

- **The European Union.** In October, Ukraine made little progress in fulfilling the requirements of the EU for signing the Association Agreement (AA). The Parliament passed only one law aimed at meeting the EU's conditions (the law on financing new election in five constituencies), and preliminarily approved a Constitutional amendment regarding guarantees for judicial independence. However, the Parliament did not schedule Kyiv mayoral election in December. It also did not consider the bill on Prosecutor General Office that was endorsed by the European Commission for Democracy through Law (the Venice Commission) in October. The EU requirement to solve the issue of selective justice was not met as Yulia Tymoshenko, Ukraine's former Prime Minister, remained imprisoned. Three draft bills allowing her to go to Germany for medical treatment were submitted to the Parliament, but were not considered during the month. In addition, Ukraine did not resolve controversies in trade with the EU.
- Those developments cast doubt on whether the AA will be signed at the Eastern Partnership Summit in Vilnius, Lithuania on November 29th. In October, the European Parliament recommended to the Council of Europe to sign the Agreement only if Ukraine would meet the necessary conditions.
- **The IMF.** In the second half of October, the IMF Article IV mission visited Kyiv to discuss Ukraine's economic policies with top officials from the Government and the National Bank. The IMF mission recommended that Ukrainian authorities implemented three key reforms: (1) increased exchange rate flexibility, (2) ensured fiscal consolidation, and (3) raised domestic energy tariffs. In particular, the mission suggested that Ukraine should postpone VAT and corporate tax cuts and curb fiscal expenditures through wage and employment restraint. Ukraine also should strengthen the banking sector. Ukrainian officials intend to continue negotiations with the IMF in order sign a new stand-by arrangement. This would require politically difficult decisions.
- **GDP.** According to the preliminary Ukrstat estimate real GDP dropped by 1.5% yoy in the third quarter of 2013. On demand side, negative contribution in real net exports and lower investments might be behind lower real GDP. Slowdown in consumption may have also contributed. On the production side, rainy weather in September did not allow agriculture to support economic growth.
- **Sectoral trends.** Reduction in industrial output in September remained close to August level (at 5.6% yoy) as the demand for key Ukrainian export commodities did not improve. Trade tensions with Russia also limited exports for some products. Output in metallurgy declined by 5.2% yoy. At the same time, machine building producers likely overestimated effects of recycling fee in previous months and had to pull back production in September. As a result, output dropped by 16.2% yoy. Slightly higher domestic demand did little to support domestic production of consumer goods due to increased competition from imported goods. Food production declined by 12.8% yoy as sugar production was delayed by rainy weather.
- Labour market situation remains weak. In September the number of staff employed by companies with at least 10 employees declined by 4.2% yoy, while wage growth decelerated to 6.5% yoy. This reflects economic recession and related decline in corporate profits and harsh fiscal situation.

- Still, wages in industry grew by 7.4% yoy likely due to several reasons. First, big industrial companies pay wages tied to minimum wage increase (at 5.3% yoy). Second, higher minimum wage also lead to higher thresholds for social tax privilege and automated VAT refunds leading to some de-shadowing of wages. Third, the companies are trying to increase labour productivity by laying off part-time employees and putting more work on remaining staff with some increase in wage. The number of jobs might reduce further if the economic situation does not improve and trade frictions with Russia are not resolved.
- Headline consumer inflation remained negative at 0.1% yoy in October as Ukrstat reported increase in prices for a number of raw food products. Nevertheless downward bias in CPI estimates was still observed. By conservative estimate price index for vegetables in October should have increased by over 50% yoy as opposed to 2% drop reported. This alone would have increased headline CPI by 2%. Price increases for a number of food products were significantly smaller than reported by State Price inspection and private sources while opposite examples were hard to find.

**Ukraine: Economic Indicators 2010 - 2013**

		2010	2011	2012	Q1 13	Q2 13	Jul	Aug	Sep	Oct
GDP (real)	% yoy	4.1	5.2	0.2	-1.1	-1.3				
Industrial production (real)	% yoy cum.	11.2	7.3	-1.8	-5.0		-5.3	-5.2	-5.2	
Agricultural prod. (real)	% yoy cum.	-1.0	17.5	-4.5	5.8		14.8	13.3	3.0	
CPI	% yoy eop	9.1	4.6	-0.2	-0.8		0.0	-0.4	-0.5	-0.1
Current account	% GDP. cum.	-1.7	-5.6	-9.0	-7.2	-4.5				
Fiscal balance	% GDP	-6.0	-1.8	-3.6	-1.9	-6.4				
External state debt (total)	% GDP eop	25.6	22.8	22.0						
Gross international reserves	USD bn cum.	36.7	31.8	31.4	24.7	23.1	22.7	21.7	21.6	20.6
Exchange rate (official)	EUR aop	10.53	11.09	10.27	10.55		10.45	10.64	10.67	10.90

Source: IER.

For further information: Institute for Economic Research and Policy Consulting (link: <http://www.ier.com.ua>).