

November 30, 2008

Ukraine



Ukraine will increase import duties by 12%

Due to economic crisis Ukrainian Government is considering the question of rising import duties on meat, oils of animal and vegetable origin, alcohol, clothes and cars by 12%. A bill providing for such measures was under discussion between parliamentary commissions on November 18.

Ukrainian Officials are sure that such a temporary measure does not contradict the WTO rules and can support Ukrainian local producers. However experts say that this may lead to the inflation growth.

On November 18 the Head of the Committee of Verkhovna Rada on "Tax and Customs Policy" Sergey Terekhin registered appropriate bill #3379 "On implementing of amendments to the Law "On Custom tariffs" in order to improve Ukrainian balance of payment in the conditions of world financial crisis".

The document implements "temporary target increase of the current import tariffs in conservative rate of 12%".

The custom duties will be increased on the goods where the highest rise of import was observed during January - October 2008: meat and meat products (group 2), fat and oils of animal and vegetable origin (15), food products of meat, fish, mollusks, alcoholic and non-alcoholic beverages (22, the duties will be increased only on import of vermouths and on ethyl spirit), carpets (57), jersey fabrics, clothes (61-65) and cars (87). - Source: *Meatmarket.info*

Translated by: *usapeec.kz*

IMF approved \$16.4 billion loan to Ukraine

On November 5 the board of the International Monetary Fund approved \$16.4 billion bailout package for Ukraine intended to stabilize the country's banking system and mitigate the impact of a collapse in the price of steel, one of its biggest exports.

The money - \$4.5 billion of which was disbursed immediately - would help the authorities to overcome the impact of "global and domestic crisis of confidence." In return Ukraine has committed to adopt a flexible exchange rate regime with targeted intervention, recapitalize its banks, reduce its budget deficit to zero in 2009 and tighten monetary policy.

"The authorities have developed a strong and comprehensive package of measures to address the challenges which Ukraine is facing and the Fund has provided commensurate financial assistance. The flexible exchange rate regime, backed up by intervention under some circumstances, would help absorb external shocks and avoid disorderly currency market developments," - Murilo Portugal, Deputy Managing Director of the IMF said.

"A pre-emptive bank recapitalization will alleviate a potential credit crunch that could prolong and deepen the downturn in economic activity," he added. The IMF Deputy Managing Director noted that the balanced budget target for 2009 would be kept under review.

Ukraine's economy has been seen as vulnerable for some time, due to high inflation, low foreign exchange reserves relative to short term foreign debt, heavy reliance by its banks on foreign funding, balance sheet currency mismatches and a fragile fiscal position.

The collapse in the price of steel has led to a sharp deterioration in its terms of trade and its current account position, highlighting the external vulnerabilities. The spread of the global financial crisis has led to a sudden drying up of dollar and euro liquidity, along with a sharp decline in capital inflows.

The failure of “Prominvest Bank”, the nation’s sixth largest, prompted a run on bank deposits in October. The Ukrainian authorities were also forced to impose some exchange controls, which the IMF said Ukraine would lift as soon as confidence returned.

The US and other western nations are keen to stabilize Ukraine for geopolitical as well as economic purposes, given its important position in Eastern Europe as a neighbor of Russia. - *Source: Unian*

Principal tendencies of Ukraine’s monetary market in October and November, 2008

At the beginning of October 2008 there was observed strengthening of strain in the Ukrainian financial market, caused by negative tendencies in the development of the world economy and deliberately provoked discredit of some banks’ financial position (which negatively affected the trust of households towards banking system in general). The above-mentioned caused some withdrawal of funds from bank clients’ deposit accounts and at the end, decrease of the banking system monetary liquidity. Thus the banking sector lost over \$3.4 billion in October as panicked clients rushed to empty their deposits and convert their savings into foreign currency. The stock market of the country has lost over 70% this year.

Due to this the national currency of Ukraine - hryvnia - has lost over a quarter of its value in a severe financial crisis.

Bankers predict that the cash hryvnia exchange rate will have stabilized at 5.5-6.0 UAH/USD by 2009 after the International Monetary Fund (IMF) granted a credit to Ukraine.

“The IMF loan of USD 16.4 billion will help the National Bank of Ukraine and other banks to stabilize the rate and keep it, and also will help to clear up the panics observed at the cash and non-cash markets. The exchange rate will get stable between 5.5 UAH/USD and 6.0 UAH/USD,” commented the Chairman of the Board of the “TransBank” Oleksandr Adler.

Also in order to stabilize the situation on financial market the National Bank of Ukraine in its resolution No.356 of November 7 obliged commercial banks to sell cash dollars and other cash foreign currencies at the exchange rate of being not higher than by 1.5% than the official exchange rate from November 8.

Later commercial banks started to limit sale of cash foreign currency and introduce commission charges for sale of dollars and euros. In most cases commercial banks formalize the commission charges with sale of cash foreign currency as payment for settlement and cash services.

“The exchange rate will go down if the NBU does not intervene,” thinks Dmytro Hrydzhuk, the Chairman of the “Khreschatyk” Bank, ranking among Ukrainian large banks.

He further said the time is ripe for the Government and the National Bank to take clear-cut measures to stop panic on the market.

The government and the NBU should change the currency exchange policies of the state and rules of the sale of foreign currency on the market, he said. - *Source: Ukrainian News Agency, Unian; Edited by: usapeec.kz*