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Ukraine's Uncertainties Include Financial Aid

A protester waved the Ukrainian flag in Kiev on Tuesday. The country's political upheaval could quickly turn into an economic crisis. Maxim Shipenkov/European Pressphoto Agency

As Ukraine's political crisis has deepened, an economic question looms: Will Russia continue to bail out the country if it again tilts to the West?

After months of protests, and the resignation Tuesday of the country's prime minister, the opposition in Ukraine appears closer than ever to achieving its goals, chief among them compelling the government to reject trade and aid deals with Russia and to turn to the European Union instead.

But that political victory might quickly turn into an economic crisis. Even if Ukraine once again looks westward, there is no financial package ready to replace the Russian aid the Kremlin began offering in December. Without foreign assistance, Ukraine is all but certain to either default on its debt or devalue its currency.

Russia in December provided $3 billion of a total aid package of $15 billion. It is scheduled to disburse an additional $2 billion by Friday.

By the end of the week, it will become clear whether Russia will follow through with the second strand of the financial lifeline to the government of President Viktor F. Yanukovych, despite his decision to open reconciliation talks with the pro-Western opposition and his loss of control over regional governments. The resignation Tuesday of Prime Minister Mykola Azarov, who had been a staunch ally of Mr. Yanukovych, adds to the uncertainties.

Demonstrators at Independence Square in Kiev. Protests have spread across Ukraine. Vasily Fedosenko/Reuters

In response to a written query, the Russian Ministry of Finance’s news service declined to comment on its intentions.

“I wouldn’t be surprised if the Russians decide to delay, at least pending the outcome of negotiations,” Vladimir Tikhomirov, chief economist at Otkritie Financial Corporation in Moscow, said by telephone.

“When you buy government bonds, you want to be sure you are buying the bonds of a government you have friendly relations with,” he said of the Russian aid, which has been structured as purchases of Ukrainian bonds at below-market rates. “It would be amazing if the Russians decided to put money on the table now, given all that is going on.”

Opposition activists wearing ski masks last week occupied the main Ministry of Agriculture building and briefly took over the main Ministry of Justice building before retreating, but only because the ministry said that the occupation was interfering with negotiations over changing the constitution to weaken the power of the president.

The Ukrainian Ministry of Finance issued a statement on Monday saying that it was preparing to issue the bonds as scheduled, but gave no indication whether the Russians had promised to purchase them as agreed. Ukraine is burdened with large budget and current-account deficits and the central bank is quickly depleting its gold and foreign currency reserves.

Ukraine’s recessionary economy has hung as a grim backdrop to the recent street protests. The country’s 2014 budget, approved by a show of hands in Parliament this month as the opposition blocked the electronic voting system, includes a deficit equivalent to 4.3 percent of gross domestic product.

The Russian money and a reduction in natural gas prices charged by the Russian company Gazprom are subsidizing that spending gap and propping up the national currency, the hryvnia, and staving off default on the government’s debt.

In light of the recent violence here, pressure resumed this week on the hryvnia, which the market now values at far less than the central bank’s declared rate of 8 to the United States dollar; it was trading on the Ukrainian interbank market at 8.7 to the dollar early this week, but had not gone into free fall.

“Anybody looking around and seeing what is going on in the streets could decide to sell hryvnia and buy dollars,” Ivan Tchakarov, the chief economist at Citibank covering former Soviet states, said of the risk of panic-selling of the national currency, a problem that is not unheard-of in the region.

In Kiev on Tuesday, customers went from bank to bank, looking for scarce dollars. A teller at a branch of UniCredit said the bank was selling only dollars that had been sold to the bank earlier in the day by other customers and at times had only a few hundred dollars in cash on hand. UniCredit closed four branches in Kiev last Wednesday because of the street violence.

The Ukrainian stock market, not surprisingly, has taken a downward turn. The Ukraine Exchange index has fallen more than 70 percent in the last three years, and 8.9 percent of that decline came in the last week, as violence gripped the capital.

Mr. Azarov’s government, which will continue working in an acting capacity after his resignation Tuesday, had been striving to pass as much of the Russian money on to public sector workers and pensioners as quickly as possible, to soothe tempers, in spite of the dysfunction of the largely paralyzed government.

In the 2014 budget, the minimum monthly wage went up 6 percent to 971 hryvnia ($114) and the personal income tax was lowered by a percentage point, to 17 percent. Those measures were possible only because of the Russian aid, Mr. Tchakarov of Citibank said.

As Ukraine’s political crisis remained unsettled at the time of the Russian deal, the Russians had taken precautions, lest they end up financing a pro-Western government: The bond purchases come in multiple installments and the natural gas contract with Gazprom is subject to quarterly review.

Over the weekend, Mr. Yanukovych offered to dismiss the cabinet and install two opposition leaders in senior positions, along with other concessions. But the protesters rebuffed the proposal, and the prime minister’s resignation, as insufficient. Negotiations are continuing.

In an interview in December, Arseniy P. Yatsenyuk, the leader of the Fatherland Party who was offered but declined the position of prime minister, said Western ambassadors had offered assurances that the International Monetary Fund would move quickly on aid if Ukraine signed a trade deal with the European Union. But no such agreement is in place now.

Officials of the International Monetary Fund, in Washington, did not immediately reply on Tuesday to a request for comment. The “authorities have yet to clarify their intentions regarding discussions on a possible fund-supported program,” William Murray, an I.M.F. spokesman, said at a news briefing last week. “We, as an institution, remain ready to work with the Ukrainians on a plan once it’s brought to us.”

A Polish member of the European Parliament, Pawel Kowal, published an article Monday in the newspaper Rzeczpospolita calling for something like a Marshall Plan of immediate Western aid for Ukraine, should the protest leaders succeed in gaining power.

Mass protests continued to spread across the country, including new attempts to seize regional administration buildings in eastern and southern Ukraine, areas that are typically strongholds of support for Mr. Yanukovych and his pro-Russian policies.

Its unpopularity with the protesters aside, the Russian aid has effectively stabilized the bond market.

Bond yields, a measure of the government’s cost of borrowing, had risen above 10.5 percent in the autumn. But they fell to 7.8 percent after the Russian aid was announced. Even that would not be a sustainable cost for Ukraine to bear in the long term. But it was a boon to investors including Franklin Templeton, the California-based money management giant that is one of the largest underwriters of the Ukrainian government. At one point the firm owned about a fifth of the outstanding bonds, with a face value of $5 billion. Franklin Templeton has declined to comment on its position in Ukraine.

As the protests radicalized over the last week, with demonstrators burning tires and throwing Molotov cocktails at the police, the yield rose again to 9.2 percent Tuesday — still below the 10.5 percent peak rate investors had demanded before the announcement of the Russian deal.