

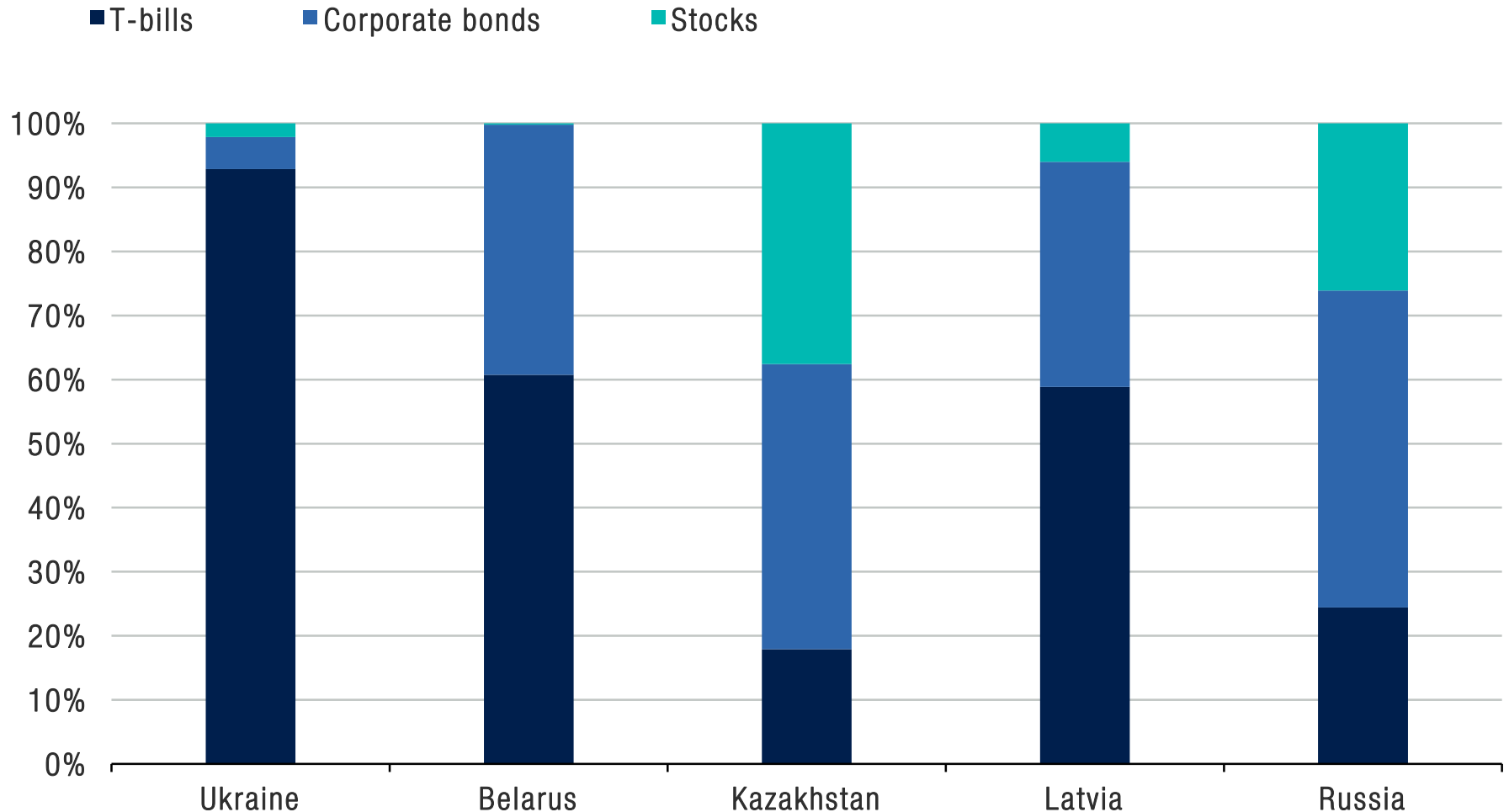


Ukraine domestic bond market

Tbilisi,
XIII CIS, Baltic States and Caucasus
Bond Congress

17 June 2016

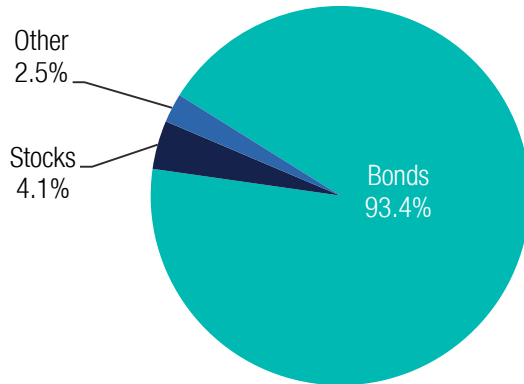
Secondary market turnover in 2015



Source: <http://www.nssmc.gov.ua/>, <http://www.nasdaqbaltic.com/>, <http://www.kase.kz/>, <http://moex.com/>, <http://www.bcse.by/>

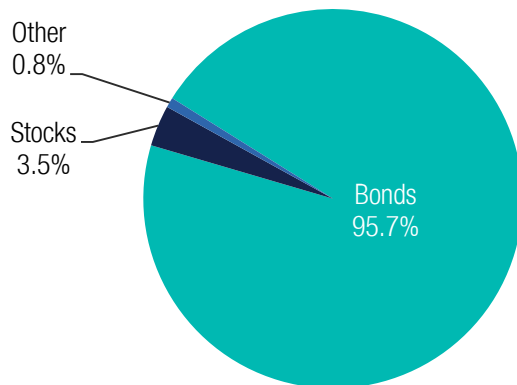
Ukraine: Secondary market turnover

Structure of contracts in 2014



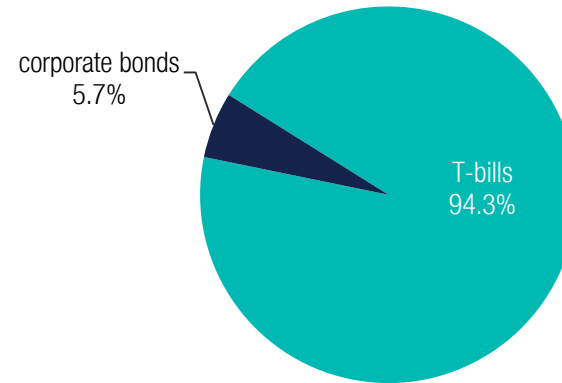
Source: <http://www.nssmc.gov.ua/>

Structure of contracts in 2015



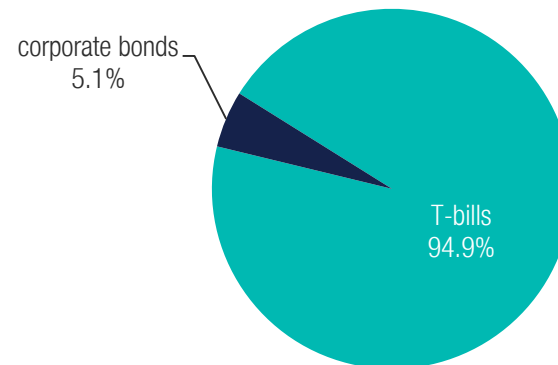
Source: <http://www.nssmc.gov.ua/>

Structure of bond trading in 2014



Source: <http://www.nssmc.gov.ua/>

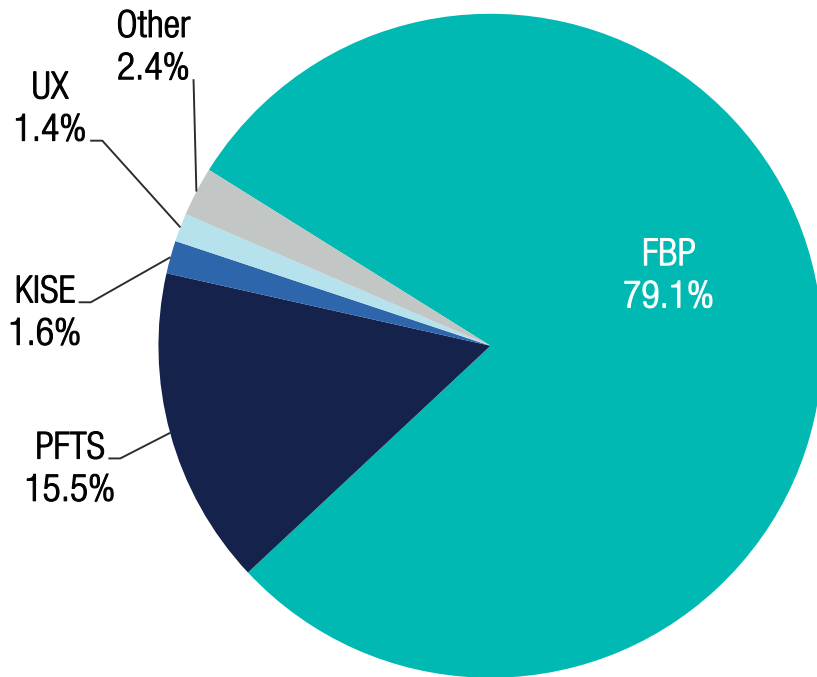
Structure of bonds trading in 2015



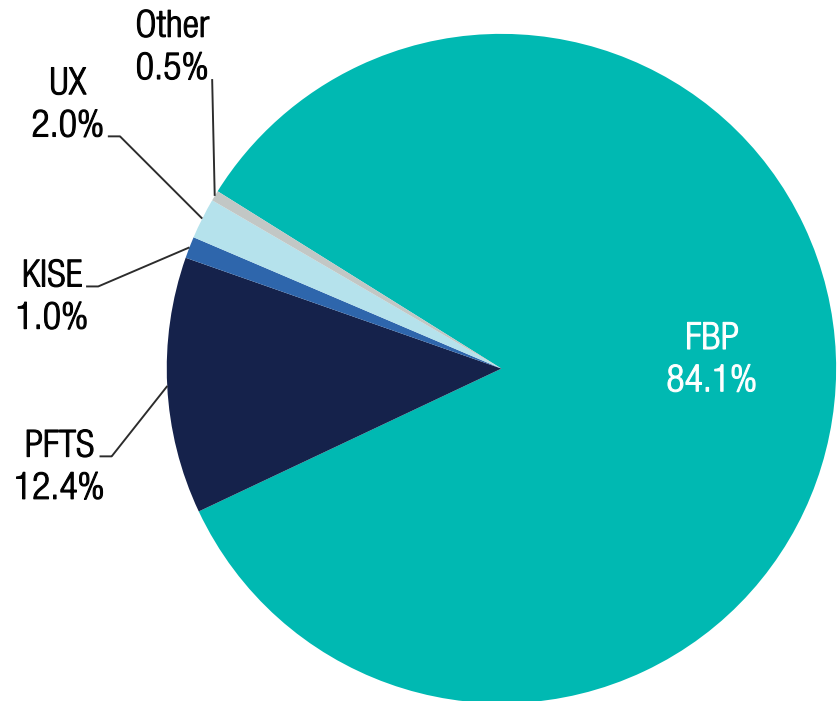
Source: <http://www.nssmc.gov.ua/>

Main exchanges and their market shares

2014



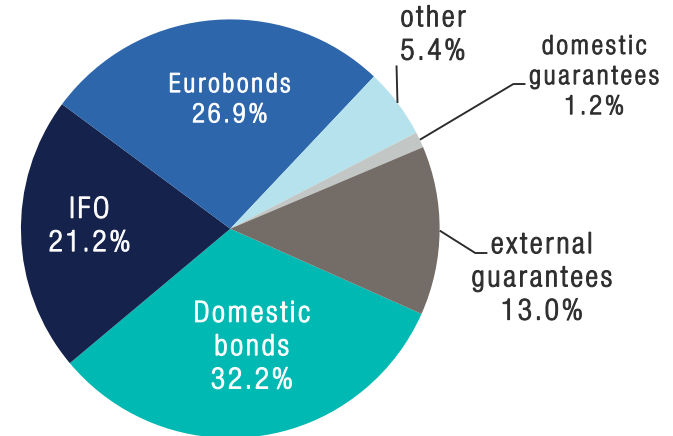
2015



Central government debt structure (30.04.2016)

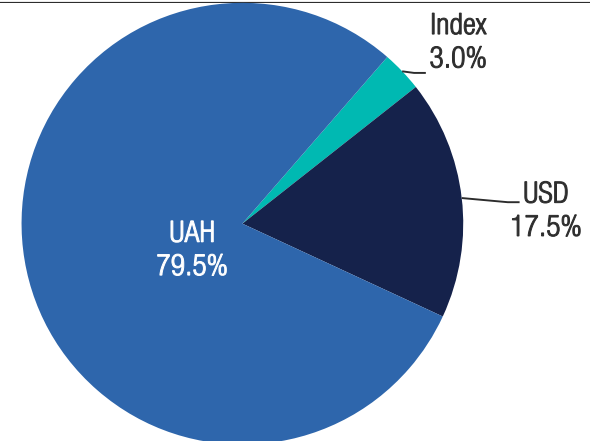
- FX-denominated debt is 71.5%
- Domestic bonds are only 32.2% of total debt outstanding
- Domestic bond market structure:
 - 79.7% denominated in local currency
 - 3.0% index bonds, index calculated as UAH/USD exchange rate change
 - 17.3% - FX-denominated bonds

Structure by debt type



Source: Ministry of Finance of Ukraine, ICU

Structure of domestic bond issues

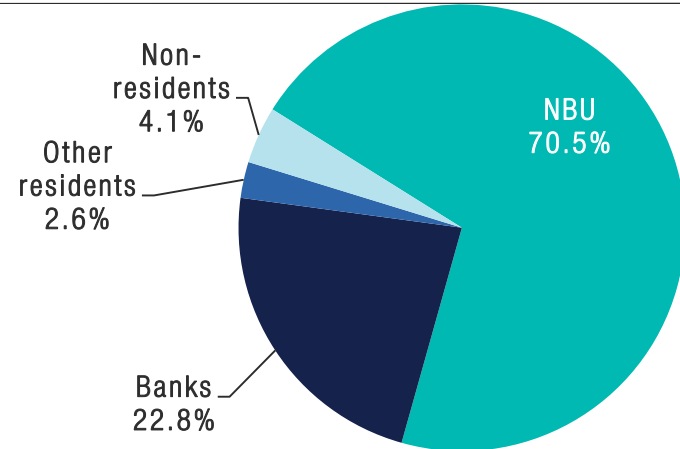


Source: Ministry of Finance of Ukraine, ICU

Structure of domestic bondholders (30.04.2016)

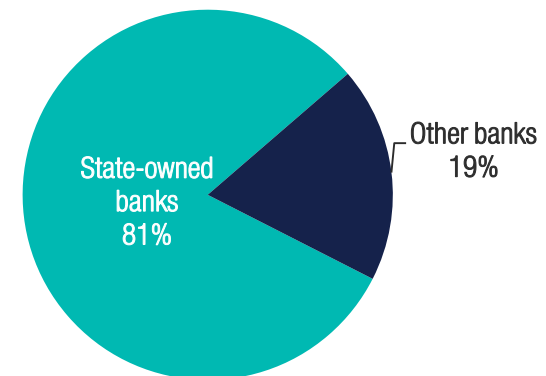
- At the beginning of May 2016, total domestic bonds outstanding amounted to UAH546.4bn (US\$21.8bn)
- The NBU holds 70.5% of bonds**, the remaining 29.5% are divided by the following portfolios:
 - Banks – 22.8% (UAH124.1bn)
 - Non-residents – 4.1% (UAH22.5bn)
 - Other residents – 26% (UAH14.2bn)
- State-owned banks dominate their group**, holding 81% of the banks' portfolio
- 43% of the state-owned banks' portfolio is FX-denominated bonds (at the end of April 2016)
- Domestic debt principal and interest repayments were made fully and on time since 2000
- Restructuring of the market portion of domestic debt is inappropriate.** There is a possible discussion that the NBU portfolio could be exchanged for new bonds with a flat redemption schedule

Total structure of bondholders **собственников**



Source: National bank of Ukraine

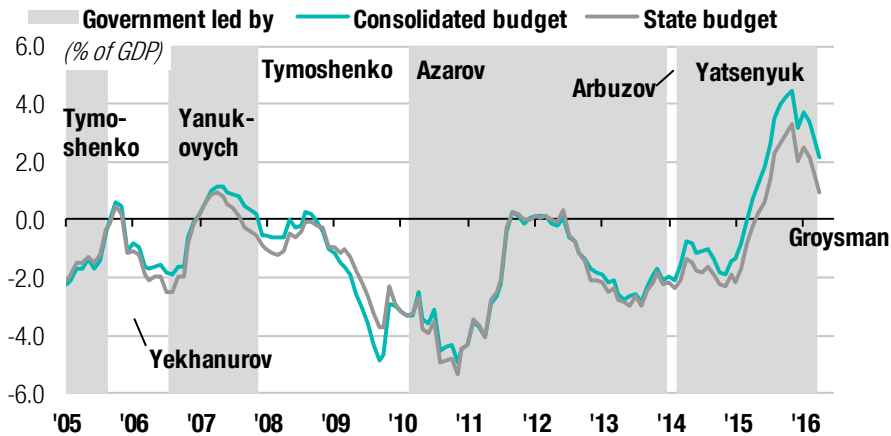
Structure of banks' portfolio



Source: ICU estimation

Macro background for gov't debt supply & interest rates

Primary state budget balance 12M-rolling thru Apr-16

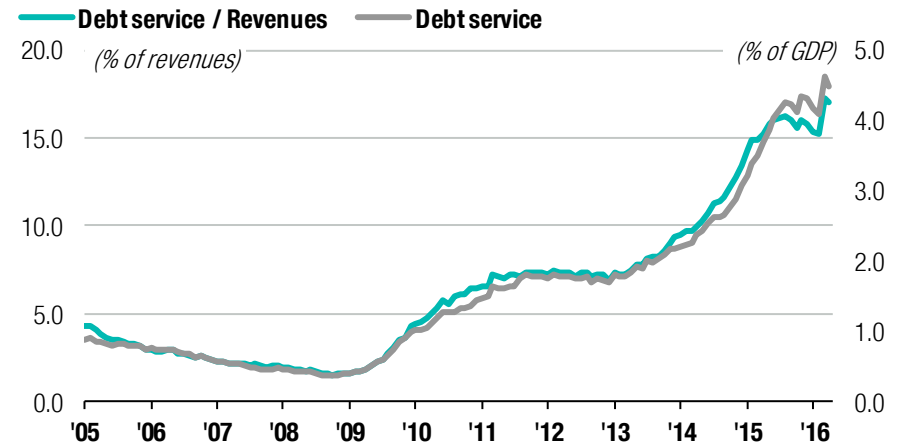


Source: MoF, ICU.

CONCLUSIONS

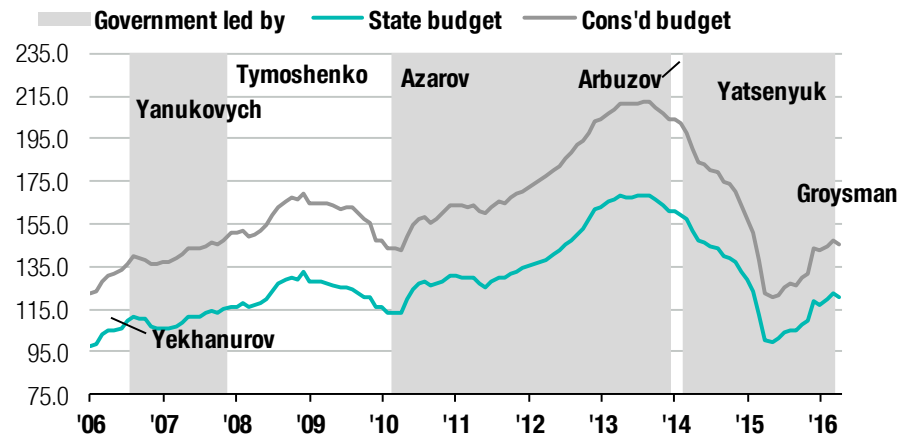
- Authorities aim to reduce debt service (4.5% of GDP now)...
- ...to increase primary budget spending
- Primary budget balance is to stay in surplus over 2016-18 => reducing debt level according to IMF plan

Debt service expenditure 12M-rolling thru Apr-16



Source: MoF, ICU.

Primary budget expenditures 12M-rolling thru Apr-16 (UAHbn*)

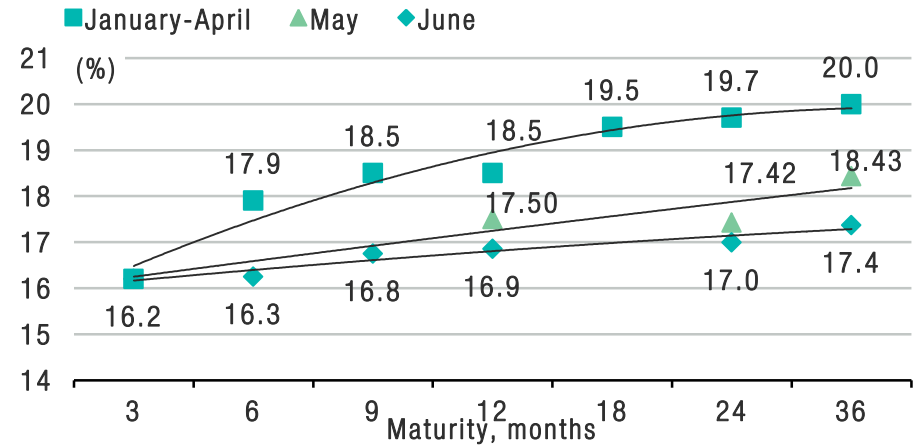


* CPI-adjusted. Source: MoF, ICU.

T-bills primary market

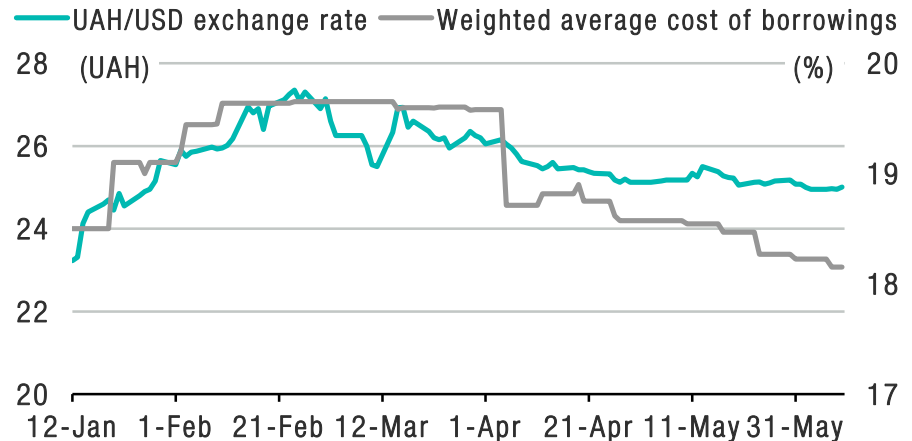
- At the beginning of the year, the yield curve at the primary market was mostly 18-20% for the long-term end (1-3-year maturity) and 16.2% for 3-month maturity
- The NBU started to decrease its key interest rate, causing the yield curve to flatten to 16.2-17.3%
- Recent auctions were very active to buy bonds with higher yields
- Further interest rate declines are anticipated, pushing the yield curve to 15-16% in a month
- Strengthening of the exchange rate has increased the attractiveness of local currency bonds

Yield curve movements in 2016



Source: Ministry of Finance of Ukraine, ICU

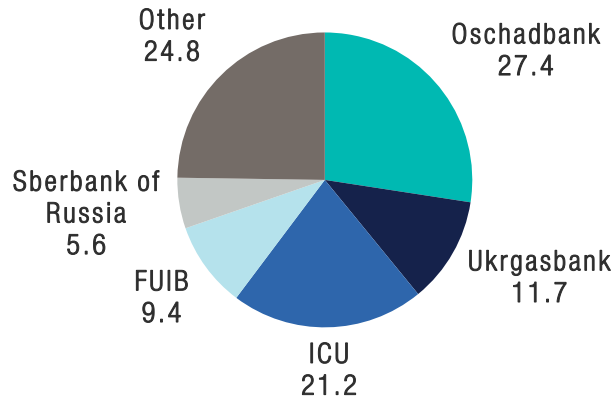
Cost of domestic borrowings in 2016



Source: Ministry of Finance of Ukraine, ICU, Bloomberg

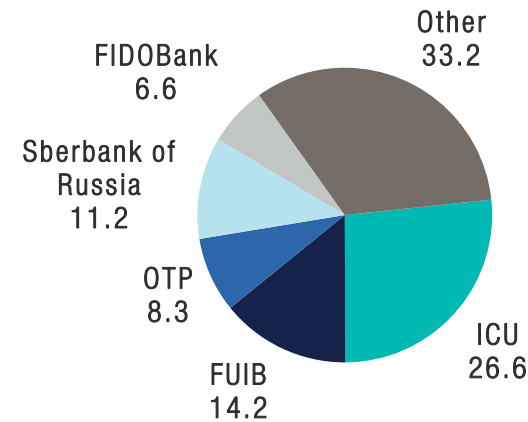
Rankings of bond traders in 2015 (Cbonds)

By volume of transactions



1. Oschadbank – 27.43%
2. ICU – 21.16%
3. Ukgasbank – 11.66%
4. FUIB – 9.43%
5. Sberbank of Russia – 5.56%

By number of transactions



1. ICU – 26.60%
2. FUIB – 14.22%
3. Sberbank of Russia – 11.17%
4. OTP – 8.25%
5. FIDOBank – 6.55%

Contacts

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