

- **Constitution.** On July 1, President Petro Poroshenko submitted to the Parliament a bill to amend the Constitution. The bill provides a framework for decentralization of power in Ukraine. The locally elected bodies (councils) at the rayon and oblast level are to establish local governments (executive committees), which will resume the functions that are currently delegated or granted to local state administrations (umbrella organisations for branches of central government bodies at the local level). Those functions include communal property management and preparation of local budgets. The local state administrations will be eliminated and replaced with prefects — officials who will coordinate the work of local branches of central government bodies and supervise the compliance of local self-government bodies with the law. The bill also determines that local self-government in some areas of Donetsk and Lugansk regions may have peculiarities (a requirement of the Minsk agreements, which are intended to settle the conflict in Donbas), but the respective provision will not be included into the Constitution.  
The bill also contains several provisions that are not directly related to decentralization. First, it establishes a framework for modification of administrative division of Ukraine, namely for consolidation of the lowest level administrative units. It is expected that 1,500-2,000 communities will be created instead of about 11,000 villages, towns, and cities (higher level units, rayons and oblasts, will be preserved). Second, the bill expands the powers of the President, who will have the right to terminate the powers of locally elected officials and bodies if their decisions pose a threat to national security or territorial integrity of Ukraine. Third, the bill reduces the powers of prosecutors by depriving them of the right to supervise the observance of the human rights and freedoms and the compliance of officials with the law (the latter function will be partly transferred to prefects). It is expected that the bill will be approved this year, and will become effective no later than March 2016. However, the decentralization will occur only after the local election scheduled for October 2017.
- **Law enforcement.** On July 2, the Parliament passed two laws that created a framework for a police reform in Ukraine: the Law on the National Police and the Law on Internal Affairs Bodies. These laws make provision for establishment of the National Police as a new government agency, which serves as a civilian police force in Ukraine, and is governed by the Minister of Internal Affairs. The National Police will replace the current police force that is officially called 'militia' and is a direct part of the Ministry of Internal Affairs (MIA). The current 'militia' staff may be hired by the National Police both on a competitive and non-competitive basis, but the laws do not specify in which case which method will be used. The law on the National Police determines that a local elected body (council) may express no confidence to the chief of the local police department, which entails his or her resignation. The police reform will be implemented in three months after the laws become effective, presumably in October or November. The MIA expects to replace a significant part of the current 'militia' staff by new officers. On July 4, first 2000 new police officers started to patrol Kyiv.
- **The IMF.** On May 12-June 11, an IMF mission visited Kyiv for the first review under the Extended Fund Facility Arrangement (EFF). The mission reached an agreement with Ukraine's authorities on a set of policies needed to complete the review. In particular, the Parliament has to approve five laws in the areas of deposit insurance, bank regulation, fighting with corruption, as well as energy market and utilities regulation. If the Parliament passes those laws and the IMF Executive Board approves the agreement and the review, Ukraine may get the second disbursement of SDR 1.18 bn (about USD 1.7 bn) in August. Ukraine received USD 5 bn as the first disbursement under the EFF in March.

- The war in Donbas.** In early July, the intensity of fighting in Donetsk and Luhansk regions decreased. According to Ukrainian military officials, pro-Russian insurgents and Russian troops reduced the number of attacks on Ukrainian forces. In early July, pro-Russian insurgents also left Shyrokyne, a village to the west of Mariupil, but the rest of the front line did not change in June-early July. The number of casualties continued to increase, but at a slower pace. According to the United Nations, the conservative estimate of the total death toll from the conflict reached 6,500 on June 29 (it was 6,417 as of May 30). Nevertheless, the conflict is not likely to end soon.
- GDP.** Real GDP in the first quarter of 2015 declined by 17.2% yoy. On the demand side, decline in real disposable income resulted in drop of real private final consumption by 20.7% yoy. Real fixed capital accumulation decreased by 25.1% yoy due to the cancelation of most investment projects by companies and restricted fiscal capital outlays. Decline in domestic demand and imports substitution (due to sharp hryvnia depreciation) resulted in contraction of real imports of goods and services by 20.1% yoy. Military conflict in the East of Ukraine resulted in significant decline in exports capacities. This along with trade tensions with Russia and weak external demand resulted in drop of real exports of goods and services by 26.2% yoy. On the production side, real gross value added (GVA) decreased in all sectors, except for state administration and defence. Military conflict in the East and low domestic and external demand resulted in drop of real GVA in extractive industry and manufacturing by 29.4% yoy and 25.6% yoy, respectively. Real GVA in construction fell by 35.3% due to restricted financing. Decline in real consumption and contraction of industrial output caused drop in real GVA in trade by 24.8%. Transport fell by 13.2% due to lower trade as well as smaller transit.
- Sectoral trends.** Decline in industrial production in May slightly decelerated to 20.7% yoy. This indicates that industry might have passed the bottom in April, if the military conflict in the East does not escalate in the future. The output in extractive industry decreased by 20.6% yoy. Production of coke and lignite decreased by 52.3% yoy as some of mine stopped working. Decline in extraction of ore decelerated to 6.7% yoy due to higher demand from domestic metallurgy. In particular, steel production increased to levels of July 2014 as several metallurgical plants started recovering their production. At the same time, production decline in chemical industry accelerated to 29.0% yoy as several companies faced limited access to natural gas. Low domestic and external demand resulted in drop of machine building production at 26.7% yoy. Food production (excluding tobacco and beverages) declined by 15.9% yoy due to lower domestic demand as well as bans on food imports from Ukraine imposed by Russia. Overall, manufacturing production dropped by 21.5% yoy. In May retail trade by enterprises dropped by 25.8% yoy, which reflects decline in real private final consumption. Financial constraints resulted in drop in construction by 31.7% yoy. Between January and May freight turnover declined by 22.2% yoy due to logistic problems caused by military conflict in the East of Ukraine, decline in trade as well as fall in transit of gas.

*The Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol and the territory under anti-terroristic operation in the East. The statistical base was also revised to make like-to-like comparison available.*
- Privatisation: More companies for sale.** On June 15, the State Property Fund of Ukraine (SPFU) approved the list of companies from group "E" (state owned stakes (shares) in companies) that can be privatised in 2015. The list consists of 26 stakes, including President Hotel (entirely owned by state), Ukrainian Bank of Reconstruction and Development (ranked 157th out of 158 Ukrainian banks as of January 1, 2015) and 50% of Azovmash (largest machine building enterprise of Ukraine in the field of car building, heavy and general engineering industry located in Mariupol). But, some of these companies are located in the regions near anti-terrorist operation zone, which reduces chances for their sale at fair price.

At the same time, on June 23, the SPFU withdrew 45 stakes from selling on Ukrainian stocks exchanges, including 46% stake in Cherkasyoblenergo and 25% stake in Sumyoblenergo. The future of sale of these stakes is not clear.

**Ukraine: Economic Indicators 2011 - 2015**

		2011	2012	2013	2014	Q1 15	Feb*	Mar*	Apr*	May*	Jun*
GDP (real)	% yoy	5.2	0.3	0.0	-6.8	-17.6					
Industrial production (real)	% yoy cum.	7.3	-0.5	-4.7	-10.7	-21.4	-21.7	-21.4	-21.5	-21.2	
Agricultural prod. (real)	% yoy cum.	17.5	-4.5	13.7	2.8	-4.7	-3.6	-4.7	-4.8	-5.4	
CPI	% yoy eop	4.6	-0.2	0.5	24.9	45.8	34.5	45.8	60.9	58.4	57.5
Current account	% GDP cum.	-5.7	-8.1	-9.0	-4.0						
Fiscal balance	% GDP	-1.8	-3.6	-4.4	-4.6						
External state debt (total)	% GDP eop	22.8	22.0	20.6	39.0						
Gross international reserves	USD bn eop	31.8	31.4	20.4	7.5	10.0	5.6	10.0	9.6	9.9	10.3
Exchange rate (official)	EUR aop	11.09	10.27	10.61	15.72	23.88	27.78	25.32	24.47	23.32	23.84

Source: IER.

\*Data exclude Crimea. Since 2015 Ukrstat also does not include data for occupied territories in the East of Ukraine.

For further information: Institute for Economic Research and Policy Consulting (link: <http://www.ier.com.ua>).

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