Ukraine

IMF warning sparks Ukraine pledge on corruption and reform

Lagarde threat to suspend $40bn aid package elicits swift response from Kiev

Christine Lagarde, IMF managing director © AFP

Neil Buckley in London, **Roman Olearchyk** in Kiev and **Shawn Donnan** in Washington
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Ukraine has pledged to do more to fight corruption and reform state companies after the International Monetary Fund issued a blunt warning that it risked losing billions in financial support as a result of stalling reforms.

Christine Lagarde, the IMF's managing director, said on Wednesday that Ukraine needed to make a "substantial new effort" to invigorate reforms, warning that without such a push "it is hard to see how [a $40bn IMF-led rescue of the economy] can continue and be successful".

The unusually blunt statement marked a huge turnround for the IMF, which along with the US has been among the biggest backers of the government in Kiev.

It also prompted a rapid reaction in Ukraine with President Petro Poroshenko later speaking with Ms Lagarde to express his "unwavering commitment to reforms, including improving governance and fighting corruption".

In a statement Ms Lagarde said the two had "agreed on the principle of a road map of actions and priority measures to ensure prompt progress under the programme".

The IMF's intervention follows last week's resignation of Lithuanian-born Aivaras Abromavicius, the technocratic economy minister. He pointed the finger at associates of Mr Poroshenko and

Arseny Yatseniuk, the prime minister, for trying to block reforms.

Mr Abromavicius's resignation and disclosures about what prompted it have sparked one of the biggest crises in Ukraine since the pro-democracy revolution two years ago.

Establishing the rule of law, breaking the grip of vested interests, including billionaire oligarchs, and curbing endemic corruption were demands of protesters.

Mr Yatseniuk may face a confidence motion in parliament next week.

Suspension of its four-year, $40bn IMF-led support programme would have been a big blow for the government, which is grappling with a deep slump following the revolution, soaring inflation and pressure on the currency, the hryvnia.

Vasyl Myroshnychenko, head of the Kiev-based Professional Government Initiative, a network of western-educated Ukrainians that promotes more effective governance, said: "They are spending so much time fighting among themselves that they are not fighting for Ukraine by speeding up reforms.

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Referring to the IMF warning, Geoffrey Pyatt, the US ambassador to Kiev, tweeted: "Further argument here for completing reload of Ukraine's reformer-led government and zero tolerance for corruption."

The IMF and other lenders have always made clear that their support for Ukraine was conditional on reforms.

While it has been extremely supportive of the government and Natalie Jaresko, finance minister, in particular, the fund has grown frustrated with the slow pace of anti-corruption efforts and reforms at state-owned enterprises (SOEs).

As part of its original 2014 IMF programme the government had agreed to crack down on corruption and to improve the transparency and management of its SOEs, but too little has happened since on that front. When laws have been passed or institutions created they have often been toothless.

In a report released this week, the IMF painted a picture of what remains an intensely opaque state-owned sector, where the number of operating SOEs remains a mystery and their financial results are not available to parliament. Losses at SOEs amounted to 5 per cent of gross domestic product in 2014, mostly from Naftogaz, the state energy company, according to the IMF.

Analysts said Ms Lagarde's threat appeared to signal that the fund was looking for a widescale government shake-up to breathe life into the reform process.

"The message is that the international community demand[s] real and meaningful change as the price of continuing to write the cheques," said Tim Ash, a long-time Ukraine watcher at Nomura.

"Poroshenko will have to come up with something very meaningful in terms of cabinet changes and perhaps even a change in the much-criticised public prosecutor's office to regain credibility," he said.

The president has come under pressure at home and internationally for refusing to replace a long-time loyalist, Viktor Shokin, as chief prosecutor. Mr Shokin has been criticised for failing to bring to justice any of the snipers who killed dozens of protesters in central Kiev in the final days of the revolution, and for dragging his feet over investigating senior officials and businesspeople.

Taras Kuzio, a Ukrainian political analyst, tweeted that "the crunch is coming for President Poroshenko who has to choose between finally supporting anti-corruption efforts or losing IMF money".

Mr Abromavicius told the FT that only a fully technocratic government, free from ties to parties and vested interests could ensure the success of reforms.

He proposed that Ms Jaresko should take over as premier. However, the US-born finance minister is understood not to be keen on taking the role.