

# TRENDS IN UKRAINIAN ECONOMIC RESTRUCTURING

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Economic restructuring, because of its influence upon the main tendencies of social-economic development of society, is of decisive importance within the whole system of economic reforms being performed in Ukraine.

A peculiarity of the present stage of economic restructuring is that it must take place under conditions of deep economic crisis, a shortage of money-credit and investment resources, technological decline, the insufficient competitiveness of domestic production, the dependence upon energy imports, the growth of the shadow economy, and finally the use of pseudo-market forms of payment.

The general conception of structural policy for the long-term (10-15 years) envisages the formation of a highly efficient social-oriented market economic system, apt to self-development, which is able to generate labour and business activity, high living standards, and conditions for equal partnership in global economic co-operation.

The most important strategic tasks for this period are the following:

- encouragement of business activity by both businessmen and the population in the revival of the national economy by optimising the structure of ownership, the formation of an effective strata of strategic investors, and finally taxation reform paying special attention to the stimulation of production and investment activity;
- thorough support of development priorities for economy restructuring, especially high tech and other important industrial sectors which are able to positively change Ukrainian economic potential, both in agriculture and industry;
- inculcation of new technologies, speeding up innovation activity oriented towards production renewal in all branches and at all levels ensuring competitiveness on global markets; a reduction in energy and resource consumption, material production to utilise resource and power-saving technologies, along with the curtailment or reform of power and energy intensive production;
- expansion of export sales by entering the world market in those sectors in which Ukraine can compete, boosting the domestic market by increasing production, forming closed technological cycles for end production, re-orientation

of machine-building, metallurgical and chemical industries to achieve better co-operation;

- intensification of the social orientation of the economy and improve the environment, solve social and economic problems on this basis which will provide an essential rise in living standards. Decrease the industrial impact on nature, transition to a balanced use and reproduction of the natural resource factors of vital activity, formation of a rational settlements system, intensification of village and small town activity, improvement of the living standards in the regions.

Proceeding from an evaluation of the present state and real potential of the economy, the main aim of Ukrainian economy restructuring for the medium-term (1999-2003 years) is to overcome the economic crisis and to create conditions for the gradual increase in rates of economic development.

At this stage of the restructuring, it is necessary to concentrate the main efforts on the completion of the following basic tasks:

- to promulgate anti-crisis measures oriented towards the freedom of the financial and credit systems, regulation of money turnover and national currency stabilisation;
- to put into effect institutional transformations, necessary for the efficient functioning of a market economy, to guarantee an effective management and rights of ownership, anti-monopoly regulation and creation of proper business competition;
- to carry out taxation reform which simplifies the system whilst reducing the tax burden for enterprises in the real economy, increase the collection of taxes and stabilise tax revenues to the budget;
- to reduce the use of pseudo-market economic relations, i.e. barter, mutual clearing and other substitutes of economic turnover;
- to stimulate the development of high priority branches, enterprises and production which have or may get competitive advantages in the world market in the short- or medium-term, thereby improving the export potential of the state;
- to improve legislation and to restructure inefficient management, to single out enterprises and production to be re-oriented, liquidated, preserved or converted, including through the bankruptcy mechanism;
- to create efficient regional economic structures.

Creation of the necessary conditions for economic restructuring and transition to achieve positive dynamics of recovery are the main tasks ahead, to be achieved by means of:

- encouragement of investment activity which is to be realised through the internal funds of enterprises, and by both the centralisation of depreciation, banking system reserves and savings, and by attracting direct foreign investment;
- increase of credit to the real economy by commercial banks, especially long-term credit at low interest rates;
- business support, including the removal of artificial administrative barriers;

- increase production of competitive domestic commodities and services; encourage resource saving, technological achievement, effective conversion, and progressive production structural changes;
- promote exports, especially of high grade production;
- revive the financial state of enterprises by intensive amortisation, transfer social sector payments to local government, stop restructuring bankrupt enterprises, increase the share of enterprise monetary funds in the structure of current assets, normalise mutual settlements, reduce the volume of barter operations;
- realise a social policy that is balanced with the real capability of the budget, start a compulsory public social medical insurance, reform pension security.

The Ministry of Economy of Ukraine has worked out the basic parameters for the economic and social development of Ukraine for 1999, taking into account the indices of monetary-crediting policy forecasted by the National Bank. The volume of GDP will account for Hryvnya 124.1 billion, whilst the budget deficit will not exceed 0.6% of this amount. It is hoped to minimise the influence of hryvnya devaluation upon the rise of internal prices. If inflation in 1998 (December to December) was 20%, then in 1999 its minimal level is expected to be 7-8%.

GDP in 1999 will marginally increase, thanks to growth that will only become evident towards the end of the year. Industrial output is forecast to grow by 1.8% - agriculture by 2%. Transport sector will grow by 1.5% and construction by 2.6%. A positive impact of small business upon economic growth is forecast. The number of small enterprises in 1998 exceeded 136,000, accounting for 6% of total employment and 8% of GDP. In 1999, improvement of the business climate will increase the number up to 155,000, providing 1.5 million jobs.

An improvement in the social situation is not expected in 1999. Unemployment will increase to 6.2% because of the legalisation of hidden unemployment. The wage payment fund will increase by 8.9%. Due to unfavourable conditions in world commodity markets in 1998, external trade turnover decreased by 16.6%. For 1999, an increase up to US\$33.6bn is forecast, US\$1.1bn more than in 1998.

Macroeconomic parameters for 1999 require an intensification of economic policy in five specific areas:

- revision of the budget to reduce expenditure by 8%;
- practical and responsible management of the state debt;
- assistance with the financial revival of enterprises by introducing a new taxation and amortisation policy, which should alleviate the situation of commodity producers and release more funds for their development;
- an introduction of the very urgent principle of full payment for resource use. Wages must be fully paid in 1999, and fuel-power resources must be also paid in full. Credits must be returned. Reducing enterprises indebtedness is to be carried out with the help of astringent property means;
- balance commodity export and import volumes.

An analysis of the basic trends and contradictions of the development of the Ukrainian economy indicates the necessity to urgently realise structural transformation. This should be aimed overcoming crisis phenomena, supporting stabilisation processes, and the achievement of economic growth. These in turn will ultimately guarantee the economic security of Ukraine.