Abstract:
The article deals with dynamics of the main indicators of Ukraine’s economic development during 2014-2016 and highlights the main reasons of such a condition. The author has identified the forecast trends for Ukraine in 2017, based on data of the IMF, the EBRD and the state government. The article stipulates that economic growth in Ukraine in 2017 will be completely dependent on investment and exports and will resolve long-standing structural problems, overcoming macroeconomic instability, because domestic demand will recover slowly. Special attention is given to investment and trade cooperation between Ukraine and Poland. The author analyzed the statistical data of

Streszczenie
Artykuł dotyczy dynamiki głównych wskaźników rozwoju gospodarczego Ukrainy w latach 2014-2016 i podkreśla główne powody oddziaływujące na jej kondycję gospodarczą. Autor wyznaczył prognozy dotyczące Ukrainy w 2017 r.. Prognozy zostały sporządzone na podstawie danych MFW, EBOR i rządu państwa. Autor przewiduje, że wzrost gospodarczy na Ukrainie w 2017 r. będzie w pełni zależny od inwestycji i eksportu oraz rozwiąże długotrwałe problemy strukturalne, przezwyciężając niestabilność makroekonomiczną, ponieważ popyt wewnętrzny będzie powoli wzrastać. Szczególną uwagę poświęca się współpracy inwestycyjnej i handlowej między Ukrainą
export-import operations and investments between the countries.

**Keywords:** economic development, main indicators, GDP, unemployment, inflation, export, import

**Introduction**

Ukraine, with its strategic location at the intersection of roads from Europe to Asia, educated people, developed infrastructure and inexhaustible natural resources, has all the details to become a developed country with a progressive economic development.

However, for more than three years, the Ukrainian economy is in crisis and continued external aggression. From 2014 on its powerful dynamics shake the negative consequences of alienation Ukrainian territory, economic expropriation of property, destruction of infrastructure, stopping production, reduce employment and forced migration. This is still preserved the openness of the national economy, reinforcing its vulnerability to a reduction in external demand and worsening in world commodity markets.

Most of all military operations reflected on the real economy - located in the eastern regions producing coal, metallurgical, machine-building, chemical industry, which provided a significant part of domestic industrial production and exports have suffered huge losses, destroyed a number of transport and logistics facilities.

As a result, in terms of growing of expenditures on national security and activation hybrid aggression, satisfactory growth in Ukraine can not ensure.

**Research results**

Aggravation of political and economic situation in Ukraine in 2014, which accompanied with the annexation of Crimea, the fighting in the east of the country and significant currency depreciation, were decisive for Ukraine: the destructive effects of hybrid warfare and disposal industry in eastern Ukraine have led to a critical drop of GDP at 28,1% (in foreign currency equivalent), or 6.8% in UAH [Statistics Service of Ukraine, 2017 (the inflation rates)].
The dynamics of macroeconomic indicators in 2014 was uncontrolled, falling of hryvnia sparked inflation at 24.9%. [Ministry of Finance of Ukraine, 2017]. However, the prices of many groups of goods, especially on imported, grew up in two or more times. Due to the fall in real incomes was a significant decrease in purchasing power; complicated relations with major trading partners. The unemployment rate was 8.9%. [Statistics Service of Ukraine, 2017 (the unemployment rate)].

There has been an unprecedented drop in foreign direct investment in Ukraine - from USD 4.5 billion in 2013 to USD 410 million in 2014 [Statistics Service of Ukraine, 2016 (the foreign direct investment)].

Negative macroeconomic trends have led to a significant reduction of industrial production, which for the year amounted to 10.2%. Demonstrated negative dynamics of all major types of industrial activity: the decline in production in the mining industry and development of quarries was 13.7%, in manufacturing - 9.3%, electricity and gas supply - by 6.6% etc [Uriadovyikurier, 2015].

Negative trends of the national economy, provoked by a new wave of crisis, also reflected on the banking sector.

During 2014 credit activity of Ukraine’s banks was low, which was due to the unstable political and economic situation in the country, reduced resource base, deterioration of the creditworthiness of borrowers and high level of uncertainty of economic development. [National rating agency, 2015]. The loans, which were granted in 2014 by domestic banks in Ukraine’s economy, rose to UAH 1,020,667 million to UAH 910,782 million of loans in 2013 [National Bank of Ukraine, 2017 (Monetary statistics of NBU)]. The main reason of meaningful credit growth, while reducing the number of banks has become a significant devaluation of the national currency, which in turn affected the increase in loan balances in the hryvnia equivalent. It should be noted that during 2014 the number of banks in Ukraine decreased to 17 and grew up to 163 banks at year-end.

The financial crisis in 2014 has also led to the increase in the share of problem loans in banks’ assets Ukraine, which at year-end was 13.5% and increased by 1.75 times.

Considering the significant dollarization of the economy of Ukraine, weighty value for both the population and legal entities is the exchange rate against the US dollar. At the beginning of 2014 the dollar was 8.2714 UAH /
USD, and by the end of the year the dollar was worth USD 15.76. This shows the actual rise in the cost of imported goods in Ukraine and reduce purchasing power, leading to increased poverty in the country [National Bank of Ukraine, 2017 (Archive currency courses)].

Critical reduce of macroeconomic indicators in 2014 negatively affected to 2015, which turned out to Ukraine even more difficult. The fall of real GDP in 2015 was 9.9%, but currency terms it was 31.3% [Uriadovyi kurier, 2015].

In 2015 compared to last year industrial production index was 86.6%. In particular, the mining industry output decreased by 14.5%, in manufacturing industrial production index was 86.9%, enterprises producing food products, beverages and tobacco output decreased by 11.2%. The greatest reduction in production of finished goods held in metallurgy, manufacture of fabricated metal products, except machinery and equipment - by 16.4% [Uriadovyi kurier, 2015].

Rapid inflation in 2015 at the level of 43.3% against a deep devaluation of hryvnia negatively affected on incomes and living standards or welfare. Compared to the 2014 year real incomes decreased by 23.5%. This affected to the retail, investment and households affected the prolonged decline in output. The unemployment rate at the end of 2015 rose to 9.1% compared to 7.2% in 2013 [Ministry of Finance of Ukraine, 2017 (the unemployment rate)].

Results of 2015 reflect the real situation on the credit market - volume of loans to banks in Ukraine’s economy amounted UAH 981,627 million, which was less lending to the beginning of the year to UAH 39,040 million, the volume of problem debts by the end of 2015 reached a critical point - 21.2% of the bank’s loan portfolio [National Bank of Ukraine, 2017 (the main indicators of Ukraine’ banks)]. That means that during 2015 the proportion of problem debts of banks increased by 1.57 times, which was evidence of a significant deterioration in the quality of loan portfolios banks in Ukraine and catastrophically heavy financial condition of the national banking system, and led to further bankruptcies of commercial banks, which at the end of 2015 left 120 to 163 banks at the beginning of the year.

At the same time, the amount of direct foreign investments in Ukraine in 2015 slowly began to recover and by USD 2.96 billion for the year [State Statistics Service of Ukraine, 2016 (foreign direct investment)].

Powerful years 2014-2015 reforms have helped to stabilize the economy and reduce large macroeconomic imbalances. However, poverty has increased
- from 3.3% in 2014 to 5.8% in 2015, while moderate poverty (World Bank calculated under the national methodology) increased from 15.2% in 2014 to 22.2% in 2015.

By the end of 2015 dollar increased to 24.0 UAH / USD (or by 1.52 times) [National Bank of Ukraine., 2017 (archive of exchange rates)]. Reduced purchasing power continued.

Positive trends in the economy of Ukraine emerged only in 2016: according to the World Bank, in 2016 Ukraine’s economy has stabilized, but growth rates remained low due to delay reforms, weak external demand and additional problems associated with military conflict that still continues. During 2016 the economy increased by 1.5% [State Statistics Service of Ukraine, 2017 (Gross Domestic Product), but the growth has not become sustainable.

In 2016 there was a growth of the industrial production index to 102.4% compared to 2015. The largest increase in industrial production in 2016 was held in the business of manufacture of coke and refined petroleum products - 8.1%. In manufacturing industrial production index was 103.5%. At enterprises for the production of food, beverages and tobacco products increase amounted to 3.9% [Uriadovyi kurier, 2016].

Inflation in 2016 was reduced to 12.4% [Ministry of Finance of Ukraine, 2017 (the inflation rates)]. It should be noted that the slowdown of inflation from 43.3% in 2015 to 12.4% in 2016 was achieved by gradually lowering the real money supply.

The unemployment rate was 9.2%. The number of registered unemployed at the end of 2016 amounted to 390.8 thousand people, including assistance in connection with unemployment received 81.2% [Ministry of Finance of Ukraine, 2017 (the unemployment rate)].

Export and Import continued to decline during the first half of 2016 due to falling world ching on raw products, but the current account of the balance of payments remained almost balanced. The devaluation of the national currency, economic recession, and administrative measures helped reduce imports and helped to reduce the deficit of the current account deficit to 0.2 percent GDP in 2015 compared to 3.5 percent in 2014.

The total amount of banks’ loans in Ukraine by the end of 2016 amounted to USD 1 005 923.04 million and increased by UAH 24 296.04 million compared to the previous year. This is despite a further reduction in the number of
operating banks, which at the end of 2016 left 96 [National Bank of Ukraine, 2017 (The main indicators of Ukraine’ banks)].

During the year the systemic risks for the Ukrainian financial sector declined, both external and internal macroeconomic environment was favorable, which resulted in the stabilization of the exchange rate of the dollar, which is held throughout the year in planned limits. Last year, the national currency fell from 23.4 UAH / USD to 27.1909 UAH/USD, but the currency jumps are not caused panic among the population. Ukrainian sold more currency than bought. In critical situations, the NBU went on the interbank market with the interventions and not let fall rate below the acceptable level control.

The stabilization of the macroeconomic situation contributed to the growth of direct of foreign investments into the country, the total amount of which in 2016 amounted to USD 4 405.8 million [State Statistics Service of Ukraine, 2016 (foreign direct investments)]. The largest investment came from the Russian Federation - USD 1 667.0 mln. (37.8%).

Therefore, Ukraine’s economy in 2016 has shown a steady growth in reducing inflation, what showed the beginning of way out of the protracted crisis. The main results of 2016 were macroeconomic stabilization and beginning of a slow economic recovery, renewed GDP growth, inflation was controlled and targets within the National Bank, making bank deposits again appealing to the public, and losses of the banking and corporate sectors declined.

However, for a noticeable improvement of life of the population required more rapid economic growth, what means more reforms and combat corruption effectively.

The dynamics of main macroeconomic indicators Ukraine for 2008-2016 years is shown at picture 1.
Analysts predict that Ukraine’s economy in 2017 will continue the trend of recovery after a positive change in 2016. Ukrainian government and leading economists expect that in 2017 GDP will growth by 2.1%, industrial production will grow by 2.5% while inflation will slow to 10% from 12-13% in 2016 [Finance.ua, 2016]

In 2017 experts predict a rise of foreign reserves to USD 17.3 billion from USD 15.5 billion dollars in 2016. This average annual hryvnia exchange rate to the dollar will also be kept in projected within 27-30 UAH / USD [Finance.ua, 2016].

The International Monetary Fund and the European Bank for Reconstruction and Development also updated economic forecast for Ukraine for 2017. It is expected that Ukraine’s economy will grow by 2.5% (now - 1.5%) and inflation by the end of 2017 will amount 8.5% (currently - 12.3%) [Interfax-Ukraine, 2017].

The external debt is projected at level of 136.3% of GDP (now - 141.3%) and the consolidated budget deficit (including SOEs) will be at level of 4.4% (3.7% now). The unemployment rate could fall to 8%, as will be more working places [Interfax-Ukraine, 2017].

But if the war will going or the stability of the banking system will be broken, the economy may be back in stagnation. And all that while health Ukraine is stable, but not yet strengthened enough to easily experience new shocks.
This means that in 2017 Ukraine, which is in the process of reforming and reflects external aggression, not show explosive growth, but the pace of recovery will accelerate. This inspires moderate optimism. In the case of full economic recovery restrain the high bank lending rates, weak income growth, low domestic demand and significant foreign exchange restrictions NBU.

However, except of internal factors that encourage economic development, external factors of global environment have also a significant impact on the economy of Ukraine, which are quite pessimistic for the near future.

Thus, in 2017 the total projected deceleration of global economic will grow, which is called “debt decline.” The IMF lowered the forecast of world economic increasing by 2.9%. Problems in the EU countries’ economy do not give grounds for the return of capital flows to the region, but the rise in business activity is not yet expected. This will accelerate to the reallocation of US investments.

Analysts unanimously say that restorative may increase, while real economic growth for our country will need investment, but they are not possible without a judicial reform, without successful privatization and strengthening investor protection. According to estimates, including EBR, Ukraine needs financial resources for development is about 100 billion EUR. As follows, next year, the prospects for the Ukrainian economy will still largely be determined not by economic and political factors.

However, Ukraine is extremely requires financial investment into the economy for the sake of restoring it. Therefore, in 2017 it is extremely important for Ukraine to continue cooperation with the IMF and other official creditors. Moreover, the chance to enter foreign capital markets in 2017 are not very large, but if in the event of termination of cooperation with the IMF, the chances will virtually disappear.

In view of the trend of economic growth Ukraine in 2017 will be entirely dependent on investment and export. The internal demand will recover slowly because of tight monetary policy and weak loans.

However, the return of Ukraine on the path of sustainable economic growth is one of the main priorities of the government, while public expectations regarding the content and phasing of economic reforms is patchy and inconsistent.

For the transition from economic stabilization to its steady recovery and proper welfare for the population, will have to be solved the long standing
structural problems to overcome, such as macroeconomic instability, slow growth in labor productivity and inefficiency of social services.

In order to increase productivity, it’s necessary to increase public investment, to ensure equal conditions for the private sector, to reform land management and promotion of international trade.

To improve the efficiency of service delivery and targeted assistance to the population, it’s necessary to actualize health care reform by financing, to implement effective decentralization and to strengthen targeted social assistance.

Fighting corruption and improving the quality of governance also have to be the main priorities towards sustainable recovery and public welfare.

Moreover, it’s necessary to remove the most important sources of fiscal risk for software of macroeconomic stability: to expand the tax base, reform the pension system, reduce quasi-fiscal deficits and restore stability to the financial sector.

In the medium term for ensure sustainable economic growth at level of 3–4 percent required deeper structural reforms, which can restore investor confidence and increase the productivity of the economy. Real currency depreciation combined with reforms aimed at improving the business environment will boost competitiveness that would be useful in the development of more developed markets such as the EU market and promote the recovery of exports.

However, the risks of this forecast are significant, and include the possible revitalization the fighting, a further deterioration of external conditions, delaying reforms. Is predicted that in light of the quite moderate economic growth poverty would also decline moderately and remain high until 2018.

In subsequent years, in order to preserve macroeconomic stability and ensure a gradual reduction of the debt burden, fiscal policy in Ukraine must ensure deficit reduction to 2.6% of GDP in 2018. Although tight control over budget expenditures in 2014-15 in conjunction with increased tariffs showed good results, future steps should be focusing on deep structural reforms and address the causes substantial budgetary risks.

It is expected that external risks remain significant. Ukraine will require additional external financing in order to cover the net repayment of foreign loans in the real sector, which is estimated at about USD 8 billion each year during 2016-2018. Therefore, the continuation of cooperation with the IMF
and other international lenders remain important for the recovery of international reserves and increased investor confidence.

However, no crisis situation in Ukraine changes the fact, that Ukraine and Poland are neighbors. And for centuries between the countries there is an active cooperation, especially in trade. According to the State Statistics Committee of Ukraine for 2016 Poland remains the largest trade partner of Ukraine in Central and Eastern Europe and, as in previous years, the fourth largest import and export partner of Ukraine in the world (after Russia, China and Germany).

It should be noted that volumes’ growth of bilateral trade in goods over the 2016: for 12 months. of 2016 Ukraine’s turnover from RP increased over the same period in 2015 by 13.7% and amounted to USD 4892.9 million. The volume of Ukrainian exports to the Republic of Poland amounted to USD 2200.2 million (compared to the same period in 2015 - an increase of 11.3%) and Polish imports - USD 2692.7 million (compared to the same period in 2015 - an increase of 15.9%). Ukraine’s negative balance of foreign trade with the Republic of Poland for 12 months 2016 was USD 492.5 million [Ministry of Finance of Ukraine, 2017 (Ukrainian-Polish trade and economic cooperation)].

The volume of trade between Ukraine and Poland are presented in Table 1.

Table 1. Trade between Ukraine and Poland

<table>
<thead>
<tr>
<th>YEARS</th>
<th>The volume USD mln.</th>
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<tr>
<td></td>
<td>Export to RP</td>
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<tr>
<td>2010</td>
<td>1 787,2</td>
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<tr>
<td>2011</td>
<td>2 794,1</td>
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<tr>
<td>2012</td>
<td>2 576,2</td>
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<tr>
<td>2013</td>
<td>2 547,8</td>
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<tr>
<td>2014</td>
<td>2 645,0</td>
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<tr>
<td>2015</td>
<td>1 977,5</td>
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<td>2016</td>
<td>2200,2</td>
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Source: [Ministry of Finance of Ukraine, 2017].

The main export commodity groups for 12 months of 2016: ferrous metals (19.3%); electrical machinery (12.5%); ores, slag and ash (8.8%); wood and wood products (8.5%). In the commodity structure dominated by imports, mineral fuel, oil and refining products (15.9%); plastics, polymeric materials
(9.2%); electrical machinery (8.8%); nuclear reactors, boilers, machinery (8.7%); transport means, except rail (3.6%).

Dynamic of export-import operations between Ukraine and Poland in 2008-2016, shows in pic. 2.

According to the State Statistics Committee of Ukraine, during 2016 the amount of direct Polish investments in Ukraine’s economy amounted to 25.8 million USD, representing 1.3% of total foreign investment in Ukraine.

![Picture 2. Export-import operations between Ukraine and Poland in 2008-2016](Source: Ministry of Finance of Ukraine, 2017)

During 2016 the largest volumes of Polish investments were involved in the following economic activities: financial and insurance activities (45.5%); industry (33.5%); wholesale and retail trade, repair of motor vehicles and motorcycles (9.7%); agriculture, forestry and fishing (3.9%); administrative and support services (1.8%) [State Statistics Service of Ukraine, 2016 (the dynamics of Ukrainian-Polish investment cooperation)].

Table 2. The dynamics of Ukrainian-Polish investment cooperation (direct investment) in 2006 - 2016

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<tr>
<td>From RP to Ukraine, USD mln.</td>
<td>366</td>
<td>670,5</td>
<td>694,7</td>
<td>864,9</td>
<td>935,8</td>
<td>875,5</td>
<td>16,4</td>
<td>845,4</td>
<td>831,2</td>
<td>785,9</td>
<td>811,7</td>
</tr>
<tr>
<td>From Ukraine to Poland, USD mln.</td>
<td>24,2</td>
<td>30,1</td>
<td>46,9</td>
<td>49,4</td>
<td>49,1</td>
<td>48,2</td>
<td>54,2</td>
<td>56,4</td>
<td>52,6</td>
<td>50,1</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: [State Statistics Service of Ukraine, 2016].
At the same time in 2016 into the Polish economy was invested USD 0.9 million of direct Ukrainian investments, what represents 7.5% of total Ukrainian investment abroad. However, according to available information, the actual volume of Ukrainian investments in Poland, which are not included by Ukrainian statistics for various reasons, more than USD 1 billion.

The largest Ukrainian investment projects in Republic of Poland are: steel works “Huta Czestochowa” (investor - “ISD”), Shipyard “Holding Gdańsk” (investor - “ISD”), “Guta Pokuy” (investor - the group “Privat”), plant lighting “Helios” (investor - “Spark”), plodopererobnyy plant “TB Fruit Dwikozy” (investor - the company “TB Fruit” (the owner of the trademark “Apple gift”), Mazowiecki cheese factory “Ostrowia” (investor - group of companies “ Milkiland”) [State Statistics Service of Ukraine, 2016].

Conclusions

Therefore, analyzing the trends of Ukraine’s economy during the recent years and relying on the analytical forecast of development of our country, we come to the following conclusions.

Ukraine’s economy slowly starts to come out of protracted crisis, which began in 2014 with the political instability and military aggression in Crimea and East state. Although economic growth is not very noticeable to the state’s population, but the GDP shows strong growth in recent years 2016-2017. And the main macroeconomic indicators have improved significantly over the same period (inflation, unemployment, exchange rate, etc.). And despite of the presence, many problems have to be solved: to eliminate corruption and bureaucracy, increase productivity and efficiency, create a favorable investment climate for foreign investments, etc. The Ukraine’s national economy are aimed in the right direction - the development and prosperity.

References


