

- On September, 24 Ukrainian President Viktor Yanukovich visited Moscow, where he held negotiations with Russian President Dmitriy Medvedev and Prime-Minister Vladimir Putin on gas issues and Ukraine's participation in the customs union of Russia, Belarus and Kazakhstan and other issues. No specific results were reported in the outcome of the visit as Ukraine and Russia seem to insist on their positions with regard to the current gas contracts. Nevertheless, according to Prime-Minister Mykola Azarov, Ukraine and Russia agreed to revise the gas agreements of 2009 under the condition of restructuring NJSC 'Naftogaz of Ukraine' and establishing a tripartite consortium with the participation of the EU companies. It is expected that Russia will reduce the price of gas for Ukraine's needs for two types of consumers: for budgetary institutions and population, whereas Ukraine will lower gas transition tariff. The Eastern Partnership summit, which took place in Warsaw on September 29-30, brought no significant results with regard to the Ukraine-EU relations. Even though the official aim of the summit was to review achievements of the partnership and revise EU commitments to its Eastern partners, the key subject of discussions with Ukraine's President Viktor Yanukovich was the arrest of Yulia Tymoshenko. The EU partners reiterated that Ukraine's backsliding on democracy and rule of law would hamper progress in its relations with the EU. In particular, ratification of the Association Agreement, including deep and comprehensive free trade area, may be delayed indefinitely.
- The Ukrstat maintained its previous estimate of real GDP growth at 3.8% yoy in the second quarter of 2011 as compared to 5.3% yoy in the first quarter. On the production side, real gross value added (GVA) in manufacturing increased by 8.7% yoy. It is likely to be attributed to growth in output in metallurgy, machine building and chemical industry. Increase in industrial production stimulated demand for transport services. As a result, the real GVA in transport and communication grew by 5.8% yoy. The real GVA growth in agriculture at 1.1% yoy is expected to accelerate in the second half of the year due to good grain harvest. Real GVA in construction increased by 21.7% yoy but from very low base. Real GVA in construction in second quarter of 2011 was at 47% of GVA in 2008. On the demand side, growth of real private final consumption at 14.1% yoy was the major contributor to the GDP growth. There was also significant increase in investment in machinery and commercial construction (by 17.3% yoy and 29.8% yoy, respectively). At the same time, residential construction declined significantly. However, increase in domestic demand was satisfied primarily through imports leading to real imports growth by 24.2% yoy. Real exports growth decelerated by 14.1 p.p. to 4.9% yoy, signaling unstable demand for major Ukrainian exports.
- In the end of September privatization receipts reached UAH 11 bn, what exceeds the planned amount by 10%. This sum includes the sale of the Ukrtelecom for UAH 10,575 bn. Meanwhile, the preparations for privatization in energy sector companies move on. The Cabinet of Ministers approved privatization terms for 45% share of Zakhidenergo and 25% of Kyivenergo. The state limited the range of applicants by prohibiting foreign state owned companies (with state share above 25%) to submit bids for shareholdings. In 2011 and 2012 the Government plans to sell all four heat generators and 14 regional energy distribution companies (oblenergo). Draft State Budget for 2012 foresees UAH 10 bn privatization receipts. Extra funds are to be directed to the

State Fund for Regional Development. Thus the SPFU should be very efficient in ensuring declared amounts, half of which might be obtained from the privatization of energy companies, the rest, however, by at least one blue chip.

- Real disposable income growth decelerated to 3.4% yoy in the second quarter of 2011 as compared to 8.7% yoy in previous quarter. It is primarily explained by higher inflation between April and June. In particular, nominal disposable income grew by 14.5% yoy during this period decelerating as compared to the previous quarter by 2.6 p.p. Real income from social assistance and current transfers declined by 1.4% yoy due to conservative fiscal policy. Income from wages grew by 4.7% yoy in real terms and 15.9% yoy in nominal terms. The growth is likely to be explained by administrative increase in minimum wage as well as some improvement of financial state of companies. At the same time, debt burden decreased from 2010, which supported real final private consumption growth.

Ukraine: Economic Indicators 2009 - 2011

| | | 2009 | 2010 | Q1 11 | Q2 11 | Q3 11 | July | Aug | Sep |
|------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|-------------|------------|------------|
| GDP (real) | % yoy | -15.1 | 4.2 | 5.3 | 3.8 | | | | |
| Industrial production (real) | % yoy cum. | -21.9 | 11.2 | 9.7 | 8.7 | | 8.7 | 8.9 | |
| Agricultural prod. (real) | % yoy cum. | 0.1 | -1.0 | 5.3 | 3.2 | | 9.1 | 10.5 | |
| CPI | % yoy eop | 12.3 | 9.1 | 7.7 | 11.9 | | 10.6 | 8.9 | 5.9 |
| Current account | % GDP. cum. | -1.7 | -1.7 | -3.8 | -4.0 | | | | |
| Fiscal balance | % GDP | -2.4 | -5.9 | | | | | | |
| External state debt (total) | % GDP eop | 21.5 | 25.3 | | | | | | |
| Gross international reserves | USD bn cum. | 26.5 | 34.6 | 34.6 | 37.6 | 35.0 | 37.8 | 38.2 | 35.0 |
| Exchange rate (official) | EUR aop | 10.87 | 10.53 | 10.85 | 11.48 | 11.27 | 11.38 | 11.42 | 11.01 |

Source: IER.

For further information: Institute for Economic Research and Policy Consulting (link: www.ier.kiev.ua).