Peterson Institute for International Economics

Ukraine's fiscal and financial challenges

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[00:00:29.15] - Nicolas Véron

Good morning, good afternoon, good evening, wherever you are in the world. I'm Nicolas Véran. It's my pleasure to introduce this session of the series What Now Europe? at the Peterson Institute for International Economics. And speaking about Europe, we'll talk today not for the first time about a European country that is going through a lot, and that's Ukraine, with Natalie Jaresko. Natalie, you're Ukrainian-American. You studied accounting initially at DePaul University in Chicago, then, um, uh, you had a master's degree in public policy at the Harvard Kennedy School. That was back in 1989. You started your career at the U.S. State Department, uh, working on economic issues in Washington, at the U.S. Embassy in Kyiv, and in the mid-'90s you joined the investment fund industry, very much investing in Ukraine and Moldova. You co-founded a firm called Horizon Capital in 2006. By 2014, Horizon Capital had $600 million of assets under management in Ukraine, if I'm not mistaken. So that was a big contributor to the Ukrainian economy. You became, of course, the Minister of Finance for Ukraine in December 2014, a couple of months after the Maidan, Euromaidan, Revolution of Dignity. You stayed there for about a year and a half until April 2016, a very momentous period of adjustment and reform for the Ukrainian economy.

[00:02:01.17]

After that, you've remained very involved in Ukrainian matters as chair of the Aspen Institute in Kyiv, as a participant in a number of civil society initiatives, but also in 2017 you became the executive director of the Financial Oversight Board of Puerto Rico, a very bumpy ride also during 5 years until 2020. And in '23 you joined EY Parthenon, the advisory arm of the EY network where you work now. And we can see the logo. Hello, EY. Thanks for your support of the Peterson Institute. So with that, Natalie, over to you. We are going to talk about Ukraine's fiscal trajectory and fiscal sustainability, if the word means something for a country at war. Tell us how it looks.

[00:02:51.10] - Natalie Jaresko

Thank you very much, Nicholas. It's a privilege to be here, but it's a sobering privilege because the questions that we're about to talk about, the questions that we're about to speak about are questions that determine honestly whether Ukraine wins not just the war but wins the peace. I come to this conversation from the vantage points, as you said, two in particular. As Minister of Finance from 2014 to '16, we navigated a 17% GDP contraction, near default, first debt restructuring. And today at EY Parthenon, where I work with sovereigns and C-suite investors, uh, we're always talking about opportunity and fiscal distress in the sovereigns. Both of these lenses tell me the same thing. Ukraine's situation is very grave. It is serious. It is difficult, but it is manageable and it is being managed. If Europe and Ukraine, Ukraine itself makes the right decisions going forward, makes the right choices in the next 18 months, I believe that Ukraine will come through this war, both winning the war and winning the peace.

[00:04:09.20] - Nicolas Véron

That was crisp. So I will, I will follow up. You just said Europe and Ukraine and You didn't say the US. Have Ukrainians given up on US support or how do they look at it?

[00:04:24.13] - Natalie Jaresko

No, I don't believe anyone's given up on US support. I think that my language reflects the level of activity. The United States is still a very important partner, especially on the military side, providing weapons, supplying weapons to the Europeans to purchase for Ukraine. As well as military intelligence. There is an important US-Ukraine investment fund that was established about a year ago today, I think. And the reason I stress Europe is because the financial support, the fiscal support, has come almost entirely from Europe since about a year and a half ago. And it appears that that's going to continue to be the case. In addition to Europe, of course, there's Canada, Japan, um, outside of the EU, UK, but the United States is no longer contributing fiscally, financially. And so looking forward 18 months, I would expect this to one, rely very heavily on the European fiscal support, which has been committed, and on the EU accession process, which is the path for the reforms and the improvements that Ukraine will be making in the economy, in the political situation, in the judicial sphere all along during war and after.

[00:05:47.04] - Nicolas Véron

So we'll come back to these issues of European support and fiscal trajectory and also indeed EU membership. But let me just spend one or two more minutes on the US termination of support. How did this happen and why? I mean, I can think of at least at the beginning of the full-scale invasion in 2022, 2023, most of the external support to Ukraine also financially came from the US. So there has been a gradual reduction. And in a way, the Europeans, as you have said, with a few more partners such as Canada and Japan, have taken the baton. But Was that in a way an inevitable rebalancing because ultimately Ukraine is in Europe? It's natural that the assistance would come from the neighbors. Was it the Republican Party in general blocking, which they did in 2024 before the election, and not viewing financial support to Ukraine as in the US interest? Or is it at the end of the day a Trump factor? And had Trump not been elected, we would have had some form of continuation of support. How do you think about it, if I could put it that way, historically and in kind of with the benefit of hindsight?

[00:07:08.21] - Natalie Jaresko

So I would say it's a mixture of all three, but I would lead with the Trump administration's policy. And I lead with that because number one, US population when surveyed is substantially supportive of Ukraine and supportive of continuing support. Financial support to Ukraine and military, over 80% in most surveys. In Congress, in the Senate in particular, there is overwhelming support for Ukraine. There had been over 70 signatures ready out of 100 to pass incremental support language and sanctions against Russia. However, the Trump administration has made the case that they don't believe they should be financing this because Ukraine is in Europe. Their national security strategy is clearly focused on the Western Hemisphere. And they have made the case that, as they have with NATO, that they wanted to rebalance the situation. And now the Republican Party has followed in that path. In other words, they haven't passed anything substantial. Since President Trump was elected, in part because they are giving President Trump the ability to, quote, be an intermediary in the Russia-Ukraine negotiations or discussions, I should call them. And they didn't want to tie the president's hands in that policy. But President Trump has just recently at the G7 meeting signed on to the G7.

[00:08:42.06]

The United States has signed on to the G7 language on Ukraine, which a year ago did not happen. But this year did, which is a very good sign, both supporting Ukraine, stating the need to increase support for Ukraine, and the statement that the expectation is that Ukraine will win. He met with President Zelensky. It seems to have been a kopysétékos, a relatively friendly meeting. At least that's good news because we've seen others. Other kinds of meetings. So I think it's a combination of things. I believe that, you know, the war in Iran, US war in Iran, has changed choices even for the Trump administration significantly. And so I think we're in the midst of perhaps another pivot of the administration, getting a little bit closer to Ukraine, perhaps not as for example, supportive as the Biden administration was, but still a pivot.

[00:09:45.19] - Nicolas Véron

Let's see how it develops. How does it affect Ukraine itself? I mean, essentially, we shifted from Ukraine in the early 2, 3 years of the full-scale invasion, primarily supported by the US, also financially, to Ukraine now, which is primarily supported by Europe on the financial side and actually increasingly also on the military side, even though, as you as you said. So US keeps playing a critical role. Does that make the Ukrainian government behavior different? Is a, is a US supporter of Ukraine acting differently from a European supporter of Ukraine or vice versa?

[00:10:27.08] - Natalie Jaresko

I don't believe so. I believe Ukraine since 2014 has been very clear about its aspirations, its direction. It is a full-fledged democracy and very active democracy based on civil society being engaged at all levels. It has an EU future. It has a desire and a goal and the objective to join the European Union, which means to align with Europe in terms of values as well as laws and regulation. I believe that You know, Ukraine will always be supportive of democracies broadly, and it has established deep relationships and diversified its support because of its deep belief in democracy. So it has, you know, Japan has increased its support over the past 10 years substantially for Ukraine. You see other countries coming to support Ukraine outside of the EU. And I think that the United States played a much more important role and it has receded somewhat, but not entirely. And that balance may shift from issue to issue, but I don't believe that the United States is outside of Ukraine's interests and I don't believe the Ukrainian government or people believe that either.

[00:11:45.14] - Nicolas Véron

Let's talk about the fiscal equation. Can you give us the orders of magnitude, you know, what we know? Of course, it's wartime, so the statistics may be a bit iffy, but what we know about Ukraine GDP, government spending, spending, how much of that comes from external support, tax revenue, indebtedness? How is this very particular equation shaping up?

[00:12:08.11] - Natalie Jaresko

I think the fiscal equation is made up of 3 basic parts: defense spending, domestic revenue, and external financing. And then the binding constraint basically shifts depending on which of these pieces is fulfilled, which is satisfied, and which has not been satisfied. So the time horizon matters. Right now, Defense consumes about 43% of GDP.

[00:12:32.05] - Nicolas Véron

Which is how much in absolute terms in US dollars?

[00:12:36.04] - Natalie Jaresko

I don't have the number in front of me, so I apologize.

[00:12:39.08] - Nicolas Véron

But GDP pre-war was, I think, at about $200 billion. Is it still the order of magnitude we're talking about?

[00:12:47.29] - Natalie Jaresko

I believe it's somewhat less than $150 or so, but I'm not certain, so I don't want to— provide you with correct numbers. What I want to compare that to is 10 years ago when I came into the Ministry of Finance, we struggled to get 5% of GDP. We struggled. Prior to the revolution, the Yanukovych government had destroyed the Ministry of Defense and we had no serious military such that when Russia invaded Crimea and Donbas, you know, we relied very much on volunteer battalions. So we were massively moving to kind of increase. So we've gone from 5% 10 years ago to 43%. That is a huge shift. I would say that I don't know that there's any modern peer that is spending that much of their economy. Now, if you take away all the grants, the European and other grants that are being provided fiscally, The budget deficit is about 24% of GDP, 20 to 24. And so that's the gap that needs to be filled. Self-sufficiency is improving. So each year that gap is getting smaller, meaning Ukraine's domestic revenues are growing. They grew 24% in 2025 over 2024. And that's remarkable. We're at war.

[00:14:09.12]

The destruction is horrific. We have obviously labor issues, challenges to meet, and yet revenues have grown. That's a very good thing. So I think that for '26-'27, the commitments have been made, the funds have been secured. Again, Ukraine uses all of its revenue to finance the military budget, and the, what I'll call, social budget is financed by donors. That's the IMF and all the countries we've mentioned. It's this '26-'27 period has been secured primarily because of the IMF and the EU, including a €90 billion loan that the EU had approved. And the Drukho Narada, the parliament, approved in May, which is both for defense spending and for social budget. And the repayment of that loan is very important as we talk about the debt situation, is tied to Russian reparations. There is no claim against Ukraine for that €90 billion. It is against Russian reparations when and if they come in. I think that Ukraine faces a cliff, a fiscal cliff at the end, towards the end of '27 and '28. And The, the financing gap is anywhere close to maybe $130, $140 billion. The gap when I was in government was much smaller. It was in the $70, $80 range for the 4-year period.

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So it is a large gap. And planning for post-2027 is probably the key discipline right now. You cannot count on European taxpayers, in my view, continuing to provide this level of support indefinitely. I don't know what year it will end, but I can say that it can't continue indefinitely. You also have elections coming up in Europe, and political changes are very, very possible in a variety of countries that are currently very supportive of Ukraine. And that may put some of the funding in jeopardy. So I think this raises the importance of the Russian sovereign assets which remain frozen in Europe. My understanding is it's somewhere over $250 billion, but the numbers are not 100% clear and I haven't seen any registers kind of of the numbers. And I think that that is probably the single greatest resource that Ukraine will have going forward, both fiscally but also for reconstruction and for justice. The claims that have been made against the Russian invaders have been registered. The war crimes have been identified at the International Criminal Court, and I am certain that justice will be sought for people who have suffered. So that those Russian assets being made available to Ukraine under a financial mechanism, whatever works legally, is going to be critical going forward.

[00:17:23.28] - Nicolas Véron

You mentioned the $90 billion over '26 and '27 provided by the EU. This dwarfs the IMF contribution, right? What is the IMF contribution during that same period? Is that like $15 billion or— I don't get my numbers exactly right.

[00:17:42.29] - Natalie Jaresko

No, I think that's about right. And Ukraine has just received its first first tranche. It's an $8 billion program right now. So 8.1, basically. That's— and it's reached its first review at staff level. Ukraine has missed some of the deadlines, and so they have had to be negotiated. They're being moved. However, it did get staff level agreement, and we're awaiting a board decision.

[00:18:13.29] - Nicolas Véron

And of course, this monitoring of conditionality by the IMF staff is more important than the numbers suggest because it also informs the EU decisions, right?

[00:18:23.03] - Natalie Jaresko

And they've been, for the first time I believe, actually working together on that conditionality. When I was minister, at any given time we had 400 different benchmarks we had to meet from different donors for different parts of the agreement. For a $1 billion credit guarantee, I had that list and for the IMF, we had that list and nobody really coordinated. Today, the EU and the IMF are coordinating much more. The focus is very much on kind of two sets of benchmarks. One is structural fiscal. That's the currency, that's the reserves, it's the fiscal strength of the budget. And the second is EU accession and moving towards, towards EU membership. I would say that always the IMF is the, we call it the seal of good housekeeping. Because with the IMF in place, I think there's credibility provided and transparency as to what actually is happening, which reforms have been adopted, which are being implemented, where the country is, where it plans to go. And I think having the IMF there, in '14, it was absolutely critical without question because we had never fulfilled an IMF program before 2014. So we had no credibility in the marketplace and in the international sphere.

[00:19:39.21]

Today, it's even more critical during war.

[00:19:42.29] - Nicolas Véron

Clarify, before 2014, there had been many IMF programs for Ukraine, but they hadn't been complied with.

[00:19:49.00] - Natalie Jaresko

No, not one.

[00:19:51.05] - Nicolas Véron

So, um—

[00:19:52.14] - Natalie Jaresko

This is very meaningful that Ukraine has been on this IMF path for a decade. Yeah. And it continues to meet those targets and it continues to reform during war. Which again is, you know, it's exceptional that the IMF is doing a program during war. This is the first time during an active war. But it's also exceptional that Ukraine is not only maintaining its fiscal structural balance and the economy is doing as well as it is, as resilient as it is, but that the reforms continue.

[00:20:22.25] - Nicolas Véron

That's right. So the $90 billion has been a big breath of oxygen for Ukraine fiscally, I think, in the months leading up to the first reimbursements, it was a little bit tight. There were anecdotes about, you know, screws being tightened in— also on the ground for the military, which was not good. Now there is this, this big amount of money which is essentially available with due conditionality. It gives a lot of leeway fiscally to Ukraine. They have announced recently a number of decisions, for example, to increase pay for the military, for a number of defense-related expenditures on the social side. Is it a risk that, you know, they're in the money now and they may increase expenditure to an unsustainable level? Or do you view these recent announcements as essentially long-overdue adjustments that were not possible before but are made possible by the 1 to 1.5-year horizon of the European money?

[00:21:32.29] - Natalie Jaresko

I believe that when you're talking about the social military sphere, supporting the families of veterans, supporting those who've lost family members and military themselves in terms of salary and benefits, I don't think that there is any way to look at that situation and say that they don't deserve it. So very difficult decisions have to be made. I do believe that having the IMF program in place and having the Ukrainian government committed to the IMF program means we will not see as a result much higher deficits because the IMF will not agree to that and it will stop all funding. The €90 billion loan has not been provided in one fell swoop. It was a single tranche of €3. 2, I think, billion euro, about 3 billion euro. And you don't get the next tranche if you're, if you're conducting economic policy that isn't in alignment with the agreements you've made. That loan requires, for example, increasing self-sufficiency in terms of revenue. So the EU is counting on this path to greater and greater revenues continuing. And the Ukrainians have to take actions to make that happen. You don't double taxes overnight. So I would say that the conditionality is important to keep everything on track.

[00:22:49.26]

And this has to be realistic. This is not— this is in wartime. And so I do believe that it's not the same as in a peaceful situation. You have to be ambitious, but we have to be realistic about politics, about the exhaustion in society. We are in year 5 of a full-scale war. We're in year 11 of this war, generally speaking. We have to implement the reforms, but they ought to be reforms that help Ukraine with that vision, EU accession, peaceful, winning the peace, and not with just kind of philosophical economic and/or financial goals.

[00:23:29.09] - Nicolas Véron

One big feature of the €90 billion of the European loan, which as you said has many features of a grant, is military expenditure. It is the first time that EU money on this scale is explicitly available for defense procurement and expenditures that is directly linked with the warfare. And that's actually, if I remember correctly, about two-thirds of the $90 billion. So a majority share of it. How does that transform Ukraine's military equation? Is that Obviously Ukraine is doing reasonably well. I shouldn't want to jinx it, but militarily they had the initiative on a number of fronts in recent weeks. Is that correlated with the availability of this extra money? How do you see the interplay between fiscal and especially external assistance and the military outcomes that we see on the ground?

[00:24:26.02] - Natalie Jaresko

I think first that What we're seeing on the ground doesn't correlate to the $90 billion because the first tranche hasn't been received yet, from what I understand. It's any day, but not yet. It does correlate that the $60 versus $30 billion for social expense correlates with the understanding that I think everyone finally has. And I think the Western world maybe came to it a bit late, that winning the war more quickly will be less expensive going forward. Right? I think, you know, the sooner Ukraine can create an environment where Russia has to come to the table to negotiate, the better, the less destruction that will occur, the less that has to be rebuilt, the less of a hole that's being dug. So I think, I think that's the understanding why putting money into the military is, in essence, an economic step as well, because you're, you're, you're putting less stress on the economy over time, if you can get the war finished sooner. I do think that Ukraine has become very self-sufficient on the military side. And some 60%, from what I understand, of their military needs are being met by Ukrainian-manufactured goods. But they need to finance those companies.

[00:25:43.17]

We're not limited in Ukraine to manufacturing capacity, we're limited by financing. And so you hear a lot about the ability to manufacture even more if there was financing. And that's what that $60 billion will do for Ukraine. It will free up domestic capacity as well as provide for, through the PERL and other purchases of weapons from other countries.

[00:26:07.22] - Nicolas Véron

Well, that's a good moment to introduce a parameter which is important for Ukraine and is complicated, and that's the integrity of public procurement, the rule of law in those matters, instances of corruption, of capture. And it is very salient in this segment of defense procurement because there are, I guess, plausible reports that, you know, there's a bit of a tug of war here.

There's a very vibrant startup scene of Ukrainian military procurement firms that innovate and invent new forms of warfare. There are also very powerful interests both in the public and the private sector, defense procurement sectors with lots of political connections. And clearly, government decisions can go one way or another, favor the politically connected suppliers, favor the innovative startups. And even that, of course, is a simplistic caricature of a very complex situation. So how do you think about that? I mean, is it mostly going in a promising direction? Are the forces of inertia, bureaucratic capture, and political connections going to prevent the growth of a dynamic Ukrainian weapons procurement sector? How are the Middle Eastern contracts interfering with that? Of course, there's been a big game changer this year, with the provision by Ukraine of military support and knowledge support to the Gulf monarchies?

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How is the landscape evolving?

[00:27:48.10] - Natalie Jaresko

Well, I do believe, again, that as you said, that the US war on Iran has been a very important marker globally with regard to everyone recognizing Ukraine's military capacity, experience, and its capacity to be a global arms exporter. And today it's limited simply by the fact that Ukraine needs these weapons. And Ukraine has legislated that, you know, you have, you know, export is very, very rare. You have to serve the war up first. You have to serve the defense first. That said, the government has moved to, I would say, a much more market-oriented approach because of the significance of technology. Therefore, what I'm saying is you're not going to finance something simply because it's your friend's manufacturing facility when there's something more advanced and more successful available. So the competition between the technologies, the competition on the battlefield for success with these technologies is very much now part of the procurement process, whether someone wanted it to be or didn't want it to be. In addition to that, I think the level of collaboration going on with European countries on the military side is very important. So the Minister of Defense is either in or just left Netherlands, and the Netherlands has been a critical partner, for example, with F-16s throughout this period.

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But now they've established a joint cooperation agreement under which they're innovating military technology together. They're also allowing Dutch technology to be transferred to Ukraine and tested on the battlefields and more like that. So the government is enabling the foreign governments to cooperate within the limits of government policy. But that means that that government has a very good eye on what's happening in Ukraine in terms of equipment and what's being used. And it's harder to finance the wrong party because of capture. I would say that there's another model, the Danish model it's called. The Danes were the first to establish that they would finance Ukrainian military manufacturing directly through Ukraine. They have to do, they have to review the facility, they have to audit the process. But they from the very beginning were providing financing before anyone else to Ukrainian military manufacturers. So with those extra eyes on the process, I believe that the situation is certainly— I'm not going to say it's completely uncorrupt because nothing in the world is. I'm from Chicago. I've lived in a lot of different places. Corruption is part of human nature, unfortunately. But I do believe that Despite the secrecy of defense procurement, which raises questions, of course, during martial law, the anti-corruption spirit and demands of the people of Ukraine are very, very strong.

[00:30:57.07]

And so I believe the greatest check— I've mentioned international check— but the greatest check on corruption is civil society in Ukraine. We all remember when there was an attempt to shut down some of the anti-corruption bodies that were created 10 years ago in 2014, 2015, 2016. And immediately young people came out on the street underneath the president's office with cardboard signs saying no. And the decision was reversed. And—

[00:31:23.26] - Nicolas Véron

Last year, right?

[00:31:24.29] - Natalie Jaresko

I'm sorry?

[00:31:25.29] - Nicolas Véron

That was last year.

[00:31:27.00] - Natalie Jaresko

Yes, last year. So even during wartime, people are willing to protest bad policy. That's quite unique. And corruption is the key issue. It was the key issue underlying the Revolution of Dignity in the end. It is the key issue in every conversation with every bilateral, multilateral donor. And Ukraine has consistently increased transparency, with the exception of this martial law issue. What I mean by that is in the '15-'16 period, you know, it was— the civil procurement system, which got all kinds of accolades because it introduced transparency. I remember the first procurement of military food. This was back in 1516 in the presaro system, and a German retailer won the bid, and people were just shocked.. But they had better quality at a better price than any of the Ukrainian firms that had previously been, quote unquote, feeding the military. So it works. I think the budget is transparent now. We put— we have the e-budget. We have transparency in all of the digital things that Minister Fedorov has been able to do in his previous life, including getting 60 different services of the government on a digital app where the Ukrainian citizen does not have to deal with another human being.

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There's no chance for corruption. It's been eliminated entirely. And the anti-corruption institutions, there are multiple, are functioning. We're seeing it in live time right now. We've had a scandal recently in the energy sector. And it hits as high level as you can imagine. And the investigations go on. And the process is moving forward. Hopefully justice will speak out at the end. So I think corruption is a challenge. But I do believe that Ukraine has significantly changed over the last 10, 12 years. And I believe that that change is guaranteed by civil society. It's being overseen by the international community and the IMF and so on. But it's guaranteed by civil society.

[00:33:48.20] - Nicolas Véron

Can you tell us about BRAVE ONE? What is BRAVE ONE and what lessons from that experience?

[00:33:55.27] - Natalie Jaresko

It's not an area that I specialize in, but my understanding is, and I've met with some of their group, it's in essence an incubator, maybe a little bit of an accelerator, depending on the stage of development of a defense tech company. But it is a government support for defense tech evolution. Defense tech evolution has accelerated because of the war at the front lines, in fact, because of the battlefield moving so quickly and because this acceleration of technology doesn't end. Every 2 weeks or so, there's a cycle where the other side catches up and you have to continue to, to go further. So if you develop a drone and then the electronic warfare on the other side is able to shoot down your drones, then you have to create other methods to deny them that opportunity. So there is a demand for technological innovation. But after the Iranian situation, the demand became global. And there was a clear understanding that Patriot interceptors, which were used during the war by the United States, my understanding is we, in the first 3 days, United States utilized the equivalent or more than the annual production of those Patriot interceptors.

[00:35:15.21]

That tells you that just physically, from capacity, you cannot rely on Patriot interceptors. But more importantly, perhaps, is that they cost $2 to $5 million each piece while the drones cost about $100,000. It's not financially feasible to fight. And so Ukraine is able to now take this combination of situations, its own and the global, and take these entrepreneurs on roadshows, recently in London, and match them with VCs, with angel investors, with manufacturers who wish to benefit from Ukraine's battlefield experience, the battlefield testing, and the ingenuity of the Ukrainian innovations. So Brave One is a great industrial policy for Ukraine, and it's been very helpful in getting the word out about this is, this is not just drones. It's an ecosystem. There's radar, there's electronic warfare, there's, there's much more than a drone involved. And things have to be adapted. The sea drones that Ukraine successfully used in the Black Sea to drive out the Russian Black Sea Fleet. Have to be adapted if you want to use them in the North Sea. As water, even in the Middle East, everything has to be adapted to the humidity. So collaboration has to continue. And I think President Zelensky going directly to the Middle East immediately, being the first leader there, and then negotiating cooperative agreements and providing advisors who could stay there for days and days and work with them to establish some of this was a huge credibility factor for the sector.

[00:36:58.03]

At EY, I'm seeing the defense tech companies and the defense industry in the West searching for these partners, searching for ways to take the IP and adapt it or to even jointly manufacture. And it goes in both directions. Yesterday, I think everybody saw that at the G7, President Zelensky asked for a license to manufacture Patriot interceptors from the United States, from Raytheon. Increasing capacity right now is as important as increasing the amount of money available because the Russians are putting a great deal of their economy into the weapon, into weapons, and their manufacturing capacities are high. So I think BRAVE-1 is a great example. I'm not always in favor of industrial policy, but I think in this case it is really been working.

[00:37:53.02] - Nicolas Véron

Reverting back to the kind of traditional fiscal lens, let's talk about Ukrainian debt. There's private sector debt and there's public sector debt. And of course, there are different categories, especially at this juncture. How much debt of the Ukrainian government is still held by private sector investors at this point following multiple rounds of restructuring?

[00:38:15.17] - Natalie Jaresko

If we're talking about outside investors, private outside investors, it's a small percentage. It's a very small percentage at this point, both because of the restructurings, but also because there haven't been new borrowings and the overwhelming support from Western countries comes in the form of loans. And so official loans are now the greatest part of this. That said, I have to say that the Ukrainian banking system holds a substantial amount of its assets in, I'll call it, domestic treasuries. And that is the private sector as well. And it is a critical issue because holding 20-25% of assets in government, in the government, what do you call it, government assets, government bonds, it means that there's not going to be the same amount of capital available to invest in the economy. And really, the Ukrainian banking has been extraordinary. So again, it's an understated fact that the resilience of the banking system is extraordinary. I remind you that when I became Minister of Finance in '14, we had over 100 banks, many of them pocket banks, oligarch banks, call them what you wish. Uh, 60 of them failed, and we had, you know, We had rushes to the bank for money.

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We had challenges with the deposit guarantee fund. We had to nationalize Privatbank. We had to allow many banks to fail, not take on that. And during this full-scale war, not one bank has closed. There hasn't been a run on one bank. And the banks are strong because they've had 12 years of both having been cleaned out and independent regulatory policy by the, by the central bank. So that, that part of it, I think, is critical. Will Ukraine need debt restructuring? I think that the way I understand IMF programs and the way the IMF program was negotiated when I did it, it will most likely require a debt restructuring with the private sector, even though it's small, just because everyone has to have their piece. They have to contribute their piece. And so when we get to the next program and they're trying to cover a balance of payments gap of $140 billion, even if a small piece of it will come from the private sector, I would expect that that would be a requirement of the IMF.

[00:40:50.02] - Nicolas Véron

It's hard. Including the exposures held by the domestic banks or only foreign holders of that?

[00:40:58.23] - Natalie Jaresko

Certainly, when I was there, it was only foreign holders because the banking system was already so incredibly fragile.

[00:41:06.29] - Nicolas Véron

Yeah.

[00:41:07.24] - Natalie Jaresko

But I don't— I have seen in other countries the requirements to restructure also at the domestic level. I don't know what the choice will be here. I do believe that there are other ways to work to strengthen the banking system, and I think You know, one of them is to reduce the amount of state ownership in the banking system. It's over 50% right now, given the nationalization of Privatbank. And privatization of some of these state banks is on the schedule. So Ukrghazbank and Centsbank are both in the pipeline for privatization. But I believe that that is going to be more important to the international community and to Ukraine And I believe creating financial mechanisms that will work for reconstruction, longer-term financing, project financing, which doesn't currently exist, will be critical.

[00:42:04.01] - Nicolas Véron

I had the privilege of hosting former Governor Valeria Hontariv at the Peterson Institute earlier on. And indeed, the wave of restructuring when you were Finance Minister and she was Governor of the National Bank of Ukraine,. And the wave of closures of, as you said, pocket banks and oligarchic banks is something that we haven't seen in many other countries. So that was quite, quite a story. We are very close to the end of our session. I want to talk a little bit about the prospects for EU accession. Obviously, President Zelensky has been putting pressure, if that's the right word, on the European Union and highlighting the target date of 2027, which in the EU is not viewed as realistic. There are a lot of discussions about associate membership and how we could, you know, uh, make a kind of, uh, membership which is not really membership. So how is that viewed in Ukraine? Is there a growing Eurosceptic movement given the time it takes to become an EU member state? How do you see the current in both domestic public opinion and in Ukrainian elite opinion vis-à-vis the EU?

[00:43:21.07] - Natalie Jaresko

I see it as twofold. On one side, Ukrainians are very self-assured by their own resistance, defiance, and success over the last 4 or 5 years. And what I mean by that is They believe that they will get it done. So the EU can say it's going to take you 10 years, it took Poland 12, it took Romania this, and the Ukrainians will say, yes, but you also said we would not exist in 4 days. And so it doesn't matter how much is said, they are moving rapidly. They opened the first cluster this week. They will move as rapidly as they can. And they will ask for exceptions and transition periods. But frankly speaking, you know, the EU is going to need those as well. In terms of transition, the EU isn't ready for such a large and small— large and needy economy joining the EU. So I would say that that's the primary vision. We'll get there. They think it's 10 years. We don't think so. And setting a goal of 27 is an important management incentive. I know that it often aggravates European stakeholders, but it's important internally because you're going to— it's going to require, if my understanding is like 1,000 pieces of legislation to be adapted.

[00:44:47.05]

So you need to keep that pressure on domestically, politically. And Ukraine, again, through this process of asking for weapons, if you recall, asked for F-16s early on. It was no, no, no, no, here they are. If you ask for long-range missiles, no, no, no, here you go. And so, you know, for better or for worse, Ukraine is under the impression that asking for it and working towards it, not just asking, this isn't charity, will work. Whether it works in '27 or not, I don't know whether the EU creates a new approach to membership or associate membership or partial membership. I don't know. But I will say that it's 12 years after young people died on the Maidan with EU flags draping their shoulders. This is not a because of the war desire. This is not a whimsical decision. This is something that is part of the Ukrainian social fabric. And it is the objective of all. And with each new generation, it becomes ever more important. You have fewer and fewer people who recall the Soviet past or want sausage for 10 cents. And I don't believe that this is going to stop. The pressure is on, and this is what's desired.

[00:46:11.05]

It's going to be hard work.

[00:46:14.13] - Nicolas Véron

On this uplifting note, and we're at the end of our session, but thank you so much, Natalia Yaresko. For covering a wide range of topics today and giving us so much to think about in terms of the present and future of Ukraine in Europe and in the future in the EU. Thank you so much and have a great rest of your day.

[00:46:37.11] - Natalie Jaresko

Thank you for having me. Thank you for making— thank you, Nicholas, for making Ukraine part of your European focus.

[00:46:46.01] - Nicolas Véron

Very much so. And it's only the beginning. So thanks very much.