

# ICPS newsletter<sup>®</sup>

## Consensus forecast: Inflation will ease off in H2'08

**On 28 June 2008, economists from the International Centre for Policy Studies participated in the latest quarterly macroeconomic forecasting seminar. During the event, various organizations presented their macroeconomic forecasts for 2008, 2009 and the medium term**

The goal of this seminar is to raise the quality of macroeconomic forecasts, to foster the exchange of information among participants, and to discuss the most urgent issues concerning current trends and forecast evaluations for Ukraine's socio-economic development. Consensus forecast indicators are defined as the average of all forecasts provided by the experts from state, non-government and international organizations who participate in the seminar. The organizer of these seminars is the Ministry of Economy of Ukraine with the support of the UN Development Programme (UNDP) under the "Millennium Development Goals" (MDG) project. Leading public and private sector organizations and think-tanks provide quarterly forecasts for the purpose of establishing a single consensus-forecast.

### 2008 Forecast

According to the Consensus Forecast seminar participants, Ukraine's economy will continue to grow in 2008 largely at the pace forecast in March, 106%. There are differences in the forecasts among participants, however, with the range of real GDP growth ranging from 3.7% to 7.3%. Participants say that Ukraine's economy could develop in a number of ways today, including both a possible crisis and the possible establishment of sustainable growth trends.

The assessment of real growth of investment and public consumption has remained practically unchanged from the previous consensus forecast, despite growing private consumption and the negative growth of net exports.

Compared to their March forecast, Participants increased both their assessment of the Consumer Price Index (December on December) by 7.4pp, to 121.5%, and the Producer Price Index (December on December) by 13.1pp to 130.5%.

Most of the economists expect prices to slow down their growth in H2'08. This will be caused by: growing food supplies both in Ukraine and in the rest of the world, growing competition on the domestic market, and the revaluation of the hryvnia.

Given the strengthening of the domestic currency in May of this year, most participants revised their forecast for the exchange rate. The consensus assessment of the hryvnia-dollar exchange rate was reduced from UAH 5.05/USD to UAH 4.96/USD for the end of this year.

Many analysts expect devaluation pressure on the hryvnia starting in Q4'08 because of the likelihood that the current account deficit will grow. As in earlier consensus forecasts, its average is expected to grow from "minus" the US \$8.5bn forecast in March to "minus" US \$13.0bn.

### 2009 Forecast

Because some analysts significantly downgraded their forecasts for economic growth, the consensus forecast for real GDP growth for 2009 slipped 0.5pp to 5.5% compared to March.

One aspect that saw considerable divergence among seminar participants was the components of economic growth. Some think that in 2009, as in 2008,

domestic demand, coupled with a negative contribution from external demand and low corporate investment activity, will have the greatest impact on economic growth.

According to analyst forecasts, 2009 will see a considerable inflow of foreign capital in Ukraine, which will be partly spurred by Ukraine's accession to the WTO and its preparation for the Euro-2012 Football Cup. The consensus figure for net FDI in 2009 is US \$11.6bn or 19.4% more than was forecast in March and 11.7% higher than the average for 2008.

The expert group agreed that the trend for export volumes to be lower than imports would continue. At the same time, the forecasters did not have a common position on what would happen with the balance of payments on current operations in 2009. Moreover, the consensus value for the consolidated balance of the balance of payment is currently negative and has grown compared to the previous assessment. This means that Ukraine will become a net creditor in 2009 according to these exports.

The average value for price indexes has grown compared to the March consensus forecast: the CPI has risen 2pp to 112.6%, while the PPI has risen 2.9pp to 116.3%, but most of the experts predicted that price growth would ease off in 2009 compared to 2008. ■

*More detailed information from the materials of the quarterly macro-economic forecasting seminar can be found on the Ministry of Economy website at [http://me.kmu.gov.ua/control/uk/publish/category/main?cat\\_id=73499](http://me.kmu.gov.ua/control/uk/publish/category/main?cat_id=73499).*

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## Macroeconomic forecast for 2008–2009

Index	2009			Index	2009		
	June 2008 Forecast	March 2008 Forecast	↔ Forecast		June 2008 Forecast	March 2007 Forecast	↔ Forecast
<b>Real sector</b>	<b>(mn UAH)</b>			Export volumes	41.8	42.9	↓ 42.3
Nominal GDP	954,644	907,946	↑, 1,184,405	Import volumes	-49.5	-48.6	↓ -51.7
Consumption	769,541	716,855	↑, 960,301	Revenue balance	-1.4	-1.3	↓ -1.4
private	597,014	551,208	↑, 742,901	Official transfers (net)	2.4	2.3	↑ 2.2
public	175,462	167,157	↑, 217,156	Capital account balance	7.7	5.8	↑ 8.4
Investment	258,394	240,807	↑, 342,683	FDI	5.4	5.3	↑ 4.9
Gross accumulation of fixed capital	262,543	243,136	↑ 344,931	<b>Обмінний курс</b>	<b>UAH/USD</b>		
private	226,263	206,923	↑, 293,333	average	4.93	5.04	↓ 5.00.
public	28,239	27,262	↑ 36,196	YE	4.96	5.05	↓ 5.07
Net export of goods and non: agency services	-73,514	-49,556	↓, -111,418	<b>Public finance</b>	<b>(mn UAH)</b>		
Gross national savings	214,902	210,874	↑, 274,802	Total revenues	309,533	294,362	↑ 386,446
<b>Real sector</b>	<b>(index, year-on-year)</b>			Total expenditures	322,932	310,535	↑ 405,464
Real GDP	106	106.1	↓ 105.5	Overall balance	-14,372	-16,173	↑ -19,690
Consumption	109.9	109	↑ 108.5	<i>Financing items</i>			
private	112.3	111.3	↑ 109.9	Privatization	6,961	13,091	↓ 8,811
public	103.5	103.6	↓ 103.4	<b>Public finance</b>	<b>(% of GDP)</b>		
Investment	112.2	112.2	= 112.5	Total revenues	32.4	32.4	= 32.6
<b>Inflation</b>	<b>(index, year-on-year)</b>			Total expenditures	33.8	34.2	↑ 34.2
GDP Deflator (average annual)	127.3	120.2	↑ 117.4	Overall balance	-1.4	-1.8	↑ -1.6
CPI (average annual)	125.5	118	↑ 114.6	<i>Financing items</i>			
Dec. on Dec.	121.5	114.1	↑ 112.6	Privatization	0.7	1.4	↓ 0.7
PPI (average annual)	133.1	120.8	↑ 121.7	<b>Money and credit</b>			
Dec. on Dec.	130.5	117.4	↑ 116.3	Monetary base (YE), mn UAH	183,225	182,100	↑ 228,028
<b>External Sector</b>	<b>(mn USD)</b>			Dec. on Dec., %	29.1	28.3	↑ 24.5
Current account balance	-13,018	-13,018	↓ -20,395	Money supply (M3) (YE)	517,934	521,188	↓ 635,860
Export volumes	81,042	81,042	↑ 100,342	Dec. on Dec., %	30.7	31.6	↓ 22.8
Import volumes	-95,905	-95,905	↓ -122,662	Average weighted interest rate on commercial hryvnia loans, % pa	16.9	14.1	↑ 15.4
Revenue balance	-2,808	-2,808	↑ -3,352	NBU international reserves, mn USD	34,737	36,480	↓ 34,492
Official transfers (net)	4,654	4,654	↑ 5,276	<b>Social indicators</b>			
Capital account balance	14,923	14,923	↑ 19,844	Population, millions	46.1	46.1	= 45.9
FDI	10,373	10,373	↑ 11,590	Average wage, UAH	1,886	1,826	↑ 2,480
<b>External Sector</b>	<b>(% of GDP)</b>			Disposable household income % change over previous year	13	12.2	↑ 10.1
Current account balance	-6.7	-4.7	↓ -8.6				

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