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Russian $15Bln Cash Injection to Boost Ukraine Economy 3%

By The Moscow Times

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KIEV — Ukraine expects economic growth of 3 percent in 2014, a draft budget showed Thursday, days after Russia offered a $15 billion lifeline to help revive its smaller neighbor's economy and keep the country in its orbit.

Ukraine's economy has shrunk for the last five quarters and Ukraine had been seen at risk of default before Tuesday's deal between Kiev and Moscow, under which Russia will offer cheaper gas supplies and buy up $15 billion of Ukrainian bonds.

The parliament in Kiev was due to consider the government's proposed 2014 budget later Thursday although a formal vote may not take place. The bill envisages spending of 447 billion hryvna ($55.9 billion) with revenues of 392 billion hryvna and a budget deficit of 3.6 percent of gross domestic product.

Kiev needs cash to cover an external funding gap of $17 billion in 2014 — almost the level of the central bank's currency reserves, depleted by efforts to support the hryvna and repay foreign debt — and has won some breathing space with the Moscow bailout.

Ukrainian Prime Minister Mykola Azarov on Wednesday hailed the aid from Moscow as a "historic development" and vowed reforms to modernize the ex-Soviet economy and revive growth.

After a 0.2 percent expansion in 2012, Kiev has forecast economic growth of at least 2.5 percent in 2013. But with negative readings in the first three quarters, analysts expect the economy to shrink by some 0.5 percent this year.

The Moscow deal upset protesters who have been camped on Kiev's main Independence Square for a month after President Viktor Yanukovych unexpectedly ditched a planned trade agreement with the European Union in favor of closer ties with Russia.

Speaking at his wide-ranging annual press conference in Moscow, President Vladimir Putin on Thursday defended the aid for "brotherly" Ukraine, financed from Russia's rainy day funds, saying he believed in Kiev's competitive advantage.

Critics of Yanukovych's decision to tie Ukraine closer to its Soviet-era overlord say the alliance will delay much-needed reforms and prolong the country's economic woes by pumping cash into a bankrupt system rather than enforcing modernization.

"To assume 3 percent of GDP growth, that is an overly optimistic indicator because there is no real foundation for economic growth, or higher investments," said Vasyl Yurchyshyn, economy expert at the Razumkov Center think-tank in Kiev.

"The government believes cheap gas and trade relations with Russia will allow higher growth," he said. "But the business remains uncompetitive, the so-called cheap gas delays energy efficiency projects."

The draft budget assumes Ukraine will need to borrow 151.9 billion hryvna next year, 114.9 billion hryvna of which it intends to raise on the domestic market.

The proposal compares to a 2013 budget that saw revenues of 370.6 billion hryvna and spending at 419.8 billion.

"The $15 billion in aid from Moscow is only enough to plug the biggest holes in the ship," said a Western diplomatic source. "Pushing back the necessary reforms is never the choice of a good householder. It only means several more years of stagnation."