IMF Applies 'Greek' Austerity Formula to War-Ravaged Ukraine

by Susan Welsh

March 16—The agreement signed between the IMF and the Ukrainian government on March 11 will do nothing to help that bankrupt and war-torn country. On the contrary, it will drive Ukraine deeper into debt—its total debt is already over 100% of GDP—and force wages and living standards down even further than has already occurred under the regime put into place by the U.S. and the European Union one year ago. The IMF program now agreed to by the Poroshenko-Yatsenyuk government illustrates that they represent not democracy, but fascism, not only by token of the Nazi symbols on the banners of their combat battalions, but because they are implementing classic fascist economics: to extract monetary debt service at the cost of human lives.

The IMF plan is the standard IMF free-market formula for destroying countries, as most recently implemented in Greece, with devastating results (see article in this section). Everywhere that it has been put into place the results have been the same: unemployment, shutdown of social services such as medical care, impoverishment of the elderly, and more debt.

Dr. Natalia Vitrenko,[1] economist and chairman of the opposition Progressive Socialist Party of Ukraine, was interviewed by *EIR*'s Rachel Douglas yesterday about the IMF deal. "The program agreed with the IMF is no salvation for Ukraine," she said. "The country has experienced deindustrialization, but this program provides no compensation for those losses. It is admitted that restoring the economy of Ukraine would take $340 billion. Instead there are small doses, restoring nothing."

The plan "gives" Ukraine an immediate $5 billion loan (of which $4 billion was instantly sucked up for debt payments), with a total of $17.5 billion promised over the next four years (contingent on peace being restored in the country). The IMF's so-called $40 billion rescue plan "expects" a further $7.5 billion in lending from other international organizations and $15.3 billion in debt relief from Ukraine's bondholders—which may or may not ever materialize. These princely sums could be compared with the €240 billion ($325 billion at the time) "bailout" extended to Greece's creditors by the Troika (IMF, ECB, European Commission) in 2013. Ukraine is four times the size of Greece and is in the midst of a civil war.

Natalia Vitrenko, with a hyperinflated Zimbabwean banknote for "one hundred trillion dollars," on her March 3 video titled "Ukraine Is the European Zimbabwe."

Vitrenko told *EIR* that Ukraine has no ability to repay its debts. "Currently, 35% of Ukraine's factories are not working," she said. "Twenty-five percent of them have lost their markets, while another 10% no longer even physically exist. In 2014, GDP fell by 7%. In the negotiations with the IMF, the government presented an optimistic scenario and a pessimistic one. Under the 'optimistic' scenario, they anticipated a further 5.5.% drop in GDP; under the pessimistic one, an 11.5% decline. Two such years in a row means a catastrophe, with mass unemployment."

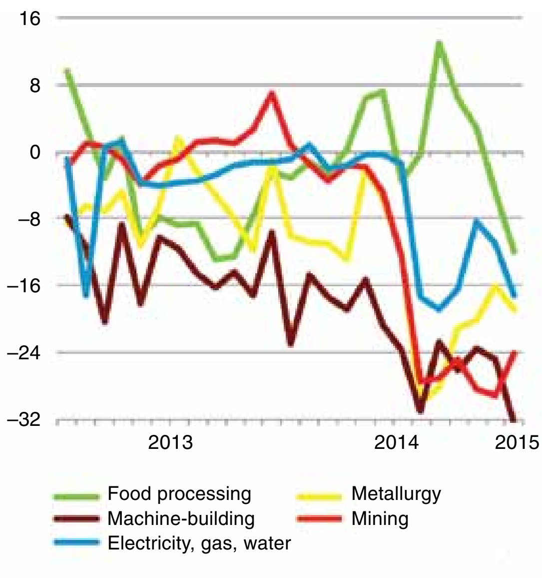
The situation is aggravated by the fact that Ukraine's Soviet-era industrial capacities have been significantly dismantled or destroyed, during the 24 years of looting

1. Natalia Vitrenko is well known to longtime readers of *EIR*. She was the co-sponsor, with Helga Zepp-LaRouche, of a call for a New Bretton Woods conference, in 1997. Among her many contributions, see "Eurasian Integration as a Chance for Survival in the Global Economic Crisis," *EIR*, May 3, 2013, and "Ukrainian Patriots Expose EU Support for Neo-Nazi Coup," *EIR*, March 7, 2014.

since Ukrainian independence. Add to that the impact of the war: The Donetsk and Lugansk Regions, the country's raw materials base and the centers of the civil war, in 2012 accounted for some 16% of Ukraine's GDP and supplied 95% of its coal. In the first quarter of 2014 (before the war), they contributed 23% of the country's industrial production and 23% of total exports of goods. As of September 2014, industrial production had fallen by 85% year-on-year in Lugansk, and in Donetsk by 60%.

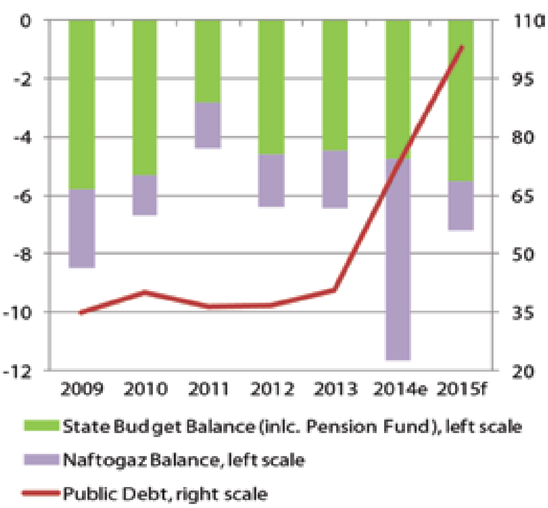
Ukraine's turn toward the EU has in no way filled the gap left by the sharp reduction in trade with Russia. Even Sergei Arbuzov, who as deputy prime minister in 2012-14 energetically promoted Ukraine's signing an Association Agreement with the EU, told RT on March 12 that the country is now in a state of "involuntary servitude." "The European market has no need for Ukraine," he said. "Last year, despite the favorable terms of the EU, our exports there grew only by 1.5%. At the same time, we lost the markets of other countries, and the exports to some of them fell by 30-40 percent. The government continues to knock on closed doors."

FIGURE 1
Ukraine's Monthly Output Production by Select Industries
% year on year



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

FIGURE 2
Ukraine's Public Sector Fiscal Indicators
% of GDP



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

How the Deal Was Done

In two recent videos posted on her website, Vitrenko detailed how her country has been turned into "a colony of the IMF." Instead of the "flood" of dollars and euros that many people expected would come when the Ukraine government signed the Association Agreement with the EU last year, there has been no such "rain." IMF promises of $17.1 billion in loans a year ago were largely not forthcoming, because the Fund insisted that Kiev first adopt more extensive "reforms."

Then on March 2, the Supreme Rada (parliament) completed the passage of eight laws[2] that did the IMF's bidding. They included:

• *Cutting the official state budget deficit to 4.1% of GDP:* Last year, the consolidated state budget deficit, which includes recapitalization of banks and the state oil and gas company Naftogaz, was 13.5%; it is supposed to be brought down to 8.8% of GDP in 2015 and to 2.6% in 2018. The cuts will require huge layoffs of state-sector employees. University of Ottawa economist Ivan Katchanovski specifies that 20% of state employees will be laid off in 2015, and the number of higher education institutions will be cut *from 805 to 317.*

• *Increase in energy prices:* Ukraine had long bought natural gas from Russia at below-market prices, and those prices were further subsidized by the government. Now the gas price for households will rise by *280%* in April, and all subsidies are to be abolished by April 2017. Electricity rates will be increased in a five-stage process until they are 3.5 times the present rate.

• *State-sector pensions will be sharply cut:* Benefits to working pensioners will be reduced by 15% and persons in every job category will have to work five additional years to qualify for a full pension.

2. Anders Aslund, Peterson Institute for International Economics, March 4, 2015.

Vitrenko charges that these decisions are in violation of Article 22 of the Constitution, which guarantees a minimum subsistence level to the population.

The Elderly and Sick Are Hit Hardest

She told *EIR* that the combination of actual and de facto pension cuts through the collapse of the hryvnia (the Ukirainian currency) exchange rate, means, for example, that so-called "elite" pensions (of former Members of Parliament, Academicians, etc.) will have fallen by 85% of their purchasing power between December 2013 and April 2015. In other words, such a person, whose pension was equal to $2,000 at the end of 2013, as of April will get the current equivalent of less than $300 per month. For ordinary people's pensions, the effective cut is by one-half to two-thirds. The average hourly wage in the EU is €23/hour, whereas the average hourly wage in Ukraine is now equivalent to 20 euro-cents per hour.

The pension cuts will directly affect 14 million pensioners and their family members (total population 45.4 million as of the end of 2013), and these cuts, combined with the state-sector layoffs, will affect some 20 million in all, Vitrenko said in a March 12 video. Many working-age unemployed are already relying on their elderly parents' pensions for survival.

In the past, Vitrenko said, state-sector pensions were indexed to the actual cost of living, for a market basket of consumer essentials. Even in 2014, however, the officially declared subsistence level was only one-third of the actual cost of those essentials. With inflation running at 25%, pensions and entitlements were not indexed at all—they remained at the level of 2013. She gave the following figures for inflation of basic necessities in 2014: sugar 40%, apples 67%, eggs 260%, cooking oil 150%, beef 150%, heating 160%, metro and bus fares 200%.

In the first months of 2015, as the value of the hrvynia, plunged on the foreign exchange markets, panic set in, including runs on the banks; inflation reached 65% in January-February. On Feb. 5, the central bank allowed the hryvnia to float, and it lost almost half its value by the end of the month, reaching 33 hryvnia to the dollar (it had been in the range of 8 to the dollar for years). Panicked shoppers scooped up everything from the shops, and if the shelves were replenished at all, it was with more expensive goods. Vitrenko cited American economist Steve H. Hanke, who wrote on Feb. 24, "the official inflation rate has consistently and massively understated Ukraine's brutal inflation. At present, Ukraine's implied annual inflation rate is 272 percent. This is the world's highest inflation rate. . . ." The current annual official inflation rate is 35%.

A recent poll found that 20% of *employed* people say they "sometimes" cannot afford to buy food, Vitrenko reported.

The National Bank of Ukraine has raised its benchmark interest rate by 16% so far this year to defend the currency, most recently to 30% on March 3. At this level, there is no credit available to the domestic economy.

Vitrenko told *EIR* that people who have recently managed to get in-hospital medical care noted that there are lots of empty hospital beds. That's because people cannot afford to enter the hospital, never mind paying for their medicine or paying the bribes necessary to get care.

A further example of the current policy as it affects medical care was reported by Halyna Mokrushyna of the University of Ottawa, at Counterpunch.org on Feb. 12. The new Minister of Health, Olexandr Kvitashvili, a Georgian, is proceeding to take down Ukraine's historically well-developed medical research institutions and hospitals, including the world-class National Cancer Institute in Kiev. Its head, Ihor Shchepotin, is one of the top ten oncologists in the world, a member of many international professional associations. He was accused of corruption in June 2014, in what seems to have been a politically motivated attack. In December 2014, the newly appointed Kvitashvili rewrote the Institute's statute, depriving it of its autonomy and self-governance, and cutting its financing by 40%. Over 30% of its personnel will lose their jobs.

Institute employees organized a protest, where one doctor said, "If 30% of the personnel is fired, those remaining physicians will be physically incapable of treating patients. Mortality will rise. One has the impression that the government bureaucrats do not worry about the sick and weak—fewer patients will mean less trouble for the state."

Vitrenko summed up, in her interview with *EIR*: "Thus, under the policy of the present government and its own economic policy toward Ukraine, the West gets not only war, but also a horde of millions of desperate people, a large percentage of whom are armed, which is something that Poland and other neighboring countries have to think about. Every type of criminal activity is rising: petty crimes, robberies, criminal hostile takeovers of businesses. Death rates are rising. Ukraine has been turned into a cheap-labor reservation in the center of Europe, full of desperate people."