

# ICPS newsletter<sup>®</sup>

## Consensus forecast from top analysts: Ukraine's GDP will grow 5.2% in 2006

***In 2005, the Ukrainian economy has been developing according to a scenario top economists were unable to predict. In 2005, GDP is now looking to grow 3.7% instead of the 8% expected in March 2005. In 2006, the economy is expected to pick up to 5.2%. During the forecast period, the country will see high inflation and imports will grow faster than exports. These are the results of a consensus forecast developed by 11 organizations that focus on the development of Ukraine's economy***

On 21 October 2005, economists from top think-tanks engaged in forecasting developments in Ukraine's economy met for the latest macroeconomic forecasting seminar organized by the Ministry of Economy with the support of the United Nations Development Program (UNDP). Indicators for this consensus forecast were determined as the average value of all forecasts provided by participating economists from government, non-government and international organizations.

### The current outlook

The consensus forecast developed in October 2005 was downgraded from the previous forecast produced in March 2005. The downsizing of forecast indicators for Ukraine's economy in 2005–2006 was the result of an unexpected slowdown in GDP growth throughout 2005. "The significant slowdown in economic growth has had a major impact on the expectations of experts, leading all participating organizations to substantially downgrade their outlooks," reads a statement from the Ministry of Economy. "The forecasters agreed that the external situation on global markets is deteriorating, which led to a poorer outlook for real GDP growth."

According to the organizers, the current economic situation looks thus: "Over nine months of 2005, real GDP grew only 2.8%, against 13.4% during the same period in 2004. Industrial output grew 3.2%, compared to 14.4% in 2004. A significant slowdown of exports of goods and a substantial increase in import volumes resulted in a negative balance of trade of US \$372.2mn versus a positive balance of US \$2,958.4mn in 2004."

### Downgraded forecast for 2005–2006

Overall, GDP should grow 3.7% in 2005. According to the consensus forecast for 2006, economic growth will reach 5.2% (see table). Over 12 months of 2005, the Consumer Price Index (CPI) is expected to rise 13.5%. By late 2006, this indicator should drop back to 10.2%. The Consolidated Budget deficit is expected to be 1.6% of GDP in 2005 and rise to 2.0% of GDP in 2006. Net exports have been declining steeply in 2005 compared with 2004 and, according to expert estimates, are likely to be in the red at UAH 3.354bn in 2006.

Most economists expect the official UAH/USD exchange rate to remain stable at an average of UAH 5.11/USD in 2005 and UAH 5.13/USD in 2006. Commercial loan rates, which shrank over 2005, will continue to go down in 2006. The average weighted loan rate offered by commercial banks will be around 16.1% in 2005 and 14.3% in 2006.

### Forecast assumptions and risks

These forecasts are based on four main assumptions:

- exports will continue to grow at a more sluggish pace than imports;
- GDP will largely grow due to domestic demand;
- inflation will remain above 10% as a result of anticipated increases in residential service rates and transportation rates after the Verkhovna Rada elections; and

- Ukraine will accede to the WTO in early 2006 at the latest.

According to experts, no major reduction in tax pressure can be expected during the forecast period. The majority of analysts expect the NBU to focus on curbing inflation.

The economists in this seminar expect global metal prices to continue to decline slowly, which will affect revenues from Ukrainian exports. However, some of them assume that growing competition from China on Asian markets will be compensated by the cancellation of quotas on metal deliveries to the European Union once Ukraine accedes to the WTO.

The most oft-quoted forecast risks were:

- significant deterioration on external markets;
- steep price hikes for Russian gas;
- political instability and populist policies in the run-up to the VR elections. ■

*This consensus forecast was based on data provided by the State Research Institute for Information Science and Economic Modeling, the Institute of Economic Research and Policy Consulting, the Institute for Economic Forecasting under the National Academy of Sciences, the Institute of Evolutionary Economics, the International Monetary Fund, the International Centre for Policy Studies, the Ministry of Economy, the Economic Research Institute, TOV Alfa and Co., Expert, a Ukrainian business journal, and CASE Ukraine.*

*For more detail on the materials from these quarterly macroeconomic forecasting seminars, visit the website of the Ministry of Economy at <http://me.kmu.gov.ua>, Economic Situation and Forecasts section (in Ukrainian). These regular consensus forecast seminars were launched in 2002.*

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