



MINISTRY OF
FINANCE OF
UKRAINE

Ukraine Investor Presentation

April 2017

- ▶ **A year after the successful completion of its public debt restructuring**, Ukraine has completed a number of key steps towards the restoration of its the economic and financial situation:
 - a return to nominal and real growth: growth has been steady over the last 4 quarters with 2.6% growth achieved in 2016 and 2.0% expected in 2017
 - the implementation of structural reforms at a very high pace
 - a sustainable public debt trajectory with debt ratios stabilizing from this year onwards
 - a steady and continuous support from international financial institutions

- ▶ **In more details**
 - **Public debt:**
 - Total public and publicly guaranteed debt increased from 79.3% at end 2015 to an expected 89.8% at the end of 2017
 - Gross financing needs remain limited until 2019
 - **Banking sector :**
 - Restructuring and consolidation are also at an advanced stage
 - As of mid-January 2017, 88 banks –accounting for c.50% of banking system assets at the beginning of 2014 – have been resolved and recapitalization plans have been concluded for banks representing 95% of assets
 - **Fiscal trajectory:**
 - State budget deficit under control at 2.9% of GDP in 2016 (3.0% forecasted for 2017) compared to 4.9% of GDP in 2014
 - Structural deficit has remained in line with previous years
 - **Financing strategy:** Return to markets is anticipated for 2017



- ▶ **Country overview**
- ▶ A strong reform momentum
- ▶ A sustainable path to growth recovery
- ▶ A strong support from our economic partners
- ▶ Our return to markets strategy

Key facts on Ukraine



- ▶ **Capital:** Kyiv
- ▶ **Territory:** 603,548 sq. kilometres (largest country in Europe by area)
- ▶ **Borders:** Russia, Belarus, Slovakia, Hungary, Romania and Moldova
- ▶ **Population:** near 45m inhabitants
- ▶ **GDP:** UAH 2,383bn (USD 87.6bn)
- ▶ **GDP per capita:** c. USD 2,100
- ▶ **Currency:** Ukrainian hryvnia
- ▶ **Exchange rate** (as of 31/12/2016): 1USD = 27,2UAH
- ▶ **Membership:** Member of the IMF and the World Bank since 1992
- ▶ **Language:** Ukrainian
- ▶ **Life expectancy:** 70 years
- ▶ **Public and publicly-guaranteed debt** (2016): 81.2% of GDP, c.USD71.1bn
- ▶ **State external debt** (2016): 41.6% of GDP, c.USD36.4bn
- ▶ **Principal Economic Sectors:** Agriculture, industry, mining, oil & transit, electricity generation, nuclear power and construction



Petro Poroshenko
President of Ukraine

- ▶ Since 2014: President of Ukraine since May 25, 2014
- ▶ 2007-2012: Head of the National Bank Council of Ukraine
- ▶ 2012: Minister of Economic Development and Trade of Ukraine and people's deputy of Ukraine of the VII convocation
- ▶ 2009-2010: Minister of Foreign Affairs of Ukraine
- ▶ 2002-2007: People's deputy of Ukraine of the IV & V convocation
- ▶ Graduated from Kiev State University



Yakov Smoliy
Current First Deputy Head of the National Bank of Ukraine and upcoming Acting Governor¹

- ▶ 2014-2017: Deputy Head of the NBU
- ▶ 2006-2014: Director of Banking Business, Prestige-Group
- ▶ 2005-2006: Consultant at Office Stolychnyi CJSC and Prestige-Group
- ▶ Graduated from I. Franko Lviv State University (Mathematics and PhD in Economics)



Oksana Markarova
First Deputy Minister

- ▶ 2016: First Deputy Minister and Government commissioner on investments
- ▶ 2015: Deputy Minister of Finance – Chief of Staff
- ▶ 2000: President and CEO of the ITT-Invest
- ▶ Graduated from Kyiv Mohyla Academy & Indiana University



Volodymyr Groysman
Prime Minister

- ▶ Since 2016: Prime Minister of Ukraine
- ▶ 2014: Speaker of the Verkhovna Rada of Ukraine.
- ▶ 2014: Vice Prime Minister of Ukraine/Minister of Regional Development, Construction, Housing and Communal Services
- ▶ 2006-2014 : Elected Mayor of the city of Vinnytsia
- ▶ Graduated from National Academy of State Administration



Oleksandr Danyliuk
Minister of Finance of Ukraine

- ▶ 2016: Appointed a Minister of Finance of Ukraine
- ▶ 2014: President's representative at the Cabinet of Ministers and later Deputy Head of the Presidential Administration
- ▶ 2010-2015: chairman at the Economic Reforms Coordination Center
- ▶ Graduated from National Technical University of Ukraine



Yuriy Butsa
Deputy Minister for European Integration

- ▶ 2016: Deputy Minister of Finance for European Integration
- ▶ 2015: Member of State Commission for Securities and Stock Market
- ▶ 2010: Coordinator at the Coordination Center for Economic Reforms
- ▶ 2008: Deputy head of the representative office of Warsaw Stock Exchange
- ▶ Graduated from National University Kyiv Mohyla Academy

Today's speakers

Note
1 From May 10, 2017

Key milestones to Ukraine's economic recovery

2014

GDP: UAH 1,587bn(USD 100.4bn)
 Real GDP growth: (6.6)%
 Inflation¹: 24.9%
 State budget balance: (4.9)% of GDP
 State external debt (% of GDP, previous year): 15.2%
 USD/UAH¹: 15.8
 Public & publicly-guaranteed debt (% of GDP)¹: 70.3%

2015

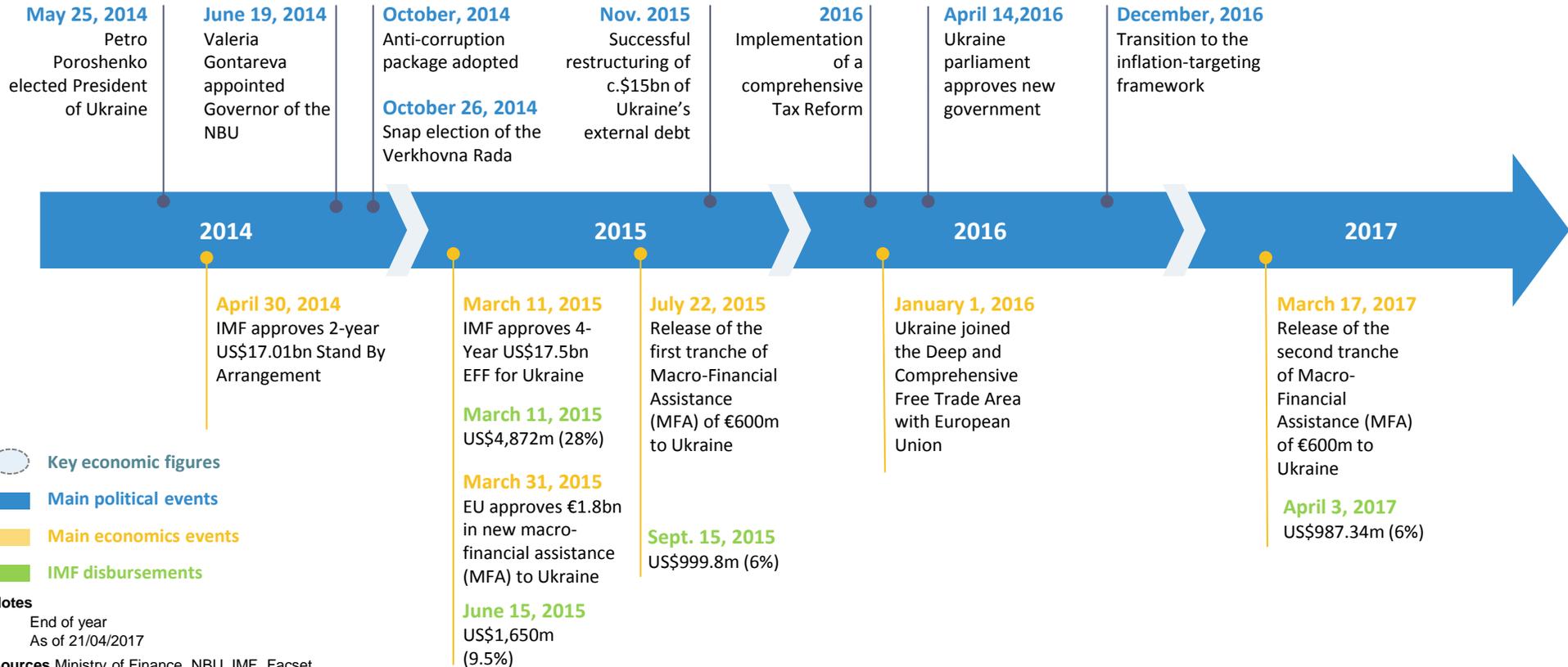
GDP: UAH 1,989bn (USD 82.9bn)
 Real GDP growth: (10.0)%
 Inflation¹: 43.3%
 State budget balance: (2.3)% of GDP
 State external debt (% of GDP, previous year): 30.6%
 USD/UAH¹: 24.0
 Public & publicly-guaranteed debt (% of GDP)¹: 79.3%

2016

GDP: UAH 2,383bn (USD 87.6bn)
 Real GDP growth: 2.6%
 Inflation¹: 12.4%
 State budget balance: (2.9)% of GDP
 State external debt (% of GDP, previous year): 41.6%
 USD/UAH¹: 27.2
 Public & publicly-guaranteed debt (% of GDP)¹: 81.2%

2017

GDP (proj.) : UAH 2,734bn (USD 101.6bn)
 Real GDP growth: 2.0%
 Inflation¹: 9.1%
 State budget balance: (3.0)% of GDP
 State external debt (% of GDP, previous year): 41.1%
 USD/UAH²: 26.9
 Public & publicly-guaranteed debt (% of GDP)¹: 89.8%



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Key Initiatives Underpinning Rebound in Economic Performance

1 Business climate improvement

- Strengthening of anti-corruption reforms and implementation of the Anti-corruption Strategy 2014-2017
- Simplification of business registration procedures and arable land legislation

2 Strong fiscal consolidation efforts

- Implementation of the 2016 tax reform lowering the overall tax burden while rebalancing the system towards indirect taxes
- Improvement in public spending efficiency

3 Structural reform in the energy sector

- Increase in gas and heating tariffs, before full liberalization takes places
- Progress to improve Naftogaz's finances and eliminate its deficit

4 Reform of the State-Owned Enterprise sector

- Adoption of restructuring plans for some SOEs representing the largest fiscal risk for the State
- Definition of a privatization plan for selected SOEs

5 Wide ranging reforms of the banking sector

- Resolution of weak, failing banks and strengthening of the legal framework for private debt restructuring
- Enhancement of NBU's supervisory and regulatory role

6 Reform of the monetary policy framework

- Shift towards a flexible exchange rate in 2014
- Inflation-targeting framework formally announced in December 2016



Focus on key structural reforms over the past 3 years (1/2)

	Reform	Description	Impact
1	<i>Implementation of the Anti-Corruption Strategy 2014-2017</i>	<ul style="list-style-type: none"> Adoption of the Anti-Corruption Strategy 2014-2017 in October 2014, covering the 3 branches of government (executive, legislative and judiciary) to impose prevention and sanction mechanisms Creation of new law enforcement institutions, including the National Anti-Corruption Bureau in 2014 	<ul style="list-style-type: none"> Improvement in the Transparency International Perception of Corruption Index, from the rank 142 in 2014 to 131 in 2016 Improvement in World Bank Control of Corruption Index from -1.09 in 2013 to -0.98 in 2015
2	<i>Implementation of a comprehensive Tax Reform</i>	<ul style="list-style-type: none"> The 2016 Tax Reform reduces labor taxes, limits tax exemptions, and simplifies the tax system The tax reform also rebalances the tax system towards indirect taxes while lowering the overall tax burden 	<ul style="list-style-type: none"> VAT revenues increased from 8.8% of GDP in 2014 to an expected 10.2% of GDP in 2016 (IMF) Labor tax burden declined from 43% of total labor costs in 2015 (vs 36% for the OECD average) to 34% in 2016 (IMF)
3	<i>Reforms of the Energy and Utilities sector</i>	<ul style="list-style-type: none"> Introduction of a new unified gas tariff in August 2016, paving the way to full liberalization Creation of an independent Regulator for the Energy and Utilities sector (Nov. 2016), responsible for ensuring the implementation of sector reforms and the liberalization of the natural gas market 	<ul style="list-style-type: none"> Gas and heating tariffs reached full import parity levels after the 2015-2016 heating season, due to the tariff adjustments Improved energy efficient following tariffs hike, reducing the external and fiscal burden of the energy sector (Naftogaz deficit expected to be eliminated by 2017) (IMF)

Sources Transparency International, World Bank, NBU, IMF



Focus on key structural reforms over the past 3 years (2/2)

	Reform	Description	Impact
4	<i>State-Owned Enterprises (SOEs) restructuring and privatizations</i>	<ul style="list-style-type: none"> ■ Definition of a restructuring plan for some SOEs representing the largest fiscal risk for the State ■ Definition of a list of SOEs subject to priority privatizations ■ Improvement of the governance of SOEs through appointment of a supervisory board and an extensive audit and use of e-procurement for all public entities since August 2016 	<ul style="list-style-type: none"> ■ Completion of the restructuring of external debt of major SOEs, including UkrEximBank, Oschadbank and Ukrainian Railways for a total amount of c.\$3.3bn ■ Privatization proceeds expected to increase from UAH 9.6bn (0.5% of GDP) in 2015 to UAH 17.1bn (0.7% in 2017) (IMF) with privatizations including PJSC Odessa Portside Plant, PJSC Centrengo, Turboatom, Ukrspirits amongst others
5	<i>Financial regulation and banking sector overhaul</i>	<ul style="list-style-type: none"> ■ Reduction of the number of banks through resolution of failing banks ■ Strengthening of the legal framework for private debt restructuring ■ Enhancement of NBU's supervisory and regulatory role (extensive asset quality review ongoing) 	<ul style="list-style-type: none"> ■ 88 weak insolvent banks have been resolved and left the banking market in the period 2014–17 (IMF) ■ 55% of the banking sector is now State-owned ■ Successful nationalization of PrivatBank, the largest commercial bank, in December 2016 to safeguard financial stability in the country
6	<i>Shift toward a flexible exchange rate and an inflation targeting framework</i>	<ul style="list-style-type: none"> ■ The NBU moved to a flexible exchange rate regime in 2014 amid increasing pressure to the USD peg due to FX reserves depletion and current account shortfalls ■ Transition to the inflation-targeting framework was formally completed in December 2016, while NBU independence has been strengthened since 2015 	<ul style="list-style-type: none"> ■ Recovery of FX reserves since floatation, from 1.8 months of imports at end-2014 to 3.4 at end-2016 (NBU) ■ Reduction of current account deficit, from \$4.6bn at end-2014 to \$3.8bn at end-2016 and \$4.3bn expected at end-2017(NBU) ■ Sharp decrease in CPI average levels, from 43.3% in 2015 to 12.4% in 2016 (NBU)



Focus on key upcoming reforms

Land reform

The issue

- ▶ Despite Ukraine's vast area of arable land, use of this land is limited by strict legislation and restriction for private owners to sell their land
- ▶ Over 10 million hectares representing 25% of the total land are currently State-owned

The reform

- ▶ **The liberalization of Ukraine's land market, including the sale of agricultural land**, can release significant growth potential for the country by generating
 - higher income for owners
 - greater tax revenues for the State

The process

- ▶ **A task force formed by the relevant ministries is currently drafting the legislation** to open up the land market and allow the sale of land, with the collaboration of the World Bank
- ▶ **A public information campaign to explain the benefits of this reform** will be launched simultaneously
- ▶ **Parliamentary approval expected in May 2017**

Pension reform

The issue

- ▶ **Structural features of Ukraine's pension system as well as demographic trends** put pressures on the pension system and government finances: the large number of retirees generate a high level of pension spending, while pensions revenues remain low

The reform

- ▶ **The reform is currently discussed and could combine various measures** to help close the large and growing pension deficit such as :
 - reducing the coverage of the pension system, by raising the effective retirement age and limiting early retirement
 - limiting pension benefit fraud with a single database of beneficiaries of social benefits including pensions
- ▶ Target effect is 3% of GDP in the long run

The process

- ▶ **The new pension legislation is currently being prepared**, with the technical assistance of the World Bank
- ▶ **Parliamentary approval expected in May 2017**

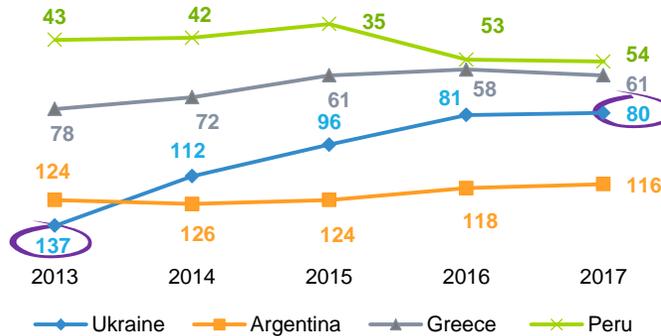


Ukraine's position in competitiveness indices

Doing Business Index ranking

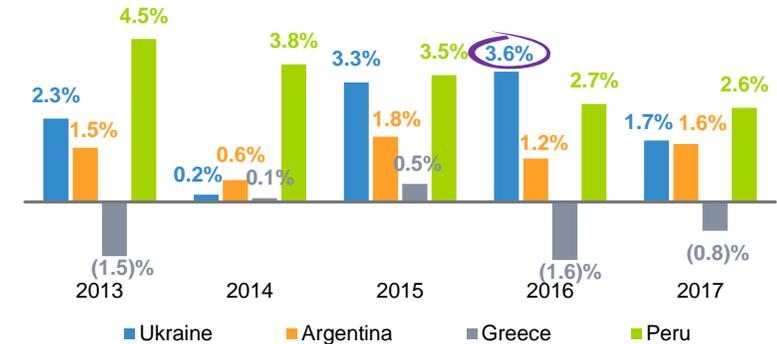
Rank out of 190 countries

Ukraine improved its Doing Business Index ranking by 57 ranks in 4 years (2013-2017)



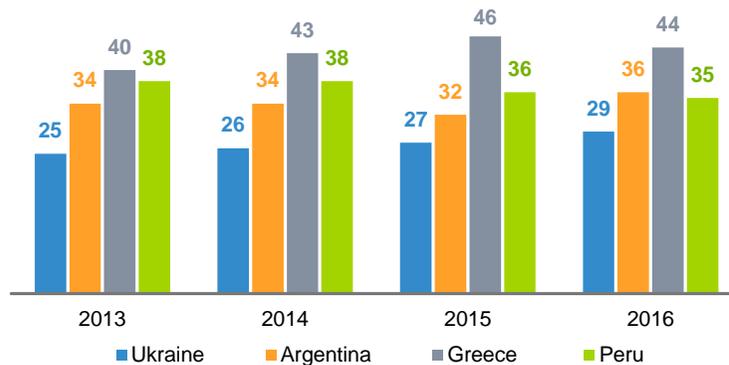
Foreign Direct Investments

% of GDP



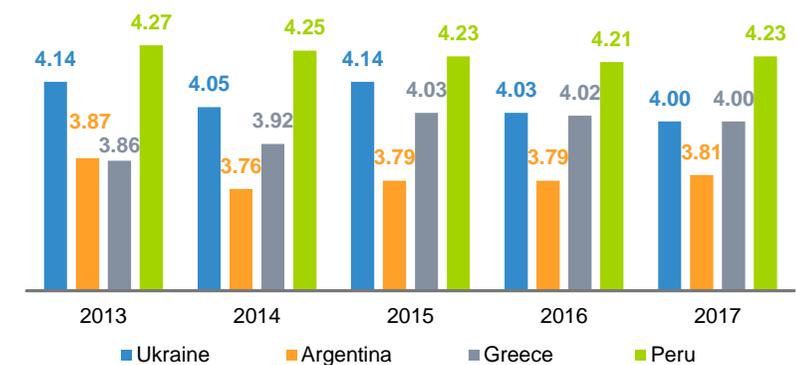
Corruption Perception Index score

Score from 0 (worst) to 100 (best)



Global Competitiveness Index score

Score from 0 (worst) to 7 (best)



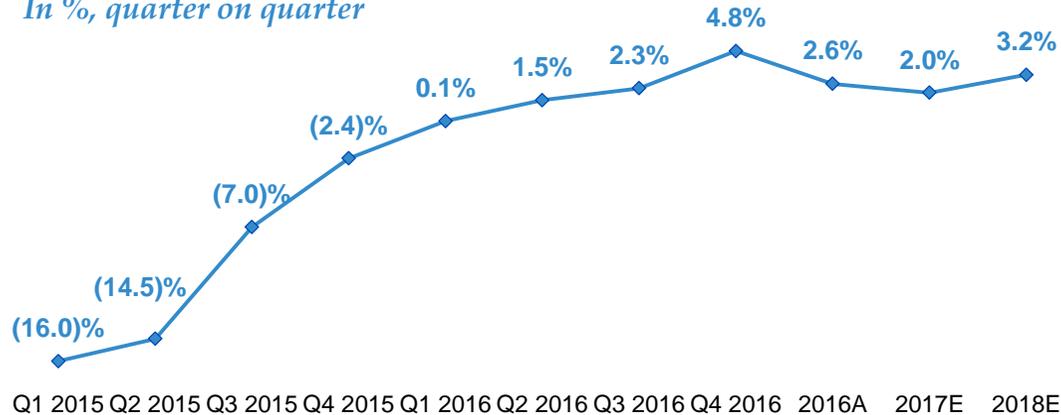
Sources Doing Business Index, IMF, Transparency International, World Economic Forum

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Economic activity has been revived in recent quarters

Real GDP growth

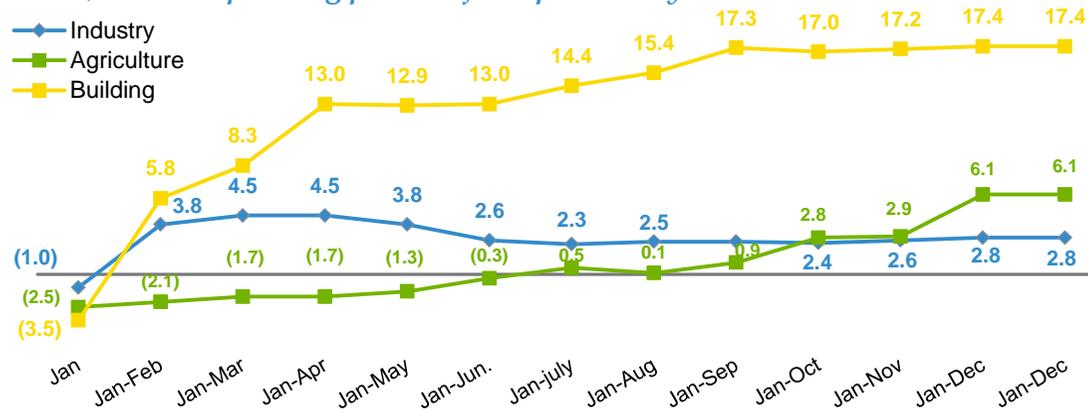
In %, quarter on quarter



- ▶ After a year of economic recession, real GDP has restarted in 2016 with a series of four quarters of growth (2.6% in 2016 full year)
- ▶ Economic activity is expected to continue to expand at a rapid pace of 2% in 2017 according to the IMF projections, in line with market projections
- ▶ The budget room to manoeuvre has been restored paving the way for public investment and a further renewed growth
- ▶ All sectors of the economy have seen growth restored, with the building sector showing a robust dynamics of growth since January 2016
- ▶ Private investments are expected in the energy sector to improve energy efficiency while public investment - which reached 3.1% of GDP in 2016, the highest level since 2016 - should be maintained at c.3% of GDP to improve public infrastructure

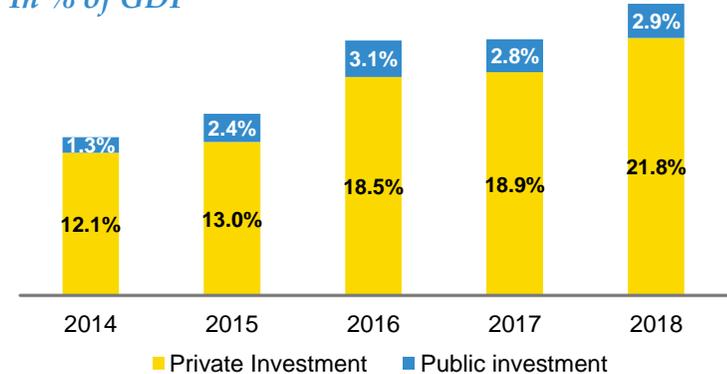
Growth of economic activity by sector

In %, to corresponding period of the previous year



Investment trends

In % of GDP

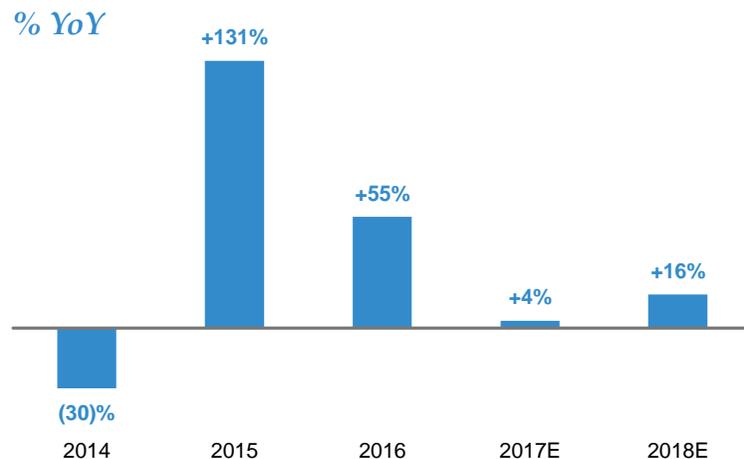


Sources Ministry of Finance, IMF

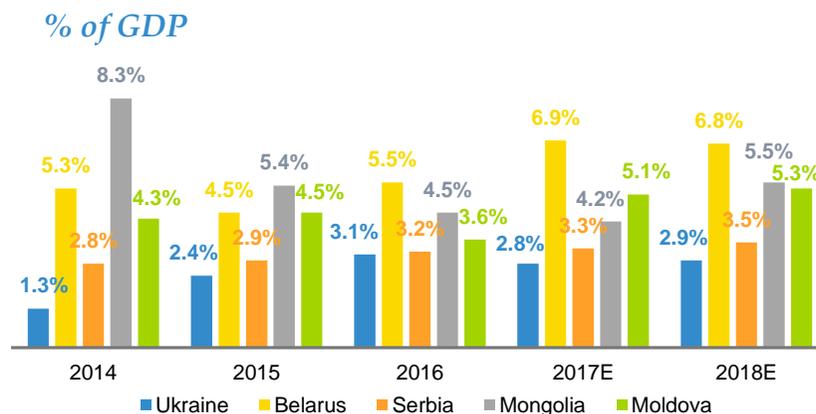


Public investment and increased competitiveness are supporting growth prospects

Public investment growth



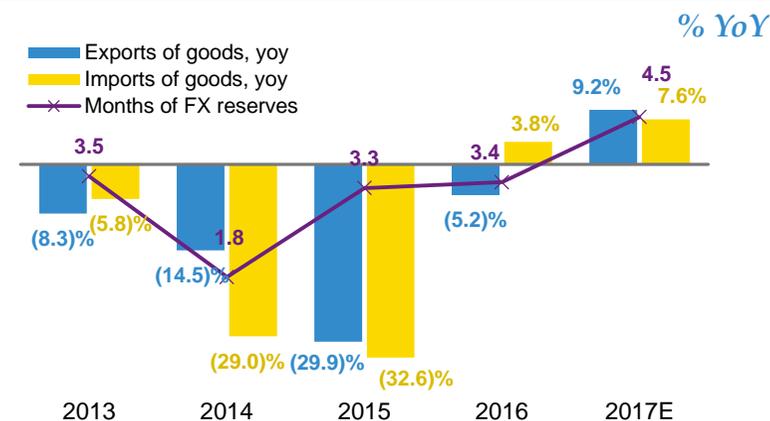
Public investment vs peers



Sources NBU, IMF

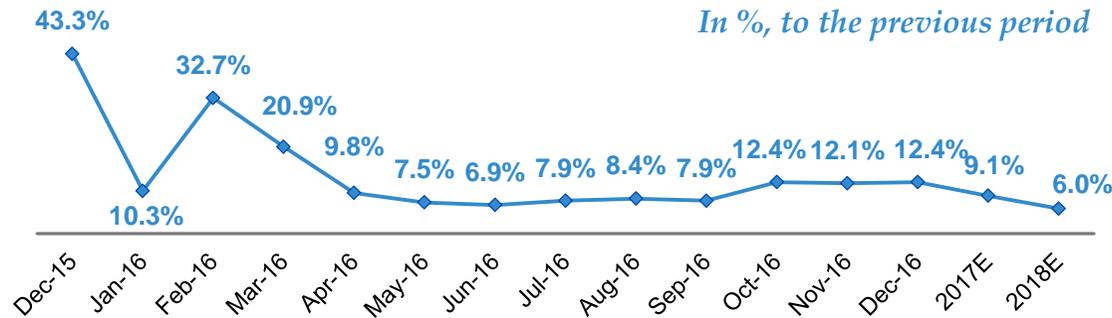
- ▶ Public investment should continue its growing trend to support economic growth in the coming years, although at a slower pace than in 2015 (+131%) and 2016 (+55%)
- ▶ Regional comparison of public investment indicates potential for an increased public investment in Ukraine, although recent years have brought back this ratio upwards at 3% in 2016 compared to over 5.5% in Belarus
- ▶ Ukraine reduced current account deficit from 16.5% of GDP in 2013 to 3.4% in 2016, supported by a strong recovery in exports growth
- ▶ Doubling of the minimum wage to UAH 3,200 will bring Ukraine in the range of Albania and Serbia with regards to wages, therefore not harming competitiveness

Evolution of exports and imports



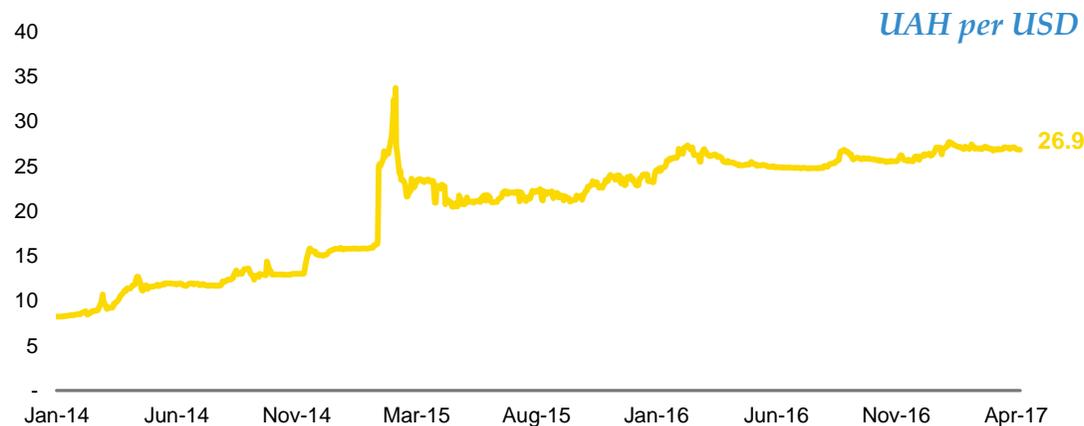
Recent change in monetary policy ensuring macroeconomic stability

Evolution of consumer prices



	2013	2014	2015	2016	2017	2018
CPI - End of year	0.5%	24.9%	43.3%	12.4%	9.1%	6.0%

USD/UAH evolution since January 2014



Sources NBU, Facset (21/04/2017)

- ▶ **Inflation declined, supported by cautious monetary policy** of the NBU, combined to the February 2015 shift to an inflation-targeting framework
 - Target of 5% inflation + / - 1% from 2020 onwards, to reach a low and stable inflation
 - NBU independence, floating exchange rate regime and priority for price stability are supporting this framework
 - FX restrictions have progressively phased out FX auctions
- ▶ **On April 13th, due to lower inflation perspectives**, main interest rate was reduced by the NBU from 14 to 13%
- ▶ **Hyrvnia depreciation since January 2014 supported gains in competitiveness**, specifically for export sectors

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Update on IMF ongoing programme in Ukraine: key milestones

- ▶ **February 12th 2015** : IMF staff Level Agreement on a US\$ 17.5 Billion Extended Fund Facility Arrangement (900% of quota)
 - Second largest IMF programme in percentage of quota: Compared to 2,159% of quota for the second programme in Greece or 422% for Egypt and 322% for Iraq
- ▶ **July 2nd 2015**: Staff Level Agreement on First Review under the Extended Fund Facility Arrangement
- ▶ **October 3rd 2015**: Discussions on the Second Review under the Extended Fund Facility Arrangement
- ▶ **December 16th 2015**: IMF decision on the Status of Ukraine's Eurobond Held by the Russian Federation
- ▶ **December 18th 2015**: Publication of 2016 budget in line with IMF requirements
- ▶ **September 14th 2016**:
 - Completion of the Second Review under EFF & approval of US\$1 Billion Disbursement
 - Reduction in the number of reviews to 11 and rephrasing of remaining access to align purchases with reform progress and balance of payments needs
- ▶ **December 21st 2016**: Publication of 2017 budget in line with IMF requirements
- ▶ **April 3rd 2017**: Completion of the Third Review of the EFF and disbursement of the fourth tranche of EFF support

Upcoming and past IMF reviews

Availability date	Millions of SDRs	Millions of USD
March 11, 2015	3,546.00	4,872.00
June 15, 2015	1,182.10	1,650.00
September 15, 2015	716.11	999.80
April 3, 2017	734.05	987.34
May 15, 2017	1,418.48	1,906.91
August 15, 2017	952.49	1,279.62
November 15, 2017	952.49	1,278.81
February 15, 2018	711.57	954.67
May 15, 2018	711.57	954.58
August 15, 2018	711.57	954.78
November 15, 2018	711.57	955.15
Total	12.348	16.794

Key conditionalities for May 2017 review

Selection of a bank to negotiate restructuring of Privatbank impaired loans

Parliamentary approval of pension legislation

Parliamentary approval of legislation to establish a new civil service responsible for investigation of financial offences

Parliamentary approval of a law on agricultural land circulation allowing for the current moratorium on the sale of agricultural land to expire by the end of 2017

Disbursement of the upcoming next tranche of the EFF budget support of SDR1.4bn (c.\$1.9bn) expected in May 2017

Continuous and significant support from our partners

Institution	Financial support	Comments
	<p>\$17.5bn for 2015-2019</p>	<ul style="list-style-type: none"> ▶ IMF 4-year Extended Fund Facility approved in March 2015 ▶ c.\$8bn already received, next tranche of \$1.9bn expected in May 2017
 THE WORLD BANK	<p>\$4.6bn for 2014-2016</p>	<ul style="list-style-type: none"> ▶ \$4.6bn of new support committed from May 2014 to June 2016 (\$500m committed for 2017) ▶ Financial support in the form of project financing (\$2.2bn), Development Policy Operations (\$2.25bn), IFC investments in the private sector (\$250m)
  European Investment Bank  European Bank for Reconstruction and Development	<p>€11bn</p>	<ul style="list-style-type: none"> ▶ €11bn package approved in March 2014 to be provided by the EU budget (€3bn, of which €1.6bn in macro financial assistance), the EIB (€3bn) and the EBRD (€5bn) ▶ Free trade agreement with the EU and ongoing negotiations regarding EU membership
	<p>\$3bn of loan guarantees</p>	<ul style="list-style-type: none"> ▶ Issuance of three \$1bn loan guarantees from the US Treasury (USAID) in May 2014, May 2015 and Sept. 2016 ▶ Financial support to promote economic recovery and reforms in Ukraine

Sources IMF, World Bank, EU, US Treasury



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Our return to markets strategy

▶ 2017 signals a trough in debt and fiscal aggregates

- Publically and publically guaranteed debt peaking at c.90% of GDP
- Public debt interest expenses at c.11% of revenues
- Primary surplus at 1.2% of GDP

▶ Underlying fundamentals are satisfactory and sustainable

- Downward public debt trajectory (78.1% of GDP in 2019 vs 79.3% in 2015)
- Downward external vulnerability (total external debt of 114.3% of GDP in 2019 vs 130.0% in 2015)
- Concessional rates of financing remain available for Ukraine (effective interest of 6.9% in 2017)

▶ Our strategy fits into a multi-year holistic assets and liability management approach

- Limited gross financing needs until 2019
- Liability Management exercises to be considered
- Privatization strategy to be executed
- Price is of paramount importance, and current spreads remain too wide by any benchmarks

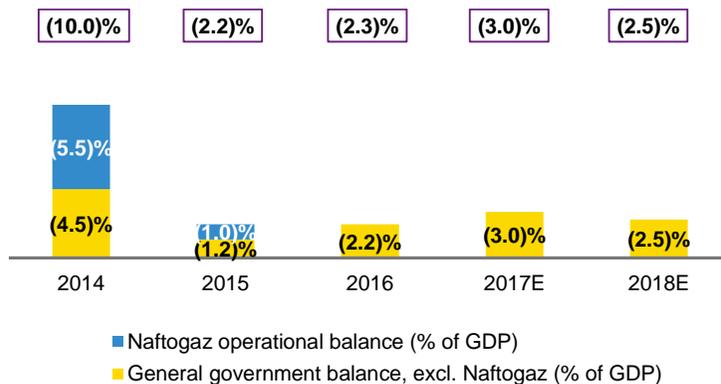


State Budget of Ukraine: a significant primary surplus since 2015

- ▶ General government revenue are expected to remain stable as a proportion of GDP in the coming years, above 40%
- ▶ Tax revenue represent the major share of government revenue and is expected to be more driven by indirect taxes following the 2016 Tax reform (VAT revenues represent c. 10% of GDP in 2016)
- ▶ Budget performance has improved over the past years with 2016 revenues at c. USD 22,7bn and expenditures at c.USD 25,2bn
- ▶ Budget deficit has shrunk in accordance with IMF plan, reaching a figure below 3% of GDP since 2015, with a positive primary balance (2% in 2016)

General gov. overall budget balance

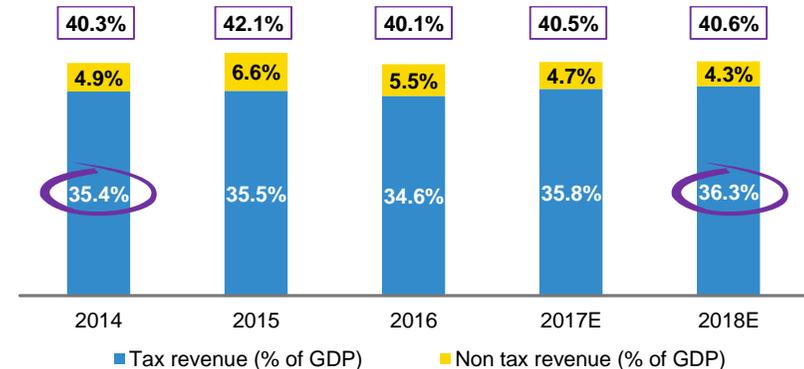
% of GDP



Source IMF

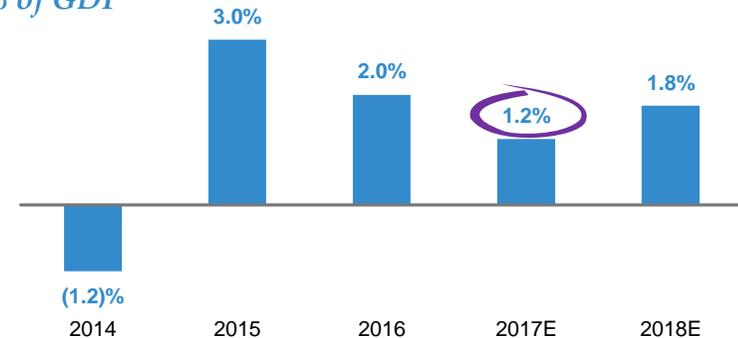
General government revenue

% of GDP



Primary balance

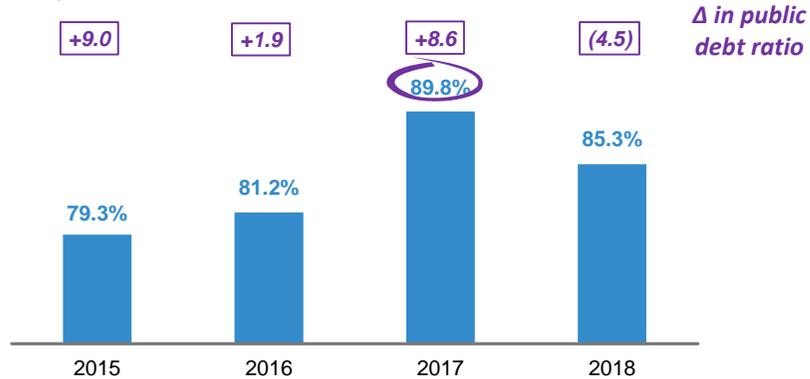
% of GDP



Key figures on public debt since 2015

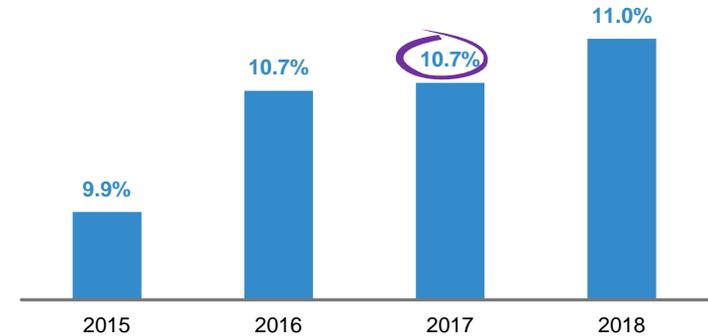
Public and publicly guaranteed debt

% of GDP



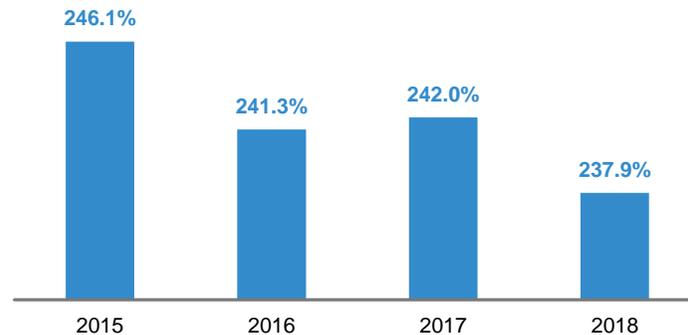
Public debt interest expense

% of total public revenue



External debt

% of current account receipts¹



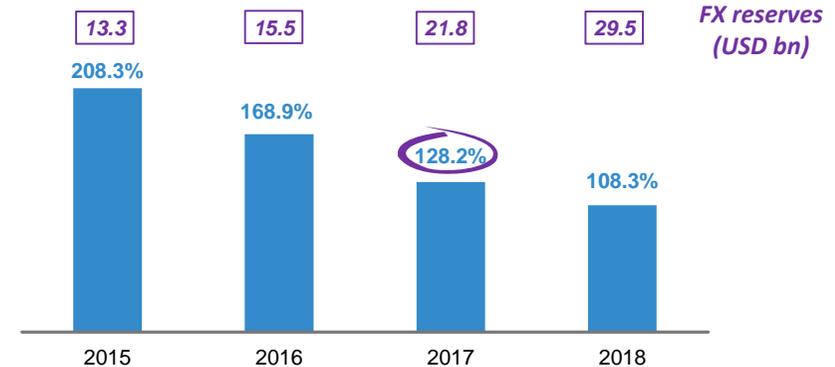
Note

1 Excluding primary and secondary income receipts

Source IMF

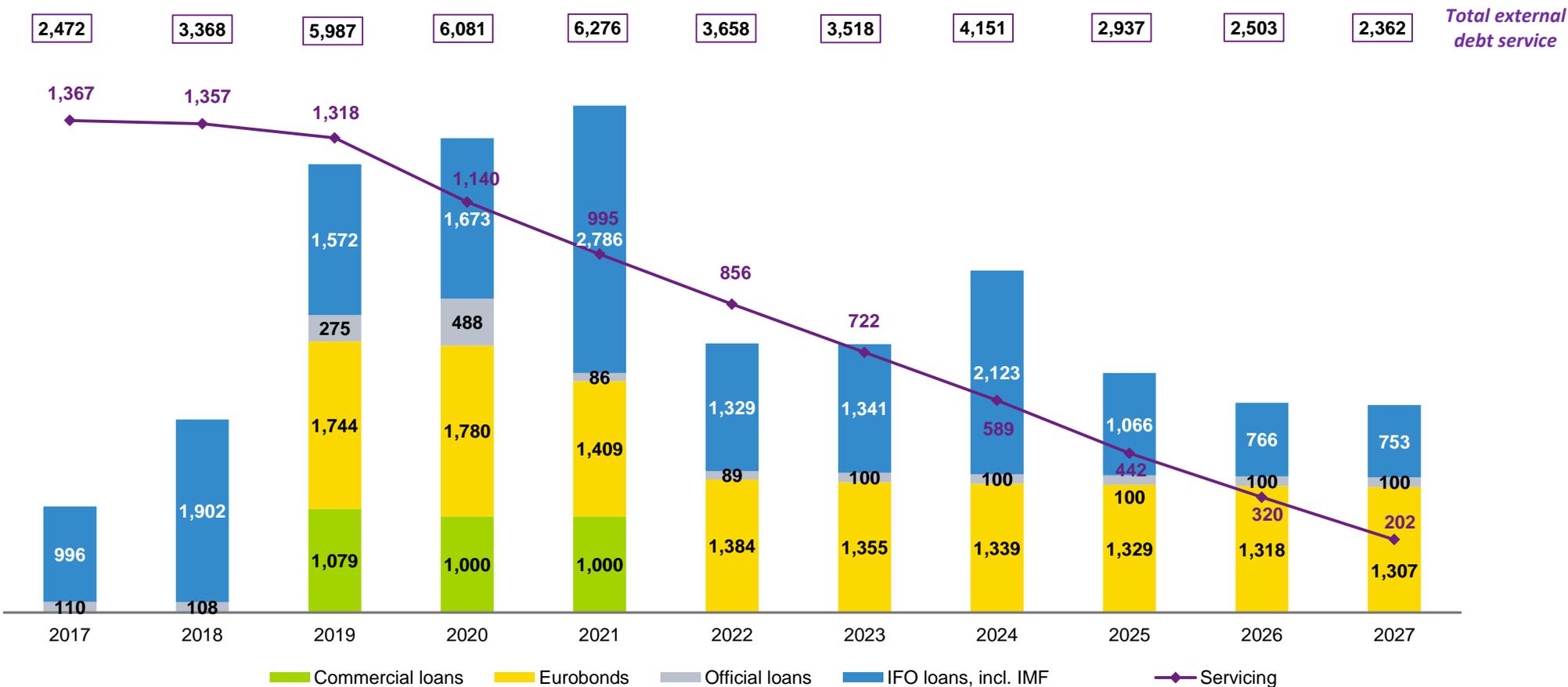
Short term debt

% of FX reserves



A smooth debt maturity profile between 2017 and 2027

Details on current external debt maturity profile in 2017-2027 (USDm)

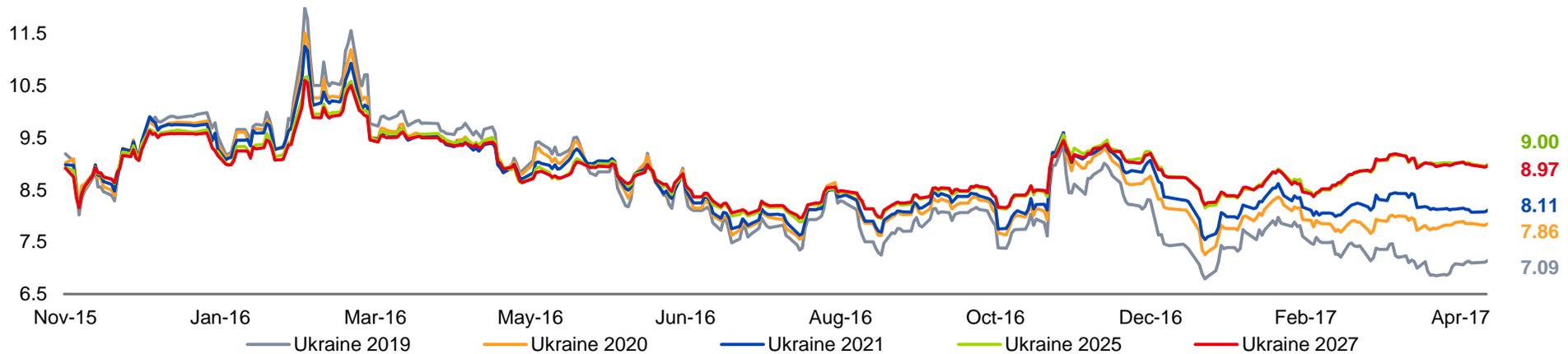


Source Ministry of Finance

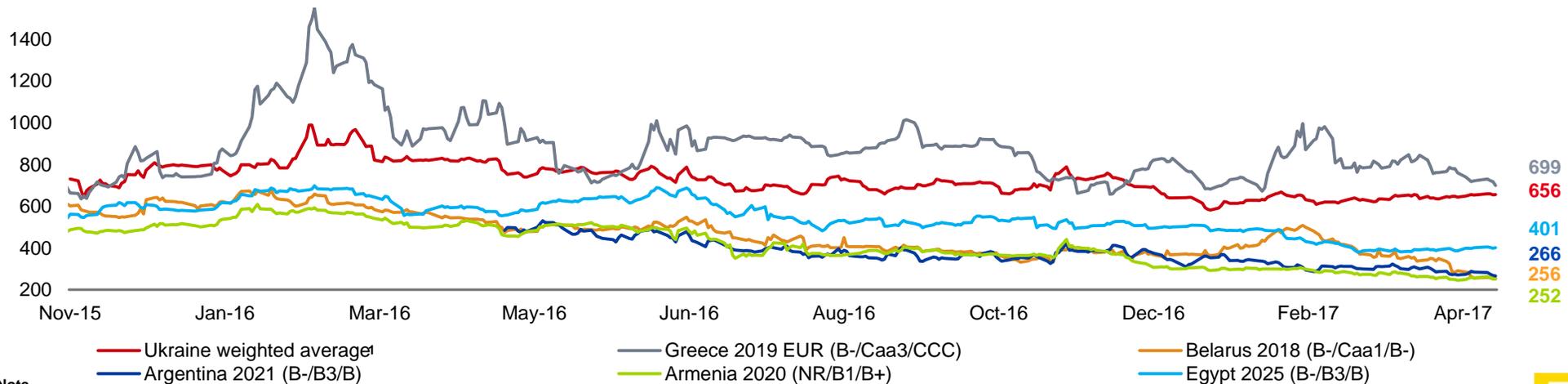


Summary of current trading of Ukrainian Eurobonds

Ukrainian Eurobonds yield to maturity (%)



Ukrainian Eurobonds Z-spreads compared to peers (bps)



Note
1 Weighted average of Ukraine's 9 Eurobond series

Source Bloomberg (21/04/2017)



▶ **Active investors relations**

- Ministry of Finance and Adviser available
- Proactive communication and non-deal related roadshows to continue



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Thank you for your attention!