

**Ladies and Gentlemen!
My Esteemed Colleagues!**

In 2003, we worked according to the Comprehensive Program for Banking Sector Development for 2003 – 2005. Three fundamental objectives of the Program were as follows: to maintain macroeconomic stability, to supply the economy with the necessary volume of credit resources, and to strengthen the banking system and increase its crisis resistance.

The course of recent events shows that we are getting closer to achieving these goals.

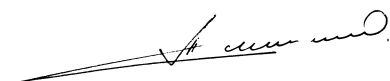
The national monetary unit is stable, and the inflation rate is moderate. The international monetary reserves grow steadily. The balance of payments current account surplus is high. The banking system of Ukraine works at full capacity. During last four years, the average annual growth rate of the real economy crediting made 54%, being 7 times superior to the average annual GDP growth rate.

We are certain today that the Ukrainians are recovering their confidence in banks. The deposits of individuals have grown steadily, making 12.8% of GDP in 2003 against 3% of GDP in 2000. I am proud of it, because this is the result of the work done by thousands of bank officials.

This progress shows that by joint efforts we will be able to translate our ideas into reality. We have the intellectual potential and desire to do it.

Best regards,

**Governor of the
National Bank of Ukraine**



Sergiy Tigipko



Council of the



Anatolii Halchynskyi

Chairman of the Council of the National Bank of Ukraine, Adviser to the President of Ukraine



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Deputy Chairman of the Council of the National Bank of Ukraine, Deputy Head of the Finance and Banking Committee of the Verkhovna Rada of Ukraine



Valerii Horoshkovskyi

Chairman of the Supervisory Council of the Ukrspotsbank



Ihor Sharov

Member of the Budget Committee of the Verkhovna Rada of Ukraine



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Head of the Budget Committee of the Verkhovna Rada of Ukraine



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Serhii Liovochkin

First Assistant
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Sergiy Tigipko

Governor of the
National Bank of Ukraine



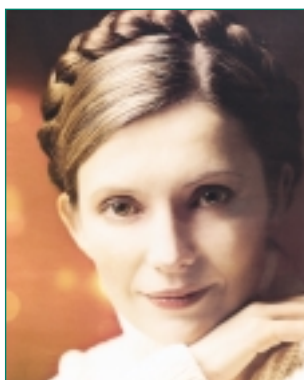
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First Deputy Head of the Pensioners,
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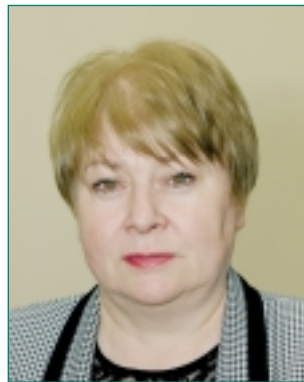
Board of the



Sergiy Tigipko
Governor of the
National Bank of Ukraine



Arseniy Yatsenyuk
First Deputy Governor



Natalia Hrebenyk
Director of the
Monetary Policy Department



Ihor Ivaniuk
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Personnel Department



Vadym Pushkariev
Director of the
General Department
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Vira Rychakivska
Director of the
Accounting Department



Anatolii Savchenko
Director of the Information
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National Bank of Ukraine



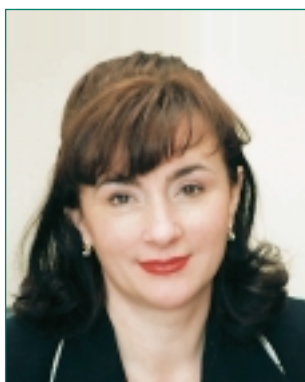
Volodymyr Krotiuk
Deputy Governor



Pavlo Senytsch
Deputy Governor



Olexander Shlapak
Deputy Governor



Olha Kandybka
Director of the
Financial Department



Volodymyr Matviichuk
Director of the
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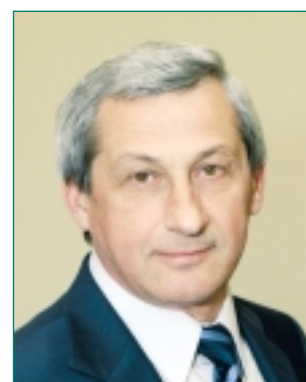
Vasyl Pasichnyk
Director of the
Legal Department



Anatolii Stepanenko
Head of the NBU Main Branch
for the City of Kyiv
and Kyiv Region

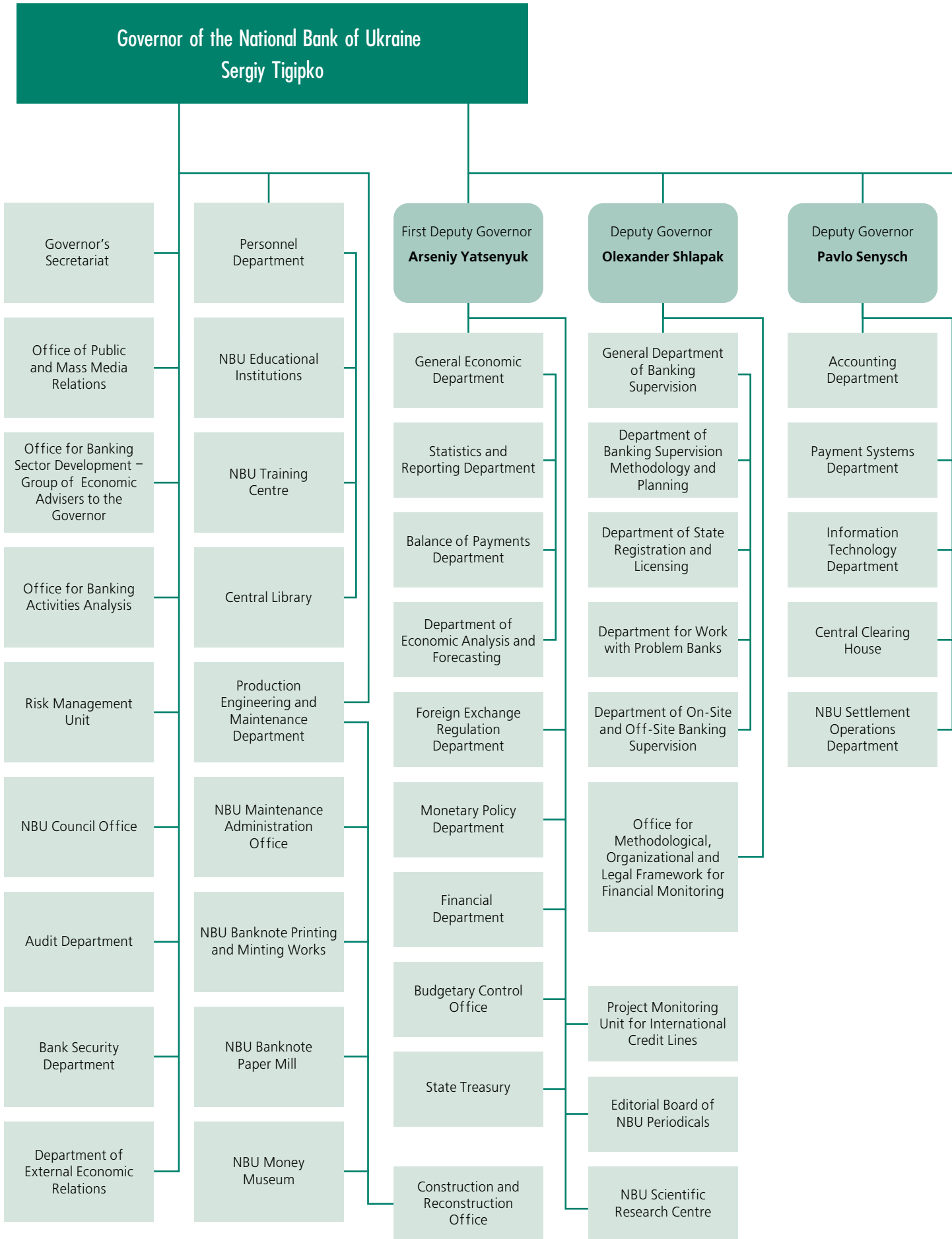


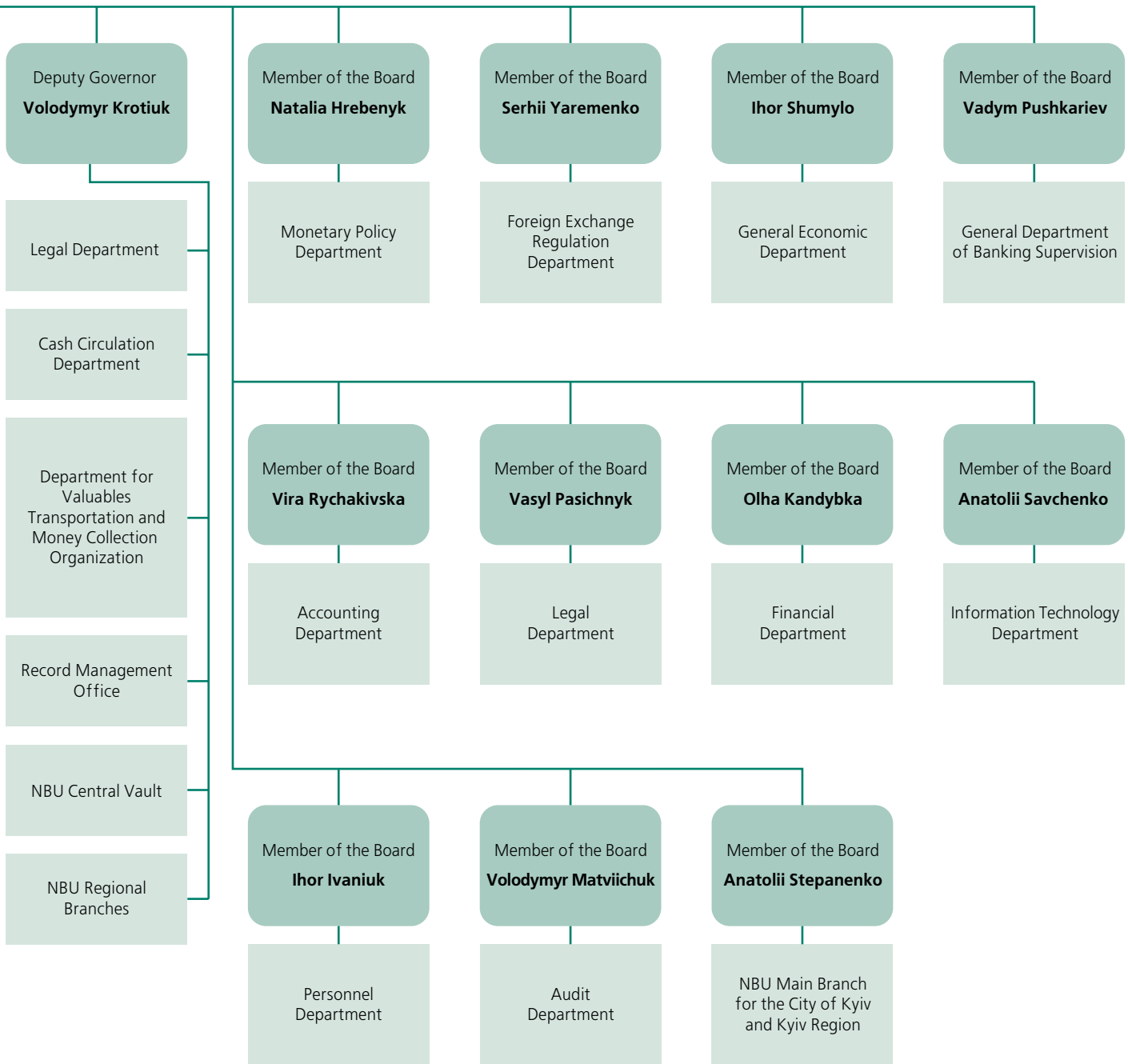
Ihor Shumylo
Director of the General
Economic Department



Serhii Yaremenko
Director of the Foreign
Exchange Regulation
Department

STRUCTURE OF THE NATIONAL BANK OF UKRAINE





INTRODUCTION

2003 Annual Report of the National Bank of Ukraine was compiled in accordance with the Law of Ukraine "On the National Bank of Ukraine" in order to disseminate transparent open information on NBU activity and its securement of the stability of the national monetary unit.

The Annual Report contains information on the place and the role of the National Bank of Ukraine in economic and financial development of Ukraine, results of the monetary and exchange rate policy, strengthening of the banking system, and securement of the effective operation of the domestic payment system.

In the year under review, the National Bank of Ukraine pursued its monetary policy according to the Principles of the monetary policy for 2003 and coordinated with the public policy of Ukraine's economic development. 2003 increase in money supply did not provoke the destabilization of the national currency exchange rate and the adverse impact of the monetary factor on price development.

In 2003, liquidity of the banking system remained at rather high level. The NBU retained its discount rate at the minimum level stimulating in this way a reduction in the value of banking credits. The National Bank of Ukraine gave banks a possibility to support their liquidity using refinancing instruments, made for an improvement of the breakdown of deposits by maturity actively using differentiation mechanisms of the minimum reserve requirements.

In 2003, in the foreign exchange market, inflow of the foreign currency in the country augmented owing to an increase in the surplus of Ukraine's trade balance and in direct foreign investments. In the light of considerable volatility of the exchange rate of US dollar against hard currencies in the international financial markets and given inflationary risks in Ukraine, the National Bank of Ukraine restrained considerable fluctuations of the exchange rate of hryvnia against US dollar and prevented hryvnia revaluation. In 2003, the real effective exchange rate gradually increased which made for a rise in price competitive capacity of Ukrainian goods.

In accordance with general economic situation, the National Bank of Ukraine aimed its activity to supplying the economy with necessary and sufficient financial resources having increased crediting for the economy and individuals as well as terms of crediting and decreased interest rates on the credits.

In the year under review, the National Bank of Ukraine took a number of actions to increase a role of banks in the economy growth and to ensure financial stability of the banking sector which included close risk control and banking supervision improvement.

In order to ensure the stability of the banking sector and to protect creditors and depositors the National Bank of Ukraine took decisions regarding the banking regulation and supervision sphere in accordance with the situation and prospects for its development taking into account possibilities and authorities of the supervision body realized within the legislation in force.

The NBU continued its work aimed at the improvement of financial instruments accounting and financial reports in Ukrainian banks in order to ensure their transparency and reliability according to the ISFR (International System of Financial Reports) requirements.

The National Bank of Ukraine strictly adhered to the Basle principles, took steps to approach the Ukrainian legislation to that of the European Union, and to facilitate Ukraine's accession to GATT and WTO.

In 2003, further capitalization, decrease in operational expenses, improvement of bank credit portfolio and growth of confidence were the key stones of further development and improvement of the banking system.

With the NBU participation Ukraine fulfilled all FATF requirements and was excluded from the FATF List of non-cooperating countries and territories.

In 2003, the banking system on the whole made for macroeconomic stability and creation of the developed financial market in Ukraine.

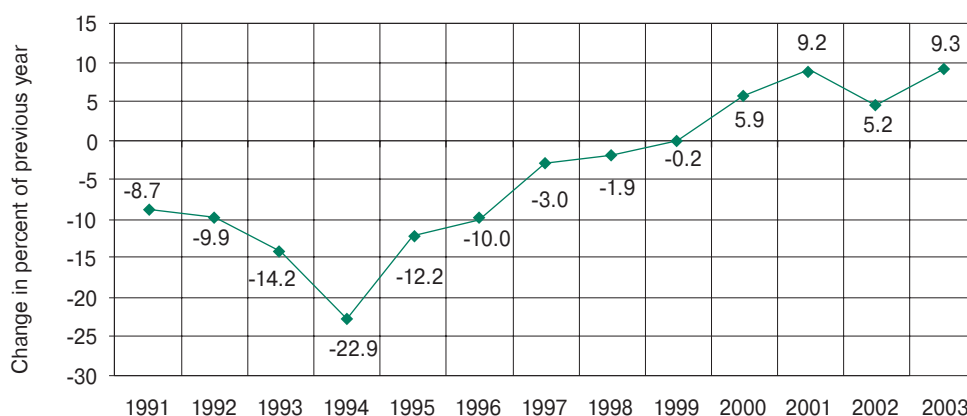
The National Bank of Ukraine will continue to pursue the policy aimed at ensuring the macroeconomic stability and reliability of the banking system which are the key stones of the long-term steady economic growth.

Part 1.
GENERAL ECONOMIC
SITUATION

1.1. REAL ECONOMY SECTOR

In 2003, main macroeconomic indicators showed both quantitative and qualitative changes that took place within the composition of Ukrainian economy. Inter-branch relations strengthened, the share of domestic consumption oriented activities grew, and investment intensified.

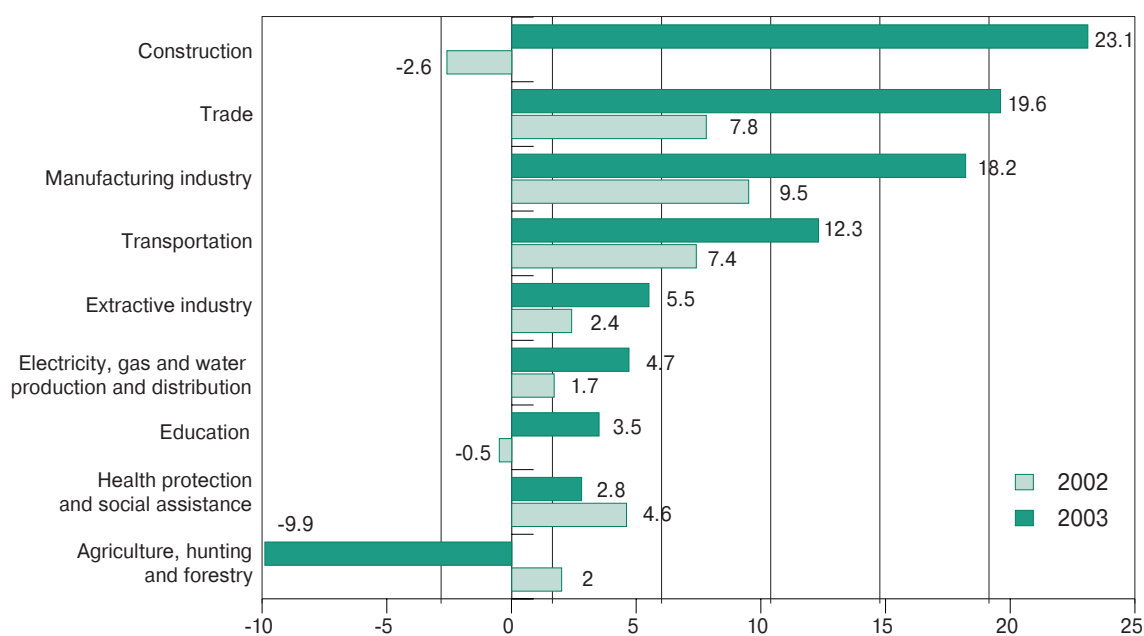
Real Gross Domestic Product of Ukraine in 1991 – 2003



In 2003, the nominal GDP amounted to UAH 263.2 billion, making UAH 5505 per capita and having increased by UAH 820 compared with 2002. The real GDP grew by 9.3%, having exceeded its average value over three preceding months (6.8%) and 2003 estimated indicator (6%).

In the year under review, the GDP growth resulted from an increase in the real GVA within all economic activities excluding agriculture. The largest increase in the gross value added was observed in construction (by 23.1%), trade (by 19.6%), manufacturing industry (by 18.2%), and in transportation and communication (by 12.3%).

Gross Value Added within Economic Activities changes versus previous period of 2002, percent



Within the breakdown of the gross value added, the shares of industrial branches and construction augmented from 30.8 and 3.8% to 32.3 and 4.2% respectively. It showed that domestic demand and its investment component grew, and favorable foreign economic situation for export-oriented branches preserved.

The share of economic activities rendering services viz. transportation, trade, education, health protection grew from 31.2 to 31.4%. It showed the consumer demand animation of households and economic entities.

The share of agriculture, hunting and forestry reduced from 13 to 10.9%. In comparison with the previous year, the share of net taxes on food products did not change, making 10.9%.

GDP Composition by Use Components

(at actual prices)

Indicators	2002		2003	
	Total volume, UAH billion	Share, % of total	Total volume, UAH billion	Share, % of total
GDP	225.8	100.0	263.2	100.0
including:				
Final consumer expenditures	170.3	75.4	203	77.2
Gross accumulation	43.26	19.2	50.4	19.1
Net exports of goods and services	9.9	4.4	7.3	2.7

In 2003 versus 2002, within the GDP composition by use, the share of the final consumer expenditures grew by 1.8 percentage points to 77.2%.

Consumer expenditures of individuals made the largest portion within the final consumer expenditures, totaling 55.2% of GDP. 5.8% growth of the real available income of individuals, 15.2% increase in the real labor remuneration, and reduction in arrears of social payments and arrears of wages were the main factors of the increase in consumer expenditures of individuals.

Collective services expenses grew by 12.8%, while expenditures for the development of education, health protection and social security increased by 18.1% due to pay rise in these branches. As a result, the portion of consumer expenditures of the state run public authorities augmented by 2 percentage points compared with 2002, making 20.4%.

In 2003 versus 2002, gross accumulation of the fixed capital grew by 12.2% owing to an improvement of the financial performance of enterprises. Nevertheless, its share almost did not change, amounting to 19.1%.

In 2003, industrial output grew by 15.8% in manufacturing industry and by 23.1% in construction. At the same time, during the year, the average weighted interest rate on the national currency credits diminished from 19.6 to 17.7% per annum, which led to an increase in crediting of individuals (2.7 times) and economic entities (by 52%). The indicator of financial result of export-oriented branches before taxation was high (particularly, in metallurgy industry, by results of 2003, this indicator made 54.5% of the total industrial financial result). All these facts had an impact on investment demand.

In 2003 versus 2002, within the GDP composition by end-use components, the share of net exports decreased by 1.7 percentage points, equaling 2.7%. It was caused by the fact that the growth rates of imports (116.5%) exceeded those of exports (110.4%). At the same time, the stability of the exchange rate of hryvnia against US dollar and 9% reduction in the real effective exchange rate in 2003 made for an increase in competitive capacity of exports.

GDP Composition by Income Categories (percent of total)

(% of total)

Indicators	2001	2002	2003
GDP	100	100	100
including:			
labour remuneration	42.3	45.7	45.3
Gross return, mixed income	44.3	42.1	42.6
Net taxes on production and import	13.4	12.2	12.1

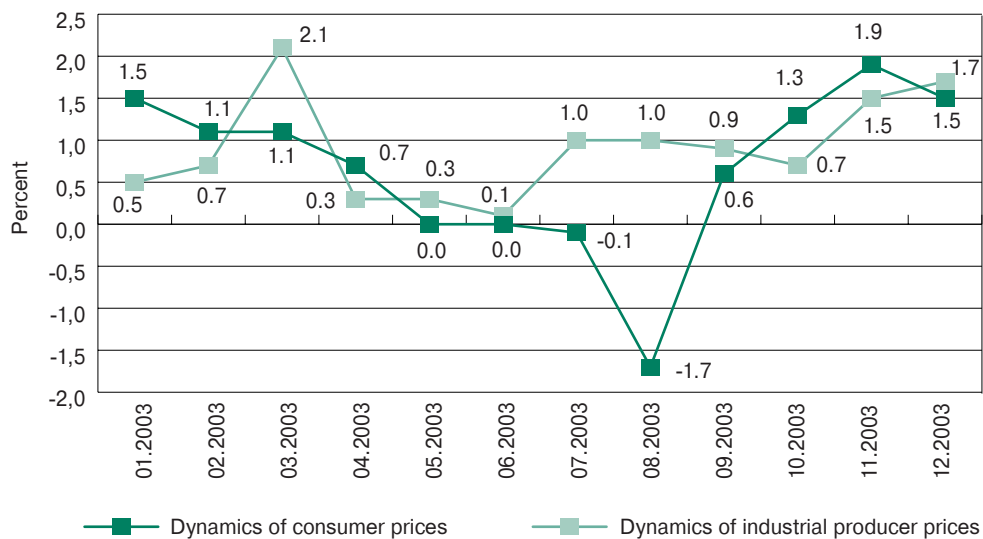
Within the GDP composition by income, the share of gross return and mixed income grew by 0.5 percentage points, whereas the shares of labor remuneration and net taxes on production and imports reduced by 0.4 and 0.1 percentage points respectively. These facts promoted business activity.

In 2003, the GDP deflator made 106.6% against 103.3% in 2002.

1.2. DYNAMICS OF CONSUMER MARKET PRICES AND INDUSTRIAL PRODUCER PRICES. INFLATION, ITS MAIN FACTORS

In 2003, the annual change in consumer price index made 8.2% against 0.6% deflation in 2002.

Dynamics of Consumer Prices and Industrial Producer Prices (growth rates versus previous month, percent)



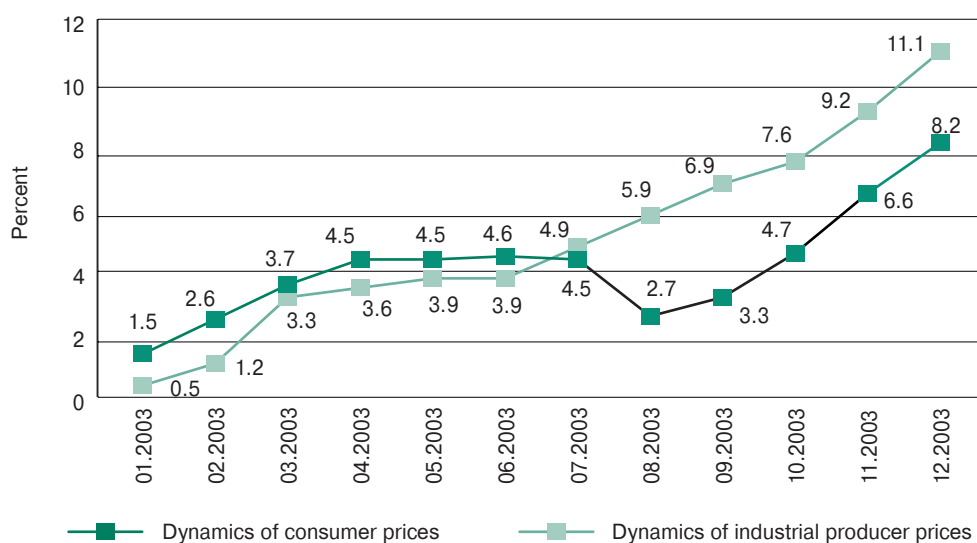
In 2003, prime cost of flour production increased due to a rise in prices and liberalization of prices for imported grain in October – November, and to 10.2% decrease in agricultural output. These facts were the main factors of an increase in consumer prices in 2003. Consumer prices augmented chiefly at the expense of 6.9 percentage points increase in prices for foodstuffs. Consumer prices grew by 8.2% including for foodstuffs – by 10.9%, for nonfoods – by 1.5%, and for services – by 5.4%.

Over the year, among foodstuffs, prices for flour and bakery goods grew most of all (by 75.1 and 36% respectively).

The National Bank of Ukraine aimed its policy at the stabilization of the exchange rate of hryvnia against US dollar (in 2003, revaluation of hryvnia against US dollar made only 0.02%). At the same time, the exchange rate of Euro against US dollar increased, which caused a diminution of the nominal effective exchange rate of hryvnia. As a result, prices for nonfoods chiefly imported from the Euro-zone grew by 1.5%.

Prices (tariffs) for services went up at the expense of a rise in prices (tariffs) for administrative services. Particularly, in order to decrease the gap between existing tariffs and prime cost tariffs for housing services augmented (electricity, gas, water and heat rose in price by 6.8%). Over the year, education and health protection went up in price by 7.2 and 7.8% respectively.

Dynamics of Consumer Prices and Industrial Producer Prices (growth rates versus December of previous year, percent)



11.1% increase in the industrial producer price index was pushed by 17.9% rise in prices in extractive industry and 27.1% rise in prices in production of materials other than non-energy carriers. In manufacturing industry prices grew by 11.8% due to a favorable export situation and an increase in domestic demand, particularly for machine building products. Euro-zone investment import products went up in price, which also caused the augmentation of industrial producer prices.

From the beginning of the year, in manufacturing industry, the largest increase in prices was observed in production of coke and oil refinery products (by 22.9%), in food industry and agricultural products processing (by 13.6%), and in metallurgy industry and metal working (by 13.5%).

1.3. INVESTMENTS

In 2003, animation in investment activities was seen. It was caused by economic growth, intensification of business activities of economic entities, favorable market situation, and improvement of financial performance of enterprises.

By results of 2003, enterprises and organizations of all pattern of ownership raised capital investment to the amount of UAH 59.9 billion. Out of them, 55.4% fell on collec-

tively-owned enterprises, 30% – on state-owned enterprises, 7% – on local authority-owned enterprises, 5.6% – on private sector, and 2% – on international organizations and legal entities of other countries.

Within capital investment, 61.4% fell on internal funds of economic entities, 11.1% – on budgetary funds, 8.2% – on banking credits, 5.5% – on foreign investments, 3.6% – on funds of natural persons for house-building, and 10.2% – on other funds.

Out of the raised capital investments, 85.2% fell on investments in fixed capital, 10% – on major overhaul and modernization, 2.4% – on non-fixed assets, and 1.6% – on other non-negotiable fixed assets and other expenditures.

As of 1 January 2003, capital investments totaled UAH 51 billion, having increased by 31.3% versus 2002.

Within the raised capital investments, the growth rates of investments in general government made 172.9%, those of investments in culture and sports – 191.3%, those of investments in health protection – 171.6%, those of investments in education – 151.1%, those of investments in construction – 129.8%, those of investments in wholesale and retail trade – 154.8%, nevertheless, their share within the total volume was insignificant (from 1.5 to 6.4%).

The growth rates of the raised investments in industry were somewhat lower (124.6%). By economic activities, the highest growth rates of the raised capital investments (132.5%) were seen in manufacturing industry.

In 2003 versus 2002, the raised investments in pulp and paper industry reduced by 24.6%. The share of investments in agriculture, hunting and related services made 4% of the total volume, having augmented by 4.8% versus the previous year.

In 2003 compared with 2002, the growth rates of the capital investments were the highest in Zakarpattia (167.7%), Kyiv (165.2%), Cherkasy (158.5%), and Chernivtsi (152.3%) regions. The capital investments grew slower in Zhytomyr (by 9.7%), Poltava (by 11.1%), and Volyn (by 11.4%) regions.

At the cost of the capital investments, in Zakarpattia region, construction works were executed on a section of the oil-trunk pipeline "Druzhba" and at the building site of the plant which will produce electric appliances for motor-car industry. In Kyiv region, the capital investments were used for technical re-equipment of the South-West Railway, construction of the beverage tare plant, and reconstruction of the Borispol airport. In Cherkasy region, the volume of the raised capital investments increased at the expense of technical re-equipment of the tobacco factory "Ligett-Ducat" and the Open Joint-Stock Society "Azot", and reconstruction of a railway section for the fast passenger train "Kyiv-Dnipropetrovsk".

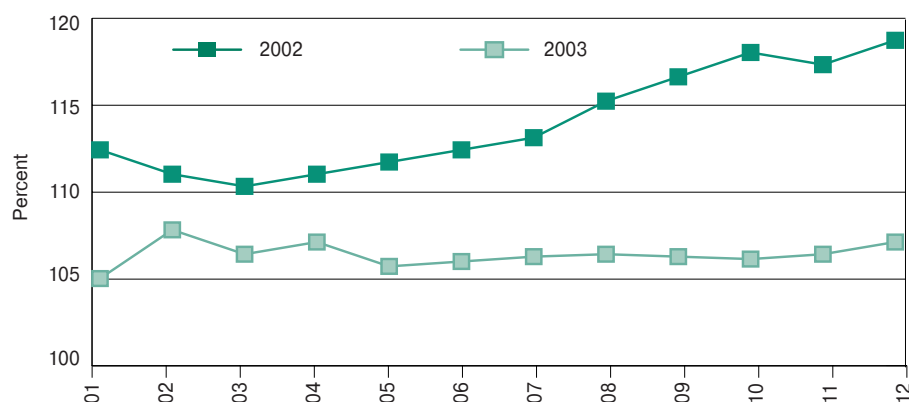
1.4. INDUSTRIAL PRODUCTION

In 2003, industrial production increased by 15.8%, making nearly one third of GDP. It was the main factor of economic growth. Enterprises worked out products and rendered services to the amount of UAH 220.6 billion. Prices for exports, increase in investment demand in metallurgy industry, and acceleration of the production growth rates in machine building and food industry made for high growth rates of industrial production.

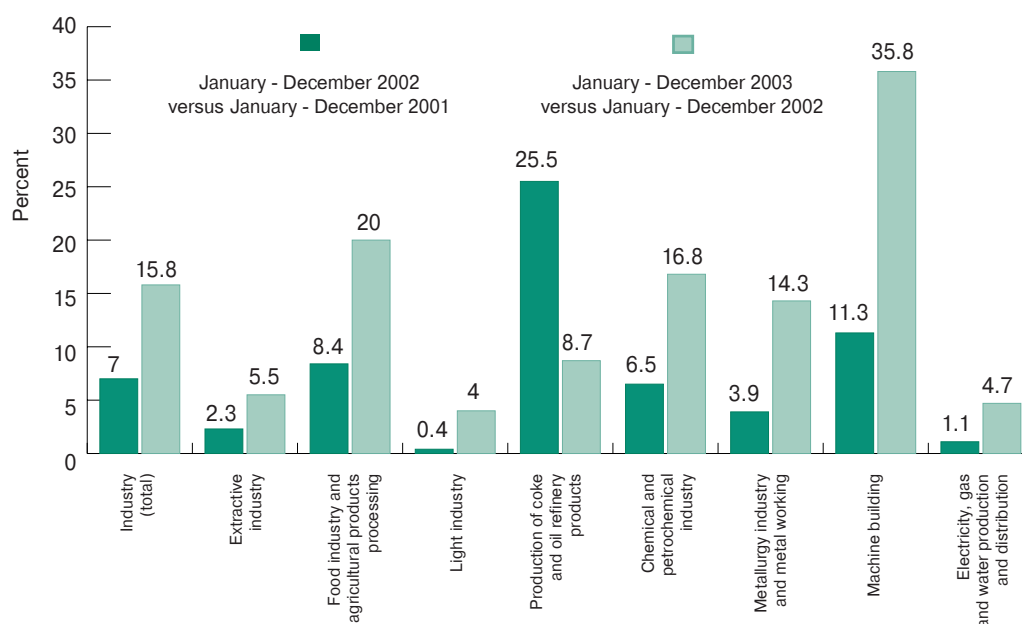
In extractive industry, which accounted for 10% of the total industrial production, the growth rates of production made 105.5% (in 2002 – 102.3%).

Within the total industrial output, the share of manufacturing industry made 77.8%. In 2003 versus 2002, its output growth was 18.2%. The highest growth rates were observed in machine building (135.8% against 111.3% in 2002), including in production of transport equipment (162.1%) and railway equipment (172.2%).

**Growth Rates of Industrial Output in Comparable Prices
(as progressive total, in percent versus respective period of previous year)**



**Increase/Decrease Rates of Production by Main Economic Activities
in Ukraine in Comparable Prices
(in percent versus respective period of previous year)**



In metallurgy industry whose share within the total industrial production made 24.4% production growth equaled 14.3%. The highest production growth rate was seen in pipe production (134.2%). Production of ferrous metals increased by 10.8%, that of non-ferrous metals went up by 18.6%, and that of primary steel processing did so by 8.6%.

In 2003, production output in food industry and agricultural products processing augmented by 20%. A considerable production growth was seen in processing of vegetables and fruit (39.3%), oil production (32.8%), and meat production (26.1%).

In electricity, gas and water production and distribution, production output grew by 4.7%. Over the year, the amount of generated electricity was 3.8% superior to that in 2002, equaling 179.5 billion kWh. Intensification of production activity in the country and an increase in electric power exports made for the development of this sector of industrial production.

In the accounting year compared with the previous one, production output of chemical and petrochemical industry grew by 16.8%. Production output of chemical products augmented by

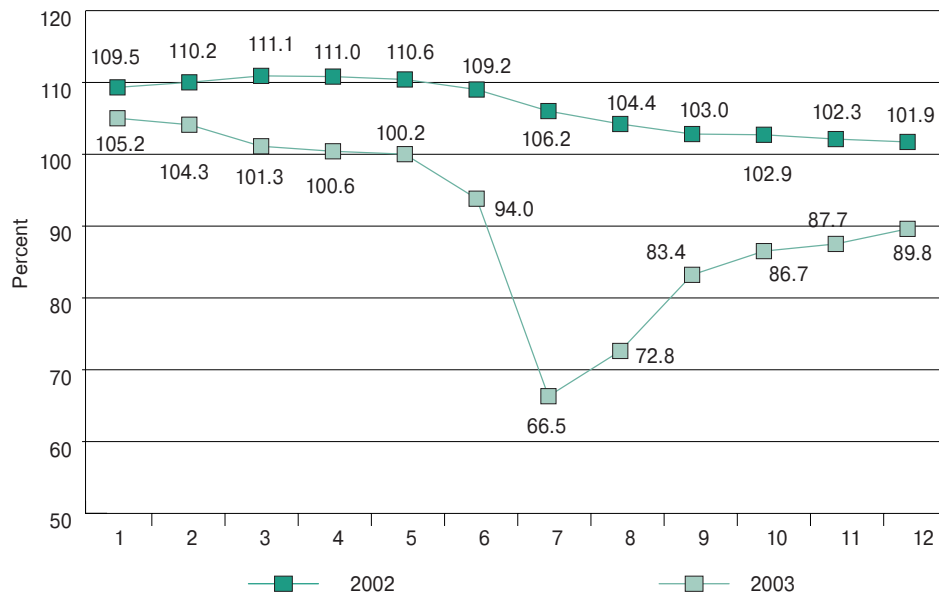
16%, including production output of primary chemical products did so by 19.2%, and that of pharmaceutical products did so by 12.1%.

Industrial production grew in all the regions of Ukraine. Its highest growth rates were observed in Zakarpattia (44.3%), Ternopil (34.6%), and Cherkasy (28.3%) regions, whereas the lowest ones were seen in the City of Sevastopol (7.7%), and in Poltava (9.3%) and Dnipropetrovsk (9.7%) regions.

1.5. AGRICULTURE

In 2003 against 2002, agricultural output reduced by 10.2% (it decreased by 25.5% at agricultural enterprises versus its 0.2% increase in households), estimating UAH 64.5 billion at actual prices. The decline primary resulted from a worse than expected yield of grain crops due to unfavorable weather conditions and 22% reduction of the area sown to these crops.

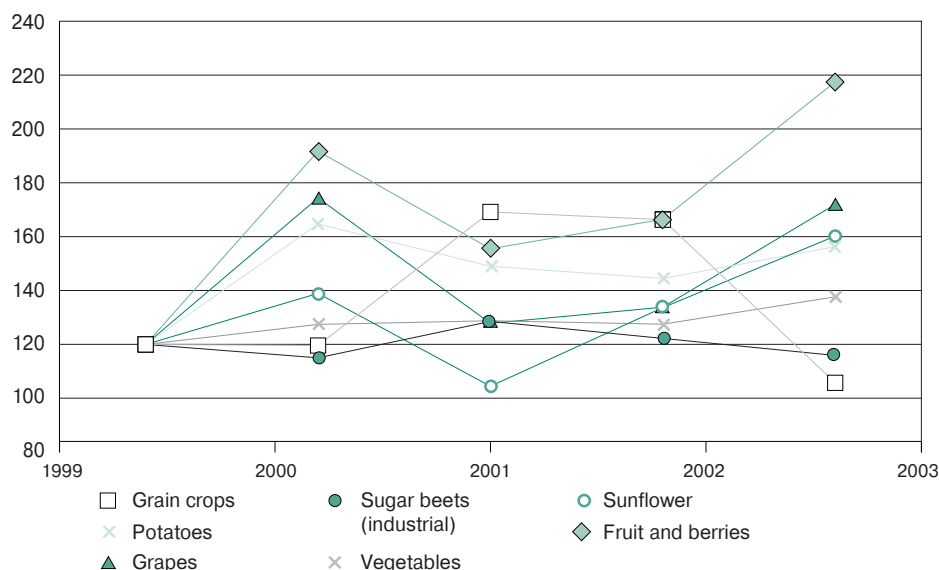
Growth Rates of Agricultural Output in Comparable Prices (as progressive total, in percent versus respective period of previous year)



In 2003 against 2002, the gross output of plant cultivation diminished by 14.9% (by 31.3% at agricultural enterprises and by 0.1% in households). The total yield of grain crops amounted to 20.2 million tons, having diminished 1.9 times compared with 2002, including that of bread grain – 5 million tons (by 78% inferior to 2002) and that of feed grain – 15.2 million tons (by 6.5% inferior to 2002). The decrease in grain output was provoked not only by the reduction in the area under cultivation but also by 33% decline in grain crops yield. The output of sunflower seeds (4.2 million tons) in 2003 was 30% superior to that in 2002, while the output of maize (6.9 million tons) was 60% superior to that in 2002. An increase in the yield of sugar beets failed to compensate 12.4% reduction in the cultivation area, which led to 7.7% decline in the output. The output of cereals multiplied 2.5 times, while that of potatoes and vegetables grew by 11 and 12% respectively due to an increase in the yield.

The government bent efforts to the stabilization of the situation in the food market. There was created the sufficient store of grain. The groundless rise in prices for bread, cereals, flour and other foodstuffs was not allowed. For the first time, there were introduced intervention and loan operations with grain. As a result, more than 600 thousand tons of grain was bought. Winter crops for grain and green fodder for 2004 harvest were sown on 7.1 million hectares, which was 15.3% less than for 2003 harvest.

Gross Output of Basic Crops (index, 1999=100)



Agricultural producers received UAH 360 million from the State budget for compensation of expenses related with sowing of winter crops for grain for 2004. Nearly 2 thousand technical units to the amount of UAH 115 million were supplied on financial leasing terms, which was 2 times as much as in 2002.

In 2003 against 2002, the gross output of animal husbandry shortened by 3% (it decreased by 11.5% at agricultural enterprises versus its 0.5% increase in households). Meat output rose by 3.5% (it grew by 15.8% at agricultural enterprises against its 1% reduction in households). Egg output grew by 1.4% (by 0.9% at agricultural enterprises and by 1.8% in households). Milk output fell by 3.4% due to its 22.8% reduction at agricultural enterprises. At the same time, the milk output of households rose by 2.9%.

In 2003, livestock and poultry population continued to decrease. Compared with 1 January 2003, cattle stock reduced by 13.4%. In 2003, the government granted subsidies amounting to over UAH 350 million to agriculture (at the expense of the VAT) and bonuses for high-weight-increase young stock, standard quality pigs and broilers amounting to UAH 41 million.

During 2003, the public policy on land reform was actualizing. According to this reform, privatization of agricultural land came to 74% of the total volume. Nearly 4 million persons (58% of the total citizens) received official acts on land privatization.

Over the year, agricultural product sales declined by 20% due to 31% decrease in sales of plant cultivation products. 2% augmentation in sales of animal husbandry products was attributed to an increase in slaughter. Average sale prices for agricultural products grew by 20% including by 33% for plant cultivation products and by 4% for animal husbandry products.

1.6. FINANCE OF ENTERPRISES

Financial results of the usual activity before taxation amounted to UAH 20.3 billion (total profit and loss equaled UAH 37.4 billion and UAH 17 billion respectively), having increased by 38.7%, which showed the improvement in financial performance of enterprises and organizations. The largest financial result before taxation was achieved in industry (UAH 9.1 billion), which multiplied 3 times compared with 2002.

At the same time, despite the fact that production output and prices for the sold products augmented, in some economic and industrial activities, profits made from usual activity before taxation reduced, particularly, in extractive industry – by 92.9%, in agriculture – by 74.4%, in wholesale and retail trade – by 72.2%, in food industry – by 37.2%, in production of coke and petroleum refinery products – by 26.9%, and in pulp and paper industry – by 14.7%.

At the end of 2003, 41% of enterprises were unprofitable. The largest amount of unprofitable enterprises was seen in agriculture (50%), transportation and communication (50%), industry (47%), and construction (43%).

Animation in business activity and improvement of financial discipline of economic entities led to a diminution in barter operations and to an augmentation of money settlements for the products turned out and services rendered. Over the year, 1.9% (UAH 4.4 billion) of industrial goods were sold on barter terms, which was 2.2 percentage points as little as in the previous year. The share of cash settlements between enterprises for the shipped products made 90.4% (UAH 211 billion) as of 1 January 2004, having grown by 4.4 percentage points.

Positive dynamics in the barter share reduction and an increase in money receipts for the shipped products were observed in all areas of economic activities. The share of money receipts substantially rose in production of other non-metal mineral fertilizers (by 11.4 percentage points), and in electricity, gas and water production and distribution (by 8.9 percentage points). The highest increase in money receipts for the shipped products was observed in pulp and paper industry (97.5%), in production of coke and petroleum refinery products (95.1%), and in chemical industry (94.8%).

Within the regions, the highest level of money settlements was seen in Vinnytsia (96.8%), Zaporizhzhia and Cherkasy (95.7% in each), and Odesa (95.6%) regions. Less than 90% of the shipped products were paid in cash in Dnipropetrovsk, Donetsk, Luhansk, Sumy, and Kharkiv regions and in the Autonomous Republic of the Crimea.

As of 1 January 2004, payables were 1.3 times as much as receivables. In 2003, total payables of all economic entities (excluding small enterprises and budgetary organizations) increased by 13.9% (by 7.1% in 2002), equaling UAH 345 billion as of 1 January 2004, while total receivables grew by 14.5% (by 8.8% in 2002), amounting to UAH 274.5 billion as of 1 January 2004. Total payables and total receivables were 31 and 4.3% superior to the nominal GDP of 2003 respectively (37.2 and 8.7% in 2002).

Within the payables and receivables, 88.5% (the largest portion) fell on the debts under domestic settlements between enterprises (95.3% in 2002), 4.7% fell on the debts to trading partners from the former USSR (1.4% in 2002), and 6.8% fell on settlements with economic entities of other countries (3.3% in 2002).

Within the settlements between Ukrainian enterprises, the largest debts were for goods, work and services i.e. UAH 164.3 billion or 47.6% of the total payables and UAH 150 billion or 54.6% of the total receivables; in settlements with the budget they were UAH 18.4 billion i.e. 5.3% of the total payables and UAH 10.2 billion i.e. 3.7% of the total receivables; in labor remuneration – UAH 4.6 billion i.e. 1.3% of the total payables.

Within the payables by economic activities, the largest share (43.9% i.e. UAH 151.2 billion) fell on industrial economic entities, out of which 46% (UAH 69.6 billion) fell on economic entities of manufacturing industry, and 40.8% (UAH 61.7 billion) fell on economic entities of electricity, gas and water production and distribution.

Despite the fact that in 2003, outstanding payables and receivables reduced by 8.7 and 20.8% respectively, within the total payables and receivables, the portion of outstanding debts remained substantial, equaling 30.7 and 26.2% respectively. Within the outstanding debts, settlements for goods, work and services between enterprises made 54.5% of the outstanding payables and 55.6% of the outstanding receivables.

As of 1 January 2004, non-payments of economic entities to the budget totaled UAH 18.4 billion, 67.4% whereof fell on outstanding payments.

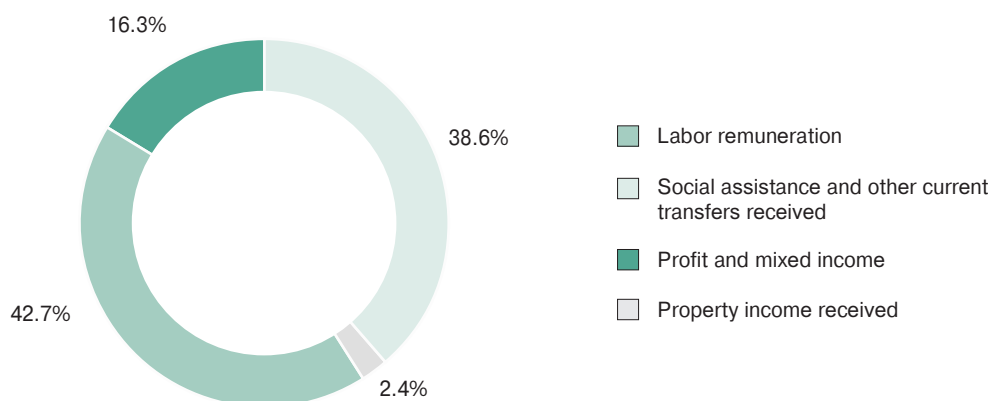
1.7. INCOME AND EXPENDITURES OF INDIVIDUALS

In 2003 versus 2002, the nominal income of individuals enlarged by 13.7%. The available income used by individuals for purchase of consumer goods and payment for services rose by 11.3%, while the real available income calculated with an allowance of the price factor increased by 5.8%.

The government aimed its activity to solution of social problems, which made for an augmentation of the income of individuals.

In 2003, labor remuneration, social assistance and other received current transfers whose share within the total income made 42.7 and 38.6% respectively were the main sources of the income of individuals.

Income of Individuals of Ukraine in 2003



During 2003, animation of economic development, increase in industrial production and moderate inflation were favorable for an increase in nominal and real salaries/wages.

In 2003 compared with 2002, the average nominal salary/wage per permanent employee increased by 22.8% to UAH 462.27, having exceeded the cost of living for able-bodied persons (UAH 365) by 26.6% and minimum salary/wage (UAH 205) established from 1 December 2003 2.3 times.

The average real salary/wage in 2003 exceeded that in 2002 by 15.2%.

Dynamics of Nominal and Real Average Monthly Salary/Wage in 2003



Salaries/wages augmented at enterprises of all types of economic activities. The largest increase in salaries/wages was seen in forestry (by 29.2%), construction (by 27.8%), industry (by 21.9%), and transportation (by 19.7%). Among the industries, the highest salaries/wages

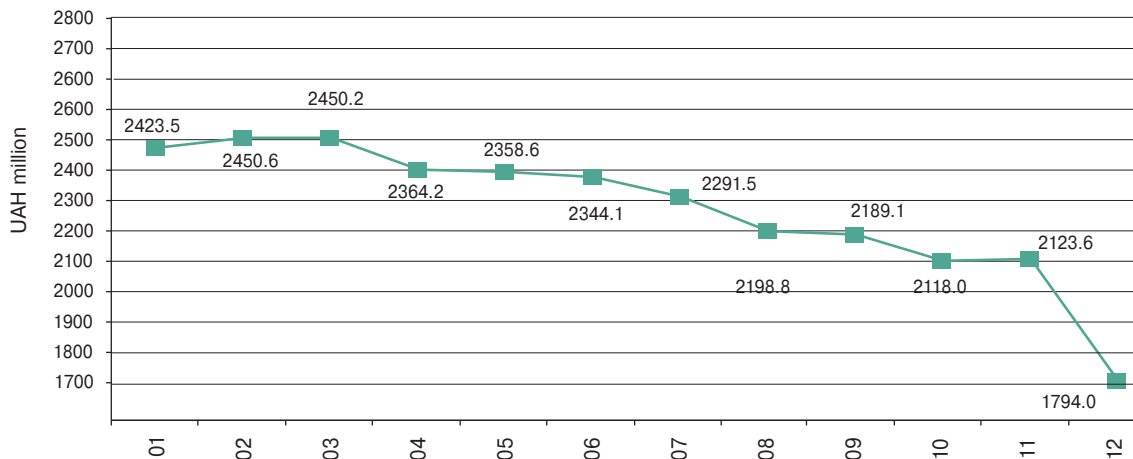
were observed in production of coke and oil refinery products (UAH 951.13), whereas the lowest ones fell on textile industry and tailoring (UAH 315.23).

With an allowance of legislatively increase in official salaries and tariff rates within the budgetary sphere, the average monthly salary /wage in health protection and social assistance grew by 24.8%, while in education – by 27.3%. At the same time, in 2003, the average monthly salary/wage of employees engaged in the social sphere viz. within education, health protection and social assistance, culture and sport did not exceeded the cost of living and ranged within 60.4 – 73.6% of the average indicator in the economy.

In 2003, the nominal salary/wage exceeded the cost of living within 17 regions. The ratio of its highest level observed in the City of Kyiv (UAH 760) to the lowest one observed in Ternopil region (UAH 304.18) equaled 2.5 times. At that, in 2003 versus 2002, salary/wage in the City of Kyiv rose only by 18.3%, while it grew by 23.8 and 28.4% in Ternopil and Zakarpattia regions respectively. The average monthly salary/wage of employees in Dnipropetrovsk, Zaporizhzhia and Donetsk regions was 13.8 – 19% as much as this indicator on the whole in the country.

In 2003, the arrears of wages began to reduce gradually from March, having shortened by 22.8% (by UAH 529.4 million) over the year. As of 1 January 2004, they amounted to UAH 1,794 billion.

Dynamics of Arrears of Wages in 2003

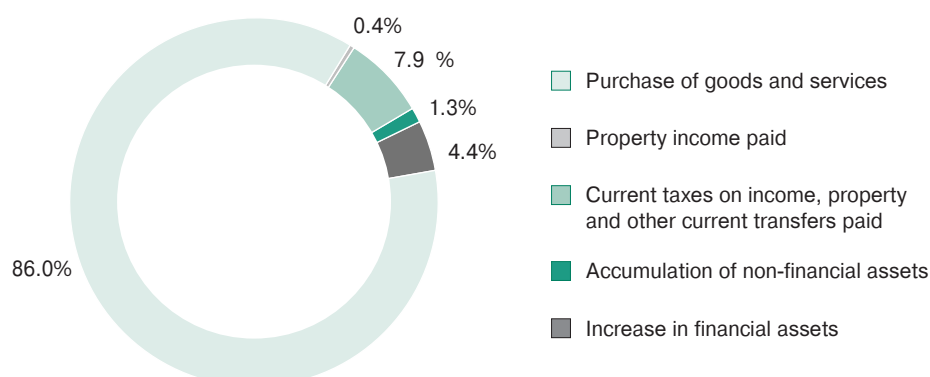


In 2003, the arrears of wages incurred due to insufficient financing from all the budgets reduced by 47.8%, amounting to UAH 21.9 million as of 1 January 2004.

As of 1 January 2004, the arrears of wages to the non-budgetary sphere equaled UAH 1,828.6 million, having decreased by 19.8% over the year.

In 2003, the expenditures and savings of individuals totaled UAH 211.9 billion. In comparison with 2002, they grew by 13.7%, which caused an increase in the aggregate domestic demand. During 2003, the retail trade turnover amounted to UAH 82.8 billion, being 20.1% superior to that in 2002. Within the retail trade turnover, 29.5% fell on formal and informal markets.

Breakdown of Expenditures and Savings of Individuals of Ukraine in 2003



During 2003, the biggest portion of funds of individuals (86%) was channeled to purchase of goods and payment for services.

1.8. LABOUR MARKET

At the end of 2003, the unemployment rate was the lowest in the history of economic growth, making 3.6% (3.8% in 2002). In 2003, subemployment decreased. The number of employees which worked part-time day (part-time week) on the initiative of administration diminished by 12.7% compared with 2002. The number of employees that were enforced to go on leave reduced almost one third. Nevertheless, the unemployment rate in the rural area remained high (6.9%) versus that in the urban one (2.6%). There was a considerable differentiation of the unemployment rate within the regions – from 6.9% in Ternopil region to 0.4% in the City of Kyiv.

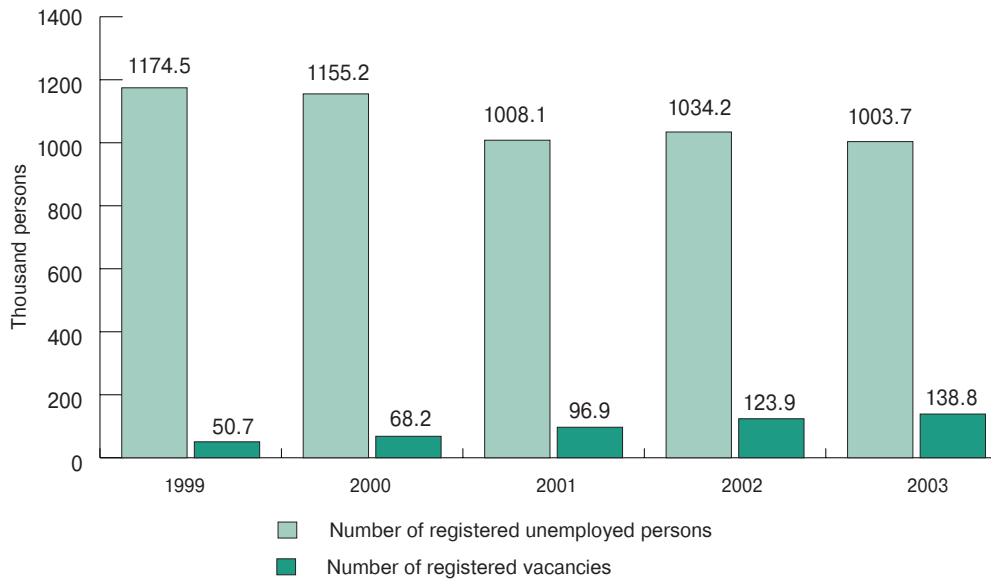
	1999	2000	2001	2002	2003
Official unemployment rate, percent	4.3	4.2	3.7	3.8	3.6
Unemployment rate calculated according to the methodology of the Ministry of Protection of Labor, in percent of economically active individuals under 15 - 70	11.9	11.7	11.1	10.1	9.8*

* Over 9 months of 2003

As of 1 January 2004, there were 1,003.7 thousand of unemployed citizens registered by the State Service of Employment, the number having decreased by 4.9% versus 2002. Out of the registered citizens 98.5% had the official unemployment status. Out of every 100 registered unemployed citizens, 47 persons were waged workers, 26 persons were salaried workers, and 26 persons were unskilled workers.

The average unemployment length during the year decreased by 1 month, equaling 1 month as of 1 January 2004.

During 2003, enterprises increased the number of vacancies for workers. As 1 January 2004, the number of vacancies equaled 138.8 thousand, having augmented by 12% versus the previous year. At that, in privately-owned organizations and establishments, a need for workers grew faster than in collectively-owned and state-owned ones.

Dynamics of Number of Unemployed Persons and Vacancies

In 2003, the total number of applicants per vacancy did not change, totaling 7 persons per vacancy. Nevertheless, the number of applicants per vacancy for waged workers reduced from 6 to 5 persons, that per vacancy for salaried workers decreased from 9 to 7 persons, that per vacancy of unskilled workers diminished from 28 to 24 persons, whereas that per vacancy for agricultural workers augmented from 33 to 35 persons.

In 2003, 0.9 million persons (by 5.5% more than in 2002) were placed into jobs by the State Employment Service, which made 104.6% of the scheduled indicators. In order to acquire new professions the State Employment Service organized training for 278 professions for 175.5 thousand unemployed persons, which made 104.1% of the scheduled indicator for 2003. During the year, in order to ensure temporary employment and social protection of unemployed citizens 386.4 thousand persons were assigned to public works, which was 11.9% superior to 2002 and 10.7% superior to the scheduled indicator. 48.5 thousand unemployed persons set up their own business and were registered by local authorities as business entities (39.2 thousand persons in 2002), which was 23.8% superior to the scheduled indicators for 2003.

In 2003, UAH 0.9 billion were paid from the Fund of Obligatory State Social Insurance of Unemployment. In December 2003, the average unemployment relief equaled UAH 118.3, thus making 57.7% of the minimum salary/wage legally established from 1 December 2003.

1.9. STATE FINANCE

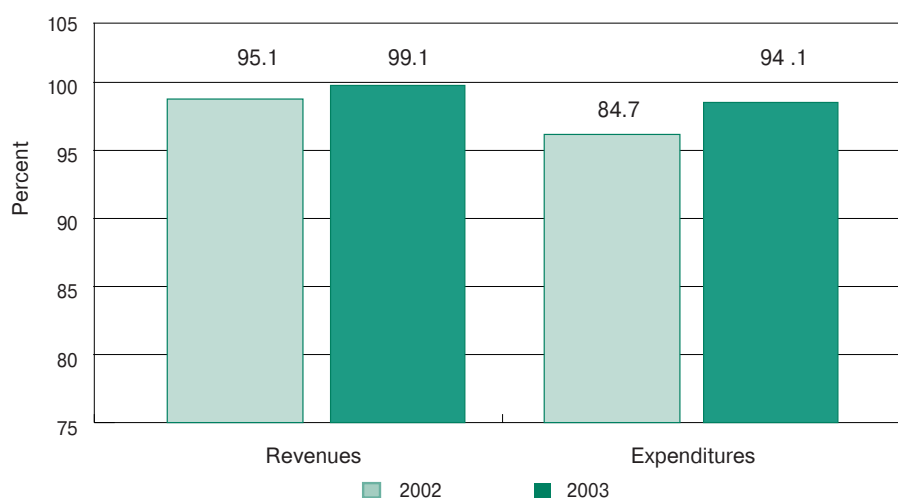
The Law of Ukraine "On the State Budget of Ukraine for 2003" adopted by the Verkhovna Rada of Ukraine approved the revenues of the Consolidated Budget of Ukraine to the amount of UAH 75.8 billion (28.7% of GDP), the expenditures to the amount of UAH 80.4 billion (30.4% of GDP), and the limit of the deficit to the amount of UAH 4.6 billion (1.7% of GDP).

Dynamic development of the economy, effective policy of macroeconomic stabilization, and strengthening of fiscal discipline in the country substantially improved the situation in the sphere of public finances. The Consolidated budget revenues considerably augmented, which led to an increase in development of domestic demand in Ukraine, compliance with the obligations on social protection of individuals, and development of the humanitarian sphere. At that, the minimum deficit of both Consolidated and State budgets was achieved.

Consolidated Budget of Ukraine in 2002 – 2003

(UAH million)

Indicators	2002		2003		
	implemented	implementation, (%)	planned	implemented	implementation, (%)
Revenues	61,954.3	95.1	75,820.5	75,165.4	99.1
% of GDP	27.4	94.8	28.7	28.5	99.3
including tax revenues	45,392.5	97.0	52,717.5	54,320.9	103.0
Expenditures	60,318.9	84.7	80,392.4	75,655.3	94.1
% of GDP	26.7	84.8	30.4	28.6	94.1
including for social assistance	33,868.7	92.1	40,595.2	39,622.6	97.6
Excess of revenues over expenditures: profit (+)/deficit (-)	1,635.4	—	-4,571.9	-489.9	

Implementation of the Consolidated Budget of Ukraine**Implementation of Planned Revenues and Expenditures of the Consolidated Budget of Ukraine in 2002 – 2003, in percent**

In 2003, actual revenues of the Consolidated budget came to UAH 75.2 billion, making 28.5% of GDP and 99.1% of scheduled revenues (95.1% in 2002).

Expenditures of the Consolidated budget equaled UAH 75.7 billion, making 28.6% of GDP and 94.1% of scheduled expenditures (84.7% in 2002).

In 2003, the Consolidated budget deficit totaled UAH 489.9 million, or 0.2% of GDP (in 2002, profit amounted to UAH 1,635.4 million, or 0.7% of GDP).

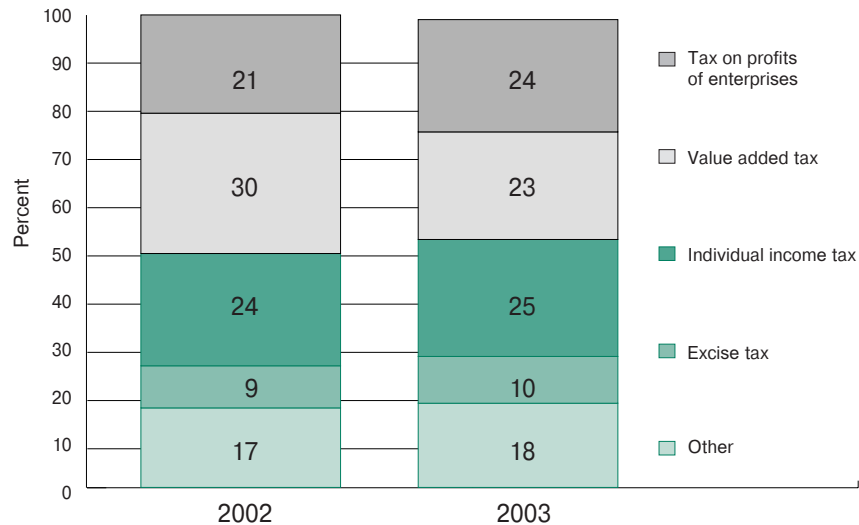
Within the composition of the Consolidated budget revenues, the largest portion fell on the tax revenues, which equaled UAH 54.3 billion, or 72.2% of all the revenues. In 2003 versus 2002, the tax revenues grew by 19.7%, while their implementation came to 103 versus 97%.

The Consolidated budget revenues grew faster than GDP, which showed the improvement of the discipline of tax-payers and the positive impact of structural changes in Ukrainian economy.

The individual income tax remained the main source of replenishment of the Consolidated budget. Within the tax revenues, the share of the individual income tax grew from 23.8 to 25%,

equaling UAH 13.5 billion. In 2003, the growth rates of the individual income tax made 24.9%, which corresponded to the growth rates of the average monthly nominal salary/wage (22.8%).

Breakdown of Tax Revenues of the Consolidated Budget of Ukraine in 2002 – 2003



During 2003, the revenues from the tax on profits of enterprises augmented by 40.8%. Within the tax revenues, the share of this tax grew from 20.7% to 24.4%, amounting to UAH 13.2 billion, which resulted from 3% (UAH 1.1 billion) increase in profits of enterprises, and from the expansion of taxation.

Gross value added increased chiefly within those activities whose enterprises were free from taxation viz. they did not pay the VAT or did not pay the VAT in full. As a result, the volumes of the value added tax reduced by 6.5% to UAH 12.6 billion, and within the tax revenues, the share of this tax diminished from 30 to 23.2%.

The annual task in replenishing the Consolidated budget with the revenues from the excise tax was implemented by 103.7%. As a result, UAH 5.3 billion replenished the Consolidated budget. Within the total tax revenues, the revenues from the excise tax made 10%.

In the year under review, the non-tax revenues totaled UAH 18.1 billion (24.1% of the total volume), having augmented by 23% versus 2002. Nevertheless, they were implemented only by 88.8% against 90.7% in 2002. The largest portion of the non-tax revenues was obtained from budgetary establishments (UAH 7.6 billion, or 42.2% of the total non-tax revenues).

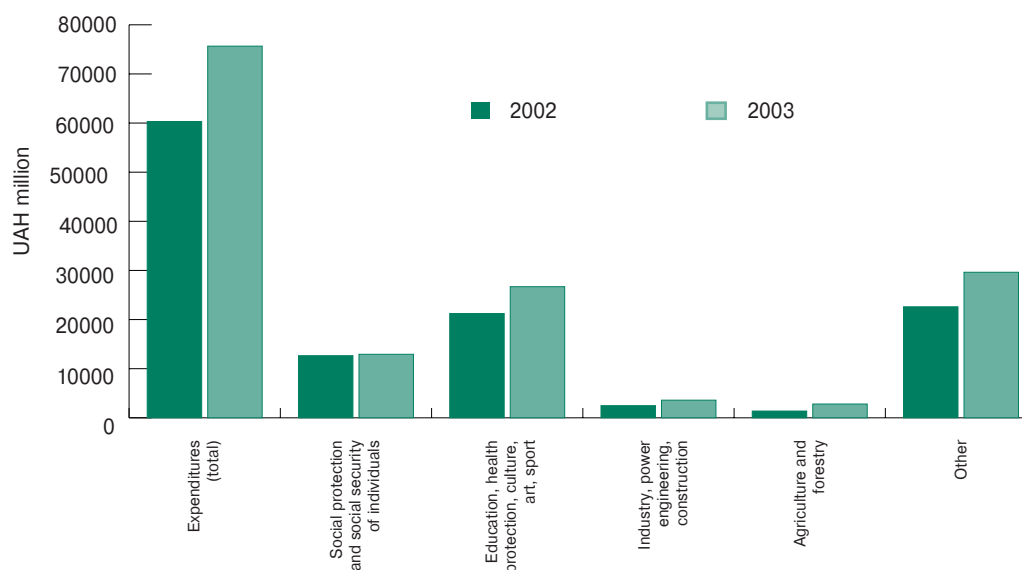
In 2003, the Consolidated budget expenditures totaled UAH 75.7 billion, having grown by 25.4% versus the previous year (the annual task was implemented by 94.1%).

The high implementation level of the Consolidated budget revenues led to an increase in financing of the expenditures for social needs. Expenditures for social protection and social security of individuals, education, intellectual and physical development, and health protection grew by 17%, amounting to UAH 39.6 billion and making 52.4% of the total expenditures. The aforementioned expenditures were implemented by 97.6%.

In 2003, the expenditures for financing of the economy of Ukraine came to UAH 12.2 billion, having multiplied 1.7 times versus 2002. The implementation of these expenditures made 86.6%.

Within the total expenditures, 4.8% (UAH 3.6 billion) fell on industry, power engineering and construction (4.1% in 2002). The expenditures for agriculture, forestry, hunting, and fishery as well as for transportation, communication, telecommunication, and informatics equaled UAH 2.8 billion for each, making 3.7% each within the total expenditures against 2.3 and 3% respectively in 2002.

Breakdown of Expenditures of the Consolidated Budget of Ukraine in 2002 – 2003



1.10. BALANCE OF PAYMENTS OF UKRAINE

In 2003, the external economy sector was characterized by a dynamic development of foreign trade and substantial improvement of the financial account against the background of a considerable surplus of the BOP current account.

In 2003, the growth rates of exports and imports of goods and services were the highest, making 124 and 128.7% respectively. Observed were the largest foreign direct investment and the most considerable increase in the international foreign exchange reserves in the history of BOP compilation.

In 2003, the current account surplus amounted to USD 2.891 billion (5.9% of GDP), having decreased by 9% compared with 2002 (USD 3.173 billion, 7.5% of GDP). The growth rates of imports of goods and services (28.3%) exceeded those of exports (24%), which resulted in 30.6% diminution of the trade balance surplus. It was partially compensated by 13.6% increase in the net receipts of current transfers and 4% reduction of the deficit in the Income item.

The growth rates of imports of goods exceeded those of exports of goods (133.7% compared with 127.2%). As a result the trade in commodities balance slumped by USD 1 billion versus the previous year. On the whole over 2003, the balance of goods deficit amounted to USD 269 million (in 2002, on the contrary, the balance of goods surplus equaled USD 710 million). The trade balance deficit was partially compensated by 1.4 times increase in the trade in services surplus.

In 2003, exports of goods developed dynamically owing to favorable prices for main Ukrainian exported goods and an increase in exports of machine building and fuel and energy complex products, which enabled exports to increase more substantially than expected at the year beginning.

An augmentation of the volumes of exports did not considerably change their breakdown. As previously, two thirds of the exports' growth fell on the products with low level of processing delivered to the international markets i.e. products of metallurgy and chemical industries, and of fuel and energy complex as well. Within the total exports, the share of machine building products went up from 14.1% in 2002 to 15.3% in 2003.

In 2003, the growth rates of exports of machine building products made 138.3% versus 112.4% in 2002. The largest amount of machine building products was exported to CIS coun-

tries. Nevertheless, the share of exports to these countries reduced from 53.4 to 46.4% of the total exports of this group. At the same time, the share of European countries went up from 25.6 to 36.5%.

More than a third of the total exports fell on metallurgy industry products, though within the total exports, the share of this group diminished from 38.2% in 2002 to 35.8% in 2003. On the whole over the year, exports of ferrous metals in terms of value augmented by 25.4% chiefly at the expense of a rise in prices (on average by 30 – 35%) and increase in the share of products with a relatively high level of processing.

Exports of fuel and energy complex products grew the most dynamically. Within the total exports, the share of this group increased from 11.2% in 2002 to 13.9% in 2003 due to high growth rates of exports of these products (157.8%). Exports of oil products in terms of value multiplied 1.3 times chiefly at the expense of a rise in prices (by 25% on average). At the same time, exports of gas and oil in terms of value increased 3.3 and 4.3 times respectively.

In 2003 compared with the previous year, the growth rates of exports of agricultural products were much lower (114.4% in 2003 versus 131% in 2002), which was caused by 2.5 times slump in exports of grain crops. Agricultural products in terms of value augmented chiefly as the expense of an increase in the exports of sunflower-seed oil, oil-seeds and food industry products.

In the period under review, imports of goods grew considerably, having increased from 6.3% in 2002 to 33.7% in 2003.

In 2003, imports of machines, equipment and modes of transportation multiplied 1.5 times (32% of the total growth). Energy carriers increased 1.2 times in terms of value (23.2% of the total growth), while agricultural products grew twice in terms of value (17.5% of the total growth). As a result, in 2003, imports of goods augmented.

Within the total imports, the share of fuel and energy complex products diminished from 38.6 to 34.7%. Nevertheless, within the breakdown of Ukrainian imports, energy carriers prevail, which shows that Ukrainian economy (including export-oriented branches viz. chemical and metallurgical industries) greatly depends on external deliveries of energy carriers.

During 2003, the volumes of imported oil for processing at petroleum refineries grew by 19%, amounting to 22.5 million tons. The value of the imported oil multiplied 1.5 times chiefly due to 27% rise in average annual prices.

In 2003, according to preliminary data, the growth rates of investment in equity capital made 27.7% versus 8.9% in 2002. At the same time, an increase in demand for imported machines and equipment was seen. All these facts led to 51% increase in the growth rates of imports of machine building products (in 2002, they made 12%).

The increase in imports of machine building products was also caused by 1.9 times augmentation of imports of motor cars, car bodies, spare parts and components. An increase in the volume of car assembly at domestic factories led to the increase in imports of car bodies (3 times) and car spare parts and components (2 times).

Imports of agricultural products rose by 95.2% owing to a considerable increase in imports of grain crops (21.5 times), raw sugar (3.6 times), crude brandy alcohol (cognac-like technology) (about 6 times) due to the introduction of preferential treatment for imports of these products by the Ukrainian government.

The balance of services surplus in 2003 multiplied 1.4 times, amounting to USD 1.6 billion, the growth having resulted from 11.4% increase in exports of services. Imports of research and development reduced 10.5 times, those of construction services – 1.7 times, and those of advertising and market research – 1.5 times. At the same time, imports of insurance services and those of royalties and license fees multiplied 2.9 and 2.7 times respectively.

In 2003 compared with 2002, the deficit in the income item decreased by 4%, amounting to USD 581 million. The index of accrued interest on the external debt on exports of goods and services went down from 2.5% in 2002 to 2.3% in 2003.

In 2003, the current transfer surplus equaled USD 2.2 billion, having increased by 13.6% against 2002. The increase was attributed to an augmentation of private transfers and workers' remittance. In the period under review, the funds to be paid to Ostarbeiters equalling USD 218 million were received (versus USD 289 million in 2002).

The decrease in the financial account deficit was caused by an increase in direct investment inflow, receipts from Eurobonds allocation and a considerable volume of non-guaranteed loans in the light of a deceleration of the outflow of capital under domestic securities.

At the end of 2003, the total direct investment in Ukraine (including proceeds from privatization) grew by 27.5% versus the year start, totaling USD 7.5 billion, USD 7.1 billion whereof falling on equity capital and reinvested earnings, USD 0.4 billion – on direct foreign investment.

In 2003, the equity capital rose by USD 1.5 billion, which was 1.4 times superior to the previous year. Investment in Ukraine came primarily in the form of money contributions (65%) and movable and immovable property (32%). In the accounting year, non-residents invested mostly in the following economic activities: wholesale trade and mediation in trade (investment rose by USD 194 million or 13.5% of the total growth), post and communication (USD 191 million or 13.3%), food industry and agricultural products processing (USD 126 million or 8.8%) and machine building (USD 124 million or 8.6%). Investment in post and communication grew due to sales of the share of Ukrtelecom within the authorized fund of Ukrainian Mobile Communication totaling USD 172 million to Russian Mobile TeleSystems.

In 2003, debt securities gave Ukraine USD 1.3 billion through allocation in external markets including 10-year Eurobonds to the amount of USD 1 billion. In the third quarter of 2003, the debt securities market was replenished with 5-year Eurobonds of the Kyiv City Council amounting to USD 150 million, in the fourth quarter – with Eurobonds issued by the Privatbank, which was the first bank to have expressed interest in foreign investment through placing 3-year Eurobonds totaling USD 100 million.

In 2003, Ukrainian companies sold corporate bonds totaling USD 76 million to foreign investors, USD 60 million whereof being the funds obtained by Kyivstar in March 2003.

In 2003, non-residents purchased domestic shares amounting to USD 183 million, which was 1.6 times inferior to 2002. At the same time, USD 1.9 billion were paid to non-residents, which was 17.2% as little as in 2002.

In 2003, restructured was the external debt to Turkmenistan, amounting to USD 282 million. At the end of the accounting year, Ukraine received USD 75 million from the World Bank.

The share of the long-term non-guaranteed loans granted to natural persons within the total long-term external debt went up from 19.7 to 27.9% over the year. In 2003, obtained were USD 2.3 billion (including direct investment), which was 1.4 times superior to 2002. More than 40% of the total loans received came in the fourth quarter.

In 2003, the liabilities on interbank loans increased by USD 502 million, including by USD 319 million on the short-term ones, having augmented 3 times compared with 2002.

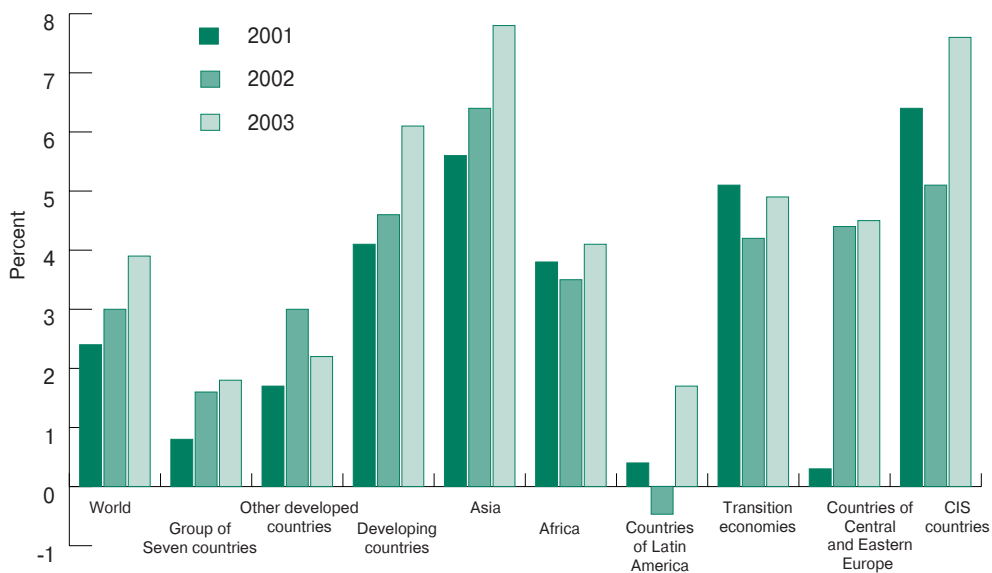
In the year under review, the NBU continued to carry out interventions in the interbank foreign exchange market, redeeming the abundant supply of foreign currency. As a result, the reserve assets increased by USD 2 billion, amounting to USD 6.9 billion and were sufficient to cover the financing of imports of goods and services during 2.6 months.

1.11. TRENDS IN DEVELOPMENT OF THE WORLD ECONOMY, CIS COUNTRIES AND OTHER WORLD COUNTRIES

WORLD ECONOMY

In 2003, the world GDP grew by 3.9% (by 3.0% in 2002). Domestic demand increased in such developed countries as the USA, Great Britain and Japan. At the same time, net exports of the countries of the European Economic and Monetary Union augmented. All these facts led to an overcoming of investment recession.

Dynamics of Real Gross Domestic Product



During 2003, in the USA, low interest rates, flexible monetary policy, and an increase in public expenses made for economic growth of the country. At the same time, the growth of public expenses led to a considerable increase in the budget deficit. The foreign trade deficit continued to augment.

An augmentation of expenditures for purchase of consumer durables, a rise in investments in machinery and equipment as well as in intangible assets, and an increase in house building resulted in a growth of domestic demand in the country. Industrial production grew relatively slow, nevertheless, GDP of the USA increased by 3.1% versus 2.2% in 2002.

In Western Europe, the economy growth rates were inessential. On the whole, in 2003 versus 2002, in EU countries, the GDP growth rates made 0.8 versus 1.1%, while in the countries of the Euro zone, they equaled 0.4 against 0.9%. At the same time, in Great Britain, in 2003 versus 2002, GDP grew by 2.3 against 1.7%. Such increase resulted from an augmentation of domestic demand at the expense of a growth in consumer expenditures.

In 2003, in Japan, GDP augmented by 2.7% compared with its 0.3% decline in 2002. It grew due to an increase in net exports and animation of domestic demand.

During last years, the GDP growth rates in China were considerable (7.5 – 9%) owing to heavy investments in the infrastructure.

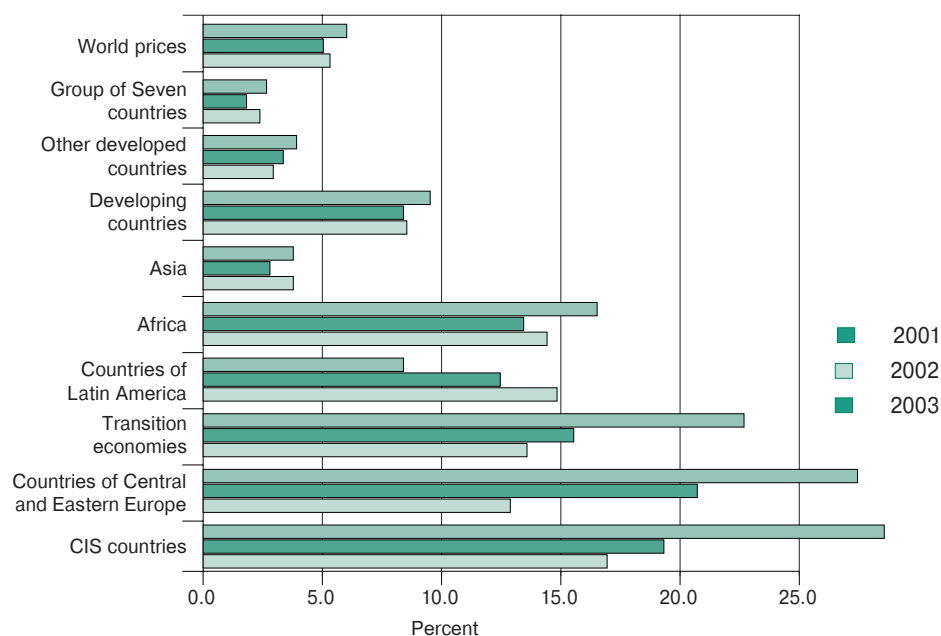
India continued to increase its economic potential, making an impact on the world economy. The GDP growth rates gradually augmented from year to year, making 4% in 2001, 4.7% in 2002, and 7.4% in 2003.

In 2003, countries of Latin America were at the stage of overcoming the crisis situation, whereas in Venezuela, GDP continued to fall, making -9.2% .

In 2003, the economic growth rates of EU accession countries were higher than those of Western European countries, and their GDP increased by 4.5% .

On the whole, in the world, the inflation rate was inessential (consumer prices grew only by 0.2 percentage points from 3.6% in 2002 to 3.8% in 2003).

Dynamics of Consumer Prices



Developed countries restrained inflation at the level of 1.8% , which was much lower than in the world on the whole. At the same time, in Japan, deflation persisted.

In 2003, in Latin American countries, the inflation rate fluctuated, making 34% in Venezuela, 15% in Brazil, and 14.3% in Argentina.

In Central and Eastern Europe countries, inflation developments differed considerably. In Romania and Slovakia, consumer prices grew by 15.3 and 8.5% respectively. On the contrary, in Czechia, consumer prices grew only by 0.1% , whereas in Lithuania, they decreased by 1.7% .

In 2003, the monetary policy carried out by central banks of developed countries became more flexible. During the year, interest rates decreased in the USA, Great Britain, EU countries and other European countries.

Nevertheless, in developed countries, public budgets deficit increased.

During the accounting year, in the USA, the public budget deficit multiplied 1.7 times, equaling USD 394.8 billion. It resulted from an increase in public expenses related to military operations in Iraq and to a reduction in taxes according to a long-term program calculated up to 2010.

In Germany and France, budget deficit exceeded 3% of GDP (the normal established for the budget deficit of EU countries).

CIS COUNTRIES

RUSSIA. 2003 was very successful for Russian economy during the period after crisis. In 2003, chief macroeconomic indicators stood out from those in 2002.

In the year under review, the GDP grew by 7.3% versus its 4.7% increase in 2002 owing to favorable economic situation in external markets, particularly, in the world raw-material markets.

The foreign trade balance surplus increased almost by 30%, while foreign investments grew twice. These facts enabled Russia to carry out international monetary policy, which would make for a diminution of inflation rate, dollarization of the economy, facilitation of the external debt servicing, support for producers oriented to domestic as well as to external markets.

The Bank of Russia put an emphasis upon the moderate exchange rate dynamics. During 2003, the nominal exchange rate of Russian ruble against US dollar grew by 7.3%, while its real increase made 18.9%. The real exchange rate of Russian ruble against Euro reduced by 1.2%. Gold and exchange currency reserves of the Central bank of Russia augmented by 61%, which increased the long-term stability of the national currency and enabled to strengthen the financial stability.

Favorable external economic situation made for an increase in demand for Russian products, which was very important for the development of export-oriented branches and of the economy on the whole. Interindustry demand grew due to the accelerated development of export-oriented branches. All these facts led to an expansion of sales and augmentation of receipts of economic sectors.

Demand for investment products grew due to the augmentation of industrial activity. A rise in demand for domestic producer products under the increase in imports stimulated investments in fixed capital. Among chief macroeconomic indicators characterizing the development of Russia in 2003, investment process indicators grew the most dynamically. In 2003 contrary to 2002, an increase in investments in fixed capital was larger than that in production of goods and services. As a result, gross accumulation augmented by 13.4%, being one of the main components of aggregate demand.

In 2003, production of goods and services increased, whereas the number of persons employed in the economy reduced. As a result, labor productivity grew by 7.7% versus its 2.3% increase in 2002.

The federal budget profit became the key factor, which made for stability of the financial system of the country.

Thus, flexible exchange rate policy, the federal budget profit, and increase in labor productivity caused a considerable decrease in the inflation rate. In 2003, consumer prices grew by 12% versus their 15.1% increase in 2002 (December 2003 versus December 2002). At that, prices for foodstuffs augmented by 10.2%, while those for nonfoods did so by 9.2% (by 11 and 10.9% respectively in 2002). In 2003, prices (tariffs) for paid services grew most of all (by 22.3% (by 36.2% in 2002).

In 2003 compared with 2002, producer prices grew slowly due to inessential increase in industrial producer prices (13.1 versus 17.1%) and in producer prices in construction (10.3 versus 12.6%). At the same time, tariffs for freight transportation augmented by 23.5% (by 18.3% in 2002).

In 2003, production output grew within all economic activities viz. in industry, construction, agriculture, transportation, and wholesale and retail trade.

During the year, industrial output went up by 7% owing to favorable situation in the world market and an increase in domestic demand. Fuel industry, machine building, and food industry were attributable to the largest contribution to this augmentation.

During last years, industry structure almost did not change. In 2003, within industry, 18% fell on fuel industry, which was 1 percentage point inferior to 2002. This branch made 22% contribution to the industrial output increase. However, fuel industry deeply depends upon the external economic situation. Besides, the breakdown of other branches changes slowly. These facts hinder from the future increase in the economic growth rates.

A growth in production output of both food and light industries greatly depends upon an increase in agricultural output. On the whole, in 2003, agricultural output went up by 1.5%.

In 2003, the real available income of individuals grew faster compared with the previous year. Observed was a considerable increase in the real salary/wage and in pensions as well.

During 2003, the real available income of individuals rose by 14.5% (by 9.9% in 2002). Nevertheless, the real salary/wage grew only by 10.4% versus its 16.2% increase in 2002. In 2003, the average pension in the real terms grew by 4.5% against its 16.3% growth in 2002.

Despite the successful development of the Russian economy in 2003, noted should be some negative features in the economic and industrial state of this country.

Observed was a deep dependence of country's economy upon the external economic situation: nearly 57% of exports fell on energy carriers i.e. oil, natural gas, and oil products, whose prices depended upon the prices and the price competition in the world market.

Despite the economy dedollarization, purchase of the cash foreign currency by individuals exceeded its sales at the expense of substantial Russian ruble savings.

OTHER CIS COUNTRIES

In 2003, within the majority of CIS countries, the GDP growth rates increased, and the amplitude of their fluctuations reduced in different countries (in 2003, from 6.3% in Moldova to 13.9% in Armenia, whereas in 2002, from -0.5% in Kirgizstan to 12.9% in Armenia).

The industrial production index was sufficiently high in almost all CIS countries (from 106.1% in Azerbaijan to 117.0% in Kirgizstan), having exceeded the index of the previous year. In Kazakhstan, this index remained at the level of the previous year (109.0% in 2003 versus 109.8% in 2002).

In CIS countries, observed was a moderate inflation rate. Only in Belarus, the inflation rate made 25.4%, having gradually increasing during last three years.

On the whole, the economies of CIS countries depended upon the external economic situation and upon the political situation within and outside the countries as well.

Table 1

**Some Social and Economic Indicators of CIS and Baltic Countries
and Other World Countries¹**

Countries	In percent versus previous year				Deficit (-), surplus (+) of the state budget (in percent of GDP)	Unemployment rate (in per- cent by end of period)	National currency exchange rates against US dollar (end of period)
	Indices of gross domes- tic product (in compara- ble prices)	Indices of the volume of industrial production (in comparable prices)	Industrial producer price indices	Consumer price indices			
Developed countries							
USA							
2001	100.5	95.7	101.1	102.0	-0.2	4.7	—
2002	102.2	99.3	97.7	101.4	-2.6	5.8	—
2003	103.1	100.2	105.3	101.9	-3.7	6.0	—
Japan							
2001	100.4	93.6	97.6	99.2	-7.1	5.0	131.80
2002	99.7	98.9	98.3	99.1	-7.2	5.4	119.90
2003	102.7	103.1	99.2	99.8	-7.4	5.3	107.10
Countries of the Euro zone							
2001	101.6	96.3	102.2	102.4	-1.6	8.0	1.1347
2002	100.9	100.2	99.6	102.3	-1.9	8.4	0.9536
2003	100.4	102.2	100.9	102.1	-1.5	8.8	0.7918
Great Britain							
2001	102.1	97.8	100.2	102.1	0.2	3.2	0.6895
2002	101.7	96.5	100.3	102.2	-1.5	3.2	0.6204
2003	102.3	99.4	101.5	102.9	-2.9	3.1	0.5631
Germany							
2001	100.8	100.5	103.0	102.4	-2.8	10.4	1.1347
2002	100.2	98.7	99.6	101.3	-2.9	10.9	0.9536
2003	99.9	100.5	101.6	101.1	-4.2	11.7	0.7918
Countries of Eastern and Central Europe							
Bulgaria							
2001	104.1	102.2	104.5	107.5	-0.8	19.5	2.2193
2002	104.9	104.6	108.0	105.8	-1.3	16.8	1.8850
2003	104.3	115.1	106.3	102.2	0.0	12.7	1.5486
Macedonia							
2001	95.5	89.8	...	105.3	-6.1	...	69.1718
2002	100.9	94.7	...	102.4	-5.4	...	58.5980
2003	103.0	111.8	...	98.6	-5.8	...	49.0500
Poland							
2001	101.0	99.8	101.6	105.5	-4.6	16.2	3.9863
2002	101.4	101.8	101.0	101.9	-5.6	18.1	3.8388
2003	103.7	108.8	103.7	101.7	-5.5	20.0	3.7408
Romania							
2001	105.7	108.4	141.0	134.5	-3.3	8.8	31597
2002	104.9	106.0	124.6	122.5	-3.1	8.4	33500
2003	104.9	103.1	121.1	115.3	-1.5	7.2	32595
Slovakia							
2001	103.3	107.3	106.5	107.3	-4.6	19.2	48.467
2002	104.4	106.8	102.0	103.3	-3.0	18.5	40.036
2003	109.0	105.7	108.3	108.5	-7.1	17.0	32.975

Continued

Countries	In percent versus previous year				Deficit (-), surplus (+) of the state budget (in percent of GDP)	Unemployment rate (in per cent by end of period)	National currency exchange rates against US dollar (end of period)
	Indices of gross domes- tic product (in compara- ble prices)	Indices of the volume of industrial production (in comparable prices)	Industrial producer price indices	Consumer price indices			
Slovenia							
2001	103.0	100.2	109.0	108.4	-2.0	11.6	250.95
2002	102.9	103.5	105.2	107.5	-2.7	11.6	221.07
2003	107.5	101.5	102.6	105.6	-2.3	11.2	189.37
Hungary							
2001	103.8	104.1	105.2	109.2	-2.8	5.7	279.03
2002	103.3	104.5	98.6	105.3	-4.5	5.8	225.16
2003	104.9	106.4	101.9	104.7	-3.0	8.3	207.92
Croatia							
2001	104.4	106.0	103.6	106.2	-3.7	22.0	8.356
2002	105.2	105.5	99.6	102.2	-8.5	22.3	7.146
2003	104.3	104.1	99.8	102.2	-5.0	22.1	6.119
Czech Republic							
2001	103.1	106.8	102.9	104.7	-3.1	8.1	36.259
2002	102.0	98.9	99.5	101.8	-2.2	8.8	30.141
2003	102.9	105.8	99.7	100.1	-1.8	10.1	25.654
Baltic countries							
Estonia							
2001	106.5	108.9	104.4	105.8	0.3	12.6	17.692
2002	106.0	105.9	100.4	104.3	1.1	10.3	14.936
2003	104.7	110.2	100.2	101.3	2.6	10.0	12.410
Latvia							
2001	107.9	106.9	101.8	102.5	-2.2	7.7	0.638
2002	106.1	105.8	102.0	101.9	-2.8	8.5	0.594
2003	107.5	106.5	104.6	104.0	-2.2	8.6	0.541
Lithuania							
2001	106.5	116.0	98.7	101.3	-2.1	12.5	4.000
2002	106.8	103.1	98.9	100.3	-1.5	11.3	3.311
2003	108.9	116.1	99.5	98.3	-1.7	10.3	2.762
Commonwealth of Independent States							
Azerbaijan							
2001	109.9	105.1	101.8	101.5	-0.4	...	4775
2002	110.6	103.6	97.7	102.8	-1.5	...	4893
2003	111.2	106.1	116.1	102.2	-0.1	...	4923
Belarus							
2001	104.7	105.9	139.1 ²	146.1 ²	...	2.3	1580
2002	105.0	104.5	142.6 ²	134.8 ²	...	2.5	1920
2003	106.8	106.8	128.1 ²	125.4 ²	...	...	2156
Armenia							
2001	109.6	103.8	99.6	103.1	-4.6	9.9	561.81
2002	112.9	109.0	103.5	101.1	-2.3	9.1	584.89
2003	113.9	115.0	108.3	104.7	-1.3	9.8	566.00
Georgia							
2001	104.8	98.9	103.4	104.7	-2.5	11.1	2.060
2002	105.5	107.0	105.4	105.6	-3.1	12.6	2.090
2003	108.6	111.0	102.0	105.0	-1.7	...	2.075

Concluded

Countries	In percent versus previous year				Deficit (-), surplus (+) of the state budget (in percent of GDP)	Unemployment rate (in per cent by end of period)	National currency exchange rates against US dollar (end of period)
	Indices of gross domes- tic product (in compara- ble prices)	Indices of the volume of industrial production (in comparable prices)	Industrial producer price indices	Consumer price indices			
Kazakhstan							
2001	113.5	113.5	85.9 ²	106.4 ²	-0.4	2.9	150.20
2002	109.8	109.8	111.9 ²	106.6 ²	0.2	2.6	154.60
2003	109.2	109.0	109.0	106.0	-0.4	...	144.22
Kirgizstan							
2001	105.3	105.4	111.2	107.0	0.4	3.2	47.719
2002	99.5	86.9	104.8	102.1	-1.1	3.1	46.095
2003	106.7	117.0	104.6	103.5	-0.9	2.9	44.190
Moldova							
2001	106.1	113.7	112.0	109.8	0.0	7.3	13.0909
2002	107.8	110.6	106.7	105.3	0.5	6.8	13.8220
2003	106.3	114.0	108.0	111.7	-1.8	8.0	13.2200
Russia							
2001	105.1	105.7	110.7	118.6	3.0	9.0	30.1400
2002	104.7	103.8	117.1	115.1	1.4	7.6	31.7844
2003	107.3	107.1	113.1	112.0	1.7	7.9	29.4545
Tajikistan							
2001	110.2	114.8	126.8	138.6	...	...	2.55
2002	109.5	108.0	109.0	112.2	...	...	3.00
2003	110.2	110.0	115.0	117.0	...	...	2.96
Turkmenistan							
2001	120.5	...	...	111.6	...	...	...
2002	...	...	...	...	...	...	...
2003	...	...	...	...	...	...	...
Uzbekistan							
2001	104.1	108.1	...	147.5	-0.4	0.4	687
2002	103.2	108.0	...	144.3	2.0	...	950
2003	100.2	...	...	114.8	...	...	...
Ukraine							
2001	109.2	114.2	100.9	106.1	0.3	3.68	5.2985
2002	105.2	107.0	105.7	99.4	0.8	3.80	5.3324
2003	109.4	115.8	111.1	108.2	0.4	3.60	5.3315

¹ Source: data of CIS countries, IMF publication "International Financial Statistics", April 2004, Internet.

² Versus December of previous year.

Part 2.
NBU ACTIVITIES

2.1. MONETARY POLICY

During 2003, the National Bank of Ukraine carried out the work to ensure the stability of the national monetary unit. The monetary policy pursued by the NBU was aimed at retainment of the exchange rate and arrest of inflationary developments, which animated after 2002 deflation due to some market pressure concerning sugar and products of grain processing. Taking into account changes in the economy growth rates and in the estimated indicators of economic development, the monetary indicators characterizing the monetary policy guidelines for 2003 were adjusted. In accordance with the resolution of the NBU Council of 23 May 2003 #14, the average annual nominal exchange rate of hryvnia against US dollar was adjusted, having decreased from UAH 5.39 to UAH 5.36 per USD 1. In accordance with the resolution of the NBU Council of 17 September 2003, there have been made changes to the monetary policy guidelines for 2003 viz.:

- monetary base (growth rates versus the previous year, in percent) changed from 17–20% to 38–42%;
- money supply (growth rates versus the previous year, in percent) changed from 22–27% to 43–48%;
- the average annual exchange rate of hryvnia against US dollar changed from UAH 5.36 to UAH 5.34 per USD 1.

By the year results, the monetary policy guidelines for 2003 were implemented. The monetary base grew by 30.1% to UAH 40.1 billion, while the money supply increased by 46.5% to UAH 95 billion.

During 2003, the money multiplier went up from 2.11 to 2.37.

In the year under review, demand for money gradually increased, and the macroeconomic situation made an impact on the stability of the national monetary unit. Taking into account these facts, the NBU took actions in order to supply the economy with money using mechanisms and instruments which impacted on the monetary market.

Deceleration in the economic growth rates and deflationary developments in the price sphere necessitated additional monetary stimuli to economic activity animation. Taking into account slow rates of the implementation of structural reforms, the NBU aimed its monetary policy at economic growth retainment through an increase in crediting for the real economy sector.

It necessitated the persistence of the expansion monetary policy keeping fast growth rates of money supply through refusal to sterilize large amounts of the currency issued in the foreign exchange market. At that, the NBU took steps to maintain banks' liquidity and kept the sufficiently low discount rate (7%) and interest rate on overnight credits (8%).

These NBU actions promoted both economic growth and satisfaction of the demand for money due to the dynamic economy remonetization (during 2003, the estimated monetization level grew from 24.5 to 30.27%).

Nevertheless, from August 2003, accelerated rates of the economy development changed macroeconomic factors impacting on the NBU monetary policy. Particularly, additional monetary actions were no longer necessary. Moreover, hazards of the inflationary developments acceleration increased.

Taking it into account, from July 2003, the National Bank of Ukraine carried out the moderate monetary policy using restricting instruments viz. obtainment of the overnight credits was restricted, mandatory reserves requirements became stronger, and sterilization operations were performed. Besides, interventions in the foreign exchange market decreased. At the same time, accumulation of funds on NBU accounts by the government was observed. It promoted a cessation of the money supply increase. As a result, from 1 September to 1 December 2003, the monetary base grew only by 0.1% (by 24.1% during January–August 2003).

Due to a pressure in the interbank credit market and a necessity for animation of the banking system liquidity, from the second half of November 2003, the NBU carried out more flexible monetary policy, which led to an increase in the growth rates of the monetary base in December 2003 to 4.8%.

In the international credit market, the interest rates fluctuated due to unsteadiness of the factors impacting on the money supply increase. At that, in December 2002 versus December 2003, the average monthly interest rate on the interbank credits made 5.8% against 11.3% per annum (4.5% against 9.3% per annum on overnight credits).

In the interbank market, the interest rates rose in the light of a decrease in banks' liquidity owing to periodical changes in the foreign exchange market, accumulation of the government funds on NBU accounts, and others. These factors were rather situational, the global factor being unsatisfactory management of assets and liabilities by a considerable number of banks, which led to the problems with liquidity caused by the estimated outflow of clients' funds on government accounts.

In November 2003, the situation in the interbank credit market considerably slowed down gradual decrease in the interest rates on the credits granted by banks to the borrowers of the real economy sector. Thus, in December 2003, the average weighted interest rate on the national currency credits made 17.7% per annum, being 1.9 percentage points inferior to that at the beginning of the year. During this period, the average weighted interest rate on deposits grew by 1.1 percentage points to 8% per annum.

On the whole, in 2003, bank resources grew dynamically, and their breakdown by maturity improved. It led to an increase in credit investments. In 2003, the liabilities of banks on the credits granted to the economy of Ukraine augmented by 61.4%, totaling UAH 67.8 billion as of 1 January 2004. The growth rates of national currency crediting were superior to those of foreign currency crediting, making 61.7% against 60.9%.

During 2003, the long-term crediting multiplied 2.6 times. Within the total debts, the share of debts on the long-term credits grew by 16.8 percentage points to 45%.

Monetary Market Regulation

Mandatory reserves

During 2003, the NBU used the mandatory reserves for effective management of the monetary market, and for determination of the optimum amount of the money supply in circulation.

Since 16 January 2001, the reserve requirements have been differentiated depending on terms of the depositors' funds obtained by banks, and on the type of a currency as well.

In 2003, in order to expand the resource base of banks and to animate their credit activities the differentiated reserve requirements were cut back by the NBU. As of 1 January 2004, they equaled:

- on short-term funds in the national currency for legal entities – 6% and for natural persons – 2%, on those in the foreign currency for legal entities and natural persons – 10%;
- on long-term funds in the national currency for legal entities and natural persons – 0%, on those in the foreign currency for legal entities and natural persons – 8%;
- on demand funds and deposits of legal entities and natural persons in the national currency – 8%, and on those in the foreign one – 12%.

In 2003, in order to make full use of the funds attracted by banks and to increase crediting for the economy according to the resolution of the NBU Council the share of the cash funds in both national and foreign currency covering the reserve requirements changed. Thus, from 11 June 2003, this indicator made 50% in both national and foreign currency; from 1 August 2003, it made 50% in the national currency and 0% in the foreign one; and from 1 October 2003, it made 40% in the national currency and 20% in the foreign one.

In 2003, on the whole, the average reserve requirements for banks went down from 7.9% as of 1 January 2003 to 7.5% (by estimate) as of 1 January 2004 (the reserve requirements were differentiated generally from 12 to 0%), while including their coverage by cash to 5.4%.

Within the banking system of Ukraine, the reserve requirements amounted to UAH 0.7 billion in January 2003 and UAH 1.3 billion in December 2003.

Interest rates

In order to ensure a positive impact on interest rates the NBU established the discount rate at the optimum level of 7% per annum.

During the year, the average weighted interest rate on the overnight credits remained at the level of 8% per annum. The average weighted interest rate on the credits granted for support for the long-term liquidity remained unchanged (7% per annum). At the same time, during 2003, the average weighted interest rate on the credits granted through tenders increased by 1.1 percentage points, equaling 9.1% per annum in December 2003.

Over the year, the interest rate on the national currency credits granted in the interbank market went up by 5.5 percentage points, making 11.3% per annum in December 2003. In 2003, the interest rate on the national currency credits given to the real economy sector diminished by 1.9 percentage points, totaling 17.7% per annum in December 2003. At the same time, the average weighted interest rate on the national currency deposits obtained by banks grew by 1.1 percentage points to 8% per annum.

Refinancing for banks

In 2003, the NBU ensured the banking system liquidity through such refinancing mechanisms as the constantly operating refinancing line for granting overnight credits for the term of 1 working day, tenders on short- and medium-term refinancing for banks and direct REPO.

In 2003, the total volume of NBU refinancing for banks amounted to UAH 26.3 billion versus UAH 1.3 billion in 2002, having multiplied 20 times. During the year, the NBU performed refinancing for banks chiefly in order to smooth temporary market fluctuations of the banking system liquidity. Taking into account bad management of the budgetary funds and a reduction of interventions in the foreign exchange market, from August 2003, the National Bank of Ukraine increased the volumes of refinancing for banks by all instruments in order to support banks' liquidity.

During the accounting year, the National Bank of Ukraine granted banks' requests for obtainment of overnight credits to the total amount of UAH 22,854.8 million (UAH 153.8 million in 2002). The credits obtained by banks through tenders and for refinancing totaled UAH 2,329.6 million, having multiplied 2.5 times compared with 2002. The NBU performed direct REPO to the amount of UAH 420 million (UAH 9.6 million in 2002). In order to support long-term banks' liquidity the long-term credits equaling UAH 657.7 million were granted (UAH 121.5 million in 2002).

Mobilization operations in the open market

In order to maintain equilibrium in the monetary market and to regulate banking system liquidity the NBU used reverse REPO and deposit certificates as mobilization operations. Using these instruments the NBU withdrew funds to the total amount of UAH 440 million from circulation.

In 2003, deposit certificates amounting UAH 250 million were sold through 2 auctions on allocation of deposit certificates. The nominal value of a deposit certificate made UAH 1,000. The deposit certificates yield was assessed with an allowance of the interest rates on the interbank credits and deposits, equaling 3.68% per annum for 2003 deposit certificates.

Funds worth UAH 190 million were raised due to reverse REPO operations with the interest-bearing bonds issued by the Ministry of Finance of Ukraine in 2000 according to the Resolution of the Cabinet of Ministers of Ukraine of 22 September 2000 #1455.

Operations in the foreign exchange market

In the foreign exchange market the NBU primarily engaged in foreign currency purchase using this instrument to make up its gold and exchange currency reserves.

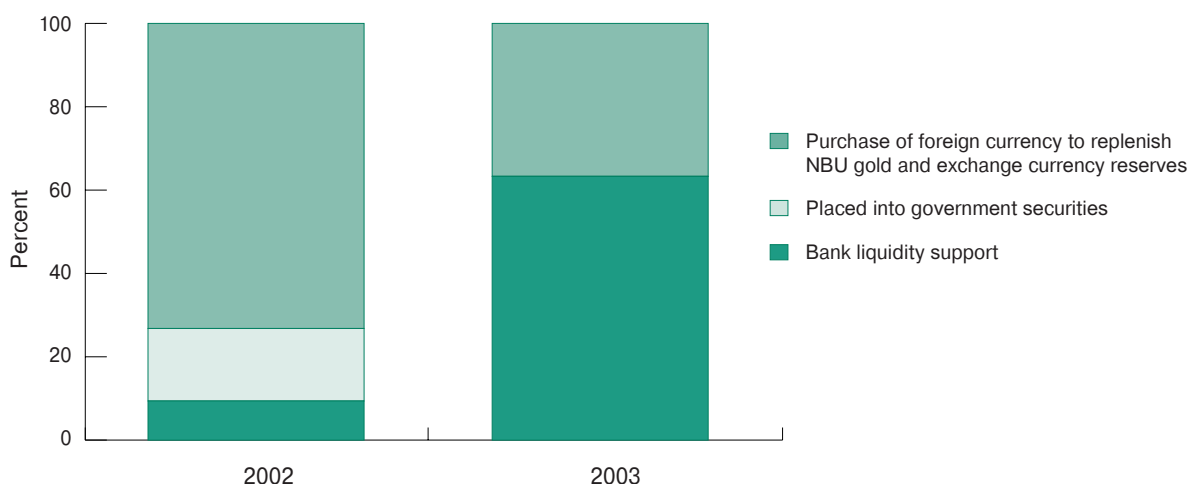
2.2. CREDIT ISSUE

In 2003, the NBU through various channels put into circulation payment facilities to the total amount of UAH 41.5 billion, which was UAH 28.5 billion superior to 2002, viz.:

- to support bank liquidity – UAH 26.3 billion;
- to purchase foreign currency to make up the NBU gold and exchange currency reserves – UAH 15.2 billion or 36.7% of the total payment facilities put into circulation.

In comparison with 2002, there were changes in the structure of putting payment facilities into circulation. The share of payment facilities issued through various refinancing mechanisms to support bank liquidity increased, making 63.3% versus 9.4% in 2002. The share of the funds for purchase of foreign currency to make up the NBU gold and exchange currency reserves diminished by 36.5 percentage points to 36.7%.

Issue of Payment Facilities in 2002 – 2003



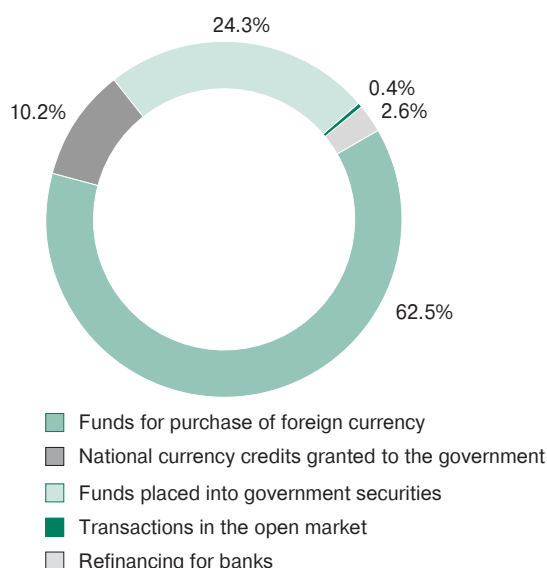
In 2003, there were issued funds withdrawn from circulation to the amount of UAH 31.3 billion, which was 4.1 times superior to the amount withdrawn in the previous year. The funds were withdrawn through repayment of the NBU credits by banks (UAH 25.4 billion or 81.2% of the total amount withdrawn), through performing transactions in the foreign exchange market (UAH 4.8 billion or 15.3% of the total amount), and through performing transactions with government securities in the open market (UAH 1.1 billion or 3.5%).

In 2003, the volume of net non-cash issue equaled UAH 10.2 billion, having augmented by UAH 4.8 billion compared with 2002.

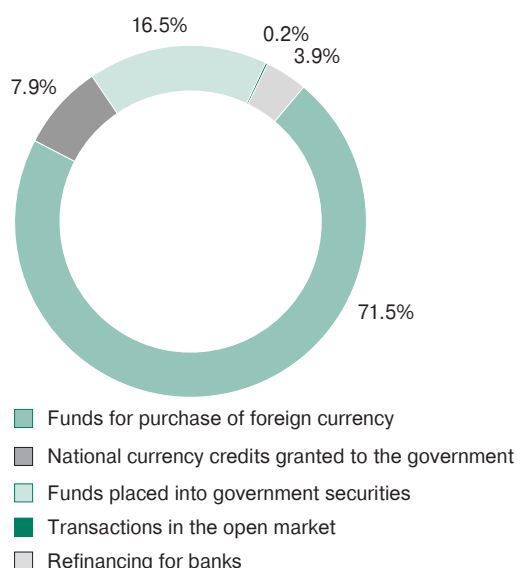
As of 1 January 2004, there were payment facilities in circulation to the amount of UAH 45.2 billion, which was UAH 10.2 billion or 29.2% more than at the end of the previous year.

Within the total volume of non-cash issue as of 1 January 2004, the share of issued funds for foreign currency purchase made 71.5% compared with 62.5% as of 1 January 2003. The share of issued funds for refinancing for banks remained insignificant, making 3.9% (2.6% as of 1 January 2003).

**Breakdown of NBU Non-cash Issue
as of 1 January 2003**



**Breakdown of NBU Non-cash Issue
as of 1 January 2004**



2.3. CURRENCY CIRCULATION

In 2003, the monetary base augmented by 30.1% (by 33.6% in 2001), totaling UAH 40 billion as of 1 January 2004.

An increase in money supply and animation of banks' credit activities accelerated money multiplication, and the money multiplier grew from 2.11 as of 1 January 2003 to 2.37 as of 1 January 2004.

The total money supply in circulation as of 1 January 2004 came to UAH 95 billion, having increased by 46.5% including by 43.6% in the national currency and by 58.6% in the foreign one. At that, in 2003, the cash outside banks grew by 25.3% versus its 35.8% growth in 2002.

During 2003, the breakdown of the money supply by currencies changed. As of 1 January 2004, the share of the money supply in the national currency made 79.2%, having diminished by 1.6 percentage points.

The money velocity slowed down from 4.08 at the beginning of 2003 to 3.20 as of 1 January 2004, while the monetization level went up from 24.50 to 31.28%.

In 2003, there was an increase in all the monetary base components.

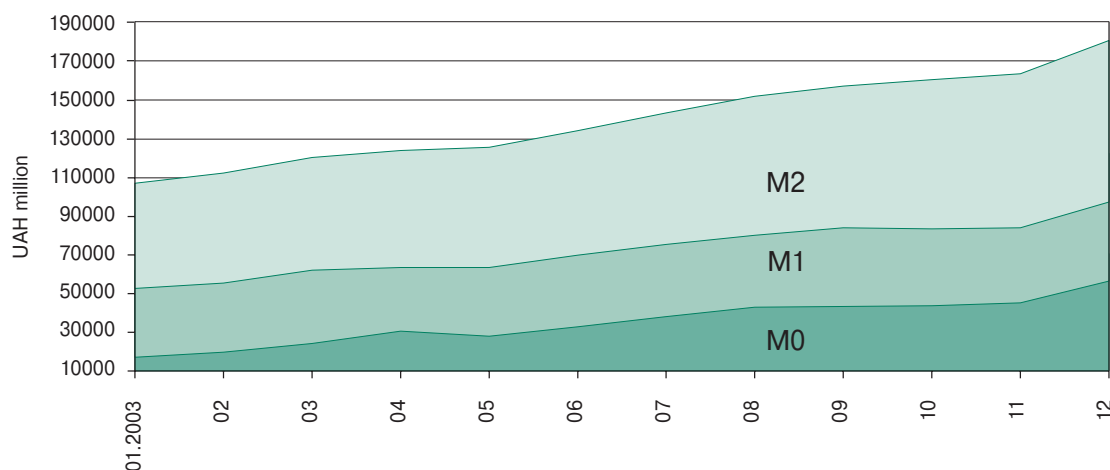
Growth Rates of Money Supply by Aggregates (in percent versus previous period)

Indicators	2003	Including by quarters			
		I	II	III	IV
Money outside banks (cash) M0	125.3	98.4	113.0	105.1	107.3
Money supply (M1)	131.9	103.4	112.4	107.4	105.6
Money supply (M2)	146.9	108.1	112.8	109.4	110.0
Money supply (M3)	146.5	108.1	112.7	109.4	109.9
Note: monetary base	130.1	101.2	112.8	108.1	105.4

Note:
M1 minus M0 – funds on current accounts in the national currency
M2 minus M1 – time funds in the national currency and foreign exchange funds
M3 minus M2 – clients' funds held in trust and securities of banks' own liabilities

During 2003, the money outside banks (M0) grew by 25.3%, totaling UAH 33.1 billion as of 1 January 2004. At the same time, within the total money supply (M3), the cash share reduced by 5.9 percentage points, equaling UAH 34.8% by late December 2003, being the lowest level during last four years.

Dynamics of Monetary Aggregates in 2003



In 2003, growing production output followed by a reduction of the share of barter in settlements between economic entities brought about 44.5% augmentation in the balance of the national currency funds on current accounts, which came to UAH 20 billion as of 1 January 2004.

In 2003, within the money supply (M3), the time funds in the national currency and foreign exchange funds increased by 71.9%. Out of them, the time national currency deposits grew by 84.5%, equaling UAH 41.3 billion as of 1 January 2004.

Over the year, the clients' funds invested in purchase of bank securities and held in trust rose by 5.8%, making UAH 0.6 billion as of 1 January 2004.

Breakdown of Money Supply in Circulation in 2002 – 2003

(end of period, percent)

Indicators	2002	2003 Including by quarters			
		I	II	III	IV
Total	100	100	100	100	100
Cash (M0)	40.7	37.1	37.2	35.7	34.8
National currency funds on current accounts	21.4	22.3	22.1	22.5	21.1
Time funds in the national currency and foreign exchange funds	37.1	39.8	40.0	41.1	43.5
Clients' funds under banks' trust operations and securities of banks' own debt	0.8	0.8	0.7	0.7	0.6

During 2003, the money supply grew by 46.5%, while the funds of economic entities did so by 56.5%, totaling UAH 29.1 billion. At the same time, the funds of natural persons (including funds for purchase of banks' securities) augmented by 42.5%, equaling UAH 65.9 billion at the end of the accounting year.

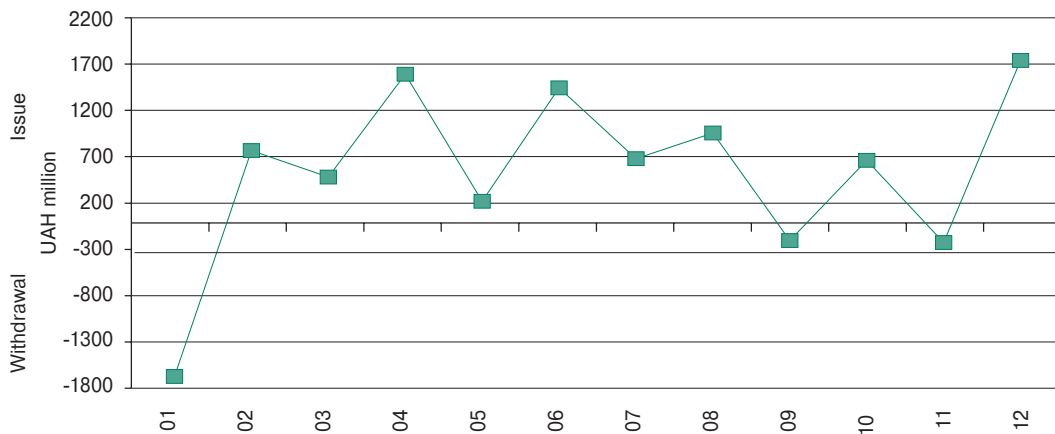
Within the total money supply, the share of the funds of economic entities made 30.7%, having grown by 2 percentage points during the year along with the corresponding decrease in the share of the funds of natural persons (including those for purchase of banks' securities).

In 2003, a steady tendency toward the increase in the savings of natural persons was seen (including funds for purchase of banks' securities). Over the year, they grew by 65.5%, amounting to UAH 32.8 billion as of 1 January 2004. Within the total savings of natural persons, time deposits made 76.6% (72.2% as of 1 January 2003), having augmented by 75.7% during the year, including by 68.4% in the national currency.

2.4. CASH CIRCULATION

As of 1 January 2004, the cash outside bank pay desks came to UAH 33.1 billion, having augmented over the year by UAH 6.7 billion. Within the total volume M3, its share diminished by 5.9 percentage points to 34.8%. In 2003, its growth rates slowed down (from 35.8% in 2002 to 25.3% in 2003). Compared with 2002, the cash outside banks reduced from 5.2 to 3.5%.

Dynamics of Cash Issue/Withdrawal in 2003



In January, September and November 2003, the cash was withdrawn from circulation due to an excess of receipts over disbursements, whereas in other months, on the contrary, the cash was issued into circulation. In December 2003, the highest level of the cash issue was seen (nearly 27% of the annual issue) at the expense of considerable wage payments and other payments made at the end of the year.

In the year under review, within the majority of the regions of Ukraine (in 16 of 25), the cash was issued into circulation. The highest level of the cash issue was observed in Sumy, Poltava, Donetsk, Mykolaiv, Kirovohrad, and Luhansk regions, where the cash outside banks ranged from 12.9 to 38.6%. The total amount of the cash withdrawn from circulation came to UAH 11.1 billion, out of which 30.6% fell on the City of Kyiv and Kyiv region, 19.8% fell on Odesa region, and 17.1% fell on Kharkiv region.

In 2003, the amount of cash disbursed from bank pay desks totaled UAH 189.2 billion, which was 41.3% superior to 2002. Out of them 52% fell on payments of wages, pensions and other social payments, operations with deposits of natural persons, and foreign exchange transactions as well.

Given the increase in the money income of individuals the cash receipts to bank pay desks rose over the year by 43.7%. The preponderant portion (more than 60%) of cash receipts to bank pay desks fell on the receipts from trade and all the paid services.

In 2003, despite an increase in the deposits of individuals, cash payments from deposits exceeded cash receipts, because more than a half of receipts on deposits were in the non-cash form. Within the breakdown of non-cash settlements, transfers for payment of wages and pensions augmented most of all (by 66.5 and 58.1% respectively). In 2003, 18.9% went for payment for goods and services in the non-cash form and with checks.

In the accounting year, the NBU organized cash circulation in order to ensure the continuous provision of the economy with the necessary amounts of cash money supply with the optimum denomination composition of banknotes and coins. To that end, the NBU constantly controlled the cash stored in the NBU regional branches, replenished it and withdrew its surplus. In 2003, the regional branches were replenished with cash worth UAH 16 billion.

In 2003, issued were new and more reliable banknotes and coins with advanced security features. From 1 December 2003, new 20 hryvnia banknotes of 2003 issue were put into circulation. The number of these banknotes in circulation made 12.7 million pieces as of 1 January 2004.

In order to support in due condition the banknotes issued into circulation the worn-out ones were withdrawn from circulation. In 2003, there were worn-out banknotes withdrawn from circulation to the amount of UAH 3.3 billion (435.7 million pieces), which made 31.1% of the amount of banknotes in circulation as of 1 January 2004. During the year, computer-aided cash processing systems integrated into the unified data processing network were updated, which ensured persistent remote monitoring of the engineering procedures of banknote processing in bank pay desks.

In the year under review, Ukrainian banking institutions detected 7.2 thousand pieces of counterfeit banknotes in the national currency to the total amount of UAH 102.8 thousand, the preponderant number whereof being banknotes of 10 and 20 hryvnia denomination (48 and 34% respectively). 509 counterfeit banknotes to the amount of USD 47,951 and 76 counterfeit banknotes issued by the European Central Bank to the amount of EUR 12,740 were detected and withdrawn from circulation. Among these banknotes, those of 100 US dollar banknotes made 91% of the total number of counterfeit US dollars, while 100 and 200 Euro banknotes made 44% each of the total number of counterfeit Euro.

Colored posters and booklets with the images of the banknotes and description of the security features visible under ordinary light were widely spread among individuals and specialists that work with the cash and carry out money counterfeiting campaign.

In 2003, commemorative coins to the total number of 117.3 thousand pieces to the amount of UAH 15.5 million were put into circulation, which was 79% superior to 2002. During the year under review, NBU distributors sold commemorative coins to the amount of UAH 404.2 thousand while NBU foreign distributors sold commemorative coins to the amount of USD 24.6 thousand.

In 2003, the NBU took actions to further improve cash circulation and to amend the legal and normative framework to facilitate cash transactions.

2.5. EXCHANGE RATE POLICY

In 2003, the NBU pursued its exchange rate policy to ensure the external stability of hryvnia and to promote economic development. The nominal exchange rate of hryvnia against US dollar almost did not change. During 2003, the revaluation of hryvnia against US dollar made 0.02%.

Such policy allowed to escape external shocks and to restrain inflation despite a dynamic increase in monetary aggregates, rise in world prices for energy carriers and bad results in agriculture. The nominal exchange rate of hryvnia remained the price guidepost for the economy, and for NBU monetary policy as well.

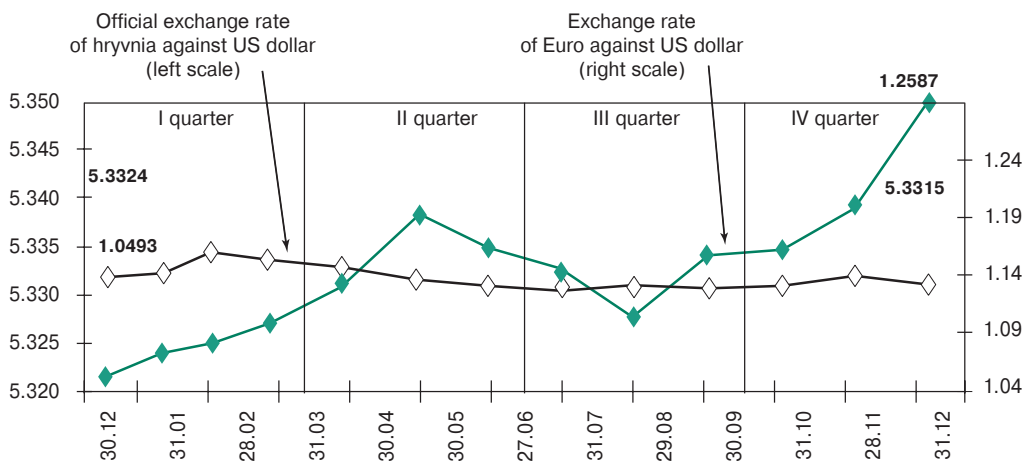
Official Exchange Rate of Hryvnia against Foreign Currencies¹

Exchange rate of hryvnia against foreign currencies	2002	2003
- against US dollar	533.24	533.15
change in nominal terms (percent)	-0.64	0.017
change in real terms (percent)	-1.25	7.59
- against Euro	553.2898	666.22
change in nominal terms (percent)	-18.49	-20.41
change in real terms (percent)	-19.2	-11.29
- against Russian ruble	16.777	18.101
change in nominal terms (percent)	4.57	-7.89
change in real terms (percent)	4.0	0.28

¹ Exchange rate by period end – UAH per 100 monetary unit, change in nominal and real terms:
 "–" – devaluation, "+" – revaluation.

Such policy had a considerable impact on an increase in the BOP current account balance, and on a growth in foreign currency earnings in Ukraine. In 2003, 24% augmentation of exports also made for an increase in foreign currency earnings in the country. The NBU carried out the active intervention policy and redeemed the redundant supply of the foreign currency in the market in order to increase international reserves. It balanced the market foreign currency supply and demand and stabilized the nominal exchange rate of hryvnia against US dollar. As a result, the exchange rate did not range considerably.

The dynamics of the exchange rate of hryvnia against Euro and Russian ruble that were extensively used by economic entities of Ukraine in international settlements was characterized by the dynamics of the correlation between these currencies and US dollar. At the same time, the devaluation dynamics of the exchange rate of US dollar against Euro in the international financial markets resulted from the long-term policy carried out by the Federal Reserve System aimed at equilibration of the current account balance considerably exceeded the estimations of analysts.

Official Exchange Rate of Hryvnia and Euro against US Dollar in International Markets in 2003

During 2003, the nominal exchange rate of hryvnia against US dollar remained almost unchanged. Due to this fact, hryvnia devaluated against both US dollar and Euro. As a result, in the context of a rise in prices for the goods imported from the Eurozone, positions of Ukrainian exporters consolidated. In 2003, the exchange rate of hryvnia against Euro ranged from UAH 5.5329 to 6.6622 per EUR 1. At that, the nominal exchange rate of hryvnia against Euro diminished by 20.4%, whereas the real one grew by 11.3%. In the pervious year, hryvnia devaluated against Euro by 18.5% in nominal terms and by 19.2% in real terms.

The world currencies strongly depend on each other, so taking into account a moderate decrease in the exchange rate of Russian ruble against US dollar, during 2003, the nominal exchange rate of Russian ruble devaluated by 7.9%, whereas its real exchange rate grew by 0.28% (in 2002, the nominal exchange rate of hryvnia against Russian ruble went up by 4.57%, while the real one augmented by 4%).

The exchange rate dynamics against Euro considerably changed, which led to changes within the breakdown of demand and supply by currencies in the foreign exchange market. Taking into account these facts, the NBU carried out interventions in order to ensure market stability. The NBU also used other instruments in order to implement its exchange rate policy viz. standards and rules of the foreign exchange regulation, particularly, mandatory sales of exchange earnings; the Trade Session for non-cash purchase/sales of foreign currencies; the ratio of the open foreign exchange position; rules for performing of current and capital transactions and transfer of currency values through the border of Ukraine.

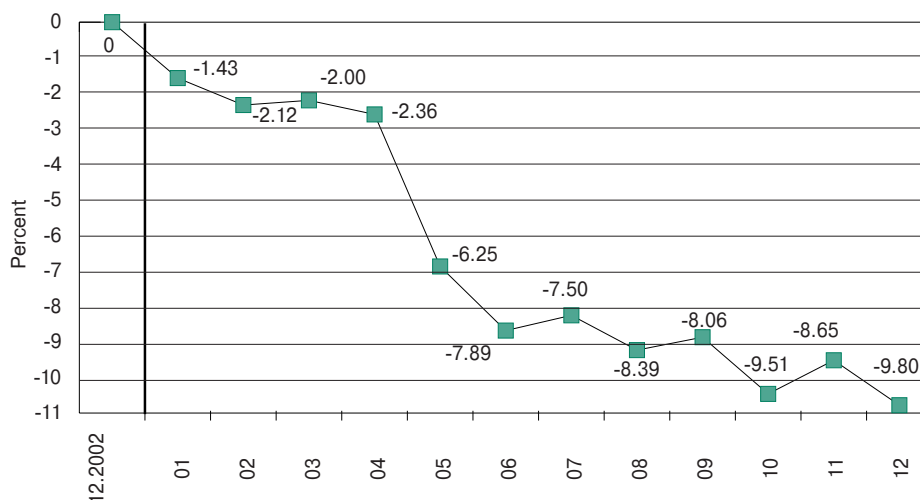
2003 foreign exchange policy restrained inflation, stimulated an increase in the real income of individuals and final domestic demand, made for a gradual decrease in the real effective exchange rate which strengthened the effectiveness of Ukrainian exports and promoted an increase in production. Besides, it led to an augmentation of the international reserves. Moreover, the attractiveness of hryvnia increased compared with those foreign currencies, which considerably fluctuated. Thus, real dedolarization of the economy accelerated.

Real effective exchange rate

Observed was a positive dynamics of the real effective exchange rate of hryvnia, which showed changes in price conditions of the foreign trade and price competitiveness of the economy.

In 2003, the real effective exchange rate of hryvnia made minus 9.8%.

Dynamics of Real Effective Exchange Rate of Hryvnia in 2003



A low inflation rate compared with countries – main trade partners of Ukraine, and a decrease in the exchange rate of US dollar against other foreign currencies in the international foreign exchange markets were key factors of a diminution of the real effective exchange rate of hryvnia.

In 2003, the growth rates of exports came to 124% owing to favorable price conditions in the external markets. Foreign currency earnings in the country augmented, and supply exceeded demand, which allowed to increase the international reserves and ensure the stability of the exchange rate of hryvnia, which promoted economic growth.

2.6. FOREIGN EXCHANGE REGULATION

In the accounting year, the NBU continued to liberalize foreign exchange regulation in order to maintain the stability of the foreign exchange market of Ukraine and to create favorable conditions for economic entities of the external economy sector.

The National Bank of Ukraine permitted authorized banks to purchase and sell foreign currencies for foreign currencies on behalf of their customers with the status of economic entities and at their expense without obligations in these currencies in both the interbank foreign exchange market and the international foreign exchange markets of Ukraine with some restrictions. Taking into account the foreign policy of Ukraine aimed at joining the World Trade Organization and in order to hedge currency risks of bank customers, authorized banks were permitted to purchase and sell the foreign currency of the first group of the foreign currency classifier for the foreign currency of the first group through forward contracts on behalf and at the expense of their customers with the status of economic entities of Ukraine. From October 2003, banks were permitted to perform these transactions in the interbank foreign exchange market of Ukraine.

In order to increase banking services rendered by authorized banks to their customers – natural persons without the status of economic entities of Ukraine banks were permitted to convert the hard currency on customer's account into the other foreign currency of this group, entering the purchased currency to customer's account.

Natural persons were allowed to transfer foreign currency abroad without NBU individual licenses for tuition payment at the amount of USD 30 thousand per academic year; entrance and membership fees to international organizations at the amount of no more than USD 500; payment of legal costs and expenses on arbitration; payment of the expenses associated with the death of Ukrainian citizens abroad; payment for other services rendered in accordance with agreements concluded with non-residents at the amount of no more than USD 500 per month.

In order to expand the banking metal market, from September 2003, the NBU increased the list of transactions with banking metals, which can be performed by authorized banks. Particularly, banks were permitted to purchase banking metals without obligations in the interbank foreign exchange market of Ukraine and in international markets and to perform transactions through forward contracts in international markets within 50% of the limit of the long (short) foreign exchange position. At that, the restriction regarding the volume of sales of banking metals to natural persons was cancelled. Natural persons were allowed to purchase banking metals in the interbank market of Ukraine and to enter banking metals to current accounts and deposits.

The NBU simplified the procedures of performing separate transactions associated with crediting in the foreign currency. Particularly, in order to hasten the obtainment of the long-term foreign currency credits by authorized banks the procedure of the registration of credit contracts concluded by authorized banks with non-residents for the term over 1 year was simplified. As a result, in 2003, credit resources raised by the authorized banks of Ukraine multiplied 2.3 times compared with 2002. Besides, the National Bank of Ukraine gave the right to natural persons – residents without the status of business entities to obtain foreign currency credits and loans from foreign creditors and authorized banks.

Separate NBU decisions were aimed at speeding-up of foreign economic settlements by simplifying the procedure of foreign currency purchase.

In order to augment international settlements made in hryvnia, the NBU improved the procedure of carrying out transactions with the national currency funds on correspondent accounts with authorized banks of Ukraine by non-resident banks. Besides, the term of keeping the national currency funds on a separate analytical account in case of their transfer on a correspondent account with non-resident bank decreased from 5 to 1 working day.

Liberalization of the interbank market of Ukraine had an impact on the foreign exchange cash market. Thus, on 14 March 2003, the restriction on 5% deviation of the exchange rate of hryvnia from the official exchange rate of hryvnia against foreign currencies was cancelled. Authorized banks are allowed to set the exchange rate of the cash foreign currency. In order to protect citizens exchanging foreign currencies the NBU took steps aimed at improvement of their servicing.

Updated was the system of foreign exchange control over transfers of currency values through the customs of Ukraine by legal entities and natural persons. The procedure of transferring the cash foreign currency by natural persons and that of transferring banking metals and banknotes of foreign countries by authorized banks was simplified.

Improved was the mechanism of transferring foreign currencies abroad for purchase of government bonds of Ukraine. Introduced was the additional provision according to which a bank may receive individual license for transferring the foreign currency funds abroad for purchase of government securities of Ukraine on conditions that these funds do not exceed 10% of the total bank assets. At the same time, the procedure of license obtainment according to which the list of the documents necessary for license obtainment shortened. The license term was prolonged from 90 to 365 days.

The NBU took measures for prevention of the foreign currency funds outflow abroad.

In order to implement the Law of Ukraine "On Counteraction of Legalization (Laundering) of the Gains Obtained in a Criminal Way through Banks and Other Financial Institutions" of 6 February 2003 # 485-IV:

- adjusted were the requirements to the identification of the customers that perform cash transactions without account opening from EUR 10 thousand to UAH 50 thousand;
- approved was the procedure of closing anonymous foreign currency accounts and code accounts of natural persons (residents and non-residents) in both foreign and national currencies.

In order to improve the control over purchase of foreign currencies in the interbank foreign exchange market by residents and non-residents established was a requirement according to which the investor – non-resident should produce the documents on the sources of his income in hryvnias when purchasing foreign currencies through banks at the expense of the hryvnia funds obtained from inverse sales of the securities of Ukrainian issuers.

In order to implement the Program on Counteraction of Legalization (Laundering) of the Gains Obtained in a Criminal Way, in 2003, the work on the revision of the Draft Law of Ukraine "On the System of Foreign Exchange Regulation and Foreign Exchange Control" was continued. The adoption of this Draft Law will led to successful implementation of the public exchange rate policy.

2.7. DEVELOPMENT OF THE FOREIGN EXCHANGE MARKET

In 2003, the situation in the foreign exchange market of Ukraine remained steady owing to the stability of the exchange rate of hryvnia against US dollar, which led to further development of the economy.

In the foreign exchange market, supply of the foreign currency exceeded its demand, which made for an increase in international reserves and promoted timely payments of the external debt.

In 2003 compared with 2002, GDP grew by 9.4%, which led to 15.8% increase in individuals' income. As a result, additional funds came to the cash sphere and caused some changes within the breakdown of the foreign exchange market. Three years running, within the foreign exchange market, 95 – 96% fell on the non-cash foreign exchange market. In 2003, its share diminished to 86.5%, whereas the share of cash foreign currency transactions grew to 13.5%.

Breakdown of the Foreign Exchange Market of Ukraine

(percent)

Period	Non-cash market	Cash market	Total
2000	95.2	4.8	100
2001	96.0	4.0	100
2002	95.7	4.3	100
2003	86.5	13.5	100

During the year under review, in the interbank foreign exchange market of Ukraine, supply of the foreign currency exceeded its demand. It resulted from 14% augmentation of exchange earnings caused by an increase in the BOP current account surplus, direct foreign investments, receipts from eurobonds allocation, and by obtainment of non-guaranteed credits as well.

Considerable fluctuations of the exchange rate of hard currencies had an impact on the foreign exchange market. Nevertheless, an augmentation of the exchange earnings in the country stabilized the operation of this market. Owing to these facts, the volumes of transactions in the interbank foreign exchange market grew by 37.4%.

Volumes of the Foreign Exchange Market of Ukraine

(in dollar equivalent, USD million)

Indicators	2002	Change in percent	2003	Change in percent
Tenders in the interbank foreign exchange market of Ukraine (including NBU transactions)	38,384.6	8.1	52,748.6	37.4
viz.: – purchase	19,059.8	7.9	26,244.9	37.7
– sales	19,324.8	8.3	26,503.7	37.2
Tenders in the foreign exchange cash market of Ukraine	1,738.7	16.2	8,242.7	4.7 times as much
viz.: – purchase	962.0	15.7	4,488.4	4.7 times as much
– sales	776.7	16.7	3,754.3	4.8 times as much
Excess of purchase over sales	185.3	—	734	—

In autumn, observed were considerable fluctuations of the exchange rate of hryvnia against US dollar and Euro, an increase in purchase of grain abroad, and seasonal factor regarding an augmentation of demand for foreign currencies. Due to these facts, the foreign exchange market was volatile. Nevertheless, the National Bank of Ukraine was able to keep the situation in the market under control. NBU currency interventions were the chief instruments in the foreign exchange market. In 2003 versus 2002, they went up by 28.5%, totaling USD 2.2 billion.

Purchase of the foreign currency with the purpose of repayment of credits was one of the reasons, which forced the foreign exchange market. Thus, in September – October, in the interbank market, the foreign currency purchased for this purpose was 2.2 times as much as that purchased for the payment of imports of goods and services.

Within the breakdown of the foreign exchange non-cash market, settlements in US dollars dominated in foreign trade settlements and in purchase of Ukraine's government bonds. In 2003, purchase of Euro grew by 20%.

In the foreign exchange cash market, supply of the foreign currency was USD 734 million superior to its demand, having multiplied almost 4 times compared with 2002.

Sales in the Interbank and Cash Foreign Exchange Markets

(in dollar equivalent, percent)

Year	Total million pcs	US dollar	including Euro	Russian ruble	Other currencies
Interbank Foreign Exchange Market					
2000	14,866.6	74.2	3.4	20.6	1.8
2001	17,849.1	73.2	5.4	20.2	1.1
2002	19,324.8	78.5	7.9	11.6	1.9
2003	26,503.7	81.3	7.4	10.0	1.2
Foreign Exchange Cash Market					
2000	734.3	87.9	5.1	5.9	1.2
2001	665.3	85.1	6.1	7.4	1.5
2002	776.6	77.4	13.8	7.8	1.0
2003	3,754.3	82.0	11.5	4.6	1.9

In 2003, in the cash market, the total transactions in dollar equivalent multiplied 4.7 times at the expense of 4.7 times increase in supply.

Within the total transactions in the cash market, 81.1% fell on US dollar, 13.0% – on Euro, and 4.6% – on Russian ruble.

In 2003, steady development of the foreign exchange market of Ukraine promoted an increase in currency earnings, and in the economic growth rates as well. At that, the mechanisms of the foreign exchange market regulation met the needs of economic development.

2.8. INTERNATIONAL FOREIGN EXCHANGE RESERVES

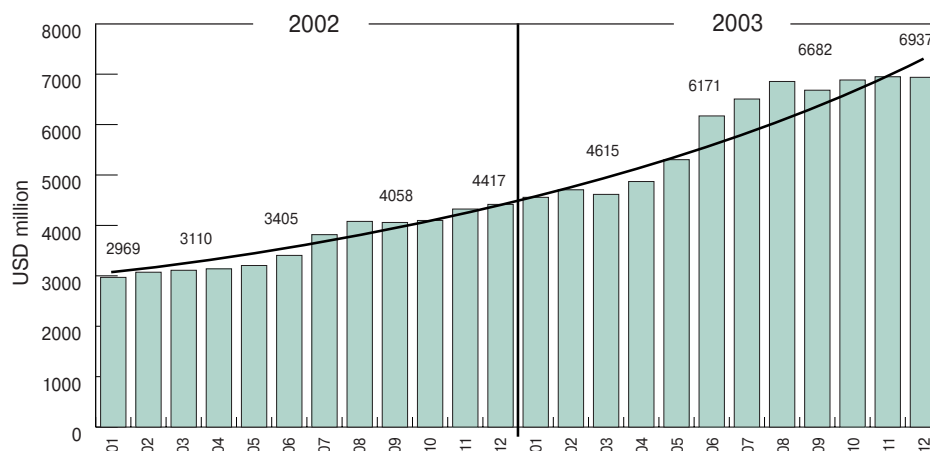
In 2003, the international foreign exchange reserves rose by USD 2,520.5 million or 1.6 times, amounting to USD 6,937.4 million at the year end.

The international reserves were replenished mostly with the foreign currency purchased in the interbank foreign exchange market through NBU interventions, totaling USD 2,226.7 million.

The international reserves also augmented owing to the receipts of currency from government bond placement worth USD 1 billion and the World Bank loan worth USD 75 million.

The international reserves decreased due to repayment and servicing of the external public debt to the amount of USD 1,273.3 million or 39% superior to 2002 by the Ministry of Finance of Ukraine and due to repayment of the IMF loans worth USD 246 million by the NBU.

NBU International Reserves in 2002 – 2003 (at current exchange rate by months)



The NBU pursued a deliberate policy aimed at the efficiency of international reserves management, using such instruments as medium-term and overnight deposits and securities with fixed income.

In 2003, the medium-term and overnight deposits worth USD 19.2 and 17.1 billion respectively were placed.

With the aim of improving international reserves management, concluded was an agreement with the IBRD. Within the agreement purchased were securities amounting to USD 600 million including the mirror portfolio worth USD 100 million created by the NBU.

In 2003, the NBU international reserves grew by USD 103 million.

The rational diversification of the NBU international reserves ensured the liquidity of the interbank foreign exchange market of Ukraine, stability of the exchange rate of hryvnia and protection of the NBU international reserves from the depreciation caused by exchange fluctuations in international markets.

2.9. SYSTEM OF FOREIGN EXCHANGE CONTROL AND LICENSING

In the year under report, the NBU granted 1,666 individual licenses, approbations and special permits.

Banking institutions were granted 323 individual licenses and special permits, viz.:

- individual licenses to perform non-recurrent foreign exchange transactions – 201;
- special permits to import circular check forms, banknotes of other countries, and banking metals – 122.

Legal entities (non-banking institutions and natural persons) were granted 1,343 individual licenses, approbations and special permits viz.:

- individual licenses to perform non-recurrent foreign exchange transactions – 947;
- individual licenses to prolong the law-established terms of settlements on external economic transactions – 383;
- approbations to transfer national and foreign currency funds abroad according to the agreements envisaging execution of works and rendering of services by non-residents – 8;
- special permits to transfer checks to Ukraine and import foreign currency – 5.

In September 2003, with the purpose of simplifying the procedure of importing foreign currency and banking metals by authorized banks, canceled was granting of special permits to import banknotes of other countries and special permissions to import banking metals to these banks.

Simplified was the procedure of NBU cooperation with the anti-organized crime bodies (Ministry of Internal Affairs of Ukraine and Security Service of Ukraine) regarding applications for licenses to perform some foreign exchange transactions.

The NBU exerted control over the fulfillment of the foreign exchange law requirements by authorized banks and non-banking institutions. Performed were 751 inspections of banking institutions, 623 inspections whereof being scheduled and 128 inspection being unscheduled. On demand of the law-enforcement authorities and the State Tax Administration performed were 25 inspections. Conducted were 268 comprehensive inspections.

Adopted were 523 regulations on calling 76 authorized banks to account for currency offence to the amount of UAH 34.8 million.

Out of the currency offences, 54.7% fell on those committed when making up reports on foreign exchange transactions, 38.7% resulted from non-exercise of foreign exchange control agent's duties, 5% were associated with the non-adherence to the procedure of foreign currency sales in the interbank foreign exchange market, 1.3% with the non-compliance with the requirements and procedure of declaring the currency values of a resident, 0.3% with the transfer of currency values abroad and use of foreign currency as a payment facility in Ukraine without an NBU special license.

UAH 0.5 million were paid according to 446 regulations on calling to account for currency offence.

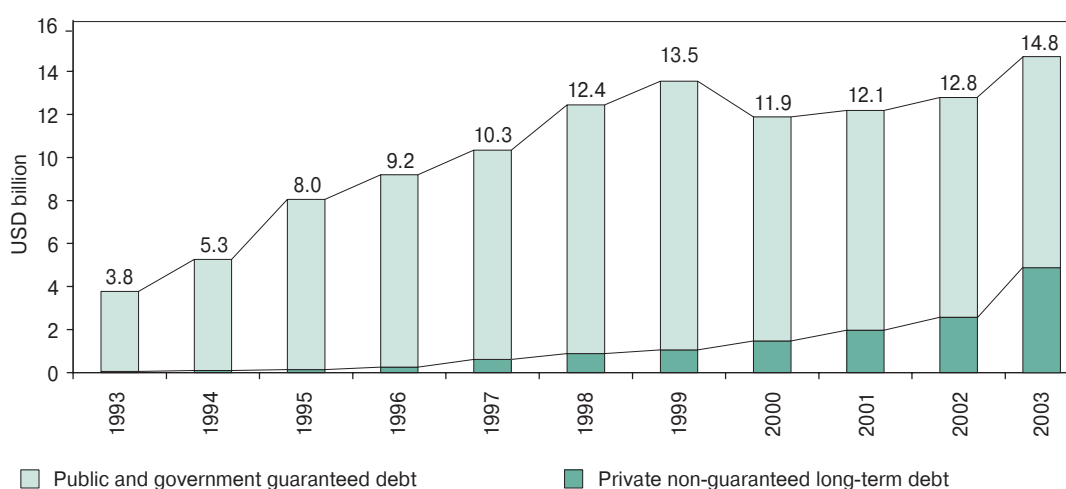
The NBU performed 6,514 inspections (6,064 scheduled and 450 unscheduled ones) of currency exchange offices, 2,315 offices whereof belonging to banks and 4,199 offices operating on contract terms.

The inspections revealed 1,541 cases of banking law infringements. In 515 cases infringements were done by the currency exchange offices belonging to banks and in 810 cases – by the offices operating on contract terms. The NBU imposed fines totaling UAH 1.8 thousand for the infringements.

2.10. SERVICING THE INTERNAL AND EXTERNAL DEBT OF UKRAINE

In 2003, the total external long-term debt of Ukraine increased by USD 2 billion or 15.6%, amounting to USD 14.8 billion at the year end, USD 10.7 billion whereof falling on the public debts and USD 4.1 billion falling on the private one.

Dynamics of the External Debt of Ukraine in 1993 – 2003



The external public long-term debt rose by 4%, its share within the total volume having augmented by 8 percentage points to 72%. Foreign loans continued to be given to the private sector. The external private long-term debt grew by 60%, while its share increased by 8 percentage points, making 28%.

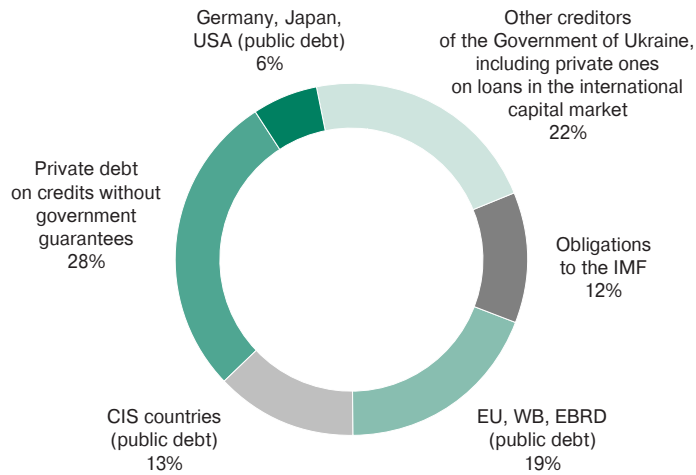
The volume and breakdown of the external debt were impacted by:

- 2.3 times increase in the foreign credits obtained by the state or government guaranteed (in 2002, they diminished 1.6 times);
- issue of 2003 government bonds denominated in US dollars;
- 5% decrease in the public debt of Ukraine to the Russian Federation due to the mutual offset of payments to the amount of USD 97.8 million;
- reduction in the obligations to the IMF.

At the end of 2003, the breakdown of the external long-term debt was as follows:

- debts to the EU and international financial organizations decreased by 5 percentage points making 19% of the total debt;
- debts to CIS countries reduced by 3 percentage points to 13%;
- debts to the USA, Germany and Japan declined by 1 percentage point to 6%;
- debts on the private foreign credits grew by 8 percentage points to 28%.

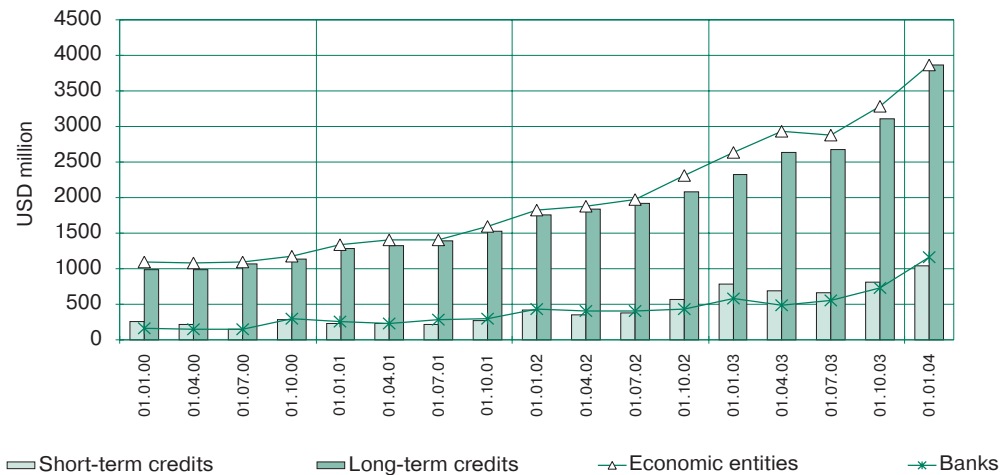
Breakdown of the External Debt of Ukraine by Creditors as of 31 December 2003



In 2003, within the breakdown of the external debt of Ukraine by currencies the share of debt liabilities denominated in SDR reduced by 3% with the corresponding increase in that of the liabilities denominated in US dollars.

In the accounting year, the long-term credits obtained by Ukraine equaled USD 4 billion, USD 2.8 billion (70% of the total long-term credits) whereof being the private ones. Credits amounting to USD 2.8 billion (including USD 1.3 billion on the external public debt) were cancelled. In 2003, the surplus between the amount of external long-term debt received and repaid amounted to USD 1.2 billion (USD 0.1 billion in 2002).

Dynamics of the Total External Private Debt of Ukraine*



*Principal of debt excluding overdue interest and commission

In 2003, the NBU registered 1,251 credit projects for receipt of foreign currency credits totaling USD 6.7 billion by Ukrainian residents from non-residents, 83% or USD 5.6 billion whereof falling on the long-term credit projects. The interest rate on 67% of the total credits did not exceed 10%.

The total external private debt of Ukraine was characterized by:

- augmentation of the share of the external private debt within the total external debt (from 23% at the end of 2002 to 30% at the end of 2003);
- low absolute and relative value of the short-term component within the private debt (8% at the end of 2003).

Within the breakdown of the external debt by borrowers the share of non-bank institutions made 77%, that of the private non-guaranteed debt of banking institutions of Ukraine making 23%. About 2% of the private debt fell on the subordinated debt on the foreign credits obtained by the banking sector.

The limit of the internal public debt amounting to USD 1.3 billion was set as of 31 December 2003 in accordance with the Law of Ukraine "On the State Budget for 2003".

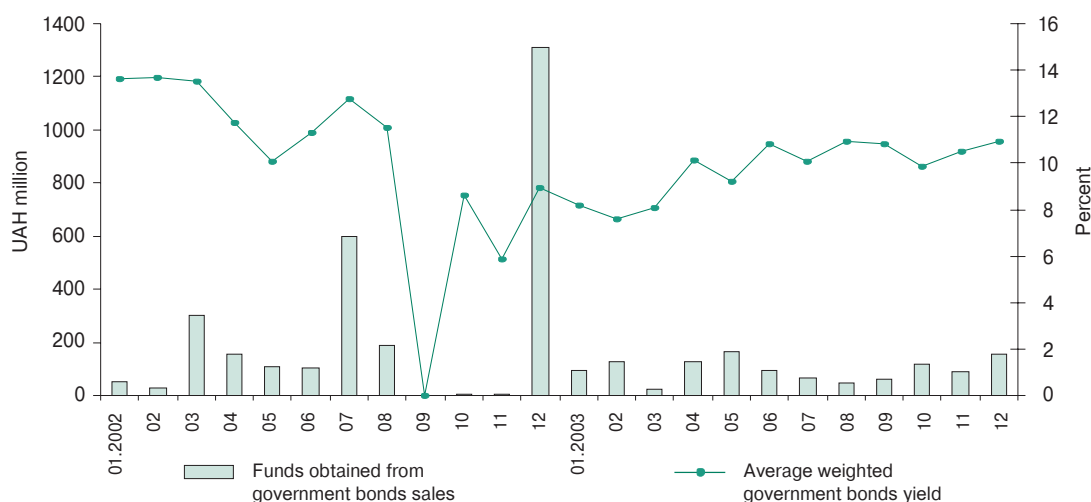
As of 1 January 2004, the debts of the government to the NBU equaled UAH 18.4 billion. The debts on the credits granted in previous years totaled UAH 10.6 billion (UAH 3.6 billion in the national currency and UAH 7 billion or USD 1.3 billion in the foreign one). At the end of 2003, debts on the NBU-held government securities totaled UAH 7.8 billion, having decreased by UAH 1.1 billion or 11.9% compared with the end of 2002. The decrease resulted from the policy of the Ministry of Finance of Ukraine aimed at a curtailment of the State Budget replenishment with the funds obtained in the domestic market and an increase in the State Budget financing through other sources. Thus, the Law of Ukraine "On Amendments to the Law of Ukraine "On the State Budget of Ukraine for 2003" and Other Laws" of 3 July 2003 # 1068-IV envisaged augmentation in the State Budget replenishment through foreign loans by UAH 0.6 billion.

2.11. ACTIVITIES OF THE NBU AND OTHER BANKS OF UKRAINE IN THE SECURITIES MARKET

In 2002, in accordance with the legislation in force the NBU conducted transactions associated with placement and redemption of government bonds, and payment of interest on them.

In order to place government bonds 172 auctions were organized, 69 auctions whereof were held. 103 auctions were considered invalid by the Ministry of Finance of Ukraine due to discrepancies in sale price terms of the securities or a lack of tenders for them. By results of the auctions held the State Budget was replenished with UAH 1.16 billion, UAH 0.56 billion being from sales of the short-term bonds and UAH 0.6 billion from sales of the medium-term ones. In 2003 versus 2002, the volume of the funds raised from government bonds placement declined almost 2.5 times, making about 65% of the funds obtained from sales of short- and medium-term government bonds according to the Law of Ukraine "On the State Budget for 2003". Nearly 90% of the sold government bonds were purchased by banks for themselves, whereas the demand for these bonds on the part of other investors was insignificant.

Dynamics of Obtained Funds and Yield from Government Bonds Sales



The decrease in sales of government bonds was caused by the increase in the State Budget financing through external sources (by UAH 0.6 billion).

In view of the fact that in 2003 the Ministry of Finance of Ukraine did not place long-term government bonds the average circulation of government bonds decreased by 615 days against 2002, being 441 days at the end of the year.

The average weighted yield of the government bonds sold in the primary market made 9.8% per annum in 2003, having diminished by 1 percentage point versus the previous year. It was conducive to saving the public expenses for domestic loans.

In 2003, the Ministry of Finance of Ukraine repaid government bonds and paid interest on them to the amount of UAH 2.28 billion (UAH 2.02 billion being for repayment of the principal, UAH 0.26 billion – for payment of interest).

Taking into account the fact that payments for government bonds exceeded the volumes of their placement almost 2 times, the debts of the Government of Ukraine on these bonds reduced by UAH 0.9 billion, equaling UAH 9.9 billion as of 1 January 2004.

In 2003, the volumes of servicing depositary-controlled contracts with government debt liabilities in the secondary market amounted to UAH 3.5 billion, about 60% whereof being the NBU credits granted to banks for support of their liquidity under collateral of government securities.

Only 24 banks out of 157 operating banks had government bonds in their security portfolio. The limited number of securities market participants led to the dependence of the Ministry of Finance of Ukraine on these participants when making domestic loans and reduced the opportunities of the NBU to refinance banks under collateral of government securities. Searching for other financial instruments that could be accepted as a collateral against the loans granted for bank liquidity support, the NBU initiated refinancing for banks under collateral of the bonds of economic entities, which was favorable for the development of the market of these bonds.

In order to amend the legal and regulatory framework for public debt servicing the NBU in 2003 adopted the Regulation on the Procedure for Placement of Government Bonds and the Regulation on the NBU Depositary Activities.

The adoption of these regulations made it possible to improve the procedure of government bonds placement and to put into operation the software facilities ensuring implementation of the purchase/sale contracts of government bonds concluded in the primary and secondary markets on the delivery versus payment basis through integrating the electronic systems of depositary-controlled accounting of securities and monetary settlements.

As of 1 January 2004, the NBU had the interest-bearing government bonds obtained due to restructuring of the debt on the government bonds by the Ministry of Finance of Ukraine to the NBU as of 21 September 2000. The monthly interest rate set annually by the Ministry of Finance of Ukraine according to the Regulation of the Cabinet of Ministers of Ukraine "On Issue of 2000 Interest-Bearing Government Bonds" of 29 September 2000 # 1455 with amendments was considered to be 0 in 2003. In view of the above these bonds were not serviced in 2003 and the NBU received no interest on them. The Ministry of Finance of Ukraine began repayment of the principal on the government bonds to the NBU on due date. In 2003, the NBU received UAH 1.1 billion in repayment of the bonds.

2.12. SETTLEMENT AND CASH SERVICE FOR UKRAINE'S BUDGETS

In 2003, the NBU continued to service the budgetary funds in accordance with the Agreement on the Terms and Conditions of Operation of the State Treasury Account and Settlement Service through the NBU System of Electronic Payments concluded between the NBU and the State Treasury of Ukraine in July. It allowed the State Treasury of Ukraine to considerably enhance the quality of settlements, reduce the time required for money transfers, use the reliable information protection system, timely make managerial decisions with respect to the efficient use of the budgetary funds and to ensure that the money transfer reached the recipient.

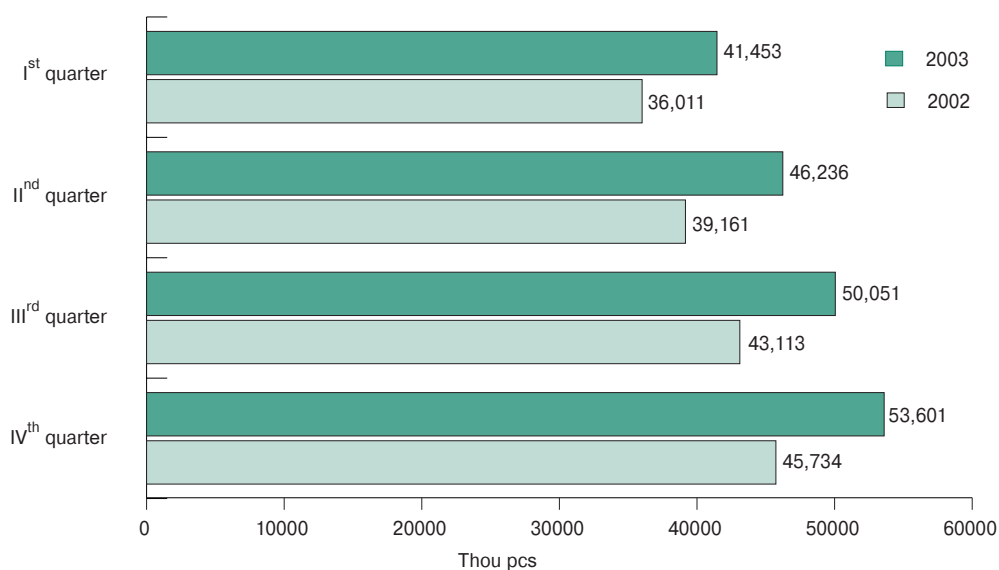
The introduction of the Commingled Treasury Account according to the Regulation on the Commingled Treasury Account approved by the Decree of the State Treasury of Ukraine of 26 June 2002 # 122 by approbation of the NBU made it possible to transfer the State Treasury of Ukraine bodies in 17 regions to the Commingled Treasury Account by the 8th model of servicing through the System of Electronic Payments.

In 2003, by the Law of Ukraine "On the State Budget of Ukraine for 2003" the transfer of local budgets to the treasury system of servicing was nearly completed.

2.13. PAYMENT SYSTEM OF UKRAINE

The year of 2003 was the tenth year of commercial operation of the System of Electronic Payments of the NBU (SEP hereinafter) and the third year of experimental service of the new interbank settlements subsystem, the System of Urgent Transfers. In the year under report, the SEP operated as a national system of interbank settlements. As of 1 January 2004, the total quantity of SEP subscribers equaled 1664 entities, 1616 whereof being banking institutions and the rest – the State Treasury bodies. The total number of correspondent accounts on which the payments through the SEP were made came to 342 accounts.

Dynamics of Increase of Payments Made during 4 Quarters of 2002 – 2003



In 2003, the SEP operation allowed to:

- process 191,341 initial payments amounting to UAH 1,767,678 million or by 17 and 32% respectively superior to the previous year;
- process 1,265 payments amounting to UAH 34 million through the System of Urgent Transfers;
- increase the average daily SEP workload by 17% to 762 thousand payments compared with 2002 and the quantity of payments by 32% to UAH 7,043 million.

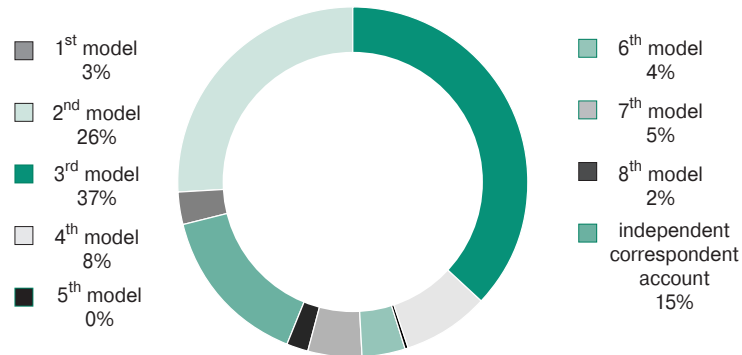
In 2003, the average daily balance of funds on the accounts of SEP subscribers ranged from UAH 5.2 to 8.7 billion. During the banking day the average daily balance on the accounts of SEP subscribers turned 1.1 times.

A persistent trend towards an increase in the average daily quantity of payments and turnovers showed economic activity animation, retention of trust in the banking system and transfer of some of them from barter and shadow turnover to the banking sector.

In 2003, the transition of banks and their branches to servicing through the SEP by the consolidated account model chosen by them was under way. As of 1 January 2004, 73 SEP subscribers serviced their correspondent accounts through the SEP, 9 of them were given the NBU permission over

the year. At the end of the accounting year, 85% of the SEP subscribers preferred to work with the consolidated correspondent account, the rest working with the independent correspondent account as independent SEP subscribers.

SEP Subscribers by Correspondent Account Servicing



In March 2001, first payments were made through the System of Urgent Transfers (SUT hereinafter), a new subsystem of interbank settlements, that transferred money between banks in the real time mode with the immediate entrance of funds to the account of the recipient bank. In 2003, carried out was the experimental service of the system, in which the limited number of banks participated. In 2003, the following banks made payments through the SUT: Open Joint-Stock Company "All-Ukrainian Joint-Stock Bank", Commercial Bank "Ukrainian Capital", Third Kyiv Branch of the Open Joint-Stock Company "Ukrhazbank", Joint-Stock East-Ukrainian Bank "Grant" (city of Kharkiv), Kyiv Branch of the Joint-Stock East-Ukrainian Bank "Grant".

In the year under review, other banks tested their work with the SUT. A number of banking institutions continued to update the software for their own automation systems to ensure the interface with the SUT.

In 2003, the legal and regulatory framework for settlements through the SUT was replenished with the Instruction on the Interbank National Currency Money Transfer in Ukraine, Rules of Accounting Transactions Conducted by NBU Regional Branches within the NBU System of Electronic Interbank Transfers.

One of the most important objectives of the NBU has been the introduction and servicing of the Commingled Treasury Account according to the Regulation "On Creation of an Internal Payment System of the State Treasury" adopted by the Cabinet of Ministers and the NBU of 15 September 1999 # 1721. In 2003, considered was the issue of pooling the State Treasury of Ukraine funds on the NBU Commingled Account. In 2002, made was the decision to work out a specialized 8th model of the consolidated correspondent account, with the specific character of the State Treasury work taken into account.

In 2003, carried out was development testing with participation of the State Treasury. In the fourth quarter of 2003, 20 State Treasury bodies were transferred to operation through the SEP by the 8th model, the remaining 8 bodies were transferred in March 2004.

2.14. SETTLEMENTS IN UKRAINE

As of 1 January 2004, 87 banks (55% of the total number) were members of national and international payment systems, issuing and acquiring payment cards.

In 2003, the total number of payment cards issued by Ukrainian banks and with the help of which at least one transaction was conducted went up from 6,150 thousand pieces to 11,529 thousand pieces, out of them:

- those of the National System of Mass Electronic Payments (NSMEP) multiplied 3.6 times to 483 thousand pieces;

- MasterCard – 2.3 times to 4,793 thousand pieces;
- VISA – grew by 73% to 4,482 thousand pieces;
- those of interbank payment systems increased by 24% to 1,624 thousand pieces;
- those of other payment systems – by about 56% to 147 thousand pieces.

The following banks issued the largest quantity of payment cards: "Privatbank" – over 4,555 thousand pieces, "Prominvestbank" – nearly 1,638 thousand pieces (976 thousand cards whereof being intrabank ones), Joint-Stock Postal and Pensionary Bank "Aval" – over 1,188 thousand pieces (over 97 thousand pieces being intrabank ones), Joint-Stock Commercial Bank "Nadra" – nearly 786 thousand pieces, Open Joint-Stock Company "State Savings Bank of Ukraine" – over 549 thousand pieces (over 296 thousand pieces whereof being intrabank ones), "First Ukrainian International Bank" – over 469 thousand pieces, Joint-Stock Commercial Bank "Praveks-Bank" – nearly 250 thousand pieces, Joint-Stock Bank "Express-Bank" – nearly 246 thousand pieces (NSMEP cards).

In 2003, the number of cash dispensers servicing cards grew by 2,409 entities or 92% to 5,027 pcs, that of payment terminals – by 4,726 or 22% to 26,440 pcs, and that of imprinters – by 8,538 or 36% to 31,976 pcs. In 2003 versus 2002, the number of operations with the use of payment cards rose by 72 million or 98%, totaling 146 million. These operations were performed to the amount of UAH 34.4 billion, having increased by UAH 14.3 billion or 72%, out of them:

- cash withdrawal with the help of plastic cards grew by UAH 13.9 billion or 73% to UAH 32.7 billion, making 95% of all the operations with plastic cards;
- non-cash payments increased by UAH 496 million or 43% to UAH 1.7 billion, making 5% of the total operations with plastic cards.

In 2003, the balance of funds on the card accounts equaled UAH 3.108 billion, having augmented by 61%. Out of them, the balance of funds on the card accounts of natural persons grew by 60% to UAH 2.951 billion, and those of legal entities increased by 74% to UAH 157 million.

As of 1 January 2004, the balance of funds on the card accounts of natural persons made 63% in the national currency and 37% in the foreign one; that on the accounts of economic entities totaling 79 and 21% respectively.

In 2003, the work on the implementation of NSMEP cards continued in the NBU Main Administration for the City of Kyiv and Kyiv region, NBU regional branches in Kharkiv, Odesa and Donetsk regions. These regional branches began to work in the interbank mode. Banks in Kyiv, Kharkiv, Odesa, Chernihiv, Zaporizhzhia, Dnipropetrovsk, Lviv, Sumy and Donetsk regions were NSMEP subscribers.

As of 1 January 2004, 19 banks were NSMEP subscribers, 13 banks whereof issued cards, viz. Open Joint-Stock Company "Megabank" (City of Kharkiv), Kredytprombank (City of Kyiv), Joint-Stock Commercial Bank "Imeksbank" (City of Odesa), Open Joint-Stock Company Bank "BIG Energia" (Cities of Kyiv, Sumy, and Zaporizhzhia), Joint-Stock East-Ukrainian Bank "Grant" (City of Kharkiv), Open Joint-Stock Company Commercial Bank "Khreschatyk" (City of Kyiv), Open Joint-Stock Company "Bank Demark" (City of Chernihiv), Joint-Stock Commercial Bank "Mria" (City of Kyiv), Joint-Stock Bank "Express-Bank" (Cities of Kyiv, Dnipropetrovsk, Donetsk, Kharkiv, Lviv, and Odesa), Closed Joint-Stock Company "Polikombank" (City of Chernihiv), Open Joint-Stock Company "Inprobank" (City of Kyiv), Joint-Stock Bank "Munitsipalniyi" (City of Kyiv), and Joint-Stock Commercial Bank "Interbank" (City of Kyiv).

In 2003, the following 5 banks issued the largest quantity of NSMEP cards: "Express-Bank" (256.3 thousand pcs), "Imeksbank" (155.6 thousand pcs), "Demark" (31.1 thousand pcs), "Megabank" (21.4 thousand pcs), and Bank "Grant" (10.6 thousand pcs).

In the year under report, owing to the NSMEP and bank initiative, the introduction of non-cash settlements and card issue went on.

By initiative of the Joint-Stock Commercial Bank "Imeksbank" (City of Odesa) elaborated

and introduced the use of the NSMEP for payment of utility bills of individuals in the City of Odesa and the Town of Kotovsk in Odesa region. Also began the card issue within the social programs of granting pecuniary aid to the lower-income individuals of the City of Odesa.

The Joint-Stock Bank "Express-Bank" (City of Kyiv) began to accept non-cash payments for railway tickets through the "Express" system made with the help of NSMEP cards and allowed the employees and pensioners of the Ukrainian Railway Administration, holders of the NSMEP cards issued by the bank, to receive credits on their card accounts in case of necessity.

By initiative of the Open Joint-Stock Company Bank "BIG Energia" (City of Kyiv) and the Main Data-Processing Center for the Kyiv Municipal Public Administration in the City of Kyiv introduced was payment for utility bills through the Internet with the help of NSMEP cards.

The Kyiv Municipal Public Administration together with the NBU worked out the projects of the purposeful comprehensive programs "The Social Card of a Kyiver" and "The Transportation Card of a Kyiver", which provide for the use of NSMEP information technologies and cards.

A number of banks, NSMEP subscribers, allowed the legal entities, NSMEP card holders, to make payment for their economic activities with these cards by the method similar to the limited check-book of a reporter.

In order to prepare for the large-scale application of NSMEP cards to trade and services the NBU and a number of companies, its partners, carried out work and organized mass production of NSMEP cards, terminals, and cash dispensers. Worked out and introduced was the method for payments of utility bills through the Internet by tenants in the City of Kyiv, services of the Internet provider "Telematyka", Internet-cards and EIVisti services. Enhanced were the functional capabilities of the applied hard- and software.

In order to ensure the development of the payment system infrastructure 11 types of hard- and software were elaborated with the help of over 30 Ukrainian enterprises and permitted to be used within the NSMEP following the respective trials conducted by the NBU.

One of the basic objectives of the comprehensive system for servicing of government securities circulation was to ensure computer-aided operation of banks in the primary and secondary government securities market and to provide information protection and depositary services for the NBU to enable it to conduct transactions with securities in the open market and refinancing.

This system was based on the integrated software "Government Bonds online" that ensured the primary placement of government bonds, operated as the NBU Depositary with respect to custody of government securities and servicing of their circulation on depositary accounts; it made payments for contracts with government securities based on the delivery against payment principle, ensured clearing money settlements for government securities placement through the mutual offset of payments between depositories and the State Treasury.

By results of the mutual offset of payments executed and passed to the NBU Settlement Operations Department were documents regarding payment of income and redemption of securities.

In 2003, the Depositary processed 2,270 bank orders, the total amount of processed government securities equaling 21.5 million pieces. Over 1.1 million of bonds at the face value of UAH 1.1 billion were sold through the auctions of government bonds placement by means of the LIGA program of "Government Bonds online" system. The Depositary reregistered the property in 8.4 million bonds worth UAH 8.4 billion.

In 2003, 250 depositary certificates amounting to UAH 25 million were accounted through the system for accounting amounts "Sertyf".

At customers' requests the I&R program "Depozapyt" of the "Government Bonds online" system gave over 1,300 certificates.

In 2003 in order to increase the number of the banks through which settlements for securities were effected updated was the software "Government Bonds online". In case of necessity it allowed not only depositories but also all SEP subscribers (in particular branches authorized by the directors of banks as legal entities) to effect settlements for transactions with securities.

In 2003, according to the Agreement concluded between the NBU and the Interregional Stock Union (ISU) elaborated and given to the ISU Depository was the software for exchange of information about long-term refinancing for banks and protection of this information from illegal access.

The NBU refinanced banks on collateral of government securities and bills of exchange by means of open-market operations through quantitative and interest tenders as well as granted overnight credits to banks through the constantly operating refinancing line. For bank refinancing the software "Credit Tender" that cooperated with the NBU Depository was used. The "Credit Tender" workstations were created in banks as legal entities, regional departments and the NBU Monetary Policy Department. The software allowed to block the government securities accepted as a collateral against the loans granted by the NBU.

2.15. BANKING SECTOR DEVELOPMENT

As of 1 January 2004, there were 179 banks registered by the State Register of Banks. In 2003, 5 new banks were established. 8 banks were excluded from the Register, 7 banks due to liquidation and 1 bank due to restructuring.

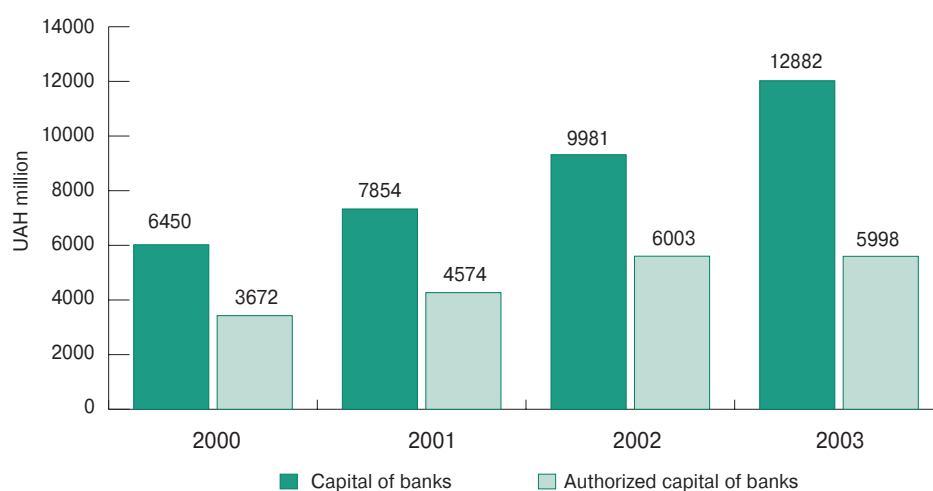
By legal forms of governance organization the banks were subdivided as follows: 133 banks were joint-stock companies, 24 banks being limited liability companies.

At the end of 2003, there were 19 banks with participation of foreign capital in Ukraine, 7 banks whereof being with 100% foreign capital. The percentage of foreign capital participation in the banking sector made 11.3% at the end of 2003 compared with 13.7% at the beginning of 2003.

157 banks had banking licenses and permissions for performance of banking operations, 156 banks whereof had licenses for performance of foreign exchange transactions.

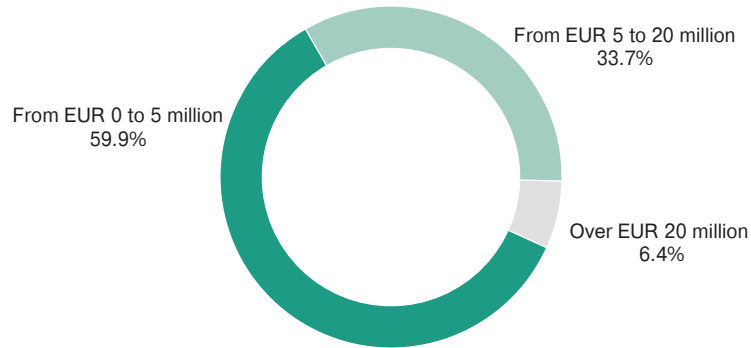
The volumes of the balance, authorized and regulatory capital were on the increase. At the end of 2003, the capital of operating banks amounted to UAH 12.9 billion, having augmented by UAH 2.9 billion or 29.1% (by 27.1% in 2002). Over 60% of the capital of banks fell on the authorized capital that as of 1 January 2004 totaled UAH 8.1 billion, having increased by UAH 2.1 billion (by UAH 1.4 billion in 2002). The regulatory capital of banks equaled UAH 13.2 billion, having grown by UAH 3.1 billion or 30.7%. In 2003, in order to increase the capital of banks made were 50 decisions to permit banks to add the funds obtained as a subordinated debt. In addition to that considered was the return of funds obtained as a subordinated debt for 8 banks.

Dynamics of Capital of Banks in 2000 – 2003



The number of banks with the authorized capital over EUR 20 million increased by 3 entities to 10 banks. The number of banks with the authorized capital from EUR 5 to EUR 20 million remained unchanged, totaling 53 banks. The number of banks with the authorized capital up to EUR 5 million reduced by 3 entities to 94 banks.

Groups of Banks by Paid-in Authorized Capital as of 1 January 2004



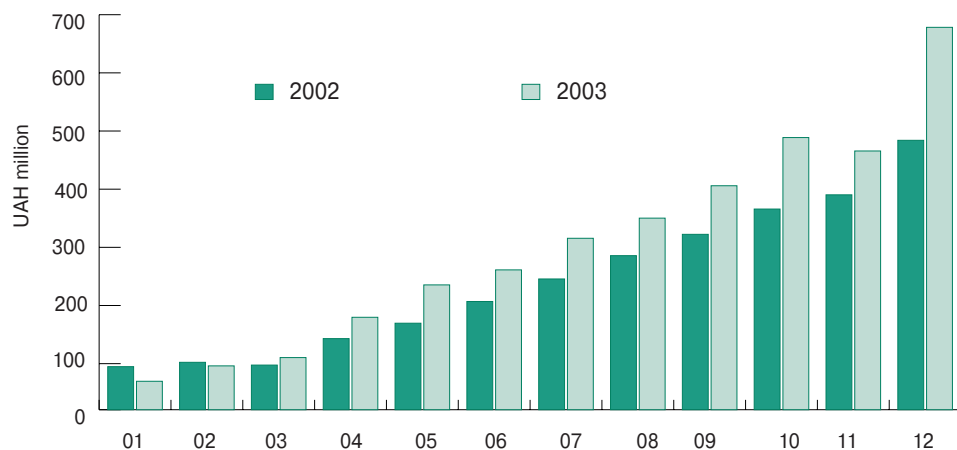
As of 1 January 2004, the average authorized capital per bank totaled UAH 51.7 million, having augmented by UAH 13.5 million or 35.3% against 2003. Banks in 13 regions out of 26 increased their capital, the most considerable increase (2.9 times to UAH 30.7 million) falling on Zakarpattia region. The largest average authorized capital (UAH 59.2 million) remained in the City of Kyiv.

In 2003, the following changes occurred in the banking system:

- the total assets of banks grew by 57.4% (by 34.2% in 2002) to UAH 100 billion;
- the credit portfolio share within the total assets went up from 64.8 to 69.6%, the ratio of debts on credits to GDP having risen by 7.2 percentage points to 25.8%;
- the share of overdue and suspicious loans reduced from 5.4 to 3.9%;
- new 80 bank branches were opened, which was favorable for an increase in banking operations and improvement in customer servicing.

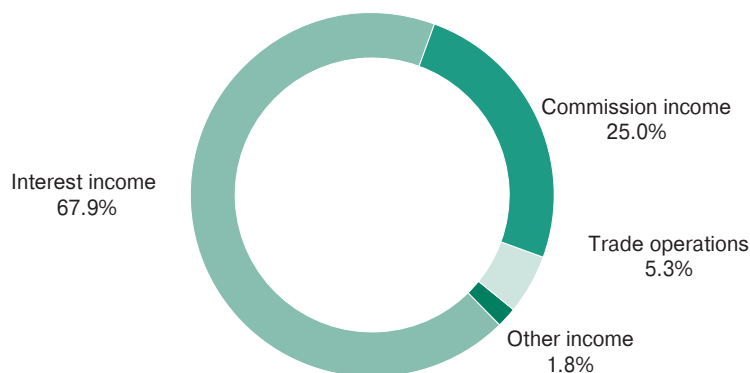
In the year under report, banks made profits amounting to UAH 827 million, which was 21.1% superior to 2002.

Dynamics of Net Profit of Banks (as progressive total)



The income of banks amounted to UAH 13.9 billion, having augmented by UAH 3.5 billion or 33.8% compared with 2002. The interest income of banks increased by 38.5%, their share within the total income having grown by 2.3 percentage points to 67.9% at the end of 2003. The credits granted to economic entities earned the largest portion of interest income (79.7%). The interest income of banks on the credits granted to natural persons multiplied 2.7 times, while its share went up from 4.9 to 9.6% over the year. In 2003 versus 2002, the commission income of banks augmented by UAH 865 million or 33.3%, equaling UAH 3.5 billion.

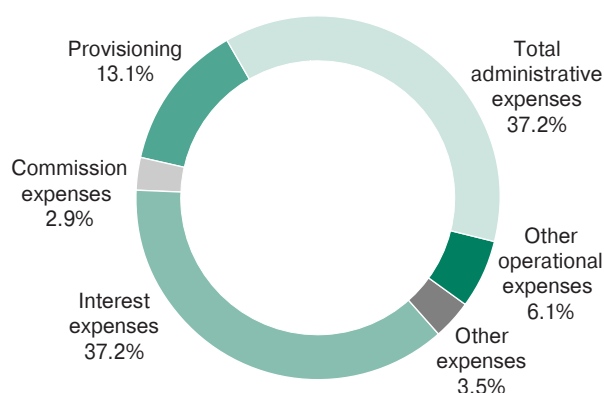
Income of Banks as of 1 January 2004



In 2003, the expenditures of banks amounted to UAH 13 billion, having risen by UAH 3.3 billion or 34.7% against 2002.

In 2003 compared with 2002, the interest expenses of banks grew by 36.6%. In 2003, banks paid interest on the deposits of natural persons amounting to UAH 2.8 billion or 57.6% of the total interest expenses. The administrative expenses rose by 20.3%.

Expenses of Banks as of 1 January 2004



Despite positive changes in the banking system of Ukraine the issue of capitalization remains relevant. The capital of banks grew slower than their assets and liabilities.

The interest rates on granted credits remained high, which was caused by the low solvency of many borrowers and high risks of credit non-repayment, retention of high interest rates on deposits, and accumulation of considerable amounts of funds on State Treasury accounts.

2.16. LIQUIDATION OF UKRAINIAN BANKS. PROTECTION OF DEPOSITORS

At the end of 2003, there were 20 banks at the stage of liquidation, 12 of them were being liquidated in accordance with the NBU decision, 8 – in accordance with the decision of economic courts.

The acknowledged claims of these banks' creditors amounted to UAH 2.92 billion, UAH 0.8 billion (27.1%) whereof being the satisfied ones. The claims of the NBU were satisfied by 76.5%, those of natural persons – by 71.3%, those of legal entities – by 2.7%, and those of the budget and off-budget funds – by 0.2%.

Within the acknowledged unpaid payables, the shares of claims of legal entities and natural persons made 97.9 and 2.1% respectively. At the same time, the balance of funds on the accounts of the banks at the stage of liquidation equaled UAH 87.8 million or 4.1% of the total funds required for the full settlement of creditor claims.

In 2003, UAH 119.61 million or 12.1% of the liquidation funds (provisions made up against liquidation) were used by bank liquidators.

In 2003, the NBU participated in the adoption of the Law of Ukraine "On Settlement of Debts to Individual Depositors and other Creditors of the Joint-Stock Commercial Agricultural and Industrial Bank "Ukraina". The bank's liquidator fully satisfied the claims of first- and second-rank creditors. Taken were steps to raise the required funds to be paid to the third-rank creditors. Within the claims of these creditors, the claims of legal entities and natural persons made 99.6 and 0.4% respectively. The major hindrance to the accumulation of the funds to be paid to the third-rank creditors was non-repayment of debts to the bank by borrowers, 84% of the debts being the overdue ones.

The liquidation of the Joint-Stock Commercial Bank "Slovianskyi" went on. The bank was liquidated in accordance with the NBU Board Resolution "On Liquidation of the Joint-Stock Commercial Bank "Slovianskyi" of 11 January 2001 # 9. In the accounting year, the bank liquidation commission ensured the proper work with claims with respect to bank debtors, took actions to make up the liquidation fund and effected settlements with bank creditors.

At the end of 2003, taken was the decision to liquidate the Joint-Stock Company "Our Bank". The bank liquidator drew up an inventory of the bank assets, made a list of its creditors and is carrying out the work with claims regarding repayment of the receivables.

2.17. BANKING ACTIVITY REGULATION

In 2003, the NBU approached the system of banking activity regulation to the international standards.

In 2002, in conformity with the Law of Ukraine "On Banks and Banking Activities" and taking into account the International Accounting Standards the NBU approved 4 new legislative acts and enactments and made 24 amendments to 12 existing ones.

The NBU approved the Regulations on the Committee for the Certification of Bank Auditors and on the Certification of Bank Auditors, which improved the quality of audits of bank financial statements.

In order to assess timely and as accurately as possible the bank financial performance based on the analysis of different spheres of banking and on the adherence to the Law of Ukraine "On Banks and Banking Activities" introduced was bank assessment by one of the CAMELS components, bank sensitivity to market risks. Planned is the transition from banking supervision to control over banking activities based on risk assessment. When assessing risks, using the Methods for Inspections of Ukrainian Banks, assessed is the risk peculiar to a bank, in particular, credit, interest, currency, and liquidity risks as well as the system of risk assessment, measurement, management and control introduced by the bank and compliance with the NBU legal acts and enactments with respect to market risk limitation.

Control over banks was exerted with the help of a comprehensive approach as well as on-site and off-site inspections.

In 2003, NBU banking licenses and permissions to conduct transactions were granted to 4 newly established banks and restored for 2 banks. The list of transactions that are conducted on the basis of a written permission was expanded for 27 banks. Banking licenses and permissions were replaced for 17 banks due to the name change. Written permissions were replaced for 24 banks due to changes in the list of transactions.

Banking activity indicators were analyzed using the Uniform Bank Report Methodology and such software products as "NEW_STAT", AIS "Bank Dossier", "Statistics and Analytics within the SEP" updated in 2003 with taking into account the growing requirements to banking activity analysis and amendments to the NBU regulatory framework.

In order to detect problems in banking in an initial stage elaborated and introduced was the system of early response indicators, which allowed to assess bank performance efficiency and to detect bank problems with capitalization, liquidity, solvency, quality and riskiness of assets as well as stability and quality of liabilities.

The basic objective of on-site inspections was to determine the nature of business activities of a bank from the point of view of management of assets and liabilities, market and currency risks, its liquidity and solvency, governance quality, determination of its stability and conformity of its activities with the banking legislation requirements.

In 2003, carried out were 407 scheduled inspections, 95 banks with the status of legal entities and 312 branches were inspected. In addition, with putting the Law of Ukraine "On Counteraction to Legalization (Laundering) of the Gains Obtained in a Criminal Way" into force conducted were 1,182 unscheduled inspections, 982 inspections whereof were conducted in order to control the readiness of these banks for the implementation of this Law.

In 2003, examined were reports on bank inspections, made were suggestions pertaining to the adequacy of bank evaluation in accordance with the System CAMELS.

Due to the detection of suspicious transactions and/or those concealing criminal activities reports on 94 inspections were transferred to the law-enforcement authorities of Ukraine. 41 banks were considered in need of special supervision.

Due to the non-compliance with the banking legislation and the NBU legislative acts and enactments, which led to undercapitalization and a considerable loss of assets and solvency, in the year under report taken was the decision to liquidate and cancel banking licenses for 4 banks (Joint-Stock Company "Our Bank" (city of Zaporizhzhia), Ukrspetsimpeksbank, Joint-Stock Commercial Bank "OLBank", Tekhnobank). In addition taken were decisions to dismiss the directors of the Joint-Stock Bank "Stolychnyi" and to create provisional administration.

However, having considered the proposal of Tekhnobank shareholders to increase the authorized funds the NBU overruled its decision to liquidate the bank and restore its operation.

The NBU Commission for Supervision and Regulation of Banking Activities made 75 resolves regarding stoppage, limitation and suspension of some transactions and 67 resolves regarding application of penalty provisions totaling UAH 71.8 thousand against banks' governors.

Penalty provisions amounting to UAH 2,211.6 thousand were used in 537 cases. 199 written warnings to eliminate banking law infringements were sent to banks.

In 2003, by results of inspections and current monitoring the NBU concluded 19 agreements with banks regarding elimination of infringements in their activities and improvement of their financial performance.

The NBU Banking Supervision Service put high emphasis on the activities of state banks.

According to Article 7 of the Law of Ukraine "On Banks and Banking Activities" the NBU resolved to increase the authorized fund of the Open Joint-Stock Company "Ukreksimbank" to UAH 262 million. The Government of Ukraine repaid debts on the credits granted for the implementation of government programs, which was favorable for the stable operation of this bank and increase in its capitalization. In 2003, the Open Joint-Stock Company "Ukreksimbank" received over UAH 300 billion from the State Budget of Ukraine.

Special supervision was used with respect to the Open Joint-Stock Company "Oschadbank". In 2003, the NBU took several decisions regarding its activities. Within the

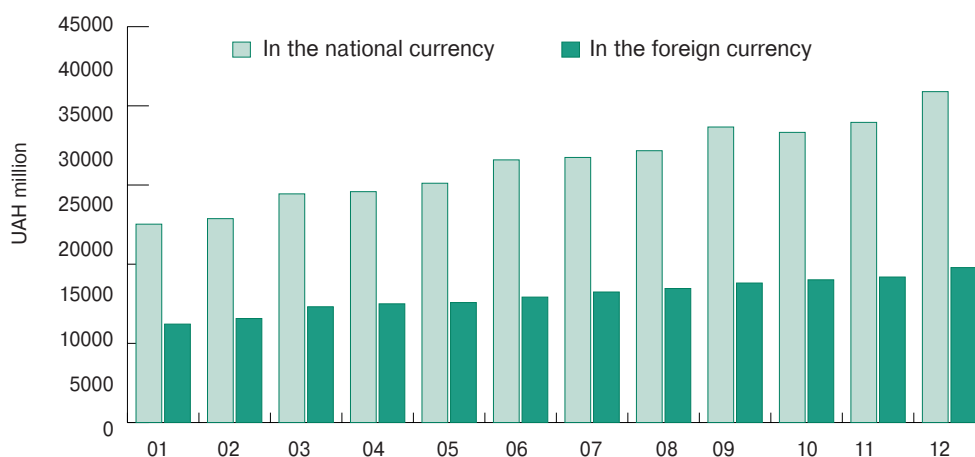
implementation of the Memorandum signed by the Cabinet of Ministers of Ukraine, NBU, Open Joint-Stock Company "Oschadbank" and World Bank, the NBU limited the activities of the bank. Limited were the risk assets of the bank and rates on natural persons' deposits. The bank was given instructions to reduce its operational expenses. In order to ensure control over the Memorandum implementation the NBU conducted unscheduled off-site inspections, in particular, of lending activities. The actions taken made for an increase in the capitalization of the Open Joint-Stock Company "Oschadbank" through a rise in provisions against possible losses on transactions with assets. The monitoring of adherence to the Memorandum requirements by the bank and results of its activities showed a step towards stabilization of its operation.

2.18. DEPOSIT MARKET

The implementation of the Government and NBU policy aimed at the social and economic development, stability of the national currency and strengthening of the banking system made for the development of the deposit market of Ukraine.

As of 1 January 2004, the liabilities of Ukrainian banks on the deposits of economic entities and natural persons amounted to UAH 61.4 billion, having augmented by 62.7% in 2003 (by 63% in the national currency).

Dynamics of Liabilities of Banks on Deposits of Economic Entities and Natural Persons in 2003



Within the deposits 68.1% fell on the national currency deposits, the rest being the foreign currency ones. As of 1 January 2004, the deposits of natural persons equaled UAH 32.3 billion, their share within the total deposit liabilities of banks making 52.7%. In 2003, the Natural Persons' Deposits Guarantee Fund increased the amount repayable to a depositor in case of a bank failure to UAH 2,000.

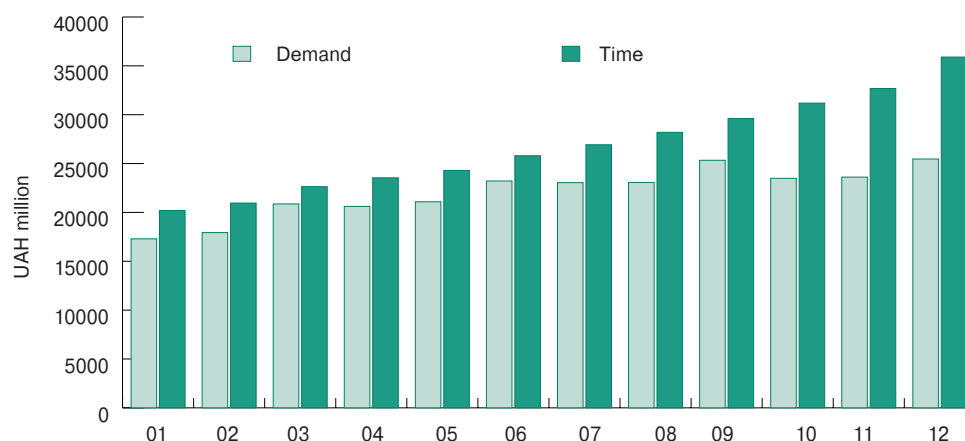
In 2003, the time deposits grew by 81.3% (the national currency ones – by 84.5%), totaling UAH 35.9 billion as of 1 January 2004. The share of these deposits within the total ones rose by 6 percentage points to 58.5%. In 2003, the liabilities on the deposits of natural persons and economic entities increased by 75.6 and 95.9% respectively, amounting to UAH 25.1 and 10.8 billion.

As of 1 January 2004, the long-term deposits equaled UAH 19.7 billion, having multiplied 2.2 times, their share within the total deposits having gone up from 24.2 to 32.2%. The liabilities of banks on the long-term deposits of natural persons amounted to UAH 13.6 billion, having increased 1.9 times. At the end of 2003, the long-term deposits of economic entities amounted to UAH 6.1 billion (31%), having risen 3 times.

As of 1 January 2004, the current deposit liabilities of banks amounted to UAH 25.5 billion. The share of these liabilities within the total liabilities of banks decreased by 6 percentage

points to 41.5%. The growth rates of the current national currency deposits made 144.9%, the share of these liabilities within the demand deposits making 79%.

Dynamics of Liabilities of Banks on Deposits of Economic Entities and Natural Persons in 2003



As of 1 January 2004, the current liabilities of banks on the deposits of economic entities equaled UAH 18.3 billion, having augmented by 41.6% (by 43.8% in the national currency).

At the end of 2003, the current deposits of natural persons amounted to UAH 7.2 billion, having increased by 43.7% (by 48% in the national currency). The share of the national currency deposits made 72.6% of the total current deposits of natural persons.

At the end of 2003, the liabilities of banks on the deposits of privately-owned economic entities (including natural persons) rose by 67.5%, state-owned economic entities – by 55.5%, collectively-owned economic entities – by 56.6%, and international organizations and legal entities of other countries – by 73.2%. Within the deposits the shares of deposits of privately-owned and collectively-owned economic entities made 56.4 and 32% respectively, those of state-owned economic entities as well as international organizations and legal entities of other countries making 10.1 and 1.5% respectively.

2.19. CREDITING FOR THE REAL ECONOMY SECTOR

A dynamic increase in the resources of banks and a decrease in the interest rates on credits stimulated further crediting for the economy. In 2003, the claims of banks on the credits granted to economic entities and natural persons rose by 61.4% (by 48.2% in 2002), amounting to UAH 67.8 billion as of 1 January 2004. The claims on the national and foreign currency credits increased by 61.7 and 60.9% respectively, totaling UAH 39.5 and 28.3 billion.

With respect to GDP, the debts on the credits went up from 18.6 to 25.8%.

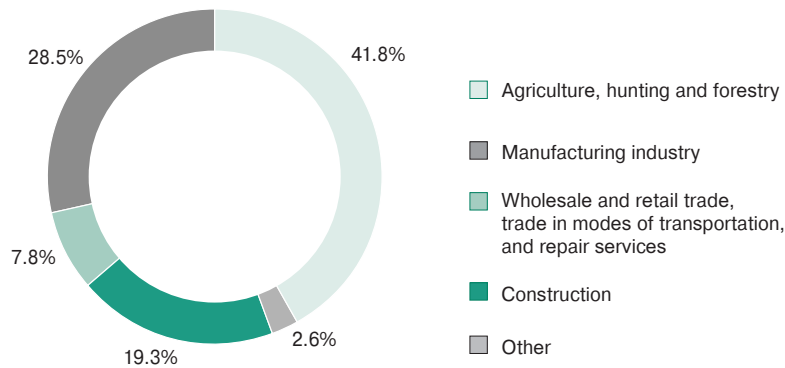
The claims of banks on the short- and long-term credits equaled UAH 37.3 and 30.5 billion respectively, having augmented by 23.5% and 2.6 times. Within the credits the share of the long-term ones grew by 16.8 percentage points, making 45% at the end of the accounting year.

86.8% of the total credits were granted to economic entities. At the end of 2003, the claims on these credits amounted to UAH 58.8 billion, having risen by 52% from the year start.

Within the total credits for the economy of Ukraine 93.5% were granted to the current activity of economic entities. The debts on the credits granted to the investment activity increased by 85.6%, their share within the credits making 6.5%. The shares of the credits granted to wholesale and retail trade, trade in modes of transportation and repair services and to manufacturing industry made 41.8 and 28.5% respectively.

In 2003, the claims of banks on the credits granted to agriculture, hunting and forestry augmented by 72.5%, amounting to UAH 4.6 billion as of 1 January 2004. The share of these credits within the total ones granted to the economy of Ukraine went up from 6.8 to 7.8%.

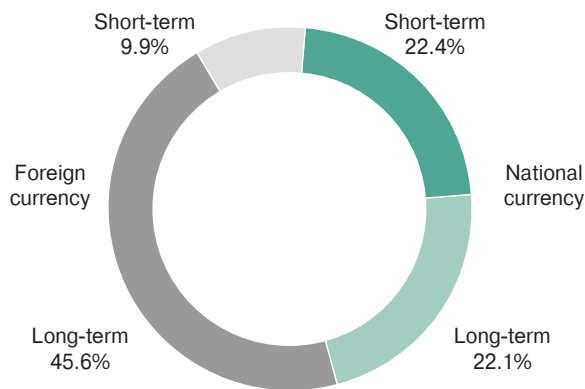
Claims of Banks on Credits Granted to Economic Entities (by patterns of economic activities) as of 1 January 2004



In 2003, balance of debts on the credits granted to small business grew by 67.2% and as of 1 January 2004 totaled UAH 8.4 billion, its share within the total volume making 12.4%.

As of 1 January 2004, the claims of banks on the credits granted to natural persons equaled UAH 9 billion, having multiplied 2.7 times (3.7 times on the long-term ones). The debts on the national and foreign currency credits increased 2 and 3.7 times respectively.

Claims of Banks on Credits Granted to Natural Persons (by currencies and maturity) as of 1 January 2004



The shares of claims of banks on credits were the largest in the City of Kyiv and in Dnipropetrovsk and Donetsk regions, making 42.3, 11.8 and 7.6% respectively.

In 2003, crediting for the real economy sector increased within all the regions, the largest increase being observed in Zakarpattia (2.3 times), Kirovohrad (2.1 times), Chernivtsi (2.1 times), and Ternopil (2 times) regions. At the same time, the smallest increase was seen in Zaporizhzhia, Lviv and Volyn regions (by 45, 48 and 49% respectively).

In 2003, the share of arrears within the total credits granted to the real economy sector went down from 4 to 2%.

As of 1 January 2004, the largest share of arrears was seen in Kherson (5% of the total credits), Chernihiv (4.6%), and Kirovohrad (3.6%) regions. The smallest share of arrears fell on Kharkiv, Donetsk and Rivne regions (0.9, 0.6 and 0.4% respectively).

2. 20. NBU RELATIONS WITH CENTRAL BANKS OF OTHER COUNTRIES AND OTHER INTERNATIONAL ORGANIZATIONS

In 2003, the NBU relations with central banks and other international organizations were aimed at the application of their experience to the banking sector and illumination of the NBU activities abroad.

Cooperation with Central Banks of Other Countries

In 2003, the NBU relations with central bank of other countries went on.

In order to encourage cooperation with European central banks NBU Governor Sergiy Tigipko made working visits to Poland and France. In July 2003, the NBU Governor partook in the meeting of the Ukrainian-German Cooperation Council. At the same time held were consultations with ECB representatives pertaining to bilateral cooperation.

In order to develop cooperation with CIS countries and the rest of the world the NBU participated in the meeting of the Advisory Council of central banks of Ukraine and Belarus as well as in the meeting of the Black Sea Bank for Trade and Development Board of Governors.

Consultations with representatives of central banks resulted in the signing of agreements on cooperation between the NBU and central banks of other countries. Concluded were Agreements with the National Bank of Tajikistan on mutual settlements, with the People's Bank of China on counteraction of laundering of the gains obtained in a criminal way and prevention of terrorism financing as well as the Memorandum on cooperation and information exchange with the Bank of Indonesia.

Continued is the elaboration of the Draft Agreements on the Cooperation between the NBU and the European Central Bank regarding counteraction of counterfeit Euro circulation and subscription to the ECB Counterfeit Monitoring System, Agreement on the Cooperation between the NBU and the Central Bank of Israel concerning information exchange, and Ukrainian Syrian Interbank Agreement.

Cooperation with the European Union, World Trade Organization and other International Organizations

According to the strategy of Ukraine aimed at the integration into the EU and the WTO the NBU in 2003 went on with the implementation of the Memorandum on Mutual Understanding between Ukraine and the EU, introduction of a plan of actions to fulfill the priority provisions of the Program for Ukraine's Integration into the EU and began the elaboration of the Draft Action Plan Ukraine – EU. In June 2003, the NBU partook in the work of the Committee for Cooperation between Ukraine and the EU.

During the consideration of Ukraine's application on its joining the WTO the NBU participated in the meetings and bilateral negotiations with WTO representatives. In addition, together with the Government of Ukraine prepared was the report of the Working Group regarding consideration of Ukraine's application to join the WTO.

In 2003, in the NBU organized were meetings with the representatives of such leading rating agencies as FITCH Ratings, Standard and Poor's, Moody's Investor Service, and Rating and Investment Information.

In 2003, for Ukraine to be excluded from the FATF list of non-cooperative countries and territories the NBU informed FATF member countries on amendments to the Ukrainian legislation and on the actions taken to prevent legalization (laundering) of the gains obtained in a criminal way.

Participation in the Creation of the Global Economic Environment

The NBU actively participated in the working out of the Draft Agreement on Creation of the Global Economic Environment between Belarus, Kazakhstan, Russia and Ukraine and the Concept on Creation of the Global Economic Environment signed in September 2003 at the summit of CIS member countries (City of Yalta). For the purpose of realizing the provisions of

these documents the Governments of the above mentioned countries signed a package of the principal actions regarding the creation of the Global Economic Environment whose major objectives were to pursue a coordinated monetary and foreign exchange policy and to create the necessary conditions for free capital flow.

In view of the step-by-step approach to the implementation of the basic measures underlying the Agreement and the Concept, the NBU aim is to ensure the execution of the first integration stage envisaging the creation of the free trade area.

2.21. NBU COOPERATION WITH INTERNATIONAL FINANCIAL ORGANIZATIONS

In 2003, the NBU continued to implement international projects on support for private sector development and the program for financial sector reformation under the projects of international financial organizations.

Cooperation with the European Bank for Reconstruction and Development

As of 1 January 2004, within the first and second credit lines (SME-1, SME-2) 216 projects of small- and medium-scale enterprises were credited to the amount of USD 188 million. In 2003, approved were 32 projects amounting to USD 32.3 million for whose crediting USD 22.7 million were allocated. Within the implementation of the Component of the Program for Small Business Crediting, 23.7 thousand microcredits worth USD 163.4 million were granted (including the credits granted from the reuse account). In 2003, there were 12.7 thousand microcredits granted amounting to USD 74.4 million.

Within the credits granted to small- and medium-scale enterprises the largest share fell on food industry (23%), chemical industry (13%), trade (12%), agriculture (8%), light industry and services sector (7% each).

The projects financed within the SME-1 and SME-2 credit lines promoted production output worth USD 730 million by small- and medium-scale enterprises and created 5 thousand new jobs.

The NBU fully met its obligations to the EBRD with respect to credit repayment and servicing. At the end of 2003, under both credit lines the NBU repaid credits amounting to USD 111.2 million (USD 52.1 million in advance) and paid interest and commission charges worth USD 37.2 million.

As of 1 January 2004, the NBU debts to the EBRD totaled USD 9.9 million under the SME-1 and USD 62.8 million under the SME-2.

Cooperation with the World Bank

In 2003, the NBU continued to implement the program for financial sector refinancing at the expense of the Grant of the Netherlands Government. The total amount of the funds approved for financing came to USD 1.05 million (50% of the Grant).

These funds are earmarked for the amendment of the financial sector legislation, solution of some problems of the biggest Ukrainian banks, support for the work of the Coordination Council for Financial Sector Policy, introduction of the program for bank auditor certification.

In 2003, under the WB project on coal industry restructuring approved were 3 projects worth USD 0.9 million and credits amounting to USD 0.8 million were granted.

To support the local executive authorities of Ukraine on whose balance sheet were the departmental institutions in the regions where coal industry mines were abandoned 2 projects amounting to USD 0.5 million were approved and credits totaling USD 0.4 million were granted.

In 2003, the NBU intensively worked on the draft of the Strategy of the WB Assistance for Ukraine for 2004–2007, which was approved by the WB Council of Directors in October 2003.

Cooperation with the International Monetary Fund

The NBU continued to cooperate with the IMF within the scope of the Memorandums of the Economic Policy of the Government of Ukraine.

In 2003, ensured was timely servicing of the IMF loans (STF, EFF). SDR 175.6 million

(USD 260 million) were paid to redeem the loans. At the end of 2003, the debts equaled SDR 1,235.5 million (USD 1,835.9 million). In the year under report, the IMF was provided with the information about monetary market indicators and debts on the foreign loans obtained by banks and economic entities of Ukraine.

In the light of the decision of Ukraine to cooperate with the IMF within the SSB, taken was a number of preliminary steps within the framework of this program and the forecasted monetary indicators were reconciled with the IMF requirements. In 2003, the NBU worked out the Draft Memorandum on the Economic and Financial Policy for 2004 (its provision is the basis for the program) and Report on Ukraine's Compliance with the IMF Standards and Codes in Fiscal Sphere. Within the framework of cooperation with the IMF held were consultations with IMF representatives at which discussed were the macroeconomic situation, balance of payments of Ukraine, monetary and economic policy, and banking system and supervision strengthening.

Cooperation with the Interstate Bank

In 2003, the NBU participated in the elaboration of the drafts of the new constituent instruments of the Interstate Bank (Statute and new wording of the Agreement on its Establishment).

Cooperation with the German-Ukrainian Fund

At the beginning of 2003, the KfW (Kreditanstalt für Wiederaufbau) informed Ukraine on the intention of the German Government to open 3 long-term preferential credit lines (EUR 5 million each) for the development of agriculture, credit unions, and energy-saving technology.

Prepared was a Draft Agreement on Financial Support for Agriculture between the Cabinet of Ministers of Ukraine and the German Government. Introduction of 2 other credit lines will depend on the success of the first.

Establishment of the Ukrainian Bank for Development

In order to promote the development of small- and medium-scale enterprises in Ukraine the Governments of Ukraine and Germany agreed to establish the German-Ukrainian Fund (1 stage) and the Bank for Development (2 stage) within the Transform Program.

At the second stage the NBU together with the experts of the KfW (Kreditanstalt für Wiederaufbau) worked out the Draft Concept on Establishment of the Ukrainian Bank for Development and the Draft Law of Ukraine "On the Ukrainian Bank for Development". At the end of 2003, the reworked drafts of these documents were submitted for approval to respective Ministries and Departments of Ukraine.

2.22. MAIN TRENDS IN ECONOMIC WORK

In 2003, the NBU went on with its economic work in the following areas:

- analysis of the development of monetary, foreign exchange and stock markets;
- monitoring of macroeconomic and monetary indicators;
- analysis of crediting for the real economy sector by banks;
- analysis of the balance of payments of Ukraine;
- forecasting of the balance of payments and international investment position;
- analysis of the external debt of the state;
- compilation of monetary and banking statistics;
- preparation of analytical materials about the banking sector;
- working out and monitoring of the measures to fulfill the messages and decrees of the President of Ukraine and resolutions of the Cabinet of Ministers of Ukraine;
- analysis of the indicators of the development of the real economy sector and public finances.

In March 2003, carried out was considerable work on preparation for the parliamentary hearings "Finances and Banking Activities: Present State and Prospects for Development". The NBU continued to work closely with the Government of Ukraine, Verkhovna Rada of Ukraine and other state run public authorities on the elaboration of drafts of government programs e.g. Program for the Activities of the Cabinet of Ministers of Ukraine, Government Program for the

Economic and Social Development of Ukraine for 2004, Forecasting of the Economic and Social Development of Ukraine for 2003–2005, Government Program for Ensuring the International Image of Ukraine for 2003–2006, Strategy of Ukraine's Cooperation with International Financial Organizations for 2004–2006, etc.

The NBU continuously informed the Administration of the President of Ukraine, Cabinet of Ministers of Ukraine, Ministry of Economy and European Integration of Ukraine, Ministry of Finance of Ukraine, Ministry of Foreign Affairs of Ukraine and other state run public authorities on the actions taken to execute the messages, decrees and instructions of the President of Ukraine, regulations of the Cabinet of Ministers of Ukraine, government programs, etc.

In 2003, the major objectives of the economic work carried out by the NBU regional branches were aimed at the analysis of the banking sector activities of a region with respect to:

- the state and development of the economy and banking sector of a region as well as monetary, deposit, foreign exchange and stock markets;
- the dynamics and breakdown of the claims of banks of a region on the credits granted to the real economy sector (including by economic activities);
- crediting for natural persons and agriculture by banks of a region;
- the composition and quality of the credit portfolio of banks in a region;
- the organization of submittal of banking reports by banks for compilation of monetary and banking statistics for economic analysis;
- collection and processing of the data for compilation of financial statistic reports on regional branch activities;
- compilation of analytical and statistic materials about the urgent issues of the banking sector development for holding conferences, seminars, round-table meetings, etc.

The NBU regional branches continued to cooperate with the local organs of government and law-enforcement authorities, informing them on banking sector activities in a region.

In 2003, improved were the methods for compilation of monetary banking statistics. The Regulation of the NBU Board of 3 December 2003 # 530 confirmed the Amendments to the Rules of Organization of the Statistic Reports Submitted to the NBU. Worked out were the methodological comments on financial sector indicators. Prepared was the methodology regarding the categories of data of the financial and foreign economic sectors. Prepared were final metadata in conformity with the SDDS.

When compiling statistic information the following main information sources were used: the NBU balance sheet, consolidated balance sheet and statistic reports of banks, information provided by the State Statistics Committee of Ukraine and Ministry of Finance of Ukraine, bulletins of other central banks, statistic collections of international financial organizations, monitoring of the indicators of Eastern European and CIS countries, as well as the Internet. The state-of-the-art technical base of the payment system and e-mail promoted efficient obtainment and quick processing of information as well as ensuring of the quality of statistical indicators of banking system activities.

In 2003, the NBU kept on issuing the following publications: "Bulletin of the National Bank of Ukraine", "Balance of Payments of Ukraine" (in Ukrainian and English), and "Herald of the National Bank of Ukraine" (in Ukrainian). In general, 2.5 thousand readers made use of these publications.

In 2003, the number of references made to the NBU Internet site rose by 45%, totaling 750 thousand. With the view of drawing attention of users this site was continuously supplemented with new information. In 2003, at the NBU site opened was a new page on NBU public relations and relations with mass media. Published is the information about official (discount) rates of bank metals and about issue of commemorative coins.

In the year under report, initiated was holding of round-table meetings, seminars, conferences on different issues pertaining to the banking sector development, in which partook the Government of Ukraine, people's deputies of Ukraine, executive and legislative authorities, business and banking circles, representatives of international financial organizations, etc. At the round-table meetings discussed was the choice and working out of the optimum model of the monetary policy of Ukraine, improvement of exchange payments in the external economy sec-

tor, mortgage market development, impact of Ukraine's entry into the WTO on the banking sector, and government support for private enterprise in transition and developed economies. In December 2003, an international conference "Risk Management and Credit Ratings in Ukraine" with participation of representatives of international rating agencies was held in the NBU.

2.23. SUBSCRIPTION OF UKRAINE TO THE SPECIAL DATA DISSEMINATION STANDARD

On 10 January 2003, Ukraine subscribed to the IMF SDDS, having become the first CIS country and 52nd country to subscribe to the SDDS.

Adhering to the Ukraine's decision to subscribe to the SDDS, the NBU adopted the Resolution "On NBU Actions Regarding Ukraine's Subscription to the SDDS" of 20 September 2002 # 353. The Resolution determined a range of actions to ensure timely development of indicators of financial and foreign economy sectors and their publication at the NBU site with the view of their further publication on the sites of the Statistics Committee of Ukraine and the IMF.

Fulfilling its Obligations the NBU prepared:

- a tentative schedule of circulation of indicators of the financial and foreign economic sectors for which the NBU is responsible;
- description of metadata (including their categories and key indicators);
- tabular data on the development of the financial and foreign economic sectors by categories and components (balance of payments and international investment position);
- methods for calculation of some indicators of the financial and foreign economic sectors disseminated in accordance with the SDDS.

The system of financial sector statistic indicators compiled by the NBU comprises analytical data on the banking sector and central bank, interest rates, international reserves as well as the stock market index calculated by the First Stock Trade System of Ukraine. Indicators of the foreign economic sector development include data on the balance of payments, international investment position and official exchange rate of hryvnia against foreign currencies established by the NBU.

Ukraine's subscription to the SDDS will improve investment climate and encourage foreign investment in Ukraine given easy access to the information about economic development.

2.24. ECONOMIC RESEARCH AND FORECASTING

One of the basic objectives of the NBU was to carry out economic research and forecasting. In 2003, in order to improve these activities and to ensure the provision of the NBU with information and analytical materials created was the Scientific Research Center of the National Bank of Ukraine.

In the accounting year, economic research was pursued in the following areas:

- macroeconomic analysis of the current situation of the economy of Ukraine and some of its branches, prospects for their development;
- analysis of the impact of monetary indicators on the inflationary developments in the economy and real sector development;
- analysis of banking sector activities, including the development of foreign exchange, deposit and credit markets, dynamics of crediting for the real economy sector;
- analysis of current monetary trends (dynamics of monetary aggregates, changes in money supply);
- monitoring of the dynamics of the real effective exchange rate of hryvnia in conjunction with the indicators of the real and external economy sectors;

- monitoring of the dynamics of the components of the balance of payments of Ukraine current account and its impact on GDP;
- comparative analysis of the development of the main economic indicators of Ukraine and other countries;
- research of the main trends in the international economic and monetary development, situation in world markets in order to explore the possibility of their affecting the economic development in Ukraine;
- learning of the experience of central banks of world leading countries and of the European Central Bank with the view of applying this experience to Ukraine.

In 2003, the major aims of the NBU economic forecasting were as follows:

- to develop short- and medium-term forecasts of the economic and social development in Ukraine;
- to model economic processes and forecast the main macroeconomic indicators of Ukraine such as inflation rate and GDP;
- to forecast the balance of payments of Ukraine;
- to forecast and develop prospects for the NBU monetary and exchange rate policy development in accordance with the main forecasting macroeconomic indicators;
- to econometrically model the relations between the main macroeconomic variables for construction of forecasting models.

The economic research and forecasting allowed to make sounder decisions on the monetary and foreign exchange policy and were taken into account when developing the NBU monetary policy, Forecast of economic and social development in Ukraine for 2003–2005, and Program for Activities of the Cabinet of Ministers of Ukraine, etc.

When analyzing, assessing and forecasting the monetary indicators and the balance of payments of Ukraine the NBU worked together with the state run public authorities, and leading domestic and foreign research centers for economic research, forecasting and construction of macroeconomic models of the development of the economy of Ukraine.

2.25. LEGAL SUPPORT

In 2003, the NBU carried on with its work aimed at banking legislation amendment. By way of initiative, the NBU submitted 11 draft laws to advance legal regulation in the banking system for consideration of the Verkhovna Rada of Ukraine.

In 2003, the Verkhovna Rada of Ukraine passed the Law of Ukraine "On Amendments to Some Laws of Ukraine on Opening and Operation of Bank Accounts" submitted for consideration of the Verkhovna Rada of Ukraine by way of initiative.

18 Draft Laws submitted by the NBU by way of initiative were considered by the Verkhovna Rada of Ukraine.

In the year under review, the NBU worked out and made for adoption of Draft Laws of Ukraine concerning the banking sector proposed by other subjects of initiative.

With the backing of the NBU and with taking into account its proposals, the Verkhovna Rada of Ukraine passed the following Laws "On Mortgage", "On Ensuring of Creditors Claims and Registration of Pledges", "On Amendments to the Law of Ukraine "On Leasing".

In 2003, by way of initiative, the NBU submitted 83 legislative proposals to the draft laws proposed by other subjects of initiative regarding legal support for the activities and development of the banking system for consideration of the Verkhovna Rada of Ukraine and its committees. Over 70% of these proposals were taken into consideration and/or adopted."

The NBU together with the Cabinet of Ministers of Ukraine, ministries and other cent-

ral executive authorities elaborated the Draft Laws of Ukraine submitted (or planned to be submitted) by the Cabinet of Ministers of Ukraine as a subject of initiative to the Verkhovna Rada of Ukraine:

- "On Securities and the Stock Market";
- "On Mortgage Securities";
- "On Derivative Securities";
- "On the System of Foreign Exchange Regulation and Control";
- "On Amendments to Some Legislative Acts of Ukraine" (due to the adoption of the Law of Ukraine "On Mortgage") and others.

In the accounting year, the NBU submitted 85 proposals to the draft laws proposed by other subjects of initiative regarding legal support for the activities and development of the banking system for consideration of the Cabinet of Ministers of Ukraine, ministries and other central executive authorities.

In 2003, passed were 376 legislative acts and enactments (decrees, instructions, regulations, rules) on the fundamental objectives of banking activities. 150 Regulations of the NBU Board confirming 210 legislative acts and enactments were registered by the Ministry of Justice. The legislative acts and enactments of departmental nature not subject to state registration were registered by the NBU Legal Department.

In 2003, the NBU continued to work with claims and suits.

In 2003, the NBU participated in the trial of 298 cases. In 139 cases the judgement was rendered for the NBU. The work with claims and suits saved the NBU UAH 454.1 million.

33 judgements were rendered against the NBU. Out of them, 9 NBU claims totaling UAH 3.6 million were disallowed and 24 claims amounting to UAH 296.8 thousand brought against the NBU were allowed.

In 2003 versus 2002, the number of claims and suits brought by the NBU increased by 33.3 and 92.8% respectively. The NBU brought 832 claims amounting to UAH 1,378.5 thousand (749 claims whereof amounting to UAH 886.3 thousand were paid) and 160 suits worth UAH 28.1 million (71 suits whereof worth UAH 11.2 million were satisfied).

The quantity of claims brought against the NBU in the year under review rose by 20%, whereas that of suits decreased by 17.3%. 6 claims amounting to UAH 24.1 thousand and 138 suits amounting to UAH 444.5 million and USD 280 were brought against the NBU. Out of them, non of the claims was paid, whereas 24 suits amounting to UAH 296.8 thousand were satisfied.

2.26. FINANCIAL MONITORING WITH RESPECT TO PREVENTION OF LEGALIZATION (LAUNDERING) OF THE GAINS OBTAINED IN A CRIMINAL WAY THROUGH THE BANKING SYSTEM

In 2003, prevention of money laundering through the banking system of Ukraine was a pressing issue. The NBU formed a legal framework for financial monitoring in the banking system. In the year under report, made were amendments to 18 NBU legislative acts and enactments on performance of financial monitoring by banks, exchange of information about these issues with the authorized executive body, procedure of closing anonymous and code accounts and customer identification, as well as use of enforcement measures for infringements of the legislation regulating banking activities in the above mentioned area.

With participation of the NBU developed was the Draft Law of Ukraine "On Amendments to Some Legislative Acts of Ukraine on Prevention of Legalization (Laundering) of the Gains Obtained in a Criminal Way through Banks and other Financial Institutions". This Law was passed by the Verkhovna Rada of Ukraine on 6 February 2003 under # 485-IV. With taking into account the amendments and addenda made according to the new version of the Forty FATF Recommendations, the NBU considered the Draft Law of Ukraine "On

Amendments to Some Legislative Acts of Ukraine on Prevention of Legalization (Laundering) of the Gains Obtained in a Criminal Way through Banks and other Financial Institutions", which was submitted for consideration to the Verkhovna Rada of Ukraine by the Cabinet of Ministers of Ukraine.

The NBU partook in the development of the Program for Creation of the Single State Information System in prevention and counteraction of legalization (laundering) of the gains obtained in a criminal way and terrorism financing up to 2005 and the Regulation on the Single State Information System in prevention and counteraction of legalization (laundering) of the gains obtained in a criminal way and terrorism financing.

After the Law "On Prevention of Legalization (Laundering) of the Gains Obtained in a Criminal Way" had come into force, the NBU took a range of measures to prevent legalization of the gains obtained in a criminal way through the banking system and terrorism financing. Inspected was the preparedness of operating banks with the status of legal entities to follow the respective law. Closed were the anonymous and code accounts of natural persons (residents and non-residents) in the foreign and national currencies with all the banks and branches of Ukraine. Controlled was the identification of available high-risk customers by banks and branches. At the end of the accounting year, all the operating banks with the status of legal entities had been inspected. The inspections revealed infringements of the laws on prevention and counteraction of legalization (laundering) of the gains obtained in a criminal way. The deadlines for identification of the high-risk customers capable of legalizing the gains obtained in a criminal way were not met. The natural persons that have a considerable interest in a bank customer with the status of a legal entity or have direct or indirect influence on a customer with the status of a legal entity and benefit from its activities were not identified. Financing business subject to financial monitoring was not reported. For the infringements the commissions for banking activity supervision and regulation under the aegis of the NBU regional branches used 48 enforcement measures (fines on banks, administrative forfeits on responsible employees and bank directors, removal from office (before infringement elimination), and warnings in writing).

When counteracting legalization (laundering) of the gains obtained in a criminal way, representatives of the State Commission for Regulation of Financial Services Markets of Ukraine and the State Commission for Securities and the Stock Market of Ukraine on the NBU initiative held business meetings to discuss principles of their cooperation with respect to implementation of respective laws.

The NBU organized operational hot-line consultations, and gave recommendations on the application of the laws regulating prevention and counteraction of the gains obtained in a criminal way. At the NBU site published were legislative acts and enactments as well as methodic and information materials on financial monitoring.

In order to ensure information exchange of banks with the State Department for Financial Monitoring the NBU allowed to use its e-mail and information protection software.

In 2003, learned was the experience of foreign countries, organized was training of banking system officials on the issues of counteraction of money laundering. In order to learn the experience of FATF-cooperative countries the NBU continuously participated in the actions to counteract legalization (laundering) of the gains obtained in a criminal way taken by international organizations. With the purpose of establishing international cooperation in counteraction of money laundering and terrorism financing the NBU concluded agreements with the Central Banks of China and Libya.

In 2003, within the Program for Training Specialists in Financial Monitoring developed by the NBU held were 25 seminars for officials of the NBU and other banks. Explored is the possibility of enlisting the services of NBU educational institutions and state institutes of higher education to that end. The development and implementation of a full-scale educational program for counteraction of legalization (laundering) of the gains obtained in a criminal way was approved by the World Bank.

At the end of the accounting year, the European Council Committee for mutual assessment of counteraction of money laundering (MONEYVAL), World Bank and FATF European Control Group were informed on the current situation with financial monitoring organization within the banking system of Ukraine.

The steps taken by the NBU (within its powers) ensured the implementation of the Program for Counteraction of Legalization (Laundering) of the Gains Obtained in a Criminal Way developed by the NBU together with the Government of Ukraine. The carried out work greatly advanced Ukraine's exclusion from the FATF list of non-cooperative countries and territories.

With the purpose of further improving the system of counteraction of money laundering the Government and the NBU approved the joint Program for 2004 for Counteraction of Legalization (Laundering) of the Gains Obtained in a Criminal Way. In order to carry out this Program, the NBU developed the Action Plan for 2004 to provide for further application of the international standards on these matters to the banking system of Ukraine.

2.27. INTERNAL AUDIT

In 2003, in order to decrease risks in the NBU activities taken was a number of actions to revise the internal audit service. On the basis of the reformed internal audit service created was the Audit Department of the NBU under whose control transferred were the divisions (sectors) of territorial branches audit. Given the onrush of information technologies in the NBU and the necessity to audit them, the Division for Information Technology Audit was created within the Audit Department. This Department is entrusted with the responsibility for conducting audits of the introduction and advance of information technologies. The Audit Department was delegated the functions to organize the work of internal auditors in the NBU and control the implementation of the recommendations made by the state run public authorities by results of audits.

In order to improve the internal audit in the NBU, the NBU Board approved the Instruction "On the Procedure of Auditing of NBU Departments", developed a new audit report form and specified the program for auditors. The Audit Program was replenished with the following Chapters: "Audit of Department management", "Analysis of the Banking Sector Development". In 2003, worked out were the methods for assessment of risk factors, which would make it possible to assess their impact on the NBU operations and to update internal audit procedures.

An important factor for internal audit improvement was the introduction of secret surveys on the opinions of NBU employees about the activities of executive officials as well as other bank employees about the activities of the NBU regional branches.

In 2003, the NBU audit service conducted 585 audits (555 audits of regional branches, 17 audits of NBU institutions, and 13 audits of central office departments). Carried out were 46 revisions of the valuables in pay desks and vaults.

Special emphasis was placed on the ensuring of the reliability of financial and statistic reports, compliance with the laws of Ukraine, in particular, with those on holding tenders, efficient use of the funds allocated for construction repair on the NBU sites. Within the regional branches analyzed was the efficiency of work on the liquidation of the Bank "Ukraina".

In 2003, by results of the audits made were 1,815 recommendations, 1,552 or 85.5% whereof were carried out by the departments. When carrying out the recommendations amendments were made to the legislative acts and enactments, which facilitated operations within the NBU.

2.28. FINANCIAL ACTIVITY

In the consolidated financial report of the NBU for 2003 income and expenditures are represented according to the accrual concept.

In 2003, the total income of the NBU equaled UAH 1,467.9 million, having increased by 19.7% against 2002. Within the income, a significant share fell on the interest one – 55.2%

(74.4% in the previous year), out of which the income from time deposits and from transactions with securities in the stock market made 66.7 and 4.4% respectively. In 2003 compared with 2002, the share of commission income rose by 0.3% to 11.9%. Transactions with securities totaled UAH 1 million (0.07% of the total income). The share of other income within the total income went down from 14 to 5.9%.

In 2003, the total current expenses of the NBU equaled UAH 901.2 million, having diminished by 6.7% vis-a-vis 2002. Out of the total expenses, the NBU staff and interest expenses made 37.1 and 24.6% respectively. Within the interest expenses 95% or UAH 210.4 million fell on the interest on the IMF loans received by the Government of Ukraine and serviced by the NBU. Other NBU expenses made 43.7% or UAH 393.2 million of the total expenses, 37.4% whereof went for provision formation.

In 2003, the income of the NBU from its current activity came to UAH 567 million versus UAH 259.9 million in 2002.

2.29. ACTIVITIES OF THE BANKNOTE PRINTING AND MINTING WORKS

In 2003, there were products manufactured and services rendered to the amount of UAH 84.9 million, including those to the amount of UAH 58.2 million at request of the NBU and those to the amount of UAH 26.7 million at request of other state organizations.

The Banknote Printing and Minting Works manufactured 300 million of new 20 hryvnia banknotes, 292 million small coins, 628 thousand commemorative coins of 25 issues, 60 thousand bimetal coins made of cupronickel and nordic, 310.4 thousand coin-like products, and 2.6 million securities. In the year under report, produced were 1,937.9 and 507.7 million excise stamps for the State Tax Administration of Ukraine and the Ministry of Finance of Moldova respectively.

In 2002, the Banknote Printing and Minting Works turned out 25.4 thousand decorations, departmental medals and orders as well as 140 moulages, 10 thousand Orders of Virtue for the Second World War veterans.

In 2003, gold commemorative coins 13.92 and 32.00 mm in diameter were struck for the first time. The silver commemorative coin "60 Years of Liberation of the City of Kyiv from Fascist Invaders" 50 mm in diameter is in much demand.

Assimilated was a process of covering the surface of a coin with a latent (hidden) image. This process was used for the manufacture of the coin-type product dedicated to the 5th anniversary of the NBU Banknote Printing and Minting Works. In order to improve protective inks and to find ways of reducing product prices conducted were trials of the ink samples of the "DYSPAK" company.

In 2003, the Banknote Printing and Minting Works elaborated 113 rout manufacturing processes, introduced 22 manufacturing processes and updated the existing ones.

The productive capacity of the works was not fully loaded: offset machines, mintage equipment, equipment for manufacture of decorations were loaded by 42, 60 and 35% respectively.

2.30. STAFFING AND PERSONNEL TRAINING

In order to increase the efficiency of banking supervision, ensure effective control within the NBU, prevent and counteract money laundering through the banking sector, and to implement the Comprehensive program for the Development of the Banking System of Ukraine for 2003–2005, in 2003 taken were steps to improve the NBU structure.

Reformed was the Department of Foreign Exchange Control and Licensing whose functions were conveyed to the General Department of Banking Supervision. At the same time, the functions of all the organizational units of the General Department of Banking Supervision were reformed and specified.

Given the relevance of the issue concerning counteraction of money laundering through the banking sector, in 2003 created was the Office of Methodological, Organizational and Legislative Support for Financial Monitoring and Office for Banking Activity Analysis whose

basic objectives were methodological, organizational and legal support for financial monitoring, banking activity regulation and supervision with respect to the conformity of banks with the legislative acts and enactments on prevention and counteraction of legalization and laundering of the gains obtained in a criminal way.

The laws on prevention and counteraction of legalization and laundering of the gains obtained in a criminal way developed together with the NBU facilitated Ukraine's exclusion from the FATF list of non-cooperative countries and territories. In order to increase internal control within the NBU reformed were the audit services of regional branches. Within the NBU Central Office established was a new organization unit, one of its major aims being control over income and expenses.

In 2003, the number of NBU specialists reduced by 588 persons, amounting to 11,425 employees.

In 2003, improved was the qualitative composition of the NBU personnel. The number of specialists with higher education rose by 251 persons to 5.7 thousand persons (81.5%). The number of officials with an academic degree (Doctor of Science and Candidate of Science (holder of first higher degree awarded on dissertation) increased by 2.4% to 274 persons.

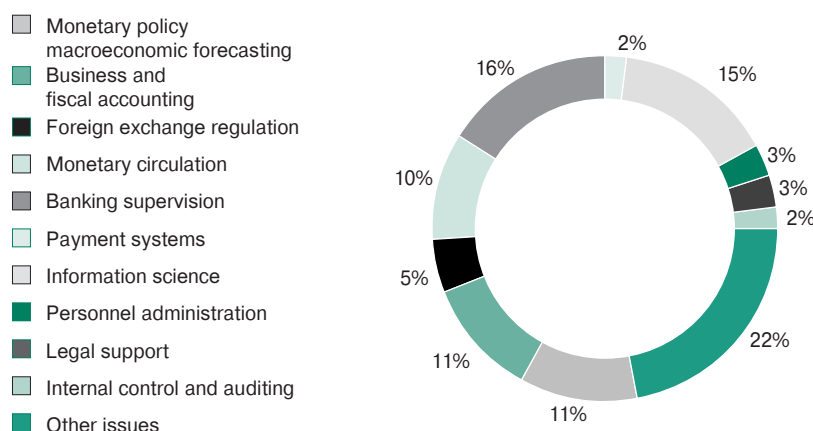
In May 2003, with the purpose of regulating traineeship procedures with taking into account the organizational and legal status and specific character of NBU activities the NBU Board approved the respective Regulation. In 2003, 52 persons were trained.

From the NBU personnel reserve 613 persons were appointed to other posts, 180 persons whereof having been appointed to executive positions. The personnel reserve efficiency made 90%. With the aim of gaining practical experience and inspecting professional skills and qualities of the employees from the personnel reserve that can be appointed to higher executive positions introduced was the practice of allowing these specialists to perform the duties of their chiefs during their absence. In 2003, 26 such decisions were taken.

In order to upgrade qualifications of the specialists 560 training events occurred, in which over 11.3 thousand employees of the NBU, Ukrainian banks, ministries, departments, etc. participated. 44% of the participants fell on the NBU specialists. The training took place within the NBU Training Center, NBU educational institutions, regional centers for raising the level of professional skills as well as within other NBU organizations, institutions and departments in Ukraine and abroad.

In 2003, training of the specialists from the NBU regional branches by the programs of thematic seminars went on. More than 1,000 persons partook in the seminars.

Thematic Training Events in 2003



In 2003, in conformity with the requirements of the Comprehensive Program for Civil Servant Training developed were 16 professional programs for upgrading the qualifications of the civil servants of the NBU regional departments for the specialists employed in bank-

ing supervision, accounting, valuables transportation and money collection organization, legal services, economic work and monetary relations, personnel department, information technology centers and record management sectors.

In 2003, in order to train specialists for the banking system of Ukraine the NBU organized practical work for 34 students of higher education institutions of Ukraine. 2,738 persons (1,575 persons whereof in the subject of banking) graduated from the NBU higher education institutions.

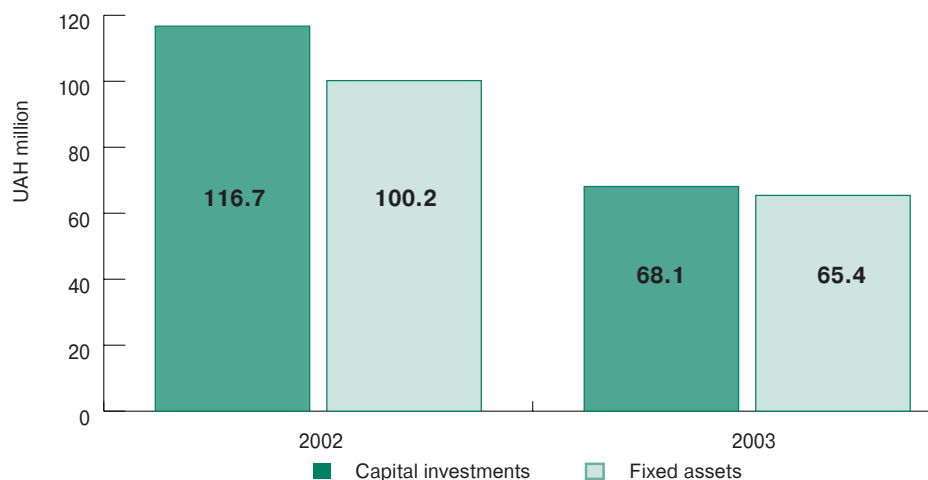
The Ukrainian Academy of Banking (the City of Sumy) was given the fourth level of accreditation in the areas of banking, accounting, finance and foreign economic activity management. Its Cherkasy Branch was licensed to train employees with the qualification of specialists in the subject of finance. The Lviv Banking Institute was licensed to organize post-graduate courses in the areas of finance, monetary circulation and credit as well as accounting, analysis and auditing. In 2003, 26 persons were admitted to the NBU post-graduate course.

The NBU Central Library housed over 49 thousand books and magazines on banking, finance and economics, having been replenished with 2.4 thousand books. The Library has about 1,600 readers. It has the electronic bibliographic database, which was updated with two databases: "Synopsis of Theses on Economics" and "Publications of Other Central Banks". Introduced was computer-aided book circulation.

2.31. MATERIAL AND TECHNICAL BASIS DEVELOPMENT

In 2003, earmarked capital investments for further development of the NBU and creation of appropriate working condition amounted to UAH 75.5 million. UAH 68.1 million or 92% of that amount were raised.

Dynamics of Capital Investments in 2002–2003



In the year under review, following the completion of construction, reconstruction and technical re-equipment, 27 sites were put into operation. The fixed assets increased by UAH 65.4 million.

In 2003, put into use were the NBU premises for high-value commodity traffic, filling station of the NBU Main Administration for the City of Kyiv and Kyiv region, gas boiler house, gas pipeline and system of computer-aided fire fighting in the server rooms of the NBU Administration in Odesa region, boiler houses in the NBU Administrations in Zhytomyr and Khmelnytskyi regions and hostel of the Banking Academy of Ukraine in Sumy region, gas

pipeline to the NBU administrative building in Dnipropetrovsk region. Done were capital repairs of educational building # 1 of the Lviv Banking Institute.

In 2003, reconstructed were the premises in the NBU Central Office and administrative buildings in the City of Kyiv, in Dnipropetrovsk, Lviv, Luhansk, Mykolaiv, Poltava, Kharkiv, Kherson regions and in the Autonomous Republic of the Crimea. The auto-garage complex of the NBU Administration for Odesa region was under construction, while the garage of the NBU Administration for Cherkasy region was under reconstruction.

In the year under report, allocated were funds for designing of the sites of the NBU administrations in Zhytomyr, Kirovohrad, Sumy, Ternopil, Chernivtsi, Chernihiv regions, Lviv Banking Institute, Banknote Printing and Minting Works, and NBU Main Office.

**Governor
of the National Bank of Ukraine**



Sergiy Tigipko

30 April 2004

CALENDAR OF IMPORTANT EVENTS THAT TOOK PLACE IN 2003

- January**
- Approval of the Model Regulation on the Commission for Banking Activity Supervision and Regulation under the aegis of the NBU regional branch.
 - Subscription of Ukraine to the Special Data Dissemination Standard (SDDS) of the IMF.
 - Putting into circulation the 10 hryvnia commemorative coin "Pavlo Polubotok" (silver).
 - Approval of the Regulation on the Procedure of Granting Individual Licenses for Foreign Currency Transfer Abroad with the Purpose of Buying Ukrainian Government Bonds to Residents.
 - Approval of the Regulation on the Procedure of Granting NBU Individual Licenses for Foreign Currency Transfer Abroad with the Purpose of Paying for Currency Values to Residents.
- February**
- Approval of the Code of Professional Ethics of Internal Auditors for Banking Institutions and amendments to the Methodological Comments on the Application of the Internal Audit Standards to Ukrainian Banks.
 - Approval of the Temporary Regulation on the Procedure of NBU Long-term Refinancing (Liquidity Maintenance) for Banks.
 - Approval of the Regulation on National and Foreign Currency Money Transfers in Payment for the Work Done and Services Rendered by Non-residents.
 - Putting into circulation the 10 (silver) and 2 (German silver) hryvnia commemorative coins "Boxing".
 - Putting into circulation the 2 hryvnia commemorative coin "Viacheslav Chornovil" (German silver).
- March**
- Approval of the Regulation on the NBU Committee for Asset and Liability Management.
 - Putting into circulation the 2 hryvnia commemorative coin "Volodymyr Vernadskyi" (German silver).
 - Putting into circulation the 10 (silver) and 2 (German silver) hryvnia commemorative coins "Bison".
 - Approval of the Regulation on Drawing up and Delivery of Foreign Currency Payment Orders, Applications for Foreign Currency Purchase or Sales to Authorized Banks and Other Financial Institutions by Customers and the Procedure of Their Execution.
 - Approval of the Rules of Foreign Currency Transfers in Ukraine by Natural Persons.
 - Approval of the Instruction on the Procedure of Presentation of Current and Deferred Tax Liabilities and Assets in Accounting by Ukrainian Banks.
 - Approval of the Regulation on the NBU Depository Operations.
- April**
- Putting into circulation the 10 (silver) and 5 (German silver) hryvnia commemorative coins "Easter Holiday".

May

- Putting into circulation the 2 hryvnia commemorative coin "Volodymyr Korolenko" (German silver).
- Putting into circulation the 10 (silver) and 5 (German silver) hryvnia commemorative coins "AN-2 Aircraft".
- Putting into circulation the 10 hryvnia commemorative coin "Genoese Fortress in the Town of Sudak" (silver).
- Approval of the Regulation on Financial Monitoring by Banks.
- Approval of the Regulation on Control by Authorized Banks over Performance of Foreign Exchange Transactions through these Banks by Residents and Non-residents with Respects to whom Special Sanctions according to Article 37 of the Law of Ukraine "On Foreign Economic Activities" were used.

June

- Approval of the Instruction on the Procedure of Performance of Operations with Precious Metals Bought from Individuals in the form of articles and scrap.
- Approval of the Procedure of Closing Anonymous and Code Foreign and National Currency Accounts of Natural Persons (Residents and Non-residents).
- Approval of the Requisite and File Organization of Information Exchange between an Authorized Executive Body on Financial Monitoring and Banks (Branches).
- Approval of the Rules of Accounting Operations with Banknotes, Circulation and Commemorative Coins, and other Numismatic Products within the NBU.
- Approval of the Revised Version of the Methods for Calculation of the Economic Ratios Regulating Activities of Ukrainian Banks.
- Approval of the Rules of Accounting Income and Expenses of Ukrainian Banks.
- Approval of the Regulation on Organization of Operations of Ukrainian Banks.

July

- Approval of the Regulation on the Procedure of Government Bonds Placement.
- Putting into circulation the 2 hryvnia commemorative coin "Borys Hmyria" (German silver).
- Putting into circulation the 5 hryvnia commemorative coin "2500 Years of the Town of Yevpatoria" (German silver).
- Putting into circulation the 10 (silver) and 2 (German silver) hryvnia commemorative coins "Sea Horse".
- Putting into circulation the 100 hryvnia commemorative coin "Pectoral" (gold).
- Withdrawal of 1,2,5, 10, and 20 hryvnia banknotes of 1992 issue from circulation.

August

- Putting into circulation the 2 hryvnia commemorative coin "100 Years of World Aviation and 70 Years of the National Aviation University" (German silver).
- Approval of the Regulation on Performance of Operations with Bank Metals by Authorized Banks.
- Approval of the Rules of Granting Individual Licenses to Export Foreign Banknotes, Bank Metals and to Transfer Foreign Currency in Payment for Bank Metals Abroad as well as Special Permissions to Import Check Slips to Authorized Banks and the Procedure of Importing Foreign Banknotes and Bank Metals.
- Approval of the Instruction on Cash Operations in Ukrainian Banks.
- Approval of the Lists and Tariffs of Operations (Services) Performed by the NBU, its Regional Branches and Institutions with Customers and NBU Correspondent Banks.
- Approval of the Instruction on Accounting Transactions with Government Securities Performed by Ukrainian Banks.

- September**
- Putting into circulation the 5 hryvnia commemorative coin "150 Years of the Central State Historical Archives of Ukraine" (bimetal).
 - Putting into circulation the 10 hryvnia commemorative coin "Livadia Palace" (silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Ostap Veresai" (German silver).
 - Putting into circulation the 2 hryvnia commemorative coin "Vasyl Sukhomlynskyi" (German silver).
 - Approval of the Regulation on the Committee for Certification of Bank Auditors and amendments to the Regulation on the NBU Board of Experts Regarding Certification of Auditors, Temporary Administrators and Bank Liquidators.
 - Approval of the Regulation on the Procedure of Delivery of Auditor Reports and Opinions on Results of Annual Bank Audit to the NBU by Banks.
 - Approval of the Regulation on the Certification of Bank Auditors.
 - Approval of the Regulation on the Requirements to the Condition and Organization of Security of the NBU Premises.
- October**
- Approval of the Rules of Making up and Delivery of Reports to the IMF.
 - Putting into circulation the 20 (silver) and 5 (German silver) hryvnia commemorative coins "60 Years of Liberation of Kyiv from Fascist Invaders".
 - Putting into circulation the 2 hryvnia commemorative coin "Andrii Malyshko" (German silver).
 - Putting into circulation the 20 hryvnia banknote of 2003.
 - Approval of the Regulation on the Procedure of Registration and Granting Permissions to Transfer Money to National Non-banking Payment Systems.
- November**
- Putting into circulation the 10 hryvnia commemorative coin "Pochaiv Laura" (silver).
 - Putting into circulation the 10 hryvnia commemorative coin "Kyrylo Rozumovskyi" (silver).
 - Approval of the Regulation on the Establishment of the Official Exchange Rate of Hryvnia against Foreign Currencies and that of Bank Metals.
 - Approval of the Rules of Accounting Trust Operations of Ukrainian Banks.
 - Approval of the Instruction on the Procedure of Opening, Using and Closing National and Foreign Currency Accounts.
- December**
- Putting into circulation the 2 hryvnia commemorative coin "Salamander" (gold).
 - Approval of the Instruction on the Procedure of Conducting Internal Audits of the Central Office Departments, Regional Branches and Educational Institutions of the NBU.
 - Approval of the Instruction on Making up and Publication of the NBU Financial Statements.
 - Putting into circulation the 5 hryvnia commemorative coin "Bandura" (bimetal).
 - Approval of the Regulation on the Procedure of Performance of Documentary Credit Operations in External Economic Settlements by Authorized Banks.
 - Approval of the Regulation on the Procedure of Performance of Deposit Operations with Legal Entities and Natural Persons by Banks.

- Approval of the Instruction on the Procedure of Drawing up Annual Financial Statements by Ukrainian Banks.
- Approval of the Regulation on the Procedure of Determining the Fair Value of Securities and Reduction in their Utility.
- Approval of the Regulation on Interbank National Currency Money Transfers in Ukraine over a Special Period.
- Approval of the Regulation on the Procedure of Effecting National Currency Non-cash Settlements over a Special Period.
- Approval of the Instruction on Organization of Currency Values Transportation and Money Collection within Ukrainian Banks.
- Approval of the Regulation on Suspension of Operations, Arrest and Coercive Writing-off Foreign Currency Funds and Bank Metals and amendments to some legislative acts and enactments of the NBU.
- Approval of the Regulation on the Procedure of Granting NBU Permissions to Perform some Transactions to Residents.

METHODOLOGICAL COMMENTS ON THE ANNUAL REPORT

Base money (monetary base) – is a source for formation of the money supply. Its regulation is carried out by the National Bank of Ukraine through conducting transactions with government securities, foreign exchange market transactions, refinancing for banks and also through changes in crediting for the government. Base money growth is subject to control with the purpose of preventing a spontaneous increase of money in circulation and inflation pressure.

The money outside banks and their reserves in the national currency on accounts with the NBU are included in the base money.

Budget deficit – is an excess of budget expenditures over its revenues.

Consolidated budget of Ukraine – is the aggregate of indicators of the State budget of Ukraine, the budget of the Autonomous Republic of the Crimea and other local government budgets.

Consumer price index (CPI) – is one of the indicators that characterizes the inflation or changes in the overall level of prices and tariffs on the goods and services purchased by households for unproductive consumption. The CPI calculation is carried out on the basis of two traffic of information:

- data about changes in prices collected by means of monthly registration of prices and tariffs in the consumers' market;

- data about the structure of actual consumer spending of money by urban population collected with the help of sampling the living standards among households.

Conversion of T-bonds – is a change in conditions of government loan redemption regarding the term and/or yield level of the bonds.

Credit emission – is excess in the volume of payment facilities issued by the National Bank of Ukraine over that of the withdrawn from the circulation ones.

Deposits – are funds in both cash and non-cash forms in the currency of Ukraine or a foreign currency placed by customers on their personal accounts with a bank on a contract basis for a certain term of storage or without indication of such a term and due to be paid to a depositor in accordance with the laws of Ukraine and the contract terms.

Demand deposits – are the deposits that may be withdrawn by the depositor or transferred to any other person in parts or in full at any moment without a prior notice.

Time deposits – are the deposits placed for a certain time and repaid after the prior notice foreseen by the contract between a deposit owner and a bank.

Devaluation – is a decline in the national currency exchange rate vis-a-vis foreign currencies.

Foreign exchange position of a bank – is a ratio (difference) of claims and liabilities of a bank in the foreign currency.

Open foreign exchange position – is a disbalance between claims and liabilities of a bank in the foreign currency. The open position is short if the volume of liabilities on the sold currency exceeds that of the claims, or it is long if the volume of claims regarding the purchased currency exceeds that of the liabilities. The open foreign exchange position is linked with an additional risk in case of a foreign exchange rate change.

Gross Domestic Product (GDP) – is one of the most important macroeconomic indicators characterizing the economic performance of economic entities in the accounting period. It is determined through making use of three methods: production method, generated income method and that of use.

According to the production method the GDP is defined as the difference between the output and intermediate use or as a sum of gross surplus values of economy branches and taxes on products, product subsidies excluded.

On the basis of the generated income the GDP is characterized by the following indicators: remuneration of employees' labour, other taxes related to the production, other subsidies connected therewith, and by gross (net) income.

Subject to the use the GDP is defined as a sum of expenses of economy sectors for end use of goods and services, gross accumulation, net exports of goods and services.

GDP deflator – is an indicator that reflects the general trend of changes in prices within an economy. It is calculated as the ratio of the GDP at actual prices to the GDP in comparable prices.

Nominal GDP is given in current prices and means that the production and direct consumption are appraised in actual prices at the time of production.

Real GDP is calculated in comparable prices with regard to an indicated (base) period and shows the market value of production in real prices.

Instant liquidity of a bank – is an economic normative indicator of the bank activity, which is defined as a ratio of the amount of funds on the correspondent account of the bank and in cash in the bank to customers' current accounts.

International liquidity – is ability of a country to fulfill its international liabilities, to repay its debts.

International reserves (reserve assets) – are the external assets under control of the National Bank of Ukraine; they are worldwide adopted as international and are intended for international settlements.

The international reserves include: monetary gold (placed with foreign banks and held at the State Treasury of the National Bank of Ukraine), special drawing rights (SDR) that belong to Ukraine (holdings in SDR on the account of the National Bank of Ukraine with the IMF Treasury), reserve position of Ukraine in the International Monetary Fund, the foreign currency banknotes and coins on accounts abroad, securities (excluding shares) issued by non-residents, and other liquid reserve assets which are at NBU disposal.

The monetary gold is the high-pureness gold in the form of coins, ingots or bars with the fineness not lower than 995 which is owned by the National Bank of Ukraine or under control thereof. The weight of gold is given in troy ounces. One troy ounce is equal to 31.103480 g.

The reserve position in the Fund corresponds to the claims of a member country to the IMF which are determined as a difference between the quota and IMF holdings in the currency of the member country minus the IMF money funds received by the member country as IMF loans and the balance on the IMF account # 2 which does not exceed 0.1% of the membership quota of the member country. The reserve position in the IMF forms a part of the international reserves of a member country.

The SDRs – are Ukraine's assets within the special drawing rights (SDR) that are at the International Monetary Fund and form a part of its international reserves.

The foreign currency includes cash in a hard currency and NBU claims to non-residents in the form of short-term deposits in gold and hard currency, treasury bills, short- and long-term securities of other countries and other claims that are used for the purposes of the balance of payments. The data (with the exception of the gold and SDRs) are assessed in USA dollars at the cross rates of foreign currencies versus US dollar calculated on the basis of the official exchange rate of hryvnia against foreign currencies established by the National Bank of Ukraine at the period end.

Interest rates. The system of interest rate indicators includes main types of the interest rates used in the economy of Ukraine. The interest rates are subdivided into the interest rates of the National Bank of Ukraine and those of the banking sector. The banking sector interest rates are given for loans and deposits in the national currency according to the data of statistical reports of banks, which are in force in Ukraine.

Interest rates of the National Bank of Ukraine:

Discount rate – is a monetary instrument by means whereof the National Bank establishes the target for money market participants regarding the costs of attracted and placed funds.

The discount rate is the lowest among the refinancing rates and is the target of money price. It is established monthly.

Refinancing rate established for tenders – reflects the costs of crediting funds of the National Bank and is determined depending on the demand thereof on the part of banks during the tenders held by the National Bank. It is established on the monthly basis.

Interest rate on distributed National Bank of Ukraine deposit certificates – is a fixed interest rate for the funds raised by the National Bank of Ukraine by means of issuing its deposit certificates. It is established on the monthly basis.

Interest rates of the banking sector:

Interest rate on loans given and deposits obtained by banks – is the average weighted rate on the basis of the actual volumes under contracts between banks and economic entities, natural persons and state run public authorities. It is established monthly.

Interest rate on loans given and deposits obtained in the inter-bank market – is the average weighted rate on the basis of the actual volumes under inter-banks agreements. It is established on the daily basis.

Level of economy dollarization – is the ratio of deposits in foreign currency within the banking system to the total amount of money supply (M3) available.

Level of economy monetization – is the ratio of the available money supply (M3) to the nominal GDP.

The interest rates in Ukraine are calculated in percents per annum. The monthly indicators are calculated according to the composite rate scheme (data about the volumes of loans granted or deposits attracted serve as the weight base). The indicators for quarters and years are calculated as the arithmetic average of the monthly values.

Liquidity of a bank – is ability of a bank to ensure timely fulfillment of its monetary liabilities to customers/creditors.

Money supply (M3) – is an aggregate of monetary funds both in cash and non-cash forms in the national and foreign currencies which are in circulation at a certain date. In the M3 aggregate included are: money outside banks, demand funds in the national currency, time funds in the national currency and foreign exchange funds, securities of the own debt issued by a bank and funds in trust on the current accounts of a trustee.

Official exchange rate of hryvnia versus US dollar – is the exchange rate of the national monetary unit (hryvnia) officially established by the National Bank of Ukraine vis-a-vis the US dollar. It is established on the basis of exchange rate quotations in the foreign exchange market of Ukraine and is determined as the average weighted exchange rate under transactions of the authorized banks in the interbank foreign exchange market.

The average exchange rate of hryvnia against US dollar for a period is determined: for the monthly data – as the average weighted value of the US dollar in hryvnias for a month; for a quarter and a year – as the arithmetic average of monthly indicators.

Overall liquidity of a bank – is an economic normative indicator of bank activity, which is defined as the ratio of total assets of a bank to its total liabilities.

Producer price index – is an indicator of changes in prices within the area of industrial production. It is calculated monthly on the basis of the product prices (without value-added tax and excise duties) through sampling among certain enterprises. The data about output of the industrial production in terms of value serve as the weight base.

Revaluation – is the rise in the exchange rate of national currency vis-a-vis foreign currencies.

Part 3.

FINANCIAL STATEMENTS

For the year ended 31 December 2003

National Bank of Ukraine
Balance sheet as of December 31, 2003

(in UAH million)

Items	Note	2003	2002
Assets			
Foreign currency funds and deposits	4	34,074	23,317
Foreign securities	5	3,036	172
SDR Holdings		113	151
Monetary gold		1,101	935
Government securities	6	7,946	9,042
Loans to banks and other borrowers	7	2,092	879
Internal State debt	8	10,521	10,522
IMF quota contributions	9	10,870	9,946
Fixed assets and intangible assets	10	1,386	1,370
Accrued income and other assets	11	828	936
Total assets		71,967	57,270
Liabilities			
Banknotes and coins in circulation		36,048	27,703
Accounts of banks	12	4,338	3,264
Accounts of Government and other clients	13	5,078	2,397
Profits payable to the State Budget	17	20	88
Loans received	14	384	301
Liabilities to IMF	15	20,657	19,951
Accrued expenses and other liabilities	16	857	874
Total liabilities		67,382	54,578
Capital employed			
Statutory capital	18	10	10
Funds and other reserves		1,534	1,487
Revaluation reserve for foreign currency and bank metals		2,977	1,129
Revaluation reserve for fixed assets		64	66
Total capital employed		4,585	2,692
Total liabilities and capital employed		71,967	57,270

Governor



S.L.Tigipko

Chief Accountant – Director of
Accounting Department


V.I.Rychakivska

The notes set out on pages 97 to 130 form an integral part of these financial statements.

National Bank of Ukraine**Statement of Income for the year ended 31 December 2003**

(in UAH million)

Items	Note	2003	2002
Interest income	20	810	912
Interest expense	20	(222)	(302)
Net interest income	20	588	610
Fee and commission income	21	174	142
Fee and commission expense	21	(3)	(24)
Net fee and commission income	21	171	118
Results from transactions with securities		1	—
Other income	22	86	138
Total net income		846	866
Staff costs	23	(286)	(277)
Expenses for production of banknotes, coins and other products		(153)	(147)
Administrative and other expenses	24	(177)	(171)
Net decrease/ (increase) in provisions	25	337	(11)
Profit available for distribution	17	567	260

Governor



S.L.Tigipko

Chief Accountant – Director of
Accounting Department


V.I.Rychakivska

Director of Finance
Department


O.M.Kandybka

The notes set out on pages 97 to 130 form an integral part of these financial statements.

National Bank of Ukraine
Statement of Cash Flows for the Year Ended 31 December 2003

(in UAH million)

Items	Note	2003	2002
Operating activities			
Net profit for the year		567	260
Adjustments to reconcile net profit to cash provided by operations:			
Depreciation		119	109
(Decrease)/ increase in provisions for assets		(337)	11
Accrued income		(6)	(49)
Accrued expense		(8)	(8)
Other non-cash movements		—	20
Net cash inflow before changes in operating assets and liabilities		335	343
Acquisition of foreign securities in trading portfolio		(2,899)	—
Net increase in loans to banks and other borrowers		(945)	(415)
Net decrease in other assets		257	230
Net increase/ (decrease) in other liabilities		11	(16)
Transfer of profit to the State Budget		(590)	(235)
Net cash used in operating activities		(3,831)	(93)
Investment activities			
Net decrease/ (increase) in term deposits		3,416	(8,735)
Redemption of Government securities		1,117	320
Sale/ (purchase) of monetary gold		7	(34)
Acquisition of fixed assets and intangible assets		(148)	(267)
Proceeds from disposal of fixed assets and intangible assets		14	23
Net cash from/ (used in) investment activities		4,406	(8,693)

The notes set out on pages 97 to 130 form an integral part of these financial statements.

National Bank of Ukraine
Statement of Cash Flows for the Year Ended 31 December 2003

(in UAH million)

Items	Note	2003	2002
Financing activities			
Issue of banknotes and coins in circulation		8,345	7,479
Repayment of liabilities to IMF	15	(1,081)	(968)
Net change in term deposits received		3	48
Redemption of own debt securities		—	(1,850)
EBRD loans received /(repaid)		83	(20)
Net cash from financing activities		7,350	4,689
Effect of change in exchange rates on cash and cash equivalents		1,760	248
Net increase /(decrease) in cash and cash equivalents		9,685	(3,849)
Cash and cash equivalents at the beginning of the year		7,139	10,988
Cash and cash equivalents at the end of the year	19	16,824	7,139

Governor



S.L. Tigipko

Chief Accountant



V.I. Rychakivska

The notes set out on pages 97 to 130 form an integral part of these financial statements.

National Bank of Ukraine
Statement of Changes in Capital Employed for the year ended 31 December 2003

(in UAH million)

Items	Note	Statutory capital	Funds and other reserves	Revaluation reserve for foreign currency and bank metals	Revaluation reserve for fixed assets	Total capital employed
Balance as of 31 December 2001		10	1,357	299	67	1,733
Revaluation of foreign currency and bank metals		—	—	830	—	830
Net profit		—	260	—	—	260
Realised revaluation of fixed assets		—	1	—	(1)	—
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget	17	—	(131)	—	—	(131)
Balance as of 31 December 2002		10	1,487	1,129	66	2,692
Revaluation of foreign currency and bank metals		—	—	1,848	—	1,848
Net profit		—	567	—	—	567
Realised revaluation of fixed assets		—	2	—	(2)	—
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget	17	—	(522)	—	—	(522)
Balance as of 31 December 2003		10	1,534	2,977	64	4,585

Governor



S.L. Tigipko

Chief Accountant – Director of Accounting Department



V.I. Rychakivska

Director of Finance Department



O.M. Kandybka

The notes set out on pages 97 to 130 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activities

The National Bank of Ukraine ("the NBU") is the central bank of Ukraine and operates in accordance with the Constitution of Ukraine, the Law of Ukraine "On the National Bank of Ukraine" and other laws of Ukraine. In accordance with the Ukrainian legislation the primary function of the NBU is ensuring the stability of the national currency of Ukraine. The NBU's objectives are also to ensure the stability of the banking system and, within the scope of its power, price stability.

In carrying out deliberate macroeconomic policy, the NBU does not aim to earn profits. The financial results of the NBU's activities, as well as the structure of its assets, liabilities and capital are defined by the functions of the NBU as a special central government authority.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the NBU carries out the following functions aimed to ensure the fulfilment of the above principal tasks.

in accordance with the main principles of monetary policy developed by the NBU Council, to determine and carry out monetary policy;

in a monopoly capacity, to carry out the issue of national currency of Ukraine and to organise its circulation;

to be a lender of the last resort for banks and to organise a system of refinancing;

to ensure accumulation and maintenance of foreign exchange and gold reserves and perform operations with foreign exchange and gold reserves and bank metals;

to carry out foreign exchange regulation under the authority determined by a special law, to determine procedures for foreign exchange operations, to organise and exercise foreign exchange control over banks and other financial institutions licensed by the NBU to perform foreign exchange operations;

to exercise banking regulation and supervision;

to maintain the State Register of Banks and to issue and withdraw licences for banking activities and operations in accordance with the law of Ukraine;

to maintain accounts of the State Treasury of Ukraine;

to establish the rules of carrying out banking operations, accounting and reporting, safeguarding information, funds and assets for banks;

to organise and provide methodological support for the system of monetary and banking statistical information and balance of payments statistics;

to determine the system, procedures and forms of payments, including payments between banks;

to compile the balance of payments, perform its analysis and projections;

to organise collection and transportation of banknotes and coins and other valuables; to issue licences for transportation of banknotes, coins and other valuables;

to represent Ukraine in other central banks, international banks and other credit institutions where co-operation is maintained between the central banks;

to take part in training personnel for the banking system of Ukraine;

to perform other functions in financial and credit areas within the competence defined by the Law.

According to the Law of Ukraine "On the National Bank of Ukraine", the NBU provides loans to banks to support their liquidity, buys and sells securities on the secondary market, buys and sells foreign currency valuables, bank and precious metals and jewellery, commemorative and investment coins made of precious metals on domestic and foreign markets, performs servic-

ing of the State debt in respect of placement of Government securities, their redemption and interest payments, maintains accounts of international organisations and conducts other operations necessary for the performance of the functions listed above. The NBU also performs functions of a depository for domestic Treasury bills.

The capital of the NBU is owned by the State.

The NBU has 25 regional offices throughout Ukraine. Additionally, the NBU's structure includes the Central Vault, the State Treasury-House, Project Monitoring Unit for International Credit Lines, the Central Clearing House, Printing and Minting Works, Banknote Paper Mill and banking educational institutions. The NBU's subsidiaries are Ukrainian Banking Academy (Sumy) and Lviv Banking Institute, both of which are 100% owned by the NBU. Lviv Banking Institute (former accounting and credit college of the State Bank of USSR) was included in the NBU's structure in 1991 in accordance with the Laws of Ukraine "On Economic Independence of Ukrainian SSR" and "On Banks and Banking Activities". Ukrainian Banking Academy was transferred to the NBU in 2000 in accordance with the Decree of the Cabinet of Ministers of Ukraine dated 11 December 1999.

The NBU's central office is located at the following address: 9, Institutska St., 01009, Kyiv, Ukraine. The number of NBU employees as at 31 December 2003 was 11,425 (2002: 11,928).

2. Basis of Presentation and Accounting Policies

The NBU's accounting policies are defined in accordance with the NBU regulations approved by the resolutions of the NBU Board and are based on International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Committee and the National Accounting Regulations (Standards), except for the cases when the NBU applies its own accounting policies to comply with the requirements of the current Ukrainian legislation and to take into account its functions as a central bank. Major departures of the NBU's accounting policies from IFRS are as follows:

Gains and losses from the revaluation of foreign currency and bank metals resulting from changes in official exchange rate of Ukrainian hryvnia to foreign currencies and bank metals, are posted directly to revaluation reserve in the capital employed section which is not in compliance with the requirements of IAS 21 "Effect of Changes in Exchange Rates" in respect of recognition of revaluation gains and losses as income and expenses.

Revaluation of fixed assets performed by the NBU does not comply with the requirements of IAS 16 "Property, Plant and Equipment".

Non-monetary items in the financial statements of the NBU have not been adjusted to reflect changes in purchasing power of Ukrainian hryvnia as required by IAS 29 "Financial Reporting in Hyperinflationary Economies", although prior to 1 January 2001 Ukraine was considered as a hyperinflationary economy.

The NBU is not applying IAS 39 "Financial Instruments: Recognition and Measurement" to amounts receivable from Government and loans to banks and other borrowers.

The NBU's accounting records are maintained in the national currency of Ukraine, the Ukrainian hryvnia ("UAH"). The financial statements of the NBU are prepared in millions of Ukrainian hryvnia.

Consolidation

Financial statements of subsidiaries have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the NBU and are removed from consolidation from the date the control was lost. All intercompany transactions and balances have been eliminated during consolidation. Accounting policies for subsidiaries are consistent with the policies adopted by the NBU. The NBU is not preparing separate financial statements without consolidation of subsidiaries.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currency are recorded at the official exchange rates of hryvnia to foreign currencies at the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currency are recorded at historical cost (at the official exchange rate at the date of transaction). Non-monetary assets and liabilities include:

- equity investments;
- amounts receivable for purchase of fixed assets and intangible assets and prepaid expenses;
- creditors in respect of sales of fixed assets and intangible assets.

Transactions denominated in foreign currency are recorded at the official exchange rate ruling at the transaction date. Foreign currency gains and losses arising from revaluation of monetary assets and liabilities due to changes in the official exchange rate of hryvnia to foreign currencies are posted directly to the revaluation reserve for foreign currency and bank metals in the capital employed section.

The principal exchange rates of hryvnia to foreign currencies used for translating monetary balance sheet items were:

	31 December 2003 (UAH)	31 December 2002 (UAH)
USD 1	5.331500	5.332400
SDR 1	7.922450	7.249521
EUR 1	6.662242	5.532898

Operations with International Monetary Fund

The NBU acts as the depository and fiscal agent of Ukraine in the relationship of Ukraine with the International Monetary Fund (IMF). All claims of the State on and liabilities to the IMF are recorded in the financial statements of the NBU. The IMF asset balances include holdings of Special Drawing Rights (SDR) and quota contributions. Liabilities to IMF include securities issued to the IMF by the Ministry of Finance of Ukraine and the NBU on behalf of the Government of Ukraine and balances on IMF accounts No. 1 and No. 2. IMF account No. 1 is used for IMF transactions including subscription payments, purchase and repurchase of funds. Account No. 2 is used for payments of the IMF administrative expenses in Ukrainian currency.

Gains and losses from revaluation of assets and liabilities relating to membership of the IMF resulting from changes in exchange rate of hryvnia to SDR are posted directly to the revaluation reserve for foreign currency and bank metals in capital employed section.

Interest received in respect of SDR holdings is disclosed as interest income and charges paid in respect of use of the IMF funds are disclosed as interest and fee expense in the statement of income.

Monetary Gold

Monetary gold consists of the stocks of gold bars of international standard held in the State Treasury-House of the NBU. Monetary gold is recorded in physical weight in troy ounces and is valued at the official (accounting) exchange rate of the NBU at the balance sheet date. The official exchange rate of the NBU is calculated based on the fixing of the London Bullion Market in US dollars ("USD") translated into UAH at the NBU official UAH/USD exchange rate. Gains and losses from revaluation of monetary gold arising as a result of changes in official (accounting) exchange rate, are credited or charged directly to the revaluation reserve for foreign currency and bank metals in the capital employed section.

Interest-bearing gold placements with foreign banks are included in foreign currency funds and deposits.

The official exchange rate of gold to UAH as at 31 December 2003 was UAH 2,215.771 per troy ounce of gold (2002: UAH 1,857.275 per troy ounce).

Trading securities

Trading securities are securities which are traded on an active market and are acquired for generating a profit from short-term fluctuations in price. The NBU classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 to 6 months.

Trading securities are initially recorded at cost and subsequently re-measured at fair value after each change in market price.

Interest income is accrued using the effective interest rate.

Interest earned on trading securities is reflected in the statement of income as interest income and gains and losses from sale and revaluation of securities to market prices are included in results from transactions with securities. Gains and losses from revaluation arising from changes in official exchange rate of hryvnia to foreign currencies are credited or charged directly to the revaluation reserve for foreign currency and bank metals in the capital employed section.

All purchases and sales of trading securities are recorded at settlement date when the ownership right is transferred to the NBU.

Securities available-for-sale

Available-for-sale securities are those securities which the NBU intends to hold for an indefinite period of time, including those held for the monetary policy purposes.

Available-for-sale securities are initially recorded at cost (which includes transaction costs) and subsequently re-measured at fair value. If the fair value cannot be determined due to the absence of active market or market demand, debt securities are recorded at amortised cost and equity investments in companies that are not subsidiaries, associates or joint ventures are recorded at cost.

Interest income is accrued using the effective interest rate.

Interest earned on available-for-sale securities is reflected in the statement of income as interest income and gains and losses from sale and revaluation of securities to market prices are included in results from transactions with securities.

Expenses related to the sale of available-for-sale securities, are recorded as fee and commission expense at the date of sale.

Gains and losses from revaluation of debt securities arising from changes in official exchange rate of hryvnia to foreign currencies are credited or charged directly to the revaluation reserve for foreign currency and bank metals in the capital employed section. Equity investments in companies that are not subsidiaries, associates or joint ventures, are not revalued.

All purchases and sales of securities are recorded at settlement date when the ownership right is transferred to the NBU.

Securities held to maturity

Securities held to maturity are debt securities which the NBU has the intent to hold to maturity. This portfolio also includes securities purchased by the NBU on a primary market before the Law "On the National Bank of Ukraine" came into force.

Securities held to maturity are initially recorded at cost (which includes transaction costs) and subsequently are carried at amortised cost.

Interest income is accrued using effective interest rate.

Interest earned on securities held to maturity is reflected in the statement of income as interest income.

Gains and losses from revaluation of securities arising from changes in official exchange rate of hryvnia to foreign currencies are credited or charged directly to the revaluation reserve for foreign currency and bank metals in the capital employed section.

Sale and repurchase agreements

Securities purchased under agreements to resell ("repo") are recorded as loans to banks. The differences between the purchase and resale prices are treated as interest income and accrued evenly over the life of the repo agreement.

Funds received under sale and repurchase agreements are included in accounts of banks. Securities sold under sale and repurchase agreements are retained as the assets of the bank. The differences between the sale and repurchase prices are treated as interest expense and accrued evenly over the life of the repo agreement.

Loans to banks and other borrowers

Loans to banks and other borrowers are stated at the principal amounts outstanding net of provisions created for financial risks.

Provisions for financial risks are based on the evaluation by the NBU of the collectibility of loans. Provisions are raised against debts whose recovery has been identified as doubtful. The principal factors considered in determining the financial risk provision are creditworthiness of the borrower, debt servicing, financial position, current economic conditions and other factors.

Loans that cannot be recovered are written off and charged against the provision raised after all the necessary legal procedures have been completed. Recoveries of amounts previously written off are treated as income by reducing the provision for the year. The net aggregate provisions raised or reversed during the year are recognised in the statement of income.

Internal State debt

Internal State debt includes loans granted to Government in national and foreign currencies. Loans in national currency are stated at principal amounts outstanding less provision raised against these loans. Loans to Government in US dollars are stated at the official exchange rate of hryvnia to foreign currency at the balance sheet date. Gains and losses from revaluation of loans to Government in foreign currency are credited or charged directly to the revaluation reserve for foreign currency and bank metals in capital employed section.

Provisions against internal State debt for loans to Government are raised in accordance with the requirements of the current Ukrainian legislation (Note 8).

The Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine" of 20 April 2000 provides for interest payment on loans to Government in national currency. However, the Law does not clearly specify when interest payment period should commence. Additionally, the Law does not contain any provision in respect of interest payment on loans to Government in foreign currency.

Own debt securities

Own debt securities include deposit certificates issued by the NBU. Own debt securities are initially recognised at cost which represents the value of funds received. Subsequently own debt securities are recorded at amortised cost.

Expenses on own debt securities issued by the NBU are recorded as interest expense in the statement of income.

Credit related commitments

In the normal course of business, the NBU enters into credit related commitments including loan commitments, letters of credit and guarantees. These commitments are recorded off-balance sheet.

Fixed assets and intangible assets

Fixed assets and intangible assets are stated at cost, or revalued amounts, less accumulated depreciation. Revaluation of certain fixed assets was performed by the NBU in 1998 based on market prices. The amount of revaluation is included in the revaluation reserve for fixed assets in the capital employed section. The amounts of realised revaluation of fixed assets are transferred to funds and other reserves item in the capital employed section on disposal of assets which have been previously revalued.

Construction in progress is carried at cost. Upon completion, assets are transferred to buildings and constructions at cost. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of fixed assets and intangible assets commences after the assets are put into use and is calculated based on the straight-line method over the estimated useful lives of the assets as follows:

intangible assets	4 – 8 years;
buildings and constructions	20 – 50 years;
motor vehicles and transport	8 – 28 years;
machinery and equipment	4 – 30 years;
fixtures and fittings	4 – 10 years;
other	2 – 10 years.

Depreciation of fixed assets and intangible assets is calculated on a monthly basis based on cost and depreciation rates for each item separately. Depreciation starts in the month after the fixed asset or intangible asset becomes available for use. Depreciation stops from the month after disposal.

Gains and losses on disposal of fixed assets and intangible assets are determined as the difference between sale proceeds and their carrying amount and are recognised in the statement of income as other income or expense.

Expenses that improve the condition of fixed assets and intangible assets which result in increased future economic benefits are capitalised. Repairs and maintenance are charged to expense as incurred.

Investments in associates

Associates are entities over which the NBU has between 20% and 50% of the voting rights, or over which the NBU has significant influence, but which it does not control. Investments in associates are initially recorded at cost and subsequently are accounted for using the equity method of accounting, excluding cases when an associate operates under long-term restrictions that prevent transfer of funds to investors or when investment in associate is held with the view of disposal in the near future. In this case investments are recorded at cost. Under the equity method, the NBU's share of the post-acquisition profits or losses of associates is recorded in the statement of income, and its share of post-acquisition movements in capital is recorded in capital employed.

Investments in associates are included in accrued income and other assets.

Bank metals and other precious metals

Bank metals include stocks of gold which is not monetary, silver, platinum and palladium held in the State Treasure-House of the NBU. Bank metals are recorded in physical weight in troy ounces and are valued at the official (accounting) exchange rate of the NBU. The NBU exchange rate is calculated based on price of the London Bullion Market in USD translated into UAH at the NBU official UAH/USD exchange rate.

The official exchange rates of bank metals to UAH at which bank metals are stated in the balance sheet were as follows:

	31 December 2003 (UAH)	31 December 2002 (UAH)
1 troy ounce of gold	2,215.771	1,857.275
1 troy ounce of silver	31.509	24.902
1 troy ounce of platinum	4,329.178	3,167.446
1 troy ounce of palladium	1,039.643	1,253.114

Gains and losses from revaluation of bank metals arising as a result of changes in the official (accounting) exchange rate, are credited or charged directly to the revaluation reserve for foreign currency and bank metals in the capital employed section.

Interest-bearing placements in bank metals with foreign banks are included in foreign currency funds and deposits.

Other precious metals include gold and other scrap metal and bars which are not of a recognised standard. Other precious metals are carried at historical cost.

Bank metals and other precious metals are included in accrued income and other assets item.

Banknotes and coins in circulation

The amount of banknotes and coins in circulation includes the nominal value of banknotes and coins (circulating and jubilee coins) issued by the NBU after the introduction of hryvnia into circulation in September 1996. The nominal value of banknotes and coins issued represents a liability of the NBU. The banknotes and coins in circulation are recorded as a liability when cash is issued by the NBU to banks and clients of the NBU. Hryvnia cash held in the NBU's vaults and cash offices is not included in banknotes and coins in circulation.

Income and expense recognition

Income and expenses are recognised in the statement of income on an accrual basis, except income and expenses on demand accounts, which are recognised on a cash basis.

When realisability of income is considered to be doubtful, the accrual of income is stopped. Provisions are raised against doubtful accrued income.

Expenses for money issuance

The NBU produces national currency banknotes and coins (including commemorative and jubilee coins made of precious and other metals). Expenses associated with the banknotes and coins production (excluding commemorative and jubilee coins) are charged to expenses when banknotes and coins are transferred to reserve funds of the NBU. Expenses for money issuance include depreciation of plant and machinery, staff costs, other production costs, costs for transportation of banknotes and circulating coins to the Central Vault

Expenses associated with the production of commemorative and jubilee coins are recorded as an asset in accrued income and other assets line item of the NBU balance sheet and are charged to expenses in the period when the coins are realised.

Revaluation reserve for foreign currency and bank metals

Gains and losses arising as a result of changes in the valuation of monetary assets and liabilities denominated in foreign currency and bank metals due to changes in foreign currency and bank metals exchange rates, are charged or credited to the revaluation reserve for foreign currency and bank metals in the capital employed section of the balance sheet and are not taken into account when calculating the net income.

Expenses for contributions into obligatory State social funds

The NBU contributes to the obligatory State social funds including pension fund, social security for temporary disability, obligatory State social security fund for unemployment and accident social security fund. Contributions to the State Pension fund amount to 32% of employees' gross salaries, contributions to other funds amount to 5.66% of employees' gross salaries, in total up to a maximum of UAH 1,002 per employee per month. Contributions into obligatory State social funds are expensed as incurred.

Cash and cash equivalents

For the purposes of reporting cash flows reflecting changes in both foreign and domestic liquidity, cash and cash equivalents include financial assets which are on demand or maturing within three months and which are available for use at short notice and are subject to insignificant risk of changes in value, less liabilities which are on demand.

Financial assets that cannot be freely converted into cash due to insufficient liquidity or due to restrictions on their use, are excluded from cash and cash equivalents.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Estimates and assumptions

The preparation of financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Corresponding figures

To ensure consistency with the current year, comparative figures have been restated and reclassified as follows:

amounts of accrued income receivable/accrued expense payable are included in accrued income and other assets/accrued expenses and other liabilities balance sheet items; in 2002 accrued income and accrued expense were stated as separate balance sheet line items;

the investment in Black Sea Trade and Development Bank (BSTDB) is included in foreign securities balance sheet item; in 2002 it was included in other assets;

the repayment of liabilities to IMF in the statement of cash flows is reflected at the official (accounting) exchange rate at the date of transaction; in 2002 the annual exchange rate set by the IMF was used to convert the payment into UAH;

the carrying value of financial assets in Note 33 "Fair Value of Financial Instruments" includes accrued interest receivable; in 2002 accrued interest was not included in the carrying amount.

3. Effect of Economic Conditions in Ukraine on the Financial Position and Results of Operations of the NBU

In 2003 Ukraine continued its economic growth trend whilst at the same time experiencing relatively high levels of inflation, which was 8.2% in 2003. In 2003 GDP growth rate increased to 9.4% according to preliminary statistical data at the time of issuing these financial statements (2002: 5.2%). During 2003 the Ukrainian currency remained stable. The official exchange rate of hryvnia to US dollar appreciated from UAH5.3324 per USD 1 as at 31 December 2002 to UAH 5.3315 per USD 1 as at 31 December 2003. In 2003 monetary gold and foreign currency reserves grew significantly from USD 4.4 billion as at 31 December 2002 to USD 6.9 billion as at 31 December 2003. The NBU's discount rate as at 31 December 2002 and as at 31 December 2003 was 7 % per annum.

At the same time, despite positive trends in its development, the Ukrainian economy displays characteristics of an emerging market. These characteristics include the existence of a currency that is not freely convertible outside of the a country, a low level of liquidity in the public and private debt and equity markets and budgetary constraints. In particular, budgetary constraints impact the ability of Government to repay amounts due to the NBU.

In accordance with the Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine" of 20 April 2000, repayment of internal State debt in foreign currency was scheduled to commence in 2002. However, the Laws of Ukraine on the State Budget of Ukraine for 2002 – 2004 did not allocate the funds necessary to repay internal State debt. Accordingly no repayments were made in 2002 and 2003.

The prospects for future economic stability in Ukraine are largely dependent upon the effectiveness of economic measures undertaken by the Government, including deliberate fiscal policy and other factors, such as legal, regulatory and political changes.

The Government-related balance sheet and off-balance sheet items are summarised in the table below.

	Note	2003	(in UAH million) 2002
Government securities	6	7,946	9,042
Internal State debt	8	10,521	10,522
Guarantees issued on behalf of Government	32	307	796

The estimated fair value of amounts due from Government is disclosed in Note 33.

4. Foreign Currency Funds and Deposits

	2003	(in UAH million) 2002
Foreign currency cash	36	17
Demand deposits:		
with OECD banks	2,084	896
with resident banks	—	4
Term deposits with OECD banks:		
in foreign currency	30,546	21,399
in gold	543	473
in bank metals	865	528
Total foreign currency funds and deposits	34,074	23,317

The amount of demand and term deposits with OECD (Organisation for Economic Co-operation and Development) banks includes certain funds with their use regulated by separate agreements, in particular:

balances on special purpose accounts totalling UAH 28 million (2002: UAH 38 million) maintained by the NBU under credit lines received from an international financial institution; and

balances on special purpose accounts totalling UAH 32 million (2002: UAH 37 million) maintained by the NBU on behalf of the German-Ukrainian Fund, which is a non-profit organisation for support and development of small and medium sized enterprises of Ukraine.

The term deposits denominated in bank metals include deposits of platinum and palladium. These deposits and deposits of gold earn interest paid in USD.

The geographical analysis of foreign currency funds and deposits is disclosed in Note 27, analysis of credit risk of foreign currency funds and deposits is disclosed in Note 28, currency risk analysis is presented in Note 29, interest rate analysis is presented in Note 30 and liquidity analysis is disclosed in Note 31.

5. Foreign Securities

(in UAH million)

	Trading portfolio	Available-for- sale portfolio	Total foreign securities	
	2003		2003	2002
Coupon US Treasury bills	2,882	—	2,882	—
Shares of Black Sea Trade and Development Bank	—	154	154	172
Total foreign securities	2,882	154	3,036	172

Starting from 2003 the NBU splits foreign securities between trading and available-for-sale portfolios.

Coupon US Treasury bills

As at 31 December 2003 trading portfolio of the NBU includes coupon bills with the total nominal value of USD 536 million (UAH 2,860 million at nominal value at the exchange rate as at 31 December 2003). The coupon bills have a nominal value of USD 1,000 each. At the end of the year average yield of coupon bills in the NBU's trading portfolio was 1.18 %.

Shares of Black Sea Trade and Development Bank (BSTDB)

As at 31 December 2003 the amount of the NBU's contribution into share capital of BSTDB was SDR 30 million (UAH 154 million), including an unpaid part of the investment in the amount of SDR 7 million (UAH 53 million) covered by a promissory note issued in favour of BSTDB (Note 16). The NBU's share in the share capital of BSTDB amounts to 10%. In accordance with the Decree of the President of Ukraine further payments in respect of this commitment will be made from the State budget.

During 2003 the amount invested in BSTDB decreased by SDR 3 million (UAH 18 million at the exchange rate of hryvnia to SDR as at the date of acquisition) as a result of a partial purchase of the NBU's share in BSTDB by the Ministry of Finance of Ukraine.

The geographical analysis of foreign securities is disclosed in Note 27, analysis of credit risk is disclosed in Note 28, currency risk analysis is presented in Note 29, interest rate analysis is presented in Note 30 and liquidity analysis is disclosed in Note 31.

6. Government Securities

(in UAH million)

	Trading portfolio	Available-for- sale portfolio	Total foreign securities	
	2003		2003	2002
Government debt securities denominated in national currency: interest bearing domestic				
Government bonds issued in 2000	1,771	5,667	7,438	8,500
promissory notes of the State Treasury of Ukraine	—	395	395	395
Government debt securities denominated in foreign currency: external State debt securities				
issued in 1995	—	—	—	26
external State debt securities issued in 2000	—	113	113	121
Total Government securities	1,771	6,175	7,946	9,042

Government securities include bonds and promissory notes issued by the Ministry of Finance of Ukraine on behalf of the Government of Ukraine and, accordingly, carry the guarantee of the Ukrainian Government.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the NBU performs operations with Government securities only on a secondary market.

Starting from 2003 the NBU splits Government securities between the available-for-sale portfolio and held-to-maturity portfolio depending on intentions.

Government debt securities denominated in national currency

Available-for-sale portfolio of debt securities denominated in national currency includes Government securities purchased by the NBU for the purposes of the regulating monetary and credit markets.

Government debt securities in national currency include the following:

1. Interest bearing domestic Government bonds (hereinafter referred as "POVDP") received by the NBU as a result of a restructuring in October 2000 of current and overdue portfolio of Government securities issued in 1998–2000. The POVDP have a nominal value of UAH 1,000 each. The interest rates are set by the Ministry of Finance of Ukraine annually in accordance with the provisions of issue of POVDP in 2000, approved by the Decree of the Cabinet of Ministers of Ukraine, based on the projected inflation rate for the current year adjusted for a portion of the difference between the projected and the actual inflation rate for the preceding year. As a result of deflation in 2002, the interest rate for 2003 was set at 0% (2002: 0.422% per month), therefore during 2003 interest on POVDP was not paid. In 2004 (from 25.12.2003 to 24.12.2004) the Ministry of Finance set the interest rate at the level of 0.7% per month.

During 2003 POVDP totalling UAH 1,062 million have been redeemed. The NBU did not perform operations in respect of sales or purchases of POVDP during 2003. POVDP are due to be redeemed in monthly instalments up to 2010.

2. Promissory notes of the State Treasury of Ukraine received by the NBU in September 2000 from the Ministry of Finance of Ukraine as part of the restructuring of accrued income on domestic Government bonds due in 2000–2004. The total nominal value of promissory notes amount to UAH 395 million. The promissory notes of the State Treasury are non-interest bearing. Promissory notes of UAH 196 million are repayable in 2009 with the balancing payment in 2010.

Government debt securities denominated in foreign currency

Government debt securities denominated in foreign currency include:

1. External State debt securities (OZDP) issued in 1995, denominated in US dollars. These are bonds issued by the Ministry of Finance of Ukraine on behalf of the Ukrainian Government to the Russian Joint Stock Company "Gazprom" in 1995. The bonds have been purchased in 2000 from a Ukrainian bank. The bonds had nominal value of USD 5,000 each. They carried coupon interest of 8.5% and have been redeemed in September 2003.

2. External State debt securities issued in 2000, denominated in EUR with coupon interest of 10% per annum received as a result of restructuring external State debt securities issued in 1995. These bonds have nominal value EUR 1,000 each and are to be redeemed in instalments twice a year up to 2007. Coupon on the bonds is payable on a quarterly basis. During 2003 bonds totalling EUR 5 million (UAH 28 million at the exchange rate of hryvnia to euro at the date of payment) have been redeemed.

The credit risk analysis of Government securities is disclosed in Note 28, currency risk analysis is presented in Note 29, interest rate analysis is presented in Note 30 and maturity analysis is disclosed in Note 31. Information on the estimated fair value of Government securities is presented in Note 33.

7. Loans to Banks and Other Borrowers

	2003	<i>(in UAH million)</i> 2002
Current loans	2,277	1,006
Overdue loans	172	504
Provision against loans to banks and other borrowers	(357)	(631)
Total loans to banks and other borrowers	2,092	879

As at 31 December 2003 the total amount of non-performing loans on which interest was not accrued, was UAH 174 million (2002: UAH 505 million).

As at 31 December 2003 loans to banks and other borrowers are analysed by type of loan as follows:

	2003	<i>(in UAH million)</i> 2002
Loans granted to banks to support their liquidity		
Short-term loans	976	464
Long-term loans	779	443
Loans granted under European Bank for Reconstruction and Development (EBRD) credit lines for support of small and medium enterprises (SME)	518	421
Other	176	182
Provision against loans to banks and other borrowers	(357)	(631)
Total loans to banks and other borrowers	2,092	879

Loans to support liquidity were collateralised mainly by bonds issued by enterprises, Government securities, claims under agreements in respect of loans granted by banks to businesses and funds in national currency on correspondent accounts of banks with the NBU.

Movements in provision against loans to banks and other borrowers are as follows

	2003	<i>(in UAH million)</i> 2002
Provision against loans to banks and other borrowers at the beginning of the year	631	624
(Reduction) /increase in provisions	(267)	7
Assets written off against provision	(7)	—
Provision against loans to banks and other borrowers at the end of the year	357	631

The amount of provision decreased as a result of the recovery of an overdue loan.

The geographical analysis of loans to banks and other borrowers is disclosed in Note 27, analysis of credit risk is disclosed in Note 28, currency risk analysis is presented in Note 29, interest rate analysis is presented in Note 30 and liquidity analysis is disclosed in Note 31. The estimated fair value of loans to banks and other borrowers is presented in Note 33.

8. Internal State Debt

	2003	(in UAH million) 2002
Internal State debt in respect of loans to Government in national currency		
1991–1993	129	129
1994–1996	3,439	3,439
Total internal State debt in national currency	3,568	3,568
Internal State debt in respect of loans to Government in foreign currency		
1995	3,711	3,711
1996	2,601	2,602
Total internal State debt in foreign currency	6,312	6,313
Internal State debt in respect of unpaid interest on loans to Government in foreign currency	710	710
Provision against internal State debt in respect of loans to Government in national currency	(69)	(69)
Total internal State debt	10,521	10,522

Loans in national currency and foreign currency were granted by the NBU in 1991–1996 for financing State budget deficits.

The amount due in respect of loans to Government in national currency granted in 1991–1993 totalling UAH 129 million, was included in the internal State debt following the decision of Verkhovna Rada (the Parliament) of Ukraine and the President of Ukraine. At the time of issuing these financial statements, the terms of repayment of this debt and its servicing was not regulated by the legislation.

On 20 April 2000 the Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine" was passed. In accordance with this Law, loans in national currency granted in 1994–1996 totalling UAH 3,439 million, loans granted in foreign currency totalling USD 1,184 million (UAH 6,312 million at the exchange rate as at 31 December 2003) and unpaid accrued income on loans in foreign currency totalling USD 133 million (UAH 710 million at the exchange rate as at 31 December 2003), were restructured and included into the internal State debt. Unpaid income in respect of loans to Government in foreign currency is included in accrued expenses and other liabilities item (Note 16) and will be recognised in the statement of income on repayment of the internal State debt.

In accordance with the Law, the amount of the internal State debt of Ukraine in respect of loans granted in 1994–1996 in the national currency, is due to be repaid by equal quarterly instalments, with an interest payment of 5% per annum for debt servicing, from 2010 to 2035. However, the Law does not clearly state the period of interest accrual. As such, interest income on loans to Government in the national currency is not recognised in the statement of income.

The internal State debt of the Government of Ukraine in US dollars was due to be repaid by equal quarterly instalments starting from 2002 up to 2009. However, the Laws of Ukraine on the State budget of Ukraine for 2002 – 2004 did not provide funds necessary for the repayment of these loans. The NBU approached the Government of Ukraine with a suggestion to make changes to the current Ukrainian legislation in order to resolve this issue.

The Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine" does not provide for payment of interest on loans to Government in foreign currency included in the internal State debt. As a result, no interest income is recognised in the statement of income.

In accordance with the Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine", in 2000 the NBU raised a provision of 2% of the amount outstanding in respect of loans to Government in the national currency granted in 1994–1996. Starting from 2001 the Laws of Ukraine on the State budget of Ukraine for 2001 – 2004 suspended this requirement in respect of provisioning. As a result, no further provision was raised after 2000 against internal State debt in the national currency.

The current Ukrainian legislation does not envisage raising provisions against loans to Government in foreign currency included in the internal State debt.

The credit risk analysis of internal State debt is disclosed in Note 28, currency analysis is presented in Note 29, interest rate analysis is presented in Note 30 and maturity analysis is disclosed in Note 31. Estimated fair value of internal State debt is disclosed in Note 33.

9. IMF Quota Contributions

The quota balance represents Ukraine's subscription as a member of the International Monetary Fund (IMF). Quotas vary based on the economic size and circumstances of each member and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the Fund, the limits of access to the financial resources of the Fund and a participant's share in the allocation of Special Drawing Rights (SDRs), the Fund's unit of account. The major part of Ukraine's quota was paid in the form of non-interest-bearing promissory notes, the remainder being credited to the IMF accounts No 1 and No 2 (Note 15). As at 31 December 2003 Ukraine's quota in the IMF amounted to SDR 1,372 million or UAH 10,870 million at the year-end exchange rate (2002: SDR 1,372 million). The quota does not earn interest.

10. Fixed Assets and Intangible Assets

	<i>(in UAH million)</i>							
	Intan- gible assets	Building and construc- tions	Motor vehicles and transport	Machinery and equip- ment	Fixtures and fittings	Other fixed assets	Construc- tion in progress	Total
Net book value at the beginning of the year	32	678	25	327	67	107	134	1,370
Cost or valuation at the beginning of the year	45	796	55	522	107	156	134	1,815
Depreciation at the beginning of the year	13	118	30	195	40	49	—	445
Additions	5	27	3	22	8	25	58	148
Disposals	—	(8)	—	(2)	(1)	(2)	—	(13)
Cost	—	(10)	(3)	(7)	(1)	(6)	—	(27)
Depreciation	—	(2)	(3)	(5)	—	(4)	—	(14)
Transfer to other category	—	56	—	18	—	(18)	(56)	—
Depreciation charge for the year	7	20	5	52	14	21	—	119
Cost or valuation at the end of the year	50	869	55	555	114	157	136	1,936
Depreciation at the end of the year	20	136	32	242	54	66	—	550
Net book value at the end of the year	30	733	23	313	60	91	136	1,386

The carrying amount of fixed assets includes revaluation surplus of UAH 64 million (2002: UAH 66 million).

At 31 December 2003 fixed assets and intangible assets include assets totalling UAH 88 million at cost or valuation, which are fully depreciated (2002: UAH 55 million). These assets are still used by the NBU.

Included in fixed assets are assets totalling UAH 6 million (2002: UAH 6 million) which are currently under reconstruction or not in use and as such they are not depreciated.

11. Accrued Income and Other Assets

	2003	(in UAH million) 2002
Accrued income	230	208
Bank metals	207	205
Deposit placed with a resident bank	196	392
Inventory	81	93
Accounts receivable	75	75
Precious metals and jewellery	39	32
Investments in associates	25	25
Commemorative and jubilee coins and other numismatic products	21	23
Provision against accrued income and other assets	(46)	(117)
Total accrued income and other assets	828	936

The deposit placed with a resident bank represents funds in US dollars accumulated on the NBU's account with a State-owned bank during 1994–1995 as a result of purchases of foreign currency receipts of residents subject to mandatory sale. The deposit is maturing in 2004. The effective interest rate on this deposit is disclosed in Note 30.

As at 31 December 2003 accrued income includes the following:

	2003	(in UAH million) 2002
Accrued income on foreign currency funds and deposits	153	90
Accrued income on loans to banks and other borrowers	42	111
Accrued income on foreign securities	18	—
Accrued income on Government securities	12	1
Other accrued income	5	6
Total accrued income	230	208
Provision against accrued income on loans to banks and other borrowers	(37)	(108)
Provision against other accrued income	(1)	(1)
Total accrued income less provision	192	99

Movements in provision against accrued income and other assets were as follows:

	2003	(in UAH million) 2002
Provision against accrued income and other assets at the beginning of the year	117	113
(Decrease)/ increase in provision	(70)	4
Assets written off against provision	(1)	—
Provision against accrued income and other assets at the end of the year	46	117

The decrease in the amount of provision was as a result of receipt of funds in respect of interest payable on an overdue loan.

At 31 December investments in associates included the following:

Name	Country of registration	Type of activity	Amount		Share (%)	
			2003	2002	2003	2002
German-Ukrainian Fund	Ukraine	Financial institution of special type	24	24	31.25	31.25
Inter-State Bank	Russia	Financial institution	1	1	20.70	20.70
Total			25	25		

German-Ukrainian Fund (GUF) was established by the Cabinet of Ministers of Ukraine represented by the Ministry of Finance, the NBU and Kreditanstalt für Wiederaufbau (KfW). According to the Charter, the GUF does not have an objective of generating profit and does not distribute dividends among its founders. The profit is allocated to increasing the lending pool for small and medium enterprises. As such, the NBU does not account for the investment in GUF under the equity method.

The geographical analysis of accrued income and other assets is disclosed in Note 27, analysis of credit risk is disclosed in Note 28, currency risk analysis is presented in Note 29 and maturity analysis is disclosed in Note 31.

12. Accounts of Banks

	2003	(in UAH million) 2002
Correspondent accounts:		
in UAH	3,999	3,065
in foreign currency	48	25
Term deposits in foreign currency	167	157
Accounts of banks with special use conditions		
in UAH	123	17
in foreign currency	1	—
Total accounts of banks	4,338	3,264

Correspondent accounts in hryvnia include mandatory reserves of Ukrainian banks with the NBU. Correspondent accounts are non-interest bearing.

The geographical analysis of accounts of banks is disclosed in Note 27, currency risk analysis is presented in Note 29, interest rate analysis is presented in Note 30 and maturity analysis is disclosed in Note 31.

13. Accounts of Government and Other Customers

	2003	(in UAH million) 2002
Budget funds	4,966	2,162
Other	112	235
Total accounts of Government and other clients	5,078	2,397

The NBU services accounts of the State budget and local budgets of Ukraine consolidated under one treasury account.

In accordance with the Law of Ukraine "On the National Bank of Ukraine" all budget accounts are non-interest bearing.

The geographical analysis of accounts of Government and other clients is disclosed in Note 27, currency risk analysis is presented in Note 29, interest rate analysis is presented in Note 30 and maturity analysis is disclosed in Note 31.

14. Loans Received

This item represents long-term loans received under credit lines of EBRD for financing of banks to support small and medium enterprises (SME):

	2003	<i>(in UAH million)</i> 2002
SME-1	53	88
SME-2	335	216
Unamortised portion of front-end fee	(4)	(3)
Total loans received	384	301

The currency analysis of loans received is presented in Note 29, interest rate analysis is presented in Note 30 and maturity analysis is disclosed in Note 31.

15. Liabilities to IMF

	2003	<i>(in UAH million)</i> 2002
IMF accounts No 1 and No 2	27	26
Securities issued to the IMF in settlement of Quota	10,843	9,920
Securities issued to the IMF in respect of purchases of funds	823	1,356
Systemic Transformation Facility Extended Fund Facility	8,964	8,649
Total liabilities to IMF	20,657	19,951

During 2003 there was a repurchase of funds under the Systemic Transformation Facility totalling SDR 83 million (UAH 587 million at the annual exchange rate set by the IMF or UAH 622 million at the official exchange rate at the date of payment) and the Extended Fund Facility totalling SDR 61 million (UAH 441 million at the annual exchange rate set by the IMF or UAH 459 million at the official exchange rate at the date of payment). The increase in the liability was the result of annual revaluation in the amount of UAH 1,689 million (including UAH 861 million in settlement of Quota and UAH 828 million in respect of purchase of funds) and interim revaluation of UAH 45 million.

Securities issued include two promissory notes issued by the Ministry of Finance of Ukraine to IMF in settlement of quota totalling UAH 2,741 million, as the NBU acts as an agent of Government in settlements with the IMF.

The interest rate analysis of liabilities to IMF is presented in Note 30 and maturity analysis is disclosed in Note 31.

16. Accrued Expenses and Other Liabilities

	Notes	<i>(in UAH million)</i>	
		2003	2002
Unpaid interest on loans to Government in foreign currency included in internal State debt	8	710	710
Promissory notes issued by the NBU	5	53	74
Accrued expenses		38	46
Current accounts of employees		33	35
Deferred income		4	4
Accounts payable		19	5
Total accrued expenses and other liabilities		857	874

Accrued expenses as at 31 December 2003 are presented as follows:

	2003	<i>(in UAH million)</i> 2002
Accrued expense on liability to IMF	36	44
Accrued expense on loans from EBRD	1	2
Other accrued expense	1	-
Total accrued expenses	38	46

The geographical analysis of accrued expenses and other liabilities is disclosed in Note 27, currency risk analysis is presented in Note 29 and maturity analysis is disclosed in Note 31.

17. Profits Payable to the State Budget

In accordance with the Law of Ukraine "On the National Bank Ukraine", the NBU is obliged to distribute the excess of budgeted income over budgeted expenditure to the State budget of Ukraine based on the results for the preceding year. Budgeted expenditure should ensure the NBU's ability to perform its functions and includes both expenses presented in the statement of income and expenditure for financing capital investments and formation of funds. The amount of profit payable to the State budget is calculated as the amount of profit earned less profit used for financing capital investments and formation of funds.

The actual excess of income over expenditure for the year ended 31 December 2003 amounted to UAH 522 million, based on the method of calculation for the budget. The reconciliation of the profit available for distribution as disclosed in the financial statements to the excess of budgeted income over budgeted expenditure is presented below:

	2003	<i>(in UAH million)</i> 2002
Profit available for distribution per the statement of income	567	260
Less: Allocation to funds for financing capital investments and other funds of the NBU	(45)	(129)
Excess of budgeted income over budgeted expenditure for the year to be transferred to the State budget	522	131
Advance payment of profits to the State budget	(502)	(43)
Profits payable to the State Budget	20	88

18. Authorized Capital

In accordance with the Law of Ukraine "On the National Bank of Ukraine" the amount of authorized capital shall be UAH 10 million. The amount of authorized capital may be increased under the decision of the Council of the NBU. The source of formation of the NBU's authorized capital are profits of the NBU and, if necessary, the State budget of Ukraine. The authorized capital was formed as a result of distribution of the NBU's profits for 1994 in the amount of UAH 5 million and the NBU's profits for 2000 in the amount of UAH 5 million.

19. Cash and Cash Equivalents

	Notes	<i>(in UAH million)</i>	
		2003	2002
Foreign currency cash	4	36	17
Demand deposits (excluding restricted funds)	4	2,056	862
Short-term deposits maturing within three months (excluding gold, bank metals and restricted funds)		23,928	11,674
SDR Holdings		113	151
Demand accounts of banks	12	(4,171)	(3,107)
Accounts of Government and other clients	13	(5,078)	(2,397)
IMF accounts No 1 and No 2	15	(27)	(26)
Current accounts of employees	16	(33)	(35)
Total cash and cash equivalents		16,824	7,139

20. Interest Income and Expense

	2003	<i>(in UAH million)</i>	
		2003	2002
Interest income			
On foreign currency funds and deposits	571		
	417		
On loans to banks and other borrowers	200		43
On Government securities	36		429
On SDR Holdings	2		22
Other	1		1
Total interest income	810		912
Interest expense			
On liabilities to IMF	(210)		(280)
On loans received	(8)		(10)
On accounts of Government and other clients	(1)		(1)
On accounts of banks	(1)		(5)
On own debt securities issued	—		(1)
Other	(2)		(5)
Total interest expense	(222)		(302)
Net interest income	588		610

21. Fee and Commission Income and Expense

	2003	(in UAH million) 2002
Fee and commission income		
On services of electronic payments system and electronic mail	83	57
On cash collection services	45	57
On cash and settlement services	45	24
Other	1	4
Total fee and commission income	174	142
Fee and commission expense		
On liabilities to IMF	—	(21)
Other	(3)	(3)
Total fee and commission expense	(3)	(24)
Net fee and commission income	171	118

22. Other Income

	2003	(in UAH million) 2002
Income from sale of banknote paper, commemorative and jubilee coins and other products	52	107
Income from activities of educational institutions	13	11
Fines and penalties received	2	2
Income from management of credit lines	3	3
Gains from disposal of fixed assets, intangible assets and inventories	—	1
Other	16	14
Total other income	86	138

Income from the sale of other products includes income from the sale of excise stamps, blanks for securities and documents, produced by the NBU, for State organisations and local and foreign counterparties.

23. Staff Costs

	2003	(in UAH million) 2002
Wages and salaries	146	136
Mandatory State pension scheme and social security contributions	67	61
Social assistance and other social payments	59	56
Other	14	24
Total staff costs	286	277

As disclosed in Note 2, staff costs associated with production of banknote paper, banknotes, coins and other products, as well as respective social contributions, are included in cost of production.

24. Administrative and Other Expenses

	2003	(in UAH million) 2002
Depreciation	82	70
Utilities and household expenses	31	33
Expenses for maintenance of fixed assets and intangible assets	25	29
Telecommunication services and maintenance	7	7
Business trip expenses	5	4
Fines and penalties paid	5	4
Administrative expenses of the Project Monitoring Unit for international credit lines within the limits of fee for management of credit lines	3	2
Other	19	22
Total administrative and other expenses	177	171

The depreciation charge for 2003 excludes depreciation of UAH 37 million (2002: UAH 39 million) in respect of plant and machinery used in the production of banknote paper, banknotes, coins and other products. This part of the depreciation charge is included in expenses for production of banknotes, coins and other products (refer Note 2).

25. Net Decrease /(Increase) in Provisions

	Notes	2003	(in UAH million) 2002
Decrease /(increase) in provisions against loans to banks and other borrowers	7	267	(7)
against accrued income and other assets	11	70	(4)
Total net decrease / (increase) in provisions		337	(11)

26. Financial Risk Management

Principal types of financial risks inherent in the NBU's activities are credit, currency, interest rate and liquidity risk. These risks are controlled by management of operational departments. Overall risk management is performed by Asset and Liability Management Committee (ALCO) and Risk Control Division.

Credit risk. Credit risk is controlled through compliance with rules established by the NBU internal regulations, in particular:

in the area of the NBU's gold and foreign currency reserve placements:

the NBU's counterparties in operations related to placement of funds of gold and foreign currency reserve should have ratings set by international rating agencies Fitch IBCA and Moody's, not lower than A rating as prescribed by the Law of Ukraine "On the National Bank of Ukraine" and ratings set by the NBU's Board decision;

placement of funds of gold and foreign currency reserve with use of financial instruments should comply with the norms of investment structure of the NBU's gold and foreign currency reserve approved by the NBU's Board decision;

in the area of supporting banking system liquidity:

banks requesting liquidity support through the NBU refinancing operations, should comply with the requirements set by the NBU's procedures for regulating of Ukrainian banks liquidity;

in the area of lending under the EBRD credit lines:

participating banks should comply with the eligibility criteria defined by the credit agreements between the NBU and EBRD.

Currency risk. Currency risk is controlled through compliance with the standard structure of the NBU's gold and foreign currency reserve defined by the decision of the NBU Board. It also takes into account the net currency position of the NBU.

Interest rate risk. The major technique of interest rate risk control is calculation and analysis of changes in weighted average multi-currency interest margin (spread) between interest rates on assets and liabilities of the NBU, as well as interest rate repricing analysis of assets and liabilities.

Liquidity risk. Liquidity risk is controlled using the method of maturity mismatch of assets and liabilities (financing gaps) and through calculation of the sufficient level of balances on demand deposits at the time of payments to be made in respect of the NBU's liabilities.

Detailed analysis of the above risks is presented in Notes 27 to 31.

27. Geographical Analysis of Assets and Liabilities

The geographical analysis of the NBU's assets and liabilities as at 31 December 2003 is set out below:

	<i>(in UAH million)</i>				
	Ukraine	OECD countries	IMF	Other	Total
Assets					
Foreign currency funds and deposits	36	34,038	—	—	34,074
Foreign securities	—	3,036	—	—	3,036
SDR Holdings	—	—	113	—	113
Monetary gold	1,101	—	—	—	1,101
Government securities	7,946	—	—	—	7,946
Loans to banks and other borrowers	2,092	—	—	—	2,092
Internal State debt	10,521	—	—	—	10,521
IMF quota contributions	—	—	10,870	—	10,870
Fixed assets and intangible assets	1,386	—	—	—	1,386
Accrued income and other assets	655	172	—	1	828
Total assets	23,737	37,246	10,983	1	71,967
Liabilities					
Banknotes and coins in circulation	36,048	—	—	—	36,048
Accounts of banks	4,338	—	—	—	4,338
Accounts of Government and other clients	5,058	20	—	—	5,078
Profits payable to the State Budget	20	—	—	—	20
Loans received	—	384	—	—	384
Liabilities to IMF	—	—	20,657	—	20,657
Accrued expenses and other liabilities	764	57	36	—	857
Total liabilities	46,228	461	20,693	—	67,382
Net balance sheet position	(22,491)	36,785	(9,710)	1	4,585
Commitments and contingencies					
Guarantees issued	—	307	—	—	307
Net off-balance sheet position (Note 32)	—	307	—	—	307
Net position	(22,491)	36,478	(9,710)	1	4,278

Included in the balances with OECD countries (foreign currency funds and deposits and accrued income and other assets balance sheet items) are demand and term deposits with the Bank for International Settlements and accrued interest on these deposits, totalling UAH 21,840 million, or 59% of the total assets placed in OECD countries.

The geographical analysis of the NBU's assets and liabilities as at 31 December 2002 is set out below:

	<i>(in UAH million)</i>				
	Ukraine	OECD countries	IMF	Other	Total
Assets					
Foreign currency funds and deposits	21	23,296	—	—	23,317
Foreign securities	—	172	—	—	172
SDR Holdings	—	—	151	—	151
Monetary gold	935	—	—	—	935
Government securities	9,042	—	—	—	9,042
Loans to banks and other borrowers	879	—	—	—	879
Internal State debt	10,522	—	—	—	10,522
IMF quota contributions	—	—	9,946	—	9,946
Fixed assets and intangible assets	1,370	—	—	—	1,370
Accrued income and other assets	844	90	—	2	936
Total assets	23,613	23,558	10,097	2	57,270
Liabilities					
Banknotes and coins in circulation	27,703	—	—	—	27,703
Accounts of banks	3,264	—	—	—	3,264
Accounts of Government and other clients	2,396	1	—	—	2,397
Profits payable to the State Budget	88	—	—	—	88
Loans received	—	301	—	—	301
Liabilities to IMF	—	—	19,951	—	19,951
Accrued expenses and other liabilities	755	75	44	—	874
Total liabilities	34,206	377	19,995	—	54,578
Net balance sheet position	(10,593)	23,181	(9,898)	2	2,692
Commitments and contingencies					
Guarantees issued	—	796	—	—	796
Net off-balance sheet position (Note 32)	—	796	—	—	796
Net position	(10,593)	22,385	(9,898)	2	1,896

28. Credit Risk

Financial assets of the NBU are classified as follows based on credit ratings of counter-parties defined by international rating agencies Fitch IBCA and Moody's:

(in UAH million)

	Credit rating	2003		2002	
		Amount	% in financial assets	Amount	% in financial assets
Foreign currency funds and deposits	AAA+	22,114	32.0	14,004	25.7
	AAA	3,496	5.1	2,343	4.3
	AA+	2,595	3.8	1,553	2.8
	AA	2,180	3.1	2,125	3.9
	AA-	3,115	4.5	1,756	3.2
	A+	535	0.8	1,504	2.8
	A/A-/B	3	0.0	15	0.0
	No risk	36	0.1	17	0.0
Foreign securities	AAA	2,882	4.2	—	—
	No rating	154	0.2	172	0.3
SDR Holdings	AAA+	113	0.2	151	0.3
Government securities	B+	7,946	11.3	—	—
	B	—	—	9,042	16.6
Loans to banks and other borrowers	B	174	0.3	—	—
	B-	122	0.2	62	0.1
	B2	324	0.5	—	—
	B3	—	—	105	0.2
	NP	227	0.3	—	—
	No rating	1,245	1.8	712	1.3
Internal State debt	B+	10,521	15.2	—	—
	B	—	—	10,522	19.3
IMF quota contributions	AAA+	10,870	15.7	9,946	18.2
Accrued income and other assets	AAA+	39	0.1	44	0.1
	AAA	60	0.1	14	0.0
	AA+	23	0.0	8	0.0
	AA	21	0.0	11	0.0
	AA-	28	0.0	7	0.0
	A+	—	—	5	0.0
	B+/B	197	0.3	394	0.7
	No rating	111	0.2	97	0.2
Total financial assets		69,131	100.0	54,609	100.0

Government securities, internal State debt, the deposit placed with the resident bank and accrued income on these assets are classified in accordance with the long-term rating of Ukraine.

Rating AAA+ is the rating used for identification of highly reliable international financial institutions such as Bank for International Settlements (BIS), regional banks of the Federal Reserve System of USA and International Monetary Fund.

29. Currency Risk

Currency risk is the risk of incurring losses as a result of unfavourable changes in exchange rates of hryvnia to foreign currencies.

As at 31 December 2003, the NBU had the following positions in currencies:

	<i>(in UAH million)</i>					
	UAH	USD	SDR	EUR	Other	Total
Assets						
Foreign currency funds and deposits	—	17,406	—	9,998	6,670	34,074
Foreign securities	—	2,882	154	—	—	3,036
SDR Holdings	—	—	113	—	—	113
Monetary gold	—	—	—	—	1,101	1,101
Government securities	7,833	—	—	113	—	7,946
Loans to banks and other borrowers	1,744	348	—	—	—	2,092
Internal State debt	3,499	7,022	—	—	—	10,521
IMF quota contributions	—	—	10,870	—	—	10,870
Fixed assets and intangible assets	1,386	—	—	—	—	1,386
Accrued income and other assets	223	257	—	91	257	828
Total assets	14,685	27,915	11,137	10,202	8,028	71,967
Liabilities						
Banknotes and coins in circulation	36,048	—	—	—	—	36,048
Accounts of banks	4,122	116	—	100	—	4,338
Accounts of Government and other clients	2,609	2,394	—	75	—	5,078
Profits payable to the State Budget	20	—	—	—	—	20
Loans received	—	384	—	—	—	384
Liabilities to IMF	—	—	20,657	—	—	20,657
Accrued expenses and other liabilities	55	712	89	—	1	857
Total liabilities	42,854	3,606	20,746	175	167	382
Net balance sheet position	(28,169)	24,309	(9,609)	10,027	8,027	4,585
Commitments and contingencies						
Guarantees issued	—	—	—	307	—	307
Net off-balance sheet position (Note 32)	—	—	—	307	—	307
Net position	(28,169)	24,309	(9,609)	9,720	8,027	4,278

Assets and liabilities in other currencies mainly include positions in gold, Swiss francs, British pounds and bank metals.

As at 31 December 2002, the NBU had the following positions in currencies:

(in UAH million)

	UAH	USD	SDR	EUR	Other	Total
Assets						
Foreign currency funds and deposits	—	11,831	—	6,646	4,840	23,317
Foreign securities	—	—	172	—	—	172
SDR Holdings	—	—	151	—	—	151
Monetary gold	—	—	—	—	935	935
Government securities	8,895	26	—	121	—	9,042
Loans to banks and other borrowers	568	311	—	—	—	879
Internal State debt	3,499	7,023	—	—	—	10,522
IMF quota contributions	—	—	9,946	—	—	9,946
Fixed assets and intangible assets	1,370	—	—	—	—	1,370
Accrued income and other assets	219	435	—	62	220	936
Total assets	14,551	19,626	10,269	6,829	5,995	57,270
Liabilities						
Banknotes and coins in circulation	27,703	—	—	—	—	27,703
Accounts of banks	3,082	96	—	86	—	3,264
Accounts of Government and other clients	1,006	1,293	—	98	—	2,397
Profits payable to the State Budget	88	—	—	—	—	88
Loans received	—	301	—	—	—	301
Liabilities to IMF	—	—	19,951	—	—	19,951
Accrued expenses and other liabilities	43	713	118	—	—	874
Total liabilities	31,922	2,403	20,069	184	—	54,578
Net balance sheet position	(17,371)	17,223	(9,800)	6,645	5,995	2,692
Commitments and contingencies						
Guarantees issued	—	—	—	796	—	796
Net off-balance sheet position (Note 32)	—	—	—	796	—	796
Net position	(17,371)	17,223	(9,800)	5,849	5,995	1,896

30. Interest Rate Risk

Interest rate risk is the risk of incurring losses as a result of unfavourable changes in interest rates. The interest rate risk arises, principally as a result of investing in financial instruments at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates, as well as a result of investing in financial instruments or attracting funds at variable interest rates.

As at 31 December 2003 the NBU had the following structure of weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates at the balance sheet date.

(in %)

	UAH	USD	SDR	EUR	Other	Total weighted average interest rate
Assets						
Term deposits with OECD banks	—	0.96	—	2.06	3.16	1.75
Foreign securities	—	1.18	—	—	—	1.18
SDR Holdings	—	—	1.57	—	—	1.57
Government securities	8.40	—	—	10.00	—	8.42
Loans to banks and other borrowers	7.93	3.61	—	—	—	6.92
Deposit placed with a resident bank	—	1.72	—	—	—	1.72
Liabilities						
Term deposits of banks	—	0.16	—	1.13	—	0.46
Loans received	—	2.16	—	—	—	2.16
Liabilities to IMF	—	—	2.15	—	—	2.15

The sign “—” in the table above means that the NBU does not have the respective interest bearing assets or liabilities in corresponding currency.

Interest is accrued at floating rates on the following assets and liabilities: on SDR holdings and liabilities to IMF, interest changes on a weekly basis; on Government securities denominated in national currency, the interest rate is revised on an annual basis in line with changes in inflation rate; on loans to banks and other borrowers granted under EBRD credit line and loans received from EBRD, the interest rate is LIBOR +3% and LIBOR +1% respectively which is revised twice per year.

As at 31 December 2002 the NBU had the following interest rates on assets and liabilities:

(in %)

	UAH	USD	SDR	EUR	Other	Total weighted average interest rate
Assets						
Term deposits with OECD banks	—	1.43	—	3.03	2.61	2.13
SDR Holdings	—	—	1.91	—	—	1.91
Government securities	—	8.5	—	10.00	—	9.73
Loans to banks and other borrowers	8.27	3.66	—	—	—	6.27
Deposit placed with a resident bank	—	1.73	—	—	—	1.73
Liabilities						
Term deposits of banks	—	0.42	—	2.01	—	1.04
Loans received	—	2.54	—	—	—	2.54
Liabilities to IMF	—	—	2.45	—	—	2.45

Interest rate repricing analysis of assets and liabilities

The table below summarises concentration of interest rate repricing risk categorised by the earlier of contractual repricing or maturity dates.

For assets and liabilities with fixed interest rates, classification is determined based on contractual maturity date. For assets and liabilities with variable interest rates, classification was determined taking into account the nearest repricing term.

As at 31 December 2003 interest rate repricing analysis of the NBU's assets and liabilities is presented below:

(in UAH million)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Foreign currency funds and deposits	14,621	11,604	7,217	258	—	374	34,074
Foreign securities	449	96	2,337	—	—	154	3,036
SDR Holdings	113	—	—	—	—	—	113
Monetary gold	—	—	—	—	—	1,101	1,101
Government securities	89	193	7,188	81	—	395	7,946
Loans to banks and other borrowers	163	312	1,035	582	—	—	2,092
Internal State debt	—	—	—	—	—	10,521	10,521
IMF quota contributions	—	—	—	—	—	10,870	10,870
Fixed assets and intangible assets	—	—	—	—	—	1,386	1,386
Accrued income and other assets	—	—	196	36	—	596	828
Total assets	15,435	12,205	17,973	957	—	25,397	71,967
Liabilities							
Banknotes and coins in circulation	—	—	—	—	—	36,048	36,048
Accounts of banks	167	—	—	—	—	4,171	4,338
Accounts of Govern- ment and other clients	42	—	—	—	—	5,036	5,078
Profits payable to the State Budget	—	—	—	—	—	20	20
Loans received	—	52	332	—	—	—	384
Liabilities to IMF	9,787	—	—	—	—	10,870	20,657
Accrued expenses and other liabilities	33	—	—	—	—	824	857
Total liabilities	10,029	52	332	—	—	56,969	67,382
Net gap	5,406	12,153	17,641	957	—	(31,572)	4,585
Cumulative gap	5,406	17,559	35,200	36,157	36,157	4,585	—

As repricing analysis of assets and liabilities is prepared by the NBU for the first time, comparative information is not presented.

31. Liquidity Risk

Liquidity risk is defined as the risk when the entity does not have usable funds for servicing current liabilities. For the purposes of liquidity risk calculation assets and liabilities are analysed by remaining contractual maturity at the balance sheet date.

The liquidity position of the NBU as at 31 December 2003 is set out below.

(in UAH million)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Assets							
Foreign currency funds and deposits	14,621	11,604	7,217	258	—	374	34,074
Foreign securities	449	96	2,337	—	—	154	3,036
SDR Holdings	113	—	—	—	—	—	113
Monetary gold	1,101	—	—	—	—	—	1,101
Government securities	89	193	813	4,331	2,520	—	7,946
Loans to banks and other borrowers	163	305	807	816	—	1	2,092
Internal State debt	—	—	—	4,389	4,247	1,885	10,521
IMF quota contributions	—	—	—	—	—	10,870	10,870
Fixed assets and intangible assets	—	—	—	—	—	1,386	1,386
Accrued income and other assets	282	99	171	20	20	236	828
Total assets	17,192	12,297	11,345	9,814	6,787	14,532	71,967
Liabilities							
Banknotes and coins in circulation	—	—	—	—	—	36,048	36,048
Accounts of banks	4,338	—	—	—	—	—	4,338
Accounts of Government and other clients	5,078	—	—	—	—	—	5,078
Profits payable to the State Budget	—	—	20	—	—	—	20
Loans received	—	18	69	297	—	—	384
Liabilities to IMF	84	288	1,254	7,735	454	10,842	20,657
Accrued expenses and other liabilities	48	41	4	—	710	54	857
Total liabilities	9,548	347	1,347	8,032	1,164	46,944	67,382
Net liquidity gap	7,644	11,950	9,998	1,782	5,623	(32,412)	4,585
Cumulative liquidity gap	7,644	19,594	29,592	31,374	36,997	4,585	—

Internal State debt with no maturity classification includes the amount due from Government totalling UAH 129 million with maturity and terms of repayment not regulated by the legislation (refer Note 8), as well as part of internal State debt in foreign currency which was due to be repaid in 2002 and 2003.

Foreign securities in the trading portfolio have been classified in accordance with their contractual maturity irrespectively of the NBU's intention to sell them within the short term.

The liquidity position of the NBU as at 31 December 2002 is set out below.

(in UAH million)

	Demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Assets							
Foreign currency funds and deposits	4,049	9,308	9,960	—	—	—	23,317
Foreign securities	—	—	—	—	—	172	172
SDR Holdings	151	—	—	—	—	—	151
Monetary gold	935	—	—	—	—	—	935
Government securities	89	177	823	4,371	3,582	—	9,042
Loans to banks and other borrowers	303	28	178	319	49	2	879
Internal State debt	—	—	—	4,389	5,126	1,007	10,522
IMF quota contributions	—	—	—	—	—	9,946	9,946
Fixed assets and intangible assets	—	—	—	—	—	1,370	1,370
Accrued income and other assets	233	57	192	211	16	227	936
Total assets	5,760	9,570	11,153	9,290	8,773	12,724	57,270
Liabilities							
Banknotes and coins in circulation	—	—	—	—	—	27,703	27,703
Accounts of banks	3,264	—	—	—	—	—	3,264
Accounts of Government and other clients	2,397	—	—	—	—	—	2,397
Profits payable to the State budget	—	80	8	—	—	—	88
Loans received	—	18	18	265	—	—	301
Liabilities to IMF	26	181	1,114	6,731	1,979	9,920	19,951
Accrued expense and other liabilities	39	48	3	—	710	74	874
Total liabilities	5,726	327	1,143	6,996	2,689	37,697	54,578
Net liquidity gap	34	9,243	10,010	2,294	6,084	(24,973)	2,692
Cumulative liquidity gap	34	9,277	19,287	21,581	27,665	2,692	—

32. Commitments and Contingencies and Derivative Financial Instruments

(a) Credit related commitments

Credit related commitments include the following:

	2003	(in UAH million) 2002
Guarantees issued	307	796
Total credit related commitments	307	796

Guarantees were issued in 1992 in accordance with a decree of the Parliament of Ukraine after issue of respective guarantees by the Cabinet of Ministers of Ukraine to cover repayment of loans received by Ukrainian borrowers from foreign creditors. Loans outstanding covered by these guarantees were partially repaid and partially restructured.

Restructured loans are repaid by the Ministry of Finance of Ukraine from funds of the State budget of Ukraine in accordance with the Agreement between the Government of Ukraine and Government of the Federal Republic of Germany entered into in December 2001. Part of the debt, which is not subject to restructuring, is repaid by the borrowers themselves.

No provisions have been raised to cover possible losses under these guarantees as the debts covered by these guarantees are covered also by the guarantees of the Cabinet of Ministers of Ukraine.

(b) Capital commitments

As at 31 December 2003 the NBU had capital commitments in respect of fixed asset purchases, construction and improvements totalling UAH 36 million (2002: UAH 36 million).

(c) Derivative financial instruments

During 2003 the NBU did not perform operations with derivative financial instruments including forward and option contracts for purchase and sale of foreign currency.

(d) Legal proceedings

From time to time and in the normal course of business, claims against the NBU are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred by the NBU and accordingly no provision has been made in these financial statements.

33. Fair Value of Financial Instruments

Fair value of financial instruments is the amount at which an asset can be exchanged or liability settled in a transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the NBU using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As disclosed in Note 3, the economy of Ukraine displays characteristics of an emerging market, and the level of activity in financial markets of Ukraine is low. As such, the estimates may not be fully reflective of the value that could be realised by the NBU in the current circumstances.

Financial instruments carried at fair value. The NBU has estimated that the fair value of certain financial instruments is not materially different from their carrying values. These financial instruments include funds and deposits in foreign currency, foreign securities, SDR holdings, banknotes and coins in circulation, accounts of banks, accounts of Government and other clients, loans received and liabilities to IMF.

Fair value of Government securities denominated in foreign currency has been estimated using quoted market prices for Ukrainian external debt in the same currency, with similar maturity and yield characteristics.

Fair values of those financial instruments for which no active market exists have been calculated by the NBU using discounted cash flow techniques. This model takes into account future interest payments and principal repayments, the repayment period and the estimated discount factor. As the determination of the discount factor is subjective, the NBU has used a range of discount factors which resulted in a range of fair values calculated for the same category of assets. The discounted cash flows method was used by the NBU to estimate fair values of Government securities denominated in national currency, internal State debt and loans to banks and other borrowers. The following methods and assumptions were used for the purposes of discounted cash flow calculations:

Fair value of Government securities denominated in the national currency. To estimate the upper fair value the NBU used as a discount factor 9.83% per annum, i.e. the interest rate

obtained at the medium-term loan auction conducted by the NBU on 19 December 2003 with maturity up to 365 days (in 2002 the NBU used discount factor of 7%, i.e. the NBU's discount rate as at 31 December 2002).

To estimate the lower value the NBU used as a discount factor 11.8% per annum, i.e. average yield on medium-term domestic Government bonds maturing up to 2005 sold by the Ministry of Finance of Ukraine on 18 December 2003 at the primary auction (in 2002 the NBU used as a discount factor 9% per annum which was the weighted average yield on long-term domestic Government bonds maturing in 2008 sold by the Ministry of Finance of Ukraine in 2002 at primary auctions).

At the end of 2003 cash flows for the purposes of calculating fair value of Government securities in the national currency include the amount of interest for servicing domestic Government bonds. In accordance with Article 7 of the Law of Ukraine "On the State Budget of Ukraine for 2004" the NBU is required to transfer to the State budget on a monthly basis the full amount of interest received on POVDP. Therefore the cash flow from servicing these securities in 2004 was included in the period of distribution of the NBU's actual profit for 2004, i.e. at the end of April 2005.

The fair value of internal State debt in respect of loans to Government in foreign currency (USD). As these loans to Government were provided from funds of the IMF, to estimate the upper fair value the NBU used as the discount factor the rate of 2.15% per annum, i.e. the interest rate on use of the IMF resources as at 31 December 2003 (in 2002 the NBU used the discount factor of 4.56% being the average annual interest rate on use of IMF resources in the period 1995–1996).

To estimate the lower value, the NBU used discount factor of 7.648% (31 December 2002: 9.1045%) being the interest rate on external Government bonds in USD sold by the Ministry of Finance of Ukraine during 2003.

The fair value of internal State debt in respect of loans to Government granted in the national currency in 1991–1993 was not calculated due to the uncertainty about repayment terms and interest for its servicing.

The fair value of internal State debt in respect of national currency denominated loans to Government granted in 1994–1996. To estimate the upper fair value, the NBU used the discount factor of 9.83% being the yield obtained on the medium-term loan auction conducted by the NBU on 19 December 2003 with maturity up to 365 days (in 2002 the NBU used discount factor of 5.18% per annum being the annual interest rate on domestic Government bonds set by the Ministry of Finance of Ukraine).

To estimate the lower fair value, the NBU used the discount factor of 11.8% per annum being the yield on medium-term domestic Government bonds maturing up to 2005 sold by the Ministry of Finance of Ukraine on 18 December 2003 at the primary auction (in 2002 the NBU used as a discount factor of 9% per annum which was the weighted average yield on long-term domestic Government bonds maturing in 2008 sold by the Ministry of Finance of Ukraine in 2002 at primary auctions).

Fair value of loans to banks and other borrowers. To estimate the upper fair value, the NBU used the discount factor of 11.8% per annum being the yield on medium-term domestic Government bonds maturing up to 2005 sold by the Ministry of Finance of Ukraine on 18 December 2003 at the primary auction.

To estimate the lower fair value, the NBU used the discount factor of 12.13% being the average actual interest rate on long-term deposits in the banking system of businesses and individuals in UAH as at 31 December 2003.

The following table summarises the carrying amounts and estimated fair values of those financial assets not presented on the NBU's balance sheet at their fair value.

	Carrying value	2003		Carrying value	(in UAH million) 2002	
		Estimated fair value			Estimated fair value	
		Upper value	Lower value		Upper value	Lower value
Government securities in foreign currency, including accrued interest income: EUR denominated OZDP issued in 2000	113	113	113	121	120	120
USD denominated OZDP issued in 1995	—	—	—	27	27	26
Total Government securities denomi- nated in foreign currency	113	113	113	148	147	146
Government securities in national currency, including accrued interest income: POVDP issued in 2000	7,450	7,190	6,825	8,500	6,529	6,101
Promissory notes of the State Treasury of Ukraine	395	216	193	395	239	208
Total Government securities in national currency	7,845	7,406	7,018	8,895	6,768	6,309
Total Government securities	7,958	7,519	7,131	9,043	6,915	6,455
Internal State debt on loans in foreign currency, including unpaid interest income	7,022	6,504	5,406	7,023	5,986	5,180
Internal State debt in national currency arising in 1991–1993	129		Not calculated	129		Not calculated
Internal State debt in national currency arising in 1994–1996	3,370	1,333	1,058	3,370	2,358	1,366
Total internal State debt	10,521	7,837	6,464	10,522	8,344	6,546
Loans to banks and other borrowers, including accrued interest income	2,097	2,033	2,030	883	868	847

As stated above the calculations of the estimated fair value are based on certain assumptions and therefore may not be fully reflective of the value that could be realised.

34. Related Party Transactions

According to IFRS and National Accounting Regulations (Standards), there is no requirement to disclose related party transactions with other enterprises controlled by the State in financial statements of State-controlled organisations. As the NBU is controlled by the State, these financial statements do not include disclosure of transactions with those related parties which are also controlled by the State. Transactions with related parties, other than the amounts outstanding from the Government of Ukraine disclosed in Note 3 and transactions with other State-controlled organisations, are not material to these financial statements.

35. Concentration of Assets and Liabilities

As at 31 December 2003 30% (2002 41%) of the total NBU assets, excluding IMF Quota, was represented by amounts due from Government in respect of internal State debt and Government securities and 36% (2002: 30%) were represented by funds and deposits placed with Bank for International Settlements. 64% (2002: 62%) of the total NBU's liabilities (excluding promissory notes issued to the IMF in settlement of Quota) is represented by banknotes and coins in circulation, 17% (2002: 22%) is represented by liabilities to the IMF and 9% (2002: 5%) is represented by funds of the State Treasury of Ukraine.

36. Subsequent Events

In March 2004 the Executive Board of the IMF approved a stand-by arrangement for Ukraine in the amount of SDR 412 million (UAH 3,261 millions at the year-end exchange rate) for 12 months to March 2005. Government of Ukraine does not intend to use funds under this arrangement without urgent need and will treat this arrangement as precautionary.

26 April 2004

Kyiv, Ukraine



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AUDITOR'S REPORT

To the Members of the Council and the Board of the National Bank of Ukraine:

1. We have audited the accompanying balance sheet of the National Bank of Ukraine (the "NBU") as at 31 December 2003 and the related statements of income, of cash flows and of changes in capital employed for the year then ended. These financial statements, set out on pages 1 to 50, are the responsibility of the NBU's Management and have been prepared in accordance with accounting policies adopted by the Board of the NBU and set out in Note 2 to the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying financial statements have been properly prepared in all material respects to present the financial position of the NBU as at 31 December 2003 and the results of its operations for the year then ended, in accordance with the accounting policies adopted by the Board of the NBU and set out in Note 2 to the financial statements.
4. Without qualifying our opinion we draw attention to Notes 3 and 33. A significant portion of the NBU's assets is represented by the amounts receivable from the Government of Ukraine. Despite positive trends in the development of the Ukrainian economy, budgetary constraints impact the ability of the Government to repay amounts due to the NBU. In accordance with the Law of Ukraine "On Restructuring the Debt of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine" of 20 April 2000, repayment of internal State debt in foreign currency was scheduled to commence in 2002. However, the Laws of Ukraine on the State Budget of Ukraine for 2002– 2004 did not allocate funds necessary to repay the internal State debt. Accordingly no repayment was made in 2002 and 2003. In 2000 the NBU created provisions against internal



State debt in accordance with the requirements of the relevant legislation and the NBU accounting policy. Note 33 discloses the current estimated fair value of the internal State debt, based on the planned repayment schedule, which is significantly lower than its carrying value.

Kyiv, Ukraine
26 April 2004

A handwritten signature in blue ink, appearing to be 'Pricewaterhousecoopers'.

Auditor

A circular blue ink stamp of the State Audit of Ukraine. The text inside the stamp includes 'Державна аудиторська служба України' and 'Л. Пахуча'. A handwritten signature in blue ink is written over the stamp.

L. Pakhucha

Audit certificate Б Ne000222

Part 4.
TABLES

**MAIN INDICATORS OF THE ECONOMIC AND
SOCIAL SITUATION IN UKRAINE**

Indicators	1991	1992	1993	1994	1995	1996
Gross domestic product	0.3	5	148	1204	5452	81519
Growth rates versus previous year in comparable prices, %	91.3	90.1	85.8	77.1	87.8	90.0
Industrial output	0.33	6	177	1310	5882	73321
Growth rates versus previous year in comparable prices, %	95.2	93.6	92.0	72.7	88.0	94.9
Agricultural output	0.1	1.4	55	359	1697	26746
Growth rates versus previous year in comparable prices, %	86.8	91.7	101.5	83.5	96.4	90.5
Consumer goods production ¹	0.2	2	76	445	1938	22939
Growth rates versus previous year in comparable prices, %	94.9	90.6	84.1	75.0	82.2	82.2
Capital investment	0.05	0.9	29	228	938	12557
Growth rates versus previous year in comparable prices, %	92.9	63.1	89.7	77.5	71.5	78.0
Retail turnover	0.1	1.5	44	337	1196	17344
Growth rates versus previous year in comparable prices, %	90.3	82.0	65.0	86.4	86.1	94.9
Paid services rendered to individuals	0.02	0.1	4	56	370	7635
Growth rates versus previous year in comparable prices, %	73.4	78.0	77.1	96.7	67.7	85.8
Income	0.1	3	93	515	1881	14418
Growth rates versus previous year in comparable prices, %	2.1 t.	23.2 t.	36.5 t.	5.5 t.	4 t.	76.7
Share of unprofitable enterprises, %	...	9.5	8.3	11.4	22.2	43.0

(at actual prices; from 1991 to 1995, in billions of Ukrainian karbovanets;
from 1996, in millions of hryvnias)

1997	1998	1999	2000	2001	2002	2003	Indicators
93365	102593	130442	170070	204190	225810	263228	Gross domestic product
97.0	98.1	99.8	105.9	109.2	105.2	109,3	Growth rates versus previous year in comparable prices, %
75061	82889	107537	144483	184276	202687	220605	Industrial output
99.7	99.0	104.0	113.2	114.2	107.0	115,8	Growth rates versus previous year in comparable prices, %
30032	32800	37240	52550	65253	63600	63600	Agricultural output
98.2	90.2	93.1	109.8	110.2	101.2	89,8	Growth rates versus previous year in comparable prices, %
22669	17538	20996	29762	33524	37933	48336	Consumer goods production ¹ ,
88.1	100.0	107.2	124.5	117.7	108.4	120,4	Growth rates versus previous year in comparable prices, %
12401	13958	17552	23629	32573	37178	51011	Capital investment
91.2	106.1	100.4	114.4	120.8	108.9	131.3	Growth rates versus previous year in comparable prices, %
18933	19317	22151	28757	34417	39691	48914	Retail turnover
100.2	93.4	92.9	108.1	113.7	115.0	119,4	Growth rates versus previous year in comparable prices, %
9279	9845	11625	26487 ²	37822	43801	...	Paid services rendered to individuals
94.9	96.2	93.8	107.7	115.2	110.3	...	Growth rates versus previous year in comparable prices, %
13868	3419	7427	13933 ³	18741	14641	20312 ⁴	Income
96.2	24.7	2.2 t.	187.6	134.5	78.1	138.7	Growth rates versus previous year in comparable prices, %
45.0	54.5	55.7	37.7	38.2	38.8	41.0	Share of unprofitable enterprises, %

¹ In 1991–1997, at release prices; since 1998, at actual prices.

² Since 2000, rendered services.

³ Since 2000, financial result from usual activity before taxation.

⁴ On-line data.

Indicators	1991	1992	1993	1994	1995	1996
Consumer price index, % December versus December of previous year	3.9 t.	21.0 t.	102.6 t.	5.0 t.	2.8 t.	139.7
Industrial producers' price index, % December versus December of previous year	2.6 t.	42.3 t.	97.7 t.	8.7 t.	2.7 t.	117.3
Average monthly nominal salary/wage of employees, Ukr KRB thou	0.5	6.5	162.8	1427.7	7342.0	125.84 ¹
Growth rates versus previous year, % December versus December of previous year	...	13.6 t.	25.0 t.	8.8 t.	5.2 t.	171.4
	...	...	...	4.2 t.	3.7 t.	121.8
Index of real average monthly salary/wage of employees, % December versus December of previous year	...	61.3	48.5	85.4	128.1	86.2
Money income of individuals Growth rates versus previous year at actual prices, %	0.2	2	63	539	2650	40311
	1.9 t.	11.6 t.	26.5 t.	8.6 t.	4.9 t.	152.1
Money expenditures and savings of individuals Growth rates versus previous year at actual prices, %	0.19	2	51	475	2478	38961
	1.8t .	9.9 t.	27.0 t.	9.3 t.	5.2 t.	157.2
Unemployment rate (end of period), %	...	0.03	0.25	0.3	0.29	1.27
Number of unemployed individuals registered by the State Service of Employment, thou persons	...	618.4	557.5	569.2	640.1	982.6
Number of citizens registered as unemployed, thou persons	...	128.0	180.9	216.0	257.7	558.5

Continued

1997	1998	1999	2000	2001	2002	2003	Indicators
110.1	120.0	119.2	125.8	106.1	99.4	108.2	Consumer price index, % December versus December of previous year
105.0	135.3	115.7	120.8	100.9	105.7	111.1	Industrial producers' price index, % December versus December of previous year
143.13	153.49	177.52	230.13	311.08	376.38	462.27	Average monthly nominal salary/wage of employees, UAH
113.7	107.2	115.7	129.6	135.2	121.0	122.8	Growth rates versus previous year, %
108.9	105.6	124.3	135.4	127.7	117.0	124.4	December versus December of previous year
97.6	87.1	103.4	103.6	120.4	115.6	113.8	Index of real average monthly salary/wage of employees, % December versus December of previous year
50069	54379	61865	86911	109391	185073 ²	211922	Money income of individuals
124.2	108.6	113.8	140.5	125.9	117.1	113.7	Growth rates versus previous year at actual prices, %
47933	53376	59518	83777	102835	185073 ³	211922	Money expenditures and savings of individuals
123.0	111.4	111.5	140.8	122.7	117.1	113.7	Growth rates versus previous year at actual prices, %
2.33	3.69	4.30	4.22	3.68	3.8	3.6	Unemployment rate (end of period), %
11455.2	2036.7	2475.9	2744.1	2760.2	2799.2	2835.2	Number of unemployed individuals registered by the State Service of Employment, thou persons
1027.8	1588.8	2056.3	2272.1	2229.4	2236.9	2258.7	Number of citizens registered as unemployed, thou persons

¹ Since 1996, in hryvnias.

² Since 2002, income of individuals.

³ Since 2002, expenditures of individuals.

Indicators	1991	1992	1993	1994	1995	1996
Minimum salary/wage of individuals, end of period, Ukr. KRB	...	967	13642	60000	60000	15.0 ¹
Average monthly cost of living per person, Ukr. KRB thou ²	—	—	359	2258.7	6809.5	95.03 ¹
Exports of goods and services, USD mln	...	8045	7817	16641	17090	20346
Growth rates versus previous year, %	97.2	2.1 t.	102.6	119.1
Imports of goods and services, USD mln	...	7099	9533	18007	18280	21468
Growth rates versus previous year, %	134.3	1.9 t.	101.5	117.4
Service ratio of long-term external debt, % ⁵	—	—	—	11.2	8.0	6.6
International reserves, in months covering future period of imports	—	—	—	1.9	3.2	4.9
in % of GDP						
Consolidated Budget revenues	...	24.4	33.5	43.5	38.0	37.1
Consolidated Budget expenditures	...	38.1	38.6	52.4	44.6	41.9
Consolidated Budget deficit	—	13.8	5.1	8.9	6.6	4.9
Current Balance of Payments	—	—	—	-2.4	-3.2	-2.7

Concluded

1997	1998	1999	2000	2001	2002	2003	Indicators
15.0	55.0	74.0	118.0	118.0	165	205.0	Minimum salary/wage of individuals end of period, UAH
76.10	84.99	128.17	156.42	315.15	317.73	334.35	Average monthly cost of living per person, UAH ²
20355	17621	16332 ¹	19248 ²	21086	23351	28947 ³	Exports of goods and services, USD mln
100.0	86.6	92.7	117.9	109.5	110.7	124.0	Growth rates versus previous year, %
21891	18828	15237	18116	20473	21494		Imports of goods and services, USD mln
102.0	86.0	80.9	117.8	114.1	105.0	128.3	Growth rates versus previous year, %
7.5	12.5	15.4	14.5	14.5	12.0	11.8	Service ratio of long-term external debt, % ⁵
1.5	0.6	0.7	0.9	1.7	2.0	2.6	International reserves, in months covering future period of imports
							in % of GDP
30.1	28.2	25.2	28.9	26.9	27.4	28.6	Consolidated Budget revenues
36.8	30.4	26.7	28.3	27.2	26.7	28.7	Consolidated Budget expenditures
6.6	2.2	1.5	0.6 ⁶	0.3	0.7 ⁶	0.2	Consolidated Budget deficit
-2.7	-3.0	3.0	3.9	3.7	7.5	5.9	Current Balance of Payments

¹ Since 1996, in hryvnias.

² From 1993 to 2000, insufficient subsistence level for unable-bodied individuals; from 1997 to 2000, including housing subsidies.

³ Excluding reciprocal payments with Russia according to the Black Sea Fleet Agreement.

⁴ Excluding the value of the goods handed over to Russia for repayment of debts to the Open Joint-Stock Company "Gazprom".

⁵ External debt service costs (according to schedule) pertaining to exports of goods and services.

⁶ Surplus.

According to the data of the State Statistics Committee of Ukraine, excluding data on exports and imports of goods and services, current balance of payments, external debt service ratio, gross international reserves calculated by the NBU since 1994 and data on unemployment, number of unemployed persons and social security calculated by the State Centre of Employment of the Ministry of Labour and Social Policy of Ukraine.

DYNAMICS OF BALANCE OF PAYMENTS OF UKRAINE

(USD mln)

Balance of payments items	1997	1998	1999	2000	2001	2002	2003
CURRENT ACCOUNT	-1335	-1296	1658	1481	1402	3173	2891
GOODS AND SERVICES (balance)	-1536	-1207	1821	1575	613	1857	1288
EXPORTS OF GOODS AND SERVICES	20355	17621	17058	19522	21086	23351	28953
IMPORTS OF GOODS AND SERVICES	-21891	-18828	-15237	-17947	-20473	-21494	-27665
GOODS (balance)	-4205	-2584	244	779	198	710	-269
EXPORTS OF GOODS*	15418	13699	13189	15722	17091	18669	23739
IMPORTS OF GOODS	-19623	-16283	-12945	-14943	-16893	-17959	-24008
SERVICES (balance)	2669	1377	1577	796	415	1147	1557
EXPORTS OF SERVICES	4937	3922	3869	3800	3995	4682	5214
IMPORTS OF SERVICES	-2268	-2545	-2292	-3004	-3580	-3535	-3657
INCOME (balance)	-644	-871	-869	-942	-667	-606	-581
Drawings	158	122	98	143	167	163	254
Repayments	-802	-993	-967	-1085	-834	-769	-835
CURRENT TRANSFERS (balance)	845	782	706	848	1456	1922	2184
Drawings	942	868	754	967	1516	1967	2270
Repayments	-97	-86	-48	-119	-60	-45	-86
CAPITAL AND FINANCIAL ACCOUNT	2120	2106	-704	-1331	-1171	-2288	-1938
CAPITAL ACCOUNT	0	-3	-10	-8	3	15	-17
FINANCIAL ACCOUNT	2120	2109	-694	-1323	-1174	-2303	-1921
DIRECT INVESTMENT	581	747	489	594	769	698	1411
PORTFOLIO INVESTMENT	1603	47	-86	-201	-866	-1716	-922
OTHER INVESTMENT	319	-9	-814	-1318	529	-240	-365
Medium-term and long-term credits	1025	130	5	-1690	169	266	560
received	1950	1791	1805	1339	2416	2165	2637
including restructuring of credits***	—	—	—	—	244	333	282
repaid (schedule)**	-925	-1661	-1800	-3029	-2247	-1899	-2077
Short-term capital	-706	-139	-819	372	360	-506	-925
<u>Assets</u>	-1583	-1321	-2264	-449	-1015	-781	-940
<u>Liabilities</u>	877	1182	1445	821	1375	275	15
RESERVE ASSETS	-383	1324	-283	-398	-1606	-1045	-2045
Net Errors and Omissions	-785	-810	-954	-150	-231	-885	-953
BALANCE	0	0	0	0	0	0	0

* Including the value of the goods handed over to Russia for repayment of debt obligations:

- in 1999, to the amount of USD 726 million according to the Black Sea Agreement;
- in 2000, to the amount of USD 274 million for repayment of debts of the National Joint-Stock Company "Naftogas" to the Open Joint-Stock Company "Gasprom".

** In 2000, including mutual offset of payments with the Russian Federation for repayment of the public external debt of Ukraine according to the agreement between the governments of Ukraine and the Russian Federation as of 28 May 1997.

*** Restructuring of Ukraine's external debt.

AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 1991–1997

(end of period, UAH mln)

Indicators	1991*	1992	1993	1994	1995	1996	1997
Available money supply in circulation							
Cash	0.3	5	128	793	2623	4041	6132
Money outside banks (M0)	0.3	5	128	793	2623	4041	6132
Money on settlement and current accounts in national currency	1.4	16	206	1067	2059	2275	2918
Money supply (M1)	1.7	21	334	1860	4682	6315	9050
Time funds in national currency and foreign exchange funds	0.7	4	148	1356	2164	2708	3398
Money supply (M2)	2.4	25	482	3216	6846	9023	12448
Customers' funds held in trust	—	—	—	—	84	341	93
Money supply (M3)	—	—	—	—	6930	9364	12541
Money supply distribution							
Funds held by enterprises and organizations	0.8	15	223	1173	2117	2257	2946
including:							
<i>time deposits</i>	0.1	2	40	207	327	322	522
<i>demand deposits</i>	0.7	13	183	966	1789	1868	2309
<i>others</i>	—	—	—	—	—	67	115
Funds held by households	1.5	8	159	1021	3153	5049	7830
of which savings	1.2	3	31	228	529	1008	1698
including:							
<i>time deposits</i>	0.5	1	8	127	260	601	1088
<i>demand deposits</i>	0.7	2	23	101	269	407	609
Savings in foreign currency	—	2	99	1021	1577	1718	1672
Customers' funds held in trust	—	—	—	—	84	341	93
including:							
<i>of legal entities</i>	—	—	—	—	83	337	85
<i>of natural persons</i>	—	—	—	—	1	4	8
Note							
Monetary base	0.4	6	269	1523	3538	4882	7058

* IMF calculations.

Concluded
(versus previous year)

Indicators	1992	1993 times	1994	1995	1996 percent	1997
Available money supply in circulation						
Cash	16	26	6	331	154	152
Money outside banks (M0)	16	26	6	331	154	152
Money on settlement and current accounts in national currency	11	13	5	193	110	128
Money supply (M1)	12	16	6	252	135	143
Time funds in national currency and foreign exchange funds	7	33	9	160	125	125
Money supply (M2)	11	19	7	213	132	138
Customers' funds held in trust	—	—	—	—	406	27
Money supply (M3)	—	—	—	—	135	134
Money supply distribution						
Funds held by enterprises and organizations	19	14	5	180	107	131
including:						
<i>time deposits</i>	17	17	5	158	98	162
<i>demand deposits</i>	19	14	5	185	104	124
<i>others</i>	—	—	—	—	—	171
Funds held by households	5	21	6	309	160	155
of which savings	2	12	7	232	191	168
including:						
<i>time deposits</i>	1.2	13	16	204	231	181
<i>demand deposits</i>	3	12	4	267	151	150
Savings in foreign currency	—	46	10	154	109	97
Customers' funds held in trust	—	—	—	—	406	27
including:						
<i>of legal entities</i>	—	—	—	—	406	25
<i>of natural persons</i>	—	—	—	—	667	207
Note						
Monetary base	14	45	6	232	138	145

AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 1998–2003

(end of period, UAH mln)

Indicators	1998	1999	2000	2001	2002	2003
Available money supply in circulation						
Cash	7158	9583	12799	19465	26434	33119
Money outside banks (M0)	7158	9583	12799	19465	26434	33119
Funds on current accounts in national currency	3174	4511	7936	10331	13845	20010
Money supply (M1)	10331	14094	20762	29796	40281	53129
Time funds in national currency and foreign exchange funds	5100	7620	10782	15390	24040	41333
Money supply (M2)	15432	21714	31544	45186	64321	94463
Customers' funds held in trust and securities of banks' own liabilities	274	355	709	569	548	580
Money supply (M3)	15705	22070	32252	45755	64870	95043
Money supply distribution						
Funds of economic entities	5213	7869	12020	14456	18623	29141
including:						
<i>time funds:</i>	1039	1534	2700	4051	5501	10777
in national currency	600	850	1315	2540	3681	8088
in foreign currency	439	685	1385	1511	1820	2689
<i>demand funds:</i>	4146	6314	9314	10400	13120	18224
in national currency	2593	3767	6753	822	10356	14757
in foreign currency	1553	2546	2561	2108	2764	3467
<i>funds held in trust:</i>	28	21	6	5	3	140
in national currency	23	19	6	5	3	140
in foreign currency	5	3	0	0	0	–
Funds of natural persons	10276	13903	19590	30822	45471	65462
of which savings	3119	4319	6791	11357	190337	32343
including:						
<i>time funds:</i>	2255	3032	4661	8175	14301	25121
in national currency	1243	1423	2222	4458	8076	13598
in foreign currency	1012	1608	2439	3717	6226	11523
<i>demand funds:</i>	834	1251	2070	3094	4966	7222
in national currency	581	744	1210	2039	3492	5253
in foreign currency	253	507	860	1055	1475	1969
<i>funds held in trust:</i>	30	37	60	88	70	–
in national currency	30	36	60	88	70	–
in foreign currency	–	0	0	0	0	–
Securities of banks' own liabilities	216	298	642	477	475	440
including:						
in national currency	138	110	386	295	282	302
in foreign currency	78	188	257	181	194	138
Note						
Monetary base	8625	11988	16780	23055	30808	40089
Multiplier	1.82	1.84	1.91	1.98	2.11	2.37
Velocity of turnover	7.26	6.91	6.28	5.20	3.99	3.20*

* According to preliminary data.

Note. From 2000, data include accrued interest.

Continued

(in percent versus previous year)

Indicators	1998	1999	2000	2001	2002	2003
Available money supply in circulation						
Cash	117	134	134	152	136	125
Money outside banks (M0)	117	134	134	152	136	125
Funds on current accounts in national currency	109	142	176	130	134	145
Money supply (M1)	114	136	147	144	135	132
Time funds in national currency and foreign exchange funds	150	149	140	143	156	172
Money supply (M2)	124	141	145	143	142	147
Customers' funds held in trust and securities of banks' own liabilities	294	130	196	80	97	106
Money supply (M3)	125	141	145	142	142	147
Money supply distribution						
Funds of economic entities	133	151	153	120	129	156
including:						
<i>time funds:</i>	109	148	175	150	136	196
in national currency	191	142	153	194	145	220
in foreign currency	140	156	202	109	120	148
<i>demand funds:</i>	139	152	147	112	126	139
in national currency	112	145	179	123	125	142
in foreign currency	231	164	101	82	131	125
<i>funds held in trust:</i>	33	75	28	80	66	4357
in national currency	27	83	32	81	66	4396
in foreign currency	—	60	3	0	—	—
Funds of natural persons	121	135	140	158	148	143
of which savings	131	138	154	168	170	167
including:						
<i>time funds:</i>	140	134	150	176	175	176
in national currency	114	114	151	204	181	168
in foreign currency	195	159	150	152	167	185
<i>demand funds:</i>	108	150	163	150	160	145
in national currency	95	128	159	170	171	150
in foreign currency	153	200	169	123	140	134
<i>funds held in trust:</i>	356	123	165	145	80	0
in national currency	375	120	165	145	80	0
in foreign currency	—	355	119	—	—	—
Securities of banks' own liabilities	—	138	212	74	100	93
including:						
in national currency	—	80	348	76	96	107
in foreign currency	—	241	132	70	108	71
Note						
Monetary base	122	139	140	137	134	130
Multiplier	102	101	104	104	123	112
Velocity of turnover	85	95	91	83	77	83

Concluded

(weight in the total money supply, percent)

Indicators	1998	1999	2000	2001	2002	2003
Available money supply in circulation						
Cash	46	43	40	43	41	35
Money outside banks (M0)	46	43	40	43	41	35
Funds on current accounts in national currency	20	20	25	23	21	21
Money supply (M1)	66	64	65	65	62	56
Time funds in national currency and foreign exchange funds	32	35	33	33	37	43
Money supply (M2)	98	98	98	99	99	99
Customers' funds held in trust and securities of banks' own liabilities	2	2	2	1	1	1
Money supply (M3)	100	100	100	100	100	100
Money supply distribution						
Funds of economic entities	33	36	37	32	29	31
including:						
<i>time funds:</i>	7	7	8	9	8	11
in national currency	4	4	4	6	6	9
in foreign currency	3	3	4	3	3	3
<i>demand funds:</i>	26	29	29	23	20	19
in national currency	17	17	21	18	16	16
in foreign currency	10	12	8	5	4	4
<i>funds held in trust:</i>	0	0	0	0	0	0
in national currency	0	0	0	0	0	0
in foreign currency	0	0	0	—	0	—
Funds of natural persons	65	63	61	67	70	69
of which savings	20	20	21	25	30	34
including:						
<i>time funds:</i>	14	14	14	18	22	26
in national currency	8	6	7	10	12	14
in foreign currency	6	7	8	8	10	12
<i>demand funds:</i>	5	6	6	7	8	8
in national currency	4	3	4	4	5	6
in foreign currency	2	2	3	2	2	2
<i>funds held in trust:</i>	0	0	0	0	0	—
in national currency	0	0	0	0	0	—
in foreign currency	—	0	0	—	0	—
Securities of banks' own liabilities	1	1	2	1	1	0
including:						
in national currency	1	0	1	1	0	0
in foreign currency	0	1	1	0	0	0

AVAILABLE MONEY SUPPLY IN CIRCULATION IN UKRAINE AND ITS DISTRIBUTION IN 2003

(end of period, UAH mln)

Indicators	I quarter	I half	9 months	year	Growth rates versus year start, %			
					I quarter	I half	9 months	year
Available money supply in circulation								
Cash	26002	29375	30862	33119	134	151	159	170
Money outside banks (M0)	26002	29375	30862	33119	134	151	159	170
Funds on current accounts in national currency	15652	17440	19431	20010	152	169	188	194
Money supply (M1)	41655	46815	50293	53129	140	157	169	178
Time funds in national currency and foreign exchange funds	27897	31662	35556	41333	181	206	231	269
Money supply (M2)	69552	78477	85849	94463	154	174	190	209
Customers' funds held in trust and securities of banks' own liabilities	563	557	646	580	99	98	113	102
Money supply (M3)	70114	79034	86495	95043	153	173	189	208
Money supply distribution								
Funds of economic entities	21986	24512	27489	29141	152	170	190	202
including:								
<i>time funds:</i>	6297	7297	8349	10777	155	180	206	266
in national currency	4076	5233	6028	8088	160	206	237	318
in foreign currency	2221	2064	2320	2689	147	137	154	178
<i>demand funds:</i>	15626	17157	19050	18224	150	165	183	175
in national currency	12015	13111	14977	14757	145	158	181	178
in foreign currency	3611	4047	4072	3467	171	192	193	164
<i>funds held in trust:</i>	63	58	90	140	1292	1192	1863	2894
in national currency	63	58	90	140	1293	1193	1865	2897
in foreign currency	—	—	—	—	—	—	—	—
Funds of natural persons	47629	54023	58451	65462	155	175	190	212
of which savings	21626	24648	27589	32343	190	217	243	285
including:								
<i>time funds:</i>	16337	18505	21262	25121	200	226	260	307
in national currency	9132	10487	11830	13598	205	235	265	305
in foreign currency	7205	8018	9432	11523	194	216	254	310
<i>demand funds:</i>	5289	6143	6327	7222	171	199	204	233
in national currency	3637	4329	4453	5253	178	212	218	258
in foreign currency	1652	1814	1874	1969	156	172	178	187
<i>funds held in trust:</i>	0	0	—	—	0	0	—	—
in national currency	0	0	—	—	0	0	—	—
in foreign currency	0	0	—	—	—	—	—	—
Securities of banks' own liabilities	500	499	556	440	105	105	116	92
including:								
in national currency	279	356	425	302	94	121	144	102
in foreign currency	221	143	131	138	122	79	72	76
Note								
Monetary base	31191	35178	38021	40089	135	153	165	174

Note. Data include accrued interest.

NBU INTEREST RATES ON REFINANCING FOR BANKS

(average weighted annual rates,%)

Period	NBU discount rate	Total	Actual rate on instruments including						
			credit auctions	through tender	lombard loans	overnight credits	REPO operations	long-term crediting	other instruments
1992	80.0*	...	—	—	—	—	—	—	...
1993	190.0	68.5	—	—	—	—	—	—	68.5
1994	225.9	124.9	264.0	—	—	—	—	—	115.2
1995	131.0	82.1	83.0	—	110.0	—	—	—	60.4
1996	62.3	51.8	52.6	—	64.4	—	—	—	41.0
1997	24.6	25.2	21.7	—	31.4	—	21.8	—	19.7
1998	61.6	52.7	—	—	54.4	—	54.1	—	47.8
1999	50.0	44.0	—	—	61.1	—	59.7	—	33.0
2000	30.6	29.6	—	—	30.9	—	28.0	—	—
2001	19.7	20.2	—	16.5	—	20.4	22.0	—	21.0
2002	9.5	9.2	—	9.2	—	10.7	11.7	8.0	—
December	7.1	8.0	—	8.0	—	8.0	—	8.0	—
<i>from</i>									
<i>5 December</i>	7.0	—	—	—	—	—	—	—	—
2003	7.0	8.0	—	8.3	—	8.0	8.0	7.0	—
January	7.0	8.0	—	8.0	—	8.0	—	—	—
February	7.0	8.0	—	8.0	—	8.0	—	—	—
March	7.0	8.0	—	7.7	—	8.0	8.0	—	—
April	7.0	8.0	—	8.0	—	8.0	8.0	—	—
May	7.0	7.7	—	8.0	—	8.0	8.0	7.0	—
June	7.0	8.0	—	8.0	—	8.0	8.0	7.0	—
July	7.0	7.6	—	8.0	—	8.0	—	7.0	—
August	7.0	8.0	—	8.0	—	8.0	—	7.0	—
September	7.0	7.9	—	8.0	—	8.0	—	7.0	—
October	7.0	8.1	—	8.5	—	8.0	—	—	—
November	7.0	8.0	—	8.4	—	8.0	—	7.0	—
December	7.0	8.1	—	9.1	—	8.0	—	7.0	—

* As of the end of the year.

NBU INTEREST RATES ON REFINANCING FOR BANKS
(by dates)

	Date	NBU discount rate, percent
as of the end of 1992		80
1993	from 1 March	100
	from 1 May	240
1994	from 1 July	190
	from 1 August	175
	from 15 August	140
	from 25 October	300
	from 12 December	252
1995	from 10 March	204
	from 29 March	170
	from 7 April	150
	from 1 May	96
	from 7 June	75
	from 15 July	60
	from 21 August	70
	from 10 October	95
	from 1 December	110
1996	from 1 January	105
	from 4 March	98.0
	from 26 March	90.0
	from 1 April	85.0
	from 8 April	75.0
	from 25 April	70.0
	from 22 May	63.0
	from 7 June	50.0
	from 1 July	40.0
1997	from 10 January	35.0
	from 8 March	25.0
	from 26 May	21.0
	from 8 July	18.0
	from 5 August	16.0
	from 1 November	17.0
	from 14 November	25.0
	from 24 November	35.0
1998	from 6 February	44.0
	from 18 March	41.0
	from 21 May	45.0
	from 29 May	51.0
	from 7 July	82.0
	from 21 December	60.0
1999	from 5 April	57.0
	from 28 April	50.0
	from 24 May	45.0
2000	from 1 February	35.0
	from 24 March	32.0
	from 10 April	29.0
	from 15 August	27.0
2001	from 10 March	25.0
	from 7 April	21.0
	from 11 June	19.0
	from 9 August	17.0
	from 10 September	15.0
	from 10 December	12.5
2002	from 11 March	11.5
	from 4 April	10.0
	from 5 July	8.0
	from 5 December	7.0
2003		7.0

NBU CLAIMS ON CREDITS GRANTED TO THE GOVERNMENT OF UKRAINE
(excluding refinancing for commercial banks)

Period	Total	including		accounted as internal state debt
		in national currency	in foreign currency	
Debts at the end of period, UAH million				
1991	0.5	0.5	—	—
1992	18	18	—	9
1993	129	129	—	9
1994	1411	1411	—	18
1995	4393	3144	1249	129
1996	5804	3568	2236	129
1997	5816	3568	2248	129
1998	7625	3568	4057	129
1999	9743	3568	6176	129
2000	10726	3568	7158	10726
2001	10547	3568	6979	10547
2002	10591	3568	7023	10591
2003	10590	3568	7022	10590
In percent versus previous year				
1992	34 t.	34 t.	—	—
1993	7 t.	7 t.	—	106.9
1994	11 t.	11 t.	—	193.0
1995	311.4	223.0	—	713.2
1996	132.1	113.5	179.0	100.0
1997	100.2	100.0	100.5	100.0
1998	131.1	100.0	180.5	100.0
1999	127.8	100.0	152.2	100.0
2000	110.1	100.0	115.9	83 t.
2001	98.3	100.0	97.5	98.3
2002	100.4	100.0	100.6	100.4
2003	100.0	100.0	100.0	100.0
Weight within total volume, percent				
1991	100.0	100.0	—	—
1992	100.0	100.0	—	50.2
1993	100.0	100.0	—	7.3
1994	100.0	100.0	—	1.3
1995	100.0	71.6	28.4	2.9
1996	100.0	61.5	38.5	2.2
1997	100.0	61.3	38.7	2.2
1998	100.0	46.8	53.2	1.7
1999	100.0	36.6	63.4	1.3
2000	100.0	33.3	66.7	100.0
2001	100.0	33.8	66.2	100.0
2002	100.0	33.7	66.3	100.0
2003	100.0	33.7	66.3	100.0

Note. From 2000, data include accrued interest.

CLAIMS OF BANKS ON THE CREDITS GRANTED TO THE ECONOMY OF UKRAINE
(by currencies and maturity)

Period	by currencies			including						
	Total	national	foreign	total	short-term		by credits		long-term	
					including	total	including	total	including	total
					in national currency	in foreign currency		in national currency	in foreign currency	
Debts at the end of period, UAH mln										
1991	0.97	0.97	—	0.85	0.85	—	0.12	0.12	—	
1992	26.87	24.36	2.51	25.64	23.12	2.51	1.23	1.23	—	
1993	406	385	21	396	374	21	11	11	—	
1994	1558	1199	359	1381	1022	359	176	176	—	
1995	4078	3029	1049	3643	2664	980	434	365	69	
1996	5452	4102	1350	4845	3653	1192	607	449	158	
1997	7295	5195	2100	6522	4682	1840	773	513	260	
1998	8873	5117	3756	7240	4438	2801	1633	679	954	
1999	11787	5716	6071	9142	4714	4428	2645	1002	1643	
2000	19574	10568	9006	16060	8903	7157	3514	1665	1848	
2001	28373	15845	12528	22218	13034	9184	6156	2811	3344	
2002	42035	24463	17572	30185	18689	11497	11849	5774	6076	
2003	67835	39563	28272	37282	24737	12545	30553	14826	15727	
In percent versus previous year										
1992	28 t.	25 t.	—	30 t.	27 t.	—	10 t.	10 t.	—	
1993	15 t.	16 t.	8 t.	15 t.	16 t.	8 t.	9 t.	9 t.	—	
1994	4 t.	3 t.	17 t.	3 t.	3 t.	17 t.	16 t.	16 t.	—	
1995	262	253	292	264	261	273	246	207	—	
1996	134	135	129	133	137	122	140	123	228	
1997	134	127	156	135	128	154	127	114	165	
1998	122	99	179	111	95	152	211	132	366	
1999	133	112	162	126	106	158	162	148	172	
2000	162	179	147	172	183	160	129	160	111	
2001	145	151	139	139	148	128	176	169	182	
2002	148	155	140	136	144	125	194	208	182	
2003	161	162	161	124	132	109	258	257	259	
Weight within total volume, %										
1991	100	100.0	—	87.2	87.2	—	12.8	12.8	—	
1992	100	90.6	9.4	95.4	86.1	9.4	4.6	4.6	—	
1993	100	94.8	5.2	97.4	92.2	5.2	2.6	2.6	—	
1994	100	77.0	23.0	88.7	65.6	23.0	11.3	11.3	—	
1995	100	74.3	25.7	89.3	65.3	24.0	10.7	8.9	1.7	
1996	100	75.2	24.8	88.9	67.0	21.9	11.1	8.2	2.9	
1997	100	71.2	28.8	89.4	64.2	25.2	10.6	7.0	3.6	
1998	100	57.7	42.3	81.6	50.0	31.6	18.4	7.7	10.8	
1999	100	48.5	51.5	77.6	40.0	37.6	22.4	8.5	13.9	
2000	100	53.5	46.5	82.1	45.1	37.0	17.9	8.4	9.5	
2001	100	55.5	44.5	78.3	45.8	32.6	21.7	9.8	11.9	
2002	100	58.0	42.0	71.7	44.3	27.3	28.3	13.7	14.6	
2003	100	58.3	41.7	55.0	36.5	18.5	45.0	21.9	23.2	

Note. From 2000, data include accrued interest. Data exclude debts under credits granted by banks at the stage of liquidation. As of January 2004, the debts of legal entities and natural persons to the banks at the stage of liquidation including accrued interest amounted to UAH 1,264.5 million and UAH 33.7 million respectively.

**CHANGES IN CONSUMER AND INDUSTRIAL PRODUCERS' PRICES,
NBU DISCOUNT RATE AND INTEREST RATES OF BANKS**

(in percent)

Period	Changes in price level versus previous month		Average weighted monthly interest rate		
	consumer prices	industrial producers' prices	discount rate established by the NBU	on banks credits*	on banks deposits*
2002					
January	1.0	- 0.4	1.0	2.5	0.8
February	- 1.4	0.7	1.0	2.4	0.8
March	- 0.7	- 0.8	1.0	2.3	0.7
April	1.4	1.2	0.9	2.3	0.7
May	- 0.3	1.5	0.8	2.2	0.7
June	- 1.8	2.2	0.8	2.1	0.7
July	- 1.5	1.0	0.7	2.1	0.7
August	- 0.2	- 0.4	0.7	2.0	0.6
September	0.2	0.3	0.7	2.0	0.6
October	0.7	0.2	0.7	1.9	0.6
November	0.7	0.2	0.7	1.9	0.5
December	1.4	0.0	0.6	1.8	0.6
2002					
January	1.5	0.5	0.6	1.6	0.6
February	1.1	0.7	0.6	1.5	0.6
March	1.1	2.1	0.6	1.5	0.6
April	0.7	0.3	0.6	1.5	0.6
May	0.0	0.3	0.6	1.5	0.6
June	0.1	0.0	0.6	1.4	0.6
July	- 1.0	1.0	0.6	1.5	0.5
August	- 1.7	1.0	0.6	1.5	0.6
September	0.6	0.9	0.6	1.4	0.6
October	1.3	0.7	0.6	1.5	0.6
November	1.9	1.5	0.6	1.5	0.7
December	1.5	1.7	0.6	1.5	0.7

*Interest rates of banks are given on the national currency credits and deposits excluding the interbank market.

**AVERAGE WEIGHTED INTEREST RATES OF UKRAINIAN BANKS
IN NATIONAL CURRENCY**

(average weighted annual, percent)

Period	C r e d i t s									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
January	76.6	310.2	205.3	110.5	63.6	43.8	55.3	56.2	37.4	29.7
February	88.2	383.4	198.8	110.9	62.6	48.7	58.4	49.4	35.6	29.4
March	87.1	389.8	182.6	102.5	53.2	48.9	68.0	42.5	33.8	27.6
April	110.5	327.9	136.1	91.2	52.4	47.7	66.9	41.9	33.0	27.1
May	144.3	299.4	117.0	85.7	53.7	47.1	54.5	39.8	31.7	26.1
June	231.3	254.7	86.1	73.4	50.3	48.0	47.4	39.7	32.1	25.0
July	223.3	192.5	78.8	66.2	47.0	53.0	46.5	39.0	31.1	24.9
August	204.4	151.3	73.6	63.6	42.2	57.4	50.7	35.6	31.7	24.0
September	224.2	141.6	78.5	63.2	41.6	63.8	54.3	39.7	30.6	23.5
October	246.3	141.4	93.4	63.7	38.2	71.5	50.8	39.0	30.5	22.9
November	279.2	201.4	116.4	66.3	42.0	63.7	54.7	38.3	30.2	22.4
December	295.1	204.7	105.8	61.4	42.7	60.4	51.9	37.3	29.6	21.8
year	221.1	201.7	107.1	77.0	49.1	54.5	53.4	40.3	31.9	24.8

Period	D e p o s i t s									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
January	62.1	224.0	158.8	56.8	23.7	19.6	22.8	21.4	11.7	10.1
February	84.9	284.8	129.4	45.1	22.5	18.4	21.3	16.7	9.3	9.2
March	70.2	328.5	118.7	44.2	20.6	18.9	27.2	13.7	8.2	8.6
April	83.4	329.1	95.8	32.5	19.1	19.9	22.3	12.3	11.3	8.1
May	107.6	276.2	68.1	35.8	19.3	19.8	18.5	11.9	8.6	7.8
June	162.5	220.6	44.9	32.3	17.8	22.1	20.5	11.6	13.0	8.2
July	225.8	179.7	36.7	25.4	17.9	22.7	15.9	11.3	11.3	7.9
August	170.1	140.2	30.4	27.4	13.5	23.1	20.1	10.1	14.2	7.6
September	186.5	126.8	30.6	26.4	14.8	27.2	17.4	17.9	10.4	7.6
October	183.0	108.1	33.4	27.5	15.5	28.5	20.0	17.6	12.7	7.0
November	231.7	146.0	42.2	26.0	15.0	27.0	21.7	10.9	10.2	6.1
December	215.8	139.5	50.9	24.2	18.9	23.6	20.7	9.2	10.8	6.9
year	187.3	171.0	61.2	34.3	18.2	22.3	20.7	13.5	11.2	7.8

Period	C r e d i t s		D e p o s i t s
	including overdraft	excluding overdraft	
January	21.4	18.6	6.8
February	20.7	17.6	6.8
March	20.2	18.0	7.4
April	20.4	18.3	6.8
May	20.0	17.9	6.8
June	20.0	17.2	6.7
July	21.1	18.2	6.3
August	20.6	18.2	6.7
September	19.8	17.2	6.7
October	19.8	17.8	6.9
November	19.6	17.8	8.0
December	19.5	17.7	8.0
year	20.2	17.9	7.1

Note. Interest rates are given without interbank credits taken into account.

**OFFICIAL EXCHANGE RATE OF UKRAINIAN KARBOVANETS AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (period average)**

	(Ukr KRB)			
Currencies	1992	1993	1994	1995
Ist group				
1 Australian Dollar	138	2872	23684	109268
1 Austrian Shilling	20	388	2851	14641
1 Pound Sterling	346	6834	49356	232150
10 Belgian Franc	65	1467	9745	50017
1 Deutsche Mark	135	2731	20250	102886
1 Netherlands Guilder	120	2433	17886	91858
1 Danish Krone	35	691	5118	26336
100 Italian Lira	16	287	1979	9057
1 Canadian Dollar	168	3479	23158	107551
1 Norwegian Krone	33	633	4601	23271
1 US Dollar	208	4539	31700	147463
1 Finnish Markka	44	793	6378	33854
1 French Franc	40	795	5852	29564
1 Swedish Krona	35	571	4197	20777
1 Swiss Franc	150	3096	23833	124999
10 Japanese Yen	17	420	3145	15663
1 ECU	267	5270	38487	192790
10 Spanish Peseta	20	347	2413	11853
10 Greek Drachma	8	158	1318	6352
1 Irish Pound	345	6571	48477	236271
1 Icelandic Krona	3	53	460	2279
10 Portuguese Escudo	15	275	1960	9828
1 SDR	—	5259	45929	223233
IInd group				
100 Russian Ruble	—	456	1257	3244
1 Azerbaijan Manat	—	—	39	34
1000 Belarussian Ruble	—	—	3903	12745
1 Armenian Dram	—	—	215	363
1 Estonian Kroon	15	341	2531	12861
1 Kazakh Tenge	—	—	834	2390
1 Kyrgyz Som	—	—	2980	13689
1 Latvian Lats	—	5657	57384	277690
1 Lithuanian Litas	—	863	7924	36828
1 Moldovan Leu	—	—	7635	32850
1 Turkmen Manat	—	—	4124	5360
1 Uzbek Sum	—	—	1208	5040
1 Georgian Lari	—	—	—	—

**OFFICIAL EXCHANGE RATE OF HRYVNIA AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (period average)**

(UAH)

Currencies	1996	1997	1998	1999	2000	2001	2002
100 Australian Dollar	143.14	138.17	153.82	266.50	316.89	278.16	289.63
100 Austrian Shilling	17.29	15.29	20.00	31.93	36.55	34.98	—
100 Pound Sterling	285.64	305.08	406.89	668.45	824.99	773.94	799.84
10000 Azerbaijan Manat	4.11	4.66	6.33	10.04	12.19	11.56	10.97
1000 Belgian Franc	59.11	52.15	68.20	108.91	124.66	119.33	—
10 Belarussian Ruble	1.18	0.55	0.39	0.13	0.06	0.04	0.03
1000 Greek Drachma	7.60	6.83	8.36	13.48	14.95	14.13	—
100 Danish Krone	31.56	28.25	36.95	59.09	67.47	64.59	67.70
100 US Dollar	182.95	186.17	244.95	413.04	544.02	537.21	532.66
100 Estonian Kroon	15.20	13.45	17.59	28.08	32.14	30.76	32.15
100 Icelandic Krona	2.75	2.63	3.46	5.71	6.94	5.54	5.84
100 Irish Pound	292.76	282.72	352.14	557.85	638.53	611.20	—
1000 Spanish Peseta	14.45	12.74	16.57	26.40	30.22	28.93	—
10000 Italian Lira	11.85	10.95	14.25	22.69	25.97	24.86	—
100 Canadian Dollar	134.13	134.50	164.34	278.21	366.48	347.12	339.33
100 Kazakh Tenge	2.71	2.46	3.10	3.54	3.83	3.66	3.48
100 Latvian Lats	332.82	320.65	416.80	706.54	898.66	855.96	862.33
100 Lithuanian Litas	45.73	46.54	61.24	103.26	136.01	134.30	145.40
100 Moldovan Leu	39.84	40.26	45.94	39.43	43.77	41.80	39.27
100 Netherlands Guilder	108.56	95.62	124.81	199.37	228.20	218.43	—
100 Deutsche Mark	121.64	107.61	140.69	224.63	257.12	246.11	—
100 Norwegian Krone	28.33	26.38	32.49	52.90	61.97	59.78	67.10
100 Polish Zloty	68.02	57.18	70.13	104.42	125.53	131.24	130.60
100 Portuguese Escudo	1.19	1.07	1.37	2.19	2.51	2.40	—
10 Russian Ruble	3.58	3.22	2.87	1.67	1.94	1.84	1.70
100 Singapore Dollar	129.43	126.22	146.94	243.99	315.98	300.00	297.51
100 Slovak Koruna	5.97	5.54	6.93	10.01	11.86	11.11	11.79
10000 Turkish Lira	0.23	0.13	0.09	0.10	0.09	0.05	0.04
10000 Turkmen Manat	5.58	4.49	5.00	7.94	10.46	10.33	10.24
1000 Hungarian Forint	12.29	10.06	11.42	17.43	19.43	18.75	20.74
100 Uzbek Sum	4.64	2.86	2.57	3.31	2.59	1.35	0.70
100 Finnish Markka	39.84	35.95	46.30	73.89	84.58	80.96	—
100 French Franc	35.80	31.96	41.96	66.98	76.67	73.38	—
100 Czech Koruna	6.73	5.92	7.71	11.99	14.16	14.13	16.34
100 Swedish Krona	27.27	24.43	30.83	49.92	59.57	52.09	54.91
100 Swiss Franc	148.25	128.45	171.01	274.53	322.46	318.71	342.88
1000 Japanese Yen	16.84	15.41	19.03	36.61	50.52	44.27	42.59
100 Euro (ECU up to '99)	232.19	211.29	276.76	439.33	502.89	481.36	503.01
100 SDR	265.58	256.19	333.90	564.43	717.59	684.20	689.82

Continued

Currencies	2 0 0 3							
	January	February	March	I Quarter	April	March	June	I half
100 Australian Dollar	309.58	316.64	321.30	315.84	324.51	343.40	353.85	328.21
100 Pound Sterling	860.22	861.60	844.12	855.31	839.58	863.20	885.97	859.11
10000 Azerbaijan Manat	10.89	10.89	10.88	10.89	10.87	10.85	10.84	10.87
10 Belarussian Ruble	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
100 Danish Krone	75.95	77.40	77.52	76.96	77.92	82.50	83.84	79.19
100 US Dollar	533.27	533.39	533.45	533.37	533.41	533.32	533.30	533.36
100 Estonian Kroon	36.08	36.76	36.80	36.55	36.98	39.15	39.78	37.59
100 Icelandic Krona	6.68	6.88	6.83	6.80	6.94	7.28	7.23	6.97
100 Canadian Dollar	345.49	351.79	361.17	352.82	364.58	383.48	393.21	366.62
100 Kazakh Tenge	3.43	3.46	3.52	3.47	3.51	3.52	3.57	3.50
100 Latvian Lats	908.85	914.85	914.36	912.69	913.33	935.17	944.18	921.79
100 Lithuanian Litas	163.29	166.66	166.80	165.58	167.78	177.10	180.44	170.34
100 Moldovan Leu	38.18	37.60	37.15	37.64	36.39	37.33	37.65	37.38
100 Norwegian Krone	77.12	76.48	73.54	75.71	73.80	77.98	76.46	75.90
100 Polish Zloty	139.11	138.20	133.31	136.87	134.57	141.59	140.24	137.84
10 Russian Ruble	1.68	1.68	1.70	1.68	1.71	1.72	1.75	1.71
100 Singapore Dollar	307.09	305.67	304.30	305.69	300.40	306.80	307.48	305.29
100 Slovak Koruna	13.55	13.71	13.79	13.68	14.10	14.90	15.00	14.17
10000 Turkish Lira	0.03	0.03	0.03	0.03	0.03	0.04	0.04	0.03
10000 Turkmen Manat	10.26	10.26	10.26	10.26	10.26	10.26	10.26	10.26
1000 Hungarian Forint	23.51	23.45	23.46	23.48	23.56	24.94	23.90	23.81
100 Uzbek Sum	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
100 Czech Koruna	17.94	18.19	18.13	18.09	18.28	19.51	19.83	18.65
100 Swedish Krona	61.55	62.82	62.50	62.29	63.17	66.96	68.28	64.21
100 Swiss Franc	386.34	391.94	392.00	390.09	386.90	404.50	404.19	394.31
1000 Japanese Yen	44.87	44.64	44.96	44.82	44.54	45.37	45.08	44.91
100 Euro (ECU up to '99)	564.49	575.23	575.81	571.84	578.58	612.53	622.47	588.19
100 SDR	727.04	731.48	730.72	729.75	730.57	749.51	754.62	737.32

Concluded

Currencies	2 0 0 3							
	July	August	September	9 months	October	November	December	year
100 Australian Dollar	353.33	347.11	351.98	335.74	368.80	381.68	393.45	347.14
100 Pound Sterling	866.34	850.64	856.78	858.72	892.84	901.38	932.71	871.28
10000 Azerbaijan Manat	10.84	10.85	10.85	10.86	10.86	10.85	10.84	10.86
10 Belarussian Ruble	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.03
100 Danish Krone	81.60	80.06	80.35	79.68	83.97	83.89	87.90	81.07
100 US Dollar	533.21	533.17	533.16	533.30	533.17	533.20	533.18	533.27
100 Estonian Kroon	38.77	38.03	38.14	37.83	39.87	39.87	41.81	38.50
100 Icelandic Krona	6.92	6.72	6.72	6.91	6.99	7.04	7.29	6.96
100 Canadian Dollar	386.92	381.21	389.76	373.07	401.91	406.24	405.44	380.93
100 Kazakh Tenge	3.63	3.63	3.61	3.54	3.61	3.62	3.68	3.57
100 Latvian Lats	932.79	924.80	928.14	924.05	954.96	956.27	977.37	933.76
100 Lithuanian Litas	175.84	172.63	172.87	171.49	180.98	180.82	189.29	174.54
100 Moldovan Leu	37.81	38.05	38.98	37.68	40.04	39.75	40.32	38.27
100 Norwegian Krone	73.12	72.16	72.88	74.84	75.87	76.10	79.31	75.40
100 Polish Zloty	136.51	136.18	134.04	137.08	135.89	135.01	140.38	137.09
10 Russian Ruble	1.76	1.76	1.74	1.72	1.77	1.79	1.81	1.74
100 Singapore Dollar	303.94	304.24	305.14	305.01	307.52	308.23	311.54	306.03
100 Slovak Koruna	14.52	14.19	14.37	14.24	15.11	15.17	15.90	14.53
10000 Turkish Lira	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
10000 Turkmen Manat	10.25	10.25	10.25	10.26	10.25	10.25	10.25	10.26
1000 Hungarian Forint	22.99	22.88	23.36	23.56	24.42	24.09	24.75	23.78
100 Uzbek Sum	0.55	0.55	0.55	0.55	0.55	0.55	0.54	0.55
100 Czech Koruna	19.04	18.43	18.43	18.64	19.50	19.51	20.23	18.92
100 Swedish Krona	66.05	64.49	65.83	64.63	69.30	69.36	72.46	66.07
100 Swiss Franc	392.01	386.07	385.51	392.16	403.14	400.37	420.70	396.14
1000 Japanese Yen	44.95	44.81	46.29	45.06	48.60	48.86	49.44	46.03
100 Euro (ECU up to '99)	606.56	595.05	596.76	591.94	623.82	623.87	654.12	602.44
100 SDR	745.49	739.26	743.43	739.12	763.42	764.72	781.64	746.82

**OFFICIAL EXCHANGE RATE OF UKRAINIAN KARBOVANETS AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (end of period*)**

(Ukr KRB)

Currencies	1992	1993	1994	1995
Ist group				
1 Australian Dollar	440	8588	81040	133330
1 Austrian Shilling	56	1052	9400	17790
1 Pound Sterling	961	18797	161210	277020
10 Belgian Franc	192	3563	32190	60930
1 Deutsche Mark	394	7398	66130	125150
1 Netherlands Guilder	350	6607	59080	111800
1 Danish Krone	102	1893	16860	32310
100 Italian Lira	43	756	6350	11320
1 Canadian Dollar	503	9375	74460	131230
1 Norwegian Krone	93	1705	15150	28360
1 US Dollar	638	12610	104200	179400
1 Finnish Markka	121	2207	21790	41200
1 French Franc	116	2172	19130	36610
1 Swedish Krona	90	1514	13910	26900
1 Swiss Franc	435	8706	78330	155860
10 Japanese Yen	51	1132	10390	17410
1 ECU	771	14309	126230	235820
10 Spanish Peseta	56	902	7830	14760
10 Greek Drachma	30	516	4280	7560
1 Irish Pound	1040	17969	159130	286530
1 Icelandic Krona	—	175	1510	2760
10 Portuguese Escudo	44	724	6430	12000
1 SDR	—	17476	151140	266740
IInd group				
100 Russian Ruble	—	456	2940	3870
1 Azerbaijan Manat	—	1	50	40
1000 Belarussian Ruble	—	4	9160	15080
1 Armenian Dram	—	1	250	450
1 Estonian Kroon	49	925	8270	15640
1 Kazakh Tenge	—	1796	1720	2830
1 Kyrgyz Som	—	1566	9740	16380
1 Latvian Lats	—	21158	190490	335330
1 Lithuanian Litas	—	3231	26050	44850
1 Moldovan Leu	—	3417	24360	39520
1 Turkmen Manat	—	—	10420	70
1 Uzbek Sum	—	2	4170	5180
1 Georgian Lari	—	—	—	—

* Established at last calendar day.

**OFFICIAL EXCHANGE RATE OF HRYVNYIA AGAINST FOREIGN CURRENCIES
ESTABLISHED BY THE NBU (end of period*)**

(UAH)

Currencies	1996	1997	1998	1999	2000	2001	2002
100 Australian Dollar	150.71	124.18	209.45	339.79	301.54	270.23	299.95
100 Austrian Shilling	17.27	15.06	29.12	38.08	36.75	33.94	—
100 Pound Sterling	319.13	315.99	573.15	842.90	810.26	767.39	853.84
10000 Azerbaijan Manat	4.61	4.88	8.84	11.93	11.91	11.12	10.90
1000 Belgian Franc	58.97	51.37	99.31	129.90	125.35	115.76	—
10 Belarussian Ruble	0.82	0.46	—	0.06	0.04	0.03	0.03
1000 Greek Drachma	7.64	6.72	12.17	15.87	14.84	13.70	—
100 Danish Krone	31.76	27.81	53.79	70.40	67.76	62.79	74.50
100 US Dollar	188.90	189.90	342.70	521.63	543.45	529.85	533.24
100 Estonian Kroon	15.19	13.25	25.60	33.49	32.32	29.84	35.36
100 Icelandic Krona	2.83	2.65	4.94	7.26	6.42	5.10	6.52
100 Irish Pound	316.06	273.23	508.72	665.38	642.08	592.91	—
1000 Spanish Peseta	14.42	12.52	24.08	31.49	30.39	28.06	—
10000 Italian Lira	12.36	10.78	20.69	27.06	26.12	24.12	—
100 Canadian Dollar	137.97	131.87	220.61	358.73	362.11	331.72	339.98
100 Kazakh Tenge	2.56	2.50	4.09	3.77	3.76	3.53	3.43
100 Latvian Lats	337.32	321.86	602.28	894.73	879.37	830.49	897.71
100 Lithuanian Litas	47.23	47.48	85.68	130.41	135.86	132.46	158.59
100 Moldovan Leu	40.62	40.75	41.18	45.01	43.89	40.47	38.55
100 Netherlands Guilder	108.23	94.03	181.80	237.79	229.47	211.90	—
100 Deutsche Mark	121.49	105.97	204.84	267.93	258.55	238.75	—
100 Norwegian Krone	29.30	25.81	45.33	64.88	61.42	58.73	75.73
100 Polish Zloty	66.08	54.30	98.46	126.46	131.35	133.60	138.60
100 Portuguese Escudo	1.21	1.04	2.00	2.61	2.52	2.33	—
10 Russian Ruble	3.40	3.19	1.66	1.93	1.93	1.76	1.68
100 Singapore Dollar	134.97	113.61	207.07	312.73	313.58	286.37	306.55
100 Slovak Koruna	5.94	5.50	9.39	12.32	11.51	10.92	13.24
10000 Turkish Lira	0.18	0.09	0.11	0.10	0.08	0.04	0.03
10000 Turkmen Manat	4.64	4.56	6.59	10.03	10.45	10.19	10.25
1000 Hungarian Forint	11.74	9.39	15.85	20.70	19.08	19.05	23.47
100 Uzbek Sum	3.45	2.37	3.12	3.73	1.67	0.77	0.55
100 Finnish Markka	40.65	35.02	67.38	88.14	85.05	78.54	—
100 French Franc	36.01	31.67	61.08	79.89	77.09	71.19	—
100 Czech Koruna	6.90	5.55	11.38	14.60	14.43	14.61	17.65
100 Swedish Krona	27.50	24.03	42.41	61.20	57.26	50.20	60.44
100 Swiss Franc	139.72	130.60	250.32	326.48	331.99	314.89	379.82
1000 Japanese Yen	16.29	14.66	29.71	51.01	47.30	40.49	44.46
100 Euro (ECU up to '99)	236.26	209.59	401.33	524.03	505.68	466.96	553.29
100 SDR	271.66	255.10	481.62	714.55	708.07	665.29	720.64

*Established at last calendar day.

Continued

Currencies	2 0 0 3						
	January	February	March	April	May	June	July
100 Australian Dollar	313.47	324.29	320.61	329.66	343.42	354.98	350.48
100 Pound Sterling	877.23	843.76	833.78	848.00	875.87	887.40	864.41
10000 Azerbaijan Manat	110.89	10.89	10.87	10.86	10.85	10.84	10.84
10 Belarussian Ruble	0.03	0.03	0.03	0.03	0.03	0.03	0.03
100 Danish Krone	77.10	77.72	77.07	78.71	84.45	82.10	81.94
100 US Dollar	533.29	533.45	533.45	533.37	533.30	533.28	533.18
100 Estonian Kroon	36.63	36.90	36.58	37.35	40.07	38.96	38.92
100 Icelandic Krona	6.86	6.86	6.89	7.04	7.37	6.99	6.95
100 Canadian Dollar	349.29	358.13	363.75	366.90	384.77	393.98	382.42
100 Kazakh Tenge	3.44	3.50	3.52	3.51	3.54	3.60	3.63
100 Latvian Lats	917.88	915.01	907.23	919.60	943.89	940.53	933.77
100 Lithuanian Litas	166.75	166.65	165.22	169.42	181.56	177.90	176.57
100 Moldovan Leu	37.75	37.48	36.82	36.92	37.65	37.68	37.90
100 Norwegian Krone	77.13	74.18	72.85	75.20	79.57	73.76	74.20
100 Polish Zloty	140.23	137.24	130.90	137.18	142.38	136.49	139.21
10 Russian Ruble	1.68	1.69	1.70	1.72	1.74	1.76	1.76
100 Singapore Dollar	306.45	307.99	301.08	299.87	307.31	304.21	303.57
100 Slovak Koruna	13.71	13.80	13.83	14.26	15.18	14.63	14.55
10000 Turkish Lira	0.03	0.03	0.03	0.03	0.04	0.04	0.04
10000 Turkmen Manat	10.26	10.26	10.26	10.26	10.26	10.26	10.25
1000 Hungarian Forint	23.54	23.73	23.18	23.79	25.09	23.18	23.12
100 Uzbek Sum	0.56	0.55	0.55	0.55	0.55	0.55	0.55
100 Czech Koruna	18.25	18.24	17.96	18.60	19.98	19.37	19.04
100 Swedish Krona	62.39	63.30	62.03	64.00	68.43	66.37	66.34
100 Swiss Franc	389.87	394.60	387.64	387.64	410.09	396.03	392.99
1000 Japanese Yen	44.70	45.65	44.41	44.30	44.93	44.90	44.45
100 Euro (ECU up to '99)	573.18	577.30	572.39	584.36	626.95	609.65	608.89
100 SDR	734.10	731.28	732.85	738.14	757.26	747.05	742.16

Concluded

Currencies	2 0 0 3				
	August	September	October	November	December
100 Australian Dollar	340.77	357.45	378.12	385.15	397.94
100 Pound Sterling	836.24	877.92	909.19	913.51	946.88
10000 Azerbaijan Manat	10.85	10.86	10.86	10.84	10.83
10 Belarussian Ruble	0.03	0.03	0.03	0.02	0.02
100 Danish Krone	77.70	81.94	84.18	85.30	89.49
100 US Dollar	533.15	533.15	533.19	533.20	533.15
100 Estonian Kroon	36.90	38.89	39.99	40.56	42.58
100 Icelandic Krona	6.64	6.89	7.03	7.11	7.43
100 Canadian Dollar	379.18	391.56	408.00	407.67	406.73
100 Kazakh Tenge	3.62	3.59	3.60	3.64	3.70
100 Latvian Lats	914.49	943.63	957.25	964.20	987.31
100 Lithuanian Litas	167.57	176.93	180.21	184.12	193.02
100 Moldovan Leu	38.17	39.95	39.80	40.09	40.33
100 Norwegian Krone	69.73	75.24	76.07	77.73	79.11
100 Polish Zloty	132.93	133.70	133.88	136.15	142.11
10 Russian Ruble	1.75	1.74	1.79	1.79	1.81
100 Singapore Dollar	303.68	307.88	307.45	309.15	313.10
100 Slovak Koruna	13.73	14.79	15.15	15.50	16.19
10000 Turkish Lira	0.04	0.04	0.04	0.04	0.04
10000 Turkmen Manat	10.25	10.25	10.25	10.25	10.25
1000 Hungarian Forint	22.50	23.98	24.42	24.01	25.46
100 Uzbek Sum	0.55	0.55	0.55	0.55	0.54
100 Czech Koruna	17.74	19.17	19.52	19.81	20.46
100 Swedish Krona	62.61	68.34	69.41	70.22	73.40
100 Swiss Franc	374.50	394.48	403.84	409.72	427.23
1000 Japanese Yen	45.42	47.78	49.28	48.82	49.82
100 Euro (ECU up to '99)	577.29	608.48	625.75	634.61	666.22
100 SDR	734.29	762.29	763.41	772.49	792.25

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