



Norwegian-Ukrainian Business Forum 2016

Ukraine's program with the IMF: Key aspects and implementation

Jerome Vacher
IMF Resident Representative in Ukraine

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Background: Years of unsustainable macroeconomic policies

A largely inadequate policy mix in previous years:

- Lack of structural reforms
- Large fiscal and quasi fiscal deficit
 - Absent any adjustment and based on budget adopted in Jan. 2014, combined deficit > 12 percent of GDP
- Fixed exchange rate
- Large current account deficit
- Low level of reserves



Strong commitment to new policies but impact of the conflict

Impact of the conflict and its intensification in
the summer of 2014:

- Direct impact:
 - Real sector (industrial production, export, import)
 - Fiscal (revenues, expenditures)
 - Financial sector and demand for Fx
- Most important: impact on confidence
(domestic, external)



A new IMF supported program

Moving from a Stand By Arrangement to an Extended Fund Facility:

- 4 year arrangement (instead of 2 years)
- Longer repayment period
- Focus on structural reforms
- Frontloaded:
 - 1st tranche: 5 bn USD (of which 2.7 bn USD in budget support)
 - 2nd tranche: 1.7 bn USD
 - 3rd tranche: 1 bn USD



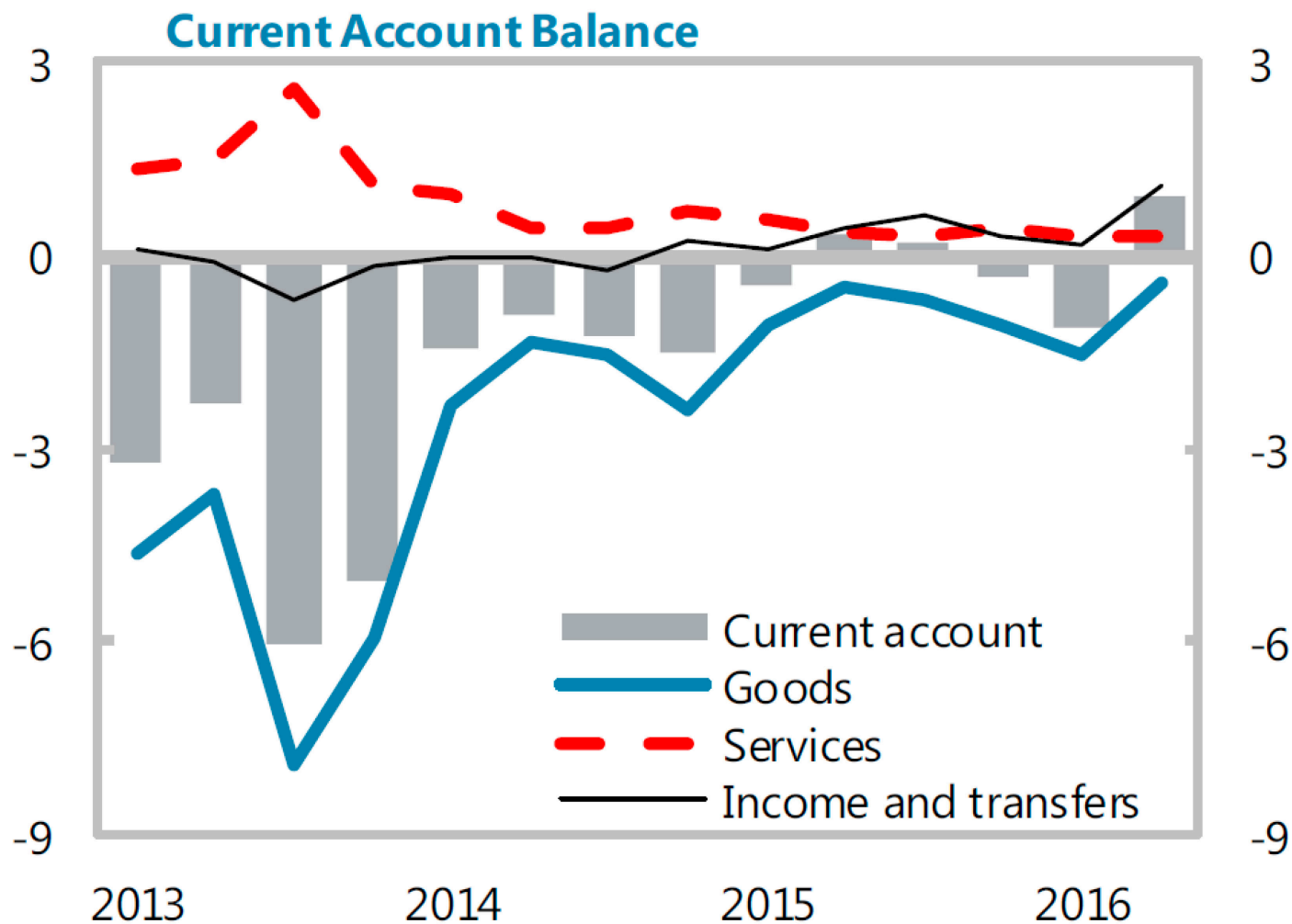
5 key areas

1. Exchange rate and monetary policies
2. Financial sector stabilization and reform
3. Fiscal adjustment
4. Energy sector reform
5. Structural reforms



Adjusting to imbalances and shocks

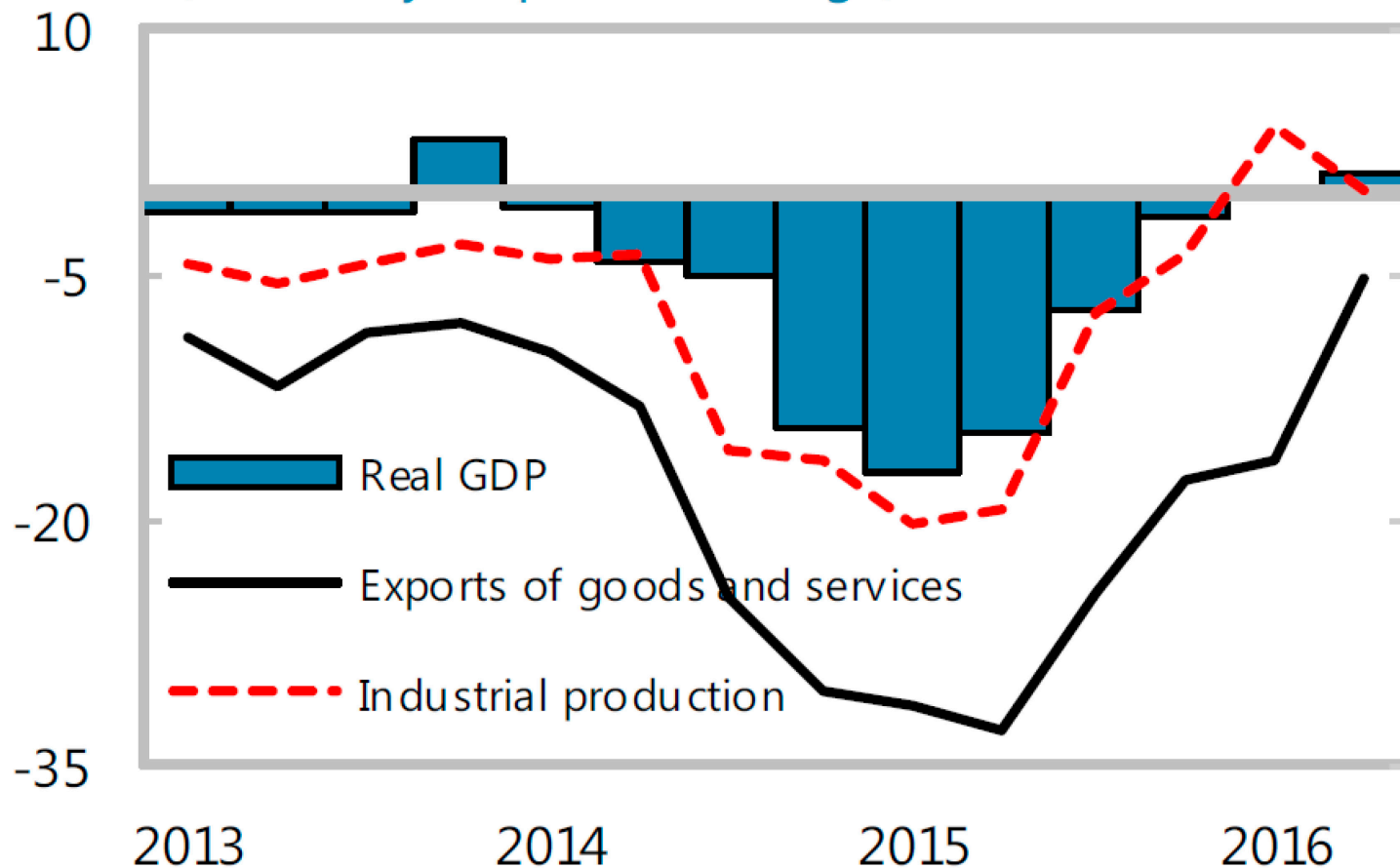
- External imbalances have narrowed rapidly:



Coming out of a deep downturn

- After a severe crisis, consecutive real GDP expansion in 2016H1 for the first time since 2012 :

Real GDP, Exports, and Industrial Production
(Year-on-year percent change)



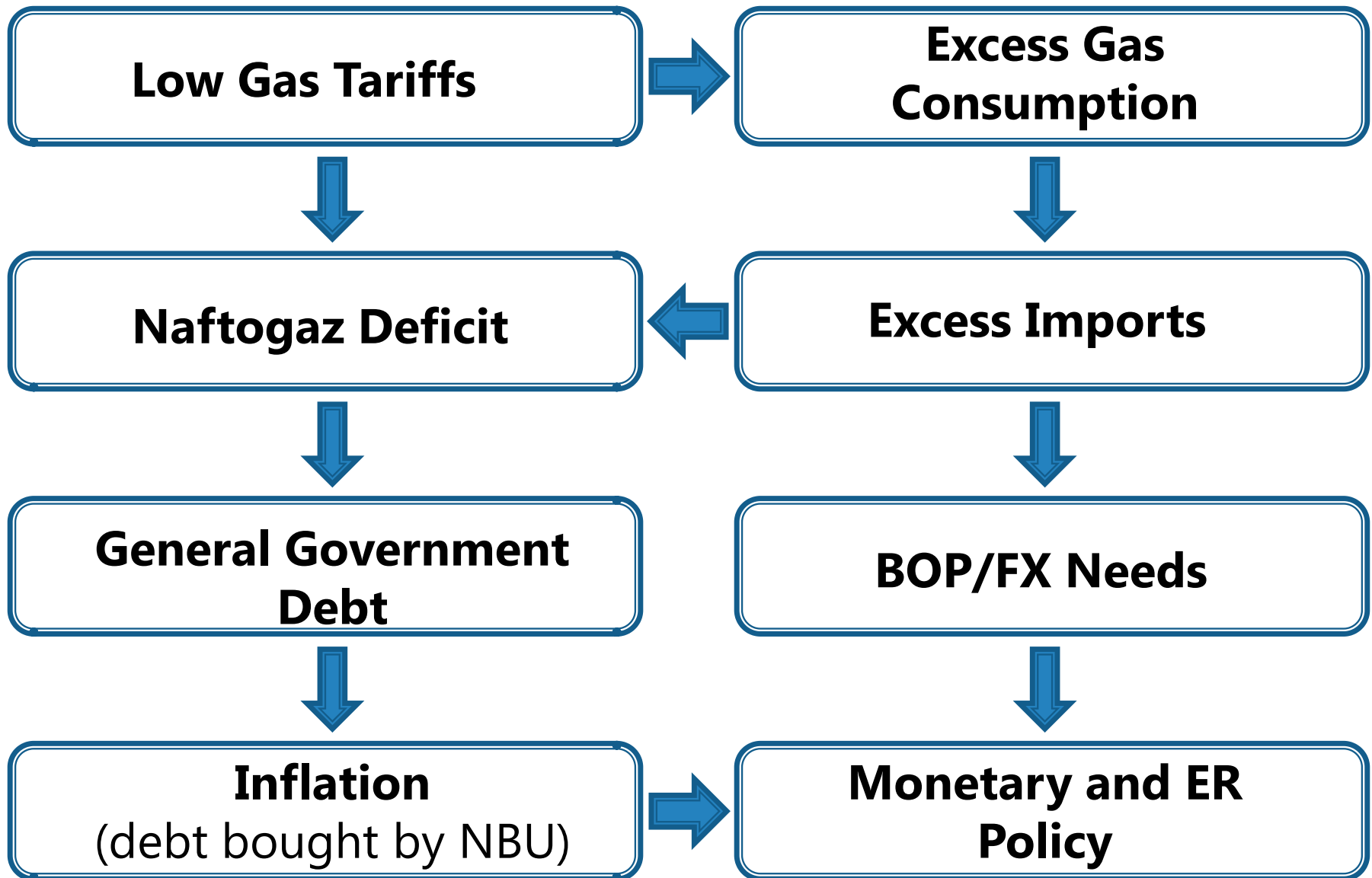


A deep energy sector reform

1. Increased gas and heating tariffs over time towards cost recovery
2. Accompanied by enhanced sustainable social assistance measures to mitigate the impact on the poorest (means-tested subsidies)
3. Improvements in governance and transparency
4. Strengthening of payment discipline

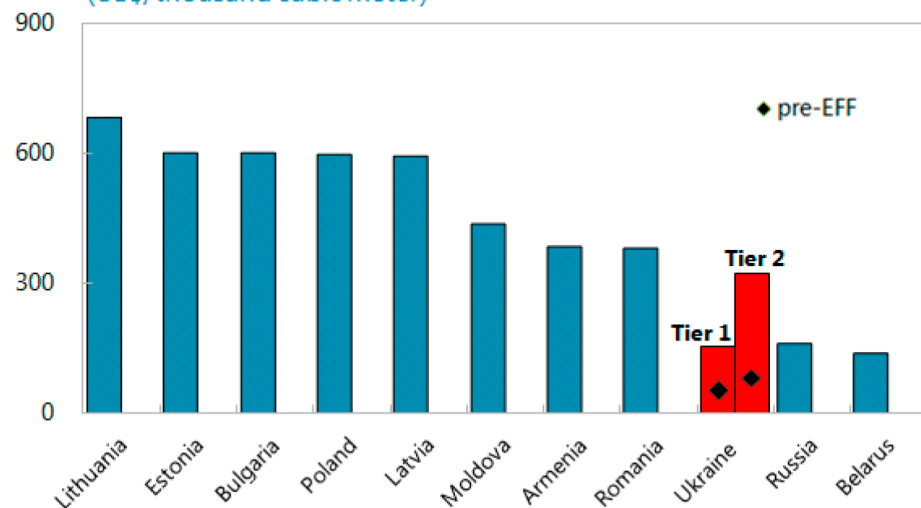


Key energy sector links to the economy

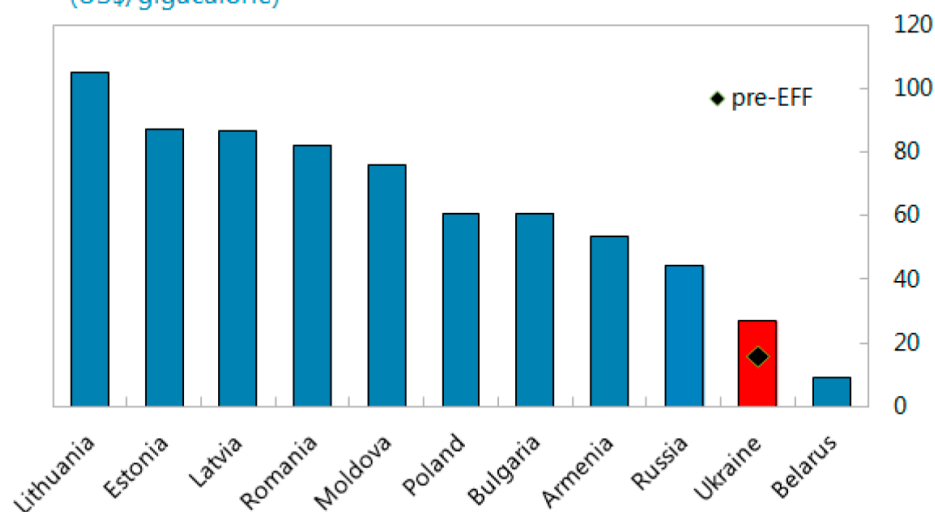


The cost of energy

Natural Gas Tariffs in Select Transition Economies
(US\$/thousand cubic meter)



Heating Tariffs in Select Transition Economies
(US\$/gigacalorie)



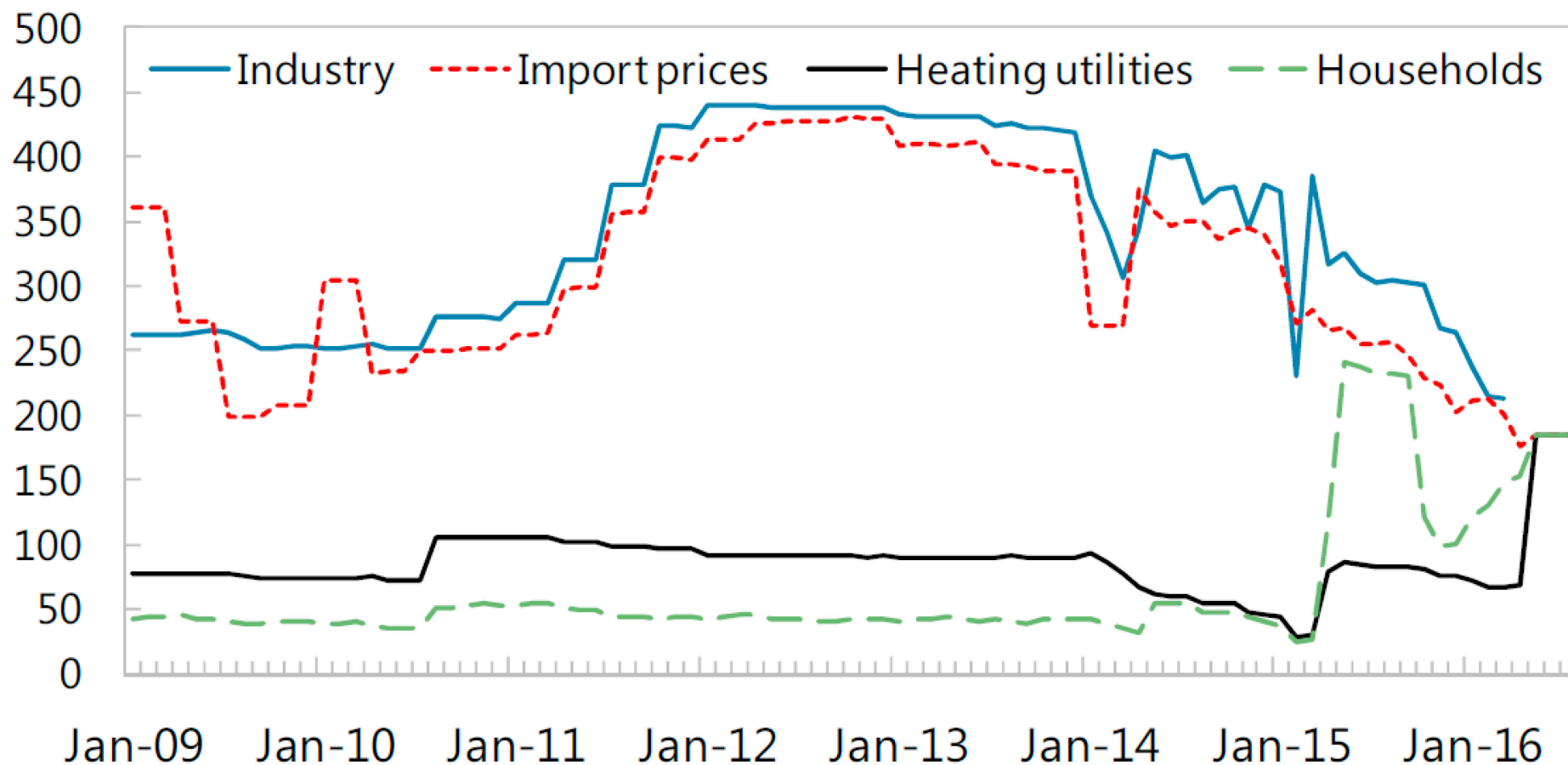
Source: Ukrainian authorities; Eurostat; WB and IMF staff estimates; www.energy.eu; www.euroheat.org.



Gas tariff adjustment

Import Prices and Gas Tariffs

(US\$/tcm)



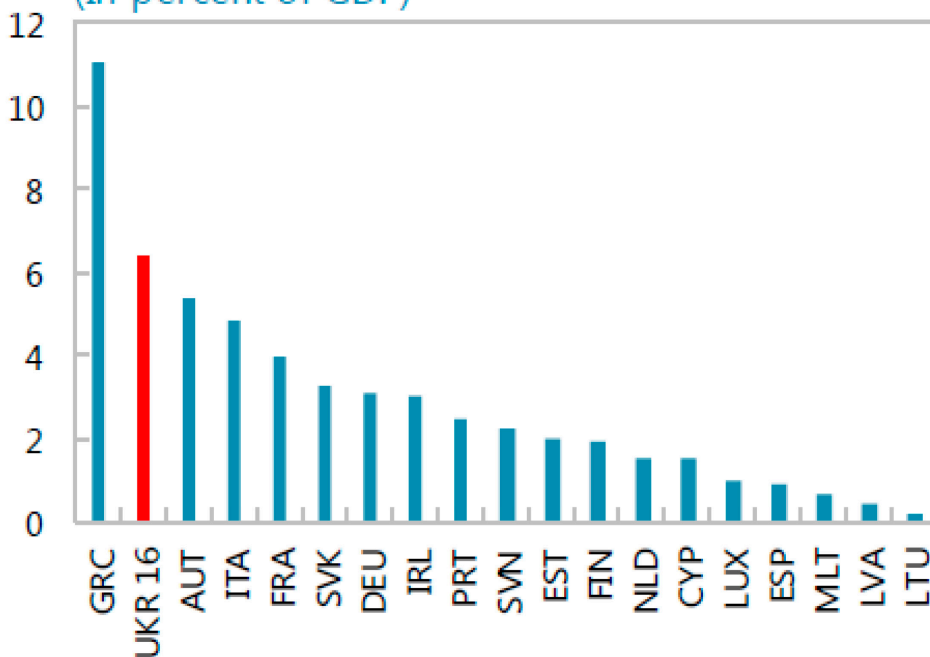


Another challenge: the pension system

- Public pension spending in Ukraine is one of the highest in the region
- Contributor to pensioner ratio is one of the lowest worldwide contributing to an unsustainable high deficit of the pension fund:

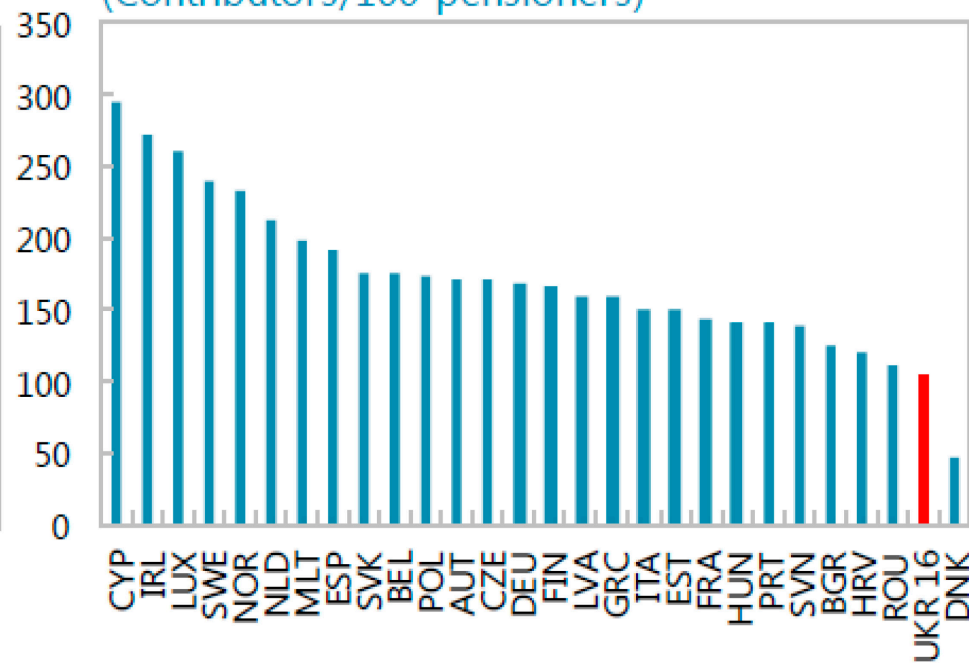
Deficit of the pension system, 2013

(In percent of GDP)



Support ratio, 2013

(Contributors/100 pensioners)





Improvements in governance remain critical

- National Anti Corruption Bureau and its investigative powers
- AML and asset disclosure
- Improvement of the business climate and deregulation
- Judicial reform
- Reform of state owned enterprises, governance and privatization



Risks remain on the downside

1. Program ownership, domestic politics and policy slippages
2. Financial sector risks
3. Global environment
4. Extension or worsening in geopolitical and trade tensions
5. Financing



Conclusions

- A critical and challenging reform program for Ukraine: rebuilding confidence and institutions
- Macroeconomic stabilization has been impressive
- Stepping up anti-corruption and governance efforts is critical to ensure sustainable growth
- Commitment, program ownership and maintaining the reform momentum will continue to be key



Conclusions

- Support of reforms by the international community also fundamental but not sufficient
- Crisis should be used as a unique opportunity to reform
- Return to growth might be slow, important to show short term decisive gains (e.g. anti-corruption) and medium term path to the population



**More information at
The IMF Resident Representative Office in Ukraine
Website**

<http://www.imf.org/external/country/UKR/rr/index.htm>

Thank you!