Ukraine: Capitalism in One Family

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Ukraine at Crossroads,
Ottawa, March 7-8, 2012

Yanukovych Started with Reforms

- Reform program in June 2010
- IMF program in July 2010: $15.3 bn for 2 ½ years
- Many reform laws

Early Reform Measures

- Tightened budget
- New National Bank law
- Gas price hike
- Law on state procurement
- VAT refunds improved

Turning Point: Tax Code

- Huge deterioration for small & medium-sized entrepreneurs
- Mass protests all over the country November 2010
- Sharply raised tax burden: +35%!
- Perhaps 1 million small entrepreneurs have closed down

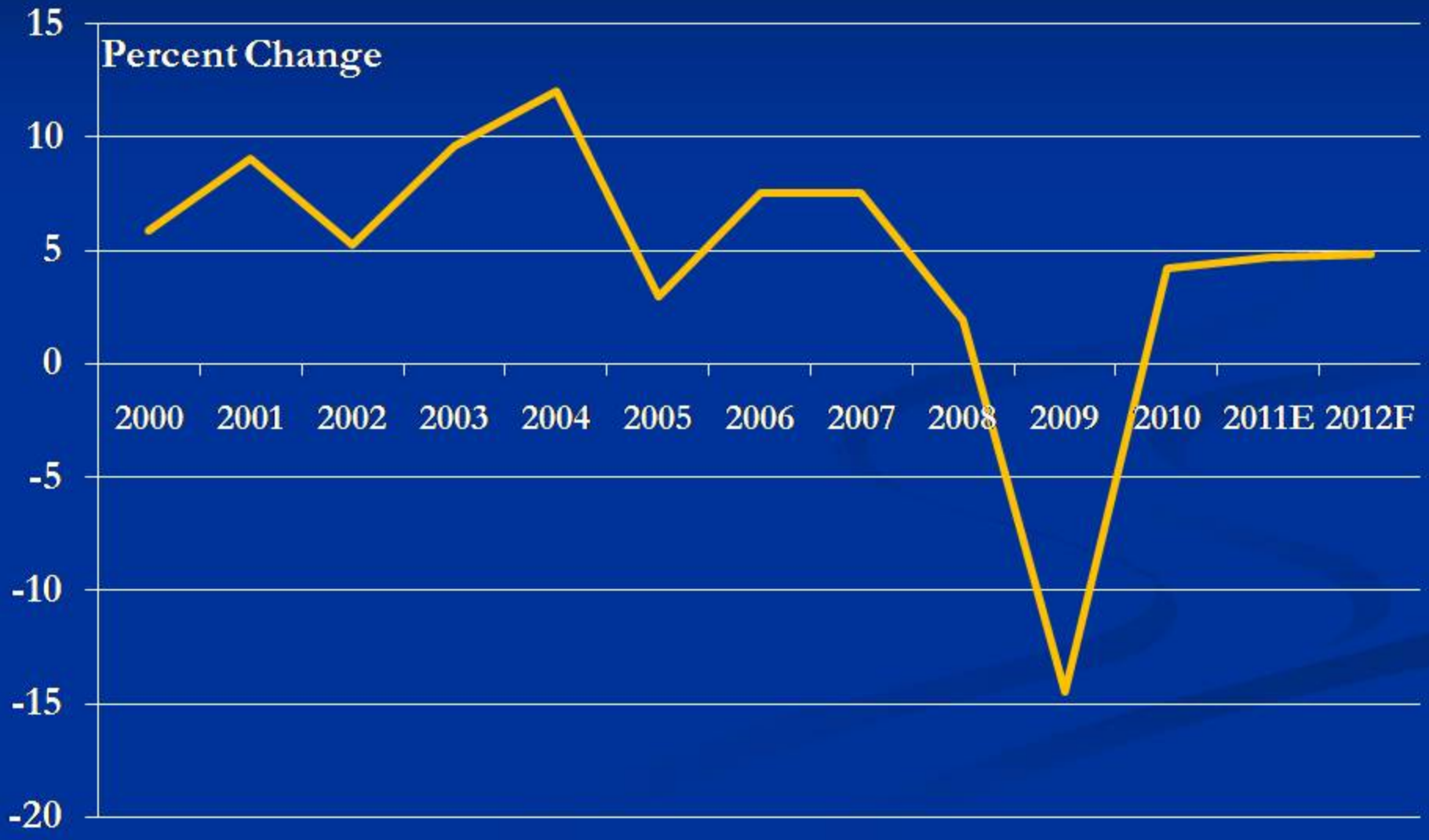
Economic Policy in 2011

- Pension reform: Attempt to gradually reduce costs from 18% of GDP to 12% of GDP
- Privatization to few select people at minimum prices
- Aggravated corporate raiding
- Unprecedented kickbacks

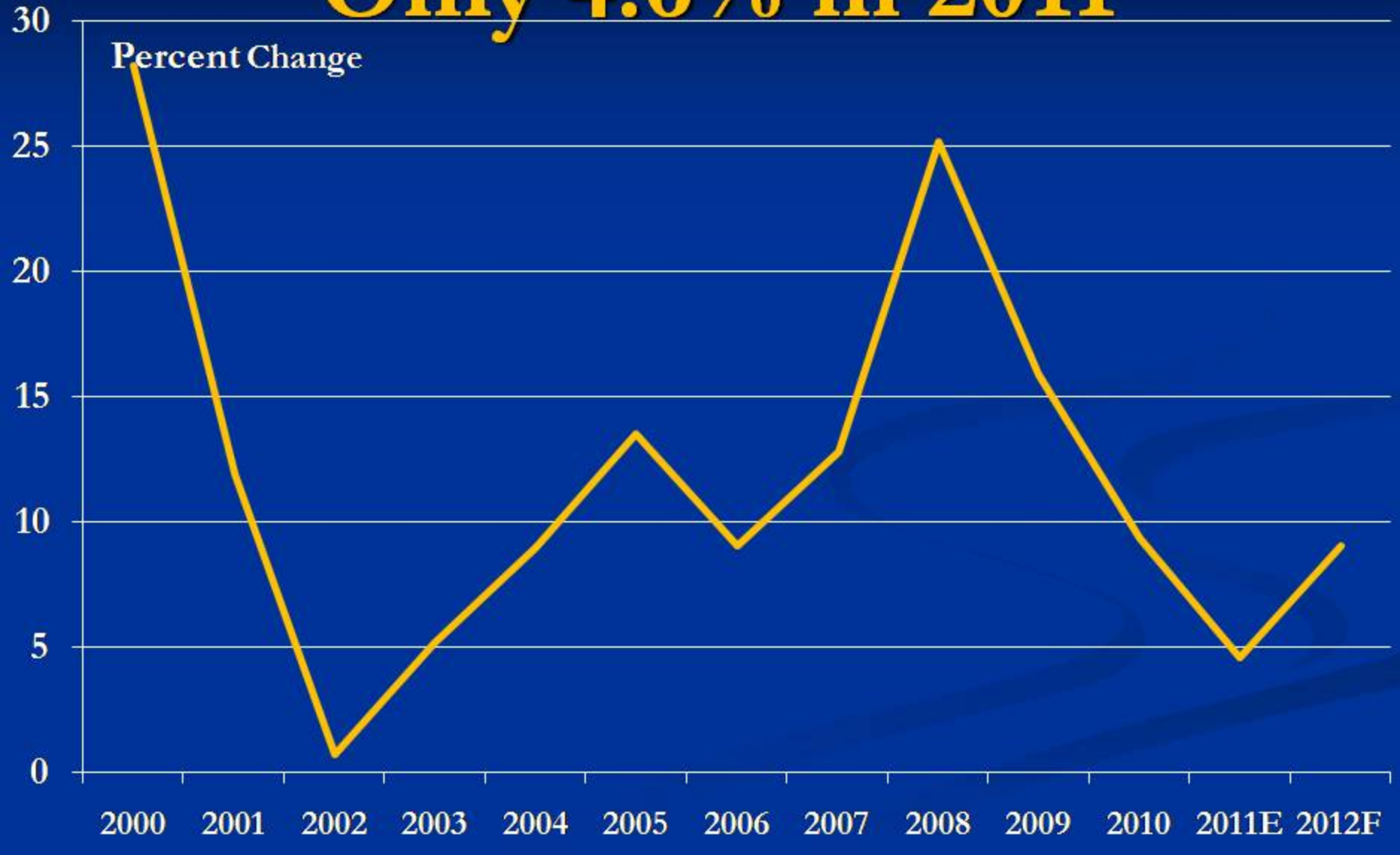
Key Reforms Missing

- Gas reform: now subsidizing the imported Russian gas massively
- Deregulation
- Judicial reform
- Anti-corruption measures
- Health care reform
- Legalization of private sales of land

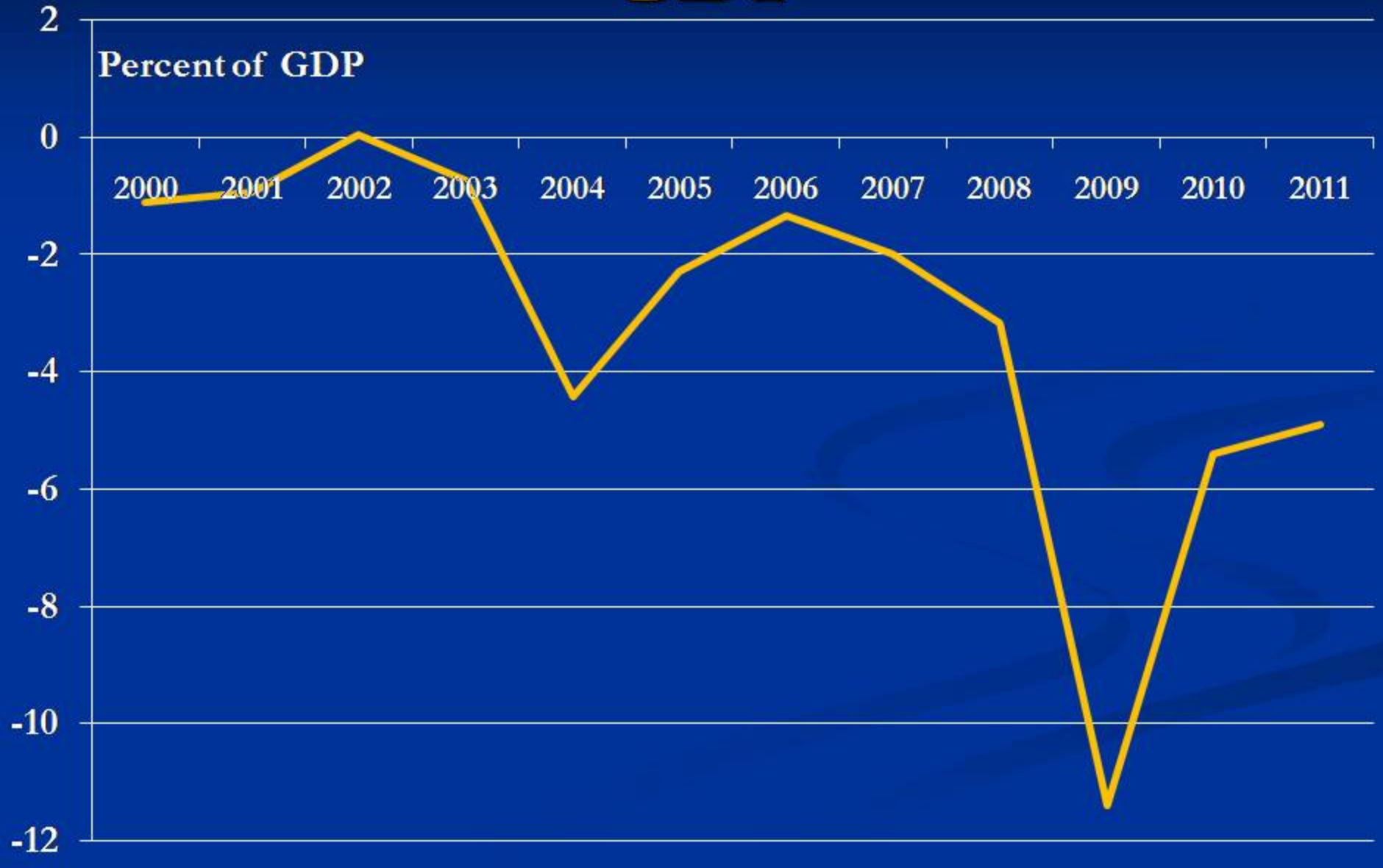
GDP Growth Returned 5.2% in 2011



Inflation Is Calming down Only 4.6% in 2011



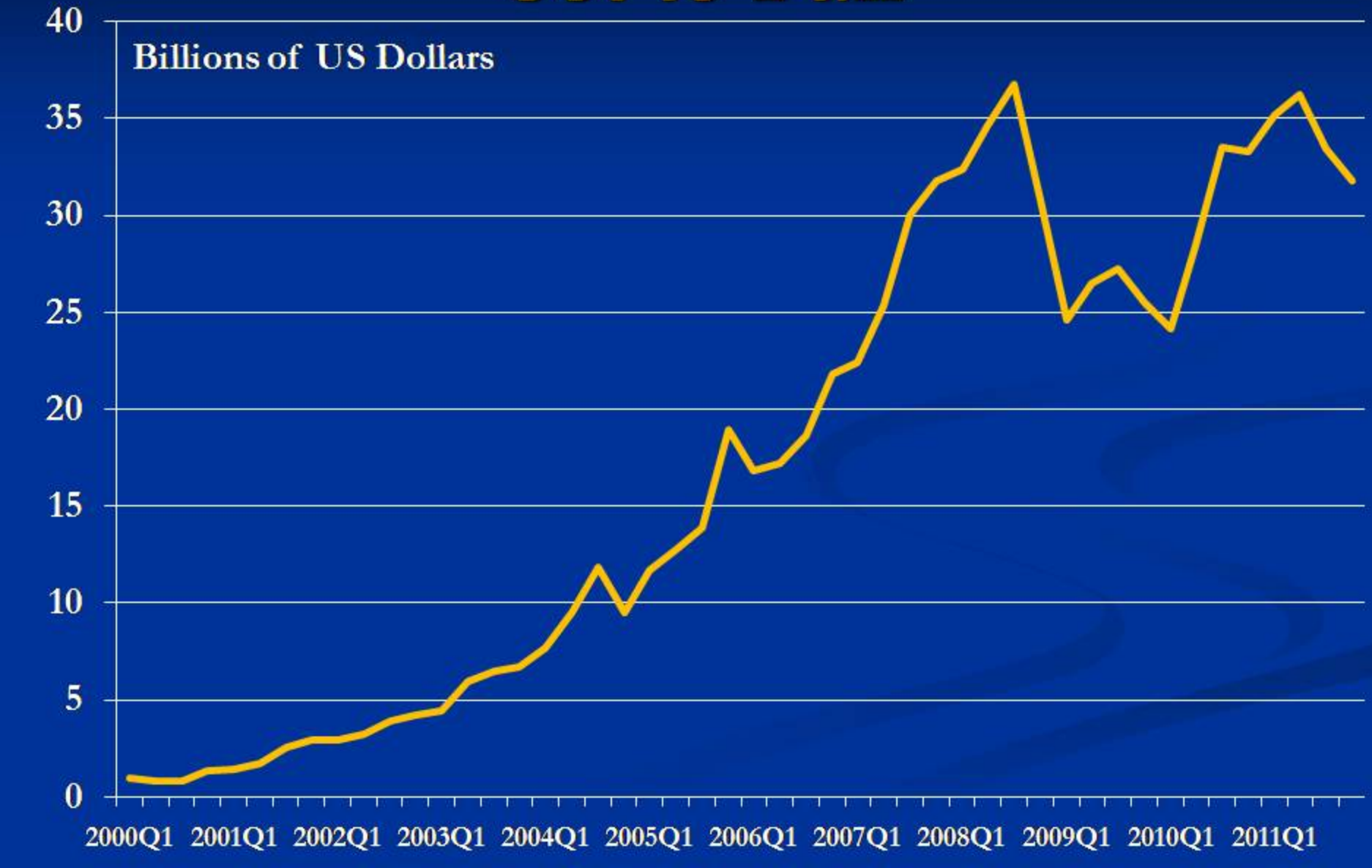
Budget Balance: Shaky at 5% of GDP



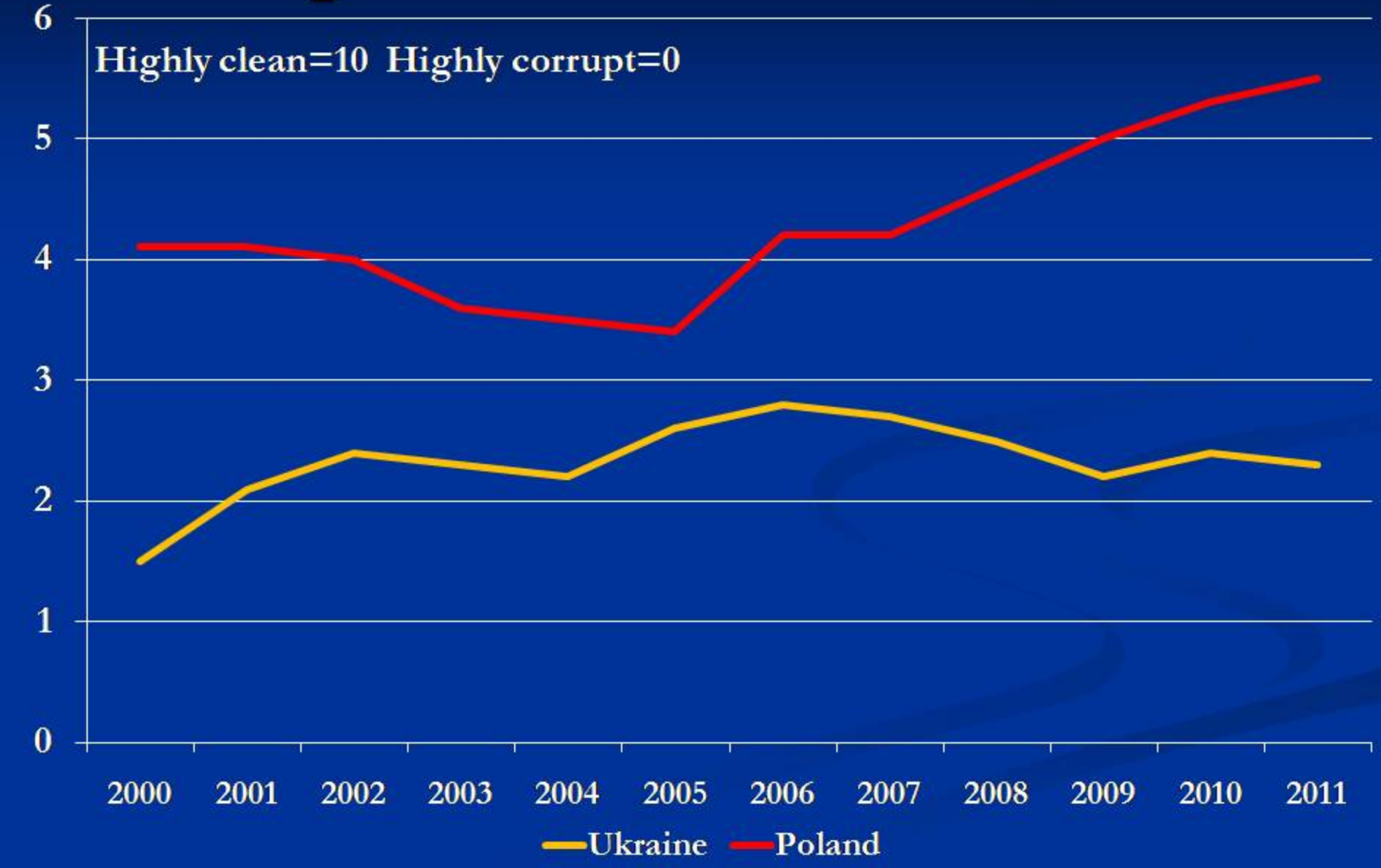
Current Account Deficit Rose to 5.6% of GDP in 2011

International Reserves 2000-2011

Set to Fall

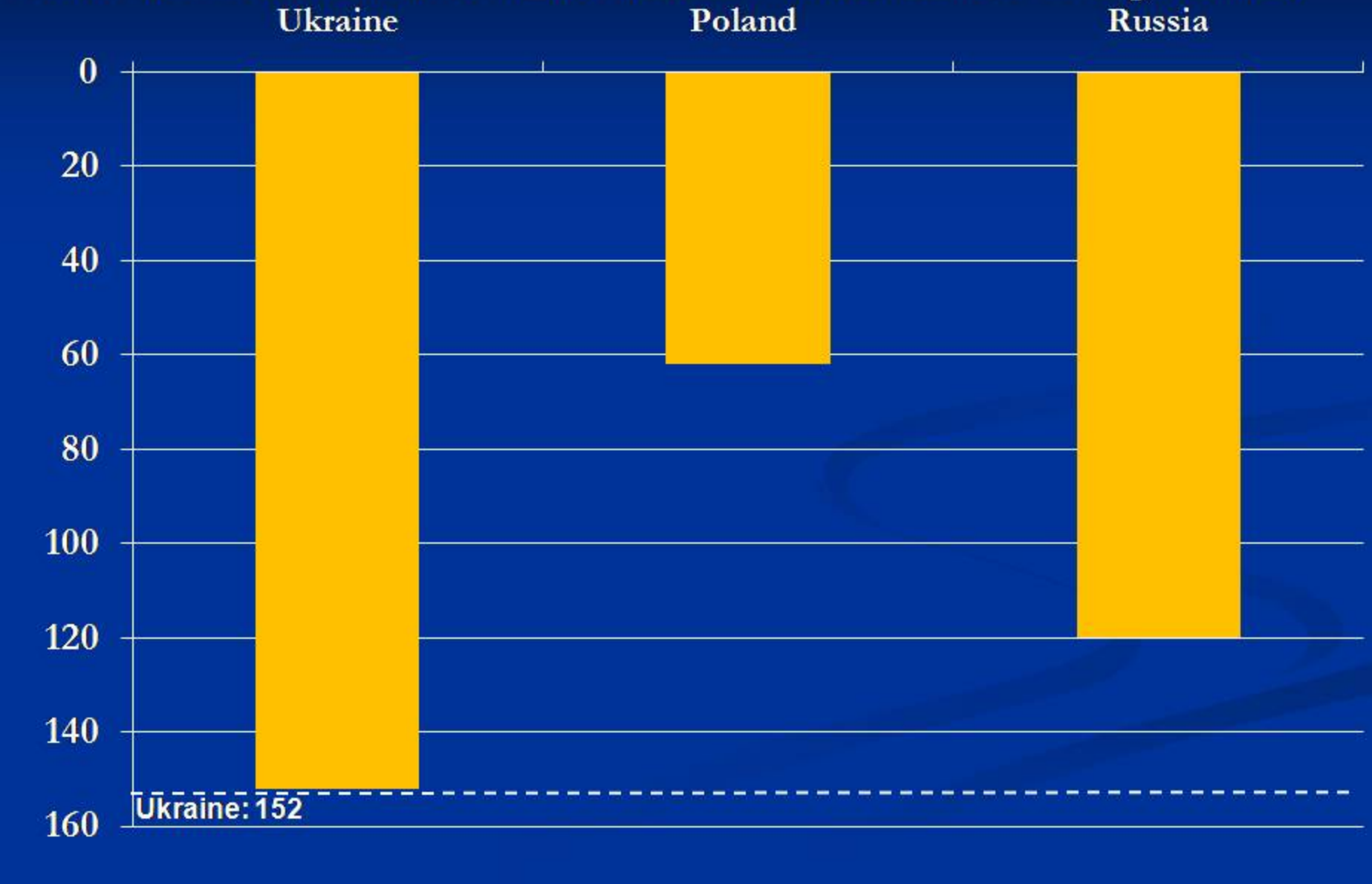


Corruption: From Bad to Worse



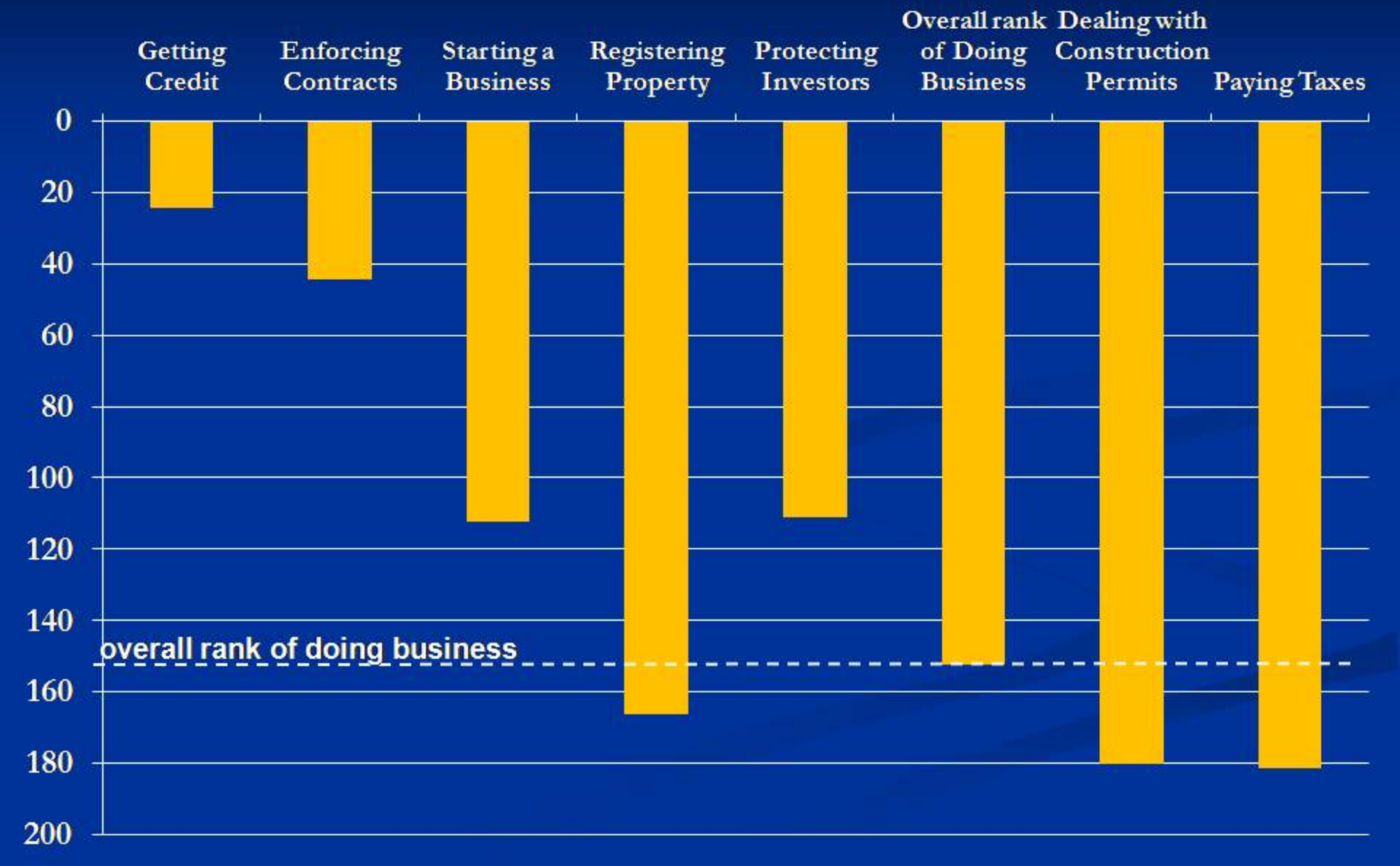
Doing Business 2012: Worse

Out of 183 Countries. Lower Rank Indicates Greater Ease of Doing Business



Ease of Doing Business 2012

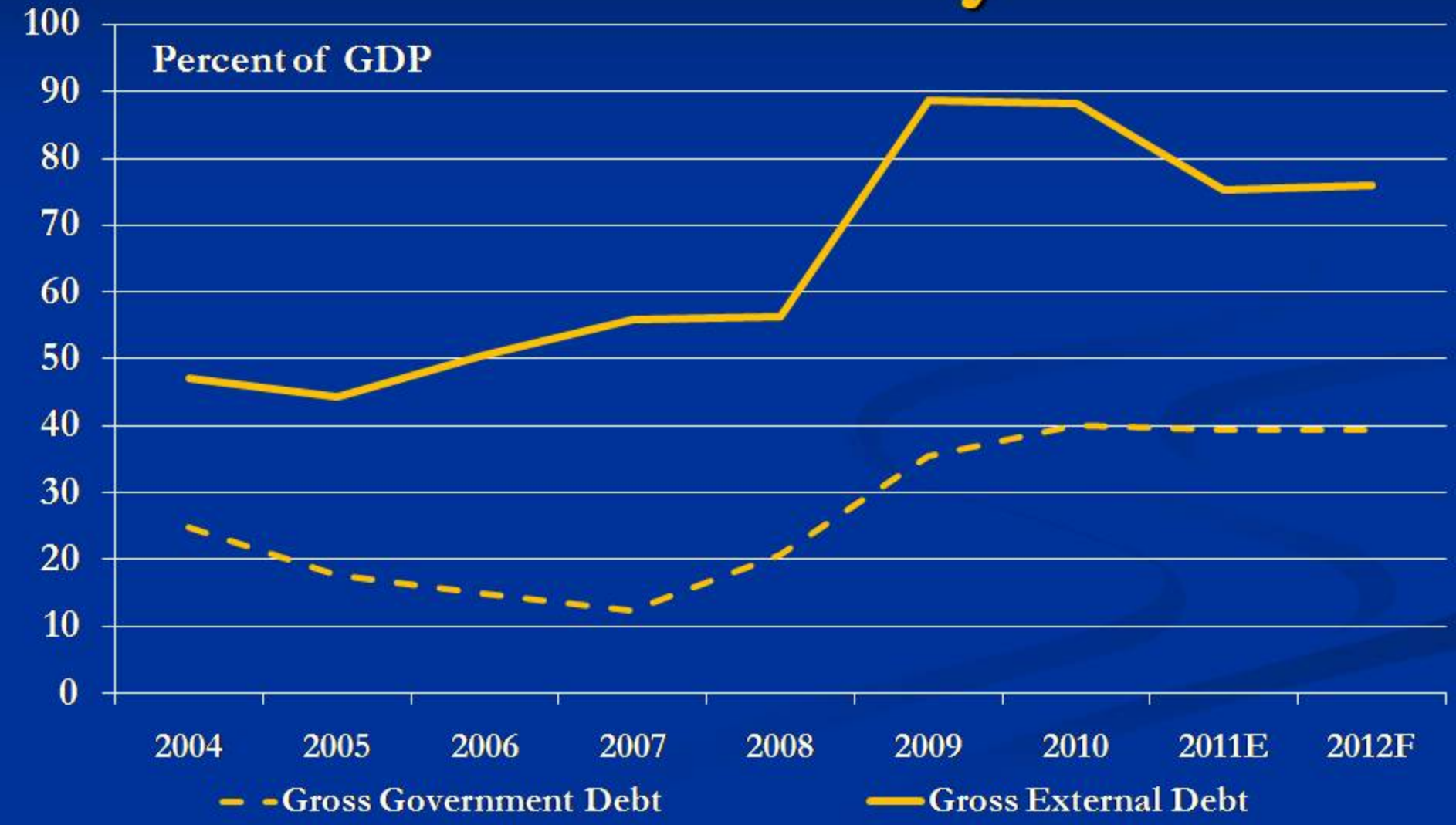
Out of 183 Countries. Lower Rank Indicates Greater Ease



International Economic Relations: Awful

- IMF gave no credits in 2011. Ukraine reneged on promises
- Russia demands very high gas prices and offers nothing
- EU offered substantial FTA, but objects to political repression

Government and External Debt: Scary



Public Financing Needs

$12.3 billion in 2012 (6.7% of GDP)

- Eurobonds: closed
- Domestic treasury bills: very expensive
- EU: closed due to political repression
- IMF: demands large gas price hikes
- Russia: demands Customs Union plus Gas Transit System
- Russian bank loans possible

Private External Financing Needs

$51.3 billion in 2012 (27.8% of GDP)

- Great vulnerability to euro crisis: dominant bank financing can freeze at any moment
- Russian banks expand: already 11% of banking assets

Meager Economic Prospects

- Economic growth: 2% a year?
- Main danger: excessive public and private debt service
- No international perspectives
- Steel prices are soft
- Devaluation likely

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UKRAINE

HOW UKRAINE BECAME A MARKET ECONOMY AND DEMOCRACY

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