Ukraine's "Orange" elite reunites to impose IMF-dictated austerity measures

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22 December 2008

The two parties associated with the "Orange Revolution" in Ukraine have re-established their parliamentary coalition, three months after it collapsed amidst bitter acrimony and accusations of treason.

The coalition between the Our Ukraine party of President Viktor Yushchenko and the parliamentary bloc led by Prime Minister Yulia Tymoshenko fell apart in early September following the conflict between Georgia and Russia over the province of South Ossetia.

Prompted by Washington, Yushchenko had vociferously condemned Russia's response to the August 7 Georgian shelling of South Ossetia, where Russian troops were stationed. Members of Our Ukraine walked out of the cabinet in protest at Tymoshenko's refusal to support a parliamentary condemnation of Russia's actions against Georgia. She was previously an ardent critic of Moscow's interference in Ukrainian politics, but was rumoured to be in talks with the Russian government of Dmitri Medvedev and Vladimir Putin over closer cooperation, including support for her likely bid for the presidency in 2009. Following the breakdown of the coalition, Yushchenko discussed initiating treason charges against Tymoshenko.

The temporary rapprochement between the two is at the behest of the Western powers and the local oligarchs. An alliance remains the favoured government of Washington, which opposes a return to power of the more pro-Russian Party of the Regions. However, patching the alliance became imperative because Ukraine has been among the hardest hit economies during the global economic crisis.

The two leaders came under particular pressure to set aside their factional disputes in November, when World Trade Organisation talks on the future of Ukraine were stalled due to the government's breakdown.

"I agree that the political crisis doesn't help solve the economic crisis," Yushchenko told the BBC on December 15, adding that a "way out of the political crisis" was vital to address Ukraine's slide into recession. The president's office has forecast the economy will shrink by 5 percent in 2009. Tymoshenko said on December 10 of the reforged alliance that it was necessary in order "to minimise the world financial crisis influence on Ukraine."

In October, the country received a US$16.4 billion emergency loan from the International Monetary Fund (IMF). Initially to shore up the financial sector, a large portion of this money has been moved to aid Ukraine's ailing heavy industries. As across much of eastern Europe, over the past five months there has been a massive outflow of capital from Ukraine, leading to plunging stock market indexes and the recapitalisation of financial and industrial enterprises.

One of the first acts of the renewed coalition was to push through austerity measures aimed at making the Ukrainian working class shoulder the burden of this crisis. Included in the package were severe restrictions on public spending, including a moratorium on repairing government-owned buildings, and a complete freeze on hiring new staff in the public sector.

Ukraine's nominal GDP per capita is just US$3,000, and average wages stand at just over 1,000 hryvnia (HRN) per month, around US$126 or €88. Nearly 80 percent of Ukrainians were facing problems due to the economic crisis, according to a poll carried out by the Gorshenin Institute.

More sacrifices will be demanded. "An immediate meltdown has been avoided by the IMF deal...but a lot of challenges lie ahead," said Ozgur Guyuldar, emerging markets strategist at Raiffeisen Centrobank in Vienna. "Next year will be a wasted year" for Ukraine, he added.

Faced with a global economic slump, industrial output in Ukraine fell in November by 28.6 percent, on the back of a 19.8 percent fall in October. The national currency, the hryvnia, is falling against the US dollar, having already lost over half its value this year.

Ukraine's main exports of steel, industrial products and chemicals have fallen in value as global demand slows. Steel production in the country has slumped by half in 2008, with petrochemical output falling 35.2 percent and machine manufacturing down by 38.8 percent.

In November, Ukraine's largest manufacturer of heavy engineering equipment, Novokramatorsk Machine Building Plant (NKMZ), said it would have to substantially reduce production due to the downturn in the mining and metallurgical sectors of the economy.

The company's president, Georgiy Skudar, said, "As of 21 November NKMZ has finished products on its hands having a value of 700HRN million, for which customers have not yet paid." He added that exports to Russia have halved from their peak.

Steel accounts for 40 percent of Ukraine's exports and 30 percent of its GDP. More than half a million workers are employed in the metals industry.

Speaking to the BBC, Vladimir Boyko, director of a steel works that employs more than 7,000 people, said that production at his plant had fallen by about two thirds from its peak. Workers' pay had been cut by 30-35 percent, Boyko said.

Large numbers of Ukrainians have withdrawn money from bank accounts, fearing the collapse of banks or the rapid devaluation of the currency. Around US$2.8 billion has been withdrawn since the start of the financial crisis, adding to the instability of the financial sector.

As Ukraine's main trading partner, the economic crisis in Russia is greatly exacerbating the country's difficulties. Russian industrial output fell by more than 10 percent in November, with most analysts now forecasting a recession. Russia has been especially hard hit by the fall in the price of oil driven by fears of a global recession next year, with a barrel of oil falling from US$147 earlier this year to around US$50 a barrel today.

Russia's deputy economy minister, Andrei Klepach, said last week: "[The recession] has started already. I'm afraid it will not be over in the next two quarters."

"A combination of falling oil prices, weaker external demand, frozen credit markets and much softer real incomes growth means that we now expect the Russian economy to stagnate in 2009," London-based consultancy Capital Economics stated.