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INTERACTION OF THE INTERNATIONAL MONETARY FUND AND UKRAINE ON FOREIGN DEBT SETTLEMENT

The peculiarities of the IMF's interaction with Ukraine on lending issues and the conditions of external debt settlement are investigated. The procedure of coordination and actual granting of IMF loans to Ukraine, the dynamics of their payments are investigated. The stages of cooperation programs of Ukraine with the International Monetary Fund in 1994-2019 are presented. The conditions for granting IMF loans to Ukraine according to the signed Memoranda of Cooperation are summarized. The positive and negative aspects of IMF lending to Ukraine and the impact of lending on the main indicators of socio-economic development were noted. Prospective directions for further research are identified. With regard to the Government of Ukraine, it is necessary to take a more responsible attitude to the obligations that it undertakes in accordance with the IMF requirements. Sometimes it seems that the primary purpose of the government is to obtain money, not the process of its rational strategic use. This approach is too mercantile on the part of our country and poses significant threats to the economy of the country and social burden.

Keywords: International Monetary Fund, external public debt, debt per capita, extended financing, stand-by mechanism.

Problem statement. Over the years, the Ukrainian economy has been characterized by a significant increase in external public debt, which is a debt of the state from borrowed and externally attracted (from abroad) funds in the form of loans and credits from foreign banks and international financial institutions, interest paid on them, as well as funds obtained through the placement of government securities on the international markets¹.

Among international organizations, the International Monetary Fund (IMF) has the greatest influence, as a final financial instance, on the formation and settlement of issues related to the country's external debt, stimulating the development and positive resolution of the problems of stabilizing our country's financial system. Ukraine became a member of the IMF in 1994 and is still actively cooperating. For many years, the Government of Ukraine has used various programs to attract financial and technical resources from the IMF. The main purpose of these measures is to achieve macroeconomic stabilization of Ukraine, to create the necessary prerequisites for the implementation of economic reforms. In addition, cooperation with the IMF in modern conditions opens opportunities for attracting financial resources from other international financial institutions and governments of other countries. The above requires a thorough study of the impact of IMF interaction with Ukraine and determines the topicality of this study.

Analysis of recent research and publications. Over the last years, the interest of scholars in the study of the IMF's interaction with Ukraine has gained considerable development. This is primarily due to the transformation of Ukraine and its macroeconomic stabilization in times of economic and political crisis caused by the occupation of part of the territory of Ukraine.

Among the most meaningful and applied achievements of domestic scholars, which deal with different directions of the investigated range of problems, the works of the following scholars are worth mentioning: T. Bogdan-Vakhnenko (studied external debt in the system of world financial and economic relations)², V. Heiets (determined the purpose of IMF loans in strategic development of Ukraine)³, V. Koziuk (studied

¹ Ministry of Finance (2019). *Public Debt of Ukraine* <<https://index.minfin.com.ua/en/finance/debtgov/>>. (2019, July, 19).

² Вахненко, Т. П. (2006). Зовнішні боргові зобов'язання у системі світових фінансово-економічних відносин. Київ: Фенікс, 245.

³ Heiets, V.M. (2016). Features of the Interrelation of Economic and Political Preconditions for the Reconstructive Development of the Ukrainian Economy. Summary. *Economy of Ukraine*, 12, 3-21.

the place of international organizations in the system of debt policy making in Ukraine)¹, H. Kucher (investigated the effectiveness of public debt management system in Ukraine)², O. Liutik and D. Lysak (examined the influence of IMF loans on financial policy of Ukraine)³, V. Rudan (covered the strategic objectives of cooperation between Ukraine and the IMF)⁴. In paying tribute to the scientific achievements of the above-mentioned economists, it should be noted that the scientific dilemma is inexhaustible and requires constant research and monitoring of cooperation between Ukraine and the IMF on foreign debt settlement.

Setting objectives. The main objective of the research is to investigate the IMF's interaction with Ukraine and to substantiate its impact on Ukraine's economic development.

Outline of the research material. Ukraine became a member of the IMF in 1992. Subsequently, in 1994-1995, the Government of Ukraine and the IMF started their cooperation, which included special programs of system transformation loans. Today Ukraine is the largest, after Greece, IMF borrower. This helps restore Ukraine's financial capacity through effective program reforms. Experts estimate that over the 25 years of cooperation between Ukraine and the IMF, 10 credit agreements have been concluded:

- two in the form of extended financing: the System Transformation Loan (STF) program to support the balance of payments and the Extended Fund Facility (EFF) program to promote economic stabilization;
- the other eight – Stand-by – for the support of the national currency exchange rate and for the financing of the deficit of balance of payments.

Extended financing is provided for countries in transition, but for those countries that need urgent financial assistance in times of crisis. The stand-by mechanism is applicable to countries whose economies are relatively stable and tend to grow, but need support to address certain socio-economic issues. This loan is granted at the rate of 6.29% per annum, for a period of 5 years and deferred payment of the principal for 3.25 years⁵.

The total amount of approved and actually issued loans by the International Monetary Fund for Ukraine for the entire period of their cooperation amounts to SDR 21.5 billion, or \$ 35.2 billion. (Figure 1). While Ukraine's biggest current problem is the peak of debt repayments in previous years is in 2019-2020 and amounted to a total of foreign currency payments with interest – \$ 17 billion (Table 1).

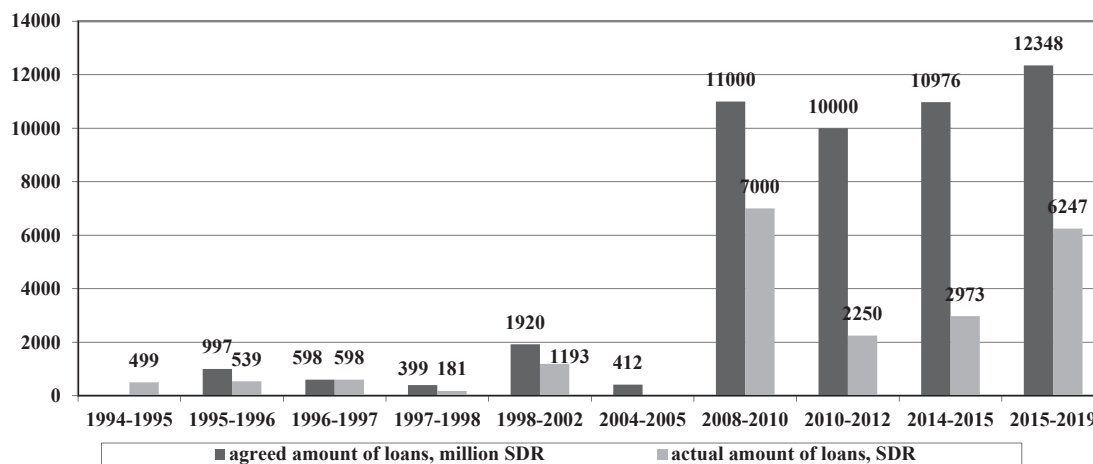


Fig. 1. Procedure for approval and actual granting of IMF loans to Ukraine, 1994-2019 (million SDRs)

Source: Generalized on the basis of⁶.

¹ Козюк, В. (2008). Боргова політика в системі глобальних макрофінансових процесів. *World of Finance*, 1, 29-41.

² Кучер Г. В. (2012). Ефективність системи управління державним боргом в Україні. *Фінанси України*, 6, 44-57. <http://nbuv.gov.ua/UJRN/Fu_2012_6_5/> (2019, July, 19).

³ Лютик О.М., Лисак Д.С. (2018). Вплив кредитів міжнародних фінансових організацій на фінансову політику України. *Проблеми системного підходу в економіці*, 3 (65), 62-69.

⁴ Рудан, В.Я. (2017). Досвід та стратегічні орієнтири співпраці України з Міжнародним валютним фондом. *Економічний аналіз: Збірник наукових праць*, 27, 2, 36-49.

⁵ Зануда, А. (2019). МВФ і Україна: історія позик і відносин. *BBC News Ukraine* <<https://www.bbc.com/ukrainian/features-48335639>>. (2019, July, 19).

⁶ Official Website of the International Monetary Fund (2019) *Homepage* <<http://www.imf.org>>. (2019, July, 19).

Table 1

Payments to the IMF during 2015-2019 pp., million SDRs

Indicator	2015	2016	2017	2018	2019	Total
Principal, million SDRs	687.5	0	628.83	1,486.34	1,153.0	4,409.18
Servicing, million SDR	87.39	117.77	115.19	88.72	44.5	453.57
Total	774.89	117.77	744.03	1,575.06	1,197.5	4,862.75

The timeline of the tranches and signed programs (Table 2) with the IMF showed that in the period 1995-1998, a loan of SDR 1.3 billion (\$ 1.9 billion) was granted to Ukraine under the signed stand-by program. In 2008, Ukraine introduced a new Extended Fund Facility (EFF), which provided loans of \$ 2.6 billion. However, Ukraine does not receive the full amount of lending, only SDR 1.19 billion (\$ 1.59 billion).

It is worth noting that before 2008, Ukraine managed without the IMF financial assistance. However, the global economic crisis of 2008 had a negative impact on national socio-economic development and the Government of Ukraine applied for financial assistance for a total amount of 802% of Ukraine's total IMF quota. Under the stand-by program, Ukraine was expected to receive \$ 16.5 billion.

Table 2

Stages and names of programs of cooperation of Ukraine with the International Monetary Fund in 1994-2019

Stages	Program name	Amount of funds obtained
Stage I 1994-1995	Systemic Transformation Facilities (26.10.1994-07.04.1995)	\$ 0.8 billion in two tranches
Stage II 1995-1998	Stand-by (07.04.1995-06.04.1996) Stand-by (10.05.1996-23.02.1997) Stand-by (25.08.1997-24.08.1998)	A total of \$ 1.9 billion was received under three programs
Stage III 1998-2002	Extended Fund Facility (EFF) (04.09.1998-03.09.2002)	\$ 1.6 billion received. Further cooperation with the Facility has been discontinued due to Ukraine's failure to fulfill a number of obligations. Until 2008, consultations were held within the framework of technical cooperation.
Stage IV 2002-2008	Stand-by Arrangement (2002)	Reserved loan equivalent to SDR 411.6 million (30% of Ukraine's quota) in the event of a worsening balance of payments situation or foreign exchange reserves of the country
Stage V 2008-2010	Stand-by (05.11.2008-08.07.2010)	\$ 10.6 billion received in three tranches. The program has been terminated ahead of schedule due to the conclusion of a new agreement
Stage VI 2010-2013	Stand-by (28.07.2010-27.12.2012)	\$ 3.4 billion received in two tranches. Subsequent tranches were not granted due to non-compliance with the program conditions
Stage VII 2014-2015	Stand-by (30.04.2014-10.03.2015)	\$ 4.6 billion received in four tranches. The program has been terminated ahead of schedule due to the conclusion of a new agreement
Stage VIII 2015-2017	Extended Fund Facility (11.03.2015-10.03.2019). Revision – February 2017	\$ 7.7 billion received in three tranches (as of the end of October 2016)

Continuation of the table 2

Stages	Program name	Amount of funds obtained
Stage IX 2018- till present	In December 2018, Extended Fund Facility was revised and renamed as Stand-by Arrangement (2018-2020)	Provides for allocation of nearly \$ 4 billion, which Ukraine can apply for by spring 2020.

Source: developed on the basis of^{d, 2}.

Over the coming years, the government has been cooperating intensively with the IMF. Thus, in July 2010, the IMF signed a new agreement with the Ukrainian part, cancelling all agreements on the previous program. The new program provided for the receipt of \$ 15.1 billion over 2.5 years.

During the political and economic crisis in Ukraine and the annexation of part of the territory of Ukraine by the Russian Federation, the need for financial assistance is felt too acute and a new agreement is concluded, according to which the IMF transferred Ukraine \$ 3 billion in May 2014, and \$ 1.3 billion in September of the same year.

However, given the critical magnitude of the domestic financial and economic crisis, Stand-by was replaced by a new four-year Extended Fund Facility in March 2015, which provided for a loan of SDR 12.3 billion (USD 17.5 billion). According to the Program, the Government of Ukraine has undertaken the following commitments: to take measures to effectively combat corruption; carry out tax reform; to establish order in the energy sector; reduce the budget deficit of Naftogaz Ukraine; reduce the number of civil servants; increase the cost of investing in the economy to 3% of GDP.

Due to the fact that Ukraine fails to fulfill some of the requirements of the International Monetary Fund, the fifth tranche has not been allocated since the following requirements have not been fulfilled by Ukraine: the creation of the Anti-Corruption Court, gas tariffs have not been brought to market level and no moratorium on the sale of agricultural land was lifted.

In 2018, under the new Stand-By Arrangement (SBA) IMF Cooperation Program, Ukraine received the first tranche of \$ 1 billion Special Drawing Rights (about \$ 1.4 billion), bringing Ukraine's international reserves up to \$ 20.1 billion as of the end of 2018.

Table 3

IMF Monetary Conditions for Ukraine 2016-2017

IMF conditions from 01.01.2016	September 2016	December 2016	March 2017	June 2017
Performance criteria NBU net international reserves (NIR) change threshold Program exchange rate for hryvnia conversion – UAH 15.7686/USD	1.776	2.317	2.288	3.498
Upper threshold of aggregate changes in the NBU net domestic assets (NDA), UAH billion	-2.886	9.923	22.584	32.075
Indicative targets Upper threshold of aggregate monetary base (MB) changes, UAH billion	25.123	46.452	58.635	87.233
Inflation rate, month to corresponding month of the previous year	-	12 (+ 3 p.p.)	12 (+ 3 p.p.)	12 (+ 3 p.p.)

Source: generalized on the basis of^{3, 4}.

¹ Зануда, А. (2019). МВФ і Україна: історія позик і відносин. *BBC News Ukraine* <<https://www.bbc.com/ukrainian/features-48335639>>. (2019, July, 19).

² Рудан, В.Я. (2017). Досвід та стратегічні орієнтири співпраці України з Міжнародним валютним фондом. *Економічний аналіз: Збірник наукових праць*, 27, 2, 36-49.

³ Лист про наміри (2017). *Офіційне Інтернет-представництво Національного банку України* <<https://bank.gov.ua/doccatalog/document?id=46564506>>. (2019, July, 19).

⁴ Додаток II. Технічний меморандум про взаєморозуміння (2019). *Міністерство фінансів України* <<http://www.minfin.gov.ua/uploads/redactor/files/55d233ef92066.pdf>>. (2019, July, 19).

The new SBA program provides Ukraine with funding for a total of 2.8 billion Special Drawing Rights (about \$ 3.9 billion) over a 14-month period. It will focus, in particular, on continuing fiscal consolidation and reducing inflation rate while maintaining a flexible exchange rate, as well as strengthening the financial sector and a number of structural reforms in tax administration, privatization and public administration. As expected, continued cooperation with the Fund also gave Ukraine access to related funding. On December 18, the World Bank's Board of Directors also decided to grant Ukraine a \$ 750 million guarantee for supporting state policy, which in turn will help the government raise capital in international markets in 2019¹.

Due to the peak of the debt repayments to the IMF in August 2017, Ukraine had to start paying its debts under the latest IMF program. As a result, \$ 450 million was repaid under the 2014 program.

In 2018, Ukraine repaid \$ 80.7 million under the General Resources Account – Regular Charges (regular payments) and the regular principal payment under the 2014 stand-by program amounted to \$ 375 million. In total, over the period of the IMF lending, Ukraine repaid \$ 18.2 billion. For comparison, Figure 2 and 3 present the amounts of tranches received and the amounts of repayments during 1994-2018.

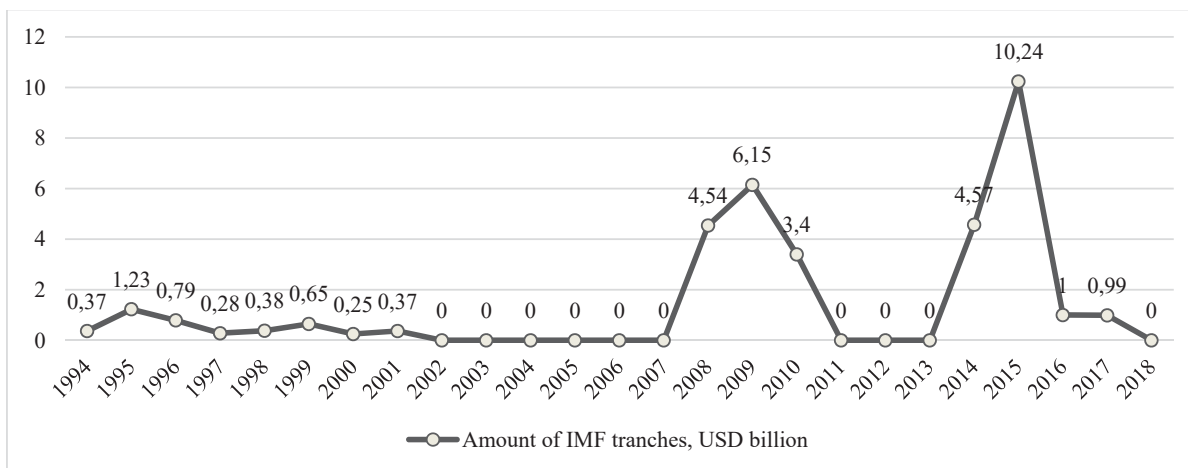


Fig. 2. Amount of IMF tranches for 1994-2018, USD billion

Source: developed based on ^{2,3}.

In total, since 2014 – the onset of the political crisis in Ukraine – the government has already received 7 tranches from the IMF. In general, the debt to the IMF tends to decline, with its share fluctuating within 11% of total external debt.

According to experts, external borrowing has its advantages and disadvantages for the state policy of the country. For example, public external loans are an effective tool for the implementation of any country's development strategy today, but in case of misappropriation of borrowed funds it can lead to negative results of the country's socio-economic development, in particular: decrease of GDP, negative balance of payments, the devaluation of the national currency, the rise in inflation, the lack of social guarantees, a significant decline in economic development and business activity of economic entities, mass unemployment, failure of the banking sector.

Owing to constant external borrowing, including through the IMF mechanisms, excessive debt load per capita is currently observed in Ukraine (Figure 4). According to estimates of specialists, every Ukrainian in the future, in particular in 2018, had to repay the IMF \$ 55.2 (UAH 1,443), and in 2009 every Ukrainian has to repay \$ 42.7 (UAH 1,110), in 2020 – \$ 29.8 (UAH 774), and in 2021 – \$ 34.5 (UAH 897).

¹ Укрінформ (2018). *Україна отримала перший транш МВФ за новою програмою співпраці* <<https://www.ukrinform.ua/rubric-economy/2605618-ukraina-otrimala-persij-trans-mvf-za-novou-programouspivpraci.html>> (2019, July, 19).

² Міністерство фінансів (2019). *Державний борг України* <<https://index.minfin.com.ua/en/finance/debtgov/>> (2019, July, 19).

³ Official Website of the International Monetary Fund (2019) *Homepage* <<http://www.imf.org>>. (2019, July, 19).

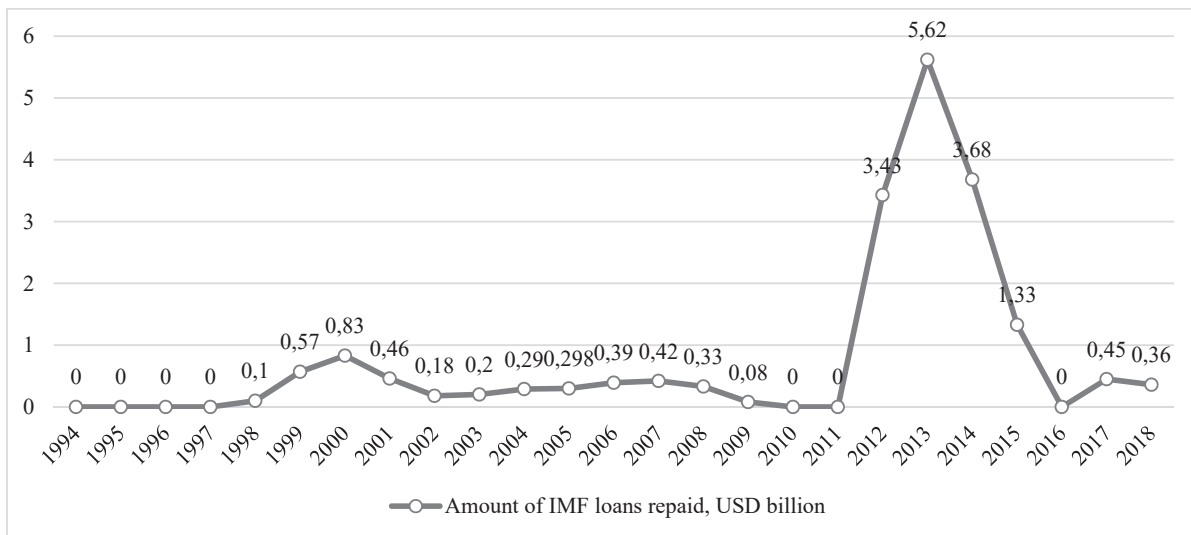


Fig. 3. Amount of IMF loans repaid for 1994-2018, USD billion

Source: developed on the basis of ^{1,2}.

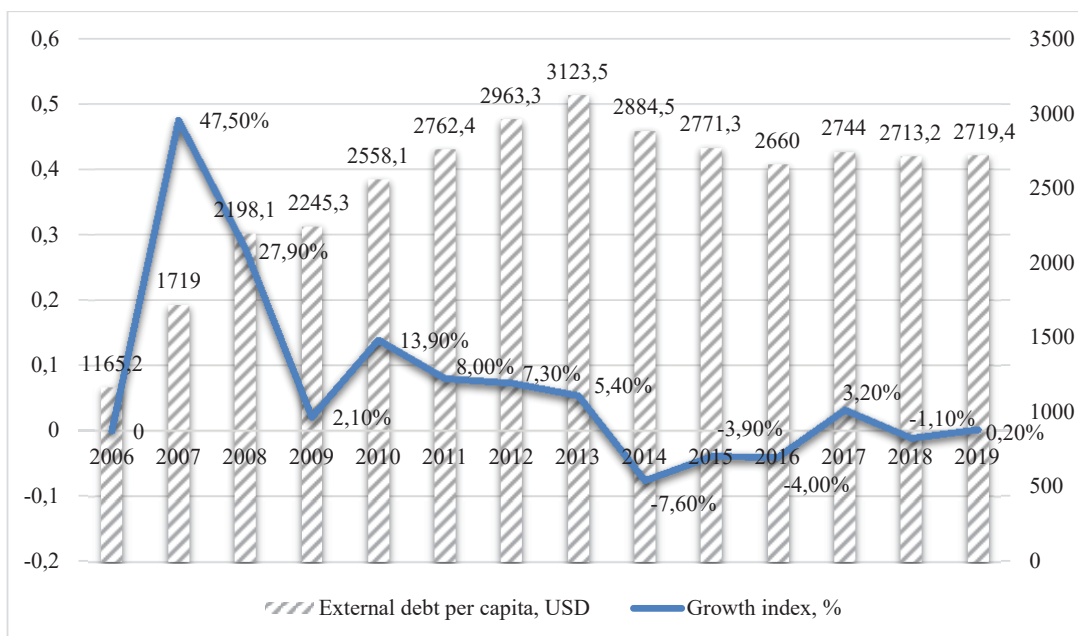


Fig. 4. External debt per capita, USD

Source: developed on the basis of ³.

¹ Міністерство фінансів (2019). *Державний борг України* <<https://index.minfin.com.ua/en/finance/debtgov/>> (2019, July, 19).

² Official Website of the International Monetary Fund (2019) *Homepage* <<http://www.imf.org>>. (2019, July, 19).

³ Міністерство фінансів (2019). *Державний борг України* <<https://index.minfin.com.ua/en/finance/debtgov/>> (2019, July, 19).

As for other indicators, for example, the comparison of the external public debt of Ukraine and its gold and foreign exchange reserves shows a rather terrible picture. There is a significant accumulation of foreign debt, which in dynamics is ahead of the foreign exchange reserves of Ukraine. As of June 30, 2019, foreign debt can be offset by foreign exchange reserves by only 41.2% (Table 4).

Table 4

**Ukraine's debt to the IMF in the general structure
of foreign exchange reserves**

Indicator	As of 31.12								
	2011	2012	2013	2014	2015	2016	2017	2018	As of 30.06.2019
Amount of external loans, USD mln.	37,474.5	38,658.8	37,536.0	38,792.2	43,445.4	45,604.6	48,989.4	50,462.5	50,368.8
Growth index, %	-	3.16%	-2.90%	3.35%	12.00%	4.97%	7.42%	3.01%	-0.84%
Share of external public debt in foreign exchange reserves, %	84.8%	63.5%	54.4%	19.4%	30.6%	34.1%	38.4%	41.3%	41.2%

Source: generalized based on¹

Experts estimate that a sharp increase in Ukraine's external debt has led to a negative balance of borrowings and costs associated with their repayment and problems with balance of payments in particular. Ongoing use of debt instruments to solve one-time socio-economic problems leads to a postponement of debt repayment to the future and an excessive increase in debt load per capita, without taking into account budget potential. This testifies to the irrational use of externally borrowed funds, including IMF tranches, which is why our country did not usually receive the full amount of the funds provided for by the IMF agreements. This eventually led to the suspension of integrated development programs, or their untimely implementation.

Conclusions. Therefore, cooperation with the IMF is important and extremely relevant in the current context, as it contributes to the structural transformation of Ukraine's economy, enhanced macroeconomic stability, averting or mitigating financial, economic and political crises. However, some of the provisions on the implementation of some reforms are too conservative and do not always produce positive results, since they do not take into account national peculiarities, the time horizon for their implementation, etc. With regard to the Government of Ukraine, it is necessary to take a more responsible attitude to the obligations that it undertakes in accordance with the IMF requirements. Sometimes it seems that the primary purpose of the government is to obtain money, not the process of its rational strategic use. This approach is too mercantile on the part of our country and poses significant threats to the economy of the country and social burden. In our belief, it would be more rational in the future to limit credit relations with the IMF and move to consultative relations between the parties on the implementation of reforms. This will be the subject of further scientific research.

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