

IMF “Shock Treatment” for Ukraine: Collapse of the Standard of Living

By [Prof Michel Chossudovsky](#)

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On March 27, Ukraine’s interim coalition government announced concrete policy measures as part of its agreement with the IMF: a 50 percent increase of the retail price of gas coupled with the deregulation of the foreign exchange market.

The hike in gas prices is required by the IMF as part of an 18 Billion dollar pledge, which was approved on March 27. The IMF has demanded that retail gas and heating tariffs be raised “to full cost recovery.”

*It is worth recalling that following the instatement of a coalition government on February 23, the interim (puppet) prime minister Arseny Yatsenyuk **casually dismissed the need to negotiate with the IMF.***

Yatsenyuk intimated that Ukraine will “**accept whatever offer the IMF and the EU made**” ([voice of russia.com](#) March 21, 2014)

Prior to the conduct of negotiations pertaining to a draft agreement, Yatsenyuk had already called for an unconditional acceptance of the IMF package: “We have no other choice but to accept the IMF offer”.

In surrendering to the IMF, Yatsenyuk was fully aware that the proposed reforms would brutally impoverish millions of people, including those who protested in Maidan.

In an address to Parliament on March 27, following the confirmation of the IMF’s pledged \$18 billion loan, prime minister Arseniy Yatsenyuk warned that Ukraine was “on the brink of the economic and financial bankruptcy”.

The proposed “solution” includes a significant increase in income taxes, a freeze on wages, curtailment of old age pensions and higher energy prices. “We have no choice but to tell Ukraine the truth,” said Yatsenyuk.

State energy company Naftogaz announced this week that household gas prices would rise 50 percent beginning May 1 in what it said was part of efforts to make utility costs economically viable for the state by 2018. Some analysts have estimated prices might have to double for consumers.

The first increase in the price of gas is scheduled to take place in early May, a few weeks prior to the May 25 elections.

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The May 2014 increase in the retail price of gas is part of a phasing out of government subsidies over a period of 4 years demanded by the IMF as part of the loan agreement.

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The increase in fuel and transportation prices will inflate costs of production. Combined with the impact of the devaluation of the hryvnia, it will have an immediate impact on the retail prices of essential commodities. Moreover, the phasing out of subsidies on basic food staples is also contemplated as part of the IMF framework.

If adopted, the IMF package will trigger a significant overall increase in the prices of essential consumer goods, thereby **contributing to the impoverishment of a population which has already been impoverished.**

Under the Yanukoych government, Ukraine purchased more than half its natural gas from Russia's Gazprom at 30 percent below its market value as part of a bilateral agreement with the Russian Federation. In addition to IMF guidelines, the repeal of this agreement will have an immediate impact on the retail price of gas. And in all likelihood, the real price of fuel and transportation will increase by more than the 50 percent target demanded under the IMF agreement.

Deregulation of the Forex Market: Collapse of the hryvnia

The IMF package is also conditional upon the deregulation of the foreign exchange market and the lifting of government controls on forex transactions and capital movements. The IMF has demanded that the Central Bank put an end to its "support" of Ukraine's national currency the Hryvnia.

Under present conditions, a deregulated forex market based on "enhanced exchange rate flexibility" will open the door to a highly profitable speculative trade in the currency markets, which will contribute to exacerbating the country's indebtedness, while pushing the hryvnia to the floor.

Given the virtual absence of central bank reserves, this decline of the hryvnia could even occur prior to the implementation of the IMF program.

Devastating Social Impact

The adoption of an IMF loan agreement is required as a precondition for the release of bilateral financial support from the EU and US. The

EU has confirmed financial support of the order of 1.6 billion euro.

In apparent liaison with the IMF, the US Congress has approved a bill to aid Ukraine. The Congressional decision was also announced on March 27.

A \$1 billion in loan guarantees is granted "to help stabilize Ukraine's economy" [aka impoverish]. The bill would also authorize "assistance for democracy, governance and civil society programs" [aka support to ultra right wing groups] and "enhanced security cooperation". The latter would imply channeling financial support to the **National Security and National Defense Committee (RNBOU)** which is headed by **Andriy Parubi**, co-founder of the Neo-Nazi Social-National Party of Ukraine (subsequently renamed Svoboda). The National Guard, which constitutes a civilian militia is under the helm of Dmitry Yarosh, leader of the Right Sector, which is also supported by Washington.

In a bitter irony, without acknowledging the central role of Neo-Nazi appointees in the coalition government, the US Congressional initiative calls for measures directed against:

“those who are responsible for human rights abuses against anti-government protesters [former government of Yanukovich] and those **responsible for undermining the peace and sovereignty of the Ukraine.** (Fox New, March 27, 2014, emphasis added)

Debt Repayment

It should be understood that the IMF money will not enter the country. It is earmarked for the reimbursement of Ukraine’s short term debt. It’s fictitious money.

The combined impact of currency devaluation and the removal of fuel subsidies will trigger inflation. The austerity measures will enforce a freeze in nominal wages, leading to a collapse in real earnings.



The IMF pledge was announced on March 27. the 27 of March, coinciding with a neo-Nazi Right Sector assault of the Parliament building, demanding the resignation of the Minister of the Interior.

The protesters threaten to break into the parliament if their demands are not met, journalists report from the scene. The Rada’s security has concentrated in front of the entrance to the building and prepared water cannons, urging the journalists inside not to approach the windows looking onto the Constitution Square.(RT, March 27, 2014)

On March 28, the Ukrainian parliament adopted legislation which was “proposed by the IMF to secure an international financial aid package”.

It took two readings of the bill for 246 MPs out of 321 registered to approve the austerity measures outlined in the legislation dubbed “On prevention of financial catastrophe and creation of prerequisites for economic growth.”

Ahead of the vote, Ukrainian self-imposed Prime Minister Arseny Yatsenyuk [told](#) the Parliament that it had “no other choice but to accept the IMF offer,” as country fiscal gap in 2014 is projected to reach \$26 billion. Ukraine’s Finance Ministry says it needs \$35 billion over the next two years to avoid default.

“The country is on the edge of economic and financial bankruptcy,” Yatsenyuk said. “This package of laws is very unpopular, very difficult, very tough. Reforms that should have been done in the past 20 years.” ([RT](#), March 28,

2014)

Contrary to Yatsenyuk's statement, there is continuity with a track record of IMF-World Bank reforms imposed on Ukraine since the collapse of the USSR.

The Ukrainian people should understand that this agreement reached with the IMF will have devastating social implications. This government integrated by Neo-Nazis has betrayed the people of Ukraine.

It is not acting on behalf of the people of Ukraine, it is obeying orders emanating from Washington and Brussels. The IMF economic package is an act of economic warfare. Its acceptance by the self proclaimed government is an act of treason.

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