



Macroeconomic Policy 2013 -
How long will the reserves last to support
UAH/USD exchange rate?

German Night Talk(s)- Economic and Fiscal Policy 2013

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German Advisory Group

Kyiv, 11 December 2012



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1. Macro Policy 2012: Analysis

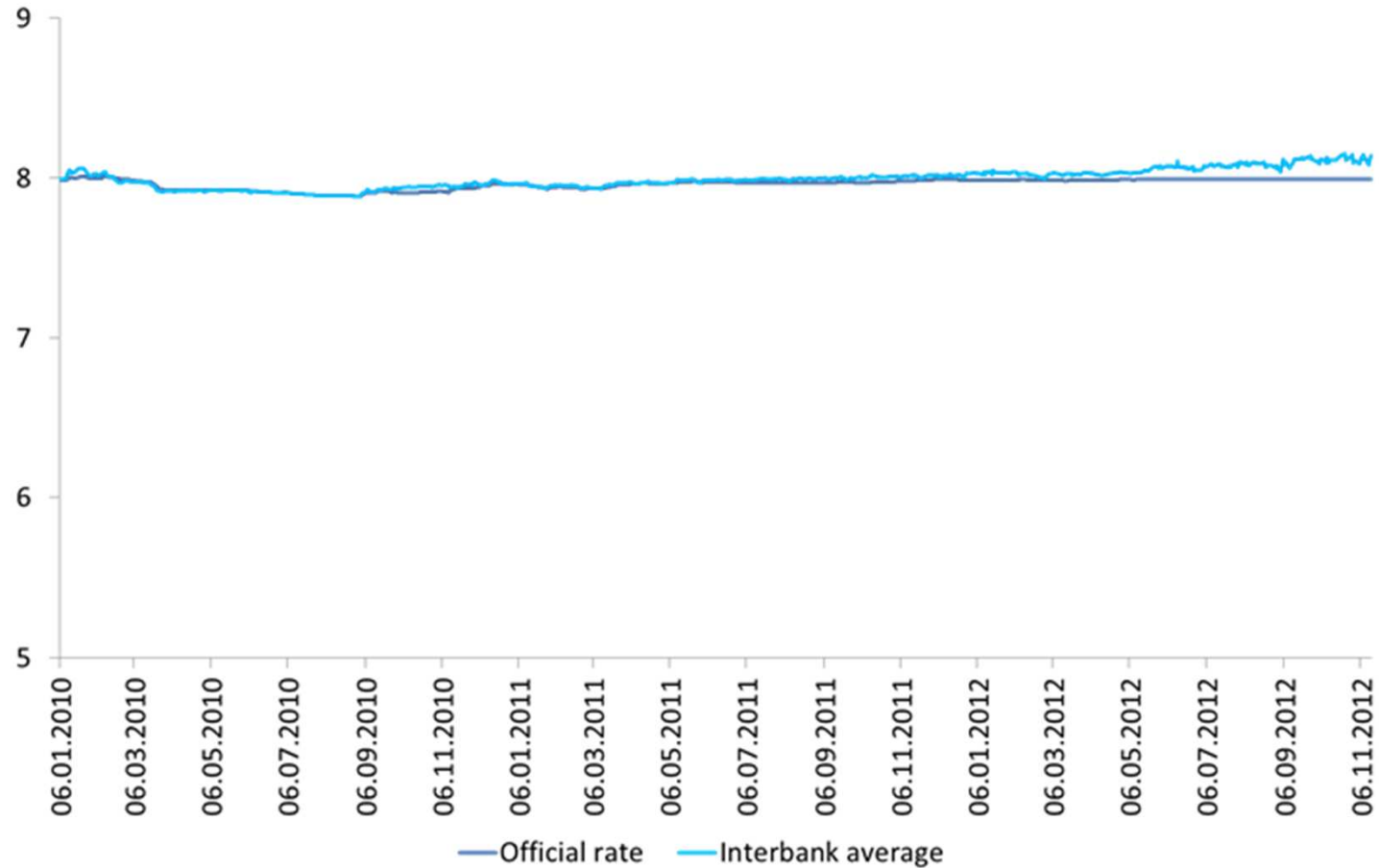
2012: Policy mix consisting of three parts

- a. Fixed exchange rate to the USD
- b. Very tight monetary policy
- c. Expansive fiscal policy



a. Fixed exchange rate in Ukraine...

Exchange rate UAH/USD

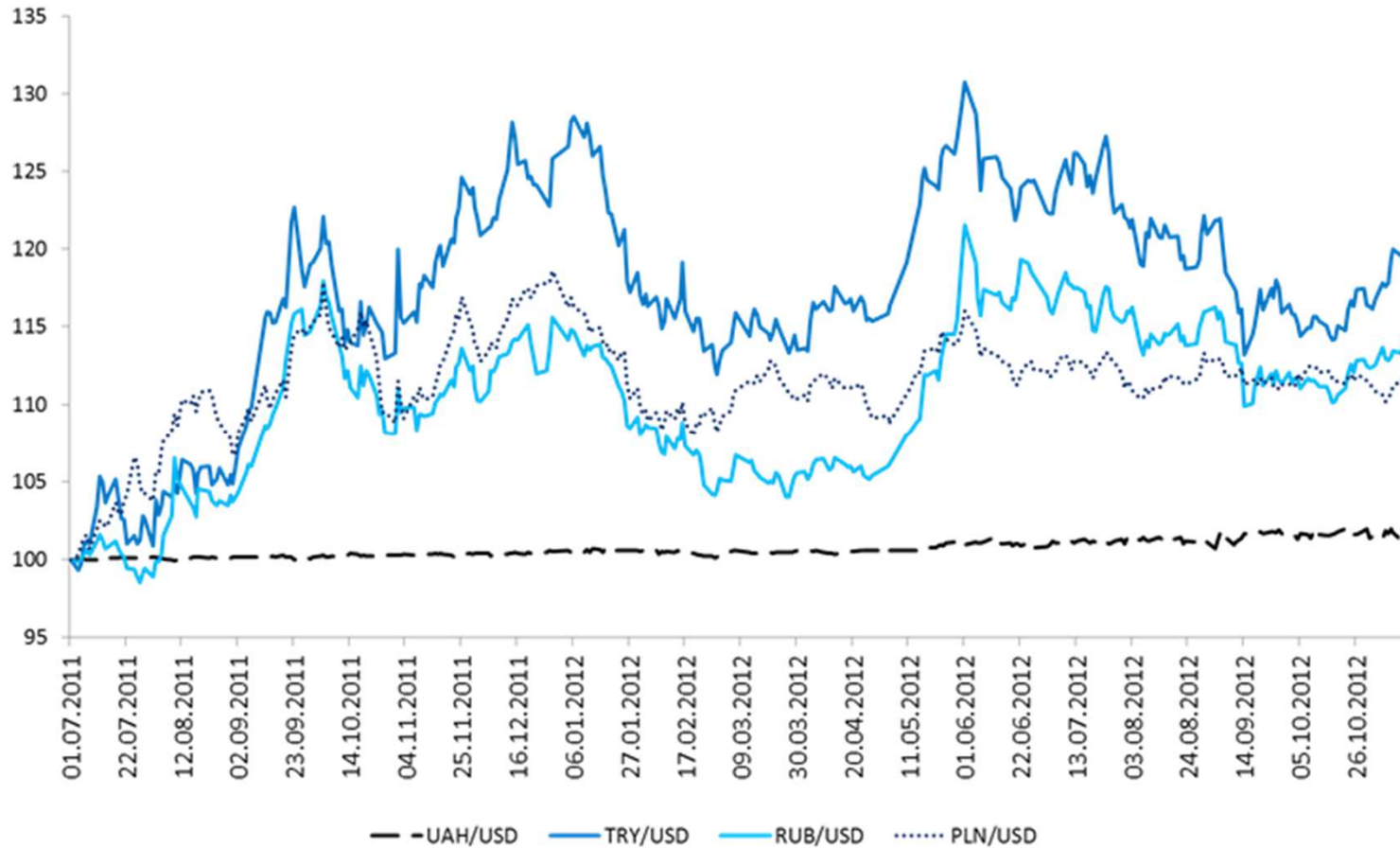


Source: NBU



... while neighbours depreciated

Nominal exchange rates vs. USD (indexed)



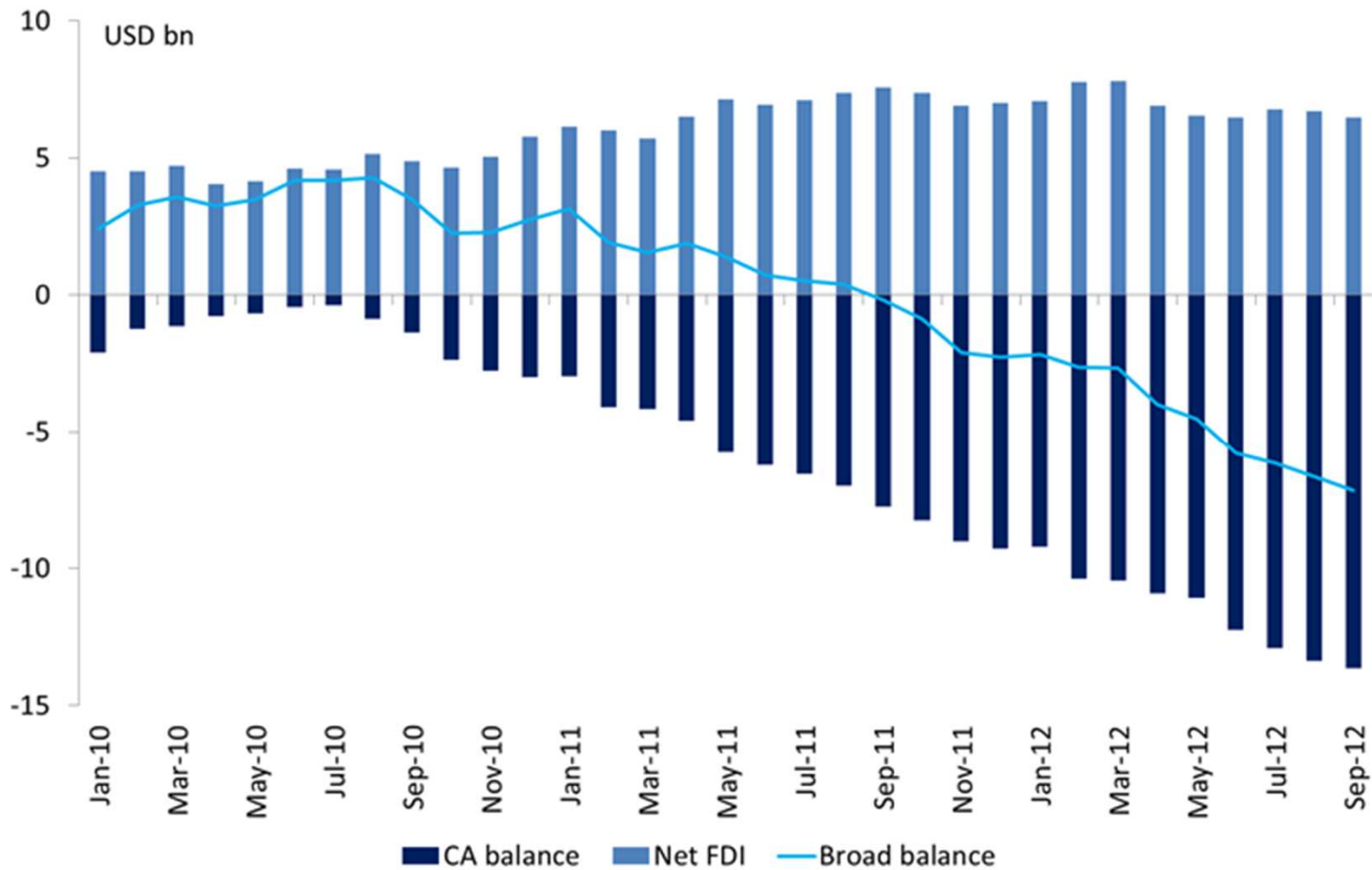
Source: own calculations based on ECB data

Note: July 2011=100 Increase means depreciation



Worsening of current account

Dynamics of external accounts

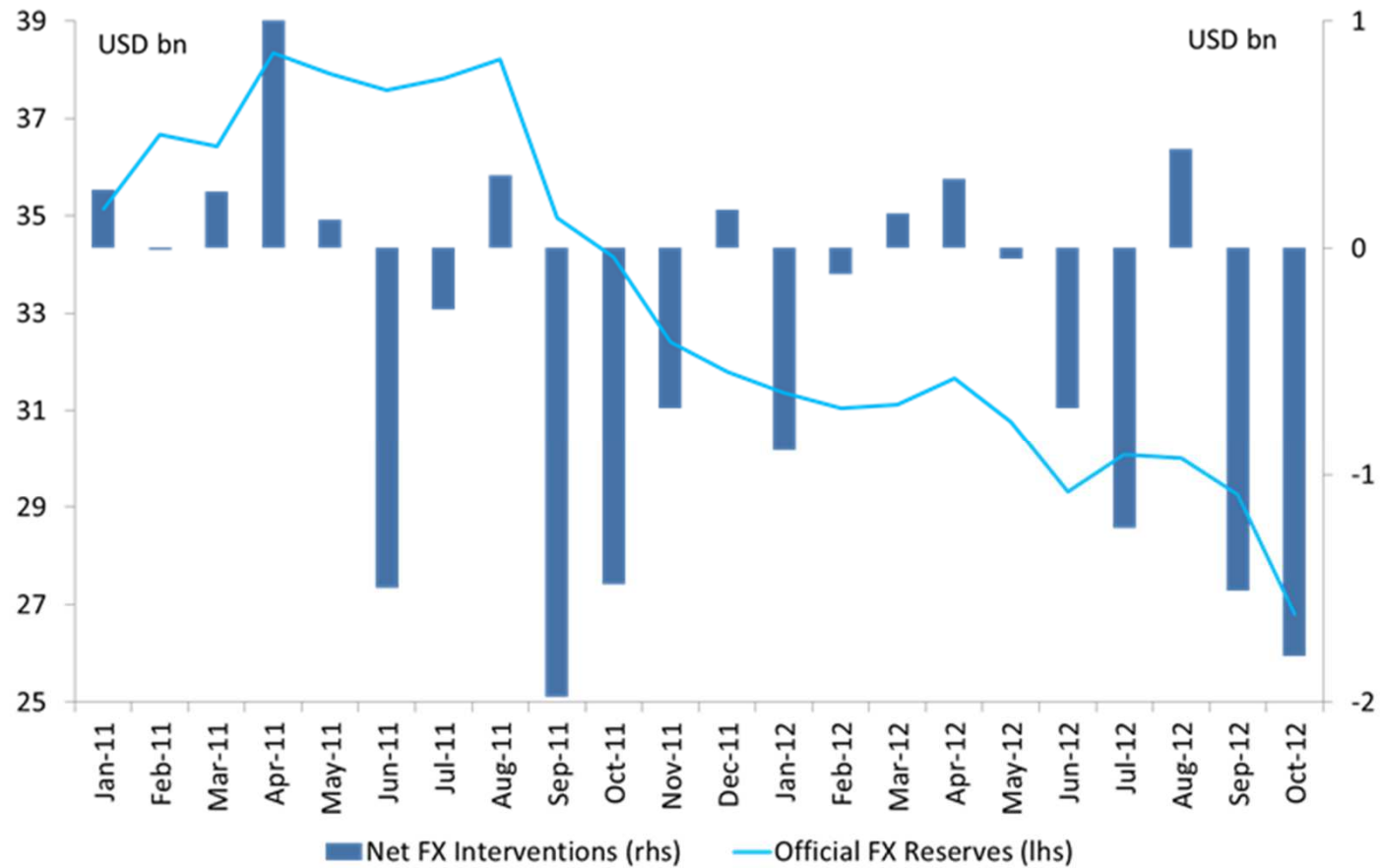


Source: NBU, own calculations



Loss of FX reserves

Official FX reserves and net FX interventions

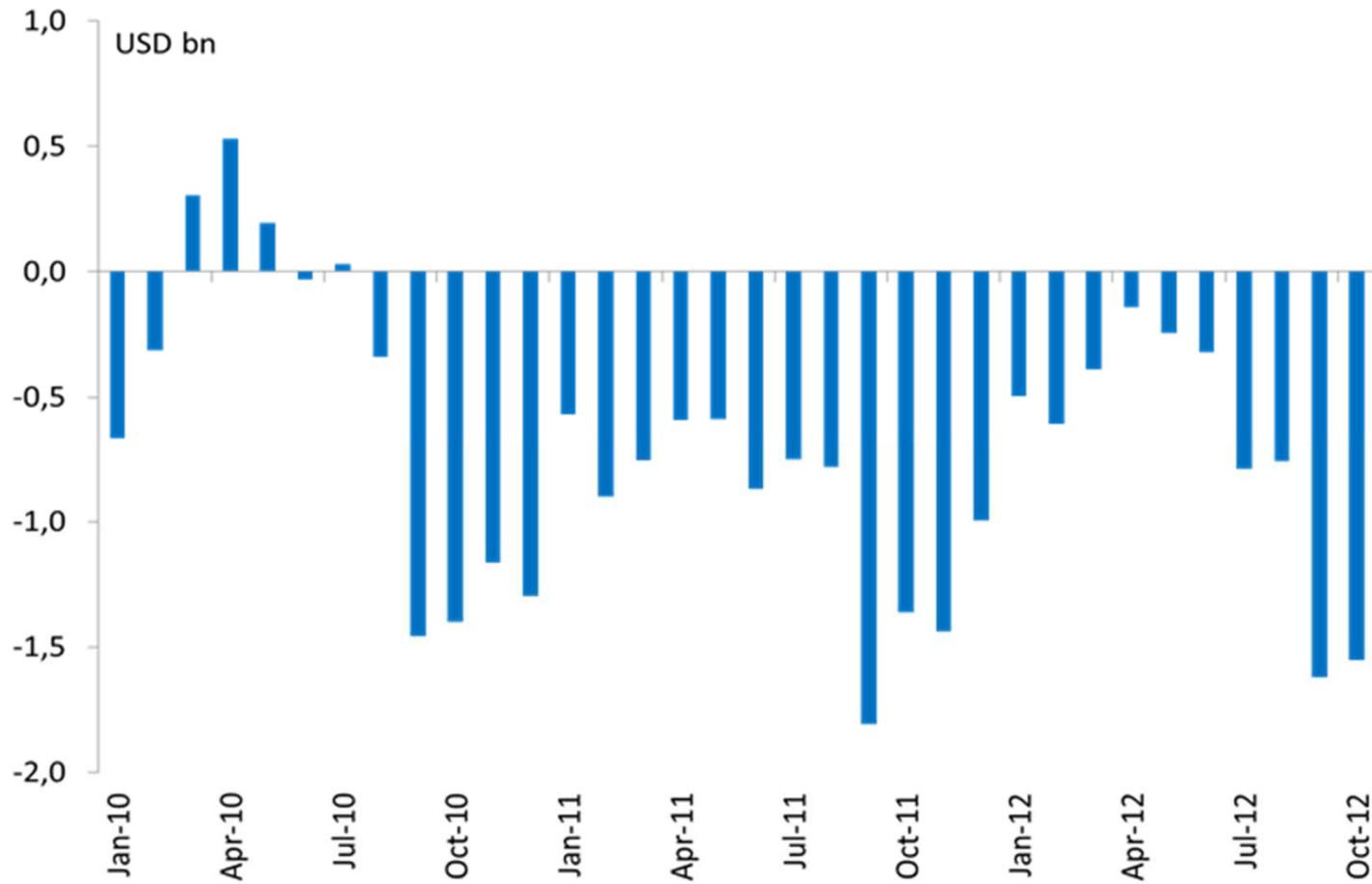


Source: NBU



Devaluation expectations

Net purchases of foreign cash by population



Source: NBU



b. Very tight monetary policy

1-month Kievprime

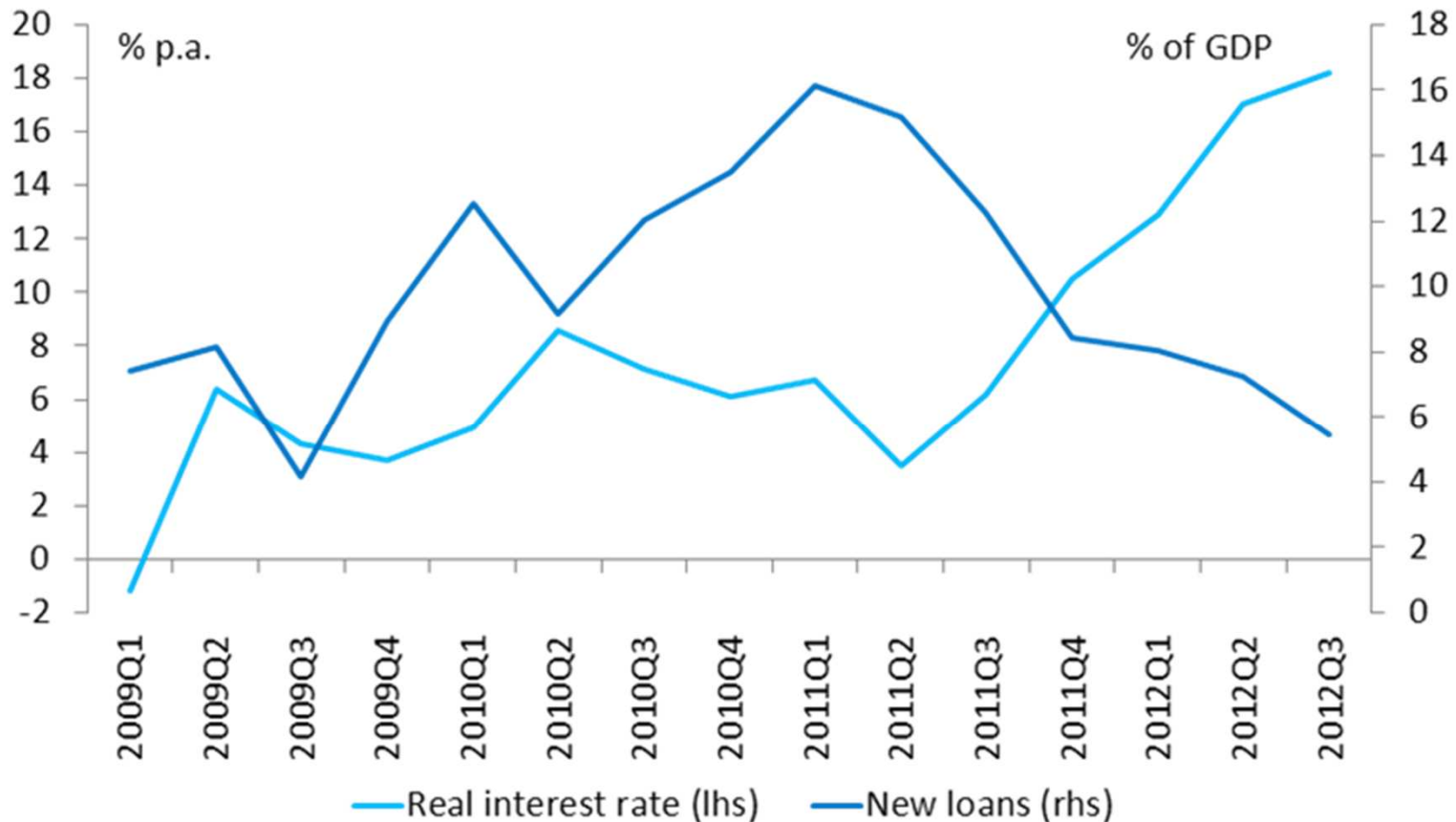


Source: AYA securities, Reuters



Interest rates up and investment down

Bank lending rates and new loans



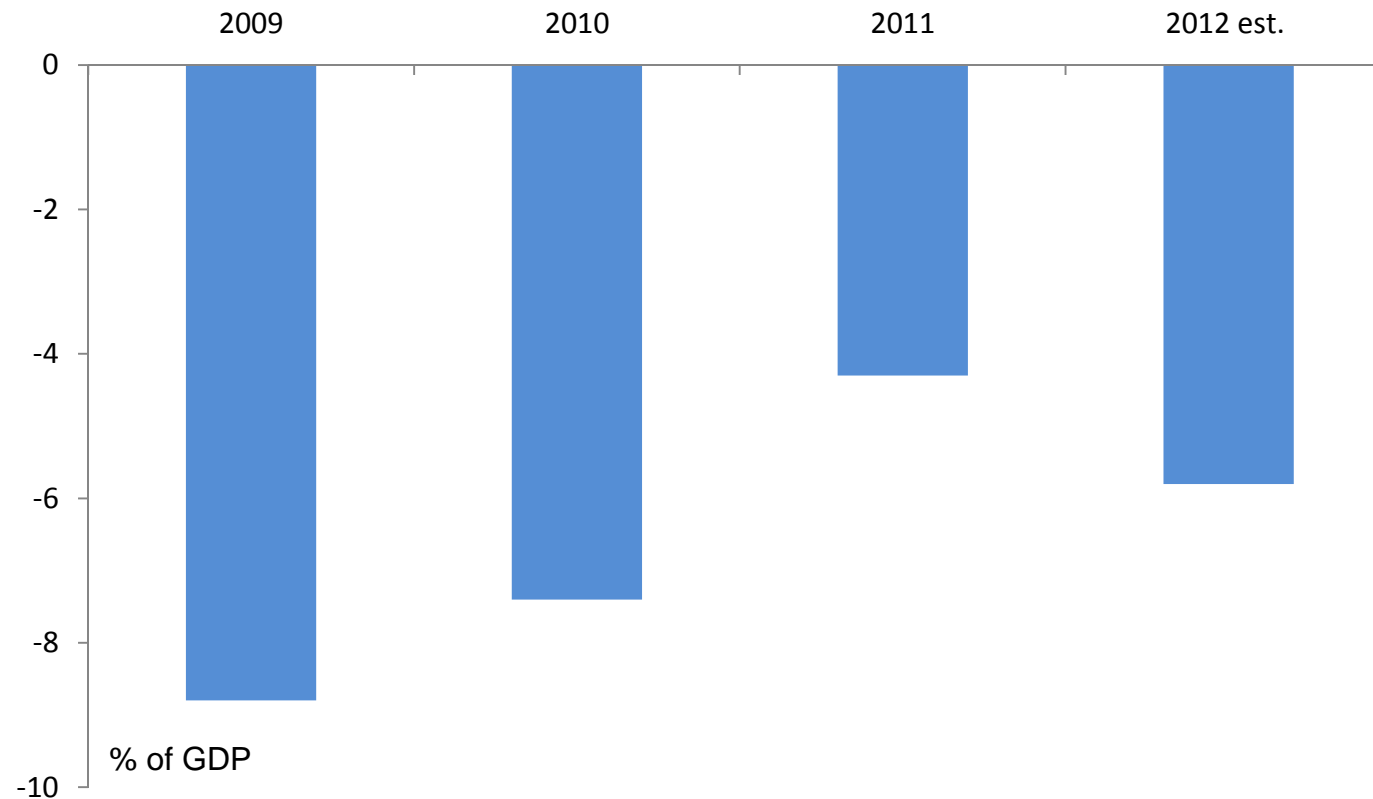
Source: Own calculations based on NBU data

Note: Real interest rate is derived from nominal interest rate on loans to nonfinancial corporations in national currency with maturity of 1-5 years and ex-post inflation, new loans are issued over the quarter as % of GDP



c. Expansive fiscal policy

Budget deficits (general government including Naftogaz)



Source: Dragon Capital



2. Assessment of Macro Policy 2012

Results of macro policy 2012:

- Serious loss of official FX reserves
- Significant worsening of current account
- Strong devaluation expectations
- Expensive bank lending and low investments

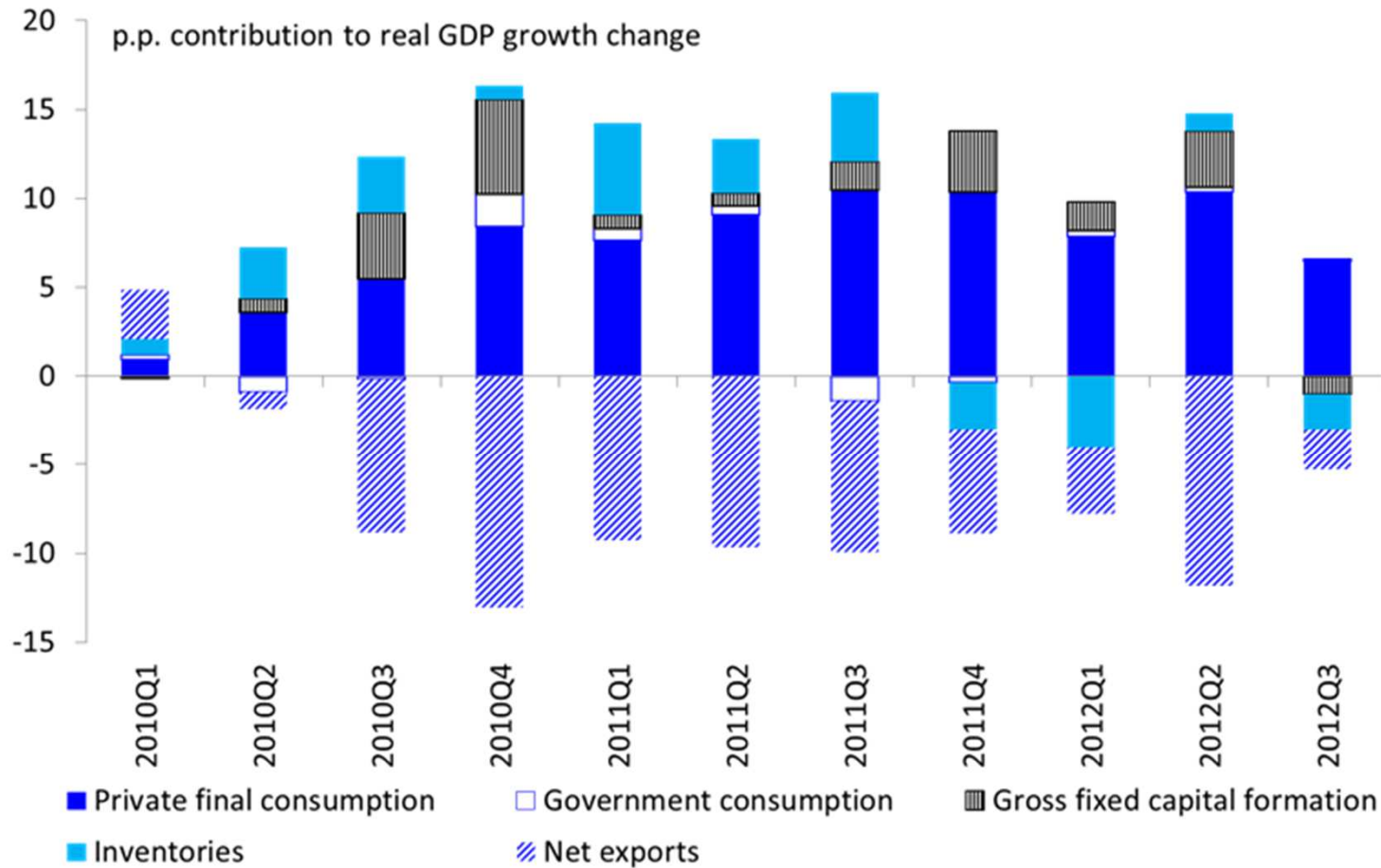
Thus:

- Macro policy 2012 not sustainable
- Macro policy 2012 bad for economic growth



Real economic growth

Real economic growth: Decomposition of demand side



Source: Statistical Service of Ukraine, own calculations



3. Macro Policy 2013: Recommendations

Need to adjust macroeconomic policy:

- Flexible exchange rate system
- More expansive monetary policy
- More conservative fiscal policy

How and when?

- As soon as possible
- Ideally within the framework of a new IMF programme



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