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IMF Deal Grows Closer, But Gas Rates Are a Sticking Point

CONTENTS

All Eyes on the Price of Natural Gas

Improved Governance at State Banks, and Stronger Creditor Rights

The Hryvnia Starts to Weaken After Months of Stability, Sliding 2.4%

Industrial Output Growth Slows to +2.2% y/y in June, vs. 2.5% in May

Retail Trade Grows Steadily, Rising 5.8% y/y in June vs. 4.9% in May

CPI Remains Flat As Food Prices Deflate and the Hryvnia is Stable

Monetary Tightening on Agenda As Risks With IMF and Hryvnia Loom

Fiscal Accounts: Payroll Contributions Disappoint, Risking Extra Deficit

External Accounts: CAD Widens as Services Balance Worsens

Calendar of Events

The depreciation of the hryvnia and continued backing and forthing over the next rise in consumer gas rates have been the two main topics this mid-summer. Economic data remains predominantly positive, with payroll tax collections the only exception: these have noticeably underperformed, and the Pension Fund will need additional subsidies from the state budget in 2018.

In July, the Rada finally approved amendments to the Law on the High Anti-Corruption Court (HACC), and the IMF responded positively to this move. Gas rates are now the key bottleneck in the IMF talks. But Premier Volodymyr Groysman remains uncertain about how to take such a step, without incurring serious consequences for his political future. A few options are under discussion, but the IMF is insisting on a most dramatic 50-60% hike -- and so far, no sign of compromise can be seen.

Groysman is under pressure, and the recent start of a slide in the hryvnia, which was down 2.4% for the last two weeks of July, has only increased this. The NBU explained the hryvnia drop as related to non-residents dumping Ukrainian government bonds, and the withdrawal of dividends. Media widely link this development to the unresolved IMF deal. Against this backdrop, the PM will probably be forced to approve a gas rate hike, one way or another.

The issue of a Pension Fund deficit in 2018 also remains. General budget revenues are in good shape, but the Pension Fund has an overly optimistic payroll contribution target. The current trend suggests an extra deficit at the Pension Fund of nearly UAH 10 billion, or 0.3% of GDP, which will require extra subsidies from state coffers. We expect the IMF to raise this issue in the fourth EFF program review. **>>>**