



INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

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# Macroeconomic Forecast Ukraine – monthly update

## Fiscal figures are first to be revised

### EXECUTIVE SUMMARY

**GDP:** The real GDP is forecasted to contract by 14.1% in 2009. It will grow by 3.9% in 2010 against the background of very low statistical base.

**Disposable Incomes and Unemployment:** Households' real disposable incomes will decline by 12.3% in 2009 and increase by 0.3% next year. Unemployment rate (ILO methodology) will reach 9.5% of economically active individuals between 15 and 70 years old in 2009, and decline to 8.8% in 2010.

**Fiscal Indicators:** The fiscal deficit is estimated to reach 5.4% of GDP in 2009, not taking into account banks' recapitalization. There is a high probability of revision of fiscal deficit forecast for 2010.

**Balance of Payments:** The current account will be in deficit at 1.7% of GDP in 2009 and turn to surplus at 0.5% of GDP in 2010. The large net outflows of other investments will result in financial account deficits in 2009 and 2010.

**Monetary Survey:** Money supply in 2009 will remain close to levels of 2008, and resume its growth in 2010. The exchange rate will be on average at UAH/USD 8.02 in 2009, and UAH/USD 8.03 in 2010. The consumer price inflation is expected to remain rather high.

**Pessimistic Scenario:** Later than assumed recovery of global economy will further suppress demand for Ukrainian exports and restrain access to foreign capital. As a result, the real GDP will drop by 17.0% in 2009 and grow by mere 0.6% in 2010.

**Optimistic Scenario:** In case of faster recovery of the economic activity in Ukraine, the real GDP is expected to decline by 12.6% in 2009 and grow by 8.5% in 2010.

### Key forecast figures for baseline scenario

	2005	2006	2007	2008	2009E	2010F
Real GDP, % yoy	2.7	7.3	7.6	2.1	-14.1	3.9
Consolidated fiscal revenues, UAH bn	134	172	220	298	276	310
Consolidated fiscal balance % of GDP	-1.8	-0.7	-1.1	-1.5	-5.4	-2.9
Current account balance, USD bn	2.5	-1.6	-5.9	-12.9	-1.9	0.7
Net FDI inflow, USD bn	7.5	5.7	9.2	9.7	5.0	8.0
Money supply, UAH bn	193	259	391	513	510	558
CPI, % aop	13.5	8.0	12.8	25.2	15.9	14.1

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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# Macroeconomic Forecast Ukraine – monthly update

## Macroeconomy: Gradual improvement on external markets alleviates real GDP contraction in Ukraine

**GDP:** According to recent Derzhkomstat information performance in key industries deteriorated in August more as compared to July than we expected. At the same time, the performance of other sectors including trade, transport and agriculture was in line with the IER estimates. Thus, we maintain forecast for real GDP contraction at 14.1% in 2009 and its moderate growth at 3.9% in 2010.

**Demand side:** In 2009 the real final consumption of households dropped due to decline in real disposable incomes against the background of high loan repayments, restricted credits, and large purchases of the US dollar. Current trends indicate some chances of lower than currently expected net credit repayments and higher increases in social standards by the end of the year. This might result in lesser contraction of real final household consumption currently estimated at 18.1%. In 2010 the real private final consumption is forecast to grow by 2.0% thanks to increased incomes and lower net loan redemption burden.

Real gross fixed capital accumulation is expected to decline by 42.0% in 2009. Foreign investors and population reduced their investment activities due to lower incomes and very limited crediting. Launch of new investment projects by the end of 2009 is unlikely, while continuation of already started projects is also restricted by financial situation of enterprises. The economic recovery in 2010 will enable companies to increase investments. Thus, real gross fixed capital accumulation is forecast to grow by 9.3% in 2010.

As gradual improvement of situation on external markets since June has been already built in the forecast, we keep IER estimates of the real exports decline by 21.6% in 2009 and its growth by 6.1% in 2010. Real imports are expected to contract at 39.7% in 2009 and grow by 10.4% in 2010.

**Production:** Current trends in construction sector allow us to maintain the assessment that the largest drop in real value added will be in construction at 41.5% in 2009. We also hold our view for developments in industrial sectors expecting that in the last four months of the year industrial production index will grow moderately on the monthly basis. As a result, the real value added in manufacturing is estimated to decline by 24.4% in 2009. In the first eight months of the year the agricultural real output grew by mere 0.4% yoy significantly decelerating from 3.8% yoy between January and July due to high statistical base, which was in line with our estimated. Thus, as previously the real value added in agriculture is forecast to contract by 6.8% in 2009.

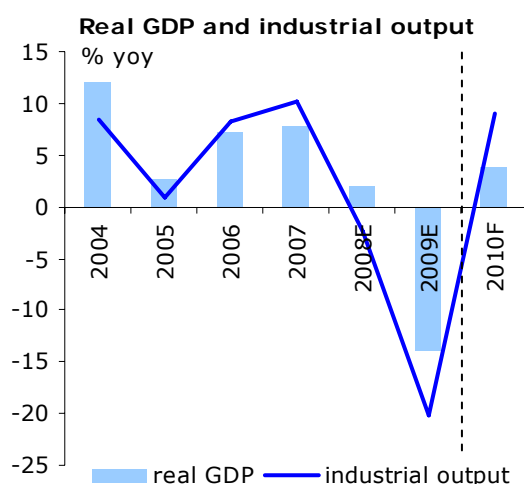
We keep our forecast of real value added growth rates in 2010 with the highest growth in manufacturing at 13.8%. Other sectors will revive though production volumes will not reach pre-crisis levels.

**Pessimistic scenario:** Low external demand for Ukrainian products and restricted financial inflow from abroad remain the key economic risks in 2009. Under risk scenario the real GDP is expected to decline by 17.0% in 2009 with little bounce of 0.6% in 2010.

**Optimistic scenario:** Under the optimistic scenario the Ukrainian economic agents are expected to revive their activity more strongly than under baseline scenario. As a result, the real GDP will decline by 12.6% in 2009 and grow by hefty 8.5% in 2010.

## Disposable incomes and unemployment: Wages grow moderately in 2009

**Households:** According to recent data developments of incomes received from wages and social transfers have been in line with IER expectations. However, if the social standards including minimum wage are increased by the end of 2009 above the levels underlined



Note: E - estimate, F - forecast

Source: Derzhkomstat, IER calculations

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

Expressed as percentage points of GDP change

	P	B	O
<b>2009</b>			
Real GDP	-17.0	-14.1	-12.6
<i>Contributions:</i>			
Private consumption	-12.7	-11.6	-10.2
Government consumption	-0.5	-0.5	0.4
Gross fixed capital accumulation	-11.8	-11.5	-10.9
Inventories	-4.3	-3.4	-3.4
Net exports	12.5	13.1	12.3
<b>2010</b>			
Real GDP	0.6	3.9	8.5
<i>Contributions:</i>			
Private consumption	-3.0	1.3	6.7
Government consumption	-0.1	0.5	0.3
Gross fixed capital accumulation	1.1	1.7	2.2
Inventories	3.2	2.1	2.0
Net exports	-0.7	-1.7	-2.5
Real GDP	0.6	3.9	8.5

Note: P – pessimistic, B – base, O – optimistic scenario  
Source: IER calculations

in the State budget law for 2009, the estimate of real disposable incomes decline by 12.5% might appear to be too pessimistic. The labour market remains weak enabling us to keep the estimate of the unemployment rate (ILO methodology) at 9.5% of economically active individuals between 15 and 70 years old.

As the increase in social standards including minimum wage envisaged in the Draft State Budget Law for 2010 are in line with our assumptions, we hold our view for real disposable income increase by mere 0.3% next year.

**Pessimistic scenario:** Under the pessimistic scenario the real disposable incomes of households will drop by 15.9% in 2009 and further decline by 6.0% in 2010.

**Optimistic scenario:** The faster economic recovery will result in decline in the real disposable incomes of households at 10.3% in 2009 and their increase at 3.0% in 2010.

### Fiscal indicators: Consolidated fiscal deficit forecast in 2010 might be revised upwards

**Consolidated fiscal parameters:** As we expected the Consolidated fiscal revenues accumulation deteriorated during last several months. Thus, the forecast of consolidated fiscal revenues in 2009 remained unchanged at UAH 276 bn. This forecast might appear to be too conservative if the Government increases the pressure on the state monopolies in the end of the year that results in higher revenues.

On expenditure side the major trigger for forecast revision will be failure of the NBU to transfer the envisaged UAH 9.8 bn to the central coffers resulting in under-financing of EURO-2012 preparations and, thus, even lower capital consolidated fiscal expenditures than currently expected at 2.0% of GDP. The consolidated fiscal deficit is estimated at 5.4% of GDP (not taking into account the bank recapitalisation) in 2009.

For the 2010 the consolidated fiscal revenues are estimated to reach UAH 310 bn (28.7% of GDP). This estimate is much lower than the figure announced during the presentation of the State Budget Law for next year. The discrepancy is attributed to differences in macroeconomic assumptions, embedded effective tax rates and VAT reimbursement issues. However, at the moment we do not plan to revise this forecast as the Government tax policy does not differ from the policy on which our forecast is grounded and thus we do not have sufficient information to justify revision.

Currently the Government planned deficit is higher than our estimate thus allowing in much higher fiscal expenditures. Therefore, there is high probability for upside revision of our forecast of fiscal deficit for next year.

**Pessimistic scenario:** Under the pessimistic scenario, consolidated fiscal revenues will further decline to UAH 264 bn in 2009, while the deficit will be close to the estimate under the base scenario. Under this scenario in 2010 the fiscal revenues will increase to UAH 305 bn.

**Optimistic scenario:** Under the optimistic scenario the consolidated fiscal revenues are estimated at UAH 295 bn in 2009. The fiscal deficit will be at 4.9% of GDP. In 2010 the consolidated fiscal revenues are forecasted at UAH 340 bn.

### Balance of payments: Current account surplus will be at 0.7% of GDP in 2010

**Current account:** In the first seven months of 2009 current account deficit reached USD 1.2 bn significantly narrowing as compared to the same period of 2008. Such trend is still in the framework of our forecast of current account deficit at USD 1.9 bn (1.7% of GDP) for entire 2009. In 2010 current account balance is forecast to be in surplus at USD 0.7 bn (0.5% of GDP).

The deficit reduction is attributed to sharper contraction of commodity imports than of exports (by 53.5% yoy and 48.5% yoy, respectively, in dollar equivalent). Imports plunged primarily due to drop in energy

### Incomes and unemployment under different scenarios

	P	B	O
<b>2009</b>			
Real disposable incomes, % yoy	-15.9	-12.5	-10.3
Unemployment rate*, %	11.0	9.5	9.0
<b>2010</b>			
Real disposable incomes, % yoy	-6.0	0.3	3.0
Unemployment rate*, %	10.5	8.8	8.0

\* ILO methodology, economically active individuals aged between 15 and 70 years old

Note: P – pessimistic, B – base, O – optimistic scenario

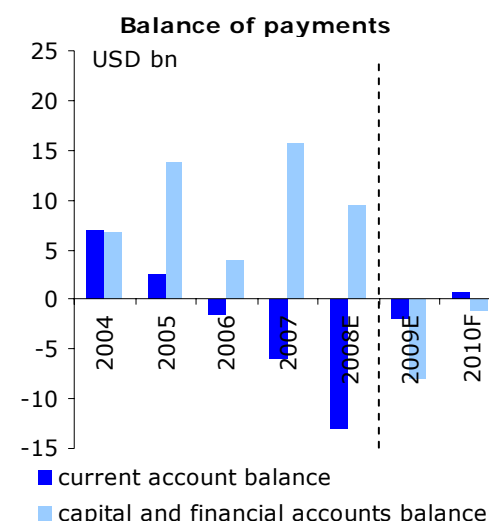
Source: IER calculations

### Fiscal indicators under different scenarios % of GDP

	P	B	O
<b>2009</b>			
Consolidated fiscal revenues	29.8	31.1	32.1
Capital expenditures	1.1	2.0	3.4
Consolidated fiscal deficit	5.3	5.4	4.9
<b>2010</b>			
Consolidated fiscal revenues	29.5	28.7	29.2
Capital expenditures	2.8	3.0	3.6
Consolidated fiscal deficit	2.3	2.9	2.0

Note: P – pessimistic, B – base, O – optimistic scenario

Source: IER calculations



Note: E - estimate, F - forecast

Source: NBU, IER calculations

### Balance of payment indicators under different scenarios

USD bn

	P	B	O
<b>2009</b>			
Current account balance	-3.8	<b>-1.9</b>	-0.5
Capital and financial account balance	-8.6	<b>-8.0</b>	-7.5
<b>2010</b>			
Current account balance	-2.4	<b>0.7</b>	1.1
Capital and financial account balance	-4.2	<b>-1.1</b>	0.6

Note: P – pessimistic, B – base, O – optimistic scenario

Source: IER calculations

imports, imports of metals and machine building products. Such developments are in line with our forecast envisaging decline in commodity exports and imports by 40.2% and 46.4% in dollar terms, respectively in 2009. However, lower than contracted purchases of natural gas by the NJSC “Naftogaz of Ukraine” from the Russian company “Gasprom” could create preconditions for downward energy imports revision ensuring trade deficit narrowing from currently estimated USD 4.9 bn in 2009. In 2010 commodity exports and imports will bounce back by 17.9% and 15.5% respectively resulting in commodity trade deficit at USD 4.7 bn.

The forecast of services imports and exports for 2009 and 2010 remained unchanged. So, services trade surplus is expected at USD 2.7 bn and USD 3.5 bn, respectively.

We hold our view on net inflow of current transfers and net outflow of incomes from abroad for 2009 and 2010. The respective figures for current transfers will be USD 2.7 bn and USD 3.2 bn, for incomes from abroad USD 2.4 bn and USD 1.3 bn.

**Capital and financial accounts:** Between January and July financial account balance formed negative at USD 7.0 bn. Despite some increase in net inflow of FDI, debt redemption and increase in foreign currency outside banks was too high to prevent financial account from weakening. If problems with debt refinancing appear to be larger than we estimated and population demand for foreign currency does not calm, the forecast of financial account deficit for 2009 at USD 8.0 bn could turn out to be too optimistic. Still in 2010 the financial account deficit will shrink to USD 1.1 bn thanks to improvement of international investment climate.

**Pessimistic scenario:** Under the pessimistic scenario the current account deficit will reach USD 3.8 bn and USD 2.4 bn in 2009 and 2010, respectively. Financial account deficits are forecasted at USD 8.6 bn in 2009 and USD 4.2 bn in 2010. There are high chances that the forecast of financial account deficit in 2009 could be worsened.

**Optimistic scenario:** More pronounce revival of international trade will result in higher than under the base scenario current account surplus in 2010 (at USD 1.1 bn). On the financial side wider possibilities for debt refinancing and new loans are expected under this scenario.

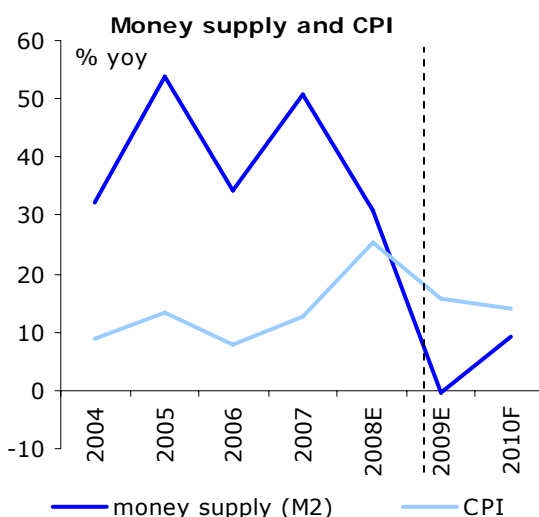
### Monetary Survey: Average exchange rate for the fourth quarter of 2009 will not exceed UAH/USD 8.50

**Money aggregates:** Money supply fell by 0.8% yoy in August 2009 as compared to 30.2% yoy growth in December 2008. While base money grew slowly, money multiplier decreased due to high share of cash in money supply and higher share of reserves in bank deposits. Money supply is expected to fall slightly by 0.4% in 2009 due to similar reasons. However, if the Parliament manages to increase social standards over the current levels money supply estimates will be revised upwards.

Bank claims on private sector will fall by 1.1% to UAH 746 bn in 2009. If state-owned banks are used for large-scale quasi-fiscal operations, the bank claims might be higher than expected.

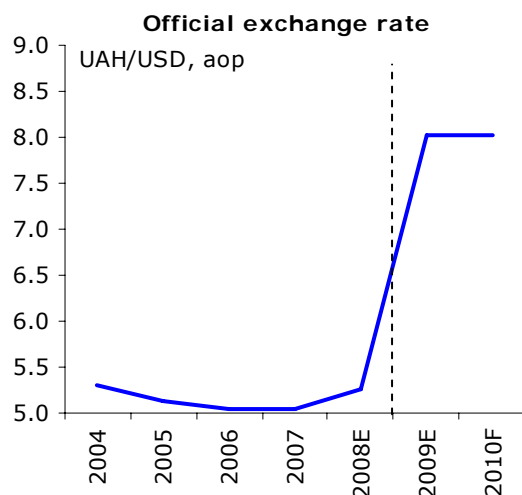
In 2010 bank claims on private sector are forecasted to increase by 6.8%, while economic activity will somewhat improve and the banks will receive new deposits. Thus, we predict money supply to grow by 9.4% in 2010.

**Inflation:** In August inflation decelerated to 15.3% yoy from 22.3% yoy in December 2008 due to weak demand and stabilisation in the exchange rate. However, CPI growth is still higher than in May and June. Besides, inflation expectations remain high pushing prices upwards. As a result, the inflation is forecasted to remain high at 15.9% on average in 2009 and at 14.6% yoy in December. At the same time, delay or cancellation of increases in gas and utility tariffs will create preconditions for possible downward revision of inflation forecast. On the other hand, if social standards are raised in the end of the year above assumed levels the forecast might turn out to be too low.



Note: E – estimate, F – forecast

Source: NBU, Derzhkomstat, IER calculations



Note: E – estimate, F – forecast

Source: NBU, IER calculations

In 2010 consumer demand will grow slightly, but will be much lower than in 2008, as the social standards are expected to be increased moderately. Still, inflation expectations will remain high due to low consumer confidence and fluctuations in the exchange rate. As a result, CPI growth is forecasted to slow to 14.1% on average in 2010 and to 12.1% yoy in December.

**Exchange rate:** The hryvnia exchange rate at the interbank market started to depreciate relative to US dollar in the late July. It reached UAH/USD 8.42 daily average in the early September according to the NBU data. Dealers quoted even higher rates close to UAH/USD 9.0. Still, the NBU first kept the official exchange rate at the lowest border of announced margin of 2% from the interbank exchange rate and than below the border breaking the promise about alignment of the official and interbank exchange rate. So, we kept our forecast of the average official exchange rate at UAH/USD 8.02 in 2009. Moreover, it will have to be revised to below UAH/USD 8 if the NBU continue to keep the official rate below the interbank rate.

Average interbank rate as reported by the NBU is expected to reach UAH/USD 8.10 with average exchange rate for the last quarter of the year not higher than UAH/USD 8.50.

In 2010 exports recovery and acceleration in foreign investors' activity are expected. The current account surplus is forecast to counterweight the net outflow on financial account. Therefore, gradual hryvnia appreciation is expected in 2010. As a result, official exchange rate is forecasted at UAH/USD 8.03 on average in 2010 and at UAH/USD 7.80 in the end of the year. Interbank rate is expected to be within 2% of the official rate in 2010.

**Pessimistic scenario:** The longer than expected under the base scenario global economic downturn will result in lower foreign currency inflow and fiscal deficit financing with the help of NBU. As a result, the inflation will accelerate to 17.0% and 23.4% on average in 2009 and 2010, respectively. The hryvnia is likely to reach UAH 8.95 per USD on average in 2009, with further depreciation to UAH 12.53 per USD in 2010.

**Optimistic scenario:** If economic recovery appears stronger than expected, inflation will be higher than under the base scenario in 2010 (14.4% yoy in December) thanks to higher demand. Demand for the foreign currency is forecasted to be weaker due to greater confidence in hryvnia. Thus, exchange rate will be at 7.87 UAH per USD and 7.63 UAH per USD as annual average in 2009 and in 2010, respectively.

Monetary survey indicators under different scenarios

	<i>P</i>	<i>B</i>	<i>O</i>
		<b>2009</b>	
CPI, % aop	17.0	<b>15.9</b>	15.8
Money supply (M2), % yoy	10.1	<b>-0.4</b>	-3.2
Official exchange rate, UAH/USD, aop	8.95	<b>8.02</b>	7.87
		<b>2010</b>	
CPI, % aop	25.3	<b>14.1</b>	14.7
Money supply (M2), % yoy	4.9	<b>9.4</b>	11.5
Official exchange rate, UAH/USD, aop	12.53	<b>8.03</b>	7.63

Note: P – pessimistic, B – base, O – optimistic scenario  
Source: IER calculations



## TABLES

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

		2006	2007	2008E	2009E	2010F
Nominal GDP	UAH bn	537.7	712.9	949.9	888.3	1079.3
	USD bn	106.5	141.2	180.3	110.8	134.5
Real GDP	% yoy	7.3	7.6	2.1	-14.1	3.9
GDP expenditure side components						
Private consumption, real	% yoy	15.9	17.1	11.8	-18.1	2.0
State consumption, real	% yoy	2.7	2.8	0.4	-2.7	2.3
Fixed capital accumulation, real	% yoy	21.2	24.8	1.6	-42.0	9.3
Exports, real	% yoy	-5.6	3.2	5.2	-21.6	6.1
Imports, real	% yoy	6.8	19.9	17.1	-39.7	10.4
GDP production side components						
Agriculture, real	% yoy	2.0	-5.0	17.2	-6.8	3.6
Extractive industry, real	% yoy	9.9	4.1	-1.5	-7.4	5.3
Manufacturing, real	% yoy	9.2	12.8	-2.3	-24.4	10.3
Production and distribution of electricity, gas and water, real	% yoy	0.1	1.3	-4.8	-15.5	8.4
Construction, real	% yoy	0.3	13.2	-17.5	-41.5	8.9
Trade, repair services, real	% yoy	17.7	20.6	1.8	-16.6	8.1
Transport, real	% yoy	7.6	11.0	7.1	-13.1	7.1
Education, real	% yoy	2.1	4.3	-0.4	-1.9	-1.0
Health care, real	% yoy	2.4	-0.4	-0.4	-3.1	-1.2
Other types of economic activity, real	% yoy	5.7	6.0	1.9	-1.0	0.2
Estimated payments to financial intermediaries, real	% yoy	59.6	30.0	-2.6	-4.0	25.0
Net taxes on products, real	% yoy	13.4	4.9	8.0	-24.1	2.2

**Table 2. Incomes and Unemployment rate**

		2006	2007	2008E	2009E	2010F
Real disposable incomes	% yoy	11.8	14.8	10.3	-12.5	0.3
Unemployment rate (ILO methodology, economically active individuals aged between 15 and 70 years old)	%	6.8	6.4	6.4	9.5	8.8

**Table 3. Fiscal Indicators**

		2006	2007	2008E	2009E	2010F
Consolidated fiscal revenues	UAH bn	171.7	219.9	297.8	276.0	310.3
	% of GDP	31.6	30.8	31.4	31.1	28.7
EPT revenues	UAH bn	26.2	34.4	47.9	30.4	41.8
	% of GDP	4.8	4.8	5.0	3.4	3.9
VAT revenues	UAH bn	50.4	59.4	92.1	85.7	96.5
	% of GDP	9.3	8.3	9.7	9.6	8.9
PIT revenues	UAH bn	22.8	34.8	45.9	44.4	43.3
	% of GDP	4.2	4.9	4.8	5.0	4.0
Consolidated fiscal expenditures	UAH bn	175.3	226.0	309.2	322.3	339.7
	% of GDP	32.2	31.4	32.6	36.3	31.5
Current consolidated fiscal expenditures	% of GDP	27.7	26.0	28.2	34.3	28.5
Capital consolidated fiscal expenditures	% of GDP	4.5	5.4	4.3	2.0	3.0
Consolidated fiscal balance (without bank recapitalisation)	% of GDP	-0.7	-1.1	-1.5	-5.4	-2.9
Privatisation receipts	UAH bn	3.8	2.2	0.5	5.0	8.0

**Table 4. Balance of Payments**

		2006	2007	2008E	2009E	2010F
Current Account balance	USD bn	-1.6	-5.9	-12.9	-1.9	0.7
	% of GDP	-1.5	-4.2	-7.2	-1.7	0.5
Exports of goods	USD bn	38.9	49.8	67.7	40.5	47.8
Imports of goods	USD bn	-44.1	-60.4	-84.7	-45.4	-52.4
Balance of services	USD bn	2.1	2.7	2.4	2.7	3.5
Capital and Financial Accounts	USD bn	3.9	15.8	9.5	-8.0	-1.1
Direct investments	USD bn	5.7	9.2	9.7	5.0	8.0
Portfolio investments	USD bn	3.6	5.8	x	-2.0	1.8
Other investments	USD bn	-5.4	0.8	x	-11.0	-10.9

**Table 5. Monetary Aggregates and CPI**

		2006	2007	2008E	2009E	2010F
Money supply (M2)	UAH bn	259.4	391.3	512.5	510.5	558.3
	% yoy	34.3	50.8	31.0	-0.4	9.4
Consumer price index (CPI)	% yoy aop	8.0	12.8	25.2	15.9	14.1
	% yoy eop	11.6	16.6	22.3	14.6	12.1
Exchange rate (official)	USD aop	5.05	5.05	5.27	8.02	8.03
	USD eop	5.05	5.05	7.70	8.41	7.80

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

## ASSUMPTIONS OF THE FORECAST

### BASE and OPTIMISTIC scenario

*Under the Optimistic scenario we assume higher consumer and business confidence than under the Base scenario. Other assumptions do not differ.*

- The global economy will not face another round of economic and financial crisis in 2009 and in 2010.
- 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 60 per barrel on average in 2009 and reach USD 65-75 per barrel on average in 2010.
- Metal prices (FOB *Black sea*) will start growing in autumn of 2009.
- External demand for Ukrainian steel will be stagnant in the second half of 2009 and partially recover in 2010.
- The demand for machine building production of Ukraine will remain stagnant in CIS countries in the second half of 2009, but will partly recover in 2010.
- VAT refund overdue arrears will be accumulated in 2009 and somewhat decline in 2010.
- The advance EPT payments will be lower in the second half 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.
- The subsistence minimum and, thus, minimum wage and minimum pension, will be indexed for officially projected inflation in 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.
- Utility, gas and electricity tariffs for population will be increased in 2009 and 2010.
- The Government will privatise the Odessa By-Port Plant in 2009. In 2010 it will sell other 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 the second half of 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.

### Pessimistic 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.
- Ukraine will loose its right to host the EURO 2012.
- The world price for crude oil (*Brent*) will be at USD 55 per barrel in 2009 and at USD 65 per in 2010.
- Global metal prices (FOB *Black sea*) will start growing in the middle 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 Government will fail to privatise the Odessa Port Plant in 2009. The privatisation will not be conducted in 2010.
- Economy will suffer from widespread credit defaults in the real sector in the second half of 2009 and in 2010.
- Financial sector will suffer large losses and several large banks will fail in the second half of 2009 and in 2010.
- IMF will refuse to cooperate with Ukraine and no other instalments of loan will be disbursed.

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#### **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 component of the Business Tendencies available to 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 gas challenge. On securing natural gas transits and stabilising the domestic market in Ukraine, by Ferdinand Pavel, and Dmytro Naumenko. Policy Paper 04, July 2009
- Only the fast privatization of Ukrtelecom will secure the further development of the telecommunication sector in Ukraine. by Lard Handrich. Policy Paper 03, July 2009
- How to develop a public debt market for retail investors? by Robert Kirchner, Ricardo Giucci, and Vitaliy Kravchuk. Policy Paper 02, July 2009
- 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



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