http://www.imf.org/external/np/sec/pr/2010/pr10305.htm

IMF Executive Board Approves US$15.15 Billion Stand-By Arrangement for Ukraine

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The Executive Board of the International Monetary Fund (IMF) today approved a 29-month SDR 10 billion (about US$ 15.15 billion) Stand-By Arrangement (SBA) for Ukraine in support of the authorities' economic adjustment and reform program.[1] An initial disbursement equivalent to SDR 1.25 billion (US$ 1.89 billion) is available immediately, with subsequent disbursements subject to quarterly reviews. The SBA entails exceptional access to IMF resources, amounting to 728.9 percent of Ukraine's quota in the Fund.

Following the Executive Board's discussion of Ukraine, Mr. Lipksy, First Deputy Managing Director and Acting Chair, made the following statement:

"Ukraine is emerging from a difficult period during which the economy was severely hit by external shocks and exacerbated by domestic vulnerabilities. The authorities are committed to addressing existing imbalances and putting the economy on a path of durable growth, through important fiscal, energy, and financial sector reforms.

"At the core of the authorities' economic program is a comprehensive consolidation strategy to safeguard fiscal sustainability. Fiscal adjustment will start in 2010 and deepen in 2011–12 backed by robust structural reforms of the pension system, public administration, and the tax system. The financial position of the gas sector will be strengthened, including through domestic price hikes and broader reforms supported by other multilateral institutions, which will help eliminate energy subsidies and create a more modern and viable sector, while protecting the most vulnerable with better targeted social assistance programs.

"Reforms are also underway to rehabilitate the financial system and enhance the National Bank of Ukraine's independence and accountability. The planned recapitalization of banks and steps to strengthen the supervisory and institutional framework are essential to restore financial stability, tackle the mounting problem of impaired assets, and eliminate impediments for robust economic recovery.

"Sustained implementation of these reforms will help Ukraine entrench macroeconomic stability, boost confidence, facilitate access to capital markets, and emerge with more balanced and robust growth.

"The Executive Board also reviewed a report from the Managing Director on the provision of data on net international reserves, which led to two noncomplying purchases in 2009 and a breach of obligation under Article VIII, Section 5 of the IMF's Articles of Agreement. Given the minor economic effect of the deviation and that action has already been taken to change the NIR definition under the new Stand-By Arrangement, the Board agreed to grant waivers of nonobservance of the performance criterion and that no further remedial action is required".

ANNEX

Recent Economic Developments

The global economic financial crisis hit Ukraine hard in late 2008 and 2009. As a major steel exporter and borrower in international markets, Ukraine's economy was severely hit by the decline in demand for steel products and reduced access to capital markets—the impact of which was magnified by pre-existing economic and financial vulnerabilities. Confidence in the currency and the banks waned, causing a system-wide run on deposits; real GDP collapsed, along with domestic demand; and falling fiscal revenues strained public finances.

Notwithstanding the toll of the crisis on Ukraine's economy, the 2008 program managed to restore macroeconomic and financial stability. The sharp adjustment was to an extent unavoidable given the large pre-existing imbalances. However, measures to restore banking system confidence helped stabilize deposits and exchange rate pressures eased over time. By mid-2009, an incipient recovery was under way.

Against a difficult economic environment and a complex political situation, the program eventually went off track as policies weakened and reforms stalled in the run up to the Presidential elections.

Program Summary

Key objectives of the authorities' program are to consolidate public finances, restore banking system soundness, and develop a more robust monetary policy framework. To help achieve this, the government will implement reforms and institutional changes, including tax and expenditure policies, pension and energy sector reforms, and measures to strengthen central bank independence and rehabilitate the banking system. Strict adherence to these policies will help deepen market access, facilitating exit from Fund financial support.

The economic reform program aims to support the authorities' agenda in four key areas:

• Restore confidence and fiscal sustainability by reducing the general government deficit to 3.5 percent of GDP in 2011 and 2.5 percent in 2012 and setting public debt firmly on a downward path below 35 percent by 2015;

• Initiate reforms to modernize the gas sector and eliminate Naftogaz's deficit starting from 2011, including through gas tariff increases and a price mechanism that depoliticizes price setting of public utilities. A new gas law adopted in early July will improve efficiency through unbundling production, transit, and distribution to end-users, and allowing new entrants and investment into the domestic gas sector;

• Restore and safeguard banks' soundness through completion of recapitalization plans by end-2010 and strengthened supervision, and;

• Develop a more robust monetary policy framework focused on domestic price stability under a flexible exchange rate regime to be implemented by a more independent National Bank of Ukraine.

Ukraine joined the IMF as a member on September 3, 1992. Its quota is SDR 1,372 million (about US$2,078.4 million).

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[1] The Board also noted cancellation of the SBA for Ukraine that was approved on November 5, 2008 (see Press Release No 08/271).