



Ukraine: Investor Presentation



MINISTRY OF
FINANCE OF
UKRAINE

July 2020

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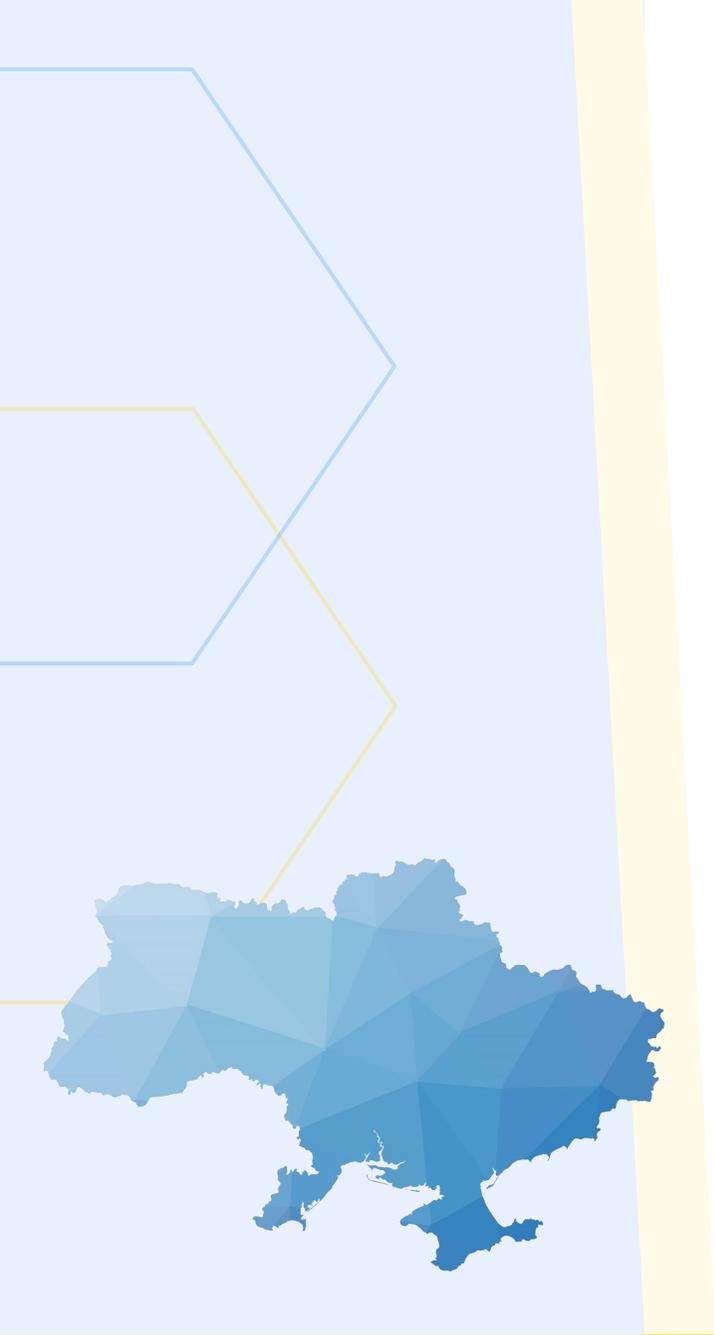
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- 1 The Covid-19 crisis will have a significant but short-term effect**
- 2 Ukraine's financing will benefit from substantial support from partners**
- 3 A proactive response should mitigate the impact on the economy**
- 4 An improved business climate 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		Today
 Real GDP growth	(9.8)%		3.2% (2019)
 Consumer inflation (eop)	43.3%		2.4% (Jun-20)
 Reserves (eop)	US\$ 13.3bn		US\$ 28.5bn (Jul 1, 2020)
 Primary state budget balance¹	2.0% of GDP		1.0% of GDP (2019)
 State debt to GDP	67.1% (2015)		44.3% (2019)

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

Note 2 According to the NBU inflation forecast report as of January 2020

Note 3 According to the NBU inflation forecast report as of April 2020

Note 4 According to Medium-Term Debt Strategy 2019 - 2022

Sources State Statistics Service of Ukraine, NBU, State Treasury

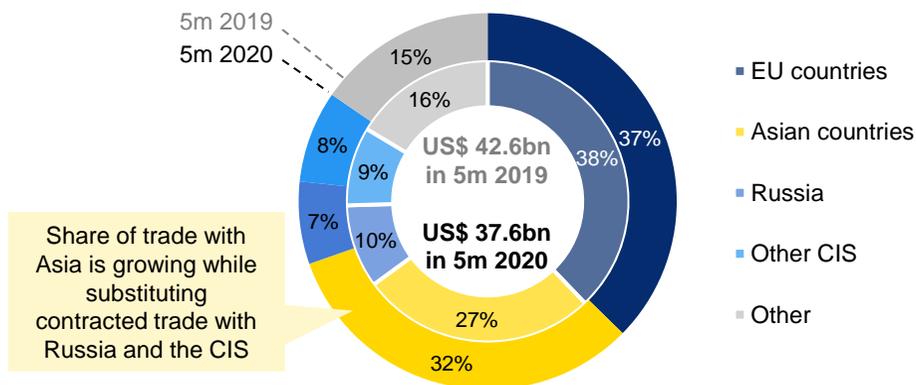


Marked impact of Covid-19 on external trade in 5m 2020

Comments

- ▶ Based on preliminary estimates, **global Covid-19 pandemic and subsequent lockdown had a pronounced impact on Ukraine's external trade in 5m 2020** with export of goods and services falling slightly by 6.3% while import of goods and services declining more rapidly by 18.5% y-o-y in 5m 2020
 - The total export of goods in 5m 2020 (i.e. US\$ 18.0bn) has fallen by 6.1% vs 5m 2019, while export of services has decreased by 6.8% y-o-y
 - The total import of goods in 5m 2020 (i.e. US\$ 19.5bn) has fallen by 16.5% vs 5m 2019, while import of services has decreased by 26.2% y-o-y
- ▶ With increased net exports in 4m 2020 such foreign trade dynamics had a positive impact on Ukraine current account

Geographic structure of goods trade in 5m 2019 & 5m 2020¹

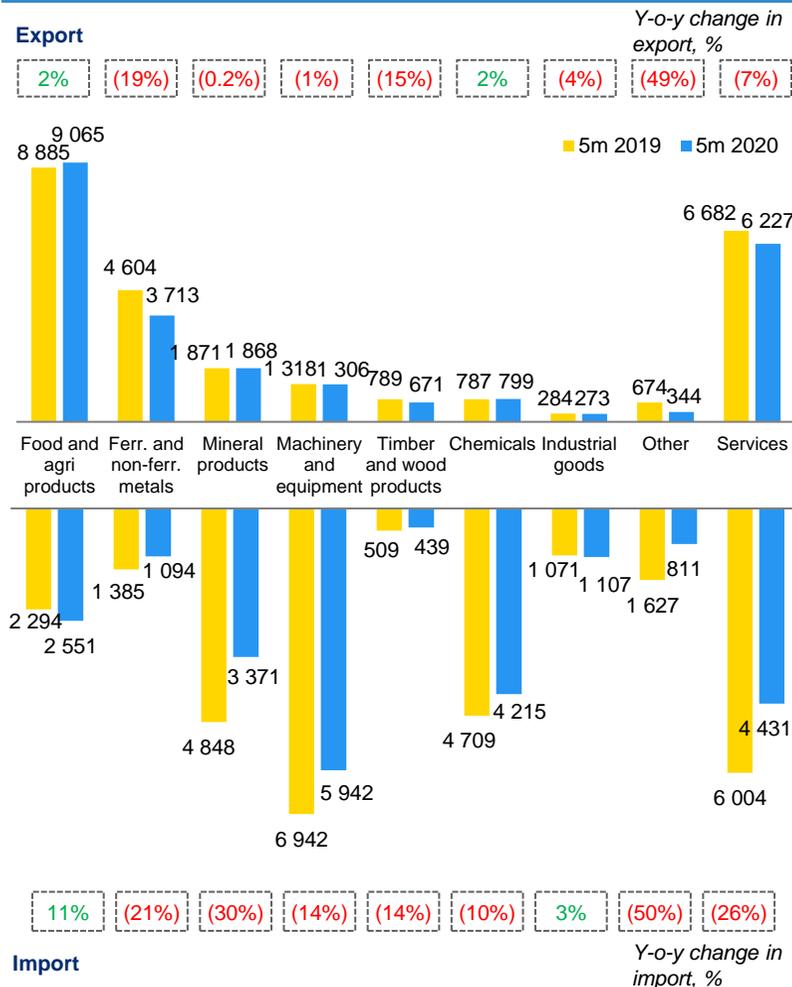


Source NBU

Notes

1 Sum of export and import of goods

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



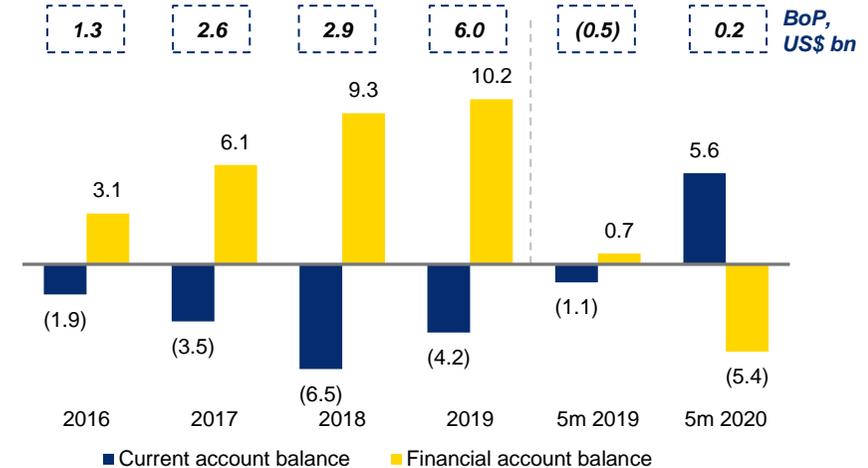
Source NBU

Firm external position leading to less vulnerability to external shocks

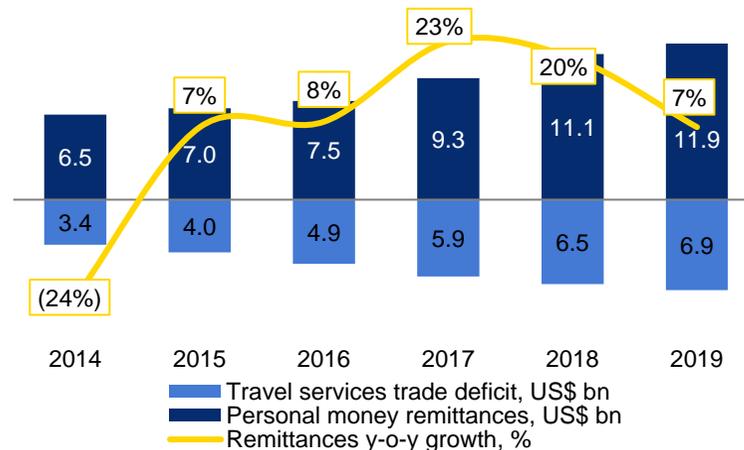
Comments

- ▶ **The trade balance deficit amounted** US\$ 12.6bn in 2019 largely supported by large machinery and equipment, chemicals, food and agri imports while **in 5m 2020 the trade balance surplus** reached and US\$ 0.3bn due to decreased import coupled with relatively stable export
- ▶ **The current account (CA) balance demonstrated surplus** in 5m 2020, resulting from a stable goods export coupled with decline in imports due to global energy prices decline
 - 2020 CA deficit is expected to reach 1.7% of GDP (per NBU) as imports will decline more than exports
- ▶ **Negative trade balance was largely offset by personal money remittances together with capital account inflows** which resulted into positive overall BoP of c.US\$ 6.0bn in 2019 and c.US\$ 0.2bn in 5m 2020

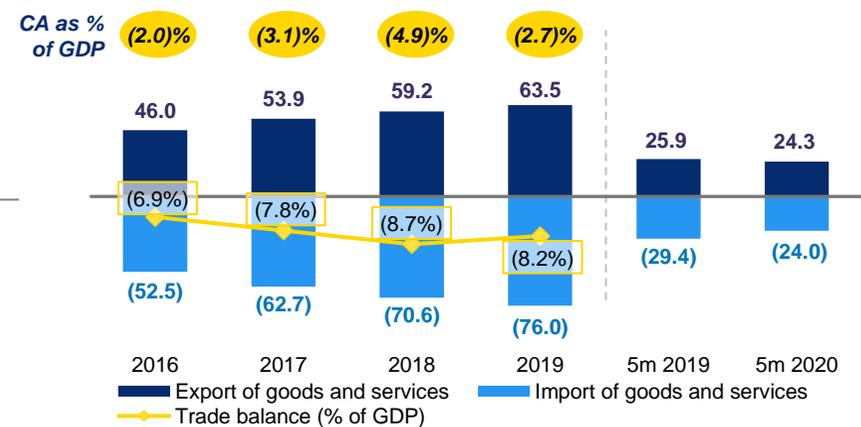
Balance of payments components, US\$ bn



Private money remittances & travel services trade deficit, US\$ bn



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



Source NBU

Prudent monetary policy implemented by independent regulator

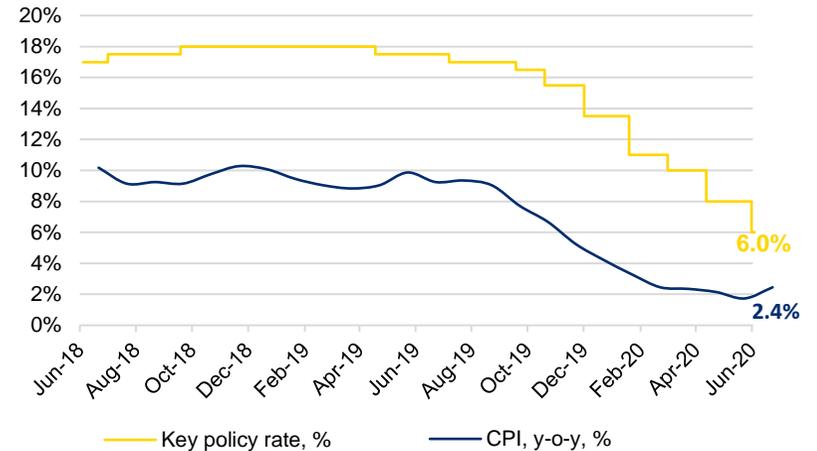
Medium-term consumer inflation target range: 5%+/-1%

Y-o-y inflation as of June 2020: 2.4%

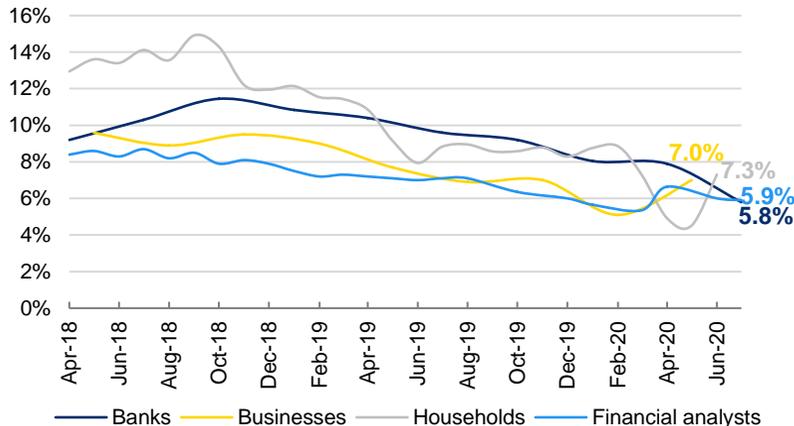
Comments

- ▶ **The NBU is significantly softening its monetary policy maintaining the cycle of key policy rate cuts** on the back of UAH appreciation and decelerated inflation
- ▶ On June 11, the Board of the NBU decided to cut its key policy rate from 8.0% to 6.0%, its neutral level, indicating the end of the cycle of rapid monetary policy easing. Overall, the key policy rate was reduced by 7.5 p.p. since the beginning of 2020, reaching the historic low over Ukraine's independence
- ▶ 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**

Consumer price index (CPI) change and key policy rate



CPI expectations for the following 12 months



Source NBU

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



Notes

1 As of June 24, 2020



Sufficiently accumulated international reserves

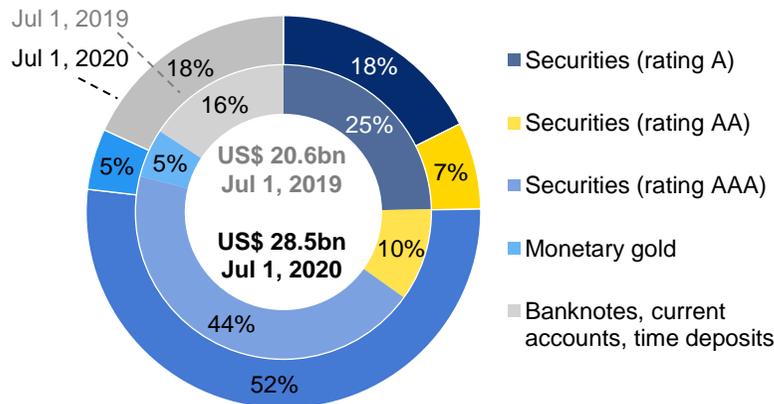
Comments

- ▶ **Gross international reserves grew by 38.2% (y-o-y) and reached US\$ 28.5bn as of July 1, 2020** (covering 4.8 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 June 2020, the international reserves increased by 12.4% (m-o-m) mainly as a result of international funding disbursements (USD 2,076m from the IMF and EUR 500m from the EU), new FX placements (US\$ 353m), government transaction to repay public debt (US\$ 1,192m), NBU's net FX purchases (US\$ 1,155m), and financial instruments revaluation gain (US\$ 154m)

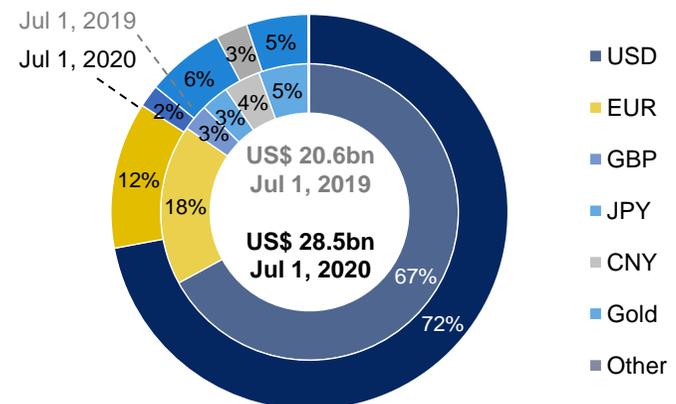
Gross and net international reserves (eop), US\$ bn



Gross international reserves by instrument



Gross international reserves by currency



Source NBU



Maintained NBU's independence



Timeline of the recent events related to the change of the NBU's Governor

July 1, 2020	July 3, 2020	July 3-16, 2020	July 15, 2020	July 16, 2020
Mr. Yakiv Smoliy resigned as the Governor of the NBU. Mr. Smoliy was appointed as the Governor of the NBU in March 2018	The Parliament approved the resolution to dismiss Mr. Smoliy as the Governor of the NBU and Mr. Smoliy's resignation formally took effect	The First Deputy Governor of the NBU Ms. Kateryna Rozhkova performed duties of the Governor	The President nominated Mr. Kyrylo Shevchenko as the Governor of the NBU	The Parliament supported that nomination appointing Mr. Shevchenko as the Governor of the NBU with effect from 16 July 2020

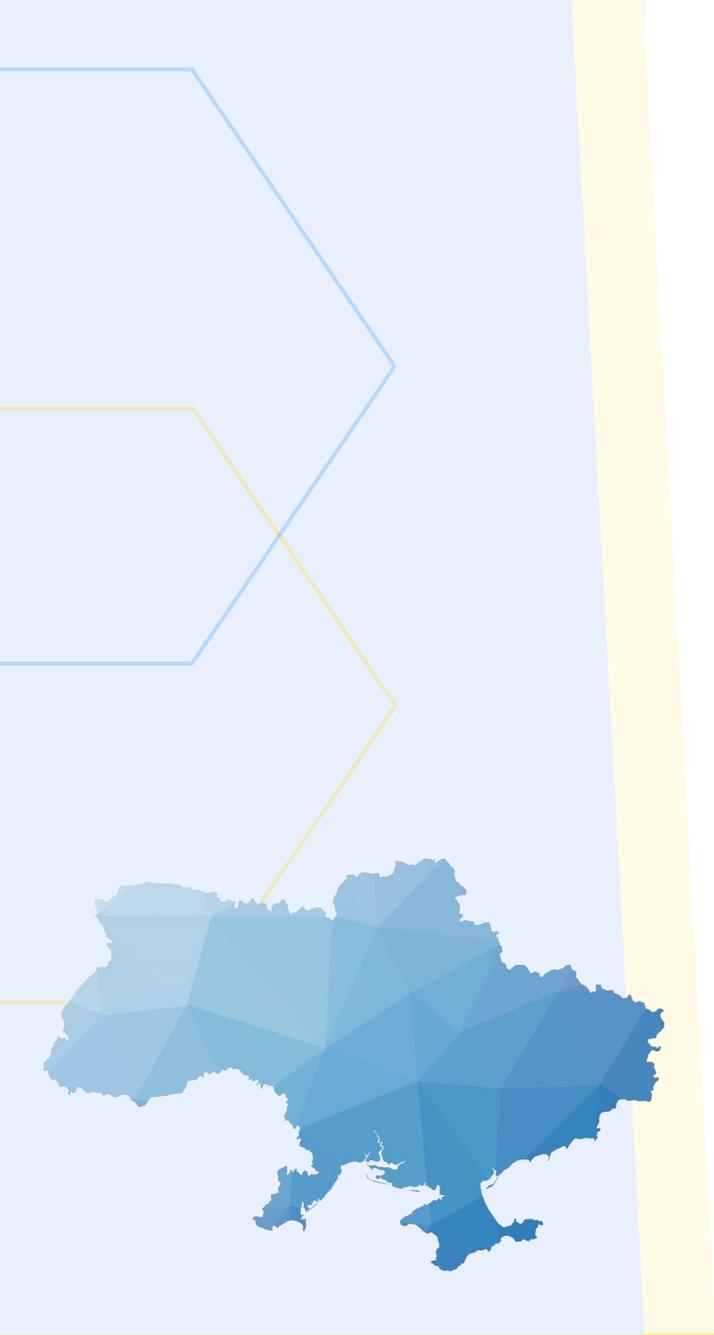
- ▶ **The independence, operations and policies of the NBU are unaffected by Mr. Smoliy's resignation and Mr. Shevchenko's subsequent appointment**
- ▶ Mr. Shevchenko further indicated his support of the NBU's policy of ensuring macroeconomic stability which must contribute to economic growth

Mr. Kyrylo Shevchenko NBU Governor



- *Since Jul 2020*: the Governor of the **National Bank of Ukraine**
- *Oct 2014 – Jul 2020*: top management positions in state-owned **UkrGasbank**, including Chairman of the Board since May 2015
- *May 2012 – Aug 2014*: advisor to the secretariat of the chair of **Oschadbank**
- *Feb 2012 – Apr 2012*: Chairman of the Board of **SKPD**
- *Apr 2011 – Dec 2011*: Chairman of the Board of **Ukrainian Strategic Group**
- *Sep 2009 – Apr 2010*: First Deputy Chairman of the Board at **UkrGasbank**
- *May 2009 – Sep 2009*: advisor to the prime minister of Ukraine
- *Dec 2006 – May 2009*: Chairman of the **State Mortgage Institution**
- *1995 – 2006*: work in **Finance and Credit bank**, reaching the position of a Deputy Chairman of the Board





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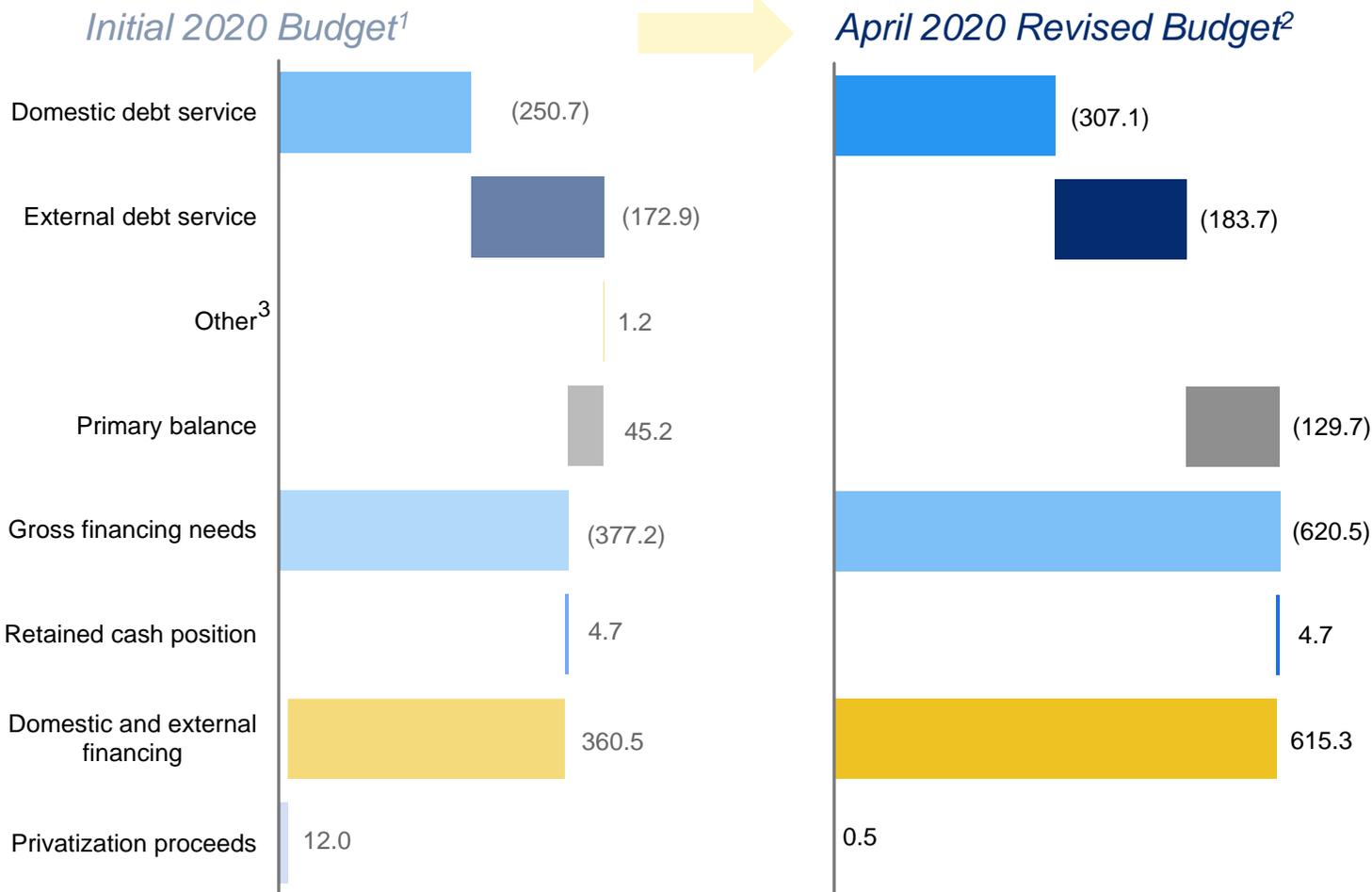
Ukraine's revised 2020 gross financing needs

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

US\$ 20.5bn of borrowings are envisaged per revised 2020 budget

During YTD 2020, the following financing sources have been tapped:

- EUR 1.25bn 2030 Eurobond issuance
- UAH 157bn (equiv. of US\$ 6.0bn) raised on domestic market o/w UAH 94.9bn in UAH-denominated bonds and US\$ 2.3bn in FX denominated domestic bonds
- US\$ 150m was approved by the WB to support Ukraine Social Safety Net System to combat Covid-19 consequences and on May 28, 2020, US\$ 50m was already disbursed



Notes

1 Figures based on 2020 state budget law as of February 2020

2 Figures based on 2020 revised state budget law as of April 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

Source Ministry of Finance



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
- ▶ According to the IMF, the decision to shift was made given “the unprecedented uncertainty surrounding the economic and financial outlook and the need to focus policy priorities on near term containment and stabilization”
- ▶ The SBA program will enable Ukraine to effectively manage the economic and health impact of Covid-19 providing balance of payment and budget support within a policy framework
- ▶ “When recovery is in place, the focus could shift back to addressing Ukraine’s longer term structural reform needs to foster stronger and more inclusive growth”

	EFF program	SBA program
Typical duration	36 months, max 48 months, longer engagement and repayment period	12-24 months, max 36 months, shorter engagement and repayment period
Program design	Strong focus on structural adjustment	Fewer conditions, focus on objectives
Duration for Ukraine	36 months	18 months
Amount planned to be received by Ukraine over 2020-2021	US\$ 5.0bn	US\$ 5.0bn

Sources IMF, Ministry of Finance

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	1,500	2,076
September 1, 2020	500	691
December 1, 2020	500	691
May 15, 2021	400	553
October 15, 2021	700	967
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



Official concessional external financing envisaged for 2020

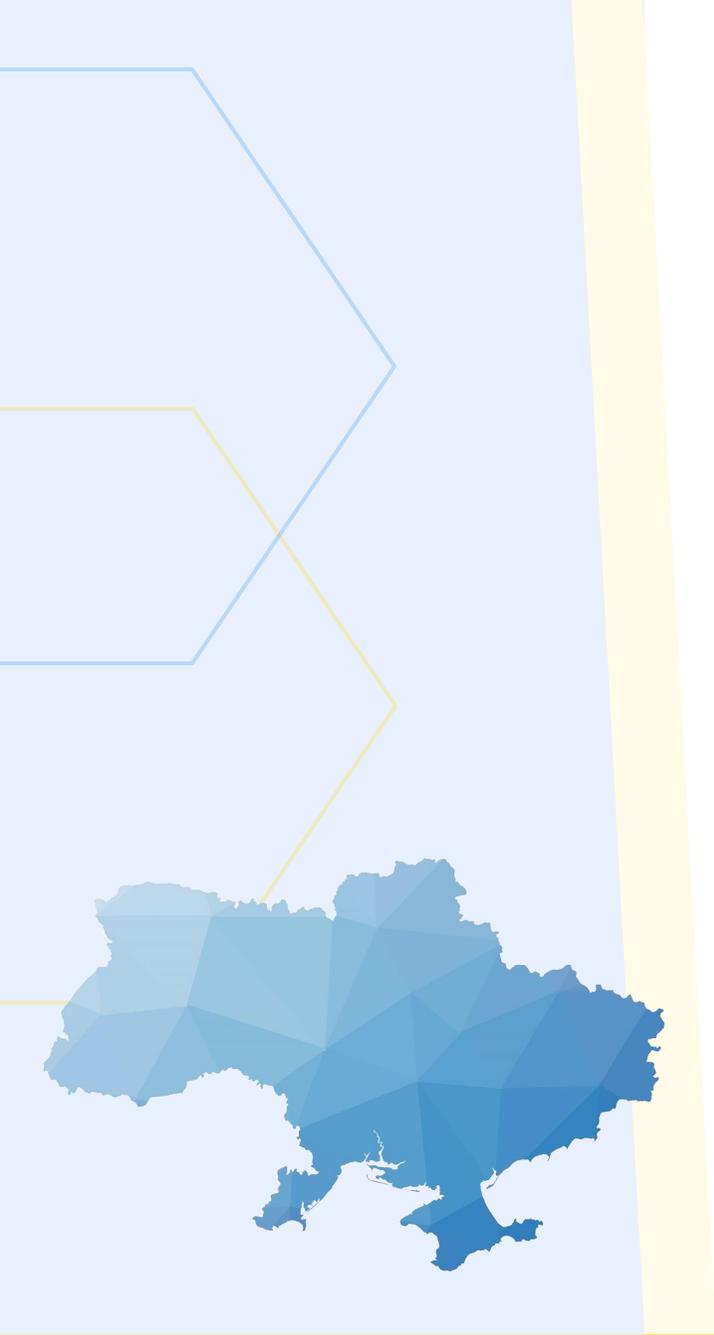
Combined with a proactive response to Covid-19 economic fallout, **Ukraine managed to secure a range of concessional financing** from its international partners to **cover significant portion of external financing needs for 2020**

The total amount from our official partners is expected to reach **c.US\$ 6.2bn in 2020**

Both the **IMF's SBA** and the **EU's MFA** financing constitute significant portions (i.e. **c.57% and c.31%**, respectively) of total 2020 envisaged external financing from the official partners

Partner	Programs	2020 financing
International Monetary Fund 	<ul style="list-style-type: none"> On June 9, IMF Executive Board approved 18-month Stand-By Arrangement (SBA) for Ukraine, under which USD 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 Within the new SBA program, US\$ 3.5bn is expected to be received during 2020 	US\$ 3.5bn
European Union  	<ul style="list-style-type: none"> EUR 0.5bn second tranche out of EUR 1.0bn macro financial assistance program, MFA IV, was received in June 2020 On May 18, a new EUR 1.2bn MFA program for Ukraine was adopted within EUR 3.0bn support package to neighboring partners, o/w EUR 600m to be provided immediately and unconditionally, 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 and EUR 1.7bn are expected in 2020 In addition, other European institutions provide financial support for Ukraine to fight Covid-19 consequences, e.g. EUR 40m from the EIB 	EUR 0.5bn EUR 1.2bn
World Bank  WORLD BANK GROUP	<ul style="list-style-type: none"> 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. It is expected that another US\$ 350m of budget financing loans from the World Bank will be finalized and disbursed also in 2020 On May 5, the US\$ 150m Loan Agreement (Additional Financing for the Social Safety Nets Modernization Project) between Ukraine and IBRD was signed. On May 28, 2020, US\$ 50.4m were already disbursed 	US\$ 0.7bn US\$ 50.4m
Total 2020 envisaged external financing from the official partners		c. US\$ 6.2bn





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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

- ▶ **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

2

Individuals

- ▶ **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

3

Monetary (NBU)

- ▶ 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

- ▶ **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

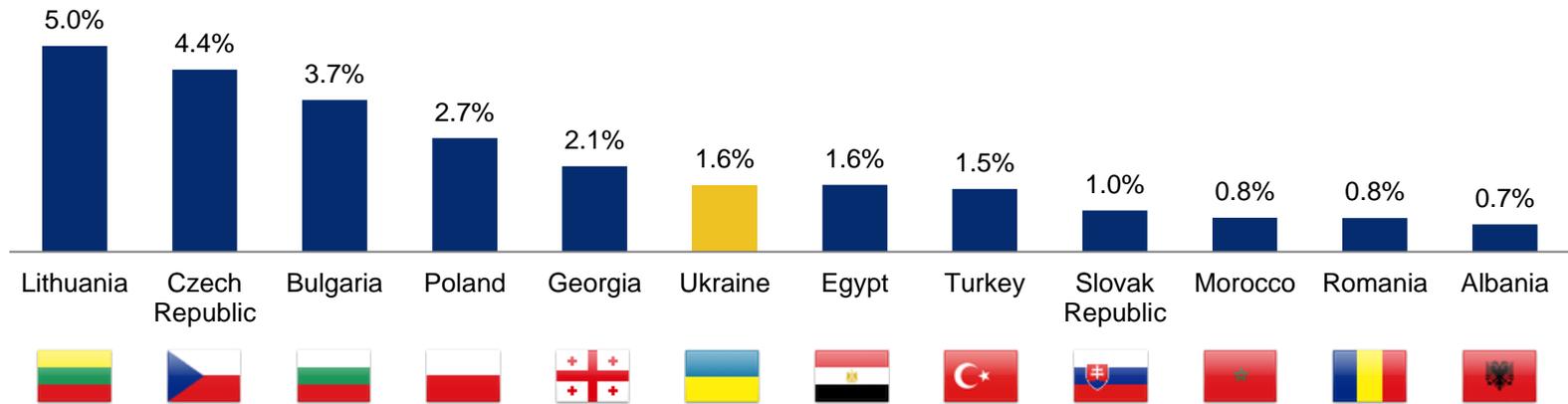
Sources NBU, CMU, UkraineInvest



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 65bn of Covid-19 response fund, decisions for disbursement have been made for UAH 27bn (c.42%) on non-refundable basis and UAH 1.3bn (c.2%) on refundable basis, as of June 1, 2020
- ▶ The financing from the Covid-19 response fund is directed towards:

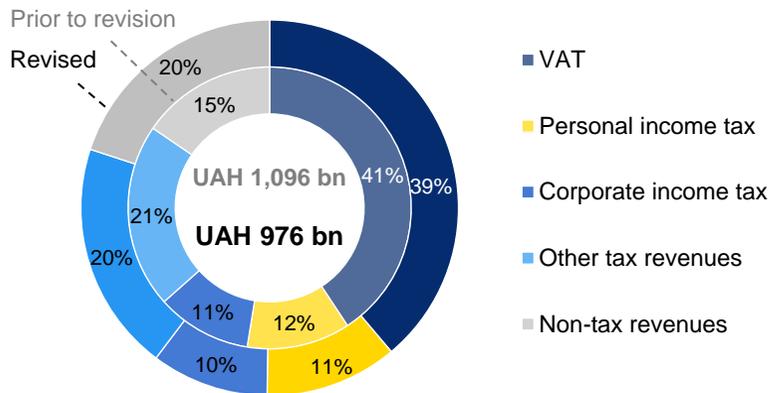
-  Purchase of goods and services for prevention of Covid-19 spread, including medical services within the program of state guarantees for medical care of population
-  Increase of salaries of medical and other workers directly fighting with Covid-19
-  One-time financial assistance to families of medical 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

Loosened 2020 fiscal policy to minimize loss in economic growth

2020 state budget revenues split (2020 State budget Law¹)

Revised state budget revenues: UAH 976 bn

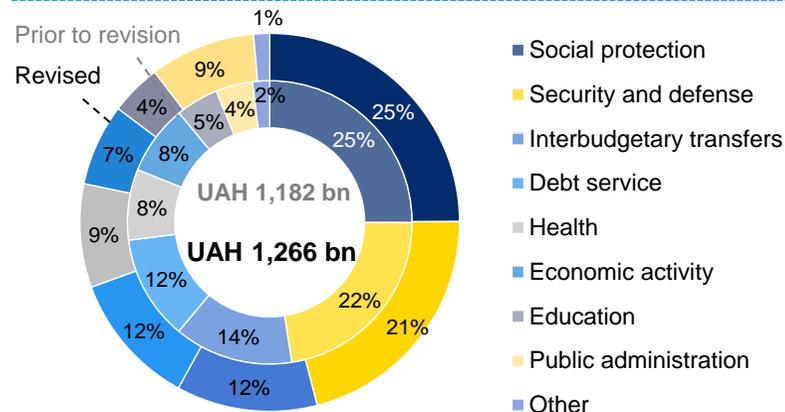


Due to Covid-19, the State budget 2020 was revised in April 2020 in the following manner:

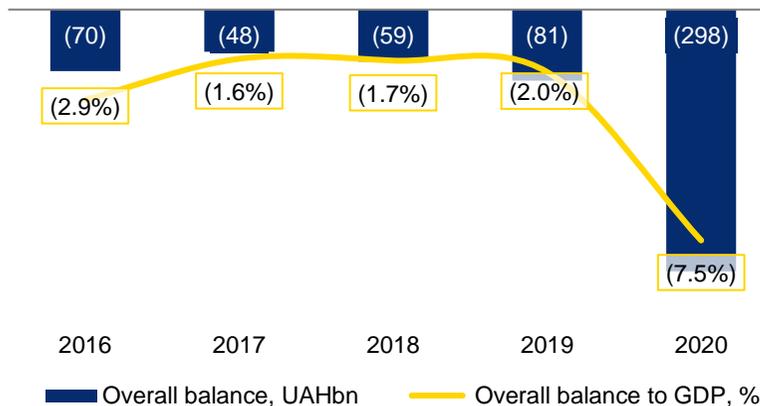
- Total revenues: UAH 976bn (-11%)
- Total expenditures: UAH 1,266bn (+7%)
- Budget deficit²: UAH 298bn / 7.5% of GDP in 2020 (government forecast)

2020 state budget expenditures split (2020 State budget Law¹)

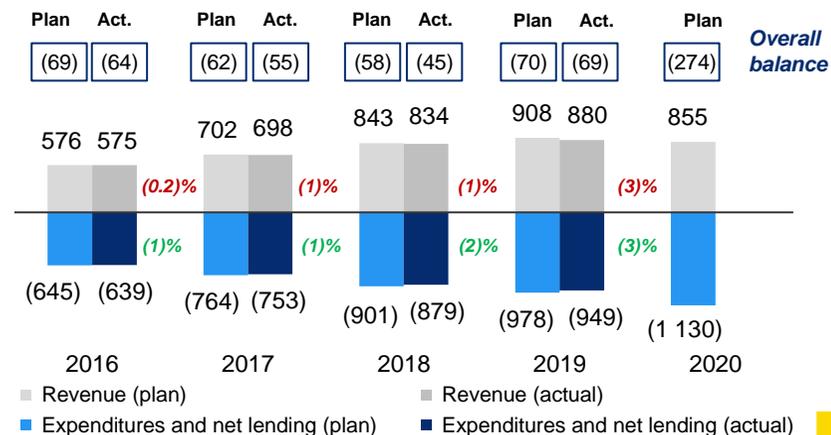
Revised state budget expenditures: UAH 1,266bn



Overall state budget balance³, UAH bn



State budget general fund performance³, UAH bn

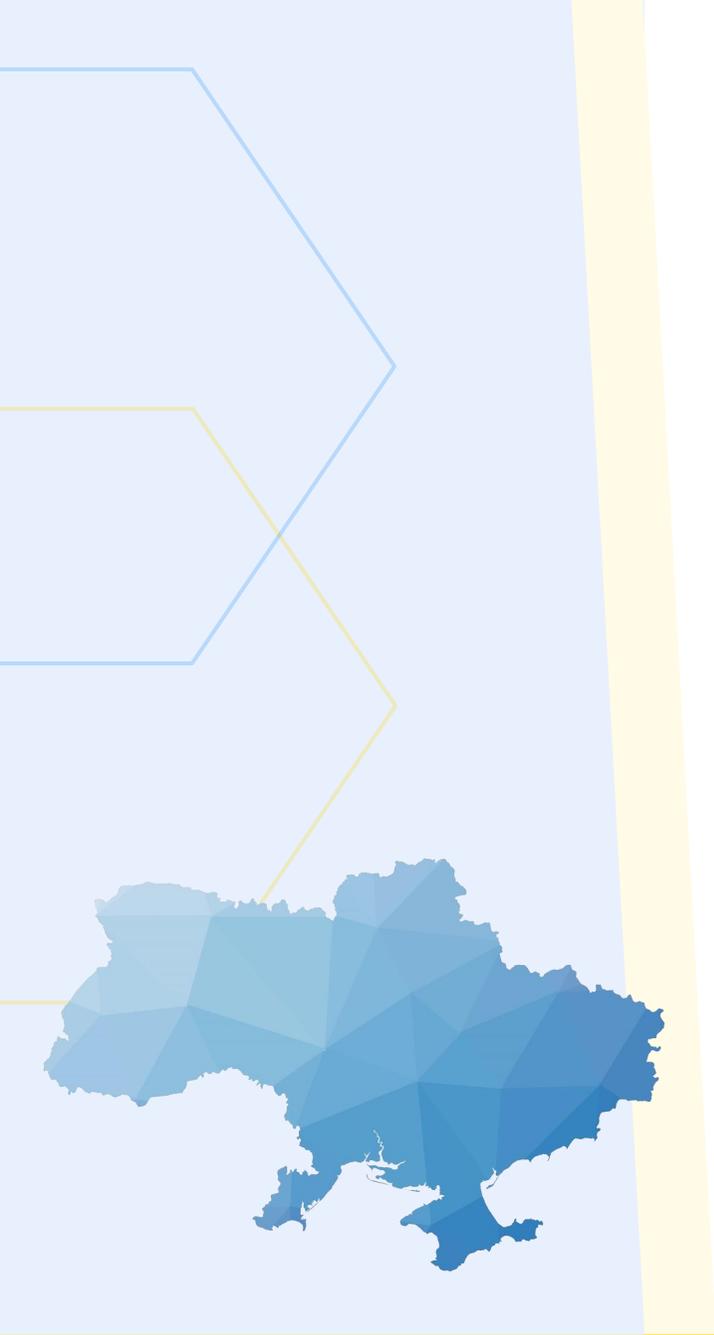


Notes

- 1 According to State Budget Law 2020 amended as of Apr 2020
- 2 Budget deficit defined as revenues minus expenditures and minus net lending
- 3 Based on historical data for 2017–2019; based on Budget Law revised as of April 2020 and 2020 GDP forecast of the NBU for 2020

Source State Treasury of Ukraine, NBU

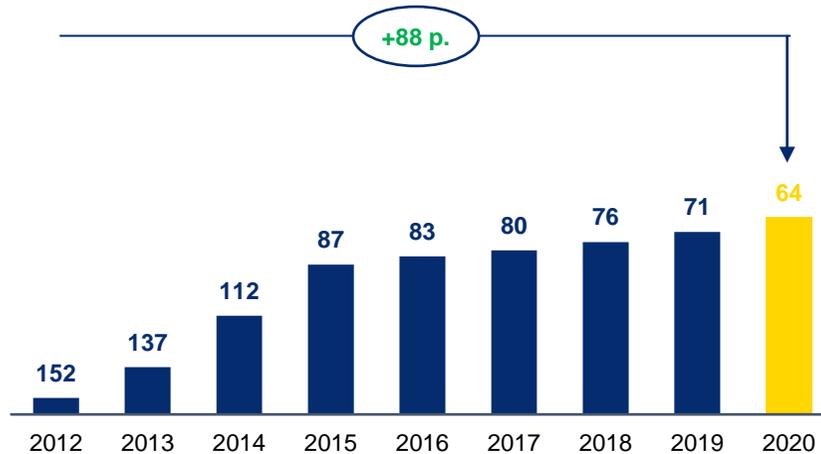
Source State Treasury of Ukraine



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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



Q1 '16 Q2 '16 Q3 '16 Q4 '16 Q1 '17 Q2 '17 Q3 '17 Q4 '17 Q1 '18 Q2 '18 Q3 '18 Q4 '18 Q1 '19 Q2 '19 Q3 '19 Q4 '19 Q1 '20

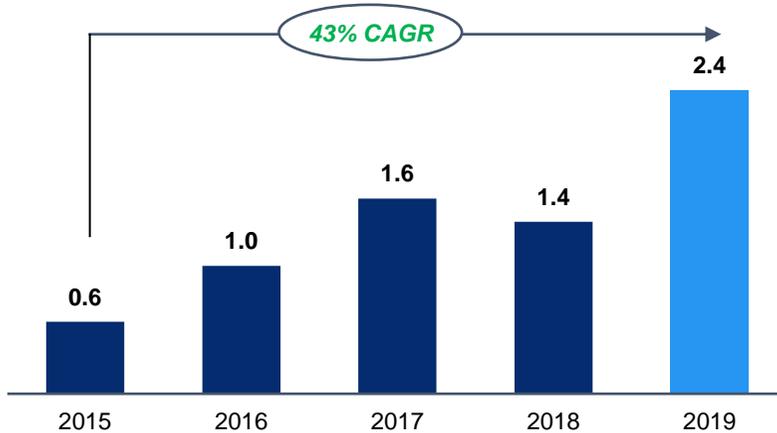
Source NBU

Q1 2020 most optimistic expectations by industry

- Mining 121.2%**
- Retail 114.8%**
- Transport & logistics 113.3%**
- Construction 113.0%**
- Processing industries 112.5%**

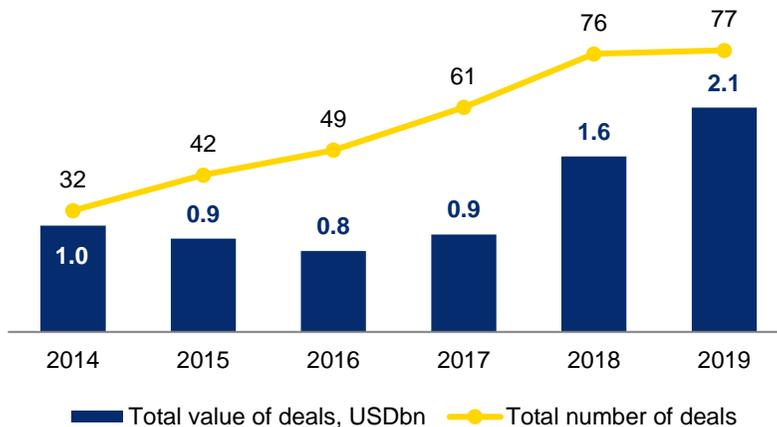
Boosted activity of foreign investors over the last year

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

 <p>A digital writing tool Grammarly earned an official unicorn status by attracting US\$ 90m funding</p> <p>Oct 2019</p>	 <p>Acquisition of the second-largest telecom provider in Ukraine for US\$ 734m</p> <p>Nov 2019</p>
 <p>Acquisition of the pharmaceutical business of Biopharma, including its GMP-certified production facilities</p> <p>Dec 2019</p>	 <p>EUR 124m solar power project (commissioning scheduled for 2020)</p> <p>Jun 2019</p>
<p>Other important investors</p> 	

Seizing crisis opportunity for agri exports

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

- ▶ 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

Q1 2020 y-o-y increase in export of goods by countries²

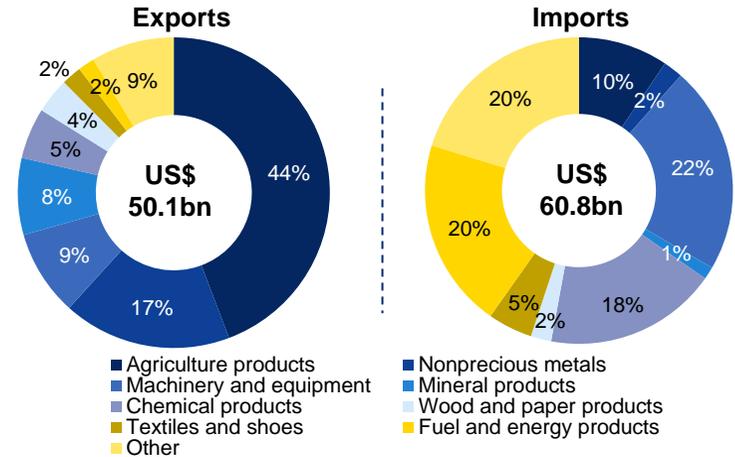
 South Korea / +127.3% USD 213m	 UK / +12.9% USD 162m
 China / +95.7% USD 1,253m	 Netherlands / +7.9% USD 517m
 France / +20.3% USD 117m	 Bulgaria / +5.2% USD 132m
 UAE / +19.2% USD 144m	 Turkey / +5.0% USD 670m
 Romania / +15.1% USD 285m	 Poland / +1.0% USD 826m

Source State Statistics Service of Ukraine

Notes

- 1 Export and import of goods breakdown
- 2 Only countries, exports of goods to which in Q1 2020 surpassed 1% of total Ukraine's export of goods were included

Ukraine's exports and imports breakdown¹ in 2019



Source State Statistics Service of Ukraine

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



Source Bloomberg, as of May 29, 2020

Strong focus on ESG considerations

Fiscal Transparency:

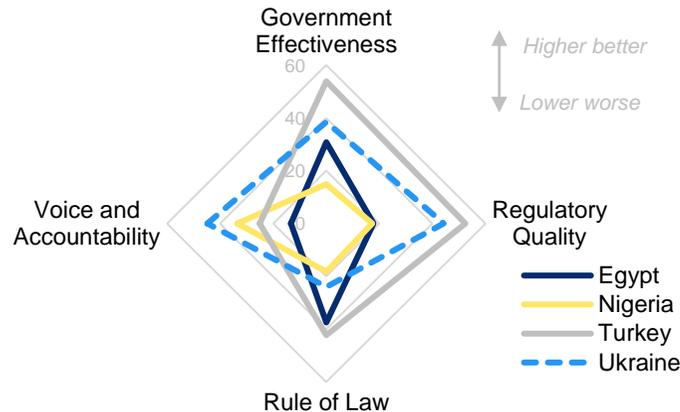
- According to the U.S. 2020 Fiscal Transparency Report, Ukraine demonstrated significant progress in fiscal transparency by completing its adoption of international accounting standards.
- During the review period, the government made its budget and information on debt obligations widely and easily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

JP Morgan ESG Index (JESG):

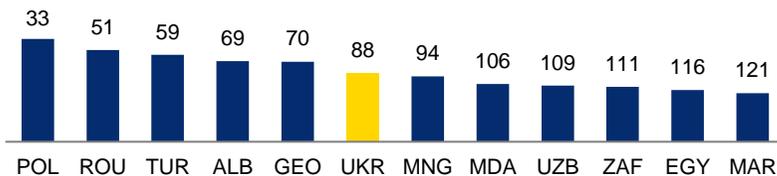
- Ukraine sovereign JESG country score is 38.65 (Band 4, inheriting 40% of EMBIG Div market value), as of end-May, and is trending upward recently toward 40. If JESG score goes above 40, the country will be upgraded to Band 3 (60% of base index market value)

Sources U.S. Department of State, World Bank, UNDP, Yale Center for Environmental Law and Policy, Ukraine's National Security and Defence Council, EuroCape, SAAE, NEURC

Ukraine in ESG ratings: WGI 2018 percentile rank



Ukraine in ESG ratings: HDI 2018 ranking position



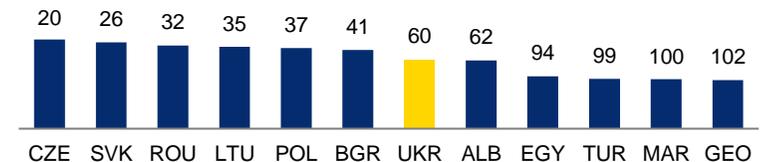
- Worldwide Governance Indicators (WGI)** from the World Bank and **Human Development Index (HDI)** from UNDP constitute an important basis for sovereign credit ratings
- For both WGI and HDI, Ukraine performs in line with its regional and rating peers:
 - Being in High Human Development group and demonstrating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

Strong focus on environmental responsibility

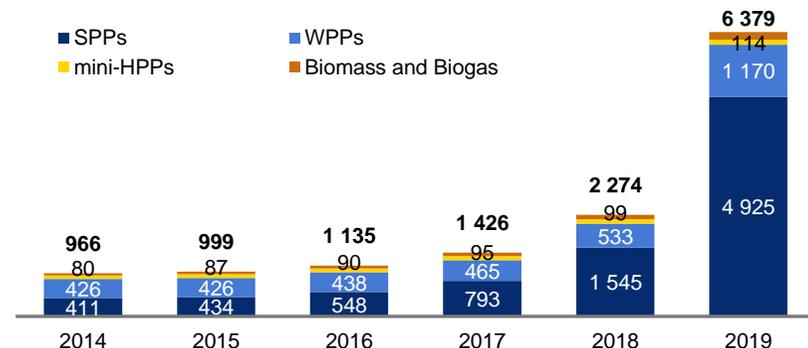
Ukraine has committed to the **Green Energy Transition** concept with key 2050 targets including:

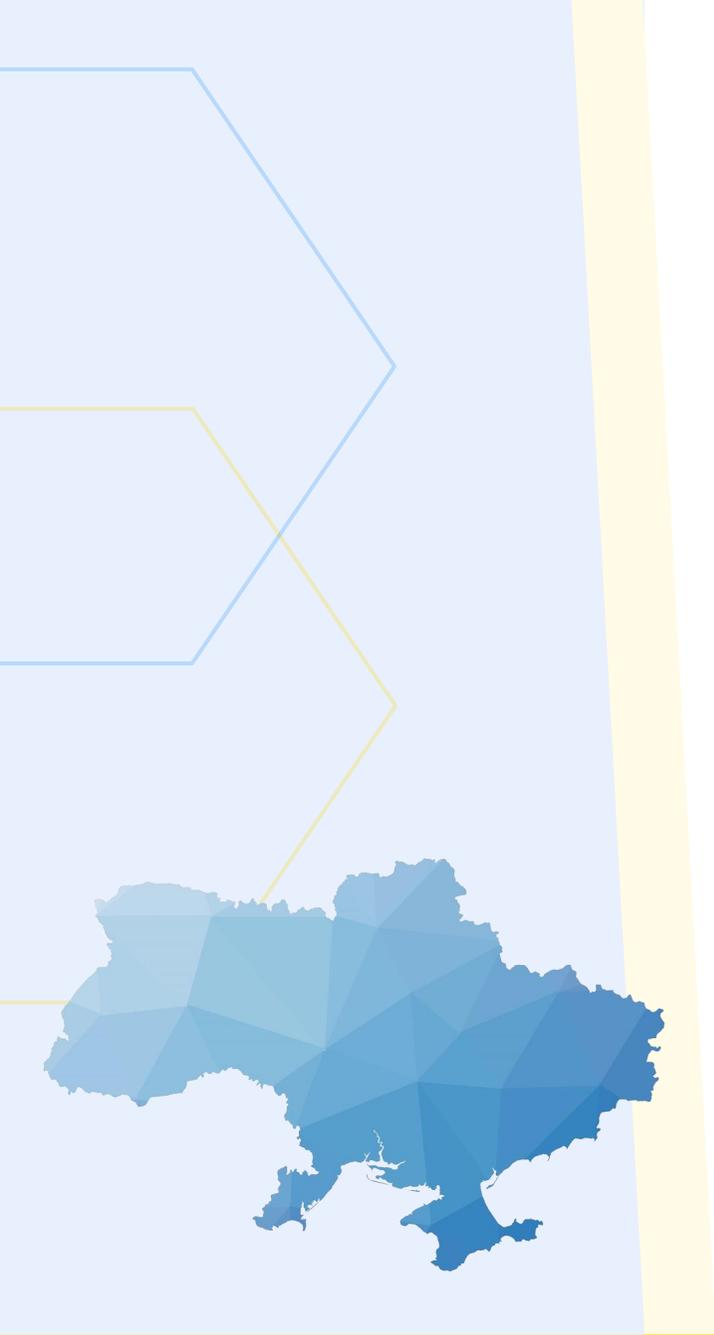
- Increasing renewable energy share in the national energy balance up to 70% by 2050
- Decreasing coal energy share and full replacement of coal-fired power plants by 2050
- Further reduction of nuclear generation to 20-25%
- Full integration of the Ukrainian United Energy System into the pan-European ENTSO-E system

Environmental Performance Index 2020 ranking



RES installed capacity dynamics as of eop, MW

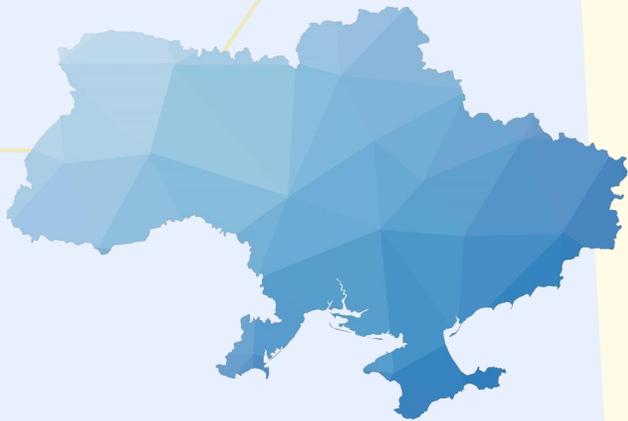




- 1 The Covid-19 crisis will have a significant but short-term effect
- 2 Ukraine's financing will benefit from substantial support from partners
- 3 A proactive response should mitigate the impact on the economy
- 4 An improved business climate and opportunities for growth
- 5 Appendices**

Appendix A

Solid foundation for long-term economic growth



Robust economic growth path (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\$ 3,093

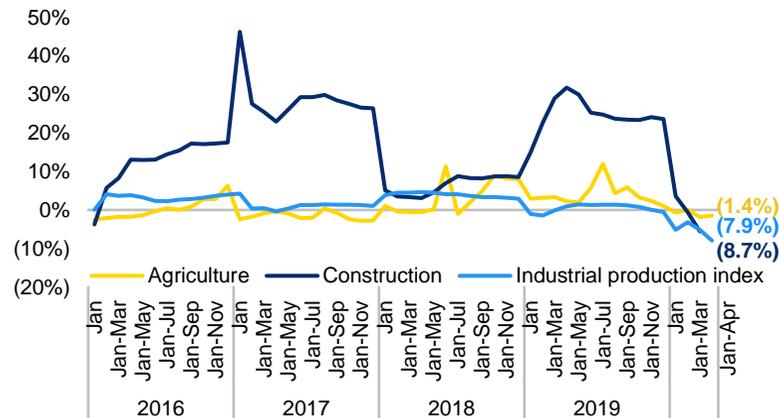
+18%

2019 US\$ 3,659

Comments

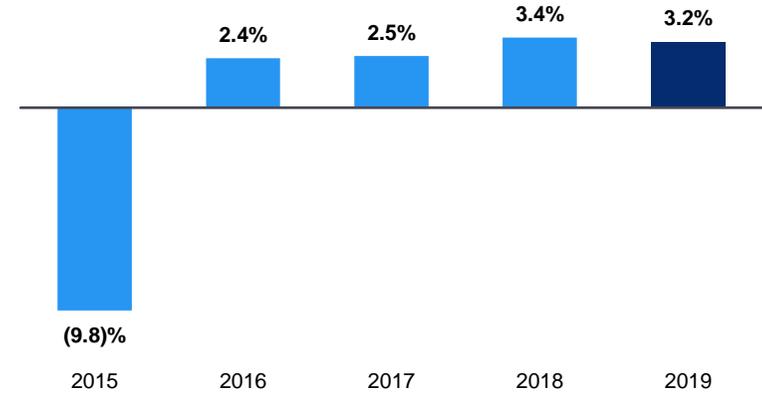
- ▶ Ukraine's real GDP growth stood at 3.2% (y-o-y) in 2019 compared to 3.4% in 2018 and 2.5% in 2017
- ▶ According to preliminary results, real GDP contracted by 1.3% in Q1 2020 (y-o-y) on the back of Covid-19 spread
- ▶ In 2019 Ukraine witnessed a 23.6% real growth in construction, 1.1% – in agriculture, while the industrial production remained relatively stable
- ▶ **Strong consumer demand** remained the key driver of real growth dynamics followed by the accelerated investments
 - Private consumption contribution to real GDP growth accounted for 8.1% in 2019, whereas positive contribution of fixed capital accumulation totaled 2.4%

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



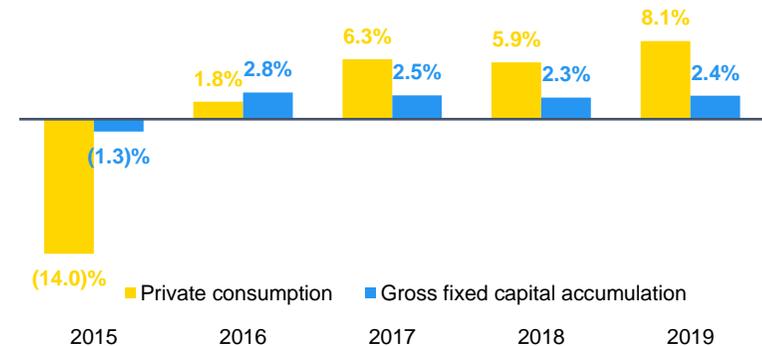
Source State Statistics Service of Ukraine

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

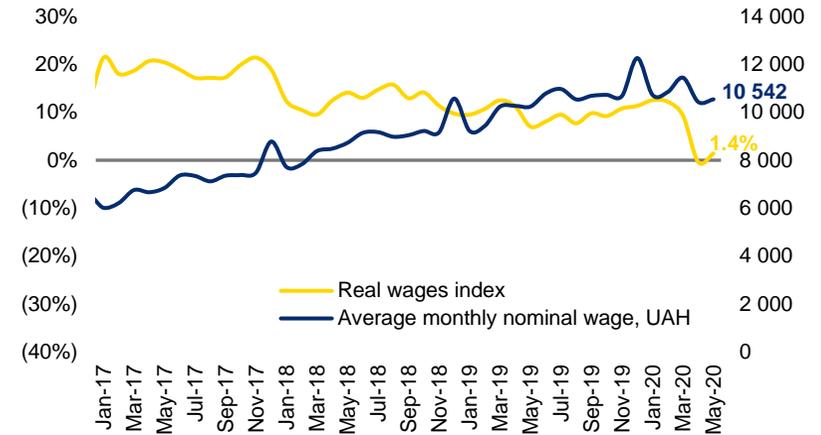
¹ To the corresponding period of the previous year on a cumulative basis

Robust economic growth path (2/3)

Comments

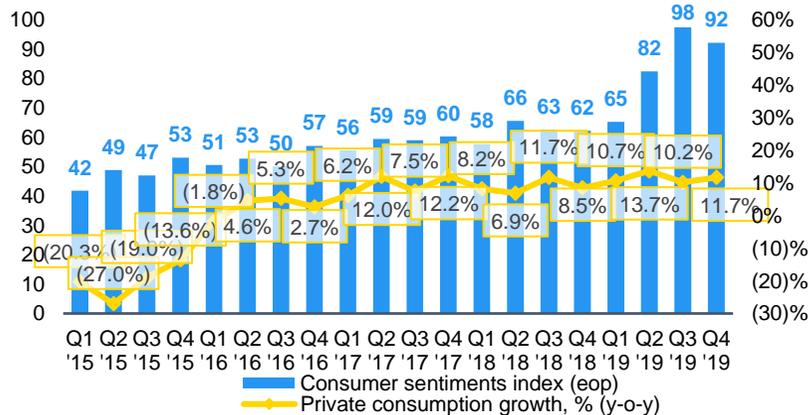
- ▶ **Increasing consumer demand remains the main driver of Ukraine's real GDP growth**
 - Final private consumption grew by 11.9% (y-o-y) in 2019, whereas retail trade turnover growth started to slow down to 3.1% in Jan-May 2020
- ▶ Consumer demand is driven by a number of factors, including among others **improving consumer sentiments, rise in real wages, consumer lending and personal money remittances**
 - Real wages went up by 1.4% y-o-y in May 2020 and by 6.9% y-o-y in Jan-May 2020 cumulatively with growth being supported by 13.2% increase in minimum wage in 2020 and increased competition for the labor force

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



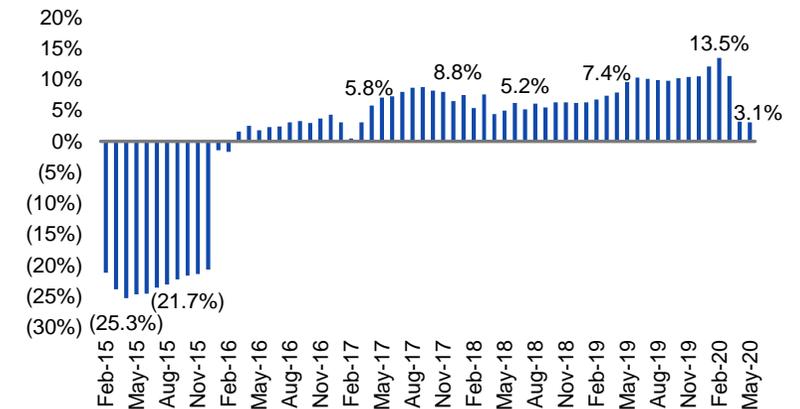
Source State Statistics Service of Ukraine

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

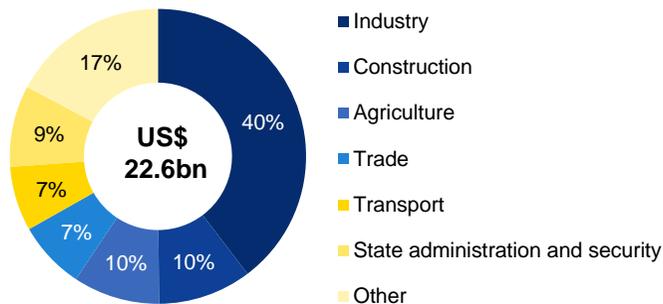
Source State Statistics Service of Ukraine

Robust economic growth path (3/3)

Comments

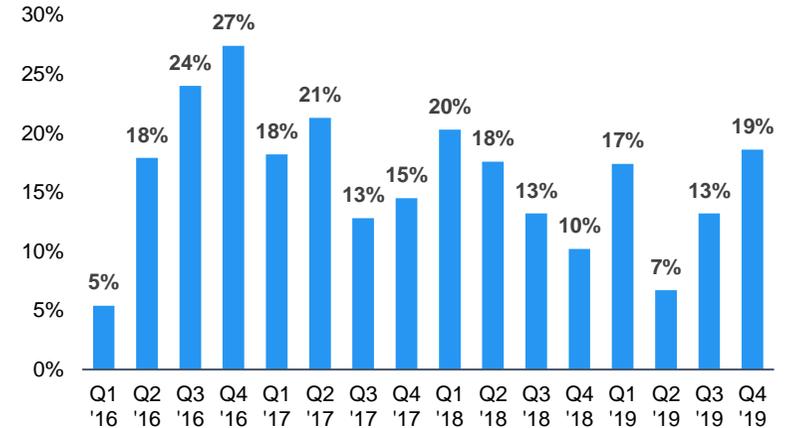
- ▶ **Industrial output remained relatively stable in 2019**, although a number of sectors demonstrated upward dynamics, incl. production of concrete and cement products (+27.7%), chemicals (+12.9%), pharma products (+3.7%)
- ▶ **Gross fixed capital went up by 14.2% in 2019** showing increased investment demand in Ukraine
- ▶ Capital investments witnessed 15.5% growth (y-o-y) in 2019, solidifying Ukraine's prospects for quick economic recovery post Covid-19 outbreak and economic growth in the following years
 - **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, %



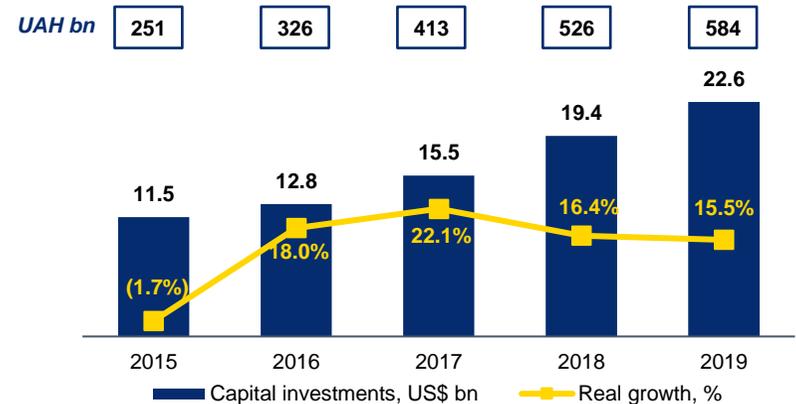
Source State Statistics Service of Ukraine

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



Source State Statistics Service of Ukraine

Capital investments dynamics

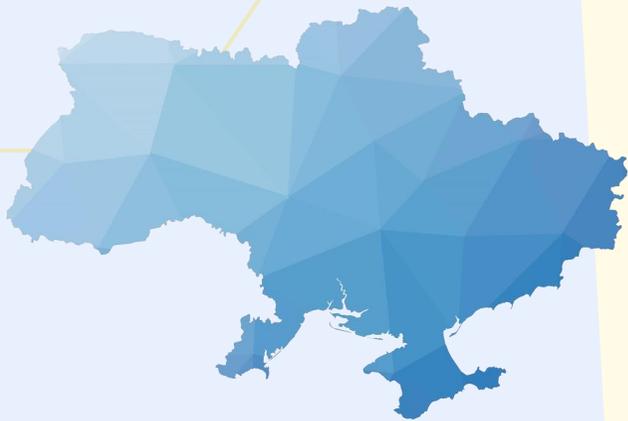


Source State Statistics Service of Ukraine

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 (5m 2020)

UAH m	State budget general fund			Overall state budget		
	5m 2020 Actual	5m 2020 Plan	% diff.	5m 2019 Actual	5m 2020 Actual	% diff.
Revenues	338,042	382,288	(12%)	426,721	388,260	(9%)
Tax revenues, incl.	281,250	322,609	(13%)	322,959	306,027	(5%)
Personal income tax and income charge	44,746	47,495	(6%)	41,629	44,746	+7%
Corporate profit tax	53,586	52,207	+3%	50,118	53,586	+7%
Fee for the use of mineral resources	11,879	19,155	(38%)	21,354	12,069	(43%)
Excises	26,557	27,123	(2%)	47,936	47,871	(0%)
VAT (net of VAT reimbursement)	135,676	166,656	(19%)	147,848	135,677	(8%)
Export and Import duties	7,517	8,773	(14%)	12,134	10,402	(14%)
Non-tax revenues	56,791	59,679	(5%)	103,762	82,232	+26%
Expenditures	(393,406)	(471,093)	(16%)	(420,436)	(438,376)	+4%
General public functions, incl.:	(67,916)	(106,085)	(36%)	(71,922)	(68,993)	(4%)
Debt service	(53,796)	(59,319)	(9%)	(55,045)	(53,796)	(2%)
Security and Defense	(84,351)	(96,182)	(12%)	(84,399)	(92,419)	+10%
Economic activity	(7,227)	(10,535)	(31%)	(16,409)	(26,431)	+61%
Protection of environment	(1,272)	(1,674)	(24%)	(1,411)	(1,415)	+0%
Municipal utilities and services	-	-	-	(5)	(9)	+69%
Healthcare	(23,007)	(34,453)	(33%)	(11,254)	(23,956)	+113%
Intellectual and physical development	(2,650)	(3,784)	(30%)	(2,948)	(2,688)	(9%)
Education	(12,807)	(14,212)	(10%)	(19,245)	(19,388)	+1%
Social welfare	(137,675)	(146,971)	(6%)	(96,479)	(137,845)	+43%
Interbudgetary transfers	(56,503)	(57,198)	(1%)	(116,364)	(65,232)	(44%)
Net lending	2,528	1,837	+38%	1,370	1,334	(3%)
Primary balance	960	(27,649)	(103%)	62,699	5,015	(92%)
Overall state budget balance	(52,837)	(86,968)	(39%)	7,655	(48,782)	(737%)

Source State Treasury of Ukraine



Consolidated budget execution (5m 2020)

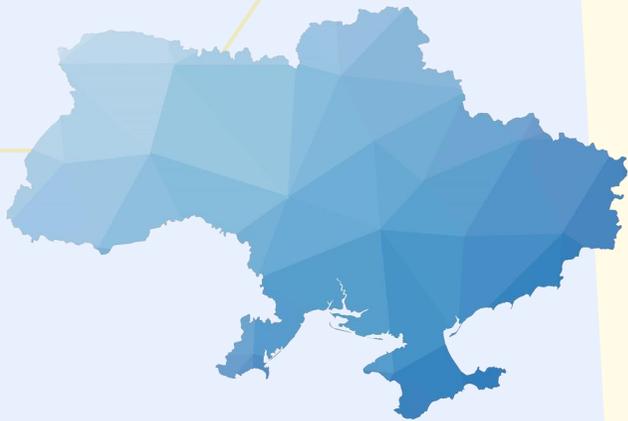
UAH m	5m 2019 Actual	5m 2020 Actual	% change	FY 2019 Actual	FY 2020 Plan	% change
Revenues	540,750	500,403	(7%)	1,289,849	1,291,312	(0%)
Tax revenues	429,510	414,361	(4%)	1,070,322	1,070,551	(0%)
Personal income tax and income charge	104,091	110,813	+6%	275,458	295,513	(7%)
Corporate profit tax	55,084	58,757	+7%	117,317	108,046	+9%
Fee for the use of mineral resources	23,783	13,886	(42%)	52,025	37,291	+40%
Excises	53,310	53,424	+0%	137,076	142,197	(4%)
VAT (net of VAT reimbursement)	147,848	135,677	(8%)	378,690	379,200	(0%)
Property taxes	14,891	12,072	(19%)	37,994	36,975	+3%
Export and Import duties	12,134	10,402	(14%)	30,086	28,621	+5%
Other taxes and duties	18,368	19,331	+5%	193,577	42,708	+353%
Non-tax revenues	111,240	86,041	(23%)	219,527	220,761	(1%)
Expenditures	(508,145)	(533,662)	+5%	(1,372,351)	(1,607,810)	(15%)
General public functions, incl.:	(84,615)	(83,210)	(2%)	(203,109)	(289,251)	(30%)
Debt service	(55,232)	(54,168)	(2%)	(120,096)	(146,678)	(18%)
Security and Defense	(84,830)	(93,093)	+10%	(250,322)	(274,127)	(9%)
Economic activity	(35,953)	(47,542)	+32%	(154,218)	(194,398)	(21%)
Protection of environment	(2,083)	(1,850)	(11%)	(9,731)	(10,901)	(11%)
Municipal utilities and services	(9,467)	(9,889)	+4%	(34,490)	(31,161)	+11%
Healthcare	(43,435)	(49,885)	+15%	(128,385)	(162,290)	(21%)
Intellectual and physical development	(10,493)	(10,367)	(1%)	(31,550)	(32,783)	(4%)
Education	(89,748)	(91,393)	+2%	(238,759)	(265,353)	(10%)
Social welfare	(147,521)	(146,432)	(1%)	(321,787)	(347,547)	(7%)
Net lending	1,255	1,282	+2%	(4,763)	(9,590)	(50%)
Primary balance	89,092	22,191	(75%)	32,832	(179,410)	(118%)
Consolidated budget balance	33,860	(31,978)	(194%)	(87,264)	(326,088)	(73%)

Source State Treasury of Ukraine



Appendix C

Prudent debt management strategy

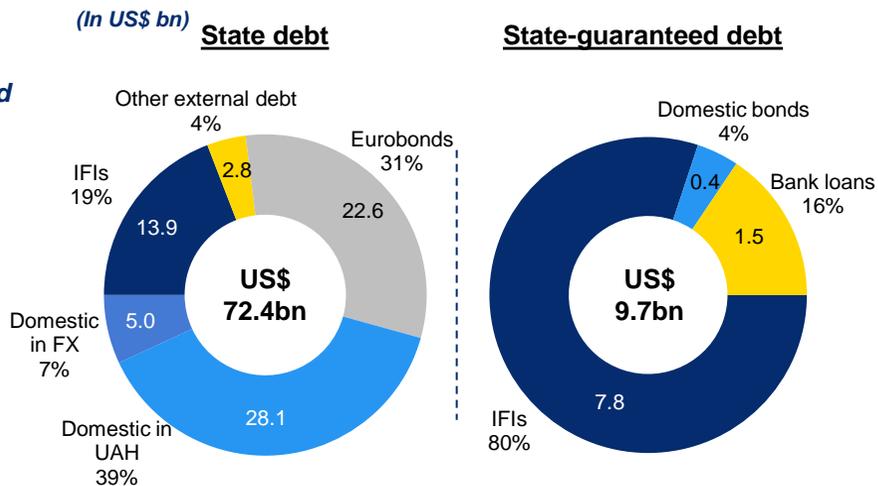


Prudent and proactive debt management strategy

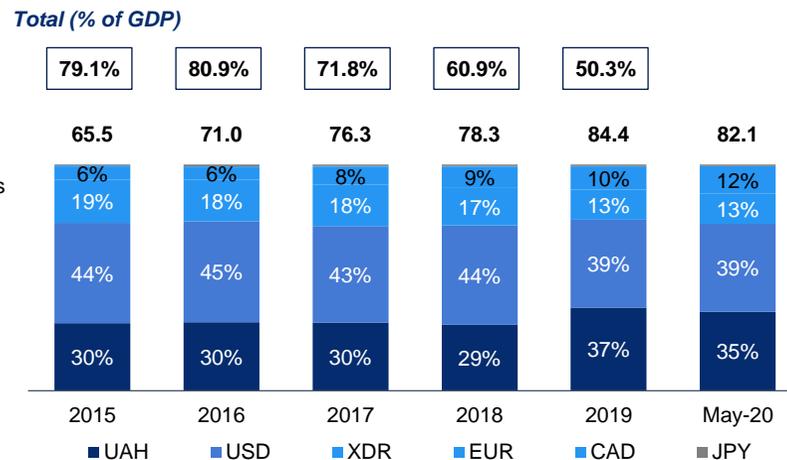
State and state-guaranteed debt structure (end-May 2020)

As of end-May 2020, Ukraine's total state and state-guaranteed debt (US\$ 82.1bn / UAH 2,209bn) split between:

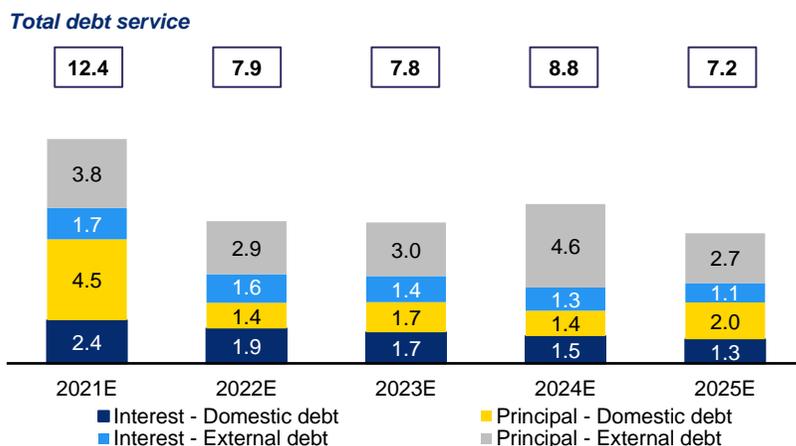
- 59% of external debt, 41% of domestic debt
- 88% of state debt, 12% of state-guaranteed debt



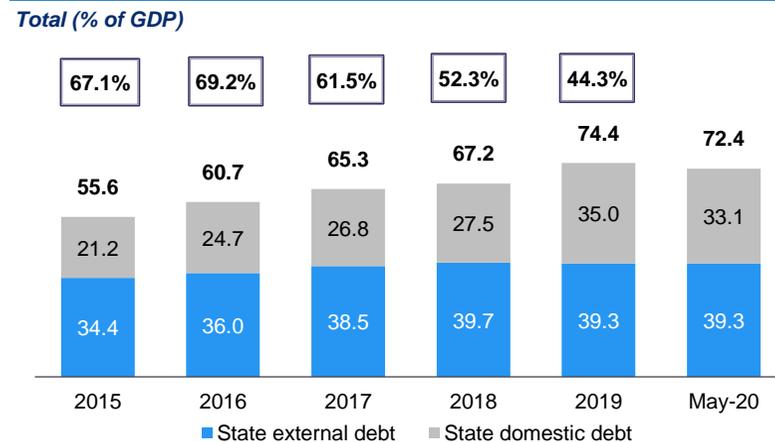
State and state-guaranteed debt by currency, US\$ bn



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



State debt dynamics, US\$ bn



Notes

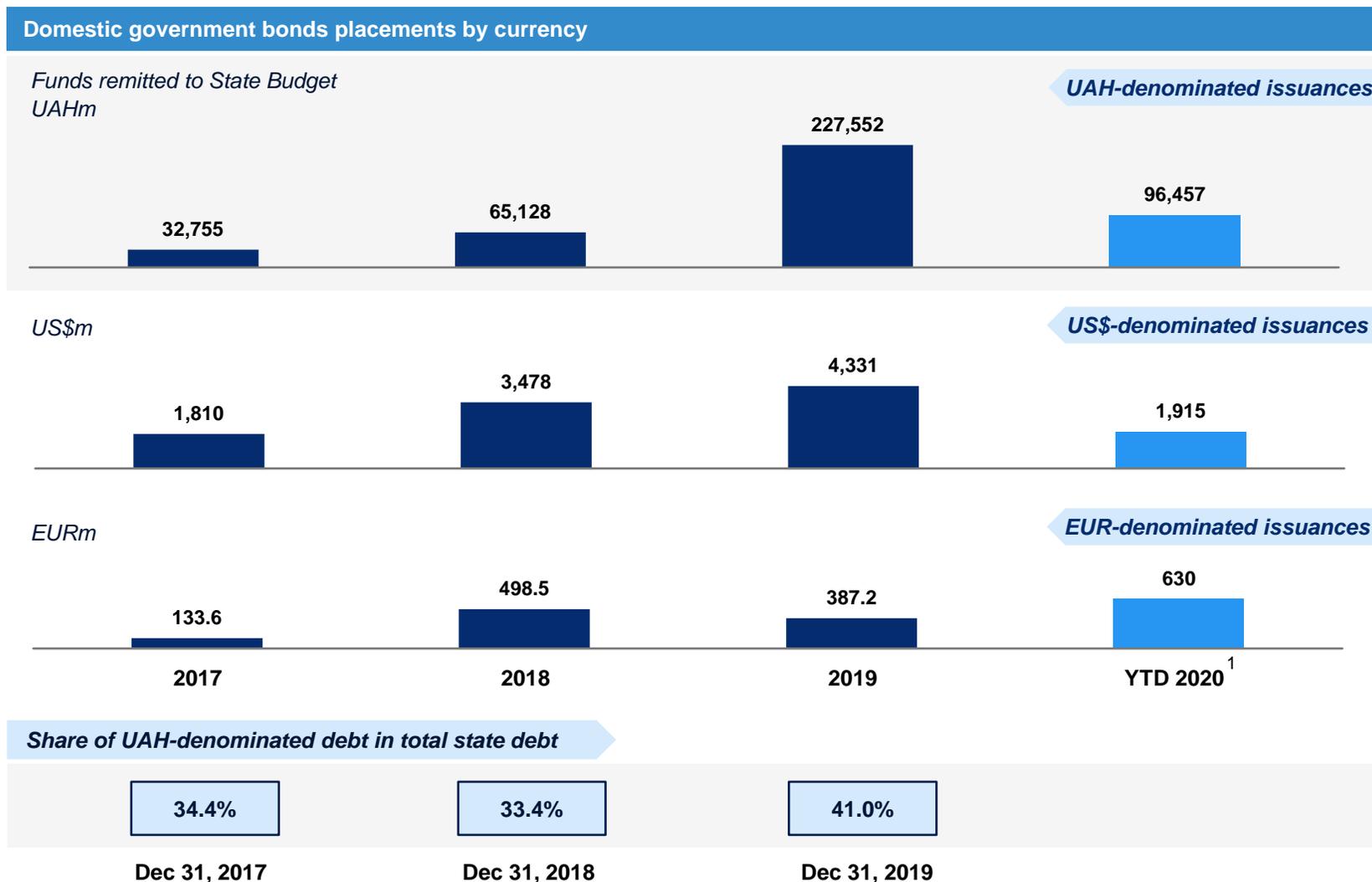
¹ Incl. outstanding debt obligations only

Source Ministry of Finance



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
- Based on 2020 revised state budget domestic bonds issuance is expected to further increase up to UAH 373bn in 2020
- In line with MTDS objectives, FX-denominated issuances are kept relatively stable



Source Ministry of Finance

Note 1 As of July 20, 2020

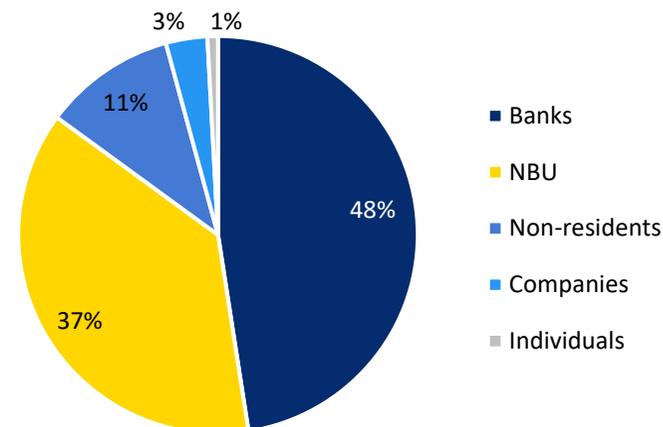


Ukraine's domestic government bond holders

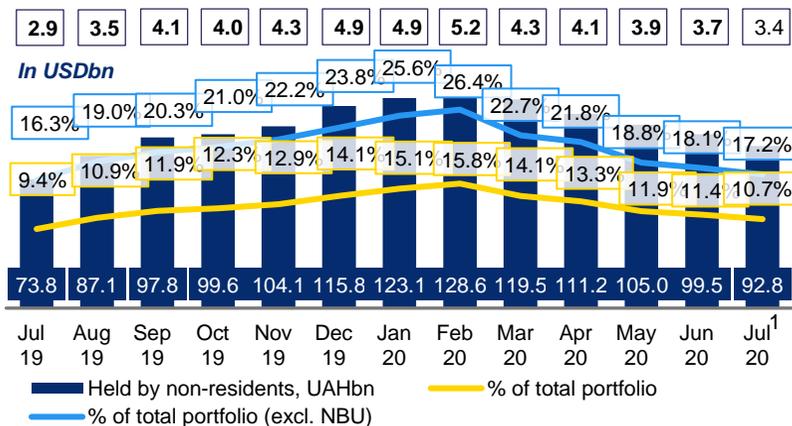
Key highlights

- ▶ With a **c.47.6% share**, banks are currently the largest holder of domestic government bonds followed by the NBU, which accounts for **c.37.5% of the portfolio**¹
- ▶ At c.10.7% of total outstanding Ukrainian domestic government bonds as of July 2020¹, the **portfolio held by non-residents increased by c. 1.3x times in UAH terms in the course of LTM**
- ▶ **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 launched since May 2019

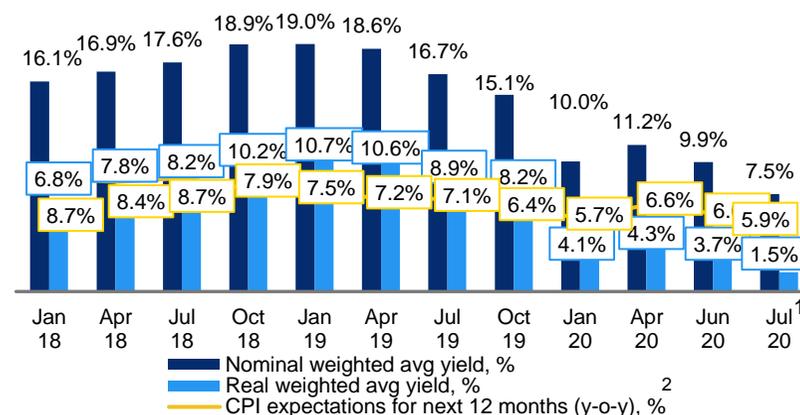
Domestic government bond holders¹



Domestic government bonds held by non-residents (eop)



Nominal and real weighted avg yields at primary auctions, %



Notes

- 1 As of July 21, 2020
- 2 According to NBU's survey about inflation expectations of financial analysts for the next 12 months

Source Ministry of Finance, NBU

Source Ministry of Finance of Ukraine, NBU



Consistent upgrade in credit ratings

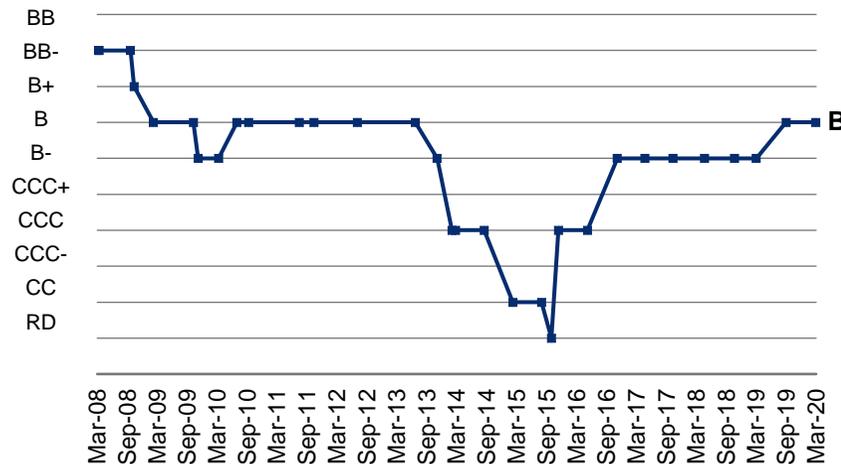
FitchRatings

Rating: B, Positive

Last update: Mar 6, 2020, reaffirmed at B

Key rating drivers of the last update:

- ▶ Improved policy consistency and credibility
- ▶ Significant progress in obtaining legislative approval for a series of reforms
- ▶ Improved macroeconomic stability underpinned by exchange rate flexibility, the NBU's independence and commitment to its inflation target, and moderate fiscal imbalances
- ▶ Low government debt
- ▶ A record of multilateral support



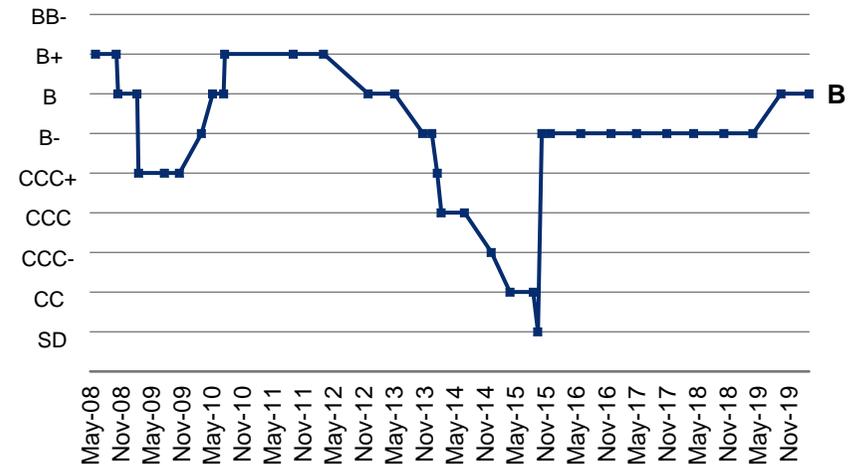
STANDARD & POOR'S

Rating: B, Stable

Last update: Mar 13, 2020, reaffirmed at B

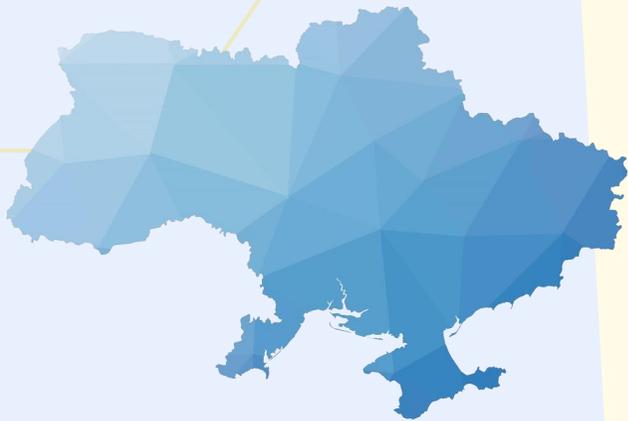
Key rating drivers of the last update:

- ▶ Declining government debt to GDP with improving profile
- ▶ Higher FX reserves
- ▶ Lower inflation and public deficits
- ▶ Ongoing implementation of reforms, which helps the government access commercial debt markets and receive concessional funding from IFIs
- ▶ The quality and predictability of monetary policy and financial sector supervision at the NBU being a noteworthy and highly positive development



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>892 criminal proceedings by the NABU with 245 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 ▶ Medium-Term Budget Planning introduced ▶ Public expenditures and procurement: electronic procurement system fully effective 	<ul style="list-style-type: none"> • 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>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"> • 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 (July 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"> • Banking law adopted (May 2020) • Draft AML Law implementing 5th EU AML Directive became effective (Apr 2020) • Law on split of supervisory functions between financial markets regulators ("Split Law") adopted (Sep 2019) • New liberalized currency regulation system (Feb, 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"> • Unbundling of Naftogaz gas transmission system completed (Jan 2020) • Receipt of compensation by Naftogaz following its victory over Gazprom in Stockholm Arbitration (Dec 2019) • Bringing gas prices for households closer to market level (Apr 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 Ukgazvydobuvannia in 2019</p>

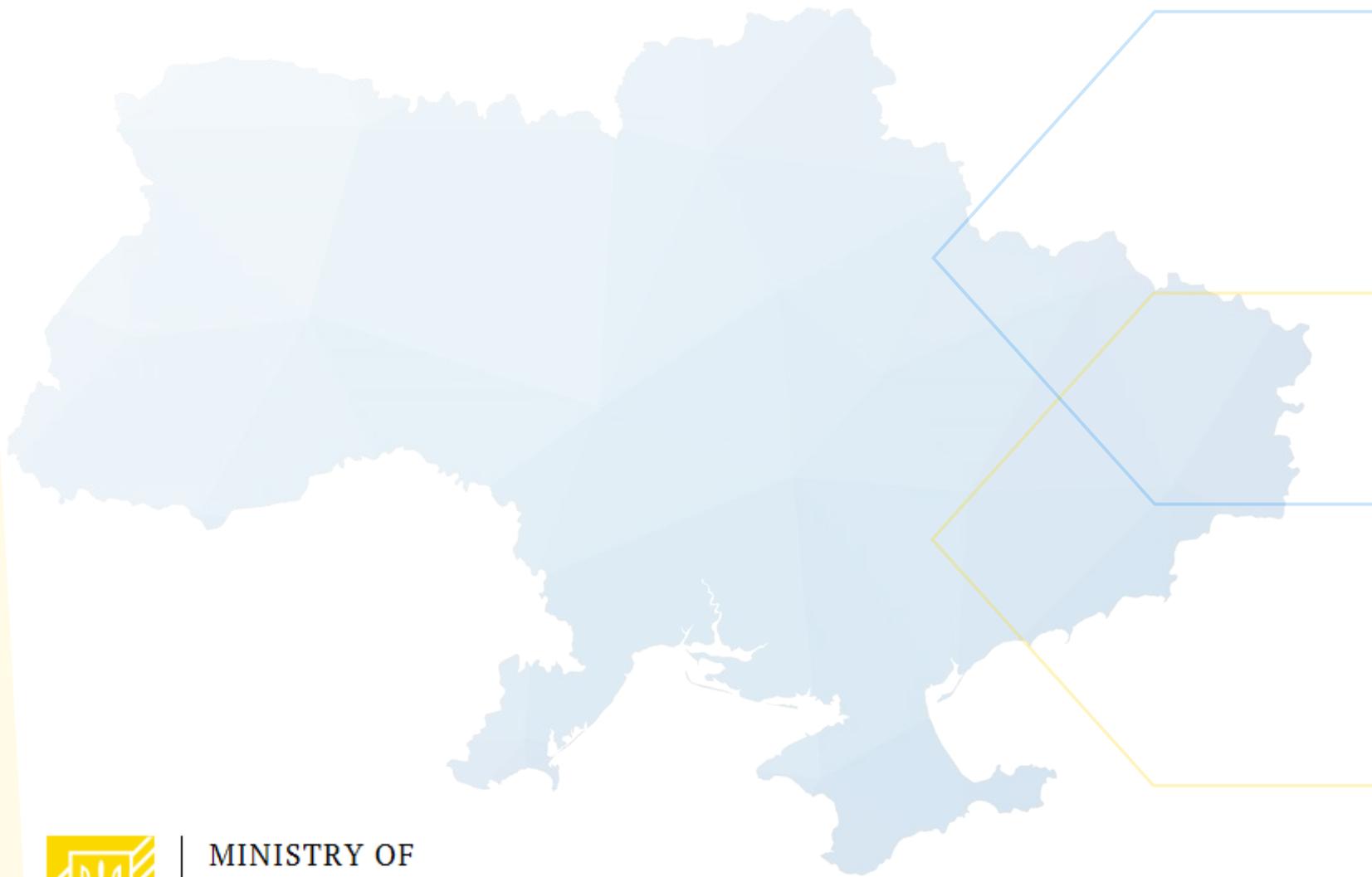
"The **new Stand-By Arrangement** will provide an anchor for the authorities' efforts to **address the impact of the crisis, while ensuring macroeconomic stability and safeguarding achievements to date.** The program will focus on safeguarding medium-term fiscal sustainability, preserving central bank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

