

Ukraine: current economic situation and outlook

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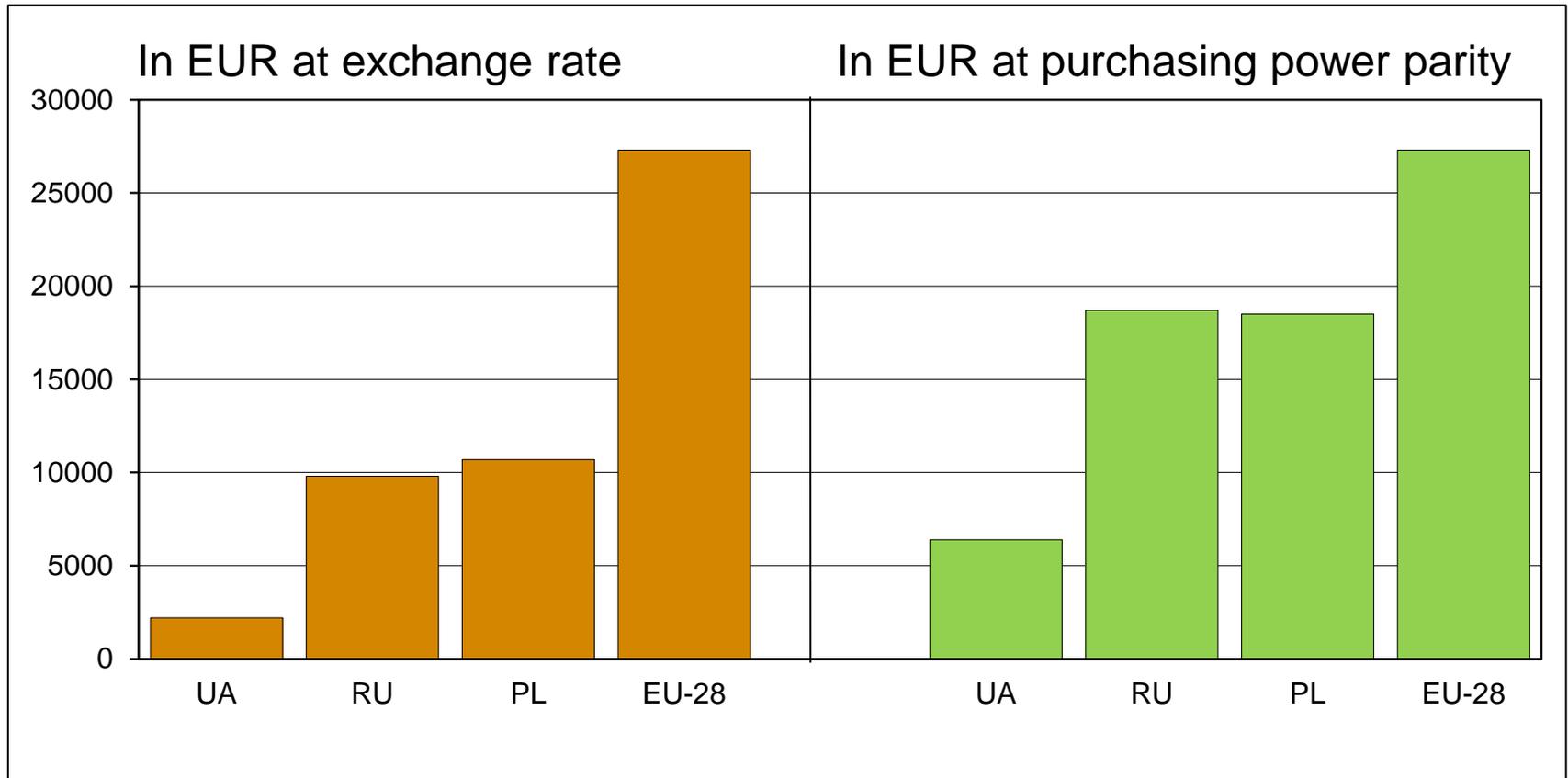
Ukraine: Key indicators (2014)

Population (million)	43 (w/o Crimea)
GDP (EUR billion)	100
GDP growth (%)	-6.8
GDP at constant prices, 1990=100	64.5
GDP per capita (EUR, PPP)	6,500
Unemployment rate, LFS (%)	9.3
Budget deficit (% GDP)	-4.6*
Public debt (% GDP)	70
Exports (EUR billion)	38
Imports (EUR billion)	44
Current account (% GDP)	-4.0
Gross external debt (% GDP)	104

* Excluding quasi-fiscal items such as energy subsidies, transfers to Pension Fund, and bank recapitalisation costs.

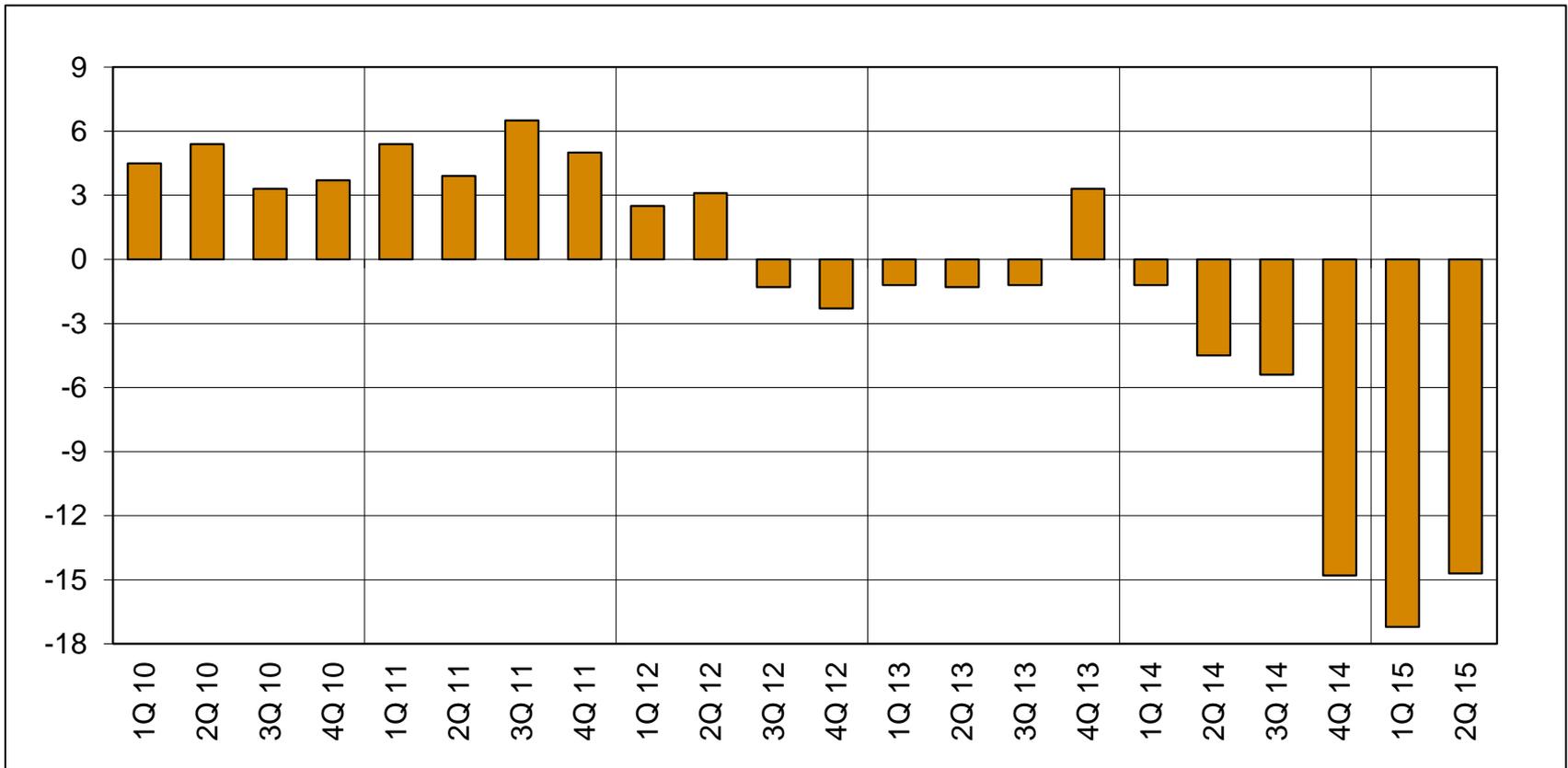
Ukraine now the second poorest country in Europe

GDP per capita in 2014



Deep recession

real GDP growth, year-on-year change in %

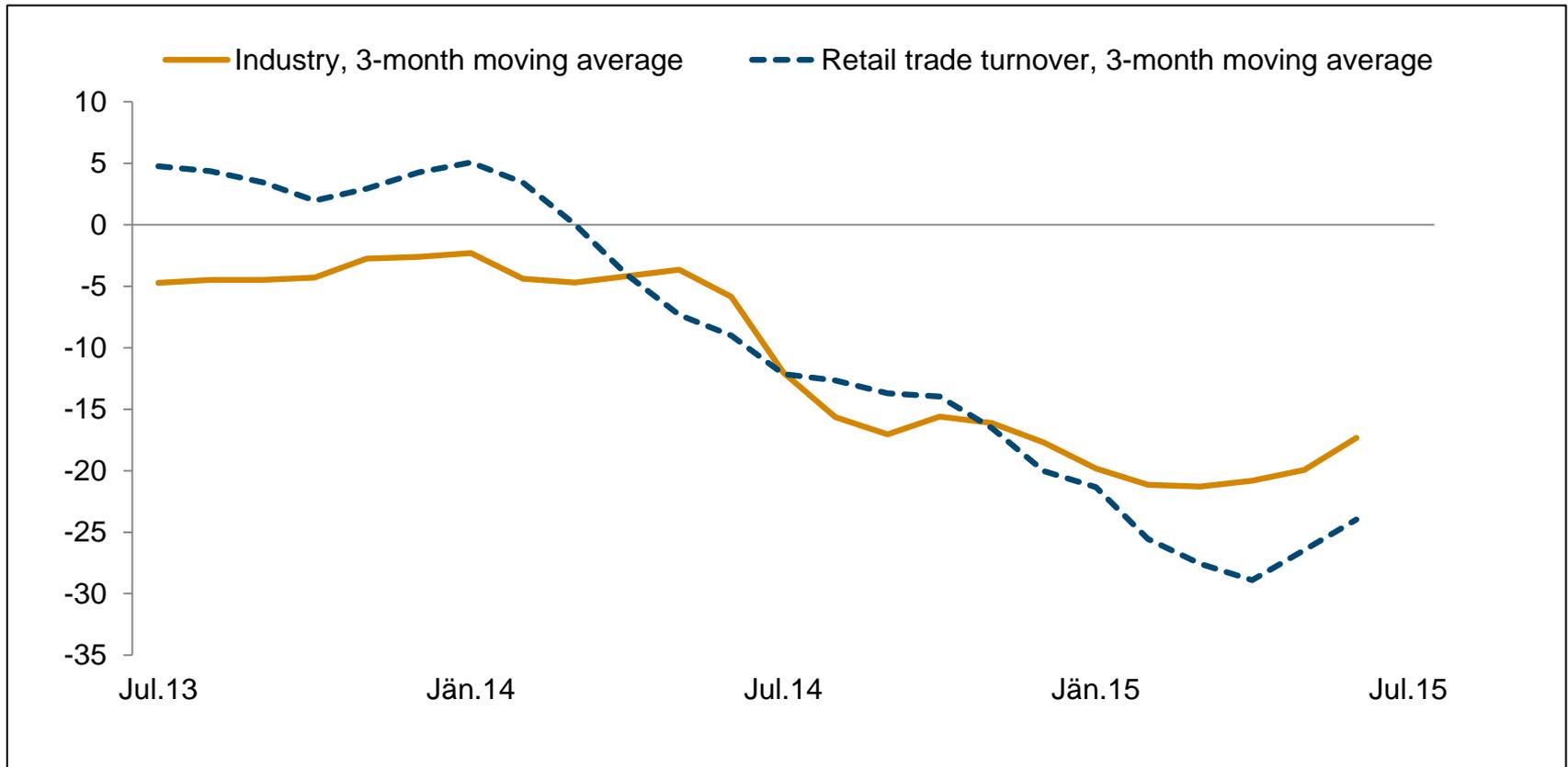


Note: From 2014 without Crimea and from 2015 without Crimea and parts of Donbass.

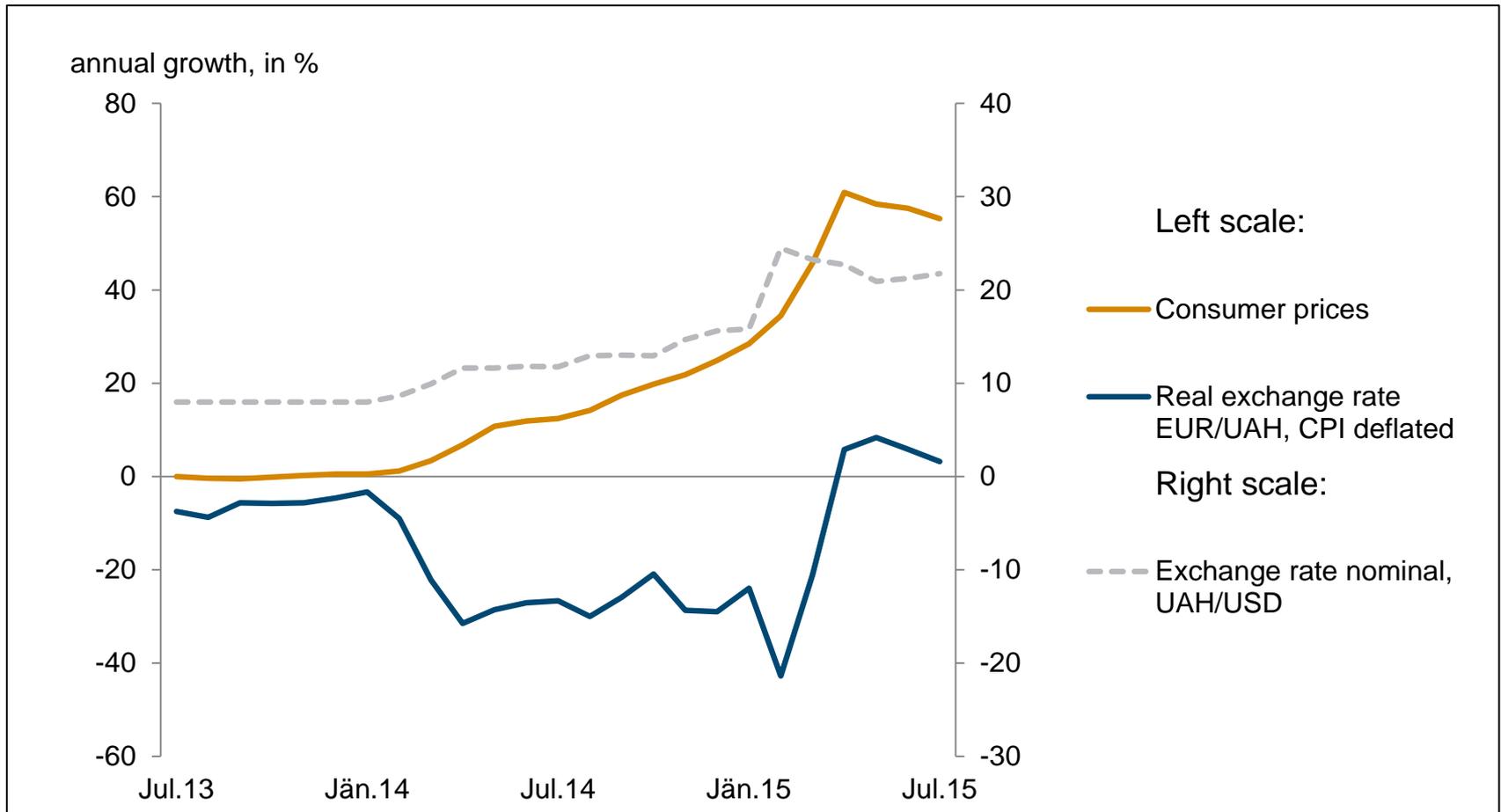
Source: State Statistics Service of Ukraine.

Industrial production and retail trade turnover

annual growth rate in %

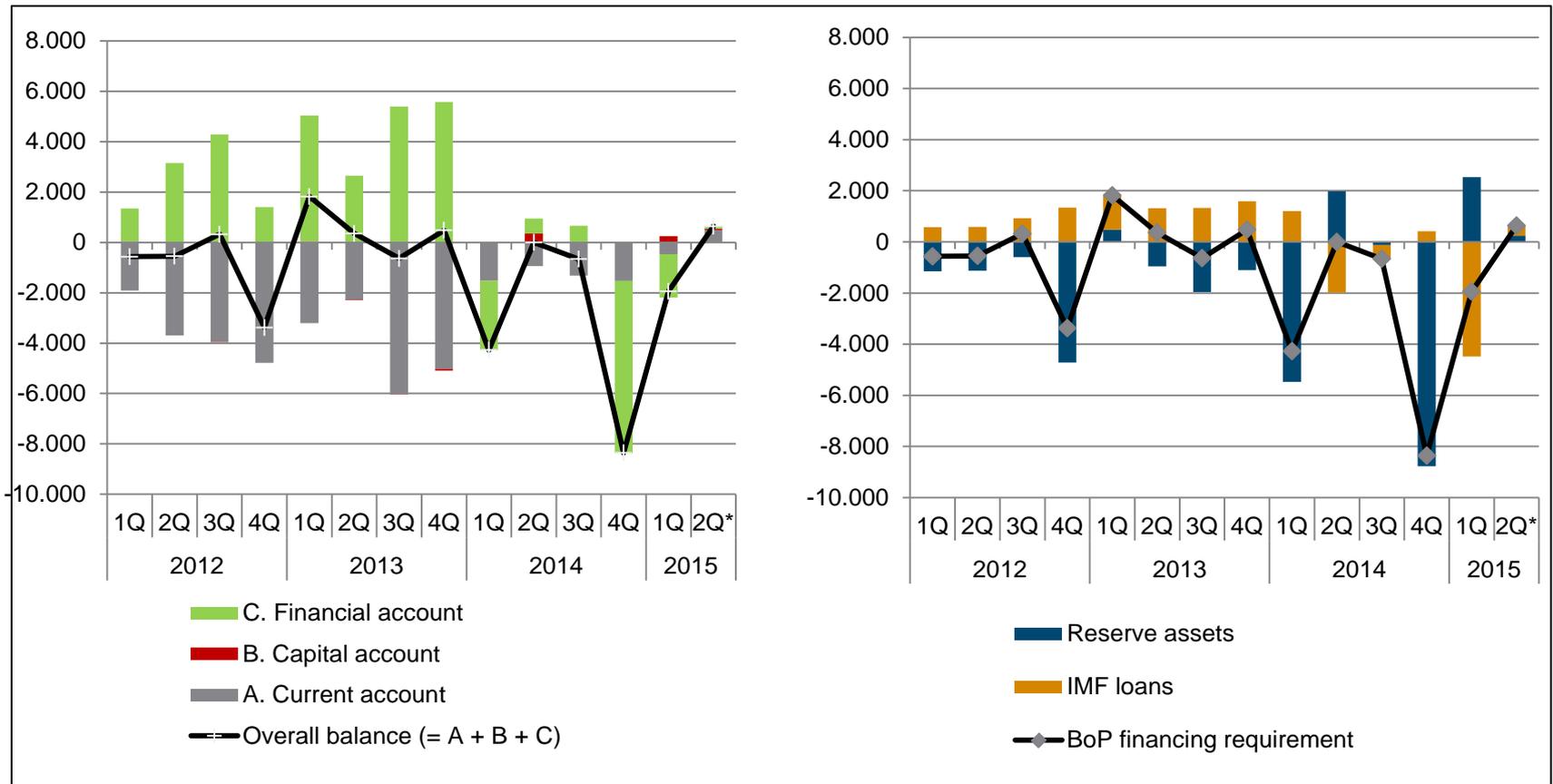


Currency depreciation fuelled inflation ...



... but helped reduce external imbalances

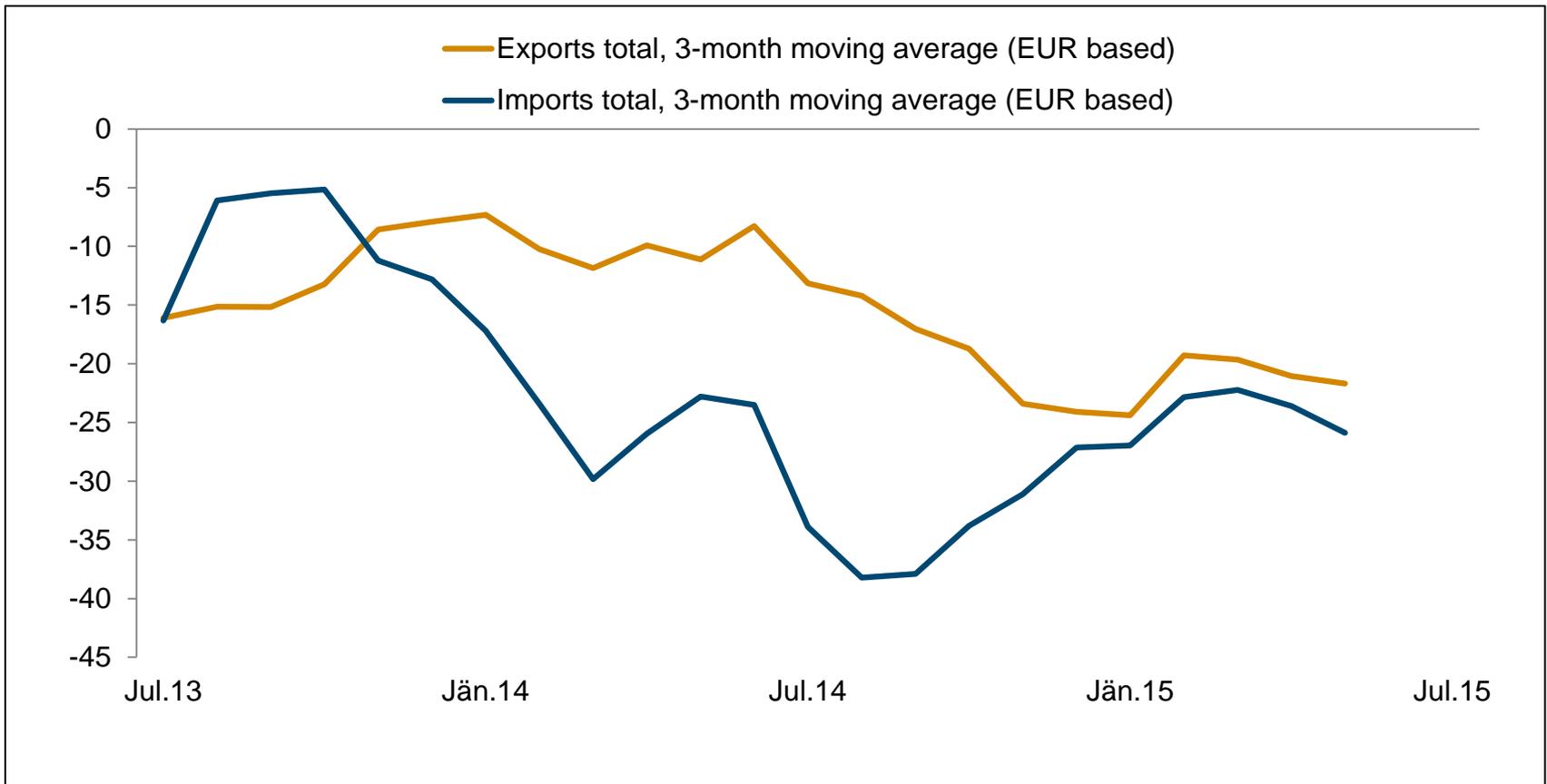
USD million



Source: National Bank of Ukraine.

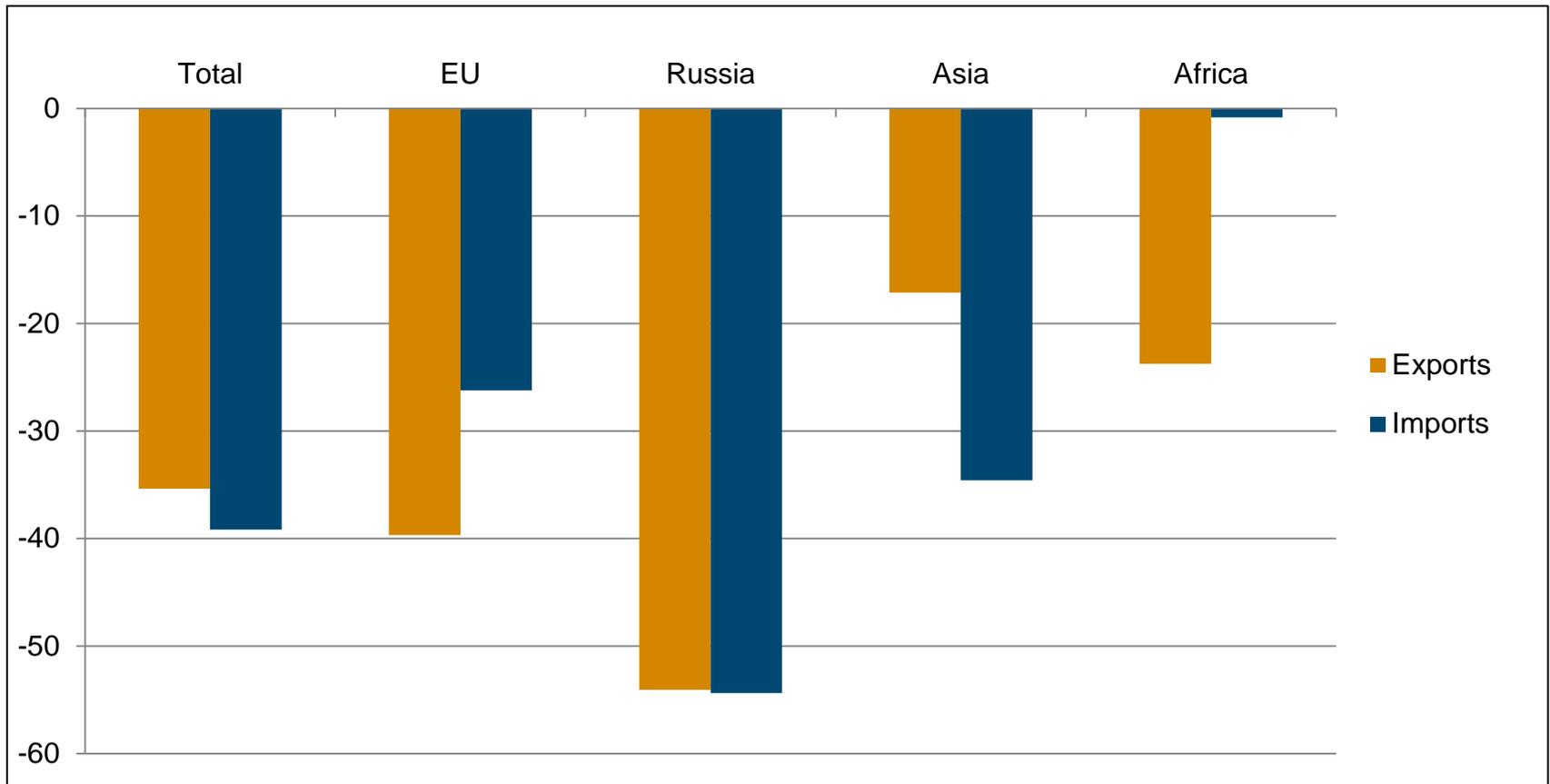
Foreign trade in free fall

annual growth rate in %

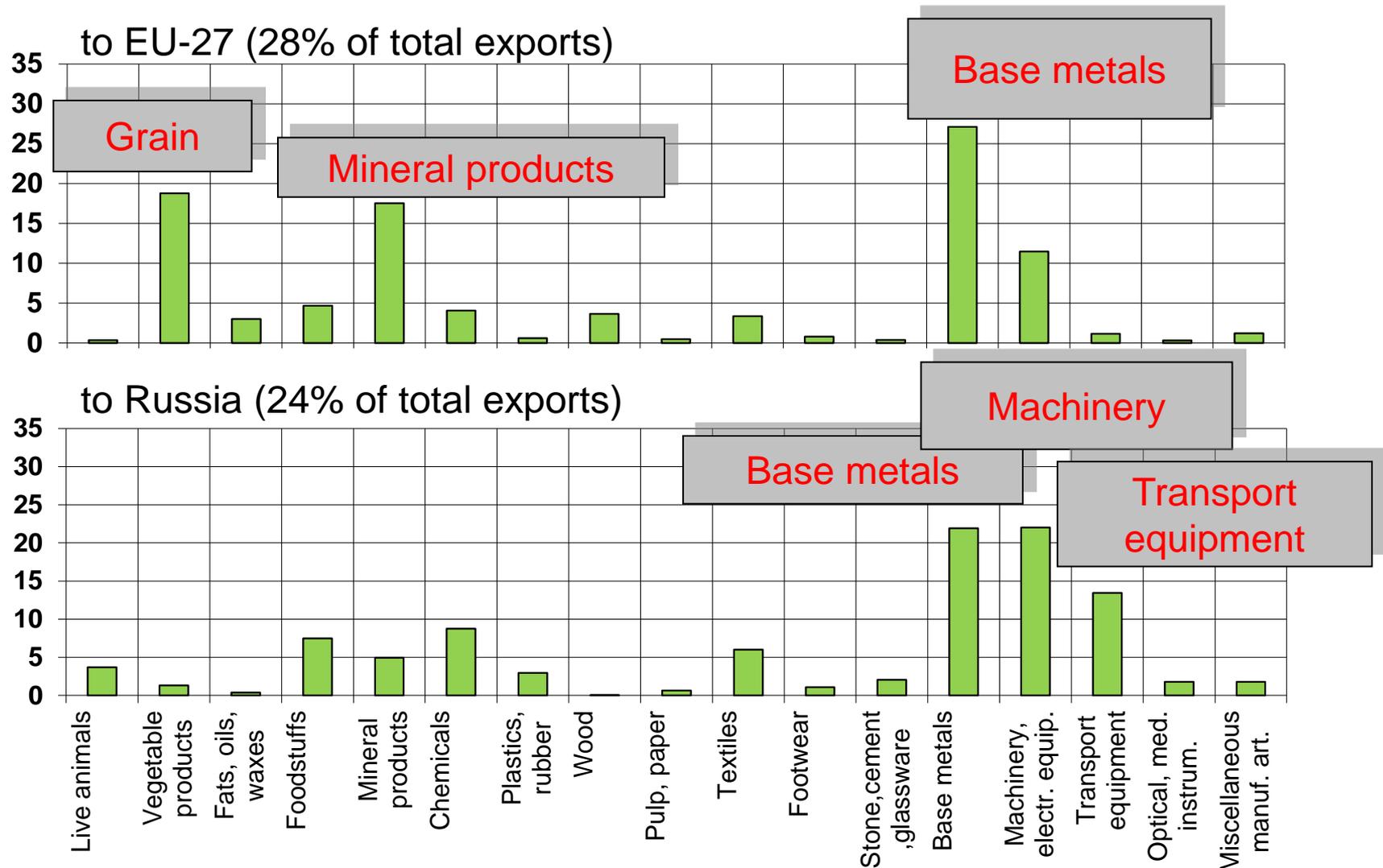


Dramatic drop in trade with Russia

Merchandise trade in January-June 2015, yoy change in % (in USD terms)



Structure of Ukraine's exports in 2013, in %

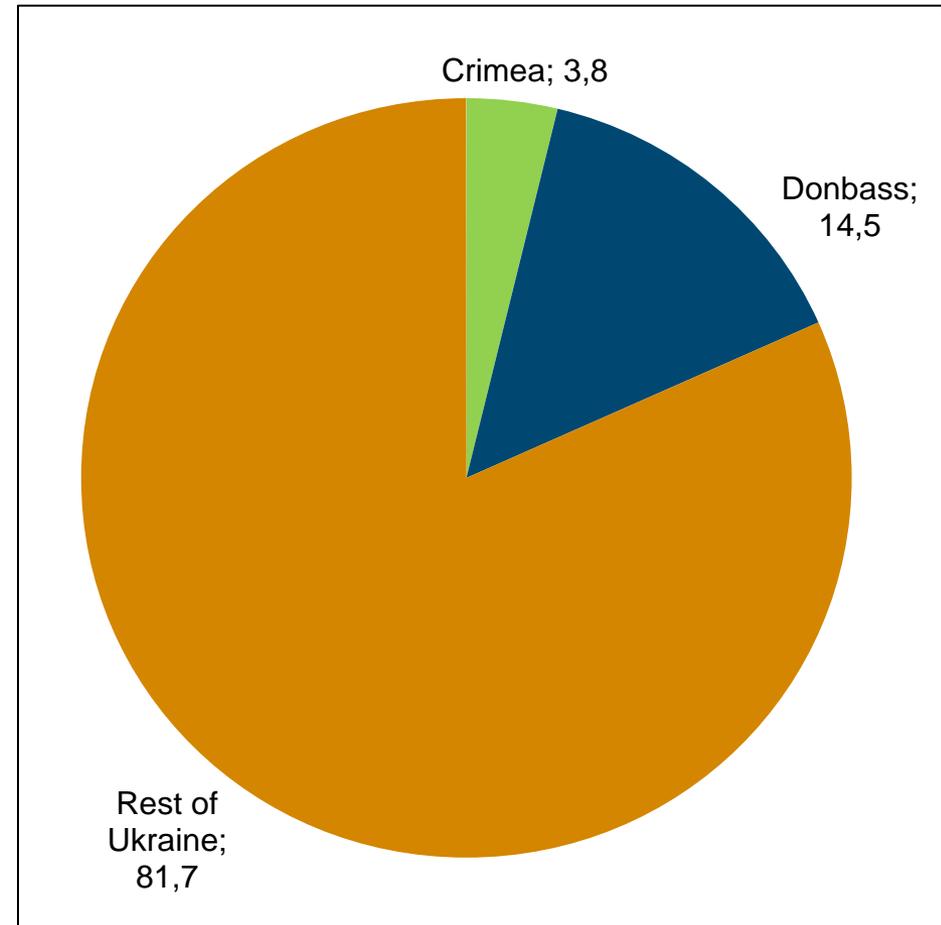


Source: Own calculations based on State Statistics Service of Ukraine data.

Gross regional product

2013, in % of total

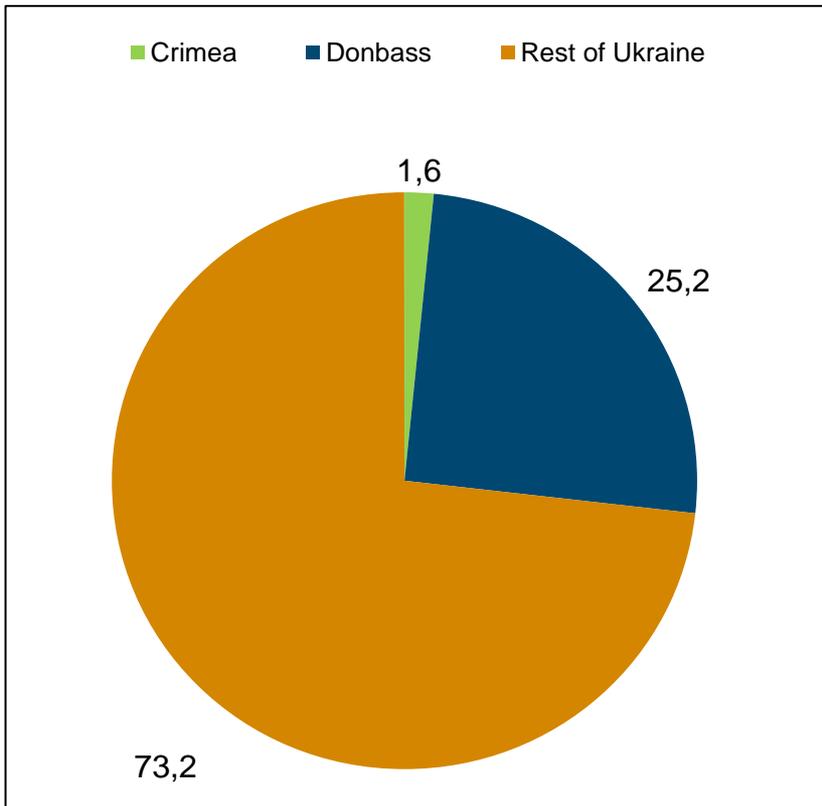
- the role of Crimea is modest
- but Donbass:
 - 14.5% of Ukraine's GDP
 - 6.5 million population
 - home to coal-mining and metallurgy



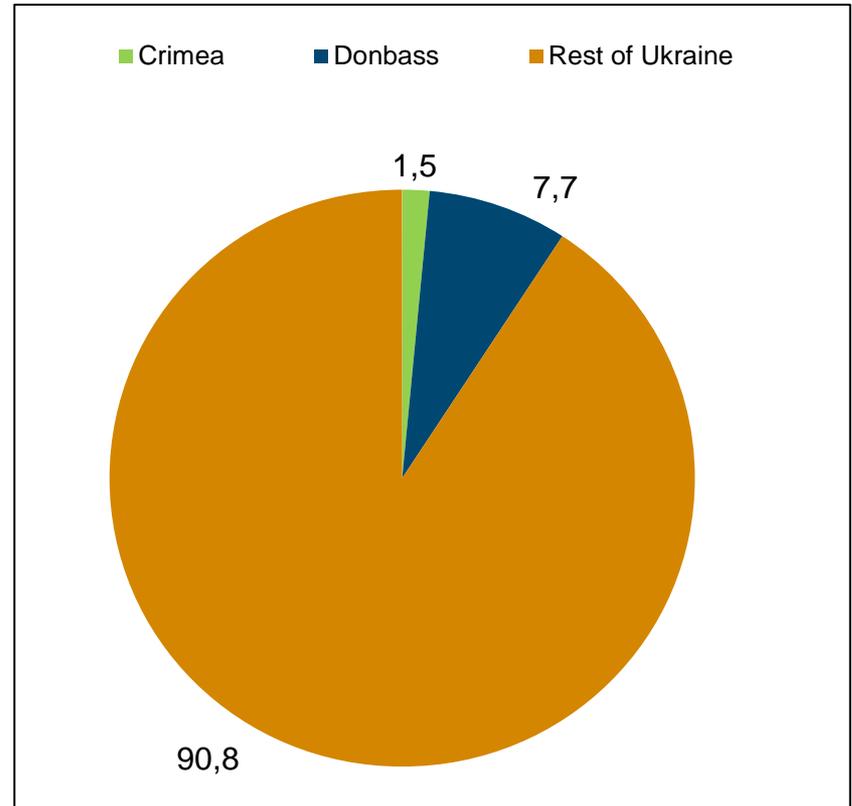
Foreign trade by region

2013, in % of total

Exports of goods



Imports of goods



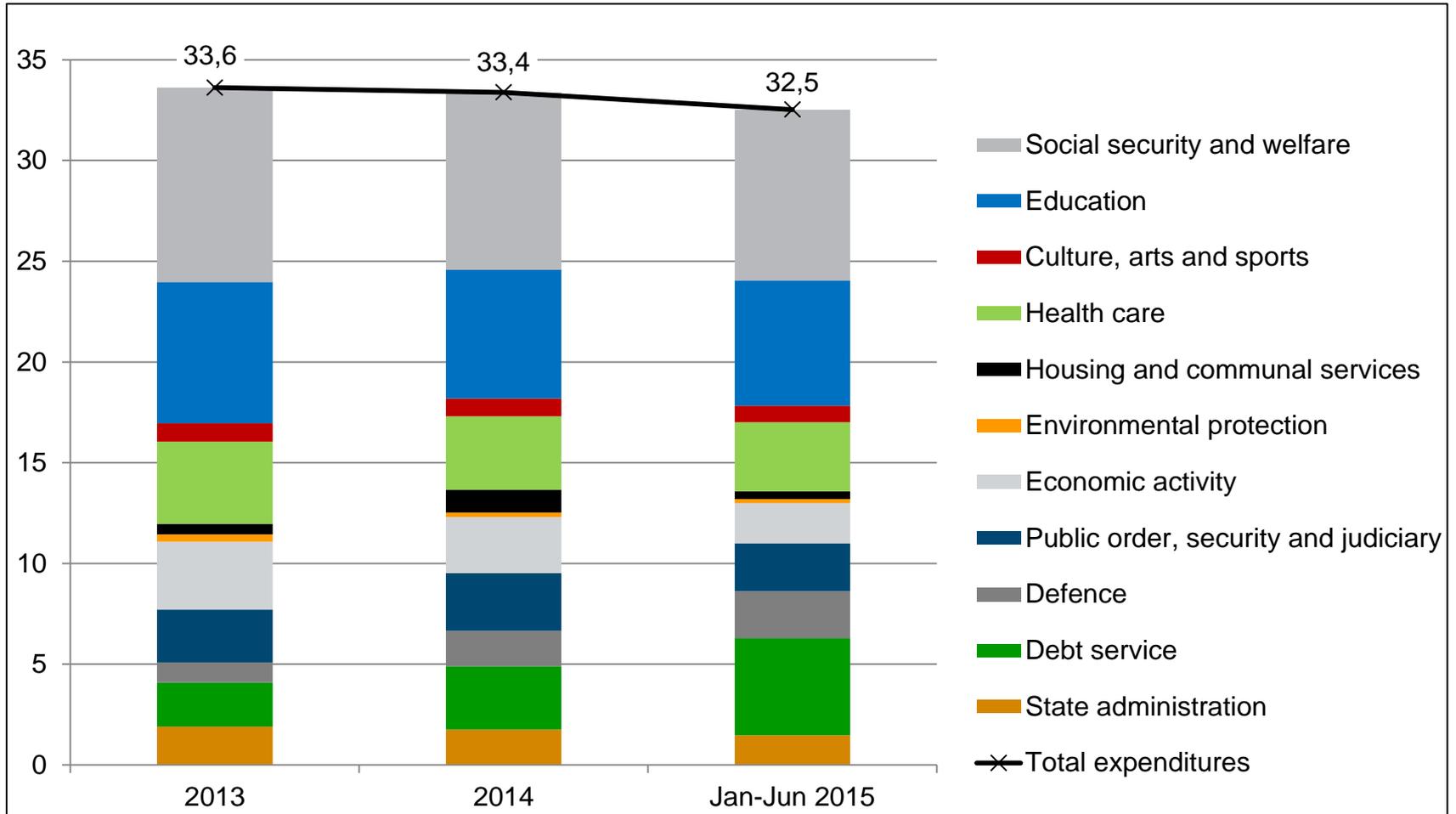
Economic costs of the war in Donbass

- Economic damage to the tune of \$10 billion (8% of GDP)
- Conflict reduced Ukraine's GDP by 2.5 pp in 2014
 - 1.9 pp decline in Donbas + 0.6 pp contagion effects
- Industrial production in January-July 2015 dropped by
 - 48% in Donetsk and 84% in Luhansk (areas under Kyiv's control)
 - largely on account of power cuts and railway disruptions
- Some 2 million refugees (1/3 of Donbas population)
 - 1 million 'internally displaced' in other parts of Ukraine
 - 1 million emigrated, mostly to Russia

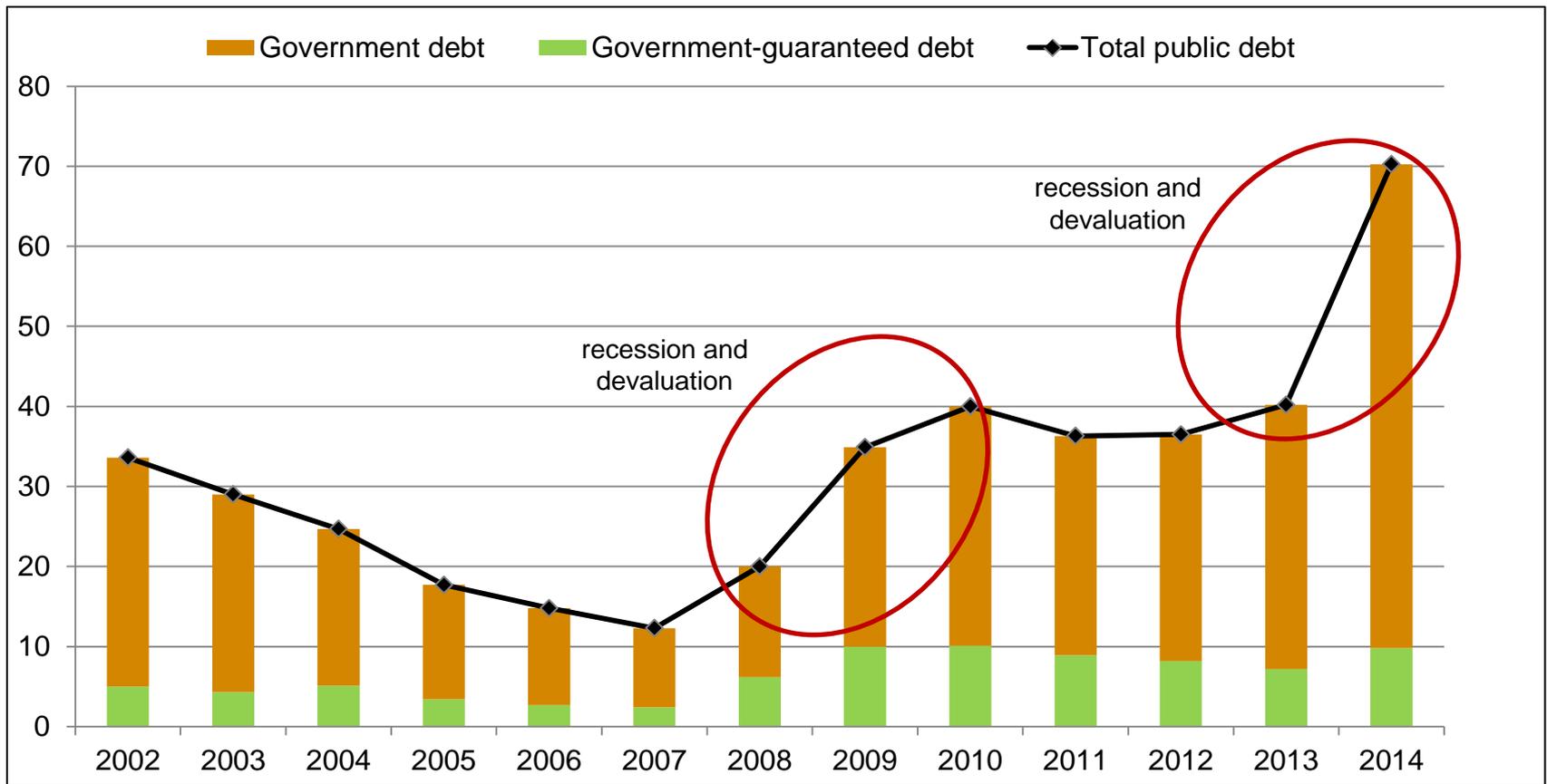
IMF-imposed budget austerity

- Even keeping budget deficit constant at ~4% of GDP requires a sizeable consolidation effort during recession
- 2015: required fiscal consolidation by 7.4 pp of GDP (without energy sector)
 - 3.3 pp of GDP higher budget revenues
 - 4.1 pp of GDP cuts in expenditures (inflation helps!)
- Plus: reduction of energy subsidies by 2.6 pp of GDP
 - 3-5 times (!) gas tariff hikes for households in April 2015
- **Consolidated** deficit to be cut to 8.8% of GDP (from 13.5% last year)
- Is deep recession the right moment for budget austerity?

Budget expenditures, as % of GDP

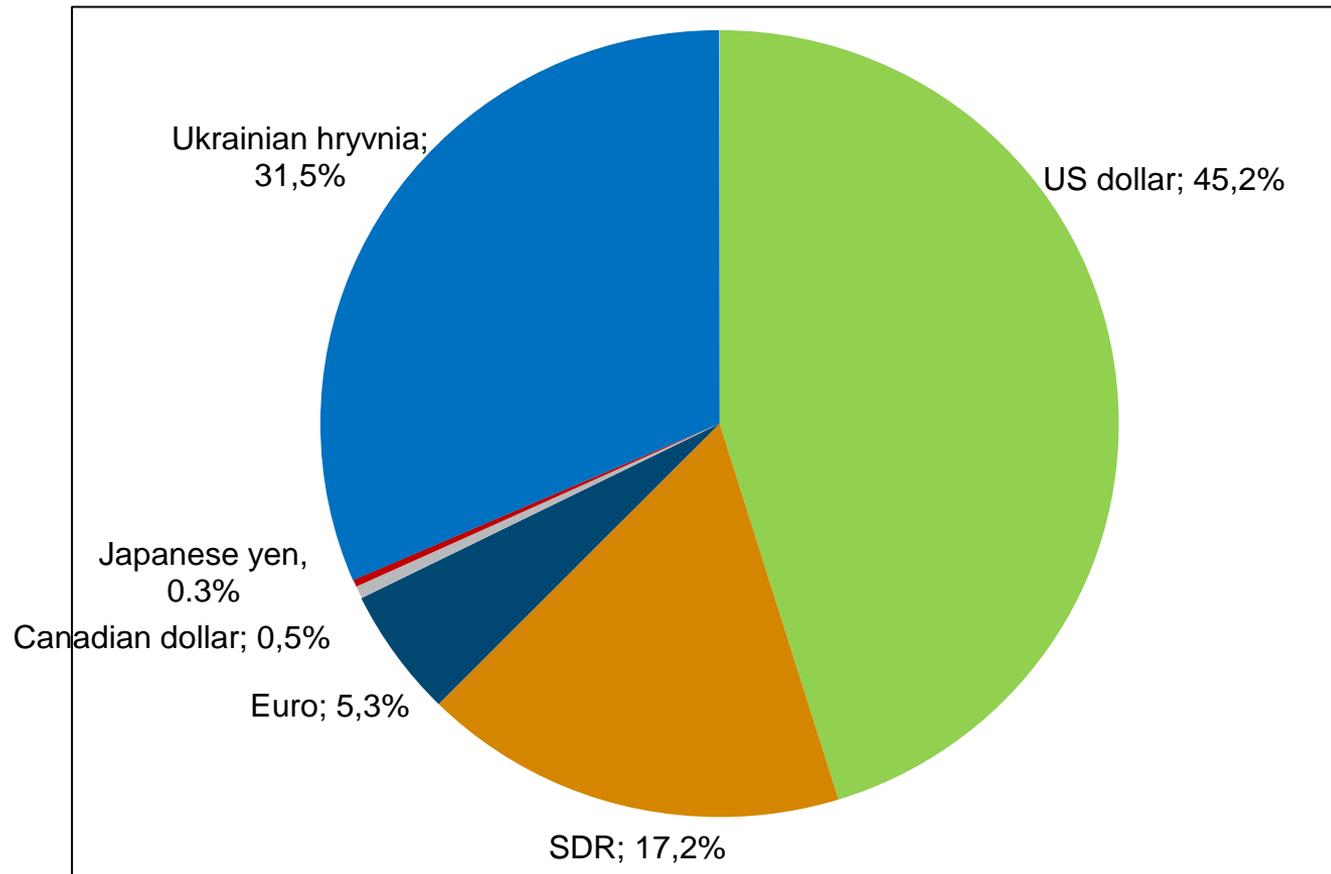


Public debt, 2002-2014 as % of GDP



Currency composition of public debt

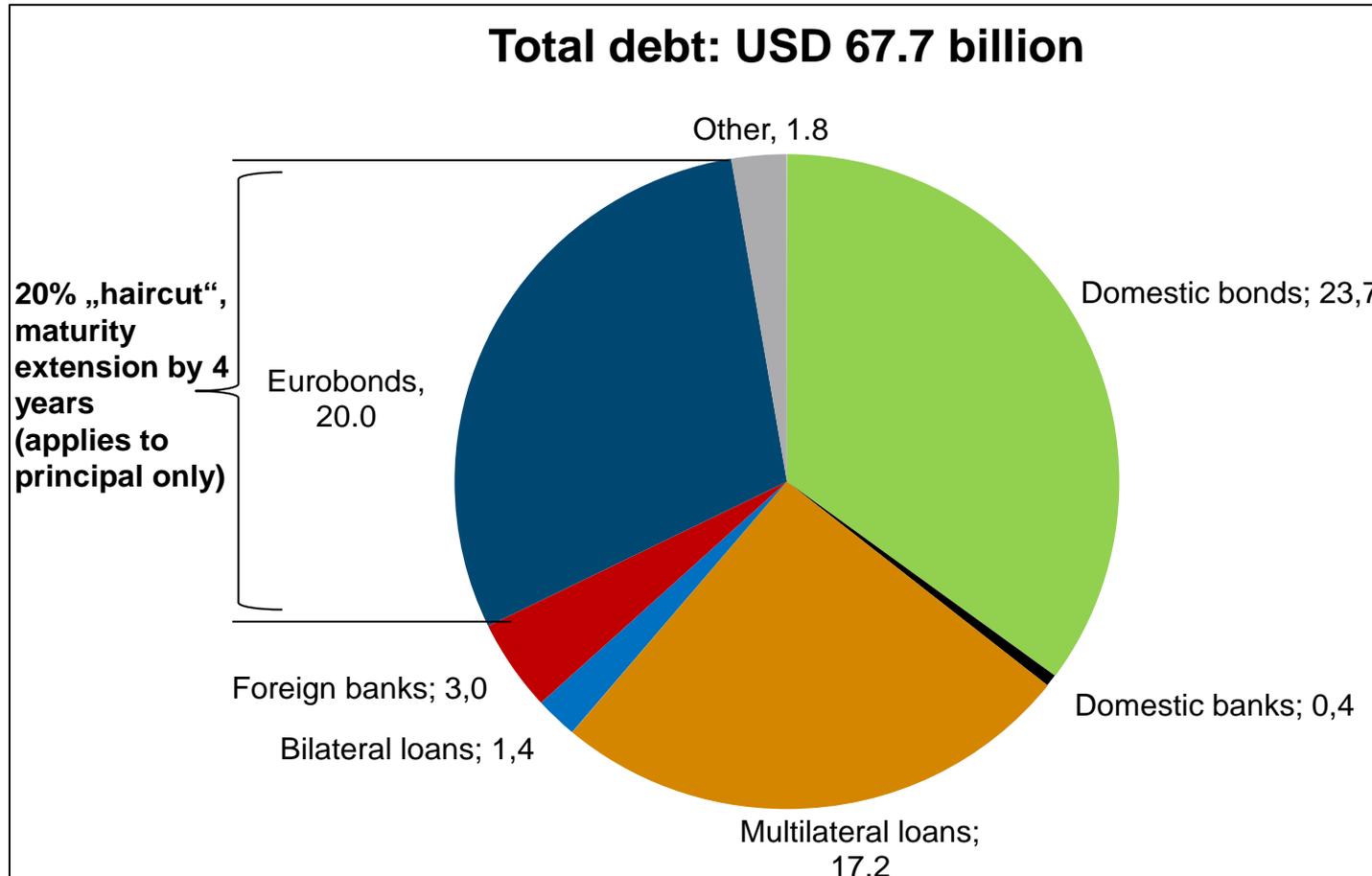
end-May 2015, in % of total



Source: Ministry of Finance.

Structure of public debt by creditor type

end-May 2015



EU integration steps

- Political part of EU-Ukraine Association Agreement signed in 2014
- Implementation of Deep and Comprehensive Free Trade Agreement (DCFTA) delayed till end-2015
 - Essentially requires adoption of EU ‘acquis communautaire’ – may be very costly
 - Russia threatened to revoke free trade regime, unless compromise is reached
- Meanwhile, EU has unilaterally opened its market for Ukrainian exporters ...
- ... but they cannot take full advantage because of differences in standards

Economic prospects

- After 6.8% GDP drop in 2014, >10% recession in 2015, zero growth next year
 - Destruction of production and export capacities in Donbass
 - Inflation and fiscal austerity erode purchasing power of households
- Prospects for stabilization highly uncertain
 - Peaceful conflict settlement problematic (Minsk-2 agreements too vague)
 - Association with the EU: chances, but also risks!!!
 - Recent debt restructuring deal good news, IF these funds are channelled for social and infrastructure purposes (and not war)

Most urgent reforms

- Most crucial: institutional and legal reforms
 - De-oligarchisation, fighting corruption, securing independence of judicial system
 - These are the main constraints on investments (apart from war)
- Fighting shadow economy – secure tax revenues
 - Shadow economy estimated at 47-56% of GDP (up by 5 pp)
- Improving energy efficiency
 - Energy tariff hikes alone not sufficient
 - State subsidies for energy-saving measures important!

Thanks for your attention !!!

Tipp:

**„How to Stabilize the Economy of Ukraine“,
Background study prepared by wiiw, April 2015**

free pdf-download from:

www.wiiw.ac.at