Ukraine's export dynamics in 2014

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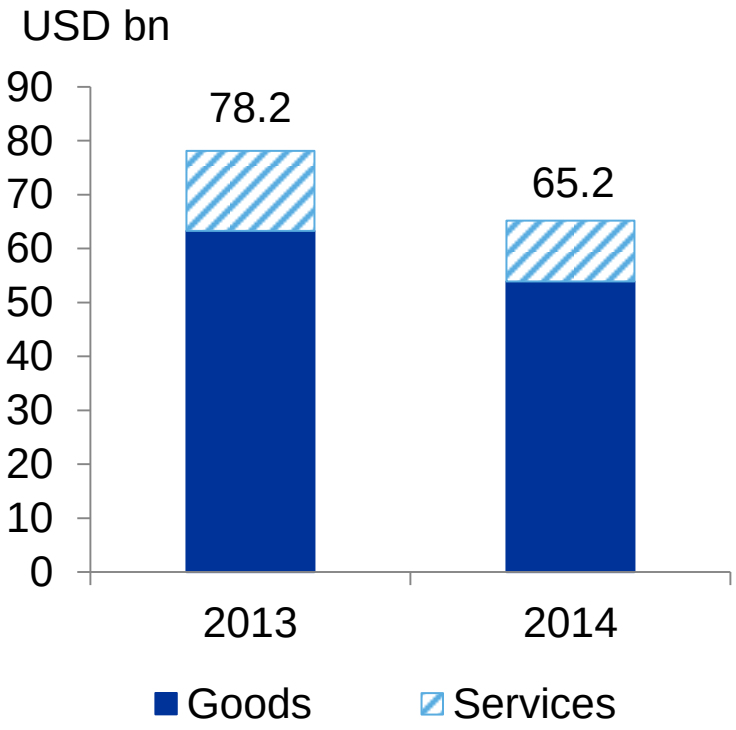
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1. Overall dynamics of exports in 2014

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



Source: State Statistics Service of Ukraine

In USD terms

- Exports of goods & services dropped by USD 13.0 bn or 16.6% in 2014
- Goods: USD 9.4 bn drop (14.8%)
- Services: USD 3.6 bn drop (24.0%)

Thus: Very strong decline

In real terms

- Exports dropped by 8.5%
- 3.7 pp contribution to GDP reduction

Thus: Weak exports account for more than 50% of GDP reduction in 2014

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2. Decomposition by export destination

Regional breakdown of exports of goods and services, 2014

Region	USD bn 2014	Y-o-y change USD bn	Y-o-y change %	Contribution to overall export drop %
EU-28	20.9	-0.2	-0.8%	1.3%
Customs Union RBK	16.2	-8.7	-34.9%	67.2%
Russia	*13.3*	*-7.2*	*-35.2%*	*55.2%*
Asia	13.4	-4.3	-24.5%	33.5%
Rest of World	14.7	0.2	1.7%	-1.9%

Source: State Statistics Service of Ukraine

- Exports to Customs Union decreased massively by USD 8.7 bn (34.9%), thus accounting for 67.2% of the total drop in exports
- Exports to EU almost unchanged; slight decrease by USD 0.2 bn (0.8%)
- Reason: Lower exports of services; exports of goods to EU up by 1.5%

Thus: Very different regional dynamics; drop in exports mainly because of lower exports to Customs Union

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Decomposition by products

Group	USD bn, 2014	Y-o-y change, USD bn	Y-o-y change,%	Contribution,%
Food products	16.7	-0.4	-2.1%	2.7%
Mineral products	6.1	-1.4	-18.6%	10.6%
Chemicals	3.6	-1.5	-28.8%	11.3%
Metals	15.4	-2.3	-13.0%	17.5%
Machinery	7.4	-3.3	-30.6%	24.9%
Other	4.6	-0.8	-14.0%	5.8%
Total goods	***53.9***	***-9.4***	***-14.8%***	***72.8%***
Transport	6.0	-2.3	-27.6%	17.5%
Travels	0.2	-0.3	-58.5%	2.4%
ICT	1.6	0.1	8.1%	-0.9%
Other	3.4	-1.1	-23.9%	8.2%
Total services	***11.3***	***-3.6***	***-24.0%***	***27.2%***

Source: State Statistics Service of Ukraine

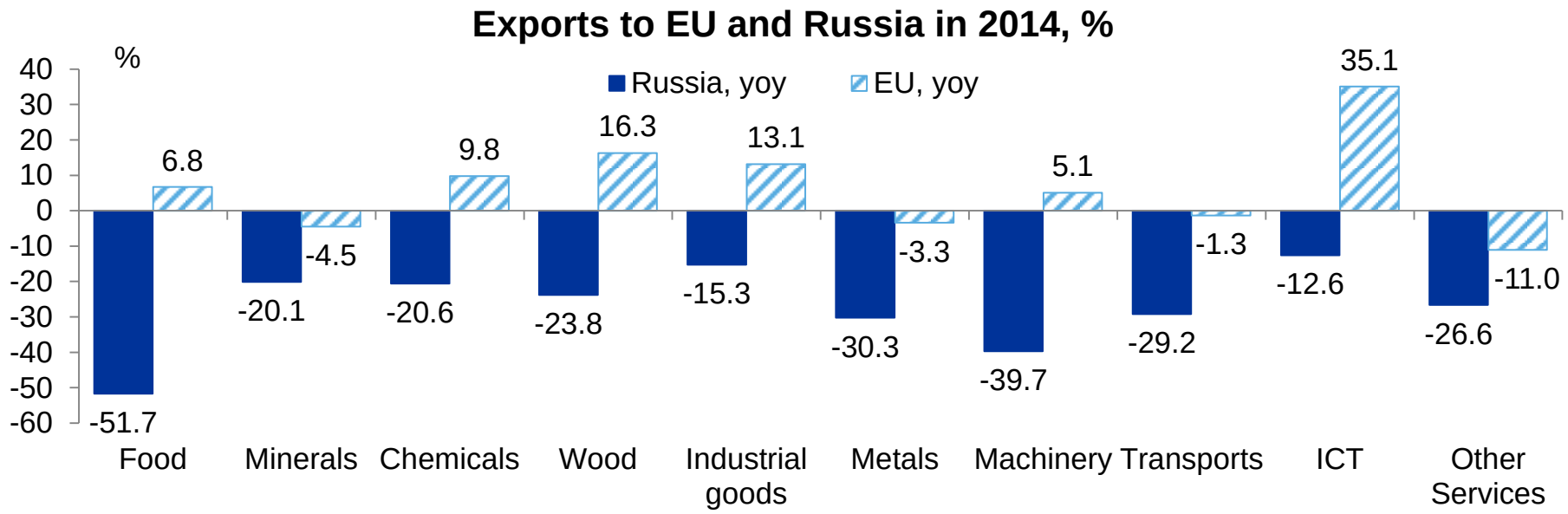
- Strong decline in exports from heavy industries: machinery 30.6%, chemicals 28.8%, mineral products 18.6% and metals 13.0%
- Services: Transport dropped by 27.6%
- But: Exports of food products almost unchanged (slight decrease of 2.1%)

Thus: Diverse dynamics also regarding products; drop in exports mainly due to heavy industries and transport

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Decomposition by destination (EU, RU) and products



Source: State Statistics Service of Ukraine

- Exports to RU dropped for all main products AND by very large amounts
- Exports to EU registered increases in most products AND only minor decreases in some groups

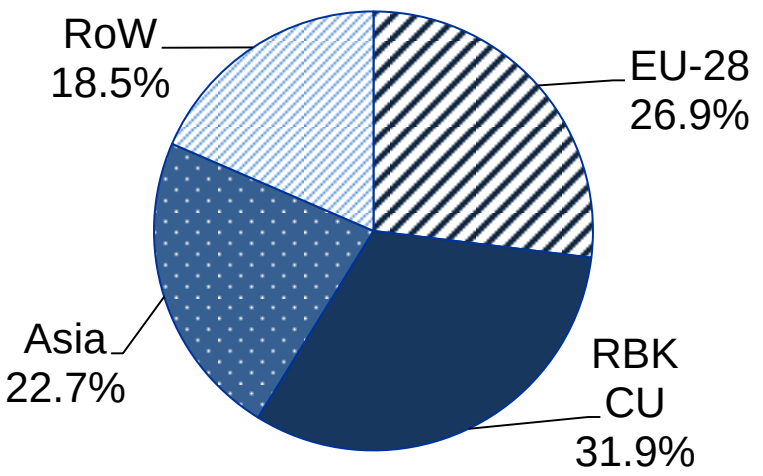
Thus: Export weakness of Ukraine in 2014 strongly linked to Russia's "import weakness" (stagnation, protectionism, political interference in trade)

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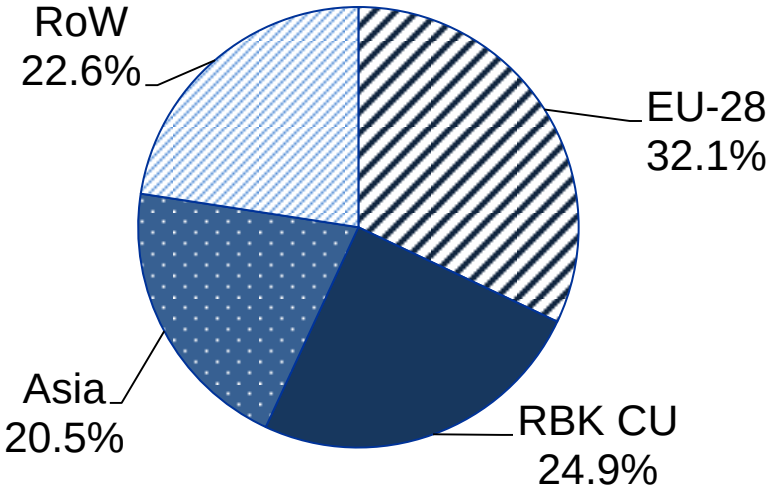
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3. Export structure 2014 vs. 2013: Destinations

Regional structure of exports in 2013



Regional structure of exports in 2014



Source: State Statistics Service of Ukraine

- Major shift towards EU and away from Customs Union in 2014
- EU by far the most important export destination in 2014
- Strong decline of importance of Customs Union

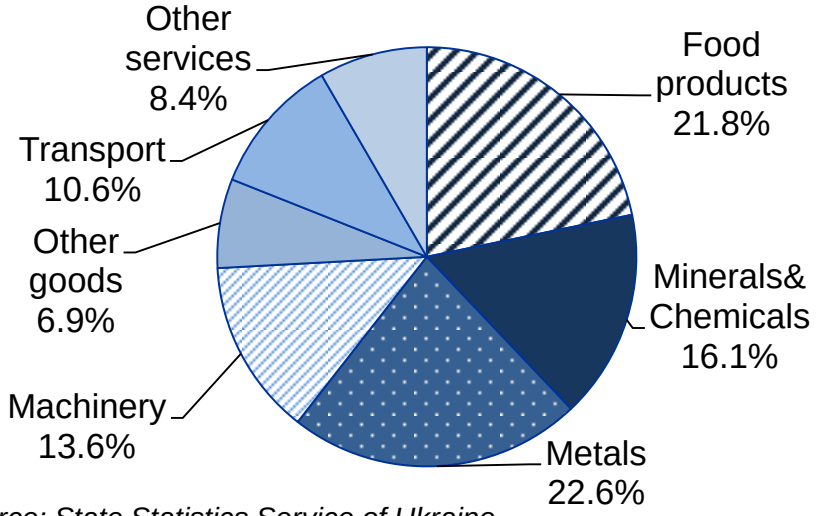
Assessment: Drop in exports to RU not good news, but it reduces the exposure of Ukraine to the Russian market; positive aspect taking into account current situation; see Georgian experience since 2008

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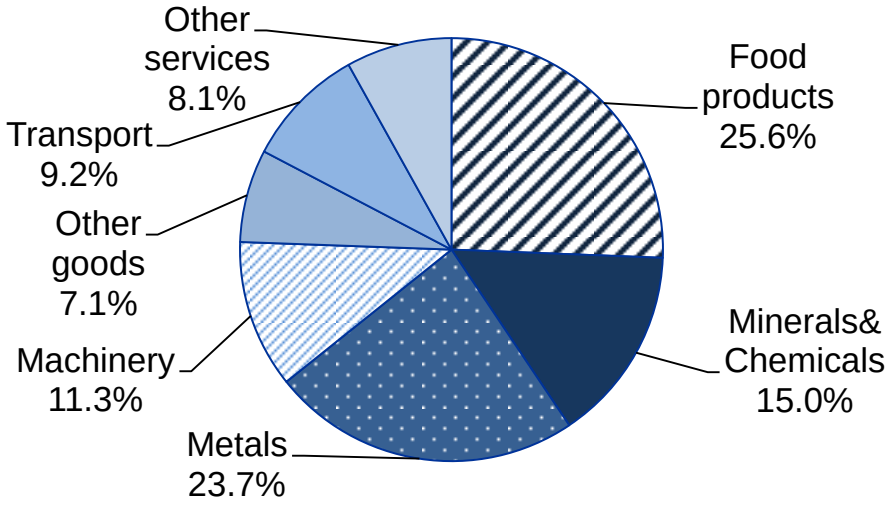
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Export structure 2014 vs. 2013: Products

Product structure of exports in 2013



Regional structure of exports in 2014



Source: State Statistics Service of Ukraine

- Shift towards food products and away from heavy industries
- Food products most important item in 2014
- Decline in importance of heavy industries; from 52.3% to 50.0%

Implications:

- Given the uncertainty regarding the future of heavy industries, the further development of agri-food is key for the Ukrainian economy
- At the same time: Need to deal with problems at heavy industries

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4. Conclusions

- Despite a severe depreciation of the Hryvnia during 2014, exports dropped by USD 13.0 bn or 16.6%
- This drop contributed 3.7 pp to GDP reduction (> 50% of total GDP loss)
- Demand side: Main reason for export weakness is Russia‘s „import weakness“ due to stagnation, protectionism & political interference; Customs Union accounted for 2/3 of total export reduction
- Supply side: Military conflict in east main reason for export weakness
- Dynamics in 2014 shifted significantly the structure of exports:
  - From Customs Union/Russia towards the EU
  - From heavy industries towards food products
- Government has to take into account this shift and adapt its trade policy correspondingly

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5. Outlook and recommendations

- **Positive factors** concerning exports:
  - Strong devaluation and higher international competitiveness
  - Duty-free access to EU market following ATP agreement
- **Negative factors**:
  - Lack of VAT refunds to exporters
  - Regional economic weakness, especially in Customs Union RBK
  - Significant rise in protectionism in Russia, especially vis-à-vis Ukraine

- **Recommendation 1**: Removal of negative domestic factors, especially the ill-working VAT refund, which is a major problem for exporters
- **Recommendation 2:** Promotion of exports to EU/non-CIS countries by implementing the DCFTA and thus introducing international standards
- **Recommendation 3:** Development of financial instruments for export promotion such as export credit agency (ECA)
- **Recommendation 4:** Establishment of a coherent system of export promotion, focusing on future opportunities rather than on the past

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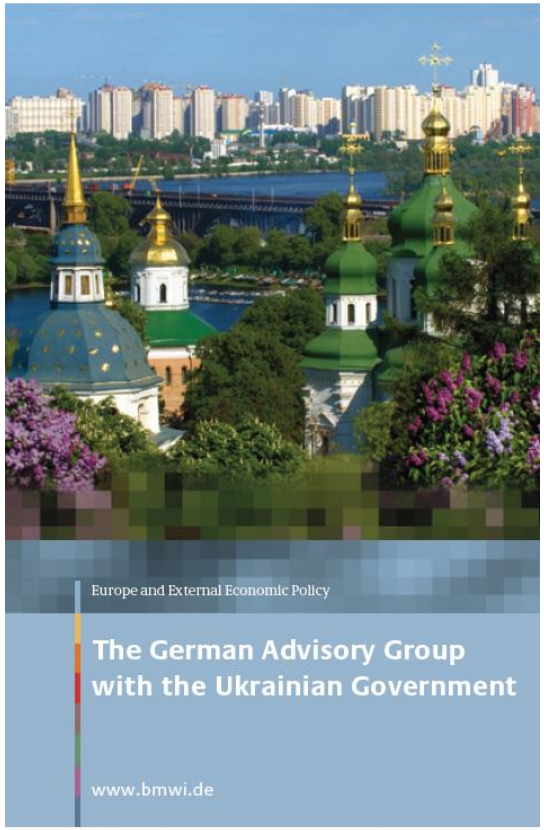
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