

U.S. DEPARTMENT OF THE TREASURY

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Testimony of Treasury Assistant Secretary for International Finance Ramin Toloui before the Senate Committee on Foreign Relations on “U.S. Policy in Ukraine: Countering Russia and Driving Reform”

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WASHINGTON - Chairman Corker, Ranking Member Menendez, and members of the committee, thank you for the opportunity to testify today on the U.S. government’s actions to support Ukraine’s economy.

The objective of the U.S. and international economic assistance strategy toward Ukraine has been to support the efforts of President Poroshenko’s government to stabilize, revitalize, and restructure Ukraine’s economy. My remarks today will elaborate upon this economic and financial strategy, and its evolution over the past year in response to the conflict in eastern Ukraine. I would note at the outset that our efforts to mobilize the international effort to support Ukraine financially have been complemented by the work of others at the Treasury Department to impose costs on Russia for its aggressive actions in Crimea and eastern Ukraine that have exacerbated the challenges facing Ukraine’s economy.

ECONOMIC ASSISTANCE STRATEGY

Last spring, the United States, together with international partners, supported an international assistance package totaling \$27 billion. This assistance centered on a two-year \$17 billion International Monetary Fund (IMF) program, and also included a \$1 billion U.S. loan guarantee and \$2.2 billion from the European Union. In exchange for this support, the Ukrainian authorities committed to an ambitious economic reform agenda to reduce vulnerabilities and increase economic growth potential.

The IMF and other donors agree that Ukraine has lived up to its economic reform commitments. Over the last year, the Ukrainian government has initiated difficult and urgently needed steps to: reduce the general government deficit; reduce distortionary natural gas subsidies; improve targeting of social assistance to protect the most vulnerable; strengthen the rule of law and reduce corruption; increase transparency within the inefficient state-owned energy company; and initiate financial sector repair. In support of these efforts, Treasury technical advisors are providing the Ukrainian government with expert assistance in the areas of bank supervision and bank resolution, and government debt and liability management.

This was always going to be a challenging program of reform and adjustment. Unfortunately, the intensification of Russian aggression has created significant additional pressure on Ukraine’s economy and necessitated further international support to bolster the government’s reform efforts. The fragile security situation has eroded confidence, increased capital outflows, weakened the currency, and depleted foreign exchange reserves. The destruction of economic capacity in eastern Ukraine has driven a deeper and longer economic recession than previously estimated. As such, during the past few months, we have mobilized the international community to increase Ukraine’s support package by at least \$10 billion. As part of the international effort, the United States intends to provide a new \$1 billion loan guarantee in the first half of 2015, provided Ukraine remains on-track with the reform program it has agreed with the IMF. If Ukraine continues making concrete progress on its economic reform agenda and conditions warrant, the U.S. Administration will also be willing, working with Congress, to consider providing an additional up to \$1 billion loan guarantee in late 2015. As part of this up-sized economic assistance package, the IMF now plans to support Ukraine through end-2018 with a larger gross financing package, allowing more time

for the economy to adjust and for economic reforms to bear fruit. Also as part of this package, Ukraine has indicated that it will seek to work with creditors to adjust the profile of its debt to provide additional financial breathing room.

The next step in further driving this augmented international assistance effort is to secure IMF Board approval on March 11 for the new IMF program, which will unlock a large disbursement of IMF financing. Based on international support pledged to date, Ukraine’s foreign exchange reserves are set to increase significantly over the next few weeks, which will bolster confidence and provide the authorities with space to further execute their ambitious reform agenda. To meet its reform requirements in advance of the IMF Board meeting, the Ukrainian government passed meaningful and difficult reform measures to improve public finances and reduce inefficient energy subsidies. Since these measures were taken, Ukraine’s currency and capital markets have rebounded significantly. Provided that the authorities adhere to the reform program and the security situation does not deteriorate further, the IMF projects that Ukraine’s economy will expand next year and foreign exchange reserves will rise substantially.

In view of the inherent uncertainties in the security situation, there continue to be risks. This year’s intensification of the conflict has imposed severe damage on an already fragile economy — particularly the export-oriented regions of eastern Ukraine. Currency depreciation and deposit flight have put a strain on the banking sector, and significant structural damage has occurred within the Ukrainian economy. Overcoming these impacts and restoring market confidence will be challenging.

Amid these challenges, the Ukrainian government continues to demonstrate a strong commitment to an ambitious reform agenda, and deserves our continued support. Core U.S. and global security interests are at stake in Ukraine, and providing economic support to the Ukrainian government is an essential part of our strategy to respond to Russian aggression. As long as Ukraine’s government continues to undertake the difficult reforms required to restore economic and financial stability, the international community must do all it can to help Ukraine succeed and be prepared to adapt its assistance strategy as required. And at the same time, the international community must continue to ensure that as long as Russia disregards its commitments and fuels violence and instability in Ukraine, the costs for Russia will continue to rise.

CONCLUSION

Chairman Corker, Ranking Member Menendez, and members of the committee, as with all emerging market crises, our assistance strategy is not without risk and the path to success is not without obstacles, particularly amid the current security backdrop. However, critical elements needed for success — an ambitious reform plan, a government and country committed to change, and a sizable international support package — are currently in place. To that end, we will continue to work closely with the international financial institutions and our partners around the world to provide Ukraine the support it needs and enable Ukraine’s people to achieve their economic aspirations. The strong backing of Congress has been a critical foundation to these efforts to support Ukraine, and we look forward to working closely together in the months ahead. I look forward to answering your questions.

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