[S&P cuts Ukraine sovereign rating to CCC-, cites risks to IMF loan](#)

Ukraine

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Analyst: “…the core point of uncertainty right now is not additional financing (which, for sure, will only come after the next IMF tranche), but whether a new tranche from the IMF will be dispersed at all.”

KYIV, Dec 22, 2014 (UBO) - The Standard & Poor's rating agency cut its long-term foreign currency sovereign rating on Ukraine to “CCC-“from “CCC”, keeping its negative outlook, according to its report released on Dec. 19, Concorde Capital told its clients in an online advisory today. The agency cited the delayed disbursement of the next IMF tranche (estimated at USD 2.7 bln) as a negative development, stating that its timing remains unclear. The Ukrainian government will have to use central bank reserves to pay its obligations in 1Q15 –amounting to USD 1.6 bln – if it does not receive IMF money, thereby putting further pressure on reserve levels, S&P analysts wrote. Moreover, the agreed upon IMF funds and other committed international funding won’t be sufficient to boost the NBU's foreign currency reserve levels in 2015, according to S&P. Thus, the central bank will only be able to maintain its level of reserves at just over one month of imports next year. The agency also sees a risk that “the program itself remains at risk of not going ahead”, as there “have been significant deviations from the program's base-case assumptions.” S&P analysts expect Ukraine will need to repay about USD 11 bln of debt in 2015, including foreign currency domestic bonds, external official and commercial debt obligations, and the servicing of government-guaranteed debt. Ukraine may receive USD 10.7 bln under the IMF program, as agreed upon in April 2014, which would cover the government’s external obligations, according to S&P. However, the core risks for 2015, as highlighted by S&P, are possible delays in IMF tranches, as well as the need to use IMF money “for budgetary purposes” or to cover Naftogaz’s payments to Gazprom. The agency expects Ukraine’s fiscal deficit (including bank recapitalization costs of about 4% of GDP, and support for Naftogaz) will reach 8.5% of GDP in 2015, and even that figure would require “considerable effort at fiscal consolidation”. It anticipates the financing of the state deficit will continue to come largely from central bank and state-controlled banks. S&P also pointed to a “precarious” situation in Ukraine’s financial sector, having classified it 10 out of 10, based on the degree of risk under its Banking Industry Country Risk Assessment criteria. The agency might upgrade the rating “if additional financing was provided, sufficient to enable Ukraine to meet its external financing needs over the next year”. In other news, European Council President Donald Tusk told Radio Poland that Ukraine could receive about EUR 2 bln in financial aid before the year’s end, according to Dec. 21 media reports. He provided little other details, only stating that it could be a joint program of the EU, U.S., Canada and the IMF. Concorde analyst Alexander Paraschiy added: “In our view, S&P accurately described the risks that Ukraine will face in 2015. For sure, there are also opportunities that were not described in the S&P report, like this unexpected (though vague) statement from Donald Tusk. No doubt, Ukraine’s ability to replenish its reserves will depend largely on the size of additional financing (from the EU or the U.S.) that Ukraine might receive in the next year. So there is clearly room for a ratings upgrade. “At the same time, the core point of uncertainty right now is not additional financing (which, for sure, will only come after the next IMF tranche), but whether a new tranche from the IMF will be dispersed at all. In turn, that will depend on the ability of the new government to draft a realistic and low-deficit budget for the next year, which should be offered to the parliament by the end of this week. If that deadline is missed, a further decline in sovereign ratings will follow soon, we believe.”

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