Ministry of Finance of Ukraine
Fact Sheet on Agreement with Ad Hoc Committee of Creditors
27/08/15

About Ukraine's Debt Restructuring

Debt included in the IMF-supported restructuring: US$22.6bn (nominal value)

- Government Eurobonds and Government-guaranteed Eurobonds of the Ukrainian Infrastructure Fund (Fininpro) – US$18bn
- Foreign currency loans of state-owned entities with a sovereign guarantee (Ukravtodor, Ukrmedpostach, Yuzhnoe State Design Office) – c.US$0.7bn
- City of Kyiv Eurobonds – c.US$0.6bn
- Ukrzaliznytsia Eurobond – US$0.5bn
- External (private) debt of Oschadbank* and Ukreximbank* - US$2.8bn

Debt included in today's agreement with the Ad Hoc Committee: US$18.0bn (nominal value)**

- Government Eurobonds
- Government-guaranteed Eurobonds of the Ukrainian Infrastructure Fund (Fininpro)

** Debt already restructured successfully in line with IMF targets*
*** Foreign currency loans of state-owned entities with a sovereign guarantee, City of Kyiv Eurobonds and Ukrzaliznytsia Eurobonds are not included in today's agreement*

About the Agreement

The main elements of the agreement reached between the Ukrainian Government and the Ad Hoc Committee of Creditors are the following:

- **Principal haircut:** The deal agrees a 20% haircut on Ukraine's stock of sovereign and sovereign guaranteed debt, having immediate debt relief totaling approximately US$3.6bn (US$3.8bn if a similar haircut is agreed on foreign currency loans of state-owned entities with a sovereign guarantee and City of Kyiv Eurobonds). This takes Ukraine's privately held sovereign, sovereign-guaranteed and quasi-sovereign debt from c.US$19.3bn to c.US$15.5bn.

- **Debt/GDP impact:** Ukraine's debt-to-GDP levels are lowered by an estimated 4.3% end 2015 projected GDP (latest IMF forecast of the Ukrainian GDP).

- **Coupons:** The level of coupons will be 7.75% (slightly higher than the current c.7.2% levels). It is lower than the coupons placed on bonds issued during July 2012 (9.25%) under the previous Government of Ukraine. Thanks to the lower overall principal, Ukraine's annual interest payments in absolute terms are not significantly affected.

- **Maturity extensions:** Maturities have been extended to the period 2019-2027, compared with 2015-2023. It means that no sovereign debt will be amortized during the current IMF Extended Fund Facility program (2015-2018)

- **Value recovery instrument:**

  The value recovery instrument is in the form of a real GDP growth warrant, providing potential upside to holders from 2021 to 2040 under the following terms (exact definitions and formulas can be found in the IHT):

  - no payments if real GDP growth is below 3%,
  - 15% of the value of the GDP growth between 3-4%, and
  - 40% of the value of the GDP growth above 4%,
  - total payments capped at 1% of GDP from 2021 until 2025, and
  - no payments unless nominal GDP is higher than US$125.4bn (i.e. the GDP level that Ukraine should reach by 2019 according to IMF latest projections – current projection for end-2015 GDP is US$84.3bn)

- **IMF program period savings:** The cash flow postponed by the country during the IMF Extended Fund Facility (EFF) period 2015-2018 upon implementation of the deal is US$11.5bn of principal payments. It is an essential part of meeting the financing targets under the EFF (target 1).

What this agreement means for Ukraine

THE DEAL ALLOWS UKRAINE TO ADDRESS BOTH SOLVENCY AND LIQUIDITY ISSUES

It reduces Ukraine's overall debt load

- The 20% haircut will give Ukraine US$3.6bn immediate debt relief and US$3.8bn if a similar haircut is agreed on foreign currency loans of state-owned entities with a sovereign guarantee and City of Kyiv Eurobonds.
- This will substantially reduce Ukraine's debt burden (4.3% of 2015 Ukrainian GDP) and help strengthen the country's solvency.
- For the last 15 years, as a rule, countries that restructured without a default have not obtained a debt reduction, with the exception of the very specific cases of Greece and two small Caribbean nations.

It postpones payments

- All principal payments on Eurobonds falling due in the EFF program period will be postponed upon implementation of the debt operation. No principal payments will be made until 2019. This will free up liquidity and provide the breathing space needed to support economic recovery.
- When completed, the deal will reduce our payments over the next four years by US$11.5bn in principal payments. Maturities have been extended to the period 2019-2027, compared with 2015-2023 currently.

Ukraine's future payments under VRIs will depend on its economic success

- Payments under the VRIs will only be made if and when Ukraine's economy has growth rates above 3%.
- Payments under the VRIs kick in from 2021, giving Ukraine the breathing space for its economy to recover and grow without any payments under the VRIs for the up-coming six years.
- No payments unless nominal GDP is higher than US$125.4bn (i.e. the GDP level that Ukraine should reach by 2019 according to IMF latest projections – current projection for end-2015 GDP is US$84.3bn)
- Payments under VRI are capped at 1% of GDP from 2021 to 2025
- The VRI is a "win-win", creating a virtuous economic circle for Ukraine and its international commercial creditors who also have a vested interest in seeing Ukraine's economy thrive.

THE DEAL IS SUPPORTED BY THE IMF

- This deal achieves the objectives of the debt operation and is supported by the IMF
- The IMF stated that "Assuming full implementation of the EFF program, the proposal will provide the targeted external debt service relief, reduce annual gross financing needs essentially as envisaged under the program, and place public debt on a clearly downward path."
- According to the IMF calculation, the agreement will allow Ukraine to substantially meet all targets of the EFF program

THE DEAL REINFORCES UKRAINE'S FINANCIAL STABILIZATION AND RETURN TO ECONOMIC GROWTH

- The deal avoids default (and the use of a moratorium) on debt payments. Ukraine will continue servicing its debt obligations in accordance with their terms, with the exception of a temporary technical suspension of payments of the Eurobonds maturing in September and October in order to allow the completion of the debt restructuring.
- The deal represents the outcome of a successful negotiation between the government and a committee comprising some of Ukraine's largest long term investors.
- Less of the government's scarce financial resources will be spent servicing high debt levels taken on by previous governments and more will be available for critical social spending and national defense.
- Having a reduced debt burden is a critical step towards macroeconomic stability, creating a healthy economy and attracting international investment.
- It will also allow for uninterrupted support from international financial institutions such as the World Bank, the EBRD and the EIB, as well as key bilateral partners including the E.U., U.S., Germany, Japan and Canada.
- It puts Ukraine in a stronger position for an expected return to capital markets in 2017.

Implementing the agreement

- This deal builds on the successfully reprofiling reached with the bondholders of both Ukreximbank and Oschadbank earlier this year, where US$2.8bn was extended (target 1)
- The agreement is supported by a committee holding approximately half of Ukraine's sovereign debt which increases significantly its chances of successful adoption by the rest of the bondholders.
- Throughout the entire process, Ukraine has and will remain committed to treating all bondholders equally.
- Holders of the so-called "Russian bond" will be invited to participate in the restructuring on the same terms as other Eurobond holders, and will be treated the same as other bonds within the debt perimeter.
- The Ukrainian Government is committed to inter-creditor equity to prevent preferential treatment for hold-outs

Next steps

Tentative Timeline of approval by Government of Ukraine, Parliament of Ukraine, Bondholders

- Cabinet of Ministers of Ukraine approves term sheet and authorizes Minister of Finance to sign it (August 27)
- Cabinet of Ministers of Ukraine approves draft legislation and submits to Parliament (September 1)
- Cabinet of Ministers of Ukraine passes resolution to launch the operation no later than September 14
- Targeted launch of operation no later than on September 15.