

# Ukraine

## Investor presentation



MINISTRY OF  
FINANCE OF  
UKRAINE

June 2019

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# Ukraine's economy: illustrative success stories

	2014 / 2015	2017 / 2018
 <b>Real GDP growth</b>	(6.6)% / (9.8)%	2.5% (2017) / 3.3% (2018)
 <b>Consumer inflation (eop)</b>	24.9% / 43.3%	13.7% (2017) / 9.8% (2018)
 <b>Reserves (eop)</b>	US\$ 7.5bn (2014) / US\$ 13.3bn (2015)	US\$ 20.6bn (Mar 2019)
 <b>Primary state budget balance</b>	(1.9)% of GDP (2014)	1.6% of GDP (2018)
 <b>State debt to GDP</b>	67.1% (2015)	52.3% (2018)
 <b>Naftogaz</b>	Quasi-fiscal deficit at 5.5% of GDP (2015)	c.UAH 137bn paid in taxes and dividends to state budget in 2018

**Note 1** Primary state budget balance defined as state budget revenues minus expenditures and minus net lending

Sources State Statistics Service of Ukraine, NBU, State Treasury, Naftogaz





**1. A story of recovery and renewal supported by reforms achievements**

**2. Reforms achievements: irreversible steps towards big changes**

**3. Fiscal consolidation supporting a prudent debt management strategy**

**4. Continuous support from economic partners**

**Appendices**



# Solid economic recovery track (1/3)

2018 nominal GDP:

US\$  
131bn

GDP per capita dynamics, US\$

US\$  
2.125 2015

+3%

2016 US\$  
2.188

+21%

2017 US\$  
2.640

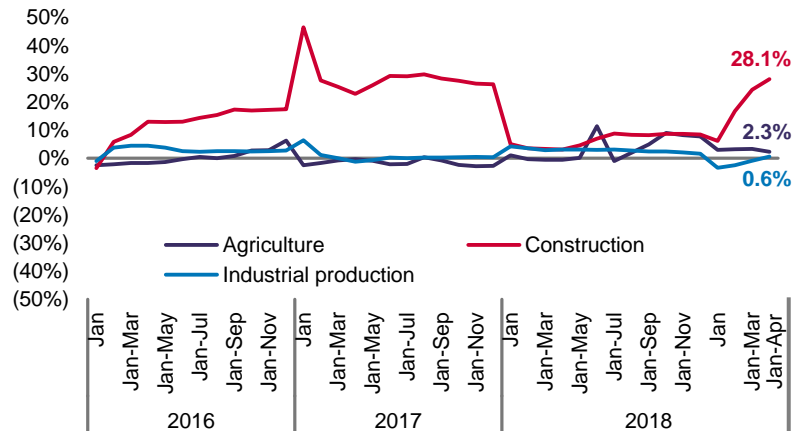
+17%

2018 US\$  
3.093

## Comments

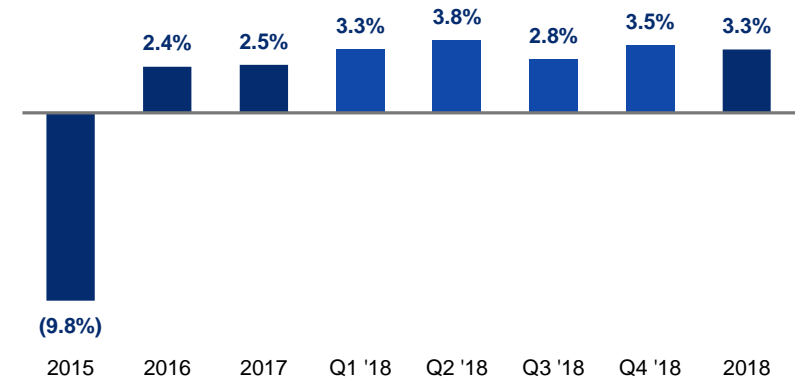
- ▶ **Ukraine's real GDP is growing for thirteen consecutive quarters in a row**
- ▶ Real GDP growth accelerated further to 3.3% (y-o-y) in 2018 compared to 2.5% in 2017 and 2.4% in 2016
- ▶ In 2018 Ukraine witnessed a 7.8% real growth in agriculture, 8.5% – in construction, and 1.6% increase in industrial production. In 4m 2019 the positive trend continued with construction, agriculture and industrial output growing by 28.1%, 2.3% and 0.6%, respectively
- ▶ **Strong consumer demand remains the key driver of real growth dynamics** followed by the accelerated investments
  - **Private consumption contribution to real GDP growth accounted for 5.9%** in 2018, whereas positive contribution of fixed capital accumulation totaled 2.3%

## Key economic sectors output growth (y-o-y)<sup>1</sup>, %



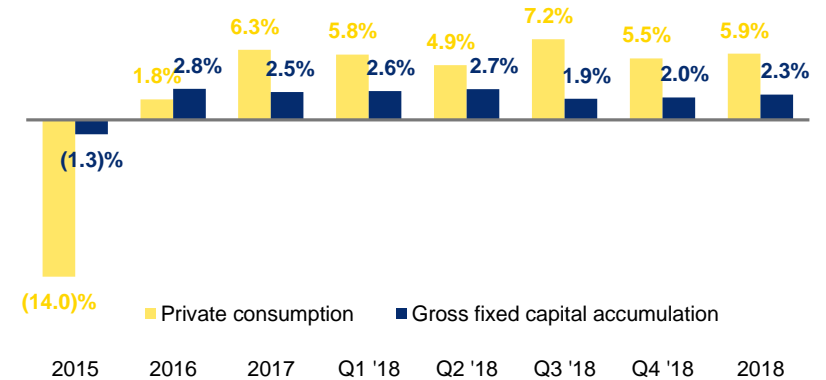
Source State Statistics Service of Ukraine

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



Source State Statistics Service of Ukraine

## Component contribution into real GDP growth, %



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

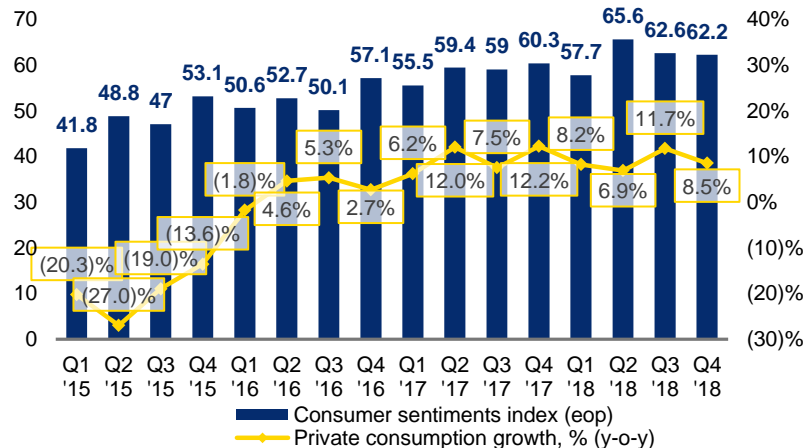
Source State Statistics Service of Ukraine

# Solid economic recovery track (2/3)

## Comments

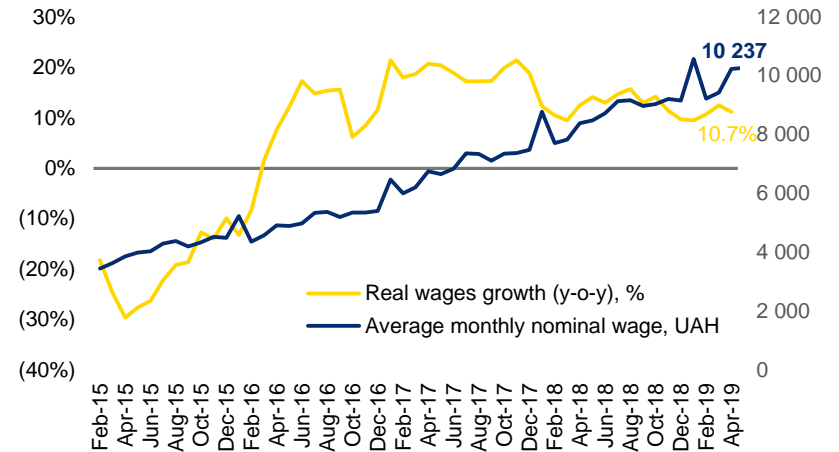
- ▶ **Increasing consumer demand remains the main driver of Ukraine's real GDP growth**
  - Final private consumption grew by 8.9% (y-o-y) in 2018, whereas retail trade turnover increased by 6.8% in February 2019
- ▶ Consumer demand is driven by a number of factors, including among others **improving consumer sentiments, rise in real wages, consumer lending and personal money remittances**
  - Real wages went up by 11.2% in April 2019 with growth being supported by the economic expansion, 12.1% increase in minimum wage in 2019 and increased competition for the labour force

## Private consumption and consumer sentiments evolution



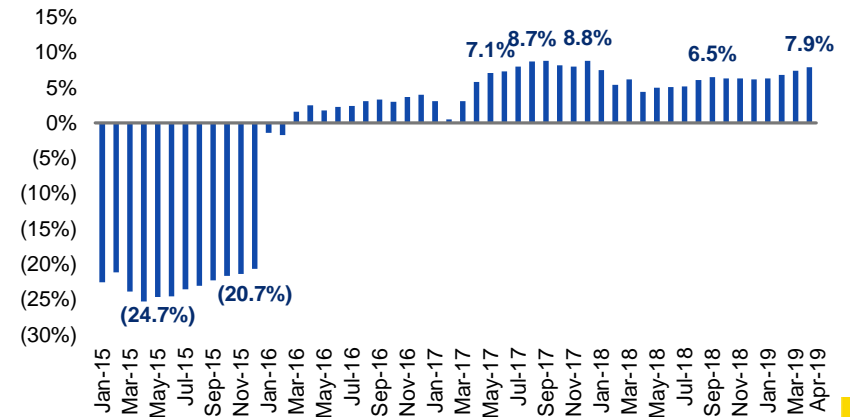
Source GFK, State Statistics Service of Ukraine

## Real wages growth and average monthly nominal wages



Source State Statistics Service of Ukraine

## Retail trade growth (y-o-y)<sup>1</sup>, %



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

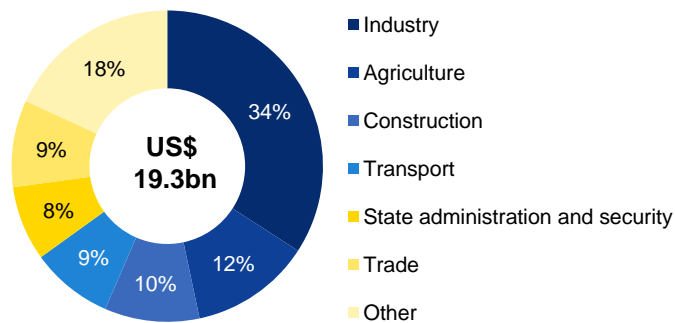
Source State Statistics Service of Ukraine

# Solid economic recovery track (3/3)

## Comments

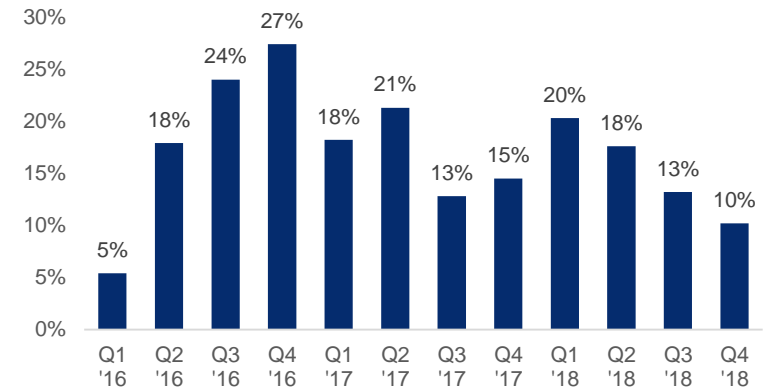
- ▶ **Investment demand** is another driver of Ukraine's economic recovery
- ▶ Industrial output grew by 1.6% (y-o-y) in 2018 predominantly owing to the increased production in chemical products (17.4%), mining industry (2.4%), utilities (2.8%) and machinery (1.6%)
- ▶ **Gross fixed capital went up by 14.3% in 2018** indicating increased investment activity of Ukrainian enterprises
- ▶ Capital investments witnessed 16.4% growth (y-o-y) in 2018, thus solidifying Ukraine's further economic growth prospects
  - **Industry has been the major contributor to capital investments in 2018 accounting for c.34%** followed by agriculture and construction with 12% and 10% shares, respectively

## 2018 capital investments split by sector, %



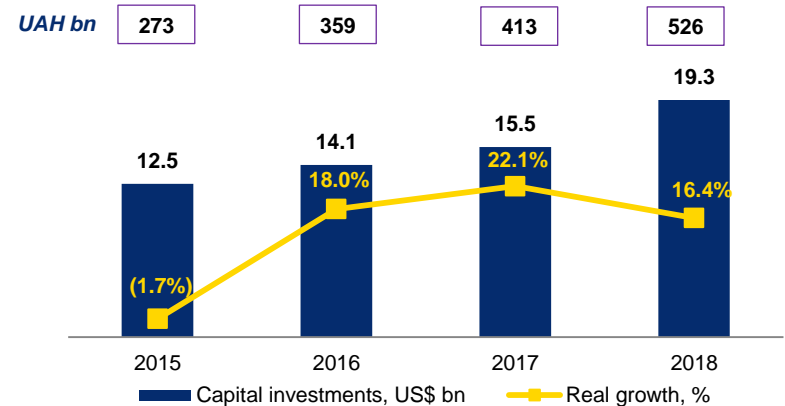
Source State Statistics Service of Ukraine

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



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

# Extension of trade partner universe

Overall Ukraine concluded 18 FTAs with 46 countries

- 2001

FTA with Macedonia
- 2008

Ukraine entered WTO
- 2012

FTA with EFTA countries  
FTA with Montenegro
- 2013

FTA with CIS countries
- 2017






DCFTA with the EU  
FTA with Canada
- 2019

FTA with Israel

## Comments

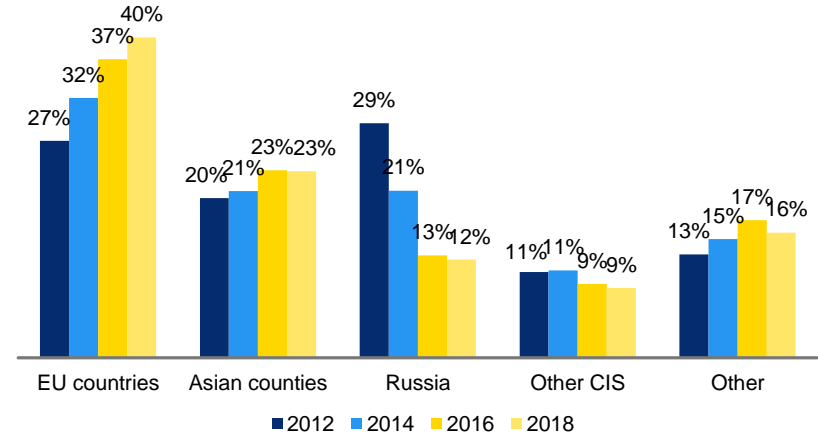
- ▶ Ukraine sets a course towards increasing and diversifying its base of trading partners
- ▶ Following a change in its trading policy Ukraine has undergone a major shift in trade flows towards the EU market in recent years
  - **The EU's share** in Ukraine's foreign trade turnover<sup>1</sup> went up **from 39.0% in 2017 to 40.0% in 2018** while Russia's share dropped from 13.2% to 12.3%
  - **DCFTA (in full force since September 2017)** provides further opportunities in the EU markets
- ▶ **The FTA with Israel** was signed in January and stipulates elimination of import duties for about 80% of Ukrainian and 70% of Israeli industrial goods

## Growth (y-o-y) of selected commodity exports in 2018

<i>Product category</i>	<i>Growth (vs 2017)</i>
 <b>Metallurgy</b>	<b>+ US\$ 1.3bn / +14.7%</b>
 <b>Machinery</b>	<b>+ US\$ 380m / +8.9%</b>
 <b>Wood and products</b>	<b>+ US\$ 320m / +18.5%</b>
 <b>Mineral products</b>	<b>+ US\$ 321m / +10.2%</b>
 <b>Chemicals</b>	<b>+ US\$ 344m / +15.5%</b>

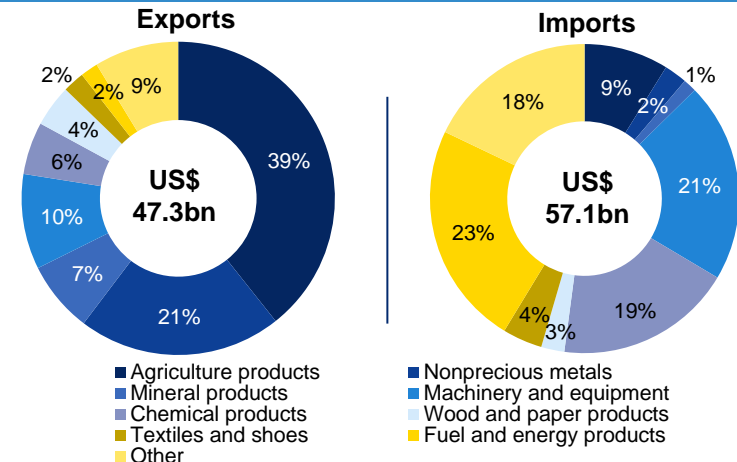
Notes  
1 Sum of export and import of goods and services

## Geographic breakdown of trade in 2012-2018<sup>1</sup>



Source NBU

## Ukraine's 2018 exports and imports breakdown



Source State Statistics Service of Ukraine





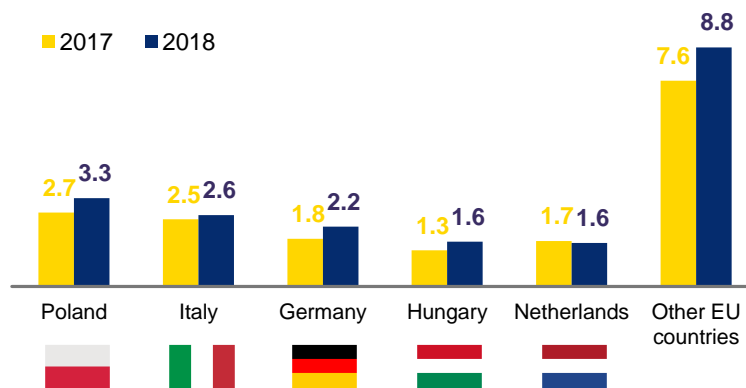
# Enhancement of trade relations with the EU

**Ukraine is among 5 largest exporters of agricultural products to the European Union**

## Key highlights

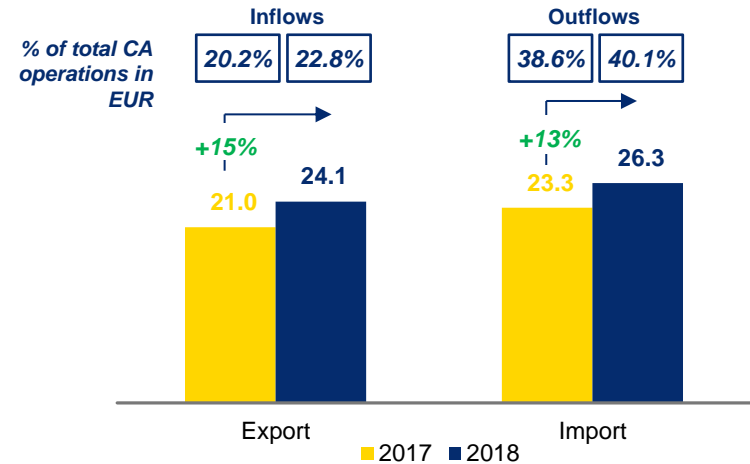
- ▶ Following the full implementation of DCFTA in September 2017, **Ukraine's export of goods and services to the EU increased by 14.3%** in 2018 (y-o-y) while **imports from the EU countries grew by 12.7%**
  - **Export of services has increased by 13%** over 2018 (y-o-y) totaling US\$ 3.9bn with Germany, the UK and Poland being the main destinations
- ▶ Goods export structure remained relatively stable with a modest **shift towards more value-added products**
- ▶ The largest increase in exports of goods over 2018 (y-o-y) took place with **Croatia, Greece, Ireland, Latvia, and Belgium** (by more than 32% with each country)

## Key EU destinations of Ukraine's export of goods, US\$ bn



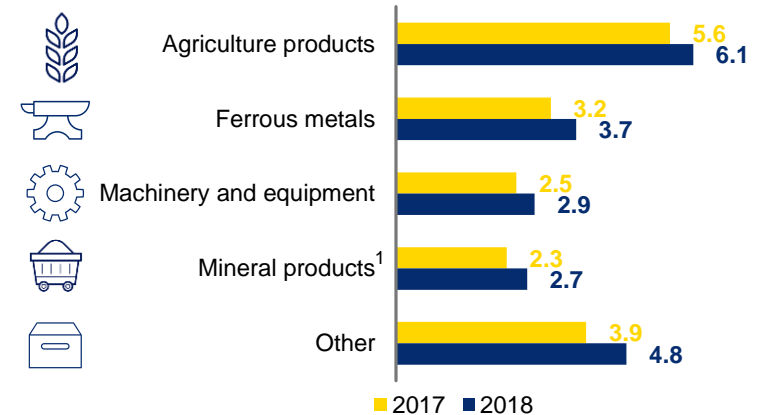
Source State Statistics Service of Ukraine

## Dynamics of trade in goods and services with the EU, US\$ bn



Source State Statistics Service of Ukraine

## Export of selected goods to the EU, US\$ bn



Source State Statistics Service of Ukraine

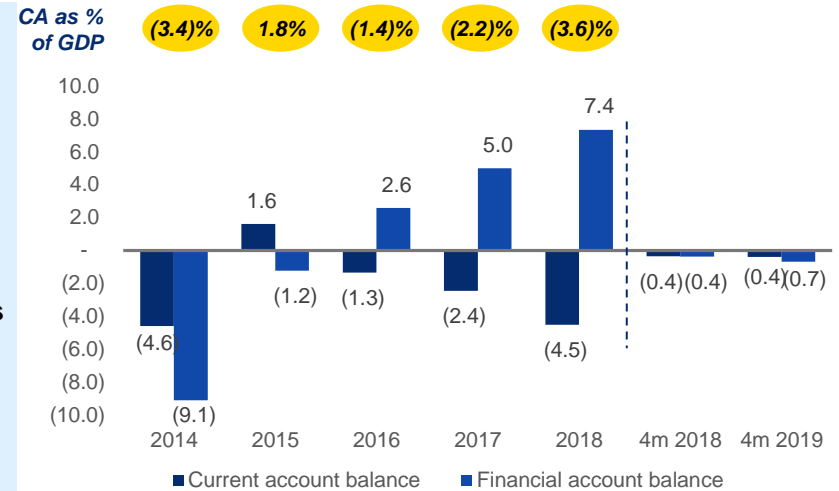
Note 1 Incl. fuel and energy products

# Firm external position leading to less vulnerability to external shocks

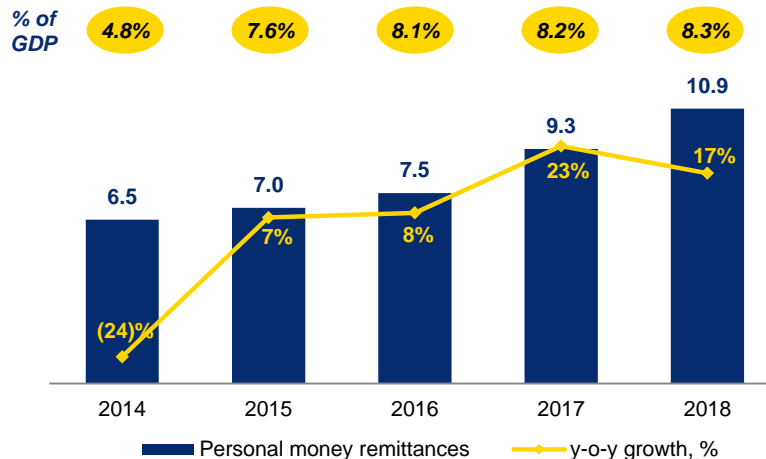
## Comments

- ▶ **The trade balance deficit increased** to 8.8% of GDP in 2018 relating to **growing consumer and investment demand**. The trend is largely supported by rising energy resources and machinery imports
  - Import of fuel and energy products grew by 23.4% (y-o-y) in 2018, while machinery and equipment, as well as chemicals increased by 20.9% and 18.5%, respectively
- ▶ **Negative trade balance is offset by growing personal money remittances together with capital account inflows** resulting into positive overall BoP of US\$ 2.9bn in 2018
  - Private money remittances witnessed 17% (y-o-y) growth in 2018, thus solidifying Ukraine's external accounts

## Current and financial account balances, US\$ bn

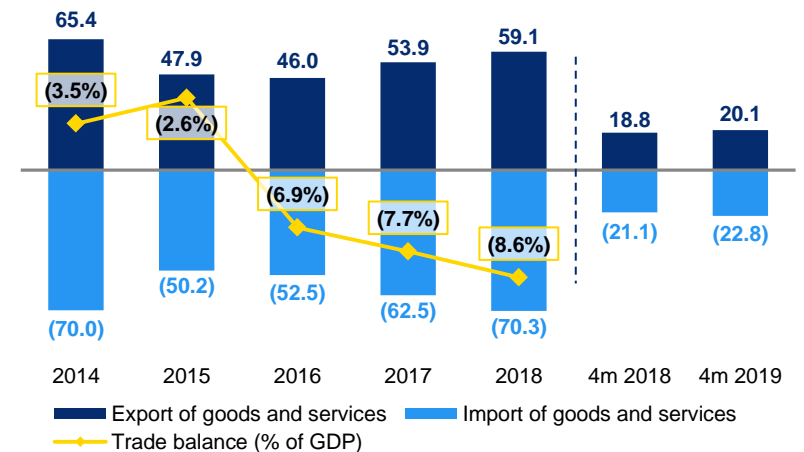


## Private money remittances, US\$ bn



Source State Statistics Service of Ukraine, NBU

## Ukraine's trade balance dynamics, US\$ bn



# Prudent monetary policy implemented by independent regulator

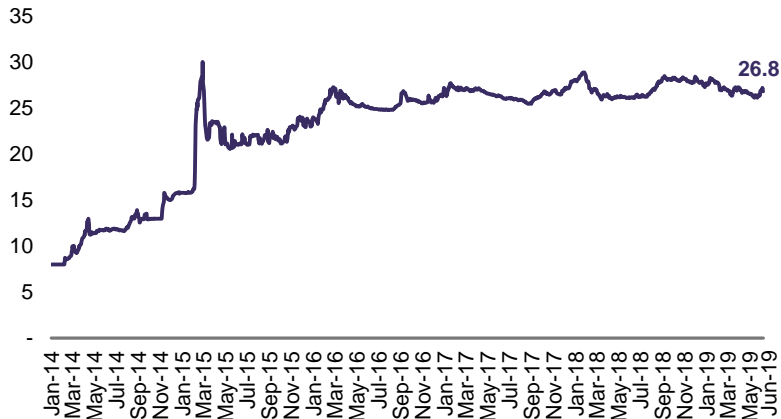
**Medium-term consumer inflation target: 5%+/-1%**

**Ukraine's international reserves reached a 5-year high as of end of 2018**

## Comments

- ▶ **The NBU pursues tight monetary policy** keeping its key policy rate at 18.0% since September 2018 until April 2019, when it was reduced to 17.5%
  - According to the NBU, steadily decreasing inflation enables the regulator to start the cycle of key policy rate cuts
- ▶ Owing to fairly tight monetary conditions the regulator expects to **bring inflation to its medium-term target range (5% +/-1%) in 2020**
- ▶ The **international reserves grew by 2.0% (m-o-m) in March 2019 to US\$ 20.6bn** mainly due to the receipt of funds from loan under the World Bank's PBG (EUR 512m), Eurobonds (US\$ 350m), FX domestic government bonds (US\$ 160m, EUR 5m) issuance and NBU net FX purchase (US\$ 162m)

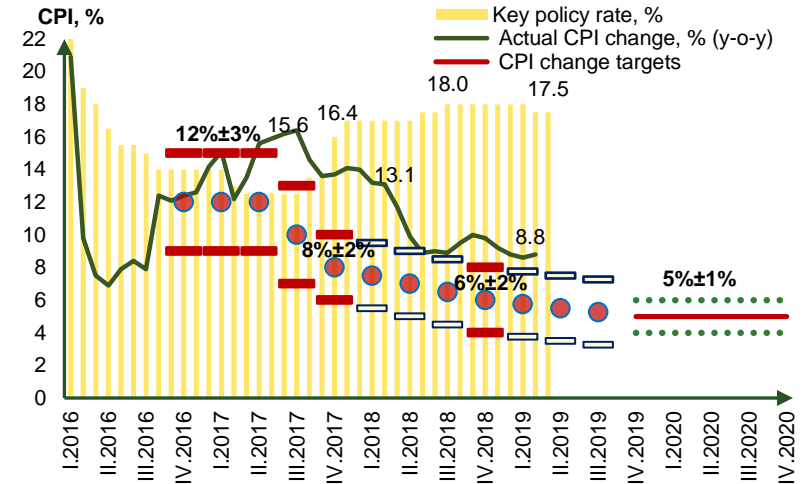
## UAH/US\$ exchange rate dynamics



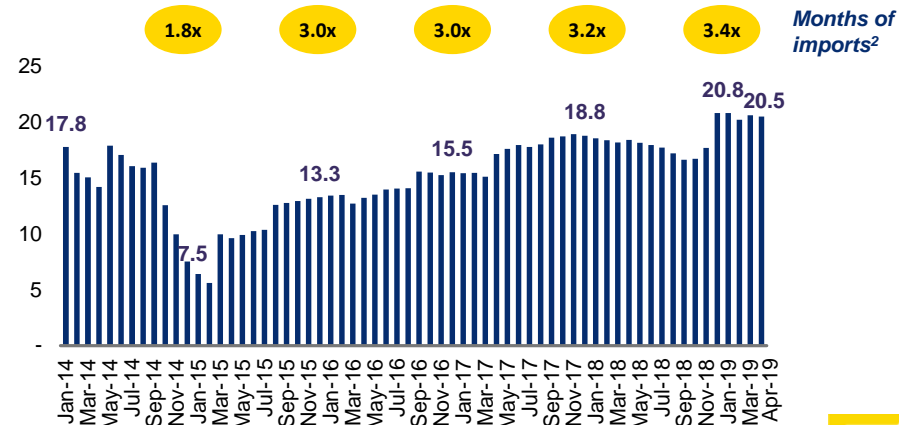
**Notes**  
 1 Key policy rate stated as of end of each month  
 2 Imports of goods and services of the immediately succeeding month are used for these calculations

Source NBU

## Consumer price index (CPI) change and key policy rate<sup>1</sup>



## Gross international reserves, US\$ bn



1. A story of recovery and renewal supported by reforms achievements



**2. Reforms achievements: irreversible steps towards big changes**




3. Fiscal consolidation supporting a prudent debt management strategy

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Appendices



# Challenging reforms start bearing fruit (1/2)

	Key areas	LTM <sup>1</sup> update	Selected results
<b>Public governance</b> 	<ul style="list-style-type: none"> <li>▶ <b>Decentralization:</b> transfer of budgetary powers to local self-government bodies – total of 878 newly amalgamated communities</li> <li>▶ <b>Civil service:</b> modern public administration in Ukraine</li> <li>▶ <b>Anti-corruption:</b> full anti-corruption infrastructure in place</li> </ul>	<ul style="list-style-type: none"> <li>• Following a comprehensive selection process, 38 judges were approved to the <b>High Anti-Corruption Court</b> and its <b>Appeal Chamber</b> (April 2019)</li> <li>• <b>Enhancement of corporate governance in state-owned banks</b> (July 2018)</li> </ul>	<p><b>91%</b> increase in revenues of local budgets in 2018 vs 2015</p> <p><b>50</b> directorates with 1,305 new reform staff positions in civil service</p> <p><b>724</b> criminal proceedings by NABU with 192 cases filed to the courts</p>
<b>Public finance</b> 	<ul style="list-style-type: none"> <li>▶ <b>Taxation:</b> decrease in number of taxes and reduction in tax rates</li> <li>▶ <b>Debt management:</b> MTDS, return to markets, significant involvement of international investors and effective investor relations</li> <li>▶ <b>Medium-Term Budget Planning</b> introduced</li> <li>▶ <b>Public expenditures and procurement:</b> electronic procurement system fully effective</li> </ul>	<ul style="list-style-type: none"> <li>• Agreement between <b>Clearstream</b> and NBU on establishment of securities account signed (March 2019)</li> <li>• Resolution on <b>State Fiscal Service</b> and <b>State Customs Service of Ukraine reform</b> (December 2018)</li> <li>• <b>Fiscal stability:</b> Timely adoption of 2019 State budget and in line with IMF requirements (November 2018)</li> </ul>	<p><b>6</b>-fold increase in non-residents' domestic government bond portfolio to US\$ 1.4bn since the beginning of 2019</p> <p><b>61%</b> of GDP – state and state-guaranteed debt in 2018 (vs 81% in 2016)</p> <p><b>11</b> number of taxes (vs 22)</p>
<b>Business climate</b> 	<ul style="list-style-type: none"> <li>▶ <b>Foreign trade:</b> DCFTA in full force, FTA with Israel signed in early 2019, FTA with Turkey under negotiations</li> <li>▶ <b>Competitiveness and Deregulation:</b> a great leap forward in international rankings</li> <li>▶ <b>Investment climate:</b> introduction of effective mechanisms for dealing with bankruptcy</li> </ul>	<ul style="list-style-type: none"> <li>• Regulations on improvement of <b>Doing Business</b> ranking adopted by the CMU (March 2019)</li> <li>• <b>Bankruptcy Code</b> to protect creditors' rights and streamline bankruptcy procedures (October 2018)</li> <li>• <b>SME Development Office</b> established (November 2018)</li> </ul>	<p>Ease of Doing Business ranking improvement to <b>71<sup>st</sup></b> in 2018, 41 places up from 2014</p> <p><b>UAH 1.6bn</b> Privatization proceeds transferred to state budget in 2018</p>

Sources CMU, Ministry of Finance, NBU, NABU

#### Notes

1 LTM – last twelve months



# Challenging reforms start bearing fruit (2/2)

## Key areas

## LTM update

## Selected results

### Financial sector



- ▶ **Monetary policy:** inflation-targeting framework
- ▶ **Banking sector:** sector clean-up, currency controls liberalization
- ▶ **NBU role:** enhancement of the NBU's supervisory and regulatory role

- **New liberalized currency regulation system** became effective (February 2019)
- **Recommendations for State-Owned Banks on Treating Non-Performing Loans** (January 2019)
- **NBU Macprudential Policy Strategy** to reinforce Ukraine's financial system (December 2018)

**103** banks withdrawn from the market over 2014-2019  
**UAH 21.2bn** record high profits posted by the Ukrainian banking sector in 2018

### Energy sector



- ▶ **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

- **Two oil and gas licensing rounds announced** (January 2019)
- Start of **debt enforcement process by Naftogaz** following its victory over Gazprom in Stockholm Arbitration (February 2019)
- **Bringing gas prices for households closer to import parity level** (October 2018)

**US\$ 2.56bn** financial gain in Stockholm Arbitration  
**2.3% CAGR** in SOE Ukgazvydobuvannia's gas extraction volumes (2015-2018)  
**23%** hike in gas tariffs for residential consumers in November 2018

"The Ukrainian authorities have successfully **restored macro-economic stability and growth**, with support from the international community. **Prudent fiscal and monetary policies** and a **flexible exchange rate** regime have helped reduce fiscal and current account deficits. Reserves have been partly rebuilt and **confidence has improved.**"

*Mr. David Lipton, First Deputy Managing Director of the IMF  
December 18, 2018*

"**The government** in Kiev can justifiably claim to have **made more progress with structural reform in just four years** than any administration since the country gained its independence in 1991."

*Financial Times, Special Report Investing in Ukraine  
September 12, 2018*

Sources CMU, NBU, Prozorro, Naftogaz, Financial Times



# Business climate improvement to accelerate growth potential

## Last Doing Business improvement (76 → 71)

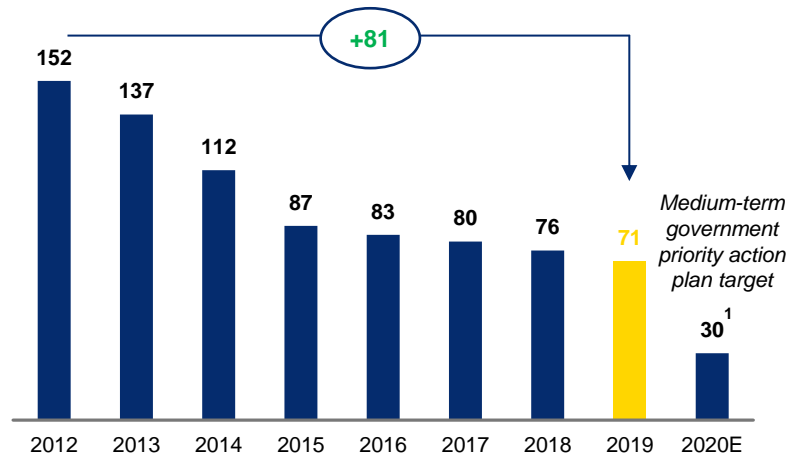
Trading across borders: **+41 (positions)**

Enforcing contracts: **+25**

Dealing with construction permits: **+5**

Protecting minority investors: **+9**

## Ease of Doing Business ranking

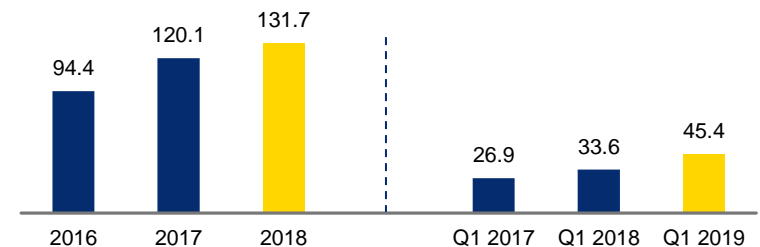


Source Doing Business

## Improving business climate

► **Transparent taxation:** automatic system of VAT reimbursement launched since April 1<sup>st</sup>, 2017

## VAT reimbursement, UAHbn



Sources National Investment Council, State Fiscal Service of Ukraine

## Last Logistics Performance Index (WB) improvement (80 → 66)

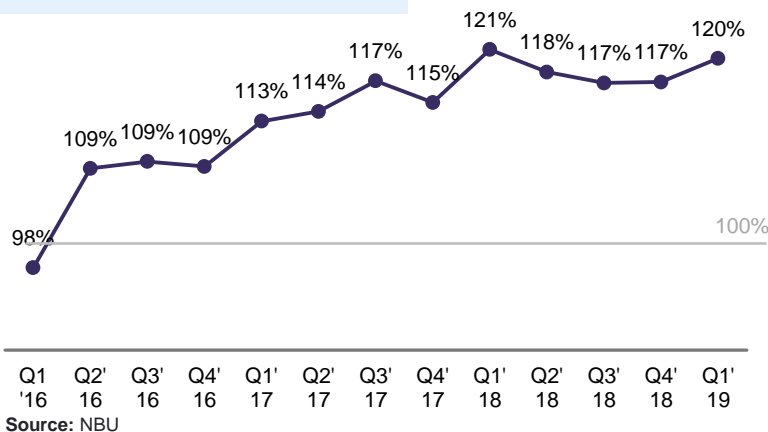
✈ Increased airport traffic: 25% (y-o-y) in 2018

🛣 National road fund in place since 2018

🚢 Concession of sea ports (in progress)

## Business expectations index by the NBU

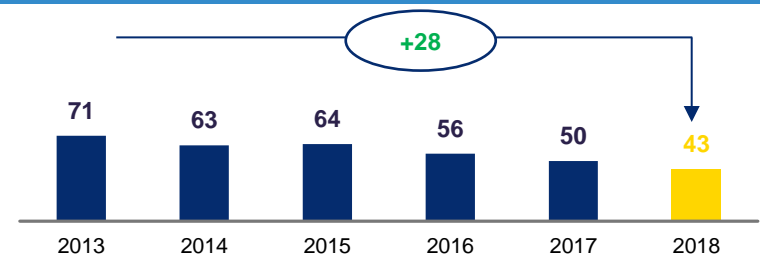
>100% – positive expectations



Source World Bank

Source: NBU

## Global innovation index



► **43<sup>rd</sup> position** in general ranking and **1<sup>st</sup> position** among lower-middle income economies in 2018

► 2018/2014 strong improvement in **infrastructure** (+18 positions), **business sophistication** (+41 positions)

Notes

1 Not lower than 30 position by end-2020

Source Global Innovation Index



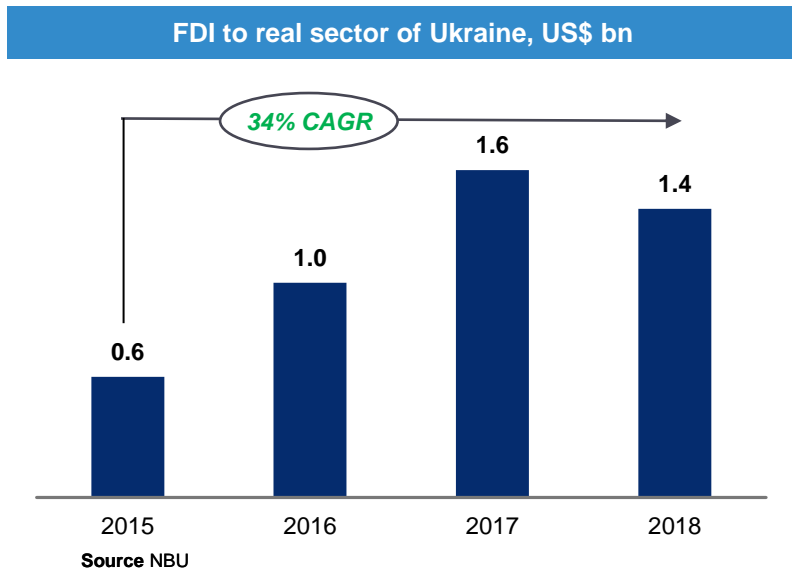
# Boosted activity of foreign investors over the last year

Main state institutions to support foreign investors:

**UkraineInvest**  
Your Investment Matters

**National Investment Council**

- ▶ Investment projects support
- ▶ Protection of investors' rights
- ▶ Assistance in cooperation of investors with the state
- ▶ Sectoral policy recommendations



### Other important investors

Sources: UkraineInvest, National Investment Council of Ukraine

### General Electric Transportation

- ▶ US\$ 1bn 15-year framework agreement
- ▶ Renovation and modernization of Ukrzaliznytsia's traction rolling stock

Feb 2018

### Brookfield Asset Management

- ▶ Total investments reaching c.US\$ 160m
- ▶ Development of Innovation District IT Park in Lviv

Jun 2018

### HEAD

- ▶ Total investments are c. EUR 80m
- ▶ Establishing production of winter sports goods in Vinnytsia region in 2019-2020

May 2018

### NBT

- ▶ Project cost c. EUR 370m
- ▶ Acquisition Ukrainian wind power farm and c.300 MW wind power project

Aug 2018

### Bayer

- ▶ US\$ 200m investment in seed plant 100 km west of Kyiv
- ▶ The plant will provide 25-30% of all corn harvested in Ukraine

Sep 2018

### SALIC

- ▶ Acquisition of Mriya group's Ukrainian farming assets

Nov 2018



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2. Reforms achievements: irreversible steps towards big changes



**3. Fiscal consolidation supporting a prudent debt management strategy**

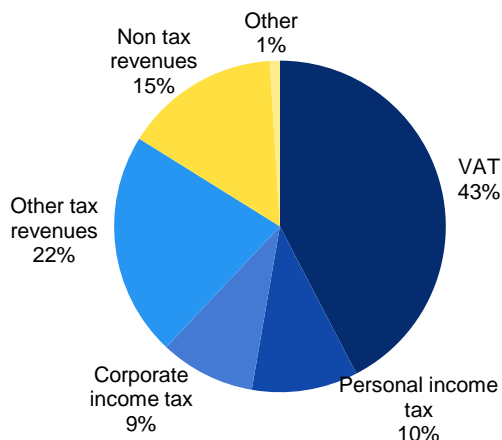
4. Continuous support from economic partners

Appendices

# Ambitious 2019 state budget reflecting continuous fiscal consolidation

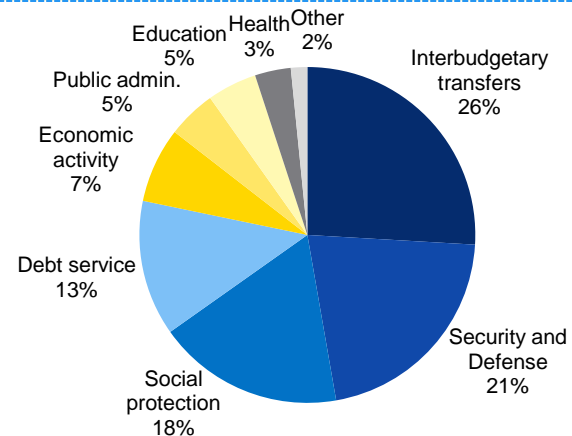
## 2019 state budget revenues split (2019 State budget Law)

State budget revenues: UAH 1,026bn



## 2019 state budget expenditures split (2019 State budget Law)

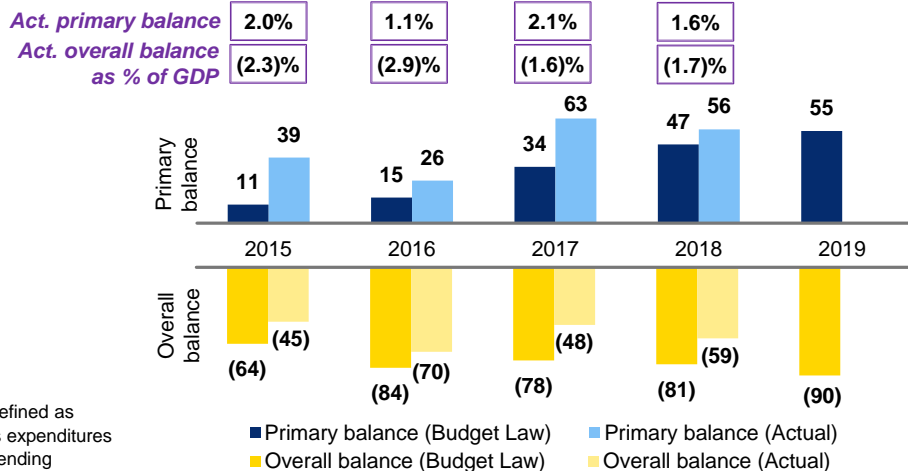
State budget expenditures: UAH 1,112bn



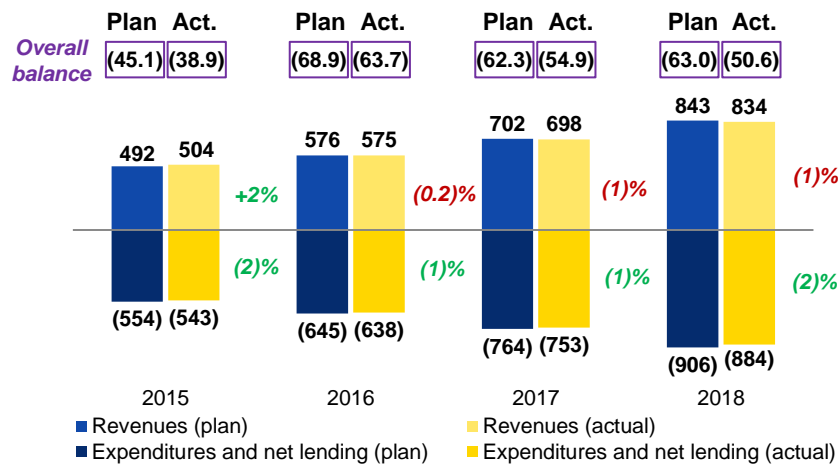
### 2019 vs. 2018 State budget figures:

- Total revenues: UAH 1,026bn (+12%)
- Total expenditures: UAH 1,112bn (+12%)
- Budget deficit: UAH 90bn / 2.3% of GDP<sup>1)</sup>

## State budget balance, UAH bn



## State budget general fund performance, UAH bn



Source: State Treasury of Ukraine



### Notes

<sup>1</sup> Budget deficit defined as revenues minus expenditures and minus net lending

# State budget execution (4m 2019)

UAH m	State budget general fund			Overall state budget					
	4m 2019 Actual	4m 2019 Plan	% diff.	4m 2018 Actual	4m 2019 Actual	% diff.	FY 2018	FY 2019 <sup>1</sup>	% diff.
<b>Revenues</b>	<b>282,295</b>	<b>302,716</b>	<b>(7%)</b>	<b>272,848</b>	<b>322,564</b>	<b>+18%</b>	<b>928,115</b>	<b>1,026,122</b>	<b>+11%</b>
<b>Tax revenues, incl.</b>	<b>221,131</b>	<b>243,880</b>	<b>(9%)</b>	<b>226,551</b>	<b>244,737</b>	<b>+8%</b>	<b>753,816</b>	<b>860,659</b>	<b>+14%</b>
Personal income tax and income charge	33,045	31,067	+6%	26,902	33,045	+23%	91,742	106,155	+16%
Corporate profit tax	30,659	27,700	+11%	30,004	30,659	+2%	96,882	95,520	(1%)
Fee for the use of mineral resources	16,388	17,480	(6%)	10,705	16,494	+54%	45,266	58,302	+29%
Excises	18,537	24,830	(25%)	31,198	36,862	+18%	118,852	130,233	+10%
VAT (net of VAT reimbursement)	114,750	134,682	(15%)	120,235	117,042	(3%)	374,508	434,844	+16%
Export and Import duties	7,171	7,678	(7%)	8,109	9,753	+20%	27,077	31,544	+16%
Other taxes and duties	581	444	+31%	(601)	882	+247%	(511)	4,061	-
<b>Non-tax revenues</b>	<b>61,164</b>	<b>58,835</b>	<b>+4%</b>	<b>46,297</b>	<b>77,827</b>	<b>(41%)</b>	<b>174,299</b>	<b>165,463</b>	<b>(5%)</b>
<b>Expenditures</b>	<b>(294,538)</b>	<b>(314,194)</b>	<b>(6%)</b>	<b>(293,406)</b>	<b>(324,802)</b>	<b>+11%</b>	<b>(985,852)</b>	<b>(1,112,120)</b>	<b>+13%</b>
General public functions, incl.:	(51,208)	(53,791)	(5%)	(47,515)	(52,057)	+10%	(162,958)	(197,205)	+21%
Debt service	(38,984)	(39,023)	(0%)	(35,201)	(38,984)	+11%	(115,431)	(145,205)	+26%
Security and Defense	(59,662)	(65,493)	(9%)	(50,503)	(64,778)	+28%	(213,900)	(237,270)	+11%
Economic activity	(4,595)	(7,758)	(41%)	(9,559)	(11,001)	+15%	(63,601)	(80,502)	+27%
Protection of environment	(939)	(1,105)	(15%)	(833)	(1,052)	+26%	(5,241)	(6,826)	+30%
Municipal utilities and services	-	-	-	(3)	(4)	+14%	(297)	(162)	(45%)
Healthcare	(8,235)	(9,950)	(17%)	(2,837)	(8,789)	+210%	(22,618)	(38,446)	+70%
Intellectual and physical development	(2,146)	(3,071)	(30%)	(2,113)	(2,185)	+3%	(10,107)	(10,570)	+5%
Education	(9,804)	(11,688)	(16%)	(12,967)	(14,980)	+16%	(44,324)	(53,257)	+20%
Social welfare	(71,333)	(72,412)	(1%)	(51,334)	(78,823)	+54%	(163,866)	(199,627)	+22%
Interbudgetary transfers	(86,616)	(88,927)	(3%)	(115,742)	(91,132)	(21%)	(298,940)	(288,256)	(4%)
<b>Net lending</b>	<b>876</b>	<b>1,879</b>	<b>(53%)</b>	<b>(29)</b>	<b>519</b>	<b>-</b>	<b>(1,514)</b>	<b>(4,341)</b>	<b>+187%</b>
<b>Primary balance</b>	<b>27,617</b>	<b>29,424</b>	<b>(6%)</b>	<b>14,614</b>	<b>37,266</b>	<b>+155%</b>	<b>56,180</b>	<b>54,866</b>	<b>(2%)</b>
<b>Overall state budget balance</b>	<b>(11,367)</b>	<b>(9,599)</b>	<b>+18%</b>	<b>(20,587)</b>	<b>(1,719)</b>	<b>(92%)</b>	<b>(59,251)</b>	<b>(90,339)</b>	<b>+52%</b>

Source State Treasury of Ukraine

Notes

<sup>1</sup> Plan as of end-March 2019



# Consolidated budget execution (4m 2019)

UAH m	4m 2018 Actual	4m 2019 Actual	% change	FY 2018 Actual	FY 2019 Plan <sup>1</sup>	% change
<b>Revenues</b>	<b>348,526</b>	<b>411,325</b>	<b>+18%</b>	<b>1,184,291</b>	<b>1,304,331</b>	<b>+10%</b>
<b>Tax revenues</b>	<b>295,751</b>	<b>327,453</b>	<b>+11%</b>	<b>986,349</b>	<b>1,117,604</b>	<b>+13%</b>
Personal income tax and income charge	66,804	82,434	+23%	229,901	262,921	+14%
Corporate profit tax	32,693	33,716	+3%	106,182	104,925	(1%)
Fee for the use of mineral resources	11,976	18,091	+51%	50,087	62,934	+26%
Excises	35,231	41,035	+16%	132,650	147,645	+11%
VAT (net of VAT reimbursement)	120,235	117,042	(3%)	374,508	436,565	+17%
Property taxes	9,639	12,022	+25%	31,272	33,345	+7%
Export and Import duties	8,109	9,753	+20%	27,077	31,967	+18%
Other taxes and duties	11,063	13,359	+21%	166,331	37,300	(78%)
<b>Non-tax revenues</b>	<b>52,775</b>	<b>83,872</b>	<b>+59%</b>	<b>197,942</b>	<b>186,726</b>	<b>(6%)</b>
<b>Expenditures</b>	<b>(348,395)</b>	<b>(394,143)</b>	<b>+13%</b>	<b>(1,250,190)</b>	<b>(1,406,061)</b>	<b>+12%</b>
General public functions, incl.:	(55,101)	(62,087)	+13%	(191,550)	(233,881)	+22%
Debt service	(35,227)	(39,125)	+11%	(116,088)	(146,459)	+26%
Security and Defense	(50,752)	(65,112)	+28%	(215,050)	(241,928)	+12%
Economic activity	(18,406)	(24,694)	+34%	(140,761)	(162,037)	+15%
Protection of environment	(1,207)	(1,523)	+26%	(8,242)	(11,228)	+36%
Municipal utilities and services	(5,078)	(6,735)	+33%	(30,345)	(28,876)	(5%)
Healthcare	(29,163)	(34,201)	+17%	(115,852)	(124,648)	+8%
Intellectual and physical development	(7,174)	(8,028)	+12%	(28,993)	(31,330)	+8%
Education	(60,729)	(69,853)	+15%	(210,032)	(241,006)	+15%
Social welfare	(120,784)	(121,910)	+1%	(309,364)	(331,129)	+7%
<b>Net lending</b>	<b>(97)</b>	<b>441</b>	<b>(554%)</b>	<b>(1,893)</b>	<b>(4,861)</b>	<b>(157%)</b>
<b>Primary balance</b>	<b>35,261</b>	<b>56,748</b>	<b>+61%</b>	<b>48,296</b>	<b>39,868</b>	<b>(17%)</b>
<b>Consolidated budget balance</b>	<b>33</b>	<b>17,623</b>	<b>-</b>	<b>(67,792)</b>	<b>(106,592)</b>	<b>+57%</b>

Source State Treasury of Ukraine

#### Notes

<sup>1</sup> Plan as of end-March 2019

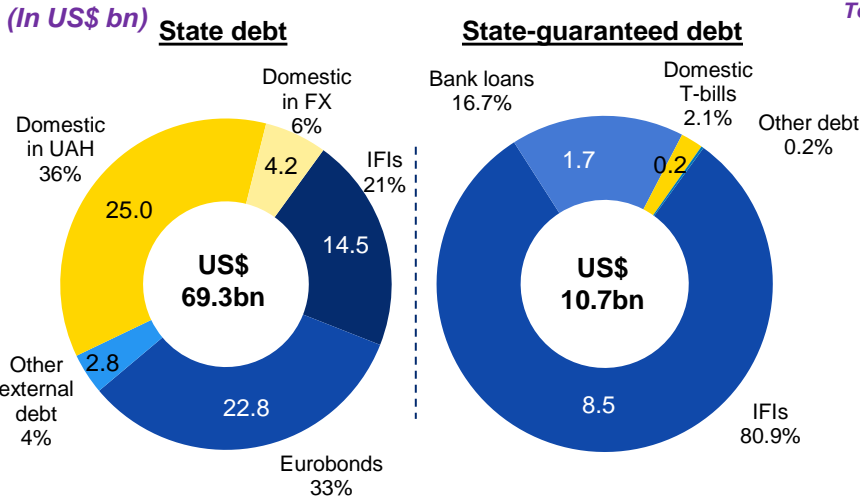


# Prudent and proactive debt management strategy

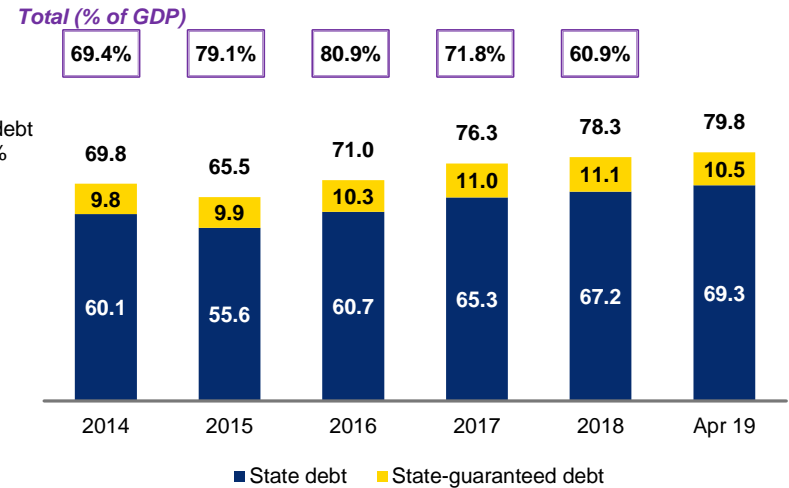
As of end-April 2019, Ukraine's total state and state-guaranteed debt (US\$ 79.8bn / UAH 2,125bn) split between:

- 63% of external debt, 37% of domestic debt
- 87% of state debt, 13% of state-guaranteed debt

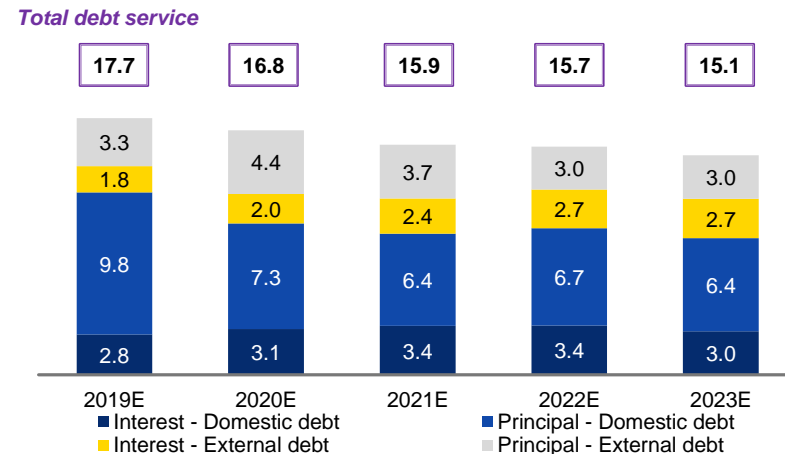
State and state-guaranteed debt structure (end-Apr 2019)



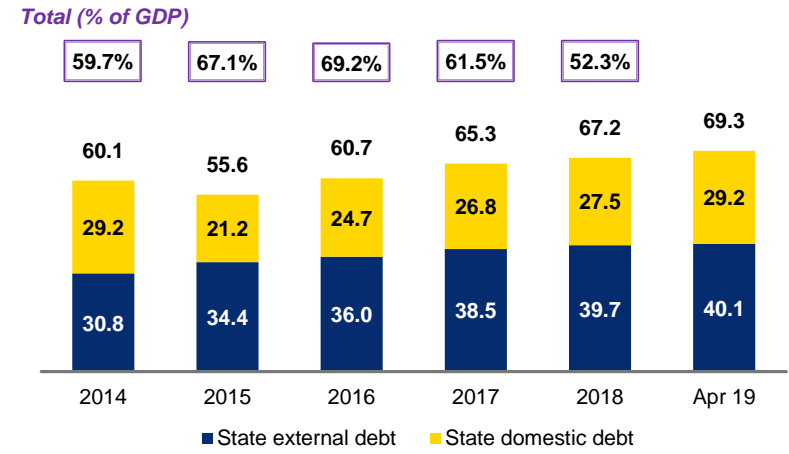
State and state-guaranteed debt dynamics, US\$ bn



State debt amortization schedule (end-Apr 2019)<sup>1</sup>, US\$ bn



State debt dynamics, US\$ bn



Notes  
1 Incl. outstanding debt obligations only

Source Ministry of Finance



# Ukraine's 2019 gross financing needs

Based on 2019 State budget general fund

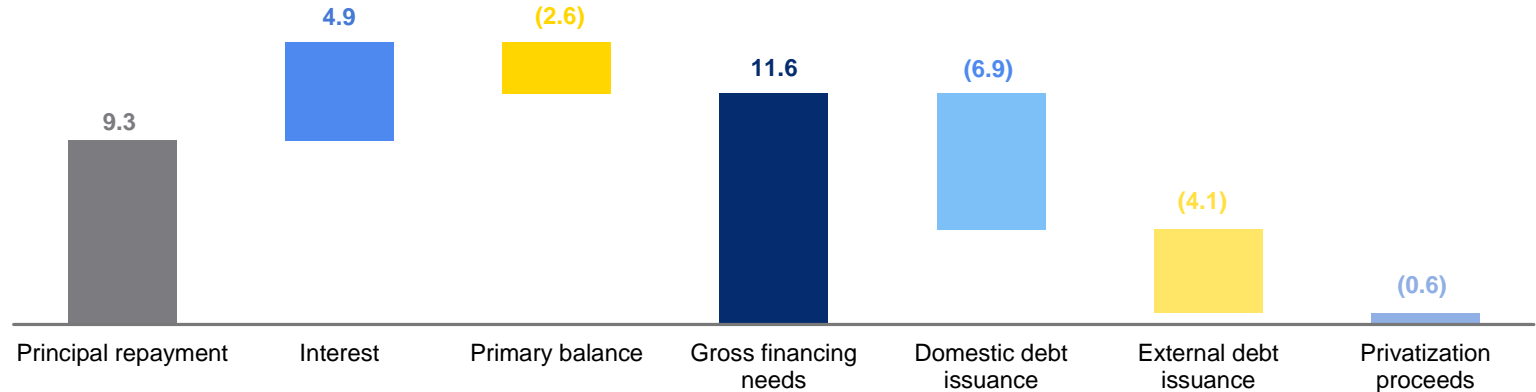
**US\$ 11bn of borrowings budgeted for 2019**

**As of June 10, 2019, the following sources of financing have been tapped:**

- US\$ 600m World Bank partially-guaranteed
- US\$ 350m tap of 2024 Eurobonds
- UAH 165bn (equivalent of US\$ 6.1bn) raised on domestic market for which UAH 105.5bn in UAH-denominated bonds and US\$ 2.2bn of FX denominated domestic bonds

**UAH 40.9bn and US\$ 836m of total amount raised in domestic government bonds is the amount of instruments with maturity beyond 2019**

Ukraine's 2019 Gross financing needs split by funding sources, US\$ bn



	UAH bn <sup>1</sup>	US\$ bn <sup>2</sup>
<b>Gross financing needs</b>	<b>341.9</b>	<b>11.6</b>
<b>State borrowings</b>	<b>324.8</b>	<b>11.0</b>
<b>Domestic debt issuance</b>	<b>202.0</b>	<b>6.9</b>
<b>External debt issuance</b>	<b>122.7</b>	<b>4.1</b>
<b>Privatization proceeds</b>	<b>17.1</b>	<b>0.6</b>

Sources Ministry of Finance, 2019 State budget law

**Notes**

1 Figures based on 2019 State budget law approved by the Parliament of Ukraine on November 23<sup>rd</sup>, 2018

2 Figures in UAH were translated into US\$ at 29.4 UAH/US\$ (exchange rate 2019 State budget law is based on); for reference NBU UAH/US\$ FX rate as of June 10, 2019 is 26.60

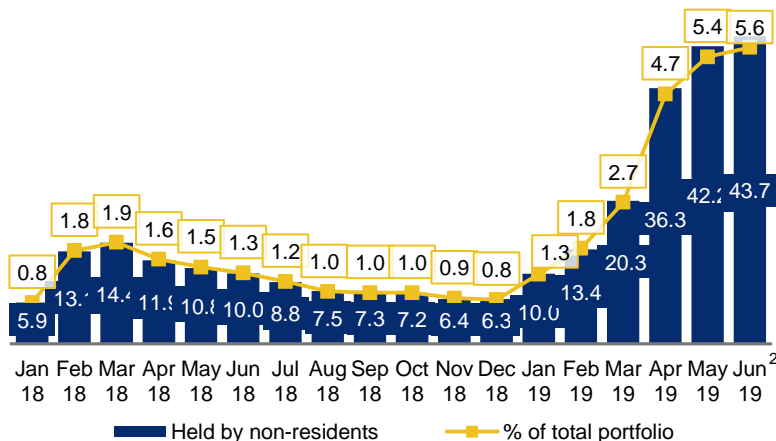


# Ukraine's domestic government bond holders

## Key highlights

- ▶ With **c.47%** share the banks are currently the largest holders of domestic government bonds followed by the NBU, which accounts for **c.43%** of the portfolio
- ▶ At c.6% of total outstanding Ukrainian domestic government bonds as of June 2019<sup>2</sup>, the **portfolio held by non-residents increased almost seven times compared to the beginning of 2019**
- ▶ **Ukraine is making decisive 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 launched on May 27, 2019

## Domestic government bonds held by non-residents

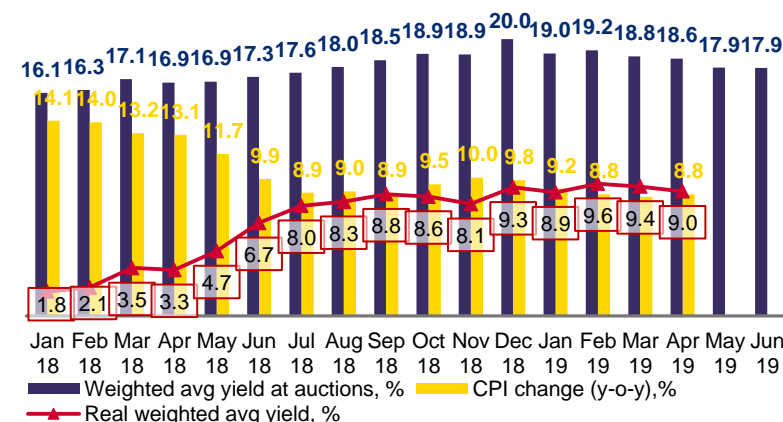


Source Ministry of Finance

## Domestic government bond issuances (in UAH)

	2017	2018	YTD 2019 <sup>2</sup>
<b>UAH-denominated bonds (UAH m)</b>			
<b>Funds remitted to state budget</b>	<b>32,755</b>	<b>65,128</b>	<b>105,521</b>
up to 1 year	11,294	60,429	78,696
1-3 years	19,529	2,983	22,593
3-5 years	1,932	1,716	4,232
over 5 years	-	-	-
<b>Weighted average yield at auctions, %</b>	<b>15.0%</b>	<b>17.8%</b>	<b>18.7%</b>
up to 1 year	15.2%	17.9%	19.0%
1-3 years	14.9%	16.2%	17.9%
3-5 years	15.1%	15.9%	16.0%
over 5 years	-	-	-
<b>Consumer inflation<sup>1</sup></b>	<b>13.7%</b>	<b>9.8%</b>	<b>8.8%</b>

## Nominal and real weighted avg yields at primary auctions, %



Source Ministry of Finance of Ukraine, NMU

## Ways to enter Ukraine's domestic currency bond market:

- Open individual securities accounts with local custodians
- Buy GDNs / CLNs which are clearable in Euroclear / Clearstream
- Buy eligible securities through the link established by international depositories

## Notes

1 Actual CPI change (y-o-y) in December for 2017 and 2018, and in April for YTD 2019

2 As of June 10, 2019

1. A story of recovery and renewal supported by reforms achievements

2. Reforms achievements: irreversible steps towards big changes

3. Fiscal consolidation supporting a prudent debt management strategy







**4. Continuous support from economic partners**

Appendices



# Continuous and significant support from our partners

## Considerable support from international partners to public and private sectors in 2017-2018

Institution	Description
	<ul style="list-style-type: none"> <li>▶ IMF 4-year Extended Fund Facility (EFF) program (2015-2019): c.US\$ 8.5bn received. The EFF program replaced with a new 14-month Stand-By Program</li> <li>▶ New Stand-By Arrangement (139% of quota) with total program size amounting to the equivalent of c.US\$ 3.9bn approved by the IMF Board of Directors in December 2018 (first tranche of c.US\$ 1.4bn disbursed immediately)</li> </ul>
 <p>WORLD BANK GROUP</p>	<ul style="list-style-type: none"> <li>▶ US\$ 750m Policy-Based Guarantee (PBG) to support institutional reforms and sustainable economic growth in Ukraine approved in December 2018 <ul style="list-style-type: none"> <li>• Two loans totaling EUR 349m and EUR 529m attracted under the entire amount of the PBG in December 2018 and February 2019, respectively</li> </ul> </li> <li>▶ IFC financing and advisory expertise for public and private sectors: <ul style="list-style-type: none"> <li>• First loan in national currency, financing for Ukrainian PE fund, development of PPP projects at Ukrainian sea ports, loans to support private sector development</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>▶ <b>EBRD</b>: c.EUR 543m of project financing to public and private sector in 2018 <ul style="list-style-type: none"> <li>• Dedicated funding towards renewable energy sector (EUR 250m USELF III launched in June 2018)</li> </ul> </li> <li>▶ <b>EIB</b>: EUR 393m of loans granted in 2018 with c.34%<sup>1</sup> provided to Ukrainian private sector and the rest 66% directed towards transport connectivity and road safety improvement as well as upgrade of energy and road infrastructure</li> <li>▶ <b>EU</b>: EUR 1bn macro financial assistance split into 2 tranches (EUR 500m disbursed in December 2018, second tranche expected in 2019)</li> </ul>
	<ul style="list-style-type: none"> <li>▶ <b>USA</b>: US\$ 250m funding dedicated to security and defense assistance to Ukraine in 2019</li> <li>▶ <b>USAID</b>: Financial support to promote economic and social development together with sectoral reforms</li> </ul>

Sources IMF, World Bank, the EU, US Treasury

### Notes

<sup>1</sup> Share of publicly disclosed loans provided to private companies as opposed to the Ukrainian public sector (incl. SOEs)



# Update on IMF program in Ukraine

## Key milestones

- ▶ **February 2015:** IMF staff Level Agreement on a US\$ 17.5bn Extended Fund Facility Arrangement (900% of quota)
  - 2<sup>nd</sup> largest IMF program in percentage of quota: compared to 2,159% of quota for the 2<sup>nd</sup> program in Greece or 422% for Egypt and 322% for Iraq
  - With limited front-loading to incentivize reforms
- ▶ **August 2015:** Staff Level Agreement on 1<sup>st</sup> review under the EFF
- ▶ **October 2015:** Discussions on the 2<sup>nd</sup> review under the EFF
- ▶ **December 2015:** IMF decision on the Status of Ukraine's Eurobond Held by the Russian Federation
- ▶ **September 2016:**
  - Completion of the 2<sup>nd</sup> review under the EFF and approval of US\$ 1bn Disbursement
- ▶ **April 2017:** Completion of the 3<sup>rd</sup> review of the EFF and disbursement of the 4<sup>th</sup> tranche of EFF support
- ▶ **October 2018:** Staff Level Agreement on the new 14-month Stand-By Arrangement (to replace current EFF program) for 139% of quota
- ▶ **December 2018:** Approval of the Stand-By Arrangement for a total program amount of US\$ 3.9bn by the IMF Board of Directors
  - Immediate disbursement of the first tranche totaling US\$ 1.4bn
  - Simultaneous cancelation of the arrangement under the EFF approved in March, 2015

Source IMF, Ministry of Finance

## Past IMF reviews under the EFF and SBA programs

Availability date / Next reviews	SDR m	US\$ m <sup>1</sup>
<b>EFF program</b>		
March 11, 2015	3,546	4,879
July 31, 2015 [1 <sup>st</sup> review]	1,182	1,659
September 15, 2016 [2 <sup>nd</sup> review]	716	1,003
April 3, 2017 [3 <sup>rd</sup> review]	734	996
<b>Total EFF program</b>	<b>6,178</b>	<b>8,537</b>
<b>SBA program</b>		
December 18, 2018	1,000	1,391
May 2019 [1 <sup>st</sup> review]	900	1,258
November 2019 [2 <sup>nd</sup> review]	900	1,258
<b>Total SBA program</b>	<b>2,800</b>	<b>3,907</b>

## Key achieved structural benchmarks and prior actions

### EFF:

- ▶ Establishment of the NABU
- ▶ Parliament approval of the new gas market law
- ▶ Adoption of a broad-based strategy to reform the SOE sector
- ▶ Launch of the electronic assets declarations
- ▶ New pension legislation
- ▶ New privatization framework
- ▶ Parliament approval of the law on ACC

### SBA:

- ▶ Parliamentary approval of 2019 State budget consistent with the IMF recommendations
- ▶ Increase in household gas and heating tariffs

Note 1 Past tranches translated at NBU XDR/US\$ exchange rate as of the date of their receipt; expected tranches converted at XDR/US\$ as of January 10, 2019

# Key structural benchmarks under the IMF's SBA for Ukraine

Structural benchmarks		Completion status
1	<b>Raising heating tariffs</b> of all remaining heating companies with an output of up to the NEURC-set threshold, to cover at least 95 percent of the total centralized heating supply	✓
2	Adoption by the NBU of <b>revisions to its capital regulations</b> to subtract loan exposures to related parties above regulatory limits from regulatory capital	✓
3	Parliamentary approval of the law <b>revisiting the supervisory responsibility for a variety of financial intermediaries</b> ("split" law)	In progress
4	Publication of <b>first report summarizing progress in asset recovery and litigation efforts</b> related to the four state-owned banks	✓
5	Consolidate the current central and regional units of the State Fiscal Service (SFS) into <b>two separate legal entities: the Tax Service and the Customs Service</b>	In progress
6	At <b>least thirty-five anti-corruption judges</b> with impeccable reputation and relevant professional skills <b>to be appointed to the HACC</b>	✓
7	The NBU to take appropriate <b>supervisory actions against banks that fail to comply with capital requirements</b>	In progress
8	Complete <b>an external audit of the NABU</b> , conducted by a panel of respected experts with international experience	In progress

Source IMF



1. A story of recovery and renewal supported by reforms achievements

2. Reforms achievements: irreversible steps towards big changes

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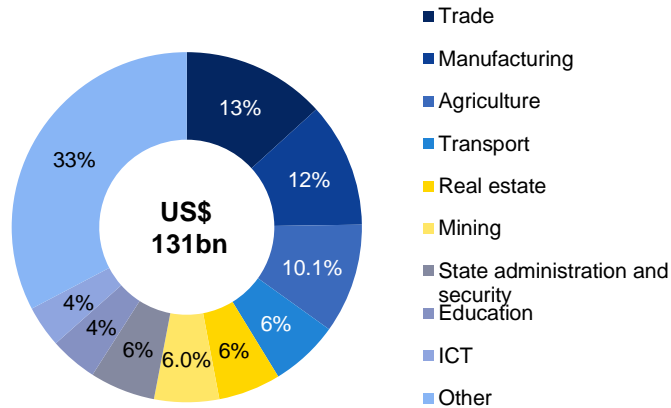
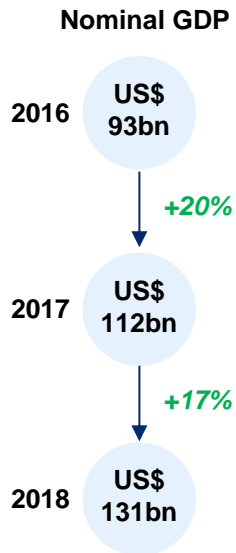


**Appendices**

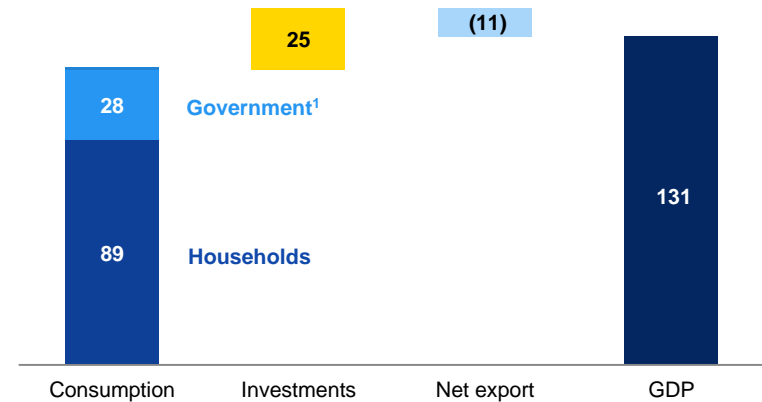


# Structure of Ukraine's economy

2018 nominal GDP breakdown by sector



2018 nominal GDP breakdown by expenditures, US\$ bn



Note 1 incl. NPOs

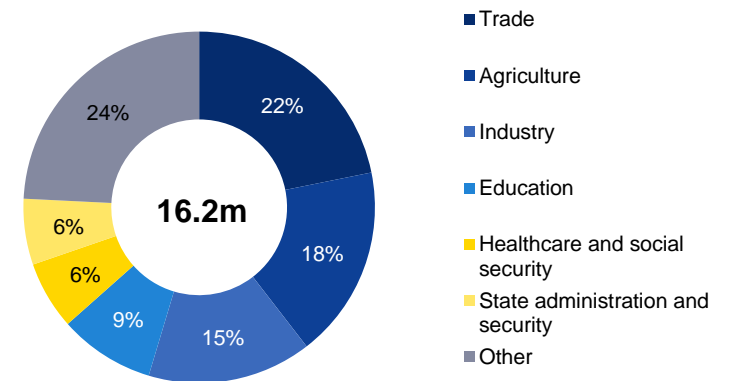
**Comments**

- ▶ **Ukraine is gradually shifting from prevailing raw material production to a country with a dominating tertiary sector**
  - Agriculture and mining, the largest segments of Ukraine's primary sector, jointly reach for only 16% of 2018 GDP
- ▶ Trade, transport and real estate operations constitute the largest shares of Ukraine's tertiary sector at 13%, 6% and 6% of 2018 nominal GDP

**Highlights on population (average for 2018)**



Employed population by sector (2017)



Source State Statistics Service of Ukraine



# Environmental safety developments

## Key highlights

- ▶ Ukraine's strategy on renewable energy sector (RES) and energy saving is based on two core pillars:
  - **National Renewables Action Plan** aimed at reaching 11% share of RES in total electricity consumption by 2020
  - **National Energy Efficiency Action Plan** with a view toward reduction of final energy consumption by 9%
- ▶ Strong governmental incentive mechanism for RES development represented by **one of the highest feed-in-tariffs** in Europe
- ▶ The legislation stipulating replacement of FIT mechanism with an auction system was adopted by the Ukrainian Parliament in April 2019

## International Renewable Energy Agency (IRENA)

On February 2018, Ukraine became a member of IRENA.

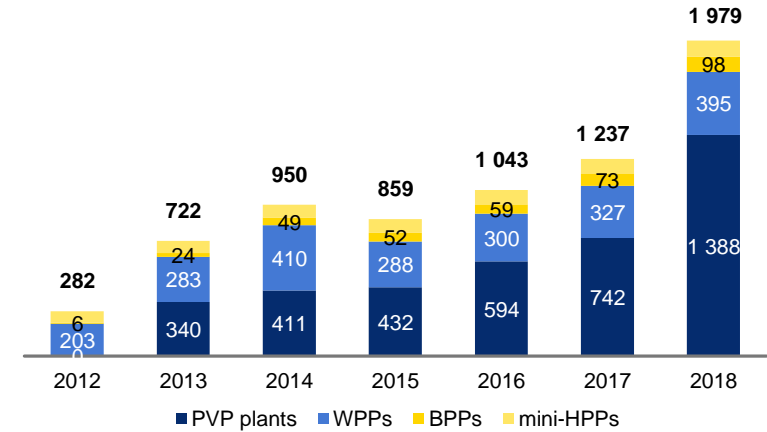


### Key benefits for Ukraine:

- ▶ Renewable projects financing by the Abu Dhabi Fund for Development (ADFD) under 1-2% for up to 20 years
- ▶ Legislation improvement
- ▶ "Green" investment attraction
- ▶ Additional guarantees to investors

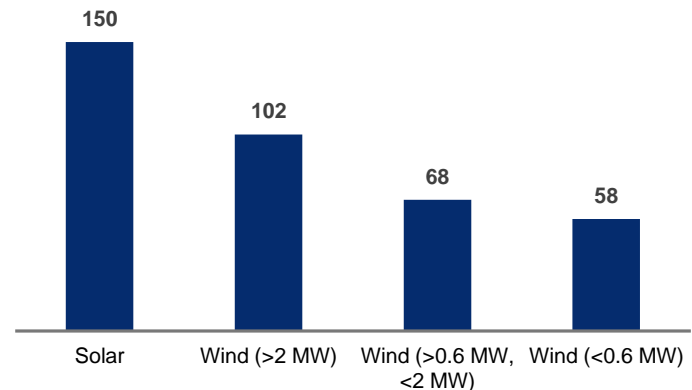
Source NEURC

## RES's installed capacity dynamics, MW



Sources SAAE, NEURC

## WPP<sup>1</sup> and SPP current feed-in tariffs, EUR/MWh



Source NEURC Note 1 Depending on wind turbine capacity

## Directions of RES development in Ukraine

### Energy generation

Construction of renewable energy facilities

Construction of plants producing equipment for RES

Biofuel production plants construction

Growing energy crops

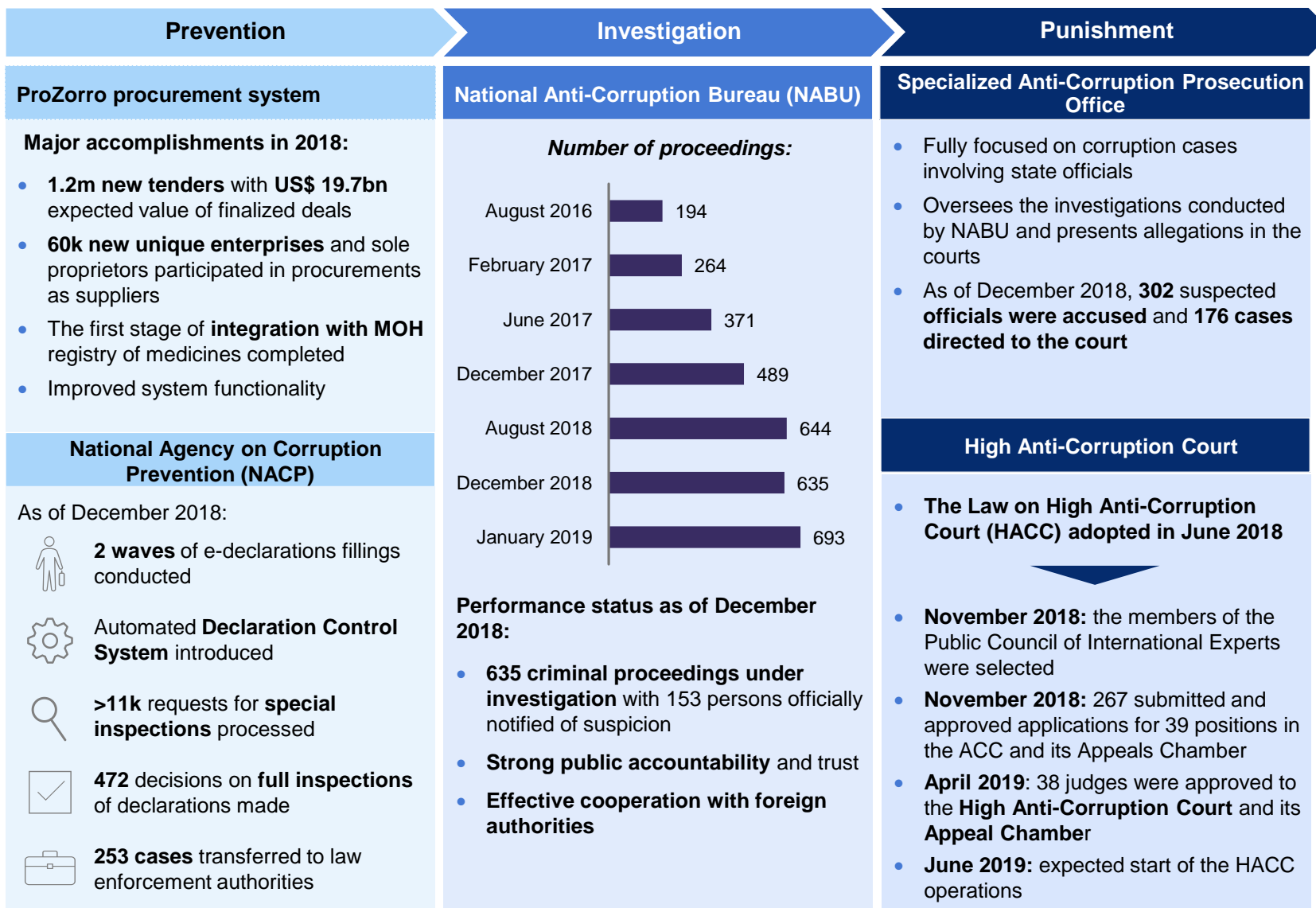
### Energy saving

Residential sector

Industry

Public sector

# Full anti-corruption infrastructure is being established



Sources: ProZorro, NACP, NABU



## Key milestones

- ▶ **17 February 2016:** The Law Debenture Trust Corporation plc, acting on behalf of the Russian Federation as the sole holder of purported Ukraine's US\$ 3bn Eurobond, filed a lawsuit against Ukraine in the High Court of England and Wales seeking repayment of notes
  - Ukraine's position: the bond, sold on the eve of a 2014 revolution in Kiev, was induced by threats and acts of unlawful political, economic and military aggression from Moscow and was in any event void as being beyond Ukraine's capacity and/or the Minister's authority, amongst other reasons
  - Russia's position: English courts should hear the case as a straight-forward default, and were not entitled to take such aggression into account
- ▶ **29 March 2017:** the High Court issued a Summary Judgment decision in favour of the claimant
  - Ukraine appealed before the Court of Appeal of England and Wales
- ▶ **22-26 January 2018:** Appeal hearing took place
- ▶ **14 September 2018:** A final judgment has been rendered by the Court of Appeal that the case should go to a full trial on Ukraine's duress defence

Ukraine argues that the alleged contracts for the Russian bonds are void and unenforceable because of Russia's wanton threats and acts of political and military aggression towards Ukraine

## Details on Judgment (September 14, 2018)

- ▶ The first instance judge was wrong:
  - to decline to permit Ukraine's defence of duress to proceed to trial; and
  - to refuse to grant Ukraine a permanent stay of the proceedings if Ukraine's defence of duress could not be adjudicated by the English Court
- ▶ Ukraine has lost on the issues of capacity, authority, implied terms and countermeasures, as well as on the issue as to whether there are any other compelling reasons for the case to go to trial
- ▶ Ukraine has therefore succeeded in its appeal and the **Summary Judgment has been set aside, subject to any appeal to the Supreme Court**

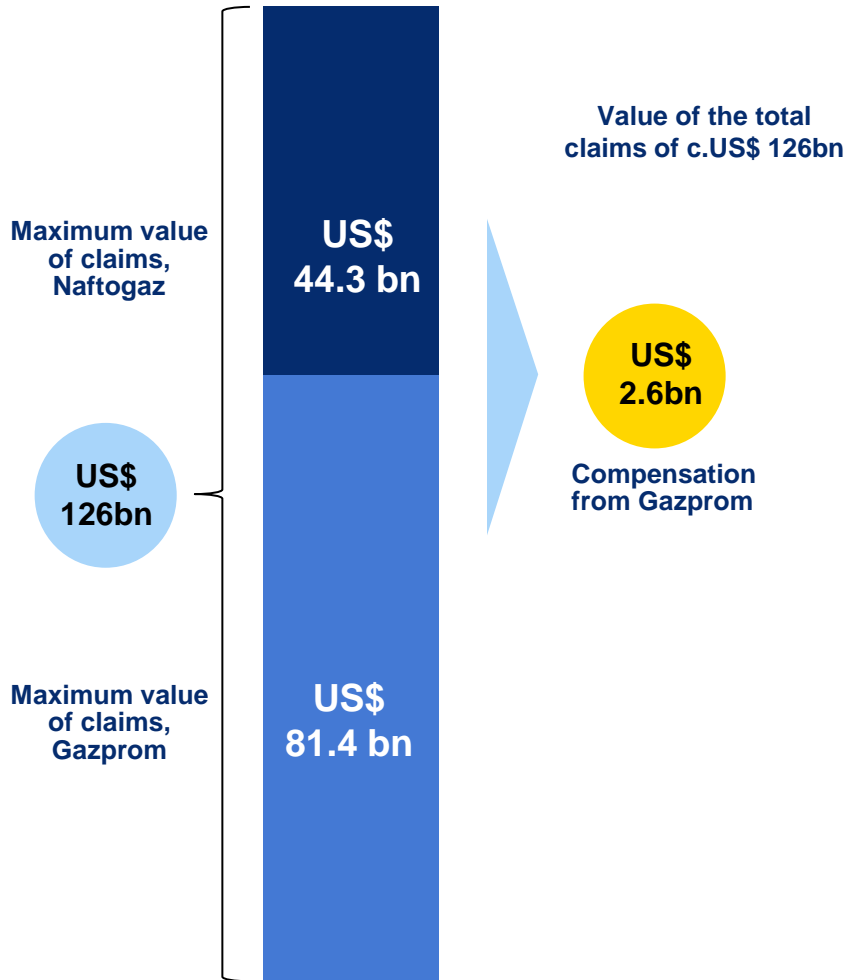
"It **would be unjust** to permit Law Debenture and Russia to proceed to seek to make good the contract claim **without Ukraine being able to defend itself** by raising its defence of duress at trial."

**The Law Debenture Trust Corporation p.l.c. v Ukraine, Approved Judgment, Court of Appeal of England and Wales September 14, 2018**



# Historical victory for Ukraine: Stockholm Arbitration

## Case description



## Key results of the Arbitration on gas supply contract

Gazprom's claims	Tribunal's decision
485 US\$ per tcm Contract gas price In Q2 2014	352 US\$ per tcm Gas price for Q2 2014 reduced
56 US\$ bn Gazprom's take-or-pay (ToP) claims	0 US\$ bn ToP provisions declared invalid and the claims based on ToP provisions fully rejected
52 bcm Minimum annual contract volume obligations	5 bcm Minimum annual contract volume obligations reduced to actual needs
CADLR* To pay for gas allegedly supplied to the temporarily occupied territories	CADLR* Naftogaz will not pay for supplies to CADLR

\*Certain Areas of Donetsk and Luhansk Regions

## Key results of the Arbitration on gas transit contract

- ▶ Violation by Gazprom of its obligations for transit volumes amounting to 110 bcm per year
  - Naftogaz awarded compensation from Gazprom of US\$ 4.6bn
  - Net US\$ 2.6bn after set-off of the amounts owed between the parties in both cases

Naftogaz has initiated enforcement of the US\$ 2.6bn award

- ▶ Freeze of Gazprom's assets in England and Wales<sup>1</sup>
- ▶ Freeze of Gazprom's stakes in its Dutch subsidiaries
- ▶ Actions in Switzerland and the Netherlands

Sources: Naftogaz, Naftogaz's 2017 Annual Report

**Note 1** On 18 June 2018 English court granted a freezing order against Gazprom. On 13 September 2018, upon mutual consent of the parties, the freezing order was discharged by the court in exchange of written undertaking from Gazprom, as accepted by the court, not to dispose of or otherwise deal with or diminish the value of any of its shares in the Swiss company Nord Stream AG, save that Gazprom shall be permitted to deal with or dispose of or diminish the value of the shares in the ordinary and proper course of business.





MINISTRY OF  
FINANCE OF  
UKRAINE

***Thank you for your attention!***