



MEMU Supplement No.3-2008

Ukraine is in the World Trade Organisation, almost

On February 5, 2008 the General Council of the WTO approved the accession agreements of Ukraine. Now, the Verkhovna Rada has to ratify the deal by July 4, 2008. According to the WTO, the extension of this deadline is possible if necessary. Ukraine will become the member of the WTO 30 days after the ratification.

Ukraine applied for the WTO membership in 1993, when the most of the country's commodity trade was conducted with non-GATT/WTO members. The situation has changed dramatically since then. According to the Derzhkomstat, in 2007 Ukraine's commodity trade with the WTO members accounted for over 62% of exports and 58% of imports. The major non-WTO trade partners of Ukraine were and remain the CIS countries, primarily Russia, Belarus, and Kazakhstan, currently also negotiating the WTO membership.

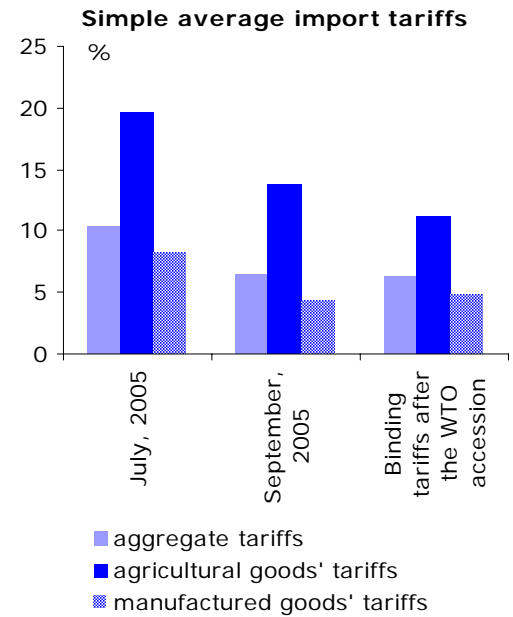
The long negotiations ensured that a lot of changes embedded in Ukraine's accession agreements have been already introduced. For instance, the strict intellectual property rights protection legislation was passed. The harmonization of the Ukrainian system of standardization and conformity assessment, including the replacement of standards by technical regulations, was launched. The Customs Code bringing Ukraine in compliance with various WTO rules entered into force in 2004. In 2005 import tariffs for almost all manufacturing products were brought in line with Ukraine's tariff proposal.

What will change after Ukraine becomes the WTO member? First and most important, import tariffs will be bound at quite a low level. For agricultural products, it means a reduction of the average tariff rate by a quarter to 10.66%. The maximum binding tariffs are envisaged for sugar (50%) and sunflower seed oil (30%). Ukraine will open a tariff quota on raw cane sugar at 260 thousand tons at 2% tariff. The average binding rate for industrial goods will be 4.95%, which is a one fifth above the current average tariff for these products. Also, specific and mixed tariffs pervasive for most agro-food products will be replaced by ad-valorem tariffs, more transparent by their nature. The liberalization of tariff protection will stimulate imports, estimated to increase by 5.3% over the medium-term horizon. At the same time, higher imports will dampen the consumer prices and increased the variety of products on the market, positively affecting the welfare of households.

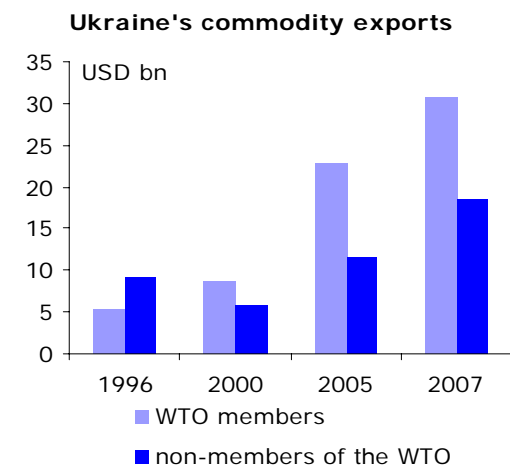
Also, Ukrainian export tariffs will be gradually reduced and quantitative export restrictions will be eliminated. It is expected to boost exports, as well as increase domestic prices on such products as ferrous and non-ferrous metals scrap, skins, oilseeds, and grain.

The membership in the WTO will improve the access to external markets for the Ukrainian exports. As of the immediate benefits, the quotas on exports of steel products to the EU will be eliminated. Import tariffs faced by the Ukrainian producers in the WTO member countries will be reduced to the most favored nation level regime if previously full tariff rates were applied. It is estimated that the reduction will concern approximately one fifth of the Ukrainian export value. Yet other benefit of the WTO membership will be the access to trade dispute facilities allowing better protection of the Ukrainian exporters rights. It is estimated that exports will increase by 3.5% in the medium-run due to the WTO accession. This growth will ensure an increase in real wages in the country. Also, the membership is expected to stimulate the restructuring in the economy as the sectors getting new opportunities will drive up the demand for capital and labor, while the sectors facing tougher domestic competition – for instance, food industry and machine-building – will be forced to restructure.

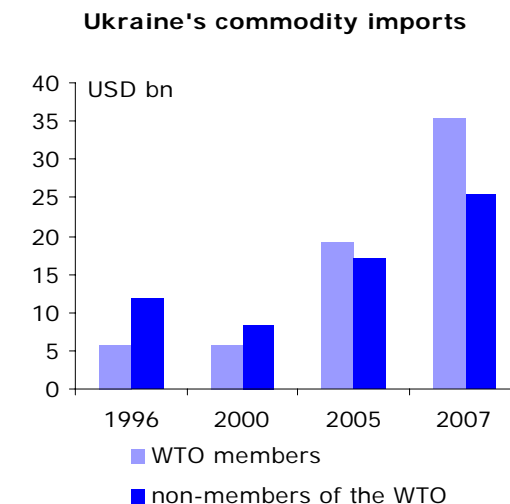
Altogether, according to the IER estimates, Ukraine's WTO membership will be beneficial for the country, bringing additional 2.5% growth in real GDP and 7.2% increase in welfare over the medium-term horizon.



Source: Cabinet of Ministers



Source: Derzhkomstat, IER estimate



Source: Derzhkomstat, IER estimate

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Quarterly trends

National accounts		Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
GDP	UAH bn	99.4	100.1	84.3	97.5	119.4	123.6	105.4	124.1	150.4	157.7	133.1	161.4	195.6
GDP (real)	% yoy	14.3	9.1	4.9	3.4	1.4	1.7	4.1	6.8	6.9	9.5	8.0	7.9	6.4
Households consumption (real)	% yoy	9.7	12.5	14.3	17.7	17.0	17.1	20.2	18.2	11.8	9.9	14.7	15.5	15.2
State consumption (real)	% yoy	3.9	0.9	6.1	0.0	1.0	4.0	9.6	5.8	5.8	1.0	0.8	6.2	4.4
Gross fixed capital formation (real)	% yoy	23.8	16.8	-2.3	-0.5	0.2	0.3	19.9	19.3	17.9	18.3	24.4	23.5	18.9
Exports of goods and services (real)	% yoy	14.3	11.7	-0.6	-14.0	-12.7	-15.5	-14.9	-9.6	3.2	1.0	4.9	5.2	0.1
Imports of goods and services (real)	% yoy	7.2	8.7	2.8	3.2	3.9	-0.9	10.7	0.9	8.3	6.4	12.9	19.6	13.7
Agriculture, hunting, forestry (real)*	% yoy	35.6	11.3	5.8	8.3	2.6	-7.2	3.8	2.8	-5.6	8.1	4.8	6.8	-9.3
Manufacturing industry (real)*	% yoy	9.9	6.9	7.0	1.8	-1.1	2.0	-1.5	6.1	7.3	7.2	15.0	13.2	13.1
Construction (real)*	% yoy	11.9	23.3	-8.4	-11.3	-8.5	-7.5	0.1	0.8	1.4	4.2	13.3	8.2	12.7
Trade, repair services (real)*	% yoy	13.9	2.5	-2.1	-10.7	-11.7	-11.9	6.2	16.4	20.0	21.9	14.3	17.5	25.3
Transport (real)*	% yoy	12.5	6.4	6.6	5.7	2.8	7.8	4.9	7.7	9.4	5.3	7.0	5.6	8
Balance of payments														
Current account balance	USD bn	2.1	1.1	1.6	0.6	0.4	-0.1	-0.8	0.0	0.5	-1.4	-1.3	-0.7	-0.2
Current account balance	% of GDP	11.0	5.7	10.1	3.2	1.7	-0.4	-3.7	0.0	1.7	-4.3	-5.0	-2.0	-2.2
Trade balance in goods	USD m	774	482	1020	-236	-1131	-788	-1353	-935	-884	-2022	-1753	-1430	-2195
Trade balance in services	USD m	749	157	188	392	1035	191	219	506	1054	347	50	403	1548
Current transfers	USD m	720	623	626	694	745	780	622	790	851	910	789	923	1054
Direct investment (FDI)	USD m	420	344	247	365	477	6474	1053	1389	1636	1258	1162	1772	3756
Portfolio investments	USD m	1313	156	397	923	90	1347	4	-141	370	3350	1818	1519	517
Gross international reserves	USD bn	12.1	9.5	12.0	13.1	14.3	19.4	17.3	17.6	19.1	22.3	23.5	25.6	30.6
Exchange rate, UAH/USD	aop	5.31	5.31	5.30	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.1
Fiscal indicators														
Consolidated fiscal revenues	% of GDP	26.3	25.9	32.1	35.1	31.5	31.0	31.2	31.7	31.9	32.8	33.3	32.8	30.8
Personal income tax	% of GDP	3.8	3.8	4.3	4.4	3.9	4.2	4.4	4.6	4.1	4.1	5.1	5.3	4.9
Enterprise profits tax	% of GDP	4.1	6.1	4.8	5.9	5.3	6.3	3.4	4.6	4.3	6.7	3.8	4.1	4.1
Value-added tax	% of GDP	5.1	4.1	8.6	9.2	7.9	7.3	9.2	9.2	9.7	9.3	10.4	9.8	8.7
Excise tax	% of GDP	2.0	1.8	2.0	2.0	2.0	1.7	1.8	1.7	1.5	1.5	1.8	1.7	1.6
Consolidated fiscal expenditures	% of GDP	26.8	35.2	28.3	36.4	28.1	41.7	30.9	32.8	29.4	36.6	28.4	31.0	29.6
Current expenditures	% of GDP	21.7	27.2	26.5	33.6	24.0	34.2	28.9	29.7	24.9	29.2	26.9	28.4	25.9
Capital expenditures	% of GDP	5.1	8.0	1.8	2.7	4.1	7.5	1.9	3.2	4.5	7.4	1.6	2.6	3.7
Consolidated fiscal balance	% of GDP	-0.5	-9.3	3.7	1.0	-5.0	6.2	-0.4	1.1	-2.4	4.0	-4.8	1.7	1.2
Privatisation receipts	% of GDP	3.5	1.0	0.2	0.6	0.6	16.0	0.1	0.1	0.1	0.1	0.5	0.5	0.3
Labour market														
Average wage (real)	% yoy	14.7	15.4	15.0	19.0	19.6	26.4	23.8	22.6	18.8	11.3	14.7	13.9	14.9
Household income (real)	% yoy	11.3	16.6	24.0	28.0	19.4	18.9	22.1	18.6	20.3	16.3	17.5	17.4	14.9
Unemployment rate (ILO methodology)	% cum	8.1	8.7	8.7	7.1	5.2	7.8	7.9	6.8	6.4	6.8	7.4	6.6	6.2
Banking system														
Monetary aggregate M0	% yoy cum	37.1	27.9	28.2	39.1	31.1	42.2	36.2	25.3	23.7	24.5	22.9	30.4	36.4
Monetary aggregate M2	% yoy cum	51.5	32.3	38.9	37.4	31.3	53.9	39.2	36.6	36.7	34.3	38.6	40.7	47.8
Household deposits in national currency	% yoy cum	67.9	26.2	28.3	31.6	30.4	90.8	54.6	41.1	39.7	37.3	50.7	56.3	64.8
Household deposits in foreign currency	% yoy cum	55.2	54.3	51.8	45.4	46.4	59.1	54.5	66.2	64.3	57.5	52.3	43.8	38.4
Com. bank credits in national currency	% yoy cum	44.3	29.4	28.3	32.6	43.4	58.7	59.8	53.7	49.0	52.3	52.4	57.2	60.7
Com. bank credits in foreign currency	% yoy cum	43.5	32.2	33.1	36.8	47.1	66.3	72.0	82.1	90.4	95.4	98.9	97.4	91.0
Long-term com. bank credits	% yoy cum	82.7	57.1	49.5	53.0	70.1	84.6	87.6	86.7	76.6	79.5	84.1	86.5	87.9
Long-term com. bank credits	% of total	50.9	54.2	54.4	56.1	59.7	61.8	63.1	63.4	63.5	64.9	65.8	67.3	68.2
Average lending rate on national cur. credits	% p.a.	17.0	17.6	17.0	15.4	15.4	16.4	15.8	15.5	14.6	15.1	14.0	13.9	13.7
Average lending rate on foreign cur. credits	% p.a.	12.6	12.2	12.1	11.0	11.3	11.7	11.5	11.3	11.3	11.5	11.5	11.4	11.3

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

* change in value added

° preliminary

Notes:
yoy year on year change

p.a. per annum