



Reforms Critical For Ukraine to Improve Living Standards

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Ukraine should implement a series of urgent economic reforms in the near future to enable it to achieve strong economic growth and create good quality jobs in the next few years, says a new World Bank Economic Update for Ukraine. Delaying the reforms is no longer an option because macroeconomic instability and stagnating growth are beginning to take a toll on the ordinary citizens in Ukraine. A weak global economy, large macroeconomic imbalances that accumulated in the past few years, and structural reforms that were long delayed have choked growth in Ukraine. Real GDP growth remained flat in the past two years, accompanied by widening macroeconomic imbalances. Growing fiscal and current account imbalances - coupled with a de facto fixed exchange rate - have put pressure on the reserves. In 2014, the World Bank expects to see a 3 percent decline in real GDP, driven by a fall in both consumption and fixed investment. Ukraine urgently needs macroeconomic stabilization to underpin growth. If a proper policy mix is adopted quickly, growth will resume in 2015 driven by the private sector. The World Bank projects GDP growth to reach 3 percent in 2015 driven by increased business activity and foreign investment. Inflation will rise in 2014 because of tariff increases and depreciation but is set to decline gradually if appropriate policies are adopted. In a Special Focus Note highlighting the need for structural reforms, the World Bank also pointed out that long delays in economic reforms have created a challenging economic environment in Ukraine - and this is being accentuated by recent regional tensions. The accumulated large macroeconomic imbalances, deep structural distortions, and lack of transparency in the public sector require urgent remedial actions. These measures could be painful in the short run, but they are necessary for the economy to grow in a sustainable and inclusive manner. The first priority should be to establish macroeconomic and financial sector stability and this should be accompanied by key structural reforms to jump start growth. Equally important are measures to improve governance and increase transparency. Early implementation of reforms in the gas sector, public procurement and deregulation will send a strong signal to the population and investors that the Government is serious about tackling corruption and will also garner support for more reforms. These measures will help reduce fiscal and quasi-fiscal subsidies, enhance efficiency of public expenditure, increase revenue, improve governance, help the private sector and spur economic growth. The World Bank's Country Director for Belarus, Moldova, and Ukraine, Qimiao Fan, said that the Bank was ready to provide all the necessary support to Ukraine in undertaking reforms. "We recognize the enormous challenges Ukraine is facing and welcome the Governments commitment to go ahead with reforms that are urgently needed to stabilize the countrys economy. We will continue supporting the people of Ukraine during this difficult transition period," Fan added. On March 10, the World Bank Group announced that it aims to support reforms in Ukraine and provide up to US\$3 billion in 2014. This assistance would come on top of the ongoing investment and guarantee program of about US\$3.7 billion, supporting improved basic public service delivery in areas such as water supply, sanitation, power and roads, and supporting the private sector. Since Ukraine joined the World Bank in 1992, Bank commitments to the country have totaled over US\$7 billion for 40 projects and programs. The World Bank
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