

EUROPE

Ukraine Corruption Concerns Stall IMF Bailout

Fund wants president to recoup billions—including money that vanished from a supporter's bank



The IMF is concerned about President Volodymyr Zelensky's ability to combat graft in Ukraine. PHOTO: GINTS IVUSKANS/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Ian Talley in Washington and Alan Cullison in Kyiv, Ukraine

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The International Monetary Fund has put off a bailout for Ukraine because it is worried the country's president won't recoup billions of dollars allegedly looted from banks—including one once controlled by a close supporter—according to people familiar with the negotiations.

The IMF told President Volodymyr Zelensky he must aggressively pursue the missing money to deliver on his vow to clean up a financial system sapped by fraud, money laundering and theft.

The fund hinted at these concerns when it said it had delayed approval of the new bailout in September. IMF officials found “shortcomings in the legal framework, pervasive corruption, and large parts of the economy dominated by inefficient state-owned enterprises or by oligarchs,” Ron van Rooden, the fund's mission chief for the country, said at the time.

Ukrainian central bank officials told The Wall Street Journal they are committed to allaying the IMF's worries and recovering the missing bank deposits.

“The expectation of the IMF and other international partners is that we have to put all our efforts to return this money,” said Kateryna Rozhkova, the central bank’s first deputy governor, in mid-October.

The central bank’s governor, Yakiv Smoliy, told the Journal he hopes to secure new IMF credit by the end of the year.



PrivatBank’s new management blamed Ihor Kolomoisky—shown in Kyiv in September—and another shareholder for the disappearance of money from its balance sheet. They denied the allegations. PHOTO: VALENTYN OGIRENKO/REUTERS

Ukraine secured a \$3.9 billion IMF package in December, ahead of Mr. Zelensky’s election in the spring, and seeks more funds to help it get through a series of debt repayments coming due in the months ahead.

Among Kyiv’s challenges in winning IMF approval is Ihor Kolomoisky, a tycoon and supporter of Mr. Zelensky who is under investigation in the U.S. Mr. Kolomoisky and another businessman each held 45% stakes in Ukraine’s largest financial institution, PrivatBank, until it was nationalized in 2016 by government officials who said it was necessary to avert a financial-system meltdown.

Ukraine’s central bank governor that year said PrivatBank had a \$5.6 billion hole in its balance sheet when it was seized.

The IMF is holding up the next set of loans until it is convinced Mr. Zelensky’s government will aggressively try to recoup an estimated \$15 billion stolen from more than 100 banks, including PrivatBank, over the past decade.

The central bank officials said in the interview that most of the \$15 billion was secreted out of the country through companies owned or controlled by shareholders, leaving ordinary depositors empty-handed.

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PrivatBank, under new management, blamed Mr. Kolomoisky and the other large shareholder,

Gennadiy Bogolyubov, for the disappearance of most of the money missing from the bank's accounts. The bank has accused them in a lawsuit filed in Delaware of laundering hundreds of millions of dollars through real-estate purchases in the U.S. The two men have rejected the allegations.

Mr. Kolomoisky said the central bank orchestrated the seizure for political reasons and is fighting in Ukrainian courts to regain control of PrivatBank.

Since he was elected president, Mr. Zelensky has said he has a cordial relationship with Mr. Kolomoisky and denied that he would do any favors for him. Mr. Zelensky's spokeswoman declined to comment for this article.

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At an investor conference this week in the city of Mariupol, Mr. Zelensky said his government would uphold the nationalization of PrivatBank. "I will only defend Ukraine's interests," he said, according to Ukrainian media reports. "The rumors that I or someone from the presidential office is going to return the bank to its former owners are false."

Mr. Kolomoisky said in an interview that he had been under investigation by American authorities for months.

"Let them check, I'm not worried about it," he said.

William Taylor, the Chargé d'Affaires at the U.S. Embassy in Kyiv, when asked about a possible probe, told reporters in late June, "I can't talk about ongoing investigations."

Mr. Zelensky, a former comedian whose shows aired on Mr. Kolomoisky's television networks, campaigned on an antigraft platform. His political fame grew largely from his starring role in "Servant of the People," a show in which he played a history teacher catapulted into the presidency after the character's rant against corruption goes viral.

Mr. Kolomoisky, one of Ukraine's richest men, was vocal in his support for Mr. Zelensky during his presidential campaign. Mr. Kolomoisky returned to Ukraine from self-imposed exile in May after Mr. Zelensky won the presidency, and since then has met with the president publicly. Their relationship has been closely watched by the IMF, according to people familiar with the fund's negotiations with Ukraine.

The U.S. House impeachment inquiry into President Trump's dealings with Ukraine has drawn additional scrutiny to Mr. Zelensky's government, putting greater pressure on Kyiv to address the IMF's concerns, according to people familiar with the fund's negotiations.

While Mr. Trump has expressed desire for Ukraine to investigate former Vice President Joe Biden and matters related to the 2016 U.S. presidential election, the IMF is focused on the country's troubled financial system.

Efforts by Ukraine's central bank to battle corruption have faced pushback, said Ms. Rozhkova. Former governor Valeria Gontareva, who led the bank when it seized PrivatBank, was hospitalized in London in August after a driver ran over her foot and fled the scene. Police in the U.K. are investigating. Ms. Gontareva's house in Ukraine was raided by men in masks and then burned to the ground in September.

"It's a war against reformers," Ms. Rozhkova said.

"We closed around 100 banks, stopped a lot of fraudulent and criminal transactions," she said. "That's why we say we have a huge fan club," she said sarcastically.

The IMF sees weak rule of law as the critical obstacle to Ukraine's healthy long-term economic growth. The economy has made some progress in recent years, after taking a hit following Russia's annexation of Crimea in 2014 and the opening of a war with Russia-backed separatists for control of the country's east.

Since contracting by 10% in 2015, Ukraine's economy is now expanding at a 3% annual rate. Overhauls required under previous IMF financing programs have helped stabilize the country's currency. That, in turn, has reduced inflation to the single digits from a recent peak just under 50% in 2015.

But Ukraine's per capita gross domestic product is the second lowest of all Central and Eastern European countries.

Many foreign investors are likely to withhold capital from the country until the IMF signals its confidence with new funding, the central bank officials acknowledged. Ukraine's new request is likely larger than the \$3.9 billion package approved last year, according to some of the people familiar with the negotiations.

The IMF, however, remains skeptical after a history of broken promises. Kyiv hasn't successfully completed any of a series of IMF bailout packages over the past two decades, with systemic corruption at the heart of much of that failure, according to IMF records and officials.

"While there has been progress in setting up new institutions to fight corruption, tangible results have yet to be achieved," Mr. van Rooden said.

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