

Ukraine threatens to suspend repayments of its foreign debt

Tadeusz Iwański

On 19 May, the Parliament of Ukraine adopted a law on a special procedure for legal actions relating to sovereign and state-guaranteed debt, as well as local government debt. The document allows the government to withhold payments to external creditors in respect of the Ukrainian loans and bonds they hold. The decision must always be taken by the government or local authorities for each specific financial instrument. Presenting the bill, Prime Minister Arseniy Yatsenyuk asked the lenders to help “not with words, but with dollars – to be specific, a billion”, and said that Ukraine did want to pay off its debts, but on its own terms. Immediately after the vote Yuriy Lutsenko, chairman of the Poroshenko Bloc’s faction in the parliament, threatened that if negotiations with the creditors failed, Ukraine would declare that it was technically bankrupt.

Commentary

- Since April, the Ukrainian Ministry of Finance has been in talks with private Western creditors on restructuring US\$15.3 billion of its debt, but these have not led to a resolution. This has not been a transparent process, for several reasons, including a lack of information on the composition of the Ukrainian bondholders’ committee (apart from the American Franklin Templeton Fund). Kyiv is seeking not only to extend the repayment period and lower the interest rates, but also for a partial haircut to the debt. The lenders are only willing to agree on the first postulate; this met with fierce criticism from Kyiv, which accused the holders of Ukrainian bonds of adopting an unconstructive position.
- The new Act of parliament should be considered as a tool for putting pressure on Ukraine’s foreign lenders to agree to the restructuring and partial waiver of its debt. The speed at which the Act was passed (it was endorsed by the government and approved by parliament in both readings, all on the same day) stems from Kyiv’s need to conclude the negotiations with its creditors before the end of June. At the end of the month, the IMF’s Board of Directors will take a decision to pay Ukraine the second tranche of the loan (US\$2.5 billion of a total of US\$17.5 billion). The credit agreement concluded between Ukraine and the IMF in February assumed that Ukraine would have already resolved the problem of its existing commitments.
- The dismal situation of Ukrainian public finances is to a large extent due to the high costs of servicing its debt. This year these amount to US\$9 billion, or 5% of GDP (which equals the combined spending on defence and public order); the sum to pay off the debt is estimated at US\$30 billion over four years. According to the new Act, the decision to

suspend repayment may be taken against bonds issued by the Ukrainian government in the years 2005-2013, as well as debt securities and loans taken out by Ukrainian state-owned enterprises. This means that the government can apply it to US\$3 billion of the two-year bonds contracted by the Yanukovich administration which Russia bought in December 2013. The Russian authorities have repeatedly reiterated that they will not renegotiate the terms of repayment.