

- **The Government.** On November 27, a new Verkhovna Rada was inaugurated. The five pro-European parties, which won the October election, established a coalition that included a constitutional majority of the members of the Parliament (302 out of 422 elected MP's). The coalition declared that its main goal was to conduct reforms aimed at resuming economic growth in Ukraine. Reforms are to be based on the Association Agreement between the EU and Ukraine. On December 2, the coalition formed a new government, in which Arseniy Yatsenyuk retained the post of the Prime Minister. Petro Poroshenko Bloc gained 8 out of 20 seats in the Government; the People's Front party got 5 seats (including the one of the Prime Minister); the Samopomich party, the Batkivshchyna party, and the Radical party received 2, 2, and 1 seat(s), respectively (according to the Constitution the Minister for Foreign Affairs and the Minister of Defence are appointed upon request from the President). However, the parties gave almost all positions of the ministers responsible for economic policy to professionals that were not politically affiliated, mostly to investment bankers. The professionals got 6 ministerial seats, including the posts of the Minister of Finance, the Minister of Economic Development and Trade, and the Minister of Energy and Coal Industry. Moreover, three out of the six seats were given to foreign nationals. The recruitment of private sector professionals may be seen as a move to facilitate securing foreign financial aid, and boost reforms in order to revive economic growth. On the other hand, it may be also an attempt of the coalition members to shift political responsibility for the unfolding economic crisis. Given the crisis and general political instability, it is likely that the government's lifetime will not be long.
- **The war in the East.** In November, the low intensity military conflict continued in Donetsk and Luhansk oblasts. Pro-Russian insurgents backed by Russia and Russian troops kept on shelling and attacking Ukrainian troops, but did not succeed to change the front line. According to the United Nations, the death toll of the conflict reached 4,356 as of November 25 (it was 4,035 on October 29, and 3,543 on September, 21, which implies that the average number of casualties in November was roughly the same as in October). The little success of permanent attacks on Ukrainian troops and mounting economic troubles of Russia suggest that the probability of a large-scale war between Russia and Ukraine might decrease. However, the low intensity military conflict is not likely to end in the nearest months.
- **The IMF.** On November 11-25, a technical IMF mission visited Kyiv for the preparation to the second review of Stand-By Arrangement (SBA) with Ukraine. The mission discussed Ukraine's economic policies with top officials. It is expected that the IMF mission visits Ukraine in December. Combined third and fourth tranches of the loan (in the total amount of SDR 1829.3 m that is near USD 2.7 bn) are expected to be provided to Ukraine in January 2015. Earlier it was expected that the disbursements would be made in December.
- **GDP.** Real GDP in the third quarter of 2014 contracted by 5.3% yoy (flash Ukrstat estimate was decline by 5.1% yoy). On the demand side, domestic demand dropped sharply. Decline in real disposable income, purchases of foreign currency and net credits repayments by households resulted in drop of real private final consumption at 13.2% yoy. Real gross fixed capital accumulation contracted by 29.9% yoy due to restricted access to financing and cancelled investment plans. Net real exports made positive contribution to economic growth as real exports declined by 19.3% yoy, while real imports dropped by 32.2% yoy. On the production side, real gross value added in (GVA) dropped in most sectors. Military conflict in the Eastern Ukraine, low domestic and external demand, and trade tensions with Russia resulted in decline of real GVA in manufacturing at 15.2% yoy. Real GVA in construction declined by 26.1% yoy due to restricted financing and hard budget constraints. Lower real private final

consumption and industrial output explain decline in real GVA in trade and transport. At the same time, real GVA in agriculture surged by 25.9% yoy primarily due to statistical base effect. Higher spending for defence and security resulted growth of real GVA in state administration and defence by 8.3% yoy.

- **Sectoral trends.** In October the industrial output contracted by 16.3% yoy due to military conflict in the Eastern Ukraine. At the same time, it increased by 7.5% mom as some companies in the region were either able to restart their operation or resumed statistical reporting.

The output in extractive industry contracted by 24.9 yoy. The extraction of coke and lignite dropped by 60.5% yoy as some mines stopped their operation due to military conflict. Manufacturing declined by 12.4% yoy. In particular, the output in metallurgy decreased by 22.6% yoy, while the manufacture of chemicals dropped by 10.6% yoy). Machine-building production dropped by 26.1% yoy as production of vehicles and locomotives more than halved due to lower demand. At the same time, food production (excluding tobacco and beverages) grew by 7.0% yoy primarily due to earlier processing of sugar beets into sugar.

Retail trade by enterprises dropped by 6.8% yoy between January and October 2014, which reflects decline in real private final consumption. Construction declined by 31.6% yoy in October due to military conflict in Eastern Ukraine, financial constraints faced by companies and low fiscal capital outlays. Agricultural production in October decreased by 21.5% yoy due to high statistical base. In particular, the harvesting began later in 2013 because of rains.

- **Monetary policy: Inflation reached 21.8% yoy in November**

In November consumer inflation crossed 20% yoy threshold for the first time since February 2009. Month-to-month price increase slowed to 1.9% mom as food prices growth decelerated. This is explained by lower fruit and sugar prices and possibly weak consumer demand. However, wide-based price increases continued as hryvnia weakened further relative to dollar in November. Prices for almost all major groups of non-food goods and services increased by 2-3% mom. Due to delayed heating season increase in heating tariffs by 40% approved in May became applicable only in November.

## Ukraine: Economic Indicators 2011 - 2014

		2011	2012	2013	Q3 14	Aug*	Sep*	Oct*	Nov*
GDP (real)	% yoy	5.2	0.3	0.0	-5.3				
Industrial production (real)	% yoy cum.	7.3	-0.5	-4.7	-5.8	-7.8	-8.6	-9.4	
Agricultural prod. (real)	% yoy cum.	17.5	-4.5	13.7	3.4	6.3	16.0	7.5	
CPI	% yoy eop	4.6	-0.2	0.5	12.6	14.2	17.5	19.8	21.8
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	15.9	16.4	12.6	10.0
Exchange rate (official)	EUR aop	11.09	10.27	10.61	16.67	17.25	16.83	16.43	18.36

Source: IER.

\*Data exclude Crimea

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

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