

INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

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Macroeconomic Forecast Ukraine

Doom and gloom: is there something to it?

Forecast period: years 2008 and 2009

Authors:

Oleksandra Betliy, Alla Kobylanskaya, Vitaliy Kravchuk, Dmytro Naumenko, Kateryna Pilkevitch, Roman Voznyak

GDP: The real GDP growth is estimated at 5.9% yoy in 2008 backed by still strong though decelerating real private final consumption expansion. For 2009 the real GDP growth is forecasted to slow down to 2.7% yoy of GDP.

Fiscal Indicators: The consolidated fiscal revenues are estimated at 30.8% of GDP and 30.3% of GDP in 2008 and 2009, respectively. The Government will run zero deficit in both years due to the scarce financing.

Balance of Payment: The current account deficit is expected to widen to 6.8% of GDP and 9.3% of GDP in 2008 and 2009, respectively. In 2008 it will be covered by the financial account surplus. In 2009 major part of current account deficit will be financed at the expense of the international reserves of the NBU and the IMF loan.

Monetary Survey and Inflation: The money supply is estimated to slow down to 30.6% yoy in 2008 with further deceleration to 15.9% yoy in 2009. The consumer price inflation will reach 25.2% as annual average in 2008 and considerably decelerate to 11.4% in 2009.

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Macroeconomic Forecast Ukraine

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Overview

GDP: The real GDP growth is estimated at 5.9% yoy in 2008 backed by still strong, though decelerating, real private final consumption expansion. At the same time, fixed capital accumulation is expected to grow moderately. On the production side, the growth of value added in agriculture will be at 16.0% yoy, while in manufacturing it will decelerate to 4.5% yoy.

In 2009 the IER forecasts the deceleration of real GDP growth to 2.7% yoy primarily due to significant slowdown of private final consumption and stagnant investments.

Fiscal indicators: In 2008 the consolidated fiscal revenues are estimated at UAH 306 bn (or 30.8% of GDP), which is by UAH 11.5 bn higher than the official fiscal plan as of September 19, 2008. They will be at UAH 363 bn in 2009. The Government will not run fiscal deficit in 2008 and 2009 due to scarce sources of its financing. While in 2008 the Government will not attract external borrowings, in 2009 it will issue Eurobonds at the amount equivalent to the external debt redemption next year. The current expenditures are estimated to account for over 80.0% of total consolidated expenditures in 2008-2009. Though certain streamlining of current expenditures will ensure slight increase in capital expenditures to 4.5% of GDP in 2009.

Balance of Payments: The current account deficit is forecasted to reach 6.8% of GDP and 9.3% of GDP in 2008 and 2009, respectively. In 2008 exports of goods will increase by 40.0% yoy in dollar terms, and imports by 48.0% yoy slowing as compared to growth rates in the first eight months of the year. While the deceleration of exports is attributed to lower external demand for Ukrainian products, primarily metals, due to the global financial crisis resulted in slowdown of world economy; lower import growth is explained by deceleration of domestic demand. In 2009 growth of both exports and imports will slow further to 9.0% yoy and 17.0% yoy in dollar terms, respectively. In 2008 the current account deficit will be mostly covered by financial account, though in the end of the year the NBU starts selling international reserves. In 2009 the NBU will be forced to use international reserves and the IMF loan for financing the major part of current account deficit.

Monetary Survey and Inflation: Money supply growth is expected to slow significantly to 33.6% yoy (UAH 523 bn) in 2008 and further decelerate to 15.9% yoy in 2009 (UAH 606 bn). This trend is explained by the slowdown in deposit growth and the large foreign exchange interventions required to support exchange rate.

The consumer price inflation is estimated to reach 25.2% as annual average in 2008 and significantly decelerate to 11.4% in 2009.

The Major Risks of the Forecast: More severe than assumed global financial crisis is the major risk for economic development in 2009. It would result in further slowdown of the world economy and, thus, lower than expected demand for Ukrainian exports, primarily metals and machinery products. Accompanied by higher input costs and scarce financing of investment needs, the value added in industry will decline, while growth in other sectors will slow down. As a result, the wage growth will be depressed, while almost absent net inflow of foreign capital into banking sector would adversely impact the consumption financed through bank credits. The financial account will not sufficiently cover the current account deficit forcing the NBU to use international reserves and the IMF loan for financing almost entire deficit and devalue hryvnia. The persistence of political instability will create an additional burden to the economy negatively affecting investments. As a result, under pessimistic scenario the real GDP growth is expected to decelerate to 0.5% yoy in 2009.

Forecast Period:
Years 2008 and 2009

Key forecast figures

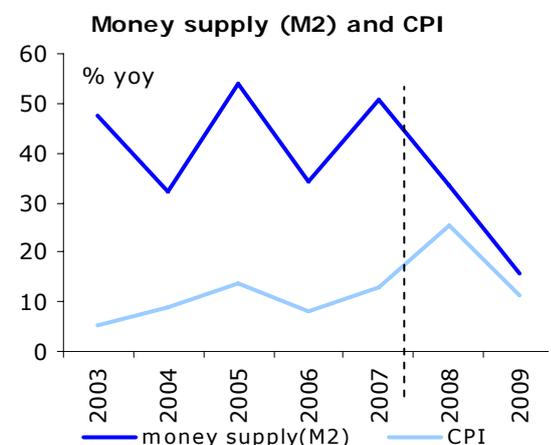
	2007	2008E	2009F
Real GDP, %	7.6	5.9	2.7
Consolidated fiscal revenues, UAH bn	220	306	363
Consolidated fiscal deficit, % of GDP	1.1	0.0	0.0
Current account balance, % of GDP	-4.2	-6.8	-9.3
Net FDI inflow, USD bn	9.2	10.4	5.0
Money supply, UAH bn	391	523	606
CPI, % aop	12.8	25.2	11.1

E - estimate, F - forecast

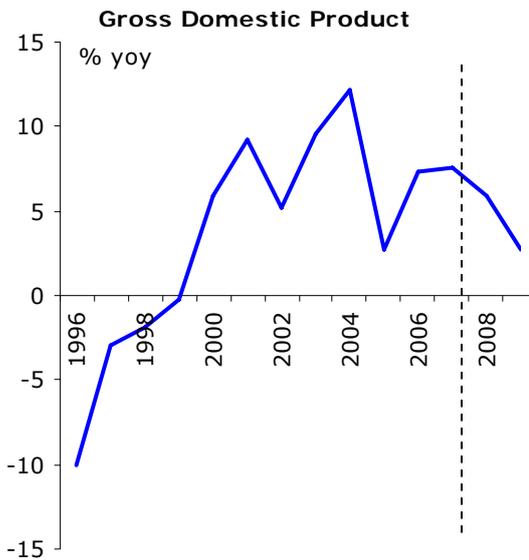
Source: Derzhkomstat, NBU, State Treasury, IER calculations and forecast



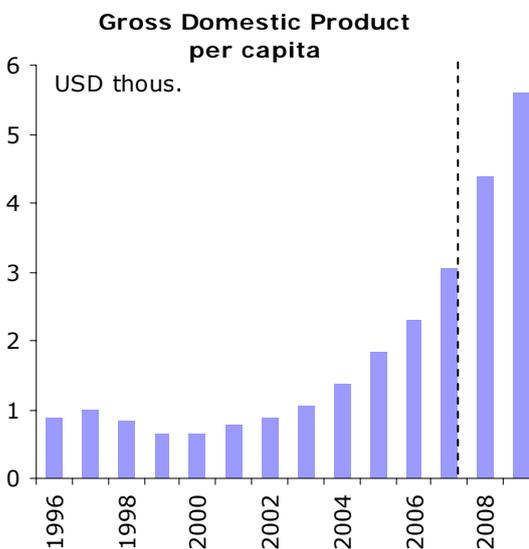
Source: Derzhkomstat, IER calculations



Source: NBU, Derzhkomstat, IER calculations



Source: Derzhkomstat, IER calculations



Source: Derzhkomstat, IER calculations

GROSS DOMESTIC PRODUCT

GDP: The real GDP growth will slow down in 2009

According to the Derzhkomstat during the first nine months of 2008 the real GDP grew by 6.9% yoy, decelerating by 0.2 p.p. since August. The major reason of this deceleration was slowdown in value added growth rate in agriculture by 8.7 p.p. to 15.7% yoy and in manufacturing by 1.4 p.p. to 5.9% yoy. By the end of the year, noticeable slowdown of value added in manufacturing and mining is expected. As a result, the real GDP growth will decelerate to 5.9% yoy in 2008.

The private final consumption remains the major driver of the real GDP growth thanks to still high real disposable income, though it has been gradually decelerating since the second quarter because of limited consumption credits availability and slowdown in real wage growth. At the same time, the investment demand is weak because of restricted access to credits on the international markets. Real imports started to slow down in the third quarter due to lowering household consumption, while real exports has been rapidly decelerating since August at the background of decreasing demand on metals on the international markets.

The key risks for economic development in 2008 are the very sharp decline in demand for Ukrainian exports and instability of the banking sector in Ukraine. These two factors may cause significant deceleration of GDP growth. In such circumstances political turbulence will only exacerbate the harsh economic situation as it does not allow for approving effective anticrisis measures but increases the uncertainty instead.

The real GDP is forecast to grow at 2.7% yoy in 2009. The private consumption growth will slow down but still remain the key driver of the GDP growth. Private investments is expected to be stagnant, while government investments will slightly accelerate in 2009 because of necessity to launch large investment projects related to the preparation to the EURO 2012.

Slowdown of the world economy is expected to hamper economic growth in the export oriented sectors; therefore, GDP will grow mainly thanks to domestic market oriented industries. For the economic development it is crucial that policies of the Government and the NBU are directed at ensuring the macroeconomic stability. At the background of lowering world commodities prices increase in imported gas prices up to USD 280-310 may pose additional pressure for domestic industrial enterprises and for the economy in the whole.

One of the key risks for the economic development in 2009 is more than assumed slowdown of the world economy that would result in higher than expected decline in demand for Ukrainian exports, primarily metals and machinery. Accompanied with further restriction of access to capital for domestic borrowers for crediting and investing needs, external conditions are the main threat to the real GDP growth in 2009. Macroeconomic and political turbulence in the country might result in further deceleration of GDP due to significant slowdown in final consumptions and investments on the demand side, and decline in manufacturing on the production side.

Contributions to real GDP growth, demand side view

Expressed as percentage points of GDP growth

	2007	2008E	2009F
Real GDP	7.6	5.9	2.7
<i>Contributions:</i>			
Private consumption	10.0	8.0	6.1
Government consumption	0.5	0.5	0.5
Investments	5.5	3.4	0.7
Net exports	-8.4	-5.9	-4.7

E - estimate, F - forecast
Source: Derzhkomstat, IER calculations

Private Consumption: The deceleration of private consumption growth is expected in 2009

In 2008 the household consumption growth is expected to slow down substantially partially because of moderate growth of credit portfolios due to high interest rates and less availability. According to the NBU, households' credit growth decelerated from 97.4% yoy in January to 59.4% yoy in September primarily thanks to plunge of mortgage lending. This trend will prevail by the end of 2008. Furthermore, expected slowdown of growth in real wages in industry and financial intermediaries sector in the second half of the year will have negative impact on real income growth rate and, thus, on private consumption increase. At the same time, introduction of the third

stage of the unified tariff scale in the public sector and increase in pensions in September will not counterweight negative impacts of the aforementioned factors. Probably, the substantial withdrawal of deposits from the banking system will somewhat foster the households' consumption in the end of the year. As a result of these oppositely directed impacts, the forecast for private consumption growth rate is 13.5% yoy in 2008.

Planned equalizing the minimum wage and the subsistence minimum for working able individuals in January 2009 will push wages in all sectors of the economy upwards, while the Presidential elections scheduled for the January 2010 might force political parties in power to increase social transfers. These two factors will support the private final consumption growth in the next year. At the same time, the role of these factors will be partially downplayed by the following reasons. First, because of cooling down of the domestic economy wages are expected to grow slightly. Second, lending on the international financial markets for the Ukrainian banks will be costly at least till the mid of 2009 and will result in the consumer crediting limitation. As a result, the Institute forecasts the deceleration of private consumption to 10.2% yoy in 2009.

Government Consumption: Moderate growth preserves

The contribution of the state final consumption into the real GDP growth is expected to remain moderate within the period of forecast, continuing the trend established since 2005. In particular, the real Government consumption will grow at 2.8% yoy in 2008 and slightly higher at 2.9% yoy in 2009. The forecast figures are based on the assumption of no significant real expansion of fiscal expenditures on education and health care.

Investments: The investment activity will remain stagnant in 2009

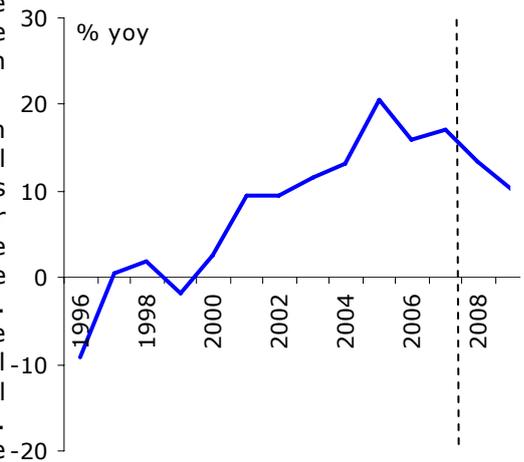
Fixed capital formation growth is expected to decelerate to 6.0% yoy in 2008 mainly due to the restricted volumes of funds available for financing investments and rampant inflation at the background of high statistical base of the previous year. The investment financial is restricted as a result of the crunch on the international financing markets, which made credits more expensive and less available both for Ukrainian banks and enterprises. Lack of financing has already caused freezing of many investment projects in residential and commercial construction. At the same time, the slowdown in investments in industry will be much moderate this year even despite the acute deficit of financing. In particular, increasing demand and prices for mining production and machinery have already stimulated significant investments in these sectors in the first half of the year. Permanent political uncertainty seems to have little impact on investment decisions by business.

Need to launch large infrastructure objects such as stadiums, roads and airports associated with the preparation to the EURO 2012 in order to comply with the UEFA requirements will somewhat foster public investments in 2009. Some projects will be financed at the expense of credits received under the state guarantees. At the same time, private investments are expected to be stagnant due to unavailability of external and limited internal financial resources. Additionally, the Presidential elections scheduled for January 2010 might shift accent from investments to consumption in 2009. In particular, some Ukrainian business groups would finance elections campaigns of their candidates instead of investment projects. These factors along with the lasting international financial crisis will hamper the growth of investments in 2009. Taking into account low statistical base of 2008 the projected growth of fixed capital formation is forecast to remain at 6.0% yoy in 2009.

External trade: Real exports will decline in 2009

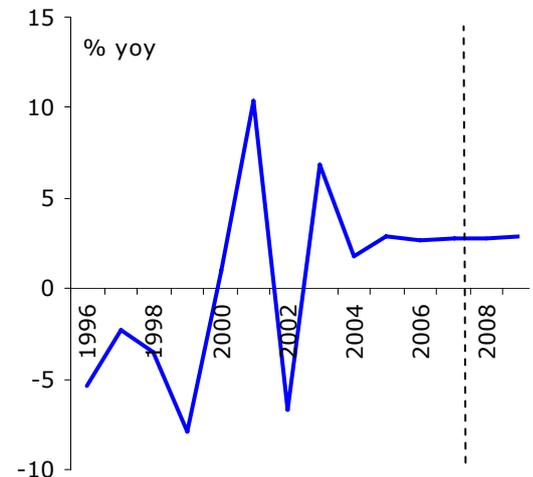
In spite of plunge in demand for raw materials (e.g. metals) on the international commodities markets in the second half of 2008, real exports of goods and services are expected to preserve their growth rate at 3.2% yoy in 2008. Exports acceleration in the second and the

Households' Final Consumption



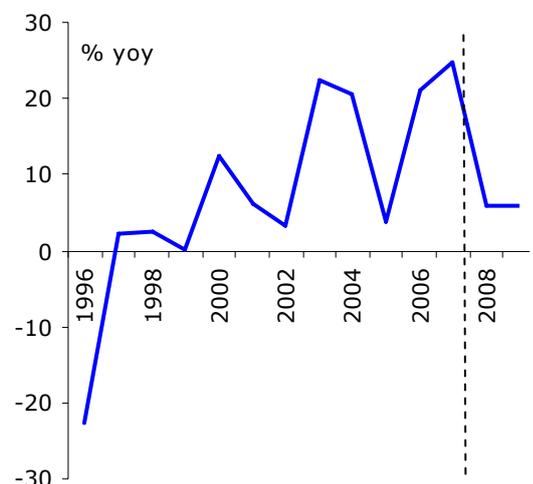
Source: Derzhkomstat, IER calculations

Government Final Consumption

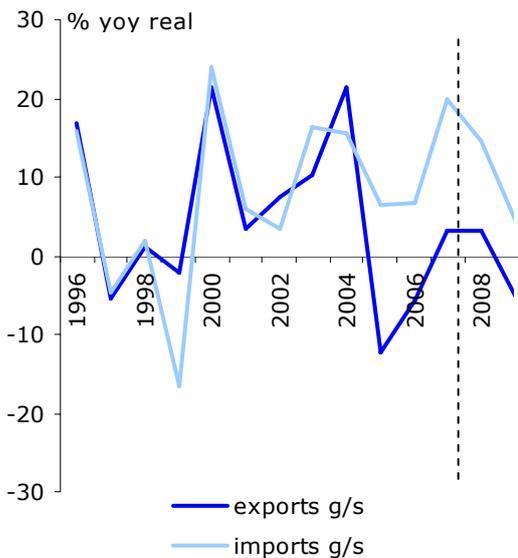


Source: Derzhkomstat, IER calculations

Gross Fixed Capital Accumulation



Source: Derzhkomstat, IER calculations

Exports and Imports


Source: Derzhkomstat, IER calculations

Contributions to real GDP growth, supply side view

Expressed as percentage points of GDP growth

	2007	2008E	2009F
Real GDP	7.6	5.9	2.7
<i>Contributions:</i>			
Agriculture	-0.4	1.1	0.0
Extractive industry	0.2	0.1	0.1
Manufacturing	2.6	0.9	0.9
Production and distribution of electricity, gas and water	0.0	0.0	0.0
Construction	0.5	-0.5	0.0
Trade, repair services	2.6	1.4	1.2
Transport	1.1	0.9	0.6
Education	0.2	0.0	0.0
Health care	0.0	0.0	0.0
Other types of economic activity	1.2	1.0	-0.4
Estimated payments to financial intermediaries	-0.7	-0.8	-0.7
Net taxes on products	0.3	1.8	1.0

 E - estimate, F - forecast
 Source: Derzhkomstat, IER calculations

beginning of the third quarters is expected to partly compensate steep decline in metals exports in the fourth quarter due to decrease in demand for Ukrainian exports and lowering world prices. Real imports of goods and services will grow at 14.5% yoy in 2008 at the background of the decelerating households' consumption.

It is forecasted that at least till the mid of 2009 exporting firms will face further worsening of external conjuncture. Metal producers and refineries are expected to lower their exports abroad, first of all to CIS countries. Some of exporters will gradually re-orient to domestic market, thus, reducing the exports of their production. Agriculture is expected to increase its exports against background the low statistical base, but it will not compensate decline in manufacturing exports. As a result, the real exports will decrease at 5.1% yoy in 2009. The deceleration of households' consumption in 2009 is expected to cause the consecutive slowdown of imports to 4.5% yoy.

The key risks for further exports growth decline are associated with the higher than expected slowdown in world economy, which might result in even lower demand for Ukrainian exports, primarily metals and machinery.

Production: Industrial production and trade will decelerate in 2009

Agriculture is one of the major contributors of the real GDP growth in 2008. High growth in the sector in the first nine months of the year is expected to preserve by the end of the year. As a result, value added in the sector is estimated to grow at 16.0% yoy in 2008. Growth of value added in agriculture in 2009 is questionable due to decreasing sown areas under winter crops and decelerating investments into the sector due to the current instability with financing. Though, it is expected that sown areas will expand in spring of 2009. Increase in productivity in the sector makes it less vulnerable to weather conditions. As a result, in 2009 the value added in agriculture is forecasted to remain at the level of 2008 against the background of high statistical base of 2008 and assumption of moderate weather conditions.

Unlike agriculture, manufacturing displays the rapid deceleration between May and September of 2008. In particular, according to the Derzhkomstat industry value added growth slowed down to 5.9% yoy in the first nine months of the year, which is by 3.6 p.p. lower than between January and May. It is expected that this trend will be continued by the end of the year resulting in the real growth of manufacturing at 4.5% yoy in 2008 mainly due to significant slowdown in metallurgy, chemistry and petrochemistry. In particular, value added in metallurgy is expected to decline as demand and prices are falling worldwide and domestic residential construction is in recession. Machine building is the major contributor to the manufacturing value added growth in 2008. Enterprises of this sector have formed portfolio of long-term orders for equipment that will allow them to survive the crisis without significant losses. As we assume the start of recovery of the world economy in the second half of 2009, which would result in gradual increase in demand for Ukrainian exports (primarily, metals and chemicals), the forecasted growth of value added in the manufacturing is 4.4% yoy.

Construction is to be in recession until the structural reforms are implemented in the residential construction or the favourable conditions in mortgage lending are recovered. Either option is not expected to realize by the end of 2008. The residential construction – the main cause of the current decline in the sector – is forecast to be in recession at least till the mid of 2009. Therefore, the value added in the sector will decline by 12.0% yoy in 2008. The sector is anticipated to stop falling in 2009 thanks to non-residential (mainly infrastructural) construction related to the launching construction projects in the framework of the preparation to the EURO 2012 and some recovery in housing construction by the end of the year. Thanks to these factors the value added in the construction in 2009 is forecasted to remain at the level of 2008.



It is expected that the slowdown in wholesale and retail trade between May and September was rather temporal and the sector would somewhat restore its growth in the end of 2008. As a result, the value added will grow at 11.0% yoy in 2008. Against the background of private consumption deceleration the value added in the sector is forecasted to increase by 9.0% yoy in 2009.

The key risk for machine building industry growth relates to the freezing of investment projects in Russia due to expected slowdown in its economy. The construction growth might be challenged by the continuation of the financial world crisis, resulting in restriction of financing for infrastructure projects.

Risks assessment

Combination of extremely negative external conditions and inability of the government to introduce protection measures will result in more than expected deceleration of the economic growth in Ukraine in 2009. In particular, sharp contraction of demand for metals and machinery on international markets will cause steep decline in exports (by 8.5% yoy) and, consequently, in manufacturing and extractive industries. Lack of financing will result in further decline in the construction next year. Cooling down of the Ukrainian economy may result in hampering real disposable income growth rate and consequently decelerating the final private consumption growth (to 9.9% yoy). At the background of slowing private households' consumption, the real imports will grow at modest 4.2% yoy. Due to continuous constraints of financing, investments will also further slow down. Thus, according to pessimistic scenario, the real GDP growth will decelerate to 0.5% yoy in 2009.

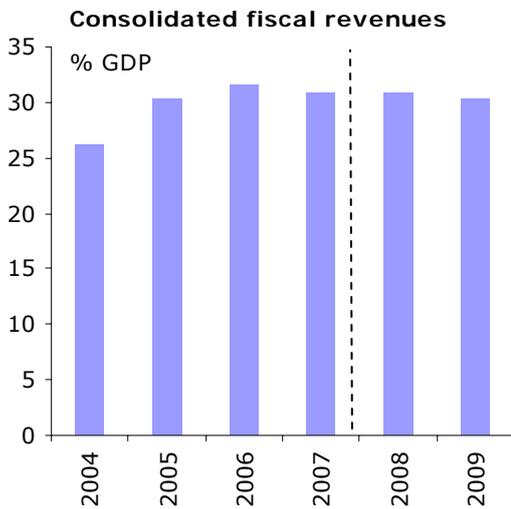
In case of early overcoming of the international financial crunch and acceleration of world economy growth in the first half of 2009, the export oriented industries may restore their positions, resulting in the GDP growth upgrade. Recovery of metallurgy and mining will result in higher than forecasted above industrial output. At the same time, credits availability may foster the households' consumption and investments acceleration. Thus, under optimistic scenario the Institute expects the real GDP growth at 4.3% yoy in 2009.

Contributions to real GDP growth in 2009 under different scenarios, demand side view

Expressed as percentage points of GDP growth

	<i>Basic</i>	<i>Risks</i>	<i>Optimistic</i>
Real GDP	2.7	0.4	4.3
<i>Contributions:</i>			
Private consumption	6.1	5.9	6.7
Government consumption	0.5	0.5	0.5
Investments	0.7	0.0	1.1
Net exports	-4.7	-6.0	-4.0

Source: IER calculations



Source: State Treasury Reports, IER calculations

FISCAL INDICATORS

Consolidated fiscal revenues: Fiscal revenues will be over-executed in 2008

For 2008 the consolidated fiscal revenues are estimated at UAH 306 bn or 30.8% of GDP, which is by UAH 11.5 bn higher than the Government fiscal plan as of September 19, 2008. The share of GDP distributed through consolidated budget will remain at the level of 2007 with increase in the share of the VAT revenues and decline of the enterprise profits tax (EPT) revenues share. The structure of revenues will slightly change in favour of tax revenues. Their share in total consolidated fiscal revenues is expected to increase by 4.0 p.p. to 77.3% primarily thanks to the high growth of VAT revenues and revenues from international trade, explained by nominal imports growth especially in the first half of 2008. The share of other revenues in total consolidated revenues will decline. The other revenues estimate is based on the assumption of lower profits of the state-owned enterprises due to higher input costs, problems with hiring qualified management, and administrative measures faced by these enterprises.

The consolidated fiscal revenues are forecast at UAH 363 bn or 30.3% of GDP in 2009. The slight reduction relative to GDP is attributed to lower shares of most revenues sources. In particular, among tax revenues only the shares of VAT and the personal income tax (PIT) relative to GDP will increase. The share of other revenues both in total consolidated revenues and in GDP will decline further to 19.8% and 6.0%, respectively, as no significant changes in state land rents and sales are not expected.

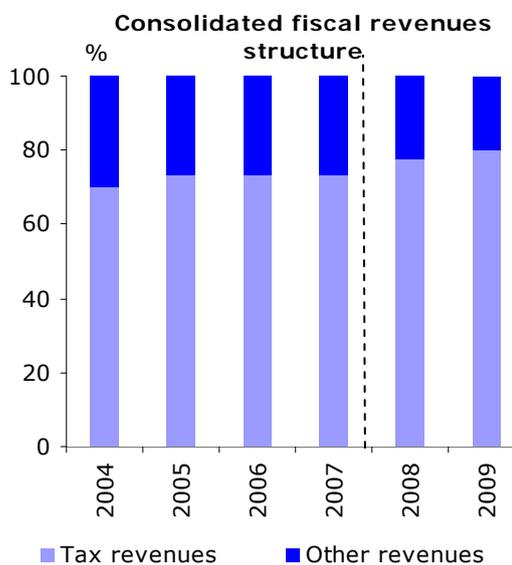
Therefore, the VAT will remain the major tax revenue source accounting for 32.3% and 35.4% of total consolidated fiscal revenues in 2008 and 2009, respectively. The other important taxes traditionally will be PIT and EPT, though, the share of EPT will slightly reduce. The share of other than tax revenues will decline consequently in both years. The forecast is also based on the assumption that the Government will not restore old or introduce new tax privileges.

The risks inherent in the consolidated fiscal revenue forecasts for 2008 and 2009 are associated with other than forecasted economic development. Another essential risk is related to the changes in the tax legislation, in particular restoring of tax privileges due to the deterioration of financial state of export-oriented companies.

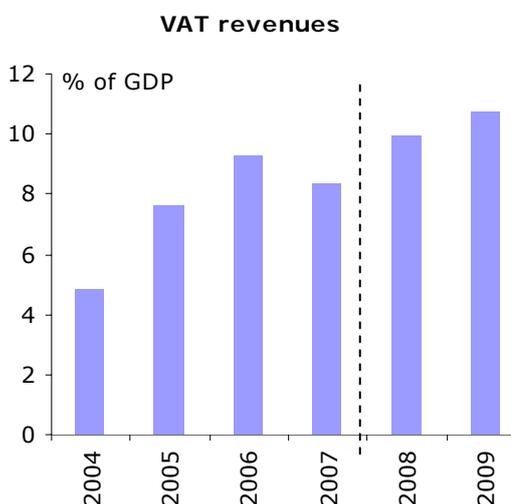
VAT: The VAT revenues in 2008 are estimated to reach UAH 99.0 bn

The VAT revenues are estimated at UAH 99.0 bn in 2008. The share of VAT revenues in GDP will reach 10.0% as compared to 8.3% in 2007 due to the continuation of the macroeconomic trends of 2007 including dominance of the imports over the exports and favourable consumption situation in the first half of 2008. At the same time, these factors were somewhat counterweighted by higher than in previous years VAT refunds primarily explained by the reduction of overdue VAT refund arrears. In particular, during first eight months of 2008 the overdue VAT refund arrears declined by 31.7% to UAH 2.8 bn. The VAT revenues plan of the Government as of September 19, 2008, is expected to be over-executed by 4.9% mainly due to higher than built into the State Budget macroeconomic parameters. The VAT paid on domestic products will be under-executed by 4.9%, which will be sufficiently offset by over-execution of VAT paid on imports by 24.9%. In 2008 the revenues from VAT on imports surge due to increase in imports as well as the prohibition of tax bills circulation and resumption of anti-smuggling activity.

The VAT revenues are forecasted at UAH 128.7 bn or 10.7% of GDP in 2009. The driving force of higher VAT revenues will be continued dominance of imports in foreign trade in 2009. The forecast is based on the assumption that the special regime of paying VAT by agricultural producers will be maintained, though will be somewhat modified in line with the WTO requirements. Basically, as previously



Source: State Treasury Reports, IER calculations



Source: State Treasury Reports, IER calculations

the VAT that is to be paid to central coffers by these producers will be further accumulated at their special accounts and then used for capital investments. At the same time, the milk and meat producers will not be further compensated the VAT paid on inputs. The restoration of the VAT privileges is not expected in 2009. Additionally, the Government will continue the measures directed at the VAT administration enhancement.

The major risks of the VAT revenue forecasts for 2008 and 2009 are related to other than forecasted economic development. Besides, there is a *risk* associated with the possible changes in the legislation, including resumption of tax bills circulation, the introduction of VAT privileges in special economic zones and provision of tax credit for enterprises, in particular, the NJSC Naftogas. Finally, there is a risk of further accumulation of VAT refund arrears that would increase fiscal liabilities in future periods.

EPT: The EPT revenues is under pressure from corporate profits abatement

The revenues from enterprise profits tax (EPT) in 2008 are estimated at UAH 45.3 bn. The share of EPT revenues will decline by 0.2 p.p. to 4.6% of GDP partially due to the lower corporate profits, particularly in construction. Besides, in the fourth quarter of 2008 Ukraine faces the low prices at world steel market, which depress metallurgy companies' margins. The estimated EPT revenues are by UAH 2.5 bn higher than the Government fiscal plan as of September 19, 2008.

The EPT revenues are forecasted to reach UAH 53.2 bn in 2009. At the same time, the share of EPT in GDP will further reduce by 0.2 p.p. to 4.4% due to continuous pressure on domestic producers' profits created by unfavourable world conjuncture and weak consumer demand. In particular, we assume permanent stagnation of world steel prices up to the second half of 2009, contraction in construction and deceleration of domestic demand. Besides, the financial crisis will reduce the availability of funding required for the financing new projects or rolling over current credits of domestic companies. As a result, corporate profits growth will further decelerate, while large-scaled investments will be suspended. No major changes in the EPT legislation are assumed.

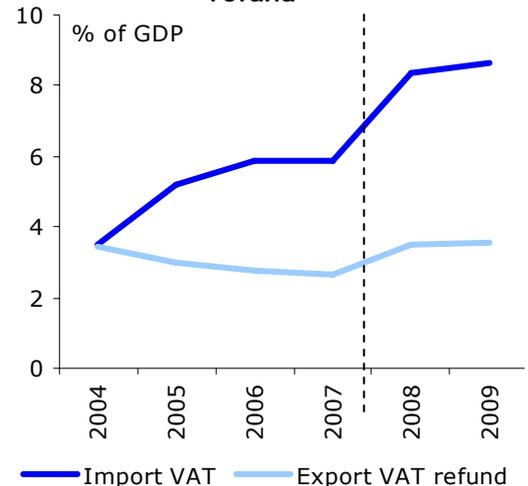
The risks for the EPT forecast for 2009 are comprised of different than expected deterioration of domestic and global macroeconomic conditions. An additional *risk* is related to possible changes in the EPT legislation, including the restoration or introduction of tax privileges.

PIT: The gross wage growth will decelerate in 2009

In 2008 the revenues from personal income tax (PIT) are estimated at UAH 47.7 bn (4.8% of GDP). The revenues growth is related to higher minimum wage as well as inflation, which pushes wage increases in all sectors of economy. Besides, the introduction of the second stage of the Unified Tariff Scale in the public sector in the end of 2007 and the introduction of its third stage in September 2008 also contribute to a higher wage bill. At the same time, the wage growth is decelerating in the second half of the year due to deterioration of financial state of industry and financial sectors, traditionally paying higher than average wages. The expected PIT revenues for 2008 coincide with the plan of the Government as of September 19, 2008.

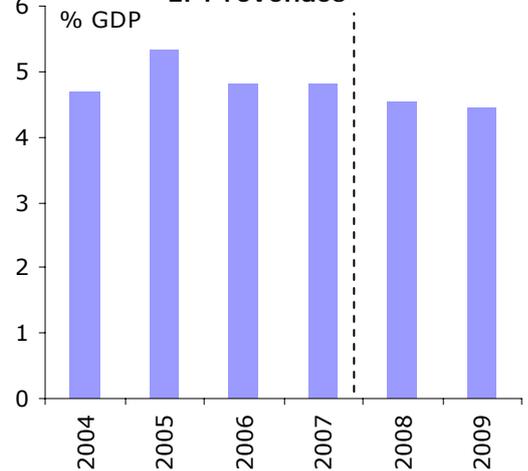
The PIT revenue forecast for 2009 is UAH 59.9 bn or 5.0% of GDP. As in previous years the sharp minimum wage increase will push the gross wages upwards, though this impact will be counterweighted by several factors. Both financial and industrial sectors the employers will not be able to keep the wage growth rates at levels of previous years. The economic slowdown might force employers to lay off employees, though the significant increase in unemployment rates is not expected due to rigidities of labour market. At the same time, it might be expected that practice of forced vocation without pay and shorter working weeks would be restored.

Import VAT and export VAT refund



Source: State Treasury Reports, IER calculations

EPT revenues



Source: State Treasury Reports, IER calculations

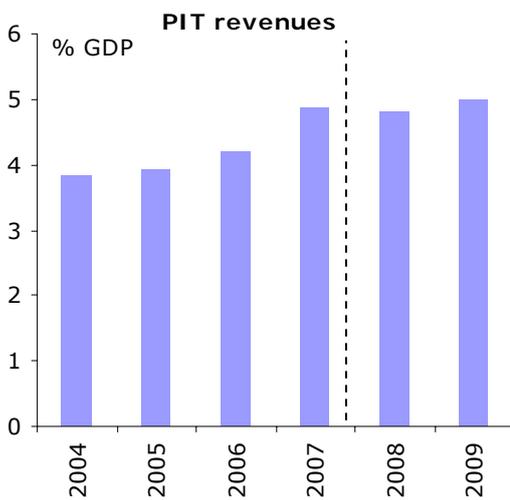
Parameters of PIT forecast:

	2007	2008E	2009F
PIT rate, %	15	15	15
Gross wages, UAH bn*	223	308	372
Minimum wage at the beginning of the year, UAH	400	515	770
Subsistence minimum for persons able to work at the beginning of the year, UAH	525	633	770
Social Privilege, UAH	200	258	335

E - estimate, F - forecast

* Net of social security contributions.

Source: the Ministry of Finance, legislation of Ukraine, IER estimates



Source: State Treasury Reports, IER calculations

The risks inherent in the PIT revenue forecasts for 2008 and 2009 are associated with further deterioration of financial state of enterprises, which would result in other than expected wage growth. In addition, the forecast could be challenged if the Government changes minimum wage and subsistence minimum. The further worsening of economic situation might result in higher unemployment and, as a result, in lower PIT revenues.

Consolidated fiscal expenditures: Capital fiscal expenditures are expected to increase in 2009

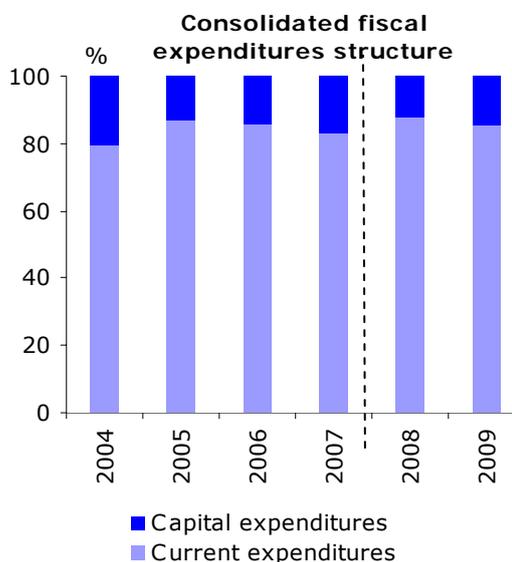
For 2008 the Government underestimated consolidated fiscal revenues, and, thus, has not allocated these revenues to expenditures in the fiscal plan approved in December 2007. As a result, between June and September the Parliament has approved several laws amending the State Budget Law for 2008 allocating additional revenues primarily for current expenditures. Taking into account the appointment of early Parliament elections as well as the necessity to envisage the additional fiscal transfer to the Pension Fund for paying increased by the Government pension benefits and to the NJSC Naftogas, the Parliament is likely to amend the Budget Law and envisage increase in the consolidated fiscal expenditures.

At the same time, the Government will run no consolidated fiscal deficit due to the scarce resources of its financing, thus impacting the possibility of the Government to execute fiscal expenditures. The shortage of the respective financing more than offsets the additional fiscal revenues the Government is expected to receive this year. As a result, the Government overestimates the consolidated fiscal expenditures by around UAH 9.1 bn. The Institute expects the consolidated fiscal expenditures at UAH 304 bn in 2008. The expenditures share in GDP will comprise 30.6%, which is by 1.1 p.p. lower than in 2007. The share of current expenditures in total consolidated expenditures will surge to 87.0% as compared to 82.3% in 2007 primarily due to rapid growth of wages, increase in current transfers and subsidies associated with high inflation, state aid to specific sectors (primarily agriculture and coal mining) as well as funds allocated to suffered from the massive flood regions. At the same time, the capital expenditures will be under-executed.

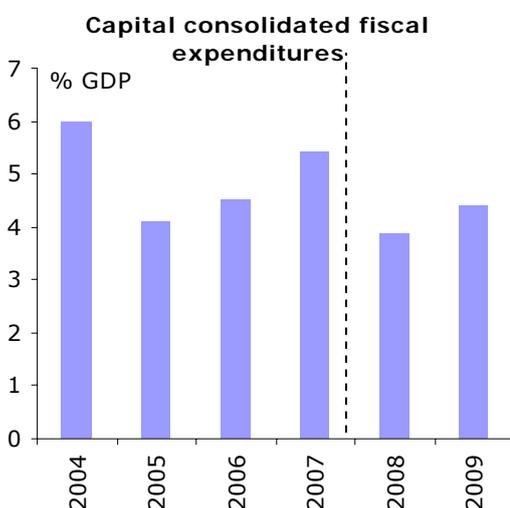
In 2009 the consolidated fiscal expenditures outlook will be challenged by several factors. First of all, as in 2008 the Government will not run fiscal deficit due to scarce sources of its financing. It will face a lobby of different employers' groups, e.g. metallurgy enterprises, for providing these sectors with state support. Though, it is assumed that the Government will not provide extended subsidies to these sectors. The Government will somewhat streamline the existing state support (e.g. turning to the provision of state guarantees instead of direct subsidies in the coal mining sector). The increase in wages in public sector will also require additional financing, though the wages will be raised at lower paces than in 2008. Besides, lower PIT revenues will result in higher central fiscal transfers to local budgets, while higher gas and utility prices for population will require increase in subvention for financing respective privileges of households. The recurrent nature of the high current expenditures will not allow the Government to reduce significantly the share of this part of fiscal expenditures, though the Government will try to streamline some social policies. The aforementioned measures will be aimed at increasing capital expenditures.

Therefore, the share of current expenditures in consolidated fiscal expenditures will decline to 85.0%. The capital expenditures will be higher than in 2008 and account for 4.5% of GDP. In particular, the Government will allocate some expenditure for the infrastructural projects related to the preparation to the EURO 2012. At the same time, it will provide state guarantees for credits attracted by the State Road Service "Ukravtodor" for financing the road construction. As a result, the consolidated fiscal expenditures are forecasted at UAH 359 bn or 30.0% of GDP in 2009.

The risk inherent in forecast of consolidated fiscal expenditures is associated primarily with granting tax privileges and extended



Source: State Treasury Reports, IER calculations



Source: State Treasury Reports, IER calculations

subsidies to economic entities. Besides, due to the Presidential election campaign current expenditures, in particular, wages and current transfers and subsidies might be increased even further. Another risk is associated with under-execution of capital expenditures as a result of tight budget constraints.

Consolidated fiscal deficit: The shortage in financing cuts off the Government deficit plans

The consolidated budget for 2008 is estimated to be balanced, which is explained by the scarce resources for deficit financing. In particular, the Government is not likely to attract additional UAH 9.1 bn on external and UAH 7.4 bn on internal markets by the end of 2008 as a result of unfavourable conditions on international debt market due to world financial crisis and low domestic demand followed by insufficient state bonds pricing. While the Government would refrain from issuing the Eurobonds this year, it will be able to borrow at domestic market UAH 2.0 bn by the end of 2008. Besides, the Government will not restore the privatisation process in the end of the year. Therefore, for 2008 the privatisation receipts will be at UAH 0.8 bn or 8.4% of the official plan. At the same time, the debt servicing and redemption will be accomplished at the expense of funds accumulated by the beginning of this year at the Unified treasury account.

The Institute also forecasts the balanced consolidated budget for 2009 due to the same as in 2008 reason of insufficient funds for deficit financing. It is expected that the borrowing conditions at external debt markets would somewhat improve in the second half of 2009 allowing the Government to issue Eurobonds at USD 1.2 bn in order to refinance the debt with redemption in 2009. At the same time, the Government will introduce reforms on the domestic debt market, which would enable it to allocate domestic government bonds at UAH 5.0 bn. The privatisation process is likely to be postponed again due to the political turbulence and inability of investors to pay market price for Ukrainian strategic companies that are in the agenda for privatisation. As a result, the privatisation receipts will amount to UAH 1.0 bn.

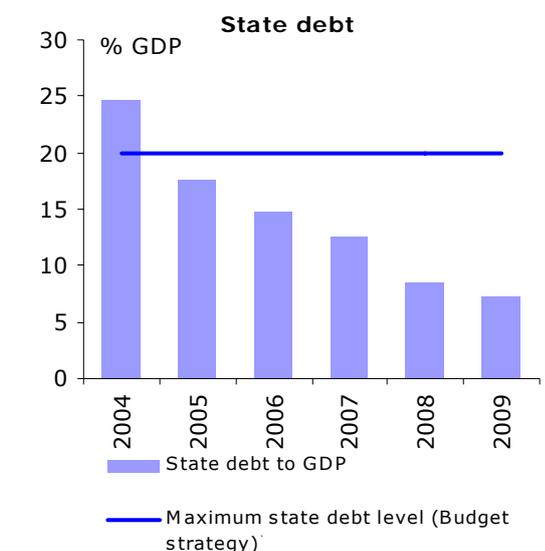
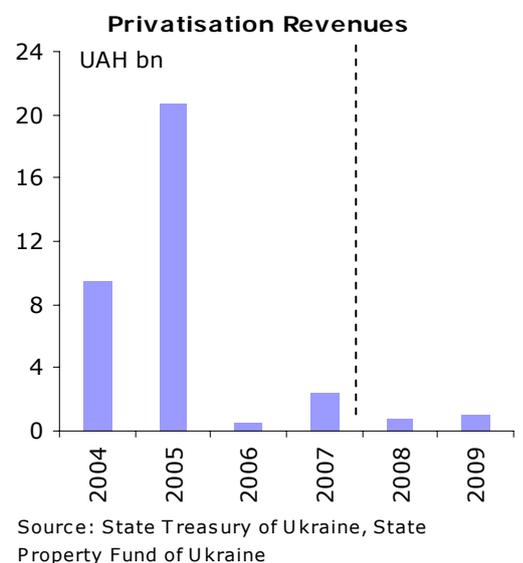
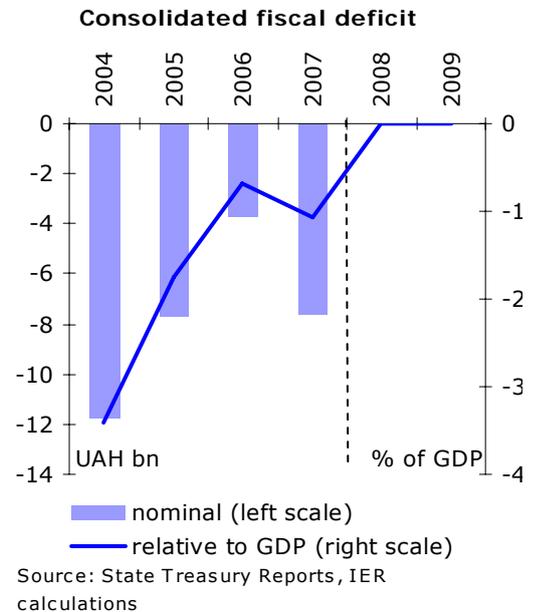
Major risk for the consolidated fiscal deficit forecast for 2009 is comprised of macroeconomic instability. The under-execution of the privatisation plan and further deterioration of borrowing conditions on the external debt market might reduce significantly the Government possibilities to finance the fiscal deficit. Yet other risk might be associated with failure of Government plans of increasing borrowings on domestic market.

The politically motivated amendments to the State Budget Law for 2008 and approval of the populist State Budget Law for 2009 might push the Government to attract more than assumed borrowings at a very high costs, which is unsustainable in the long run policy.

Risks assessment

The fiscal positions of the Government might be further challenged due to the higher than expected slowdown of economy. The deterioration of financing state of major export companies would force the Government to provide them with the support in the form of subsidies and grant them with tax privileges. Second, under continuation of the unfavourable situation on international financial markets during entire 2009 the Government will not be likely to attract any external borrowing and cell expected amount of domestic state bonds.

As a result of deceleration of consumption, imports and enterprise profits the consolidated fiscal revenues will decline to UAH 333 (27.9% of GDP). The largest shortfall will be in VAT and EPT revenues. The unfavourable conditions on the borrowing market will not allow the Government to sell Eurobonds or attract funds on domestic markets: both domestic and foreign debt will be redeemed and served at the expense of fiscal revenues inflow. As a result, the consolidated fiscal expenditures are estimated could decline to 26.7% of GDP. It is likely that capital expenditures will reduce



**Fiscal indicators in 2009 under different scenarios**
% of GDP

	<i>Basic</i>	<i>Risk</i>	<i>Optimistic</i>
Consolidated fiscal revenues,	30.3	27.9	29.9
Consolidated fiscal expenditures	30.0	26.7	30.4
Capital expenditures	4.4	0.7	4.9
Consolidated fiscal deficit	0.0	0.0	0.8

Source: IER calculations

significantly, as financing of current expenditures, in particular higher subsidies and transfers to enterprises and households as well as wages of public employees, will require almost all available funds.

However, if the economic development will start recovering earlier than in the second half of 2009 due to stabilising situation on external markets, which would result in higher demand for Ukrainian exports, the consolidated fiscal revenues would reach UAH 367 bn. Besides, the Government will run the deficit at 0.8% of GDP, which would be financed at the expense of both external and internal borrowings. Taking into account the necessity to finance infrastructural projects in the framework of preparation to the EURO-2012 the Government will increase capital expenditures to 5.0% of GDP.

BALANCE OF PAYMENTS

Current account: The current account deficit is forecast to further widen in 2008-2009

The trend of current account deficit widening will be maintained in both 2008 and 2009. According to the NBU, in the first eight months of 2008 the current account deficit was at USD 7.5 bn, which is almost four times higher than in the same period of 2007, and, thus, reached 6.0% of GDP. It is estimated that the deficit will be at 6.8% of GDP (USD 13.5 bn) in 2008 and will further widen to 9.3% of GDP (USD 21.3 bn) in 2009.

In the first half of 2008 the growth in dollar value of exports was mainly attributed to higher prices for Ukrainian metal exports, but in July the international conjuncture started worsening. The lower demand for metals along with more competitive external environment resulted in the declining metal prices. Therefore, export growth is expected to slowdown in the second half of 2008 and constitute 40.0% yoy in dollar terms in 2008. Due to both lower household consumption and stagnant investment activity imports of goods will decelerate to 48.0% yoy in dollar terms in 2008. As a result, commodity trade deficit will increase by 85.7% yoy and will reach USD 19.6 bn in 2008 driving the current account deficit.

In 2009 the import growth is forecasted to decelerate further to around 17.0% yoy in dollar terms due to slowdown in domestic demand, restricted crediting of households and continued hryvnia devaluation. The impact of imported gas price increase would be partially offset by lower volumes of consumed imported gas due to the implementation of energy-saving technologies and slowdown in economic development. At the same time, growth rates of imports still will be higher than export growth. The commodity export growth will decelerate but still remain positive at 9.0% yoy in dollar terms thanks to the increase in prices for Ukrainian exports, primarily metals and food, in the second half of 2009. Thus, commodity deficit will be around USD 28.6 bn

Commodity deficit will be partially compensated by surplus in service trade and inflow of current transfers from abroad. It is expected that the exports of services will increase by 39.0% yoy in 2008 and 17.0% yoy in 2009. The growth of imports of services will be a bit slower at 34.0% yoy and 15.0% yoy, respectively, which is partially explained by decline in consumption of tourism services and significantly lower financial activity. As a result, trade balance of services will reach USD 4.3 bn in 2008 and USD 5.4 bn in 2009.

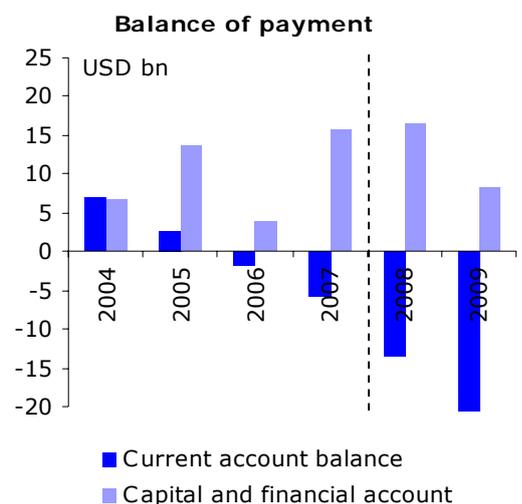
Current transfers' growth will decelerate to 10.4% yoy in 2008 due to slowdown in developed economies. In 2009 the current transfers will somewhat accelerate to 11.1% yoy due to stabilising financial markets at the second half of the year at the background of lower statistical base. Net incomes from abroad will be negative at USD 2.7 bn and USD 3.1 bn in 2008 and 2009, respectively.

The risks of the current account deficit development relate to the faster than projected growth in imports of goods and services, and higher than expected reduction of world demand for Ukrainian exports. In case of sharper hryvnia devaluation current account deficit may be lower than projected.

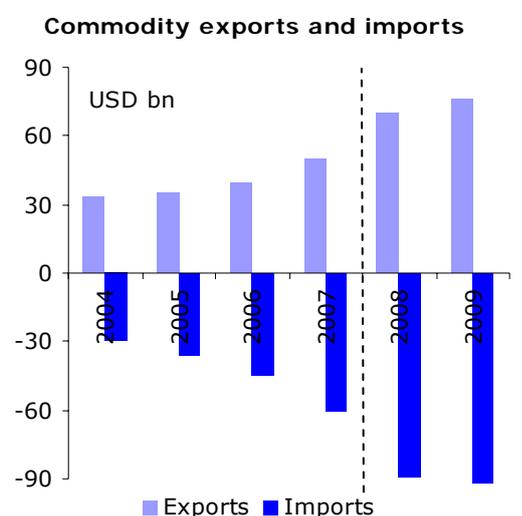
Capital and financial accounts: The inflow of foreign capital is expected to revert to outflow

In 2008 net foreign capital inflow will be sufficient to completely cover current account deficit, since the accumulation of international reserves in the first three quarters allows satisfying the demand for foreign currency in the last quarter of the year.

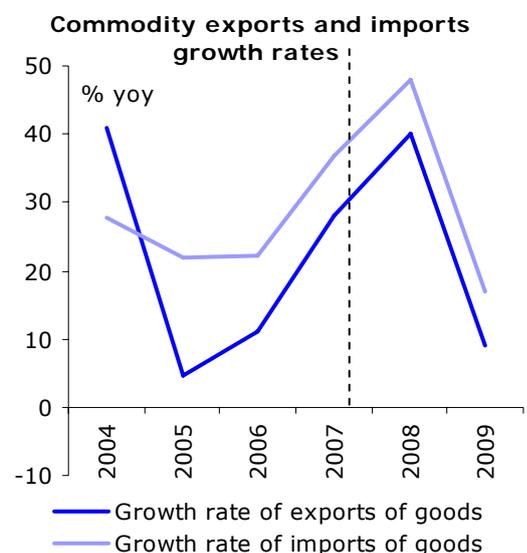
The financial account surplus is expected at USD 16.5 bn. In particular, increase in net other investments inflow at USD 6.3 bn, as compared to USD 0.8 bn in 2007, is mainly attributed to the real sector external borrowing in the first eight months of the year.



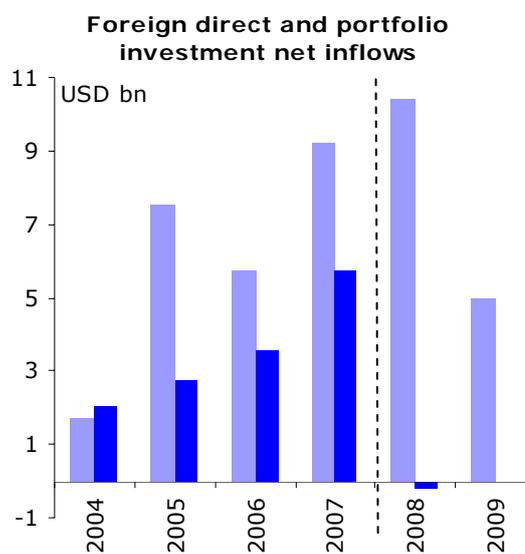
Source: the NBU, IER calculations



Source: NBU, IER calculations



Source: NBU, IER calculations



Source: NBU, IER calculations

In the second half of 2008 foreign investors started withdrawing their investments from emerging markets including Ukraine in order to respond to the problems of liquidity at home countries due to the world financial crisis. Thus, sharp portfolio investment outflow is expected in the second half of 2008, which would more than counterweight the increase in portfolio investments in the beginning of the year. As a result, the net outflow of portfolio investments is anticipated. At the same time, the net FDI inflow will remain high (at USD 10.3 bn comparing to USD 8.3 bn in first eight months of 2008) thanks to capital investments and finalised purchases of several Ukrainian commercial banks made before financial crises entered new phase.

Significant outflow of foreign investments in the second half of the year increased demand for foreign currency on inter-bank market. To support the hryvnia, the NBU intervenes in the foreign exchange market. It sold more than USD 1 bn during the first fifteen days of October. It is expected that the NBU continues supporting hryvnia till the end of the year.

In 2009 financial account surplus is forecasted at USD 8.2 bn due to continued slowdown in foreign investors' activity. In particular, net portfolio investments will be at zero. The net FDI inflow will be lower at UAH 5.0 bn supported by infrastructure investments and possible mergers and acquisitions intensified by the crisis. The other investments will be at USD 3.2 bn thanks to the EBRD credits provided in the framework of preparation to the EURO 2012 and banking and real sector crediting expected to resume in the second half of the year.

Therefore, in 2009 the financial account surplus will not be sufficient to cover current account deficit. As a result, the NBU will use its international reserves (USD 9.0 bn) as well as the IMF loan (USD 4.0 bn) to cover the shortage of external financial resources needed to finance current account deficit.

The risks on the capital and financial account side are mostly associated with deeper than assumed deterioration at international financial markets and downturn in home countries of foreign investors. The persistence of political instability will contribute to further worsening of investment climate.

Risks assessment

The higher than assumed slowdown of world economy in 2009 will result in further deterioration of external demand for Ukrainian exports. In particular, metals exports will show steeper decline, while the exports of machinery and chemical products will also reduce. At the same time, the hryvnia devaluation will partially offset this decline in exports and somewhat restrict imports. The imports growth will decelerate further due to the deterioration of final households' consumption and lower demand for investment consumption. As a result, in 2009 the exports growth will decelerate to 5.0% yoy in dollar terms, while imports growth to 12.0% yoy. The current account deficit will be at 8.4% of GDP (USD 20.9 bn).

On the financial account side the major risk for the 2009 year is deeper deterioration of situation on global financial market, meaning ultimate folding of external financing till the end of 2009. As a result, the financial account surplus will be at USD 0.8 bn. Therefore, the current account deficit will be entirely covered by the international reserves of the NBU and the IMF loan.

Under optimistic scenario the earlier than projected stabilisation of the global financial system will result in restoration of the external demand for Ukrainian exports and recovery of investment activity already in the second quarter of 2009. As a result, the current account deficit will be at USD 20.7 bn or 8.1% of GDP and is to be covered by financial account surplus (USD 13.7 bn) and international reserves of the NBU.

Balance of payment indicators in 2009 under different scenarios

USD bn	Basic	Risk	Optimistic
Current account balance	-21.3	-20.9	-20.7
Commodity exports	76.1	71.7	80.7
Commodity imports	-105	-100	-110
Capital and financial account	8.22	0.8	13.7
Direct investment	5.00	2.0	6.0
Portfolio investment	0.00	-3.0	2.0

Source: IER calculations

MONETARY SURVEY AND INFLATION

Monetary policy: First steps to inflation targeting

According to the Monetary Policy Guidelines for 2009 the National Bank might start transition to inflation targeting in 2009. Inflation targeting foresees price stability as the main goal of the monetary policy, while the central bank commits to maintain price inflation within expressly proclaimed targeted range. Though the transition to inflation targeting has been promised by the NBU for many years, next year might see the first formal steps towards this policy implementation. If successfully implemented, inflation targeting monetary policy may pave the way to the macroeconomic stability

However, due to the political instability and long preparation required monetary policy is unlikely to change materially in 2009. On the other hand, we do expect the NBU have a better grip on the monetary aggregates and interest rates as exchange rate flexibility improved and some transition measures implemented.

Monetary aggregates: Money supply growth will decelerate during next two years

Money supply (M2) growth is expected to slow significantly to 33.6% yoy or UAH 523 bn in 2008 with further deceleration to 15.9% yoy in 2009 or UAH 606 bn. In particular, the slowdown in monetary aggregates growth in 2009 is explained by the large foreign exchange interventions required to support exchange rate. Deceleration in deposit growth due to low confidence in banking system also contributed to this deceleration. Foreign currency and demand deposits are expected to slow down as devaluation expectations become more acute. Corporate liquidity will also remain limited under tighter credit conditions. Velocity of money will increase slightly in 2008 and 2009.

On the asset side domestic credit to private sector will be constrained by decrease in foreign capital inflows to banking sector. Claims of banks to private sector are forecast to grow by 33.0% and 30.0% yoy in 2008 and 2009, respectively, and will reach UAH 767 bn by the end of 2009.

The risk of the forecast of the monetary aggregates relates primarily to the different than expected amount of foreign exchange interventions required.

Inflation: Consumer inflation will decelerate in 2009

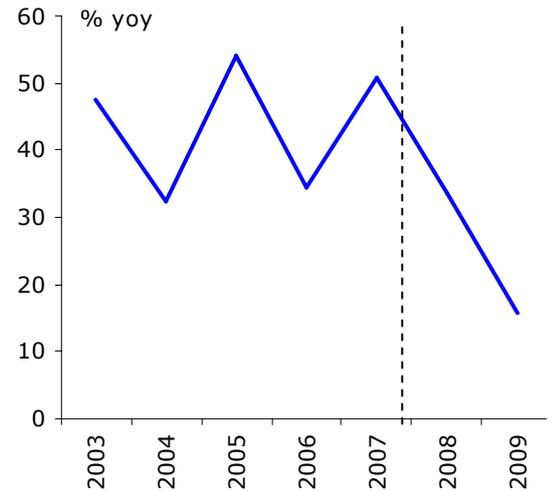
According to the Derzhkomstat in September the consumer prices increased by 24.6% yoy, decelerating from the peak reached in May at 31.1% yoy. On the demand side the consumer inflation is driven by aggressive income policy and strong inflation expectations. On the supply side high external demand for food products coupled with limited domestic demand, rising labour and energy costs contributed to inflation growth. Most of demand and supply pressures will continue to the end of 2008 though food market has seen some easing under good harvest. As a result, consumer price inflation in 2008 is estimated to reach 25.2% as annual average.

Weak consumer and investment demand under slowly growing wages and other inputs costs, tight credit, and low corporate profits will cause inflation to slow considerably in 2009. Thus, the consumer inflation will decelerate compared to the previous year, but still stay in double digits at 11.4% as annual average. A significant upside risk to the forecast relates to other than expected exchange rate and economic slowdown in 2009.

Exchange rate: Hryvnia depreciation in 2009 will be limited by reserve sales

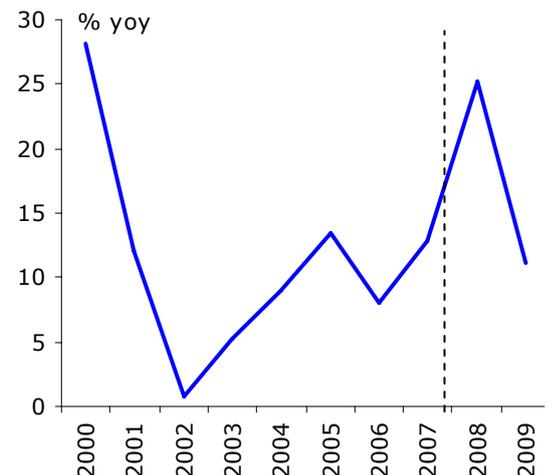
Interbank exchange rate. According to the NBU preliminary estimates, in the first eight months of 2008 the FDI and other capital inflows were sufficient to cover current account deficit and allow the NBU to increase international reserves by USD 6.0 bn. At the same time, the deterioration of trade balance and capital inflows in the end of 2008 will force the NBU to use part of accumulated international

Money supply (M2)



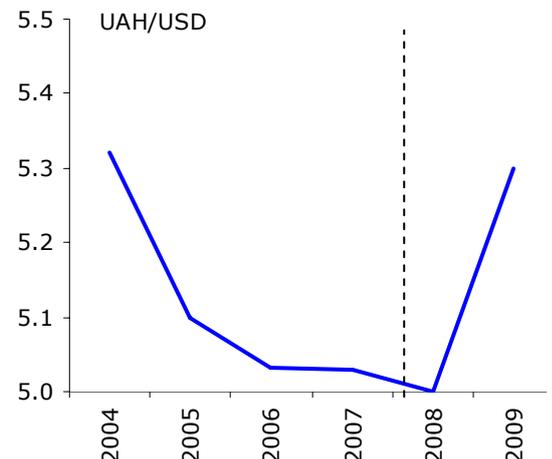
Source: NBU, IER calculations

Consumer price index

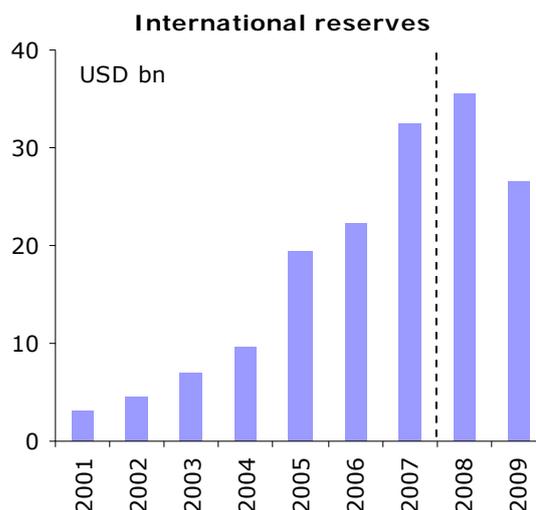


Source: Derzhkomstat, IER calculations

Average market exchange rate



Source: NBU, IER calculations



Source: NBU, IER calculations

Monetary survey indicators in 2009 under different scenarios

	<i>Basic</i>	<i>Risk</i>	<i>Optimistic</i>
CPI, % aop	11.4	13.1	15.4
Money supply (M2), % yoy	15.9	8.6	21.0
Domestic credit, % yoy	30.0	22.0	32.0
Market exchange rate, UAH/USD	5.2	5.5	5.2
NBU interventions, USD bn	13.0	20.0	7.0

Source: IER calculations

reserves for supporting exchange rate. As a result, the interbank exchange rate is expected at 5.00 UAH/USD on average in 2008

In 2009 turmoil in global financial markets will limit capital inflows, while current account deficit will continue to grow in dollar terms. Thus, large NBU interventions will be required to maintain the average UAH/USD exchange rate for 2009 in 5.10-5.35 range. The NBU is forecast to spend about USD 13.0 bn from the international reserves and the IMF funds to maintain the exchange rate. If current account deficit financing risk will turn out larger than expected the NBU might face the choice between spending the most of the international reserves and drawing the maximum amounts available from the IMF in the attempt to maintain exchange rate and allowing large devaluation of hryvnia.

Official exchange rate. The forecast is based on the assumption that the NBU will continue to ignore small interbank exchange rate movements but will still adjust the rate from time to time closer to the market level. Thus, average official exchange rate is expected at 5.00 UAH/USD in 2008 and 5.20 in 2009.

Risks assessment

Under more stark global conditions increase of prices for imported goods will support inflation while monetary squeeze will limit price growth. In this case inflation will reach 13.1% as annual average in 2009. Global economic slowdown may further increase difficulty of financing current account deficit. However, the NBU will spend large portion of international reserves before allowing large depreciation of hryvnia as combination of high prices and weak economic growth is highly undesirable. Therefore, limited depreciation of hryvnia up to 5.50 UAH per USD is expected in 2009, while the NBU may spend more than USD 20.0 bn to support the exchange rate.

If global economy will be more resilient than expected, inflation expectations will remain high and drive up prices directly and through inputs costs and low real interest rates. Thus consumer price growth may slow down only to 15.4% as annual average in 2009. Besides, for financing current account deficit the IMF intervention will not be needed and infusions from the NBU will be limited to USD 7.0 bn.



ASSUMPTIONS OF THE FORECAST

- The global financial markets will stabilise in the second half of 2009.
- Continued political turbulence in Ukraine will mean a standstill in structural reforms in 2008-2009.
- The Presidential election campaign will take place in 2009 (the election will be in January 2010).
- The early Parliament elections will be conducted in December 2008.
- Ukraine together with Poland will host the EURO 2012.
- High external demand on machine building production will be maintained within the forecast period, in particular in other CIS countries.
- Price for imported gas will be at USD 179.5 per thousand cubic meters at the border with Russia).
- Price for imported gas will reach the range USD 280-310 per thousand cubic meters at the border with Russia in 2009.
- The price for gas transit, which amounts to around 15.0% of all service import, will not rise in 2009.
- The FTA between Ukraine and the EU will not be implemented within the period of forecast.
- The world prices for ferrous metals will decline in 2008.
- The world prices for ferrous metals will renew their growth in the second half of 2009.
- The world prices for crude oil will be in the range USD 90-110 per barrel in 2008-2009.
- International food prices will decline in second half of 008 and in the first half of 2009 and then will restore their growth.
- The anti-smuggling policy is to be continued by the Government in 2008 and 2009.
- The Parliament will approve the law amending the State budget Law for 2008 in order to foresee financing of early parliament elections, transfers to the Pension Fund and the NJSC Naftogas.
- The State Budget Law for 2009 will be approved by the end of February 2009.
- The special regime of paying VAT by agricultural producers will be maintained but somewhat modified in line with the WTO requirements. In particular the milk and meat producers will not be further compensated the VAT paid on inputs. Otherwise, the tax legislation, including tax rates, remains unchanged in 2008 and 2009.
- VAT and EPT privileges will not be introduced in 2008 and 2009.
- VAT refund overdue arrears will not be further accumulated in 2008 and 2009.
- The measures aimed at enhancement of VAT administration will be conducted in 2008 and 2009.
- No major changes in state land rent rates and land sales procedures will be introduced in 2008 and 2009.
- The minimum wage will be raised to the level of subsistence minimum set for working able individuals on January 1, 2009. At the same time, the lower rates will be used for setting the first grade of the Unified Tariff Scale for paying wages to employees in public sectors.
- In 2008 the Government will not be able to attract borrowings at external market.
- In 2009 the external borrowings will be available for the Government but expensive.
- The NBU will maintain some administrative restrictions on bank operations until the second half of 2009.
- The NBU board will maintain official exchange rate in 4.55-5.35 UAH/USD range set by the NBU council in 2008 and 2009.
- In 2008 and 2009 the Government will increase deposit protection and the NBU will support banks that have problems.
- The foreign investors will accelerate their activity in the second half of 2009.


TABLES
Table 1. National Accounts (GDP)

		2005	2006	2007	2008E	2009F
Nominal GDP	UAH bn	441.5	537.7	712.9	994.3	1197.3
Nominal GDP	USD bn	86.2	106.5	141.2	196.9	230.3
Real GDP	% yoy	2.7	7.3	7.6	5.9	2.7
GDP expenditure side components growth						
Private consumption	% yoy	20.6	15.9	17.1	13.5	10.2
State consumption	% yoy	2.9	2.7	2.8	2.8	2.9
Fixed assets accumulation	% yoy	3.9	21.2	24.8	6.0	6.0
Exports	% yoy	-12.2	-5.6	3.2	3.2	-5.1
Imports	% yoy	6.4	6.8	19.9	14.5	4.5
GDP production side components growth						
Agriculture	% yoy	0.4	2.0	-5.0	16.0	0.0
Extractive industry	% yoy	2.5	9.9	4.1	3.3	2.0
Manufacturing	% yoy	0.4	9.2	12.8	4.5	4.4
Production and distribution of electricity, gas and water	% yoy					
		1.7	0.1	1.3	0.5	0.5
Construction	% yoy	-13.3	0.3	13.2	-12.0	0.0
Trade, repair services	% yoy	-14.7	17.7	20.6	11.0	9.0
Transport	% yoy	8.2	7.6	11.0	9.5	7.0
Education	% yoy	0.0	2.1	4.3	0.1	0.0
Health care	% yoy	0.2	2.4	-0.4	-1.0	0.0
Other types of economic activity	% yoy	9.3	5.7	6.0	4.7	-1.9
Estimated payments to financial intermediaries	% yoy	35.3	59.6	30.0	25.0	18.0
Net taxes on products	% yoy	26.7	13.4	2.4	15.0	7.0

Table 2. Fiscal Indicators

		2005	2006	2007	2008E	2009F
Consolidated fiscal revenues	UAH bn	134.0	171.7	219.9	306.4	363.0
	% of GDP	30.4	31.6	30.8	30.8	30.3
EPT revenues	UAH bn	23.5	26.2	34.4	45.3	53.2
	% of GDP	5.3	4.8	4.8	4.6	4.4
VAT revenues	UAH bn	33.8	50.4	59.4	99.0	128.7
	% of GDP	7.7	9.3	8.3	10.0	10.7
PIT revenues	UAH bn	17.3	22.8	34.8	47.7	59.9
	% of GDP	3.9	4.2	4.9	4.8	5.0
Consolidated fiscal expenditures	UAH bn	141.5	175.3	226.0	304.4	358.8
	% of GDP	32.1	32.2	31.7	30.6	30.0
Current consolidated fiscal expenditures	% of GDP	28.0	27.7	26.3	26.6	25.5
Capital consolidated fiscal expenditures	% of GDP	4.1	4.5	5.4	4.0	4.5
Consolidated fiscal deficit	% of GDP	1.8	0.7	1.1	0.0	0.0
Privatisation receipts	UAH bn	7.4	3.8	2.2	0.8	1.0
State debt	% of GDP	17.7	15.0	12.4	8.5	7.2

Table 3. Balance of Payments

		2005	2006	2007	2008E	2009F
Current Account balance	USD bn	2.5	-1.6	-5.9	-13.5	-21.3
	% of GDP	2.9	-1.5	-4.2	-6.8	-9.3
Exports of goods	USD bn	35.0	38.9	49.8	69.8	76.1
Imports of goods	USD bn	-36.2	-44.1	-60.4	-89.4	-104.6
Balance of services	USD bn	1.8	2.1	2.7	4.3	5.4
Transfers net	USD bn	2.8	3.2	4.1	4.5	5.0
Income net	USD bn	-1.0	-1.7	-2.1	-2.7	-3.1
Capital and Financial Accounts	USD bn	13.8	3.9	15.8	16.5	8.2
Direct investments	USD bn	7.5	5.7	9.2	10.4	5.0
Portfolio investments	USD bn	2.8	3.6	5.8	-0.2	0.0
Other investments	USD bn	3.5	-5.4	0.8	6.3	3.2

Table 4. Monetary Aggregates and CPI

		2005	2006	2007	2008E	2009F
Currency in circulation (M0)	UAH bn	60.2	75.0	111.1	150.0	187.5
	% yoy	42.2	24.5	48.2	35.0	25.0
Narrow money (M1)	UAH bn	98.6	123.3	181.7	239.0	292.0
	% yoy	46.9	25.1	47.4	31.5	22.2
Money supply (M2)	UAH bn	193.1	259.4	391.3	522.7	605.6
	% yoy	53.9	34.3	50.8	33.6	15.9
Consumer price index (CPI)	% yoy aop	13.5	8.0	12.8	25.2	11.1

Source: State Statistics Committee, NBU, State Treasury, IER forecasts and estimates

**Contact information:**

Institute for Economic Research
and Policy Consulting
Reytarska St. 8/5-A, 01034 Kyiv
Tel. (+38044) 278-6342
Fax (+38044) 278-6336
E-mail: institute@ier.kiev.ua
<http://www.ier.kiev.ua>

Head of the Board-Director

Igor Burakovsky
burakovsky@ier.kiev.ua

Chief Executive

Oksana Kuziakiv
kuziakiv@ier.kiev.ua

Academic Director

Veronika Movchan
movchan@ier.kiev.ua

**German-Ukrainian Policy Dialogue in
Agriculture**

Heinz-Wilhelm Strubenhoff
Team leader
Strubenhoff@ier.kiev.ua

Iryna Slavynska
slavynska@ier.kiev.ua

Oleg Nivyevs'kiy
nivyevs'kiy@ier.kiev.ua

Justyna Jaroszevska
Jaroszevska@ier.kiev.ua

Anna Kuznetsova
Kuznetsova@ier.kiev.ua

Serhiy Kandul
kandul@ier.kiev.ua

Centre for Economic Studies

Oleksandra Betliy
betliy@ier.kiev.ua

Vitaliy Kravchuk
Kravchuk@ier.kiev.ua

Olga Megeda
megeda@ier.kiev.ua

Dmytro Naumenko
naumenko@ier.kiev.ua

Kateryna Pilkevich
pilkevich@ier.kiev.ua

Alla Kobylanska
kobylanskaya@ier.kiev.ua

Roman Voznyak
voznjak@ier.kiev.ua

Natalia Sysenko
sysenko@ier.kiev.ua

Inna Yuzefovych
Yuzefovych@ier.kiev.ua

Kateryna Kutsenko
kutsenko@ier.kiev.ua

Center for Political Studies

Yevgeniy Razdorozhny
razdorozhny@ier.kiev.ua

Kateryna Shynkaruk
shynkaruk@ier.kiev.ua

Center for Contemporary Society Studies

Iryna Fedets
fedets@ier.kiev.ua

Kateryna Yevseyeva
yevseyeva@ier.kiev.ua

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