

Ukraine Remains Firmly Hooked on IMF Financial Dripfeed

By [The Moscow Times](#)

March 20, 2015



Ukraine's Finance Minister Natalia Yaresko attends a meeting to report on the work done during the first 100 days of the Ukrainian government in Kiev.

WASHINGTON — In eight International Monetary Fund programs since independence in 1991, Ukraine has completed just one successfully. A year on from Russia's seizure of Crimea, it looks unlikely it will live up to the terms of its latest deal with the IMF also.

Ukraine's finance minister believes the IMF's money is "not forever," but over-optimistic economic assumptions and continued fighting in the east of the country will probably mean Ukraine will end up depending on foreign support given on its geopolitical significance, experts and former IMF officials said.

The IMF, whose shareholding structure is dominated by the United States and Europe, recently approved a \$17.5 billion lending program for Ukraine, of which \$10 billion will be disbursed this year, an unusually large amount of front-loaded cash.

Ukraine is also set to receive \$7.5 billion from other donors over the next 18 months, part of an overall \$40 billion package over the next four years.

"I do fear that Ukraine could need extended international support, including from the IMF," said Robert Kahn, a former World Bank and fund official now at the Council on Foreign Relations.

"I would argue the fund is being brought into cases where there are political elements," he said, in reference to Ukraine and Greece. "It takes the fund well outside its remit and its expertise."

In Greece, the IMF admitted it lowered its own standards to bail out the country on fears its crisis could spread to the entire euro zone, raising concerns about the IMF's impartiality.

Another example is Pakistan, a key U.S. ally, which is on its 21st program worth at least \$26 billion in total. It has had seven successful exits so far, and only one since 2000.

The IMF's watchdog, the Independent Evaluation Office, found in a 2002 report that middle-income countries like Pakistan were likely to get stuck in long-running programs when the international community put pressure on the IMF to provide a "seal of approval."

The IMF broadly agreed with the findings, and promised to regularly assess so-called "prolonged use" countries, and improve its program design.

But in a follow-up in 2013, the Independent Evaluation Office found some of the same issues persisted.

The IMF did not have an immediate comment on Thursday but it has emphasized Ukraine's new government is much more committed to reforms than Kiev has been in the past.

But even the fund admits the underlying assumptions in its Ukraine program carry "exceptionally high" risks from further conflict in the east with Russian-backed separatists and disgruntled creditors, as Ukraine seeks to gain about \$15 billion in debt relief from bondholders.

Some \$3 billion of that debt is owed to Moscow, which has so far replied with an emphatic "nyet" as to whether it is willing to renegotiate.

Mission Creep

The IMF's founders in 1944 envisaged the institution as a financial firefighter that is called in for emergencies and then departs once a crisis is over.

But over time, the IMF has found itself entangled for much longer, sometimes for decades, with repeated programs that seek to implement so-called "structural reforms" that tackle corruption, inefficient taxes, and bloated public institutions.

In the current crop of 36 countries with programs, all but Cyprus have borrowed from the IMF at least once since 1992. And 53 percent of borrowers have drawn on IMF funds for at least 10 of the last 20 years.

After a year of political upheaval and war, Ukraine's currency has plunged to record lows, interest rates are at 15-year highs and reserves have dwindled.

Ukraine's finance minister, Natalia Yaresko, admits the IMF cash may not be enough to restore the country to economic growth and has asked the United States for more financial support.

But Yaresko insists she will come back to financial markets in a few years, weaning her country off emergency lending.

"The IMF is a very important part of our program, but it's not forever," she said on a visit to Washington this week.

In order to lend Ukraine so much money, the IMF has to satisfy its own rules that Kiev's debt is sustainable with a "high probability."

That does not look likely, according to outside economists. In last year's program for Ukraine, the IMF thought the economy would grow 1.0 percent in 2014, but has since revised its predictions to a contraction of 6.9 percent last year, and 5.5 percent this year, and even that is seen as optimistic.

"All that's left for Ukraine is the IMF," said Domenico Lombardi, a former IMF board director now with the Canada-based Center for International Governance Innovation. "[But] the odds that the program isn't going to be fully implemented are huge."

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