NEWSLETTER

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Strong reduction in exports in 2014 despite severe depreciation

In 2014, Ukrainian exports have dropped by USD 13 bn (-16.6%) and have thus contributed significantly to the decline in GDP of approx. 7%. This development is remarkable in so far as the Ukrainian hryvnia greatly depreciated in 2014, which would usually boost exports.

Exports to the Russian-led customs union dropped by 35%, which explains 2/3 of the total export reduction. The export of goods and services into the EU has remained practically constant (-1%). This shows that a significant part of Ukraine's export weakness can be explained by an "import weakness" on the part of Russia.

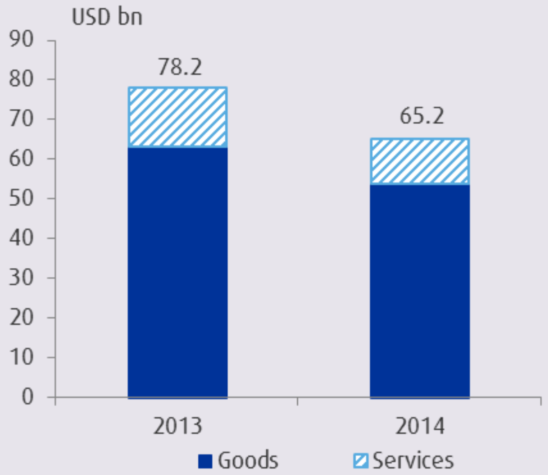
The export structure of the country has clearly changed over the past year. The share of exports to the EU rose from 27% in 2013 to 32%; the corresponding share of the customs union dropped from 32% to 25%. The share of agri-food reached 26% and thus exceeds the traditionally dominant metal exports (24%).

Boosting exports is currently the fastest and easiest way to improve the economic situation. A central measure for this is the adoption of EU-standards according to the Deep and Comprehensive Free Trade Agreement (DCFTA) to support exports to promising markets.

Aggregated development

In 2014, the exports of goods and services dropped by USD 13 bn; this amounts to a drop of 16.6% from 2013.

Exports 2013 and 2014



Source: UkrStat

In real terms, the drop amounted to 8.5%; despite severe depreciation of the hryvnia the export thus resulted in a negative contribution to the GDP of 3.7 %-points. To better understand the reasons for the drop in exports, we will look at the export dynamics by regions and by products.

Export dynamics by regions

Very different developments with regard to export destinations are hidden behind the aggregated numbers.

Export dynamics* 2014 by region

Region	Amount, USD bn	yoy change, %
EU	20.9	-0.8%
Customs Union	16.2	-34.9%
of which Russia	*13.3*	*-35.2%*
Asia	13.4	-24.5%
Rest of World	14.7	1.7%

*Source: UkrStat; *goods and services*

Exports to the customs union (Russia, Belarus and Kazakhstan) have dropped massively by USD 8.7 bn (-35%). This means that 67% of the drop in exports is due to exports to the customs union. On the other hand, exports to the EU showed a slight decrease of USD 0.2 bn (-1%) and have thus remained almost unchanged. Exports of goods (i.e. excl. services) to the EU have even gone up slightly by 1.5%.

Export dynamics by products

Very different developments can also be observed with regard to products.

Export dynamics 2014 by products

Group	Amount, USD bn	yoy change, %
Agri-food	16.7	-2.1%
Mineral products	6.1	-18.6%
Chemicals	3.6	-28.8%
Metals	15.4	-13.0%
Machinery	7.4	-30.6%
Other	4.6	-14.0%
Total goods	**53.9**	**-14.8%**
Transport	6.0	-27.6%
Travels	0.2	-58.5%
ICT	1.6	8.1%
Other	3.4	-23.9%
Total services	**11.3**	**-24.0%**

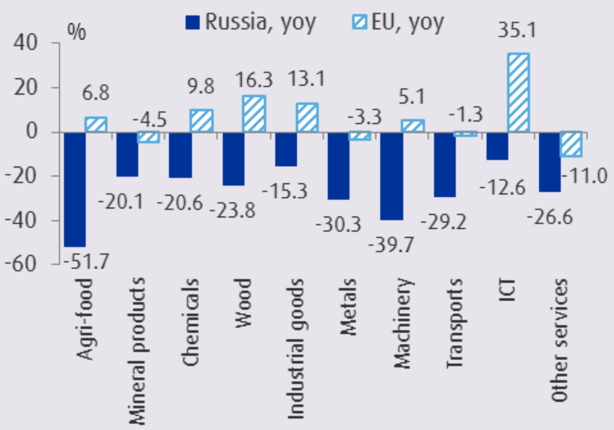
Source: UkrStat

It's clear that the drop in exports is primarily due to an export weakness in heavy industry (machinery, metal industry, chemical and mineral products); these four groups are responsible for 64% of the entire drop in exports. But the export of transport services (incl. pipelines) has also dropped greatly; its share of the drop in exports is 18%. On the other hand, the export of agri-food has remained almost unchanged, with a slight decrease of 2%. Exports in the IT area have gone up, though without making an important quantitative contribution.

Development by countries and products

The comparison of exports to the EU and Russia in individual product groups is interesting.

Export to the EU and Russia in 2014, %-change



Source: UkrStat

Exports to Russia have greatly dropped in all important groups. On the other hand, exports to the EU have gone up in most product groups and have only slightly decreased for some products. This clearly shows that Ukraine's export weakness in 2014 is largely due to an "import weakness" on the part of Russia. This import weakness can be explained by the economic stagnation, the increase in protectionism as well as the targeted obstruction of Ukrainian imports to Russia.

"New" export structure of Ukraine

The export development in 2014 has led to a changed export structure. With regard to the regions, the EU is now clearly the most important export market, with a share of 32% (2013: 27%). The customs union or the newly founded Eurasian Economic Union is now in second place with a share of 25% (2013: 32%).

With respect to products, agri-food is in first place with a share of 26% (2013: 22%). Metallurgy, which was traditionally dominant, is now only in second place, with 24%. This means that the significance of agri-food as a means to acquire foreign currency has clearly risen, and that in a time of great instability of the exchange rate.

Conclusion

Boosting exports would be crucial to ensure economic growth and exchange rate stability. Important prerequisites for a rise in exports are in place, in particular very competitive labour costs after the severe depreciation and duty-free access to the EU market.

To boost exports, the Ukraine government should implement the DCFTA with the EU prematurely to introduce internationally recognised standards and improve access to promising markets, such as those of the EU.

From the perspective of the German Advisory Group, instruments for the financial promotion of exports should be established, such as export credit guarantees. In such a way, exporters could handle the risks involved in foreign trade in a better way.

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Note:
An extensive analysis of the subject can be found in the Policy Briefing PB/02/2015 "Ukraine's export dynamics in 2014"

Download: www.beratergruppe-ukraine.de

German Advisory Group
The German Advisory Group, which is active in Ukraine since 1994, advises the Ukrainian Government on a wide range of economic policy issues and on financial sector development. The group is financed by the German Federal Ministry of Economics and Energy under the TRANSFORM programme and its successor.

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