

*October 2015**Oleg Ustenko, Djulia Segura, Valentyn Povroznyuk  
Edilberto L. Segura***Executive Summary**

- ❖ The ceasefire for Eastern Ukraine agreed upon on August 24th generally held throughout October. Moreover, both sides have started to remove arms with caliber lower than 100 millimeters. These events provide positive signals that the military conflict in the East of Ukraine might become frozen at current positions. Nevertheless, the agenda for conflict resolution is still large and includes the recovery of Ukraine's control over its border and granting greater autonomy to the Pro-Russian rebels in Donbass.
- ❖ On October 25th, Ukraine held local elections, except in Crimea and parts of Donetsk and Luhansk near or controlled by Russia-backed rebels. Preliminary results showed that the Block of President Poroshenko and other pro-Western parties performed well in Central and Western Ukraine. However, in parts of Eastern and Southern Ukraine, the Opposition Bloc and other parties which include many Russian sympathizers and local oligarchs, collected the majority of votes.
- ❖ Since the proposed political decentralization program would grant greater autonomy and fiscal powers to local governments, the election outcome in the East and South may offer pro-Russians opportunities for greater Russian influence in the region. On the other hand, it may also lead the ruling coalition to seek political accommodation with these parties.
- ❖ The generally poor election results may put pressure on the ruling coalition to accelerate reforms. Reform pressures are coming also from three major sources including (i) a growing civil society, (ii) Ukraine's international Western partners, and (iii) Ukraine's modern business community, which wants to re-build the country and ensure its European path of development.
- ❖ GDP data for the second quarter of 2015 and high-frequency data for Q3 confirm that the economy bottomed out in April-May 2015. On a month-to-month basis, GDP may have increased by 1% in Q3.
- ❖ The "Key Branches Production Index" saw deceleration in decline 7.4% yoy in September from 17.1% yoy in June, thanks to progress in almost all major economic sectors. In particular, in September the decline in agriculture decreased to 4.2% yoy compared to a decrease of 17.2% yoy in June. Industrial production declined by -5.1% in September, a lower decline compared to previous months: -5.8% yoy in August, -13.4% yoy in July, and -18.0% yoy in June.
- ❖ The fiscal budget situation continued to be satisfactory. The surplus of the state budget in January-September 2015 reached UAH 8.8 billion, compared to a deficit of UAH 40.1 billion one year ago. This surplus was due principally to increases in tax revenues induced by inflation and the depreciation of the national currency.
- ❖ Inflation in August continued to decelerate, reaching 51.2% yoy in September. CPI growth has decelerated from its peak of 61% yoy in April. It is expected to decline further to 48% by the end-2015.
- ❖ In September 2015, Ukraine's current account balance showed a surplus of USD 135 million, compared to a surplus of USD 57 million in August 2015. Together with a surplus in the financial account, the NBU was able to increase its international reserves to USD 12,960 million as of the end of October.
- ❖ In October, Ukraine failed to receive the third tranche from the IMF due to a slowdown in the pace of reforms, principally in anti-corruption, reform of the banking sector, tax reform, and elaboration of the state budget for 2016. As a result, the decision on provision of the third tranche within the IMF EFF program was postponed until mid-November. Therefore, there is a possibility that the third and the fourth (planned for December) tranches may be combined.

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

### Political and Reform Developments

The ceasefire for Eastern Ukraine agreed upon on August 24th generally held throughout October. Moreover, according to the Minsk-2 Agreement, both sides started to remove arms with caliber lower than 100 millimeters. These events provide positive signals that the military conflict in the East of Ukraine might be frozen at current positions. Nevertheless the agenda for conflict resolution is still large and includes a crucial point for Ukraine of recovering control over its border with Russia and granting greater autonomy to the Pro-Russian rebels in Donbass.

On October 25th, Ukraine held local elections except in Crimea and in parts of the Donetsk and Luhansk regions of eastern Ukraine near or controlled by Russia-backed rebels. The elections would select 1,600 regional council members in 22 regional parliaments as well as 10,700 members of local councils, city and village majors and other local authorities. A total of 350,000 candidates representing 130 political parties took part in the elections. The elections aimed at providing local authorities with necessary “credibility mandates” from citizens. The elections were considered by all international observers as free and democratic despite some violations at different local voting stations. Many cities, including Kiev, Lviv, Dnipropetrovsk, will have a second round of elections since none of the candidates were able to receive a majority of votes. Overall the level of participation in the local elections was around 47%, which is lower than the participation rate during the latest parliamentary elections. Despite its local nature, most candidates addressed nationwide issues, such as war with Russia, the country’s economic situation, reform efforts, corruption, etc. Therefore, the elections were expected to serve as a verdict of the performance of the ruling coalition. Preliminary results showed that the Block of President Poroshenko and other pro-Western parties performed well in Central and Western Ukraine. Altogether, these parties had majorities in 18 of the 22 regions (oblasts) where elections took place (excluding Lugansk, Donetsk and Crimea). However, in four regions in Eastern and Southern Ukraine, the Opposition Bloc and other parties which include many Russian sympathizers and local oligarchs, collected the majority of votes. Since the proposed political decentralization program would grant greater autonomy and fiscal powers to local governments, the outcome in the East and South may offer pro-Russians opportunities

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for greater Russian influence in the region. On the other hand, it may also lead the ruling coalition to seek a political accommodation with these parties.

The low participation rate and the overall poor performance of the ruling parties might signal frustration with the effectiveness of the government in implementing the reform agenda, particularly in judicial and legal reform and anti-corruption measures. These results may lead to political changes in the ruling coalition.

Further pressures to accelerate the pace of reforms are coming from three major sources including (i) a growing civil society, (ii) Ukraine's international Western partners, and (iii) Ukraine's modern business community, which wants to use the current window of opportunities to re-build the country and ensure its European path of development.

In terms of reform achievements, in October, some progress was observed in anticorruption efforts, business deregulation, public administration and court system reform.

Anticorruption efforts:

- The government introduced opened e-access to land property register information database. This action should enhance control of civil society over the use and turnover of lands in Ukraine and minimize risks of corruption.
- Verkhovna Rada adopted a package of anti-corruption laws as a basis for the implementation of Ukraine's commitments to a visa-free regime with the European Union. In particular, the two bills introduced specific mechanisms to complete investigation of criminal cases, and to save and return to the state budget money received by corrupt officials.
- The Ministry of Economic Development and Trade prepared a draft law On Public Procurement. It should become the basis for the next phase of a public procurement reform, which includes introduction of e-procurement system to the national level. Enforcement of this law should transfer state institutions to the e-procurement system, which will eliminate prospects for corruption.

Business deregulation:

- The Ukrainian Ministry of Justice prepared and has been testing all necessary procedures, which should allow a one-day on-line business registration. For this purpose government introduced an online electronic information exchange among state agencies. The newly introduced on-line procedures will register a new business automatically with the Justice Ministry, State Fiscal Service, Pension Fund and statistics bodies.

Public administration:

- Ukraine began implementing a system of free and open public access to government data on public institutions and state enterprises. The Cabinet of Ministers enacted an order to start building up an open information infrastructure. This system should provide citizens with the highest level of transparency of all state bodies and should ensure higher level of efficiency of public institutions.

Court system reform:

- The Venice Commission issued a conclusion on the relevant changes to the Constitution of Ukraine, which would ensure reform of the judiciary system and would help complete renewal of all judges. The introduction of competition for the appointment of judges will not conflict with European standards. Thus, in the case of creating a new structure of courts, access to the judicial system should have both the incumbent judges and those who have not previously worked in the system.

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### Economic Growth

GDP data for the second quarter of 2015 and high-frequency data for Q3 confirm that the economy bottomed out in April-May 2015. In the second quarter of this year, the rate of GDP decline was reduced both on a quarterly basis and on a year-over-year (yoy) basis. In particular, the quarterly GDP decline decreased ten-fold to 0.5% as most of the industries registered slower declines and some of industries saw their downwards trends reversed during the second quarter. At the same time, despite significant deceleration, the rates of decline of industry, construction, and retail trade remained above 20% yoy. On a yoy basis, in Q2 2015 the decline of real GDP decelerated by 2.6% to 14.6% yoy. From the point of view of end users, positive changes in real GDP dynamics led to positive developments in gross savings and international trade. Thanks to a quarterly growth of 2.5% in gross savings, they increased to a level almost identical to that observed a year ago. Positive quarterly dynamics of exports led to deceleration in year-over-year terms, while imports' decline accelerated in both quarterly and year-over-year terms.

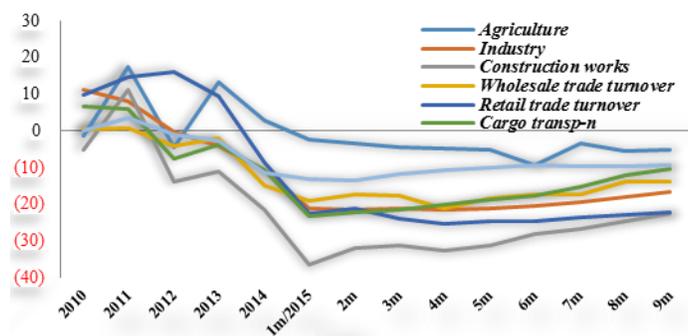
The positive developments in the real sector observed in Q2 strengthened further in Q3 2015. The NBU reported that in Q3 2015, GDP may have increased by 1% mom. The "Key Branches Production Index" saw deceleration in decline from 17.1% yoy in June to 7.4% yoy in September thanks to progress in almost all major economic sectors. In particular, in September the decline in agriculture decreased to 4.2% yoy compared to a decrease of 17.2% yoy in June. Total industrial output declined by 5.1% yoy in September, a rate lower than the decline of 18.1% yoy in June. The rates of decline in construction and retail trade decreased to

### Real Sector Indicators of Ukraine, % yoy

|                                 | 2015 9m* | 2014  | 2013  | 2012 | 2011 | 2010 |
|---------------------------------|----------|-------|-------|------|------|------|
| <b>Agriculture</b>              | -5.3     | 2.8   | 13.3  | -4.5 | 17.5 | -1.5 |
| <b>Industry</b>                 | -16.6    | -10.7 | -4.3  | -1.8 | 7.6  | 11.2 |
| <b>Construction works</b>       | -22.8    | -21.7 | -11.1 | -14  | 11.1 | -5.4 |
| <b>Domestic trade, turnover</b> |          |       |       |      |      |      |
| Wholesale trade                 | -14.0    | -15   | -2    | -4.4 | 0.6  | 0.4  |
| Retail trade                    | -22.3    | -8.6  | 9.5   | 15.9 | 14.7 | 9.8  |
| <b>Transportation, turnover</b> |          |       |       |      |      |      |
| Cargo                           | -10.5    | -10.8 | -3.9  | -7.6 | 5.7  | 6.4  |
| Passenger                       | -9.6     | -11.7 | -2.9  | -1.2 | 3.3  | -0.2 |

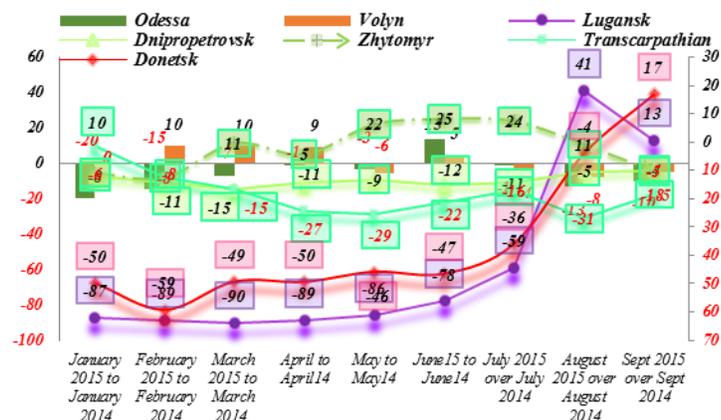
Source: State Statistical Service of Ukraine, The Bleyzer Foundation  
\* Excluding Crimea

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



Source: The Bleyzer Foundation

### Industrial Production Sectors by Region, % YOY



Source: The Bleyzer Foundation

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about 16.6% in September, compared to declines of about 24% yoy in June. A good portion of these positive developments was the result of statistical base effects, as major real sector declines started in August 2014.

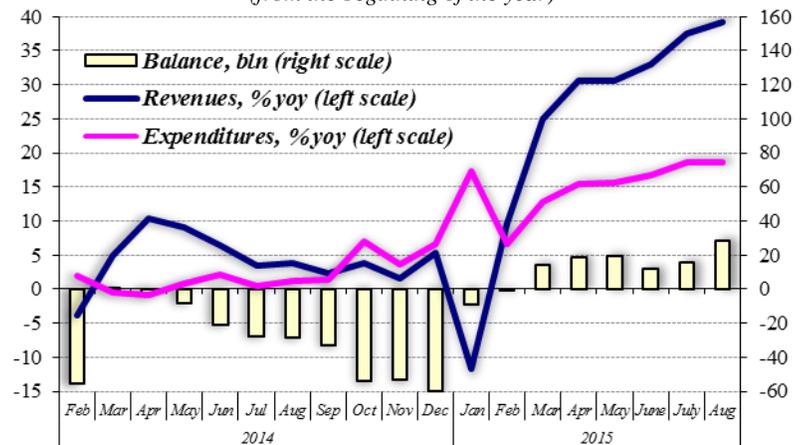
However, the extraction industry, petro-chemical industry, and metallurgy also benefitted from de-escalation of conflict in Eastern Ukraine. In particular, production of coke and petrochemicals grew by 29.0% yoy in September, which is a significant progress compared to a 30.8% yoy decline in June. Both the extraction industry and metallurgy also saw their development trends reversed from the decline of above 20% yoy in June to growth of around 3% yoy in September. Chemicals and pharmaceutical products were the worst performing subsectors in September, with declines of 14.9% yoy and 13% yoy, respectively.

On a regional basis, the industrial sector in Donetsk and Lugansk showed the greatest improvements in September 2015, with positive rates of growth in industrial output of 16.9% yoy and 13% yoy, respectively. In a like manner, for September 2015 over September 2014, other regions showed lower rates of decline, as follows: Kyiv region -9.6% yoy in September (compared to -15.7% yoy in August), Nikolayev -3.1% yoy (-12.5% yoy), Odessa -9.8% yoy (-13.4% yoy), Sumy -1.4% yoy (-6% yoy), Kharkiv 13% yoy (-19%) and Kyiv city -0.4% yoy (-9.3% yoy).

Nevertheless, despite the above-mentioned improvements in Q3, the overall real industrial sector decline still remained in double digits during the January-September. The Key Branches Production Index posted a 14.2% yoy decline from the beginning of the year with declines in retail trade and construction remaining above 20% yoy and decline in industry at 16.6% yoy. Taking this into account, we forecast a decline of 11% yoy for real GDP in 2015.

### Dynamics of Consolidated Budget Components

(from the beginning of the year)



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

### Fiscal Policy

The fiscal budget situation continued to be satisfactory. In fact, the surplus of the state budget in January-September 2015 reached UAH 8.8 billion, compared to a deficit of UAH 40.1 billion one year ago. During September alone, the state budget showed a surplus of UAH 1.1 billion, despite a slowdown in tax revenues and higher expenditures. Tax revenues increased by 47.3% yoy in January-September, compared to 46.5% in January-August. This slowdown was due to a decline in the growth rate of tax revenues to 31.2%, compared to 70% in August. On the other hand, expenditures under the state budget increased by 27.3% yoy in January-September, with an 87.8% increase in September alone.

Considering state and local budgets together, during January-August 2015, the consolidated budget surplus almost doubled in one month to UAH 28 billion for January-August period, thanks to a large state budget surplus of almost UAH 10 billion generated solely in August. The surplus of local budgets of UAH 2.9 billion was also significant, even though it was slightly lower than that observed in July at UAH 3.3 billion. These results were possible thanks to further acceleration in the growth of budget revenues at a pace exceeding that

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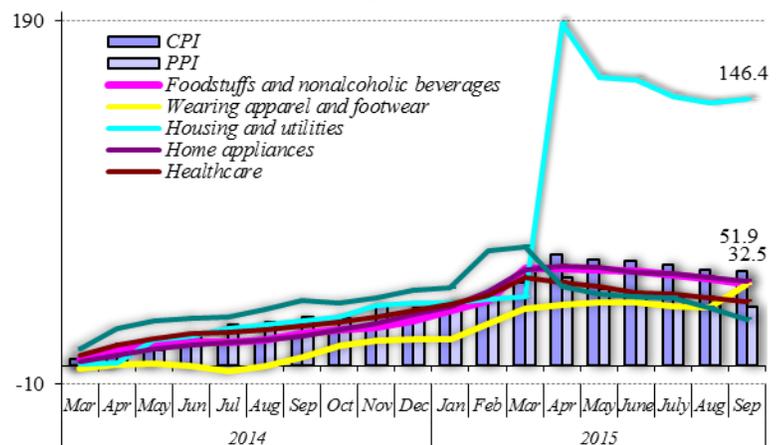
for budget expenditures. In particular, the consolidated budget revenues grew by 39.2% yoy in January-August, which is 20.6 percentage points higher than growth of the consolidated budget expenditures. It seems that the favorable budget effect of the hryvnia depreciation only slightly diminished in September. In particular, both receipts from the VAT on imported goods and from excise taxes on imported goods amounted to 36.5% yoy and 40% yoy, respectively) from the beginning of the year. Similarly, the impact of inflation on budget revenues did not change much since the growth of receipts from the VAT on domestic goods accelerated to 26.5% yoy in January-August, while growth of receipts from excise taxes on domestic decelerated to 47% yoy. The largest contribution to consolidated budget revenues was made by transfers from the NBU which grew by 71.5% yoy during the first nine months of the year to UAH 39 billion. As for the budget expenditures, the major focus of the government was on defense and public order, which were followed by social expenditures. Economic activities obtained the lowest financing. Defense expenditures continued to grow at the fastest pace even though it significantly decelerated due to statistical base effect (from 150% yoy in January-July to 100% in January-August).

Despite a large surplus of the consolidated budget, the government continued to borrow at both domestic and international markets to finance execution of the state budget. As of the end of August, those borrowings totaled UAH 137 billion, UAH 23 billion of which were borrowed at domestic markets. In addition, UAH 53 billion were received from placing of domestic sovereign bonds. The state and guaranteed debt grew by 26.4% from the beginning of the year to UAH 1,494 billion. Denominated in USD, the state and guaranteed debt remained almost unchanged reflecting the fact that most of the increase in public debt denominated in national currency was the result of hryvnia depreciation observed at the beginning of the year which significantly increased hryvnia equivalent of the foreign public debt of Ukraine.

### Monetary Policy

**Inflation.** Inflation in September continued to gradually decelerate in year-over-year terms reaching 51.9% yoy compared to 52.8% yoy in August. This decline took place despite the fact that on a month-over-month basis, the September CPI index posted a 2.3% mom increase after two consecutive months of decline. This increase was fueled by increases in all the price indexes for goods and services except for transport. Seasonal increases in prices for wearing apparel and footwear and for education were the sharpest. Good harvest of grain crops led to further decline in prices of foodstuffs made of them. At the same time, seasonal increases in prices of meat and dairy products and in vegetables and fruits offset the mentioned decreases in prices and led to overall growth of foodstuffs prices by 1.2% mom. Yet another increase in tariffs for electricity of 24.9% mom fueled a 2.4% mom increase in prices of utilities and housing. Decreasing world oil prices made passenger transportation via railways cheaper by 3.8% mom, fuels and lubricants lost 3.6% mom in prices. Those were the major reasons of a 1.6% mom disinflation in transport services. Because of the monthly price changes, all items inflation continued to decelerate but at slower pace in September. The all items CPI lost just 0.9 percentage points and

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



Source: State Statistical Service of Ukraine, the Bleyzer Foundation

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equaled to 51.9% yoy. The price index for restaurants and hotels remained virtually unchanged at 26.3% yoy. Indexes for apparel and footwear, for housing and utilities, and for education saw increases (by 12.7, 2.0, and 5.4 percentage points respectively). The rest of the major price indexes posted declines with the sharpest one of 5.7 percentage points observed for transport services (to 25.5% yoy)

A survey of the NBU conducted in August-September 2015 showed that business expectations of Ukrainian companies further improved. It shows more optimistic expectations in relation to inflation. In particular, participants of the survey expect consumer prices to grow by 25.5% over the next 12 months. This is a 1.8 percentage point improvement over 27.3% 12-month increase expected at the end of Q1. Businesses named fluctuations of hryvnia exchange rate and increase in cost of production as the main drivers of inflation. At the same time, dynamics of money supply, state budget social expenditures, and dynamics of world prices were considered to have the least impact on consumer prices in Ukraine.

Based on recent price developments, we have revised our forecast for inflation at the end of the year upwards to 48%.

### **Banking Sector.**

In September, both national currency deposits and foreign currency deposits denominated in US dollars expanded. Furthermore, deposits of legal entities were the drivers of growth in both currency segments. In particular, national currency deposits of legal entities grew by 5.5% mom, while growth of the correspondent deposits of private persons was only 1.2% mom. Therefore, growth of total national currency deposits was close to the average of the two at 3.2% mom to UAH 321.2 billion. As for the foreign currency deposits denominated in dollars, their total amount expanded by 1.4% mom to USD 10.0 billion. Legal entities managed to generate a 6.2% mom growth of the correspondent deposits, while private persons generated a 0.9% mom decline. However, the volume of the foreign currency deposits of legal entities was twice as low as that for private persons. From the beginning of the year, total national currency deposits posted just a moderate growth of 0.5%, while foreign currency deposits denominated in dollar dropped 22.2%.

National currency and foreign currency loans saw little changes in September. A 0.5% mom increase in national currency loans allowed them to reach UAH 492.3 billion. This growth was caused by a 0.9% mom growth of correspondent loans in the corporate sector. Household hryvnia loans were symmetrically edged down by 0.9% mom.

Foreign currency loans of legal entities remained virtually unchanged at USD 25.5 billion, while households reduced the volume of their foreign currency loans by 1.4% mom to USD 4.6 billion. As a result, total foreign currency loans denominated in dollar inched down by 0.2% mom. Both national currency loans and foreign currency loans posted significant declines in volume from the beginning of the year. Hryvnia loans dropped almost one-tenth, while the foreign currency loans denominated in dollar lost almost 15%.

In terms of projections, the dynamics of loans may change quite soon. According to the survey conducted by the National Bank in Q3, Ukrainian banks expect an activation of crediting in Ukraine over the next 12 months.

The share of banks expecting a decrease in the portfolio of corporate loans over the next 12 months halved to 29%, while the share of banks expecting growth of this portfolio equaled 45%. The share of banks expecting improvement of quality of corporate loans' portfolio almost tripled to 39%. As for retail lending, banks were not so optimistic in general. At the same time, 40% of respondents are counting on improvement in quality of loans to households.

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**Hryvnia Exchange Rate.** The UAH/USD exchange rate fluctuated around 21 UAH/USD through October 19<sup>th</sup>. A brief period of depreciation to around 21.80 UAH/USD was the result of Columbus Day in the US, as the market there was closed that day and all the trades were made in ‘tom’ mode, which is not popular in Ukraine. Therefore, some players increased their purchases of dollar on Friday, October 9<sup>th</sup> creating additional depreciation pressure on the hryvnia. At the same time, the exchange rate did not appreciate back for the next several trading sessions due to deferred demand, which emerged on October 12<sup>th</sup>. The beginning of the local election campaign and actions of the NBU returned the exchange rate to around 21 UAH/USD. However, starting on October 19<sup>th</sup>, the hryvnia started to depreciate again. The reason for that depreciation was a dramatic decline in supply of dollar in the interbank forex market. In light of administrative reforms which transferred significant part of fiscal authority from central to local level, businesses perceive local elections as a potential threat to their activities as new people in local public institutions may cause problems for existing business schemes. Therefore, businesses decided to reduce the amounts of foreign currency they sell till the official announcement of local elections results. The NBU tried to soften the depreciation through verbal interventions and excessive cuts of requests for dollar purchases submitted by banks. However, the regulator was not very successful in this as the exchange rate depreciated to around 23 UAH/USD by October 25<sup>th</sup>.

*Dynamics of UAH/USD Exchange Rate Quotations in the Interbank Forex Market in October 2015*



Source: Ukrdealing, The Bleyzer Foundation

In light of its obligations to the IMF and in order to stimulate inflow of foreign currency into the country, the NBU introduced some changes to foreign currency market regulations in October. In order to improve cooperation of Ukraine with other partner countries and international organizations, the regulator revised its requirement of obligatory sales of foreign currency. In particular, it has lifted this requirement for funds received under the agreement on participation of Ukraine in international programs of the European Union. The mentioned requirement was also lifted for grants, which legal entities non-residents receive from international financial institutions (in case those grants are means of financing for the mentioned entities and Ukraine participates in management of these entities). The NBU also introduced additional exceptions for the ban on registration of creditor or debtor substitution in agreements on borrowing foreign currency funds by residents from non-residents. Finally, the regulator softened restrictions concerning cash withdrawals by clients of banks. In particular, foreign currency operations with private persons were excluded from the list of operations, cash withdrawal for which was limited at UAH 300,000.

Because of elections the unofficial corridor of dollar fluctuations has been shifted from 21-22 UAH/USD to 22-23 UAH/USD. These developments are in line with our expectations of gradual hryvnia depreciation to 25 UAH/USD by the end of the year.

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### International Trade and Capital

In September 2015, Ukraine's current account balance showed a surplus of USD 135 million, compared to a surplus of USD 57 million in August 2015. This surplus was due to surpluses in services (USD 158 million) and remittances from abroad (USD 164 million).

On the goods trade account, despite an increase of USD 191 million in export of goods to USD 3,082, the merchandise trade balance showed a deficit of USD 133 million, due to larger increases in imports. Exports of goods and services reached about USD 4,100 in September.

Overall goods exports increased in September thanks to increased exports of wheat and the resumption of metal and iron ore exports.

Agriculture has become one of the most significant exports, with sales abroad of USD 1,346 million in September (39.2% of total exports), followed by exports of ferrous and nonferrous metals which reached USD 786 million in September (23% of the total). Other sectors that performed well were as following: mineral products, USD 243 million (7.1% share); chemicals, USD 234 million (6.8%); timber and wood products, USD 148 million (4.3%); industrial goods, USD 92.2 million (2.7%); and machinery and equipment, USD 386 million (11.3%).

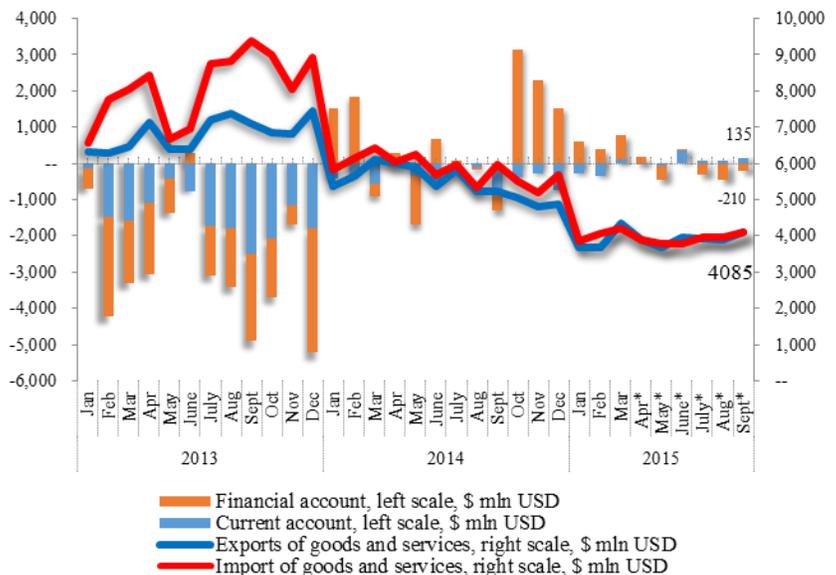
On the other hand, merchandise import increased from USD 3,120 million in August to USD 3,215 million in September. Major imported goods included mineral products and gas, USD 806.3 million (24% share); machinery and equipment USD 832.6 million (24%), and chemicals USD 694 million (20%).

On a regional basis, during January-September 2015, Ukraine merchandise exports to Europe amounted to USD 9,436 million (with a share of 32.7%). Exports to Asia reached USD 9,355 million in January-September (32.5% share), while exports to CIS countries amounted USD 6,358\$ million (a share of 22.1%), including the Russian Federation with exports of USD 3,613.4 million (12.5% share).

Regarding the financial account of the balance of payments, during September it had financial inflows of USD 210 million (thanks to FDI of USD 34 million, portfolio inflows of USD 6 million, and net loans of USD 56 million).

Given surpluses in the current and financial accounts, the overall balance of payments had a surplus of USD 348 million (compared to a BOP surplus of USD 513 million in August). Nevertheless, the BOP surplus allowed the NBU to accumulate international reserves of USD 172 million. Total international reserves reached USD 12,960 million at the end of October.

**Ukraine's External Balance of Payments Performance, \$ million USD**



Source: NBU, The Bleyzer Foundation

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Ukraine has continued its successful cooperation with leading international financial institutions. Ukraine received the second tranche from the IMF's EFF program and reached an agreement with its private foreign creditors on external debt restructuring.

The IMF tranche allowed for the build up of international reserves, while the agreement on debt restructuring caused a 1000 bps drop in CDS spreads for Ukraine and further growth of prices of Ukrainian Eurobonds on international markets. The country also received previously agreed amounts from the World Bank on sectoral reforms.

However, in October Ukraine failed to receive the third tranche from the IMF due to a slowdown in the pace of reforms. The IMF mission issued its conclusions stating that the country had not reached necessary benchmarks in anticorruption and reform of the banking sector. The IMF also expressed its concerns in relation to tax reform and elaboration of the state budget for 2016. As a result, the decision on provision of the third tranche within the EFF program was postponed until mid-November. There is a possibility that the third and the fourth (planned for December) tranches may be combined.

*Dynamic of Ukraine International Reserves, million \$*



*Source: the NBU, the Bleyzer Foundation*

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