



MINISTRY OF  
FINANCE OF  
UKRAINE

# **How to access UAH domestic government bonds market?**

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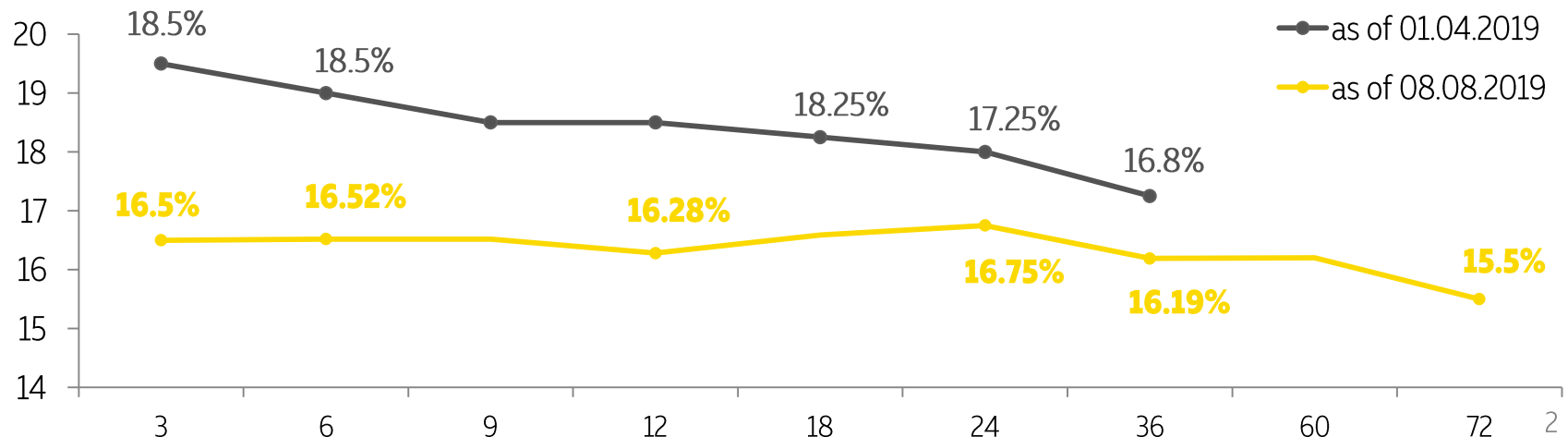
**August 2019**



# Ukrainian domestic government bonds - introduction

- ✓ **UAH 202 bn (USD 6.9 bn)** is Ukraine's domestic borrowings plan for the year 2019 according to 2019 State budget law, which accounts for **59%** of total borrowings' plan for the year 2019
- ✓ **67%** of the current debt is in foreign currency. The government's priority for the next years is to enlarge **UAH** government issues
- ✓ Multiple steps for attraction of international investors to Ukrainian local government debt were done:
  - Currency **liberalisation** adopted by the Law on Currency and Currency Operations in June 2018
  - The concept of the **Nominee Holder** adopted and became effective in November 2018
  - Cooperation with **Clearstream** initiated and the link launched on May 27, 2019

**Primary market UAH-denominated yield curves**

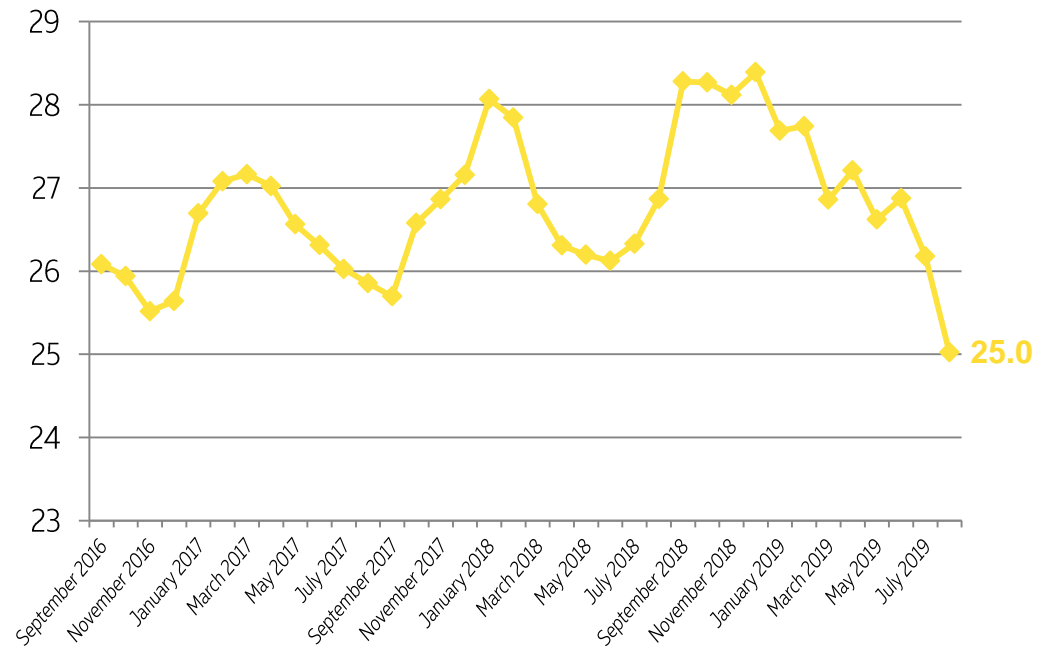




# Currency Performance

- The introduction of **UAH exchange rate flexibility** in February 2014 helped reduce external imbalances and significantly contributed to restoring **Ukraine's competitiveness**
- As of today **UAH exchange rate** is driven by current account performance and has a **cyclical nature**
- **Current account (CA) deficit decreased** sharply from **9.0%** of GDP in 2013 to **3.9%** in 2018.
- Negative trade balance is offset by **growing personal money remittances** together with capital account inflows resulting in positive overall BoP of **US\$2.9bn** in 2018

## USD/UAH Exchange Rate



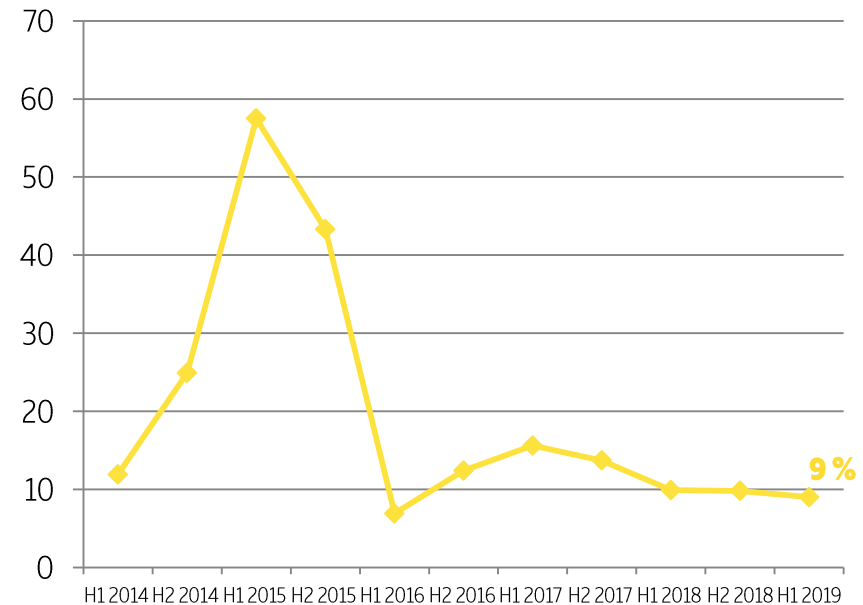
Source: NBU, August 2019



# Inflation Rate

- Due to monetary policy tightening the **National Bank of Ukraine** expects to bring inflation back to its **medium-term target range (5%+/-1%)** by end of 2019 and to its **5% target** by end of 2020
- The **NBU pursues** tight monetary policy by raising its key policy rate **6 times**: from **12.5%** September 2017 and to **18%** in September 2018. This helped to bring down inflation to **single digit figures**
- On July 18th 2019, the NBU decreased its policy rate **by 50bps** to **17.0%** on the back of reduced inflation
- **Consumer inflation decreased** from **13.1%** in April 2018 to **9%** in June 2019 (y-o-y) owing to tight monetary conditions

## Consumer inflation rate, y-o-y, %



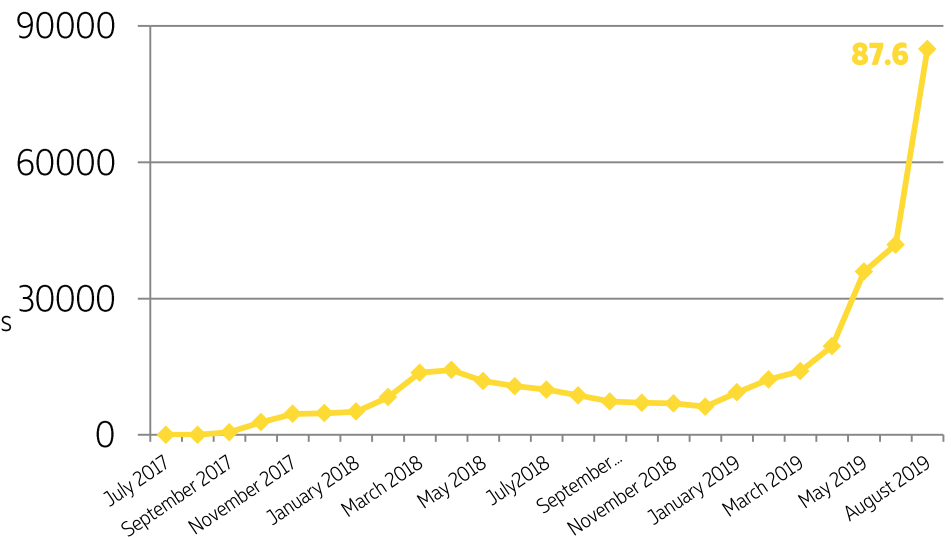
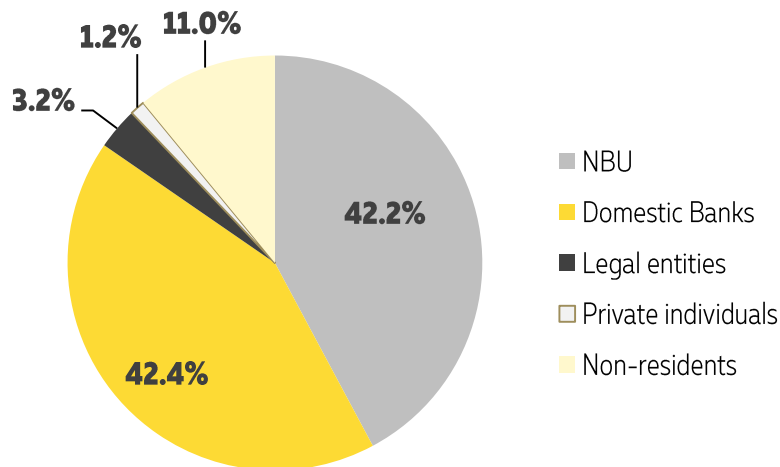
Source: State Statistics Service of Ukraine, H1 2019



# Improved market environment (1)

- With c.42% share both, the domestic banks and NBU are currently the largest holders of domestic government bonds
- At c.11% of total outstanding Ukrainian domestic government bonds as of August 2019, the portfolio held by non-residents increased **more than 13 times** compared to the beginning of 2019
- Since the beginning of the year **non-residents holdings** in Ukrainian domestic government bonds grew by **USD 3.1 bn**
- Domestic government bonds portfolio held by **non-residents** increased from almost zero level in July 2017 to current UAH 87.6 bn as of August 8, 2019

## Investors in Ukrainian government bonds, m UAH      Foreign investors' holdings of UAH bonds, bn UAH

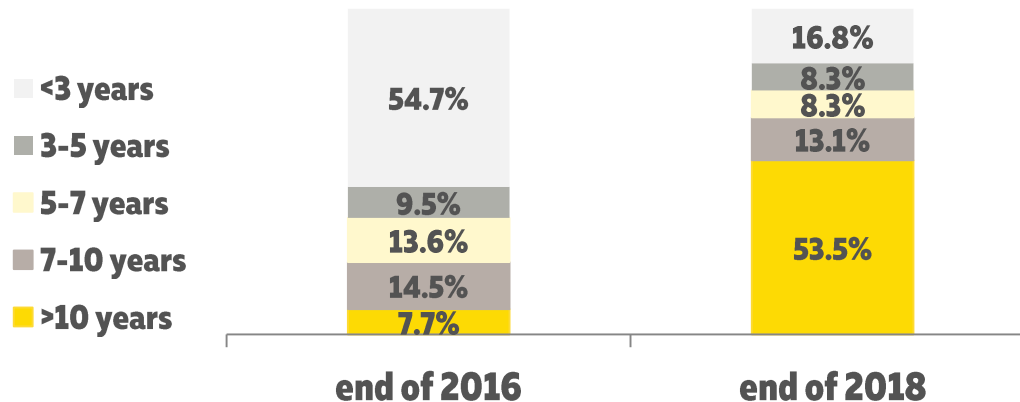




## Improved market environment (2)

- The government [bonds auctions](#) are held on a weekly basis, every Tuesday
- The auctions calendar is published and updated on the [Ministry's web-site](#), as well as on MinFin's page in Bloomberg terminal (MFU)
- The maturity of domestic government bonds significantly extended:

### Ukraine's state domestic debt split by maturity, %



### TYPES OF INSTRUMENTS ON DOMESTIC GOVERNMENT BONDS MARKET:

- Short-term instruments with maturity of: 3m, 6m, 9m, 1y,
- Medium-term instruments with maturity of: 2y, 3y,
- Long-term instruments with maturity of: 5y, 7y

[Statistics of outstanding domestic government bonds](#) is presented on MinFin's web-site



## Favorable taxation regime

### **Non-resident legal entities can benefit from favorable taxation of operations with domestic government bonds:**

- ✓ Income tax from principal repayment is 0%
- ✓ Interest income tax is 0%
- ✓ Treaties for the avoidance of double taxation with multiple countries



## Ways to enter the market

- Open individual securities accounts with **local custodians**
- Use securities accounts of **nominee holders** opened at Ukrainian depository institutions
- Buy **GDNs / CLNs** which are clearable in Euroclear / Clearstream
- Buy eligible securities through the **link** established by **Clearstream**  
[Launched on May 27, 2019](#)





# Guide to enter Ukrainian market via local custody

- 01 ●** **Select local custody or nominee holder**  
The list of local custodies is presented on the web-site of National Depository of Ukraine [here](#) →
- 02 ●** **Visit Ukraine**  
Ukraine's travel information is [here](#) →
- 03 ●** **Open individual securities account at local custody**  
Opening the securities account implies KYC procedure. It's recommended to get prepared beforehand
- 04 ●** **Conclude an Agreement on Brokerage Services with Ukrainian licensed broker**  
The list of licensed by NSSMC entities is [here](#) →
- 05 ●** **Open investment account in a bank**  
The list of licensed by NBU banks is [here](#) →
- 06 ●** **Make a deal**  
Ask your broker to buy Ukrainian domestic government bonds on your behalf, transfer funds, give an order to custodian for enrollment of securities





# KYC Documents Checklist

- ✓ KYC Questionnaire
- ✓ Ownership Structure Chart
- ✓ Company Register Extract
- ✓ License
- ✓ Legally Binding Extract of Your List of Authorized Representatives
- ✓ Other documents required by your local custody



# List of Primary Dealers

Actual List of Primary Dealers is presented on the MinFin's web-site →

1. [JSB "UKRGASBANK"](#)
2. [JSC "Oschadbank"](#)
3. [JSC "Raiffeisen Bank Aval"](#)
4. [JSC "UkrSibbank"](#)
5. [JSC "OTP BANK"](#)
6. [PJSC "Citibank"](#)
7. [JSC "Ukreximbank"](#)
8. [PJSC "FUIB"](#)
9. [PJSC "PrivatBank"](#)
10. [PJSC "ALFA-BANK"](#)
11. [PJSC "KredoBank"](#)
12. [JSC JSB "PIVDENNYI"](#)



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