

Kyiv National University of Trade and Economics  
Faculty of International Trade and Law  
1st academic year, 2nd group,  
M.Sc. International Economics,  
Marco Drachkov



## **WHY IS DEFAULT A DISASTER FOR THE UKRAINIAN ECONOMY?**

**Scientific supervisor: Prof. Dr. Ganna Duginets,  
Chair holder of the Chair of World Economy,  
Kyiv National University of Trade and Economics.**

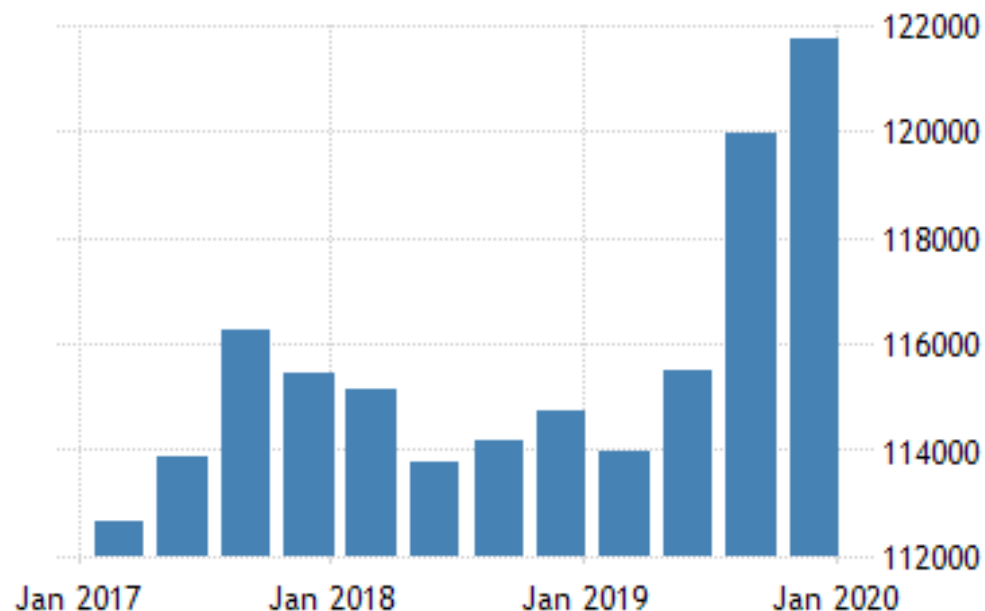


# 1. When a default is declared, the debt does not disappear.

- *The debtor cannot simply assume and absolve himself of his debts.*
- *Declaring a default, the state simply admits that it cannot pay, but still is forced to negotiate with creditors on deferral or partial debt cancellation.*

## Ukraine Total Gross External Debt. Source:

<https://tradingeconomics.com/ukraine/external-debt>

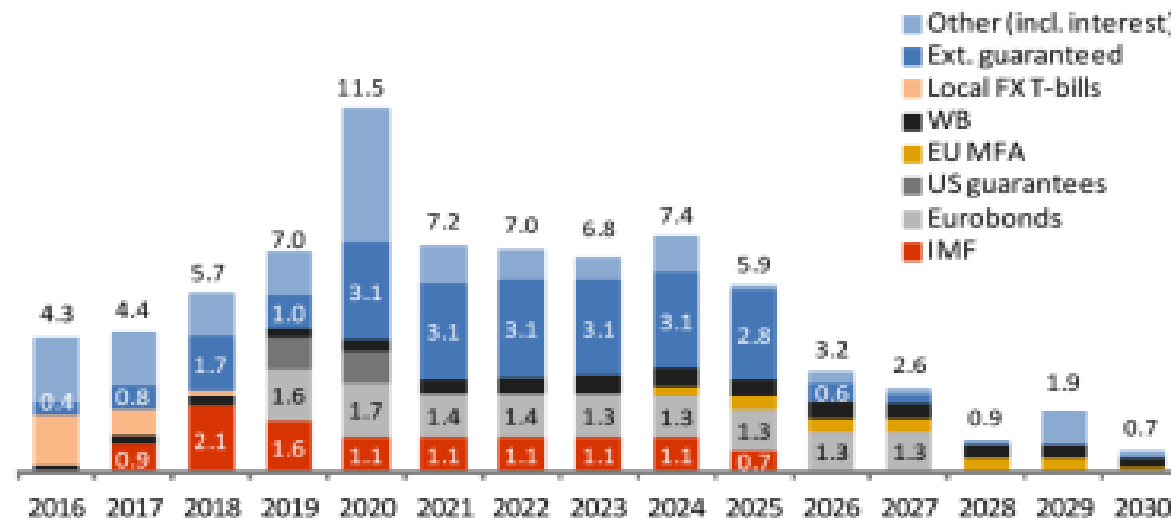




## 2. If Ukraine refuses to pay, relations with all international partners will be destroyed and Ukraine will be in a very bad political position.

- *If this situation is on the international level, the unprecedented crisis will pass in the conditions of the spread of the coronavirus, the war in eastern Ukraine and the global economic crisis.*

Redemption Schedule: Ukraine sovereign and guaranteed FX-denominated debt, \$ bn



Sources: IMF, EC, Bloomberg, IBRD, Ukraine 2016 Budget, Minfin, Art Capital Research

Notes:

<sup>1</sup> Payment totals are based on Minfin forecast as in Ukraine 2016 budget

<sup>2</sup> Only principal amounts shown for each of five sources (Local bonds, WB, EU, US, Eurobonds, and IMF)

<sup>3</sup> All interest payments are included in Other category

<sup>4</sup> EU loans for MFA I, II and III are equally spread out in the 10-15 year maturity range

<sup>5</sup> IBRD loans include both disbursed and still available portions

Source:

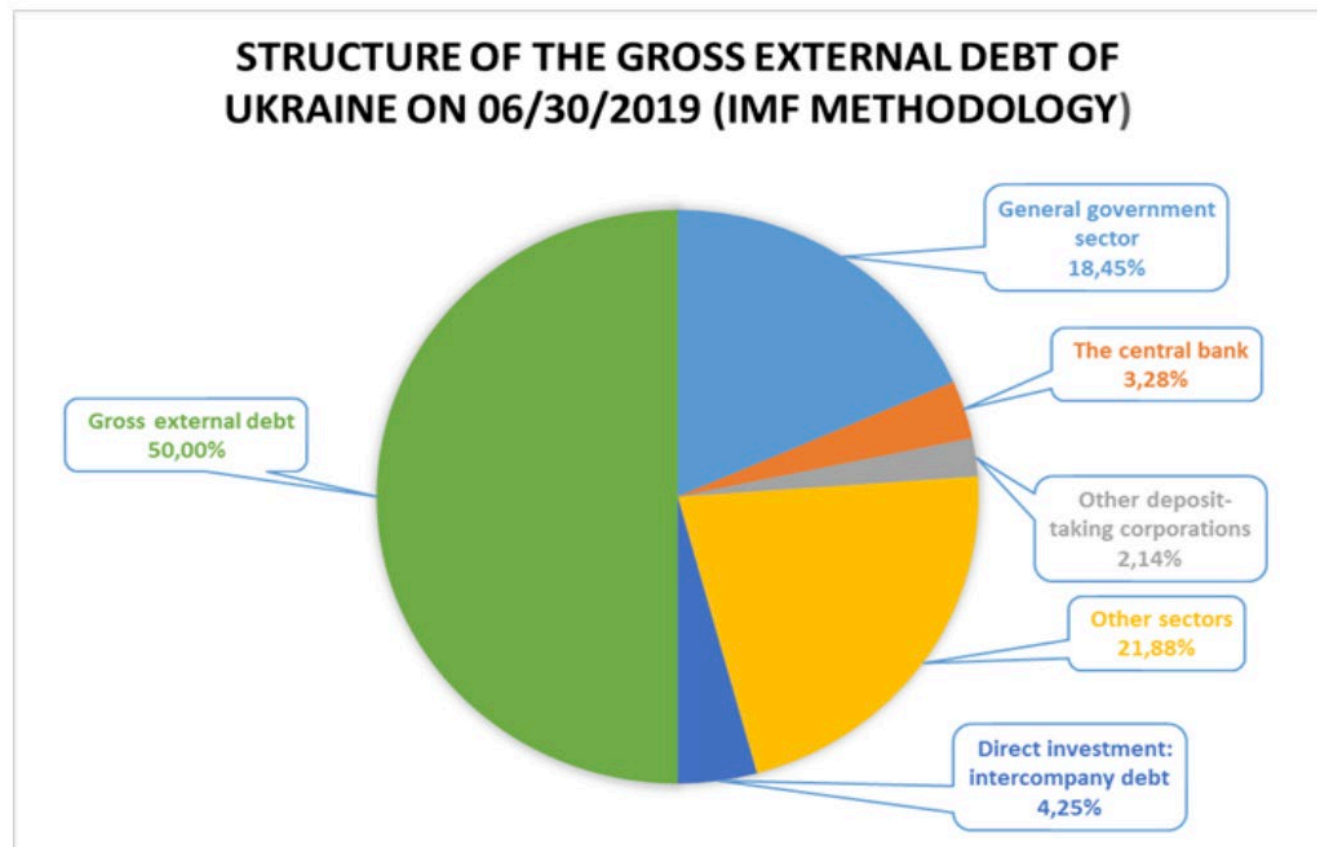
<https://www.intellinews.com/index.php/ukraine-faces-17bn-debt-mountain-in-2019-2020-153884/>



### 3. In a situation of possible default, it turns out that sanctions can be applied against Ukraine.

- *Savings of \$ 1.3 billion in 2020 from NBU reserves of \$ 26 billion (early March) will certainly not be saved. The already weak Ukrainian economy may be sanctioned, which will certainly lead to disaster for our country.*

Source: <https://open4business.com.ua/structure-of-gross-external-debt-of-ukraine-on-06-30-2019-imf-methodology/>





#### **4. If the government defaults, no private bank or fund will lend money to it.**

- *The source of funding will remain huge issue of the National Bank's hryvnia.*
- *This will lead to uncontrolled inflation and devaluation of the national currency, which will certainly cause widespread discontent among the population.*
- *We should also mention the enormous level of unemployment that will await us after the default is announced.*



## 5. Default is a panic in the currency market.

- The word "default" has a very negative perception among the population of Ukraine. This is due to the events of 1998, when the dollar went up twice a year. The announcement of a default will cause panic, the population will run to withdraw hryvnia from deposits and invest them in dollars. This will destroy the banking system and increase uncontrolled devaluation.*



*Seasonal fluctuations in the dollar to the hryvnia over the past 10 years. Source: <https://www.slovoidilo.ua/2019/05/03/info-grafika/polityka/sezoni-kolyvannya-kursu-dolara-hryvni-ostanni-10-rokiv>*



## 6. Default slows down economic recovery.

- *Even if Ukraine does not pay its debt in 2020, it will have to repay later.*
- *However, due to the probable default, access to new loans will be closed to both the public and private sectors. Thus, economic recovery will be significantly slowed down due to lack of funds for infrastructure and investment projects.*
- *Poorer or Middle-Income countries that survived the crisis without default will recover much faster. They will receive new investments first, and develop new markets before the relatively richer nations.*



# Solution

- *Cooperation with the IMF and programs to work with official international creditors is the most cost-effective financial resource that Ukraine can attract to use in the fight against the coronavirus, and pay pensions and wages in this global economic crisis.*

## *SINCE:*

- *It will not be possible to raise these funds if Ukraine defaults.*
- *In case of default, Ukraine will be left alone with the crisis the possible losses from such which can hardly be overestimated.*
- *the state must fulfill all its obligations and seize opportunities for international cooperation.*