Ukraine is an important nation with a long and noble history. However, its present and future are equally important, for its success or failure in assuring economic prosperity and political stability for its citizens will have important consequences for all of its neighbours and for all countries represented here as well.

Clearly, its fate and ours are linked and we must make every effort to assure the success of its current economic restructuring and renewal.

Michel Camdessus, Managing Director, International Monetary Fund

Mr. Chairman, it is a great pleasure for me to participate in this conference, and I am particularly delighted to share the platform with President Kuchma. I should like to take this opportunity to pay tribute to the President for his courageous and determined leadership in embarking on such a far-reaching program of economic transformation. As he has said, some key elements of that program were implemented earlier this week. Let me also salute the members of his economic policy team, whom I am pleased to see assembled here today, for their skilful and painstaking work.

Yesterday, the IMF's Executive Board reviewed the program formulated by the Government of Ukraine and agreed to support it by making available to the Government a first drawing of US$365 million under the Systematic Transformation Facility. At the risk of being indiscreet, I can tell you that the Fund's Executive Directors were unanimous in their welcome of and praise for the program. Rightly so: it is a program that fully deserves the support of the international community.

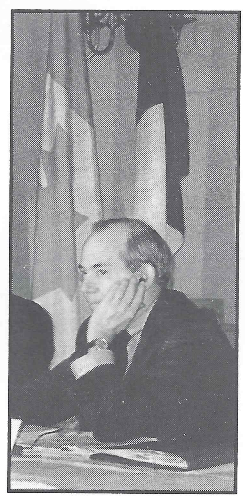
There are four features of the Government's approach that I should like to emphasize this morning:

- first, it promises a fundamental break with the past;
- second, it is anchored on a strong, comprehensive, and coherent program;
- third, we cannot lose sight of the fact that this program is but a first step;
- and fourth, the new approach will provide the breakthrough we have all been looking for only if it is implemented steadfastly, and only if it is supported by strong cooperation – especially financial assistance – from the international community: only, in other words, if there is genuine international partnership. This is why this conference is so important.

First, the break with the past. As we all know, the economic road that Ukraine has followed since becoming independent has been a bumpy one indeed.

The country has suffered great economic pain, for little gain; and the reason is largely that there have been gross shortcomings of economic policy. The macro-economy has been allowed to get badly out of balance, and reforms have been piecemeal and short-lived. Let me cite a few examples. A national currency was introduced in 1992 to provide autonomy in monetary decisions, only to be followed a few months later by a massive expansion of credit to loss-making enterprises. Domestic prices were initially liberalized in 1992 but – faced with a surge in inflation – the Government reversed its policies and re-introduced price controls one year later. The system of multiple exchange rates was unified in May 1993 and a market-determined floating exchange rate was introduced; but the Government reversed its decision four months later and re-introduced a multiple exchange rate system. With policies like these, it is not surprising that the economy moved backward, not forward.

The program on which the Government has now embarked signals a change in its approach to economic management – away from administrative mechanisms and lax financial policies, and toward market mechanisms and tight financial discipline. Let me again mention a few examples – this time, examples of good policies. In the area of price liberalization, the Gov't last weekend allowed most prices to be market-determined, reducing controls and regulations on profit margins substantially. In the area of exchange rate policy, it has reunified the exchange rate and reinstated a high degree of current account convertibility. And in the area of trade, it has reduced the scope of export quotas – which stifle trade – by more than half. These measures will help promote viable economic activity, exports, and repatriation of the foreign exchange earnings that Ukraine so badly needs.



Second, a few words on the strength and coherence of this program. The financial policy effort speaks for itself. Cuts in government expenditure in the fourth quarter are designed to hold the full-year budget deficit in 1994 at no more than 10 percent of GDP, as compared with a deficit of nearly 20 percent of GDP that the Government was facing in the absence of policy measures. At the same time, the National Bank of Ukraine has moved with alacrity to begin to restore confidence in the national currency, in particular by increasing interest rates sharply and announcing a freeze on lending by the commercial banks during the remainder of this year. These are exceptionally tight fiscal and monetary measures. But they are required by the threat of exceptionally high inflation. One of the most important objectives for the next few months is to withstand the pressures associated with price liberalization and get inflation on to a clearly declining trend – the targeted monthly rate for next March being 5 percent.

In addition to its strength, the program is comprehensive, with mutually supported macroeconomic, liberalization, structural, and social policies. It therefore has coherence, a feature missing in the past. In particular, the macroeconomic policies are directly supported by structural reforms, such as the privatization of state enterprises, the legalization of private ownership, and the deregulation of private sector activities. Of particular note is the Government's intention to launch a mass privatization program in the coming weeks, beginning with the distribution of privatization certificates to the population. It is also entirely appropriate – indeed essential – that social measures have been introduced to protect the very poor against the possible negative impact of price liberalization.

Third, this program is necessarily only a first step in the right direction. Continuous and persistent effort will be needed over the coming months and years if the economic transformation is to succeed. This will require not only consistency of purpose but also streamlined procedures of governance. Despite the measures introduced earlier this week, the economic situation remains very difficult. The budget is still threatened by the scale of some subsidies, and the deficit must continue to be scaled back decisively. Very substantial domestic liquidity is still in the pipeline. And there is an acute shortage of foreign exchange. These threats and pressures will not disappear overnight. It will be essential to build on the program that has just been introduced to ensure that the pre-conditions are firmly established for a return to growth in output and in the living standards of the population in the years to come. The Executive Board of the Fund, in its discussion yesterday, therefore drew important reassurance from the Government's stated commitment to build on and reinforce the present policies in 1995.

In the coming days, an IMF staff team will return to Kyiv to help the authorities formulate a program that could be supported by a full stand-by arrangement. As the authorities well recognize, this program should aim to reduce inflation to a very low level by the end of next year. In turn, the budget will need to be brought much closer to balance and monetary policy kept firmly tight. The establishment and maintenance of macroeconomic stability are essential for healthy economic growth. But they are not sufficient. At the same time, Ukraine's enormous supply potential needs to be fully liberated, not frustrated as in the past. This means that a key policy imperative for the second stage will be incisive and far-reaching structural reform.

I now come to my final point. As the sponsors of this conference recognize, Ukraine's domestic policy efforts will produce the desired