

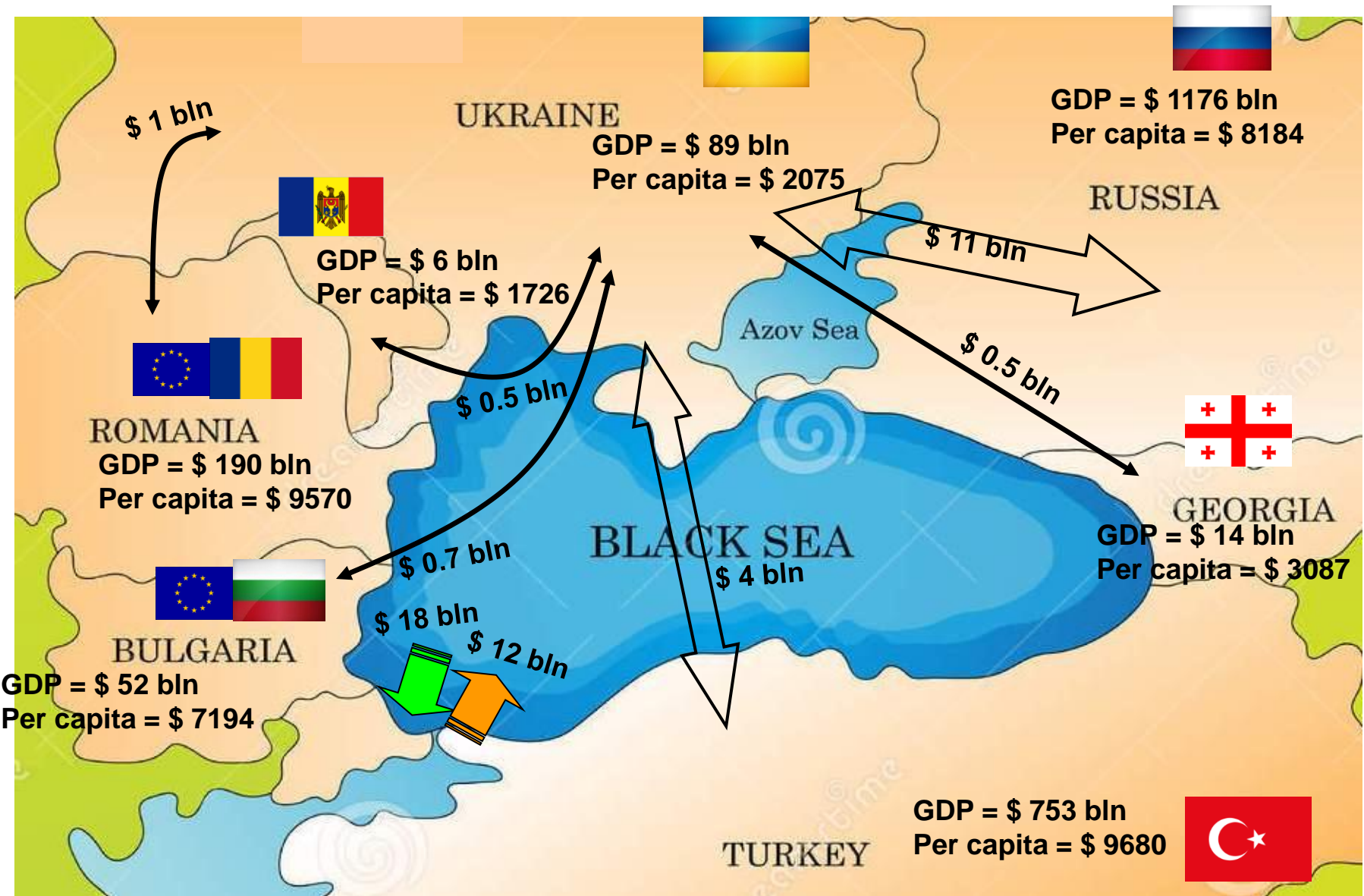


Reforms in Ukraine as a New Source for Development of the Black Sea Region

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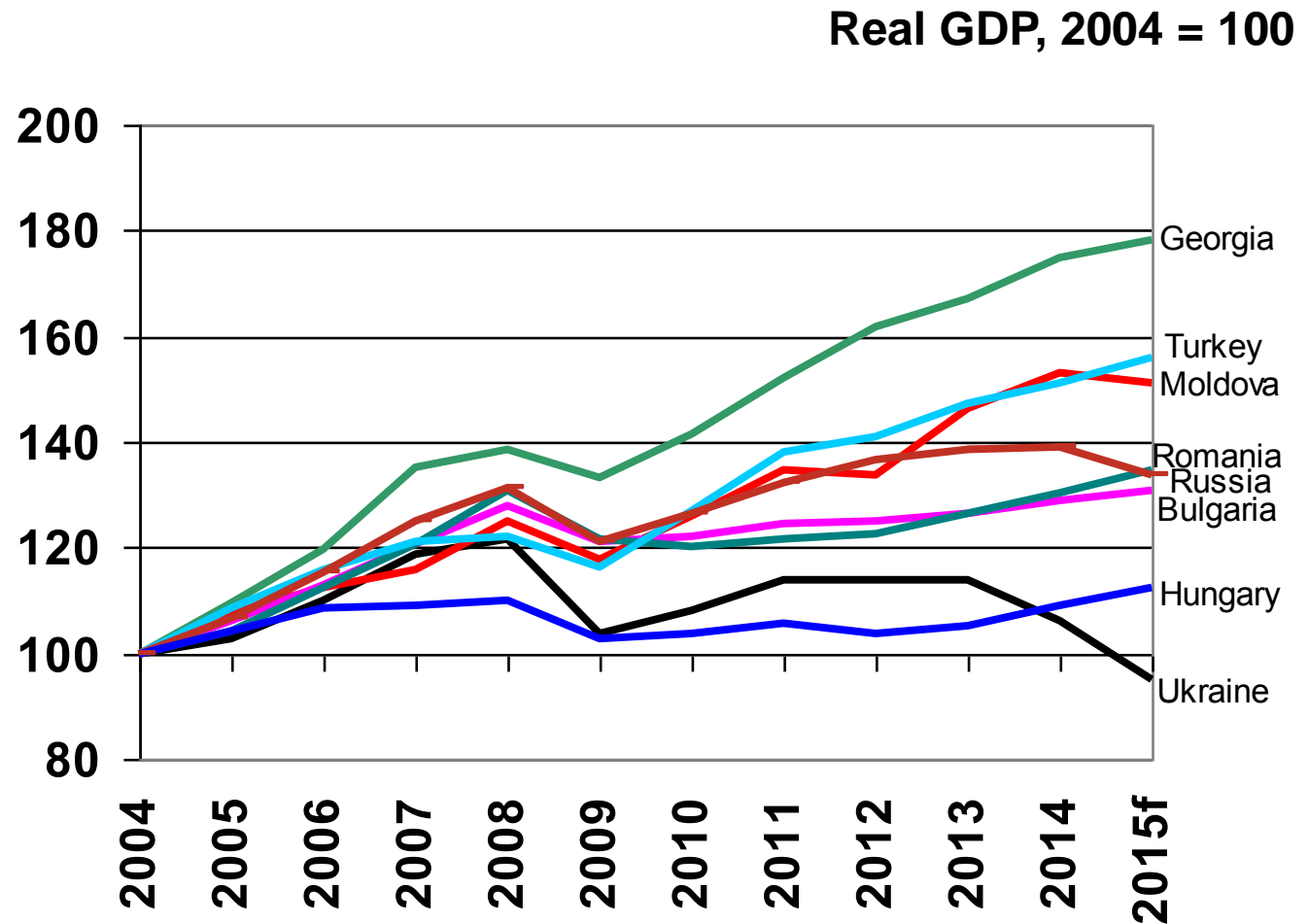
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Ukraine's economy and trade vis-à-vis Black Sea neighbours



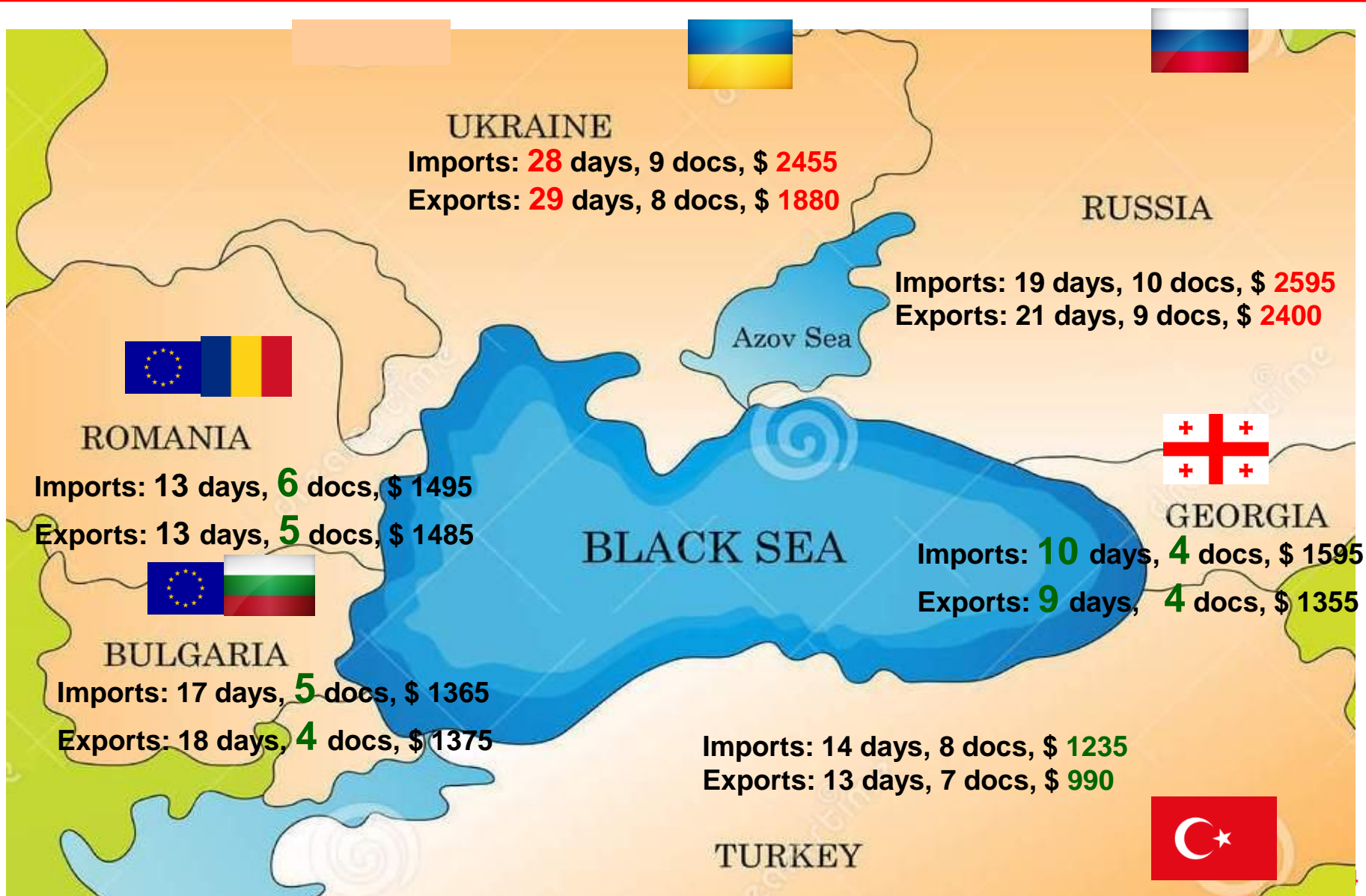
Ukraine has been the regional outsider

- The lost decade: Ukraine's economy has effectively decreased
- Even when Ukraine enjoyed hot commodity markets, it grew slower than average
- Breaking the laggard stereotype: Georgia and Moldova made a leap forward. Loss of control over territories did not prevent that
- In USD terms, Ukraine is a half of what it was both in pre-crisis 2013 and pre-crisis 2008. Mind the gap: the world has made it up 18% since 2008



Sources: IMF, State Statistics Service of Ukraine, Alfa-Bank Ukraine

World Bank's Doing Business ease of trade (per container)



The Black Sea Region has strong potential for cooperation

- Shared history dating back to BC times
- Deep intra-regional cultural and economic diffusion
- Similar and shared challenges in multiple dimensions. New security challenges in the region relate to all Black Sea countries and should be addressed in a combined effort
- All the countries are integrated with the EU (modes differ), Ukraine's mode of integration has become more adjusted to the western part of the region
- Transit routes: cooperation + competition
- Arm's length maritime distance (low transportation costs for intra-regional trade)
- Strong trade connections between Black Sea countries that support local industries
- Regional income disparities and good growth potential for both lower-income and higher-income countries facilitate economic cooperation

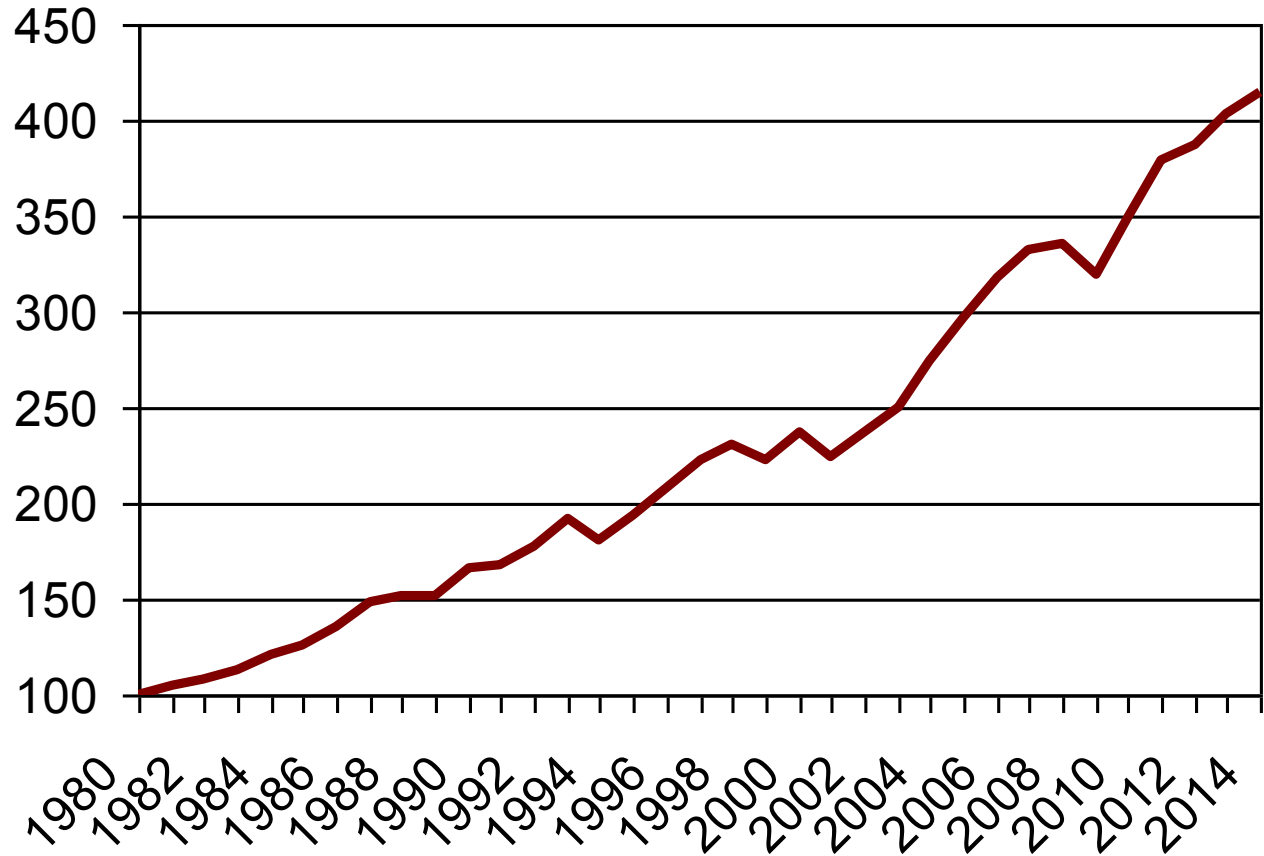
Black Sea cooperation needs to be improved. Exchanging development policy experience should be beneficial for all partners

Turkey: a role model for Ukraine

- Similar size
- Started from a similarly low baseline: in 1980, GDP per capita was \$ 2200
- Messy politics
- Big working diaspora in the EU
- Customs Union with the EU since 1996
- Strong use of its Europe-Asia transit position, heavy investment in infrastructure
- Using raw materials from CIS to produce more value-added goods

Turkish real GDP expanded more than 4X since 1980

Turkey's real GDP, 1980 = 100



Sources: IMF, Alfa-Bank Ukraine

Key changes on Ukraine's agenda

- EU harmonization (overarching)
- Business and trade deregulation
- Judicial reform, contract enforcement, property rights protection
- Anti-corruption
- Privatization
- Facilitating openness to international trade and finance
- Energy market liberalization
- Restructuring financial markets
- New anti-monopoly framework
- Reshuffling fiscal and tax systems
- Social security overhaul
- Infrastructure development

These areas are full of other Black Sea countries valuable experience and opportunities for regional business. Ukraine's importance to the region is much higher than its current size of the economy might imply. If the reform momentum is strengthened, underdevelopment becomes a strong boost to growth