

- **The EU.** On December 18, the European Commission (EC) determined that Ukraine met criteria for visa liberalization. The decision was based on a positive assessment of the progress of Ukraine in the implementation of the EU-Ukraine Visa Liberalisation Action Plan (VLAP). The EC formally recommended the EU Council and the European Parliament to lift visa requirements for Ukrainians. The exemption will be limited to short trips (up to 90 days in any 180- days period) and granted only to holders of biometric passports. The visa free regime is expected to become effective in mid-2016 if Ukraine fulfils taken obligations.
The decision of the EC to grant visa-free regime for Ukrainians concluded the EU-Ukraine visa liberalization dialogue that was launched in October 2008. The VLAP consisted of four blocks, specifically (1) document security, (2) border and migration management, (3) public order and security, and (4) external relations and fundamental rights. The latest steps taken by Ukraine to implement the VLAP included establishment of the National Anti- Corruption Bureau (NACB), the Special Anti-corruption Prosecutor's Office, and the National Agency for the Prevention of Corruption. Adoption of laws on prevention of discrimination and on the Asset Recovery Office was also a part of the VLAP.
- **The Government.** A political crisis that began unfolding in November, abated in December. Although a group of Members of the Parliament (MP's) conducted a campaign for resignation of the Government, the issue was not put to the vote. The Government led by Arseniy Yatseniuk received support from President Petro Poroshenko. However, the probability of aggravation of the political crisis remains high. Two out of four fractions of the government coalition (Batkivshchyna and Samopomich) declared that they supported the resignation of the Government.
- **The war in Donbas.** In December, the term for implementation of a part of key provisions of Minsk ceasefire agreements expired. In particular, by the end of 2015 Ukraine had to agree with Russia-controlled insurgents on principles of governance of the territories they occupied. Based on that, Ukraine had to change its Constitution, pass a law on special rights for local governments of the territories, and held a local election there. However, such agreement was not reached. On December 30, leaders of Germany, France, Russia and Ukraine (the Normandy Four) agreed to continue a dialog on modalities of local elections in Donbas in 2016, which implied that the period for implementation of the corresponding provisions of the ceasefire agreements was *de facto* extended. But the dialog is unlikely to be fruitful because Russia is not willing to lose control over the occupied territories. Russia and the insurgents persistently fail to implement other provisions of the agreements, including a withdrawal of foreign troops from Ukrainian territory and a full ceasefire. As a result, the conflict in Donbas may be frozen for a long time.
- **GDP.** The Ukrstat revised its previous estimate of real GDP decline in the third quarter of 2015 from 7.0% yoy to 7.2% yoy. As compared to previous quarter real GDP grew by 0.5% qoq. This reflected increase in economic activity in agriculture, construction and transport and stable nonfinancial services sector.
On demand side, net real exports contributed positively to economic growth as real exports declined less than real imports (11.3% yoy and 18.5% yoy, respectively). At the same time, decline in real disposable income (by 26.6% yoy) was softened by use of savings to smooth consumption. Still real private final consumption fell by 17.8% yoy. Low fiscal capital expenditures, and limited banking lending contributed to continued drop in investment in commercial property and engineering structures (roads, bridges, railways, electricity and other networks). Overall fixed capital accumulation dropped only by 7.4% yoy as investments in machines and equipment stabilized at very low level (and even inched up by 1.2% yoy). This may reflect long delayed critical repairs and replacements.

On the production side, real gross value added (GVA) declined in all sectors except for water supply, but at a much lesser degree than in the second quarter. Low domestic and external demand resulted in drop in real GVA in manufacturing by 9.9% yoy including 2.4% drop from the previous quarter (on seasonally adjusted basis). Drop in real GVA in extractive industry slowed to 5.0% yoy due to low statistical base. GVA in trade dropped by 15.1% yoy following drop in domestic consumption and exports. Lower harvest, later harvesting period as well as low domestic demand explain decline in real GVA in agriculture by 3.8% yoy. Sharply lower statistical base and stabilization of investment spending contributed to 12.1% yoy drop of GVA in construction which is much slower than 25% yoy drop observed in previous quarter. Services sector was relatively resilient as GVA in IT dropped by 2% yoy, business services as well as real estate operations by 6% yoy. GVA in transport remained flat. This likely reflected stable or growing demand for transportation of bulky commodities (grain, iron ore, coal).

- Sectoral trends.** Industrial output dropped by 4.9% yoy in November. Decline in extractive industries accelerated to 2.7% yoy due to lower extraction of iron ore. At the same time, manufacturing output increased from previous month in November (on seasonally adjusted basis) and year-to-year decline slowed to 4.9% yoy. Production in machine building increased by 4.1% yoy due to increased production of electrical and transport equipment from a low base. This likely reflected stabilization of domestic demand and some increase in investment spending. In November retail sales by enterprises declined as compared to October on seasonally adjusted basis. This reflected slowdown in household incomes and higher utility bills during heating season. At the same time, consumer sentiment became less negative. Drop in construction decelerated to 9.5% yoy primarily due to higher fiscal capital spending.

Ukraine: Economic Indicators 2011 - 2015

		2011	2012	2013	2014	Q1 15	Q2 15	Q3 15	Oct*	Nov*	Dec*
GDP (real)	% yoy	5.2	0.3	0.0	-6.8	-17.6	-14.6	-7.2			
Industrial production (real)	% yoy cum.	7.3	-0.5	-4.7	-10.7	-21.4	-20.5	-16.6	-15.4	-14.4	
Agricultural prod. (real)	% yoy cum.	17.5	-4.5	13.7	2.8	-4.7	-9.3	-5.3	-4.4	-4.7	
CPI	% yoy eop	4.6	-0.2	0.5	24.9	45.8	57.5	51.9	46.4	46.6	43.3
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	10.3	12.8	13.0	13.1	13.3
Exchange rate (official)	EUR aop	11.09	10.27	10.61	15.72	23.88	23.88	24.11	24.56	25.07	24.23

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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