THE IMPACT OF THE GLOBAL CRISIS ON UKRAINIAN EXPORTS AND IMPORTS OF GOODS

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As the global economic outlook has worsened, Ukraine as an open emerging economy has been badly affected. For the country, the crisis has hit at a difficult time. Ukraine's economy has reacted extremely painfully to the deepening crisis around the world.

As the Ukraine is extremely deeply integrated into the world economy (exports volume 47 % from gross national product), it is obvious that the dynamics of Ukrainian economy data over a shorttime period will entirely follow global trends.

The extremely difficult position of the country was borne out by the statement of Austria's Erste Group in a July 1 report. "Ukraine, as expected, suffered the worst economic contraction in the Central and Eastern Europe region in the first quarter of 2009". For developing economies such as Ukraine global trends were shown in considerable decreases in production levels, interruption in internal crediting and depreciation of the national currency adding an element of uncertainty to the life of the average Ukrainian.

The main channels through which the world crisis has had its harmful impact on Ukraine's economy are the openness of the economy, export-oriented branches which are not diversified enough to make the effect of the global recession less painful. For Ukraine such export-focused branches are metallurgy, the chemical industry and agriculture.

Some analysts forecast that in the light of the sharp drop in external demand and prices for steel, a series of bankruptcies of financial institutions and delays in rates of development of the real sector of the economy, and a poor political and economic policymaking background, the economy is expected to experience a deep recession in 2009 and only slow growth in 2010.

Although Ukraine has one of the most recession-ravaged economies in Eastern Europe, there are signs that the country is at the bottom of the recessionary curve and is perhaps taking the first tentative steps on the long road to recovery.

Cause for cautious optimism is born out of recent figures from the State Statistics Committee that reveal that industrial production grew by 3.1 percent from May to June.

This positive trend lies in February-June macroeconomic data revealing early signs of stabilization in Ukraine's economic situation. However, the magnitude of the economic downturn means that the economy is still in a difficult situation.

For export-oriented branches of Ukraine better times become closer and closer: starting from March-April this year, raw product prices began to rise as soon as the situation on the foreign exchange market improved. That is a sign of a slow and gradual growth of global demand upon which Ukraine as a country with an open economy is dependent.

But the negative tendency can still be observed. This is another confirmation that the Ukrainian economy was severely damaged by the global recession. Exports continued to suffer from weak demand in the main trading partner countries and low world commodity prices, contracting 41% YOY over January-April.

Nevertheless preliminary balance of trade statistics for the first half of 2009 have been encouraging. Though in the first half of 2008, exports of goods equaled USD 17330 million, having fallen by 46,8% or by USD 15257 million against the respective period of 2008; imports of goods contracted by 53,4% in the first half of 2009 versus the respective period of 2008 amounting to USD 19773,7 million (Table 1 and 2).

As a result, due to a more considerable decline in imports, Ukraine registered that the trade deficit had narrowed sharply to less than $ 2443,7 million compared to $ 9836,6 million over the same period last year. So one of the main financial vulnerabilities of Ukraine, large trade deficits, was substantially reduced.

But what caused this sharp adjustment of the trade balance?

We can normally detect trade surplus, or a so-called favourable balance of trade when exports exceed imports in an economy over a certain period. An unfavourable balance of trade is known as a trade deficit or, informally, a trade gap. So there might be two options in improving a trade balance: to contract imports or to increase exports. In the Ukrainian case the cause of sudden improvement was the decreased value of imported goods. Several processes in the Ukrainian economy made that decrease possible.

Firstly, due to the devaluation of the Hryvnia and weak domestic demand, helped by import restrictions, rapidly deteriorating industrial performance, declining world commodity prices and crude oil prices in particular, the value of goods imports was more than twice as low over the first four months of 2009 as in the same period the previous year. It gave new impetus to import-substituting industries.

There is another reason to be mentioned: the trade deficit could be even lower without custom declaration of gas in the first quarter, having been transported to the country in the previous years. The value of gas according to the declaration is approximately $1.76 billion. So, the real trade deficit for the first half of 2009 is $677.1 million.

After the first quarter lower imports of natural gas were observed. This was mainly due to the cutting of the Russian gas supply. This was the result both of a lower price for imported gas in 2Q 2009 ($271 per 1000 m3 compared to $360 per 1000 m3 in 1Q 2009) and volumes (due both to contracting real sector activity and postponement of the gas imports to be pumped into gas storage).

Total imports decreased due to the slowdown in products supply of the following industries:

- machine building products (by 3,5 times) (in USD 9,4419 billion)
- mineral products (by 1,9 times) (in USD 6,1954 billion)
- chemical industry products (by 1,6 times) (in USD 2,1483 billion)
- metallurgy industry products (by 2,7 times) (in USD 1,9569 billion)

But despite these few positive factors regarding the trade balance, the magnitude of the economic downturn means that foreign trade is still in a difficult situation.

Since September, 2008 a reduction of volumes of merchandise trade caused by crisis has been observed in the industry as a whole and in the majority of its branches. Industry substantially focused upon export has already felt influence of crisis phenomena. The international crisis has exposed the risks inherent in the growth model that Ukraine followed during the boom years, as in many other countries in the region.

With earlier economic growth heavily hinged on external demand, Ukraine's export-oriented sectors have continued to suffer from the sharp decline in commodity prices and economic woes in Ukraine's main trading partner countries.

Analysts argue that Ukraine is too dependent on a limited number of heavy industries—such as metal production—making it more vulnerable when foreign demand slows. Due to weak external demand and low international commodity prices, Ukrainian exports contracted sharply during the first half of 2009.

Here is the hare of some main commodity groups within total exports:metallurgy industry products (33,7%), agricultural products (24,0%), machine building products (16,9%) (Table 3).

The economic downturn has hit the price of metals worldwide, and Ukraine relies heavily on this sector for exports. A recovery in metallurgy, Ukraine's main export, has been felt in recent months, but production levels are still only 60% of last year's levels.

In the period under report, the increase in exports was caused by that in exports of:

- metallurgy industry products (2,5 times) (in USD 8,785 billion);
- machine building products (1,8 times) (in USD 2,3145 billion);
- mineral products (2,3 times) (in USD 1,8638 billion);
- chemical industry products (2,3 times) (in USD 1,7858 billion);
- light industry products (1,7 times) (in USD 335,6 million).

Although the main exporting industry, steel, is struggling, farming (which employs a quarter of the workforce) is doing well. Actually, agriculture was the only sector that demonstrated an increase in exports, by 7,3% YOY or USD 284,2 million over January-June. The growth in the production of grain (multiplied 1,6 times YOY) and oil seeds and plants (multiplied 4,1 times YOY) are the main agricultural branches. Ukraine agricultural potential is quite high and the country is considered to be one of the world's largest grain exporters. Mainly thanks to the faster growth of agricultural products exports, particularly grain, the rate of economic decline has slowed.

In the sphere of imports the situation is worse. Imports of transport vehicles, machinery and equipment as well as metallurgical products fell the most, by 84% YOY, 62% YOY, and 63% YOY respectively. Imports of energy resources, the weightiest commodity group in total imports, declined by almost 45% YOY in January-June. It happened mainly due to a protracted gas dispute with Russia, which resulted in Russia's gas supply cut-off to Ukraine, a number of industrial enterprises were forced to reduce or stop production . As a result, virtually all sectors, both export and domestic market oriented, reported a dramatic downturn, the worst in more than 10 years.

In the structure of merchandise exports and imports we can see changes too.

Within the overall volume of exports the shares of grain, mechanic machines, metallurgy, electric machines, fats and oils, seeds and fruits of oil plants, paper and paper products have increased by 6.3% YOY, 1.7% YOY, 0,4% YOY, 0,9% YOY, 2% YOY, 1,7% YOY and 0,6% YOY respectively.

At the same time in the overall volume of imports the share of metallurgical products has decreased by 11,4% YOY, energy materials, with oil and the oil products standing at 1,9% YOY.

Here is the share of some main commodity groups within total imports: mineral products (35,3%), machine building products (19,3%), chemical industry products (16,9%), agricultural products (11,5%) (Table 3).

The geographical structure of Ukrainian foreign trade also changed during the first half of 2009.. The crisis did change the direction of the Ukraine's trade structure, even though Russia remains the Ukraine's main trade partner (20% of total exports and 21,5% of total imports). Other leading positions in exports are also occupied by such countries as Turkey (5,5%), China (4,7%), Kazakhstan (4,5%), Belarus (3,2%), Italy (3%), India (%). The main trade partners in imports after the Russian Federation are Germany (8,5%), Uzbekistan (8,1%), Kazakhstan (6,9%), China (5,5%), Poland (4,9%) and Turkmenistan (3,5%). Foreign trade operations occurred with trade partners from 201 countries

Ukraine has nevertheless made strides in diversifying into new markets, especially Asia. As we can see in Table 4, over the first half of 2009 the number of Ukrainian exports rose to China (mainly because of increasing the deliveries of metallurgy production, ore and Tailings), to India (due to an increase in deliveries of agricultural products and chemicals) and to Kazakhstan.

A regional cut crisis has seriously impacted the trade relations between Ukraine and the Russian Federation. Both import and export operations have reduced, by 2,7% and 4,2% respectively. Finally, there was a protracted gas dispute with Russia which resulted in Russia's gas supply being cut off. Nevertheless, Ukraine remains totally dependent on Russia for most of its energy imports, especially natural gas, and Russia is still an important market for Ukrainian metals and machine-building exports (Table 4 and 5).

As external demand recovers, exports will pick up again in 2010–2011. Imports will also expand, although more slowly than exports because of the increased cost of such goods with devaluation, poor access to credit, and feeble growth in disposable incomes. Analysts expect the current account deficit will turn into a surplus in 2010.

Analysts argue that Ukraine is too dependent on a limited number of heavy industries—such as metal production—making it more vulnerable when foreign demand slows. According to experts, the Ukrainian economy will grow due to the expected increased demand for Ukrainian steel and chemicals on international markets and the resumption of normal functioning within the country's banking system.

After analyzing the above-mentioned data I must admit that the current economic crisis has exposed the high degree of dependence of the Ukrainian economy on exports. It is vital that Ukraine makes such structural reforms in its economy as maintaining prudent macroeconomic policies, forming effective production and ensuring a firm domestic demand. The government should diversify its structure as it cuts the share of exports in its GDP.

Table 1: Rate of growth in 2009
compared with the relevant period of the previous year, %

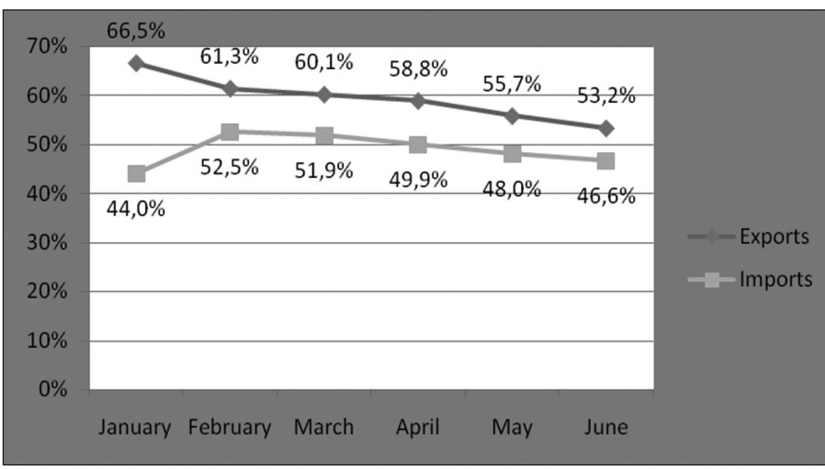


Table 2: Volume of Foreign Trade January-June 2009, mln USD

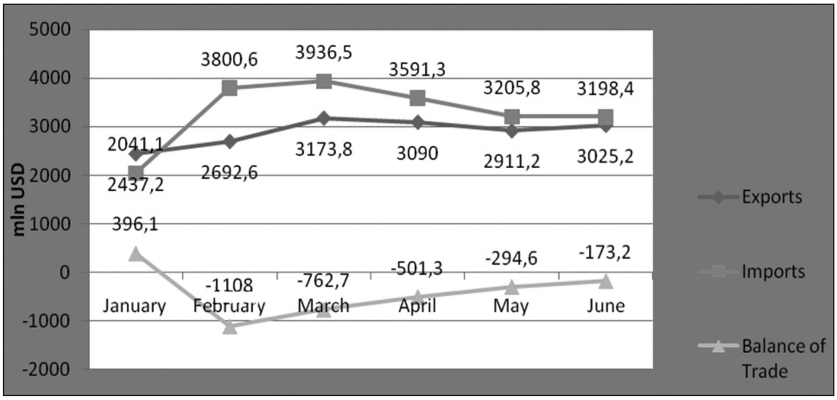


Table 3: Exports and Imports of merchandise, by Merchandise groups in January-June 2009

Merchandise groups	Exports		Imports	
	Thsd USD	% of the total	Thsd USD	% of the total
Total Exports	17330036	100	19773712	100
Basic metals and fabricated metal products	5870895,2	33,9	1245708,8	6,3
Agriculture	3243760,1	18,7	1410269	7,1
Machinery and equipment	2924625,9	16,9	3814104,9	19,3
Chemical and petrochemical industry	1377569,3	7,9	3349791,1	17
Coke, refined petroleum products	1259232,2	7,3	6887238,4	34,9
Food products, beverages and tobacco products	911266,1	5,3	869707	4,4
Light industry	475760,8	2,8	850245	4,3
Paper and paper products	369201	2,1	576012,7	2,9
Other non-metallic mineral products and fabricated non-metallic mineral products	320986,1	1,8	326243,7	1,7
Wood and of products of wood, except furniture	308088,8	1,8	112113,5	0,6
Others	268650,7	1,6	332278,3	1,7

Table 4: Dynamics of exports of goods in January-June 2009, % by countries

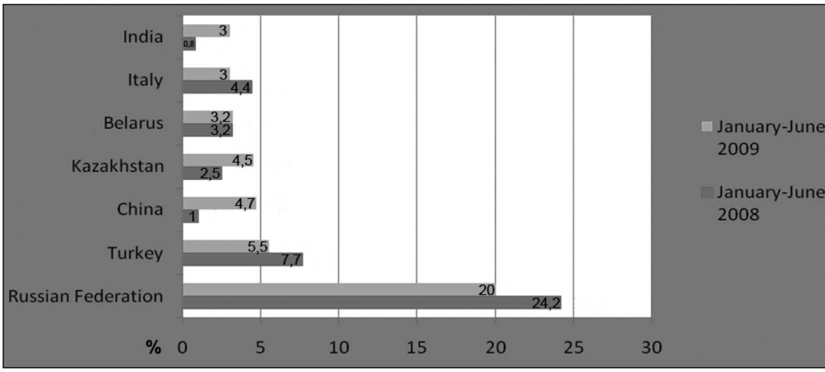
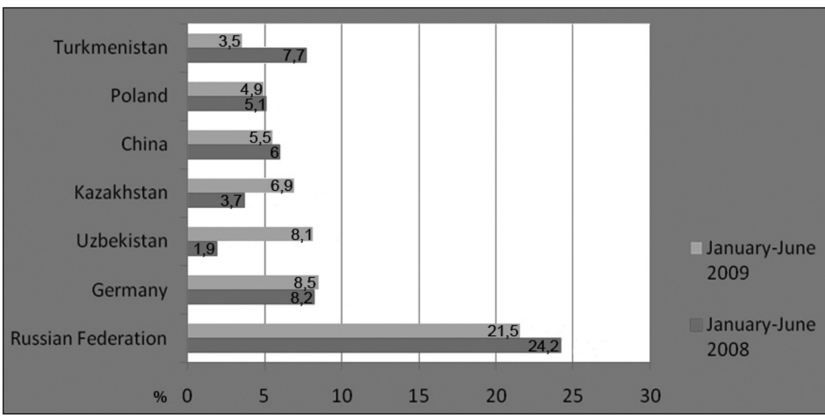


Table 5: Dynamics of imports of goods in January-June 2009, % by countries



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