

- In August the trial of the former Prime Minister Yuliya Tymoshenko continued. Court heard a number of witnesses and rejected numerous requests by Tymoshenko lawyers to release her from jail. At the same time, Ukraine's major international partners the EU, the US and Russia continued to watch the trial closely. Also, Tymoshenko's trial evoked disapproving statements by the US Department of State, most EU foreign ministers and by the EU High Representative Catherine Ashton and the Commissioner on EU Enlargement Stefan Füle. Later EU foreign ministers signaled that EU-Ukraine Association Agreement including deep and comprehensive Free Trade Area will be initialed by the end of the year despite Tymoshenko's trial. At the same time they warned that if Ukraine continues "show trial" of Tymoshenko and will not provide her with fair opportunity to defend against charges, chances of ratification by all EU member states would be slim. Thus the negative conclusion of the trial may slow the EU integration and make further cooperation with the IMF more difficult.
- In July industrial production growth slightly decelerated to 8.7% yoy due to slowdown in growth rates of output in manufacturing by 0.6 p.p. to 9.0% yoy. In particular, production of oil products fell by 20.9% yoy due to jump in statistical base. Other industries mostly accelerated growth. The highest growth rate was in chemistry industry (23.6% yoy) primarily due to higher demand for fertilizers on external and domestic markets. Better external demand also stimulated further recovery of steel production, which increased output by 18.5% yoy. Machine building continued growing due to better economic situation in Ukraine and in CIS. However, number of factors point to slower growth of metallurgy and machine building in the future. They include recent reduction in steel prices, worsened trade relations with Russia and slower than previously expected development of world economy. Freight turnover increased by 10.4% yoy in the first seven months of the year due to higher industrial output as well as recovery in external trade. Growth of construction volumes decelerated to 13.6% yoy, but mostly due to higher statistical base. Growth in agriculture output sharply accelerated to 9.1% yoy due to grain harvest that increased by 24.8% yoy in July.
- In July wages moderately grew by 1.5% mom to UAH 2749. The changes in remuneration differed between sectors. Wages in education and healthcare traditionally declined after growing rapidly in June. The sharpest wage growth was in agriculture as good harvests improved financial state of companies. However, the wage in the sector remained by 26.4% lower than average in economy. Financial services also rapidly raised wages in July. Companies in construction increased wages by 4.2% mom against the background of further recovery of sector. Overall, this sector increased wages the most as compared to July 2010 after the largest decline observed during the crisis.
- In August, consumer inflation returned to single digits slowing to 8.9% yoy due to good harvest of fruit and vegetables. Fruit prices grew only by 3.5% yoy, while vegetable prices fell by 20.3% yoy. High statistical base led to slower growth of utilities price index.
- In August, interbank exchange rate remained stable near UAH 7.99-8.00 per USD. Some market participants had depreciation expectations due to slowdown

in global economic growth. Nevertheless, tight liquidity limited demand for cashless foreign currency and the NBU bought more of the foreign currency than it sold. Gross demand for cash foreign currency remained almost unchanged from July.

**Ukraine:**

**Economic Indicators 2008 - 2011**

		<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Q1 11</b>	<b>Q2 11</b>	<b>June</b>	<b>July</b>	<b>August</b>
GDP (real)	% yoy	2.1	-15.1	4.2	5.3	3.8			
Industrial production (real)	% yoy cum.	-3.1	-21.9	11.2	9.7	8.7	8.7	8.7	
Agricultural prod. (real)	% yoy cum.	17.5	0.1	-1.0	5.3	3.2	3.2	9.1	
CPI	% yoy eop	22.3	12.3	9.1	7.7	11.9	11.9	10.6	8.9
Current account	% GDP. cum.	-7.2	-1.7	-3.9					
Fiscal balance	% GDP	-1.5	-2.4	-5.9					
External state debt (total)	% GDP eop	15.0	21.5	25.3					
Gross international reserves	USD bn cum.	31.5	26.5	34.6	34.6	37.6	37.6	37.8	38.2
Exchange rate (official)	EUR aop	7.71	10.87	10.53	10.85	11.48	11.47	11.38	11.42

Source: IER.

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