



Ukraine: Investor Presentation



MINISTRY OF
FINANCE OF
UKRAINE

October 2020

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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 | | 2019 / Today |
|---|--------------|---|---|
|  Real GDP growth | (9.8)% | ➔ | 3.2% (2019) / (11.4)% (Q2 2020) |
|  Consumer inflation (eop) | 43.3% | ➔ | 4.1% (2019) / 2.5% (Aug-20) |
|  Reserves (eop) | US\$ 13.3bn | ➔ | US\$ 25.3bn (Jan 1, 2020) / US\$ 29.0bn (Sep 1, 2020) |
|  Primary state budget balance¹ | 2.0% of GDP | ➔ | 1.0% of GDP (2019) / 0.5% of GDP (Q2 2020) |
|  State debt to GDP | 67.1% (2015) | ➔ | 44.3% (2019) / 50.8% (Q2 2020) |

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

Sources State Statistics Service of Ukraine, NBU, State Treasury

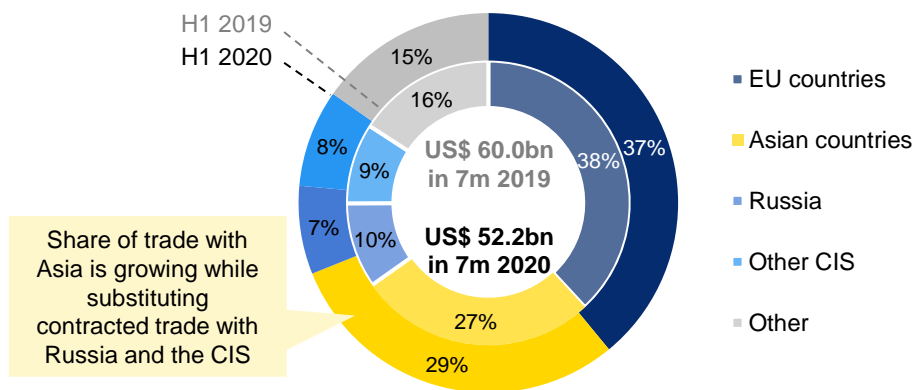


Marked impact of Covid-19 on external trade in 7m 2020

Comments

- ▶ Based on preliminary estimates, **global Covid-19 pandemic and subsequent lockdown had a pronounced impact on Ukraine's external trade in 7m 2020** with export of goods and services falling relatively slightly by 8.1% while import of goods and services declining more rapidly by 20.8% y-o-y in 7m 2020
 - The total export of goods in 7m 2020 (i.e. US\$ 24.5bn) has fallen by 7.5% vs 7m 2019, while export of services has decreased by 9.7% y-o-y
 - The total import of goods in 7m 2020 (i.e. US\$ 27.7bn) has fallen by 17.4% vs 7m 2019, while import of services has decreased by 33.4% y-o-y
- ▶ With increased net exports in 7m 2020 such foreign trade dynamics had a positive impact on Ukraine's current account

Geographic structure of goods trade in 7m 2019 & 7m 2020¹



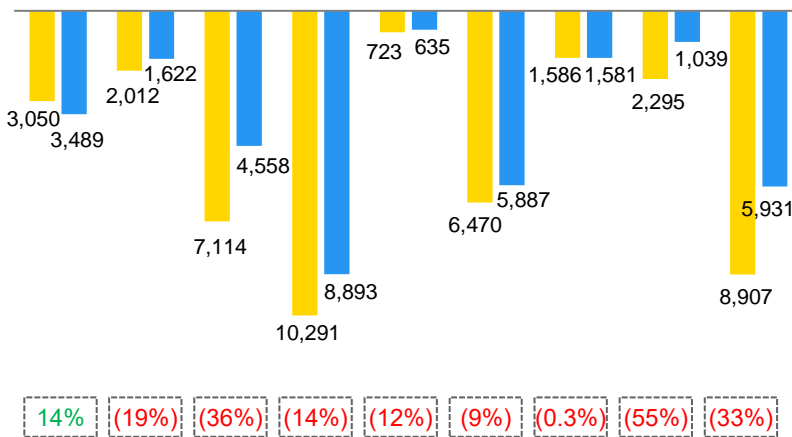
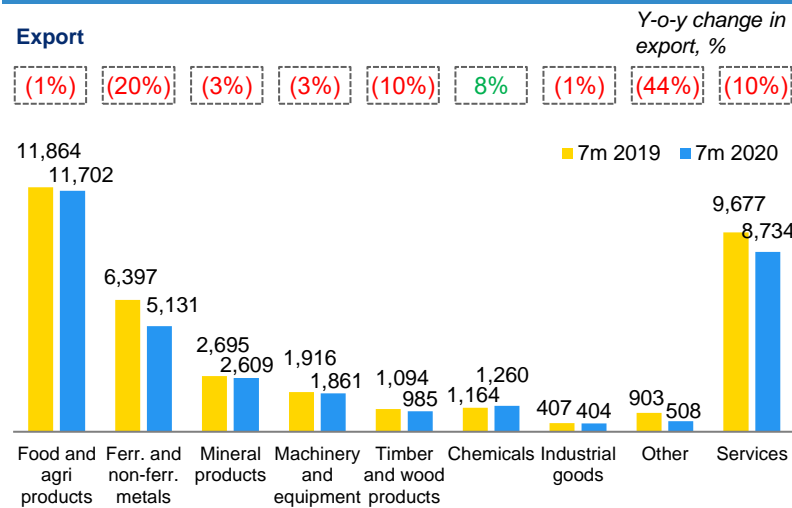
Source NBU

Notes

1 Sum of export and import of goods

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

Export



Import

Source NBU



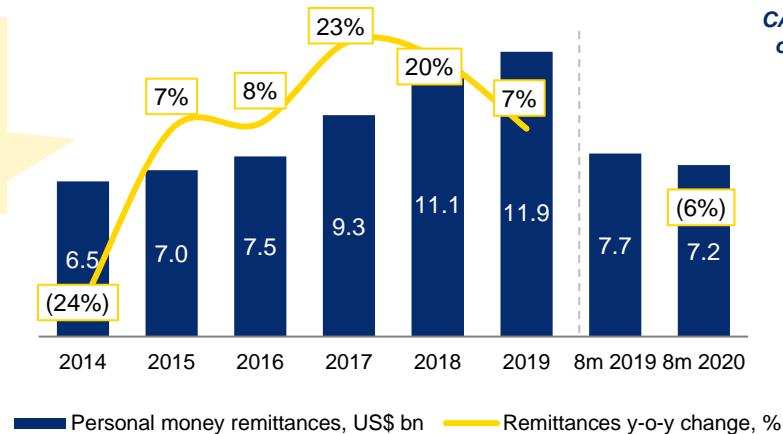
Firm external position leading to less vulnerability to external shocks

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 8m 2020 the trade balance deficit** decreased to US\$ 0.6bn due to decreased import coupled with lower decline of export
- ▶ **The current account (CA) balance demonstrated surplus** in 8m 2020, 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
- ▶ **Negative trade balance in past 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\$ 1.5bn in 8m 2020

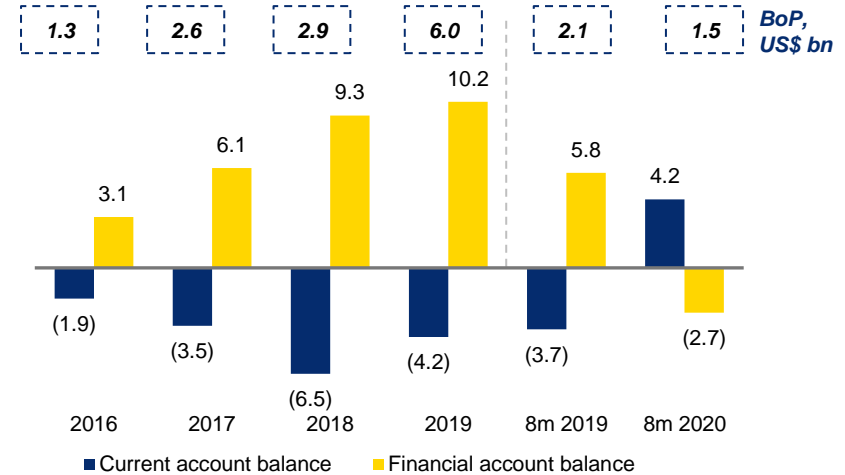
Private money remittances, US\$ bn

USD 11.4bn (4% y-o-y decrease) in personal money remittances are expected for full 2020, according to the NBU

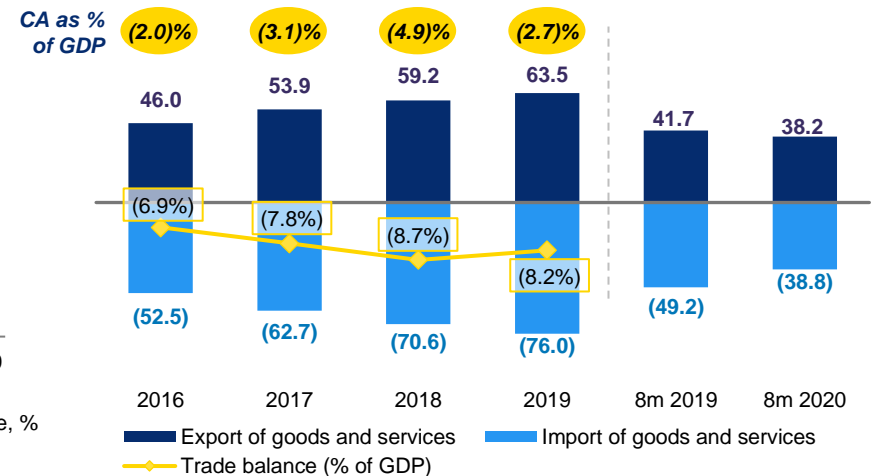


Source NBU (incl. 2020 projection from Jul 2020 Inflation Report)

Balance of payments components, US\$ bn



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



Prudent monetary policy implemented by independent regulator

Comments

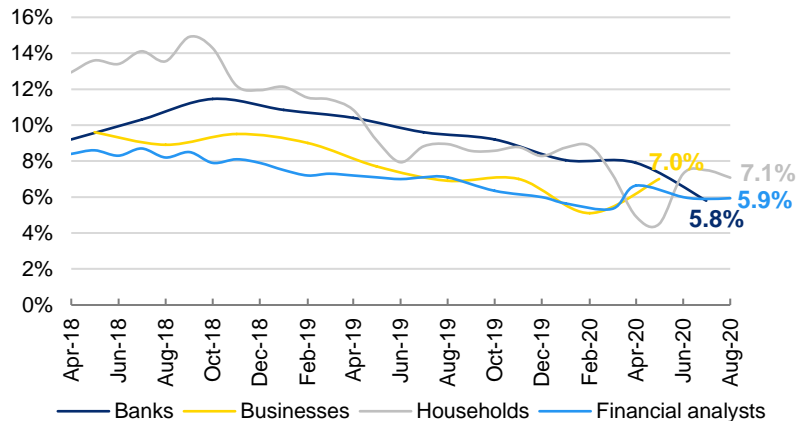
Medium-term consumer inflation target range: 5%+/-1%

Y-o-y inflation as of August 2020: 2.5%

The NBU envisages that the inflation will accelerate moderately in the coming months to reach 4.7% by the end of the year, slowly heading towards the target range in the years ahead (i.e. 5%±1p.p.)

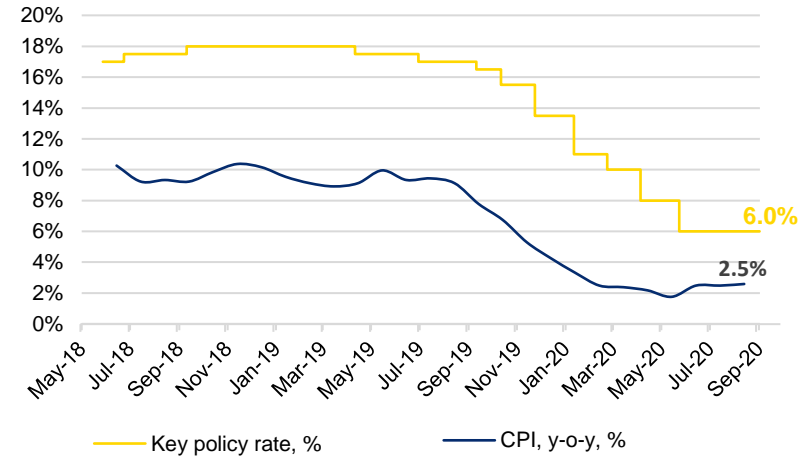
- ▶ **The NBU has significantly softened its monetary policy maintaining the cycle of key policy rate cuts until June 2020** on the back of UAH appreciation and decelerated inflation
- ▶ Overall, the key policy rate was reduced by 7.5 p.p. since the beginning of 2020, reaching the historic low of 6% over Ukraine's independence on June 6, 2020
- ▶ On July 23 and September 3, the NBU has decided to keep its key policy rate at 6% to curb the price growth as the economy recovers in 2021–2022, while leaving room for its further decrease
- ▶ 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

CPI expectations for the following 12 months

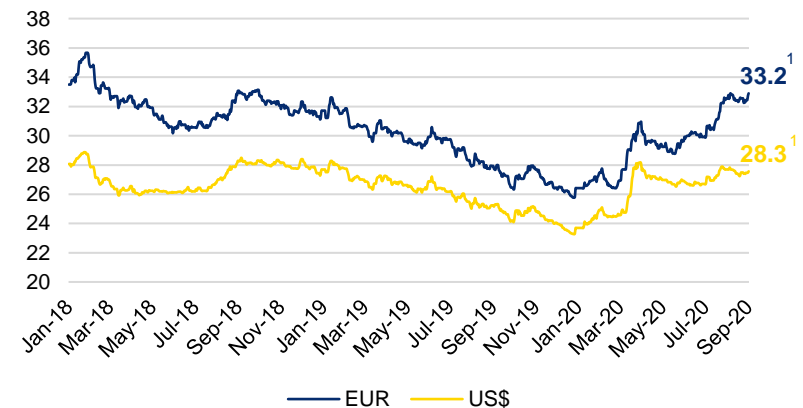


Source NBU

Consumer price index (CPI) change and key policy rate



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



Notes

1 As of September 21, 2020

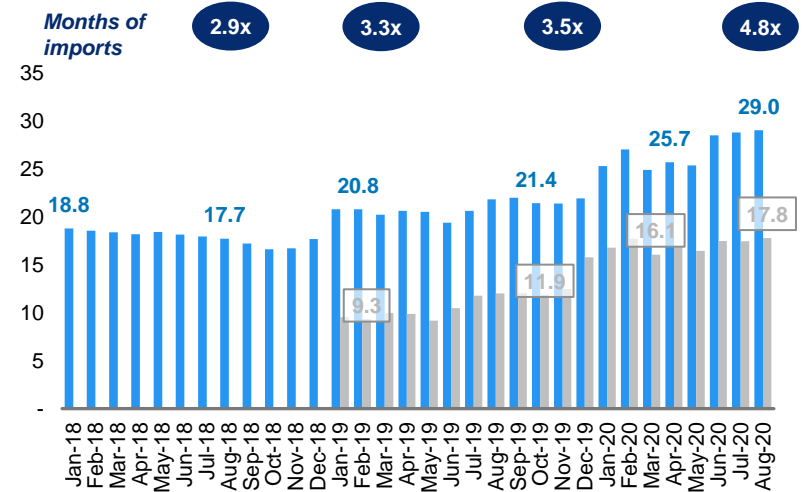


Sufficiently accumulated international reserves

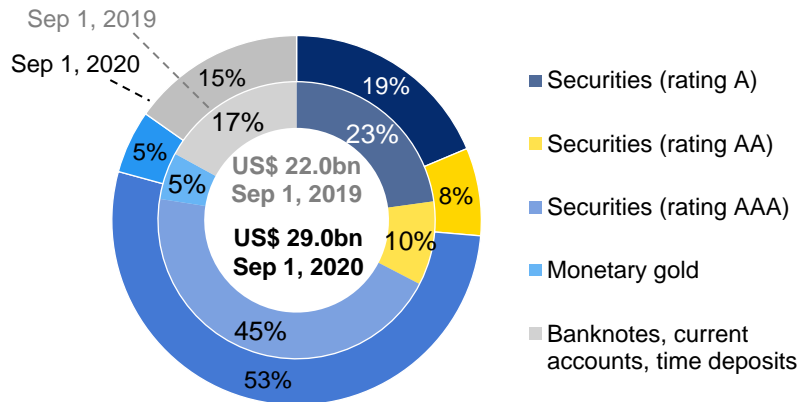
Comments

- ▶ **Gross international reserves grew by 33.0% (y-o-y) and reached US\$ 29.0bn as of September 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 August 2020, the international reserves increased by 0.9% (m-o-m) mainly as a result of NBU's net FX purchases (US\$ 460.5m), new FX domestic placements (US\$ 250.5m), government transactions to repay public debt (US\$ 645.2m), and financial instruments revaluation gain (US\$ 385m)

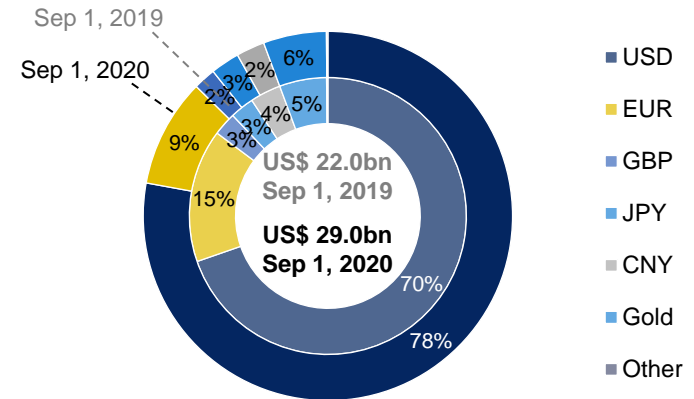
Gross and net international reserves (eop), US\$ bn



Gross international reserves by instrument

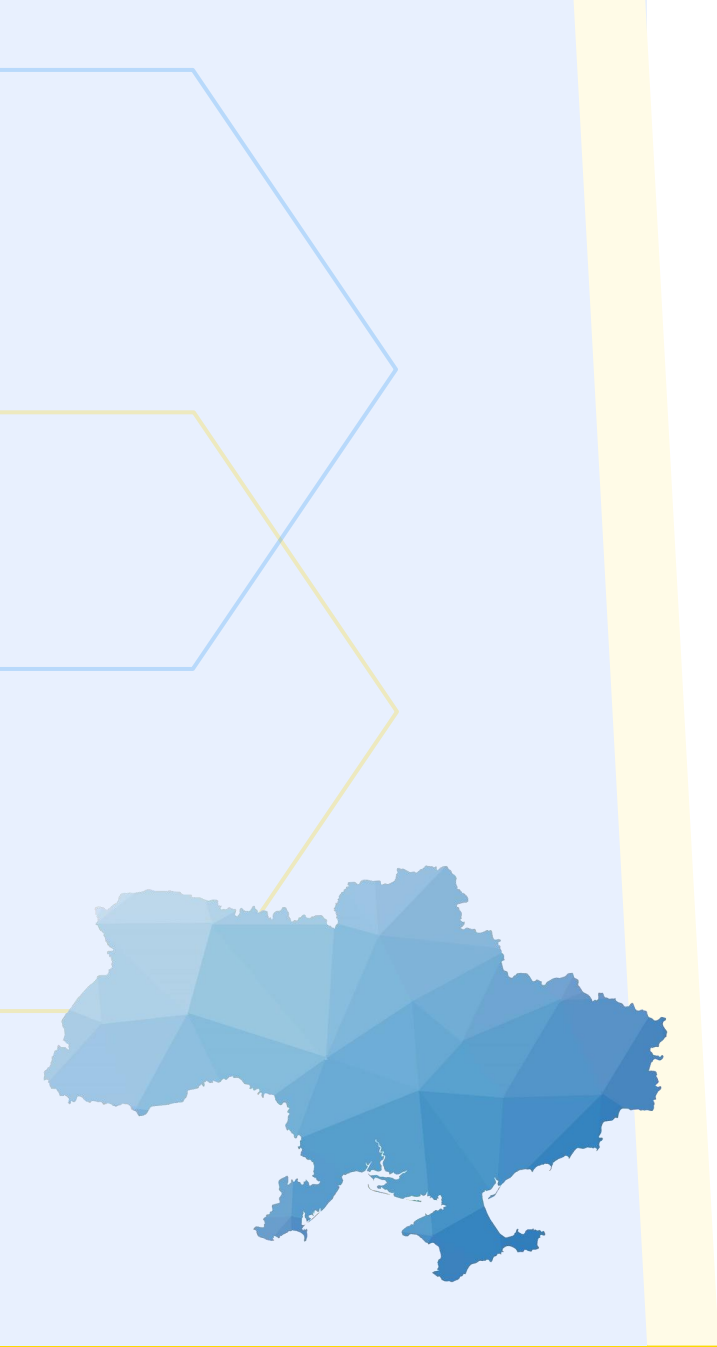


Gross international reserves by currency



Source NBU





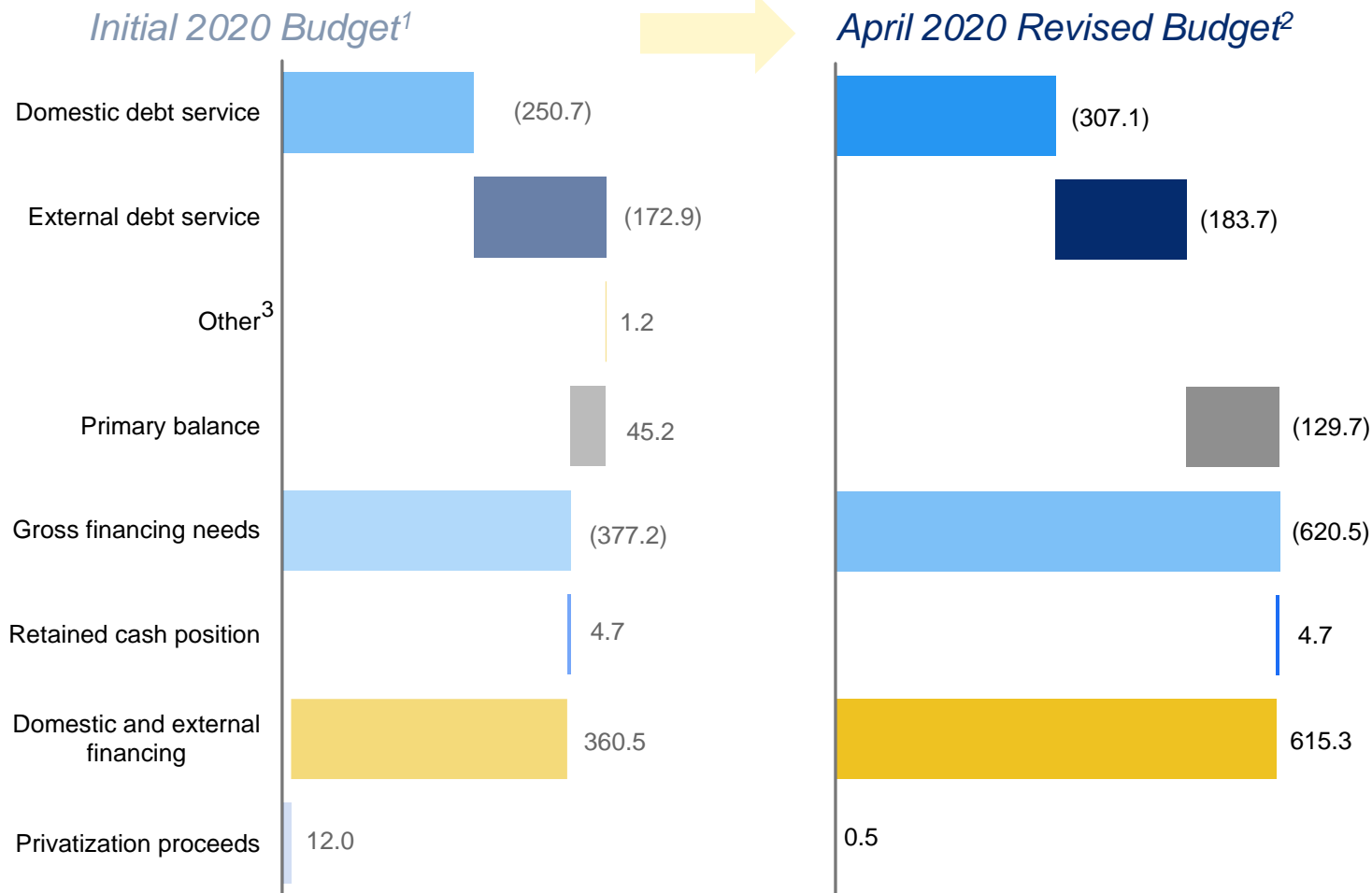
- 1 The Covid-19 crisis will have a significant but short-term effect
- 2 **Ukraine's financing will benefit from substantial support from partners**
- 3 A proactive response should mitigate the impact on the economy
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- 5 Appendices

Ukraine's revised 2020 gross financing needs

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

- EUR 1.25bn 2030 Eurobond issuance
- US\$ 2.0bn 2033 Eurobond issuance (incl. USD 846m used for liability management operation)
- UAH 223bn (equiv. of US\$ 8.3bn) raised on domestic market o/w UAH 133.9bn in UAH-denominated bonds and US\$ 3.3bn 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
- EUR 250m of Cargill loan was received in mid-September

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



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

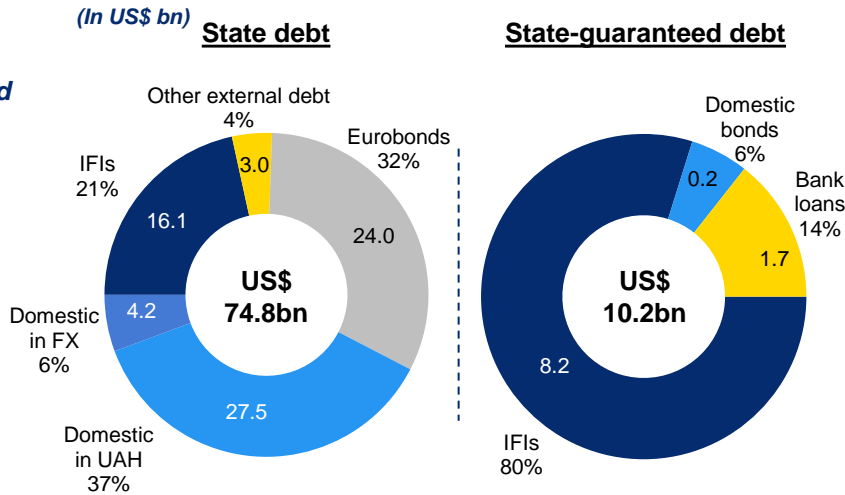


Prudent and proactive debt management strategy

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

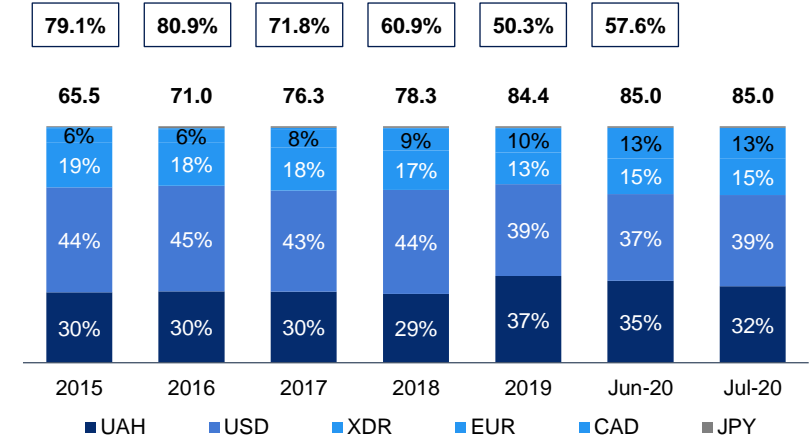
As of end-July 2020, Ukraine's total state and state-guaranteed debt (US\$ 85.0bn / UAH 2,355bn) split between:

- 62% of external debt, 38% of domestic debt
- 88% of state debt, 12% of state-guaranteed debt



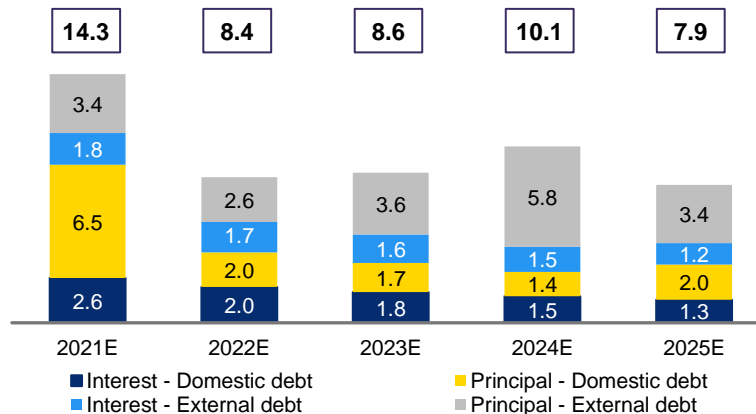
State and state-guaranteed debt by currency, US\$ bn

Total (% of GDP)



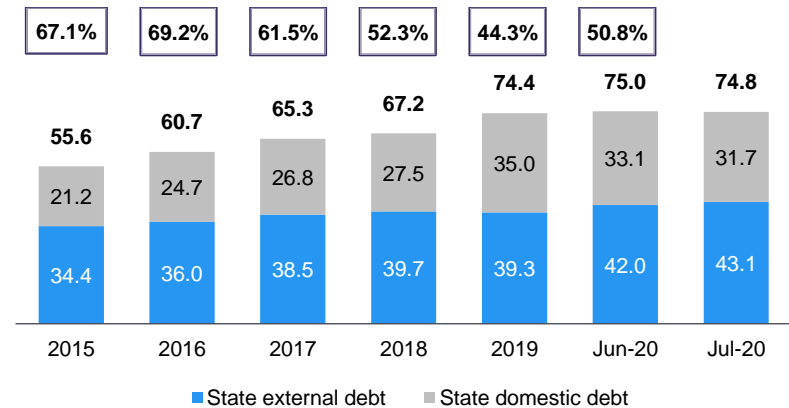
State debt amortization schedule (end-Aug 2020)¹, US\$ bn

Total debt service



State debt dynamics, US\$ bn

Total (% of GDP)



Notes

¹ Incl. outstanding debt obligations only

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 [disbursed] | 1,500 | 2,076 |
| September 2020 [preliminary] | 500 | 691 |
| December 2020 [preliminary] | 500 | 691 |
| May 2021 [preliminary] | 400 | 553 |
| October 2021 [preliminary] | 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

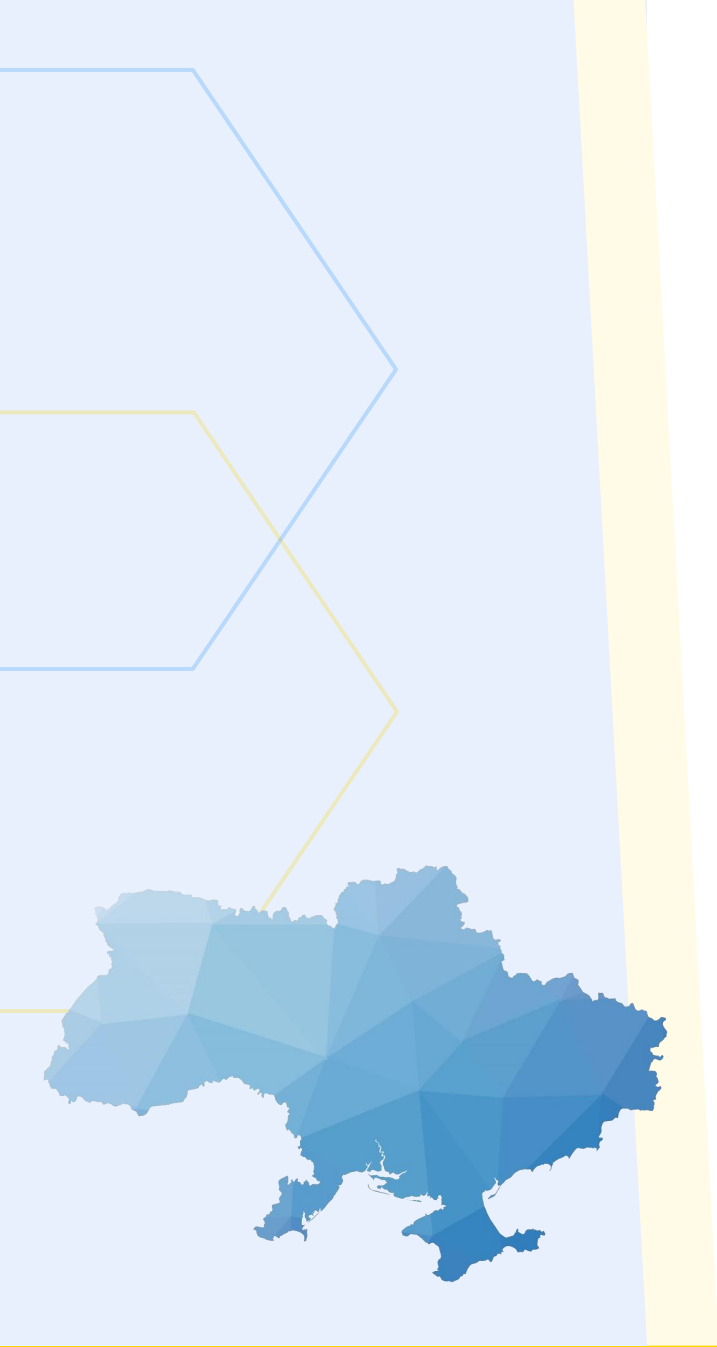
Combined with a proactive response to Covid-19 economic fallout, **Ukraine managed to secure a range of concessional financing** from its international partners to **cover significant portion of external financing needs for 2020**

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, EUR 0.5bn in 2020, and EUR 1.2bn are expected in the upcoming months 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 | 2 | Individuals | 3 | Monetary (NBU) |
|---|---|---|--|---|--|
| | <ul style="list-style-type: none">▶ 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 | | <ul style="list-style-type: none">▶ 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 | | <ul style="list-style-type: none">▶ 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 |
| | <ul style="list-style-type: none">▶ 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 | | | | |

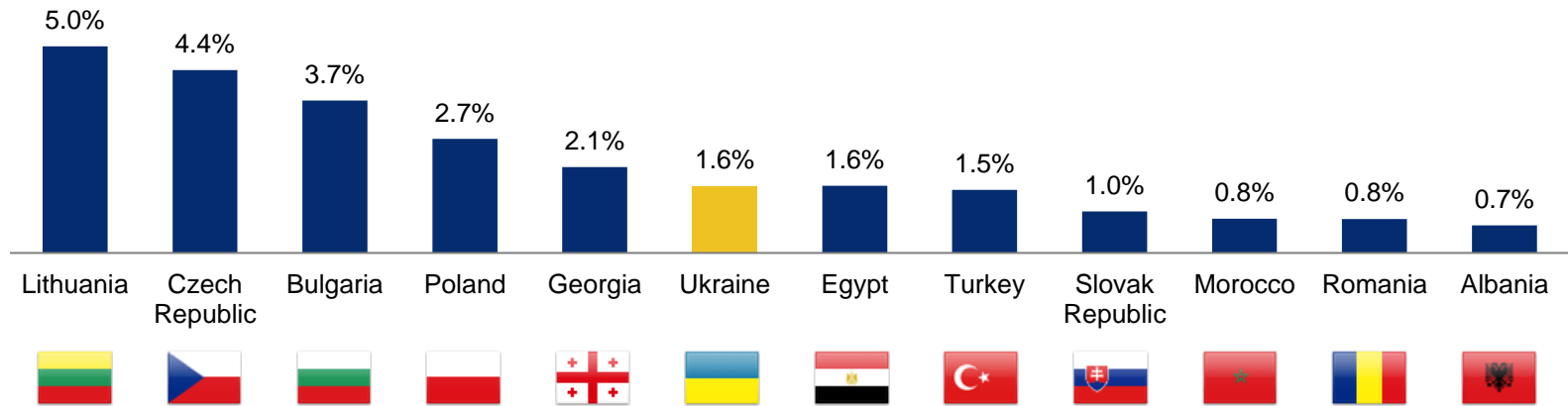
Sources NBU, CMU, UkraineInvest









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:

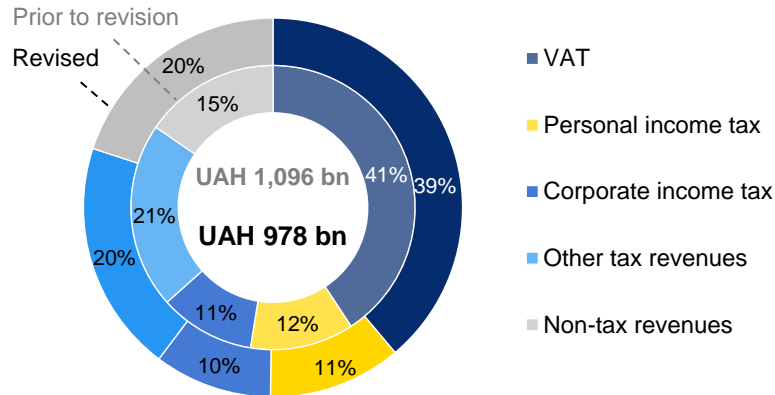
-  Purchase of goods and services for prevention of Covid-19 spread, including medical services within the program of state guarantees for medical care of population
-  Increase of salaries of medical and other workers directly fighting with Covid-19
-  One-time financial assistance to families of medical 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 978 bn

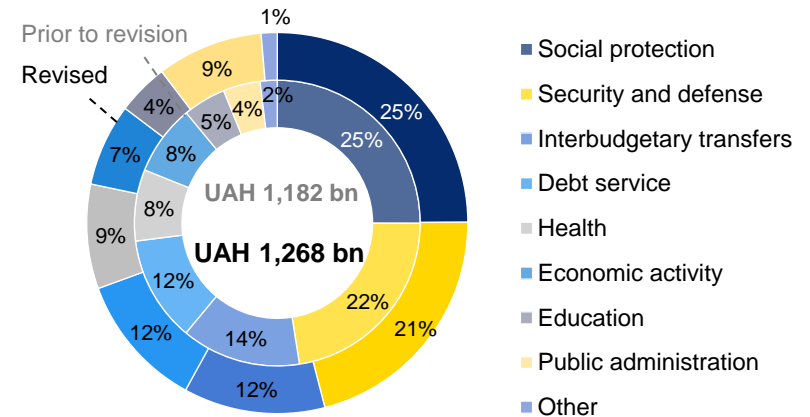


Due to Covid-19, the State budget 2020 was revised in the following manner:

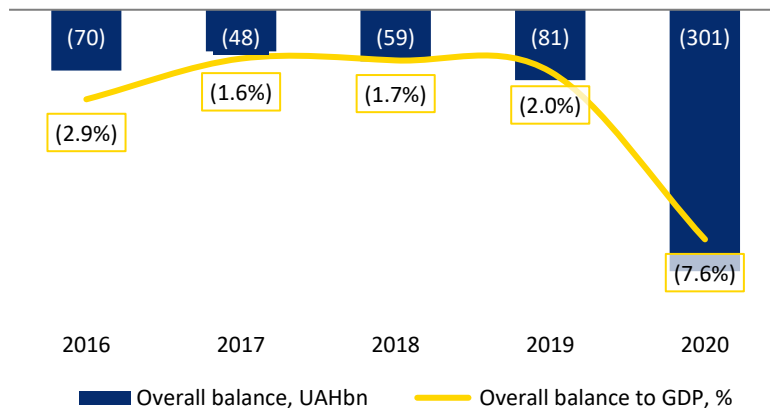
- Total revenues: **UAH 978bn** (-11%)
- Total expenditures: **UAH 1,268bn** (+7%)
- Budget deficit²: **UAH 301bn / 7.6% of GDP in 2020** (government forecast)

2020 state budget expenditures split (2020 State budget Law¹)

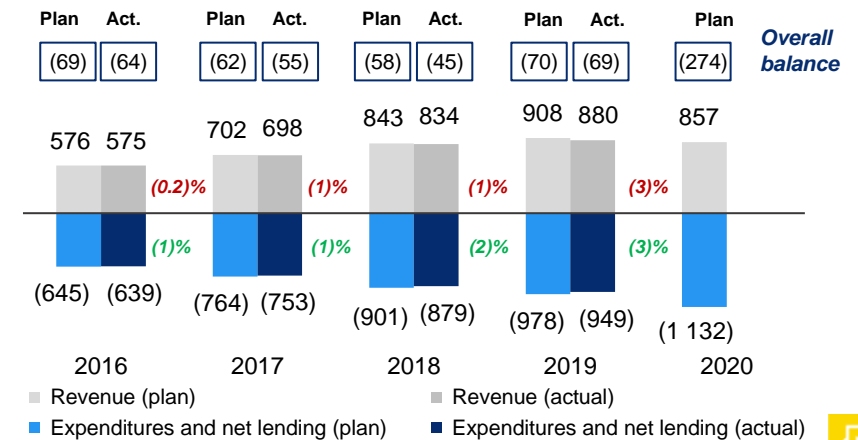
Revised state budget expenditures: UAH 1,268bn



Overall state budget balance³, UAH bn



State budget general fund performance³, UAH bn



Notes

- 1 According to State Budget Law 2020 amended as of Jul 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 as of July 2020 and 2020 GDP forecast of the government for 2020

Source State Treasury of Ukraine, NBU

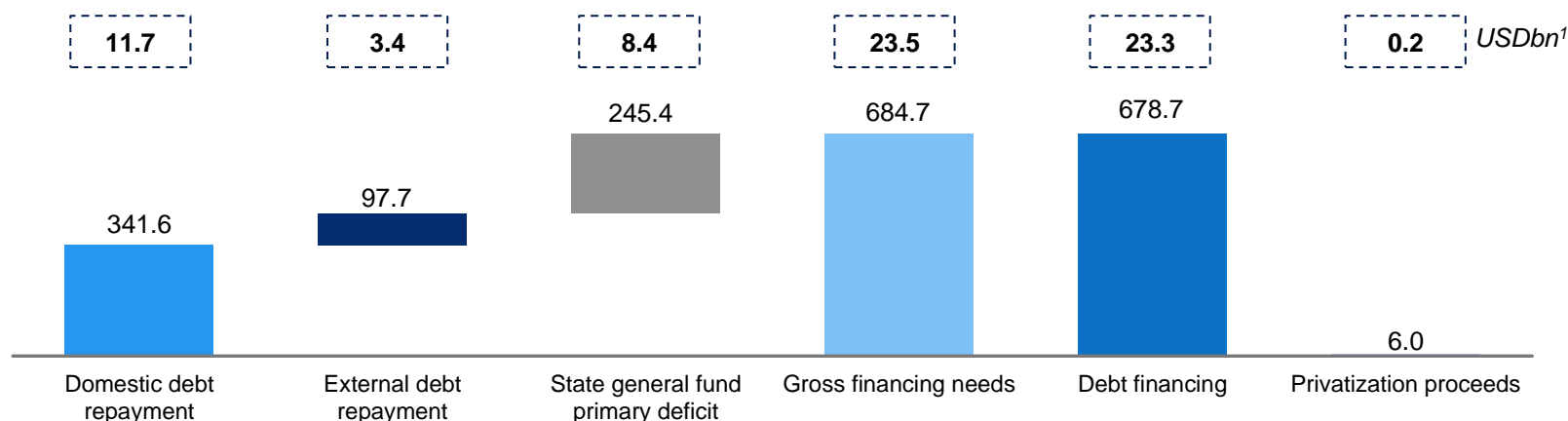
Source State Treasury of Ukraine

2021 state budget to commence fiscal consolidation

2021 draft State budget Law: key indicators

| UAHbn | 2019 (actual) | 2020 (plan as of Jul) | 2021 (draft law) | 2021/2020 change |
|-------------------------------------|----------------|-----------------------|------------------|------------------|
| Nominal GDP | 3,974.6 | 3,975.2 | 4,505.9 | |
| (i) Revenues | 998.3 | 1,000.0 | 1,071.1 | 7.1% |
| as % of GDP | 25.1% | 25.2% | 23.8% | |
| Tax revenues | 799.8 | 783.1 | 928.6 | 18.6% |
| Non-tax revenues | 198.6 | 216.9 | 142.5 | (34.3%) |
| (ii) Expenditures | 1,075.1 | 1,289.3 | 1,331.0 | 3.2% |
| as % of GDP | 27.0% | 32.4% | 29.5% | |
| (iii) Net lending | 4.2 | 10.7 | 10.5 | (1.6%) |
| as % of GDP | 0.1% | 0.3% | 0.2% | |
| Overall state budget deficit | 81.0 | 300.0 | 270.4 | (9.9%) |
| as % of GDP | 2.0% | 7.5% | 6.0% | |

2021 draft State budget Law: general fund financing, UAHbn



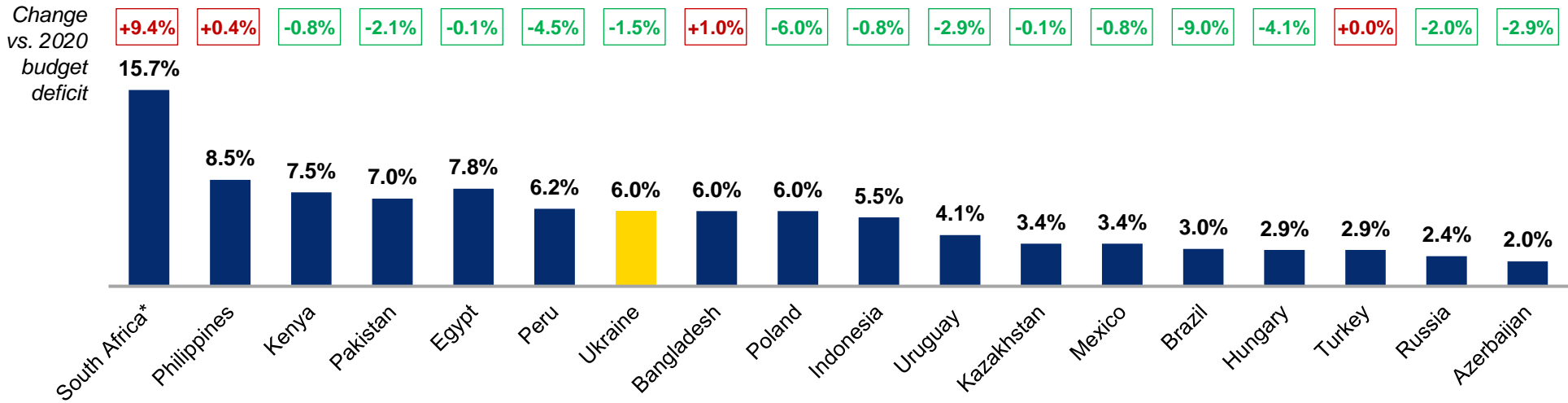
Source State Treasury of Ukraine, the Parliament

Note 1 Based on the budgeted USD/UAH avg 2021 rate of 29.1

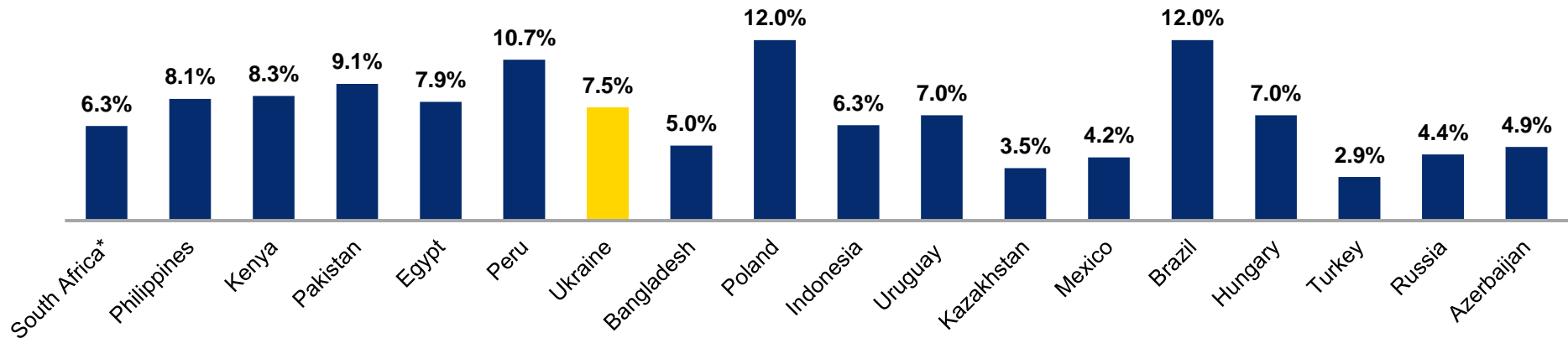


In line with a number of EM countries

2021 selected EM state budget deficits by country



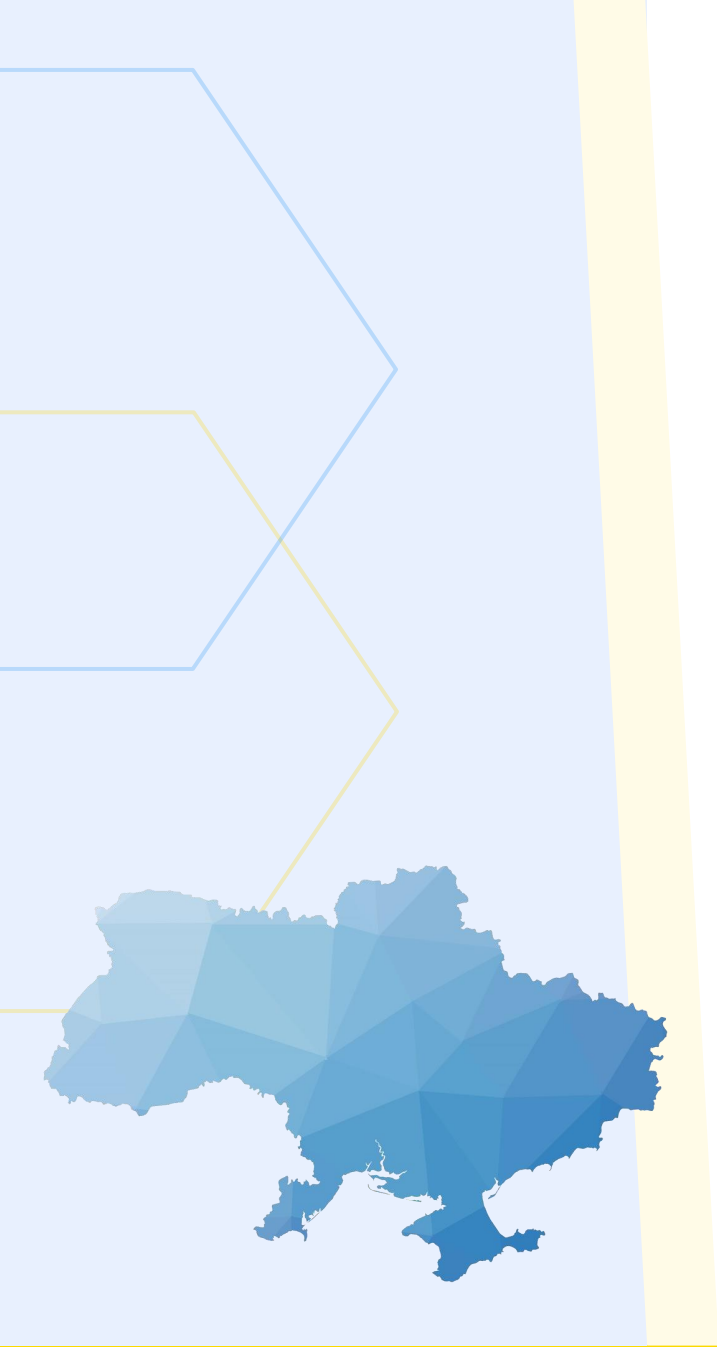
2020 selected EM state budget deficits by country



* Consolidated budget

Source Public domain



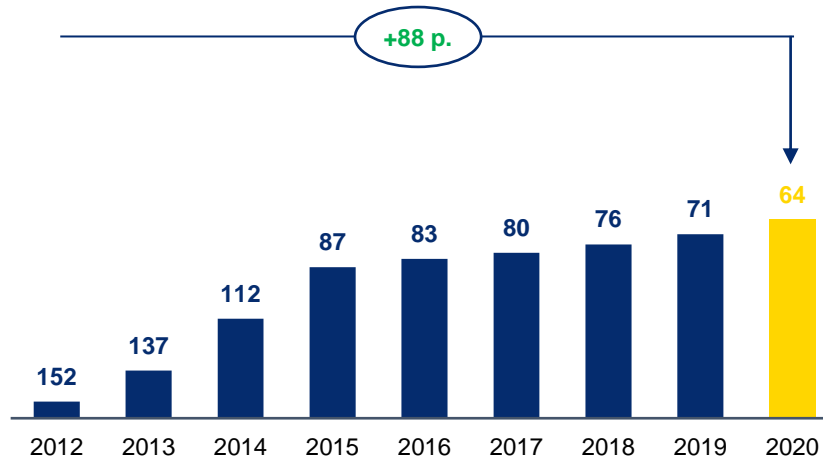


- 1 The Covid-19 crisis will have a significant but short-term effect
- 2 Ukraine's financing will benefit from substantial support from partners
- 3 A proactive response should mitigate the impact on the economy
- 4 **An improved business climate and opportunities for growth**
- 5 Appendices



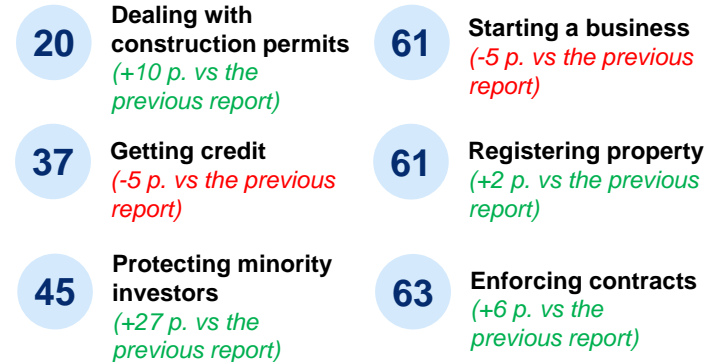
Business climate improvement to accelerate growth potential

Ease of Doing Business ranking

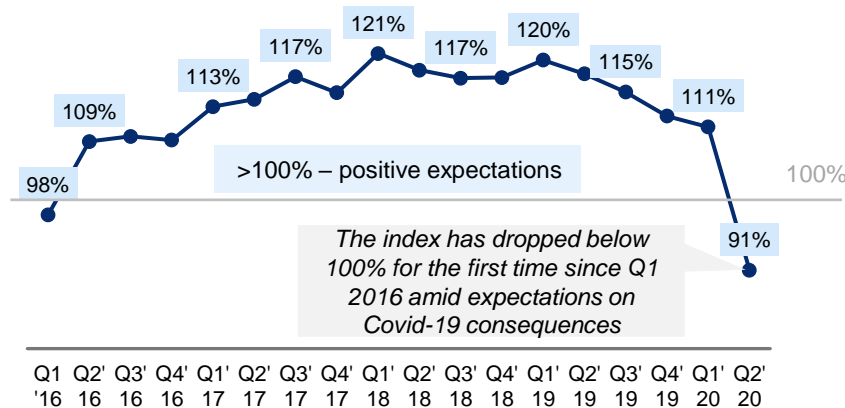


Source Doing Business

Ukraine's selected pillars in 2020 global ranking

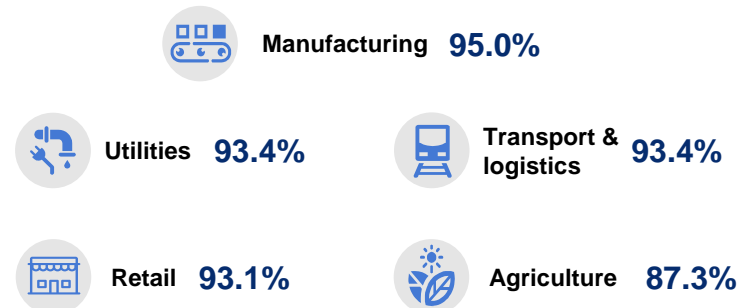


Business expectations index by the NBU



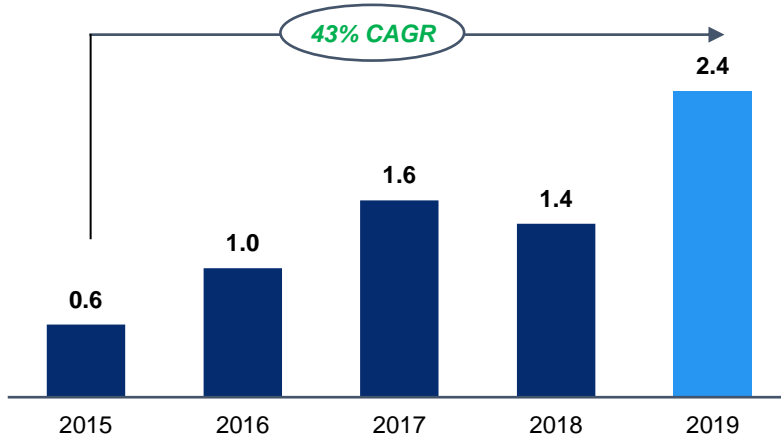
Source NBU

Q2 2020 expectations by industry



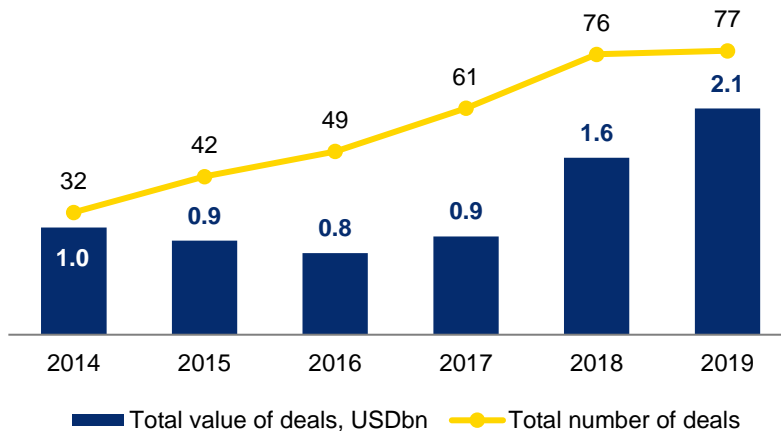
Boosted activity of foreign investors over the last year

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



▶ A digital writing tool Grammarly earned an official unicorn status by attracting US\$ 90m funding

Oct 2019



▶ Acquisition of the second-largest telecom provider in Ukraine for US\$ 734m

Nov 2019



▶ Acquisition of the pharmaceutical business of Biopharma, including its GMP-certified production facilities

Dec 2019



▶ EUR 124m solar power project (commissioning scheduled for 2020)

Jun 2019

Other important investors



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

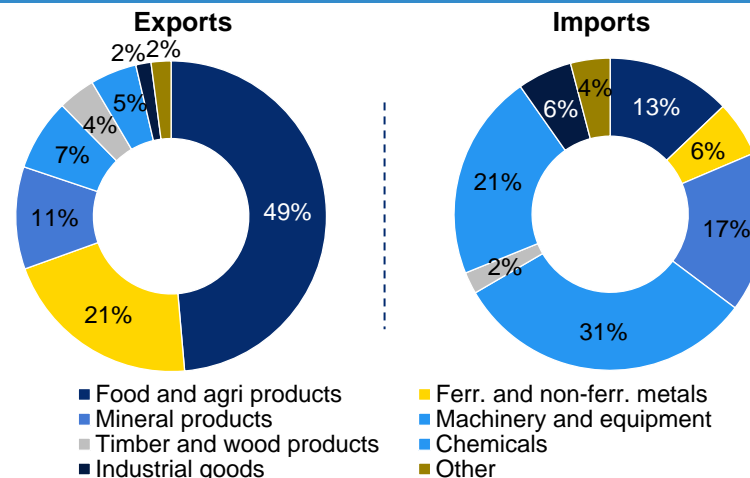
- ▶ Reinforced by Covid-19, the global demand for basic goods, such as agri and food, remains stable
- ▶ This provides Ukraine an opportunity to elevate basic goods exports to large and developed economies amidst crisis
- ▶ Most of such trade connections have already been set up and developed with conclusion 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

H1 2020 y-o-y increase in export of goods by countries²

| | |
|---|--|
|  China / +92.7% USD 3,005m |  South Korea / +89.3% USD 252m |
|  Uzbekistan / +24.3% USD 119m |  Bangladesh / +12.8% USD 153m |
|  France / +10.7% USD 227m |  Morocco / +9.1% USD 172m |
|  Tunisia / +3.0% USD 203m |  Netherlands / +0.4% USD 940m |

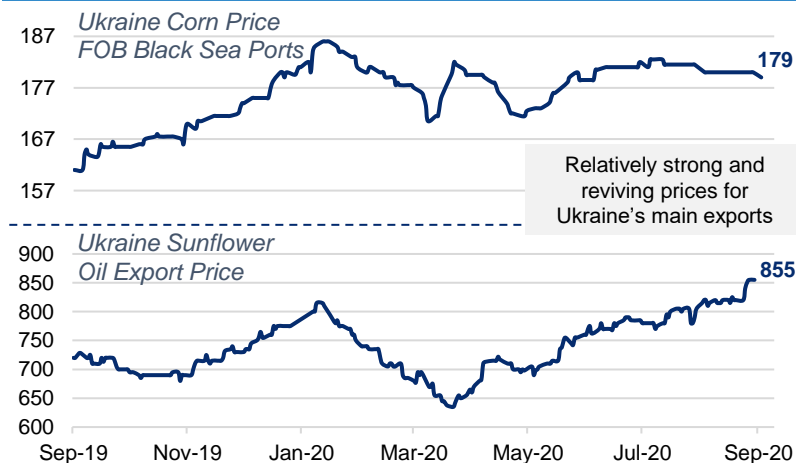
Source State Statistics Service of Ukraine

Ukraine's exports and imports breakdown¹ in H1 2020



Source State Statistics Service of Ukraine

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



Source Bloomberg, as of August 31, 2020

Notes

- 1 Export and import of goods breakdown
- 2 Only countries, exports of goods to which in H1 2020 surpassed 1% of total Ukraine's export of goods were included



Strong focus on ESG considerations

Fiscal Transparency:

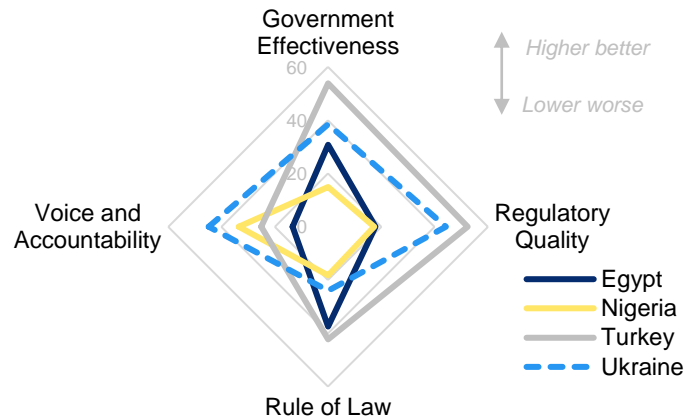
- According to the U.S. 2020 Fiscal Transparency Report, Ukraine demonstrated significant progress in fiscal transparency by completing its adoption of international accounting standards.
- During the review period, the government made its budget and information on debt obligations widely and easily 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):

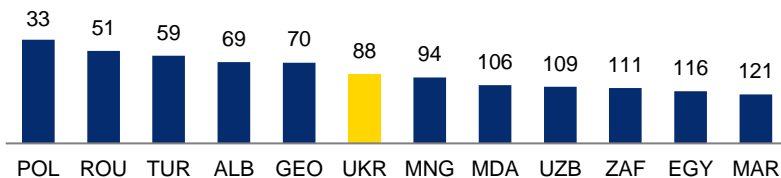
- Ukraine sovereign JESG country score is 38.65 (Band 4, inheriting 40% of EMBIG Div market value), as of end-May, and is trending upward recently toward 40. If JESG score goes above 40, the country will be upgraded to Band 3 (60% of base index market value)

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



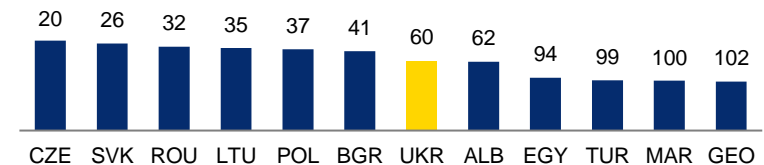
- Worldwide Governance Indicators (WGI)** from the World Bank and **Human Development Index (HDI)** from UNDP constitute an important basis for sovereign credit ratings
- For both WGI and HDI, Ukraine performs in line with its regional and rating peers:
 - Being in High Human Development group and demonstrating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

Strong focus on environmental responsibility

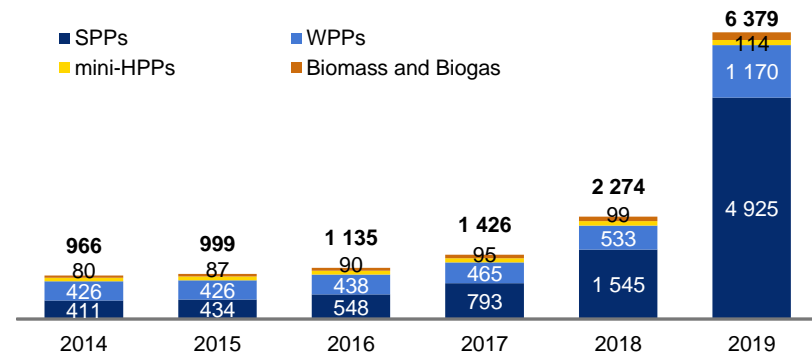
Ukraine has committed to the **Green Energy Transition** concept with key 2050 targets including:

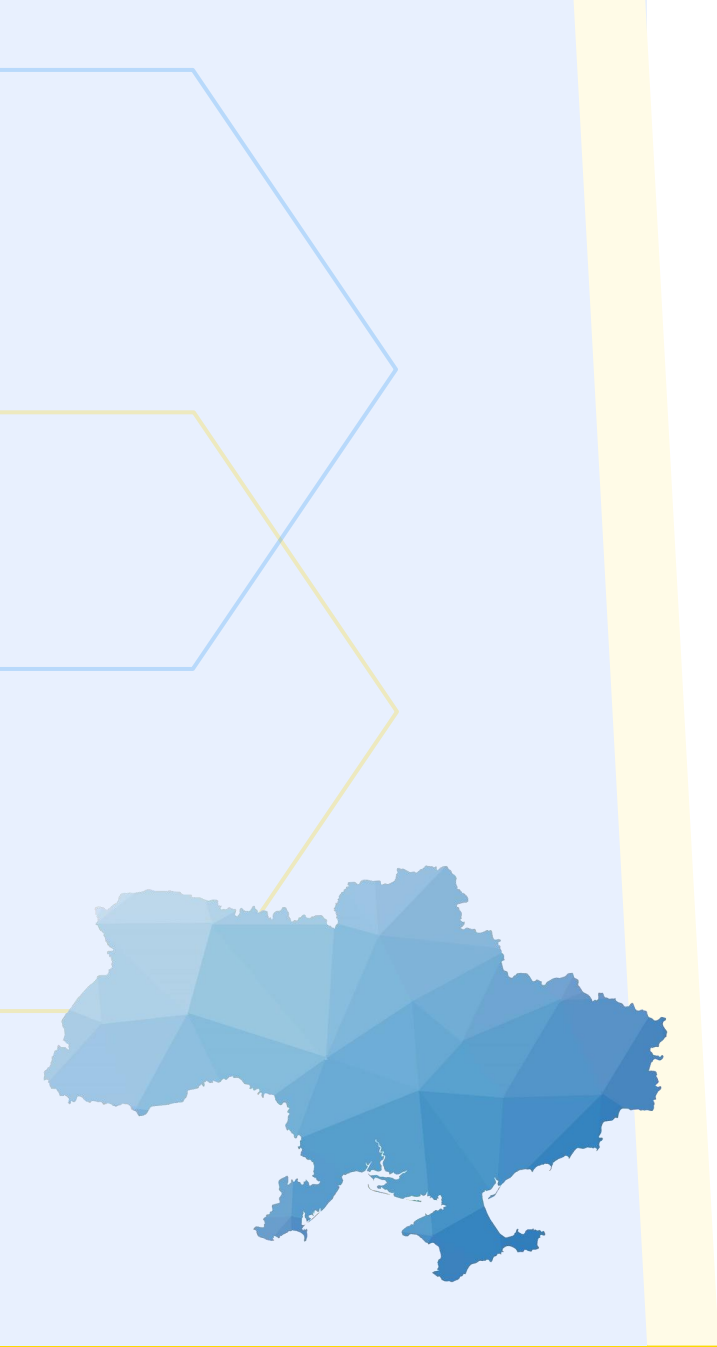
- Increasing renewable energy share in the national energy balance up to 70% by 2050
- Decreasing coal energy share and full replacement of coal-fired power plants by 2050
- Further reduction of nuclear generation to 20-25%
- Full integration of the Ukrainian United Energy System into the pan-European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

Appendix A

Solid foundation for long-term economic growth despite current crisis



Accumulated economic buffer to curb Covid-19 impact (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

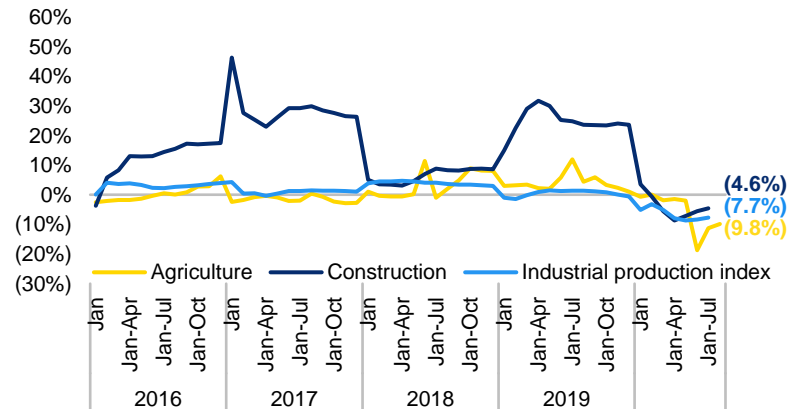
+18%

2019 US\$ 3,659

Comments

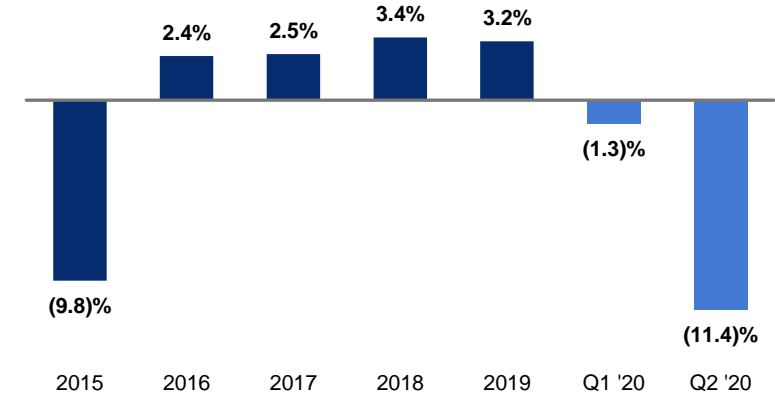
- ▶ **Ukraine's real GDP growth declined at 1.3% and 11.4%** (y-o-y) in **Q1 2020 and Q2 2020**, respectively (compared to 3.2% growth in 2019 and 3.4% in 2018), on the back of Covid-19 spread and related economic disruptions
- ▶ Accordingly, the **key economic sector outputs contracted as well with agriculture being impacted the most** (-9.8% y-o-y over Jan-Aug 2020), followed by industrial production (-7.7% y-o-y over Jan-Jul 2020) and construction (-4.6% y-o-y over Jan-Jul 2020)
- ▶ Despite Covid-19, the **private consumption in Q1 2020 remained strong**, although the fixed capital accumulation reacted negatively more rapidly
- ▶ While in **Q2 2020 the decline in private consumption was predominately pulling the real GDP change down**

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



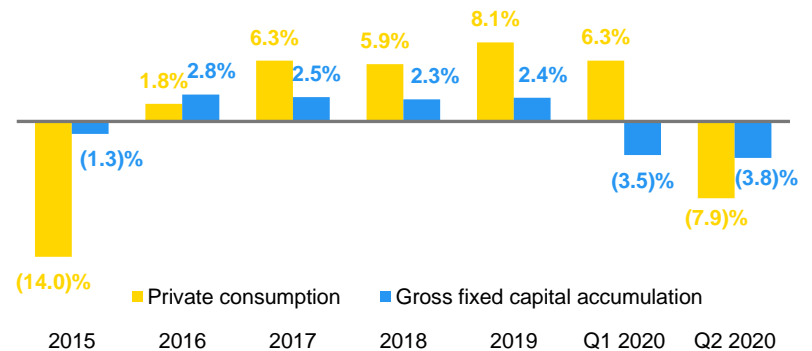
Source State Statistics Service of Ukraine

Real GDP growth (y-o-y), %



Source State Statistics Service of Ukraine

Component contribution into real GDP growth, %



Source State Statistics Service of Ukraine

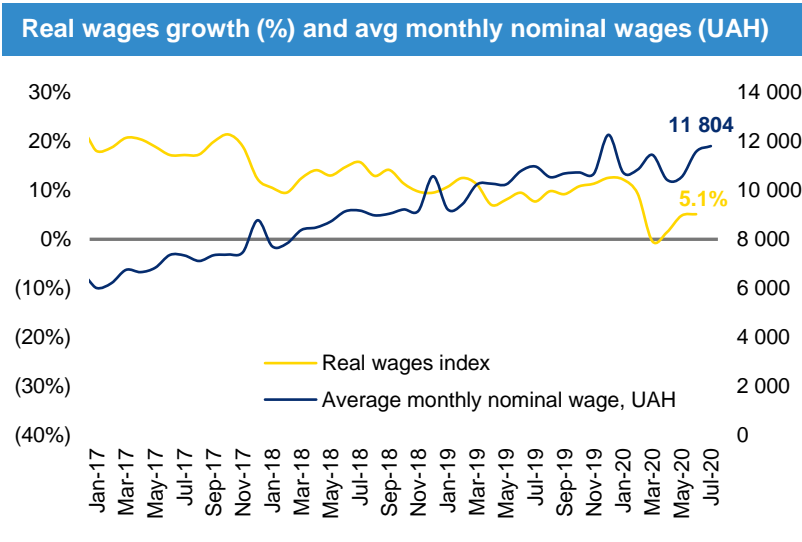
Notes

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

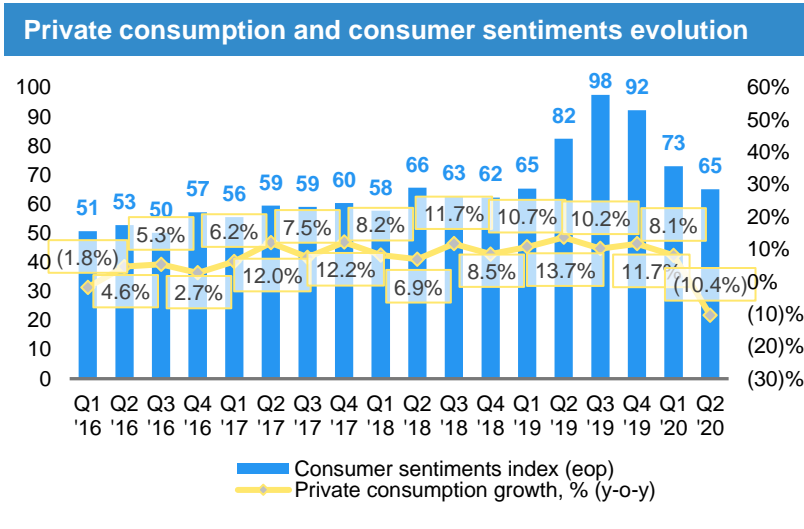
Accumulated economic buffer to curb Covid-19 impact (2/3)

Comments

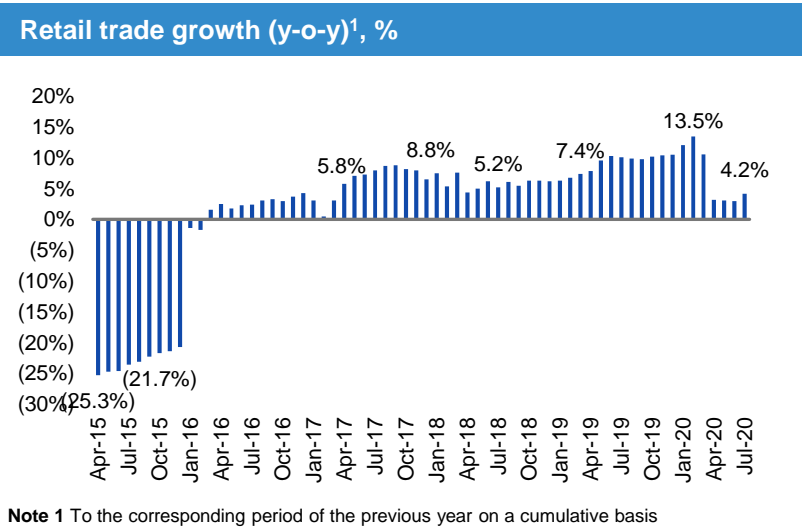
- ▶ **Consumer demand remained high and being the main driver of Ukraine's real GDP growth up to Q2 2020**
 - Final private consumption grew by 8.1% (y-o-y) in Q1 2020 followed by a 10.4% (y-o-y) decline in Q2 2020
 - Retail trade turnover growth decreased from above 10% in months before April 2020 to around 3-4% afterwards
- ▶ Consumer demand was driven by a number of factors, including among others **improving consumer sentiments** (before Q2 2020), **rise in real wages, consumer lending and personal money remittances**
 - Real wages went up by 5.1% y-o-y in July 2020 and by 6.3% y-o-y in Jan-Jul 2020 cumulatively



Source State Statistics Service of Ukraine



Source GFK, State Statistics Service of Ukraine



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

Source State Statistics Service of Ukraine

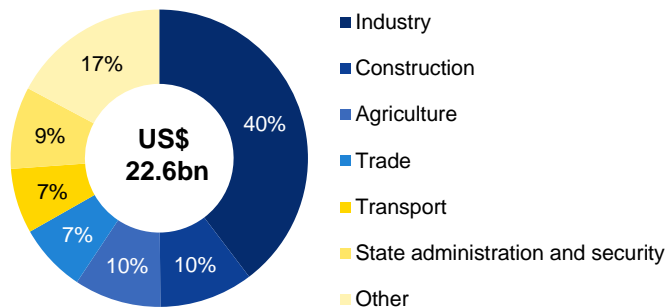


Accumulated economic buffer to curb Covid-19 impact (3/3)

Comments

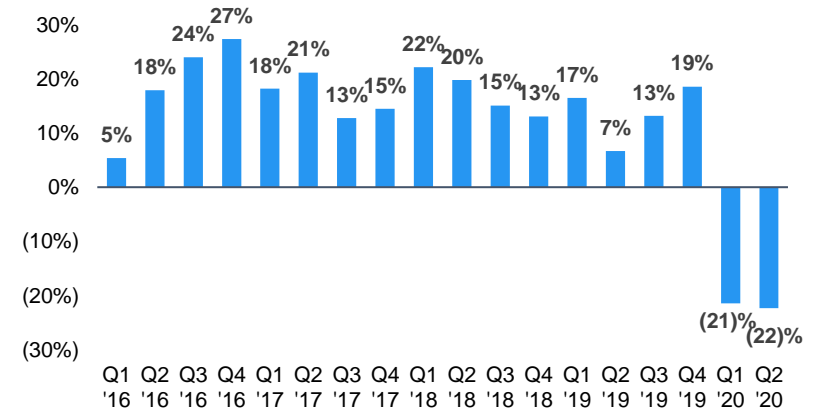
- ▶ **Although industrial output contracted in 7m 2020**, some sectors managed to keep the stable or upward dynamics, incl. production of chemicals (+8.6%), pharma products (+1.0%), and food processing (+0.1%)
- ▶ **Gross fixed capital went down by 22.3% in Q2 2020** on the back of the economic disruption caused by Covid-19
- ▶ Despite 34.9% capital investments decline in H1 2020, the consistent growth in the previous periods (e.g. 15.5% y-o-y in 2019) is expected to solidify Ukraine's prospects for quick economic recovery post Covid-19 outbreak
 - **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, %



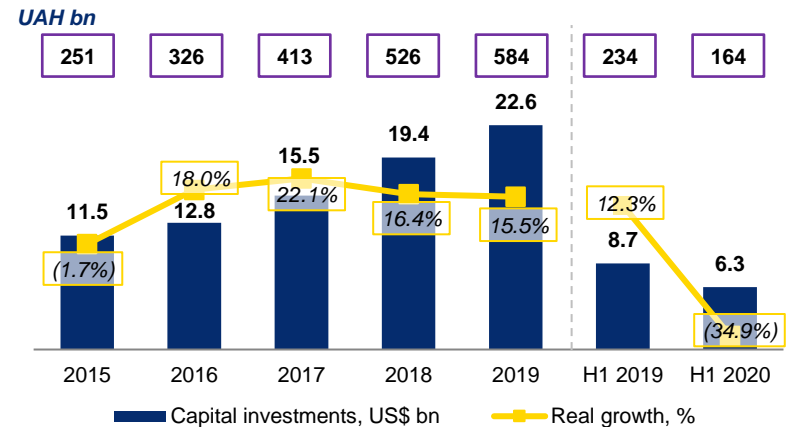
Source State Statistics Service of Ukraine

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 (7m 2020)

| UAH m | State budget general fund | | | Overall state budget | | |
|---------------------------------------|---------------------------|------------------|---------------|----------------------|------------------|--------------|
| | 7m 2020 Actual | 7m 2020 Plan | % diff. | 7m 2019 Actual | 7m 2020 Actual | % diff. |
| Revenues | 508,887 | 541,290 | (6%) | 584,137 | 588,456 | +1% |
| Tax revenues, incl. | 384,369 | 414,238 | (7%) | 440,460 | 422,095 | (4%) |
| Personal income tax and income charge | 63,863 | 65,849 | (3%) | 61,802 | 63,863 | +3% |
| Corporate profit tax | 55,038 | 54,607 | +1% | 53,671 | 55,038 | +3% |
| Fee for the use of mineral resources | 15,256 | 22,003 | (31%) | 28,389 | 15,467 | (46%) |
| Excises | 39,637 | 38,379 | +3% | 69,840 | 72,416 | +4% |
| VAT (net of VAT reimbursement) | 198,238 | 220,320 | (10%) | 207,741 | 198,238 | (5%) |
| Export and Import duties | 11,046 | 11,836 | (7%) | 16,993 | 15,332 | (10%) |
| Non-tax revenues | 124,518 | 127,052 | (2%) | 143,677 | 166,361 | (14%) |
| Expenditures | (566,512) | (641,444) | (12%) | (586,491) | (636,467) | +9% |
| General public functions, incl.: | (89,172) | (101,129) | (12%) | (90,203) | (90,792) | +1% |
| Debt service | (68,248) | (74,617) | (9%) | (65,024) | (68,248) | +5% |
| Security and Defense | (126,121) | (143,047) | (12%) | (124,993) | (137,492) | +10% |
| Economic activity | (15,674) | (26,480) | (41%) | (28,621) | (47,917) | +67% |
| Protection of environment | (2,051) | (2,758) | (26%) | (2,236) | (2,262) | +1% |
| Municipal utilities and services | - | - | - | (23) | (12) | (49%) |
| Healthcare | (40,765) | (61,729) | (34%) | (18,578) | (42,273) | +128% |
| Intellectual and physical development | (4,138) | (5,363) | (23%) | (4,545) | (4,196) | (8%) |
| Education | (19,561) | (21,341) | (8%) | (28,995) | (29,192) | +1% |
| Social welfare | (188,129) | (198,322) | (5%) | (126,447) | (188,386) | +49% |
| Interbudgetary transfers | (80,901) | (81,275) | (0%) | (161,849) | (93,946) | (42%) |
| Net lending | 602 | (653) | (192%) | (504) | (3,184) | +532% |
| Primary balance | 11,224 | (26,189) | (143%) | 62,167 | 17,052 | (73%) |
| Overall state budget balance | (57,024) | (100,806) | (43%) | (2,857) | (51,196) | - |

Source: State Treasury of Ukraine



Consolidated budget execution (7m 2020)

| UAH m | 7m 2019 Actual | 7m 2020 Actual | % change | FY 2019 Actual | FY 2020 Plan | % change |
|---------------------------------------|------------------|------------------|---------------|--------------------|--------------------|---------------|
| Revenues | 744,617 | 747,542 | +0% | 1,289,849 | 1,301,087 | (1%) |
| Tax revenues | 590,592 | 575,474 | (3%) | 1,070,322 | 1,071,516 | (0%) |
| Personal income tax and income charge | 153,761 | 159,555 | +4% | 275,458 | 294,693 | (7%) |
| Corporate profit tax | 59,048 | 60,410 | +2% | 117,317 | 108,170 | +8% |
| Fee for the use of mineral resources | 31,254 | 17,530 | (44%) | 52,025 | 37,110 | +40% |
| Excises | 76,805 | 79,929 | +4% | 137,076 | 142,261 | (4%) |
| VAT (net of VAT reimbursement) | 207,741 | 198,238 | (5%) | 378,690 | 381,200 | (1%) |
| Property taxes | 22,081 | 20,394 | (8%) | 37,994 | 36,899 | +3% |
| Export and Import duties | 16,993 | 15,332 | (10%) | 30,086 | 28,621 | +5% |
| Other taxes and duties | 22,910 | 24,086 | +5% | 193,577 | 42,562 | +355% |
| Non-tax revenues | 154,025 | 172,067 | +12% | 219,527 | 229,571 | (4%) |
| Expenditures | (721,191) | (776,334) | +8% | (1,372,351) | (1,622,530) | (15%) |
| General public functions, incl.: | (108,955) | (111,672) | +2% | (203,109) | (246,451) | (18%) |
| Debt service | (65,419) | (68,905) | +5% | (120,096) | (146,538) | (18%) |
| Security and Defense | (125,636) | (138,450) | +10% | (250,322) | (279,149) | (10%) |
| Economic activity | (60,653) | (83,549) | +38% | (154,218) | (238,958) | (35%) |
| Protection of environment | (3,368) | (3,133) | (7%) | (9,731) | (11,193) | (13%) |
| Municipal utilities and services | (15,146) | (15,034) | (1%) | (34,490) | (31,858) | +8% |
| Healthcare | (65,335) | (73,100) | +12% | (128,385) | (163,175) | (21%) |
| Intellectual and physical development | (15,673) | (15,307) | (2%) | (31,550) | (33,154) | (5%) |
| Education | (133,517) | (135,695) | +2% | (238,759) | (267,448) | (11%) |
| Social welfare | (192,908) | (200,393) | +4% | (321,787) | (351,145) | (8%) |
| Net lending | (692) | (3,275) | +373% | (4,763) | (11,158) | (57%) |
| Primary balance | 88,153 | 36,838 | (58%) | 32,832 | (186,064) | (118%) |
| Consolidated budget balance | 22,734 | (32,067) | (241%) | (87,264) | (332,601) | (74%) |

Source State Treasury of Ukraine



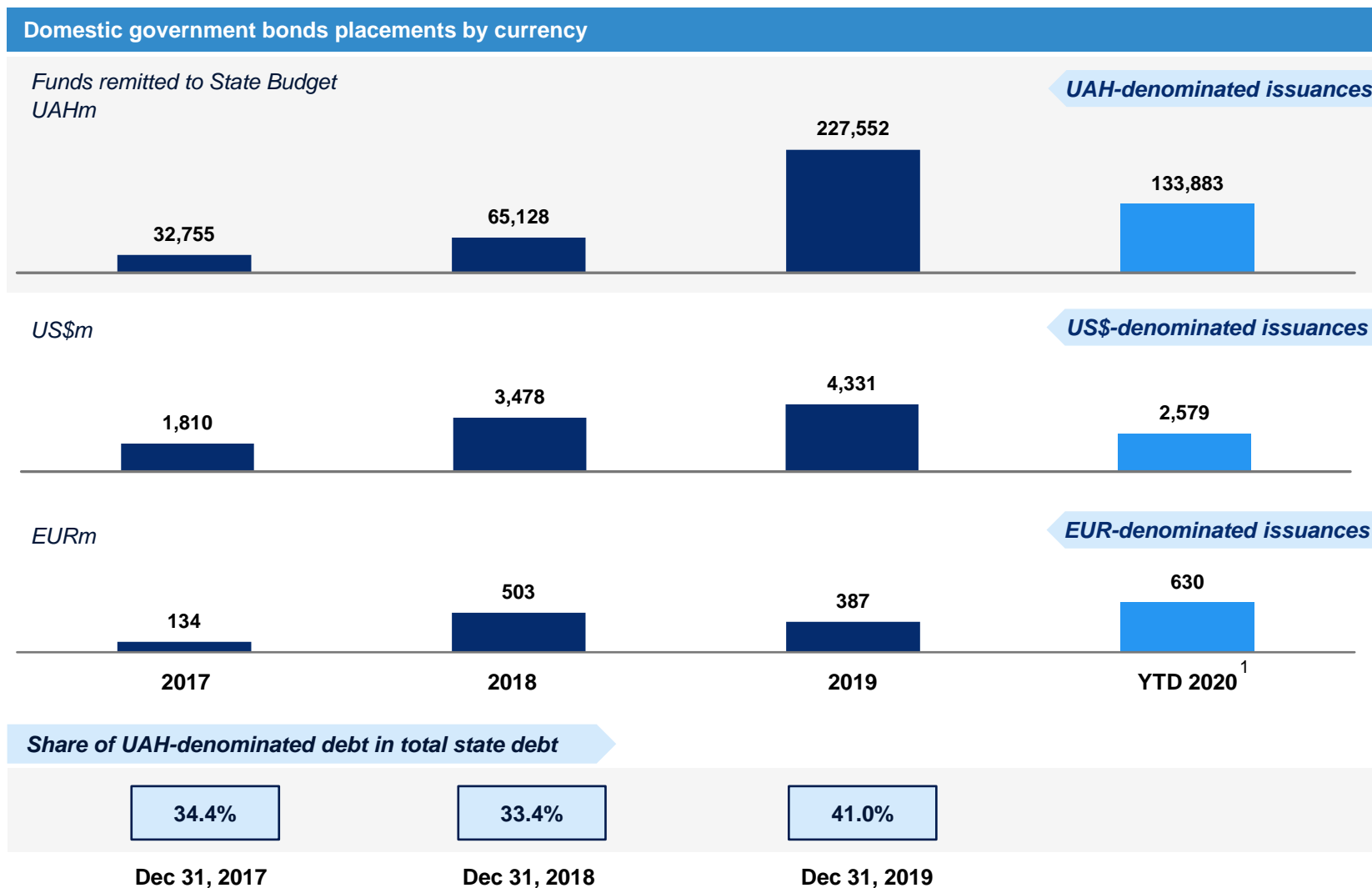
Appendix C

Prudent debt management strategy



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 378bn in 2020
- In line with MTDS objectives, FX-denominated issuances are kept relatively stable



Source Ministry of Finance

Note 1 As of September 21, 2020

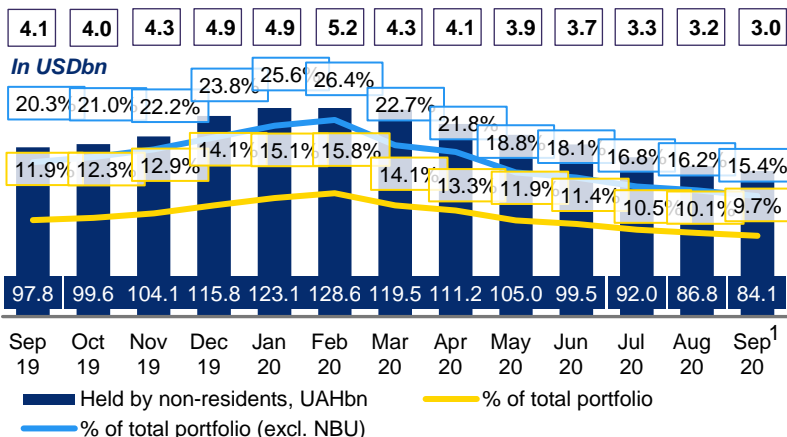


Ukraine's domestic government bond holders

Key highlights

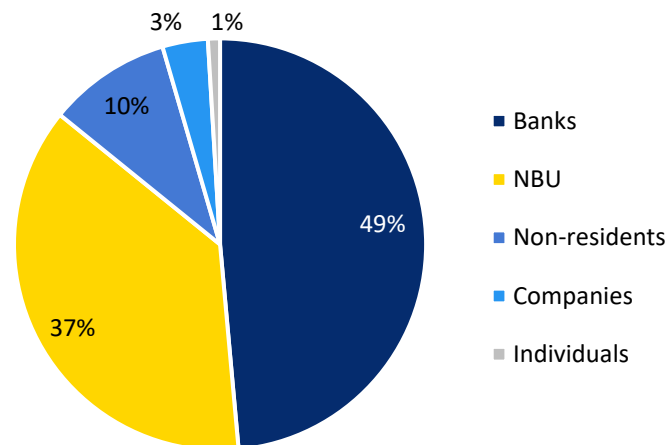
- ▶ With a **c.48.6% share**, banks are currently the largest holder of domestic government bonds followed by the **NBU**, which accounts for **c.37.3% of the portfolio**¹
- ▶ At c.9.7% of total outstanding Ukrainian domestic government bonds as of September 2020¹, the **portfolio held by non-residents has slightly decreased over the LTM** (initially boosted to 15.8% by Feb 2020 and further declining in line with EM's capital outflow)
- ▶ **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 bonds held by non-residents (eop)

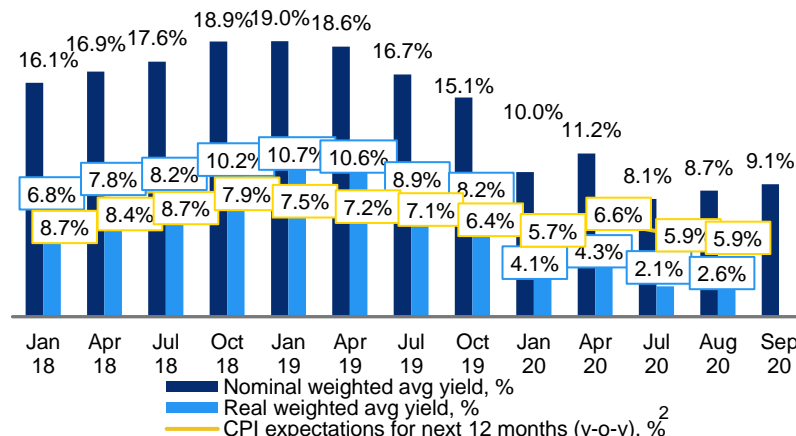


Source Ministry of Finance, NBU

Domestic government bond holders¹



Nominal and real weighted avg yields at primary auctions, %



Source Ministry of Finance of Ukraine, NBU

- On August 28, the NBU has eliminated obstacles for foreign investors to enter the Ukrainian securities market through establishment of the **direct access to the purchase and sale of government bonds with the help of a "nominee holder"**
- From now on Ukrainian banks that have accounts with the NBU depository will be able to open depot accounts for its foreign clients for the purpose of buying and selling Ukrainian government bonds

Notes

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



Upward trend in credit ratings

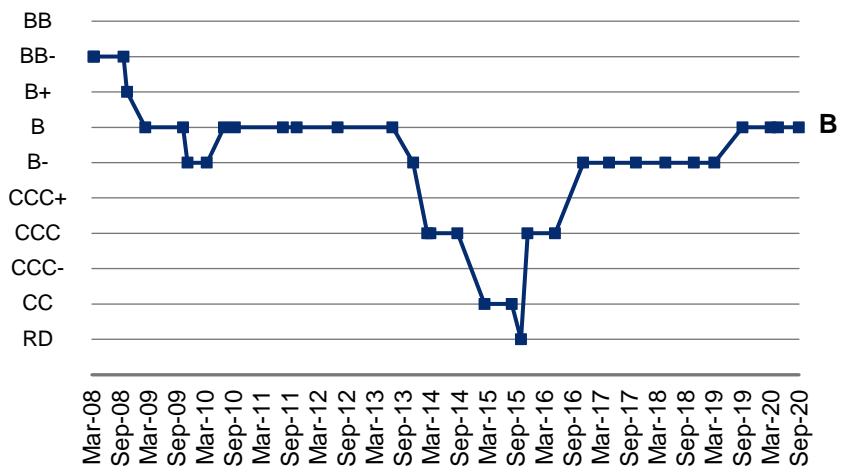
FitchRatings

Rating: B, Stable

Last update: Sep 4, 2020, reaffirmed at B, outlook Stable

Key rating drivers of the last review:

- ▶ Credible macroeconomic policy framework that had lowered inflation and narrowed fiscal deficits prior to the coronavirus shock
- ▶ Record of multilateral support, incl. IMF programme
- ▶ Increased international reserves, although still low external liquidity relative to high financing needs associated with large sovereign debt repayments
- ▶ Improved supervision and capitalization levels and NBU's liquidity support have reduced risks to financial stability



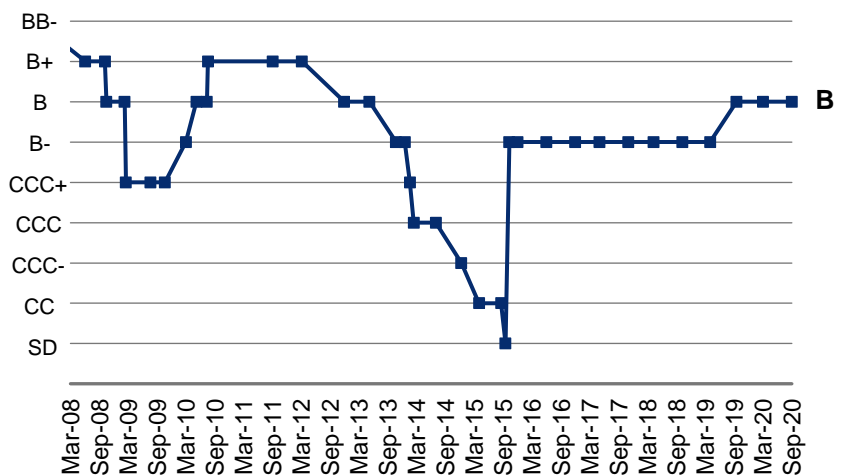
STANDARD & POOR'S

Rating: B, Stable

Last update: Sep 11, 2020, reaffirmed at B, outlook stable

Key rating drivers of the last review:

- ▶ FX reserves provide a cushion against potential adverse developments in the external financing environment
- ▶ Stronger macroeconomic management since 2015
- ▶ The ongoing implementation of reforms helps the government access commercial debt markets and receive concessional funding from IFIs
- ▶ Government external debt issuance, engagement with IFIs, and favorable current account dynamics have continued to support FX reserves through 2020






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"> • EUR 1.2bn EU MFA (Jun 2020) • 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>13 positions increase in 2019 Open Budget Index</p> <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 forest inventory (June 2020) • 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)

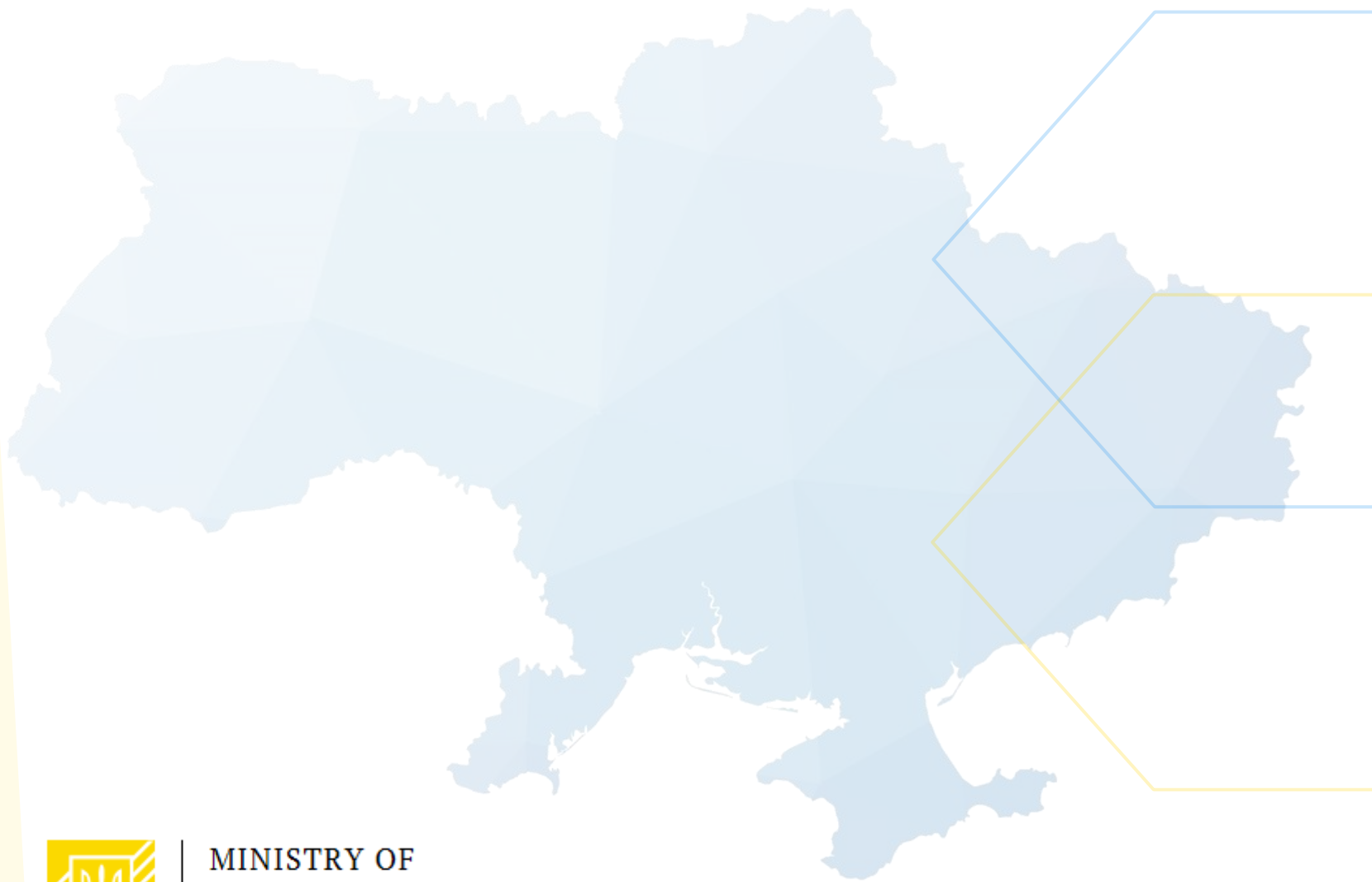
| | Key areas | 2019 - 2020 update | Selected results |
|--|--|--|---|
| Financial sector  | <ul style="list-style-type: none"> ▶ Monetary policy: inflation-targeting framework ▶ Banking sector: sector clean-up, currency controls liberalization ▶ NBU role: enhancement of the NBU's supervisory and regulatory role | <ul style="list-style-type: none"> • Law on financial markets (Jun 2020) • 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) | <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"> • Liberalization of gas market for private consumers – cancellation of PSO imposed on Naftogaz (Aug 2020) • Unbundling of Naftogaz gas transmission system completed (Jan 2020) • Receipt of compensation by Naftogaz following its victory over Gazprom in Stockholm Arbitration (Dec 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**

