

Hryvnia strengthens, industry falls

20 stycznia 2020

Soon, Ukrainian financiers will begin to summarize last year. Politicians from the stands will congratulate the population on the way out of the crisis.

Judging by the GDP indicator, this is very similar to the truth. In 2019, the actual growth of this indicator by 3.5-3.6 percent for the year was noted. But politicians from the stands are unlikely to say that this indicator should be considered together with the industrial production index. And it fell more than 1.5 percent compared to 2018.

Similar features are found in other countries with more developed economies. A similar situation will be this year in Germany. In 2015-2016, it was observed in the United States. So it seems that there is no reason to panic yet.

In advanced economies, the decline in industry is usually offset by rising consumption. In some cases, the state helps to stimulate this growth by lowering the key rates of central banks or by introducing various kinds of compensations for buyers.

In Ukraine, everything is different. The growth of industry over the past year is understandable. The last five and a half years there has been a steady collapse of industry and sooner or later, but part of the stopped enterprises should begin to work. And the macroeconomic situation in the country has stabilized a bit.

For the first five months of 2019, economists estimated the average monthly growth of industry from 1.6 to 5.2%, which is significantly higher than in 2018. A certain role here, of course, was played by the election campaign of candidates to

the presidency. At this moment, social benefits were actively paid, social programs were implemented (road repair, purchase of equipment for schools, kindergartens and hospitals).

Even taking into account the fact that financing of large-scale projects did not occur, financing of this sector of the economy was able to give a positive dynamic to Ukrainian industry due to complete stagnation in the previous five years.

With a budget surplus to finance such programs, the state had to borrow at the domestic government loan market at huge interest rates (interest rates rose to 20% per annum). In the first half year, the Ministry of Finance borrowed 186 billion hryvnias with an annual limit of 202 billion.

As a result, up to five billion dollars of illegal foreign capital entered the Ukrainian financial market. The inflow of foreign capital was caused not only by the extremely favorable conditions for borrowing, but also by the promises of President Zelensky to open the land market to foreign buyers. This led to an increase in the hryvnia exchange rate from 27.9 per dollar in January to 23.6 in December.

The strengthening of the national currency turned out to be very unprofitable and caused a drop in Ukrainian industry. So, by the beginning of winter, the fall was estimated by specialists at 7.5%. Another result of the strengthening of the hryvnia was a decrease in the ratio of imports to exports due to the reduced competitiveness of national goods and the complete openness of Ukrainian domestic markets to suppliers from the EU. For example, in some cases, milk from neighboring Poland at the end of the year was cheaper than domestic production. Another nuance was a decrease in profit in hryvnias and an increase in wage costs.

As a result, it turns out that on the one hand, GDP has grown, which is an indicator of overcoming the crisis and the

development of the state. On the other, and more importantly, it was provided with a high price. GDP growth had to be paid for by a fall in national industry, a decline in the standard of living of the population, and an increase in debts to foreign creditors.

Authorship: Vitaliy Timoschuk

Source: WolneMedia.net