

New IMF loan for Ukraine

At the beginning of July, the Ukrainian government and experts from the International Monetary Fund agreed the terms of a new stand-by loan. The IMF's Board of Directors will take the final decision at the end of July. The renewal of co-operation on loans will affect the improvement of the country's balance of payments and the financing of its budget deficit, but it will also strengthen Ukraine's position on the international capital market. The conditions laid down by the IMF may be a catalyst for reforms to improve the situation of Ukraine's public finances.

On 3 July, another mission from the IMF finished its work in Kyiv, and its leader Thanos Arvanitis stated that the parties had agreed a project-memorandum laying out conditions for co-operation within the framework of a new stand-by loan. Over a period of 29 months Ukraine may receive US\$14.9 bn. The final decision is to be taken by the end of July by the IMF's Board of Directors, which until now has been waiting for the bill limiting the real budget deficit to 5.5% of GNP to be passed. From statements by the vice-premier Serhiy Tyhyhko and the Ministry of Finance, it appears that this will be achieved by limiting budget spending. Reducing the state-financed Naftogaz's deficit in 2010 to 1% of GNP (this deficit reached 2.5% of GNP in 2009), and settling it in 2011, means that gas prices on the internal market will have to be raised. The IMF also expects a rise in tariffs for electrical energy, the beginning of pensions reform, reforms to the tax system, and a regulatory policy simplifying how business is conducted. In the financial sector, the IMF's conditions include strengthening the National Bank of Ukraine's independence and strengthening requirements concerning the capitalisation of banks. The money from the loan's first instalment may reach Ukraine as early as August. Most of it will be allocated to increasing the currency reserves, but the government will be able to use between US\$1.5bn to US\$2bn in 2010 to finance budget expenditure (paying off foreign debts).

The IMF's favourable decision means not only their ongoing support for the Ukrainian government, but also opens the way for Kyiv to obtain loans from other institutions, and improves the conditions under which the government can issue state treasury bonds onto the European market. <AnG>