Comparative Economic Research, Volume 19, Number 2, 2016
10.1515/cer-2016-0014

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Ukrainian Economic Reforms: Current Status And Perspectives In The Face Of Competition On European Union Markets

Abstract

The conflict in Ukraine since the beginning of 2014 has been the important in the history of Ukraine as an independent state. Despite the danger of economic collapse, the loss of Crimea, and war in its most industrialized region, Ukraine is still trying to conduct reforms and implement Western standards. Through persistent work Ukraine has been moving forward, despite all the difficulties. The society is staying together with the government to save the economy and defend the integrity of the whole country. This article outlines key processes in the Ukrainian reforms during 2014 and describes the cooperation of Ukraine with the European Union and international organizations in the field of financial support and reforms. The main goal of the article is to present the situation in various spheres of the country's development, but it is also an attempt to present a wider perspective on both the achievements and shortcomings in the process of reforms. The authors focus on those aspects having a significant impact on the Ukrainian economy after February 2014.

Keywords: *economic reforms, Ukraine, financial assistance, sustainable growth*

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1. Introduction

In the face of the challenges to its social and economic development, successive Ukrainian governments have faced huge problems with the implementation of reforms. Since achieving its independence in 1991, and the Orange Revolution in 2004, progress in economic and social reforms has lagged behind targets and social aspirations. Corruption has been widely recognized as a major constraint to Ukraine's development. Ukraine has always ranked low in terms of critical aspects of governance.

Now Ukraine is in a new stage of its development, following the Maidan revolution, where Ukrainians forced the former president to flee, and also after the Russian annexation of Crimea and in the face of an aggressive Russian invasion into Ukraine. The main goal of the country is to halt the economic crisis and set out a path that will lead to sustainability. A macroeconomic stabilization programme for Ukraine should be realized immediately and in very specific economic conditions, which are not comparable with the macroeconomic environment in any other market-based economy in deep crisis.

The situation in Ukraine is a unique moment in the history of Eastern Europe. The world's globalization is still continuing and developmental disproportions have increased significantly. Ukraine has to change all its previous directions of development and be an example for other former USSR countries. This challenge requires great knowledge concerning future results, establishing goals, and preparing solution scenarios if the state is to exist as a player on international area. As of now Ukraine is proceeding ahead without any specific plan.

According to the EU and other engaged countries and institutions, Ukraine is under the pressure of a classic balance of payments crisis, which has evolved into a public debt and banking crisis. While there are international financial institutions, like the IMF, devoted to solving such crises, they are not well suited to deal with the political aspects of the Ukrainian situation. In order to help the Ukrainian economy, the European Union began preparing the Association Agreement with Ukraine in 2007, which it completed in 2012. The EU created a detailed roadmap showing what steps the Ukrainian government had to take before the EU would extend assistance. Ukraine has undergone a revolutionary transformation since that time. Now Ukraine needs to undertake more further steps to save its economy in the long-term perspective.

The experiences of economic transformation in Central and East European countries illustrate which necessary steps of economic reforms have not yet been carried out in Ukraine since it gained its independence, to wit:

- macroeconomic stabilization;
- liberalization of prices and trade;
- implementation of strong budgetary restrictions for banks and enterprises;
- privatization and the creating of friendly conditions for the development of private entrepreneurship;
- reform of the tax system and restructuring of public expenditures;
- reform of the law and the judiciary system;
- reform of state institutions (IBRD/World Bank 2002, p. 68).

The transformation process in Ukraine started amid deep crisis and socio-economic destabilization among the former USRR countries. Ukrainian society was marked by the "*homo sovieticus*" stigma: no discipline, no work ethic, no value of time, and without economic activity and good organization. The Orange Revolution in 2004 rejected the capitalist model adopted in the Commonwealth of Independent States, especially in Russia. But the process of replacing the "*homo sovieticus*" generation with young and modern-thinking people started only in 2014.

Now the process of reforms is determined by an external factor which significantly affects the changes in the systemic processes. This external factor has its base in international relations in Eastern Europe. In practice, the main role revolves around the vector of Ukrainian policy: the Russian Federation or European Union? It needs to being underlined that this external factor determines the long-term processes of internal changes: inspiring and upward if they are positive, or dilatory if they are negative (Bąk 2009, p. 25). After the tariff war, since the end of 2014 the business environment in Ukraine has realized that there is no possibility to develop stable relations with the markets of the Commonwealth of Independent States. This was an important reason why entrepreneurs supported the new authorities in their aspirations to join the European single market.

Due to Ukrainian's poor history with previous programs of the IMF and other international institutions, receipt of assistance is possible only as a reward for clear evidence of deep structural reforms, which should be realized in restrictive terms, not as an inducement to undertake the reforms. This is the task for the reformists in the Ukrainian government. They expect a dramatic impact of changes in the short-term perspective, but also understand the most important long-term goals, such as breaking up a corrupt system once and for all, by curbing the bureaucracy while paying the civil servants better and by breaking up "Naftogaz", the national gas monopoly company which is the main source of corruption and budget deficits in Ukraine.

A revolutionary destruction of an existing state (which in Ukraine started at the beginning of 2014) will always bring with it an economic, political, and legal destruction of society (Szczerbaniuk 2013, p. 92). This is the reason why reforms should be conducted with caution in order to save Ukrainians from the most negative after-effects of such reforms, or at least make them less noticeable.

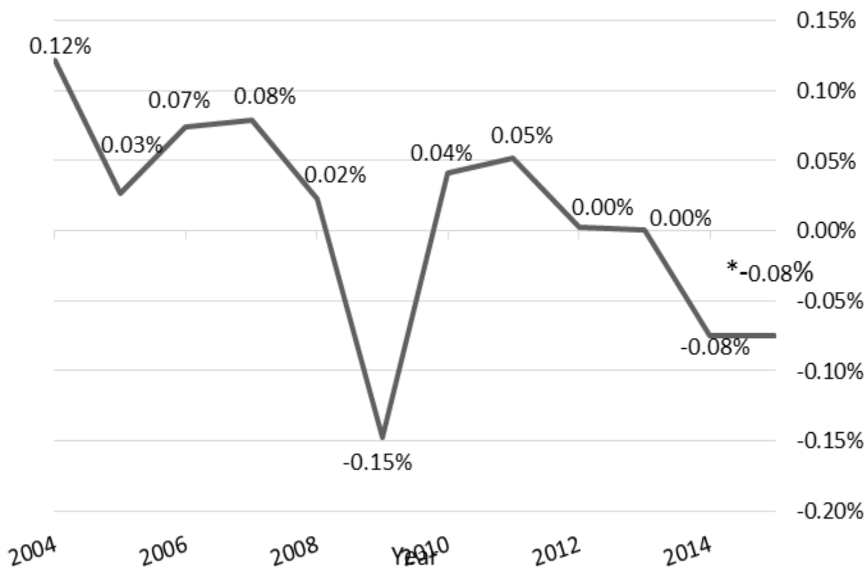
2. The economic situation in 2014

The Ukrainian leaders, who took power at the end of February 2014, have faced a set of substantial challenges. Solving the challenges will decisively determine the level of the Ukrainian government's legitimacy, their public support, and their ability to retain power. The extreme level of difficulties which now confront Ukraine are determined by a unique combination of economic and financial disorders inherited from the former government, together with the growing political conflict from arising from basic aspects of the country's constitutional organization. The profound political divergences, which are exacerbated by significant cultural differences inside Ukraine, have brought about dangerous separatist movements, inspired, organized, and supported by the Russian Federation. The economic legacy of the former president Yanukovych government is extremely grave. The most important and worrying aspects of the Ukrainian state finance situation are presented below.

Firstly, there was a huge fiscal gap in government finance, not only in 2014 but also in previous years. The aggregate fiscal deficit amounts to 289 billion of UAH. This is comprised of the overstatement of expected state budget receipts due to incorrect earlier calculations of GDP for 2014; the losses of state social security funds due to the increasing number of refugees and unemployed in the population; the "disappearance" of the funds from the accounts of local communities, i.e. a simple theft of public funds; overpayment of taxes by commercial companies made in advance of future receipts; and the compensation of value added taxes, which is legally envisaged in certain cases, primarily for exporters.

The next reason for the difficult economic situation is the tremendous outflow of capital from the country. A lot of business capital was relocated to foreign offshore centres (especially to Cyprus), in a total amount of about 70 billion US dollars just within the last three years. Furthermore, following the dramatic decline in the value of the Ukrainian currency (UAH), most Ukrainians withdrew their deposits from banks and do not risk entrusting their money to financial institutions.

Figure 1. GDP dynamics of Ukraine in 2004-2015



*Forecast

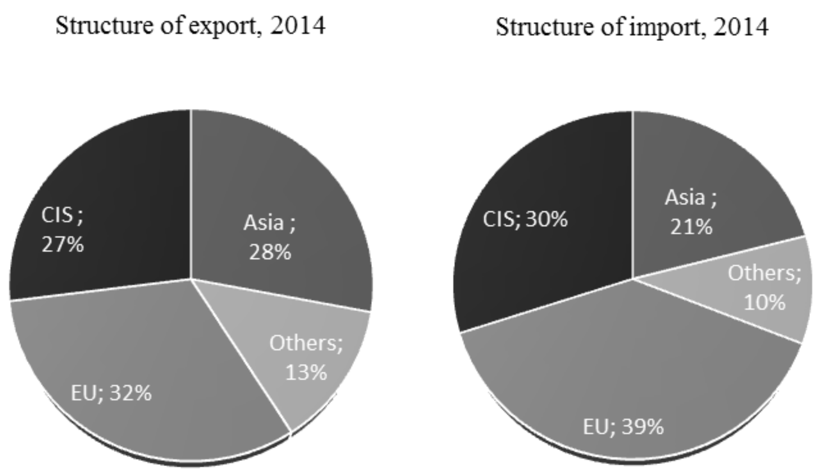
Source: Authors' own compilation, based on the data of the National Statistics Service of Ukraine: www.ukrstat.gov.ua

The third reason why the Ukrainian government should worry is the public debts, made by state-owned monopolies like "Naftogaz", a national gas and oil supplier (with a debt of almost 8 billion US dollars); "Ukravtodor", a state agency for construction of automobile highways (with a debt of about 3 billion of US dollars);"Ukrzaliznytsia" a railway transport company (with a debt of about 2 billion of US dollars), as well as other debts of national and local companies. The aggregate debts have doubled during the last three years. In relation to the country's GDP aggregated debt from 36 to 53 percent. This might seem not so high (especially in comparison with developed countries), but the country's ability to service and pay these debts is highly questionable, taking into consideration the structural problems of the Ukrainian economy and its declining export markets in Russia. In the beginning of 2015, the aggregate foreign debt of the country exceeded USD 270 billion. Due to the current lack of financial resources to pay off the public debt, the official state treasury reserves fell to the level of USD 15 billion. This is sufficient for only 1.8 months of necessary import, instead of the required 3 months' minimum, or 5-6 months according to some authors (Kyrylych 2015, p. 301).

The next important problem is the high level of depreciation of the Ukrainian currency. In 2015 it lost three times its value in relation to main international currencies. And the only administrative measures which can be taken by the National Bank of Ukraine against commercial banks involve reducing "speculative behaviour." The exchange rate has slightly recovered, but has not reached the starting level.

When describing the economic situation one should bear in mind the economic pressure from Russia on the Ukrainian economy. Overall, foreign trade in most important sectors decreased almost by two thirds, in others by more than half. It seems that the Russian market has become closed to Ukrainian products. In 2013 Russia was the main trade partner of Ukraine and accounted for 35% of its trade. Now, all the countries of Commonwealth of Independent States (including Russia, Belarus, Caucasus (without Georgia) and Central Asia) account for 27% of Ukrainian exports, and place second with 30% of Ukrainian imports. Forecasts in this sphere for the nearest future have worsened, as is shown below in Figure 2.

Figure 2. Structure of Ukrainian foreign trade in 2014



Source: Authors' own compilation, based on the data of the National Statistics Service of Ukraine: www.ukrstat.gov.ua.

Owing to its geographical location, Ukraine will always be caught between the European Union and the Russian Federation, and in the future will experience the economic and social impact of these regions – the European and Eurasians "magnets". According to the growth pole theory[1] it is reasonable to stick to the stronger partner to improve one's own situation, which is why Ukraine is no longer the main partner of the Russian Federation. Furthermore, Russian "economic miracle" was a fiction, arising out of the high prices for energy during the last decade. Only now has this fact become clear.

It is obvious that Ukraine is a natural buffer between the two huge international organizations and will always be involved in a conflict of interests between European and Asian cultures (Kołek 2013, p. 74). The Eurasian Economic Community was established with one main goal – to reintegrate the post-Soviet states, especially Ukraine. This is the reason why the European Union should strengthen its activity in Ukraine's economic integration policy. The truth is that the *status quo* of Ukraine in international relations does not complicate relations (especially in the economy) between European Union and Russia (Hud, Didukh 2012, 245), but that every action violating the *status quo* will complicate the weak political relations between the West and the East.

The social situation in Ukraine is also difficult. Over 1 million people have had to flee their homes in the Donbas and Crimea regions. Furthermore, about five thousand residential buildings, 300 schools, and 45 medical establishments were totally destroyed. The financial damage resulting from occupation of Crimea exceeded UAH 1 trillion. About 3 million people are living under occupation. The manufacturing of goods in the most industrialized Donbas region has ceased, many mines and huge enterprises have been shut down, and the number of small enterprises has dropped dramatically (Razumkov Center Report 2015, p. 30).

3. Support from the international community

The current extremely difficult financial position of Ukraine makes unrealistic, in practical terms, to implement successful structural reforms and stabilize the economy without significant foreign assistance. The Ukrainian government has already succeeded in the negotiation process to obtain a huge package of external financial aid from various funds.

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[1] The notion of a growth pole (French *pôle de croissance*) was introduced in 1949 by F. Perroux, who explained the polycentricism of economic development. In his view a growth pole is a unit or a set of such units, based on an industrial plant or an industrial complex – in this case authors understand it as failure to tie the Ukrainian economy to the Russian industrial complex. For more, see Grzeszczak J. 1999, "Growth Poles Versus Forms of Polarised Space", Continuo Publishing House, Wrocław (Prace Geograficzne; 173), pp. 11–13.

The overall program of implementing reforms is not strong enough to satisfy the Ukrainian government. It is necessary to finish all planned reforms to stabilize the macroeconomic environment and the Ukrainian currency, and – at a later stage – achieve economic growth. In April 2014 Ukraine presented its comprehensive programme of economic reforms, and owing to this the International Monetary Fund (IMF) granted Ukraine a loan in the amount of USD 17 billion. In its policy towards Ukraine the IMF uses the "more for more" mechanism (as does the European Union as well). This means that tranches of the loan will be unblocked only step by step, after Ukraine makes progress in economic reforms, in keeping with a two-year Stand-by Agreement which is aimed at restoring macroeconomic stability, promoting sustainable growth, and strengthening economic governance and transparency. Thus, in consultation with the IMF advisors and staff, the Ukrainian government implemented changes in governance issues, focusing on tackling corruption and improving the business climate and the effectiveness of the judiciary system.

Following February 2014, the exchange rate of the Ukrainian currency fell almost every day to a new low record level, because the National Central Bank (NCB) in Kyiv resigned from carrying out daily auctions of foreign currencies, as was demanded by the IMF. The level of foreign currency reserves also dramatically decreased. In 2014, the State Statistic Service of Ukraine estimated inflation at 24.7% (Woehrel 2015, p. 5). In 2015, already in January the inflation rate was at 28%. In February, the rating agency Fitch downgraded Ukraine's rating to CC, which is very near to bankruptcy. As soon as the IMF and the World Bank promises financial support to Ukraine, the situation should improve and the economic recovery should begin. However, due to existing situation the NCB of Ukraine raised the prime credit rate up to 19% (the previous rate was 14%).

The most important loans for Ukraine have been granted by:

- The World Bank, in a total package of USD 3 billion (to cover projected expenses in the areas of water and energy supply, construction of road infrastructure, and support for the development of the private sector).
- The EU, in a total package of Euro 11 billion (a seven-year financial assistance package to reform macro-financial situation of Ukraine and for reconstruction of gas transport system). This support includes financial support of the European Bank for Reconstruction and Development and European Investment Bank (details are presented in the table below).
- The USA, in the form of guarantees for Ukrainian bonds in the amount of USD 1 billion (in order to sell them on the market and solve macroeconomic problems);
- Canada, which has already delivered USD 220 million to support sustainable growth, democracy, and efficient governance.
- Japan, which decided to grant assistance in the amount of USD 1.5 billion.

All these financial assistance packages have greatly facilitated the restructuring of Ukraine's economy, making it more competitive in the longer term and more apt to sustainable development. They help solve the most acute and long-standing problems of the economy, like the low energy efficiency, neglect of environmental problems, and bad governance (which in particular results in "the failed state" syndrome, Sachs 2005, p.72), and inappropriate regulations. However, this is not enough to support the country's competitiveness in more advanced and technology-intensive areas. In order to achieve competitiveness, the situation requires efforts on the part of the government and the Ukrainian private business sector, which is learning how to think and act strategically.

Table 1. Indicative Assistant Package of European Union for Ukraine (2014-2020)

Source	Amount in billion Euro
European Commission (2014-2020)	
Overall development assistance (grants)	**1,565**
therein:	
Annual Action Programme (AAP) for 2014	0.140-0.200
AAPs Average for 2015-2020	0.780
Umbrella programme ("more for more") for 2015-2020	0.240-0.300
Neighbourhood Investment Facility	0.200-0.250
Instrument contributing to Stability and Peace (IcSP)	0.20
Common Foreign and Security Policy	0.15
Macro financial assistance (loans)	**1,610**
European Financial Institutions	
European Investment Bank	**3,000**
European Bank for Reconstruction and Development	**5,000**
Total	**11,175**

Source: Authors' own compilation based on the European Commission memo from 5 March 2014.

Another form of support from the European Union involves the opening of EU markets. While economic and financial assistance are essential, trade and investment are also key instruments to achieve long term sustainability for Ukraine. Ukrainian exporters will save almost half a billion EUR annually due to the reduction of EU import duties, and the Ukrainian agriculture sector will benefit from cuts in duties on agricultural and processed agricultural products to the tune of almost 400 million EUR annually. The different levels of economic development of the EU and Ukraine are reflected by the asymmetrical nature of the Association Agreement. It was designed to provide Ukraine with favourable treatment, for example, through the faster and broader opening of the EU single market by tariff reductions granted by the EU, combined with a longer period for similar measures on part of Ukraine. But the first effect was a slowdown when quotas for Ukrainian products were exhausted. The Ukrainian economy cannot be stabilized in this way. While this is an important aspect of the support given by international community, it is not the main one, because the differences between industries' structure and competitiveness are huge and can be reduced only in the long term perspective – not less than one decade.

All the consequences of helping Ukraine and its sustainability will be positive. An injection of financial assistance to Ukraine will help to stabilize its economy and indirectly also provide a much needed stimulus to the European economy by encouraging exports and investment in Ukraine, which may become an important market for EU products.

4. Main goals of reforms

Ukraine must create new growth poles, which correspond to the economy of the 21st century. Kyiv has the internal facilities for this: the agricultural sector has been developing quickly and brings in huge revenues to the treasury; industry also has massive intellectual resources which can contribute to *quality*, not quantity. The most urgent task is to achieve macroeconomic stabilization through both the radical reduction of expenses and increasing revenues of the state budget. Ukraine needs reforms in the sphere of fighting corruption, including in the army, as well as in the economy by stimulating private initiative and by tax reform.

The first step made by the Yatsenyuk government in 2014 was the reduction of government expenses, freezing the earlier planned increase of minimum wages and reducing government investment expenses, coupled with a staff reduction in the government sector by 10% (which means that 24,000 civil servants lose their work places). Other steps included the sale of government properties and large-scale privatization. But the results of this reduction were modest, owing to the huge expenses in the social sector (over one million of refugees and an increasing number of unemployed) and military expenditures (to fight an active war in the East and increase the size of the Army from 100 thousand to 250 thousand soldiers).

Tax reform was also a goal in the overall reform. The revision of the system of taxes and compulsory payments aimed at increasing the necessary revenues involved doubling the rate of rent payments for the use of natural resources as well as increased payments for petroleum and gas condensate production. Excise duties for alcohol and tobacco products also increased substantially. In addition, automobile drivers are obliged to pay extra as a result of higher registration costs and excise duties for some products. The taxes on the use of radio frequencies, which is important for media, mobile phone and Internet services, were doubled. A special tax on the sale of foreign currency was also introduced at the rate of 0.5 percent in order to finance a compulsory pension insurance scheme. The Ukrainian government decided to restore the progressive income tax principle, according to which the wealthier pay more. Thus new tax brackets of 17, 20, 25, and 30 percent replaced the previous flat rate of 15 percent. The government in Kyiv realized that selective macroeconomic stabilization measures could not bring the desired effect unless they are supported by structural reform measures. If all necessary reforms are implemented, the Ukrainian government expects economic growth in 2016. While a number of taxes were significantly decreased, tax base was extended through liquidation of multiple tax preferences granted by the previous government, which had become one of the most onerous manifestations of corruption.

Another important goal of the Ukrainian reforms is to change relations between Kyiv and the regions. Today most proceeds of local governments are taken over by central treasury. The Prime Minister and the President have given assurances about the importance of constitutional decentralization, to make local administrative structures more independent. The new system is under elaboration and will be developed at the same time as a new Constitution for the country, which will be based on the redistribution of financial resources. Fewer proceeds will be concentrated at the central level and more financial resources left at the disposal of regional and local authorities.

At the same time, the Ukrainian government is going to strengthen the financial basis of its development. A new financial mechanism has been presented to guarantee the state highly liquid bonds, as financial market instruments serving as collateral for long-term bank loans. This mechanism will revitalize the system of compensation of value added taxes paid and restore the financial viability of exporting companies and investors. These government efforts will be supported by the National Bank of Ukraine, which has implemented an extensive programme of refinancing commercial banks.

The general success of the reform process depends on the development and modernization of the legal and institutional[2] framework, which should guarantee precise and fixed property laws, free access to the market, and effective social protection. The necessity to improve market institutions is closely connected with a macroeconomic stability policy, open markets, and development of the private sector. Effective public institutions are necessary for the functioning of an effective economic policy. However, reforms in this sphere are proceeding slowly due to the

[2] The notion “institution” is understood as the formal rules and structures of socio-economic regulatory policy.

political instability of the state, in spite of the fact that it should be one of the foremost topics in economic reform. Institutions must be reformed, because people do not trust politicians and the government sector, which results in a depreciation of human capital. The damage to social confidence since the 1990s has channelled the cooperation between the state into paths of lawlessness, criminality, and corruption-friendly relations. As a result, total factor productivity (TFP) has decreased and social inequalities have deepened.

The most important thing is to fight corruption. The reform in this field was based on the new law focused on government procurement. It introduces new regulations compatible with the EU legislation in this area. A non-discrimination clause was included, which stipulates that both domestic and foreign participants taking part in government procurement procedures should operate under equal conditions and have free access to information on government purchases. Before 2014, all public procurements were implemented by companies closely associated with the authorities. Currently the anti-corruption campaign also includes some measures which increase the efficiency of specialized agencies in this area. The government has prepared a draft law on the creation of a Service of Financial Investigations, established to consolidate the dispersed activities of seven state-auditing agencies. There are also draft laws on setting up a national anti-corruption bureau.

Through Euro-Atlantic integration, Ukraine has the opportunity to establish strong cooperation with the European Union in the field of innovations. To receive money for innovations it is necessary to adopt the *acquis communautaire* (European regulations). Only then can the R&D sector expect large investments. To strengthen activity in this sphere, Ukraine should establish the West European model of innovation policy, which is based on cooperation between science and business in the implementation of innovation research. Historical experience shows that it is impossible to obtain sustainable economic growth without increasing factor productivity. Sustainable growth depends on technological process which eliminates barriers to production growth (Woźniak 2009, p. 36). It is absolutely necessary to build a state system of innovation adaptation on the basis of long-term prognoses and to stimulate business innovation activity to increase both micro- and macroeconomic competitiveness. The state innovation system, based on regional innovation policy, cannot effectively management the commercialization of innovation. The implementation of innovation-friendly law is proceeding extremely slowly. The pace of reforms is too slow and takes Ukrainians deeper into the crisis. The most important goals in this sphere should involve modernisation of the R&D base, improvement of human resources development, structural rebuilding, improvement of company management systems, and establishment of a strong system for innovation funding, for example venture capital or angels of business.

5. Conclusions

Unfortunately, the economic situation in Ukraine is unfavourable due to the war in its eastern regions and because it is not possible to balance the state budget. Insofar as the situation in Ukraine is very bad, the government in Kyiv should be aware that radical structural reforms are urgently needed, and in the nearest future. Unfortunately, every change is determined by political capital, which is in turn related to the complex economic situation. The Ukrainian state is in a deep recession, in part because a war is taking place in its most industrialized region.

The undefined nature of the development goals is also a major problem. Many activities have been undertaken spontaneously, without a general plan. This problem should spur use of the SMART concept[3] to create proposals in both the short- and medium-term perspective. Authorities still have not defined the main challenges to achieve economic growth, while these challenges can be considered as motivations to consolidate efforts. This lack of defined challenges and goals has consequences, above all the weak cooperation between the authorities and society, business, science, education in accelerating civilizational changes. Secondly the authorities, being without goals, cannot be effectively controlled by the society and it is impossible to locate the differences between the planned and the implemented results of economic development.

The main short-term goal should be to make the society aware of the correlation between economic growth and the society's own welfare. Authorities need to engage in a lot of work with respect to creating a business-friendly environment, because people's income depends on business. To do this, the authorities should:

- Improve the macroeconomic environment (increase stability, fight against inflation, decrease interest rates, effectively manage state resources, change the laws, reduce taxes, and reduce poverty).
- Increase technological progress (develop innovation potential, increase the public and private expenditures for R&D, attract foreign investment, improve intellectual property laws).
- Improve the quality of social institutions (make the judiciary system politically independent, cut red tape and bureaucracy, support a free mass-media, fight corruption).

Substantial liberalization and deregulation of the economy is a main priority of the government, but it is proceeding very slowly. The draft laws, which are in a state of preparation, should change the basic parameters of the business climate in

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[3] See more about the SMART concept in: Daft R. (2000), *Management*, South-Western Cengage Learning. Daft described the SMART concept as a tool for the concretization of goals, positing that they *specific*, *measurable*, *achievable, relevant* and *timed.*

Ukraine and streamline various registration and auditing procedures. These measures will have a special importance for small and medium-sized businesses, but also should have a positive impact on potential foreign investors, who currently stay away from the Ukrainian market because of the unfavourable business climate.

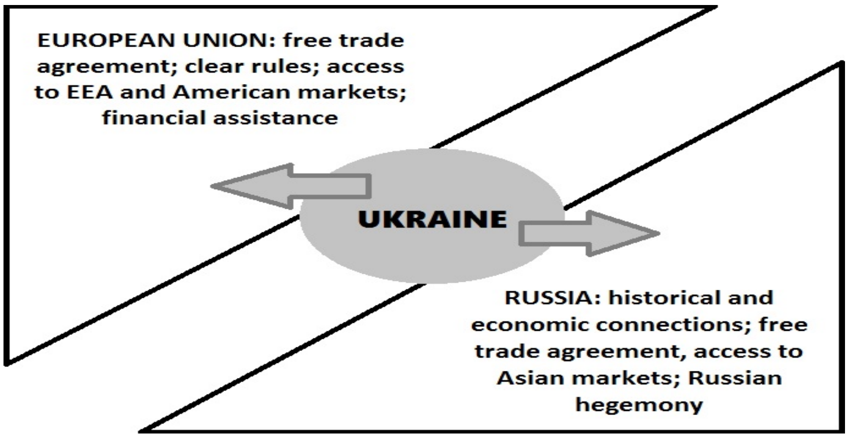
In its current situation Ukraine should pursue financial liberalization, and also start to expand monetary policy, which will bring in more revenues to the central treasury and provide more work places, although in theory its impact on the exchange rate will be negative. The Ukrainian currency is probably strongly underestimated, but it is not possible to conduct monetary expansion without increasing it and making a reasonable assumption that the money from this kind of monetary policy will be placed in the real economic sector, especially export-oriented. This underlies the need for an institutionally-controlled economy, fight against corruption, and strengthening of regulations and legal reforms. All the processes mentioned above are impossible to implement and complete without political stability and a positive reputation in the international arena.

Up until now Ukraine has not conducted financial liberalisation, therefore the effect of an expansive monetary policy would not be huge. On the other hand it is obvious that the exchange rate should be floating and regulated by the free market. A floating rate would improve the balance of payments by establishing an equilibrium on the product, services, as well as capital markets.

An important direction of Ukrainian economic growth involves a geographical reorientation of its external links, taking into account the new geopolitical risks arising out of the aggressive policy of the Russian Federation. Under these conditions new markets should be found for Ukrainian products outside Russia and the Eurasian Economic Community region. It is clear that after Russia's annexation of Crimea and its provoking a war in the East of Ukraine, Ukraine's multi-vector policy has come to its end. At first glance, this might signal an absolute domination of the European or Euro Atlantic vector in Ukraine's external policy.

Now, when Ukraine has become an associate member of the European Union, it is not possible to re-define the quality of Euro Atlantic integration. This means that there will be a transition from an expectations policy to a policy of active work on the future of European integration. Ukraine is still trying to become a member of Western civilization. As a consequence, relations with foreign partners, primarily with neighbours, should be constructed on the basis of clarity and the stability of external economic connections.

Figure 3: Determinants of Ukrainian integration vector directions



Source: Authors' own compilation.

Due to the structural defects in the Ukrainian economy prevailing in recent last years, it is natural that the crisis is worsening and that there is no solution without the support of the international community. Furthermore, during its decades in the USSR Ukraine was developing as a heavy industry-oriented part of a gigantic military-industrial complex. Due to the requirements of restructuring, after independence production volume had to be reduced. Simultaneously, the move away from traditional economic connections was extremely hard on the society. Today it is possible to postulate the hypothesis that Ukraine's huge economic potential at the beginning of independence did not give it the opportunity to reduce the developmental differences.

In the past Ukraine was a Western wing of the Soviet Empire. The main role of Ukraine was to be a very cheap grain warehouse. Now, following the cutting off of all connections with Russia, Ukraine has a chance to be a bridge between Europe and Asia, but it will also be a new market for European entrepreneurs. It may look inept while war is ongoing in the East, but the economy has its own rights. The war will not last forever, because all interested countries (except maybe Russia) are losing their expected revenues and will take all possible steps to reverse the situation.

There will be more difficult choices in the Ukrainian economy, and along the way mistakes connected with them. The government in Kyiv must permanently supervise the legal advisors involved in the reforms. It may save the country from a significant increase in inflation, a significant decrease in the exchange rate, and also from an unmanageable debt gap. If the desired economic changes will be implemented in the nearest future, Ukraine will avoid a range of problems, like loss of profits due to a post-reform recession, slow growth, decrease in living standards, etc. The speed and range of reforms are the most emotional questions, and also depend on the politicians. This is why the Ukrainian government should undertake the reforms, with all their consequences. Only then can the process result in a synergetic effect and lead to economic recovery.

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Streszczenie

REFORMY GOSPODARCZE NA UKRAINIE: STAN OBECNY I PERSPEKTYWY W OBLICZU KONKURENCJI NA RYNKACH UNII EUROPEJSKIEJ

Trwający od początku 2014 roku konflikt na Ukrainie jest najważniejszym w historii tego kraju od czasu uzyskania niepodległości. Bez względu na zagrożenie upadkiem gospodarki, utratę Krymu, wojnę w najbardziej zindustrializowanym regionie, Ukraina wciąż próbuje przeprowadzać reformy i wprowadzać zachodnie standardy, a poprzez wytrwałą pracę pokonuje wszelkie trudności. Społeczeństwo wspiera rząd w realizacji zadań ratowania gospodarki oraz obrony integralności terytorialnej całego kraju. Artykuł podkreśla główne procesy ukraińskich reform w ciągu 2014 roku oraz opisuje współpracę Ukrainy z Unią Europejską i organizacjami międzynarodowymi w dziedzinie pomocy finansowej i zmian modernizacyjnych. Głównym celem artykułu jest zaprezentowanie sytuacji rozwojowej kraju z punktu widzenia różnorodnych dziedzin, ale również jest to próba pokazania szerszej perspektywy na osiągnięcia i braki procesu reform. Autorzy koncentrują się na aspektach mających znaczący wpływ na gospodarkę Ukrainy począwszy od lutego 2014 roku.

Słowa kluczowe: *reformy gospodarcze, Ukraina, pomoc finansowa, zrównoważony rozwój*