

- **Policies.** In April, Ukraine's authorities made a few steps to reduce the red tape for business. On April 6, the President Petro Poroshenko signed the Law on Deregulation (No. 191-VIII), which amended 37 laws on regulation of business activities, and on procedures of public bodies. In particular, the Law abolished the requirement to obtain permits for a number of business operations, and enhanced protection of investors' rights. On April 8, the Ministry of Justice launched an online service that enabled entrepreneurs to register businesses and obtain information from the business registry via the Internet. The Ministry of Justice became the first Ministry that started to provide its services on the Internet. This is a welcome step as it considerably simplifies interaction between the private sector and the Ministry.
- **The war in the East.** In April, low-intensity fighting went on in Donetsk and Luhansk oblasts. Pro-Russian insurgents and Russian troops kept on shelling and attacking Ukrainian troops despite the peace arrangement that was reached in February in Minsk. The total number of attacks from mid-February to the end of April exceeded 2,500 (or about 35 per day). In that period, over 100 Ukrainian servicemen were killed and more than 500 were wounded. Ukrainian troops responded to the attacks. The front line did not change during the month. According to the United Nations, the conservative estimate of the total death toll from the conflict reached 6243 on May 3 (it was 6083 as of March 27). A new escalation of the conflict may be expected in the nearest months.
- **Real sector: The year of the crisis**

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

Sectoral trends. The industrial output in March contracted by 21.1% yoy due to protracted impact of military conflict in the East of Ukraine, weak external and domestic demand. The output in extractive industry in March decreased by 22.7% yoy. Production of coke and lignite dropped by 61.9% yoy as several mines were not able to operate in full capacity or terminated their operation.

Manufacturing industry declined by 19.7% yoy due to decline in domestic demand and weak external demand as well as due to disruption of supply chain. The output in metallurgy decreased by 31.0% yoy, while the manufacture of chemical products dropped by 22.5% yoy as some companies of the industry faced restricted access to inputs. Lower domestic and external (primarily from Russia) demand resulted in contraction of machine building production by 22.7% yoy. In particular, production of vehicles dropped by 86.8% yoy due to decline in purchasing power of population. Absent demand from Russia resulted in decline in production of locomotives by 66.0% yoy. Food production (excluding tobacco and beverages) dropped by 13.4% primarily due to bans on imports of Ukrainian food products imposed by Russia as well as due to lower demand. At the same time, food production was supported by imports substitution.

Between January and March 2014 retail trade by enterprises dropped by 25.6% yoy, which reflects decline in real private final consumption. In particular, purchasing power of population declined due to lower real disposable income.

Freight turnover dropped by 21.5% yoy primarily due to logistic problems caused by military conflict and reduction of economic activity. Gas transit dropped primarily due to the opening of the Nord Stream pipeline that bypasses Ukraine.

Between January and March construction dropped by 31.3% yoy due to military conflict, financial constraints faced by companies and high fiscal pressure.
- **Social policy: The pension reform is planned**

The Government submitted to the Verkhovna Rada draft laws in the framework of promised pension reform. In particular, it suggests to cancel special pension to new retirees of specific groups (e.g. to civil servants, judges, prosecutors, people deputies) starting January 1, 2016. At the same time, existing special pensions will continue to be paid.

Besides, the Government suggests introducing the second pillar of the pension system – accumulative pension system – starting January 1, 2017. For this the State Accumulative Pension Fund is to be established. The participation in this pillar will be compulsory for individuals below 35 years old. The voluntary participation is planned to be available for individuals between 36 and 55 years old. The contribution to this pillar is to be defined at 2% of wage in 2017 and gradually increased to 7% of wage in 2022. The pension insurance contribution paid by employers will be reduced correspondingly.

The introduction of the accumulative pension system was already envisaged in the pension reform approved 2003. It was first expected to be introduced in 2007 if balanced budget of the Pension Fund in the PAYG (pay-as-you-go) system is achieved. However, after rapid increase in pensions in 2004 and 2005 the Pension Fund had high deficit, which postponed introduction of the second pillar. The Pension Fund is unlikely to be balanced in 2017 and, thus, the Government decision will increase the deficit of the Pension Fund further (e.g. planned deficit for 2015 is UAH 19.0 bn) as contributions to the second pillar will be withdrawn from the first pillar. International experience suggests that introduction of the second pillar might be sustainable only if the PAYG system is sustainable. During recent economic crisis, the funds of the second pillar were nationalised in several countries where overall pension system was unsustainable. The Government expects that sources of the accumulative pension system will help in developing capital market in Ukraine. However, it will likely increase the risks for the pension system as outcomes of any investments of funds during economic and political instability are too uncertain.

Ukraine: Economic Indicators 2011 - 2015

		2011	2012	2013	2014	Q4 14	Dec*	Jan*	Feb*	Mar*	Apr*
GDP (real)	% yoy	5.2	0.3	0.0	-6.8	-14.8					
Industrial production (real)	% yoy cum.	7.3	-0.5	-4.7	-10.7	-10.7	-10.7	-21.3	-21.7	-21.4	
Agricultural prod. (real)	% yoy cum.	17.5	-4.5	13.7	2.8	2.8	2.8	-2.4	-3.6	-4.7	
CPI	% yoy eop	4.6	-0.2	0.5	24.9	24.9	24.9	28.5	34.5	45.8	60.9
Current account	% GDP. cum.	-5.7	-8.1	-9.0	-4.0						
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	7.5	7.5	6.4	5.6	10.0	9.6
Exchange rate (official)	EUR aop	11.09	10.27	10.61	15.72	18.02	19.26	18.53	27.78	25.32	24.47

Source: IER.

*Data exclude Crimea. Since 2015 Ukrstat also does not include data for occupied territories in the East of Ukraine.

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