*Ukraine- Forschungsgruppe at IOS in cooperation with IER Kiev:*
**Spotlight Ukraine: Monthly Economic Monitor March 2015**

- ***The IMF.*** On March 11, the Executive Board of the International Monetary Fund (IMF) approved a four-year extended arrangement under the Extended Fund Facility (EFF) for Ukraine in the amount of SDR 12.348 bn (about USD 17.5 bn). This Program replaces the existing Stand-By Arrangement (SBA), under which Ukraine received SDR 3 bn (USD 4.7 bn) in loans from the IMF in 2014 (the total amount of financing under the SBA was expected at SDR 11 bn in 2014-2016).
  In particular, on February 12, the IMF mission to Ukraine reached an agreement with Ukrainian authorities on an economic reform program, which is to be supported by the EFF. The program includes immediate measures to ensure macroeconomic and financial stability and gradual structural reforms aimed at improvement of business climate and attracting investment. In early March, the Government announced that Ukraine implemented all prior actions for obtaining the IMF financing (e.g. amendments to the State Budget Law and the Pension Law were passed and utility tariffs were increased).
- ***The war in the East.*** On February 12, leaders of Ukraine, Russia, Germany and France agreed on a new peace plan to end the war in Donbas (the second Minsk plan). The plan made provision, in particular, for a withdrawal of heavy weapons from the front line by both parties to the conflict. However, it was only a week later that pro-Russian insurgents and Russian troops stopped the fierce offensive they launched in January. As a result of the offensive Ukrainian forces lost control over some areas near the city of Donetsk and the town of Debaltseve. In turn, Ukrainian troops advanced the front line near the city of Mariupol, thus improving its security. It is expected that heavy fighting may resume in nearest months because Russia tries to use the war as a tool to destabilize Ukraine and influence policies of Ukrainian government.
- ***Sectoral trends***. The industrial output in January dropped by 21.3% yoy due to protracted military conflict in Donbas and weak demand.
  The output in extractive industry decreased by 24.1% yoy. Production of coke oven product decreased by 51.9% yoy as large coke processing plant in Avdeevka stopped working.
  The decline in manufacturing accelerated to 21.1%yoy. Metallurgy and chemical production dropped by18.9% and 21.6%, as logistic problems of companies in controlled areas worsened. Drop in machine-building production accelerated to 32.5% yoy due to low domestic and external demand. In particular, production of vehicles decreased by five times, while production of locomotives dropped by almost six times.
  Food production (excluding tobacco and beverages) dropped by 10.8% yoy likely due to weaker domestic demand and lower exports to Russia. The positive influence of autonomous trade preferences by the EU could not sufficiently offset the negative impact of non-tariff barriers imposed by Russia.
  Production and distribution of electricity dropped by 16.5% yoy due to warmer weather this January.
  In January the drop in retail trade by enterprises reached 23.6% yoy. This reflects decline in purchasing power of population due to lower real disposable income.
  Construction dropped by 36.7% yoy due to military conflict, financial constraints faced by companies and low fiscal capital outlays.
  Gross agricultural production in January decreased by 2.4% yoy. In particular, meat production declined by 3.2% yoy and milk production fell by 2.1% yoy. Households' gross production decreased by 4.1% yoy, which is likely due to higher increase in prices for fuels and feed as compared to increase in prices for grown products. At the same time, production of enterprises decreased by only 0.7% yoy.
  Despite economic difficulties, agricultural sales increased by 13.0% yoy. There was a considerable increase in the sales of export oriented cultures that gained from hryvnia

devaluation. Specifically, sales of sunflower seeds surged by 120.6% yoy, sales of soybean increased by 38.1% yoy. On the other hand, sales of meat and milk, which are mostly consumed domestically, increased by only 2.7% yoy and 5.3% yoy, respectively.

- **Labour market.** Average wage in January grew by 9.1% yoy in nominal terms due to indexation of wages for inflation. Wage dropped by 17.3% yoy in real terms due to accelerated inflation and the introduction of military fee (as a surcharge to the PIT).
  Increase in nominal average wage in industry at 8.5% yoy was one of the lowest across economy. For instance, wages in electrical equipment production increased by mere 3.8% yoy as a consequence of dependency on the foreign inputs. On the other hand, textile producers substantially increased wages (by 21.5% yoy) likely due to high domestic demand, which surged due to imports substitution.
  Fiscal consolidation measures continued to put a downward pressure on wage growth in public sector. Particularly, nominal average wage increased by 1.7% yoy in public administration and defence, by 2.9% yoy in education and by 4.1% yoy in health care.
- **Monetary policy.** In February, consumer inflation reached 34.5% yoy as month-to-month consumer inflation reached 5.3%, the highest level since 1996. This reflected extreme volatility in the exchange rate of hryvnia vs. US dollar as grey market rate increased from over UAH 20 per USD in the beginning of the month to about UAH 33 per USD on February 26.
  Price increases for imported goods or goods that could be exported (e.g bread, sunflower oil) were predictably larger. Prices for cars and fuel grew by 34% mom and 20% mom respectively, while price increase for fruit reached 17% mom. However, reported price increases for most goods were in single digits. At the same time, the Ukrstat reported modest price increases for milk, meat and clothing (at 1-2% mom). Relatively low impact of sharp hryvnia depreciation (by about a third through the month) may reflect lags in decisionmaking and reporting as well as very limited purchasing power of households. Lagged effect of hryvnia depreciation and huge utility tariff hikes planned for April mean that we can expect high price increases for at least two following months.

**Ukraine: Economic Indicators 2011 - 2015**

| | | 2011 | 2012 | 2013 | Q3 14 | Nov* | Dec* | Jan* | Feb* |
|---|---|---|---|---|---|---|---|---|---|
| GDP (real) | % yoy | 5.2 | 0.3 | 0.0 | -5.3 | | | | |
| Industrial production (real) | % yoy cum. | 7.3 | -0.5 | -4.7 | -5.8 | -10.1 | -10.7 | -21.3 | |
| Agricultural prod. (real) | % yoy cum. | 17.5 | -4.5 | 13.7 | 3.4 | 5.0 | 2.8 | -2.4 | |
| CPI | % yoy eop | 4.6 | -0.2 | 0.5 | 12.6 | 21.8 | 24.9 | 28.5 | 34.5 |
| Current account | % GDP. cum. | -5.7 | -8.1 | -9.0 | -2.9 | | | | |
| Fiscal balance | % GDP | -1.8 | -3.6 | -4.4 | | | | | |
| External state debt (total) | % GDP eop | 22.8 | 22.0 | 20.6 | | | | | |
| Gross international reserves | USD bn eop | 31.8 | 31.4 | 20.4 | 16.4 | 10.9 | 7.5 | 6.4 | 5.6 |
| Exchange rate (official) | EUR aop | 11.09 | 10.27 | 10.61 | 16.67 | 18.36 | 19.26 | 18.53 | 27.78 |

Source: IER.

*Data exclude Crimea

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