

# Another Tough Year Ahead

## CONTENTS

**Talk of Early Elections, Amid Delayed IMF Funding**

**FX Volatility Returns**

**Industrial Output Fell 13.4% in 2015**

**Organized Retail Trade Fell -21% in 2015**

**Prices Surged 43.3% in 2015**

**Monetary Policy: Monetary Aggregate Targeting will be a Priority**

**Fiscal Accounts: Opaque Prospects for 2016**

**External Accounts: CAD to Widen Amid Sliding Resource Prices**

**Calendar of Events**

January was a relatively silent month, especially after an intense December, with tax changes and the budget 2016 on agenda. The public was primarily preoccupied with resurgent FX volatility, while politicians have been actively discussing the possibility of early parliamentary elections.

In January, the hryvnia dropped by nearly 8%, down to 26 hryvnia per \$1 (28 hryvnia per \$1 on the black market) amid nerve-wracking talks about another round of falling resources prices. Later it appeared that large public disbursements in December, with UAH 14 billion allocated to advance pensions' payments, and UAH 9 billion wired to the deposit guarantee fund, were the key reasons for FX volatility. So far hryvnia remains in the range 25-26.

We hear much talk about "inevitable" parliamentary elections. The situation is indeed very shaky, and Ukrainians are irritated with mainly painful reforms that have so far lacked a clear positive impact on incomes. However, early elections might be beneficial only for new political movements (like the one Mikheil Saakashvili is creating), while those factions in power, as well as Western partners, don't see any sense in starting new elections right now. The quality of the Parliament will hardly improve, while even the slow reform process we're seeing now might be seriously damaged at this stage (when reforms seem to be only pain, without visible benefit) >>>