



## Staying on the Reform Path Critical to Restoring Growth and Stability in Ukraine

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Recent trends point to a sharper decline in real GDP in 2014 and a slower recovery in 2015 compared to earlier projections. In its recent Ukraine Macroeconomic Update, the World Bank projects real GDP to fall by 8 percent in 2014 and by 1 percent next year, down from 0 percent in 2013. Conflict in the east is mainly responsible for these lower forecasts as it has disrupted economic activity, made collection of taxes difficult, adversely affected exports, and hurt investor confidence. Meanwhile, weak revenue performance, rising spending pressures and a growing Naftogaz deficit make fiscal adjustment more challenging. The current account deficit has adjusted because of the sharp depreciation, but balance of payment pressures remain high due to large external debt refinancing needs, low FDI, and limited access to external financing. Risks to these forecasts are high and cannot be fully mitigated. A prolonged confrontation in the east, constrained credit supply due to risks in the banking sector, constrained domestic consumption, and investment demand all pose risks and affect prospects for recovery. Efforts to restore sustainable public finances could prove to be more challenging than expected, leading to a slower fiscal adjustment path than envisaged in the IMF SBA. Pressures are exacerbated by Naftogaz - a major fiscal risk. "Ukraine is facing unprecedented challenges and risks," said Qimiao Fan, Country Director for Belarus, Moldova and Ukraine. "The best way to deal with these challenges and risks is to continue macroeconomic adjustment and structural reforms." In a Special Focus note, the World Bank outlined the importance of structural reforms to increase productivity and jumpstart growth. Macroeconomic and financial sector stability is fundamental to sustained recovery and growth. Equally important are improvements in governance and fighting corruption to increase efficiency in the use of public resources and improve service delivery. Utility and energy sector reforms are important for improving service delivery in a cost-effective manner while containing financial imbalances. Meanwhile, improving regulatory quality is essential for private enterprises to flourish. While reforms are being undertaken, it is very important to strengthen and better target the social safety net so that the poor and vulnerable are protected. "For reforms to benefit all Ukrainians, effective implementation is critical. To sustain public support for reforms, we strongly encourage the government to explain clearly to the public the need for reforms. But most importantly, the burden of reforms must be fairly distributed and the poor need to be protected," added Mr. Fan. On March 10, the World Bank Group pledged up to US\$3.5 billion for Ukraine in 2014. This assistance supports reforms to foster economic growth and stabilize the banking sector, as well as improved basic public service delivery in areas such as water supply, sanitation, power and roads, and the private sector. Since March, commitments have amounted to US\$2.5 billion, and another US\$1 billion of financing is planned by the end of the year. The World Bank's current portfolio amounts to about US\$4.2 billion in 13 operations. Since Ukraine joined the World Bank in 1992, the Bank's commitments to the country have totaled over US\$9 billion for 45 projects and programs. Media Contacts  
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