For the first 9 years after independence, Ukraine had one of the most difficult transitions to a Market economy:
Year 2000 was a Turning Point

Appointment of Mr. Yushchenko as a Prime Minister and formation of a “reform-minded” cabinet engineer a major turning point:

- 2000 was the first year of GDP growth since independence - 6%
- High industrial output growth - 12.9%
- Real income growth of 8.5%
- Population deposits in commercial banks up 45%
- Positive foreign trade and current account balances
- International reserves up 80%
- External public debt down 17%
Major Reforms Undertaken by PM Yushchenko:

- Liberalization of monetary and exchange rate policies
- Some progress in price liberalization (in agriculture, housing and utilities)
- Prudent external debt management policy (successful restructuring of the part of country’s debt)
- Reduction of barter operations and elimination of non-cash settlements, especially in the energy sector
- A number of improvements accelerating the development of Ukrainian banking system
- Significant progress in budget management (adoption of the Budget Law for 2001 in an orderly manner, the work on the draft Tax Code including measures aimed at easing the tax burden)
- Repayment of all pension arrears and reduction of the wage and salary debt to budget sector employees
- Acceleration of privatization process
2000 laid the basis for economic growth in the subsequent years …

- During the next four years, Ukraine showed one of the best macroeconomic performances in Eastern and Central Europe
- Investors attitude toward Ukraine improved that was revealed by an increasing FDI inflow
- Despite positive inflow dynamics, cumulative FDI in Ukraine is still extremely low compared to other economies in the region
... but also grew an understanding that further growth-oriented structural reforms are needed

It is widely recognized that the basis for sustainable economic growth and macroeconomic stability lies in the improvements of country’s investment climate.

A Thunderbird/ SigmaBleyzer Study identified key policy actions to stimulate foreign direct investments:

1. Liberalize and De-Regulate Business Activities
2. Provide a Stable and Predictable Legal Environment
3. Enhance Governance & Reform Public Administration
4. Remove International Capital & Trade Restrictions
5. Facilitate Financing of Businesses
6. Eliminate Corruption
7. Reduce Political Risks (non-economic country risks)
8. Expand Country Promotion
9. Rationalize Investment Incentives
The period 2000/2004 showed good economic indicators:
International reserves increased sharply:
Bank credit to the private sector increased dramatically:

Ukraine - Credit to GDP ratio, %

- 2000: 12%
- 2001: 18%
- 2002: 25%
- 2003: 30%
- 2004: 35%

Credit to GDP ratio, %
Foreign Direct Investments picked up:

![Net FDI inflows, US$ million graph](image)
GDP growth compared well with any other country:
But in late 2004, fiscal discipline broke down:

- In late 2004, excessive increases by the previous government in pension payments and minimum salaries yielded a high fiscal deficit for 2004, which continued in 2005
- During the October 31/November 21, 2004 Presidential elections, electoral fraud was widespread
- But the Elections Committee still declared the candidate of President's Kuchma as the winner
- The public revolted in November/December 2004 leading to the Orange Revolution, new elections on December 26, 2004 and the victory of President Yushchenko who was inaugurated in January 2005
One million people in the streets of Kiev…..
…with great solidarity and civil order.
President Yushchenko received a strong backing of the electorate and a clear mandate to accelerate reforms and improve living standards

- Yushchenko’s track record both as Chairman of the National Bank and Prime Minister bode well for Ukraine’s future.
- Mr. Yushchenko was expected to carry out key economic reforms after taking over:
  - Fiscal budget reforms to balance the budget
  - Fairer government and legal system
  - De-regulation and virtual elimination in the use of government institutions to intimidate the private sector
  - Friendlier approach by the government to small- and medium-size businesses
  - Efforts to reign in the shadow economy
  - Stronger working relationship between Ukraine and the West
Actual results

• A few of these measures were implemented – increases in fiscal revenues, good relations with the West, freedom of the press

• But the government of former PM Tymoshenko also established some price controls, interfered in business activities, and scared away investments

• Implementation of sound reform measures was also hindered by disagreements, power struggles and political rivalries among members of Yushchenko's team

• In fact, there was a weakness inherent in the Orange Revolution from the beginning: it brought together a wide range of individuals whose only shared interest was to see an end to the former administration
Recent political crises

- Sooner or later, opposing ideological platforms, competing financial interests, political rivalries and unclear lines of authority were bound to surface.

- Partly as a result of these difficulties, GDP growth declined and inflation increased to double digit levels.

- Finally on September 11, President Yushchenko concluded that these infightings were affecting the affairs of the state and dismissed the Cabinet and other former members of his team.

- The President nominated Mr. Ekhanurov as Acting Prime Minister, close President’s colleague who had worked as First Deputy PM when Yushchenko was the Prime Minister and the Head of State Property Fund during 1994-1997.
Future Agenda

Ukraine has still a long way to go to improve its business environment, as shown by the comparative chart below based on the latest version of the SigmaBelyzer’s Nine-Investment drivers:
Prospects

- The Parliamentary elections scheduled for March 31st, 2006 are likely to become the main preoccupation of all political parties until then.
- Under an agreed upon Constitutional Reform, in 2006 the Parliament will become more powerful by nominating the Prime Minister, who will appoint other key Ministers.
- The recent political crises has complicated the situation since there will be greater fragmentation during the March 2006 elections.
- Nevertheless, President Yushchenko may opt for a rapid implementation of economic reforms by March 2006 to demonstrate that he can yield positive results.