



BOND OF WAR

RUSSIAN GEO-ECONOMICS IN UKRAINE'S SOVEREIGN DEBT RESTRUCTURING

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Why are Ukraine and Russia locked in a legal battle in English courts? And what does the outcome mean for the future of Russian efforts to use economic tools to coerce its neighbors? This paper examines one under-studied front: the dispute between Russia and Ukraine over a contested \$3 billion Eurobond sold by Ukraine's government and purchased by Russia's National Wealth Fund in December 2013.

The paper first outlines the sale of the bond and then examines a number of specific contractual terms that have proven controversial. The paper next explains how the dispute led from the halls of the International Monetary Fund (IMF) to a British courtroom. It then looks to identify Russia's geo-economic strategy in the loan and subsequent legal dispute. Next, the paper positions this strategy within global developments in geo-economic policymaking, sovereign bond markets, and Russian foreign policy. Finally, it concludes by examining the dispute's implications for Russian geo-economic policy and sovereign debt markets.

KEY INSIGHTS

- Should Russia win at the UK Supreme Court, other sovereigns may follow Russia's precedent and blur the line between official and private debts for geopolitical or economic gain.
- A victory for Ukraine based on duress or odious debt claims could have a major impact on sovereign bond Eurobond markets, as investors will have to more closely consider the political environment under which bonds are issued.
- Regardless of the bond dispute's ultimate outcome, Russia is deepening its involvement in internationally traded private debt markets.
- As sovereign bonds become increasingly subject to geopolitical tensions, the U.S. and Russia will try to influence their structures.
- The U.S. may be retreating from employing sovereign debt as a geo-economic instrument, just as Russia escalates its efforts to do so.
- Russia's controversial loan to Ukraine is unlikely to be Russia's last foray mixing geopolitics with sovereign debt.

