



Ukraine's Economy Shows Signs of Recovery

Ukraine's economy is showing signs of a modest recovery as industrial output grew by 5 percent month on month in July. Yet official figures reveal that the economy shrunk 18 percent in the second quarter despite this representing a marked improvement over the 20.3 percent decline in the first quarter.



▲ Demand for steel from the Far East is pivotal to Ukraine's economic recovery.

"We can certainly speak of signs of a stable improvement in the economy," said Prime Minister Yulia Tymoshenko, who, although cautious, welcomed the figures.

Industrial production declined by 26.7 percent year on year in July, compared to a drop of 30.4 percent over the first 7 months of the year. This improvement in fortunes is largely attributable to a faster than predicted rebound in China, with Ukraine's steel output jumping 15 percent in response to demand from the Far East. Despite this record figure, steel output was down 40 percent for the 7 months to July compared with the same period in the prior year.

The speed of the rebound of the tiger economies has taken many analysts by surprise. When comparing the second quarter GDP with the first quarter at an annualised rate, China's GDP grew by 15 percent, South Korea by nearly 10 percent, Singapore by a staggering 21 percent and

Indonesia by 5 percent. *The Economist* described the signs as a "lush jungle" rather than green shutes. And the positive news does not just come from Asia. France, Germany and Japan have all reported that they have come out of recession.

This sense of a modest recovery has given analysts some cause for optimism that Ukraine's economy will grow next year by up to the 3 percent.

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Bohdan Danylyshyn, Minister for the Economy, said, "Given that Ukraine's industry is highly integrated into global markets ...improvements in the industrial sectors of EU countries will stimulate demand for Ukrainian goods in the short term."

While noting "the economic recovery is now on track," Prime Minister Tymoshenko requested others "not to interfere in bringing the country out of the crisis."

This reference was aimed at dissuading presidential candidates from working to prolong the crisis and prevent a recovery for purely political reasons.



Recently, President Viktor Yushchenko attempted to stymie the government by vetoing important budgets, whereas the Party of Regions blocked parliament, preventing the passage of bills needed to secure funding from the International Monetary Fund (IMF). In order to comply with IMF conditions, the Cabinet of Ministers bypassed parliament by passing Cabinet resolutions to secure a \$3.3 billion tranche payment from the \$16.4 billion stand-by facility agreed with the IMF last October. To-date nearly \$11 billion of this loan has been dispensed.



Mr Yanukovych's party has also blocked attempts to appoint a Finance Minister – a position that has been vacant since February. This is bizarre given that the government has been left to navigate through the bleakest economic recession since the 1930s without being able to fill this key post.

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“We have a programme in place,” said the premier, “and for the sake of the nation and the prospects of ordinary citizens, we must not be impeded from implementing it.”

Despite indications of a possible recovery, Ukraine's economy has taken a battering and the IMF predicts that this year Ukraine's GDP contraction will be 14 percent. The World Bank believes growth next year will be 1 percent, while the government considers the recovery could be stronger with growth in 2010 of 3 percent, rising to 5 percent in the coming years.

Meanwhile the government is executing on its bank recapitalisation programme and the currency has stabilised at around UAH 8 to the dollar. Notwithstanding this, the hryvnia is likely to come under pressure in the coming months as billions of dollars of corporate debt matures and becomes payable.

“They are not out of the woods completely,” an American financier in Kyiv told *Inform*, “but things are picking up in certain quarters with some of the smaller investors coming back to the market. The signs of an improvement are there.”

Parliament Overturns Vetoes

At Friday's extraordinary session of the Verkhovna Rada, a total of 384 out of 409 lawmakers voted to overturn President Viktor Yushchenko's veto of the UAH 9.8 billion (\$1.24 billion) budget for funding infrastructure preparations for UEFA EURO 2012. The original budget was approved by parliament on 1 July.



The motion to override the president's shock veto of 3 August was carried with cross party support. It was backed by 152 lawmakers from the Bloc of Yulia Tymoshenko (BYuT), 166 from the Party of Regions, 20 from the former pro-presidential Our Ukraine - People's Self-Defence Bloc, 27 from the Communist Party and 19 from the Lytvyn Bloc.

“I am pleased that politicians today left their political colours at the door to ensure the financing of the tournament preparations,” said Ms Tymoshenko, “and it is not a moment too soon as financing cannot be delayed for a single day.”



The president vetoed the bill as he thought the extra budget allocation would impact the money market, destabilise the hryvnia and hamper the country's ability to control inflation. But according to lawmakers, the UAH 9.8 billion sum is equal to the profit generated by the National Bank of Ukraine – a profit that is handed back to the state anyway.

The extra funding is badly needed in order to keep Ukraine's plans on track to co-host the soccer tournament on 9 June – 1 July 2012. Ukraine and Poland were selected by Europe's governing body for soccer to co-host the tournament – which is held every four years – in April 2007.



▲ Work is continuing around the clock on refurbishing the National Olympic Stadium in Kyiv, the proposed venue for the final of UEFA EURO 2012.

Olympic Stadium goes on around the clock. At night the spotlights of welders can be seen and heavy work on the stadium starts early in the morning. The 84,000-seat stadium is to be the venue for the tournament final.

Indeed, stadium preparations across the country appear to be going well. This week, media are being invited to see the opening of the newly completed 50,000 seat Donbass Arena stadium in Donetsk. This impressive stadium is the new home to UEFA Cup Champions Shakhtar Donetsk. And starting in September in Lviv, stadium contractors will work in three shifts to put the construction programme for the Lviv stadium back on schedule by December.

"We fully appreciate the value of EURO 2012 to Ukraine," said Deputy Prime Minister Hryhorii Nemyria, "not only in terms of national prestige but in putting Ukraine squarely on the tourism map and attracting investment. We aim to put on a first class tournament."

Lawmakers Overturn Veto on Election Law

At the same special parliamentary session, some 325 lawmakers overturned the presidential veto on the election law passed by parliament in July. The new law reduces the length of the presidential campaign from 120 days to 90 days. Also, it raises the amount of the election deposit from UAH 500,000 to UAH 2.5 million (\$63,000 to \$315,000), with deposits returned only to those taking part in the second round. Lost deposits will be given to the state budget. The new law also tightens up voting procedures to close off avenues for electoral fraud. For example, it curbs absentee ballots that

But UEFA has been critical of the pace of preparations for the tournament in Ukraine. Of particular concern is the state of infrastructure such as roads, airports and hotels. On 13 May, 2009, UEFA officials gave the cities of Lviv, Donetsk and Kharkiv until 30 November this year to prove they are capable of staging tournament games.

Work on readying Ukraine for the tournament is continuing apace. In Kyiv, refurbishing the National



▲ Ukraine's Verkhovna Rada.



enabled voters to vote multiple times in the previous election. The new law also requires voters aboard to register at embassies and consulates.

Ihor Popov, the deputy head of the presidential secretariat believes "most likely the head of state won't sign the law," and that the matter will be referred to the Constitutional Court.

A BYUT spokesperson said, "It makes perfect sense to save tax payers' money by reducing the length of the presidential campaign and adhering to international norms so as to prevent election fraud. The aim is to strengthen the democratic process."

Invitation to IMF to Help Draft 2010 Budget

Prime Minister Yulia Tymoshenko has invited the International Monetary Fund (IMF) to help draft Ukraine's budget for 2010. The extraordinary invitation is being viewed as a means to prevent the passage of the national budget from being a political football, as politicians gear up to contest the presidential elections next year.



Speaking last week at the World Congress of Ukrainians in Lviv, Prime Minister Yulia Tymoshenko called on the democratic forces to unite by nominating a single candidate to contest the presidential elections in January next year. The premier noted that the 2010 elections will be much more difficult than the elections in 2004, not least because of the public's dissatisfaction with infighting and the economic crisis.

Last Wednesday the premier told government officials that she had extended an invitation to Ceyla Pazarbasioglu, the IMF Mission Chief to Ukraine, for support. "I addressed the IMF and invited a special mission headed by Ceyla Pazarbasioglu [to visit Ukraine] from 31 August to 4 September to draft the budget for 2010," she said.

According to Ms Tymoshenko, the budget process is at risk because of the increasing politicisation caused by the presidential elections.

"Actually, the elections have started," said Ms Tymoshenko. She then went on to stress that there were no grounds to postpone the adoption of the state budget except for obvious political reasons. She maintained that next year's budget is being drafted according to schedule and will be tabled in time. Officials are preparing the budget in accordance with the macroeconomic forecast and budget deficit forecast

agreed with the international financial institutions.

"By inviting the IMF to scrutinise and effectively rubber stamp the 2010 budget, Tymoshenko is attempting to remove the political dimension to its preparation," said Dr Taras Kuzio, Senior Research Fellow in the Chair of Ukrainian Studies at the University of Toronto and Editor of the bi-monthly *Ukraine Analyst*. "She knows too well that this could become a major bone of contention. The last thing Ukrainian citizens need is for the 2010 budget to be delayed, so she's trying to elevate it above the political affray."