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The Ukrainian gasoline "crisis"

In April 2005 prices for major gasoline types in Ukraine rose by about 15%. Politicians started accusing the gasoline producers of market power abuse, while the gasoline producers explained that the price increases were due to high crude oil prices and that lowering their prices would cause them to make losses.

The Government at first repeated the reactions of the Yanukovich Government to last year's "gasoline crisis": it pressured the refineries by making ad-hoc inspections and introduced administrative gasoline price controls for both wholesale and retail traders. This time the administrative pressure was coloured by "reprivatisation" rumours concerning possible irregularities in the privatisation of oil refineries, which could lead to their nationalization at a later time. The only steps coherent with market logic were that the Anti-Monopoly Committee opened a case against possible collusion and market power abuse on the gasoline market and that the Verkhovna Rada abolished import duties and reduced the excise tax on gasoline. The Hryvnia revaluation also worked in the direction of lowering gasoline price as most of the imported oil is traded in US dollars.

A comparison of the price trends of A-95 and US premium gasoline and of prices for crude oil does not support the claim that Ukrainian gasoline prices exceed the international reference levels. It is more likely that the strong fluctuations in April 2005 were caused by administrative price controls - just as a year before. Gasoline prices in Ukraine have been less volatile than in the US, most likely due to the many types of political pressure and interference. Consequently, once price adjustments become inevitable in Ukraine they occur in a much more abrupt fashion.

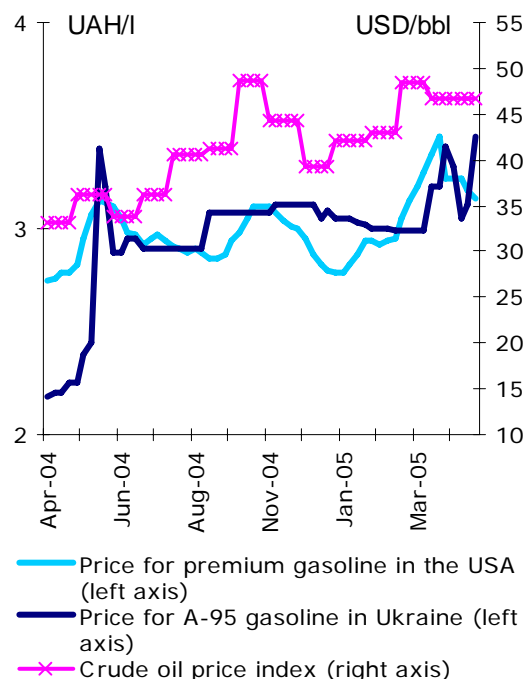
Price fluctuations for gasoline, which are consistently suppressed in Ukraine, are normal within most market economies. First, prices for crude oil, which account for more than 40% of the costs of gasoline, will continue to fluctuate in the future. Next, there is the impact of seasonal effects. For example, gasoline prices typically increase in May due to the start of the vacation season with the increased use of cars. The strong growth of GDP during the last years – reflected in the increasing number of vehicles – has strongly increased gasoline demand and the supply capacities were probably not immediately adjusted. Slow capacity adjustments also increase the impact of seasonal demand increases. Finally, supply disruptions caused by planned or unplanned maintenance at the refineries and probably by problems in the transportation sector (through the recent increases in railway freight tariffs) likely have caused further fluctuations.

Administrative price interventions were targeted at smoothing long run tendencies in gasoline price fluctuations. However, if prices are kept at artificially low levels for too long, the eventual price adjustments will be even more pronounced. Finally, administrative price interventions run contrary to Ukraine's strategy to join the WTO and the European community and will harm its prospects of receiving market economy status from the EU.

Any attempt to create and use strategic stocks of oil or gasoline to maintain low price levels will fail in the market economy. Such stocks can only be used to avoid temporary disruptions of the oil supply and related price peaks, but not for guaranteeing low prices over the medium and long terms. Actual experience with using such public inventories has demonstrated this for many commodities (e.g. the US Strategic Petroleum Reserve only has a small and short-lived impact). Furthermore, creation of such a stock is rather expensive.

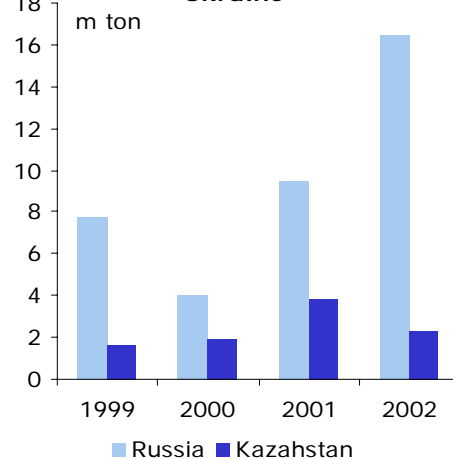
Thus, the only viable action the Government has is to stimulate competition and leave the market power abuse investigations to the Anti-Monopoly Committee. The Government can also stimulate inter-fuel competition by creating the framework conditions for advancing the liquefied petroleum gas infrastructure.

Comparison of gasoline prices and crude oil prices



Source: www.ufs.com.ua, www.eia.doe.gov, www.loga.com

Net weight of crude oil and oil products imported to Ukraine



Source: UN Comtrade Database

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Quarterly Trends

National accounts **		Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04
GDP	UAH bn	64.1	63.3	51.5	60.0	75.6	77.1	64.7	79.0	100.5	100.6
GDP (real)	% yoy	4.3	6.1	8.4	10.0	6.8	12.1	12.7	13.7	14.0	8.5
Households consumption (real)	% yoy	8.9	11.2	10.2	14.4	11.2	13.6	14.6	16.8	13.1	16.2
State consumption (real)	% yoy	-18.8	2.9	15.0	17.8	19.2	9.0	3.3	1.0	5.0	10.1
Gross fixed capital formation (real)	% yoy	3.8	5.7	9.0	20.4	24.3	9.0	18.4	6.5	4.6	12.9
Exports of goods and services (real)	% yoy	15.3	17.0	9.9	9.8	9.8	11.6	18.1	19.9	10.5	8.6
Imports of goods and services (real)	% yoy	10.4	6.7	13.8	16.2	17.4	17.7	13.8	7.3	6.7	7.8
Agriculture, hunting, forestry (real)*	% yoy	2.1	1.3	4.0	-13.7	-22.5	6.7	-4.4	0.9	35.7	9.9
Manufacturing industry (real)*	% yoy	8.0	11.5	12.0	15.4	23.0	20.1	23.9	16.3	12.5	9.4
Construction (real)*	% yoy	-1.2	2.7	18.2	24.8	30.9	16.9	29.9	30.6	16.4	3.9
Trade, repair services (real)*	% yoy	8.8	3.5	7.2	15.1	22.6	29.6	23.6	35.0	2.7	13.7
Transport (real)*	% yoy	7.9	11.0	10.0	11.5	15.9	11.7	10.1	8.0	12.3	10.5
Balance of payments											
Current account balance	USD bn	0.8	1.0	1.1	0.7	0.7	0.4	1.6	2.3	1.7	1.2
Current account balance	% of GDP	6.4	7.9	11.2	7.0	5.0	3.0	13.5	15.5	8.8	6.2
Trade balance in goods	USD m	155	225	309	-42	-155	-381	933	1552	774	482
Trade balance in services	USD m	247	382	387	399	362	409	332	153	377	270
Current transfers	USD m	517	520	500	526	574	584	475	758	720	623
Direct investment (FDI)	USD m	156	300	238	454	390	329	334	614	422	345
Portfolio investments	USD m	-592	-520	-825	640	-444	-293	60	-406	781	-511
Gross international reserves	USD bn	4.1	4.4	4.6	6.2	6.7	6.9	7.9	9.6	12.1	9.5
Fiscal indicators											
Consolidated fiscal revenues	% of GDP	28.2	28.1	31.6	31.7	30.1	28.6	27.2	26.9	26.3	25.9
Personal income tax	% of GDP	4.9	4.9	5.7	5.7	5.3	5.1	4.4	4.1	3.8	3.8
Enterprise profits tax	% of GDP	4.1	4.3	5.7	5.1	4.8	5.0	3.9	4.0	4.1	6.1
Value-added tax	% of GDP	6.4	6.1	6.2	6.3	5.8	4.8	6.2	5.7	5.1	4.1
Excise tax	% of GDP	1.9	1.9	2.1	2.2	2.1	2.0	2.1	2.1	2.0	1.8
Consolidated fiscal expenditures	% of GDP	26.4	27.3	27.7	29.2	27.9	28.8	25.3	26.5	26.8	35.2
Current expenditures	% of GDP	na	na	na	26.3	24.2	24.3	22.4	22.7	21.7	27.2
Capital expenditures	% of GDP	na	na	na	3.0	3.7	4.4	2.9	3.8	5.1	8.0
Consolidated fiscal balance	% of GDP	1.7	0.7	3.8	2.5	2.2	-0.2	1.9	0.4	-0.5	-9.3
Privatisation receipts	% of GDP	0.3	0.3	0.6	1.0	1.0	0.8	1.5	3.7	3.5	1.0
Labour market											
Average wage (real)	% yoy	21.2	17.7	12.3	19.1	19.9	14.9	23.0	17.8	13.2	15.3
Household income (real)	% yoy	100.8	65.6	-1.2	8.6	10.0	8.7	15.7	13.0	9.9	16.5
Unemployment rate (ILO methodology)	%	9.2	11.1	9.4	8.8	9.2	9.0	9.3	8.3	8.1	8.7
Banking system											
Monetary aggregate M0	% yoy cum	46.0	35.8	32.4	37.0	30.5	25.3	29.1	25.6	37.1	27.9
Monetary aggregate M2	% yoy cum	46.5	42.2	47.8	54.6	49.9	47.6	45.4	44.8	51.5	32.3
Household deposits in national currency	% yoy cum	103.6	72.5	73.4	74.7	65.0	66.1	69.4	67.3	67.9	26.2
Household deposits in foreign currency	% yoy cum	55.1	59.3	71.2	70.2	70.4	77.5	67.0	61.7	55.2	54.3
Com. bank credits in national currency	% yoy cum	42.3	54.4	63.7	71.2	73.0	61.7	56.8	52.1	44.3	29.4
Com. bank credits in foreign currency	% yoy cum	37.3	40.3	44.1	48.4	57.7	60.9	63.6	56.2	43.5	32.2
Long-term com. bank credits	% yoy cum	85.8	92.5	110.6	156.4	164.0	157.9	141.7	102.7	82.7	57.1
Long-term com. bank credits	% of total	25.3	28.2	31.3	37.4	40.1	45.0	47.4	49.3	50.9	54.2
Average lending rate on national cur. credits	% p.a.	23.5	21.8	18.0	17.2	17.2	17.7	17.2	16.6	17.0	17.6
Average lending rate on foreign cur. credits	% p.a.	11.9	11.3	12.5	12.6	11.7	10.9	12.2	12.1	12.6	12.2

SOURCES: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, IER estimates

* change in value added

** preliminary

Notes:
yoy year on year change

p.a. per annum