

ICPS newsletter[®]

Economic forecast from ICPS

The latest issue of "Quarterly Predictions" is out in print this week, 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 8% in 2007 and 6% in 2008. In 2009–2010, real GDP will increase 5.5% per annum

During the forecast period, private consumption will continue to be the main growth driver. ICPS economists expect private consumption to grow 13% per annum over 2007–2008, slowing down to 11.5% in 2009 and 10% in 2010.

The key factor behind continuing rapid growth in private consumption will be intensive growth in real wages. In real terms, wages will grow 14% in 2007, 12% per annum over 2008–2009, and 10% in 2010.

While private consumption will gradually slow down, the role of investment in economic growth will grow stronger. Gross accumulation of fixed assets will grow 22% in 2007, 17% in 2008 and 14% in 2009. In 2010, with preparations for the 2012 European Football Championship underway, the downward trend in

investment growth will come to an end and investment will grow 15%.

ICPS economists expect external trade to slow down in H2'07. Exports will grow only 20% and imports will rise 25% for the year. Exports should then slow down to 15% in 2008, 12% in 2009 and 12% in 2010, mainly as global steel prices dip over 2008–2009. Imports will grow faster than exports throughout the forecast period: the value of imports will grow 20% in 2008, 17% in 2009 and 14% in 2010.

The dynamic development of the country's economy, growing capitalization of companies, and greater investor confidence in prospects for the Ukrainian market will lead to a powerful influx of foreign investment. ICPS economists expect Ukraine to receive US \$6.2bn in foreign direct investment (FDI) in 2007.

FDI in Ukraine will be around US \$5.7bn in 2008, US \$6.0bn in 2009 and US \$6.3bn in 2010.

ICPS economists have left their forecast for CPI growth over 2007 unchanged at 9.5%. During the forecast period, inflationary pressure will continue to be relatively high, with consumer prices growing 9% in 2008, 7.5% in 2009 and 6.5% in 2010.

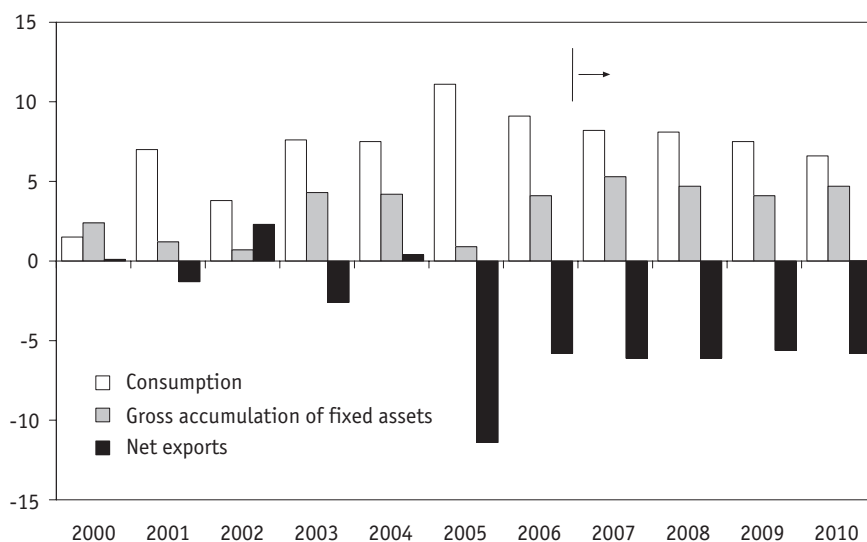
ICPS economists expect the NBU to implement a policy of maintaining the exchange rate throughout the forecast period. ICPS economists have changed their forecast for the exchange rate for 2008–2010, given an expected easing in pressure on the foreign currency market during this period.

Rapid economic growth will lead to a further drop in unemployment. ICPS economists expect the jobless rate to be 6.7% in 2007, slipping to 6.4% in 2008, 6.2% in 2009 and 5.9% in 2010.

Basic assumptions

- ICPS economists expect no major changes in the country's economic policy throughout the forecast period. The emphasis will be on the social aspects of the economic policy, disregarding such systemic problems as an unreformed residential services sector, education or healthcare.
- Over 2008–2009, global prices for steel will decline 10–15% per annum.
- The price of imported gas for Ukraine will be US \$150–160/1,000 cu m in 2008, US \$160–170/1,000 cu m in 2009 and US \$190–220/1,000 cu m in 2010.
- The Tax Code will be adopted in 2008 and will come into force in 2009. As a result, the VAT rate will go down to 18%, cut 1pp per annum over 2009–2010, while the tax rate for

Contribution of GDP components to real growth, pp



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

profits that are reinvested will be reduced by 5% to 20% starting in 2009. No new taxes, such as a property tax, will be introduced.

- VAT Odesa Port Plant will be sold to a foreign investor, with revenues from its sale coming in in 2008.
- Investment activity as a result of preparations for the 2012 European Football Championship will peak in 2010.
- The ban on selling farmland will be lifted effective 1 January 2009.
- In 2009, the second pillar of the pension system, the accumulation fund, will be launched.

Forecast risks

- The Tax Code is adopted in 2007 and comes into force in 2008.

- Global steel prices fall more than 25% per annum.
- Prices for nitrogen fertilizers fall because of a steep rise in global output.
- Ukraine's main trading partners become more protectionist.
- Ukraine's fails to accede to the WTO in 2008.
- The price for imported natural gas rises to the average EU level.
- The accumulative system of pension insurance is not introduced during the forecast period.
- The NBU switches to targeting inflation and lets the hryvnia float.
- Monetary policy priorities change significantly because of from shuffles among top NBU officials.

- The US dollar falls below US \$1.50/EUR in 2008. ■

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.

By the way...

On 21 September, ICPS Director Volodymyr Nikitin participated in a roundtable called "Non-Government Think-Tanks in Ukraine: A new stage of development or another cycle?" organized by the Razumkov Center with the support of the regional representative office of the Friedrich Naumann Foundation.

Over 10–21 September, experts from the Conference Board of Canada (CBoC) consulted Government employees who are working on the report called "Ukraine's Potential and Its Realization" as part of the "Socio-Economic Performance and Potential Analysis Capacity" (SEPPAC) project. The final documents, separately prepared by Government partners from the Ministry of Economy, the Ministry of Finance and the National Bank and by ICPS, are expected to come out in October.

ICPS senior economist Olga Romaniuk participated in a working seminar called "Gender Equality for Development and Peace" in Brussels over 10–13 September.

Over 5–7 September, ICPS Director for Political Analysis and Security Programs Viktor Chumak took part in the Economic Forum in Krynica, Poland. The Centre's expert participated in a panel called "Aspects and Dilemmas of European Migration" where he made a presentation called "Ukraine Launches Debate with the EU on Migration Policy."

Key macroeconomic indicators

Years	2006	2007	2008	2009	2010
Indicator	estimate	forecast			
GDP, mn UAH	537.7	667.6	797.7	931.2	1,097.7
GDP, apc, %*	7.1	8.0	6.0	5.5	5.5
Real industrial output, apc, %	6.2	9.0	7.0	6.5	6.0
Real agricultural output, acc, %	2.5	0.0	7.0	2.0	2.0
Gross investment, % of GDP	24.3	28.3	29.7	30.9	32.4
Real gross fixed investment, apc, %	18.7	22.0	17.0	14.0	15.0
Real consumption, apc, %	11.9	10.6	10.7	9.8	8.5
Net FDI, mn USD	5,737	6,200	5,700	6,000	6,300
Real disposable household income, apc, %	13.4	13.0	13.5	12.0	10.0
Real retail trade, apc, %	25.3	27.0	24.0	21.0	18.0
Consumer price index, apc, %	11.6	9.5	9.0	7.0	6.5
Producer price index, apc, %	14.1	16.0	10.0	8.5	7.5
Population, mn	46.9	46.6	46.2	45.9	45.6
Average monthly real wages, apc, %	18.3	14.0	14.0	12.0	12.0
Unemployment rate (ILO methodology), %	6.8	6.7	6.4	6.2	5.9
Exports of goods and services, apc, %	13.2	18.9	14.3	12.0	12.0
Imports of goods and services, apc, %	22.0	24.1	20.0	16.7	14.2
Current account balance, % of GDP	-1.5	-4.0	-6.3	-8.2	-8.8
Consolidated Budget balance, % of GDP	-0.7	-0.6	-1.9	-1.6	-1.3
Official exchange rate (average annual), UAH/USD	5.05	5.05	5.05	5.05	5.05

*apc = annual percentage change

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

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