



# MEMU Supplement No.2-2008

## Compensation of devalued savings in the Soviet Sberbank was launched in January

In January 2008 the Government started the compensation of the devalued households' savings in the Soviet Sberbank, the obligation assumed by the state more than a decade ago.

In 1996, the amount to be compensated was estimated at UAH 131.9 bn, assuming almost a one-to-one relation between the Soviet ruble and the hryvnia. As of 2007, the Counting Chamber reported UAH 127.9 bn left for compensations. This sum is distributed among around 51 m accounts.

The procedure of compensation stipulated by the CMU Resolution<sup>1</sup> foresees several steps. First, the depositor or the heir has to register all accounts at the Oshchadbank, thus de-facto filling out the compensation claim. Also, at this stage the depositor chooses the currency of compensation, UAH or USD. Second, in three days the reimbursement not exceeding UAH 1000 or USD 200 is available for withdrawal from the current account automatically opened for the claimant. Alternatively, the Oshchadbank offers a special deposit plan for those who decide to leave the money in the bank on a two-year deposit. In case the depositor subscribes to delivery by Ukrposhta, the compensation period is extended to five days. Finally, the government promised to elaborate by mid-February the scheme that allows paying utilities with the rest of the deposit, namely the difference between UAH 1000 and the total amount claimed to the Oshchadbank.

As of January 30, 3.3 m depositors were registered in the Oshchadbank network, and around 1.4 m accounts received the compensations totalling UAH 1.3 bn. All costs associated with compensations administration are expected to be reimbursed from the State Budget. Ukrposhta will receive for its service 0.5% of the delivered compensations, directed to ensure the security of the deliveries. The Head of Oshchadbank expects also reimbursement of the bank costs on wage increases and employment of additional staff.

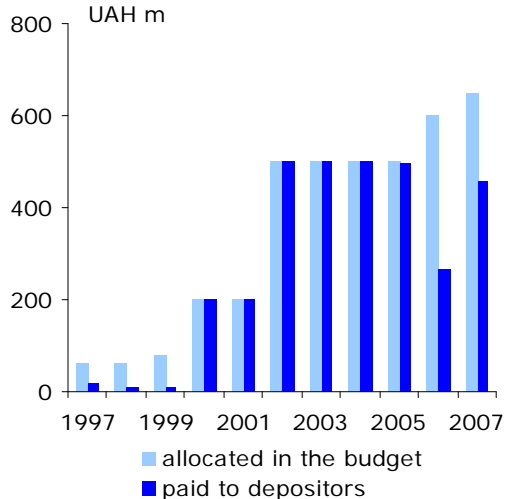
In 2008, UAH 6 bn were marked out for this purpose in the State Budget Law. During January the Oshchadbank received three transfers from the Ministry of Finance on the total amount of USD 400 m (around UAH 2 bn). Also, the explanatory note to the Budget Law mentions additional UAH 12 bn directed for this purpose from additional privatisation receipts over UAH 8.6 bn privatisation plan stipulated in the budget. The Budget Law 2008 amended the law on privatisation, allowing payments for the privatised objects in foreign currency. It is expected that the foreign currency proceeds could be used for compensatory payments.

The key risk of the compensation scheme is the increased inflationary pressure. The estimates of such contribution vary from 0.4 to 2.0 additional percentage points to annualized consumer price inflation. Though, the scheme contains some anti-inflationary measures like the payments in foreign currency that is expected to be saved and not directed for consumption. Also, there is two-year deposit option. According to Oshchadbank Head Anatoliy Guley, 15% of compensations were left on the deposits in January.

Yet another result is the additional budgetary obligation, not sufficiently financed according the current Budget Law. Assuming that around 1.5 m people claim the compensation monthly, the annual financing of the program will be at around UAH 18 bn, excluding the administrative costs. If privatisation fails, then additional borrowings could be required to cover the gap.

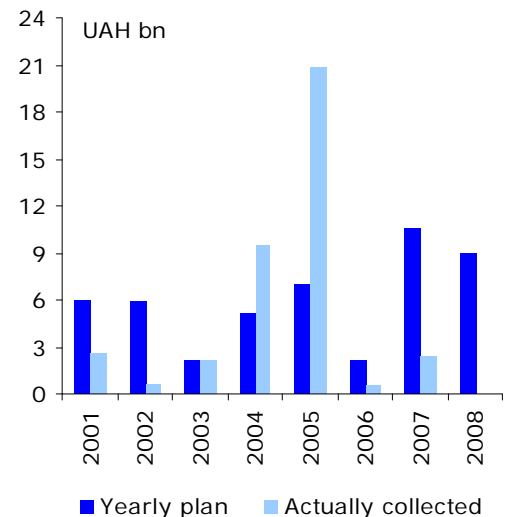
Compensation payments are not the only inflationary factor, although they will unambiguously add to the inflation number in 2008. But the scale of this contribution will depend on consistency of anti-inflationary measures taken by the Government in the near future.

Compensations of devalued savings allocated between 1997 and 2007



Source: State treasury of Ukraine, Oshchadbank

Privatisation receipts



Source: State treasury of Ukraine, SPFU, State Budget Law 2008

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<sup>1</sup> CMU Resolution #1 from January 9, 2008.


**Quarterly trends**

<b>National accounts</b>		Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
GDP	UAH bn	99.4	100.1	84.3	97.5	119.4	123.6	105.4	124.1	150.4	157.7	133.1	161.4	195.6
GDP (real)	% yoy	14.3	9.1	4.9	3.4	1.4	1.7	4.1	6.8	6.9	9.5	8.0	7.9	6.4
Households consumption (real)	% yoy	9.7	12.5	14.3	17.7	17.0	17.1	20.2	18.2	11.8	9.9	14.7	15.5	15.2
State consumption (real)	% yoy	3.9	0.9	6.1	0.0	1.0	4.0	9.6	5.8	5.8	1.0	0.8	6.2	4.4
Gross fixed capital formation (real)	% yoy	23.8	16.8	-2.3	-0.5	0.2	0.3	19.9	19.3	17.9	18.3	24.4	23.5	18.9
Exports of goods and services (real)	% yoy	14.3	11.7	-0.6	-14.0	-12.7	-15.5	-14.9	-9.6	3.2	1.0	4.9	5.2	0.1
Imports of goods and services (real)	% yoy	7.2	8.7	2.8	3.2	3.9	-0.9	10.7	0.9	8.3	6.4	12.9	19.6	13.7
Agriculture, hunting, forestry (real)*	% yoy	35.6	11.3	5.8	8.3	2.6	-7.2	3.8	2.8	-5.6	8.1	4.8	6.8	-9.3
Manufacturing industry (real)*	% yoy	9.9	6.9	7.0	1.8	-1.1	2.0	-1.5	6.1	7.3	7.2	15.0	13.2	13.1
Construction (real)*	% yoy	11.9	23.3	-8.4	-11.3	-8.5	-7.5	0.1	0.8	1.4	4.2	13.3	8.2	12.7
Trade, repair services (real)*	% yoy	13.9	2.5	-2.1	-10.7	-11.7	-11.9	6.2	16.4	20.0	21.9	14.3	17.5	25.3
Transport (real)*	% yoy	12.5	6.4	6.6	5.7	2.8	7.8	4.9	7.7	9.4	5.3	7.0	5.6	8
<b>Balance of payments</b>														
Current account balance	USD bn	2.1	1.1	1.6	0.6	0.4	-0.1	-0.8	0.0	0.5	-1.4	-1.3	-0.7	-0.2
Current account balance	% of GDP	11.0	5.7	10.1	3.2	1.7	-0.4	-3.7	0.0	1.7	-4.3	-5.0	-2.0	-2.2
Trade balance in goods	USD m	774	482	1020	-236	-1131	-788	-1353	-935	-884	-2022	-1753	-1430	-2195
Trade balance in services	USD m	749	157	188	392	1035	191	219	506	1054	347	50	403	1548
Current transfers	USD m	720	623	626	694	745	780	622	790	851	910	789	923	1054
Direct investment (FDI)	USD m	420	344	247	365	477	6474	1053	1389	1636	1258	1162	1772	3756
Portfolio investments	USD m	1313	156	397	923	90	1347	4	-141	370	3350	1818	1519	517
Gross international reserves	USD bn	12.1	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1	22.3	23.5	25.6	30.6
Exchange rate, UAH/USD	aop	5.31	5.31	5.30	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.1
<b>Fiscal indicators</b>														
Consolidated fiscal revenues	% of GDP	26.3	25.9	32.1	35.1	31.5	31.0	31.2	31.7	31.9	32.8	33.3	32.8	30.8
Personal income tax	% of GDP	3.8	3.8	4.3	4.4	3.9	4.2	4.4	4.6	4.1	4.1	5.1	5.3	4.9
Enterprise profits tax	% of GDP	4.1	6.1	4.8	5.9	5.3	6.3	3.4	4.6	4.3	6.7	3.8	4.1	4.1
Value-added tax	% of GDP	5.1	4.1	8.6	9.2	7.9	7.3	9.2	9.2	9.7	9.3	10.4	9.8	8.7
Excise tax	% of GDP	2.0	1.8	2.0	2.0	2.0	1.7	1.8	1.7	1.5	1.5	1.8	1.7	1.6
Consolidated fiscal expenditures	% of GDP	26.8	35.2	28.3	36.4	28.1	41.7	30.9	32.8	29.4	36.6	28.4	31.0	29.6
Current expenditures	% of GDP	21.7	27.2	26.5	33.6	24.0	34.2	28.9	29.7	24.9	29.2	26.9	28.4	25.9
Capital expenditures	% of GDP	5.1	8.0	1.8	2.7	4.1	7.5	1.9	3.2	4.5	7.4	1.6	2.6	3.7
Consolidated fiscal balance	% of GDP	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	1.1	-2.4	4.0	-4.8	1.7	1.2
Privatisation receipts	% of GDP	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1	0.1	0.1	0.5	0.5	0.3
<b>Labour market</b>														
Average wage (real)	% yoy	14.7	15.4	15.0	19.0	19.6	26.4	23.8	22.6	18.8	11.3	14.7	13.9	14.9
Household income (real)	% yoy	11.3	16.6	24.0	28.0	19.4	18.9	22.1	18.6	20.3	16.3	17.5	17.4	14.9
Unemployment rate (ILO methodology)	% cum	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.8	6.4	6.8	7.4	6.6	6.2
<b>Banking system</b>														
Monetary aggregate M0	% yoy cum	37.1	27.9	28.2	39.1	31.1	42.2	36.2	25.3	23.7	24.5	22.9	30.4	36.4
Monetary aggregate M2	% yoy cum	51.5	32.3	38.9	37.4	31.3	53.9	39.2	36.6	36.7	34.3	38.6	40.7	47.8
Household deposits in national currency	% yoy cum	67.9	26.2	28.3	31.6	30.4	90.8	54.6	41.1	39.7	37.3	50.7	56.3	64.8
Household deposits in foreign currency	% yoy cum	55.2	54.3	51.8	45.4	46.4	59.1	54.5	66.2	64.3	57.5	52.3	43.8	38.4
Com. bank credits in national currency	% yoy cum	44.3	29.4	28.3	32.6	43.4	58.7	59.8	53.7	49.0	52.3	52.4	57.2	60.7
Com. bank credits in foreign currency	% yoy cum	43.5	32.2	33.1	36.8	47.1	66.3	72.0	82.1	90.4	95.4	98.9	97.4	91.0
Long-term com. bank credits	% yoy cum	82.7	57.1	49.5	53.0	70.1	84.6	87.6	86.7	76.6	79.5	84.1	86.5	87.9
Long-term com. bank credits	% of total	50.9	54.2	54.4	56.1	59.7	61.8	63.1	63.4	63.5	64.9	65.8	67.3	68.2
Average lending rate on national cur. credits	% p.a.	17.0	17.6	17.0	15.4	15.4	16.4	15.8	15.5	14.6	15.1	14.0	13.9	13.7
Average lending rate on foreign cur. credits	% p.a.	12.6	12.2	12.1	11.0	11.3	11.7	11.5	11.3	11.3	11.5	11.5	11.4	11.3

SOURCES: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, IER estimates

\* change in value added

° preliminary

**Notes:**
**yoy** year on year change

**p.a.** per annum