

Doing business in Ukraine becomes easier

According to the new report of the International Finance Corporation (IFC) and the World Bank, Ukraine was 137 among 185 countries in ease of Doing Business rank. Businesses confidence drops on weaker economy.

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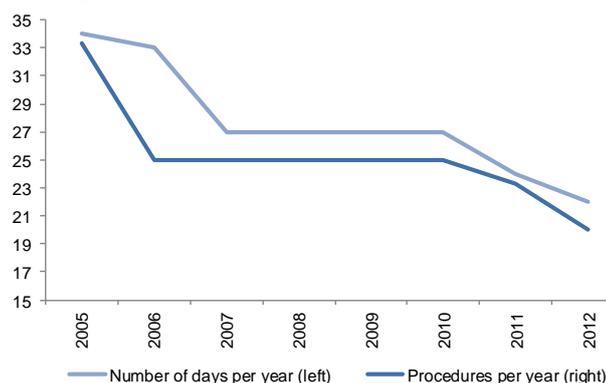
The greatest progress was made by Ukraine on Starting a Business criteria (up 66 positions in the ranking)

Ukraine improved its Ease of Doing Business rank

The ranking was calculated according 10 different topics of regulation. The most notable progress by Ukraine was made in Starting a Business topic ranking, with an advance of 66 positions in the ranking. The minimum capital requirement as well as the mandatory notary certification requirement were abolished. A notable progress has been made in the ease of paying taxes. Here, Ukraine advanced from 181st to 165th position. An electronic system for submitting reports and paying taxes was implemented. Also, some progress has been made on improving real estate registration procedures. Overall, this year's advance in the ranking can qualify as a significant positive change for Ukraine. For comparison: Ukraine had lost 7 points in 2011, when it moved down from 145th to 152nd position.

The number of regulations for starting a new business decreased

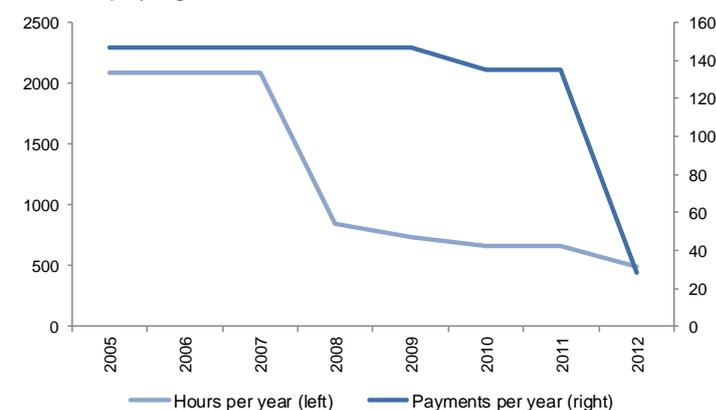
Starting a business in Ukraine



Source: World Bank, IFC

The number of tax payments has dropped sharply

Ease of paying taxes in Ukraine



Source: World Bank, IFC

At the same time, Ukraine still belongs to 20% of countries that have the lowest rankings in the 5 out of 10 areas of regulation. Specifically, Ukraine holds 183rd position out of 185 countries on dealing with construction permits. Ease of getting credit in Ukraine did not improve, while protection of investors ranking even worsened. In 2013, changes in tax legislature will continue, which should allow Ukraine to significantly improve its ease of doing business ranking. Starting January 1, 2013, more than 50 new provisions of the Tax Code will come into effect. A zero percent corporate income tax will be implemented for the companies who undertake reconstruction or modernization of production for the amount from EUR 0.5mn to EUR 3mn.

In 2013, the liberalization of tax payment system in Ukraine will continue

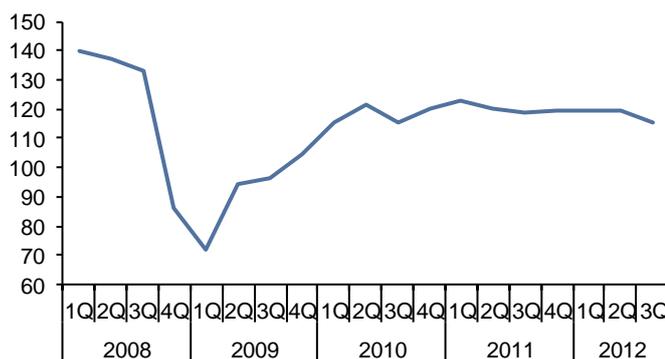
In 2013 the liberalization of tax payment system in Ukraine will continue. Specifically, Head of the State Agency of Regulatory Policy and Entrepreneurship Mykhaylo Brodsky announced the government's decision to reduce the number of taxes from 23 to 9. Earlier, Deputy Prime Minister Sergei Tigipko said the planned reduction of the tax forms will be from 115 to 22. If government policy decisions will be implemented as planned, Ukraine might climb up another several dozen points in the next ease of Doing Business rankings. The World Bank ranking is very important for foreign investors, and it is also monitored by credit rating agencies.

In 3Q2012 the expectations of financial improvement among companies are the lowest since 2009

National Bank of Ukraine held a regular quarterly survey of businesses in which respondents gave their assessment of the business environment in Ukraine. The percentage of respondents expecting an improvement of the financial and economic performance is currently the lowest since 3Q2009.

Business confidence index dropped to 2010 level

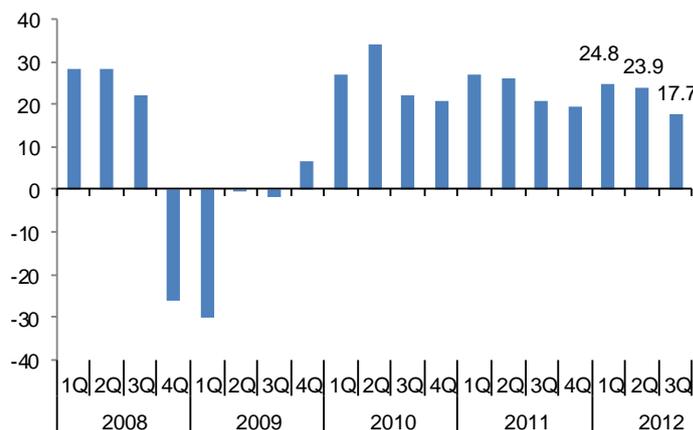
Business confidence



Source: National Bank of Ukraine

Optimistic outlook among companies is lowest since 2009

Index of improvement expectations among companies



Source: National Bank of Ukraine

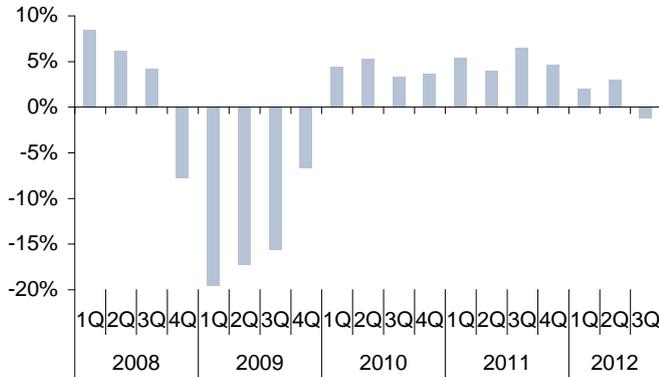
Business pessimism is accumulating on the back of high interest rates, low and stagnating production levels

Business expectations index fell to 115.1 points. During the past 4 quarters this figure remained almost unchanged at around 119. The decline indicates growing pessimism among Ukrainian businesses. The survey also recorded the lowest inflation expectations for the last 6 years. The lowest inflation expectations were recorded among agriculture companies. Exporting companies also have a very pessimistic outlook on possible price increases. At the same time, more than half of respondents (55%) believe that production levels in Ukraine will remain unchanged.

The survey results underline growing negative trends in economy. In 3Q2012 real GDP fell by 1.3% y/y. High interest rates on loans on the back of low inflation do not allow many businesses to invest. Business pessimism will grow in the coming months on the back of further decline in real GDP.

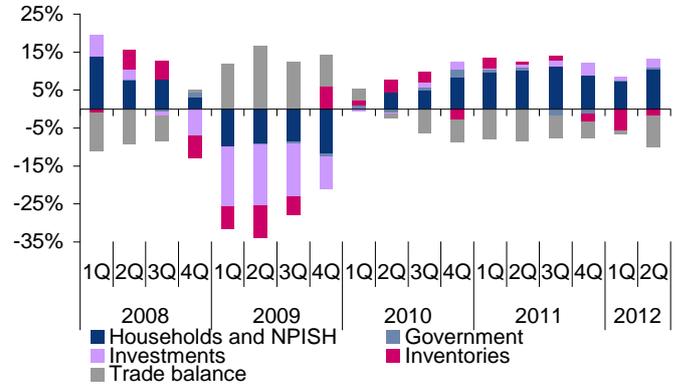
GDP

Real GDP, y/y



Source: Ukrstat

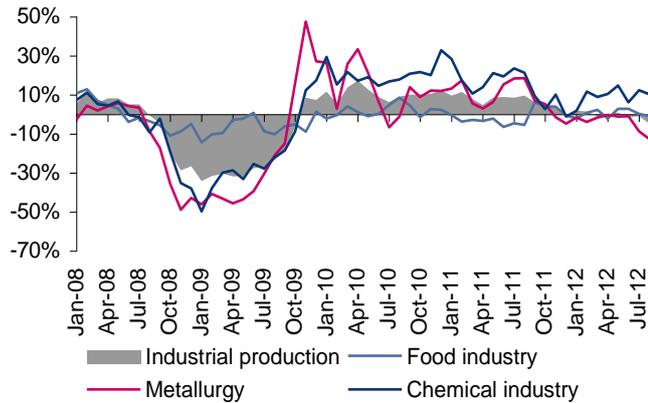
Contributions to real GDP growth



Source: Ukrstat

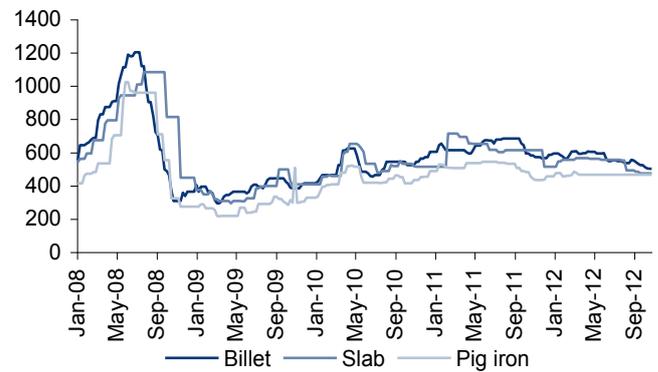
Industrial production and commodity prices

Industrial production, y/y



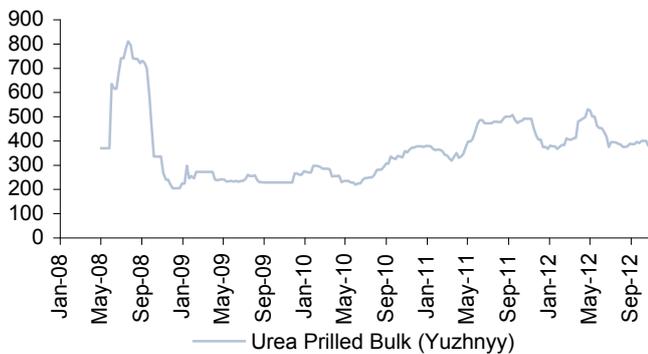
Source: Ukrstat

Steel prices



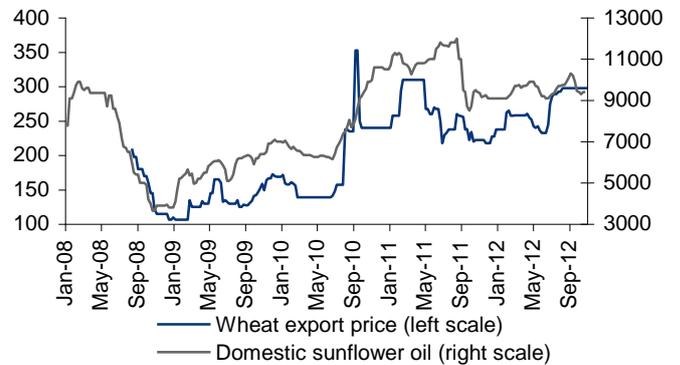
Source: Bloomberg

Fertilizer prices



Source: Bloomberg

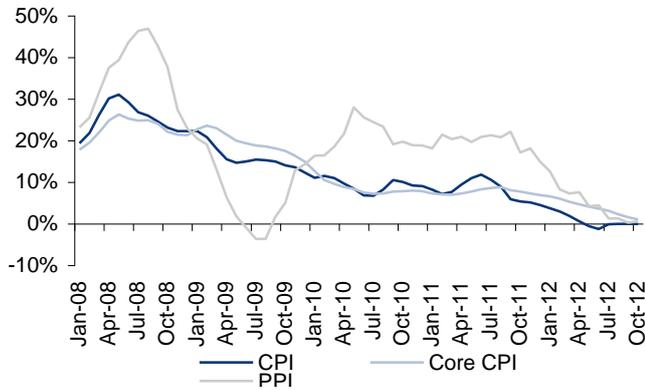
Wheat and sunflower oil prices



Source: Bloomberg

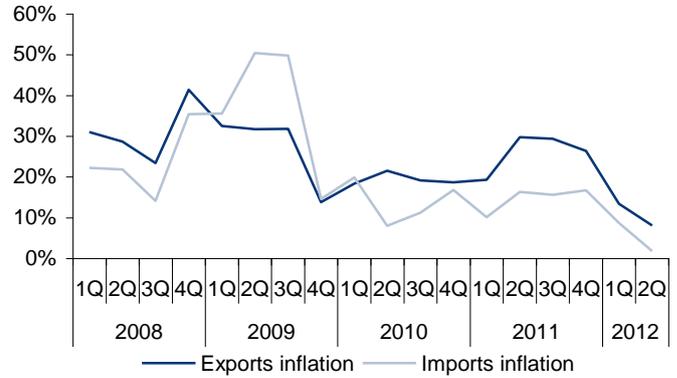
Inflation

CPI, core CPI, PPI



Source: Ukrstat

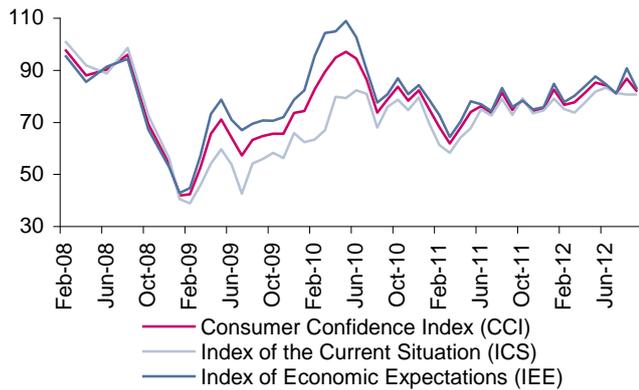
Exports and imports inflation



Source: Ukrstat

Consumer confidence

Consumer confidence indexes



Source: GfK Ukraine

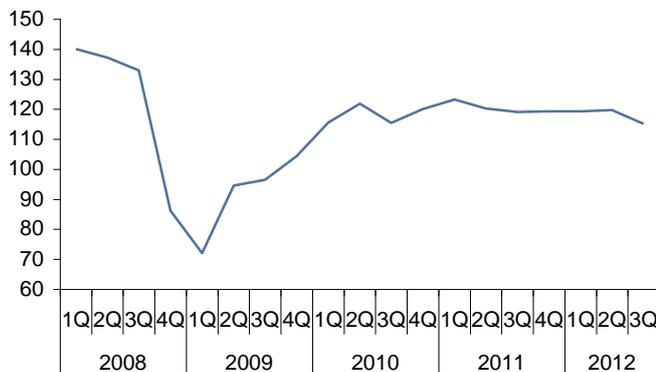
Consumer expectations



Source: GfK Ukraine

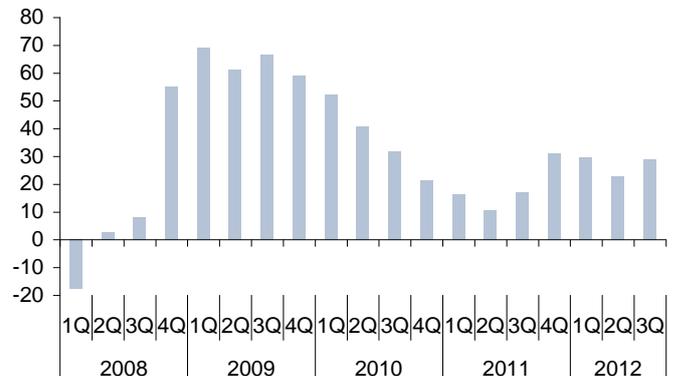
Business confidence

Business confidence



Source: NBU

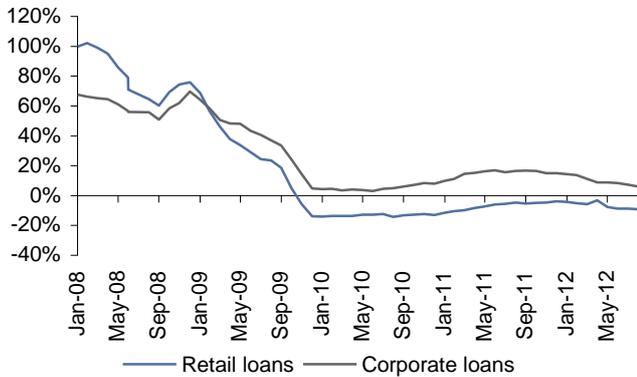
Corporates, toughness of credit conditions (+ is too tough)



Source: NBU

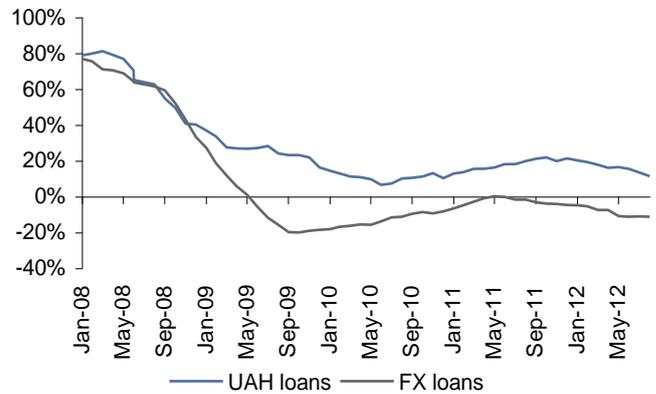
Loans

Retail and corporate loans, y/y



Source: NBU

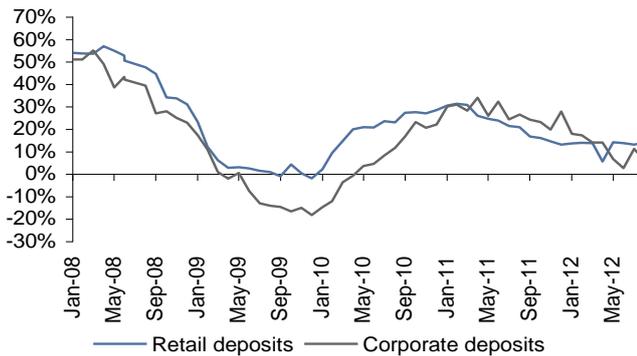
FX and UAH loans, y/y



Source: NBU

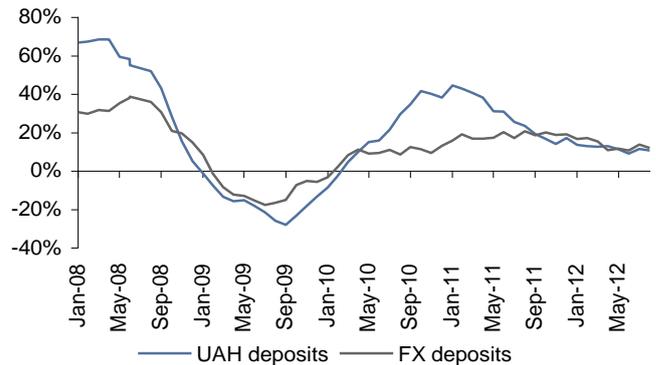
Deposits

Retail and corporate deposits, y/y



Source: NBU

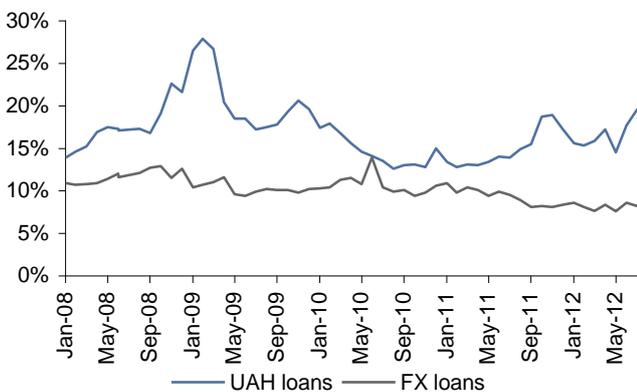
FX and UAH deposits, y/y



Source: NBU

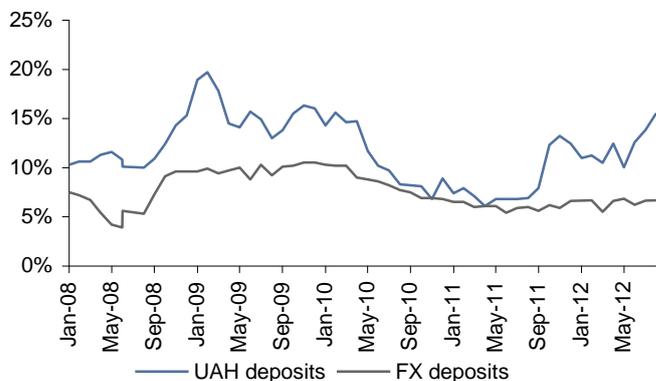
Interest rates

Loan interest rates



Source: NBU

Deposit interest rates



Source: NBU

Macro forecasts

	2008	2009	2010	2011	2012F	2013F
Nominal GDP (UAH bn)	948	915	1 095	1 314	1 334	1 560
Population (mn)	46.1	46.0	45.8	45.6	45.3	45.1
GDP per capita (UAH)	1 928	1 704	2 243	2 777	2 831	2 740
Real GDP (y/y %)	2.3	-14.8	4.2	5.2	0.0	3.0
Private Consumption (y/y %)	12.0	-14.9	7.0	14.0	9.0	-2.0
Fixed Capital Formation (y/y %)	2.0	-50.5	4.9	9.0	8.0	-20.0
Nominal Wages (UAH)	1 806	1 906	2 239	2 633	2 804	3 141
Nominal Wages (y/y %)	33.7	4.0	17.5	17.6	6.5	12.0
Retail sales (y/y %)	18.6	-16.6	7.6	14.7	2.0	-2.0
Industrial production (y/y %)	-3.1	-21.9	11.0	7.6	-3.0	4.0
CPI (y/y, average %)	25.2	16.2	9.4	8.0	0.8	12.0
CPI (y/y, year-end %)	22.3	13.0	9.2	4.6	1.5	14.0
Unemployment (%)	6.4	8.8	8.1	8.0	7.9	8.0
Exports fob (UAH, bn)	449	438	551	708	675	797
Imports cif (UAH, bn)	525	454	582	782	807	795
Trade balance (% of GDP)	-7.9	-1.7	-2.9	-5.6	-9.6	0.1
Foreign direct investment (% of GDP)	6.1	3.8	4.3	4.2	4.0	5.0
Current account balance (% of GDP)	-6.7	-1.7	-1.9	-5.6	-8.6	1.1
Govt. budget balance (% of GDP)	-1.2	-6.3	-5.9	-2.6	-2.5	-2.0
Public debt (% of GDP)	20.0	34.6	34.8	36.0	30.2	36.7
Foreign debt (% of GDP)	55.4	90.9	80.0	76.7	72.7	81.6
Central bank intervention rate, average	12.00	11.10	8.90	7.75	7.65	7.50
Central bank intervention rate, year-end	12.00	10.25	7.75	7.75	7.50	7.50
Short term interest rate 1M, average	14.80	17.97	7.72	10.20	13.90	12.25
Short term interest rate 1M, year-end	23.60	18.10	6.50	25.00	28.00	12.00
Long term interest rate 2Y, average	12.90	25.40	15.40	11.90	16.60	14.75
Long term interest rate 2Y, year-end	25.00	26.00	12.00	19.00	25.00	14.50
USD/UAH average	5.25	8.07	7.95	7.98	8.10	10.00
USD/UAH year-end	7.80	7.98	7.98	8.00	8.20	10.00
EUR/UAH average	7.67	11.34	10.51	11.11	10.13	12.50
EUR/UAH year-end	10.67	11.67	10.66	10.37	10.25	12.50
Outstanding Loans (UAH bn)	734	718	724	792	851	1 063
Outstanding Deposits (UAH bn)	358	328	414	497	535	710
Disposable income of households (UAH bn)	638	674	813	1 251	1 373	1 579
Savings rate (% of disposable income)	10.6	12.2	16.7	10.1	12.0	14.0

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Published by Erste Group Bank AG, Börsegasse 14/DG1, 1010 Vienna, Austria.
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