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Ukraine—Recent Economic Developments

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UKRAINE

Recent Economic Developments

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Approved by the European II Department

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Ukraine: Basic Data

I. Social and Demographic Indicators

Area	603,700 sq.km.
Population density	85 per.sq.km.
Population 1995	51.6 million
GDP per capita in U.S. dollars (1995, Atlas method)	1,360

II. Economic Indicators

	1994	1995	1996
	(Percentage Change)		
Real gross domestic product (GDP)	-23	-12	-10
Industrial production	-27	-12	-5
Employment	-4	-1	...
Consumer prices			
Year average	891	376	80
Within period	401	182	40
Producer prices			
Year average	1040	489	52
Within period	773	172	17
Average nominal wages 1/			
Year average	886	424	72
Within the period	418	261	22
Average real wages 2/			
Year average	-17	9	4
Within the period	-17	28	-13
Net domestic credit of the banking system (end of period)			
Nominal	583	166	38.0
Real 2/	36	-6	-1.2
Broad money (end of period)			
Nominal	573	117	35.1
Real 2/	33	-23	-3.3
Base money (end of period)			
Nominal	466	132	38.0
Real 2/	13	-18	-1.2
NBU refinance rate (end of period)	606	164	46
	(In percent of GDP)		
State budget revenue 3/	41.9	37.8	37.2
State budget expenditure 3/ 4/	48.1	42.5	40.4
State budget balance	-8.8	-4.8	-3.2
Extrabudgetary funds balance	1.0	0.0	0.0
General government balance	-7.8	-4.8	-3.2
Current account balance	-5.4	-4.0	-3.1
Exchange rates 5/			
Domestic currency per dollar			
End period	104,200	179,400	1.889
Period average	31,700	147,307	1.830
Domestic currency per ruble			
End period 6/	29.40	38.70	33.97
Period average 6/	12.56	32.44	33.55

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

1/ In the state sector.

2/ Deflated by the consumer price index.

3/ Including the Pension Fund, which was incorporated in the budget only in 1994.

4/ Including off-budget items.

5/ Official rates. Karbovanets through 1995; Hryvnia for 1996.

6/ Figures for 1996 are per 10,000 rubles.

I. INTRODUCTION

A. Background

1. The Republic of Ukraine—about 10 percent larger than France in terms of geographic area—covers 603,700 square kilometers. The population is 51.6 million, of which three quarters are ethnic Ukrainians and about one fifth are Russians. The Ukrainian Republic was proclaimed on December 25, 1917 and was established in December 1919. It became part of the former U.S.S.R. on December 30, 1922. Ukraine declared itself an independent state on August 24, 1991.

2. 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, in addition to more modest reserves of natural gas and petroleum. It has a variety of minerals, including manganese, uranium, and substantial reserves of iron ore. Agriculture accounts for about 14 percent of GDP and industry for about 30 percent. Principal exports include food products, chemical products, minerals, metallurgical products, and machinery; total exports in 1996 amounted to some \$15.5 billion. Ukraine is a major importer of energy, especially natural gas. Energy imports in 1996 were about \$8.3 billion, out of total imports of about \$20 billion.

3. Ukraine's economic performance since independence has been turbulent. Inflation reached 10,000 percent in 1993, and the cumulative decline in recorded output since independence is estimated at more than 50 percent.¹ In late 1994, the government launched a stabilization program, supported by the Fund's Systemic Transformation Facility and an Import Rehabilitation Loan from the World Bank, as well as bilateral donors and creditors. The STF supported program was followed by two Stand-By Arrangements, covering 1995 and 1996. Toward the end of 1996 and in early 1997 the government prepared to launch a new reform program. This program was designed to focus especially on structural elements in order to reduce government regulations and interventions and to promote a sustained economic growth in the near future.

B. Political Developments in 1996 and early 1997

4. Political activity in the opening months of 1996 focused on Parliamentary debate of the 1996 budget. Despite intense disagreement over the composition of expenditure, there was broad consensus on the need to limit the budget deficit in line with the government's low inflation objective. This consensus was also evident in Parliament's support for the National

¹For details of developments before 1996 see "IMF Economic Reviews 1 to 17," March 1995, and IMF Staff Country Report No. 96/21, March 1996. Also see "Ukraine, Accelerating the Transition to Market," Peter K. Cornelius and Patrick Lenain, editors, IMF, 1997.

Bank's monetary program—approved in April—following the adoption of the budget in late March.

5. The adoption of the new Constitution dominated political life in the early summer. The draft Constitution aimed to delineate clearly the powers and responsibilities of the Legislature, the Judiciary and the Executive. The Constitution also provided for the protection of human rights and firmly established the right to private property, including land. Despite initial opposition from the left-wing oriented deputies, the Constitution was approved by a three-quarter majority of Parliament on June 26. Parliamentary elections are scheduled for 1998, and the next presidential elections for 1999.

6. The political climate at the end of 1996, while broadly stable, was clouded by the continued accumulation of wage and pension arrears, both in the budget and in the enterprise sectors. Public protests became increasingly vociferous. A miners' strike, in particular, was marked by acts of civil disobedience, such as blocking of main railway lines. While most strikes and protests were settled with promises to deal with the problem, there was no improvement in the situation, with the wage arrears remaining the main destabilizing factor.

7. In the first half of 1997, political tensions again became more pronounced and resulted in a struggle between the government and the Parliament on key elements of the adjustment program that the government had hoped to implement. Several measures, in particular in the area of taxation, where the government had proposed significant cuts in payroll taxes, were not approved. The 1997 budget was caught up in this struggle and was not adopted until late June.

8. Throughout 1996 and the first half of 1997, there were several changes in the composition of the government, including in the position of the Prime Minister and in the economic team. This contributed to further uncertainty and delays in implementation of economic and structural reforms.

9. Another dominant theme in the political discourse throughout 1996 and in 1997 was the issue of corruption. This achieved international resonance with increasingly vocal complaints by foreign investors in Ukraine about the difficulties of doing business in a corruption-riddled environment. President Kuchma responded to these concerns by ordering a cleanup of the state apparatus, and by taking personal leadership in the fight against corruption.

C. Economic Developments in 1996 and early 1997

10. In 1996, Ukraine achieved a measure of macroeconomic stability for the first time since gaining independence. Inflation, which at times had bordered on hyperinflation, fell to an average monthly rate of 2.8 percent and, except in months with major administered price changes, remained low throughout the year. This trend continued in 1997, when inflation averaged less than one percent a month during the first half of the year.

11. Output recovery proved more fragile. Following declines in real GDP of 23 percent in 1994, and 12 percent in 1995, output is estimated to have fallen by a further 10 percent in 1996—though much of the decline is attributable to the poor harvest conditions, and this estimate does not take account of the growth of the informal economy. Growing uncertainty about the prospect for reforms, had a negative impact on economic activity in the first part of 1997. Real output continued to decline with official data showing a 7.5 percent decline in real GDP in January-June 1997 compared to the same period in 1996.

12. Throughout 1996 and early 1997 the authorities pursued a relatively tight monetary policy compared to previous years. With slow remonetization of the economy, domestic credit and broad money expansion were limited in 1996 to 38 percent and 35 percent, respectively, and to 15 percent and 19 percent, respectively, in the first six months of 1997. Two factors contributed to the relatively low rate of credit expansion. First, the budget deficit in cash terms fell from 4.8 percent of GDP in 1995 to 3.2 percent of GDP in 1996 although it rose again to about 4.6 percent in the first half of 1997. Second, the nascent treasury-bill market became much more active—especially in the second half of 1996 and first half of 1997, when foreign participation increased—allowing the government to finance the largest part of the deficit through treasury-bill sales. While these treasury-bill sales allowed the National Bank to limit direct credit expansion, the lack of sufficient fiscal adjustment has been nonetheless costly. With commercial banks already wary about lending to enterprises, the high real yields of treasury bills made them an attractive instrument for holding reserves, and may have resulted in some crowding out of the private sector.

13. Moreover, most of the fiscal adjustment in 1996 was illusory, with the government incurring payments arrears on wages, pensions, and other benefits equivalent to about 3.0 percent of GDP. On an accruals basis, therefore, the budget deficit in 1996 was about the same, at 6.1 percent of GDP, as in 1995. Adjustment was hampered by the lack of a functioning treasury, with line ministries able to make purchases without Treasury approval, and frequently incurring expenditure arrears. In all, expenditure of the state budget fell by 2.3 percent of GDP on a cash basis (to 40.4 percent of GDP). The sharpest cuts in cash expenditures were on national economy expenditures, housing, investment, consumer subsidies, and health and education. On a commitments basis, however, the reduction of expenditures on health and education was significantly smaller. Revenue in 1996—despite a fall of 0.9 percentage point to 37.2 percent of GDP—remained high by the standards of the region. The largest decline was in the enterprise profit tax, where the contraction of real activity resulted in about a 2 percentage point fall in revenue.

14. The 1997 budget was not approved until late June 1997, but the consolidated budget deficit, on a cash basis, remained under control (at about 4.6 percent of GDP) although the weak revenue collection gave rise to new arrears on wages, benefits, and pensions.

15. External performance continued to be strong. In dollar terms, exports grew by 14 percent in 1996, despite a substantial appreciation of the real exchange rate. The current account deficit narrowed both in dollar terms and as a percentage of GDP, from 4.4 percent of GDP in 1995 to 2.7 percent in 1996. Exchange rate policy differed widely during the course of the year. At times—especially during the monetary reform—the nominal exchange rate was

used to anchor expectations and the National Bank of Ukraine (NBU) intervened heavily in support of the rate. On other occasions, the NBU allowed the exchange rate to move in response to market pressures. An informal exchange rate band of Hrv 1.7 to Hrv 1.9 per U.S. dollar was introduced in September. Toward the end of 1996 and in the first part of 1997, when foreign participation in the treasury-bill market resulted in large capital inflows, the NBU used the opportunity to rebuild its reserves, thereby expanding the monetary base. With a relatively stable exchange rate, the hryvnia continued to appreciate in real terms but this does not appear to have harmed exports. The capital account position further improved, mostly related to higher short-term capital associated with purchases in the treasury-bills market.

16. Several important structural reforms were undertaken during the year. First, the hryvnia—Ukraine's new permanent currency—was introduced to replace the karbovanets, with a conversion factor of Krb 100,000 per Hrv. Second, there was a marked pick-up in the pace of mass privatization and small-scale privatization. Third, all remaining controls on prices and profit margins, were removed by the end of the year. And fourth, important reforms were undertaken in the energy sectors (coal, electricity, and gas).

II. THE REAL SECTOR

Output fell by 10 percent in 1996 and continued to fall in 1997. Unusually, poor weather and harvest conditions in 1996 were a factor for the decline in agriculture. In the first part of 1997, the uncertainty on the course of economic reform contributed to the continuing decline. The unstable tax structure, the weak legal framework, the overregulation of the economy, and growing instances of corruption have been other factors negatively affecting growth in recent years. The real exchange rate appreciated significantly, but export growth was robust, and enterprises were able to compete internationally. Several important structural reforms were undertaken.

A. Overview

17. While inflation fell rapidly in 1996, the recovery in output was more fragile. Following declines in real GDP of 22 percent in 1994, and 12 percent in 1995, output is estimated to have fallen by a further 10 percent in 1996 and 8.5 percent in the first quarter of 1997 (Tables 1–4). Part of the output drop in 1996 may be explained by poor harvest conditions which resulted in agricultural output falling by about 10 percent, while industrial output declined by about 5 percent. Construction services, as captured in the official statistics, fell by 44 percent—suggesting a growing share of the unrecorded economy (see Box 1). This was followed by an equally sharp decline in the first quarter of 1997. Real consumption by households fell by about 6 percent during 1996 somewhat less than the fall in real GDP. The uncertainty about the tax reforms and the new tax system that was discussed in Parliament in early 1997 had an adverse effect on business climate and contributed to the postponement of economic decisions.

Box 1. The Informal Economy and Obstacles to Economic Growth

While officially recorded sectors of the economy in Ukraine continue to decline, the unrecorded sector appears to be growing, perhaps rapidly. Estimates of the current size of the unrecorded sector using various methodologies (such as money demand or electricity consumption) give widely differing results, ranging from about 30 percent of the recorded sector to almost 100 percent of the recorded sector (i.e., total GDP would be double the official estimate). Much of Ukraine's value added is in heavy industry (where the official statistics probably capture most of the activity), and both the size and value added of the services sector in Ukraine is small, so the upper-end of the estimate, which would imply value added in the informal sector of \$50–60 billion—or about one-quarter of Austria's GDP—would certainly appear to be high. Nonetheless, it is clear that the unrecorded sector in Ukraine is substantial and is growing significantly faster than officially recorded sectors of the economy.

Reasons for the growth of the unrecorded sector are manifold, but the policy environment—which at least in some respects remains hostile to private sector development—plays an important role. Surveys of Ukrainian businesses point to several areas of concern, including: (i) excessive or unfair taxation; (ii) instability and lack of clarity of laws; (iii) external trade regulations, taxes, and fees; (iv) remaining foreign exchange restrictions; (v) slow privatization; (vi) remaining price restrictions; (vii) harassment of various sorts by local administrations; and (viii) inflation. In 1996 enterprises rated harassment by local administrations, excessive taxation, and import regulations as being *more* severe than in 1994 and 1995. Only inflation was rated as being clearly less of a problem in 1996 compared to previous years. Moreover, while the percent of enterprises which responded positively to the question “Have the reforms had a positive impact on your business?” rose to 27 percent in 1996 from 14 percent in 1995, the percent of enterprises that expected a positive impact in the near future fell from 32 percent in 1995 to 8 percent in 1996. Thus the total percentage of enterprises that had, or expected to have in the near future, a positive impact from economic reforms fell from 46 percent in 1995 to 35 percent in 1996. Beyond the policy environment itself, a large fraction of enterprises surveyed admitted to having to pay “unofficial” fees for various “services” such as installation of phone lines, enterprise registration, visits by health or tax inspectors, registration of imports and exports and border crossings, and obtaining loans on preferential terms.

Sources: *Ukraine, Accelerating the Transition to Market*, P. Cornelius and P. Lenain editors (IMF); *Some Thoughts about Ukraine's Gross Domestic Product*, A. Ghosh (mimeo IMF).

18. National accounts statistics remain too unreliable to provide a clear picture of the expenditure breakdown of GDP. Nonetheless, it appears that, in contrast to previous years, inventory accumulation slowed significantly—from an estimated 12 percent in 1994, to 3 percent in 1995, and 2 percent in 1996. Whether this stock of inventories will eventually be sold or merely scrapped remains an open question, and accounting problems have almost certainly resulted in overestimates of inventory accumulation in the past. Even with the lower inventory accumulation in 1996, for instance, the official statistics suggest gross domestic

saving of about 21 percent of GDP.² While this is much lower than the savings estimate for 1994 (32 percent of GDP), it is still sizable for a country which has seen such steep declines of output and real income. From the asset side, moreover, implied private saving rates are considerably lower. Given the relatively poor menu of available assets, households typically save in the form of domestic currency, deposits in domestic or foreign currency, foreign currency, or government treasury bills. Yet the increase in broad money during 1996 was less than 3 percent of GDP so that even generous estimates for the accumulation of foreign currency suggest private saving rates well below official estimates. The factor income breakdown of GDP is probably more reliable and shows a modest increase in the share of labor from 44 percent in 1995 to almost 45 percent of GDP in 1996.

19. Employment trends continued much as in previous years, with little registered unemployment but considerable underemployment. Registered unemployment remained less than two percent in 1996 and in early 1997, pointing to further labor hoarding, although reluctance to register could also be a factor. The year 1996 and 1997 did see a pick-up in structural reforms, especially the small-scale and mass privatization programs, though clearly much remains to be done.

B. Output Developments

20. Total industrial output is estimated to have declined by 5.1 percent in 1996, with substantial variations across industries. This situation was not much changed in the first quarter of 1997 when, compared to the same period in 1996, industrial output declined by 6 percent (Figure 1). Particularly afflicted in 1996 (and 1997) were machine building, which fell by 26 percent, construction materials, which fell by 35 percent, and wood and paper products, which fell by 18 percent (Table 5). Several factors underlie the continued decline in industrial production (Box 2). First, budget constraints have become increasingly hard—especially in regard to gas deliveries, where distribution is no longer controlled by a national monopoly, and the government guarantee for external payments has been abolished. Second, with the decline in inflation, banks have become more aware of the parlous state of their portfolios and of the large amounts of interenterprise arrears (Figure 2) and are increasingly reluctant to provide fresh credits to enterprises. And third, despite the pick-up in privatization (see Section E, below), substantial restructuring of enterprises remains to be done before productivity gains are realized. Moreover, food processing—which accounts for 16 percent of industrial output—was adversely affected by the low agricultural output.

21. The poor harvest has been blamed on adverse weather conditions in early 1996, with a severe winter followed by an early summer which significantly shortened the spring planting period. In addition, the lack of necessary agricultural inputs, such as mineral fertilizers, has resulted in a secular decline of agricultural productivity. Grain output in 1996 was only

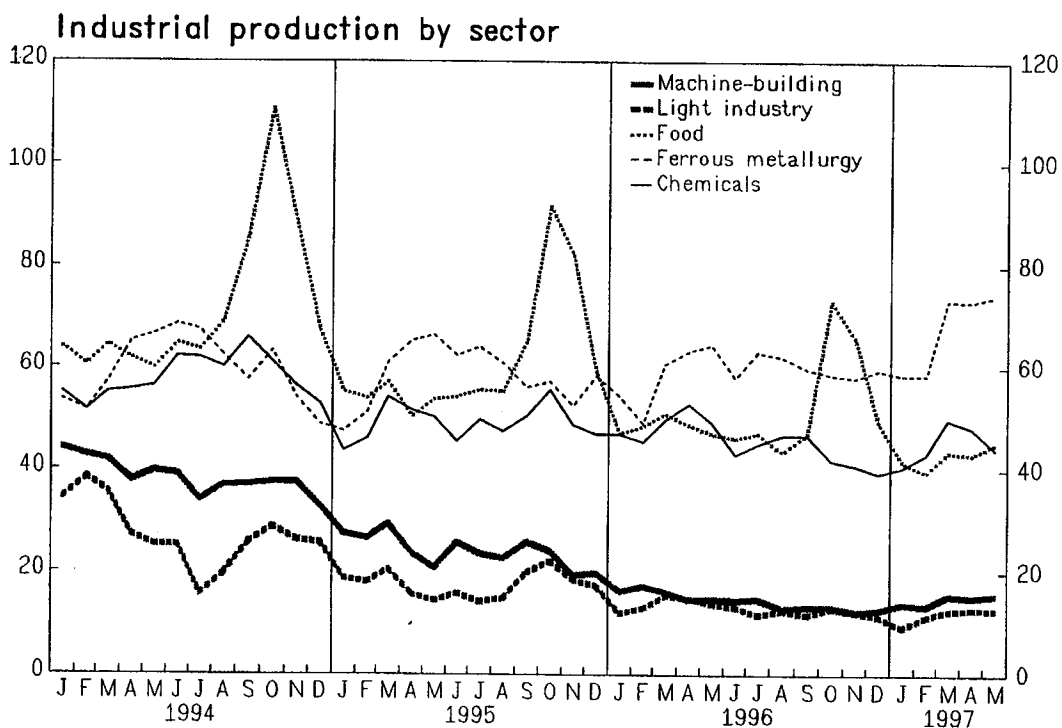
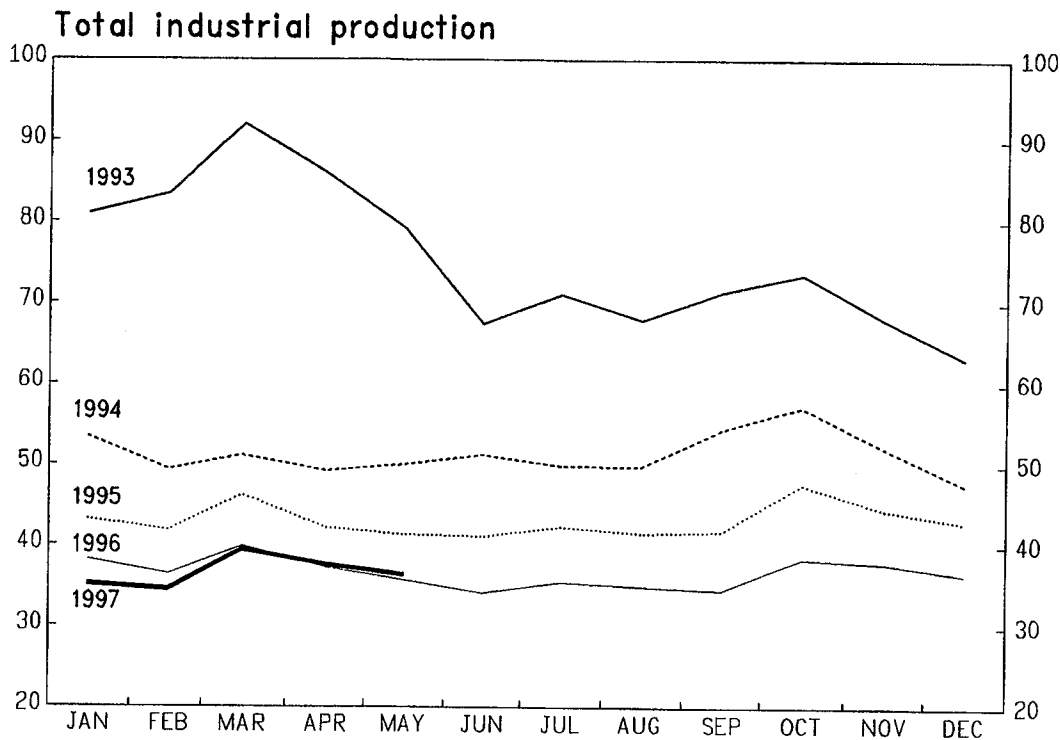
² With gross fixed investment of 21 percent of GDP, inventory accumulation of 2 percent of GDP, and net exports of minus 2 percent of GDP.

FIGURE 1

UKRAINE

Industrial Production, 1993-97 (May)

(January 1992 = 100)



Source: Ukrainian authorities.

Box 2. Accounting for Industrial Production

A number of factors—structural and macroeconomic—account for the declines in industrial production. In the early 1990s, Ukraine's industrial sector suffered a sharp fall in demand—domestic as real incomes fell, and external, as the break-up of the Soviet Union disrupted previous commercial relations and trade patterns. Slow structural reform exacerbated these difficulties. At the same time, industrial enterprises started facing tighter credit conditions in an environment in which prices for inputs were increasing more rapidly than output prices. Externally, this corresponded to the substantial terms of trade shock suffered by Ukraine as energy prices were raised to world levels (these higher prices were passed on to enterprises only starting March 1995). More important, *real* credit growth became highly variable, ranging from 10 percent to minus 50 percent per month, as inflation eroded bouts of extraordinary credit expansion.

Under current Ukrainian legislation, state-owned enterprises have little say in the allocation of their assets (including the disposal of unproductive assets). Accordingly, an enterprise might be thought of as a collection of assets devoted to a particular purpose—maximal production of specific goods subject to financing constraints, and the objective of providing employment to the incumbent workforce. Expenditure on current domestic inputs, px , imported inputs, ep^*z , and wages, wl , must be financed by borrowing, dC , incurring arrears, dA , or selling the stock of output previously produced, q_{-1} .

$$iC_{-1} + px + ep^*z + wl = dA + dC + pq_{-1}$$

If production is subject to a technology, $q = f(x, l, z)$, $f_x > 0$, $f_x < 0$, then output is given by:

$$q = f\left(\frac{dA}{p} + \frac{dC}{p} + q_{-1} - \frac{wl}{p} - \frac{ep^*z}{p} - \frac{iC_{-1}}{p}, l, z\right)$$

Ceteris paribus, therefore, an increase in *real* domestic credit or arrears will allow the enterprise to expand output, while an increase in real wages or the price of imported inputs will cause a contraction of output.

The Table reports coefficients from a co-integrating relation between the log of real industrial output by sector, the log of real credit to the economy (α_1), the log of the real wage (α_2), and the log of the real gas price (α_3):

$$\log(q) = \alpha_0 + \alpha_1 \log(DC^e/p) + \alpha_2 \log(w/p) + \alpha_3 \log(ep^s/p) + v$$

And the short-run dynamics:

$$\Delta \log(q) = \beta_0 + \beta_1 \Delta \log(DC^e/p) + \beta_2 \Delta \log(w/p) + \beta_3 \Delta \log(ep^s/p) + \beta_4 v_{-1}$$

Box 2 (Concluded). Accounting for Industrial Production

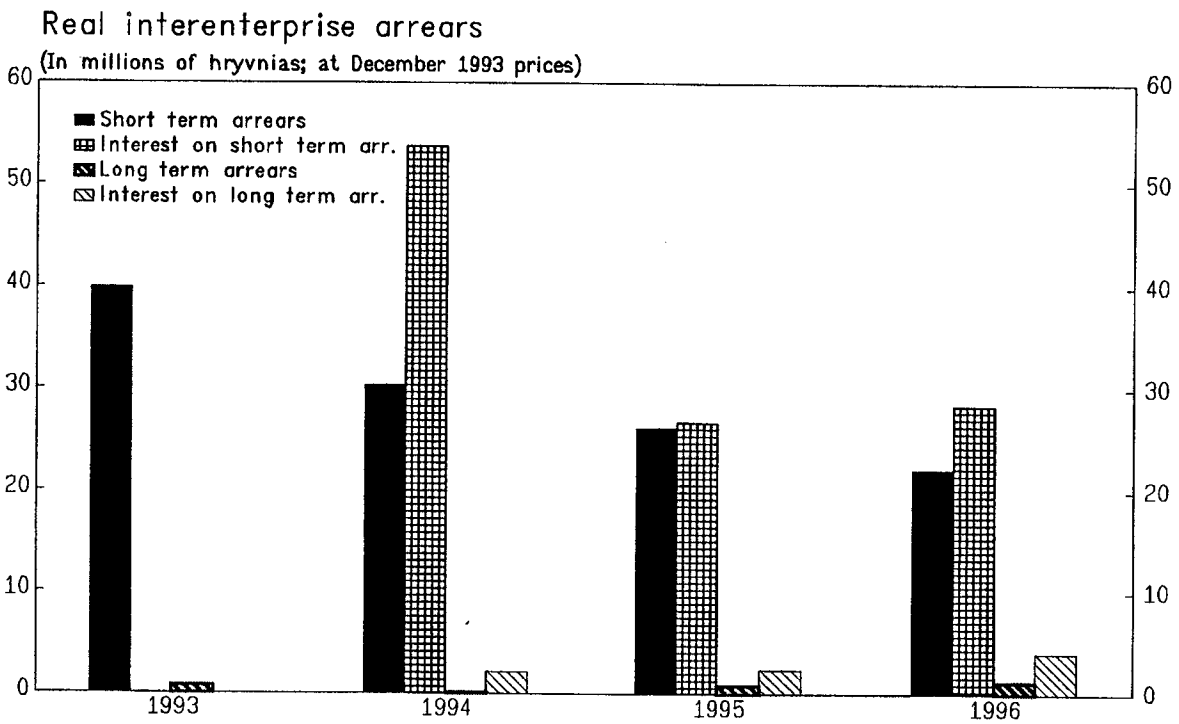
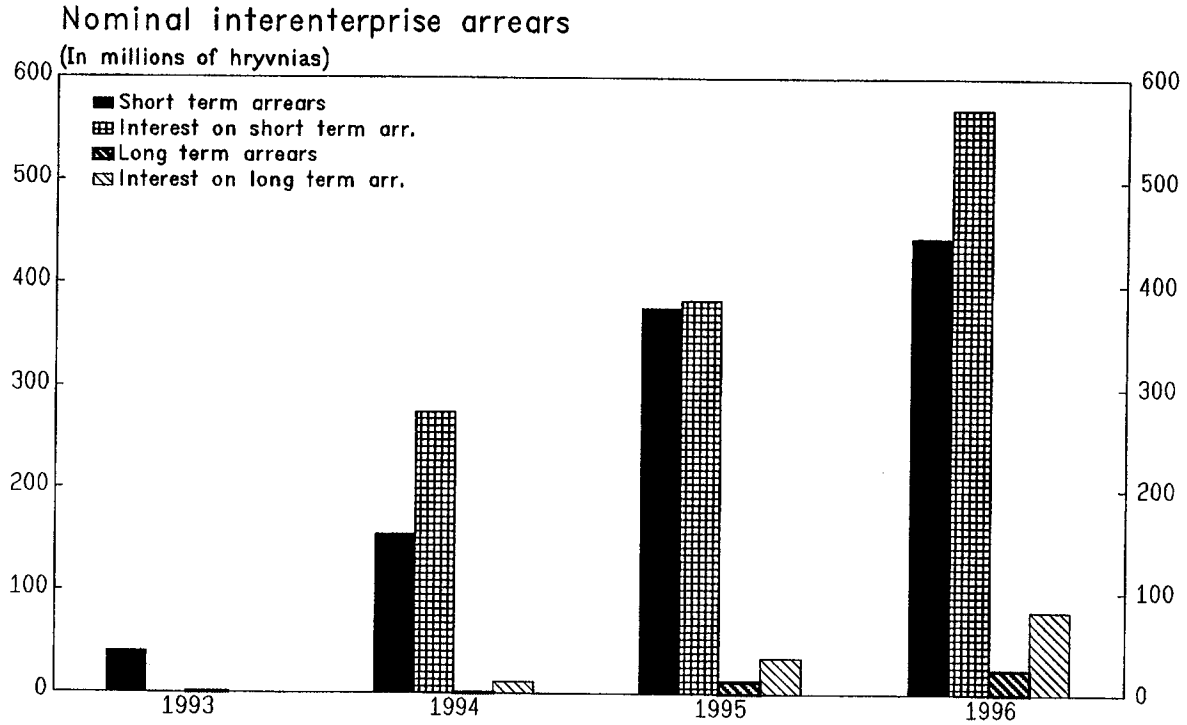
Sector	α_1	α_2	α_3	β_1	β_2	β_3	β_4	R ²
I	0.147	-0.059	-0.294	0.104 (1.46)	0.044 (1.20)	-0.371 (-0.25)	-0.253 (-2.49****)	0.80
II	0.154	-0.100	-0.064	0.525 (3.05****)	-0.028 (-0.33)	-0.177 (-2.18**)	-0.558 (-3.44****)	0.52
III	0.245	-0.121	-0.054	-0.035 (-0.30)	0.923 (0.12)	-0.064 (-2.04**)	-0.600 (-3.88****)	0.45
IV	0.135	-0.071	-0.067	0.440 (3.00****)	-0.073 (-0.81)	-0.064 (-1.98*)	-0.453 (-3.05****)	0.33
V	0.314	-0.146	-0.043	0.301 (2.71****)	-0.092 (-1.69*)	-0.067 (-2.72****)	-0.350 (-2.68**)	0.37
VI	0.942	-0.523	-0.110	0.376 (4.85****)	-0.241 (-4.96****)	0.022 (1.03)	-0.146 (-2.29**)	0.39
VII	0.531	-0.425	-0.070	0.227 (2.11**)	-0.318 (-5.87****)	-0.041 (-1.44)	-0.500 (-4.06****)	0.44
VIII	0.644	-0.360	-0.043	0.310 (3.29****)	-0.110 (-1.39)	-0.026 (-1.03)	-0.137 (-1.65*)	0.22
IX	0.821	-0.502	-0.177	0.471 (2.60**)	-0.486 (-4.60****)	-0.043 (-0.73)	-0.263 (-1.77*)	0.36
X	0.373	-0.088	0.018	0.745 (2.57**)	-0.180 (-1.37)	-0.076 (-1.70*)	-0.184 (-0.38)	0.24
XI	0.388	-0.202	-0.058	0.401 (5.66**)	-0.127 (-2.80****)	-0.054 (-2.63**)	-0.304 (-2.01****)	0.42

I	Power	V	Chemicals	IX	Light industry
II	Oil and Gas	VI	Machinery	X	Food
III	Coal	VII	Wood/paper	XI	Total
IV	Steel	VIII	Construction materials		

Where the reported R² refers to the equation describing short-run dynamics, and where heteroscedastic-consistent t-statistics are in parentheses, and statistical significance at the 10, 5, and 1 percent levels are indicated by (*), (**), (***), respectively.

The regressions suggest that *real* credit growth in Ukraine was associated with an increase in output, while real increases in wage or other costs were associated with a decrease in output. As emphasized in Ghosh: *The Output-Inflation Nexus in Ukraine (WP/96/46)*, an increase in nominal credit will only translate into a corresponding increase in *real* credit if it is consistent with the rate of monetization of the economy.

Interenterprise Arrears, 1993-96



Source: Ministry of Statistics.

24 million tons, compared with 34 million tons in 1995, and an average of 47 million tons in 1986–90 (Tables 6 and 7). Output of winter and spring barley fell by 41 percent, output of winter and spring wheat by 17 percent, and output of maize by 45 percent. Livestock breeding also declined, albeit less precipitously: meat, milk, and egg production fell by 6–8 percent, and wool production by almost 33 percent. These declines are in part related to the fall in grain output, and in part to the export tax on livestock and animal skins (see Chapter V), which acted as a disincentive to raise animals. The decline in meat and milk production occurred mainly in the collective farms, whereas private farms saw modest increases; the share of private sector production of meat rose from 50 percent to 55 percent, and of milk from 56 percent to 59 percent. Overall, the agricultural sector continues to be dominated by collectives and state farms, that combined account for 80 percent of the share of agricultural land.

22. Output of crude petroleum remained constant in 1996, and natural gas production rose marginally (Table 8). Oil refineries processed some 13.5 million tons of oil in 1996, about 20 percent less than in 1995; the manufacture of petroleum, diesel fuel, and heating oil fell by 5 percent to 23 percent. Coal output fell by almost 17 percent, partly in the context of a comprehensive coal restructuring program (see Section E, below). Electricity output also fell, but by somewhat less than the fall in recorded GDP (5.6 percent).

C. Competitiveness

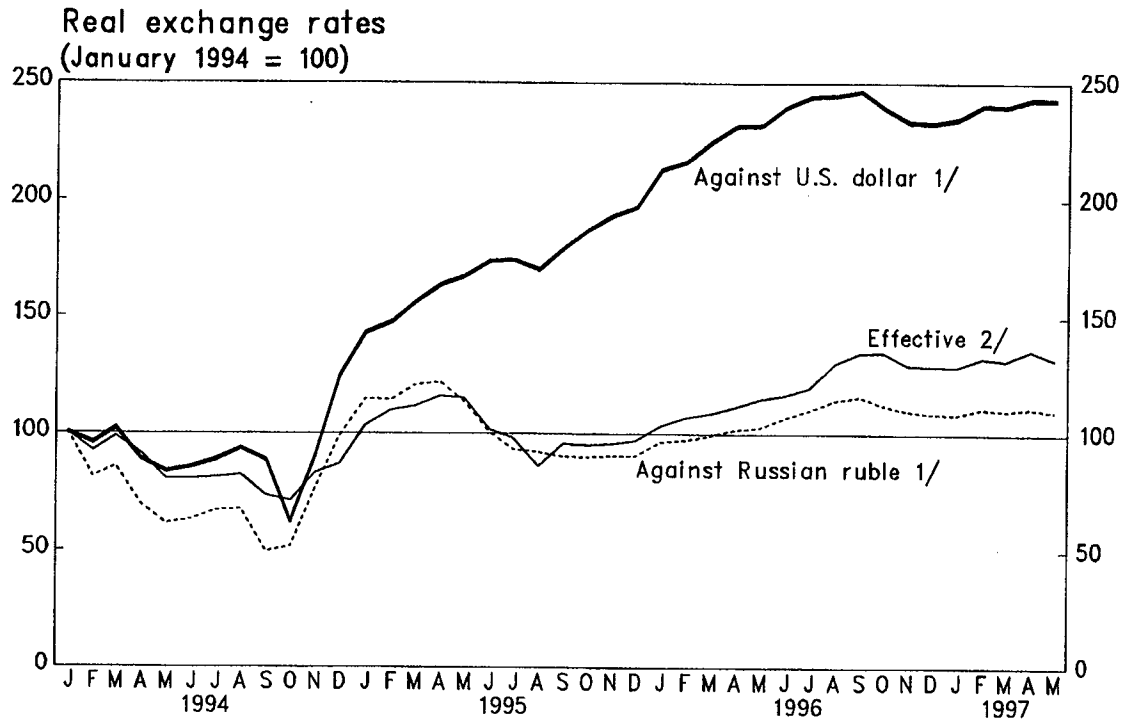
23. Following the price liberalization and exchange market unification in late 1994, the currency has appreciated considerably in real terms. From December 1994 to May 1997, the real exchange rate (measured with the wholesale price index) rose by 95 percent against the U.S. dollar, and by 11 percent against the Russian ruble; on a trade-weighted basis, the currency has appreciated by about 52 percent in real terms (Figure 3). Dollar wages in Ukraine have risen sharply since late-1994 (by about 140 percent), but remain well below those prevailing in many of its competitors, including Russia and the Baltic countries (Figure 4). Direct measures of productivity are difficult to obtain. Available statistics suggest that labor productivity has fallen by about 20 percent in the industrial sector since late 1994, implying a substantial increase in real unit labor costs. Such figures undoubtedly exaggerate the true increase in labor costs, however, since the official employment data show implausibly low levels of unemployment (less than 2 percent of the working-age population). Moreover, the base period is arbitrary, and the nominal exchange rate was almost surely undervalued at the end of 1994, following the exchange market unification. As noted in Chapter V, export growth remains robust.

24. A comparison of domestic and international prices (with quality corrections) for a basket of 290 industrial goods suggests that, on average, the hryvnia could appreciate further before international competitiveness is fully eroded (Box 3).

FIGURE 3

UKRAINE

Real Exchange Rate Developments, 1994-97 (May)

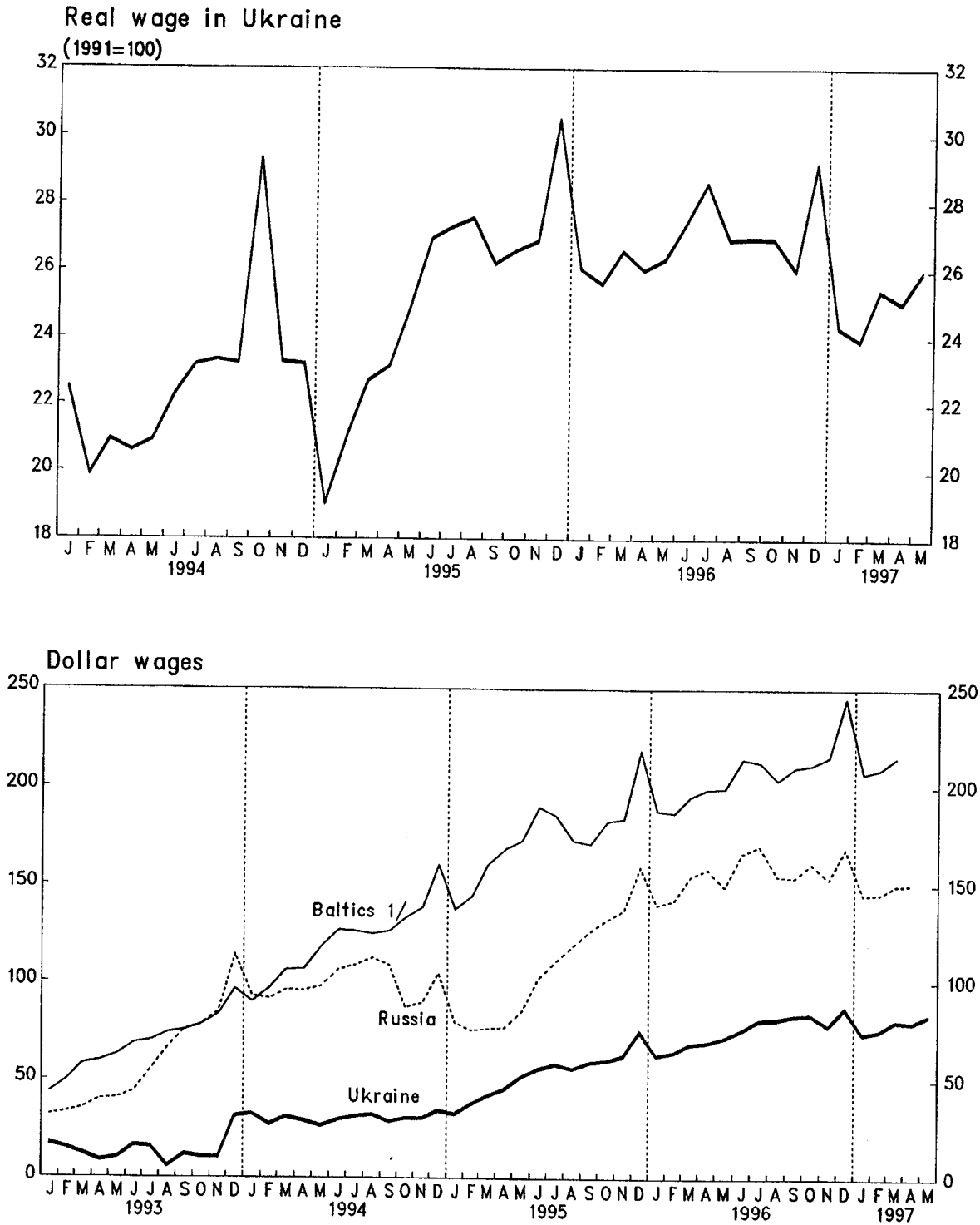


Sources: Ukrainian authorities; and IMF staff estimates.

1/ Deflated by the wholesale price index. Decline indicates real depreciation.
2/ As calculated in INS; CPI based.

FIGURE 4

UKRAINE
Real and Dollar Wages, 1993-97 (May)



Sources: national authorities; and IMF staff estimates.
1/ Average for Estonia, Latvia and Lithuania.

Box 3. International Competitiveness
Ratios of Value of Output by Sector at International Prices
to Value at Domestic Prices

Most indices of competitiveness—such as the CPI or WPI based real exchange rate—measure the change in competitiveness relative to some (arbitrary) base period. An important study undertaken by the European Center for Macroeconomic Analysis in Ukraine provides, instead, an absolute measure of international competitiveness.

The Center compares the domestic price of a series of 290 industrial products—spanning most industries—to the international price, with appropriate quality adjustment. These series are aggregated to give an absolute measure of competitiveness for each industry, and for the whole industrial sector (Figure 5). The analysis suggests that the domestic currency (karbovanets, later the hryvnia) was grossly undervalued prior to 1995. Despite the real appreciation since then, Ukrainian enterprises remain competitive internationally—although the scope for a substantial further appreciation is clearly limited.

D. Labor Market Developments

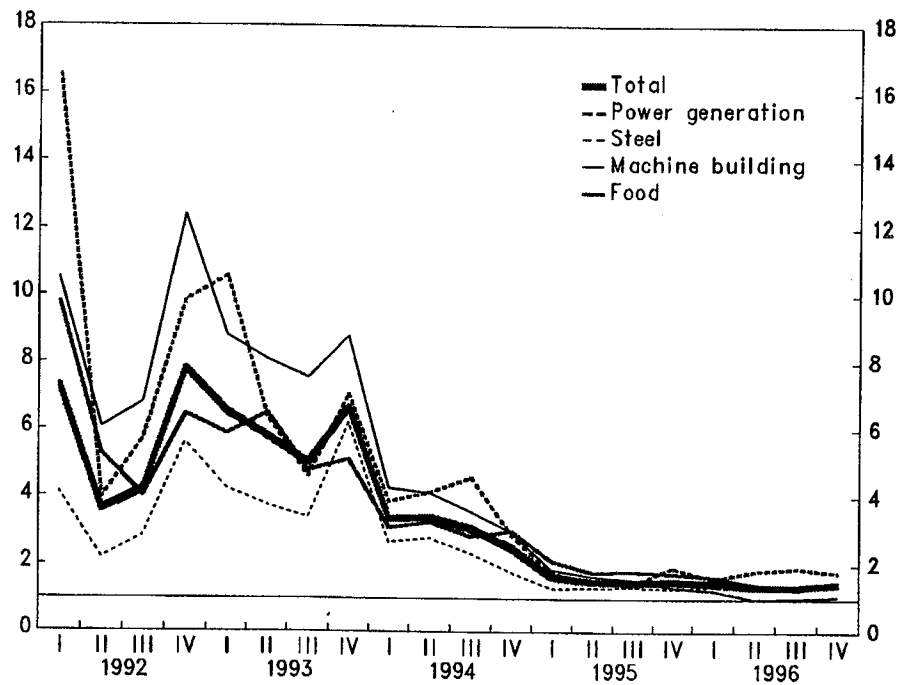
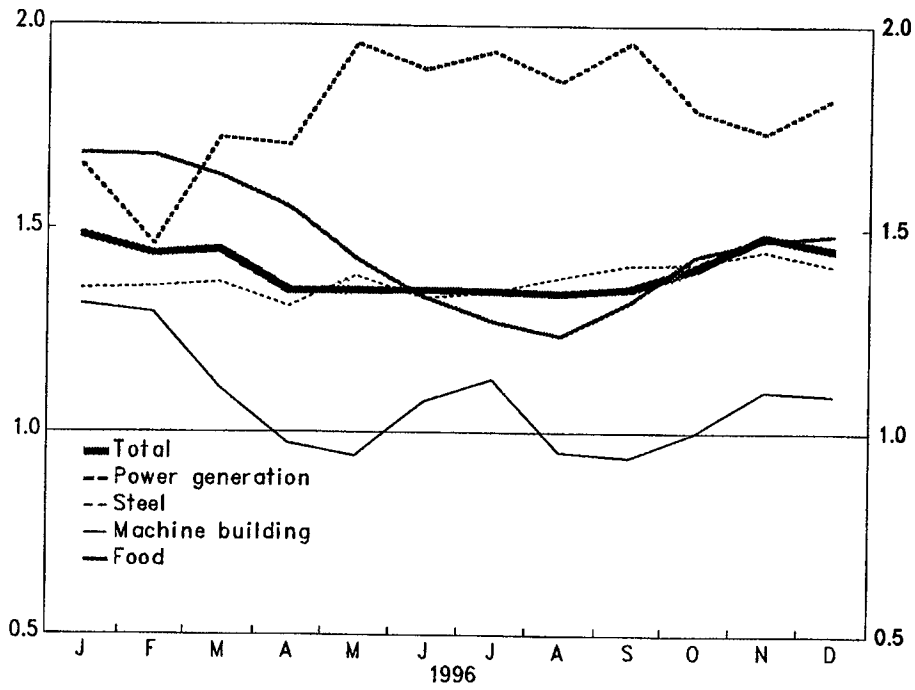
25. Labor market trends continued much as in 1995 (Tables 15–18). Total employment decreased just marginally. The share of the labor force in the state sector declined from 69.4 percent to 64.2 percent, with a corresponding increase in the collective sector (which includes enterprises that have been transformed into joint-stock companies but not yet privatized).

26. Officially recorded unemployment remained very low, at less than 1 percent of the labor force for most of 1996, but started to rise slightly in 1997 to just under 2 percent. In general, 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. A household survey undertaken in October 1995 suggests an unemployment rate—out of the active population of working age—of about 5 percent, with substantial regional variations. This figure almost certainly underestimates the true unemployment rate inasmuch as persons over 55/60 were deemed to be inactive, and the full extent of underemployment was not adequately captured. Indeed, in 1995 some 18 percent of the labor force was on forced leave (at some point during the year) and a further 6 percent was working less than full time. Corresponding figures for the first nine months of 1996 are 21 percent and 7 percent, respectively.

27. Real wages (deflated by the consumer price index) fell by about 3 percent in 1996, but these are accrual wages and were frequently not paid on time. The stock of wage arrears at the end of 1996 is estimated as more than Hrv 4 billion (of which about Hrv 1 billion is owed

FIGURE 5
UKRAINE

International Competitiveness: Ratios of Value of
Output by Sector at International Prices to Value at Domestic Prices 1/



Source: European Center for Macroeconomic Analysis (Ukraine).

1/ Ratio greater than unity implies undervaluation of hryvnia.

to budgetary workers)—representing 17 percent of all wages paid during the year. Additional wage arrears accrued in the first part of 1997 despite efforts to eliminate them, although the pace of accumulation slowed.

E. Structural Reforms

Privatization

28. During the past year, the pace of privatization increased markedly (Figure 6). Whereas 1,000 medium and large scale enterprises were privatized in 1995 (with at least 70 percent of shares transferred from state ownership), a further 3,250 were privatized in 1996. Two measures taken by the government in early 1996 contributed to the pick-up in privatization. First, enterprise managers were given an additional incentive in the form of an extra 5 percent preferential share allocation if they complied with privatization procedures and deadlines. Second, a presidential decree of May 1996 streamlined the procedures required for privatizing agro-industrial enterprises and reduced the time required from 12 months to 4 months. Unlike industrial enterprises, however, the closed subscription period for agro-industrial enterprises remained 10 months until September 1996 when it was reduced to 3 months. A further barrier to the privatization of agro-industrial enterprises is the Law on the Peculiarities of Privatization of Agro-Industrial Complex which stipulates that 51 percent of the shares of such enterprises should be offered to the employees of their suppliers—typically state and collective farmers. Previous versions of the bill, which would have made this provision retroactive (including re-nationalization if necessary), were vetoed by the President.

29. Altogether, since 1992 some 9,240 medium and large enterprises (with 5.7 million employees) have started the privatization program. Of these, 1,230 enterprises (0.9 million employees) were privatized before the mass privatization program³ was instituted in December 1994. By end-1996, a further 4,251 enterprises (about 1.8 million employees) were privatized, and about 4,000 (3 million employees) are currently undergoing privatization. About 6,000 large- and medium-scale enterprises were placed on a “negative list” at the outset of the privatization program many of which are schools, kindergartens, etc., but also includes industries in defense, energy sector, and other “sensitive” areas. The negative list was reduced to 5,125 enterprises in early 1997.

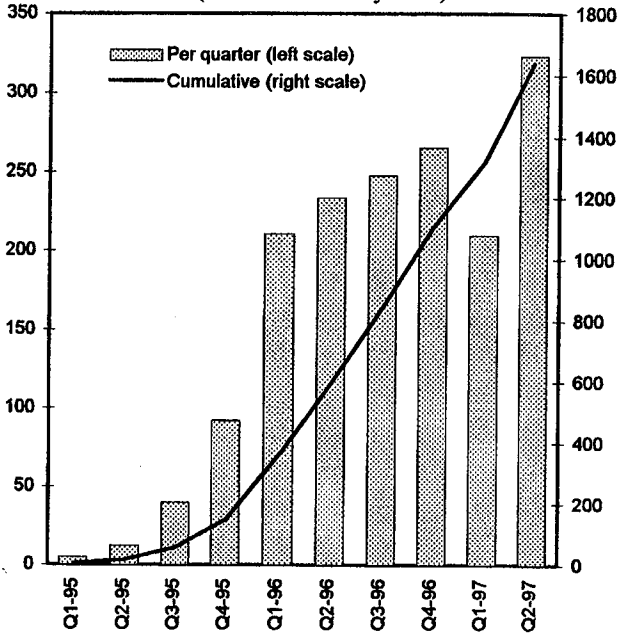
30. In early 1997, the introduction of a new law on cash compensation reduced the attractiveness of compensation certificates as a mean of mass privatization and the delayed approval of the 1997 privatization program by Parliament slowed down the pace of privatization of medium and large scale enterprises. Nevertheless, some additional 1,350 enterprises were privatized in the first half of the year.

³Under the mass privatization program 8,000 medium and large enterprises are to be denationalized.

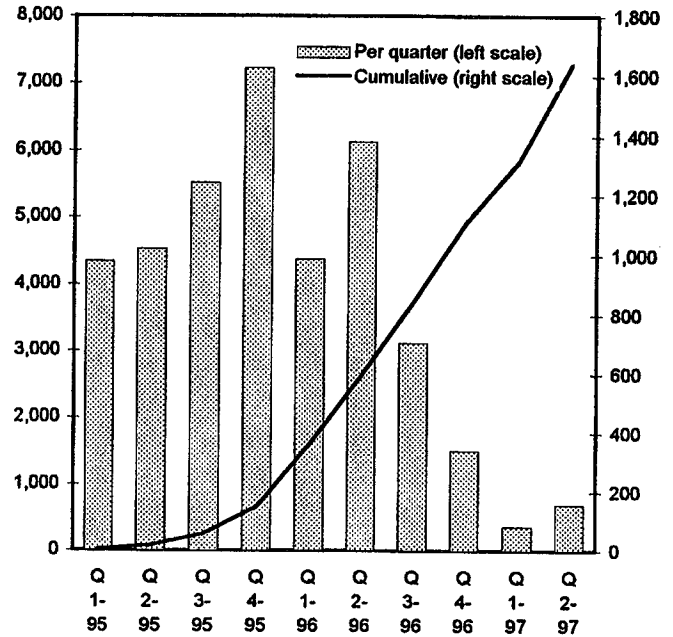
FIGURE 6
UKRAINE

Mass Privatization of Medium and Large Enterprises, 1992-97 (June)

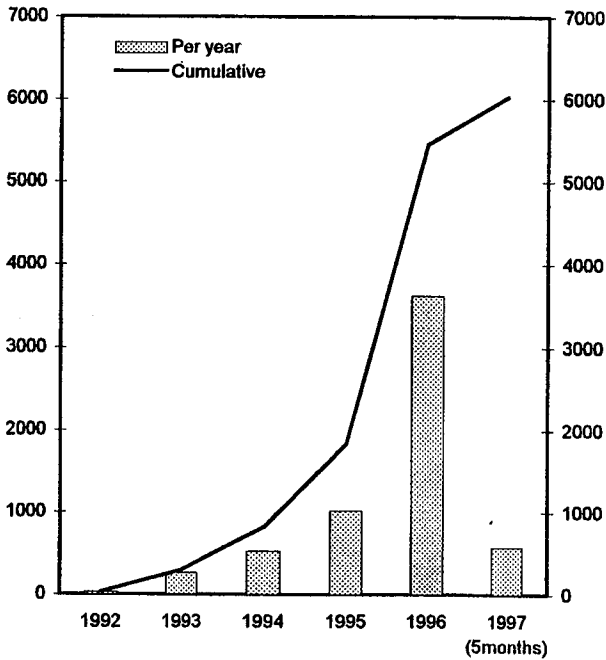
Total Value of Property Offered at Privatization
Certificates Auctions
(In millions of hryvnias)



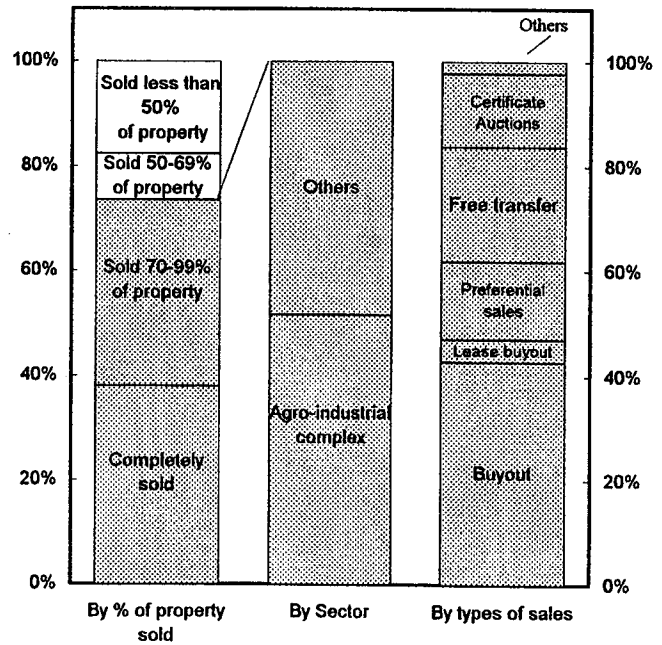
Number of Privatization Certificates Distributed
(In thousands)



Number of Enterprises with at Least 70 % of
Property Sold



Sales of Medium and Large Enterprises
(in percent)



Sources: Ukrainian authorities.

31. The deadline for picking-up privatization vouchers, originally set for end-June 1996, was postponed to end-September 1996, and later to January 1, 1997.⁴ By end-September, some 80 percent of such vouchers had been distributed. Distribution of savings compensation certificates started in mid-1996. These certificates are intended to compensate depositors in the Savings Bank for the erosion of the real value of their deposits held as of January 1, 1992. Unlike privatization vouchers, these certificates are freely tradable, and enterprises auctioned for compensation certificates are not subject to a floor "price."

32. Finally, the small-scale privatization program was virtually completed by mid-1997 with about 90 percent out of an estimated stock of 42,000 small enterprises having been privatized. During 1996 about 1,500–2,000 enterprises were privatized each month (raising a total revenue of about Hrv 200 million)—considerably more than in previous years.

Enterprise governance

33. Privatization has had little effect on enterprise governance, largely because the bulk (85 percent) of shares were given to incumbent managers and workers through preferred share allocations during the closed subscription phase. As a result, relatively little has changed in the operation of many privatized enterprises, although there has been some hardening of budget constraints, and many are struggling to survive in a more market-oriented economy. Interenterprise arrears continued to accumulate in 1996, both in nominal and real terms, which created an unfavorable business climate. With more focus on their problem, there are indications, however, that in the first few months of 1997, interenterprise arrears declined in real terms. For several enterprises, one of the most stressing problems is the difficulty in getting financing from the banking system (see Box 4).

34. In order to harden budget constraints, a new "Law on Bankruptcies" was submitted to Parliament in mid-1996. The draft law does not, however, appear to improve significantly the framework for liquidations and financial restructurings. It was sent back to the government for substantial revision. The existing bankruptcy law is seldom used, and typically it is only the State Tax Administration which makes use of it. The authorities are in the process of improving bankruptcy procedures, which should allow broader application despite the weaknesses of the law. An "Agency for the Prevention of Bankruptcy" was established in mid-1996. Its task is to help rehabilitate enterprises in financial difficulty; to date, however, it has not been very active.

35. Going beyond privatization, the government intends to improve enterprise governance by fostering the development of well-functioning capital markets. To this end, several decrees were passed in 1996, transferring responsibility for capital markets supervision to the Securities and Stock Markets Commission, establishing a National Depository System for

⁴For a further description of the privatization program see Ukraine—Recent Economic Developments, March 1996 (Appendix II).

Box 4. Life Post-Privatization; an Example

With the pace of privatization picking up, an increasing number of enterprises are having to survive in a market economy with hard budget constraints. No individual experience is necessarily representative, but the experience of one large—and historically important—enterprise may be illustrative. This enterprise was founded in the late nineteenth century and produces vases, glasses, glass ornaments, and sculptures. Annual sales amount to Hrv 7 million of which 50 percent is in Ukraine, 40 percent in Russia and CIS countries, and about 10 percent in the European Union or the United States. There are 1,200 employees—down from 1,500 one year ago—earning an average monthly wage of Hrv 190 in 1996. The wage bill accounts for 30 percent of costs, energy for a further 40 percent, and raw materials for 30 percent.

In 1995, the company was privatized through a combination of worker-manager “privileged” privatization and voucher privatization. (Most of these vouchers were invested through an investment fund). About 25 percent of shares were retained by the state for sale to a strategic investor. Thus far, Austrian and Czech firms have expressed interest in such an investment. Since privatization the enterprise enjoys greater freedom in its production choices—with about 30 percent of the product line changed each year in response to market demand—and has streamlined its labor force. Shareholders have appointed a board of directors and an oversight board, although much of the management remains unchanged.

The key problem faced by this enterprise is the lack of adequate financing—with much of the working capital eroded by inflation. Most of the enterprise’s sale—perhaps as much as 95 percent—is in the form of barter transactions for energy or raw materials. The enterprise no longer borrows from banks, citing both high interest rates and the necessity to repay in cash (as opposed to barter) as the main obstacles. The enterprise has energy and tax arrears and about two weeks of wage arrears.

While the tax burden is viewed as excessive—particularly contributions to the extrabudgetary funds—there are no complaints about treatment by the tax authorities (other than being placed on the kartoteka system because of tax arrears). Nor are there complaints about excessive regulation or trade restrictions. The enterprise tries to denominate all export contracts in dollars but, thus far, is unconcerned about the real exchange rate appreciation eroding competitiveness.

shares, and promulgating rules for investment funds, registrars, and depositories, and work in these areas is continuing in 1997.

Price liberalization and competition policy

36. During 1996, a number of price controls were lifted. Oblast government powers to restrict trade margins on bread, flour, and bread products were rescinded in May 1996⁵. In July, the categories of goods for which price changes are subject to advance declaration was reduced to only a few industrial products (ores, rolled ferrous metals, fertilizers, mining equipment, railway equipment, automobiles, tractors, artificial fibers). At end-1996 this list was eliminated entirely (with the exception of certain pharmaceutical products).

37. Modest progress was also made in demonopolization of the economy, with 12 large state-owned conglomerates broken up, including some in the agro-processing sector. The regulatory framework was further refined by the passage of the law "On Unfair Competition," which became effective January 1, 1997. The Law on Natural Monopolies allows for the separation of potentially competitive segments of these industries from those with natural monopoly characteristics. Meanwhile the Anti-Monopoly Committee continues its work to prevent dominant firms from exploiting their market power. In 1996, almost 800 cases were investigated—somewhat fewer than in 1995.

Agricultural sector

38. Apart from privatization (see above) and trade and price liberalization, agricultural reforms in 1996 focused on land and financial system reforms. Land share certificates for almost 1,000 collective agricultural enterprises were issued and registered. The share of private farms in total agricultural land remains at about 14 percent (with collective farms accounting for 67 percent and state farms about 18 percent (Table 13). A presidential decree was issued charging the State Council on Land Resources and the Ministry of Justice with land registration, and it is expected that a cadastre will be in place by the end of 1997. Normative acts were issued specifying procedures for the exchange of land shares and property shares for land plots and physical assets. The number of agricultural commodity exchanges was increased from one in 1995 to eight in 1996 but activity in the exchanges declined during the year. Agricultural credit subsidies were reduced substantially, and the state purchase of agricultural products was limited to five million tons (with an additional two million tons under the regional contract); total expenditure was less than Hrv 1 billion. In April 1997, a law on land leasing was passed which is expected to promote exchanges of land.

39. Some steps backward were taken in early 1997 with the strengthening of a monopoly for bread production and sales ("Bread of Ukraine") and the formation of a state agricultural supply company. However, subsequently a decision was made to demonopolize the bread sector, to start privatizing "Bread of Ukraine," and to break up the agricultural supply company.

⁵Controls on profit margins on grain procurement and storage had been rescinded in October 1995.

Energy sectors

40. Significant reforms were introduced in the **electricity sector** during 1996. An EnergoMarket was established, whereby corporatized generation companies compete in supplying electricity to the high voltage national grid. Live trading commenced in April 1996, following an extensive period of shadow trading. The EnergoMarket, a new state enterprise, operates the bidding process, determines the hourly system purchase and selling prices, and clears payments orders. The newly established National Electricity Regulatory Commission issues licences, promotes competition, and protects consumers. Local joint-stock companies within each oblast own and operate the low-voltage networks and supply electricity in competition with independent suppliers to customers. Further reforms are being supported by a Power Sector Development Loan approved by the World Bank in October 1996. After some reversals, a new settlement system for electricity aimed at discouraging barter was established in mid-1997. Since then, the general payments situation has improved somewhat, although cash payments remained a small portion of total payments.

41. Reforms are ongoing in the coal sector, initially under a Pilot Project financed by the World Bank and subsequently followed up by a \$300 million Coal Sector Adjustment Loan. Coal trading was demonopolized, cross subsidies between coal mines were abolished, and the process of corporatization was nearly completed. By end-1996, coal production in some 25 mines was stopped, and half of them had been transferred to a company charged with their closure. A detailed plan for the transfer of social assets was adopted, and a decision was made to transfer the liability for disability payments from closing mines and for severance pay to the State Social Insurance Fund and to the State Employment Fund, respectively. Furthermore, coal prices were liberalized in early 1997. However, reforms slowed down following the miners' protests in late 1996. In particular, the divestiture of the coal mines' social assets was slower than expected. In addition, soon after the liberalization of prices a Council of Coal Exporters and Producers was set up which was to approve prices in coal export contracts.

42. In the **gas sector**, external arrears on gas payments imposed severe budgetary pressures in 1995 because such payments were formally guaranteed by the government. Following this experience, the government withdrew such guarantees in 1996 and began to restructure the domestic gas market. Licenses were initially granted to eight gas distributors—with two major players (United Energy Systems, Ukgazprom) emerging after a period of consolidation. These distributors import about 25 billion m³ of gas for sale to domestic consumers, and receive a further 30 billion m³ of gas from RaoGazprom, the proceeds of which are supposed to be paid to the Ukrainian budget, on behalf of RaoGazprom, for Russian gas transit through Ukraine to western Europe. A third distributor, ITERA, sells about 17 billion m³ of gas from Turkmenistan. Domestic payments discipline remains weak: arrears amount to about 50 percent of gas payments due (owed mainly by households, budgetary organizations, and district heating plants). While most of the payments due to RaoGazprom directly were being paid in a timely manner, amounts due to the budget were generally not paid in 1996 and arrears accrued to Turkmenistan. In 1997, the supply system was further tightened by the creation of a consortium, led by United Energy Systems, that is now responsible for imports of gas from Russia. Turkmenistan stopped delivering gas

to Ukraine in early 1997, due to the poor payments record. Payments to Rao Gazprom also deteriorated, resulting in a reduction in supplies of gas to Ukraine in July.

III. MONETARY, EXCHANGE RATE, AND PRICE DEVELOPMENTS

Inflation fell markedly as monetary policy was kept tight. Fiscal adjustment and growing activity in the domestic treasury-bill market allowed the National Bank to limit its credit expansion to government. But with commercial banks cautious about lending to the enterprise sector, these treasury bills provided an attractive alternative to enterprise lending. The exchange rate remained broadly stable throughout 1996 and the first part of 1997; in September 1996 Ukraine introduced its new currency, the hryvnia.

A. Overview

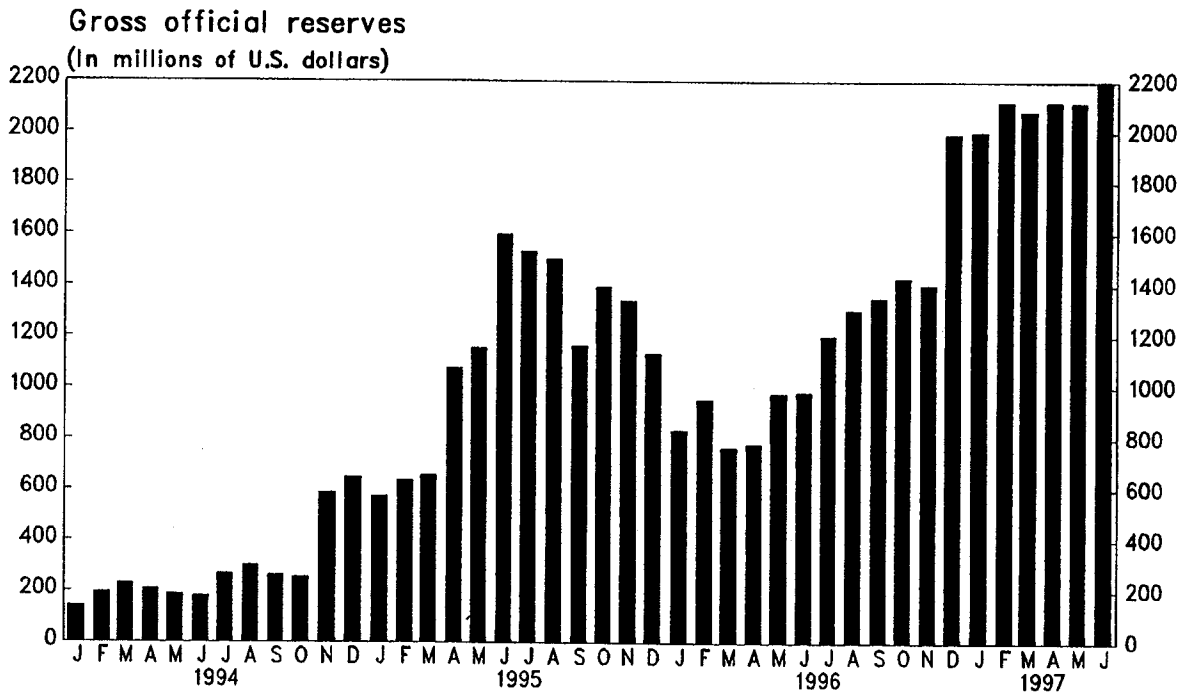
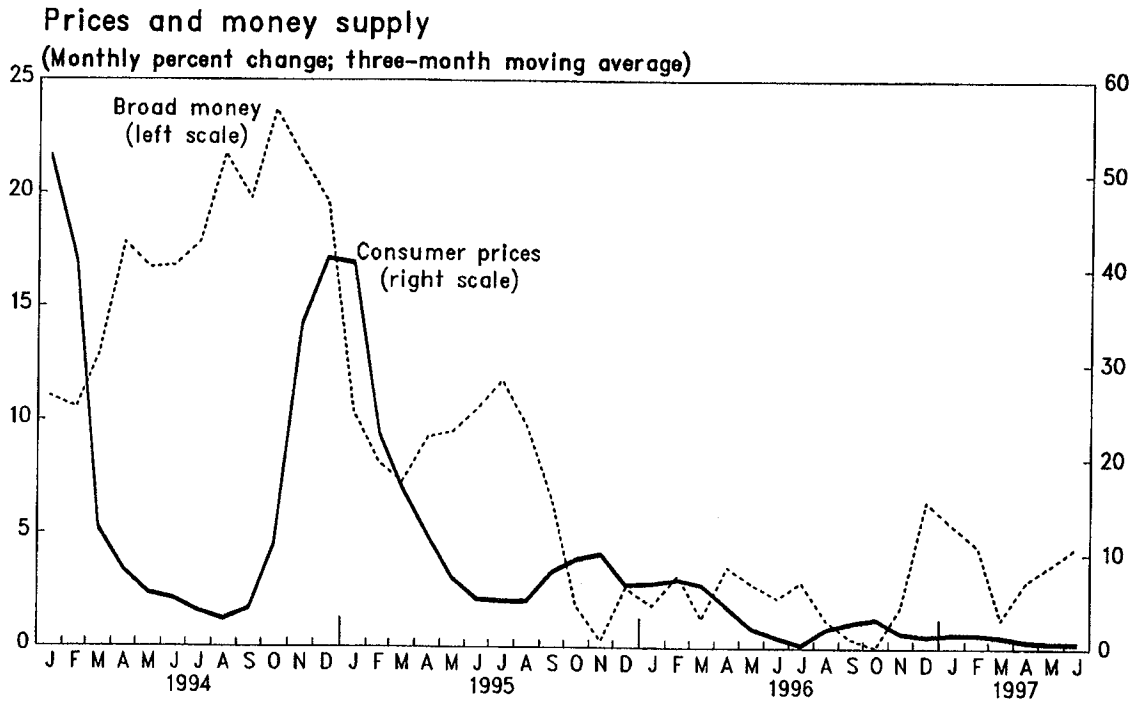
43. In 1996, Ukraine achieved sustained price stability for the first time since declaring independence in 1991. Inflation, which at times had bordered on hyperinflation, fell to an average monthly rate of 2.8 percent (Figures 7 and 8). Two key factors underlie this stabilization. First, the rapid development of the treasury-bill market allowed the government to finance the budget deficit—the lowest since independence at 3.2 percent of GDP—primarily through the sale of treasury bills. In turn, this allowed the National Bank (NBU) greater flexibility in conducting its credit and monetary policies than in previous years. Importantly, increased participation by non residents in the treasury bill market meant that NBU purchases at the primary auction were less than 26 percent of the total funds realized. Second, the NBU improved its general coordination of monetary and exchange rate policies, including through the active use of its treasury-bill holdings to sterilize its exchange market interventions several times during the year.

44. Other factors also differentiated the authorities' policy stance in 1996 from that in earlier years. In the first half of the year the authorities began to move forward with plans to replace the karbovanets with Ukraine's permanent currency, the hryvnia. Due to the political importance attached to the monetary conversion—and the great uncertainty generated by previous announcements of it—the authorities made a concerted effort to ensure its success. In particular, great significance was attached to the stability of the exchange rate in the period preceding the announcement of the conversion. In effect, this gave the NBU the political mandate for tight financial policies through much of the year. In addition, the influence of sectoral (primarily agricultural and energy) interests on financial developments weakened somewhat in early 1996, with commercial bankers reporting fewer and smaller directed credit operations. Moreover, NBU refinancing—often used to provide liquidity for such operations—was modest during this period compared to earlier years.

45. The NBU's credit policy remained tight in the first half of 1997. The strong participation of nonresidents in the treasury-bill market led to significant net purchases of foreign exchange by the NBU in order to prevent a serious appreciation of the hryvnia.

UKRAINE

Money, Prices and Gross Reserves, 1994-97 (June)

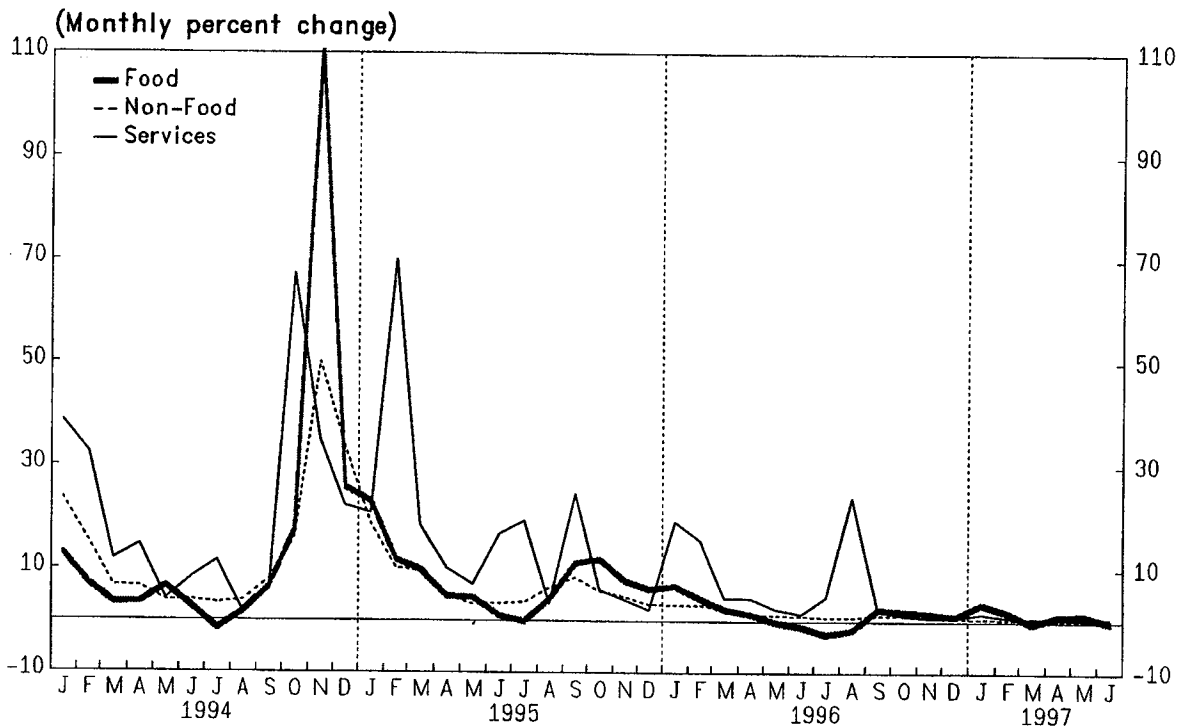
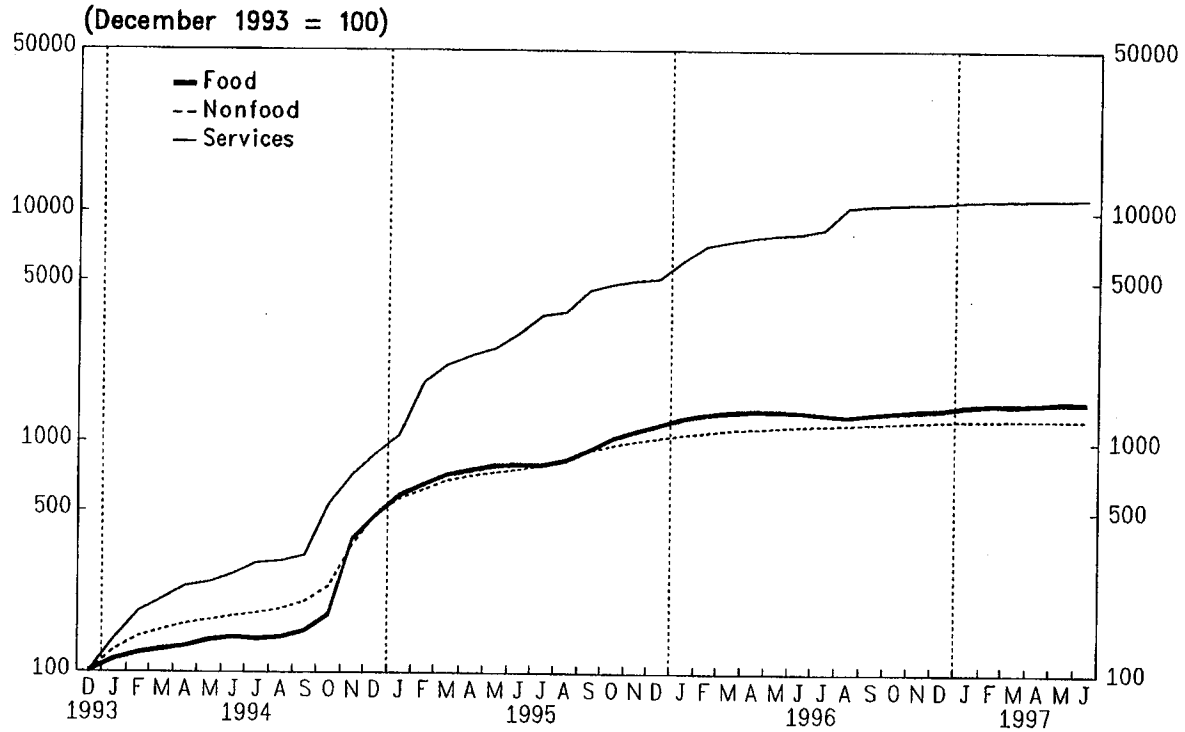


Sources: Ministry of Statistics; and IMF staff estimates.

FIGURE 8

UKRAINE

Components of the CPI, 1994-97 (June)



Sources: Ministry of Statistics.

Monetary expansion remained moderate as the NBU attempted to sterilize the effects of its foreign currency interventions on base money.

46. While these are positive signs, the continuing slow pace of structural reform—including of the banking sector—threatens to undermine the achieved financial stability. Nowhere is this more evident than in the slow remonetization of the economy. The increase in real money demand has been fragile (see Box 5), and velocity declined by only 1 percent during 1996—a clear sign that full confidence in macroeconomic policies and the financial system is yet to be established. In addition, there is emerging evidence that directed lending—albeit without direct NBU support—which resumed in the second half of 1996, further jeopardized the financial health of already weak banks. Nevertheless, there are some tentative signs that, starting in the second quarter of 1997, money demand is increasing.

B. Monetary and Exchange Rate Developments

47. The principle monetary development during 1996 was the introduction of Ukraine's permanent currency, the hryvnia, in September (see Box 6). The importance attached—at all levels of government—to a successful introduction of the hryvnia resulted in a substantial easing of pressure for directed lending by commercial banks and the NBU. Moreover, demand for refinancing credit in 1996 and the beginning of 1997 was very moderate as banks exhibited caution in their general lending activity to the nongovernment sector, in part because of the fragile state of the commercial banks (see Box 7). Instead, banks preferred to hold treasury bills whose real yields—though falling—remain very attractive. The banks' cautious behavior is also reflected in their often large holdings of unremunerated excess reserves.

48. Reflecting the generally good performance of the (cash) budget and the rapid expansion in the treasury-bill market, the NBU's monetary and credit policies were tight through most of 1996 and the first half of 1997 (Tables 24–27). Policy was tightened at the beginning of 1996 through increases in the required reserve ratios for both domestic and foreign currency deposits in an effort to reduce quickly excess reserves at commercial banks. This action was followed by tight credit policies and periodic NBU sterilization operations to offset its frequent net purchases in the exchange market from late January through the end of the second quarter. With these actions, base money growth was contained to just 15 percent through June. Against this background—and reflecting commercial banks' cautious lending behavior—broad money grew by 11 percent during the same period.

49. Net NBU credit to the budget during the second half of 1996 was just one-fifth of the amount provided during the first six months of the year, partly because of significantly increased activity—including participation by nonresidents—in the treasury-bill market. During most of the period the NBU continued to restrict refinancing by limiting the number of auctions and use of its Lombard facility. Despite this tight credit policy, the hryvnia came under pressure several times (see below) and the NBU did not raise interest rates or otherwise tighten monetary policy to relieve the exchange market pressure. December saw a shift in policy. Credit was eased in response to political pressures to finance firms' contributions to the Pension Fund, and a large amount of refinance credit was extended for this purpose;

Box 5. Money Demand in Ukraine

Following the severe demonetization of the economy in 1993–94, real money demand has increased only slowly. At least at monthly frequencies, money demand appears to depend more on past inflation performance, than on current or (rationally) expected future inflation. A co-integrating relationship between (log) real money (broad money deflated by the CPI), real industrial production (as a proxy for economic activity), and lagged inflation yields:

$$m/p = 1.2q - 0.8\pi + v$$

(3.8***) (1.8*)

while short-run dynamics, estimated by instrumental variables, are given by:

$$\Delta\left(\frac{m}{p}\right) = 0.80\Delta q - 0.001\Delta\pi - 0.26v_{-1}$$

(2.7***) (2.6***) (2.7***)

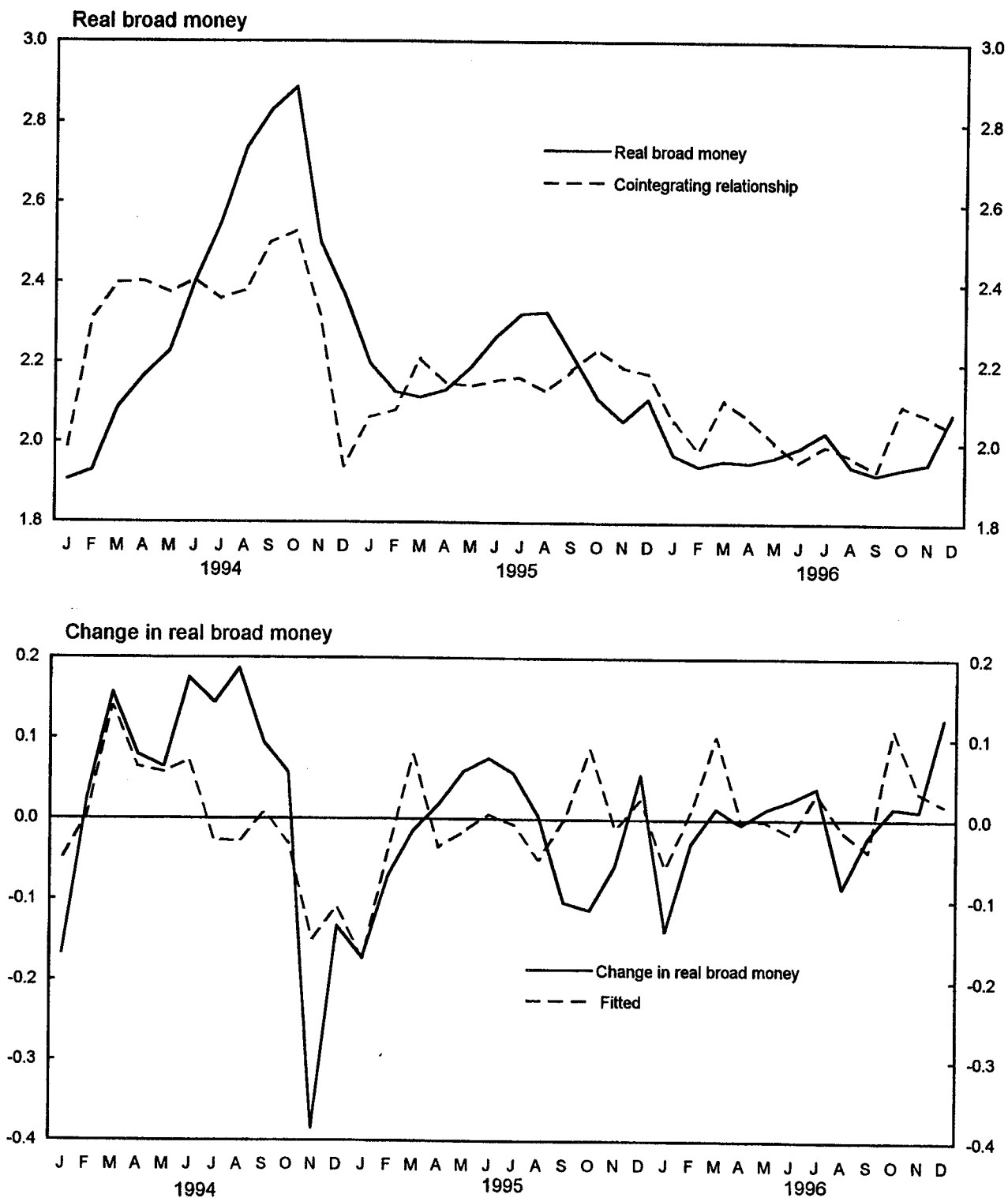
$$R^2 = 0.34$$

where heteroscedastic-consistent t-statistics are given in parentheses, and statistical significance at the 10, 5, and 1 percent levels are indicated by (*), (**), (***), respectively.

Figure 9 graphs actual m/p and the long-run co-integrating relationship, as well as $\Delta(m/p)$ and the fitted regression line. Several points are noteworthy. During the summer months of 1994, real money demand was well above the long-run relationship—giving credence to anecdotal evidence of price controls. With price liberalization in late 1994, real money collapsed, falling below its long-run relationship in early 1995. Real money fell in the summer of 1995, in large part because of rumors of a possible confiscatory monetary reform, and indications that the National Bank was willing to ease monetary policy. Through much of 1996 real money demand remained below the estimated long-run trend, recovering only gradually.

commercial bank lending to the nongovernment sector rose sharply during this month. In addition, the NBU intervened heavily in the exchange market during December to absorb capital inflows associated with increased nonresident demand for treasury bills and did not fully sterilize these operations. Together, these factors led to base and broad money growth of about 14 percent during December (compared to growth rates of just 5 percent and 6.5 percent, respectively, over the previous five months).

FIGURE 9
UKRAINE
Monetary Dynamics, 1994-96



Source: IMF staff estimates.

Box 6. Introduction of the Hryvnia

On August 23, 1996, the Ukrainian authorities announced the introduction of the country's permanent currency, the hryvnia. The authorities took this decision in light of the sharp and sustained fall in inflation and the relative stability of the exchange rate in the first half of 1996. The conversion process began on September 2, 1996 and continued through September 16, 1996. From the first day of the conversion period, only the hryvnia was convertible into foreign currencies. Almost 98 percent of all karbovanets balances outstanding were converted into hryvnia during the announced conversion period. The conversion period for people able to prove that they were unable to convert during this time (e.g., residence or travel abroad) was initially set to end in November 1996. This deadline was subsequently extended in several steps to March 1, 1997.

While the conversion to the new currency was successful, it was affected by a number of measures that served to undermine the public's initial confidence in the conversion process.

- A limit of Krb 100 million (approximately \$600, or seven months' average wage) was imposed on individuals' conversion of cash holdings. Amounts in excess of this had to be deposited in bank accounts and were immediately available in hryvnia.
- A ban was introduced on drawings of cash foreign currency from foreign currency accounts. This measure was taken to enforce the hryvnia as the sole legal tender on the territory of Ukraine.
- Exchange points were restricted to four banks (Bank Ukraina, Oshchadny Bank, Prominvest Bank, and Ukrsofsbank) and certain cash foreign exchange outlets.
- A maximum spread of 10 percent was introduced between the official exchange rate of the hryvnia, as determined at the birzha auction market, and the cash rate quoted by exchange outlets. This measure led to the closure of many such exchange outlets.
- A one-month freeze was introduced on the prices of all commodities and services from the first day of the conversion period. The authorities justified this measure based on concern that merchants would use the conversion to hryvnia prices as an opportunity to raise prices. In fact, this measure led to substantial price rises in some consumer markets in the week prior to the conversion period.
- Aside from these administrative restrictions, there were also reports of cash hryvnia shortages in the first days of the conversion period. This problem, however, was overcome quickly and the authorities began to take measures to reassure the public of their commitment to a transparent currency conversion. These measures included canceling the ban on cash withdrawals from foreign currency accounts, announcing that the price freeze would be lifted on September 16 (two weeks earlier than planned), and frequent public statements that the conversion would not be confiscatory.

Box 7. Banking Sector in Ukraine

As of March 1, 1997, there were 230 banks registered in Ukraine. Approximately two-thirds of these banks are single branch banks that operate only in the oblast within which they are registered. Thus, banking activity remains very concentrated; the five largest banks (as measured by statutory capital on January 1, 1996) hold approximately 60 percent of all loans extended to the economy, and the next ten largest banks hold an additional 20 percent of this loan total. The size of the banking system remains small compared to output—total banking system assets at the end of 1996 were equivalent to about 12 percent of 1996 GDP.

Two banks, UkrEximbank and Oshchadny Bank (Savings Bank), remain state owned. Three other banks—Bank Ukraina, Prominvestbank, and Ukrsotsbank—are all former state-owned banks that were first corporatized in 1992 and then distributed shares more widely, primarily to employees, over the period 1993–94. Decision making in these three banks, however, continues to be concentrated among senior management, which remains closely associated with the government. As a result, these have been the banks most often targeted for directed lending operations throughout the mid-1990s. Aside from these five banks, there are 25 private banks in Ukraine that can be termed as medium to large, i.e. with total capital in excess of the equivalent of \$50 million. A large number of these private banks are, however, pocket banks of specific industrial conglomerates, e.g., in the metallurgical and oil and gas industries. Several others are tied closely to the budget through contracts to service certain payments, e.g. Aval Bank services the Pension Fund. Fourteen private banks in Ukraine are at least partially owned by nonresidents.

An indication of the health of the banking system in Ukraine can be drawn from banks' abilities to meet key prudential norms. On average throughout 1996, four of the largest fifteen banks in Ukraine were not conforming to the stipulated required reserve ratios. Several large banks also routinely violated norms governing lending exposure and risk. In addition, a large number of smaller banks did not meet minimum capital requirements, although all large banks conformed to this norm.

Another useful indicator of banks' financial positions is the ratio of profits to total assets. Data for a sample of 104 Ukrainian banks—including 12 of the 15 largest banks—show that this ratio dropped sharply between the last quarter of 1995 and July 1996. This likely reflects the further sharp rise in real interest rates in Ukraine during the period and the continuing deterioration of loan portfolios arising from large directed lending operations in 1995. The financial position of several large banks may have further deteriorated in the second half of 1996 due to the very poor harvest in Ukraine.

Box 7 (Cont'd.). Banking Sector in Ukraine

In 1996 and early 1997, the NBU took a number of significant steps toward recognizing the problems in the banking sector and dealing with them. First, the system of licensing banks was improved through giving all responsibility for licensing decisions to the Committee on Banking Supervision. The new system was applied through an operation to review the licences of all registered banks during 1996. Approximately two-thirds of all banks had been relicenced by the end of the year, with the remaining one third being smaller banks that did not meet the ECU 500,000 minimum capital requirement.

Second, in late 1996 a Bank Resolution Unit (BRU) was formed at the NBU, with the specific task of identifying problem banks and working out enforcement agreements for their restructuring. As one of its first steps, the BRU produced CAMEL ratings for the 30 largest banks in Ukraine. Based on these ratings, the BRU identified the first two private banks to be subject to enforcement agreements; one for restructuring and one for liquidation. In addition to these measures, the NBU drafted improved regulations for prudential reporting and loan classification by commercial banks, which became effective by mid-1997. An international audit of the Savings Bank was initiated in mid-1997.

Despite these important steps, banking supervision and regulation in Ukraine continue to be seriously hampered by several factors. The on-site inspection capacity of the NBU remains very weak, although this is expected to improve through a training program that has been developed with technical assistance from bilateral donors. Most important, however, political interference in the enforcement of regulations by the NBU continues unabated. This results in the continuing deterioration of the health of many banks already identified as being in distress.

50. Monetary policy was relatively tight in the first half of 1997, with some loosening in June. Broad money at the end of February was at about the same level as end-December 1996, although this was mostly due to a sharp decline in foreign currency deposits as capital inflows deposited at the banking system at the end of 1996 moved to the treasury-bill market. hryvnia broad money grew by 7.9 percent in the first quarter and 14 percent in the second quarter (most of it in June) while base money grew by 6.5 percent and 18 percent, respectively during these periods.

51. In 1996, as in the previous year, Ukraine again experienced an excess supply of foreign exchange on its exchange markets beginning in the second quarter. Initially, the flows were associated with the delayed repatriation of earnings on goods exported in late 1995—particularly agricultural products and processed foodstuffs. Compounding this, May saw the beginning of sustained capital inflows that are believed to have been associated with uncertainties surrounding the political situation in Russia prior to the presidential elections there. These inflows continued through July and the NBU, while using the opportunity to build its international reserves, limited its interventions and allowed the exchange rate to strengthen significantly; the karbovanets appreciated from its most depreciated rate ever of Krb 191,100 per U.S. dollar in early March to Krb 176,000 at the end of July.

52. In August, downward exchange market pressure emerged as news of the imminent currency conversion spread. This pressure increased significantly following the official announcement on August 23 of the conversion procedures, which specified a number of administrative restrictions (Box 6). As a result, the NBU was forced to intervene heavily in the market in the last week of August to keep the official exchange rate fixed—a policy it had chosen to follow since early August in an attempt to minimize uncertainty at the time of the currency conversion. This policy proved costly, with the NBU selling, between early August and mid-September, almost all the reserves it had accumulated through exchange market intervention earlier in the year. The NBU maintained a de facto fixed exchange rate policy through early October—holding the value of the new currency at Hrv 1.76 per U.S. dollar—with a slight additional loss of reserves.

53. Following this experience, the NBU decided to let the exchange rate move in response to market pressures—at least for some time—and the hryvnia depreciated to Hrv 1.87 per U.S. dollar by mid-November. At that point, exchange market pressure again switched direction as a result of significant new capital inflows associated with rising nonresident purchases of treasury bills. The NBU chose to use this opportunity to rebuild its international reserves, however, and thereby contributed to a slight further depreciation of the hryvnia during the remainder of the year.

54. The hryvnia continued to be under sustained upward pressure for most of the first half of 1997, again largely because of capital inflows associated with purchases of treasury-bills by nonresidents. By the end of June, nonresidents had purchased an estimated \$700 million in treasury bills. The NBU used this opportunity to further build up its international reserves, while keeping the exchange rate between Hrv 1.84 and Hrv 1.88 per U.S. dollar (close to the upper limit of the informal band), for most of this period, with the exception of a short time in February, when the rate was allowed to move to Hrv 1.74 per U.S. dollar. Gross international reserves of the NBU increased by \$340 million in this period to \$2.3 billion.

C. Prices and Interest Rates

55. Monthly inflation rates in January and February—at 9.4 percent and 7.4 percent, respectively—were the highest experienced during 1996 and were driven primarily by increases in administered prices for energy and communal services at the beginning of the year. In both months, approximately 5 percentage points of inflation are attributable to these price increases. The remainder can be attributed to seasonal effects, particularly on food prices, and the strong expansion of central bank credit to government and commercial banks in December 1995, although the impact of the latter was dampened by a substantial increase in the required reserve ratio, and other changes in required reserve policy, in January 1996. As in previous years, prices for services—especially, but not exclusively, communal services prices—rose more sharply than goods' prices (Figure 8).

56. Inflation decelerated rapidly in March and through the second quarter, averaging just 1.5 percent per month throughout the period—in part due to seasonal factors observed in earlier years. But also underlying the strong inflation performance were the tight credit and

monetary policies of the NBU and the relative strength of the exchange rate during the first half of 1996.

57. In contrast to previous years, underlying inflation did not pick up at any time during the remainder of 1996, with average monthly inflation running at 1.9 percent during the second half of the year⁶. This reflected continued tight financial policies from early summer—followed by an actual fall in both base and broad money during August due to uncertainty associated with the pending monetary reform—through November, and the continued stability of the exchange rate.

58. Inflation picked up somewhat in January 1997 with prices increasing by 2.2 percent as a result of the credit expansion at the end of 1996. The tight monetary policy conducted by the NBU contained monthly price increases to 1.2 percent in February and to less than 1 percent during March-June.

59. Although interest rates in Ukraine remained high in real terms at the end of 1996 and in 1997, most nominal interest rates moved down throughout the period; some fell rapidly during the first half of 1996 as inflation came down sharply (Table 28). In particular, from January through early July, the NBU reduced its statutory refinance rate in several steps from 154 percent per annum to 46 percent per annum⁷ (Figure 10). The decline of the average commercial bank lending rate, which was legally tied to the NBU refinance rate until September 1996, and average deposit rates at commercial banks mirrored the fall in the statutory refinance rate during this period.⁸ The fall in the commercial bank lending rate may have been of relatively little significance, however, because of the cautious lending policies of commercial banks. Indeed, with the yield on 3-month treasury bills—a key reference rate for the economy—remaining high, there was significant crowding out with commercial banks preferring to hold treasury bills rather than to extend loans. The volume of treasury bills sold during the year increased steadily, rising from an average of Hrv 121 million per month in the first quarter of 1996 to Hrv 472 million per month in the fourth quarter and to over Hrv 850 in the first quarter of 1997 (Figure 11, lower panel). This increase reflected in part the rapid rise in the participation of nonresident investors in the market, particularly in the second half

⁶This rate includes the impact of further increases in administered prices for energy and communal services that became effective in August 1996; this is estimated to have contributed 4 percentage points to the August 1996 monthly inflation rate of 5.7 percent.

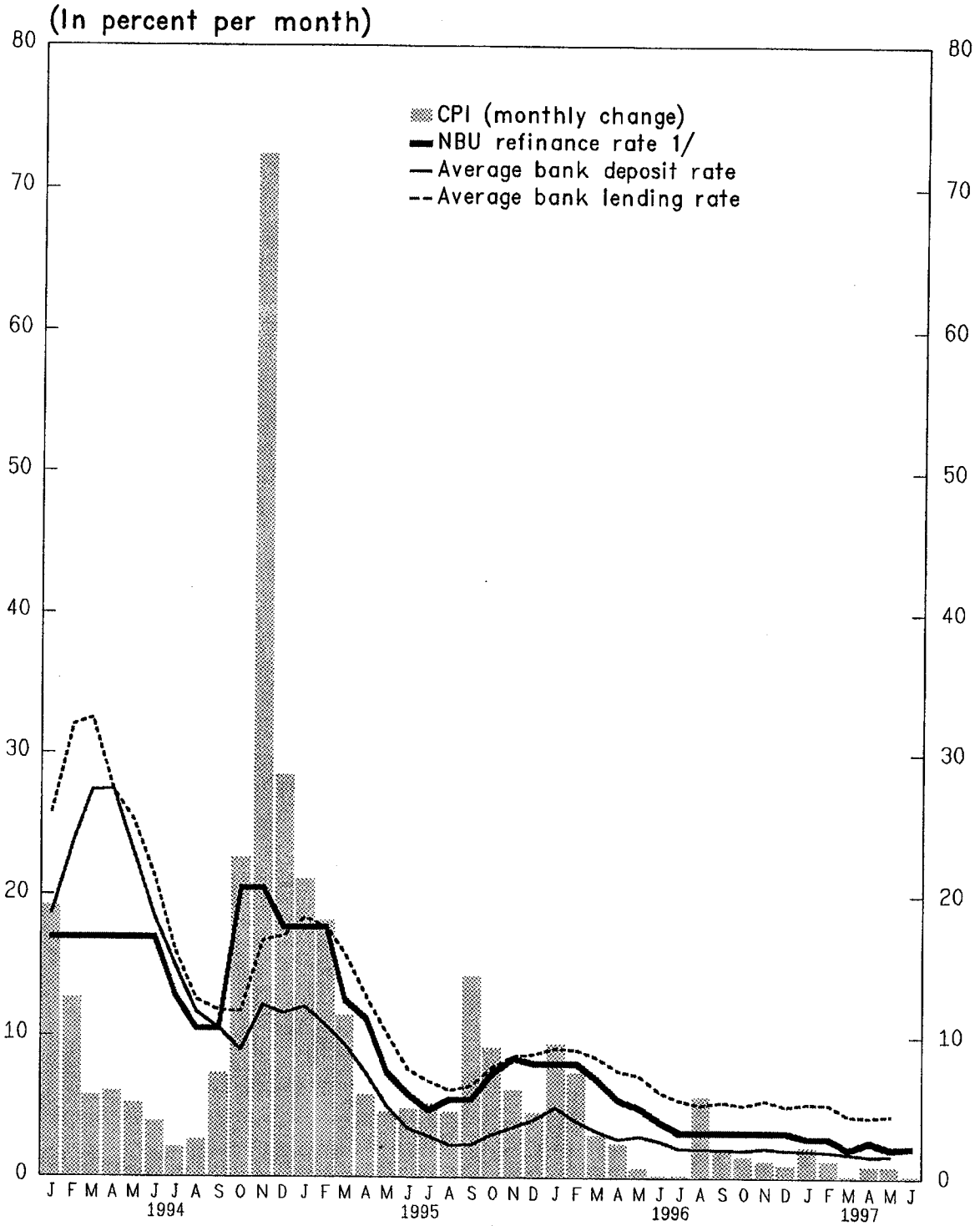
⁷All interest rates are reported on a compounded basis per annum.

⁸As in 1995, average interest rates on bank deposits fell less rapidly in 1996 and 1997 than average lending rates. This led to a further reduction in the spread between these rates, from 54 percentage points at the beginning of the 1996 to some 40 percentage points in the first few months of 1997.

FIGURE 10

UKRAINE

Interest Rates and Prices, 1994-97 (June)



Source: Ukrainian authorities.

1/ End of month observations.

of 1996 and in the first part of 1997, as the treasury-bill yields in real and dollar terms remained very attractive (Figure 11, upper panel).⁹

60. Responding to the containment of inflation at low levels in early 1997, the NBU on several occasions lowered the refinance rate, most recently in July 1997, when it declined to just under 20 percent.

IV. PUBLIC FINANCE

Although the cash deficit was reduced from 4.9 percent of GDP in 1995 to 3.2 percent of GDP in 1996, substantial arrears were accumulated and the underlying deficit (adjusting for the accumulation of arrears on wages, social benefits, and pensions) remained at 6.1 percent of GDP.¹⁰ Revenue fell by ½ percentage point of GDP, while expenditure reduction was hampered by the lack of a functioning Treasury. In the first half of 1997, the cash deficit was 5.1 percent of GDP and a further accumulation of arrears implied an underlying deficit of about 7 percent of GDP; in contrast, in the first half of 1996, the cash deficit was 4.2 percent of GDP while the underlying deficit was 9.8 percent of GDP.

A. Overview

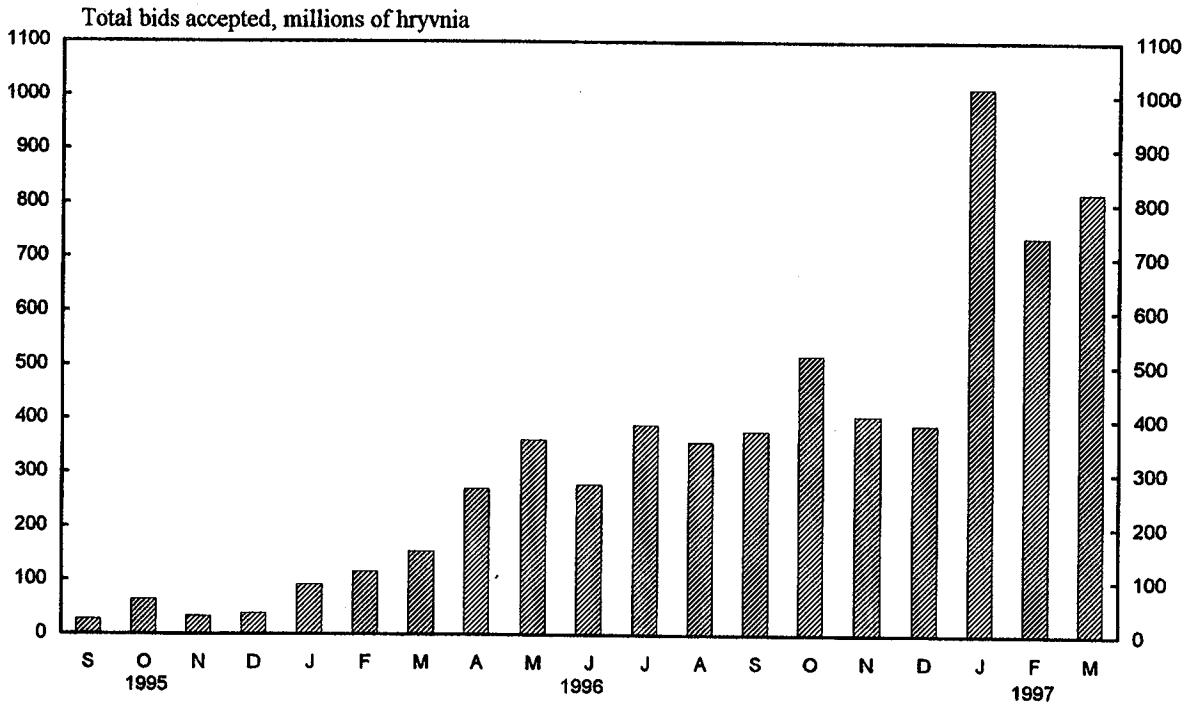
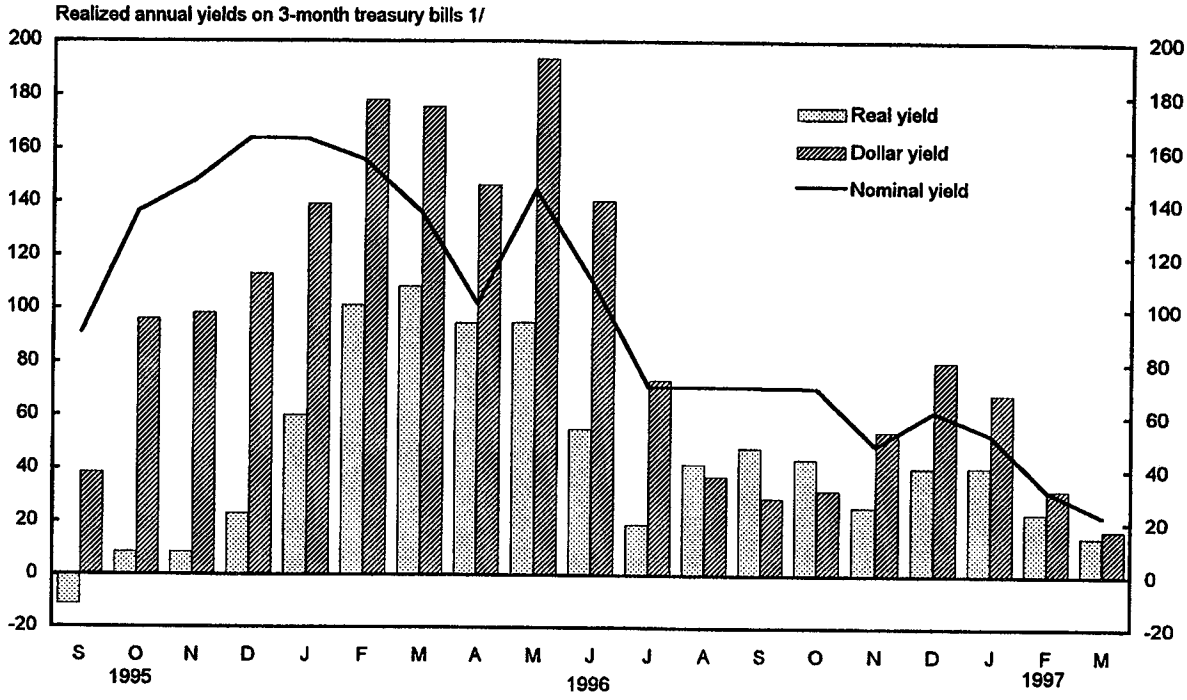
61. The cash deficit was reduced sharply from its peak of 23.3 percent of GDP in 1992 to 4.9 percent of GDP by 1995 (Figure 12). This improvement mainly reflects the elimination of directed credits, and deep cuts in producer subsidies. The cash deficit was further reduced in 1996 to 3.2 percent of GDP, despite a fall in revenue of ½ percentage point of GDP. The deficit was achieved mainly through lower outlays for social protection, education, and health. The lower cash outlays for social spending reflect in part a sharp rise of arrears (Table 31). The origin of these arrears lies in a budget estimation of revenues that has tended to be optimistic which, in turn, has led to budgetary expenditures that have exceeded actual revenue collections. Line ministries have not curtailed expenditure commitments in the face of revenue shortfalls, so expenditures were often made without sufficient funds. The problem of expenditure control has been exacerbated by the lack of a functioning Treasury so that line ministries' purchases of goods and services are carried out without treasury approval (Box 8).

⁹Since the end of June 1996, all treasury-bill auctions have been on a pure discount basis. This has considerably simplified effective yield calculations, and therefore portfolio decisions, for investors.

¹⁰The figures for arrears on wages, social benefits, and pensions for 1995 are estimated and might not reflect accurately the actual stock of arrears.

FIGURE 11
UKRAINE

Treasury-Bill Market, 1995-1997 (March)



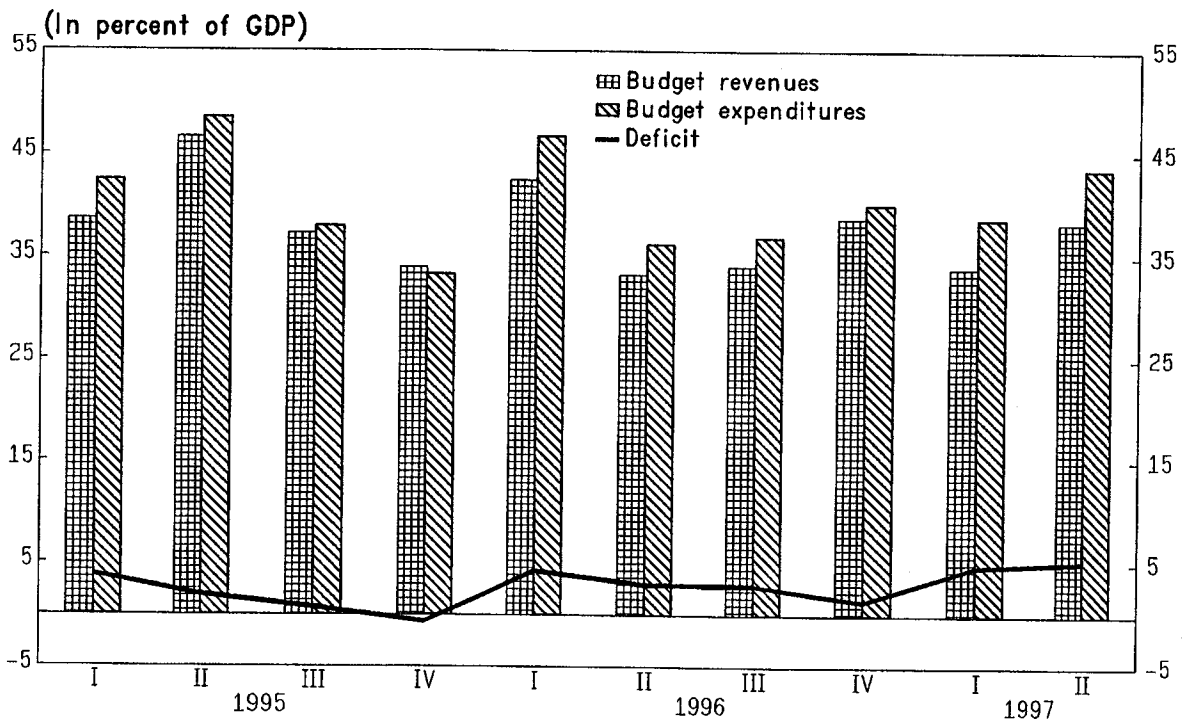
Sources: Ukrainian authorities.

1/ On bills purchased at last auction in respective month if held to maturity.

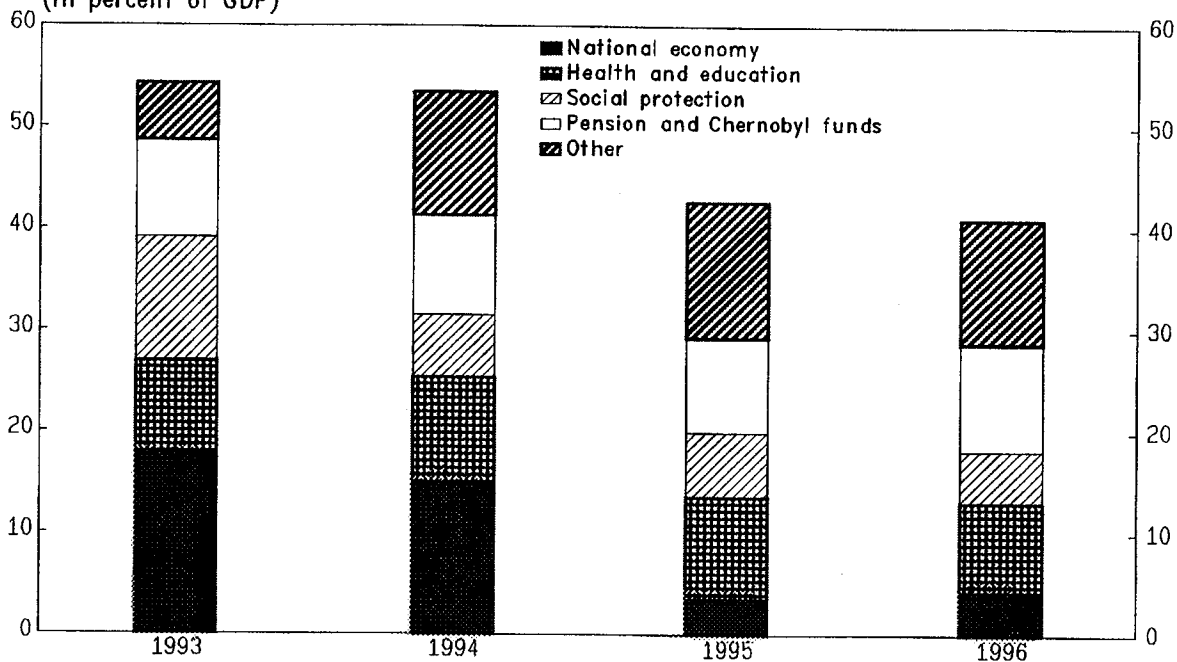
FIGURE 12

UKRAINE

Fiscal Indicators, 1993-97 (June)



Structure of budget expenditures
(In percent of GDP)



Sources: Ukrainian authorities; and IMF staff estimates.

1/ Income, VAT, excise and customs taxes.

Box 8. Institutional Issues

Expenditure control. While work on a fully-operational treasury has been ongoing, cash management is expected to continue through end-1997. Generally, expenditure management is complicated by a legal structure that varies revenue allocations and expenditure responsibilities year-to-year, and control of expenditure at the center is also hindered by both practical and legal aspects of tax collection and ministerial rights. Finally, policy implementation is encumbered by the structure of the public administration. There are 41 members in the Cabinet of Ministers; yet, many important ministries are not included in policy formulation. In all, there are roughly 80 ministries and 30 spending agencies. The government is currently negotiating with the World Bank for a loan to reform the public sector that, in part, would aim at streamlining the present structure of government.

Fiscal federalism. Tax-sharing formulas among the various levels of government are not fixed until the time of the annual budget. The general budget law only sets floors for revenue sharing for the sub-national levels of government. This makes planning at the provincial and local levels a highly uncertain exercise not least because there are often significant delays in the passage of the budget for the current year. Even with a budget, there are additional institutional constraints to modify spending. Until the decree of February 28, 1997 (see below) ministries were not legally liable for overspending their budgets or for misallocating spending within the budget. The national government has no effective control over local spending to ensure that budgetary spending requirements are being carried out. Revenues for local levels of government are collected by the State Tax Administration (STA); yet local authorities are able to secure funds from the STA offices at the local level before they are passed on to the national administration. This precludes the holding back of resources from local authorities that do not spend in accordance with budget priorities. As a result, the institutional structure fosters the build up of arrears. On February 28, 1997, the President issued a decree that mandates agencies and ministries to give priority spending to wages and social benefits, and holds managers legally responsible for meeting expenditure targets. Since March, the accumulation of arrears in these areas slowed considerably, but arrears for other payments continue to increase.

Tax administration. Since late 1993, the STA has been in the process of establishing a computerized tax administration project. The work on the initial Kyiv site was completed at end-1996 and the goal is to extend the project to all of Kyiv during 1997. Notwithstanding, the STA lacks resources in almost all areas of tax administration; the legal system does not provide adequate support (i.e., the rights of taxpayers and the STA are not clearly defined in law); penalties are too high; accounting methodologies do not meet international standards; enforcement is weak as the court system is not capable of handling potential tax cases; and STA auditors lack proper skills. A recent FAD TA mission provided a program for establishing large-taxpayer units and improving audit procedures (a FAD advisor is now stationed in Kyiv to provide audit assistance).

B. Fiscal Developments in 1996

62. The 1996 cash deficit of 3.2 percent of GDP understates the underlying deficit, as arrears for wages, pensions, and social benefits built up in the year amounted to an estimated Hrv 2.3 billion (2.9 percent of GDP). Arrears accumulated in 1995 amounted to about 1.2 percent of GDP, so that the underlying deficit in 1996 was the same as in 1995 at 6.1 percent of GDP.

63. Revenue in 1996—albeit falling by about ½ percentage point to 37.2 percent of GDP—remains high by the standard of FSU countries (Tables 32 and 33). Declines in revenue from the enterprise profit tax and the VAT were partly offset by an increase in the collection of payroll taxes, the personal income tax and other taxes. The largest decline was in the collection of enterprise profit tax which fell by about 2 percentage points of GDP, because of the contraction in real activity by about 10 percent. VAT collections in the first half of the year fell almost a full percentage point of GDP—mainly reflecting greater evasion. To address this problem, the State Tax Administration (STA) began in the fourth quarter to concentrate efforts on VAT collections from the largest taxpayers. As a result, one-third of all VAT collections were made in the final quarter of the year and collections for the year as a whole fell by ½ percentage point of GDP only. Personal income tax collections rose slightly as a percentage of GDP, as did payroll tax collections in response to the hike in July in the effective payroll tax rate for the Chernobyl Fund from 7 percent to 12 percent. But with the growth in nominal wages outstripping the growth of nominal GDP, the increase in revenues from payroll and income taxes should have been much greater. The difference is accounted for by the build-up in wage arrears, which are estimated at around five percent of GDP. Other tax revenue rose by around one percentage point of GDP, reflecting the strength of oil and gas tax receipts. These receipts mainly came in the fourth quarter when a massive netting operation, which cleared over Hrv 700 million (0.9 percent of GDP) in back taxes and gas-related expenditure arrears, was undertaken. Non tax revenue fell by 0.2 percent of GDP because of a shortfall in sales through the state reserve account, and a fall in collections of industry-specific charges (earmarked for sectoral programs).

64. Data for 1996 show that state budget expenditures fell 1.8 percentage points of GDP on a cash basis (Table 34). While spending rose for the pension fund (1.1 percent of GDP) and subsidies to the national economy (0.7 percent of GDP), this was more than offset by sharp reductions in the areas of consumer subsidies (2.7 percent of GDP), health and education (1.3 percent of GDP) and municipal housing, investment, and road maintenance (0.8 percent of GDP). In addition, defense outlays fell slightly by 0.3 percent of GDP. Despite the rise in cash outlays for the Pension Fund, there occurred an increase in arrears of the pension system of some Hrv 1.1 billion (1.3 percent of GDP), which tracks almost one-for-one the increase in arrears on contributions to the Pension Fund. Also, the central budget did

not transfer sufficient funds to the pension fund to cover its obligations. The increase in subsidies to the national economy reflected a substantial deficit of the state reserve fund of 1.8 percent of GDP which subsidizes industries through the purchase of goods financed by the sales of its inventories. The reduction in consumer subsidies results from a higher share of the costs of housing services being passed on to consumers (see Section C), while take-up rates for the means-tested housing subsidy scheme did not grow significantly until the fourth quarter of the year. Regarding the health and education sectors, staff estimates suggest that the vast majority of the Hrv 0.8 billion buildup in wage arrears in 1996 (1.0 percent of GDP) occurred in the health and education sectors so that the underlying spending reduction in these areas was significantly less than the corresponding cash reduction. In the fourth quarter of 1996 (following a decree passed in August), the government implemented several measures to rationalize expenditure in the health and education areas, including the means-testing of several school programs (e.g., school lunches and after-school care), and the charging for certain non essential medical services (e.g., dental visits).

65. Expenditure data on an economic classification basis are not available. Nevertheless, data produced by the Ministry of Statistics regarding public sector wages in 1996 suggest a rather haphazard policy that favored the less productive areas of government. Nominal wages of health and education workers rose only 15 percent, while those of public administration workers rose 100 percent.

C. Fiscal developments in the first half of 1997

66. Passage of the 1997 budget by the Parliament was not secured until late-June 1997. In the first quarter of the year, fiscal policy was guided legally by the 1996 budget and the 1995 Law on Budgetary Procedures. However, in practice, the fiscal situation unraveled even further than in 1996. The cash deficit reached 5.7 percent of first quarter GDP compared with 3.7 percent of GDP in the first quarter of 1996. However, the loosened fiscal position in 1997 was premised on the initiation of the repayment of budgetary arrears accumulated in 1996. In fact, arrears were not only not repaid, but there was an additional accumulation of some Hrv 600 million bringing the underlying deficit in the first quarter of 1997 to 9.0 percent of GDP (compared with an underlying deficit in the first quarter of 1996 of 8.0 percent of GDP). The deterioration reflected a rise in lack of restraint in spending (which rose by almost 10 percent) while revenue was flat in nominal terms across the first quarters of 1996 and 1997, despite higher statutory rates for some excise taxes.

67. In response to the worsening situation, the President issued a decree on February 28, 1997 that required, beginning April 1, that the Ministry of Finance submit spending limits to all ministries and spending agencies and that the recipients show how these limits will be met. Under the decree, ministries and agencies are expected to give the highest priority to payments for wages and social benefits. This process is repeated each month and managers who miss their targets are liable for criminal prosecution. Since implementation of this decree, the fiscal situation improved dramatically. In the second quarter of 1997, the cash deficit fell to 4.6 percent of GDP while the accumulation of arrears slowed to little more than Hrv 100 million (0.5 percent of quarterly GDP). With the improved performance in the second quarter, the cash deficit in the first half of 1997 was 5.1 percent of GDP and the accumulation

of Hrv 740 million in arrears resulted in an underlying deficit of less than 7 percent of GDP. In contrast, the cash deficit in the second quarter of 1996 was 4.5 percent of GDP but Hrv 1,200 million arrears were accumulated which brought the underlying deficit in the second quarter of 1996 to 11.4 percent of GDP; in the first half of 1996, the cash deficit was 4.2 percent of GDP with an underlying deficit of 9.8 percent of GDP.

68. Several fiscal reforms were implemented in the first half of 1997. New VAT and enterprise profit tax laws were passed that modernize these taxes, moving them to an accruals basis and eliminating many exemptions. In addition, payroll taxes were reduced from 52 percent to 49 percent. Almost 500 extrabudgetary funds and their associated fees and charges that funded them were abolished as part of a reform of the overall law on taxation. In addition, of the remaining five funds that were off-budget in 1996, three were brought on budget in 1997 (the road, environment, and social protection funds) with only two remaining off-budget (the social insurance and industrial development funds). The Pension Fund was moved explicitly off-budget in 1997 as a means to protect it from pressures to fund budgetary pension responsibilities (mainly for the military and security forces). Access of nonresidents to the treasury-bill market was improved and the tax treatment of treasury securities equalized across the secondary and primary markets. Also, work is on-going to improve the operations of the Treasury (with the financial support of the World Bank and technical assistance of the Fund). A new budget law has been prepared and the authorities are moving toward a new GFS-based classification system. Finally, a tax amnesty law was approved at end-March which allows a restructuring of tax arrears incurred between June 1994 and March 1997 over a period of 10 years and a write-off of tax arrears incurred before June 1994 and all fines and penalties on arrears incurred before March 1997.

D. Social Safety Net

69. There is a plethora of social assistance benefits. The biggest program is the pension system. Under the pay-as-you-go pension system, the payroll tax rate of 33.56 percent was reduced slightly in 1997 to 33 percent with all but one point paid by employers. It is applied to the earnings of 22 million workers and finances 14 million pensioners (out of a total population of 50 million).¹¹ High inflation in the early part of the transition period sharply eroded the real value of individual pensions. Pensions in general vary significantly between non privileged and privileged pensioners, implying an extreme inequity of the system. At present, most non privileged pensioners receive the minimum pension of Hrv 50 a month (the only exceptions are coal miners who receive monthly pensions of Hrv 60 and some war invalids who receive monthly pensions of Hrv 68), compared with a poverty level that is conservatively estimated at Hrv 70 a month. Until this year, the system's demographics and budgetary situation required that the minimum pension rise no faster than inflation and that the maximum pension (presently set at four times the minimum pension) be capped at below

¹¹As of end-1996, the eligibility age for pensions stood at 60 for men and 55 for women. Moreover, there are numerous professions and retiree classifications that receive preferential pensions as noted below.

statutory levels. The compression of the pension scale is such that benefits are largely unrelated to years of service and contribution. Moreover, in 1997 nominal pensions have been frozen owing to budgetary concerns. Special privileged pension regimes afford the military, civil servants, judiciary workers, and parliamentarians much higher benefits. For example, on average, military pensions are about Hrv 200 a month, with those for the judiciary and parliamentarians even higher. The pension gap between non privileged and privileged is likely to grow in 1997 because the pensions of the privileged groups are indexed to hikes in current salaries.

70. Payroll taxes finance several special funds in addition to the Pension Fund (Tables 35 and 36). The contribution rate to the Social Insurance Fund, which is administered by trade unions, was lowered in 1997 from 4.44 percent to 4 percent, all of which is paid by the employer. This fund finances mainly health clinics attached to enterprises, sick leave, but also certain benefit payments (e.g., maternity leave and child birth allowances). A 2 percent payroll tax (split 1.5 percent paid by employers and 0.5 percent paid by employees starting in 1997) finances the Employment Fund. Total outlays of this fund have been relatively small in light of the "low" official unemployment rate; however, there is significant waste in what is spent as the single largest expenditure item primarily reflects personnel and administrative costs. Outlays are low mostly because labor market laws make it costly for enterprises to restructure their workforce. Workers who are laid off must be given three months' notice, effectively at full pay, paid by enterprises. Thereafter, workers are eligible for unemployment insurance paid by the employment fund for up to 75 percent of their last wage for six months (up to the average wage in the province), and an additional six months can be granted at 50 percent. Finally, the 12 percent tax on payrolls to finance a special fund for Chernobyl victims was lowered in 1997 to 10 percent. There are no data available detailing the Fund's expenditure, but indications are that resources are often poorly targeted and not always used for the intended purposes. An internal government review of its operations was recently concluded with a view toward eliminating extraneous programs and a further lowering of tax rates in 1998. Also, Chernobyl victims receive special exemptions to several taxes including VAT and personal income tax.

71. There are multiple and complex family benefits. During 1996, most benefits began to be means-tested (the only exception being funerals paid by the Pension Fund and maternity and child-birth allowances paid by the Social Insurance Fund). Also, eligibility requirements based on the working status of the mother and size of family were eliminated in 1997. No single benefit amounts to more than \$15 a month. They include, in addition to those previously mentioned, child benefits for children under three years, monthly benefits for disabled children, additional benefits for families with three or more children, allowances for children under 17 living in households with income below the poverty line, grants for single mothers, and special benefits for children whose fathers served in the armed forces.

72. As late as October 1994, all households—regardless of size or household income—were required to pay just 5 percent of a normative cost of housing services (for heating, water, sewerage, and rent). Since then, the norm-based cost-recovery ratio has been raised gradually to 20 percent at end-1994, to 45 percent in September 1995, to 60 percent in January 1996, and to 80 percent in August, 1996. To ensure the necessary social support for

this measure, a targeted housing program was introduced in May 1995, whereby payments by households are capped at 15 percent of their income, regardless of the required cost-recovery ratio and of the form of ownership of the home. Originally the subsidy covered only the services noted above, but was later widened to cover the costs of coal, gas, and electricity. At the beginning, the program was fraught with procedural problems. In order to streamline the administration of the system and improve targeting, in early 1996 the space eligible for a targeted subsidy (communal services charges are based on the apartment size) was lowered so as to be closer to the average per person, and pensioners no longer needed to reapply for the subsidy every six months (unlike other participants). In fact, the major beneficiaries of the program thus far have been single pensioners living alone. Prior to the hike to 80 percent in August, there were 3 million households covered under the program (out of a total of 17 million households). By end-1996, the number of households participating in the program rose to 4.5 million. The move to higher cost-recovery has had a beneficial impact on enterprises. Approximately one-quarter of houses are owned by enterprises that were required to pay the difference between the true costs of providing housing-related services and the share paid by households in accordance with the required cost-recovery ratio. As cost-recovery ratios have increased, the margin paid by enterprises has fallen, since the housing subsidy is fully paid from the budget for all households (regardless of ownership).

V. EXTERNAL SECTOR

The balance of payments strengthened in 1996, on both the current and capital accounts. Export performance was particularly strong, and rising confidence led to a turn around in short-term capital flows. Trade policies remained liberal, although there was some tendency toward greater import protection. Exports to nontraditional trading partners remained strong in the first quarter of 1997, and there were significant short-term capital inflows.

A. Overview

73. Ukraine's current account deficit fell from 4.4 percent of GDP in 1995 to 2.7 percent in 1996. Exports grew sharply, led by trade with nontraditional trading partners which increased by 17 percent. Despite this, there was a deterioration in the trade balance; however, a significant part of the increase of imports reflected a higher price for imported gas, and it was more than offset by higher receipts for gas transit fees in the services account.

74. On the capital account, increasing confidence led to a sharp turnaround in estimated short-term capital flows in 1996. Combined with continued bilateral and multilateral disbursements—and a doubling of foreign direct investment (albeit from a very low base)—this resulted in a significant strengthening of the overall balance in 1996. With exceptional assistance in the form of Fund purchases, and bilateral assistance (but no reschedulings), gross reserves increased by \$860 million during the course of the year. The external debt burden remained manageable.

75. In the first quarter of 1997, the current account deficit further declined (relative to the first quarter of 1996) notwithstanding a drop in both exports to and imports from traditional trading partners. Exports to nontraditional partners continued to grow rapidly, by over 20 percent relative to the first quarter of 1996. The capital account position further improved, mostly due to a surge in short-term capital associated with purchases in the treasury-bills market.

B. Trade and Current Account

Merchandise trade

76. A rapid expansion of exports and imports began in 1995, following the liberalization of trade and payments system in the latter half of 1994 (Table 37). Export growth accelerated in 1996 to 14 percent in dollar terms. Growth in exports to the Baltics and other countries of the CIS (together referred to as BCIS), increased by a smaller amount and actually declined in the last quarter of 1996 and the first quarter of 1997 (see below). Pre-independence trading relationships have meant that Russia remains the dominant market for Ukrainian exports—38 percent of total exports—and the BCIS together account for 54 percent of exports (Table 39). Key export markets in the rest of the world are China, Turkey, Germany, and the United States. Ukraine's main exports are ferrous and nonferrous metals, food and agriculture, machinery and equipment, minerals, and chemicals (Table 41). Despite Ukraine's agricultural potential, exports of grain have been disappointing during the past two years—partly because of poor harvests—but also, reportedly, because of restraints on exports imposed by local authorities. In the past, the authorities expressed concern about the large share of barter in exports—which reached more than 45 percent in 1994—because of the potential for capital flight and tax evasion. With the unification of the exchange market, and general liberalization of the external regime in late 1994, the share of barter trade has fallen steadily. Currently, barter accounts for about 20 percent of exports, although the authorities remain concerned about the predominance of barter transactions for certain goods.

77. In the last quarter of 1996 and the first quarter of 1997 exports to BCIS countries fell, mostly due to a drop in exports to Russia. Trade with Russia was affected by the imposition of VAT by Russia of 10 percent for food items and 20 percent for other commodities.

78. Ukraine's imports also rose rapidly in 1996. Some of this increase is accounted for by a higher price of natural gas. In 1996, energy accounted for 41 percent of total imports, and natural gas alone for 29 percent (Table 38). The framework agreement between Russia and Ukraine—agreed in early 1996—raised the price of natural gas from an average of \$63 per 1,000 m³ (which had prevailed in 1995) to \$80 per 1,000 m³ for deliveries in 1996 and early 1997. While this new price was lower than the price of Russian natural gas at the German border (\$99 per 1,000 m³), the differential is much lower (or even negative) once transportation costs are accounted for. The higher price of imported gas in Ukraine increased the value of imports but this was mostly offset by higher payments by Russia for gas transit to the west (see below). Gas demand in Ukraine rose slightly in 1996 to 71.2 billion m³, largely for heating during the unexpectedly cold winter of 1995/96. Efficiencies in the use of gas

remain limited; gas demand has declined by 20 percent since 1991, while real GDP is estimated to have fallen by more than 50 percent. Payments for gas, which were guaranteed by the government and subsequently went into arrears in 1995, were the responsibility of private wholesale importers in 1996. While some delays were reported in payments, partly in connection with the need to assign a value to barter payments for gas, the government stood fast in its commitment not to assume these obligations.

79. On the basis of the liberalization of trade and payments system which took place in late 1994, and the real appreciation in of the karbovanets/hryvnia during 1995 and 1996, non-energy imports have risen by about 35 percent since 1994. A rising share of non energy imports comes from markets outside BCIS, especially Germany, Poland, and the United States (Table 40). Key imports include machinery and equipment, metals, chemicals, and some food and agriculture items (Table 42).

80. In the first quarter of 1997, imports to BCIS countries fell by 7 percent compared to the first quarter of 1996. While gas imports remained unchanged, crude oil (and oil products) dropped by about \$80 million. Imports to nontraditional partners increased by about 8 percent.

Nonfactor services

81. Ukgazprom, a wholly state-owned company, owns and operates 34,500 kilometers of gas transmission pipelines which are used to transport Russian gas to Western European markets. These pipelines have a technical capacity to transport just over 120 billion m³ of gas per year. Ukraine's framework agreement with Russia for gas imports and transit increased the pipeline charges for gas transit through Ukraine by 170 percent—a level more consistent with world charges. Increased services receipts for gas transit in 1996 largely offset the higher price of gas imports noted above, and account for most of the increase in net non factor service receipts in the year. Other transit receipts, which include a substantial share of freight shipping services, are also estimated to have risen in 1996, although part of this could be nothing more than improved statistical methodology.

Investment income

82. Ukraine's largest creditor is Russia (including RaoGazprom). Interest payments to Russia, in respect of the 1995 rescheduling agreements and earlier borrowing, totaled \$283 million in 1996.¹² This represents a small decline since 1995, due to lower average U.S. dollar interest rates (to which most of these agreements are linked), and a 13 percent decline in the outstanding stock of obligations. Interest payments to Turkmenistan in 1996 were \$44 million in respect of the 1995 rescheduling of gas arrears. Payments to other key creditors (the IMF, the World Bank, and Germany account for the bulk) rose from \$147 million in 1995

¹²Details of the rescheduling agreements with Russia and Turkmenistan are provided in Ukraine—Recent Economic Developments, March 1996, (Appendix V).

to \$176 million in 1996, as principal outstanding increased. In the first quarter of 1997, interest payments to Russia were only \$23 million, or 25 percent of total net payments.

Official transfers

83. Official transfers in 1996 were mostly security-related aid (nuclear disarmament, defense conversions), Chernobyl decommissioning, and other technical assistance. The large increase shown in Table 37 for 1996 also reflects an improvement in data sources, including reports from international donors, together with increased provision of official transfers. Some private transfers may also be included.

C. Capital Account

Medium- and long-term loans

84. Disbursements of new medium- and long-term loans (excluding exceptional assistance treated as a financing item) fell in 1996. Trade credits from the United States (\$112 million) to finance agricultural equipment imports and Germany (\$68 million) accounted for nearly 80 percent of new loans (excluding exceptional assistance).

85. Purchases under the 1996 stand-by arrangement from the Fund continued to be the largest source of external financing for Ukraine, although the amount fell somewhat to \$778 million in 1996 (shown "below the line"). Other exceptional balance of payments assistance included a \$150 million loan from the Japanese Export-Import Bank, the first tranche of an EU loan (ECU 100 million), and assistance from USAID in the form of critical import financing. In addition, the World Bank provided about \$400 million, including \$100 million under the first tranche of its Enterprise Development and Adjustment Loan and \$150 million under the first tranches of the Agricultural Sector Adjustment Loan and Coal Sector Adjustment Loan.

86. Principal payments to Russia represented nearly 80 percent of all such payments in 1996, mostly on account of the debt arising from consolidation of gas debts and overdrafts early in independence. Payments on bilateral credits, including government-guaranteed trade credits, amounted to \$128 million in 1996. Approximately half of this amount was expected to be paid by the final borrower rather than by the government. In the event, the government's guarantee was exercised in servicing nearly the entire amount—including more than 90 percent of the sums due from final borrowers.

Direct investment

87. Ukraine's improving macroeconomic stability and liberalization of the external payments appear to have been reflected in an increase in foreign direct investment in 1996, to \$526 million. Of the total foreign direct investment of \$1.1 billion recorded since independence in 1991, the largest sources have been from the United States (\$245 million), Germany (\$183 million), The Netherlands (\$119 million), Russia (\$114 million), the United Kingdom (\$95 million), and Cyprus (\$73 million). Wholesale and retail trade, light

manufacturing, machine-building, and metal industries have attracted the most foreign investment.

88. Nevertheless, Ukraine's performance to date in attracting foreign investment remains significantly below its needs, and well below actual investment in transition economies that began the reform process earlier. 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 uncertainties. In addition, non transparent legislation and regulations, poor management and incentives, and inadequate infrastructure may be important factors (see also Box 1).

Short-term capital flows

89. A significant outflow of short-term capital affected the balance of payments in 1995 (estimated as a residual item), particularly during the second half. In a familiar pattern, inflows of short-term capital returned in the early months of 1996. In 1996, however, more consistent application of tight monetary and fiscal policies during the year limited the outflows which occurred during September–November 1996. Uncertainties created in the process of monetary reform may have contributed to some of these flows, although there may also have been a seasonal component due to (mostly unfulfilled) expectations of fiscal loosening and credit creation in the second half of the year. In any case, by late December confidence appeared to have returned, and inflows resumed. For the year as a whole, short-term inflows were positive. A substantial, although unmeasurable, portion of short-term inflows appears to be financing the purchase of treasury bills, either directly or indirectly, which paid substantial margins over dollar-denominated securities. In the first quarter of 1997 capital flows associated with treasury-bill purchases are estimated at about \$300 million.

External debt

90. Ukraine's external debt remains manageable, and totaled \$9.2 billion at end-1996 (Table 43). Debt service corresponded to only 6 percent of exports of goods and services in 1996. The total debt is roughly evenly split between that owed to the BRO, and to the rest of the world. Principal creditors are Russia, the Fund, the Bank, and Germany. Ukraine signed the "zero-option" with Russia in December 1994, under which Ukraine would not be responsible for Soviet external debt while renouncing its claims on Soviet external assets.¹³

D. Trade Policies

91. In late 1994 and early 1995, the Government of Ukraine undertook a substantial liberalization of the external trade regime, with the removal of export quotas (with a few important exceptions), unification of the exchange market, and abolition of state export contracts. In 1996, however, this trend toward liberalization was reversed somewhat, with (temporary) restrictions on exports, and pressures for higher import tariffs. Ukraine has

¹³As of mid-1997, Parliament had not ratified this agreement.

observer status at the World Trade Organization (WTO); the Second Working Group on Ukraine's ascension to the WTO met in July 1996. Ukraine does not charge VAT or excise duties on its exports, but charges VAT and excise duties (if applicable) on imports. This use of the destination principle has resulted in a trade dispute with Russia (see Box 9).

Export regime

92. Currently, there are no quota restrictions on exports—except on goods for which Ukraine has international obligations under Voluntary Export Restraints or Orderly Market Arrangements (primarily steel and textiles). The export quota on grain was lifted in late 1995, but during 1996 on several occasions local governments restricted grain exports, despite efforts by the central government to prevent this. During 1996, export taxes at the rate of 30 percent were levied on the export of scrap metals, but these were subsequently eliminated. Export taxes at rates ranging from 30 percent to 75 percent are applied to the export of live animals and skins.

93. The Special Export Regime which imposes licensing requirements on the export of coal, scrap of precious metals, and alcoholic spirits, had been liberalized in 1996 so that licences are now given automatically and pre-registration of exports covered by the regime is for monitoring purposes only.

94. The authorities continue to express concern about the extent of barter trade, although the share of such transactions has fallen from 45 percent in 1994 to about 20 percent in 1996. Two proposals to discourage barter trade are under consideration, although neither has been adopted thus far. The first proposal would shorten the period allowed for the corresponding import to be undertaken from 90 days (which is the maximum period allowed for the repatriation of export revenues arising from cash transactions) to 60 days. The alternative proposal would require a 10 percent duty on the corresponding import.

Import regime

95. While Ukraine has traditionally maintained a liberal import regime, there has been some movement—in part due to the real exchange rate appreciation—toward greater protectionism. In 1996, the trade-weighted average import tariff rate was about 8 percent (excluding imports of energy for which the tariff rate is zero). The average tariff rate on industrial goods was 4.1 percent, and on agricultural goods was 15.6 percent. No more than 1 percent of imports were subject to tariff rates exceeding 30 percent.

96. In late 1996, the government considered a substantial increase in agricultural tariffs—to levels in excess of 50 percent—which would have increased the average agricultural tariff rate to about 19 percent. In the event, the authorities decided not to raise agricultural tariff rates across-the-board, although for some commodities rates were increased. The government did, however, substantially increase the number of combined (specific *cum ad valorem*) tariffs, particularly on foodstuffs, alcohol, and tobacco—goods which the customs officials suspect are frequently undervalued—from 40 to 251 (at the four-digit level). Since

Box 9. Trade Relations with Russia

Russia is Ukraine's largest trading partner, accounting for about 47 percent of imports and 38 percent of exports. Ukraine has a free trade agreement with Russia, though no customs union. The free trade agreement excludes about 200 categories of goods, among which are many of Ukraine's main exports.

A recent trade dispute between the countries concerned the collection of Value-Added Tax (VAT) and of excise duties. In early 1995, Ukraine stopped charging VAT on its exports to Russia, and in mid-1996 moved to a full destination principle by charging VAT on imports from Russia. Likewise, in December 1995, Ukraine stopped charging excise duties on its exports.

Russia claimed that imports of Ukrainian alcohol, spirits, and sugar surged as a result of Ukraine's move to the destination principle. Russia therefore imposed a VAT of 10–20 percent on imports from Ukraine (thus Russia levies VAT now on both exports to and imports from Ukraine), and excise duties equal to those paid by Russian producers of excisable goods. In addition, however, Russia threatened to impose import quotas on sugar, alcohol, spirits and light bulbs at levels far below Ukraine's current exports. Following protracted negotiations between the parties, the Russian Government agreed not to impose any quantitative restrictions, and to apply price-based protective measures only to the extent that there had been injury to domestic producers.

then, the number of goods subject to specific or mixed tariffs have been reduced to 172 and further reductions are envisaged in July/August 1997.

97. Capital imports by foreign investors are exempt from customs duties, as are all imports by "Chernobyl firms"—enterprises whose labor force consists mainly of Chernobyl victims. An exemption on import duties for finished goods that had been manufactured abroad, using raw materials exported from Ukraine, was effectively removed in late 1996.

98. Excise duties on most imports have been harmonized with corresponding domestically produced goods, with the exception of vehicles and tires, some alcoholic beverages, and some consumer goods.

Table 1. Ukraine: Gross Domestic Product, 1994-97 (Q1)
(In billions of karbovanets; at current prices) 1/

	1994			1995			1996 2/			1997 2/
	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.
Gross domestic product (GDP)	1,203,769	779,728	1,780,113	3,312,227	5,451,642	1,712,201	3,250,058	51,565	80,510	18,697
Labor payments	477,503	315,825	796,616	1,407,586	2,371,770	825,700	1,714,587	25,979	36,174	9,219
Consumption of fixed capital and net prof	517,216	339,319	664,772	1,346,491	2,040,131	662,500	1,093,670	18,053	28,888	5,787
Net taxes on production and imports	209,050	124,584	318,725	558,150	1,039,741	223,800	441,801	7,533	15,448	3,691
Memorandum items:								(Percentage change)		
Cumulative change of real GDP	-22.9	-12.7	-12.0	-12.7	-12.2	-8.6	-8.6	-10.1	-10.0	-8.5

Sources: Ministry of Statistics; and IMF staff estimates.

1/ From September 1996 figures are in millions of hryvnias (Hrv), where Krb 100,000 = Hrv 1.

2/ Preliminary.

Table 2. Ukraine: Utilization of Gross Domestic Product, 1994-97 (Q1)
(In billions of karbovanets; at current prices) 1/

	1994			1995			1996 2/			1997 2/ Jan.-Mar.
	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.
Gross domestic product	1,203,769	779,728	1,780,113	3,312,227	5,451,642	1,712,000	3,250,058	51,565	80,510	18,697
Final consumption	816,573	580,668	1,383,844	2,577,862	4,165,054	1,431,949	2,752,003	42,818	64,032	16,402
Households	533,139	383,764	904,896	1,713,069	2,709,374	963,075	2,012,845	30,702	42,907	11,376
Nonprofit organizations	50,365	41,720	91,093	152,939	296,135	73,774	113,572	1,835	3,653	852
Government	233,069	155,184	387,855	711,854	1,159,545	375,100	625,586	10,281	17,472	4,174
Gross accumulation of fixed assets	285,820	119,703	340,643	699,706	1,275,939	301,651	559,579	9,096	16,832	3,236
Change in inventories and net acquisition of valuables	139,489	139,198	150,416	167,204	178,734	83,000	47,134	684	1,543	447
Exports of goods and services	426,002	411,996	975,093	1,676,305	2,566,265	849,603	1,853,532	27,490	36,652	8,648
Imports of goods and services	-464,115	-471,837	-1,069,883	-1,808,850	-2,734,350	-954,203	-1,962,190	-28,523	-38,549	-10,036

Sources: Ministry of Statistics; and IMF staff estimates.

1/ From September 1996 figures are in millions of hryvnias (Hrv), where Krb 100,000 = Hrv 1.

2/ Preliminary.

Table 3. Ukraine: Investment, 1994-97 (Q1)

	1994	1995	1996 1/	1997 1/ Jan.-Mar.
	(In billions of karbovanets)		(In millions of hryvnias)	
Gross investment	228,033	937,816	12,557	1,619
Material sphere	123,439	557,303	8,008	1,041
Industry	76,539	348,873	5,055	740
Agriculture	19,665	74,268	978	65
Construction	3,730	4,696	227	40
Transport and communications	18,865	103,264	1,606	231
Trade and other material services	4,640	26,203	233	19
Nonmaterial sphere	104,594	370,513	4,459	524
Housing	61,612	198,642	2,443	363
Other nonmaterial services	42,982	181,871	2,016	161
	(Real percentage change)			
Gross investment	-22.5	-20.5	-22.0	...
Material sphere	-13.2	-34.7	-16.8	...
Industry	2.0	-40.0	-17.4	...
Agriculture	-41.6	-40.1	-24.5	...
Construction	-45.0	36.7	8.1	...
Transport and communications	7.4	16.1	-11.0	...
Trade and other material services	36.7	-55.1	-12.5	...
Nonmaterial sphere	-36.0	-16.5	-29.9	...
Housing	-11.1	-19.9	-27.1	...
Other nonmaterial services	-35.1	-12.4	-33.0	...
	(Share in current prices)			
Gross investment	100.0	100.0	100.0	100.0
Material sphere	54.1	59.4	62.9	67.6
Industry	33.6	37.2	41.1	45.7
Agriculture	8.6	7.9	7.3	4.0
Construction	1.6	0.5	1.6	2.5
Transport and communications	8.3	11.0	11.7	14.2
Trade and other material services	2.0	2.8	1.2	1.2
Nonmaterial sphere	45.9	40.6	37.1	32.4
Housing	27.0	21.2	20.9	22.4
Other nonmaterial services	18.9	19.4	16.2	10.0

Source: Ministry of Statistics.

1/ Converted into hryvnias at a conversion rate of Krb 100,000 = Hrv 1.

Table 4. Ukraine: Gross Domestic Product by Sector, 1994-97 (Q1)

	1994			1995			1996 1/			1997 1/
	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.	Jan.-Jun.	Jan.-Sept.	Jan.-Dec.	Jan.-Mar.
Gross domestic product	1,203,769	779,728	1,780,113	3,312,227	5,451,642	1,712,000	3,250,058	51,565	80,510	18,697
Of which:										
Industry	421,475	351,360	715,086	1,189,716	1,687,303	591,200	1,227,145	16,906	23,675	6,148
Construction	89,522	53,248	131,858	273,448	375,278	105,400	199,108	3,100	4,459	869
Agriculture	175,418	55,943	145,483	476,979	750,678	106,400	266,116	6,267	9,465	956
Trade	61,916	38,452	89,504	149,619	288,839	76,500	166,709	2,540	5,578	927
Transportation	69,421	67,888	182,435	334,018	530,065	233,200	342,210	6,096	10,181	2,013
Other services	330,597	165,330	430,229	763,301	1,366,414	532,700	963,457	14,761	21,582	5,588
	(In billions of karbovanets at current prices) 2/									
	(Real percent change)									
Gross domestic product	-22.9	...	...	...	-12.2	...	...	...	-10.0	...
Of which:										
Industry	...	...	...	...	-11.2	...	...	...	-4.6	...
Construction	...	...	...	...	-31.9	...	...	...	-34.0	...
Agriculture	...	...	...	...	-4.6	...	...	...	-10.3	...
Trade	...	...	...	...	-19.4	...	...	...	-15.1	...
Transportation	...	...	...	...	-18.0	...	...	...	-14.9	...
Other services	...	...	...	...	-5.6	...	...	...	-5.5	...

Sources: Ministry of Statistics; and IMF staff estimates.

1/ Preliminary information.

2/ From September 1996 figures are in millions of hryvnias (Hrv), where Krb 100,000 = Hrv 1.

Table 5. Ukraine: Industrial Production, 1994-97 (Q1)

	1994	1995	1996	1997 Jan.-Mar.
(In billions of karbovanets at current prices) 1/				
Total industry	1,309,848	5,882,432	73,321	17,457
Of which:				
Power generation	150,033	649,419	9,261	3,042
Fuels and energy 2/	146,954	786,465	8,972	1,945
Ferrous metallurgy	260,632	1,282,442	15,854	3,903
Non-ferrous metallurgy	17,675	92,798	1,064	263
Chemical and petrochemical	89,864	437,483	5,335	1,219
Machine building	222,509	945,002	10,980	2,647
Wood and paper	31,321	127,716	1,645	365
Construction materials	52,034	232,220	2,428	305
Light industry	57,369	163,295	1,517	288
Food industry	224,164	887,191	11,939	2,265
(Share in total)				
Total industry	100.0	100.0	100.0	100.0
Of which:				
Power generation	11.5	11.0	12.6	17.6
Fuels and energy	11.2	13.4	12.2	11.1
Ferrous metallurgy	19.9	21.8	21.6	22.5
Nonferrous metallurgy	1.3	1.6	1.4	1.5
Chemical and petrochemical	6.9	7.4	7.3	7.0
Machine building	17.0	16.1	15.0	15.3
Wood and paper	2.4	2.2	2.2	2.1
Construction materials	4.0	3.9	3.3	2.3
Light industry	4.4	2.8	2.1	1.7
Food industry	17.1	15.1	16.3	13.1
(Real percentage change) 3/				
Total industry	-27.3	-12.0	-5.1	-6.0
Of which:				
Power generation	-12.5	-6.0	-6.9	-7.5
Fuel and energy	-17.2	-9.7	-6.7	0.9
Ferrous metallurgy	-28.8	-4.6	11.9	8.8
Nonferrous metallurgy	-26.3	-3.5	8.0	9.9
Chemical and petrochemical	-25.5	-9.1	-3.4	-6.1
Machine building	-38.3	-23.9	-26.1	-13.8
Wood and paper	-32.8	-17.4	-18.6	-20.3
Construction materials	-37.0	-28.0	-34.2	-20.0
Light industry	-46.8	-32.6	-24.6	-17.3
Food industry	-18.4	-12.6	-7.2	-16.3

Source: Ministry of Statistics.

1/ Figures for 1996 are in millions of Hryvnias (Hrv), where Krb 100,000 = Hrv 1.

2/ Fuel and energy complex includes fuel and nuclear energy.

3/ Percentage change over corresponding period of the previous year.

Table 6. Ukraine: Output of Major Agricultural Products, 1994-96

	1986-1990 Average	1994	1995	1996
(In thousand tons, unless otherwise stated)				
Crop production				
Grains	47,431	35,497	33,930	24,571
Potatoes	17,965	16,102	14,729	18,410
Sugar beets	43,845	28,138	29,650	23,009
Vegetables	7,449	5,142	5,880	5,070
Fruits (including grapes)	3,376	1,548	2,355	2,423
Flax	110	49	48	18
Animal products				
Meat	4,309	2,677	2,294	2,113
Milk	24,059	18,138	17,274	15,821
Eggs 1/	17,215	10,154	9,404	8,763
Wool	30	19	14	9
(Percentage change from previous year)				
Crop production				
Grains	...	-22.2	-4.4	-27.6
Potatoes	...	-23.4	-8.5	25.0
Sugar beets	...	-16.5	5.4	-22.4
Vegetables	...	-15.1	14.4	-13.8
Fruits (including grapes)	...	-55.3	52.1	9.9
Flax	...	-32.9	-2.0	-63.2
Animal products				
Meat	...	-4.9	-14.3	-7.9
Milk	...	-1.3	-4.8	-8.4
Eggs	...	-13.9	-7.4	-6.8
Wool	...	-8.5	-27.8	-33.1
(Index)				
Crop production				
Grains	100.0	74.8	71.5	51.8
Potatoes	100.0	89.6	82.0	102.5
Sugar beets	100.0	64.2	67.6	52.5
Vegetables	100.0	69.0	78.9	68.1
Fruits (including grapes)	100.0	45.9	69.8	71.8
Flax	100.0	44.5	43.6	16.4
Animal products				
Meat	100.0	62.1	53.2	49.0
Milk	100.0	75.4	71.8	65.8
Eggs	100.0	59.0	54.6	50.9
Wool	100.0	64.8	46.7	31.2

Source: Ministry of Statistics.

1/ In millions.

Table 7. Ukraine: Agricultural Production, 1994-97 (Q1)

	1994	1995	1996	1997 Jan.-Mar.
(In billions of 1983 rubles)				
Total gross agricultural production	33.0	31.9	29.0	2.6
Crop production	15.8	16.4	14.8	...
Of which:				
Grains	4.0	4.0	2.9	...
Potatoes	3.1	2.8	3.5	...
Vegetables	1.9	2.1	1.9	...
Fruits	1.1	1.5	1.6	...
Animal production	17.2	15.5	13.9	2.6
Of which:				
Livestock for slaughter 1/	7.4	6.3	6.1	...
Milk	7.2	6.9	6.3	...
Eggs	1.0	0.9	0.8	...
(In billions of Karbovanets) 2/				
Total gross agricultural production	358,574	1,697,966	24,530	2,158
Crop production	178,941	...	...	...
Animal production	155,379	...	...	...
Agricultural services	24,255	...	...	...
Material inputs	170,119	963,016	15,066	1,312
Crop production	83,230	...	...	...
Animal production	73,612	...	...	...
Agricultural services	13,277	...	...	...
Net material product	188,455	734,950	9,465	846
Crop production	95,711	...	...	...
Animal production	81,767	...	...	...
Agricultural services	10,978	...	...	...
(Real percentage change)				
Total gross agricultural production	-16.5	-3.6	-9.5	-14.0
Crop production	-23.3	3.5	-8.7	...
Animal production	-8.9	-10.1	-10.5	...
Material inputs	-9.6	-5.6	-8.3	-14.4
Net material product	-20.9	-4.1	-11.1	-13.5

Source: Ministry of Statistics.

1/ Cattle and poultry breeding.

2/ From September 1996 figures are in millions of Hryvnias (Hrv), where Krb 100,000 = Hrv 1.

Table 8. Ukraine: Production of Major Energy Products, 1994-97 (Q1)

	1994	1995	1996	Percent of domestic consumption				
				1997 Jan.-Mar.	1994	1995	1996	1997 Jan.-Mar.
Crude petroleum (in millions of tons including gas condensate)	4.2	4.1	4.1	1.0	21.0	23.5	29.7	32.3
Natural gas (in billions of cubic meters)	18.3	18.2	18.4	4.5	20.0	21.4	22.1	13.2
Coal (in million of tons)	94.6	83.8	70.5	19.8	94.0	83.5	89.3	92.9
Electricity (in billions of kilowatts)	202.9	194.0	183.0	61.3	99.2	97.9	96.7	...
					(Percentage change) 1/			
Crude petroleum	-1.2	-2.6	0.2	1.3	5.1	-18.0	-8.5	-3.3
Natural gas	-4.7	-0.8	1.4	-3.3	-13.2	-4.3	2.7	-3.3
Coal	-18.3	-11.4	-15.9	-5.6	-12.5	-5.0	-16.5	3.5
Electricity	-11.7	-4.4	-5.7	-6.3	-11.3	-5.4	-5.3	...

Sources: Ministry of Statistics and Ministry of Economy.

1/ Percentage change over corresponding period of the previous year.

Table 9. Ukraine: Retail Turnover in Goods and Services, 1994-97 (Q1) 1/

	1994		1995		1996		1997	
	Goods	Services	Goods	Services	Goods	Services	Goods	Services
(Percentage change at comparable prices relative to the same period of the previous year)								
January	-46.2	-20.2	-5.5	-4.7	0.4	-23.9	-8.8	-13.8
February	-49.1	...	-2.7	-29.9	2.3	13.4	-8.9	-17.5
March	-48.7	...	-5.2	-37.8	-3.0	6.2	1.0	-12.9
April	-41.9	...	-15.8	-34.7	1.0	-5.1	3.8	-9.6
May	-45.0	...	-4.6	-32.8	-12.2	-3.5	6.6	-3.8
June	-25.9	...	-3.6	-41.7	-16.8	-15.5	11.9	-6.5
July	-22.2	...	-2.6	-46.9	-15.1	-4.0	...	...
August	-23.5	...	-4.1	-49.7	-19.0	-16.0	...	...
September	-7.6	...	-15.6	-47.7	-21.6	-13.6	...	...
October	12.8	...	-26.0	-27.6	-20.4	-7.9	...	...
November	1.8	...	-25.2	-20.6	-14.8	-18.3	...	...
December	3.5	...	-11.3	-23.1	-10.4	-19.6	...	...
(Cumulative percentage change at comparable prices relative to the same period of the previous year)								
January	-46.2	-20.2	-5.5	-4.7	0.4	-23.9	-8.8	-13.8
January-February	-48.3	-17.1	-3.9	-22.1	0.8	-2.1	-9.1	-5.2
January-March	-47.6	-16.9	-5.7	-27.6	-1.0	-3.5	-1.4	-14.7
January-April	-46.7	-18.2	-9.2	-29.4	-0.4	-3.3	-1.6	-13.5
January-May	-46.2	-21.4	-8.9	-31.9	-3.1	-8.2	0.3	-12.1
January-June	-41.7	-20.6	-7.6	-32.9	-6.0	-9.0	3.0	-12.7
January-July	-36.2	-16.8	-7.5	-38.2	-6.9	-5.3	...	...
January-August	-32.8	0.9	-7.0	-38.8	-9.3	-10.5	...	...
January-September	-25.4	-1.5	-8.2	-40.0	-11.2	-11.8	...	...
January-October	15.1	7.8	-11.5	-37.9	-12.1	-10.8	...	...
January-November	-11.4	-0.1	-13.4	-34.5	-11.8	-12.7	...	...
January-December	-5.5	-3.2	-13.2	-32.3	-5.1	-13.5	...	...

Source: Ministry of Statistics.

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

Table 10. Ukraine: Retail Trade and Catering Enterprises, 1994-96

	Retail trade as of:			Catering as of:		
	Dec. 31, 1994	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1994	Dec. 31, 1995	Dec. 31, 1996
Collective property	95,608	94,822	101,710	24,301	22,939	25,165
Of which:						
Cooperative	175	198	275	53	53	56
Leased enterprises	11,148	7,062	2,902	4,335	2,687	1,180
State property	33,731	28,236	20,295	19,078	16,074	10,934
Central government property	17,377	15,579	11,990	10,692	9,045	6,728
Communal property	16,354	12,657	8,305	8,386	7,029	4,206
Private property	8,940	10,599	9,963	874	1,266	1,685
Foreign-owned property	2	4	12	2	2	4
Total	138,281	133,661	131,980	44,255	40,281	37,788

Source: Ministry of Statistics.

Table 11. Ukraine: Loss-Making Enterprises, 1995-97 (Q1) 1/

	1995				1996				1997
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Loss-making enterprises	9,407	8,924	8,663	13,468	18,036	17,575	16,294	26,625	21,978
Of which in:									
Industry	746	793	821	1,121	2,513	2,520	2,542	3,154	4,177
Transport	398	251	210	247	868	794	792	809	1,217
Construction	1,078	696	621	610	2,145	1,923	1,778	1,994	2,758
Agriculture	315	208	181	366	422	373	336	6,763	580
Housing	970	894	792	812	1,191	1,170	1,093	1,048	1,246
	(Number of enterprises)								
Proportion of loss-makers	(In percent)								
relative to all enterprises	21.1	19.7	19.0	22.2	40.4	38.7	35.8	43.0	47.5
Of which in:									
Industry	8.9	9.3	9.5	11.5	27.8	27.4	27.2	30.0	42.9
Transport	17.2	10.5	8.8	9.6	36.4	32.9	32.3	31.1	50.9
Construction	18.6	11.8	10.5	9.8	35.8	31.7	29.5	31.7	44.4
Agriculture	26.3	18.9	17.1	28.3	49.0	44.2	39.7	66.0	67.0
Housing	43.0	39.2	34.2	34.4	50.5	48.6	44.9	42.4	49.2
	(In billions of Karbovanets) 2/								
Total recorded losses	38,099	34,727	40,964	105,252	96,853	1,599	1,875	4,655	1,267
Of which in:									
Industry	10,616	14,299	19,039	43,495	52,827	981	1,179	1,775	741
Transport	2,988	2,197	2,381	2,709	5,856	88	116	279	99
Construction	703	767	1,117	1,655	4,748	59	71	95	65
Agriculture	214	147	192	27,516	537	8	13	1,894	13
Housing	20,926	12,375	11,771	18,703	22,265	272	242	280	212

Source: Ministry of Statistics.

1/ Excludes small business, joint ventures, and cooperatives.

2/ From September 1996 figures are in millions of hryvnias (Hrv), where Krb 100,000 = Hrv 1.

Table 12. Ukraine: Incidence of Monopolies in Major Industrial Branches, January 1995–January 1997

	January 1, 1995			January 1, 1996			January 1, 1997		
	Number of Enterprises	Number of Monopolists	Proportion of Monopolists in the Branch (In percent)	Number of Enterprises	Number of Monopolists	Proportion of Monopolists in the Branch (In percent)	Number of Enterprises	Number of Monopolists	Proportion of Monopolists in the Branch (In percent)
Machine-building and military-industrial complex	2,006	309	15.4	2,006	215	10.7	1,312	176	13.4
Heavy industry 1/	182	107	58.8	182	43	23.6	149	41	27.5
Light and textile industry	744	39	5.2	754	36	4.8	776	22	2.8
Food processing 2/	2,508	13	0.5	2,519	12	0.5	2,558	9	0.3
Energy	175	31	17.7	84	29	34.5	70	29	41.4
Chemical and pharmaceutical 2/	31	14	45.1	36	13	36.1	38	6	15.8
Building materials	1,007	29	2.7	1,007	15	1.5	988	15	1.5
Construction	15	3	20.0	16	...	...	16	...	...
Cement	2,180	47	22.0	...	...	...	...	...	...
Transportation 3/	2,987	1	0.0	3,088	...	...	3,198	...	...
Other 4/	8,317	3	0.0	8,317	3	0.0	2,299	3	0.1

Sources: State Anti-Monopoly Committee and branch ministries; Ministry of Statistics; and Ministry of Transportation

1/ Covers regional markets.

2/ Source: Ministry of Statistics, December 1, 1996 data for 1997 information.

3/ November, 10, 1996 data for 1997 information.

4/ Source: Ministry of Transportation for 1996 and 1997 data.

Table 13. Ukraine: Ownership Structure in Agriculture, 1995-97

	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, 1995						
Collective farms (kolkhozes)	9,977	2,638	26,323	64.5	3,005	60.7
State farms (sovkhoses)	5,485	1,524	8,361	20.5	903	18.3
Interfarm enterprises	34,692	21	741	1.8	55	1.1
Private	11,056,874	0.33	5,357	13.2	986	19.9
Total	...	...	40,782	100.0	4,949	100.0
January 1, 1996						
Collective farms (kolkhozes)	10,356	2631	27,246	66.8	2,945	53.6
State farms (sovkhoses)	5,253	1355	7,116	17.5	713	13.0
Interfarm enterprises	37,113	22	822	2.0	60	1.1
Private	11,249,196	0.34	5,589	13.7	1,774	32.3
Total	...	...	40,773	100.0	5,492	100.0
January 1997						
Collective farms (kolkhozes)	11,299	2,631	29,726	73.0	2,938	55.8
State farms (sovkhoses)	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	0.34	5,694	14.0	1,864	35.4
Total	...	...	40,710	100.0	5,258	100.0

Source: Ministry of Statistics.

Table 14. Ukraine: Bourses, 1995-97

	1995				1996				1997
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total number of houses	91	92	86	88	98	107	111	191	196
Of which:									
Commodities and raw materials	47	48	44	44	49	55	57	100	99
Stocks and currency exchanges	14	14	12	14	14	14	14	24	24
(In billions of Karbovanets) 1/									
Total turnover	3,955	6,072	14,305	30,069	30,593	27,998	260.5	302.9	116.3
Of which:									
Raw materials, merchandise, service	479	945	5,540	20,360	18,115	13,009	92.5	105.4	45.0
Agricultural production	7	149	4,372	17,553	14,640	6,455	34.6	67.1	2.5
Consumer goods	6	4	18	41	16	9	0.3	0.0	0.0
Stocks and bonds	14	6	111	424	837	15	18.4	6.6	1.6
Real estate	3,218	4,697	8,652	9,183	11,322	14,562	156.2	85.6	67.9

Source: Ministry of Statistics.

1/ From the third quarter of 1997, figures are in millions of Hryvnias (Hrv), where Krb 100,000 = Hrv 1.

Table 15. Ukraine: Population, Labor Force, and Employment, 1994-97
(In thousands of persons)

	1994	1995	1996	1997
Population 1/	51,860	51,474	51,079	50,639
Outside active age	23,000	22,785	22,552	22,294
Active age	28,860	28,689	28,527	28,345
Total employment 2/	23,025	23,725	23,232	...
State sector	14,017	11,185	9,606	...
Collective and cooperative sector	7,140	8,640	8,990	...
Private sector	1,868	3,940	4,636	...

Sources: Ministry of Statistics; and IMF staff calculations.

1/ Beginning of period

2/ Annually-reporting information (average).

Table 16. Ukraine: Average Employment by Branches, 1994-96
(In thousands of persons)

	1994	1995	1996
Total 1/	22,179	21,962	20,868
Industry	6,249	5,761	5,335
Agriculture 2/	4,750	5,258	5,006
Construction	1,640	1,485	1,366
Transportation and communications	1,491	1,449	1,398
Trade and material services 3/	1,629	1,614	1,552
Health and social services	1,508	1,516	1,481
Education and culture	2,277	2,247	2,141
Other	2,635	2,632	2,589

Source: Ministry of Statistics.

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 17. Ukraine: Unemployment and Vacancies, 1995-97 (June) 1/
(In thousands of persons)

	Registered Unemployed	Recipients of Unemployment Benefits	Reported Vacancies	Unemployment Rate 2/
1995				
January	82.9	48.2	132.2	0.3
February	85.5	48.6	134.5	0.3
March	86.6	50.2	143.1	0.3
April	87.9	51.9	139.4	0.3
May	85.4	51.5	140.5	0.3
June	84.6	51.0	142.3	0.3
July	89.2	53.6	137.4	0.3
August	94.6	57.1	128.8	0.3
September	98.5	60.1	127.4	0.4
October	103.9	61.6	116.8	0.4
November	112.6	65.3	100.1	0.4
December	126.9	74.4	86.4	0.5
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	35.8	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

Source: Ministry of Statistics.

1/ End of period.

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

Table 18. Ukraine. Wages and Prices, 1995-97 (May)

	Average Wage in the State Sector		Consumer Price Index Percentage change	Real Wage	
	Average wage (Thousands of Krb per month)	Percentage change		1991=100	Percentage change
1995					
January	3,544.0	-0.6	21.1	20.8	-18.3
February	4,598.0	30.9	18.1	23.4	12.5
March	5,552.0	19.8	11.4	24.9	6.7
April	5,978.0	7.9	5.8	25.2	1.0
May	6,764.0	12.7	4.6	27.0	7.2
June	7,922.0	13.3	4.8	28.3	5.0
July	8,343.0	6.5	5.2	29.1	2.8
August	8,990.0	5.7	4.6	29.2	0.3
September	9,792.0	8.6	14.2	27.5	-5.8
October	10,450.0	10.7	9.1	27.7	0.6
November	11,118.0	7.4	6.2	29.4	6.4
December	13,438.0	18.6	4.6	32.5	10.5
1996					
January	11,452.0	-14.8	9.4	25.7	-20.8
February	12,093.0	5.6	7.4	25.3	-1.8
March	12,933.0	6.9	3.0	25.9	2.3
April	12,959.0	0.2	2.4	25.5	-1.4
May	13,210.0	1.9	0.7	25.6	0.3
June	13,774.0	4.3	0.1	26.5	3.7
July	14,373.0	4.3	0.1	27.7	4.4
August	14,305.0	-0.5	5.7	26.1	-5.9
September 1/	146.1	2.1	2.0	26.1	0.0
October	148.2	1.5	1.5	26.0	-0.4
November	144.8	-2.3	1.2	25.1	-3.5
December	163.7	13.1	0.9	28.1	12.0
1997					
January	139.5	-14.8	2.2	23.7	-15.7
February	138.9	-0.4	1.2	23.3	-1.7
March	147.7	6.4	0.1	24.6	5.6
April	146.8	-0.7	0.8	24.2	-1.6
May	153.4	4.5	0.8	25.1	3.7

Sources: Ministry of Statistics; and IMF staff calculations.

1/ From September 1997, figures are in Hryvnias (Hrv), where Krb 100,000 = Hrv 1.

Table 19. Ukraine: Monthly Average Wage in State Sector by Branches, 1995-97 (May)

	1995											
	January	February	March	April	May	June	July	August	September	October	November	December
Total	3,291	4,307	5,161	5,567	6,277	7,109	7,573	8,001	8,689	9,620	10,329	12,250
Industry	3,415	4,813	5,953	5,960	6,483	7,334	7,910	8,628	9,422	10,635	11,146	13,473
Agriculture	1,595	2,003	2,492	2,724	3,090	3,875	4,668	4,715	5,000	5,448	5,330	7,158
Transportation	3,566	4,418	5,194	5,624	6,400	7,390	8,478	9,068	8,844	10,415	11,810	14,843
Communication	3,018	4,658	6,309	6,257	7,105	7,529	9,526	9,899	9,991	10,666	11,869	112,104
Construction	3,837	4,798	6,274	6,477	7,519	9,153	10,118	11,071	11,562	12,324	12,948	15,803
Trade	2,636	3,235	3,837	4,518	4,783	5,501	5,998	6,596	6,961	7,267	7,551	7,930
Public catering	1,714	2,242	2,670	2,837	3,374	3,568	3,739	4,038	4,750	5,089	5,160	5,297
Computing	2,957	4,203	5,548	5,493	6,073	7,029	7,138	7,496	7,961	8,701	9,769	11,074
Housing	2,387	3,501	4,128	3,908	4,207	5,205	5,601	5,809	5,872	6,933	7,271	8,871
Communal services	3,280	4,451	5,508	5,185	5,823	7,339	7,472	8,169	8,769	9,375	10,264	13,460
Consumer services	1,528	2,221	2,749	3,056	3,296	3,717	4,213	4,420	4,488	4,856	4,959	5,422
Education	3,326	4,190	4,436	5,595	6,899	7,641	7,085	6,498	8,386	9,079	9,920	11,039
Health	3,486	4,393	4,800	6,254	7,656	7,762	8,058	8,385	8,802	9,507	10,636	11,506
Social security	2,454	3,109	3,288	3,825	4,457	4,829	5,283	5,371	5,592	6,471	6,816	7,409
Culture	2,605	3,355	3,465	4,240	5,446	5,923	5,187	5,538	6,707	7,125	7,893	8,779
Arts	2,484	2,959	3,273	3,838	4,700	5,165	5,294	5,511	6,253	6,791	7,322	8,627
Science	3,818	4,892	5,879	6,133	6,945	7,970	8,289	8,002	9,302	10,225	11,130	12,420
Finance	8,511	7,910	10,903	14,501	14,189	14,319	14,782	16,093	15,123	17,239	20,669	26,281
Public administration	4,562	5,269	5,828	5,991	6,079	7,283	7,376	7,160	7,789	8,887	9,636	11,057

(In thousands of Karbovanets)

Source: Ministry of Statistics; and Fund staff estimates.

Table 19 (Cont'd). Ukraine: Monthly Average Wage in State Sector by Branches, 1995-97 (May)

	1996											
	January	February	March	April	May	June	July	August	Sept.	October	November	December
Total	11,452	12,093	12,933	12,959	13,210	13,774	14,373	143.05	146.09	148.21	144.76	163.69
Industry	12,544	12,944	14,276	14,365	14,366	14,843	15,770	160.13	160.26	165.43	160.50	182.59
Agriculture	5,406	5,555	6,361	6,941	7,697	8,607	9,259	91.44	89.02	91.35	88.87	108.16
Transportation	14,140	14,077	14,465	14,614	15,553	16,064	17,881	172.52	175.96	164.11	156.00	165.66
Communication	13,456	14,610	14,747	15,786	16,194	17,046	17,823	181.92	174.20	175.87	187.08	205.50
Construction	11,884	12,322	13,318	13,905	14,416	15,755	16,433	171.25	163.65	164.91	158.43	193.59
Trade	8,161	8,495	8,959	8,939	9,171	9,368	9,986	103.91	102.87	100.01	99.48	111.55
Public catering	4,884	5,501	5,851	6,015	6,345	6,342	6,195	64.77	71.81	69.42	64.80	69.32
Computing	11,210	11,846	13,263	13,726	14,104	15,813	15,569	174.69	156.30	149.60	154.34	180.49
Housing	10,101	11,847	12,905	12,191	11,473	12,260	13,276	133.51	134.05	134.23	129.32	153.50
Communal services	12,910	13,918	15,026	14,979	15,151	15,409	16,488	168.31	168.94	168.46	170.61	200.95
Consumer services	6,135	6,400	7,418	7,748	6,973	8,439	8,734	88.95	87.87	85.96	84.26	93.58
Education	10,236	11,754	11,887	11,506	11,847	12,660	11,965	104.36	129.64	126.62	122.78	126.58
Health	11,205	12,162	12,326	12,117	12,216	12,088	11,673	110.11	114.01	129.07	126.23	128.89
Social security	7,537	8,220	8,473	8,524	8,500	8,434	8,639	88.05	115.12	134.76	114.97	114.10
Culture	8,736	9,535	9,963	9,819	10,109	9,577	8,651	81.13	100.33	101.26	102.90	103.95
Arts	8,536	9,149	9,064	9,490	9,419	9,522	9,052	94.12	93.64	101.36	99.27	110.32
Science	11,315	12,816	13,434	13,211	13,297	14,309	14,665	141.64	147.45	155.09	157.02	180.42
Finance	25,402	24,592	24,612	26,185	25,431	25,916	29,418	312.48	299.07	294.45	282.73	324.08
Public administration	12,893	14,274	15,381	14,881	15,466	16,559	17,259	176.32	171.54	165.99	169.37	224.50

(In thousands of Karbovanets)

(In Hryvnias) 1/

Sources: Ministry of Statistics; and IMF staff estimates.

1/ From September 1996 figures are in millions of Hryvnias (Hrv), where Krb 100,000 = Hrv 1.

Table 19 (Cont'd). Ukraine: Monthly Average Wage in State Sector by Branches, 1995-97 (May)

	1997				
	January	February	March	April	May
	(in hrynyas)				
Total	139.50	133.67	147.73	146.75	153.39
Industry	152.70	153.67	162.93	163.59	167.19
Agriculture	175.81	75.34	83.63	87.21	95.03
Transportation	153.08	142.84	151.81	153.35	163.30
Communication	182.54	192.60	203.40	196.85	207.11
Construction	130.09	130.05	145.33	141.46	152.11
Trade	100.79	100.77	108.18	107.67	111.69
Public catering	63.25	64.77	65.46	65.97	70.08
Computing	151.22	135.69	160.55	158.48	180.94
Housing	125.85	129.64	137.10	126.52	129.10
Communal services	171.28	174.18	189.59	176.80	185.52
Consumer services	84.58	83.91	94.41	94.36	94.83
Education	118.43	119.82	125.67	123.58	129.17
Health	120.59	116.51	120.07	118.80	124.75
Social security	105.68	101.24	106.12	104.03	107.19
Culture	97.22	95.93	95.15	91.57	96.82
Arts	102.30	96.75	102.63	97.23	105.44
Science	158.88	142.38	154.98	156.23	163.52
Finance	268.01	263.03	282.76	296.61	283.37
Public administration	184.94	191.09	197.14	189.97	218.86

Sources: Ministry of Statistics; and IMF staff estimates.

Table 20. Ukraine. Incomes and Expenditures of the Population, 1995-97 (Q1)

	1995				1996				1997		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1
	(In billions of Karbovanets) 1/										
Total income	368,256	562,171	780,865	938,495	2,649,787	8,278	9,211	10,244	11,070	38,803	10,683
Wages and other remuneration in state sector and cooperatives	200,353	320,261	453,829	543,380	1,517,823	5,432	5,778	6,187	6,358	23,755	5,882
Pensions and other transfer income	95,395	137,313	221,592	255,976	710,276	2,632	2,964	3,542	3,844	12,982	3,762
Other income	72,508	104,597	105,444	139,139	421,688	214	469	515	868	2,066	1,039
Total expenditure	328,174	494,234	744,024	873,639	2,440,071	7,944	8,637	10,243	9,918	36,742	10,021
Goods and services	285,761	418,584	613,137	696,559	2,014,041	5,953	6,476	7,638	7,290	27,357	7,132
Other expenditure	42,413	75,650	130,887	177,080	426,030	1,991	2,161	2,605	2,628	9,385	2,889
Savings	40,082	67,937	36,841	64,856	209,716	334	574	1	1,152	2,061	662
Savings in banks	8,883	6,395	4,442	18,571	38,291	136	133	143	324	736	306
Increment of cash balances	31,199	61,542	32,399	46,285	171,425	198	441	-142	828	1,325	356
	(Real percentage change over previous period) 2/										
Total income	...	22.1	16.7	-6.1	3.1	-27.6	3.6	6.0	21.0	-18.8	-73.0
Wages and other remuneration in state sector and cooperatives	-9.0	27.9	19.1	-6.5	9.2	-17.9	-1.0	2.1	-2.9	-13.2	-11.1
Pensions and other transfer income	...	15.2	35.6	-9.8	...	-15.6	4.9	13.9	2.5	1.2	-6.0
Other income	...	15.4	-15.3	3.1	...	-87.4	104.1	4.7	59.2	-72.8	15.0
Total expenditure	-14.8	20.5	26.5	-8.3	12.4	-25.4	1.2	13.0	-8.5	-16.5	-2.9
Goods and services	-16.9	17.2	23.1	-11.2	4.8	-29.8	1.3	12.4	-9.8	-24.7	-6.0
Other expenditure	...	42.7	45.4	5.7	...	-7.7	1.1	14.9	-4.7	22.1	5.6
Savings	...	35.6	-54.4	37.5	...	-57.7	60.0	-99.8	...	-45.5	-44.8
Savings in banks	...	-42.4	-41.6	226.6	...	-39.9	-8.9	2.5	114.0	6.5	-9.3
Increment of cash balances	...	57.8	-55.8	11.6	...	-64.9	107.4	-130.7	-650.8	-57.2	-58.7

Sources: Ministry of Statistics; and IMF staff estimates.

1/ Figures in 1996 and 1997 are in millions of Hryvnias (Hrv), where Krb 100,000 = Hrv 1.

2/ Deflated by the consumer price index.

Table 21. Ukraine: Energy Prices, 1995-97 (Q2)

	1995				1996				1997	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Coal (Krb per ton)										
Producer price	2,974	3,662	4,231	4,662	4,984	5,154	...	...	70.11	69.77
Consumer price										
Industry	3,810	4,331	4,989	5,872	5,855	6,542	6,021	6,950	70.11	69.77
Households 1/	2,500	3,600	3,900	4,500	5,600	5,600	10,100	10,100	130.0	130.0
Natural gas (Krb per thousand m ³) 2/	2,364	3,524	4,532	5,159	11,201	11,069	10,601	11,040	111.42	110.94
Average import price 3/	6,000	6,770	8,220	9,237	14,935	14,759	14,135	14,720	143.56	147.92
Consumer price										
Industry	7,769	10,832	12,645	14,386	15,495	15,312	14,665	15,272	154.13	153.47
Households 1/	2,474	3,600	6,575	7,163	11,300	11,300	12,333	12,673	126.73	126.73

Sources: Ministry of Statistics; and IMF staff estimates.

1/ Retail prices.

2/ Producer prices.

3/ Includes gas tax.

Table 22. Ukraine: Monthly Price Movements, 1994-97 (June)
(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/
1994				
January	19.2	6,958	34.1	5,903
February	12.6	6,070	21.3	5,927
March	5.7	5,242	8.3	5,749
April	6.0	4,481	5.4	5,120
May	5.2	3,677	2.4	3,412
June	3.9	2,186	3.0	1,803
July	2.1	1,596	4.4	1,417
August	2.6	1,330	11.9	1,176
September	7.3	751	12.8	715
October	22.6	528	20.4	632
November	72.3	645	109.3	1,050
December	28.4	401	34.4	774
Average	14.4	891	19.8	1,134
1995				
January	21.2	410	29.2	742
February	18.1	434	11.4	673
March	11.4	463	9.3	681
April	5.8	462	5.1	678
May	4.6	459	7.1	714
June	4.8	464	8.6	758
July	5.2	481	4.3	757
August	4.6	492	6.5	716
September	14.2	530	9.9	695
October	9.1	461	8.4	616
November	6.2	246	4.2	256
December	4.6	182	2.6	172
Average	9.0	377	8.7	489
1996				
January	9.4	154	3.4	118
February	7.4	131	2.9	101
March	3.0	114	2.9	89
April	2.4	107	1.5	83
May	0.7	99	0.8	72
June	0.1	90	0.4	59
July	0.1	81	0.6	53
August	5.7	83	0.4	45
September	2.0	63	1.0	33
October	1.5	52	0.1	23
November	1.2	45	1.2	19
December	0.9	40	0.9	17
Average	2.8	80	1.3	52
1997				
January	2.2	30	0.4	14
February	1.2	23	0.4	11
March	0.1	20	0.6	9
April	0.8	18	0.9	8
May	0.8	18	0.3	7
June	0.1	18	0.4	7

Sources: Ministry of Statistics; and IMF staff calculations.

1/ Calculated from the monthly rates of change.

Table 23. Ukraine: Components of the
Consumer Price Index, 1994-97 (June)
(Monthly rates of change)

	Overall Index	Non-Food	Food	Services
1994				
January	19.2	12.9	23.7	38.5
February	12.6	7.1	15.3	32.4
March	5.7	3.4	6.7	11.9
April	6.0	3.5	6.6	14.7
May	5.2	6.7	3.9	4.1
June	3.9	2.7	4.0	8.5
July	2.1	-1.6	3.4	11.6
August	2.6	1.7	3.8	1.7
September	7.3	6.7	8.1	5.9
October	22.6	17.6	16.0	67.2
November	72.3	111.1	50.0	34.9
December	28.4	25.9	33.6	22.3
1995				
January	21.2	23.2	18.8	21.0
February	18.1	11.9	10.3	70.0
March	11.4	10.0	9.7	18.6
April	5.8	4.8	4.9	10.2
May	4.6	4.6	3.2	7.1
June	4.8	1.0	3.4	16.9
July	5.2	-0.1	3.6	19.5
August	4.6	4.3	6.5	3.4
September	14.2	11.3	8.4	24.6
October	9.1	12.0	5.8	6.1
November	6.2	7.9	4.7	4.1
December	4.6	6.3	3.2	2.1
Dec. 95 to Dec. 94	181.7	150.1	120.0	484.4
1996				
January	9.4	6.8	3.1	19.3
February	7.4	4.4	3.1	15.7
March	3.0	2.3	2.4	4.5
April	2.4	1.4	1.5	4.4
May	0.7	-0.2	1.1	2.4
June	0.1	-1.0	1.0	1.4
July	0.1	-2.5	0.8	4.7
August	5.7	-1.7	0.8	24.0
September	2.0	2.4	1.1	2.0
October	1.5	2.0	1.1	1.1
November	1.2	1.6	0.8	0.8
December	0.9	1.0	0.6	0.8
Dec. 96 to Dec. 95	39.7	17.4	18.8	112.7
1997				
January	2.2	3.4	0.5	1.5
February	1.2	1.8	0.4	0.7
March	0.1	-0.4	0.3	0.6
April	0.8	1.1	0.2	0.6
May	0.8	1.3	0.1	0.4
June	0.1	-0.2	0.1	0.6

Sources: Ministry of Statistics; and IMF staff calculations.

Table 24. Ukraine: Monetary Survey, 1994-97 (June)
(In millions of hryvnias, end-period)

	1994			1995			1996			1997		
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	
Net foreign assets	449	508	741	102	-843	-1,594	-1,856	-1,880	-938	-1,099	-735	
Foreign assets	2,491	2,857	4,582	4,719	4,482	3,905	4,006	4,580	6,375	6,604	7,382	
Foreign liabilities	2,042	2,349	3,841	4,617	5,325	5,499	5,861	6,460	7,313	7,703	8,116	
Net domestic assets	2,739	3,427	4,574	6,306	7,773	8,791	9,530	9,639	10,302	10,825	11,837	
Net domestic credit	3,707	4,744	6,196	8,333	9,863	11,254	12,118	12,358	13,611	14,170	15,157	
Net credit to government	989	1,339	1,627	2,654	3,989	5,155	5,742	5,668	5,974	6,409	6,789	
Credit to gen. government	1,411	3,478	5,777	8,606	4,601	5,869	6,580	6,584	6,986	7,383	8,174	
Deposits of gen. government	421	2,139	4,150	5,952	612	714	838	915	1,012	974	1,385	
Claims on rest of the economy	2,718	3,404	4,568	5,678	5,874	6,099	6,375	6,690	7,636	7,762	8,368	
In domestic currency	1,457	1,750	2,639	3,352	3,402	3,483	3,611	3,948	4,719	4,892	5,257	
Enterprises	1,400	1,682	2,522	3,162	3,192	3,268	3,386	3,712	4,441	4,593	4,924	
Households	57	68	117	190	211	215	225	236	278	299	332	
In foreign currency	1,261	1,654	1,930	2,326	2,471	2,617	2,765	2,743	2,917	2,870	3,111	
Other items, net	-968	-1,316	-1,622	-2,027	-2,089	-2,464	-2,588	-2,720	-3,309	-3,346	-3,320	
Broad money	3,188	3,935	5,315	6,408	6,930	7,197	7,674	7,758	9,363	9,726	11,102	
Hryvnia broad money	2,166	2,681	3,855	4,665	5,353	5,681	6,227	6,387	7,646	8,252	9,410	
Currency outside banks	793	1,134	1,782	2,235	2,623	2,800	3,324	3,330	4,040	4,306	5,102	
HRV demand deposits	1,059	1,127	1,647	1,963	2,059	2,074	2,034	2,129	2,275	2,592	2,869	
HRV time deposits	314	420	425	467	671	807	869	928	1,331	1,354	1,439	
Foreign currency deposits	1,021	1,254	1,460	1,742	1,577	1,516	1,448	1,372	1,717	1,474	1,692	

Sources: National Bank of Ukraine, and IMF staff estimates.

Table 25. Ukraine: Accounts of the National Bank of Ukraine, 1994-97 (June)
(In millions of hryvnias, end-period)

	1994			1995			1996			1997		
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	
Net foreign assets	314	349	461	-104	-755	-1,445	-1,497	-1,307	-572	-419	23	
Net international reserves	296	347	465	-101	-752	-1,442	-1,493	-1,303	-507	-334	123	
Other net foreign assets	18	3	-4	-4	-4	-4	-4	-3	-65	-85	-100	
Net domestic assets	1,227	1,649	2,212	3,265	4,289	5,211	5,567	5,605	5,388	5,532	5,999	
Net domestic credit	1,350	1,779	2,274	3,588	4,694	5,656	5,966	6,099	6,366	6,429	6,691	
Net credit to government	1,244	1,719	2,049	3,271	4,295	5,384	5,726	5,694	5,995	5,856	6,101	
Credit to gen. government	1,411	3,396	5,642	8,403	4,393	5,543	6,070	6,051	6,211	6,212	6,758	
Deposits of gen. government	167	1,677	3,593	5,132	98	159	343	357	216	356	657	
Net credit to the economy	-2	-16	-14	-16	-20	-29	-27	-28	-178	-89	-82	
Claims on banks	108	76	239	333	418	300	267	433	549	662	672	
Other items, net	-122	-130	-63	-322	-405	-444	-399	-494	-977	-896	-692	
Base money	1,523	1,996	2,677	3,165	3,538	3,769	4,074	4,301	4,881	5,199	6,122	
Currency outside banks	793	1,134	1,782	2,235	2,623	2,800	3,324	3,330	4,040	4,306	5,102	
Banks' reserves	730	861	895	930	914	969	750	971	841	893	1,020	
Cash in vault	140	180	197	223	190	210	170	318	202	262	286	
Correspondent accounts	590	681	697	707	725	759	579	654	639	631	734	

Sources: National Bank of Ukraine, and IMF staff estimates.

Table 26. Ukraine: Summary Indicators of Money and Credit, 1995-97 (March)

	1995					1996					1997
	Mar.	June	Sept.	Dec.	Year	Mar.	June	Sept.	Dec.	Year	Mar.
(Within period percentage change, unless otherwise indicated)											
Banking system											
Net domestic credit	28	21	34	18	166	14	8	2	10	38	4
Of which: claims on rest											
of the economy	25	34	24	3	116	4	5	5	14	30	2
Broad money	23	35	21	8	117	4	7	1	21	35	4
Of which: Hrv broad money	24	44	21	15	147	6	10	3	20	43	8
Real broad money 1/	-23	16	-4	-11	-23	-14	3	-6	16	-3	0
Real net domestic credit 1/	-20	13	7	-2	-6	-6	4	-5	6	-1	1
National Bank of Ukraine											
Net domestic assets	34	34	48	31	250	22	7	1	-4	26	3
Net domestic credit	32	28	58	31	248	20	5	2	4	36	10
Base money	31	34	18	12	132	7	8	6	13	38	7
Currency outside banks	43	57	25	17	231	7	19	0	21	54	7
Real base money 1/	-18	16	-6	-8	-18	-12	5	-2	10	-1	3
Hrv money multiplier 2/	-6	1	2	-3	-6	0	1	-3	1	-2	4
(Within period percentage change in relation to monetary base at the beginning of the period)											
National Bank of Ukraine											
Net foreign assets	3	8	-21	-21	-70	-20	-1	5	19	-3	4
Net domestic assets	28	28	39	32	101	26	9	1	-5	31	3
Net credit to Government	31	17	46	32	100	31	9	0	7	48	-3
Claims on banks	-2	8	4	3	20	-3	0	4	3	4	2
Other	-1	3	-10	-3	-19	-1	1	-2	-11	-16	2
Base money	31	34	18	12	132	7	8	6	13	38	7
Memorandum items:											
Consumer prices (percentage change within period)	60	16	26	21	182	21	3	8	4	40	4
End-period official exchange rate											
HRV/dollar	1.30	1.42	1.70	1.79	1.79	1.87	1.79	1.76	1.89	1.89	1.85

Sources: National Bank of Ukraine, and IMF 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 27. Ukraine: Structure of Money Supply, 1994-97 (June)
(Shares, in percent)

	1994			1995			1996			1997	
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
Broad money	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hryvnia broad money	68.0	68.1	72.5	72.8	77.2	78.9	81.1	82.3	81.7	84.8	84.8
Currency outside banks	24.9	28.8	33.5	34.9	37.9	38.9	43.3	42.9	43.2	44.3	46.0
Demand deposits	33.2	28.6	31.0	30.6	29.7	28.8	26.5	27.4	24.3	26.6	25.8
Time deposits	9.9	10.7	8.0	7.3	9.7	11.2	11.3	12.0	14.2	13.9	13.0
Foreign currency deposits	32.0	31.9	27.5	27.2	22.8	21.1	18.9	17.7	18.3	15.2	15.2
Hryvnia broad money	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100
Currency outside banks	36.6	42.3	46.2	47.9	49.0	49.3	53.4	52.1	52.8	52.2	54.2
Demand deposits	48.9	42.0	42.7	42.1	38.5	36.5	32.7	33.3	29.8	31.4	30.5
Time deposits	14.5	15.6	11.0	10.0	12.5	14.2	13.9	14.5	17.4	16.4	15.3

Source: Table 24.

Table 28. Ukraine: Interest Rates, 1995-97 (March) 1/

	Statutory Refinance Rate	Average Refinance Rate 2/	Average Lending Rate 3/	Average Deposit Rate	Effective Yield on 3-Month Treasury Bills 4/
1995					
January	606	...	423	281	...
February	606	785	403	206	...
March	312	628	351	183	...
April	257	186	222	136	...
May	136	136	179	87	...
June	99	69	118	53	...
July	75	69	106	42	75
August	91	78	97	34	89
September	91	78	104	35	91
October	135	156	131	37	136
November	135	123	177	49	148
December	164	152	156	62	164
1996					
January	154	154	164	70	163
February	154	154	166	53	156
March	125	140	148	52	136
April	91	101	127	36	102
May	80	87	120	41	145
June	60	64	96	36	110
July	46	49	84	27	71
August	46	46	81	30	71
September	46	48	80	29	71
October	46	46	81	31	70
November	46	40	84	29	49
December	46	46	76	26	62
1997					
January	40	44	81	26	53
February	40	40	80	25	32
March	40	30	64	23	23

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

1/ All rates reported on compounded annual basis.

2/ Includes preferential rates; average interest rate on refinancing credits outstanding.

3/ Average of major banks, weighted by size of loan portfolios.

4/ Last auction in month.

Table 29. Ukraine: Exchange Rates, 1995-97 (June) 1/

	NBU Official Rate		Interbank Rate		NBU Official Rate		Interbank Rate	
	Average	End of Period	Average	End of Period	Average	End of Period	Average	End of Period
	(hryvnia per dollar)				(hryvnia per 10,000 Russian rubles)			
1995								
January	1.08	1.17	1.08	1.17	2.86	2.93	2.83	2.78
February	1.21	1.26	1.21	1.26	2.87	2.86	2.83	3.05
March	1.33	1.30	1.33	1.30	2.82	2.66	2.81	2.80
April	1.31	1.30	1.31	1.30	2.63	2.55	2.61	2.43
May	1.30	1.36	1.30	1.36	2.57	2.72	2.36	2.80
June	1.42	1.42	1.42	1.42	2.98	3.12	2.88	3.01
July	1.44	1.47	1.44	1.47	3.18	3.34	3.16	3.34
August	1.61	1.63	1.61	1.63	3.65	3.68	3.52	3.50
September	1.65	1.70	1.66	1.70	3.71	3.77	3.65	3.77
October	1.74	1.77	1.74	1.77	3.87	3.93	3.80	3.92
November	1.78	1.79	1.78	1.78	3.92	3.90	3.90	3.87
December	1.80	1.79	1.80	1.79	3.89	3.87	3.80	3.76
1996								
January	1.83	1.87	1.83	1.88	3.91	3.96	3.90	3.94
February	1.88	1.89	1.88	1.83	3.95	3.93	3.93	3.92
March	1.89	1.87	1.89	1.87	3.91	3.85	3.86	3.85
April	1.87	1.83	1.87	1.83	3.82	3.72	3.77	3.60
May	1.84	1.84	1.84	1.84	3.71	3.67	3.64	3.62
June	1.82	1.79	1.82	1.79	3.60	3.50	3.52	3.47
July	1.78	1.76	1.78	1.76	3.46	3.39	3.42	3.37
August	1.76	1.76	1.76	1.76	3.33	3.29	3.29	3.20
September	1.76	1.76	1.76	1.76	3.28	3.26	3.25	3.27
October	1.77	1.81	1.78	1.82	3.27	3.32	3.27	3.33
November	1.86	1.87	1.86	1.87	3.39	3.40	3.38	3.38
December	1.88	1.89	1.88	1.89	3.40	3.40	3.39	3.30
1997								
January	1.89	1.88	1.89	1.88	3.38	3.34	3.35	3.31
February	1.84	1.84	1.82	1.84	3.26	3.23	3.25	3.22
March	1.84	1.85	1.84	1.85	3.22	3.23	3.21	3.23
April	1.85	1.85	1.85	1.84	3.22	3.20	3.21	3.10
May	1.84	1.86	1.84	1.86	3.19	3.22	3.18	3.22
June	1.86	1.86	1.86	1.86	3.21	3.21	3.21	3.23

Sources: National Bank of Ukraine.

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

Table 30. Ukraine: Structure of Credit to Economy, 1996-97 (June) 1/
(In millions of hryvnias, unless otherwise specified)

	March		June		September		December	
	Stock of Credit	Share (in percent)	Stock of Credit	Share (in percent)	Stock of Credit	Share (in percent)	Stock of Credit	Share (in percent)
1996								
Total	2,997	100.0	3,060	100.0	3,332	100.0	4,102	100.0
Short-term	2,627	87.7	2,662	87.0	2,886	86.6	3,653	89.1
Industry	802	26.8	774	25.3	855	25.7	867	21.1
Power generation	86	2.9	76	2.5	84	2.5	131	3.2
Mining	52	1.7	72	2.4	65	2.0	46	1.1
Machinery and metal industries	401	13.4	370	12.1	369	11.1	358	8.7
Light industry	48	1.6	57	1.9	61	1.8	77	1.9
Food processing	143	4.8	132	4.3	186	5.6	190	4.6
Other	72	2.4	68	2.2	90	2.7	65	1.6
Agriculture	157	5.2	166	5.4	161	4.8	139	3.4
Transport and communication	53	1.8	48	1.6	57	1.7	57	1.4
Construction	63	2.1	67	2.2	68	2.0	68	1.7
Retail trade and catering	207	6.9	200	6.5	194	5.8	330	8.1
Wholesale and supply	76	2.5	61	2.0	54	1.6	51	1.2
Procurement	8	0.3	8	0.3	33	1.0	33	0.8
Other material sphere 2/	923	30.8	835	27.3	865	26.0	864	21.1
Housing and communal services	14	0.5	13	0.4	14	0.4	14	0.3
Joint ventures and non-residents	28	0.9	36	1.2	35	1.1	24	0.6
Other	295	9.8	454	14.8	550	16.5	1,206	29.4
Long-term 3/	370	12.3	398	13.0	446	13.4	449	10.9
1997								
Total	4,126	100.0	4,496	100.0	...	...	...	...
Short-term	3,659	88.7	4,009	89.2	...	...	...	...
Industry	1,076	26.1	...	...	...	...	...	...
Power generation	74	1.8	...	...	...	...	...	...
Mining	89	2.2	...	...	...	...	...	...
Machinery and metal industries	503	12.2	...	...	...	...	...	...
Light industry	49	1.2	...	...	...	...	...	...
Food processing	264	6.4	...	...	...	...	...	...
Other	97	2.3	...	...	...	...	...	...
Agriculture	213	5.2	...	...	...	...	...	...
Transport and communication	67	1.6	...	...	...	...	...	...
Construction	78	1.9	...	...	...	...	...	...
Retail trade and catering	432	10.5	...	...	...	...	...	...
Wholesale and supply	55	1.3	...	...	...	...	...	...
Procurement	26	0.6	...	...	...	...	...	...
Other material sphere 2/	913	22.1	...	...	...	...	...	...
Housing and communal services	12	0.3	...	...	...	...	...	...
Joint ventures and non-residents	35	0.9	...	...	...	...	...	...
Other	752	18.2	...	...	...	...	...	...
Long-term 3/	467	11.3	487	10.8	...	...	...	...

Sources: 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 24 because they exclude capitalized interest and penalties on principal in arrears.

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

3/ No economic breakdown available.

Table 31. Ukraine: Selected Budgetary Arrears, 1995-97 (June)
(In millions of hryvnia, end of period)

	1995			1996			1997		
	Dec.	Mar.	June	Sept	Dec.	Mar.	Apr.	May	June
Total arrears 1/	641	1,288	2,456	2,705	2,981	3,619	3,581	3,631	3,721
Wages	384	591	919	1,305	1,231	1,764	1,688	1,714	1,733
Social insurance 2/	155	275	364	387	399	383	379	332	341
Stipends	0	0	0	85	96	92	91	79	89
Pensions 3/ of which: budgetary and Chernobyl Fund pensions	102	421	1,173	928	1,255	1,380	1,423	1,505	1,559
	43	22	43	63	484	501	485	602	641

Source: Data provided by the Ministry of Finance; and IMF staff estimates.

1/ Consolidated budget wage arrears (including military), pension arrears, and consolidated budget social benefit arrears.

2/ Includes Chernobyl Fund arrears (pensions excluded) and other social benefits.

3/ Includes arrears of the Pension Fund, Chernobyl Fund, and budgetary pension arrears to the military and security services.

Table 32. Ukraine: General Government Operations, 1994-97 (first half) 1/

	1994	1995	1996	1st half 1996	1st half 1997
(in percent of GDP)					
A. State budget balance, including directed credits	-8.8	-4.8	-3.2	-4.2	-4.6
State budget balance	-6.3	-4.7	-3.2	-4.2	-4.6
Total budget revenue	41.9	37.8	37.2	36.1	36.2
Tax revenue	37.3	32.6	32.2	31.5	31.2
Taxes on income and profit	14.7	11.8	10.0	10.2	8.6
Taxes on sales of goods and services	12.9	9.8	9.2	9.0	10.4
Pension Fund revenues 2/	7.7	7.7	8.7	8.8	9.7
Other tax revenue	2.0	3.3	4.3	3.5	2.5
Nontax revenue	4.6	5.2	5.0	4.6	5.1
Total budget expenditure	48.1	42.5	40.4	40.3	40.8
Consumer subsidies	4.2	4.2	2.8	1.5	2.4
Producer subsidies	12.0	3.6	3.1	2.4	2.4
Socio-cultural	10.7	11.0	9.6	10.4	9.9
Defense	1.8	1.9	1.7	1.5	1.7
Chernobyl	1.9	1.7	1.9	2.1	1.8
Pension Fund outlays 2/	7.5	7.6	8.7	9.0	9.7
Other 3/	10.1	12.4	12.7	13.5	13.0
Directed credits	2.5	0.2	0.0	0.0	0.0
B. Balance of extrabudgetary funds	1.0	0.0	0.0	...	...
Total revenue	1.8	1.3	...	...	...
Total expenditure	0.8	1.3	...	...	...
C. General government balance (A+B)	-7.8	-4.8	-3.2	-4.2	-4.6
Total revenue	43.7	39.1	37.2	36.1	36.2
Total expenditure	51.5	43.9	40.4	40.3	40.8
D. Financing	7.7	4.9	3.2	3.9	5.1
External	0.7	-0.9	-0.1	-1.8	-0.6
Domestic	6.9	5.6	3.1	5.4	5.7
Bank	6.9	5.5	2.2	5.1	2.1
Nonbank	0.0	0.1	0.9	0.3	3.4
Privatization receipts	0.2	0.1	0.2	0.3	0.2
(in millions of hryvnias)					
Memorandum item:					
GDP	12,037	54,516	80,510	35,000	40,845

Source: Data provided by the Ministry of Finance; and IMF staff estimates.

1/ All data are on a cash basis. Figures before 1996 were converted in hryvnias by dividing figures in karbovanets by 100,000.

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 33. Ukraine. Fiscal Operations
of Consolidated State Budget, 1994-97 (first half) 1/
(In millions of hryvnia)

	1994	1995	1996	<u>1st half</u> 1996	<u>1st half</u> 1997
Total revenue	5,040	20,618	29,943	12,643	14,799
Tax revenue	4,485	17,794	25,930	11,036	12,729
Turnover tax/VAT	1,300	4,530	6,293	2,647	3,427
Excises	169	406	652	256	512
Enterprise tax	1,426	4,861	5,451	2,421	2,048
Personal income tax	340	1,595	2,639	1,154	1,465
Chernobyl Fund receipts	241	1,026	1,488	694	735
Pension Fund receipts 2/	922	4,189	6,988	3,069	3,955
Foreign trade receipts	87	429	444	260	302
Other tax revenue	0	758	1,975	535	285
Nontax revenue	555	2,824	4,013	1,607	2,070
Total expenditure	5,790	23,188	32,514	14,117	16,672
Current expenditure	5,360	21,805	31,456	13,727	16,454
Social safety net	704	3,500	4,066	2,195	2,163
Communal services, subsidies, ho	502	687	1,426	523	969
Other	202	2,813	2,640	1,672	1,194
National economy	1,449	1,890	3,453	828	967
Social and cultural spending	1,289	6,021	7,718	3,659	4,056
Education	622	2,932	3,961	1,846	2,110
Health care	555	2,536	3,126	1,510	1,639
Other	112	553	631	303	307
Interest payments	131	830	1,281	571	763
Administration and justice	296	1,417	2,267	924	1,383
Defense	212	1,033	1,377	520	679
Chernobyl Fund outlays	227	949	1,524	730	715
Pension Fund outlays	897	4,119	7,025	3,148	3,968
Other current expenditure 3/	155	2,046	2,745	1,152	1,760
Capital expenditure	430	1,383	1,058	390	218
State budget balance	-751	-2,570	-2,572	-1,474	-1,873
Directed credits	301	92	0	0	0
State budget balance including directed credits	-1,051	-2,662	-2,572	-1,474	-1,873
Financing	930	2,662	2,608	1,350	2,085
External	80	-478	-92	-643	-245
Domestic	850	3,140	2,700	1,993	2,330
Memorandum item: Privatization receipts	25	72	200	103	69

Sources: Data provided by the Ministry of Finance; and staff estimates.

1/ All data are on a cash basis. Figures before 1996 were converted in hryvnias by dividing figures in karbovanets by 100,000.

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 34. Ukraine. Budgetary Expenditure by Policy Item, 1994-97 (first half) 1/
(In percent of GDP)

	1994	1995	1996	1st half 1996	1st half 1997
Total expenditure (including directed credits)	50.6	42.7	40.4	40.3	40.8
Support to national economy	13.3	5.8	6.5	3.9	4.8
Coal price differential	2.6	0.5	0.2	0.0	1.6
State reserve	0.6	0.0	1.8	0.2	1.1
Agricultural support (state purchases)	0.6	1.4	0.4	0.7	0.0
State lending for agricultural procurement	4.7	0.3	...	...	...
Budget loans and credits	3.1	0.3	0.3	0.3	0.1
Of which: investment (mainly agriculture)	0.5	0.3	0.3	0.0	0.0
Military conversion	0.2	0.1	0.1	...	...
Other 2/	1.5	3.3	3.1	2.7	1.9
Social and cultural	10.7	11.0	9.6	10.4	9.9
Education	5.3	5.4	4.9	5.3	5.2
Health care	4.7	4.7	3.9	4.3	4.0
Cultural	0.6	0.9	0.6	0.7	0.6
Other	0.1	0.2	0.1	0.2	0.2
Social safety net	6.1	6.4	5.1	6.3	5.3
Consumer subsidies	4.2	4.2	1.5	1.5	2.4
Communal services	2.3	1.8	1.2	1.2	0.8
Natural gas	1.1	1.7	0.0	0.0	0.0
Transport	0.5	0.3	0.2	0.0	0.1
Solid fuels	0.3	0.5	0.2	0.1	0.1
Meat, milk and other food	0.1	--	--	--	--
Construction materials, housing	--	0.0	0.0	0.0	0.0
Social benefits	1.9	2.2	3.5	4.8	2.9
Pensions for armed forces, police	0.9	0.9	0.9	0.9	1.7
Additional support for WWII veterans	--	0.0	0.3	0.4	0.3
Credits for rural housing construction	0.2	0.0	0.0	0.0	0.0
Children's allowances	0.1	0.2	0.1	0.1	0.3
Children's bread allowance	0.1	--	--	--	--
Support for single mothers	0.1	0.1	0.1	0.1	0.1
Support for disabled	0.2	0.1	0.1	0.1	0.1
Transfer to Pension Fund 3/	0.3	--	--	--	--
Other	--	1.0	2.1	3.2	0.5
Pension Fund outlays 3/	7.5	7.6	8.7	9.0	9.7
External economic activities	0.3	0.2	0.2	0.2	0.1
Of which:					
Payment of guaranteed agricultural credits	--	--	--	--	--
Foreign debt service (excluding principal)	0.6	0.4	1.0	1.6	1.1
State internal debt service (to the NBU)	0.5	1.1	0.6	0.4	1.1

Sources: Ministry of Finance; and IMF staff estimates.

1/ Excludes amortization of foreign debt.

2/ "Other" expenditure on the national economy covers several small programs, including for irrigation and satellite launching, and the Energy Stabilization Fund.

3/ The pension fund was incorporated into the budget beginning in 1994.

4/ Includes environmental spending, unemployment insurance and discrepancy to financing.

Table 34 (Cont'd.). Ukraine: Budgetary Expenditure by Policy Item, 1994-97 (first half) 1/
(In percent of GDP)

	1994	1995	1996	<u>1st half</u> 1996	<u>1st half</u> 1997
Investment	3.8	1.4	1.3	1.1	0.5
Of which:					
Agriculture	0.7	...	...	...	...
Local governments	1.4	...	...	...	...
Chernobyl Fund	1.9	1.9	1.9	2.1	1.8
Defense	1.8	1.9	1.6	1.4	1.6
Military housing	...	0.2	0.1	0.1	0.0
Municipal housing and road repairs	1.0	1.3	0.6	0.6	0.5
Law enforcement	1.8	1.8	1.1	1.7	2.4
Legislative and executive branch	0.8	0.8	1.7	1.0	1.0
Other 4/	0.6	1.0	0.4	0.6	1.0
GDP (millions of hryvnia)	12,037	54,516	80,510	35,000	40,845

Sources: Ministry of Finance; and IMF staff estimates.

1/ Excludes amortization of foreign debt.

2/ "Other" expenditure on the national economy covers several small programs, including for irrigation and satellite launching, and the Energy Stabilization Fund.

3/ The pension fund was incorporated into the budget beginning in 1994.

4/ Includes environmental spending, unemployment insurance and discrepancy to financing.

Table 35. Ukraine. Financial Operations of Principal Social Funds, 1994-96 1/

	1994	1995	1996	1994	1995	1996
	(In millions of hryvnia)			(In percent of GDP)		
Employment Fund balance	31.7	20.8	-22.7	0.3	0.0	0.0
Revenues	65.3	169.0	89.0	0.5	0.3	0.1
Payroll contributions	56.1	162.5	9.6	0.5	0.3	0.0
Budget transfers	0.0	0.0	79.4	0.0	0.0	0.1
Other	9.3	6.5	0.0	0.1	0.0	0.0
Expenditures	33.6	148.2	111.7	0.3	0.3	0.1
Unemployment compensation	1.5	9.7	36.8	0.0	0.0	0.0
Job creation schemes	0.0	4.1	0.1	-	-	-
Training and retraining	1.3	10.9	14.8	0.0	0.0	0.0
Public works	0.1	0.6	0.3	0.0	0.0	0.0
Other	30.8	122.9	59.7	0.3	0.2	0.1
Pension Fund balance	106.4	97.1	363.2	0.9	0.2	0.5
Revenues	998.9	4,409.1	7,388.6	8.3	8.1	9.2
Payroll contributions	934.4	4,148.4	6,983.4	7.8	7.6	8.7
Budget transfers	55.8	133.6	150.0	0.5	0.2	0.2
Other	8.8	127.1	255.2	0.1	0.2	0.3
Expenditures	892.5	4,312.0	7,025.5	7.4	7.9	8.7
Retirement pensions	581.9	3,792.9	6,271.5	4.8	7.0	7.8
Military pensions	31.6	132.0	451.0	0.3	0.2	0.6
Child allowances	21.1	127.0	80.3	0.2	0.2	0.1
Other	257.9	260.1	222.7	2.1	0.5	0.3
Social Insurance Fund balance	12.9	33.6	...	0.1	0.1	...
Revenues	134.7	644.3	...	1.1	1.2	...
Payroll contributions	122.9	605.7	...	1.0	1.1	...
Budget transfers	0.1	0.0	...	0.0	0.0	...
Other	11.8	38.6	...	0.1	0.1	...
Expenditures	121.8	610.6	...	1.0	1.1	...
Sickness benefits	56.6	315.9	...	0.5	0.6	...
Maternity benefits	9.3	55.2	...	0.1	0.1	...
Child allowances	2.0	7.9	...	0.0	0.0	...
Recreation	47.0	212.2	...	0.4	0.4	...
Other	7.0	19.4	...	0.1	0.0	...

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

1/ Beginning in 1996, the Pension and Employment Funds were included in the budget.

Table 36. Ukraine. Social Benefits, 1994-97 (first half)

	1994	1995	1996	<u>1st half</u> 1996	<u>1st half</u> 1997
Total social protection	1,978	9,520	13,760	6,103	6,916
Pension Fund expenditures	892	4,312	7,025	3,148	3968
Social safety net	704	3,500	4,066	2,195	2163
Chernobyl Fund	227	949	1,524	730	715
Employment Fund expenditures	34	148	89	30	70
Social insurance expenditures	122	611	1,056	...	...
Total social protection	16.4	17.5	17.1	17.4	16.9
Pension Fund expenditures	7.4	7.9	8.7	9.0	9.7
Social safety net	5.8	6.4	5.1	6.3	5.3
Chernobyl Fund	1.9	1.7	1.9	2.1	1.8
Employment Fund expenditures	0.3	0.3	0.1	0.1	0.2
Social insurance expenditures	1.0	1.1	1.3	...	...

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

Table 37. Ukraine: Summary Balance of Payments, 1994-96
(In millions of dollars)

	1994	1995	1996
Current account balance	-1,396.4	-1,515.0	-1,184.0
Baltics and CIS	-1,754.0	-2,076.0	-1,576.0
Other countries	358.0	561.0	392.0
Merchandise trade balance	-2,361.0	-2,298.0	-4,296.0
Baltics and CIS	-2,662.0	-2,811.0	-4,072.0
Other countries	301.0	513.0	-224.0
Exports, f.o.b.	12,111.0	13,647.0	15,547.0
Baltics and CIS	7,463.0	7,927.0	8,841.0
Other countries	4,648.0	5,720.0	6,706.0
Imports, f.o.b.	-14,471.0	-15,945.0	19,843.0
Baltics and CIS	-10,124.0	-10,739.0	-12,913.0
Other countries	-4,347.0	-5,206.0	-6,930.0
Energy	-6,305.0	-6,707.0	-8,068.0
Other	-3,819.0	-4,031.0	-4,845.0
Nonfactor services	1,028.3	1,091.2	3,174.0
Receipts	2,601.8	2,789.0	4,799.0
Payments	-1,573.5	-1,697.8	-1,625.0
Investment income	-263.9	-508.3	-571.0
Of which: interest payments	-271.0	-535.3	-505.1
Official transfers (net)	200.0	200.0	509.0
Capital account balance	58.8	-2,042.3	282.0
Medium- and long-term loans	-1,064.7	-347.3	-482.0
Disbursements	450.9	649.0	234.0
Repayments	-1,515.7	-996.3	-716.4
Direct investment	91.0	266.0	526.0
Short-term capital	1,032.5	-1,961.0	238.0
Errors and omissions	0.0	0.0	265.0
Overall balance	-1,336.6	-3,557.3	-637.0
Financing	1,336.7	3,557.3	638.0
Gross official reserves (-: increase)	-513.0	-488.0	-860.0
Net use of IMF resources	372.8	1,217.0	778.1
Exceptional financing	1,476.9	2,828.3	720.0
Memorandum items:			
Current account (in percent of GDP)	-5.4	-4.4	-2.7
Total external liabilities (in millions of US\$)	7,167.3	8,142.0	9,169.7
External liabilities (in percent of GDP)	27.7	23.6	21.2
Debt service ratio (in percent of exports)	12.1	9.3	6.0
Gross international reserves (weeks of imports)	2.3	3.7	5.2

Sources: Ukrainian authorities; and Fund staff estimates.

Table 38. Ukraine: Values and Volumes of Energy Imports, 1994-96
(Value in millions of dollars; other units as indicated)

	1994	1995	1996
Crude oil	1,422	1,330	975
Volume (million tons)	15.5	13.2	9.2
Unit price (US\$/ton)	92.0	101.1	106.0
Oil products	1,365	1,833	1,396
Gas	3,518	3,544	5,696
Volume (billion m ³)	69.2	66.3	71.2
Unit price (US\$/000 m ³)	50.8	53.5	80.0

Sources: Information provided by Ukrainian authorities; and Fund staff estimates.

Table 39. Ukraine: Directions of Export Trade, 1994-96
(In millions of dollars)

	1994	1995	1996				1996 percentage share	
			Q1	Q2	Q3	Q4		
Total	11,494	13,003	14,307	3,234	3,898	3,595	3,580	100.0
Rest of World	4,866	5,901	6,566	1,434	1,788	1,502	1,842	45.9
Of which:								
China	850	299	759	183	208	145	224	5.3
Turkey	283	443	401	106	96	92	107	2.8
Germany	228	326	405	107	94	88	116	2.8
USA	192	264	356	92	96	106	62	2.5
Poland	182	257	332	74	100	72	86	2.3
Hungary	154	249	317	77	69	68	103	2.2
Italy	256	414	338	60	70	66	143	2.3
Slovakia	139	173	215	49	58	51	56	1.5
Russia, Baltics, and other countries of the former Soviet Union	6,628	7,102	7,741	1,800	2,110	2,093	1,738	54.1
Of which:								
Russia	4,328	5,470	5,448	1,336	1,616	1,511	985	38.1
Belarus	561	530	711	134	156	171	250	5.0
Moldova	178	147	233	58	49	115	10	1.6
Uzbekistan	89	108	173	34	40	58	41	1.2
Turkmenistan	214	256	263	28	38	52	145	1.8
Lithuania	150	122	126	30	30	32	35	0.9
Kazakhstan	...	...	89	21	25	24	20	0.6
Azerbaijan	113	39	86	19	23	21	23	0.6
Latvia	78	62	77	17	22	23	16	0.5

Source: National Bank of Ukraine; data differ from those shown on Table 37 because of different sources.

Table 40. Ukraine: Directions of Import Trade, 1994-96
(In millions of U.S. dollars)

	1994	1995	1996	1996				1996 percentage share
				Q1	Q2	Q3	Q4	
Total	13,673	15,306	18,203	4,640	4,609	4,214	4,740	100.0
Rest of World	3,452	4,894	5,930	1,259	1,575	1,481	1,615	32.6
Of which:								
Germany	670	910	1,004	224	243	292	245	5.5
Poland	176	458	495	115	143	119	118	2.7
USA	215	397	541	79	132	132	199	3.0
Italy	176	258	325	87	80	79	79	1.8
France	106	177	233	53	74	51	55	1.3
Slovakia	119	145	178	41	48	43	47	1.0
Russia, Baltics, and other countries of the former Soviet Union	10,221	10,413	12,273	3,381	3,034	2,733	3,125	67.4
Of which:								
Russia	7,478	7,544	8,548	2,494	2,046	1,876	2,250	47.0
Turkmenistan	856	985	1,604	465	472	370	298	8.8
Belarus	504	509	375	72	104	111	88	2.1
Kazakhstan	214	419	158	25	29	66	38	0.9
Lithuania	128	124	151	29	34	55	34	0.8
Azerbaijan	73	51	30	6	10	8	6	0.2
Uzbekistan	76	70	61	17	13	15	16	0.3
Latvia	59	78	90	20	25	25	20	0.5
Moldova	60	60	71	15	20	18	18	0.4

Source: National Bank of Ukraine; data differ from those shown on Table 37 because of different sources.

Table 41. Ukraine: Commodity Structure of Exports, 1996-97 (Q1)

	1996				1997					
	Q1		Q2		Q3		Q4		Q1	
	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)
Total	3,234	100.0	3,898	100.0	3,595	100.0	3,580	100.0	3,129	100.0
Fuel and energy products	328.1	10.1	330.0	8.5	257.1	7.2	308.5	8.6	296.1	9.5
Machinery	460.6	14.2	549.5	14.1	561.8	15.6	488.6	13.6	399.9	12.8
Wood and wood products	38.0	1.2	39.7	1.0	49.3	1.4	63.7	1.8	40.1	1.3
Industrial products	138.9	4.3	156.2	4.0	171.3	4.8	147.3	4.1	136.9	4.4
Chemicals	523.6	16.2	561.1	14.4	510.6	14.2	602.6	16.8	472.6	15.1
Food items and raw materials	740.9	22.9	862.4	22.1	711.1	19.8	732.0	20.4	556.8	17.8
Ferrous and nonferrous metals	930.0	28.8	1,316.9	33.8	1,269.4	35.3	1,144.0	32.0	1,139.5	36.4
Other	74.0	2.3	82.3	2.1	64.5	1.8	93.7	2.6	87.2	2.8

Source: National Bank of Ukraine.

Table 42. Ukraine: Commodity Structure of Imports, 1996-97 (Q1)

	1996				1997					
	Q1		Q2		Q3		Q4		Q1	
	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	(In percent of total)	(In millions of U.S. dollars)	
Total	4,640	100	4,609	100	4,214	100	4,740	100	4,491	100
Fuel and energy products	2,712	58.5	2,315	50.2	2,054	48.7	2,334	49.2	2,589	57.7
Machinery	663	14.3	737	16.0	776	18.4	814	17.2	722	16.1
Wood and wood products	122	2.6	139	3.0	132	3.1	136	2.9	96	2.1
Industrial products	178	3.8	200	4.3	168	4.0	188	4.0	143	3.2
Chemicals	418	9.0	515	11.2	446	10.6	575	12.1	410	9.1
Food items and raw materials	290	6.3	425	9.2	372	8.8	360	7.6	245	5.5
Ferrous and nonferrous metals	163	3.5	197	4.3	190	4.5	210	4.4	132	2.9
Other	94	2.0	81	1.8	76	1.8	123	2.6	154	3.4

Source: National Bank of Ukraine.

Table 43. Ukraine: Official External Debt, 1994-96 1/
(In millions of U.S. dollars; at end of period)

	1994	1995	1996
Total official debt (including guaranteed)	4,445	8,142	9,170
Former Soviet Union	2,805	4,913	4,400
Russia	2,083	4,185	3,690
Turkmenistan	710	710	710
Other	12	18	-
Rest of world	1,640	3,229	4,770
Germany	691	753	704
United States	197	157	302
European Union	101	110	235
IMF, World Bank, EBRD	473	2,096	3,303
Other	178	113	226

Sources: Ukrainian authorities; and Fund staff estimates.

1/ At end of period exchange rates. All official debt is medium- or long-term.

Tax Summary

Since 1994, Ukraine's tax system has undergone a number of important changes. This appendix summarizes the major taxes as of December 31, 1996

Tax	Nature of Tax Base	Deductions/Exemptions	Rates
<p>1. Taxes on income and profits</p>			
<p>1.1 Individual income tax (Decree of Cabinet of Ministers of Ukraine "On the Individual Income Tax" of Dec. 26, 1992 No. 13-92. Presidential Edict of Sept. 13, 1994 No. 519 and of Feb. 3, 1995 No. 100).</p>	<p>Rate is based on multiples of the nontaxable minimum (nm), which is linked to the minimum wage. Taxes are levied on wages and salaries from the primary place of employment, income from part-time and contractual work, entrepreneurial activities, royalties, and income in kind (except from agricultural enterprises).</p>	<p>Exempt income: Social security benefits, social insurance, (excluding assistance of temporary inability to work) pensions, income of certain veterans and their families, alimony, income from sale of property, income from personal farms, gifts and inheritances, and income used to purchase stock, interest on investments, insurance payments to military personnel, payments to interior police, judges, and prosecutors, amounts transferred to charitable funds, institutions of education, culture, public health, and other budgetary institutions; amounts received from all forms of donor activity; the cost of travel for medical treatment, except travel overseas.</p> <p>Personal deductions: One minimum monthly salary for one parent for each child under 16 years old (for parents with incomes below a certain threshold); up to 10 minimum monthly salaries for Categories 1 and 2, Chernobyl victims and disabled war veterans; up to five minimum monthly salaries for survivors of military personnel (including parents, spouses, and children) killed or lost in the line of duty, war veterans, military personnel, parents raising disabled children, and the politically rehabilitated, persons disabled from childhood, group 1 and 2</p>	<p>Monthly income</p> <p>Up to nontaxable minimum (nm) Exempt</p> <p>From 1 nm to 5 nm 10 percent</p> <p>From 5 nm to 10 nm hrv 8.5+15 percent</p> <p>From 10 nm to 60 nm hrv 21.25+20 percent</p> <p>From 60 nm to 100 nm hrv 191.25+30 percent</p> <p>More than 100 nm hrv 395.25+40 percent</p> <p>Royalties received by heirs are taxed at twice the above rates, not to exceed 70 percent; income in foreign currency is taxed at half the above rates.</p> <p>Wages and salaries of miners are taxed at a flat rate of 10 percent.</p> <p>Dividend income is withheld at source at a final rate of 15 percent.</p> <p>Income derived from other than the chief place of work is withheld from the source of a rate of 20 percent.</p>

Tax	Nature of Tax Base	Deductions/Exemptions	Rates
<p>1.2 Tax on the profits of enterprises (Laws of Dec. 28, 1994 No. 334, of Nov. 20, 1995 No. 337, and of April 24, 1996 No. 143)</p>	<p>A tax on the profits of all legal entities located in Ukraine, plus all branches and divisions of companies located in Ukraine with headquarters outside Ukrainian territory, excluding Central Bank and penitentiary establishments.</p> <p>Also subject to tax are international organizations that are not subject to immunity and diplomatic privileges carrying out business in Ukraine, nonresidents who carry out business activities through its permanent missions in Ukraine, and nonresidents who carry out the repatriation of profit received from sources located on the territory of Ukraine.</p>	<p>disabled persons, and category 3 and 4 victims of Chernobyl disaster. Local governments may grant further deductions.</p> <p>Business deductions: Certain expenses (materials, depreciation, wages, and interest, for example) for those engaged in entrepreneurial activity.</p> <p>Exempt:</p> <p>1. Transactions exempt: Money and materials paid as a contribution to statute funds such as the wages and social payments funds of enterprises; additional pension fund contributions; valuation differences, (including due to exchange rate movements) included into own enterprise's currency values; joint investments; material values or intangible assets that have been invested on foreign contribution and refunded to foreign investors in the event of elimination of investment activity; material values and intangible assets delivered as nonrepayable financial assistance or voluntary donations; religious organizations.</p> <p>Exempt for enterprises: Construction of sites for cultural and health-care facilities in rural areas, fisheries and fishing collective farms; factories that process and utilize raw animal products and production of fodder protein additions and interest by nonresidents for credit provided to the Government of Ukraine and NBU.</p> <p>Collective farms and certain other agricultural enterprises pay income tax only on nonagricultural output.</p>	<p>Profit of enterprises-30 percent</p> <p>Profit from intermediary transactions, auction sales of material assets (except financial resources)-45 percent.</p> <p>Profit of conducting lotteries, gambling houses and gambling activity-60 percent.</p> <p>Profit of agricultural enterprises for providing services of agricultural production-15 percent.</p> <p>Passive profit of nonresidents, from technical services-15 percent.</p> <p>Profit from amounts paid to enterprises of Ukraine by nonresidents regarding international transactions-6 percent.</p>

Tax	Nature of Tax Base	Deductions/Exemptions	Rates
		<p>Reduction of Profit Tax: For enterprise expenditure for the purpose of reconstruction and modernization of the active capital assets for depreciation and development—up to 20 percent.</p> <p>For expenditure for purchasing of special equipment that provides working conditions for group 1 and 2 disabled persons—up to 50 percent.</p> <p>Enterprises and social organizations for the disabled, in case more than 50 percent of the staff are disabled and money is utilized for purposes of job positions and medical rehabilitation of disabled—up to 100 percent.</p> <p>Enterprises with foreign investments registered before January 1, 1995, have a five-year exemption from taxes.</p>	
<p>2. Social security contributions: Pension Fund and Social Insurance Fund (Law of Nov. 5, 1991; Supreme Rada Decree of June 17, 1993; Cabinet of Ministers Decree No. 263 of April 27, 1994; Law No. 126 of April 6, 1995).</p>	<p>Social insurance contributions are split, with 88 percent of the amount collected allocated to the Pension Fund, and 12 percent to the Social Insurance Fund (controlled by trade unions).</p>	<p>Exempt: Military persons.</p>	<p>Wages of enterprises—37 percent (employees pay an additional 1 percent). Wages of civic organizations—5 percent income of persons who handle their own business which is based on their own work—33.6 percent. Payments of enterprises to persons on special agreements—33.3 percent.</p>

Tax	Nature of Tax Base	Deductions/Exemptions	Rates
<p>3. Payroll taxes</p> <p>3.1 Contributions to the Chernobyl Fund (Resolution of the Supreme Council of Ukraine of Dec. 20, 1995 No. 2006).</p> <p>3.2 Contributions to the Employment Fund (Law of March 1, 1991 No. 803, of April 6, 1995 No. 125).</p>	<p>Tax paid on the wage fund of enterprises.</p>	<p>Exemptions: Budgetary institutions and organizations; institutions and organizations supported by voluntary contributions and membership dues, creative unions of Ukraine, enterprises of the coal industry and those engaged in the extraction of iron and manganese ores through underground mining, social and cultural establishments maintained at the account of professional associations, and deductions from the profit of enterprises.</p>	<p>12 percent.</p> <p>2 percent</p>
<p>4. Taxes on Property</p> <p>4. Tax on land (Law of September 19, 1996)</p>	<p>Payments for land are determined in percentages depending on the monetary valuation of the land</p>	<p>Exemptions: nature preserves, national parks, botanical gardens, domestic scientific research institutions with an agricultural focus, organs of the state authority and of local government, budgetary institutions, sanatoria, associations of the blind and deaf, social organizations of the disabled, institutions of culture, science, public health, sport, and social security, religious and charitable organizations, lands polluted by radiation and chemicals, agricultural variety testing stations, lands of the roads department for automobile roads of general use, cemeteries, group 1 and 2 disabled persons, pensioners, war veterans, victims of the Chernobyl disaster citizens having three or more children, farm lands used for raising young orchards, berry plantations, and vineyards, until such time as they bear fruit.</p>	<p>Payments for lands of agricultural designation (as a percentage of their monetary valuation): —for arable land, hay-fields, and pasture, 0.1; —for perennial plantings, 0.03.</p> <p>Payment for lands in population centers: 1 percent of their monetary valuation; if no monetary valuation is established, then the average tax rate varies from 1.5–21 kopeks per square meter.</p> <p>Payment for lands of industrial, transportation, communications, defense, and other designations: 5 percent of the monetary valuation.</p>
<p>5. Taxes on goods and services</p>			

Tax	Nature of Tax Base	Deductions/Exemptions	Rates
<p>5.1 Value added tax (Decree of the Cabinet of Ministers of Ukraine of Dec. 26, 1992 No. 14, of April 30, 1993 No. 43, Law of Jan. 6, 1993, and Presidential Edicts of Sept. 7, 1994 No. 502, and Nov. 13, 1994 No. 685. Resolution of the Supreme Council of Ukraine of Dec. 6, 1994 No. 273).</p>	<p>Applies to turnover from the sale of goods (work, services), including barter operations, except sale for foreign currency, carried out by any legal persons and persons engaged in individual entrepreneurial activity, if the annual volume of sale of goods (work, services) exceeds 100 minimum wage amounts. The VAT on production funds is debited in the full amount immediately after the indicated funds are brought into service; the surplus tax amount is carried over to the following reporting period. For calculating obligations regarding compensation of the VAT, producers use the account/invoice method; in the retail trade sector the basis used for taxation is the margin (any mark-up to the price in order to make a profit upon resale).</p>	<p>Zero-rated: Exports for freely convertible currencies (exports for currencies of other CIS countries and barter transactions are taxable); goods and services used by diplomats; construction and restoration of cultural structures funded by voluntary contributions; repairs made necessary by the Chernobyl accident.</p> <p>Exempted: The sale of precious metals and stones to the National Bank of Ukraine; goods for the disabled; public utilities (including electricity and coal); children's magazines, newspapers, and school notebooks and textbooks; construction of sites belonging to the social sphere and housing, as well as production facilities of agricultural enterprises; children's food products and food sold by milk kitchens; services of the education system; services of laundries in hospitals and educational institutions; operations concerning the circulation of currency, money, and banknotes; the manufacture of stamps; theatrical/visual entertainment and cultural and educational measures and sporting services; scientific research, research and development, research and design, and design and survey projects carried out at the account of the budget; services of preschool establishments, trips to institutions for treatment and restoration of health; municipal public transport customs duty and other fees paid into the budget by institutions of the state and citizens; enterprises and physical persons engaged in entrepreneurial activity, if the volume of sale of goods (work, services) does not exceed 100 minimum wages; agricultural production given out as part of wages to the rural population; property of state enterprises which is privatized; Ukrainian enterprises of the blind and deaf; pharmaceutical services involving trade in the branch of medical servicing; enterprises of the forest industry for the protection of forests; ceremonial services, the training and retraining of employees, work in planning and providing public amenities, and services in the delivery of pensions.</p>	<p>20 percent on value added.</p>

Tax	Nature of Tax Base	Deductions/Exemptions	Rates
<p>5.2 Excise fee. (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).</p>	<p>Duties on 26 highly profitable and monopoly goods, including standard excisable goods such as alcoholic beverages, tobacco products, and jewelry, but also on chocolate, TVs, porcelain and crystal, cars and tires, carpets, leather products, fur, and for meat and fish.</p>	<p>Excises are not levied on exports paid for in freely convertible currencies; special-purpose vehicles (police cars and ambulances); some medical inputs; for agribusinesses, the production of excisable goods that are exchanged for fuel, lubricants, or other sector inputs. Excises are not levied on spirits if they are used by domestic producers, and on medicine, food, if it exports in accordance with Ukrainian international agreements, excises are not levied on domestically produced passenger cars and freight/passenger cars and freight/passenger vehicles.</p>	<p>Rates may differ for imported and for domestic goods. Excise fee rates are set in percentages and in fixed amounts (in ECUs). Rates range from 10 percent to 50 percent.</p>
<p>6. 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).</p>	<p><u>Imports:</u> Duties levied on all imports, valued at the official exchange rate. The weighted average custom duty is 8 percent.</p>	<p>Chernobyl-related imports and imported inputs for foreign direct investment are exempted from customs duties.</p>	<p>Tax rates range from 0 to 50 percent. Certain MFN exemptions with rates of up to 60 percent exist, including: spirits, chocolate, sausage, meat, vegetable oil, and cars. On certain goods (subject to excise) the customs duty rates are established in set amounts (in ECU). Preferential rates (usually zero) are established for the import of goods from developing countries. Privileged rates (2-5 percent) are applied to goods imported from countries which enjoy most-favored-nation status in Ukraine.</p>