

Ukraine takes on the international financial crisis

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Ukraine, together with the rest of the world, is facing an economic crisis. The financial situation, however, carries only part of the blame for Ukraine's current problems.

Generally speaking, an economic crisis like the one at hand possesses some common main features. At first, it involves a drop in the production volume of main Ukrainian industry branches. The Ukrainian economy is young, open to the surrounding world and greatly oriented towards export with the metallurgy, chemical and machine building industry as the main export players.

With the (free) fall of the world economy, the drop of demand and the price reductions, the volume of Ukrainian heavy and chemical industry production has decreased substantially. However these areas of production are of national importance and the government is now taking measures to support them.

Over-consumption and "bank run"

Another problem for is the current over-consumption, which is often incorrectly linked to the crisis in the banking system. In fact, the

over-consumption crisis has been manifesting itself over a long period of time; Ukrainian prices for land and real estate are irrationally high and exceed the market prices of the European countries by far. The Ukrainian consumer has had no choice but to deal with the high prices in terms of using numerous bank credits.

Now, due to the worldwide economic crisis, most debtors have become insolvent. The population, frightened by the economic crisis, has started an actual "bank run" (withdrawing all money from their accounts).

As a result, the National Bank of Ukraine has banned any withdrawals from time bound deposits, and the banks are currently attracting money from clients in return for high deposit rates (15-21% UAH, 13% USD, 12% EUR). By doing so, the banks seem to be restoring their credibility at the moment.

The effect on real estate

According to the analysts the situation with real estate may have several possible outcomes. The points of view are diverse, but they all tend to agree on one specific point: the development of the real estate market will slow down due to the low possibility of a sudden boost of finances to

the construction companies.

Also, there seem to be some agreement among analysts that projects in commercial and office real property are the most popular as their profitability is estimated to 25-30 %.

Experts also argue that the construction of new hotels will slow down since the profitability in the branch is only 12-15 %, whereas the normal average load is 60 %. The hotels will not become profitable before seven to ten years after the opening and this makes them risky investment object for the time being.

A decreasing demand for housing real estate has caused price reductions, which - according to experts - are as high as 20 % in some regions of Ukraine. For now, it is hard to make any precise forecasts and the majority of analysts do not dare to make any conclusions. Nevertheless, it is obvious that a considerable number of people, who have bought their apartments using a bank credit, will not be able to pay off a mortgage. Inevitably, these people will be forced to sell their apartments to pay off the credits.

Stocks and wages

Ukraine's stock-exchange market has also taken a hit - stocks have dramatically lost



about 60 % of their value. The damaged is confined however, since the stock-market in Kyiv is young, and only 10 % of all Ukrainian companies sell their shares on it.

Related hereto, one can observe a reduction in staff numbers and wages in almost all branches, with the most dramatic cut backs being seen among bankers and workers in the heavy metallurgy and the construction sectors.

IMF grant and the way forward

According to almost all experts, the Ukrainian economic crisis will last at least 1-1.5 years. The duration, however, is dependent upon the effectiveness and timing of measures taken by Ukraine's state bodies in the months to come.

Good news is that on November 6th the IMF has approved to grant Ukraine a

credit of 16.4 billions USD. The Ukrainian state authorities will use this grant to decrease the impact of the economic crisis and to secure the banking sector and the main industrial capabilities.

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