

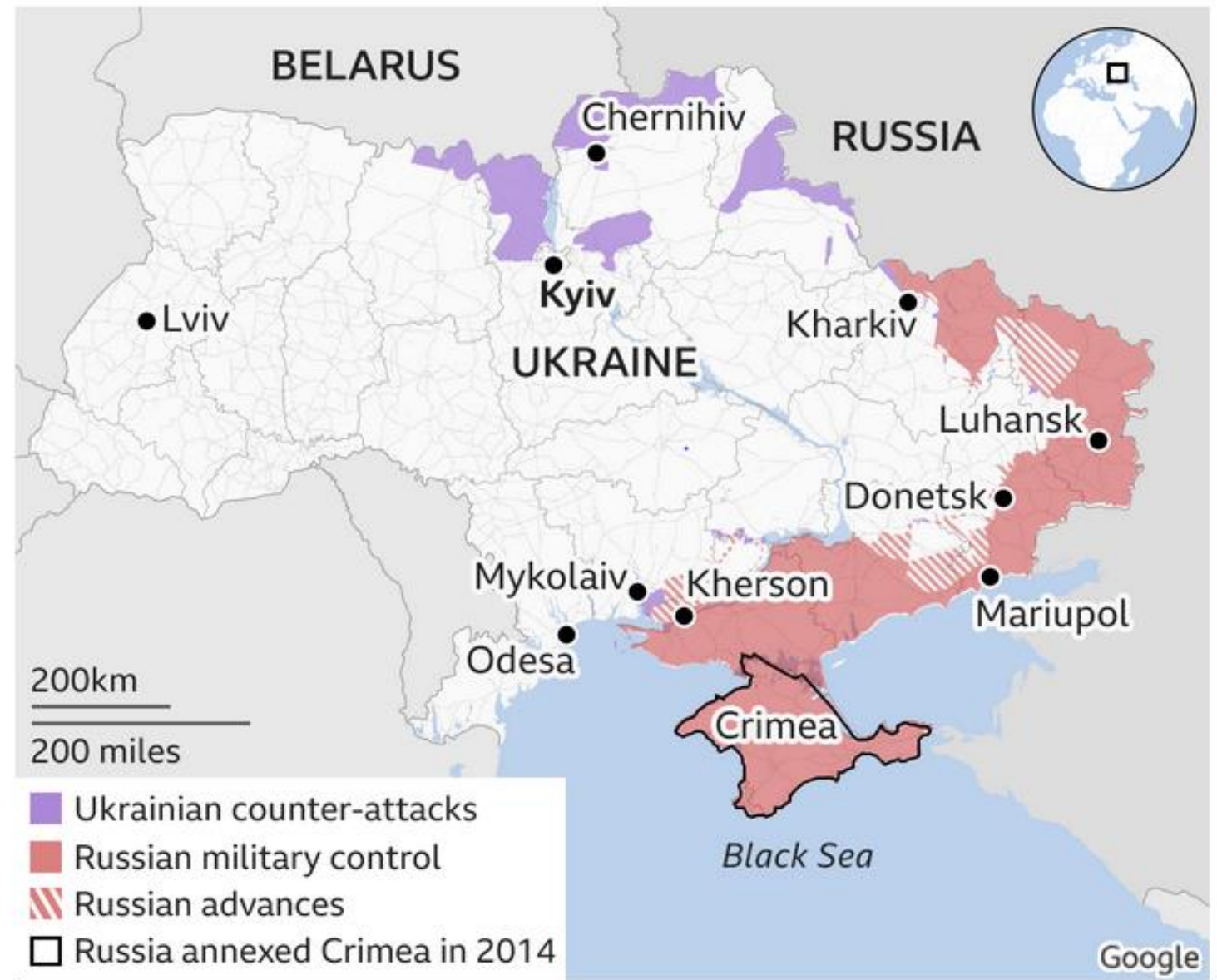
THE STATE OF THE UKRAINIAN ECONOMY

Dr. Hannes Meissner

12 April 2022

UKRAINE

- Post-Soviet State
- Massive transformation problems
- Hybrid regime / Oligarchy
- GDP per capita, measured by purchasing power parity: 720,000. US dollars (103rd place worldwide)
- HDI: 0.73 (76th place)
- Economic devastation by war



Source: Institute for the Study of War (21:00 GMT, 11 April)

PRESENTATION

- I. The Economy of Ukraine
- II. Permanent (Transition-) Crisis
- III. History of failed reforms
- IV. Recent Pre-War Developments
- V. War Scenarios and Economic Perspectives

The Economy of Ukraine

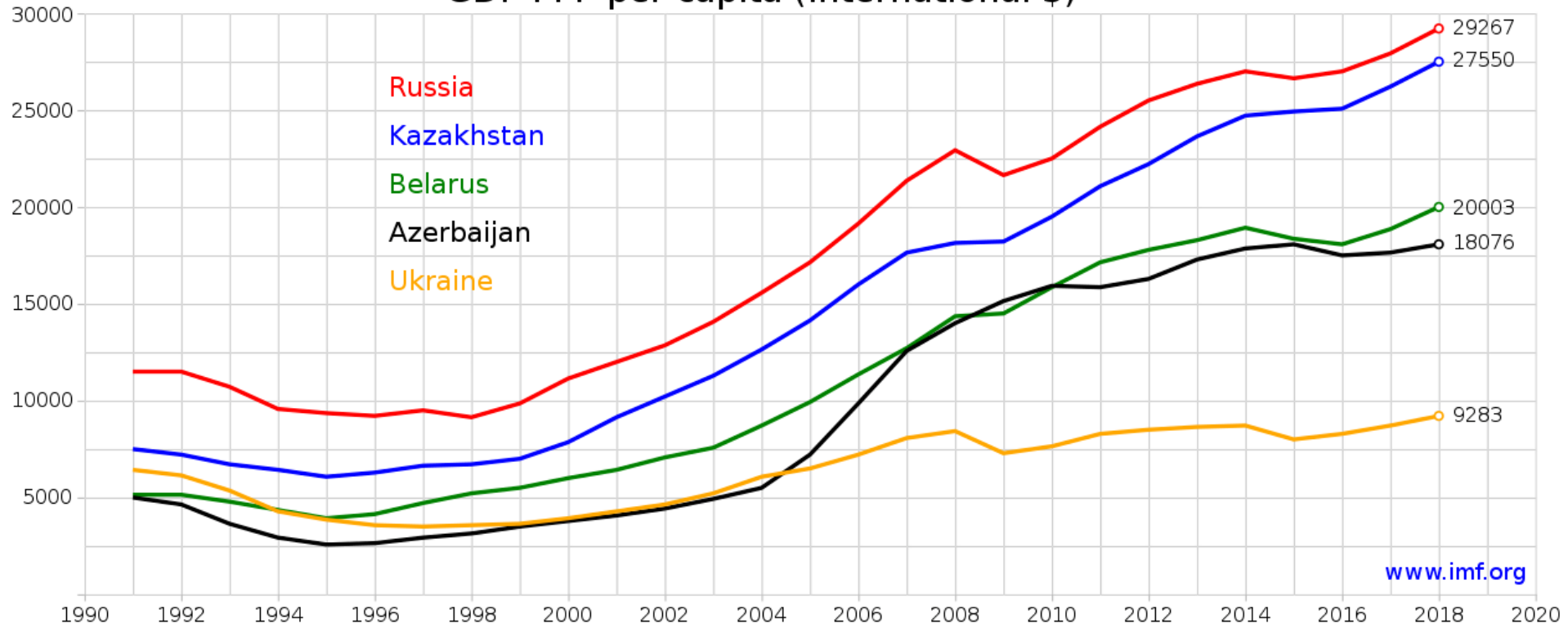
ECONOMIC EAST-WEST CLEAVAGE

- Ukraine as one of the most important economic centers of the former Soviet Union with heavy industry and strong agricultural industry (granary of the USSR).
- 70% of industrial production in 1991 was in the sectors of machine building, black metallurgy (iron and steel), energy, chemicals, paper and construction materials.
- Emphasis on industry in eastern Ukraine vs. agriculture in western Ukraine, resulting in income disparities
- One of the world's major grain producers: 60 million tons of grain, mainly corn, wheat and barley, of which over 50% is exported.
- Service sector was developing very dynamically in Ukraine in recent years (software and IT industry)

Permanent (Transition-)Crisis

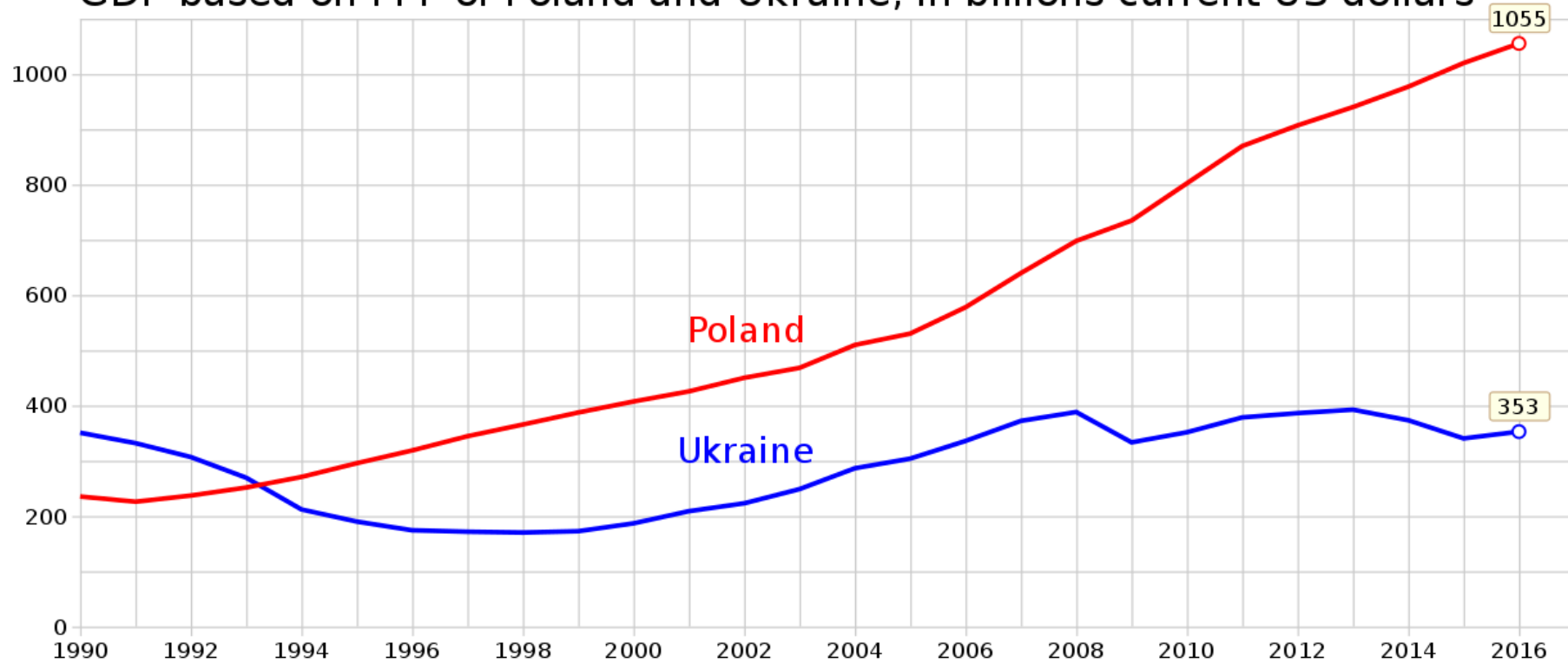
GDP GROWTH

GDP PPP per capita (international \$)



GDP GROWTH

GDP based on PPP of Poland and Ukraine, in billions current US dollars



Data source: www.worldbank.org

POLITICAL RISKS TO BUSINESS AND ECONOMIC GROWTH

- Soviet Legacy: Systemic corruption, weak separation of power, dominant bureaucracy, corrupt and non-democratic elites
 - State capture/oligarchy: Institutional ambiguity, clientelism and corruption, low guarantee of property rights, dysfunctional judiciary
 - Political instability internal and external (Russia)
- obstacle to domestic and foreign businesses and economic growth

History of Failed Reforms

TRANSITION HISTORY

- Transformation in 4 Phases:
- The 1990s to the Orange Revolution in 2004.
- The Tymoshenko/Yushchenko years of rule until 2010
- Crisis years under Yanukovich and the Maidan Revolution 2014
- Post-Maidan years under Poroshenko and Selenskij

THE 1990S UNTIL THE ORANGE REVOLUTION IN 2004

- Leonid Kuchma - Prime Minister 1992-93, President until 2005
- Increasing authoritarian rule in the second term of office
- Strengthening of local elites, who captured the state: friendship and business networks: favoring their own companies; corruption payments to politicians
- Oligarchy emerges / Oligarchs capture the state in the 2nd half of the 1990s and control public opinion via media empires

- **economic collapse: hyperinflation/declining living standards/high unemployment despite great potential**
- **Recovery 2000-2007 due to external factors (GNP +7%/year)**

TYMOSHENKO/YUSHCHENKO YEARS OF RULE UNTIL 2010

- Orange Revolution in 2004 after accusations of electoral fraud on both sides.
 - Western-backed presidential candidate Yushchenko prevails over Russia-backed candidate Yanukovich; Prime Minister Yulia Tymoshenko (2005; 2007-2010)
 - Political instability/tensions with Russia
 - Yushchenko "dreamer"; Tymoshenko becomes oligarch "gas princess" (including abuse of office in negotiating contracts for natural gas supply with Russia)
- **Failed economic reforms**
- **Severe economic crisis in 2009 (GNP -14.8%) as an immediate consequence of the world financial crisis**

CRISIS YEARS UNDER YANUKOVYCH AND THE MAIDAN REVOLUTION IN 2014

- Yanukovich wins 2010 presidential election against Tymoshenko
- Yanukovich's "Donetsk clan" (emerging since 2002 when he was prime minister) captures the state ("wave from Donetsk"); "apparatchiks and gangsters"
- Growing authoritarianism
- Foreign policy between EU (ENP/EaP) and Russia
- Under pressure from Russia, Yanukovich suspends EU association agreement
- Begin of Euro-Maidan protests

- **High level of political risks for business weakens economy and prevents FDI**
- **Economy does not recover significantly**

POST-MAIDAN YEARS UNDER POROSHENKO AND SELENSKIJ

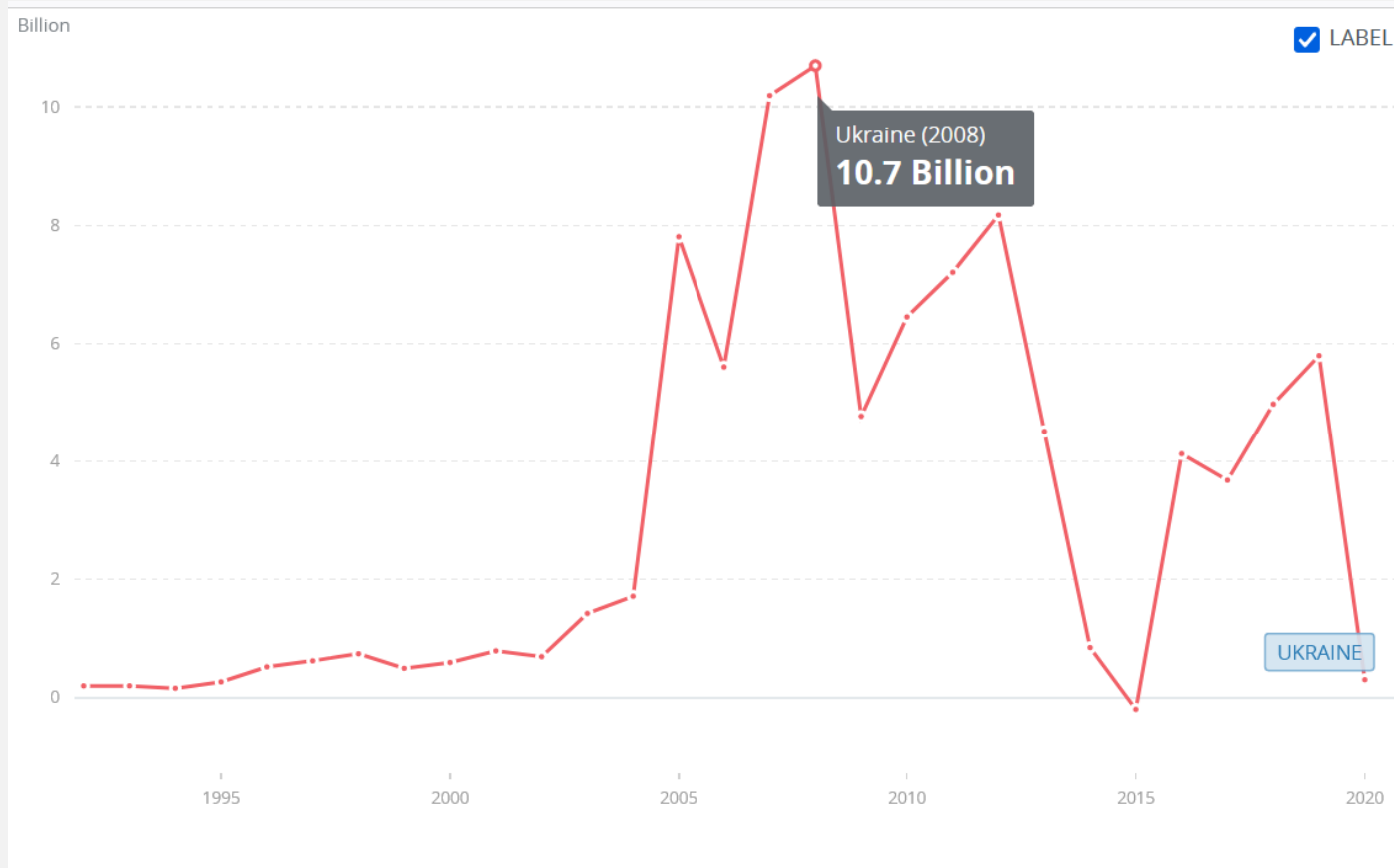
- Euromaidan Revolution ("Revolution of Dignity") in 2014; Yanukovich into exile
- Russia annexes Crimea and supports rebel groups in eastern Ukraine ("Luhansk and Donetsk People's Republics")
- Weak reform achievements under Poroshenko (representative of the oligarchy)
- After initial hopes, weak reform achievements under Selenskiy (president since 2019)

- **Massive economic collapse: GNP 2014: -10.1%, 2015: -9.8%,**
- **later moderate but stable growth figures (except for 2020); but below potential**
- **Production, wages and investments slowly increased**

Recent Pre-War Developments

REDUCTION OF TRADE DEPENDENCE ON RUSSIA

- Until 2015: strong post-Soviet dependence on Russia
- 2012: Russia by far the most important trading partner: 25.7% of exports and 32.4% of imports
- Turning point in 2014: Ukraine's association agreement with the EU: free trade between EU countries; in return, Russia cancels free trade agreement (while FTAs with all other CIS countries continued); most recently, before the war, further barriers due to stricter border and customs controls by Russia
- Value of trade between Russia and Ukraine peaked at \$49.2 billion in 2011; ever since dropped by 85% to \$7.2 billion in 2020
- 2021: trade with EU more than \$58 billion (estimate)
- 2020 main trading partner: China, followed by Germany and Poland, Russia in 4th place



FOREIGN DIRECT INVESTMENT

- The country has not been able to sustain FDI inflows of the 2000s
- High political risks: Conflict/war, political instability, weak judiciary, and low guarantee of property rights remained under Selenskij

REFORMS AND STAGNATION UNDER SELENSKIJ

- **High initial reform pace** after Selenskij's election as president and early parliamentary elections (2019)
- **implementation of reforms widely failed**, especially in bureaucracy and judicial sector; restorative forces by mid-2020; declining popularity of Selenskij as a result
- Struggle between reform agents (civil society, pro-democratic actors, Western states) and those interested in preserving the status quo (oligarchy, old bureaucrats)
- Reforms successful where new institutions were created, rather than where old institutions were reformed. (Anti-corruption institutions, the ProZorro electronic public procurement system, and the electronic declaration of assets).

SELENSKIJ AS A REFORMER OR REPRESENTATIVE OF THE OLIGARCHY?

- Selenskij's proclaimed goal: destruction of traditional oligarchic order
- Fact: Corruption and state capture persist
- Claim: Selenskij under the influence of Igor Kolomoiskij, a billionaire whose television station broadcasted Selenskij's soap opera "Servant of the People."
- Selenskij's opponents: between 2012 and 2016, \$41 million flowed from Kolomoiskij's companies into offshore companies owned by Selenskij and his entourage
- Pandora Papers: Selenskij was involved in an extensive network of offshore companies owned by friends and TV business partners from Selenskij's hometown Kryvyi Rih:
- Serhiy Shefir, who produced Selenskij's soap opera; Shefir's older brother Borys, who wrote the scripts and Ivan Bakanov, a childhood friend; Bakanov was general director of Selenskij's production studio.
- Bakanov became head of the Ukrainian Security Service SBU and Serhiy Shefir became Selenskij's first assistant

War Scenarios and Economic Perspectives

WAR IMPACT ON THE ECONOMY

- Russia's attack against Ukraine as a turning point in the history of Ukraine and international relations
- Dramatic economic downturn: estimation: GDP 2022: -45% (industry in the east and south most affected, followed by agriculture and service sector)
- Goal of Russia: Ukraine into own sphere of influence or destruction

Likely Scenarios	Consequence Short/Mid-Term	Long-Term
Long war with Russia	Downturn of Ukrainian economy will continue; braindrain	No prospect of recovery;
Russian victory	Economic reorientation of Ukraine towards Russia; end of reforms, braindrain	Ukrainian economy will stay weak
Ceasefire / subversive destruction strategy by Russia	High political risks: low/no FDI/local investments, brain drain, despite of economic stabilisation efforts by the West	Ukrainian economy will only partially/regionally recover



- Many thanks –Your Questions?