

# DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft  
ZBW – Leibniz Information Centre for Economics

Bublyk, Yevhen; Brus, Svitlana; Shpanel-Yukhta, Oleksii

## Article

# Prospects and obstacles to the restructuring of Ukraine's external state obligations in the conditions of war

*Reference:* Bublyk, Yevhen/Brus, Svitlana et. al. (2022). Prospects and obstacles to the restructuring of Ukraine's external state obligations in the conditions of war. In: Economy and forecasting (2), S. 5 - 24.

<http://econ-forecast.org.ua/?>

[page\\_id=189&lang=uk&year=2022&issueno=2&begin\\_page=5&mode=get\\_art&flang=en.](http://econ-forecast.org.ua/?page_id=189&lang=uk&year=2022&issueno=2&begin_page=5&mode=get_art&flang=en)

[doi:10.15407/econforecast2022.02.005.](https://doi.org/10.15407/econforecast2022.02.005)

This Version is available at:

<http://hdl.handle.net/11159/15879>

## Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics

Düsternbrooker Weg 120

24105 Kiel (Germany)

E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)

<https://www.zbw.eu/econis-archiv/>

## Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

<https://zbw.eu/econis-archiv/termsfuse>

## Terms of use:

*This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.*



**Yevhen Bublyk<sup>1</sup>**

**Svitlana Brus<sup>2</sup>**

**Oleksii Shpanel-Yukhta<sup>3</sup>**

**PROSPECTS AND OBSTACLES TO THE RESTRUCTURING OF  
UKRAINE'S EXTERNAL STATE OBLIGATIONS  
IN THE CONDITIONS OF WAR**

*The article analyzes the structure of Ukraine's external debt liabilities for the period from 2011 to 2021 and in the period since the beginning of the full-scale invasion. It is determined that the amount of state external liabilities, taking into account projected data, may exceed 70% of this country's GDP, which will become the dominant form of both attracting financial resources to the state budget and threatening the state security.*

*The authors provide an assessment of the difficulties of restructuring the external debt in terms of the specific weight of the creditor and the weight of short-term payments for the period 2022-2023. It is concluded that at the beginning of 2022, the largest specific weight in the structure of external liabilities was the debt for issued securities for foreign markets and liabilities to international financial organizations and the EU. The main payments for them fall on the third quarters of 2022 and 2023 (3.0 and 3.6 billion USD, respectively), and the payment of interest accounts for 30% of total.*

---

<sup>1</sup> **Bublyk, Yevhen Oleksandrovykh** – Doctor of Economics, Senior Researcher of the Department of Monetary and Credit Relations, SI "Institute for Economics and Forecasting, NAS of Ukraine" (26, P. Myrnoho St., Kyiv, 01011, Ukraine), ORCID: 0000-0002-6080-9341, e-mail: bubl13@gmail.com

<sup>2</sup> **Brus, Svitlana Ivanivna** – PhD in Economics, Senior Researcher of the Department of Monetary and Credit Relations, SI "Institute for Economics and Forecasting, NAS of Ukraine" (26, P. Myrnoho St., Kyiv, 01011, Ukraine), ORCID: 0000-0001-5373-273X, e-mail: brus\_svitlana@ukr.net

<sup>3</sup> **Shpanel-Yukhta, Oleksii Ihorovych** – PhD in Economics, Junior Researcher of the Department of Monetary and Credit Relations, SI "Institute for Economics and Forecasting, NAS of Ukraine" (26, P. Myrnoho St., Kyiv, 01011, Ukraine), ORCID: 0000-0001-9674-1337, e-mail: shpazkel@gmail.com



*The article considers possible mechanisms of write-off and restructuring of the state's external debts, taking into account international experience and with regard to the crises and military conflicts. The following mechanisms for write-off and restructuring of foreign debt are analyzed: Brady Plan for debt restructuring of developing countries; and debt relief programs for the poorest countries - HIPC (heavily indebted poor countries) and MDRI (The Multilateral Debt Relief Initiative).*

*The authors identify the guidelines of work on minimizing Ukraine's external liabilities in 2022-2023. A conclusion is made regarding the initiation of negotiations on the restructuring and write-off of the external debt burden to ease the payments on external debts, including GDP warrants. Such a task should be carried out as soon as possible before the period of the largest payments and taking into account the existing support of the governments of leading foreign countries<sup>4</sup>.*

**Keywords:** *public debt, government's external debt liabilities, GDP-warrants, restructuring and write-off of external debt, external state loans*

After the escalation of hostilities and the full-scale invasion of the enemy, the Ukrainian economy is suffering huge losses. According to official estimates, they can make up to 50% of this country's annual GDP<sup>5</sup>. Such losses pose a serious threat to Ukraine's financial security, while the existing burden of external obligations limits financial resources for defense capability. That is why the search for ways to minimize the external debt load of the Ukrainian state is one of the priority tasks for the government.

Various aspects of debt restructuring were dealt with by many foreign and Ukrainian authors. In particular, D. Stiglitz and H. Rashid [1], M. Reinhard and K. Rogoff [2], A. Koze et al. [3], as well as N. Roubini [4] in

---

<sup>4</sup> The publication was prepared within the research project on "Ensuring the effectiveness of monetary policy in Ukraine in conditions of global economic destabilization" (State Registration No. 0121U000024).

<sup>5</sup> Interview with the Ministry of Finances Serhii Marchenko (2022, March 14). Retrieved from <https://forbes.ua/inside/na-desyat-okhoplenikh-viynoyu-regioniv-pripadae-50-vvp-ukraini-ministr-finansiv-sergiy-marchenko-pro-ekonomichni-naslidki-viyni-intervyu-14032022-4595>

their works considered the harmful effects of the growing debt burden on the global economy and on individual countries. Ukrainian scientists V. Kozyuk [5], T. Bohdan [6], V. Sidenko et al. [7], S. Londar et al. [8], V. Pynzenyk [9], and I. Lunina [10] analyzed the impact of the external debt burden on the budget and economy during the period of global shocks and external crises. The current situation in Ukraine with the payment of external debts and the high debt burden in the context of full-scale hostilities and the loss of almost half of this country's GDP is unique and has been only slightly analyzed by economists. Unfortunately, for Ukraine, the issue of writing off and restructuring debts in such a difficult period is extremely relevant and vitally necessary

#### **Characteristics of the structure of Ukraine's external debt liabilities**

After the Russian Federation launched a full-scale war against Ukraine, the amount and structure of external state liabilities underwent considerable changes. As of April 1, 2022, the state and state-guaranteed external debt of Ukraine amounted to UAH 1,473.52 billion, or **\$50.37 billion USD**. For comparison, at the beginning of 2022, the external public debt amounted to UAH 1,300.12 billion (USD 47.66 billion), i.e. was 25.2% of the country's GDP<sup>6</sup>.

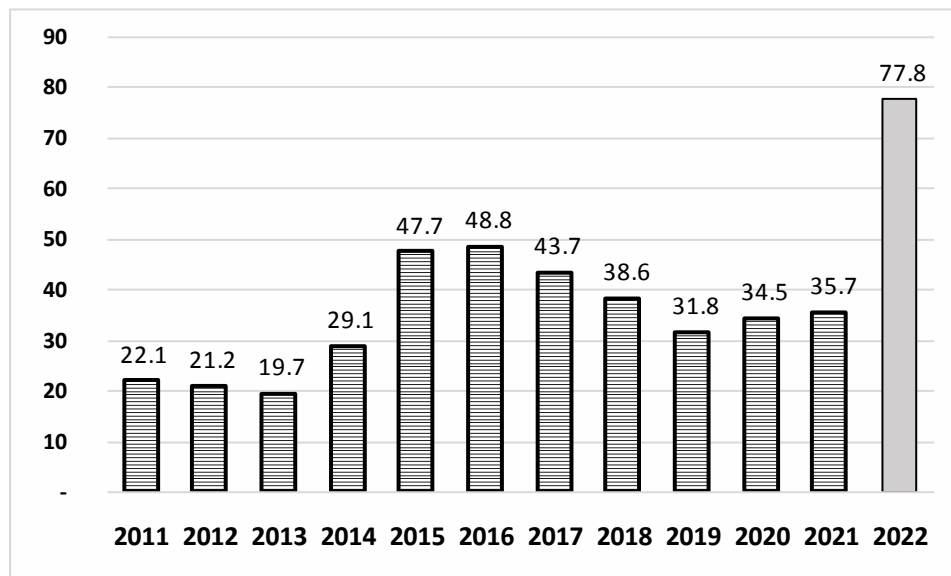
After the beginning of the full-scale invasion by the Russian Federation, the amount of Ukraine's external state and state-guaranteed debt increased in hryvnia equivalent by **173.04 billion UAH** and in dollar equivalent by **2.71 billion USD**<sup>7</sup>. Taking into account the forecasts of the economic growth of Ukraine at the beginning of April, the amount of this country's external state liabilities amounted to **63.2% of GDP**<sup>8</sup>. If the trends retain until the end of the year, Ukraine's external debt burden may well exceed 70%, which is significantly higher than the optimal level of 30–40% [5, p. 93] (the dynamics of Ukraine's external public debt over the past 10 years is presented in the Figure).

---

<sup>6</sup> Ministry of Finances of Ukraine. Information note on the state and state-guaranteed debt of Ukraine. Retrieved from <https://mof.gov.ua/uk/derzhavnij-borg-ta-garantovaniy-derzhavju-borg>

<sup>7</sup> Taking into account the devaluation after the start of the full-scale invasion, the hryvnia equivalent of the amount of foreign debt has increased by approximately 10%.

<sup>8</sup> According to the World Bank's forecast, the expected reduction of Ukraine's GDP in 2022 will be 45%.



**Figure. Dynamics of national and state-guaranteed debt of Ukraine in 2011–2022, % of GDP**

*Source:* statistical data of the NBU and the Ministry of Finance.

Thus, the trends in the emergence of public debt show that for Ukraine external liabilities are becoming the dominant form of attracting financial resources by the state, and the rate of growth of their specific weight is becoming a threat to the national security.

The assessment of the difficulties in restructuring the external debt of the Ukrainian state should be considered in two aspects, **such as the specific weight of the creditor and the weight of short-term payments, during the period of 2022-2023**. The second aspect currently constitutes the greatest risk for the financial security of the state.

Regarding the first aspect – the specific weight of the creditor – the structure of Ukraine's gross foreign debt includes four main components of liabilities (less for guarantees):

- 1) liabilities of the Ukrainian state on securities issued on the foreign market (Eurobonds) – 48.1%, or \$21.2 billion USD;
- 2) liabilities on loans granted for development or as financial assistance from international financial organizations and the EU – 35.6%, or \$15.7 billion USD (29.4% of this amount is owed to the EU; 25.7% to the IMF; and 44.8% to the IBRD, EIB and EBRD)
- 3) liabilities assigned to other categories, which account other loans from the IMF, - 9.2% of external debt, or 4.1 billion USD;

4) liabilities on loans of foreign governments and foreign commercial banks - amount to 7.01% of total external debt, or 3.1 billion USD<sup>9</sup>.

As can be seen, in the structure of external liabilities, the largest part is accounted for the debt under issued securities on foreign markets - 48.1%, as well as for liabilities to international financial organizations and the EU - 35.6%.

It should also be noted that in the structure of external debt, Ukraine has liabilities that appeared as a result of the 2015 agreement between the Government of Ukraine and the International Committee of Creditors regarding the restructuring of Ukraine's external debt. Under this agreement, 20% of debt liabilities, or 3.6 USD was written off and replaced by a specific instrument - GDP warrants. Before the full-scale invasion of the Russian Federation, these liabilities were potentially very burdensome. In view of the expected decline of Ukraine's GDP, this problem is postponed, but currently there are certain favorable conditions for its solution, which will be discussed below.

With regard to the second aspect, that is the burden of short-term payments in 2022-2023 (according to the NBU report<sup>10</sup>), **the costs of servicing the external debt (interest payments and repayment of the principal amount) for the government and the NBU will amount to 7.6 billion USD in 2022 and 8.2 billion USD in 2023<sup>11</sup>**. The distribution of these costs is presented in the Table 1:

*Table 1*

**Schedule of payments on external debt to non-residents in 2022-2023  
(as of April 1, 2022), million USD**

	Payments in 2022				Payments in 2023			
	Q I	Q II	Q III	Q IV	Q I	Q II	Q III	Q IV
<b>General management sector</b>	<b>1 338</b>	<b>860</b>	<b>2210</b>	<b>914</b>	<b>1 304</b>	<b>932</b>	<b>3 035</b>	<b>1 131</b>
Principal amount	565	439	1 485	584	561	527	2 363	855

<sup>9</sup> *For reference:* in addition to the public administration sector, external liabilities of Ukraine's corporate sector are 49.2 billion USD. Of that amount, 3.4 billion USD accounts for the deposit corporations (almost half of the liabilities are long-term loans) and 45.7 billion USD - for the sector of non-financial corporations (mostly long-term loans). *Source:* official statistics of the external sector from the NBU.

<sup>10</sup> NBU. Scheduled payments for external debt. Retrieved from: <https://bank.gov.ua/ua/statistic/sector-external/data-sector-external#4>

<sup>11</sup> About 17% of these amounts is accounted for by the segment of domestic government bonds owned by non-residents



*Table 1 (continued)*

Interests	773	420	725	329	743	405	671	277
<b>NBU</b>	<b>722</b>	<b>291</b>	<b>613</b>	<b>287</b>	<b>606</b>	<b>277</b>	<b>601</b>	<b>271</b>
Principal amount	687	257	579	257	579	261	587	261
Interests	35	34	34	30	26	16	14	10
<b>Total</b>	<b>2 060</b>	<b>1 151</b>	<b>2 823</b>	<b>1 201</b>	<b>1 910</b>	<b>1 209</b>	<b>3 636</b>	<b>1 402</b>
Principal amount	1 252	696	2 064	841	1 140	788	2 950	1 116
Interests	808	454	759	359	769	421	685	287
<b>including IMF loans (General management sector and NBU)</b>	<b>870</b>	<b>324</b>	<b>872</b>	<b>323</b>	<b>861</b>	<b>295</b>	<b>1 103</b>	<b>546</b>
Principal amount	810	257	800	257	800	261	1 072	523
Interests	60	67	72	66	61	34	31	23

*Source:* NBU (2022, April 1). Schedule of payments on external debt to non-residents as of Statistics of the external sector. Retrieved from: <https://bank.gov.ua/files/ES/Schedule.xlsx>

As can be seen, the most intense in terms of payments are the third quarters of 2022 and 2023, which account for 3.0 and \$3.6 billion USD, respectively. Of the total amount of servicing of external state liabilities in 2022-2023, 70% is accounted for by the repayment of principal debt amount, and 30% by interest payments.

Also, most of the payments in 2022 and 2023 are related to interest payments and servicing of government-issued Eurobonds (2.6 billion USD in 2022 and 2.8 billion USD in 2023, respectively). Debt servicing to the IMF (mainly repayment of previously taken tranches) for these years will amount to 2.4 and 2.8 billion USD, respectively. The remaining 1.9 and 2.6 billion USD the servicing of external state liabilities is accounted for by loans granted to Ukrainian government.

### **Assessment of available write-off and restructuring mechanisms for state external debts**

It should be noted that at the official level there is still no certainty as to the need to write off part of Ukraine's external debt under the conditions of war, economic losses and deteriorated global market situation. Although

proposals to write off part of Ukraine's external official liabilities after the full-scale invasion of the Russian Federation were repeatedly voiced by deputies and experts [11], Ukraine's Ministry of Finance officially opposes such an initiative, insisting that it may complicate new borrowing. This is certainly the case, but one should take into account that foreign private investors are hardly willing to buy Ukrainian debt bonds in wartime as it is, and any borrowing would take place either on Ukraine's domestic market or with international partner support.

In addition to war related reasons, the need for initiatives to write off Ukraine's external debt should also be considered in a global context. J. Stiglitz notes that after the pandemic strike on the world's economies, more than 100 countries with low and below-average income levels are now forced to pay about 130 billion USD just to service their debts [1]. At the rising phase of the cycle, debt growth even speeded up economic growth in such countries [2], but after the commence of the global recession in 2009, servicing external debts mostly began to restrain their development. In half of the developing economies, the debt level exceeds 30% of their GDP [3], and in a fifth of them it exceeds 70% [6, p. 127].

The rapid increase in the foreign debt in developing countries was contributed by the measures taken by the developed countries to appease the crisis and avoid large-scale bankruptcies. On the one hand, it is a global decrease in interest rates [4], and on the other, large-scale monetary emission and government spending [7, p. 20].

In early 2022, the World Bank published a report, where it gave special attention to the threatening growth of sovereign debt in countries with low and lower than average income levels during the pandemic [12]. According to the experts of the World Bank, for such countries, the main way to overcome this risk is via restructuring the debt in combination with a medium-term plan for fiscal, budgetary and economic reforms.

It is especially important for such countries to implement advance restructuring, without expecting a default. Anticipatory restructuring, according to the Fund's specialists, takes less time than post-default restructuring, and is accompanied by a smaller output decline and a shorter period of exclusion of the country from the capital markets.

In general, international financial institutions - the World Bank, the IMF, the EBRD - only work systematically with the restructuring of external sovereign debt, while write-offs are episodic and occur in special cases. Normally, such cases are associated with military conflicts or





critically poor countries. However, with the exacerbation of the European debt crisis of 2009–2018, more and more materials started to appear at the level of international institutions, justifying the expansion of initiatives to restructure and write off the sovereign debt of developing countries. In particular, the note of the UNCTAD Secretariat "Development strategies under the conditions of globalization: multilateral processes in the management of sovereign external debt" [13] was devoted to this issue.

The most famous example of writing off most of the debt for the Federal Republic of Germany took place in 1953. At that time, Germany carried the burden of both war debts and post-war loans received, in particular, from the USA, Great Britain, France, and Spain. Germany's debts accounted for about a quarter of the country's national income, that is, they were only half the size of the current Ukrainian ones. Nevertheless, an agreement was reached in London that year, according to which 50% of the debt was written off, while the payments for the second half were restructured (postponed for 30 years, with the right to spend no more than 3% of export revenues on debt servicing). As a result, the last tranche was only paid in 2010.

Such write-off practice, as well as the manner in which it was done, became vital for the recovery of the entire post-war Europe [14]. Equally vital for Europe is now Ukraine's victory. Therefore, with the support of the governments of European countries, it makes sense to remind this example, at least within the limits of settlements with European institutions (EU, EIB), which account for over 6 billion USD in Ukraine's gross external liabilities.

Other well known cases of debt write off include the following:

- the writing off Iraq's debt in 2004 after the operation by the US and allied forces in 2003 with a total size of 80% of the debt value;
- writing off 100% of Congo's debt (2.4 billion USD) - both due to previous military conflicts and as a result of the economic recession in 2010;
- writing off Serbia's 0.5 billion USD debt to Kosovo in 2009 after the latter's secession<sup>12</sup>.

However, there are also known write-off cases caused not by war, but by the consequences of difficult transformational reforms. For example, in

---

<sup>12</sup> WB wrote off 550 million dollars from Serbia's debt to Kosovo (2009, August 27). *RBC-Ukraine*. Retrieved from [https://daily.rbc.ua/ukr/show/vb\\_spisal\\_s\\_serbii\\_550 mln\\_doll\\_dolga\\_kosovo\\_1251351779](https://daily.rbc.ua/ukr/show/vb_spisal_s_serbii_550 mln_doll_dolga_kosovo_1251351779)

1993-1994, the Paris Club wrote off 50% of Poland's debt and 80% of its interest, and the London Club wrote off up to 48% of Bulgaria's foreign debt.

Compared to write-offs, external debt restructuring initiatives have a more systemic nature. Since the end of the 1980s, against the background of severe debt crises in Latin American countries, such initiatives produced a number of relevant mechanisms.

One of the first such mechanisms was *the Brady Plan for debt restructuring of developing countries* (debt conversion and servicing cost reduction) [15]. After a series of bankruptcies and a long debt crisis, the bankers of the London Club were ready to accept non-repayment on part of the loan in exchange for the certain and timely repayment of the remaining loan. With this in mind, in 1989 US Treasury Secretary Nicholas Brady announced a plan according to which the country would write off part of its debt to creditors, with the remaining debt and interest guaranteed by long-term US Treasuries. The Brady plan to reduce debt, combined with strengthening the economies in the so-called "Brady 15 countries", helped a number of middle-income debtor countries return to financial stability. However, most of the poor countries did not gain anything from the Brady plan, since the bulk of their debt was to the Paris Club and IMF creditor countries.

Against the background of further aggravation of the problem of debtor countries in the world, in 1996, the IMF and the World Bank initiated the so far largest *debt relief program for the poorest countries - HIPC (Heavily Indebted Poor Countries)*. The goal of this initiative is to ensure that no poor country faces a debt burden that it cannot manage. In 1999, this initiative was reviewed and its target nature expanded - now debt write-off became conditioned by the allocation of funds released from debt servicing to social policy and the fight against poverty.

To participate in this program, countries must meet certain criteria, as well as commit to take measures to reduce poverty and show good results along the way. At the initial stage, the IMF and the World Bank perform an interim write-off of the debt, and subsequently the debt is written off in full if the country fulfills its commitments.

In order to receive aid under the HIPC Initiative, a country must meet the following four conditions: a) have the right to borrow from the International Development Agency of the World Bank, which provides interest-free loans and grants to the world's poorest countries, as well as from the IMF's Poverty Reduction and Development Fund, which provides



loans to low-income countries at subsidized rates; b) face an unbearable debt burden that cannot be managed with traditional debt relief mechanisms; c) have defined reform guidelines agreed with the IMF and the World Bank; d) present a program document on the poverty reduction strategy. Once a country achieves sufficient progress in meeting these four criteria, the executive boards of the IMF and the World Bank formally decide on its eligibility for debt write-off, and the international community commits to reduce the debt to a level deemed acceptable.

The first stage in the HIPC Initiative is called the decision moment. As soon as the country reaches the decision moment, it immediately gets a certain reduction in debt payments. The second stage is the end point. In order to receive full and irreversible debt write-off available within the HIPC, a country must: a) adopt a follow-up program supported by IMF and World Bank loans; b) satisfactorily implement the key reforms agreed at the time of the decision; c) adopt and implement its own Poverty Reduction Strategy within at least one year. When a country meets these criteria, it can reach the completion stage, which allows it to receive full debt write-off [16].

Presently, this is the most widespread mechanism. With its use, the debt was eased for 39 of the world's poorest countries (low-income countries according to the World Bank's classification), mainly African countries with external debt-to-GDP ratio was 150–200%.

The HIPC mechanism requires participation of all creditors – both government and commercial ones. The initiative aims at bringing the countries' debt servicing burden to an acceptable level (in exchange for their rational budget policy), as well as a significant easing of the debt burden and provision of a new aid. In order to become eligible for such aid, a country must have a sufficiently low per capita income to meet the criteria for preferential lending by the IMF and the World Bank, and its debt burden must be deemed unbearable even after traditional measures to alleviate it (such as those based on the Naples Conditions of the Paris Club).

One of the features of the HIPC Initiative is that it is based on the participation of such creditors as the IMF, the World Bank and regional development banks. Usually their loans cannot be written off. At the same time, the Initiative stipulates a rather long procedure and operates with small amounts of restructuring, and the country that has entered this program is actually recognized as bankrupt.

Given the impossibility of settling debt problems via restructuring alone, the HIPC program was later supplemented by a *multilateral debt relief program (IMF, WB) - The Multilateral Debt Relief Initiative (MDRI)*. Because of the excessive build-up of external debt by poor countries that had long participated in the HIPC initiative, in 2006, at the G-8 summit in Gleneagles, the World Bank, the IMF and the African Development Fund joined forces to implement the Multilateral Debt Relief Initiative.

The mechanism of this initiative stipulates provides for 100% cancellation of debts to these three organizations for all countries participating in the HIPC initiative and reaching its final stage. The purpose of the MDRI Initiative is to assist such countries in meeting the UN Millennium Development Goals. As part of this program, the debt of 19 countries was partially written off.

The pandemic of 2020 gave a powerful impetus to the development of initiatives to lighten the burden on debtor countries. Under its influence, with the participation of leading international financial organizations, the Program for Improving the Quality of Debt Management for the Countries Most Affected by the COVID-19 Pandemic was developed. This program is currently undergoing testing and hence is only partially applicable.

The general shortcoming of all the above mechanisms is their focus on the poorest countries, resulting in the restructuring and write-off of extremely small debt amounts - usually up to 1 billion USD. In the case of other, more developed countries, in particular Ukraine, it is about tens of billions USD. Besides, the process of accumulating sovereign debts has become more complex. A large part of such debts come from non-traditional creditors (private investors, official creditors that are not part of the Paris Club, as well as related creditors, that is, state enterprises and special companies) [12]. The non-transparent pattern of the holders of public debt in such countries complicates the procedure for agreeing on restructuring or writing off.

Despite the above mentioned difficulties, one should not underestimate the benefits of any reduction Ukraine's external debt. One may get the impression that this year's payments are not too large and will be covered with new loans from partner countries. By the end of 2022, Ukraine's largest payments will fall on September, and for the year they will amount to \$7.6 billion USD. It is difficult to consider this amount insignificant, since it is clear that every saved billion is currently essential for Ukraine's victory.



**Guidelines to minimize Ukraine's external liabilities  
in 2022-2023**

Analysis of the presented structure of external debt liabilities gives grounds to speak about the need to radically ease the burden of payments for Ukraine in the period 2022-2023, which is the most difficult period for public finances. This task should be completed as soon as possible, without waiting for the periods of the greatest repayments, and for this purpose the following should be kept in mind.

1. First of all, it is necessary to initiate the issue of reducing the share of the debt burden associated with the servicing of Eurobonds and domestic government bonds owned by non-residents. Such a step should be considered the most realistic. For this purpose, it makes sense to consider the possibility, with the support of the Paris Club of Creditors, to announce a moratorium on interest payments on these liabilities until the end of martial law in Ukraine, which would allow Ukraine saving more than 900 million USD in the first half of 2022. If martial law continues in the second half of 2022, it will be necessary to consider appropriate postponement of the deadline for their repayment, which would save more than 2.1 billion USD.

2. Ukraine's debt to the governments of other countries is not a very big amount - a total of 1.5 billion USD. In the structure of liabilities, there is a certain amount of government and corporate liabilities to the government of the Russian Federation and Russian banks (as of the end of 2021 – 610 million USD<sup>13</sup>). It makes sense to first of all cancel these liabilities by writing them off.

3. The most difficult is the situation with Ukraine's liabilities to the IMF and the World Bank. In 2022 alone, the government is to repay over 4 billion USD to these institutions. The difficulty is the absence of any official IMF and World Bank debt restructuring mechanism suitable for Ukraine. The existing debt restructuring mechanisms are rather specific and focused primarily on the poorest countries. Restructuring or postponing the repayments would be a significant assistance in protecting Ukraine's the financial security.

4. Settling the problem with GDP warrants, which was postponed due to hostilities and significant losses of Ukraine's economy. At the same time, one should bear in mind that after the considerable decline of Ukraine's GDP

---

<sup>13</sup> Statistical data from the Ministry of Finance as of 12.31.2021.

during the war, in the post-war period, it should be expected that the rates of recovery may have high nominal values. Then Ukraine's deductions to foreign creditors under GDP warrants could reach amazing amounts. That is why the problem of Ukrainian GDP warrants should be solved during the war.

### **Management of the part of the liabilities issued in the form of GDP warrants**

In accordance with agreement on the restructuring of external debt between the Government of Ukraine and the International Committee of Creditors of Ukraine, part of the payments (14.4 billion USD) due in 2015 was postponed for four years: from 2015–2023 to 2019– 2027 with increased interest rate (7.75% instead of 7.2%). At the same time, 20% of debt liabilities, or 3.6 billion USD, was written off and replaced by a specific instrument - GDP warrants (or value recovery instruments - VRI) on the following terms:

- payments are made annually from 2021 to 2040, if the nominal GDP exceeds \$125.4 billion USD (this level was already reached in 2018)

- BBII repayments depend on the growth rate of Ukraine's GDP: with an annual GDP growth lower than 3% - no repayments; from 3 to 4% - repayments in the amount of 15% of GDP growth; and over 4% - repayments equal to 40% of the growth of Ukraine's GDP;

- during 2021–2025, total repayments cannot exceed 1% of Ukraine's GDP, and after 2025, the amount of repayments is not limited.

GDP warrants are not a new tool, but their use has been so far episodic. Since 2000, four cases of their use are known. Beside Ukraine, these are Argentina in 2005 and 2010 and Greece in 2012. None of these cases had a successful completion: Argentina returned to restructuring again in 2016, and Greece over subsequent six years incurred a record level of foreign debt [8, p. 46]. It is characteristic that recent known cases of sovereign debt restructuring in 2020 (Argentina and Ecuador) no longer include this instrument.

In Greece, the agreement with GDP warrants covers was the period from 2015 to 2042. The country must pay 1% of the nominal value of 62.4 billion euros, provided that GDP growth rate exceeds 2-2.9%. In the case of Argentina, 30-year GDP warrants were issued in 2005 and 2010. They were to be paid in years when GDP growth exceeds 3%. And while Ukraine is to pay creditors 15% or 40% of the amount exceeding the established GDP



growth rate, Argentina only pays 5%<sup>14</sup>. That is, unlike Ukraine, in Argentina and Greece, the total amount of repayments under GDP warrants cannot even theoretically exceed the nominal value of the liabilities.

In Ukrainian case, there are some specific mechanisms of creditor protection that were previously absent (or more ambiguous). In particular, the put option, which allows the owners of Ukraine's GDP warrants to demand their redemption from the Ukrainian government at nominal value. Besides, Ukraine is prohibited from settling with creditors on more favorable terms than those stipulated in the agreement. Infringement of this provision causes automatic default on the restructured liabilities. And there are other special conditions for Ukraine [17].

Obviously, the reason for the limited use of GDP warrants is their extremely unfavorable conditions for the issuer country. In particular, this applies to the case of Ukraine [9, p. 114]. The conditions accepted by Ukraine to some extent resemble a credit burden and practically exclude the possibility of economic growth of Ukraine's economy exceeding 4% - since almost half of the amount over 4% will be a debt burden on this country's public finances.

If, during the post-war recovery, Ukraine's economy recover at a rate exceeding 10%, which is actually very realistic because of the low base, government annual payments to warrant holders alone will reach 6 billion USD. The calculated ratio of the rates of economic growth and the amount of Ukraine's additional debt after 2025 (without discount) is presented in Table 2.

*Table 2*

**Estimated annual payments for GDP warrants at different rates of economic growth after 2025**

<b>GDP growth rates, %</b>	<b>Annual payment for GDP-warrants, billion USD</b>
3–4	0–0.25
4–5	0.25–1.6
5–6	1.6–2.3
6–7	2.3–3.0
7–8	3.0– 3.75
9–10	4.5–5.25
11–12	6.0–6.8

*Source:* authors' own calculations.

<sup>14</sup> Ministry of Finances. Payments for GDP warrants. How much and to whom Ukraine will pay for economic growth. Retrieved from <https://minfin.com.ua/2020/02/20/40846523/>

However, it should be considered the worst option if, after several years of economic growth at more than 5%, the Ukrainian economy will be hit by a crisis. Then the government will have to pay billions dollars under GDP warrants against the background of reduced economy and budget revenues.

Even the IMF agrees that the requirements for the above instruments are excessive, whose experts in the report on "The role of conditional state debt instruments in the restructuring of sovereign debt" published on November 19, 2020 [18], note that at an annual growth of 5%, the increase in budget expenditures of Ukraine's GDP will amount to 0.55% of GDP. And only with a GDP higher than 4%, repayments under GDP warrants will remain at an acceptable level. According to IMF experts, GDP warrants themselves seem to be a dubious instrument, as they have a non-standard design, low liquidity and strongly depend on the influence of exogenous factors, and their use is rather sporadic. Ukrainian scientists too note that significant amounts of debt repayments until 2049, taking into account the restructuring requirements of 2015, will lead to a complicated budget situation, threatening the long-term sustainability of Ukraine's public finances [10, p. 113].

Given the above, Ukraine needs to settle the problem of GDP warrants as soon as possible. In the conditions of 2022, the prospects of profitability of the above instruments remain rather uncertain, and therefore their price on the market will remain minimal. Presently, two ways of solving the problem of GDP-warrants in Ukraine are being considered: their buy-out (with own or borrowed funds) and restructuring of liabilities.

The first way is the simplest and most desirable, but at the same time the most expensive, since it involves the expenditure of about 3.5 billion USD during two to three years. The basic difficulty of buying out GDP warrants is the non-transparent structure of their owners. It is known that negotiations on restructuring took place in 2015 with the Special Committee of Creditors - an organization of holders of Ukrainian bonds who were concerned with the restructuring. The committee included Franklin Advisors Inc., BTG Pactual Europe LLP, TCW Investment Management Company and T. Rowe Price Associates Inc. Since GDP warrants freely circulate on the stock market, the circle of owners is currently even less defined. That is why the second way (restructuring) has rather uncertain prospects. The success of this measure mainly depends on interest by the warrant holders.





Thus, the risks of a negative impact of the Ukrainian government's liabilities under the GDP warrants on this country's economic development increase, and the work on the buy-out or restructuring should be started as soon as possible. The preferred way to solve the problem of GDP warrants is their buy-out on the market within two years. An alternative way should be considered the conversion of the liabilities under GDP-warrants into Eurobonds, with the involvement of the IMF, UNCTAD and EU structures in the negotiation process. Such an option is supported by the negative expert opinions of GDP warrants as an instrument that hinders economic development.

### **Conclusions**

The problem of public debt management under the conditions of war and the expected contraction of the economy is critically important for the financial security of the Ukrainian state. Releasing the Budget at least until the end of 2022 from repaying interests on Eurobonds and domestic government bonds in foreign currency, and from servicing loans granted by foreign governments, would add more than 4 billion USD to the State Budget, which would be very important for victory. In case of successful postponement of the payments to the International Monetary Fund and the EU, additional financial resources of the Ukrainian state will increase to 7.6 billion USA in 2022. Currently, there are no approved mechanisms for such an effort, but, with the broad international support under the conditions of war, the government's persistent initiative should reduce the cost of servicing Ukraine's official external liabilities during the period of martial law.

Given the existing broad support by the governments of leading foreign countries, the most promising for Ukraine would be the chance to get the debt write-off of MFIs and governments of other countries by analogy with other countries affected by the war (Germany, Iraq, Serbia). In doing so it is necessary to avoid non-standard restructuring schemes with the issuance of burdensome financial instruments such as GDP warrants, as happened to Ukraine in 2015.

The standard HIPC and MDRI debt restructuring programs are only intended for the poorest countries. These programs have a well proven working mechanism and are applied according to a defined procedure. At the same time, if a country is not yet bankrupt, these programs are focused

not so much on write-offs as on "relief" of the debt burden. That is, to a greater extent, they provide restructuring or an opportunity to use payments to fight poverty.

In case of critical losses of the economy and falling into the group of the poorest countries, Ukraine could apply to the HIPC and MDRI programs. In this case, it is necessary to count not so much on write-offs, but rather on alleviation of the debt burden (by deferring repayments) and on directing the costs of debt servicing to the reconstruction of the destroyed infrastructure.

In order to strengthen Ukraine's position in negotiations with creditors, it is necessary to rely on relevant opinions from experts of international financial institutions (in particular, the IMF, the World Bank, and UNCTAD), in which they emphasize the vital need to review the external public debt of developing countries. It is advisable to take advantage of this point and contact the Paris Club of Creditors with a justification of Ukraine's need to restructure this country's existing official liabilities under the ongoing large-scale military aggression against Ukraine.

### **References**

1. Stiglitz, Joseph E., Rashid, Hamid (2020, Jul. 31). How to Prevent the Looming Sovereign-Debt Crisis. Retrieved from <https://www.project-syndicate.org/commentary/how-to-prevent-looming-debt-crisis-developing-countries-by-joseph-e-stiglitz-and-hamid-rashid-2020-07>
2. Reinhart, Carmen M., and Rogoff, Kenneth S. (2010). Growth in a Time of Debt. *American Economic Review*, 100 (2): 573-78. <https://doi.org/10.3386/w15639>
3. Kose, M. A., Ohnsorge, F. L., Reinhart, C. M., & Rogoff, K. S. (2021, Sept.). The aftermath of debt surges. <https://doi.org/10.3386/w29266>
4. Roubini, Nouriel (2021, Jun. 30). The Looming Stagflationary Debt Crisis. Retrieved from <https://www.project-syndicate.org/commentary/stagflation-debt-crisis-2020s-by-nouriel-roubini-2021-06?barrier=accesspaylog>
5. Koziuk, V. (2012). The Optimal Level of Debt Burden: Global Macro-Financial Shifts and Transient Expectations. *Finansy Ukrainy – Finances of Ukraine*, 1, 78-93 [in Ukrainian].
6. Bohdan, T. (2020). Debt capital flows and the spread of shocks in an emerging market economy (the example of Ukraine). *Zhurnal ievropejs'koi ekonomiky – Journal of European Economy*, 19: 1, 123-150 [in Ukrainian].



7. Sidenko, V., Yurchishin, V., Markevich, K. (2015). Debts: a time to take and a time to give. Global trends and challenges for Ukraine. Analytical report. Kyiv: Zapovit [in Ukrainian].
8. Londar, S., Kuznietsov, K., Vereshchaka, I. (2016). The impact of the restructuring of external debt obligations to private creditors on the debt sustainability of Ukraine. *Finansy Ukrainy – Finances of Ukraine*, 1, 39-56 [in Ukrainian].
9. Pynzenyk, V. (2017). Public Debt Restructuring: Models for Assessing Payments for Value Recovery Instruments. *Naukovi zapysky NaUKMA. Ekonomichni nauky – Scientific notes of NaUKMA. Economic sciences*, 2: 1, 110-115. <https://doi.org/10.18523/2519-4739212017119820> [in Ukrainian].
10. Lynina, I.O. (2020). Public Finance in Macroeconomic Growth Policy. Institute for economics and forecasting, NAS of Ukraine. Kyiv [in Ukrainian].
11. Help Ukraine, cancel its foreign debt (2022, March 10). *Spil'ne – Common*. Retrieved from <https://commons.com.ua/uk/help-ukraine-cancel-its-foreign-debt/> [in Ukrainian].
12. World Bank (2022). Finance For An Equitable Recovery. World development report. Retrieved from <https://www.worldbank.org/en/publication/wdr2022>
13. Development strategies in a globalized world: Multilateral processes for managing sovereign external debt (2015). Note by the UNCTAD secretariat. Retrieved from [https://unctad.org/system/files/official-document/tdb62d7\\_en.pdf](https://unctad.org/system/files/official-document/tdb62d7_en.pdf)
14. Greece and Spain saved post-war Germany. And what does she do with her saviors today? (2013). Retrieved from [https://ipress.ua/mainmedia/gretsiya\\_ta\\_ishpaniya\\_vryatuvaly\\_pislyavoienno\\_nimechchynu\\_a\\_shcho\\_robvt\\_vona\\_zi\\_svoimy\\_ryativnykamy\\_sogodni\\_16365.html](https://ipress.ua/mainmedia/gretsiya_ta_ishpaniya_vryatuvaly_pislyavoienno_nimechchynu_a_shcho_robvt_vona_zi_svoimy_ryativnykamy_sogodni_16365.html)
15. Buckley, Ross P. (1997). The Facilitation of the Brady Plan: Emerging Markets Debt Trading From 1989 to 1993. *Fordham International Law Journal*. The Berkeley Electronic Press (bepress). Retrieved from <http://ir.lawnet.fordham.edu/ilj>
16. IMF (2021, March 23). Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative. Retrieved from <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative>
17. Deutsch Bank Market Research (2015, October 9). Analyst Reports: "Ukraine – Pricing the GDP Warrants", 16 September 2015; "Ukraine: Pricing GDP Warrants, Part II – Discounting the Cash Flows". Retrieved



from <https://www.weil.com/~media/files/pdfs/2015/ukraine-sovereign-restructuring.pdf>.

18. IMF (2020, November). The Role of State-Contingent Debt Instruments in Sovereign Debt Restructurings. Retrieved from <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2020/11/13/The-Role-of-State-Contingent-Debt-Instruments-in-Sovereign-Debt-Restructurings-49732>

*Received 10.06.22.*

*Reviewed 15.06.22.*

*Signed for print 10.10.22.*

**Євген Бублик<sup>15</sup>**

**Світлана Брус<sup>16</sup>**

**Олексій Шпанель-Юхта<sup>17</sup>**

## **ПЕРСПЕКТИВИ ТА ПЕРЕШКОДИ РЕСТРУКТУРИЗАЦІЇ ЗОВНІШНІХ ДЕРЖАВНИХ ЗОБОВ'ЯЗАНЬ УКРАЇНИ В УМОВАХ ВІЙНИ**

*У статті проаналізовано структуру зовнішніх боргових зобов'язань за період з 2011 р. по 2021 р. та у період з початку повномасштабного вторгнення. Визначено, що зовнішні державні зобов'язання стануть домінуючою формою залучення фінансових ресурсів у державний бюджет, а їх сума з урахуванням прогнозних даних може перевищувати 70% ВВП України, що загрожуватиме фінансовій безпеці держави.*

*Дано оцінку складнощам реструктуризації зовнішнього боргу у розрізі питомої ваги кредитора та ваги короткострокових виплат, що припадають на період 2022–*

---

<sup>15</sup> **Бублик, Євген Олександрович** – д-р екон. наук, провідний науковий співробітник відділу грошово-кредитних відносин, ДУ "Інститут економіки та прогнозування НАН України" (вул. П. Мирного, 26, Київ, 01011, Україна), ORCID: 0000-0002-6080-9341, e-mail: bubl13@gmail.com

<sup>16</sup> **Брус, Світлана Іванівна** – канд. екон. наук, провідний науковий співробітник відділу грошово-кредитних відносин, ДУ "Інститут економіки та прогнозування НАН України" (вул. П. Мирного, 26, Київ, 01011, Україна), ORCID: 0000-0001-5373-273X, e-mail: brus\_svitlana@ukr.net

<sup>17</sup> **Шпанель-Юхта, Олексій Ігорович** – канд. екон. наук, молодший науковий співробітник відділу грошово-кредитних відносин, ДУ "Інститут економіки та прогнозування НАН України" (вул. П. Мирного, 26, Київ, 01011, Україна), ORCID: 0000-0001-9674-1337, e-mail: shpazkel@gmail.com



2023 років. Зроблено висновок, що на початок 2022 р. найбільшу питому вагу у структурі зовнішніх зобов'язань становила заборгованість за випущеними цінними паперами на зовнішніх ринках та зобов'язання перед міжнародними фінансовими організаціями та ЄС. Основні виплати за ними припадають на треті квартали 2022 р. та 2023 рр. (3,0 та 3,6 млрд дол. США відповідно), на сплату відсотків припадає 30% з усієї суми виплат.

Розглянуто можливі механізми списання та реструктуризації зовнішніх боргів держави з урахуванням міжнародного досвіду пов'язаного із кризами та воєнними конфліктами. Проаналізовано такі механізми списання та реструктуризації зовнішньої заборгованості: План Брейді для реструктуризації заборгованості країн, що розвиваються; програми полегшення боргу для найбідніших країн – HIPC (heavily indebted poor countries) та MDRI (The Multilateral Debt Relief Initiative).

Визначено напрями роботи з мінімізації зовнішніх зобов'язань України у 2022–2023 рр. Зроблено висновок щодо ініціювання ведення перемовин стосовно реструктуризації та списання зовнішнього боргового навантаження для полегшення тягаря виплат по зовнішніх боргах, зокрема і ВВП-варрантів. Таке завдання повинно бути здійснене якнайшвидше до періоду настання найбільших виплат та з урахуванням наявної підтримки урядів провідних іноземних країн<sup>18</sup>.

**Ключові слова:** державний борг, зовнішні боргові зобов'язання держави, ВВП-варранти, реструктуризація та списання зовнішнього боргу, зовнішні державні позики

---

<sup>18</sup> Публікацію підготовлено в межах виконання НДР "Забезпечення ефективності грошово-кредитної політики в Україні в умовах глобальної економічної дестабілізації" (№ держреєстрації: 0121U000024).