Ukraine's import dynamics in 2014

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Berlin/Kyiv, March 2015

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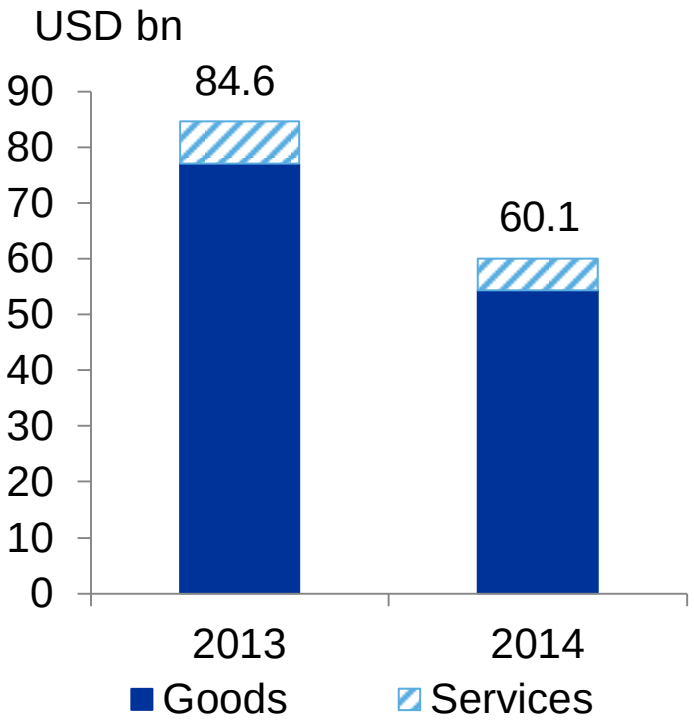
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1. Overall dynamics of imports in 2014

Imports of goods and services in 2013-2014, USD bn



Source: State Statistics Service of Ukraine

In USD terms

- Imports of goods and services dropped by USD 24.5 bn or 29% in 2014
- Goods: USD 22.6 bn drop (29%)
- Services: USD 1.9 bn drop (25%)

Thus: Very strong import contraction

In real terms

- Imports dropped by 28%
- Only positive contributor to GDP in 2014; 14.5 percentage points

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2. Regional perspective: Dynamics

Regional breakdown of imports of goods and services, 2014

Region	USD bn, 2014	Y-o-y change USD bn	Y-o-y change %	Contribution to overall imports drop, %
EU-28	24.0	-7.3	-23.3%	29.8%
Customs Union RBK	18.1	-10.8	-37.4%	44.1%
Russia	*13.6*	*-10.9*	*-44.7%*	*44.6%*
Belarus	*4.2*	*+0.4*	*+12.1%*	*-1.8%*
Asia	10.5	-5.3	-33.4%	21.4%
Rest of World	7.5	-1.2	-13.4%	4.7%

Source: State Statistics Service of Ukraine

- **Strong** decline of imports from the EU; USD 7.3 bn (23%)
- **Very strong** fall of imports from Customs Union; USD 10.8 bn (37%)
- **However**: No uniform dynamics within the Customs Union
  - Imports from RU declined by 45%
  - But imports from Belarus increased by 12%

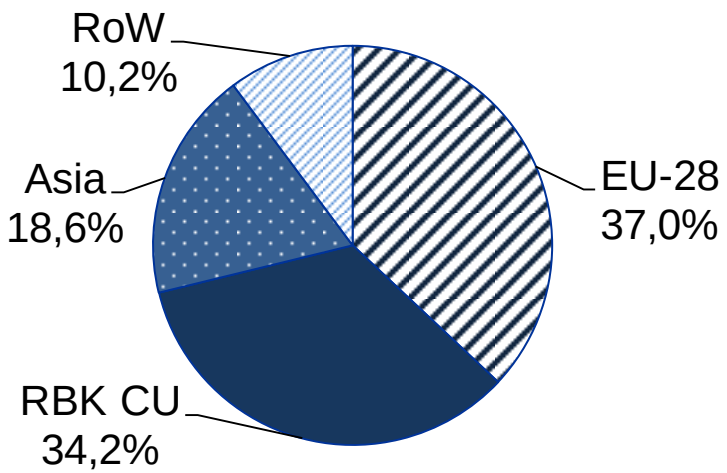
Thus: Imports from all regions contracted strongly,
with an overproportional contraction of imports from Russia

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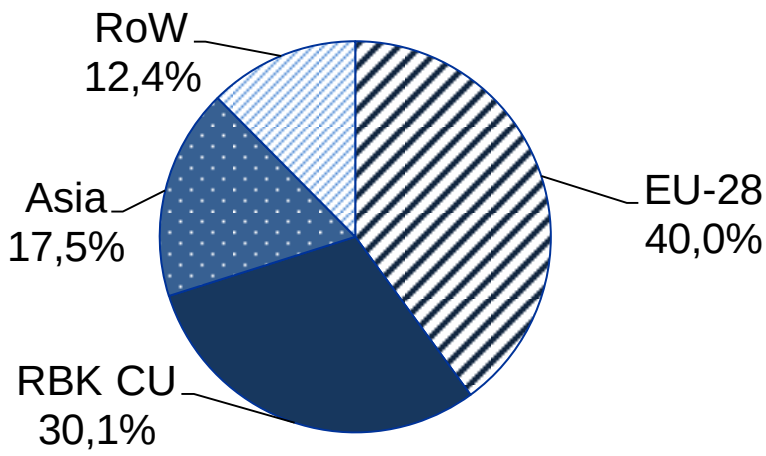
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Regional perspective: Structure 2014 vs. 2013

Regional structure of imports in 2013



Regional structure of imports in 2014



Source: State Statistics Service of Ukraine

- Important changes in regional import structure in 2014
- EU increased its position as the main region of origin: From 37% to **40%**
- Customs Union weakened its position: From 34% to **30%**
  - *Russia: Share in imports decreased from 29% to **23%***

Thus: Higher importance of EU as a source of imports for Ukraine

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3. Product perspective: Dynamics

Group	USD bn, 2014	Y-o-y change, USD bn	Y-o-y change, %	Contribution, %
Food products	6.1	-2.1	-26.0%	8.7%
Mineral products	16.1	-6.3	-28.2%	25.7%
Chemicals	10.4	-2.6	-20.1%	10.7%
Metals	3.6	-2.1	-36.4%	8.5%
Machinery	12.0	-7.4	-38.1%	30.3%
Other	6.1	-2.2	-26.1%	8.8%
Total goods	***54.4***	***-22.6***	***-29.3%***	***92.1%***
Transport	1.3	-0.4	-21.6%	1.5%
Travels	0.7	0.0	-6.2%	0.2%
ICT	0.5	-0.2	-28.6%	0.8%
Other	3.2	-1.3	-29.3%	5.4%
Total services	***5.7***	***-1.9***	***-25.4%***	***7.9%***

Source: State Statistics Service of Ukraine

- Strong reduction of imports of practically **all items**
- Particular strong fall of **machinery** imports (38%) due to low investment
- Large contraction of imports of **mineral products/energy** (28%) due to lower consumption of oil and gas
- Also **food imports** decreased by 26% due to low consumer demand

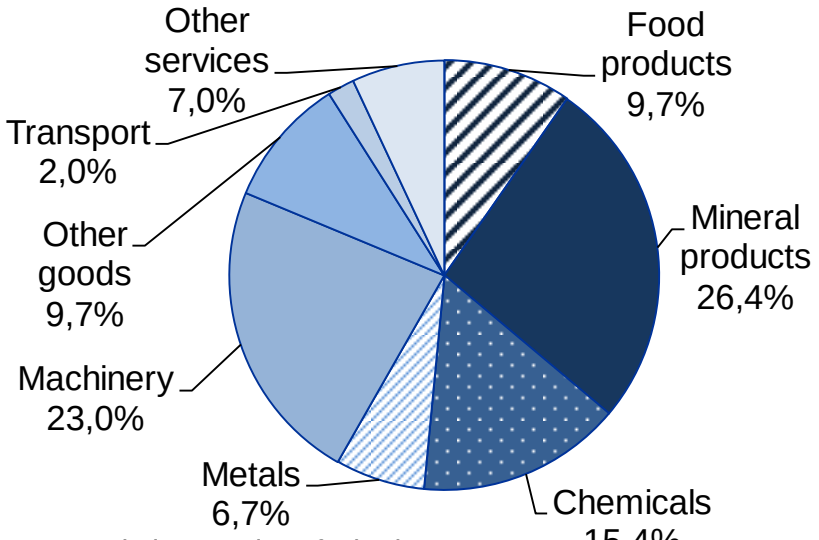
Thus: Drop in imports of machinery and energy accounted for 56% of total import reduction

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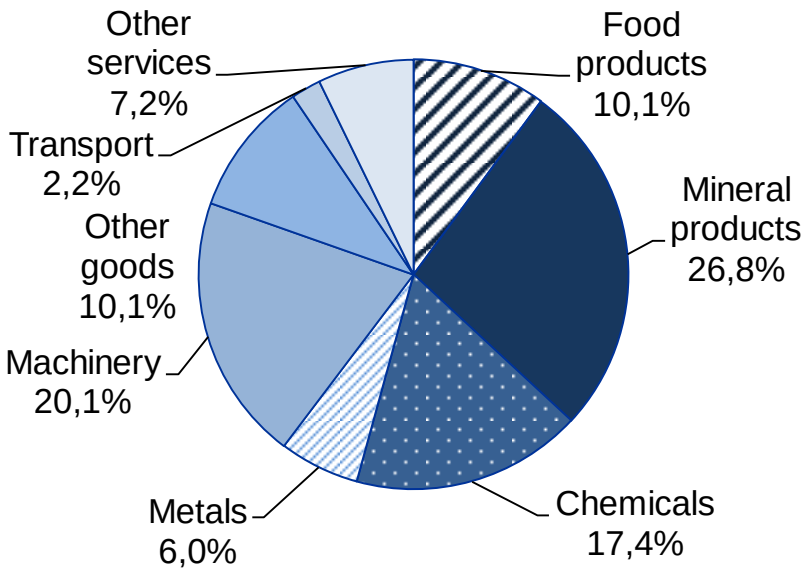
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Product perspective: Structure 2014 vs. 2013

Product structure of imports in 2013



Product structure of imports in 2014



Source: State Statistics Service of Ukraine

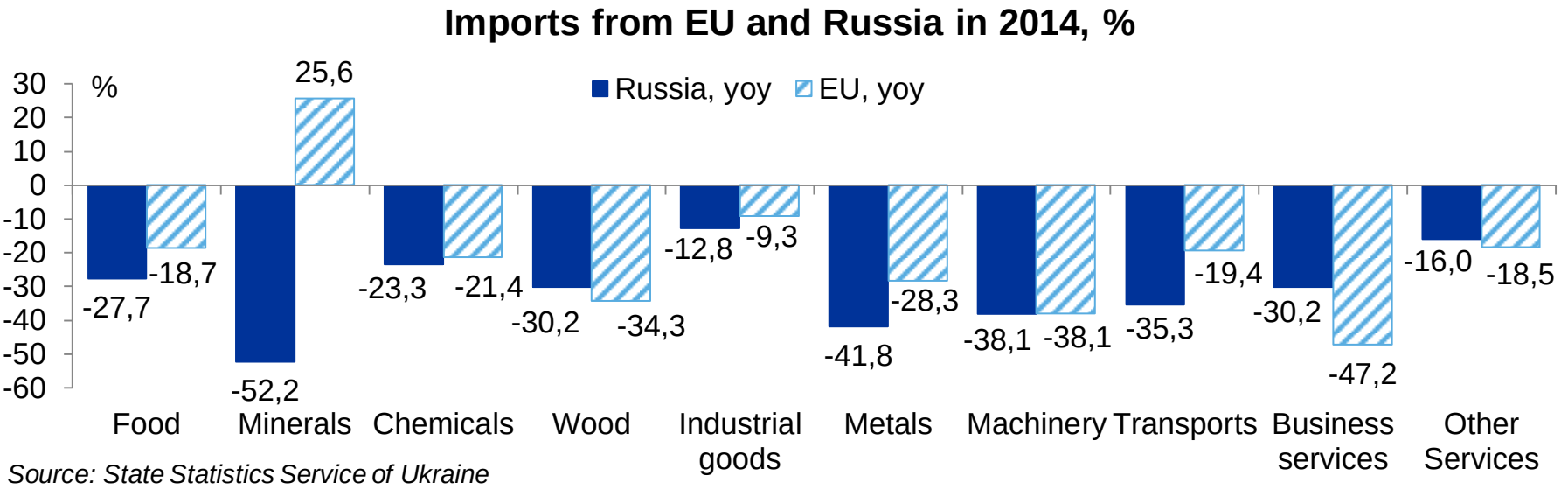
- Despite major changes in imports in 2014, the structure of imports by products did not fundamentally change
- In particular: Mineral products/energy remains the most important item with a share of 27% in total imports
- Despite investment weakness, machinery keeps No. 2 position with 20%

Thus: Energy and machinery continue to dominate imports

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4. Regional (EU, RU) and product perspective



Source: State Statistics Service of Ukraine

For most products: Similar drop in imports from EU and Russia

Thus: Import reduction caused by **domestic** factors, in particular strong devaluation and severe recession

Energy sector: Strong shift of imports away from Russia (-52%) and towards EU (+26%) and Belarus (+33%)

Thus: Main changes in import structure relates to **energy sector**

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5. Energy imports: Gas

Gas and oil: Import reduction by 33% in 2014

Gas imports: 30% decline (-8.5 bcm) due to lower consumption (-7.6 bcm) and lower gas storage (-3.0 bcm)

- 44% decline (-11.4 bcm) of imports from RU
- 135% increase (+2.9 bcm) in imports from EU ("reverse flows")

Thus: Shift in regional gas import structure; away from RU and towards EU; despite shift, RU maintained a clear dominant role

Natural gas import shares (volumes)	2013	2014
Russian Federation	92%	74%
European Union	8%	26%

Source: State Statistics Service of Ukraine

Energy imports: Crude and refined oil

Crude oil imports: -82%

Refined oil imports: +11%; refined oil exports: -32%

Thus: Substitution of imports of crude oil (mainly from RU) by imports of refined oil (mainly from BY); oil refining in UA declined by ca. 25%

Change of import volumes of refined oil 2014	In thousand tonnes	%
Russian Federation	-670	-33%
Belarus	+1,114	+48%
European Union	+374	+32%

Share of imports volumes of refined oil	2013	2014
Russian Federation	31%	19%
Belarus	35%	47%
European Union	28%	31%

Source: State Statistics Service of Ukraine

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6. Conclusions

- Heavy **drop of imports** in 2014**:** USD 24.5 bn or 29%
- Drop of imports applies to practically **all regions and products**
- Higher share of EU (40%) and lower share of Customs Union (30%) in total imports ; share of RU decreased from 29% to 23%
- **Energy** maintains its predominant role: 27% of total imports
- However: Significant **regional shift of energy imports**, away from Russia (-52%) and towards EU (+26%) and Belarus (+33%); positive feature regarding energy security

Implications of import contraction:

- **Short term**: Positive contribution of imports to GDP dynamics
- **However**: Recovery of imports at some stage crucial for modernisation and long-term economic growth

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7. Recommendations

Trade and energy security

- **Recommendation**: Policy of substitution of gas and oil imports from Russia with imports from EU and Belarus should be continued
- **In particular**: Ability to import more gas/oil from EU/BY to be increased

Trade and energy efficiency

- Predominant role of energy imports reveals the high potential for increasing energy efficiency and improving the trade balance
- **Recommendation**: Energy efficiency measures should be a priority

Trade policy

- Despite the fact that import contraction supports GDP in the short term, Ukraine needs imports to become competitive & increase future exports
- **Recommendation**: Maintain liberal trade policy and restrain from protectionist measures, as such measures are difficult to remove and might jeopardize the implementation of DCFTA in the future

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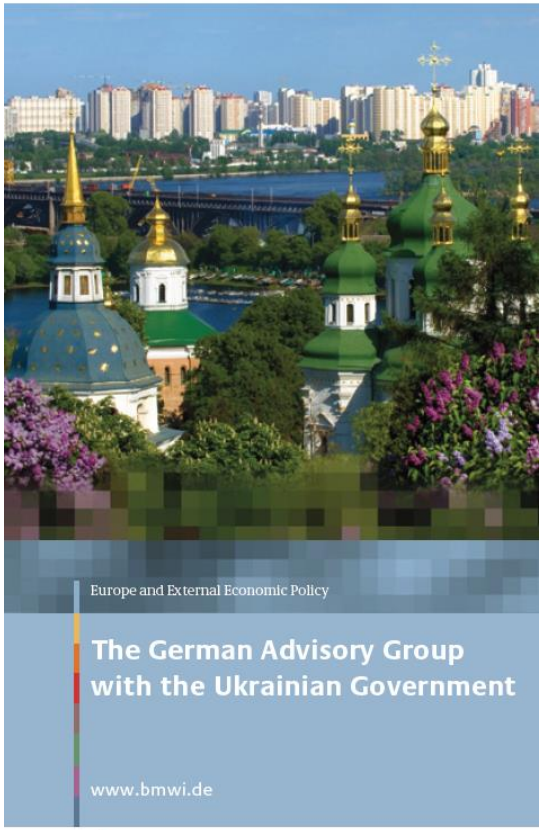
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