Proposals for Ukraine: 2010 – Time for Reforms

Anders Åslund
Senior Fellow
Peterson Institute for International Economics
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Key Problems

1. GDP per capita in current prices: $2,540 per capita in 2009, 110th in world; PPP $6,460 and 99th in world: Ukraine is underperforming.

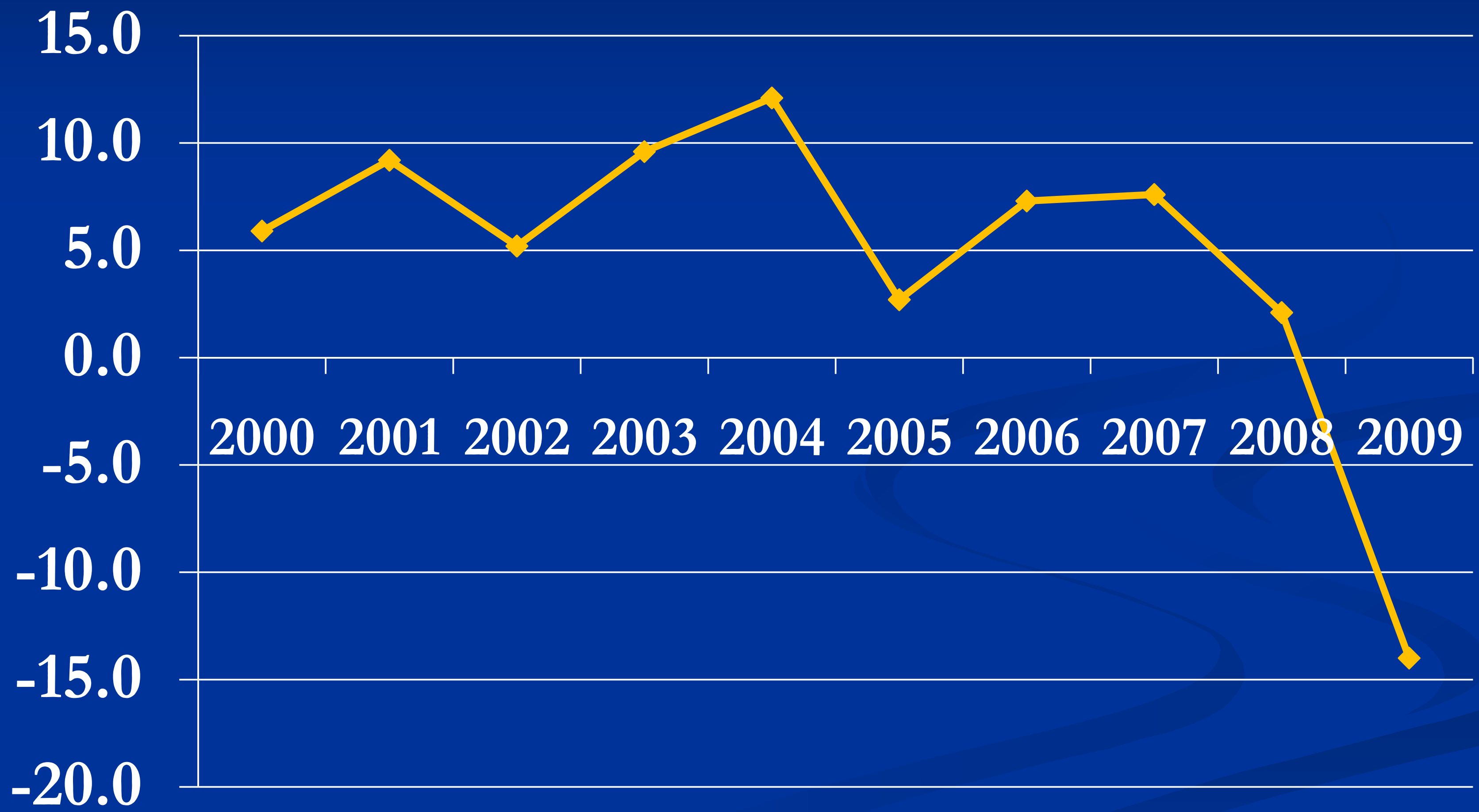
Key Problems

2. Poor business environment: 142nd of 183 countries on Doing Business Index; 146th of 180 countries on Corruption Perception Index

Key Problems

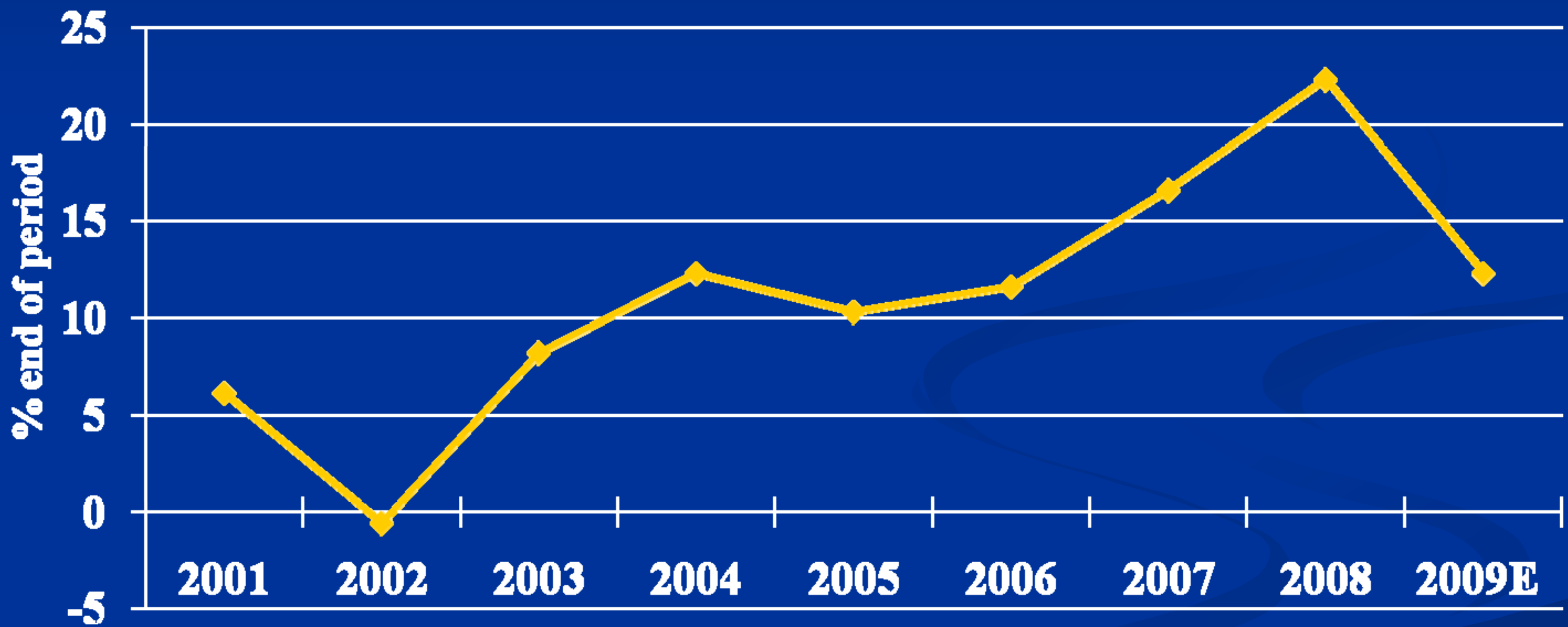
3. Reform laggard: poorly functioning state
4. Hard hit by financial crisis: GDP -15% in 2009

GDP 2000-2009



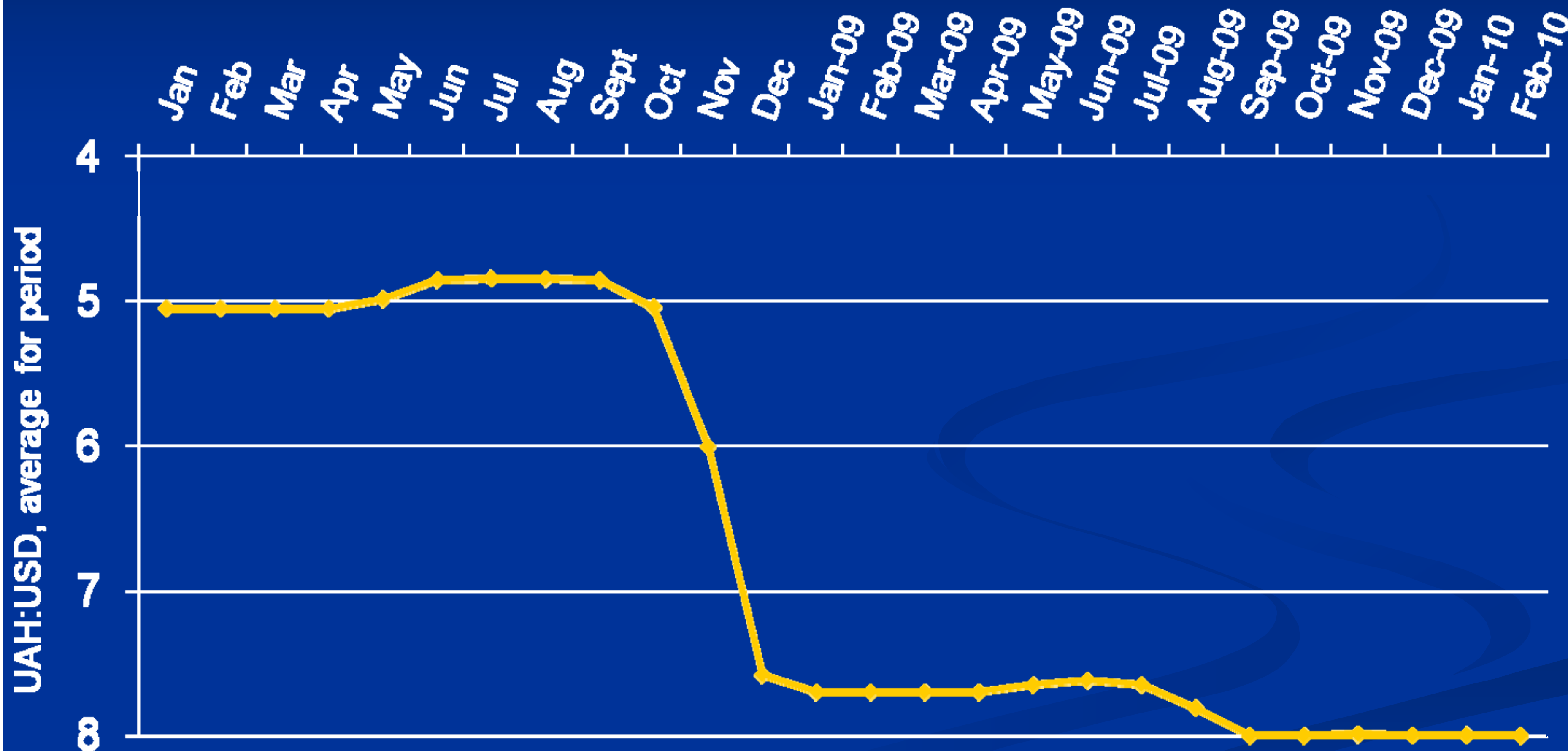
Source: EBRD and the IMF, accessed October 2009 and January 2010

Inflation Peaked at 31% in May 2008; 11% in Jan 2010



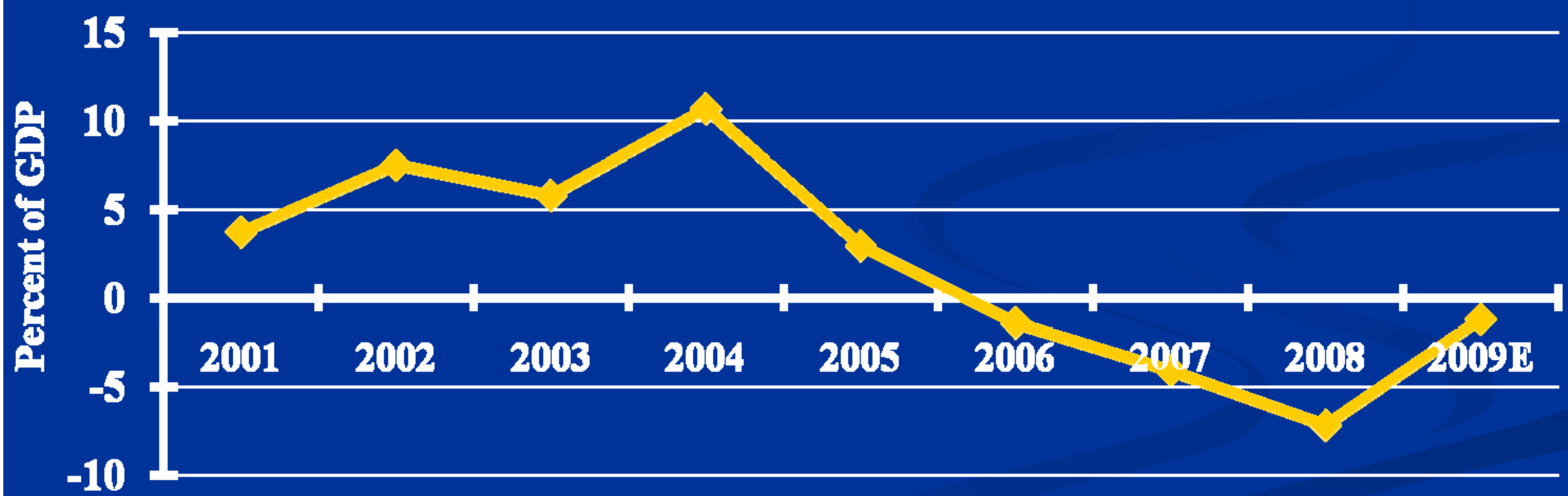
Source: Dragon Capital, April 2009 & January 2010

Exchange Rate Adjusted & Stabilized



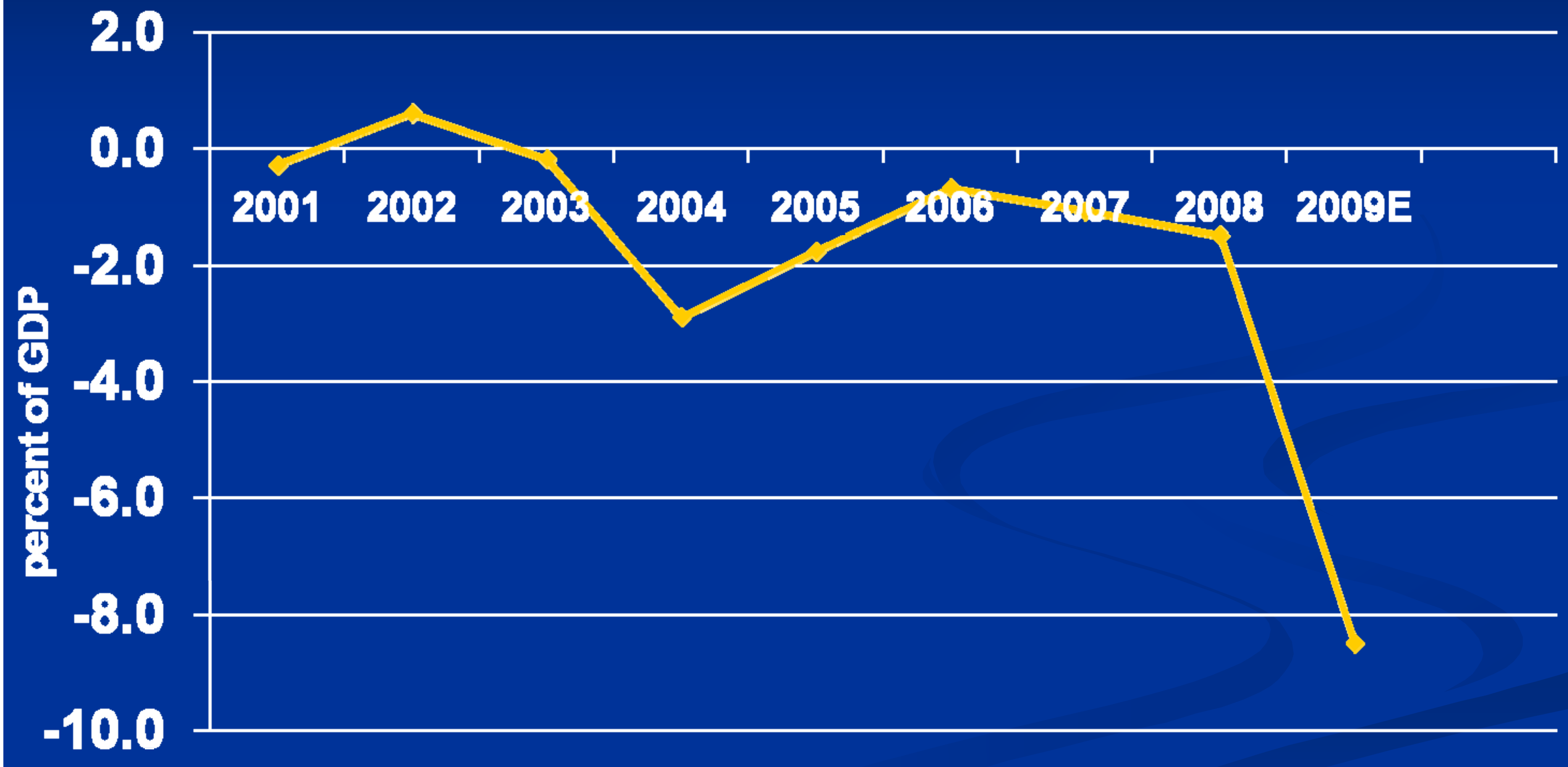
Source: Ukrainian State Committee on Statistics, April & December 2009 & February 20

Current Account: -7.2% of GDP in 2008; - 1% in 2009



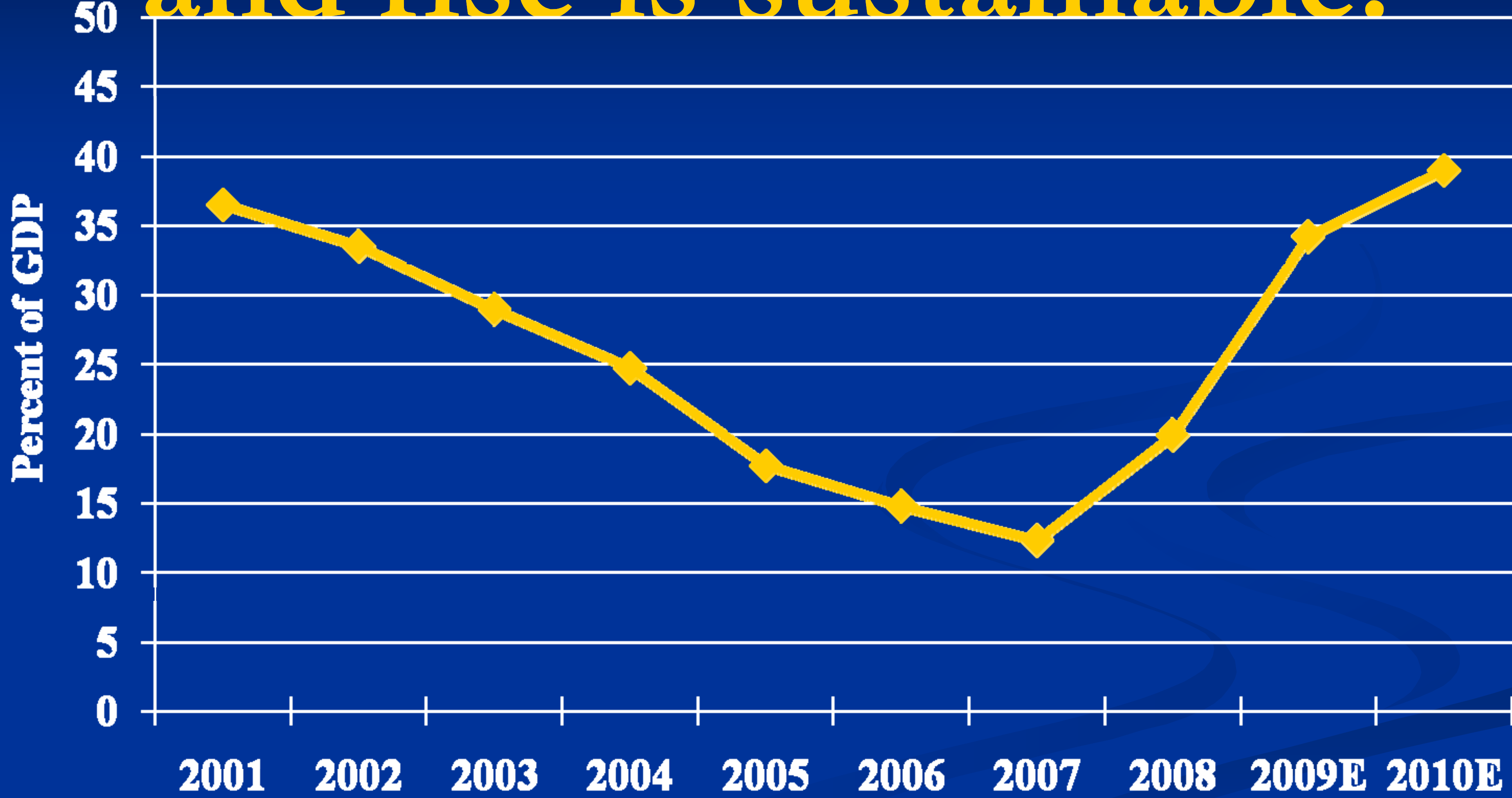
Source: Dragon Capital, April 2009 & January 2010

The budget deficit has ballooned: 8.5% of GDP in 2009?



Source: Dragon Capital, April 2009 & January 2010

Public debt was minimal and rise is sustainable.



Source: Dragon Capital, April 2009 & February 2010

Assets

1. Open market economy
2. European location
3. Highly educated labor force

Constraints & Solutions

Limited policymaking capacity:

1. Reform Commission needed at Cabinet of Ministers.
2. Clear, few, and simple policy priorities.
3. Use IMF, EU, and World Bank as external anchors for reform.

First things first!
Seek simplicity and efficacy!

Ten Top Priorities

1. Carry out gas reform!
2. Make the National Bank of Ukraine independent!
3. Move toward inflation targeting!
4. Cut public expenditures!
5. Undertake comprehensive deregulation of enterprise!
6. Conclude a European Association Agreement!
7. Get privatization going again!
8. Legalize private sales of agricultural land!
9. Adopt a Law on Public Information!
10. Complete the modern commercial legislation!

Carry out gas reform!

Agreement with EU of March 23, 2009

- Raise prices (save 3% of GDP)
- Divide transportation and production
- Improve governance
- Provide social compensation

Macro Priority: No More Financial Crisis

2. Make the National Bank of Ukraine independent!
3. Move toward inflation targeting!
4. Cut public expenditures in 3 areas!
   - Raise energy prices – 3% of GDP
   - Cut enterprise subsidies – a few % of GDP
   - Trim pensions of now 16% of GDP

Advance 40 steps on Doing Business Index in 2010!

1. Starting business: From 27 days to one day!
2. Facilitate liquidation of enterprise!
3. Facilitate construction permits: from 30 procedures to fraction!
4. Facilitate registration of property from 10 to 3 procedures!
5. Minimize licensing!
6. Minimize required permits!

European Association Agreement

- Deep and Comprehensive Free Trade Agreement
- Regulations and standards
- Twinning of government agencies
- Erasmus Program scholarships

Privatization

7. Get privatization going again!
8. Legalize private sales of agricultural land!

Adopt a Law on Public Information!

Transparency = Best way of fighting corruption

Complete modern commercial legislation!

- Adopt Law on State Procurement
- Adopt Law on State Aid
- Adopt the draft Tax Code
- Adopt the draft Customs Code
- Adopt a Law on Limited Liability Companies
- Abolish the Economic Code

Conditions for Reform

1. Just after presidential elections: Yes!
2. Crisis still effective: Yes!
3. Workable parliamentary majority?

Political Equilibrium

- Advantage: Broad consensus on domestic policy
- Problem: Nobody can govern

The question is not what to do but who should do it.

The main risks rest in domestic politics.

- No coalition formed?
- No government?
- New parliamentary elections?

Three Conclusions

1. Reform Commission needed
2. Clear Reform Priorities vital
3. Use international anchors: IMF, EU, and World Bank

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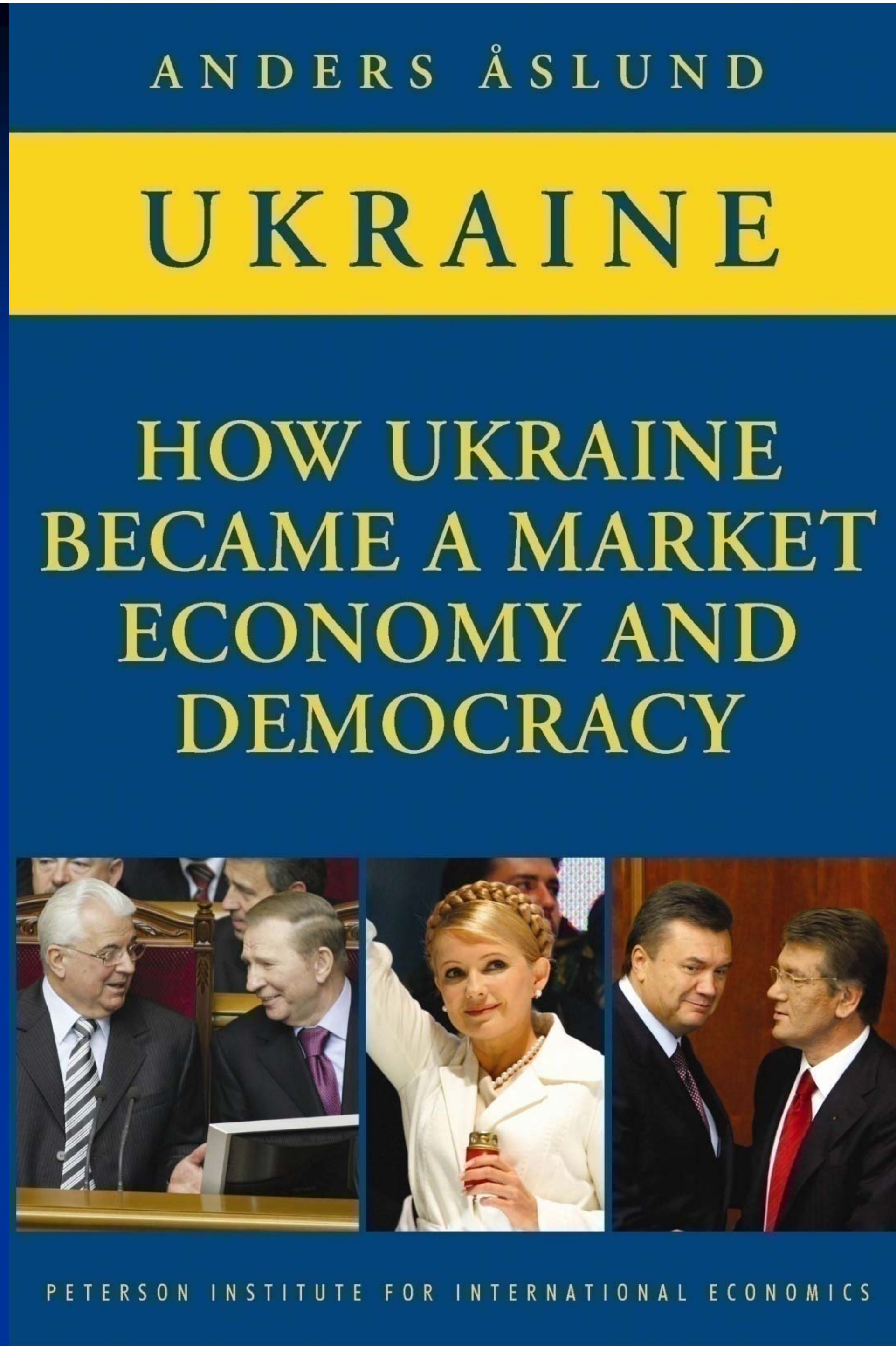
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