

Ukraine Diagnostic

By Konstantine Kintsurashvili and Ana Kresic

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European Bank
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Country diagnostics are an EBRD tool to identify the main obstacles to entrepreneurship and private sector development and to help shape the Bank's strategic priorities and project selection in new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in the country.

Each country diagnostic assesses the progress and challenges of the country of operations in developing a sustainable market economy. Private sector development and entrepreneurship are at the heart of the Bank's mandate in the regions of operation of the bank, but the private sector in all EBRD countries faces a range of problems and obstacles. The diagnostic highlights the key challenges facing private companies and shows where each country stands vis-à-vis its peers in terms of six qualities of transition – competitive, well-governed, resilient, integrated, green, and inclusive – and points out the main deficiencies and gaps in each quality.

The diagnostics draw on a range of methodologies and best practice for assessing how big different obstacles are. Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), as well as other cross-country surveys and reports from institutions such as the International Monetary Fund, World Bank, and World Economic Forum. For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical for private sector development in the country.

The diagnostics are led by the EBRD's Country Economics and Policy team, drawing substantially on the expertise of sector, governance and political experts in the Economics, Policy and Governance department (EPG) and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process.

The views expressed in the diagnostic papers are those of the authors only and not of the EBRD.

For more information, go to: <https://www.ebrd.com/publications/country-diagnostics>

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5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

The diagnostic analyses obstacles that constrain the capacity of Ukraine's private sector to develop and to advance the transition towards a sustainable market economy, able to generate vibrant growth. In recent years, Ukraine has embarked on a strategic path of comprehensive political and economic reforms, underpinned by the aspiration of European integration. Since the Revolution of Dignity, Ukraine has made significant, in many areas unprecedented reform progress after more than two decades of uneven and stagnating transition. Despite difficult political and security circumstances, including the heavy toll that the illegal Russian annexation of Crimea and continuing armed conflict in the industrial Donbas region have exerted on the economy, the country is on a gradual recovery path after two years of recession. However, important challenges remain:

- Ukraine's deep-seated **governance** challenges inhibit progress across all reform areas. Judiciary and law enforcement are in need of a thorough overhaul. Public administration is overstaffed, poorly motivated and lacks insulation from undue political influence. Tax administration is unreformed. Informality is pervasive and protection of property rights is weak. Businesses face pressures from law enforcement despite recent legislative changes aiming to keep dubious raids and inspections in check. Opposition of vested interests to changes in the status quo can significantly delay or stall implementation of policy priorities. As a result, critical mass of investment climate reforms is missing and investors' perception of risks remains elevated.
- Inefficient, poorly governed state-owned enterprises (SOEs) operate in large swaths of the economy especially in the banking, energy and transport sectors, thus making the economy less **competitive** overall. Progress with the SOE reform is slow and privatization has not advanced due to vested interests, lack of political commitment, weak capacity at the State Property Fund and lack of investor interest.
- Private sector's output lacks diversification, complexity and competitiveness. Low value-added commodities continue to dominate Ukraine's production and export base despite some recent gains in food processing, IT, pharmaceuticals and manufacturing of vehicle parts. Labour productivity has been stagnant and it remains far below the EBRD and the OECD averages. Moratorium on agricultural land sales is still in place. Major increase in foreign investment and acceleration of reforms are required to modernize industries, diversify Ukraine's economic structure away from excessive dependence on commodities, and to make externally oriented firms more **competitive**.
- The banking system has stabilized following three years of transformation, but systemic challenges remain. Lack of tangible progress in creditor rights protection, limited alternatives to bank financing, undeveloped capital markets and high interest rates constrain firms' access to affordable funding. Non-performing loans reached 55% of total gross loans in 2017 with significant concentration of impaired assets at the state-owned banks (SOBs). Market share of these banks is exorbitant as they account for approximately half of the system-wide assets. SOBs suffer from weak corporate governance, highly concentrated loan exposures, low quality of assets and suboptimal business models. The state's involvement in the banking system needs to be scaled back to make the economy more **resilient**.
- Energy market structure remains highly oligopolistic. Implementation of the EU's Third Energy Package legislation, adopted by Ukraine in 2015-17, has encountered delays and setbacks. Unbundling of gas storage and transmission activities has not advanced. Regulated gas tariffs are not maintained at import parity/cost recovery level. The subsidy system and the Public Sector Obligation need to be reformed to incentivize efficient consumption, foster market formulation and ensure protection of vulnerable customers. Addressing these challenges will contribute to a more **resilient** economy.
- Poor and deteriorating state of physical infrastructure (particularly roads) as well as lagging quality of logistics in terms of cost and time of border and documentary compliance render Ukraine's private sector less **integrated** internally and with external markets. Customs procedures are cumbersome and inefficient. The recently introduced single window for customs clearance falls short of delivering meaningful improvement for businesses. The number and amount of port dues and tariffs are above comparable ports in other countries. Quality of ICT infrastructure lags behind peers.

2. POLITICAL ECONOMY

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Unconsolidated democracy with European aspirations



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The 2013/14 Revolution of Dignity has put Ukraine on a strategic path of comprehensive political and economic reforms, underpinned by the aspiration of European integration. Since then, Ukraine has made significant, in many areas unprecedented, reform progress, after more than two decades of uneven and stagnating transition. Nevertheless, as challenges have been multiple and complex, both internal and external, Ukraine has still a lot of ground to cover on the road of reforms and modernisation.

Ukraine pursues a reform agenda aimed at transforming itself into a modern European democratic state. In June 2014, Ukraine and the EU concluded a landmark Association Agreement, including DCFTA, which provides an important legally-binding framework for political and economic reforms and commits Ukraine to converge its legislation and regulation with those of the EU. After almost three years of provisional application of different parts of the Agreement, it has finally entered into force on 1 September 2017. On 11 June 2017, a visa free regime for short-term stays in the Schengen area for Ukrainian citizens also came into force, further strengthening ties between Ukraine and the EU. International support and conditionality, in particular by the EU and IMF, have been vital for Ukraine, in the face of domestic reform needs and external pressures.

Ukraine is a pluralist but unconsolidated democracy. The unconsolidated nature of Ukraine's democracy makes policy-making an extra-complicated process. Ukraine has a parliamentary-presidential system of government, with the executive power shared by the president and the PM, whose relationship has often been not free from competition. The fragmentation of the parliament and politics in general is an additional barrier for the implementation of reforms, although the political system has proved able to consolidate on important issues. The next presidential and parliamentary elections are due in 2019.

2. POLITICAL ECONOMY

Political economy model is resistant to change



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While Ukraine has changed in many ways, the “old” political economy model has not been dismantled. Entrenched since the second half of 1990s, this model is based on the dominance of intertwined political and economic (oligarchic) interests. Moreover, as core vested interests became increasingly endangered by reforms, the “old system” has intensified its resistance: further reforms are vigorously opposed and/or there is a risk of policy reversals. At the same time, the alliance of reformers in the parliament and the government together with civil society activists continue their strong pro-reform push. Ukraine’s vibrant civil society has been a key driver for promoting, designing and overseeing reforms.

To succeed with reforms and European integration, Ukraine needs to address its vulnerabilities related to the rule of law. The country has made substantial progress in laying the foundations for reducing the levels of corruption (comprehensive anti-corruption legislation and new specialised anti-corruption bodies have been put in place), but sustainable improvements in the governance system and tangible results in combating corruption remain as key challenges. Transparency International ranked Ukraine 130th out of 180 countries on its 2017 Corruption Perceptions Index. Although the comprehensive justice sector reform is underway, the independent judiciary and the effective enforcement of laws are yet to be achieved to improve the business and investment climate.

Weak institutional capacity of the civil service is another challenge. Public administration and civil service reforms are being implemented, although sometimes at a slow pace. Meanwhile, public administration remains overstaffed and poorly motivated.

The illegal annexation of Crimea and the conflict in the east continue to pose a major challenge to Ukraine’s economic development and the main political and security risk. The simmering conflict, which is about to enter its fifth year, makes it harder for Ukraine to succeed with reforms as it absorbs significant public resources. The risk of escalation also remains as ceasefire violations continue daily.

3. GROWTH PERFORMANCE AND PRIVATE SECTOR OVERVIEW

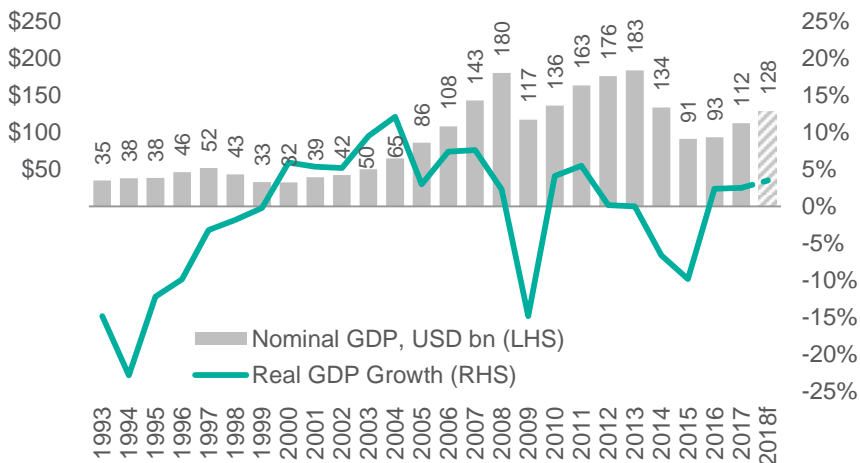
3. GROWTH PERFORMANCE AND PRIVATE SECTOR OVERVIEW

Private sector has been unable to generate growth on par with peer economies



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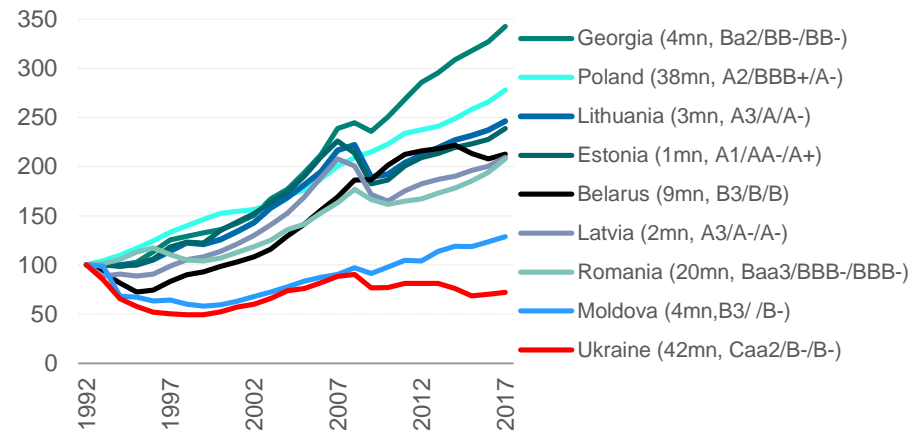
Volatile growth with disruptive reversals



Nominal GDP projections are based on the following assumptions:
2018: 12.2% deflator, USD/UAH exch. rate: 27

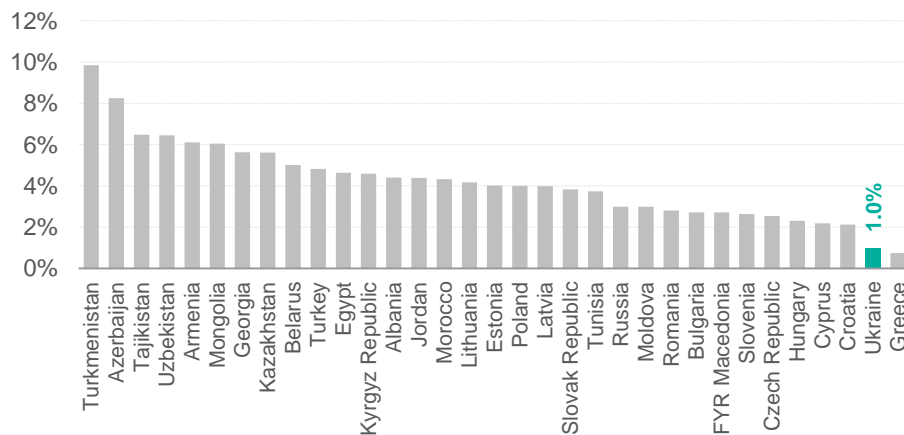
Ukraine has been one of the worst performing EMs globally...

Cumulative real GDP growth [1992=100]
Population, Sovereigns rating (Moody's, S&P, Fitch)



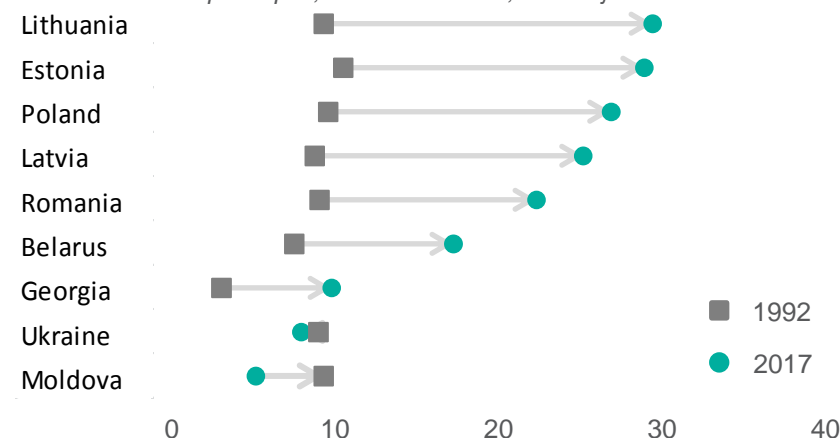
..and, on average, among the slowest growing economies in the region in the past 20 years.

Compound annual growth rate (CAGR) 1995-2017



Real incomes stagnated as private sector growth limped behind peers

GDP per capita, in thousand USD, PPP adjusted



Initial values for Estonia and Lithuania refer to 1993 and 1995.

3. GROWTH PERFORMANCE AND PRIVATE SECTOR OVERVIEW

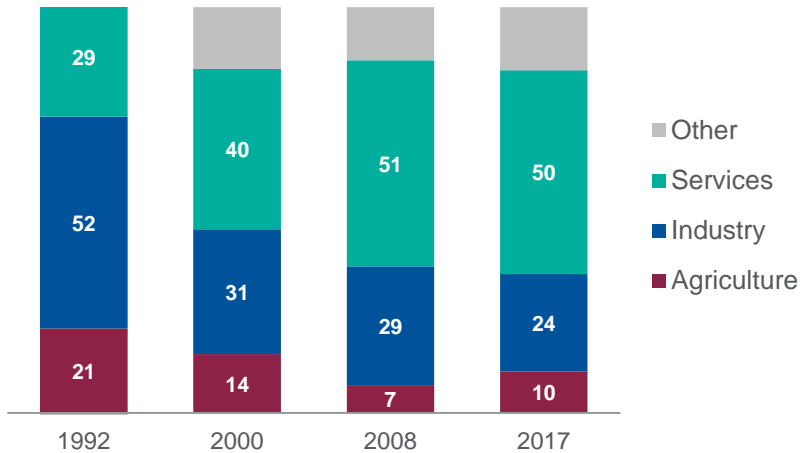
Structural composition of the private sector has changed but productivity of most sectors remain low and stagnant



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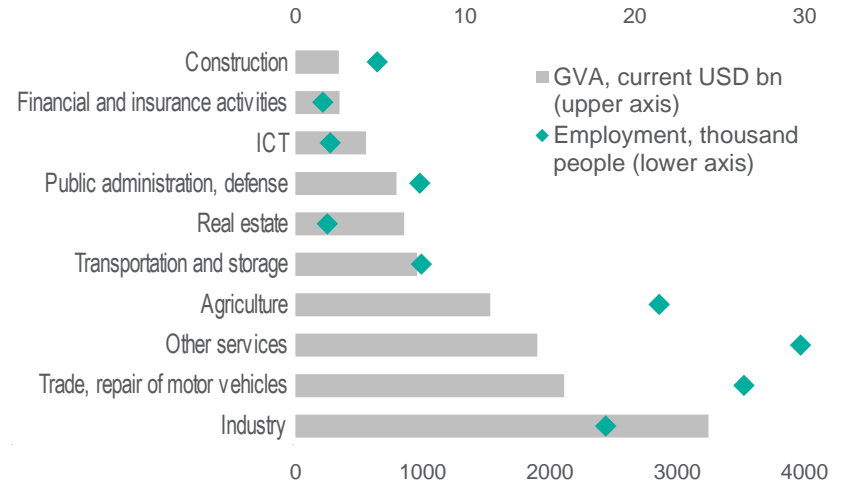
Shift towards services-oriented private sector but weight of old industries, and agriculture remains significant

Value added, per cent of GDP



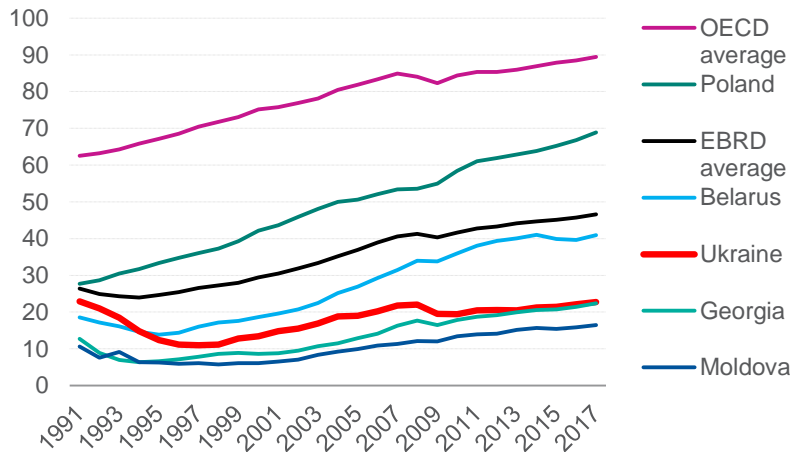
Industrial firms generate the largest value-added

In 2017



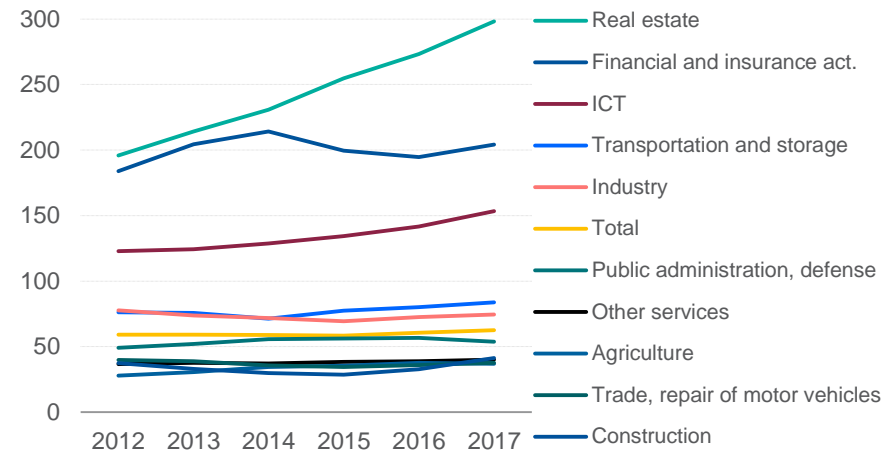
Overall labor productivity is at the same level as two and a half decades ago and compares poorly with peers

GDP per thousand persons employed, PPP adjusted



Labour productivities across sectors have been mostly flat in recent years

Value added in constant 2010 prices per thousand persons employed



3. GROWTH PERFORMANCE AND PRIVATE SECTOR OVERVIEW

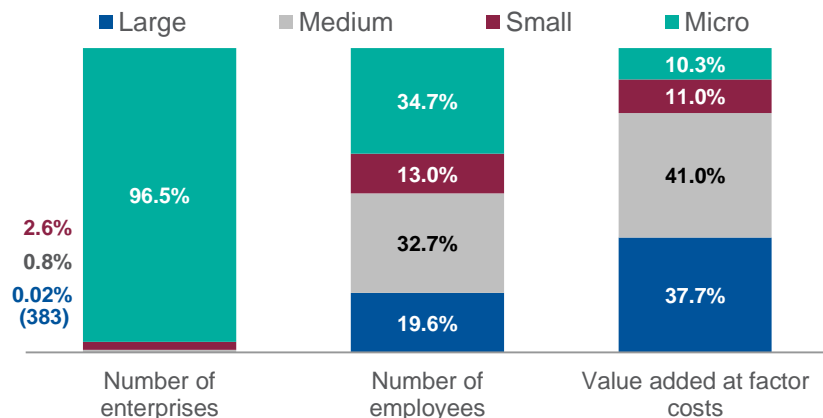
Few large business groups dominate industry but MSMEs are important contributors to aggregate job and value creation



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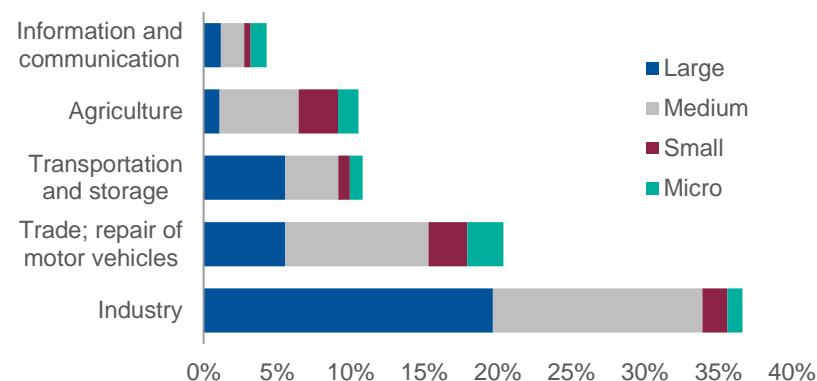
Private sector composition by size and weight in the economy

In 2016



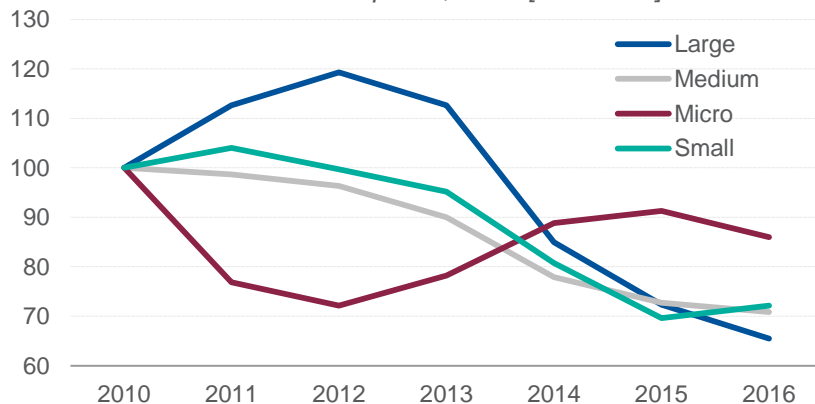
Large enterprises dominate industrial production

Share in value added at factor costs, 2016



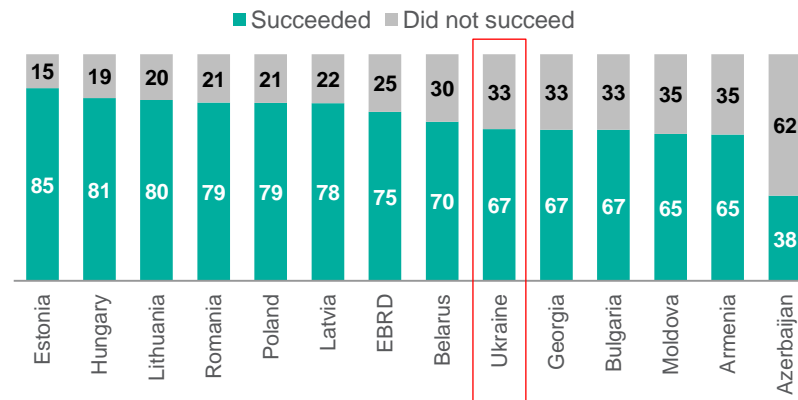
Crisis-related bankruptcies and loss of assets in Donbas contributed to a decrease in number of large enterprises

Number of enterprises, index [2010=100]*



Attempts to set up business fail more often than on average in the EBRD region

Per cent out of everyone that tried to set up business



	Large	Medium	Small	Micro
Headcount	≥250	51-249	≤50	≤10
Annual turnover	≥ EUR 50 million	< EUR 50 million	≤ EUR 10 million	≤ EUR 2 million

Sources: National statistical authorities, OECD SME Policy Index, EBRD LiTS III, EBRD calculations

* Note: Excluding Crimea and Sevastopol since 2014 and ATO areas since 2015.

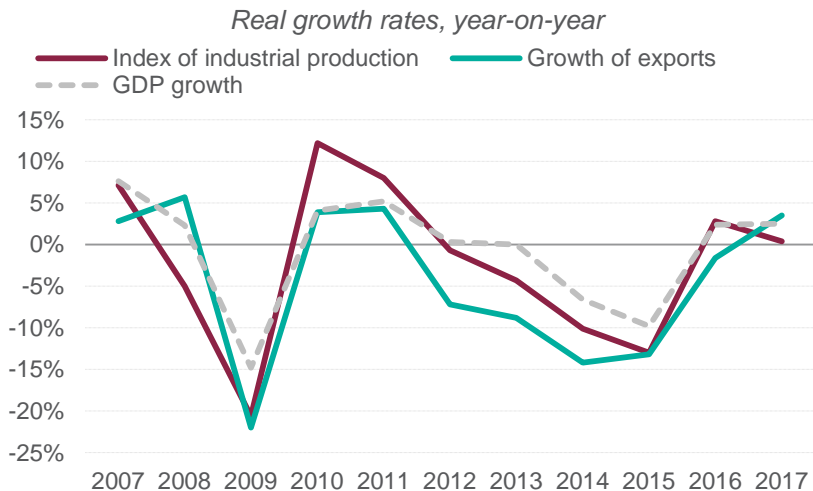
4. OBSTACLES TO PRIVATE SECTOR DEVELOPMENT

4.1 Private sector's external competitiveness challenges

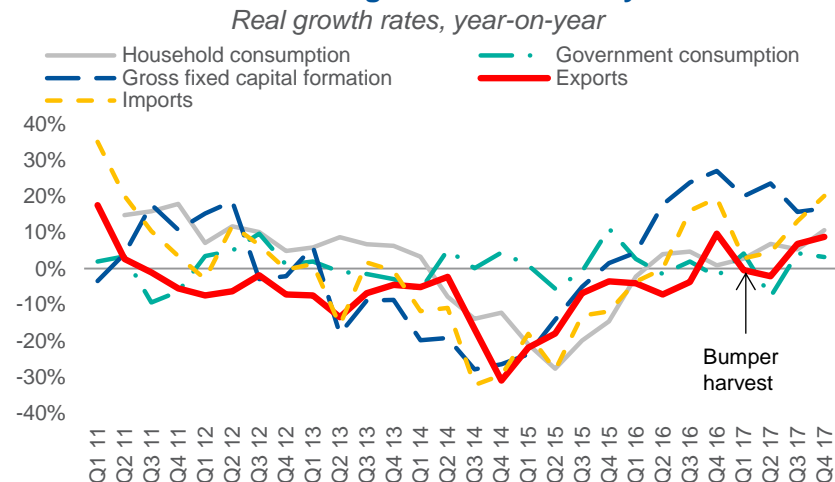
4.1 Private sector's external competitiveness challenges

Ukraine's externally oriented firms have encountered strong headwinds in recent years

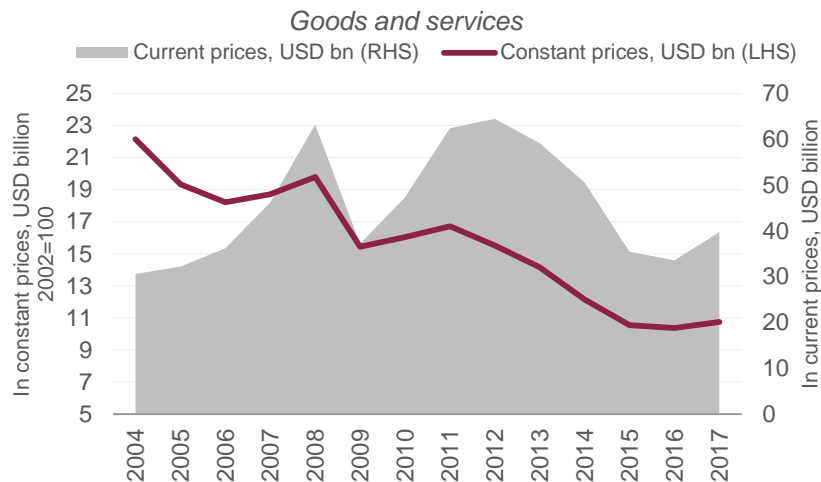
Ukraine's growth, exports and industrial production move in tandem



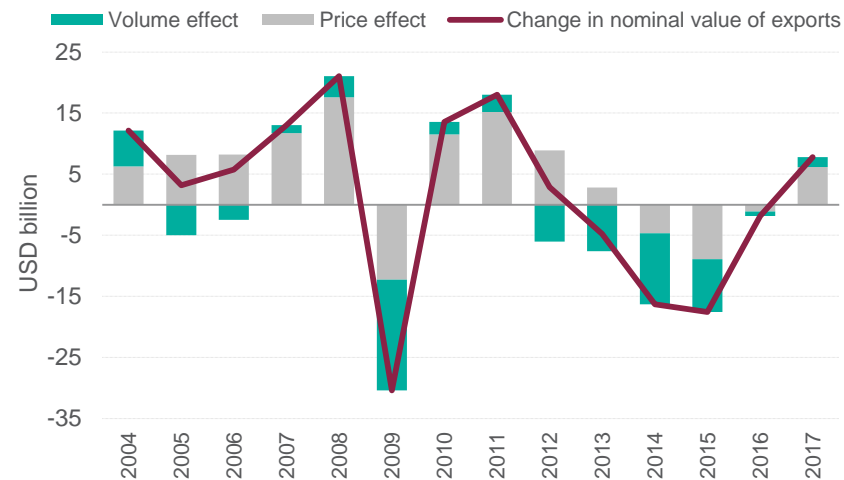
Contribution of exports to GDP growth has been negative until recently



Major decline in both USD value and real volume of exports since 2012



Export revenues: volume vs. price effects



4.1 Private sector's external competitiveness challenges

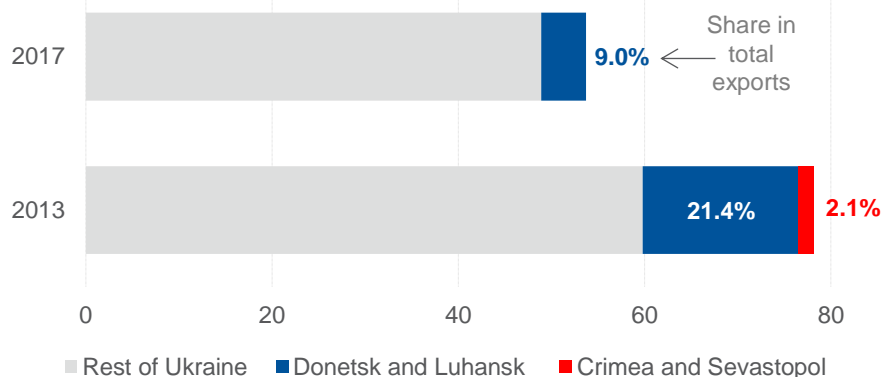
Export was affected by geopolitical developments, incentivizing externally-oriented firms to seek alternative markets and adapt to changes in industrial links



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Exports affected by the war in the east and annexation of Crimea

Goods and services, current USD billion



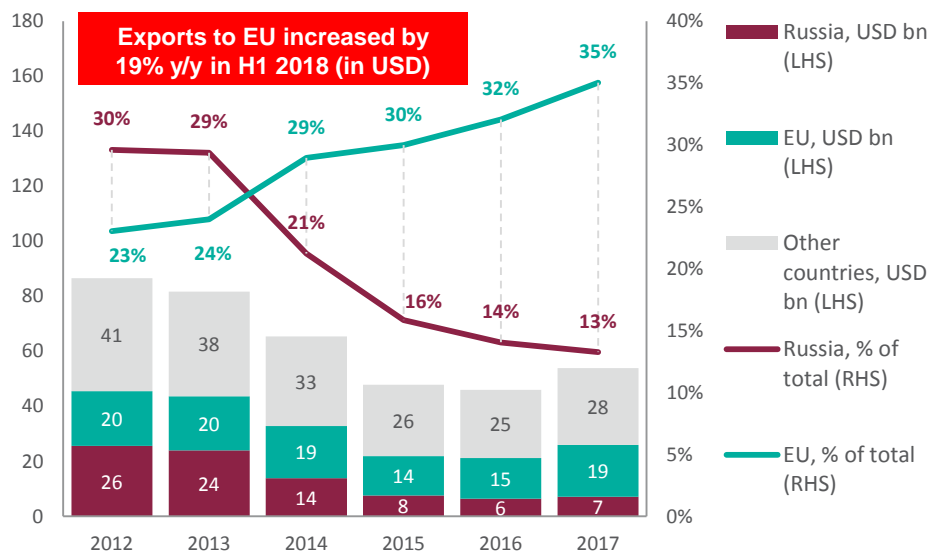
In 2014-17, Ukraine's exports was affected by:

- **Loss of assets and production capacities, and disruption of industrial value chains resulting from the annexation of Crimea and war in the east of Ukraine.**
 - Combined share of Crimea and Sevastopol, Donetsk and Luhansk in total exports of goods and services was equal to 23.5% in 2013, decreasing to 9.0% in 2017.
 - Donbas was the largest commodity exporting region of Ukraine in 2013 – Donetsk and Luhansk together accounted for 25.2% of Ukraine's total merchandise exports in 2013.

- **Economic blockade of the non-controlled territories of Donbas.**
 - On 15 March 2016, cargo traffic with the area that is beyond the control of the Government of Ukraine was suspended.
 - Around 60 enterprises having production links with this area were directly affected by the suspension of cargo traffic and seizure of assets. In 2016, these enterprises accounted for 14% of total output in metallurgy, 19% of total output in coke production and 20% of total output in mining.

- **Restrictive trade measures introduced by Russia on 1st January 2016.**
 - Ukraine made strides to diversify away from Russia in 2014-15, before Russia banned all food imports from Ukraine and suspended the free trade regime between the two countries. The negative impact of the trade measures imposed by Russia may be partly offset by the Ukraine-EU Deep and Comprehensive Free Trade Area and by continued diversification of Ukraine's exports.

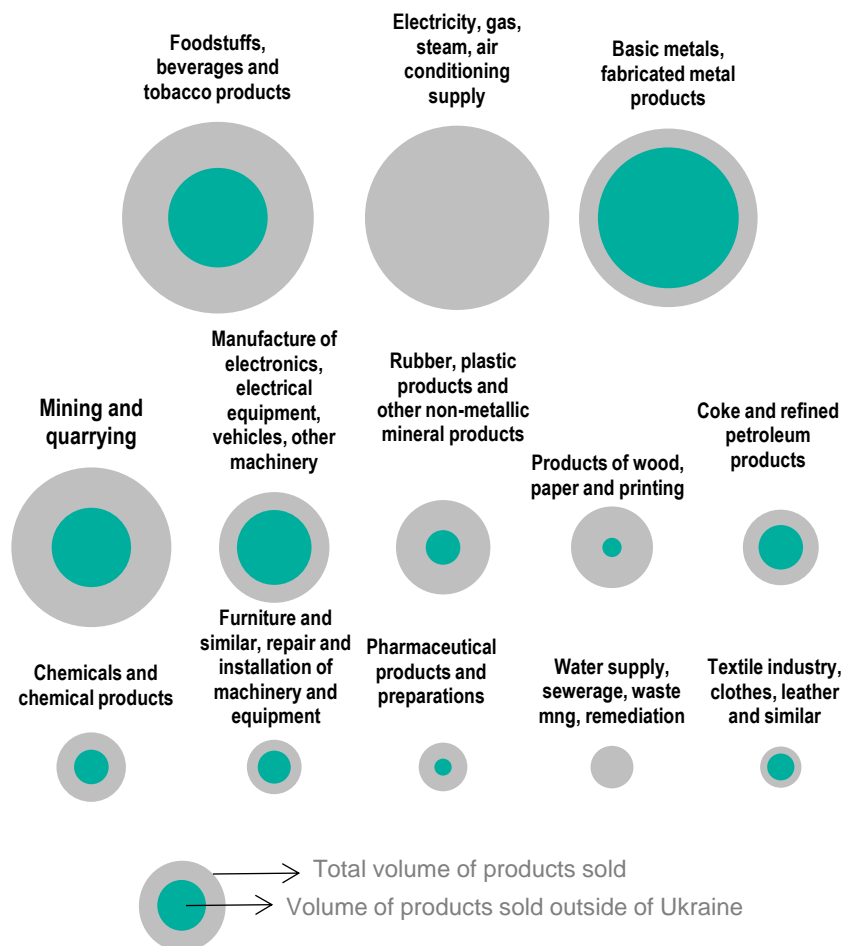
Share of EU as an export destination increased following the loss of Russian market



4.1 Private sector's external competitiveness challenges

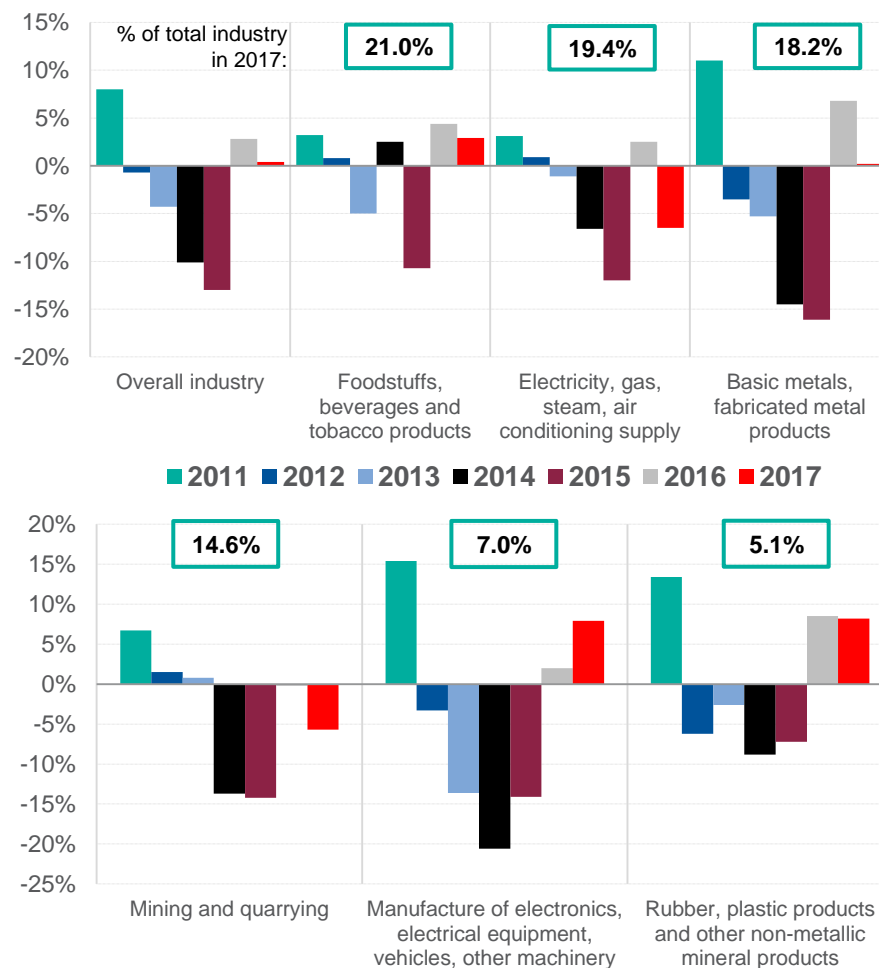
Significant share of industrial output is exported, creating feedback loops between industrial and export performance

Export share in the industrial production
2017



Six largest sectors, accounting for 85% of total industrial production, have exhibited negative dynamics since 2012

Real growth rates, year-on-year, 2011 – 2017



4.1 Private sector's external competitiveness challenges

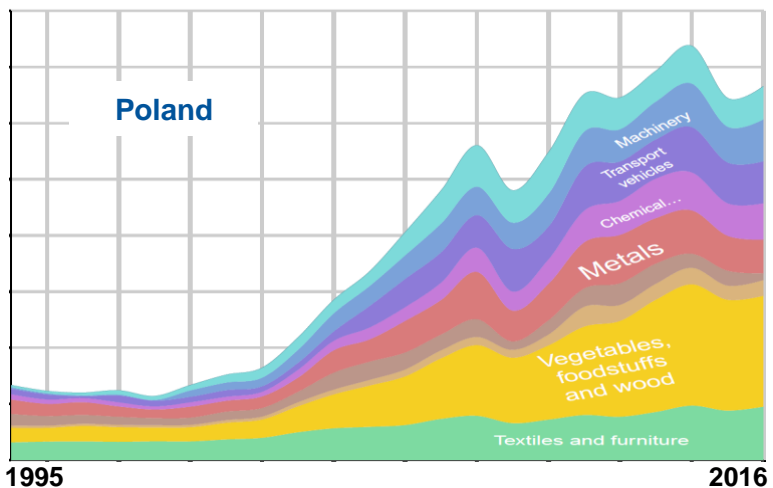
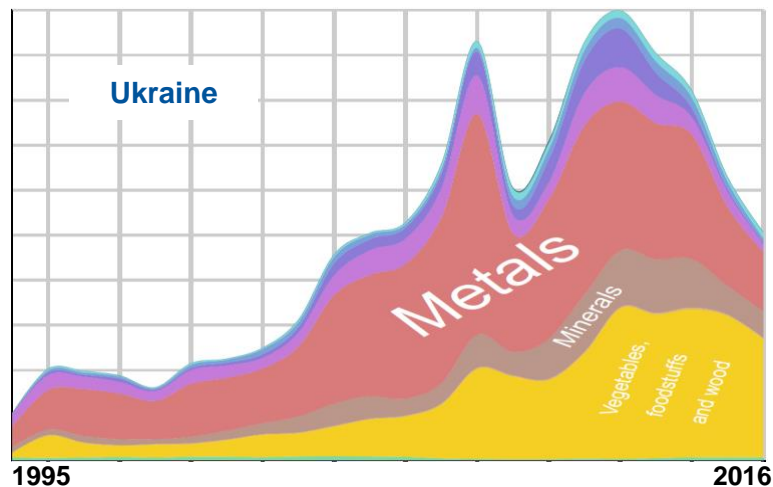
Ukrainian export lacks diversification and complexity



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Export variety: Ukraine vs. Poland

Atlas of Economic Complexity



Low value added products represent Ukraine's largest exports

2017

		USD billion	Share in total exports of Ukraine
1	Vegetable fats & oils , crude, refined, fractioned.	4.5	10.3%
2	Maize , unmilled	3.0	6.9%
3	Wheat and meslin , unmilled	2.8	6.4%
4	Iron ore and concentrates	2.6	6.0%
5	Ingots of iron or steel ; semi-finished	2.6	5.9%
6	Flat-rolled iron , non-alloy steel, not coated	2.2	5.1%
7	Oil seeds and oleaginous fruits (excl. flour)	2.0	4.6%
8	Pig iron , sponge iron, powder, etc.	1.9	4.3%
9	Iron & steel bars , rods, etc.	1.6	3.6%
10	Equipment for distributing electricity	1.3	3.1%

4.1 Private sector's external competitiveness challenges

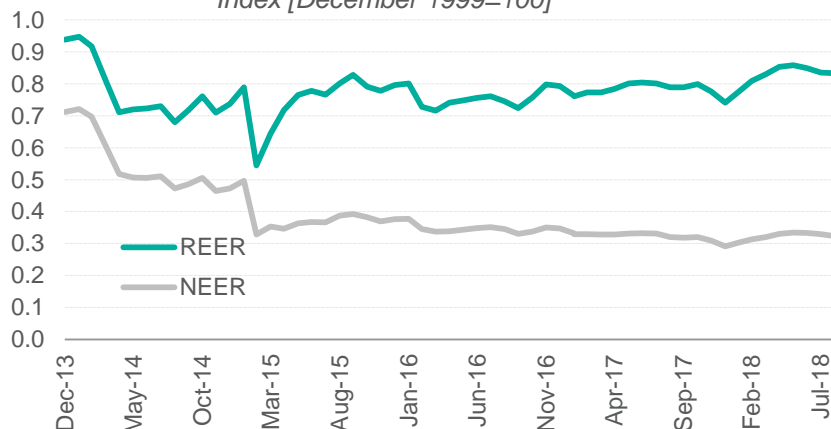
Adjustment of economic imbalances resulted in external competitiveness gains for private firms although the benefits are yet to materialize and migration is exerting pressure on the labour market



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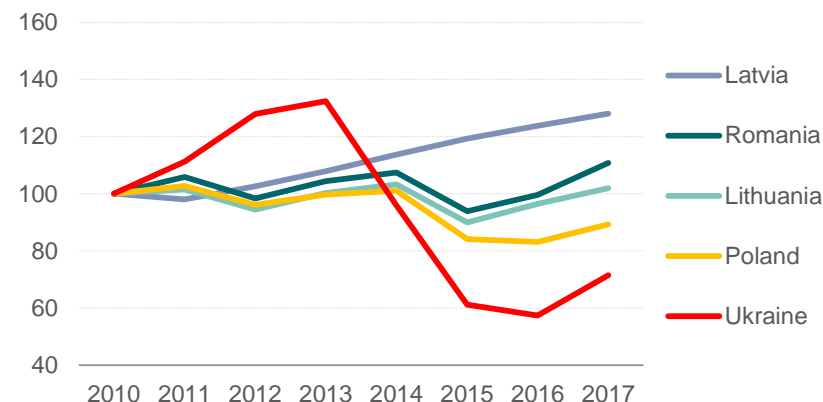
Real exchange rate depreciated significantly before regaining some of its value in the recent period

Index [December 1999=100]



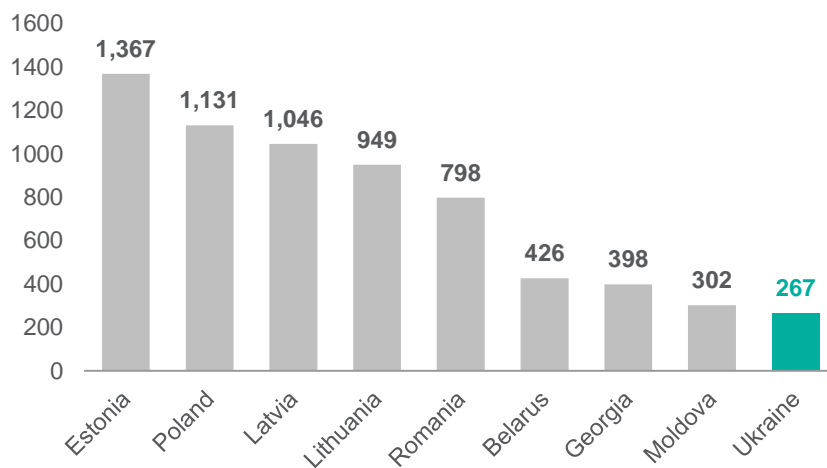
Level of wages per unit of output has fallen more than in comparator economies

Unit Labour Cost, index [2010=100]

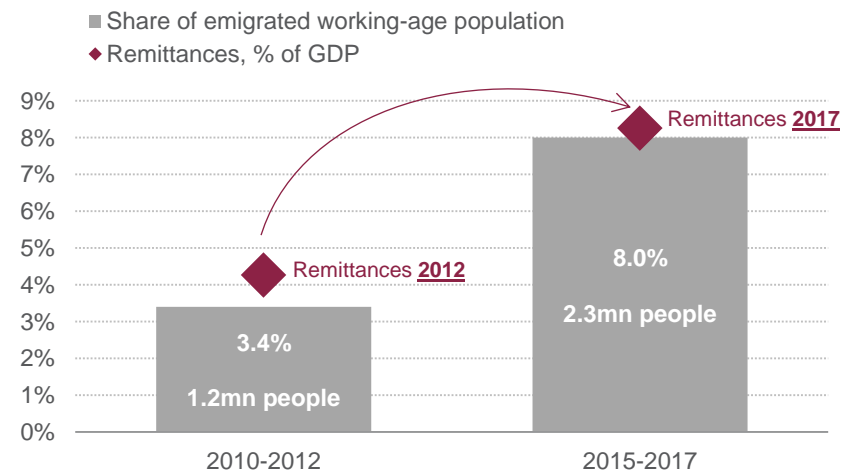


Average nominal wage in Ukraine is the lowest in the neighborhood

Average nominal gross wages, in current USD, 2017



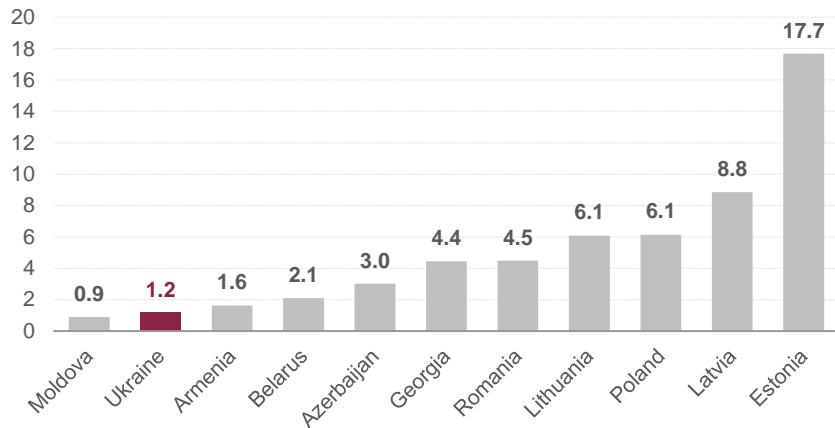
However, outward migration has intensified putting pressure on the labour market but also generating positive spillovers



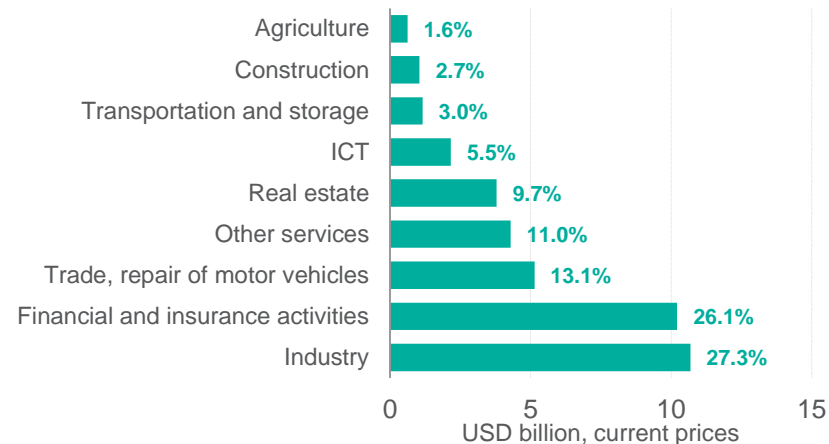
4.1 Private sector's external competitiveness challenges

Modernization of industries and emergence of new export-oriented clusters will require major boost in FDI

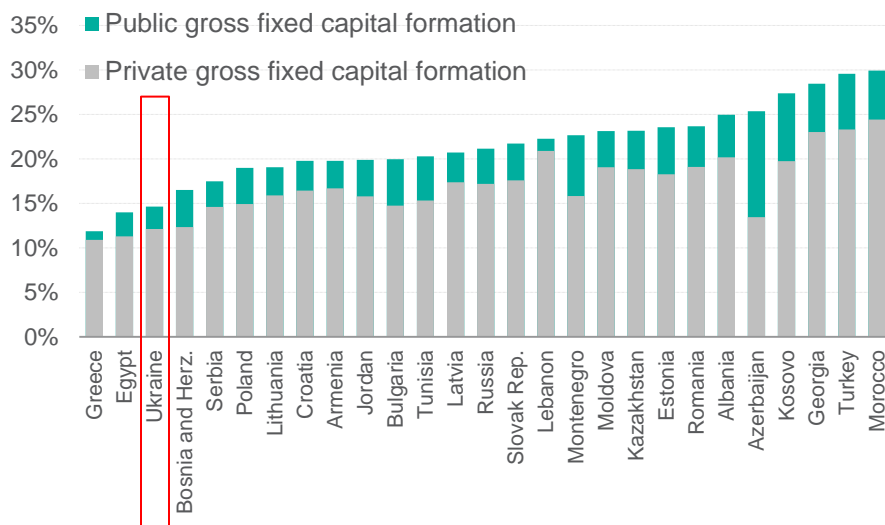
Ukraine has one of the lowest FDI stock per capita...
Thousand USD per capita, 2017



...concentrated in financial intermediation and industry.
Current USD billion and share of total, end-2017

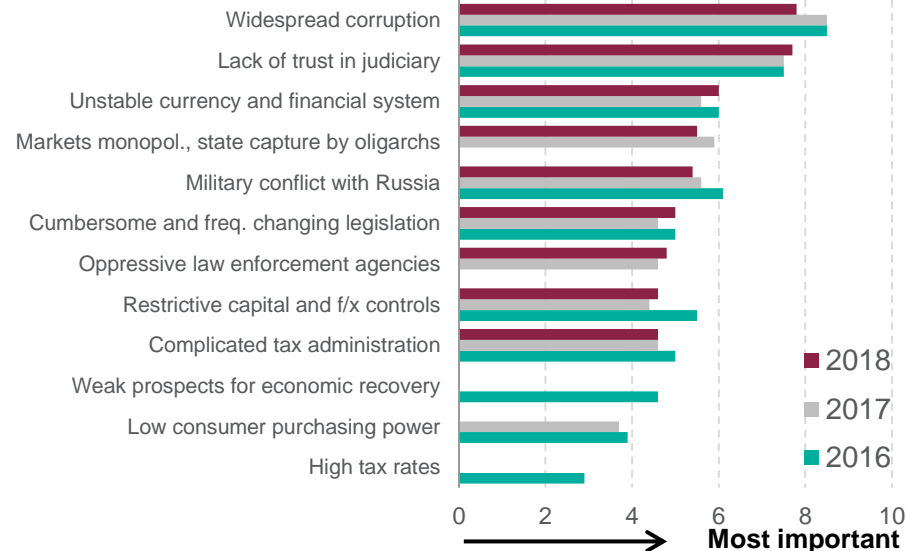


Overall levels of investment in the economy are low
Per cent of GDP (current prices), average 2014-17



Obstacles for foreign investors in Ukraine

Survey of foreign investors, EBA, Dragon Capital, CES, 2016, 2017, 2018



4.1 Private sector's external competitiveness challenges

Business environment challenges remain despite incremental improvement

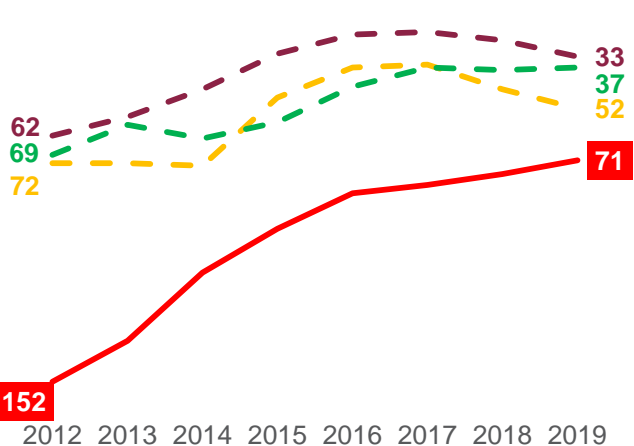


Ukraine achieved significant progress in Doing Business rankings but from a very low base, and its current standing compares poorly to neighbouring economies

Overall Ease of Doing Business rank

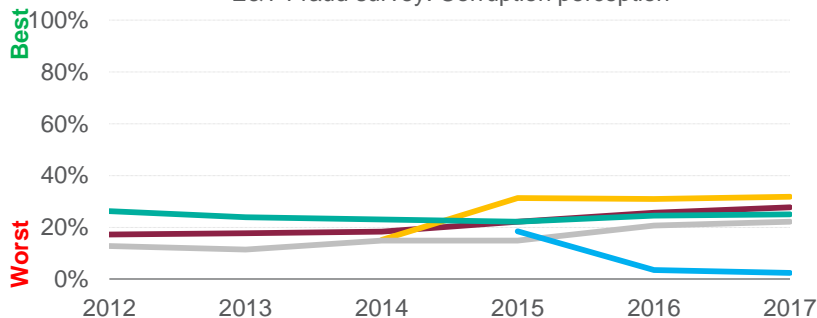
Change in rankings:

Poland	+29
Belarus	+32
Romania	+20
Ukraine	+81



Progress in the fight against corruption and in safeguarding rule of law is lacking

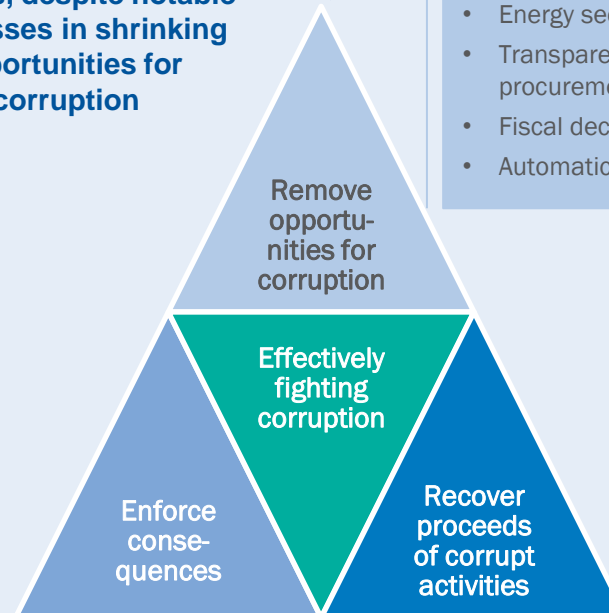
- TI Corruption Perception Index
- The WJP Rule of Law Index
- WGI: Control of Corruption
- WGI: Rule of Law
- E&Y Fraud survey: Corruption perception



Political economy context is not conducive to the rule of law reforms, despite notable successes in shrinking opportunities for corruption

Significant progress and successes

- Banking sector clean-up
- Energy sector reform
- Transparent public procurement (ProZorro)
- Fiscal decentralisation
- Automatic VAT refunds



Little success despite a large number of new institutions and laws

- NABU, NAPC, SAPO
- Some high profile arrests, but no consequences in the courts
- Powerful people unimpeded despite often very crude schemes

No success even against the most egregious cases

- Only one bank failure has seen shareholders begin to be held to account
- No success in confiscating ill-gained assets at scale

4. OBSTACLES TO PRIVATE SECTOR DEVELOPMENT

4.2 Inefficient, poorly-governed SOEs

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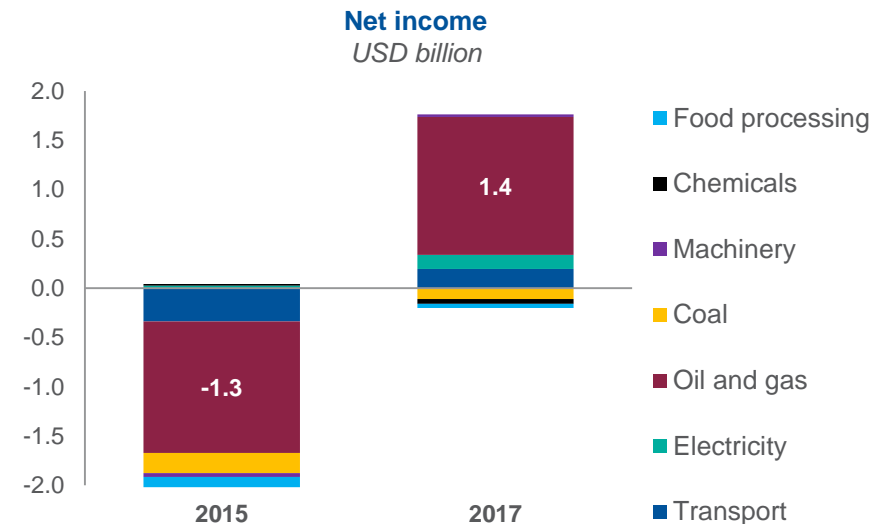
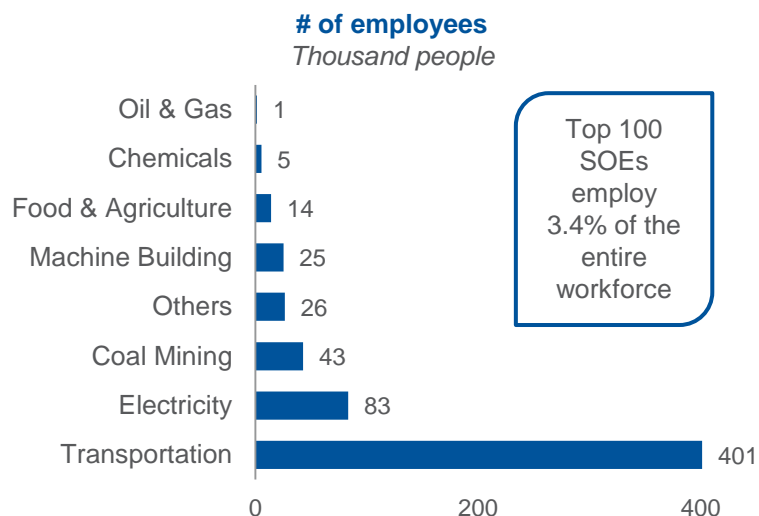
Inefficient, poorly-governed SOEs reduce operational space for the private sector



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Top-100 SOEs employ economically significant portion of the workforce; SOE sector has been loss-making until 2016*.

Top 100 SOEs, 2017



* This was mostly driven by oil and gas sector, i.e. Naftogaz.

SOEs are involved in large swaths of the economy. SOEs employ up to 1 million people and are active in transport sector, utilities, manufacturing (e.g. aircraft manufacturing and petrochemicals), energy generation and distribution, transportation and logistics infrastructure, and military sector. In 2014, total revenues generated by SOEs stood at c.20% of GDP, of which ¼ was generated by Naftogaz.

SOEs suffer from inefficiencies, poor corporate governance standards, lack of transparency, badly regulated environment and monopolistic behavior. “Government simultaneously acts as shareholder, financier, regulator, supervisor, customer, and supplier. The same institutions are involved in developing sector policy, appointing management, reviewing/approving company plans, and evaluating performance. The various roles that government plays vis-à-vis the SOE sector are fragmented across a variety of institutions, with frequent overlap and conflicts of interest undermining effective oversight” (IMF). Regulatory environment is weak, allowing for competitive distortions.

4.2 Inefficient, poorly-governed SOEs

More needs to be done to achieve tangible results in SOE reform and privatization

Progress with the state owned enterprise reform is slow and privatization has not advanced meaningfully due to vested interests, lack of political commitment, weak capacity at the State Property Fund and lack of investor interest.

- Some progress was achieved in the area of SOE corporate governance reform. Majority-independent Supervisory Boards (SB) of Naftogaz of Ukraine, Main Gas Pipelines of Ukraine and Ukrzaliznytsia became operational. SB members for Ukrposhta and Ukrenergo were selected, and the selection process for Boryspil Airport and Ukrainian Sea Port Authority SBs has been initiated.
- Two rounds of SOE triage were carried out by the authorities in 2017-18. The aggregate asset value of up to 3,500 SOEs was estimated by the authorities at approximately 70% of 2016 GDP, with 15 strategically important enterprises accounting for approximately 69% of total SOE assets. Around 1,000 SOEs were slated for privatization or concession. The new law on privatization of state property was adopted in January 2018. This was followed by the launch of privatisation of small-scale enterprises and by the selection of investment advisors for six large-scale enterprises in accordance with the new procedures.
- At the same time, the draft of the SOE corporate governance law remains to be adopted without revisions that undermine the spirit of the law. The new Concessions law is pending approval by the Parliament after two years of extensive work on its substance. The overarching State Ownership Policy has not been finalized and discussions around centralizing ownership function are on hold. More needs to be done to lift the ambitious large-scale privatisation program off the ground. Repeated auction of Odesa Portside Plant in December 2016 was unsuccessful. In August 2017, the state's minority stakes in three energy companies were sold to the existing oligarch shareholders. Privatization auction of Centrenergo was upended in December 2018.

4. OBSTACLES TO PRIVATE SECTOR DEVELOPMENT

4.3 Barriers to private sector's access to finance

4.3 Barriers to private sector's access to finance

Banking system has stabilized following three years of transformation

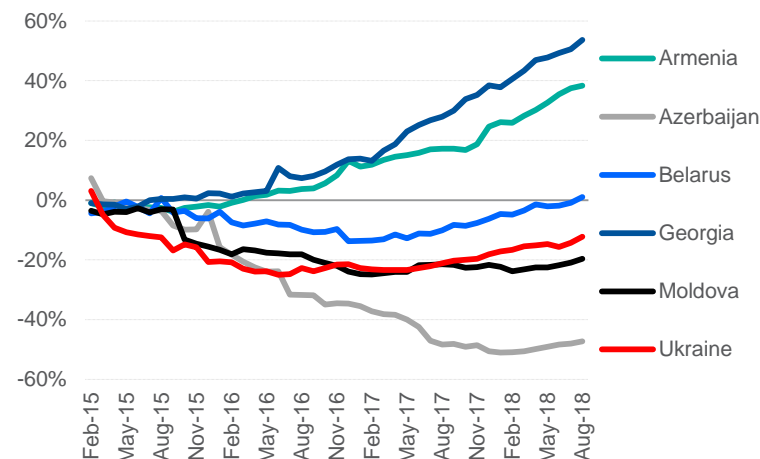


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- Ukraine's banking sector underwent significant transformation during 2014-17. This included major clean-up and consolidation of underperforming and poorly governed banks. Financial sector reform has been at the core of the IMF programme.
- Costs related to the crisis in the financial sector have been large. Combined cost (incurred between 2014 and April 2017) for the government, banks and the private sector is estimated at c.38% of GDP (NBU). Direct fiscal cost is estimated at c. 14% of GDP (NBU), including:
 - Privatbank recapitalization – c.4.8% of GDP
 - Recapitalization of other SOBs – c. 2.4% of GDP
 - Repayment of insured deposits to households – 4.4% of GDP
 - NBU refinancing lines unrepaid by insolvent banks – 2.5% of GDP
- Credit to the private sector shrank on the back of balance sheets deleveraging and reduction in the number of operating banks. Ukraine's banking sector today is nearly half of 2014 by volume of assets (USD 49.6bn in 1H'18 vs. USD 83.5bn in 2014). Number of operating banks decreased from 180 in 2014 to 79 as of 1st November 2018. Credit penetration declined to c.34% of GDP in 2017 from c.64% in 2014.
- In 2017, the financial sector has stabilized and returned to profitability. There are signs of recovery in lending to businesses and households after almost 3 years of decline and stagnation. Interest rates are at record lows for foreign currency retail deposits and at five-year lows for hryvnia deposits (NBU). Given more affordable funding base, interest rates on loans are also expected to decline from the still elevated levels (especially in Hryvnia). The financial standing of businesses is less constraining for the corporate lending recovery, as their debt servicing capacity has improved and new commercially viable firms are appearing.

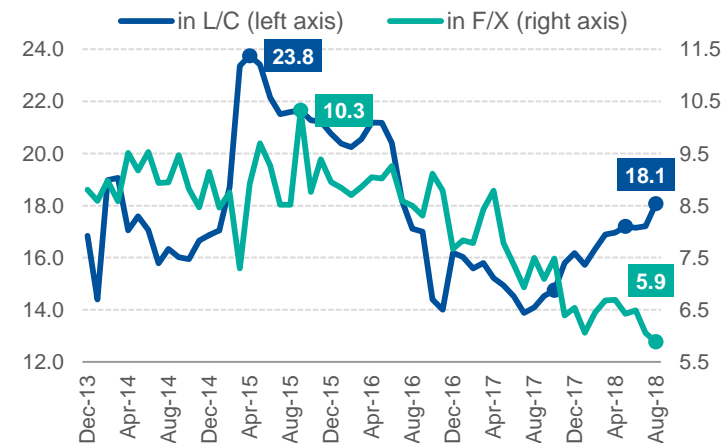
Ukraine's banking sector experienced a large loanbook contraction since 2015

Cumulative change in loans stocks from Jan 2015, adjusted for f/x effects



Interest rates on new corporate loans declined, but remain elevated

Period averages, % p.a.



4.3 Barriers to private sector's access to finance

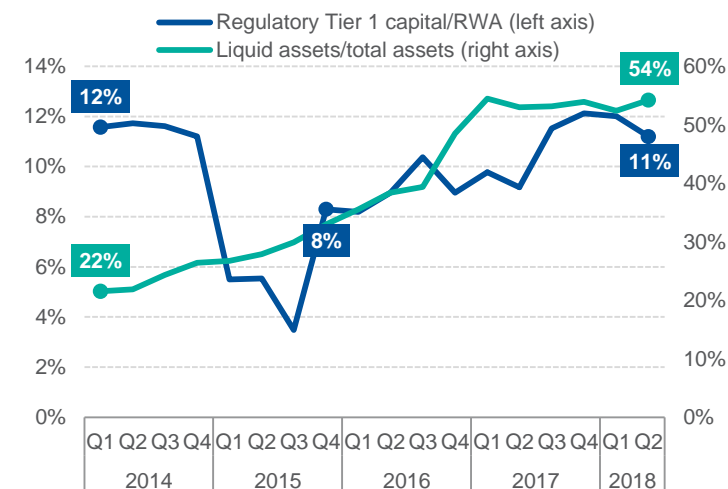
Systemic challenges in the banking sector remain, perturbing credit flow to the private sector



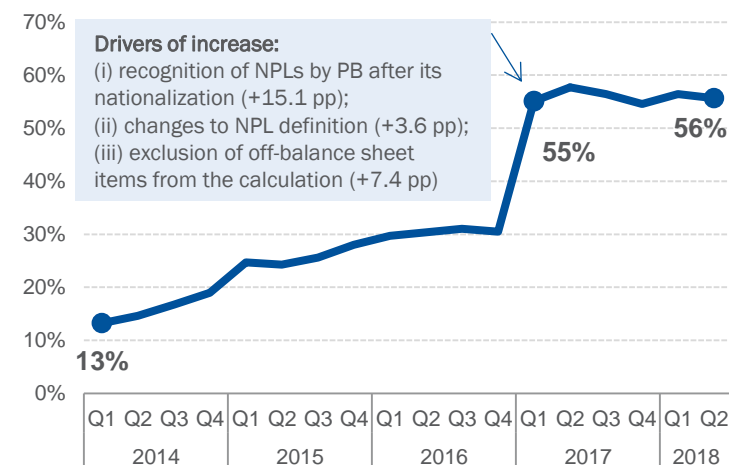
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- **Market share of SOBs is exorbitant.** In the aftermath of Privatbank nationalization, state ownership in the banking sector has increased to more than a half of the sector's total assets.
- **SOBs suffer from weak corporate governance, highly concentrated loan exposures, low quality of assets and suboptimal business models:**
 - **Corporate governance** reform at the SOBs is slow-moving. After a long delay, the law on SOB governance was adopted by the parliament in July 2018 and signed by the president in October 2018. The law introduces independent professional supervisory boards appointed on a competitive basis, among other things.
 - The problem of **excessive lending concentration** is pronounced at the SOBs. Top-20 private business groups (common beneficiaries, assets across industries, complex and opaque structures, tendency of accumulating debt in non-operating shell companies, related party lending at below market rates) account for 49% of total gross loans in the banking system. Payment discipline in these business groups is weak, having significantly higher NPL rate (75%) than the system's average. Top-10 private exposures account for 56% and 38% of loan portfolios at the two oldest SOBs. Bankruptcies at the business groups led to SOB recapitalization needs.
 - SOBs are dependent on **investments in state securities** for income generation. Coupon payments on government bonds and income from certificates of deposit represent around 40% of total interest income of SOBs.
- **NPLs have reached systemic levels.** The NPL stock has reached 56% of total gross loans as of mid-2018 reflecting crystallization of large problematic corporate exposures held by SOBs, including the recently nationalized Privatbank. SOB account for up to 65% of all problem loans (around 35% of all problem loans concentrated at the Privatbank). While the legal framework for restructuring of private corporates, including through an out of court voluntary debt restructuring mechanism, has entered into force in Q1 2017, progress at scale is yet to be seen. Writing off provisioned debt (a large share is considered non-recoverable) would require amendments to legislation to protect banks as well as borrowers from negative tax implications.

System-wide capitalization and liquidity cushions have improved...



...but NPLs in Ukraine remain the highest in the EBRD region, concentrated mostly in SOBs



4.3 Barriers to private sector's access to finance

Still high l/c interest rates, non-price lending conditions and lack of alternative sources inhibit access to finance for viable companies



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Access to finance, particularly of longer tenor, remains a constraint for private companies, although early signs point to a restart of credit activity. Corporate loan portfolios have stayed nearly flat since end-2015, as banks remained risk-averse and tightened credit conditions (with corporate lending down to 29% of GDP in April 2018, vs. 52% of GDP in 2014). Still **high local currency interest rates** (c.18% as of August 2018) continue to be an obstacle for new borrowings, although the reduction in lending rates might be imminent in the context of macro stabilization, decreasing inflation and cheaper funding base. Companies are expressing increased need for local currency financing for working capital, investment, and debt restructuring. On the supply side, the majority of surveyed banks expect corporate lending to increase in 2018 (NBU), but **non-price lending conditions remain unfavourable.**

Insufficient creditor rights protection and inefficient judicial system are holding back corporate lending. Foreclosure procedure invoked upon failure of a borrower to service loan obligations is long, costly and unreliable. The mechanism needs to be streamlined to render secured lending more affordable. Several legislative initiatives aimed at improving the operating environment for the lenders face difficult times in the Parliament which seats many owners of defaulted borrowers.

The banks are applying increasingly stringent Know-Your-Customer (KYC), Anti-Money Laundering (AML), and financial reporting criteria raising the entry requirements for loan applicants. This constitutes a significant departure from lax underwriting standards and weak supervision of the past.

Alternatives to bank financing have been limited to date. The non-banking sector (including insurance companies, pension funds, credit institutions and financial companies) is small, comprising c.14% of financial sector assets as of H1 2017. **Microfinance** institutions are not actively operating in the market. **Leasing** penetration is low at 0.7% of GDP (vs. 4-14% in CEE countries) and represented mainly by bank-owned leasing companies. Access to equity capital is constrained, in the context of very low **private equity** penetration (0.004% of GDP, compared to a 0.1% average in CEE) and only few institutional level funds operating in Ukraine, with new fundraising in recent years complicated by the weak macro environment and geopolitical situation.

The Ukrainian Capital Market Infrastructure (CMI), including trading venues and post-trade infrastructure, is highly fragmented and inefficient. There is almost no real primary or secondary market activity in the capital markets. CMI requires improvement, including clearing and settlement, the development of new financing instruments for the domestic banking sector and the establishment of a legal and regulatory framework for derivatives. To increase reliability, efficiency and effectiveness, CMI needs to be defragmented and consolidated. The number of licensed stock exchanges needs to go further down (it has been reduced from 10 to 5 so far). Hundreds of commodity exchanges which are in existence, require consolidation.

4. OBSTACLES TO PRIVATE SECTOR DEVELOPMENT

4.4 Impediments to an affordable, secure and competitive energy market

4.4 Impediments to an affordable, secure and competitive energy market

The challenges of the energy sector match with the milestones of Ukraine's transition to a new political economy



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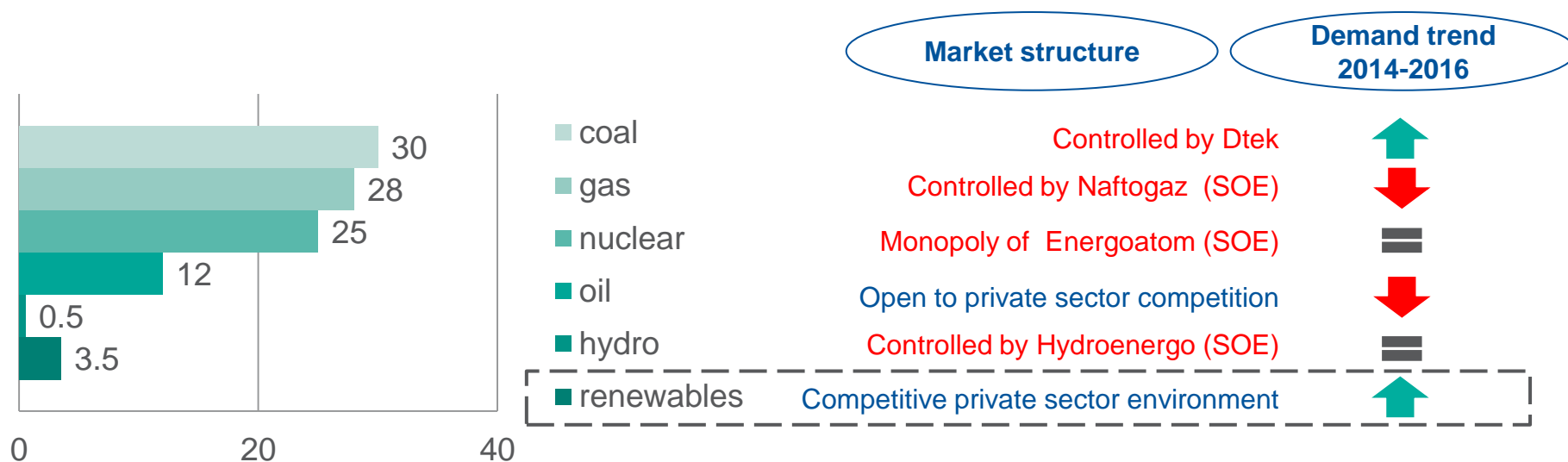
	SITUATION TODAY	REFORM ACHIEVEMENTS	REFORM COMMITMENTS	DELIVERY RISK
AFFORDABILITY	<ul style="list-style-type: none"> 60% of households receive subsidies 475% increase in residential gas tariff¹ 25% share of energy expenditure for bottom 30% households¹ 	<ul style="list-style-type: none"> Progress on IMF program conditions Reduction in corruption in the gas sales business 	<ul style="list-style-type: none"> Full market price indexation Implementation of subsidies monetization at utility level 	<ul style="list-style-type: none"> Low political consensus Financial sustainability Corruption and vested interests
SECURITY	<ul style="list-style-type: none"> Since 2016, 100% of gas is imported from the European competitive markets Energy infrastructure is largely outdated Transit gas accounts for c. US\$ 2.5bn revenue² 	<ul style="list-style-type: none"> Passed primary legislation to implement 3rd EU Energy Package Stockholm arbitration resolution 	<ul style="list-style-type: none"> Improve connectivity and integration with EU energy markets New transit agreements post 2019 	<ul style="list-style-type: none"> Political instability Conflict escalation Investments required
COMPETITION	<ul style="list-style-type: none"> Energy market structure is highly oligopolistic The state has a pervasive control Oligarchs cannibalize private sector developments 	<ul style="list-style-type: none"> Passed primary legislation to open the market Introduced an independent regulator 	<ul style="list-style-type: none"> Improve the governance of the energy sector and SOEs Implement market reforms to remove barriers to entry 	<ul style="list-style-type: none"> Corruption and vested interests Lack of delivery capabilities Lack of transparency

4.4 Impediments to an affordable, secure and competitive energy market

Increasing the role of private sector can unlock fundamental changes in the Ukrainian energy market

Ukraine's **energy infrastructure** assets are extensive. It is the third largest country in the world for gas storage facilities after U.S. and Russia. Most of these assets are, however, a legacy from the Soviet Union which have not received the necessary investment in maintenance and require substantial improvement to fit with new modern technology. As such, the value of these assets/companies is difficult to be assessed, discouraging private investors' involvement.

Primary energy balance 2015 and market structure



The **renewable energy** is the only sub-sector that has been able to attract private sector participation and new foreign investors in the recent times. This is due to the supportive feed-in-tariff regime in the country and the global trend in cost decrease in renewable energy technology.

The government has an ambitious plan to reach 11% of power sector supply from renewable energy by 2020. New renewable technology could substitute an aging fleet of fossil fuel power plants. However, **a new competitive support scheme for renewables**, such as auctions schemes, is required for alternative technologies to become fully integrated in the system.

4.4 Impediments to an affordable, secure and competitive energy market

Reforms introduced in the gas market will have limited impact if key milestones are not achieved



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The gas reforms undertaken in Ukraine in the recent years have paved a transitory path towards transparent and market based-solutions in the future. Continuing this reform path and increasing the implementation pace is of utmost importance when Ukraine's reliability as a trading partner and a transit country is closely observed by key international stakeholders. The current transit contract expires in 2019, preparation of competing transit infrastructure projects (bypassing Ukraine) is well advanced, and the outcome of the Stockholm arbitration may be influenced by Ukraine's seriousness in living up to its commitments under the Energy Community Treaty.

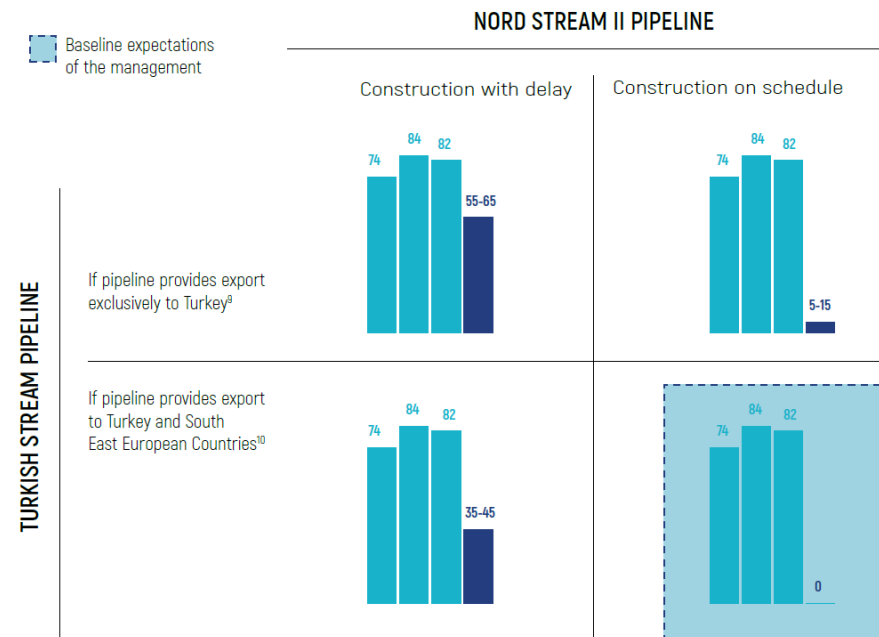
Immediate steps are thus required to ensure that reforms are irreversible, to overcome the entrenched market structure of the past and to advance on the critical reform path to market liberalization. The necessary actions, as elaborated in a new reform Road Map, should focus on the proper implementation of the existing legislation and commitments, on winding down public interventions and non-transparent subsidisation and on efficient solutions for the district heating sector.

Key policy objectives to develop the Ukrainian gas market:

- Convergence to **market-level tariffs** and **reform of the overall subsidy system** to reduce the fiscal burden and incentivize competition.
- Ensure **NAK political insulation and proper control functions** over its business activities, improve NAK financial performance and support NAK potential cooperation with foreign partners to introduce in Ukraine best industry practices.
- Support the **market liberalization** process in line with the convergence to the European standards and full implementation of the 3rd EU Energy package, which also includes unbundling of NAK storage and transmission activities.

Volumes of Ukrainian gas transit will depend on the development of new Russian pipelines which provide alternative routes

SCENARIOS FOR TRANSIT VOLUMES IN 2017-2020, BCM



Source: Naftogaz 2016 Annual Report, based on expectations of outside consultants and company management

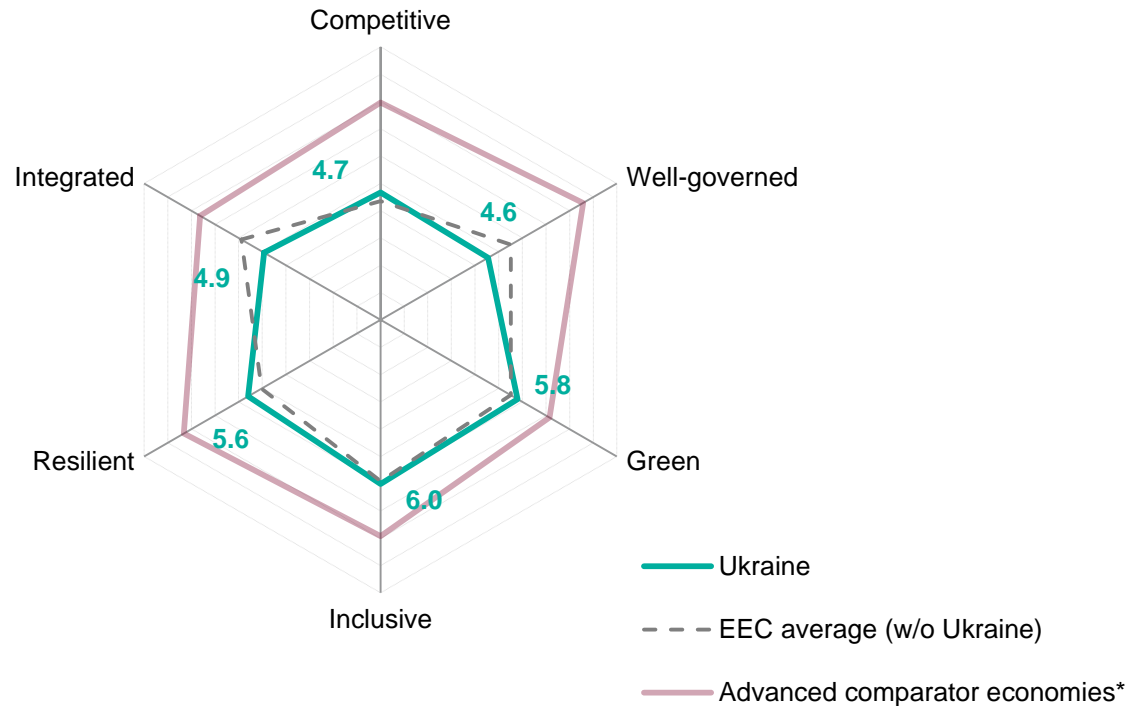
Immediate priority actions for the first phase of reforms:

1. **Unbundling** of Naftogaz transmission network.
2. Establishment of best practices in **corporate governance** of SOEs.
3. Reform of **Public Sector Obligation** to ensure customer protection and open the market.

5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

5. Qualities of a sustainable market economy

EBRD's 2018 Assessment of Transition Qualities (ATQs)



EBRD methodology for measuring transition gaps is based on the following six desirable qualities of a sustainable market economy: **competitive**, **well-governed**, **green**, **inclusive**, **resilient** and **integrated**. Progress on a transition path is measured on a continuous scale of 1 to 10, where 10 is the best possible score and denotes the frontier. The composite indicators at quality level aggregate a wide range of sub-indicators.

* Score for advanced comparator economies is a simple average of scores for Canada, Czech Republic, France, Germany, Japan, Sweden, United Kingdom and United States.

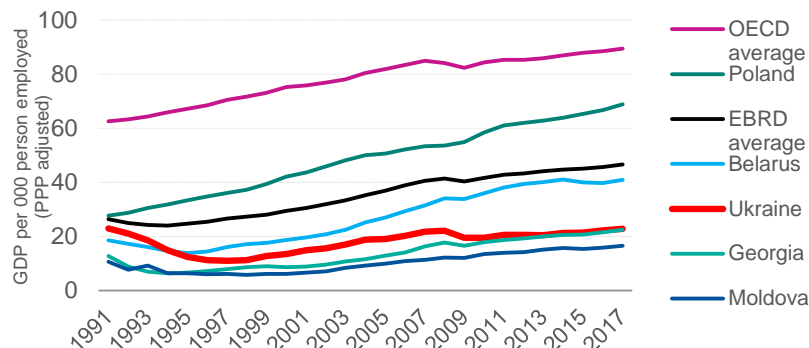
5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

Competitive



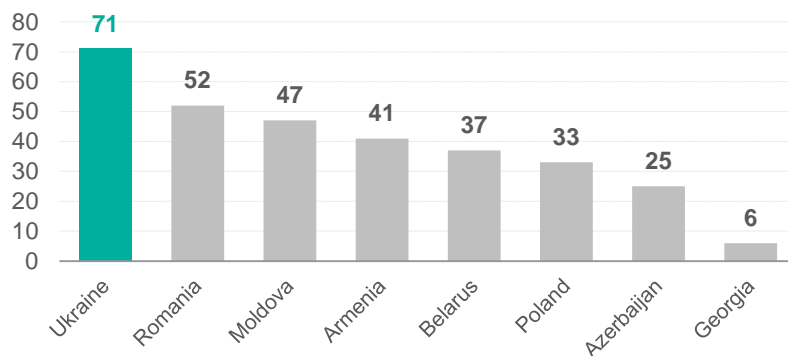
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Ukraine's stagnant labour productivity



Ease of Doing Business

Rank out of 190, in 2019



Although Ukraine has progressed on reforms, the **competitiveness** of the economy is still hindered by the prevalence of SOEs in the economy, precarious business climate, low labour productivity and lack of innovation inputs available.

- **Trade regime** is relatively liberal with tariff rates below the average in the EEC region. The DCFTA with the EU has further opened Ukraine's markets. At the same time, unreformed customs administration obstructs cross-border trade – Ukraine ranks 78th (out of 190 countries) in Trading across borders (WB DB 2019).
- However, **export** basket is dominated by low value added products including primary agriculture, metals and minerals, thus keeping a lid on labor productivity in tradable sectors and exposing the private sector to price volatility in commodity markets.
- Moratorium on agricultural land sales is still in place and needs to be lifted. Creation of a **land market** will unlock productivity growth in agriculture.
- **Inefficient SOEs**, especially in the banking, energy and infrastructure sectors perform economic functions that could be carried out more productively by the private enterprise. Progress with the SOE reform is slow and **privatization** is stalled due to vested interests, lack of political commitment, weak capacity at the State Property Fund and lack of investor interest.
- **Subsidies** to enterprises as a share of GDP are relatively low. Quasi-fiscal deficit of Naftogaz has been phased out as a result of domestic gas tariff increase to cost recovery levels, although continued tariff adjustment is required to maintain import parity of domestic gas prices.
- Despite improvement in recent years, Ukraine ranks lower than the other EEC economies in the Ease of Doing Business, reflecting difficult **business environment** and weak reform momentum.
- The quality of the **education system** is relatively high compared to the rest of EBRD countries. Ukraine ranks 46th in the Skills pillar (Global Competitiveness Index 2018, WB) out of 140 countries. Still, **labour productivity** remains far below the EBRD and the OECD average.
- **Competition laws** are broadly in line with the EU, however their enforcement remains rather weak. The Antimonopoly Committee is unable to effectively enforce the competition regime due to the resource constraints, lack of independence and limited prosecution abilities.
- **Innovation** is constrained by the paucity of enabling factors, such as limited access to broadband connections, small number of researchers per million inhabitants (about a fifth of OECD countries) and poor institutional framework. Innovation performance is unevenly distributed across sectors without significant linkages between the innovative and stagnant parts of the economy.

Assets of up to 3,500 SOEs are estimated at approx. 70% of 2016 GDP (MEDT).

In 2016, Ukraine ranked 47th (out of 127 countries) in country complexity index (Harvard CID).

In 2017, average nominal wages in Poland were more than 4 times higher than in Ukraine (National statistical authorities).

5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

Well-governed



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Worldwide Governance Indicators

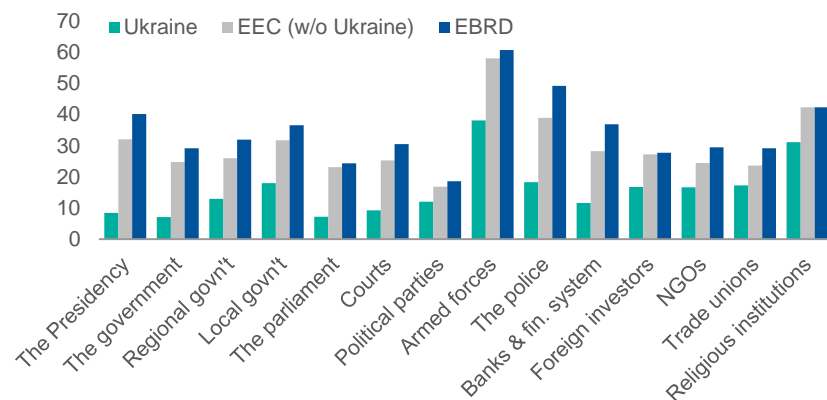
2017



— Ukraine
— EEC (w/o Ukr)
— EU-28

Trust in institutions one of the lowest among EBRD CoOs

Per cent of respondents, 2016



Main impediments to FDI in Ukraine as stated by the foreign investors are widespread corruption and lack of trust in judiciary (EBA, DC, CES, 2018).

130th out of 176 countries in TI's Corruption Perception Index 2017. 150th out of 180 countries in Index of Economic Freedom 2018 (Heritage Foundation).

101st out of 109 countries in judicial independence dimension of the 2017 Index of Public Integrity (ERCAS).

Governance reforms progressed although important challenges remain. While tangible de-regulation efforts have been undertaken since 2014, the regulatory framework needs to be further streamlined. Judiciary and law enforcement are in need of a thorough overhaul. Policy-making lacks transparency and is influenced by vested interests. Governance standards are affected by weak institutional capacity, lack of effective enforcement mechanisms and a generally challenging rule of law situation. At the corporate level, implementation of proper corporate governance and business integrity practices remains uneven.

- Despite the roll-out of EU-style **public administration** reform (new Law on Civil Service adopted at the end of 2015), civil service remains overstuffed and poorly motivated. Insulation of civil service from political pressures, quality and sustainability of policy formulation, and the credibility of the government's commitment to such policies require significant improvement.
- Weak system of justice administration undermines the **rule of law**. Protection of property rights is generally weak and inconsistent. There have been cases of dubiously justified raids on private businesses by the law enforcement agencies. The outcome of the judicial reform is yet to be tested. Meanwhile, the courts remain inefficient and lack immunity from undue influence. Reform of the Prosecutor-General's office has been the disappointment.
- A comprehensive **tax** reform has lowered tax burden on businesses, resolved some of the VAT administration shortcomings (automation of VAT refunds) and introduced electronic services for taxpayers. However, tax administration reforms have not advanced further.
- Structure and institutional capacity of the State Fiscal Service require major improvement to ensure fair taxation and to increase taxpayer comfort. A new body dealing with financial investigations should be formed.
- Much remains to be done to tackle **corruption**. In TI's 2017 Corruption Perception Index, Ukraine ranked among the lowest in the EBRD region. Ukraine enacted anti-corruption legislation and launched new anti-corruption agencies. National Anti-Corruption Bureau of Ukraine (NABU) has opened a number of investigations, including high-profile cases. However, NABU faces interference from other law enforcement agencies and its ability to bring perpetrators to justice is compromised by inefficient courts. The launch of online asset declaration system for public officials was not followed up by credible investigative actions.
- Notwithstanding improvements in **corporate governance** legal framework, company practices continue to suffer from a number of weaknesses. The EBRD's 2017 assessment identified shortcomings in the structure and functioning of boards (i.e. limited effectiveness and lack of independence), transparency and disclosure (particularly for non-financial information) and internal controls (low quality of framework and shortcomings in setup and functioning). In terms of business integrity, efforts are being undertaken by large corporates with foreign ownership, but challenges in small to medium sized domestic companies remain to be addressed.
- Legislation enabling improvement of **SOEs governance** has been delayed and no meaningful progress has been achieved with respect to the overarching State Ownership Policy. The flagman of the SOE reform – Naftogaz, has been unable to finalize the reform of its governance structure.

5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

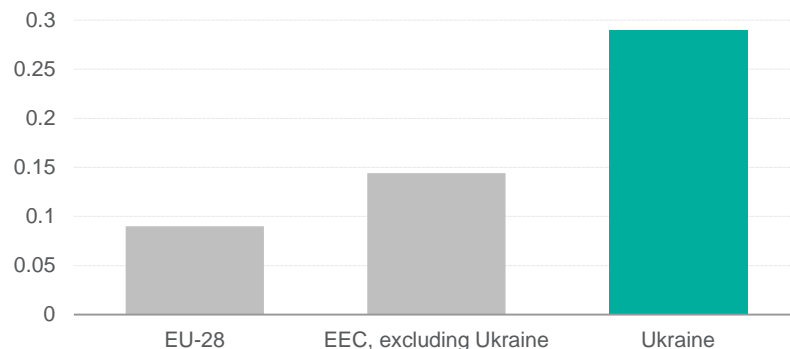
Green



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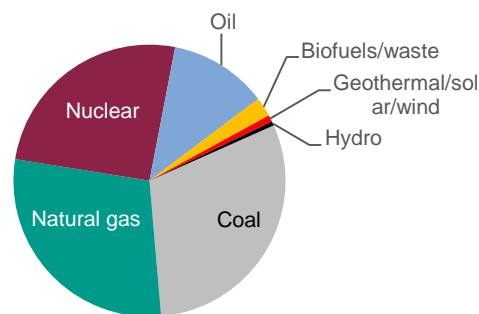
Energy intensity

Total primary energy supply per GDP PPP, in 2015



Share of total primary supply

2015



Green economy transition in Ukraine needs to focus on energy efficiency measures, leveraging sustainable energy sources and improvement of municipal services. Ukraine is one of the most energy-intensive countries in the world with energy intensity over 3 times higher than EU average and one of the most CO₂ intensive countries in the EBRD region. The National Energy Efficiency Action Plan and the new Energy Strategy of Ukraine aim to reduce energy consumption and boost domestic production of both traditional and alternative energy sources. Ukraine has submitted nationally determined contributions (NDCs) target for reduction of greenhouse gas emissions, although it is unambitious and can be achieved in the status quo scenario.

- Ukraine has tremendous potential for **energy efficiency** gains, especially in housing, industrial, district heating and power sectors. Almost 75% of the housing stock in Ukraine was built before 1970 and 70% of these buildings require significant renovations (IEA, 2015). Moreover, energy infrastructure is obsolete and in need of major upgrades – most thermal power stations have not been refurbished since their commissioning, on average 40 years ago.
- Modernisation of its inefficient and inadequately maintained **district heating networks**, which around 43% of Ukrainian households are connected to and often served by district heating companies, could lead to energy savings of around 40% (IEA, 2015). Outdated central heating systems waste an enormous amount of gas – with 22% of its energy wasted during production, 25% during transportation and 30% during distribution, including by end users (UNDP, 2017).
- Although improvements have been made in recent years, the existing **subsidy schemes** fall short of incentivising efficient consumption of energy, particularly with regard to gas and heating.
- Share of **renewables** is very low (around 5% of electricity production) compared to the neighbouring EU countries such as Romania (42%), the Slovak Republic (22%) and Hungary (11%), despite significant potential in solar, wind and biomass. Support scheme for renewables (green feed-in-tariff was introduced in 2009) requires reform as part of the new electricity market design. Ukraine is committed to achieving a target of 11% of final energy consumption from renewable sources by 2020 under the treaty establishing the Energy Community.
- More than 95% of **municipal waste** in Ukraine is sent to landfills and dumps and only approximately 3.2% recycled (municipal waste make approximately 3% of overall waste volume), compared to the average total municipal waste recycling rate of 44% in the EU-28 in 2014 (IFC, 2015). The new Waste Strategy addresses the key challenges and reforms but the progress has been slow so far and a number of secondary legislations are still to be adopted.

Ukraine paid 5.6% of GDP in implicit subsidies for natural gas for household use in 2014 (Oxford institute for energy studies).

Energy transformation losses account for 40% of total primary energy supply (IEA, 2015).

The greatest savings in energy consumption can be expected in the housing (50% of the total volume) and industrial (35% of the total volume) sectors.

5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

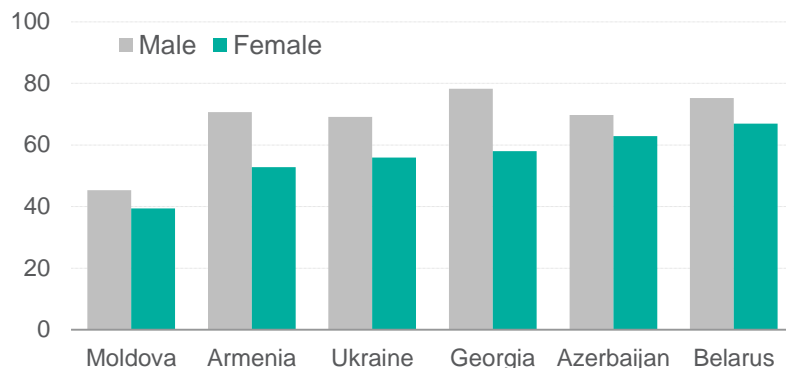
Inclusive



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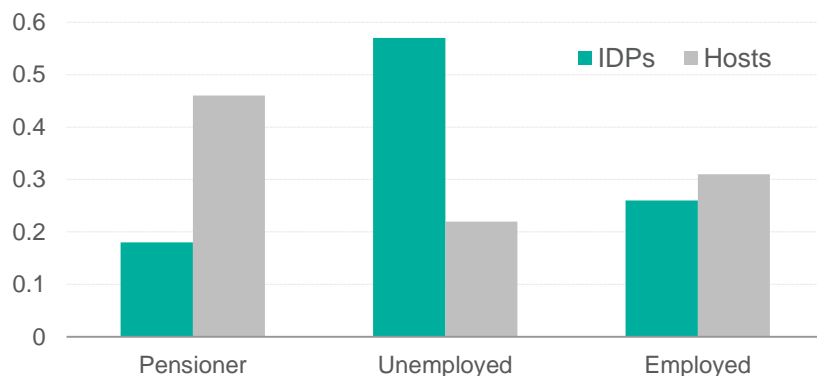
Labour force participation rates

National estimates, age 15+, 2017 (Armenia, Azerbaijan, Moldova) or 2016



Employment status of IDPs and host communities

Bottom household income quintile



Gender pay gap in monthly earnings widened from 22.2% in 2010 to 25.1% in 2015 (UNECE, Gender Pay Gap Statistics)

48% of employers in food processing and 46% in IT report significant skills gap (Ukraine STEP Employer Survey, 2014).

½ of 2.7mn IDPs have not returned to their home and ¼ have no intention to return. Unemployment rate is at 17% among IDPs, compared to 7% among hosts (WB, 2017).

Large gender **inclusion** gaps in the labour market and in access to finance as well as prevalent skill mismatches inhibit inclusive growth of the private sector. Emigration of working age population has intensified, contributing to labour market pressures. Since the beginning of the conflict, at least 800 thousand jobs have been destroyed and approximately 6% of Ukraine's population have been displaced.

- **Women's labour force participation** is low compared to some other countries in the region and to male labour force participation rates. Gender segregation in the labour market is high with women comprising 76% of public sector employment. Economic opportunities for women are limited by regulations, and social norms among other factors. Women are barred by law from performing a range of jobs and tasks; and prospective employers are not prohibited to ask about family status. Marriage and motherhood continue to be important determinants of women's participation in the labour market.
- Women have lower access to finance than men and face more constraints in accessing finance. **Female-to-male** ratio in saving in formal financial institutions is 0.7, the second lowest in the EEC region (WB Gender Statistics). Female-to-male ratio in terms of borrowing to start, operate or expand a farm or business stands at 0.11, the second lowest in the EBRD region (WB Global Index).
- **Youth and regional inclusion** is affected by outdated education and training systems. The Framework Law on Education adopted in September 2017 delegates responsibilities from national to regional levels and strengthens the communication between public and private stakeholders.
- **Training** outside of the formal education system has very low take-up rates and more than 75% of firms do not have regular contact with education and training institutions (Ukraine STEP Employer Survey, 2014).
- The **labour market** outlook in eastern regions and near conflict areas has deteriorated considerably. The hostilities led to a destruction of an estimated 800 thousand jobs to date in Donbas region alone.
- Given that a large share of **internally displaced persons (IDPs)** were employed in the mining sector, there are likely to be misalignments between their skills and the skills needed by employers elsewhere in Ukraine, where mining is less economically important. At present, Ukraine has nearly 1.6 million registered IDPs and UNHCR estimates that the real figure of those who are permanently displaced is by up to 1 million higher.

5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

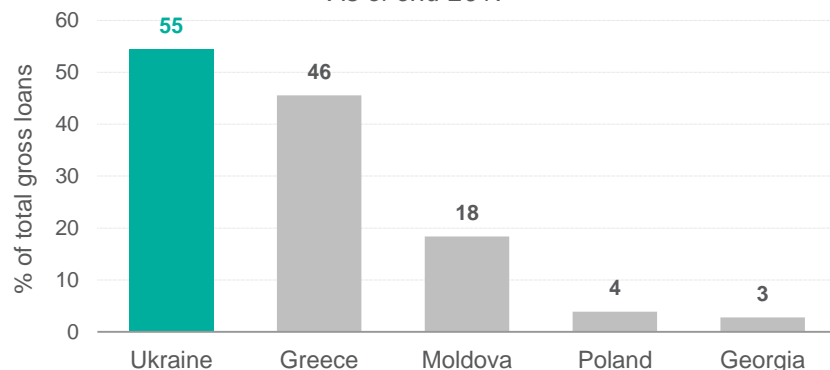
Resilient



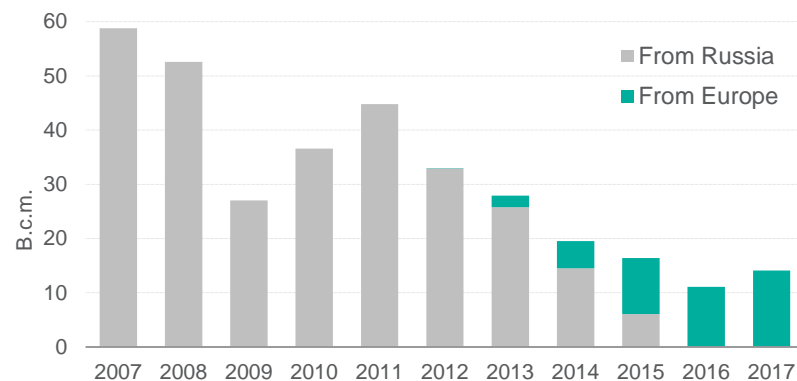
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Ukraine's NPL ratio is by far the highest among peers

As of end-2017



In 2016-17, Ukraine purchased 100% of its gas supplies from European competitive markets



Number of banks decreased from 180 in end-2013 to 79 in November 2018 (NBU).

Heating production is dominated by gas (71%) and coal (16%), while electricity production by nuclear power (54%), coal (34%) and gas (6%) (IEA).

Naftogaz's deficit of approx. 5.5% of GDP in 2013 was eliminated in 2016 due to the increase of tariffs to import parity level (IMF Art IV, 2017).

Following three years of financial sector clean-up, consolidation, and recapitalisation measures, including the nationalisation of the largest bank in 2016, the **banking** sector has become more **resilient**, although challenges related to excessive state involvement in the sector, low quality of assets and high dollarization remain. **Energy** sector resilience benefited from diversification of gas imports and reforms aimed at transposition of the 3rd Energy Package. However, reforms agenda in the energy sector is unfinished.

- High share of **state ownership** in the banking sector (c.56% of total sector assets as of mid-2018) in the context of still weak corporate governance – is a concern. The authorities have indicated plans to gradually privatise the state-owned banks (SOB), but the implementation of the reforms aimed at creating preconditions for successful involvement of private investors are slow-moving.
- Sharp rise in **NPLs** to c.56% of total loans in July 2018 (approx. 21% of 2017 GDP) is impeding credit flow to the private sector. Most of the NPLs are concentrated in SOBs (as well as in the DGF). Out-of-court debt restructuring mechanism adopted in 2016 ('Kyiv approach') has had limited traction.
- **Lending activity** remains weak on the back of prevailing risk-aversion, deleveraging, lack of progress in creditor rights protection and high, albeit decreasing interest rates.
- **Dollarization** remains high, exposing banks to potential direct and indirect F/X risks. On the back of relative hryvnia stabilisation since 2016, dollarization on the loan side has subsided to just below 50%. By September 2018, 48% of retail and 38% of corporate deposits were in foreign currency.
- Ukraine successfully adopted the gas market law (2015), regulator law (2016) and electricity market law (2017), introducing main principles of the **EU's 3rd Energy Package**. However, for each of these primary legislation components implementation phase has proven to be difficult.
- In the **gas market** Ukraine needs to improve the trading climate to attract more international companies. Key reforms include the corporatization and unbundling of Naftogaz, liberalization of the retail and upstream sectors.
- Increase of **gas tariffs** to import parity level in 2016 enabled to phase out quasi-fiscal deficit of Naftogaz for the first time in recent years. To maintain cost reflective gas prices, tariff correction must continue on the basis of a permanent adjustment mechanism, which is also one of the key conditions for continued cooperation with the IMF.

5. QUALITIES OF A SUSTAINABLE MARKET ECONOMY

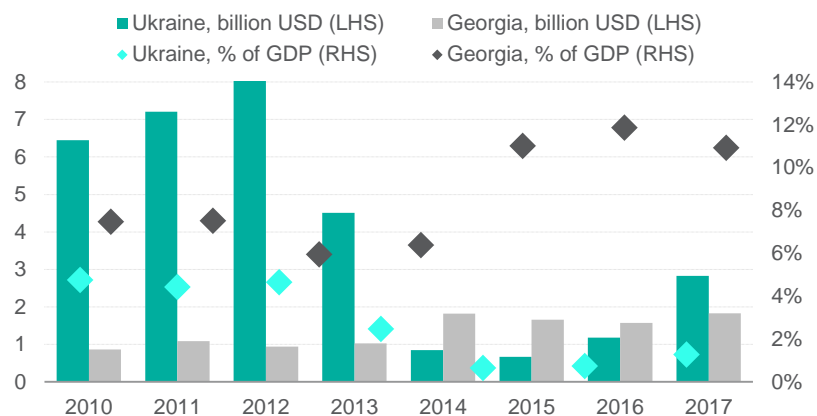
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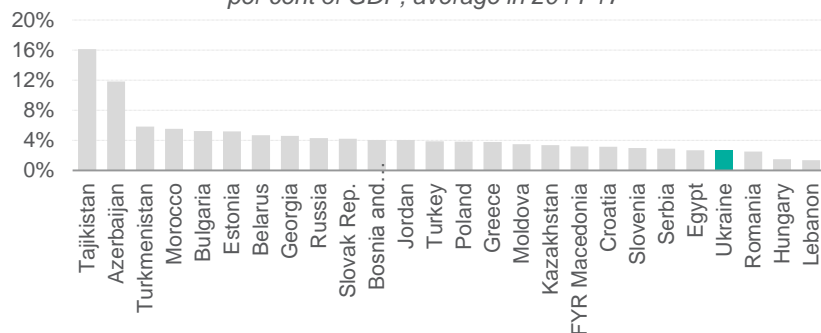
FDI into Ukraine's real sector

Excluding debt-to-equity swaps for recapitalization of banks in Ukraine in 2015-16



Government capital investment is low compared to other economies

General government net acquisition of nonfinancial assets, per cent of GDP, average in 2014-17



Ukraine faces challenges in both external and internal **integration**. Large infrastructural spending is required to catch-up with better integrated regional economies, to ensure adequate maintenance of the existing infrastructure stock and to build new competitiveness-enhancing infrastructure. Significant investment needs in Ukraine for replacement and maintenance reflect large but outdated stock of infrastructure. Most investment needs are in energy sector and transport – roads and railways.

- Ukraine has one of the lowest scores among EBRD CoOs in the area of investment freedom of the 2018 Index of Economic Freedom (The Heritage Foundation). **FDI flows** to Ukraine remained low, averaging 3.1% of GDP in 2012-16.
- Tight **capital controls** introduced in 2014-15 remain in place as prerequisites for their removal remain unmet, although the NBU continued their gradual relaxation.
- The quality of domestic transport infrastructure has been deteriorating. **Roads** are a particular concern – Ukraine ranks 123rd out of the 140 countries (WEF GCI), significantly behind the rest of EEC economies.
- Ukraine lags behind peers in quality of **logistics** in terms of cost and time of border and documentary compliance. **Customs** are inefficient and excessively bureaucratic with inconsistent and arbitrary customs clearance procedures, leading to delays in processing and opportunities for corruption. This complicates trade operations for the private sector and makes them more expensive.
- **Port costs** are exorbitant. The number and amount of port dues and tariffs are well above comparable ports in other countries. Work on the new methodology of calculating port dues is currently underway.
- The quality of **electricity supply** in Ukraine is in line with the EBRD and OECD averages, but the quality of **ICT infrastructure** falls behind. Only 52.5% of people have broadband internet access (82.8% in OECD, 64.1% EBRD average).
- Ukraine has one of the most extensive **gas transit and transmission** systems in the world, one of the largest available gas storage capacities in Europe and many exit points with its western EU neighbours (Poland, Hungary, Romania and the Slovak Republic). Almost 15 EU countries transit gas through Ukraine's Gas Transit System (GTS). However, between 2013 and 2015 gas flows from Russia to the EU via Ukraine's GTS decreased by 11.7% from 86 to 67 bcm. The current Russian-Ukrainian gas transit contract expires at the end of 2019 and there is uncertainty with regards to its replacement.

Stock of FDI per capita equal to USD 1,153 in 2017 (current prices), 2nd lowest in the EEC region after Moldova (UNCTAD).

Ranks 66th out of 160 countries in the Logistics performance index (WB LPI, 2018).

Government capital investment averaged 2.7% of GDP in 2014-17, while EBRD average equaled 3.9% (IMF WEO Oct 2018)



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