



# **Economic links between Russia and Ukraine.**

## **A fact-based analysis**

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# Structure

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## 1. Introduction

## 2. Current account

- Trade
- Trade in energy
- Remittances

## 3. Financial account

- Investment / FDI
- Banking sector
- External state debt

## 4. Summary

# 1. Introduction

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Commonly held view: Strong economic links between Russia and Ukraine

Goal of this policy briefing: Fact-based analysis

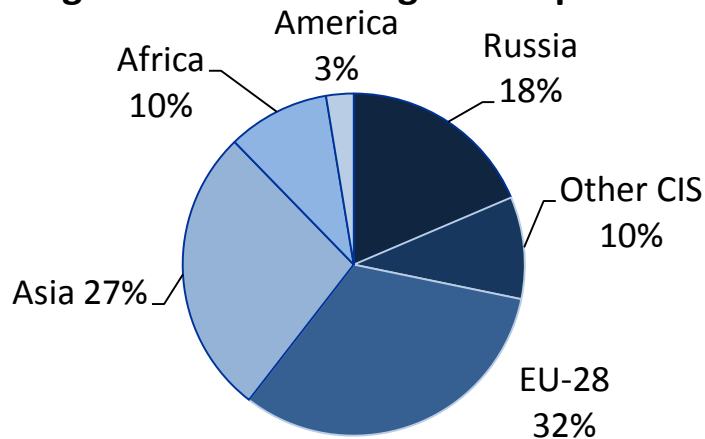
In particular:

- What are economic links between these countries?
- What is the relative importance of these links for each side?
- How did these economic links evolve over the recent past?

For this analysis, we structure the main links according to the balance of payments methodology (current account / capital and financial account)

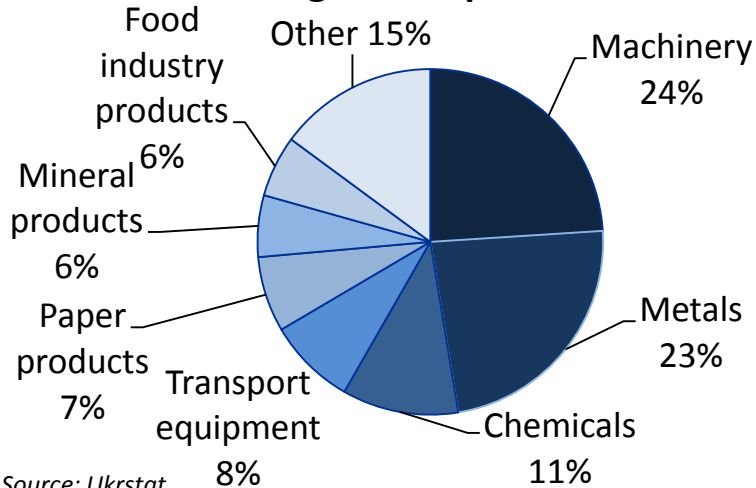
## 2. Current account: Trade - Ukrainian perspective

**Regional structure of goods exports 2014**



Source: Ukrstat

**Structure of goods exports to Russia 2014**



Source: Ukrstat

Exports	2011	2012	2013	2014	Q1-2015
% to RU	29.0	25.7	23.8	18.2	11.1
to RU as % of GDP	12.1	10.0	8.4	7.5	6.0

Source: Ukrstat, IMF

**RU market used to be very important for UA, but rapid decline of export share over the last years**

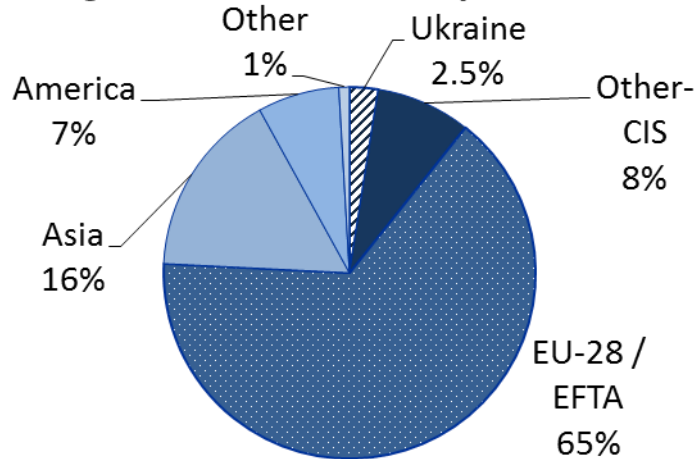
Sectoral split:

- Machinery and metals together account for almost 50% of exports
- Chemicals add another 11%

**Relatively high share of final goods (ca. 50%)**

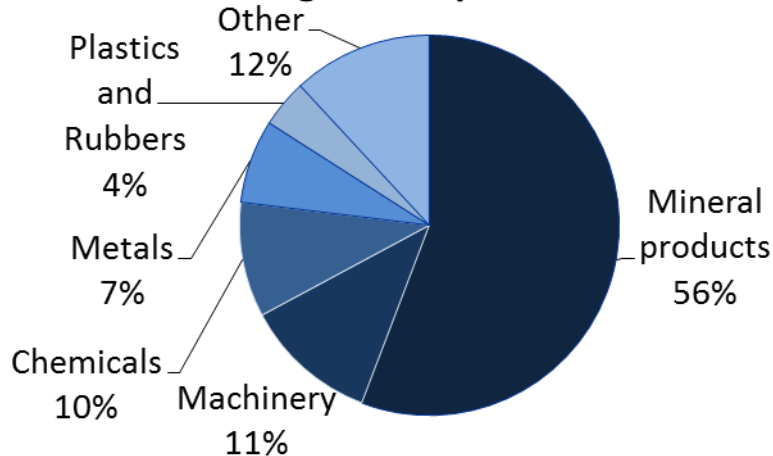
# Trade: Russian perspective

**Regional structure of exports 2014\***



Source: UN Comtrade

**Structure of goods exports to Ukraine 2014**



Source: UN Comtrade, based on Ukrainian import data

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Exports	2011	2012	2013	2014
% to UA	3.5	2.8	2.9	2.5
to UA % of GDP	0.95	0.73	0.73	0.67

Source: UN Comtrade, IMF

## Small size and declining importance of UA market for RU companies

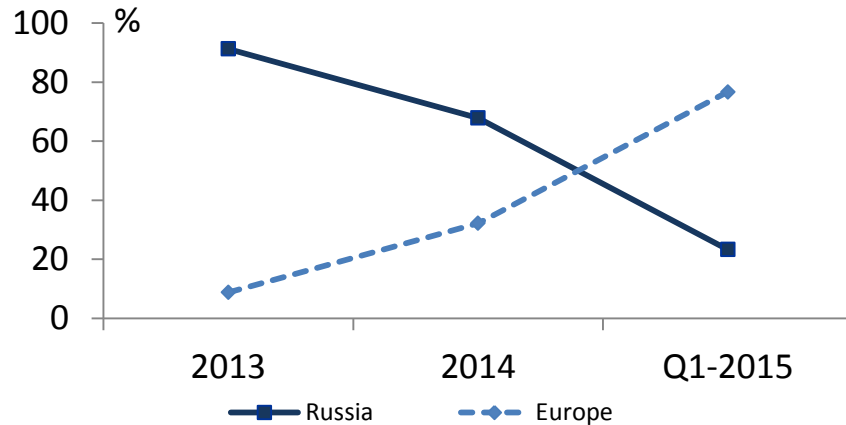
### Sectoral split:

- Dominant export category: Energy, especially natural gas
- Machinery (11%) much less important

## Dominance of energy trade

# Trade in energy: Ukrainian perspective

## Share of gas imports from Russia and EU



Source: Ukrstat

## Gas imports from RU:

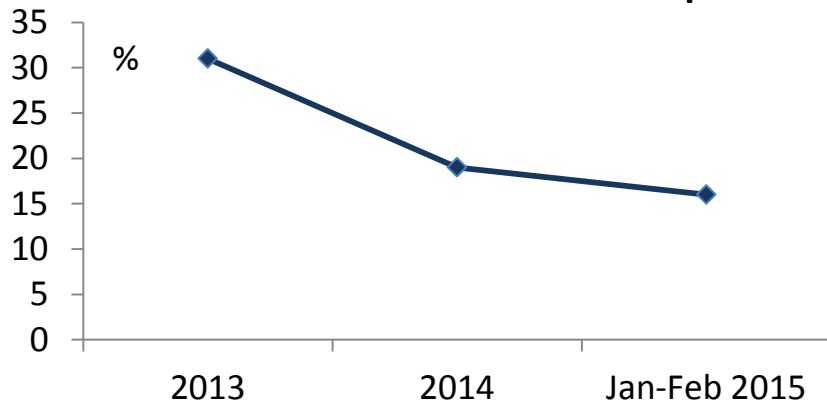
2013: USD 10.8 bn / 91% of total

2014: USD 4.1 bn / 68% of total

Q1-2015: USD 0.3 bn / 23% of total

## Rapid decline of gas imports from RU; instead “reverse flow” from EU

## Share of Russian oil in total oil imports



Source: UN Comtrade

## Oil imports from RU:

2013: USD 2.3 bn / 31% of total

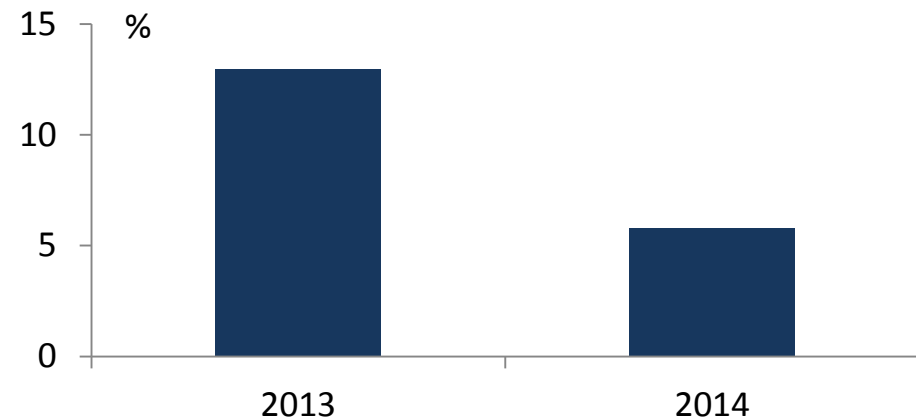
2014: USD 1.4 bn / 19% of total

Jan-Feb 2015: USD 0.08 bn / 16% of total

## Also decline of oil imports from RU

# Trade in energy: Russian perspective

## Share of Ukraine in Russian gas exports



Source: Gazprom, Ukrstat

## Gas exports to UA:

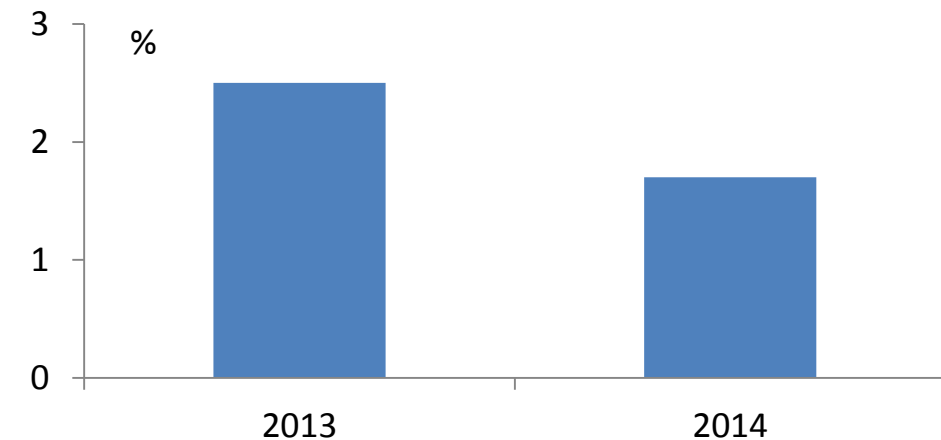
2013: USD 10.7 bn / 13% of total

2014: USD 3.9 bn / 6% of total

*Note: Difference in RU gas export/UA import data due to statistical reasons*

**Ukraine used to be the TOP-1 customer for Gazprom (2009), but importance is declining (6<sup>th</sup> in 2014)**

## Share of Ukraine in Russian oil exports



Source: Comtrade, Ukrstat

## Oil exports to UA:

2013: USD 4.3 bn / 1.5% of total

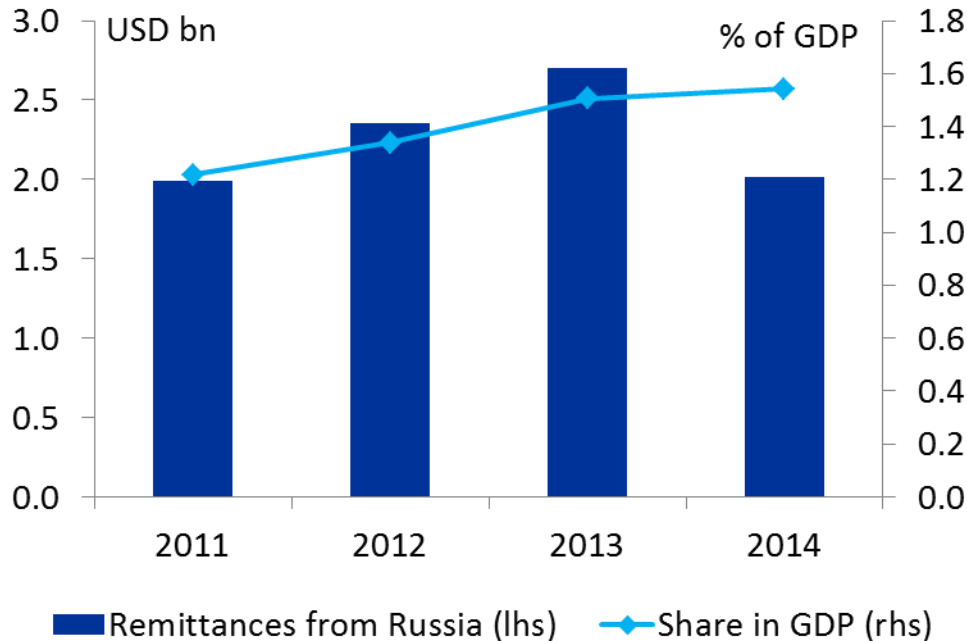
2014: USD 1.4 bn / 0.5% of total

*Note: Exports of (Russian) oil refined in Belarus to Ukraine not included.*

**UA market of very limited and declining importance for RU oil industry**

# Remittances

## Remittances from Russia



Source: NBU, IMF

## Remittances from Russia:

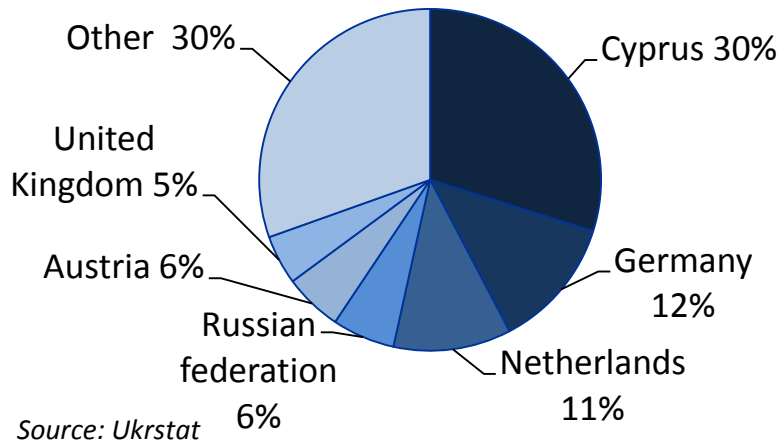
- Absolute size: USD 2.0 bn in 2014
- 1.5% of Ukrainian GDP
- 36% of total remittances
- Decline in 2014 mainly linked to the weak Russian economy and the depreciation of the Russian Ruble

**RU accounts for more than one third of remittances in Ukraine; important source country**



### 3. Financial account: Investment / FDI - Ukrainian perspective

FDI stock by countries 2014



RU share of FDI in UA:

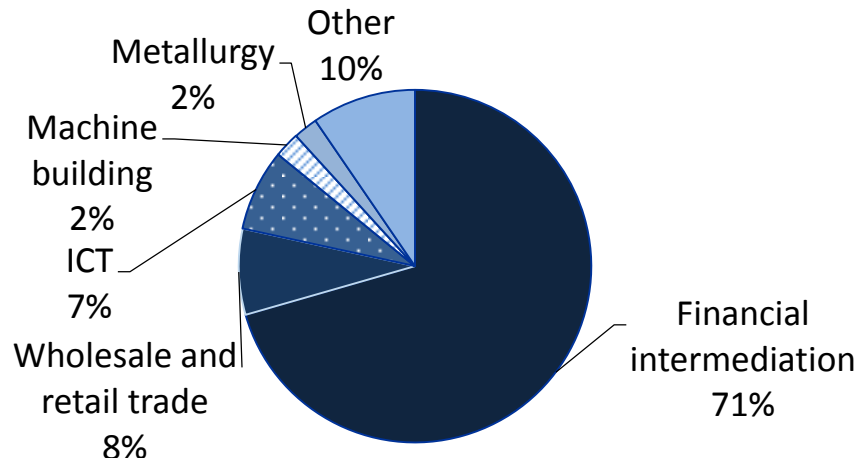
- 2009: 6% of total
- 2014: 6% of total

**At first glance, no dominant position, comparable to Austria and only half of Germany**

**But:**

- FDI data contain many questions marks
- In particular: **Role of Cyprus**, which might be the source of money from other countries, e.g. Russia or Ukraine („round-tripping“)

Russian FDI stock in Ukraine 2014

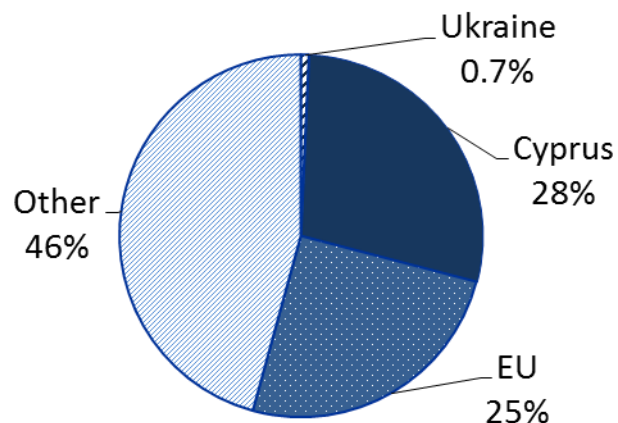


Sectoral split:

- Dominant role of financial intermediation/**Russian banks** (see slides 11/12)

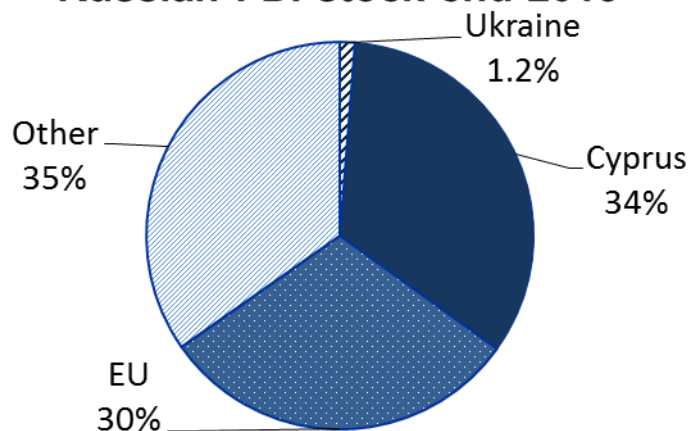
# Investment / FDI: Russian perspective

## Cumulative Russian FDI flows 2008-2014



Source: Central Bank of Russia

## Russian FDI stock end 2013



Source: Central Bank of Russia

How important is UA as a destination of FDI?

Ukraine received during 2008-14 about 0.7% of all Russian FDI outflows

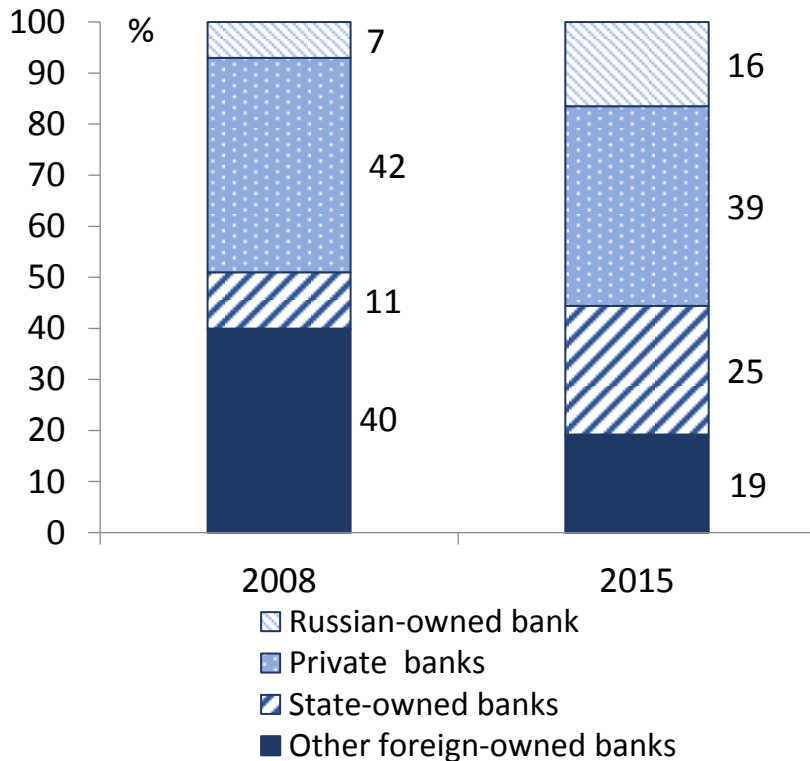
Ukraine's share in total Russian FDI stock in 2013 was 1.2%

**UA not an important destination for FDI from RU, both from a stock/flow perspective**

**However, the large share of over 60% of convenience destinations (incl. Cyprus) might mask transactions involving Ukraine (see previous slide)**

# Banking: Ukrainian perspective

Ownership structure in banking sector



Source: NBU, own calculations

2008: Little importance of RU banks in UA

2015: Much higher importance, currently 4 banks with Russian capital among TOP-10:

- Prominvestbank (VEB)
- Sberbank
- Alfa
- VTB

In total, 11 banks with Russian capital

**Position of RU banks has increased since 2008/2009; future engagement will depend on ability/willingness to provide additional capital**

# Banking: Russian perspective

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How important is UA as a destination of Russian banking?

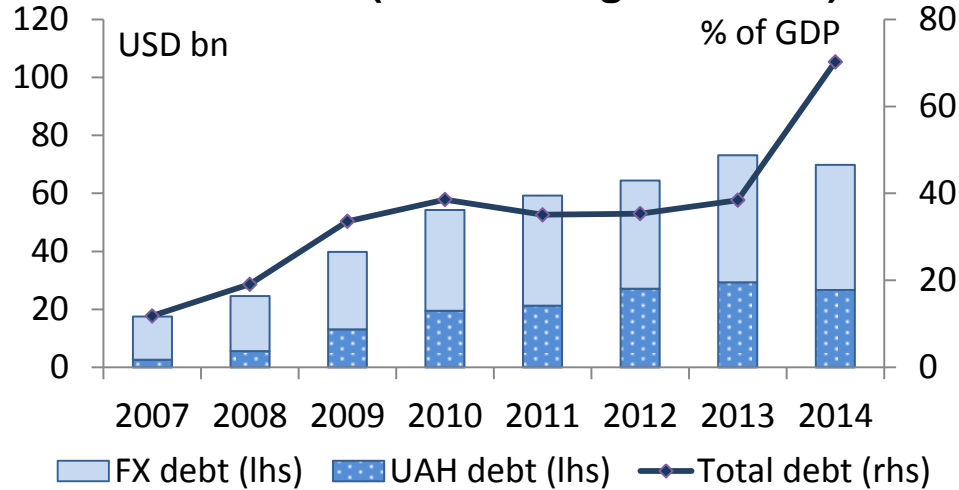
Total gross exposure of Russian banks to Ukrainian residents (not just banks) as of 1 Apr 2014 was **USD 10.4 bn**, e.g.

- USD 5.5 bn loan exposure to UA banks
- USD 2.6 loans to non-banks (e.g. real sector companies)
- USD 1.4 bn in equity

This translates into **5.1%** of Russian bank's total equity at that time, and **0.6%** of their total assets

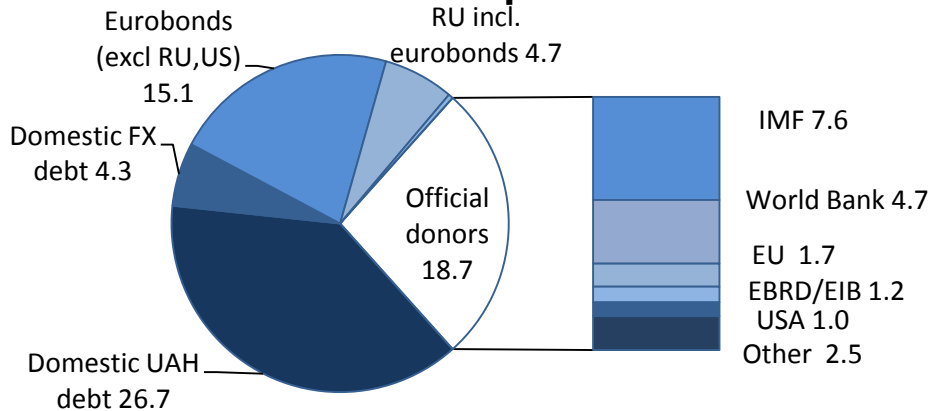
# External state debt

## Public debt (direct and guaranteed)



Source: Ministry of Finance, Ukrstat

## Breakdown of End-2014 public sector debt



Source: Ministry of Finance

Russia is an external creditor to Ukraine primarily via its USD 3 bn Eurobond (2013/2015)

- Ukraine includes this bond in its current debt restructuring, while Russia is opposed
- For Ukraine, this bond is equivalent to:
  - 4.3% of total state debt
  - 7.7% of external state debt
- Significance for Russia: 0.25% of GDP 2015E

## 4. Summary: Ukrainian perspective

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### Current account

- **Trade links** used to be very important, but are declining rapidly
  - Q1-15: Only 11% of UA exports went to RU
- Importance of RU as a source of UA **energy imports** is declining
  - In particular: Gas imports from EU („reverse flows“) now more important than from Gazprom
- **Remittances**: RU remains a key source country

### Capital and financial account

- **FDI share** from Russia stable at around 6%; similar to Austria, but with uncertainties related to Cyprus' role
- Russian capital is concentrated in the **banking sector**, with 4 banks with Russian capital among the TOP-10, and a total asset share of 16%
- Russia is an **external creditor** to Ukraine via its USD 3 bn Eurobond in 2013

# Summary: Russian perspective

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- For RU: UA has a **limited economic importance**
- This relates to all major economic links such as trade, energy and investment
- Asymmetry of importance is partly explained by significant difference in size (GDP 11.5x higher in 2013)
- Bilateral economic links are becoming weaker by the day

**Thus:** Economic importance of UA for RU was limited a few years ago and has gone downwards sharply

Importance in trade terms: 2.5% of exports, similar to **Belgium, Korea**

Importance in FDI terms: 1.2% of FDI stock, similar to **Turkey, Spain**

## Final remarks

- Medium-term trend of economic disintegration has accelerated in recent time



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