

ICPS newsletter

Consensus forecast for Ukraine's economic development has been upgraded

The forecast indicator of real GDP growth in Ukraine, calculated quarterly as an average of the forecasts generated by top Ukrainian macroeconomic analysts, was reported for Q2'03 as 5.02% (2003) and 5.31% (2004). The forecasts improved thanks to higher than expected real GDP growth during the early months of 2003. However, these positive trends will be threatened by downgraded forecasts for the grain harvest and high inflation since the beginning of this year

The Ministry of Economy and European Integration of Ukraine, with sponsorship from the United Nations Development Programme (UNDP), recently held its regular seminar on macroeconomic forecasting. Experts from leading government and non-government research organisations, which analyse and forecast trends in Ukraine's economic development, presented and discussed their forecast values for major macroeconomic indicators of Ukraine's economy and the factors affecting them.

This time, seminar participants included experts from the Ministry of Economy of Ukraine, the Ministry of Finance of Ukraine, the National Bank of Ukraine, the Institute for Economic Forecasting of the National Academy of Sciences of Ukraine, the International Monetary Fund (IMF), the Institute for Economic Research and Policy Advice, and the International Centre for Policy Studies (ICPS), as well as ING Barings Ukraine, Dragon Capital, and Alpha&Co. Also presented at the seminar were the inaugural forecasts of the World Bank, the Economic Research Institute of the Ministry of Economy, and the GfK-USM company.

Changes since the previous forecast

The first four months of 2003 resulted in unexpectedly high economic growth in Ukraine, with GDP increasing by 7.1% since the beginning of the year, and industrial production by 11.4%; this prompted most experts to upgrade their 2003 forecasts for economic growth to 5% on average, against the 3.8%, forecasted in February. Nevertheless, ICPS experts believed that given the low forecasts for this year's harvest and the pronounced seasonal factor in Ukraine's economic growth, a

decline in the growth rate should be expected in Q3'03, and that overall GDP growth will reach only 4% by YE'03.

Most analysts expected inflation to escalate in 2003; compared to the previous quarter's forecast, the GDP deflator, the Consumer Price Index, and the Producer Price Index increased by 1.5 p.p. on average and now stand at 6.3%, 5.6%, and 6.8%, respectively. The 2004 forecast for inflation remained practically unchanged, at an average of 6.1%. Experts explained this year's high inflation by last year's price declines and instability in the grain market.

Despite the increased inflation, forecasts for the hryvnia exchange rate were upgraded; according to the experts' estimations, by YE'03 1 USD will be worth 5.4 UAH. The calculations were based on the expected improvement of the foreign trade situation, and thus on correspondingly enlarged NBU currency reserves. This trend was predicted to persist through 2004, and by YE'04 the hryvnia exchange rate was expected to be 5.49 UAH/USD.

For 2003–2004, experts predicted increased budget revenues and decreased deficits, down to 0.4% in both years. However, experts forecasted greater State Budget expenditure increases prior to the election in 2004.

Assumptions made by seminar participants

Among the key factors that will affect Ukraine's major macroeconomic indicators in the next two years, seminar participants most frequently named the following:

- In 2003–2004, foreign trade will be fostered by economic growth in Ukraine's major trading partners, the absence of

ICPS launches POLITICAL COMMENTARY

The International Centre for Policy Studies has launched a new monthly publication, **POLITICAL COMMENTARY**, which will present the results of its analysis of government policy and factors affecting it.

Despite the existing great number of publications, assessments, and surveys focusing on developments in Ukraine's politics, we judged that it was necessary for us to introduce this new product. Most opinions regarding political issues in Ukraine suffer either from the failure to understand that the path from being a part of a totalitarian subject to a modern democratic society takes time and effort and cannot be simple, or from disrespect for policy analysis standards and the use of "good-guy / bad-guy" stereotypes.

We hope in this publication to show that Ukraine is moving forward in its transformation process, and to assess current results by analysing government policy as well as the factors affecting it—relations with strategic partners, the battles by and between Ukrainian politicians, public reactions, the economic situation, etc.

We hope that **POLITICAL COMMENTARY** will help the international community to make more effective contributions to the level and direction of changes taking place in Ukraine, facilitate investor assessments of political risks, and allow Ukrainian politicians to improve the quality of their actions.

The inaugural issue of **POLITICAL COMMENTARY** is posted at the ICPS website, <http://www.icps.kiev.ua>

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significant external shocks, and demand for Ukrainian exports;

- It is expected that privatisation will proceed in the domestic sector,

particularly in energy, with increased production in export-oriented sectors and construction; simultaneously, a smaller grain harvest and declined investment activity prior to the presidential election will have a negative impact on Ukraine's economy;

- It is expected that monetary and credit policy in 2003 will become tighter in order to curb inflation, although in 2004 it will ease again with the approach of the presidential election; as well, expansion of

lending will persist, with an increased proportion of long-term loans;

- In 2004, tax reform is expected to be undertaken and, at the same time, state support for weak and unpromising enterprises will be withdrawn, while sectoral and professional benefits will be discontinued.

The experts believed that major threats to the Ukrainian economy will come from (1) worsening price conjunctures in the global ferrous metals and chemicals

markets; (2) the imposition of sanctions against Ukraine's exports; and (3) possible destabilisation of the domestic economy by the high inflation rate that has been observed since early 2003. ■

The International Centre for Policy Studies has been producing quarterly forecasts for Ukraine's economic development since 1997. For further information regarding ICPS forecasts, please contact Andrii Blinov at ablinov@icps.kiev.ua or by tel.: (38-044) 236-1292.

Table of macroeconomic forecast for 2003–2004

	Average value		Average value	
	2003	2004	2003	2004
Real sector	(mill UAH)		Exchange rate	UAH/USD
Nominal GDP	245,803	275,229	Average annual	5.37 5.46
Consumption	189,171	212,198	Year-end	5.40 5.49
private	137,790	158,198	Public finances*	(mill UAH)
public	50,446	52,995	Total revenues	65,867 71,814
Investment	47,026	54,608	Total expenditures	66,919 72,079
Gross accumulation of fixed capital	50,382	57,618	Overall balance	-849.4 -813.7
private	44,576	50,816	<i>Financing items</i>	469.9 -219.3
public	6,136	7,163	Privatisation	1,556 1,327
Net exports of goods and non-agency services	8,091	6,769	Domestic borrowing	430 1,053
Gross national savings	61,923	70,092	Foreign borrowing	606 842
Real sector	(index, year-over-year)		Public finances*	(% of GDP)
Real GDP	105.0	105.3	Total revenues	26.9 26.1
Consumption	105.0	105.9	Total expenditures	27.3 26.2
private	105.9	107.3	Overall balance	-0.4 -0.5
public	103.1	101.6	<i>Financing items</i>	0.2 -0.1
Investments	107.6	108.3	Privatisation	0.7 0.6
Gross national savings	105.0	103.47	Domestic borrowing	0.2 0.4
Inflation	(index)		Foreign borrowing	0.3 0.3
GDP Deflator (average annual)	106.3	106.2	Money and credit	(mill UAH)
CPI (average annual)	105.6	106.1	Monetary base, year-end	36,765 44,666
Dec. to previous Dec.	107.6	105.2	Dec. to previous Dec., %	22.6 22.0
PPI (average annual)	106.8	105.6	Money supply (M3), year-end	80,411 102,343
Dec. to previous Dec.	106.5	105.3	Dec. to previous Dec., %	30.0 27.8
External Sector	(mill USD)		Average weighted interest rate on commercial bank hryvnia loans, %	18.2 16.1
External Sector	2,369	1,872	NBU international reserves, mill. USD	5,309 6,050
Export volumes	24,507	25,710	Social indicators	(thousands of people)
Import volumes	23,088	24,635	Population	47,752 47,390
Revenues balance	-565	-583	% change over previous year,	-0.7 -0.7
Official transfers (net)	1,862	1,642	Number of employees enrolled in all sectors of economic activities, year-end	19,358 19,892
Capital account	-129	46	% change over previous year	-3.56 1.0
FDI	771	880	Number of registered unemployed, year-end	1,073 1,059
External Sector	(% of GDP)		registered unemployment, year-end, %	4.0 4.5
External Sector	5.1	3.4	Average wage, UAH	445.8 525.4
Export volumes	53.6	50.1		
Import volumes	52.4	52.2		
Revenues balance	-1.1	-1.0		
Official transfers (net)	4.1	3.3		
Capital account	-0.3	0.1		
FDI	1.7	1.7		

*IMF methodology

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The International Centre for Policy Studies is an independent research organisation whose mandate is to promote the introduction of public policy concepts and practices in Ukraine. This is achieved by increasing the know-how of key government officials for policy choices, formulation, and debate, and the awareness of the public-at-large of the benefits of policy.

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