

## **Ukraine plans to amend IMF-sponsored decree to avoid gas price hike**

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**Analyst: "We still see a chance for an IMF compromise on gas issues, and we still expect it will agree on the next tranche this year, in the amount of USD 1.0 bln."**

KYIV, Oct 12, 2017 - Ukraine's Energy Ministry published on Oct. 10 a draft resolution to amend natural gas pricing methodology in its attempt to avoid a gas price hike for households as of October, Concorde Capital informed clients in an online advisory. The initial resolution assumed that the government would calculate a new price for natural gas for October 2017-April 2018 based on the import parity principle, as was agreed upon with the IMF in March 2017. It stipulated calculating and introducing a new benchmark price as of October if it differed by more than 10% from the existing price for households. The benchmark price should have been calculated in June 2017 as the 12M trailing average gas price at German hub, plus delivery costs from Germany to Ukraine. The new benchmark price calculation implies it is only 5.6% more than the existing one (less than 10%), which excludes the need to adjust gas prices for households. Meanwhile, the price based on the current methodology implies the need of almost a 19% gas rate hike. In order to remove the burden from consumers, the proposed amendment sets a new time period to calculate the benchmark price, taking average prices for April-September 2016 and April-June 2017, when global gas prices are seasonally lower. This contrasts with the existing regulation that takes historical prices for June 2016-May 2017. Concorde analyst Alexander Paraschiy added: "Such manipulations are needed by the government to meet two controversial goals 1) avoid any gas price hike for households in the upcoming heating season (to preserve what little political support it has from the public); 2) pretend the IMF's requirement -- that local gas prices are based on the import parity principle -- has been satisfied (to get the next IMF loan tranche). Thus far, it is hard to say whether the IMF will buy such an idea. According to public information, Ukraine's Finance Minister will travel to meet IMF top officials this week to discuss the outstanding issues, including gas pricing. We still see a chance for an IMF compromise on gas issues, and we still expect it will agree on the next tranche this year, in the amount of USD 1.0 bln."

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