



last July. This financing should now be forthcoming.

Ukraine's need for international financing is quite obvious. Even after severe cuts in our imports, the current account is likely to amount to \$3 bln next year. Essentially, the whole deficit is being caused by imports of oil and natural gas from Russia. Therefore, international financing needs to be made available for our energy payments to Russia.

Our international reserves are run down and they need to be replenished by at least \$1 bln. In order to introduce the hryvnia, Ukraine will need a stabilization fund of \$1.5 bln, so that a stable exchange rate can be defended. Altogether our financial needs for 1995 amount to \$5.5 bln, and the IMF has assessed our balance of payments need for the rest of this year at almost \$1 bln.

A first tranche of the STF will provide us with \$360 mln, but that will not be enough. We have proposed to the US that \$200 mln of unused technical assistance grants be transformed into balance of payments grants. For the rest, we hope for matching funds from other countries.

One of Ukraine's many advantages is that its foreign debt is actually limited, at about \$7 bln, including the arrears on energy deliveries from Russia and Turkmenistan, while we estimate that our total export of goods and services will amount to \$15 bln this year. A large part of our current debt consists of arrears that need to be regulated and rescheduled so that we can repay them.

As our economy becomes more open, we also hope to attract substantial foreign investment. With an excellent geographical location and a highly educated labour force, Ukraine is well placed to achieve high economic growth in the future.

But our chances of success will be greater if we receive appropriate international financial support to facilitate our transition until private investments start flowing in.

(Financial Times, September 30, 1994)

Ukraine agrees to bold economic reform

Peter Norman, Financial Times, Sept. 29, 1994

The preliminary agreement for the International Monetary Fund to provide Ukraine with \$360m of financing from its systemic transformation facility is contingent on the Kyiv government implementing a potentially far reaching economic reform programme.

Mr. Michael Camdessus, the IMF managing director said, it was a "strong first step" in the direction of macroeconomic stabilisation.

Considerably more financial assistance will be available next year, with the IMF hoping to negotiate a stand-by credit early in 1995. But while Mr. Camdessus and Mr. Oleh Havrylyshyn, Ukraine's alternate executive director at the IMF, expressed the hope that western governments would provide bi-lateral support for Ukraine, British officials indicated that there are no plans at present for such a move.

Mr. Havrylyshyn said Ukraine hopes to obtain \$360m before the end of October after approval of the IMF board. It hopes to have \$4 bln of support envisaged at the Naples summit by the G-7 leading industrial countries by the end of 1995.

Although there is likely to be some increase in inflation over the rest of this year as a result of financing arrangements for the farm sector, Ukraine has promised to have its monthly inflation in single digits for the rest of this year and "low single digits" for the whole 1995, Mr. Havrylyshyn said.

He said Ukraine also promised to keep its budget deficit down to 10.5 per cent of gross domestic product in the third and fourth quarters. Without action to cut spending, the deficit would rise to

20 per cent from around 10 per cent in the first half of the year because of commitments to finance agriculture. The aim is to bring the deficit substantially below 10 per cent next year.

The government will make some cuts in social spending that will hit the middle classes. It also plans subsidy cuts.

It plans to start privatizing state run companies, starting on a small scale early in 1995.

An important part of the plan will be the liberalisation of foreign exchange arrangements, creating a genuine foreign exchange market around the end of this year. The Kyiv government hopes this will stabilize the Ukraine coupon currency, which is currently worth around 75,000 to the dollar.

He said Kyiv expects the IMF should provide about \$1.5 bln through its STF and stand-by arrangements. The World Bank is expected to provide \$400m while the European Bank for Reconstruction and Development (EBRD) is also expected to provide funds. That would leave about \$1.5 bln to be provided by other lenders, such as western governments, Mr. Havrylyshyn said.

However, senior UK treasury officials dispute this breakdown. They said the \$4 bln discussed at Naples would be supplied by international financial institutions.

If so illustrative G-7 figures suggested Ukraine could hope to draw around \$1.2 bln from the STF, \$1.4 bln through an IMF stand-by, about \$1.2 bln from the Bank and \$300 mln from EBRD.