

#UkrFinForum17

Day 1. Panel 2-1

Ukraine's position in the global economy: How can Ukraine generate breakthrough growth to position itself in the global economy? How can Ukraine generate breakthrough growth to catch up with the countries on EU's eastern flank?

Ukraine's **Minister of Finance, Oleksandr Danyliuk**, believes that Ukraine is not yet even halfway through the planned reforms. Further, the people have only experienced difficulties, and have not yet enjoyed their fruits. Among the priority reforms, he noted reform of the tax service, land reform, privatization of state owned enterprises, the creation of a financial investigation service, and the reform of the state executive service.

Return to the Eurobond market wasn't easy, but Danyliuk is very pleased nonetheless. He was particularly pleased that the first offering was for a record 15-year placement. Ukraine managed to shift its debt repayment schedule, which would peak in 2019. The Minister expects Ukraine's credit rating to be raised following this successful operation, and, as a result, more favorable conditions for borrowing for both for the public and private sector has been established.

Makar Paseniuk, Managing Director of ICU, believes that priority should be given to attracting equity capital, rather than borrowing. Debt accumulation can lead to a violation of one of the IMF's key requirements—Ukraine's debt to GDP ratio—which would lead to the IMF withdrawing support. Paseniuk feels that privatization of key industries will be a powerful signal for investors who are still waiting on the sidelines, hesitant to invest in Ukraine.

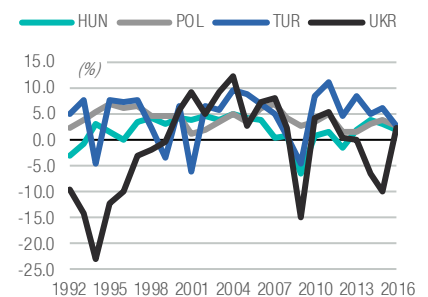
Privatization is one of the key aspects of reform. The potential volume of capital to be raised from the sale of state-owned land is estimated at US\$15-20 billion. A number of transformations have already taken place in the energy sector. Because it is capital intensive, the energy sector requires substantial investment, including for the prevention of technological disasters. The amount required is comparable to the entire IMF programme volume or the current level of NBU FX reserves.

Bureaucrats and businessmen see the effectiveness of privatization differently. For the bureaucrat, the price obtained is always low. Most likely, Ukraine will receive a fairly small price for state assets, yet it is important to find the right buyers. Public enterprises are unprofitable because they do not have a clear, workable business model. In order to ensure foreign investment, the state must play a leading role through deregulation, and establishing the rules of the game. Ukraine has no choice but to reform. Ukraine will follow the direction of the IMF, but in case of intensive reforms, the country should have a stronger negotiating position.

Economist **Timothy Ash** does not see annual growth of 6-7% in the near future for Ukraine. Returning to the Eurobond market is undoubtedly a very positive sign, but care should be taken that it does not dampen the government's desire to further reform the country. There is a risk that in the light of 2019 elections, the authorities

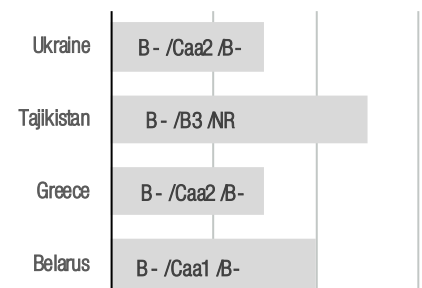
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Real GDP change (% YoY), 1992 - 2016



Sources: World Bank, ICU.

Sovereign ratings (S&P/Moody's/Fitch)



Sources: Moody's, S&P, Fitch.

will lean toward populism. Minister of Finance Danyliuk reinforces Ash's view. He believes that the Eurobond market will immediately close to Ukraine in the event of a rollback of reforms.

Abating the conflict in Donbas will undoubtedly facilitate economic recovery in Ukraine. Putin's pause has opened a window of opportunity for Ukraine to become stronger, including economically.

The country needs direct foreign investment, but it must create a healthier backdrop, and more positive agenda. Unrelenting talk about corruption kills outside interest in the country.



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

WEB www.icu.ua



@ICU_UA

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

STRATEGY AND CORPORATE DEVELOPMENT

Vlad Sinani, Director
vlad.sinani@icu.ua

SALES AND TRADING

Konstantin Stetsenko
Managing Director
konstantin.stetsenko@icu.ua

Liliya Kubytyovych
Asset Management Product Sales
liliya.kubytyovych@icu.ua

Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua

Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Bogdan Vorotilin
bogdan.vorotilin@icu.ua

RESEARCH

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

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