



MINISTRY OF
FINANCE OF
UKRAINE

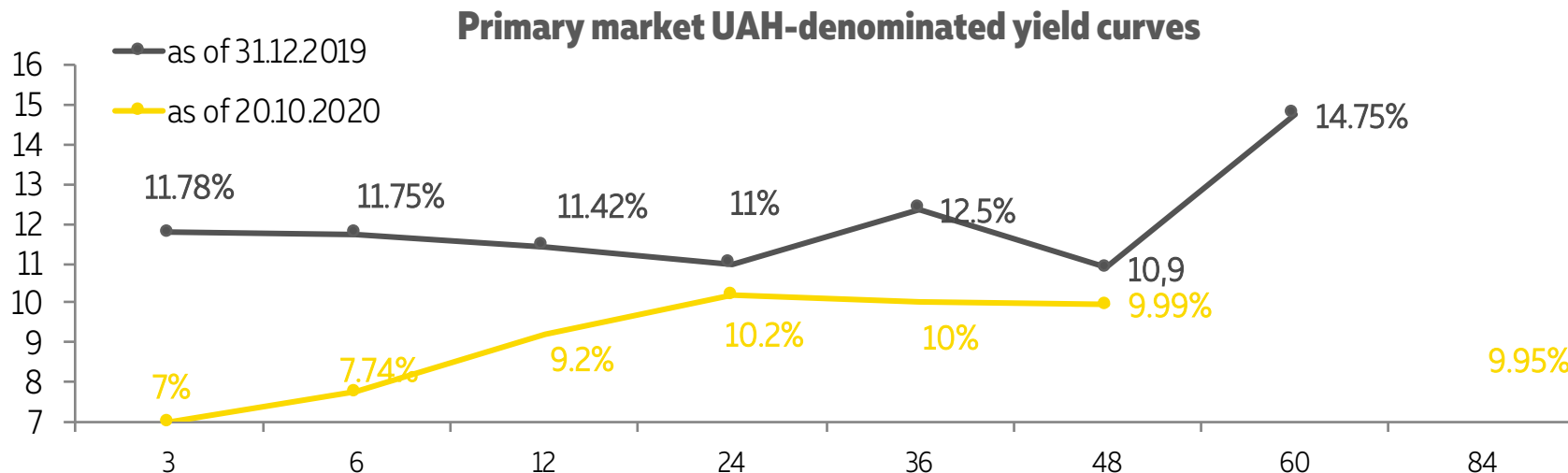
How to access UAH domestic government bonds market?

October 2020



Ukrainian domestic government bonds - introduction

- ✓ **UAH 377.6 bn (~USD 13.3 bn)** is Ukraine's domestic borrowings plan for the year 2020 according to amended 2020 State budget law, which accounts for **60%** of total borrowings' plan for the year 2020
- ✓ **61%** of the current state 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 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





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 deficit decreased** sharply from **9.0%** of GDP in 2013 to **0.9%** in 2019.
- In 8m 2020 the **current account balance** demonstrated **surplus**, resulting from a relatively stable goods export and a decrease in imports due to global energy prices decline
- 2020 CA surplus is **expected to reach 4.4%** of GDP (per NBU) as imports will decline more than exports

USD/UAH Exchange Rate



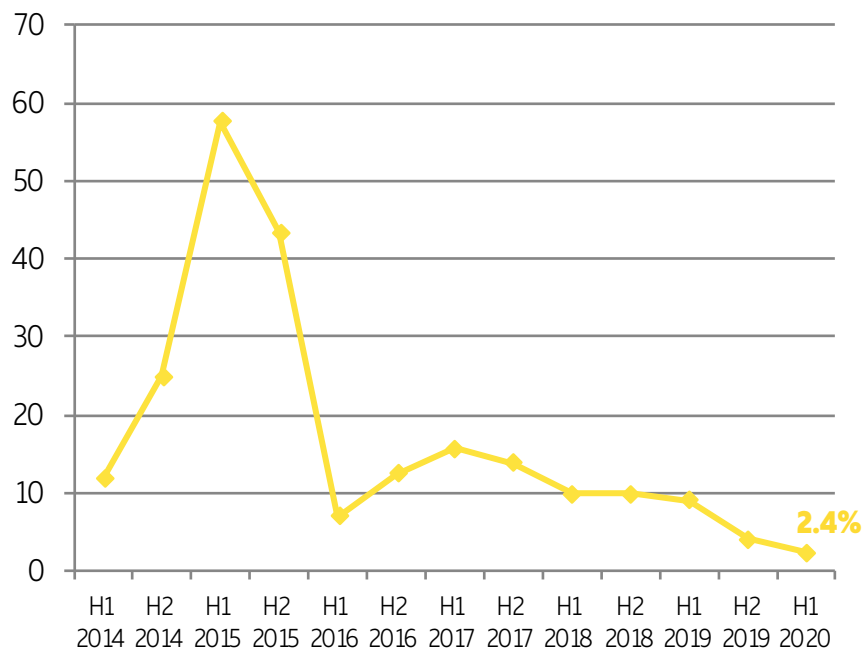
Source: NBU, October 2020



Inflation Rate

- The NBU has **significantly softened its monetary policy** maintaining the cycle of key policy rate cuts until June 2020 on the back of UAH appreciation and decelerated inflation
- Overall, the key policy rate was reduced by 7.5 p.p. since the beginning of 2020, reaching the **historic low of 6%** over Ukraine's independence on June 6, 2020
- 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 inflation decreased from 9.2% in January 2018 to 2.3% in September 2020 (y-o-y)** owing to tight monetary conditions

Consumer inflation rate, y-o-y, %



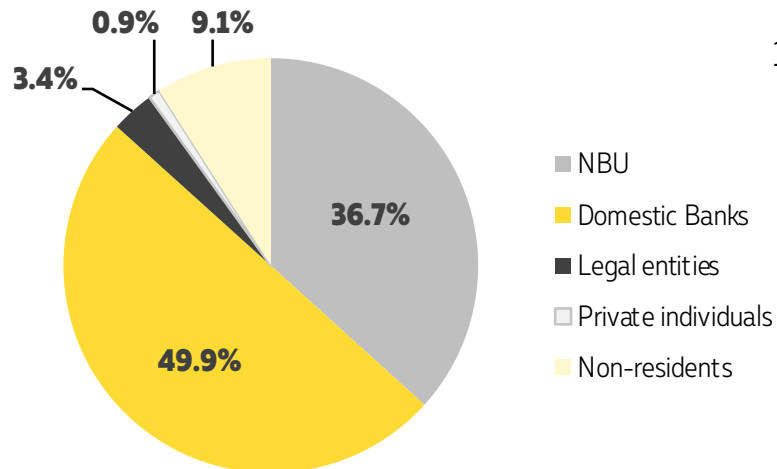
Source: State Statistics Service of Ukraine, H1 2020



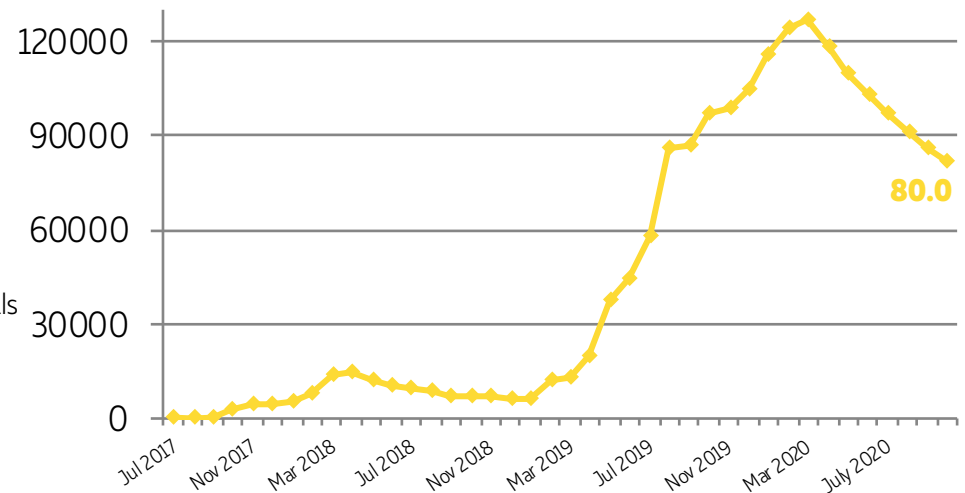
Improved market environment (1)

- The domestic banks and the NBU, with 49.9% and 36.7% shares respectively, are currently the largest holders of domestic government bonds
- At c.9% of total outstanding Ukrainian domestic government bonds as of October 2020, the portfolio held by non-residents increased **more than 12 times** compared to the beginning of the year 2019
- Domestic government bonds portfolio held by **non-residents** increased from almost zero level in July 2017 to current c.UAH 80 bn as of October 20, 2020

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



Source: National Bank of Ukraine, as of October 20, 2020

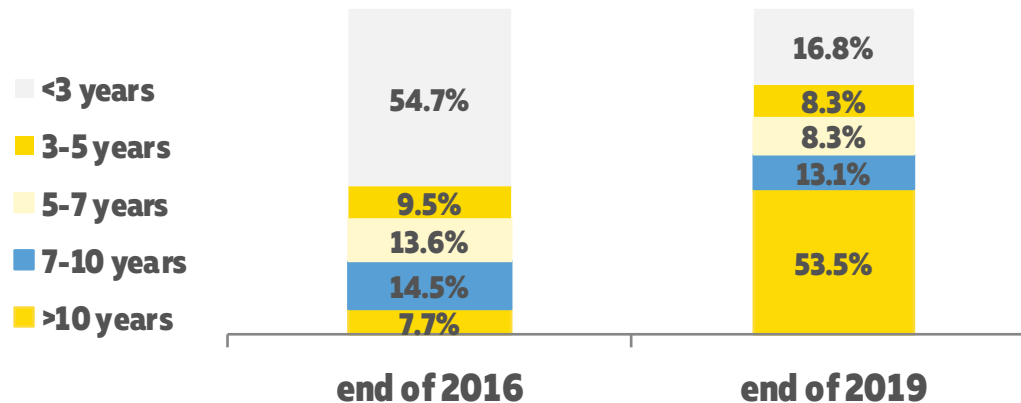




Improved market environment (2)

- 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
- [Benchmark bonds](#) introduced

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



Improved market environment (3)

The NBU facilitated domestic government bonds investments

Clearing system

- Cash clearing system adopted for government bonds denominated **in foreign currency** which will lower administrative burden for MoF and depository institutions

New account type in NDU

- Ukrainian depositories may open **new account** in the National Depository of Ukraine for **their international clients as nominal securities holders** (depository institutions / custodians registered in one of the EU/FATF member states are entitled to open nominal holders accounts with Ukrainian depository institutions)

Increased list of operations

- The NBU allowed **non-residents to inherit**, succeed domestic government bonds or use them for statutory capital contribution
- Introduction of **electronic versions of global issuance certificates**

No depository license

- **Primary dealers are not required to obtain depository license** to participate in government bond auctions
- **Non-bank depository institutions may use NBU's depository system** without mandatory connection to NBU's e-mail system



Improved market environment (4)

New law on capital and commodity markets was signed by the President in August 2020 which establishes the legal and regulatory framework for the derivatives market

Securities

- Extension of the list of securities based on their revised classification and presentation of new types of bonds and derivatives

Market players

- Introduction of **qualified investors** concept in accordance with MiFID directives
- **New type of players – related agents** (intermediaries between the market and the investors)

Infrastructure

- **Definition of capital markets structure**, including organized and OTC markets
- **Harmonization of the Ukrainian capital and commodity markets legislation with the EU regulations and ISDA recommendations**

Protection of investors rights

- Protection of bondholder rights through definition of **bondholders meeting's powers and obligations**



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 "OTP BANK"](#)
5. [PJSC "Citibank"](#)
6. [JSC "Ukreximbank"](#)
7. [PJSC "FUIB"](#)
8. [PJSC "PrivatBank"](#)
9. [PJSC "ALFA-BANK"](#)
10. [PJSC "KredoBank"](#)
11. [JSC JSB "PIVDENNYI"](#)



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