

*November 2015**Oleg Ustenko, Julia Segura, Valentyn Povroznyuk
Edilberto L. Segura***Executive Summary**

- ❖ Eastern Ukraine is still under occasional gunfire from Russian-backed separatists. Nevertheless, the ceasefire agreed upon on August 24th generally held throughout November. It gives a weak but still positive signal that the Minsk-2 peace agenda may be reached.
- ❖ Following the completion of local elections, the country's authorities announced their intention to intensify implementation of the reform agenda. During November, measures were taken to improve the business climate in the country. In particular, there were anticorruption efforts and open-government initiatives, energy efficiency initiatives, and business deregulation. Nevertheless, the government has been heavily criticized for slow implementation of reforms and continued high levels of corruption.
- ❖ During the third quarter of 2015, the rate of decline of GDP decelerated to 7% yoy, following a drop in GDP of 14.6% yoy in the second quarter of the year. On a quarter-to-quarter basis, GDP had a positive though small growth rate. These results are consistent with our prediction that GDP may fall by 11.5% in 2015 and may grow by 2% in 2016.
- ❖ High-frequency data shows that in October 2015, the agricultural production index rose by 0.5% yoy, compared to a 4.2% yoy decline in September 2015. On a month-over-month basis, October industrial output increased by 7.3%. As a result, the decline in the industrial production index in October slowed to -5.0% yoy, compared to -5.1% yoy in September 2015. Similarly, the construction works index showed improvement with a smaller reduction of 12.2% yoy, compared to a 16.4% yoy drop in September 2015.
- ❖ On a geographical basis, in October the best improvements in industrial output took place in Lugansk and Donetsk, where the industrial production indices rose by 23% yoy and 8.7% yoy, respectively. These regions were the main beneficiaries of the ongoing ceasefire.
- ❖ The execution of the fiscal budget continues to be better than originally envisaged. State budget revenues continued to grow at high rates even though the pace of growth slightly decelerated (to 50.7% yoy in October and to 47.7% yoy in January-October).
- ❖ Inflation in October continued to decelerate to 46.4% yoy, due principally to declines in energy prices (compared to 51.2% yoy in September). CPI growth decelerated from its peak of 61% yoy in April. It is expected to decline further to 48% by the end of 2015.
- ❖ In October, the amount of national currency deposits in the banking sector benefited from the ceasefire in Eastern Ukraine and the signs of economic stabilization. They grew by 2.1% mom on the back of an increase in deposits of both private persons and legal entities.
- ❖ The UAH/USD exchange rate depreciated during the second half of November, despite actions of the NBU to stabilize the market. This depreciation was caused by higher dollar demand and lower dollar supply related to uncertainties during the local elections. As a result, the UAH/USD exchange rate depreciated from around 22.6 UAH/USD on November 11th to 24.05 UAH/USD on November 23rd.
- ❖ In October 2015, the current account of the balance of payments showed a deficit of USD 322 million (about 3.5% of period GDP), compared to the surplus of USD 135 million in September. This deficit was caused principally by an increase in imports of natural gas from Russia during the month. This deficit was fully offset by a surplus of USD 549 million in the financial account. International reserves have remained at about USD 13 billion.
- ❖ The November IMF mission concluded that Ukraine would receive the third tranche from the IMF program only when it had satisfied a number of conditions, including anti-corruption measures, reform of the banking sector, tax reform, and elaboration of the state budget for 2016. IMF disbursement is now expected in January/February 2016.

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| Main Macroeconomic Indicators | 2011 | 2012 | 2013 | 2014 | 2015f |
|--|-------|-------|-------|-------|-------|
| GDP, \$ billion | 163.4 | 176.6 | 182.0 | 127.4 | 98.0 |
| Real GDP Growth, % yoy | 5.5 | 0.2 | 0.0 | -6.8 | -11.0 |
| Private Consumption, real growth, % yoy | 15.7 | 8.4 | 6.9 | -9.6 | -17.0 |
| Fiscal Balance, incl. Naftogaz and Pension Fund, % of GDP | -4.3 | -6.0 | -6.5 | -11.7 | -8.0 |
| Public Debt, External and Domestic, % of GDP | 36.3 | 36.7 | 39.9 | 70.3 | 94.0 |
| Consumer Inflation, eop, % yoy | 4.6 | -0.2 | 0.5 | 24.9 | 48.0 |
| Hryvnia Exchange Rate per USD, eop | 8.0 | 8.0 | 8.2 | 15.8 | 25.0 |
| Current Account Balance, % of GDP | -6.3 | -8.2 | -9.2 | -4.1 | 0.0 |
| FDI (\$ billion) | 7.0 | 6.6 | 3.3 | 0.2 | 0.5 |
| International Reserves (\$ billion) | 31.8 | 24.5 | 20.4 | 7.5 | 13.0 |
| Total Public and Private External Debt (\$ billion) | 126.2 | 134.6 | 142.1 | 125.9 | 138.0 |

Political and Reform Developments

Eastern Ukraine is still under occasional gunfire from Russian-backed separatists. The daily reports of the Ukrainian Antiterrorist Center show that despite the official ceasefire, the terrorists continue to provoke Ukrainian militants. Nevertheless, a ceasefire in the Eastern part of Ukraine has generally held throughout November. It gives weak but still positive signals that the Minsk-2 peace agenda may be reached. The recent visit of US Vice President Joe Biden to Kiev reconfirmed the US position supporting the government and the full implementation of the Minsk-2 agreement.

Following the local elections, the country's authorities announced their intention to intensify implementation of the reform agenda. During November, some measures were taken to improve the business climate in the country. In particular, there were a number of anticorruption efforts and open-government initiatives, energy efficiency initiatives, and business deregulation. The main initiatives taken in November were as follows:

- The Cabinet of Ministers of Ukraine approved the draft law On Public Procurement. According to this law, all state tenders will be conducted only in electronic format. When adopted by the Parliament, the electronic form of procurement will become mandatory for all public sector customers in the country.
- The government started a comprehensive audit of the largest public sector companies. The audit of the first group of 20 companies should be completed before the end of 2015. The rest will undergo audits in the first half of 2016. It is expected that these audits will create a solid basis for their future privatization. If implemented it should substantially decrease pressure on the budget and minimize the level of corruption.
- The Committee on Government Procurement of the World Trade Organization approved the accession of Ukraine to the Agreement on Government Procurement (GPA). Joining this Agreement should imply that Ukrainian companies get access to the global market for public procurement of WTO countries, which is estimated at USD 1.7 trillion.
- During the first nine months of 2015, the consumption of natural gas in Ukraine fell by 19% compared to the

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same period of last year. This represents a first signal that the introduction of market tariffs has motivated businesses to introduce measures to increase the energy efficiency of their companies.

- On deregulation, the government passed a decree that should reduce the number of state tax inspections twofold from 311 to 161. Due to this change, by the end of 2015 the Cabinet expects to cut the staff of the State Fiscal Service by 17,000 people, which will positively affect both businesses and the fiscal budget.
- On EU visa liberalization, the Rada completed the required bills regarding security of documents, refugee policy, discrimination; the fight against drugs, organized crime and terror acts, corruption, and the safety of internally displaced people and personal data.
- In November, Ukraine and the European Commission signed an agreement on Ukraine's participation in the EU program "Creative Europe". This large-scale program of the European Union should open new opportunities for the promotion of Ukrainian culture in Europe, and access to EU funds in this area.

Nevertheless, the government has been heavily criticized for slow implementation of reforms and continued high levels of corruption.

Economic Growth

During the third quarter of 2015, the rate of decline of GDP decelerated to 7% yoy, following a drop in GDP of 14.6% yoy in the second quarter of the year. On a quarter-to-quarter basis, GDP had a positive though small growth rate. These results are consistent with our predictions that GDP may fall by 11.5% in 2015 and may grow by 2% in 2016.

These positive results were achieved thanks to a number of developments, including the favorable impact of the ceasefire on economic activities in the East of Ukraine, the improved stabilization of the banking system, the agreement with international creditors about public debt restructuring, the recovery of international reserves, progress with the EU on the visa liberalization action plan, ratification by EU members of January 1, 2016 for the implementation of the Deep and Comprehensive Free Trade Agreement, and the reform improvements mentioned earlier.

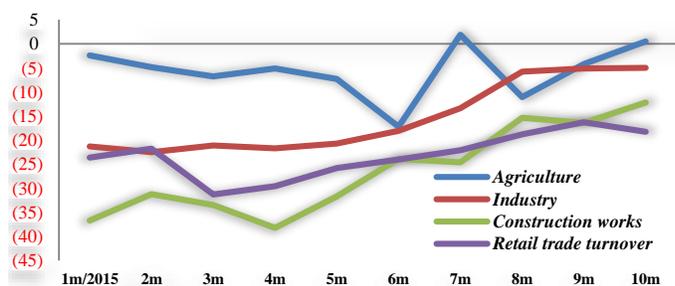
Increases in capital investments also contributed to favorable GDP developments. In the third quarter of the year, capital investments declined by only -0.2% qoq, compared to a drop of -3.6% in Q2 and

Real Sector Indicators of Ukraine, % yoy

| | 2015 10 m* | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------------------|------------|-------|-------|------|------|------|
| Agriculture | -4.4 | 2.8 | 13.3 | -4.5 | 17.5 | -1.5 |
| Industry | -15.4 | -10.7 | -4.3 | -1.8 | 7.6 | 11.2 |
| Construction works | -20.8 | -21.7 | -11.1 | -14 | 11.1 | -5.4 |
| Domestic trade, turnover | | | | | | |
| Wholesale trade | -13.5 | -15 | -2 | -4.4 | 0.6 | 0.4 |
| Retail trade | -21.7 | -8.6 | 9.5 | 15.9 | 14.7 | 9.8 |
| Transportation, turnover | | | | | | |
| Cargo | -8.4 | -10.8 | -3.9 | -7.6 | 5.7 | 6.4 |
| Passenger | -9.6 | -11.7 | -2.9 | -1.2 | 3.3 | -0.2 |

Source: State Statistical Service of Ukraine, the Bleyzer Foundation
* Excluding Crimea

Economic Performance of Ukraine by Sector, % yoy (to corresponding month of previous year)



Source: The Bleyzer Foundation

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-14.8% qoq in Q1. In Q3, capital investments in public administration, defence and compulsory social security showed the highest increase, increasing by 93.4% qoq. Investments in the the agricultural sector were also significant in Q3, with a growth rate of 30.7% qoq.

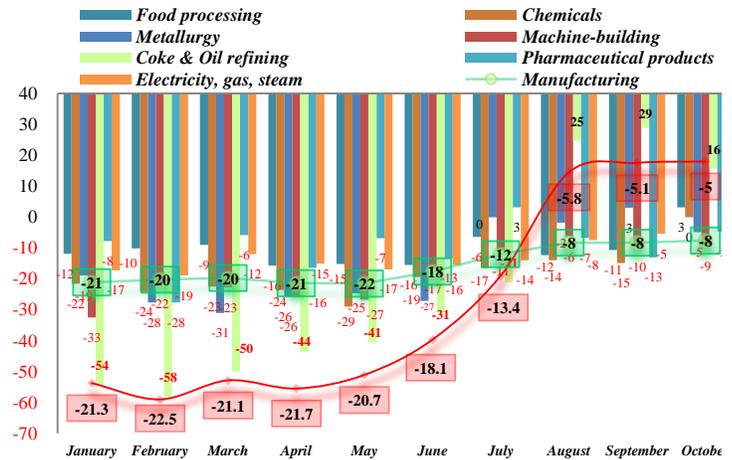
High-frequency data shows that in October 2015, the agricultural production index rose by 0.5% yoy, compared to a 4.2% yoy decline in September 2015. On a month-over-month basis, October industrial output increased by 7.3%. As a result, the decline in the industrial production index slowed to -5.0% yoy, compared to -5.1% yoy in September 2015. Similarly, the construction works index revealed improvement with a smaller reduction of 12.2% yoy, compared to a 16.4% yoy drop in September 2015.

Within the industrial sector, the best performing industries in October 2015 were coke and oil refining with an increase of 15.7% yoy, mining and quarrying with an increase of 1.9% yoy, and chemicals, which stabilized with no decline on a yoy basis. Other sectors showed reductions in their rates of decline compared to previous months: pharmaceutical production declined by 4.7% yoy in October, compared to a decline of 13.0% yoy in September; food processing declined by 10.6% yoy, compared to a decline of 13.8% yoy in the previous month; and machine-building declined by 9.3% yoy, compared to 9.6% yoy in September.

On a geographical basis, the best improvements in industrial output in October took place in Lugansk, Donetsk and Sums, where the industrial production indices rose by 23% yoy, 8.7% yoy and 3.5% yoy, respectively. Other regions with improved industrial output in October compared to September included: Kharkiv, whose industrial output fell by 2.8% yoy in October (compared to -13.0% yoy in September), Cherkasy by -5.4% yoy (-23.8% yoy), Khmelnytsky by -11.6% yoy (-25.9% yoy), Kirovograd by -10.1% yoy (-23.2% yoy), Rivne by -3.5% yoy (-15% yoy), and Vinnitsa by -6.2% yoy (-10.9% yoy). However, other regions continued to show further deterioration in industrial production indices on a yoy basis, compared to the deterioration of September: Trans Carpathian output fell by

Industrial Production by Sectors, % YOY

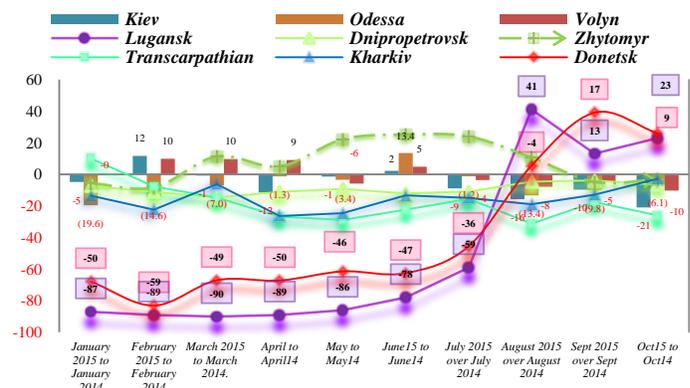
(to corresponding month of previous year)



Source: The Bleyzer Foundation

Industrial Production Sectors by Region, % YOY

(to corresponding month of previous year)



Source: The Bleyzer Foundation

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26.1% yoy in October (in September it slashed by 17.5% yoy), Kyiv by -20.9% yoy (-9.6% yoy), Ternopol by 17.9% yoy (-9.4% yoy), Volyn by 10.2% yoy (-5.1%), and Zaporozhe by 7.6% yoy (5.1% yoy).

Despite relative improvements in industrial output in October, retail trade turnover has not recovered. In fact, in October retail trade declined by -18.3% yoy, compared to a decline of -16.3% yoy in September. One reason for this poor performance is that real wages have continued to decrease (by -18.6% yoy in January-September, over the corresponding months of the previous year.) Moreover, the population's real disposable income declined by 34 % yoy in Q2, over the corresponding period of the previous year.

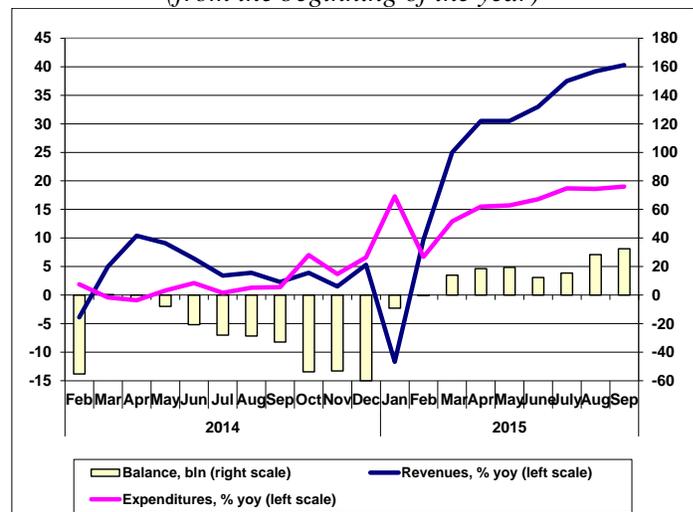
Fiscal Policy

The execution of the fiscal budget continues to be better than originally envisaged. State budget revenues have continued to grow at high rates even though the pace of growth slightly decelerated (to 50.7% yoy in October and to 47.7% yoy in January-October). At the same time, growth of state budget expenditures also decelerated in the reporting month (by 16.7% yoy) leading to deceleration of their growth from the beginning of the year to 23.9% yoy. This deceleration of expenditures was due to lower expenditures on state debt servicing thanks to foreign debt restructuring and a statistical low base effect. Overall, the state budget in October was executed with a deficit of UAH 6 billion, which reduced the cumulative surplus of the state budget from the beginning of the year to UAH 2.8 billion.

Including local governments, the consolidated budget surplus continued to increase in September on the back of further accelerating growth in budget revenues. Growth of revenues was fueled by both inflation and depreciation of the national currency this year. Transfers from the NBU not just remained among the largest contribution to budget revenues but also significantly expanded in September. In particular, they amounted to UAH 8 billion only in September. From the beginning of the year, total NBU transfers to the state budget reached UAH 47.1 billion, which is a 110% yoy increase.

Tax revenues also continued to grow at high rates in September. Growth of receipts from VAT on domestic goods further accelerated to 27.2% yoy in January-September. But this acceleration was partly offset by a deceleration in the growth of receipts from excise taxes on domestic goods, which posted a decelerated growth of 1.5 percentage points in September, bringing the January-September growth rate to 45.5% yoy. On international trade, receipts from the VAT on imported goods grew at a decelerated pace in September, lowering the overall growth from the beginning of the year by 3.2 percentage points to 33.3% yoy. On the other hand, the growth of revenues from excise taxes on imported goods continued to accelerate in September, following the trend from the beginning of the year. The decline in receipts from corporate profit taxes remained virtually unchanged at 15.1% yoy. Revenues from import duties continued to generate one of the highest growth rates among the state budget revenues, increasing by 250% yoy over the first three quarters of 2015. More than half of received import duty receipts (UAH 16.6 billion out of UAH 26.9 billion) were due to the additional import fee of 5%-10% introduced on February 26th, 2015. Growth of total consolidated budget revenues accelerated

Dynamics of consolidated budget components
 (from the beginning of the year)



Source: The Ministry of Finance of Ukraine, The Bleyzer Foundation

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from 39.2% yoy in January-August to 40.3% yoy in January-September.

Growth of the consolidated budget expenditures also accelerated in September. However, the acceleration in expenditures was not as large as in revenues, at just 0.4 percentage points to 19.0% yoy. The major contributors to expenditure growth remained the same as in previous months – expenditures on state debt servicing and defense expenditures. However, their growth slightly decelerated to around 90% yoy (100% yoy in January-August) and around 120% yoy (140% yoy in January-August), respectively. The only other major line of expenditures which saw deceleration in growth was healthcare (from 15.9% yoy to 15.0% yoy). The mentioned deceleration in growth was more than compensated for by accelerated increases in other expenditures and a decelerated decline in expenditures on housing maintenance and utilities. The Pension Fund of Ukraine received UAH 6.2 billion in transfers from the state budget solely in September, of which just UAH 1.1 billion was transferred to cover the deficit of the Fund on payment of pensions. Total transfers to the Fund from the state budget amounted to UAH 58.6 billion from the beginning of the year. Around one-third of total state budget expenditures (UAH 115.9 billion out of UAH 373.4 billion) was attributed to transfers to local budgets to finance different subsidies for the population.

As growth of consolidated budget revenues accelerated faster than that of expenditures, the consolidated budget surplus expanded in September on the back of surpluses at both the state and local level. The state budget surplus increased by 14.4% mom to UAH 8.8 billion, while the total surplus of local budgets grew from UAH 38.2 million in August to UAH 3.1 billion in September. As a result, the overall consolidated budget surplus from the beginning of the year increased by UAH 4.2 billion to UAH 32.5 billion. Despite the growth in the fiscal budget surplus, the government borrowed an additional UAH 10.7 billion to finance the state budget execution. All of the required funds were provided by World Bank loans (USD 518.8 million).

The Ministry of Finance published the new draft budget for 2016 on its website recently. According to this document, state budget revenues are planned to be 16.3% higher than in 2015 at UAH 601.4 billion. State budget expenditures are planned to be increased by 22.3% to UAH 674.1 billion. The upper bound for the state budget deficit is planned at UAH 83.7 billion or 10.2% higher than planned for 2015. Taking into account that the Ministry has claimed that the state budget deficit will not exceed 3.7% of GDP, we can infer that GDP for 2016 is planned to be around UAH 2,261.9 billion (about USD 90 billion). Among other budget assumptions are a lowering of budget transfers from the NBU from UAH 60.5 billion to UAH 38.0 billion, the granting of additional capitalization through issuance of sovereign bonds to banks and Naftogaz, and the establishment by the government of the stabilization energy fund of USD 700 million in the form of state guarantees (compared to USD 1 billion in the budget for 2015). As for social standards, the draft 2016 budget proposes to raise the population's subsistence income level from the current UAH 1,330 per month to UAH 1,399 starting on May 1st, 2016 and to UAH 1,469 starting on December 1st, 2016. The minimum wage is proposed to be increased from UAH 1,378 to UAH 1,450 and UAH 1,550, correspondingly. The draft budget also puts on hold regulations of laws granting privileges to selected portions of the population, similarly to budget provisions of the last two years, in order to lower budget expenditures.

Monetary Policy

Inflation. A monthly decline in energy prices in October led to further deceleration of consumer inflation to 46.4% in year-over-year terms. The regular seasonal decline in prices of natural gas used by households of 32.6% mom (in line with the Decree of the State Commission for State Regulation of Energy and Public Utilities No. 583 of March 3rd, 2015) caused a 13.8% mom decline in prices for housing and utilities, despite a 39.9% mom growth of tariffs for hot water and heating. At the same time, the dynamics of world oil prices led to lower prices of fuels and lubricants. Taking into account the large share of the cost of fuels and lubricants in total transportation costs, the mentioned decline also caused lowering of prices for transportation services and for

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railway passenger transportation. Prices for road passenger transportation, however, remained flat. Overall, transport prices saw a 0.6% mom decline in October. Other price indexes posted increases during the reporting month. However, growth ranged from 0.5% mom to 1.2% mom for most of the indexes. Prices in communications grew by 1.7% mom due to increased charges on stationary phone communication (by 14.7% mom). Apparel and footwear prices grew by 3.6% mom due to seasonal factors. The all items CPI index saw a 1.3% mom decline.

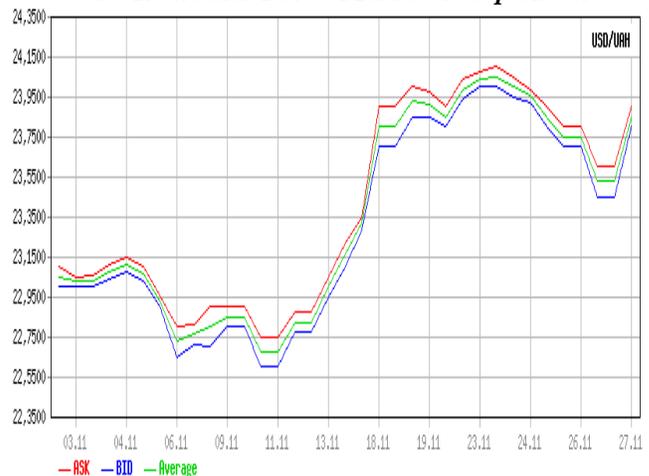
The monetary base decreased by 0.9% mom in October and by 4.4% from the beginning of the year. At the same time, money supply saw a 2.4% mom increase during the reporting month but remained almost flat from the beginning of the year (inched up by 0.2%). However, taking into account recent dynamics of the UAH/USD exchange rate (see below), which is named as one of the major factors of consumer inflation by bankers, we are keeping our forecast for inflation at the end of the year unchanged at 48%.

Banking Sector. In October, national currency deposits benefited from the ceasefire in Eastern Ukraine and the first signs of economic stabilization. They grew by 2.1% mom (excluding insolvent banks or banks under liquidation) on the back of an increase in deposits of both private persons and legal entities. Deposits of private persons grew faster than those of legal entities (3.3% mom against 1.1% mom). As for foreign currency deposits denominated in US dollars, they continued to decline in October. Total foreign currency deposits dropped 2.2% mom. This decline was fully caused by legal entities, which lowered their deposits by 6.1% mom, while private persons increased their deposits by 1.1% mom. From the beginning of the year, national currency deposits in banks, including now insolvent banks and banks under liquidation, posted just a minor decline of 1.2%, while the foreign currency deposits dropped 27.8%.

Lending activities in national currency continued to expand but at very slow pace in October. Total national currency loans inched up by 0.2% mom. The effect of a 0.3% mom increase in loans to corporate sector prevailed over a 0.5% mom decline in loans to households as the former were almost 5 times higher than the later. The decline in foreign currency loans denominated in US dollars accelerated in October (to 0.9% mom from 0.2% mom observed in September). Once again the corporate sector was the most affected as foreign currency loans to legal entities posted a 0.8% mom decline, while they were flat in September. The October decline in the foreign currency loans to households denominated in US dollar remained unchanged compared to previous month at 1.4% mom. Because of the mentioned monthly changes, both the national and foreign currency loans observed acceleration in decline from the beginning of the year. In the first ten months of 2015, the volume of national currency loans shrank by 15%, while foreign currency loans dropped 19.8%.

The NBU took some actions to stimulate lending and improve investment attractiveness of domestic banks. In particular, the regulator changed its approach to calculation of the credit risk ratio. This will allow banks to free additional resources for lending and will expand the opportunities to use such instruments as cash collateralized guarantees/letters of credit. Changes in the procedures of recognizing subordinate debt were aimed primarily at raising investment attractiveness of Ukrainian banks but will also promote the additional capitalization of the

Dynamics of UAH/USD Exchange Rate Quotations in the Interbank Forex Market in September



Source: Ukrdealing, The Bleyzer Foundation

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national banking system.

Hryvnia Exchange Rate. The UAH/USD exchange rate depreciated during the second half of November despite actions of the NBU to stabilize the market. This depreciation was caused by higher dollar demand and lower dollar supply related to uncertainties during local elections. As a result, the average weighted UAH/USD exchange rate depreciated from around 22.6 UAH/USD on November 11th to around 24.05 UAH/USD on November 23rd. From that date, the exchange rate appreciated a bit as exporters increased supply of dollars due to time constraints on the obligatory sale of their foreign exchange revenues. The Thanksgiving celebration in the USA helped hryvnia to appreciate as demand for dollar declined because of ‘tom’ trade in Ukraine on Thanksgiving. However, deferred demand and the so-called “end-of-the-week” syndrome (with current political and economic instability, businesses prefer to stay in dollar in the weekends) pushed prices of the dollar upwards to 24.0 UAH/USD again on November 27th. The NBU was limited in measures that it could use to stabilize the market. Taking into account the arrival of the IMF mission to Ukraine on November 12th, the regulator could not introduce new administrative measures. At the same time, the common foreign exchange auctions proved to be ineffective during the reported depreciation period, as players on the market had already adapted to them. Furthermore, playing with requirements and time constraints for the auction on the side of the regulator was also of little help. As a result, the NBU was forced to enter the market with dollar interventions, some of which were executed in the form of foreign exchange selling auctions. Since the regulator did not introduce any new restrictions on foreign exchange to push prices of dollar downwards, we came to the conclusion that the NBU agrees with movement of the unofficial corridor of dollar fluctuations from 22-23 UAH/USD to 23-24 UAH/USD. Therefore, we leave our forecast for the UAH/USD exchange rate unchanged at 25 UAH/USD by the end of the year.

International Trade and Capital

In October 2015, the current account of the balance of payment showed a deficit of USD 322 million (about 3.5% of period GDP), compared to the surplus of USD 135 million in September. This deficit was caused principally by an increase in goods imports during the month, as goods exports did not change much. In fact, imports of goods increased from USD 3,215 million in September to USD 3,630 million in October, while goods exports declined by a lower amount from USD 3,083 million in September to USD 2,998 million in October.

The cost of imports grew principally because of higher imports of natural gas, which increased by about 300% in October compared to September. In October, the country imported 2.4 billion cubic meters of natural gas, including 2 billion cubic meters purchased from Russia. As a result, during January-October 2015, the share of Russian natural gas on total gas imports increased to 39%. Imports of non-energy products declined by 2% in October, mainly due to low domestic demand.

The decline in goods exports in October was caused principally by decreases in the prices of key Ukrainian products, with the value of agricultural exports declining by 12.0% yoy and the value of metal exports dropping by 35.6% yoy. Nevertheless, agricultural exports continue to be the major exporting category, with exports reaching USD 1400 million in October, or 47% of the total. Metal exports reached USD 653 million in October, representing 22% of the total. This was followed by exports of machinery and equipment, which reached USD 265 million in October. The reopening of operation of two chemical plants in September 2015 improved chemical products exports, which reached USD 195 million in October.

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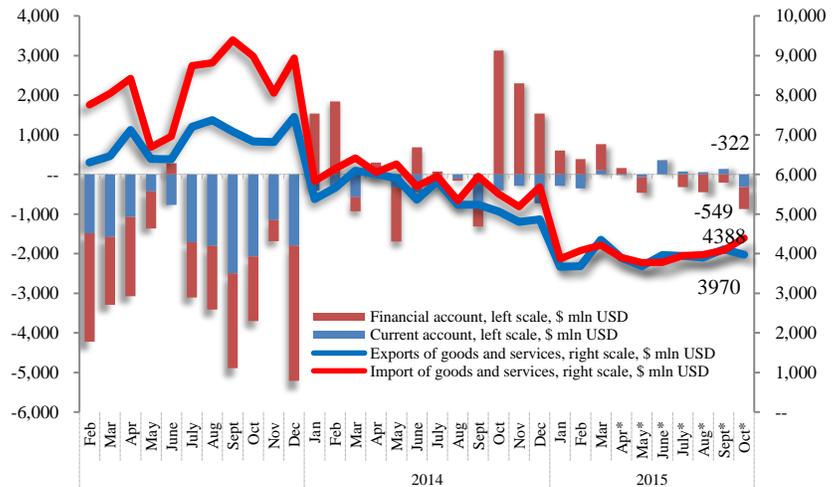
In January-October 2015, the Asian region continued to be the main recipient of Ukrainian exports, absorbing 35.2% of total exports. In the same period of last year, Asia represented 29.3% of Ukrainian exports. Europe has become the second most important export market, absorbing 29.2% of Ukrainian exports (compared to 28.3% in the same period of 2014.) CIS countries have become less significant, buying 22.1% of Ukraine's exports, with 12.0% going to Russia. In the same period of 2014, CIS countries represented almost 30% of the total.

The October deterioration in the balance of trade in goods was somewhat compensated for by an increase in the surplus of trade in services which grew from \$158 million in September to \$214 million in October.

In October, the USD 322 million deficit in the current account of the balance of payments was fully offset by a surplus of USD 549 million in the financial account. This surplus was caused principally by the provision of a loan of about USD 220 million by Germany to support the Individuals' Deposit Guarantee Fund and by an increase in the supply of dollars by the population of \$268 million. Net outflows of capital were avoided by an increase of 42% in the rollover of foreign private sector debt, particularly of the banking sector. As a result, the net outflow of private sector debt amounted to only USD 80 million in October, compared to USD 550 million in September. Foreign direct investments continue to be low, reaching only USD 60 million in October. As of the end of October, international foreign exchange reserves amounted to USD 13 billion.

The IMF's original EFF program of USD 17.5 billion approved in March 2015 envisaged total disbursements of about \$10.5 billion during 2015. So far, Ukraine has received only \$6.7 billion, with an additional \$1.7 billion expected in January/February 2016, if the program's conditionality is met by that time. This delay in the IMF program is still not critical because the country has over \$13 billion in reserves. This cushion will allow the country to sort out disagreements within the government and the Rada on the Tax Code/Fiscal Budget for 2016.

Ukraine's External Balance of Payments, \$ mln USD



Source: NBU, The Bleyzer Foundation

Dynamic of Ukraine International Reserves, mln \$



Source: the NBU, the Bleyzer Foundation

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The IMF mission that visited Ukraine in November 2015 concluded that “it had constructive discussions with the authorities on policies that are needed to complete the second review under the EFF arrangement. Significant work at a technical level helped advance mutual understandings regarding the planned tax reforms and the implications for the 2016 budget. Accordingly, it is now important that the Government submits to Parliament a budget that is consistent with the program objectives of further reducing the budget deficit and public debt to safer levels, and that Parliament adopts such a budget. This will require permanent measures to broaden the tax base and rationalize spending. A strong fiscal position along with actions to rehabilitate the banking system and speed up economic reforms are critical to entrench financial stability and pave the way for strong and sustainable growth.”

A potential obstacle to IMF financing was the status of the country’s USD 3 billion Eurobond owed to Russia that matures on December 20, 2015. Russia is insisting on its full repayment by the due date, while the Ukrainian government insists that it should be restructured on terms similar to those agreed with private creditors. Russia was also insisting that this debt was “official” and therefore non-payment would block any IMF financing to Ukraine. But the IMF Board of Directors recently amended the IMF’s policy about lending to countries that have arrears to official creditors to permit such lending under certain circumstances (i.e., that prompt financial support from the IMF is considered essential and the member is pursuing appropriate policies; the debtor is making good faith efforts to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program—i.e., that the absence of an agreement is due to the unwillingness of the creditor to provide such a contribution; and the decision to provide financing despite the arrears would not have an undue negative effect on the fund’s ability to mobilize official financing packages in future cases.) With these policy modifications, Ukraine should be able to receive future IMF funds, regardless of the situation with the Russian debt.

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