



Reforms are the Best Antidote to Exogenous Shocks Confronting Ukraine, Says World Bank

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Despite decisive measures in 2014 to stabilize the economy and jumpstart growth, Ukraines economic woes worsened mainly due to the conflict in the east. In its new Ukraine Macroeconomic Update, the World Bank projects real GDP to fall by 7.5 percent in 2015, down from 6.8 percent in 2014. This lower forecast is mainly driven by the ongoing conflict that has complicated efforts to stabilize the economy, disrupted economic activities, and hurt confidence of both investors and consumers. A gradual recovery starting in 2016 is possible if the conflict abates and the authorities continue implementing much-needed macroeconomic and structural reforms. This forecast is subject to high risks. Further escalation of the conflict may deepen economic decline in 2015 and delay recovery over the next few years via several channels: damage of production facilities and infrastructure, lower exports, higher security-related spending, and indirectly through further deterioration of consumer and investor confidence. Structural reforms - crucial for sustaining international financial support and for recovery - may be complicated by a fragile political environment and resistance from vested interests. "Exogenous shocks undermined the efforts of authorities to stabilize the economy and jumpstart growth in 2014," said Qimiao Fan, World Bank Country Director for Belarus, Moldova and Ukraine. "Faster and deeper reforms are the best antidote to these exogenous shocks confronting Ukraine." In a Special Focus note, the World Bank outlined the importance of improving Ukraines public finances that remain under pressure due to large accumulated imbalances that are compounded by the economic contraction. A credible deficit reduction strategy is needed to complete the ongoing macroeconomic adjustment, to stabilize and then gradually reduce public debt, rebuild investor confidence and restore Ukraines access to international capital markets. The need for budget discipline has to be balanced with reforms to create fiscal space for targeted investments in critical infrastructure and public services to support the weak real sector, generate employment, protect the vulnerable and lay the foundation for future growth. "Addressing fiscal challenges will require comprehensive and deep reforms. The aim should be to reduce gradually, but durably, the footprint of the government while ensuring better quality and affordable services to all Ukrainians," added Mr. Fan. As Ukraines long-term development partner, the World Bank Group (WBG) has responded quickly to help reduce the impact of the crisis and restore growth in the country through substantial financial support, policy advice and technical assistance. The Bank is supporting the authorities with formulating and implementing critical reforms to: fight corruption, protect the poor, stabilize the banking sector; restructure the gas sector; and improve the business environment to reinvigorate private sector-led growth. In 2014, the WBG delivered approximately US\$3 billion to Ukraine through 7 projects, including US\$1.25 billion in budget support. Most of these investments go into improving basic public services that directly benefit ordinary people, such as water, sanitation, heating, power, roads, health and social services. In February this year the World Bank pledged another US\$2 billion of new lending for Ukraine in 2015, including significant budget support and investment projects, to support further reforms and improve public services. The World Banks current lending portfolio in Ukraine amounts to about US\$4.6 billion through 15 operations. Since Ukraine joined the World Bank in 1992, the Banks commitments to the country have totaled over US\$9 billion for 45 projects and programs. Media Contacts
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