The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Conflict in Industrial East Draining Ukraine Economy Daily, Yatsenyuk Says

By The Moscow Times

August 20, 2014



KIEV — Ukraine's conflict with separatist rebels is draining the country's economy by the day and hampering efforts to implement reforms as required by an IMF bailout program, Ukrainian Prime Minister Arseniy Yatsenyuk said Wednesday.

According to the terms of a $17 billion International Monetary Fund loan package, Ukraine must implement set reforms, but the country, which is virtually bankrupt and running wide external deficits, has had to divert substantial funds in its fight to contain the pro-Russian insurgency.

Attacks by separatists on the mines, power stations, railways and bridges of industrial eastern Ukraine were intended to strangle the economy, Yatsenyuk told a government meeting.

"We are losing economic potential by the day. ... Russia is aware that rebuilding the Donbass [the industrial east] will cost not millions but billions of hryvna," he said.

Ukraine's economic decline has accelerated since the pro-Russian rebellion erupted in April when rebels set up separatist republics in its Russian-speaking east after political upheaval in Kiev led to the ousting of a Moscow-backed Ukrainian President Viktor Yanukovych and Russia's annexation of Crimea.

The economy contracted by 4.7 percent in the second quarter compared with the same period last year. With industrial output plummeting 12 percent in July, the economic outlook for the third quarter is not promising.

In June, Yatsenyuk asked the IMF, which decides on the disbursement of the second tranche of $1.4 billion on Aug. 29, to take into account the extra financial burden of fighting the insurgency.

He emphasized the economic toll of the conflict on Wednesday, expressing disappointment at the country's progress.

"I am dissatisfied with the speed and depth of reforms. But the steps we have taken will hopefully bring economic stability when peace returns to the country," he said.

To qualify for IMF aid, Ukraine agreed to abide by conditions that include meeting deficit-reduction targets, raising the price of gas to households and industries and allowing the national currency, the hryvna, to float instead of being pegged to the dollar.

Finance Minister Oleksander Shlapak said Ukraine wanted the IMF to combine the expected third and fourth portions of aid — a total of about $2.2 billion — to be paid before the end of the year to maintain the payment schedule, which has been delayed so far.

The financial aid from international lenders helped the Ukrainian Central Bank stabilize the hryvna in May, but fears over the mounting economic and human costs of the conflict have hit the currency in recent weeks, causing it to weaken about 13 percent since mid-July.

Last week, Central Bank head Valeria Hontareva said the bank would keep intervening on the local foreign exchange market to offset a "mood of panic" pressuring the hryvna, which is trading close to all-time lows against the dollar.

However, Yatsenyuk said there were signs foreign investors believe in the longer-term prospects for the Ukrainian economy.

Highlighting the recent purchase by a large foreign bank of 2.2 billion hryvna ($170 million) of government debt with a maturity of 30 months, Yatsenyuk said "it means that they have faith in the stability of the currency market and the economic recovery of the country."

See also:

[Russia's Sinking Economy Pulls Down Ex-Soviet Neighbors]

Original url:
https://www.themoscowtimes.com/2014/08/20/conflict-in-industrial-east-draining-ukraine-economy-daily-yatsenyuk-says-a38560