

iMoRe 34: Unification of gas prices and deregulation of pharmaceutical market failed to speed up overall reform progress.

Groysman's debut: from April 18 to May 8 the new Cabinet of Ministers approved two important reform initiatives. However, this was not enough to drag Index for Monitoring Reforms out of the "sleeping" area. Index value stood at +1.1 points over the last three weeks.

In late April the Government of Ukraine likened gas tariffs for households and heating companies to the level of import parity. The importance and simultaneously unpopularity of the event is difficult to overestimate. Experts note the necessity for this step to enhance the energy independence of Ukraine, improve public finances in the long run and develop the gas market. However, they stress the need to introduce additional incentives for energy saving, improve the effectiveness of the subsidies system and the quality of utility services. In general, the **Index for Monitoring Reforms amounted to only +1.1 points during the second half of April and the first decade of May** (possible range from -5.0 to +5.0), signaling that the reforms continue to move slowly.

Chart 1. iMoRe dynamics*



* iMoRe team considers index value of at least 2 an acceptable pace of reform

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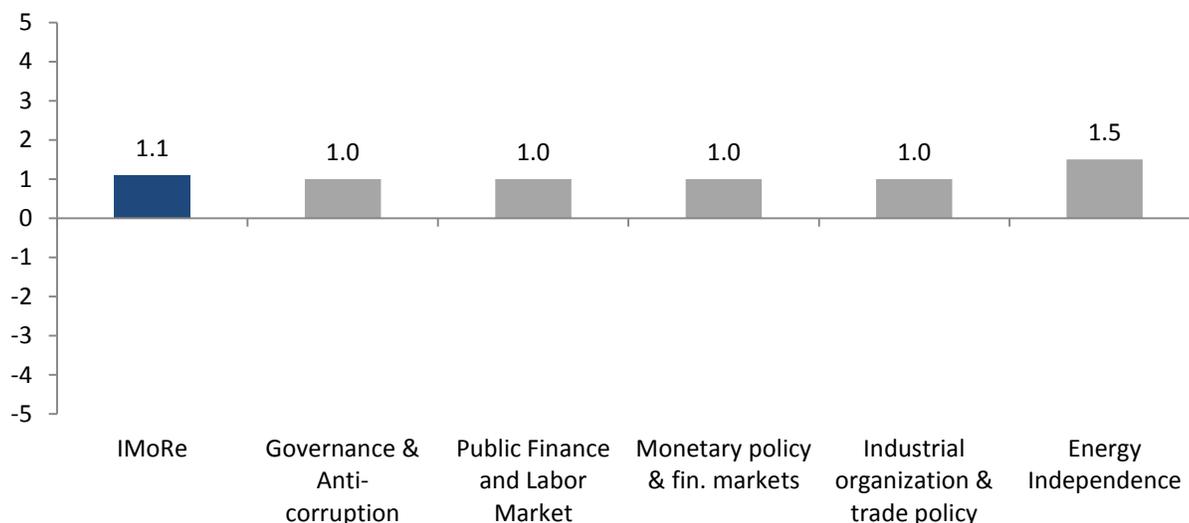
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Chart 2. iMoRe and its components in the current round



The most important positive developments

1) The Government brought gas prices for households and heating companies up to the level of prices of gas imported from Europe (+6.0 points)

The decision was set by CMU decree 315 of 27.04.2016. In addition, in response to changes in gas prices, National Commission for State Energy and Public Utilities Regulation raised heating and hot water tariffs, which are connected to gas.

On the one hand, the gas tariffs hike to market level was one of the most important reforms in the history of independent Ukraine. On the other hand, it is the most painful for the population. Establishing a single gas prices will reduce incentives for corruption, significantly improve the financial position of NJSC “Naftogaz” and reduce its dependence on the state budget. It is a prerequisite for the development of the gas market. The development induces energy saving and increase in domestic production and therefore strengthens the energy independence of Ukraine. On the other hand, those consumers, who use gas for heating, will face almost twofold price hike. That is why it is important to improve efficiency of the subsidies system and incentives for energy saving.

“Without exaggeration, it is the historic reform of the gas market, which will contribute to better competition between suppliers in the market, create real incentives to increase domestic gas production, eliminate corruption mechanisms of subsidized gas prices for the population and create long-anticipated incentives to invest in energy savings in housing and utility sectors. However, in order to have the full effect of the reform the system of subsidies should also be reviewed to encourage recipients of subsidies to invest in energy efficiency, in particular a gradual transition

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from the social norms of consumption of natural gas to 100% actual consumption metering is required (meter installation problem)."

Dmytro Naumenko, information campaign "Stronger together!"

"The sudden and bold decision of the government and the first step in a series of important reforms in the sector aimed at reducing energy consumption. Now a strong emphasis on energy efficiency should be made, or the population will not cope with such prices at current levels of consumption."

Denis Sakva, investment company Dragon Capital

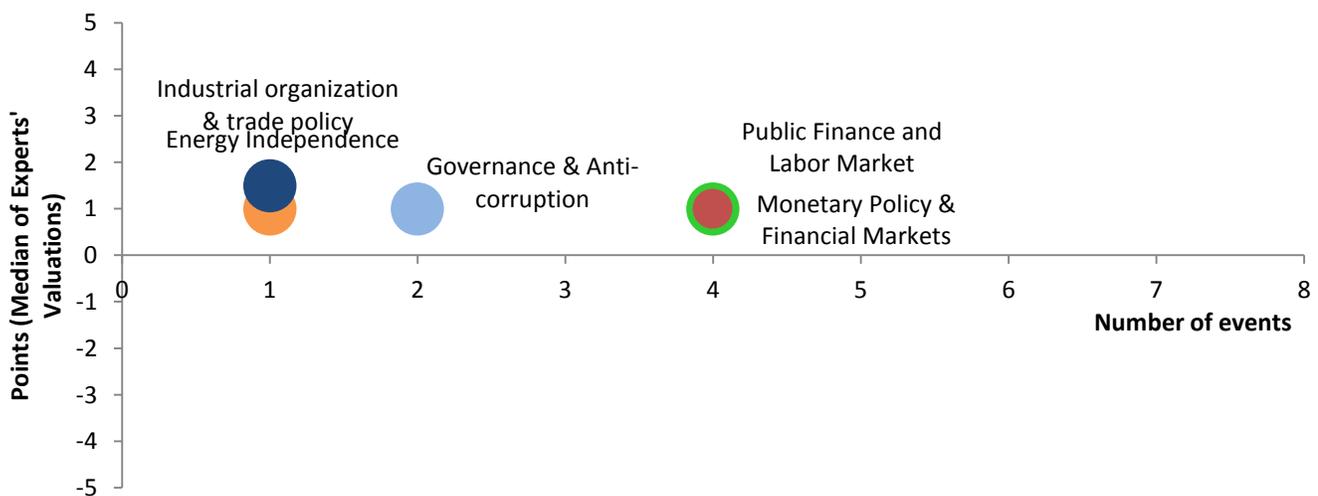
2) The Government simplified the registration of medicines: +2.0 points

It is important sectoral step towards deregulation and competition. The government limited the documentation expertise for registration of medical products to 20 days (CMU decree 312 from 20.04.2016) for those medicines that are registered in the US, Switzerland, Japan, Australia, Canada or the EU. Moreover, if the conclusions and recommendations were not given within the specified period, the examination is considered performed. The time for Ministry of Health decision on the registration of medical product, based on the conclusions of the expertise, or without them in case examination have not been performed in time, is also reduced to 10 days (from 1 month).

"The Government decision to simplify the registration of medicines from a number of countries is appropriate. It is intended to promote competition in the pharmaceutical market, which according to some experts could lead to lower prices for some medicines up to 20-40%. Accordingly, medical products will become more affordable to patients, 93% of whom answer in the survey that they will have difficulties if face health problems. This is primarily due to the expensive medicines since almost all patients in Ukraine pay for medicines out of pocket. "

Oleksandra Betliy, the Institute for Economic Research and Policy Consulting

Chart 3. Value of iMoRe components and number of events April 18 – May 8, 2016



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ЦЕНТР
ЕКОНОМІЧНОЇ
СТРАТЕГІЇ

Index for Monitoring Reforms (iMoRe)

Release 34

Monitoring period: April 18 – May 8, 2016



(Please see other charts on the website http://imorevox.in.ua/?page_id=577, http://imorevox.in.ua/list_rounds.php)

Note: Index for Monitoring Reforms (iMoRe) from VoxUkraine aims to provide a comprehensive assessment of reform efforts by Ukraine's authorities. The Index is based on expert assessments of changes in the regulatory environment in five areas:

1. *Governance and Anti-Corruption*
2. *Public Finance and Labor Market*
3. *Monetary Policy and Financial Markets*
4. *Industrial Organization and Foreign Trade*
5. *Energy Independence*

For details please visit imorevox.in.ua.

VoxUkraine is a group of global economists and members of the Ukrainian policy community who are working on reforms in Ukraine. The goals of VoxUkraine are to promote research-based policy analysis and commentary on economic developments in Ukraine, to formulate a systemic approach to reforms, to provide high-quality discussion platforms, and to integrate Ukraine into the global network of economists and public policy leaders.

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