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Statement by the Hon. **SERGIY L. TIGIPKO**,
Governor of the Bank for **UKRAINE**,
at the Joint Annual Discussion

Statement by the Hon. Sergiy L. Tigipko,
Deputy Prime Minister and Governor of the Bank for Ukraine
at the Joint Annual Discussion

The delegation of Ukraine supports the main new initiatives which were extensively discussed during the meetings of the Interim and Development Committees. The decisions and outlines adopted will allow the Bretton Woods institutions to carry on their traditional and new functions in the fast changing world with dignity and more effectiveness. We hope that the radical increase of effectiveness, influence and authority for both the IMF and the World Bank will take place in the nearest, and not too distant future. We also hope that our feelings are shared not only by the leaders of the Bretton Woods institutions, but by all delegations, on the active position of which the pace of implementation of these new ideas is dependent.

We feel the importance with which the transition economies were dealt with in these Annual Meetings. Even the most successful of them are now facing the problems resulting from the implementation of the second phase of the radical reforms and integration into the world economic and monetary financial systems. Those problems, in our view, should not only be acknowledged, but should be placed in a focus of constant monitoring and surveillance. The difficult transformation process should be studied not only by academic circles but by international financial institutions which have acquired a unique practical experience. This experience is a global legacy and we think that the greater transparency and openness is needed not only for the international financial system and the system of governance of the member countries, but also for the Bretton Woods institutions themselves. We witness a significant move in this direction in the area of expansion of the presence and the depth of the dialogue in the field, greater flexibility and responsiveness to the needs of the borrowers, adaptation of the lending instruments in accordance with the current developmental demands. Nonetheless, the public demand for the dissemination of the acquired analyses of successes and failures of the reform on specific groups of countries with similar problems is not completely satisfied. The fuller practical implementation of the IMF and the World Bank's management concept of the new public role probably requires more time.

The transition economies are grateful for the contribution of the international financial institutions for the development and strengthening of their market economy institutions, i.a. in the financial sector. We would also like to stress the importance of the cooperation with the IMF and the World Bank in the building up of the institutional capacity in the area of civil service. We in Ukraine sometimes experience difficulty in the implementation of our joint initiatives due to the lack of qualified specialists trained in accordance with international standards. As a country which embarked on the road of reforms later than others, Ukraine is now coping with the problems of the second phase of reforms placing emphasis on the structural changes, and consolidation of the achievements of the first phase of stabilization. Inflation will be brought down to 10 per cent per annum this year compared to 10 000 per cent only three years ago. Despite the problems and limitations to our export imposed by our trade partners, the trade balance of Ukraine is constantly improving. Ukraine remains as a country with one of the lowest levels of tariff protection in the region and we are removing last obstacles on the way to a more broad

trade liberalization. The exchange rate has remained nominally stable for almost two years in the environment of expansion of exports and a certain improvement of its structure. In parallel with the increased money demand, in response to the regained trust in the macroeconomic policies of the state, the banking system has also been consolidated.

Next year we plan to complete a broad tax reform, speed up the structural reform in parallel with maintaining the exchange rate as a nominal anchor of the financial stability. We continue to work thoroughly on the quality of our budgetary system reforming the public sector and solving the problem of budgetary arrears' minimization. This will increase the payment discipline in the economy and will enable us to move the structural reforms in the important sectors for the improvement of the investment climate and conditions both for the domestic and foreign investors. Even the first steps in this direction have brought about an increase which only in this year's foreign investments amounted to more than 70 per cent compared to the previous one. The transparency and openness of our privatization program is improving. We practically completed the small-scale business privatization. Moreover, 5000 large scale enterprises have been privatized. We have embarked on the implementation of the complex of measures on deregulation of entrepreneurial activities, and demonopolization of the key sectors of the economy. This will create an environment conducive to the success of our program to combat corruption and bureaucratic abuse, as well as secure the gradual process of legalization of the still wide spread shadow economy. Now after the adoption of the new legislation we will proceed with the regional government reforms.

However, we have not achieved the post crisis stable economic growth in all sectors of the economy. We are fully aware that this constitutes the main risk for the possible weakening of the public support for the reforms. The living standards of the majority of the population has not significantly improved for several years in a row. This is used by the political opponents of the reform who are interested in slowing or even curtailing some of them. The resumption of growth on a new healthy basis under these conditions becomes a first priority and challenge. It is here that we most feel the support of the international community, primarily the Bretton Woods institutions.

We are now cooperating with the International Monetary Fund in the framework of the temporary Stand-by program which has strong structural elements. After the enactment of several important laws on the tax and budgetary reform and the improvement of the financial sector we intend to embark next year on the implementation of a large scale medium term EFF program. While implementing it, we expect to stop being a constant net recipient of the IMF financial resources.

Since the last Annual Meetings we added to the World Bank portfolio five new loans and two guarantee operations totaling to 1.2 billion dollars. We have concentrated our attention on those sectors that would most contribute to the attainment of radical structural changes in the economy of Ukraine, maximum realization of its potential in the energy and agro-industrial sectors, and the expansion of the export capacity of the country.

Our delegation would like to express deep gratitude to the leadership of the IMF and the World Bank for maintaining an active dialogue with Ukrainian partners in the environment when the reform efforts of the executive branch were not always supported by the legislature. We sometimes faced problematic situations which were skillfully dealt

with by the good offices of President Wolfensohn and Managing Director Camdessus and the staff of the Bank and the Fund. We would like to extend assurances of our interest to continue such a constructive dialogue in the future.