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WTO accession: three steps to the end of talks

The membership in the WTO has been proclaimed as the priority by both the President and the Prime Minister. However, the progress is still not smooth, further delaying the WTO membership prospects of the country.

To finish membership talks in December, Ukraine would have had to complete three tasks. First, the Parliament would have had to adopt 20 laws. Second, Ukraine would have had to complete negotiations with Kyrgyzstan that replaced its demand concerning debt repayment by zero binding tariffs request for selected goods that far exceed current obligations taken by Ukraine. Finally, Ukraine would have had to reach the agreement on the level of aggregate measure of support (AMS) in agriculture. The success in these tasks would have allowed Ukraine to incorporate necessary changes in the Working Party Report before the meeting in December and, thus, complete the technical part of talks in 2006. In that case, it would have been realistic to get the General Council approve Ukraine's membership in February 2007.

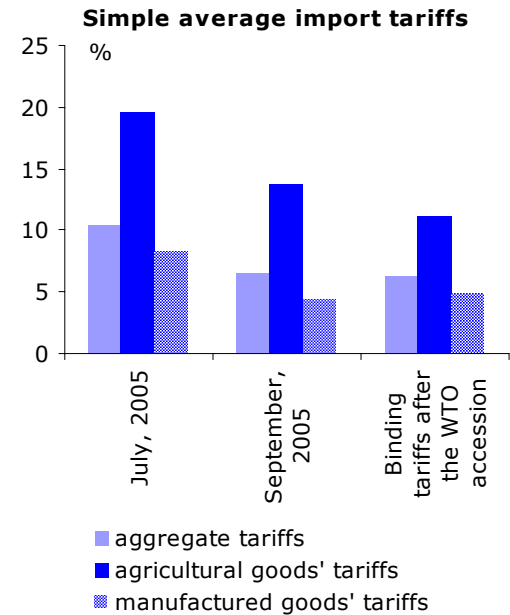
Unfortunately, despite the considerable progress, not everything was done. No deal with Kyrgyzstan and agreement on the AMS were achieved. Moreover, not all the laws were passed: during November and early December the Parliament adopted 15 out of 20 laws. Yet other 5 laws were passed only in the first reading.

The required 20 laws can be tentatively divided into five sets: laws on services, on intellectual property rights protection, on regulation in agriculture, on metal exports and miscellaneous laws. The laws on services are related to the application of the WTO basic principle – non-discriminatory access to market to selected sectors and professions like banking, insurance, publishing and legal profession. The laws on intellectual right protection include a revision of medicines regulations, the rules of origin and the definition of counterfeit products. These two sets of laws were fully adopted by the Parliament in November.

Traditionally, the most debatable have been sets of agricultural and food industry laws, and laws on metal exports. Three out of eight agricultural laws were passed in the first reading only, including two laws on sugar – setting the quota on imports of raw sugar (previously, the quota was established in ad-hoc manner by the annual parliamentary voting) and revision of the regulation of sugar market. At the same time, one law introduced incomplete changes. Namely, the required changes in VAT on agricultural products was approved only partially, as the establishment of special regime of taxation for agricultural producers was once again postponed till 2008, while the WTO required to eliminate it. Also, two laws on metal exports were passed in the first reading only.

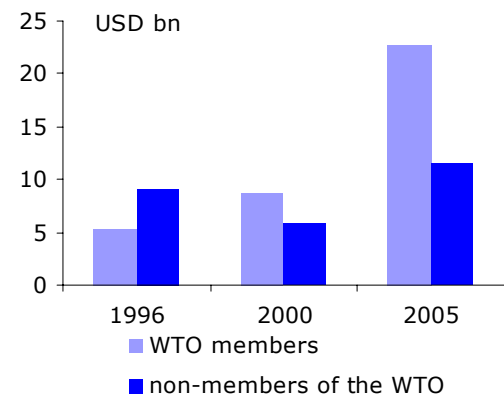
Only in early December another debatable law was finally passed. It concerned the elimination of ban on imports of cars of more than 8 years old. According to the new law, this ban will be substituted by economic measures, namely the introduction of high tax on the first registration of cars that are older than 8 years in Ukraine.

Now Ukraine has already enforced most of the obligations the country will be bound with after the WTO accession. Around 80% of tariff proposal was enacted in the mid-2005, as well as most of legislation was harmonized well before November 2006. The postponement of Ukraine joining the WTO delays the benefits of the membership, such as the better access to third-countries markets, including the elimination of quantitative restrictions and introduction of the most favoured nation treatment for Ukrainian exports to the 150 countries, the access to the WTO dispute settlement mechanism, and the ability to influence the future multilateral trade regulations. It also precludes Ukraine from opening bilateral trade talks with would-be WTO members thus securing better access to their markets. Moreover, the accession is the necessary pre-requisite of the free trade area negotiations with the EU, currently Ukraine's largest trade partner. The prolonged delay of these benefits will mean that Ukraine assumed most of obligations, but temporarily forfeited its rights.



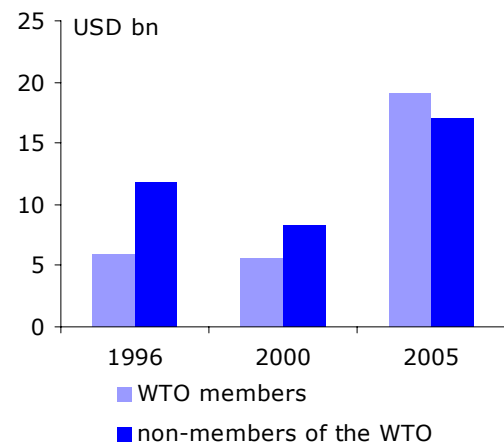
Source: Cabinet of Ministers

Ukraine's commodity exports



Source: Derzhkomstat, IER estimate

Ukraine's commodity imports



Source: Derzhkomstat, IER estimate

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Quarterly trends

National accounts **		Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
GDP	UAH bn	64.7	79.0	100.5	100.6	84.3	97.5	119.4	123.6	102.0	122.8	...
GDP (real)	% yoy	12.7	13.7	14.0	8.5	4.9	3.4	1.4	1.7	3.2	7.3	...
Households consumption (real)	% yoy	14.6	16.8	13.1	16.2	14.3	17.7	17.0	17.1	19.7	19.9	...
State consumption (real)	% yoy	3.3	1.0	5.0	10.1	6.1	0.0	1.0	4.0	2.0	7.3	...
Gross fixed capital formation (real)	% yoy	18.4	6.5	4.6	12.9	-2.3	-0.5	0.2	0.3	8.2	10.4	...
Exports of goods and services (real)	% yoy	18.1	19.9	10.5	8.6	-0.6	-14.0	-12.7	-15.5	-19.9	-11.2	...
Imports of goods and services (real)	% yoy	13.8	7.3	6.7	7.8	2.8	3.2	3.9	-0.9	5.6	1.0	...
Agriculture, hunting, forestry (real)*	% yoy	-4.4	0.9	35.7	9.9	5.8	8.3	2.6	-7.4	4.1	2.9	...
Manufacturing industry (real)*	% yoy	23.9	16.3	12.5	9.4	7.0	1.8	-1.1	2.0	-2.9	5.4	...
Construction (real)*	% yoy	29.9	30.6	16.4	3.9	-8.4	-11.3	-8.5	-7.5	2.6	5.7	...
Trade, repair services (real)*	% yoy	23.6	35.0	2.7	13.7	-2.1	-10.7	-11.7	-11.9	4.1	14.7	...
Transport (real)*	% yoy	10.1	8.0	12.3	10.5	6.6	5.7	2.8	7.8	3.4	9.7	...
Balance of payments												
Current account balance	USD bn	1.4	2.3	2.1	1.1	1.6	0.6	0.4	-0.1	-0.7	-0.4	...
Current account balance	% of GDP	11.1	15.7	10.9	5.7	10.1	3.2	1.7	-0.4	-4.0	-0.2	...
Trade balance in goods	USD m	933	1552	774	482	1020	-236	-1131	-788	-1288	-876	...
Trade balance in services	USD m	133	198	749	157	188	392	1035	191	176	401	...
Current transfers	USD m	475	758	720	623	626	694	745	780	616	782	...
Direct investment (FDI)	USD m	333	614	420	344	247	365	477	6474	662	1410	...
Portfolio investments	USD m	449	149	1313	156	397	923	90	1347	0	-264	...
Gross international reserves	USD bn	7.9	9.6	12.1	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1
Fiscal indicators												
Consolidated fiscal revenues	% of GDP	27.2	26.9	26.3	25.9	32.1	35.1	31.5	31.0	35.3	34.7	38.1
Personal income tax	% of GDP	4.4	4.1	3.8	3.8	4.3	4.4	3.9	4.2	4.9	5.0	4.8
Enterprise profits tax	% of GDP	3.9	4.0	4.1	6.1	4.8	5.9	5.3	6.3	3.8	5.0	5.1
Value-added tax	% of GDP	6.2	5.7	5.1	4.1	8.6	9.2	7.9	7.3	10.4	10.1	11.6
Excise tax	% of GDP	2.1	2.1	2.0	1.8	2.0	2.0	2.0	1.7	2.0	1.8	1.8
Consolidated fiscal expenditures	% of GDP	25.3	26.5	26.8	35.2	28.3	36.4	28.1	41.7	35.0	36.1	35.2
Current expenditures	% of GDP	22.4	22.7	21.7	27.2	26.5	33.6	24.0	34.2	32.8	32.6	29.8
Capital expenditures	% of GDP	2.9	3.8	5.1	8.0	1.8	2.7	4.1	7.5	2.2	3.5	5.4
Consolidated fiscal balance	% of GDP	1.9	0.4	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	-1.2	2.1
Privatisation receipts	% of GDP	1.5	3.7	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1	0.1
Labour market												
Average wage (real)	% yoy	19.9	18.6	14.7	15.4	15.0	19.0	19.6	26.4	23.8	22.6	18.8
Household income (real)	% yoy	11.7	16.3	11.3	16.6	24.0	28.0	19.4	18.9	22.1	18.6	20.3
Unemployment rate (ILO methodology)	%	9.3	8.3	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.9	...
Banking system												
Monetary aggregate M0	% yoy cum	29.1	25.6	37.1	27.9	28.2	39.1	31.1	42.2	36.2	25.3	23.7
Monetary aggregate M2	% yoy cum	45.4	44.8	51.5	32.3	38.9	37.4	31.3	53.9	39.2	36.6	36.7
Household deposits in national currency	% yoy cum	69.4	67.3	67.9	26.2	28.3	31.6	30.4	90.8	54.6	41.1	39.7
Household deposits in foreign currency	% yoy cum	67.0	61.7	55.2	54.3	51.8	45.4	46.4	59.1	54.5	66.2	64.3
Com. bank credits in national currency	% yoy cum	56.8	52.1	44.3	29.4	28.3	32.6	43.4	58.7	59.8	53.7	49
Com. bank credits in foreign currency	% yoy cum	63.6	56.2	43.5	32.2	33.1	36.8	47.1	66.3	72.0	82.1	90.4
Long-term com. bank credits	% yoy cum	141.7	102.7	82.7	57.1	49.5	53.0	70.1	84.6	87.6	86.7	76.6
Long-term com. bank credits	% of total	47.4	49.3	50.9	54.2	54.4	56.1	59.7	61.8	63.1	63.4	63.5
Average lending rate on national cur. credits	% p.a.	17.2	16.6	17.0	17.6	17.0	15.4	15.4	16.4	15.8	15.5	14.6
Average lending rate on foreign cur. credits	% p.a.	12.2	12.1	12.6	12.2	12.1	11.0	11.3	11.7	11.5	11.3	11.3

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