

April 2014

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- Ukraine has experienced a dramatic change in its political landscape over the last few months. Currently, the country has an interim President, a new pro-Western government, and will face early presidential elections on May 25th, 2014.
- On March 21st, Ukraine signed the political part of an Association Agreement with the EU.
- These transformations, however, occurred at the cost of losing control over the Crimea peninsula, which was annexed by the Russian Federation, an annexation that is not recognized internationally.
- These political developments have also set the stage for major economic adjustments and structural reforms that may restore macroeconomic balances and improve Ukraine's business environment. After two decades of economic mismanagement, Ukraine now has the chance to undergo a quantum leap in its economic development.
- The implementation of economic adjustment programs will improve growth prospects over the medium term, but will have short term costs. Following zero growth in 2013, real GDP is forecast to decline by about 4% yoy in 2014 (excluding Crimea, which represents 3% of GDP) due to the fiscal austerity measures that will affect domestic demand, Russia's trade restrictions, and higher imported energy prices.
- The new government has already announced strong fiscal austerity measures to reduce Ukraine's public sector fiscal deficits, which had widened to about 6-7% of GDP in 2013. The fiscal consolidation plan includes increases in utility tariffs and taxes, plus cuts in government spending and employment, and should bring the fiscal budget deficit to 4.5% of GDP in 2014 and below 3% of GDP in 2016.
- Public debt is forecast to increase to 53% of GDP in 2014, up from 40.5% of GDP. At the same time, with the presence of the IMF program, we do not see solvency risks for Ukraine's government liabilities.
- Consumer inflation is projected to accelerate to 12% yoy in 2014, up from 0.5% yoy in 2013. The acceleration will mainly be due to adjustment of utility tariffs and spillover effect of Hryvnia depreciation.
- In mid-February 2014, the NBU abandoned the Hryvnia peg to US Dollar amid strong depreciation pressures and reduction of international reserves, which fell below 2 months of imports as of the end of February 2014.
- For three months since the beginning of 2014, the Hryvnia lost about 40% of its value with respect to the US Dollar. It is expected to stabilize at UAH 11-11.5 per USD throughout the rest of 2014, assuming no further military interventions of Russia into Ukraine.
- Without IMF and Western financing, Ukraine faced significant foreign exchange liquidity shortages in 2014 due to large external debt repayment needs and a high current account deficit.
- The current account deficit widened to 9% of GDP in 2014 but is forecast to narrow to about 5.5% of GDP in 2014.
- At the end of March, Ukraine reached an IMF staff level agreement on a new two-year loan of \$14-18 billion. The executive board decision and first disbursement are expected in April. The IMF program will unlock financial assistance programs from other sources, while total financial support may reach \$27 billion for two years. This amount is forecast to fully cover Ukraine's foreign liquidity shortages in 2014 and 2015.

### Forecast of Main Macroeconomic Indicators for 2014-2015

	2011	2012	2013	2014 (F)	2015 (F)
GDP, \$ billion	163.4	176.6	182.0	142.9	158.0
Real GDP Growth, % yoy	5.2	0.2	0.0	-4.0	1.0
Private Consumption, real growth, % yoy	15.0	11.7	7.8	-2.5	1.0
Fiscal Balance, incl. Naftogaz and Pension Fund, % of GDP	-4.3	-6.0	-6.0-7.0	-4.5	-3.5
Public Debt, % of GDP	36.3	36.6	40.5	53.0	56.0
Consumer Inflation, eop, % yoy	4.6	-0.2	0.5	12.0	8.0
Hryvnia Exchange Rate per USD, eop	8.0	8.0	8.0	11.0-11.5	11.5
Current Account Balance, % of GDP	-6.3	-8.1	-9.0	-5.5	-4.7
Export of Goods and Services, \$ billion	88.8	90.0	85.3	77.5	84.0
Import of Goods and Services, \$ billion	99.0	104.4	100.8	85.5	91.0
FDIs (\$ billion)	7.0	6.6	3.3	4.0	5.0
International Reserves (\$ billion)	31.8	24.5	20.4	16.0	18.0
External Debt (\$ billion)	126.2	135.1	142.5	149.0	157.0

### Political Developments

Over the last few months, Ukraine's political landscape has changed dramatically. A drastic turnaround in Ukraine's foreign policy in late-November 2013 away from signing an Association Agreement with the EU towards greater cooperation with Russia sparked massive anti-government demonstrations. The months-long peaceful pro-Europe protests intensified and spread into more regions of Ukraine

after a series of laws suppressing freedom of speech and assembly were approved by the Ukrainian Parliament on January 16th, 2014 and signed by the President. These laws, as well as repeated police assault against protesters, prompted violent clashes between police and demonstrators, which were followed by the Prime Minister's resignation on January 28th. At the same time, protesters demanded an overhaul of

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the power system with a return to the 2004 constitution that would limit the President's power. This would have been followed by early presidential elections, where Yanukovich might have lost – a possibility feared by his close allies (and his elder son in particular). In mid-February, the opposition leaders and the President reached an amnesty deal, which promised a drop in all criminal proceedings against demonstrators and release of prisoners arrested during the unrest in exchange for protesters' release of occupied government buildings. The deal was seen as an important step towards resolution of Ukraine's political crisis. However, a refusal of the ruling coalition in the Parliament to debate on changes to the constitution a few days later triggered violent clashes between protesters and police with over a hundred dead and thousands injured. On February 20th, with the assistance of Western diplomats, another compromise deal was reached between the President and opposition leaders. The deal, however, was not implemented as Yanukovich fled Kyiv the next day for Russia.

On February 22nd, the Ukrainian Parliament ousted President Yanukovich with 328 votes (a constitutional majority), approved a return to the 2004 Constitution and called for early presidential elections on May 25th. The new speaker of the Verkhovna Rada, Mr. Turchynov, the closest ally of former Prime Minister Yulia Tymoshenko, became Acting President. Tymoshenko, who was imprisoned by President Yanukovich in what many people viewed as a politically motivated move, was freed and released from detention hours after Yanukovich was removed from power. A few days later, the European Choice coalition was formed in the Parliament, consisting of 250 members. Mr. Yatseniuk, the head of the Fatherland party faction in the Parliament, was approved as interim Prime Minister of Ukraine with 331 out of 417 deputies. Acknowledging the economic hardship of Ukraine, the Prime Minister Yatseniuk expressed his readiness to carry out painful measures to sustain the country's economy and weather the crisis.

The power change in Ukraine and the return to a strategic cooperation with Europe irritated neighboring Russia. By providing protection to ousted President Yanukovich, Russia refused to recognize the new Ukrainian officials as a legitimate power. Taking advantage of ongoing political turmoil in Ukraine, support for Yanukovich in the Russian-speaking Eastern and Southern regions and formal calls by some Crimean authorities for Russia to intervene,

### Economic Growth

The above political developments have also set the stage for the implementation of major economic adjustments and structural reforms that may restore macroeconomic balances and improve Ukraine's business environment. After two decades of economic mismanagement, Ukraine now has the chance to undergo a quantum leap in its economic development.

The implementation of economic adjustment programs will put Ukraine onto a sustainable path of economic development and improve growth prospects over the medium term, but will also have short term costs. Following zero growth in 2013, real GDP is forecast to decline by about 4% yoy in 2014 (excluding Crimea, which represents 3% of GDP) due to the fiscal austerity measures that will affect domestic demand, Russia's trade restrictions, and higher imported energy prices.

Economic activity in January and February 2014 was negatively affected by political unrest and related uncertainties. Industrial

unidentified armed group took over the Crimean Parliament and government buildings in Simferopol, the capital of the region. Crimea is a region where the Russian Black Sea Fleet is based and ethnic Russians are a majority. Following an unconstitutional March 16 referendum to define the status of the peninsula, held after Russia's forces took control of the region, Crimea was formally absorbed by Russia into the Russian Federation. Although Ukraine and the West have refused to recognize Crimea's absorption, de facto Ukraine has lost control over the Crimean territory.

Given that Russia's annexation of Crimea was justified by Russia's aspirations to "protect" the Russian-speaking population, there is a risk of Russia's intervention into other Eastern and Southern regions of Ukraine. Although Russia has repeatedly declared it has no such intention, there are signs of a significant concentration of Russian troops on Ukraine's eastern and northern borders and their military exercises. While the risk of further military operation is certainly not negligible, Russia's forces may be making an attempt to pressure Ukraine not to drift into the European Union and NATO. The presence of Russian troops at Ukrainian borders may also be intended to push for a loosely knit federalization of Ukraine, which would ease political and economic control of Kyiv over the eastern regions of Ukraine.

Although Ukraine continues to face a high degree of political instability, Ukrainian authorities have gradually regained control over the eastern regions and strengthened its administrative power. On March 21st, Ukraine signed the political part of the Association Agreement with the EU. Although the economic and trade sections of the agreement will be signed after Ukraine's presidential elections, the EU decided to cut customs duties on Ukraine's imports and proposed an extensive financial aid and technical assistance program to Ukraine. In addition, in late-March, Ukraine reached a preliminary stand-by agreement with the IMF, which may provide from \$14 to \$18 billion over the next two years. The development of trade relations with the European Union, a substantial financial aid package of up to \$27 billion for two years from the IMF, the EU and the US, and a broad reform measures announced by the new Ukrainian government will help address key challenges of the Ukrainian economy related to its high external liquidity pressures, low international reserves, weak economic growth and strained public finances.

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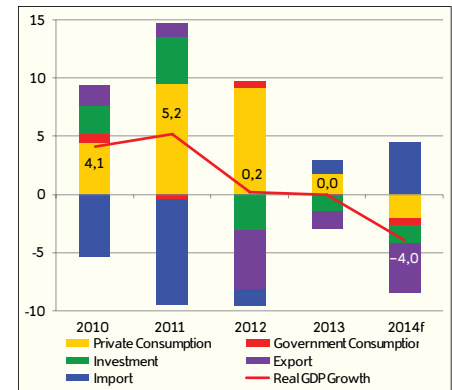
production in Ukraine was down by 4.2% yoy in January-February 2014, mainly on account of an 18.4% yoy drop in machine-building and a 10.4% yoy reduction in metallurgy, products for which Russia is the main market. Although the service sector reported increases in output over this two-month period, to a notable extent this improvement may be attributed to a low base for comparison. This poor performance occurred despite a recovery of world steel prices and an almost 35% reduction in imported natural gas prices.[1] Only agriculture and retail sales kept reporting solid gains, advancing by 6.3% yoy and 9% yoy respectively.

For the entire 2014 year, Ukrainian GDP is expected to decline by 4%. An additional 3% decline in GDP will be due to the de-facto annexation of Crimea to Russia. The decline of GDP in 2014 will be due to four negative developments: (i) a major reduction in Ukrainian exports to Russia; (ii) a decline in domestic consumption; (iii) a fall in investment activity, and (iv) an increase in imported natural gas prices since 2Q 2014. These four factors are explained below:

1. Ukrainian exports of goods and services amounted to \$85.3 billion in 2013; about 26% of these exports went to Russia. Due to the current conflict, it is likely that Russia will reduce its purchases from Ukraine by 50%. In fact, we expect Russia to impose severe trade restrictions and bans on Ukraine's goods, but we don't think that Russia can effectively block all Ukraine's exports without jeopardizing its own economy and WTO obligations. However, Russia's trade squeeze will particularly hit Ukraine's metallurgy, machine-building and food processing (milk and dairy, meat processing, confectionary). On the other hand, exports to other regions may increase slightly as the world economic recovery takes hold and Ukraine benefits from early EU measures under the TFA. As a result, Ukrainian exports of goods and services in 2014 are likely to amount to \$77.5 billion, a decline of about 9% over 2013. Although Ukrainian imports are also expected to decline in 2014 (despite an increase in Russian gas prices), these declines will not offset the poor performance of exports. As a result, the international trade account is expected to contribute with a decline of 3 percentage points out of the 4% GDP decline in 2014.
2. In 2014, Ukrainian domestic consumption will be negatively affected by the fiscal austerity measures that Ukraine must take to restore fiscal solvency (see fiscal policies below). In particular, higher taxes, increases in gas and heating tariffs, and cuts in government employment will dampen domestic consumption. Low bank liquidity and credits will also dampen consumption. In addition, the sharp Hryvnia depreciation since the beginning of the year will affect consumption by lowering population wealth.
3. In 2014, private and government investments are also expected to be lower than in 2013 because of reductions in government capital expenditures, which are an important component of government fiscal consolidation measures, and lower domestic and foreign private investments associated with the current political and economic risks. In addition, increased weaknesses in the domestic banking system will also weigh on investments through depressed lending activity.
4. At the beginning of April, the price for imported natural gas increased to about \$385 per 1000 m<sup>3</sup> compared to \$268.5 per 1000 m<sup>3</sup> enjoyed in 1Q 2014. Although this price will not differ much from the average price paid in 2013, coupled with severe restrictions it will exact a significant toll on Ukraine's industrial sector. Russia's Gazprom has declared that for the rest of 2014, gas prices will be increased to \$485 per 1000 m<sup>3</sup>; however, Ukraine has stated that it will not accept this increase.

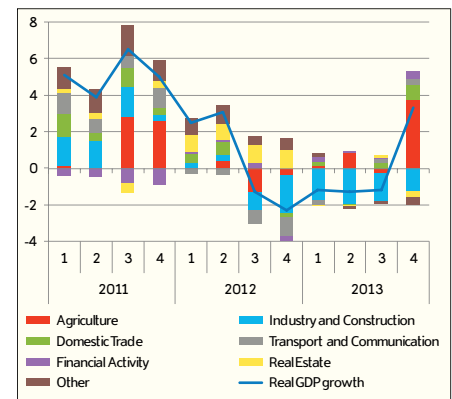
[1] In mid-December 2013, a deal between Russia and Ukraine was reached, which cut natural gas prices for Ukraine from about \$410 in 2013 to \$268.5 per 1000 m<sup>3</sup> at the beginning of 2014, including a \$15 billion financial bailout to Ukraine and containing a number of sector agreements, principally in heavy machinery, aircraft and shipbuilding, metallurgy, etc. Due to political turmoil in Ukraine as well as the economic slowdown in Russia, the implementation of these agreements never began. Russia has purchased \$3 billion of Ukraine's sovereign bonds in late-December as part of the bailout, but further 'disbursements' were delayed and currently look unlikely to occur.

**Contributions to Real GDP Growth by Expenditures, percentage points**



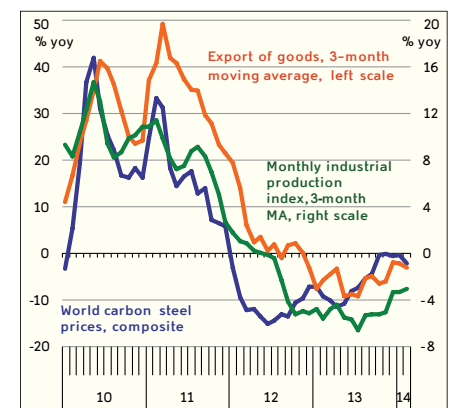
Source: State Statistical Service of Ukraine, The Bleyzer Foundation

**Contributions to Real GDP Growth by Sector, percentage points**



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

**World Steel Price Development and Its Impact on Ukraine's Industry and Exports**



Source: MEPS, NBU, The Bleyzer Foundation

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The expected poor GDP performance in 2014 follows GDP stagnation over the last two years. Except for a rate of growth of 3.3% in the last quarter of 2013 (thanks to record high agricultural output), since mid-2012 GDP has declined in every quarter. Thanks to a growth upturn in the last quarter of 2013, Ukraine reported zero economic growth for the year 2013. Although Ukraine avoided a decline in GDP in both 2012 and 2013, real GDP has been virtually flat over the last two years. The poor economic performance of the last two years reflected weak exports caused both by poor economic performance in Ukraine's trading partners and Russia's artificial export restrictions, as well as weaknesses in the domestic policies pursued by the former government, which led to low private investments.

The annexation of Crimea, which accounts for about 3% of GDP and 3% of total exports of goods and services of Ukraine, will result in a one-off decline in Ukraine's GDP level as noted above.

### Fiscal Policy

Ukraine's public finances will remain under stress in 2014 as political unrest, an economic downturn and taxes collected in advance in 2013 will weigh on budget revenues. At the same time, the previous government planned fiscal expenditures to remain high due to generous social benefits and large energy subsidies. Without severe fiscal austerity measures, the general public sector deficit (including Naftogaz and Pension Fund) may have widened to 10% of GDP in 2014, up from about 6-7% of GDP in 2013. At the same time, thanks to fiscal consolidation measures announced by the new government, the fiscal deficit is forecast to gradually narrow, falling to 4.5% of GDP in 2014 and below 3% of GDP in 2016. The program envisages measures on both revenue and expenditure sides.

In particular, the government expects to increase budget revenues by about UAH 24.7 billion thanks to increases in alcohol and tobacco excises, doubling royalties for the use of minerals, reinstating a progressive personal income tax and raising property taxes. On the expenditure side, state budget expenditures are planned to be reduced by UAH 23 billion amid capital spending and government employment cuts, freezing the subsistence level and minimum wage, a decrease in central government expenditures and pension reduction for judges and prosecutors. The VAT refund arrears, which amounted to UAH 21.7 billion as of the beginning of 2014, will be repaid through the issuance of VAT bonds. The high Naftogaz deficit will be addressed with a step-by-step adjustment of natural gas and heating tariffs to the population. In particular, natural gas and heating prices will be raised by 50% and 40% from May 1st and July 1st, respectively. At the same time, as the tariff increase will be matched by a sharp broadening of social protections, fiscal consolidation is forecast to be gradual.

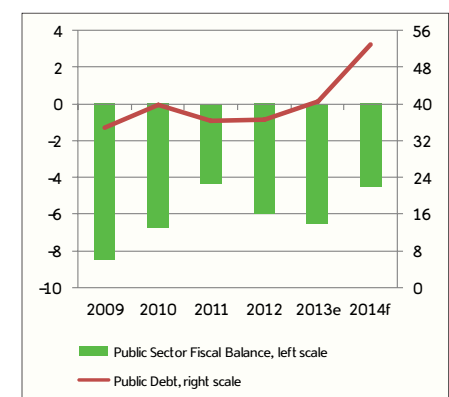
Ukraine's public debt is forecast to increase to about 53% of GDP in 2014 and further to 56% of GDP in 2015, up from around 40% of GDP in 2013. A rise in the public debt-to-GDP ratio will be the result of expected GDP declines, Hryvnia depreciation and expected disbursement of substantial financial aid over the next two years. In a broader sense, the increase in public debt should be attributed to government failure to reduce significant fiscal deficits over the last few years to more sustainable levels. In addition, high fiscal deficits not only increased the public debt to GDP ratio to around 37% of GDP on average over the last five years, but also caused wide current account gaps. Although the debt-to-GDP ratio was not large by international standards, the short maturity of Ukraine's public debt obligations added to the financing difficulties faced by the country. Moreover, as a notable portion of the 2013 fiscal deficit was monetized by the National Bank of Ukraine, this contributed to a sharp Hryvnia depreciation since the beginning of 2014. The latter made the servicing of short-term external public debt obligations, estimated at around \$8 billion for March-December 2014 even harder.

The IMF program will be an important anchor to put public finances on a sustainable path. Facing limited access to foreign financing beyond the IMF-related package (other financing from the EU, the US, etc. is conditional on the presence of the IMF program), Ukraine is unlikely to loosen implementation of the IMF program requirements. Considering that short-term external public debt liabilities may not be a problem under normal circumstances and assuming smooth implementation of the IMF program, we believe a temporary increase in Ukraine's public debt-to-GDP ratio in 2014-2015 does not bear solvency risks for the country.

### Monetary Policy

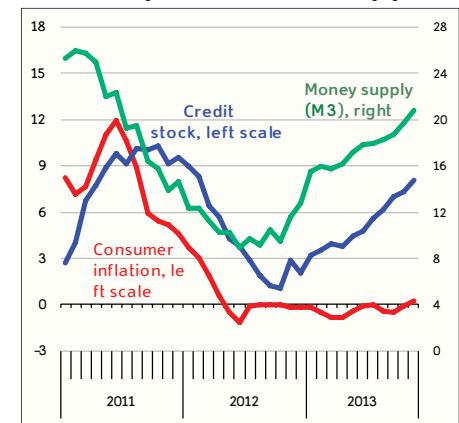
**Inflation.** Following two years of low inflation, consumer price growth is forecast to

**Ukraine's Public Sector Fiscal Deficit (Incl. Naftogaz and Pension Fund) and Public Debt Evolution, % of GDP**



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

**Select Monetary Indicators of Ukraine, % yoy**



Source: State Statistical Service of Ukraine, NBU, The Bleyzer Foundation

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accelerate to 12% yoy in 2014 amid utility tariff adjustments, the Hryvnia depreciation impact on prices and a low base for comparison. On average, domestic prices were 0.3% yoy lower in 2013, although price growth accelerated slightly to 0.5% yoy in December. Low food prices, affected by several years of good grain harvests and steady improvements in animal breeding, were an important driving force behind muted inflation developments over the year. In addition, utility prices added only 0.3% yoy in 2013 as the previous government held down natural gas tariffs for the population. Subdued food, energy and utility price growth compensated for the increase in select regulated prices, such as railway transportation and communication services.

Since December 2013, consumer price growth accelerated and reached 1.2% yoy in February 2014. The speed-up may be attributed to faster money supply growth in the second half of 2013, the spillover effect of higher Hryvnia exchange rate volatility and a low base for comparison. Announced adjustment of natural gas and heating tariffs to the population upwards by 50% and 40%, respectively, and a further increase in excise taxes will pressure inflation further upwards. At the same time, forecast deceleration in domestic demand as well as likely oversupply of select food products due to Russia's trade restrictions on Ukrainian goods may contain inflation at low double digits in 2014.

**Banking Sector.** Ukraine's banking sector has been weakened by political turmoil and uncertainties, local currency devaluation, deposit withdrawals, a high level of non-performing loans, and a lack of liquidity. These factors are likely to depress lending activity this year. In particular, the Hryvnia depreciation may exacerbate the situation with non-performing loans as the latter were estimated to stay at around 40% of total loans in 2013. In addition, coupled with political uncertainties, triggered a run on deposits, which was particularly painful amid periodic Hryvnia liquidity shortages. Thus, the population withdrew 7.6% and 6.3% of deposits in national and foreign currency, respectively, in February 2014, and 7.9% and 7.8% for the first two months of the year. Moreover, an exodus by the former President and his close allies from the country left several banks on the brink of bankruptcy. At the end of February/beginning of March, the National Bank of Ukraine introduced temporary administrations into four banks, including the 6th and 24th largest banks by assets, which further undermined the population's confidence in the banking system of Ukraine.

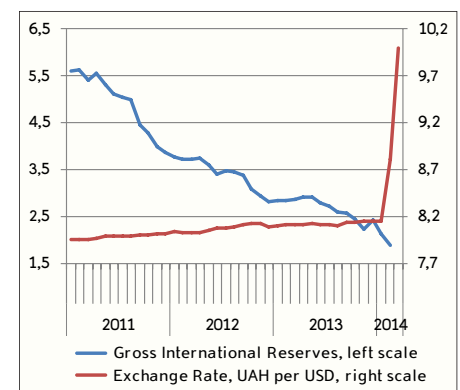
The National Bank of Ukraine used to tightly manage banking sector liquidity to suppress Hryvnia exchange rate fluctuations. For that reason, despite faster growth in the monetary base and increased cash balances on commercial banks correspondent accounts in the second half of 2013 and the first few months of 2014, the deterioration of asset quality and a continuing run on deposits could trigger a liquidity crisis in the banking system of Ukraine. As preventive measures, the National Bank of Ukraine notably increased refinancing support of commercial banks, providing about UAH 30.7 billion to commercial banks over the first two months of 2014. This, however, was in conflict with the NBU target of supporting the Hryvnia peg to US Dollar, which was under significant depreciation pressure.

**Hryvnia Exchange Rate.** In mid-February 2014, the National Bank of Ukraine abandoned a four-year long Hryvnia peg to the US Dollar amid strong depreciation pressures and exhaustion of gross international reserves, which fell below 2 months of imports as of the end of February 2014. Assuming that further military interventions of Russia into Ukraine will not take place and assuming smooth implementation of the IMF program, which will also unlock foreign financing from other sources, the Hryvnia is forecast to stabilize at around UAH 11-11.5 per USD in 2014, while banking sector weaknesses will be promptly addressed.

Experiencing strong foreign currency demand amid supply shortages, the Hryvnia lost almost 40% of its value for the first three months of the year and reached UAH 11 per USD at the end of March 2014. Ukraine's large external financing needs, limited inflow of foreign exchange to the country, and high political and economic uncertainties underpin Hryvnia depreciation pressures. The National Bank of Ukraine continued to support the Hryvnia exchange rate during January-February, which cost about \$3.6 billion of its reserves over the period. However, due to a rapid depletion of reserves, the NBU first allowed greater flexibility of the Hryvnia exchange rate in January and later had to abandon a four-year peg to the US Dollar in mid-February.

To contain further Hryvnia depreciation, the NBU introduced a number of foreign currency controls, including a ban on forex forwards and swap operations with foreign exchange, and purchase of foreign currency before the six working day deposit of the required Hryvnia amount on a separate account with commercial bank. These regulations have been gradually softening since the end of March as they may not comply with IMF requirements. Among other things, it gradually shortened the period of Hryvnia deposit to purchase foreign currency to two days, resumed forward and swap forex transactions and cancelled a ban on foreign purchases for select purposes (e.g., to invest abroad).

**NBU Gross International Reserves, months of imports, and Weighted Average Interbank Hryvnia Exchange Rate, UAH per USD**



Source: NBU, The Bleyzer Foundation

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### International Trade and Capital

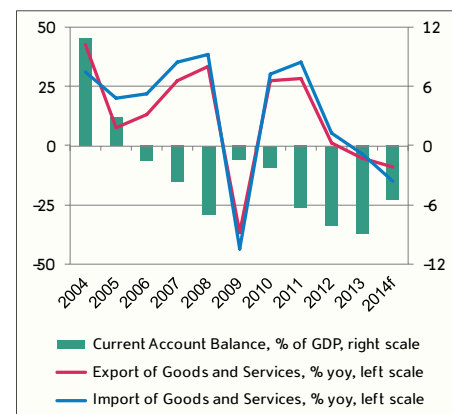
High external financing needs are among the most acute challenges for Ukraine in 2014, as the gap (maturing external public debt, current account deficit and population purchases of foreign exchange) is estimated at around \$20 billion for the period March-December 2014. Provision of an extensive financial aid package from the IMF, the EU, the US and other sources, totaling up to \$27 billion for the next two years, will help balance Ukraine's external finances. The presence of the IMF program and the government commitment to implement painful reforms should support high external private debt rollovers as well as decent FDI inflows.

The current account deficit of the balance-of-payments stood high in 2013, but is expected to narrow in 2014 to about 5.5% of GDP. According to NBU data, the current account gap reached \$16.4 billion or 9% of GDP in 2013, as a slow world economic recovery and trade tensions with Russia weighed on exports, while strong domestic demand fueled imports. A deterioration of relations with Russia will further depress Ukraine's exports in 2014, while the termination of a gas price discount will pressure Ukraine's current account on the import side. At the same time, exports will be supported by early EU measures under the FTA, an almost 40% Hryvnia depreciation and a good agricultural harvest expected in 2014. On the import side, local currency devaluation along with higher inflation and strong fiscal austerity measures will curb domestic demand and, hence, will help contain non-energy imports.

Despite forecast improvements in the current account, Ukraine's total external financing needs are estimated at around \$81.5 billion. In addition to the \$8 billion current account gap, Ukraine will need a substantial amount of foreign financing to meet its large external debt liabilities due in 2014 and to satisfy population demand for foreign exchange. In particular, external public and private debts maturing in 2014 are estimated at \$8 billion and \$62.5 billion, respectively. Private sector debt is likely to continue enjoying high rollover ratios as commercial banks and corporate enterprises usually have better access to foreign financing than government, because they are often involved in related party lending (a substantial portion of external debt is represented by trade credit, loans to Ukrainian subsidiaries of foreign banks and companies). In contrast, the rollover of public external debt looked problematic due to the current political crisis, economic downturn and unfavorable developments in global financial markets for emerging markets. Over the first two months of 2014, Ukraine met its foreign liabilities, including to the IMF, at the expense of further reduction of its gross international reserves. At the same time, given that NBU reserves fell to \$15.4 billion at the end of February, Ukraine exhausted its domestic resources and was on the brink of a full-scale currency crisis.

As soon as the new government took office at the end of February, it promptly applied for foreign financial assistance. On March 26th, Ukraine reached a staff-level agreement with the IMF on a \$14-18 billion loan for two years. The IMF executive board approval is expected in April with the first tranche of about \$3 billion to be disbursed in April-May. Moreover, the IMF loan will unlock financial aid from the EU, the US and other sources totaling up to \$27 billion over the next two years. Out of this amount, Ukraine may receive around \$13 billion in 2014. Given also that the presence of the IMF program will favorably affect foreign investor sentiment, we forecast Ukraine's Balance of Payments to stay in balance on a cumulative basis for the rest of 2014.

Select External Balance Indicators of Ukraine



Source: NBU, The Bleyzer Foundation

Needs		Potential Sources	
Public Debt (Government and NBU)	8.0	13.1	Financial Aid Package
IMF	3.7	7.0	IMF
Sovereign Eurobonds	1.0	2.1	EU
Naftogaz Eurobonds	1.6	4.0	Other financing (EBRD, EIB, WB, bilateral loans)
Naftogaz arrears to Gazprom	1.7		
Private Debt	62.5	64.5	Rollover
Banking sector	14.5	12.6	85-90%
Corporate sector	48.0	51.8	105-110%
Current account deficit	8.0	4.0	FDI
Population purchases of FX	4.0		
<b>Total Needs</b>	<b>81.5</b>	<b>81.6</b>	<b>Total Sources</b>
International Reserves, as of end-February	15.4		

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