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Foreign Debt Default Unlikely

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EXECUTIVE SUMMARY

The sharply-deteriorating economy and chronic political uncertainty have been fueling fears that Ukraine might default on its debt. But while January tax collections revealed fiscal problems, we think it's highly unlikely that Ukraine will default on its sovereign debt – at least not in 2009. The cost of external debt repayment is relatively low, at only 8% of expected state revenues; unless the currency devalues dramatically, the cost should still be manageable. Trimming expenditure will in any case hardly relieve the budget of its deep-rooted financial challenges, while the loss of borrowing credibility default would bring could overshadow any money-saving benefits. Given that situation, it doesn't make much sense for the government to default on foreign obligations.

Internal debt is different story>>>

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