



Focus
Ukraine

Markets
**Macroeconomics and
financial markets**

Research team
**Alexander Valchyshen,
Taras Kotovych**

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Ukraine's capital-market infrastructure and financial instruments for the domestic market

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Improving market infrastructure is crucial to support the making of markets, trading in securities, and attracting investment to Ukraine. Currently, infrastructure inefficiencies and overregulation cause excessive complexity. One of the most challenging problems for Ukraine today involves regulations that non-residents must comply with to access the domestic securities market, according to panellists. In addition to market fragmentation, non-residents face a myriad of issues that limit their access to Ukraine's markets: the high cost of access, excessive documentation, specific financial monitoring, and a requirement to open special accounts etc. This results in a small number of non-resident participants and lowers volume.

Yet, there is considerable interest from non-residents in Ukraine's markets, and facilitating their access would have positive results. Negotiations are underway with international depositories to facilitate opening accounts in Ukraine and give non-residents easier access to the domestic market. There is strong interest in the T-bills market among non-residents, and in the past month, holdings have increased to UAH2.7bn. The Ministry of Finance has been working on developing this market for the past one and a half years. **Deputy Finance Minister Yuriy Butsa** described plans for major changes and measures that have already been taken. The Ministry is gradually reducing the number of bonds issues, thereby accumulating greater volume in each, and it has plans to change the primary dealer system. At this time, the Ministry of Finance does not dictate to the market, but communicates with the primary dealers, who are expected to become market makers and work directly with customers. According to panellists, this function does not work properly now and has to be revised or cancelled.

The National Bank and the National Securities and Stock Market Commission signed a memorandum on market infrastructure development this year to create the kind of infrastructure the country needs. In addition, the development and reform of the National Depository of Ukraine is underway. New software is being introduced, and new products will be launched in 2019. One of the problems that has stalled reform is the Settlement Centre. According to the memorandum, its status will be changed, capital reduced, and its functions focused on clearing operations. It also should become a central counterparty for Repo operations, which will greatly improve the functioning of the secondary market and distribution of liquidity among its participants. Panel members stressed that infrastructure improvements must adhere to best practices of developed markets.

Market anticipates new corporate bonds and bonds from EBRD

Due to the stabilizing economy and improvement of the macroeconomic situation, interest rates in the capital markets have significantly decreased, which increases the interest of the corporate sector for new borrowings. Corporate borrowers have a growing interest in accessing the capital markets, including state-owned companies. Large corporate clients are starting to enter the Repo market as an alternative to deposits. Three-month deposit certificates of the NBU will likely become the benchmark for issuing corporate floating-rate bonds, as well as for the long-awaited issue of European Bank for Reconstruction and Development bonds denominated in the national currency.

Easing access should increase attractiveness of investments in Ukraine

Conclusion. Summing up the discussion, there appears to be renewed interest in domestic capital markets, for both government and corporate bonds. To attract investors, it will be necessary to reform the market infrastructure by improving and simplifying access. "If we want investments coming to us, we need to build the rails, and it is desirable to build them with the same width as in Europe," said **Konstantin Stetsenko, Managing Partner, ICU.**



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 Kubytovych
Asset Management Product Sales
liliya.kubytovych@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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