

Ukraine: A memorandum from the IMF – an impulse for reform

On 9 August the IMF published the contents of a memorandum signed with the government and central bank of Ukraine. The implementation of the memorandum guarantees Ukraine US\$15.1 billion as part of a new standby programme. Implementation of the provisions of the memorandum will be conducive to an improvement in the economic situation and may lead to further reaching structural and institutional reforms. The Ukrainian leadership is also gaining a political alibi; the taking of socially expensive decisions is being presented as a consequence of Yulia Tymoshenko's incompetent governments, following which it became necessary to apply for IMF funds.

The IMF's conditions are in general the same as with the previous programme of cooperation: an improvement in the condition of public finances, increased independence for the National Bank of Ukraine, a stabilisation of the banking sector and an improved investment climate. Controlling the deficit and public debt will require decisions which increase budget revenue (by extending the tax base) and reducing expenditure. In particular this concerns a reduction in budgetary contributions to the National Pension Fund (the memorandum envisages an extension of the minimum working period from five to fifteen years, and a gradual move towards standardising the retirement age for men and women) and a liquidation of subsidies to Naftogaz, which is linked to a gradual opening up of gas prices to free market conditions for all consumers. The government has also been obliged to reform its tax system and to change its social policy rules – a move from tax relief towards direct aid. Other changes are aimed at, for example: creating standardised market conditions for banking (including national banks); greater transparency in the banking system; a strengthening of the position of the National Bank of Ukraine in controlling inflation; creating flexibility in exchange rate policy; a deregulation in economic policy in order to improve the investment climate. The loan programme will force the implementation of the defined solutions before payment of each successive tranche.

The proposed changes will improve the conditions of Ukraine's public finances although they do not cover the full scope of necessary changes presented in the presidential reform plan. They may help with the implementation of this plan since they involve politically very difficult decisions, e.g. increases in gas prices and municipal charges, and raising the retirement age. The government is now able to justify these as a necessity of taking financial aid from the IMF following the 'Orange' governments. <AnG>