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 21 October 2011 • Le Meridien Chongqing Nan'an, China



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## FINANCIAL TIMES

### Ukraine: losing friends

October 20, 2011 5:00 pm by Roman Olearchyk



Ukraine, ruled with an iron fist by president Viktor Yanukovich and his oligarch backers, seems to be getting on everyone's bad side of late.

This month, the European Union threatened to put on hold free trade and associate agreements after Yulia Tymoshenko, the opposition leader, was sentenced to seven years in jail. The trial was widely seen as a politically-motivated attempt by Yanukovich to sideline her from politics.

On October 19, credit rating agency Fitch downgraded the outlook for Ukraine's long-term foreign and local currency issuer default ratings (IDRs) to stable from positive, while maintaining both its long-term IDR and short-term IDR at 'B'.

"The balance of risks facing Ukraine is now better reflected by a stable outlook, following an increase in sovereign external borrowing costs and associated concerns about external financing, as well as the impact of a forecast slowdown in global growth," said Charles Seville, director in Fitch's sovereign group.

The agency said Ukraine's economy remained vulnerable to global shocks because of its dependence on exports of steel and other commodities, all largely controlled by oligarchs. With global fears of an economic downturn spreading, the nation is bracing itself for a repeat of the nasty beating it took in 2009 when GDP plunged by 15 per cent.

Fitch said:

*The signing of a free trade agreement with the EU, which had been scheduled for December 2011, could well be delayed, with an associated cost in terms of investment and trade. Renewed pressure on the currency, a shortfall in external financing or a severe deterioration in the external environment could result in downward pressure on the rating.*

Investors and businesses on the ground are also increasingly downbeat.

Ukraine fell three places to 152 out of 183 nations in the World Bank's annual Doing Business study released on October 20. The main problems areas, according to the study, are still Ukraine's tax system, unruly regulation authorities, massive red tape and rule of law.

This month, the European Business Association, a domestic business advocacy, also noted a sharp dip in Ukraine's investment index.

With such factors at play, hope is drying up for fresh inflows of investment that are badly needed to modernise the aging Soviet industries and infrastructure for this country of 46m on the EU's eastern border.

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