# The IMF and the Ukraine

**July 31, 2015, Carolin Vollmann**

***Summary***

*Ukraine has been the subject of IMF programmes under various government since 2004. Ukraine's current IMF programme bears some resemblance with the Troika program imposed on Greece and is likely to produce a similar economic disaster. The harshness of austerity and accumulation of unsustainable debt coupled with economic policy based on fantasy rather than evidence that ignores the adverse effects of austerity on demand makes abound in both countries. The Ukraine IMF programme suffers as well from giving inadequate attention to democracy, governance and social inclusion of citizens.*

## 1. The Ukrainian macro-economy pre and post crisis

The Great Recession hit Ukraine hard. Like many other Eastern European countries the Ukraine had substantial pre-crisis inflow of investments. According to UNCTAD, the stock of FDIs in 2010 reached an equivalent of 42% of GDP which was lower than in other Eastern European countries but still considerable. The bulk of these investments (67%) went into the service sector (see Figure 1). Half of those went to the finance sector.[1] The Ukrainian currency, the Hryvnia, was pegged to the US dollar from 2005 to 2008, but was then devalued and changed into a floating exchange rate beginning of 2014. With the steel price plummeting and absent any counter-cyclical public spending in 2008/2009 growth evaporated and GDP shrunk by nearly 15% in one year alone. Capital flows reversed causing a devaluation of the national currency and inflation of 25% at the end of 2014. The collapse of the value of the Hryvnia has caused real wages to fall which means that the current value to the average monthly salary shrunk to USD 150.[2]

Over 80% of the Ukrainian GDP consists of private consumption and a smaller share (21.1%) of government consumption, while investments account for only 15% of GDP (data are for 2014).[3]

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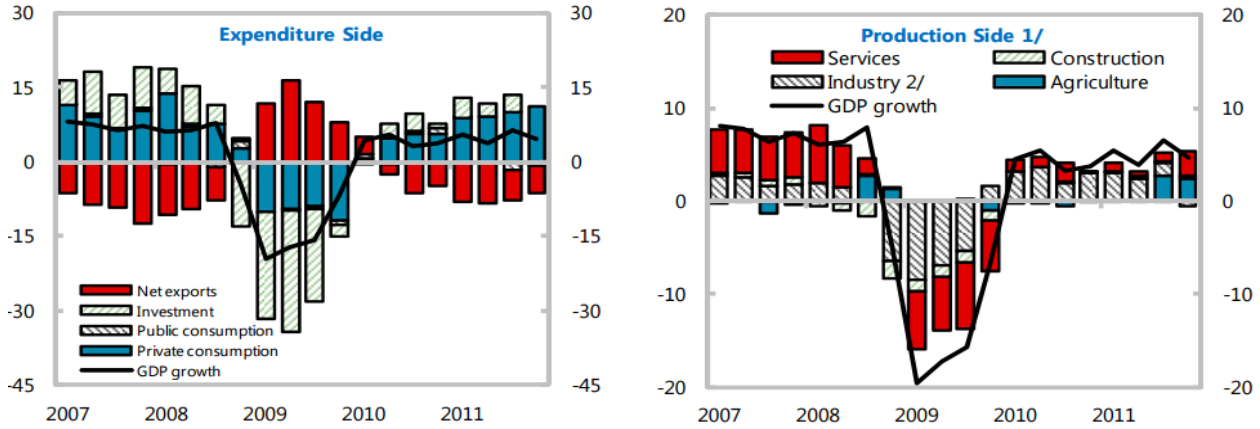
[1]UNCTAD (2012) Investment Country Profiles – Ukraine, February, available at: http://unctad.org/en/PublicationsLibrary/webdiaeia2012d2Ukraine_en.pdf

[2]Reuters (2015) "War and poverty bring doubt tp heartland of Ukraine's pro-Europe revolt", April 10, available at: http://www.reuters.com/article/2015/04/10/us-ukraine-crisis-west-idUSKBN0N112E20150410

[3]CIA (2015) The World Factbook – Ukraine, last updated July 16, available at: https://www.cia.gov/library/publications/the-world-factbook/geos/up.html

**Figure 1: Contribution to Real GDP Growth, 2007-2011 (Percent; year-on-year)**




Source: IMF (2012) Ukraine 2012 Article IV Consultation, p. 6, available at: http://www.imf.org/external/pubs/ft/scr/2012/cr12315.pdf

## 2. The latest IMF loan conditions and their assessment

Despite the experiences of the last seven years in other European countries the IMF's overall strategy remains the same blurry phrasing as seen before: "Our broad based-economic reform programme will strengthen competitiveness and the business environment and together with a return of confidence will restore public and private sector access to capital markets, making Ukraine an attractive destination for investment and boost its medium-term prospects."[4]

The claim that austerity and "prudent fiscal policy" that lowers public debt restores confidence in the overall economic climate and increases investment lacks any evidence. The confidence fairy is a figment of IMF imagination in its Washington headquarters, not a phenomenon found in real economies. Without saying so explicitly, IMF's economists and researchers recognize this. In January 2013 IMF chief economist Blanchard and Leigh published an IMF working paper in which they admitted that the IMF had severely underestimated fiscal multipliers in its forecasts on growth.[5] In September 2013 the IMF published another paper that stressed that "frontloaded fiscal consolidation", by which it means expenditure cuts rather than tax increase, run the risk of being "self-defeating" (p. 25).[6]

In addition to relying on the confidence fairy, the current IMF programme mirrors many of the Fund's well-known "one-size-fits-all-approach" that prescribes the same mix of shifting income from workers to creditors and business with little attention to country specifics. There are

[4]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 80, available at: http://www.imf.org/external/pubs/ft/scr/2015/cr1569.pdf.
[5]Blanchard and Leigh (2013) Growth Forecast Errors and Fiscal Multipliers, IMF Working Paper, January, available at: http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf.
[6]IMF (2013) Dealing with High Debt in an Era of Low Growth, Staff Discussion Note, September, available at: http://www.imf.org/external/pubs/ft/sdn/2013/sdn1307.pdf.

three critical areas in which the IMF Ukraine programme exemplifies this failure: fiscal policy, debt sustainability and corruption.

### *a. Fiscal policy*

On the fiscal side, the programme includes an "ambitious but necessary expenditure-led consolidation that targets a smaller and more efficient government" and a "growth-friendly" tax system and "adequate government resources to support the rehabilitation of the banking system" while fiscal adjustment will be "based on expenditure consolidation".[7]

The notion that a big public sector is associated with inefficiencies that would affect growth in a negative way is not supported by evidence. Studies have shown that *the quality of the public sector, not the size,* affects growth, where quality refers to well-defined property rights, judicial efficiency, low levels of corruption and a well-organized public bureaucracy.[8]

With regard to revenues, the IMF wants to reduce taxes such as the foreign exchange transaction tax while leaving tax increases in other areas vague. The Fund endorses the introduction of a "new annual assessment tax on luxury vehicles" and the expansion of the base for property taxation. But the scope of those taxes is minor and estimated to increase revenues by 0.1 % of GDP in the first case and less than 0.05% of GDP in the second case (Table 1, p. 23). The call for increased progressivity of income tax and higher tax rates on capital income is certainly positive but also of minor scope and do not exceed 0.1% of GDP in revenue generation (Table 1, p. 23).

The IMF has begun to emphasize the need for social spending to ensure the protection of the most vulnerable. It includes an increase of utility subsidies of 12.5 billion UAH (560 million USD and equal to 0.3% of GDP) in the programme to offset the impact of increases in the energy prices. At the same time it calls for cuts in other areas of social spending of 0.1 % of GDP so that the net effect is a proposed 0.2% of GDP.[9] But the "reduction in subsidies to SOEs, including the coal industry" that is estimated at -1.1 % of GDP far dwarfs the increased support for low income households[10] and likely impact of higher energy prices and lower standard of living. According to the National Bank of Ukraine, the average wage in 2013 was 3,480 UAH (156

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[7]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 80.
[8]Abdiweli (2003) Institutional Differences as Sources of Growth Differences, Atlantic Economic Journal 31 (4): 348–362; and Asoni, Andrea (2008). Protection of Property Rights and Growth as Political Equilibria. Journal of Economic Surveys 22 (5): 953–987.
[9]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 24 and 91.
[10]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 24.

USD), having declined in that year by 6.5%.[11] At the same time energy prices are rapidly increasing. The programme foresees an increase of gas prices by 285% on average and 355% on domestically produced gas while the retail price for heating to households is foreseen to increase by 67% on average. In addition, the elimination by 2016 of a progressive energy price system that had given lower prices to those with lower consumption is also conditional to the programme.[12]

The IMF programme targets public wages and public employment, which is one of the most severe fiscal expenditure measure and accounts for a reduction of -0.8 % of GDP in public spending. The civil service workforce is to be cut by 20% in 2015. The plan also foresees the elimination of a public sector wage compression that constrained wages in the public sector and the NBU to between 7 and 10 times the minimum wage, justified with avoiding the "loss of valuable human capital". However, in reality it only increases inequality and opens the door for nepotism. In January 2014 IMF managing director Christian Lagarde emphasized the role of the public sector saying: "From our work at the IMF, we know that the fiscal system can help to reduce inequality through careful design of tax and spending policies. Think about making taxation more progressive, improving access to health and education, and putting in place effective and targeted social programs."[13] The policies applied in the Ukraine clearly contradict this statement.

Besides providing quality services, public employment has a stabilizing function and is sometimes used as countercyclical employment scheme to provide income to struggling households in times of crisis. Such programs exist in India with its National Rural Employment Guarantee Act and Argentina which offered employment to low-income earning women.[14]

The pension system is equally under attack. Planned are an increase of the retirement age for women and curtailing early retirement.[15] World Bank WDI data show that the life expectancy in the Ukraine has barely improved. Between 1988 and 2014 total life expectancy increased by less than a year, from 70.5 to 71.2 years, and stayed flat for men at 66.3 years over this period.[16] At the same time the programme foresees a reduction of the social security contribution rate for those employers that chose to comply with the law and report the actual level of wage they pay

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[11]National Bank of Ukraine (2014) Annual Report, p. 25, available at http://www.bank.gov.ua/doccatalog/document?id=18194683

[12]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 91 and 97.

[13]Christine Lagarde (2014) "A New Multilateralism for the 21st Century: the Richard Dimbleby Lecture", February, available at: http://www.imf.org/external/np/speeches/2014/020314.htm

[14]Tcherneva (2012) What Do Poor Women Want? Public Employment or Cash Transfers? Lessons from Argentina, Working Paper No. 705, February, available at: http://www.levyinstitute.org/pubs/wp_705.pdf

[15]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 92.

[16]World Bank (2015) World Development Indicators – Ukraine, available at: http://data.worldbank.org/country/ukraine

instead of strengthening inspection procedures.[17] The IMF observes that pensions are low on average.[18] However, the programme imposes a delay of the indexation of the minimum pension until December 2015, the reduction in replacement rates for special pensions and the lowering of the exemption threshold for taxation for low income pensioners from 10 times the minimum wage (550 USD) to three times the minimum wage (165 USD). All in all, the expenditure cuts in pensions are the most severe measure and amount to 2.3 % of GDP with a clearly stronger burden on those at the lower end.[19]

Reforms of the health care system outlined in the programme aim to "attract" private financing and a "move to a medical insurance system"[20] In the area of education a closure of 5% of schools and a cut of expenditure of UAH 300 million (USD 13.5 million) is scheduled for 2015.[21]

**Table 1: In-kind benefits as a share of disposable income per quintile, average over 27 OECD-countries**

| | Q1 | Q2 | Q3 | Q4 | Q5 | Total |
|---|---|---|---|---|---|---|
| Education | 30.6% | 18.5% | 14.2% | 10.4% | 5.6% | 11.8% |
| Health care | 34.9% | 22.2% | 15.8% | 11.8% | 7.2% | 13.9% |
| Social housing | 1.8% | 0.7% | 0.4% | 0.2% | 0.1% | 0.4% |
| ECEC | 4.5% | 3.0% | 2.4% | 1.5% | 0.8% | 1.8% |
| Elderly care | 4.0% | 1.9% | 0.7% | 0.4% | 0.2% | 0.9% |
| Total | 75.8% | 46.4% | 33.5% | 24.3% | 13.7% | 28.8% |

Note: ECEC stands for early childhood education and childcare services.
Source: Verbist, Förster and Vaalavuo (2012), The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods, OECD Social, Employment and Migration Working Papers, No. 130, p. 35.

Oxfam released a report in April 2014 underlining the importance for public services in fighting inequality.[22] Inequality costs lives. According to a recent study, a reduction of the share of the richest 20 percent by 1 percentage point in 93 countries could save as much as 90,000 infants each year.[23] An OECD study shows how public spending benefits low income groups

[17]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 91.
[18] Ibid, p. 93.
[19]Ibid, p. 24 and 91.
[20]Ibid, p. 93.
[21]Ibid, p. 94.
[22]Oxfam (2014) Working for the many - Public services fight inequality, April, available at: https://www.oxfam.org/sites/www.oxfam.org/files/bp182-public-services-fight-inequality-030414-en.pdf
[23]T. Tacke and R. Waldmann (2013) Infant mortality, relative income and public policy, Applied Economics, Vol 45 Issue 22, available at: http://www.tandfonline.com/doi/abs/10.1080/00036846.2012.705429

disproportionately – specifically in the areas of health care and education but not exclusively (see Table 1).[24] A study by the World Bank gives similar findings for Latin American countries.[25]

Overall the outcome will be an increase in inequality and poverty in what is already one of the most unequal countries in the world. The Ukraine has a Wealth Gini Index of 89.2 (ranging from 0, very equal, to 100, very unequal). Only Russia has a more unequal distribution in terms of wealth (91.4) while other Eastern European countries range much lower, such as Poland (75.3), Latvia (66.1), Hungary (64.1), and even Belarus (62.4).[26]

What is stunning, though perhaps not surprising given the IMF's penchant for sticking with its policies regardless of outcomes, is that the increased inequality the Ukraine programme will surely produce stands in contradiction to IMF's own research results about inequality and economic performance. IMF research shows that lower inequality is associated with higher growth rates and longer lasting periods of growth. This means that lowering inequality helps sustain macro-economic stability and durable growth.[27] These findings were confirmed by the OECD to be true also for developed economies.[28] Some argue that the recent increase in inequality has been a contributing factor to the great recession.[29] The IMF finds further that redistributive fiscal measures, a primary tool to affect inequality, can be growth enhancing.[30]

In 2008, 2011 and later in 2014, IMF researchers Jonathan D. Ostry and Andrew Berg reported that more egalitarian economies are associated with higher and more durable growth. They also rejected the existence of a trade-off between redistribution favoring lower income people and growth, concluding that "redistribution appears generally benign in terms of its impact on growth."[31] Indeed, in March 2013 the IMF concluded that "Inequality of wealth and

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[24]Verbist, G., M. F. Förster and M. Vaalavuo (2012) The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods, OECD Social, Employment and Migration Working Papers, No. 130, available at: http://dx.doi.org/10.1787/5k9h363c5szq-en

[25]Nora Lustig (2012) Inequality in Focus – Taxes, Transfers, and Income Redistribution in Latin America, Poverty Reduction and Equity Department of the World Bank July, available at: http://siteresources.worldbank.org/EXTPOVERTY/Resources/InequalityInFocusJuly2012FINAL.pdf

[26]Reich (2013) Inequality for all, database available at: http://inequalityforall.com/fact-4/

[27]Ostry et al (2014) Redistribution, Inequality and Growth, IMF Staff Discussion Note, February, available at: https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf; Berg and Ostry (2011) Inequality and Unsustainable Growth: two Sides of the Same Coin?, IMF Staff Discussion Note, April, available at: https://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf; Berg, Ostry and Zettelmeyer (2008) What makes Growth Sustained?, IMF Working Paper, available at: https://www.imf.org/external/pubs/ft/wp/2008/wp0859.pdf.

[28]OECD (2014) Focus on Inequality and Growth, December, available at: http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf.

[29]See Rajan (2010) Fault Lines: How Hidden Fractures Still Threaten the World Economy (Princeton: Princeton University Press); he argues that rising inequality led to political pressure for more housing credit, which distorted lending in the financial sector. Kumhof and Rancière (2010) Inequality, Leverage and Crises, IMF Working Paper 10/268; they show that in the United States, the Great Depression starting in 1929 and the Great Recession starting in 2007 were both preceded by a sharp increase in income and wealth inequality and by a rapid rise in debt-to-income ratios among lower- and middle-income households.

[30]IMF (2014) Fiscal Policy and Income Inequality, Policy Paper, January, available at: http://www.imf.org/external/np/pp/eng/2014/012314.pdf

[31]Ostry et al (2014) Redistribution, Inequality and Growth, IMF Staff Discussion Note, February, available at: https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf; Berg and Ostry (2011) Inequality and Unsustainable Growth: two Sides of the Same Coin?, IMF Staff Discussion Note, April, available at:

income can lead to wasted productive potential and a misallocation of resources, undermining long-run growth."[32] With regard to the relation between inequality and fiscal policy, in January 2014 the IMF found that "Reductions in the generosity of benefits and less progressive taxation have decreased the redistributive impact of fiscal policy since the mid-1990s."[33]

Recently the IMF released another Staff Discussion Note on the "Causes and Consequences of income Inequality: A Global Perspective" which confirms the beneficial effect of redistribution on growth stating that increasing the income share of bottom and middle incomes is associated with higher GDP growth. They also reaffirm that "better access to education and health care and well-targeted social policies…can help raise the income share for the poor and the middle class."[34] In short, IMF's research does not support their current policies.

These policies will hit hard at the local business community. According to a recent survey, 62.5% of respondents states low demand as their major concern. Among small firms the share is 67.3%.[35] Harsh austerity, rising inequality and rising energy prices without adequate compensation will certainly aggravate this situation.

Neither IMF research nor local Ukrainian businesses see inequality and austerity-induced declines in demand as boosting economies making the confidence fairy appear a construct of vested interest groups of foreign investors, interested in low governmental interference and low wages.

### *b. Debt sustainability*

Ukraine's current programme entails a loan equivalent to 900 % of its quota[36] while the limit for extended arrangements is in fact a cumulative 600 %.[37] As in Greece, the IMF has to assess and declare the overall debt burden sustainable in order to proceed. The assessment is as follows: "Under the policy and financing package supporting the proposed extended arrangement under the EFF including the expected outturn from the debt operation, Ukraine's public debt is assessed

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https://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf; Berg, Ostry and Zettelmeyer (2008) What makes Growth Sustained?, IMF Working Paper, available at: https://www.imf.org/external/pubs/ft/wp/2008/wp0859.pdf.

[32]IMF (2013) Jobs and Growth: Analytical and operational considerations for the Fund, March, available at: https://www.imf.org/external/np/pp/eng/2013/031413.pdf

[33]IMF (2014) Fiscal Policy and Income Inequality, January, available at: https://www.imf.org/external/np/pp/eng/2014/012314.pdf

[34]IMF (2015) Causes and Consequences of Income Inequality: A Global Perspective, June, available at: https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

[35]Institute for Economic Research and Policy Consulting (2015) Business climate and reform - Expectations of business in the Ukrainian for 2015, p. 4 and 5, available in Ukrainian at: http://www.ier.com.ua/files/publications/Special_research/2015_Dilova_dumka_IER.pdf.

[36]IMF (2015) Ukraine Assessment of the Risk to the Fund and the Fund's Liquidity Position, p. 2; Supplement of March 6, to the Request for Extended Arrangement under the Extended Fund Facility and Cancellation of Stand-By Arrangement, March, available at: https://www.imf.org/external/pubs/ft/scr/2015/cr1569.pdf

[37]IMF (2015) Factsheet – IMF Quotas, April 9, available at: http://www.imf.org/external/np/exr/facts/quotas.htm.

as sustainable with high probability."[38] Even though the debt operation is considered critical and expected to generate 15 billion USD in public sector finances, there is no further definition how this debt operation would or could look like, which creditors would be involved and how debt cuts would be distributed. Further, the debt operation is not made part of the programme in a central way. The only reference within binding conditions in the Memorandum of Financial and Economic Policies is paragraph 26, which mentions that the programme requests a consultation with the holders of public sector debt on a debt operations and the hiring of financial and legal advisors as prior action before loan disbursement will be made.[39] At the same time the programme expects fiscal support for the bank restructuring in 2014-15 to total 9.25 % of GDP.[40] This is a committed position on the expenditure side without comparable guarantee for debt reforms. Lagarde's announcement in June 2015 that IMF support will continue "even in the event that a negotiated agreement with creditors in line with the program cannot be reached in a timely manner"[41] does not indicate that great effort will go to obtain debt relief. Most recently she announced that if negotiations fail, "there is the possibility to go into a legislative process that institutes a debt moratorium."[42]

Out of Ukraine's total debt, 55% are external debt (2014).[43] Due to the fall in the currency, external debt are expected to peak in 2015 at 158.4% of GDP, up from 102.4% of GDP in 2014.[44] Despite this extraordinarily high level, the IMF did not consider it necessary to include a compulsory conversion of mortgages and loans into national currency. The programme only includes the support of a "voluntary negotiation process between borrowers and banks for the restructuring of foreign currency denominated mortgage loans"(emphasis added).[45] As the debt sustainability analysis indicates, the current debt level is not sustainable without substantial write downs or similar procedures. However, the IMF programme seems half-hearted and the measures taken to ensure that Ukraine has any light at the end of the tunnel fall short in scope, enforcement and balance between national and foreign stakeholders.

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[38]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 65.
[39]Ibid, p. 96.
[40]Ibid, p. 66.
[41]Reuters (2015) "IMF says can continue to support Ukraine even if debt deal not reached", June 19, available at: http://www.reuters.com/article/2015/06/19/ukraine-crisis-debt-imf-idUSW1N0XB00720150619.
[42] IMF (2015) Transcript of an Oline Press Briefing with the IMF Managing Director, July 29, available at: https://www.imf.org/external/np/tr/2015/tr072915.htm.
[43]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 67.
[44]Ibid, p. 50.
[45]Ibid, p. 89.

*c. Democracy and corruption*

The Ukraine is in a critical situation suffering from unresolved civil-war-like conflicts and political instability. This is also reflected in the latest business survey. The share of companies that report political instability as constraint to their business increased to 58.3% at the end of 2014. [46] But a weak democracy and a lack of transparency and accountability has been prevalent for decades. According to Transparency International and its corruption index, Ukraine ranks 142 out of 175 countries, at the same level of Uganda and behind Nigeria and Lebanon. Accountability and the inclusion of broader society is critical for fighting corruption and improving political stability. Given that even IMF money supposedly went into dark channels of private bankers,[47] one would expect a strong emphasis on anti-corruption measures.

The IMF programme addresses corruption and money laundering by making strengthening the legislative framework of the national anti-corruption Bureau a prior condition.[48] However, under the euphemism "improving business climate" the programme introduced legislation on investors' protection which includes a "minority shareholder's right to bring a suit to indemnify for damages in the company's interests"[49] and for a "considerable reduction in the number of inspection agencies".[50] The programme's call for "enhancement" of the judicial system foresees an increase of court fees for civil litigation,[51] which will likely close the court rooms for disadvantaged individuals.

In sum, the Fund's anti-corruption programme appears aimed to help foreign investors and the rich but not normal citizens. It lacks any comprehensive inclusion of the broader society including trade unions. This would be critical to improve current instabilities and respond to the increasing fractionalization and polarization of civil society groups. A recent study finds that democratizations increases GDP per capita by about 20% in the long run by encouraging investment, increasing schooling, inducing economic reforms, improving public good provision, and reducing social unrest. These findings hold as well in the context of lower income countries.[52] Assuming these results are valid, the IMF should demand greater transparency and anti-corruption activity to protect Ukrainians as part of its reforms.

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[46]Institute for Economic Research and Policy Consulting (2015) Business climate and reform - Expectations of business in the Ukrainian for 2015, p. 4 and 5, available in Ukrainian at: http://www.ier.com.ua/files/publications/Special_research/2015_Dilova_dumka_IER.pdf.

[47]Eric Zuesse (2015) "IMF Violates IMF Rules, to Continue Ukraine Bailouts, Washiongton's Blog, June 20, available at: http://www.washingtonsblog.com/2015/06/imf-violates-imf-rules-to-continue-ukraine-bailouts.html

[48]IMF (2015) Ukraine – Request for extended arrangement under the extended fund facility and cancellation of stand-by arrangement, March, p. 101.

[49]Ibid, p. 104.

[50]Ibid.

[51]Ibid.

[52]Acemoglu et al (2014) Democracy does cause Growth, NBER Working Paper 20004, March, available at: http://www.nber.org/papers/w20004.pdf.

## 3. Conclusion

The programme in its current version seems driven by political motivations rather than by economic soundness. The austerity measures go beyond the average IMF programme and can be compared to those imposed in Greece, which clearly failed to produce any kind of growth. Furthermore they are frontloaded and hit ordinary citizens and their families disproportionately. Absence of debt restructuring as a fundamental requirement to help stop Ukraine from teetering on the brink of financial collapse and decades of debt repayment instead of investment in growth makes this another programme biased toward outside investors and finance rather than focused on the well-being of ordinary citizens and a genuine intent to help the economy recover.

## Annex: Timeline on IMF engagement with the Ukraine

- The first 12-month stand-by agreement was approved in March 2004 but was put on hold in August 2004 due to "slippages in program implementation."
- In November 2008 another 24-month SBA was approved but this one was also put on hold in October 2009 because the government did not meet certain loan conditions; in particular, an increase of wages and pensions above inflation and the introduction of a new social standards law which would have raised social spending was considered not acceptable by the Fund.[53]
- In July 2010 negotiations led to the cancellation of the previous programme and the approval of a new 29-month SBA. Only over one-fifth of the total approved amount got disbursed as only the first review was concluded. The Fund was particularly unhappy with "the reluctance to sufficiently adjust energy prices and increase exchange rate flexibility."[54]
- Fall 2013: Government suspends talks with European Union on trade pact.
- Overthrow of the Ukrainian pro-Russian President Yanukovych in February 2014.
- After the annexation of the Crimea region in March 2014, a new 12-month SBA was agreed on in April 2014 with an interim government.
- The current president is Petro Poroshenko who took the oath of office on June 7, 2014.
- New IMF Extended Fund Facility Arrangement in March 2015. Ukraine holds 10.6% of IMF's outstanding liabilities (February 2015).

[53]IMF (2009) "IMF Urges Ukraine To Stick With Recovery Policies: IMF Survey online, November 4, available at: https://www.imf.org/external/pubs/ft/survey/so/2009/int110409a.htm.

[54]IMF (2013) "IMF Executive Board Concludes 2013 Article IV Consultation, First Post-Program Monitoring, and Ex Post Evaluation of Exceptional Access with Ukraine" Press Release No. 13/531, December 19, available at: https://www.imf.org/external/np/sec/pr/2013/pr13531.htm.