INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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IMF Completes First Review Under Stand-By Arrangement with Ukraine and Approves US$2.8 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Ukraine's economic performance under the 2-year Stand-By Arrangement (SBA), and approved the immediate release of the second tranche under the arrangement equivalent to SDR 1.9 billion (about US$2.8 billion). This will bring total disbursements under the SBA to SDR 4.9 billion (about US$7.3 billion).

With the completion of this review, the Executive Board agreed to rephase the disbursements under the SBA, including the increase of this second tranche from the original amount of SDR 1.3 billion (about US$1.9 billion). The Board also granted waivers of nonobservance of performance criteria pertaining to the cash deficit of the central government, the passage of the budget, exchange rate restrictions, multiple currency practices, and the imposition of import restrictions, which the authorities have agreed to remove fully in the near future.

The SBA with Ukraine was approved on November 5, 2008 in an amount equivalent to SDR 11 billion (about US$16.5 billion; see Press Release No 08/271).

Following the Executive Board discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair said:

"Ukraine's economy has been hit very hard by the deep and protracted slowdown of the world economy. Weakening economic activity has led to a sharp decline in fiscal revenues, while strains in global financial markets have put additional stress on an already fragile banking system. These developments have called for significant policy adjustments. The authorities' revised economic program, supported by a Stand-By Arrangement with the Fund, seeks to mitigate the effects of the global crisis, restore confidence in the banking system, and preserve fiscal sustainability while protecting the most vulnerable segments of the population.

“The revised economic program targets a government deficit of 4 percent of GDP in 2009, compared to a balanced budget under the original program. This revision aims to strike a balance between cushioning the economic downturn and preserving medium-term fiscal sustainability. From this perspective, the authorities’ intention to implement important structural reforms, including pension and tax reforms, by end- 2009 is welcome.

“The National Bank of Ukraine has reaffirmed its commitment to implementing a flexible exchange rate policy. Adherence to this commitment is key to helping the economy adjust to external shocks, discouraging dollarization and excessive risk taking by unhedged borrowers, and allowing monetary policy to focus on inflation objectives. Given the potential negative balance sheet effects, the National Bank of Ukraine is prepared to tighten monetary policy if needed, to avoid excessive exchange rate depreciation. The authorities should phase out administrative measures, import surcharges, and restrictions limiting exchange rate flexibility without further delays.

“A key priority of the authorities is to restore confidence in the banking system. The diagnostic phase of the bank recapitalization program has progressed well, and several problem banks have been intervened. The authorities are committed to proceed with the state capitalization of the systemic problem banks in an orderly and transparent manner and have taken measures to safeguard bank assets in the interim. They are committed to make the necessary legal amendments to advance the bank recapitalization and resolution program, and to continue to implement reforms in this area in consultation with Fund staff,” Mr. Lipsky said.