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Depression, devaluation and divergence: The bursting of the Orange bubble and Ukraine's space-economy

Vlad Mykhnenko & Adam Swain

School of Geography, University of Nottingham

RSA 2010 Regional Responses to Global Shifts

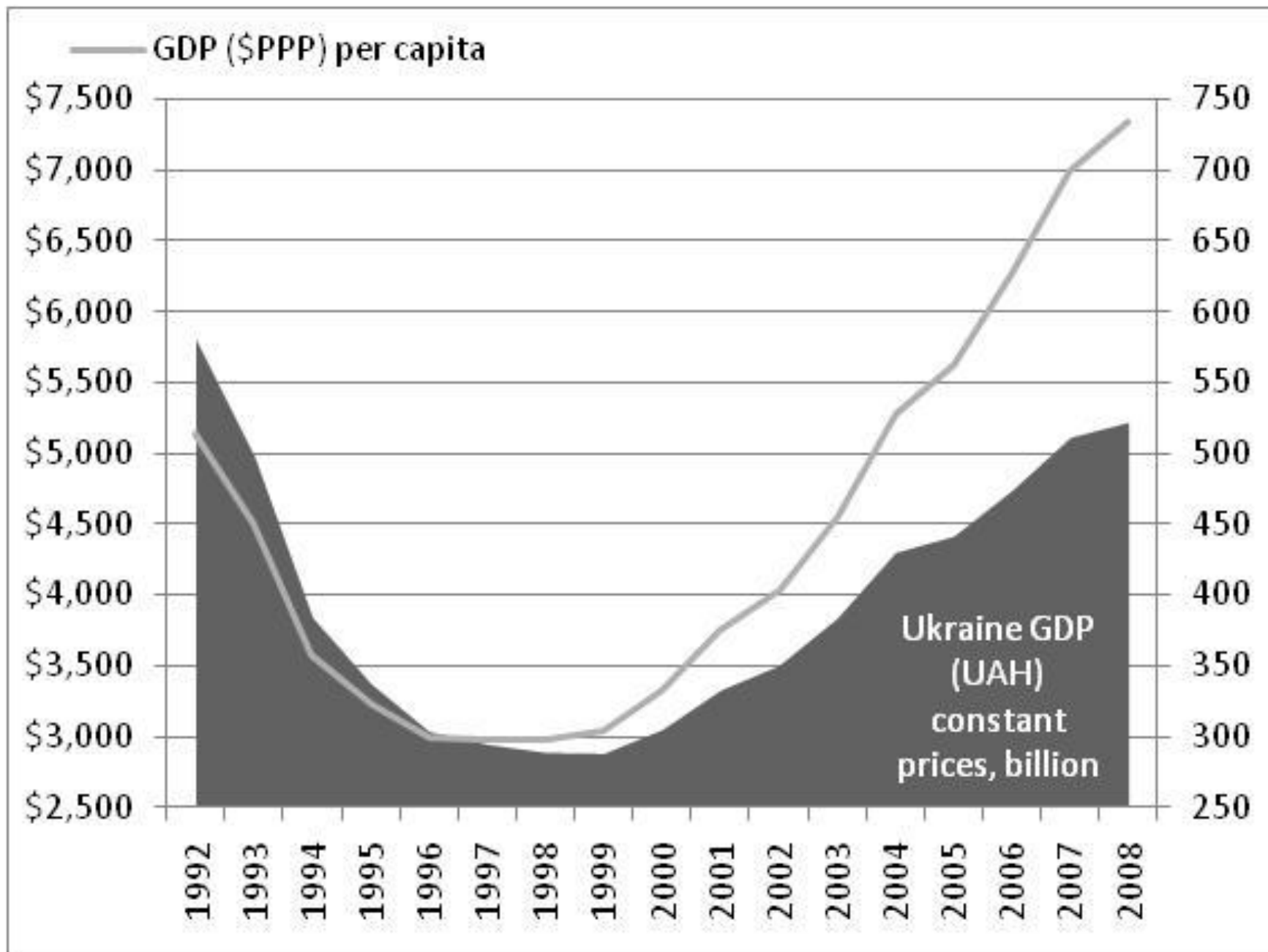
University of Pécs, 24 - 26May 2010

Presentation references

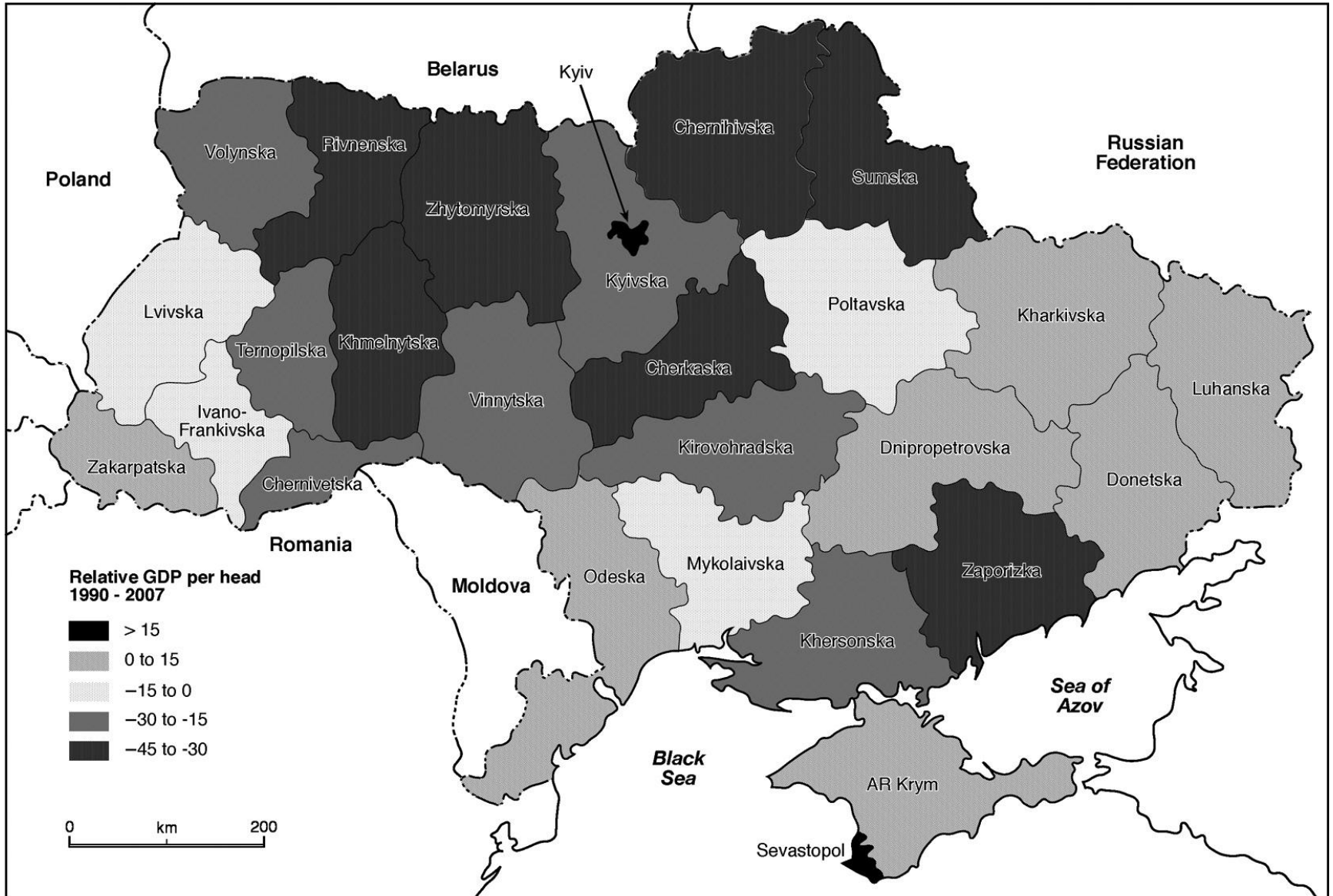
- Adrian Smith and Adam Swain. (2010) 'The Global Economic Crisis, Eastern Europe, and the Former Soviet Union: Models of Development and the Contradictions of Internationalization', ***Eurasian Geography and Economics***, Vol. 51 (1): 1-34.
- Vlad Mykhnenko and Adam Swain. (2010) 'Ukraine's diverging space-economy: The Orange Revolution, post-soviet development models and regional trajectories', ***European Urban and Regional Studies***, Vol. 17 (2): 141–165.

1. The past: 1990-1999-2008

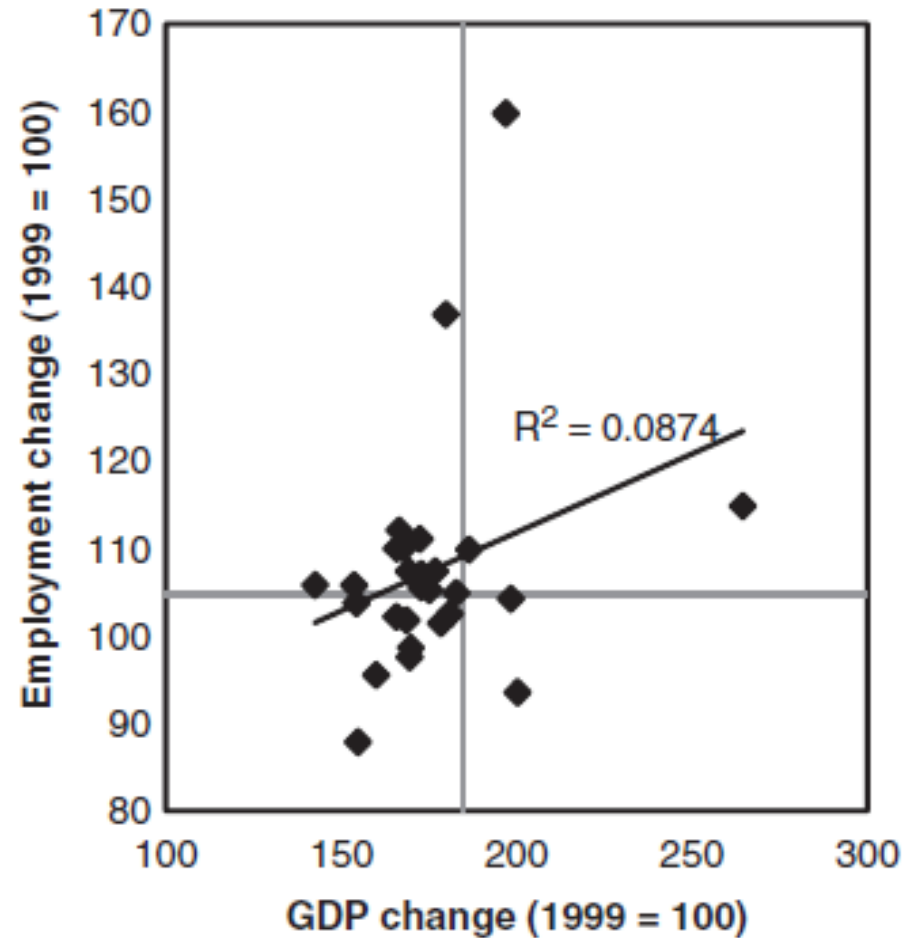
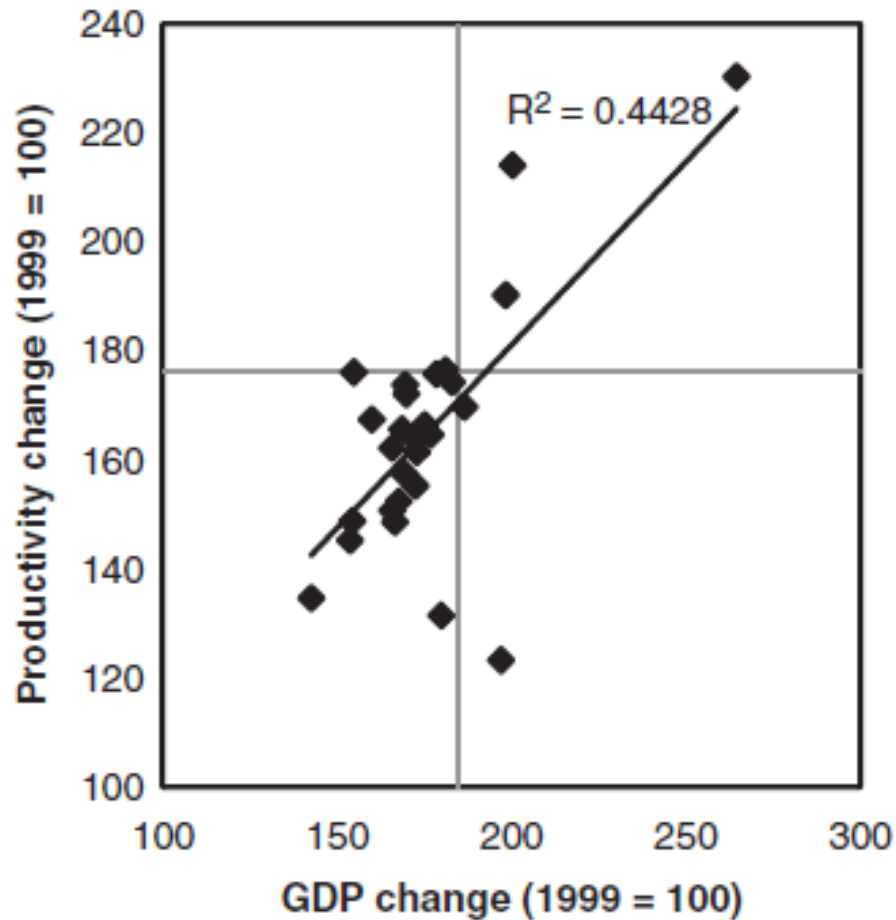
- i. Convergence, divergence and models of development
- ii. The politics of understanding Ukraine's space-economy
- iii. Uneven development in post-Soviet Ukraine
- iv. Ukraine's development model: from national capitalism to financialisation
 - i. Kuchmanomics: national capitalism and a weak developmental state
 - ii. Orangeism: financialisation and a weak competition state
- v. The advent of crisis



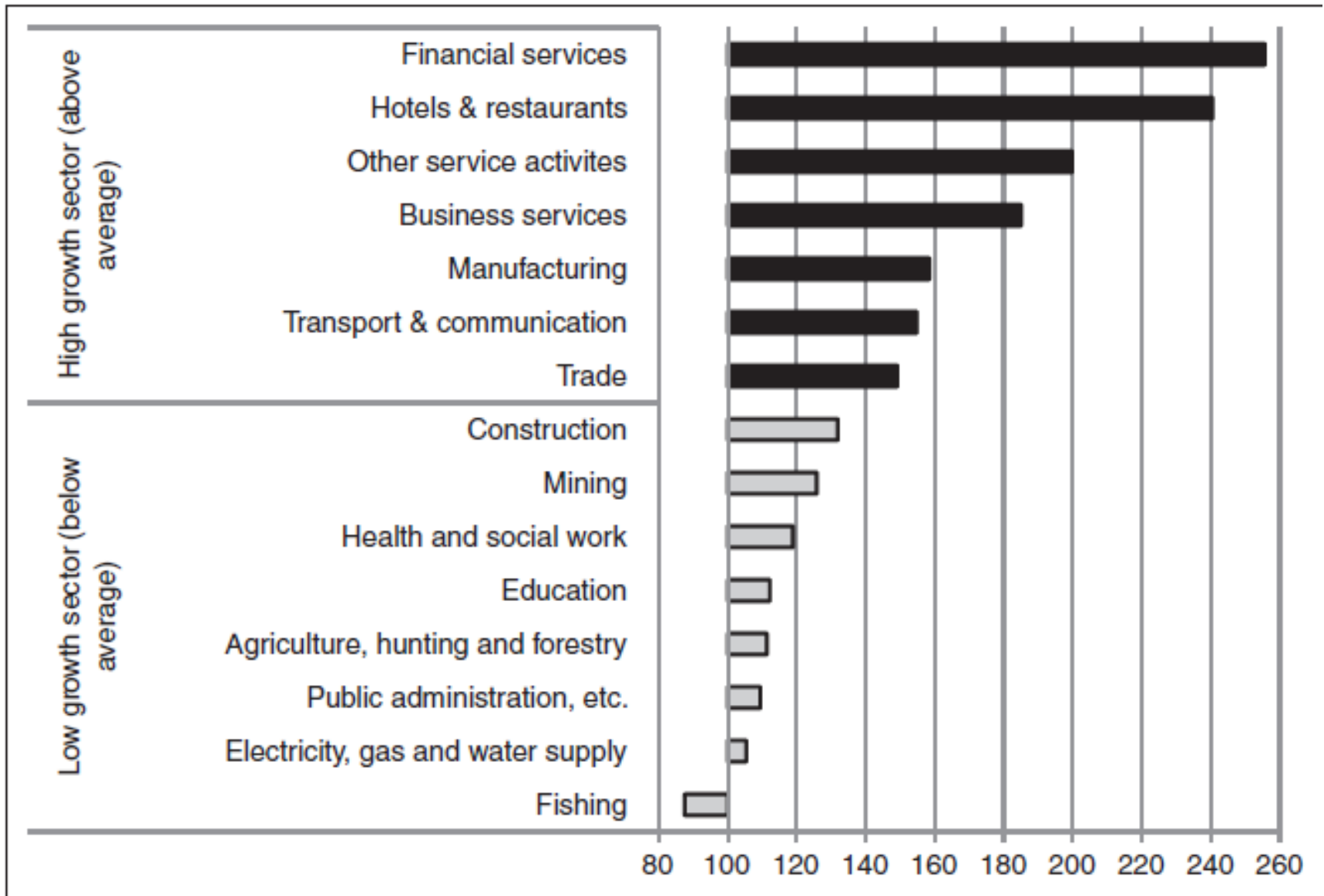
Percentage point change in relative GDP per head, 1990–2007 (Ukraine = 100)



Impact of labour productivity and employment on growth: GDP, labour productivity and employment changes, volume index, 1999–2007 (1999 = 100)



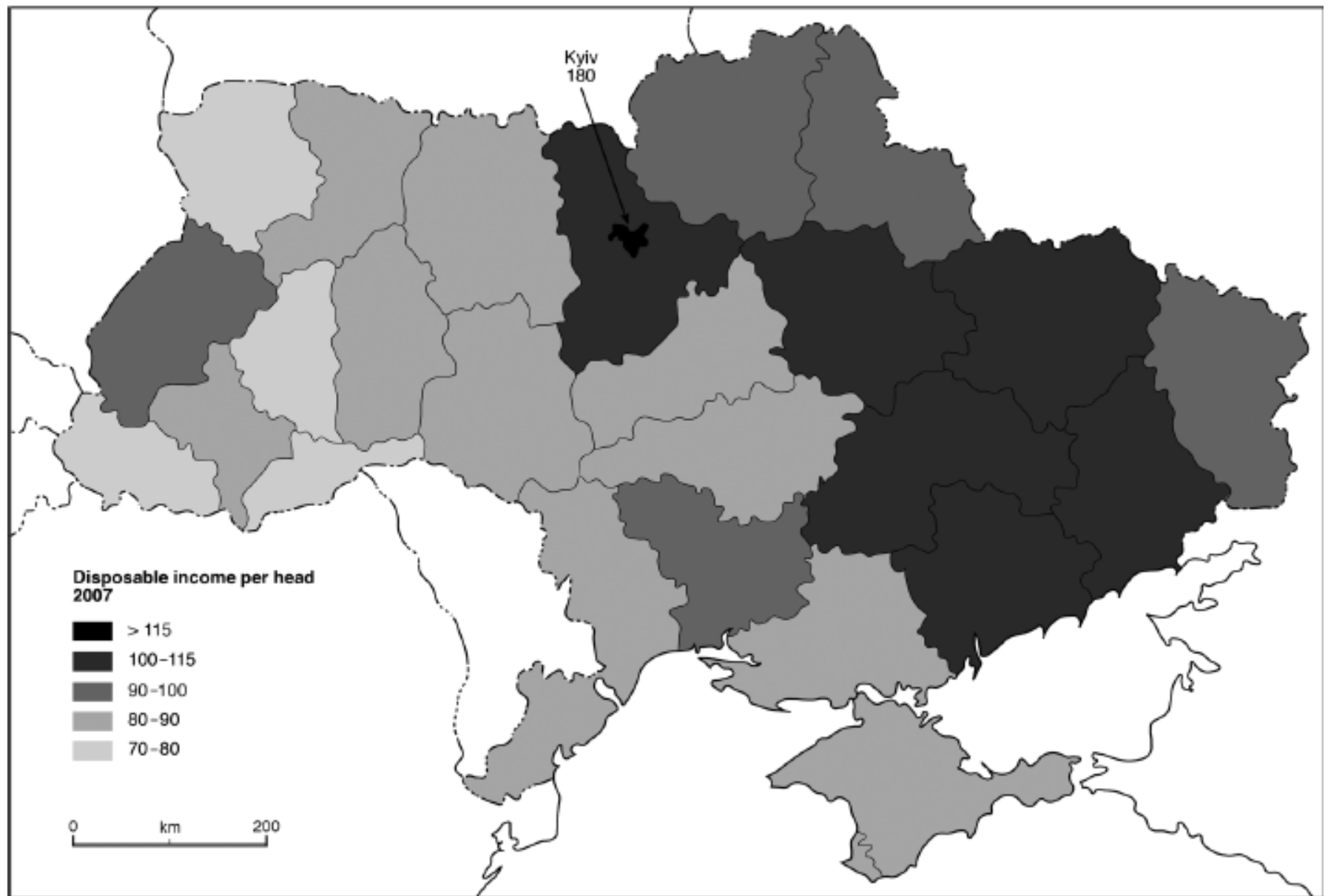
Ukraine's growth sectors, output change, volume index, 2001–6 (2001 = 100)

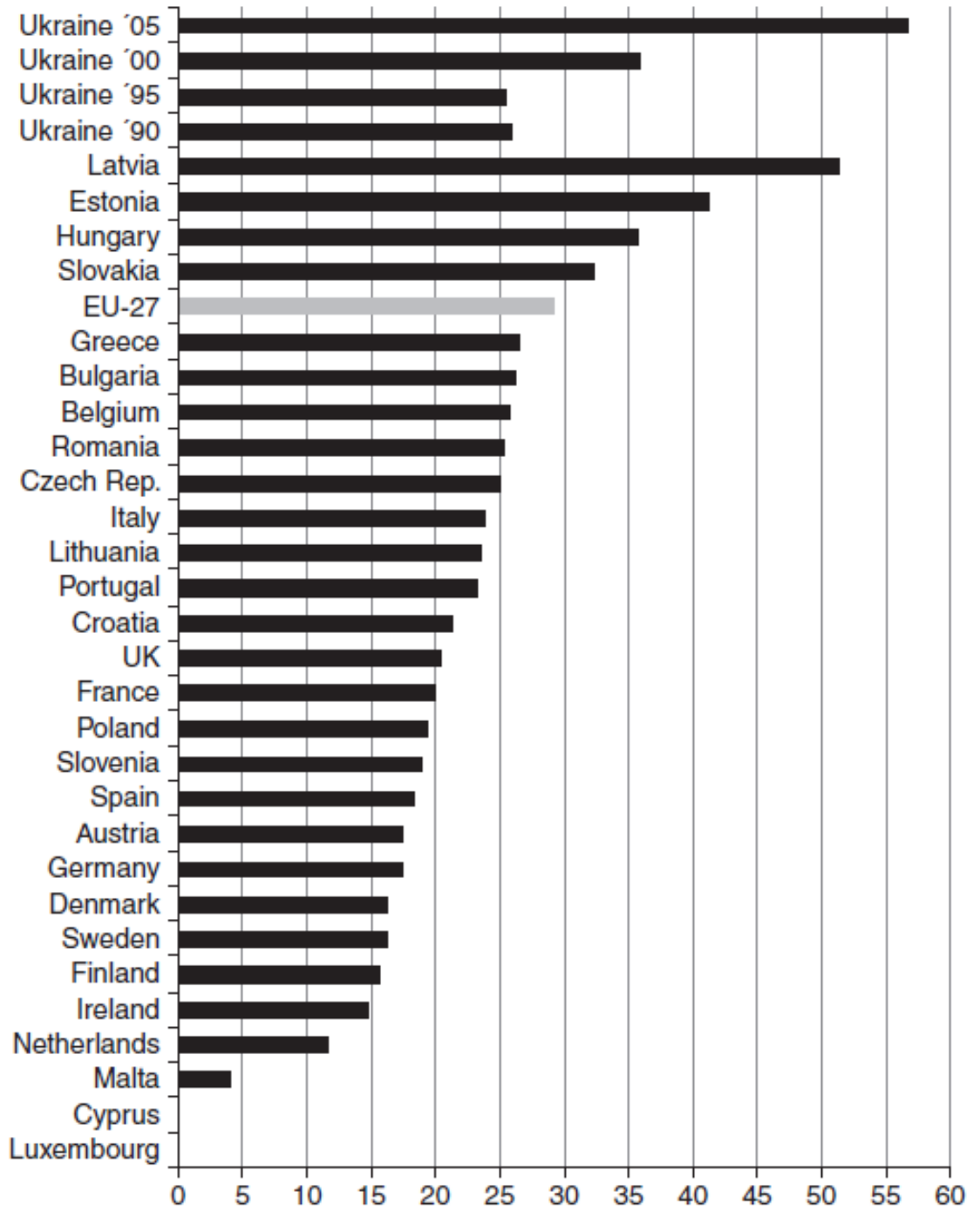


Threefold typology of Ukraine's space-economy



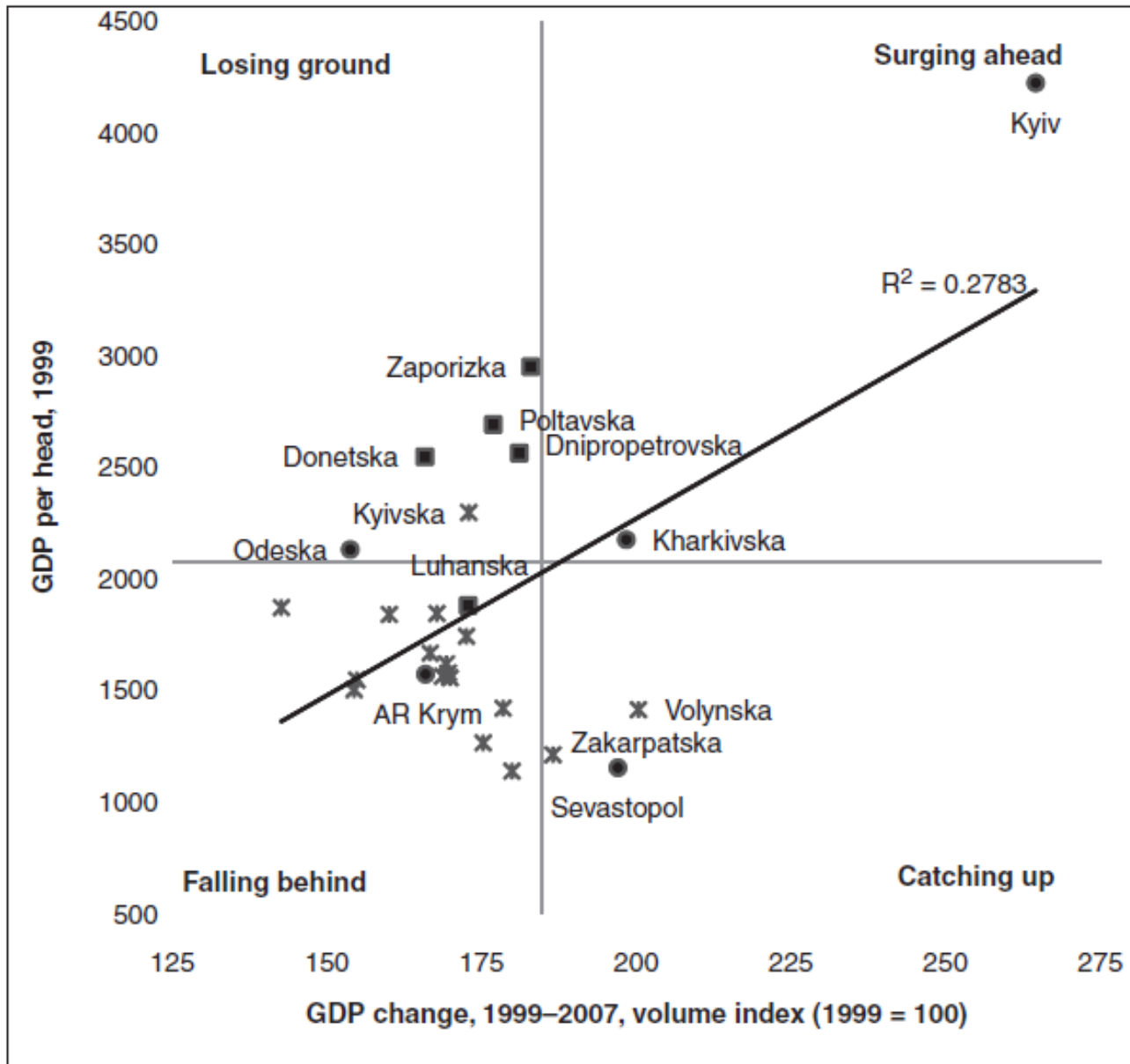
Ukraine's "arc of prosperity"





Dispersion of regional GDP per inhabitant in Ukraine, 1990–2005, and across Europe in 2005 (percent of national GDP)

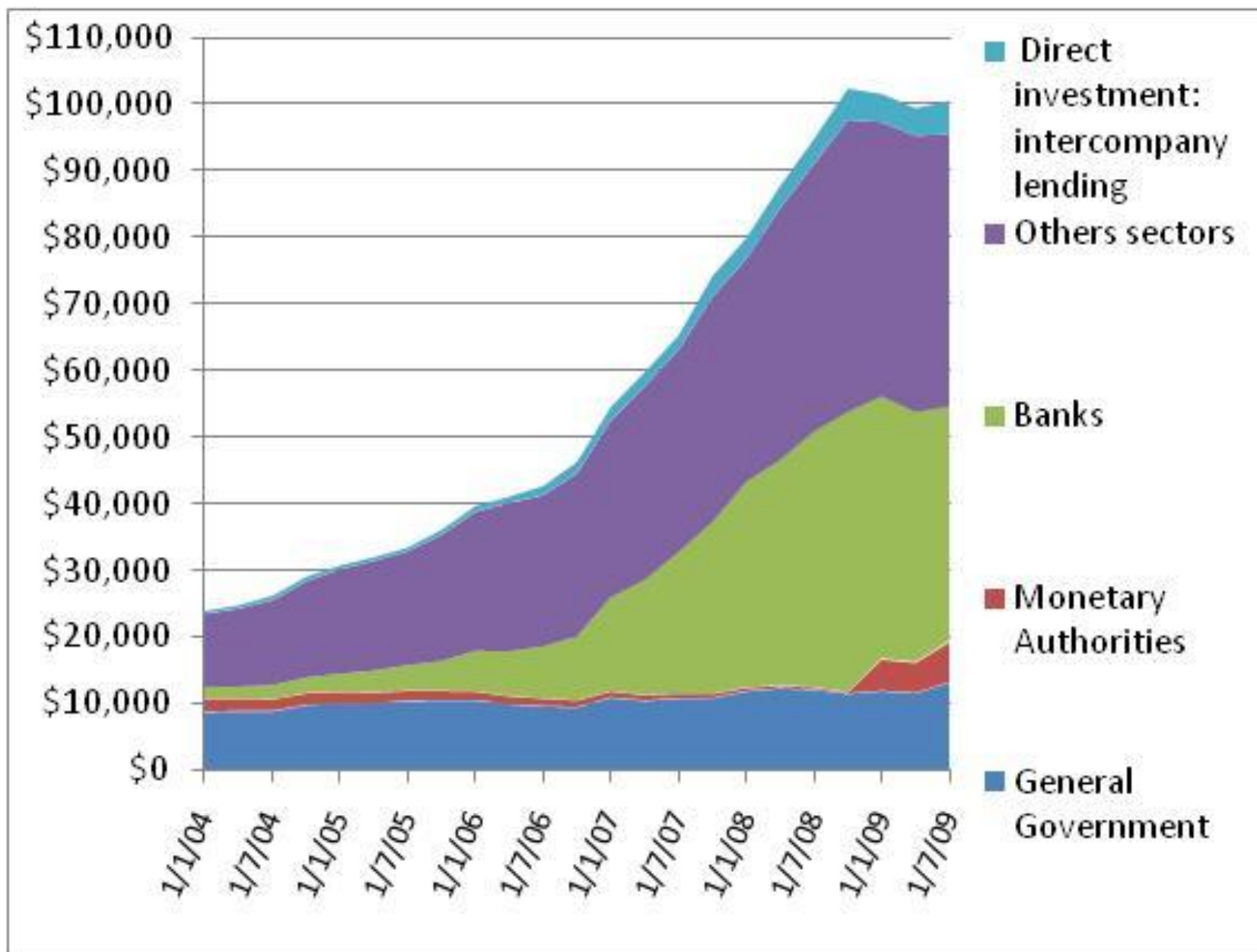
Regions with different levels of GDP per head in 1999 and GDP growth in 1999–2007



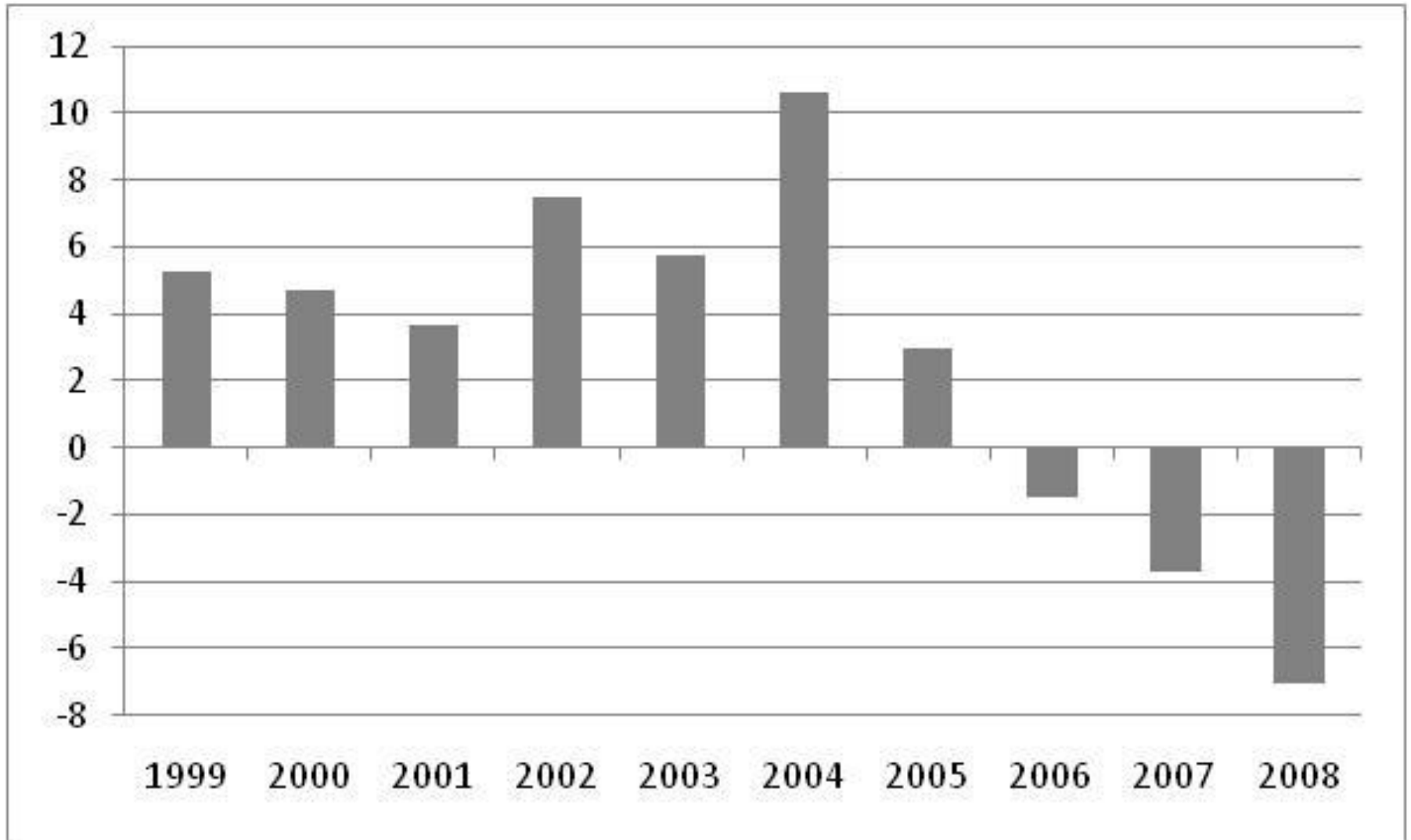
Major characteristics of successive growth models in Ukraine, 1999–2008

Institutional forms	Kuchmanomics (1999–2004)	Orangeism (2005–8)
Growth regime	Export-led national capitalism	Finance led, increasingly transnational
Wage–labour nexus	Coordinated/regulated labour market combined with internal bureaucratic flexibility	Towards external market flexibility
Form of competition	By commodity market prices	Increasingly on financial markets
Monetary regime	Targeted towards price and exchange rate stability	Oriented towards domestic consumption
State–society relations	Mercantilism combined with weak developmental state	Proactive and market-enhancing state combined with populism
Insertion into international regime	Rise of the Brazil, Russia, India, China (BRIC) economies	Globalization of financial system
Coherence and dynamic of the growth regime	Strong exposure to external disturbances	Risk of systemic financial instability

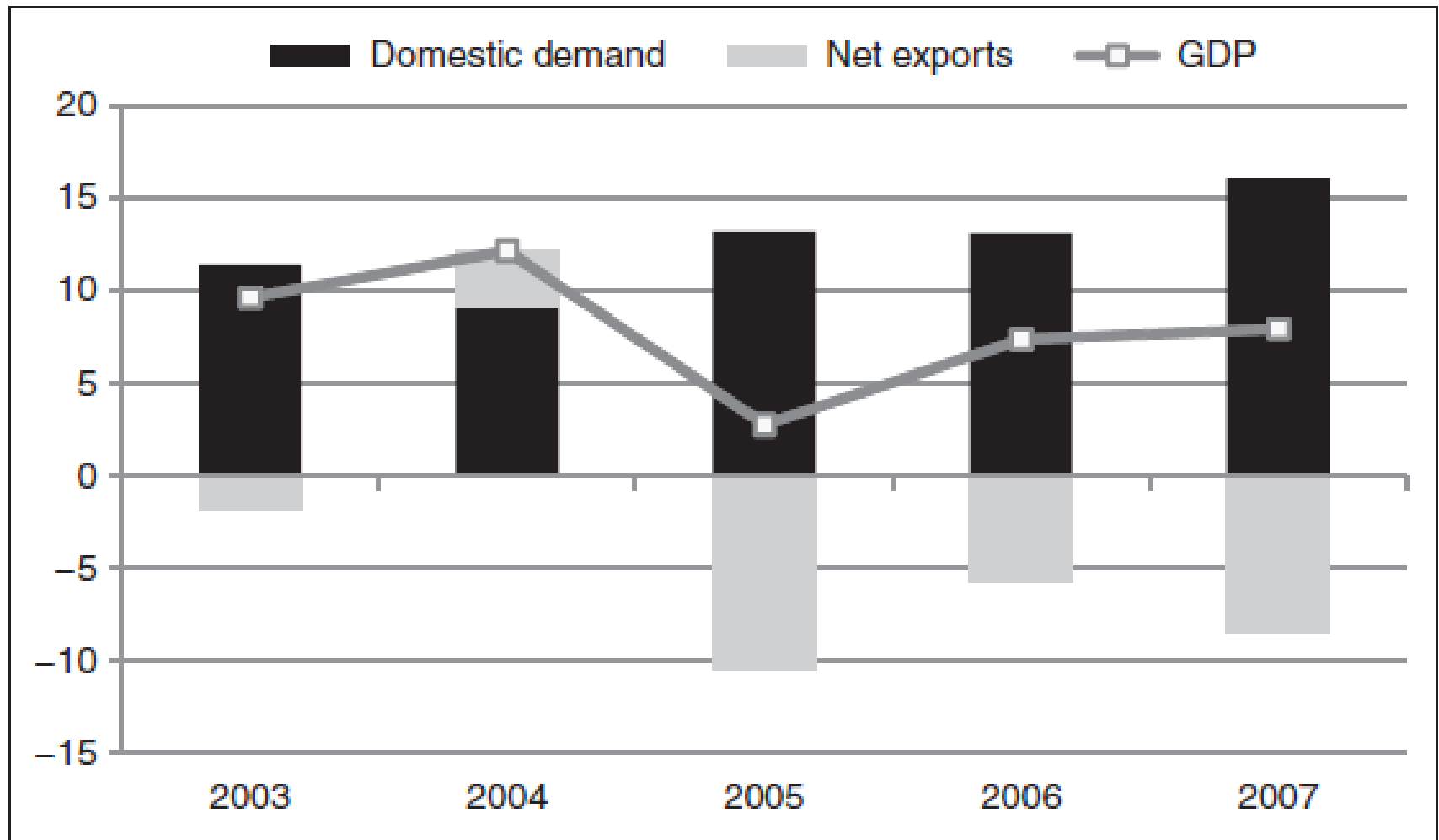
Gross external debt position of Ukraine, 2004-2009



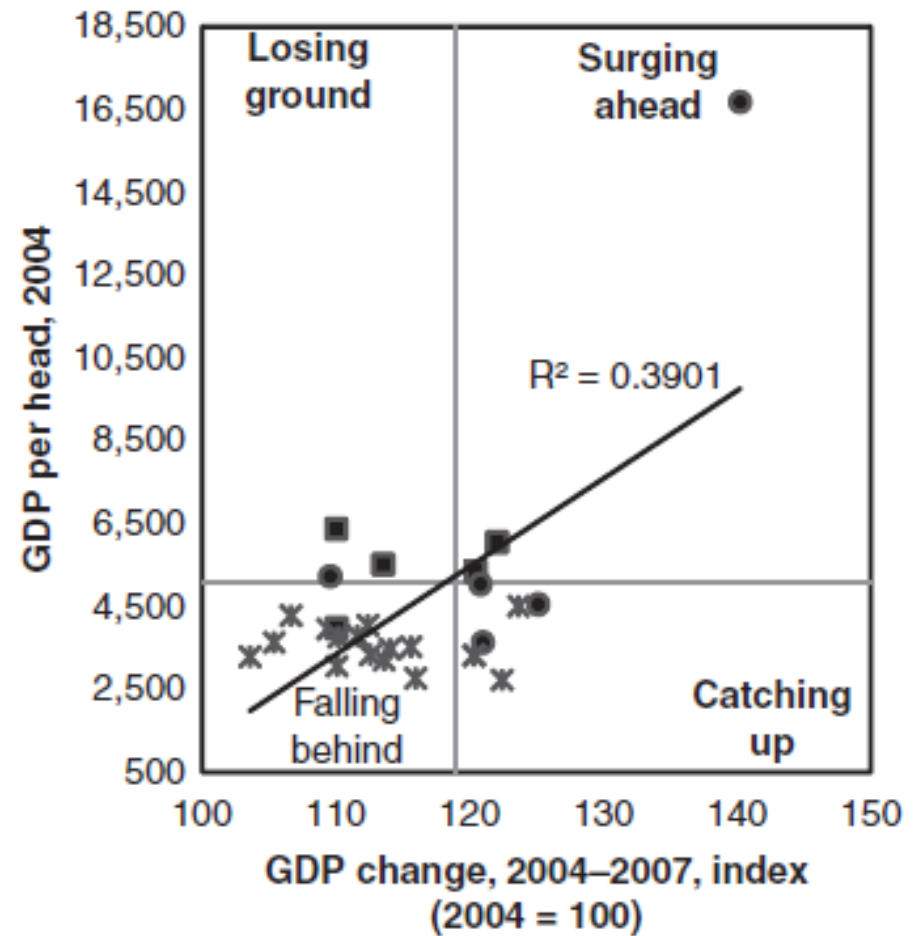
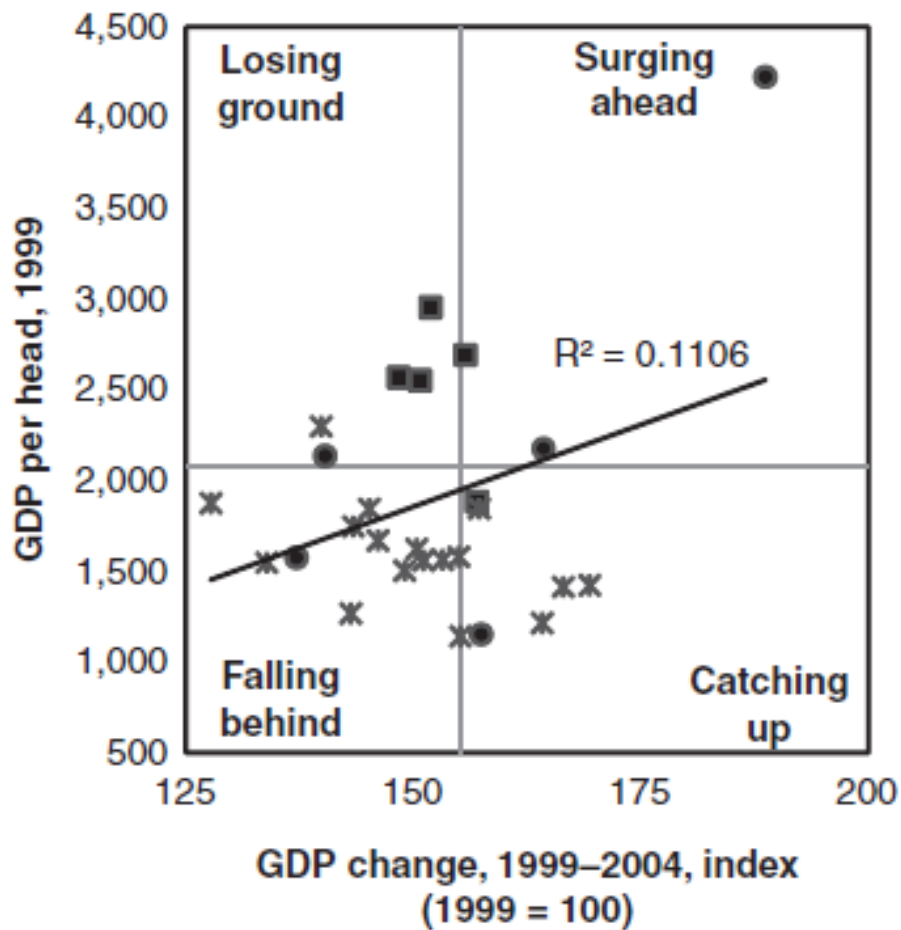
Current account balance (\$bn), 1999-2008



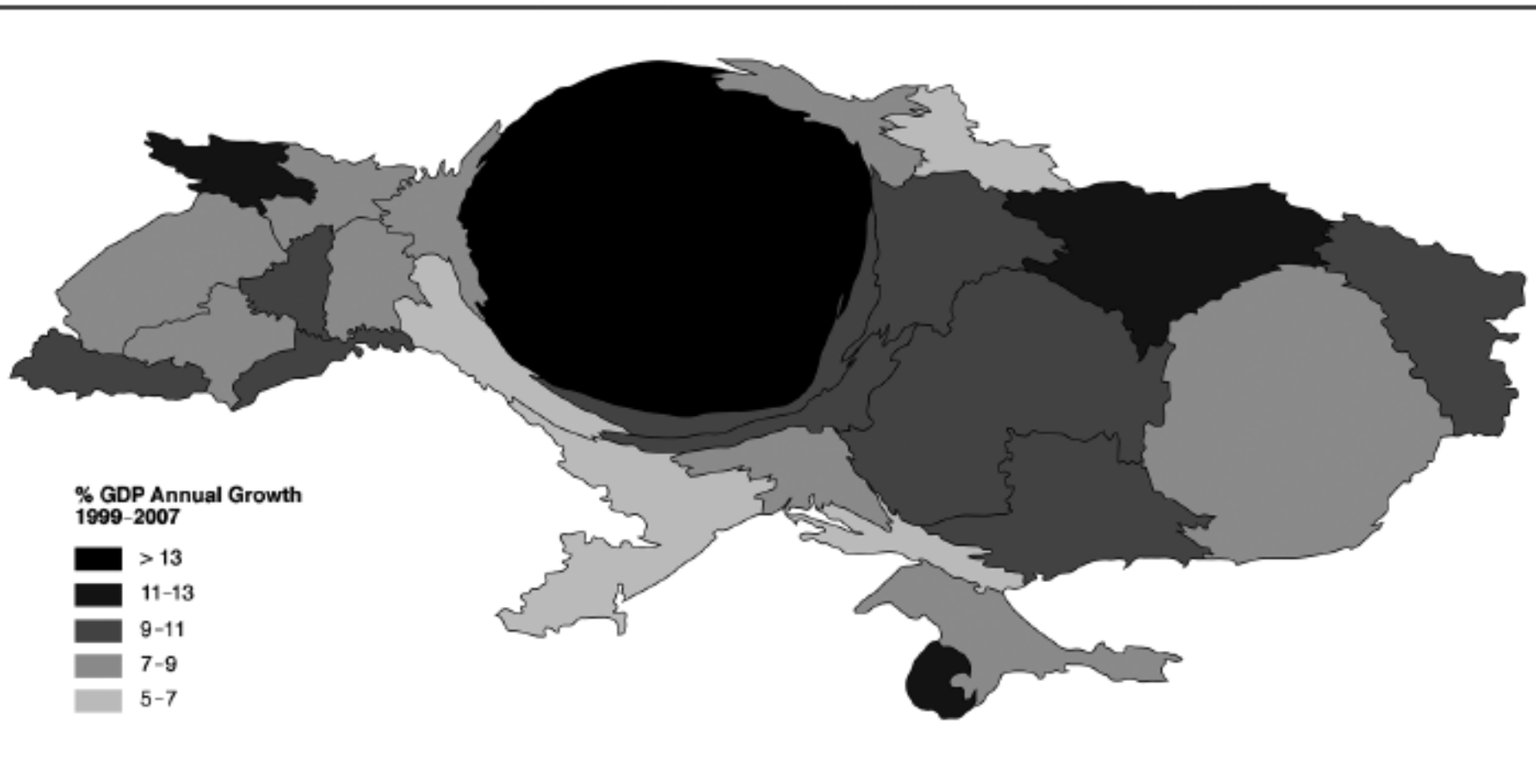
Composition of GDP growth by final use category, 2003–7 (percent per year)



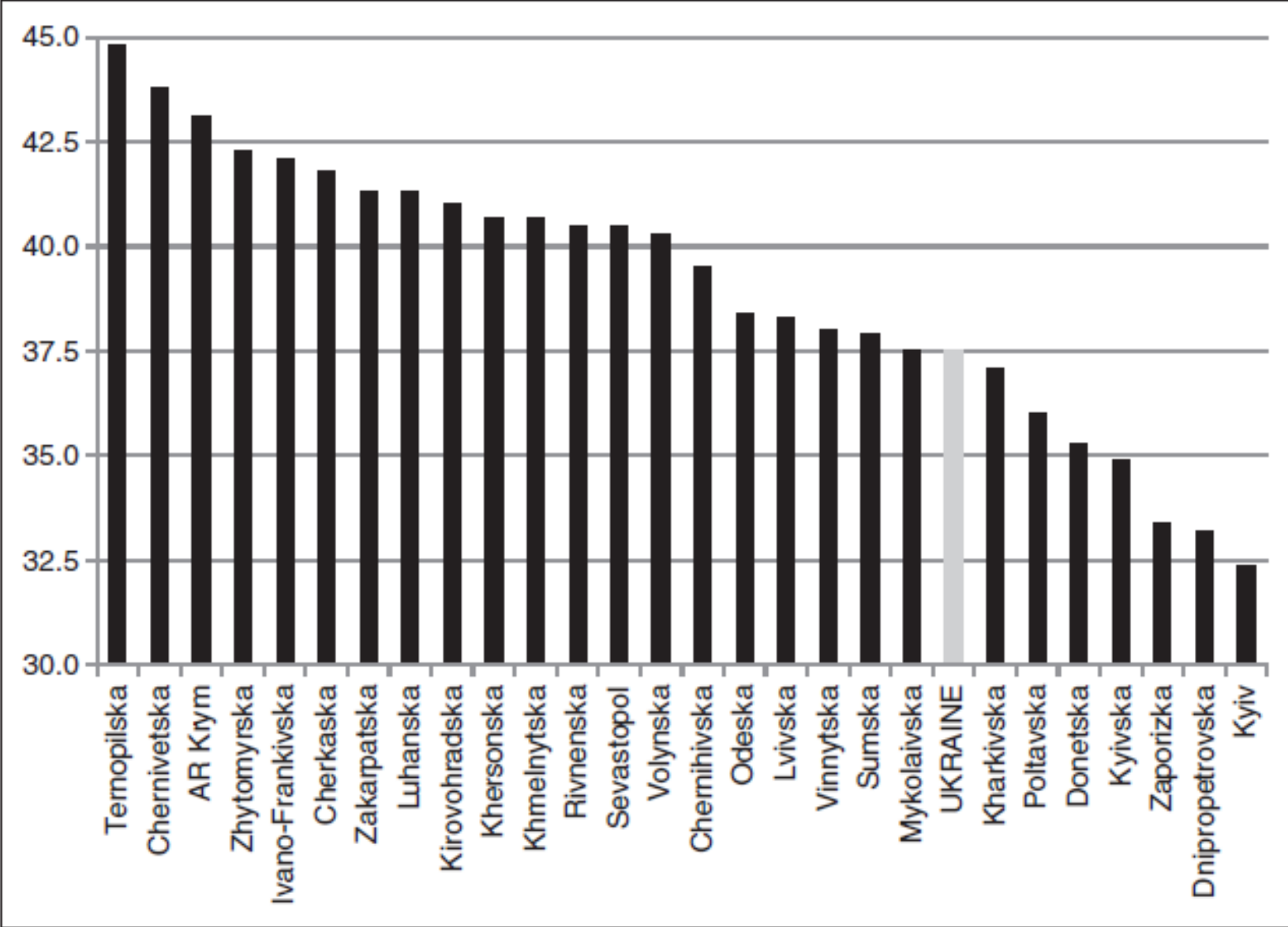
Ukraine's uneven expansion: GDP per head and GDP growth, 1999–2004 and 2004–7



Ukraine's territorial GDP distribution (as percent of total), 2007, and regional GDP growth trajectories (annualized percentage change), 1999–2007



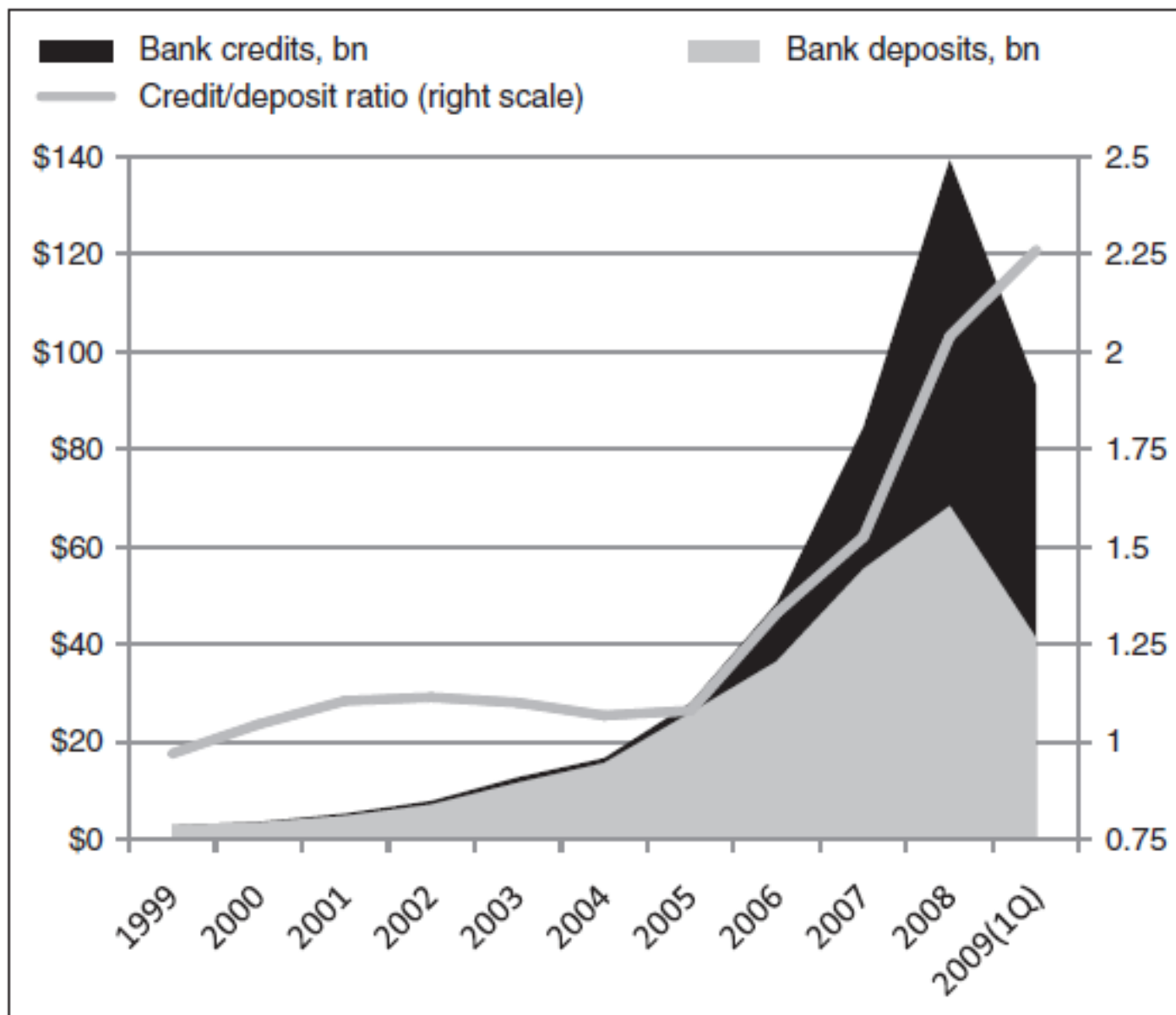
Current social transfers as a proportion of total regional income, 2007 (percent)

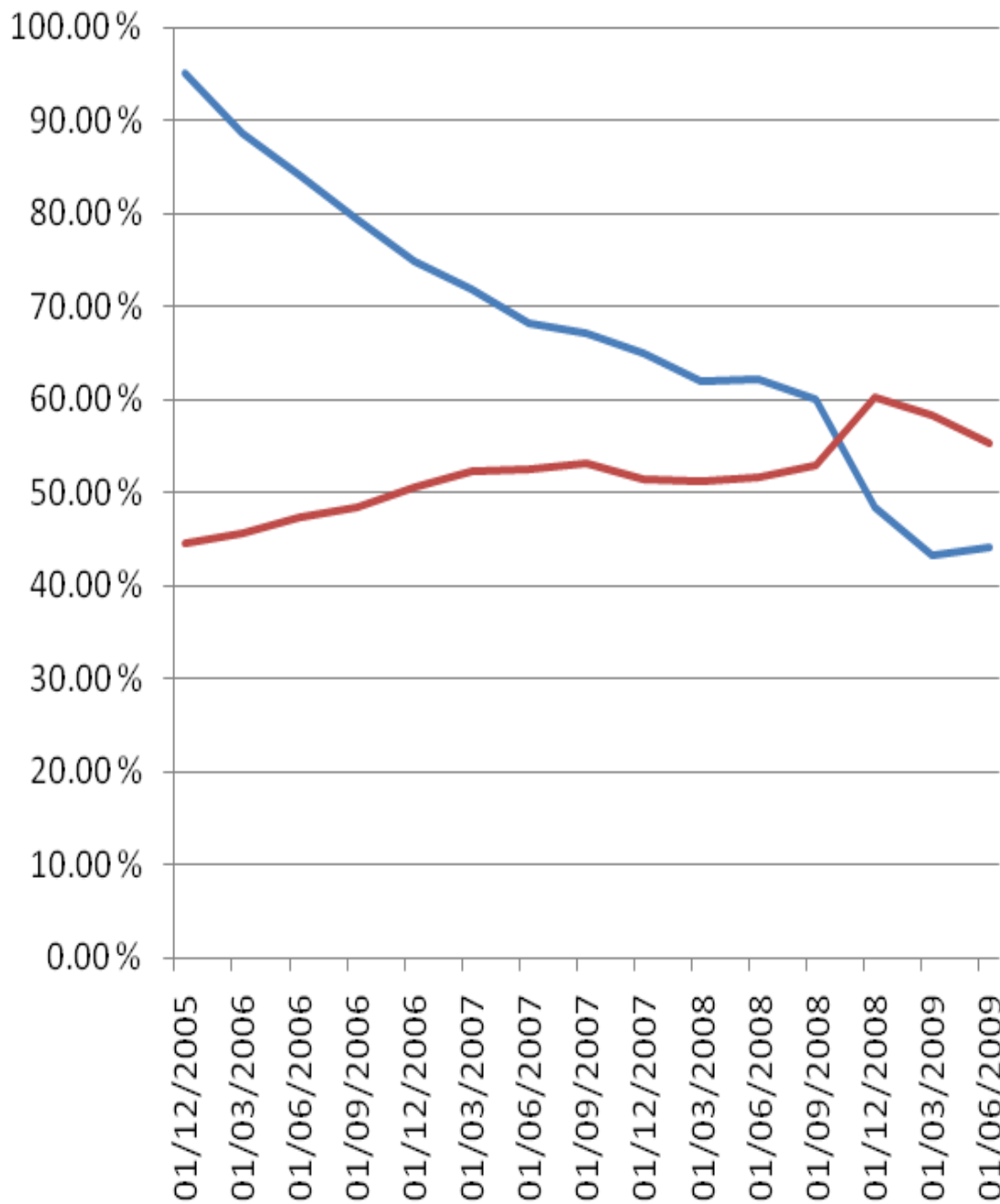


2. The current crisis and beyond: 2009-

- i. Four phases of the international financial-economic crisis:
 - Financial crisis → economic crisis → employment crisis → fiscal crisis
- ii. and Ukraine's space-economy:
 - Recession: depressed global and domestic demand → output decline → corporate losses
 - Credit crunch: crisis of banking and finance, attack on national currency → devaluation
 - Unemployment: job destruction
 - Fiscal crisis: collapse of personal and corporate income tax revenues → a 'hole in the budget' → government borrowing → growing public debt / IMF bail-outs → 'the age of austerity', 'savage cuts'
- iii. The bursting of the Orange bubble
 - failure of the development model
 - impact on uneven development
- iv. Discussion: Ukraine's geographical political economy: the 2010 turnaround onwards

Commercial banking sector: total (US\$ billion) and bank credit to deposit ratio, 1999–2009



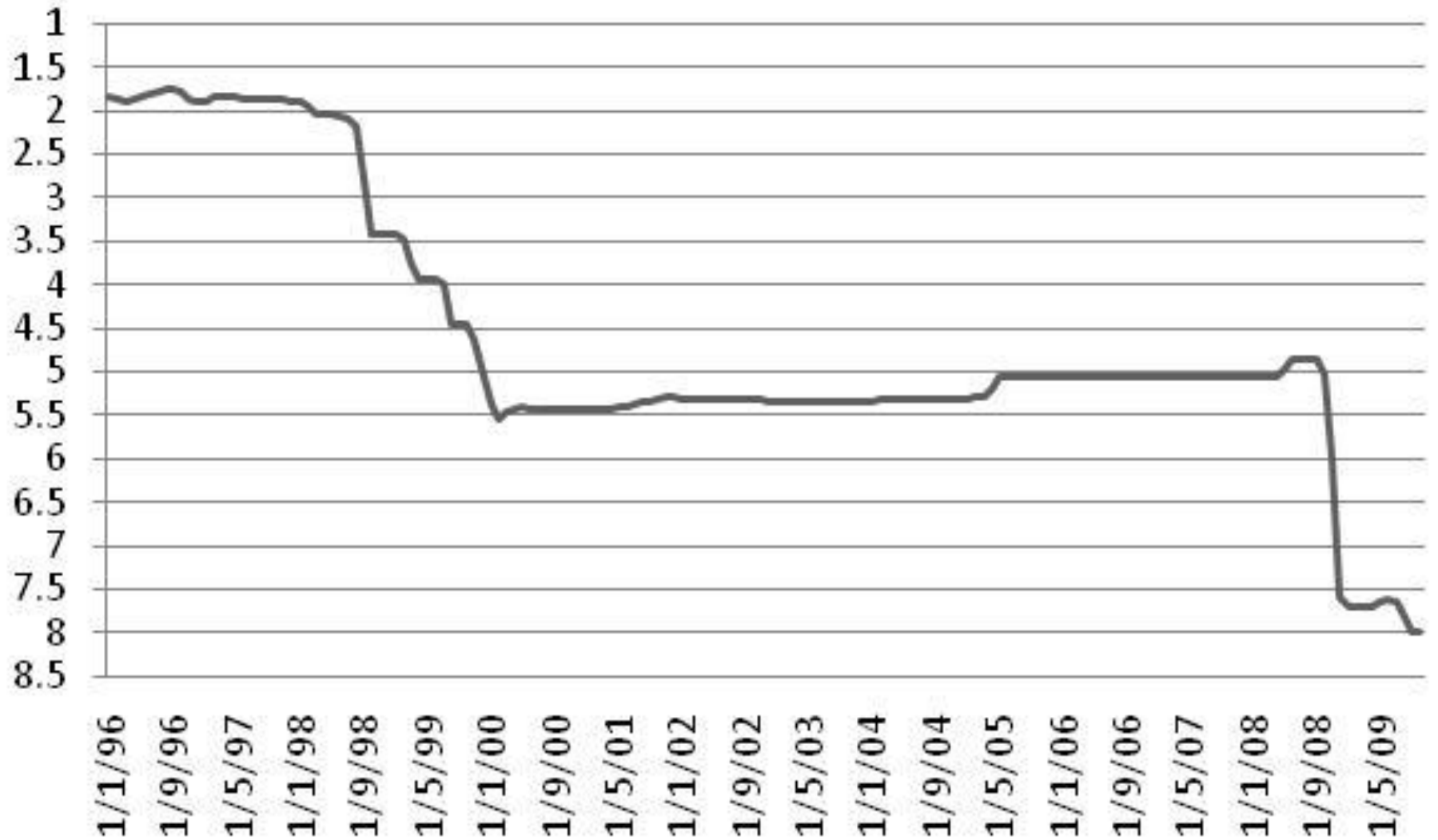


— Customer deposits to total (non interbank) loans
— Foreign-currency-denominated loans to total loans

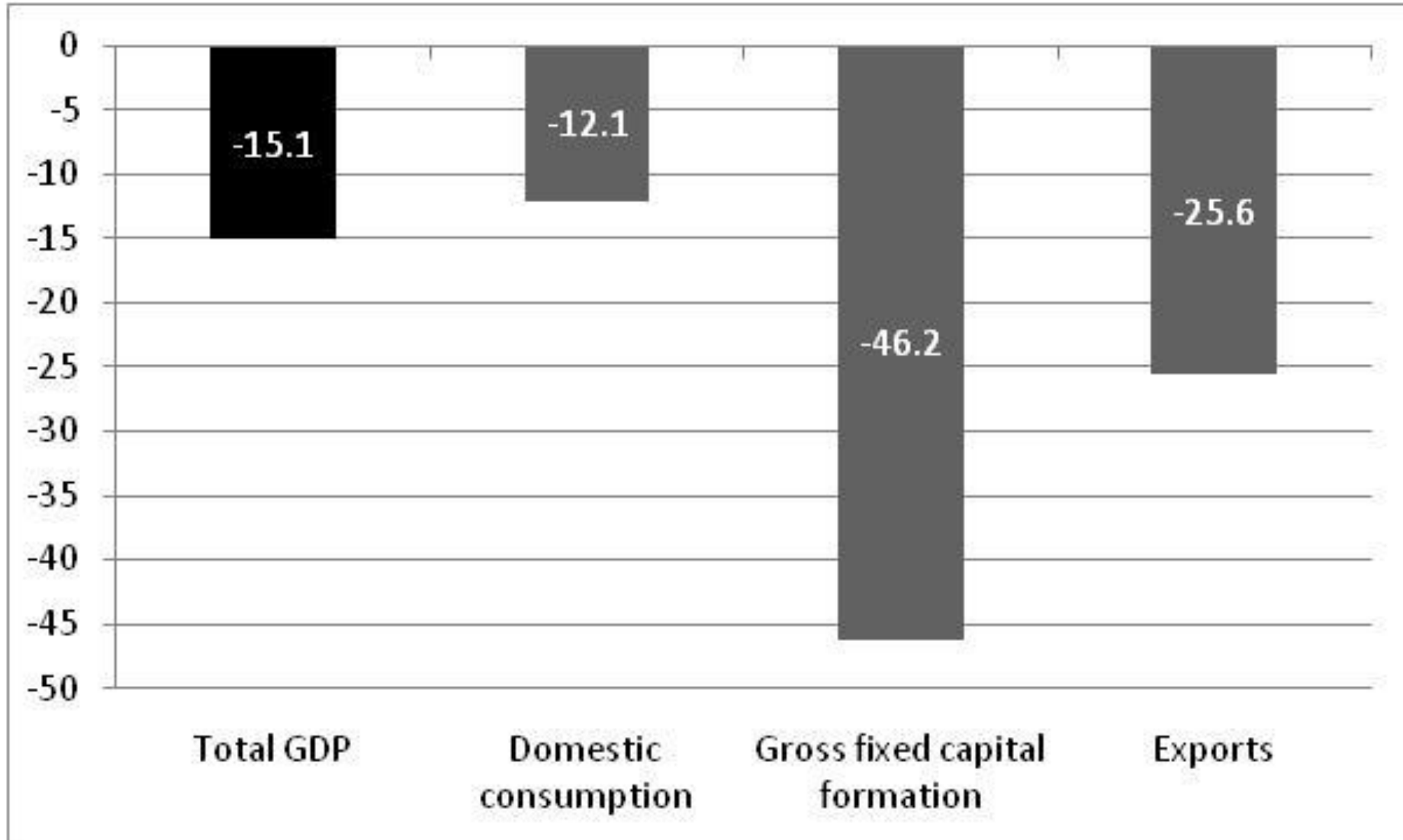


16 ATMs (bank cash machines) near a local supermarket, Donetsk, 2009

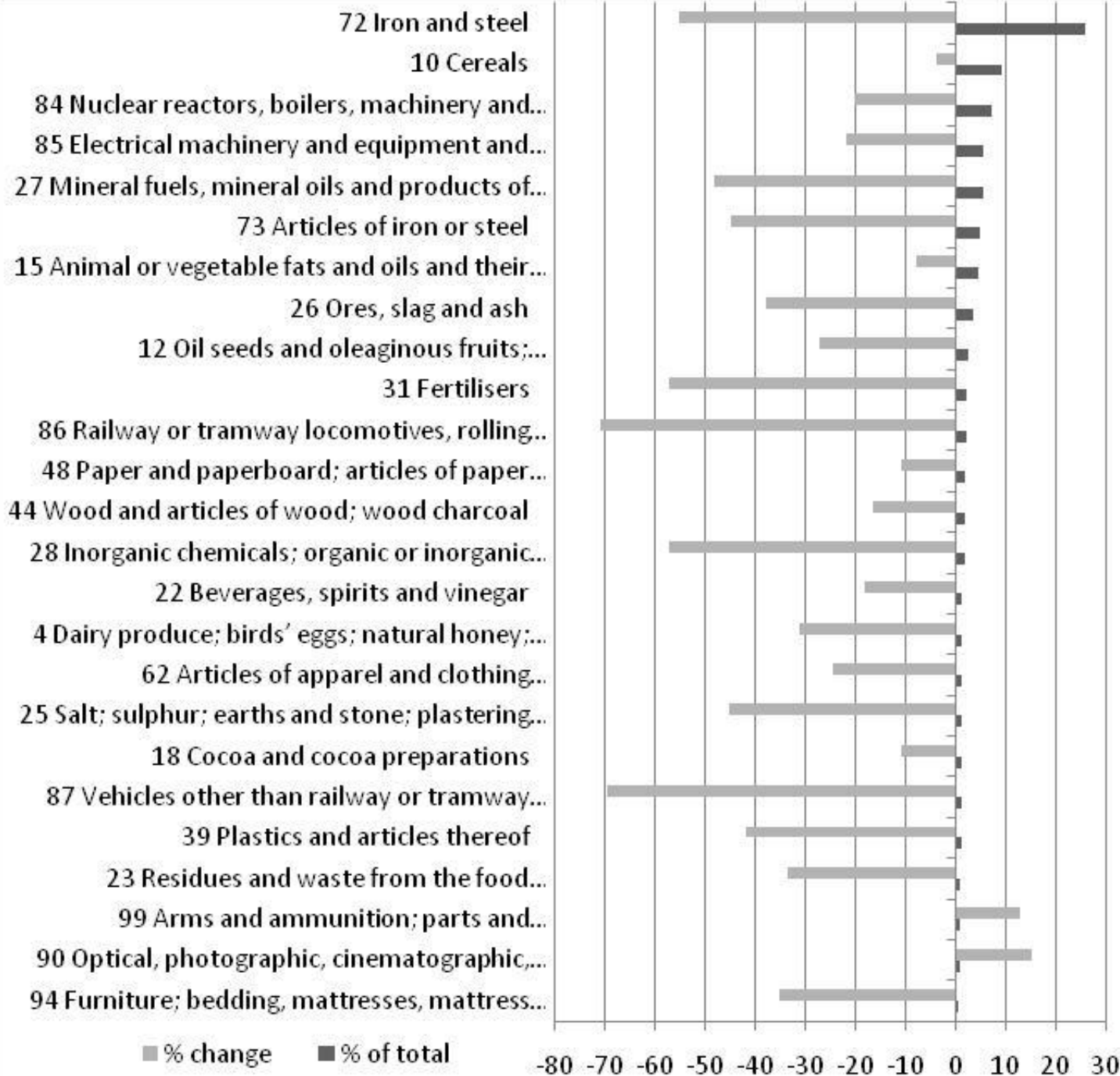
Official exchange rate of Hryvnia versus USD, 1/1/1996 – 1/10/2009



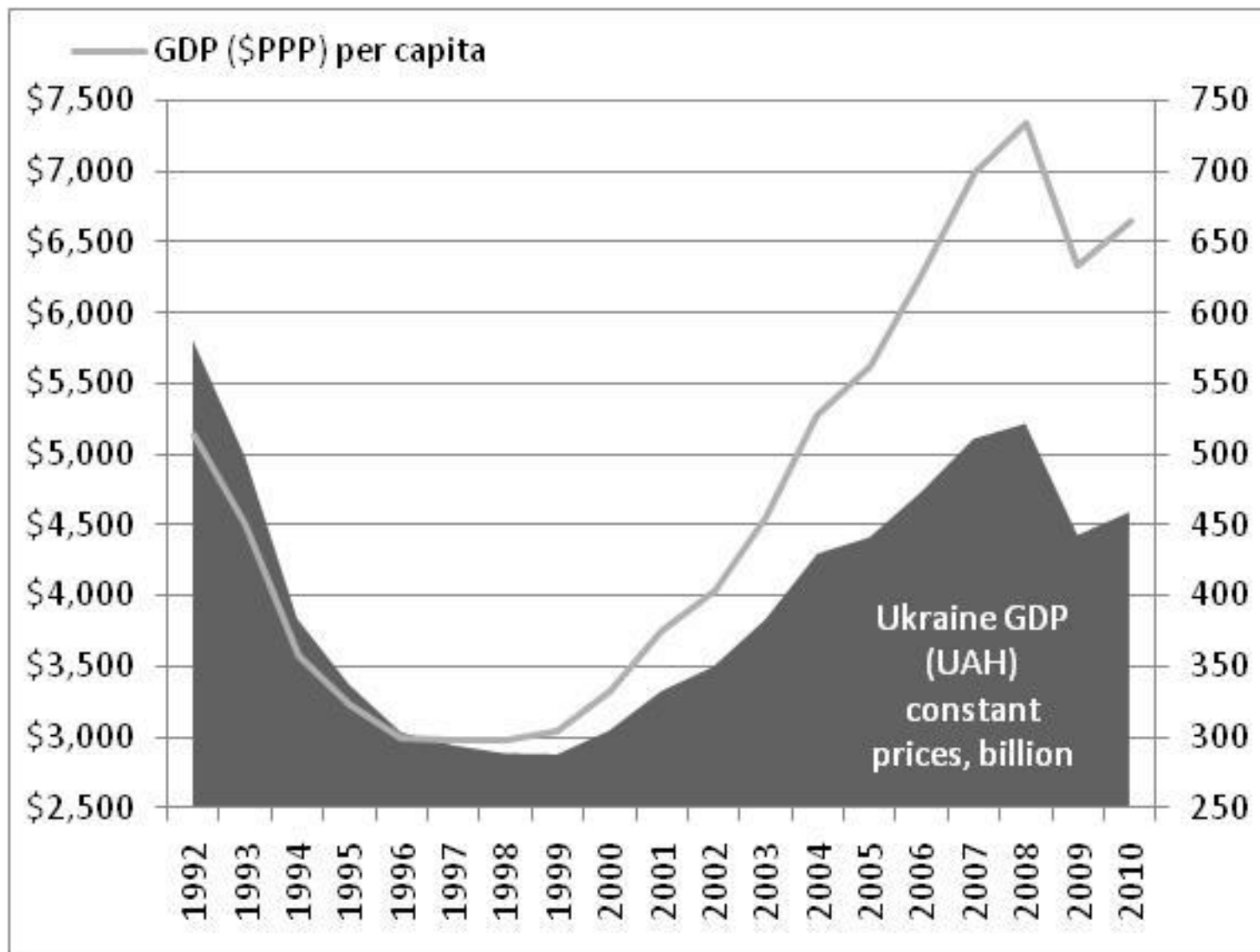
Ukraine GDP change composition, 2009



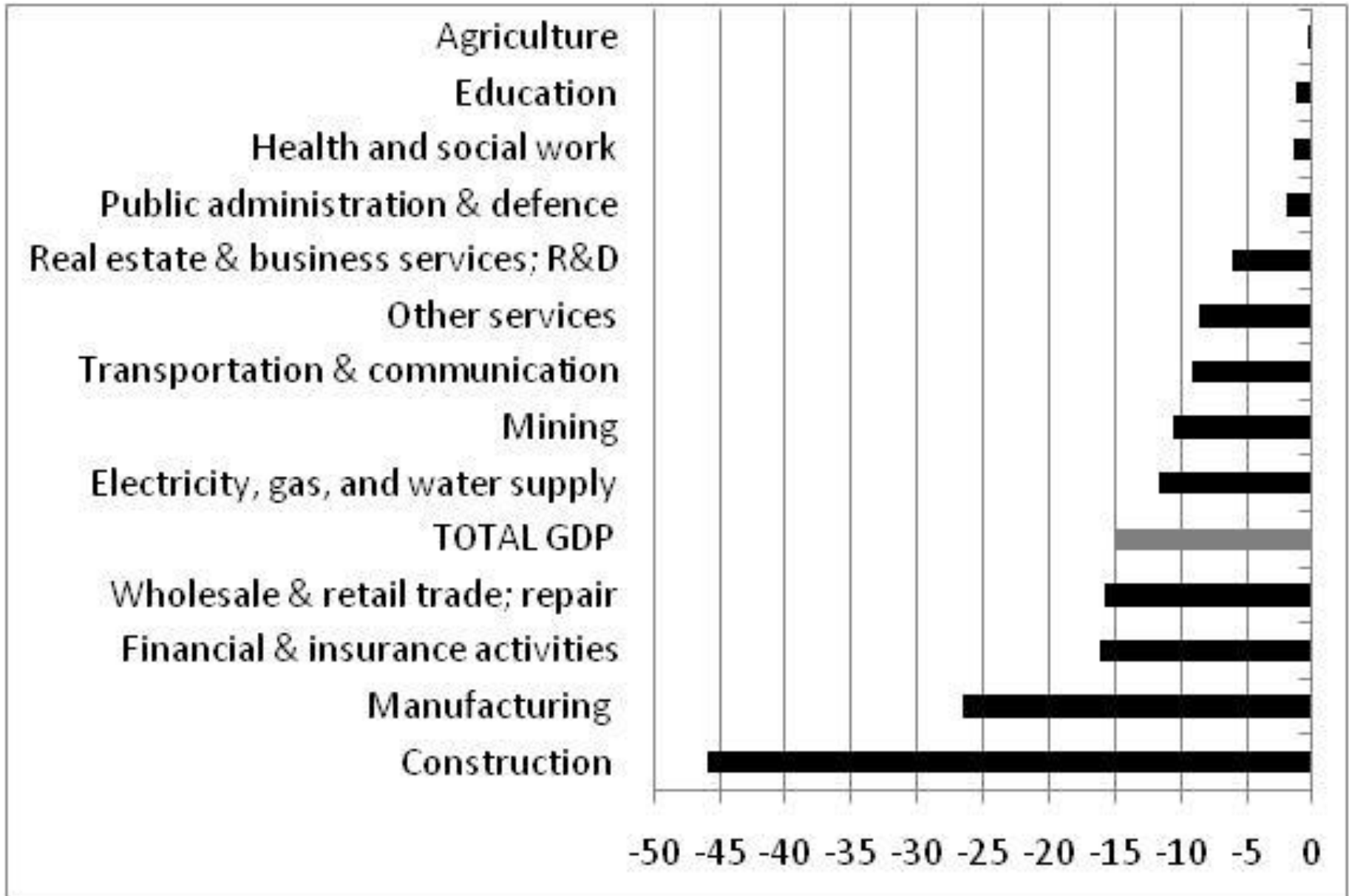
Ukraine exports: top 25 goods, % change and share of total, 2009



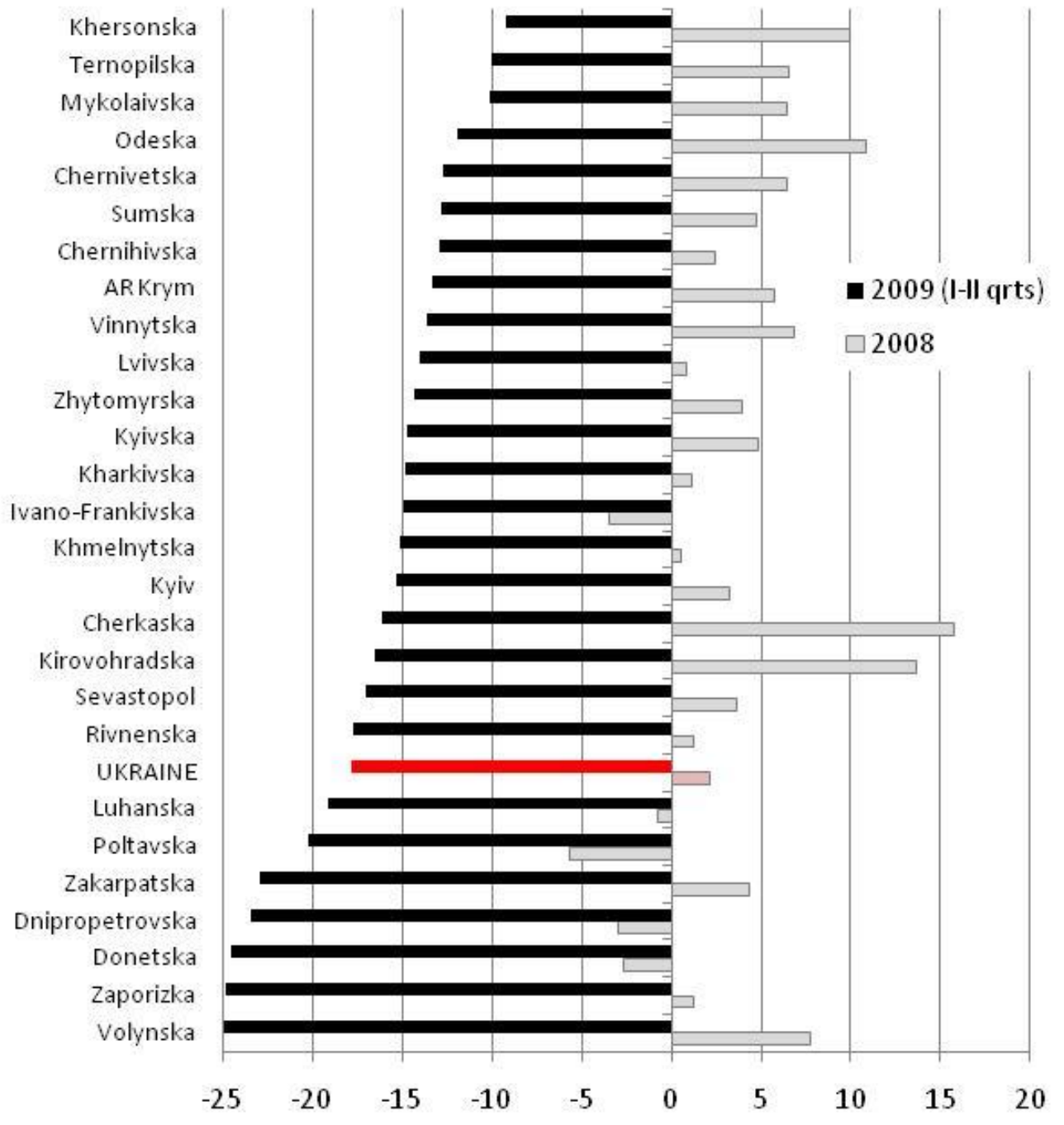
GDP in PP\$ (current prices) and UAH (constant prices), 1992-2010



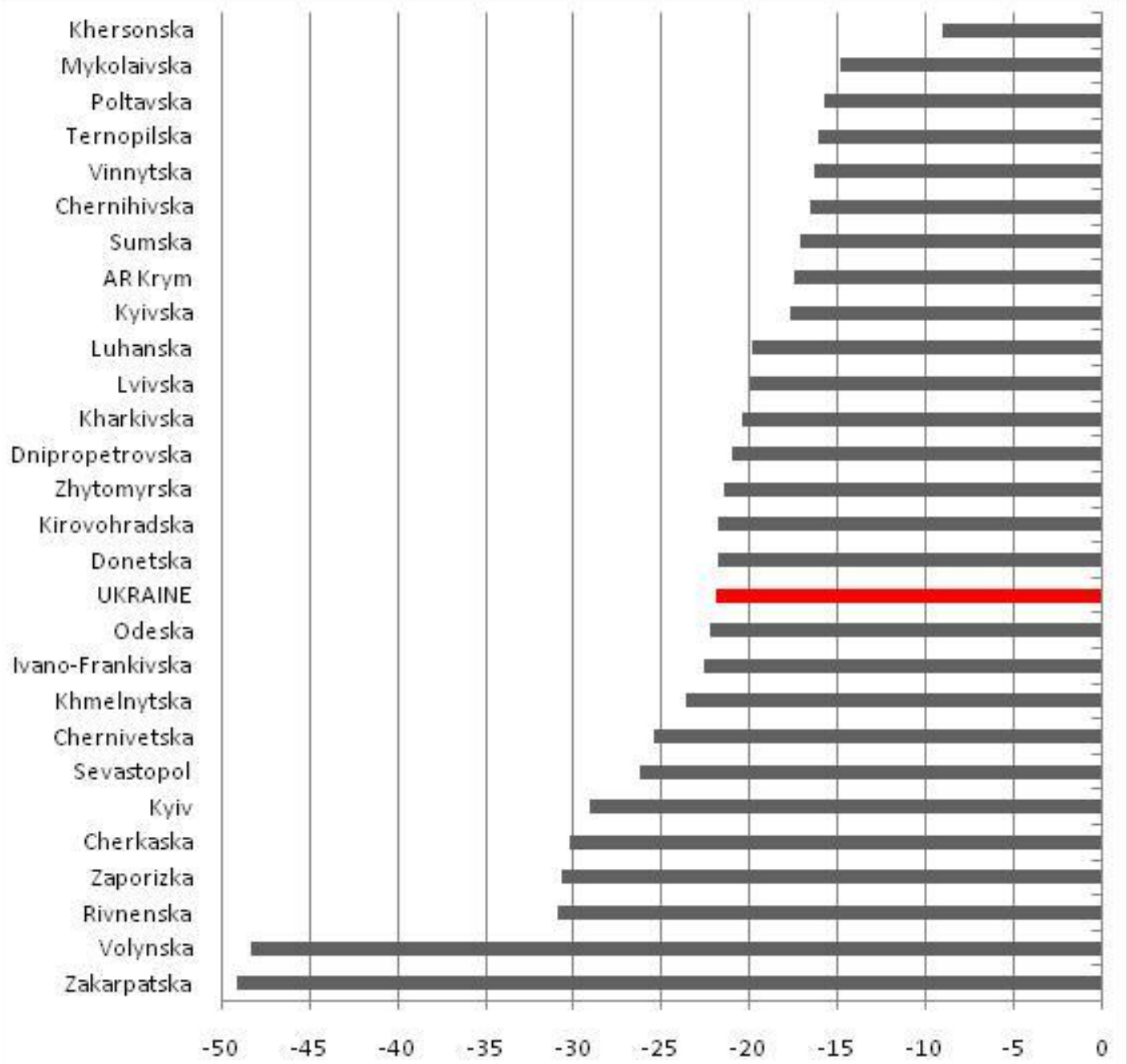
Ukraine GDP change by sector, 2009



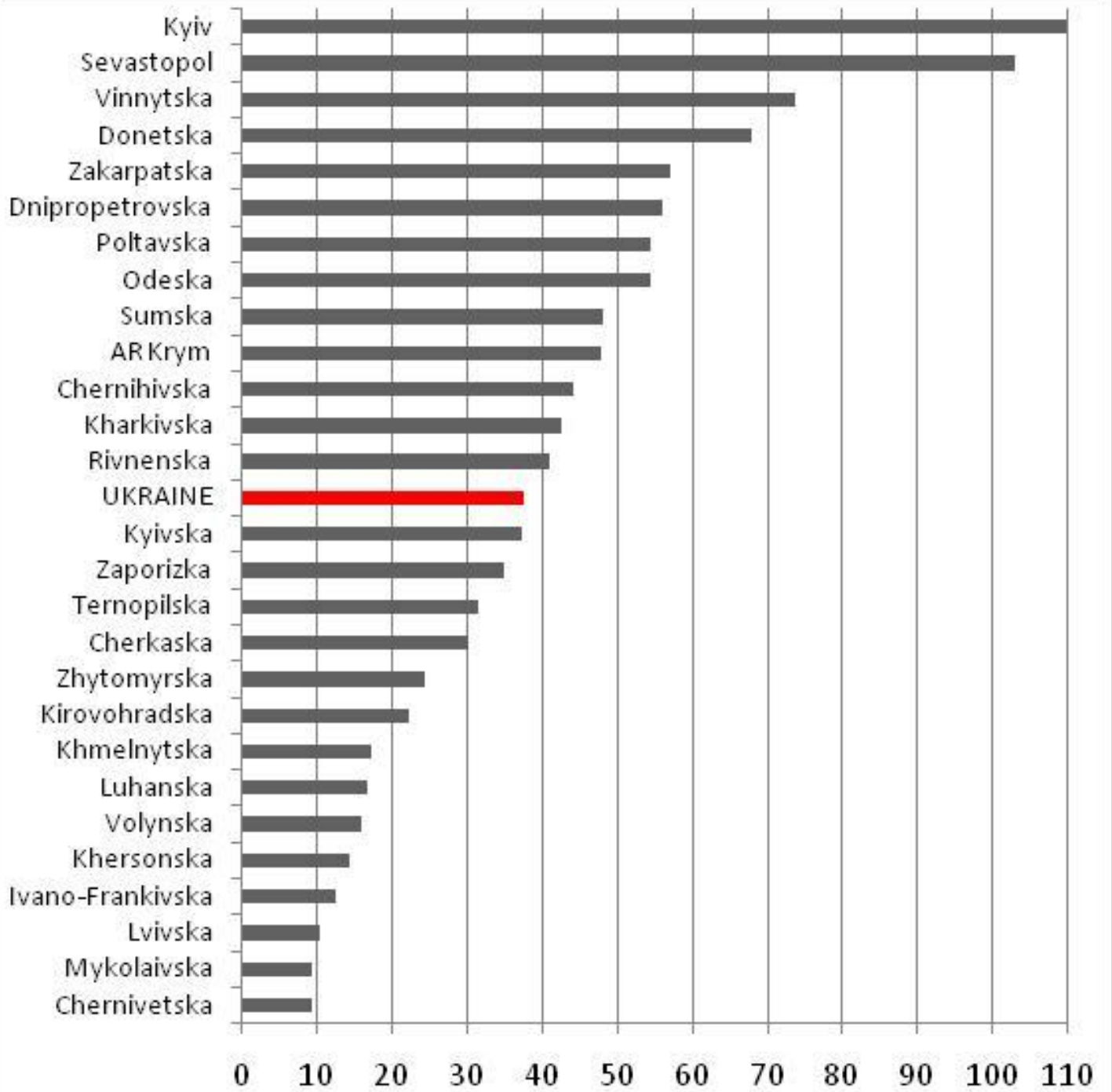
Regional GDP change, %, 2008-2009 (Jan-Jun)



Industrial output, % change, 2009



change in ILO
unemployment
rates, %, 2007-
2009



Collapse of the Orange finance-led growth ...

- Surging-ahead, catching-up, and losing ground regions most hardly hit – levelling down ('negative' convergence) pressures confirmed
- Agriculture-orientated regions (formerly falling behind) are relative winners of the crisis
- IMF-forced monetarism: US\$ 16.4bn bail-out (Stand-by agreement, 5 Nov 2008):
 - Introduce a flexible exchange rate regime, recapitalisation of viable banks, increase deposit insurance coverage to UAH 150,000, budget deficit not to exceed 1% in 2008 and 0% in 2009 (excluding bank recapitalisation costs)
- High interest rates: central bank 10.25% p.a., integral credit rate 15.1% (13 May 2010), current inflation 9.7% annualised

... and the end of the Orangeist political rule: challenges ahead

- Savage cuts: public budget expenditure deficit (% of GDP): c. 11.5% in 2009; 5.4% approved for 2010 (halving deficit in 12 months)
- 17.8% of net public spending in 2010 to be funded by borrowing (UAH 100.3bn = US\$ 12.6bn)
- Political stability and governance issues:
 - Defeat by the anti-Orange Party of Regions' leader Viktor Yanukovich (49% votes) of Yuliya Tymoshenko (45.5%) on 7/Feb/2010
 - New governing coalition for 'Stability and reforms' (Party of Regions, Communists, Lytvyn Bloc (Agrarian Popular Party), and Orange defectors: currently 246 MPs/450 (majority of 20)
 - 2010? local elections... 2012 parliamentary elections... 2015 presidential...
- Rebuilding the economy: from Orangeism to macroeconomic stabilisation/monetarism to a post-Soviet capital orientated, primary + secondary sectors based, export-led development model (aerospace, nuclear, gas transit, 'grain cartel', etc)