Analyses OSW

CENTRE FOR EASTERN STUDIES 16.06.2010 www.osw.waw.pl

Two billion dollars of support from Moscow for the Ukrainian government

On 8 June, Ukraine's Ministry of Finance received a US$2bn loan from the Russian bank Vneshtorgbank (VTB). The nature of the loan indicates that it will be used to support the Ukrainian budget. The loan has a favourable interest rate, but it is unclear whether Moscow has placed any additional conditions on its support for the Ukrainian government, and if so, what those might be.

The Ukrainian budget's income in May was 7 billion hryvnia (almost US$900m) lower than planned, and there have been delays in renewing credit cooperation with the International Monetary Fund. These factors have forced the government in Kyiv to look for financial aid from abroad. However, financial problems in the EU states have limited the possibility of issuing Ukrainian stocks on that market. In this situation, the Ukrainian government is being supported by a bridging loan obtained from VTB, amounting to US$2bn for six months, with the option of extending it three times for a further six months -- until the Ukrainian government acquires appropriate funds on international financial markets, as the Russian ambassador in Kyiv, Mikhail Zurabov, commented. The loan was obtained on very good terms, at an interest rate of 6.7%. It is hard to say unambiguously whether this is an expression of support linked to Russian-Ukrainian cooperation, which has been developing beneficially in recent months, or if it is also a form of down-payment on further agreements.
<AnG>