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January 2015

- In mid-January, heavy fighting resumed in the East of Ukraine. A new round of peace talks between both sides of the conflict at the end of the month failed to produce any results.
- During January, the IMF mission came to discuss the provision of a new financial aid package to replace the existing program but its conclusions are not yet available.
- Ukrainian authorities admitted the possibility of restructuring Ukraine's sovereign debt liabilities.
- The Ukrainian economy is estimated to have declined by about 7.0% yoy in 2014. Under baseline assumptions, real GDP is forecast to decline by 5% yoy in 2015 before returning to growth in 2016.
- Ukraine collected a record high grain harvest in 2014. Agriculture was the only sector demonstrating growth in 2014.
- Industry was among the hardest hit sectors of the Ukrainian economy in 2014.
- Ukraine's public finances deteriorated markedly in 2014 with the public sector deficit (including state and local budgets, Naftogaz and Pension Fund) estimated to have widened to about 12% of GDP. Although the approved 2015 state budget law and related legislative initiatives are aimed at addressing large fiscal imbalances and rapidly expanding debt-to-GDP ratio, there are a number of risks that may undermine the achievement of that goal.
- Consumer price inflation accelerated to about 25% yoy in 2014. Price growth is forecast to remain elevated over the medium term due to Hryvnia depreciation effects, the continuing adjustment of utility tariffs and increases in indirect taxes and growing monetary impact.
- The monetary impact on price growth has been relatively limited in 2014 despite sizable monetization of the public sector deficit. However, as the government continues to rely on monetary sources of fiscal deficit financing, the monetary impact on inflation may strengthen significantly as soon as the economy starts recovering.
- During 2014, the NBU supported the fragile Ukrainian banking system by providing sizable liquidity support. At the end of 2014, the NBU with the help of international organizations developed a bank resolution program, which should help to weather the banking crisis relatively well.
- The Hryvnia continued to depreciate in January amid intensified pressures due to the escalation of the conflict in Donbas and uncertainty related with the provision of foreign financial assistance to Ukraine. At the same time, the trend may also have reflected the likely intention of the Ukrainian authorities to gradually converge the official and the interbank Hryvnia exchange rates (the Hryvnia is traded with an unofficial commission on the interbank market).
- Ukraine enjoyed a notable correction in its current account balance in 2014 and is forecast to progress in its adjustment in 2015 as well. However, the financial account deteriorated considerably in 2014 and remains the major source of concern in 2015. Ukraine's overall economic outlook for 2015 will be shaped by the country's ability to secure sufficient funds to cover its high external financing needs. Given restricted access to foreign capital markets, foreign financial assistance from the IMF and other donors looks like the only alternative to cover this gap.

Forecast of Main Macroeconomic Indicators for 2014-2015

	2011	2012	2013	2014[e]	2015[f]
GDP, $ billion	163.4	176.6	182.0	127.4	95.0
Real GDP Growth, % yoy	5.2	0.2	0.0	-7.0	-5.0
Private Consumption, real growth, % yoy	15.0	11.7	7.8	-7.0	-4.0
Fiscal Balance, incl. Naftogaz and Pension Fund, % of GDP	-4.3	-6.0	-6.5	-12.0	-8.0
Public Debt, % of GDP	36.3	36.6	40.5	72.0	95.0
Consumer Inflation, eop, % yoy	4.6	-0.2	0.5	25.0	20.0
Hryvnia Exchange Rate per USD, eop	8.0	8.0	8.0	15.8	22.0
Current Account Balance, % of GDP	-6.3	-8.1	-9.0	-4.1	-1.0
FDI ($ billion)	7.0	6.6	3.3	0.2	1.0
International Reserves ($ billion)	31.8	24.5	20.4	7.5	13.0
External Debt ($ billion)	126.2	135.1	142.5	135.0	153.0

Political Developments

In mid-January 2015, the fighting in the eastern oblasts of Ukraine resumed with new strength. Heavy battles resulted in increasing death tolls, including civilians, worsening the humanitarian situation in the region and causing growing damage to the Ukrainian economy. There was also evidence of further significant inflows of Russian weaponry and fighters in Ukraine, which increase the risk of an open military confrontation between the two countries. On January 31[st], negotiations between the representatives of Ukraine and the rebels under the brokerage of the OSCE and formally backed by Russia took place in

Minsk, Belarus. However, they failed to produce fruitful results as the Ukrainian side insisted on the implementation of the previous September 2014 Minsk agreement, while the rebels' representatives stressed the need to outline the demarcation line of the rebel-held region along the current front line, which would notably enlarge their territory compared to the September 2014 agreement. Despite the lack of negotiation progress, our baseline assumption is that that the confrontation will be resolved in 2015, likely in the form of freezing the conflict, thanks to a combination of diplomatic efforts and military containment.

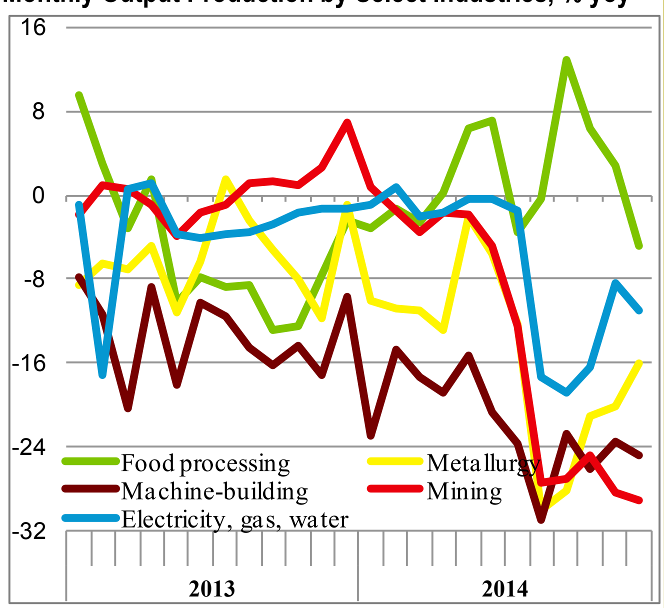
During January, the IMF mission was working in Ukraine to review the current IMF program and discuss the provision of a new loan, supported by a so-called extended fund facility. In December 2014, Ukrainian authorities requested additional financial support, on top of the previous bailout package from the IMF and other IFIs, to cope with growing economic and financing pressures. The new IMF arrangement will help provide additional financial assistance to Ukraine for a longer period. A four-year loan program, strictly conditional on Ukraine's progress in implementing structural reforms, has been discussed, but no information on future program details and conditionality requirements is available at the moment. Other large creditors, such as the EU and the US, signaled that they are ready to increase financial assistance to Ukraine. Thus, at the end of January, the EU agreed to grant a loan of $2 billion (€1.8 billion) to Ukraine, while the US pledged $2 billion in loan guarantees. This financing will be contingent on a functioning IMF bailout program in Ukraine. All this signals that Ukraine is likely to receive the required international financing to cover its high foreign financing needs in 2015.

Rather surprisingly, at the end of January 2015, Ukrainian authorities admitted the possibility of restructuring Ukraine's sovereign external debt liabilities, although they had repeatedly ruled out such plans until recently. While sovereign debt restructuring usually bears significant reputation costs, it may notably ease external financing needs for Ukraine over the medium-term.

Economic Growth

The military conflict with pro-Russian separatists in the East has exacerbated the existing macroeconomic challenges for Ukraine, caused by widespread corruption and years of mismanagement, and pushed the country into its deepest recession since 2009. Thus, the economy is estimated to have contracted by about 7.0% yoy in 2014 amid growing disruption of economic ties and infrastructure damage as a result of hostilities in Donbas, weakening domestic consumption, and falling exports and capital investment. Domestic consumption was also affected by strong Hryvnia depreciations, tight fiscal austerity measures, accelerating inflation and the credit squeeze. On the upside, however, real sector performance was supported by a sharp contraction in imports, improved access to the EU market for Ukraine and favorable developments in agriculture. Indeed, Ukraine gathered a record high harvest of 63.8 million tons of grain in 2014, exceeding the previous year's record by 2.4%. The harvest could have been even higher if grains from all the sown area in Donetsk and Luhansk oblasts were collected. As a result, despite a high base effect, agriculture was the only sector demonstrating small but solid output growth of 2.8% yoy in 2014.

Monthly Output Production by Select Industries, % yoy



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

Economic activity in other sectors of the Ukrainian economy declined markedly. Weakening domestic consumption and deteriorating foreign trade was reflected in a 9.6% yoy and 15% yoy reduction in the real value of retail and wholesale trade turnover, respectively. A change in investment sentiment and tight lending conditions exerted a toll on investment activity, which was mirrored in an almost 22% yoy decline in the real value of construction works in 2015. Falling real household income (real wages dropped by 13.5% yoy in 2014), subdued economic activity and infrastructure damages weighed on transportation sector per-

Select Real Sector Indicators for Ukraine

	2014				2013	2012	2011	2010
	12m	11m	10m	9m				
Agriculture	2.8	5.0	7.5	16.0	13.3	-4.5	17.5	-1.5
Industry	-10.7	-10.1	-9.4	-8.6	-4.3	-1.8	7.6	11.2
Construction works	-21.7	-19.3	-18.6	-17.2	-11.1	-14	11.1	-5.4
Domestic trade, turnover								
Wholesale trade	-15.0	-14.5	-14.2	-14.0	-2	-4.4	0.6	0.4
Retail trade	-9.6	-8.7	-7.9	-6.5	9.5	15.9	14.7	9.8
Transportation, turnover								
Cargo	-10.8	-9.1	-7.9	-6.5	-3.9	-7.6	5.7	6.4
Passenger	-11.7	-11.7	-11.4	-11.8	-2.9	-1.2	3.3	-0.2

Source: State Statistical Service of Ukraine, The Bleyzer Foundation formance, with passenger and cargo turnovers contracting by 11.7% yoy and 10.8% yoy in real terms, respectively.

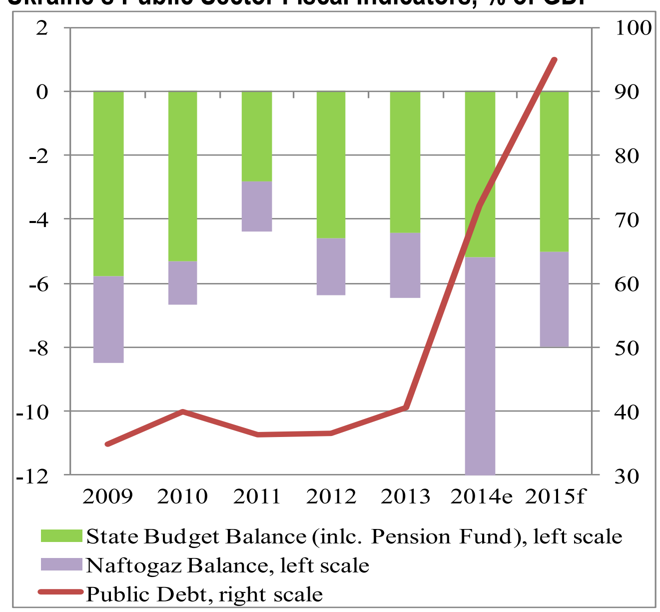
The industrial sector was among the hardest hit sectors of the Ukrainian economy. With many enterprises in the metallurgy, machine-building, chemical and mining industries located in rebel-held territories, output production of these industries fell sharply by about 15% yoy, 21% yoy, 15% yoy, and 14% yoy in 2014, respectively. The downward adjustment of world commodity prices and Russia's trade restrictions also contributed to these sectors' downturn. Moreover, the disruption of economic and production ties between the regions of Ukraine weighed on other industries. Thus, experiencing a shortage of coal supplies, production of electricity and coke-refining declined by 6.5% yoy and 22% yoy, respectively. On the upside, a high agricultural harvest and improved access to the EU market supported Ukraine's food processing, where output was up by 4% yoy. In addition, Hryvnia depreciation supported the competitiveness of domestic textile and pharmaceutical industries. Overall, industrial output production fell by 10.7% yoy in 2014.

The economic outlook for 2015 will crucially depend on the evolution of the military conflict in the East, the provision of foreign financial aid and the implementation of structural reforms. Assuming the confrontation is resolved during 2015 with rebels' control of territory not expanding beyond the current front line and a new financial aid program is granted and smoothly run, the economy is forecast to contract by about 5% yoy in 2015. At the same time, growth may resume in 2016 as the announced reforms are forecast to start bringing early results that year.

Fiscal Policy

Following a marked deterioration in Ukraine's public finances in 2014, with the consolidated public sector fiscal deficit (including state and local budgets, Naftogaz and Pension Fund) widening to about 12% of GDP, the fiscal outlook for 2015 also raises concerns. The approved 2015 state budget law and related legislative amendments (mainly to Tax and Budget Codes) at the end of December 2014 were supposed to contain convincing fiscal correction measures to address large fiscal imbalances and a rapidly rising public debt-to-GDP ratio. Although the package does contain a number of steps in the right direction (a reduction in the tax burden, improvement of tax administration, fiscal decentralization, etc.), it may fail to reach the goal of improving fiscal budget performance.

Ukraine's Public Sector Fiscal Indicators, % of GDP



Source: Ministry of Finance of Ukraine, The Bleyzer Foundation

First, budget revenues may fall short of the targeted amount in 2015. Although the budget law was developed on a realistic macroeconomic forecast, state budget revenues are planned to increase by about 26% yoy in nominal terms. The growth is expected to be achieved thanks to increases in select tax rates (excises, royalty, fixed agricultural tax, etc.), broadening the tax base (e.g., personal income tax for indirect income (dividends, portfolio investment), abolishment of VAT privileges to agricultural sector) and introduction of new taxes (property tax, additional duties on non-critical imports). Realizing these revenue-based fiscal measures may turn out to be counterproductive in the receding economy, the government believes the impact of the increased tax burden will be compensated for by the simplification of tax administration (the number of taxes were reduced from 22 to 11, electronic reporting practices will be strengthened, etc.), introduction of a ban on tax inspections for small business and a notable reduction in payroll taxes (from about 41% to 16.4%). However, deeper analysis of the eligibility criteria for the payroll tax reduction signals that the number of companies that can benefit from this reduction may be rather limited. Furthermore, the reduction in the number of taxes may fail to produce the expected effect as in practice only 3 duties of little effectiveness were actually abolished, while the rest were merged into several groups. In addition, the changes in tax rules can generate higher uncertainty, which may adversely affect tax collection. Finally, some of the approved tax increases (e.g., additional import duties) will not be enforced until they are agreed upon with Ukraine's trade partners.

Second, fiscal expenditures may grow faster than the targeted 19.4%. Thus, despite a number of expenditure cuts (capital spending, lower expenditures on public administration, economic activity, judiciary, and energy subsidy), higher than planned spending may be required amid escalation of the military conflict in Donbas, government initiatives to increase social payments for those participating in military operations, further Hryvnia depreciation (through external public debt service), delays in natural gas tariff adjustment, sharp worsening of the banking sector situation, etc.

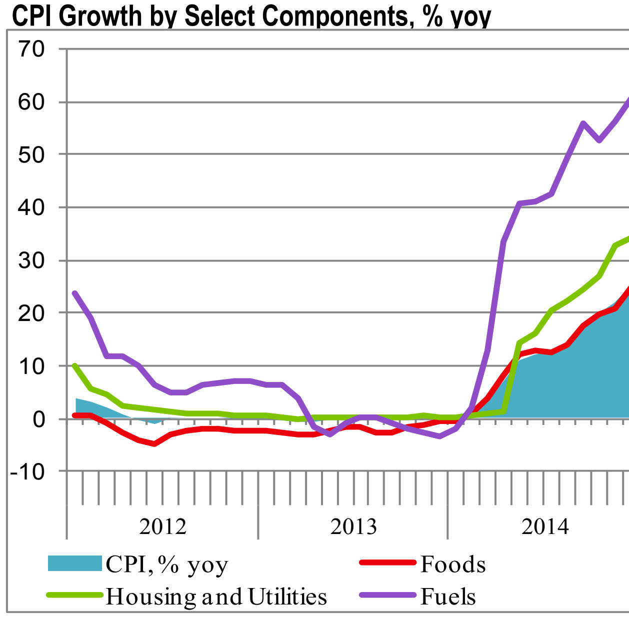
Finally, the sources of budget deficit financing are also a cause for concern. The government plans to receive UAH 17 billion as privatization receipts in 2015. The same amount was initially planned for 2014, while the actual proceeds amounted to less than 3% of that target. In 2013, privatization revenues amounted to less than 14% of the initially planned target. Although the failure of the privatization process in previous years may be attributed to the lack of political will, which may not be the case this year, an unfavorable economic and political environment may prevent this target from being reached again this year. The rest of the fiscal deficit is planned to be financed via issuance of debt securities and foreign aid. In particular, in 2015, the government plans to issue about UAH 200 billion of domestic bonds, including for the banking sector and Naftogaz recapitalization purposes. The lion's share of these securities is likely to be monetized by the National Bank of Ukraine, which will contribute to inflationary pressures. Coupled with the planned sizable external borrowings, this will cause the public debt-to-GDP ratio to increase to about 95% of GDP by the end of the year, further increasing the risk of public debt sustainability.

To improve the fiscal outcome, additional fiscal adjustment measures are likely to be required following negotiations with the IMF and budget execution data throughout the year. However, given the challenges currently faced by the Ukrainian economy (economic downturn, military conflict, banking sector weaknesses, etc.), the progress in fiscal consolidation is likely to be slow. Thus, the public sector fiscal deficit is forecast at around 8% of GDP in 2015.

Monetary Policy

Inflation. In 2014, the consumer price index grew by 24.9% yoy, the highest rate since 2000. The price growth was spurred by sharp Hryvnia depreciation (through the direct impact on the price of imported consumption goods such as fuels, clothing and footwear, medicines and home appliances) and its secondary effects (through higher costs of transportation and imported inputs), adjustment of administratively regulated prices (including utility tariffs, passenger rail fares, bread and minimum prices on alcohol) and select consumption tax hikes (higher excises on alcohol and tobacco, abolishment of VAT privileges for pharmaceuticals, etc.). In addition, sizable monetization of the fiscal deficit also contributed to inflationary pressures. At the same time, Russia's restrictions on Ukraine's exports, a high agricultural harvest, weakening domestic consumption, falling world energy prices (particularly in the second half of the year) and select contractionary monetary policy actions partially offset these pressures on inflation.

CPI Growth by Select Components, % yoy



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

Looking at the main CPI components in more detail, food inflation rose to 24.8% yoy in 2014 due to a surge in the annual rates of change in the prices of fruit (up by almost 56%), fish and products thereof (up by 37.2%) and eggs (up by 35.3% yoy), which were particularly hit by Hryvnia depreciation due to the high share of imports in the consumption of these commodities or inputs for their production. For the same reason, price indicators for car purchases, housing appliances, clothing and footwear and medicines picked up by about 73.5% yoy, 28% yoy, 14.5% yoy and 45% yoy in 2014, respectively. Due to increases in indirect taxes and administered prices, prices of alcoholic drink and tobacco and rail transportation services rose sharply by almost 26% yoy and 20.5% yoy, respectively. For the latter reason, bread prices and utility tariffs recorded a 35% yoy and 34% yoy increase. As Ukraine is heavily dependent on imported fossil fuels, petrol prices increased substantially in 2014. Despite favorable world crude oil developments in the second half of the year, they only partially compensated for Hryvnia depreciation and a rise in excise taxes. As a result, the annual change in the prices of car fuels reached almost 61% yoy.

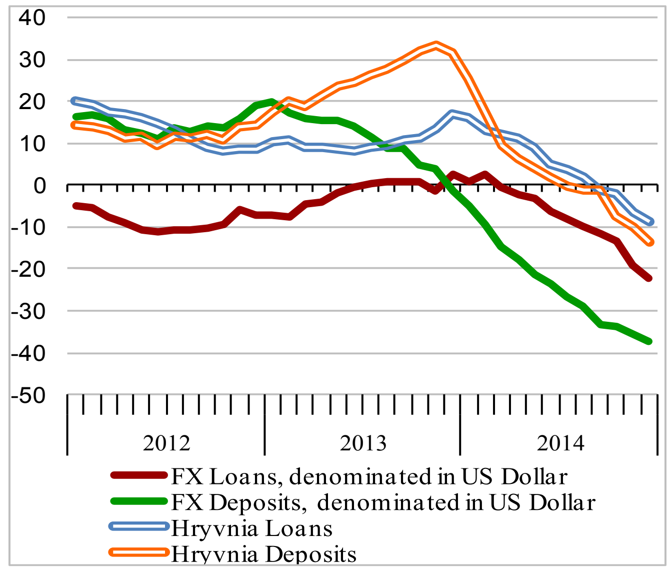
On the downside, amid the decline in real incomes, services recorded a lower than average rate of inflation. Indeed, the costs of medical, education, and recreation and culture rose by about 17.5% yoy, 5% yoy, and 9.5% yoy respectively. Subdued domestic demand in combination with abundant agricultural harvest and higher supplies of select food products due to Russia's trade restrictions helped to contain pressures on prices of milk and dairy products, cheese, vegetables and sugar, as well as restaurant and hotel services.

Looking to 2015, inflation will remain elevated, although due to a high base effect we forecast consumer price index growth to slightly decelerate to about 20% yoy. As in the previous year, consumer price growth will be driven by the presence of devaluation effects, a continuing adjustment of utility tariffs and other administratively regulated prices, and a further increase in indirect taxes. Moreover, according to the 2015 state budget law approved at the end of 2014, the government will continue the practice of monetizing the fiscal deficit. This monetary expansion risks generating substantial inflationary pressures over the medium term, particularly since money demand is declining, thus undermining the central bank's ability to control inflation processes. For that reason, coupled with the continuing adjustment of administratively regulated prices, consumer prices are likely to grow at double-digit rates over the medium-term.

Banking Sector. Despite sizable monetization of Ukraine's fiscal deficit and stronger NBU provision of liquidity to commercial banks, the monetary impact on consumer inflation was relatively limited as these forces were counterbalanced by the sterilization effects from the NBU sale of international reserves and increases in the NBU discount rate. Thus, in 2014 the National Bank of Ukraine provided about UAH 175 billion for fiscal purposes in the form of NBU profit transfer to the state budget of Ukraine (UAH 22.8 billion) and purchase of domestic government securities. Indeed, the NBU portfolio of domestic T-bonds more than doubled and reached UAH 318 billion at the end of 2014. As a result, the share of Ukraine's public debt owned by the National Bank of Ukraine grew from about 58% to almost 70% at the end of 2013 and 2014, respectively, which indicates an increasing reliance of Ukraine's government authorities on monetary sources of fiscal deficit financing.

In addition, the NBU gave UAH 222.3 billion of refinancing resources to commercial banks, more than half of which were provided as extended credit to compensate for severe deposit outflows. At the same time, as commercial banks repaid UAH 189.4 billion of previously granted refinancing credit in 2014, the net increase in the NBU discount loans amounted to only about UAH 33 billion, adding 10.5% to the monetary base reported at the beginning of 2014. At the same time, the monetary base expanded by a relatively moderate 8.5% yoy in 2014 as the expansion was counterbalanced by the sterilization effect of NBU sale of gross international reserves, which declined from about $20.4 billion at the beginning of 2014 to $7.5 billion at the end of the year, and increases in the NBU discount rate from 6.5% to 14% during 2014. Furthermore, the credit squeeze was reflected in a slower growth of money supply, which expanded by less than 5% yoy in 2014.

Banking Sector Deposit and Loan Stocks, % yoy

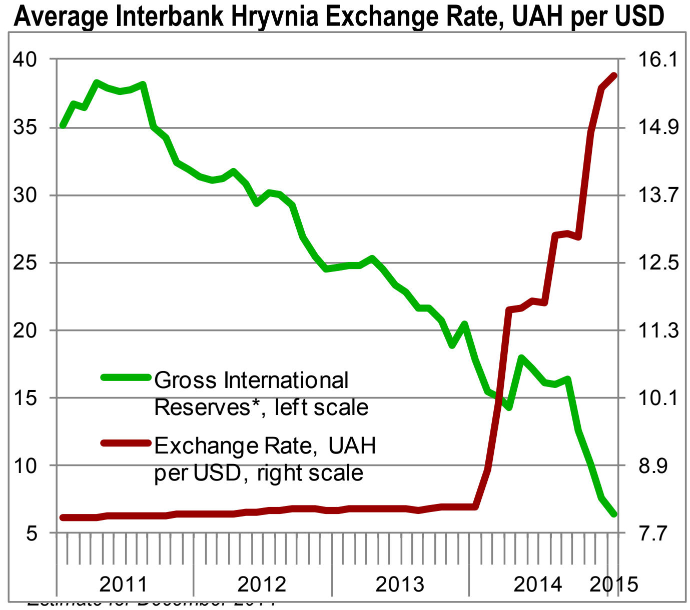


Source: NBU, The Bleyzer Foundation

The NBU liquidity support helped to address commercial banks' weaknesses in the short term and to manage relatively well the banking crisis that had been caused by the sizable deposit outflows and rapid deterioration in the quality of commercial banks' credit portfolios. In 2014, 33 banks (relatively small banks with many of them serving as 'pocket' banks for insiders and controlling interests) were declared insolvent. Although more failures are expected in 2015 (3 more banks were put under temporary NBU administration in January 2015), the bank resolution program, developed by the Ukrainian authorities in close cooperation with international partners, will help resolve the crisis and restore the financial health of the banking sector over the medium term.

As part of the program, at the end of 2014, the National Bank of Ukraine approved the methodology for determining systemically important banks, according to which 8 banks satisfied the specified criteria as of the beginning of December 2014. According to NBU officials, the main aim of identifying systemically important banks is to improve regulation and supervision of these banks to reduce systemic risk for the banking system of Ukraine. In addition, at the end of January 2015, the Law 'On Measures Aimed at Facilitating the Capitalization and Restructuring of Banks' came into force, which simplifies the procedures for bank capital injections and sets the criteria for government participation in bank recapitalization. Moreover, several controversial initiatives, related to the prohibition of foreclosures of residential property provided as collateral for forex-denominated loans and the conversion of household forex-denominated mortgages into Hryvnia at the pre-crisis rate, were promptly addressed. Thus, the President of Ukraine vetoed the law that imposed a moratorium on the foreclosure of mortgage loans. The National Bank of Ukraine and commercial banks continued consultations to resolve the problem of foreign currency mortgages, one of the main causes of banking sector weaknesses. According to the latest available information, the idea of the loans' conversion into Hryvnia was abandoned amid concerns over future moral hazard problems and the violation of the fairness principle (the burden of bailing out borrowers in foreign currency would have been shifted from such borrowers, commercial banks and the regulator to all taxpayers). Instead, commercial

NBU Gross International Reserves, $ billion, and Weighted Average Interbank Hryvnia Exchange Rate, UAH per USD



Source: NBU, The Bleyzer Foundation

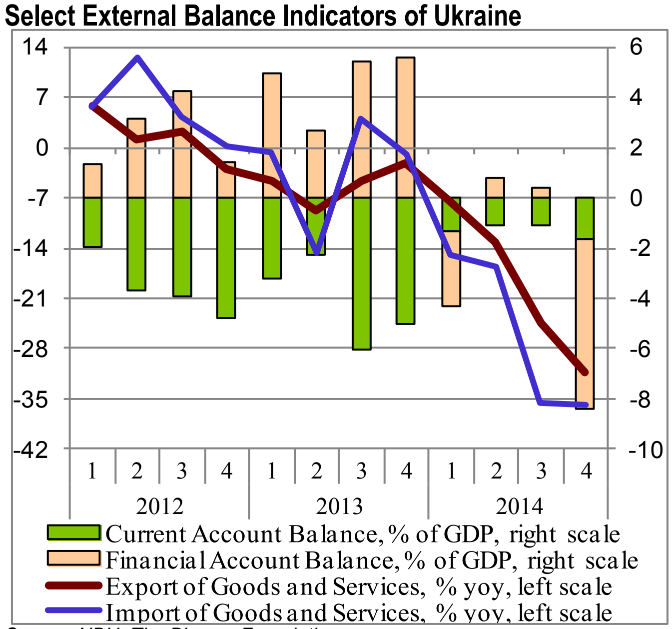
banks may agree to convert forex loans into Hryvnia at the current exchange rate but may take up to a 50% write-off on the value of outstanding loans.

Hryvnia Exchange Rate. Escalation of the military conflict in Donbas and uncertainty over the next IMF program spurred further Hryvnia depreciation in January 2014. Indeed, the official Hryvnia exchange rate with respect to the US Dollar depreciated by about 2.5% over the month and reached a new record low of UAH 16.16 per USD at the end of the month. At the same time, the likely dissatisfaction of the IMF, whose mission has been working in Ukraine in January, with the existence of virtually three exchange rates (official, interbank market rate with unofficial commission and the black market rate) may also urge Ukrainian monetary authorities to start gradual convergence of the official and actual interbank exchange rate. Indeed, during the month the Hryvnia traded at about UAH 20-21.5 per USD, including commission, on the interbank forex market, a rate close to the black market rate. Assuming that foreign financial aid will be sufficient to fully cover Ukraine's high foreign financing needs and the hostilities will not spread beyond the current demarcation line, we believe the Hryvnia will fluctuate at around UAH 22 per USD in 2015.

International Trade and Capital

Although Balance-of-Payments data for the whole 2014 was not available, the eleven-month statistics pointed to a notable adjustment in the current account of Ukraine. While both export and import values of goods and services declined in 2014, a much deeper import compression was the main driver of the current account improvement. Indeed, Ukraine's exports suffered from hostilities in Donbas, the industrial region of Ukraine accounting for about 25% of total merchandise exports in 2013, Russia's trade restrictions and downward correction of world commodity prices. On the upside, improved access to the EU market, a record high agricultural harvest and Hryvnia depreciation supported Ukraine's export performance. On the import side, weakening domestic demand, due to tight fiscal austerity measures and wealth and price effects from currency depreciation, and lower volumes of energy supplies caused a sharp contraction in imports. As a result, the current account deficit is estimated to have narrowed to about 4% of GDP in 2014.

Select External Balance Indicators of Ukraine



Source: NBU, The Bleyzer Foundation

Despite notable correction, the current account remained in deficit. In addition, the financial account worsened considerably in 2014 amid high external debt financing needs and a marked deterioration in foreign investors' sentiment. In particular, reassessment of country risks that reflected political instability in the first half of the year, Russia's annexation of Crimea, hostilities in other regions of Ukraine that grew into military conflict between Ukrainian forces and pro-Russian insurgents in Donbas, protraction of structural reforms by the Ukrainian authorities, and the downward revision of medium-term growth expectations in general, led to outflows in portfolio and foreign direct investment and a significant reduction in other capital flows. In particular, a heightened degree of risk aversion towards Ukraine could be observed from the considerable decline in the external private debt rollover ratio during 2014. These developments led to the formation of a large Balance-of-Payment deficit throughout 2014, generating strong depreciation pressures on the Hryvnia.

A two-year extensive financial aid package from the IMF, the EU and other sources with total funding of $27 billion, secured in April 2014, partially helped cover Ukraine's high external financing gap in 2014. However, Ukraine has experienced much deeper financial and economic distress than was anticipated in the IMF program due to escalation of hostilities in the east in the second half of the year. In addition, snap parliamentary elections, called for late October 2014, caused a delay in IMF and other IFI financing as the donors waited for commitments from a new government to carry out painful structural reforms and austerity measures, one of the key conditions of receiving aid. As a result, Ukraine received only two tranches of the IMF loan in 2014, totaling $4.6 billion, while total financial assistance amounted to $9 billion compared to around $14 billion of sovereign and quasi-sovereign external obligations paid that year. The deficit in foreign financial resources and the NBU measures to contain Hryvnia depreciation resulted in a 64% yoy reduction in gross international reserves, which fell to $7.5 billion as of the end of 2014.

Looking ahead, Ukraine's economic outlook for 2015 will be shaped by the country's ability to attract sufficient funds to cover its high external financing needs. Thus, the country is forecast to continue progress in the current account adjustment but it is projected to continue to run a small deficit of about 1% of GDP in 2015. In addition, Ukraine will have to redeem about $10 billion of its public and quasi-public external obligations in 2015, while total external debt liabilities (including banking and corporate sector) due in 2015 are estimated at around $55 billion. Although the availability of some sources of external financing, such as trade credit, looks like a less pressing problem, overall access to foreign capital is likely to remain quite challenging. Given the low level of international reserves, obtaining extensive foreign financial aid looks like the only viable option to control the adjustment process of the Ukrainian economy. However, due to the deteriorated economic conditions of Ukraine, the approved financial package turned out to be insufficient. A shortfall of about $15 billion was identified for 2015, which led the Ukrainian authorities to apply for a new extended IMF support program in December 2014. Despite tough negotiations, we expect the necessary funding to be provided to Ukraine. Strictly conditional to the progress of structural reforms, this financing will not only help cover Ukraine's foreign financing needs and gradually augment its gross international reserves, but will lay a foundation for a healthy recovery in 2016 and sustainable growth over the longer term.

Ukraine's Private Sector External Debt Rollover Ratios*

	2013	2014			
		1	2	3	4**
Banks	87%	111%	82%	95%	86%
Corporates	106%	70%	85%	57%	42%

** Excluding Eurobonds and overnight credit*
*** Preliminary data for 4Q 2014*
Source: NBU, The Bleyzer Foundation

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