

- **Russia.** Ukraine made a step towards closer relations with the Customs Union of Belarus, Kazakhstan, and Russia (CU). On May 31, Ukraine signed a memorandum on deepening cooperation with the Eurasian Economic Commission, a regulatory body of the Union. The memorandum, which is not legally binding, states that Ukraine looks to obtain an observer status in the Union. The CU decided to introduce such cooperation format on May 29. The president of Kazakhstan Nursultan Nazarbayev said that documents granting Ukraine the status would be technically prepared by autumn 2013. Ukraine's initiative to sign the memorandum can be considered as a diplomatic move aimed at improving relations with Russia. However, it will not bring the country any concrete benefits, including a decrease in gas prices. Room for closer cooperation between Ukraine and Russia is limited because Russia's goal is to ensure a full membership of Ukraine in the Customs Union, but Ukraine does not consider such an option.
- **The European Union.** A number of issues blocking the EU-Ukraine Association Agreement (AA) are still not resolved, but Ukraine still has time to implement expected changes. In late May, the Minister of Foreign Affairs of Lithuania Linas Linkevicius stated that Ukraine achieved some progress in one of three problem areas — elaboration of a new election law. But the other two conditions of the EU are not met. Specifically, Ukraine did not achieve progress in implementing a law enforcement reform, and in solving the problem of selective justice. Nevertheless, the EU continues the process of technical preparation for the signature of the AA, which is scheduled for November 2013. The EU unveiled plans for the DCFTA, which is a part of the Association Agreement, to become effective in 2014. According to the EU statement, the AA will be signed only if Ukraine makes necessary political decisions to resolve all issues. Chances that the agreement will be signed are rather low.
- The Ukrstat revised its preliminary estimate of real GDP growth in the first quarter of 2013 up by 0.2 p.p. to -1.1% yoy. On the demand side, real private final consumption growth (at 4.5% yoy) and increase in gross fixed capital accumulation (at 4.0% yoy) made positive contribution to real GDP growth. Slowdown in real private final consumption was rather sharp and not consistent with statistics for retail sales of goods. To some degree this discrepancy may be explained by lower spending on services. Deceleration of consumption may be attributed to slowdown in disposable household income growth and higher savings. At the same time, investment performed much better than expected based on deep decline of construction. This may be due to large investment in energy infrastructure reported but not actually spent. Net exports made negative contribution to growth. On production side, real gross value added (GVA) increased only in agriculture, trade, health care and in other services. Drop in external demand resulted in fall of real GVA in manufacturing at 9.5% yoy.
- Industrial output in April declined by 2.2% yoy as compared to 5.2% yoy fall in March, which is attributed to better performance manufacturing as well as statistical base effect. Decline in manufacturing production slowed to 3.5% yoy from 9.3% yoy in March. Steel and chemical production exports increased as compared to first quarter performance, while domestic demand supported food

industry Machine building production dropped by 8.8% yoy as compared to 20.3% yoy contraction in March likely due to higher external demand. Food production returned to growth (at 1.6% yoy) due to higher domestic demand. At the same time, higher meat and milk production (by 11% yoy and 14% yoy, respectively) is explained by larger numbers of livestock. Excluding alcohol and tobacco food output grew by 4.5% yoy. Agricultural output increase by 5.1% yoy in first four months of the year. Decline in real wholesale trade turnover decelerated to 4.8% yoy in the first four months of the year reflecting some improvement in international trade. At the same time, retail trade turnover growth further decelerated to 12.7% yoy. Freight transportation turnover declined by 10.7% yoy, which reflects lower industrial production as well as lower transit flows.

- In May, the State Property Fund of Ukraine (SPFU) sold stakes of five coal processing plants. The total revenue received was UAH 111.7 m. Besides, the SPFU plans to continue privatisation in energy sector. In particular, it approved the Plan for the privatization of power generation and supply companies. According to the schedule, four packages (including "Donbasenergo") will be sold in August and seven in September. Even if all these companies are sold at higher than starting price, the annual plan of privatisation receipts (at UAH 10.9 bn) is unlikely to be executed.
- In April, average wage grew by 9.9% yoy to UAH 3233. Companies in all sectors increased wages although changes ranged from growth at 2.9% yoy for transport to 14.1% yoy for agriculture. Drop in wages in financial services was changed by growth at 7.4% yoy due to statistical base effect. In particular, in May 2012 wages in the sector declined likely due to financial problems faced by companies. Indexation of wages to minimum wage supported wages in industry. Industries oriented on domestic market, including food and pharmaceuticals, received higher revenues, which allow them to spend more on wage increases. Wages in education and health care accelerated due to the government decision to raise the base rate in Single Tariff Scale for wages in public sector.

**Ukraine: Economic Indicators 2010 - 2013**

|                              |             | 2010  | 2011  | 2012  | Q3 12 | Q4 12 | Q1 13 | March | April | May   |
|------------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP (real)                   | % yoy       | 4.1   | 5.2   | 0.2   | -1.3  | -2.5  | -1.1  |       |       |       |
| Industrial production (real) | % yoy cum.  | 11.2  | 7.3   | -1.8  | -1.2  | -1.8  | -5.0  | -5.0  | -4.2  |       |
| Agricultural prod. (real)    | % yoy cum.  | -1.0  | 17.5  | -4.5  | -4.6  | -4.5  | 5.8   | 5.8   | 5.1   |       |
| CPI                          | % yoy eop   | 9.1   | 4.6   | -0.2  | 0.0   | -0.2  | -0.8  | -0.8  | -0.8  | -0.4  |
| Current account              | % GDP. cum. | -1.7  | -5.6  | -9.6  |       |       |       |       |       |       |
| Fiscal balance               | % GDP       | -6.0  | -1.8  | -3.6  |       |       |       |       |       |       |
| External state debt (total)  | % GDP eop   | 25.6  | 22.8  | 22.0  |       |       |       |       |       |       |
| Gross international reserves | USD bn cum. | 36.7  | 31.8  | 31.4  | 29.3  | 24.5  | 24.7  | 24.7  | 25.2  | 24.5  |
| Exchange rate (official)     | EUR aop     | 10.53 | 11.09 | 10.27 | 9.99  | 10.37 | 10.55 | 10.36 | 10.40 | 10.38 |

Source: IER.

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