

- **The Government.** In November, a group of members of the Parliament (MP's) from the government coalition started a campaign for resignation of the government. They argued that the government failed to carry out necessary economic reforms. As of December 9, more than 70 MP's supported the resignation call, including all MP's from Yulia Tymoshenko's Batkivshchyna party. In early December, Governor of Odessa region Mikheil Saakashvili, a close ally of President Petro Poroshenko, also accused Prime Minister Arseniy Yatseniuk of corruption. The Parliament may vote for resignation of the Government after December 11, when a one-year period after an approval of government's action plan expires. However, the resignation of the government in the nearest months is unlikely because it may trigger a political crisis leading to an early parliamentary election, which would not be beneficial for the main parliamentary parties. Still, some ministers may be changed instead.
- **Russia.** In November, Russia conformed that it was going to further restrict imports from Ukraine starting from January 1, 2016. The restrictions would include an embargo on imports of some food products (meat, milk, vegetables, fruits etc.) and a non-preferential trade regime for import of a number of food and non-food products (the list of exemptions from free trade between Ukraine and Russia would be substantially expanded). In August 2015 Russia's government decided to impose the embargo responding to Ukraine's decision to join Western sanctions against Russia. The decision to expand the list of exemptions starting from January 1, 2016 was taken by Russia in September 2014. That decision was motivated by an intention to protect the domestic market from Ukrainian and European imports after EU-Ukraine free trade area is established. The EU, Ukraine and Russia conducted negotiations aimed at finding a solution to alleviate Russia's concerns, but those negotiations so far yielded no results. In the period from January to September Ukrainian exports to Russia fell by 56% yoy to USD 3.6 bn. Ukrainian exports to Russia are expected to decrease by USD 130-400 m in 2016 as a result of food embargo.
- **The war in Donbas.** In November, a fragile truce was continued to be observed in Donbas. Russia-controlled insurgents kept on violating ceasefire by firing against Ukrainian troops. The number of violation incidents was up to 30-40 per day. Insurgents also intermittently attacked Ukrainian troops and shelled them using the types of weapons that had to be withdrawn from the frontline according to the agreement reached on September 29. The withdrawal process was not completed as of early December. No progress in the implementation of Minsk peace agreements was made during the month. An escalation of the conflict in the nearest months is unlikely due to Russia's enduring involvement in the war in Syria.
- **GDP.** According to the flash estimate of the Ukrstat, drop in real GDP in the third quarter of 2015 decelerated to 7.0% yoy from 14.6% yoy in second quarter. Seasonally adjusted real GDP grew by 0.7% qoq. Real GDP figures indicate that macroeconomic stabilisation continued in the third quarter. As in previous two quarters of 2015 contraction of domestic demand was the key constraint for economic activity while positive net real exports cushioned the drop in GDP
- **Sectoral trends.** Industrial output in October declined by 5.0% yoy. Growth in extractive industries decelerated to 1.9% yoy due to higher statistical base. Decline in manufacturing decelerated to 7.6% yoy (from 8.3% yoy). In particular, the chemical production was at the level of October of 2014 as several large companies restarted operation. Steel production also remained higher than a year ago but sales of higher value-added steel products suffered. In October retail sales by enterprises continued to grow on seasonally adjusted basis for the last several month as wages recovered. Some of the lost purchasing power and consumer sentiment became less negatives.

Drop in in construction again decelerated to 12.2% yoy due to lower decline in all types of construction as public sector increased investment spending and spending on residential construction remained stable.

*The Ukrstat publishes data excluding temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol and the part of the territory under anti-terroristic operation in the East. The statistical base was also revised to make like-to-like comparison available.*

- **Electricity.** On November 20-21, unidentified individuals damaged all four electricity pylons in Kherson region transmitting electricity to the Crimean peninsula. As a result, electricity transmission to Crimea from the continental part of Ukraine was stopped. The deficit of electricity in Crimea is 600-700 MWt. At peak hours, Ukraine supplied 1000-1050 MWt to the peninsula. Maximum capacity of Crimean own electricity generation is 350 MWt. On November 24, in response to this disruption Russia stopped its coal supplies to Ukraine. The same did the coal mines situated in the ATO zone. Disruption of electricity supply to Crimea also adversely affected the electricity network of continental Ukraine. Due to the lower consumption at off-peak hours in the system Ukrainian nuclear power plants (NPPs) had to decrease their electricity generation by 500 MWt. At the same time, thermal power plants (TPPs) had to compensate this decrease during peak hours. Additional load on TPPs means increased consumption of coal and gas by power plants and, thus, higher cost of electricity generation. Ukraine plans to partly restore electricity supplies to Crimea.

#### Ukraine: Economic Indicators 2011 - 2015

		2011	2012	2013	2014	Q1 15	Q2 15	Aug*	Sep*	Oct*	Nov*
GDP (real)	% yoy	5.2	0.3	0.0	-6.8	-17.6	-14.6				
Industrial production (real)	% yoy cum.	7.3	-0.5	-4.7	-10.7	-21.4		-18.0	-16.6	-15.4	
Agricultural prod. (real)	% yoy cum.	17.5	-4.5	13.7	2.8	-4.7		-5.8	-5.3	-4.4	
CPI	% yoy eop	4.6	-0.2	0.5	24.9	45.8		52.8	51.9	46.4	46.6
Current account	% GDP. cum.	-5.7	-8.1	-9.0	-4.0	-3.1	1.3				
Fiscal balance	% GDP	-1.8	-3.6	-4.4	-4.6						
External state debt (total)	% GDP eop	22.8	22.0	20.6	39.0						
Gross international reserves	USD bn eop	31.8	31.4	20.4	7.5	10.0	10.26	12.6	12.8	13.0	13.1
Exchange rate (official)	EUR aop	11.09	10.27	10.61	15.72	23.88		23.93	24.46	24.56	25.07

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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