

Ukraine May Suspend Debt Payments If Creditors Don't Take Haircut

By [The Moscow Times](#)

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The IMF did a fresh review of Ukraine's prospects at the end of May.

FRANKFURT — Ukraine could suspend its debt payments almost immediately if an important meeting with creditors on Tuesday ends in stalemate, the country's chief debt envoy Vitaly Lisoenko said.

Ravaged by conflict and on International Monetary Fund life support, Ukraine is asking its foreign bondholders to accept a 40 percent write down or "haircut" on the \$23 billion of debt they own, but so far they have not agreed.

In an interview with Reuters, Lisoenko said the talks in Washington, which will include the IMF and the Franklin Templeton-led creditor group, needed to end three months of deadlock and open the door to debt restructuring negotiations.

"My personal opinion and sincere belief is that all the parties involved have enough

information necessary for making a quick decision," he said.

However, if no progress was made Ukraine could declare a temporary halt to payments, he said. "There are no more excuses not to [start restructuring talks]," he said.

Suspending payments could push Ukraine into fully fledged default. It would also allow bondholders to demand immediate repayment on the country's entire stock of bonds.

But Lisoenko, who will be leading the negotiations for Ukraine at Tuesday's meeting, said those risks mattered little considering the country's precarious situation.

Asked whether creditors could move to seize the country's assets, he replied: "There are no assets, unfortunately."

Until now, most analysts have been expecting Kiev to continue to pay its bonds over the summer. Coupon payments are relatively manageable up until September, when a more substantial \$500 million is due.

Ukraine is seeking to plug a \$15.3 billion funding gap that has ballooned following Russia's annexation of Crimea and subsequent fighting between government forces and pro-Russian separatists in the east of the country.

A key issue in the negotiations is whether Ukraine will pay a \$3 billion bond owed to Russia in December. Failure to do so could strain relations with the IMF, although the fund has said it will continue to support Ukraine.

At the same time, creditors such as Franklin Templeton fear there would be less money left for them if Russia was paid.

"I don't think it will be a subject," Lisoenko said. "I don't think it's very relevant because we have made it clear from the beginning that all external creditors will be treated equally."

Sweet and Sour

This week the country's central bank predicted the economy would slump 9.5 percent this year. Hopes of a rebound next year are being dampened by fears of renewed conflict in eastern Ukraine, despite a tentative cease-fire with pro-Russian rebels.

The IMF did a fresh review of Ukraine's prospects at the end of May. They have not yet been made public but will be one of the items on the agenda on Tuesday, along with issues such as the political situation and the likely mechanics of any restructuring.

"What is most important in my personal view is whether it [economic growth in 2016] is minus or plus," Lisoenko said.

Ukraine said last week its updated proposal to creditors included an instrument allowing them to recover more value if the economy performs better than currently projected.

Lisoenko refused to be drawn on what would be considered good enough to trigger this sweetener.

If it was agreed that restructuring talks could begin after Tuesday's meeting, he said that creditors would have to agree not to trade any of the debt they hold.

However, on the key question of how long the process could take, he remained bullish.

"We do want to get the deal done and if on the other side there is the same attitude it could be days. But the situation is changing and the longer they wait the worse it could become."

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