

- The output collapse has been partially offset by the rapid growth of the "shadow" (or informal) economy, which is estimated to be at least as large as the formal economy. Indeed, anecdotal evidence suggests that the shadow economy is booming, as an increasing number of Ukrainians turn to U.S.-dollar dominated black market and barter trade to acquire key consumer goods.
- Despite the sharp decline in output, open unemployment remains low at less than two per cent of the labour force. Because basic social services such as health care, child care, and education remain tied to employment in state-owned enterprises, many individuals have preferred to take unpaid leave and seek work in the informal economy. Taking these factors into account, underlying unemployment is closer to 10 per cent.

External Trade and the Balance of Payments

- Although data on balance of payments remain incomplete owing to a substantial underreporting of barter trade and capital flight, all available evidence points to a steady erosion of Ukraine's external position over the last two years. Ukraine's reserves of hard currency have depleted to an amount equivalent to two weeks' worth of imports.
- In 1993 and the first half of 1994, rising prices for imports of gas and oil supplies from Russia and Turkmenistan put increasing pressure on Ukraine's balance of payments. As energy prices moved closer to world levels, the terms of trade deteriorated markedly.
- The rising energy import bill has been financed primarily by accumulating payments arrears with Russia and Turkmenistan and these arrears continue to accumulate at the alarming rate of US\$1 billion every three months. Meanwhile, non-energy imports have been compressed dramatically, falling by more than 20 per cent in the first half of 1994.

Economic Stabilization and Reform

- However, more encouraging developments may be in sight. The Ukrainian government recently declared its intention to implement an economic stabilization and reform program to be supported by credits under the Systemic Transformation Facility, subject to approval by the IMF Board of Directors.