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Ukraine: Current Economic Situation and Future Prospects

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Vasily Astrov

Ukraine: Current Economic Situation and Future Prospects

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Vasily Astrov is research economist at wiiw.

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Vasily Astrov

**Ukraine: Current
Economic Situation
and Future Prospects**

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Ukraine: current economic situation and future prospects

Executive summary

Ukraine's recent political developments have been rather turbulent and their effects on the economy controversial. Integration into the EU was re-instated into the foreign policy doctrine, progress in WTO accession negotiations is impressive. Yet the EU is reluctant to acknowledge the country's membership perspective, and the relations with Russia remain difficult. The March 2006 parliamentary elections resulted in a triumph of the opposition parties and the position of President Yushchenko was weakened. The new government headed by Viktor Yanukovich will likely focus on improving the business environment by further tax cuts, a more protectionist stance in trade policy, maintaining a competitive exchange rate, and a generally more balanced policy regarding both the EU and Russia.

The economy was rapidly growing between 2000-2004, albeit starting from a very low base. Among the growth factors were the devaluation of the hryvnia in 1999, the rising demand in Russia, other CIS markets and Asia, high world market prices of steel and, last but not least, a dramatic upswing in domestic demand for capital goods. From 2004, private consumption became the major pillar of growth. Yet in 2005 economic growth slowed down dramatically, as the investment climate suffered from a re-privatization campaign. Negative developments in foreign trade were observed as well: the world steel prices plunged while imports were fostered by increased social spending and the currency revaluation undertaken; the country's trade balance turned into a deficit. Newly available data show that the economic slowdown of 2005 and the first months of 2006 has reversed recently. Private consumption gained momentum once again, backed by an impressive growth of real disposable money incomes of households and expanding bank lending. The new Yanukovich government appears to be returning to the more liberal course pursued prior to the Orange Revolution: cutting the corporate profit tax, re-instating the Special Economic Zones and shifting the social insurance burden from employers to employees. There are also plans to cut the VAT rate to 18%. The consolidated deficit envisaged by the 2007 budget draft (2.6% of GDP) is to be covered largely by privatization receipts.

Foreign trade developments during the past one and a half decades have been generally characterized by a re-orientation of trade flows away from Russia and the CIS. This has been particularly the case for exports, though Russia remains an important outlet for Ukraine's machinery and foodstuffs. In trade with the EU, Ukraine is specializing in a relatively narrow range of not very sophisticated products: notably metals, chemicals, and refined mineral fuels. Re-orientation of imports away from Russia has been kept within limits by the country's high dependence on energy deliveries. The energy dependence on Russia also explains Ukraine's persistently high trade deficit with Russia. However, this trade deficit is partly counterbalanced by a surplus in services – largely due to the transit fees charged by Ukraine for the Russian oil and gas exports to Europe.

Ukraine's trade and integration relations with the EU have not advanced very much, although the country was finally granted the 'market economy' status in December 2005. The Partnership and Co-operation Agreement envisages the formation of a free trade area with the EU only after the Ukraine has joined the WTO; the latter seems now likely to be delayed and synchronized with that of Russia. The EU's relations with Ukraine are covered by the New Neighbourhood Programmes aimed at avoiding new dividing lines in Europe after the EU enlargement by boosting cross-border cooperation with the 'left-out' countries. The EU visa regime for Ukrainians remains highly restrictive, despite

Ukraine's unilateral abolishment of visa requirements for EU citizens. The project of a Common Economic Space (CES) between Ukraine, Russia, Belarus and Kazakhstan – agreed upon in September 2003 – remains largely on paper as well. The main reason for that is that Ukraine and Russia have very different views as to the speed and the final stage of the planned (re-)integration. Ukraine's interest in the project has so far been confined to a free trade area only. Although the two countries have a formal free trade agreement already since 1993, a number of essential products are exempted. The expectations of economic benefits to Ukraine in the form of cheaper energy from Russia have not materialized.

Ukraine has scarce reserves of fossil fuels while it still has an extremely energy-intensive economy. This results from the legacy of the Soviet central planning system and the limited scope of economic restructuring. In the longer term, in order to reduce the energy dependence on Russia, the 'Energy Strategy of Ukraine until 2030' aims at using more nuclear power and domestically produced coal. An even better recipe in solving the country's energy problems would be a large-scale implementation of energy-saving technologies, including those brought by foreign investors. However, until now the FDI flows into Ukraine have been rather disappointing. The experience of the new EU member states shows that FDI could also lead to increased transfer of technology and managerial know-how, which generally bring about productivity improvements and successful marketing strategies abroad. The EU-15 share in Ukraine's FDI stock stood at 58% by the end of 2005. Apart from the EU, another important investor into Ukraine is Russia. The Russian presence is particularly visible in the energy and telecom sectors. The high importance of Russian capital in Ukraine is also a manifestation of the country's economic dependence on Russia, resulting inter alia in a series of energy-related debt-for-equity swaps.

The relative political stability which has returned to Ukraine upon the formation of the new government in the summer of 2006 is likely to bring benefits in the form of increasing investments and higher economic growth. The relations with Russia will almost certainly improve. Further price hikes for imported natural gas are likely to be gradual so that their impact on Ukraine's economy will probably be smoothed. The expected economic growth is 6.5% in 2006 and 7% next year, with annual consumer price inflation hovering around 10%. The recent upturn in exports implies that the trade and the current account deficits will be relatively small. In the longer run, a diversification of the economic structure away from metals and chemicals, and towards goods with a higher value-added, accompanied by an implementation of energy-saving measures, will be essential for ensuring the sustainability of economic growth. Ukraine's WTO accession and the likely subsequent formation of a free trade area with the EU will be certainly instrumental to reaching that goal, but the latter has to be accompanied by a parallel co-operation and further trade liberalization with Russia in order to avoid painful trade diversion effects.

Keywords: *macroeconomic analysis and forecasts; international trade and competitiveness; foreign direct investment; fiscal and monetary policy*

JEL classification: *F1, F15, F21*

Ukraine: aktuelle Wirtschaftslage und Aussichten

Zusammenfassung

Die jüngsten politischen Entwicklungen in der Ukraine waren von Turbulenzen geprägt und hatten kontroverse Auswirkungen auf die Wirtschaft. Die Integration in die EU wurde wieder in die Außenpolitikdoktrin aufgenommen, und das Land erzielte beeindruckende Fortschritte bei den WTO-Beitrittsverhandlungen. Die EU ist jedoch gegenüber den ukrainischen Ambitionen für einen Beitritt nach wie vor negativ eingestellt, während die Beziehungen der Ukraine zu Rußland kompliziert bleiben. Die Parlamentswahlen vom März 2006 hatten einen Sieg der Oppositionsparteien zur Folge, was in einer Schwächung der Position von Präsident Juschtschenko resultierte. Die neue Regierung von Viktor Janukowitsch wird voraussichtlich versuchen, das Geschäftsklima mittels weiterer Steuersenkungen zu verbessern, eine protektionistischere Handelspolitik zu betreiben, einen wettbewerbsfähigen Wechselkurs aufrechtzuerhalten und einen ausgewogenen außenpolitischen Kurs zwischen der EU und Rußland zu verfolgen.

Die dynamische Wirtschaftsentwicklung zwischen 2000 und 2004 war nicht zuletzt auf das extrem niedrige Ausgangsniveau zurückzuführen. Die wichtigsten Wachstumsfaktoren waren die Abwertung der Hrywnia im Jahr 1999, die steigende Nachfrage in Rußland, anderen GUS-Staaten und Asien, die hohen Weltmarktpreise für Stahl sowie die kräftige Zunahme der heimischen Investitionen. 2004 wurde der private Konsum zum wichtigsten Wachstumsmotor. Das Jahr 2005 brachte jedoch eine dramatische Verlangsamung des Wirtschaftswachstums, da das Investitionsklima unter der Reprivatisierungskampagne litt. Auch die negativen Entwicklungen im Außenhandel trugen zur Wachstumsverlangsamung bei: die Weltmarktpreise für Stahl sanken, wobei die Importe durch großzügige Sozialausgaben des Staates und die Währungsaufwertung begünstigt wurden; das Land verbuchte ein Handelsbilanzdefizit. Die letzten verfügbaren Statistiken zeigen jedoch, daß der Wachstumseinbruch von 2005 und Anfang 2006 inzwischen überwunden ist. Der private Konsum hat dank eines merklichen Anstiegs der verfügbaren Realeinkommen der Haushalte und infolge der expandierenden Kreditvergabe der Banken erneut zugelegt. Die neue Janukowitsch-Regierung findet zum liberaleren wirtschaftspolitischen Kurs zurück, der vor der „orangen Revolution“ betrieben wurde. Zu den geplanten Maßnahmen zählen die Senkung der Körperschaftssteuer, die Wiedereinführung der Sonderwirtschaftszonen und die teilweise Umverteilung der Sozialversicherungslast von Arbeitgebern zu Arbeitnehmern. Weiters ist vorgesehen, den Mehrwertsteuersatz auf 18% zu reduzieren. Das für 2007 konzipierte konsolidierte Budgetdefizit von 2,6% des BIP soll größtenteils durch Privatisierungseinnahmen finanziert werden.

Die Außenhandelstrends der letzten fünfzehn Jahre waren im allgemeinen durch eine Umschichtung der Handelsströme weg von Rußland und anderen GUS-Staaten gekennzeichnet. Dies gilt insbesondere für die Exporte, obwohl Rußland nach wie vor einen wichtigen Absatzmarkt für ukrainische Maschinen und Lebensmittel darstellt. Im Handel mit der EU spezialisiert sich die Ukraine auf wenige Güter mit relativ geringer Wertschöpfung: insbesondere Metalle, chemische Erzeugnisse und Brennstoffe. Hingegen hielt sich die Umschichtung der ukrainischen Importe weg von Rußland aufgrund der hohen Energieabhängigkeit in Grenzen. Die letztere erklärt auch das stets hohe ukrainische Handelsdefizit gegenüber Rußland, das allerdings durch einen Dienstleistungsüberschuß teilweise kompensiert wird. Dieser ergibt sich vor allem aus den ukrainischen Transitgebühren für die Exporte russischer Energieträger nach Europa.

Die Handels- und Integrationsbeziehungen zwischen der Ukraine und der EU sind nur wenig vorangeschritten, obwohl der Ukraine von der EU im Dezember 2005 der „Marktwirtschaftsstatus“

zugesprochen wurde. Das laufende Partnerschafts- und Kooperationsabkommen sieht die Bildung einer Freihandelszone mit der EU erst nach dem WTO-Beitritt der Ukraine vor; dieser wird sich jedoch voraussichtlich verzögern und möglicherweise auf den WTO-Beitritt Rußlands abgestimmt. Die Beziehungen zwischen der EU und der Ukraine sind im Rahmen der sogenannten „neuen Nachbarschaftsprogramme“ geregelt, die darauf abzielen, das Entstehen neuer Trennlinien in Europa nach der EU-Erweiterung durch verstärkte Kooperation mit „Drittländern“ zu verhindern. Das Visaregime der EU für die Ukrainer bleibt nach wie vor sehr restriktiv, während die Ukraine die Visapflicht für EU-Bürger abgeschafft hat. Das Projekt eines Gemeinsamen Wirtschaftsraums (GWR) zwischen der Ukraine, Rußland, Weißrußland und Kasachstan, das im September 2003 verabschiedet wurde, bleibt ebenfalls weitgehend auf dem Papier. Der Hauptgrund dafür sind die Auffassungsunterschiede zwischen der Ukraine und Rußland, was die Geschwindigkeit und das Endziel der geplanten (Re-)Integration angeht. Das Interesse der Ukraine am GWR-Projekt hat sich bislang lediglich auf eine Freihandelszone beschränkt. Obwohl zwischen den beiden Ländern bereits seit 1993 ein formelles Freihandelsabkommen besteht, sind mehrere wichtige Güter davon ausgenommen. Die Hoffnungen der ukrainischen Seite auf Wirtschaftsvorteile durch billigere Energielieferungen aus Rußland haben sich nicht erfüllt.

Die Ukraine hat nur geringe eigene Reserven fossiler Brennstoffe, während ihre Wirtschaft immer noch extrem energieintensiv ist. Dies stellt zum Teil das Erbe des sowjetischen Zentralplanungssystems dar, ist aber auch auf das begrenzte Ausmaß des wirtschaftlichen Strukturwandels zurückzuführen. „Die Energiestrategie der Ukraine bis 2030“ sieht einen vermehrten Einsatz von Atomenergie sowie der im Inland verfügbaren Kohle vor, um die Energieabhängigkeit von Rußland langfristig abzubauen. Eine bessere Lösung der Energieprobleme wäre allerdings eine breitangelegte Einführung energiesparender Technologien, die unter anderem durch ausländische Direktinvestoren (FDI) ins Land gebracht werden. Bislang fielen die FDI-Zuflüsse in die Ukraine jedoch relativ gering aus. Die Erfahrungen der neuen EU-Mitgliedsstaaten haben gezeigt, daß FDI darüber hinaus zu einem verstärkten Transfer von Technologien und Managementpraxis führt und dadurch in der Regel sowohl höhere Produktivität als auch bessere Marketingstrategien im Ausland ermöglicht. Der Anteil der EU-15 am FDI-Bestand in der Ukraine lag Ende 2005 bei 58%. Neben der EU ist auch Rußland ein bedeutender Investor; russisches Kapital spielt vor allem im Energie- und im Telekommunikationssektor eine wichtige Rolle. Diese Rolle spiegelt ebenfalls die wirtschaftliche Abhängigkeit der Ukraine von Rußland wider, die unter anderem mehrere Übernahmen ukrainischer Aktiva im Tausch gegen die aus den Energielieferungen resultierende Verschuldung zur Folge hatte.

Die relative politische Stabilität, die nach der Regierungsbildung im Sommer 2006 eingetreten ist, dürfte sich investitions- und somit auch wachstumsfördernd auswirken. Auch die Beziehungen zu Rußland sollten sich verbessern. Weitere Preisanhebungen für importiertes Erdgas werden höchstwahrscheinlich nur allmählich erfolgen, was ihre Auswirkungen auf die Wirtschaft dämpfen wird. Wir erwarten ein Wirtschaftswachstum von 6,5% für 2006 und von 7% im kommenden Jahr, wobei die Verbraucherpreis-inflation bei rund 10% im Jahresdurchschnitt liegen wird. Dank des jüngsten Anstiegs der Exporte wird sowohl das Handels- als auch das Leistungsbilanzdefizit relativ niedrig ausfallen. Langfristig ist jedoch eine Diversifizierung der Wirtschaftsstruktur weg von Metallurgie und Chemie zugunsten von Gütern mit höherem Wertschöpfungsgrad, die von einem vermehrten Einsatz energiesparender Technologien begleitet ist, von entscheidender Bedeutung. Der Beitritt zur WTO und die Bildung einer Freihandelszone mit der EU werden sicherlich einen wichtigen Meilenstein in diese Richtung darstellen. Gleichzeitig sind jedoch die Kooperation und eine weitere Handelsliberalisierung mit Rußland unabdingbar, um schädliche Auswirkungen der Handelsumlenkung zu vermeiden.

Україна: поточна економічна ситуація та перспективи

Резюме

Нещодавні політичні події в Україні були досить бурхливими і мали суперечливі наслідки для економіки. Інтеграцію в ЄС знову було проголошено метою зовнішньої політики, також було досягнуто вражаючого прогресу у переговорах щодо вступу до СОТ. Водночас, ЄС не виявив бажання визнати перспективи членства України і стосунки з Росією залишаються складними. Парламентські вибори у березні 2006 року завершилися тріумфом опозиційних партій, що послабило позицію Президента Ющенка. Новий уряд, який очолив Віктор Янукович, найімовірніше буде концентруватися на покращенні бізнес-середовища, посиленні протекціонізму у зовнішньоторговельній політиці, підтримці конкурентноздатного обмінного курсу і проведенні більш збалансованої політики стосовно ЄС та Росії.

Економіка швидко зростала протягом 2000-2004 років, хоча потрібно зважати на ефект низької бази. Чинниками зростання були девальвація гривні у 1999 році, збільшення попиту на український експорт у Росії, інших країнах СНД та Азії, високі світові ціни на метал і останній, але не менш важливий чинник, значне підвищення внутрішнього попиту на товари інвестиційного призначення. Починаючи з 2004 року приватне споживання стало головним рушієм зростання. Однак 2005 року економічне зростання істотно сповільнилося через погіршення інвестиційного клімату, зумовлене кампанією з реприватизації. Крім того, погіршилися тенденції у зовнішній торгівлі: світові ціни на сталь знизилися, тоді як збільшення соціальних витрат і ревальвація гривні сприяли зростанню імпорту; торговельний баланс країни стає від'ємним. Останні економічні дані свідчать, що економічне сповільнення 2005 року і перших місяців 2006 року припинилося і економіка почала зростати прискореними темпами. Завдяки вражаючому росту реальних наявних грошових доходів домашніх господарств і розширенню банківського кредитування знову відновилося швидке зростання приватного споживання. Уряд Януковича, здається, повертається до більш ліберальної політики, яку проводили до «Помаранчевої революції»: зниження податку на прибуток підприємств, відновлення Спеціальних економічних зон і перенесення тягаря соціального страхування від працедавців до працівників. Також існують плани зниження ставки ПДВ до 18%. Дефіцит консолідованого бюджету, який передбачено у проекті бюджету 2007 року (2,6% ВВП), фінансуватимуть головним чином коштом надходжень від приватизації.

Тенденції розвитку зовнішньої торгівлі протягом останніх 15 років полягали головним чином у переорієнтації торговельних потоків від Росії та СНД до інших країн. Така тенденція була насамперед притаманна експорту, хоча Росія все ще залишається важливим ринком для експорту українських машин і обладнання та продуктів харчування. У торгівлі з ЄС Україна спеціалізується на експорті продуктів із не дуже високим ступенем обробки: метал, хімікати і мінеральне паливо. Переорієнтацію імпорту від Росії до інших країн стримує висока залежність України від поставок енергоносіїв. Енергетична залежність від Росії також пояснює стабільно високий дефіцит балансу торгівлі товарами з Росією. Однак цей дефіцит частково компенсує додатне сальдо у торгівлі послугами, яке формується головним чином завдяки стягненню плати за транзит російської нафти та газу до Європи.

Торговельні та інтеграційні стосунки України з ЄС помітно не покращилися, хоча країна все ж таки отримала статус «країни з ринковою економікою» у грудні 2005 року. Угода про

партнерство і співробітництво передбачає формування зони вільної торгівлі з ЄС тільки після вступу України до СОТ; дуже ймовірно, що вступ до СОТ тепер відкладається для того, щоб синхронізувати його з Росією. Стосунки ЄС і України регулюються Програмами нового сусідства, метою яких є уникнення нових бар'єрів у стосунках між країнами Європи після розширення ЄС шляхом посилення співпраці з країнами, що не увійшли до ЄС. Візовий режим ЄС залишається дуже жорстким щодо українців, хоча Україна зі свого боку скасувала вимоги щодо отримання візи для громадян ЄС. Проект Єдиного економічного простору (ЄЕП) між Україною, Росією, Білоруссю і Казахстаном, домовленість про створення якого було досягнуто у вересні 2003 року, поки що існує тільки на папері. Головною причиною цього є те, що Україна і Росія мають дуже різні погляди на швидкість і кінцевий етап запланованої (ре)інтеграції. Україна зацікавлена, щоб ЄЕП був лише зоною вільної торгівлі. Хоча вона уклала угоду про вільну торгівлю з Росією ще 1993 року, значна кількість товарів залишається винятками з угоди. Сподівання на економічні переваги для України у вигляді більш дешевої енергії не справдилися.

Україна має малі запаси корисних копалин і водночас дуже енергетично - інтенсивну економіку. Низька енергетична ефективність української економіки виникла внаслідок недоліків радянської системи центрального планування та повільної реструктуризації економіки. Задля зменшення енергетичної залежності від Росії у довгостроковій перспективі було ухвалено «Енергетичну стратегію України до 2030 року», яка передбачає збільшення використання атомної енергії і вугілля внутрішнього видобутку. Кращим варіантом розв'язання енергетичних проблем країни було б широкомасштабне запровадження енергозберігаючих технологій, включно із тими, які привозять іноземні інвестори. Однак до цього часу приплив ПІІ в Україну був дуже низьким. Досвід нових членів ЄС свідчить, що ПІІ можуть також сприяти збільшенню передачі технологій і управлінських ноу-хау, що звичайно зумовлюють підвищення продуктивності та покращення маркетингових стратегій у країнах-реципієнтах. Частка ЄС-15 у ПІІ в Україну наприкінці 2005 року становила 58%. Після ЄС наступним за важливістю інвестором в Україну є Росія. Російська присутність особливо помітна в енергетичному та телекомунікаційному секторах. Висока важливість російського капіталу для України є ще одним проявом економічної залежності від Росії, яка, поміж іншим, призвела до низки угод про обмін боргів у сплаті за енергоносії на цінні папери.

Відносна політична стабільність, яка повернулася в Україну після формування нового уряду влітку 2006 року, ймовірно сприятиме збільшенню інвестицій і прискоренню економічного зростання. Стосунки з Росією майже без сумніву покращаться. Майбутнє підвищення ціни на імпортований газ ймовірно буде поступовим, тому його вплив на українську економіку буде згладженим. Очікувані темпи економічного зростання у 2006 році становлять 6,5%, у 2007 році – 7%; споживчі ціни зростатимуть на 10% щороку. Нещодавне відновлення зростання експорту означає, що від'ємне сальдо торговельного балансу і рахунку поточних операцій буде порівняно низьким. У довгостроковій перспективі для забезпечення стійкості економічного зростання необхідна диверсифікація економіки, що полягатиме у зменшенні частки металу і продукції хімічної промисловості у ВВП і збільшенні частки продукції із більшою доданою вартістю, а також у реалізації енергозберігаючих заходів. Вступ України до СОТ і ймовірно подальше формування зони вільної торгівлі з ЄС також безумовно сприятимуть економічному зростанню. Однак, щоб уникнути негативних ефектів згорання торгівлі, формування зони вільної торгівлі з ЄС має супроводжуватися співпрацею і подальшою лібералізацією торгівлі з Росією.

Ukraine: current economic situation and future prospects

Political background

The current political landscape of Ukraine dates back to the events of late 2004 when presidential elections in the country, which had been governed by President Leonid Kuchma since 1994, culminated in the so-called Orange Revolution. The outcome of the second round of elections in November 2004, declaring the incumbent prime minister Viktor Yanukovych the winner, was widely believed to be rigged and led to large-scale popular protests. Under the pressure, Ukraine's Supreme Court cancelled the election result and ordered a repeated vote, which was won by Mr Yanukovych's contender, the right-of-the-centre pro-European opposition leader Viktor Yushchenko. Although there were certain doubts as to the legal aspects of the 'third round' of elections, it probably represented the best possible way out of the political crisis, avoiding both greater violence and possibly even a territorial break-up of the country. However, the perceived pro-western and anti-Russian stance of the new president and particularly of the new prime minister Yuliya Tymoshenko – Mr Yushchenko's key ally during the Orange Revolution – depressed their support in the mostly Russian-speaking and generally wealthier eastern and southern regions of Ukraine.¹ The new authorities needed much political skill to bridge these regional divisions, as well as to balance the country's external policies between Russia and the EU.

The subsequent political developments in the country proved rather controversial. On the one hand, integration into the EU was re-instated into Ukraine's foreign policy doctrine, reflecting the dominating public opinion: the majority of Ukrainians are in favour of joining the EU (though not NATO, integration into which was envisaged by the new foreign policy doctrine as well). Also, the country's progress in WTO accession negotiations after the Orange Revolution was impressive. The Ukrainian mass media became subject to less censorship, and society in general got more freedom. Finally, the parliamentary elections which took place in March 2006 – the first elections since the Orange Revolution – are widely considered to be the first fully free and fair elections ever held in the country.

On the other hand, the EU was persistently reluctant to acknowledge the country's membership perspective, although the European and American leaders hailed the Orange Revolution as a significant step towards democracy. In their domestic policy, the new authorities embarked upon repressions against their political opponents, who used to

* Peter Havlik and Olga Pindyuk provided valuable comments on this report.

¹ The southern and especially eastern regions of Ukraine are home to the country's heavy industrial base. The latter was largely installed in Soviet times, but has been the motor of recent economic growth in the country and accounts for the bulk of its export revenues.

support former President Kuchma, and affiliated business structures, usually under the pretext of criminal charges on economic grounds and charges of separatism. Fighting corruption, which had become pervasive under former President Kuchma, was one of the key declared priorities of the new government, but the progress on this front proved very limited. Simultaneously, the country's relations with Russia deteriorated, while the economy fell victim to serious policy mistakes such as the pre-announced re-privatization campaign, the abolition of Special Economic Zones, the currency revaluation, and administrative price interventions for several important commodities, including gasoline, meat and sugar.

On 8 September 2005, President Yushchenko dismissed the government of Yuliya Tymoshenko. The move followed a protracted period of infighting within the ruling elite, reflecting partly personal ambitions, but also the divergence of views on some key policy issues, particularly in the area of the economy. Simultaneously, it marked a fundamental switch in the country's political landscape, as Mr Yushchenko had to resort to co-operating with his former rival in the presidential elections, Viktor Yanukovych, in order to secure the appointment of Yuri Yekhanurov as the new prime minister. This new alliance could also be interpreted as an attempt to bridge the rift between the West and the East of the country, which emerged after Mr Yushchenko's victory in the presidential elections. The immediate task of the Yekhanurov government was to repair the damage inflicted to the economy by the previous government. Most importantly, the large-scale re-privatization campaign was aborted, and another priority was mending relations with Russia, not least in order to secure beneficial terms for energy supplies. However, the Yekhanurov government was transitory, given the approaching parliamentary elections in March 2006 and the constitutional amendments which entered into force as of January 2006. These amendments, aiming at turning Ukraine from a presidential-parliamentary into a parliamentary-presidential republic, had been passed in December 2004 as a concession to the forces supporting the outgoing president Kuchma, in exchange for alterations to the law on presidential elections, making it more difficult to manipulate the voting in the 'third round'. According to the amendments, starting from 2006 onwards, the government is formed by a majority coalition in the parliament, although the president has retained his right to appoint *inter alia* the ministers of defence and foreign affairs (as well as the regional governors).

The March 2006 parliamentary elections resulted in a triumph of the opposition parties (notably the Party of Regions of Mr Yanukovych, which came first, and the Yuliya Tymoshenko Block, which came second), weakening the position of the pro-Yushchenko 'Our Ukraine' party and forcing it to accept difficult compromises. After several months of protracted negotiations and the eventual failure of a renewed 'orange' coalition, August 2006 witnessed the formation of the so-called 'anti-crisis' coalition with the right-of-the-centre pro-Russian Party of Regions at its core (the two minor coalition partners being the Socialists and the Communists) and with Mr Yanukovych becoming Ukraine's prime

minister once again – but this time with considerably more powers provided by the new constitution. ‘Our Ukraine’ of President Yushchenko was left with little choice but to join de facto the new coalition by signing a Universal Declaration, even though its formal participation in the coalition agreement is still pending. The first announcements and steps of the new government indicate a return to a ‘multi-vector’ foreign policy, thereby putting more emphasis on relations with Russia. However, integration into the EU appears to be on the agenda as well, while Ukraine’s prospects of NATO membership are being put on hold. In the area of economic policy, the new government is likely to focus on improving the business environment (especially for the big business) by further tax cuts, a more protectionist stance in trade policy, and maintaining a competitive exchange rate.

Growth performance

Between 2000 and 2004, the Ukraine’s economy was growing rapidly. As illustrated by Table A1, economic growth exceeded 5% in 2000 and 2002, 9% in 2001 and 2003, and reached as much as 12.1% in 2004. However, this dynamic development is to be viewed against the background of a very low base resulting from the dramatic decline in the course of the 1990s. Even in 2004 – after several consecutive years of high growth – the country’s GDP still stood at just 61% of the 1990 level.

The major factors behind the impressive performance of the early 2000s were:

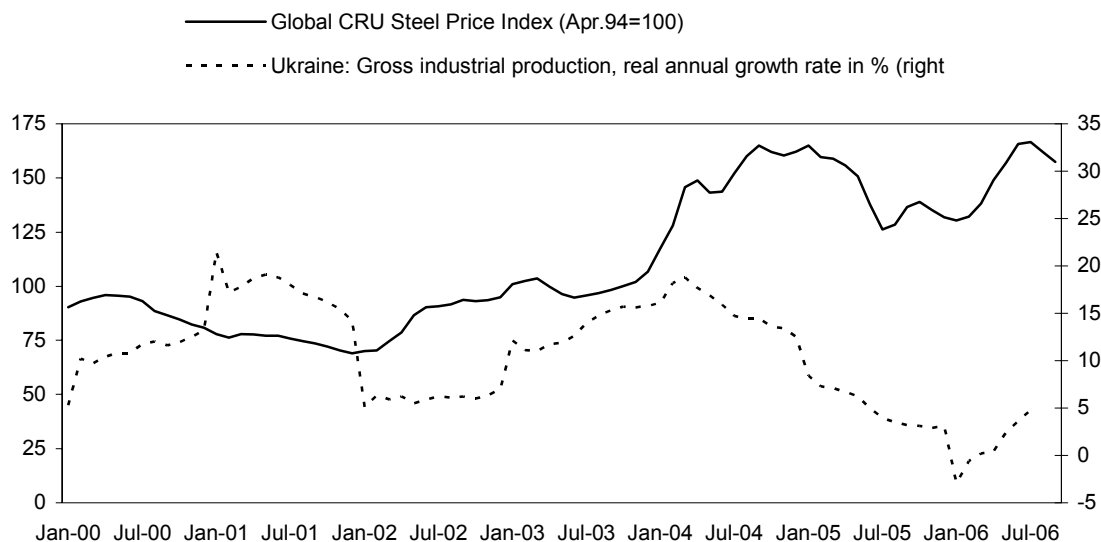
- the devaluation of the Ukrainian hryvnia in 1999 in the aftermath of the Russian financial crisis, which created a window of competitive advantage for the country’s producers, particularly in the food processing industry, which was increasingly substituting imports;
- rapid economic growth in Russia and the other CIS countries, resulting *inter alia* in rising demand for Ukrainian machinery and transport equipment on these markets;
- rising world prices of steel (see Figure 1) and strong external demand for metals – Ukraine’s major export commodity – particularly in the Asian markets; and, last but not least,
- a dramatic upswing in domestic demand for capital goods.

The booming gross fixed investment reached its peak in 2003 and 2004, when it expanded by 31% and 28% respectively, financed primarily from the healthy profits of exporters, although access to bank credit generally improved as well. (The particular need for major investment activity in Ukraine becomes readily apparent when viewed against the background of its sharp contraction throughout most of the 1990s. Nonetheless, the current investment ratio – 22.2% of GDP in 2005 – is not particularly high by international standards: if it remains at that level, it will not sustain economic growth at the pace observed in 2000-2004.) Private consumption was generally rising as well, although it was not until 2004 and especially 2005 that it became the major pillar of growth. On the

production side, it was industry that was leading the growth, whereas the performance of agriculture was much more volatile – largely due to the changing weather conditions for harvests (see Table A1).

Figure 1

Steel prices and Ukraine's gross industrial production, 2000-2006



Source: wiw Monthly Database and CRU steel price index.

However, in 2005 economic growth slowed down to just 2.6% – largely on account of weak investment demand and negative developments in foreign trade, while consumption even picked up somewhat. Anecdotal evidence suggests that the investment climate suffered massively from the policy steps undertaken by the new ‘orange’ authorities. In particular, the 2005 budget amendments introduced a five-year moratorium on granting new and enhancing existing tax benefits, while the tax and customs benefits enjoyed by certain industries (including the automotive, aircraft and space industries) as well as by the ‘special economic zones’ (SEZs) and the ‘territories of priority development’ (TPDs) were scrapped with a retroactive effect. The latter move was aimed at closing the ‘loopholes’ for smuggling, but it also hurt the investment projects already implemented there.² Even more importantly, the new authorities launched a re-privatization campaign, revising some of the most controversial privatization deals concluded under the former president Kuchma. On the one hand, the campaign was intended to raise the privatization revenues and thus replenish the state budget, but it was also part of the fight of the new power elite against the financial-industrial groups which had benefited the most under Kuchma, and thus resembled somewhat the ‘Yukos case’ in Russia. To make things worse, the government added to investors’ worries by a series of contradicting statements regarding both the scope and the

² As of January 2005, Ukraine reportedly had 11 SEZs and 72 TPDs on its territory, involving 212 and 556 investment projects, respectively.

particulars of the upcoming re-privatization scheme. It took the government several months to draft a list of enterprises subject to re-privatization and representing most notably the assets of domestic financial-industrial groups, but also some companies with foreign investment, including Russian, Austrian, German, and US participation. However, the list was never officially published (although it was referred to by several high-ranking officials including President Yushchenko), and Prime Minister Tymoshenko even denied its very existence. In turn, the State Property Fund headed by a Socialist Party nominee³ compiled an alternative list of 194 mostly medium-sized enterprises subject to re-privatization which did not overlap with the former list. Several privatization deals were indeed annulled in court, including the country's biggest steel producer Kryvorizhstal' and the Nikopol Ferroalloy Plant.⁴ Largely as a result of the new policy course, fixed capital investments increased by a mere 1.9% in 2005, and construction output declined by 6.6% – another reflection of weak investment activity (Table A1).

At the same time, the negative developments in foreign trade were observed both on the exports and the imports side, and were only partly generated by domestic factors. On the exports side, world steel prices plunged by some 30% in the first half of 2005 alone (see Figure 1 above), following an upgrade of steel production capacities in China, and Ukraine's steel exports, accounting for some 30% of total exports, suffered accordingly. Simultaneously, imports were fostered by increased social spending (for more on that, see next section) and the currency revaluation undertaken in April 2005. The resulting turnaround in the country's trade balance was dramatic: the trade surplus in goods, which had reached EUR 3 billion in 2004, turned into a EUR 900 million deficit in 2005 (corresponding to some 1.4% of GDP).

However, newly available data provide evidence that the economic slowdown recorded in 2005 and in the first few months of 2006 has reversed (see Table A2). In January-August 2006, real GDP grew by 5.7% – much faster than over the same period of 2005 (2.8%). This growth was primarily driven by services, particularly retail and wholesale trade, but also by construction (+7.1%), which was boosted by recovering investments (+12.2% in the first half of 2006). Since May 2006, industrial output has been picking up as well – largely due to the strong expansion of metals production. In the first eight months of 2006, metals output was up by 8.4% year-on-year (compared to a 3.1% decline in January-August 2005), taking full advantage of the soaring steel prices (Figure 1), and

³ The Socialist Party, led by Alexander Moroz, supported the presidential bid of Mr Yushchenko in the second round of the 2004 elections and was rewarded with several posts in the government.

⁴ Subsequently, Kryvorizhstal' was re-sold to Mittal Steel for UAH 24 billion (some EUR 4 billion, or six times the price paid by the previous owners) in a highly successful tender held in October 2005. This deal alone exceeded by far the entire privatization revenue target set for 2005 (UAH 7 billion) – even though otherwise the privatization process in the country nearly stalled – and, in addition to covering the country's budget deficit in 2005, is contributing to finance the deficit in 2006 as well. In turn, the re-nationalized stake at the Nikopol Ferroalloy Plant has remained in state ownership ever since.

notwithstanding the 'gas price shock' (for more on that, see below). The recovering metals production has already translated into rising exports: in the first seven months of 2006, goods exports were up by 4.8% in US dollar terms (imports by 21.3%). Finally, private consumption gained momentum once again, backed by an impressive growth of real disposable money incomes of households (by 19.5% in January-July) and expanding bank lending.

Fiscal policy

The impressive economic upswing of 2000-2004 took place without any major boost from the fiscal side. If anything, the fiscal policy was fairly restrictive: while the economic upswing and improved tax collection were inflating budget revenues, expenditure items were typically being under-financed. Also, the government accumulated huge arrears of VAT refunds to exporters, which were later partially converted into bonds. (The latter was a consequence of the wide proliferation of 'tax optimizing' schemes involving fake export contracts aimed at evading VAT.) Prior to 2004, the country's general government budget was largely balanced (see Table A1), and the role of the state remained fairly modest. Government expenditures as a share of GDP stayed consistently below 30%, making Ukraine on this account a very liberal state not only by European, but even e.g. by US standards – at least judging by this indicator. Another manifestation of the liberal economic policy course was a series of tax reforms initiated by the 'first' Yanukovych government as of 2004, including a cut of the profit tax from 30% to 25% and, most importantly, the introduction of a 13% flat personal income tax following Russia's example. The latter measure was intended to broaden the tax base by raising tax compliance,⁵ although this target was never achieved. Unsurprisingly, the backbone of the country's public finances has invariably been the collection of the value-added tax (VAT), which is typical of countries with a level of development comparable to that of Ukraine.

The Orange Revolution and, in fact, already the 2004 presidential election campaign marked a major turnaround in the country's fiscal policy. It was the 'first' Yanukovych government which doubled the minimum pension on the eve of the 2004 elections in order to improve the prospects for Mr Yanukovych to be elected. Largely as a result of this measure, the consolidated budget in 2004 recorded a 3.2% deficit. The new (risen) budget spending commitments were further re-enforced by the amendments to the 2005 budget enacted by the first 'orange' government. In line with those, the minimum pension was raised by another 17% (to UAH 332, or some USD 65 per month), while the average pension increased even more, by nearly 22% – in accordance with the strategy of pension differentiation. In turn, wages in the public sector were raised by 57% in nominal terms. This policy of increased social spending probably reflected the growing awareness within

⁵ The scale of the shadow economy in Ukraine stands, according to some estimates, at 50% of official GDP.

the ruling elite that Ukraine should have more of a welfare state than it used to have before. As a result, within just one year – from 2004 to 2005 – the share of consolidated budget expenditures in GDP went up by more than four percentage points and reached 33.4% of GDP (Table A1). Unsurprisingly, the higher social spending and the resulting gains in disposable money incomes of households, particularly of the poorer ones, led to a boom in private consumption. The latter rose by 15.1% in 2004 and 15.9% in 2005, and was increasingly spilling over into imports.

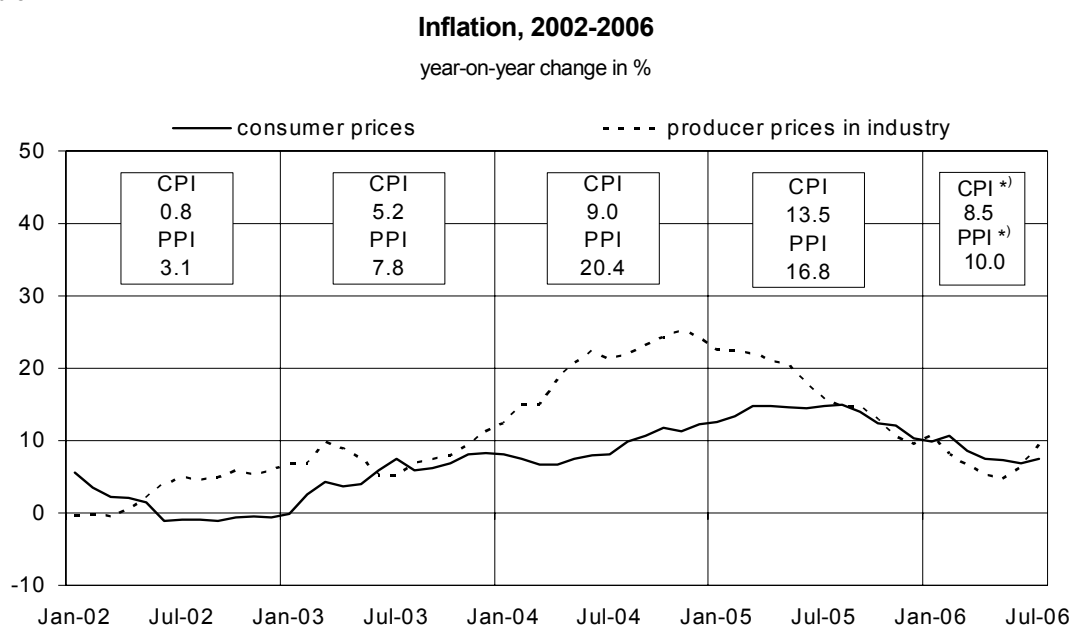
The rising expenditure commitments were backed by increased revenues resulting from higher excise taxes on tobacco and fuels, the imposition of VAT on energy imports, a harder stance on smuggling, and the already mentioned abolition of preferences to SEZs. The combined effect of these measures was an impressive rise in government revenues, although some of the measures had unpleasant side-effects, which spilled over into other areas of economic policy. Thus, the imposition of Ukrainian VAT and of higher excise taxes on fuels imported from Russia – in line with the switch to a uniform application of the ‘country of destination’ principle of indirect taxation in January 2005 – aggravated the increase in the oil price paid on the Russian border. As a result, the domestic retail price of oil products surged by some 50% within just a few weeks in March-April 2005. In response to the soaring prices, the government of Yuliya Tymoshenko accused the Russian oil companies dominating Ukraine’s oil products market of a ‘conspiracy’ and suggested that the security of their assets in Ukraine could be conditional on their pricing behaviour. Also, in order to contain the price increase, the government imposed a cap on wholesale prices of fuels and a 13% retail margin cap. The outcome of these measures were widespread fuels shortages, forcing the government to eventually give up administrative price-setting and lower the excise taxes and import duties on oil products instead.

By contrast, the new (the ‘second Yanukovich’) government appears to be returning to the more liberal course pursued prior to the Orange Revolution. The strategy of easing the fiscal pressure on businesses in the medium term envisages *inter alia* cutting the corporate profit tax from 25% to 20%, re-instating the Special Economic Zones abolished by the Tymoshenko government, and shifting the social insurance burden from employers to employees. The latter is to be achieved by adopting a unified social tax instead of several social insurance funds so far and by setting a new rate of 29% for employers (instead of 38% at present) and 16.4% for employees (instead of 3.5%). Also, there are plans to cut the VAT rate from 20% to 18%. After two years of relatively abundant budget spending, the government share in GDP is to be depressed below 30% once again, while the 2.55% consolidated deficit envisaged by the 2007 budget draft is to be covered largely by the UAH 10 billion worth privatization receipts.

Monetary sector

The unpleasant side of the fast economic recovery in 2000-2004 was a pick-up in inflation. After reaching a low of 0.8% on annual average in 2002, consumer price inflation was generally on the rise in the subsequent years and amounted to as much as 13.5% in 2005, again on an annual average. Also industrial producer price inflation accelerated markedly and almost invariably remained above consumer price inflation (see Figure 2). The 2005 slump in economic activity resulted in declining inflation, but the currently observed pick-up in metals prices is already translating into accelerating producer prices and will undoubtedly make disinflation of consumer prices more difficult.

Figure 2



*) Forecast.

Source: wiw Monthly Database incorporating national statistics.

Among the important factors of *demand-pull* inflation were:

- (a) the persistent current account surpluses the country was running between 1999 and 2005, and the resulting inflows of foreign exchange, and
- (b) the above-mentioned fiscal stimulus accompanying the Orange Revolution.

In addition, the impressive increase in the price of oil, particularly starting from 2003, contributed to *cost-push* inflation as well, especially given the extremely high energy intensity and energy import dependence of Ukraine's economy. The price hike of imported natural gas at the beginning of 2006 has had a similar effect, albeit a smaller one than initially feared – at least for the time being.

While, as discussed in the previous section, the fiscal policy used to be fairly restrictive, at least prior to the Orange Revolution, inflation was fuelled by a lax monetary policy. Given the country's economic openness and the virtual lack of domestic monetary policy instruments, the latter essentially boiled down to exchange rate policy – in particular, to maintaining a *de facto* exchange rate peg to the US dollar at the level of UAH 5.33 per USD since 2002. This policy implied a generally constant real exchange rate of the Ukrainian hryvnia against the currencies of its main trading partners, Russia and the Eurozone (due to higher inflation in the former and the strengthening of the euro against the dollar in nominal terms in 2003-2004; see Figure 3). In turn, this helped to ensure the competitiveness of Ukrainian products in both foreign and domestic markets and to maintain a positive trade balance and – ultimately – solid economic growth, albeit accompanied by stubborn inflationary pressure. The latter was only partly suppressed by occasional price controls, such as those for bread imposed in many regions in response to the abysmal grain harvest in 2003. During the boom of 2004, there was evidence that some industrial branches were operating on the verge of their capacity, so that the high aggregate demand increasingly translated into higher inflation rather than into higher production volumes – a sign of 'overheating'. In addition, inflation was fed by the low domestic supply of certain agricultural products such as meat. To ease the inflationary pressure, in the course of 2004, the National Bank gradually raised the refinancing rate from 7% to 9% p.a., but given the small size of the banking sector, it is no big surprise that the real impact of this measure proved limited.

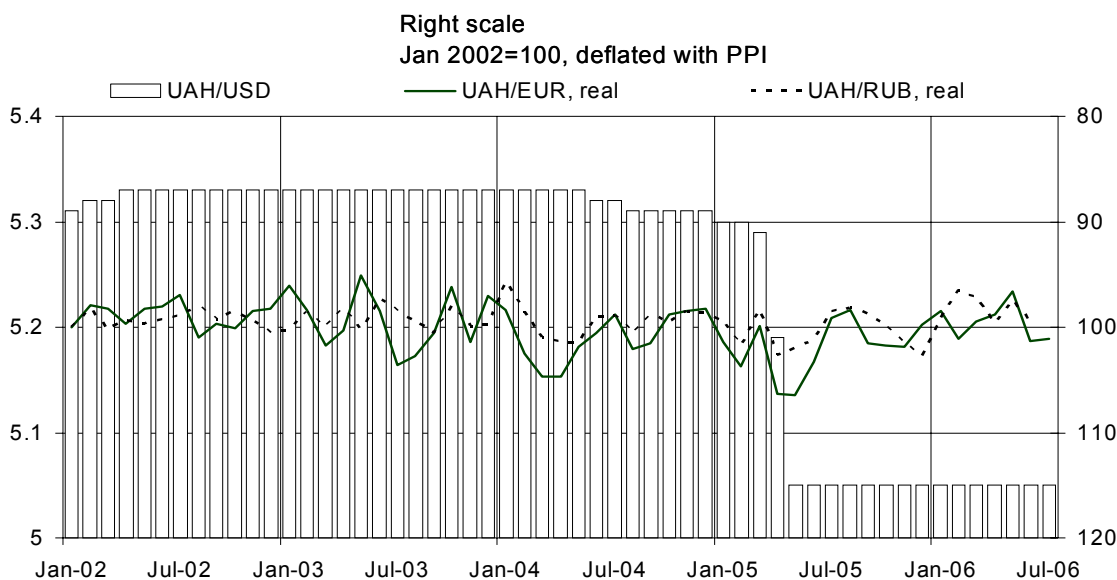
Even at double-digit levels occasionally, the country's inflation never posed any danger to economic growth. However, the IMF consistently named taming inflation a key priority for the Ukrainian authorities – particularly as the inflationary pressure was mounting after the Orange Revolution. The prescribed instruments were of standard IMF-variety and included a more restrictive monetary and fiscal policy – although fiscal policy options were heavily constrained by the new spending commitments. In the area of monetary policy, the IMF was advocating direct inflation targeting in place of the *de facto* peg to the US dollar. Partly in response to the IMF policy advice, but also to the strong appreciation pressure stemming from both the current account surplus and the surge in speculative capital inflows following the Orange Revolution,⁶ in April 2005 the National Bank of Ukraine

⁶ Still, the political turbulence *preceding* the Orange Revolution led to a run on Ukraine's currency at the end of 2004. The volume of hryvnia deposits in banks dropped by 4.8% in November and by another 2.9% in December, while deposits denominated in hard currencies (dollar and euro) went up. The banks responded by raising interest rates offered on hryvnia deposits by 2-4 percentage points and lowering them on hard currency deposits. In addition, the National Bank intervened heavily in the foreign exchange market (its forex reserves contracted by about EUR 1 billion in the last two months of 2004 alone) and resorted to a number of other measures, including a moratorium on premature withdrawal of term deposits, a ban on the net expansion of credit portfolios of commercial banks, and stabilization credits extended to some of them. By January 2005, the financial turmoil seemed to be largely over; the National Bank revoked the moratorium on premature withdrawal of term deposits and abolished its regulation from October 2004 according to which the exchange rate could not deviate from the officially set one by more than 2%, forex reserves started rising again, while some of the banks paid back the stabilization credits ahead of schedule.

abandoned the previous peg and revalued the currency by 4.7%, to UAH 5.05 per USD. This new peg has been maintained ever since. The measure was intended to ease the inflationary pressure by depressing the cost of imports (especially energy), on the one hand, and reducing the current account surplus and the resulting inflow of foreign exchange, on the other. In another move, the National Bank scrapped the 50% surrender requirement for export earnings which had been in place since the 1998 financial crisis. Although it can be argued that without the revaluation, the inflation in 2005 would have turned out even higher than it actually did, the measure also hurt the real economy by reducing the competitiveness of domestically produced goods and giving a boost to imports, particularly those of consumer goods.

Figure 3

Nominal and real exchange rates, 2002-2006



Source: wiw Monthly Database incorporating national statistics; wiw calculations.

Maintaining the new 5.05 UAH per USD exchange rate peg does not mean invariably resisting the appreciation pressure stemming from external surpluses – as it used to be the case up until 2004. As a result of the poor foreign trade performance, since the last quarter of 2005, the current account has turned negative, and its deficit stood at nearly 2% of GDP in the first half of 2006 (even though a lower figure is expected for the year as a whole as a result of the recently improved export performance). However, the appreciation pressure is increasingly coming from capital account transactions – initially from the conversion of dollar savings by households into hryvnia in response to the 2005 revaluation and, more recently, from a surge of FDI inflows representing largely big one-time projects such as the re-privatization of the Kryvorizhstal’ steel mill and the wave of takeovers in the banking sector. Given the natural volatility of these inflows, the short-run dynamics of forex reserves of the National Bank tends to be volatile as well, but in the medium term the National Bank

of Ukraine should have no difficulties in maintaining the current peg. A possible weakening of the US dollar against other major currencies in the wake of global 'rebalancing' will make this task even easier.

Foreign trade and economic integration

Ukraine's foreign trade developments since the country's independence have been generally characterized by a re-orientation of trade flows away from Russia and the CIS – reflecting the trend characteristic of most countries of the former Soviet Union. In Ukraine, this has been particularly the case with exports. However, since 2002 this trend appears to have reversed (see Figure 4) because of the relatively high economic growth in Russia and the resulting market potential, and more recently also because of the stagnation of Ukraine's exports of metals, the bulk of which has been destined for 'third countries' (such as China, Saudi Arabia or Algeria) given the high level of protection of the steel industry in both Russia and the EU. Still, Russia accounts for just above 20% of Ukraine's total exports – somewhat below the enlarged EU with 27%. However, the patterns of Ukraine's trade with Russia and with the EU are strikingly different. In trade with the EU, Ukraine is largely occupying the niche of a less developed country, as it is specializing in a relatively narrow range of not very sophisticated products: notably metals, chemicals, and mineral fuels, while imports are dominated by machinery and equipment. However, in its trade with Russia (but for historical reasons also to some extent with the Baltic states), Ukraine has a strong position in a number of more sophisticated items such as transport vehicles and machinery and equipment, including military production – although this is partly explained by the existence of production links dating back to Soviet times. For a number of machinery and equipment items, the share of Russia as an export destination stands at over 50%.

Unlike in the case of exports, re-orientation of imports away from Russia has been kept within limits by the country's high dependence on energy deliveries, and Russia has been consistently ranking as Ukraine's biggest source of imports, with a share of some 35-40% of the total. Energy dependence on Russia also explains Ukraine's persistently high trade deficit with Russia (although the trade deficit with the EU has been on the rise as well). However, Ukraine's trade deficit with Russia is partly counterbalanced by a surplus in services – largely due to the transit fees charged by Ukraine for the Russian oil and gas exports to Europe.

Despite high expectations after the Orange Revolution, Ukraine's trade relations with the EU have not advanced very much, although the country was finally granted the 'market economy' status in December 2005, making the application of anti-dumping measures against Ukraine's exports of metals and chemicals to the EU more difficult, though not impossible. The key document underlying the institutional relations between Ukraine and the European Union is the so-called Partnership and Co-operation Agreement (PCA),

which *inter alia* envisages the application of the most-favoured-nation principle in mutual trade and envisages the formation of a free trade area with the EU after Ukraine has joined the WTO.⁷ Meanwhile, Ukraine's accession to the WTO has been delayed repeatedly, although the progress reached in negotiations – particularly under the 'orange governments' in the last two years – has been impressive. Most importantly, Ukraine has signed a bilateral agreement on market access in goods and services with the United States, the only bilateral agreements pending conclusion being those with Kyrgyzstan and Taiwan. However, Ukraine's WTO accession seems now increasingly likely to be synchronized for political reasons with that of Russia. In turn, this will probably entail a further delay, given Russia's negotiating position becoming stronger and the prospects of agreement between Russia and the US increasingly problematic.

While EU officials sometimes hail Ukraine's aspirations to become an EU member in the future and although the European Parliament passed, in 2005, a non-binding resolution explicitly urging the European Commission to offer Ukraine membership prospects, no concrete dates have been specified so far. Instead, relations with Ukraine are covered by the EU programme 'Wider Europe – Neighbourhood' adopted in March 2003 and encompassing EU relations with the 'European periphery', including most notably the European CIS countries and the countries of the Mediterranean. Within the framework of that programme, the EU launched the so-called New Neighbourhood Programmes (NNPs) aimed at avoiding new dividing lines in Europe after the EU enlargement by boosting cross-border cooperation with the 'left-out' countries. Also, while Ukraine has unilaterally abolished its visa requirement for EU citizens, the EU visa regime for Ukrainians remains highly restrictive, pending conclusion of a re-admission agreement (although, as the recent experience of Russia has shown, the EU visa regime will most probably remain very restrictive even if a re-admission agreement is concluded).

The project of a Common Economic Space (CES) between Ukraine, Russia, Belarus and Kazakhstan – agreed upon in September 2003 – has remained largely on paper as well, at least as far as Ukraine's participation is concerned. The main reason for that is that Ukraine and Russia have very different views as to the speed and the final stage of the planned (re-)integration. While Russia would like to form at least a customs union within the CES framework, Ukraine's interest in the project has been confined so far to a free trade area only. Meanwhile, some of Ukraine's main export items continue facing high tariff and particularly non-tariff barriers to entering the Russian market (the latter is also true for Ukraine's imports from Russia). Although the two countries have had a formal free trade agreement since June 1993, a number of essential products – including sugar, tobacco,

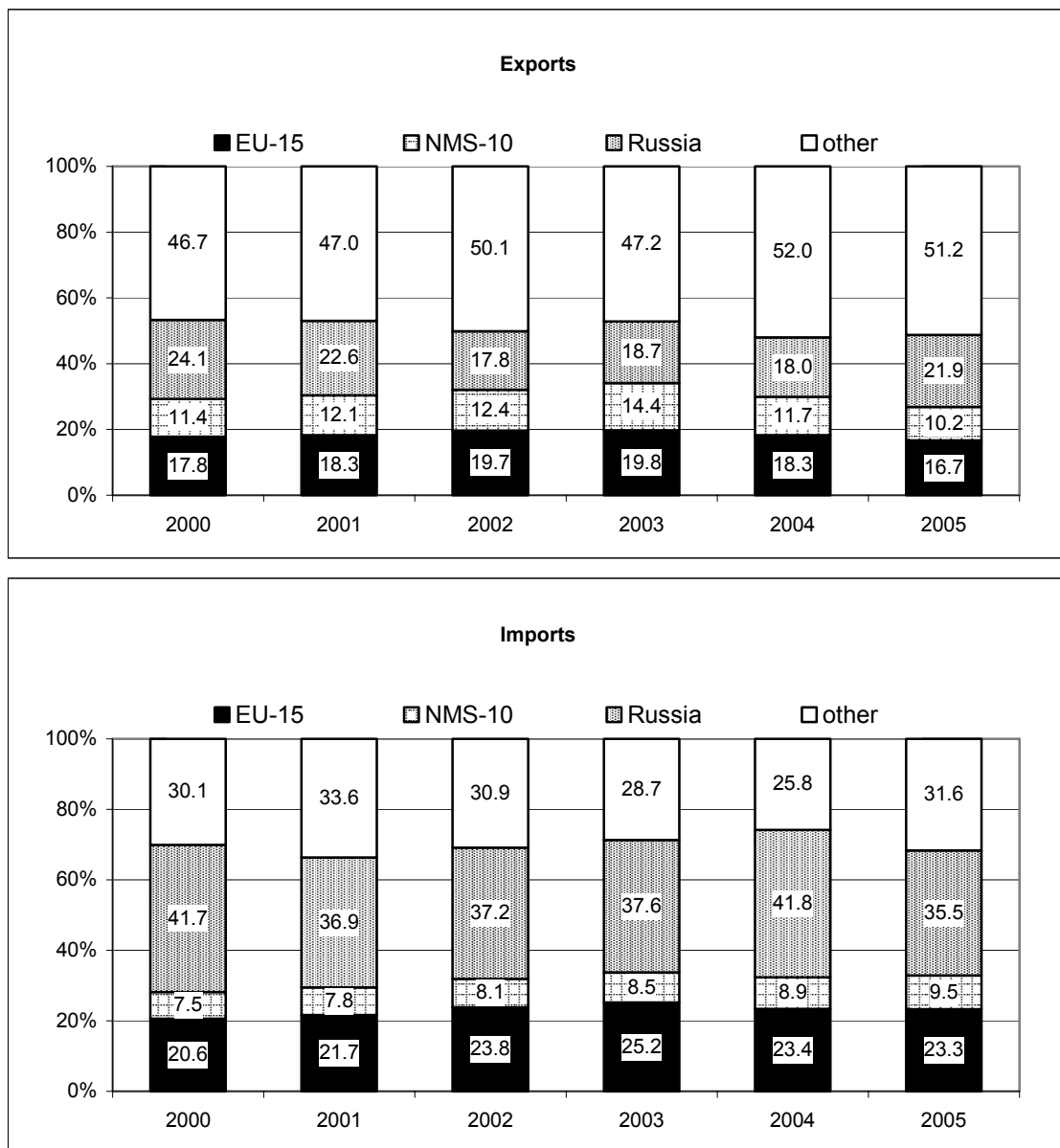
⁷ It is worth noting that the EU's insisting on Ukraine's membership in WTO as a *prerequisite* for free trade negotiations contradicts the EU's stance in the case of some of the NMS and the EU candidate countries, which formed a free trade area with the EU long before joining the WTO. In fact, their WTO accession was a *by-product* of trade agreements with the EU and adopting the EU's *acquis communautaire*.

spirits, confectionery, and metals – were exempted. In addition, in spring 2006 Russia imposed a ban on imports of dairy products and meat from Ukraine which allegedly failed to comply with the Russian sanitary and phytosanitary standards. Last but not least, the expectations of economic benefits to Ukraine in the form of cheaper energy from Russia after the switch to the uniform ‘country of destination’ principle of indirect taxation as of 2005 have not materialized, and any convergence of Ukraine’s domestic energy prices to the Russian (also rising) levels is only possible at higher stages of integration – which Ukraine is reluctant to enter.

Figure 4

Ukraine’s foreign trade in 2000-2005, by region

(in % of total)



Source: wiiw Database incorporating national statistics.

Table 1

Ukraine's trade with Austria in 2000-2005, EUR million

the ten biggest commodity groups at HS 2-digit level, shares in total (%)

	2000	2001	2002	2003	2004	2005
Exports to Austria, EUR million	226.7	258.6	244.7	258.3	307.7	341.5
of which (in %):						
95 Toys, games & sports requisites; parts & accessories	6.71	7.40	8.04	8.78	7.87	7.90
72 Iron and steel	4.26	2.83	2.49	4.74	10.69	6.18
44 Wood and articles of wood; wood charcoal	13.05	12.30	12.25	11.40	8.39	5.26
85 Electrical machinery equipment; parts thereof	14.16	14.62	8.75	19.66	14.18	4.17
20 Preparations of vegetable, fruit, nuts or other parts	2.74	1.35	0.93	1.77	1.58	3.07
84 Nuclear reactors, boilers, machinery & mechanical appliances	0.89	0.36	1.50	1.36	1.39	2.60
22 Beverages, spirits and vinegar	0.00	0.17	1.05	1.59	1.07	2.60
08 Edible fruit and nuts; peel of citrus fruit	1.60	1.19	2.57	2.10	1.40	2.21
73 Articles of iron or steel	0.08	0.41	0.25	0.37	1.41	1.74
90 Optical, photographic & other instruments & accessories	0.14	0.04	0.25	0.75	0.82	1.43
Imports from Austria, EUR million	236.1	341.5	286.1	378.9	383.5	511.8
of which (in %):						
84 Nuclear reactors, boilers, machinery & mechanical appliances	23.25	23.61	22.20	22.80	24.16	27.50
85 Electrical machinery equipment; parts thereof	24.81	28.36	15.05	21.05	22.56	14.88
30 Pharmaceutical products	6.34	5.80	10.59	7.98	9.27	10.41
48 Paper & paperboard; articles of paper pulp	7.73	6.46	8.88	5.60	6.53	7.07
39 Plastics and articles thereof	5.96	5.31	5.43	4.35	5.00	5.03
87 Vehicles other than railway or tramway rolling stock	2.72	3.67	4.86	4.41	3.62	3.84
95 Toys, games & sports requisites; parts & accessories	0.13	0.21	1.68	1.54	2.19	2.83
73 Articles of iron or steel	3.23	4.14	3.23	4.01	2.01	2.65
83 Miscellaneous articles of base metal	0.44	0.47	0.71	0.72	1.21	2.64
21 Miscellaneous edible preparations	0.85	1.00	1.92	1.62	1.69	2.18
Trade balance with Austria, EUR million	-9.4	-83.0	-41.4	-120.6	-75.8	-170.3

Source: Eurostat COMEXT Database, wiw calculations.

Within the EU, *Austria* is a relatively important trading partner for Ukraine not only due to the geographical,⁸ but partly also due to the cultural proximity: western Ukraine used to be part of the Austro-Hungarian Empire. Table 1 presents evidence that since 2000, the trade turnover between Ukraine and Austria has been on the rise, surpassing EUR 800 million by 2005 and reflecting first of all Ukraine's economic upswing. However, Ukraine's imports have been generally growing faster than exports. As a result, Ukraine has been running a growing trade deficit with Austria (according to Eurostat data, the latter reached an all-time high of EUR 170 million in 2005). In a number of ways, the pattern of Ukraine's specialization in trade with Austria is indicative of the country's overall export specialization.

⁸ Geographically, the Ukrainian border is closer to Vienna than is, e.g., Bregenz, the capital of Austria's westernmost province.

According to Eurostat data, the biggest items of Ukraine's exports to Austria in 2005 were toys, games and sports requisites (7.9% of the total), followed by iron and steel (6.2%), wood (5.3%), and electrical machinery equipment (4.2%).⁹ However, for a number of commodity groups, the discrepancies between Eurostat data and national (Derzhkomstat) statistics are striking. Thus, Eurostat statistics almost completely disregard Ukraine's exports of ores, slag and ash to Austria. Meanwhile, according to Ukrainian statistics, the latter accounted for as much as 43.2% of the total in 2005. The structure of Ukraine's imports from Austria appears to be somewhat more diversified, the biggest items being nuclear reactors and boilers (27.5% of the total; boilers rather than reactors), followed by electrical machinery (14.9%), pharmaceuticals (10.4%), paper and paperboard (7.1%).

Energy dependence and energy trade

Ukraine does not possess sufficient reserves of fossil fuels of its own,¹⁰ while it simultaneously has an extremely energy-intensive economy. The latter is essentially a structural feature as well, resulting from

- the legacy of the Soviet central planning system, which built up an extensive heavy industrial base in Ukraine;
- the under-pricing of energy in Soviet times; and
- the limited scope of economic restructuring (which could have involved *inter alia* an implementation of energy-saving technologies) so far.

To illustrate the problem, Table 2 presents the results of earlier calculations of the author demonstrating the dependence of Ukraine and some other countries on oil. Although the share of oil in Ukraine's primary energy consumption (i.e. the energy consumption in refineries, heating plants, and electric power stations) stands at a mere 11.5%, the oil intensity of its GDP (converted at exchange rates) is very high by international standards – the combined outcome of technical inefficiency and the weakness of Ukraine's currency. Given the high dependence of Ukraine's economy on imported energy carriers, Russia is an attractive energy supplier – and that not only because of the geographical proximity, but also due to the fact that for a long time Russia has been supplying energy to Ukraine at prices far below the world market prices, particularly as far as natural gas is concerned.

Despite the abolition of VAT taxation on the Russian side in line with the switch to the 'country of destination' principle of indirect taxation of traded energy in 2005, the price of *oil* shipped to Ukraine did not decline, but, on the contrary, rose further, as Russia reportedly took offsetting measures by raising the resource extraction royalty and the export duty on

⁹ Here and thereafter, the rankings are based on the HS (Harmonized System) 2-digit classification.

¹⁰ The coal deposits of Donbass in Eastern Ukraine are largely depleted and are increasingly difficult to extract, making the branch dependent on extensive government subsidies.

oil.¹¹ More generally, the increase has been in line with the global trend of rising oil prices: although in previous years Ukraine used to buy Russian oil at prices far below the world market prices, by now they have largely converged. Most importantly, the price of oil shipped to Ukraine contains Russia's export duty, which is set depending on the level of the world market price and is revised on a regular basis.¹²

Table 2

Selected indicators of oil dependence of Ukraine and selected countries in 2000

	Share of oil in primary energy consumption, %	Oil intensity of GDP (barrels per USD 1 mn of GDP at PPP)	Oil intensity of GDP (barrels per USD 1 mn of GDP at ER)
Ukraine	11.5	657	4215
Russia	18.6	954	3524
Poland	24.4	438	1024
Austria	38.9	438	508
Germany	41.0	476	543
Japan	51.5	614	425
USA	38.9	730	730

Source: wiiw calculations.

Unlike the price of oil, the price of *natural gas* imported to Ukraine did not increase at that time – although it did not decline either. In 2005, the border gas price stood at USD 50 per thousand cubic metres (th cm) for half the Russian supplies within the framework of a barter arrangement (in exchange for the transit of Russian gas exports to Europe across Ukrainian territory), USD 80 per th cm for the second half, which was paid in ‘cash’, and USD 65 for the gas imported from Turkmenistan. After protracted negotiations accompanied by supply cuts, since January 2006 Ukraine has been formally paying a new uniform price of USD 95 per th cm. However, the border price increase has been passed on to the final consumers only partly, given the monopoly position of the state-owned energy company Naftohaz and administrative price-setting in the domestic market. The price for *industrial consumers* was revised upwards as of January 2006 to USD 110 per th cm (excluding VAT and transport costs). The resulting increase in producer prices was moderate, as the most energy-consuming export industries facing international competition – metals and chemicals – were unable to pass the rising cost of energy inputs on to customers (given the stable exchange rate) and initially were forced to reduce production volumes instead. However, more recently both these branches resumed growth – reflecting better prices for their output (particularly regarding metals), but also the recent surge in energy-saving investments. In turn, the gas and electricity tariff hikes for

¹¹ See C. Shiells (2005), ‘Optimal taxation of energy trade: the case of Russia and Ukraine’, paper prepared for the ETSG 7th Annual Conference in Dublin, 8-10 September 2005, Joint Vienna Institute, August.

¹² As of 1 October 2006, Russia's export duty on oil has been set at about USD 33 per barrel.

households were postponed until after the March parliamentary elections; both were eventually raised by 25% on 1 May 2006. A more pronounced gas tariff hike for households (by 85%) was enacted as of July 2006, but the price surge was mitigated by the traditional deflation of foodstuffs making up some 60% of the consumer basket over the summer months. (Another, albeit smaller, tariff hike is scheduled for 1 January 2007.)

Despite the recent hike, the current gas price paid by Ukraine is far below the price prevailing in Europe (USD 230-250 per th cm), though it stands above the Russian domestic price (USD 45-50 per th cm). The gap between the price paid by Ukraine and the European price can only partly be explained by the peculiarities of taxation on the Russian side: Russia levies an excise tax on the exports of natural gas, which stands at 30% for exports to the non-CIS countries, but only at 15% for shipments to the CIS.¹³ The real issue is that the price of natural gas sold by Russia to its CIS neighbours often tends to be politically rather than economically motivated.¹⁴ However, this gap also indicates a potential for further price hikes. The 2007 budget draft submitted to the Rada (Parliament) is based on a gas price of USD 135 per th cm – a generally realistic assumption, although the actual price may turn out to be lower. Interestingly, the budget draft also proposes setting up a ‘stabilization fund’ of UAH 3 billion in case the actual gas price exceeds the anticipated level. In the longer term, in order to reduce the energy dependence on Russia, the ‘Energy Strategy of Ukraine until 2030’ aims at using more nuclear power and domestically produced coal (although the latter is questionable given that Ukraine’s coal deposits are largely depleted). This should bring down gas consumption from 76 to 50 bn cm per year. An even better recipe for solving the country’s energy problems would be a large-scale implementation of energy-saving technologies, including those brought by foreign investors.

Foreign direct investment

The current structure of Ukraine’s exports does not provide much room for long-term growth and, as exemplified by the recent U-shaped path of economic performance, makes the country highly vulnerable to volatile commodity prices. However, the currently observed surge of FDI inflows into Ukraine could allow for more imports of investment goods, which are badly needed for the modernization of the country’s economy. As illustrated by the recent example of the new EU member states (NMS), particularly Hungary, the Czech Republic, Poland, Slovakia and Estonia, more FDI inflows may also gradually form a basis for the subsequent upgrading of Ukraine’s export structure. The experience of these countries has shown that capital *per se*, though important, is just one, and not the most

¹³ See Shiells (2005), *op.cit.*

¹⁴ The natural gas shipments from Russia to Ukraine and elsewhere are dominated by the Russian gas monopolist Gazprom, which has always been *de facto* – and recently has become also *de jure* – controlled by the Russian state.

important, benefit reaped by a country-recipient of FDI. Much more important has been the related transfer of technology and managerial know-how, which generally gave rise to remarkable productivity improvements and successful marketing strategies abroad. Therefore, it is not only the volume of FDI inflows that matters, but also their source and the sectors targeted, with FDI originating from advanced economies (such as the EU-15) and targeting the more sophisticated industrial branches bringing the most benefits.

On this account, the performance of FDI into Ukraine has so far been rather disappointing – see Figure 5. By the end of 2005, the cumulated inward stock of FDI per capita – the arguably most appropriate indicator of FDI penetration – in Ukraine amounted to just EUR 310. This is far below the levels observed not only in the advanced NMS such as Estonia (EUR 7700) or Poland (EUR 1800), but even in Bulgaria (EUR 1100) or Russia (EUR 690). In terms of FDI stock as per cent of GDP, Ukraine is also lagging behind – even though the gap is generally not as striking, given the still very low level of Ukraine's GDP. At the end of 2005, the FDI stock in Ukraine stood at 22.2% of GDP, compared to e.g. 16% in Russia, 29.1% in Poland and as much as 98.4% in Estonia.

The EU-15 share of Ukraine's FDI stock stood at 58% by the end of 2005 and was largely in line with the levels recorded in most other Central and East European countries (CEECs) (Russia being an important exception). However, the share increased dramatically within just one year (from 35% in 2004) largely on account of a single deal, the sale of Kryvorizhstal' to the German subsidiary of Mittal Steel, which was statistically captured as German FDI into Ukraine. Apart from the EU, another important investor into Ukraine is Russia – even though officially it ranks only sixth, with a share of a mere 5% (see Table A5). The official figure hardly reflects the true situation, as the bulk of Russian FDI in Ukraine is flowing via 'offshore' countries, notably Cyprus (ranking second) and the Virgin Islands (ranking eighth).¹⁵ The Russian presence is particularly visible in the energy sector, with four out of six refineries owned by Russian companies.

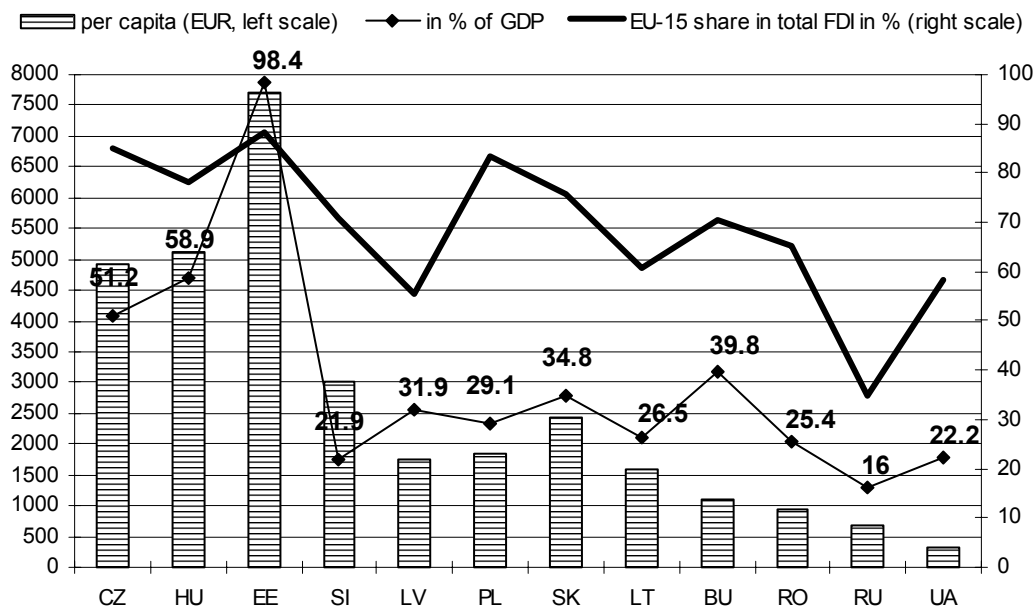
The high importance of Russian capital in Ukraine reflects not only the cultural, geographical, etc. proximity, but is also a manifestation of the country's economic dependence on Russia. In fact, a substantial part of Russian investment in Ukraine has been driven by the latter country's failure to honour its energy-related debt to Russia (particularly that for gas) on time, resulting in a series of debt-for-equity swaps. Russian acquisitions in Ukraine gained momentum in February 1998, after the two countries had signed a ten-year Agreement on Economic Co-operation, which enabled Russian companies to participate in Ukraine's privatizations. According to some estimations, only in the short time span of six months in 2000, Russian investors took over half of Ukraine's

¹⁵ In fact, FDI coming from the 'offshore' countries partly represents also Ukrainian capital which fled the country over the previous years.

petroleum market.¹⁶ Also, in autumn 2003, Ukraine allowed Russia's state-owned electricity monopoly RAO UES to participate in the partial privatization of its electricity network, and the control stake at Ukraine's biggest mobile operator UMC is held by the Russian telecom company MTS. Other assets acquired by Russian investors include underground storage tanks, port facilities, aluminium plants, dairies, banks and broadcast media.

Figure 5

Stocks of inward FDI in Ukraine and selected CEECs, December 2005



Remark: EU-15 share for CZ, HU, PL, SI as of 2004, for RU estimate.

Source: wiiw FDI Database based on national statistics.

A breakdown of Ukraine's FDI stock by economic activity (see Table A4) reveals that the sector which has attracted most registered FDI is wholesale and retail trade (11.9%), followed by metals (7.5%), the food processing industry (7.1%), and the financial sector (6.4%). Metals feature prominently first of all due to the already mentioned Kryvorizhstal' deal, while the food processing industry and trade have been developing particularly fast in the past few years, taking advantage of the initial low level (trade) and the opportunities for import substitution provided by the hryvnia devaluation in 1999 (food processing). Both branches have a relatively short pay-off period – a reflection of investors' concerns over the country's longer-term prospects and the security of their property rights.

¹⁶ See I. Gatev (2004), 'The EU's new neighbourhood policy towards Ukraine', paper prepared for the European Foreign Policy Conference, LSE, 2-3 July.

It had been widely anticipated that FDI inflows into Ukraine would accelerate markedly following the EU enlargement (after which the country finds itself bordering the European Union) and the Orange Revolution, which brought to power a pro-western government. Interestingly, initially these events appear to have triggered a surge of *outward* investment from Ukraine to the NMS. The latter largely represents the transfer of production of 'sensitive goods' (notably metals) aimed at avoiding the restrictive EU import regime and was helped by the good liquidity position of Ukrainian producers of metals in 2004. Ukrainian investments into NMS metallurgy assets represent first of all the acquisitions by Ukraine's Donbass Industrial Union Corporation of two steel mills in Hungary (Dunaffer in 2003 and DAM in 2004) and of the Polish Huta Czestochowa in 2005.¹⁷

However, the *inflows* of FDI into Ukraine in 2005 proved to be record-high as well – not only due to the Kryvorizhstal' sale, but also due to the EUR 860 million worth acquisition of a 93.5% stake in the country's second biggest bank Aval by Austria's Raiffeisen – the most significant *Austrian direct investment* in Ukraine up to now. The deal made Austria the third biggest investing country in Ukraine, with a combined stock of EUR 1.2 billion and a share of nearly 9% of the total FDI stocks as of December 2005. (At the end of 2004, Austria had ranked only ninth on this account.) The main motivation behind the deal have been Raiffeisen's plans to expand its retail banking activities in Ukraine, given Aval's extensive network all over the country numbering over 1300 branches. Although Raiffeisen had been present in Ukraine already since 1998 (under the name Raiffeisenbank Ukraine), its activities had been targeting primarily corporate banking. Following the takeover of Aval, the new owner was initially planning to merge the two assets. However, given the potentially high costs of such a merger, it opted for selling Raiffeisenbank Ukraine to OTP bank of Hungary instead. This EUR 650 million worth deal was finalized in summer 2006, thus reducing the Austrian FDI stock in Ukraine. At the same time, the summer of 2006 witnessed a number of new acquisitions by Austrian companies in the Ukrainian financial sector, albeit on a smaller (2-digit EUR million) scale. Thus, the Ukrainian insurer Garanta (ranking second in property insurance and third in life insurance) was purchased by the Austrian branch of Italy's Generali, and Ukraine's Prestige Bank by the Austrian Erste Bank.¹⁸ Overall, some 400 Austrian enterprises are operating in Ukraine, including Baumit and Stahlbau Unger (construction), Wiener Städtische and Uniqa (insurance), Steirerobst (agriculture), Austrian Airlines (transportation services), and Cargo Partner (logistics). At the same time, the Ukrainian FDI stock in Austria is negligible. A EUR 155 million worth deal which could have become the biggest Ukrainian investment in Austria – a takeover of Bank Burgenland in spring 2006 by a Ukrainian consortium consisting of Ilyich Iron and Steel

¹⁷ Similarly to Russian investments in Ukraine, Ukrainian investments abroad are largely carried out via third ('off-shore') countries.

¹⁸ Besides FDI, the Raiffeisen Investment's daughter company Centragas Holding has been acting as a partner in the controversial Rosukrenergo deal with Russian Gazprom and Ukrainian businessmen D. Firtash and I. Fursin – see *Financial Times*, 28 April 2006 and *Vedomosti*, 27 June 2006.

Works, Ukrpodshipnik and Active Bank – was blocked largely for political reasons (the troubled bank was eventually sold to Grazer Wechselseitige for a mere EUR 100 million).

The takeover of Ukraine's Aval by Raiffeisenbank of Austria is to be viewed as part of the more general trend of a surging interest on the part of foreign investors – including those from Russia – towards the still untapped Ukrainian banking sector. Among other banks sold recently to foreigners are Ukrsibbank (to BNP Paribas of France), Mriya (to Vneshtorgbank of Russia), and Ukrsotsbank (to Banca Intesa of Italy). Currently, the penetration level of Ukraine's banking sector by foreign capital (just above 20%) is still very low, as compared with most other CEECs. Besides, Ukraine's banking sector is primarily concentrated in private hands and it is also much more fragmented than e.g. the Russian banking sector (which is still largely monopolized by the state-owned banks, especially as far as private savings are concerned). Both these factors suggest that the takeovers of Ukrainian banks by foreigners are likely to continue. More generally, the country's prospects for attracting more FDI should improve after WTO accession and the subsequent formation of a free trade area with the EU.¹⁹

Outlook and policy recommendations

The relative political stability that has returned to Ukraine upon the formation of the new government and the signing of the Universal Declaration in the summer of 2006 are likely to bring benefits in the form of higher investments and higher economic growth, aided by the current upswing in the world steel prices. These two factors seem to be already having an impact and explain the improved economic performance in the past few months. Also, under the new government, the relations with Russia will almost certainly improve, and signs of this are already visible. Therefore, further price hikes for imported natural gas, though unavoidable, are likely to be delayed in time and prove more gradual so that their impact on Ukraine's economy is likely to be smoothed.

Against this background, we expect economic growth of around 6.5% in 2006 and 7% next year (see Table A1). The 2007 budget draft submitted by the government is based on the projections of 6.5% economic growth, consumer price inflation of 7.5%, producer price inflation of 14.4%, and an average exchange rate of UAH 5.1 per USD. By and large, these assumptions appear to be realistic, although consumer inflation will probably be slightly higher, given the delayed impact of the recent gas price hikes for households and the spillovers from producer prices, and will thus help to boost budget revenues. The recent upturn in exports implies that the trade and the current account deficits will be relatively small (though rising). Still, the government target of a trade *surplus* of USD 160 million in

¹⁹ Also, as a WTO member, Ukraine will no longer be confronted with the EU steel quota and will be eligible for compensation of any losses resulting from future EU enlargements.

2007 through export promotion appears absolutely unrealistic – especially taking into account the expected pick-up in FDI and the related imports of investment goods.

Given the current developments and the policy course of the authorities, the risks of serious economic imbalances in the foreseeable future are low. The tax cuts planned by the new government (see details in the section ‘Fiscal policy’) appear to be generally adequate in the Ukrainian circumstances. Apart from reducing the pressure on businesses, they should also be helpful in reducing the scope of the shadow economy by providing incentives to comply. Although the short-term consequence of this policy will probably be a shortfall in government revenues, the latter could easily be offset by extra privatization receipts. However, it is important that the government remains impartial and creates a level playing field for businesses: in particular, the big business should not be treated preferentially. At the same time, the long-standing problem of VAT refunds to exporters is to be addressed immediately, as recent data provide evidence of a deterioration of the situation.

The policy of a fixed exchange rate peg to the US dollar is to be given credit as well. Although an unpleasant side effect of this policy might be persistent inflationary pressure, its benefits – including most notably exchange rate stability and competitiveness of domestic producers – should outweigh the costs. There may be, though, a need to re-align the Ukrainian hryvnia to the euro, in case global ‘rebalancing’ involving a pronounced depreciation of the US dollar against other major currencies takes place. Such a re-alignment makes even more sense, given that the Eurozone as a trading partner is far more important for Ukraine than the United States.

While macroeconomic policies appear to be sound, the lack of serious progress in structural reforms might become an increasing constraint for the country’s development. One of the most problematic sectors is agriculture, where market mechanisms have not been set in motion yet; its enormous potential remains largely idle. Needless to say, secure property rights and effective competition policy are indispensable for an efficient allocation of resources and thus the sustainability of growth. In the longer run, a diversification of the economic structure away from metals and chemicals, and towards goods with a higher value-added, accompanied by the implementation of energy-saving measures, will be crucial. The latter could be achieved by attracting more foreign direct investment bringing new technologies and advanced know-how. Ukraine’s WTO accession and the likely subsequent formation of a free trade area with the EU will be certainly instrumental to reaching that goal, but the latter has to be accompanied by a parallel co-operation and further trade liberalization with Russia in order to avoid painful trade diversion effects. Given the fact that the EU is considering to negotiate a free trade agreement with both Ukraine and Russia, the ‘first-best’ solution in this respect would be the formation of a free trade area encompassing Ukraine, Russia and the European Union, which could be later advanced to the stage of a customs union.

Appendix

Table A1

Selected economic indicators, 2001-2007

	2000	2001	2002	2003	2004	2005 ¹⁾	2005 January-June	2006	2006 forecast	2007
Population, th pers., end of period	48923.2	48457.1	48003.5	47622.4	47280.8	46929.5	47075.3	46756.6	46600	46300
Gross domestic product, UAH mn, nom.	170070	204190	225810	267344	345113	424741	181793	206099	490799	504465
annual change in % (real)	5.9	9.2	5.2	9.6	12.1	2.6	4.1	5.0	6.5	7
GDP/capita (EUR at exchange rate)	688	872	931	928	1100	1411	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	3770	4240	4620	5120	5920	6340	.	.	.	.
Gross industrial production										
annual change in % (real)	13.2	14.3	7.0	15.8	12.5	3.1	5.0	3.6	6.5	6
Gross agricultural production										
annual change in % (real)	9.8	10.2	1.2	-11.0	19.9	-0.1	6.4	3.2	.	.
Construction output total										
annual change in % (real)	0.4	3.5	-5.8	26.5	17.2	-6.6	-7.7	6.5	.	.
Consumption of households, UAH mn, nom.	92406	112260	124560	146301	180956	238961	104454	.	.	.
annual change in % (real)	2.5	9.6	9.5	12.4	13.5	16.6	16.0	.	.	.
Gross fixed investment, UAH mn, nom.	23629	32573	37178	51011	75714	93096	30615.7	39076.3	.	.
annual change in % (real)	14.4	20.8	8.9	31.3	28.0	1.9	8.5	12.2	15	15
LFS - employed persons, th, avg.	20175.0	19971.5	20091.2	20163.3	20295.7	20680.0	20373.4	.	.	.
annual change in %	1.9	-1.0	0.6	0.4	0.7	1.9	0.8	.	.	.
Reg. employees in industry, th pers., avg. ²⁾	3445.0	3811.0	3578.1	3416.0	3408.3	3415.8	3413.5	3368.4	.	.
annual change in %	-12.4	-6.2	-6.1	-4.5	-0.2	0.2	0.4	-1.3	.	.
LFS - unemployed, th pers., average	2655.8	2455.0	2140.7	2008.0	1906.7	1600.8	1741.4	.	.	.
LFS - unemployment rate in %, average	11.6	10.9	9.6	9.1	8.6	7.2	7.9	.	6.8	6.6
Reg. unemployed, th pers, end of period	1155.2	1008.1	1034.2	988.9	981.8	881.5	858.3	749.1	.	.
Reg. unemployment rate in %, end of period	4.2	3.7	3.8	3.6	3.5	3.1	3.0	2.7	2.9	2.7
Average gross monthly wages, UAH	230.1	311.1	376.4	462.3	589.6	806.2	725.1	958.7	.	.
annual change in % (real, gross)	1.1	20.7	20.0	16.7	17.0	20.4	17.0	21.9	.	.
Consumer prices, % p.a.	28.2	12.0	0.8	5.2	9.0	13.5	14.1	8.4	8.5	11
Producer prices in industry, % p.a.	20.9	8.6	3.1	7.8	20.4	16.8	21.0	6.9	10	8
General governm.budget, nat.def., % GDP										
Revenues	28.9	26.9	27.4	28.2	26.5	31.6	32.2	35.0	.	.
Expenditures ³⁾	28.3	27.2	26.7	28.4	29.7	33.4	31.3	35.5	.	.
Deficit (-) / surplus (+), % GDP	0.6	-0.3	0.7	-0.2	-3.2	-1.9	1.0	-0.5	-2.5	-2.6
Public debt in % of GDP	45.3	36.5	33.5	29.0	24.7	24.7	.	.	.	.
Refinancing rate of NB % p.a., end of period	27.0	12.5	7.0	7.0	9.0	9.5	9.0	8.5	.	.
Current account, EUR mn ⁵⁾	1602	1565	3360	2559	5560	2030	1727	-636.9	-1000	-1500
Current account in % of GDP	4.7	3.7	7.5	5.8	10.6	3.1	6.4	-1.9	-1.2	-1.8
Gross reserves of NB excl. gold, EUR mn ⁶⁾	1453	3353	4088	5386	6838	16165	10665	13736	.	.
Gross external debt, EUR mn ⁷⁾	12759	13785	12247	19055	22528	32827	27710	33176	.	.
FDI inflow, EUR mn ⁵⁾	644	884	734	1261	1380	6263	529	1300	.	.
FDI outflow, EUR mn ⁵⁾	1	26	-5	12	3	221	15.9	205	.	.
Exports of goods, BOP, EUR mn ⁵⁾	17008	19074	19770	21013	26906	28093	14575	13691	29000	30500
annual growth rate in %	37.2	12.1	3.6	6.3	28.0	4.4	12.8	-6.1	3	5
Imports of goods, BOP, EUR mn ⁵⁾	16165	18853	19018	20555	23895	29004	13917	15372	33000	36300
annual growth rate in %	32.8	16.6	0.9	8.1	16.3	21.4	27.7	10.4	14	10
Exports of services, BOP, EUR mn ⁵⁾	4111	4459	4958	4615	6325	7503	3432	3768	8500	9000
annual growth rate in %	13.0	8.5	11.2	-6.9	37.0	18.6	20.1	9.8	13	6
Imports of services, BOP, EUR mn ⁵⁾	3433	3995	3743	3934	5329	6054	2945	3320	7000	7500
annual growth rate in %	59.3	16.4	-6.3	5.1	35.5	13.6	13.8	12.7	16	7
Average exchange rate UAH/USD	5.440	5.372	5.327	5.333	5.319	5.125	5.199	5.050	5.05	5
Average exchange rate UAH/EUR (ECU)	5.029	4.814	5.030	6.024	6.609	6.389	6.692	6.201	6	6
Purchasing power parity UAH/USD, wiiw	0.849	0.912	0.943	0.998	1.120	1.288	.	.	.	.
Purchasing power parity UAH/EUR, wiiw	0.917	0.988	1.014	1.092	1.229	1.423	.	.	.	.

Notes: 1) Preliminary. - 2) Excluding small enterprises. - 3) From 2004 including lending minus repayments. - 4) According to budget draft submitted to the Parliament in September 2006. - 5) Converted from USD. - 6) Useable. - 7) Up to 2002 long-term debt only.

Source: wiiw Database incorporating national statistics; wiiw forecasts.

Table A2

Selected monthly data on the economic situation 2005 to 2006

		2005										2006						
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
PRODUCTION																		
Industry, total	real, CMPY	5.1	4.3	-0.9	-2.4	0.9	0.9	2.4	2.0	5.3	-2.9	1.5	1.3	0.5	10.0	9.6	11.4	
Industry, total	real, CCPY	6.7	6.2	5.0	3.9	3.5	3.2	3.1	2.9	3.1	-2.9	-0.6	0.2	0.4	2.4	3.6	4.8	
Industry, total	real, 3MMA	5.3	2.8	0.3	-0.8	-0.2	1.4	1.8	3.2	1.5	1.3	0.0	1.1	3.9	6.7	10.3	.	
LABOUR																		
Employees ¹⁾	th. persons	11332	11319	11339	11371	11361	11361	11357	11306	11220	11245	11296	11352	11378	11381	11412	11440	
Employees in industry ¹⁾	th. persons	3421	3410	3408	3413	3410	3407	3407	3394	3368	3374	3380	3380	3367	3355	3354	3351	
Unemployment, end of period	th. persons	986.7	918.6	858.3	825.4	800.4	780.6	762.9	809.7	881.5	899.9	923.8	913.7	868.7	805.8	749.1	715.3	
Unemployment rate ²⁾	%	3.5	3.3	3.0	2.9	2.8	2.8	2.7	2.9	3.1	3.2	3.3	3.2	3.1	2.9	2.7	2.5	
Labour productivity, industry ¹⁾	CCPY	6.1	5.6	4.4	3.4	3.1	2.9	2.8	2.7	3.0	-2.1	0.3	1.3	1.6	3.7	5.0	6.3	
Unit labour costs, exch.r. adj.(EUR) ¹⁾	CCPY	14.9	17.0	20.2	23.2	24.9	26.1	27.2	29.1	30.6	50.8	47.2	46.3	42.2	34.3	29.4	25.3	
WAGES, SALARIES ¹⁾																		
Total economy, gross	UAH	734	764	823	837	831	856	882	897	1020	865	905	987	984	948	1064	1079	
Total economy, gross	real, CMPY	16.8	20.2	19.6	20.0	19.7	19.2	23.3	24.3	31.3	22.9	22.6	25.8	24.9	15.6	21.0	19.9	
Total economy, gross	USD	141	151	163	166	165	170	175	178	202	171	179	195	195	188	211	214	
Total economy, gross	EUR	109	119	134	138	134	138	145	150	170	142	150	163	159	147	166	169	
Industry, gross	EUR	135	144	156	163	165	166	171	177	188	173	177	194	182	174	187	193	
PRICES																		
Consumer	PM	0.7	0.6	0.6	0.3	0.0	0.4	0.9	1.2	0.9	1.2	1.8	-0.3	-0.4	0.5	0.1	0.9	
Consumer	CMPY	14.7	14.6	14.4	14.8	14.9	13.9	12.4	12.0	10.3	9.8	10.7	8.6	7.4	7.3	6.8	7.4	
Consumer	CCPY	13.8	14.0	14.1	14.2	14.3	14.2	14.0	13.8	13.5	9.8	10.2	9.7	9.1	8.7	8.4	8.3	
Producer, in industry	PM	2.5	1.6	-0.8	-1.6	0.7	1.9	0.0	-0.1	0.3	1.2	0.3	0.4	1.4	1.0	0.7	1.2	
Producer, in industry	CMPY	21.1	20.5	17.7	15.7	14.7	14.7	12.9	10.4	9.6	10.7	8.1	6.5	5.4	4.7	6.3	9.4	
Producer, in industry	CCPY	22.0	21.7	21.0	20.2	19.5	18.9	18.3	17.5	16.8	10.7	9.4	8.4	7.6	7.0	6.9	7.3	
RETAIL TRADE																		
Turnover ³⁾	real, CCPY	19.2	20.4	21.1	21.8	23.0	23.1	22.4	22.4	23.0	31.3	28.4	26.5	27.4	27.2	27.0	.	
FOREIGN TRADE⁴⁾																		
Exports total (fob), cumulated	EUR mn	8710	10909	13227	15518	17702	19992	22415	24908	27498	1933	4041	6645	9055	11494	14126	.	
Imports total (cif), cumulated	EUR mn	8103	10316	12918	15508	18090	20695	23349	26084	29030	2241	4895	8116	10792	13643	16501	.	
Trade balance, cumulated	EUR mn	608	593	309	10	-387	-703	-934	-1176	-1533	-309	-854	-1472	-1737	-2150	-2375	.	
FOREIGN FINANCE																		
Current account, cumulated ⁶⁾	EUR mn	.	.	1727	.	.	2076	.	.	2030	.	.	-618	.	.	-733	.	
EXCHANGE RATE																		
UAH/USD, monthly average	nominal	5.190	5.050	5.055	5.053	5.050	5.050	5.050	5.050	5.050	5.050	5.050	5.050	5.050	5.050	5.050	5.050	
UAH/EUR, monthly average	nominal	6.714	6.422	6.151	6.090	6.208	6.200	6.070	5.961	5.983	6.101	6.037	6.064	6.180	6.428	6.396	6.402	
UAH/USD, calculated with CPI ⁷⁾	real, Jan03=100	120.7	125.0	125.5	125.4	124.8	124.0	124.7	127.2	128.9	129.4	131.5	130.4	128.7	128.6	129.8	129.8	
UAH/USD, calculated with PPI ⁷⁾	real, Jan03=100	132.3	138.7	137.5	133.6	133.5	132.2	129.0	130.8	131.8	132.3	134.7	135.0	135.4	135.5	135.9	137.5	
UAH/EUR, calculated with CPI ⁷⁾	real, Jan03=100	100.1	105.1	110.2	111.6	109.3	109.4	112.6	116.2	116.4	115.8	118.8	117.5	114.1	110.0	110.5	111.3	
UAH/EUR, calculated with PPI ⁷⁾	real, Jan03=100	118.3	125.9	130.0	128.8	126.7	128.7	130.9	133.4	133.2	131.1	132.5	131.9	130.4	126.0	127.6	129.0	
DOMESTIC FINANCE																		
M0, end of period	UAH bn	47.6	47.9	51.3	53.8	53.8	55.5	54.9	55.1	60.2	56.8	57.0	58.6	61.0	61.1	64.3	66.2	
M1, end of period	UAH bn	76.2	77.6	83.8	84.8	85.5	90.1	88.7	92.7	98.6	92.1	93.6	96.2	97.5	99.8	104.7	108.6	
Broad money, end of period	UAH bn	146.5	147.9	156.3	159.1	164.8	171.0	174.8	180.1	194.1	188.8	191.3	195.3	201.2	207.4	214.1	221.5	
Broad money, end of period	CMPY	39.4	35.1	37.2	35.9	35.6	31.3	38.5	43.8	54.3	50.1	46.1	39.4	37.4	40.2	37.0	39.2	
Refinancing rate (p.a.),end of period	%	9.0	9.0	9.0	9.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	8.5	8.5	
Refinancing rate (p.a.),end of period ⁸⁾	real, %	-10.0	-9.5	-7.4	-5.8	-4.5	-4.5	-3.0	-0.8	-0.1	-1.1	1.3	2.8	3.9	4.5	2.0	-0.8	
BUDGET																		
General gov.budget balance, cum.	UAH mn	2252	4007	1735	2959	6907	5816	5309	3216	-7735	2508	2497	380	-856	1183	-1014	.	

Notes: 1) Excluding small firms. - 2) Ratio of unemployed to the economically active. - 3) Official registered enterprises. - 4) Based on cumulated USD and converted using the ECB EUR/USD average foreign exchange reference rate. - 5) Cumulation starting January and ending December each year. - 6) Calculated from USD to NCU to EUR using the official average exchange rate. - 7) Adjusted for domestic and foreign (US and EU respectively) inflation. Values more than 100 mean real appreciation. - 8) Deflated with annual PPI.

Source: wiw Database incorporating national statistics.

Table A3

Foreign trade in 1996-2005

by HS commodity group, in EUR mn and % of total

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Exports										
Total, fob, EUR million	11357	12550	11283	10856	15771	18159	19004	20397	26274	27513
Live animals, animal products	4.12	3.08	2.16	2.37	2.51	2.79	2.11	2.27	1.99	2.14
Vegetable products	6.02	3.89	5.09	6.24	2.52	4.26	6.24	3.23	3.48	4.95
Oils, fats and waxes	1.29	0.86	1.04	0.98	1.65	1.39	1.91	2.42	1.67	1.72
Prep. foodstuffs, beverages, tobacco	0.97	4.82	2.63	2.66	2.77	2.77	3.04	3.92	3.49	3.77
Mineral products	8.64	9.01	9.21	10.09	9.61	10.76	12.50	15.17	13.24	13.75
Chemicals and related products	11.63	10.57	10.12	9.35	10.58	9.09	7.78	8.42	8.52	8.73
Plastics, rubber and rubber products	2.79	2.60	2.50	1.63	1.68	1.57	1.46	1.57	1.34	1.68
Raw hides and skins, leather, furs	0.84	1.00	0.78	0.75	0.80	0.80	0.89	0.78	0.63	0.62
Wood & products, charcoal, cork	0.38	0.43	0.79	1.39	1.49	1.41	1.61	1.74	1.58	1.56
Paper and paper products	0.96	1.04	1.09	1.33	1.38	1.76	1.55	1.38	1.20	1.33
Textiles and textile products	2.66	3.16	3.97	3.92	3.69	3.78	3.65	3.32	2.70	2.67
Footwear, headgear, etc.	0.49	0.42	0.49	0.52	0.47	0.52	0.42	0.40	0.37	0.31
Stone, cement, ceramic, glass, etc.	1.20	0.94	0.86	0.68	0.80	0.87	0.82	1.00	0.86	0.64
Pearls, prec. stones & metals, etc.	.	.	.	.	.	.	.	.	.	.
Base metals and products	33.08	41.49	42.22	42.08	44.38	41.32	39.68	36.81	39.94	40.93
Machinery and electrical equipment	9.77	9.63	8.74	7.91	9.32	10.54	9.79	10.07	9.28	8.29
Means of transport	4.41	3.80	4.91	3.58	3.01	3.37	3.84	4.27	6.23	4.81
Optical, med. instruments, clocks etc.	0.43	0.44	0.51	0.50	0.44	0.48	1.02	1.42	1.81	0.41
Arms and ammunition	.	.	.	.	.	.	.	.	.	.
Miscellaneous manufactured prod.	0.38	0.39	0.40	0.38	0.50	0.57	0.54	0.55	0.52	0.64
Works of art, antiques etc.	.	.	.	.	.	.	.	.	.	.
Imports										
Total, fob, EUR million	13883	15103	13103	11104	15104	17612	17967	20356	23322	29046
Live animals, animal products	1.80	1.11	1.51	1.64	0.75	1.16	0.84	0.82	1.09	1.38
Vegetable products	1.40	0.98	1.26	1.58	2.17	1.69	1.30	3.37	1.52	1.45
Oils, fats and waxes	0.21	0.23	0.64	0.64	0.44	0.55	0.65	0.47	0.51	0.56
Prep. foodstuffs, beverages, tobacco	4.82	2.92	3.76	3.75	3.15	3.74	3.77	4.77	3.46	4.03
Mineral products	49.88	47.60	43.07	47.28	46.86	42.63	41.51	36.83	37.40	32.01
Chemicals and related products	5.83	7.25	6.78	6.66	6.43	7.14	8.10	7.69	7.75	8.57
Plastics, rubber and rubber products	4.37	4.23	4.60	4.31	4.50	4.42	4.34	4.49	4.85	5.36
Raw hides and skins, leather, furs	0.29	0.30	0.35	0.36	0.33	0.42	0.34	0.29	0.25	0.31
Wood & products, charcoal, cork	0.68	0.53	0.52	0.45	0.36	0.46	0.50	0.54	0.54	0.55
Paper and paper products	2.23	2.39	2.71	2.91	2.77	3.41	4.02	3.58	2.71	2.78
Textiles and textile products	2.82	2.87	3.69	3.96	4.01	4.10	3.96	3.70	3.42	3.89
Footwear, headgear, etc.	0.39	0.29	0.27	0.31	0.23	0.28	0.32	0.36	0.15	0.77
Stone, cement, ceramic, glass, etc.	0.91	1.18	1.10	1.09	1.06	1.17	1.19	1.22	1.35	1.43
Pearls, prec. stones & metals, etc.	.	.	.	.	.	.	.	.	.	0.62
Base metals and products	4.50	3.88	4.28	3.45	4.88	5.20	4.78	5.20	6.05	6.83
Machinery and electrical equipment	13.68	15.15	15.57	13.02	13.91	15.07	14.74	15.11	16.35	17.54
Means of transport	3.24	5.03	6.05	4.53	3.61	4.73	6.02	8.14	8.60	8.91
Optical, med. instruments, clocks etc.	1.18	1.39	1.65	1.51	1.32	1.65	1.57	1.61	1.93	1.40
Arms and ammunition	.	.	.	.	.	.	.	.	.	.
Miscellaneous manufactured prod.	0.87	0.92	1.68	0.70	0.64	0.72	0.80	0.78	0.83	0.89
Works of art, antiques etc.	.	.	.	.	.	.	.	.	.	.

Source: wiiw Handbook of Statistics, 2006.

Table A4

Inward FDI stock in Ukraine by economic activities

	2002	2003	2004	2005	2002	2003	2004	2005
	EUR mn				in % of total			
NACE classification:								
A Agriculture, hunting and forestry	109.1	164.9	166.9	252.5	2.1	3.0	2.5	1.8
B Fishing	0.4	0.4	1.5	1.8	0.0	0.0	0.0	0.0
C Mining and quarrying	184.1	147.8	127.2	262.4	3.5	2.7	1.9	1.9
D Manufacturing	2453.6	2528.6	2657.4	3969.3	46.5	46.5	40.0	28.7
E Electricity, gas and water supply	81.5	39.8	26.4	44.4	1.5	0.7	0.4	0.3
F Construction	165.6	157.7	181.5	327.5	3.1	2.9	2.7	2.4
G Wholesale, retail trade, repair of veh.etc.	906.0	907.7	1152.2	1652.0	17.2	16.7	17.3	11.9
H Hotels and restaurants	155.7	149.7	189.4	238.9	3.0	2.8	2.8	1.7
I Transport, storage and communication	381.9	425.3	462.8	629.0	7.2	7.8	7.0	4.5
J Financial intermediation	405.4	403.6	505.4	890.0	7.7	7.4	7.6	6.4
K Real estate, renting & business activities	231.2	314.0	433.1	783.5	4.4	5.8	6.5	5.7
L Public administr., defence, comp.soc.sec.	0.1	.	.	.	0.0	.	.	.
M Education	3.2	2.7	2.6	28.8	0.06	0.05	0.0	0.2
N Health and social work	116.2	109.6	114.5	150.1	2.2	2.0	1.7	1.1
O Other community, social & pers.services	79.4	85.6	119.8	164.4	1.5	1.6	1.8	1.2
Other not elsewhere classified activities	.	.	509.5	4453.4	.	.	7.7	32.2
Total by activities	5273.5	5437.3	6650.3	13847.9	100.0	100.0	100.0	100.0
D Manufacturing industry								
DA Food products, beverages and tobacco	830.8	805.4	826.0	988.9	33.9	31.9	31.1	24.9
DB_DC Textiles & prod.; leather & prod.	75.8	78.8	88.1	109.2	3.1	3.1	3.3	2.8
DD Wood and wood products	70.4	79.9	95.6	132.0	2.9	3.2	3.6	3.3
DE Pulp, paper & prod.; publish.& printing	91.3	108.8	112.4	135.4	3.7	4.3	4.2	3.4
DF Coke, ref. petroleum prod. & nuclear fuel	187.0	146.9	157.0	178.3	7.6	5.8	5.9	4.5
DG_DH Chemicals & prod.; rubber & plastic	252.5	254.6	346.9	495.1	10.3	10.1	13.1	12.5
DI Other non-metallic mineral products	112.4	117.5	127.0	186.6	4.6	4.6	4.8	4.7
DJ Basic metals & fabricated metal prod.	282.7	362.4	312.7	1042.2	11.5	14.3	11.8	26.3
DK_DM Machinery; elec.equip.; transp.equip.	456.1	482.9	497.2	586.7	18.6	19.1	18.7	14.8
DN Manufacturing n.e.c.	94.9	91.6	94.5	115.0	3.9	3.6	3.6	2.9
D Manufacturing industry total	2453.6	2528.6	2657.4	3969.3	100.0	100.0	100.0	100.0

Remark: Inward FDI stock refers to equity capital, reinvested earnings (registration data).

Data are based on a survey carried out by the State Statistics Committee and the National Bank of Ukraine.

Source: wiiw FDI Database based on Derzhkomstat data.

Table A5

Inward FDI stock in Ukraine by home countries

	2002	2003	2004	2005	2002	2003	2004	2005
	EUR mn				in % of total			
1 Germany	306.2	361.4	480.5	4655.8	5.8	6.6	7.2	33.6
2 Cyprus	647.7	721.8	809.6	1320.9	12.3	13.3	12.2	9.5
3 Austria	206.5	202.0	265.4	1203.9	3.9	3.7	4.0	8.7
4 United States	858.3	848.4	875.2	1162.0	16.3	15.6	13.2	8.4
5 United Kingdom	514.7	561.1	702.3	977.0	9.8	10.3	10.6	7.1
6 Russia	311.5	311.0	529.9	676.3	5.9	5.7	8.0	4.9
7 Netherlands	381.9	368.0	468.4	610.4	7.2	6.8	7.0	4.4
8 Virgin Islands, British	333.6	294.1	428.0	582.4	6.3	5.4	6.4	4.2
9 Switzerland	262.3	257.4	325.1	377.1	5.0	4.7	4.9	2.7
10 Poland	94.6	122.2	143.1	189.4	1.8	2.2	2.2	1.4
11 Hungary	76.9	103.0	130.3	161.6	1.5	1.9	2.0	1.2
12 South Korea	165.9	138.0	93.2	145.6	3.1	2.5	1.4	1.1
13 Sweden	87.1	82.5	88.4	113.2	1.7	1.5	1.3	0.8
14 Italy	83.4	75.9	75.8	99.5	1.6	1.4	1.1	0.7
15 Ireland	75.1	61.9	34.0	39.0	1.4	1.1	0.5	0.3
16 Liechtenstein	69.7	69.9	68.4	.	1.3	1.3	1.0	.
17 Canada	60.2	63.9	63.7	.	1.1	1.2	1.0	.
Other	738.0	794.9	1069.1	1533.8	14.0	14.6	16.1	11.1
Total by countries	5273.5	5437.2	6650.3	13847.9	100.0	100.0	100.0	100.0
of which EU-15	1824.8	1921.9	2373.7	8042.5	34.6	35.3	35.7	58.1

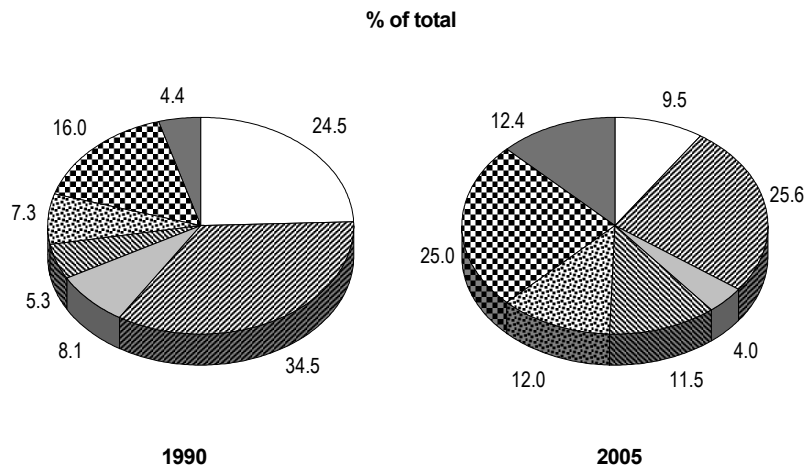
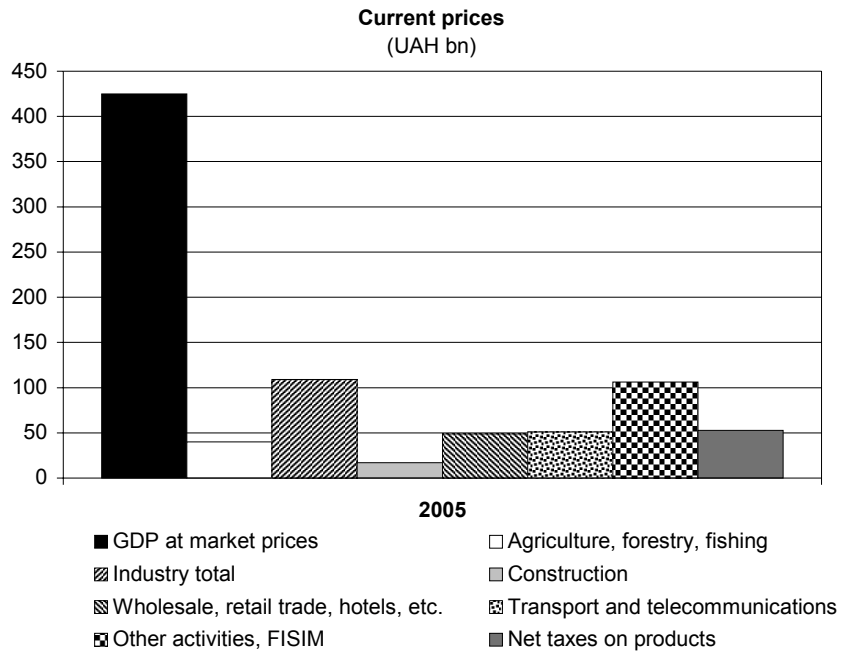
Remark: Inward FDI stock refers to equity capital, reinvested earnings (registration data).

Data are based on a survey carried out by the State Statistics Committee and the National Bank of Ukraine.

Source: wiiw FDI Database based on Derzhkomstat data.

Figure A1

Ukraine: GDP and gross value added by activities



Remark: The data are not fully comparable due to new classification (NACE) in 2005.

Source: wiiw Handbook of Statistics, 2006.

Table A6

Ukraine: GDP and gross value added by activities

(current prices, real growth rates, per cent of total)

	2000	2001	2002	2003	2004	2005*
	(hryvnia mn, current prices)					
GDP at market prices	170070	204190	225810	267344	345113	424741
growth rate in %, const. prices	5.9	9.2	5.2	9.6	12.1	2.6
less: Net taxes on products & imports	25808	23700	24616	27127	32067	52667
of which: Taxes on products & imports	27338	25060	25484	28205	33122	.
Subsidies on products	-1530	-1360	-868	-1078	-1055	.
NACE classification:						
Gross value added at basic prices	144262	180490	201194	240217	313046	372074
growth rate in %, const. prices	5.0	13.8	5.9	9.2	12.6	0.5
Agriculture, hunting and forestry	.	29421	29418	29059	37258	40433
growth rate in %, const. prices	.	10.2	2.0	-9.9	19.8	0.4
Fishing	.	129	129	126	135	.
growth rate in %, const. prices	.	-27.2	-4.7	.	.	.
Industry total	49200	55337	61827	72826	89065	108785
growth rate in %, const. prices	.	11.3	6.8	13.7	8.3	2.1
Mining and quarrying	7360	8513	10016	10854	12518	18388
growth rate in %, const. prices	.	10.8	2.4	5.5	3.5	3.9
Manufacturing	31020	35592	40386	49702	64124	76226
growth rate in %, const. prices	.	14.0	9.5	18.1	12.4	2.1
Electricity, gas and water supply	10820	11232	11425	12270	12423	14171
growth rate in %, const. prices	.	3.8	1.7	4.7	-3.6	0.6
Construction	5630	7291	7653	10268	14463	16968
growth rate in %, const. prices	.	7.8	-2.6	23.1	21.3	-8.8
Wholesale, retail trade, repair motor veh.	14700	22409	24593	31622	41057	48800
growth rate in %, const. prices	.	43.0	7.8	19.6	13.4	-9.8
Hotels and restaurants	.	1169	1315	1617	2286	.
growth rate in %, const. prices	.	19.0	3.2	.	.	.
Transport, storage and communications	19800	24587	27523	35092	42694	50891
growth rate in %, const. prices	.	5.1	7.4	12.4	11.4	5.7
Financial intermediation	.	5268	6198	9370	21250	.
growth rate in %, const. prices	.	29.7	-0.9	.	.	.
Real estate, renting & business activities	.	12675	14971	16883	23527	.
growth rate in %, const. prices	.	24.4	12.4	.	.	.
Public admin., defence, compul.soc.sec.	.	7433	8799	10203	14107	.
growth rate in %, const. prices	.	2.3	7.6	.	.	.
Education	.	8904	10819	13781	16252	21803
growth rate in %, const. prices	.	5.1	-0.5	1.9	0.0	0.8

(continued)

Table A6 (continued)

Ukraine: GDP and gross value added by activities

(current prices, real growth rates, per cent of total)

	2000	2001	2002	2003	2004	2005*
Health and social work	.	6011	7361	9137	10952	13655
growth rate in %, const. prices	.	8.4	4.6	2.8	1.6	1.6
Oth. community, social & personal serv.	.	2662	3736	4513	5275	.
growth rate in %, const. prices	.	8.7	22.5	.	.	.
FISIM	-1745	-2806	-3148	-4280	-5275	-7402
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
			(% of GDP)			
less: Net taxes on products & imports	15.2	11.6	10.9	10.1	9.3	12.4
of which: Taxes on products & imports	16.1	12.3	11.3	10.6	9.6	.
Subsidies on products	-0.9	-0.7	-0.4	-0.4	-0.3	.
Gross value added at basic prices	84.8	88.4	89.1	89.9	90.7	87.6
Agriculture, hunting and forestry	.	14.4	13.0	10.9	10.8	9.5
Fishing	.	0.1	0.1	0.0	0.0	.
Industry total	28.9	27.1	27.4	27.2	25.8	25.6
Mining and quarrying	4.3	4.2	4.4	4.1	3.6	4.3
Manufacturing	18.2	17.4	17.9	18.6	18.6	17.9
Electricity, gas and water supply	6.4	5.5	5.1	4.6	3.6	3.3
Construction	3.3	3.6	3.4	3.8	4.2	4.0
Wholesale, retail trade, repair motor veh.	8.6	11.0	10.9	11.8	11.9	11.5
Hotels and restaurants	.	0.6	0.6	0.6	0.7	.
Transport, storage and communications	11.6	12.0	12.2	13.1	12.4	12.0
Financial intermediation	.	2.6	2.7	3.5	6.2	.
Real estate, renting & business activities	.	6.2	6.6	6.3	6.8	.
Public admin., defence, compul.soc.sec.	.	3.6	3.9	3.8	4.1	.
Education	.	4.4	4.8	5.2	4.7	5.1
Health and social work	.	2.9	3.3	3.4	3.2	3.2
Oth. community, social & personal serv.	.	1.3	1.7	1.7	1.5	.
FISIM	-1.0	-1.4	-1.4	-1.6	-1.5	-1.7

Source: wiw Handbook of Statistics, 2006.

Table A7

Ukraine: Employment by activities

(annual average, 1000 persons, growth rates, per cent of total)

	2000	2001	2002	2003	2004	2005*
Employment by LFS ¹⁾						
Employed persons, total ²⁾	20175.0	19971.5	20091.2	20163.3	20295.7	20680.0
growth rate in %	1.1	-1.0	0.6	0.4	0.7	1.9
NACE classification: ²⁾						
Agriculture, forestry, fishing	.	4148.1	4135.8	4105.7	3998.3	4005.5
growth rate in %	.	.	-0.3	-0.7	-2.6	0.2
Industry total	.	4390.3	4220.4	4123.2	4077.1	4072.4
growth rate in %	.	.	-3.9	-2.3	-1.1	-0.1
Mining and quarrying
growth rate in %
Manufacturing
growth rate in %
Electricity, gas and water supply
growth rate in %
Construction	.	865.4	838.9	833.5	907.5	941.5
growth rate in %	.	.	-3.1	-0.6	8.9	3.7
Wholesale, retail trade, repair motor veh. ²⁾	.	3422.2	3657.1	3752.4	3971.2	4175.2
growth rate in % ²⁾	.	.	6.9	2.6	5.8	5.1
Hotels and restaurants
growth rate in %
Transport, storage and communications	.	1325.9	1353.5	1361.4	1374.9	1400.5
growth rate in %	.	.	2.1	0.6	1.0	1.9
Financial intermediation	.	171.9	178.0	190.3	216.1	247.9
growth rate in %	.	.	3.5	6.9	13.6	14.7
Real estate, renting & business activities	.	834.3	848.2	914.8	919.9	966.6
growth rate in %	.	.	1.7	7.9	0.6	5.1
Public admin., defence, compuls.soc.sec.	.	1163.0	1183.4	1170.6	1050.2	1028.9
growth rate in %	.	.	1.8	-1.1	-10.3	-2.0
Education	.	1621.3	1630.3	1637.2	1648.7	1668.2
growth rate in %	.	.	0.6	0.4	0.7	1.2
Health and social work	.	1361.8	1359.8	1366.5	1348.9	1356.6
growth rate in %	.	.	-0.1	0.5	-1.3	0.6
Oth. community, social & personal serv.	.	667.3	685.8	707.7	782.9	816.7
growth rate in %	.	.	2.8	3.2	10.6	4.3

(continued)

Table A7 (continued)

Ukraine: Employment by activities

(annual average, 1000 persons, growth rates, per cent of total)

	2000	2001	2002	2003	2004	2005*
Employment, total ²⁾	100.0	100.0	100.0	100.0	100.0	100.0
			(% of total)			
Agriculture, forestry, fishing	.	20.8	20.6	20.4	19.7	19.4
Industry total	.	22.0	21.0	20.4	20.1	19.7
Mining and quarrying
Manufacturing
Electricity, gas and water supply
Construction	.	4.3	4.2	4.1	4.5	4.6
Wholesale, retail trade, repair motor veh. ³⁾	.	17.1	18.2	18.6	19.6	20.2
Hotels and restaurants
Transport, storage and communications	.	6.6	6.7	6.8	6.8	6.8
Financial intermediation	.	0.9	0.9	0.9	1.1	1.2
Real estate, renting & business activities	.	4.2	4.2	4.5	4.5	4.7
Public admin., defence, compuls.soc.sec.	.	5.8	5.9	5.8	5.2	5.0
Education	.	8.1	8.1	8.1	8.1	8.1
Health and social work	.	6.8	6.8	6.8	6.6	6.6
Oth. community, social & personal serv.	.	3.3	3.4	3.5	3.9	3.9

Notes: 1) LFS based on population 15-70. Excluding conscripts and women on additional maternity leave. – 2) From 2000 according to census 2001. – 3) Including hotels and restaurants.

Source: wiiw Handbook of Statistics, 2006.

Table A9

Ukraine: Gross investment by type and activities

(current prices, real growth rates, per cent of total)

	2000	2001	2002	2003	2004	2005*
	(hryvnia mn, current prices)					
Investment, total	23629.0	32573.0	37177.9	51011.2	75714.4	93096.1
growth rate in %, const. prices	14.4	20.8	8.9	31.3	28.0	1.9
Construction	10162.0	13681.0	14871.0	19895.0	32560.0	40030.0
growth rate in %, const. prices	9.1	16.7	17.2	.	.	.
Machinery and equipment	11613.0	16612.0	20076.0	28056.0	39370.0	48410.0
growth rate in %, const. prices	.	.	.	.	.	.
Other	1854.0	2280.0	2231.0	3060.2	3784.4	4656.1
growth rate in %, const. prices	.	.	.	.	.	.
Investment by NACE classification:						
Agriculture, hunting and forestry	.	1616.0	1930.2	2141.1	3380.6	5015.7
Fishing	.	20.0	34.1	39.2	38.5	27.0
Industry total	.	13651.0	15112.0	19726.3	28190.8	35031.1
Mining and quarrying	.	4234.0	3819.0	4523.0	6345.0	.
Manufacturing	.	7084.0	8433.0	11659.1	16663.0	.
Electricity, gas and water supply	.	2333.0	2860.0	3544.2	5182.8	.
Construction	.	1109.0	1822.8	2501.7	4674.6	4929.0
Wholesale, retail trade, repair motor veh.	.	1285.0	2019.0	3276.3	5322.5	7614.0
Hotels and restaurants	.	469.0	446.0	677.0	1073.9	1508.2
Transport, storage and communications	.	7453.0	7004.2	10230.3	15015.3	16887.5
Financial intermediation	.	530.0	891.0	977.0	1245.1	1963.9
Real estate, renting & business activities	.	4545.0	5549.0	7716.0	11238.2	15334.0
Public admin., defence, compuls.soc.sec.	.	328.0	449.0	792.0	1155.7	792.6
Education	.	407.0	581.3	652.4	953.1	870.2
Health and social work	.	474.0	577.0	1053.0	1472.2	1296.5
Oth. community, social & personal serv.	.	686.0	763.0	1230.0	1953.8	1826.3

(continued)

Table A9 (continued)

Ukraine: Gross investment by type and activities

(current prices, real growth rates, per cent of total)

	2000	2001	2002	2003	2004	2005*
Investment, total	100.0	100.0	100.0	100.0	100.0	100.0
			(% of total)			
Construction	43.0	42.0	40.0	39.0	43.0	43.0
Machinery and equipment	49.1	51.0	54.0	55.0	52.0	52.0
Other	7.8	7.0	6.0	6.0	5.0	5.0
Agriculture, hunting and forestry	.	5.0	5.2	4.2	4.5	5.4
Fishing	.	0.1	0.1	0.1	0.1	0.0
Industry total	.	41.9	40.6	38.7	37.2	37.6
Mining and quarrying	.	13.0	10.3	8.9	8.4	.
Manufacturing	.	21.7	22.7	22.9	22.0	.
Electricity, gas and water supply	.	7.2	7.7	6.9	6.8	.
Construction	.	3.4	4.9	4.9	6.2	5.3
Wholesale, retail trade, repair motor veh.	.	3.9	5.4	6.4	7.0	8.2
Hotels and restaurants	.	1.4	1.2	1.3	1.4	1.6
Transport, storage and communications	.	22.9	18.8	20.1	19.8	18.1
Financial intermediation	.	1.6	2.4	1.9	1.6	2.1
Real estate, renting & business activities	.	14.0	14.9	15.1	14.8	16.5
Public admin., defence, compuls.soc.sec.	.	1.0	1.2	1.6	1.5	0.9
Education	.	1.2	1.6	1.3	1.3	0.9
Health and social work	.	1.5	1.6	2.1	1.9	1.4
Oth. community, social & personal serv.	.	2.1	2.1	2.4	2.6	2.0

Source: wiiw Handbook of Statistics, 2006.

Table A10

Ukraine: Wages and social benefits

(current prices, real growth rates)

	1995	2000	2002	2003	2004	2005*
Average monthly gross wages						
Total economy ¹⁾	73.0	230.1	376.4	462.3	589.6	806.2
real growth rate in %	-0.1	1.1	20.0	16.7	17.0	20.4
NACE classification: ¹⁾						
Agriculture, hunting and forestry	.	114	183	219	311	437
Fishing	58	145	242	291	375	499
Industry total	89	302	485	591	743	967
Mining and quarrying	131	394	610	701	910	1246
Manufacturing	77	271	441	553	701	905
Electricity, gas and water supply	118	370	562	651	767	969
Construction	103	260	427	546	709	894
Wholesale, retail trade, repair motor veh.	66	225	330	394	509	713
Hotels and restaurants	51	178	286	340	429	567
Transport, storage and communications	90	335	573	685	843	1058
Financial intermediation	172	559	976	1051	1258	1553
Real estate, renting & business activities	75	277	437	527	667	900
Public admin., defence, compuls.soc.sec.	81	337	495	577	691	1087
Education	71	156	267	340	429	641
Health and social work	75	139	223	279	351	517
Oth. community, social & personal serv.	63	163	247	299	400	620
Social benefits						
Monthly pension, December ²⁾						
Total, all recipients	38.7	83.7	136.6	182.2	316.2	.
Old-age	38.8	85.2	141.8	194.2	323.8	.
Agricultural co-operatives	.	.	.	.	.	.
Unemployment benefits						
Benefits paid total, UAH mn	.	.	.	.	.	.
Recipients, 1000 pers., Dec	74.4	627.3	689.7	684.1	680.0	.
Benefits per person per month, Dec	.	59.4	106.0	.	.	.

Notes: 1) Excluding small enterprises. Up to 1994 excluding collective agricultural enterprises. – 2) In 1995 and 1999 including compensation payments, from 1996 including target money aid from 2004, including state addressed assistance and other allowance.

Source: wiiw Handbook of Statistics, 2006.

Table A11

Ukraine: Trade with the EU in EUR, by individual countries

(exports, imports and trade balances, current prices)

	1993	1995	2000	2003	2004	2005*
	(EUR mn)					
European Union (25)						
Exports ¹⁾	.	.	4608.7	6959.1	7865.7	7396.3
Imports ¹⁾	.	.	4254.0	6860.8	7539.1	9542.1
Trade balance	.	.	354.7	98.3	326.6	-2145.8
European Union (15)						
Exports ¹⁾	788.2	1074.3	2812.7	4031.6	4800.8	4587.7
Imports ¹⁾	937.5	1768.1	3118.2	5128.8	5459.7	6769.9
Trade balance	-149.3	-693.7	-305.5	-1097.3	-658.9	-2182.2
Austria						
Exports	171.5	59.1	177.1	228.1	200.6	255.1
Imports	103.2	101.4	200.4	286.6	283.9	368.5
Trade balance	68.2	-42.3	-23.3	-58.6	-83.3	-113.4
Belgium, Luxembourg						
Exports	17.9	55.7	116.7	127.9	228.7	180.4
Imports	124.5	85.9	155.5	217.2	221.2	269.8
Trade balance	-106.6	-30.2	-38.7	-89.3	7.5	-89.4
Cyprus						
Exports	.	.	191.0	241.0	135.5	174.4
Imports	.	.	31.8	15.2	3.1	3.9
Trade balance	.	.	159.2	225.8	132.4	170.6
Czech Republic						
Exports	68.2	90.3	204.4	191.4	240.6	302.9
Imports	39.2	120.1	176.3	277.9	346.5	477.4
Trade balance	29.0	-29.8	28.0	-86.5	-105.9	-174.5
Denmark						
Exports	.	4.2	26.8	50.9	92.6	85.7
Imports	.	37.5	73.8	133.6	130.8	141.4
Trade balance	.	-33.3	-47.0	-82.7	-38.2	-55.7
Estonia						
Exports	.	27.5	59.6	321.8	223.8	100.6
Imports	.	20.6	49.8	60.1	64.4	82.5
Trade balance	.	6.9	9.9	261.8	159.5	18.1
Finland						
Exports	81.9	17.4	25.9	23.8	24.8	23.0
Imports	18.8	67.6	103.8	260.6	220.1	282.2
Trade balance	63.1	-50.2	-77.8	-236.8	-195.4	-259.2

(continued)

Table A11 (continued)

Ukraine: Trade with the EU in EUR, by individual countries

(exports, imports and trade balances, current prices)

	1993	1995	2000	2003	2004	2005*
	(EUR mn)					
France						
Exports	24.7	33.4	120.9	139.2	163.7	160.6
Imports	133.9	149.3	255.6	468.8	526.6	642.1
Trade balance	-109.2	-115.9	-134.6	-329.6	-362.9	-481.5
Germany						
Exports	146.7	258.9	802.4	1258.6	1521.0	1033.0
Imports	394.1	732.6	1227.7	2010.1	2230.0	2719.9
Trade balance	-247.4	-473.6	-425.3	-751.5	-709.0	-1686.8
Greece						
Exports	.	30.3	52.0	134.4	95.0	110.4
Imports	.	64.6	41.7	41.6	44.6	54.4
Trade balance	.	-34.2	10.3	92.9	50.4	56.0
Hungary						
Exports	.	227.9	354.2	751.9	649.6	553.6
Imports	.	129.6	179.1	238.8	379.2	520.6
Trade balance	.	98.2	175.2	513.1	270.4	33.0
Ireland						
Exports	.	7.1	294.0	3.8	6.1	5.4
Imports	.	25.9	27.8	23.5	23.0	36.3
Trade balance	.	-18.8	266.3	-19.7	-16.9	-30.9
Italy						
Exports	120.3	324.6	691.4	1121.7	1303.4	1521.3
Imports	81.9	207.8	374.4	570.5	707.6	828.0
Trade balance	38.4	116.8	317.0	551.2	595.8	693.2
Latvia						
Exports	.	48.9	180.2	235.8	303.4	250.3
Imports	.	62.5	47.0	49.6	48.2	51.9
Trade balance	.	-13.6	133.1	186.2	255.2	198.4
Lithuania						
Exports	.	97.1	90.1	210.2	376.9	168.2
Imports	.	99.4	146.6	120.5	139.7	160.8
Trade balance	.	-2.3	-56.5	89.7	237.2	7.4
Malta						
Exports	.	.	4.4	23.7	14.9	12.2
Imports	.	.	0.1	1.0	0.3	0.2
Trade balance	.	.	4.3	22.7	14.6	11.9

(continued)

Table A11 (continued)

Ukraine: Trade with the EU in EUR, by individual countries

(exports, imports and trade balances, current prices)

	1993	1995	2000	2003	2004	2005*
	(EUR mn)					
Netherlands						
Exports	103.2	86.6	149.3	424.6	422.1	414.2
Imports	75.1	114.1	158.7	248.3	273.6	373.1
Trade balance	28.2	-27.4	-9.4	176.3	148.5	41.1
Poland						
Exports	104.9	209.8	452.3	674.7	788.1	812.2
Imports	65.7	364.4	338.2	709.5	810.9	1130.1
Trade balance	39.2	-154.6	114.0	-34.8	-22.7	-317.9
Portugal						
Exports	.	7.4	21.8	39.4	21.8	16.0
Imports	.	1.2	8.3	14.2	17.5	22.4
Trade balance	.	6.2	13.4	25.2	4.2	-6.4
Slovakia						
Exports	.	165.4	249.9	255.6	320.2	408.1
Imports	.	116.8	134.6	177.5	195.5	244.4
Trade balance	.	48.6	115.3	78.1	124.7	163.7
Slovenia						
Exports	.	5.4	9.8	21.2	11.9	26.1
Imports	.	23.9	32.3	81.9	91.6	100.5
Trade balance	.	-18.5	-22.5	-60.7	-79.7	-74.4
Spain						
Exports	10.2	49.0	176.3	187.0	419.9	461.0
Imports	3.4	35.5	108.4	136.1	140.0	187.7
Trade balance	6.8	13.5	67.9	50.9	279.9	273.3
Sweden						
Exports	2.6	6.0	9.0	18.1	22.4	33.4
Imports	8.5	35.9	162.7	218.2	325.4	440.0
Trade balance	-6.0	-29.8	-153.8	-200.2	-303.0	-406.6
United Kingdom						
Exports	30.7	134.5	149.0	274.1	278.8	288.0
Imports	45.2	108.9	219.5	499.3	315.4	404.1
Trade balance	-14.5	25.6	-70.5	-225.2	-36.6	-116.0

Note: 1) USD converted to EUR using the ECB EUR/USD reference rate.

Source: wiiw Handbook of Statistics, 2006.

Table A12

Ukraine: Exports to the top thirty partners

(current prices, per cent of total)

		1993	1995	2000	2003	2004	2005*
I Total exports, fob, USD mn		10841.0	13128.0	14572.6	23066.8	32666.1	34228.4
I Total exports, fob, EUR (ECU) mn ¹⁾		9247.9	10035.6	15771.2	20396.9	26273.7	27512.6
Ranking in 2005							
				(% of total)			
Russia	1	.	43.40	24.12	18.69	18.02	21.88
Turkey	2	1.31	3.45	5.96	3.91	5.72	5.92
Italy	3	1.30	3.23	4.38	5.50	4.96	5.53
Germany	4	1.59	2.58	5.09	6.17	5.79	3.75
Poland	5	1.13	2.09	2.87	3.31	3.00	2.95
USA	6	1.51	2.08	4.98	3.12	4.61	2.79
Belarus	7	.	4.16	1.87	1.48	1.69	2.60
Egypt	8	.	0.81	1.52	1.26	1.13	2.33
India	9	.	1.76	1.15	0.88	1.47	2.15
China	10	2.50	5.75	4.32	4.35	2.54	2.08
Hungary	11	.	2.27	2.25	3.69	2.47	2.01
Moldova	12	.	1.16	1.21	2.11	2.02	1.98
Syria	13	.	1.40	1.10	1.22	1.85	1.96
Kazakhstan	14	.	0.72	0.53	1.33	1.91	1.95
Algeria	15	.	.	1.62	1.52	1.82	1.80
Iran	16	.	0.27	0.62	1.28	1.33	1.69
Spain	17	0.11	0.49	1.12	0.92	1.60	1.68
Bulgaria	18	1.33	1.37	2.62	1.38	1.53	1.59
Netherlands	19	1.12	0.86	0.95	2.08	1.61	1.51
Slovak Republic	20	.	1.65	1.58	1.25	1.22	1.48
Singapore	21	.	0.18	0.49	0.57	0.88	1.43
Romania	22	.	1.27	1.13	2.16	2.24	1.43
Switzerland	23	1.84	0.38	1.02	1.91	1.45	1.16
Saudi Arabia	24	.	.	0.25	1.03	0.74	1.13
Czech Republic	25	0.74	0.90	1.30	0.94	0.92	1.10
United Kingdom	26	0.33	1.34	0.94	1.34	1.06	1.05
United Arab Emirates	27	.	.	0.47	0.59	1.30	1.01
Austria	28	1.85	0.59	1.12	1.12	0.76	0.93
Latvia	29	.	0.49	1.14	1.16	1.15	0.91
Israel	30	.	0.46	0.73	0.81	0.88	0.85

Note: 1) USD converted to EUR using the ECB EUR/USD reference rate.

Source: wiw Handbook of Statistics, 2006.

Table A13

Ukraine: Imports from the top thirty partners

(current prices, per cent of total)

		1993	1995	2000	2003	2004	2005*
Total imports, cif, USD mn		12669.0	15484.0	13956.0	23020.2	28996.8	36136.3
Total imports, cif, EUR (ECU) mn ¹⁾		10807.2	11836.7	15103.9	20355.6	23322.4	29046.1
Ranking in 2005							
				(% of total)			
Russia	1	.	53.27	41.74	37.56	41.82	35.54
Germany	2	3.65	6.19	8.13	9.88	9.56	9.36
Turkmenistan	3	.	4.39	6.78	7.59	6.74	7.41
China	4	0.42	0.54	0.94	2.25	2.56	5.01
Poland	5	0.61	3.08	2.24	3.49	3.48	3.89
Italy	6	0.76	1.76	2.48	2.80	3.03	2.85
Belarus	7	.	3.40	4.31	1.49	1.88	2.60
France	8	1.24	1.26	1.69	2.30	2.26	2.21
USA	9	1.77	2.71	2.58	2.16	1.97	1.96
Korea Republic	10	.	0.18	0.79	0.99	1.13	1.79
Hungary	11	.	1.10	1.19	1.17	1.63	1.79
Turkey	12	0.09	0.44	1.15	1.36	1.29	1.68
Czech Republic	13	0.36	1.01	1.17	1.37	1.49	1.64
Japan	14	0.36	0.69	0.71	1.64	1.46	1.52
Sweden	15	0.08	0.30	1.08	1.07	1.40	1.51
United Kingdom	16	0.42	0.92	1.45	2.45	1.35	1.39
Netherlands	17	0.69	0.96	1.05	1.22	1.17	1.28
Austria	18	0.96	0.86	1.33	1.41	1.22	1.27
Finland	19	0.17	0.57	0.69	1.28	0.94	0.97
Belgium, Luxemburg	20	1.15	0.73	1.03	1.07	0.95	0.93
India	21	.	0.48	0.54	0.67	0.81	0.89
Brazil	22	.	0.89	0.67	1.57	0.93	0.86
Slovak Republic	23	.	0.99	0.89	0.87	0.84	0.84
Switzerland	24	1.74	0.85	1.55	0.76	1.03	0.70
Spain	25	0.03	0.30	0.72	0.67	0.60	0.65
Romania	26	.	0.98	0.35	0.20	0.31	0.59
Uzbekistan	27	.	0.47	1.28	0.70	0.24	0.57
Lithuania	28	.	0.84	0.97	0.59	0.60	0.55
Kazakhstan	29	.	2.09	2.96	2.14	1.36	0.52
Denmark	30	.	0.32	0.49	0.66	0.56	0.49

Note: 1) USD converted to EUR using the ECB EUR/USD reference rate.

Source: wiiw Handbook of Statistics, 2006.

Table A14

Ukraine: Balance of payments

	1992	1995	2000	2003	2004	2005*
			(EUR mn)			
I. Current account ¹⁾	-484	-880	1602	2559	5560	2030
A. Goods and services, net	-472	-909	1521	1140	4006	538
a. Trade balance, net	-485	-2065	843	459	3011	-910
Commodity exports, fob	8809	10884	17008	21013	26906	28093
Commodity imports, fob	-9294	-12948	-16165	-20555	-23895	-29004
b. Services, net	12	1155	678	682	996	1449
1. Transport, net	.	.	2737	1908	1943	1949
2. Travel, net	.	.	-82	129	78	257
3. Other, net	.	.	-1976	-1356	-1025	-757
Credit	.	2175	4111	4615	6325	7503
1. Transport	.	.	3159	3111	3252	3594
2. Travel	.	.	426	828	2060	2507
3. Other	.	.	526	677	1012	1402
Debit	.	-1019	-3433	-3934	-5329	-6054
1. Transport	.	.	-422	-1202	-1309	-1645
2. Travel	.	.	-508	-698	-1982	-2250
3. Other	.	.	-2502	-2033	-2038	-2159
B. Income, net	-12	-332	-1019	-514	-519	-790
1. Compensation of employees, net	.	.	34	125	171	280
2. Investment income, net	.	.	-1053	-639	-690	-1070
2.1 Direct investment, net	.	.	-47	-80	-143	-211
2.2 Portfolio investment, net	.	.	-495	-266	-258	-405
2.3 Other investment, net	.	.	-511	-294	-288	-454
Credit	.	189	155	225	313	608
1. Compensation of employees	.	.	36	128	175	288
2. Investment income	.	.	119	96	138	320
2.1 Direct investment	.	.	.	.	2	4
2.2 Portfolio investment	.	.	3	.	17	31
2.3 Other investment	.	.	116	96	119	285
Debit	.	-520	-1174	-739	-832	-1398
1. Compensation of employees	.	.	-2	-4	-5	-8
2. Investment income	.	.	-1172	-736	-827	-1390
2.1 Direct investment	.	.	-47	-80	-145	-215
2.2 Portfolio investment	.	.	-499	-266	-275	-436
2.3 Other investment	.	.	-626	-390	-407	-739

(continued)

Table A14 (continued)

Ukraine: Balance of payments

	1992	1995	2000	2003	2004	2005*
			(EUR mn)			
C. Current transfers, net	.	361	1100	1933	2073	2282
1. General government, net	.	.	.	-13	340	424
2. Other sectors, net	.	.	.	1947	1733	1858
Credit (to Ukraine)	.	426	1229	2009	2150	2495
1. General government	.	.	.	20	364	445
2. Other sectors	.	.	.	1989	1786	2050
Debit (abroad)	.	-65	-129	-76	-76	-213
1. General government	.	.	.	-34	-23	-22
2. Other sectors	.	.	.	-42	-53	-192
II. Capital and financial account ¹⁾	506	671	-1440	-1715	-5530	-2152
A. Capital account	.	5	-9	-15	6	-52
1. Capital transfer	.	5	-9	-12	4	-6
2. Acquisition of non-financial assets	.	.	.	-3	2	-46
B. Financial account	506	666	-1431	-1700	-5535	-2100
1. Direct investment	132	196	643	1249	1377	6042
1.1 Abroad	.	-8	-1	-12	-3	-221
1.2 In Ukraine	.	204	644	1261	1380	6263
2. Portfolio investment	.	3	-217	-816	1664	2211
2.1 Assets	.	-9	-4	1	-5	0
2.2 Liabilities	.	12	-213	-817	1668	2211
3. Other investment	-1759	840	-1426	-323	-6784	-1992
3.1 Assets	.	-1203	-486	-832	-9909	-6366
3.1.1 Trade credits	.	.	-6	-9	-146	-160
3.1.2 Loans	.	.	13	-152	-649	-173
3.1.3 Currency and deposits	.	.	-103	-422	-819	-624
3.1.4 Other assets	.	.	-389	-249	-8295	-5408
3.2 Liabilities	.	2042	-940	509	3125	4374
3.2.1 Trade credits	.	.	392	-486	2369	3682
3.2.2 Loans	.	.	-1810	939	420	-75
3.2.3 Currency and deposits	.	.	103	245	264	707
3.2.4 Other liabilities	.	.	375	-189	72	59
4. Reserve assets (increase: -)	-75	-373	-431	-1810	-1791	-8362
4.1 Gold, SDR, reserve pos. in IMF	.	13	-232	10	12	-8
4.2 Foreign exchange	.	-386	-199	-1820	-1804	-8354
5. Exceptional financing	.	.	.	.	.	.
6. Net use of IMF resources ²⁾	2208	.	.	.	.	.
III. Errors & omissions ¹⁾	-23	209	-162	-844	-31	122

Notes: 1) Converted from USD to UAH to EUR at the average official exchange rate. – 2) Including other monetary liabilities.

Source: wiiv Handbook of Statistics, 2006.

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