

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

- ❖ During August 2015, military hostilities in the occupied territories in Donetsk and Lugansk remained high. These hostilities led to meetings of the leaders of Germany, France and Ukraine on August 24th, and calls to the Russian President, all of whom confirmed that only a non-military solution based on the Minsk-2 agreement was possible. Although the militants diminished hostilities in early September, according to most observers this is unlikely to last.
- ❖ Ukraine has continued to move its economic reform agenda forward, particularly in the areas of simplification of doing business in the country, EU visa liberalization, intellectual property right protection, infrastructure development, fighting corruption, and restructuring public external debt. Nevertheless, it is widely believed by investors that the pace of economic reforms must accelerate.
- ❖ The State Statistics Committee reported that GDP in the first half of the year declined by 14.3% yoy, compared to a 6.8% decline in 2014. Even though output is expected to increase from this low base during the rest of the year, GDP for 2015 may decline by about 11%.
- ❖ Monthly production data continues to show that the Ukrainian economy bottomed out in the second quarter of 2015. Although industrial production declined by 19.5% yoy during January-July, the monthly pace of decline has been shrinking, thanks to increases in month-over-month output. In fact, on a month-over-month basis industrial production increased by 3.4% mom in July, following an increase of 1.5% mom in June. On a year-to-year basis, the July Industrial Production index recovered to a decline of -13.4% yoy, from declines of -18% yoy in June, -21% yoy in May and -22% yoy in April.
- ❖ In July output recovery took place in a number of industries, with the following subsector showing positive rates of growth on a year-over-year basis: manufacture of motor vehicles, tobacco products, electric power generation, transmission and distribution, basic pharmaceutical products, medical and dental instruments, and wearing apparel. On the other hand, the poorest performers continued to be the mining of coal and lignite, manufacture of railway locomotives and rolling stock, and metallurgy. These subsectors were heavily affected by the hostilities in the East of the country. In fact, the largest declines in July in industrial production took place in the East in Lugansk and Donetsk, excluding occupied territories.
- ❖ According to preliminary data released by the NBU, in July 2015 the deficit of the state fiscal budget declined from UAH 7.7 billion in June to about UAH 0.2 billion in July. This drop was the result of both increases in revenues and declines in expenditures in absolute terms. As a result, for the period January-July 2015, the deficit of the state budget dropped 93% yoy to only UAH 2.3 billion. Given higher local revenues, the consolidated budget deficit is likely to show a surplus for the period.
- ❖ Inflation in July continued to decelerate but at a slow pace. In fact, CPI growth decelerated from 60.7% yoy in April to 58.4% yoy in May, 57.5% yoy in June and 55.3% yoy in July. It is expected to decline further to 45% by the end of the year.
- ❖ In July the foreign exchange situation continued to improve, with the UAH/USD exchange rate gradually appreciating from slightly above 23 UAH/USD in April to about 21 UAH/USD in July. But depreciation pressures may emerge in September due to external debt repayments and the need to increase natural gas purchases. These will lead to a depreciation of the Hryvnia to around 25 UAH/USD by the end of the year.
- ❖ The current account showed a surplus of USD 65 million in July. Together with capital inflows of UAD 330 million, the overall Balance of Payments surplus reached USD 219 million. This surplus allowed the National Bank of Ukraine to accumulate gross international reserves, which reached USD 10.4 billion at the end of July.
- ❖ On August 24, the government reached an agreement with its main external creditors to restructure about USD 18 billion of its external public debt issued in Eurobonds. This agreement should provide stability to the foreign exchange markets.

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Main Macroeconomic Indicators	2011	2012	2013	2014	2015f
GDP, \$ billion	163.4	176.6	182.0	127.4	98.0
Real GDP Growth, % yoy	5.5	0.2	0.0	-6.8	-11.0
Private Consumption, real growth, % yoy	15.7	8.4	6.9	-9.6	-17.0
Fiscal Balance, incl. Naftogaz and Pension Fund, % of GDP	-4.3	-6.0	-6.5	-11.7	-8.0
Public Debt, External and Domestic, % of GDP	36.3	36.7	39.9	70.3	94.0
Consumer Inflation, eop, % yoy	4.6	-0.2	0.5	24.9	45.0
Hryvnia Exchange Rate per USD, eop	8.0	8.0	8.2	15.8	25.0
Current Account Balance, % of GDP	-6.3	-8.2	-9.2	-4.1	0.0
FDI (\$ billion)	7.0	6.6	3.3	0.2	0.5
International Reserves (\$ billion)	31.8	24.5	20.4	7.5	13.0
Total Public and Private External Debt (\$ billion)	126.2	134.6	142.1	125.9	138.0

Political and Reform Developments

Ukraine continues to face strong military hostilities in Donbass. Russian-backed rebels carried out several attacks in small cities close to Mariupol aiming to get greater control of some parts of the region. Members of the OSCE monitoring mission were fired upon by separatists. Due to these tensions in Donetsk and Lugansk, along with an increased concentration of Russian military forces on the Ukraine's Eastern borders, the President requested an urgent meeting with EU and Ukrainian leaders. The meeting took place in Berlin between the leaders of Germany, France and Ukraine on August 24th. There was also a conference call to the Russian president. The leaders of these countries confirmed their view that the Minsk-2 agreement is the only way to resolve a conflict in Ukraine and that hostilities should cease. Subsequent communications with some militants stated that military actions could cease in early September. Although hostilities have been reduced, most observers believe that peace is unlikely to last.

Despite the military actions in Eastern Ukraine, authorities continue to deliver positive results in reforming the country. During the month of August a number of measures were undertaken to improve the investment climate in the country. In particular, there were some important developments in the simplification of doing business in the country, EU visa liberalization, intellectual property right protection, infrastructure development, fighting corruption, and external public debt restructuring. These measures are discussed below.

Doing Business. The Ukrainian government introduced the following measures to simplify doing business in the country: (i) the number of permits required for businesses was reduced by half; (ii) the number of different inspection bodies was cut by half; (iii) the number of licenses was downsized from 56 to 30. In addition, the regulatory procedures in some specific sectors of the economy, such as the agrarian sector, were significantly simplified. As a result 14 permits, veterinary certificates, quality certificates and 6 licenses have been cancelled. In order to protect businesses from possible abuses from the state agencies a new state body of Business Ombudsman was set up.

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Visa Liberalization. Ukraine fulfilled necessary requirements under the action plan with the European Union on visa liberalization. From now on, the Ukrainian border control offices have full access to the Interpol database while checking the passports of persons crossing the border. The new system significantly reduces the time required to go through passport control at the Ukrainian border.

Intellectual Property Rights Protection. The Ukrainian Cabinet of Ministers developed a plan to introduce control over intellectual property rights violations in the country. It is expected that the Ministry of Economic Development and Trade will submit to the Parliament several key bills, which will (i) improve protection of copyright on the Internet, (ii) improve the system of collecting royalties for copyright holders, (iii) prevent any possible patent trolling, (iv) simplify IP procedures and (v) ensure public access to licenses. In addition, necessary amendments will be introduced to the new legislations, which will strengthen responsibility for correcting IPR violations

Infrastructure. The Ministry of Infrastructure of Ukraine announced the approval of the investment project to build a modern port terminal in Odessa. The new project will start in the first half of next year.

Fighting Corruption. A professional Financial Investigation Service under the supervision of the State Fiscal Service was established. It is expected that the old Tax Police will disappear, while the new Financial Investigation Service should be working in line with EU standards. The new office will be able to effectively fight tax evasion schemes, illegal tax benefits and corruption.

External Public Debt Restructuring. As noted in the section below on International Trade and Capital, on August 27th, Ukraine agreed with major external creditors on the terms of its public debt restructuring. This agreement will ensure that Ukraine's external financial needs will be fully funded, thus providing stability to the Hryvnia Foreign Exchange rate.

Despite the above improvements, several recent business surveys undertaken by the European Business Association, the NBU, international organizations, and think-tanks show that most investors believe that faster progress in a number of reforms is needed, as the investment climate is still negative. In particular, there is a need to show tangible results in combating corruption; to ensure that judiciary reform will cease to be influenced by the executive and other politicians (the draft law removes the power of the President to dismiss judges, but still keeps his power to select judges, thus affecting the career path of judges), to reform public administration and reduced public expenditures, to improve the tax system and VAT reimbursements, to eliminate still ongoing harassment by tax authorities, to address hostile takeovers of businesses, to introduce more effective mechanisms to enforce court judgments, to achieve tangible results on customs processes, etc. The agenda for reform work is still large.

Economic Growth

The State Statistics Committee reported that GDP in the first half of the year declined by 14.3% yoy, compared to a 6.8% decline in 2014. Even though output is expected to increase from this low base during the rest of the year, GDP for 2015 may decline by about 11%.

Monthly production data continues to show recovery, confirming that the Ukrainian

Real Sector Indicators of Ukraine, % yoy

	2015 7m*	2014	2013	2012	2011	2010
Agriculture	-3.5	2.8	13.3	-4.5	17.5	-1.5
Industry	-19.5	-10.7	-4.3	-1.8	7.6	11.2
Construction works	-26.7	-21.7	-11.1	-14	11.1	-5.4
Domestic trade, turnover						
Wholesale trade	-17.3	-15	-2	-4.4	0.6	0.4
Retail trade	-23.6	-8.6	9.5	15.9	14.7	9.8
Transportation, turnover						
Cargo	-15.5	-10.8	-3.9	-7.6	5.7	6.4
Passenger	-9.9	-11.7	-2.9	-1.2	3.3	-0.2

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

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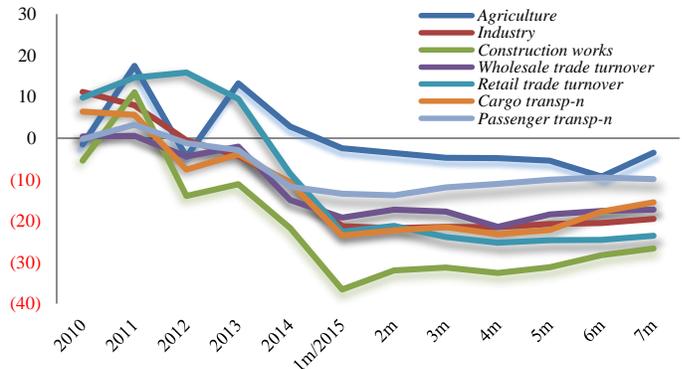
economy bottomed out in the second quarter of 2015. Although industrial production declined by 19.5% yoy during January-July, the monthly pace of decline has been shrinking due to month-over-month increases. In fact, industrial production in July increased by 3.4% in relation to June this year. On a year-over-year basis, the industrial production index in July slowed down by 13.4% yoy, a significant deceleration following declines of 18.0% in June and 21% in May. The main industrial subsectors that showed favorable developments in July were manufacture of motor vehicles (+18.7% yoy), manufacture of tobacco products (+29.0% yoy), electric power generation, transmission and distribution (+3.7% yoy), manufacturing of basic pharmaceutical products (+3.2% yoy), medical and dental instruments (+1.3% yoy), and apparel (+1.1% yoy).

On the other hand, the poorest performers continued to be the coal mining and lignite (-42.9% yoy), manufacturing of railway locomotives and rolling stock (-45.5% yoy), and metallurgy (-23.3% yoy). These subsectors were heavily affected by the hostilities in the East of the country. In fact, the largest declines in July in industrial production took place in the East: Lugansk (-59% yoy) and Donetsk (-36% yoy), excluding occupied territories.

In terms of industrial product categories, in July consumer durable goods showed the best performance with a decline of only 7% yoy. On the other hand, consumer non-durables had the worst performance in July, with a decline of 23.5% yoy. Capital and intermediate goods were in between performers, with declines of 11.1% yoy and 11.6% yoy, respectively.

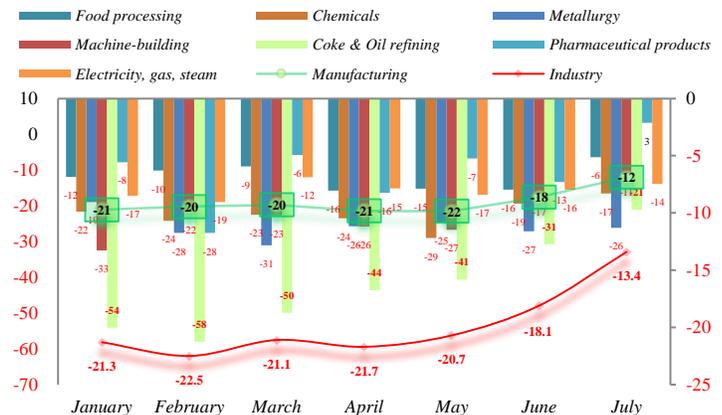
The agricultural sector performed reasonably well with agricultural output increasing by 1.9% yoy in July. Due to poor results in June, the index of agricultural production declined by 3.5% in January-July 2015, compared with the corresponding period of 2014. As noted earlier, the poor performance in June was due to a late start to the grain harvesting season this year, and by a

Economic Performance of Ukraine, by Sector, % yoy



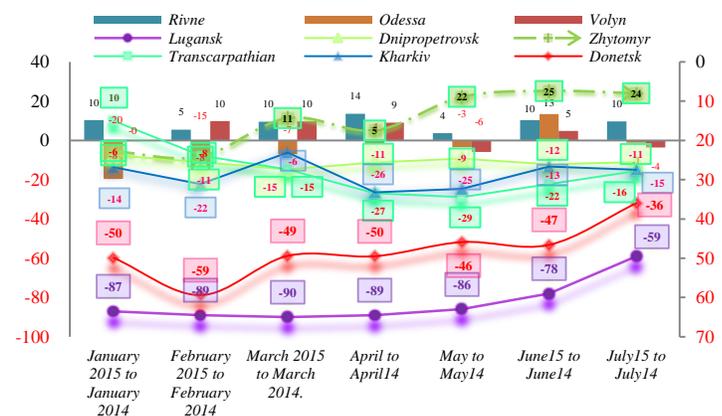
Source: The Bleyzer Foundation

Industrial Production by Sectors, % yoy



Source: The Bleyzer Foundation

Industrial Production Sectors by Region, % yoy



Source: The Bleyzer Foundation

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decline in the poultry and livestock populations. Nevertheless, the country is expected to harvest 60 million of grains in this 2015/2016 marketing year.

Other sectors that performed better in July included retail turnover which recovered from -26% yoy in May to -24% yoy in June and to -23% in July. Wholesale trade turnover and passenger transportation showed a decline of 24.2% yoy in January-July, compared to 25.1% yoy in January-June.

The construction sector continues to face difficulties, with the construction index declining by 24.6% yoy in July, compared to a decline of 23.9% yoy in June. Residential construction declined by 16.4% yoy in July, whereas non-residential construction declined by 27.5% yoy.

Fiscal Policy

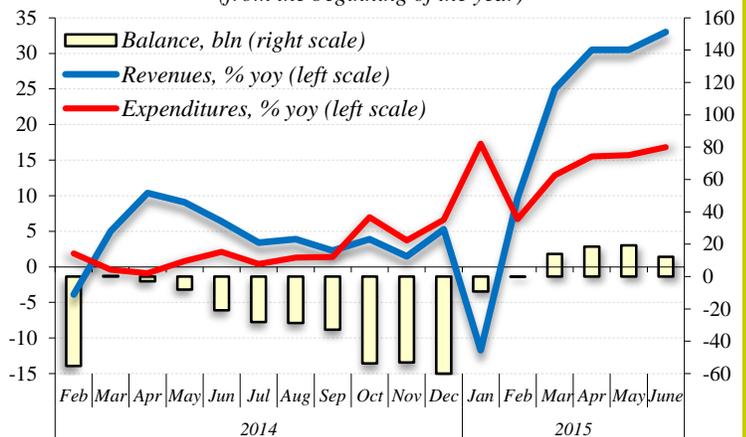
According to preliminary data released by the NBU, in July 2015 the deficit of the state fiscal budget declined from UAH 7.7 billion in June to about UAH 0.2 billion in July. This drop was the result of both increases in revenues and declines in expenditures in absolute terms. As a result, for the period January-July 2015, the deficit of the state budget dropped 93% yoy to only UAH 2.3 billion. Data for the local budgets' total balance in July is not available yet but there is a high probability that it will be positive and will more than offset the deficit of the state budget for the month. Therefore, the overall consolidated budget surplus is likely to increase during July.

During January-June 2015, the growth of consolidated fiscal budget revenues benefited from faster growth of state budget receipts. In fact, state budget revenues expanded by 39.1% yoy in January-June 2015. As a result, the increase in consolidated budget revenues accelerated by 2.5 percentage points to 33.0% yoy for the period. Similarly to the situation in May, some deceleration in the growth of receipts from taxes and duties on imported goods was related to the diminishing impact of the depreciation of the national currency. In particular, receipts from VAT on imported goods saw further deceleration in June (by 1.6 percentage points to 41.6% yoy). At the same time, receipts from major taxes and duties on domestic goods posted mixed developments, due to the diminishing impact of inflation on budget revenues. In particular, receipts from the VAT on domestic goods experienced acceleration in growth from 22.5% yoy in January-May 2015 to 23.3% yoy in January-June 2015. On the other hand, growth of receipts from excise tax on domestic goods decelerated by 1.0 percentage point to 49.8% yoy over the reporting period.

In January-June 2015, consolidated budget expenditures also experienced acceleration in growth. However this acceleration was lower than that observed by consolidated budget revenues. Total consolidated budget expenditures grew by 16.8% yoy in January-June 2015 on the back of faster growth of the state expenditures (by 1.9 percentage points to 24.4% yoy). Social budget expenditures remained the highest category within the structure of total expenditures but posted the lowest year-over-year increases because of austerity measures introduced by the government. Healthcare expenditures were the only exception as they grew by 17.2% yoy over the reporting period. At the same time, defense expenditures remained the highest in terms of growth among state budget expenditures. They posted a 170% yoy increase to UAH 20.4 billion. Similarly to January-

Dynamics of Consolidated Budget Components

(from the beginning of the year)



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

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May, expenditures on public debt servicing increased two-fold in January-June. The latest available data on state and guaranteed debt (as of May 31st, 2015) show that it increased by UAH 323.3 billion, despite USD 2.2 billion equivalent debt repayments in January-May. The main reason for this is depreciation of the national currency from around 15.8 UAH/USD at the end of 2014 to around 21.05 UAH/USD at the end of May 2015. Return of some privileged pensions led to deceleration in decline of transfers from the state budget to the Pension fund by 3.9 percentage points from 11.7% yoy observed in January-May.

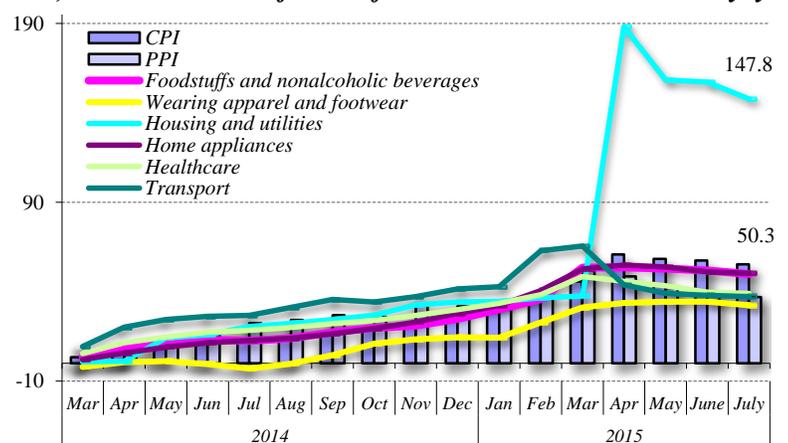
The balance of the consolidated budget showed a deficit in June, thus reducing the surplus for the entire January-June period. In fact, in June, the state budget was executed with a large deficit of UAH 7.7 billion, while the surplus of the local budgets declined from UAH 3.5 billion in May to UAH 594 million. Therefore, the total surplus of the consolidated budget declined from UAH 19.4 billion in January-May 2015 to UAH 12.3 billion in H1 2015, a surplus equivalent to about 1.5% of period GDP.

In order to ensure smooth financing of the state budget, especially for its quasi-fiscal needs, the government continued borrowing in both domestic and foreign markets. As of the end of June, the total amount borrowed was equivalent to UAH 107.1 billion, UAH 1.6 billion of which were borrowed solely in June. Domestic market borrowings amounted to UAH 19.4 billion, while foreign market borrowings were equal to UAH 87.6 billion equivalent. In addition, the government conducted targeted issues of domestic sovereign bonds in amount of UAH 47.7 billion. Of this amount, UAH 29.7 billion was raised to increase the statutory fund of Naftogaz (UAH 3.6 billion were raised solely in June). Another UAH 14.8 billion was raised to provide loans to the Deposit Insurance Fund (UAH 13.3 billion was raised in June). The rest UAH 3.2 billion was raised for the purposes of additional capitalization of Ukrgazbank.

Monetary Policy

Inflation. A gradual deceleration of consumer inflation continued in July. Furthermore, the State Statistics Service of Ukraine registered the first monthly declines of all items of the index. The 1.0% mom decline of the overall indicator was the result of a 2.0% mom decline in prices of foods and non-alcoholic beverages and a 4.7% mom decline in prices of wearing apparel and footwear, which more than offset monthly increases of prices for other groups of goods and services. On year-over-year terms, consumer inflation in July decelerated by 2.2 percentage points to 55.3% as growth in prices decelerated for most of goods and services. Growth in prices remained virtually unchanged for communication services (6.6% yoy), recreation and culture (46.5% yoy), and restaurants and hotels (26.8% yoy). Acceleration of inflation was reported only for education (by 0.7 percentage points to 18.3% yoy). All the other groups of goods and services saw decelerated inflation ranging from 32.4% yoy for wearing apparel and footwear to 147.8% yoy for housing and utilities.

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



Source: State Statistical Service of Ukraine, the Bleyzer Foundation

The NBU continues applying tight monetary policy to lower inflation. At the same time, the regulator decided to lower the policy rate by 3 percentage points to 27% on August 28th, taking into account positive developments in the monetary and foreign currency markets.

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In particular, both inflationary and depreciatory expectations significantly softened over the last six months, while the UAH/USD exchange rate is relatively stable. As a result, the consumer price index has been declining for three months in a row, which indicates the formation of a steady downward trend of inflation deceleration. The NBU expects the disinflation trend to continue thanks to relative stability in the forex market, the diminishing impact of the main wave of increases in housing and utilities tariffs, and the relatively slow recovery of consumer demand. The good harvest will also slow inflation down through lower prices of foods, the share of which is around ½ in the consumer basket.

Since deceleration in consumer inflation is expected to continue, the annual growth of consumer prices should be around 45% at the end of the year.

Banking Sector.

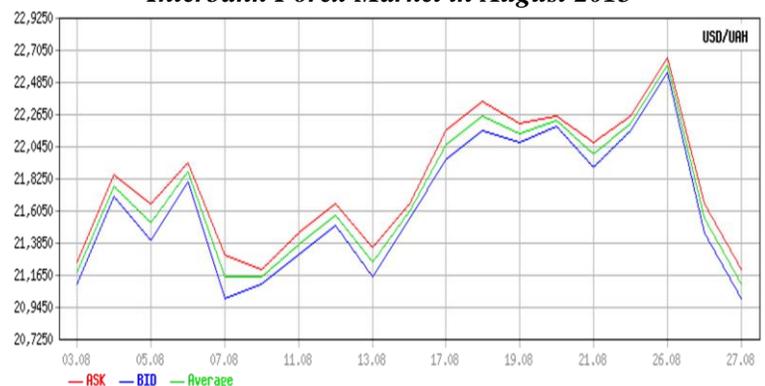
Banking deposits sustained declines in both their national currency and foreign currency segments in July. Deposits in national currency saw just a minor decline of 0.5% mom. This was partially related to changes in deposit interest rates. But another reason was the need to spend savings, because of lower current incomes and expenditures on summer vacations. The decline in private persons' deposits caused the overall monthly decline in the national currency deposits as it offset a small increase in the national currency deposits of legal entities. The year-over-year decline in national currency deposits accelerated to 5.1%. Foreign currency deposits denominated in USD further declined and the pace of decline accelerated by 2.4 percentage points to 3.1% mom. In year-over-year terms, the total volume of foreign currency deposits dropped one-third.

National currency loans and foreign currency loans saw almost identical small monthly declines of 0.8% in July. Loans to private persons declined a bit faster in both currency segments. Since monthly declines accelerated insignificantly, the year-over-year dynamics of both groups of loans remained almost untouched. National currency loans dropped 11.8% yoy, while foreign currency loans saw declines of slightly above 27% yoy.

Losses of banks continued to increase in July. In particular, expenditures of operational banks reached UAH 159.2 billion and exceeded their incomes by UAH 33.1 billion in January-July. Transfers to loss reserves amounted to 43.4% of total of expenditures in the reporting period. Together with general administrative expenditures, they exceeded interest income of operational banks, which is their main source of income. On the other hand, the problems with bank liquidity have subsided. Just one bank received refinancing in July though the overnight loans mechanism. The total amount of refinancing was equal to USD 84.0 million.

Hryvnia Exchange Rate. The UAH/USD exchange rate sustained significant volatility in August. Most of this volatility was related to variations in banking sector liquidity and to escalation of the conflict in Eastern Ukraine. Also FX fluctuations were caused by divergent news about the progress of negotiations with foreign creditors concerning debt restructuring. In particular, the most significant appreciation from 22.55/22.90 UAH/USD to 21.05/21.15 UAH/USD took place after the Ministry of Finance signaled that the agreement between the government and committee of creditors concerning debt

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



Source: Ukrdealine. The Bleyzer Foundation

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restructuring, which includes a 20% haircut, was finally reached. The NBU did not make any interventions on the interbank forex market for most of the month. Actually, the regulator made interventions only once on August 27th to benefit from the exchange rate appreciation and replenish international reserves. There was also one verbal intervention on August 26th which did not turn into actual intervention as the interbank forex market quotations were above those announced by the NBU. At the same time, the regulator applied extensive cuts of requests for dollar purchases to soften depreciatory pressure on the exchange rate. On August 21st, the NBU finally lifted some administrative regulations of the foreign currency market. In particular, the regulator expanded the list of exceptions from the ban for foreign currency transfers by legal entities on the basis of personal licenses of the NBU. At the same time, the amount of foreign currency that can be transferred on the basis of personal licenses is limited at USD 50,000 equivalent during one calendar month for one license.

According to available data, the population continues to sell more foreign currency than what it purchases within the banking system. January was the only month during which purchases of cash foreign currency by population exceeded sales. In July, the population sold USD 207.9 million equivalent of cash foreign currency and purchased USD 72.3 million equivalent. The overall positive balance between sales and purchases of cash foreign currency exceeded USD 1.0 billion in H1 2015. This situation in a cash market segment was caused by the decline in incomes of the population, which forced people to decrease their foreign currency savings. In addition, some share of cash forex operations were moved to the unofficial/black cash foreign exchange market. Stabilization of the exchange rate also has some influence on the situation as it decreases the demand for foreign currency.

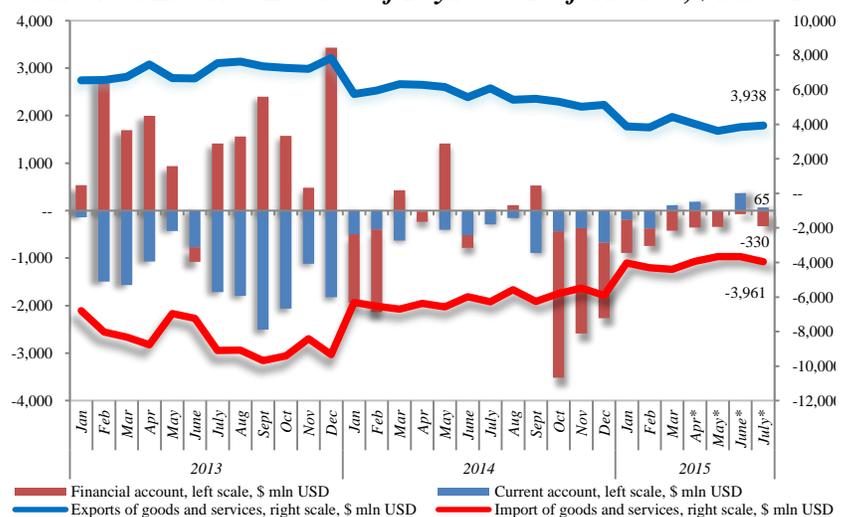
For years, Ukraine has observed a seasonal depreciation of the national currency in autumn and winter. This is mainly related to increased imports of natural gas for the heating period. Taking into account payments to the IMF and other non-commercial payments on foreign debt, the hryvnia will sustain significant depreciatory pressure at the end of the year. Therefore, the UAH/USD exchange rate is likely to depreciate gradually to the level of around 25 UAH/USD by the end of the year.

International Trade and Capital

In July 2015, the current account of the balance of payments continued to show a surplus, though it was lower than in June. The July current account surplus amounted to USD 65 million, for a total January-July surplus of USD 88 million. In the month of July, exports of goods amounted to USD 2919 million, a similar number to that in June. But imports of goods increased from USD 2869 million in June to USD 3074 million in July. Therefore, the balance of goods showed a deficit of USD 155 million in July. But this goods deficit was overcompensated by the balance of services, which remained positive at USD 132 million in July. Also, net transfers from abroad reached USD 193 million in July.

The major decline in goods exports in July took place in chemical products, machinery and equipment

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



Source: NBU, The Bleyzer Foundation

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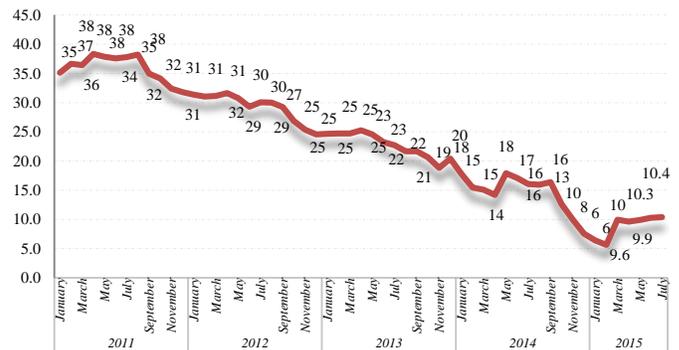
and in minerals. But these declines were compensated for by increases in metallurgy and timber products. On the import side, the major increases took place in machinery and equipment, mineral products and chemicals.

From a geographical stance, in January-July 2015 exports of goods to the Russian Federation declined by -40.1% yoy and represented only 11.8% of total Ukrainian exports (compared to 30% in 2012). As a share of the total, exports to Europe declined from 29.6% in H1 2014 to 28.7% in January-July 2015, while exports to the US remained at a negligible 1.2% of the total. Only exports to Asia showed a large increase of total exports from 27.9% of the total in H1 2014 to 35.3% in January-July 2015.

Regarding the financial account of the balance of payments, in July 2015 it showed a surplus of USD 330 million, following a surplus of USD 73 million in June. These surpluses were the result of net foreign direct investments of USD 148 million and net borrowings of USD 228 million. These inflows were somewhat offset by USD 148 million in outflows of portfolio investments.

Improved current and financial account balances allowed the NBU to accumulate gross international reserves of USD 219 million in July, which led to international reserves of USD 10.4 billion as of the end of July

Ukraine International Reserves in July 2015, mln \$



Source: the NBU, the Bleyzer Foundation

On August 27th, Ukraine and its principal Eurobond creditors (holding about USD 9 billion of public external bonds) reached an agreement regarding Ukraine's external debt restructuring. The main elements of the restructuring agreement are: (i) an immediate 20% face value write-down on about USD 18 billion of its foreign public debt; (ii) this write off of around USD 3.6 billion could be offset by securities that will pay holders a percentage of Ukraine's economic growth from 2021 if GDP growth were to exceed 3% pa; (iii) the interest rate on the new securities will be 7.75%, or 0.5 percentage higher than the old securities; (iv) the new securities will have a four-year grace period, with principal payments repaid in eight equal amounts each year from 2019 to 2027.

The deal still needs to be approved by about half of the remaining bondholders to meet the criteria that the deal must be approved by holders of more than 75% of the bonds. But Ukraine's bond prices increased somewhat after the news, which shows that the market reacted favorable and may approve the deal. The government expects that the debt restructuring process will be completed by the end of October.

The IMF has endorsed the debt agreement saying that "We welcome today's agreement on the terms of the debt exchange offer. The announced parameters of the agreement will help restore debt sustainability and – together with the authorities' policy reform efforts – will substantively meet the objectives set under the IMF-supported program." Nevertheless, the Russian Ministry of Finance has said that Russia would not participate in the bond restructuring as its USD \$3 billion Eurobond is not private (despite being tradable) but a government-to-government obligation that must be paid in full when due in December 2015.

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