

- **The Government.** On March 28, the Petro Poroshenko Bloc decided to leave the government coalition. It implied that the coalition *de facto* ceased to exist, although it was not clear whether all necessary procedures were completed for this to happen *de jure*. The parties that constituted the former coalition (with the exception of Samopomich) started negotiations to establish a new one. As before, the Petro Poroshenko Bloc and the People's Front Party are expected to comprise the core of the coalition (their factions included 216 Members of the Parliament as of March 28, while the minimum required number for a coalition was 226). The coalition may be created by those two parties if the number of MP's in their factions increases sufficiently. It is also possible that another party or a group of non-partisan MP's joins the coalition. Establishment of a new coalition is expected to ease the political crisis gripping Ukraine since November 2015. However, if a new Government resumes reforms, it is likely that their pace will be slower than under the current Government. A new Government may also resort to populist measures reversing reforms that were already implemented.

Volodymyr Groysman, Speaker of the Parliament and a close ally of President Petro Poroshenko, was discussed as the most likely person to be appointed as a Prime Minister. However, in the first decade of April the political confrontation increased due to lack of consensus on the composition of new government.

- **Law enforcement.** On March 29, the Parliament gave its consent to the dismissal of Prosecutor General Viktor Shokin. On April 3, he was dismissed by President Petro Poroshenko. Mr. Shokin was Prosecutor General since February 2015. Upon appointment he committed to revamp the prosecutor's offices, and fight corruption. However, Mr. Shokin failed to comply with those promises, and his work received widespread disapproval from the public and Ukraine's international partners (including regular public criticism for hindering the fight against corruption from US Ambassador to Ukraine Geoffrey R. Pyatt). Mr. Shokin was considered responsible for an actual failure of the reform of local prosecutor's offices, which was conducted in the second half of 2015. It is expected that a new Prosecutor General will be appointed in April.
- **The war in Donbas.** In late March-early April, Russia-controlled insurgents launched an offensive against Ukrainian forces near the town of Avdiyivka, located to the north of Donetsk. The attacks were repelled, and the front line did not change. The insurgents also continued a constant harassing fire against Ukrainian forces in other locations. In March, Ukraine, Russia, and the Organization for Security and Co-operation in Europe (OSCE) continued negotiations for settlement of the conflict in Donbas but with no results. They discussed exchange of prisoners and preconditions for a local election in Donbas (specifically, mechanisms for verification of security, and a transitional justice system), but did not reach any substantive agreement.
- **GDP.** Military conflict in the East, high inflation, drop in domestic demand and weak external demand were among the reasons of decline in real GDP by 9.9% in 2015. Decline in real disposable income and conflict in Donbas resulted in contraction of real private final consumption by 20.2%. At the same time, real gross fixed capital accumulation reduced by 9.3% overall in the year, as it increased by 1.4% yoy in the last quarter. This may have reflected influence of favourable weather on construction. Net real exports made positive contribution to GDP growth at 3.2 p.p. as imports declined more than exports. Imports contracted due to imports substitution as well as lower natural gas imports (explained by the drop in industry and energy saving measures). Moreover, real GDP growth was supported by the positive contribution from increased inventories (by 2.5 p.p.).

On the production side, real gross value added (GVA) declined in all sectors, except for health care. Value added in agriculture declined by 4.7% due to lower crop harvest and decline in livestock production. Military conflict in the East of Ukraine and low

domestic demand are the major reason for drop in real GVA in extracting industry and manufacturing by 14.3% and 13.7%, respectively. Decline in purchasing power of households and lower international trade resulted in drop of wholesale and retail trade by 16.8%. At the same time, the need for more complex logistic routes growing bulk exports such as grain, iron ore and scrap metal are likely to be a reason for small contraction of transport (by 1.4%).

- Sectoral trends.** Industrial output in February increased for the first time since 2012. It increased by 4.9% yoy on working and calendar day adjusted basis. Coal extraction surged by 27.9% yoy due to statistical base effect (many mines and other companies in the Eastern Donbas suspended work in the first months of 2015). Statistical base was also low for metallurgical plants and chemical producers. As a result, in February 2016 coke producers and metallurgy increased output by 45% yoy and 14.2% yoy, respectively. At the same time, food production increased by only 0.9% yoy likely due to weak demand. Machine building increased production by 3.9% yoy as production of investment products increased by 5.9% yoy
 In February, retail sales by enterprises declined by 1.5% yoy after growing by 0.1% yoy in January. Construction grew by 1.8% yoy due to higher commercial construction and larger financing of infrastructural projects. At the same time, residential construction declined from high statistical base in previous year.

Ukraine: Economic Indicators 2011 – 2016*

		2011	2012	2013	2014	2015	Dec	Jan	Feb	Mar
GDP (real)	% yoy	5.5	0.2	0.0	-6.6	-9.9				
Industrial production (real)	% yoy cum.	8.0	-0.7	-4.3	-10.1	-13.0	-13.0	-1.7	2.9	
Agricultural prod. (real)	% yoy cum.	20.2	-3.9	13.6	2.2	-4.8	-4.8	-2.5	-2.1	
CPI	% yoy eop	4.6	-0.2	0.5	24.9	43.3	43.3	40.3	32.7	20.9
Current account	% GDP. cum.	-6.3	-8.2	-9.0	-3.5	-0.2				
Fiscal balance	% GDP	-1.8	-3.6	-4.4	-4.6	-1.6				
External state debt (total)	% GDP eop	22.8	22.1	20.5	38.5	52.7				
Gross international reserves	USD bn eop	31.8	31.4	20.4	7.5	13.3	13.3	13.4	13.5	13.3
Exchange rate (official)	EUR aop	11.09	10.27	10.61	15.72	24.23	24.23	26.35	29.33	29.33

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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