

# ICPS newsletter<sup>®</sup>

#7 (470), 6 April 2010

## Macroeconomic forecasts vs Ukraine's 2010 Budget

*Independent think-tanks and the Government of Ukraine are unanimous in their forecasts of the prospects for Ukraine's economy in 2010. At the same time, realistic projections on the part of the Government does not necessarily mean that the Budget will be planned appropriately, let alone carried out...*

On 24 March, the Government confirmed a new macroeconomic forecast. Accordingly, economic growth is expected to revive in 2010 and GDP should rise 3.7%. The Government also expects corporate profits to improve and the labor market to recover: unemployment will go down and real wages will grow. At the same time, inflation will be higher than it was in 2009, with both consumer and producer prices picking up pace again. Moreover,

foreign trade will continue to show a large negative balance.

According to ICPS, the Government forecast is realistic and corresponds overall to the expectations of economic analysts. Moreover, the Government is generally more pessimistic than independent experts, although its forecast for the main macroeconomic indicator, real GDP growth, is better than that of outside experts.

Table 1. Macroeconomic forecast for 2010

	Government	Consensus forecast	ICPS
GDP, % annual change	3.7	3.4	3.5
CPI, % annual change	13.1	12.5	11.0
PPI, % annual change	14.4	14.0	13.0
Unemployment rate, ILO methodology, % of economically active, aged 15–70	8.1	–	9.0
Balance of trade, millions USD	-1,903	-1,482	-600

Sources: Verkhovna Rada, MinEcon, ICPS

The Government forecast is a suitable basis for putting together the 2010 Budget. However, the appropriateness of the indicators themselves will not resolve the Budget problems that the country

has struggled with over the past year. For instance, the 2009 deficit shot up to 11% of GDP, without even taking into account prepayments of taxes and fees.

Table 2. 2009 State and Consolidated Budget Deficits

	bn UAH	% GDP
Consolidated Budget deficit according to reported data	21.6	2.4
incl. State Budget deficit	19.9	2.2
Bank recapitalization	19.6	2.1
Naftogaz Ukrainy capitalization	24.4	2.7
Special borrowing rights	15.7	1.7
Unreturned VAT payments	24.2	2.7
<b>Consolidated Budget deficit</b>	<b>105.5</b>	<b>11.6</b>
<b>incl. State Budget deficit</b>	<b>103.8</b>	<b>11.4</b>

Source: MinFin; calculations: ICPS

### New ICPS Director

The International Centre for Policy Studies (ICPS) announces a change in its director. The ICPS Supervisory Board met in March 2010 and gave extremely high marks to the work of Ms. Olga Shumylo, who has been the Centre's director since 2008. It was decided to invite Ms. Shumylo to join the ICPS Supervisory Board.

The Centre's new director will be Ms. Vira Naniivska, a renowned expert on public administration and the reform of political institutions, and a proponent of institutional desovietization. She is also known as an active promoter of policy development, economic research and administrative reform throughout Central and Eastern Europe. Ms. Naniivska's leadership role in this area has contributed to the establishment of full-fledged public policy development and advocacy. Ms. Naniivska has worked in this area since 1978, when she defended her Candidate's thesis at the Institute of Oriental Studies under the Academy of Science of the USSR, on the modernization process in Japan. As director of program development at the World Bank's representative office in Ukraine from 1992 to 1997, Ms. Naniivska participated in the development of technical assistance programs for the Ukrainian Government. Director of ICPS from 1997–2006, Ms. Vira Naniivska remains an active promoter of civil society and NGO development in Ukraine. Over 2006–2009, Ms. Naniivska was involved in reforming the Civil Service in Ukraine as president of the National Academy of Public Administration (NAPA) under the Office of the President of Ukraine. As Chair of the board of the City Institute of L'viv from July 2009 to February 2010, she was in charge of developing the Unified Strategy for Sustainable Development in L'viv.

The International Centre for Policy Studies is one of the most influential think-tanks in Ukraine. The ICPS Mission today is to foster the further democratization and modernization of Ukraine through active and sound Europeanization. The Centre works primarily towards bringing Ukraine closer to European and international standards by offering independent analysis of public policy and serving as a platform for representatives of the government, business and the public to debate state policy.

ICPS analysts expect the Government to look for ways to increase the revenue side of this year's Budget and to possibly cut spending somewhat. However, its efforts are unlikely to bring much in the way of results, either way.

The only way to get Budget receipts to rise significantly when economic growth is slow is to increase the share of GDP redistributed through the Budget. Thus, the Government could decide to increase tax pressure on taxpayers and to draw evaders out of the shadow economy. The first of these is unlikely to have a positive impact on increasing revenues. The tax burden on legal business is already high—indeed, too high, if we take

into account the proportion of advance payments and VAT refund arrears—, so increasing pressure risks either reducing output or pushing more businesses into the shadow economy. The second means of improving Budget revenues is much more promising, as many companies pay no taxes at all. However, persuading them to go legitimate is not easy, nor will it be a swift process.

Options for reducing public spending are also limited. To significantly reduce capital spending is impossible, as it was already extremely low in 2009. ICPS analysts say that the Government will not want to cut current spending, as this will inevitably lead to a deterioration in household finances.

At the same time, the Government will have to start taking measures to economize on spending in the public sector. Still, any steps are likely to be very long and drawn out and will not have an immediate impact on public spending.

As a consequence, it will not be possible to seriously cut the deficit in 2010. ICPS analysts expect that it will end up only marginally lower than it was in 2009. What's worse, the Budget will continue to be hand-managed. ■

*For additional information, contact ICPS senior economist Ildar Gazizullin by phone at (+38044) 484-4400 or via e-mail at [ig@icps.kiev.ua](mailto:ig@icps.kiev.ua).*

---

## Demographic Policy in Ukraine: Why pay more?

On March 29, ICPS Social Economy Program Manager Maksym Boroda presented "Demographic Policy in Ukraine: Why pay more?" at a press briefing. This report is based on a study of demographic policy in Ukraine.

"There's little point in thinking that we can beat the demographic crisis by 'buying' our way to a higher birthrate. Whether we pay UAH 8,000, 10,000, or 15,000 for every newborn child, it won't make much of a long-term business. Certainly, it has not in any other country so far..." said Mr. Boroda. "Childbirth benefits are needed, but they are not a panacea."

The experience of many countries has shown that even extremely large benefits for having children do not ensure a real improvement in demographic trends. The immediate improvement in birthrates as a result of such measures generally is more of a shift forward in the timing of births, but not in the overall number of children that they bear.

To produce a real improvement in the country's birthrate is only possible by influencing older women of childbearing age, when they feel their biological clock

ticking and realize it's "now or never" for them to have a child. A mere shift in the timing, however, simply means that there will be a dip in the birthrate later on, as well as unpredictable reproductive behavior.

This kind of broad and unconditional use of direct incentives for giving birth, which is what Ukraine's entire demographic policy is currently based on, risks increasing the birthrate primarily among impoverished and marginal population groups. This, in turn, could lead to a series of negative social outcomes, such as the abandonment of children, growing homelessness among children, and so on.

The key speaker at this event, National Deputy Stanislav Dovhiy, emphasized the importance of reforming socio-demographic policy based on the evidence of a threatening demographic trend in Ukraine today:

- the average life expectancy in Ukraine is 66, which is 11 years less than in Western European countries;
- mortality among men of working age is very high: men are four times more

likely to die in their thirties than women;

- infant mortality is two times higher in Ukraine than the average for Europe;
- Ukraine has one of the lowest birthrates in the world: to maintain a stable population size, the birthrate would have to nearly double;
- epidemiological indicators for tuberculosis are 10-12 times higher than the same indicators for developed countries;
- every day, 35 more people are infected with HIV in Ukraine;
- public health depends 50% on lifestyle. In Ukraine, 12 liters of alcohol are consumed per capita every year. According to the World Health Organization (WHO), average consumption over 8 liters annually leads to a gradual deterioration of the society itself. ■

*For additional information, contact the author of publication Maksym Boroda by phone at (38044) 484-4400 or via e-mail at [mboroda@icps.kiev.ua](mailto:mboroda@icps.kiev.ua).*

**icps newsletter** is a bi-weekly publication of the International Centre for Policy Studies, delivered by electronic mail. To be included in the distribution list, mail your request to: [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua).

**icps newsletter** editor: Olga Lvova ([olvova@icps.kiev.ua](mailto:olvova@icps.kiev.ua))  
Phone: (38044) 484-4400. Fax: (38044) 484-4402  
English text editor: L.A. Wolanskyj  
Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies (ICPS) is a leading independent think-tank in Ukraine. ICPS was established at the initiative of the Open Society Institute in 1994. ICPS's mission is to support the further democratization and modernization of Ukraine through proactive, consistent Europeanization.  
Address: vul. Pymonenka 13A, Kyiv, Ukraine 04050  
Web-site: <http://www.icps.com.ua/eng/>