



Ukraine's export performance in the first half of 2016

Dr Ricardo Giucci, Mykola Ryzhenkov, Veronika Movchan

German Advisory Group in cooperation with the IER Kyiv

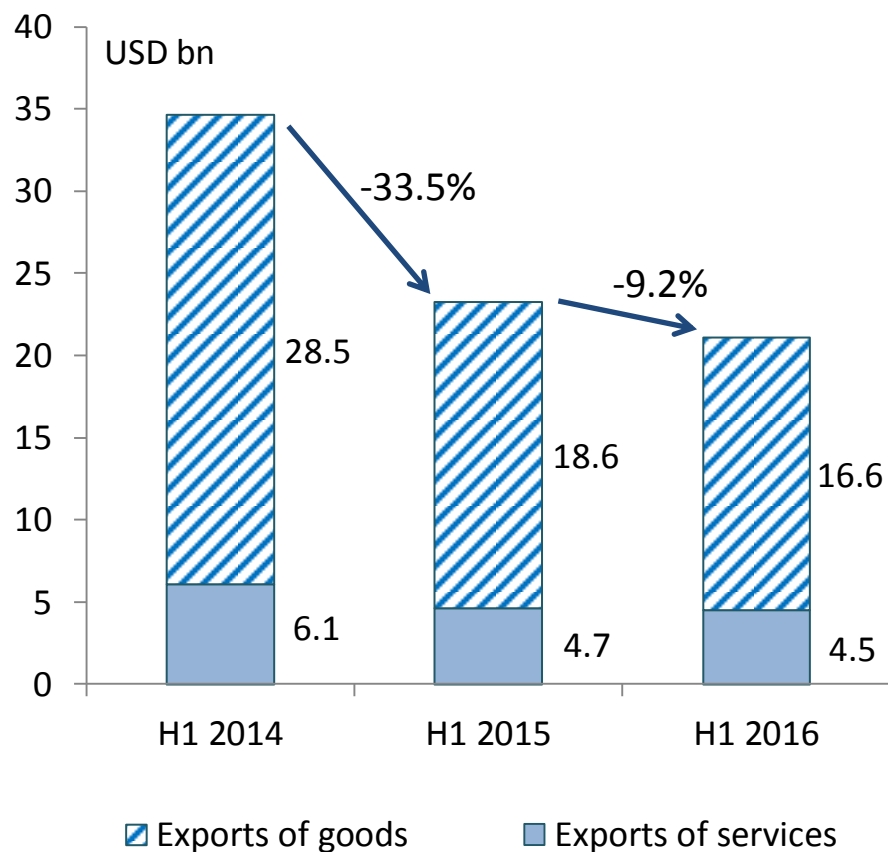
Berlin/Kyiv, October 2016

Structure

1. Export performance in 1H 2016
 - Aggregate numbers
 - Disaggregation by goods and services
 - Disaggregation by export destination
2. Factors supporting exports
3. Factors deterring exports
4. Conclusions

1. Export performance in H1 2016: Aggregate numbers

Exports performance



Exports in USD

- Exports of goods and services dropped by USD 2.2 bn yoy
- In relative terms: -9.2% yoy
 - Goods: -10.7% yoy
 - Services: -3.0% yoy
- Drop decelerated as compared to H1 2015 vs. H1 2014 (-33.5%)

Exports in real terms

- Exports dropped by 5.2% yoy in H1 2016, i.e. less than in nominal USD terms

Source: Ukrstat

Disaggregation by goods and services

	Absolute (USD bn)	Share (%)	Change (%)	Contri- bution (pp)
Agricultural products	6.8	32.1	3.5	+1.0
Mineral products	1.2	5.8	-24.3	-1.7
Chemicals	0.9	4.4	-33.3	-2.0
Metals	3.9	18.3	-23.6	-5.1
Machinery & equipment	2.1	9.7	-9.5	-0.9
Other goods	1.8	8.4	2.7	0.2
Total goods	16.6	78.7	-10.7	-8.6
Transport	2.5	11.7	-0.5	-0.1
Travels	0.1	0.4	4.4	0.0
Business services	0.4	1.7	-6.1	-0.1
ICT	0.8	3.8	1.7	+0.1
Manufacturing services*	0.5	2.5	-8.3	-0.2
Other services	0.3	1.3	-20.9	-0.3
Total services	4.5	21.3	-3.0	-0.6

Source: Ukrstat

*Manufacturing services on physical inputs owned by others

Lower exports in most sectors

- Metals account for over 50% of total drop
- Chemicals and minerals for ca. 20% each

But some sectors performed well

- Agriculture: 3.5%
- ICT: 1.7%

→ Mixed picture

Disaggregation by export destination

	Absolute (USD bn)	Share (%)	Change (%)	Contri- bution (pp)
EU-28	7.9	37.5	5.1	+1.7
<i>incl. DEU</i>	<i>0.9</i>	<i>4.3</i>	<i>6.5</i>	<i>+0.3</i>
CIS	4.3	20.2	-21.3	-5.0
<i>incl. RUS</i>	<i>3.0</i>	<i>14.2</i>	<i>-19.3</i>	<i>-2.7</i>
Asia	5.6	26.6	-14.7	-4.2
Africa	1.8	8.3	-10.8	-0.9
Other	1.6	7.4	-10.3	-0.8
Total	21.1	100	-9.2	-9.2

Source: Ukrstat

Mixed regional performance

- Exports to EU: +5.1%
- Exports to CIS: -21.3%
- Exports to Asia: -14.7%

Implications for export shares

- EU: ca. 38%
- CIS: ca. 20%
- Asia: ca. 27%

→ EU by far leading destination

→ Asia more important than CIS

Exports to the EU in H1 2016

	Absolute (USD m)	Share (%)	Change (%)	Contri- bution (pp)
Fats and oils	724.7	11.1	200.7	+8.0
Electrical machinery and equipment	776.3	11.9	9.9	+1.2
Wood and articles of wood	393.6	6.0	15.9	+0.9
Furniture	124.4	1.9	56.0	+0.7
Cereals	761.2	11.7	4.5	+0.5
Machinery and appliances	188.9	2.9	11.6	+0.3
Paper and paperboard	35.1	0.5	61.1	+0.2
Dairy, eggs, honey	33.6	0.5	56.1	+0.2
Articles of apparel	166.6	2.6	7.4	+0.2
Misc. manufactured articles	22.4	0.3	102.2	+0.2
Other goods	3,290.1	50.5	-9.4	-5.6
Total exports of goods	6,516.9	100	6.8	+6.8

Exports to EU: +5.1% yoy

- Goods: +6.8% yoy
- Services: -1.7% yoy

Main drivers

- Fats and oils, mainly sunflower oil
- Electrical machinery & equipment: more car parts
- Wood: Shift towards processed wood
- Kitchen furniture: Redirection from RUS to EU

Source: Ukrstat, goods

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Exports to Russia in H1 2016: Goods vs. services

Goods and services

- Significant reduction: -19.3% yoy
- However: Very different developments in goods and in services

Goods

- Very strong reduction from USD 2.3 bn to USD 1.5 bn; -34.6% yoy
- Reasons: Bilateral FTA suspension & import bans since Jan 2016

Services

- Increase of exports from USD 1.4 bn to USD 1.5 bn; +6.5%
- Main reason: Export of gas transport services (pipeline)

→ Economic disintegration between Ukraine and Russia continues at full speed; only exemption so far is gas transit

2. Factors supporting exports

i. Higher grain exports

- 17.4 m t in H1 2016 vs. 15.8 m t in H1 2015

ii. Stronger links to EU companies

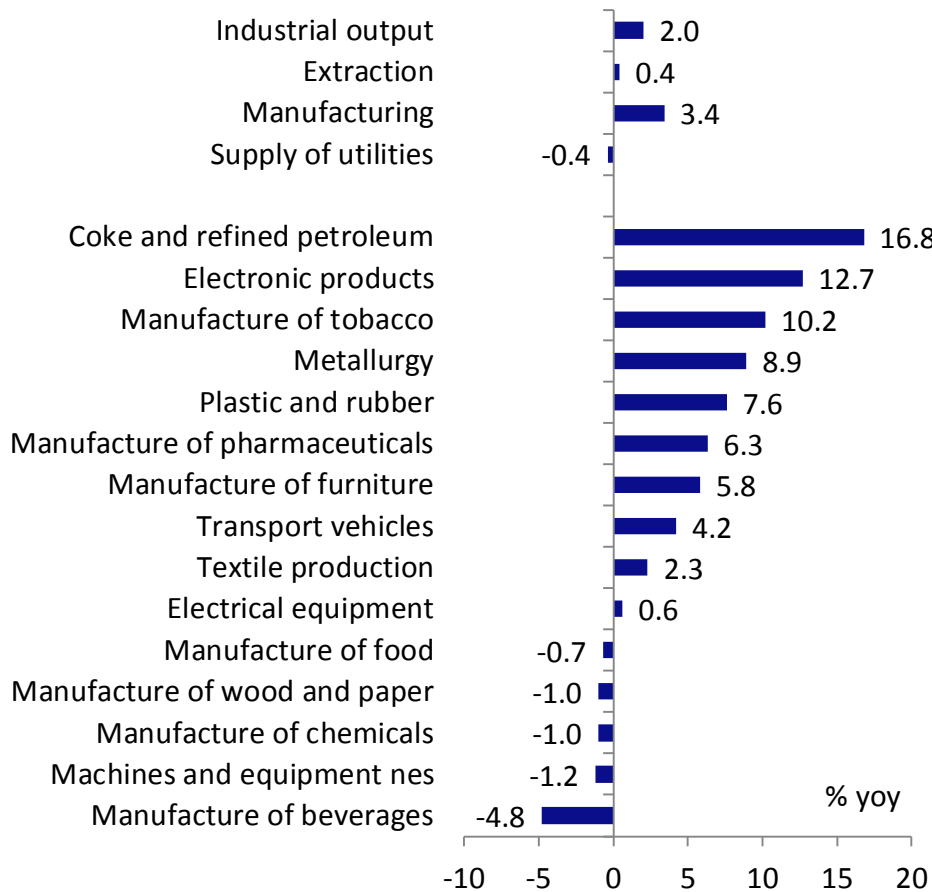
- Anecdotal evidence: Intensive measures by Ukrainian business to find partners in the EU
- Considerable technical assistance in the DCFTA implementation

iii. New destinations for high value-added products

- Companies found new partners to substitute Russian clients
- Railcars exported to Turkmenistan: USD 32.7 m
- Turbojet and turboprop engines sold to India: USD 63.4 m

Stronger industrial output in H1 2016

Industrial output in H1 2016



Source: Ukrstat

Note: without Crimea

Industry

- Slight recovery: 2.0%
- Higher output conducive to higher exports

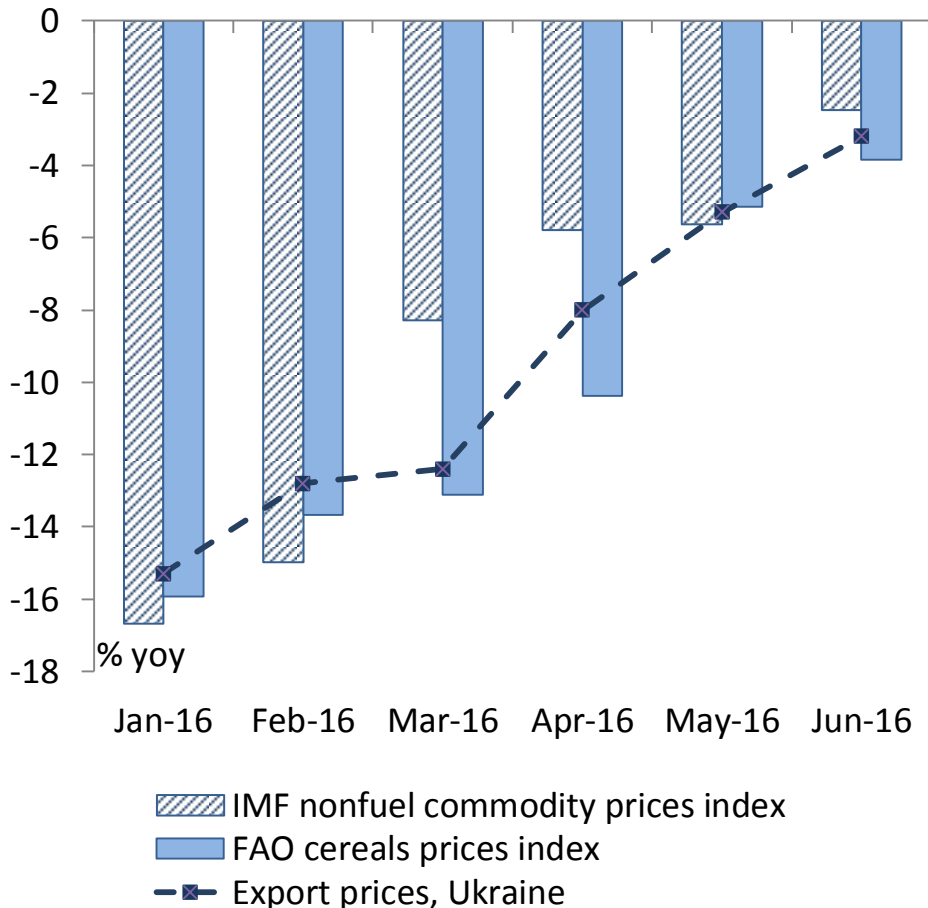
Manufacturing

- Over-proportional increase: 3.4%
- Best performance in manufacturing of coke and electronic equipment

3. Factors deterring exports

i. Commodity prices

Global price indices



Source: IMF, FAO, Ukrstat

Global prices for key UA exports declined in H1 2016*

- Cereal prices: -10.5%
- Non-fuel commodities: -9.1%

Export loss due to lower prices for grains, ores and metals:

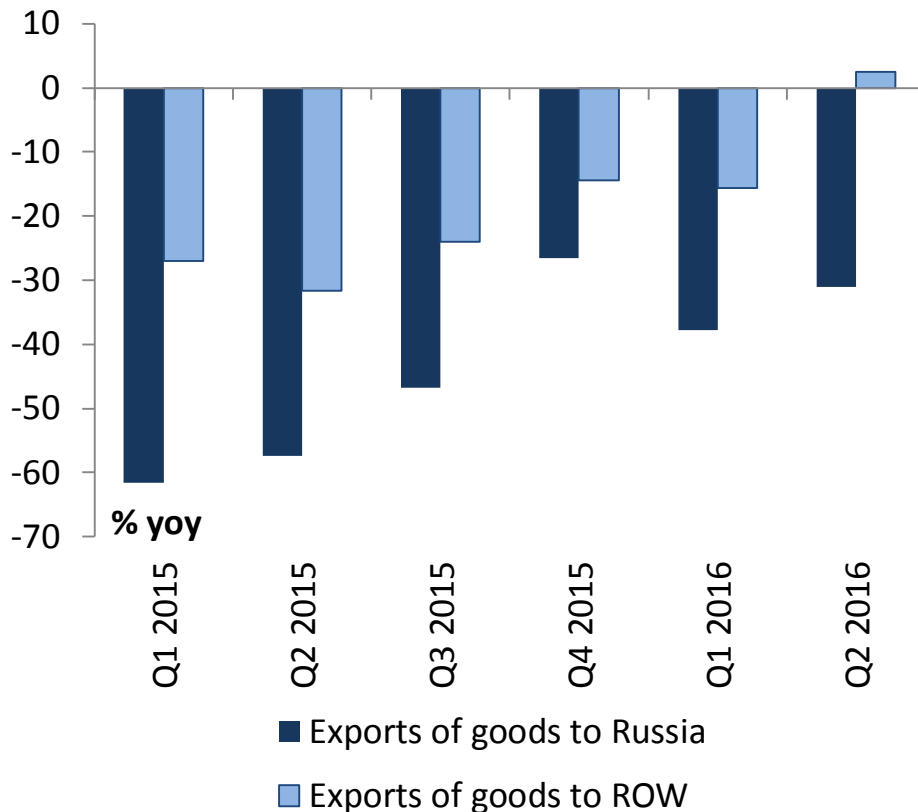
- USD 1.8 bn (own estimate)

→ Strong contribution of prices to export decline

* Average price H1 2016 compared to average price H1 2015

ii. Worsened market access to Russia

Exports of goods to Russia and to other destinations



Source: Ukrstat

Since January 2016

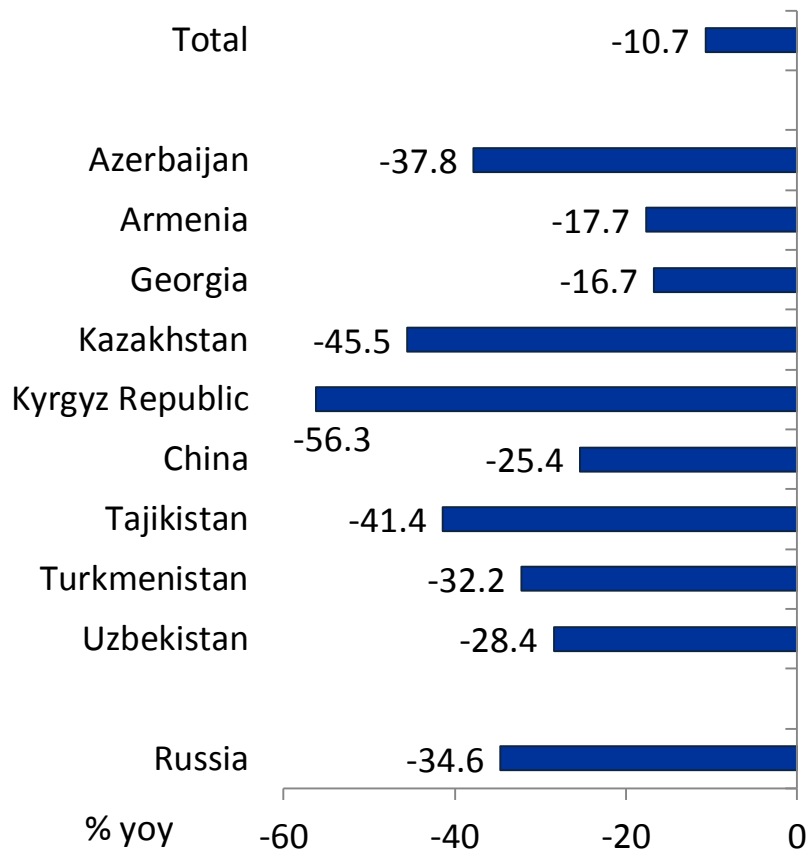
- Suspension of bilateral FTA
- Russian import bans for agri-food products
- Anecdotal evidence: Problems with customs clearance

Impact

- Strong decline in exports of goods to RU in H1 2016
- Exports to RU: -34.6%
- Exports to other countries: -7.3%

iii. Transit restrictions in Russia

Merchandise exports to Central Asia and Caucasus



Source: Ukrstat; H1 2016

Transit restrictions

- Jan 2016: Restrictions for transit of UA goods through RU
- Effect on exports to Central Asia and the Caucasus

Impact of transit restrictions

- Contribution to a huge drop in exports of goods to CIS countries (excl. RU)
 - Kazakhstan: -45.5% yoy
 - Kyrgyz Republic: -56.3% yoy

→ **Significant contribution to drop of exports to CIS countries**

4. Conclusions

- Export performance in H1 2016 was weak (-9.2% decline)
- However: Exogenous negative factors contributed to weakness
 - Lower global commodity prices
 - Restricted access to the Russian market
 - Transit restrictions for exports to CIS countries through Russia
- Thus: Weak performance not a consequence of government policy, but mainly of external factors
- Despite weak performance, there is some silver lining
 - Exports to EU increased by 5.1% (context: DCFTA)
 - Higher exports in agriculture and ICT
 - Lesser FX restrictions since Jul 2016 will support future exports



German
Advisory Group
Ukraine

Contact

Berlin
Economics

Dr Ricardo Giucci

giucci@berlin-economics.com

Veronika Movchan

movchan@ier.kiev.ua

Mykola Ryzhenkov

ryzhenkov@ier.kiev.ua

German Advisory Group

c/o BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

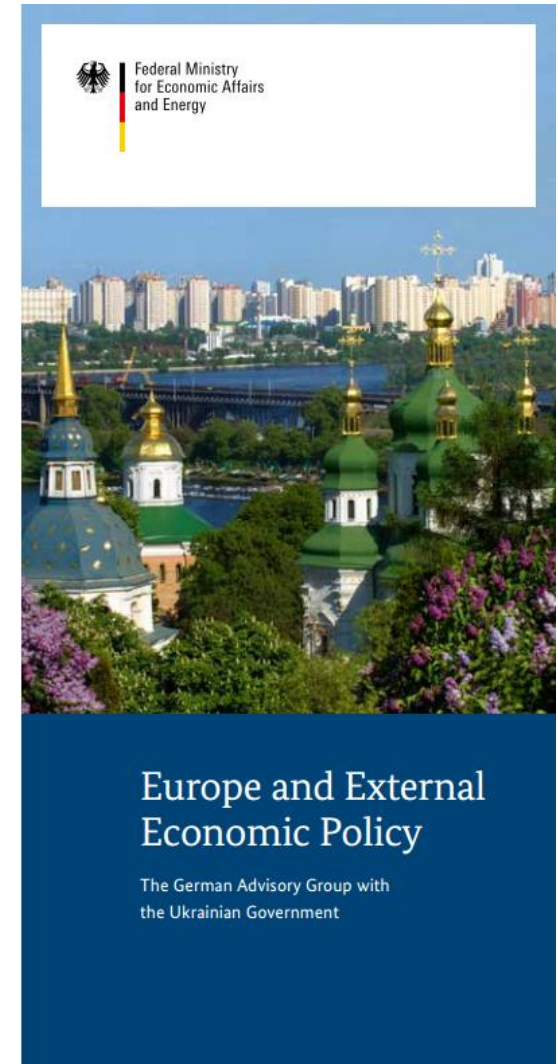
Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

E-mail: info@beratergruppe-ukraine.de

www.beratergruppe-ukraine.de

Twitter: @BerlinEconomics



Annex: Exports to Germany in H1 2016

	Absolute (USD m)	Share (%)	Change (%)	Contri- bution (pp)
Electrical machinery and equipment	163.7	23.8	6.0	1.4
Furniture	19.4	2.8	58.8	1.1
Oil seeds	13.2	1.9	112.6	1.1
Wood and articles of wood	43.5	6.3	16.3	1.0
Fats and oils	6.6	1.0	1136.7	0.9
Ores, slag and ash	47.5	6.9	14.2	0.9
Residues and waste from the food industries	5.1	0.7	6,186.0	0.8
Instruments and apparatus	7.5	1.1	165.3	0.7
Fertilisers	4.7	0.7	30,626.0	0.7
Dairy, eggs, honey	13.1	1.9	48.6	0.7
Other goods	362.5	52.8	-3.4	-2.0
Total exports of goods	686.7	100	7.4	7.4

Exports to Germany: 6.5% yoy

- Goods: 7.4% yoy
- Services: 4.1% yoy

Contributors

- Elec. machinery/equipment: Investment by Kromberg & Schubert in 2016
- Furniture: Almost 60% up
- Oil seeds: Over 100% up
- Wood: ca. 16% increase

→ **Intensification of exports in many sectors**

Note: Based on UKR statistics, which differ from German data