

- On March 30 the Chief Negotiators of Ukraine and the European Union initialled the text of the Association Agreement (AA), including provisions on a Deep and Comprehensive Free Trade Area. The initializing procedure followed the completion of negotiations on the AA announced in December 2011 during the annual EU-Ukraine Summit. The signature of the AA is likely to take place on December 2012 only under the condition of adherence to democratic values, improvement of situation with political prisoners and ensuring free, fair and transparent parliamentary elections. Nevertheless, further AA ratification by national parliaments of the EU member states raises even more doubts, as Germany, France and the UK made clear that they will not ratify the AA without major improvement of the situation with democracy in Ukraine.
- According to the revised estimates of Ukrstat real GDP grew by 5.2% in 2011. The real private final consumption increased by 15% making positive contribution to economic growth at 9.5 p.p. At the same time, increased consumption stimulated larger imports. Consumption grew due to higher real disposable income as well as lower saving rate. In particular, debt burden on households declined and loans increased after two years of contraction. Limited banking credits and restricted own funds of companies as well as economic and political uncertainty defined the pattern of real fixed capital accumulation. Increase in state capital outlays, on the contrary, supported investment growth. Real fixed capital accumulation increased by 10.1% from low base of 2010 and remained lower than in 2004.
- Increase in investments and consumption resulted in rapid growth of real imports (by 16.8%). At the same time, real exports increased by mere 2.2% due to exports restrictions on grain for a large part of year and bad sea-port infrastructure. Low external demand in the second half of the year also contained exports. As a result, net exports contribution to real GDP growth was negative at 7.9 p.p. Inventories added 2.2 p.p. to economic growth. Increased inventories reflect record agricultural harvests. However, the Ukrstat might have overstated inventories due to mismatches in statistical reporting. In this case they will be corrected during the next revision of the GDP.
- On the production side, agriculture and manufacturing contributed the most to economic growth. Real gross value added (GVA) in these sectors increased by 17.6% and 6.9%, respectively. Surge in consumption stimulated growth of GVA in trade. Higher consumption and production also contributed to higher GVA in transports.
- In the first quarter privatization receipts totalled UAH 4.1 bn (40% of annual budget plan). This amount was ensured by sales of 6 lots in energy sector. In particular, in March the DTEK bought 25% stake in Dniproenergo (for UAH 1.2 bn). As a result, the DTEK became a key private player on energy generation market with cumulative installed energy generation capacity of 18.2 GW. The State Property Fund of Ukraine (SPFU) continues preparations for sale of other companies. In particular, the privatization of 50% stake of Dniprooblenergo is scheduled for April and sale of 45% of Crimenergo is likely to be conducted in May. Besides, the auction for 37.58% stake of "Lviv coal company" is planned for May. The SPFU will offer this object at "Ukrainian interbank currency stock exchange" instead of traditional privatization auction.

- Unemployment rate (ILO methodology) in 2011 moved down by 0.2 p.p. to 7.9% of economically active population in age between 15-70 years old. It remained higher than before the crisis most likely due to several reasons. First, the output in many sectors has not yet reached pre-crisis levels. Second, restructuring during crisis allowed companies to become less labour intensive. At the same time, surveys of employers indicate that skills mismatches remain high and they often fail to find workers with necessary skills. The Government recently announced new initiatives to address these concerns, but they are unlikely to be effective in the short-run.

## Ukraine:

## Economic Indicators 2009 - 2012

		2009	2010	2011	Q2 11	Q3 11	Jan	Feb	March
GDP (real)	% yoy	-15.1	4.1	5.2	3.9	6.5			
Industrial production (real)	% yoy cum.	-21.9	11.2	7.3	8.7	8.6	2.0	2.0	
Agricultural prod. (real)	% yoy cum.	0.1	-1.0	17.5	3.2	13.7	0.5	0.4	0.5
CPI	% yoy eop	12.3	9.1	4.6	11.9		3.7	3.0	1.9
Current account	% GDP. cum.	-1.7	-1.7	-5.6					
Fiscal balance	% GDP	-2.4	-6.0	-1.8					
External state debt (total)	% GDP eop	21.5	25.6	22.8					
Gross international reserves	USD bn cum.	26.5	36.7	31.8	37.6	35.0	31.4	31.0	31.1
Exchange rate (official)	EUR aop	10.87	10.53	11.09	11.48	11.27	10.30	10.54	10.53

Source: IER.

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