



Ukraine: in the midst of elections

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2019 outlook for Ukraine

IMF helps Ukraine to muddle through the election year: A new \$3.9bn SBA significantly raises the Ukraine's ability to repay the US\$9bn FX debt in 2019. However, the government still needs to refinance 100% of domestic FX bonds and issue US\$1-2bn Eurobonds in order to go through US\$1.6bn redemptions in September

Fiscal policy will be more restrained: The 2019 state budget contains current spending and targets deficit at 2.3% GDP. Risks of underperforming revenues are high and may lead the government to be even more cautious on spending

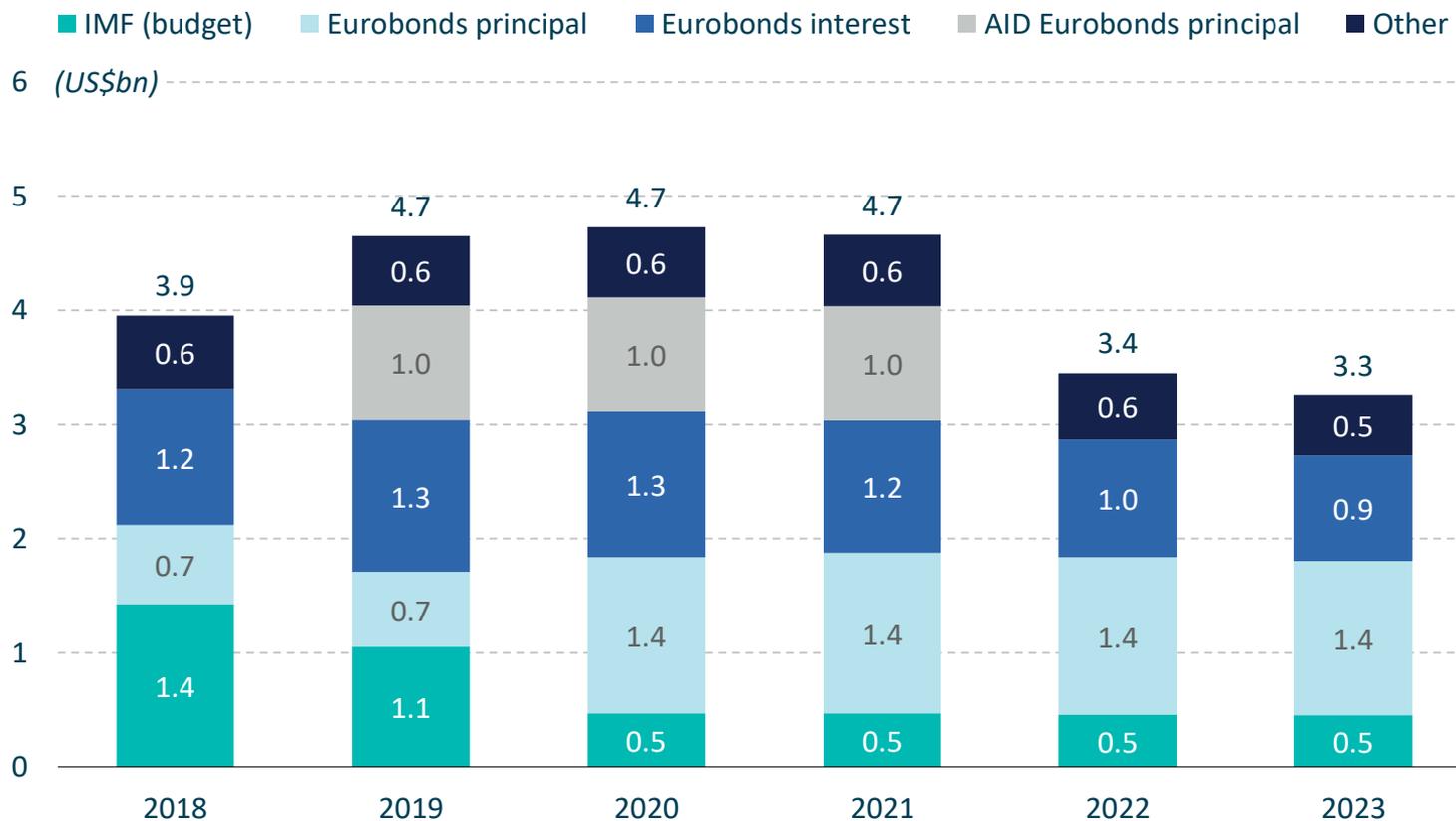
Monetary policy will remain tight, with gradual rate decrease: High risk of inflation rising significantly above the $5 \pm 1\%$ target should keep the NBU conservative. The central bank may slacken its key policy rate as soon as in 2Q19, but further cuts will be cautious and should leave the key rate at 16% as of YE2019

Restrictive policies and the cooling world economy weigh on GDP growth and inflation: Real GDP growth will slow to 2.3% in 2019 from 3.5% in 2018, while inflation will decelerate to 8.5% as of YE2019

Current account deficit tapers off: It will decline to 3.3% of GDP in 2019 from 3.8% of GDP in 2018, supported by rising remittances from labour migrants and lower dividend repatriation. UAH will continue its soft depreciation to UAH29.5/USD by YE2019

External debt: Repayments rise in 2019-2021

Ukraine's external debt repayments peak at annual US\$4.7bn in 2019-21



Source: Ministry of Finance of Ukraine, ICU

IMF agreement: Key for servicing FX debt in 2019

Sovereign FX debt repayments and their financing sources, 2019, US\$bn

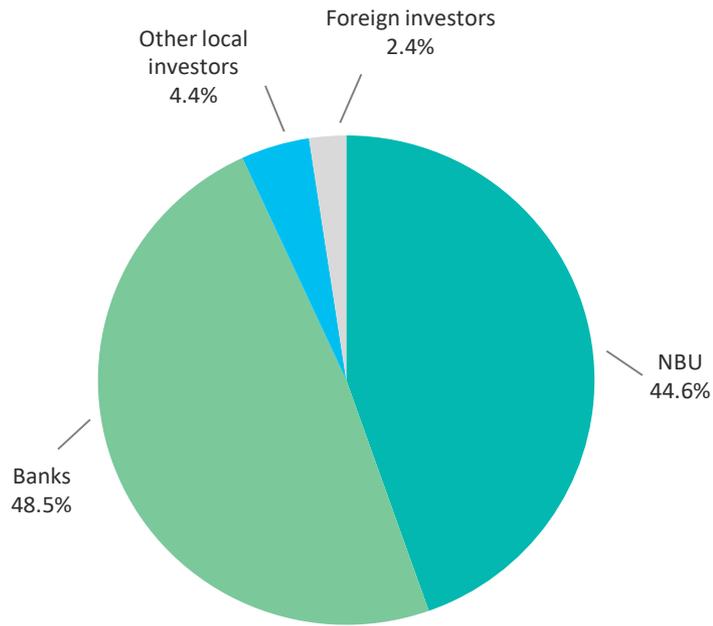
Government FX accounts at 1Jan19	1.4		
Government FX funding	8.5	Government FX debt payments	9.2
IMF	1.0	IMF	1.0
Eurobonds	2.0	Eurobonds	0.7
World Bank	0.6	US Guarantee	1.0
EU	0.6	Other external debt repayments	0.5
Domestic FX bonds	4.3	Domestic FX bonds	4.3
		Interest payments	1.7
Assumed balance at the end of 2019	0.7		

Source: Ministry of Finance of Ukraine, ICU

- IMF's SBA unlocked financing from the EU (EUR1bn) and the WB (\$0.8bn in guarantees)
- To meet FX debt in 2019, government also needs to refinance 100% of domestic bonds
- The government may ask for channelling an IMF tranche into the budget in emergency case

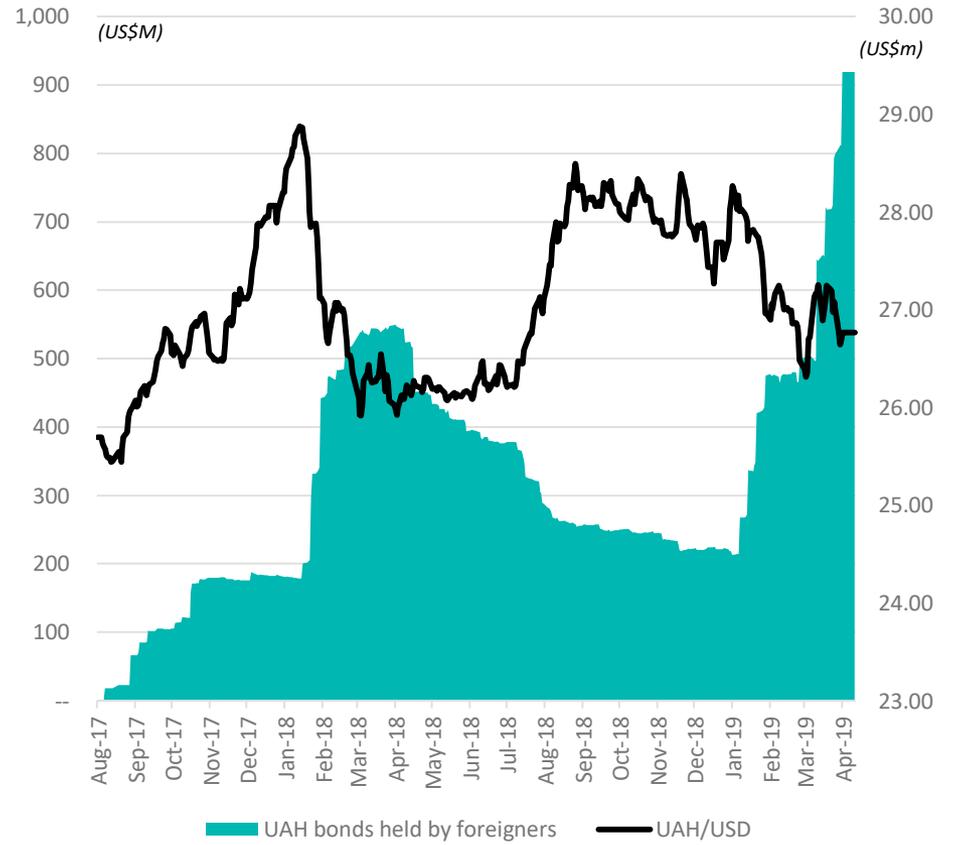
Foreign investors' portfolio is growing

Total structure of domestic bondholders



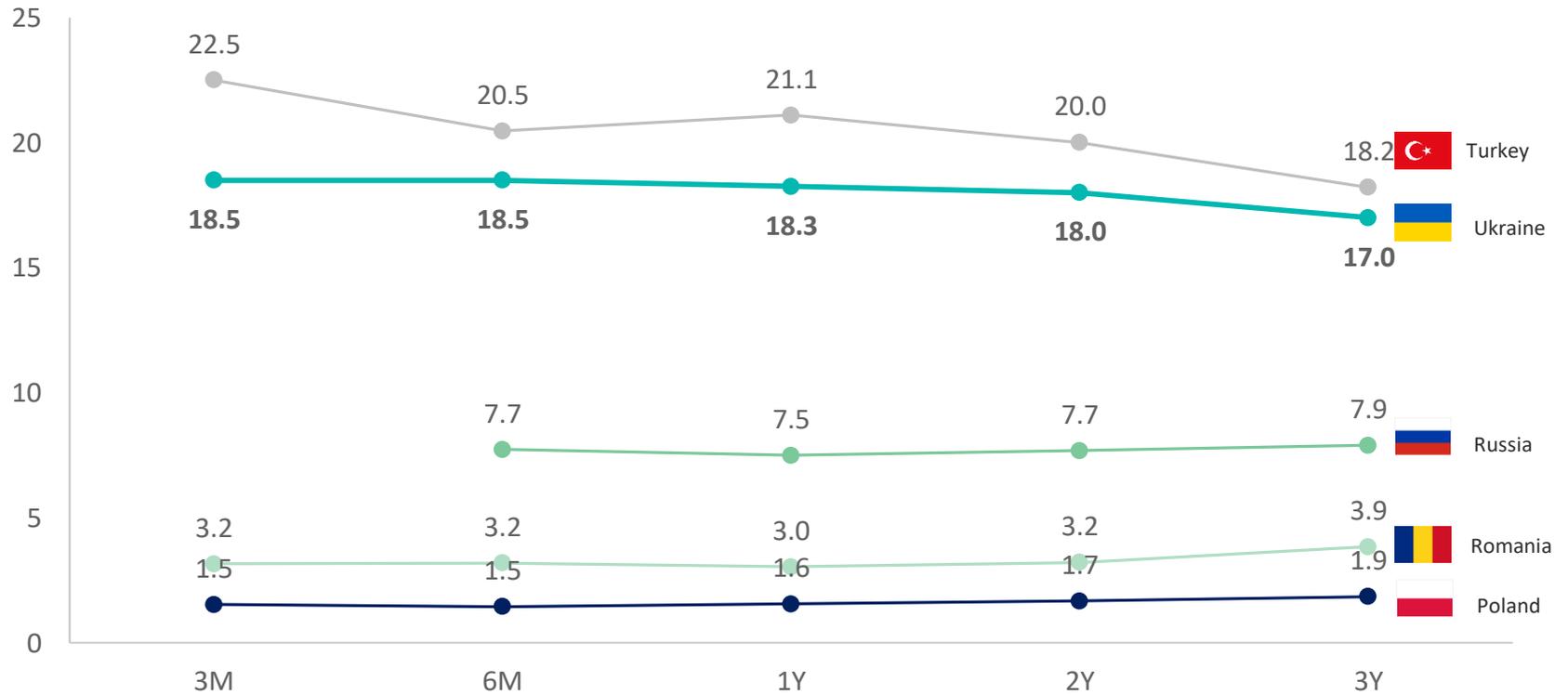
Source: National bank of Ukraine, ICU

Foreign investors' portfolio development



Source: National bank of Ukraine, ICU

Ukrainian local government bonds offer and some peers, %, 2019



The data presented as of the 26th of March, 2019

Tax regime is investor friendly



Government bonds

- Interest income from government bonds (coupon or other income paid by issuer/state) is not taxable in Ukraine
- Capital gains from government bond trading is taxable under the following general rules:
 - 15% rate is applicable on interest-bearing bonds trading gain
 - 18% rate is applicable on zero-coupon (discount) bonds trading gain



Corporate bonds

- Interest income and capital gain/trading income are taxed at 15% rate
- Income from discount on zero-coupon (discount) bonds is taxed at 18% rate



- The rate under the double taxation treaty (DTT) between Ukraine and the country of residence of the investor shall be applied in case such DTT is in place

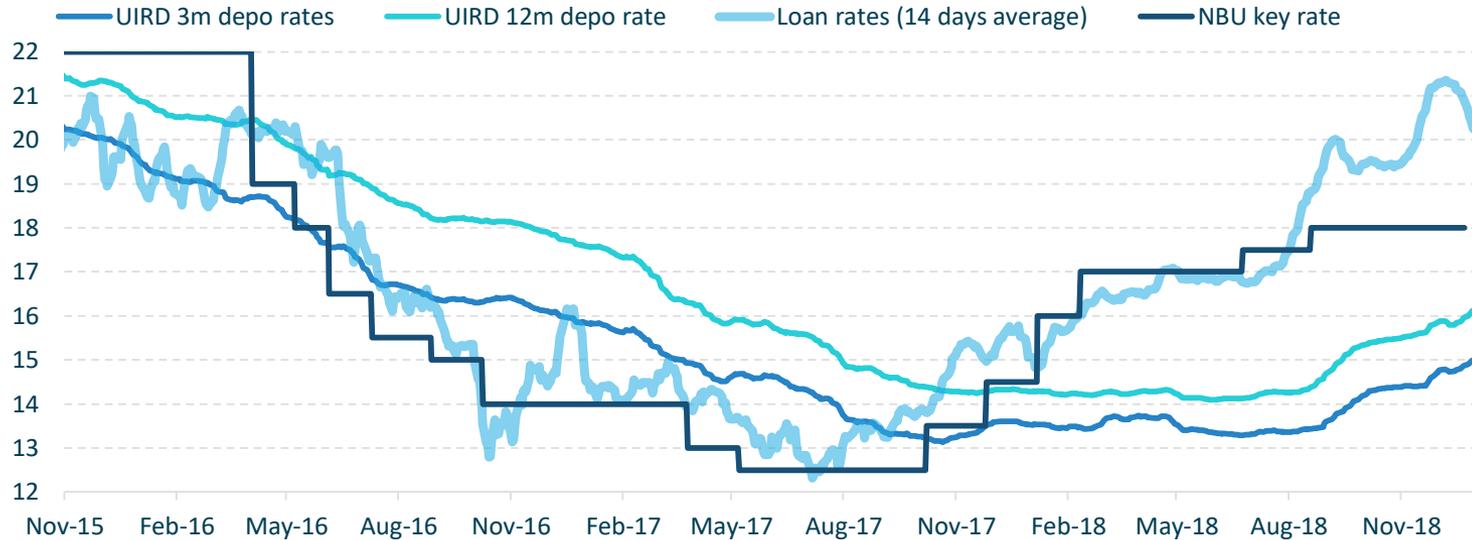


- Ukraine signed agreements with more than 60 countries for avoidance of double taxation

Interest rates: Waiting for the downward cycle

UAH interest rates, %

Credit rates closely followed the pattern of the NBU's key rate



Source: National Bank of Ukraine, ICU

- NBU will be very cautious and abstain from lowering rates below 16% by the end of 2019
- Interest rates on loans are declining after the seasonal liquidity shortage around the New Year; are likely to follow the path of the NBU key rate
- Banks will decrease deposit rates alongside the NBU monetary policy

UAH: Soft depreciation continues

Hryvnia is supported by the tight policies of the National Bank and the government

UAH should average UAH27.5/USD in 2Q19, and then depreciate to average UAH28.8/USD in 4Q19 and UAH29.5/USD by YE2019

Elections, devaluation fears, and softer export markets keep downside risks high for the UAH

The hryvnia's exchange rate, UAH/USD

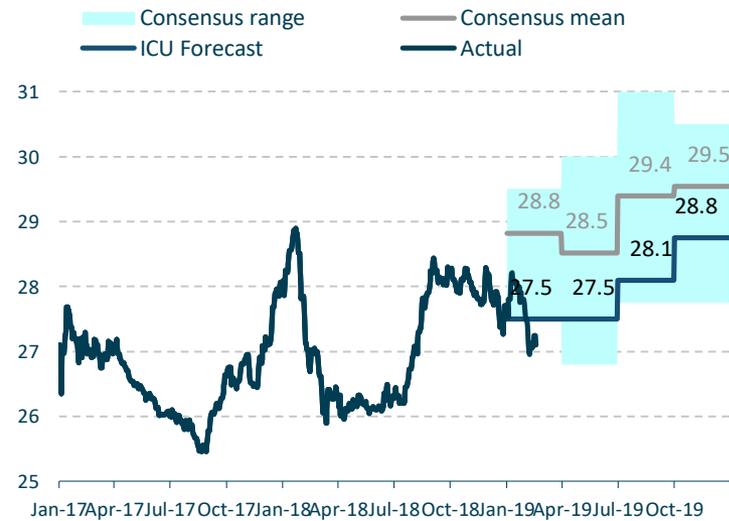
High devaluation expectations changed UAH's seasonal pattern in 2018, but it finished 2018 stronger than 12M ago



Source: National Bank of Ukraine, ICU

UAH/USD forecast

Given no political shocks, we expect the hryvnia to slightly depreciate over 2019, with seasonal strengthening in 2Q19



Source: National Bank of Ukraine, Bloomberg, ICU

Key macroeconomic indicators

Indicator	2015	2016	2016	2018E	2019F
Gross domestic product					
Real GDP (% , YoY)	-10.1	2.4	2.5	3.5	2.3
Nominal GDP (UAHbn)	1,986	2,385	2,983	3,572	4,058
Nominal GDP (US\$bn)	90	93	112	131	144
Inflation					
Headline inflation (% , YoY, e.o.p.)	43.3	12.4	13.7	9.8	8.5
Producer price index (% , YoY, e.o.p.)	25.4	37.5	16.5	14.2	11.3
Exchange rates					
UAH/USD (e.o.p.)	24.0	27.1	28.1	27.7	29.5
UAH/EUR (e.o.p.)	26.1	28.5	33.7	31.7	35.4
External balances					
Trade balance (% of GDP)	-2.9	-6.9	-7.7	-9.1	-8.6
C/A balance (% of GDP)	1.8	-1.4	-2.2	-3.8	-3.3
Interest rates					
NBU's key policy rate (% , e.o.p.)	22.0	14.0	14.5	18.0	16.0
Fiscal balance					
Budget balance (% of GDP)	-2.3	-2.9	-1.5	-2.4	-2.3

Source: State Statistics Service of Ukraine, National Bank of Ukraine, ICU

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