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Statement by the Hon. **ARSENII YATSENUK**,
Governor of the Fund for **UKRAINE**,
at the Joint Annual Discussion

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While appreciating the efforts undertaken by the meetings' organizers and the host country to counteract potential security issues, Ukraine believes that the Annual Meetings should ideally be conducted in a normal and usual format.

The world economy, trade; and the state of financial markets can be characterized by rather positive current trends, although not without some risks for oil importers and heavily indebted countries. Countries depending to a significant extent on external demand for their products and services are very much interested in a better assessment of the sustainability of these current positive trends. Ukraine, for example, was able to almost double its exports in just three years. This to a large extent is the result of the implementation of our reform agenda, of successful trade diversification, but it also reflects our increased interaction with and interdependence on the rest of the world. We are now closely watching developments in some regions which are not even our major trading partners, but which are nevertheless important trading partners of our export destinations.

We therefore appreciate additional research and recommendations on how the international community and different groups of countries can better deal with abrupt changes in global demand. The volatility of capital flows and of international trade (from zero growth only 3 years ago to an expected 8-9 percent this year) confirms that IMF surveillance should not discount the importance of the volatility of current receipts and capital flows. Discussions about new Fund quota formulas should also take external openness and variability of trade and capital flows into account.

As it seems, the current account surpluses of developing and emerging market economies should be explained not only through the angle of the levels of their exchange rates, or exchange rate misalignments and/or fiscal challenges of major industrialized nations, but also as a possible result of some more fundamental changes in the world economy. We appreciate more attention to these longer term fundamental challenges, including global changes in the division of labor, demographic trends, challenges to health and pension systems which may be affecting competitiveness and capital flows. We would also appreciate more attention to the emergence of a few new major producers and consumers of the world's output, and better surveillance of regional and sectoral interdependencies.

Further progress in trade negotiations also seems essential for smoothing excessive global cyclicality. We hope the IFIs will contribute to the success of multilateral trade liberalization by providing more substantial and timely temporary financial assistance and advice on how to deal with the immediate effects of liberalization of the previously protected sectors.

Work on capital markets may concentrate more on providing insights into why current trends are happening, and how to anticipate the likely changes in global financial flows and instruments. The official sector will benefit from recommendations on how to better react to the reemergence of national and global market participants willing to take on more risks. Addressing existing gaps in regulations of the financial sector may also need to be better tailored to the levels of development of the national capital markets and financial systems. Instruments that help to diversify risk in a more developed market may contribute to concentrating risk in a less developed environment.

It is rather discouraging to note that not all regions of the world are on track in meeting the major Millennium Development Goals. IFIs may contribute to faster progress by preparing non-politicized professional assessments of national poverty reduction strategies and by providing different scenarios of various mixes of adjustment and financing. This menu of options and of policy mixes may help the national authorities and donors to make better choices. To this end, the promoted intensified non-financial engagement of the Fund, be it some new form of monitoring, or a precautionary PRGF, may eventually prove to be a suboptimal instrument for improving the prospects of low-income countries in attracting necessary inflows of aid and investment. Addressing infrastructural gaps, inadequacies of health and educational systems, and developing more modern public administration in low-income countries require not only macroeconomic prudence, but substantial and well-targeted technical assistance and financing.

We have been learning by doing -- that growth is essential for lasting poverty reduction. A good investment climate is vital for sustained growth and productive employment creation. We very much welcome this year's discussion on the topic of "Elements of the Growth Agenda: Investment Climate and Infrastructure." Developing this topic further and addressing outstanding issues requires more careful analysis of developing and transition countries' experiences. We acknowledge that perspectives on what best influences growth have become more nuanced with additional experiences and policy experimentation. We would like to encourage the World Bank to strengthen their specific capacity building initiatives and knowledge transfer programs used to assist countries interested in improving their investment climate.

IFIs may also contribute to the progress of low and medium income countries by more systematically making available the accumulated positive experience of other countries. Greater accountability of the IFIs for the quality of their advice to member countries can be enhanced. One of the venues for such enhancement – wider dissemination of the experience of other countries, which followed similar advice, as well as more systemic integration of the research and self evaluation work done by IFIs into their operations. Organizing more conferences, workshops and using other dissemination vehicles could be considered. It is being done in a rather effective way, for example, in spreading the best practices in implementing various Standards and Codes.

Ukraine continues to demonstrate rather impressive economic performance: the economy is expected to grow by over 12 percent this year. The average annual growth rate since 2000 has been 8.4 percent under a reasonable single digit inflation. Public debt to GDP ratio decreased from 48 percent in 2000 to 27 percent today, debt service as a share of exports is below 5 percent.

We are currently paying substantial attention to preventing overheating of the economy, strengthening our financial sector, further reforming the tax system, enforcing anti-monopoly policies, and improving our pension system. The business climate has improved and this is reflected in a very substantial increase in domestic investment and overall factor productivity.

The current account has recently demonstrated healthy surpluses, our international reserves have also substantially increased to about 12 billion dollars, while we feel that global uncertainties warrant building additional buffers against future contingencies.

The government in partnership with private sector entities, is working on improving the transportation infrastructure, and activating the research and development capabilities in order to move to an economic model based predominantly on knowledge and innovation. After almost a decade of output collapse, our industrial capacity in many sectors is still used to quite an insufficient extent.

The introduction of a reasonable 13% flat income tax rate, simplified taxation of small businesses, combined with pension reform and a reduction by 10% in the enterprise profit tax rate, accompanied by some widening of the tax base, and recent improvements in tax administration have all helped to reduce the size of the unofficial economy, although its share still remains excessively high.

Addressing our developmental bottlenecks requires primarily more structural reforms, especially in the areas of public finances and the enterprise sector, where there is a need for introducing greater transparency and improved protection of the minority shareholders' rights. Among our priorities are also reducing red tape, more efficient bankruptcy proceedings, reform of the judiciary, and further progress and in increasing the efficiency of the services provided by the public sector.