

MEMU Supplement No.7-2007

Grain export quotas introduced

The long lasting drought and very high temperatures this spring created unfavourable conditions for crops in Ukraine, and 2007 grain crop is expected to be lower than last year. The Government of Ukraine (GOU) has reacted by introducing export quotas for wheat, barley, corn and rye from July 2007 until October 2007¹. For each of these products the export quota will be 3,000 t. Since the amount is very small, it is a grain export ban. Grain export quotas existed during most of the 2006/2007 season. Thus, with the introduction of new quotas early July 2007, export restrictions will remain in the new season.

The main concern of the GOU is to keep domestic grain prices low during the period of public purchases for the state grain reserves. By doing this, the GOU aims to ensure food security and low prices for bread. In fact, with the grain export restrictions the GOU can achieve these goals. However, the economic costs of this policy are very high, and we argue that there are better options available to achieve the goal of food security in Ukraine.

1. It is often believed that without grain export restrictions too much grain would be exported out of Ukraine leaving nothing for the domestic market. However, as in most other countries, price mechanisms will ensure that the exports are restricted. If there is a shortage in domestic supply, prices will rise domestically and Ukrainian exports will no longer be competitive and feasible. However, the problem is that Ukrainian official statistics are notoriously unreliable, politically motivated and often not publicly available in time. This is why market participants cannot assess the situation properly and in a timely manner, and this is also why the Ukrainian market is sometimes overreacting.
2. The Ukrainian market does not have a supply problem but poverty problem. On average Ukrainians spend a considerable share of their disposable income on food with the poor spending most of their income on food. The Ukrainian government should help the poor using targeted cash transfers. Grain export restrictions keep certain food prices low for both the poor and the rich.
3. Export quotas effectively decrease farm-gate prices as well as farm profits, therefore indirectly decreasing income of those employed in the farm sector as well, where salaries are among the lowest in the economy. Thus, the resulting income loss in the farm sector would cancel out the benefit coming in the form of lower bread prices.
4. The grain export restrictions decrease farm profits and investment growth in Ukraine. This year farmers will not only suffer from drought but as a consequence of the export ban also from much lower prices. It is most likely that farmers will react accordingly in the fall of 2007 and will reduce the acreage planted with wheat – a market that has been heavily influenced by the politics. They may switch to other crops like rapeseed, where exports are still unrestricted.

Overall, the Ukrainian government may damage next year's grain crop and prevents Ukrainian producers to fully use agricultural potential of Ukraine.

Supply and Demand Balances, m tons

	2007/08F	2006/07	2005/06
Wheat:			
Opening stocks	1.4	2.0	1.3
Acreage, m ha	6.0	5.2	6.5
Crop	13.0	13.8	17.9
Imports	2.0	0.0	0.0
SUPPLY	16.5	15.8	19.2
Food Industry	5.7	5.8	5.8
Feed Usage	3.6	3.5	3.0
Seeds	1.2	1.2	1.1
Exports	3.8	3.1	6.5
Losses	0.6	0.8	0.9
DEMAND	14.9	14.4	17.2
Ending stocks	1.6	1.4	2.0
Barley:			
Opening stocks	0.9	0.3	0.7
Acreage, m ha	4.6	5.2	4.3
Crop	8.0	12.0	8.8
Imports	0.6	0.0	0.0
SUPPLY	9.5	12.3	9.5
Food Industry	0.5	0.5	0.5
Feed Usage	4.1	4.1	3.3
Seeds	1.1	1.1	1.2
Exports	2.7	5.2	4.0
Losses	0.4	0.6	0.3
DEMAND	8.8	11.4	9.2
Ending stocks	0.7	0.9	0.3
Corn:			
Opening stocks	0.5	0.1	0.2
Acreage, m ha	1.9	1.8	1.6
Crop	6.5	6.2	6.6
Imports	0.0	0.0	0.0
SUPPLY	7.0	6.3	6.8
Food Industry	0.6	0.6	0.6
Feed Usage	3.7	3.6	2.8
Seeds	0.1	0.1	0.2
Exports	1.6	1.1	2.5
Losses	0.4	0.5	0.7
DEMAND	6.3	5.8	6.7
Ending stocks	0.6	0.5	0.1

Source: UkrAgroConsult; F - forecast

¹ Resolution No. 844 as of 20th of June "On amendments of the Cabinet of Ministers of Ukraine resolution No.1852 as of 25th of December 2006"


Quarterly trends

National accounts**		Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07
GDP	UAH bn	78.6	99.4	100.1	84.3	97.5	119.4	123.6	105.4	124.1	150.4	157.7	...
GDP (real)	% yoy	12.7	14.3	9.1	4.9	3.4	1.4	1.7	4.1	6.8	6.9	9.5	...
Households consumption (real)	% yoy	18.0	9.7	12.5	14.3	17.7	17.0	17.1	20.2	18.2	11.8	9.9	...
State consumption (real)	% yoy	1.3	3.9	0.9	6.1	0.0	1.0	4.0	9.6	5.8	5.8	1.0	...
Gross fixed capital formation (real)	% yoy	22.6	23.8	16.8	-2.3	-0.5	0.2	0.3	19.9	19.3	17.9	18.3	...
Exports of goods and services (real)	% yoy	21.1	14.3	11.7	-0.6	-14.0	-12.7	-15.5	-14.9	-9.6	3.2	1.0	...
Imports of goods and services (real)	% yoy	10.9	7.2	8.7	2.8	3.2	3.9	-0.9	10.7	0.9	8.3	6.4	...
Agriculture, hunting, forestry (real)*	% yoy	0.2	35.6	11.3	5.8	8.3	2.6	-7.2	3.8	2.8	-5.6	8.1	...
Manufacturing industry (real)*	% yoy	15.0	9.9	6.9	7.0	1.8	-1.1	2.0	-1.5	6.1	7.3	7.2	...
Construction (real)*	% yoy	23.3	11.9	23.3	-8.4	-11.3	-8.5	-7.5	0.1	0.8	1.4	4.2	...
Trade, repair services (real)*	% yoy	17.4	13.9	2.5	-2.1	-10.7	-11.7	-11.9	6.2	16.4	20.0	21.9	...
Transport (real)*	% yoy	14.9	12.5	6.4	6.6	5.7	2.8	7.8	4.9	7.7	9.4	5.3	...
Balance of payments													
Current account balance	USD bn	2.3	2.1	1.1	1.6	0.6	0.4	-0.1	-0.8	0.0	0.5	-1.4	1.3
Current account balance	% of GDP	15.8	11.0	5.7	10.1	3.2	1.7	-0.4	-3.7	0.0	1.7	-4.3	5.0
Trade balance in goods	USD m	1552	774	482	1020	-236	-1131	-788	-1353	-935	-884	-2022	-1753
Trade balance in services	USD m	198	749	157	188	392	1035	191	219	506	1054	347	50
Current transfers	USD m	758	720	623	626	694	745	780	622	790	851	910	789
Direct investment (FDI)	USD m	614	420	344	247	365	477	6474	1053	1389	1636	1258	1162
Portfolio investments	USD m	149	1313	156	397	923	90	1347	4	-141	370	3350	1818
Gross international reserves	USD bn	9.6	12.1	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1	22.3	23.5
Exchange rate, UAH/USD	aop	5.33	5.31	5.31	5.30	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Fiscal indicators													
Consolidated fiscal revenues	% of GDP	26.9	26.3	25.9	32.1	35.1	31.5	31.0	31.2	31.7	31.9	32.8	33.3
Personal income tax	% of GDP	4.1	3.8	3.8	4.3	4.4	3.9	4.2	4.4	4.6	4.1	4.1	5.1
Enterprise profits tax	% of GDP	4.0	4.1	6.1	4.8	5.9	5.3	6.3	3.4	4.6	4.3	6.7	3.8
Value-added tax	% of GDP	5.7	5.1	4.1	8.6	9.2	7.9	7.3	9.2	9.2	9.7	9.3	10.4
Excise tax	% of GDP	2.1	2.0	1.8	2.0	2.0	2.0	1.7	1.8	1.7	1.5	1.5	1.8
Consolidated fiscal expenditures	% of GDP	26.5	26.8	35.2	28.3	36.4	28.1	41.7	30.9	32.8	29.4	36.6	28.4
Current expenditures	% of GDP	22.7	21.7	27.2	26.5	33.6	24.0	34.2	28.9	29.7	24.9	29.2	26.9
Capital expenditures	% of GDP	3.8	5.1	8.0	1.8	2.7	4.1	7.5	1.9	3.2	4.5	7.4	1.6
Consolidated fiscal balance	% of GDP	0.4	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	1.1	-2.4	4.0	-4.8
Privatisation receipts	% of GDP	3.7	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1	0.1	0.1	0.5
Labour market													
Average wage (real)	% yoy	18.6	14.7	15.4	15.0	19.0	19.6	26.4	23.8	22.6	18.8	11.3	11.5
Household income (real)	% yoy	16.3	11.3	16.6	24.0	28.0	19.4	18.9	22.1	18.6	20.3	16.3	11.1
Unemployment rate (ILO methodology)	% cum	8.3	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.8	6.4	6.8	7.4
Banking system													
Monetary aggregate M0	% yoy cum	25.6	37.1	27.9	28.2	39.1	31.1	42.2	36.2	25.3	23.7	24.5	22.9
Monetary aggregate M2	% yoy cum	44.8	51.5	32.3	38.9	37.4	31.3	53.9	39.2	36.6	36.7	34.3	38.6
Household deposits in national currency	% yoy cum	67.3	67.9	26.2	28.3	31.6	30.4	90.8	54.6	41.1	39.7	37.3	50.7
Household deposits in foreign currency	% yoy cum	61.7	55.2	54.3	51.8	45.4	46.4	59.1	54.5	66.2	64.3	57.5	52.3
Com. bank credits in national currency	% yoy cum	52.1	44.3	29.4	28.3	32.6	43.4	58.7	59.8	53.7	49.0	52.3	52.4
Com. bank credits in foreign currency	% yoy cum	56.2	43.5	32.2	33.1	36.8	47.1	66.3	72.0	82.1	90.4	95.4	98.9
Long-term com. bank credits	% yoy cum	102.7	82.7	57.1	49.5	53.0	70.1	84.6	87.6	86.7	76.6	79.5	84.1
Long-term com. bank credits	% of total	49.3	50.9	54.2	54.4	56.1	59.7	61.8	63.1	63.4	63.5	64.9	65.8
Average lending rate on national cur. credits	% p.a.	16.6	17.0	17.6	17.0	15.4	15.4	16.4	15.8	15.5	14.6	15.1	14.0
Average lending rate on foreign cur. credits	% p.a.	12.1	12.6	12.2	12.1	11.0	11.3	11.7	11.5	11.3	11.3	11.5	11.5

SOURCES: National Bank of Ukraine, State Committee of Statistics, State Treasury, Ministry of Finance, IER estimates

* change in value added

** 2006 figures are preliminary

Notes:
yoy year on year change

p.a. per annum