

ICPS newsletter®

Crisis determines current economic trends in Ukraine

On May 12, the International Centre for Policy Studies' senior economist Ildar Gazizullin participated in a press conference called "Ukraine's Economy: Current trends," organized by Ohliadach, a Ukrainian news site. The economist explained the importance of the International Monetary Funds release of the second tranche of a US \$16.4bn Stand-by facility it agreed with Ukraine, the situation on currency markets, and the direction that Ukraine's GDP is going in

The IMF bites a second time

The fact that the International Monetary Fund released the second tranche to Ukraine is very positive, says the ICPS senior economist. The country desperately needs an injection of hard currency in order to return upcoming debts.

The Fund gradually eased its requirements of Ukraine. Whereas at the beginning it insisted on immediate radical reforms, especially to the pension system, by the end it was prepared to compromise. The IMF allowed Ukraine to use part of the credit to finance the Budget deficit and to put off unpopular measures until next year.

All stable on the currency front...

In the last month, the dollar exchange rate has stabilized in Ukraine. There were no longer sharp fluctuations such as last year and the beginning of 2009.

The reason for this temporary stabilization should be looked for in the improving balance of trade and a reduction in free cash among ordinary Ukrainians. According to ICPS forecasts, the hryvnia will weaken again and at the end of 2009 it will likely be down to UAH 10/USD. This will be partly due to a need for hard currency as external debts come due and demand exceeds supply.

... but GDP keeps sliding

Current data for Q1'09 suggest that GDP has fallen sharply in Ukraine. ICPS

believes the fall to be 20%. By the end of the year, the situation will improve somewhat, but not radically. According to the ICPS economist, it will still fall 14% for the year.

Those branches that are most critical in shaping GDP—trade, manufacturing and construction—are all experiencing a steep decline. In those sectors, output will remain at very low levels for some time to come. The steel industry is probably the only sector that will be able to swiftly increase output as prices rise on world commodity markets. ■

A full version of the briefing can be found at: <http://conf.oboz.ua/conference/903.aspx>.

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The Eastern Partnership: Thinking ahead, moving forward

The International Centre for Policy Studies welcomes the launching of the Eastern Partnership as a positive step in the European Union's relations with its eastern neighbours in general, and with Ukraine in particular. This initiative may improve strategic thinking on all sides, while at the same time helping to integrate willing partner countries with the EU. One of its key benefits is the possibility of economic integration

and convergence. The EaP must evolve on a primarily bilateral basis, with assessment based on individual country achievements rather than on group performance.

While participation in the Eastern Partnership does not prejudge further relations with the EU, it does present a number of interesting integration possibilities – not the least of which is demonstrating Kyiv's ability to think strategically, on which the recent gas crisis and current political squabbles have cast serious doubt.

The precise place and importance of the Eastern Partnership in Ukraine-EU relations remain to be determined. Kyiv and Brussels are already engaged in major negotiations, namely on an Association Agreement to include deep free trade. The initiative de jure extends to Ukraine a regional cohesion programme and a Capacity-Building Instrument. We call on the European Commission to ensure the rapid introduction of these programmes.

The Eastern Partnership is not a prelude to EU membership. Still, regulatory convergence and legal approximation through the EaP will, if seriously attempted, show that the Ukrainian political elite is serious in its commitment to reform a dysfunctional system and illustrate its ability to deliver on its promises.

The Eastern Partnership is a double-edged sword. If used properly, it will cut through red tape; if not, it will scratch Kyiv's already dented reputation.

Please find below the policy recommendations formulated by civil society organizations from six partner countries for presentation at the Eastern Partnership Summit in Prague on May 7: <http://www.icps.com.ua/doc/Eastern%20Partnership%20Towards%20Civil%20Society%20Forum.pdf>.

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