

UKRAINE

Optimism and Challenges

*******CONTENTS****Blood and Victory: Tough Reforms Ahead, But Default Risk Declines****Presidential Prospects: Expect Surprises****Relations with Russia: A Carrot for Donkey****Southeast Ukraine and Crimea: A Barrel of Gunpowder****Chronology of Events****Hryvnia: Overregulated FX Slows Devaluation****Industry: A 5% Fall in January****Organized Retail Trade: Set to Decline on Uncertainty****Prices: To Speed Up on Hryvnia Decline****Monetary Policy: Hectic Tightening****Fiscal Accounts: Deeper Budget Shortfall Complicates Solvency****External Accounts: CAD to Decline on Devaluation**

After two months of peaceful protests and a month of deadly attacks that left 100 protestors dead, the Yanukovych dictatorship has collapsed. The day after agreeing to limit his authority, the president fled Kyiv. But the story is far from over. Viktor Yanukovych is refusing to recognize the new authorities, and we are observing separatist tactics in the southeast and Crimea, as Moscow threatens to “protect” Russians in Ukraine.

We remain quite optimistic about Ukraine’s political prospects, since after the bloody events of February, hardly anyone, even former Yanukovych allies, wants to be associated with the ex-president -- let alone to defend his regime by risking their own lives.

Still, there are many challenges ahead. The new authorities must create an efficient transition government able to tackle national economic problems, and to launch widespread reforms. At this writing, we see opposition oligarch Petro Poroshenko as the likeliest candidate for prime minister, since his star has risen with recent events, and he is in position to serve as a good national “crisis manager.” Yet, with new elections set for May 25th, negotiations continue -- and political outcomes may certainly surprise.>>>

