

## Interview with Liga.net

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Have you received enough evidence that the NBU was indeed under political pressure, as it was claimed by the NBU ex-Governor Yakiv Smoliy?

It's important to remember why the central bank should be independent. We know that sound monetary, exchange rate and financial sector policies have a tremendously positive impact on long-term economic development. But we also know that sometimes good policy is unpopular, that some politicians want stimulus to get quick growth

However, irresponsible central bank policies eventually lead to high inflation, exchange rate instability, problems in the financial sector, low growth and unemployment, as we have seen during past crisis in Ukraine. Recognizing the temptation of excessive short-term stimulus, in the majority of emerging market and developed countries, the central bank has been made independent and given a clear mandate to do what is right for the economy in the long term. This model has proven to be successful. Ukraine established a framework for central bank independence in line with best international practice in 2015. This framework has served Ukraine well, and has contributed to the quick recovery and growth of the economy

But in order for this model to work, the central bank must feel confident that they can take difficult—but necessary—decisions without politically motivated repercussions, that the political establishment will come out and defend central bank independence when being questioned, and that the central bank framework is respected both in law and in spirit.

The fact that the management of the NBU openly says that it is subject to political pressure should be of concern to all.

Is the President of Ukraine in consultations with the IMF regarding candidates to assume the NBU governorship?

The IMF does not take part in the appointment of senior public officials. We work with institutions, and focus on policies and reforms.

How would the IMF describe the traits of a new NBU governor?

Our view is that the NBU management and staff has been effective in delivering sound monetary and financial sector policies, and it is important that these policies are continued under the new governor

**Do you think that after the events around Smoliiy's dismissal the threat to NBU independence became more significant?**

The central bank independence is not just an abstract theoretical concept that can be bent and twisted to fit any reality. There are well-established links between central bank independence and economic performance. The Fund has been supporting Ukraine in developing a well-balanced framework for NBU independence and accountability. We are also convinced that the central bank governance model and the monetary and financial sector policy framework serves Ukraine's economic interests

**Is it possible to say that in this sense Ukraine is violating the Memorandum?**

The current Stand-By Arrangement is premised on the respect for this framework, and a continuation of the economic policies of inflation targeting, a floating exchange rate, accumulation of foreign reserve and strengthening of the financial sector.

**There has been criticism of the NBU, saying that they are not contributing to growth and employment in Ukraine. Do you agree with this assessment?**

The NBU has by all accounts done a good job, and has effectively carried out the mandate it is given in the constitution and the NBU law. Inflation is now low, foreign reserves are strong and the banking sector is in a good shape. This has created the preconditions for sustainable economic growth, since investors want assurances of macroeconomic stability before making long-term investments. However, investors also need to feel confident that their property rights are protected, that there is efficient and equal treatment of business by government authorities and that courts are fair and corruption-free.

In addition, long-term growth requires transportation infrastructure, a well-educated work force and good living conditions. This is why structural reforms are so important in Ukraine. But these reforms are the responsibility of the executive and legislative branches of the state. While a lot has been done over the past five years in terms of reforming the economy, and important legislation has been adopted over the past year, much remains to be done.

**One of the conditions of the Memorandum is the issue of a wage cap for high-ranking officials. Why is it of such importance for the IMF?**

The public sector in Ukraine needs well-motivated, competent and honest people. In order to attract and retain such officials, the state needs to pay salaries that are comparable to what those people would earn elsewhere. Maintaining the salary cap may lead to the loss of crucial talent and necessary expertise. This would not be in Ukraine's interest (*Liga's note: according to the MEFT, Ukraine was expected to lift this wage cap starting this July, and that is the benchmark for the program review and second disbursement in September*).

**Top officials are again raising the issue of an exit capital tax: various options are being proposed, from a pilot project based on a certain oblast to the introduction of ECT in the entire**

economy. At the same time, the Memorandum states that Ukraine will not implement significant tax reforms in the near future. Is the discussion around an exit capital tax a violation of Ukraine's agreements with the IMF?

The argument by the proponents of shifting from taxation of corporate income to taxation of distributed profits has been that lower corporate taxes, and incentives to retain earnings in companies, will lead to more investment and growth. While we agree that more investment is needed, we do not think that the proposed exit capital tax is an efficient way to achieve this. As we see in business surveys, investors demand improvement in the business environment—including the judiciary—before making investments.

Shifting taxation from profits to dividend does not address this issue. But we are also concerned about the magnitude of the projected revenue loss. Reducing the tax on corporations by 1 or 1.5 or even 2 percent of GDP would have to be off-set by an increase in some other tax, or a reduction in expenditure to maintain the same deficit.