Inflation and Exchange Rate Developments

- Although Ukraine has enormous economic potential, recent economic conditions have been very difficult. Between 1991 and 1993, prices increased by more than 7 000 per cent. The rapid acceleration in inflation following the collapse of Soviet central planning and Ukrainian independence resulted from explosive money and credit growth needed to recover the government's massive budget deficits and the financial losses of state enterprises, which account for the largest share of economic activity.

- High inflation has led to plummeting real incomes and living standards, as inflation-adjusted average wages have fallen by over 50 per cent over the last three years. It has also led to the steady erosion in value of the domestic currency — the *karbovnets*. Since its introduction as a separate national currency in November 1992, the market exchange rate of the *karbovnets* has steadily depreciated, falling to its current rate of 100 000 per U.S. dollar from its initial rate of 200 per U.S. dollar.

- The plunging value of the Ukrainian currency has disrupted traditional production and supply links both internally and with other FSU states.

- The implementation of financial policies aimed at stabilizing the economy in late 1993 reduced inflation substantially in the first eight months of 1994, with monthly inflation falling to less than 3 per cent in August, or 40 per cent on an annual basis. Underlying inflation is likely to be far higher, however, since the prices of key consumer goods and productive inputs are controlled by the governement.

Output and Employment

- Economic dislocation associated with the collapsing value of the domestic currency, the dismantling of central planning mechanisms, worsening energy shortages associated with sharp increases in the prices of energy imports from Russia, the compression of other imports, and an FSU-wide fall in aggregate demand has led to a steep fall in measured economic activity.

- Between 1990 and 1993, officially recorded gross domestic product (GDP) contracted by over 40 per cent. In the first six months of 1994, the decline in measured output accelerated at an alarming pace, with real GDP and industrial production falling 34 per cent and 40 per cent, respectively, on a year-over-year basis. For 1994 as a whole, measured GDP is expected to be 23 per cent lower than in 1993.