Unedited Event Transcript

Book Release: *Ukraine: What Went Wrong and How to Fix It*

Anders Åslund, Peterson Institute for International Economics
Natalie Jaresko, Minister of Finance of Ukraine
Aivaras Abromavicius, Minister of Economic Development and Trade of Ukraine

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Adam Posen: Good morning ladies and gentlemen. If I could ask everyone to take their seats and our distinguished guests, including the two ministers, to come to the front.

It’s my point of privilege and pride to welcome you back to the Peterson Institute for International Economics. I’m Adam Posen, President. And we’re here today for a very important, timely, those are words you hear often, but true in this case, discussion. We are launching the new book by Anders Åslund, *Ukraine: What Went Wrong and How to Fix It*, which is a blunt into the point title, much like our colleague Anders Åslund and more on that in a moment.

But we are also today, honored to have with us Natalie Jaresko, the Minister of Finance in the current government of Ukraine, and Aivaras Abromavicius, again, forgive my pronunciation, Minister of Economic and Development and Trade in Ukraine. I will say just a few words about each of them because the emphasis will be on getting their conversation going with all of you.

But before that I would just note that Anders Åslund has been at the forefront of discussions of the Ukraine and Russian economies in the West, as well now as in Ukraine, and it is a sign of the high praise and regard the Ukrainian leadership has for Anders that we were able to combine the two ministers’ remarks with the release of the book, again, *Ukraine: What Went Wrong and How to Fix It*. When I herald it up the third time, you should go to Amazon and click, for those of you who are not here in person getting a free copy. Thank you Minister. That’s capitalism at work people, watch that.

Speaking first today will be Natalie Jaresko, who has come up to the scene as a distinguished guest with us this morning, just said to me she’s a rock star. She was appointed Minister of Finance in Ukraine in December, 2014, an act of selfless heroism. She previously worked in the private sector, first as President, Chief Executive Officer of Western Newly
Independent States Invest Enterprise Fund, and in 2006 she co-founded Horizon Capital, where she served as a Managing Partner and Chief Executive Officer.

Prior to taking these leadership roles in frontier investment in transition Europe, she was, from 92 to 95, Chief of the Economic Section of the US Embassy in Ukraine, however she was born, like my wife, in Chicago, so we will—also a hotbed of Ukrainian Nationalism as well.

She will give us first some remarks emphasizing where the economic situation and programs stand.

She will be followed by minister Abromavicius, who was appointed Minister of Economic Development and Trade in December, 2014, as I said, about Madame Jaresko, also a brave act of selfless leadership. Previously he was a Fund Manager and partner of East Capital Asset Management Group. He grew up in Lithuania, has worked in Estonia, Sweden, Russia and Ukraine, in the financial sector, and brings that combination of real-world experience and what is capable in the transition to Ukraine. And we’ll be delighted to hear his remarks, including on the impressive moves that the Ukrainian government has made in the energy sector.

And then finally, get your clickers ready, we will release *Ukraine: What Went Wrong and How to Fix It*, by Anders Åslund, who is a Senior Fellow here at the Peterson Institute. He has been following the Ukrainian closely since 1985, which is a claim that few can make. He’s published numerous volumes on transition economies in Eastern Europe, including this last fall he and Simeon Djankov, who is a visiting Fellow here at the institute had a marvelous book called, *The Great Rebirth*, going through the experiences of the major reformers in Eastern Europe and from an analytical perspective.

He’s previously written one book and co-edited two about Ukraine, and he’s been chair of various blue ribbon commissions on Ukraine. And again, not to belabor this, the fact that we are able to combine the two ministers with Anders’ book release is a statement of the influence his work continues to have.

So, I will go directly now to Minister Jaresko. Thank you so much for joining us here at the Peterson Institute.

**Natalie Jaresko:** Good morning ladies and gentlemen. I hope you’ve all had some coffee, and I’d like to thank you and President Posen for your kind invitation and thank all of you for participating during this very busy week in Washington. It’s a great honor for me to be with you today at the Peterson
Institute on the occasion of the launch of Anders’ book, his latest book on Ukraine.

Not only is the Peterson Institute the most renowned economic think-tank in the world, but it’s also the most passionate DC institution with regard to Ukraine, and we’re extremely appreciative of that. Anders is a fabulous scholar and probably the most prolific respected author on Ukraine’s economy. And as a genuine and long-standing friend of Ukraine, I think he’s doing what friends should do, he congratulates when things go right, and he critiques when things go wrong. If there’s one thing everyone agrees about when it concerns Anders, is his courage and absolute bluntness in expressing his thoughts. So I fear that he’s following me and Aivaras, because everything we’re going to say is going to be critiqued afterwards. I hope that he will also be encouraging.

Adam and Anders have asked us to give a few remarks about the economic situation and the reform process in Ukraine. I’m extremely happy to do it in tandem with Aivaras, not only because he’s a brilliant Minister of Economy, but also because he’s a dear friend.

I’d like to tell you first about the macro-economic situation in Ukraine and what I believe it takes to get the country back on its feet. I will give you a flavor of just some of the reforms, because frankly, there have been so many I can’t even give you in this period of time all of them, that we have started implementing under our very still new government. Aivaras will then build on that and give a deeper dive into our plan on how we’ll revitalize our economy and return to growth.

As you all know, Ukraine’s economic situation is extremely serious. In 2014, our GDP contracted some 7.0%, with an even sharper contraction in the fourth quarter. GDP this year is projected, at best, to fall another five and a half percent, and inflation is expected to be some 30%. The depreciation of Ukraine’s currency by as much as 70% at one point during this year, and official borrowing levels are expected to push public sector debts to dangerous levels. And on top of this, Ukraine’s reserves of foreign currency were down to a little more than $5 billion before the first IMF tranche arrived in March. The first IMF tranche doubled our reserves.

The current economic crisis though, is a result not of one but of four successive catastrophes. First, Ukraine had 74 years of Communism and dysfunctional planned economy. Second, it was followed by 23 years of uncompleted reforms, poor economic leadership and the lack of rule of law. Third, during the last five years of Yanukovych’s regime, the wealth of the country was systematically stolen to a degree that has never been seen before, on top of amassing huge quantities of debt, which we are now in a position to having to pay off. And finally, Ukraine is suffering a
devastating year of war, a year that has killed more than 6,000 people, injured more than 15,000, displaced more than 1.1 million people and crossed 20% of our economy. That is a lot for one country to live through.

Ukraine is traumatized, and the role of our government is to act in a triage mode. First, to deal with the trauma. Second, to get the patient back on its feet, and third to get that patient running once again, not walking, but running. And the challenges we’re facing with these three problems need to be tackled simultaneously, while we continue to be wounded in a war in the East. There is no alternative for our government but to succeed. It is simply a question of our national survival.

Out of the three steps I’ve just described, we’ve managed to achieve the first step, which is to treat the trauma and we’ve done this thanks to the agreement we’ve reached with the IMF. Before this, we were near a full-blown financial meltdown with the rapid depreciation of the Hryvnia our local currency, and dwindling foreign reserves.

In March, as most of you are aware, we did reach agreement with the IMF on a $17.5 billion, 4-year extended fund facility, which in turn helped unlock an additional bilateral, multilateral $7.5 billion. This IMF program was agreed within the Ukrainian government and it is our road-map. We own our road-map for our path of reforms. This new 4-year program will allow us to stabilize our macro-economic situation, and then create the conditions for a return to growth in 2016. The IMF has already disbursed $5 billion, and will disburse up to $10 billion during the course of this first year to help jump-start the economy. And the first and most immediate impact of the program was to stabilize the reserves of our foreign currency, which helped in turn to calm the international markets and helped to return confidence in our economy.

In short, the IMF agreement helped us to treat the trauma, but this IMF agreement actually does more than that. It provides a road-map for the next two steps. In order to have Ukraine recover, the priority is to ensure the midterm sustainability of Ukrainian debt. This is the reason why in agreement with the IMF, we’ve launched debt restructuring, negotiations with our sovereign bond holders. Let’s look at the math for a moment.

The IMF program estimated our needs for the period 2015-2018, at some $40 billion. Out of this $40 billion, a fresh $17.5 billion comes from the IMF, $7.5 billion is coming from our bilateral multilateral donors, and the remaining gap of $15 billion needs to be filled. We’re engaging in these consultations, these negotiations, with our bond holders to generate that $15.3 billion in savings in public sector financing for the 2015-2018 period. And this restructuring will indeed include a combination of maturity extensions, coupon reductions, principal reductions. We are
flexible, we are open for solutions on how we combine these three measures to hit the IMF program targets, but I have to emphasize, these targets are written in stone.

This might be painful for some, but it is eventually in everyone’s interest. It’s in everyone’s interest to ensure the long-term debt sustainability of Ukraine. It’s all in everyone’s interest to ensure Ukraine is able, with time, 2017, 2018, to return to the markets. We will not repeat the mistakes of Greece and Argentina. Debt restructuring is inevitable and cannot be postponed, and we want to start and finish the job right. Our return to capital markets will be much more assured if we’re grounded in realities and not hopes.

Now let’s talk about the third step. The third step is recovering, getting our patient up and running at full speed. In this case, it means a flourishing, prosperous Ukraine with investment pouring in, economic growth, job creation, decreasing poverty and increasing the purchasing power of the average citizen on the streets of Ukraine. And this requires fundamental change in the legal, administrative, and financial conditions, to ultimately create a business-friendly environment free from corruption, fraud and criminality. In a word, it means completely reforming Ukraine’s economy. We cannot wait for our patient to be back on its feet to start these necessary reforms. We must act now, we have no choice. We’ve made substantial progress over the last year and an even more ambitious program has started with the implementation under the new government. We could talk for hours about the past, present, and future reforms. I’ll name just a handful of them focusing on energy, fiscal policies, transparency and rule of law.

In the energy sector, as an example, we’ve slashed the deficit of our state-owned energy monopoly, Naftagas, from $10 billion last year to $1.5 billion in this year. We’ve also agreed to wipe out that deficit, and by next year move to a fully stable, non-deficit state oil and gas monopoly balance sheet. We’ve achieved this financial performance by taking three very critical decisions. First, we’ve reduced our energy consumption and improved our energy efficiency. Second, we’ve diversified our gas supply; today almost two-thirds of our gas is being imported from Europe, whereas Ukraine used to be nearly 100% dependent on Russian gas. This is important not only from a diversification standpoint and national security, but also financially because the European gas is in fact, substantially less expensive than Russian gas.

And third, we’ve eliminated a major source of corruption in this area, by eliminating the intermediaries that used to be, for 23 years, siphoning hundreds of millions of dollars in the purchase and sale of gas from abroad. Just last week a new law was adopted by the parliament that
unbundles the natural gas market under the third European Energy Charter. We will separate the gas extraction, transportation and distribution functions, and we have demonopolize the energy sector. This will also limit the state’s involvement in the wholesale gas market; something that everyone’s been waiting for decades.

This is the first Ukrainian government since 1991 to substantially increase tariffs; tariffs, I mean household prices for gas. And our government is committed to get into full economic cost recovery within two years’ time. In April of this year we increased residential gas tariffs on average by 450%.

I don’t know if anyone can understand, but I’ll say that I spoke on a panel the other day at the World Bank, where other governments were talking about their elimination of energy subsidies, which we all need to do, and they were bragging about increases of 10%. Please understand that an increase of 450% and just [inaudible 00:14:03] tariffs by 70% is enormous. But it is critical for us to improve energy efficiency, reduce the corruption schemes in the gas distribution network, and it can only be done if we effectively and efficiently provide the social assistance to our most vulnerable citizens. We’ve moved quickly to make a simplified process for our citizens. It’s obviously much better funded this year; we funded it almost in three times greater amount, and we are prepared to continue that as we pass on the cross to the citizens.

What’s most important to remember, is that that cross was being paid by the citizens in any case previously. It was being paid by our financing a deficit of Naftagas, which in essence created inflation, which in essence hurt the consumer purchasing power. And it’s much better for us to be providing a transparent subsidy to our individual citizens than providing an untransparent subsidy, that has a negative effect on the entire economy to the state-owned company.

In March we launched a review of our oil and gas royalty scheme, an area where we know we’ve raised concerns and that we know, for international investors and domestic, we need to introduce a new competitive taxation approach that’s both fiscally sound and will encourage investment into our domestic energy production.

On the second area of fiscal policy, we started an entire review of our tax policy. The goal of our fiscal reform plan is to broaden the tax base and more fairly share the tax burden, while balancing the need obviously, for revenues. We’re financing a major national security budget, and our social expenditures are growing. But with that said, we want to ensure that this new tax system is also business-friendly.
What are we doing? We’re doing three things to start with. Number one, trying to bring more of the shadow economy into the formal economy. There’s no reason why legal businesses are paying their fair share of taxes, and 40% of the economy is avoiding participating in their duty of financing the budget. In order to this we’ve provided them with payroll tax breaks to try and encourage them to come in out of the shadows. We’ve also simplified the tax system from 20 to 11 taxes, trying to eliminate the ability to optimize. We’re also hiring a new head of tax authority, so if you have your resumes with you and you’re interested, please leave them on the table outside. Good candidates are always, always necessary.

We’re ensuring that everyone pays their fair share by closing fiscal loopholes for big business. We eliminated and regulated the transfer pricing, which for years enabled big businesses to transfer their profits abroad and avoid paying their fair share of taxes in Ukraine. So we’ll hopefully eliminate the exploitation by big business of their tax responsibilities.

Lastly, I'll say, a new electronic VAT system has been introduced, again to increase transparency, reduce fraud, that cost the government last year and has made a billion dollars in lost tax revenues.

On transparency, and I think transparency is something that our government will be pushing in a very hard fashion going forward, last week alone, our parliament approved an important piece of open-data legislation to improve administrative transparency. And we’re implementing public procurement reforms with controls, training, transparent tendering process, including a government in many ministries, moving from ministry to ministry. And the legislation covers something more important, which is granting public access to company registers, forcing the disclosure of beneficial owners by the end of May of this year.

And all of this has to be followed by a major rule of law reform. Improving rule of law is at the core of all of the policies in all of the ministries. In the financial sector we’ve adopted legislation to resolve failing banks more quickly, on a more transparent fashion, putting more justice into the financial system, so that when owners of banks use fraud or criminal activity to defraud depositors of their savings, not only will the state standby its guarantees with regard to the guarantee of deposits, but we will go after those people who have misused the system and defrauded depositors.

We will be able to pursue and recover assets under this new law from the bank owners and bring them to justice, at the same time ensuring citizens that hopefully that stick will enable us to avoid that going forward.
We’ve set up a new law enforcement agency, and yesterday the president announced the new CEO, the new head of this national anti-corruption bureau. It is fully funded in the budget, that’s my area, at Western salary levels, so we can hopefully avoid any corruption within the agency itself. And I think this is the beginning of the big stick in our anti-corruption efforts.

There is an enormous amount of carrot as well, which is the policy area of transparency. It’s also the national reform of our police system on the Georgian model. So I think there’s both carrot-and-stick in our anti-corruption.

I’ll stop here and I’m sure Aivaras will tell you more about the things that are making our environment more business-friendly. I’d like to conclude my remarks by saying that our reform process can only be achieved with the collective support of the international community and we’re extraordinarily grateful for the role that the United States has played, continues to play and I know will grow as we move forward.

I’ve been asking the US government for several days now to continue and increase its support in three primary areas. First, we will need more financial and humanitarian assistance. The $17.5 billion US-IMF program is less than half of the $40 billion total package. The US government’s provided $2 billion in additional credit guarantees for which we’re extremely grateful and we hope this contribution will continue to increase.

Second, Ukraine needs defensive military equipment and training to protect the lives of our military and of our civilians to ensure peace and to defend our freedom and our territorial integrity. And third, we want to ensure that the Misto Agreement is fully implemented. Sanction should remain in place until such time as the Misto is fully implemented and if violence accelerates, sanctions should be increased.

Ukraine has many friends, supporters and allies, many in this room, and they need to be, you all need to be, as pushy, as vocal as your average Chicagoan is. I see many friends of Ukraine in the room and I know that on this stage Anders will come and be another one of our friends. I want to thank all of you for your continued support, the Ukrainian people are extraordinarily grateful. With your help, I am convinced we will succeed. Thank you.

Mr. Abromavicious: Well Natalie almost covered everything so there’s only a few things that I would like to add. First of all, thank you very much, the Institute that has stayed loyal, not only to Ukraine but for the entire region over so many years, and obviously, Anders’ role here is absolutely strategic and most important. And I know Anders now for many years, and one wonders,
“How do I know him?” I would say that everybody knows Anders in the region, whoever is in politics, in finance or in the real business. And Anders has been known to everyone in the region as the utmost professional, with the deepest insights into the political and economic in life, knowing all businessmen and financiers and politicians of any importance in the entire region. And quite often he is of course, frighteningly accurate in his predictions, and those predictions that did not come to fruition possibly was a result that someone took an action and prevented the worst from happening.

So Anders thank you very much for that, and I thank your lovely wife for supporting you over those years and allowing you to travel once in a while to the region. And I also wanted to say that your book is very much anticipated in Ukraine, and as you know, I have taken the privilege of printing this book in the full Ukrainian language in Kiev.

Well since Natalie covered most of the various pressing issues and what is happening now and the vision for the country, I just wanted to focus perhaps, a little more on the aspects of the reforms that are directly touching the economic activity of the country. And I would perhaps, split those into two parts, because all the reforms that we do, and there’s a huge number of them, as Natalie said is difficult to count all of them. I will split them into having two effects. One, that they have on the anti-corruption activities, and then the other one on the economic effects that we will have in the future.

And here of course it’s, the Ministry of Economy is playing a big role. We are coordinating most of the efforts on the reforms. There is about 600 initiatives from the government for 2015, and about 45% directly or indirectly are belonging to the Ministry of Economic Development. We are a large entity, about 1300 people, that we intend to obviously, substantially reduce number of staff, but under the ministry there is an enormous, endless amounts of other institutions, like State Statistics Bureau, 10,400 people. Like state-owned enterprises, we have about 300, including Antonov, which is 14,000 people alone, producing the largest aircraft in the world. Standardization and Metrology Institutes in every town, it’s about 60,000 people across the country. State Reserve, which is old-fashioned, Soviet-style state reserve keeping petroleum products, grain and food staples for a rainy day; that’s another 6,000 people. So it’s a lot of people to manage, and obviously, the system is very inefficient.

When it comes to priorities for the ministry, I would say that these have been obvious from the day. Number one, its decentralization state-owned enterprise reform, restructuring of the ministry itself, public procurement and obviously, also export promotion for our goods abroad and here we already see some positive results.
So if we look at the anti-corruption activities, some of the reforms that had already effected, first of all, the Cabinet of Ministers, obviously proposed by the Ministry of Economic Development, we reduced the or took away the 15% discount on Ukrahta oil sales that was in place for many, many years. So for the first time in Ukrainian history the insiders did not benefit from about $100-$100 million dollars a year discount on the sale of oil.

Ukrecoresources, are those that follow closely events in Ukraine, know that for 14 years this entity that was aimed at utilizing packaging and never did that, was liquidated about a month ago. We also had investigations into fiscal service, and as a result, I was heading the investigation committee of the three top officials were removed from their positions, and Natalie is looking for a replacement. This just shows that the government is obviously very keen to fight corruption.

Two heads of the Emergency Situations Ministry were removed on the spot in the Cabinet of Ministers, which also showed that we’re very keen to fight corruption.

If we look at the main reforms that ministries is looking at, deregulation. Here we came up with a simple solution, that government’s role in the economy is way too high and we want to reduce that. Ukraine is one of the most—the largest amount of regulations of any country. There is about 14,000 regulations in Ukraine and we want to use the so-called approach of “guillotine” to reduce that. Here we already have some quick wins. As some of you may know, that two laws on licensing and deregulation have been passed in the parliament, and a number of other regulations were reduced for government decrease. So a number of activities that require licensing have been reduced almost by half, only in the last three months.

And here we basically have an approach, as Ronald Reagan once said, “The nine most terrifying words in English, I am from the government and I'm here to help.” So we try obviously, to reduce government’s involvement because businesses are very much scared of government’s role in the economy.

If we look at further steps here, if we do all the things that we are planning, and two weeks ago government approved a very serious plan of deregulation, about 171 initiatives over the next 12 months, we expect to go up in one year in rankings, doing business by about 20 places. We are now ranked only number 96, historically and we yesterday spoke to the World Bank on this. One place up means $600 million in a foreign direct investment.
Business already starts to feel some of these positive impacts. We have done some surveys, especially on the agricultural sector. There were some simple things like, if you carry grain from one region within Kiev [inaudible 00:28:17] to another, you would have to get a quarantine certificate that costs about $1 a ton and that has been removed, it’s about one billion hryvnias back to the sector that we are returning. In the ports, fee to sanitarian certificates, they were issued over the course of five days, and obviously, ships were standing there paying fines and so on. So we reduced that to one day and we also returned one billion hryvnias back to the sector.

If we look at state-owned enterprise reform, and just like on all other reforms, we rely on the best advice that we can get from abroad. Natalie will confirm to you that on the tax reform, we are taking a lot of advice from Ivan Miklos, the former Minister of Finance of Slovakia. On the state-owned enterprise reform, I work very closely with the former Deputy Minister of Economy of Lithuania. Decentralization, we’re going the Swedish way. Small and medium size enterprises we’re going the Polish way. And there is a number of other countries like Georgia helping on the public procurement. So whoever says that has the most up to date, the most modern system in any aspect of the economy, we try to get that and use it.

And the government, about a month ago myself, Natalie and Prime Minister, met all the foreign advisers and there has been almost a couple hundred of them from the US, from Europe. We have a good dialog and there’s a lot of help and assistance from all over abroad. So the choice is ours what to use and how to quickly implement.

State-owned enterprise reform is very important. One million people are employed by the state-owned enterprises. Majority of the assets have been privatized in the early 90s, but state still owns 1,833 companies that are in operation. Cumulative loss for the first nine months of 2014, was about 80 billion hryvnias, much of it comes from Naftagas, but overall companies are managed completely inefficiently.

For the first time in the history of Ukraine, on the 28th of April we will publish a very thick book, the annual report of all state-owned enterprises for 2013, and nine months 2014. It’s going to be a great illustration of how inefficiently these companies are run.

Concentration is quite high, top 100 companies represent about 92% of revenue of all state-owned enterprises, so we’re talking only about a handful of really large and attractive companies.
Corporate governance standards, unfortunately, are very low. Only about 40% have been audited or even less, maybe 20, and only a couple by internationally known audit firms. So majority of the companies, large ones, billion dollars in revenues sometimes are audited by Ukrainian audit companies at a cost of only $2, $3 thousand, which is obviously, not normal. So last week, the government, we passed a decree that top 50 companies will only be audited by internationally recognized companies, which was also met with some resistance, but obviously, we are moving there quite rapidly.

A new of selecting COs for state-owned companies, already three months ago we passed a decree. [Inaudible 00:31:43], from the World Bank, is one of the members of the nomination committee. So after independent procedure there is a nomination committee for top 60 companies, where five ministers all with investment banking background, and five international experts, Director of Kiev School of Economics, Head of the World Bank, Head of the [inaudible 00:32:03], Head of IFC in Ukraine, and also business ombudsman. So one Chinese, one Turkish, one Assyrian, one American and one Lithuanian, so quite international.

A couple of nomination committees did not succeed. One was blocked, another the candidates were weak and were not selected, and the third one just last week, Ukrgas Bank was selected and everyone acknowledged the transparency of the process. Those selection processes that have failed were illustration that someone is not keen that this would take place. So for example Boryspil Airport selection process of the CO was blocked, supposedly by the people that did not want the incumbent CO to be changed.

So we are moving towards absolutely more transparency, more accountability. We also approved the so-called transparency guidelines, that all state-owned enterprises need to publish their financial accounts. They need to come up with a strategy and also make it available to the public and so on. For the Ministry itself, it is very important, because this is where all the challenges lie as well.

There is sort of, if you like, a small credit of approval to myself and to Natalie today in one of the main business magazines on the cover; there were like top three reformers in the country and top three most conservative, so myself and Natalie, and the Minister of Transportation were there. And one of the quotes there was that, “Only more progressive people can make progressive reforms,” and this is very true because you cannot do reforms with old people because their previous track record, perhaps does not suggest that there is a high willingness. As Warren Buffet, once also said, “That if horses were running the economy there
would be no auto industry.” So here is exactly the same, that those people who are not keen.

So in our ministry, I removed all the former deputy ministers and put in place all the new ones that have never been in public administration. All come from the business or with good reputations. We have a new structure with 15 departments, a majority of new heads of departments have also never been in public administration, also come from business. So we have a core team of about 40 people that are all volunteers. All have financial capacity, financial reserve to work about 6 to 24 months for free, and we rely on them. This is not a long-term solution because the salaries are very low and people cannot endlessly work for nothing. So one of the key reforms will be making sure that public servants and top management of state-owned enterprises are compensated fairly.

When I got this job I got a credit card of [inaudible 00:35:01] Bank. In my previous job I used another bank, so I don’t know the PIN code or whatever, but the text message comes with my salary every time the salary drops into my account. And two days ago there was another salary payment, and I looked at that and if four months as a minister, I already have US$1,000 in my account. So obviously, this is not a very generous, sort of a position to have.

We have a lot of people that help us and cannot afford to work for free. So a number of individuals have been very proactively supporting us on a full-time basis through secondments. A number of individuals have been supporting us very much through NGOs. So they set up an NGO like Easy Business, for example, run by Dan Pasko, who is the CO of Harvard Club in Ukraine. And we actually managed to raise money for this NGOs, so that people can hire lawyers, hire PR managers, and so on. So EBRD, [inaudible 00:36:05] Foundation, European Commission, and all kinds of other institutions have been quite supportive. World Bank has actually given us donor support to employ 10 people on a full-time basis, five for deregulation, five for state-owned enterprise reform. So it’s quite amazing how some individuals are actively searching opportunities to work in the public sector and yet manage to receive some sponsorship on a transparent basis from outside. So that is very important from my point of view.

But overall this bureaucratic machine is one thing that prevents us from perhaps moving faster because the amount of reforms that have already been implemented, from my point of view, is quite obvious. Sometimes we lack communication capabilities to get the message across. With this aim Prime Minister, about a month ago told us, “Whoever speaks English from the ministers, just get out and speak to our European partners” and so on. Luckily in this cabinet of ministers, out of 18 only two do not speak English. In the previous Yanukovych cabinet of ministers, only two spoke
English. And of course, when you go to Europe the further you go from Kiev the less information there is. I mean, if it’s not ISIS, it’s Ebola; if it’s not Ebola, it’s the Greek problems; if it’s not the Greek problems, it’s the plane crash. So if it’s Ukraine then it’s the war, so one needs to get out and then of course, communicate in a better way.

With that day, we are also are doing a conference in the support of Ukraine, which is finally the date has been agreed for a few weeks, it’s April 28, to showcase what already has been done and to show unity among the parliament, presidential administration and the government, and to show that we know what we are doing and that the reform path is very clear and there we expect an extremely high level participation obviously.

From the Ukrainian side the highest we can get the president, prime minister, and the chairman of the parliament, similarly high representation from the European Union. And there we’re also going to have already some panels on some concrete sort of a sectorial opportunities. The bigger investment conference will follow in autumn.

So bureaucracy—just a few more moments. Bureaucracy of course, is what keeps us from moving a bit faster. The Minister of Finance, Minister of Economy, and the Minister of Justice, has to sign every paper that goes into the cabinet of ministers. And last year we counted, I think it was 200,470 papers, that the Minister of Economy had to sign. So this is completely crazy; it shouldn’t be that way. So one of the key challenges will be to do administrative reform. There are some suggestions from Canadians, so the Canadians claim that they are the least bureaucratic of all, and Poles apparently, have adopted that as well.

From the economy point of view, I guess it is very obvious that first we need to stabilize the economic situation. For now, one and a half months the exchange rate has been stable, which is a huge success, giving previous endless deterioration in the exchange rate. On one morning in February, the exchange rate was already 42 to the dollar. In the afternoon it was already 26, so volatility obviously. Is abnormal, but ever since the exchange rate has been pretty much at the level of 22 to 24, which is already a huge win.

And obviously, here a big role has played the Minister of Finance and receiving all these additional national financial assistance, doubling our central bank reserves from a very low level of $5 billion and stabilizing the exchange rate and the banking system. Last year 33 banks failed, this year already 10. I guess there’s something to that, so before we get confidence back in the exchange rate and in the banking system, it’s hard to get other things going.
Recent surveys from some of the business communities show that the worst is almost over. So from here on I’m quite optimistic that we will have a positive future because our government is very willing to do all these reforms. The minister of economy is obviously keen as well. So after stabilization as [inaudible 00:40:46] says, we have 4-D too, ahead of us, which is Deregulation, Decentralization, Demonopolization, and Deoligarchization. And you may have seen some of the first steps in deoligarchization, where the government is returning back control over some of the key assets, like Ukrnafta and Ukrtransnafta.

And to summarize, I would like to completely share Anders’ view, which he has written in the book, that we should not waste this crisis not and then we should do reforms. So Anders, thank you very much again, for your contribution to Ukrainian success and keep criticizing us, keep suggesting to us. We obviously, will take a lot of your advice and a lot of advice from your colleagues, and will make it a success. Thank you very much.

Anders Åslund: Thank you very much on many accounts. First Adam, for your kind words and bringing the book out and organizing this great event. To Natalie and Aivaras, for your very kind words, and for a wonderful performance. I had intended to talk about why Ukraine is different this time and why you should take the reforms seriously now because this is the most common question. I think I can skip that part. You have both heard the will and you have heard about the substance of the reforms.

Instead I would like to focus up on the international role: What should the outside world do to help Ukraine today? And to begin with, I would like to laud the IMF. The IMF did the program a year ago, and you can say that this was an obvious stop-and-go program. Nothing could really be seriously done before presidential and parliamentary elections. At the same time Ukraine had to be kept going.

The program that was just adopted is a much more serious one. And there are three criteria to judge an IMF program. It’s more fiscal adjustment, it’s very substantial reforms, as you have just heard from the two ministers, and it’s much more funding, but there we come to the problem. As Natalie mentioned, the program is supposed to be $40 billion, the IMF is kindly putting up $17.5 billion. It’s heavily front-loaded, so $10 billion will come through, hopefully this year, but that’s not enough.

Ukraine’s reserves as we speak for $10 billion, I would like to see them at $25 billion. That’s a substantial amount of money that should come through, and we have debt service and there is still a budget deficit, more financing is needed.
So then you of course, look up on the European Union, what does the European Union do? Wasn’t this a Euro revolution? Well that seems to have fallen in the background because the European Union is providing this year $1.9 billion. You just wonder, why such a small amount? At the same time, the total program for Greece, both IMF and EU, is 250 billion euro, and then $1.9 billion for Ukraine. Well if you take the whole program, what’s granted is $25 billion; it makes no sense. Greece gets five times more money for—with a quarter of the population, and they are not doing, they are not walking the walk, and they’re not even talking the talk, while Ukraine is doing both. It doesn’t make sense. And Ukraine is frankly, far more strategically important for Europe than Greece happens to be. No insult to Greece intended but [inaudible 00:45:02].

And what I would suggest is that the European Union quickly and easily put up 10 billion euro instead. This is perfectly possible because these are loans that the European Union takes on its capital. So it’s achieved fort the European Union in terms of the budget cost.

The US then is providing $2 billion in loan guarantees, as Natalie mentioned. For the US that’s not bad, because after all, this is in Europe. But why not $5 billion instead? It would make extremely little difference since these are only loan guarantees, and for Ukraine this is truly important.

And then the third is issue, what Natalie will speak about today at 5:00 that’s the debt restructuring, presenting the proposal to the bond holders. Ukraine is in a tough place. The IMF has very gradually moved from paper last year towards preemptive debt restructuring. I think that this is a good thing to do. If you do it, the general conventional wisdom is, if you do a debt restructuring do enough early on so that you get rid of it, and that makes sense to me.

And then finally you have Russian claims. I mean, just think of it, here we have Russian at military aggression against Ukraine, and we are discussing the Ukraine pay money back to Russia. It doesn’t make any sense to me. Fortunately, I’m not a lawyer so I can’t explain why that should happen, but this shouldn’t happen. There should be a strict moratorium supported by the West against Russia as an aggressor country. Russia is taking over vast Ukrainian assets of all kinds, from money, to gas, to naval ships, in Crimea. Okay, sort that out, there’s no reason for Ukraine to pay anything at all to Russia. And on that note I would like to end. Thank you.

Adam Posen: Anders went from blunt and forceful to blunt force for an unbelievably concise. Joking aside, I think that’s about the compelling parallels
between what the ministers have said out and what Anders has recommended in *Ukraine: What Went Wrong and How to Fix It*. And I would therefore like to open to up to this very distinguished audience, the chance to interact with our three panelists.

Just some basic ground rules, this is all on the record. We’re grateful to the ministers for agreeing to that, they obviously were not holding back. In a moment, Jessica will be upfront with a traveling mic. People towards the back can go to the standing mic. I will recognize you and we ask that you identify yourself when posing a question, and that you actually pose a question, not make a speech. If you attempt to make a speech, you will be shot down. That’s what these people are for. So leaving that warm welcome aside, please.

**John Dysart:** Hello. John Dysart, a columnist for the FT. I’d like to ask the Minister, what is [inaudible 00:48:37] would be no real difference in the economic impact on a program between a pick or some other deferral of any payment for a period, even beyond the period of the program, five years, six years, whatever it would be. What is the economic advantage to Ukraine or to the program of insisting on nominal haircuts, with the same economic effect of the DG by picking up the payments, long throws and so on and so on, which might make it easier for Ukraine ultimately to reenter, maybe at some future date, in capital markets and a normal relationship with the world, which is the objective of the program after all?

**Natalie Jaresko:** I agree fully that is the objective that we have in mind with the debt restructuring, and that’s why we’re entering into a collaborative process, that’s why we’re insisting on transparency on all sides, both the creditors and our own, and that’s why we’re trying to do this in a fashion where we do this together with the creditors.

There are three targets, not one target in our IMF program, and I think that needs to be made clear. A maturity extension as you described would indeed satisfy target number one, which is a savings of 15.3 billion during the period of the program. That’s a balance of payments target. But there are two additional targets that are not satisfied by simply a maturity extension.

And the other two targets have to do with our debt sustainability, which is achieving a debt-to-GDP ratio by the year 2020 of no more than 71%, and third a payments ability, which means that the payments need to be no more than 10% of our GDP in any given year, our financing obligations post the program.
I think it’s important for us to underline Ukraine is facing not only a liquidity problem, which a maturity extension might resolve, but also a solvency problem, and therefore a combination. Again, I’m not dictating what combination because I’d like it to be collaborative, but a combination of coupon reduction, maturity extension, and nominal reduction, is required to meet all three of those targets.

Adam Posen: Someday maybe John, or someone else will write an article comparing different styles of finance ministers in approaching negotiations with the IMF. That was very exemplary. The gentleman at the microphone.

Bill Courtney: Bill Courtney with RAND. What is the privatization program for the state-owned enterprises? How quickly, can some of them be auctioned off very soon in order to attract both domestic and foreign investors? Will any of the state-owned enterprises remain state-owned or will they all be privatized eventually?

Mr. Abromavicius: Thank you very much for the question. I don’t believe there’s any country that has privatized everything. So Ukraine is not going to be unique here. We are separating what is strategic, and the aim is over time, relatively quickly to sell that is not strategic.

If we look at the assets that will be put up for sale, most likely it is assets in the agricultural sector, like alcohol monopoly company, grain elevators that belong to the state grain company, some of the companies in the energy and electricity sector, like Centrenergo thermal power utility perhaps is going to be the first up for sale, assets in the chemical industry and so on. Here we need to change a few things because procedure was not transparent, procedure was not ideal. We couldn’t even hire, in some cases, a financial advisers to sell some of these state assets. So once we have the proper procedure in place, which is just in a few months, we will test the market with the sale of one or two assets and see what happens later.

The problem is also some of the smaller enterprises that continue to accumulate losses, continue to be a burden on the budget, and continue to be sources of financing of some of the parties. Now in the parliament also there is initiative that finally parties, political parties would be financed from the budget, just like in many European countries, and hopefully that will lead to massive reduction in corruption in the system overall. Right now almost every single state-owned enterprise is run in the interest of some specific private individuals or groups of individuals, rather than in the interest of the state. And all of those activities that we do, increasing transparency in corporate governance, is sometimes perhaps not enough, so privatizing them asap, even in these difficult circumstances that we face right now might be a solution.
Adam Posen: Anders, since the Minister kept asking you for suggestions, do you have anything you want to add on the subject of privatizations?

Anders Åslund: Well if you look up on the privatization, I basically think that Aivaras has it right. You can say that the enterprises consist of two big groups. There are 3,300, 2,000 of these are useless. And then I think that they should be just sold off as an asset. Think of a small factory that is more or less standing still but the [inaudible 00:54:04]. This one has to get rid of. And then you have these 60 to 80 companies that are really valuable, think big energy companies. And they are one, first needs to improve the value of them can get the corporate governance right.

So I think that is the right strategy. But the problem is when do you sell them? Well it will take some time because you shouldn’t sell at the bottom of a market. That always cause this massive political reactions. And therefore, I think it’s basically right, the problem is that you don’t get much money from privatization. The important thing now is to stop subsidization and to get the dividends from the enterprises to the treasury.

Mr. Abromavicius: Just to clear some numbers, we have 3,374 state-owned enterprises, but only 1,833 are in operation. All the other ones are being liquidated or no longer exist because this list is very old, at least 10-years-old. The new proposal to the parliament to keep strategic assets on the list of strategic assets is about 954, if I remember correctly, but it sounds a lot of companies, but many are in Crimea, temporarily occupied territory, about 300 belong to the various sectors within the forestry industry, which do not plan to touch at this stage and obviously, what is very strategic is the Ukrainian railways, so that we will not touch.

Adam Posen: Very good. So at the mic, and then the gentleman there, Jessica.

Susan Chadler: Susan Chadler, Senior Fellow at CG. First of all, I want to say I think the presentations were remarkably compelling. I sat across during the long career at the IMF, many reformers and I honestly think there’s no one who touches as convincing a presentation as yours.

So the real question is the proof is in the pudding, and that’s where I think there are some questions. First of all I’d like to really support what Anders says, that the European Union and the United States need to step up to the plate and provide more financing for this program if it really works. If everything at six months-

Adam Posen: Can we get this into a question instead of your statement, please?
Susan Chadler: Then I think I agree both of them should be providing more. There are instances though where things have been really strange-looking, and the biggest one I can see is during the period since the new government was elected, you’ve lived through a huge amount of foreign exchange reserves, I mean really staggering amount between say November and mid-February. And as best as I can tell from the IMF statements, most of it was probably deposit outflow, and this is sort of tantamount to letting your financing go in the sense. It’s the reverse of getting money from other people. So there was not a commitment-

Adam Posen: Is there a question, Madame?

Susan Chadler: To any sort of capital controls or raising interest rates. I know this stuff has been done now, but it looks like the exchange rate’s stabilized now. It’s beginning to look like things might have fallen back into this old pattern of letting the reserve-

Adam Posen: A question mark is a thing that looks like this. Could you use it please?

Susan Chadler: That’s it, that’s the question. Are we doing the right thing on our currency in our currency situation?

Adam Posen: Thank you. That was good.

Natalie Jaresko: Number one, I don’t think it’s fair to equate the deposit outflow, which was indeed extraordinary between November and February, and very much a result of the violence in the East. It almost spikes each and every time the violence increases, the aggression increases in the East, but that is not the same as our foreign exchange reserves declining. Our foreign exchange reserves declined in 2014, very much as the result of the fact that Ukraine, in fact, repaid over $14 billion of its debt, its payments for gas to Russia, while having received only some $9 billion in foreign credit support during the course of the year. And that difference between 9 and 14 is a great part of how our reserves declined in 2014.

With regards to the exchange rate, we have committed, we are committed; we are maintaining, a flexible exchange rate. We moved away from the fixed exchange rate that caused an immediate depreciation in a sense that it was artificial and it had been artificially maintained for much too long. But the currency controls are in place, with regard to the administrative controls, and my colleague and I are interestingly, on different sides of this because I see the need to have them in place temporarily, the IMF’s requiring it, and I also understand his perspective that the business community is adamant about removing these currency controls.
And so we’re in this very difficult situation in terms of identifying the time when the market is going to be filled with sufficient confidence and when, hopefully, the East will be sufficiently calm, that we don’t have this constant pressure on the currency and can reopen for more free transactions our capital system. So it’s a very difficult judgment to make as to when to remove the currency controls. They remain in place today and I think, my understanding the Central Bank Governor’s a better person to respond to this than I, but they will remain for some time until that confidence is in place.

Deposit withdrawals, just to be clear, have lessened in the last two months, as there’s been a fragile ceasefire in place. I think that’s very critical. And I think also as the banking legislation that I described has helped the market understand that we are cleaning up these final failure banks and they can start to trust in the remaining banks, the banks that are strong. And so I’m hopeful that the situation will be calm enough that we can start to remove controls sometime later in the year.

I need to respond though, to the comment that you made that the proof is in the pudding. I want to be very clear and I’ve been saying this for several days in DC. We are not just adopting legislation. This is not just talking the talk. Actual change on the ground is happening, whether it’s the dismantling Ukrecources, which does not exist anymore. It’s not a question of whether or not we decided to make it; it does not exist. Or whether it’s the arrest everyday, our general prosecutor everyday, unfortunately only in Ukrainian on his Facebook page, but is arresting people and charging people with corruption at every level and every geography, at every government thing, every single day.

I can tell you that I think the number—someone should do the analysis, not me, but the number of arrests and charges for corruption nationwide probably are greater in the past six weeks than in the past 23 years. That’s real on-the-ground action.

The change in the police force will be complete in Kiev by the end of the month. The hiring is finished, the process is real, it’s not on paper. It’s not a plan to change the police force, it’s not an announcement, it’s not a change in name, we’ve been through that once before in our history, it’s an actual on-the-ground and it’s rolling out to the other cities.

I can give you a dozen of examples, but the one I have to bring back is the austerity measure. April 1st we raised tariffs, we changed our social subsidy system, like from a 7-page to a 2-page form. You can mail it in, you don’t have to stand in line and be embarrassed, and or have to stand in front of bureaucrats and explain yourself. That’s real change, it’s not talking the talk, it’s walking the walk.
Adam Posen: Anders, please.

Anders Åslund: Let me add two aspects to this. First is the political. Last year, what happened was that the oligarchic parties in the parliament in February went over to the democratic opposition. Therefore, it was possible to oust Yanukovych. They understand that Yanukovych was a dead end, but they did not want economic reform. So therefore, since June last year, it was impossible to talk serious economic reform legislation, so therefore there was a dead period until the parliamentary elections of the 26th of October. And then it took one month to form a government, and it took the new government almost a month to form a new budget. So here you have loss of time and there was not much policy. So it’s really from the 12th of February, with the new IMF program that you have a full-fledged policy as we now hear.

So that’s the time aspect, then you have the financing aspect. The IMF last year gave net disbursement of $1 billion. It was paid back $3.6 billion, and it gave or disbursed $4.6 billion; that’s not much money. As Natalie said, Ukraine paid back $14 billion in foreign commitments and I think got $9 billion altogether. So it was a net loss on the international community, that the international community on net did not help Ukraine last year, but the contrary.

And the most egregious of all, is the European Union. On the 30th of October last year, forced Ukraine into a gas agreement that was only in the interest of the European Union, not in Ukraine’s interest, and compelled Ukraine to pay $3.1 billion to Gazprom in disputed arrears that are under arbitration in Stockholm without providing any financing whatsoever. So I think you should blame the European Union rather than Ukraine in this case.

Jan Boyer: Hi, Jan Boyer, private investor or actually it’s the same I only claimed the fame once I was a former visiting Fellow here at the Institute. So thank you for hosting this.

My question is for the Minister of Economic Development. You said “deoligarchization,” I can barely pronounce it. What will you do and how will you do it?

Mr. Abromavicius: I guess if you look from a historical perspective in Ukraine over years there has been a number of industries completely monopolized by some specific private individuals. And what is good about the IMF program is that they came up and asked every ministry to come up with at least two reforms every year for the 4-year program. And the Ministry of Economic Development, we had this task of putting under this initiative, rather than
task, that anti-monopoly committee is under ourselves, even though we do not appoint him. And it’s the Prime Minister's suggestion that parliament approves the entire committee.

And here we are committed, which is written in the IMF memorandum, to change—to appoint a new head of anti-monopoly committee the first half of the year and the entire composition of the committee, and then in the second half, to pass new legislation on anti-monopoly, which is obviously currently it’s not working.

Number one problem that business mentions and Ukraine is anti-monopoly, be it foreign company or local company, competition is not fair. They go after small companies like, not sometimes even small ones, 16 food retailers supposedly are an oligopoly and they have agreed on price fixing and so on, yet when we have a chemical industry 100% concentration by [inaudible 01:05:41], they don’t see any wrongdoing there, so something is wrong. So once we actually have a new person in place, and I believe that hopefully maybe within a couple of weeks, I think the process will start.

Adam Posen: Thank you. We are going to take a question from the back and then the gentleman here.

Mat Sagers: Thank you. I’m Mat Sagers from IHS and my question is very simple. Realistically, how long is it going to take for the patient to get up and go? Don’t talk about running, let’s just go. And the reason I asked this is I have this very strong feeling of déjà vu all over again. I think early 1990s, Russia, [inaudible 01:06:20], and so forth, and the transition period there was quite extensive; it took quite a few years. Now, is the situation basically different? I’m going to quote Anders here, “Is it different now? This time it’s different, or how long is it going to take?” We saw the transition take longer before, but that’s kind of the key question. How long before the patient gets up?

Anders Åslund: Well, yes I think it is different now that you get a complete break. But if you look up on the post-Communist countries, it’s all of their countries that have become members of the European Union have fixed themselves, in terms of corruption and governance. None of the post-Soviet have done so. You have a lot of poison coming from the old Communist system. [Inaudible 01:07:11] and I organized the Peterson Institute conference in Budapest with the old reformers [inaudible 01:07:18], and so forth, and a very strong point that came out is that we all pay too little attention to the Secret Police. You have the Secret Police networks that have come out, and of course, [inaudible 01:07:40], is now the standard work, and we are seeing that the old security police networks run a number of countries in the region. And inside the former Soviet Union it goes out from the FSB,
outside SVR, that operates it, and they operate together with organized crime.

And as Aivaras mentioned here in the gas trade, here you have a typical example. You know this better than anybody that you get a big loan from Gazprom Bank. YOU buy the gas cheaply from Gazprom and then you sell it at the market price in Ukraine, which might be rigged, and in this way you make a fortune and then you buy the politics in Ukraine. We have seen that with a number of the people who have done the same business model. This is what must stop, and I think that this is really the critical issue. If you take one thing and therefore it's so important that Ukraine now is doing substantial gas reform, but gas prices are now up to half of the market price, and this will change it.

In Russia there were a number of special problems. I know one of the Russian oligarchs that loves Ukraine, and he says that the big advantage with Ukraine is that it doesn’t have any Russian problems. Meaning Russian imperialist. That helps to a considerable extent.

Natalie Jaresko: I’ll just add two quick comments. One, the intermediaries are gone. They were gone in 2014, they don’t exist in 2015, so that practice ended last year. And second, our goal is to return to economic growth next year, 2016, yes.

Adam Posen: Ambition. The gentleman right there.

Participant: Thank you. My name is Andre [inaudible 01:09:50], I’m with TASS the Russian News Agency here. My question is for the Minister of Economy, you talked about your privatization program, does that include agricultural land? And what is the attitude of the government to introducing GMOs in Ukraine, because I understand the American business community is very interested in selling some of the GMO products, such as seeds and others? Thank you.

Mr. Abromavicius: Well I can start with the second part of the question. American companies have been in Ukraine forever. I mean, Ukraine has 42 million hectares of arable land, and all the biggest companies in the world from crop protection, to seeds, to equipment, have been in Ukraine for the last 10 years. So Ukraine has access to the latest technologies and so on. And my wife is a CO of a relatively large farm of 35,000 hectares and I had been chairman of that farm for quite some time before going into the government, so I’m quite familiar with agricultural problems and opportunities and so on.

In coalition agreement, it’s written that for two years we do not touch the question of land moratorium, so this is crystal clear. But what we see in
the government is that we will use this time to prepare for the land reform. And if society accepts that, of course, this eventually go there. It’s not fair that people in the cities got privatization vouchers in both departments and shares they have in some companies. And people on the countryside use their modest vouchers to get those, on average, three hectares of land and they cannot still sell it. Right? I mean, they can get annual rent of about $50 US per hectare, but they cannot sell it.

And it would be a huge opportunity for the country of course. Imagine if you estimate the land value very conservatively at $500 a hectare, that would be $20 billion in high quality collateral for the banking system. That would obviously, stabilize because a big problem right now is to lend to someone who doesn’t have equality collateral. And Lithuania also had this type of land pricing about 10 years ago, now it’s 4,000 euros a hectare, which is one of the lowest in the European Union. So I think there’s a lot of opportunities to get more investment into the country.

Last year we had a record harvest of 63.8 million tons. The huge goal, all the next two years, to get it up to 100 million tons, and land reform would obviously help that. We also have plans to renew irrigation system in the south, which alone, with massive investments hopefully also from the World Bank, would lead us only there to increase crop by 20 million tons. But then of course, much bottlenecks exist in transportation system, storage and so on, and we are working on that as well. So agriculture is still very much a promising area for our country.

Adam Posen: You can actually sit back down.

Participant: [Inaudible 01:13:00]?

Mr. Abromavicius: No. There are some suspicions once in a while that [inaudible 01:13:08] GMOCs, have been brought in into the country, but no, officially, no. But corn, and again, many companies focus on corn because this has been the highest margin business over the course of the last seven years, despite very low prices now. To my knowledge, there has been no corn GMO, and there are no plans to change that situation.

Anders Åslund: Let me just add that Ukraine in this regard follows EU policy, so there will be no difference between the EU policy and Ukrainian policy.

Adam Posen: While we can respect the Ukraine’s need to be ready to access and export to EU markets, we can also note that the EU policy on this issue is completely unscientific, and we can hope someday that will end. But for Ukraine, we understand why it’s important.
We’re about out of time, so if we could have—I just want to consolidate each of you ask your questions if you could, and then we’ll put them to the panel.

Participant: [Inaudible 00:14:04]. Voice of Ukrainian Service. I have a followup question. Naftagas, as being said, is a black hole for the corruption, how are you going to deal with this issue and will you open Ukraine’s energy market for other companies, non-government one?

And the second question would be, Miss Jaresko, can you please be more specific on taxation reform because businesses are saying that nothing changed since 2014? Thank you.

Participant: Nicolas [inaudible 01:14:38], National [inaudible 01:14:37] for democracy. I'll shorten my question. Populism, to what extent do you consider it as a threat for the reforms you’re currently implementing?

Adam Posen: Thank you for an important, but brief question. Thank you. Next please.

Luke Johnson: I'm Luke Johnson, I'm a Freelance Journalist. My question is to the Ministers. You talked a little bit about it with regards to energy, but how do you see the role of Russia in the economy going forward, giving that you’re in a state of armed conflict with them and it’s a huge trading partner still of the country. Thanks.

Adam Posen: Thank you very much. Why don't I just go, starting here and move right and you can answer whatever parts of the questions you wish to take?

Mr. Abromavicius: The role of Russia, populism and the first question was Naftagas. Okay, role of Russia has been obviously very large, but trade with Russia has gone down tremendously last year, down 43% and there are several reasons to that. Obviously, the Russian aggression is the main reason, but Russian market, as such, also has shrunk a lot. Russia now pumping record an amount of oil, slightly over 10.5 million barrels a day, multiplied by $60, which is a loss in the oil price, and you understand that this is almost $200 billion, small economy only from the decrease in the oil price. So I have spoken to some industrial companies in [inaudible 01:15:59] area, that have been selling a lot to Russia and they quite obviously said, “Russians are no longer as financially strong as they used to be, so are simply ordering substantially less.”

But from a historical perspective, it’s not only Ukraine, but Baltics, Poland, Holland, Georgia, Moldova, all countries have been affected by absolutely unpredictable Russian behavior from a trade point of view. So I think many businesses have diverted their exports already to other markets.
a while ago. So Russia’s unpredictable behavior on the trade side will continue to be the main factor, not only for Ukraine but for others.

When it comes to populism, of course, there are some parties, even in the coalition, that use the momentum to basically derail some of the reforms. It is not a surprise that Yulia Tymoshenko, for example, continues to resist and strongly oppose higher salaries for public servants. She has a view, which is a very wrong view, that public servants are the same as top management of top state-owned enterprises, so she wants Ukrainian railways CO to receive a salary of less than $600 a month or something like that. So how can you extinguish corruption with this type of salary remains a mystery to me? So obviously is an obstacle populism to some extent, that can be overcome from my point of view.

On Naftagas, the whole idea of basically unbundling of Naftagas and splitting it into different parts, storage, production, transportation, is to invite foreign participation in various parts of this business. And here we invite American and European investors to participate.

Adam Posen: Thank you very much, and in particular, if you could say something about tax reform.

Natalie Jaresko: Tax policy. What happened in December of 2014 were a series of specific changes. Those specific changes include the simplification from 22 to 11 taxes, simplification of the accounting rules so that we would have three or four only remaining differences between fiscal accounting and tax accounting. It included this issue, what I described before, of trying to bring the shadow economy in by providing a discount in the payroll tax to businesses that bring their salary funds back into the formal economy. The 2014 changes included, eliminating the tax fraud that occurred with this—[inaudible 01:18:30] or tax holes, by establishing an electronic VAT system which is now live, still in test form, but live.

It included, as I described earlier, the changes increasing the tax burden on the wealthy, which means we increase the progressive income tax from 18 to 20. We established several small luxury taxes, but we also eliminated the ability to “optimize” by making all passive income with the exception of dividends, which are dual twice tax. Everything is 20%, so the wealthy don’t get to choose their avenue for minimizing taxes.

In 2014, the last change that I’ll mention has to do with eliminating some of the loopholes. In 2015, what we’re doing right now, is we’ve established under the National Reform Council a large working group which involves both the government, the Ministry of Economy, myself, the State Fiscal Service, the Parliament, all five representatives from the Coalition and the Chairman of the Tax Committee, and civil society,
including both academia, representatives of the American Chamber of Commerce, EBA, as well as the Ukrainian business community, to look at tax reform on a more holistic basis.

These were individual changes that were made. We came into government we had two weeks to adopt the budget and the exchanges. The holistic basis, the process that we’re going through right now, looking at things like what former Deputy Prime Minister Nikola did in Slovakia, with the goal of creating something that is simplified, that is an incentive to business, that eliminates the ability of tax administrators to use complicated rules against business, and something that is fiscally neutral, but hopefully, in the future, fiscally positive.

That exercise we’ll take this summer. It’s a long conversation, there’s a lot of work to be done in a very open and transparent fashion. And our goal is to introduce something in the fall to the parliament so that by January 1st we can introduce a tax system that is truly unique and inspirational.

Aside from that, we have a much more short-term tax working group right now on the royalties issue, that I described and there our goal is, by the end of this month, early May, to come up with a short-term remedy for the royalty problem that we have currently, but a longer term problem which needs to be introduced in accordance with the IMF agreement by July 1st for implementation January 1st. I think there’s a lot on taxes.

On Naftagas, I’ll only add a couple of things. Naftagas never had an annual audit. We’ve just released the 2012-2013 audits, and the 2014 audit will be ready within approximately a month or two. I think that’s critical. I want to be very clear for the press, I don’t believe Naftagas is today, a black box of corruption; I believe that it has been in the past, and I think that the government has moved very swiftly to starting to clean that up and establishing an absolutely new basis for Naftagas going forward.

Anders Åslund: Yeah, a few words around Ukraine’s trade with Russia. As Aivaras said, it has fallen by half and if you look up on the composition of the trade, about a bit more than one-third of it is effectively blocked by Russian trade sanctions. It’s with steel and agricultural goods. One-third of Ukraine in exports to Russia used to be armament, machinery's call them a statistics.

And the Ukrainian armament industry is part of the old Soviet military industrial complex. It’s largely not independent, but of course, Ukraine cannot export lots of arms to Russia when Russia is attacking Ukraine. So this takes away half the trade. Will this reappear? Hardly. We have seen so many other countries. The Baltic countries in the early 90s, Georgia and Moldova, about 2006, Normally trade is disrupted by about half with Russia and it doesn’t come back. This is a big blow to Ukraine because
this is one-eighth of Ukraine’s export assets has disappeared. What should be done? Open up the European market more.

Last year we saw that many of the agricultural quotas that the European Union imposes Ukraine were filled by the end of the third quarter, and therefore Ukraine’s exports to Europe fell rapidly in the last quarter last of the year. That should not happen; the EU should open up its markets more for agricultural goods when agriculture is booming in Ukraine, even in this crisis.

Adam Posen: Thank you all. A few closing remarks if I may. Anders’ last comment points out an interesting important theme in his book, that was touched on today in the direct context of the debt negotiations, but deserves broader mention. Which is that Anders, as with, I think, the government, is making a push for greater and longer term integration with Europe, and a reorientation of Ukraine towards Europe, which of course, then has to be met by a willing Europe. And I think that’s an important part of the discussion and an important part of Anders’ book that we want to make sure gets across.

I am very grateful to the Ministers for gracing us with their presence. As many people said today, the power, the passion, and the depth of detail, which isn’t just, as you pointed out Minister Jaresko, isn’t just legislation but is now implementation, is a very compelling case and we wish you Godspeed in making it work.

We have today, been fortunate to have this discussion. Concern for the Ukraine and Eastern Europe remains a concern for the Peterson Institute. We obviously today are celebrating and pushing the release of Anders’ new book: *Ukraine: What Went Wrong and How to Fix It*. We continue to have a thriving practice, as it were, also with Simeon Djankov, working on transition issues in Russia and Anna Gelpern, very active in the Ukrainian debt discussions. Gary Hufbauer and Jeff Schott, speaking about sanctions issues and how to handle that, and Ted Truman on the IMF role. We continue to do so and we will look forward to more meetings of this kind, just as we had a discussion with David Lipton last week.

Just an Institutional reminder, today at noon Jeroen Dijsselbloem, Natalie’s counterpart, the Finance Minister of the Netherlands and Chair of the Euro-group, will be giving a lunch address here chaired by Fred Bergsten, and you might even choose to ask him something about Ukraine at that point.

And tomorrow morning, in a special session at 8:30am, also on the web, we will be having Ilan Goldfajn and Jose De Gregorio, two leading Central Bankers from Latin America and great economists, talking about
the shifting situation there. I hope you can join us for that as well. Thank you very much.