

ICPS newsletter[®]

Ukraine's economy will grow 8% in 2007

The latest issue of "Quarterly Predictions" is out in print, with ICPS's updated political and economic forecast for Ukraine for the next three years. According to the Centre's economists, Ukraine's economy will grow significantly in 2007, slowing to a more moderate pace in 2008. ICPS economists expect real GDP to grow 8% in 2007, 6% in 2008 and 6% in 2009

ICPS analysts have upgraded their forecast for real GDP growth in Ukraine by 1.5pp for 2007, based on a higher forecast for growth in private consumption and exports. Over 2008–2009, real GDP should grow 6% per annum.

Private consumption will continue to be the main driver of growth throughout the forecast period. ICPS analysts say that growth of private consumption over 2007, 2008 and 2009 will be 13.5%, 13%, and 14%. Continuing intensive increases in real salaries will be the main factor behind this growth, as they will rise 14–16% per annum. The high consumption rate will also be driven by a high inclination to purchase major household items and expanding consumer credit.

Growing consumption will be the main factor behind increased investment in sectors oriented on the consumer market. ICPS analysts expect investment activity to remain high throughout the forecast period. An important investment factor in industry will be growing energy efficiency in response to the growing cost of energy. Over 2007, 2008 and 2009, gross accumulation of fixed assets (GAFA) will grow 22%, 14% and 10%.

Over the forecast period, the contribution of foreign trade to GDP will remain negative. The pace of growth of exports will continue to be lower than that of imports, causing the trade deficit to continue to rise. ICPS economists expect the trade deficit to be 4.6% of GDP in

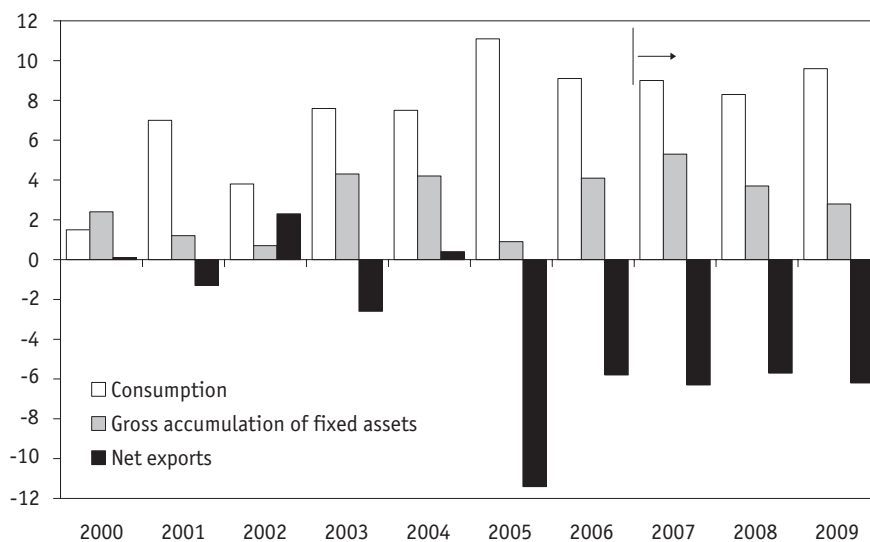
Government presents chapters evaluating Ukraine's potential and its realization

As part of the "Socio-Economic Performance and Potential Analysis Capacity" (SEPPAC) project, Government partners presented several chapters of a report called "Evaluating Ukraine's Potential and Its Realization" over 18–22 June 2007. These included their demographic forecast and an analysis of the main long-term demographic issues that Ukraine will face until 2050, a long-term forecast for potential GDP, and a long-term fiscal forecast based on the results of the previous two analyses.

Among active Government partners in this project are representatives of the Ministry of Economy, the Ministry of Finance, the National Bank of Ukraine, and Derzhkomstat, the state statistics committee. Afterwards, the main results of their work were discussed by those at the presentation. During this discussion, consultants from the Conference Board of Canada (CBoC) and a group of experts from ICPS made a number of recommendations regarding the methodology of the presented forecasts and shared their international experience in developing long-term economic and fiscal reports in Canada.

The goal of this project funded by the Canadian International Development Agency (CIDA) is to increase capacity among both Government and non-government entities to develop and analyze public policy using evaluations of the country's economic potential and the socio-economic impact of its realization.

Contribution of GDP components to real growth, pp



Source: Derzhkomstat; calculations and forecast by *quarterly predictions*

Key macroeconomic indicators

Years	2005	2006	2007	2008	2009
Indicator	estimate		forecast		
GDP, mn. UAH	441.5	537.7	668.3	789.2	903.1
GDP, apc, %*	2.7	7.1	8.0	6.0	6.0
Real industrial output, apc, %	3.1	6.2	8.5	5.0	5.0
Real agricultural output, acc, %	-0.1	0.4	3.0	4.0	3.0
Gross investment, % of GDP	22.0	24.0	26.7	28.1	29.1
Real gross fixed investment, apc, %	3.9	18.7	22.0	14.0	10.0
Real consumption, apc, %	15.7	11.9	11.6	10.9	12.3
Net FDI, mn USD	7,533	5,737	5,500	5,700	6,000
Real disposable household income, apc, %	23.9	13.4	14.5	13.5	14.5
Real retail trade, apc, %	23.4	25.3	22.0	18.0	18.5
Consumer price index, apc, %	10.3	11.6	9.5	8.0	6.0
Producer price index, apc, %	9.5	14.1	13.0	9.0	7.5
Population, mn	47.3	46.9	46.6	46.3	46.1
Average monthly real wages, apc, %	20.3	18.3	16.0	14.0	15.0
Unemployment rate (ILO methodology), %	7.2	6.7	6.4	6.2	6.1
Exports of goods and services, apc, %	7.5	13.2	14.9	11.8	10.4
Imports of goods and services, apc, %	20.4	22.0	19.7	17.5	15.3
Current account balance, % of GDP	2.9	-1.5	-3.5	-5.9	-8.1
Consolidated Budget balance, % of GDP	-1.8	-0.7	-1.8	-0.5	-1.1
Official exchange rate (average annual), UAH/USD	5.12	5.05	5.05	5.20	5.30

*apc = annual percentage change

Sources: Derzhkomstat (State Statistics Committee), National Bank of Ukraine, Ministry of Finance; calculations and forecast by **quarterly predictions**

Forecast risks

There are a number of risks that could prevent the actual growth pattern from matching the ICPS forecast:

- The development of a full-blown political crisis, particularly a second set of preterm elections to the Rada at the end of 2008 or beginning of 2009.
- Major fluctuations in world prices for steel and chemical products.
- Growing protectionist policies among Ukraine's main trading partners.
- A postponement of Ukraine's accession to the WTO until 2008 or even beyond the forecast period.
- An increase in the price of imported natural gas beyond US \$160/1,000 cu m in 2008 and above US \$170/1,000 cu m in 2009.
- The launch of major public investment projects over 2008–2009, which will push the pace of investment up.
- The failure to institute the accumulative system of pension insurance during the forecast period.
- A switch to targeting inflation and letting the hryvnia float.
- A further delay in increases for residential services rates to 2008.
- Government price controls on nonmonopoly markets.
- A devaluation of the US dollar to below US \$1.40/EUR in 2007. ■

ICPS economists have been providing regular forecasts for the economic development of Ukraine since 1997. These forecasts are updated quarterly and published in **quarterly predictions**. If you are interested in receiving this publication on a regular basis, contact Andriy Starynskiy at (380-44) 484-4410 or at marketing@icps.kiev.ua. For more information about economic forecasts, contact Oleksiy Blinov at (380-44) 484-4403 or at oblinov@icps.kiev.ua.

2007. Over 2008 and 2009, it will be 6.9% and 8.9%.

Exports of goods should grow 16%, 12%, and 10% over 2007, 2008 and 2009.

The main factor slowing down the pace of export growth will be a worsening situation on external markets for steel and fertilizers. Still, exports of machinery will continue to grow at a fast pace because of growing investment demand among Ukraine's key trading partners.

Over 2007, 2008 and 2009, imports of goods will grow 20%, 18% and 16%. The main factor behind this slowdown will be a slowdown in investment and shrinking physical volumes of imports of fuels as enterprises become more energy-efficient.

ICPS analysts expect the NBU to maintain a stable hryvnia exchange rate despite

the growing trade deficit. Over 2008, the hryvnia should be devaluated to the level of UAH 5.30/USD and the National Bank will maintain this rate throughout 2009 as well.

Despite low inflation figures at the start of the year, ICPS analysts say that the CPI will have grown 9.5% by the end of 2007. Over 2008 and 2009, consumer prices will grow 8% and 6%.

The ICPS forecast is that the tendency for the share of GDP redistributed through the Budget to rise, which was seen throughout 2005–2006, will be less noticeable over the forecast period. By the end of 2007, Consolidated Budget revenues will be 31.2% of GDP. Over 2008 and 2009, this indicator will increase to 31.8% and 32.4% of GDP.

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