

Ukrainian Economy by Sector: Where Profits are Multiplying

There is no industry in the Ukrainian economy that would not play a particular and important role in filling budgets of all levels with revenues. Nevertheless, proportions of each contribution is different.

The level of efficiency and profitability of different sectors of the economy can be evaluated through analysis of tax payments by economic activity with breakdown by regions. A detailed study of statistics data suggests that the lead is held by such sectors as agriculture, which is the core industry for nine regions; wholesale and retail trade are dominant in seven regions and Kyiv; extractive industry is dominant in five regions, and processing in three regions plus Large Taxpayers Office. It is in these sectors, as well as in transport, construction, real estate and public sector, that the profits are generated, and these are the industries that form the largest share of GDP. Thus, according to the State Statistics' official data, the biggest tax contributing industries in the Q2 of 2016 provided almost 63% of GDP.

CRUCIAL ROLE OF DOMESTIC TRADE

A crucial role in building up of the economic capacity of Ukraine, as well as in satisfaction of the customers' demand for high-quality goods and services, is played by domestic trade. That is the area that has sufficient weight in shaping Ukraine's GDP: in January — October 2016 the share of trade in GDP amounted to UAH 82 644 million, or 15.5%. The share of population employed in this sector by the end of 2015 was 21%.

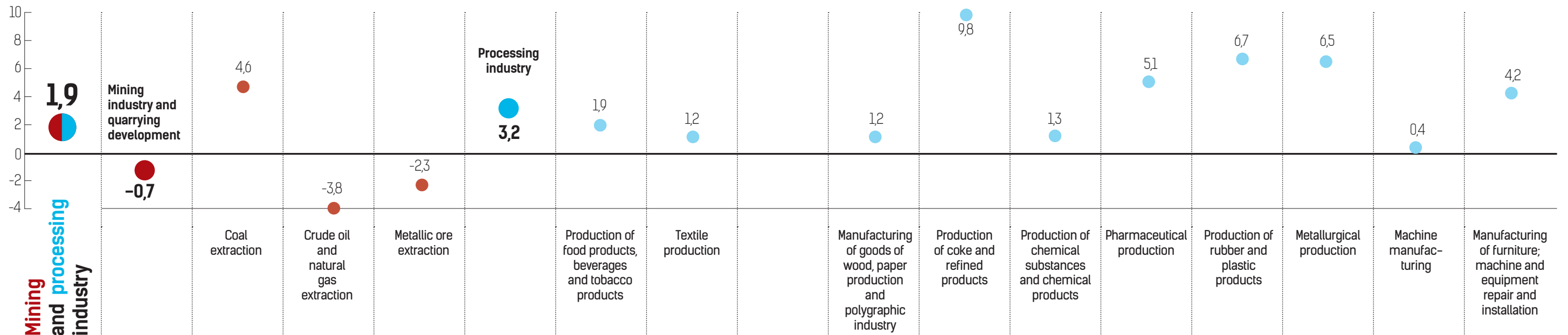
Trading has two main segments: wholesale and retail. In wholesale trade the biggest share is contributed to non-food products — 82% (end of 2015). The regions that account for the largest share of the country's wholesale turnover are city of Kyiv, Dnipropetrovsk and Kharkiv regions.

IMPORTANCE OF THE RETAIL NETWORK

As for retail, after the crisis years 2014 — 2015 its growth rates began to increase, developing a steady growth trend for the actual volume of retail turnover. Retail trade turnover in January — October 2016 amounted to UAH 932.9 billion, up 3% on the figure of January — October 2015.

Development of retail network is a promising area, given that it improves level of service of ordinary Ukrainians by providing services that positively affect the structural changes in the economy, contribute to the growth of the entities' incomes and attract capital. Deloitte, international audit and consulting company which prepares annual Central and Eastern Europe Top 500 Businesses ranking by criteria of growth dynamics and of income, specified three Ukrainian retail trade companies in Retail sub-category: Fozzy Group (ranked 95), ATB-Market (101) and Epicenter K (280).

Indexes of manufactured goods by key industries



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EXTRACTION AND PROCESSING — TWO PILLARS OF THE INDUSTRY

One of the priority sectors of the national economy is production industry, creating about 22% of country's GDP, providing 15.6% of employment in all businesses and serving as an active agent of the Ukraine's foreign trade.

Geographically, industrial enterprises are not evenly distributed in Ukraine. They are mostly concentrated in certain regions, the leaders being Dnipropetrovsk, Donetsk, Kharkiv, Luhansk and Zaporizhia regions. Currently these regions' industrial development is under significant pressure of the situation in the east of the country. Just as the regions that suffered from the destruction of infrastructure (Donetsk and Lugansk regions), the neighboring ones, being closely connected with them by supply chains, up to now didn't manage to compensate the losses through the use of other supply channels. In January — October 2016, industrial output fell in nine regions, with a significant decrease in industrial production in Sumy (8.9%), Ivano-Frankivsk (6.8%), Zaporizhia (4.4%) and Chernivtsi (3.6%) regions. However, in Cherkasy, Chernihiv, Mykolaiv, Ternopil, Zhytomyr, Zakarpattia and Kiev regions industrial production in the same period was on a growth path.

The industry recording the biggest tax contributions in Poltava and Kharkiv regions — i.e. more than \$10 billion for each region — is the extraction. As of now, it provides 5.9% of GDP. Notably, in these two regions oil and gas production develops intensively, and the regions themselves are among the most promising oil- and gas-bearing regions of Ukraine.

Meanwhile, mining companies located in Dnipropetrovsk, Donetsk, Luhansk, Sumy and Lviv regions, despite showing a slight increase in revenues, were forced to work under rather difficult circumstances, primarily due to difficult market conditions, volatility of prices and geopolitical instability.

Along with the extractive industry, an important part of the national system is the processing industry. It is its development, especially in high-tech sectors like production of equipment, instrumentation and food industry, that should be a priority of economic policy, being able to satisfy both domestic and foreign markets' demand.

LEADER AMONG EXPORT INDUSTRIES

Ukraine is one of few countries in the world possessing a significant export potential in agriculture, and one of three world leaders (after the US and the EU) in exports of certain types of grain and industrial crops, as well as of sunflower oil. For Ukraine, agriculture is a kind of a "growth point" and the driving force for a systemic increase of competitiveness of the national economy. The government's 2014 program of action, in its section "Ukraine: Strategies and Challenges" specifies: grain is Ukraine's oil and gas. Given Ukraine's agricultural potential, the country can play an important role in ensuring food security in the world.

It should be noted that national economy is overly dependent on volatile prices at foreign markets of export-oriented agriculture commodities (grains, oilseeds and other intermediary consumption goods with low added value). In particular, in 2015, compared to 2011, the FAO price index fell by 78.5 points (32.6%) for cereals and by 107.9 points (42.3%) for vegetable oils. In the first 10 months of 2016 the price index for cereals dropped by another few points, while the prices for vegetable oils have somewhat stabilized. Still, the risks of agriculture exporters comprise not only dependence on external markets, but also dependence on the state of the economies of importing countries, on prices for imported energy, for agricultural equipment, for plant protection products, for seed and planting material.

State Statistics data shows a gradual restoration of agricultural production, in particular, in January — October 2016 compared to the corresponding period of 2015 growth rate was 2.8%. The leadership in agricultural production is held by Vinnytsia region, where growth rate amounted to 13%. Odessa, Luhansk, Zhytomyr and Kyiv regions also demonstrate consistently positive trend in the same period, their growth rate amounting to 12.3%, 10.2%, 8.9% and 8% respectively. Consequently, a cluster of regions that are less dependent on crises and are able to ensure steady growth of agricultural production is being created.

Ukrainian agriculture is the sector, which, despite the crisis, consistently attracts investors. They are attracted by relatively low-cost labor and rather low production and development costs. Considering significant investments made in technological upgrading of agricultural production — in development of infrastructure, storage, transportation and handling in ports, — agriculture claims leadership among export industries in the medium term. Ten years ago the leading positions in Ukrainian exports were held by iron and steel industry, instrumentation and mechanical engineering, chemical industries. Nonetheless, since 2008 the share of agricultural products in exports began to gradually increase, especially due to crush of the world prices and demand for iron and steel, and consequent significant drop of their share in overall exports. Since 2012 to the present day, agriculture has been trying to get the lead and become one of Ukraine's main sources of foreign currency inflow.

TRANSPORT ACCELERATION

Transport is one of the above sectors which forms a significant share of GDP and provides considerable contributions to the state budget. Citizens' wellbeing and development of the national economy depend largely on the stability and effectiveness of transport. Ukraine is a country with developed transport infrastructure and advantageous geographical location, making it one of the most important transit countries in Europe. Its territory is crossed by major trunk routes, allowing domestic transport industry to be developed dynamically.

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Volume of sales in retail trade in January — October 2016

