

# New Europe Economics & Strategy

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## Focus Notes: Ukraine

### IMF Executive Board approves \$15.15bn Stand-By-Arrangement for Ukraine

- ✓ On **July 28**, the IMF approved a 29-month (almost 2.5 years) **\$15.15bn** Stand-By-Arrangement (SBA) for Ukraine in support of the authorities' economic adjustment and reform program. An initial **disbursement** equivalent to **\$1.89bn** is available **immediately**, with subsequent disbursement subject to quarterly reviews.
- ✓ The IMF cancelled the 2 year \$16.4bn SBA for Ukraine that was approved in November 2008. Ukraine has received \$10.6bn of this loan but payments were frozen in November 2009 when the previous government declined to cut spending in the run up to the presidential elections scheduled for January 2010.
- ✓ Key objectives of the program are to consolidate public finances and put the Ukrainian economy on a path of durable growth through fiscal, energy and financial sector reforms. Under the policies attached to the loan, the general government **deficit** has to reach **3.5% of GDP in 2011** and 2.5% of GDP in 2012 (from **this year ceiling of 5.5% of GDP**) and the **public debt** not to exceed **35% of GDP by 2015** (public debt in June 2010 equals to ca. 33.4% of GDP). Fiscal adjustment includes tax and expenditure policies, pension and energy sector reforms, as well as, measures to strengthen **central bank's independence** and complete **recapitalization** plans of the banking system **by end-2010**. In particular, in the authorities' agenda is to initiate reforms to modernize the gas sector and eliminate Naftogaz's deficit starting from 2011 (vs. this year ceiling of 1% of GDP). The government has already increased gas tariffs for households by 50% starting from August, 1<sup>st</sup>.
- ✓ Resumption with the IMF opens the way for a **European Commission** loan of **\$792bn** and for a **\$800mn loan** from the **World Bank**.

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#### Research Team:

Gikas Hardouvelis, *Chief Economist and Director of Research*  
 Platon Monokroussos, *Head of Financial Markets Research*  
 Tassos Anastasatos, *Senior Economist*  
 Ioannis Gkionis, *Research Economist*  
 Stella Kanellopoulou, *Research Economist*  
 Galatia Phoka, *Emerging Markets Analyst*  
 Theodoros Rapanos, *Junior Economic Analyst*

#### Sales Team:

Fokion Karavias, *Treasurer*  
 Nikos Laios, *Head of Sales*  
 Yiannis Seimenis, Ioannis Maggel, *Corporate Sales*  
 Stogioglou Achilleas, *Private Banking Sales*  
 Petropoulos Theodore, *Institutional Sales*  
 Karanastasis Kostas, *Retail Sales*

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EFG Eurobank Ergasias, 8 Othonos Str, GR 105 57, Athens, Tel: (30210) 3718 906, 3718 999, Fax: (30210) 3337 190, Reuters Page: EMBA, Internet Address: <http://www.eurobank.gr>

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- ✓ The loan **approval** by the IMF Executive Board was **fully anticipated by the markets**. Since July 2, when the IMF mission who visited Ukraine reached a staff-level agreement with the authorities of Ukraine, the **5-year CDS** was to 661bps and fell to **519bps on July 28**. Moreover, the yield on Ukraine's dollar bond due March 2011 from 7.498% on July 2, fell to 5.903% today-July 29.

*Dr Stella Kanellopoulou, Research Economist  
skanellopoulou@eurobank.gr*