

ICPS newsletter®

ICPS downgrades its economic forecast for Ukraine

ICPS has downgraded its economic forecast as export conditions took a sharp turn for the worse and access to external borrowing became more restricted, both as a result of the deepening global crisis. In the initial ICPS forecast, GDP was expected to grow, though at a slower pace, during the forecast period. Now ICPS analysts foresee much slower economic growth in 2008, a decline in 2009, stagnation with gradual recovery in 2010, and modest growth again in 2011

Ukraine's economy reacted quickly to deterioration in the world economy. Manufacturing output contracted, massive job cuts began, the hryvnia fell sharply, and Ukrainians lost confidence in the banking system. These are just a few of the symptoms of Ukraine's economic crisis. The extreme vulnerability of Ukraine's economy to the global crisis is due to its considerable openness and to dependence on external credits.

ICPS analysts have downgraded their GDP forecast by 3.1 pp to 2.6% in 2008 because of a lower forecast for exports and consumption. ICPS analysts expect manufacturing and construction to decline in 2008.

ICPS analysts also expect the NBU to intervene less on the currency market, given the extensive reduction in its reserves in October–November 2008 as it propped up the hryvnia. The ICPS forecast is for the exchange rate to fluctuate at UAH 7.0/USD by the end of the year.

ICPS economists also expect negative trends in the financial system and the world economy to deepen in 2009 and Ukraine's GDP to fall 5.2%. Export-oriented manufacturing will contract, which will affect related markets. To minimize costs, exporters will cut payroll, send employees on unpaid leave, or downsize. Restricted lending and a weaker hryvnia will decrease imports in dollar terms.

Meanwhile, investment will contract 15% as domestic and external demand decline, profits fall, credit becomes scarce and equipment more expensive with a weaker hryvnia, and investment risks grow with the uncertain economic outlook. Public investment will be low as the Government focuses on social spending. As consumer incomes and credit decline, private consumption will contract 8%. Sales of cars and other big ticket items will suffer the most.

Meanwhile, the hryvnia will continue to weaken relative to the US dollar.

ICPS analysts say that GDP will grow 1% in 2010 and 3.5% in 2011. As external demand picks up very modestly, exports will grow in 2010–2011. Imports will also grow, but at a slower pace, given a weaker hryvnia, little credit and slow income growth. According to ICPS analysts, the current account deficit will turn into a surplus in 2010. A switch to a positive current account should bolster the hryvnia slightly.

These aspects of Ukraine's economic outlook in 2009–2011 will be covered in more detail in the next issue of **quarterly predictions**, scheduled for publication in December 2008 (electronic version) and January 2009 (print version).

quarterly predictions (QP) is a comprehensive, independent analysis of current economic trends with a three-year rolling forecast of developments in

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Ukraine's economy. QP offers the most in-depth macroeconomic indicators, status and trends for the real, financial and public sectors and for Ukraine's households. ■

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How to set up a rational system for managing the security sector

On 6 November 2008, the International Centre for Policy Studies and the Razumkov Center held a joint seminar called "How to set up a rational system for managing the security sector." This event is part of a project entitled "Ukraine in the Regional Security System: Methodological issues in forming a national security policy." This project's goal is to institute a consolidated methodological basis for developing a rational system for managing the security sector. Event participants agreed that there is an urgent need to establish a single methodological approach to building a rational system of security sector management

The seminar audience, which included specialists from related departments of central executive bodies, educational institutions and research centers in Ukraine, was invited to discuss five key issues:

- the methodological foundations of government strategic management;
- general news about organizational management entities;
- contemporary requirements of the process and system of managing the security sector;
- building a general systemic model of government management in national security;
- the document flow system that regulates the security sector.

A specific approach to strategic management was presented to the seminar participants, including its most complicated aspect: strategic planning that is linked to the resolution of both strategic (development) and operational (functioning) objectives.

The participants, in turn, drew up the requirements for the organization of management, which included, among others, the minimal quantity of administrative links, the elimination of overlaps and duplications, and responsiveness and flexibility in work.

Most of the participants came to the conclusion that, without a multi-faceted, rational strategy and implementation within the framework of results-oriented short-term measures, all efforts to move Ukraine to the path of progressive socio-economic development are doomed to fail. At the same time, the country's participation in a variety of international

programs and the need to multiply investment severalfold require not only a greater degree of transparency in plans that are seen as promising, rules of behavior and norms for Ukraine's international cooperation, but also the institution of methodological support and standard ways of arguing in support such plans.

During the discussion, experts came to the conclusion that new conditions are forcing the search for appropriate organizational foundations for management structures. They also exchanged ideas on the latest trends in the development of organizational management structures and agreed that, lately, many countries are paying greater attention to targeted program approaches to planning. Thus, the foundation of an organizational entity should be based on the planned process of reaching a specific goal (goals) and on the establishment of the functions of the organizational execution system, its structural components, and the links between them. This will encourage the integration of intellectual, natural, industrial, informational, and other resources to resolve real social issues.

Representatives of the National Academy of Defense presented the event participants with a dynamic model of the process of providing national security. Representatives of ministries and agencies agreed that dynamic modeling offers the opportunity to prepare the necessary input data for preparing forecasts regarding the progress of various processes and to evaluate the effectiveness of management decisions, risks attached to them, and potential negative impact from instituting them. At the same time, there was the thought

that, in order to increase the effectiveness of public administration in national security, new management technologies and new response approaches to the effects of various types of destructive factors and phenomena would be needed, in addition to the traditional understanding of processes in the national security system.

Among the issues raised during the expert discussions were also such matters as flaws in current practice with managing national security. Thus, experts were of the opinion that it lacked formalized algorithms and appropriate instruments for forecasting the degree of usefulness of results of management decisions that have been carried out (or not, as the case may be).

During this exchange, experts agreed that, in order to ensure the necessary level of national security, the country needs a suitable national security policy to be drafted and carried out, one that establishes such basic areas as: adequate Budget funding for the security sector, that is, at a level that allows for its reform and development as a whole; what the optimal structure and number of personnel of security sector bodies should be, based on urgent national security needs and the country's economic capacities; support for the Armed Forces of Ukraine and other military formations at a high level of fighting capability, battle-readiness, and rapid mobilization; a higher degree of professionalism and accountability at all levels in the security sector, and so on. ■

This project is part of the "Ukraine-NATO partnership network to raise public awareness" program and is funded by the Ministry of Education and Science of Ukraine.

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