

## Markets & Countries

### UKRAINE: THE MARKET MAKES ITS COMEBACK



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**The Ukrainian economy has been recovering since 2016. German machinery exports to the Ukraine are on the rise again. However, it is still uncertain how sustainable this growth will be.**

By Monika Hollacher

Following massive slumps in 2014 and 2015, the Ukrainian economy stabilized last year. GDP grew by 2.3 percent in 2016. The exchange rate has remained stable, and while the inflation rate is still high, it will decrease significantly this year. The Ukrainian National Bank expects that the recovery will continue, even though it had to reduce its

growth forecast for 2017 from 3 to 2 percent because of the trade blockade in the Donbass region. The blockade had been imposed in March after separatists expropriated numerous Ukrainian companies.

#### Growth through investment

The growth has mainly been driven by investment, which increased by 18 percent last year and reached 20 percent in the first quarter of this year. The most powerful engine for growth is the agricultural and food industry. The government is also pushing forward projects in the areas of road construction, housing, transport and infrastructure, often with funds from international investors. Agricultural production rose by 6 percent in 2016, while industry also grew by 2.4 percent. Thanks to this development, Ukraine's foreign trade is also experiencing an upturn.

Accordingly, sales of machinery and systems from Germany are rising again in the Ukraine. Sales of mechanical engineering equipment increased by more than 40 percent in 2016, followed by an increase of another 45 percent in the first five months of 2017.

#### Agricultural machinery in high demand

Agriculture is the production sector with the highest investment figures, and it has always played an important role in the Ukraine. The majority of German machinery exports to the Ukraine relate to agricultural machinery. In 2016, manufacturers sold agricultural machinery to a value of 275 million euros to the Ukraine. Compared to the previous year, this corresponds to an increase of 77 percent. All in all, agricultural machinery thus makes up more than a third of all German machinery exports to the Ukraine.

But other mechanical engineering sectors have also been growing again since last year. However, it should be taken into account that the base values from 2015 are very low. Nevertheless, this growth also has a positive effect on many other sectors, including power transmission, construction equipment and building material machines, conveyor technology, air handling technology, and food and packaging machinery.

But how sustainable is this development in the Ukraine, which is currently fighting for its territory and mourning new victims almost every day? The answer to this question depends on the economic reforms that are needed to recover the Ukrainian economy.

The Ukraine-European Association Agreement can be considered a step in the right direction. The provisions relating to trade were implemented in early 2016, providing a significant boost to bilateral trade. In this context, the government has swiftly implemented many important reforms such as the energy reform, revised licensing and approval procedures and transparent awarding of contracts.

### **Central reforms progress slowly**

The situation is different when it comes to privatizing state enterprises, reforming public administration, and combating corruption and the black market. While the Ukrainian government has already made some initial progress, it still has a very long way to go - it has by no means succeeded in implementing these reforms at the necessary pace.

Faster economic growth and efficient reforms are prerequisites for a significant improvement in the standard of living of the population, who must support the reform agenda. Growth of 2 to 3 percent per year is not enough for this.

Since 2014, there has been a lot of change in the Ukraine and further transitions are coming. For mechanical engineering, it is important to identify and seize potential opportunities in good time. ■

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