

ICPS newsletter®

Consensus Forecast: Things will get better in 2010

What will the situation be with Ukraine's economy over this year and the following two? When will GDP stop contracting? When will consumer demand begin to pick up and what will wages be like? The answers to these questions were sought by ICPS economists along with their colleagues at the latest quarterly consensus seminar in macro-economic forecasting, organized by Ukraine's Ministry of Economy on 2 July 2009

2009: Ukraine's economy stabilizes

Ukraine's economy is currently in the process of stabilizing and the first signs of its gradual adaptation to external shocks are evident. Some experts even expect business activity to begin picking up again in H2'09.

In 2009, the pace of growth of prices will slow down. The restraining factors will remain to be contracting consumer demand as disposable incomes shrink and restricted access to consumer credit. At the same time, some economists say that inflationary processes will pick up as the cost of fuels continues to rise on the domestic market.

Given the crisis going on in the real sector, enterprises are likely to continue to reduce wages, increases and bonuses for employees and to place a significant portion of their workforce on forced leave.

In 2009, the negative impact of falling external demand on Ukraine's economy will also grow due to declining investment activity. The real decline of investment in 2009 could range from 12% to 42%. The main factor hampering investment in 2009 will be the lack of capital.

2010: Ukraine's economy revives

The main driver of economic growth will be the revival of external demand for commodities. Most economists

predict positive GDP growth for 2010, provided that the world economy picks up and those of Ukraine's key trading partners, along with an improvement on external markets for Ukraine's exporters.

The forecast group was unanimous about the likelihood that industrial inflation will pick up pace in 2010 compared to 2009 as world prices on commodities markets begin to pick up again and production costs grow.

Compared to the April consensus forecast, the participants at this seminar were much more positive about external trade activity. For instance, in April the group of economists predicted gloomily that export and import volumes would continue to fall for goods and services alike. In July the various organizations predict that, even according to the most pessimistic forecasts, exports should grow a minimum of 5.6% next year, while imports will inch up 0.1% at least. The most optimistic forecasts place export growth at 27.2%, with imports jumping 24.3%. ■

Materials prepared for the Ministry of Economy's publication, "Ukraine: Prospects for growth. Consensus forecast," July 2009, can be seen at http://me.kmu.gov.ua/control/uk/publish/category/main?cat_id=73499.

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Sweden's EU Presidency: A window of opportunity for Ukraine

Sweden's assumption of the EU presidency is positive for Ukraine, as the long-standing amity between the two countries has translated into Swedish support for Ukraine's European aspirations. Despite its size, the country is an important player within the EU, and its position toward Ukraine differs from those of most other EU Member States. Indeed, Sweden seeks neither to appease nor to irritate Russia, and therefore sees Ukraine as a partner in its own right rather than as an afterthought. In addition, the size of Swedish investment in Ukraine, combined with the country's economic significance, will ensure that Ukraine is an important part of any approach to dealing with the financial crisis – which Stockholm has made its top priority. Hence, while the new Eastern Partnership will not be the central preoccupation of its presidency, it is clear that the coming months will see Sweden seek to engage Ukraine in these matters.

With the Copenhagen climate summit drawing near and uncertainties about the reliability of Europe's gas supply persisting, climate change and energy security will also be central to the Swedish presidency. As the world's most energy-intensive economy and the key gateway for EU-bound Russian hydrocarbons, Ukraine will inevitably have a major role to play in confronting these challenges. Whether it manages to use this position to effect positive changes at home and engage fully with the EU and the rest of the international community remains, as ever, to be seen.

Macroeconomic consensus forecast for 2009–2010

Index	July 2009 Forecast	April 2009 Forecast	↔	2010 Forecast	Index	July 2009 Forecast	April 2009 Forecast	↔	2010 Forecast
Real sector (mn UAH)					Import volumes	-54.9	-54.9	=	-51.1
Nominal GDP	956,427	1,017,401	↓	1,117,992	Revenue balance	-1.9	-1.9	=	-1.6
Consumption	749,457	775,884	↓	867,846	Official transfers (net)	2.6	2.8	↓	2.5
private	581,079	606,629	↓	672,946	Capital account balance	-5.8	-3.9	↓	0.0
public	170,794	179,005	↓	192,334	FDI	3.8	4.5	↓	4.6
Investment	229,261	258,299	↓	269,466	Exchange rate UAH/USD				
Gross accumulation of fixed capital	225,387	240,960	↓	267,700	average	8.18	8.79	↓	8.46
private	177,169	195,748	↓	218,559	YE	8.95	9.49	↓	8.86
public	21,934	23,708	↓	28,699	Public finance (mn UAH)				
Net export of goods and services	-21,233	-19,393	↓	-17,388	Total revenues	280,711	296,338	↓	326,165
Gross national savings	221,653	256,173	↓	270,918	Total expenditures	318,982	325,854	↓	352,420
Real sector (index, year-on-year)					Overall balance	-39,624	-29,516	↓	-24,801
Real GDP	87.1	89.8	↓	101.9	<i>Financing items</i>				
Consumption	85.8	87.0	↓	102.0	Privatization	2,339	4,944	↑	3,600
private	86.0	86.8	↓	102.4	Public finance (% of GDP)				
public	89.5	90.2	↓	99.7	Total revenues	29.3	29.1	↑	29.2
Investment	74.6	79.1	↓	103.7	Total expenditures	33.4	32.0	↑	31.5
Inflation (index, year-on-year)					Overall balance	-4.0	-2.9	↓	-2.3
GDP Deflator (average annual)	116.3	118.5	↓	115.0	<i>Financing items</i>				
CPI (average annual)	117.8	119.4	↓	114.2	Privatization	0.2	0.5	↑	0.3
CPI (Dec. on Dec.)	116.5	117.8	↓	112.1	Money and credit				
PPI (average annual)	108.1	110.4	↓	115.4	Monetary base (YE), mn UAH	200,566	202,958	↓	232,409
PPI (Dec. on Dec.)S	113.3	117.3	↓	113.5	Dec. on Dec., %	7.4	8.7	↓	15.9
External sector (mn USD)					Money supply (M3) (YE)	529,524	517,157	↑	622,420
Current account balance	-963	-313	↓	60	Dec. on Dec., %	2.7	10.7	↓	17.5
Export volumes	57,182	62,113	↓	66,355	Average weighted interest rate on commercial hryvnia loans, % pa	23.0	26.5	↓	20.8
Import volumes	-58,933	-63,555	↑	-676,457	NBU international reserves, mn USD	24,911	22,691	↑	24,254
Revenue balance	-2,214	-2,158	↓	-2,113	Social indicators				
Official transfers (net)	3,002	3,286	↓	3,275	Population, millions	45.9	46.0	↓	45.6
Capital account balance	-6,807	-4,546	↓	55	Average wage, UAH	1,923	1,986	↓	2,213
FDI	4,463	5,216	↓	6,069	Disposable household income % change over previous year	-13.1	-10.2	↓	-13.5
External Sector (% of GDP)									
Current account balance	-963	-4313	↓	0.0					
Export volumes	48.9	53.7	↓	50.2					

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