ISSUE NO. 137 | MARCH 2020

Ukraine's foreign trade in 2019

Ukraine's foreign trade continued to grow in 2019, exports and imports of goods expanded both by 6%. The trade deficit amounted to USD 11 bn. This corresponds to 7.1% of GDP, which is lower than in the previous year. Economic growth and hryvnia appreciation were the main reasons for this reduction.

The European Union remained the largest trade partner, accounting for 41% of total trade in goods. As a novelty of 2019, China became the second-largest partner with a 12% share. The share of Russia dropped to 9%, the lowest level ever, amid a new wave of trade restrictions.

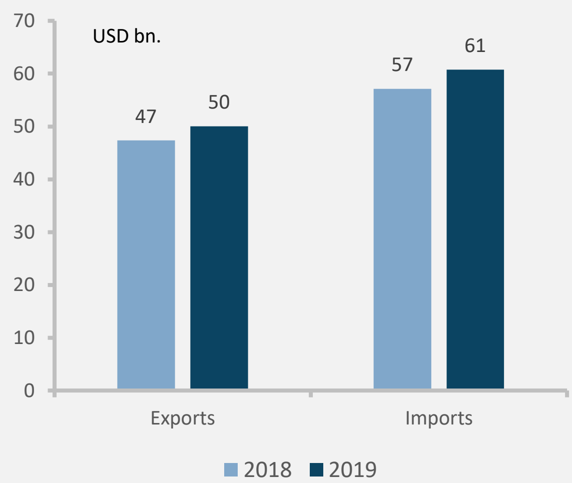
Regarding exports, the strong expansion of grain supplies, especially to Asian and North African markets, helped to counterbalance the negative developments in world steel trade, suffering from trade restrictions and the reduction in global prices.

Lower energy prices, including those for gas, contributed to the slowdown of imports despite the sustained internal demand for machines and equipment, backed by the expansion of domestic investments.

Trade stays on growth track

The growth of Ukraine's trade continued in 2019. Total trade of goods reached USD 111 bn, increasing by 6% in nominal terms and over 10% in real terms.

Ukraine's trade in goods, 2018 vs 2019



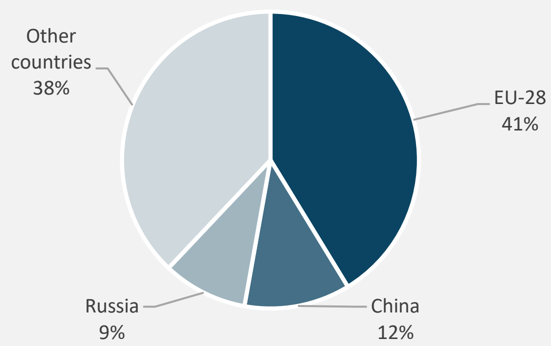
Source: Ukrstat, own estimates

Exports and imports grew at the same rate, and as imports remained above exports, the trade deficit widened to USD 11 bn in nominal terms. However, as the real GDP growth continued and the hryvnia appreciated vis-à-vis the US dollar, the relative deficit shrunk to 7.1% of GDP (7.6% of GDP in 2018).

The EU has remained the largest trade partner of Ukraine accounting for 41% of total in 2019. This share has been stable for four years in a row.

At the same time, the share of trade with Russia decreased to 9%, the lowest level ever. Russia lost its position in both exports and imports. Instead, China became the second-largest partner, with a share of 12% of total trade.

Trade partners, share of total trade in goods in 2019



Source: Ukrstat, own estimates

Strong harvest helped to maintain exports

Reduced global commodity prices and a new wave of trade restrictions were among key factors dragging down the exports, while good harvest helped to sustain exports.

For metals, the negative impact of the imposition of definitive safeguard measures by the EU in early 2019 was further exacerbated by a global reduction in prices. Overall exports of base metals, previously the largest of Ukraine's export items, dropped by 12% in 2019, and its share in total goods trade reduced from 21% to 18%.

The reduction in base metal exports was also the key factor for the slowdown of exports to the EU that cost about three percentage points of export growth.

While prices for grains also reduced, high harvest allowed compensating for this impact. Ukraine's exports of grains boomed by 33%, and its share reached 19% of total trade, surpassing base metals.

Exports of grains to the EU increased by 18%, driven by a strong expansion of maize supplies (+26% yoy). However, the strongest demand came from Asia and Africa.

In particular, exports to Egypt grew by 97%, making this country the largest consumer of Ukraine's grains. In 2019, 14% of total grains exports went to Egypt compared to 13% shipped to the EU. Other large buyers of Ukraine's grain were China (+55%) and Turkey (+289%).

Additional trade restrictions aggravated the impact of global price fluctuations. In late 2018 and early 2019, Russia introduced a new set of restrictions on trade with Ukraine, banning imports of selected products from Ukraine, mostly machines and metals, and imposing capital controls on transactions of a number of legal entities and physical persons. As a result, exports to Russia declined by 11% yoy.

Trade restrictions by Russia and lower energy prices

Total imports of goods also slowed to 6% after a 15% growth in 2018, partly due to a decrease of imports from Russia by 14% yoy. The deceleration resulted from a combination of the restrictions imposed by Russia, the reciprocal measures introduced by Ukraine and the reduction of global commodity prices, including metals and energy products.

In addition to the ban on imports from Ukraine, Russia set restrictions on exports to Ukraine. It included a ban on shipments of crude oil (with no impact as Ukraine did not import crude oil from Russia for several years already) and a new system of monthly permits for exports of selected petroleum processed products and coals, both important categories of Ukraine's imports from Russia. In May, Ukraine reciprocated with bans on imports of fertilisers, vehicles, selected textile and metal products from Russia.

As a result, imports of mineral products from Russia – still the largest category of imports – reduced by 8%, while, for example, imports of fertilizers dropped by 41% in 2019 and will be zero in 2020.

Lower energy prices, especially on gas, became another factor explaining the general slowdown in imports. Ukraine's imports of natural gas dropped by 26% in value terms despite a 12% increase in physical volumes, accrued in preparation of a potential gas flow disruption in the case of no transit deal with Russia.

The conclusion of the transit agreement and the warm winter 2019/2020 resulted in large remained gas stocks, and Ukraine is likely to reduce gas imports further in 2020.

Non-energy imports continued to grow strongly. For example, imports of machines and equipment increased by 11% and transport equipment by 35%, supported by a 16% increase in fixed capital investments in the country.

Conclusions and outlook

Despite multiple shocks, the year 2019 was successful for Ukraine's foreign trade. Exports continued expanding and became more geographically diversified, while lower energy prices helped to curb imports.

The coronavirus pandemic as well as global financial and commodity markets turmoil will make 2020 much more stressful. There is an urgent need to work on the reduction in external trade barriers and the removal of domestic trade impediments to stimulate trade and thus support economic growth in the country.

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