

New Europe Economics & Strategy

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Thursday, April 22, 2010

Focus Notes: Ukraine

The new gas-price accord with Russia will help resume and extend the IMF loan

Gas price talks between Russian President, Dmitry Medvedev, and his Ukrainian counterpart, Viktor Yanukovich were held yesterday. The Ukrainian and Russian governments have already agreed on a new price for gas imports from Russia. The new gas price that Ukraine will have to pay to Russia has not been disclosed yet but the main point is that **Ukraine will receive a ca 30% discount on the EU market price**. Russia charged Ukraine \$305 per 1,000 cm of natural gas in the first quarter of this year. Ukraine, by getting lower gas prices, will be able to reduce its budget deficit. Cheaper gas will allow the Kiev-based government to end subsidies to household and utilities, a key precondition the IMF has put before it resumes the Stand-By-Agreement loan. As the IMF considers the government budget together with Naftogaz's (the Ukrainian natural gas supplier) budget, the agreement of a discount on the price of imported gas from Russia should reduce Naftogaz's losses, thus helping to narrow overall budget deficit. What's more, the gas deal will ease the fiscal pressure on the budget and reduce the need to raise gas tariffs for households.

Ukraine has postponed the 2010 budget approval until the negotiation with Russia regarding the reduction in the import price for gas will be over. Hence, having signed the gas deal, the 2010 budget will be passed by Parliament next week. **The government has set its fiscal deficit target to 6% of GDP, in line with IMF requirements, and today's gas deal announcement will make this target more feasible**. Although there has not been an official report yet, the IMF and Ukraine have already agreed on the main terms of a **new 2.5 year Stand-By-Agreement loan of \$12bn**. Ukrainian authorities anticipate the first tranche of the new IMF loan to be disbursed in June. Ukraine has already received \$10.4bn under a previous IMF loan which has been frozen since last November, when the previous administration failed to fulfil the IMF-required cuts.

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