



INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

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# Macroeconomic Forecast Ukraine - update

## In line with expectations

Forecast period: years 2009 and 2010

Date of forecast completion: March 20, 2009

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### Key forecast figures

|                                      | 2005 | 2006 | 2007 | 2008E | 2009E  | 2010F  |
|--------------------------------------|------|------|------|-------|--------|--------|
| Real GDP, % yoy                      | 2.7  | 7.3  | 7.6  | 2.1   | -12.0  | 5.3 ↓  |
| Consolidated fiscal revenues, UAH bn | 134  | 172  | 220  | 298   | 266 ↑  | 293 ↓  |
| Consolidated fiscal balance % of GDP | -1.8 | -0.7 | -1.1 | -1.5  | -3.3   | -2.2 ↓ |
| Current account balance, % of GDP    | 2.9  | -1.5 | -4.2 | -7.2  | -0.9 ↓ | 2.6 ↓  |
| Net FDI inflow, USD bn               | 7.5  | 5.7  | 9.2  | 9.7   | 6.0 ↓  | 8.0 ↓  |
| Money supply, UAH bn                 | 193  | 259  | 391  | 513   | 495 ↓  | 565 ↓  |
| CPI, % aop                           | 13.5 | 8.0  | 12.8 | 22.3  | 18.3 ↓ | 16.9 ↓ |

*Note: E - estimate, F - forecast, yoy - year-on-year change, aop - average of the period,  
↓ - if forecast was revised downwards, ↑ - if forecast was revised upwards*

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

## EXECUTIVE SUMMARY

**GDP:** Recent economic developments in Ukraine and in the world were in line with the assumptions and expectations embedded in the previous issue of the IER forecast. Therefore, we preserved the estimate of real GDP contraction at 12.0% for 2009, but somewhat changed the GDP composition adjusting it to newly released statistics. The real GDP is forecast to grow by 5.3% in 2010 against the background of very low statistical base.

**Fiscal Indicators:** We improved the estimate of consolidated fiscal revenues and expenditures for 2009 incorporating expected VAT revenues from the custom clearance of disputed gas and additional funds from the further increase in tobacco excise. As a result, the consolidated fiscal revenues will be at 28.3% of GDP. As we keep the forecast of the consolidated fiscal deficit at 3.3% of GDP, not taking into account possible recapitalisation of banking system, an estimate of consolidated fiscal expenditures was revised upwards to UAH 296 bn. The consolidated fiscal expenditures are expected to reach UAH 317 bn in 2010 with deficit at 2.1% of GDP.

**Balance of Payments:** Changes in legislation and a release of new statistical information explain small revision in balance of payments' figures. In particular, current account will be in deficit at USD 1.0 bn (0.9% of GDP) in 2009 and turn to surplus at USD 4.0 bn (2.6% of GDP) in 2010. The large net outflows of other investments will cause financial account deficits in 2009 and 2010.

**Monetary Survey and Inflation:** Money supply in 2009 is expected to decline by 3.4% in 2009 as bank claims on private sector will contract, but resume grow in 2010. The exchange rate will be on average at 8.45 UAH/USD in 2009, and 7.90 UAH/USD in 2010. The consumer price inflation is expected to slightly decelerate, though remain high at 18.3% on average in 2009 and 16.9% in 2010.

**Risk Scenario:** Later than assumed global economy recovery remains a major risk for economic development of Ukraine suppressing demand for Ukrainian exports and restraining access to foreign capital. In this case the decline in real private consumption will be even more pronounced, while the corporate sector defaults will become more frequent. As a result, under risk scenario the real GDP will decline by 14.3% in 2009 and demonstrate slower growth at 3.1% in 2010. Also, in this case a devaluation of hryvnia will be stronger in 2009 and persist in 2010.

# Macroeconomic Forecast Ukraine - update

## Macroeconomy: Ukraine's economic outlook remains unchanged

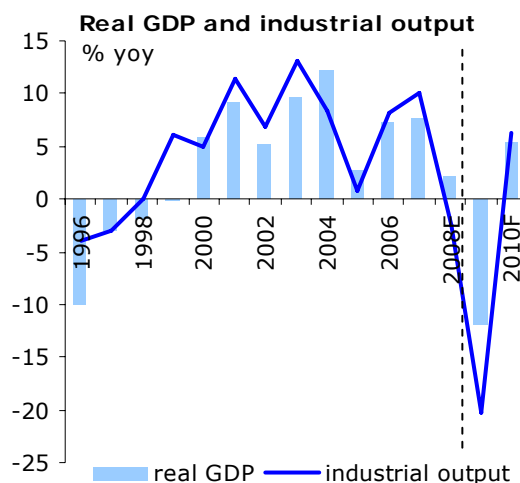
**GDP:** Recent economic developments in Ukraine and in the world were in line with the assumptions and expectations embedded in the previous IER forecast. As we anticipated Ukrainian industrial output modestly rebound in February, while final private consumption, approximated by retail trade, declined further. Also, downward revisions of forecasts of global economy development were already incorporated in our February forecast. At the same time, we adjusted nominal values of GDP and its components in accordance with the latest updates of economic statistics for 2007 and 2008 recently released by the Derzhkomstat. Those changes affected deflators though having little impact on real growth rates by sectors. Therefore, we preserved the forecast of economic contraction by 12.0% in 2009, but somewhat changed the GDP composition. The real GDP is estimated to grow by 5.3% in 2010 against the background of very low statistical base.

**Demand side:** The estimated decline in real final private consumption was slightly downgraded to 18.1% in 2009 due to the rapidly increasing uncertainty resulting from instability of banking sector and expected further layoffs. The amount of frozen deposits is growing fast substantially deteriorating consumption outlook and sentiments. In this situation households will refrain from buying durables and luxury goods and spend money disposals mainly on essentials. Another reason for consumption estimate downgrade is the introduction of 13% surcharge on imports of selected goods, primarily passenger cars. At the same time, individuals are expected to actively adopt coping mechanisms in the new economic environment looking for new lower paid jobs or/and resuming employment in farming at individual land plots. It will help to slightly uphold real households' consumption in tough 2009. In 2010 real private final consumption will increase on the back of the recovery in major sectors of economy. However, this rise will be moderately restrained by need to repay credits and rather temperate growth of incomes. Therefore, the IER forecasts real final private consumption to grow by 3.9% in 2010.

The investment demand is expected to be weak in 2009 as profitability of companies is estimated to shrink considerably. Moreover, credits will not be available for firms to start new investment projects because of problems in domestic banking system and low confidence of foreign banks in Ukrainian borrowers. Therefore, we preserve our assumption that companies will continue carrying out already started projects only. Under this scenario the Institute expects the real gross fixed capital accumulation to decrease by 25.7% in 2009. Also the IER preserves its forecast for real gross fixed capital accumulation growth at 10.4% in 2010 on the back of intensified preparations for EURO 2012 and higher capital spending stimulated by private ownership reshuffling.

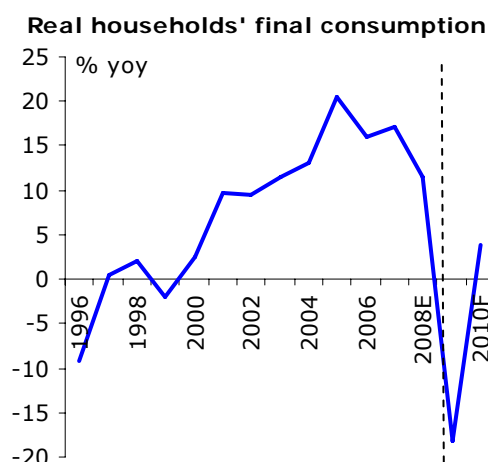
We upgraded forecast of real exports decline to 20.4% in 2009 due to the positive expectations regarding exports of metals, grain, and services in the end of the year. The drop in real imports was revised to 38.5% due to lower than previously expected hryvnia depreciation in 2009. Also, the IER improved forecast of both real exports and imports growth to 9.3% and 11.4% respectively in 2010.

**Production:** The contracting domestic consumption has adversely affected manufacturing, and production and distribution of electricity, gas, and water. The IER downgraded its previous estimate of decline in real value added in these sectors to 23.7% and 8.5%, respectively, in 2009. Real value added in trade and transport will fall by 12.1% and 10.5%, respectively, due to lower demand and decreased industrial production. At the same time, we improved our previous forecast of real value added in agriculture and now estimate the contraction at lesser 6.5% in 2009 because of intensified small farming at individual land plots and increased external demand for food products. The scenario of economic recovery in 2010 underwent only slight revisions.



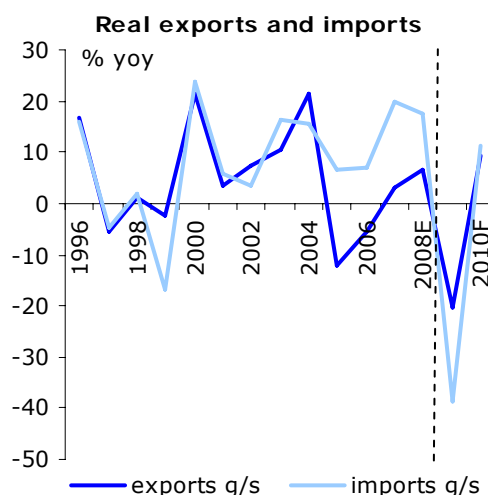
Note: E - estimate, F - forecast

Source: Derzhkomstat, IER calculations



Note: E - estimate, F - forecast

Source: Derzhkomstat, IER calculations



Note: E - estimate, F - forecast

Source: Derzhkomstat, IER calculations

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

Expressed as percentage points of GDP growth

|                                  | 2009  |       | 2010  |      |
|----------------------------------|-------|-------|-------|------|
|                                  | Basic | Risk  | Basic | Risk |
| Real GDP                         | -12.0 | -14.3 | 5.3   | 3.1  |
| Contributions:                   |       |       |       |      |
| Private consumption              | -11.0 | -12.2 | 2.3   | 0.7  |
| Government consumption           | -2.5  | -2.8  | -0.1  | -1.0 |
| Gross fixed capital accumulation | -7.0  | -8.1  | 2.6   | 1.9  |
| Inventories                      | -2.8  | -2.1  | 1.7   | 0.1  |
| Net exports                      | 11.4  | 11.0  | -1.2  | 1.5  |

Source: IER calculations

The forecast of real value added growth in manufacturing was preserved at 7.2%. The estimated increase in real value added in production and distribution of electricity, gas, and water was downgraded to 5.9% since households are expected not to resume the consumption of respective services at pre-crisis level due to increased service prices. We upgraded forecast of real value added change in agriculture thanks to expected continuous increase in external demand for food.

**Risk assessment:** As before, the duration of global economic crisis remains the key risk for economic development in 2009. It may shift beginning of recovery from the fourth quarter of 2009 to the first half of 2010. Under the risk scenario, real investment will suffer the most. In this case the IER forecasts real GDP to contract by 14.3% in 2009 and grows by lesser 3.1% in 2010.

### Fiscal Indicators: The consolidated fiscal expenditures will decline by 10.6% in 2009

**Consolidated fiscal parameters:** As expected in January 2009 the consolidated fiscal revenues were 3.7% yoy lower than a year before. We somewhat improved the estimate of consolidated fiscal revenues and expenditures for 2009 due to several reasons. First, the revenues from VAT were upgraded to UAH 82.0 bn thanks to expected VAT receipts from the custom clearance of disputed gas. Besides, the Government will receive additional funds from the further increase in tobacco excise assumed to become effective since May 2009. As a result, consolidated fiscal revenues will be at UAH 266 bn or 28.3% of GDP in 2009.

As we preserve the forecast of the consolidated fiscal deficit at UAH 31.6 bn or 3.3% of GDP not taking into account possible recapitalisation of banking system, an estimate of consolidated fiscal expenditures was revised upwards to UAH 296 bn, remaining by 10.6% lower than in 2008. It is expected that the Government will allocate 2.2% of GDP for capital outlays.

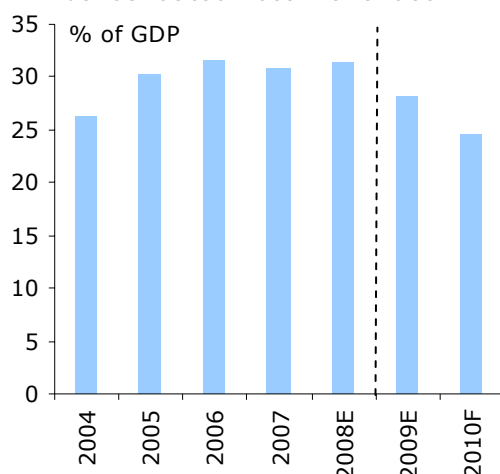
The high deficit will not be an obstacle for getting next instalments of the IMF credit as the Fund is assumed to relax the requirement for balanced budget in 2009. As previously, the deficit is expected to be financed primarily at the expense of loans from international organizations and other Governments as well as privatisation receipts. The domestic borrowings will be limited due to low demand of commercial banks as the NBU has toughened the refinancing limits provided under the collateral of state bonds. No state default on external or domestic debt servicing and redemption payments is expected in 2009.

The consolidated fiscal revenues in 2010 are forecasted at UAH 293 bn, declining in relation to GDP to 24.6%. The PIT will drop due to equalisation of the minimum wage with the subsistence minimum set for working able persons and the increase in both indicators. The VAT revenues will further decline relative to the GDP on the back of faster recovery of nominal exports compared to imports.

The consolidated fiscal deficit will somewhat shrink in 2010 but remain still high at 2.2% of GDP. The privatisation process will be continued, while the stabilisation of global financial market will enable the Ukrainian Government to issue Eurobonds. The loans from international organisations and domestic state borrowings will be the major source of deficit financing. The consolidated fiscal expenditures will reach UAH 317 bn being higher than in 2008. The Government is expected to increase wages in public sector rebounding the stagnant wages of the previous year. Still the state will not be able to finance large-scale infrastructure projects having capital expenditures at 1.9% of GDP.

**Risk assessment:** The sharper economic recession and worse firms' financial state in 2009 might further challenge fiscal position of the Government. In this case the consolidated fiscal revenues will decline to UAH 247 bn forcing the Government to run fiscal deficit at 5.1% of GDP. The deficit will be financed primarily at the expense of loans of international organisations and other Governments and domestic state

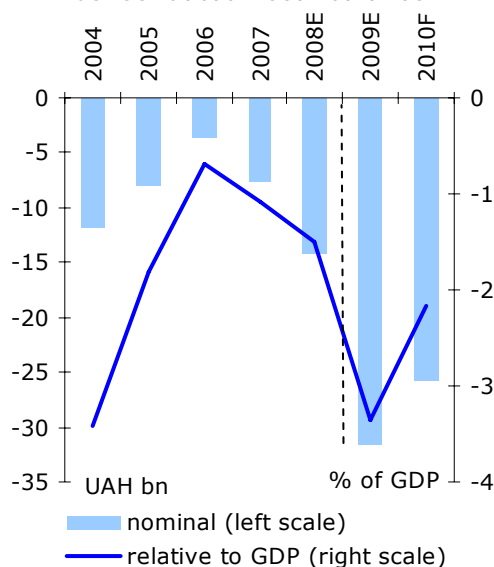
### Consolidated fiscal revenues



Note: E - estimate, F - forecast

Source: State Treasury Reports, IER calculations

### Consolidated fiscal balance



Note: E - estimate, F - forecast

Source: State Treasury Reports, IER calculations

borrowings. In 2010 the major fiscal parameters will be rather close to the base one, as lower EPT and PIT revenues are estimated to be counterweighted by higher VAT collections ensured by higher hryvnia imports. The fiscal deficit will be at 2.6% of GDP.

### Balance of Payments: Current account surplus will reach 2.6% of GDP in 2010

**Current account:** According to the NBU preliminary estimates in January 2009 the current account balance turned positive at USD 0.5 bn due to surplus in trade of goods and services. This development was in line with the IER expectations and we introduced only minor revisions in the forecast of key balance of payments components. The estimate of current account balance was slightly worsened after the NBU released the revised assessment of the balance of payments in 2008. So, current account will be in deficit at USD 1.0 bn (0.9% of GDP) in 2009 and will turn to surplus at USD 4.0 bn (2.6% of GDP) in 2010.

In January commodity imports plunged more than exports (by 50.7% yoy and 32.7% yoy, respectively, according to the NBU estimates). Alongside with lower domestic demand and high hryvnia depreciation a recent imposition of 13% surcharge on imports of selected products for six-months period will dampen commodity imports. However, we expect that the surcharge will be quickly eliminated responding to international and domestic pressures. The Cabinet of Ministers abolished the surcharge for most of products excluding cars and refrigerators already on March 18. We expect that imports will somewhat rebound later in the year as January gas supply disruptions are expected not to repeat this year. Besides, both consumption and investment demand for imports will slightly increase in the end of 2009. Thus, commodity imports will decline by 45.8% in dollar terms in 2009.

Commodity export contraction is expected to be deeper than currently observed and amounts to 38.6% in dollar terms in 2009 due to worsened external perspectives in the second and third quarters of the year. One of the reasons behind is the introduction of higher barriers for imports by several countries.

The demand for imports and external demand for Ukrainian products will start reviving in the end of 2009 and continue next year. Exports will grow faster than imports (by 21.4% and 13.1% in dollar terms, respectively) due to improved terms of trade. Thus, commodity trade deficit will be at USD 4.3 bn in 2009 and USD 1.5 bn in 2010.

We revised downwards exports of services in 2009 due to further contraction in demand for Ukrainian transportation services resulted from lower than previously expected imports. The decline in service imports is associated with depressed purchasing power of Ukrainian economic agents. The forecast of service exports and imports for 2010 was preserved with minor revisions. Thus, services trade balance surplus will be at USD 3.4 bn in 2009 and USD 3.5 bn in 2010.

As previously net current transfers are estimated at USD 2.9 bn for 2009 and USD 3.5 bn for 2010, while net incomes outflow is forecasted at USD 3.0 bn and USD 1.5 bn, respectively.

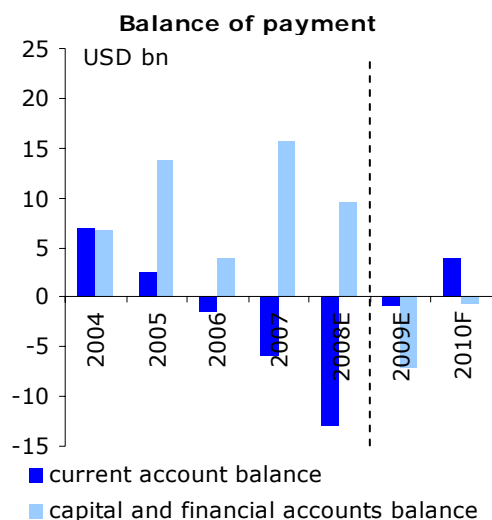
**Capital and financial accounts:** In January 2009, financial account deficit widened to record USD 2.3 bn due to low capital inflows alongside with significant external payments on borrowings of banks and real sector. We anticipate that the speed of financial account deficit widening will somewhat decelerate later in the year due to several reasons. First, the FDI inflow in form of M&A in banking and real sector and some refinancing of Ukrainian banks is expected. Another reason is external borrowings proclaimed by the Government. Still we somewhat downgraded the financial account balance forecast. Thus, the financial account deficit is expected at USD 7.2 bn in 2009 and USD 0.7 bn in 2010.

**Risks assessment:** Under risk scenario exports will suffer from both further deterioration of external demand and widespread national protectionism. Imports will also fall further due to even deeper contraction in domestic demand. Thus, we estimate larger current

### Fiscal indicators under different scenarios

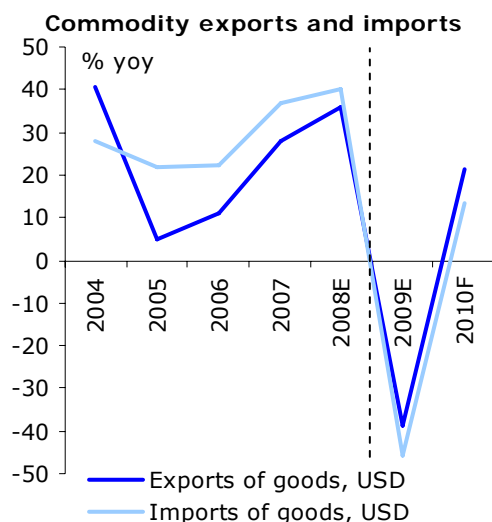
| % of GDP                     | 2009  |      | 2010  |      |
|------------------------------|-------|------|-------|------|
|                              |       |      |       |      |
|                              | Basic | Risk | Basic | Risk |
| Consolidated fiscal revenues | 28.3  | 26.2 | 24.6  | 24.0 |
| Capital expenditures         | 2.2   | 2.9  | 1.9   | 2.1  |
| Consolidated fiscal deficit  | -3.3  | -5.1 | -2.2  | -2.6 |

Source: IER calculations



Note: E - estimate, F - forecast

Source: NBU, IER calculations



Note: E - estimate, F - forecast

Source: NBU, IER calculations



**Balance of payment indicators under different scenarios**

USD bn

|                               | 2009  |      | 2010  |      |
|-------------------------------|-------|------|-------|------|
|                               | Basic | Risk | Basic | Risk |
| Current account balance       | -1.0  | -3.3 | 4.0   | 1.7  |
| Capital and financial account | -7.2  | -8.3 | -0.7  | -5.2 |

Source: IER calculations

account deficit in 2009 (at USD 3.3 bn) and smaller surplus in 2010 (at USD 1.7 bn). Widespread credit defaults in the real sector will somewhat reduce net financial outflows comparing to base scenario. At the same time, significantly smaller financial inflows will result in widening of financial account deficit to USD 8.3 bn in 2009 and USD 5.2 bn in 2010.

**Monetary Survey: Consumer inflation will remain high in 2009 and 2010**

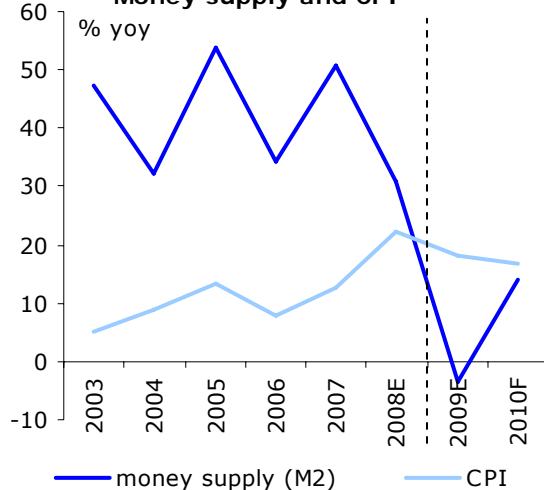
**Money aggregates:** Money supply growth decelerated to 18.3% yoy in February 2009 as compared to 30.2% yoy in December. Deposit withdrawals and high bank losses caused by non-performing loans will continue over 2009. Thus, we predict that money supply growth will fall slightly by 3.4% in 2009, as bank claims on private sector will contract by 9.5% or by UAH 72 bn. An increase in the NBU claims to the government bonds on the secondary market is estimated to be insufficient to compensate for the shortfall. In 2010 new lending is expected to outpace redemptions. Thus, bank claims on private sector are forecast to increase by 6.6%, while economy will return to life and banks will receive some new deposits. Thus, we predict money supply to grow by 14.1% in 2010.

**Inflation:** In February 2009 inflation slowed to 20.9% yoy as compared to 22.3% yoy in December 2008 due to falling incomes and large debt burden on households. However, on the supply side, high inflation expectations drove up prices for imported goods even as exchange rate considerably stabilised in the first two months of the year. Inflation expectations and increased cash in circulation are expected to maintain price growth at high level despite demand-side downward pressures. The Institute forecasts CPI to grow by 18.3% on average in 2009 with 16.5% rise in December-to-December terms. In 2010 consumer demand will pick up, while input costs will be contained. Inflation expectations are likely to somewhat subside due to appreciation of hryvnia. On balance, inflation is expected to edge down to 16.9% on average in 2010 and to 16.0% as end-period figure.

**Exchange rate:** In the first quarter of 2009 the NBU kept official exchange rate fixed at 7.70 UAH/USD, while market rate was around 8.00 UAH/USD. However, we assume that the NBU will adjust the official rate in line with the market, if market rate shifts up for prolonged period of time. Demand for foreign currency will be strong due to capital outflows and a slowdown in contraction of imports, while supply will remain limited. The official hryvnia exchange rate is forecasted to depreciate to 9-10 UAH/USD in the second quarter of 2009. Deficit of hryvnia will contain demand and stimulate higher supply for foreign currency in the second half of 2009 supported by expected revival of exports in the last months of the year. Thus, hryvnia exchange rate will finish the year at 8.20 UAH/USD and average exchange rate is forecasted at UAH 8.45 per USD.

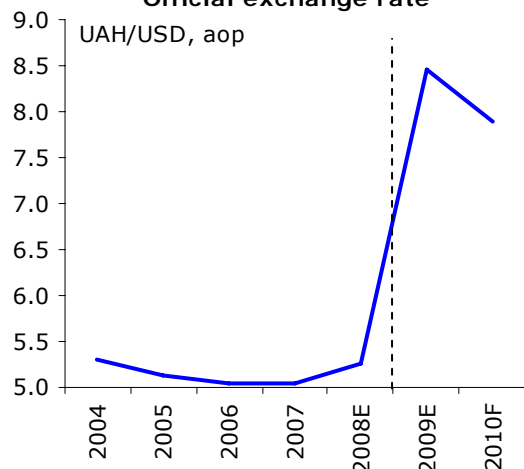
In 2010 foreign exchange market is likely to stabilise and dollarisation may fall somewhat increasing foreign currency supply. Thus, average official exchange rate is forecasted to reach 7.90 UAH/USD in 2010.

**Risks assessment:** Under risk scenario protracted instability in world financial markets will bring severe global economic downturn. Increased money supply through monetization of fiscal deficit and distrust to the national currency will cause rapid price growth even while demand falls dramatically. In this case, inflation will reach 23.2% in 2009 and accelerate to 26.0% in 2010. Rollover of external debt will be impossible, while speculative demand and capital flight in conditions of financial sector breakdown are likely to increase depreciation pressure enormously. Under this scenario, hryvnia is likely to reach UAH 10.70 per USD on average in 2009, with further depreciation to UAH 12.95 per USD in 2010.

**Money supply and CPI**

Note: E - estimate, F - forecast

Source: NBU, Derzhcomstat, IER calculations

**Official exchange rate**

Note: E - estimate, F - forecast

Source: NBU, IER calculations

**Monetary survey indicators under different scenarios**

|                                      | 2009  |      | 2010  |      |
|--------------------------------------|-------|------|-------|------|
|                                      | Basic | Risk | Basic | Risk |
| CPI, % aop                           | 18.3  | 23.2 | 16.9  | 26.0 |
| Money supply (M2), % yoy             | -3.4  | 6.1  | 14.1  | 5.4  |
| Official exchange rate, UAH/USD, aop | 8.5   | 10.7 | 7.9   | 13.0 |

Source: IER calculations

## ASSUMPTIONS OF THE FORECAST

### BASE scenario

- The global financial markets will stabilise in the 3<sup>rd</sup> quarter of 2009.
- The economies of the USA and the EU will start growing on a quarterly basis in the 4<sup>th</sup> quarter of 2009.
- The Presidential election campaign will take place in Ukraine in 2009.
- The early Parliament elections will not be conducted in the first half of 2009 with a slight chance of elections in autumn 2009.
- Ukraine together with Poland will host the EURO 2012 creating stimulus for investments into infrastructure projects.
- The world prices for crude oil (*Brent*) will be in the range of USD 40-50 per barrel on average in 2009, and reach USD 70 per barrel by the end of 2010 with annual average at USD 60 per barrel.
- Metal prices (FOB *Black sea*) will start growing in the end of 2009.
- The demand for machine building production of Ukraine will decline in CIS countries in 2009, but will partly restore in 2010.
- The external demand for Ukrainian nitrogen fertilizers will remain high in 2009 and 2010.
- The 13% imports surcharge will be effective for two-month period.
- The FTA between Ukraine and the EU will not be implemented within the period of forecast.
- The anti-smuggling policy is to be continued by the Government in 2009 and 2010.
- VAT refund overdue arrears will be accumulated in 2009.
- The tobacco excise will be raise since May 2009.
- Social standards will not be increased above the levels envisaged in the State Budget Law for 2009 approved on December 26, 2008, but grow in line with the officially projected inflation in 2010.
- Minimum wage will be equalised with subsistence minimum for working able individuals as of January 1, 2010.
- Social assistance and state support programs will be somewhat streamlined in 2009 and 2010.
- The share of shadow economy will increase in 2009, but somewhat decline in 2010.
- Wage arrears will be accumulated in 2009, but decline in 2010.
- Both open and hidden unemployment will surge in the first half of 2009, but will decline in 2010.
- Utility tariffs for population will be increased in 2009 and 2010, and gas and electricity for population will be revised upwards in 2010.
- The privatisation process will be restored in 2009.
- The Government will receive loans from the World Bank and the EBRD in 2009 and 2010.
- Ukraine will manage to attract loans from other Governments to finance fiscal deficit in 2009.
- Early time deposit withdrawals will not be allowed till the second half of 2009.
- The NBU will continue to make interventions in 2009 to smooth exchange rate fluctuations, but the volumes will be limited. In 2010 the exchange rate will be in managed float.
- In 2009 financial sector will remain functioning as deposit protection will be paid in full and the NBU and the Government will support large banks that have problems.
- Mass defaults in real sector will not occur in 2009 and 2010.
- IMF will somewhat relax the stand-by program requirement concerning fiscal deficit, monetary base growth and net international reserves, and disburse further loan tranches.

### RISK scenario (assumption that differ from the BASE scenario)

- The global economy will start growing on a quarterly basis only in the second quarter of 2010.
- The world price for crude oil will be at USD 30 per barrel in 2009 and in 2010.
- Global metal prices will start growing in the second half of 2010.
- External demand for machinery will remain low till the end of 2010.
- VAT refund overdue arrears will be accumulated in 2010.
- Tax payments arrears will be accumulated throughout entire forecast period.
- Social standards will be increased above the levels of officially projected inflation in 2010.
- The privatisation will not be conducted in 2009 and 2010.
- Economy will suffer from widespread credit defaults in the real sector.
- Financial sector will suffer large losses and several large banks will fail.
- IMF will refuse to provide Ukraine with another instalments of loan.

## TABLES

**Table 1. National Accounts (GDP)**

|   |        | 2006  | 2007  | 2008E | 2009E | 2010F  |
|---|--------|-------|-------|-------|-------|--------|
| Nominal GDP   | UAH bn | 537.7 | 712.9 | 950.5 | 942.0 | 1191.1 |
|   | USD bn | 106.5 | 141.2 | 180.5 | 111.4 | 150.8  |
| Real GDP  | % yoy  | 7.3   | 7.6   | 2.1   | -12.0 | 5.3    |
| GDP expenditure side components                                 |        |       |       |       |       |        |
| Private consumption, real                                       | % yoy  | 15.9  | 17.1  | 11.6  | -18.1 | 3.9    |
| State consumption, real   | % yoy  | 2.7   | 2.8   | -0.4  | -14.0 | -0.5   |
| Fixed assets accumulation, real                                 | % yoy  | 21.2  | 24.8  | 1.9   | -25.7 | 10.4   |
| Exports, real   | % yoy  | -5.6  | 3.2   | 6.7   | -20.4 | 9.3    |
| Imports, real   | % yoy  | 6.8   | 19.9  | 17.5  | -38.5 | 11.4   |
| GDP production side components                                  |        |       |       |       |       |        |
| Agriculture, real   | % yoy  | 2.0   | -5.0  | 17.2  | -6.5  | 3.5    |
| Extractive industry, real                                       | % yoy  | 9.9   | 4.1   | -1.5  | -14.9 | 3.5    |
| Manufacturing, real   | % yoy  | 9.2   | 12.8  | -2.3  | -23.7 | 7.2    |
| Production and distribution of electricity, gas and water, real | % yoy  | 0.1   | 1.3   | -4.9  | -8.5  | 5.9    |
| Construction, real  | % yoy  | 0.3   | 13.2  | -17.4 | -26.9 | 13.2   |
| Trade, repair services, real                                    | % yoy  | 17.7  | 20.6  | 1.8   | -12.1 | 6.6    |
| Transport, real   | % yoy  | 7.6   | 11.0  | 6.8   | -10.5 | 6.1    |
| Education, real   | % yoy  | 2.1   | 4.3   | -0.5  | -1.9  | 2.5    |
| Health care, real   | % yoy  | 2.4   | -0.4  | 0.2   | -2.1  | 0.0    |
| Other types of economic activity, real                          | % yoy  | 5.7   | 6.0   | 2.0   | -7.1  | 7.2    |
| Estimated payments to financial intermediaries, real            | % yoy  | 59.6  | 30.0  | -2.6  | -35.0 | 15.0   |
| Net taxes on products, real                                     | % yoy  | 13.4  | 4.9   | 8.0   | -14.9 | 2.5    |

**Table 2. Fiscal Indicators**

|   |          | 2006  | 2007  | 2008E | 2009E | 2010F |
|---|----------|-------|-------|-------|-------|-------|
| Consolidated fiscal revenues                                | UAH bn   | 171.7 | 219.9 | 297.8 | 266.1 | 293.4 |
|   | % of GDP | 31.6  | 30.8  | 31.3  | 28.3  | 24.6  |
| EPT revenues  | UAH bn   | 26.2  | 34.4  | 47.9  | 31.0  | 35.6  |
|   | % of GDP | 4.8   | 4.8   | 5.0   | 3.3   | 3.0   |
| VAT revenues  | UAH bn   | 50.4  | 59.4  | 92.1  | 82.0  | 89.3  |
|   | % of GDP | 9.3   | 8.3   | 9.7   | 8.7   | 7.5   |
| PIT revenues  | UAH bn   | 22.8  | 34.8  | 45.9  | 42.5  | 35.7  |
|   | % of GDP | 4.2   | 4.9   | 4.8   | 4.5   | 3.0   |
| Consolidated fiscal expenditures                            | UAH bn   | 175.3 | 226.0 | 309.2 | 295.6 | 317.2 |
|   | % of GDP | 32.2  | 31.7  | 32.5  | 31.4  | 26.6  |
| Current consolidated fiscal expenditures                    | % of GDP | 27.7  | 26.3  | 28.2  | 29.2  | 24.8  |
| Capital consolidated fiscal expenditures                    | % of GDP | 4.5   | 5.4   | 4.3   | 2.2   | 1.9   |
| Consolidated fiscal balance (without bank recapitalisation) | % of GDP | 0.7   | 1.1   | 1.5   | 3.3   | 2.2   |
| Privatisation receipts                                      | UAH bn   | 3.8   | 2.2   | 0.5   | 8.5   | 4.0   |

**Table 3. Balance of Payments**

|                                |          | 2006  | 2007  | 2008E | 2009E | 2010F |
|--------------------------------|----------|-------|-------|-------|-------|-------|
| Current Account balance        | USD bn   | -1.6  | -5.9  | -12.9 | -1.0  | 4.0   |
|                                | % of GDP | -1.5  | -4.2  | -7.2  | -0.9  | 2.6   |
| Exports of goods               | USD bn   | 38.9  | 49.8  | 67.7  | 41.6  | 50.5  |
| Imports of goods               | USD bn   | -44.1 | -60.4 | -84.7 | -45.9 | -52.0 |
| Balance of services            | USD bn   | 2.1   | 2.7   | 2.4   | 3.4   | 3.5   |
| Capital and Financial Accounts | USD bn   | 3.9   | 15.8  | 9.5   | -7.2  | -0.7  |
| Direct investments             | USD bn   | 5.7   | 9.2   | 9.7   | 6.0   | 8.0   |
| Portfolio investments          | USD bn   | 3.6   | 5.8   | x     | -2.0  | 1.8   |
| Other investments              | USD bn   | -5.4  | 0.8   | x     | -11.2 | -10.5 |

**Table 4. Monetary Aggregates and CPI**

|                            |           | 2006  | 2007  | 2008E | 2009E | 2010F |
|----------------------------|-----------|-------|-------|-------|-------|-------|
| Money supply (M2)          | UAH bn    | 259.4 | 391.3 | 512.5 | 495.3 | 565.2 |
|                            | % yoy     | 34.3  | 50.8  | 31.0  | -3.4  | 14.1  |
| Consumer price index (CPI) | % yoy aop | 8.0   | 12.8  | 22.3  | 18.3  | 16.9  |
| Exchange rate (official)   | USD aop   | 5.05  | 5.05  | 5.27  | 8.45  | 7.90  |

Note: E - estimate, F - forecast, yoy - year-on-year change, aop - average of the period

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



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