



Ukraine: Reform Now Rather Than Delaying Adjustment, Says The World Bank

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Kyiv, October 7, 2013 ? A weak global environment and delays in domestic policy adjustments have led to widening and unsustainable macroeconomic imbalances in 2013, says a new World Bank Economic Update for Ukraine. Ukraine saw decline in economic activity in the first half of 2013, with real GDP falling by 1.1 and 1.3 percent y/y in Q1 and Q2 respectively. In the second half of this year, the World Bank projects a slight increase in real GDP growth because of good agricultural harvest and a low statistical base. Even with this improvement, given the decline in the first half of the year, 2013 growth rate is projected to be close to 0 percent. Ukraine will benefit from taking steps to ensure a sustainable macroeconomic framework by lowering its fiscal deficit and adopting a flexible exchange rate policy. In addition, key structural reforms to spur private enterprise and strengthen the energy sector are needed urgently to jumpstart growth," - says Qimiao Fan, World Bank Director for Belarus, Moldova and Ukraine. Looking ahead, the World Bank projected that an adjustment is inevitable. The only question is whether Ukraine will reform now or will adjustment be delayed. Stressing the urgency of reforms, the World Bank argued that a delayed adjustment will be more painful leading to a slower recovery. "On the other hand, if the authorities move quickly to undertake key reforms, they will lay the foundation for a strong recovery - says Qimiao Fan. In particular, the World Bank highlighted the urgent need to reform residential gas and heating tariffs and better target social assistance to the poor in Ukraine. While Ukraine faces one of the highest average costs of gas supply, its residential gas and heating tariffs are among the lowest in Europe. To maintain this disparity, the Government provides direct budgetary and quasi-fiscal subsidies amounting to around 7 percent of GDP. These subsidies are regressive with about half of all subsidies going to the richest 50% of the population. The two dichotomies?high costs and low tariffs; low tariffs and regressive subsidies?are caused by distorted policies that underprice gas and district heating services and by poorly targeted social assistance programs. The current low tariffs and untargeted social assistance programs are not pro-poor, adversely affect service delivery, impose significant fiscal costs that Ukraine can ill afford and undermine the countrys energy efficiency and security. Increased gas and heating tariffs, coupled with better targeted social assistance programs will be good for the poor, good for service delivery, good for the budget and good for Ukraines energy security, - stressed Qimiao Fan. Media Contacts
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