



**April 8, 2022**

## **Ukraine recovery needs a debt write-off and help from the EU and China**

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Russia's invasion has caused such material destruction that a vast post-war aid effort is essential

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Russia's invasion of Ukraine takes its toll. Most tragic are the terrible loss of life and human suffering, but the material destruction too is enormous. Before the war, the IMF forecast an increase this year in Ukraine's gross domestic product of as much as 3.6 per cent. Now the Economist Intelligence Unit assumes that it will drop in real terms by an alarming 46.5 per cent.

According to Ukrainian prime minister Denys Shmyhal, taking into account the damage already done and the expected fall in production in coming years, the losses will exceed \$1tn, of which the destruction of infrastructure amounts to \$120bn.

In the current phase of the crisis, humanitarian and military aid is most urgent. There will come a time, however, when the shots will cease. The day after, not only immediate help but long-term support will be essential.

Understandably, Ukraine aspires to join the EU. It should be admitted over time, but not by any extraordinary procedure or express path. Ukraine must meet the conditions of membership, as is expected of other countries that are candidates for entry. In the case of Ukraine, the de-oligarchisation of the economy is of fundamental importance. For years, corrupt economic and political structures have held back the country's development. In purchasing power parity, Ukraine's per capita GDP in 2021 was only 74 per cent of the 1989 level.

To support Ukraine's reconstruction, the EU should create a special long-term financial vehicle – a European Fund for the Reconstruction of Ukraine. Successive multibillion-euro tranches should finance infrastructure investments and human capital development. Launching such a fund, to which the European Commission should invite the UK, Norway and Switzerland, will not be easy. It will prove far more expensive than supplying weapons to fight the Russian aggressor.

The EU plans to spend hundreds of billions of euros in financing the bloc's economic recovery from the pandemic. No less costly will be the energy transformation and transition to renewable energy sources. The EU must not turn away from the arrangements made at last year's COP26 summit to combat global warming. Even in such an extraordinary situation as the war, it must not be forgotten that climate change is the greatest challenge facing humanity.

The second instrument of aid for Ukraine should be deep cuts in its foreign debt. I know from experience how much this matters. In 1994, as Poland's finance minister, I signed an agreement with the London Club to halve the debt to private banks. This amounted to \$6.3bn, which was then 5.7 per cent of our GDP. It was a boon to the public finances but, more crucially, allowed access to world capital markets and opened Poland to western investments.

Ukraine's public debt at the end of 2021 amounted to about \$94bn, or 61.7 per cent of GDP. Of this sum, foreign debt is about \$57bn. The west can afford a far-reaching reduction in these obligations, or even their complete cancellation. Ukraine's partners should declare their intention to help, linking stage-by-stage debt reduction to progress in de-oligarchisation and the building of a social market economy in place of corrupt state capitalism.

The third form of assistance to Ukraine requires Chinese involvement. A decade ago, Ukraine was not asked to join the so-called "16+1" mechanism, the eastern European part of China's Belt and Road Initiative. Now, as soon as a ceasefire is announced, President Xi Jinping should call President Volodymyr Zelensky, invite Ukraine to join the group and declare his readiness to help rebuild the shattered economy.

Such an act would not be anti-Russian, anti-EU or as a sign of Chinese expansionism, but an expression of China's willingness to join the process of overcoming the Ukrainian crisis. It could also revive the somewhat rickety course of the BRI in our part of the world. China has significant overcapacity in the construction industry and is looking for opportunities to use it abroad. It has extensive experience in infrastructure investments, including roads, bridges, tunnels, ports, airports, railway lines, power grids and internet networks. Chinese companies have shown they can adapt to the most diverse conditions abroad, from south Asia, the Middle East and Africa to some European countries.

Taken together, a European fund, debt cancellation and Chinese assistance would give a tremendous boost to Ukraine's recovery from the war's destruction. As soon as political conditions permit, Ukraine must be helped economically, because it cannot cope on its own.