

ICPS newsletter®

Economists downgrade forecasts for 2009 considerably

On 2 April 2009, ICPS economists participated in the latest quarterly consensus seminar in macro-economic forecasting organized by the Ministry of Economy. Related ministries, business organizations and think-tanks discussed their expectations of economic growth over 2009–2010. Although they downgraded their forecasts for 2009, most economists expect the economy to turn around in 2010

In 2008, Ukraine's economy felt the impact of a worsening situation both at home and abroad. A world recession accompanied by rapidly shrinking demand and prices on commodities markets in H2'08 caused the domestic economy to go into a major slowdown, falling from 6.5% growth in H1'08 to 2.1% growth for the year.

2009 Forecast: Falling domestic demand

Given the current negative growth trends in Ukraine's economy, the seminar's experts downgraded their forecasts for 2009. Real GDP could fall as much as 15% in 2009, while the most optimistic forecast is for a 3.3% contraction. Thus, the consensus forecast is a 10.2% decline in GDP. In contrast to the previous consensus forecast, even the most optimistic economists see a decline in all components of domestic demand.

Analysts downgraded their assumptions about the foreign trade situation for Ukrainian exporters and expect a steeper decline in domestic consumer demand against declining real disposable incomes and a growing trend towards devaluation. The seminar participants considerably downsized their projections of the value of external trade compared to November. In addition, a large gap remained in the indicators for change in foreign trade. In short, some experts predict that exports of goods and services will grow 13.3% in 2009, while imports will go up

7%. Others predict that exports will drop and imports.

Most of the economists raised their expectations of price growth. This was mainly due to the continuing rise in residential rates for gas and power and other regulated services.

Along with this, the forecasters expect the conditions of the IMF Stand-by loan to be softened somewhat, possibly including a wider margin for the Budget deficit and the growth of the monetary base and the size of foreign reserves. But this only had an impact on the consensus indicators in the Budget sphere. Compared with the previous prognosis, the average indicator for the Budget deficit grew from UAH 6.2bn to UAH 30.2bn, the consensus indicators for the pace of growth of the monetary base shrank 6.6pp to 8.8%, and the indicator for the growth of foreign reserves fell 21.2% to US \$22.7bn.

2010 Forecast: Economic recovery

Considerable divergence was seen in the opinions of various seminar participants regarding how things would evolve with Ukraine's economy in 2010: forecasts ranged from a decline of 3% to 7.5% growth. Still, most experts agreed that economic recovery would begin, largely driven by a better situation on world markets for Ukraine's main export commodities—in particular a turnaround in prices on specific markets such as steel and

New! Economic forecast now available by subscription

As of April 2009, the ICPS team will be publishing a new periodical called **economic insight**. This will include macroeconomic forecasts for three years, a base of statistical data, and analysis of key forecast factors and risks.

For information on how to subscribe, contact Viktor Borysiuk by phone at (044) 484-4410 or via e-mail at vborysiuk@icps.kiev.ua.

chemicals—, and a recovery in the banking system.

The resulting consensus forecast for 2010 anticipates real GDP growth of 1.7%. Investment will play a major role in ensuring economic growth at a time when domestic consumer demand will continue to slip.

External demand should also pick up again in 2010. The pace of growth of imports will be lower than that of exports—10.7% vs 11.6%. The balance of payments will be positive in 2010, given economic forecasts regarding changes in the volume of foreign reserves and the inflow of foreign capital. ■

Materials prepared using the Ministry of Economy's publication: "Ukraine: Prospects for growth. Consensus forecast," April 2009 (http://www.me.gov.ua/control/uk/publish/category/main?cat_id=73499).

For additional information, contact ICPS Senior Economist Ildar Gazizullin by phone at (38044) 484-4400 or via e-mail at igazizullin@icps.kiev.ua

Macroeconomic consensus forecast for 2009–2010

Index	Forecast	
	2009	2010
	April 2009	
Real sector (mn UAH)		
Nominal GDP	1,017,401	1,197,470
Consumption	775,884	904,367
private	606,629	701,058
public	179,005	205,810
Investment	258,299	304,726
Gross accumulation of fixed capital	240,960	287,259
private	195,748	226,268
public	23,708	31,703
Net export of goods and services	-19,393	-13,153
Gross national savings	256,173	321,179
Real sector (index, year-on-year)		
Real GDP	89.8	101.7
Consumption	87.0	102.9
private	86.8	101.3
public	90.2	100.2
Investment	79.1	104.1
Inflation (index, year-on-year)		
GDP Deflator (average annual)	118.5	116.6
CPI (average annual)	119.4	114.6
CPI (Dec. on Dec.)	117.8	113.2
PPI (average annual)	110.4	116.5
PPI (Dec. on Dec.)	117.3	115.1
External sector (mn USD)		
Current account balance	-313	-219
Export volumes	62,113	71,753
Import volumes	-63,555	-73,278
Revenue balance	-2,158	-2,253
Official transfers (net)	3,286	3,559
Capital account balance	-4,546	3,675
FDI	5,216	7,154
External sector (% of GDP)		
Current account balance	-0.3	-0.2
Export volumes	53.7	54.5

Index	Forecast	
	2009	2010
	April 2009	
Import volumes	-54.9	-55.7
Revenue balance	-1.9	-1.7
Official transfers (net)	2.8	2.7
Capital account balance	-3.9	2.8
FDI	4.5	5.4
Exchange rate, UAH/USD		
Average	8.79	9.10
YE	9.49	9.43
Public finance (mn UAH)		
Total revenues	296,338	362,697
Total expenditures	325,854	385,408
Overall balance	-29,516	-21,798
<i>Financing items</i>		
Privatization	4,944	4,300
Public finance (% of GDP)		
Total revenues	29.1	30.3
Total expenditures	32.0	32.2
Overall balance	-2.9	-1.9
<i>Financing items</i>		
Privatization	0.5	0.4
Money and credit		
Monetary base (YE), mn UAH	202,958	233,059
Dec. on Dec., %	8.7	14.8
Money supply (M3) (YE), mn UAH	517,157	687,247
Dec. on Dec., %	10.7	20.3
Average weighted interest rate on commercial hryvnia loans, % pa	26.5	20.4
NBU international reserves, mn USD	22,691	25,284
Social indicators		
Population, millions	46.0	45.7
Disposable household income % change over previous year	-10.2	2.1
Average wage, UAH	1,986	2,349

icps newsletter is a weekly publication of the International Centre for Policy Studies, delivered by electronic mail. To be included in the distribution list, mail your request to: marketing@icps.kiev.ua.

icps newsletter editor: Olga Lvova (olvova@icps.kiev.ua)
 Phone: (380-44) 484-44-00. Fax: (380-44) 484-44-02
 English text editor: L.A. Wolanskyj
 Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies is an independent research organization 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.

Address: vul. Pymonenka 13A, Kyiv, Ukraine 04050
 Web-site: <http://www.icps.com.ua/eng/>