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Ukraine Seeks 10-Year Delay on Payment

By The Moscow Times

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A woman walking in central Kiev this week. Ukraine cited Greece as justification for debt repayment delays. **Anatolii Stepanov**

KIEV — Standard and Poor's cut its outlook on Ukraine's long-term credit rating to negative on Thursday, citing Kiev's lack of progress in talks with the International Monetary Fund and sole gas supplier Russia.

The move followed an announcement by Ukraine's deputy economy minister earlier on Thursday that the cash-strapped country wanted to delay repayment of $3 billion of debt it owes the IMF this year by a decade.

"Talks are being held now on restructuring the debt falling due this year, [which amounts to] $3 billion," First Deputy Economy Minister Vadim Kopylov told reporters Thursday. "We need to discuss delaying repayment of these funds by 10 years."

"Why not, if we have Greece [with a smaller population to Ukraine] and such huge loans [being restructured], while here we have 46 million people and a restructuring of $3 billion?" he said.

The IMF, which has never had a borrower default on its debt, said it had not received a request for restructuring.

S&P currently rates the former Soviet republic's long- and short-term debt B+/B.

"The negative outlook reflects our view of increased risks regarding Ukraine's significant fiscal and external refinancing needs," S&P said in a statement.

Kiev's efforts to restructure its debt, a break with policy, jolted the debt market. Ukrainian five-year credit default swaps were 18 basis points higher on the day at 768 basis points, according to Markit, though S&P's announcement failed to lift them higher still. Ukrainian debt spreads widened by 37 basis points on the day to 770 basis points over U.S. Treasuries on JPMorgan's EMBI+ Index.

"In our view, increased risk aversion toward Ukraine's funding needs has been fueled by the lack of clarity over the ultimate direction of government policy in relation to ongoing negotiations with the IMF and Russian gas company Gazprom," S&P said.

Ukraine's government has tried without success for more than a year to negotiate a lower price on Russian gas that Ukraine depends on heavily for its energy and heating needs.

Hoping to get a substantial discount from Russia, the cabinet has also refused to follow the IMF's advice and raise gas and heating prices for households, prompting the fund to suspend its $15 billion lending program in early 2011.

As a condition for reviewing the gas price for Ukraine, Russia insists on taking a stake in Ukraine's pipeline network, which transports the bulk of Russian gas bound for Europe.

But Ukraine sees the asset as a cornerstone of its economic sovereignty and says it can be managed only by a consortium that should also include large European energy firms.

"It seems unlikely to us that a deal to lower the price of gas imports will be made without Ukraine giving up control of key energy infrastructure assets," S&P said.

Analysts say the issue of raising domestic gas prices, an IMF condition, is unlikely to be resolved until the parliamentary elections in October, as the move is certain to hurt the government's already sagging popularity.

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