

Ukraine to receive an IMF rescue loan

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On 30 April the Executive Board of the International Monetary Fund approved a new loan programme for Ukraine, worth approximately US\$ 17 billion. The loan, under a two-year Stand-By Arrangement, is set to help stabilise Ukraine's macro-financial situation and requires Kyiv to introduce a series of reforms which are necessary but difficult under the present circumstances (a significant increase in gas prices, Naftogaz needs to reduce its deficit, a stabilisation of the financial system, fighting corruption). The first instalment of the loan, of US\$ 3.2 billion, was transferred to Ukraine already on 6 May. The disbursement of further tranches will depend on the results of bi-monthly progress reviews on how Kyiv is meeting its commitments in the programme.

Commentary

- The IMF's decision to grant Ukraine a loan had been expected for several weeks and represents the most tangible form of support which the West has extended to the present government in Kyiv. Despite the fact that Ukraine agreed to all of the most important conditions which the IMF set, the decision to grant the country a loan of this magnitude (the one earlier announced was for US\$ 14-18 billion) in the face of an effective rebellion in part of Ukraine's territory means this is more of a political decision than economic. This is further confirmed by the IMF's consent for most of the funds from the first instalment to be used as Ukraine's direct budget support and not to replenish currency reserves, as would usually be the case.
- The IMF's loan will enable Ukraine to finance its current budget deficit, which the government there would be unable to do under present circumstances without foreign support. It will also open the door to other sources of external funding, making it possible to return to international financial markets and to avoid insolvency. It will also facilitate the repayment of earlier loans. Kyiv's repayments to the IMF in 2014-2015 are estimated at approximately US\$ 5 billion. This loan, along with other external borrowing, will lead to an increase in the public debt from 41% of GDP at the end of 2013 to 57% of GDP towards the end of the year, when this year's devaluation of the hryvnia and a 5% drop in Ukraine's GDP (which the IMF expects) are taken into account.
- The implementation of the IMF rescue programme and the introduction of the related reforms will be very difficult under present circumstances and will require exceptional determination. In the past several years Kyiv has failed to fulfil the conditions of similar agreements twice, which has resulted in the IMF freezing co-operation with the

governments of Yulia Tymoshenko and Mykola Azarov. This time around the success of the new programme depends not only (or at least not so much) on Ukrainians themselves but also on Russia's policy towards Ukraine and on when and how the current crisis ends. The programme assumes that the price of the gas imported by Ukraine will be US\$ 385 for 1000 m³, whereas Moscow is imposing a price US\$ 100 higher. In addition to this, Russia is aggravating the conflict over gas co-operation, including the value of the gas debt, and this threatens Ukraine with unpredictable financial consequences. The IMF has already signalled that its co-operation programme may be revised if Ukraine loses control over its eastern districts which make a large contribution to the country's GDP, taxes and budget revenues (the Luhansk and Donetsk districts generate in total over 15% of Ukraine's GDP).