



UKRAINE'S BLUEPRINT

PRESIDENT LEONID KUCHMA OUTLINES THE CASE FOR FUTURE AID

When Ukraine became an independent country in 1991, it was poorly prepared. The state lacked elementary national institutions, and our terms of trade deteriorated sharply, as Russia raised its energy prices in 1992, leading to a severe structural balance of payments deficit.

During the past couple of years, Ukraine has also been the victim of misconceived economic policies. As a result, it was hit by hyperinflation of 10,155 per cent in 1993, as well as a drastic fall in production, a sharp decline in the standard of living, and corruption. But to its credit, Ukraine enjoyed democratic elections and a smooth transfer of power this summer.

By 1994, the economy was in a terrible state, with two overwhelming problems facing the country. First the budget deficit was projected at 20 per cent of gross domestic product for this year. Second, our trade deficit was running at \$3 bln a year. I have made the solution of these two challenges my political priority, because if they are not brought under control, the very survival of Ukraine could be endangered.

To make my priorities clear to the international community, I invited Mr. Michael Camdessus, managing director of the International Monetary Fund, as my first official foreign guest after being elected President of Ukraine in July. Two months later, Ukraine concluded its first agreement with the IMF, on a Systemic Transformation Facility (STF), finally signed yesterday.

We are initiating comprehensive economic reforms in Ukraine, drawing on the successful experiences of other countries in transition from administrative command economies to a market economy.

We have been successful in

maintaining our budgetary revenue at about 40 per cent of gross domestic product. But our first step will be to bring down the budget deficit for this year to 10 per cent of GDP.

To accomplish this, we have decided to undertake some important reforms. We shall unify our exchange rate and abolish all import subsidies, although that will bring about substantial price increases of imported oil and natural gas. Similarly, to reduce large subsidies for coal, we shall allow the domestic price of coal to rise. Certain agricultural prices will also have to rise, and rents will be gradually increased to reduce housing subsidies, but compensation will be given to the disadvantaged and a social safety net will be developed.

The National Bank of Ukraine is already pursuing a responsible monetary policy. It has brought inflation down to 2.5 per cent a month in both July and August of this year, though certain parliamentary decisions in August have led to a number of agricultural credits that have boosted inflation in September and depressed the free market exchange rate.

The second step will be taken at the beginning of next year. It is my intention that Ukraine shall conclude a fully-fledged "stand-by" agreement with the IMF this year. I then want my government to implement a macro-economic stabilization program. The budget deficit must not be larger than can be financed -- at about 5 per cent of the GDP.

Prices will be further liberalized and domestic trade completely so. All remaining export restrictions can then be abolished. In parallel, I intend to activate small-scale privatization and initiate a mass privatization before the end of the year.

Our present tax system is a shambles, with far too many loopholes and tax rebates. I have instructed my administration to put the system into order before December. Draft legislation has already been drawn up, cutting tax rebates to reasonable levels by international standards.

The short-term symbol of success will be the stabilization of the national currency, the hryvnia, in terms of both domestic prices and the exchange rate. Therefore, I want to peg the exchange rate of our currency from the beginning of 1995 and exchange our provisional coupon currency for our national currency. Its stability will symbolize Ukraine's maturing statehood.

The people of Ukraine have decided to put the economy right and we are prepared to bear the costs of adjustment. However, our economic situation is difficult, and our imports have already been reduced to a bare minimum. Further reductions would cause more suffering than I can justify to my people.

I am appealing to the international community to provide Ukraine with serious financial support now that Ukraine has become serious about reforming its economy. We are already working closely with the IMF, the World Bank and the EBRD, but we shall need bilateral financing from the Group of Seven and other western countries, as well as Russia, which is *de facto* our main creditor.

The G-7 promised Ukraine financial support of \$4 bln at its summit in Naples