



Ukrainian bond market

Leading macroeconomic indicators

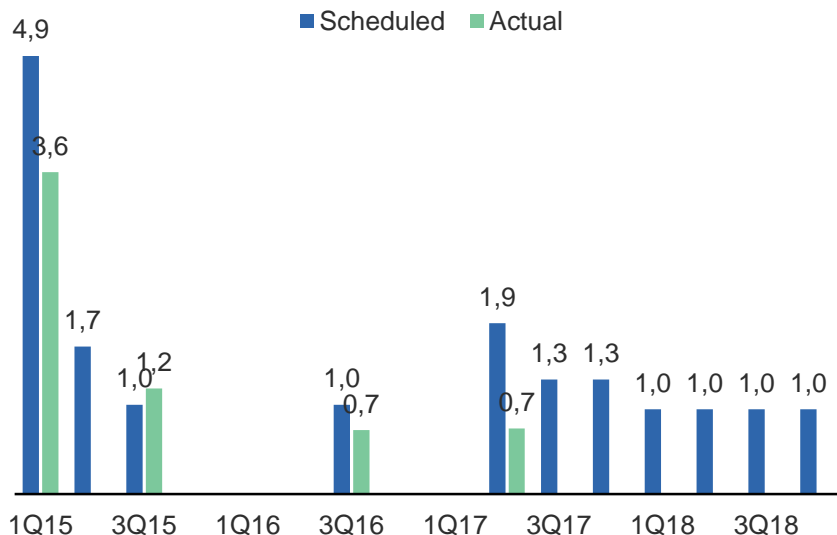
| Activity | 2015 | 2016 | 2017 | 2018F | 2019F |
|------------------------------------|-------|-------|-------|-------|-------|
| Gross domestic product | | | | | |
| Real GDP (%YoY) | -10.3 | 2.2 | 2.5 | 3.5 | 1.9 |
| Nominal GDP (UAHbn) | 1,957 | 2,383 | 2,983 | 3,573 | 4,242 |
| Nominal GDP (US\$bn) | 89 | 93 | 111 | 125 | 131 |
| Inflation | | | | | |
| CPI headline (%YoY, eop) | 43.3 | 12.4 | 13.7 | 12.5 | 13.6 |
| CPI headline (%YoY, average) | 48.5 | 14.9 | 14.4 | 12.2 | 13.5 |
| Exchange rates | | | | | |
| UAH/US\$ (eop) | 24.03 | 27.1 | 28.10 | 28.5 | 32.5 |
| UAH/€ (eop) | 26.10 | 28.50 | 31.29 | 35.1 | 40.6 |
| External balance | | | | | |
| Exports (US\$bn) | 47.9 | 46.0 | 53.8 | 59.3 | 63.7 |
| Imports (US\$bn) | 49.6 | 51.5 | 62.4 | 67.0 | 70.4 |
| Trade balance (US\$bn) | -1.7 | -5.5 | -8.6 | -7.7 | -6.7 |
| Trade balance (% of GDP) | -2.0 | -5.9 | -7.8 | -6.1 | -5.1 |
| Current-account balance (US\$bn) | -0.2 | -3.5 | -2.1 | -3.3 | -2.3 |
| Current-account balance (% of GDP) | -0.2 | -3.8 | -1.9 | -2.6 | -1.8 |

Sources: State Statistics Service of Ukraine, NBU, ICU

IMF will help to secure FX funding

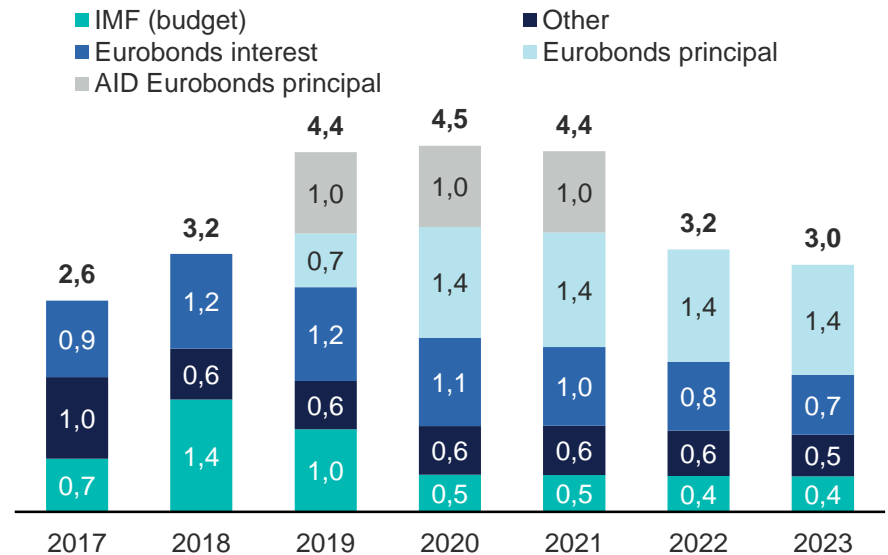
- To repay FX debt, government needs US\$3.2bn in 2018, and US\$4.4bn in 2019
- IMF plays an important role in financing Ukraine, including access to EU and WB funds and demand by foreign investors for Eurobonds and domestic bonds
- IMF's key requirements for Ukraine in 2018:
 - Anticorruption law in line with requirements of the IMF program, the recommendations of the Venice Commission and the European Council
 - Gas tariffs for the population complying to import parity
- We expect Ukraine government will deliver the required reforms and secure \$1.5-1.9bn IMF funds in 2018

IMF disbursements to Ukraine in 2015-18, US\$bn



Sources: State Statistics Service of Ukraine, ICU

Government's external debt repayments schedule, US\$bn



Sources: State Treasury of Ukraine, ICU

Domestic bonds play the key role in the state debt

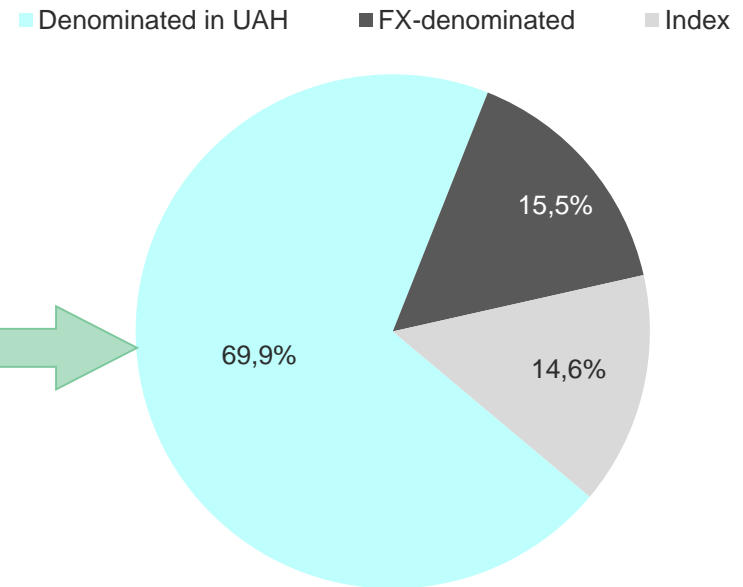
- State debt including state-guaranteed debt was over \$77.4bn as of end of March, 2018
- More than 67% of the state debt is denominated in foreign currency
- Debt due to IFOs (IMF, WB, etc) accounts for 21% of the total state debt
- Domestic bonds (including FX-denominated domestic bonds) represent 36% of the total state debt
- Domestic bonds are 85% denominated in UAH, including bonds linked to UAH/USD exchange rate (index bonds)

State debt by lender, US\$bn



Sources: Ministry of Finance of Ukraine, ICU

Domestic bonds by currency

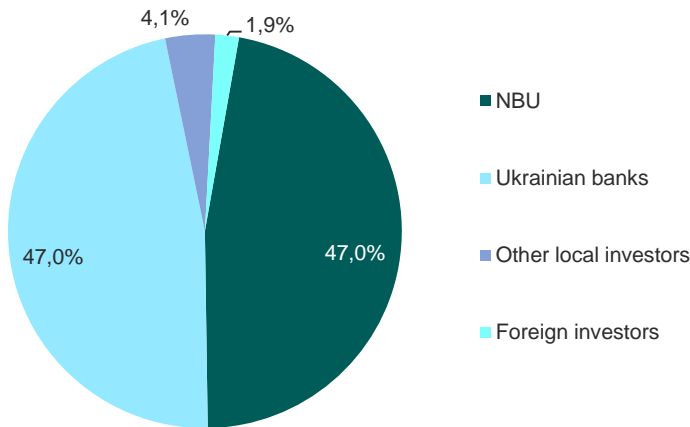


Sources: Ministry of Finance of Ukraine, ICU

Investors are building up portfolios of domestic bonds

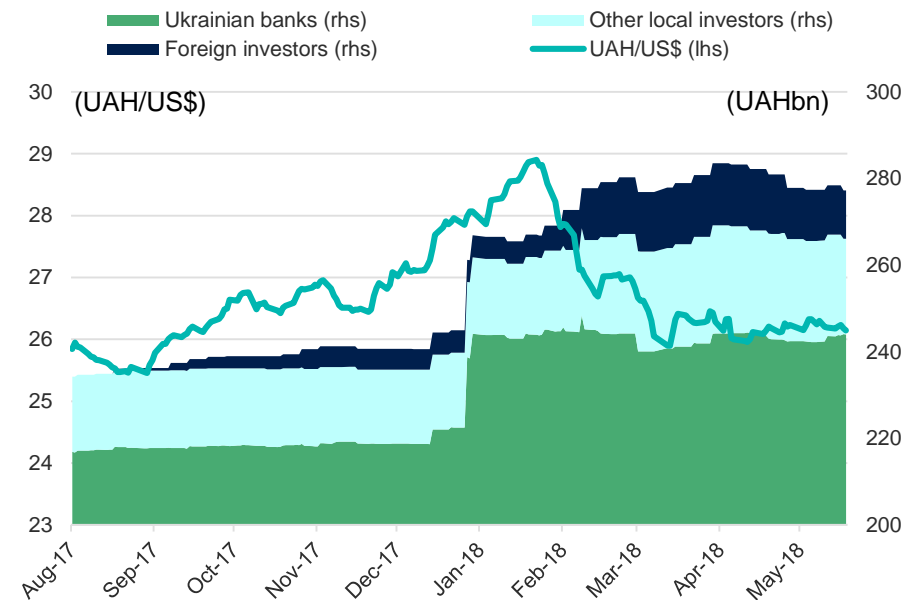
- The National Bank of Ukraine (NBU) holds about 47% of domestic bonds (UAH350bn or US\$13.4bn),
- Among the banks, the largest holders are state-owned banks, which hold roughly 90% by our estimates
- Portfolio of domestic bonds held by domestic and foreign investors (except NBU) rose 22% to UAH388bn (US\$14.8bn) since August 2017 to May 2018
- Since the end of 2017, foreign investors have increased their holdings of domestic bonds by 2.2x from UAH5bn to UAH11.2bn (US\$0.4bn), with their share up to almost 1.5% as of 16th May, 2018

Holder structure of domestic government bonds*



Sources: NBU, ICU
Note: *- as of 30.03.2018

Portfolio of UAH-denominated bonds (ex.NBU), UAHbn vs UAH/\$

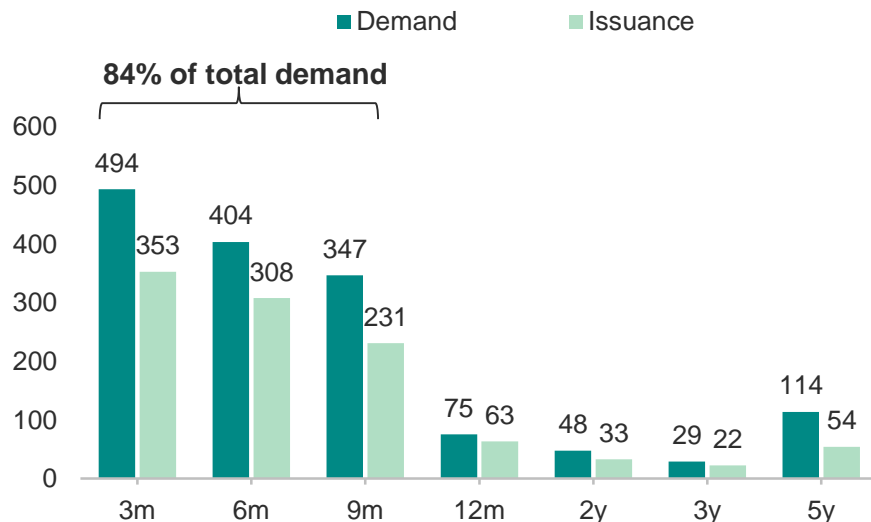


Sources: NBU, ICU

Local-currency bonds enjoy strong demand

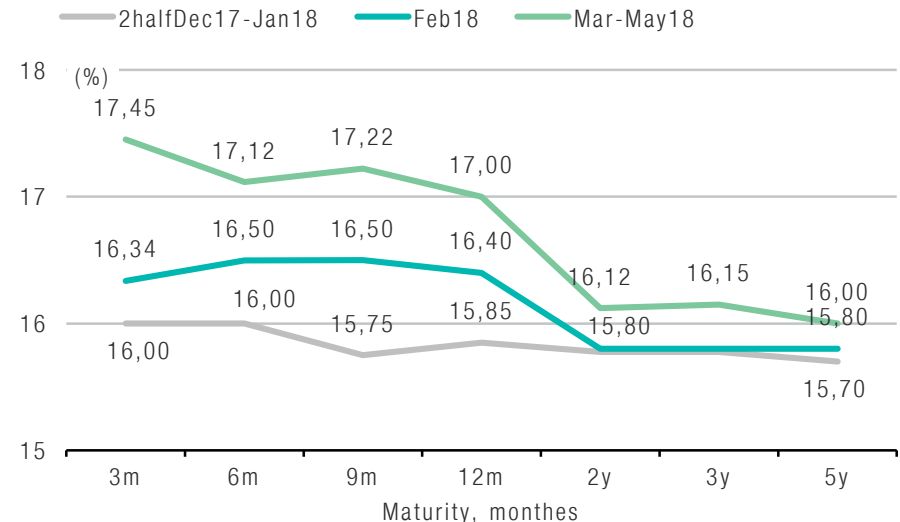
- Total demand for local-currency bonds of US\$1.2bn (UAH42.3bn) versus US\$1.1bn (UAH29.9bn) accepted by the Ministry of Finance has resulted in a bid/cover ratio of 1.4x in 2018 YTD
- After the NBU's hike of the key policy rate to 17% in March 2018, the weighted average interest rates of government bonds mostly rose to or above 17%
- 84% of total demand has been concentrated in 3-month, 6-month, and 9-month bonds (33%, 29%, and 22%, respectively) in 2018 YTD
- Seasonal fluctuations of local currency create highly attractive opportunities for short-term investors, whilst long-term investors benefit from high fixed yields

Demand and issuance by maturities (UAH bonds), UAHm



Sources: Ministry of Finance of Ukraine, ICU

Average yields at primary auctions, %



Sources: Ministry of Finance of Ukraine, ICU