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## IMF allows Ukraine to use reserves to cover gas payments

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Ukraine won approval from the International Monetary Fund to tap into reserves and cover gas payments, though the Fund will continue to freeze loan disbursement until parliament can commit to budget cuts.

IMF in a statement said that “The IMF Executive Board agreed to the government’s request to modify the performance criterion on Net International Reserves as specified in the current Stand By Arrangement, to lower the end December NIR floor by about USD 2 billion.”

This will enable Ukraine to use existing resources to make external payments. It does not involve any new disbursement by the IMF.

Ukraine was due to receive a USD 3.4 billion tranche of its USD 16.4 billion bailout in November, though that installment was delayed after the government failed to meet budget demands, including spending cuts. The former Soviet state is relying on the IMF cash to stay afloat and to pay Russia for natural gas on time after the credit crisis undermined demand for its exports such as steel and crippled its financial sector.

Timothy Ash head of Europe Middle East and Africa research at Royal Bank of Scotland Group Plc in London in a note said that the IMF’s decision to lower the reserve floor is a somewhat remarkable move. It would appear that the IMF has opted to cut the government some considerable slack, clearly with an eye to the serious potential regional repercussions. The IMF is mindful not to be the cause of Europe freezing again this winter.

The government needs funds to bridge the difference between what NAK Naftogaz Ukrainy pays Russia for gas shipments and the lower price the state gas supplier charges the domestic market for the fuel. Russia halted natural-gas exports through Ukraine to Europe on January 7 for the first time in three years, creating shortages in at least a dozen countries across Europe at the coldest time of year.

Dragon Capital in a note to clients said that “The government can now ask the National Bank of Ukraine to use the newly available resources. However, uneasy relations between the government and the central bank, compounded by the upcoming presidential elections, may delay the transfer of freed up reserves.”

Dragon Capital said that the IMF’s move to lower the end-December reserve floor by USD 2 billion means Ukraine needs foreign currency holdings of at least USD 12.9 billion to fulfill the terms of its loan.

(Sourced from Bloomberg.com)

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