Ukraine 2008: the lessons from the end of a “miracle”

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Acknowledgments to CASE UA team, and Prof. Janusz Szyrmer

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www.case-ukraine.com.ua
What does the crisis mean for Ukraine

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

In USD:

2009Q1/2008Q1 = 59%

Mostly due to UAH depreciation for ≈ 84%
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

Households:
- UAH appreciation

INFLATION
- Too little restructuring
- Confiscatory taxation

Real estate bubble

Balance of payments crisis
- Export shock
- Deteriorating trade balance covered with credits
- No improvement in public sector
- Confiscatory taxation
- Too little restructuring
- INFLATION
- UAH appreciation
- Deteriorating trade balance covered with credits
- Export shock

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The impact of populism
Cumulative dynamics of the real GDP and real household incomes (2000=100%)
FDI stock: by years

mn. USD

01.10.01 01.10.02 01.10.03 01.10.04 01.10.05 01.10.06 01.10.07 01.10.08

4194.0 4923.1 6212.9 7761.5 9532.2 19911.8 26856.6 37621.5

01.10.01
01.10.02
01.10.03
01.10.04
01.10.05
01.10.06
01.10.07
01.10.08

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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. Couldn't increase in such a pace any more.
Exchange rate and inflation: before the crisis

CPI (2002.12=1)

UAH/USD

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The currency crisis

Source: the Ukrainian Financial Server, http://www.ufs.kiev.ua
Net foreign borrowing of commercial banks and trade balance (bln. USD)

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

- Trade balance
- Net foreign borrowing

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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

nominal monthly average wages, 1,2007=100%
CPI, Dec. 2007=100
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!