

Despite the odds_ Ukraine's economic reform progress

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00:26

This is Mark Sobel us chair on Fifth today office and are delighted to welcome back Vladimir rush COVID, Ukraine's representative in the IMF, and a former Ukrainian central bank deputy governor who played a key role in contributing to the cleaning up of Ukraine's banking sector. And make no mistake, Ukraine's economic policy performance amid Russia's brutal war has been strong and remarkable Ukraine's IMF program is going well as reflected in the executive board's approval of the fourth review, and itself can contribute to the success providing a framework for sustainability, the reform effort and requisite financing for maintaining stabilization. So welcome of lat again, let's dig in.



01:08

Hi, my pleasure always to talk to you. Thanks.



01:11

Well, the work continues. It's a difficult situation. And maybe you have a few words for us on that. And can you tell us what progress has been made over the last two years on the macroeconomic front and where the economy now stands? Yeah,



01:25

the Brooklyn invasion is continuing these, this is a pretty full scale, bloody war on the territory of Ukraine. And even if many of your listeners don't, don't see it already on the TV news, or, or in the podcast, on a daily basis, you know, our Army fights with Russia, you know, throughout pretty long line on the east and the south of Ukraine. And now particularly in good bands can walk shots can hide the region, swat away and gasp region of the car just in Yarra, foreskin and also New York City, you know, which, where we are also the New York in Ukraine in Donetsk region and also in the region in the Kurdistan Region. And on top of that, Russia is continuing its terrorist attack on the civilian objects in Ukraine, daily sending 10s of missiles and drones to the Ukrainian cities. And you might have heard that last week missile attack was last week, when Russia have fired several 1000s of missiles across aggression, including Kyiv. And they also smashed free medical centers in Kyiv, including the one largest children's hospital which focused on kids oncology treatments, and also in the birth house, where, for example, my son was born 15 years ago, totally more than 40 people died, including kids. And this is a permanent threat on Ukraine. And that's why we so much need the more air defense and to protect our civilians, and to save our people. And thanks to the US Congress and US administration, to assist us with that, though. On top of that, you know, the Russia is attacking our energy object. So you know, destroying both energy generation and transmission rates. Before just to give you a few figures before the full scale war, Ukraine had around 55 gigawatts of energy generation. And according to the Pew School of Economics estimations, approximately 18 gigawatts of electricity generation capacity was occupied by Russia since the war started, including the largest nuclear power plant the Parisian nuclear power. Additionally, you know, the cut off can be pro Nebraska hydroelectric power plants and Maeve can produce thermal power plants are destroyed recently. And as as little as last few months, Russia damaged or destroyed over nine gigawatts of generation capacity or around half of peak demand of last winter. As you may understand the next winter might be complicated for our for Ukraine. And overall, the capacity destroyed has been estimated at around 80% for thermal and or 40% for hydroelectric power plants, and total damages for the financial sector more than \$55 billion. So this is the, let's say, military slash infrastructure situation where the Ukrainian Government currently operate so and, you know, backed by such developments, everybody is somehow surprised how the government tackles the economic issues. And someone says it's a miracle and I believe it's a result of the brilliant work of the government, the National Bank and also great cooperation of the international donors under somehow IMF umbrella program from umbrella and which resulted to these results in the last two years which you asked him about. So let me give you a few figures. First, you know, after the loss of 29% of GDP in I need to follow me short somehow the resilience and grow and growth around 5.3% in 2023. And now it's showing around 3.5% already in 2024. However, you know, the output remains a quarter below the pre war level. With all sectors severely impacted, and the poverty rate has risen to nearly 30%. We manage in terms of the war, we managed to free to liberate around 8% of our sovereign territory in 2022. But around 70 and 18% are still occupied by Russia. And obviously, the affects negatively the GDP generation output generation, especially considering that big part of the of the Russian occupied territory is industrial region. And recovery is expected somehow to accelerate later this year, mostly due to the attacks of energy sector, but the government works on some supportive measures, also with help of other international partners. In terms of labor force, on the pika, the Russia of Russian aggression, we had around 11 million people out of 14 million people in Ukraine, around 11 million people were forced outside of the country as refugees. And around nine people, man, 9 million people are internally displaced. Now these figures have so many people returned back to Ukraine as a result of the liberation of the deaerator as a result of some more security measures in Ukraine, and also adding as a added value as a labor force consumers. Still 6.5 million people recorded this force refugees, mostly relocated to European countries. Currently, we have 1.1 million people in Germany, around 2 million people in Poland, and 350, Around 60,000 people in Czech

Republic 70 68% of the refugees of working age, and 65% of them are women. And a lot of kids, still around 5 million people are internally displaced. And the shortage of the labor force is another negative factor for the which undermines the recovery of the economy this year, and potentially for the next year. And maybe two more figures to Friedman figures, first is exporter, expert wise, we restored our maritime exporter of grain and other commodities, mostly metal. And even we started some important progression where the Black Sea, you know that the Black Sea is blocked and mined by Russia. But due to cooperation with Bulgaria and Romania, we managed to export grain, you know, and this year is even higher than and last year, and also support many countries in Africa and South Asia, which are dependent on Ukrainian brain. In macro wise, inflation is pretty low is around 4.8%, in line with National Bank target foreign reserves on the level of fatigue below either the full scale higher than the when the war started. And the Ukrainian green national currency is pretty stable. You know, according to the current circumstances, budget deficit is still high, around 25, finding 1% of the budget, but mostly because the defense really expanding reach water of GDP. And but we manage, and it's not a miracle, as I said, is a result of the work of the government, the National Bank with help of international partners and IMF.



08:32

Well, thank you, isn't you have mentioned the good work of the government, but also the IMF. Maybe you can tell us a little bit about what the stabilization and reform program is now going forward.



08:49

Yeah, I mean, let me remind you that the this is the first IMF program, IMF finance program of the country with active Cold War. And we are somehow the pioneers of that. The fund even changed several of these internal policies back in 2020 to 23, acknowledging these kinds of exceptional uncertainty in Ukraine caused by such such exogenous factors like invasion and foreign invasion. What is important such a new policy can be now used by also other countries with similar circumstances, even if I hope no one else will need it, you know, because of these. Hopefully there'll be no other autocrats will invade other countries and actually, you can also fight for that as well. Having said that, we had several key targets for the program. First is overarching goal of the program has been to sustain macroeconomic and financial stability and I believe the program reaches goal like like 100%. I told you the main macroeconomic parameters and should also mention that no monetary finance practice in the last year 1020 feet from 25 War for the, for the budget deficit to finance the budget deficits. This is very important, you know, because as you know, there, it's very easy to open the Printing money, you know, to support the government is very difficult like to stop it. And the result of it definitely undermines the key targets of the program, which is a macro financial stability. And this is again, very important, especially in the time of exceptional uncertainty. The second target is to restore the sustainability on a forward looking basis, both for the baseline scenario and for the for downside scenario. And the peculiarities of our IMF finance program is that under these exceptional uncertainty, we are working more or less in the two different freight macro frameworks and the IMF documents, they have a you know, both calculate all the tables, financing tables, and macro projections both for the baseline, which is normal for IMF program, but also for the downsides if the war continues. And actually we see now that the war continues. And so the target for the for the IMF finance program is to restore that stability. And

this relates to both official and private creditors program financed by the IMF became somehow a cornerstone of defining our international support of Ukraine. And through one side, the IMF secure the international aid for the amount of more than 100 \$20 billion from major international partners. And big part of which is grants and concessional financing, from another side of government work with official and private creditors for the debt relief. And official creditors have committed to a two step process, you know, starting from the extension of the depths and steel, and provided separate assurances to deliver a final depth treatment, sufficient to restore them sustainability by the final review of IMF program in 2027. And the first stage of these, the extension of studstill was formally concluded in December 2033. Today, by the way, so we have an interesting day. Today, there was a news that Ukraine struck a deal also with the committee of the international private creditors to restore something like \$23.4 billion of the private and according to the calculations, Ukraine's stands to save around \$11.4 billion of interest payments of the next three years, and totaling around 22 point 8 billion by 2033. And the nominal core cap on outstanding bonds bonds is to reach somehow 37% Initially, and 60%, eventually in the in the later period, and you graduate pay the first payments in 2029, around 1.2 billion. So it means after the IMF program, and while without restructuring, your credit would have to repay a total of \$9.4 billion in 2,024th, fast 29. And so these, these agreements, these figures should be sufficient and consistent with somehow IMF macro framework and problem depth targets. So and maybe the last, so these are on the on the day of sustainability and restoring that sustainability. But the last thing not to forget that did an eff program, which also should focus on the structural reforms. And the structural reforms are going despite the war and the our target. And it's very interesting that the program, and the fund documents are writing about that in many occasions. It's interesting that the program also shows says that Ukraine, the program should help Ukraine, you know, to win the war, somehow. But also that definitely should pave the way for Ukraine to join the European Union in the near future. And you may know that on the 13th and 14th of December last year, the European Council decided to open accession negotiations with Ukraine. And like a month ago, on 21st of June 24, the European Commission agreed to stop membership negotiations. So the IMF program conditions are supporting the Ukrainian government to prepare its economy for the US session. So these are the four major targets for the problem.



14:17

Great, well, thank you. Let me just a few super brief quick follow up so basically 2024 financing is secure.



14:28

Yes, sir.



14:30

25 What about 2920 25?



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Let me let me go a little bit. One step back. So in your lane, we'll have a small I was telling you

Let me let me go a little bit. One step back. So in your lane, we'll have a small team was telling you this last year. In Ukraine, we have a small team led by the Prime Minister which focuses on on budget financing. We're not touching the the war, you know the military financing, which is a separate task force led by Ramstein group and the Pentagon and other partners like 40 plus countries. We have Ukrainian Ministry of Defense in charge in Ukraine, and we're working on the budgetary financing. I'm a member of the team and this team definitely works also with IMF to secure financing Ukraine. So in 2022, we managed to bring 51 billion of international aid to budgetary support. 2020 is free. It was around \$42.5 billion and biggest contributor contributors in 2022 23. Were European Union us an IMS European Commission, through its MFA and MFI plus facilities provided to a grant around \$27.5 billion of support. On the very concessional terms, US provided 22 point 9 billion mostly grants were there the World Bank instruments, and IMF was the third source of financing around \$7.1 billion. Interesting that Japan was number four. And they they work they provided to us like a 4.2 billion, especially in the year when they were G7 presidency. So they really played that and a super important role for Ukraine. But we are very thankful for all the countries who supported Ukraine, especially in the beginning of the war is Canada, UK, Germany, France, Norway, Netherlands, Italy, and others 1024 targeted somehow on the level of quality free. In our so far, we managed to secure more than 16 billion in six months. But we have very good prospects for the end of the year. And again, so far, European Union has leadership of them. Now they have not only they have these Ukrainian you, you facility, which is based on Ukraine plan of reforms. And this is a 50 billion euro project. So far, the support that Ukraine with more than \$8.5 billion this year, and we expect \$4.5 billion, which is 4.1 billion euro in September, and also a few other tranches later the year, IMF provided to grant already this year, around more than \$3 billion. Japan more than \$2 billion, Canada is around \$1.5 billion. And West, they expect a big portion of us funding of seven point a billion dollars in the next week. So the next board review for your grant, hopefully will be somehow in for Ukraine will be somehow in early October. And you know, we're also really thankful for the US Congress and the administration for unfreezing financing. So I think we are very confident that we will reach 2024 targets on financing 2025. So far, I cannot disclose these figures, because we are in negotiation with them, the government will come up with them only by 15th of September. This is the period of the budget process. But last week, where the stuff is it to Ukraine. And we you know, 80% of these has been focusing on the on the far end of 2024 and fossil 25 financing needs. So it's clear that financing, rational work continues. And the financing needs will be still sizable. But we will make it



18:24

good. Well, thanks for that. I mean, I think you and I have discussed in the past that how vital it is for the program to be financed to avoid pressures for money printing and unleashing inflation which will be corrosive of the overall reform efforts. So I think it's good to hear what you have to say on that. And again, I think continue EU USA and IMF and other countries support for Ukraine is absolutely essential. And I hope that the strong effort is sustained. A lot of talk these days about Russian Central Bank, and oligarch assets and what should be done with them. I'm sure your country has a view on that.



19:13

Yes, I'm personally working on it, like maybe 30% of my time. And, again, it's I'm proud to work with, you know, both European and US partners on these issues, you know that they were recently several important milestones that first we were just having ministers of finance,

meeting stress and later with g7 leaders in a meeting in Apulia which factually build that political consensus around the usage, not the assets themselves, but the usage of the financial proceeds revenue proceeds coming from them, because most of these assets now became a cash on the accounts in different parts of the world. Alder totally was speaking about moving \$300 billion. So we're big portion is with Europe layer in Belgium. And with that there are several key paths around them. The one of them is this week, there will be a g7 meeting some ministers and meeting and Central Bank meeting in Rio. And I hope they will be able to come with more technical details. Because on usage of these Russian sovereign assets, Ukraine is cooperating with most of the ministers of g7, our minister Musa Machuca, was also speaking in Apulia explaining the Ukrainian, not so much red lines, but you read Ukrainian view on that, which is consistent with Western Western approach to that, I still believe there are several decisions to be taken. Also on the European level. First thing around the sanctions, somehow the sanctions should be not so short term, and they have in the European sanctions on Russian assets, because Russia has now frozen or immobilized as a part of the summer in general assumption process. Having said that, I'm waiting together with you and waiting for the results of these negotiations, these weaker in Rio, in parallel to that there are a few other streams on the rational acid. So one of them is again, going back to Europe clear, you know, the European received the, you know, some profits already in the past, including this year, and they are waiting while they're waiting for the decision on the g7. and European level. The CEO of Euro clear spoke this week, last week, about the first half year the financial results, and she commit serves, they're committed to send one point 55 billion euro of the profit received from the Russian assets, from investing of Russian assets to the special European facility, which will finance the Ukrainian defense sector now. And this is also very much important. On top of that Ukraine, together with the European Council is working on the something which is named the international compensation mechanism in harger. So which constitute consists of three different elements, the first element that has been already built, it's a register of international claims for the essay, which is resulted from the Russian invasion of Ukraine. And these register has been already built. It's organizationally set up it has staff, it has a database. And, you know, the a lot of different agents, not only from Ukraine, are welcome to submit their claims against Russia, in order to be further resolved in the future. Now, they're working on the sub Samsung sort of the tribunal slash Commission, which will which will discuss and decide on the legitimacy of those claims. And the third element of that there will be a special fund, which we hope will be fun, you know, financed by the Russian reparations or compensations which will relate as you know, distributed to those people who are people, organizations, countries, not on Ukrainian, also the foreign, which we got some losses or damages as a result of the war. So these are the the major focuses. So we are currently working and for the IMF program is definitely important that this decision on in Rio will be operationalized. So the decision of Apulia will be operationalized in Rio, because the 50 billion, which is expected to get as a part of these decision might be one of the sources for 2025. Financing of Ukrainian budget. Not military far, but the mostly the social spendings.



24:05

Okay, well, thank you. Thanks. And thanks for tying that into the financing. Time is short, and I have two big questions for you, but we can get through them quickly. One was just a general corruption question. I know you did all you could at the NBU to clean up the banking system, but one still hears lots about corruption. Whereas, you know, as I understand it, Ukraine is making tremendous progress on the corruption front, including with the IMF program. So I just wanted to give you a chance to say something about that. Yeah, you



24:40

know, you know that anti corruption infrastructure has been built 10 years ago exactly as a part of IMF program. So we started with, you know, prevention agency was a was an idea of European Commission, but anti corruption Bureau Nambu, anti corruption prosecutor office support anti corruption court II Dekoration. All of these have been done as a part of it. IMF programs, I'm a finance programs, and they really show the results. And they are recognized as an important factor of, let's say fighting also the war internally, you know, not only externally, I would not overestimate the level of corruption in Ukraine, I will say many times, if it will be so much so corrupted as Russia was trying to draw the picture of Ukraine on the international arena, we would never sustain that attack which Russia made on us. But you may also know that I believe that we need to focus not only on the infrastructure, but also limiting the scope of corruption. And like, we need to have a public procurement of resource system in the past for banking secretary, former National Bank transformation with energy sector reforms. Now the IMF is very deeply focusing on customs, you know, because this is a not only IMF, but also European program, and also us working in customs. Because apparently, in customs, you can see a lot of different elements starting with a contract with smuggling with money laundering with potentially governance issues, in general, how the administration's work customer Administration, also in the court system part, you know, so all of these around the customers, and I'm pretty confident we will, we will go with it. Now, we're working on the design of that reform. And I believe it will be a part of the the fifth review and the next reviews for the funder to focus on that, together with a tax system reform, which has started several times in the past and failed. Now, I hope we will make it more more efficient than the last the least as a part of that is not so much anti corruption, but it's very much legal, anti corruption is a judicial reform, and defined continues its work on that area, there is good progress. You I mean, everybody can read the reports of the founder, we also focus on the state owned enterprises, which is another area of the scope for potential corruption, and both in improving the governance but also working on the privatization of those enterprises, even despite the war.



27:13

Thank you for that. I mean, obviously a lot of work to do. But I really wanted to give you a chance to underscore that there's a lot going on in the anti corruption front and that Ukraine has made huge progress. When I was at the fun with you I strongly supported those efforts the entire US government did and I think that Ukraine doesn't get enough credit for all that been achieved against a different difficult perception of where you are. I think you deserve a lot more credit. Okay, last question. Berlin Conference reconstruction? Course the war goes on, estimates around half a trillion dollars, how does how does Ukraine see reconstruction, you



28:00

need to look at the Berlin Conference as in a series of these conferences. So the first was was in lagana, in June 2022. That time, I think everybody's expectations was that the war will be shorter. And this was the conference was just after the after Ukraine, you know, sent away the Russian troops from Kyiv, and the north part of Ukraine. So there was a lot of excitement about that a lot of hope. I believe the Ukrainian government was better prepared than the western part for that confidence, because the rest of the partners didn't have any idea what to do when

a reconstruction of Ukraine or any that time, the damages were pretty high. London conference was already after a year of more than a year of the war, we're in the middle of potential counter the offense, with not so much move of the territory for some period of time. And everybody was speaking about restoration and, you know, restarting the economy. And everybody in business was speaking about the word insurances. And it's very interesting, Mark, whenever whenever I look at these, and I strongly advise you maybe one day to look at this for me with one of your podcasts, that the general word insurance infrastructure in the world is definitely not fitting to this such kind of full scale war in Ukraine, because the best organizations like Miga and the other, you know, the good provide the world insurance, you know, they could do it in in 10s of millions, not in hundreds of billions, okay. And this is very, and also the reinsurance market globally is not prepared for that. So, and the current conference in Berlin was focusing mostly on two things one is an energy because this is so it was obvious that this will become one of the major problems for the next five, six months for your brain, especially preparing for the winter and Second, that German colleagues gave a voice a lot to the region's, you know, to the cities to the small cities. You know, there were a big portion of the Ukrainian small cities, which represented their views on restructuring reconstruction, in our restoration during the conference. And I will say a lot of discussion was there as well, because rebuilding cities and maybe building new cities in Ukraine is something which I'm sure will drive the reconstruction because the major costs for for reconstruction are not give they are throughout Ukraine, they're in regionals. Definitely, there are several big projects like changing the weights of the railway, or a building bigger airports, and because most of them are destroyed, but the housing, which is the major element of the reconstruction is in the cities, and we have a chance now to rethink how the fair housing is looking how the urban spaces are looking, how the cities are prepared for inclusiveness, because we will have a huge increase in the event that people people are amputees, you know, starting from kids to elder people. And all of these is on the regional level. So Germans did a very good job giving this voice to the, to the to the municipalities and to the regional regional power. And we're looking forward now to for a lot of actions towards the energy sector, and also preparing for the next year conference in Iran.

 31:34

Okay, well, thank you for that. Let's wrap up, you know, you have my best wishes, your country man, you fighting Russia's barbaric war. I think you outlined well, how stabilization and reform is moving forward successfully, and how committed Ukraine is to the process. I think you've also made the vital point that financing domestic and foreign is is vital to the stabilization effort. I certainly hope that United States and European will continue their strong financial support for Ukraine. And your your remarks today were wonderful. And they really helped contextualize the issues and how everything hangs together on the financial and economic side. That very valuable contribution. Thank you, Vladimir COVID, for joining us today. Thanks,

 32:28

Mark. And that would not underestimate also the issue of the Russian server and acids. This also should be, you know, should be in the on the radars of you and other partners.

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I absolutely agree with that. As you well know. Thank you for joining us again.



32:44

Thanks for inviting.



32:47

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