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Ukraine’s Smoliy Sees No Financial Stability Risk From IMF Delay

(Bloomberg) -- Ukraine’s acting central bank governor doesn’t see risks to financial stability if the next tranche of his country’s $17.5 billion international bailout is further delayed until 2018. “It’s important for Ukraine to continue the IMF program because it means reforms,” Yakiv Smoliy said last week in an interview in Washington, where he met officials from the International Monetary Fund over the next aid transfer. “The financial component is not insignificant, but it’s not as critical as participation in the program.”

IMF financing has underpinned Ukraine’s economy as the post-revolution government reroutes trade to the European Union from Russia and revamps Soviet-era institutions. But there have been repeated holdups, calling into question officials’ commitment to unpopular reforms before elections in 2019. While the hryvnia has gained 3.1 percent against the dollar this year, it’s weakened 2.4 percent since July, when the latest IMF aid was originally due. Smoliy, who’s led the central bank since Valeriya Gontareva quit in May, said President Petro Poroshenko hasn’t met with him to discuss his possible nomination for the post on a permanent basis. While people familiar with the matter had said the front- runner was Raiffeisen Bank International AG’s chief executive officer, Volodymyr Lavrenchuk, TV 5 reported in August that there are two candidates.

To keep IMF aid flowing, Ukraine must raise natural gas prices for households, set up an anti-corruption court and accelerate state-asset sales. Finance Minister Oleksandr Danylyuk said Oct. 15 that he expects to get the next loan tranche by year-end, assuming an agreement can be reached on the formula for increasing gas prices. Smoliy said he sees an IMF mission visiting Kiev this year to assess Ukraine’s reform progress. He sees foreign reserves swelling to $20 billion in 2017, “sufficient to ensure external- debt service in the short-term.” While inflation may exceed this year’s 10 percent goal, it should return to the mid-point of the 4 percent-8 percent target range by the middle of 2018, he said.