

UKRAINE

A Plan for Life without the IMF

CONTENTS

The IMF: The Second Best Solution

Naftogaz Cuts Gas Imports, and Generates More Losses

Political Situation: Opposition Steps Up

Industry: Down by 5.2% in March

Retail Trade: Slowing

Prices: Food Deflation

Interest Rates and Monetary Policy: Hands Off

Fiscal Accounts: Administrative Levers Push Revenues Up

External Accounts: Gas Import Decline Cuts CAD

We're now sure Ukraine is uninterested in signing a new deal with the IMF. President Viktor Yanukovitch fears the political costs of an agreement, and would rather pay higher yields via private external funding than lose political points. Likely IMF representatives understand this calculation, the reason (say insiders) that they've started to talk about a *pro forma* agreement without presuming any lending. But Ukrainian authorities didn't agree to even that. Given this backdrop, we're not surprised that the IMF has sharply revised its forecast for Ukraine, lowering its CPI estimate to 0.5% y/y from 7.4% -- which apparently means it expects no gas tariff increase this year.

The economic situation remains tough>>>