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International Monetary Fund  
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### **IMF Mission Reaches Agreement on First Review under Stand-By Arrangement with Ukraine**

A mission of the International Monetary Fund (IMF) led by Ms. Ceyla Pazarbasioglu visited Kyiv during April 8-17 for discussions on the first review under the Stand-By Arrangement (SBA) with Ukraine. At the conclusion of the visit, Ms. Pazarbasioglu issued the following statement today:

“The IMF mission today reached staff-level agreement with the Ukrainian authorities on the conclusion of the first review under the SBA. The authorities’ Letter of Intent and Memorandum of Economic and Financial Policies will now be submitted to IMF Management for approval. The documents and a staff report will then be considered by the IMF Executive Board by mid-May. We agreed with the authorities to propose to IMF Management and the Board to disburse the second and third tranches under the SBA in equal installments of SDR1.9 billion (about US\$2.8 billion). Payment of the second tranche is conditional on Board completion of this first review, while payment of the third tranche is contingent on the completion of the second review of the authorities’ economic program.

“Ukraine’s economy continues to be severely affected by the global crisis. However, there are a number of encouraging signs that the economy has started to adjust to the large shocks. The exchange rate has undergone sizable adjustment, the current account deficit has narrowed significantly, and inflation has fallen more than expected.

“Against this backdrop, and following extensive and constructive discussions with the authorities, we have reached understandings on outstanding policy issues, including the implementation of fiscal corrective measures and bank recapitalization and strengthening. Progress has already been made on both these fronts and we welcome the authorities’ commitment to implement policies in a determined and timely manner.

“In light of the sharper than expected decline in economic activity, the authorities commit to containing the budget deficit to 4 percent of GDP in 2009, in line with available financing. The recent fiscal measures adopted by the Cabinet of Ministers yield significant additional savings

which will help ease the pressure on public finances and achieve this target. At the same time, the authorities' program is mindful of maintaining targeted social safety measures to protect the most vulnerable groups in society. The authorities will also continue their efforts to mobilize additional financing from international financial institutions and bilateral sources to finance part of the budget deficit.

“The authorities are implementing a comprehensive framework for the recapitalization and restructuring of the banking sector. The diagnostic study covering most of the banking system was completed as planned (and is now extended to smaller banks), and recapitalization of capital deficient banks will begin soon. The authorities will also shortly strengthen their framework to guide bank resolution. A key element in this framework is depositor protection. The mission firmly believes that the authorities' comprehensive approach to bank restructuring is appropriate and that it should bolster confidence in the banking sector.

“The flexible exchange rate regime has served Ukraine well and the authorities will retain this arrangement, including by allowing the official exchange rate to follow the market exchange rate.

“Going forward, the global financial and economic crisis poses a challenging environment for Ukraine. We are confident that with these adjustments to the policies that are being supported by the stand-by arrangement, strong political commitment to decisive implementation of these policies, and continued close cooperation with the IMF, the program will pave the way for an early return to sustainable economic growth.”