

# IMF tightens its grip on Ukraine

by Konstantin George

Prospects for Ukraine, which after Russia is the most important of the independent states to emerge from the breakup of the Soviet Union, look very bleak for 1995. The Ukrainian government of President Leonid Kuchma has, during March, accelerated the policy course it began last year of accepting International Monetary Fund dictates. During the latter part of February and the first half of March, an almost daily reportage of "successful" talks with IMF and World Bank representatives in Kiev, and then with IMF Managing Director Michel Camdessus on his arrival in Kiev from Moscow on March 10, dominated Ukraine's media. A fairy tale is being told to the population that after years of being largely cut off from significant international funding, Ukraine is now lined up to receive "big bucks," running into the billions of dollars, and that this will somehow magically start the long-hoped-for economic recovery.

The regime's attempt to fool the population into believing that the desperate situation will soon improve went into high gear on Feb. 24, when Economics Minister Roman Shpek announced that the first \$700 million in IMF and World Bank loans would arrive in April, if the government "approves the economic reform program prepared by IMF specialists." The IMF demands centered on eliminating subsidies to state enterprises, freeing domestic energy prices, and a strict budget in which the deficit could not exceed 6.4% of Gross National Product. On the same day, in a move applauded by the IMF, the government rejected a proposal by a parliamentary commission to raise the official poverty line to 2.7 million karbovantsi (about \$18) a month, as a precursor to raising the minimum wage to a level somewhat reflecting real family needs in present-day Ukraine.

On March 1, the cabinet, under acting Prime Minister Yevgeni Marchuk, a former KGB head in Ukraine, adopted a 1995 budget with the deficit fixed at 6.4% of GNP. On March 2, Alex Sundakov, an IMF representative in Kiev, announced that the IMF had "no objections" to the budget adopted, and that the IMF and Ukraine would sign a memorandum on IMF credits even before Camdessus arrived. The next day, Ukraine submitted its official request to the IMF for a standby credit of \$1.492 billion, with both the Kuchma regime and the IMF signalling that approval was expected.

The Camdessus visit apparently settled the matter of the

standby credit, with the amount promised raised to \$1.8 billion, and the Ukrainian government proudly proclaiming that the first installment is "expected" to arrive on March 31. But this glowing picture is an illusion. What the Ukrainian population does not know, because the regime does not mention this, is the fine print of the "deal with the devil" being negotiated with the IMF.

The IMF \$1.8 billion standby credit is not only conditional on Ukraine accepting IMF dictates, but on whether the meeting (which began on March 22) in Paris of the Group of Seven representatives decides on a \$900 million balance of payments assistance credit for Ukraine. Also, the austerity that will be imposed by pegging the budget deficit at 6.4% of GNP, only concerns the first tranche in the IMF credit. To receive the full amount, Ukraine must further slash the budget, bringing the deficit to 3.3% of GNP. These demands are all the more more brutal, because Ukraine's GNP is continually shrinking.

## Physical breakdown worse than Russia's

The regime, through its "big bucks are coming" campaign, has scored a psychological victory with the population, which has been driven to extreme desperation after three years of ever-worsening conditions of existence. This, however, will be short-lived. Games can temporarily divert attention from, but cannot change, reality. The physical economy of Ukraine continues its plunge toward a sharp breaking point. Even before this year, the destruction of the nation's physical economy had already reached breakdown proportions surpassing even what has happened in Russia. Keeping pace with the fall of production has been the never-ending collapse of living standards. Between last autumn and the start of spring, food prices have doubled or tripled, while the cost of other basics, such as rents and utilities, have risen many times over.

The IMF's attempt to complete the wreckage and destabilization of Ukraine will not proceed without stiff resistance from the patriotic elites of the country. Many patriots had entertained misplaced, well-meaning hopes in so-called "market economy reforms." However, they are resolutely opposed to seeing the country sold out to foreign interests and transformed from a nation with the potential to become an economic giant, into an eastern European version of a banana republic.

A potentially decisive turning point in the thinking of elite groups occurred at the height of the regime's pro-IMF campaign. The occasion was the signing, on March 20 in Kiev, of the Russia-Ukraine agreements settling Ukraine's \$2.5 billion in outstanding debts to Russia. The agreements covered Ukraine's overall debts and, specifically, an agreement with the Russian gas monopoly Gazprom concerning the large debts for Russian deliveries of natural gas. The Russian delegation was led by First Deputy Prime Minister Oleg Soskovyets, and the Ukrainian side by acting Prime

Minister Marchuk. As announced by both parties, the terms had been worked out earlier in the month in Moscow between the IMF (during the visit of Camdessus) and the Russian government.

### A 'debt for equity' agreement

What were these terms? On the surface they appeared to be very generous for Ukraine. Ukraine was given 12 years to pay off outstanding debts, starting with a grace period of two years in which only interest payments were required. But there was a catch. In return, Ukraine had to grant Gazprom and other Russian business interests, the right to acquire majority shareholdings in 15 choice Ukrainian state enterprises in the energy sector, such as oil refineries, and in the petrochemical sector. These Ukrainian enterprises are scheduled for privatization this year, and it is now clear that many will become Russian holdings. This will probably mean, following the pattern established in Russia's privatization program, that in many cases Russian banks and firms will be, in part, front-men for western financial interests.

In short, the agreements represent a back-door version of what the IMF terms a debt-for-equity arrangement. Furthermore, they set a dangerous precedent. Given the regime's policy course, Ukraine's physical economy will continue to shrink, while its debts, both to Moscow and the IMF, will continue to grow. This will lead to demands from both western and Muscovite creditors for Ukraine to place more and more choice assets up for sale.

The IMF, working hand-in-glove with evil interests in Moscow to assist an economic re-colonization of the nation, has provided a well-needed lesson for Ukrainians. Many have also seen through President Kuchma's attempt to deflect from his sellout policies by staging a show of strength against the pro-Russian separatist government in the autonomous Crimea region of Ukraine. This attempt was launched on March 17 when, after an address by Kuchma, the Ukrainian Parliament suspended Crimea's constitution and deposed its so-called President, Yuri Meshkov. Right after that, Kuchma dispatched 200 crack riot police to the Crimean capital of Simferopol.

The news behind the news was that Kuchma launched the campaign against the Crimean separatists after close consultations with Moscow. He needed a "patriotic" sideshow in Crimea to cover for the first installment in the sellout of Ukraine. Moscow, clearly preferring the opportunity to buy up in stages Ukraine as a whole, to ruining its all-Ukrainian strategy by being provocative in Crimea, more than gladly played along with Kuchma. The Russian government and Duma (Parliament) leaders responded to the Crimea crisis by declaring Crimea to be strictly "an internal affair of Ukraine." The same formulation was repeated by Soskovyets on arrival in Kiev, where he even went so far to say that Crimea would not be "discussed at all" during his talks with the Ukrainian government.

## Britain and U.S. renew Iraq embargo

by Hussein Al-Nadeen

On March 13, the U.N. Security Council voted to prolong the sanctions imposed on Iraq since August 1990. The United States and Britain are the only states opposing easing or lifting the embargo, which has no reasonable basis for being prolonged further. The determination to continue this genocidal policy against the Iraqi population leaves in place a dangerous manifestation of the Bush-Thatcher Persian Gulf war policy, a time bomb that will destroy the Clinton administration's effort to secure a greater Mideast peace settlement. The destruction of the once-proud and once-strong nation of Iraq threatens to annihilate millions of innocent Iraqis through starvation and disease.

The Iraqi Foreign Ministry recently forwarded a memorandum to the U.N. and the Arab League accusing Britain and the United States of genocide against the Iraqi people. The memo contained reports by the World Health Organization, International Red Cross, and Harvard University exposing the horrible health and food conditions prevailing throughout the country. Due to lack of efficient health care, clean water, and food, such diseases as cholera, typhoid, scabies, malaria, and blindness are spreading on an epidemic scale. The medicine required to cure these diseases, many of them fatal, is no longer available in sufficient quantities in government hospitals. For the same reasons, cases of severe anemia among pregnant women have risen to 48%, while cases of moderate anemia are at 95%. This has contributed to the increase in the number of premature births from 16% before the embargo, to 30% now, and the rate of congenital deformities is 18%. Cases of malnutrition among Iraqi children, particularly under the age of five, have reached 5,577,000. A Unicef report released in February revealed that 3.5 million Iraqis, of whom 2.5 million are children, are threatened by various infectious diseases in the near future.

What was not hit by the massive bombing of Iraq's cities and infrastructure during the Gulf war is being affected by almost five years of the U.N. economic embargo, a "psychological holocaust" which is destroying the people's will, even for its very survival. The reports assert that mental and psychological illness among women and children is spreading at an unprecedented rate. A research group from Harvard University reported that children are suffering from various mental and emotional problems, and are having severe difficulties concentrating and sleeping. Pregnant women suffer