
Description: This report provides an overview of Ukraine's financial sector through February 2014, including a discussion of recent political unrest, the National Bank of Ukraine's monetary policy, and developments in the banking segment and local PFTS stock exchange.

Ukraine's PM Mykola Azarov and his government resigned on January 28 in a bid to ease the political crisis in the country. Since then the political unrest has increased significantly due to the escalation of social and political tensions in the country and the associated risk of a severe administrative crisis and/or prolonged political uncertainty.

Opposition leaders have rejected a power-sharing offer and called for constitutional changes and early presidential elections in return for ending the protests. However, talks between them have so far progressed slowly, raising the risks of a prolonged impasse and renewed disorder, and increasing policy uncertainty, ratings agency Fitch has said.

Political turmoil in the country has added to weakening confidence in the Ukrainian hryvnia and in the exchange rate policy. The National Bank of Ukraine has (NBU) sold at least USD 2bn to support the currency since the beginning of January and the hryvnia has depreciated 7% against the USD. Even though orderly currency depreciation may help external adjustment (the current account deficit reached 8.9% of GDP in 2013) and ration NBU reserves, there is a risk of a steep and uncontrolled depreciation. Political uncertainty raises the risks of capital flight and financial instability.

Summary of Key Points

- In December, the total volume of trading in securities on the PFTS stock exchange increased by 25.5% m/m to UAH 10.543bn, bourse data showed.

- Ukraine's GDP growth accelerated to 3.7% y/y and 2.4% q/q in Q4, the State Statistics Service said. In full-2013, the economy posted zero growth. Nominal GDP in 2013 made up UAH 1,444bn (USD 180.5bn).

- The IMF notes that taking to the account current planned policies, modest growth may return in 2014, driven by improvements in external demand, strong grain exports and continuing consumption expansion. At the same time, this outlook faces significant risks originating from the inconsistent policy mix and heightened political and economic uncertainty in recent weeks.

- The IMF believes that Ukraine would benefit from a more flexible exchange rate policy, a tighter fiscal stance, an increase in domestic gas and heating tariffs, and a restart of structural reforms.

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