



## Ukraine's Financial Ordeal

*Anders Åslund says that following its loan agreement with the International Monetary Fund, Ukraine faces political turbulence, a painful retrenchment, and a slow recovery. Åslund is the author of the forthcoming book How Ukraine Became a Market Economy and Democracy.*

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Steven R. Weisman: This is Steven Weisman from the Peterson Institute for International Economics. Our guest on Peterson Perspectives today is Anders Åslund, senior fellow at the Peterson Institute for International Economics and author of the forthcoming book, *How Ukraine Became a Market Economy and Democracy*. Thanks for joining us, Anders.

Anders Åslund: Thank you, a pleasure being here.

Steven R. Weisman: Over the weekend, Ukraine reached an agreement with the International Monetary Fund for a standby loan agreement to help it out of its financial crisis. Why did it have to reach that agreement?

Anders Åslund: For the last couple of weeks, international financial markets have totally seized up. For a Ukrainian company, if it needed to refinance an international loan, it essentially meant that they had to close down. You can't run a country without having access to the international financial market today.

Steven R. Weisman: You just returned from Ukraine earlier this month. What was it like?

Anders Åslund: It's a bit eerie. You see all of this construction—the cranes over a booming city with lots of sky-rise buildings being built—all of a sudden standing still. The equipment was still standing there just abandoned, but there were no people there.

Steven R. Weisman: Ukraine is one of several countries hit by this global financial contagion. Why is there a special concern about Ukraine?

Anders Åslund: You can say that it is strange because Ukraine's state finances are basically quite balanced. Ukraine has hardly any public debt. Its balance of payments is not great, but there are many other countries that have a worse balance of payments. The critical factors are two. The first is that the Ukrainian politics are so messy that the outside world doesn't believe in it. The other reason is that Ukraine is highly dependent on steel exports and the steel industry is now going down very, very fast.

Steven R. Weisman: Does this financial crisis threaten the democratic process in Ukraine?

Anders Åslund: It can do so. This is a very serious crisis, of course. The Ukrainian population can see that the politicians have been fighting among themselves for no good reason and ignoring a massive crisis. The political system's legitimacy naturally becomes questioned.

Steven R. Weisman: What have been the major factors that brought this crisis about?

Anders Åslund: You can say that it is that politicians have been sleeping at the wheel. The outside world has seen that. And the external business situation has deteriorated very fast because 40 percent of Ukraine's exports consist of steel, and previously, much of the steel was exported to China. Now, all of a sudden, China is exporting steel itself, and most Ukrainian steel is of rather inferior quality. Last month, Ukraine cut its production by no less than 30 percent, and that is of course felt. One of the biggest steel groups a week ago announced that it would sack no less than one-third of its workers.

Steven R. Weisman: What must Ukraine do immediately in the short term?

Anders Åslund: The only solution is serious belt-tightening, and you can do that in many ways. First of all, Ukraine has to tighten the state budget, although it's already in balance. Expenditures have to go down because revenues will fall in this situation, and the government is now announcing that it will freeze social expenditures only when inflation is relatively high. Taxes are not being raised much but excise taxes—for example, on cars—are likely to be increased, and consumer prices—notably on subsidized gas—will go up very substantially. And, of course, the exchange rate of Ukrainian hryvnia has already fallen by almost 30 percent, which means that imports have become much more expensive.

Steven R. Weisman: And these austerity measures will themselves create political problems and perhaps even instability—is that correct?

Anders Åslund: Indeed. If you are undertaking these actual measures, people have to trust that they are necessary and they must have a sense of legitimacy. Otherwise they will not be prepared to take them.

Steven R. Weisman: What is your impression of the popular feeling in Ukraine in this crisis?

Anders Åslund: People do not understand what is happening as yet. They do not quite see it as yet. They're just realizing, as I saw, that the construction cranes all of a sudden have stopped, and now the steel workers are being sacked. So they're confused. They thought that their economy was doing great. They thought that the international financial crisis was nothing that concerned them, and this was true as late as three weeks ago.

Steven R. Weisman: Ukraine actually has been doing pretty well over the last several years, has it not?

Anders Åslund: Indeed. Ukraine has had a growth rate of 47.5 percent from 2000 until now.

Steven R. Weisman: What are the long-term prospects for Ukraine?

Anders Åslund: I'm sure that Ukraine has good future prospects, but this could be quite a hard crisis. The fundamental thing driving the world today is economic convergence. If you have a reason to be a normal market economy with an open economy and predominantly private ownership, you rise toward the wealthy countries in the world as long as your economic policies are reasonable. And I think that will be the case in Ukraine, but Ukraine has missed a lot. Particularly, Ukraine has not legislated as much as they should have and they will suffer from this now.

Steven R. Weisman: How many years do you think it will take to climb out of this problem?

Anders Åslund: Normally, if you have a serious financial crisis, it takes three to four years to come out of it.

Steven R. Weisman: Anders Åslund, thank you very much for joining us for Peterson Perspectives today.

Anders Åslund: Thank you, Steven.

