



Ukraine's second pillar on hold - 11 July 2008 15:41

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UKRAINE – Adverse financial market conditions have led to a further postponement of the introduction of a second pillar in Ukraine.

The IMF noted in its latest statement on Ukraine that the timing of the introduction of the mandatory occupational pension funds will have to be discussed “against macroeconomic constraints and capital market development conditions”.



In 2004 a law was passed on the introduction of a three pillar pension system, but so far only the third pillar has started collecting contributions.

An earlier attempt at introduction had failed “because of poor regulation, the absence of viable investment vehicles, and the lack of effective reporting systems,” noted the US-based development agency PADCO, which has aided the Ukrainian government in reforming its pension system since 1998.

This time, plans for launching the second pillar in 2008 were thwarted by developments on the global financial markets.

Like most CEE and CIS countries, Ukraine was spared the direct impact of the subprime crisis but more than other countries in the region it is now facing major macroeconomic challenges from rising inflation.

“Ukraine has a higher sensitivity to food prices,” analysts from Erste Bank in Vienna pointed out. They expect inflation to hit 24% this year, double last year's figure and only coming down again to 13% in 2009.

Once conditions for the introduction of second pillar pensions are met, Ukraine will be granted financial aid by the World Bank and it has currently requested \$1bn (€640m) both for social insurance budget adjustment and possible transition financing.

No date for the introduction of the mandatory second pillar was given but European asset managers are eagerly awaiting the reform.

At the end of last year, the Dutch insurer Aegon had announced it will be targeting Ukraine next to make use of the opportunities arising out of the pension reform. [See earlier IPE-article: [AEGON picks up 'gap' Czech pensions business](#)]

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