



Ukraine: Investor Presentation



MINISTRY OF
FINANCE OF
UKRAINE

December 2020

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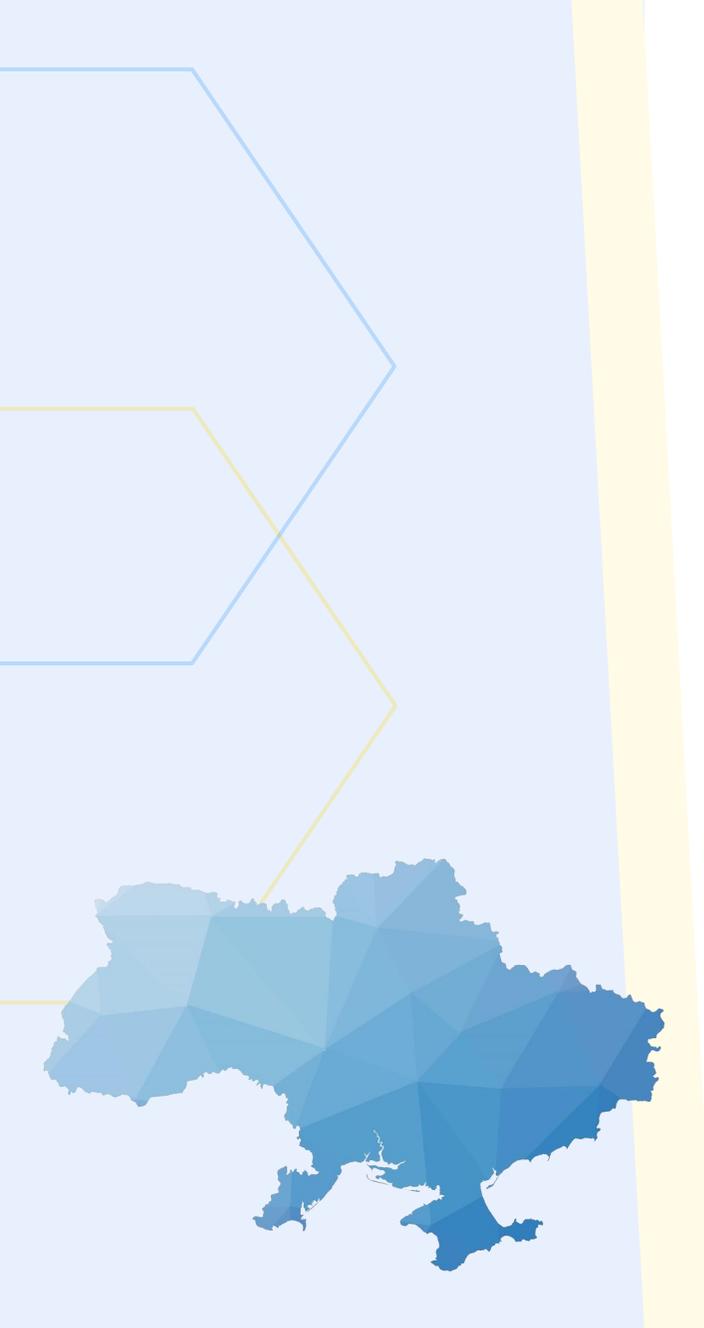
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1 The Covid-19 crisis will have a significant but short-term effect

2 Ukraine's financing will benefit from substantial support from partners

3 A proactive response should mitigate the impact on the economy

4 An improved business climate and opportunities for growth

5 Appendices

- A. Solid foundation for long-term economic growth
- B. YTD 2020 State and Consolidated Budget execution
- C. Prudent debt management strategy
- D. Proactive reforms across wide range of pillars

Ukraine's economy: dynamics of selected indicators

	2015		2019 / Today
 Real GDP growth	(9.8)%	➔	3.2% (2019) / (3.5)% (Q3 2020)
 Consumer inflation (eop)	43.3%	➔	4.1% (2019) / 3.8% (Nov-20)
 Reserves (eop)	US\$ 13.3bn	➔	US\$ 25.3bn (Jan 1, 2020) / US\$ 26.1bn (Dec 1, 2020)
 Primary state budget balance¹	2.0% of GDP	➔	1.0% of GDP (2019) / (0.4)% of GDP (Q3 2020 LTM)
 State debt to GDP	67.1% (2015)	➔	44.3% (2019) / 51.8% (Q3 2020)

Note 1 Primary state budget balance defined as state budget revenues minus expenditures excl. debt service and minus net lending

Sources State Statistics Service of Ukraine, NBU, State Treasury

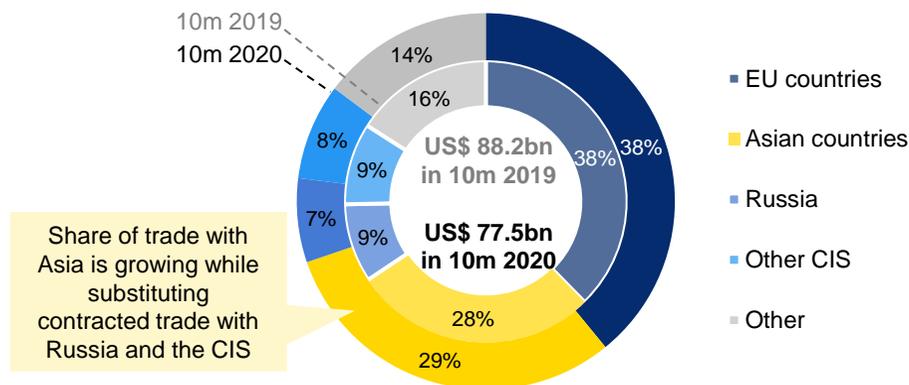


Marked impact of Covid-19 on external trade in 10m 2020

Comments

- ▶ Based on preliminary estimates, **global Covid-19 pandemic and subsequent lockdown had a pronounced impact on Ukraine's external trade in 10m 2020** with export of goods and services falling relatively slightly by 7.3% while import of goods and services declining more rapidly by 21.0% y-o-y in 10m 2020
 - The total export of goods in 10m 2020 (i.e. US\$ 36.3bn) has fallen by 5.2% vs 10m 2019, while export of services has decreased by 13.1% y-o-y
 - The total import of goods in 10m 2020 (i.e. US\$ 41.1bn) has fallen by 17.5% vs 10m 2019, while import of services has decreased by 34.4% y-o-y
- ▶ With increased net exports in 10m 2020 such foreign trade dynamics had a positive impact on Ukraine's current account

Geographic structure of goods trade in 10m (2019 & 2020)¹



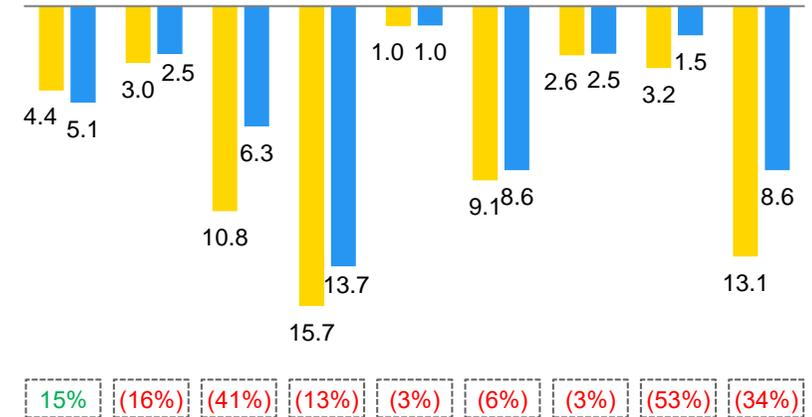
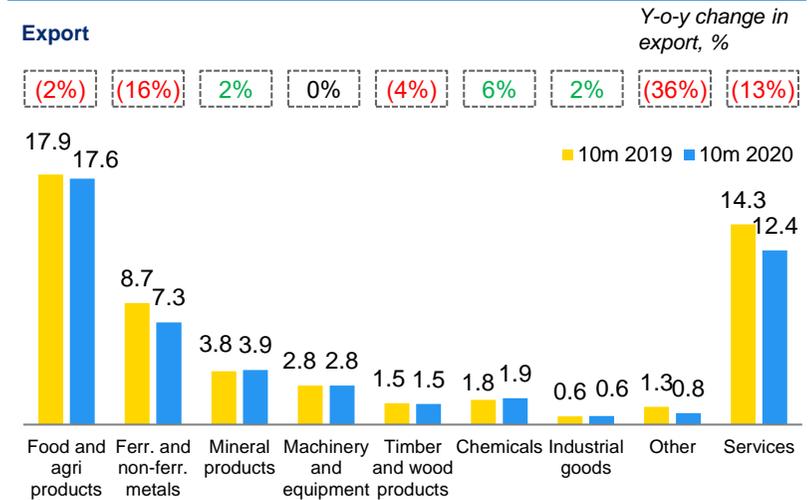
Source NBU

Notes

1 Sum of export and import of goods

Export and import of goods and services dynamics, US\$bn

Export



Import

Source NBU

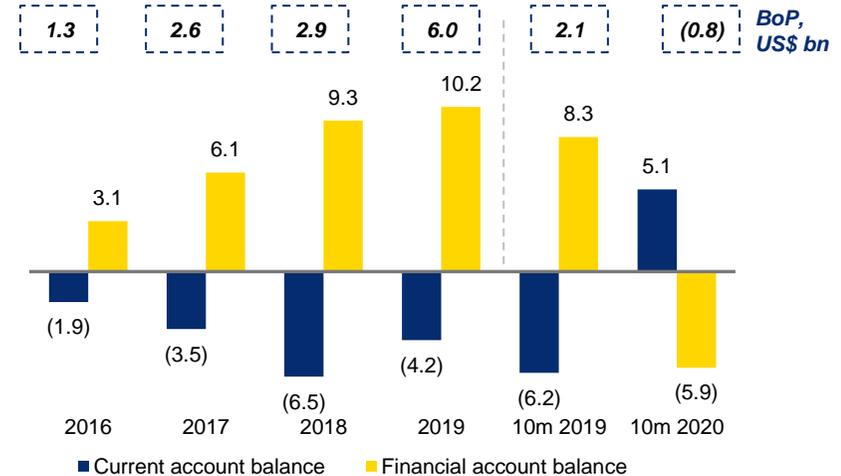


Firm external position leading to less vulnerability to external shocks

Comments

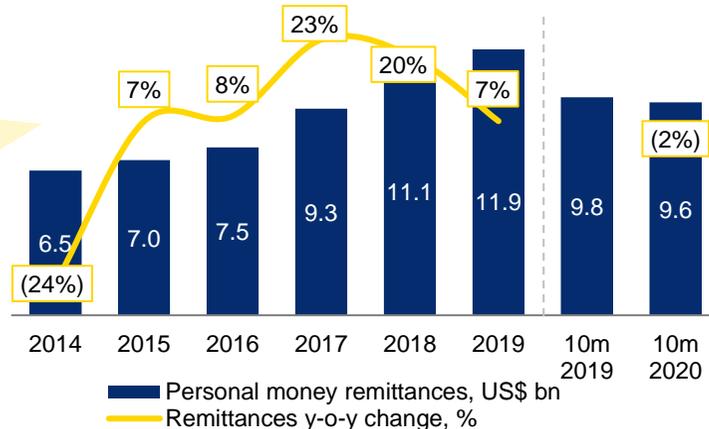
- ▶ **The trade balance deficit amounted** US\$ 12.5bn in 2019 largely supported by large machinery and equipment, chemicals, food and agri imports while **in 10m 2020 the trade balance deficit** decreased to US\$ 1.0bn due to decreased import coupled with lower decline of export
- ▶ **The current account (CA) balance demonstrated surplus** in 10m 2020, resulting from a relatively stable goods export and a decrease in imports due to global energy prices decline
 - 2020 CA surplus is expected to reach 2.9% of GDP (per NBU) as imports decline more than exports
- ▶ **Improved trade balance was largely offset by capital account outflows** which resulted into negative overall balance of payments of c.US\$ 0.8bn in 10m 2020

Balance of payments components, US\$ bn



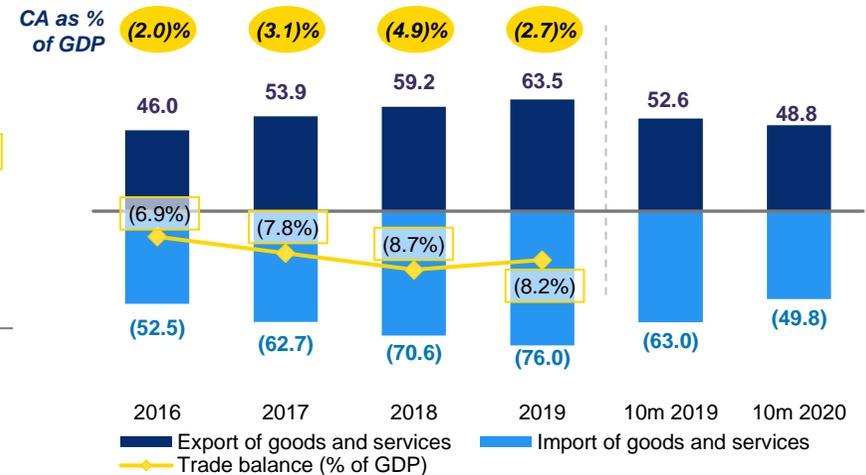
Private money remittances, US\$ bn

USD 11.4bn (4% y-o-y decrease) in personal money remittances are expected for full 2020, according to the NBU



Source NBU

Ukraine's current and trade balance dynamics, US\$ bn



Prudent monetary policy implemented by independent regulator

Comments

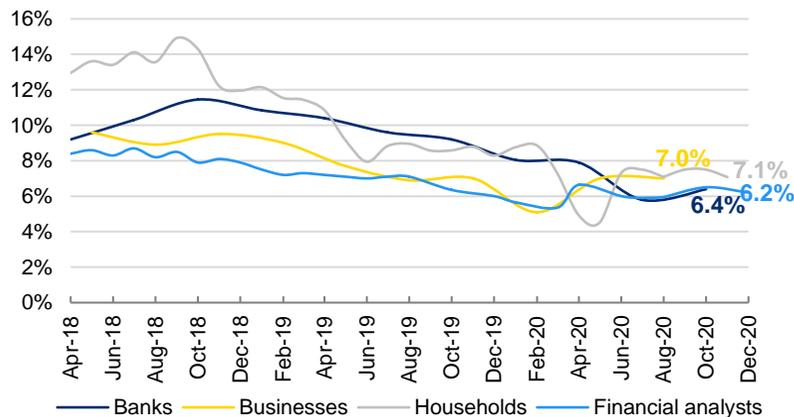
Medium-term consumer inflation target range: 5%+/-1%

Y-o-y inflation as of November 2020: 3.8%

The NBU envisages that the inflation will accelerate moderately in the coming month to reach 4.1% by the end of the year, slowly heading towards the target range in the years ahead (i.e. 5%±1p.p.)

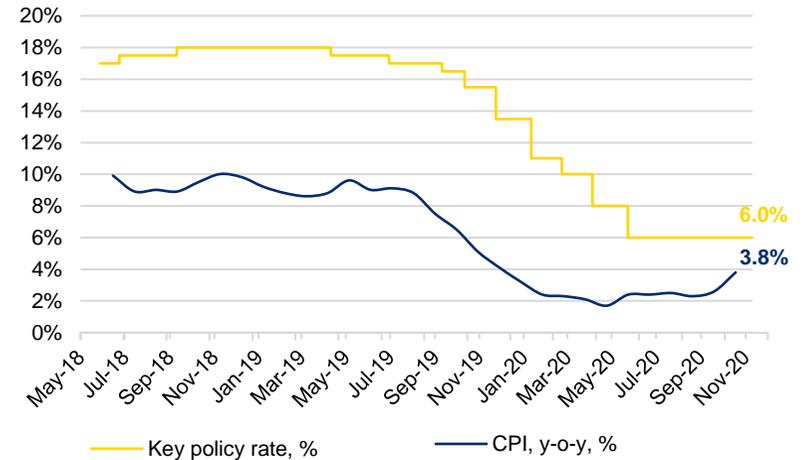
- ▶ **The NBU has significantly softened its monetary policy maintaining the cycle of key policy rate cuts until June 2020** on the back of UAH appreciation and decelerated inflation
- ▶ Overall, the key policy rate was reduced by 7.5 p.p. since the beginning of 2020, reaching the historic low of 6% over Ukraine's independence on June 6, 2020
- ▶ During July - December, the NBU has decided to keep its key policy rate at 6% to curb the price growth as the economy recovers in 2021–2022, while leaving room for its further decrease
- ▶ Due to relatively tight monetary conditions and UAH revaluation, the NBU brought **inflation to its medium-term target (5% +/-1%) in 2019 vs. end-2020** planned initially

CPI expectations for the following 12 months

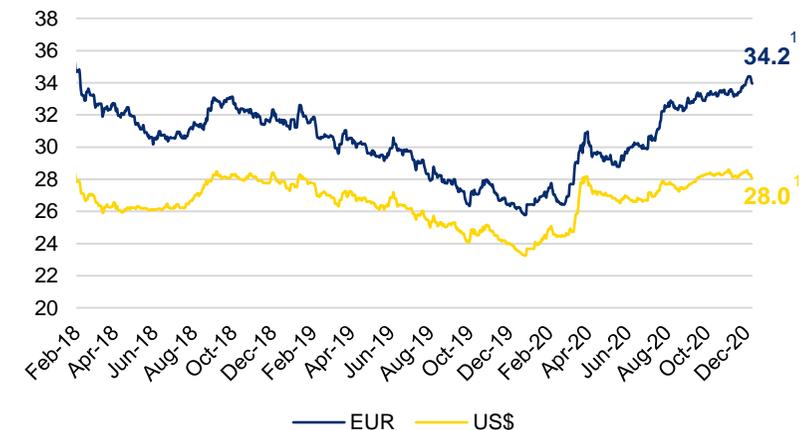


Source NBU

Consumer price index (CPI) change and key policy rate



UAH/US\$ and UAH/EUR exchange rates dynamics



Notes

1 As of December 22, 2020



Sufficiently accumulated international reserves

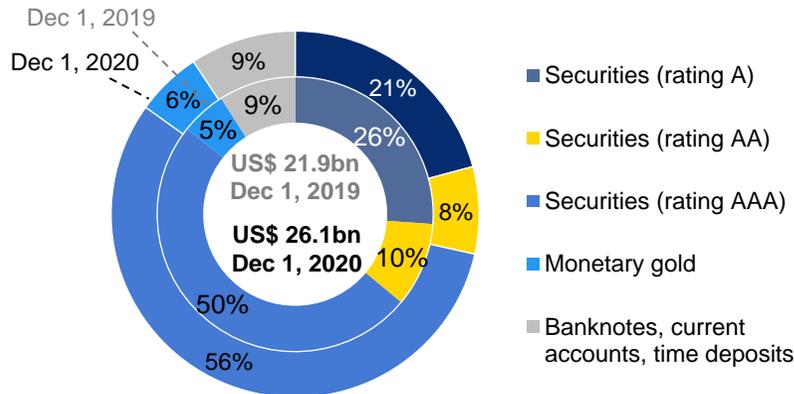
Comments

- ▶ **Gross international reserves grew by 22.1% (y-o-y) and reached US\$ 26.1bn as of December 1, 2020** (covering 4.3 months of future imports)
- ▶ Maintained **high levels of FX reserves** and **floating FX rate policy** are the most influential factors providing strong buffer for Ukraine on the back of the current crisis (vs previous ones)
- ▶ Over November 2020, the international reserves remained relatively stable on the back of NBU's net FX sale (US\$ 46.0m), new FX domestic placements (US\$ 345.5m), government transactions to repay public debt (US\$ 319.6m), and financial instruments revaluation gain (US\$ 77.9m)

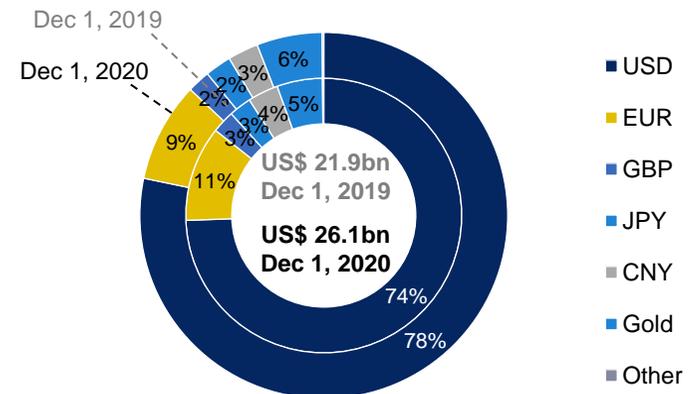
Gross and net international reserves (eop), US\$ bn



Gross international reserves by instrument

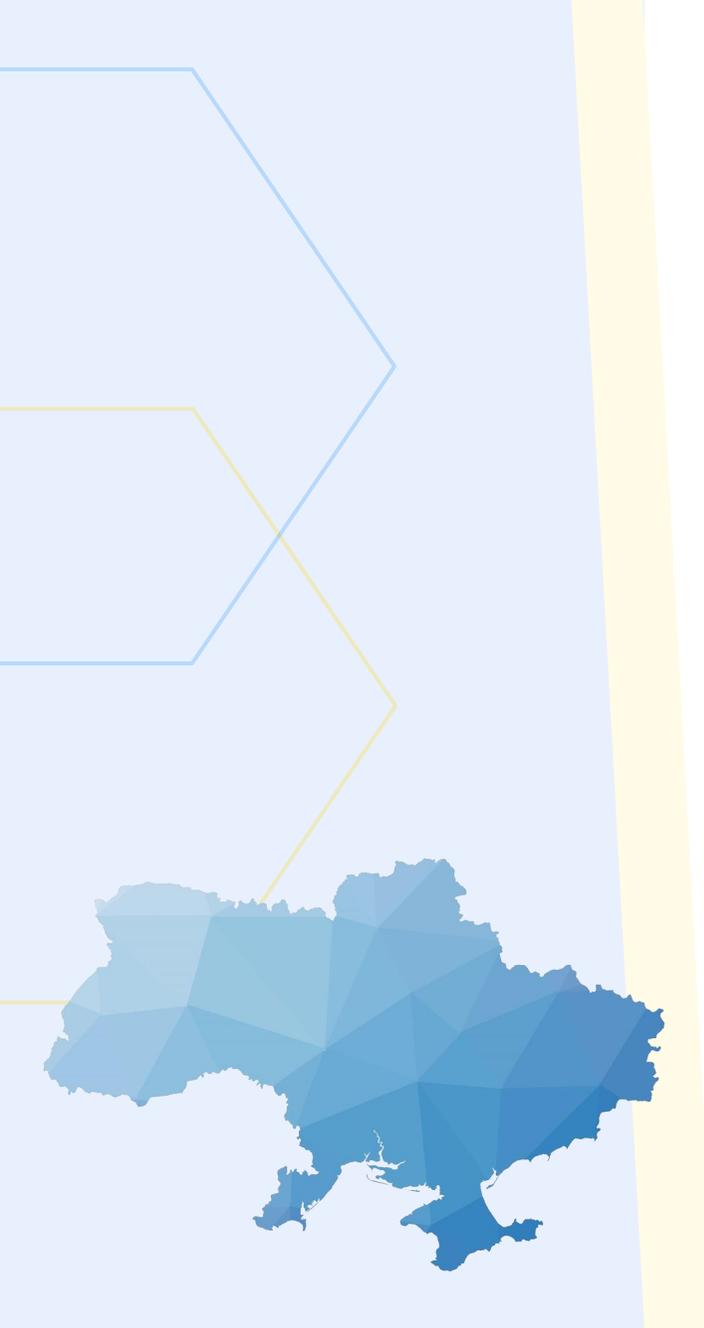


Gross international reserves by currency



Source NBU



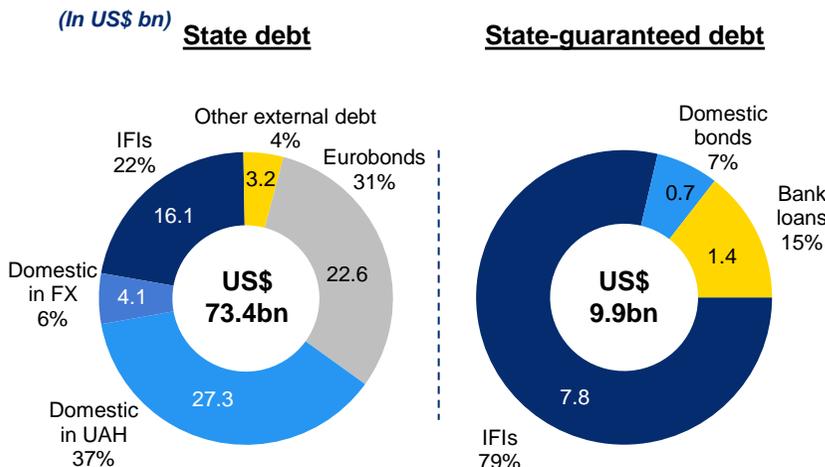
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Prudent and proactive debt management strategy

State and state-guaranteed debt structure (end-Oct 2020)

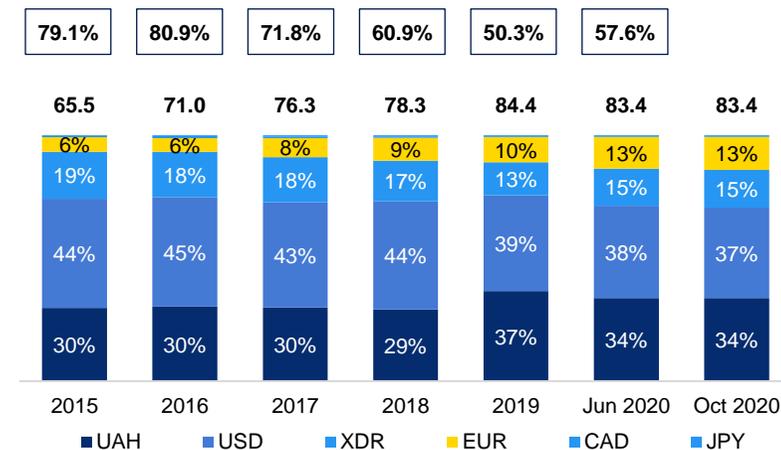
As of end-October 2020, Ukraine's total state and state-guaranteed debt (US\$ 83.3bn / UAH 2,368bn) split between:

- 61% of external debt, 39% of domestic debt
- 88% of state debt, 12% of state-guaranteed debt



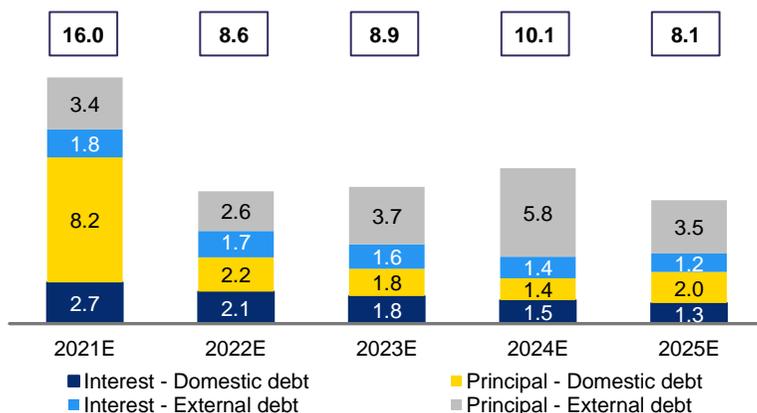
State and state-guaranteed debt by currency, US\$ bn

Total (% of GDP)

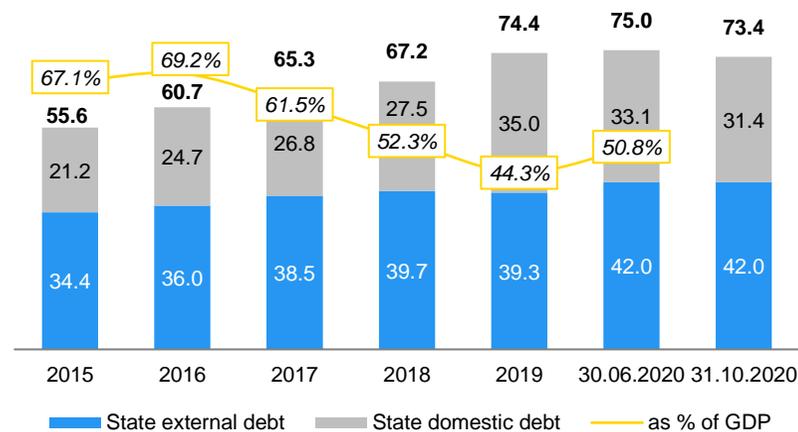


State debt amortization schedule (end-Nov 2020)¹, US\$ bn

Total debt service



State debt dynamics, US\$ bn



Notes
1 Incl. outstanding debt obligations only

Source Ministry of Finance

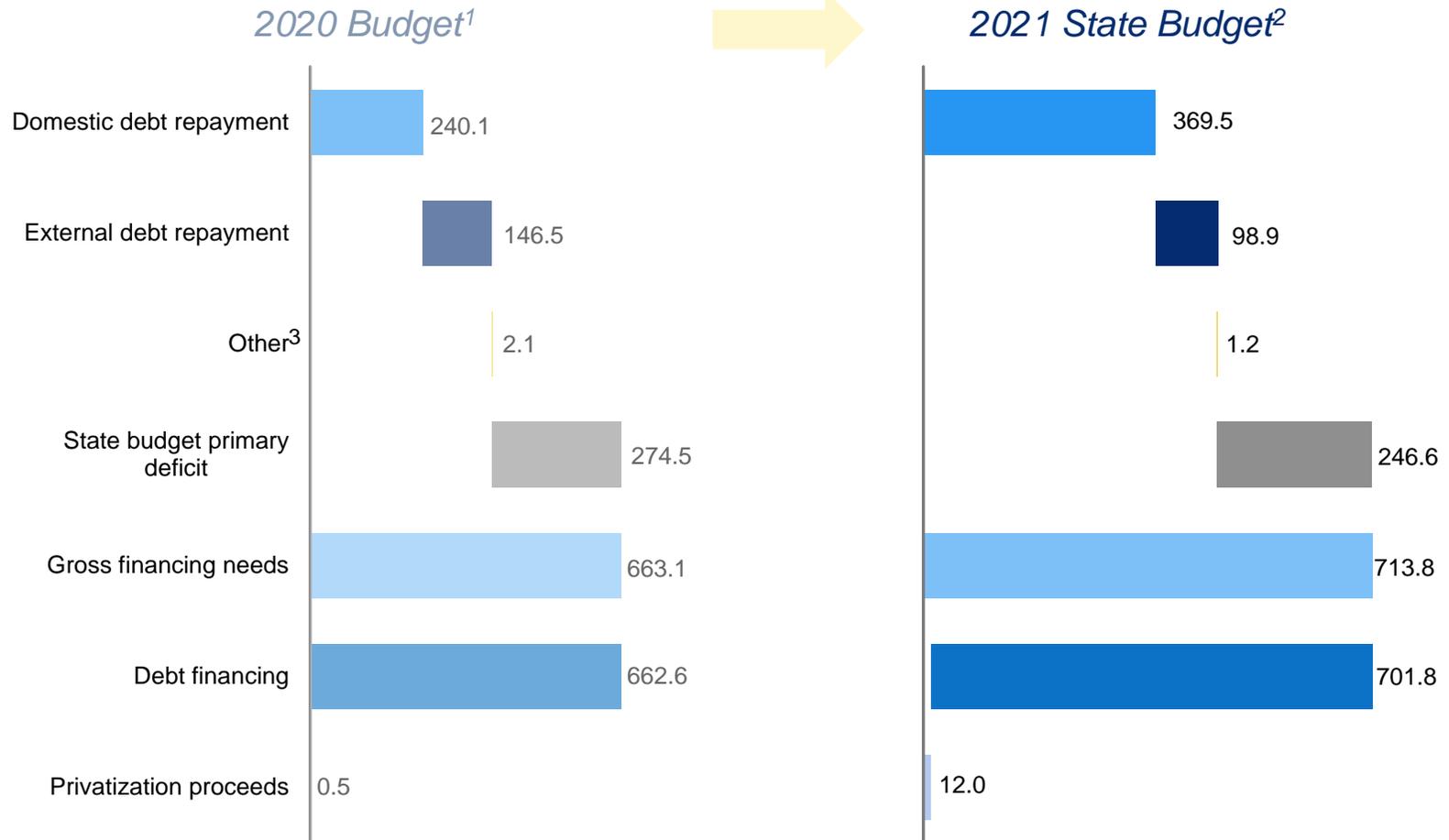


Ukraine's 2021 gross financing needs

During YTD 2020, the following financing have been raised:

- EUR 1.25bn 2030 Eurobond issuance
- USD 2.1bn in the first tranche of the IMF's SBA
- EUR 0.5bn and EUR 0.6bn in MFA support from the EU
- US\$ 96m in financial support within the IBRD's Ukraine Social Safety Net System and Serving People, Improving Health projects
- US\$ 2.0bn 2033 Eurobond issuance (incl. USD 846m used for liability management operation)
- EUR 250m of Cargill loan was received in mid-September
- UAH 294bn (equiv. of US\$ 10.8bn) raised on domestic market o/w UAH 183.9bn in UAH-denominated bonds and US\$ 4.0bn in FX denominated domestic bonds⁴

Ukraine's 2020 & 2021 Gross financing needs split by funding sources, UAH bn



Notes

- 1 Figures based on state budget monthly financing schedule as of Dec 10, 2020
- 2 Figures based on 2021 state budget law as of November 2020
- 3 Other includes financing for active operations, i.e. changes in the volume of deposits and securities used to manage liquidity, changes in the volume of budget funds
- 4 As of December 11, 2020

Source Ministry of Finance



Pipeline of official concessional external financing

Combined with a proactive response to Covid-19 economic fallout, **Ukraine managed to secure a range of concessional financing** from its international partners to **cover significant portion of external financing needs for 2020**

Partner	Programs	Pipeline financing
<p>International Monetary Fund</p> 	<ul style="list-style-type: none"> ▶ On June 9, IMF Executive Board approved 18-month Stand-By Arrangement (SBA) for Ukraine, under which US\$ 2.1bn was disbursed immediately ▶ The total amount of program is US\$ 5.0bn (SDR 3.6bn) that will be directed towards support of balance of payments and budget to help address the effects of Covid-19 while moving forward important structural reforms 	US\$ 2.9bn
<p>European Union</p>  	<ul style="list-style-type: none"> ▶ EUR 1.2bn MFA program for Ukraine was adopted within EUR 3.0bn support package to neighboring partners in May 2020, o/w EUR 623.5m has been provided on December 9, while the second tranche will depend on conditions that will be negotiated in due course ▶ Since 2014, the EU has approved EUR 5.0bn in MFA support for Ukraine, o/w EUR 3.3bn were disbursed during 2014-2018, EUR 1.1bn in 2020, and EUR 0.6bn are expected in 2021 ▶ In addition, various European institutions provide significant financial support for Ukraine, e.g. EUR 340m from the EIB within “Early Recovery Programme” 	EUR 0.6bn
<p>World Bank</p>  <p>WORLD BANK GROUP</p>	<ul style="list-style-type: none"> ▶ In 2020, the IBRD has already disbursed US\$ 96m and is expected to provide another US\$ 221m in financial support until the year-end within the ongoing projects ▶ On June 26, the World Bank has approved US\$ 350m First Economic Recovery Development Policy Loan (DPL) for Ukraine to support economic recovery and mitigate Covid-19 effects. 	US\$ 221m US\$ 350m
Total amount of envisaged external financing from the official partners		c. US\$ 4.2bn



Status of cooperation between Ukraine and the IMF

New 18-months US\$ 5.0bn SBA program

▶ On May 21, 2020, a Staff Level Agreement on a new **18-month SDR 3.6bn (c. US\$ 5.0bn) arrangement under the Stand-By Arrangement (SBA) was agreed and approved** by the Executive Board on June 9. It replaced the Staff Level Agreement on a 3-year Extended Fund Facility (EFF) program which was achieved in December 2019 and the Executive Board approval that was made afterwards

▶ Current status of structural benchmarks fulfillment:

	Completion date	Status
(1) Approved SOBs' NPL reduction plans	End-Jun 2020	✓
(2) Reviewed and enacted to fully reflect gas and non-gas costs heating tariffs, adopted simplified procedure for households to switch gas supplier	End-Aug 2020	✓
(3) New organizational structures and frameworks for the STS and SCS	End-Sep 2020	✓
(4) Enacted selected amendments to the Banking Law	End-Nov 2020	In progress
(5) Enacted amendments to the DGF and other laws to improve bank liquidation mechanism and recovery of assets	End-Oct 2020	In progress
(6) Enacted amendments to the Law on the High Council of Justice to enhance its selection process	End-Oct 2020	In progress
(7) Strengthened corporate governance in SOEs, including a new corporate charter for Naftogaz	End-Sep 2020	✓
(8) The STS and SCS to operate nationally as two single legal entities	End-Dec 2020	In progress
(9) Complete a compliance audit by the State Audit Service of Ukraine, in consultation with external/third party auditors, of COVID-related spending	End-Mar 2021	In progress

Past EFF and SBA programs

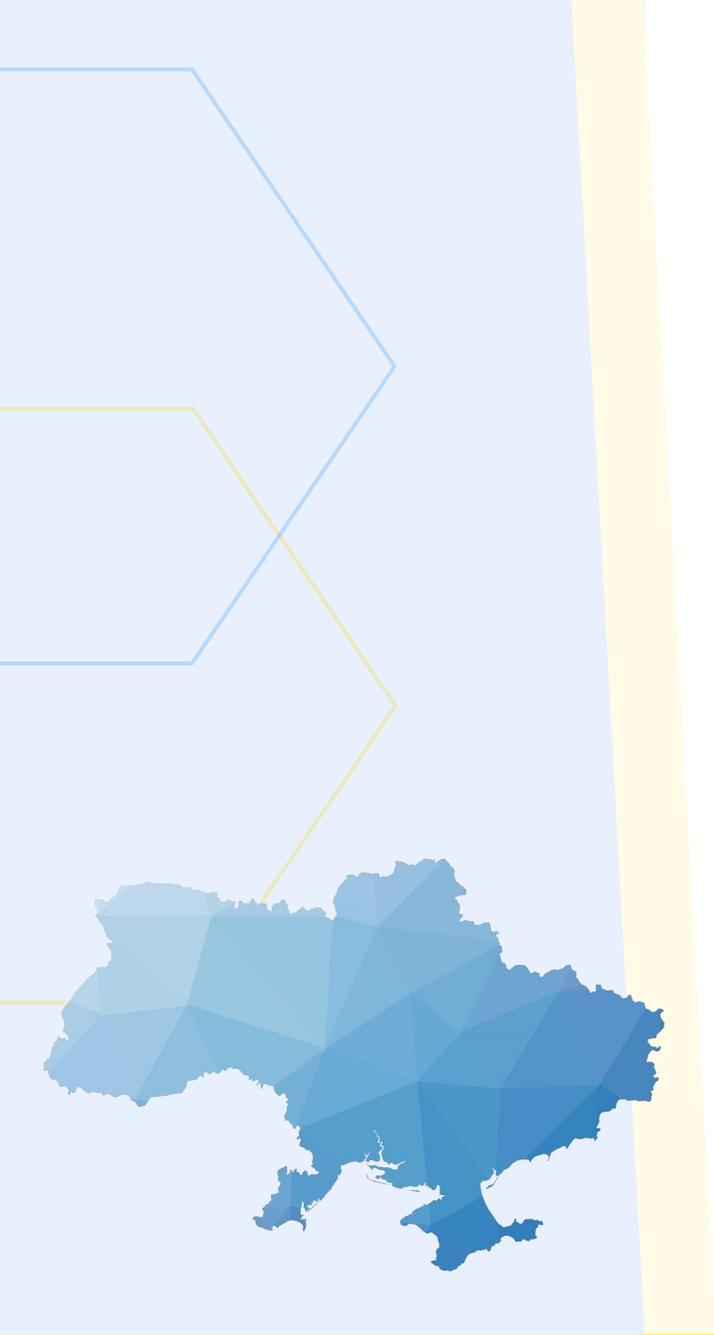
Availability date / Reviews	SDR m	US\$ m ¹
SBA 2020 program (US\$ 5.0bn, 179% of quota)		
June 9, 2020 [disbursed]	1,500	2,076
Following reviews	2,100	2,897
Total SBA program	3,600	4,973
SBA 2018 program (US\$ 3.9bn, 139% of quota)		
December 18, 2018	1,000	1,391
Total SBA program	1,000	1,391
EFF 2015 program (US\$ 17.5bn, 900% of quota)		
March 11, 2015	3,546	4,879
July 31, 2015 [1 st review]	1,182	1,659
September 15, 2016 [2 nd review]	716	1,003
April 3, 2017 [3 rd review]	734	996
Total EFF program	6,178	8,537

Key priorities under new IMF's 2020 SBA program:

- ▶ Mitigating the economic impact of the crisis, including by supporting households and businesses
- ▶ Ensuring continued central bank independence and a flexible exchange rate
- ▶ Safeguarding financial stability while recovering the costs from bank resolutions
- ▶ Moving forward with key governance and anti-corruption measures to preserve and deepen recent gains

Note 1 Past tranches translated at NBU XDR/US\$ exchange rate as of the date of their receipt, future tranches (SBA 2020 program) translated per the IMF's rate of 0.7238 SDR/USD as of June 23, 2020





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Extensive governmental response to facilitate Covid-19 impact



As a response to economic shock caused by the Covid-19 outbreak, Ukraine introduced a **comprehensive stimulus package with policy measures implemented across three main categories: businesses, individuals monetary response**

1	Businesses	2	Individuals	3	Monetary (NBU)
	<ul style="list-style-type: none">▶ Extension of a number of eligible businesses for 5-7-9% Affordable Loans Program and enhancement of program terms▶ Exemption from import duties and VAT of goods used to combat Covid-19 (medicines, medical devices, equipment, etc.)▶ Cancellation of payment of social security contribution for selected categories of payers and abolishment of penalties for late or incomplete payment or filing▶ Cancellation of penalties for violation of tax legislation for March-May 2020▶ Local governments are allowed to decide on the single tax rate reduction in 2020▶ Moratorium on tax audits and inspections for March-May 2020		<ul style="list-style-type: none">▶ 300% increase in salaries for medical personnel working with Covid-19 patients▶ One-off pension increase to low-income pensioners and monthly pension top-up for retirees aged 80+ years▶ Deadline for filing income and wealth tax declarations extended until July 1▶ Moratorium on penalties and disconnection of consumers who are late on utility payments▶ Increase of tax brackets for single tax payers▶ Cancellation of penalties for individuals due to consumer loans overdue for March-April 2020		<ul style="list-style-type: none">▶ Introduced recommendations to banks to deal with borrowers facing financial difficulties as a result of Covid-19▶ Encouraged banks to refrain from the distribution of dividends▶ Modified calculation of reserve requirements as part of banks' liquidity support▶ Delayed introduction of capital buffers for banks▶ Delayed banks' onsite inspections and stress testing▶ Introduction of long-term refinancing instrument for banks (up to 5 years)▶ Doubled frequency of liquidity tenders▶ Extended deadline for the development and approval of banks' strategies of non-performing assets management▶ Extended deadline for banks to submit their risk tolerance declarations▶ Banks are eligible to apply only one stress test for business recovery plans (the most severe one) rather than 2 tests before▶ Extended deadlines for banks to submit financial accounts for FY 2019 and Q1 2020
	<ul style="list-style-type: none">▶ Launch of UAH 65bn coronavirus response fund within state budget to finance immediate areas to counter the spread of Covid-19▶ Exemption of non-residential real estate from real estate tax in March 2020▶ Land rent is not accrued and paid for March 2020				

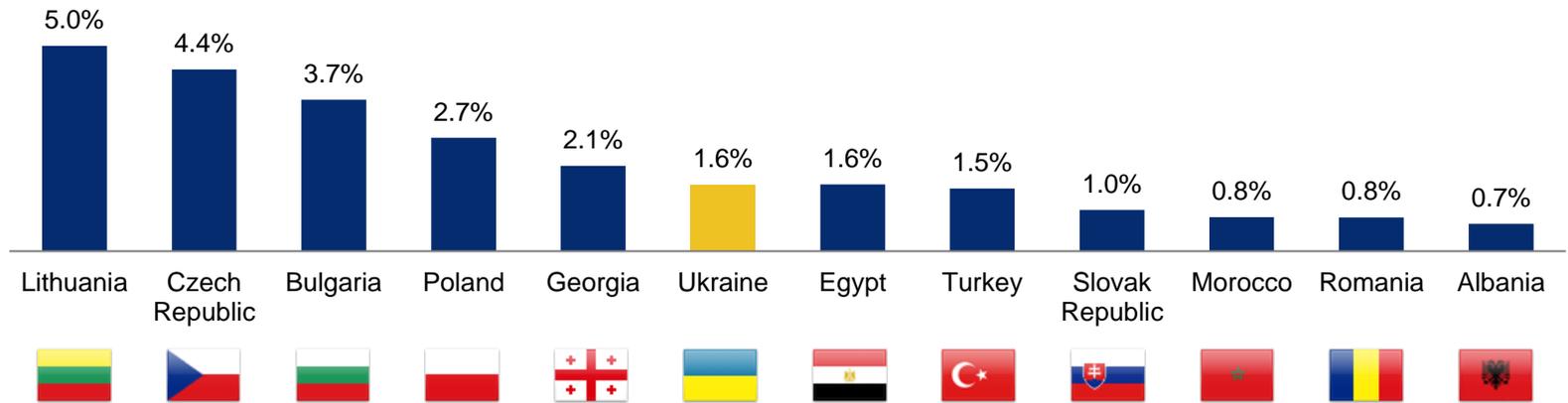
Sources NBU, CMU, UkraineInvest



Budget-financed economic stimulus package

Benchmarking of peers' Covid-19 budget-financed stimulus packages as % of GDP

Governments globally have introduced a **comprehensive and ambitious set of policy responses** with an aggregate amount of fiscal packages being close to US\$ 9.9tn (or 11.4% of global GDP as of end-2019) with about 80 countries adopting budget-financed stimulus of at least 1% of GDP



- ▶ Ukraine's committed fiscal package to Covid-19 economic and social impact is broadly comparable with those of its peers in terms of the response fund size as % of projected 2020 nominal GDP
- ▶ Out of the UAH 66bn of Covid-19 response fund, decisions for disbursement have been made for UAH 45bn (c.69%), as of December 7, 2020
- ▶ The financing from the Covid-19 response fund is directed towards:

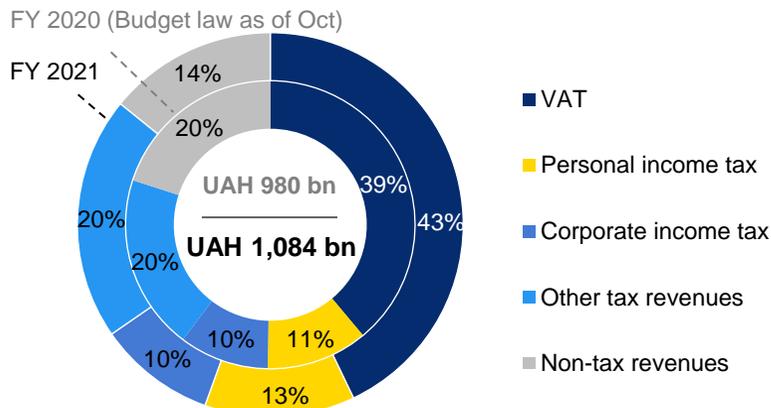
-  Purchase of goods and services for prevention of Covid-19 spread, including medical services within the program of state guarantees for medical care of population
-  Increase of salaries of medical and other workers directly fighting with Covid-19
-  One-time financial assistance to families of medical and other healthcare workers who have died due to Covid-19
-  Provision of financial assistance to socially vulnerable categories of population, in particular elderly
-  Refundable and non-refundable financial assistance to Social Insurance Fund of Ukraine and Compulsory State Social Insurance Fund of Ukraine for Unemployment
-  Replenishment of the reserve fund of the state budget

Sources IMF, CMU, Ministry of Finance

2021 state budget to resume fiscal consolidation

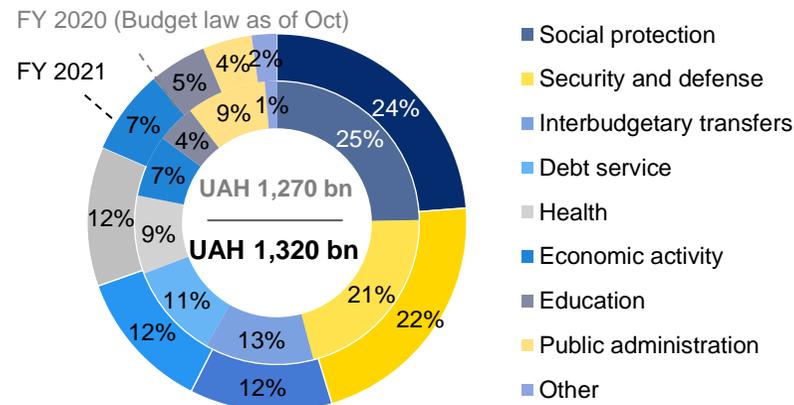
2021 vs 2020 state budget revenues split (law¹)

2021 state budget revenues: UAH 1,084bn



2021 vs 2020 state budget expenditures split (law¹)

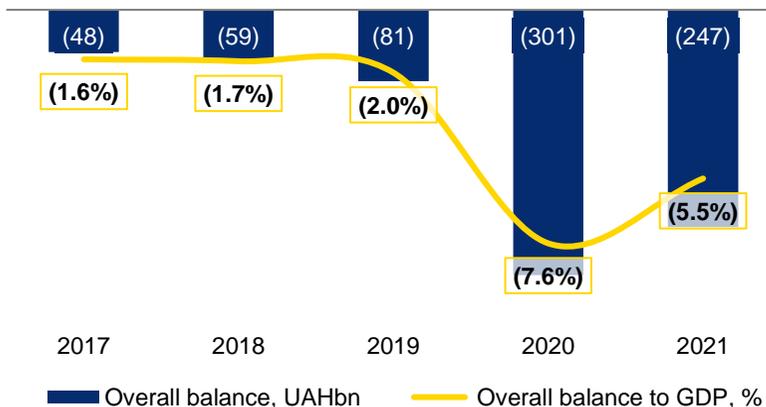
2021 state budget expenditures: UAH 1,320bn



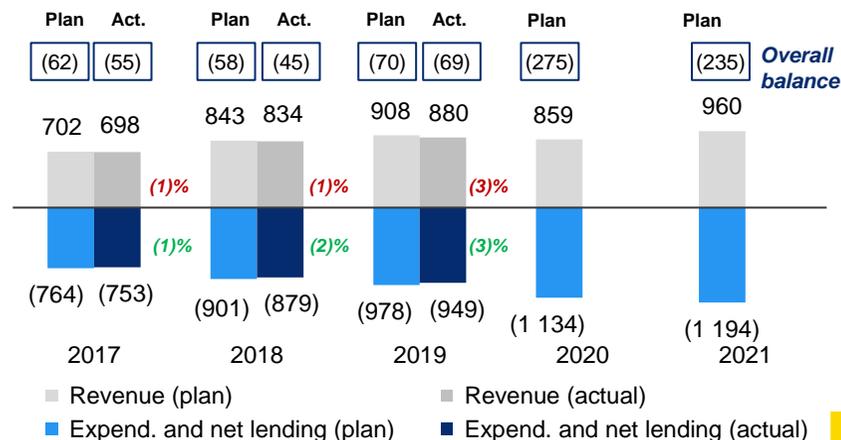
Key indicators of 2021 State budget are as following:

- Total revenues: **UAH 1,084.0 bn (+11%)**
- Total expenditures: **UAH 1,320.2 bn (+4%)**
- Budget deficit²: **UAH 246.6 bn / 5.5% of GDP in 2021 (per government's forecast of UAH 4,505.9bn GDP in 2021)**

Overall state budget balance³, UAH bn



State budget general fund performance³, UAH bn



Notes

- 1 According to State Budget Law 2021 amended as of Nov 2020 and State Budget Law 2020 amended as of Oct 2020
- 2 Budget deficit defined as revenues minus expenditures and minus net lending
- 3 Based on historical data for 2017–2019; based on 2020 Budget Law as of Oct 2020 and 2020 GDP forecast of the government for 2020; based on 2021 Budget Law as of Dec 2020 and 2021 GDP forecast of the government for 2021

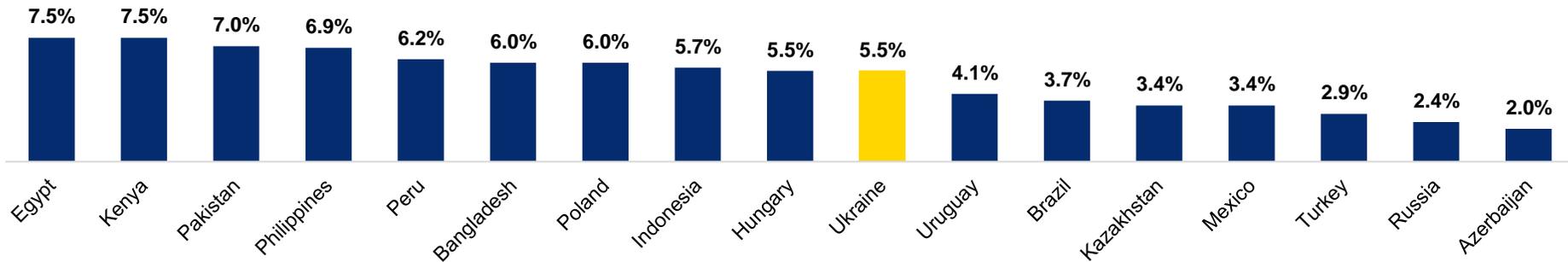
Source State Treasury of Ukraine, NBU

Source State Treasury of Ukraine

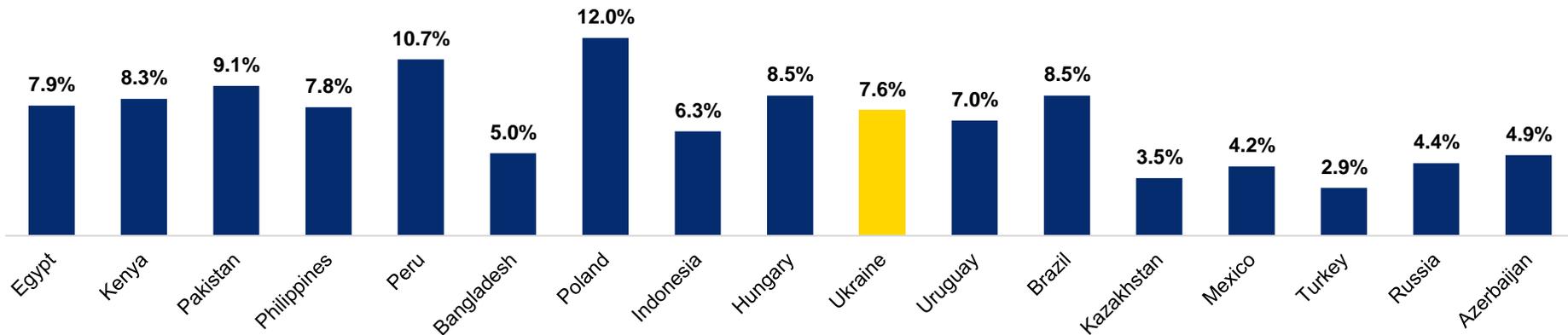
In line with a number of EM countries

2021 selected EM state budget deficits by country

Change vs. 2020 budget deficit

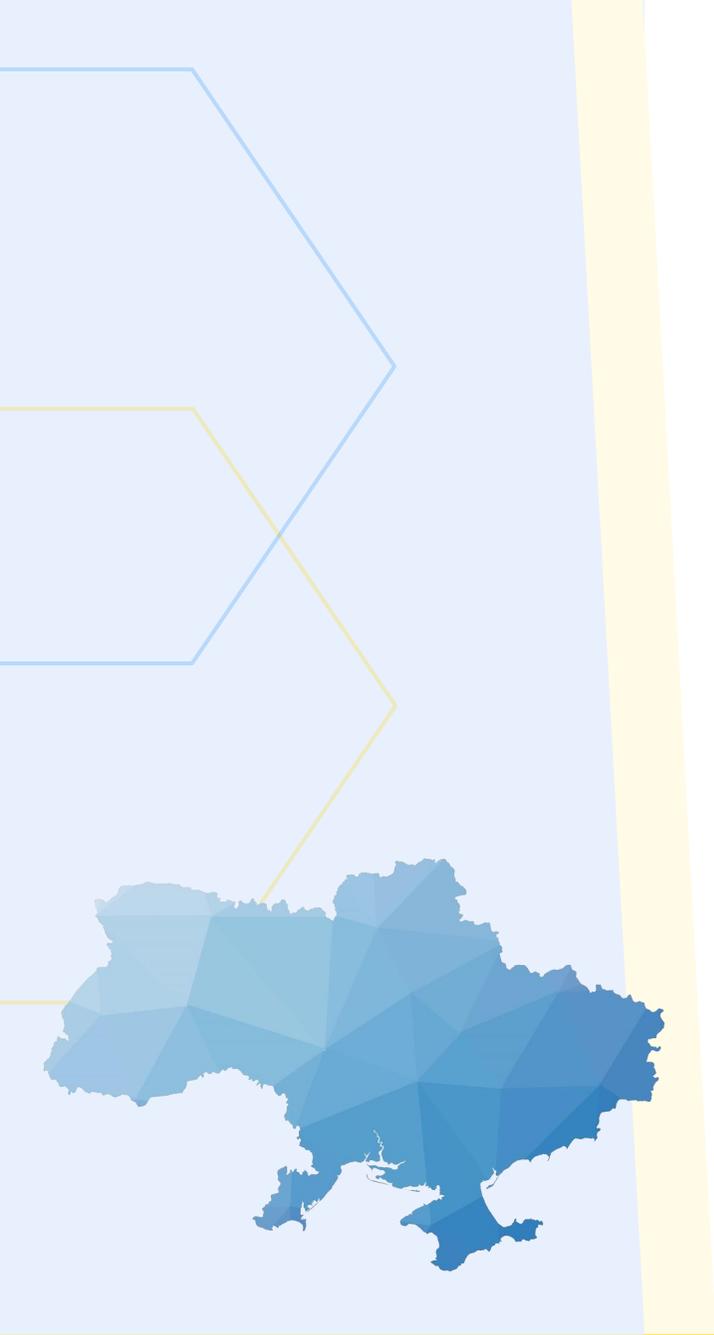


2020 selected EM state budget deficits by country



Source Public domain



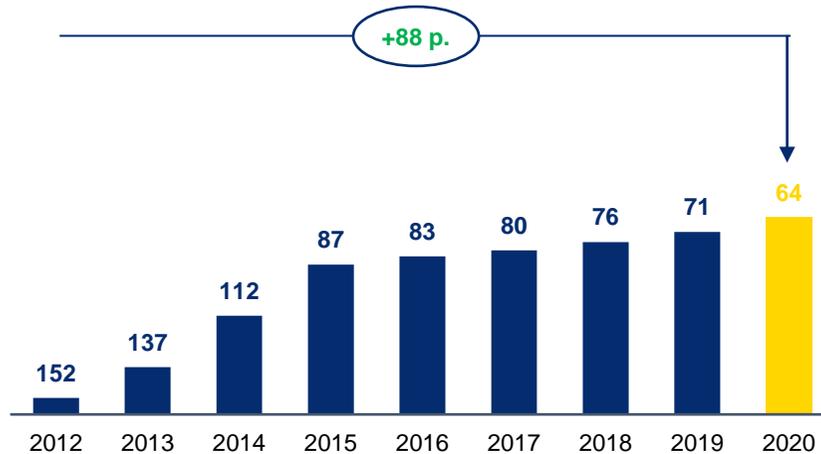


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Business climate improvement to accelerate growth potential

Ease of Doing Business ranking



Source Doing Business

Ukraine's selected pillars in 2020 global ranking

- 20** Dealing with construction permits (+10 p. vs the previous report)
- 37** Getting credit (-5 p. vs the previous report)
- 45** Protecting minority investors (+27 p. vs the previous report)
- 61** Starting a business (-5 p. vs the previous report)
- 61** Registering property (+2 p. vs the previous report)
- 63** Enforcing contracts (+6 p. vs the previous report)

Business expectations index by the NBU



Source NBU

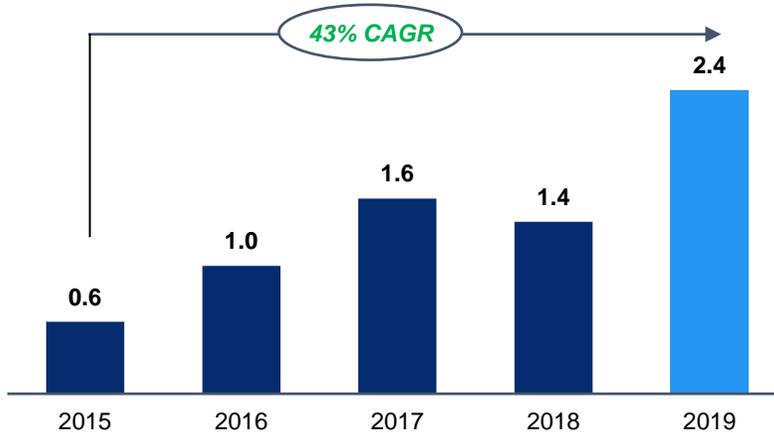
Q3 2020 expectations by industry

- Manufacturing 107.0%**
- Retail 104.9%**
- Transport & logistics 98.2%**
- Mining 103.0%**
- Agriculture 96.2%**



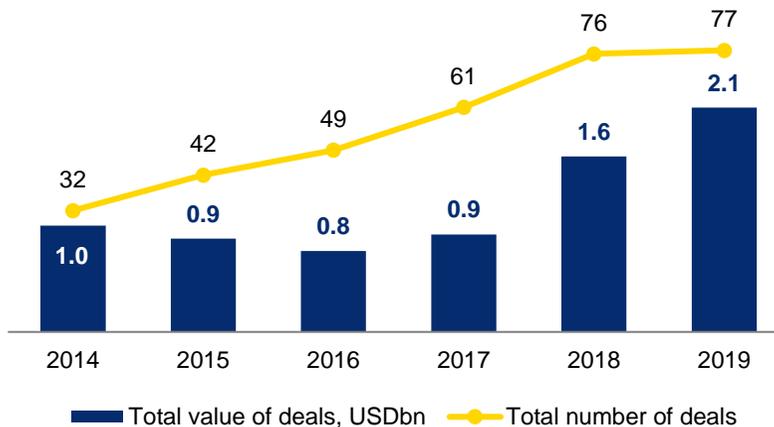
Boosted activity of foreign investors over the last year

FDI to real sector of Ukraine, US\$ bn



Source NBU

Ukrainian M&A market development



Sources UkraineInvest, National Investment Council of Ukraine, KPMG

Examples of recent deals and investors



▶ A digital writing tool Grammarly earned an official unicorn status by attracting US\$ 90m funding

Oct 2019



▶ Acquisition of the second-largest telecom provider in Ukraine for US\$ 734m

Nov 2019



▶ Acquisition of the pharmaceutical business of Biopharma, including its GMP-certified production facilities

Dec 2019



▶ EUR 124m solar power project (commissioning scheduled for 2020)

Jun 2019

Other important investors



Seizing crisis opportunity for agri exports

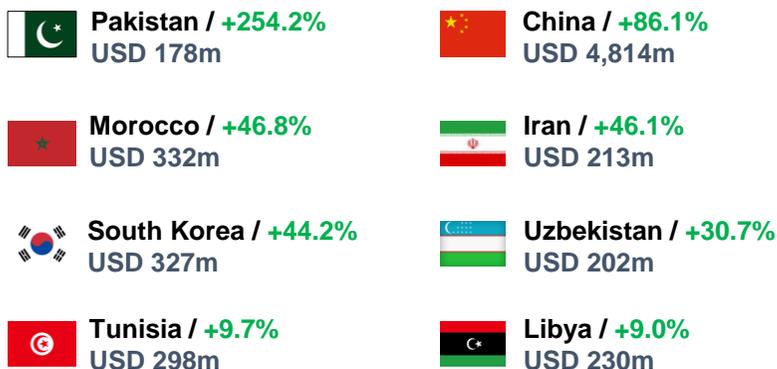
Overall Ukraine concluded 18 FTAs with 46 countries



Comments

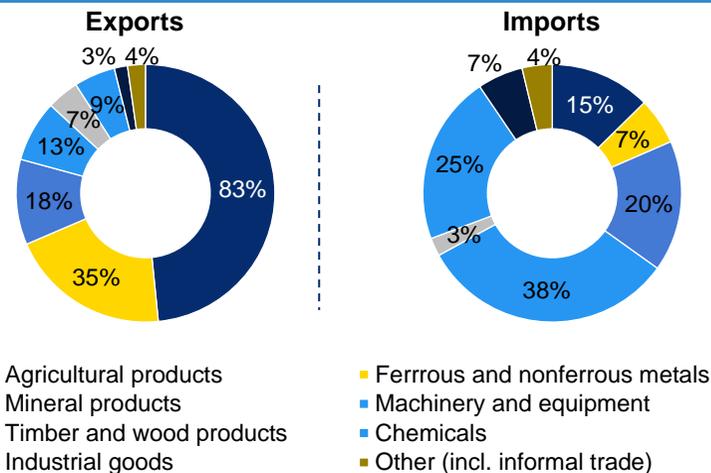
- ▶ Reinforced by Covid-19, the global demand for basic goods, such as agri and food, remains stable
- ▶ This provides Ukraine an opportunity to elevate basic goods exports to large and developed economies amidst crisis
- ▶ Most of such trade connections have already been set up and developed with conclusion of an increasing number of FTAs while Ukraine has undergone a major shift in trade flows towards the EU market in recent years
 - **The EU's share** in Ukraine's foreign trade turnover went up from **35% in 2015 to 40% in 2019**
 - **DCFTA (in full force since September 2017)** provides further opportunities in the EU markets

10m 2020 y-o-y increase in export of goods by countries²



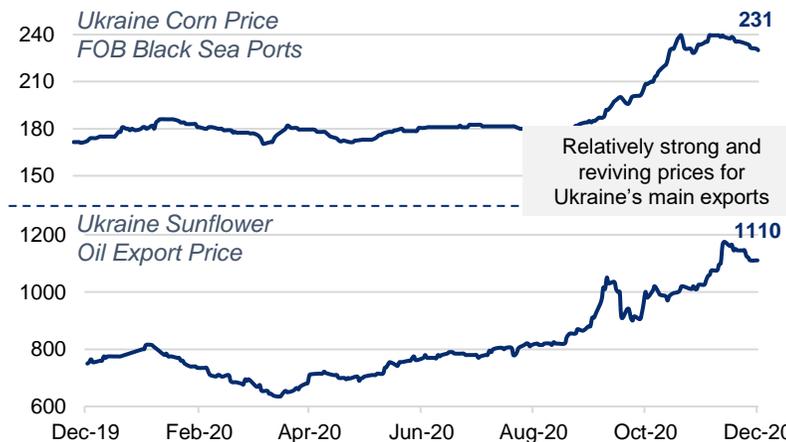
Source State Statistics Service of Ukraine

Ukraine's exports and imports breakdown¹ in 10m 2020



Source State Statistics Service of Ukraine

Ukraine's export prices on selected agri goods (US\$ / t)



Source Bloomberg, as of August 31, 2020

Notes

- Export and import of goods breakdown
- Only countries, exports of goods to which in H1 2020 surpassed 0.5% of total Ukraine's export of goods were included

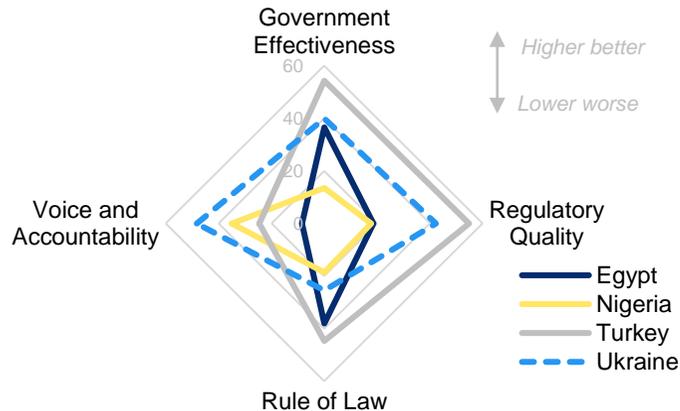


Strong focus on ESG considerations

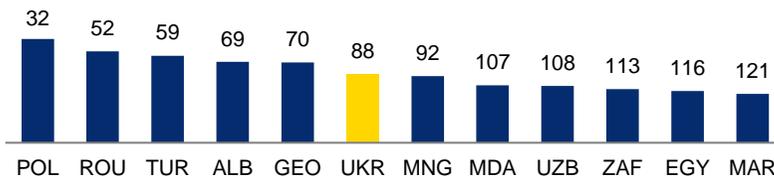
Fiscal Transparency:

- ▶ According to the U.S. 2020 Fiscal Transparency Report, Ukraine demonstrated significant progress in fiscal transparency by completing its adoption of international accounting standards.
- ▶ During the review period, the government made its budget and information on debt obligations widely and easily accessible to the general public, including online. Budget documents provided a substantially complete picture of the government's planned expenditures and revenue streams.

Ukraine in ESG ratings: WGI 2019 percentile rank



Ukraine in ESG ratings: HDI 2020 ranking position



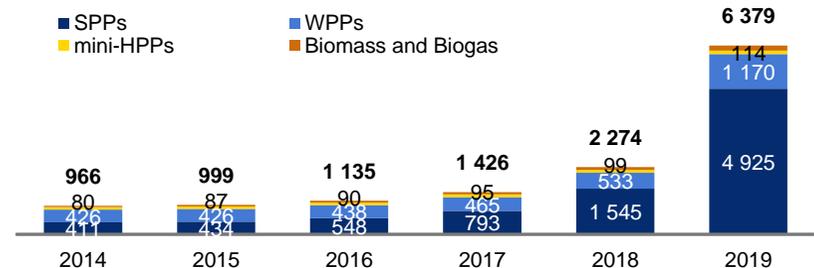
- ▶ **Worldwide Governance Indicators (WGI)** from the World Bank and **Human Development Index (HDI)** from UNDP constitute an important basis for sovereign credit ratings
- ▶ For both WGI and HDI, Ukraine performs in line with its regional and rating peers:
 - Being in High Human Development group and demonstrating consistent improvement since 2015
 - Showing relatively solid performance in WGI Voice and Accountability, Government Effectiveness and Regulatory Quality pillars

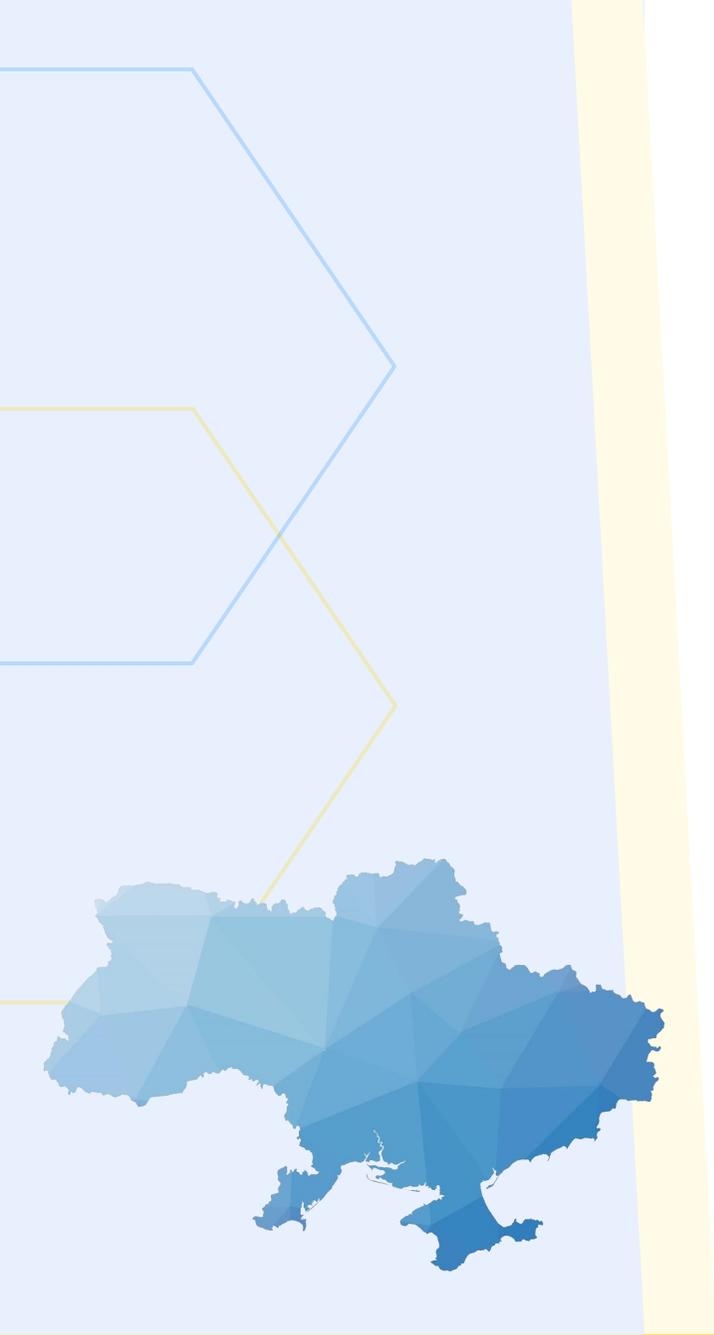
Note 1 State Agency on Energy Efficiency and Energy Saving of Ukraine
Sources U.S. Department of State, World Bank, UNDP, Yale Center for Environmental Law and Policy, Ukraine's National Security and Defence Council, EuroCape, SAE, NEURC

Key environmental initiatives / commitments

- ▶ **2014:** Ukraine committed to Environmental standard aligned on EU standards as part of the EU-Ukraine Association Agreement
- ▶ **2015:** Ukraine committed itself to achieving a range of policy targets attached to the **UN Sustainable Development Goals (SDGs)**
- ▶ **2016:** Ukraine signed the **Paris agreement** in April (which commits Ukraine to ensuring that greenhouse gas emissions in 2030 will not exceed 60% of the 1990 emissions level) and ratified it in September
- ▶ **2017:** the government adopted the **Energy Strategy of Ukraine until 2035**. It outlines measures to: (i) reduce greenhouse gas emissions, and (ii) restructure the coal sector to reduce its environmental impact
- ▶ **June 2020:** Government signs Memorandum with green energy producers
- ▶ **August 2020:** IFC Partnered with Ukraine's National Securities and Stock Market Commission to Boost Green Finance. The SAE¹ developed a draft Concept for the implementation of a green bond market in Ukraine

RES installed capacity dynamics as of eop, MW

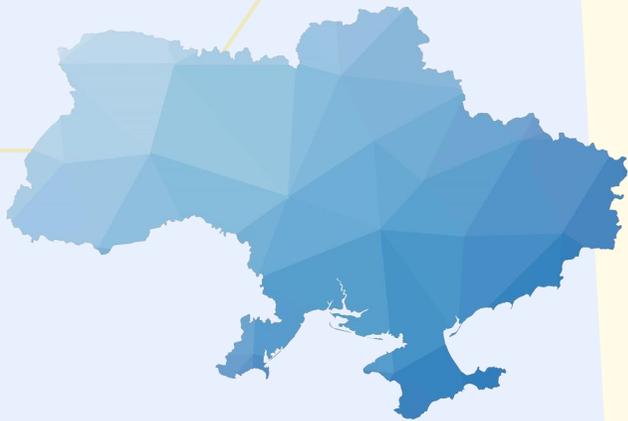




- 1 The Covid-19 crisis will have a significant but short-term effect
- 2 Ukraine's financing will benefit from substantial support from partners
- 3 A proactive response should mitigate the impact on the economy
- 4 An improved business climate and opportunities for growth
- 5 Appendices**

Appendix A

Solid foundation for long-term economic growth despite current crisis



Accumulated economic buffer to curb Covid-19 impact (1/3)

2019 GDP in current prices

US\$ 154bn

GDP per capita dynamics, US\$

2016 US\$ 2,188

+21%

2017 US\$ 2,640

+17%

2018 US\$ 3,097

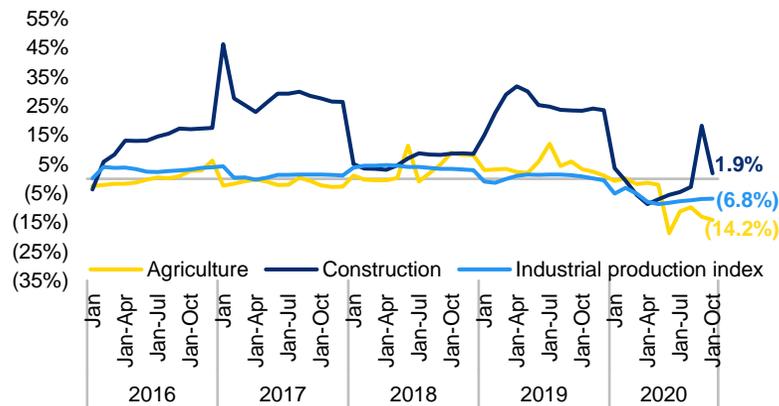
+18%

2019 US\$ 3,659

Comments

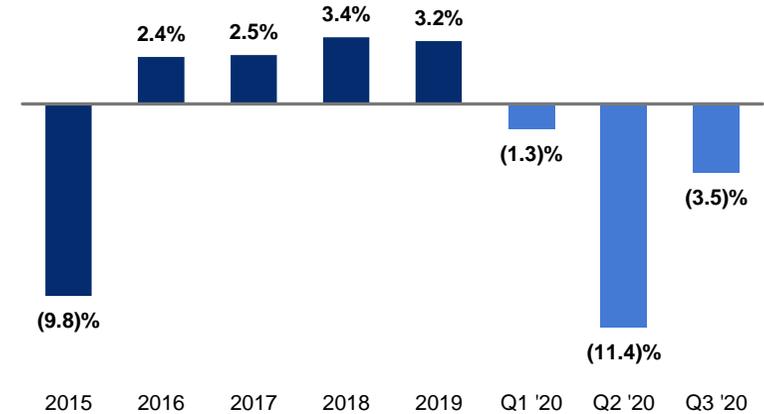
- ▶ **Ukraine's real GDP growth declined at 1.3% and 11.4%** (y-o-y) in **Q1 2020 and Q2 2020**, respectively (compared to 3.2% growth in 2019 and 3.4% in 2018), on the back of Covid-19 spread and related economic disruptions
- ▶ Accordingly, the **key economic sector outputs contracted as well with agriculture being impacted the most** (-14.2% y-o-y over Jan-Oct 2020), followed by industrial production (-6.8% y-o-y over Jan-Oct 2020), while construction increased by 1.9% y-o-y over Jan-Oct 2020.
- ▶ Despite Covid-19, **the private consumption in Q1 2020 remained strong**, although the fixed capital accumulation reacted negatively more rapidly
- ▶ While in **Q2 2020 the decline in private consumption was predominately pulling the real GDP change down**

Key economic sectors output growth (y-o-y)¹, %



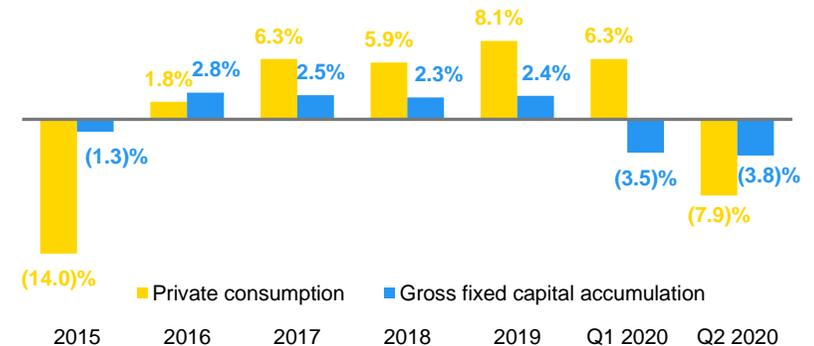
Source State Statistics Service of Ukraine

Real GDP growth (y-o-y), %



Source State Statistics Service of Ukraine

Component contribution into real GDP growth, %



Source State Statistics Service of Ukraine

Notes

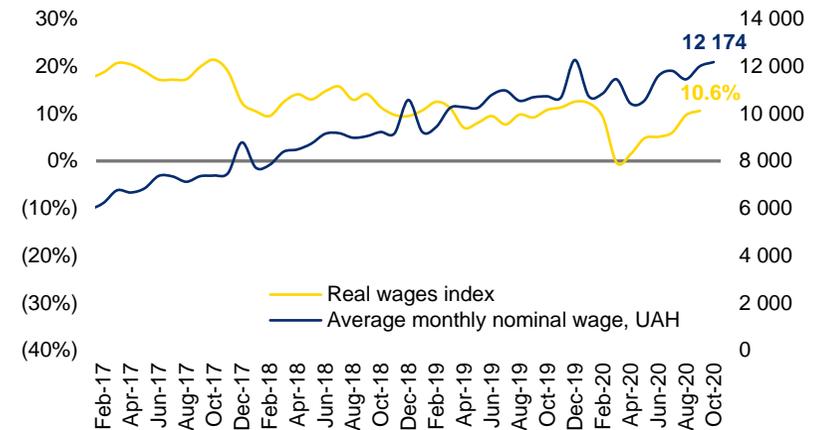
1 To the corresponding period of the previous year on a cumulative basis

Accumulated economic buffer to curb Covid-19 impact (2/3)

Comments

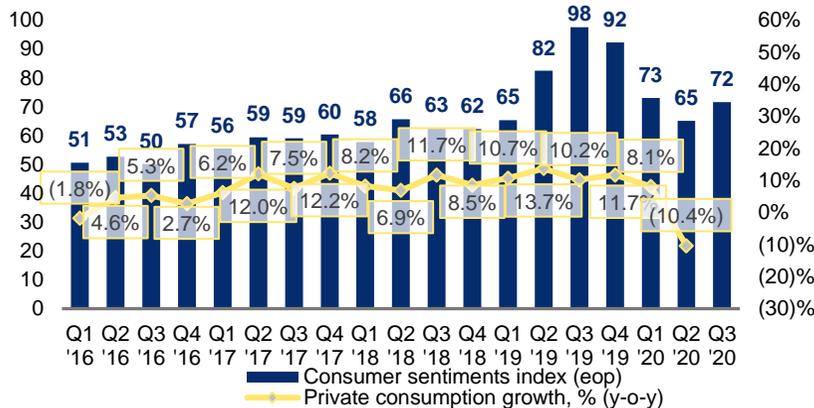
- ▶ **Consumer demand remained high and being the main driver of Ukraine's real GDP growth up to Q2 2020**
 - Final private consumption grew by 8.1% (y-o-y) in Q1 2020 followed by a 10.4% (y-o-y) decline in Q2 2020
 - Retail trade turnover growth increased to 8% in October 2020 from above 3% April-June 2020
- ▶ Consumer demand was driven by a number of factors, including among others **improving consumer sentiments** (before Q2 2020), **rise in real wages, consumer lending and personal money remittances**
 - Real wages went up by 10.6% y-o-y in September 2020 and by 7.0% y-o-y in Jan-Sep 2020 cumulatively

Real wages growth (%) and avg monthly nominal wages (UAH)



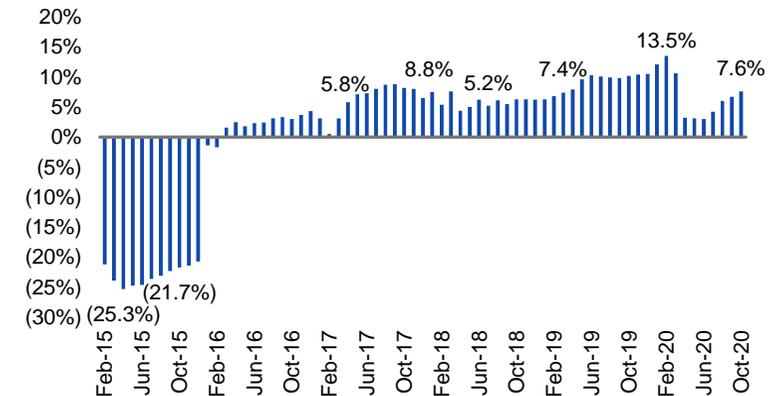
Source State Statistics Service of Ukraine

Private consumption and consumer sentiments evolution



Source GFK, State Statistics Service of Ukraine

Retail trade growth (y-o-y)¹, %



Note 1 To the corresponding period of the previous year on a cumulative basis

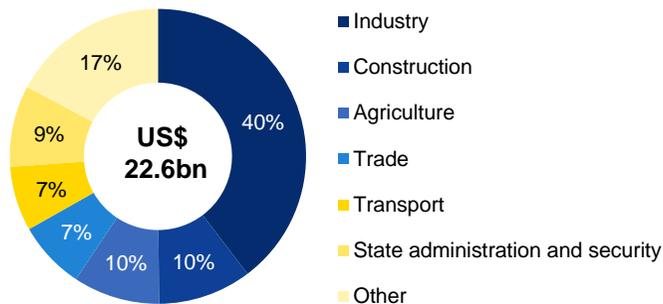
Source State Statistics Service of Ukraine

Accumulated economic buffer to curb Covid-19 impact (3/3)

Comments

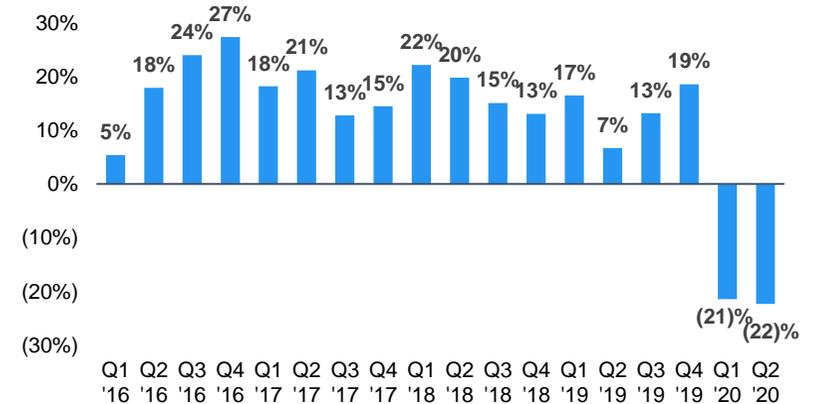
- ▶ **Although industrial output contracted in 10m 2020**, some sectors managed to keep the stable or upward dynamics, incl. production of chemicals (+6.7%), and pharma products (+1.0%)
- ▶ **Gross fixed capital went down by 22.3% in Q2 2020** on the back of the economic disruption caused by Covid-19
- ▶ Despite 34.9% capital investments decline in H1 2020, the consistent growth in the previous periods (e.g. 15.5% y-o-y in 2019) is expected to solidify Ukraine's prospects for quick economic recovery post Covid-19 outbreak
 - **Industry has been the major contributor to capital investments in 2019 accounting for c.40%** followed by construction and agriculture with 10% and 10% shares, respectively

Capital investments split by sector for in 2019, %



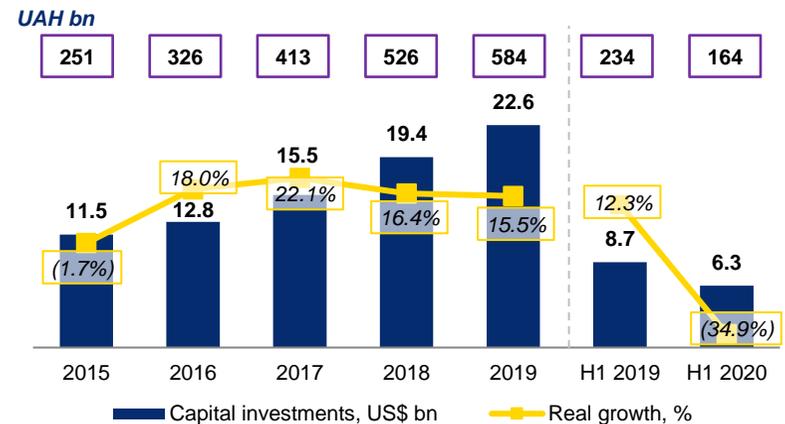
Source State Statistics Service of Ukraine

Gross fixed capital accumulation, % (y-o-y)¹



Source State Statistics Service of Ukraine

Capital investments dynamics

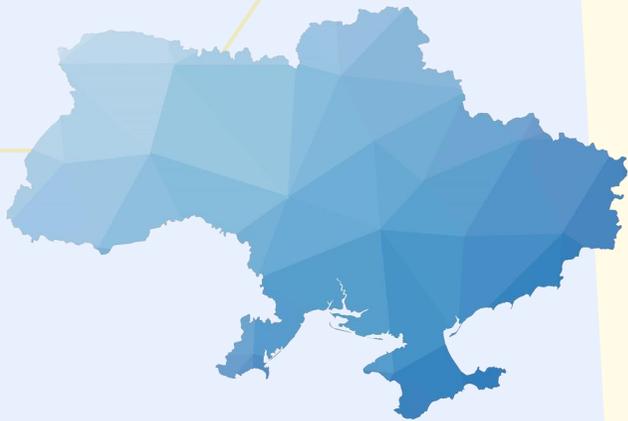


Source State Statistics Service of Ukraine

Note 1 To the corresponding period of the previous year on a cumulative basis

Appendix B

YTD 2020 State and Consolidated Budget execution



State budget execution (10m 2020)

UAH m	State budget general fund			Overall state budget		
	10m 2020 Actual	10m 2020 Plan	% diff.	10m 2019 Actual	10m 2020 Actual	% diff.
Revenues	720,459	722,096	(0%)	810,915	842,437	+4%
Tax revenues, incl.	584,618	584,966	(0%)	641,395	644,596	+0%
Personal income tax and income charge	93,965	91,396	+3%	88,839	93,965	+6%
Corporate profit tax	75,194	74,927	+0%	78,106	75,194	(4%)
Fee for the use of mineral resources	23,930	27,635	(13%)	38,185	24,255	(36%)
Excises	59,625	55,584	+7%	102,423	111,773	+9%
VAT (net of VAT reimbursement)	312,662	316,411	(1%)	305,897	312,662	+2%
Export and Import duties	17,461	17,279	+1%	24,995	24,364	(3%)
Non-tax revenues	135,841	137,130	(1%)	169,520	197,841	(14%)
Expenditures	(843,120)	(937,532)	(10%)	(839,570)	(950,842)	+13%
General public functions, incl.:	(135,329)	(143,647)	(6%)	(135,872)	(137,631)	+1%
Debt service	(104,490)	(105,847)	(1%)	(99,104)	(104,490)	+5%
Security and Defense	(187,828)	(211,997)	(11%)	(186,035)	(204,372)	+10%
Economic activity	(39,151)	(57,534)	(32%)	(47,038)	(91,941)	+95%
Protection of environment	(3,130)	(4,744)	(34%)	(3,569)	(3,441)	(4%)
Municipal utilities and services	-	-	-	(78)	(48)	(38%)
Healthcare	(73,835)	(99,581)	(26%)	(28,183)	(75,991)	+170%
Intellectual and physical development	(6,645)	(8,922)	(26%)	(7,042)	(6,735)	(4%)
Education	(27,095)	(29,422)	(8%)	(40,007)	(40,496)	+1%
Social welfare	(259,034)	(269,508)	(4%)	(171,391)	(259,437)	+51%
Interbudgetary transfers	(111,074)	(112,179)	(1%)	(220,356)	(130,750)	(41%)
Net lending	2,187	1,272	+72%	(1,623)	(3,758)	+132%
Primary balance	(15,984)	(108,317)	(85%)	68,826	(7,673)	(111%)
Overall state budget balance	(120,474)	(214,164)	(44%)	(30,278)	(112,163)	+270%

Source: State Treasury of Ukraine



Consolidated budget execution (10m 2020)

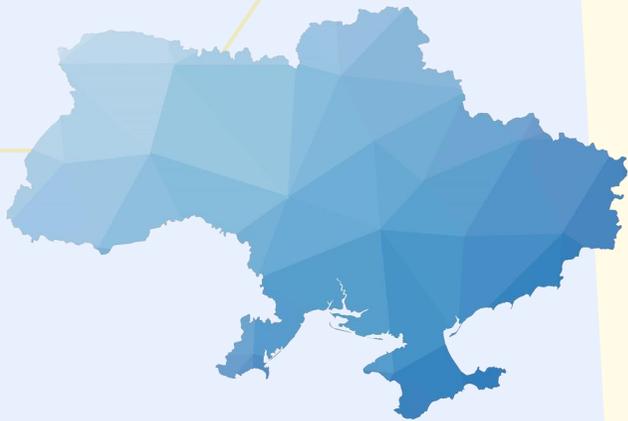
UAH m	10m 2019 Actual	10m 2020 Actual	% change	FY 2019 Actual	FY 2020 Plan	% change
Revenues	1,047,463	1,082,779	+3%	1,289,849	1,319,620	(2%)
Tax revenues	862,021	874,678	+1%	1,070,322	1,073,614	(0%)
Personal income tax and income charge	222,222	235,749	+6%	275,458	295,518	(7%)
Corporate profit tax	85,890	82,712	(4%)	117,317	108,234	+8%
Fee for the use of mineral resources	42,266	27,570	(35%)	52,025	37,157	+40%
Excises	113,848	124,542	+9%	137,076	142,642	(4%)
VAT (net of VAT reimbursement)	305,897	312,662	+2%	378,690	381,360	(1%)
Property taxes	32,416	31,347	(3%)	37,994	37,248	+2%
Export and Import duties	24,995	24,364	(3%)	30,086	28,621	+5%
Other taxes and duties	34,488	35,732	+4%	193,577	42,835	+352%
Non-tax revenues	185,442	208,101	+12%	219,527	246,006	(11%)
Expenditures	(1,046,224)	(1,168,283)	+12%	(1,372,351)	(1,647,868)	(17%)
General public functions, incl.:	(163,017)	(169,166)	+4%	(203,109)	(229,572)	(12%)
Debt service	(99,637)	(105,493)	+6%	(120,096)	(137,542)	(13%)
Security and Defense	(187,016)	(205,791)	+10%	(250,322)	(285,503)	(12%)
Economic activity	(101,927)	(155,989)	+53%	(154,218)	(255,059)	(40%)
Protection of environment	(5,570)	(4,876)	(12%)	(9,731)	(11,198)	(13%)
Municipal utilities and services	(24,561)	(23,968)	(2%)	(34,490)	(34,548)	(0%)
Healthcare	(95,483)	(113,730)	+19%	(128,385)	(177,681)	(28%)
Intellectual and physical development	(23,290)	(23,422)	+1%	(31,550)	(34,774)	(9%)
Education	(185,884)	(193,230)	+4%	(238,759)	(272,719)	(12%)
Social welfare	(259,477)	(278,112)	+7%	(321,787)	(346,813)	(7%)
Net lending	(1,882)	(3,931)	+109%	(4,763)	(11,139)	(57%)
Primary balance	98,994	16,059	(84%)	32,832	(201,845)	(116%)
Consolidated budget balance	(643)	(89,435)	-	(87,264)	(339,387)	(74%)

Source State Treasury of Ukraine



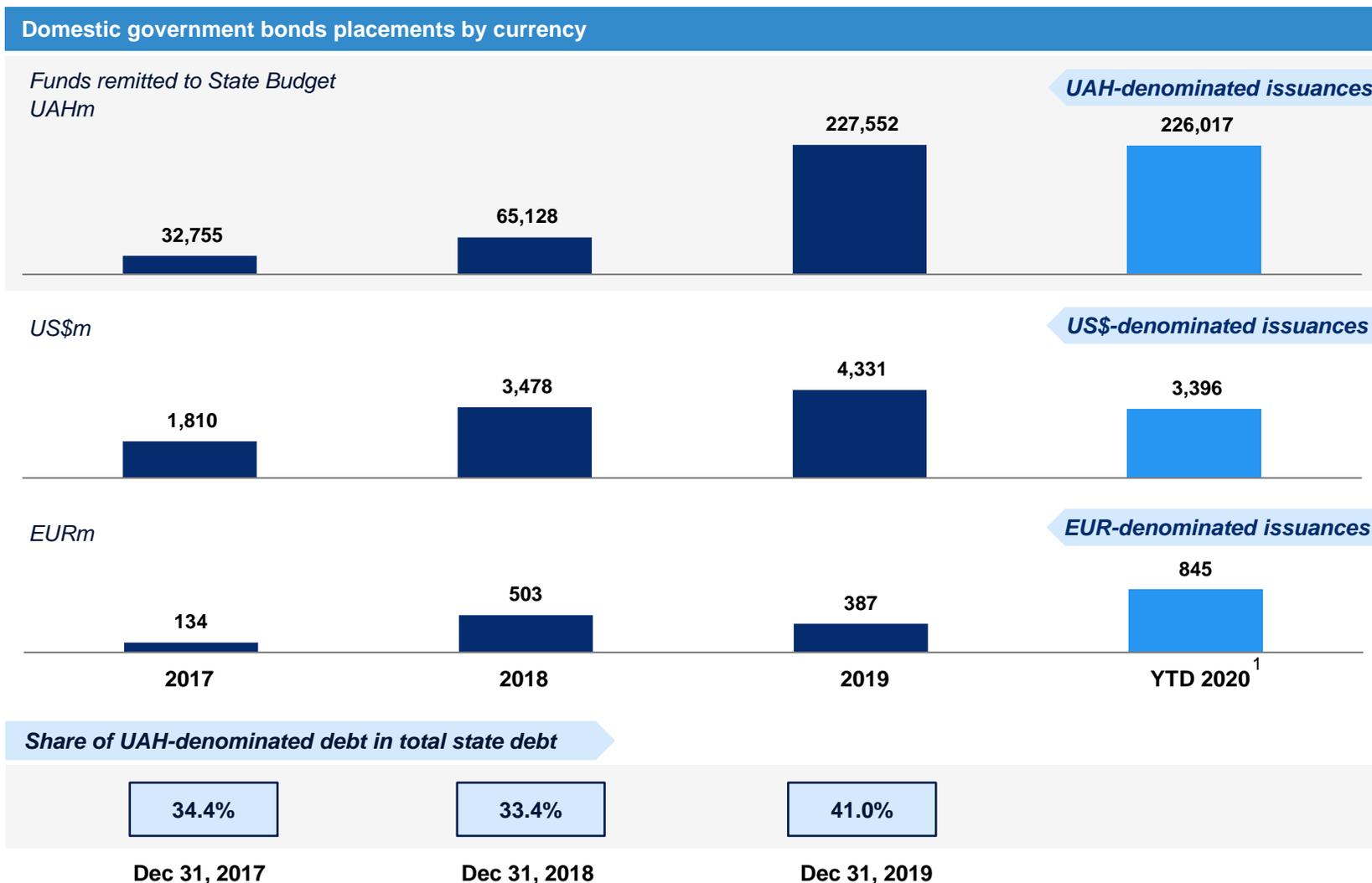
Appendix C

Prudent debt management strategy



Switching focus to UAH-denominated issuances on domestic market

- Major development of domestic bond market with a focus on UAH-denominated issuances experiencing 3.5x 2019 issuance volume increase as compared to 2018
- In line with MTDS objectives, FX-denominated issuances are kept relatively stable



Source Ministry of Finance

Note 1 As of December 18, 2020

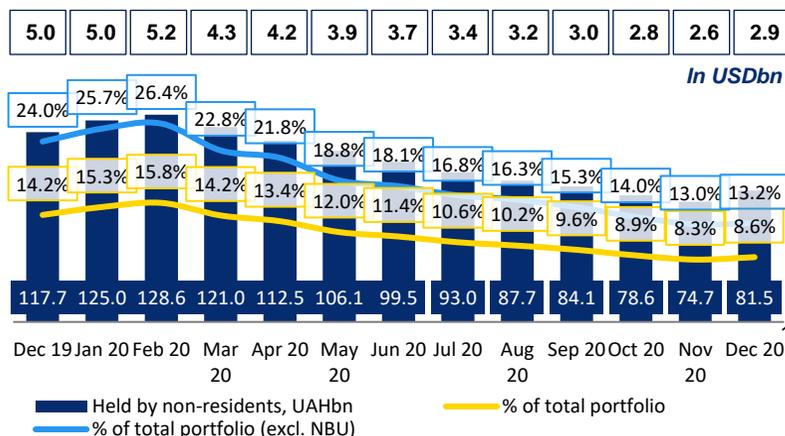


Ukraine's domestic government bond holders

Key highlights

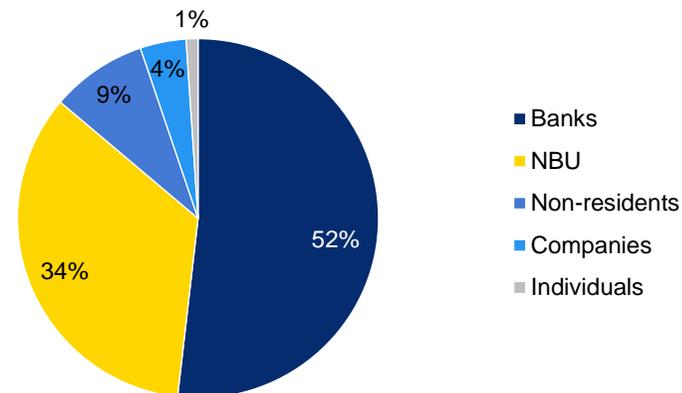
- ▶ With a **c.52% share, banks are currently the largest holder of domestic government bonds followed by the NBU, which accounts for c.34% of the portfolio**¹
- ▶ At c.8.6% of total outstanding Ukrainian domestic government bonds as of December 2020¹, the **portfolio held by non-residents has decreased over the LTM** (initially boosted to 15.8% by Feb 2020 and further declining in line with EM's capital outflow)
- ▶ **Ukraine is making consistent steps to deepen domestic government bond market and to increase share of non-residents in local currency bonds portfolio**
 - A link between Clearstream, the international central securities depository, and the depository of the NBU active since May 2019 ensuring streamlined access to Ukraine's domestic government bond market

Domestic government bonds held by non-residents (eop)

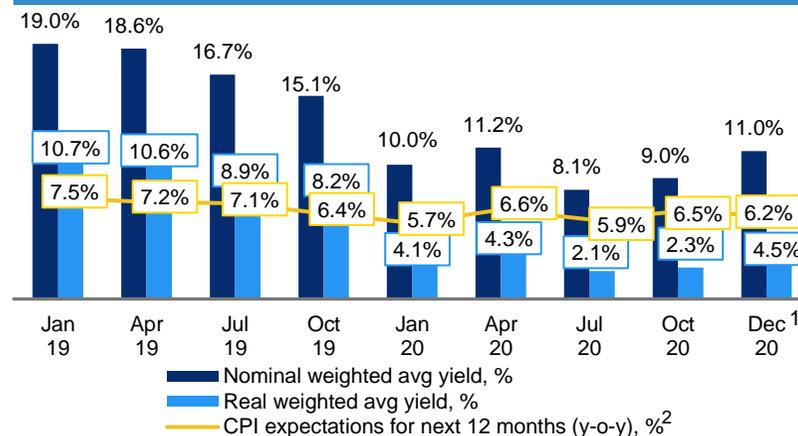


Source Ministry of Finance, NBU

Domestic government bond holders¹



Nominal and real weighted avg yields at primary auctions, %



Source Ministry of Finance of Ukraine, NBU

- On August 28, the NBU has eliminated obstacles for foreign investors to enter the Ukrainian securities market through establishment of the **direct access to the purchase and sale of government bonds with the help of a "nominee holder"**
- From now on Ukrainian banks that have accounts with the NBU depository will be able to open depot accounts for its foreign clients for the purpose of buying and selling Ukrainian government bonds

Notes

- 1 As of December 18, 2020
- 2 According to NBU's survey about inflation expectations of financial analysts for the next 12 months

Upward trend in credit ratings

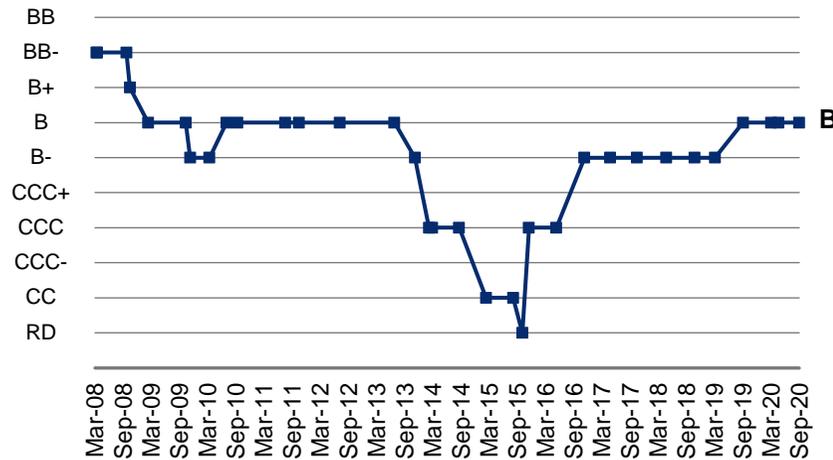
FitchRatings

Rating: B, Stable

Last update: Sep 4, 2020, reaffirmed at B, outlook Stable

Key rating drivers of the last review:

- ▶ Credible macroeconomic policy framework that had lowered inflation and narrowed fiscal deficits prior to the coronavirus shock
- ▶ Record of multilateral support, incl. IMF programme
- ▶ Increased international reserves, although still low external liquidity relative to high financing needs associated with large sovereign debt repayments
- ▶ Improved supervision and capitalization levels and NBU's liquidity support have reduced risks to financial stability



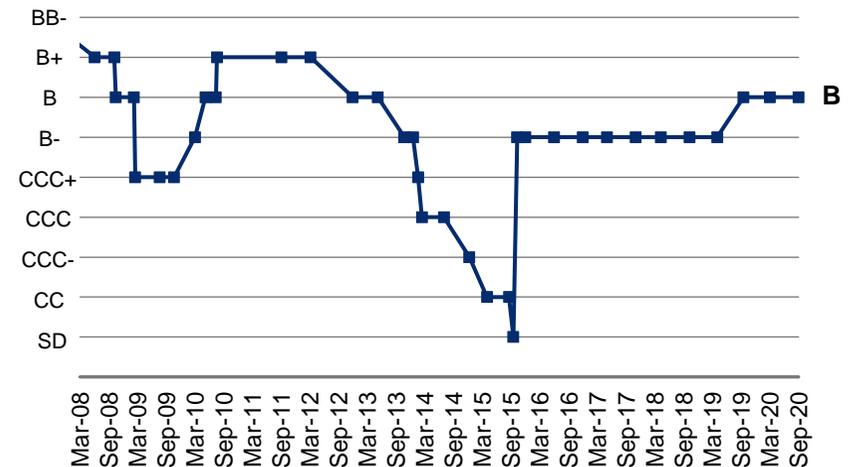
STANDARD & POOR'S

Rating: B, Stable

Last update: Sep 11, 2020, reaffirmed at B, outlook stable

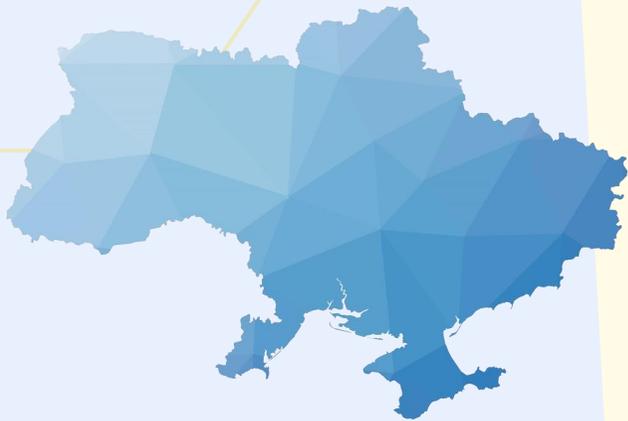
Key rating drivers of the last review:

- ▶ FX reserves provide a cushion against potential adverse developments in the external financing environment
- ▶ Stronger macroeconomic management since 2015
- ▶ The ongoing implementation of reforms helps the government access commercial debt markets and receive concessional funding from IFIs
- ▶ Government external debt issuance, engagement with IFIs, and favorable current account dynamics have continued to support FX reserves through 2020



Appendix D

Proactive reforms across wide range of pillars



Challenging reforms start bearing fruit (1/2)

	Key areas	2019 - 2020 update	Selected results
Public governance 	<ul style="list-style-type: none"> ▶ Parliament: pro-Western parties with majority of mandates ▶ Decentralization: transfer of budgetary powers to local self-government bodies ▶ Anti-corruption: full anti-corruption infrastructure in place 	<ul style="list-style-type: none"> • New Supervisory Boards in state-owned banks commenced their work (Jun and Dec 2019) • Law on criminalization of illicit enrichment adopted (Oct 2019) • High Anti-Corruption Court (HACC) commenced its operations (Sep 2019) 	<p>90% increase in revenues of local budgets in 2019 vs 2015</p> <p>50 directorates with 1,305 new reform staff positions in civil service</p> <p>986 criminal proceedings by the NABU with 265 cases filed to the courts</p>
Public finance 	<ul style="list-style-type: none"> ▶ Taxation: decrease in number of taxes and reduction in tax rates ▶ Debt management: MTDS, return to markets, significant involvement of international investors and effective investor relations, DMO approval ▶ Public expenditures and procurement: electronic procurement system fully effective 	<ul style="list-style-type: none"> • Legal framework for derivatives market established (Aug 2020) • US\$ 5.0bn Staff Level Agreement with the IMF (May 2020) • Financial Sector Development Strategy 2025 adopted (Jan 2020) • Split and relaunched Fiscal and Customs Services (Sep, Dec 2019) • Link between Clearstream and NBU depository launched (May 2019) 	<p>13 positions increase in 2019 Open Budget Index</p> <p>18-fold increase in non-residents' domestic government bond portfolio to US\$ 4.9bn over 2019</p> <p>50% of 2019 GDP – state and state-guaranteed debt (vs 81% in 2016)</p> <p>11 number of taxes (vs 22)</p>
Business climate 	<ul style="list-style-type: none"> ▶ Foreign trade: DCFTA in full force, FTA with Israel signed in early 2019, FTA with Turkey under negotiation ▶ Competitiveness and Deregulation: a great leap forward in international rankings ▶ Investment climate: introduction of effective mechanisms for dealing with bankruptcy 	<ul style="list-style-type: none"> • Gambling business legalized (Aug 2020) • Law on agricultural land sale adopted (Mar 2020) • Law on concession signed by the President (Oct 2019) • Restrictions on privatization of a list of SOEs canceled (Oct 2019) • SME Development Office launched (Jul 2019) 	<p>Ease of Doing Business ranking improvement to 64th in 2020 report, 48 places up from 2014</p> <p>USD 2.4bn FDI to Ukraine's real sector in 2019</p> <p>530 SOEs were handed over to the State Property Fund for privatization in 2019</p>

Sources CMU, Ministry of Finance, NBU, NABU



Challenging reforms start bearing fruit (2/2)

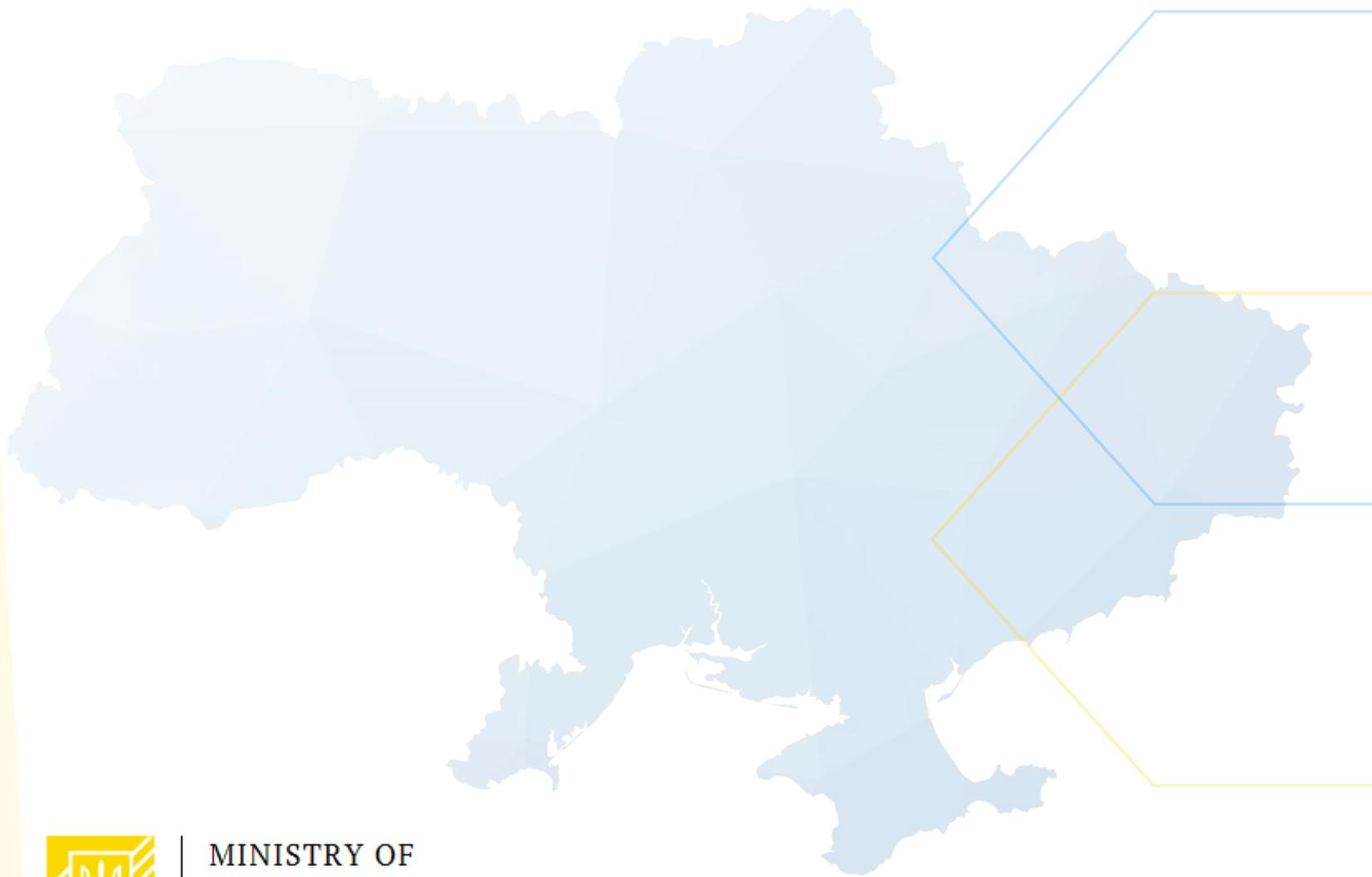
	Key areas	2019 - 2020 update	Selected results
Financial sector 	<ul style="list-style-type: none"> ▶ Monetary policy: inflation-targeting framework ▶ Banking sector: sector clean-up, currency controls liberalization ▶ NBU role: enhancement of the NBU's supervisory and regulatory role 	<ul style="list-style-type: none"> • Principles of Strategic Reform of the Banking Sector (Sep 2020) • Law on financial markets (Jun 2020) • Banking law adopted (May 2020) • Draft AML Law implementing 5th EU AML Directive effective (Apr 2020) • Law on split of supervisory functions between financial markets regulators ("Split Law") adopted (Sep 2019) 	<p>UAH 60bn record high profits posted by the Ukrainian banking sector in 2019</p> <p>20+ FX restrictions lifted</p> <p>105 banks withdrawn from the market over 2014-2019</p>
Energy sector 	<ul style="list-style-type: none"> ▶ Energy sector diversification: intensified domestic extraction and complete substitution of Russia in favor of the EU for gas imports since late 2015 ▶ Liberalization of energy markets: transition of electricity market to European model, increase in levels for gas and heating tariffs, elimination of operational deficit of Naftogaz of Ukraine 	<ul style="list-style-type: none"> • New Naftogaz charter (Oct 2020) • Liberalization of gas market for private consumers – cancellation of PSO imposed on Naftogaz (Aug 2020) • Unbundling of Naftogaz gas transmission system completed (Jan 2020) • Receipt of compensation by Naftogaz following its victory over Gazprom in Stockholm Arbitration (Dec 2019) 	<p>US\$ 2.9bn received as compensation from Gazprom in Stockholm Arbitration</p> <p>14.9 bn m3 of gas volume extracted by SOE Ukrgezvydobuvannya in 2019</p>

"The **new Stand-By Arrangement** will provide an anchor for the authorities' efforts to **address the impact of the crisis, while ensuring macroeconomic stability and safeguarding achievements to date.** The program will focus on safeguarding medium-term fiscal sustainability, preserving central bank independence and the flexible exchange rate, and enhancing financial stability while recovering the costs from bank resolutions"

*Ms. Kristalina Georgieva, Managing Director and Chair of the IMF
June 9, 2020*

"**The Ukrainian authorities have made progress with reforms over the past year,** notably in areas that will help to create the foundations for future growth and prosperity for Ukrainian citizens. Many newly adopted laws now await implementation, and the **European Union will continue to be there to accompany this process**"

*Mr. Oliver Varhelyi, EC Commissioner for the Neighbourhood and Enlargement
December 13, 2019*



**MINISTRY OF
FINANCE OF
UKRAINE**

