

Quarterly Predictions

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EXECUTIVE SUMMARY

- Overview** Consistent economic policy and favourable conditions in foreign markets will promote economic recovery in Ukraine. Optimistic expectations on the part of businesses and households will stimulate demand. Growth, however, will be hindered by the lack of structural economic reforms. GDP will increase by 1% in 2000 and by 2.5% in 2001.
- Government** We anticipate that tax policy will be consistent in 2000–2001, which will allow receiving budget revenues of 26.5% of GDP this year and 26.8% of GDP in 2001. We forecast that the budget will be executed with a surplus, amounting to 0.4% of GDP this year and 0.7% of GDP in 2001.
- Monetary** Monetary stability will be maintained under the conditions of renewed collaboration with international financial organisations, partial restructuring of foreign debts, and strict budget policy. The hryvnia will depreciate by 21% this year, to 6.3 UAH/USD, and by 13% in 2001, to 7.1 UAH/USD. The increase in money supply will decelerate to 19–21%.
- Prices** Inflation in the consumer market will amount to 17% in 2000; in 2001, due to slower depreciation and a less rapid increase in money supply, inflation will not exceed 11%.
- External** Trade turnover, having reached a minimum in 1999, will grow during 2000–2001. In 2000, the positive current account balance will shrink to \$550 million. In 2001, the current account balance will decline to \$180 million, as a result of a more rapid increase in merchandise imports.
- Business** Increased foreign and domestic demand, and improved business conditions will ensure robust growth of output despite the low productivity of unrestructured enterprises. The pace of increase in industrial output will slow down to 2% in 2000 and to 3% in 2001.
- Agriculture** We anticipate that more effective owners will start managing farms this year. Accordingly, agricultural output will increase by 1%. In 2001, the increase will accelerate to 2.5%, due to the completion of collective farm reorganisation, improved performance, and the removal of strict government control over the sales of agricultural produce.
- Privatisation** Over the next two years, budget revenues from privatisation, including the sale of Ukrtelekom and privatisation of electricity companies, will amount to 6 billion hryvnias. In 2000–2001, stock prices will increase.
- Labour** Reviving economic activity and higher labour productivity will encourage an increase in real wages. Official unemployment will increase to 9% in 2001.
- Households** During 2000–2001, real household disposable income and consumption will grow by 5%, thanks to a real wage increase and higher incomes from entrepreneurial activities.
- International** World GDP growth will be 4% in 2000 and 3.8% in 2001.

MAJOR INDICATORS

	1994	1995	1996	1997	1998	1999 (est.)	2000 (forecast)	2001 (forecast)
Economic activities								
GDP, millions UAH	12038	54516	81519	93365	102593	127126	157200	180100
Real GDP, <i>apc</i> *	-22.9	-12.2	-10.0	-3.0	-1.9	-0.4	1.0	2.5
Real industrial production, <i>apc</i>	-27.3	-12.0	-5.1	-1.8	-1.5	4.3	2.0	3.0
Real agricultural output, <i>apc</i>	-16.5	-3.6	-9.5	-1.9	-9.8	-5.7	1.0	2.5
Gross investment, % of GDP	35.3	26.7	22.7	21.5	20.7	19.8	19.9	20.9
Direct investment, millions USD (1)	151	257	526	681	747	437	700	900
Real household disposable income, <i>apc</i>	-33.8	-6.3	-12.3	5.1	-5.8	1.2	1.0	4.0
Real retail turnover, <i>apc</i>	-8.2	-4.3	-11.1	8.2	-3.5	-4.8	3.5	7.0
Prices								
Consumer price index, <i>apc</i>	401	182	40	10	20	19	17	11
Producer price index, <i>apc</i>	600	177	17	5	35	16	18	13
Labour market								
Population, millions	51.7	51.5	51.1	50.5	50.1	49.8	49.4	49.1
Real wage, average <i>apc</i>	10.7	9.2	-2.5	-0.4	-2.8	-5.7	1.0	1.5
Official unemployment rate, %	0.3	0.5	1.3	2.3	3.7	4.3	6.0	9.0
Foreign economic activities (1)								
Exports of goods&services, <i>apc</i>	—	2.7	19.1	0.0	-13.4	-9.5	3.1	4.2
Imports of goods&services, <i>apc</i>	—	2.9	17.1	-1.1	-17.0	-21.3	4.3	5.8
Current account balance, % of GDP	-5.0	-3.2	-2.7	-2.7	-3.0	2.6	2.1	0.7
Budget								
Revenues, % of GDP	36.0	30.3	28.2	30.1	28.2	25.7	26.5	26.8
Current deficit, % of GDP	9.3	6.8	4.9	6.8	2.1	1.5	-0.4	-0.7
Primary deficit, % of GDP (2)	8.6	2.2	1.9	3.6	-0.2	-0.8	-3.7	-3.7
Monetary indicators								
Monetary base, <i>apc</i>	500	132	38	45	22	39	18	14
M3, <i>apc</i>	600	113	35	34	25	40	21	19
NBU international reserves, millions USD	664	1069	1972	2359	793	1160	1450	1750
Official exchange rate at year end, UAH/USD	1.04	1.79	1.89	1.90	3.43	5.21	6.3	7.1
Weighted interest rate on loans, yearly % (3)	202	107	77	49	55	55	48	38
International								
World GDP, <i>apc</i>	4.0	3.8	4.3	4.2	2.5	3.0	4.0	3.8
GDP of Ukraine's major trading partners (2/3 of exports), <i>apc</i>	-3.7	0.6	1.4	0.8	1.3	3.0	3.1	3.2

* *apc* = annual percent change

Notes: (1) according to the NBU
(2) calculated as current deficit minus foreign debt servicing
(3) commercial bank loans, hryvnias

Source: State Statistics Committee, NBU, Finance Ministry; calculations and forecast by Quarterly Predictions.