



INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

No.5 (21), May 2009

# Macroeconomic Forecast Ukraine - update

## Ukraine at the crossroads

Forecast period: years 2009 and 2010

Date of forecast completion: May 25, 2009

Authors:

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

Lector: Igor Burakovsky

### Key forecast figures

	2005	2006	2007	2008E	2009E	2010F
Real GDP, % yoy	2.7	7.3	7.6	2.1	-13.7 ↓	3.6 ↓
Consolidated fiscal revenues, UAH bn	134	172	220	298	274 ↓	299 ↓
Consolidated fiscal balance % of GDP	1.8	0.7	1.1	1.5	3.8 ↑	2.7 ↑
Current account balance, % of GDP	2.5	-1.6	-5.9	-12.9	-0.5 ↑	1.1 ↓
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	488 ↑	541 ↓
CPI, % aop	13.5	8.0	12.8	25.2	18.0	15.1 ↓

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

As the Institute decided to better take into account economic risks, the May issue of the Macroeconomic Forecast contains three scenarios of economic development of Ukraine: base, optimistic and pessimistic. The major difference between assumptions for the base and optimistic scenarios is the speed of recovery of Ukrainian economic activity. In particular, under the optimistic scenario economic agents are assumed to be more active in investing into fixed assets and entering new markets, while the Government will be able to increase social assistance more than under the base scenario. At the same time, the pessimistic scenario is based on the assumption of the prolonged downturn of the global economy, which would further suppress demand for Ukrainian exports and restrain access to foreign capital.

**GDP:** According to the base scenario, the real final consumption, fixed capital accumulation, as well as external demand for Ukrainian products are very weak in 2009. As a result, real GDP is estimated to decline by 13.7%. The real GDP is forecasted to grow by 3.6% in 2010 against the background of very low statistical base. (see p. 3)

**Disposable incomes and unemployment:** The real disposable incomes of households are estimated to decline by 15.7% in 2009 and further fall by 1.6% in 2010. Unemployment rate (ILO methodology) will reach 9.5% of individuals between 15 and 70 years old in 2009, and somewhat decline to 8.5% next year. (see p. 4)

**Fiscal Indicators:** The consolidated fiscal revenues are estimated to decline in relation to GDP to 29.5% in 2009. Fiscal deficit forecast was revised upwards to 3.8% of GDP, not taking into account banks' recapitalisation, which is in line with the updated Memorandum signed between the IMF and Ukraine. As previously, a significant time mismatch between fiscal revenues inflow and required fiscal expenditures is expected. The consolidated fiscal expenditures are expected to reach UAH 327 bn in 2010, while the deficit will be at 2.7% of GDP. (see p. 5)

**Balance of Payments:** The current account will be in deficit at USD 0.5 bn (0.5% of GDP) in 2009 and turn to surplus at USD 1.1 bn (0.8% of GDP) in 2010. The large net outflows of other investments will result in financial account deficits in 2009 and 2010. (see p. 5)

**Monetary Survey:** Money supply in 2009 is expected to decline by 4.7% in 2009, but resume grow in 2010. The exchange rate will be on average at 8.02 UAH/USD in 2009, and 7.90 UAH/USD in 2010. The consumer price inflation is expected to slightly decelerate, though remain high at 18.0% on average in 2009 and 15.1% in 2010. (see p. 6)

**Pessimistic Scenario:** Later than assumed global economy recovery will further suppress demand for Ukrainian exports and restrain access to foreign capital. As a result, under risk scenario the real GDP will drop by 16.9% in 2009 and further decline by 2.2% in 2010.

**Optimistic Scenario:** In case of faster recovery of Ukrainian economic agents' activity, the real GDP is expected to decline by 11.9% in 2009 and grow by 6.9% in 2010.

# Macroeconomic Forecast Ukraine - update

## Macroeconomy: Ukraine's economic perspectives continue to worsen

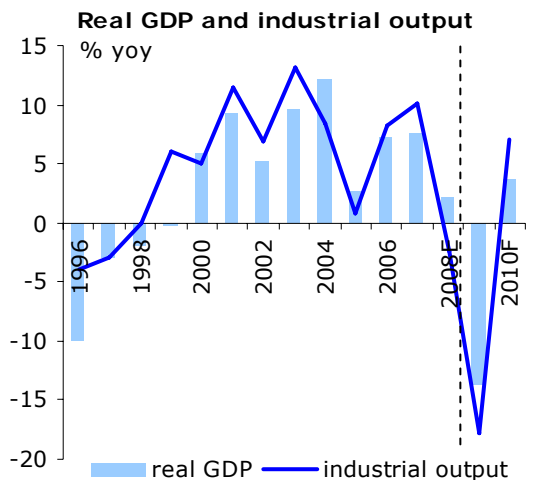
**Gross Domestic Product:** Recent developments in Ukraine indicated weaker performance of the key industries in April and May, than we previously expected, due to sharper contraction in exports of machinery and metals. Furthermore, the demand for Ukrainian exports during next several months will be low. It will negatively impact corporate profits thus further suppressing fixed capital accumulation. Therefore, the IER downgrades the real GDP contraction to 13.7% in 2009. The forecast of economic recovery next year was also revised downward because of weaker than earlier expected real private final consumption. Thus, the IER forecasts real GDP to grow by 3.6% in 2010.

**Demand side:** Real private final consumption will decline by 17.8% in 2009 due to several reasons. Real households' disposable incomes are expected to sharply drop. High purchases of foreign currency and the need to repay credits will limit money available for consumption purposes. At the same time, recent stabilisation of consumption sentiments indicate that households has already adapted to the crisis and will refrain from further contractions of consumption expenditures on essentials. The recovery in demand for durables and luxury goods is not expected till the end of the year as consumer credits will be very restricted. In 2010 the real private consumption will grow by 4.2% with real consumption of food and basic services approaching their pre-crisis levels thanks to increasing real incomes and higher economic confidence.

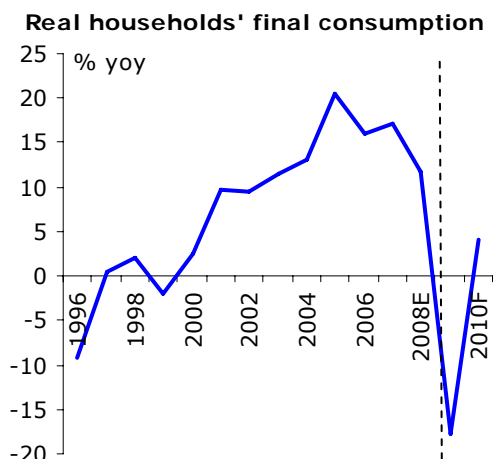
Investment demand will plunge in 2009 due to deterioration of financial state of the companies. In the first quarter real investments into fixed capital declined by 39.5% because investments financed at the expense of credits and Government funds halved. The rate of reduction in corporate financing of investment projects was comparable with output contraction that was approximately one third. The IER assumes slow recovery of real sector and certain revival of corporate lending in the second half of the year. As a result, we expect decline in real gross fixed capital accumulation by 31.5% in 2009. Firms are not expected to launch new projects and expand existing capacities in the current year. Instead, financing will be directed mostly to the already started projects aiming at energy efficiency, mainly for metallurgical and chemical companies. Investments into infrastructure will be stagnant in 2009 as the fiscal capital expenditures (including envisaged credits to state enterprises) are limited, while new private initiatives often suffer from credit crunch. Therefore, preparations to the EURO-2012 will be restricted to already launched projects in participant cities selected by the UEFA.

Next year the situation is expected to change with an upturn in investments against the background of started economic recovery. New investment projects will be started in all sectors of economy; infrastructure and equipment modernisation projects will be continued. Therefore, the IER expects real gross fixed capital accumulation to grow at 10.8% in 2010.

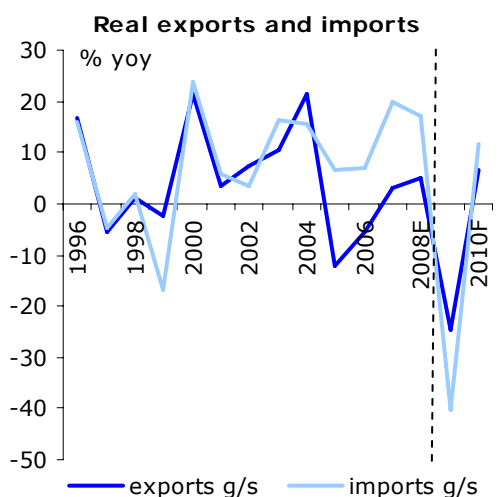
The contribution of net exports to real GDP will turn positive in 2009 as real imports will plunge much greater than real exports. The latter is estimated to fall by 24.5% in 2009 with ferrous metals and machinery suffering the most as the price competition and protectionism on external markets aggravates. Due to declining households' real incomes and hryvnia devaluation real imports of goods and services is to decline by 40.4% in 2009. Both real exports and imports are expected to grow in 2010 thanks to improving external and internal economic conditions. The IER forecasts growth of real exports and imports at 6.7% and 11.8%, respectively.



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



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

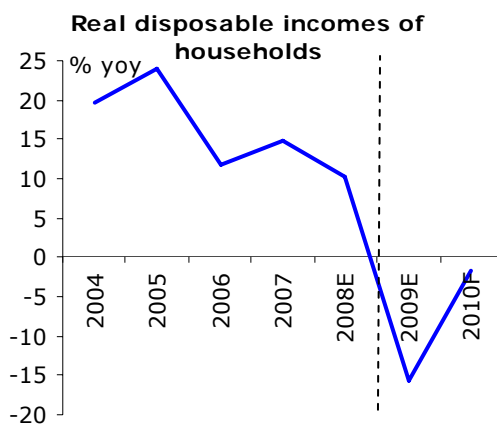


Note: E - estimate, F - forecast  
Source: Derzhkomstat, IER calculations

**Contributions to real GDP growth under different scenarios, demand side view**  
Expressed as percentage points of GDP growth

	<i>Pessimistic</i>	<i>Base</i>	<i>Optimistic</i>
<b>2009</b>			
Real GDP	-16.9	<b>-13.7</b>	-11.9
<i>Contributions:</i>			
Private consumption	-13.0	<b>-10.8</b>	-10.3
Government consumption	-3.6	<b>-2.2</b>	-2.3
Gross fixed capital accumulation	-9.0	<b>-8.6</b>	-7.6
Inventories	-2.4	<b>-2.6</b>	-2.6
Net exports	11.2	<b>10.7</b>	11.1
<b>2010</b>			
Real GDP	-2.2	<b>3.6</b>	6.9
<i>Contributions:</i>			
Private consumption	-3.7	<b>2.5</b>	4.6
Government consumption	-2.3	<b>-0.2</b>	0.2
Gross fixed capital accumulation	1.4	<b>2.4</b>	2.7
Inventories	-2.6	<b>1.5</b>	1.5
Net exports	-0.4	<b>-2.5</b>	-2.1
Real GDP	-2.2	<b>3.6</b>	6.9

Source: IER calculations



Note: E - estimate, F - forecast

Source: Derhkomstat, IER calculations

**Incomes and unemployment under different scenarios**

	<i>Pessimistic</i>	<i>Base</i>	<i>Optimistic</i>
<b>2009</b>			
Real disposable incomes, % yoy	-20.2	<b>-15.7</b>	-14.7
Unemployment rate*, %	11.0	<b>9.5</b>	9.0
<b>2010</b>			
Real disposable incomes, % yoy	-10.1	<b>-1.6</b>	2.5
Unemployment rate*, %	10.5	<b>8.5</b>	8.0

Note: \* ILO methodology, aged between 15 and 70 years old

Source: IER calculations

**Production:** The forecast of real value added was revised downwards for all sectors of economy. The largest decline will be in manufacturing and construction, in which real value added is expected to fall by 19.5% and 31.9%, respectively, in 2009. Wholesale trade and freight transportation will also contract significantly due to truncated industrial output. Somewhat slower decline in real value added is expected in agriculture (by 6.5%) against the background of high statistical base. In 2010 real value added in construction sector is forecast to be the highest at 13.8% thanks to realisation of infrastructure projects and industry renovation. Other sectors will also demonstrate signs of revival though production volumes would not reach pre-crisis levels. In particular, real value added in manufacturing is forecasted to increase by 7.9%,

**Pessimistic scenario:** The key economic risk in 2009 pertains to the further stagnation of external demand, which will affect the economic performance in Ukraine in both 2009 and 2010. Therefore, under risk scenario the Institute expects decline in real GDP by 16.9% in 2009 and 2.2% in 2010.

**Optimistic scenario:** Under the optimistic scenario the economic agents are expected to revive their activity more strongly. As a result, the real GDP is expected to decline by 11.9% in 2009 and grow by 6.9% in 2010. The real exports are expected to grow by 10.9% in 2010 as Ukrainian companies compete more aggressively for the markets than under the base scenario. At the same time, the real fixed capital accumulation will increase by 11.7% reflecting higher corporate confidence.

**Disposable incomes and unemployment: Real disposable households' incomes will decline by 15.7% in 2009**

**Households:** Moderate growth of nominal wages and lower employment will result in the drop of real disposable incomes of households by 15.7% in 2009.

In particular, the nominal average wage is forecasted to grow by 5.0% partially due to increase in minimum wage and wage indexation for consumer inflation. At the same time, the unemployment rate defined according to the ILO methodology is expected to reach 9.5% of individuals between 15 and 70 years old. As a result, the wage incomes are expected to decline by 20.8% in real terms.

Other households' incomes components will also decline in real terms in 2009 but at a lower pace than wage incomes. Still, wage incomes will remain the largest part of households' disposable incomes accounting for around 40.4% of the total.

In 2010 all households' income components will grow in nominal terms, but decline in real terms. In particular, the enterprises will attempt to increase investments against the background of still weak labour market. As a result, average wage will grow by 11.0% to UAH 2100. Unemployment rate defined according to the ILO methodology will somewhat decline to 8.5%. The increase in nominal social assistance payments will be lower than inflation due to insufficient fiscal revenues. Consequently, real disposable income is forecasted to decline by 1.6%.

**Pessimistic scenario:** Under the pessimistic scenario, the deeper deterioration of financial state of enterprises will result in higher unemployment rate and nominal average wages growing by only near 3% in 2009. As a result, real disposable incomes of households are estimated to drop by 20.2% in 2009 and further decline by 10.1% in 2010.

**Optimistic scenario:** At the same time, if the recovery will be faster than it is assumed under the base scenario, the firms will be able to increase wages at a higher pace and the labour market will be stronger. Therefore, real disposable incomes of households are forecasted to decline by 14.7% in 2009, but will increase by 2.5% in 2010.

## Fiscal Indicators: Consolidated fiscal deficit is estimated at 3.8% of GDP in 2009

**Consolidated fiscal parameters:** The forecast of consolidated fiscal revenues was somewhat downgraded against the background of lowered estimates of final consumption and imports. In particular, the revenues will decline by 7.6% to UAH 274 bn (29.5% of GDP) in 2009.

The consolidated fiscal revenues in 2010 are forecasted to increase to UAH 299 bn in nominal terms, but they will decline in relation to GDP to 26.1%. In particular, the PIT revenues are expected to drop due to increase of tax deduction against the background of equalisation of the minimum wage to the subsistence minimum set for working able individuals. The VAT revenues will further decline in relation to GDP against the background of lower shares of final consumption and imports in GDP.

The consolidated fiscal deficit is estimated at UAH 35.8 bn or 3.8% of GDP not taking into account possible recapitalization of the banking sector. Such deficit is in line with the provisions of revised Memorandum signed between the IMF and Ukraine. The deficit will be primarily financed by domestic borrowing as well as loans provided by different international organizations, including the IMF. The consolidated fiscal deficit will remain high at 2.7% of GDP in 2010.

The high share of recurrent expenditures will not allow the Government to increase capital expenditures significantly even in the face of necessity to finance large infrastructure projects. As a result, the capital expenditures will remain low at 2.9% and 2.2% of GDP in 2009 and 2010, respectively.

**Pessimistic scenario:** In 2009 the fiscal position of the Government might be under further pressure because of deeper than expected economic recession resulting in sharper deterioration of firms' financial state, accumulation of tax payment arrears and lower gross wages. As a result, the consolidated fiscal revenues will further decline to UAH 257 bn. The deficit will be close to the estimate under the base scenario as the deficit financing sources will be restricted. In 2010 the fiscal revenues will increase to UAH 288 bn remaining lower than in 2008. The fiscal deficit will be at 2.0% of GDP.

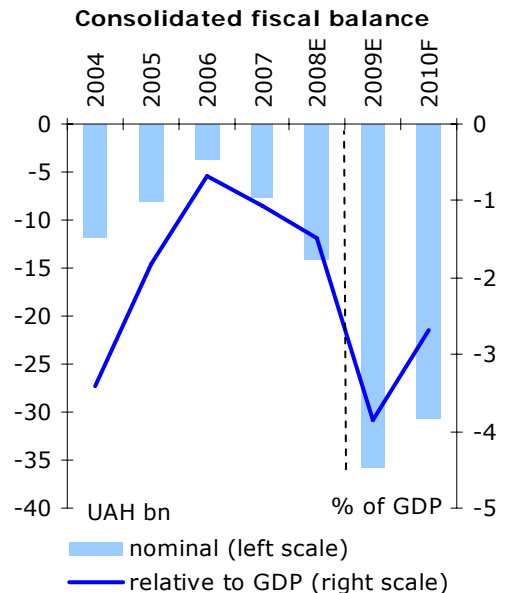
**Optimistic scenario:** Under the optimistic scenario the consolidated fiscal revenues are estimated at UAH 285 bn in 2009. The fiscal deficit at 4.2% of GDP will enable the Government to finance expenditures above the levels of 2008. The capital expenditures will reach 4.1% of GDP in 2009. In 2010 the consolidated fiscal revenues are forecasted at UAH 319 bn, while the Government will run deficit at 2.3% of GDP.

## Balance of Payments: Current account surplus will reach 0.8% of GDP in 2010

**Current account:** According to the NBU preliminary estimates in the first four months of 2009 the current account balance formed negative at USD 0.6 bn due to deficit in trade of goods. We expect that in the second half of the year the merchandise trade deficit will be mostly outweighed by services trade surplus. Thus current account deficit will slightly diminish to USD 0.5 bn (0.5% of GDP) in 2009. In 2010 current account balance will become positive at USD 1.1 bn (0.8% of GDP).

Between January and April merchandise imports plunged more than exports (by 50.2% yoy and 40.5% yoy in dollar terms, respectively, according to the NBU estimates), showing some deterioration as compared with the drop in the first quarter. However, as we expect earlier, merchandise imports contraction will decelerate by the end of the year. As a result, merchandise imports will decline by 46.1% in dollar terms in 2009. Merchandise exports drop will slowdown to 37.7% in 2009 reflecting certain revival of external markets in the fourth quarter of the year.

The merchandise exports and imports will rebound almost symmetrically (by 15.4% and 15.9% in dollar terms, respectively) in



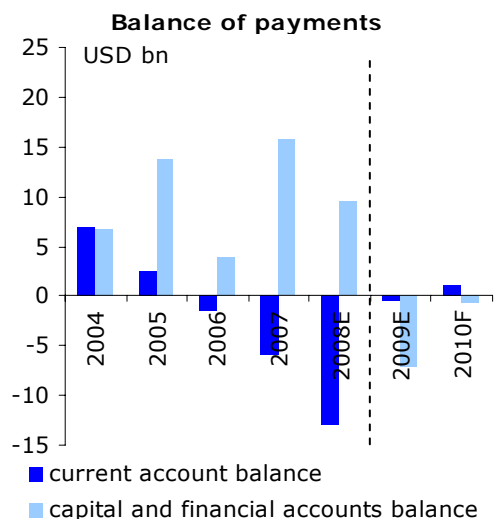
Note: E - estimate, F - forecast

Source: State Treasury Reports, IER calculations

## Fiscal indicators under different scenarios

	<i>Pessimistic</i>	<b>Base</b>	<i>Optimistic</i>
<b>2009</b>			
Consolidated fiscal revenues	27.7	<b>29.5</b>	30.4
Capital expenditures	2.2	<b>2.9</b>	4.1
Consolidated fiscal deficit	3.7	<b>3.8</b>	4.2
<b>2010</b>			
Consolidated fiscal revenues	25.8	<b>26.1</b>	26.9
Capital expenditures	1.6	<b>2.2</b>	3.6
Consolidated fiscal deficit	2.0	<b>2.7</b>	2.3

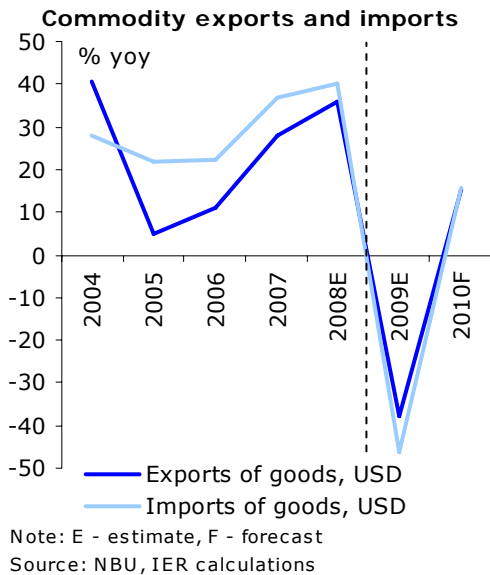
Source: IER calculations



Note: E - estimate, F - forecast

Source: NBU, IER calculations





2010 as renewal of external demand will be in line with the revival of internal consumption. Thus, merchandise trade deficit is estimated at USD 3.4 bn in 2009 and USD 4.2 bn in 2010.

As we expected in the first four months of 2009 both services imports and exports sharply declined due to deteriorated demand for transportation and tourist services in Ukraine and abroad. We forecast that in 2009 service imports will contract by 27.7% in dollar terms, while service exports will drop by 20.1%. In 2010 services exports and imports will both increase by near 17.0%. Thus, services trade balance surplus will be at USD 3.2 bn in 2009 and USD 3.6 bn in 2010.

Net current transfers are estimated at USD 2.3 bn in 2009 and USD 3.0 bn in 2010. Net incomes outflow will be at USD 2.5 bn and USD 1.3 bn, respectively.

**Capital and financial accounts:** Between January and April financial account deficit reached USD 5.7 bn due to weak capital inflows accompanied by significant external payments on borrowings of banks and real sector. As previously we expect recapitalization of some Ukrainian banks by international owners. Besides, the EBRD as well as parent companies are assumed to provide loans to domestic banks. As a result, the financial account deficit will narrow by the end of year. Thus, the financial account deficits are estimated at USD 7.1 bn in 2009 and USD 0.7 bn in 2010.

**Pessimistic scenario:** Under pessimistic scenario we expect significant worsening of exports conditions due to more depressed external demand and widespread national protectionism. Imports will also deteriorate more as domestic demand contraction will be more pronounce. Thus, in 2009 current account deficit will be larger than under base scenario (at USD 1.6 bn). In 2010 Ukrainian economic revival will lag behind global economic recovery assuring greater current account surplus. In face of widespread corporate credit defaults, net financial outflows will be lower than under base scenario. However, alongside with significantly smaller financial inflows financial account deficits will widen to USD 8.3 bn in 2009 and USD 5.2 bn in 2010.

**Optimistic scenario:** Under optimistic scenario we expect that imports will decline less in 2009 and rebound more in 2010 as domestic consumption will reduce less. This will cause larger current account deficit in 2009 and smaller current account surplus in 2010 (USD 0.8 bn and USD 1.3 bn) than under base scenario. On the financial side we expect both higher financial inflow and wider possibilities for debt refinancing.

Balance of payment indicators under different scenarios  
USD bn

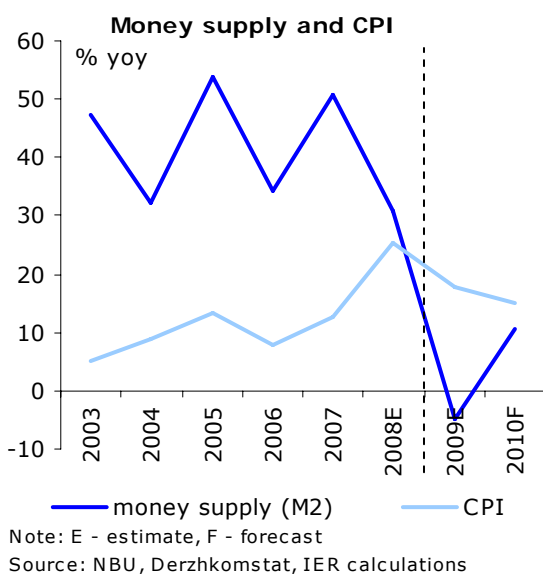
	Pessimistic	Base	Optimistic
<b>2009</b>			
Current account balance	-1.6	-0.5	-0.8
Capital and financial account balance	-8.3	-7.1	-5.9
<b>2010</b>			
Current account balance	1.6	1.1	1.3
Capital and financial account balance	-5.2	-0.7	0.6

Source: IER calculations

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

**Money aggregates.** Money supply growth decelerated to 8.3% yoy in April 2009 as compared to 30.2% yoy in December. Decrease in money multiplier due to growing share of cash in money supply and slow growth of base money will cause money supply to fall by 4.7% in 2009. Bank claims on private sector will contract by 7.3% or UAH 55 bn, while NBU net reserve assets will fall by USD 7.7 bn. Increase in NBU claims to the Government will not offset the fall. In 2010 bank claims on private sector are forecasted to increase by 6.6%, while economic activity will somewhat recover and the banks will receive new deposits. Thus, we predict money supply to grow by 10.7% in 2010.

**Inflation.** In April 2009 inflation slowed to 15.6% yoy as compared to 22.3% yoy in December 2008 due to high household debt and limited wage growth and rising unemployment. On the supply side, strong inflation expectations and expensive imports supported high price growth. Increased cash in circulation and inflation expectations will continue to maintain price growth at high level despite weak demand. We forecast CPI to grow by 18.0% as annual average in 2009 and at 16.4% yoy in December. In 2010 consumer demand will remain very weak. At the same time, inflation expectations are likely to subside as stability returns to the economy. As a result, inflation is expected to



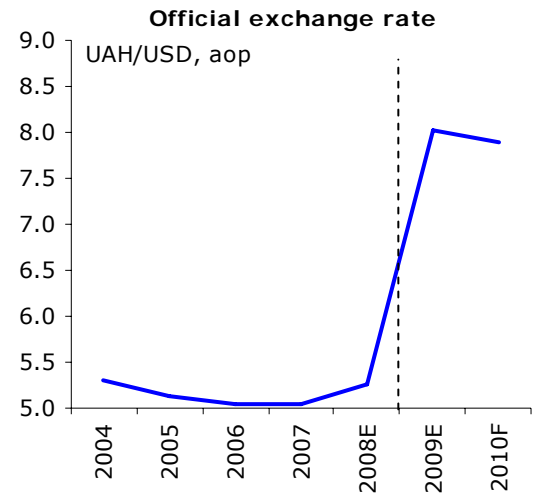
slow to 15.1% on average in 2010 and to 13.5% yoy in December of 2010.

**Exchange rate.** Until May 8, the National Bank of Ukraine kept official exchange rate fixed at 7.70 UAH/USD. However, currently NBU sets official rate within  $\pm 2.0\%$  range of the average rate on the inter-bank market. In May hryvnia appreciated slightly on the inter-bank market from 7.90-8.00 range to 7.60 UAH per USD. We expect relative market stability to be preserved in the second quarter though hryvnia remains highly sensitive to fluctuations in demand and supply due to the limited liquidity in the market. Increased burden of external debt repayments and some improvement in imports may weaken hryvnia in the second half of 2009. However, certain improvements on global financial markets and higher external demand for Ukrainian goods may support hryvnia in the end of the year. In general we expect average official exchange rate to reach UAH/USD 8.02 in 2009.

In 2010 foreign exchange market is likely to become more liquid and dollarisation may somewhat fall leading to certain increase in foreign currency supply. On the other hand increased imports and high external debt may increase demand. Thus, average official exchange rate is forecasted at 7.90 UAH/USD in 2010.

**Pessimistic scenario.** If the global economic downturn will last longer than expected, lack of confidence in national currency, breakdown of the banking sector and fiscal deficit financing with the help of NBU will cause the inflation to accelerate in 2009 and 2010. In this case inflation will reach 20.9% in 2009 and 25.3% in 2010. Global economic slowdown will further increase difficulty of financing foreign capital outflows while excessive supply of hryvnia and speculative demand are likely to increase depreciation pressure. Therefore, under pessimistic scenario hryvnia is likely to reach UAH 9.66 per USD on average in 2009, with further depreciation to UAH 11.98 per USD in 2010.

**Optimistic scenario.** If economic recovery in the late 2009 and 2010 will be stronger than expected, increased demand will push inflation in 2010 to 15.7% on average and 14.4% yoy in December. Demand for the foreign currency is forecasted to be weaker due to greater confidence in hryvnia. Thus, exchange rate will be stronger in 2009 and in 2010 at 7.87 UAH per USD and 7.63 UAH per USD as annual average.



Note: E - estimate, F - forecast

Source: NBU, IER calculations

**Monetary survey indicators under different scenarios**

	<i>Pessimistic</i>	<b>Base</b>	<i>Optimistic</i>
		<b>2009</b>	
CPI, % aop	20.9	<b>18.0</b>	18.0
Money supply (M2), % yoy	3.9	<b>-4.7</b>	-1.4
Official exchange rate, UAH/USD, aop	9.66	<b>8.02</b>	7.87
		<b>2010</b>	
CPI, % aop	25.3	<b>15.1</b>	15.7
Money supply (M2), % yoy	3.5	<b>10.7</b>	12.6
Official exchange rate, UAH/USD, aop	11.98	<b>7.90</b>	7.63

Source: IER calculations

## ASSUMPTIONS OF THE FORECAST

### BASE and OPTIMISTIC scenario

- The global financial markets will stabilise in the 3rd quarter of 2009.
- The economies of the USA will start growing on a quarterly basis in the 3rd quarter of 2009, while the EU and Japan will start growing on a quarterly basis in the 4th quarter of 2009.
- Ukraine together with Poland will host the EURO 2012 which will create stimulus for investments into infrastructure projects.
- The world prices for crude oil (Brent) will be at USD 50 per barrel on average in 2009, and reach USD 70 per barrel by the end of 2010 with annual average at USD 65 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 recover in 2010.
- The external demand for Ukrainian nitrogen fertilizers will remain high in 2009 and 2010.
- The anti-smuggling policy will be continued by the Government in 2009 and 2010.
- VAT refund overdue arrears will be accumulated in 2009.
- The advance EPT payments will not be conducted in last three quarters of 2009 and in 2010.
- Social standards will not be increased above the levels envisaged in the State Budget Law for 2009 approved on December 26, 2008.
- 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 2009, but will decline in 2010.
- Utility, gas and electricity tariffs for population will be increased in 2009 and 2010.
- The official privatisation plan will not be executed in 2009. In 2010 the Government will succeed in privatising some blue chips.
- The Government will receive loans from the World Bank and the EBRD in 2009 and 2010.
- 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 most of large banks that have problems.
- Mass defaults in real sector will not occur in 2009 and 2010.

### RISK scenario (assumption that differ from the BASE and OPTIMISTIC 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 40 per barrel in 2009 and at USD 50 per 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.
- The weather conditions in Ukraine will not be favourable for grains production.
- 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 2010.
- Economy will suffer from widespread credit defaults in the real sector in 2009 and 2010.
- Financial sector will suffer large losses and several large banks will fail in 2009 and 2010.
- IMF will refuse to cooperate with Ukraine and no other instalments of loan will be disbursed.



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

		2006	2007	2008E	2009E	2010F
Nominal GDP	UAH bn	537.7	712.9	949.9	930.8	1143.6
	USD bn	106.5	141.2	180.3	116.1	144.8
Real GDP	% yoy	7.3	7.6	2.1	-13.7	3.6
GDP expenditure side components						
Private consumption, real	% yoy	15.9	17.1	11.8	-17.8	4.2
State consumption, real	% yoy	2.7	2.8	0.4	-12.5	-0.8
Fixed assets accumulation, real	% yoy	21.2	24.8	1.6	-31.5	10.8
Exports, real	% yoy	-5.6	3.2	5.2	-24.5	6.7
Imports, real	% yoy	6.8	19.9	17.1	-40.4	11.8
GDP production side components						
Agriculture, real	% yoy	2.0	-5.0	17.2	-6.5	3.7
Extractive industry, real	% yoy	9.9	4.1	-1.5	-14.9	5.2
Manufacturing, real	% yoy	9.2	12.8	-2.3	-19.5	7.9
Production and distribution of electricity, gas and water, real	% yoy	0.1	1.3	-4.8	-12.0	5.8
Construction, real	% yoy	0.3	13.2	-17.5	-31.9	13.8
Trade, repair services, real	% yoy	17.7	20.6	1.8	-15.9	4.7
Transport, real	% yoy	7.6	11.0	7.1	-14.7	3.7
Education, real	% yoy	2.1	4.3	-0.4	-1.5	0.5
Health care, real	% yoy	2.4	-0.4	-0.4	-2.1	0.0
Other types of economic activity, real	% yoy	5.7	6.0	1.9	-12.9	0.0
Estimated payments to financial intermediaries, real	% yoy	59.6	30.0	-2.6	-38.0	15.0
Net taxes on products, real	% yoy	13.4	4.9	8.0	-16.6	6.4

**Table 2. Incomes and Unemployment rate**

		2006	2007	2008E	2009E	2010F
Real disposable incomes	% yoy	11.8	14.8	10.3	-15.7	-1.6
Unemployment rate (ILO methodology, aged between 15 and 70 years old)	%	6.8	6.4	6.4	9.5	8.5

**Table 3. Fiscal Indicators**

		2006	2007	2008E	2009E	2010F
Consolidated fiscal revenues	UAH bn	171.7	219.9	297.8	274.4	298.7
	% of GDP	31.6	30.8	31.4	29.5	26.1
EPT revenues	UAH bn	26.2	34.4	47.9	32.9	37.2
	% of GDP	4.8	4.8	5.0	3.5	3.3
VAT revenues	UAH bn	50.4	59.4	92.1	82.0	91.5
	% of GDP	9.3	8.3	9.7	8.8	8.0
PIT revenues	UAH bn	22.8	34.8	45.9	43.5	37.5
	% of GDP	4.2	4.9	4.8	4.7	3.3
Consolidated fiscal expenditures	UAH bn	175.3	226.0	309.2	308.2	327.4
	% of GDP	32.2	31.4	32.6	33.1	28.6
Current consolidated fiscal expenditures	% of GDP	27.7	26.0	28.2	30.2	26.4
Capital consolidated fiscal expenditures	% of GDP	4.5	5.4	4.3	2.9	2.2
Consolidated fiscal balance (without bank recapitalisation)	% of GDP	0.7	1.1	1.5	3.8	2.7
Privatisation receipts	UAH bn	3.8	2.2	0.5	1.3	4.0

**Table 4. Balance of Payments**

		2006	2007	2008E	2009E	2010F
Current Account balance	USD bn	-1.6	-5.9	-12.9	-0.5	1.1
	% of GDP	-1.5	-4.2	-7.2	-0.5	0.8
Exports of goods	USD bn	38.9	49.8	67.7	42.2	48.7
Imports of goods	USD bn	-44.1	-60.4	-84.7	-45.6	-52.9
Balance of services	USD bn	2.1	2.7	2.4	3.1	3.6
Capital and Financial Accounts	USD bn	3.9	15.8	9.5	-7.1	-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	-11.1	-10.5

**Table 5. Monetary Aggregates and CPI**

		2006	2007	2008E	2009E	2010F
Money supply (M2)	UAH bn	259.4	391.3	512.5	488.4	540.6
	% yoy	34.3	50.8	31.0	-4.7	10.7
Consumer price index (CPI)	% yoy aop	8.0	12.8	25.2	18.0	15.1
	% yoy eop	11.6	16.6	22.3	16.4	13.5
Exchange rate (official)	USD aop	5.05	5.05	5.27	8.02	7.90
	USD eop	5.05	5.05	7.70	8.20	7.55

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

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](mailto:institute@ier.kiev.ua)  
<http://www.ier.kiev.ua>

**Head of the Board-Director**

Igor Burakovsky  
[burakovsky@ier.kiev.ua](mailto:burakovsky@ier.kiev.ua)

**Chief Executive**

Oksana Kuziakiv  
[kuziakiv@ier.kiev.ua](mailto:kuziakiv@ier.kiev.ua)

**Academic Director**

Veronika Movchan  
[movchan@ier.kiev.ua](mailto:movchan@ier.kiev.ua)

**German-Ukrainian Policy Dialogue in  
Agriculture**

Heinz-Wilhelm Strubenhoff  
Team leader  
[Strubenhoff@ier.kiev.ua](mailto:Strubenhoff@ier.kiev.ua)

Iryna Slavynska  
[slavynska@ier.kiev.ua](mailto:slavynska@ier.kiev.ua)

Oleg Nivyevs'kiy  
[nivyevs'kiy@ier.kiev.ua](mailto:nivyevs'kiy@ier.kiev.ua)

Justyna Jaroszewska  
[Jaroszewska@ier.kiev.ua](mailto:Jaroszewska@ier.kiev.ua)

Anna Kuznetsova  
[Kuznetsova@ier.kiev.ua](mailto:Kuznetsova@ier.kiev.ua)

Serhiy Kandul  
[kandul@ier.kiev.ua](mailto:kandul@ier.kiev.ua)

**Centre for Economic Studies**

Oleksandra Betliy  
[betliy@ier.kiev.ua](mailto:betliy@ier.kiev.ua)

Vitaliy Kravchuk  
[Kravchuk@ier.kiev.ua](mailto:Kravchuk@ier.kiev.ua)

Dmytro Naumenko  
[naumenko@ier.kiev.ua](mailto:naumenko@ier.kiev.ua)

Roman Voznyak  
[voznyak@ier.kiev.ua](mailto:voznyak@ier.kiev.ua)

Alla Kobyljanska  
[kobyljanskaya@ier.kiev.ua](mailto:kobyljanskaya@ier.kiev.ua)

Kateryna Kutsenko  
[kutsenko@ier.kiev.ua](mailto:kutsenko@ier.kiev.ua)

Olga Megeda  
[megeda@ier.kiev.ua](mailto:megeda@ier.kiev.ua)

Kateryna Pilkevich  
[pilkevich@ier.kiev.ua](mailto:pilkevich@ier.kiev.ua)

Natalia Sysenko  
[sysenko@ier.kiev.ua](mailto:sysenko@ier.kiev.ua)

Anna Chukai  
[chukhai@ier.kiev.ua](mailto:chukhai@ier.kiev.ua)

**Center for Political Studies**

Yevgeniy Razdorozhny  
[razdorozhny@ier.kiev.ua](mailto:razdorozhny@ier.kiev.ua)

Kateryna Shynkaruk  
[shynkaruk@ier.kiev.ua](mailto:shynkaruk@ier.kiev.ua)

**Center for Contemporary Society Studies**

Iryna Fedets  
[fedets@ier.kiev.ua](mailto:fedets@ier.kiev.ua)

Yana Dvorak  
[dvorak@ier.kiev.ua](mailto:dvorak@ier.kiev.ua)

**Disclaimer**

This Macroeconomic Forecast of Ukraine has been prepared by the Institute for Economic Research and Policy Consulting for informational purposes only. Any forecast figures and estimates in this report are statements of our judgments as of date publication and can be changed without notice. Any opinions expressed herein may differ from the opinions expressed by the government, business entities and research institutions due to different assumptions and/or methodology. Although we used our best efforts in preparing this forecast we cannot ensure that is not untrue or misleading at the time of publication. The Institute for Economic Research and Policy Consulting makes no representation that the information contained herein is accurate or complete. We make no guarantees for usefulness of this report as a basis for any particular purposes. The IER does not take any responsibility for any losses or other injury that directly or indirectly resulted from the use of any part of this publication. This report in whole or in part may not be reproduced, distributed or published by any person for any purpose without the prior Institute's permission. When quoting please cite Institute for Economic Research and Policy Consulting.



## **INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING PRODUCTS**

### **Monthly Economic Monitor Ukraine (MEMU) with supplement**

The MEMU contains a monthly review and brief analysis of the key economic policy measures and data that come public during the previous month. The MEMU supplement presents extended analysis of one key event in the Ukrainian economy. There are 12 issues per year distributed among subscribers.

### **Macroeconomic Forecast of Ukraine (MEFU)**

The MEFU includes forecast of the GDP and its components, fiscal indicators, balance of payments, inflation, exchange rate for current and next years. There are 12 issues per year – 4 quarterly issues and 8 updates with short comments – distributed among subscribers.

### **Infrastructure Monitoring of Ukraine (IMU)**

The IMU is an annual report that presents information on the restructuring of six key infrastructure sectors of the Ukrainian economy in a standardized manner, which allows for cross-industry comparisons. Monitored indicators are qualitative and fall into three broad categories: (1) commercialisation, (2) tariff reform, and (3) regulatory and institutional development. Twenty-one indicators allow for economic and policy-making analysis at different aggregation levels. It is distributed free of charge.

### **Economic Summary for Ukraine**

Economic summary is a review and brief analysis of the key economic indicators and policy measures of the year. It is published in January using the available statistics and annual estimates and updated in May when the most of previous year data becomes publicly available. The product is distributed among subscribers.

### **Business Tendencies Survey**

Business Tendency Surveys are comprised of two surveys. The first one – Industries – is prepared on the basis of quarterly surveys of industrial enterprises managers. The second – Banking – is based on the survey of banks managers. There are four publications for each of the components of the Business Tendencies available and participants of the surveys and to subscribers.

### **Policy Papers**

The policy papers are the joint product of the German Advisory Group for Economic Reforms in Ukraine and the IER aimed at providing economic policy recommendations to Ukraine's policy makers. The recommendations are based on the careful analysis of Ukraine's situation, state-of-the-art economic theory, and best international practices. The papers are available for policy makers and – with some time lag – for general public. The list of the most recent policy papers includes:

- The Role of Trade Policy in Reducing Ukraine's Current Account Deficit - Lessons from Abroad, by Christian Helmers, Veronika Movchan, Ricardo Giucci and Kateryna Kutsenko, policy Paper 01, March 2009
- Developing the market for foreign exchange derivatives in Ukraine: Sequencing the reform steps, by Robert Kirchner, Ricardo Giucci, and Alla Kobylanska, Policy paper 09, January 2009
- Assessing the impact of the protracted economic slowdown on the pension insurance in Ukraine: Hope for the best, but prepare for the worst! by Lars Handrich, Oleksandra Betliy, Policy Paper 09, November 2008
- Deposit Insurance in Ukraine: Time for Reform?, by Ricardo Giucci, Robert Kirchner, Policy Paper 08 November 2008
- Principles and methods of targeted social assistance: Policy recommendations for Ukraine, by Lars Handrich, Oleksandra Betliy, Policy Paper 07, October 2008
- How to deal with 'European gas prices' in Ukraine?, by Ferdinand Pavel, Inna Yuzefovych, Policy Paper 06, October 2008
- Inflation in Ukraine: Results and Policy Implications of an Empirical Study, by Robert Kirchner, Enzo Weber, Ricardo Giucci, Policy Paper 05, October 2008
- The Housing Construction Sector in Ukraine: Reasons for the Current Recession and Policy Implications, by Ricardo Giucci, Robert Kirchner, Roman Voznyak, Policy Paper 04, October 2008
- The Policy Interaction between the Government and the National Bank of Ukraine: Assessment of the Current Framework and Policy Recommendations, by Ricardo Giucci, Robert Kirchner, Vitaliy Kravchuk, Policy Paper 03, June 2008
- Inflation Expectations: Importance and Measurement, by Robert Kirchner, Ricardo Giucci, Yaroslava Suchok, Oksana Kuziakiv and Veronika Movchan, Policy Paper 02, June 2008