

Oesterreichische Nationalbank's
Conference on European Economic Integration (CEEI)
"The Euro's Contribution to Economic Stability in CESEE"
November 16 and 17, 2009

***Ukraine 2008:
the lessons from the end
of a "miracle"***

Vladimir Dubrovskiy

Acknowledgments to CASE UA team, and Prof. Janusz Szyrmer



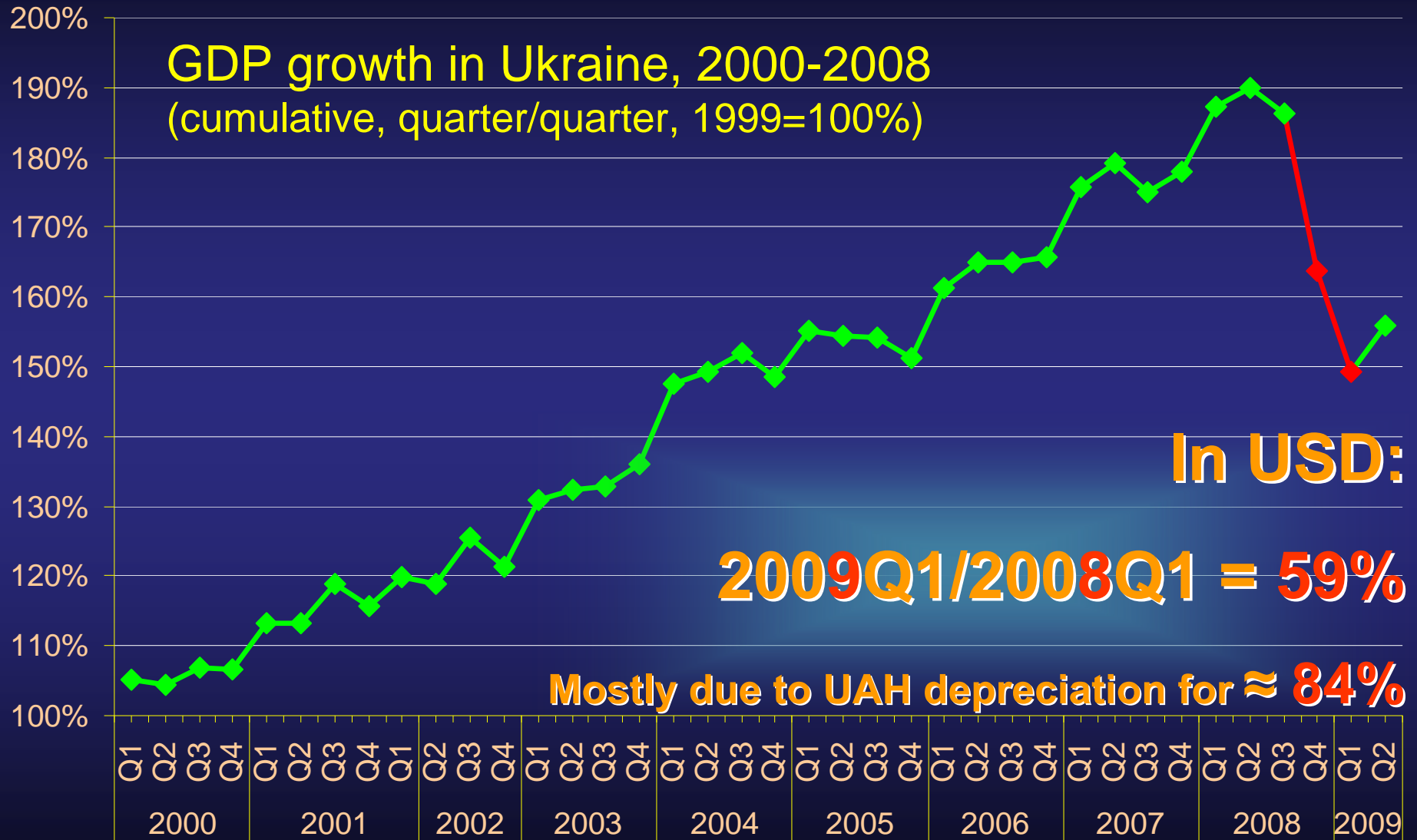
CASE Ukraine

www.case-ukraine.com.ua



What does the crisis mean for Ukraine

GDP growth in Ukraine, 2000-2008
(cumulative, quarter/quarter, 1999=100%)





Road to crisis: The Overconfidence

Government:

Overlooked "saturation"

Populism

⇒ No effective reforms

↓
Unsustainably rapid growth of real incomes

↓
No improvement in competitiveness and business climate

↓
No improvement in public sector

Private sector:

FDI inflow

Credit boom

↓
Too little restructuring

↓
Confiscatory taxation

Real estate bubble

Households:

UAH appreciation

INFLATION

Inefficient investments

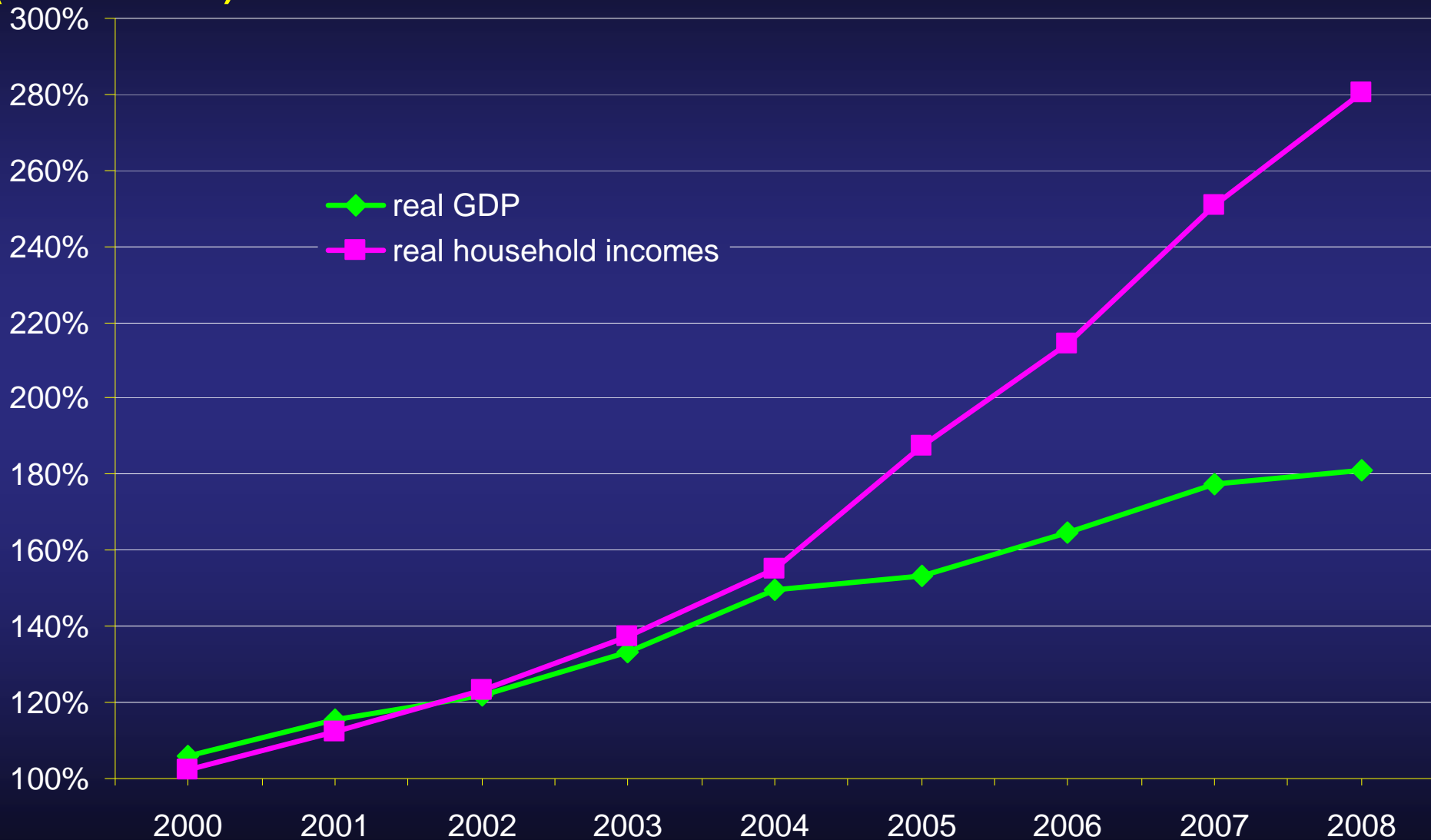
↓
Deteriorating trade balance covered with credits

↓
Export shock
Balance of payments crisis

The impact of populism

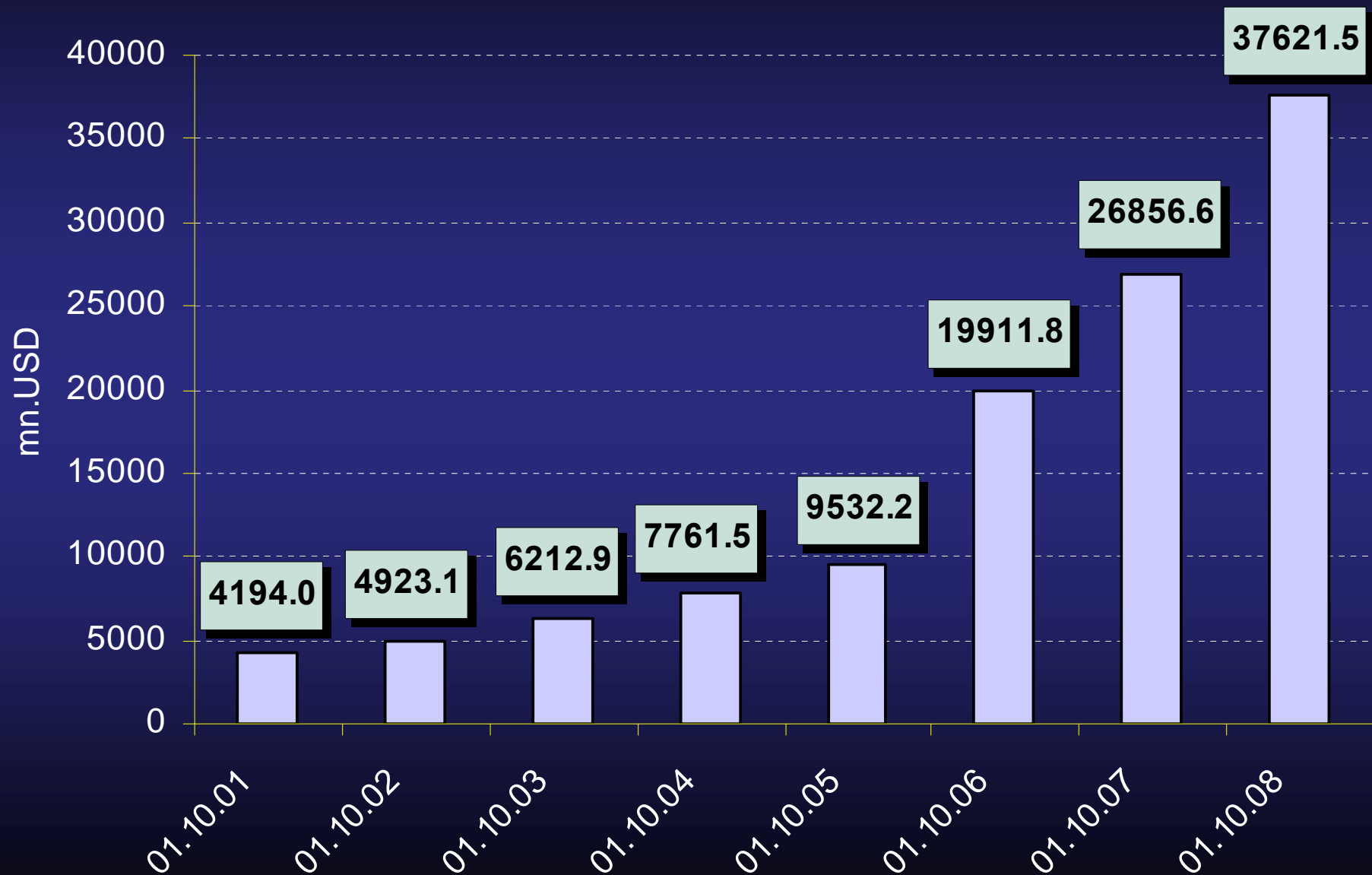


Cumulative dynamics of the real GDP and real household incomes (2000=100%)





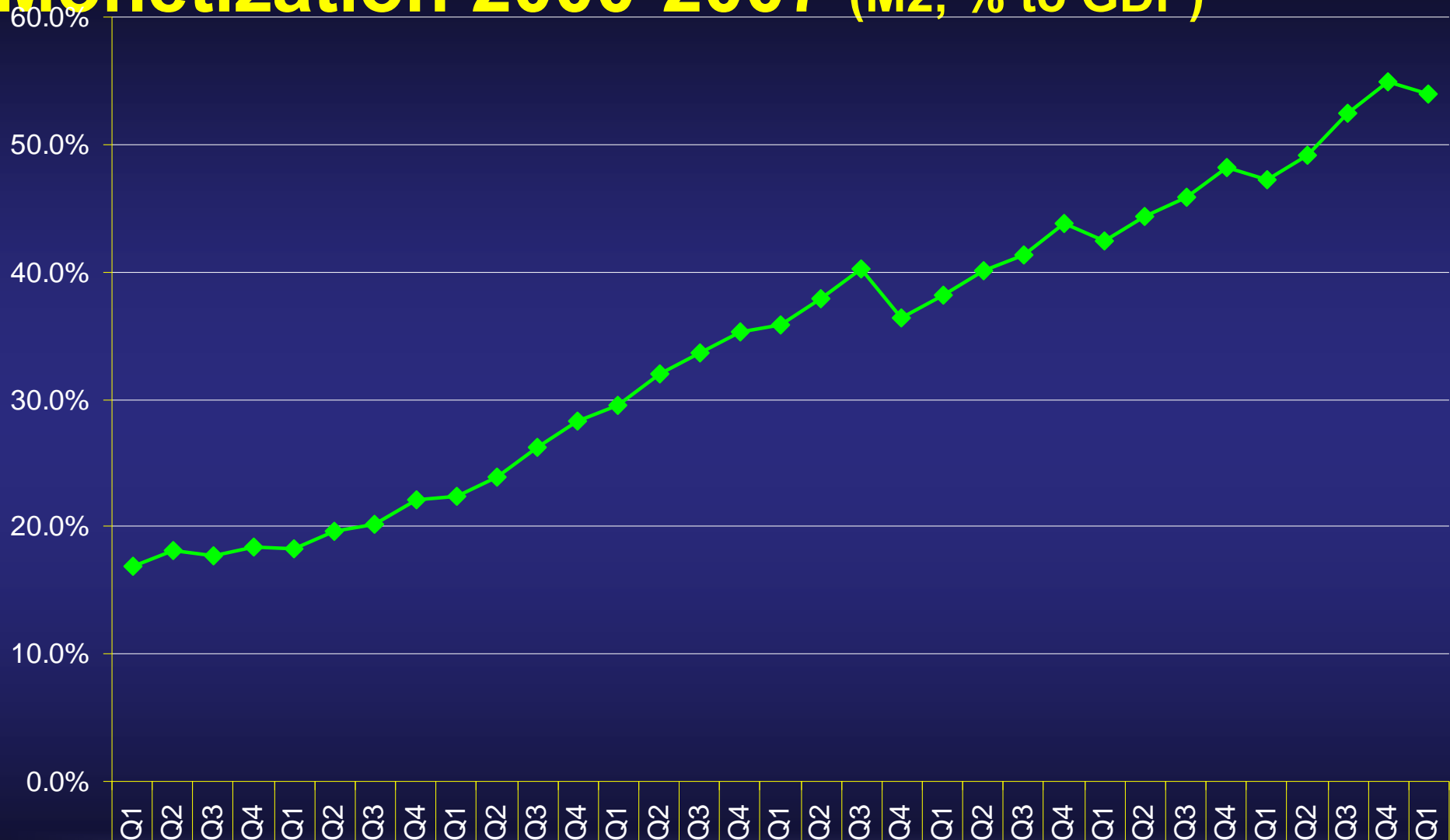
FDI stock: by years





Overlooked saturation:

Monetization 2000-2007 (M2, % to GDP)



Has caught up with the level of CEE countries.

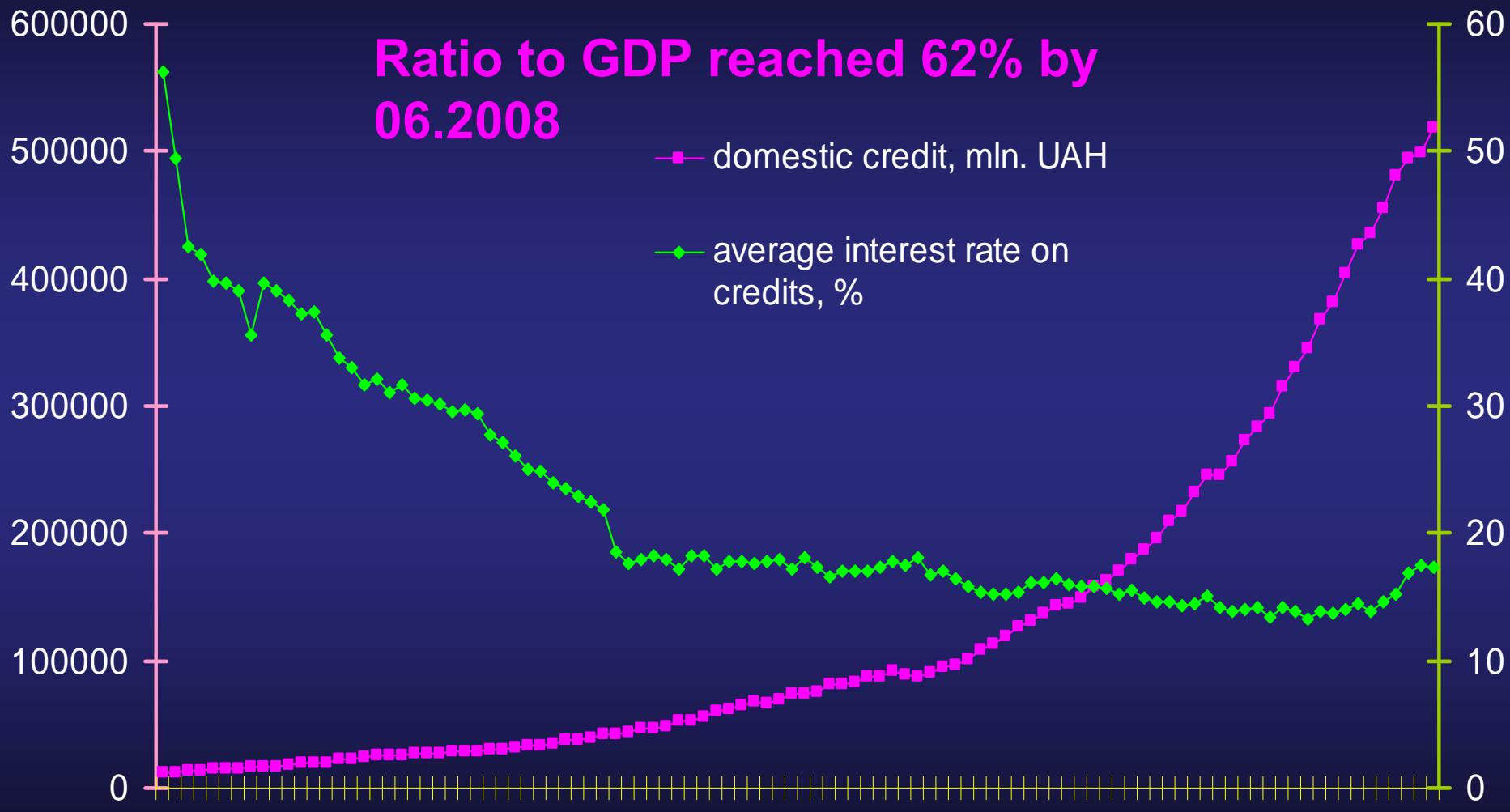
Could not increase in such a pace any more



The credit boom

Domestic credit grew up 28 times

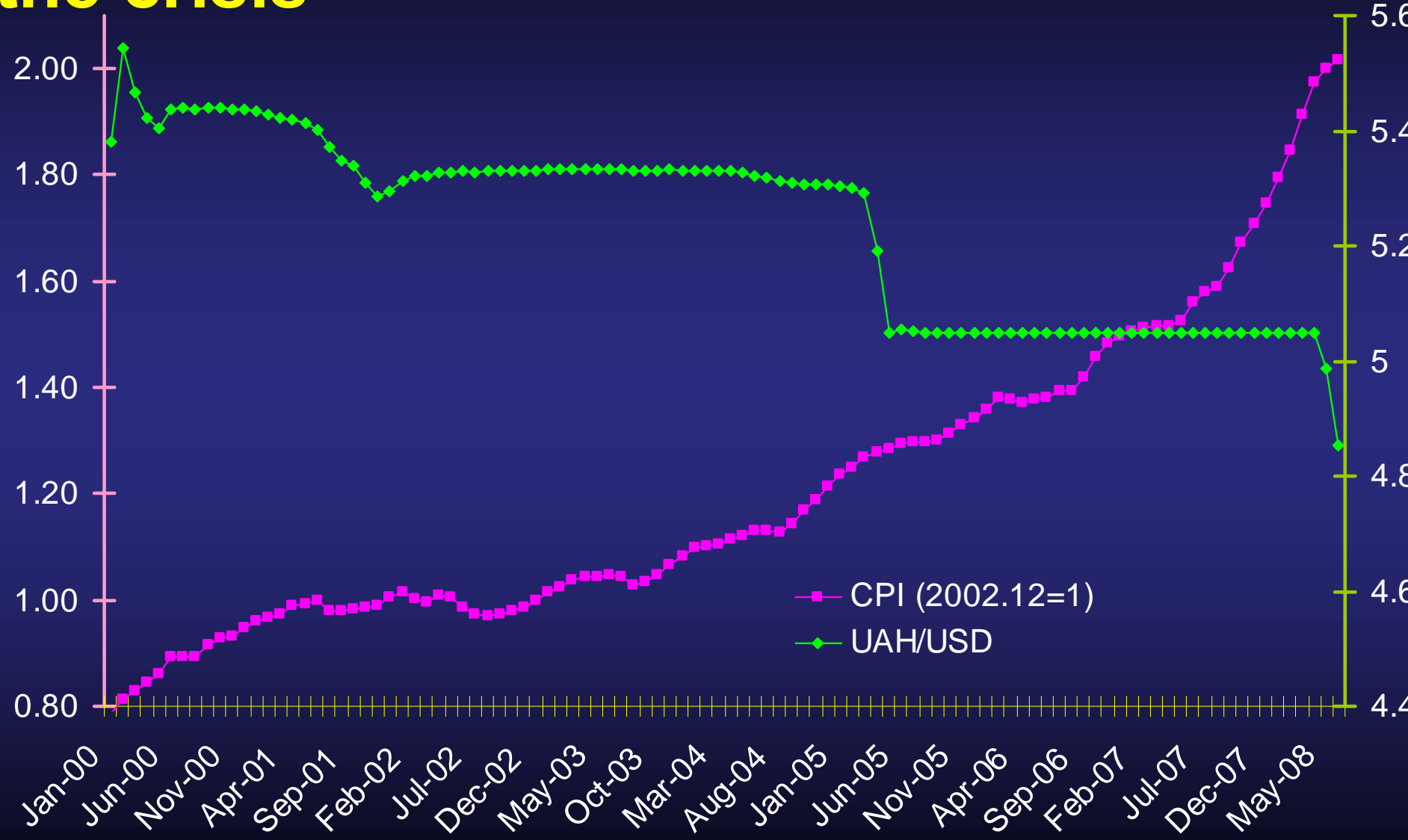
Ratio to GDP reached 62% by 06.2008



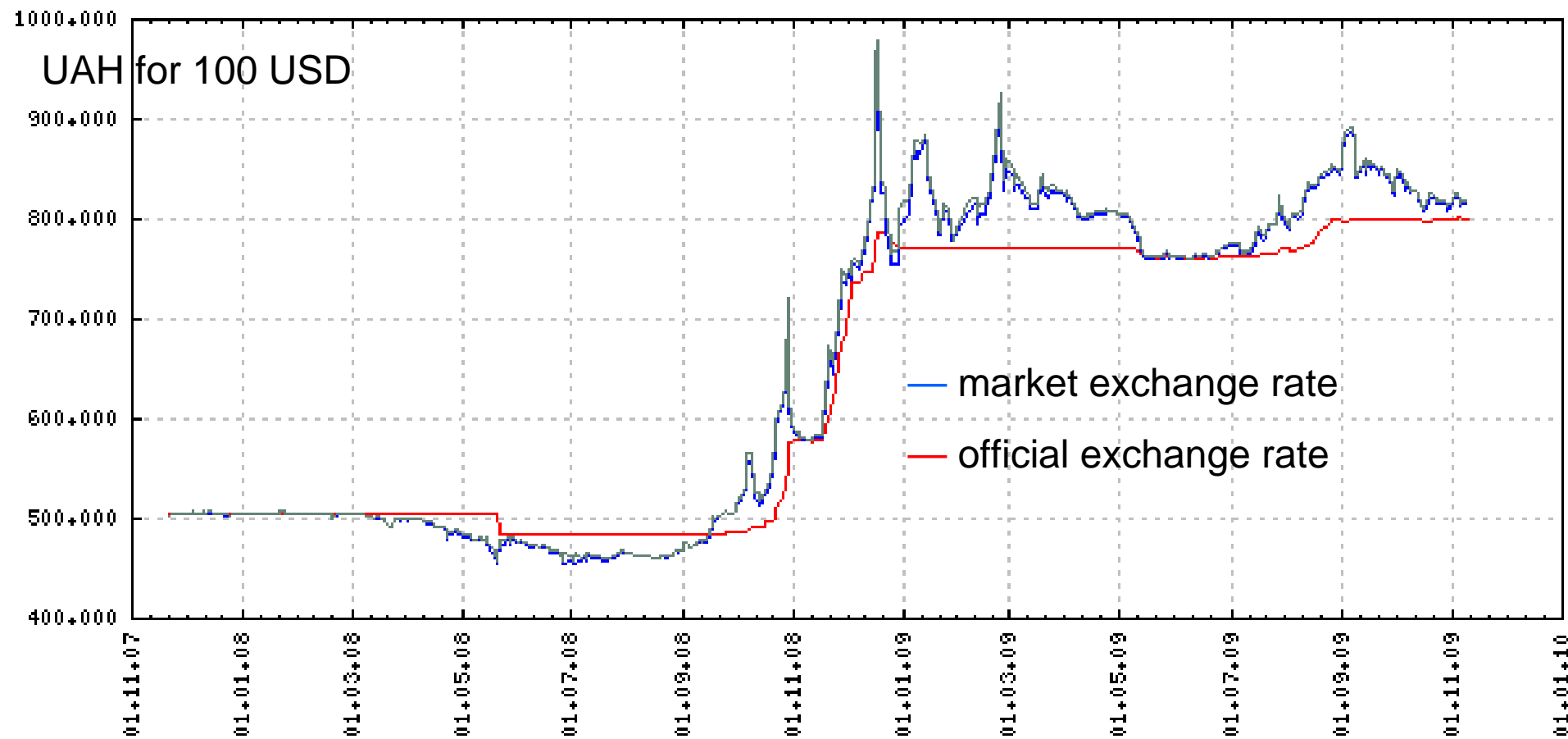
**Has caught up with the level of CEE countries.
Could not increase in such a pace any more.**



Exchange rate and inflation: before the crisis



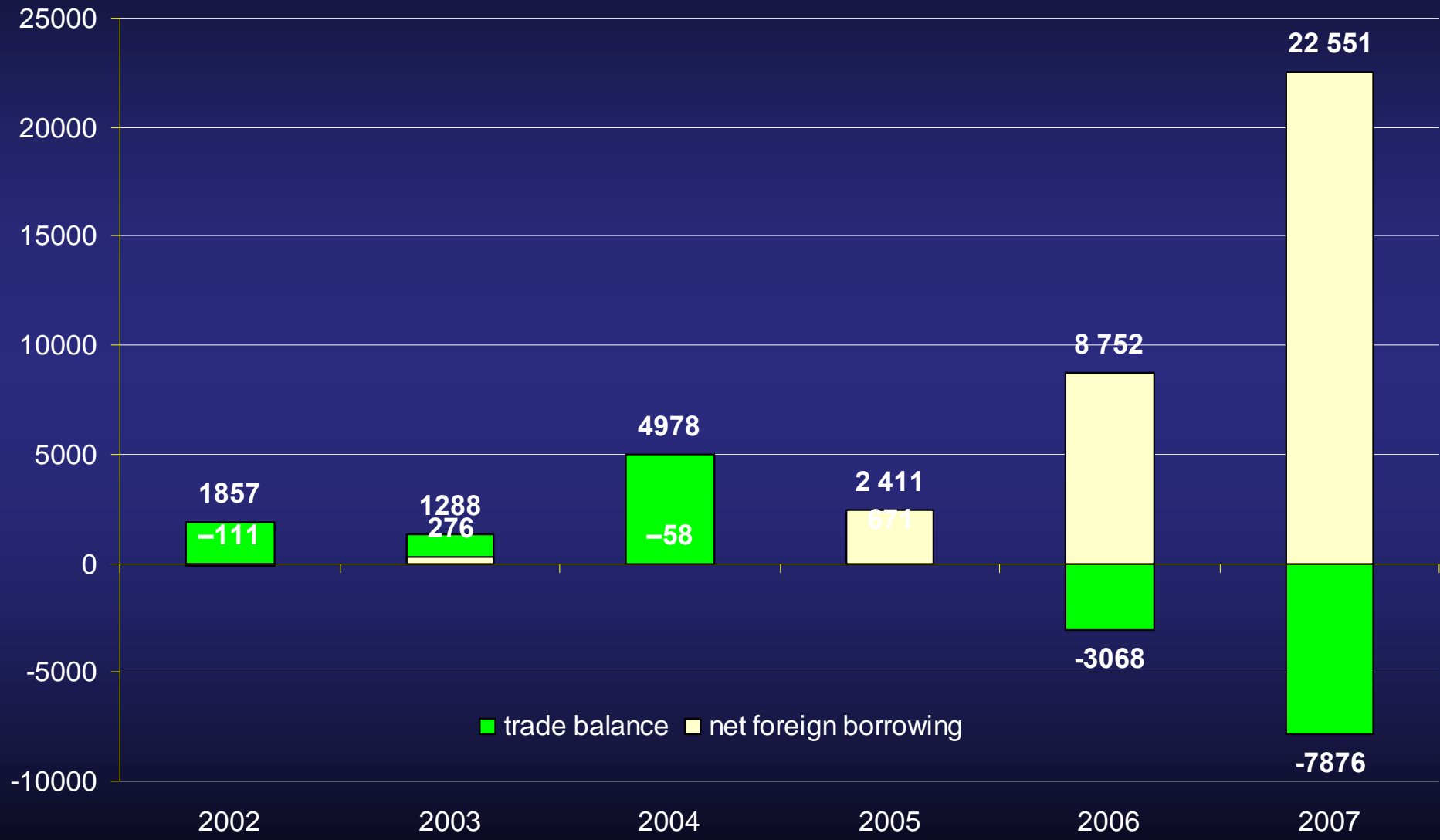
The currency crisis



Source: the Ukrainian Financial Server, <http://www.ufs.kiev.ua>

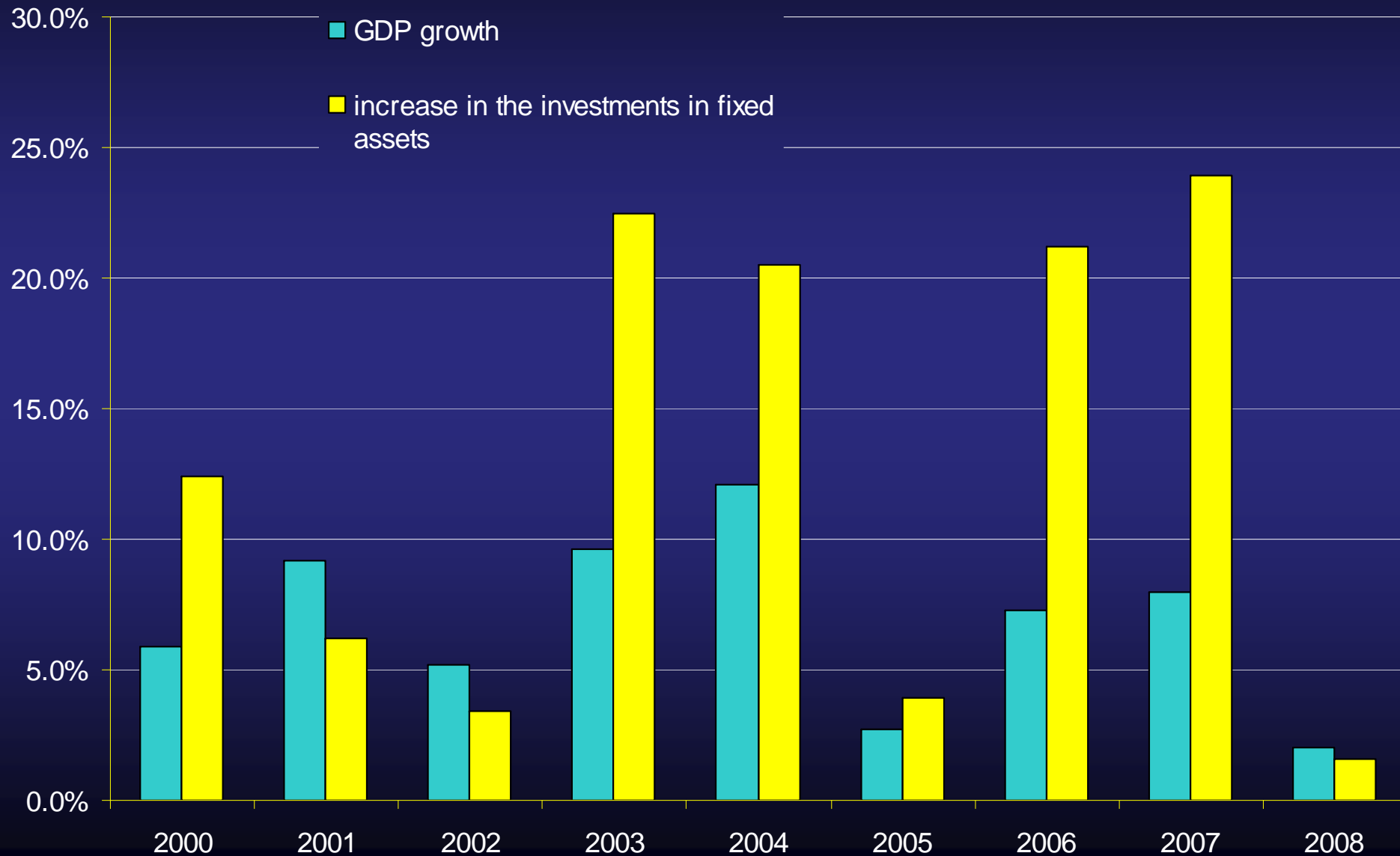


Net foreign borrowing of commercial banks and trade balance (bln. USD)

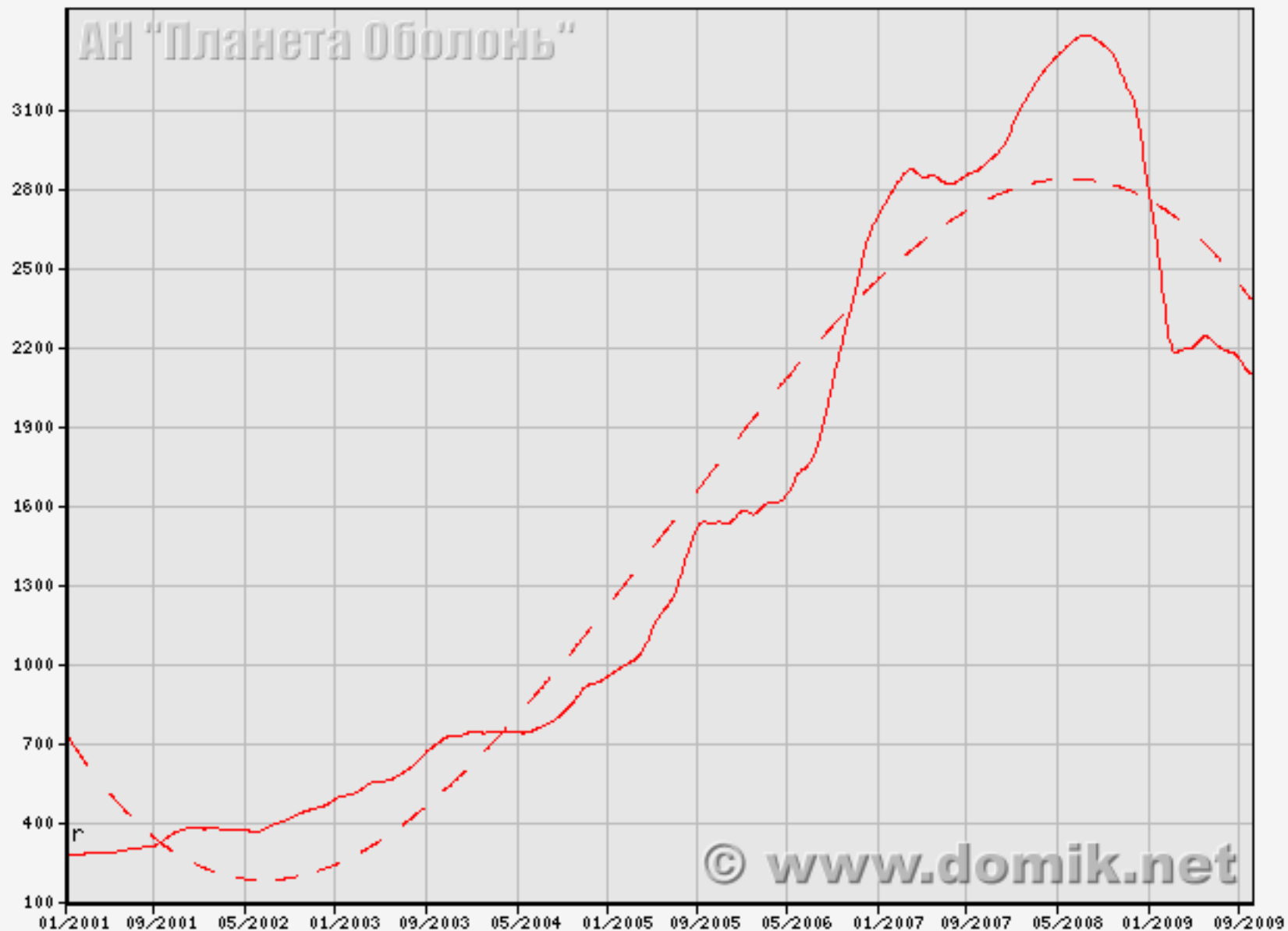




It wasn't mere "lack of investments in the fixed assets"



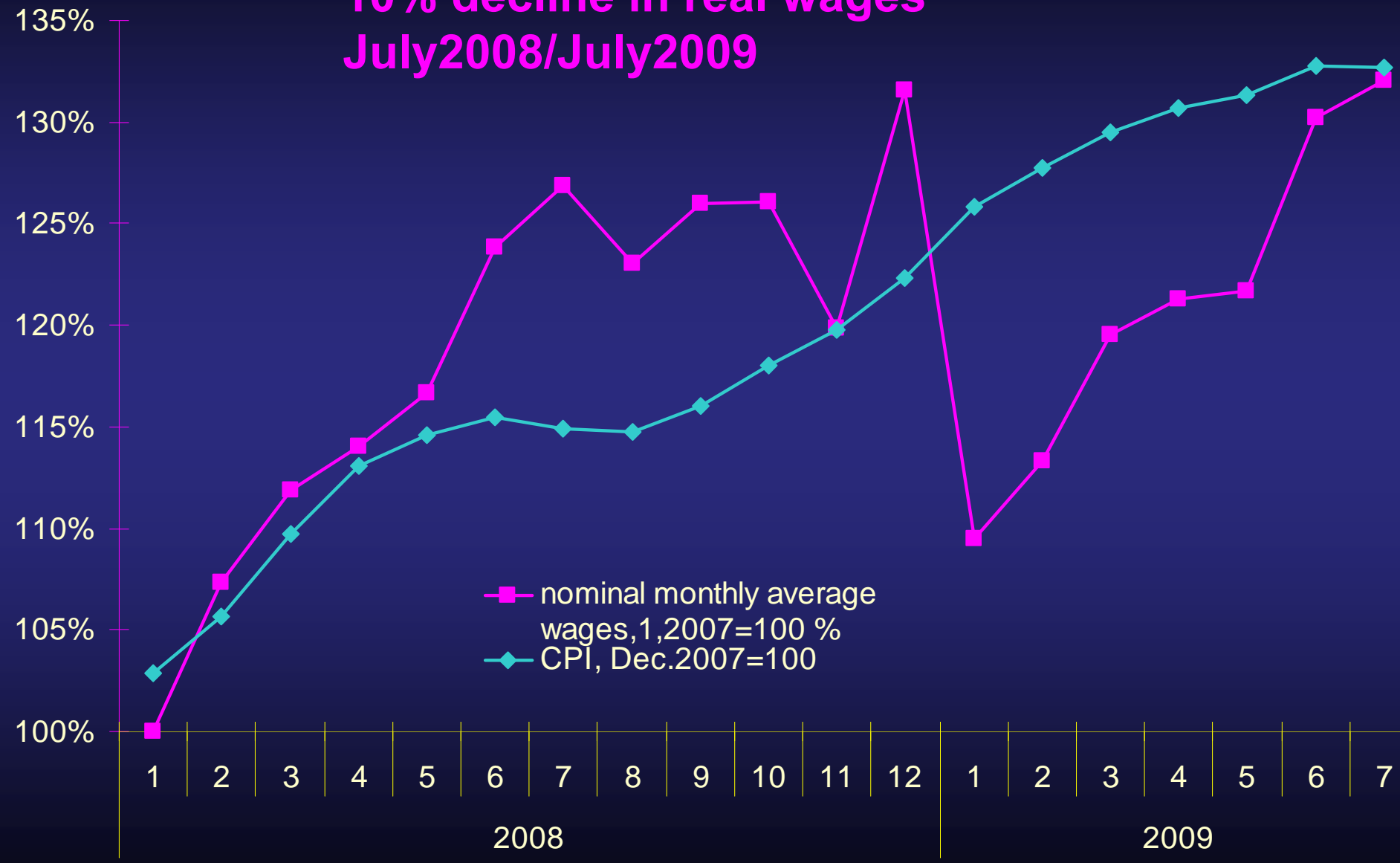
Housing prices in Kyiv (USD/sq.m)





Labor market's reaction to the crisis

10% decline in real wages
July 2008/July 2009



Factors to consider in the risk assessment

Relatively easily assessable:

Booming credit

High external debt of the private sector

Dollarization of domestic credit

Appreciation of the real exchange rate

Current account deficit

“Rent addict” economy: dependence on exports of raw materials

More research is needed to assess:

Inadequacy between capital inflows and growth of the factor productivity

Excessively high expectations comparing to the fundamentals

Overconfidence of investors and authorities

***Thanks for
your attention!***