

TRANSFORMATION OF SOCIAL-AND-ECONOMIC SPHERE OF UKRAINE IN THE PERIOD OF WORLD ECONOMIC CRISIS

The present world economic crisis revealed a number of disproportions in the social-and-economic development of Ukraine. In the period of economic growth (2000—2005) the development of national industrial complex, spontaneous in its nature, was driven mainly by the changes of international environment. During 2005—2010 Ukrainian economy had to adapt to a set of internal and external shocks of supply and demand. In 2005 in conditions of deteriorating global markets Ukraine was adapting to active socialization shock, which, although increased producers' costs, led to the expansion of the domestic demand. In 2006—2007 national business was forced to adapt to the shock of rising energy prices. Starting from the second part of 2008 and till the mid-2009 — during the escalation of world financial and economic crisis — further increase of social standards and energy prices took place. Finally, this situation led to a mixture of various shocks, causing a deep economic and financial crisis in Ukraine. Overall, supply shocks were not so critical in conditions of growing demand, while shrinking demand shocks have led to significant negative consequences for the economic development of Ukraine.

Ukraine during 2008—2010 went through difficult times, having suffered from the global financial crisis, increasing protectionism, internal imbalances etc. In 2009 Ukraine experienced the highest among the CIS countries reduction of GDP in constant prices (–14.8 %). At the same time, governments of Belarus, Kazakhstan, Azerbaijan, Kyrgyzstan, Tajikistan and Uzbekistan were able to successfully contend with global crisis and avoid recession of production. The reduction of real GDP occurred in Armenia (–14.4 % compared with 2008), Russia (–7.9 %) and Moldova (–7.7 %). Drop in the production

output along with the deteriorating crisis of payments caused a simultaneous fall in exports and imports of goods and services. Figure 1 shows that the trend line of the GDP growth along with the consolidated index of production had positive correlation with the world prices for basic metals during the period 2003—2009.

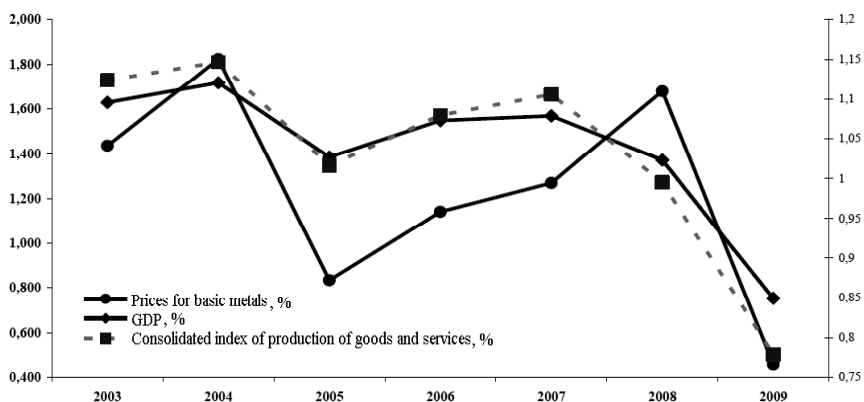


Figure 1. Dynamics of consolidated index of production of goods and services, GDP and prices for basic metals, % to the previous period¹.

This may serve as a proof of high dependence of the results of economic development of Ukraine from its external trade, as well as from the state of international commodity markets.

The reduction of output occurred in all industrial sub-sectors, and especially — in the exports-oriented ones. In particular, in 2009, chemical and petrochemical production dropped by 23.0 % in comparison with 2008, metallurgy — by 26.7 %, machine building industry — by 44.9 % whereas agricultural production — only by 1.8 %. The fall in output of industry caused a chain effect for the cargo transport enterprises, whose turnover fell by 21.9 % in 2009. The lack of liquidity led to the reduction of construction turnover in all regions and in all types of construction activities, whose volumes in 2009 decreased to 51.8 % of 2008 level.

Whereas in the CIS countries the decline of industrial production was accompanied by a low rate of inflation or even fall in commodity prices,

¹ State Statistics Service of Ukraine, Ministry of Economic Development and Trade of Ukraine, «Metaltorg»

in Ukraine, on the opposite, there was a significant increase in producer prices and inflation, as a result of companies' efforts to maintain their profitability. In the period from 2006 to 2009 the price index of industrial production increased by 2 times.

The state of affairs in the financial sphere was also deteriorating. In September 2008, due to a lower external demand and collapse of prices for the goods of the leading exports-oriented industries, the volume of foreign currency supply declined. As a result, the official exchange rate decreased by 52.5 % (from 5.05 to 7.70 UAH per USD) during 2008, that led to credit system crisis and abrupt drop in the production volumes. The growing trade deficit was financed by means of raising external borrowings, resulting in the increase of the gross external debt of Ukraine, expressed as a percentage of exports of goods and services, from 74.2 % in 2004 to 118.7 % in 2008, and to 191.6 % in 2009.

Raising wages in the pre-crisis period (2005—2008) grew into one of the most urgent issues of government policy. During the period of 2005—2008 a hypertrophied growth of wages took place, which led to the deformation of macroeconomic proportions of GDP and restrained the opportunities for further economic development (Figure 2).

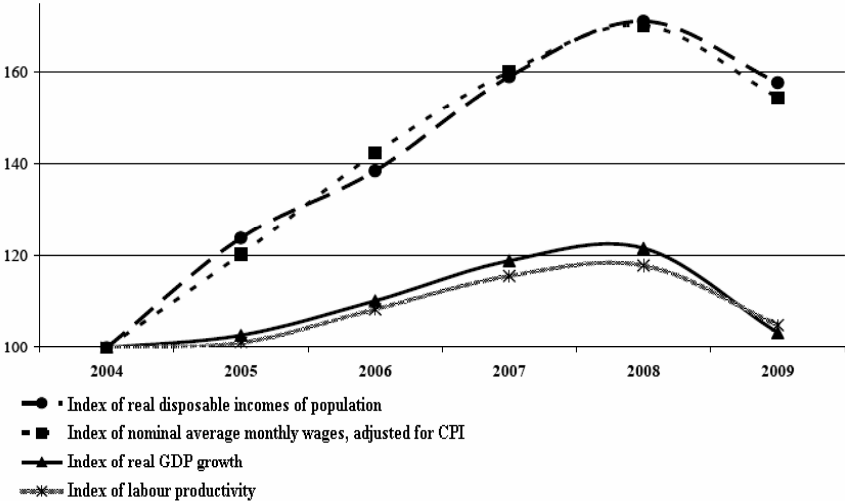


Figure 2. Indices of real GDP, disposable incomes of population, average wages and labor productivity, % (2004 = 100 %) ¹

¹ Forecast of economic and social development of Ukraine for 2011-2015, Ministry of Economic Development and Trade of Ukraine, p. 107

Compared to 2004 real disposable income increased by 71.1 % in 2008, whereas GDP increased only by 21.6 %. As a result of long-term regular growth of social spending, their share in the consolidated budget in 2005—2008 increased to 22—28 % compared to 12—15 % in 2000—2004.

Now it has turned obvious, that Ukraine has exhausted the possibilities to maintain price competitive advantages in world markets as a result of the technological obsolescence of production processes, redundant energy consumption, low solvency of national enterprises, and narrow assortment of goods. Therefore, the crucial objectives of modernization of social-and-economic sphere are the following: creating conditions for the development of key national high-tech sectors; fostering investment in the modernization of fixed assets and production technologies; stimulating innovative activities of SMEs, building regional and local knowledge triangles; reducing tax pressure on business and creating more favourable national business environment; stabilizing and promoting the development of financial markets, improving the reliability of national banking system; balancing social priorities with economic resources for the sake of avoiding socialization shocks of economic development; ensuring social policy, aimed at eradicating poverty, improving living standards and social security system, opening new employment opportunities, accounting for the real possibilities of the budget and economic sectors.

LIST OF REFERENCES

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