

- In October 2011, Ukraine made an important step towards establishing tighter regional ties with its major neighbours and trading partners, the EU and the CIS. On the one hand, officials announced the completion of negotiations about deep and comprehensive free trade agreement (DCFTA) between the EU and Ukraine. On the other, Ukraine signed the FTA in framework of the CIS. Both agreements formally provide same level of regional integration, namely free trade. However, de-facto they are quite different. Trade negotiations with the EU have been aimed at producing the first of a new type of 'deep and comprehensive' free trade agreement (DCFTA) involving the EU, covering a wide range of trade-related matters, aiming to remove barriers to trade not only related to 'behind the border' obstacles to trade as well as deep regulatory harmonization. Indeed, according to available information, the DCFTA with the EU has distinctive regulatory and institutional features. Important regulatory changes are foreseen in such spheres as competition policy, state aid, public procurement, sanitary and phyto-sanitary (SPS) measures, technical regulation, protection of intellectual property rights, sustainable development (ecological issues, labour and social issues) etc. The FTA signed between majority of the CIS member countries excluding Azerbaijan, Uzbekistan and Turkmenistan is much less ambitious. It adds little to existing status-quo. At present, trade regimes within the CIS have been defined by network of bilateral FTAs. These FTAs were focused on trade in goods, and aimed at the establishment of duty-free trade, but allowing for exemptions. None of these bilateral FTA's covers service sectors or majority of other trade-related topics. The same is true for the Agreement signed in October 2011. It is purely trade-in-goods agreement, and most of exemptions applied in bilateral FTAs will be retained in the CIS FTA.
- According to the preliminary Ukrstat estimates, real GDP growth accelerated to 6.6% yoy in the third quarter of 2011. The growth was likely supported by strong household consumption and increased inventories of recent grain harvest. Real industrial output growth decelerated to 6.4% yoy in September as compared to 9.6% yoy in August due to several reasons. In particular, output of export-oriented sectors, including chemical industry and metallurgy, declined from August due to weaker external demand. Machine-building output decelerated primarily against the background of high statistical base. At the same time, food sector grew in September in annual terms due to statistical base effect and probably earlier start of processing sugar beets and sunflower seeds.
- On October 20, the Verkhovna Rada adopted the Draft State Budget for 2012 in the first reading. The Cabinet of Ministers has two weeks to reconsider and improve the Draft. Then the finalized document should be submitted to the Parliament for the second (last) reading. Earlier, on September 15 the Government submitted the Draft State Budget Law for 2012 to the Verkhovna Rada. According to the Draft, central fiscal revenues and expenditures were planned at UAH 338 bn and UAH 362 bn respectively. Central fiscal deficit, including deficit of Naftogaz and the State Pension Fund, was set at 2.5% of GDP (down from 3.5% of GDP planned for 2011), which complies with fiscal target defined in the stand-by agreement with IMF.
- In October, NJSC "Naftogaz of Ukraine" continued restructuring of the company. In particular, it signed direct gas supply contracts with gas distribution companies. Previously, gas sales in the structure of "Naftogaz" were handled

by a subsidiary "Gas of Ukraine". Accordingly, "Naftogaz" applied to the National Electricity Regulatory Commission to increase the maximum licensed volume of gas supplies sold by unregulated tariff from 3.5 to 17 billion cubic meters of gas a year. Also, state shares of 48 gas supply and gasification enterprises (misk- and oblgaz'es) were transferred from the charter capital of NJSC to the State Property Fund for their privatization. Reform of NJSC is done in connection with Ukraine's joining the Energy Community and the necessity to adapt Ukraine's legislation to European norms in the field of energy. Earlier the government aired plans to sell through IPO minority stakes of "Ukrgezvydobuvannya", "Ukrtransgaz", "Chornomornaftogaz", "Ukrtransnafta" and other companies included in the structure of "Naftogaz".

Ukraine: Economic Indicators 2009 - 2011

		2009	2010	Q1 11	Q2 11	Q3 11	Aug	Sep	Okt
GDP (real)	% yoy	-15.1	4.2	5.3	3.8				
Industrial production (real)	% yoy cum.	-21.9	11.2	9.7	8.7	8.6	8.9	8.6	
Agricultural prod. (real)	% yoy cum.	0.1	-1.0	5.3	3.2	13.7	10.5	13.7	
CPI	% yoy eop	12.3	9.1	7.7	11.9	5.9	8.9	5.9	5.4
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	38.2	35.0	34.3
Exchange rate (official)	EUR aop	10.87	10.53	10.85	11.48	11.27	11.42	11.03	10.91

Source: IER.

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