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Private Lenders Group Says IMF Ukraine Bailout Unfair to Bondholders

By The Moscow Times

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LONDON — A $15.3 billion bill for Ukraine's private creditors as part of an IMF-led bailout is unfair unless other sovereign or supra-national lenders have to restructure debts too, the head of a global financial industry body said on Monday.

The Institute of International Finance (IIF), which most recently represented banks and asset managers during Greece's 2012 debt swap, is not formally involved in Ukraine's upcoming restructuring talks. But it says it has had informal discussions with investors involved in the looming Ukraine workout.

Ukraine, which secured a $17.5 billion loan from the International Monetary Fund, is aiming to plug a $15.3 billion funding gap over the four-year life of the program by restructuring debt.

Its finance minister has said the plan is to extend bond maturities as well as to reduce coupon and principal on the bonds.

But IIF executive director Hung Tran said the positions of bondholders differed vastly from that of Ukraine and the IMF, with the former until recently expecting only maturity extensions rather than full-fledged write-downs.

He said forcing bondholders to take haircuts, or partial debt write-offs, would not just place an unfair burden on one grouping but would also be insufficient to bring Ukraine's debt ratio down to 70 percent by 2020 as the IMF envisages.

"Our observation is that the wider community of Ukrainian creditors — not just international private sector but also domestic and official sector creditors — should contribute," Tran said.

"The burden should be shared and spread more widely across all creditors. How much of a part other creditors can play should be up for negotiation," he said.

International private investors own less than a third of total public sector debt, or about 20 percent of gross domestic product, Tran added.

"In order to restore debt sustainability there needs to be more than just putting the debt forgiveness burden on private sector investors. It's not fair and it's not sufficient to move Ukraine to sustainability."

Ukraine's total debt is estimated to have exceeded 100 percent of annual economic output this year, with external debt alone amounting to $40 billion.

While multilateral organizations such as the World Bank and IMF are owed over $12 billion, sovereign and government-guaranteed eurobonds come to $20 billion, of which Franklin Templeton owns about $6.5 billion.

But Tran said that if a $3 billion eurobond held by Russia is taken out of the equation, the face value of government and government-guaranteed external debt maturing between 2015-18, the IMF program's term, is just over $9 billion.

Russia has declared it will not restructure. "We expect $3 billion in December of the current year, as was promised by the Finance Ministry of Ukraine," Russian Finance Minister Anton Siluanov told reporters on Monday.

"If the aim of [private sector involvement] is to get enough debt forgiveness from private investors to fund the program, then talk of haircuts is completely irrelevant because you don't have enough principal maturing between now and 2018," Tran said.

Debt maturing after 2018 is irrelevant for funding the program, he added.

The talks promise to be combative not just because of Russia's presence among creditors, but also because of Franklin Templeton's ability to block any restructuring proposals. The fund has hired Blackstone to advise it at the upcoming talks, sources said Sunday.

But Ukraine and the IMF have irked bondholders even before the talks kick off, Tran said.

"They have started the process of restructuring by specifying the sum rather than letting it be the end result of negotiations between creditors and Ukraine," he said.

"If you determine beforehand right down to the decimal point before talks even begin, that complicates the negotiation process."