 0.0 | ... |
| Recreation | 212.2 | 323.1 | 374.0 | ... | 0.4 | 0.4 |
| Benefits to Chernobyl victims | ... | 6.8 | 7.4 | ... | ... | 0.0 |
| Other | 19.4 | 166.8 | 184.0 | ... | 0.0 | 0.2 |
| GDP (in millions of hryvnia) | 54,516 | 81,519 | 93,365 | 104,729 | | |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Beginning in 1996, the Employment Fund was included in the budget.

Table 44. Ukraine: Social Benefits, 1995–98 (first half)

| | 1995 | 1996 | 1997 | 1st half 1997 | 1st half 1998 |
|---|---|---|---|---|---|
| | | | (In millions of hryvnia) | | |
| Total social protection expenditures | 9,520 | 14,289 | 17,971 | 7,482 | 8,537 |
| Pension Fund expenditures | 4,312 | 7,573 | 9,373 | 3968 | 4,660 |
| Social safety net | 3,500 | 4,066 | 5,504 | 2163 | 2,406 |
| Chernobyl Fund | 949 | 1,524 | 1,717 | 715 | 736 |
| Employment Fund expenditures | 148 | 89 | 191 | 70 | 163 |
| Social insurance expenditures | 611 | 1,038 | 1,187 | 566 | 572 |
| | | | (In percent of GDP) | | |
| Total social protection expenditures | 17.5 | 17.5 | 19.2 | 18.6 | 19.1 |
| Pension Fund expenditures | 7.9 | 9.3 | 10.0 | 9.9 | 10.4 |
| Social safety net | 6.4 | 5.0 | 5.9 | 5.4 | 5.4 |
| Chernobyl Fund | 1.7 | 1.9 | 1.8 | 1.8 | 1.6 |
| Employment Fund expenditures | 0.3 | 0.1 | 0.2 | 0.2 | 0.4 |
| Social insurance expenditures | 1.1 | 1.3 | 1.3 | 1.4 | 1.3 |

Sources: Ukrainian authorities; and Fund staff estimates.

Table 45. Ukraine: Exchange Rates, 1996–98 1/

| | NBU Official Rate | | NBU Official Rate | |
|---|---|---|---|---|
| | Average | End of Period | Average | End of Period |
| | (Hryvnia per U.S. dollar) | | (Hryvnia per 10,000 Russian rubles) | |
| 1996 | | | | |
| January | 1.83 | 1.87 | 3.91 | 3.96 |
| February | 1.88 | 1.89 | 3.95 | 3.93 |
| March | 1.89 | 1.87 | 3.91 | 3.85 |
| April | 1.87 | 1.83 | 3.82 | 3.72 |
| May | 1.84 | 1.84 | 3.71 | 3.67 |
| June | 1.82 | 1.79 | 3.60 | 3.50 |
| July | 1.78 | 1.76 | 3.46 | 3.39 |
| August | 1.76 | 1.76 | 3.33 | 3.29 |
| September | 1.76 | 1.76 | 3.28 | 3.26 |
| October | 1.77 | 1.81 | 3.27 | 3.32 |
| November | 1.86 | 1.87 | 3.39 | 3.40 |
| December | 1.88 | 1.89 | 3.40 | 3.40 |
| 1997 | | | | |
| January | 1.89 | 1.88 | 3.38 | 3.34 |
| February | 1.84 | 1.84 | 3.26 | 3.23 |
| March | 1.84 | 1.85 | 3.22 | 3.23 |
| April | 1.85 | 1.85 | 3.22 | 3.20 |
| May | 1.84 | 1.86 | 3.19 | 3.22 |
| June | 1.86 | 1.86 | 3.21 | 3.21 |
| July | 1.86 | 1.86 | 3.21 | 3.20 |
| August | 1.86 | 1.86 | 3.19 | 3.19 |
| September | 1.86 | 1.87 | 3.18 | 3.18 |
| October | 1.87 | 1.88 | 3.18 | 3.18 |
| November | 1.88 | 1.89 | 3.18 | 3.19 |
| December | 1.90 | 1.90 | 3.19 | 3.19 |
| | | | (Hryvnia per new Russian ruble) 2/ | |
| 1998 | | | | |
| January | 1.91 | 1.93 | 0.32 | 0.32 |
| February | 1.96 | 2.02 | 0.32 | 0.33 |
| March | 2.03 | 2.04 | 0.33 | 0.33 |
| April | 2.04 | 2.04 | 0.33 | 0.33 |
| May | 2.05 | 2.06 | 0.33 | 0.33 |
| June | 2.06 | 2.06 | 0.33 | 0.33 |
| July | 2.11 | 2.13 | 0.34 | 0.34 |
| August | 2.19 | 2.25 | 0.34 | 0.28 |
| September | 2.83 | 3.41 | 0.20 | 0.21 |
| October | 3.42 | 3.43 | 0.22 | 0.21 |
| November | 3.43 | 3.43 | 0.21 | 0.19 |
| December | 3.43 | 3.43 | 0.17 | 0.17 |

Source: National Bank of Ukraine.

1/ Exchange rates before September 1996 were converted into hryvnia by dividing rates in karbovanets by 100,000.

2/ On January 1, 1998 the last three zeroes were dropped from the Russian ruble.

## Table 46. Ukraine: Monetary Survey, 1996–98
(In millions of hryvnia, end-period)

| | 1996 | 1997 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec | Mar | June | Sept | Dec 1/ | Mar | June | Sept | Dec |
| Net foreign assets | 576 | 358 | 735 | 651 | -125 | 80 | -1,284 | -5,268 | -5,340 |
| Foreign assets | 6,375 | 6,604 | 7,382 | 7,421 | 6,953 | 6,965 | 5,790 | 6,585 | 6,469 |
| Foreign liabilities 2/ | 5,799 | 6,246 | 6,647 | 6,770 | 7,078 | 6,886 | 7,075 | 11,853 | 11,809 |
| Net domestic assets | 8,787 | 9,367 | 10,368 | 11,704 | 12,666 | 12,881 | 14,742 | 19,593 | 21,059 |
| Net domestic credit | 12,045 | 12,713 | 13,687 | 15,462 | 15,929 | 16,495 | 18,664 | 23,602 | 23,464 |
| Net credit to government | 5,974 | 6,409 | 6,789 | 7,616 | 8,107 | 9,040 | 10,856 | 14,205 | 14,336 |
| Credit to general government | 6,986 | 7,383 | 8,174 | 8,983 | 9,246 | 10,627 | 12,055 | 16,160 | 15,332 |
| Deposits of general government | 1,012 | 974 | 1,385 | 1,367 | 1,139 | 1,587 | 1,199 | 1,955 | 995 |
| Claims on rest of the economy | 6,070 | 6,304 | 6,899 | 7,846 | 7,823 | 7,455 | 7,808 | 9,397 | 9,128 |
| In domestic currency | 4,719 | 4,892 | 5,257 | 5,948 | 5,723 | 5,088 | 5,256 | 5,191 | 5,431 |
| Enterprises | 4,441 | 4,593 | 4,924 | 5,528 | 5,261 | 4,702 | 4,802 | 4,725 | 4,913 |
| Households | 278 | 299 | 332 | 420 | 462 | 386 | 454 | 465 | 518 |
| In foreign currency 2/ | 1,351 | 1,412 | 1,642 | 1,898 | 2,100 | 2,367 | 2,552 | 4,207 | 3,697 |
| Other items, net | -3,257 | -3,346 | -3,320 | -3,758 | -3,264 | -3,614 | -3,922 | -4,009 | -2,405 |
| Broad money | 9,363 | 9,726 | 11,102 | 12,355 | 12,541 | 12,960 | 13,457 | 14,325 | 15,719 |
| Hryvnia broad money | 7,646 | 8,252 | 9,410 | 10,597 | 10,869 | 11,083 | 11,462 | 11,014 | 12,377 |
| Currency outside banks | 4,040 | 4,306 | 5,102 | 6,031 | 6,132 | 6,365 | 6,390 | 6,310 | 7,158 |
| Hryvnia demand deposits | 2,275 | 2,592 | 2,869 | 2,947 | 2,918 | 2,909 | 2,889 | 2,809 | 3,226 |
| Hryvnia time deposits | 1,331 | 1,354 | 1,439 | 1,619 | 1,819 | 1,808 | 2,183 | 1,895 | 1,993 |
| Foreign currency deposits | 1,717 | 1,474 | 1,692 | 1,758 | 1,672 | 1,879 | 1,995 | 3,311 | 3,342 |
| Memorandum item: | | | | | | | | | |
| Net credit to government, flows adjusted for valuation changes | ... | 668 | 207 | 872 | 510 | 259 | 1,358 | 2,229 | 83 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ A new accounting system was introduced on January 1, 1998. Some discrepancies exist between the old and new accounts.
2/ Figures are adjusted for the foreign trade credits serviced by Eximbank during 1992–95.

Table 47. Ukraine: Summary Indicators of Money and Credit, 1996–98

| | 1996 | | 1997 | | | | | 1998 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Year | Mar | Jun | Sep | Dec | Year | Mar | Jun | Sep | Dec | Year |
| | (Quarterly percentage change, unless otherwise indicated) | | | | | | | | | | | |
| Banking system | | | | | | | | | | | | |
| Net domestic credit | -3 | 22 | 6 | 8 | 13 | 3 | 32 | 4 | 13 | 26 | -1 | 47 |
| Of which: | | | | | | | | | | | | |
| Claims on rest of the economy | -9 | 3 | 4 | 9 | 14 | 0 | 29 | -5 | 5 | 20 | -3 | 17 |
| Broad money | 21 | 35 | 4 | 14 | 11 | 2 | 34 | 3 | 4 | 6 | 10 | 25 |
| Of which: Hryvnia broad money | 20 | 43 | 8 | 14 | 13 | 3 | 42 | 2 | 3 | -3 | 12 | 14 |
| Real broad money 1/ | 16 | -3 | 0 | 12 | 10 | -2 | 22 | 2 | 3 | 1 | -3 | 5 |
| Real net domestic credit 1/ | -6 | -13 | 2 | 6 | 12 | 0 | 20 | 2 | 12 | 20 | -12 | 24 |
| National Bank of Ukraine | | | | | | | | | | | | |
| Net domestic assets | -4 | 26 | 3 | 9 | 8 | 10 | 33 | -2 | 24 | 53 | 14 | 112 |
| Net domestic credit | 4 | 36 | 1 | 4 | 11 | 9 | 27 | 4 | 20 | 41 | 1 | 78 |
| Base money | 13 | 38 | 7 | 18 | 12 | 3 | 45 | 1 | 2 | 4 | 14 | 22 |
| Currency outside banks | 21 | 54 | 7 | 18 | 18 | 2 | 52 | 4 | 0 | -1 | 13 | 17 |
| Real base money 1/ | 10 | -1 | 3 | 16 | 11 | -1 | 31 | -1 | 1 | -1 | 1 | 2 |
| | (Quarterly percentage change in relation to monetary base at the beginning of the period, unless otherwise indicated) | | | | | | | | | | | |
| National Bank of Ukraine | | | | | | | | | | | | |
| Net foreign assets | 17 | 5 | 3 | 8 | 4 | -7 | 8 | 2 | -22 | -61 | -11 | -93 |
| Net domestic assets | -4 | 33 | 3 | 9 | 8 | 9 | 37 | -2 | 24 | 65 | 25 | 115 |
| Net credit to Government | 7 | 48 | -3 | 5 | 5 | 10 | 23 | 9 | 23 | 53 | 3 | 90 |
| Claims on banks | 3 | 4 | 2 | 0 | 6 | 0 | 9 | -5 | 0 | 3 | -1 | -2 |
| Other | -10 | -14 | 2 | 4 | -4 | 0 | 1 | -7 | 1 | 8 | 23 | 26 |
| Base money | 13 | 38 | 7 | 18 | 12 | 3 | 45 | 1 | 2 | 4 | 14 | 22 |
| Memorandum items: | | | | | | | | | | | | |
| Consumer prices (percentage change within period) | 3.6 | 39.7 | 3.5 | 1.7 | 1.3 | 3.2 | 10.1 | 1.7 | 1.3 | 5.1 | 13 | 19.1 |
| Hryvnia money multiplier 2/ | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 | 1.5 | 1.4 | 1.4 |
| End-period official exchange rate hryvnia/U.S. dollar | 1.89 | 1.89 | 1.85 | 1.86 | 1.87 | 1.90 | 1.90 | 2.04 | 2.06 | 3.41 | 3.43 | 3.43 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Deflated by the consumer price index.

2/ Ratio of hryvnia broad money to base money of the National Bank of Ukraine (NBU).

Table 48. Ukraine: Structure of Credit to Economy, 1997–98 (June) 1/

(In millions of hryvnia, unless otherwise specified)

| | 1997 | | | | 1998 | |
|---|---|---|---|---|---|---|
| | March | June | September | December | March | June |
| Stock of Credit | | | | | | |
| Total | 4,126 | 4,487 | 5,095 | 5,195 | 5,001 | 5,104 |
| Short-term | 3,659 | 4,001 | 4,604 | 4,682 | 4,428 | 4,503 |
| Industry | 1,076 | 1,097 | 1,263 | 1,233 | 1,634 | 1,568 |
| Power generation | 74 | 69 | 62 | 53 | 117 | 111 |
| Mining | 89 | 95 | 102 | 87 | ... | ... |
| Machinery and metal | 503 | 521 | 605 | 567 | | |
| industries | 49 | 51 | 50 | 48 | 479 | 452 |
| Light industry | 264 | 259 | 328 | 364 | ... | ... |
| Food processing | 97 | 102 | 116 | 113 | ... | ... |
| Other | 213 | 250 | 274 | 243 | ... | ... |
| Agriculture | 67 | 96 | 121 | 103 | 204 | 220 |
| Transport and communication | 78 | 78 | 158 | 73 | 116 | 120 |
| Construction | 432 | 381 | 301 | 287 | ... | ... |
| Retail trade and catering | 55 | 59 | 67 | 64 | 1,355 | 1,528 |
| Wholesale and supply | 26 | 18 | 25 | 19 | ... | ... |
| Procurement | 913 | 1,129 | 1,353 | 1,366 | ... | ... |
| Other material sphere 2/ | 12 | 14 | 16 | 18 | ... | ... |
| Housing and communal services | 35 | 35 | 44 | 41 | 20 | 22 |
| Joint ventures and non-residents | 752 | 1,093 | 1,256 | 1,477 | ... | ... |
| Other | 467 | 487 | 491 | 513 | ... | ... |
| Long-term 3/ | 370 | 398 | 446 | 449 | 573 | 601 |
| Share (in percent of total) | | | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Short-term | 88.7 | 89.2 | 90.4 | 90.1 | 88.5 | 88.2 |
| Industry | 26.1 | 27.4 | 27.4 | 26.3 | 0.4 | 0.3 |
| Power generation | 1.8 | 1.7 | 1.3 | 1.1 | 0.0 | 0.0 |
| Mining | 2.2 | 2.4 | 2.2 | 1.9 | ... | ... |
| Machinery and metal | 12.2 | 13.0 | 13.1 | 12.1 | ... | ... |
| industries | 1.2 | 1.3 | 1.1 | 1.0 | 0.1 | 0.1 |
| Light industry | 6.4 | 6.5 | 7.1 | 7.8 | ... | ... |
| Food processing | 2.3 | 2.6 | 2.5 | 2.4 | ... | ... |
| Other | 5.2 | 6.3 | 6.0 | 5.2 | ... | ... |
| Agriculture | 1.6 | 2.4 | 2.6 | 2.2 | 0.0 | 0.0 |
| Transport and communication | 1.9 | 1.9 | 3.4 | 1.6 | 0.0 | 0.0 |
| Construction | 10.5 | 9.5 | 6.5 | 6.1 | ... | ... |
| Retail trade and catering | 1.3 | 1.5 | 1.4 | 1.4 | 0.3 | 0.3 |
| Wholesale and supply | 0.6 | 0.5 | 0.5 | 0.4 | ... | ... |
| Procurement | 22.1 | 28.2 | 29.4 | 29.2 | ... | ... |
| Other material sphere 2/ | 0.3 | 0.3 | 0.4 | 0.4 | ... | ... |
| Housing and communal services | 0.9 | 0.9 | 1.0 | 0.9 | 0.0 | 0.0 |
| Joint ventures and non-residents | 18.2 | 27.3 | 27.3 | 31.5 | ... | ... |
| Other | 11.3 | 10.8 | 9.6 | 9.9 | ... | ... |
| Long-term 3/ | 12.3 | 13.0 | 13.4 | 10.9 | 11.5 | 11.8 |

Source: National Bank of Ukraine.

1/ Credit to the economy in domestic currency, excluding credit in foreign currency. The totals in this table differ from the amounts shown in Table 46 because they exclude capitalized interest and penalties on principal in arrears.

2/ Mainly credit extended to the non-state sector.

3/ No sectoral breakdown available.

## Table 49. Ukraine: Accounts of the National Bank of Ukraine, 1996–98

(In millions of hryvnia, end-period)

| | 1996 | 1997 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec |
| Net foreign assets | -572 | -419 | 23 | 281 | -181 | -6 | -1,551 | -5,982 | -6,774 |
| Net international reserves | -507 | -334 | 123 | 407 | -53 | 172 | -1,353 | -5,517 | -6,311 |
| Other net foreign assets | -65 | -85 | -100 | -126 | -128 | -178 | -198 | -465 | -463 |
| Net domestic assets | 5,453 | 5,618 | 6,099 | 6,595 | 7,239 | 7,102 | 8,822 | 13,516 | 15,379 |
| Net domestic credit | 6,366 | 6,429 | 6,691 | 7,403 | 8,079 | 8,436 | 10,104 | 14,224 | 14,382 |
| Net credit to government | 5,995 | 5,856 | 6,101 | 6,403 | 7,096 | 7,754 | 9,386 | 13,238 | 13,479 |
| Credit to general government | 6,211 | 6,212 | 6,758 | 7,015 | 7,430 | 8,525 | 9,782 | 14,301 | 13,934 |
| Deposits of general government | 216 | 356 | 657 | 613 | 334 | 770 | 395 | 1,063 | 455 |
| Net credit to the economy | -178 | -89 | -82 | -28 | -18 | 7 | 43 | 83 | 49 |
| Claims on banks | 549 | 662 | 672 | 1,028 | 1,000 | 674 | 676 | 903 | 854 |
| Other items, net | -912 | -811 | -592 | -807 | -840 | -1,334 | -1,282 | -707 | 997 |
| Base money | 4,881 | 5,199 | 6,122 | 6,877 | 7,058 | 7,096 | 7,270 | 7,534 | 8,604 |
| Currency outside banks | 4,040 | 4,306 | 5,102 | 6,031 | 6,132 | 6,365 | 6,390 | 6,310 | 7,158 |
| Banks' reserves | 841 | 893 | 1,020 | 846 | 926 | 731 | 880 | 1,224 | 1,447 |
| Cash in vault | 202 | 262 | 286 | 323 | 217 | 278 | 287 | 295 | 302 |
| Correspondent accounts | 639 | 631 | 734 | 523 | 709 | 454 | 593 | 928 | 1,145 |

Sources: Ukrainian authorities; and Fund staff estimates.

Table 50. Ukraine and Neighboring Countries: Broad Money, 1995-98
(In percent of GDP)

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| BRO Countries | | | | |
| Armenia | 7.7 | 8.2 | 8.8 | 10.2 |
| Azerbaijan | 12.2 | 11.3 | 13.4 | 8.6 |
| Belarus | 15.0 | 14.8 | 16.5 | 36.3 |
| Estonia | 25.0 | 27.0 | 30.5 | 28.0 |
| Georgia | 4.9 | 4.5 | 5.5 | 5.1 |
| Kazakhstan | 12.0 | 9.9 | 10.5 | 8.6 |
| Kyrgyz Republic | 16.8 | 13.8 | 13.6 | 13.9 |
| Lithuania | 23.5 | 17.5 | 18.9 | 19.6 |
| Latvia | 21.0 | 21.2 | 25.8 | 25.1 |
| Moldova | 16.5 | 16.2 | 19.0 | 17.0 |
| Russia | ... | ... | 17.9 | 21.2 |
| Tajikistan | ... | 8.2 | 8.6 | 5.8 |
| Turkmenistan | 9.8 | 6.8 | 9.3 | 13.0 |
| Ukraine | 12.7 | 11.5 | 13.6 | 15.1 |
| Uzbekistan | 18.2 | 18.5 | 16.7 | 17.6 |
| Other Countries | | | | |
| Poland | 36.1 | 37.7 | 39.7 | 38.7 |
| Hungary | 48.8 | 48.9 | 47.5 | 47.5 |
| Czech Republic | 75.1 | 72.2 | 72.4 | 71.8 |

Source: National Authorities; EU2 Database; EDSS.

Table 51. Ukraine: Accounts of Commercial Banks, 1996-98
(In millions of hryvnia; end-period)

| | 1996 | 1997 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec | Jan | Mar | Sep | Dec | Jan | Mar | Sep | Dec |
| Net foreign assets | 1,148 | 777 | 712 | 370 | 56 | 85 | 267 | 714 | 1,434 |
| Foreign assets | 2,604 | 2,753 | 3,038 | 2,746 | 2,443 | 1,650 | 1,953 | 2,808 | 3,112 |
| Foreign liabilities | 1,456 | 1,976 | 2,327 | 2,376 | 2,387 | 1,564 | 1,687 | 2,094 | 1,679 |
| Net domestic assets | 4,168 | 4,608 | 5,266 | 5,949 | 6,333 | 6,473 | 6,714 | 7,246 | 6,979 |
| Domestic credit | 6,406 | 7,102 | 7,870 | 8,832 | 8,717 | 8,871 | 9,441 | 10,625 | 10,589 |
| Net credit to government | -21 | 553 | 688 | 1,214 | 1,010 | 1,285 | 1,469 | 967 | 858 |
| Credit to general government | 775 | 1,171 | 1,416 | 1,968 | 1,815 | 2,102 | 2,273 | 1,859 | 1,398 |
| Deposits of general government | 796 | 618 | 728 | 754 | 805 | 817 | 804 | 892 | 540 |
| Credit to the economy | 6,069 | 6,244 | 6,831 | 7,780 | 7,754 | 7,421 | 7,740 | 9,293 | 9,025 |
| In domestic currency | 4,718 | 4,862 | 5,222 | 5,914 | 5,688 | 5,081 | 5,236 | 5,160 | 5,402 |
| Enterprises | 4,441 | 4,564 | 4,891 | 5,496 | 5,227 | 4,702 | 4,799 | 4,723 | 4,913 |
| Households | 277 | 297 | 331 | 418 | 461 | 379 | 437 | 436 | 489 |
| In foreign currency | 1,351 | 1,382 | 1,609 | 1,866 | 2,067 | 2,340 | 2,504 | 4,133 | 3,624 |
| Net claims on NBU | 358 | 305 | 351 | -162 | -48 | 165 | 231 | 365 | 706 |
| Other items, net | -2,238 | -2,493 | -2,603 | -2,883 | -2,383 | -2,398 | -2,726 | -3,378 | -3,609 |
| Liabilities | 5,316 | 5,386 | 5,978 | 6,318 | 6,389 | 6,559 | 6,981 | 7,960 | 8,413 |
| Hryvnia deposits | 3,606 | 3,946 | 4,308 | 4,566 | 4,737 | 4,699 | 5,006 | 4,695 | 5,179 |
| Demand deposits | 2,275 | 2,592 | 2,869 | 2,947 | 2,918 | 2,893 | 2,878 | 2,795 | 3,202 |
| Time deposits | 1,331 | 1,354 | 1,439 | 1,619 | 1,819 | 1,806 | 2,128 | 1,900 | 1,976 |
| Foreign currency deposits | 1,710 | 1,474 | 1,670 | 1,753 | 1,653 | 1,860 | 1,974 | 3,265 | 3,234 |

Source: Ukrainian authorities; and Fund staff estimates.

Table 52. Ukraine: Structure of Money Supply, 1996–98
(Shares, in percent)

| | 1996 | 1997 | | | | 1998 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec |
| Broad money | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Hryvnia broad money | 81.7 | 84.8 | 84.8 | 85.8 | 86.7 | 85.5 | 84.8 | 76.9 | 78.7 |
| Currency outside banks | 43.2 | 44.3 | 46.0 | 48.8 | 48.9 | 49.1 | 47.5 | 44.0 | 45.5 |
| Demand deposits | 24.3 | 26.6 | 25.8 | 23.9 | 23.3 | 22.4 | 21.5 | 19.6 | 20.5 |
| Time deposits | 14.2 | 13.9 | 13.0 | 13.1 | 14.5 | 13.9 | 15.8 | 13.2 | 12.7 |
| Foreign currency deposits | 18.3 | 15.2 | 15.2 | 14.2 | 13.3 | 14.4 | 14.8 | 23.1 | 21.3 |
| Hryvnia broad money | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Currency outside banks | 52.8 | 52.2 | 54.2 | 56.9 | 56.4 | 57.4 | 56.0 | 57.3 | 57.8 |
| Demand deposits | 29.8 | 31.4 | 30.5 | 27.8 | 26.8 | 26.3 | 25.3 | 25.5 | 26.1 |
| Time deposits | 17.4 | 16.4 | 15.3 | 15.3 | 16.7 | 16.3 | 18.7 | 17.2 | 16.1 |

Source: Table 45.

Table 53. Ukraine: Summary Balance of Payments, 1995–98 (Q3)

(In millions of U.S. dollars)

| | 1995 | 1996 | 1997 | 1998 Q1 | 1998 Q2 | 1998 Q3 |
|---|---|---|---|---|---|---|
| Current account balance | -1,515 | -1,184 | -1,335 | -517 | 43 | -234 |
| Baltics and CIS | -2,076 | -1,576 | -2,893 | -831 | -148 | -151 |
| Other countries | 561 | 392 | 1,558 | 314 | 191 | -83 |
| Merchandise trade balance | -2,298 | -4,296 | -4,205 | -928 | -394 | -638 |
| Baltics and CIS | -2,811 | -4,072 | -4,978 | -1,219 | -504 | -547 |
| Other countries | 513 | -224 | 773 | 291 | 110 | -91 |
| Exports, f.o.b. | 13,647 | 15,547 | 15,418 | 3,347 | 3,734 | 3,112 |
| Baltics and CIS | 7,927 | 8,841 | 6,841 | 1,468 | 1,603 | 1,299 |
| Other countries | 5,720 | 6,706 | 8,577 | 1,879 | 2,131 | 1,813 |
| Imports, f.o.b. | -15,945 | -19,843 | -19,623 | -4,275 | -4,128 | -3,750 |
| Baltics and CIS | -10,739 | -12,913 | -11,819 | -2,687 | -2,107 | -1,846 |
| Energy | -6,707 | -8,068 | -7,610 | -1,892 | -1,155 | -1,042 |
| Other | -4,031 | -4,845 | -4,209 | -795 | -952 | -804 |
| Other countries | -5,206 | -6,930 | -7,804 | -1,588 | -2,021 | -1,904 |
| Nonfactor services | 1,091 | 3,174 | 2,669 | 461 | 489 | 501 |
| Receipts | 2,789 | 4,799 | 4,937 | 1,104 | 1,163 | 1,109 |
| Payments | -1,698 | -1,625 | -2,268 | -643 | -674 | -608 |
| Investment income | -508 | -571 | -644 | -219 | -221 | -257 |
| Of which: interest payments | -535 | -505 | -645 | -200 | -219 | -337 |
| Current transfers (net) | 200 | 509 | 845 | 169 | 169 | 160 |
| Capital account balance | -2,042 | 282 | 749 | -328 | -844 | -1,169 |
| Medium- and long-term loans | -347 | -482 | -96 | -135 | -179 | -701 |
| Disbursements | 649 | 234 | 698 | 179 | 172 | 48 |
| Repayments | -996 | -716 | -794 | -314 | -351 | -749 |
| Direct investment | 266 | 526 | 581 | 159 | 273 | 154 |
| Short-term capital | -1,961 | 238 | 264 | -352 | -938 | -622 |
| Errors and omissions | 0 | 265 | -203 | -9 | -95 | -120 |
| Overall balance | -3,557 | -637 | -789 | -854 | -896 | -1,523 |
| Financing | 3,557 | 638 | 789 | 854 | 896 | 1,523 |
| Gross official reserves (-: increase) | -488 | -860 | -381 | -136 | 751 | 691 |
| Net use of IMF resources | 1,217 | 778 | 286 | 50 | 0 | 209 |
| Exceptional financing | 2,828 | 720 | 884 | 941 | 145 | 623 |
| Memorandum items: | | | | | | |
| Current account (in percent of GDP) | -4.4 | -2.7 | -2.7 | ... | ... | ... |
| Total external liabilities (in millions of US$) | 8,142 | 9,170 | 11,807 | 12,464 | 12,059 | 11,751 |
| External liabilities (in percent of GDP) | 23.6 | 21.2 | 23.8 | ... | ... | ... |
| Debt service ratio (in percent of exports) | 9.3 | 6.0 | 9.4 | ... | ... | ... |
| Gross international reserves (weeks of imports) | 3.7 | 4.8 | 5.6 | ... | ... | ... |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 54. Ukraine: Directions of Export Trade, 1995–98 (Q3)

(In millions of U.S. dollars)

| | 1995 | 1996 | 1997 | 1997 | | | | 1997 | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q1 | Q2 | Q3 | Q4 | percentage share | Q1 | Q2 | Q3 |
| Total | 14,244 | 15,547 | 15,843 | 3,527 | 3,858 | 3,945 | 4,088 | 100.0 | 3,215 | 3,602 | 2,980 |
| Russia, Baltics, and other countries of the former Soviet Union | 8,103 | 8,841 | 7,039 | 1,673 | 1,567 | 1,791 | 1,810 | 44.4 | 1,336 | 1,471 | 1,167 |
| Of which: | | | | | | | | | | | |
| Russia | 5,698 | 5,528 | 3,913 | 912 | 900 | 938 | 973 | 24.7 | 668 | 871 | 617 |
| Belarus | 546 | 733 | 858 | 219 | 208 | 204 | 194 | 5.4 | 140 | 153 | 124 |
| Moldova | 152 | 236 | 251 | 69 | 66 | 81 | 78 | 1.6 | 47 | 48 | 50 |
| Uzbekistan | 114 | 177 | 249 | 34 | 52 | 81 | 68 | 1.6 | 33 | 34 | 38 |
| Turkmenistan | 270 | 272 | 201 | 40 | 15 | 56 | 66 | 1.3 | 42 | 36 | 21 |
| Lithuania | 127 | 130 | 107 | 24 | 22 | 29 | 27 | 0.7 | 27 | 24 | ... |
| Kazakhstan | 94 | 90 | 98 | 14 | 23 | 28 | 28 | 0.6 | 21 | 31 | ... |
| Azerbaijan | 42 | 89 | 96 | 14 | 20 | 24 | 29 | 0.6 | 16 | 22 | ... |
| Latvia | 64 | 78 | 87 | 20 | 17 | 22 | 19 | 0.5 | 16 | 19 | ... |
| Rest of World | 6,141 | 6,706 | 8,804 | 1,854 | 2,291 | 2,154 | 2,278 | 55.6 | 1,879 | 2,131 | 1,813 |
| Of which: | | | | | | | | | | | |
| China | 755 | 769 | 1,115 | 293 | 322 | 262 | 223 | 7.0 | 201 | 205 | 139 |
| Turkey | 453 | 411 | 668 | 135 | 151 | 184 | 201 | 4.2 | 187 | 179 | 165 |
| Germany | 339 | 419 | 580 | 102 | 138 | 158 | 171 | 3.7 | 149 | 156 | 153 |
| USA | 273 | 364 | 303 | 79 | 89 | 58 | 76 | 1.9 | 59 | 144 | 136 |
| Poland | 275 | 363 | 393 | 110 | 88 | 94 | 88 | 2.5 | 67 | 85 | 81 |
| Hungary | 298 | 374 | 364 | 81 | 82 | 94 | 61 | 2.3 | 70 | 65 | 59 |
| Italy | 425 | 345 | 419 | 84 | 91 | 103 | 117 | 2.6 | 138 | 136 | 123 |
| Slovakia | 216 | 232 | 282 | 65 | 72 | 72 | 70 | 1.8 | 60 | 68 | ... |

Source: National Bank of Ukraine; data differ from those shown on Table 53 as they are derived from different sources.

## Table 55. Ukraine: Commodity Structure of Exports, 1996–98 (Q3)

(In millions of U.S. dollars)

| | 1996 | 1997 | 1997 | | | | 1997 | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | percentage share | Q1 | Q2 | Q3 |
| Total | 14,307 | 15,418 | 3,527 | 3,858 | 3,945 | 4,088 | 100.0 | 3,215 | 3,602 | 2,980 |
| Fuel and energy products | 1,224 | 1,142 | 263 | 284 | 316 | 279 | 7.4 | 237 | 243 | 219 |
| Machinery | 2,061 | 1,970 | 403 | 459 | 523 | 585 | 12.8 | 405 | 546 | 345 |
| Wood and wood products | 191 | 209 | 40 | 55 | 50 | 64 | 1.4 | 56 | 65 | 56 |
| Industrial products | 614 | 643 | 137 | 155 | 189 | 162 | 4.2 | 146 | 177 | 180 |
| Chemicals | 2,198 | 2,015 | 469 | 478 | 568 | 500 | 13.1 | 388 | 475 | 425 |
| Food items and raw materials | 3,046 | 1,802 | 567 | 417 | 307 | 511 | 11.7 | 312 | 270 | 235 |
| Ferrous and nonferrous metals | 4,660 | 5,904 | 1,227 | 1,626 | 1,589 | 1,462 | 38.3 | 1,272 | 1,441 | 1,223 |
| Other | 315 | 1,733 | 421 | 384 | 403 | 525 | 11.2 | 399 | 385 | 297 |

Source: National Bank of Ukraine; data differ from those shown on Table 53 as they are derived from different sources.

## Table 56. Ukraine: Directions of Import Trade, 1995–98 (Q3)

(In millions of U.S. dollars)

| | 1995 | 1996 | 1997 | 1997 | | | | 1997 | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q1 | Q2 | Q3 | Q4 | percentage share | Q1 | Q2 | Q3 |
| Total | 16,946 | 19,843 | 19,623 | 4,983 | 4,882 | 4,830 | 4,928 | 100.0 | 4,275 | 4,128 | 3,750 |
| Russia, Baltics, and other countries of the former Soviet Union | 11,051 | 12,913 | 11,819 | 3,344 | 2,815 | 2,749 | 2,911 | 60.2 | 2,687 | 2,107 | 1,846 |
| Of which: | | | | | | | | | | | |
| Russia | 8,249 | 8,548 | 7,838 | 2,364 | 1,881 | 1,609 | 1,984 | 39.9 | 2,139 | 1,562 | 1,405 |
| Turkmenistan | 681 | 1,604 | 972 | 268 | 106 | 347 | 251 | 5.0 | 0 | 0 | 0 |
| Belarus | 526 | 375 | 391 | 82 | 105 | 122 | 83 | 2.0 | 57 | 89 | 99 |
| Kazakhstan | 323 | 158 | 404 | 128 | 110 | 91 | 76 | 2.1 | 98 | 71 | 65 |
| Lithuania | 130 | 151 | 242 | 35 | 72 | 76 | 59 | 1.2 | 56 | 91 | 53 |
| Azerbaijan | 53 | 30 | 47 | 9 | 12 | 15 | 10 | 0.2 | 5 | 10 | ... |
| Uzbekistan | 73 | 61 | 126 | 10 | 39 | 19 | 59 | 0.6 | 9 | 6 | ... |
| Latvia | 82 | 90 | 83 | 11 | 18 | 22 | 31 | 0.4 | 15 | 9 | ... |
| Moldova | 61 | 71 | 74 | 20 | 15 | 20 | 18 | 0.4 | 13 | 15 | ... |
| Rest of World | 5,895 | 6,930 | 7,804 | 1,639 | 2,067 | 2,081 | 2,017 | 39.8 | 1,588 | 2,021 | 1,904 |
| Of which: | | | | | | | | | | | |
| Germany | 958 | 1,004 | 1,309 | 236 | 336 | 372 | 365 | 6.7 | 227 | 358 | 351 |
| Poland | 477 | 495 | 550 | 115 | 147 | 149 | 139 | 2.8 | 108 | 139 | 117 |
| USA | 419 | 541 | 651 | 136 | 258 | 153 | 104 | 3.3 | 75 | 195 | 200 |
| Italy | 272 | 325 | 400 | 68 | 104 | 117 | 112 | 2.0 | 84 | 109 | 95 |
| France | 195 | 233 | 308 | 98 | 74 | 58 | 77 | 1.6 | 55 | 96 | 81 |
| Slovakia | 153 | 178 | 205 | 40 | 48 | 65 | 50 | 1.0 | 33 | 46 | ... |

Source: National Bank of Ukraine; data differ from those shown on Table 53 as they are derived from different sources.

Table 57. Ukraine: Values and Volumes of Energy Imports, 1995–97
(Value in millions of U.S. dollars; other units as indicated)

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Crude oil | 950 | 935 | 1,012 |
| Volume (in millions of tons) | 11.1 | 9.3 | 9.0 |
| Unit price (in U.S. dollars per ton) | 85.6 | 100.5 | 112.4 |
| Oil products | 837 | 963 | 1,201 |
| Gas | 3,544 | 5,707 | 4,989 |
| Volume (in billions of $m^3$) | 64.5 | 71.2 | 62.4 |
| Unit price (in thousands of U.S. dollars per $m^3$) | 54.9 | 80.0 | 80.0 |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 58. Ukraine: Commodity Structure of Imports, 1996–98 (Q3)

(In millions of U.S. dollars)

| | 1996 | 1997 | 1997 | | | | 1997 | 1998 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | percentage share | Q1 | Q2 | Q3 |
| Total | 18,203 | 19,623 | 4,983 | 4,882 | 4,830 | 4,928 | 100.0 | 4,275 | 4,128 | 3,750 |
| Fuel and energy products | 9,415 | 8,280 | 2,569 | 1,877 | 1,737 | 2,097 | 42.2 | 2,013 | 1,261 | 1,139 |
| Machinery | 2,990 | 3,687 | 726 | 1,025 | 1,059 | 877 | 18.8 | 639 | 956 | 960 |
| Wood and wood products | 529 | 500 | 96 | 118 | 145 | 141 | 2.5 | 119 | 131 | 115 |
| Industrial products | 734 | 745 | 145 | 212 | 198 | 190 | 3.8 | 151 | 207 | 170 |
| Chemicals | 1,954 | 2,151 | 412 | 610 | 552 | 577 | 11.0 | 361 | 553 | 447 |
| Food items and raw materials | 1,447 | 898 | 243 | 194 | 239 | 222 | 4.6 | 177 | 290 | 322 |
| Ferrous and nonferrous metals | 760 | 665 | 135 | 153 | 186 | 191 | 3.4 | 148 | 168 | 167 |
| Other | 374 | 2,697 | 657 | 693 | 714 | 633 | 13.7 | 667 | 562 | 430 |

Source: National Bank of Ukraine; data differ from those shown on Table 53 as they are derived from different sources.

## Table 59. Ukraine: Services Account, 1995–98 (Q3)
(In millions of U.S. dollars)

| | 1995 | 1996 | 1997 | 1998 Q1 | 1998 Q2 | 1998 Q3 |
|---|---|---|---|---|---|---|
| Credit | 3,093 | 4,902 | 5,095 | 1,076 | 1,112 | 1,081 |
| Non-factor services | 2,846 | 4,799 | 4,937 | 1,027 | 1,086 | 1,057 |
| Transport | 2,152 | 4,033 | 4,029 | 793 | 777 | 814 |
| Travel | 191 | 230 | 270 | 65 | 94 | 80 |
| Construction | 31 | 42 | 50 | 11 | 12 | 10 |
| Financial | 76 | 26 | 33 | 7 | 7 | 5 |
| Communication | 176 | 125 | 114 | 25 | 26 | 25 |
| Other | 220 | 343 | 441 | 126 | 170 | 123 |
| Income | 247 | 103 | 158 | 49 | 26 | 24 |
| Debit | 2,015 | 2,300 | 3,070 | 911 | 921 | 889 |
| Non-factor services | 1,334 | 1,625 | 2,268 | 643 | 674 | 608 |
| Transport | 454 | 424 | 476 | 115 | 117 | 148 |
| Travel | 210 | 308 | 305 | 72 | 89 | 95 |
| Construction | 36 | 109 | 192 | 65 | 65 | 38 |
| Financial | 98 | 42 | 80 | 30 | 30 | 19 |
| Communication | 212 | 119 | 115 | 37 | 31 | 31 |
| Other | 324 | 623 | 1,100 | 324 | 342 | 277 |
| Income | 681 | 675 | 802 | 268 | 247 | 281 |

Sources: Ukrainian authorities; and Fund staff estimates.

## Table 60. Ukraine: Official External Debt, 1995–98
(In millions of U.S. dollars; end-of-period)

| | 1995 | 1996 |
|---|---|---|
| Total official debt (including guaranteed) | 8,142 | 9,170 |
| Russia, Baltics, and other countries of the former Soviet Union | 4,913 | 4,400 |
| Russia | 4,185 | 3,690 |
| Turkmenistan | 710 | 710 |
| Other | 18 | ... |
| Rest of world | 3,229 | 4,770 |
| Germany | 753 | 704 |
| United States | 157 | 302 |
| European Union | 110 | 235 |
| IMF | 1,590 | 2,368 |
| World Bank | 499 | 905 |
| EBRD | 7 | 30 |
| Other | 113 | 226 |
| Borrowing from capital markets | ... | ... |
| Eurobonds | 0 | 0 |
| Nonresident holdings of Treasury bills | ... | ... |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ At end of period exchange rates.

Table 61. Ukraine: State Debt Stock, 1995–98

| | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| | (In billions of hryvnia) | | | |
| Total public debt | 14.7 | 17.1 | 26.3 | 46.9 |
| Domestic debt | 0.2 | 1.8 | 6.7 | 7.5 |
| Held by: | | | | |
| Central Bank | 0.0 | 0.3 | 1.6 | 6.3 |
| Commercial banks | 0.2 | 0.8 | 1.8 | 0.7 |
| Nonbank institutions 1/ | 0.0 | 0.1 | 0.5 | 0.1 |
| Nonresidents 1/ 2/ | 0.0 | 0.6 | 2.8 | 0.4 |
| Foreign debt 3/ | 14.5 | 15.3 | 19.6 | 39.0 |
| | (In percent of GDP) | | | |
| Total public debt | 27.0 | 21.0 | 28.2 | 44.8 |
| Domestic debt | 0.4 | 2.2 | 7.2 | 7.2 |
| Held by: | | | | |
| Central Bank | 0.0 | 0.4 | 1.7 | 6.0 |
| Commercial banks | 0.4 | 1.0 | 1.9 | 0.7 |
| Nonbank institutions 1/ | 0.0 | 0.1 | 0.5 | 0.1 |
| Nonresidents 1/ 2/ | 0.0 | 0.7 | 3.0 | 0.4 |
| Foreign debt 3/ | 26.7 | 18.8 | 21.0 | 37.2 |
| Memorandum items: | | | | |
| Exchange rate (in hryvnia per U.S. dollar, year-end) | 1.79 | 1.89 | 1.90 | 3.43 |
| GDP (in billions of hryvnia) | 54.5 | 81.5 | 93.4 | 104.7 |

Source: National Bank of Ukraine; and Fund staff estimates.

1/ Estimates for 1996.

2/ Excludes valuation adjustment.

3/ Excludes nonresident holdings of treasury bills.

Ukraine: Tax Summary
(as of January 1, 1999)

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| **National taxes** | | | |
| 1. Profit taxes | | | |
| 1.1. Individual income tax (Decree of Cabinet of Ministers of Ukraine "On the Individual Income Tax" of Dec. 26, 1992 No.13-92; Decree of Cabinet of Ministers "On Income Taxation of Citizens" of April, 1993 No. 43-93; and Law 366/96-VR of September 1996) | Residents are taxed on their worldwide income. Non-residents are taxed solely on their Ukrainian-source income. Taxable income is comprised of gross income (whether in cash or in kind) from all sources except dividends (which are excluded from the taxable base and taxed separately) and capital gains. | *General exemptions:*<br>(i) income from state social security and social insurance benefits (excluding payments for temporary disablement);<br>(ii) alimony;<br>(iii) state and private pensions;<br>(iv) compensation payments for damages incurred as a result of disability caused by injury or disease or as a result of the loss of the breadwinner;<br>(v) income of military personnel, judges, prosecutors, and certain other government employees;<br>(vi) income from the sale of property;<br>(vii) inheritances and gifts, excluding royalties received by the heirs;<br>(viii) state bond and lottery winnings;<br>(ix) income from bank deposits, premium bonds, savings bank certificates and treasury bonds;<br>(x) income reinvested in the reconstruction of the property of enterprises, as well as dividends used to purchase shares in joint-stock companies which paid these dividends. (Upon disposal of the property or shares the original tax-exempt income becomes taxable.) | Monthly income — Rate<br><br>Nontaxable minimum [nm] is Hrv 17 per month.<br><br>Up to 1 nm — 0%<br>1 to 5 nm — 10%<br>5 – 10 nm — 15%<br>10 – 60 nm — 20%<br>60 – 100 nm — 30%<br>Over 100 nm — 40% |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| | | *Allowances, and deductions:*<br>(i) general allowance of one monthly minimum wage for each month in the tax year;<br>(ii) one nontaxed minimum for one of the parents for each child under 16 (for parents whose income does not exceed 10 monthly minimum wages);<br>(iii) up to 10 nontaxed individual minimums for category 1 and 2 victims of the Chernobyl disaster, and for disabled war veterans;<br>(iv) up to 5 nontaxed individual minimums for war veterans, military personnel (including parents, husbands, wives, and children), parents caring for disabled children, victims of political repressions who were rehabilitated, persons disabled from childhood, group 1 and 2 disabled persons, and category 3 and 4 victims of the Chernobyl disaster;<br>(v) contributions to non-profit organizations (funds, institutions and civil and religious organizations established for ecological, health, athletic, cultural, education, scientific or charitable purposes) are deductible expenses up to an amount equal to 12 monthly minimum wages.<br>*Deductions from income derived from entrepreneurial activity:*<br>Allowable expenses include material costs, depreciation charges, salary payments to employees working on a contractual basis, interest on short-term loans (excluding interest on defaulted and postponed loans), social security premiums, property insurance premiums and expenditure for repairs. | *Special rates:*<br>(i) 10% for the income of coal miners;<br>(ii) tax rates applicable to income of workers at nuclear energy plants are reduced by 50%;<br>(iii) royalties received by heirs are taxed at double the rates indicated above, but no higher than 70%.<br><br>*Withholding rates:*<br>(i) Income derived from other than the main place of work is withheld from the source at the rate of 20% without taking into account the deductible allowances;<br>(ii) a withholding tax at a rate of 20% applies to Ukrainian-source income paid to non-residents;<br>(iii) dividends and other receipts derived from shares in the profits of Ukrainian resident legal entities are withheld at sources and are taxed at a rate of 15%;<br>(iv) interest is withheld at a rate of 30%. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 1.2 Tax on the profits of enterprises (Law of May 1997 which became effective on July 1, 1997.) | The following are subject to profits tax:<br>(i) Ukrainian legal entities engaged in entrepreneurial activity and international organizations engaged in business activity in Ukraine;<br>(ii) independent affiliates, branches and other divisions of the above taxpayers;<br>(iii) non-resident legal entities which carry out business activities in Ukraine through a permanent establishment;<br>(iv) non-resident foreign legal entities which repatriate Ukrainian-source income.<br><br>In light of the relatively slow progress of accounting reform, the new law has separated tax accounting from financial accounting. The taxable base specifically includes profits from sales of goods and services, sales of assets (including intangible assets and securities), rents and royalties. Income and expenses are accounted for on an accrual basis. Gains and losses on foreign currency assets and liabilities are accrued at year end. The tax is accounted for on a quarterly basis. | *Exempt business income*<br>(i) non-profit organizations, including bodies of local self-government, pension funds, credit unions, religious organizations and charitable funds and organizations which provide ecological, health, sport, cultural, education and scientific activities;<br>(ii) enterprises selling baby food;<br>(iii) companies producing cars with investment of at least $150 million;<br>(iv) political parties and housing cooperatives;<br>(v) agricultural enterprises that increase production by 50 percent (between July 1 and December 31, 1997);<br>(vi) enterprises with foreign investments registered before January 1, 1995, have a five year exemption.<br><br>The tax law does not provide for tax holidays; however, the Cabinet of Ministers can grant tax holidays on an individual basis.<br><br>*Deductions*<br>(i) Pension plans;<br>(ii) certain types of joint investments;<br>(iii) funds or assets received as international technical aid;<br>(iv) funds granted from the Innovation Fund.<br><br>Losses may be carried forward for 5 years. No carry-back is permitted.<br><br>The depreciation rules classify all assets into 3 groups. Assets of each category are pooled and the declining-balance method is used to compute the amount of depreciation. For depreciable assets that were revalued in 1996, the allowable depreciation deduction is limited to 70 percent of what would otherwise be allowable in 1997 and 60 percent of what otherwise would be allowable in 1998.<br><br>In the case of taxpayers other than financial institutions, the procedures for writing off bad debts require taxpayers to go to court or await the bankruptcy or death of the taxpayer. | Most activities are subject to a single tax rate of 30 percent.<br><br>*Special rates:*<br>The sale of innovation products is subject to a reduced rate of 15 percent.<br><br>*Withholding rates:*<br>(i) International transport services at 6%;<br>(ii) income of nonresidents at 15%;<br>(iii) debt instruments issued by residents at 15 %;<br>(iv) insurance premiums at 30%;<br>(v) reinsurance premiums at 15%;<br>(vi) advertising at 30%;<br>(vii) dividends at 30%. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 2. Social Security Contributions (payroll taxes) | | | |
| (a) Pension Fund (Law of Nov. 5, 1991, Resolution of the Supreme Council of Ukraine of June 17, 1993 and of February 7, 1996) | Flat rate tax on wage bill of enterprises | *Exemptions:*<br>(i) Military personnel is exempt from all payroll taxes.<br>(ii) Public sector workers, coal and ore miners, and social and cultural establishments are exempt from contributions to the Chernobyl and Employment Funds. | Employer contribution at 32% and employee contribution at 1% for incomes less than Hrv 150, 2% for incomes between Hrv 150 and Hrv 1,000. The income above Hrv 1,000 is not taxed. |
| (b) Chernobyl Fund (Resolution of the Supreme Council of Ukraine of December 20, 1995 No.2006). | | | Remaining employer contribution of 5% was eliminated on January 1, 1999. |
| (c) Employment Fund (Law of March 1, 1991 No.803, of April 6, 1995 No.125) | | | Employer contribution at 1.5% and employee contribution at 0.5%. |
| (d) Social Insurance Fund (Resolution of the Cabinet of Ministers of April 27, 1994 No.263, Law of April 6, 1995 No.126) | | | Employer contribution at 4%.<br><br>*Special rates:*<br>(i) Civic organizations at an overall rate of 5%.<br>(ii) Income of persons engaged in commercial activity on the basis of their own labor at 33.3%. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 3. Taxes on goods and services | | | |
| 3.1. Value added tax (Law of April 3, 1997, enacted October 1, 1997; amendment of September 26, 1997) | Applies to turnover from the sale of goods (work, services), including barter operations, carried out by any legal persons and persons engaged in individual entrepreneurial activity, if the annual volume of sale of goods (work, services) exceeds 600 minimum wages (Hrv 44,220).<br><br>All importers must register; there is a provision for voluntary registration; small businesses are covered under the presumptive tax.<br>All taxpayers calculate their VAT liabilities by the credit method. Credit is allowed for VAT paid on most purchases of goods (work, services) used for business purposes to produce taxable goods (work, services). Refunds are to be made within a three month period. The law requires tax invoices, but these are given only at the moment of payment.<br><br>The accounting was moved from the cash to the accrual method for October 1, 1998.<br><br>International trade is based on the destination principle, except for trade with Russia and Belarus. | *Zero rated:*<br>(i) Export operations (and imports to Russia and Belarus);<br>(ii) goods (work, services) used by diplomats;<br>(iii) coal until January 1, 1999;<br>(iv) electricity until January 1, 1999;<br>(v) gas sold to consumers and budgetary organizations until January 1, 1999;<br>(vi) unprocessed catch imported to Ukrainian seaports by fishing enterprises;<br>(vii) tourist services when sold outside Ukraine;<br>(viii) patents, copyright and licenses.<br>*Exemptions:*<br>(i) financial intermediation;<br>(ii) child care services and children's food;<br>(iii) health care, some educational services, special goods for the disabled, medicines and medical supplies, services for disabled, sick and elderly;<br>(iv) housing construction;<br>(v) imports by a broad range of charitable, cultural, religious and other organizations;<br>(vi) imported goods "crucial for domestic production"<br>(vii) magazines, newspapers, notebooks, text books and services by archival institutions;<br>(viii) output of firms employing disabled;<br>(ix) sales of agricultural enterprises of products of their own production to certain physical persons;<br>(x) goods and services supplied to institutions of the penal system in accordance with a list approved by the Cabinet of Ministers;<br>(xi) research financed by the state budget;<br>(xii) imports of shipping equipment;<br>(xiii) postage stamps;<br>(xiv) privatization sales;<br>(xv) lottery tickets;<br>(xvi) delivery of pensions;<br>(xvii) services by employment agencies;<br>(xviii) funeral services<br>(xix) agricultural products. | 20 percent. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 3.2 Road Fund tax | Applies to turnover from the sale of goods (work, services), (including barter operations, carried out by any legal persons and persons engaged in individual entrepreneurial activity)<br>Receipts from this tax are earmarked for the Road Fund. | . | Rates are determined by local government and vary between 0.4 and 1.2%. |
| 3.3 Innovation Fund tax (Resolution No. 77, February 18, 1997; Law on the state budget of Ukraine for 1998; art. 29) | Applies to turnover of goods (work, services) in the trade, intermediary, supply and distribution, banking and insurance areas.<br>Part of the receipts from this tax are earmarked for the Innovation Fund. | *Deductions:*<br>Payments for the VAT and excise taxes. | 1 percent. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 3.4. Excises (Law 121 of February 12, 1998, Law 767/97 of December 23, 1997, Decree of the Cabinet of Ministers of Ukraine of Dec.26, 1992 No.18, of June 30, 1993 No.43, laws of Nov.16, 1995 No.432, of Sept.15, 1995 No.329, of Feb.6, 1996 No.30, of May 7, 1996 No.178, of May 24, 1996 No.216, of Nov.11, 1996 No.313. Presidential Edict of Feb.14, 1995 No.55, Resolution of the Supreme Council of Ukraine of Nov.24, 1995 No.461 and of Oct.16, 1996 No.420). | Except for a list of exemptions, rates are identical for domestically produced goods and imports.<br><br>Excises are imposed on imports from Russia and other CIS countries. | *Exemptions:*<br>(i) Exports;<br>(ii) special purpose vehicles (militia vehicles and ambulances);<br>(iii) agricultural products in cases where they are exchanged for fuel, lubricants, and products of other sectors;<br>(iv) alcohol products if they are utilized by domestic producers in the medical sector or in the preparation of food products and similar manufacturing purposes;<br>(v) domestically produced passenger cars and freight/passenger vehicles. | Excisable good — Rate<br>Cigars — Euro 5/100<br>Filter cigarettes — Euro 2/1,000<br>Nonfilter cigarettes — Euro 2.5/1,000<br>Tobacco — Euro 2/kg<br>Wine — Euro 0.1/liter<br>Beer — Euro 0.2/liter<br>Champagne — Euro 0.3/liter<br>Vermouth and other fermented beverages — Euro 3/liter of 100% alcohol<br>Ethyl alcohol, vodka, strong spirits etc. — Euro 3.5/liter of 100% alcohol<br>A72-80 petrol — 40Euro/ton<br>A90-93 petrol — 80Euro/ton<br>A94-98 petrol — 100Euro/ton<br>Diesel — 15Euro/ton<br>Light and medium distillates — Euro 12/ton<br>Aviation and jet fuel — Euro 12-20/ton<br>Coffee — Euro 0.3 /kg<br>Caviar — Euro 10/kg<br>Red caviar — Euro 6/1kg |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| | | | Excisable good — Rate<br>Crabs — Euro 2/kg<br>Prawns — Euro 0.5/kg<br>Lobsters — Euro 2.5/kg<br>Other crustaceans — Euro 1/kg<br>Chocolate — Euro 0.3/kg<br>Instant coffee — Euro 0.8/kg<br>Malt beer — Euro 0.4/kg<br>Leather clothes — Euro10/unit<br>Mink fur clothes — Euro20/unit<br>Nutria, polar fox, fox fur clothes — 30%<br>Jewelry — 35%<br>Kitchen equipment covered by precious metals — 10%<br>Microwave stoves — Euro20/unit<br>Audio-recording devices — 5%<br>Video devices — 5%<br>Sporting guns — Euro 20/unit<br>Other arms — Euro 10/unit<br>Meat by-products of poultry — Euro0.03/kg<br>Audio-cassettes — Euro 0.05/unit<br>Video-cassettes — Euro 0.2/unit<br>Audiocassettes with recorded tape — Euro 0.1/unit<br>Videocassettes with recorded tape — Euro 0.5/unit<br>Compact disks — Euro 0.2/unit<br>Sitting/Office furniture — 15%<br>Color TV sets — Euro 1/(1cm of diagonal dimension of screen) |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 4. Customs duty (Decree of the Cabinet of Ministers of Ukraine of Jan. 11, 1993 No.4, laws of Feb. 6, 1996 No.30, of May 7, 1996 No.173, of May 24, 1996 No.216, and of July 11, 1996 No.313). | | | |
| (a) Import tariffs | | *Exemptions:*<br>(i) Chernobyl-related imports;<br>(ii) certain foreign direct investments.<br><br>The authorities have established at least one economic zone in which no import duties are levied (Sivash area).<br><br>There is a duty-free limit of $100 for individuals. | Ad valorem rates range from 0 to 70 percent with 30 percent for industrial goods and 70 percent for agricultural goods with a range of seven rate bands. Most favored nation tariffs range from 2 to 5 percent. There are 25 items (4-digit SITC) that are subject to a combination of specific and ad-valorem rates.<br><br>The simple average tariff is 12.74 percent. |
| (b) Export tariffs | On cow hides and live animals. | | |
| 5. Natural resource taxation | | | |
| (a) bonus | Under certain production sharing contracts, there appears to be signature bonuses. | | |
| (b) transit fee | Payments for piped gas transit through the territory of Ukraine. Taxpayer is the joint-stock company "Naftogas Ukrainy". | | US$0.2 per 1,000 cubic meters of gas for each 100 kilometers of distance. |
| (c) royalties | Royalty payers are oil and gas enterprises (other than the state manufacturing enterprise "Chornomornaftogaz") extracting gas.<br><br>The tax base for royalties is the volume of extraction. | | US$4.27 per 1,000 cubic meters. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 6. Water tax | Applies to industrial use of water (including hydroelectric power generating enterprises) and water transport enterprises. | *Exemptions:*<br>(i) water used for drinking and sanitary needs;<br>(ii) underground water used in mineral processing;<br>(iii) underground water extracted to correct harmful effects of water (pollution, flooding etc.)<br>(iv) water flowing through turbines of water storage facilities at hydroelectric plants;<br>(v) water used for fish and other water organisms breeding;<br>(vi) water used for fire protection;<br>(vii) water used to landscaping;<br>(viii) water used for transfers by canals and aqueducts;<br>(ix) seawater;<br>(x) seagoing craft using river routes exclusively to reach a seaport at the mouth of a river;<br>(xi) pilot, auxiliary, and towing fleets and water transport on the Danube. | *Rates:*<br>*River basins:*<br>Between Hrv 0.0144 per cubic meter and Hrv 0.0864 per cubic meter, depending on the river basin.<br>*Underground water:*<br>Between Hrv 0.0288 per cubic meter and Hrv 0.09 per cubic meter, depending on region.<br>*Hydroelectric power* generation:<br>Hrv 0.007 per 100 cubic meters flowing through the turbines.<br>*Water transport:*<br>Between Hrv 0.014 and Hrv 0.0125 per ton-day of fleet service, depending on fleet type. |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| <u>Local taxes</u> | | | |
| 1. Land tax (Law of September 19, 1996) | Taxpayers are corporations and individuals who are tenants or users of the tracts of land. | *Exemptions:*<br>(i) nature preserves, national parks, botanical gardens;<br>(ii) organs of the state authority and of local government, budgetary institutions;<br>(iii) sanatoria, associations of the blind and deaf, social organizations of the disabled;<br>(iv) institutions of culture, science, public health, sport, and social security, religious and charitable organizations;<br>(v) lands polluted by radiation and chemicals;<br>(vi) agricultural variety testing stations, domestic scientific research institutions with an agricultural focus and farm lands used for raising young orchards, berry plantations, and vineyards, until such time as they bear fruit;<br>(vii) lands of the roads department for automobile roads of general use, cemeteries;<br>(viii) group 1 and 2 disabled persons, pensioners, war veterans, victims of the Chernobyl disaster, citizens having three or more children;<br>(ix) military units and institutions, enterprises of the Ministry of Defense, and the military-industrial complex.<br>(x) research institutions. | <u>Value Rate</u><br><br>*Agricultural landholding:*<br>for arable land, hay-fields, and pasture 0.1%<br>for perennial plantings 0.03%.<br><br>*Nonagricultural landholding:*<br>for population centers 1%<br>(if no monetary valuation is established, then the average tax rate varies from 1.5 to 21 kopeks per square meter)<br>for lands of industrial, transportation, communications, defense, and other designations 5% |

| Taxes | Nature of Tax | Deductions not subject to taxation/ exemptions from taxes | Rates |
|---|---|---|---|
| 2. Vehicle tax | Tax on vehicles and other self-propelled machines and mechanisms. | *Exemptions:*<br>(i) public vehicular transport enterprises;<br>(ii) establishments and organizations funded by the national budget;<br>(iii) Chernobyl victims, war veterans, veterans of labor, elderly and invalids for one vehicle. | Type of vehicle — Tax rate (Per 100 cc)<br>Wheeled tractor — Euro0.32<br>Vehicles for at least 10 people — Euro 0.45<br>Cars — Euro 0.68–4.55<br>Cargo vehicles — Euro0.45<br>Motorcyles — Euro 0.45<br>Electric vehicles — Euro0.22 (Per 1 kW)<br>Yachts and sailboats — Euro 0.01–0.03 (Per 1 cm of length)<br><br>*Reduced rate:*<br>50 percent reduction for agricultural enterprises on wheeled tractors, buses, and special vehicles at least 10 months old for transporting people. |
| 3. Miscellaneous local taxes | There are local taxes on<br>(i) advertising;<br>(ii) the use of local symbols;<br>(iii) dogs;<br>(iv) hotels;<br>(v) apartments;<br>(vi) resorts;<br>(vii) transit;<br>(viii) sale of imported goods;<br>(ix) kiosks;<br><br>and local municipal and market fees as well as fees on<br>(i) film shooting;<br>(ii) race tracks;<br>(iii) lotteries and auctions. | | |

## Ukraine: Interenterprise Arrears

1. Interenterprise arrears have attracted considerable attention in transition economies, because of their implications on the ability of the government to conduct macroeconomic policies and implement structural reforms.

2. In a transition economy, payment arrears could be classified in terms of their recoverability into: (i) short-term or "trade-credit" related arrears, denoting the normal financing that would be repaid with a fairly stable lag; (ii) longer-term arrears that could be recovered eventually; and (iii) unrecoverable arrears. In terms of behavioral motivation, arrears could be classified as: (i) "genuine," when the debtors' default inadvertently or due to financial difficulties; (ii) "strategic" or collusive arrears, which are accumulated in the expectation of an ex-post bailout, and (iii) "failures-in-corporate control" arrears that would arise because of the incentives to make transactions nontransparent, presumably to benefit selected groups of insiders at enterprises.

3. Of these types of arrears, only the combination of "genuine" and "trade credit" types would be considered normal for a market economy. In many industrialized countries, such arrears typically fall in the range of 15–40 percent of GDP.[1] Other types of arrears are more of an exception in mature market economies, due to the routine enforcement of hard budget constraints, the implementation of bankruptcy proceedings, and effective corporate control mechanisms. In the more advanced transition economies of central Europe (Hungary, Poland, and the Czech Republic), interenterprise arrears declined as a share of GDP during the transition period (from 20–30 percent at the outset), due in part to the imposition of hard budget constraints on enterprises. In Russia, by contrast, interenterprise arrears grew from virtually zero at the outset of transition to about 60 percent of GDP in 1997.

4. The level of interenterprise arrears in Ukraine, as measured by overdue payables,[2] started from basically nil at end-1991, but increased to 13 percent of GDP by end-1994 (Appendix Table 62, Figure 12). This share continued to increase further in 1995, despite the government-initiated offsets and write-offs. As the macroeconomic stabilization took hold beginning in 1995–96 with a concomitant hardening of enterprise budget constraints, the accumulation of both total and overdue payables accelerated. Overdue payables increased to 80 percent of GDP by early 1997 and to about 100 percent in late 1998. The ratio of overdue

[1]See Alfandari G. and M. Schaffer "Arrears in the Russian Enterprise Sector," in Commander S., Fan Q., and M. Schaffer (Eds.) "Enterprise Restructuring and Economic Policy in Russia."

[2] Enterprise payables (receivables) are defined as outstanding claims on (of) a given enterprise by (on) other enterprises. The definition of overdue payables is contract-specific and the data are reported by enterprises. The data on budgetary organizations are not included into the above numbers.

payables to total payables increased sharply from about 30 percent on average in 1996 to over 70 percent in 1997, and stayed at this high level thereafter; the ratio was even higher for overdue wages (Appendix Table 62).[3]

5. Government policies stand out as a main determinant of the sharp increase in interenterprise arrears. First, accumulation of government expenditure arrears has encouraged nonpayment by enterprises. Second, given the repeated attempts to clear arrears with government subsidies and/or netting out operations, a substantial portion of the arrears may have been accumulated for "strategic" considerations, in an expectation of an ex-post bailout. Indeed, the increase in total and overdue payables as a percentage of GDP since early 1996 might be explained by the fact that a substantial portion of the arrears may have been accumulated in an expectation of an ex-post bailout, which did not materialize to the extent expected. Given the history of hyperinflation in Ukraine, "strategic" considerations might have also included an expectation of an inflationary bout that would erode the real value of the arrears. Finally, the slow pace of structural reforms such as hardening of budget constraints, privatization, and implementation of bankruptcy legislation might have somewhat blurred the distinction between "recoverable" and "non-recoverable" arrears.[4] It could have also delayed improvements in corporate governance.

6. The high level of interenterprise arrears has significant economic consequences. The arrears overhang taxes economic activity mainly through two channels. On the asset side of the balance sheets, firms' receivables are immobilized, often indefinitely, especially since in the absence of a developed capital market these claims cannot be traded. As a result **net** creditors subsidize other enterprises (see below). This hampers an efficient allocation of resources and affects prospects for economic growth, as in most circumstances the net creditor enterprises are likely to be more viable than the net debtors.

7. On the liability side, existence of claims on a firm (because of payables), even if many of these claims are not expected to be honored, could disrupt the operation of even viable firms, especially in a discretionary environment of a transition economy like Ukraine. This factor could negatively affect any firm with gross payables, regardless of whether it is a creditor or debtor in net terms. In Ukraine, almost all large firms have gross payables. Even the most important net creditor sectors, such as electricity or transportation, owe gross payables which are significantly larger than their net creditor position. Furthermore, potential claims on firms' future output discourage the use of cash-based transactions, since it would be more difficult for creditors to claim earnings from such operations.

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[3]The nominal value of the payables increased even in the absence of new payables, because interest penalties are included in the data presented in Appendix Table 62. However, these are estimated to represent about 1 percent of the total stock of payables.

[4]For example, the likelihood of an enterprise's survival in the market economy would be much harder to gauge if the enterprise is subsidized, especially in a nontransparent manner.

8. Appendix Tables 63 and 64 construct approximate measures of cross subsidization for different economic sectors and branches of industry from mid-1997 and to late 1998, based on a few assumptions by the Fund staff. Appendix Table 62 shows that gross payables aggregated across all sectors are higher than aggregate gross receivables by about 30 percent, although the two measures cover the same sectors. The difference is mainly related to accounting procedures, which stipulate that receivables should be shown at factor cost in enterprise balance sheets, while payables are shown at final sale prices, which include taxes and other charges. To correct for this discrepancy, it is assumed that the tax wedge between payables and receivables is distributed evenly across sectors. This normalization procedure is unlikely to affect the direction of cross-subsidization, in part because, for a given sector, the size of the tax wedge would be positively correlated with the sector's relative contribution to the budget. On this basis, a measure of net subsidization is constructed, as shown in Appendix Tables 63 and 64. Through these simplified assumptions, the tables identify the sectors that systematically subsidize the inefficient enterprises through the accumulation of arrears.[5]

9. While a measure of cross subsidization is informative, there are some caveats. First, this measure could be biased by "virtual" relative prices, although, in the observed period, most of the prices were determined freely in Ukraine. Second, it is not clear why net creditors would want to continue to subsidize loss-makers.[6] Although government pressure does play a role, other factors may be important. One possible explanation is that accumulation of arrears is encouraged by groups that benefit from the lack of transparency in these operations.

10. Whatever their precise impact, the existence of interenterprise arrears in Ukraine and some other transition economies has been a significant impediment to progress of market-oriented reforms. They have severely complicated the conduct of macroeconomic policies,[7] drained resources from the efficient producers, thus retarding prospects for economic recovery, reduced transparency in economic decisions, and encouraged enterprises to maintain ties with traditional suppliers or customers, instead of focusing on attracting private investment and improving their efficiency.

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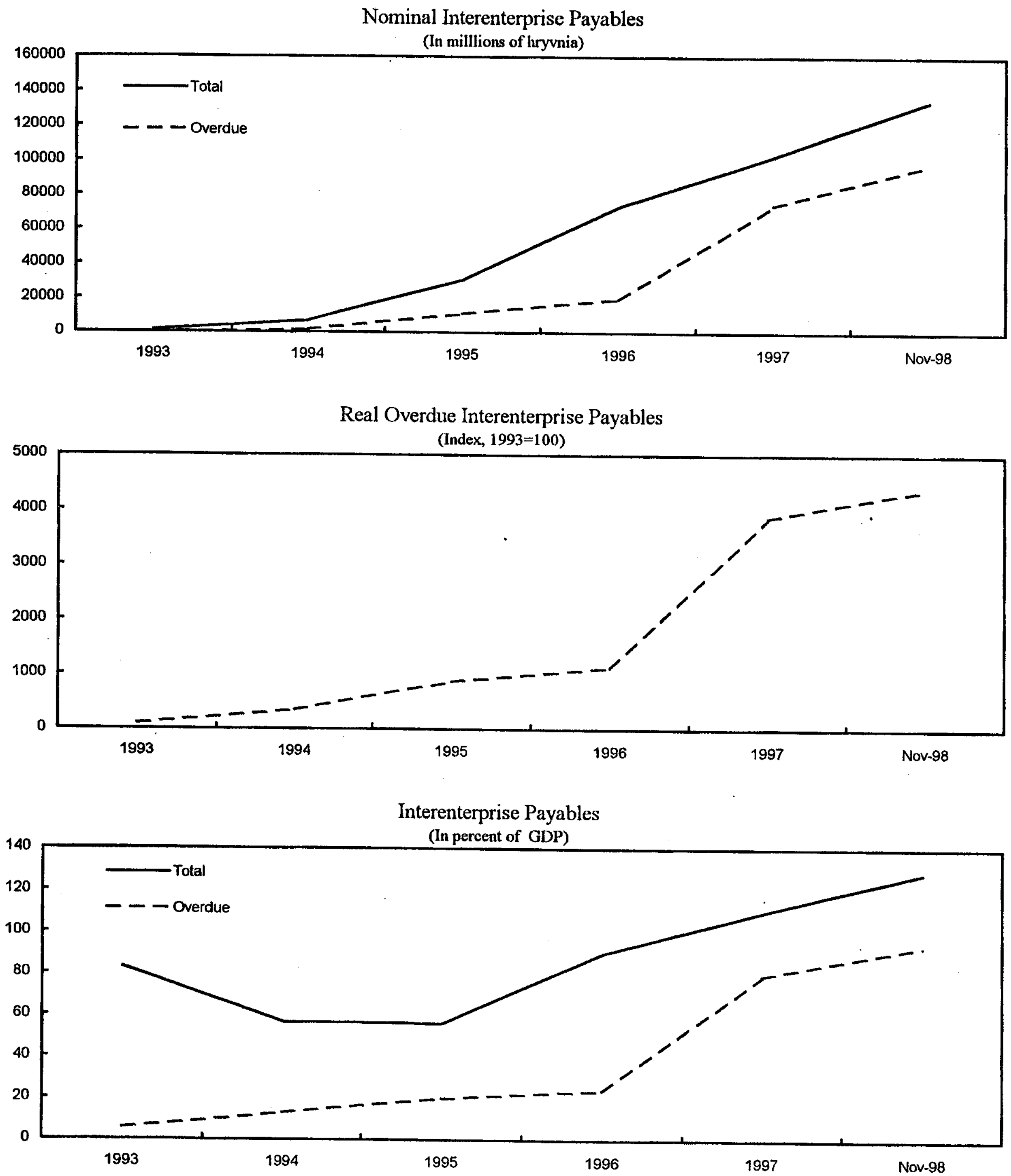
[5]As is conjectured in Gaddy, C. and B. Ickes (1998) "Russia's Virtual Economy," Foreign Affairs, 77: 53–67, September–October.

[6]For example, the ferrous metals industry, which on paper appears to be a chronic loss-maker, seems to have experienced vigorous export-led growth in 1996–97 without a decrease in its net subsidization.

[7]Easterly W. and P. Vieira da Cuhna (1994) "Financing the Storm: Macroeconomic Crisis in Russia," Economics of Transition, European Bank for Reconstruction and Development, 2:443–65, December.

Figure 12. Ukraine: Interenterprise Arrears, 1993-November 1998 1/

(End of period)




Sources: Ukrainian authorities; and Fund staff estimates.

1/ The definition of payables as overdue is contract-specific.

## Table 62. Ukraine: Enterprise Arrears, 1993–98 (September)

(End of period; in millions of hryvnia, unless otherwise indicated)

| | In nominal terms | | | | | In January, 1993 real terms | | | | | In percent of GDP | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Payables | overdue | Receivables | Wages | overdue | Payables | overdue | Receivables | Wages | overdue | Payables | overdue | Receivables | Wages | overdue |
| Dec | 1,276 | 87 | 993 | | | 21.55 | 1.47 | 16.78 | | | 83% | 6% | 65% | | |
| Dec | 6,834 | 1,541 | 4,904 | | | 22.59 | 5.09 | 16.21 | | | 57% | 13% | 41% | | |
| Dec | 30,543 | 10,879 | 22,250 | | | 35.91 | 12.79 | 26.16 | | | 56% | 20% | 41% | | |
| Dec | 73,168 | 19,634 | 48,018 | | | 61.57 | 16.52 | 40.40 | | | 90% | 24% | 59% | | |
| Mar | 84,968 | 65,517 | 59,312 | 4,466 | 3,808 | 69.06 | 53.25 | 48.21 | 3.63 | 3.09 | 103% | 79% | 72% | 5% | 5% |
| Jun | 95,149 | 71,863 | 65,251 | 4,782 | 4,077 | 76.03 | 57.43 | 52.14 | 3.82 | 3.26 | 112% | 85% | 77% | 6% | 5% |
| Sep | 98,428 | 74,744 | 70,219 | 4,981 | 4,233 | 77.65 | 58.96 | 55.39 | 3.93 | 3.34 | 111% | 84% | 79% | 6% | 5% |
| Dec | 102,507 | 73,958 | 74,085 | 5,293 | 4,520 | 78.33 | 56.51 | 56.61 | 4.04 | 3.45 | 111% | 80% | 80% | 6% | 5% |
| Mar | 103,873 | 77,533 | 79,748 | 5,490 | 4,661 | 78.04 | 58.25 | 59.92 | 4.13 | 3.50 | 110% | 82% | 84% | 6% | 5% |
| Jun | 114,015 | 86,321 | 85,475 | 6,077 | 5,115 | 84.56 | 64.02 | 63.40 | 4.51 | 3.79 | 117% | 89% | 88% | 6% | 5% |
| Sep | 121,125 | 89,760 | 92,133 | 6,576 | 5,380 | 87.16 | 64.59 | 66.30 | 4.73 | 3.87 | 124% | 92% | 95% | 7% | 6% |

: Ukrainian State Committee on Statistics; and Fund staff estimates.

Table 63. Ukraine: Implied Net Receivables by Branch of the Economy, 1997–98 (November) 1/
(In percent of total receivables)

| | | Industry | Agriculture | Transport and Communication | Construction | Trade and Public Catering | Material Procurement | Other |
|---|---|---|---|---|---|---|---|---|
| 1997 | Mar | -6.6 | -5.7 | 6.0 | 2.0 | 0.7 | 0.9 | 2.7 |
| | Jun | -6.0 | -6.7 | 6.4 | 1.2 | 0.2 | 1.5 | 3.4 |
| | Sep | -6.9 | -6.8 | 7.0 | 1.3 | 1.9 | 0.5 | 3.1 |
| | Dec | -6.6 | -6.7 | 6.9 | 1.7 | 1.5 | 0.6 | 2.7 |
| 1998 | Mar | -6.7 | -7.2 | 8.0 | 1.2 | 1.2 | 0.5 | 3.0 |
| | Jun | -5.6 | -7.7 | 7.7 | 1.1 | 0.8 | 0.5 | 3.2 |
| | Sep | -5.7 | -7.1 | 7.9 | 1.3 | -0.6 | 0.5 | 3.8 |
| | Nov | -3.6 | -6.1 | 6.9 | 1.2 | -2.7 | 0.4 | 3.8 |

Sources: Ukrainian State Committee on Statistics; and Fund staff estimates.

1/ Net receivables are calculated as the difference between receivables owed to a given sector and payables owed by this sector. Receivables, which are based on factor cost and exclude taxes and other charges, are adjusted by the staff to reflect the differences in accounting methodology with payables, which are based on the final sales price. The adjustment assumes that the impact of these differences is uniform across sectors.

## Table 64. Ukraine: Implied Net Receivables by Industrial Branch, September 1997–November 1998 1/
(In percent of total receivables)

| | Electricity | Fuel | Ferrous Metallurgy | Nonferrous metallurgy | Chemicals and Petrochemicals | Machinebuilding and metalworking | Forestry and paper production | Materials procurement | Light industry | Animal feed | Food | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1997 Sep | 7.2 | -2.0 | -7.1 | -0.8 | -2.5 | -2.7 | -0.8 | -1.1 | -0.7 | -1.7 | 0.2 | 4.4 |
| Dec | 9.1 | -2.2 | -7.5 | -0.9 | -2.4 | -2.5 | -0.8 | -1.1 | -0.8 | -1.7 | 0.1 | 3.4 |
| 1998 Mar | 9.1 | -2.4 | -7.4 | -0.9 | -2.6 | -2.5 | -0.7 | -1.3 | -0.9 | -1.3 | 0.1 | 3.5 |
| Jun | 9.4 | -2.3 | -7.3 | -0.9 | -2.4 | -2.2 | -0.7 | -1.1 | -0.8 | -1.1 | 0.2 | 3.1 |
| Sep | 10.3 | -2.3 | -6.5 | -0.9 | -2.3 | -2.7 | -0.7 | -1.2 | -0.8 | -1.5 | 0.2 | 2.1 |
| Nov | 10.9 | -1.4 | -6.9 | -0.6 | -2.5 | -2.5 | -0.6 | -1.0 | -0.6 | -1.4 | 0.2 | 2.7 |

Sources: Ukrainian State Committee on Statistics; and Fund staff estimates.

1/ Net receivables are calculated as the difference between receivables owed to a given sector and payables owed by this sector. Receivables, which are based on factor cost and exclude taxes and other charges, are adjusted by the staff to reflect the differences in accounting methodology with payables, which are based on the final sales price. The adjustment assumes that the impact of these differences is uniform across sectors.

## UKRAINE: AGRICULTURAL SECTOR

1. **Reform of the agriculture sector is considered a key milestone in the market-oriented transformation of the Ukrainian economy, both because of its relative size and its capacity to generate private activity**. In addition to accounting for some 11–12 percent of official GDP in 1997–98,[1] agriculture is a significant source of inputs to the large food-processing industry, and a source of demand for machinery and other industrial goods. Private sector had been expected to quickly capitalize on Ukraine's comparative advantage in agricultural production, contributing to economic growth with positive spillovers across the entire economy. While this has not yet not taken place, agriculture and related sectors still attracted about half of the modest foreign direct investment in Ukraine during 1997–98.

2. **Agricultural performance continued to be disappointing in 1997–98.**[2] This was manifest in further declines in output, erosion of profitability, and the effective stalling of market-oriented reforms. Ukraine's food and agricultural exports continued to fall in 1997 and 1998 both in absolute terms and as a share of total exports (Table 55). Productivity trends have been also disappointing. Appendix Table 65 indicates that the cumulative fall in labor productivity since 1990 was significantly larger than that for output, while private sector output in the sector barely increased in real terms.

Table 65. Ukraine: Agricultural Output and Labor Productivity, 1991–97
(Index, 1990=100)

| | All Enterprises | Gross Output State Sector | Private Sector | Labor Productivity All Enterprises |
|---|---|---|---|---|
| 1991 | 86.8 | 82.6 | 96.9 | 85.1 |
| 1995 | 65.1 | 47.9 | 106.3 | 57.6 |
| 1996 | 58.9 | 37.9 | 109.4 | 49.7 |
| 1997 | 57.8 | 36.2 | 109.7 | 51.8 |

Source: Ukrainian authorities.

3. Also, **agriculture has been a drain on the budget and the economy**. The percentage of loss-making in the sector was the highest compared to other branches of the

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[1]Agriculture's effective share in GDP would, with all probability, be much higher if account were taken of its role in the unofficial economy. For instance, its share in total employment is much higher, at 22 percent.

[2]Due to coverage problems, official data may overstate the decline in agriculture.

economy (Appendix Table 67), and tax arrears of agricultural enterprises have been growing rapidly, reaching Hrv 600 million in late 1998. In addition, the government has been subsidizing agriculture through a series of ad-hoc schemes, in which suppliers of agricultural inputs are offered government guarantees for advancing fuel and equipment to the sector. The associated debts of the agriculture enterprises are routinely canceled or restructured through government decrees. At times, the lenders have been asked to absorb the losses. With respect to interenterprise arrears, in mid-1998 the agriculture sector's net payables were larger than those of any other sector, including industry (See Appendix II). Furthermore, agriculture's share of net payables over total (gross) payables in the economy has been steadily increasing since early 1997.

4. The weak performance of the sector has been partly rooted in the legacy of **deficient and outdated infrastructure** inherited from the times of central planning. Much of the existing infrastructure and equipment are geared to the needs of large producers, thus putting the emerging smaller private producers at a disadvantage. In addition, the dominance of government ownership in grain elevators and other processing activities hinder competition in sales and marketing. As a result, harvest and storage losses and marketing costs have remained high. Appendix Table 66 presents a detailed comparison of recent grain production and marketing indicators between Ukraine and Germany.

Table 66. Costs and Losses in Ukrainian and German Grain Production and Marketing
(In percent)

| | Ukraine | Germany |
|---|---|---|
| Harvest losses | 7.0 | 2.0 |
| On-farm losses | 6.5 | 1.0 |
| Transport losses | 1.7 | 1.0 |
| Total storage costs in elevator | 12.0 | 6.5 |
| Handling, rail, and river | 4.0 | 3.0 |
| Handling, seaports | 10.4 | 5.8 |
| Trade margin | 10.4 | 4.9 |

Source: Striewe L. "Grain and Oilseed Marketing and Transportation in Ukraine," Occasional Paper No. 5, Center for Privatization and Economic Reform in Agriculture (CPER), Kyiv.

5. **Absence of essential structural reforms has contributed to the weak performance of the agriculture sector**. Implementation of these reforms, especially land reform, price and trade liberalization, and demonopolization and privatization of agricultural enterprises, could

have helped attract foreign direct investment and facilitated a modernization of Ukraine's infrastructure.[3] There is also a need to improve the transparency of government operations and financial discipline in this sector.

6. While some progress was made in the **liberalization of agricultural activity** in 1997–98, there were also a number of reversals. In 1997 and throughout most of 1998, agricultural commodities were basically free of quota and licensing restrictions. In 1998 the government also canceled the practice of state grain procurement. However, many local governments continued to regulate agricultural producers' activities and interfere with the movement of agricultural products. Large state-owned firms appear to have had a number of unfair advantages over private producers in supplying or processing their output. One example is a government decree, issued in July 1998, that gave state and collective farms priority in processing their grain at the elevators and in repaying their debts. While this regulation was abolished in September, local governments used it to the disadvantage of private producers. Also, the central government attempted to enact a ban on sugar and oilseed exports in late 1998, presumably in order to be able to deliver on a possible commitment to export these products to Russia in partial payment of gas delivery.[4]

7. **Demonopolization and privatization** in the sector has made some important progress, but much remains to be done. Privatization of the grain elevators and other enterprises previously controlled by the state monopoly Bread of Ukraine gained pace in 1998. However, there is evidence that formal and informal monopolies continue to operate despite privatization. These, inter alia, concern the input supply to the sector, with enterprises like Ukragrokhim, Ukragrotechservice, Agrotechnology. Also, the monopoly transport company Ukragrotrans reportedly charges very high tariffs for poor and unreliable service.[5]

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[3]For example, the Center for Privatization and Economic Reform in Agriculture reported at various times the increased demand for, and use of, imported grain storage equipment designed for medium-sized quantities of grain.

[4]The ban was, however, quickly reversed.

[5]See Occasional Paper No. 5, Center for Privatization and Economic Reform in Agriculture, CPER, Kyiv.

## Table 67. Ukraine: Loss-Making Enterprises, 1996–98 (Q2) 1/

| | 1996 | | | | 1997 | | | | 1998 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| | | | | | (Number of enterprises) | | | | | |
| Loss-making enterprises | 18,036 | 17,575 | 16,294 | 26,625 | 21,978 | 21,382 | 21,207 | 35,060 | 26,133 | 25,764 |
| Of which in: | | | | | | | | | | |
| Industry | 2,513 | 2,521 | 2,542 | 3,154 | 4,177 | 4,161 | 4,293 | 5,155 | 5,673 | 5,686 |
| Transport | 868 | 794 | 792 | 809 | 1,217 | 1,239 | 1,230 | 1,276 | 1,552 | 1,500 |
| Construction | 2,145 | 1,923 | 1,778 | 1,994 | 2,758 | 2,761 | 2,761 | 3,084 | 3,702 | 3,553 |
| Agriculture 2/ | 422 | 373 | 336 | 8,768 | 580 | 550 | 537 | 11,361 | 680 | 633 |
| Housing | 1,191 | 1,171 | 1,093 | 1,048 | 1,246 | 1,171 | 1,151 | 1,110 | 1,320 | 1,316 |
| | | | | | (In percent) | | | | | |
| Proportion of loss-makers relative to all enterprises | 40.4 | 38.7 | 35.8 | 43.0 | 47.5 | 45.5 | 45.0 | 53.4 | 55.1 | 53.8 |
| Of which in: | | | | | | | | | | |
| Industry | 27.8 | 27.4 | 27.2 | 30.0 | 42.9 | 41.9 | 42.8 | 45.1 | 55.0 | 54.5 |
| Transport | 36.4 | 32.9 | 32.3 | 31.1 | 50.9 | 52.1 | 51.5 | 50.6 | 64.6 | 62.7 |
| Construction | 35.8 | 31.7 | 29.5 | 31.7 | 44.4 | 43.1 | 42.5 | 44.6 | 57.2 | 54.4 |
| Agriculture 2/ | 49.0 | 44.2 | 39.7 | 66.0 | 67.1 | 62.8 | 60.5 | 80.1 | 77.2 | 71.6 |
| Housing | 50.5 | 48.6 | 44.9 | 42.4 | 49.2 | 44.9 | 44.0 | 41.2 | 48.2 | 47.5 |
| | | | | | (In millions of hryvnia) 3/ | | | | | |
| Total recorded losses | 969 | 1,599 | 1,875 | 4,655 | 1,269 | 3,044 | 3,468 | 8,546 | 2,057 | 3,126 |
| Of which in: | | | | | | | | | | |
| Industry | 528 | 981 | 1,178.7 | 1,776 | 741 | 1,279 | 1,700 | 2,643 | 1,351 | 2,043 |
| Transport | 59 | 88 | 116 | 279 | 99 | 1,224 | 1,093 | 1,219 | 130 | 271 |
| Construction | 47 | 59 | 71 | 95 | 65 | 88 | 118 | 170 | 100 | 161 |
| Agriculture 2/ | 5 | 8 | 13 | 1,894 | 13 | 19 | 25 | 3,674 | 19 | 27 |
| Housing | 223 | 271 | 242 | 280 | 212 | 207 | 245 | 272 | 198 | 214 |

Sources: Ukrainian authorities; and Fund staff estimates.

1/ Excludes small business, joint ventures, and cooperatives.
2/ Most agricultural enterprises report only on an annual basis.
3/ Data in millions of hryvnia, introduced September 1996, where Krb 100,000 = 1Hrv.

## Ukraine: The Banking System in Transition

### I. Introduction

1. Building a sound banking system is an important part of the transition to a market-based economy. In such economies, financial institutions play a crucial role in the allocation of resources, intermediating between savers seeking safe instruments for their funds and entrepreneurs seeking finance for their investment projects. An efficient banking system, able to channel funds to competitive and healthy enterprises, plays an essential role in helping to promote economic growth. The first section of this appendix provides a general overview of Ukrainian banks. The second section discusses the role of commercial banks in the economy. While work is still underway to assess the health of the banking sector and to formulate restructuring plans, the third section attempts to provide a preliminary assessment. The fourth section summarizes some steps required to restructure the banking system. A final section briefly describes the bank supervision department of the NBU. This appendix does not attempt to be exhaustive and does not cover a number of important issues including the problems of management and corporate governance but it does aim to shed some light on the main steps required to build a sound, market-based banking system in Ukraine.

### II. The Ukrainian Banking System: An Overview

2. Ukraine's banking sector consists of about 220 commercial banks, many of which are small (Appendix Table 68). Prior to 1991, the banking system consisted of Ukrainian branches of state-owned USSR banks. Since independence, many private banks have been established in an environment characterized by low entry cost (no minimum statutory capital requirements initially) and limited banking supervision. In February 1996, the NBU acquired the full authority to license banks. It began to relicense banks, increased the minimum statutory capital requirement, and started to liquidate banks not complying with prudential regulations. As a result, the growth in the number of banks has stopped.

3. By international standards, Ukraine's banking system is small, despite the large number of banks. The total assets of the banking system were equivalent to about $4 billion at the end of 1998, less than the assets of a single medium-size commercial bank in a developed economy. The small size of Ukraine's banking system reflects the legacy of the centrally-planned system where commercial banking played virtually no role. But it also reflects the period of hyperinflation experienced by Ukraine shortly after independence. Confidence in the banking system has remained low and the public has held more currency in the form of cash than in the form of bank deposits. A substantial amount of national savings is also reportedly stored in the form of foreign banknotes and in overseas bank accounts. Restoring confidence is a key factor in rebuilding deposits in the banking system and in developing Ukraine's commercial banks.

Table 68. Ukraine: Indicators of the Banking System, 1991–98 (First half)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 1st half |
|---|---|---|---|---|---|---|---|---|
| Number of registered banks | 76 | 133 | 211 | 228 | 230 | 229 | 227 | 222 |
| Banks with 100% foreign capital | — | — | — | 1 | 1 | 2 | 6 | 8 |
| Banks licensed for foreign exchange operations | — | — | — | 115 | 134 | 146 | 157 | 162 |
| Average paid in capital by bank (in Hrv million) | — | — | — | 0.4 | 2.6 | 5.8 | 8.6 | 9.5 |
| Banks liquidated | — | 3 | 6 | 11 | 1 | 11 | 10 | 8 |

Source: National Bank of Ukraine.

4. Ukrainian commercial banks can be grouped in the following categories:

**The largest banks**. Seven large banks have assets exceeding Hrv 500 million. They account for more than half of the assets in the entire banking system. They consist of:

- Prominvest Bank (formerly state-owned), specializes in the industrial sector;
- Oschadny Bank (state-owned): the successor of the Ukrainian branch of the Soviet Union Sberbank, Oschadny specializes in the collection of household deposits;
- Exim Bank (state-owned bank), the successor of the Ukrainian bank of the Soviet Union's Vnesheconombank; specializes in banking operations related to international trade;
- Bank Ukraina (formerly state-owned), specializes in lending to agriculture;
- Ukrsots Bank (formerly state-owned), is specialized in housing, municipal, and social services;
- Aval Bank (new private bank) is used by the government for the payment of pensions to Ukraine's 15 million pensioners;
- Privatbank (new private bank) has its headquarters located in Dnipropretrovsk and has a regional basis of corporate and private clients.

- **Medium-size banks.** About 20 domestic banks have assets of more than Hrv 100 million but less than Hrv 500 million. Altogether, the 27 large and medium banks account for 80 percent of the banking system's assets (Appendix Table 71).

- **Small banks.** There are 159 banks with assets of less than Hrv 100 million, of which there are 69 small banks with assets of less than Hrv 10 million. Many of the small banks are in fact the financial departments of large enterprises with which they have a captive financial relationship.

- **Banks with foreign capital.** There are 28 banks with foreign capital operating in Ukraine, all of them in the form of subsidiaries. Of these banks, 8 are fully owned by foreign banks, including Société Générale Ukraine and Crédit Lyonnais Ukraine which have the largest assets under management among foreign banks. These banks specialize in corporate banking and are not engaged in retail banking. Foreign banks with 100 percent foreign capital need to have a statutory capital equivalent to ECU 10 million, which is larger than the minimum statutory capital required from Ukrainian banks (ECU 1 million for a regular license; ECU 2 million for a foreign-exchange license).

## III. The Role of Commercial Banks in the Ukrainian Economy

5. In many countries, commercial banks play an important role through their financial intermediation, channeling funds from savers seeking safe and attractive deposits to firms in need of financing. In Ukraine, however, the banking system plays a limited role in the economy. Compared to similar countries, banks have a small deposit base, a limited portfolio of credit to the enterprise sector and, following the financial difficulties during August–September 1998, a limited appetite for securities issued by the government.

Table 69. Ukraine: Deposits with and Claims of Commercial Banks, 1997
(In percent of GDP)

| | Time and Demand deposits 1/ | Claims on the nonfinancial sector | Claims on general government |
|---|---|---|---|
| Ukraine | 6.9 | 8.3 | 1.9 |
| Russia | 12.5 | 11.1 | 8.7 |
| Poland | 32.7 | 24.6 | 1.2 |
| Turkey | 34.4 | 25.6 | 9.9 |

Source: International Financial Statistics, IMF.

1/ These figures include foreign currency deposits.

6. **The expansion of Ukraine's banks has been limited by the small amount of deposits that they can mobilize** (Appendix Table 69). Households and enterprises are reluctant to hold deposits due their lack of confidence in the banking system, the poor quality of banking services, and the risk that deposits may be seized arbitrarily by STA. Households hold about half of commercial bank deposits (Hrv 3.8 billion), mostly in the form of time deposits in domestic currency (Appendix Table 70). On average, households hold only Hrv 75 per capita and therefore do not provide a significant source of funding to banks, in contrast to other countries. Oschadny Bank used to hold the majority of households deposits but is losing market share rapidly to banks that provide better services and more attractive deposit rates. Two private banks (Prominvest and Privatbank) now attract a significant portion of household deposits. Enterprises hold deposits of Hrv 3.3 billion, slightly less than households, mostly in the form of time deposits in both national and foreign currencies. Government agencies hold approximately Hrv 1 billion in deposits with commercial banks. These deposits are placed mostly with Aval Bank, Ukrsots Bank, Prominvest Bank, and Bank Ukraina.

7. **Due to their financing constraints, banks extend only a limited amount of credit.** Most of the credit portfolio consists of loans to the enterprise sector extended at interest rates closely linked to the refinancing rate of the NBU. About one-half of the credit portfolio is noncollectible in full and represents either prolonged or nonperforming loans. In 1998, the share of nonperforming loans increased as a result of the sharp depreciation of the hryvnia, the high level of interest rates, and the economic downturn. The share of nonperforming loans varies according to the specific situation of each bank, the quality of credit decisions, the economic sector in which they specialize, and the diversification of credit portfolios.

8. **During 1997 and the first half of 1998, banks channeled an increasing share of their resources to the profitable treasury bill market** (Appendix Table 72, Figure 13). As a result, claims on the general government sharply increased and, at the peak of the investment cycle in August 1998, banks held about Hrv 2.5 billion in treasury bills. Following the change in market sentiment that occurred during September 1998, however, new purchases of treasury bills stopped and outstanding claims to the general government started to decline. Commercial banks accepted conversion of about one-third of their portfolio of short-term treasury bills into long-term bonds.

## IV. The Health of the Banking System

9. As noted in Chapter IV, many of the problems in the banking sector lie in the seven largest banks and their restructuring will be key in future efforts. Preliminary results of the full diagnostic analyses suggest that several of the largest banks face serious difficulties. Nevertheless, there are elements of strength as well as fragility in the Ukrainian banking sector, which are discussed below. The emergence of sound and solid commercial banks is hampered by a number of weaknesses. These include a generally weak economic environment, which makes banking a risky activity; an uncertain legal framework, in particular uncertainties regarding the value of collateral brought by creditors; a legacy of bad loans; an insufficient

level of capitalization in many banks; and liquidity problems which may at times become very serious. Notwithstanding these weaknesses, there are also areas of strength in the banking system, including the nearly complete privatization of the sector; the supervision exercised by the NBU; the limited amount of off-balance sheet operations and particularly of derivative products; and the limited exposure to foreign exchange risks. These strengths played a positive role during the period of financial stress in August–October 1998.

Table 70. Ukraine: Household Deposits in the Banking System, 1994–98 (October)

| | 1994 | 1995 | 1996 | 1997 | October 1998 |
|---|---|---|---|---|---|
| | | | (In millions of hryvnia) | | |
| Household deposits | ... | ... | ... | ... | 3,770 |
| domestic currency | 214 | 504 | 951 | 1,612 | 2,920 |
| foreign currency | ... | ... | ... | ... | 850 |
| Households deposits with the Savings Bank | 131 | 361 | 545 | 733 | 800 |
| | | | (In percent of GDP) | | |
| Household deposits | ... | ... | ... | ... | 3.6 |
| domestic currency | 17.8 | 9.2 | 1.2 | 1.7 | 2.8 |
| foreign currency | ... | ... | ... | ... | 0.8 |
| Households deposits with the Savings Bank | 10.9 | 6.6 | 0.7 | 0.8 | 0.8 |
| | | | (In millions of hryvnia) | | |
| GDP | 1,204 | 5,452 | 81,519 | 93,365 | 104,729 |

Source: National Bank of Ukraine.

## Elements of fragility

10. The economic and financial difficulties experienced by Ukraine in recent years have put some banks under stress. Several factors served to make the Ukrainian banking system fragile.

- **Economic environment.** The weak economic environment reduces the creditworthiness of borrowers and affects business opportunities. This is accompanied by a nonpayment crisis, a large stock of interenterprise arrears, and a substantial amount of transactions in barter form. Ukrainian banks face an economic situation where traditional banking is a high risk activity.

- **Legal framework.** Commercial banks face an uncertain legal framework and a frequently changing regulatory environment. Commercial banking is regulated under the provision of the law on "Banks and Banking Activity" which became effective in March 1991. This law, however, failed to provide the framework needed to foster sound and safe commercial banking practices. The law failed in particular to prevent high levels of exposure to shareholders and insiders, and it did not provide incentives for governance and management consistent with those found in a market economy. A new law has been drafted to address these concerns and is expected to be approved by parliament in 1999. Uncertainties also arise from the "Law on Pledges," which makes if difficult to lay claims on assets in the event a borrower defaults. Bankers therefore generally ask for collateral in the form of cash, government securities, or moveable assets. Weaknesses in the "Law on Bankruptcy," the inexperience of bankruptcy judges, the high cost of litigation, and the years that may be needed to obtain a court decision, also undermine lending by commercial banks. Finally, banks face uncertain tax liabilities. In December 1998, for instance, several foreign-owned banks suddenly faced large tax liabilities due to an interpretation by STA of the enterprise profit tax law. The new interpretation required banks to pay retroactively, with interest and penalties, taxes due by nonresidents on treasury-bill earnings. This interpretation was in direct contradiction with bilateral tax treaties.[1]

- **Asset quality.** The government has for years directed banks to lend to enterprises. Although this has been accompanied by explicit or implicit state guarantees, these guarantees are most frequently not honored. This has weakened the balance sheet of many banks. There are many problems with the exact status of nonperforming loans which makes a speedy resolution unlikely. Some nonperforming loans were initially extended with a government guarantee and banks claim that the government is responsible for the repayment of these loans. Questions abound regarding the legal status of debtors and the ability of banks to collect repayments from debtors or from the government guarantee. According to official statistics, nonperforming loans totaled Hrv 1.9 billion at end-1998, the equivalent of the entire statutory capital of the banking system. If assets were properly valued, the stock of nonperforming loans would be even larger. Loan loss provisions cover only one-third of the stock of nonperforming loans. If banks fully provisioned their nonperforming loans against losses, some of them would likely record a negative net worth.

- **Capitalization.** The total capital of the banking system, according to local accounting reports, was equivalent to about Hrv 5 billion in October 1998. This amount is exaggerated by local accounting practices which overvalue the quality of the credit portfolio and exaggerate the value of collateral. Annual audits prepared in accordance with international accounting standards report a much lower level of capital. On

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[1]This legal problem was resolved in January 1999 when parliament approved an amendment to the enterprise profit tax law eliminating the contradiction with bilateral tax treaties.

average, banks had statutory capital of Hrv 9 million, the equivalent of about ECU 2 million. The largest statutory capital in private banks are reported to be held by Prominvest, Privatbank, and Exim Bank. Most banks, however, have not yet started to make significant provisions for losses. Had they made appropriate provisions, some banks would likely register a negative net worth.

- **Liquidity.** Banks resort largely to demand and short-term deposits to fund their activities, but they invest their assets in long-term loans or securities. Most banks therefore have a structural maturity mismatch, with short-term liabilities exceeding short-term assets. This leaves them exposed to changes in market sentiment. But the liquidity situation of many banks is adequate because they hold substantial amounts of cash in vault and large balances in their correspondent accounts at the NBU. With this liquidity at the NBU and in cash, most banks generally do not face serious liquidity problems.

- **Corporate governance.** Due to the rapid development of many small banks, many managers lack the skills and knowledge required to manage a modern bank. Many banks for instance have no interest in upgrading and expand their services and operations. The highly fragmented shareholder structure and opaque structure of ownership does not contribute to improving governance and management. Insider lending and strong political preferences are not uncommon. Banks also have to be vigilant with regard to the threat of corruption and criminality.

**Factors of strength**

11. The Ukrainian banking system has a number of factors of strength which help offset its fragility.

- **Ownership.** The banking system in Ukraine is primarily private in ownership, with only two banks owned by the state (Exim Bank and Oschadny Bank). Privatization of the banking system was initially not accompanied by an improvement in governance because owners frequently were state enterprises that the banks served. In addition, owners initially did not provide the capital needed for the banks' expansion. This situation has, however, changed in many banks, as a result of changes in the ownership structure. Statutory capital has been provided to some banks and, at the end of 1997, 14 banks had more than ECU 10 million in registered paid-in capital (twice the minimum amount required in the European Union). The depreciation of the hryvnia in September 1998 eroded the capital of banks in terms of foreign currencies and there is therefore a need to rebuild the capital. Ownership and corporate governance have been improved also by the increasing role of foreign banks in Ukraine. A limit of 15 percent of the capital that could be owned by foreign banks has been eliminated and these foreign-owned banks bring useful competition and channel technology and know-how into the system.

- **Banking supervision.** This is exercised by the banking supervision department of the NBU. The Supervision Department aims at monitoring the risks involved in the banking system and at helping to rebuild the public's confidence in the banking system. Significant progress has been made in formulating adequate regulations and enforcing them, in monitoring financial developments, in introducing International Accounting Standards (IAS), and in generalizing annual IAS audits. The NBU has about 450 staff members responsible for supervision. Offsite inspection is based on a number of prudential ratios that are used to monitor the financial situation in each individual bank. Emphasis is placed on ensuring compliance with these prudential ratios: banks cannot lend more than 25 percent of their capital to a single borrower in order to limit their maximum exposure; banks can invest only 50 percent of their capital in securities; there is in principle a requirement to have ECU 2 million in registered capital, although many banks have been allowed to have only ECU 1 million; lending to a single insider borrower is limited to 5 percent of capital, and total lending to insider borrowers cannot exceed 40 percent of capital; and open foreign exchange exposure is limited to 20 percent of capital. The prudential regulations have not always been strictly enforced in the past. The limits on open foreign exchange positions, for instance, protected the banks during the sharp depreciation of the hryvnia in September 1998.

- **Payments system.** Ukraine has a modern clearing and settlement system. The system functions well and is reputed to be the best among the countries of the former Soviet Union. The system is based on electronic fund transfers (checks are not used in Ukraine). Settlement reportedly takes place within 20–30 minutes, and the system is able to process about 500,000 transactions per day, from the small payment of a few hryvnia to the large payment involving thousands of hryvnia. The system is considered as effective and well protected from credit, liquidity, and systemic risk. There are no reported attempts to process fraudulent payment orders through the system. No attempt has been made, however, to ensure that the payment system is fully immune to the year 2000 computer problem.

- **Accounting.** Ukraine is moving slowly toward international account standards (IAS). Banks are required since January 1, 1998 to report their balance sheet according to IAS. To permit the conversion to IAS and to determine the regulatory reporting requirements, the NBU has introduced a new chart of account. Large banks also have to obtain an annual audit according to IAS. In practice, accounting methods are changing slowly and the reports prepared by banks still suffer from the prevailing old practices. In particular, banks are reluctant to value their credit portfolio and their investment at market value, and often overestimate the value of fixed assets by using historical values.

**The shift in market sentiment of 1998 and its impact on the banking system**

12. The health of the banking system was severely tested in 1998. Changes in market sentiment toward Russia and other countries in the region provoked an outflow of capital,

sudden and sharp increases in interest rates, and a substantial depreciation of the currency. These developments had a particular impact on Ukraine given the limited depth of its financial markets and its vulnerability to rapid shifts in market sentiment. Interest rates in the interbank money market increased sharply, the value of securities fell on the secondary market, liquidity became scarce, and depositors started to withdraw money from their accounts. The NBU took a number of measures in an attempt to protect the value of the currency. The refinancing rate was raised several times, the NBU took measures to reduce liquidity in the banking system, banks were required to increase their minimum reserves at the NBU, and refinancing credit auctions were interrupted. At the same time, the Ministry of Finance (MoF) actively encouraged the banks to convert their portfolio of short-term treasury bills into longer-term government bonds. All these measures had an immediate impact on the banking system: not only did they reduce bank earnings in 1998, but they also sharply curtailed bank liquidity and caused some banks to have temporary shortfalls in required reserves.

13. The NBU took a number of decisions to prevent a systemic crisis in the banking system. On September 10, 1998, banks were forbidden to pay dividends, to buy securities from shareholders, and to incur new expenses on construction and equipment. They were also required to freeze the purchase of all fixed assets and non tangible assets. In parallel, by presidential decree, a bank deposit insurance scheme was introduced to offer limited protection to bank depositors against the risk of default, although the scheme is not yet operational.

14. The financial situation stabilized in November and December 1998, helping banks to restore more adequate levels of liquidity. As stability returned, interest rates fell sharply on the interbank market. The MoF redeemed significant amounts of treasury bills in late 1998, thus appeasing the fears that it may default on its maturities. As a result, most commercial banks restored an adequate level of liquidity and were able to comply with the new minimum reserve requirements introduced by the NBU.

15. Some banks, however, continued to suffer from serious liquidity shortages and were unable to meet the minimum reserve requirements. The NBU adopted in November 1998 a rescue plan for one large bank involving a restructuring of its activities and sizable refinancing credits at preferential interest rates. The NBU announced that a credit of Hrv 150 million would be extended to this bank at half the refinancing rate. The chairman of the bank was replaced. The state sold its remaining stake held in the bank. Also, a plan to convert the bank into a land mortgage bank was initiated. More significant measures will be necessary, however, to put it on a sound footing.

## V. A Framework for Restructuring the Banking System

16. As discussed, the banking system of Ukraine suffers from many weaknesses, but it also has a number of strengths which bode well for its future development. A strategy to restructure the banking system aimed at putting it on a sounder financial basis and establishing conditions for increasing its effectiveness, should deal primarily with weaknesses. The

authorities have conducted diagnostic studies of the large banks with respect to their situation as of July 1, 1998. On the basis of preliminary results of these studies, the restructuring strategy should aim at the following objectives.

17. **Restoring adequate levels of capital.** As discussed, Ukrainian banks are significantly undercapitalized. A large portfolio of the banks' assets is not collectible in full and, if adequately valued, assets would have to be heavily discounted. This would reveal the true extent of decapitalization of the banks, and would in some cases likely indicate that banks have a negative net worth. The first aim of the restructuring strategy should therefore be to require, via adequate prudential standards, that banks make significant provisions for losses, reinvest their profits to build up their capital, suspend the payments of dividends, and stop building up fixed assets.

18. **Budgetary support.** As noted, most nonperforming loans were initially directed and guaranteed by the government, but the government most frequently refused to honor its guarantee. Banks would have fewer problems today if the government had not directed banks to extend loans, or if sovereign guarantees had been honored. A simple repayment of guaranteed bad loans would by itself constitute a significant financial rescue of the banking sector. In the current fiscal situation, however, it is unlikely that the government will honor its guarantee and repay these loans. The authorities could make a significant contribution to reviving the banking system if banks were allowed to deduct provisions for losses from their profits and reduce their tax liabilities accordingly.[2] The enterprise profit tax will need to be amended to allow the tax deductibility of loss provisions for an extended period of time.

19. **Strengthening prudential standards.** Restoring an adequate level of capital will be a short-term solution only if it is not accompanied by a major improvement in the management of banks. It would be futile to reestablish adequate levels of capital if banks continue to make the same mistakes in the allocation of resources as in the past. To this aim, the NBU needs to strengthen its supervision standards and request greater compliance with prudential ratios. Of particular importance is the strict application of IAS rules to the valuation of assets; strict compliance with the minimum capital adequacy after adequate provision for losses; limits on lending to insiders; and ceilings on investment in fixed assets.

20. **Improvement in management and governance.** As important as resolving current difficulties may be, it is equally important to avoid their renewal in the future. Introducing good banking practices in Ukraine would take years but much could be accomplished in the near term with training programs and technical assistance supported by foreign donors. Of particular importance is the improvement of the management of assets and liabilities. Internal systems of controls need to be strengthened to rationalize the allocation of resources, prevent lending to insiders, and protect banks against theft and fraud. Simple steps, such as better record keeping, better management of information, and preparation and implementation of budgets, could lead to dramatic progress.

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[2]Loan loss provisioning is tax deductible up to a maximum.

21. If implemented rapidly, these steps would pave the way for emergence of a sound banking system in Ukraine. Good banking practices, reinvestment of profits, a temporary pause in purchases of new fixed assets, stricter supervision, and a modest amount of help from the budget would go a long way toward reestablishing confidence in the banking system.

## VI. The Supervisory Function of the NBU

22. The NBU has invested significant amounts of resources to bring its banking supervision policies up to acceptable standards. In contrast to other areas where structural reforms have been less than adequate, real progress has been achieved in the establishment of the supervisory function of the NBU. Several important prudential regulations have been passed (loan-loss provisioning, loan classification, lending to insiders, and others). The NBU has built a monitoring system to verify compliance with these regulations. International accounting standards were introduced in January 1998 and banks have been required to obtain annual audits in accordance to international standards. Foreign-owned banks have been allowed to work freely in Ukraine. Although full compliance with prudential regulations is a long-term objective, the NBU is now able to supervise the activities of banks.

23. The supervisory function of the NBU was introduced and staffed in May 1992. Methodologies utilized by NBU banking supervision during the early years were directed primarily toward determination of the compliance of individual banks with prudential norms, assessment of the performance of banks through analyses of provided data, and inspections targeted at specific areas of concern, particularly as to criminality in individual banks. In 1995, a concerted effort began to build an infrastructure for banking supervision that would provide methodologies, organizational structures, prudential regulations and law, staff training, and information collection sufficient to support an effective and timely supervisory system. This infrastructure to a large degree was dependent upon the introduction and implementation of a new accounting system, both for the NBU and the commercial banks in conformity with international accounting standards (IAS). Reliable and transparent financial information from banks was essential to the proper functioning of a supervisory system and to the development of confidence in the system. The NBU took the lead role in accounting reform with external advice, which resulted in the banks reporting under new accounting rules from January 1, 1998.

24. In 1997, the NBU bank supervision function (BSD) was reorganized. On the basis of the units of the former BSD, new departments were set up, namely the Bank Registration and Licensing Department, the Off-Site Supervision Department, the Inspection Department, the Bank Resolution Department, and the Bank Supervision Coordination Unit, whose status was raised and whose decision-making responsibilities were strengthened. As a result, the BSD comprised six departments in 1998: the Largest Banks Off-Site Monitoring Department; the Bank Registration and Licensing Department; the Off-Site Examination Department; the On-Site Examination Department; the Problem Banks Department; and the Banking Supervision Coordination Department. Each department has a number of subdivisions. The

heads of the departments report to the Deputy Governor of the NBU who is responsible for the banking supervisory function of the bank.[3]

**Minimum statutory capital requirement**

25. On April 14, 1998, the NBU issued the "Instruction for Commercial Bank Prudential Regulations and Analyses," which specifies the minimum capital requirements (Tier 1 and Tier 2). For existing banks that were registered by the NBU before January 1, 1997, capital will not be lower than ECU 2 million equivalent in hryvnia as of April 14, 1998, and ECU 3 million equivalent as of April 1, 1999. For those banks that were registered by the NBU after January 1, 1997, as well as for emerging banks, the minimum capital requirement will be set forth in accordance with the above-mentioned benchmarks starting one calender year after the beginning of operation. That means, for example, that a bank registered by the NBU on November 1, 1998, with statutory capital of ECU 1 million must meet the minimum capital requirement of ECU 3 million by November 1, 1999. Several banks did not fulfill the minimum requirements after the devaluation of the hryvnia in September 1998. According to the regulation, the NBU has the power to impose restrictions on the activities of those banks that do not fulfill the minimum requirements. Instead, the NBU decided to allow banks to use temporarily the pre-devaluation exchange rate to calculate their registered capital in terms of ECU.

**On-site monitoring**

26. Emphasis during the early development of banking supervision was on both on-site and off-site monitoring. Banking supervision staff, with consultative assistance from foreign advisors, began the development of methodologies, policies, and procedures for conducting effective inspections of the commercial banks and analyzing available bank data, both financial and operational. A manual for on-site inspection was developed and enacted in 1996. Substantive training in using the manual was provided to inspectors located in the NBU regional offices across Ukraine. Thus fur, however, examinations, have been based on traditional examination procedures and lacked the proper framework to assess the financial risks faced by the banks. As noted, on-site diagnostic studies of the seven largest banks were ordered by the NBU to get a better assessment of their financial situation.

**Off-site monitoring**

27. The off-site monitoring unit has been developing reporting forms and methods of analysis to produce information for supervisory purposes on individual banks' performance and trends. The ability to analyze frequent and reliable bank information on an ongoing basis

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[3]In January 1999, a Department of Banking Supervision (BSD) was created, and both off-site monitoring and on-site supervision are within the same department. While formally the Large Banks Division is at the same level as the BSD, its head reports to the head of the BSD in his function as deputy to the Deputy Chairman in charge of the whole banking supervision area.

using functionally dedicated staff is essential for effective inspection and the keystone of a supervisory system, whose function should be proactive in detecting emerging bank problems before they become too serious.

28. The banks have been reporting their financial status according to new reporting requirements based on international accounting standards since January 1, 1998. The data necessary for the NBU to calculate the aforementioned prudential ratios are submitted on a regular basis, sometimes daily. The work is monitored by the Off-Site Examination Department.

**Bank rehabilitation**

29. The progress in both on-site and off-site monitoring, as well as in accounting reform, prompted the creation of an additional function in banking supervision during 1996, that of bank rehabilitation and liquidation. The development of procedures for both rehabilitation and liquidation of banks has been ongoing since that time. Considerable effort has been devoted to proposing legislative changes to the banking and NBU laws to facilitate the ability of NBU to rehabilitate or liquidate banks, and to developing regulations based upon the present laws that provide methodologies for this important function.

Table 71. Ukraine: Selected Indicators for the Largest Commercial Banks
(As of July 1, 1998; in millions of hryvnia)

| | Assets | Assets in T-bills | Statutory Capital | Government Deposits | Year-end results | Households' Deposits |
|---|---|---|---|---|---|---|
| Prominvest | 2,382 | 31 | 200 | 184 | 50 | 495 |
| Ukraina | 1,929 | 194 | 47 | 137 | 1 | 290 |
| Privatbank | 1,484 | 209 | 112 | 4 | 34 | 427 |
| Ukrsotsbank | 1,235 | 132 | 27 | 188 | 30 | 114 |
| Oschadbank | 1,189 | 323 | 9 | 2 | 10 | 799 |
| Ukreximbank | 958 | 31 | 106 | 11 | 10 | 47 |
| Aval | 947 | 137 | 35 | 284 | 9 | 112 |
| First Ukrainian International Bank | 413 | 87 | 23 | 0 | 12 | 15 |
| Kyiv Investment Bank | 332 | 6 | 21 | 0 | 0 | 1 |
| Brokbiznesbank | 306 | 12 | 9 | 5 | 1 | 17 |
| Ukrinbank | 245 | 78 | 15 | 0 | 2 | 43 |
| Ukrsibbank | 219 | 25 | 90 | 4 | 8 | 6 |
| Nadra | 212 | 28 | 25 | 1 | 1 | 12 |
| Slovyansky | 198 | 2 | 17 | 0 | 22 | 19 |
| Inko | 191 | 0 | 1 | 0 | 1 | 1 |
| Gradobank | 188 | 0 | 59 | 0 | -19 | 2 |
| Ukrainian Credit Bank | 169 | 23 | 7 | 0 | 1 | 16 |
| Pravex-Bank | 166 | 23 | 15 | 1 | 1 | 52 |
| Credit Lyonnais Ukraine | 166 | 33 | 22 | 0 | 8 | 1 |
| Finance & Credit | 156 | 8 | 20 | 10 | 1 | 9 |
| Real-Bank | 149 | 7 | 8 | 0 | 3 | 3 |
| Vabank | 139 | 18 | 12 | 0 | 1 | 17 |
| Kredyt-Dnipro | 129 | 2 | 22 | 0 | 2 | 13 |
| Societe Generale Ukraine | 124 | 55 | 23 | 0 | 9 | 0 |
| Zevs | 121 | 5 | 18 | 0 | 2 | 11 |
| Inkombank-Ukraina | 121 | 26 | 21 | 0 | 4 | 14 |
| Yugtobank | 103 | 12 | 11 | 0 | 1 | 30 |
| Largest Banks | 13,971 | 1,508 | 975 | 832 | 204 | 2,564 |
| Total Banking System | 17,558 | 2,127 | 1,822 | 859 | 309 | 2,959 |
| Share of largest banks | 80% | 71% | 54% | 97% | 66% | 87% |

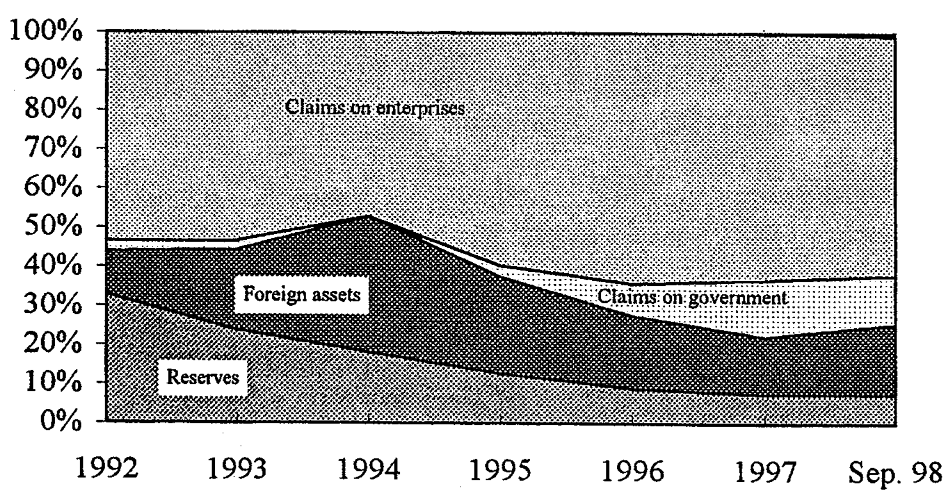
Source: National Bank of Ukraine.

Table 74. Ukraine: Commercial Banks' Balance Sheet Structure, 1992-98 (September)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | Sep. 98 |
|---|---|---|---|---|---|---|---|
| ASSETS | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Reserves | 33% | 24% | 18% | 13% | 9% | 7% | 8% |
| Foreign assets | 11% | 21% | 35% | 25% | 19% | 15% | 18% |
| Claims on general government | 3% | 2% | 0% | 3% | 8% | 15% | 12% |
| Claims on enterprises | 53% | 53% | 47% | 59% | 64% | 63% | 61% |
| Claims on nonbank financial institutions | 0% | 0% | 0% | 0% | 0% | 0% | 1% |
| | | | | | | | |
| LIABILITES | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Demand deposits | 32% | 28% | 25% | 27% | 24% | 23% | 18% |
| Time deposits | 9% | 18% | 32% | 30% | 30% | 28% | 33% |
| Foreign liabilities | 11% | 9% | 18% | 7% | 7% | 15% | 14% |
| General government deposits | 7% | 11% | 8% | 7% | 8% | 7% | 6% |
| Credit from NBU | 29% | 21% | 4% | 8% | 7% | 8% | 5% |
| Liabilities to nonbank financial institutions | 0% | 0% | 0% | 0% | 0% | 0% | 1% |
| Capital accounts | 3% | 9% | 9% | 19% | 32% | 34% | 34% |
| Other items (net) | 9% | 5% | 4% | 2% | -9% | -15% | -11% |

Source: National Bank of Ukraine.

Figure 13. Commerical Banks' Assets, 1992-98 (September)
(In percent of total)



## UKRAINE: INTRODUCTION OF EXCHANGE CONTROLS

In August 1998, the National Bank of Ukraine (NBU) was faced with a difficult choice. The exchange rate was coming under intense pressure as capital outflows from the region intensified and the extent of the financial difficulties in Russia, as well as the underlying fiscal weaknesses in Ukraine, became more widely known. The NBU initially used its reserves to support the existing exchange rate band, selling nearly $265 million in August. Such a level of intervention was not sustainable and as the extent of the crisis in Russia became more clear the authorities were faced with a decision either to abandon the foreign exchange band and permit a free float of the exchange rate (as had been done in Indonesia, South Korea and Thailand) or to introduce controls on the foreign exchange market that would be temporary and which would attempt to avoid the potential overshooting of the exchange rate often seen in countries that are forced into abandoning a fixed exchange rate regime. The authorities chose the latter strategy and on August 22, 1998, the NBU introduced a number of restrictions on the operation of the foreign exchange market:

- The interbank currency market for convertible currency transactions was closed. Foreign exchange transactions were limited to the currency exchanges in Kyiv and Crimea. Interbank transactions in nonconvertible currencies (including the Russian ruble) were not restricted.

- An export surrender requirement initially set at 75 percent but subsequently reduced to 50 percent was reintroduced (a 50 percent surrender requirement had been abolished in July, 1997). Exporters were required to sell foreign exchange at one of the two currency exchanges within 90 days of shipment of goods.

- Importers requiring foreign exchange were required to submit to the local branch of the NBU a series of documentation including proof from the Customs Office that the goods have been imported and proof from the State Tax Administration that the importer was current on its tax liability.

- Advance payments on import contracts were limited to the lessor of $100,000 or 20 percent of the value of the contract.

- Resident commercial banks were prohibited from providing foreign currency denominated loans to residents to finance imports, except for those imports included on the critical import list.

As discussed in Chapter III, the initial reaction to these changes was for the NBU effectively to ration foreign exchange through its instructions to the currency exchanges. Following the devaluation of the hryvnia in early September 1998, the foreign exchange market stabilized somewhat and excess demand at the official market disappeared, so that the NBU was able to purchase foreign exchange from the market. It is not known how large a parallel market emerged in response to the imposition of these controls. The spread between the official rate and the rate in the major offshore market was relatively small during October and the first part of November, although this market was located in Moscow and may also have been affected by the heightened settlement risk within the region.