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# No Easy Bailout Plan for Ukraine

By The Moscow Times

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KIEV — Ukraine needs money, and fast — in weeks, not months. But bailing out the country of 46 million people will not be as easy as simply writing a big check.

For one, Ukraine has already burned the main global financial rescuer, the International Monetary Fund, by failing to keep to the terms of earlier bailouts from 2008 and 2010.

Now it needs help again, and its economic and financial problems are worse than before.

The currency is sliding, raising concerns that companies that owe money in foreign currency could go bust. Banks are fragile. A rescue with outside lenders cannot be agreed until there is a government. And Russia could make things worse by demanding payment of money owed for natural gas supplies.

Even with a bailout, the country would face testing times. It would likely be asked to make painful reforms — including a potential doubling in the price of gas — that would hurt standards of living as the economy recovers.

Analysts estimate the country will need between $20 billion and $25 billion for 2014 and 2015, perhaps $15 billion this year and $10 billion the next. The money would help pay salaries and pensions and maturing bonds. Acting President Oleksandr Turchynov says the treasury account used to pay bills is almost empty.

Ukraine's acting finance minister, Yury Kobolov, says the country needs $35 billion to cover this year and next and expressed hope that Europe or the U.S. would help, hopefully within the next two weeks. Ukraine has major debt repayments coming up in June but analysts indicate it probably will not make it that far without help.

The Institute of International Finance, a Washington-based association of banks and financial companies, warned that Ukraine's finances "are on the verge of collapse."

"It is crunch time for the economy," said Lilit Gevorgyan, an analyst with IHS Global Insight in London. "All those issues they have swept under the rug are re-emerging."

The main rescue lender would be the IMF, but it could take time for it to formally agree on the bailout conditions. Until then, it is likely to get temporary support from individual countries in Europe or the U.S.

European Union foreign policy chief Catherine Ashton said Tuesday that the EU and its member nations are ready to help bridge Ukraine's short-term financing needs until a new government can negotiate a full-fledged assistance package with the IMF.

"Bills have to be paid," she said, adding that it is important that Russia also help out.

Ukraine had a promise of $15 billion in help from Russia — but that is on hold after parliament voted Saturday to remove pro-Russia President Viktor Yanukovych. The country only got $3 billion of the money before Yanukovych was voted out.

Ukraine is battling to keep its currency, the hryvna, from collapsing, which would bring down banks and companies that owe money in foreign currencies.

The central bank spent some $2.8 billion of its reserves since the start of the start of the year and has only about $16 billion left. Still the hryvna has fallen a sharp 12 percent during that period.

The government also spends way more than it takes in, largely because the state-owned gas company Naftogaz charges customers as little as one-fifth the cost of gas imported from Russia. The IMF halted payouts under earlier bailouts because the government refused to halt that practice.

The economy is estimated to be in a deepening recession, with industrial production, consumer spending and exports all dropping.

Yet a bailout involving the IMF would involve cutbacks and reforms that could quickly douse any euphoria over the country's political changes.

To begin with, the IMF would probably insist on letting the currency fall, by as much as 30 percent, according to the IIF, the global banks' association. That would be painful upfront —

some banks may need bailouts as their foreign debts balloon. And quality of life would drop as imports soar in price.

Eventually, the currency drop would help exports and make Ukraine a cheaper place for foreigners to invest, particularly if they see that the government is committed to reforming the economy by cutting bureaucracy and fighting corruption.

The government would also have to sharply raise the price of natural gas, which it is subsidizing heavily. The IIF estimates natural gas prices may have to be doubled, which would be a heavy blow to consumers and businesses.

There remain several stumbling blocks.

The IMF, for one, might be reluctant to sign on for a large loan, given Ukraine's track record of not holding to agreements. Instead, it might prefer to give smaller loans of $3 billion to $5 billion at intervals, according Gevorgyan, the analyst. One now, one after the presidential election, and so on, "to make sure they remain on the path of reform."

Also, Russia, Ukraine's larger neighbor, could intensify the country's troubles by getting tough on its supplies of natural gas.

Russia almost halved the price of its gas supplies to Ukraine in December as it sought to woo the country away from closer ties with the EU. That price cut is up for review every three months. Russia could also stop letting Ukraine delay monthly payments that are as large as $1.8 billion.

Russian officials have reacted with angry statements to the vote to remove Yanukovych. Yet it is not clear what Russia will do. Past behavior suggests they have been willing to take it easy on Ukraine — a major trading partner who now owes them money — when it's in their interest.