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## **ECONOMIC CRISES IN UKRAINE: SIMILARITIES AND DIFFERENCES**

The paper is devoted to the conditions and the effects of economic crises in Ukraine and the ways out of them. For the correct displaying of the situation in the country, the position of the country among other countries is studied. Similarities and differences of economic crises are revealed in view of the reasons for their occurrence. The changes in values of various macroeconomic indicators during the crises and between crises periods are considered and changes underlying causes are spotlighted. Some particular lines of reforms are suggested following the investigation of national and foreign problem solving drawbacks and gains.

**Keywords:** economic crisis, investments, savings, government debt, innovation, reform, education.

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## **ЕКОНОМІЧНІ КРИЗИ В УКРАЇНІ: СПІЛЬНІ РИСИ ТА ВІДМІННОСТІ**

Стаття присвячена вивченню умов, наслідків настання економічних криз в Україні та шляхів виходу з них. Для вірного відображення ситуації в країні, вивчені її позиції серед інших країн. Виявлено, що вищезазначені кризи мають багато спільних рис та відмінностей, визначені причини їх настання. В статті розглядаються зміни у значеннях різних макроекономічних показників в періоди криз та міжкризових періодах та зазначені причини, з яких відбуваються зміни. Вивчено основні проблеми української економіки, і у зв'язку з ними сформовано пропозиції стосовно реформ, що сприятимуть виходу України з кризи на прикладі реформ, що були проведені за схожих обставин в інших країнах та вивченні помилок з минулих років.

**Ключові слова:** економічна криза, інвестиції, заощадження, державний борг, інновації, реформи, освіта.

## **ЭКОНОМИЧЕСКИЕ КРИЗИСЫ В УКРАИНЕ: ОБЩИЕ ЧЕРТЫ И ОТЛИЧИЯ**

Статья посвящена изучению условий, последствий наступления экономических кризисов в Украине и путей выхода из них. Для правильного отображения ситуации в стране, изучены ее позиции среди других стран. Выявлено, что вышеуказанные кризисы имеют много общих черт и отличий, определены причины их наступления. В статье рассматриваются изменения в значениях различных макроэкономических показателей в периоды кризисов и межкризисных периодах и указаны причины появления этих изменений. Изучены основные проблемы украинской экономики, и в связи с ними сформированы предложения относительно реформ, которые поспособствуют выходу Украины из кризиса на примере реформ, которые были проведены при похожих обстоятельствах в других странах и изучении ошибок предыдущих годов.

**Ключевые слова:** экономический кризис, инвестиции, сбережения, государственных долг, инновации, реформы, образование.

**The statement of the problem.** Economic crises are the cyclical phenomena, which, on the one hand, are pushing the country towards development, and on the other hand, prevent them to achieve the best results. Despite some positive effects of economic crisis it is necessary to be able to plan carefully country's program reforms and policy of getting out of crisis. Currently a period of significant economic stagnation, which is increased by a number of negative factors, has come in Ukraine. Country's government has undertaken a fully balanced series of economic reforms to resolve the situation.

**The analysis of studies and publications.** The problem of economic crises explored by a number of Ukrainian (Т. By`lenko, V. Zhavoronkov, R. Baby`ch, V. Zasans`ky`j, V. Voloshy`n, M. Belopol`sky`j) and foreign (M. Rahman, K. Moazzem, S. Hossain, M. Mazower, M. Rotbard, I. Sinicina, S. Glinkina, N. Kulikova) scholars is considered in the light of the latest trends and achievements of macroeconomic science and appears to be rather complicated. Still it is convincingly demonstrated economic crises are usually caused by the wrong economic policy, worldwide economic growth rates reduction and

the negative expectations of society.

**Selection of the unsolved aspects of the problem.** Nevertheless nowadays economic crisis in Ukraine is not fully studied. Many aspects of this problem occur suddenly and unpredictably, therefore it is difficult to foresee the necessary actions. Examined in general the problem of economic crisis deserves more attention as to peculiarities of current situation.

**Goals of the article.** The purpose of this article is to study the current situation in Ukraine and to compare it with the period of the economic crisis of 2008-2009 years. The main aim of the study is to propose the program of reforms that are going to contribute to economic growth.

**The main material.** The economic recovery (after the financial crisis of 2008-2009 years) is slower than expected in optimistic scenarios in the global economy. After a relatively successful 2010-2011 the world economy was not able to keep the new growth trend and world development indicators in 2012 -2013 years became significantly worse than in the previous two years.

Note that in 2012 there was a "momentous" change in the structure of FDI, which could have a global impact on further global investment flows. For the first time developing countries received more FDI than developed countries. The influx of FDI in developing countries, totaled \$ 703 billion, or 52% of the global volume.

Meanwhile, the period after the restoration spotlighted the importance of investments in the country for ensuring its economical strength. Those countries which succeeded in supporting the investment attractiveness and preventing the investment collapse during the global crisis, have achieved significantly better results after recovery[5]. The smaller were investment volumes losses in countries, the smaller were the losses is the economic dynamics in general.

The 2008-2009 years crisis rejected Ukrainian economy a few years back, and 2013-2014 years crisis processes can increasingly impair Ukraine's position in the world economy in the medium term.

The main tendencies of consumption and investment are shown at Figure 1. We can see that:

- savings of resources are realized initially at the expense of reducing long-term costs (often investments) in the periods of economic weakening;

- accelerated growth reveals in the expansion of investment, including the enhancing of the population savings in the periods of economic recovery;
- falling of the consumption is usually considerably less than falling investment in crisis period.

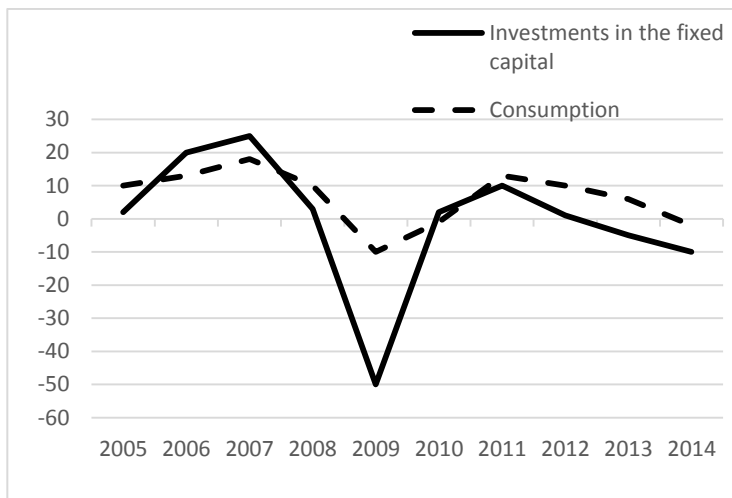


Fig. 1. Growth in real consumption and investment (percentage change year-over-year) [5]

The 2008-2009 years and 2013-2014 years crises affected the inflation in a similar way. In both cases the main reasons of the rising prices were:

- rapid and total depreciation of UAH;
- administrative increase of utility tariffs.

The changing of the external trade structure is an opportunity of economic strengthening. It should be noted that the structure of foreign trade in recent years undergoes certain changes. Therefore, if we compare trading structure in the 2008-2009 years, they were very similar, with a high share of steel industry products. The structure of the 2012-2014 years were somewhat different, with much smaller particles of ferrous metallurgy. Ukraine needs to fix the tendencies of expansion of the nomenclature, and accessing to new markets that, perhaps, will provide the opportunity to

expand exports [4].

Therefore, even high-foreign trade deficits may prove to be quite acceptable with reliable and stable source of funding provided.

In the coming years investment attractiveness will continue to be low, i.e. FDI inflow will not be a factor of supporting macroeconomic environment. However, remittances of citizens-Ukrainians abroad after the 2009 crisis are consistently increasing in Ukraine. Its amount in 2012 -2013 years significantly exceeded the volumes of FDI [9].

Note that from the beginning of crisis 2008-2009 years, the debt of the Government and NBU increased almost in three times. However, in 2011 year, the total external debt of the Government and the National Bank for the first time in the last decade exceeded the level of country's gross foreign currency reserves (fig. 2.).

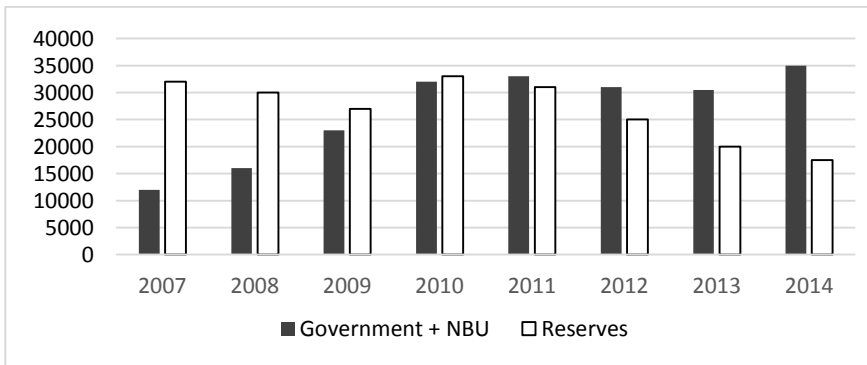


Fig. 2. Government debt and gross international reserves (\$ mln) [3]

So in the crisis wave of 2013-2014 years Ukraine had not only a significant foreign trade deficit and decreased investments, but also an excessive external debt pressure that would increase the devaluation.

Moreover, the extremely dangerous characteristic of external debt position of Ukraine is extremely high level of the short-term debt. In a period of 2008-2009 years crisis, the amount of reserves was subtly different from the magnitude of short-term debt. In the period of 2013-2014 years, reserves were kept at low levels and the short-term debt became significantly increased. Today short-term debt is 4-5 times more than the level of foreign currency reserves of the country (fig. 3).

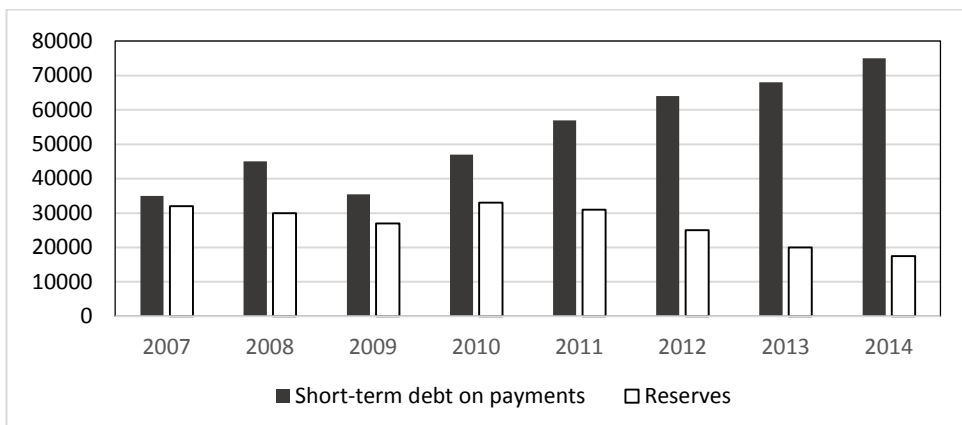


Fig. 3. Short-term external debt by residual maturity, (\$ mln) [3]

The difficulties of external debt are also compounded by the fact that the structure of the debt is in a large shape formed by state (or state participation) enterprises (Naftohaz Ukrainy, "Ukrzaliznytsya", "Ukravtodor", etc.), and companies that have State benefits (the State assumes financial responsibility). The activity of such enterprises remains opaque and low effective.

Internal debt is formed mainly by placing bonds of internal state loan, the funds from which are used to cover the deficit of the State budget.

Therefore, the dynamics and nature of government bonds indicate the actual formation of expensive debt pyramid, mainly at the expense of the resources of the NBU, which in view of weak economic dynamics can involve additional risks in the financial and foreign exchange markets in the country.

Here are some key indicators of Ukraine's worsening situation:

- the nation's GDP is down almost 10% from a year ago and growth is expected to worsen as it is shown at the Figure 4;

- Ukraine's retail sales are falling at the rate we haven't seen since the financial crisis and industrial production is collapsing. We can look through that tendency at the Figure 5.

It appears that such external and internal support has to encourage economic crises not only overcoming, but also being used for large-scale restructuring of the economy through first establishing civilized environment for business. That will requisite the flow of investments, and

the development of entrepreneurship and innovation, thus, the quality jobs should be created and the social welfare should be increased.

Intensifying crisis trends that are observed lately in Ukrainian economy, can be explained by the effects of Russian aggression and Russia's restrictive trade measures that led to the loss of a large portion of domestic production only in a certain extent. The main root factor is very serious systemic economic deformation that had accumulated for a long time – actually for the period since Ukraine got an independence.

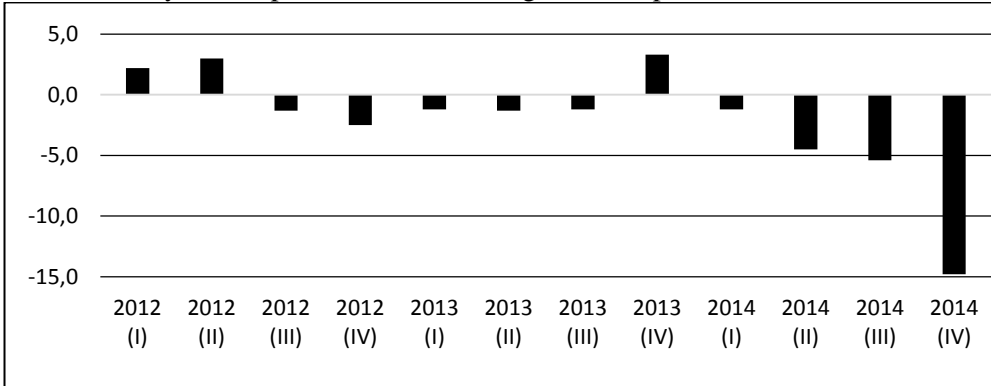


Fig. 4. GDP annual growth rate (percent change in gross domestic product) [7]

Hence, economic and financial stabilization in Ukraine calls for an urgent, comprehensive and integral policy program. According to best international practices, this policy program must include the following key components:

1) establish strong organizational arrangements to confront the crisis,

2) secure substantial foreign financial assistance,

3) implement a comprehensive program for troubled banks and their borrowers [6],

4) realize the reform of higher education that will encourage the development of science and industry.

1. Establish strong organizational arrangement to address the crisis [6].

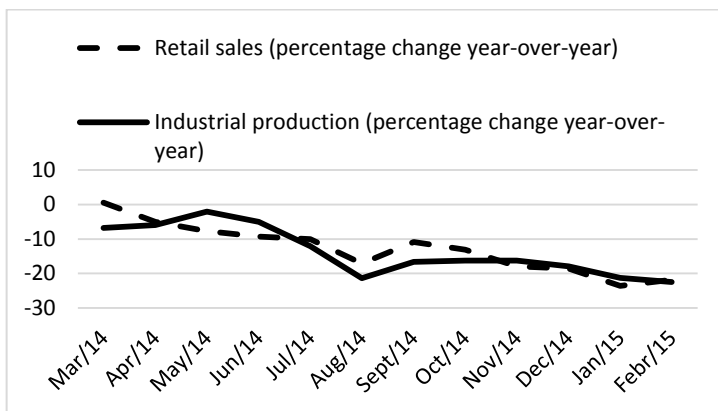


Fig. 5. Retail sales and industrial production (percentage change year-over-year) [8], [9]

Essentially, all countries that managed their crises successfully created an Authority with strong legal powers (to enable it to act promptly), and with independence from the central bank (to avoid conflicts between monetary objectives and fiscal costs). The Authority should develop an early warning system of key indicators, which will show whether the depth of the crisis is increasing or not and will allow for modification of the stabilization program in a timely manner.

## 2. Secure substantial foreign financial assistance [6].

Ukraine's main vulnerability is indeed the substantial amount of foreign debt due in 2014. For this reason, the government was right in urgently seeking medium-term financing from official international financial institution.

The Ukrainian authorities must continue a productive dialogue with the International Monetary Fund to ensure the complete and timely arrival of all funds allocated to Ukraine. Ukraine may also attract additional external financing to cover its budget deficit from other International Financial Organizations and through bilateral agreements if and only if the IMF program is in place.

Equally important, authorities' actions to address the issue of the private sector short-term debt may help secure sufficient external funding in 2015.



3. Implement a comprehensive program for troubled banks and their borrowers [6].

Most countries that faced financial crises found that the weaknesses and risks in the banking sector require coordinated and across-the-board policy measures to reestablish the viability of the banks. The functionality of the banking sector, i.e. the ability of banks to perform financial intermediation, must be restored. The further implementation of the banking sector program must be based on the following key principles:

- primacy of private sector-led solutions;
- minimization of costs to taxpayers and depositors;
- fair punishment of shareholders and managers who indulged in reckless risk-taking practices;
- competent, independent and transparent assessment of banks' needs for capital injections;
- clear, reasonable and politically neutral conditions on banks receiving public funds.

Finally, the government should consider a mechanism to help corporations and banks that may default on their foreign debt to refinance their foreign liabilities. There is a need to obtain reliable information on the monthly maturities of these debts and assist debts with the development of feasible contingency and debt restructuring schemes.

4. Realize the reform of higher education that will encourage the development of science and industry.

The newly adopted law "On higher education" [1] expands the autonomy of universities, that, according to the reformers, will contribute to the significant rise of the university education quality.

Negative characteristics of the current structure of graduating specialists with higher education are connected with the following:

- a noticeable lag of the share of specialists in the field of natural sciences, where the most important modern breakthrough technologies is observed;
- the trend to a substantial reduction of share of humanitarian and artistic professions that forms the people's culture;
- even more expressive reduction of a share of specialists in the field of medicine and social programs;
- overstated share of specialists in the field of social sciences, business and law.

But it is unprofitable for universities to produce specialists in natural specialties, because the demand for them is minimal, and the educational process is very complex, it needs appropriate staffing, modern equipment and material-technical base. In addition, it is necessary to change the way of teaching in the all spheres of education: to carry out an increasing number of workshops and various modern teaching methods. Thus, the specialists will be better prepared for work in a modern environment and the level of their education will be much higher. Examples of such forms of teaching can become a conference workshops, solving the cases, practical training on actual production facilities.

While learning the situation in the sphere of general expenses on science, we can see that the great share belongs to Ukraine state (46%). However, in many developed countries this index does not exceed 30%. In addition, there is a tendency to reduce this share in the most of them.

According to the exceptional role of big business in generating demand for graduating specialists of the highest qualification and in the funding of scientific research and development, the distortion in this area has the largest influence: they actually cause systemic socio-economic deformations in Ukraine [2]. There are some of their characteristics below:

- availability of clear rent orientated behavior of big business, which consider the source of their competitiveness not on the market of innovation, but in achieving the exceptional access to scarce resources and monopoly position in the market;
- the prevalence of short-term business processes;
- society lives mainly in the present and thinks more about the current welfare (consumption) than about the long-term prospects of development.

Ukraine's competitive disadvantages are systemic and can only be remedied with a strong reform program. Step-by-step reforms are insufficient in the current environment. To attract investments and revive growth, Ukraine needs to send a very strong message that the country is serious about improving its investment climate. For this, the country needs to make a quantum leap on reforms and take some measures, both for the short-term and for the medium term.

**Conclusion.** Due to the goals of the article similarities of the crises 2008-2009 and 2013-2015 years were compared. Characteristic features for both crises periods could be defined as declining in values of investments at

a much lower level of incidence of consumption, increasing the level of public debt, inflation, devaluation etc. But at the same time spotlighted are some differences in the effects of those crises: significant reduction in reserves, the increase in short-term debt, reduction in the volume of trade and industrial production in 2014 year. Getting out of crises according to E. Segura and O. Pogarska requires a carefully balanced program of development. The items outlined by the authors should include:

- establishing strong organizational arrangements to confront the crisis,
- securing substantial foreign financial assistance,
- implementing a comprehensive program for troubled banks and their borrowers.

Convincing propositions of the authors allow us to arrive at the conclusion that a combination of conventional and modern approaches to solving the problem of national economic recovery can appear to be quite perspective.

Modern requirements for education and training competitive specialists preetermine certain changes in higher educational system. Thus we believe that introduction of “sandwich courses” into Ukrainian University curricula and initiating and holding students` internet-conferences with the participation of national and foreign businessmen sharing their practical experience will promote involvement of future experts into real professional environment. Hence the suggested approach can contribute to the formation and development of skilled labour force from the very beginning of University studies. As a result the gap between theoretical knowledge and practical awareness of future professional challenges may be filled.

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