

April 30, 2009

### Ukraine



#### THE VIKTOR AND YULIA SHOW

The squabbling “orange revolution” leaders are failing to push through the longer-term reforms that the economy needs. A country in default, engulfed by social protests and political chaos, crumbling to bits. This has been the West’s nightmare image of Ukraine.

It was the first country to ask the IMF for a bailout, its currency was in free fall, its economy is contracting at an annual rate of 9%. Yet the main activity in Kiev today seems to be putting up summer terraces outside cafes, not tents for demonstrators. In front of the main government building, a dozen bored protesters call on Yulia Tymoshenko, the prime minister, to come out “to the people”. Even in the industrial east, where output has fallen by as much as a third, the mood is subdued.

One reason is that trust in the government is so low and the experience of crisis so extensive that Ukrainians see little point in taking to the streets. At a time of hardship, working on a vegetable patch is preferable. A protest called by Viktor Yanukovich, leader of the opposition Party of the Regions, attracted relatively few people. There is no money to pay demonstrators. Stirring up his eastern heartland could annoy Mr Yanukovich’s business backers, who have been cutting jobs and wages.

Another reason for relative calm is that after several years of growth many Ukrainians have enough savings to get by for a few months. Some unemployment has been avoided by involuntary holidays and pay cuts. And though the main exporting industry, steel, is struggling, farming (which employs a quarter of the workforce) is doing well.

Petro Poroshenko, a businessman, suggests that food production could become an engine of growth. “Either the country is more resilient or the adjustment started earlier than we thought,” says Ceyla Pazarbasioglu, head of the IMF mission visiting Kiev. After a 40% devaluation, the hryvnia has stabilised. The trade balance went briefly into surplus for the first time in years. Companies that complete the questionnaires generally receive lower punitive duties than those that do not.

The rate of economic decline has slowed. “There is a feeling that we have touched the bottom,” Viktor Yushchenko, Ukraine’s president, says in an interview. On April 17th the IMF mission said it would recommend the release of the second tranche of Ukraine’s \$16.4 billion loan.

The banks have undergone a stress test and the biggest will be recapitalised. For all the political cacophony, the government has pushed through the fiscal measures required by the IMF, including increased duties on alcohol and tobacco and higher gas tariffs for rich households. In the short term, Ukraine needs to cut its budget deficit. In the longer term its big problem is the structure of public spending rather than low tax revenues, argues Pablo Saavedra, an economist at the World Bank. Its unreformed social system and its red tape, both inherited from Soviet days, are crushing burdens.

Ukraine devotes a third of GDP to social spending. Less than 2% of GDP goes to infrastructure investment. It takes 47 permits to open a business and three years to close it. All Ukrainian politicians, including Ms Tymoshenko, Mr Yanukovich and Mr Yushchenko, admit to corruption and lack of structural reforms in Ukraine - and blame each other. “We have been engaged with elections rather than with reforms,” says Anatoly Kinakh, who has served in several governments.

Now Ukraine is in the middle of a new election cycle. Mr Yushchenko's presidential term expires in January and the campaign is under way. Political turmoil is nothing new in Ukraine, but when commodity prices were high and foreign credit cheap it had little impact on the economy. No longer. Ukraine nearly botched its agreement with the IMF partly because some members of Mr Yushchenko's Our Ukraine block refused to vote for fiscal cuts. Mr Yushchenko says that "half of my own block has been bought by Ms Tymoshenko, while the other half cannot support her economic methods". He blames Ms Tymoshenko for sacrificing the ideology of the 2004 orange revolution to political expediency and populism. She says that he has sold out to vested interests.

Mr Yushchenko certainly has ideology and vision. He talks of building a nation-state and taking Ukraine into NATO and the European Union. "Six times in the 20th century we have declared our independence and five times we have lost it." Yet on vision, rhetorically at least, there is little difference between Ukrainian politicians. Ms Tymoshenko talks eloquently of European integration and the need to consolidate a country historically divided between east and west. "First of all we need to build Europe in Ukraine, because a country can only enter the EU if it has the same blood group, otherwise it will get rejected as an alien body," she says in an interview. Even Mr Yanukovich, once backed by Moscow, now subscribes to the notion of European integration.

In truth, none of Ukraine's politicians has risen to the promise of the orange revolution. Ms Tymoshenko's actions sometimes smack of populism.

When inflation rose last year, she imposed temporary controls on grain exports, for example. She has done little to promote long-term reforms. But it was thanks to her intervention both that the IMF loan was unblocked and that a breakthrough was made in the gas-price stalemate with Russia in January.

In contrast, Mr Yushchenko's influence has been mostly disruptive despite his avowed liberalism. He has vetoed many government plans, including privatisations. The problem goes deeper than animosity between two old allies. It is rooted in a flawed change to the constitution in 2004 that reduced the power of the president but stopped short of turning Ukraine into a parliamentary republic, fudging the responsibilities of president and prime minister. "Whoever wins the presidential election will next day run into the same problems," says Ms Tymoshenko.

Inevitably, all three main leaders insist they will run for president, including Mr Yushchenko, despite a poll rating in low single digits. But Ms Tymoshenko's popularity has also suffered recently. Even Mr Yanukovich, who now leads in the polls, has seen his popularity dented.

Many Ukrainians feel that none of the three familiar faces is capable of taking the country forward. Tired of the mudslinging, 20% would either vote against all candidates or simply not turn out.

To hedge their bets many businessmen are now betting on other candidates, including Arseniy Yatseniuk, a 34-year-old who has already served as foreign minister, economics minister and central-bank governor. Mr Yatseniuk's rating has doubled in a few months and he is now catching up with Ms Tymoshenko. Her preferred option would be to change the constitution before the election and choose the next (symbolic) president in parliament. But she does not mind if Ukraine reverts to full presidential rule. "It does not matter to me what the head of the executive power is called: a prime minister, a chancellor, a president or a HETMAN."

A bigger question is what kind of Ukraine will emerge from the crisis. And that will be determined not by elections, but by the willingness of political leaders to push through structural reforms.

*Source: The Economist (economist.com)*

## **The President Viktor Yuschenko considers it necessary to cut down meat imports and calls for reintroduction of 13 % extra charge to the current import duties**

The President of Ukraine Viktor Yuschenko has assigned General Prosecutor's Office to check process of meat imports to the country and especially to check the channels of cheap meat imports.

The President told he doubted that cheap meat could be imported to the territory of Ukraine without any customs infringements.

Viktor Yuschenko named the rates of meat import growth to the country a "tragedy" and noted that "if this tendency remains the same Ukrainian producers will disappear". Therefore, he said "it is necessary to support domestic commodity producers".

Viktor Yuschenko also emphasized that in general the policy of both present and previous governments for support of domestic meat producers was insufficiently considered. He pointed out the necessity of granting preferences and privileges to domestic producers.

"To import meat to Ukraine is the same as to import oil and gas to Russia, coffee to Columbia," he added.

President Viktor Yuschenko also called for reintroduction of 13% additional import duty on agricultural products.

As a reminder, on March 18, 2009 the Cabinet of Ministers of Ukraine removed 13% surcharge on import duties for all products, apart from cars and refrigerators.

*Sources: ForUm News Agency (for-ua.com); Meatinfo.ru*

*Translated and edited by: usapeec.kz*

## **Domestic poultry production in Ukraine**

As of April 1, 2009 the poultry livestock in Ukraine has increased by 5.3% and totaled 165.9 million heads.

145 thousand MT of poultry meat and poultry by-products (fresh or chilled) and 19.8 thousand MT of frozen poultry meat and poultry by-products were produced during January-March 2009. At the same time production of eggs has increased by 8.2% and totaled 3,512.9 million pieces.

*Source: Liga.net News Agency; Apk-Inform News Agency (liga.net; apk-inform.com)*

*Translated by: usapeec.kz*

## **Moldova**



## **Transnistria banned meat imports**

The President of Transnistria (part of Moldova) Igor Smirnov has signed a regulation "On strengthening control over imports of animals, foodstuffs and raw materials of animal and vegetable origin and control over entry into Transnistria of citizens from the countries with high risk of influenza".

According to the regulation, all foodstuffs, including foods and raw materials of animal origin are banned for imports into Transnistria from the countries with high risk of swine influenza: USA, Mexico, Nicaragua, Guatemala, Honduras, Costa Rica, Columbia, Cuba, Panama, Salvador, Great Britain, Spain. Ban is imposed on all products produced and shipped after April 21, 2009.

Also according to the regulation, imports of animals, foodstuffs and raw materials of animal and vegetable origin by juridical and physical persons are allowed only after presenting veterinary-sanitary permits and permits for import of quarantine products given by State Veterinary and Phytosanitary Service under Ministry of Health and Social Defense of Transnistria.

*Source: New Region News Agency (nr2.ru)*

*Translated by: usapeec.kz*

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## **Brazil and the U.S. were the main meat importers to Moldova in Q1 2009**

According to the Ministry of Economy and Commerce of Moldova, in the first quarter of 2009 5.6 MT of poultry meat, 2.8 MT of pork and 1.6 MT of beef was imported to the country.

Most of meat and meat products were imported from Brazil - 2,183.8 MT, or 45% of the total volume of imported meat, 1,574.6 MT (23.4% of the total volume) were imported from the United States and 600 MT of meat (10,4% of the total volume) was imported from Canada. Less meat was imported from the Netherlands, Argentina and Poland. In January-March, 2009 15 licensed companies have imported meat and meat products to Moldova.

*Source: InfoMarket News Agency  
([infomarket.md](http://infomarket.md))*

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