

Informal ECOFIN, 9 and 10 September 2022 in Prague, working lunch

Presidency issues note

Russia's war of aggression against Ukraine: addressing Ukraine's financial needs

The note and the working lunch debate follow up on the discussion at the ECOFIN Council meeting on 12 July, where Ministers adopted EUR 1 billion of additional macro-financial assistance (MFA) to Ukraine.

As a result of the Russian war of aggression, Ukraine has significant financing needs, which should be covered from various sources. In addition to causing tremendous damage to the economy, Russia's war of aggression against Ukraine has caused the country to lose access to international capital markets. The resulting underlying balance-of-payments funding gap was estimated by the IMF in June to reach around USD 39 billion for the whole of 2022. According to the IMF's assessment, Ukraine could finance around USD 9 billion through a safe draw-down on its official international reserves that would not threaten its macro-financial stability. Bilateral and multilateral commitments of financial support pledged to Ukraine at the meeting of the G7 Finance Ministers and Central Bank Governors on 18 to 20 May reached almost USD 20 billion.

A number of Member States have provided vital support to Ukraine in various forms such as grants and bilateral loans on concessional terms. In order to contribute toward financing Ukraine's residual funding gap of about USD 10 billion estimated at that time for the whole of 2022, the Commission announced, in its communication of 18 May 2022, 'Ukraine relief and reconstruction', its intention to provide exceptional MFA of up to EUR 9 billion. This intention was endorsed by the European Council at its summits on 30 to 31 May and 23 to 24 June 2022. The MFA of EUR 1 billion in the form of a loan was adopted on 12 July and disbursed in August as the first part of the package.

Efforts to approve the remaining part of the exceptional MFA need to be stepped up. Together with the emergency MFA of EUR 1.2 billion disbursed earlier this year, the decision of 12 July brings the total macro-financial support from the EU to Ukraine since the start of the war to EUR 2.2 billion. Further sizeable, united, and timely short-term assistance by the EU is key to express solidarity with Ukraine and maintain the critical functions of the

country. In order to live up to the EU's promise, it remains to provide Ukraine with up to EUR 8 billion. Ukraine needs the funds quickly, but the EU budget for this lending is already almost exhausted. In order to be able to provide sufficient provisioning that backs the remainder of the exceptional MFA to Ukraine, guarantees from individual Member States will be needed. To meet Ukraine's urgent liquidity needs, the EU is working to make available EUR 5 billion in exceptional MFA in the form of a loan backed by provisioning from the EU budget and Member State guarantees. A clear signal by Member States of their intent to provide guarantees and a commitment to move forward with the national procedures is important to proceed with the urgently needed disbursements.

It is critical that Ukraine's international partners continue to support the country.

We need to ensure that macroeconomic stability is maintained as the war continues and to allow economic activity to resume in those regions and sectors where it is possible. The prospect of pledges translating into actual disbursements to meet the funding gap during the fourth quarter does not look good. This underlines the importance of expediting the exceptional MFA. This can increasingly also be seen as a question of the EU's credibility in terms of delivering on what was promised, not only vis-à-vis Ukraine, but also for other partners.

While international efforts to provide short-term relief and to bring the Russian aggression to an end continue, it is also time to look ahead and prepare for the massive reconstruction effort that will follow. Based on the Commission's communication of 18 May 2022, the long-term reconstruction effort should be accompanied by a high-level strategic reconstruction plan (RebuildUkraine), for which Ukrainian authorities would have full ownership and which would be endorsed by the Union and other international partners. The RebuildUkraine reconstruction plan would outline key reforms and investments necessary to build a prosperous and sustainable future for Ukraine. The reconstruction effort should be led by the Ukrainian authorities in close partnership with the European Union and other key partners, such as the G7 and G20, as well as international financial institutions and international organisations. To coordinate the efforts, an international coordination platform, the 'Ukraine reconstruction platform', may be established. It would act as an overarching and single-entry point for all actions on the reconstruction of Ukraine. We need to be aware that the sooner reconstruction efforts begin, the sooner Ukraine will be able to get back on its feet. And, as has happened in the past, post-war reconstruction provides unique opportunities for



firms and businesses involved in the process. We should make sure that European businesses are ready when the time comes.

The Union will consider providing a major part of the overall international efforts to rebuild Ukraine, possibly also through a tailor-made facility. Based on the Commission's communication of 18 May 2022, the framework for the EU's contribution to the reconstruction of Ukraine would consist of: (1) the RebuildUkraine Facility, a new EU-funded instrument specifically dedicated to financing the reconstruction effort and aligning Ukraine's economy to the EU; and (2) support from existing Union programmes. On 31 May 2022, the European Council agreed to consider a Ukraine reconstruction platform and invited the Commission to make a proposal on this basis.

Despite the Union's willingness to significantly contribute to the long-term reconstruction of Ukraine, limited means are available in the current multiannual financial framework, and new sources will need to be identified. With the war ongoing, the long-term overall costs of reconstruction are still growing. Ukraine's financial needs will extend beyond the rebuilding of physical assets, including infrastructure, and budgetary support to the Ukrainian state will have to be provided. With the options of financing from the EU budget depleted, new financing sources may need to be identified. Resources to finance additional grants to Ukraine could be found through existing Union programmes and reprioritisation in the current MFF, through additional contributions from Member States to the EU budget or to the RebuildUkraine Facility, a combination thereof or through other 'out of the box solutions'. The new sources could also finance loans to Ukraine under the Facility. However, given the scale of the loans that are likely to be required, funds for the loans may also be raised on behalf of the EU or with Member States' national guarantees.

Against this background, the Presidency invites Ministers to exchange views on the role of the EU and its contributions to Ukraine's short and long-term financing needs.



Questions for discussion

- *With respect to the main aspects of the long-term reconstruction effort presented in the Commission's communication of 18 May 2022, what are Ministers' views on the high-level strategic reconstruction plan (RebuildUkraine) and on the proposed EU contribution through the RebuildUkraine Facility and through support from existing Union programmes?*
- *The financial needs for the long-term recovery of Ukraine go well beyond the means available in the current multiannual financial framework. Therefore, new financing sources may need to be identified. What are Ministers' views on the need for and the possible origin of these sources?*