

UKRAINE

A Civil Cold War, Set to Escalate

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“Civil cold war” is a phrase that describes the domestic situation well. The authorities keep living in a reality of their own making, assuming people will accept it, and that the protests will wane. Yet many Ukrainians don’t foresee a continuation of the status quo: that is, they don’t foresee a continuation of administrative pressure, police repression and widespread budget embezzlement. Euro-integration has now become only a symbol of protest, not its essence.

The Russian promise of support – in the form of a one-third discount on the price of gas, and a \$15 billion loan – has staved off Ukraine’s immediate economic problems, while allowing President Viktor Yanukovitch to take his time covering wage arrears and balancing the currency. In fact, due to Moscow’s concessions, we have improved our GDP forecast for Ukraine to 1.1% y/y, lowered our CAD projection to 5.9% and revised the *hryvnia* outlook, for stability through the end of 2014. Yet Russian money won’t help resolve>>>