

- On 19 December, the EU-Ukraine annual summit took place in Kyiv. Its main accomplishment was the declaration on the official completion of negotiations on the Association Agreement (AA). The AA will substitute the Partnership and Cooperation Agreement and establish a legal framework for further economic integration and association between Ukraine and the EU. The key component of the Agreement is a creation of deep and comprehensive free trade area. Besides, the text of the AA includes the acknowledgement of Ukraine's European aspirations by the EU's taking note of its European identity. However, it does not provide clear membership prospect. EU was willing to complete negotiations despite Ukraine's democratic backsliding mainly allied with the prosecuting and jailing opposition leader and former Prime-minister Yuliya Tymoshenko. Nevertheless, the signature and subsequent ratification of the AA will depend on Ukraine's adherence to the European democratic values and the rule of law.
- In December, Ukraine intensified talks with Russia on the revision of gas contracts signed in 2009 to ensure decline in base price. Despite all efforts, an agreement was not achieved and the new contract was not signed.
- Real GDP growth accelerated to 6.6% yoy in the third quarter of 2011 from 3.8% yoy in the second quarter. On the production side, record harvest led to increase in gross value added (GVA) in agriculture by 16.5% yoy. Manufacturing also contributed to economic recovery. Increase in production and consumption stimulated growth of trade and transport. At the same time, growth GVA in construction slowed likely due to statistical base effect.
- On demand side, real private final consumption remained the major contributor to real GDP growth increasing by 15.7% yoy. Households primarily increased purchases of food items, which could be attributed to decline in prices for fruits and vegetables. Besides, purchases of clothing as well as housing appliances increased rapidly. Growth of real fixed capital accumulation accelerated to 15.2% yoy. Construction of commercial properties and infrastructure grew 31.4% yoy in part due to state financing. At the same time, the Ukrstat continued to report falling investment into residential construction due to methodological errors (overstated statistical base).
- The plan for privatisation receipts was accidentally executed in 2011 after many years of futile optimism. As of December 2011, receipts from privatization reached around UAH 11.5 bn as the sale of Ukrtelecom for UAH 10.6 bn closed in the first half of this year instead of 2010. Besides, several sales were made in energy sector. The Government expects to complete sales of energy companies by the end of 2012. The State property Fund of Ukraine (SPFU) is to prepare the sale of 13 shareholdings of energy generating and distribution companies. In particular, auctions of state shareholdings in Dnipro-, Donetsk-, Zakarpattyaoblenergo are scheduled for January 2012. They are likely to be more competitive than sale of Zakhidoblenergo, where only one company (the DTEK) participated in tender. Currently there are already 10 companies interested in new tenders. Start price is UAH 1.2 bn for 25% shares of Dniproenergo, UAH 450 m for 40% of Donetskoblenergo, UAH 135 m for 50% of Zakarpattyaoblenergo. Sales of 50% of Vinnitsyaoblenergo (start price UAH 168 m) and 45% of Chernivtsioblenergo (start price UAH 65 m) are scheduled for February.

Ukraine:**Economic Indicators 2009 - 2011**

		2009	2010	Q1 11	Q2 11	Q3 11	Oct	Nov	Dec
GDP (real)	% yoy	-15.1	4.2	5.3	3.8	6.6			
Industrial production (real)	% yoy cum.	-21.9	11.2	9.7	8.7	8.6	8.2	7.8	
Agricultural prod. (real)	% yoy cum.	0.1	-1.0	5.3	3.2	13.7	16.6	16.5	
CPI	% yoy eop	12.3	9.1	7.7	11.9		5.4	5.2	4.6
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	34.3	32.4	31.8
Exchange rate (official)	EUR aop	10.87	10.53	10.85	11.48	11.27	10.91	10.84	10.54

Source: IER.

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