

Ukraine: Community supplementary macro-financial assistance

2002/0018(CNS) - 17/01/2002 - Legislative proposal

PURPOSE : to provide supplementary macro-financial assistance to Ukraine. **CONTENT** : in October 1998, the Council approved a third macro-financial loan for Ukraine in the amount of up to EUR 150 million. The first tranche of this loan, amounting to EUR 58 million, was disbursed in July 1999. The disbursement of the remaining funds, however, has been delayed reflecting temporary interruptions of the IMF's extended arrangement (EFF) and delays in the confirmation by the authorities of their agreement on the policy measures for the second tranche. In July 2001, following the reactivation of the EFF in December 2000, Ukraine reached agreement with its Paris Club creditors on the re-scheduling of approximately US\$ 580 million due on loans contracted before 31 December 1998. As a result of this agreement, Ukraine's debt service due to Paris club creditors in 2001 and 2002 will be reduced to about a third, which should help in strengthening the country's balance of payments position. Following some initial uncertainty, the new Ukrainian government formed in May 2001 confirmed that it would continue implementing the economic stabilisation and reform programme agreed between the previous government and the international financial institutions. In these circumstances, and following the consultation of the Economic and Financial Committee, the Commission is now proposing to the Council to adopt a Decision providing further macro-financial assistance to Ukraine, in the form of a loan of up to EUR 110 million. The proposed amount would include the undisbursed funds from the 1998 loan operation (EUR 92 million), which would no longer be disbursed as part of the 1998 Council Decision. Given the need to lengthen the average maturity of Ukraine's debt and smooth the shorter-term debt profile, the Commission is proposing a loan of a maximum maturity of 15 years, compared to the 10 years maximum maturity of the previous loan. The grace period of the loan would be extended to 10 years from the 7 years on the 1998 loan. By disbursing the remaining funds from the 1998 loan facility under the proposed new Decision, the maturity and grace period at which those funds will be lent will effectively be lengthened. The proposed new assistance would be disbursed in at least two tranches. The disbursement of each tranche would depend on : - a satisfactory track record of Ukraine in the implementation of the adjustment and reform programme agreed with the IMF in the context of the EFF and/or any successor arrangement with the IMF; - progress with respect to a number of structural reform measures to be agreed between the Commission and the Ukrainian authorities. The adoption of this new assistance would require an additional provisioning of the Guarantee Fund for some EUR 1.62 million (corresponding to the proposed increase by some EUR 18 million of the loan amount relative to what remained available under the 1998 loan facility).