



Centrum Analiz Społeczno-Ekonomicznych
Center for Social and Economic Research



Mapping out vulnerable sectors in the Eastern Partnership countries

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Mapping out vulnerable sectors in the Eastern Partnership countries

Belarus, Moldova, Ukraine

Macroeconomic Report

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INSTITUTE
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Aim of the report

1. provide macroeconomic background for the forthcoming structural reports
2. provides a toolkit for the sectoral reports, giving a set of macroeconomic references

Research questions

1. Will the countries restart growing soon?
2. How the macroeconomic imbalances can be managed and what are their implications for economic policies?
3. Where would the economic growth come from over the next couple of years?

Areas covered in the report

1. Post-2000 recovery and its sources
2. Evolution of production
3. Labour market
4. Public finances and fiscal policies
5. International trade and investment
6. Monetary and exchange rate policies
7. Economic outlook
8. Conclusions regarding economic policies

Basic information

1. **Population** (July 2015 est.):

- Ukraine: 44.4 million
- Belarus: 9.6 million
- Moldova: 3.6 million

2. **GDP per capita, PPP** (2015 est.):

- Ukraine: \$7,500
- Belarus: \$17,700
- Moldova: \$5,000
- comparators: Russia \$25,400, Poland \$26,500, Hungary \$26,200

3. **Income inequality: GINI coefficients** (ranges from 0 as a perfectly equally distributed family incomes to 100; a Scandinavian country scores around 25 while a Sub-Saharan country around 50):

- Ukraine: 25
- Belarus: 27
- Moldova: 29
- comparators: Russia 42, Poland 33, Hungary 31.

Basic information - continued

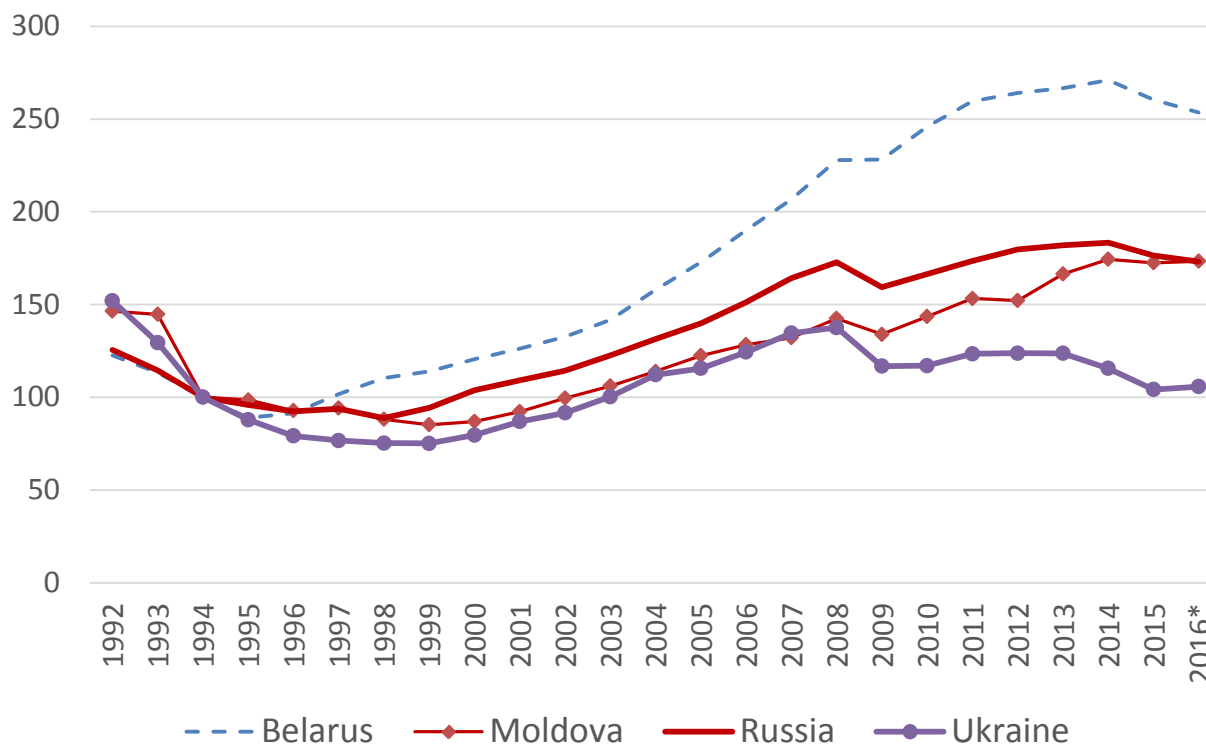
4. Quality of institutions/business climate:

Transparency International Corruption Perception Index:

- Ukraine: 27 (rank: 130/168)
- Belarus: 32 (rank: 107/168)
- Moldova: 33 (rank: 103/168)
- comparators: Russia 29 (119/168), Poland 62(30/168), Hungary 51 (50/168)

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GDP evolution in Belarus, Moldova, Russia and Ukraine, 1992-2016



Source: own calculations on the basis of IMF WEO database, April 2016

note: real GDP index with 1994 = 100; * - estimate

Changing GDP dynamics

- **Early and mid-2000s: fast growth continues for almost a decade:**
 - One-off reforms
 - mounting oil prices boosting Russia's economy
 - High commodity prices
- **2008-2009:**
 - lower world trade
 - sudden capital outflows
 - Ukrainian and Belarusian currencies markedly depreciated
 - rather high exposure to external financing coupled with its higher costs created pressure on fiscal policies
 - vulnerable banks
- **Post-2009:**
 - growth in Belarus fuelled by consumption and investment
 - unlikely to continue in near future
 - Ukraine, in practice, stagnated

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GDP composition, by sector of origin, 2015 est.

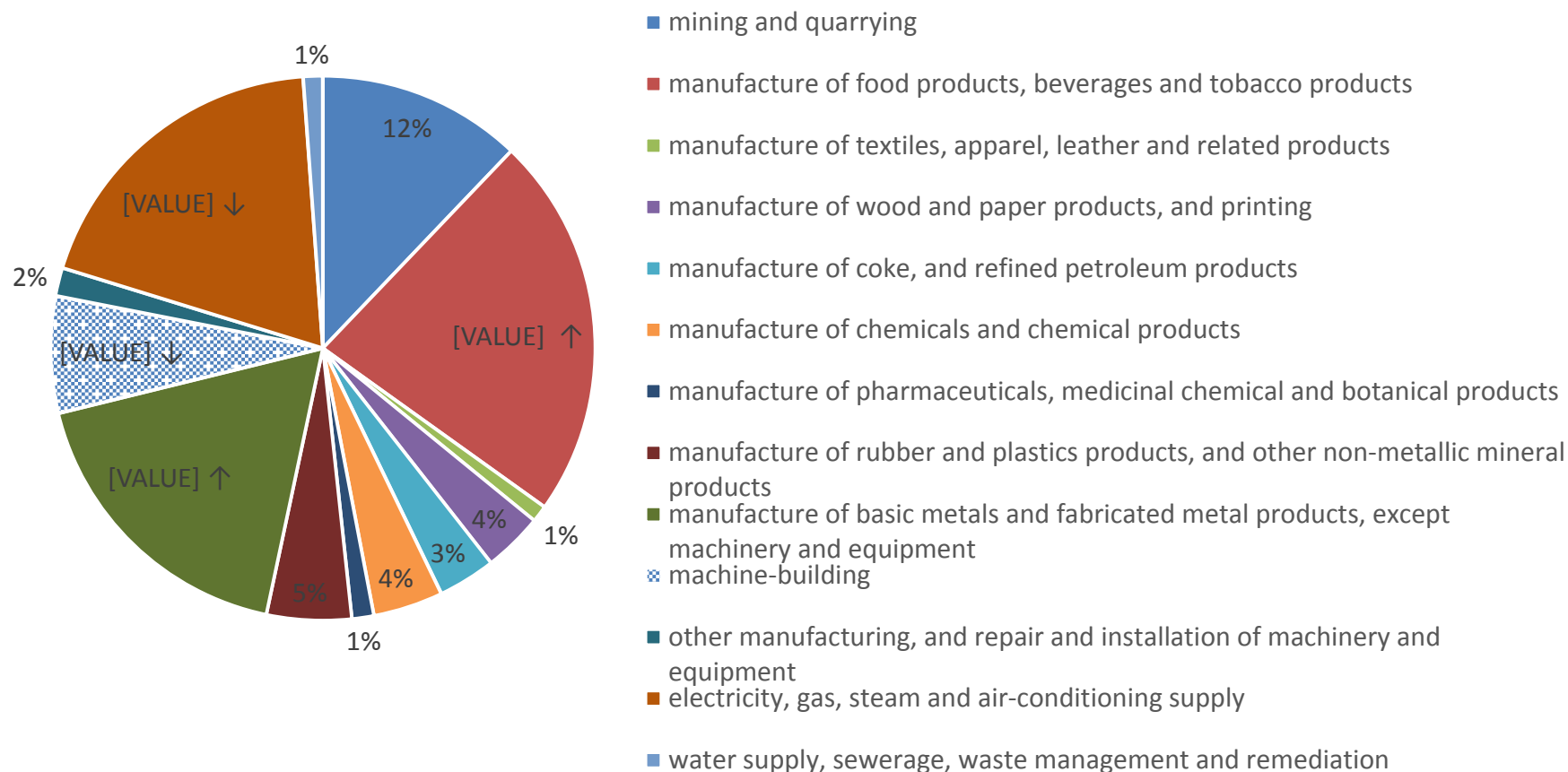
	Ukraine	Belarus	Moldova
Agriculture	13.3%	9.3%	16.2%
Industry	24.4% ↓	41.3% ↓	20.7% ↑
Services	62.7%	49.4%	63.2%

Source: CIA World Factbook

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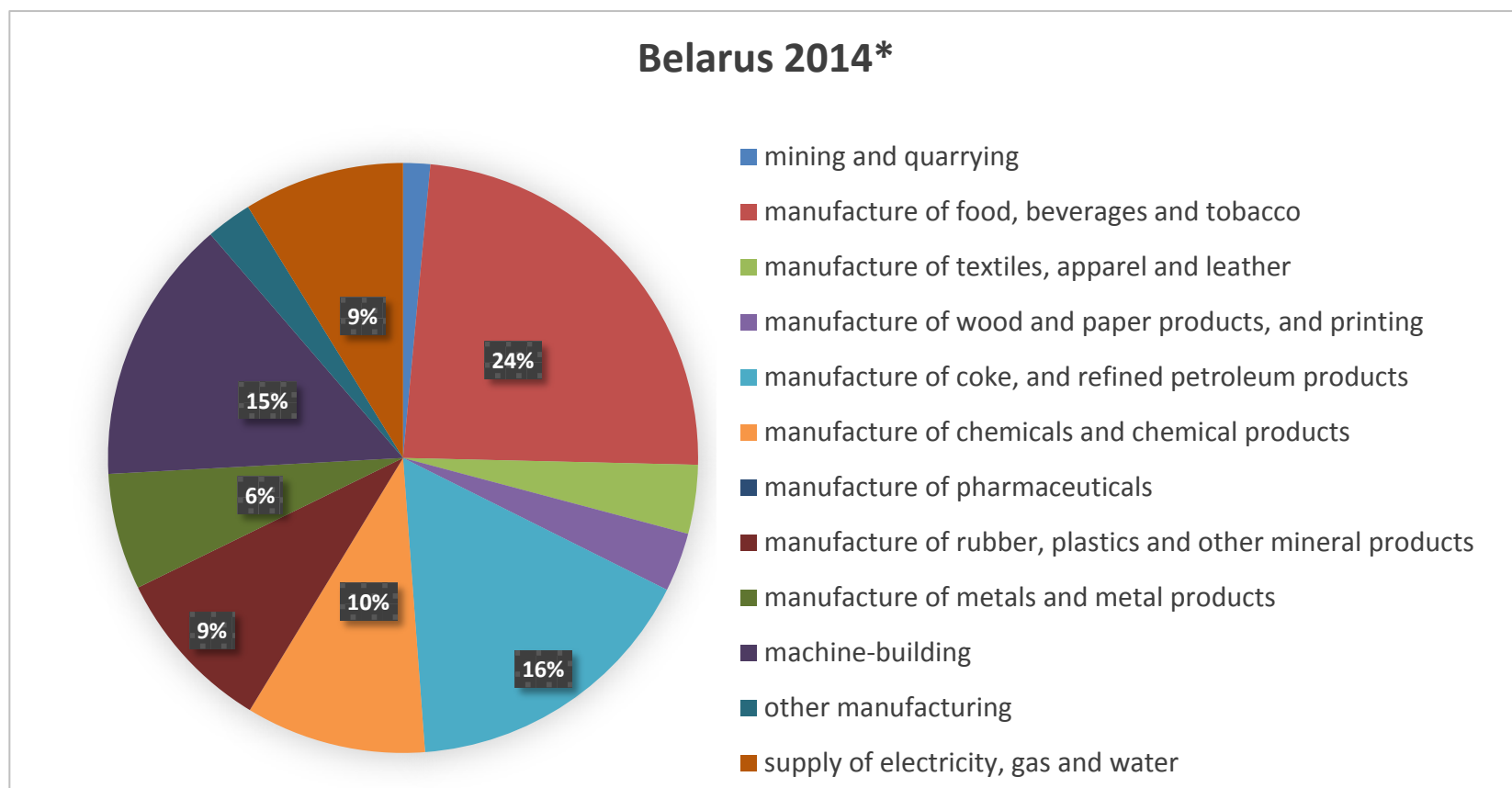
Structure of industrial production

Ukraine 2015



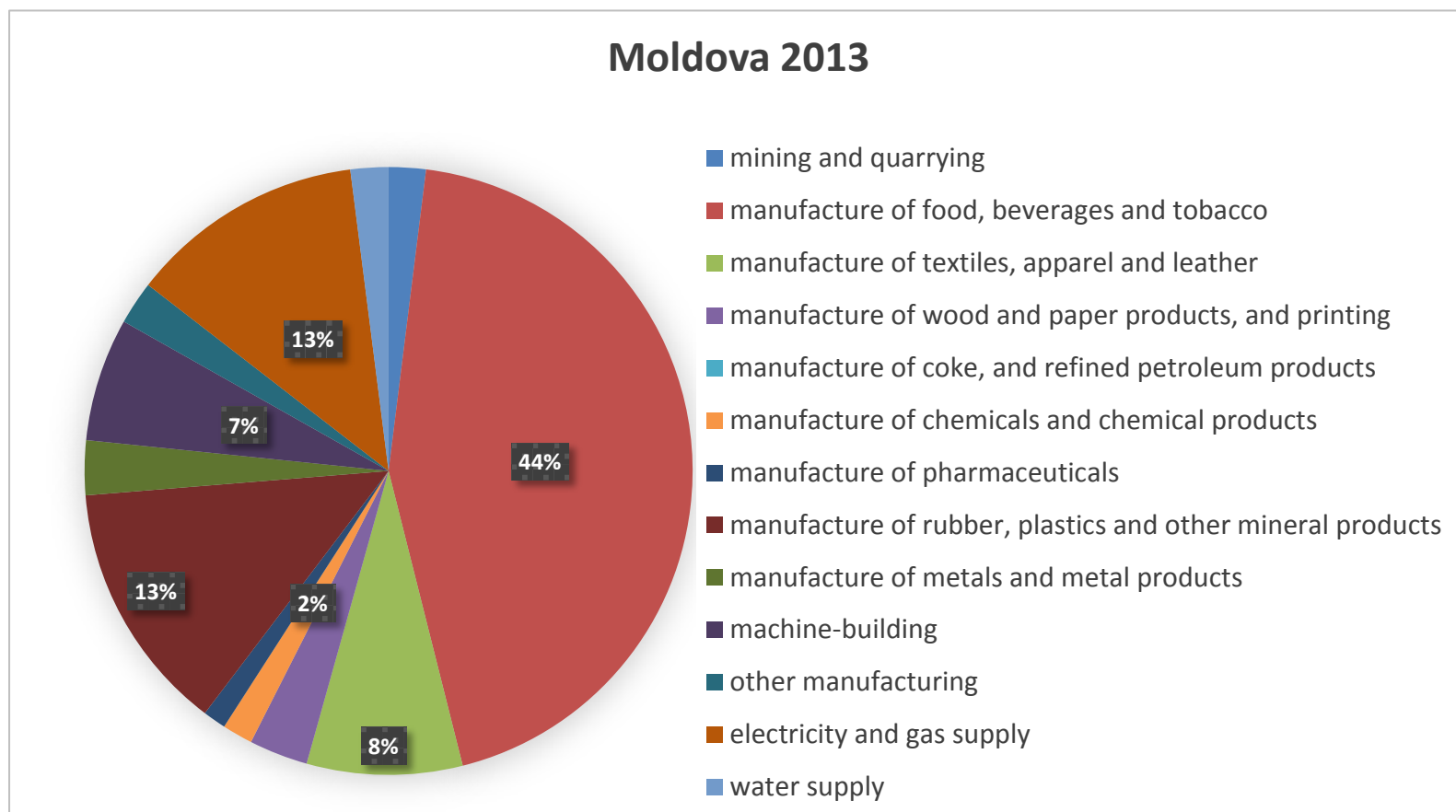
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Structure of industrial production



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Structure of industrial production



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Labour market

- on the first glance the situation on the labour markets seems to be fairly positive. Yet:
- Moldova has gone through the most severe job destruction and job creation processes; dramatic fall in labour force participation
- Belarusian labour market has yet to bear the weight of structural adjustment
- shrinking population lowers labour supply in Ukraine yet unchanged rate of economic activity; unfavourable unemployment rate dynamics

		Belarus	Moldova	Ukraine
		2014*	2013	2014**
economically active population, in thousands		4 509.0	1 235.8	20 122.1
labour force participation rate		69 (in 2010)	41.4	63.0
unemployment rate	LFS	6.1 (in 2009)	5.1	8.9
	registered	0.5	..	2.4

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Labour market - skills

- almost one quarter of the labour force in Moldova and Belarus completed tertiary education
- data suggests similar number for Ukraine
- their educational achievements very similar to the Visegrad countries

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Monetary and exchange rate policies

- Before 2008-2009 global financial crisis exchange rate was an anchor of the monetary policy in all three countries. Afterwards the situation changed.

Ukraine:

- The peg of hryvnia to US dollar was abandoned, following by 30% depreciation of the national currency. In 2009 the peg de facto was reintroduced without announcement.
- In order to keep ER fixed, NBU spent half of reserves on interventions.
- Loss of the large part of export revenues forced NBU to abandon peg in February 2014. Administrative measures were applied in order to limit demand and boost supply of foreign currency.
- Lack of reserves and not sufficient administrative measures led to depreciation of hryvnia by 50% in 2014 and by another quarter in the first quarter of 2015.
- In 2010-2013 some progress in preparation for IT was made, in 2014 preparation were stepped up under the new IMF program.

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Monetary and exchange rate policies

Belarus:

- Until 2009 National Bank of the Republic of Belarus – exchange rate peg. Announced central rate and band for exchange rate fluctuations.
- In 2009 NBRB announced move to foreign currency basket (RUB+USD+EUR).
- 2010-2011 administrative measures due to negative external shocks.
- In 2011 administrative measures were abandoned and move to managed ER was announced. De facto – crawling peg.
- Role of monetary policy is limited because of large state-owned share in banking sector.

Moldova:

- Before 2009 National Bank of Moldova intervene significantly on interbank market
- Since 2010 inflation targeting was introduced, which was quite successful in anchoring inflation – inflation stabilized around 5%.

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Economic outlook – mid-term growth slightly lower than earlier expected

- Ukraine's real GDP (IMF estimates): 1.5% in 2016, 2.5% in 2017
- Belarus' real GDP (IMF estimates): -2.7% in 2016, 0.4% in 2017
- Moldova's real GDP (IMF estimates): 0.5 % in 2016, 2.5% in 2017
- The three countries face the similar risks:
 - Low commodity prices and the spillovers through lower Russian and Ukrainian growth
 - Downward spillovers in trade
 - Exposure to the economic performance of Eurozone

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Economic outlook

- The countries have recently gone through:
 - Massive adjustment to external shocks that already resulted in sharp depreciation of national currencies (real depreciation especially high in Ukraine)
 - High inflation
 - Hit on domestic demand through lower purchasing power of households and reduced affordability of imported investment goods
- Tough economic policies (moves to exchange rates; more rigid fiscal policies) have been pursued and eased by external support

Implications for economic policy

1. Want it or not, the room for economic policy is still narrow
2. Stabilising domestic markets and laying grounds for the return of consumer and investors' confidence has been of the utmost importance and has been enforced in Ukraine and Moldova
3. Fiscal consolidation further needed to reduce dependence on *ad-hoc* financing
4. Given mixed global outlook, time for structural reforms
5. Lowering corruption and red tape