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Ukraine - Economic Situation

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Economic Growth.

In March, the real GDP grew by 4.1% in relation to the same months last year, while from the beginning of the year economic growth made up 3.8% against 7.7% growth for the same period last year. According to preliminary data, over January-March, nominal GDP stood at UAH 42.416bn (about USD 8bn), including UAH 14.876bn (about USD 2.8bn) in March. Economic growth in the Q1 was mainly caused by 20.3% increase in gross value added in wholesale and retail trade, 10.7%– in agriculture and wood industry and 3.6%– in processing industry.

The government forecasts real GDP growth at 5-6% this year against 9.1% last year, while the IMF forecast is 5%. The first time the GDP growth was registered in 2000 – by 5.8%. Last year the growth of industrial output was the main factor driving economic growth, while this year industrial production is growing much less aggressively, contributing to overall economic slowdown in the country.

In March, industrial output grew by 2.1% comparing to the same month last year and by 9.9% in relation to February, while cumulative industrial growth for the Q1 made up 3.1% in annual terms. On the whole, industrial enterprises over January-March produced output in amount of UAH 37.7bn (about USD 7bn). The highest industrial growth in Q1 was in woodworking industry, where it made up 28.8% compared to the same period last year), oil-refining industry – 28.1%, food and food processing industry – 11.8% and machine-building – 8.7%.

At the same time, in Q1, metallurgical enterprises reduced production by 8.4%, chemical and petrochemical industry – by 2.4%, light industry – by 1.8%. The slowdown of industrial growth is mainly caused by slowdown of external market where Ukraine exports its metallurgical output, the exports that drew economic growth last year as well as numerous antidumping and foreign country-producer protectionist tariffs introduced by trade partners, such as Russia and the USA on Ukraine's exports. The government forecasts that in 2002 the industrial output would grow by 7% against 14.2% growth in 2001 and 12.4% growth in 2000.

Fiscal Policies.

In Q1, the state property fund (SPF) transferred UAH 187.7mn from state property privatisation to the state budget. The bulk of the receipts (UAH 112mn) arrived from preferential sale of Ukrtelecom shares to employees. In early April, the SPF received UAH 60.6mn from the sale of 10% state stake of Nikolaevskiy aluminium plant.

For 2002, privatisation receipts have been budgeted at UAH 5.8bn (USD1.1bn). This year, the government hoped to receive funds from privatisation Ukrtelecom national telecom operator and regional power distributors (oblenergoes). However, the exact terms of Ukrtelecom has still not been set, while SPF announced that the tenders on selling of oblenergoes will not be set until the government does not settle the problem with huge debts of the companies. The government intends to prepare corresponding propositions by the end of the Q2 this year. Without oblenergoes and Ukrtelecom privatisation, the annual targets of privatisation proceeds would not be met this year.

Monetary Policies.

In March, the CPI deflation made up 0.7% comparing to February, while from the year-start it amounted to 1.1%. For the same month, wholesale prices declined by 0.8% while from the year-start they decreased by 0.5%. At the same time, the foodstuff prices declined by 1% (1.6%), non-foodstuff prices decreased by 0.2% (0.1% d), while prices for services have not changed in March but increased by 0.2% since the year-start. Deflation, unusual for the current season, is mainly caused by very high yield of grain in 2001-2001 and local authorities' decision to curb foodstuff prices on the eve of elections. In the beginning of the year, the government forecasted CPI to increase to 9.8% in 2002 against 6.1% in 2001, while according to new government forecasts, based on Q1 developments, the CPI is not expected to exceed 5%.

In March, PPI declined by 0.8% against a 0.7% increase in February this year. For the first three months, the PPI declined by 0.5% against 0.9% increase last year. The government forecasts the PPI growth will not exceed 9.4% in 2002. Experts explain the stability of producer prices with the fact that the prices for energy resources have not been changed from the year start. The other reason might lie in overproduction of some goods in the country. This year the government expects PPI to grow 9.4% after a 0.9% rise last year.

In March, money supply M3 increased by 5.3% comparing to February and reached UAH 47.4bn (about USD 8.9bn). Monetary base M2 grew by 5.2% for the same period and reached UAH 25.1bn (about USD 4.7bn). Cash in circulation M0 increased by 5.5% to UAH 19.7bn (USD 3.7bn) as of April 1. In 2002, the government forecasts the money supply growth at the level of 18-20%, monetary base – at 11-13%.

From the beginning of the year, local currency had depreciated by 0.7% at the interbank market and reached this year record low UAH/USD 5.336 as of April 5 against UAH/USD 5. 2985 as of January 1. Last year, hryvnia appreciated by 2.5% from UAH/USD 5.4345 to UAH/USD 5.2985.

In March, NBU liquid forex reserves grew up by 1.32% comparing to February or USD 40.5mn and rose to USD 3.112bn from USD 3.072bn as of February 28, 2002, despite of March 11-15 payments at USD 92.7mn, made by Ukraine to service and redeem external debt in Eurobonds. Thus, due to a moderate improvement on the trade balance and tight exchange rate policy, the NBU has managed to purchase a sufficient amount of foreign exchange in the FX market to ensure this slight increase in the reserves. From the beginning of the year, the NBU liquid reserves grew by 0.55% or USD 16.9mn from USD 3.095bn as of January 1, 2002. In March, the NBU purchased USD 205mn more than sold at the interbank exchange market, while the total volume of exchange operations at the currency market made up USD 2.862bn. The International Centre for Policy Studies (ICPS) forecasts the central bank forex reserves will reach USD 3.420bn by the end of 2002 and USD 3.949bn – by the end of 2003.

Government Debt.

As of end-2001, state external public debt stock shrank by 3% or USD 243mn to USD 7.749bn, while state domestic debt grew by 1.1% or USD 44.9mn to USD 3.97bn. Last year, the government borrowed UAH 2.86bn (USD 0.53bn), out of which short-term and medium-term government bonds made up 42.56%, while the rest of the amount was borrowed through other sources. Total public debt, including guaranteed debt declined by USD 81.62mn to USD 14.085bn. In 2001, the government retired a debt in amount of UAH 6.35bn (about USD 1.2bn), out of which 37.7% made up principle and 62.26% - interests. Actual expenditures of the state budget for repayment and servicing of the public debt in 2001 accounted for 62.66% of the planned amount for the period. A significant economy of budget funds set for debt payment had been achieved owing to 2.6% local currency appreciation in 2001. Other reasons lie in reduction of loan rates last year and lower than expected volumes of short-term borrowing at the domestic market. Ukraine's external debt started declining in 2000 first.

International Trade and Capital.

In January-February, the merchandise trade surplus reached USD 336.3mn against USD 140.4mn over the same period last year. For the same period, the total merchandise trade turnover grew by 0.5% comparing to the same period last year to USD 4,681.3mn, while merchandise exports grew by 3.9% to USD 2,508.8mn, imports decreased by 3.1% to USD 2,172.5mn. At the same time, Ukraine had merchandise trade deficit with the CIS countries, amounting to USD 641.6mn against USD 666.8mn for the same period last year. At that, the merchandise exports to the CIS shrank from USD 691.7mn to USD 573.2mn, imports – to USD 1,214.8mn from USD 1,358.5mn.

Ukraine mainly exported to Russia – 17.1% of the total exports against 24.4% in January-February 2001, Turkey – 7.6% against 5.9%, Germany – 4.5% the same share as a year ago, China – 4.4%, Italy – 4.4%, Hungary – 3.6%, the US – 3.0% and Spain – 2.7%. Ukraine imported from Russia – 35.0% of total imports down from 41.7% a year ago, Turkmenistan – 16.5% up from 10.9%, Germany – 8.2% against 7.9%, the US – 3.3%, Poland – 2.7%, Italy – 2.6% Kazakhstan – 2.5% and Sweden – 1.9%.

In January-February, the largest share of exports was attributed to metals and metals products – 39.47%, including ferrous metals - 27.93% of total exports, followed by exports of mineral fuel – 11.49% and chemical products – 8.12%. Imports of natural gas kept the largest share of total imports and made up 38.85%, followed by imports of oil –11.55%. The share of barter in total exports shrank to 0.2% from 0.7% in January-February 2001 while the share of barter operations in total imports stayed the same - 0.3%. In 2002, the Cabinet intends to keep trade surplus of goods and services at the last year level of USD 2.9bn. According to the government program on export stimulation, the export of goods is envisaged to grow by 7%.

International Programs.