

## Positive import dynamics in the first half of 2016

After a sharp decline in 2014 and 2015, the Ukrainian economy is recovering. In the first half of 2016, GDP went up by 0.8% yoy and investment increased strongly by 11.4% yoy. Under such circumstances, one would expect imports to pick up. However, imports in the first half of 2016 declined by USD 1.3 bn or 6.0%. How come?

A look at the goods' structure of imports sheds some light on this question. Imports of goods actually increased in practically all sectors. In particular, imports of machinery and equipment, typically used for investment purposes, increased by an impressive 37.0% yoy.

But there is one big exemption: gas. Because of lower gas consumption, but also partly due to lower gas storage levels, Ukraine imported only 3.0 bn m<sup>3</sup> of gas in the first half of 2016, compared to 10.1 bn m<sup>3</sup> in the first half of 2015. As a result, the gas import bill was reduced by USD 2.4 bn. Consequently, if we exclude gas, imports have increased by USD 1.1 bn, in line with the economic recovery of the country.

It is also interesting to mention that Ukrainian statistics show a decline of imports from Germany, whereas German figures report a ca. 30% growth of exports to Ukraine. Also in this case the reason for discrepancies is related to gas: Ukraine records (decreasing) imports of gas from Germany, while Germany does not record any gas exports to Ukraine. If gas is excluded from Ukrainian statistics, imports from Germany are very similar to the mirror German statistics, thus showing the strengthening economic links between the two countries.

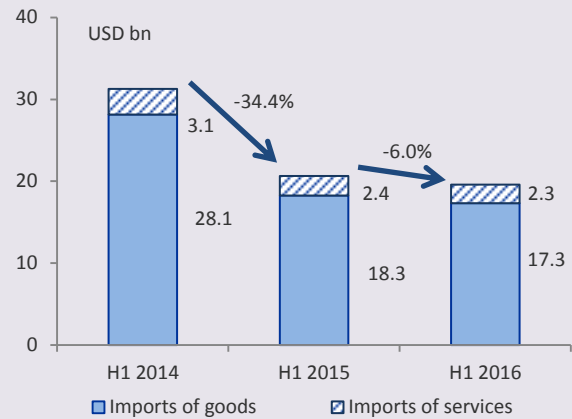
### Aggregated numbers for the first half of 2016

Ukraine is recovering in the first half of 2016, as main macroeconomic indicators show. GDP grew by 0.8% compared to the first half of 2015, consumption increased by 0.3% yoy and investment picked up by 11.4% yoy.

Parallel to the general improvement in the economic situation, import tariffs were reduced for EU goods since January 2016, when the DCFTA came into force. Additionally, an import surcharge introduced in 2015 and amounting to 5-10% was eliminated in January 2016.

Under such circumstances one would expect imports to pick up. However, imports of goods and services dropped by USD 1.3 bn or 6.0% in the first half of 2016.

### Import activity



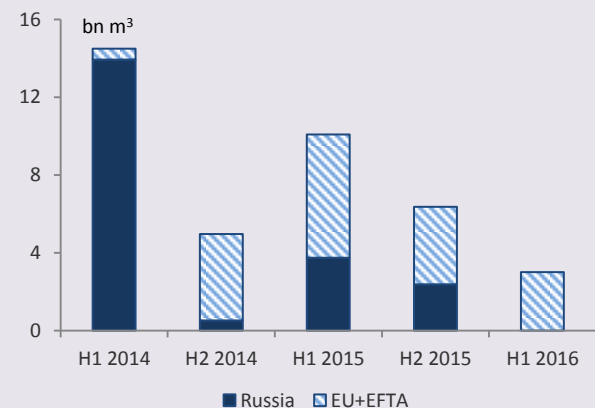
Source: Ukrstat

### Sectoral view: The role of gas

A look at disaggregated numbers shows a different picture. The imports in almost all categories of goods increased in the first half of 2016 yoy. Particularly encouraging is the positive development of investment relevant products like machinery and equipment, which increased by 37% yoy. The only sector with decreasing numbers is the energy sector, especially gas.

In physical terms gas imports decreased from 10.1 bn m<sup>3</sup> in the first half of 2015 to 3.0 bn m<sup>3</sup> in the first half of 2016. The main reasons for the drop are lower gas consumption and lower gas storage levels, accounting for 70% and 30% respectively of the gas imports reduction.

### Imports of natural gas



Source: Ukrstat, based on customs statistics

As a result, in the first half of 2016 the country spent USD 2.4 bn less on gas imports than in the first half of 2015. Consequently, excluding gas, imports have risen by USD 1.1 bn.

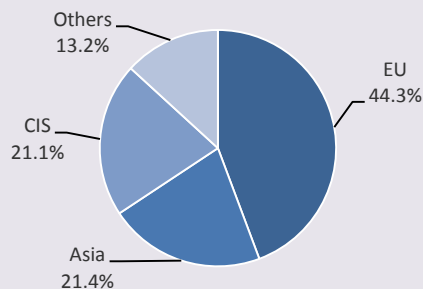
The disaggregated figures show that the imports have actually developed well; this fits the picture of an economic recovery in Ukraine.

**Disaggregation by import origin**

Regarding the countries of origin, a mixed picture arises. Imports from the EU and from Asia increased in the first half of 2016. At the same time imports from the CIS strongly decreased. The main reason for lower CIS imports are lower imports from Russia, which dropped by USD 1.7 bn or 42.8% yoy. The key issue again consists in gas imports, as Ukraine imported no gas from Russia in the first half of 2016, contrary to the first half of 2015, when it imported gas worth USD 1.1 bn.

Concerning import shares these developments imply that the EU remains by far the most important region of origin of imports, occupying a share of 44.3%. Asia now ranks before the CIS, accounting for 21.4% and 21.1%, respectively.

**Imports by country groups**



Source: Ukrstat

**Imports from Germany**

While total imports from the EU are reported to have increased, the State Statistics Service of Ukraine (Ukrstat) reports that imports of goods from Germany have dropped by 4.2% in the first half of 2016. In contrast to this, the Federal Statistical Office of Germany reports an increase of goods exports to Ukraine by 30.7%.

Generally speaking, there are many reasons why mirror statistics in trade do not match; examples are a different methodology for accounting of trade flows or the use of different currencies in the valuation of trade. Such large differences in growth rates are, however, rare.

In this case the reason lies in the scope of the goods covered, precisely in the trade of natural gas. According to Ukrainian statistics, the country imported USD 472 m less gas from Germany in the first half of 2016 than in the first half of 2015. At the same time Germany does not record any gas exports to Ukraine, neither in 2015 nor in 2016.

As in the case of total imports, the actually positive trend in imports from Germany is counteracted by recorded decreasing gas imports. If gas is excluded from Ukrainian statistics, the numbers show an increase of imports from Germany by 28.0% yoy, which is quite similar to the number provided by German statistics. Thus, trade relations between the two countries are increasing strongly.

**Conclusions**

Ukrainian imports increased in the first half of 2016, if gas imports are excluded. This development is very much in line with the economic recovery in the country. In particular, the sharp increase in imports of machinery and equipment by 37% yoy suits well the stronger investment activity in the country.

Imports from the EU and Asia increased, which is clearly positive. Imports from CIS continue to decrease and this trend is likely to continue in the foreseeable future.

Excluding gas, imports from Germany grew by 28.0% yoy, while exports to Germany increased by 6.5%. This reflects not only more intensive trade, but also engagement of German businesses in the country. We expect this trend to continue in the coming years, as the impact of the DCFTA intensifies.

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Note: A more comprehensive analysis of the topic is provided by the Policy Briefing PB/16/2016 "Ukraine's import activity in the first half of 2016".

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**German Advisory Group**

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