

# Will Ukraine survive the coming winter?

by Konstantin George

After independence was attained in August 1991, the situation in Ukraine, catastrophic for quite some time, by early autumn had become a shambles. Three years of rule by networks of “former” communist *nomenklatura* and *nouveaux riches*, working in conjunction with those forces in Moscow and the International Monetary Fund (IMF) who are committed to destabilizing Ukraine, have turned what was once the most promising of the post-Soviet independent states into a disaster. The author was in the western Ukraine city of Lviv in late September and early October, when the situation took a decided turn for the worse. By mid-September, the deterioration had accelerated, with no end in sight as winter approaches. It can already be said, unfortunately, that, barring a miracle, this winter will be by far the worst for the Ukrainian population since independence, and for many the worst in many decades.

For 1994, so far, production is as much as 40% below what it was in 1993—itsself a year of a double-digit fall in production. The collapse in living standards mirrors this disintegration of the physical economy. Up until 1994, the collapse in living standards, as a rule, was engineered by shock therapy-induced hyperinflation outstripping wages. Then, through the first half of 1994, inflation was brought “under control,” which in effect stabilized the level of misery. However, the anti-inflation “success” of the previous Kravchuk regime, and the resulting so-called stability given to Ukraine’s ersatz currency, the *karbovanets*, or “coupon” as it is universally called, was achieved by cutting off credit to state enterprises. As a result, industrial and other state enterprises were rendered unable to meet payments for delivery of goods and materials or to pay their workforce.

Production plummeted, and by June at the latest, industrial and other state enterprises stopped wage payments. During the summer in the Lviv region, a situation not atypical of the country as a whole, all plants were closed and the workers told to report back to work on Sept. 1. In the best cases, industrial and other state sector workers still have not been paid since June.

## New hyperinflation

In September, a new round of inflation hit. In tandem with the Russian ruble, the Ukrainian “coupon” went into

a free fall, a currency crisis unmatched currently perhaps anywhere else in the world. The coupon had enjoyed a “stable” rate of 45,000 to the dollar from May till Sept. 1. By mid-September, however, it had fallen to about 50,000. In early October, it hit about 75,000 to the dollar. A new round of killer inflation was on.

Aside from certain state-controlled exceptions, prices for meat, milk, milk products, fruits, vegetables, etc. began rising on a daily basis. Those who had spare cash bought what necessities they could as fast as possible. As a rule, the shopping day began by first seeing, or learning by word of mouth, what that day’s dollar-coupon rate was. The object was to find, amid the general downward trend of the coupon, which day it was temporarily rebounding, so as to take advantage of the brief, relative increase in purchasing power.

In October, as the collapse of the Russian ruble gathered speed, the coupon collapsed accordingly. By Oct. 14, in Lviv it had reached a new record low of 93,000 to the dollar. Worse, to buy a dollar, one had to pay 110,000 coupons. This spread of 17,000 coupons between the buy and sell rates was an all-time record. Worse still, unlike the Russian ruble, which, after reaching its record low of 3,926 to the dollar on Oct. 11 (“Black Tuesday”) rebounded to 3,000, the coupon stayed low. The net effect of this was the worst coupon-ruble rate in history, at 31 to 1, compared to about 22 to 1 in early September. This means a huge price increase for essential Russian imports, such as oil and gas, which Ukraine must import to survive.

## The cholera epidemic

In late September and early October, a cholera epidemic that had started in the Crimea in August reached its peak, affecting at least 15 Ukrainian cities in the south, center, and west of the country. According to official figures, 20 people died in the epidemic and more than 800 were hospitalized. In Crimea and parts of south Ukraine, schools were closed. In Lviv, strong measures were taken, including the closure of the city’s private cooperative markets, called “bazaars,” where meat and produce are sold. Those who had come down with cholera were brought to a clinic and quarantined. For some days, it was not clear whether the spread of cholera could be nipped in the bud. This uncertainty was underscored when, on Sept. 27, Poland would not let anyone from Ukraine enter or transit the country without a medical document stating the person to be free of the disease. By early October, the situation was under control.

What has not been resolved are the appalling infrastructure problems which allowed the cholera to spread rapidly. One of the biggest problems is running water. Forget about the water being pleasant to drink; it ranges in quality from semi-potable to unpotable. One has to have a suicidal streak to even think about drinking it. The problem goes to running water in general. In Lviv, most apartments have running water only for three hours in the morning and three hours in

the evening. Water is stored every morning in buckets for use during the day. Lviv is not the worst case. In Simferopol, for example, the capital of Crimea, apartments have running water for a few hours every other day. The water pipes of cities are many decades old. Nothing has been done to improve or modernize them since the early postwar period, when it was done as part of repairing war damage. In a city such as Lviv, which was almost undamaged in the war (this has fortunately preserved the city as an architectural jewel, one of the most beautiful in Europe), it is coasting on a water system installed before World War I by Hapsburg Austria, or from the interwar period of Polish rule.

The health service, if one wants to call it that, is even more deplorable. The standard answer to the question, what does one do if one gets ill, is, "don't get ill." Hospitals do not even have the most basic medicines, equipment and, in many cases, even basic furniture. Doctors, like almost everyone else, have been unpaid for months and will not treat a patient unless the patient pays; it is not uncommon that payment is demanded in dollars. What is also striking is that while those who have dollars can buy almost anything, the main exception tends to be medicines. In Lviv, for example, a city of about 1 million, simple things such as aspirin or other common over-the-counter medicines are almost unavailable in pharmacies, even for hard currency.

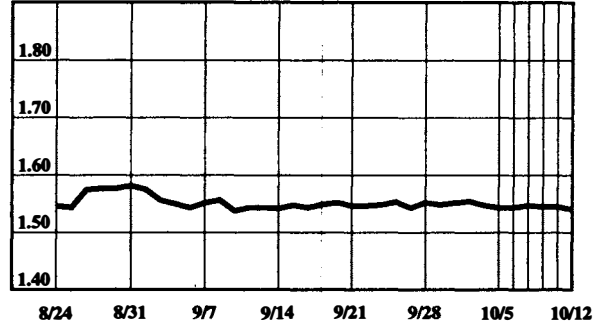
The economic situation for ordinary urban Ukrainians is worse than in Russia. This may come as a surprise based on what one sees on the street. In Ukraine, the crime rate, though rising, is still far lower than in Russia, and one sees far fewer public displays of drunkenness and abusive behavior. However, over the last year or so, hundreds of thousands of Ukrainians have gone to work in Russia, where wages are double or triple those in Ukraine. This includes industry workers, miners, craftsmen, engineers, scientists, and technicians. Such workers remit money to their families back in Ukraine. There is no flow of Russians going the other way. Till recently, this flow of workers to Russia was mostly from eastern and central Ukraine. Now, it has begun also from western Ukraine, something unthinkable even a short time ago, given the tremendous national pride of the region.

There is now a significant shift in mood in the population, including in western Ukraine. There is widespread yearning for economic stability; if this can be done with Russia, though not at the price of a return to Russian rule, in general people will accept it. The economy is *the* issue, and rightly so. In this sense, the winter may also result in new hope. The near-mortal scale of the crisis is causing many important individuals in institutions to seek to have the state adopt programs that will begin to rebuild the nation's economy. It is also becoming clear to many that failure to do so is courting social explosions with unpredictable consequences. Popular patience has been remarkable, indeed almost saintly, till now, in the face of the most appalling conditions of life. There are, however, limits to such patience.

## Currency Rates

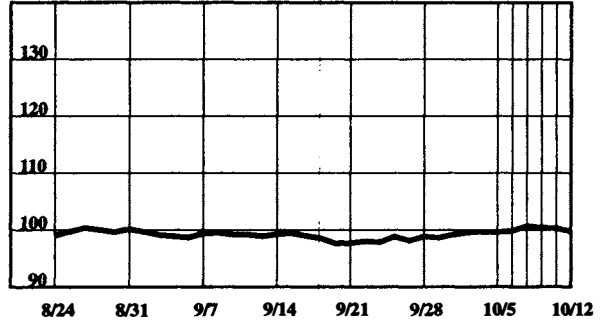
### The dollar in deutschemarks

New York late afternoon fixing



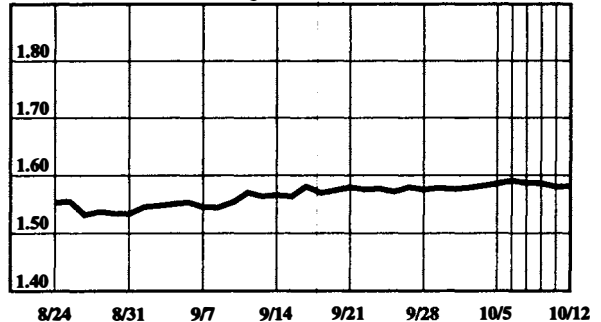
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

