

*March 2016**Oleg Ustenko, Julia Segura, Valentyn Povrozhnyuk  
Edilberto L. Segura****Executive Summary:***

- ❖ On April 14<sup>th</sup>, following President Poroshenko's recommendations, Rada approved the nomination of Volodymyr Groysman as the new Prime Minister. A total of 257 MPs voted for new Prime Minister, 31 votes more than the needed 226 Rada majority. The new governing coalition is composed of President Poroshenko Block, People's Front led by former PM Yatsenyuk, members of other parties, and a number of independent MPs. President Poroshenko stated at the Rada that the new Cabinet of Ministers will maintain the European integration route.
- ❖ The referendum in the Netherlands on the EU-Ukraine Association Agreement, which was held on April 6<sup>th</sup> had a turnout of 32% with 62% of the votes against the approval of the agreement. This may lead to some modifications of the agreement, although the on-going Free Trade Agreement is likely to continue in any case. The most likely scenario is that some compromise will be found between Brussels and the Dutch under which the Dutch may be exempt from some provisions of the agreement.
- ❖ Provocations by Russian-backed rebels against Ukrainian troops have become more frequent in the Eastern part of Ukraine. Conflict resolution in Ukraine was on the agenda during U.S. Secretary of State John Kerry's recent visit to Moscow. It is expected to help stop military actions in Donetsk and Luhansk and decrease Russian presence in the region.
- ❖ Despite the current political crisis, the economy is showing signs of further recovery, though from a low base. For the first time in three years, industrial output in February 2016 showed a positive rate of growth (7.6% yoy) compared to the same month of last year. All three subsectors of industry showed positive growth rates yoy in February: mining by 8.9% yoy, manufacturing by 8.1% yoy, and electricity/gas supply by 1.6% yoy.
- ❖ The consolidated budget surplus further expanded in February 2016 on the back of a higher local budget surplus. Local budgets were executed with an overall surplus of UAH 5.7 billion, which fully covered the UAH 4.9 billion deficit of the state budget. As a result, the total consolidated budget surplus reached UAH 9.9 billion from the beginning of the year.
- ❖ Consumer inflation has continued to decelerate, with inflation lowering to from 40.3% yoy in January 2016 to 32.7% yoy in February. This decline was mainly the result of an increased supply of whole foods and tobacco products which more than compensated for the impact of depreciation of the national currency in February. In 2016, inflation is expected to be 12%.
- ❖ On the banking sector, there was some re-activation in credit activities in February, but solely in the national currency segment. Total national currency loans posted a 0.8% mom increase thanks to growth in both household and corporate loans (by 0.2% mom and 1.0% mom respectively).
- ❖ The February fluctuations of the UAH/USD exchange rate were driven by developments in dollar supply and demand, while the NBU continued its non-interference policy. Nevertheless, the rate has remained close to 26 UAH/USD.
- ❖ In February 2016, the current account deficit of the balance of payments amounted to USD 251 million, compared to a deficit of USD 373 million in February 2015. The February 2016 deficit was composed of a deficit of USD 670 million in goods, a surplus of USD 167 million in services, a surplus of USD 38 million in foreign income, and a surplus of USD 214 million in transfers from abroad. But a surplus in the financial account more than compensated for the current account deficit and led to stability in international reserves at about USD 13 billion.
- ❖ Europe and Asia have become the largest buyers of Ukrainian products with shares of 40% and 34% of the total. Russia now represents 6.9% of Ukrainian exports.
- ❖ The IMF has reiterated its decision to hold the third tranche from the IMF support program until Ukraine satisfies a number of conditions, including the resolution of the current political crisis, concrete anti-corruption measures, reform of the banking sector, tax reform and others.

<i>Main Macroeconomic Indicators</i>	2011	2012	2013	2014	2015f	2016f
<i>GDP, USD billion</i>	163	173	180	129	98	95
<i>Real GDP Growth, % yoy</i>	5.5	0.2	0.0	-6.8	-10.5	2.0
<i>Fiscal Balance (incl. Naftogaz &amp; Pension Fund), % of GDP</i>	-4.3	-6.0	-6.5	-11.7	-3.5	-4.0
<i>Public Debt, External and Domestic, % of GDP</i>	36.4	36.7	39.9	70.3	94.0	89.0
<i>Consumer Inflation, eop, % yoy</i>	4.6	-0.2	0.5	24.9	43.3	12.0
<i>Hryvnia Exchange Rate per USD, eop</i>	8.0	8.1	8.2	15.8	24.0	25.0
<i>Current Account Balance, % of GDP</i>	-6.3	-8.2	-9.2	-3.6	-0.2	-2.0
<i>FDI, Net Annual Inflow, USD billion</i>	7.0	7.2	4.1	0.3	2.3	3.0
<i>International Reserves, USD billion</i>	31.8	24.6	20.4	7.5	13.3	17.0
<i>Public External Debt, USD billion</i>	33.3	32.1	31.7	34.9	47.0	55.0
<i>Private External Debt, USD billion</i>	84.6	92.0	99.2	82.0	70.0	65.0

### *Political and Reform Developments*

On April 14<sup>th</sup>, following President Poroshenko's recommendations, Rada approved the nomination of Volodymyr Groysman as the new Prime Minister. A total of 257 MPs voted for new Prime Minister, 31 votes more than needed 226 majority. The new governing coalition is composed of President Poroshenko Block, People's Front led by former PM Yatsenyuk, members of other parties, and a number of independent MPs. To support the candidacy of Groysman, People's Front was granted the right to select the Speaker of Parliament and would get several ministerial positions in the new cabinet. Based on this agreement, Andriy Parubiy – one of Maidan leaders – was elected as Speaker. He received a support of 284 members of Rada. The former coalition members -- Samopomich, the Radical Party and Yulia Tymoshenko's Batkivshchyna party -- did not participate in the coalition. The newly elected PM Groysman had been the Speaker of Rada since November 2014. Before that, he was the Major of Vinnytsia and a close ally of President Poroshenko. His appointment gives President Poroshenko greater influence in Parliament. This appointment should end the political crisis that started in February, when a number of ministers resigned and former PM Yatsenyuk barely survived a vote of no confidence at the Rada.

President Poroshenko stated at the Rada that the new Cabinet of Ministers will maintain the European integration route. The new Cabinet of Ministers has already been appointed, leaving only vacant the position of minister of healthcare. This list of the members of the new Cabinet includes the following: Stepan Kubiv (first deputy prime minister and economic development and trade minister), Pavlo Rozenko (deputy prime minister for social affairs), Ivanna Klymush-Tsyntsadze (deputy prime minister for European and Euro-Atlantic integration), Volodymyr Kistion (deputy prime minister for military operations), Viacheslav Kyrylenko (deputy prime minister for humanitarian affairs), Hennadiy Zubko (deputy prime minister and regional development, construction, and utilities minister), Oleksandr Danyliuk (finance minister), Ihor Nasalyk (energy and coal industry minister), Taras Kutovy (agrarian policy and food minister), Volodymyr Omelian (infrastructure minister), Ostap Semerak (environment protection and natural resources minister), , Andriy Reva (social policy minister), Yevhen Nischuk (culture minister), Lilia Hrynevych (education and science minister), Arsen Avakov (interior minister), Pavlo Petrenko (justice minister), Stepan Poltorak (defense minister), Vadym Chernysh (minister for temporarily occupied territories), Pavlo Klimkin (foreign affairs minister), Yuriy Stets (information policy minister), Igor Zhdanov (youth and sports minister), Oleksandr Sayenko (minister without portfolio). The healthcare minister position is still open.

**The referendum in the Netherlands on the EU-Ukraine Association Agreement, which was held on April 6<sup>th</sup> had a turnout of 32%.** Therefore, the 30% threshold for a valid referendum was met. Since around 62% of the votes were against the approval of the Association Agreement, the PM of the Netherlands has

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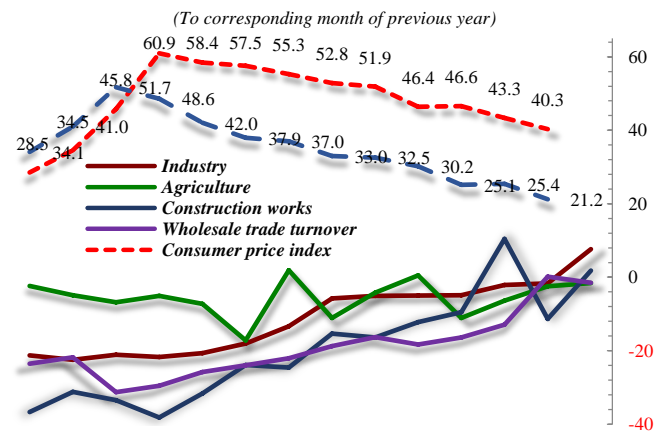
stated that the agreement cannot be endorsed in its current form. This has brought up the question of possible scenarios for the resolution of the current crisis. The most likely scenario is that some compromise will be found between Brussels and the Dutch Cabinet of Ministers, under which the Dutch may be exempted from some provisions of the agreement. Despite the negative outcome of the referendum, it is likely that the on-going Free Trade Agreement will continue in any case.

**On the defense side, provocations by Russian-backed rebels against Ukrainian troops have become more frequent in the Eastern part of Ukraine.** These facts are often mentioned by both Ukrainian military commanders and OSCE monitoring mission staff. In particular, the OSCE continued to observe non-withdrawal of heavy weapons as was foreseen in the Minsk Package of Measures. Conflict resolution in Ukraine was on the agenda during U.S. Secretary of State John Kerry's recent visit to Moscow. This should help stop military actions in Donetsk and Luhansk and decrease Russian presence in the region. Following these meetings, NATO agreed that it would re-establish talks under the NATO-Russia Council, which had been suspended at the beginning of hostilities two years ago. The first meeting in the second half of April will discuss the peace process in Ukraine, as well as Afghanistan. But NATO has said that this is not a "return to business as usual", which would only happen when Russia respects international law.

Despite the on-going parliamentary crisis and the military hostilities in Eastern Ukraine, the authorities continued to deliver some results in reforming the country. The major efforts were concentrated in fighting corruption initiatives, as corruption was the main cause of the current political crisis. In particular, the questionable **General Prosecutor** was dismissed and a list of new candidates for the vacant position is being discussed by both politicians and civil society. It is likely that the name of the new general prosecutor will be submitted by the President for Parliamentary approval within the next several weeks. During the month there was also an intensification in the investigations of government officials' corrupt practices, which led to a number of arrests.

The proposed privatizations of state enterprises during the course of the year should significantly enhance the fight against corruption, as the control of the cash flows of these enterprises has been a major source of corruption. The planned intensification in the activities of the new National Anti-Corruption Bureau would also work as a corruption prevention measure.

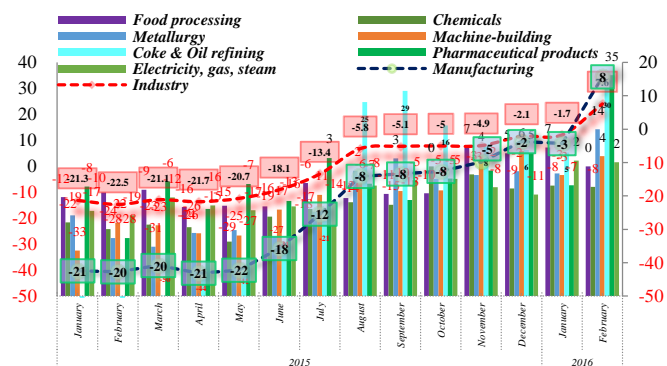
### Economic Performance of Ukraine by Sector, % yoy



Source: The Bleyzer Foundation

### Industrial Production by Sectors, % yoy

(To corresponding month of previous year)



Source: The Bleyzer Foundation

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### Economic Growth

Despite the current political crisis, the economy is showing signs of further recovery, though from a low base. For the first time in three years, industrial output in February 2016 showed a positive rate of growth (7.6% yoy) compared to the same month of last year. Except for negative growth in consumer durables (-3% yoy), all other industrial groups had positive growth on a year-to-year basis. Compared to the previous month, January 2016, industrial output also increased significantly by 8.2% mom. All three subsectors of industry showed positive growth rates yoy in February: mining by 8.9% yoy, manufacturing by 8.1% yoy, and electricity/gas supply by 1.6% yoy.

Within the manufacturing subsector, positive high rates of growth on a year-to-year basis were registered in the following branches: pharmaceutical products by 35% yoy, coke and refined petroleum products by 30% yoy, metallurgy by 14.2% yoy, electrical equipment by 13.9% yoy, motor vehicles by 12.9% yoy, computers and electronics by 9.8% yoy, rubber and plastic products by 8.3% yoy, food products by 5% yoy, machinery and equipment by 3.9% yoy, and textiles by 2.3% yoy.

The manufacturing branches that still had negative rates of growth yoy included: chemicals by -8% yoy, and machinery and equipment by -7.8% yoy.

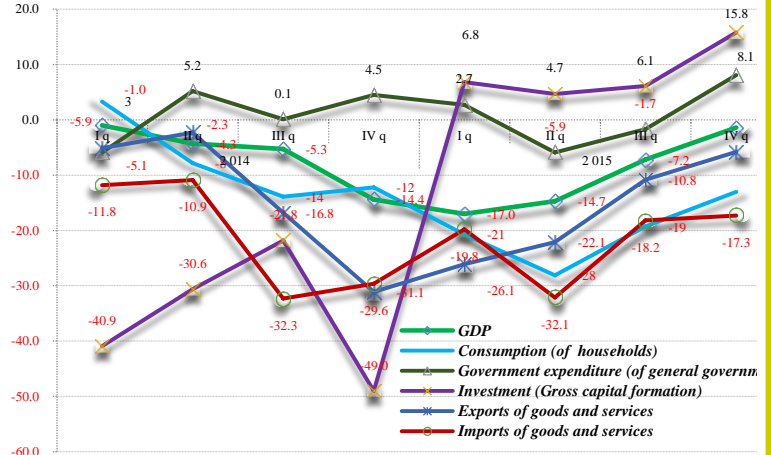
On a regional basis, in February 2016 the following oblasts had the highest rates of growth in their industrial output on a year-to-year basis: Luhansk (149%), Donetsk (27%), Odessa (25%), Chernihiv (15%), Kherson (10%), Kyiv (10%), Lviv (9%), Zakarpattya (9%), Mykolayiv (9%), Kharkiv (8%), and Dnipropetrovsk (8%).

During the same month, on a year-to-year basis, negative growth rates in industrial output were experienced in Chernivtsi (-19.1%), Sumy (-15.8%), and Ivano-Frankivsk (-12%).

Other branches of economic activity also showed some recovery, though at a slower pace. The year-on-year decline in agricultural production improved from a 6.5% yoy decline in December 2015, to a -2.5% yoy fall in January 2016 and to -1.6% yoy decline in February. Construction activities also showed a modest recovery, with a rate of growth of 1.8% yoy in February, principally in non-residential construction (7.8% yoy). On the other hand, retail and wholesale trade continue to be depressed with negative rates of growth in January/February 2016 of -1.7% yoy and -6.2% yoy, respectively.

### Gross Domestic Product of Ukraine, % qoq

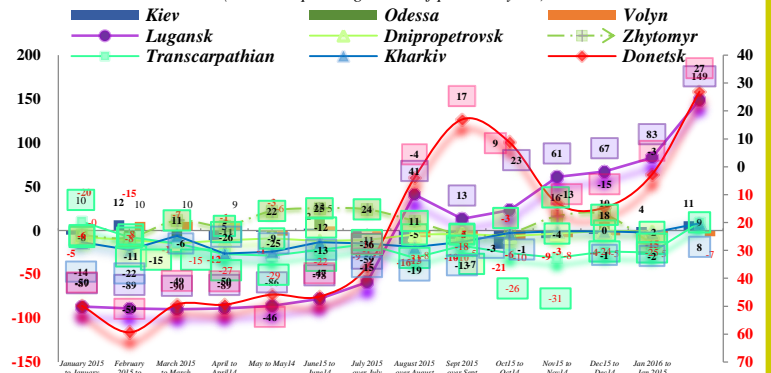
(To corresponding quarter of previous year)



Source: The Bleyzer Foundation

### Industrial Production by Regions, % yoy

(To corresponding month of previous year)



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### Fiscal Policy

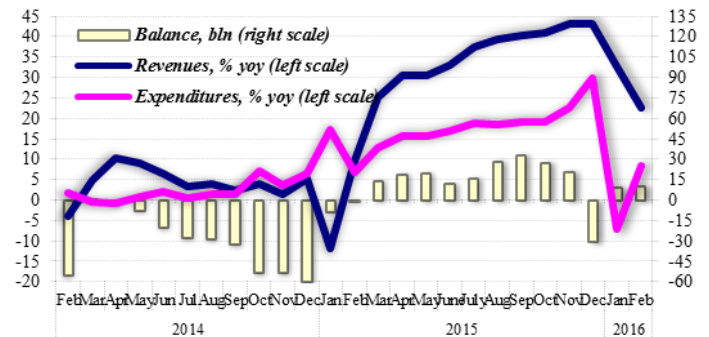
The consolidated budget **surplus** further expanded in February 2016 on the back of a higher local budget surplus. Local budgets were executed with an overall surplus of UAH 5.7 billion which fully covered the UAH 4.9 billion deficit of the state budget. As a result, the total consolidated budget surplus reached UAH 9.9 billion from the beginning of the year. Furthermore, despite the cumulative state budget deficit of UAH 2.4 billion in January-February, execution of the state budget improved in 2016 over the same period of 2015 as the deficit decreased by more than 3.5 times (UAH 8.7 billion deficit in January-February 2015).

**Revenues** of the consolidated budget continued to grow at a high rate in February, but the pace of growth decelerated significantly due to a deceleration in growth of the state budget revenues. From the beginning of the year, the overall growth of state budget revenues more than halved to almost 17% yoy compared to that of a month ago. Deceleration in growth of tax revenues was not that significant (from 37% to 30.6% yoy) compared to that of non-tax revenues (from 2.3% yoy growth to a 41.5% yoy decline). Negative growth of the latter was the result of a lack of transfers from the NBU. Most of the tax revenue sources saw either deceleration in growth or acceleration of the decline. In particular, receipts from domestic taxes on goods and services, which have the highest share in both tax revenues and state budget revenues as a whole, reported a 15.1 percentage point deceleration in growth to 35.7% yoy.

The previous high rates of growth in budget revenues were principally due to the fast depreciation of the national currency, which started in February 2015 boosting inflation. As a result, receipts from the VAT and excise taxes on both domestic and imported goods started to grow rapidly. As there was no significant depreciation in February 2016 and inflation significantly decelerated during the month, receipts from both the VAT and excise taxes saw slower growth because of the statistical base effect. Furthermore, changes in the distribution of receipts from personal income tax between the state and local budgets led to deceleration of state budget receipts from this tax from 126.3% yoy in January to 33.9% yoy in January-February. The positive recovery of the economy in the last quarter of 2015 and increased payment of corporate profit taxes led to a deceleration in the decline of receipts from this tax by 22.5 percentage points to 55% yoy. Unlike the negative trends in revenues of the state budget, revenues of the local budgets saw acceleration in growth in February thanks to official transfers and growth in receipts from personal income taxes and excise taxes. As a result, growth in revenues of the local budgets accelerated for the January-February period offsetting the deceleration of the state budget revenues. As a result, consolidated budget revenues grew by 22.6% yoy in January-February which is almost 10 percentage points slower than January.

#### Dynamics of consolidated budget components

(from the beginning of the year)



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

The evolution of budget **expenditures** was dissimilar from that of revenues in February. The trend in State budget expenditures changed from a 13.9% yoy decline in January to a 20.7% yoy increase in February. At the same time, expenditures of the local budgets saw a 2.4 percentage point deceleration in growth to 20.9% yoy. The significant growth in state budget expenditures resulted from a renewal of transfers to the Pension Fund of Ukraine, increases in the size of subsidies to the population, and growth in transfers to state enterprises and in capital expenditures. Thus, state budget expenditures grew by 5% yoy from the beginning of the year. Social security expenditures posted the highest monthly increase (37.6 times) and almost reached the level

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observed in January-February 2015. As a result, they obtained the highest share within the structure of the state budget being followed by expenditures on general state administrative functions. Defense and public order remained among the top priorities of the state as expenditures on these functions continued to grow at high rates. But the growth pace of those expenditures decelerated in February, especially for defense. The consolidated budget expenditures observed similar developments to those of state budget expenditures and reversed the downward trend. Furthermore, the high growth of expenditures of local budgets (despite some deceleration in February) further accelerated growth of consolidated budget expenditures to 8.3% yoy in January-February.

### Monetary Policy

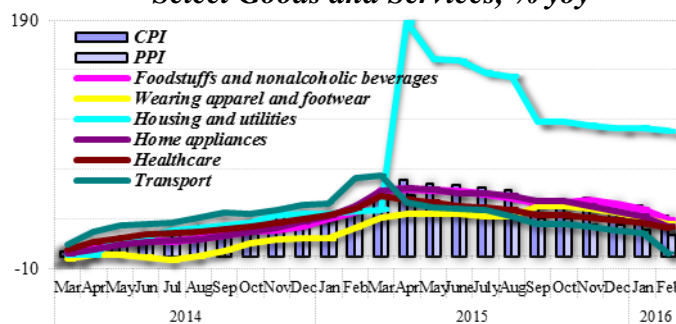
**Inflation.** In February 2016, consumer prices declined by 0.4% on a month-to-month basis leading to further deceleration in consumer inflation to 32.7% in year-to-year terms. This decline was mainly the result of an increased supply of whole foods and tobacco products which more than compensated for the impact of depreciation of the national currency in February. Decreases in prices of footwear and apparel (by 2.0% mom), alcohol and tobacco products (by 1.3% mom), and foodstuffs and nonalcoholic beverages (by 0.7% mom) overwhelmed growth in prices of other major groups of goods and services ranging from 0.3% mom to 1.3% mom ensuring the overall 0.4% mom decline in consumer prices. Prices

of foods decreased on the back of a 24.4% mom drop in egg prices supported by a 2.1% mom decline in prices of fruits and a 1.3% mom decline in prices of meat and meat products. The decrease in alcohol and tobacco products prices was fully attributed to lower prices of tobacco products as major players continued their price wars to increase market shares in light of the upcoming increase in excise taxes. Prices of fuel and lubricants dropped 1.0% mom but this was offset by a 4.2% mom increase in prices of cars and a 3.8% mom increase in aeronautical services. As a result, transport reported flat prices in February. Prices of utilities inched up by 0.3% mom due to higher sewerage and water supply services (by 2.2% mom and 1.9% mom respectively) and an increase in housing leasing prices by 1.0% mom. Although some of the groups of goods and services saw monthly increases in prices, all the major groups of goods and services reported deceleration in growth of prices in year-over-year terms in February. Growth of transport prices decelerated the most (from 18.5% yoy in January to 1.8% yoy) which is mainly the result of a decline in world oil prices. Growth of prices in communications and in hotels and restaurants decelerated the least (by 0.9 percentage points to 5.8% yoy and by 1.5 percentage points to 21.4% yoy, respectively).

Overall consumer price growth decelerated from 40.3% yoy in January to 32.7% yoy in February. Restrained consumer demand, stabilization of inflationary expectations, and weaker influence of exchange rate fluctuations compared to the corresponding periods of 2015, will further decelerate consumer inflation. In fact, these factors led to faster deceleration of consumer inflation compared to NBU forecasts. Therefore, we leave our forecast for consumer inflation unchanged at 12% yoy in 2016.

**Banking Sector.** Positive developments in household deposits were the main driving forces in the monthly increase of total deposits in February. In particular, the deceleration of the decline of household national currency deposits from 4.0% mom in January to 0.3% mom led to deceleration in decline of total national

**CPI, PPI, and Growth of Prices for Select Goods and Services, % yoy**



Source: State Statistical Service of Ukraine, The Bleyzer Foundation

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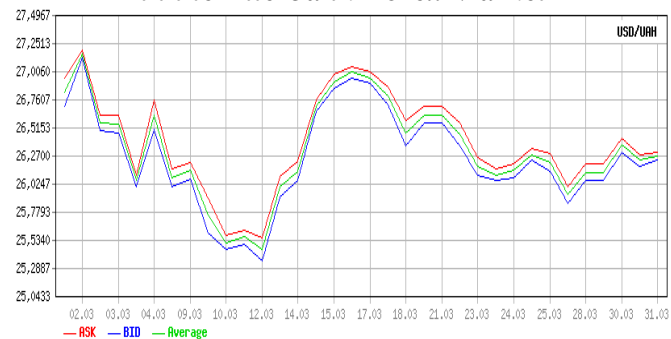
currency deposits by 1.0 percentage point to 0.3% mom as corporate deposits remained virtually unchanged in February. On the other hand, a reversal of the trend of foreign currency deposits of households denominated in USD from a 0.4% mom growth to a 0.5% mom decline caused similar changes in the growth of total foreign currency deposits denominated in USD (inched down by 0.4% mom) as the corresponding deposits of the corporate sector continued to grow, although at a slower pace (0.3% mom against 1.0% mom a month ago). In year-over-year terms, national currency deposits expanded by 9.6% on the back of 24.0% growth of corporate sector deposits. Foreign currency deposits denominated in USD saw deceleration in decline by 2.5 percentage points to 25.9% yoy.

On the demand side of the banking sector, although demand for loans was still low in February, there were some increases in credit activities but solely in the national currency loans segment. Total national currency loans posted a 0.8% mom increase thanks to growth of both household and corporate loans (by 0.2% mom and 1.0% mom respectively). In year-over-year terms, both household and corporate national currency loans further declined, but at slower pace. In particular, household loans posted a 26.3% yoy decline which is 0.8 percentage points less than in January. The decline in corporate national currency loans decelerated even more (by 2.4 percentage points to 15.3% yoy). Foreign currency loans denominated in USD saw little changes in both monthly and over-year terms in February.

A 2.1% mom increase in money supply was the result of revaluation of foreign currency deposits because of exchange rate fluctuations. At the same time, depreciation of the national currency in February 2015 led to a sharp increase in hryvnia equivalent of foreign currency deposits. Thus, the year-over-year decline of money supply accelerated to 10.6% due to a statistical base effect.

**Hryvnia Exchange Rate.** As the National Bank of Ukraine limited its interventions in the operation of the interbank forex market, fluctuations of the UAH/USD exchange rate were the result of demand and supply dynamics. In general, the ongoing political crisis imposed additional depreciatory pressure on the Hryvnia by increasing demand for USD. At the same time, exporters who are the major source of dollar supply to the interbank forex market tried to postpone sales of the obligatory portion of their foreign currency revenues as much as possible which led to lower supply of USD in the market. Therefore, the UAH/USD exchange rate was at a level above of our expectations for most of the month. It depreciated above 27 UAH/USD a couple of times but it mostly fluctuated within a 26.0-26.75 UAH/USD band. Several cases of significant appreciation were the result of obligatory sales of USD by exporters. The NBU rarely used its practice of cutting requests for dollar purchases submitted by banks. Usually, such practices were applied to requests with obviously speculative interests and in some cases to requests of small and medium banks, while all requests of large banks (except for speculative ones) were approved uncut. In cases when the fluctuations of the exchange rate were significant, the NBU held FX auctions at which it sold or bought USD to mitigate depreciation/appreciation in the market. The amounts announced for sale or purchase varied from USD 30 million to USD 60 million. Although the parliamentary crisis remains unresolved, the exchange rate stabilized around 26.3 UAH/USD in the second half of the month as agricultural businesses started the spring sowing campaign and increased the supply of dollar on the interbank forex market.

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



Source: Ukrdealing, The Bleyzer Foundation

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The National Bank has continued with liberalization of its foreign exchange regulations. In particular, the regulator increased the limits for foreign currency and banking metals cash withdrawals from accounts of bank clients from UAH 20 thousand equivalent to UAH 50 thousand equivalent per day. The limits for national currency cash withdrawals were increased from UAH 300 thousand to UAH 500 thousand per day. The maximum amount of foreign currency cash allowed for sale was doubled to UAH 6 thousand equivalent. These changes are meant to rebuild the trust of the population regarding the banking system and to stimulate inflow of deposits in both national and foreign currency. Operation of exporters' surrender of forex proceeds was further extended, as was the ban for early repayment of foreign currency loans by residents under agreements with non-residents and some other foreign exchange restrictions.

Stabilization of the exchange rate at the end of the month despite the political issues gives us a hope that after a successful resolution of the current political crisis and the re-activation of economic reforms, the exchange rate may return to the target level of 25 UAH/USD. Therefore, for the moment we leave our forecast for the exchange rate at the end of 2016 unchanged at 25-30 UAH/USD.

### International Trade and Capital

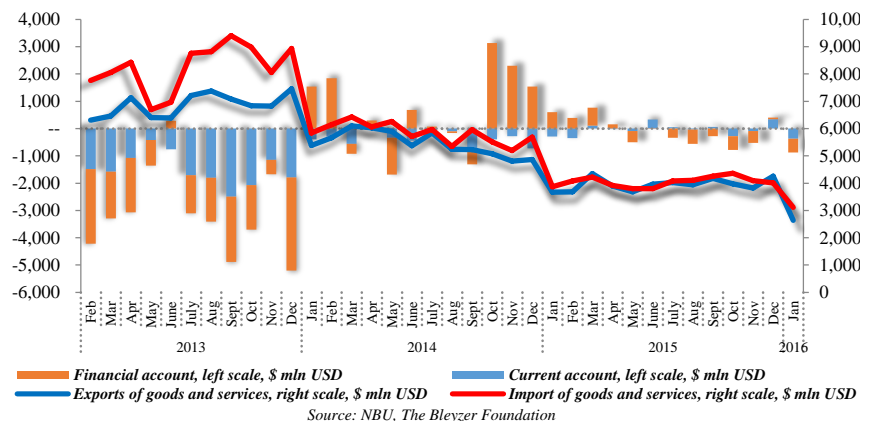
According to the NBU, in February 2016, the current account deficit of the balance of payments amounted to USD 251 million, compared to a deficit of USD 373 million in February 2015. The February 2016 deficit was composed of a deficit of USD 670 million in goods, a surplus of USD 167 million in services, a surplus of USD 38 million in foreign income, and a surplus of USD 214 million in transfers from abroad.

The high deficit in goods trade in February was due to the fact that merchandise exports declined by a larger percentage (12.0% yoy) than imports (7.3%).

Exports of goods amounted to USD 2,449 million in February 2016, compared to exports of USD 2,784 million a year ago. Exports continued to be affected by the trade restrictions imposed by Russia, weather conditions, low commodity prices, and international tensions, particularly in the Middle East. Exports in February declined for all major products, including: minerals (-34% yoy), chemicals (-29% yoy), metallurgy (-19% yoy), industrial goods (-15% yoy), and machinery and equipment (-8%). Exports of food products in February declined by only 3% yoy.

Geographically, in January-February 2016 goods exports to Russia decreased by 39% yoy and now represent only 6.9% of total exports, compared to 9% in January-February 2015. Exports to Asia decreased by 27% yoy, representing 34% of total Ukrainian exports. Exports to Europe did not decline at all and now account for 40% of exports (compared to 31% in January-February 2015).

**Ukraine's External Balance of Payments, mln USD**



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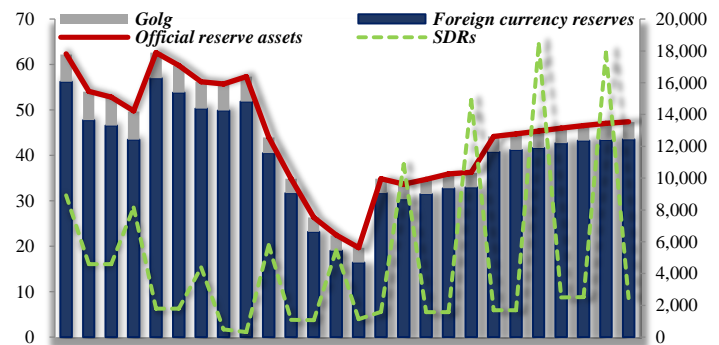
In February 2016, imports of goods amounted to USD 3,119 million, a decline of 7.3% yoy. The major declines in imports in February 2016 took place in mineral products, particularly energy, which declined by 45% yoy. The second largest decline in imports was in machinery and equipment, with a decline of 40% yoy. This was followed by chemicals, whose imports declined by 20% yoy. Food imports declined by less than 1% yoy. The main import categories in February 2016 were chemicals (23% of total imports), machinery and equipment (22% of the total) and minerals and energy products (20% of total imports.)

Geographically, Europe continues to be the largest supplier of goods to Ukraine, with a 42% share in January-February, followed by Asia with a 20% share. The share of Russia in Ukrainian imports has been reduced to 10% of the total, compared to 20% in January-February 2015.

In February 2016, the financial account showed net inflows of USD 149 million, compared to net outflows of USD 369 million in February 2015. The major inflows in February were due to net foreign direct investments of USD 891 million long-term loans, compared to only USD 18 million in January. Most of this FDI was directed to the commercial banking sector to support re-capitalization requirements. These FDI inflows were offset by large foreign debt repayments of USD 474 million, and other unrecorded financial outflows of USD 270 million. As a result, the overall balance of payments had a deficit, though small, amounting to USD 74 million.

The IMF has reiterated its decision to hold the third tranche from the IMF support program until Ukraine satisfies a number of conditions, including the resolution of the current political crisis, concrete anti-corruption measures, reform of the banking sector, tax reform and others.

*Dynamic of Ukraine International Reserves, mln \$*



Source: the NBU, the Bleyzer Foundation

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