



# MEMU Supplement No.4-2008

## New restrictions on grain and oilseeds exports

In March the Government adopted the resolution regulating exports of selected agricultural products. In particular, grain quotas were revised, and new quotas on sunflower oil and seeds introduced.

Existing grain export quota of 1.2 m tonnes was scheduled to expire at the end of March. Within this quota 0.2 m tonnes were allocated to wheat, 0.4 m to barley, 0.6 m to corn and symbolic 300 tonnes to rye. Time shortage did not allowed traders to fully use the quota. They have exported just 0.14 m tonnes of wheat, 0.27 m tonnes of barley and 0.45 m tonnes of corn. Therefore, quotas for wheat and barley were extended into April. Corn export quotas were replaced with licensing, and export restrictions extended till the end of June. At present, traders expect expiry of quotas from May or their extension to June but with significant increase. According to the draft Government decree, barley export quota is to be increased to 0.90 m tonnes with wheat quota practically unchanged. The Government also introduced export quotas for sunflower seeds and oil effective from March 22, with meagre 1000 tonnes quota for seeds and 300 000 tonne quota for oil.

Moreover, the Ministry of Agrarian Policy passed the strategy of state interventions on grain and sugar markets, entered into force on March 24. Among other, the strategy envisages the intervention range, i.e. prices at which state should buy and sell commodity. For soft wheat of 3<sup>rd</sup> and 4<sup>th</sup> classes prices are set at UAH 1251.43 – 1543.02 and UAH 1134.61-1398.98 per tonne, respectively.

Export restrictions for grains and oilseeds and state interventions on the market are motivated by the fight with inflation. Indeed, the gap between prices in the world and Ukrainian grain markets have increased since quota introduction. However, this situation leads to a huge welfare transfer from producers to consumers, with the latter gaining less than could be expected. This policy discourages investments and could significantly hurt future agricultural product supply in the country.

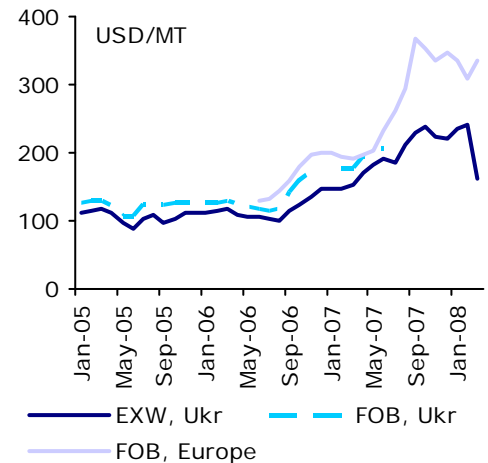
It is also questionable whether domestic prices increases could be fully avoided. The state interventions can only partly cushion price increases, as the Ukrainian grain and oilseed markets follow world market trends. For instance, by March 21 ex-works (EXW) price for class-4 Ukrainian wheat grew to USD 276.0 per tonne, which is very close to the state offer price of USD 277.1. World prices are much higher and have the tendency to grow: Australian (ASX) futures EXW price for May, 2008 is USD 503.5 per tonne. This price trend would make it unprofitable for the Ukrainian traders to sell class-4 wheat on the domestic market. So the replenishment of state food reserves may be at risk.

Minimum and maximum prices for class-3 wheat are more in line with recent price trends than for wheat of class-4. The maximum price is USD 305 per tonne while market EXW price in March was USD 276 per tonne. However, world prices for wheat of class-3 are also expected to grow. CBOT futures price for class-3 wheat EXW with delivery in May is currently USD 459.3 per tonne.

Thus, in the situation of growing world prices it could be fiscally very difficult to maintain envisaged intervention range. Moreover, state interventions reduce competitiveness of the agricultural sector. These measures may lead to reduced future production due to additional market and policy risks faced by grain and oilseed producers and traders.

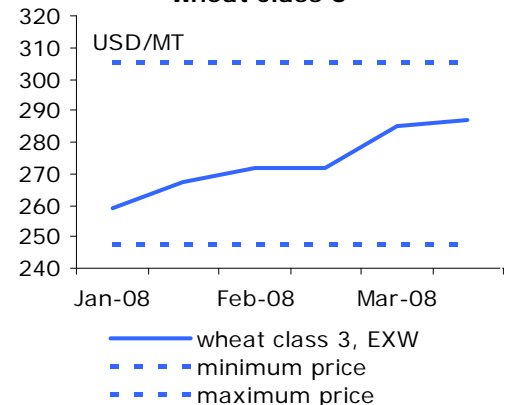
While fighting with inflation and providing food security are commendable goals, losses for producers are huge. Ineffective resource allocation imposes welfare costs on the whole economy. Export restrictions also deter foreign investors and contradict spirit of the WTO obligations. Thus investments needed to increase productivity, reduce production costs and make the sector more competitive to reap the benefits of booming agricultural world markets are lost as government didn't bother to explore such alternatives like direct cash subsidies to the poor to mitigate the negative impact of growing agricultural prices.

Prices for barley in 2005-2008: World and Ukraine



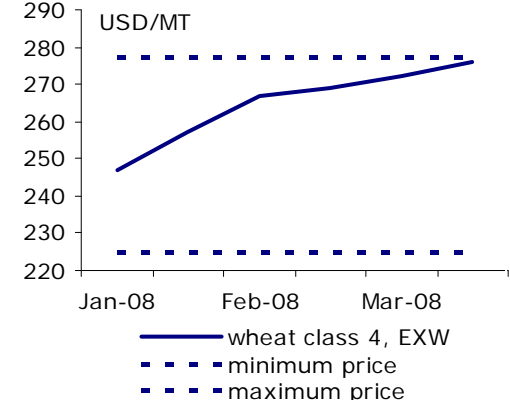
Source: Own calculations based on UkrA groConsult data

Ex-works prices in 2008 for wheat class 3



Source: Ukragroconsult, Ministry of Agrarian Policy of Ukraine

Ex-works prices in 2008 for wheat class 4



Source: Ukragroconsult, Ministry of Agrarian Policy of Ukraine

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**Quarterly trends**

<b>National accounts</b>		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	Q4 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	219.3 <sup>e</sup>
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	7.3 <sup>e</sup>
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	8.0	...
<b>Balance of payments</b>															
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	1.2	-0.8	-0.5	-3.5
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	4.6	-2.4	-1.3	-8.1
Trade balance in goods	USD m	774	482	1020	-236	-1131	-788	-1353	-935	-884	-2022	-1735	-1701	-2684	-4452
Trade balance in services	USD m	749	157	188	392	1035	191	219	506	1054	347	103	512	1689	392
Current transfers	USD m	720	623	626	694	745	780	622	790	851	910	825	968	1099	1183
Direct investment (FDI)	USD m	420	344	247	365	477	6474	1053	1389	1636	1258	1709	1934	3927	1648
Portfolio investments	USD m	1313	156	397	923	90	1347	4	-141	370	3350	1816	1477	517	1844
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	32.5
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	5.05	5.05
<b>Fiscal indicators</b>															
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	31.1
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	4.8
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	6.4
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	7.6
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	1.3
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	36.7
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	27.3
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	9.4
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	4.7	1.7	1.2	-6.2
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	0.4
<b>Labour market</b>															
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	15.7
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	16.4
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	6.4
<b>Banking system</b>															
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	48.2
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	50.8
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	71.9
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	32.5
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	72.7
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	75.4
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	85.7
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	69.2
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	14.0
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	11.1

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

\* change in value added

**Notes:**
**yoy** year on year change

**p.a.** per annum