

Ukraine

International Experience in Resolving Financial Crises

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The Economic Costs of a Banking Crisis are Large

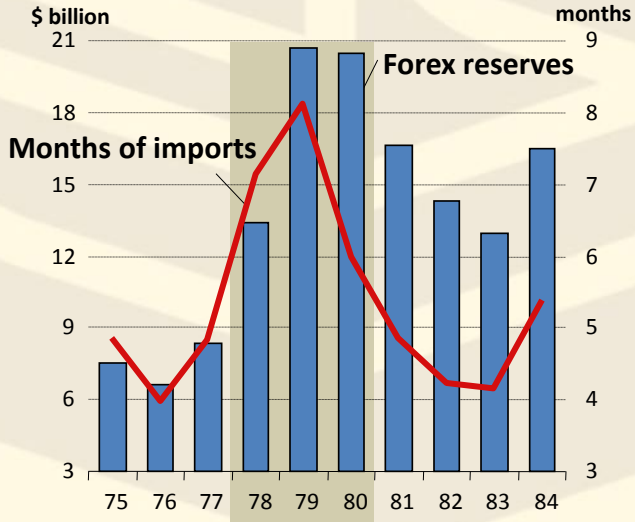
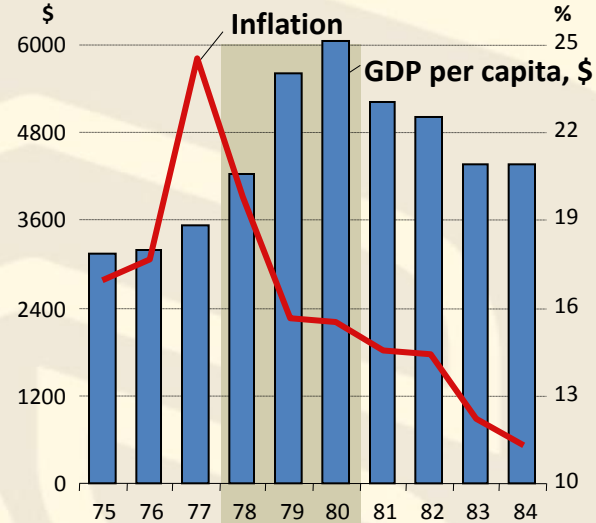
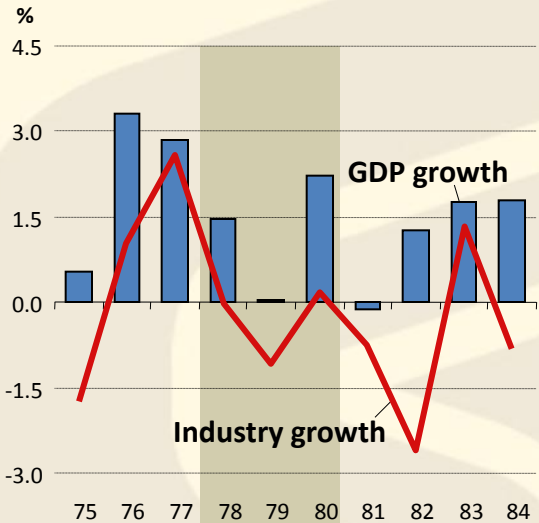
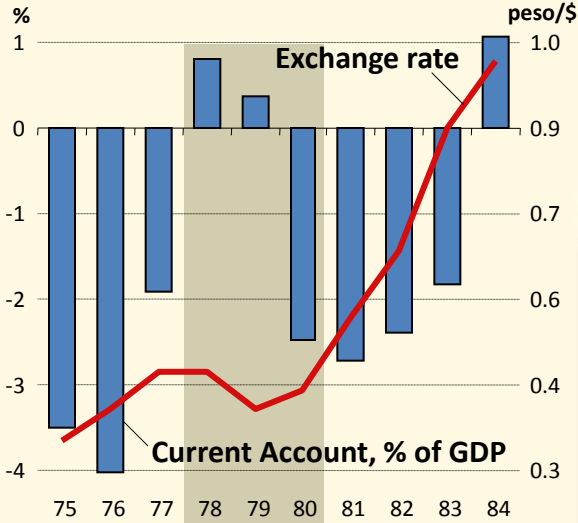
Country	Systemic banking crisis (starting date)	Share of NPLs at peak (%)	Gross fiscal cost (% of GDP)	Output loss (% of GDP)	Minimum real GDP growth rate (%)
Argentina	2001	20.1	9.6	42.7	-10.9
Finland	1991	13	12.8	59.1	-6.2
Indonesia	1997	32.5	56.8	67.9	-13.1
Japan	1997	35	24	17.6	-2
Korea	1997	35	31.2	50.1	-6.9
Malaysia	1997	30	16.4	50	-7.4
Mexico	1994	18.9	19.3	4.2	-6.2
Philippines	1997	20	13.2	0	-0.6
Russia	1998	40	6	0	-5.3
Thailand	1997	33	43.8	97.7	-10.5
Turkey	2000	27.6	32	5.4	-5.7

Source: IMF: *Systemic Banking Crises: A New Database*

- ▶▶ Fiscal costs have been above 13% of GDP; output losses averaged 20% of GDP.
- ▶▶ GDP growth declined after the banking crisis, while unemployment increases.
- ▶▶ GDP per capita (in \$) may not recover to the pre-crisis level even after 3 years.
- ▶▶ After-crisis spikes in consumer prices may deepen economic woes.
- ▶▶ A weaker currency and falling GDP pc (in \$) help to fix external imbalances.

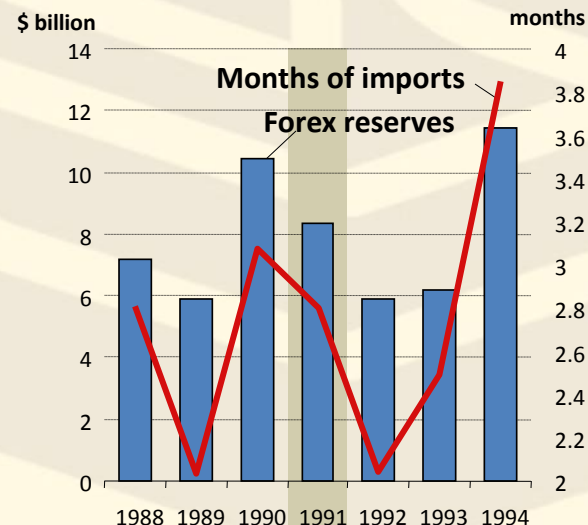
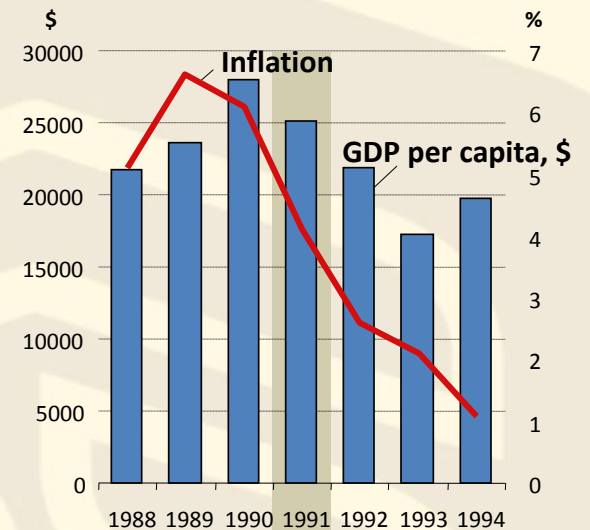
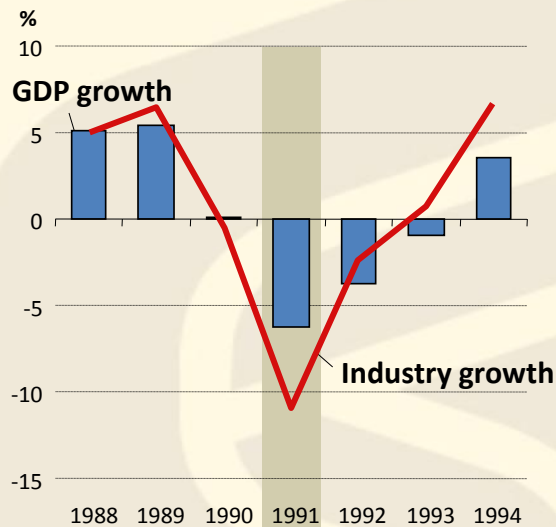
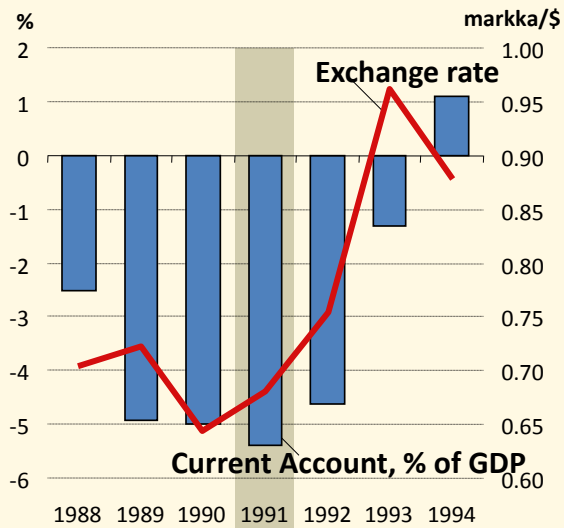
However, the current account can be only brought to a surplus by a sharp currency depreciation.

Spain – 1978-80 Crisis



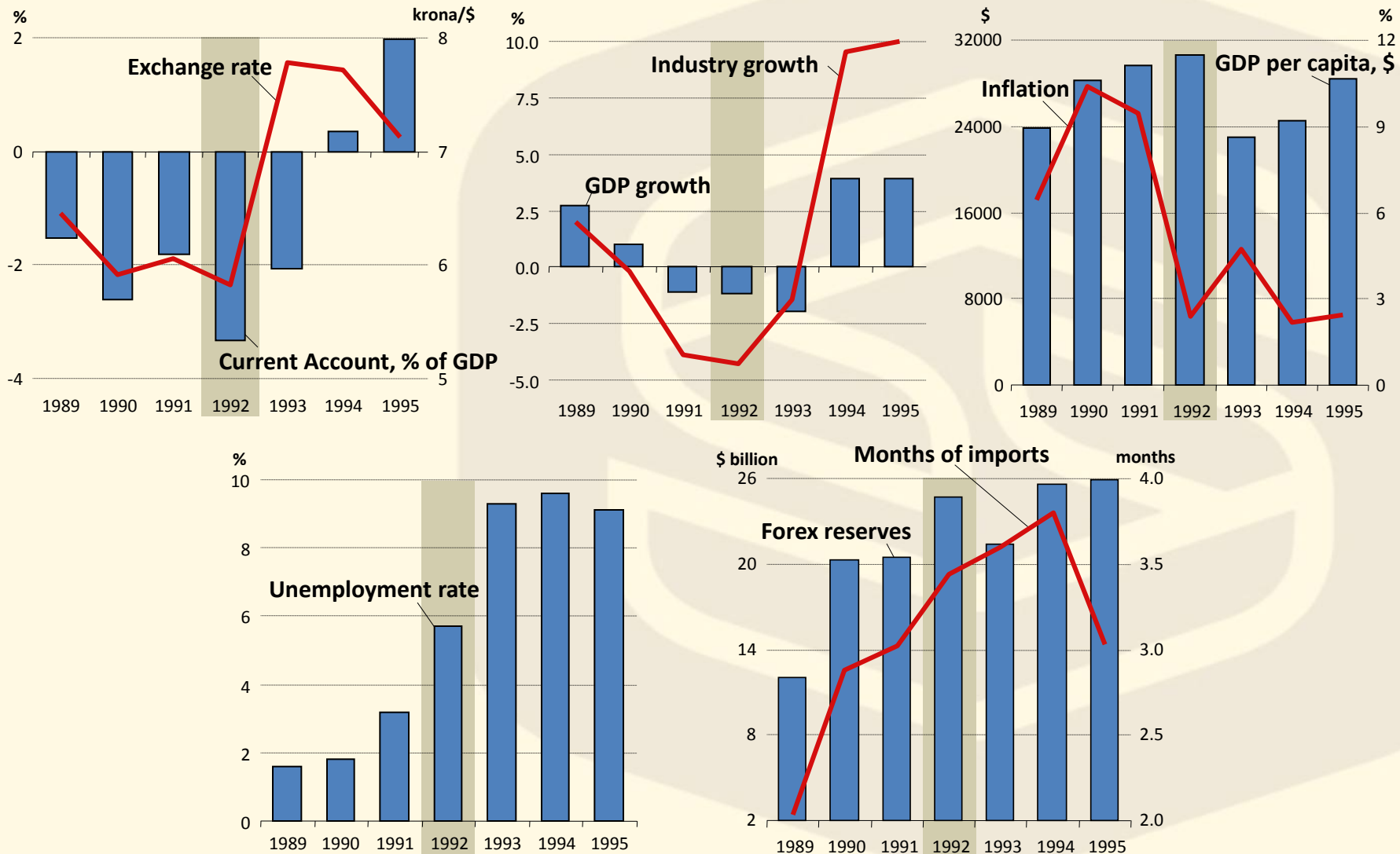
Source: World Bank, World Development Indicators Database

Finland – 1991 Crisis



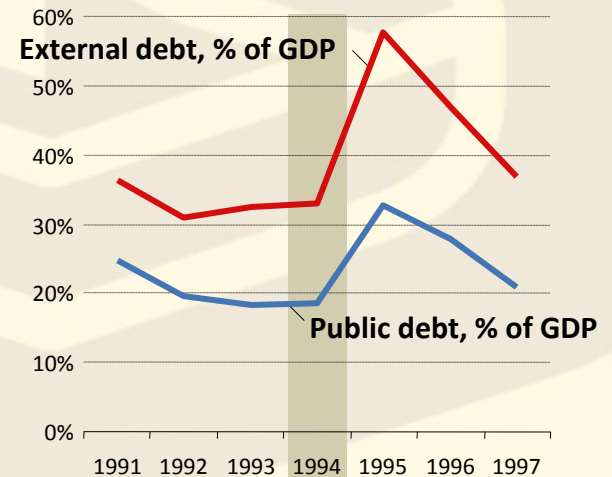
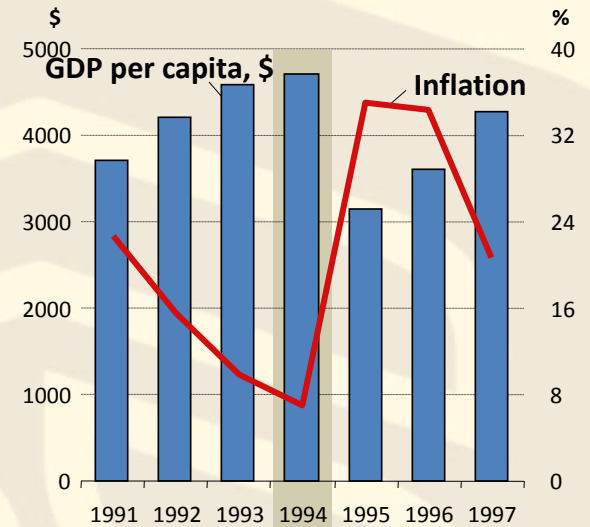
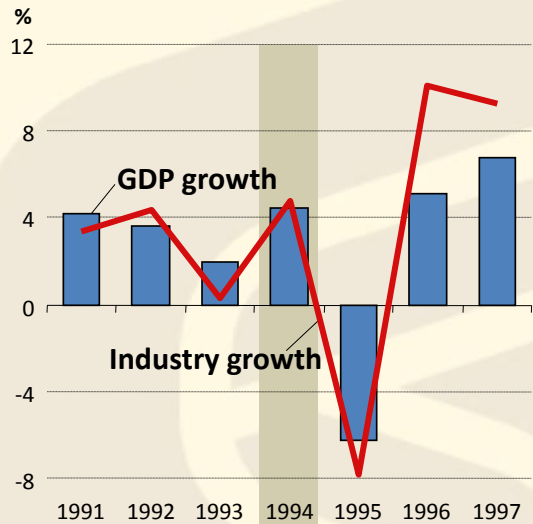
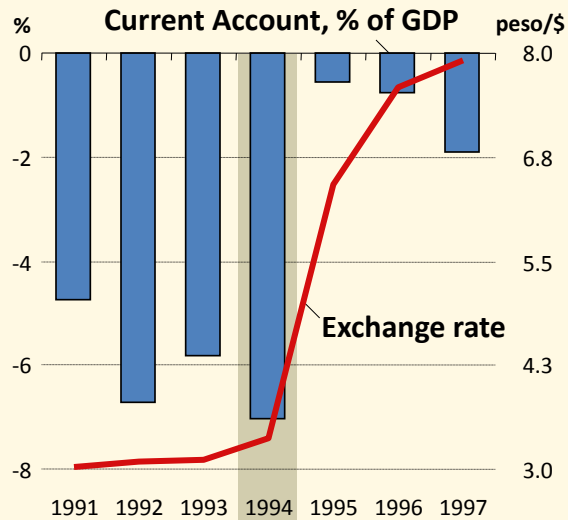
Source: World Bank, World Development Indicators Database

Sweden – 1992 Crisis



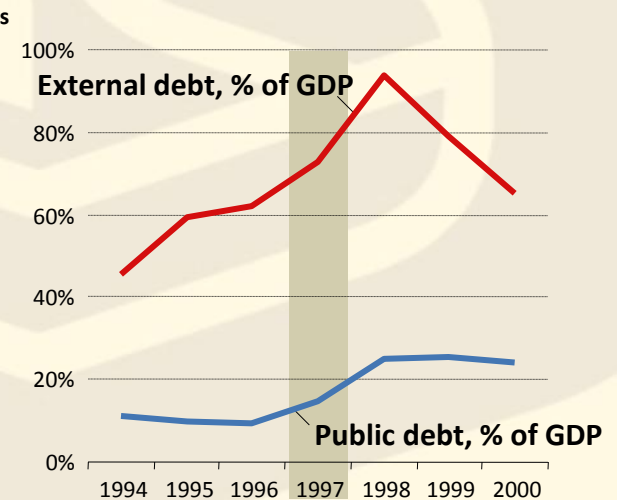
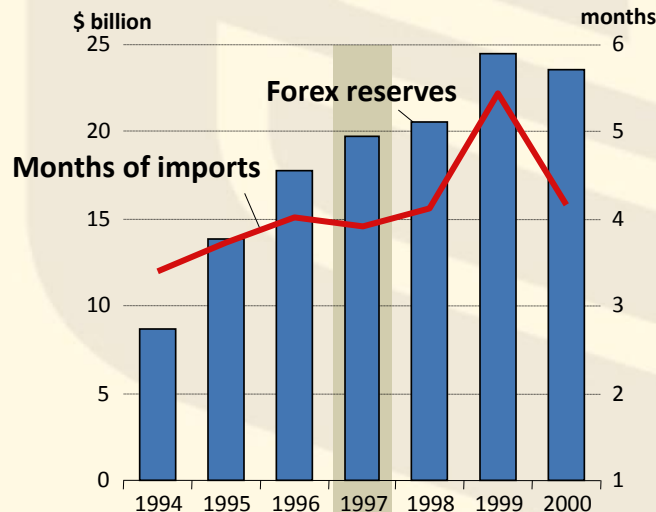
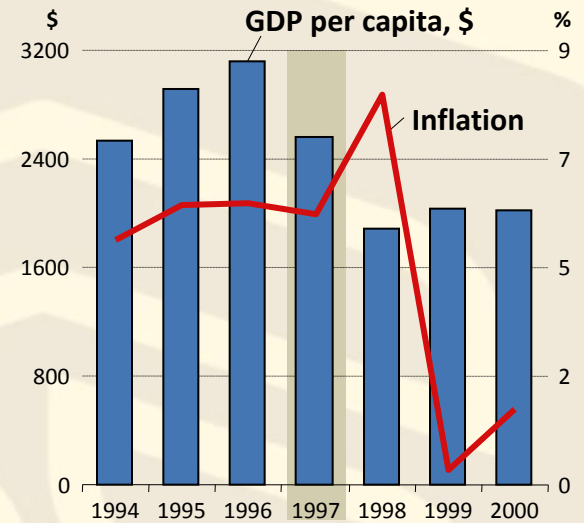
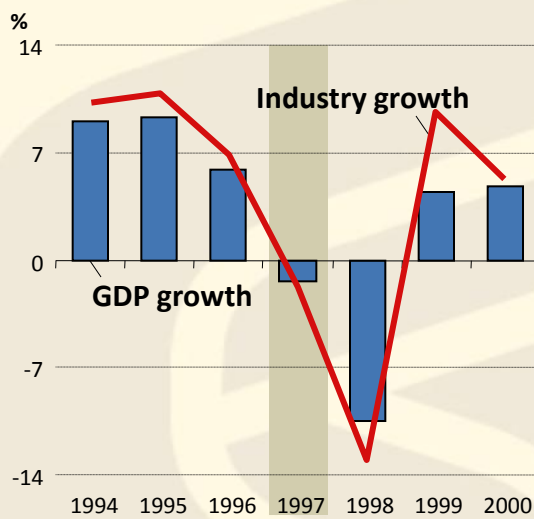
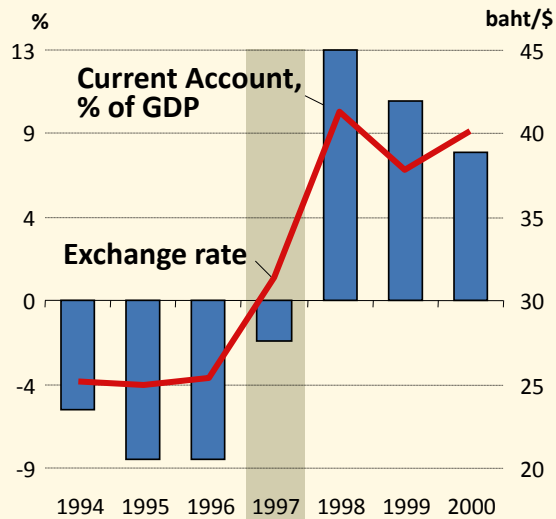
Source: World Bank, World Development Indicators Database

Mexico – 1994 Crisis



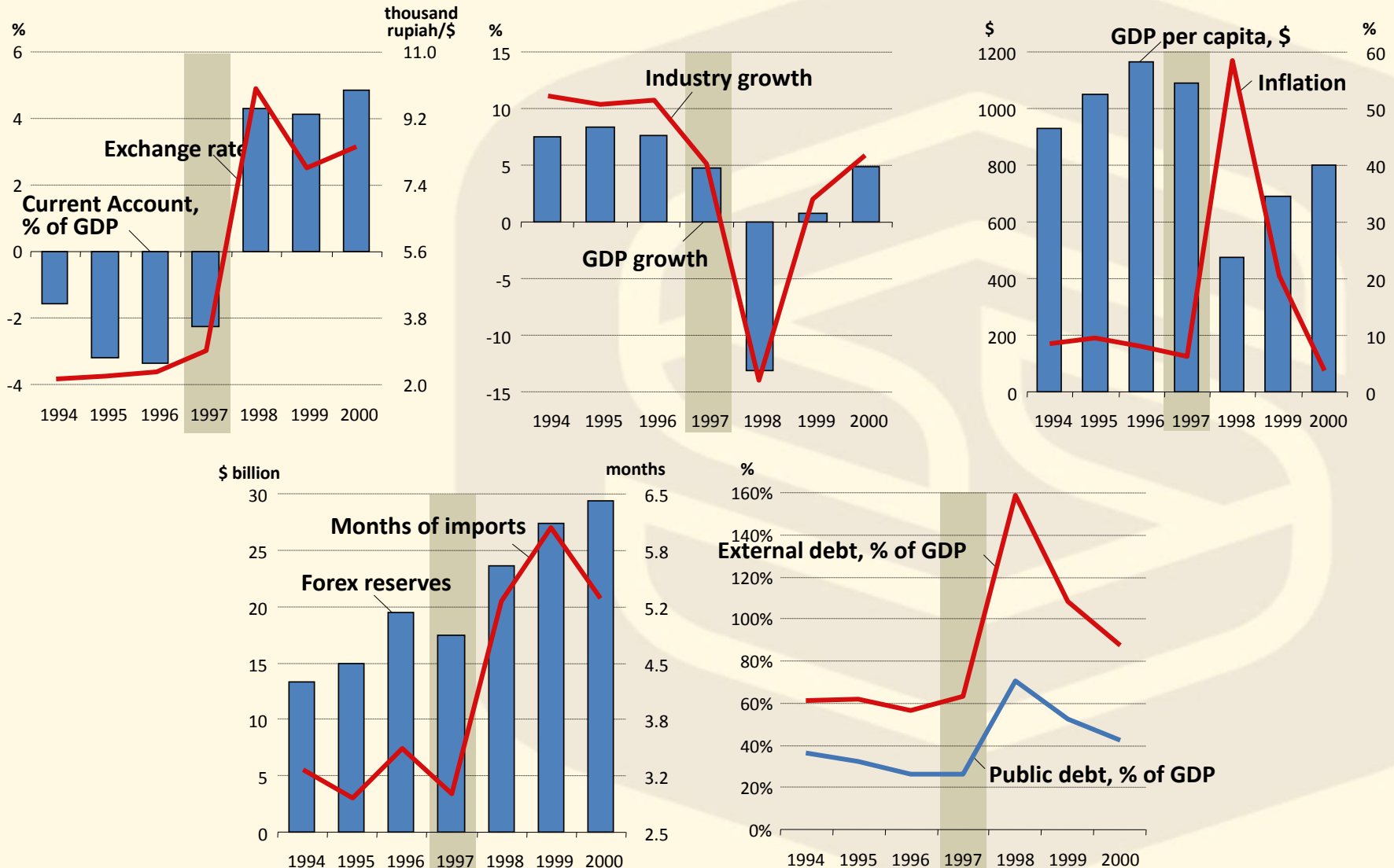
Source: World Bank, World Development Indicators Database

Thailand – 1997 Crisis



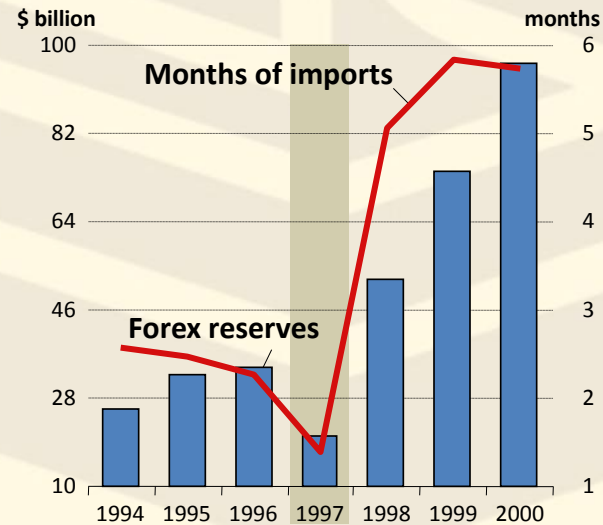
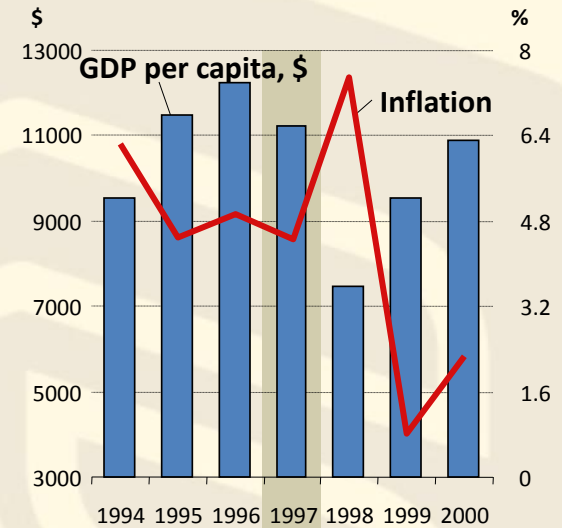
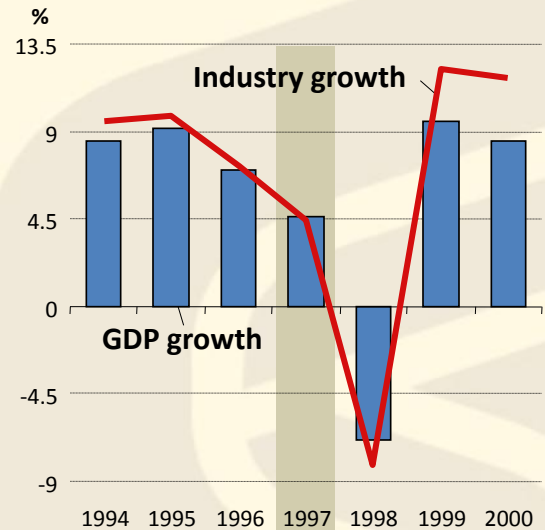
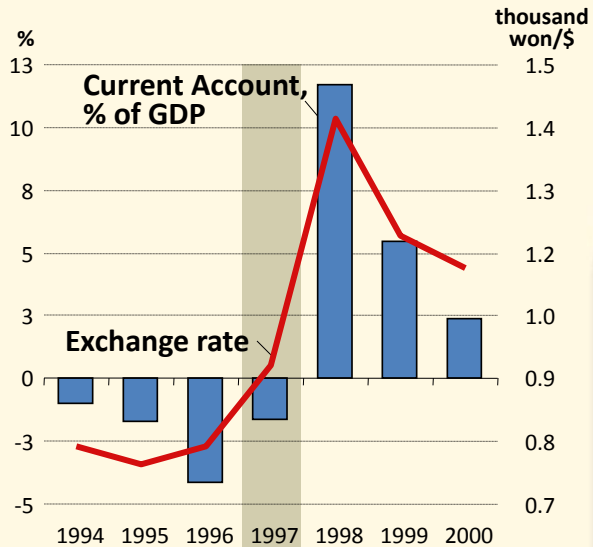
Source: World Bank, World Development Indicators Database

Indonesia – 1997 Crisis



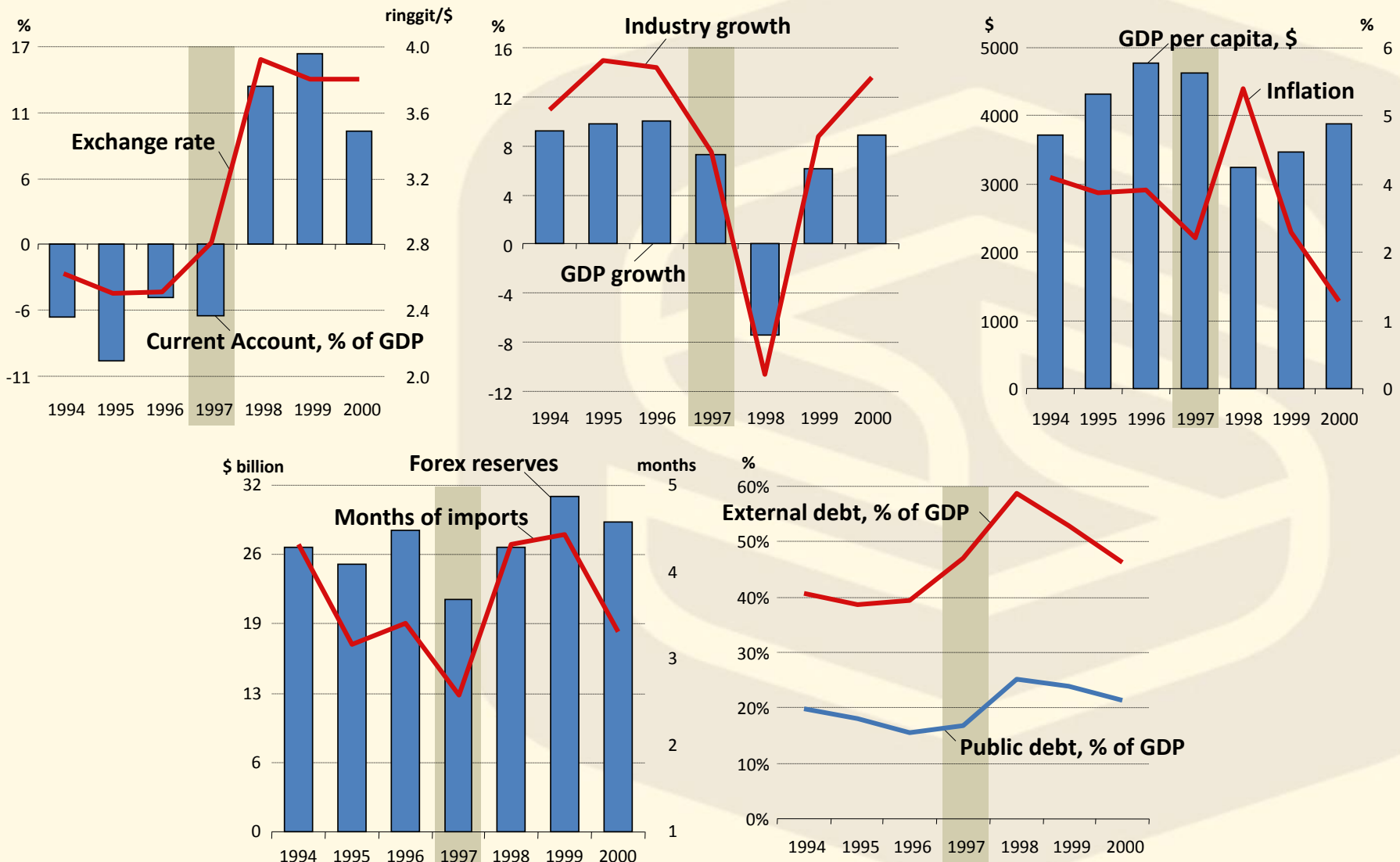
Source: World Bank, World Development Indicators Database

Korea – 1997 Crisis



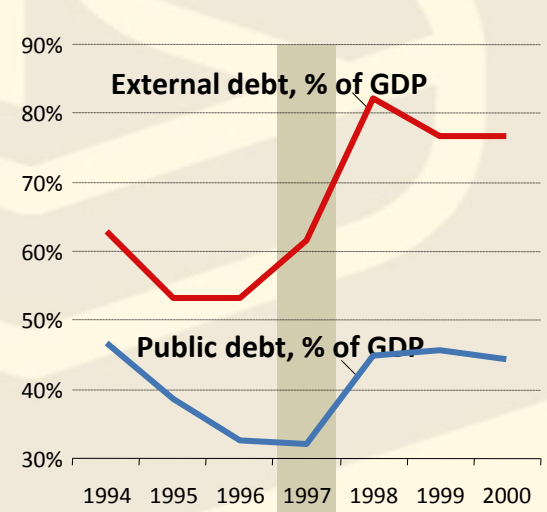
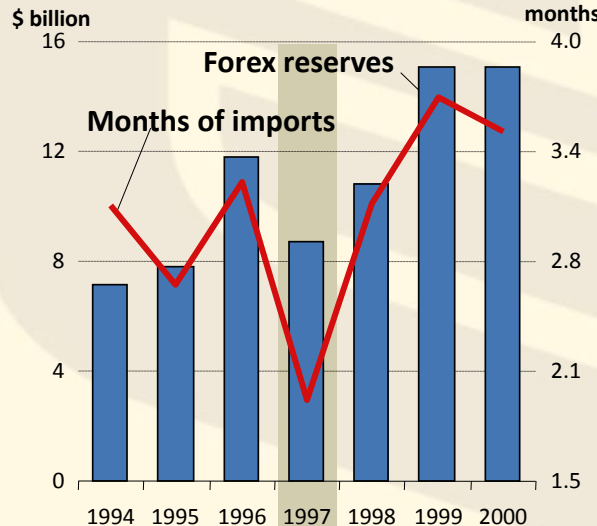
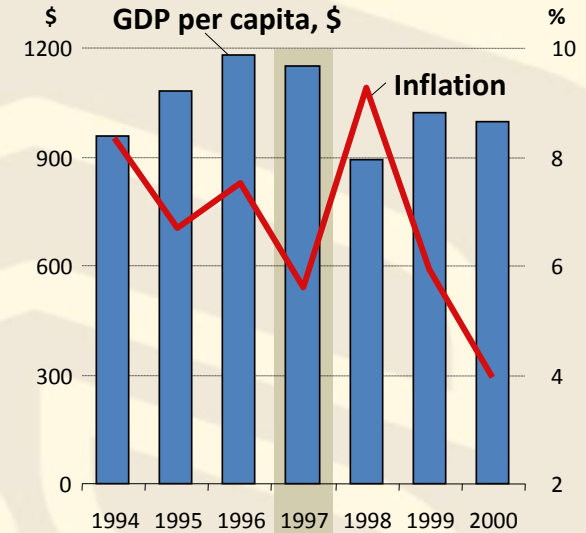
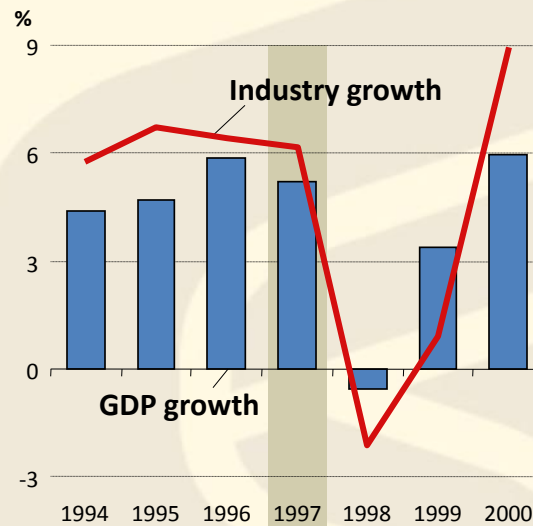
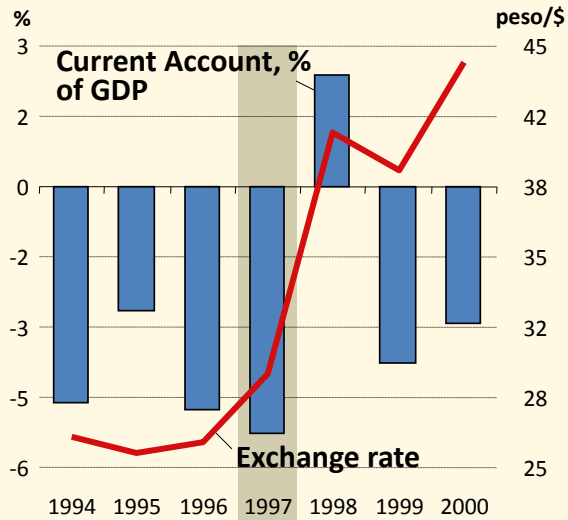
Source: World Bank, World Development Indicators Database

Malaysia – 1997 Crisis



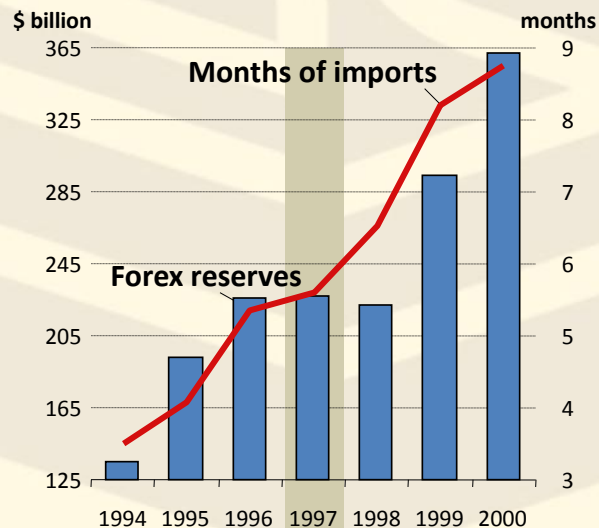
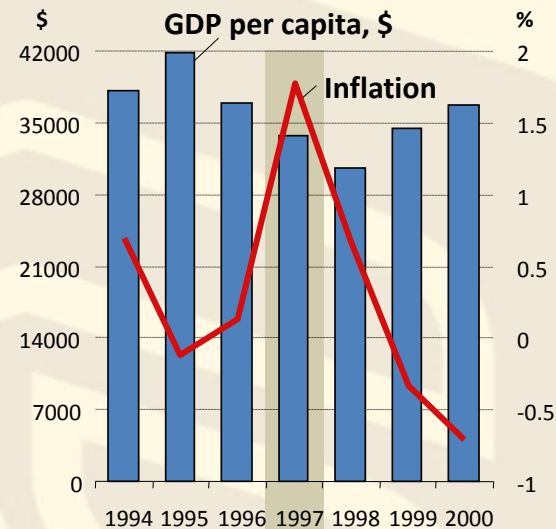
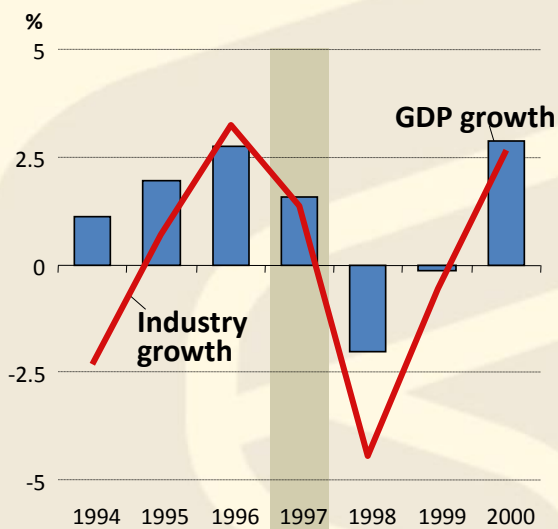
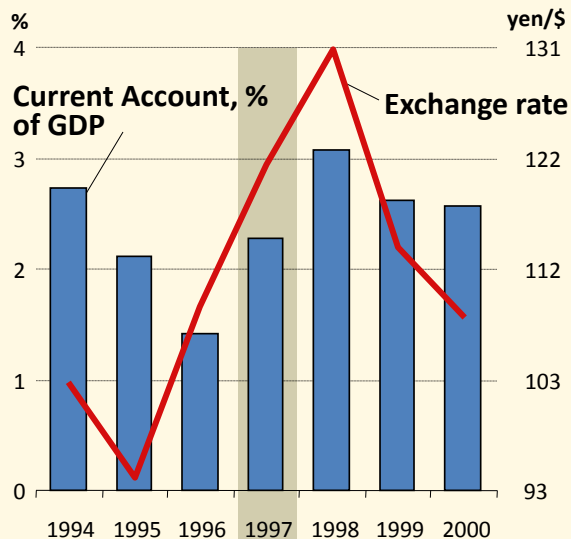
Source: World Bank, World Development Indicators Database

Philippines – 1997 Crisis



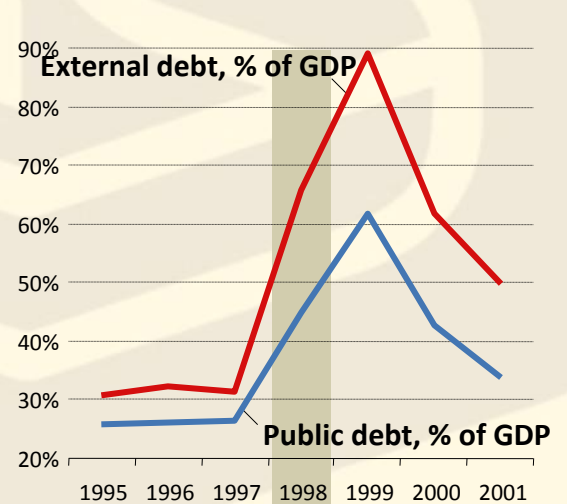
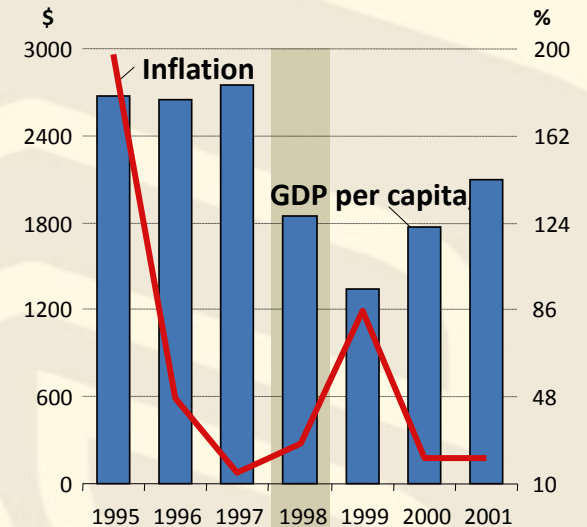
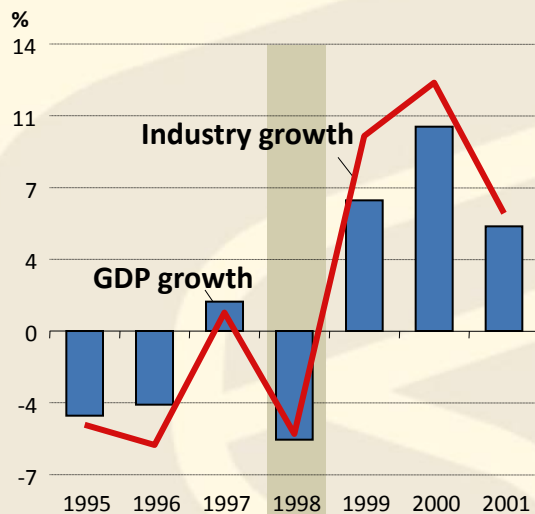
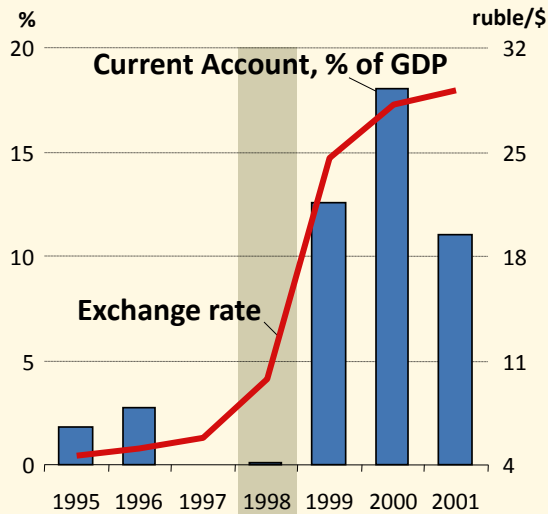
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Japan – 1997-98 Crisis



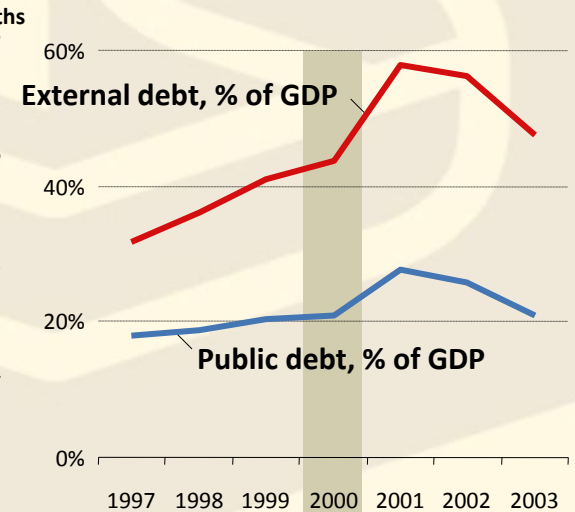
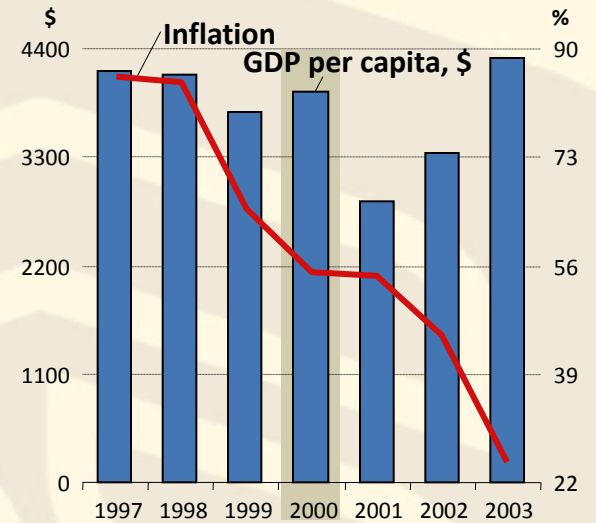
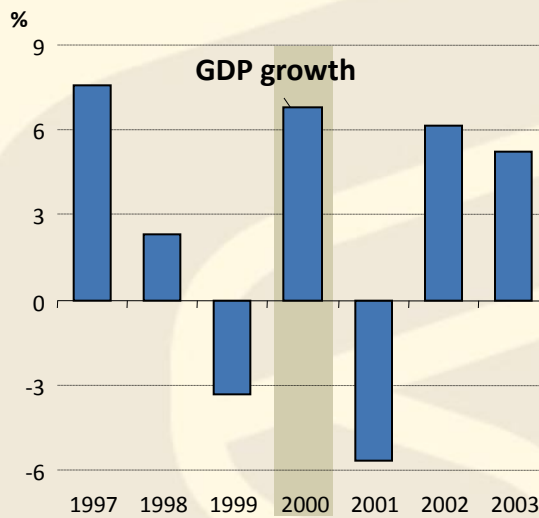
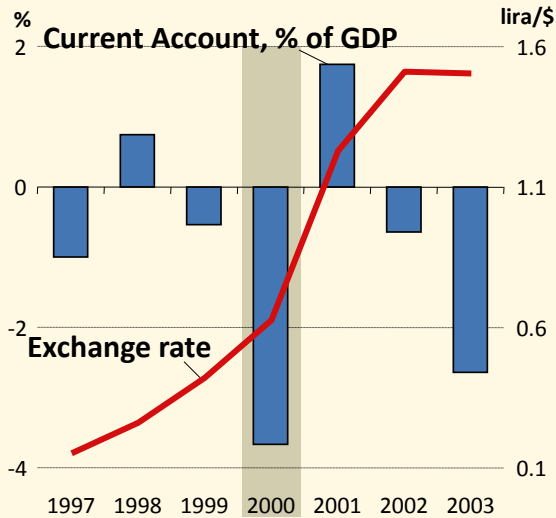
Source: World Bank, World Development Indicators Database

Russia – 1998 Crisis



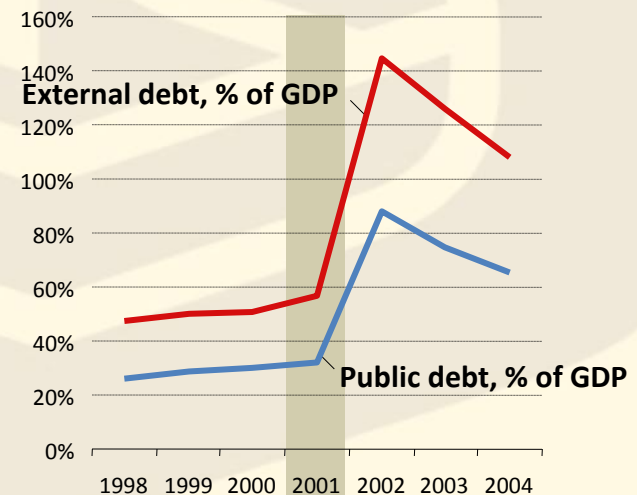
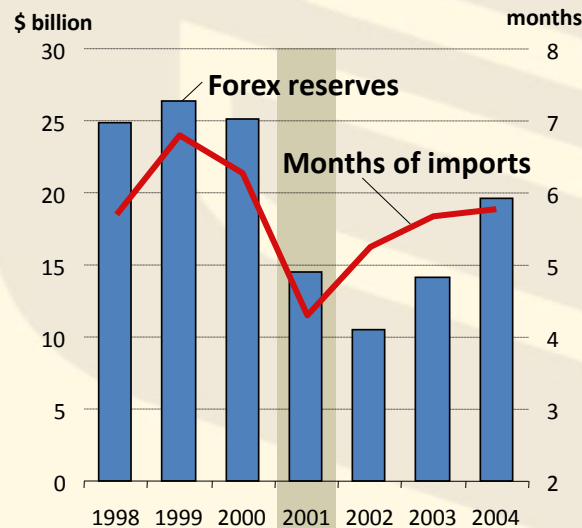
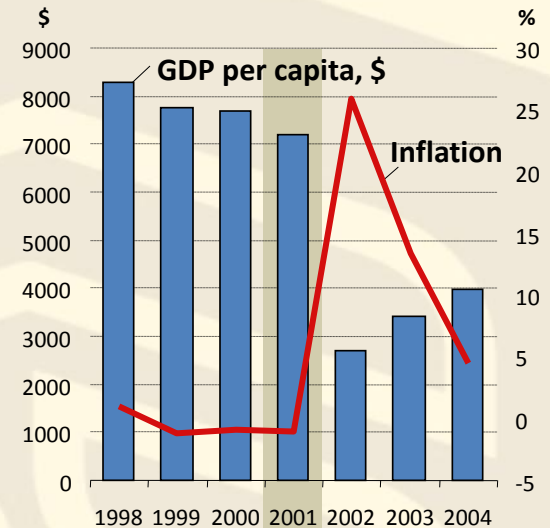
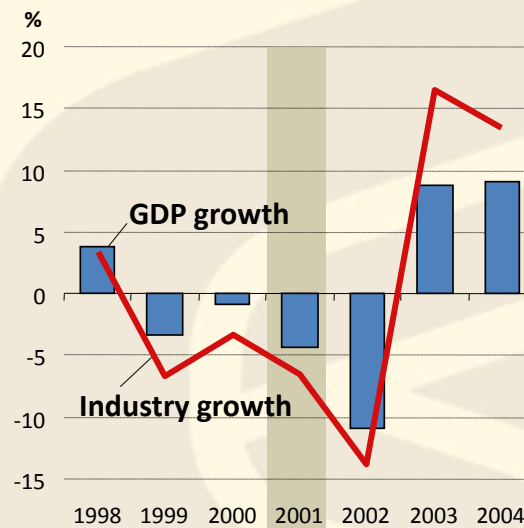
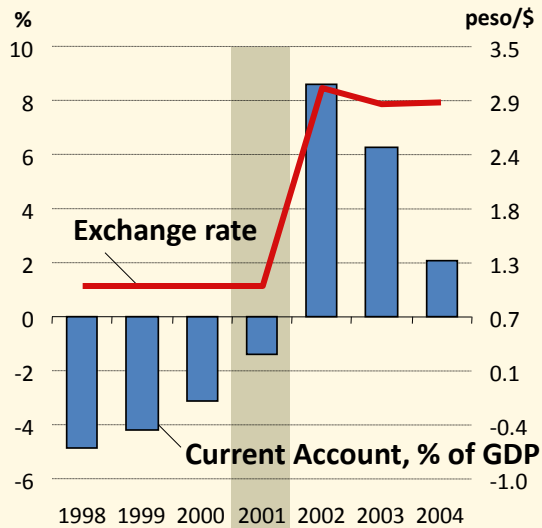
Source: World Bank, World Development Indicators Database

Turkey – 2000 Crisis



Source: World Bank, World Development Indicators Database

Argentina – 2001 Crisis



Source: World Bank, World Development Indicators Database

Causes of a Systemic Bank Crisis

(1) Speculative Causes (Liquidity Crisis)

- a. Widespread speculation with contagion effects (few cases)
- b. Contagion due to heavy inter-bank lending.
- c. Aggregate liquidity shocks throughout the economy.
- d. Imperfect information about health of banks.

(2) Fundamental Causes (Solvency Crisis)

- a. A **credit boom** leading to excessive external and domestic debt, CA deficits, then followed by a reversal of capital flows and **insolvency** due to inability to service debt and high level of non-performing loans.
- b. A country-wide economic recession leading to high level of NPL.
- c. Poor macro policies leading to **internal and external instability**.
- d. **International effects** related to current account deficits, unstable international capital flows and foreign exchange rate crisis.

(3) Mismanagement Causes (Solvency Crisis)

- a. Widespread fraud and looting.
- b. Bad lending (to un-creditworthy borrowers) due to poor banking regulations in the face of inappropriate financial liberalization.

Policy Response to Banking Crises

The response depends on the origin of the runs on banks:

(1) Speculative-type crises should be dealt with:

- a. Liquidity support provided by the Central Bank
- b. Introduce deposit insurance - but only for small depositors
- c. Better disclosure of information and transparency

(2) Fundamental-type Crises should be dealt with:

- a. For EMs, significant Financial Assistance from Abroad**
- b. Macroeconomic Program to restore Economic Stability/Growth.**
- c. Government Intervention in Troubled Banks, including a restructuring Programs for Affected Borrowers.**

(3) Mismanagement-type Crises (fraud/looting and poor financial banking regulation) should be dealt with:

- a. Improved Legal Structure and Corruption Prevention
- b. Improvement of banking regulations and supervision
- c. Intervention in Troubled Banks.

Three Pillars of Crisis Resolution

1. Secure Substantial Financial Assistance.

- ▶ Foreign assistance is vital to insure foreign creditors that the country has the resources to serve all of its external short term debts.

IMF and bilateral financing (\$ billion, % of GDP)			
	IMF plus bilateral commitment	IMF commitment	Bilateral commitment
Mexico (1995)	38.9 (9.6%)	18.9 (4.6%)	20 (5%)
Thailand (1997)	14 (7.7%)	4 (2.2%)	10 (5.5%)
Indonesia (1997)	26.3 (11.6%)	11.3 (5%)	15 (6.6%)
Korea (1997)	40.9 (7.7%)	20.9 (4%)	20 (3.8%)
Russia (1998)	15.1 (3.5%)	15.1 (3.5%)	
Brazil (1998-99)	32.9 (4.1%)	18.4 (2.3%)	14.5 (1.8%)
Turkey (1999-2002)	33.8 (17%)	33.8 (17%)	
Argentina (2000-2001)	23.1 (8.1%)	22.1 (7.8%)	1 (0.4%)

Source: Roubini R., and B. Setser, "Bailouts or Bail-ins? Responding to Financial Crises in Emerging Economies"

Three Pillars of Crisis Resolution...

2. Promptly Implement a credible Macroeconomic Program to gain back the confidence of local and international investors:

- ▶ This program should eliminate the current account deficit through a “real” currency devaluation and control credit growth, which will boost exports and reduce imports.
- ▶ Since the stabilization measures will reduce GDP growth, the Government Program should also include measures to improve the business climate to restart economic growth and improve international competitiveness.

3. Implement a Program of Interventions in Troubled Banks:

- ▶ The international experience with bank resolution programs, and lessons from them is discussed in the next slides.
- ▶ A point to highlight here is that the resolution of bank troubles will require the implementation of a good program to deal with affected bank borrowers, both corporate and households.

Bank Resolution – The Case of Spain 1978-1983

- ▶▶ The Deposit Guarantee Fund (DGF) was created to administer deposit insurance and deal with troubled banks. It was equally funded by the banks and the Bank of Spain.
- ▶▶ The banking sector restructuring involved:
 - ▶ The Bank of Spain performed in-depth assessments of the banks.
 - ▶ Viable banks were asked to increase capital. Liquidity support to these banks was conditional on new capital injections by existing shareholders.
 - ▶ Insolvent banks were taken over by the DGF. Banks' debts were written off against the banks capital and new capital was injected. The non-performing loans were purchased by the GDF to clean the banks' balance sheet.
 - ▶ Banks' management was replaced, while legal, regulatory and accounting rules were strengthened.
 - ▶ The restructured banks were sold to private investors.
- ▶▶ The costs of the banks' bail-out program amounted to about 15% of pre-crisis GDP.
- ▶▶ **Success factors:**
 - ▶ Prompt policy response to contain and resolve the crisis.
 - ▶ Central Bank restructuring activities were separated from its monetary policy and supervisory functions.
 - ▶ The “cleaning” of bank balance sheet allowed bank managers to focus on their core banking businesses.

Bank Resolution – The Case of Sweden 1992-1996

- ▶▶ The Program started with a containment phase: (1) blanket guarantees were introduced to protect creditors, (2) A Bank Support Authority was established.
- ▶▶ The banking sector restructuring involved a classification of banks:
 - ▶ Type A banks: capital adequacy ratio (CAR) around 8% -- recapitalization by shareholders with possible capital guarantee from the BSA if CAR is not met;
 - ▶ Type B banks: CAR < 8% but the bank is expected to return to profitability -- capital injections by the government;
 - ▶ Type C banks: insolvent banks without long-term viability -- liquidation or sale to recover as much as possible of the banks' value.
- ▶▶ Results: 27% of new capital was provided by private owners and 83% by the state.
- ▶▶ Two public Asset Management Companies (AMC) were established to deal with NPLs. All equity capital put by the government into the AMCs was recovered.
- ▶▶ The gross cost of the bail-out was 3.6% of 1997 GDP.
- ▶▶ **Success factors:**
 - ▶ Quick and consolidated policy response to contain and resolve the crisis.
 - ▶ High credibility of crisis resolution program: transparency (expected losses were recognized early), no limits were explicitly put on funds to resolve the crisis.
 - ▶ Political and financial independence of crisis resolution agency.
 - ▶ Market discipline maintained (measures to minimize distortions in place).

Bank Resolution – The Case of Mexico 1994

- ▶▶ The Crisis was handled by the Banking Fund for Savings Protection (Fobaproa) funded by the Central Bank.
- ▶▶ The banking sector restructuring involved:
 - ▶ A Temporary Capitalization Program (Procapte) under Fobaproa. It purchased convertible bonds issued by banks, while banks were required to deposit the funds obtained through the program at the Central Bank. The debt would become capital if not paid back before five years, or if the capital-asset ratio fell below 8%.
 - ▶ Fobaproa took control of several insolvent banks. These interventions were followed by negotiations with potential buyers and in most cases banks were re-sold after being re-capitalized and cleaned up of their non-performing loans.
 - ▶ Fobaproa purchased NPLs (**under unclear procedures**) above their market value on the condition that existing shareholders inject new capital into the banks. NPLs were purchased with non-tradable long-term (ten years) promissory notes. These notes replaced the NPLs on the asset side of the banks' balance sheets.
 - ▶ In 1998, a new deposit insurance agency - Institute for the Protection of Bank Savings (IPAB) was created to manage NPLs absorbed by the Fobaproa.
 - ▶ Several programs were introduced to workout debts of the banks' borrowers.
- ▶▶ The total cost of these bailout initiatives amounted to 14.4% of GDP. More than a half of this came from the operations of the banks taken over by the government.

Bank Resolution – The Case of Korea 1997

- ▶▶ The banking sector restructuring involved:
 - ▶ Banks with low capital adequacy ratio were required to develop management rehabilitation plans, including injections of new capital.
 - ▶ A Financial Supervisory Commission (FSC) was established to restructure banks (management change, capital injections, merging or selling the banks, etc.).
 - ▶ A Management Evaluation Committee (MEC) was created to perform in-depth assessments of troubled banks. Following these reviews, insolvent banks were liquidated while their good assets were sold. Solvent banks were required to implement business rehabilitation plans.
 - ▶ Bank merges were encouraged and supported with capital injections.
- ▶▶ The Korean Assets Management Corporation was established to deal with NPLs:
 - ▶ 50% of the distressed assets were resolved by the banks (via sale of collateral, calling in loans, etc.), while the remaining 50% were purchased by the KAMCO.
 - ▶ KAMCO purchased NPLs with government guarantee and publicly traded bonds, issued by the specially created Non-Performing Asset Management Fund.
 - ▶ KAMCO began selling its portfolio of NPLs soon after economy improved.
- ▶▶ The costs of financial sector restructuring program was estimated at 32% of average 1998-2000 GDP. About 40% of this amount was recovered by the end of 2003. The banks absorbing about 30% of non-recovered NPLs.

Principles of Intervention in Troubled Banks

- ▶▶ Normally a special Banking Authority is created with strong legal powers to resolve promptly the problems of the troubled banks.
- ▶▶ To avoid conflicts between monetary policy objectives and fiscal costs, this Authority works better if it is independent of the CB.
- ▶▶ The Authority will also need to allocate the losses:
 - ▶ Losses could be shared between depositors, taxpayers and shareholders; or all depositors could be protected; or taxpayers' costs could be minimized.
 - ▶ Normally shareholders absorb the initial cost until their equity is wiped-out. Large depositors take the second cut. Then taxpayers absorb the rest of the cost.
- ▶ The banking authority may also have to deal differently with the bank managers: either penalize bad managers and impose bank restructuring on them; or create incentives for banks to self-reveal their true state and propose their own restructuring methods (which may mean go “soft” on managers).

Intervention Principles

1. Dealing with the Troubled Bank: Bank Closure - versus - Bank Rescue.
2. Recapitalization of Surviving Banks
3. Management of Non-performing Loans (Balance Sheet Cleaning).
4. Depositor Protection

1. Dealing with Troubled Banks: Closure versus Rescue.

As soon as a problem of insolvency is detected, the Banking Authority must proceed quickly (take **Prompt Corrective Action** - PCA) .

- ▶▶ Prompt action is needed because insolvent banks have **tremendous incentives to take huge bets**, gamble dangerously with undue risks in order to survive, since their own capital has already been eroded by high non-performing loans.
- ▶▶ If the bets are successful, they may have resolved their problems.
- ▶▶ But if the bet turns sour, the bank would have lost little anyhow -- once you have lost your capital and you are broke, it can not get any worse.
- ▶▶ PCA is also needed -- with an intervention decision taken quickly and literally overnight -- **to avoid runs on deposits**: once depositors know that a bank is in trouble they will queue in the bank to retire their deposits, thus deepening the crises.

Dealing with Troubled Banks....

- ▶▶ In the US in the 1980's, undercapitalized savings and loan associations took huge bets to survive -- investing in riskier assets -- that led to massive losses that cost US\$100 billion.
- ▶▶ The US Federal Insurance Corp. Act of 1991, contains Prompt Corrective Action provisions, requiring bank supervisors to intervene early and vigorously when a bank gets into trouble.
- ▶▶ To enable Prompt Corrective Action, the Banking Authority should have clear processes and procedures to deal with banks in trouble (clear "bank resolution" flowchart and policies).
- ▶▶ These procedures should define clearly the criteria to be used by the Banking Authority for choosing expeditiously between asking a solvent bank to solve the problem by itself, asking for re-capitalization by owners, closing a bank, or selling it to other more solvent domestic or foreign banks.
- ▶▶ To act quickly the Banking Authority must be have a strong legal mandate to decide on the future of the troubled bank with minimum consultations with outsiders.

Dealing with Troubled Banks....

- ▶▶ This decision to close or rescue a bank should be made by the Banking Authority, independently of the Central Bank, which may be more concerned with monetary stability and less concerned with costs and banking-related factors.
- ▶▶ The decision on whether to close or rescue a bank (through re-capitalization or sale) should depends on:
 - ▶ The quality of the bank portfolio (if the level of non-performing assets is too high, there is little value in rescuing) and its impact on solvency (the level of equity of the bank).
 - ▶ The extend of interconnections of the bank with other banks through the inter-bank markets with the risk of spreading the crisis for other causes.
 - ▶ The need to minimize a “credit crunch” that may result from the closure of large banks.
 - ▶ The financial costs of liquidation versus cost of rescue (the most important criteria).

2. Recapitalization of Surviving Banks

- ▶▶ Before any funds are provided to banks, the Banking Authority must organize “portfolio audit” of banks, starting with the largest banks, to assess the long-term viability of banks and level of NPLs.
- ▶▶ Only banks that show that they can be viable over the long-term should be re-capitalized. Banks whose capital have dropped below 20% of the regulation level should be considered for closure or sale.
- ▶▶ If current shareholders remain as owners of the bank, they should re-capitalize their banks from their own resources.
- ▶▶ The purpose of Government financial intervention is to protect tax payers and depositors, not the shareholders; otherwise, if shareholders are bailed out, moral hazards would develop, inducing them to take high risks.
- ▶▶ If recapitalization is beyond the current shareholders' capacity, they may just delay the process or under-fulfill capital, with the results that the bank may not recover.
- ▶▶ In many cases, bringing new shareholders is the best option.
- ▶▶ Government capitalization should be the last option.

3. Management of Non-performing Loans (Balance Sheet Cleaning)

- ▶▶ The Banking Authority has three options to deal with non-performing loans in intervened banks:
 - (1) Self-rely on the newly re-capitalized bank or the new owners of the bank to clean the B/S of NPLs: that is, to take adequate measures to collect the amounts due under non-performing loans.
 - (2) Separate the good loan portfolio from the bad portfolio and then transfer the bad loans to a Government **Asset Recovery Agency** (ARA), which specializes in recovering overdue amounts from borrowers. Then sell the bank as a "clean" bank. A key question is the price at which assets should be bought by the ARA to minimize losses that taxpayers will need to assume.
 - (3) Just cancel all bad debts and absorb all bad loans.
- ▶▶ The decision on the option depends on the number of banks with large NPLs (if many banks are involved, an ARA may be efficient), the degree of information asymmetry (who can have better information on the borrowers), the risk that banks will conceal losses rolling-over bad debts, the likely default rate, the capacity to develop loan workouts for borrowers, the existence of a secondary market/demand for NPLs, and the final cost for taxpayers.

Policy Response to a Banking Crisis

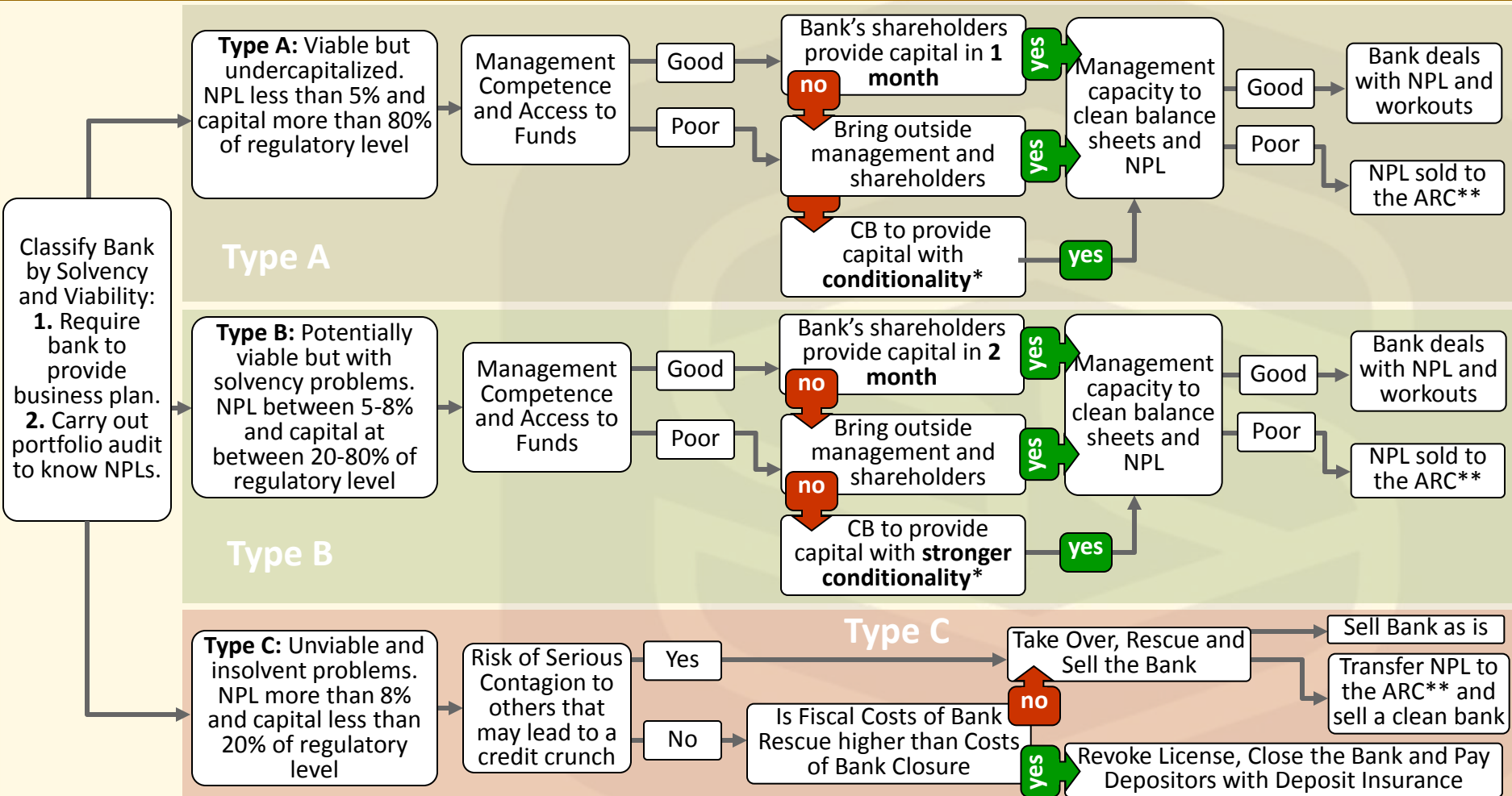
Policy Response	Policy applied (% of crises)
Deposit freeze	11.9%
Bank holiday	9.5%
Blanket guarantee	28.6%
Liquidity support/emergency lending	71.4%
Peak liquidity support (fraction of deposits)	27.7%
Lowering of reserve requirements	36.6%
Prudential regulations suspended or not fully applied	73.0%
Distressed asset management company was established	59.5%
Large-scale government intervention in banks	85.7%
Bank Closures	66.7%
Nationalizations	57.1%
Mergers	61.0%
Capital injections by private shareholders	66.7%
Sales to foreigners	51.4%
Recapitalization of banks	76.2%
Recap level	7.8%
Gross cost to government (fraction of GDP)	7.8%
Recovery of recap expense	51.6%
IMF program put in place	52.4%
Fiscal cost net (share of GDP)	13.0%
Output loss (share of GDP)	20.1%

Source: IMF: Systemic Banking Crises: A New Database

►► Resolution of a banking crisis has typically involved:

- ❶ Creation of a government-owned Banking Authority to address NPLs.
- ❷ Government-assisted recapitalization of banks.
- ❸ Dealing with insolvent banks through bank closures, mergers and sales to local/foreign investors.
- ❹ Restructuring of NPLs to minimize losses to depositors and creditors, including debt workout for borrowers.
- ❺ Prompt state intervention into the operations and management of banks if needed.

Policy Response to a Banking Crisis



* If central bank (CB) provides capital, conditionality may include limits on new lending, loans to subsidiaries and officers, limits on dividends and asset sales.

** Decisions to transfer NPL to ARC also depends on degree of information asymmetry, risks of bad debt rollovers, default rates, loan recovery capacity, fiscal costs, adequate management for ARC, market demand for distressed debt, adequacy of property rights, legal framework for bankruptcy, adequacy of loan documentation.

Ukraine – Restructuring the Banking Sector

- ▶ The first question in Ukraine is the type of institutional arrangements needed to deal with troubled banks:
 - ▶ One option is to create a new Banking Authority which will work under a Supervisory/Monitoring Committee and will have ample legal powers to take Prompt Corrective Actions.
 - ▶ If the above option is not feasible politically, a strong “Bank Resolution Working Group” should be created, following a Memoranda of Understanding among government agencies (NBU, Cabinet, Ministry of Finance, Ministry of Economy, etc) to clarify responsibilities and actions.
- ▶ A credible Portfolio Audit of the large systemic banks must be performed. This audit should involve international experts and regulators, banking and industry specialists. The next phase of the audit must cover remaining banks.
- ▶ Establish clear thresholds to classify solvent and insolvent banks (based on capital adequacy, level of NPLs, and long term viability).
- ▶ Banks should only receive public funds conditional on the above criteria and in the amount of resources sufficient to restore solvency.
- ▶ All banks should be required to prepare business plans, including bank rehabilitation measures and contingency financing plans.

....Ukraine – Restructuring the Banking Sector

- ▶ For solvent banks, the existing shareholders should be asked to recapitalize the banks. If their own funding is not sufficient, additional shareholders should be brought in.
- ▶ Government funds should be provided only as last resort for viable banks and for systemic banks that would jeopardize the entire system.
- ▶ All state support of banks should be conditional on a strict compliance with prudential and liquidity requirements, with implementation of a program to deal with NPLs and on the implementation of debt workout schemes for borrowers.
- ▶ Regular assessments of the performance of participating banks should be carried out to ensure that they fulfill the obligations under the rehabilitation plans. These assessments may also call for additional shareholders or state support (under stricter conditionality) if banks' financial conditions continue to deteriorate.
- ▶ In Ukraine, the banks should be required to deal with their own NPLs. A separate Asset Recovery Company is unlikely to work because of the lack of formal information on borrowers, the risk that only un-collectable NPLs would be sold to the ARC, the lack of a secondary market for NPLs, the inability to price NPLs adequately, and large potential default rates.

Ukraine – Long term Sustainability

- ▶▶ To achieve durable and meaningful results of economic stabilization measures, the government has to implement a broad reform program:
- ▶▶ Although, a recent decision of the IMF to consider lending Ukraine \$16.5 billion may mitigate the impact of the global financial meltdown, Ukraine still faces elevated risks to financial stability.
 1. As in many other countries, the IMF Program includes measures to reduce external imbalances by (i) maintaining a minimum level of reserves which will lead to a more flexible foreign exchange rate, (ii) running a balanced fiscal budget and (iii) controlling money and credit growth to eliminate unsustainable consumption behavior. It also includes a program to recapitalize the banking sector. This program should be built on the successful experience of the past international banks' rehabilitation programs.
 2. But this IMF program, though necessary is not sufficient to revive growth.
 3. **Immediate stabilization measures must be supported with structural reforms that would enable economic growth and promote Ukraine's international competitiveness.**

Ukraine – IFC/WB's Ease of Doing Business

UKRAINE			Ukraine	Region	OECD
Ease of Doing Business	145				
Starting a Business	128	Procedures (number)	10	7.7	5.8
Construction Permits	179	Duration (days)	27	22.6	13.4
Employing Workers	100	Cost (% GNI per capita)	5.5	8.6	4.9
Registering Property	140				
Getting Credit	28	Procedures (number)	30	23.6	15.4
Protecting Investors	142	Duration (days)	471	257.2	161.5
Paying Taxes	180	Cost (% of income per capita)	1901.7	680.4	56.7
Trading Across Borders	131				
Enforcing Contracts	49	Payments (number)	99	47.2	13.4
Closing a Business	143	Time (hours)	848	366.8	210.5
		Profit tax (%)	11.5	11.8	17.5
		Labor tax and contributions (%)	43.3	26.1	24.4
		Other taxes (%)	3.7	10.2	3.4
		Total tax rate (% profit)	58.4	48.1	45.3

Source: World Bank

- ▶▶ The quality of the business environment in Ukraine remains unsatisfactory – Ukraine is ranked 145th out of 180 countries in terms of Ease of Doing Business by IFC/WB.
- ▶▶ Domestic and foreign business still face an onerous burden of excessive and costly regulatory, licensing and taxation procedures.
- ▶▶ Weak investment climate continues to hold back the development of the Ukrainian private sector, which restrains the growth of investments, employment, output and exports.

Ukraine – International Competitiveness

UKRAINE		Major Competitive Disadvantages
GCI 2008–2009	72	
Basic requirements	86	
1st pillar: Institutions	115	Property rights
2nd pillar: Infrastructure	79	Intellectual property protection
3rd pillar: Macroeconomic stability	91	Judicial independence
4th pillar: Health and primary education	60	Efficiency of legal framework
Efficiency enhancers	58	Transparency of government policymaking
5th pillar: Higher education and training	43	Reliability of police services
6th pillar: Goods market efficiency	103	Ethical behavior of firms
7th pillar: Labor market efficiency	54	Strength of auditing and reporting standards
8th pillar: Financial market sophistication	85	Protection of minority shareholders' interests
9th pillar: Technological readiness	65	
10th pillar: Market size	31	
Innovation and sophistication factors	66	
11th pillar: Business sophistication	80	Intensity of local competition
12th pillar: Innovation	52	Extent and effect of taxation
		Total tax rate
		Agricultural policy costs
		Prevalence of trade barriers
		Prevalence of foreign ownership
		Business impact of rules on FDI
		Burden of customs procedures

Source: World Economic Forum

- ▶▶ Poor institutions, weak judiciary and corruption are major competitive disadvantages of Ukraine.
- ▶▶ As a result, country's foreign trade is dominated by relatively low value added products, which fail to deliver sustainable performance of exports.
- ▶▶ Notwithstanding large potential for productivity and economic growth, Ukraine's competitive disadvantages are systemic and can only be remedied with a strong and broad reform program.

How to Improve International Competitiveness

1. Maintain macroeconomic stability.
2. Improve public governance.
3. Support stable and predictable legal environment.
4. Advance business liberalization and deregulation.
5. Strengthen corporate governance.
6. Liberalize foreign trade and international capital movements.
7. Reform financial sector
8. Put an end to corruption.
9. Eliminate political uncertainties and promote country's image.