

ICPS newsletter

Cabinet of Ministers Action Plan: A tool for harmonising social interests in Ukraine

As mandated by the Constitution of Ukraine, the Cabinet of Ministers developed an Action Plan, titled "Reforms for Prosperity". Approved by the Verkhovna Rada two weeks ago, the government's Action Plan features the unprecedented social function of serving as a public policy tool. The Cabinet of Ministers of Ukraine and the International Centre for Policy Studies held a public discussion of the government Action Plan on April 15. This discussion was the first in a series of public hearings to be held at ICPS during May

Government Action Plan is a means of public policy

Public policy is inseparable from the understanding that various social groups have different interests and that their harmonisation is required in conditions of social democracy. Mr. Yuri Yekhanurov, first deputy Prime Minister of Ukraine, noted that under the prior totalitarian political regime, problems of differing and often opposing interests was solved by force; and in the process of developing state policy, only the interests of the authorities were taken into account, which then were imposed on society by retaliatory measures. But this practice is inadmissible for a democratic society, where government policy should involve numerous social and legal interests, and reconcile them.

To this end, several questions emerge: What is the mechanism of reconciling social interests? How can the government implement goal-oriented and consistent social policy while taking various interests into consideration? The means of harmonising different social interests is the Government Action Plan.

The process of reconciling interests is reflected in the Action Plan's main principles:

- social goals set forth as priorities of the Plan;
- key problems to be solved by the government, Parliament, and public participation;
- ways of problem resolution;
- understanding of the outcomes;
- public strategy of implementation.

Mr. Yekhanurov stressed, "The Soviet government was governed by the principles of a single ideology. The President's policy program and its manifestation—the Cabinet of Ministers' Action Plan—is the return of common sense, and a transition to ways of

thinking about the future that have been adopted in developed countries of the world".

Building a civic society and market economy are the major tasks

Mr. Serhii Tihipko, Minister of Economy of Ukraine, focused on the main ideas taken as the principles of the Government Action Plan:

- for the nearest future, the main task of the government is to create within short period of time and provide conditions for sustainable economic growth, which is possible only in a developed market economy;
- only economic freedom and economic incentives can drive economic growth;
- economic transformation can be achieved only if social stability is guaranteed;
- one of the problems of previous governments was the lack of priorities, with their wish to manage and control all processes resulting in dissipated efforts and resources;
- new procedures needed to be designed for government work that will ensure honesty and transparency of government activities.

The Government Action Plan is aimed at reforming the overall system of economic relations, rather than effecting separate sectoral changes. The government strategy was developed on the basis of state policy priorities, not economic sectors.

Mr. Tihipko added that the main government objectives are to build a civil society and to establish a socially oriented market economy. Human beings are the greatest value. This slogan has become the core of the Plan and should remain the main criterion for future government actions. The government promises to help those people who really need it.

The Minister emphasised the fundamental distinction of the current Plan—the

government proclaims that its policy principles are the support of private ownership, freedom of business activities, competition, and stabilisation of the economy.

Establishment of an effective government machine is a prerequisite for Plan fulfilment

Mr. Viktor Lysytsky, Government Secretary, pointed out that today the role of bureaucratic support of processes at the political level of the state has been strengthened significantly. To ensure effective implementation of the Government Plan, it is necessary to create a capable government machine which will operate under conditions of tough budget

Next Week

Problems of property liability. ICPS and the Coordination and Analysis Center for Ukrainian Business Associations will host a seminar on "Problems of property liability to the budget" on April 25.

Seminar participants will discuss the following questions:

- what kind of debtor liabilities are of higher priority—those to the state or to private lenders;
- what tax pledges should be and to what extent they are necessary;
- whether asset impoundment is expedient;
- ways of resolving the problem of collecting tax debts of state enterprises;
- the role of controlling bodies in the process of debt collection;
- whether the usage of indirect and analogous methods of determining the size of tax debts is practicable under current conditions.

Presentations will be given by Mr. Serhii Teriokhin, first deputy head of the Verkhovna Rada Committee on Finance and Bank Activities, and Ms. Olena Ivaschenko, expert of the Coordination and Analysis Center for Ukrainian Business Associations.

Concerning invitations for this seminar, please contact Olga Kolovitskova, tel.: (380-44) 463-5974, e-mail: OK@icps.kiev.ua

restrictions. The following steps should be taken in order to realise this idea:

- to continue separating the functions of politicians and public officers, to give politicians the opportunity to focus on fundamental civic problems;
- to place a great emphasis on the functions

of policy analysis and strategic planning of government activity;

- to ensure transparent public procedures for approving policy decisions of the Cabinet of Ministers;
- to relinquish the concentration authority and give more independence to enterprises.

Mr. Lysytsky reported that the functions of the Cabinet of Ministers Secretariat have already been revised: Secretariat departments have been reformed according to functional criteria, and now the efforts of the Secretariat will be directed to fulfilling overall national objectives. ■

Comments of participants in the public discussion

Yevhen HRYHORENKO, Head of the Department of Economic and Social Policy of the Administration of the President of Ukraine: "The President supports the Government Action Plan. It totally reflects the principles of the President's Address to the Verkhovna Rada. The President is concerned about how to ensure the Plan's implementation so as not to distort its main objectives, and for the decisions to be not only on paper."

Vladyslav KASKIV, coordinator of the Freedom of Choice Coalition: "We should not talk about the problem of social mistrust in previous government programs. There is no such problem, since previous governments did not even have any real action plans. It is great progress that public discussions of the Government Plan are being held today. Civic support is a very important resource for ensuring the effective implementation of the Action Plan."

Vitali MELNYCHUK, deputy head of the Accounting Chamber of Ukraine: "Conditions for implementing this Action Plan are most difficult compared to the programs of previous governments. The gap between declared goals and real results has led to discreditation in society of the very term 'government action plan'."

Petro POROSHENKO, National Deputy of Ukraine: "The main element of implementing the Government Action Plan is effective collaboration between the government and the Verkhovna Rada. Today, the majority of parliamentarians of Ukraine are inclined towards constructive co-operation with the government."

Oleh SOSKIN, director of the Institute of Society Transformation: "The Action Plan is interesting and qualitatively better than previous government programs. However, this government has already been functioning for 120 days. We know that the average Ukrainian government has been in office for 360 days. So, the new government has only 240 days left. If during 240 days the government could achieve at least minimal progress, it will be awarded an additional 200 days."

ICPS begins a series of public hearings.

During the month of May, the International Centre for Policy Studies, with the financial support of Freedom House, will hold six public discussions of the Government Action Plan:

- administrative reform (on May 4);
- agricultural reform (on May 12);
- regional reform (on May 17);
- budget policy (on May 24);
- changes in the business environment (on May 31);
- reform policy in the power sector (on June 7).

For information on participating in these public discussions, please contact Olga Kolovitskova, tel.: (380-44) 463-5974, e-mail: ok@icps.kiev.ua, or Andrew Bega, tel.: (380-44) 463-5967, e-mail: ABega@icps.kiev.ua

"Dollarisation" in Ukraine can be overcome

The phenomenon of "dollarisation"—residents in a given country holding a portion of their assets in foreign currency—has become widespread in transition economies. Ruslan Piontkivsky, ICPS senior economist, analyses this problem in his paper "Dollarisation Effects on Macroeconomic Policy in Transition Economies: The Case of Ukraine". He finds that the difference in rates of return does play a significant role in explaining dollarisation, and makes the conclusion that a large part of dollarisation represents asset substitution. However, unlike what happened in Latin American, there is no evidence so far of downward rigidity in the dollarisation pattern in Ukraine. The main conclusions of Piontkivsky's paper are presented below

The dollarisation indicator, measured by foreign currency deposits as a share of all deposits, averaged 40% in transition economies by mid-1998. In Ukraine, foreign currency deposits constituted 44% of all deposits in commercial banks at the end of 1999.

Dollarisation typically occurs in high-inflation countries with underdeveloped capital markets, where the domestic currency has ceased to be an effective means of store of value, an unit of account, and medium of exchange. Residents in such countries hold a significant share of their assets in the form of foreign currency, notably the US dollar, and foreign currency-denominated assets. This may represent currency substitution, used for transaction purposes, and asset substitution, which serves as a means of savings.

Experience of Latin America shows downward rigidity in the dollarisation. Incentives diminish for households and enterprises to switch back to the domestic currency, even after the achievement of macroeconomic stabilisation.

Among the author's several conclusions is the warning that the results should be treated cautiously, in spite of stated data limitations. Dollarisation indicator does not include foreign currency cash holdings and cross-border deposits.

First, the level of dollarisation in Ukraine is quite high, and macroeconomic policy disregards it at its peril, for both fiscal and monetary policies are constrained by its presence. For instance, the National Bank of Ukraine should ideally have higher foreign exchange reserves to forestall a run on foreign currency deposits.

Second, the significance of the real returns differential suggests that a large part of dollarisation constitutes asset substitution, i.e., firms and households use foreign currency as a more reliable store of value.

Third, unlike what happened in Latin American, there is no evidence so far of downward rigidity in the dollarization

pattern in Ukraine. This implies that higher real rates of return on hryvnia-denominated assets, such as commercial banks deposits, have the potential to diminish the level of dollarisation in Ukraine. The experience of some transition countries (e.g., Estonia, Lithuania, and Poland) has shown that creating an interest rate wedge contributed to reducing dollarisation. This could be explained by the tight monetary policies under stabilisation efforts, but mainly by the progress in financial liberalisation, such as market determination of nominal interest rates.

The decrease of dollarisation would contribute to improving the effectiveness of monetary policy, lessen the negative consequences of fiscal deficits, and decrease the probability of banking crises occurring. However, room for decreasing dollarisation is limited, because the globalisation of goods, services, and financial markets presume some level to exist as an outcome of portfolio diversification. ■

Ruslan Piontkivsky presented his paper at an international conference titled "Cross-Border Capital Flows in Transition Economies", organised by the Economic Education and Research Consortium in Kiev on May 12–13. ICPS congratulates Ruslan on winning first prize. For additional information please contact the author by email at RPiontkivsky@icps.kiev.ua

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