Focus

Ukraine

Scope

Economics

Analysts

Alexander Valchyshen, Alexander Martynenko, Taras Kotovych, Mykhaylo Demkiv, Dmytro Dyachenko

Quarterly Report

IMF Mission: Deal Possible?

29 AUGUST 2018

READ THE DISCLOSURES SECTION FIRST FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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Executive rundown

IMF programme: Ukraine close to receiving a US$1.9bn tranche. An IMF mission will visit Ukraine on 6-19 September, which means the Fund and Ukraine have made substantial progress on agreeing the outstanding issues, such as gas tariffs for the population and the balanced budget. If negotiations are successful, Ukraine will not only secure receiving a US$1.9bn tranche from the Fund, but also have substantially higher chance to obtain financing from other creditors, which have a working IMF program as the key precondition of their aid: the World Bank's guarantee on a US$0.8bn loan and the EU's EUR1bn macro-financial aid package. Furthermore, successful deal with the IMF may turn financial markets more favourable for the government's plan to issue US$2bn of Eurobonds. Resumed weakening of UAH, government liquidity pressures and a US$10.7bn pile of FX debt to be paid in 2H18-2019 make the IMF deal critical for Ukraine.

State budget: Government is likely to deliver a general deficit of 2.4% GDP, which implies a full-year primary surplus in 2018. Ukraine needs to keep the budget deficit below the targeted 2.5% of GDP as one of the key preconditions for financing from the IMF. Thus, the government should refrain from further loosening of fiscal policy in the pre-election year. The 2018 budget plan is under threat of underperformance, because of too optimistically estimated revenues from import duties, rent taxes and privatization. However, the government is likely to exploit its traditional leeway by underfinancing certain segments, most likely subsidies, capex, regional development and budget transfers, to achieve the budget deficit target.

The economic momentum: Holding up. The real GDP growth rate for 2Q18 arrived at +0.9% QoQ SA or +3.6% YoY, close to our expectations. The key drivers, household consumption and fixed investments, keep showing quite noticeable rates of growth. This reinforces our previous forecast that full-year growth in 2018 will be +3.5% YoY. For 2019, the growth is seen slowing down towards less than +2% YoY, as fiscal stimulus fades, interest rates remain high, the main trading partner economies slow down and external refinancing needs increase.

Inflation: Acceleration likely, but contained by NBU. Despite the slowdown in inflation to 8.9% YoY and deflation of 0.7% MoM in July, inflation is likely to reaccelerate, driven by rising disposable incomes, elevated energy prices, utility tariffs and the weakening hryvnia. In our view, headline inflation is to reach around 10% level up by YE2018.

Ukrainian banking sector: Back to profitability, as banks have finished making provisions for NPLs. ROE reached a healthy 12%, while the banking sector earned a net profit of UAH8.3bn in 1H18. Banks benefit from the rise of net interest margins as deposit rates show little growth despite the continuing cycle of rate increases. Retail lending in the national currency is growing at 40% YoY due to the low basis of comparison and improved of consumer expectations. Banks will focus on consumer lending and loans to SME due to the lack of creditworthy large borrowers and overall unwillingness to work with large corporates.

UAH interest rates: NBU likely to raise the key rate one more time in 2H18. Concerns about the possibility of higher-than-expected consumer prices, as well as the threat of leaving the cooperation programme with the IMF blocked have lead the National Bank of Ukraine to raise the key rate to 17.5% in July. Furthermore, inflation reacceleration is likely and the risks of poor sentiment in financial markets for emerging economies and Ukraine are high even with the IMF program up and running. Hence, we expect that the NBU will make another 50 bps hike in its key rate in September.

UAH FX rate: Volatile, but finishing 2018 near UAH28/USD. Since mid-June, the hryvnia has lost more than 6%, pressed by devaluation expectations and the start of high seasonal demand for the USD. Nevertheless, we keep our previous FX projections intact and expect the hryvnia to stay near the UAH28/USD level at YE2018. We think the key mitigating factor for the hryvnia will be successful unlocking of the IMF program and the resulting FX inflows from the Fund and other international financial institutions in 4Q18.

Ukraine's economy

Sovereign debt: IMF deal critical

- **US$3.4bn of FX debt repayments in 2H18 and US$7.3bn in 2019 are the main problem for MoF, which has seen lack of external budget financing so far this year**
- **With the IMF having scheduled its mission to Kyiv in September, Ukraine is much closer now to unlocking the Fund's programme, getting access to macro-financial assistance from other international creditors and more benevolence from investors**

IMF tranche will unlock support from other international creditors and allow new Eurobond issue

IMF mission will visit Kyiv during 6–19 September, which means that the sides have achieved considerable progress with regard to the remaining conditions for Ukraine to receive the tranche, namely bringing the gas tariffs for the population in line with market prices and balancing the 2018 state budget deficit below 2.5% GDP.

Resumed cooperation with the IMF will not only secure a US$1.9bn tranche for Ukraine, but will unlock support from other international creditors that have a working IMF program as precondition for their financing. Therefore, Ukraine may also receive $0.8bn under World Bank's guarantee and EUR1bn of the EU's macro-financial aid. The IMF support will also improve the market conditions for Ukraine, and the MoF should be able to make a new Eurobond issue or re-open UKRAIN-32 in 4Q18.

FX debt repayments are the main challenge for the MoF

FX debt repayments are the greatest dilemma for the MoF. Ukraine has to repay US$3.4bn in 2H18 and US$7.3bn in 2019 (except recent US$725m half-year callable bond issue). Out of the total US$10.7bn to be paid in 2H18-2019, US$8bn will be principal repayments, including US$4.1bn owed abroad. US$2.4bn should be paid in 2H18, and US$5.6bn next year, including US$0.9bn and US$3.2bn owed abroad.

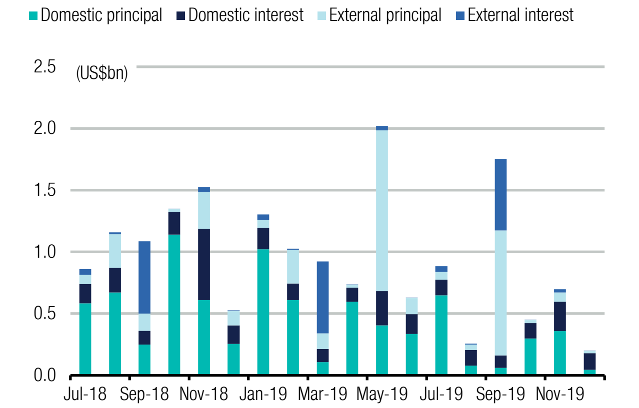
Table 1. Government FX debt payments and their funding, 2H18-2019 (US$bn)

	2H18	2019	2H18-19		2H18	2019	2H18-19
Government FX debt payments	**3.4**	**7.3**	**10.7**	**Government FX funding**	**5.4**	**4.8**	**10.2**
IMF	0.7	1	1.7	IMF	1.9	--	1.9
Eurobonds	0	0.7	0.7	Eurobonds	1	1	2
US Guarantee	0	1	1	World Bank	0.4	0.4	0.8
Domestic FX bonds	1.7	2.6	4.3	EU	0.4	0.8	1.2
Interest payments	1	3.7	4.7	Domestic FX bonds	1.7	2.6	4.3

Sources: Ministry of Finance of Ukraine, World Bank, European Commission, IMF, ICU.

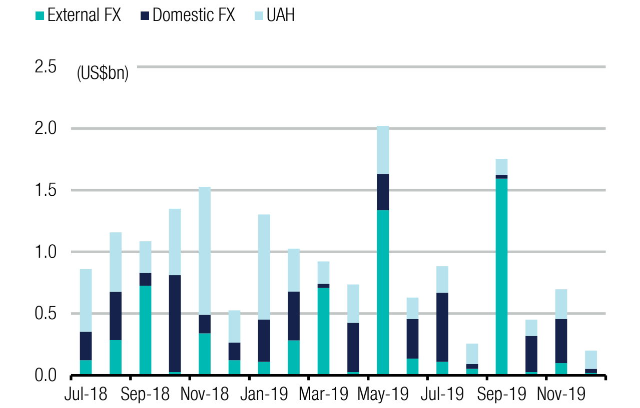
Domestic repayments in FX will most likely be refinanced from local sources according to the agreement with the IMF. The MoF can borrow more FX bonds from the domestic market to cover some external debt repayments, but will likely be forced to raise rates even higher.

Chart 1. Schedule of Ukraine's debt service by debt origin



Source: Ministry of Finance of Ukraine, ICU.

Chart 2. Schedule of Ukraine's debt service by currency



Source: Ministry of Finance of Ukraine, ICU.

High rates attracted investors to local-currency debt at the beginning of 2018…

Since the end of January, after NBU increased the key policy rate to 16%, domestic debt in hryvnia became a very attractive for both local and foreign investors. Interest rates increased above 17% for short-term bonds after the key policy rate was increased to 17% this March. As a result, foreign investors increased holdings of local-currency bonds in 1Q18 by UAH9.2bn or about US$360m and gave an additional support to seasonally strengthening hryvnia. Also, non-banking investors and individuals significantly increased their portfolios of domestic, local-currency bonds (see Chart 3 below).

…but trend was reversed in 2Q18…

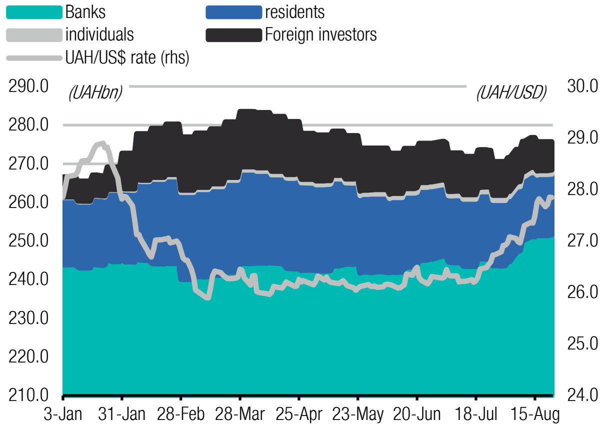
However, the trend reversed in 2Q18, as large redemptions in 2Q18 brought changes in bond portfolios. As of end-1H18, Foreign investors decreased portfolio of local-currency bonds to UAH8.8bn while banks and other local investors replaced redeemed UAH-denominated bonds using new issues of FX-denominated debt, as low demand for local-currency bonds forced the MoF to accelerate offerings of FX-denominated bonds since end of May. This trend continues in 3Q18, as foreign investors' portfolio declined to UAH7.4bn in August.

…while some foreign investors decided to stay in hryvnia till 2023

At the same time, some repayments received in 2Q18 by foreign investors were invested in new notes with longer maturities. After redemption in April-June of UAH0.6bn of credit-link notes (CLNs) issued with local-currency bonds as the reference asset, new CLN amounted to UAH1.1bn were issued. These issues had maturity mostly in 2023, and now total CLN outstanding is UAH6.3bn and 75% of it have maturities in years 2020–2023.

Chart 3. Local-currency bond portfolios

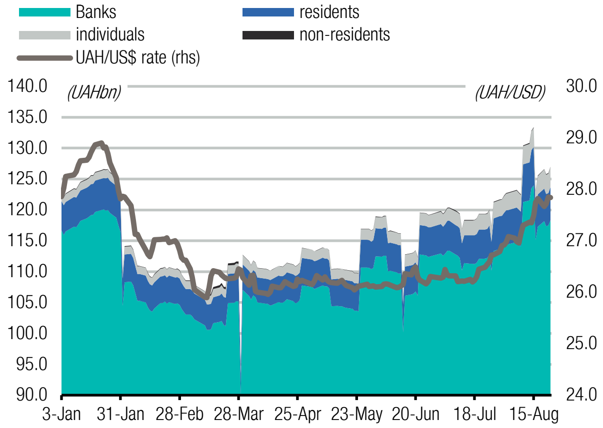
Portfolios of local-currency denominated bonds in 2018 by main bondholders' groups, UAHbn and USD/UAH exchange rate



Source: National Bank of Ukraine, Bloomberg, ICU.

Chart 4. FX-denominated bonds portfolios

Portfolios of FX-denominated bonds in 2018 by main bondholders' groups, UAHbn and USD/UAH exchange rate



Source: National Bank of Ukraine, ICU.

Increased demand allowed the MoF to fulfill 68% of 2018 plan for domestic budget financing in 1H18

In 1H18, the MoF borrowed UAH84.1bn (including FX-denominated bonds) or 68% of what is scheduled for this year for domestic financing of the state budget. According to the MoF's data, during this period of time, net budget financing amounted to minus UAH17.9bn, where UAH23.8bn was external debt redemption. This negative balance continues to increase without new borrowings from international markets.

Government: Bound to restrain expenditures

- **Markets are concerned about the government's ability to keep the budget deficit below the threshold of 2.5% GDP in the pre-election year of 2018**
- **Still, we believe that traditional tactics of underfinancing certain budget items should help the government maintain the budget deficit within the target range**
- **Insufficient external financing and lack of success in privatization remains the key risks for 2018 budget**

Low revenues from taxes on import and rents were the main reasons for 1H18 budget deficit

Underperformance of the state budget revenues in 1H18 and lack of external financing have become a serious concern of the financial markets and cast doubts on the government's ability to keep the budget deficit within 2.5% GDP in the pre-election year of 2018. Still, we believe the government will cope with this task by underfinancing some of the budget items, as it was traditionally the case. That said, risks of lower than expected raising of external debt remain high.

Rescheduling Naftogaz dividend payments exacerbated the negative effect from taxes' under-collection

In 1H18, the revenue part of the state budget's general fund underperformed the plan by 3%, mostly due to insufficient collection of excise tax, VAT on imported goods and rent for the use of subsoil resources (see Table 2). The main reason of this underperformance was that budget for this year was calculated with UAH29.3/USD exchange rate, while the 1H18 actual average rate was UAH26.8/USD. Furthermore, excise tax collection suffered from a drop in tobacco products output, while unexpectedly low production of natural gas negatively affected subsoil rent payments. Postponing a part of the dividend payment from Naftogaz also made its negative contribution to the budget revenue underperformance.

Table 2. State budget general fund performance, 1H18 (UAHbn)

	Plan	Actual	Execution
REVENUES, including:	424.3	409.4	96.5%
Tax revenues, including:	338.3	333.2	98.5%
corporate profit tax	42.1	52.2	123.9%
rent for the use of subsoil resources	20.2	16.4	80.8%
excise tax	42.7	35.4	83.0%
VAT:	176.3	174.3	98.9%
on Ukrainian goods except VAT refund	40.6	43.7	107.7%
on goods imported into Ukraine	135.7	130.6	96.2%
import duties	11.6	10.6	91.3%
Non-tax revenues, including:	82.4	73.4	89.1%
funds transferred by the NBU	38.0	38.0	100.0%
EXPENSES, including:	465.8	424.8	91.2%
public debt servicing	60.8	55.4	91.1%
LOANS	-1.9	-2.3	124.9%
new loans	0.6	0.6	92.0%
re-payment of loans	-2.5	-2.9	116.4%
Budget deficit	39.6	13.0	-11.6%
FINANCING, including:			
borrowings	**139.3**	**84.1**	**60.4%**
domestic	83.3	84.1	101.1%
external	56.0	0.0	0.0%
re-payment of loans	**-106.5**	**-104.7**	**98.3%**
domestic	-81.4	-81.0	99.4%
international	-25.1	-23.8	94.6%

Source: Ministry of Finance of Ukraine, ICU.

Traditional tactics of underfinancing budget expenditures should help the government to keep the budget deficit below 2.5% GDP threshold

However, 1H18 budget expenses underperformed even more significantly, by 9% versus plan, due to underfinancing certain budget items, such as regional development and government administrations. We expect these tactics will be also applied in 2H18 and the government will spend less on subsidies, budget transfers, capex and expenditures not requested by fund managers or recipients. Also, we expect some rebound in taxes, which underperformed in 1H18, due to weaker UAH and recovery in tobacco and natural gas production. UAH16.5bn final dividends from Naftogaz and the planned UAH5.5bn early loan repayment from the Deposits Guarantee Fund will additionally support the budget.

Banks: Lending on the path of gradual recovery

- **Net flow of bank lending is positive this year, as bank credit expansion is driven by consumer and SME loans**
- **Monetary tightening by NBU restricts corporate lending but allows for improved banks' profitability**
- **Albeit, FX lending that recovers alongside with UAH lending is a reason for future concern**

The central bank's multi-phase increase in rates from 12.5% to 17.5% did support the FX rate…

Despite the increase in the NBU's base interest rate from 12.5% toward 17.5% over the eleven-month period of September 2017 through July 2018 (see the left-hand side of Chart 5) not all of the UAH interest rates in the economy followed the path set by the central bank. Thus, the lending rates charged by commercial banks did move up, i.e. followed the path of the key central bank's rate, while the deposit rates paid by banks to customers largely stayed mostly put. (See right-hand side of Chart 5).

…however, banks' deposit rate growth is lagging growth in loan rates, thus boosting banks profitability

Hence, out of all reported UAH-denominated liabilities in the economy—those of the central bank, central government, non-bank entities (business and households) and commercial banks—it appears only the banks' liabilities (deposits) did not follow the central bank's interest-rate guidance.

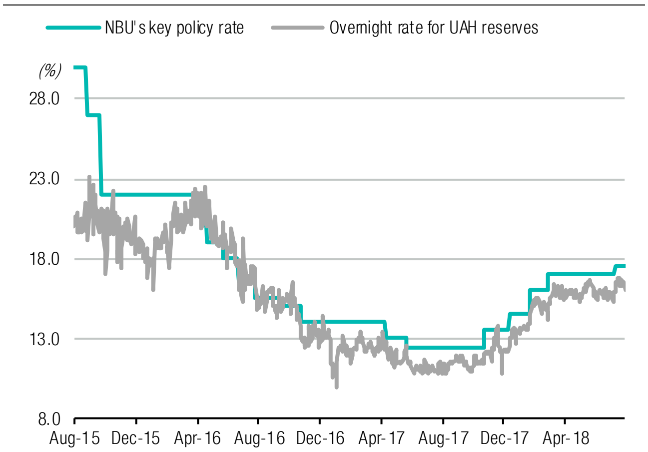
Could it be that banks are better informed on the future path of the UAH interest rates? Or are they just taking advantage of an opportunity to restore profitability through widened net interest margins (the difference between interest payments received and those paid)? In our view, this could be due to a combination of many factors, including those just mentioned. In some respects, the banks' behavior might be foretelling expectations that an upward path on the part of the UAH interest rate would reverse in the near future. This provides some foundation for our projection that eventually, the path of the central bank's key rate will reverse next year. The key point here is that consumer-price inflation (currently, and derived from screening expectations from surveys) will subside over the course of the rest of this year by low double digits, ie, in the neighborhood of 10% YoY.

Banks' lending activity will gradually expand, although restrained by high NPL ratios and rising interest rates

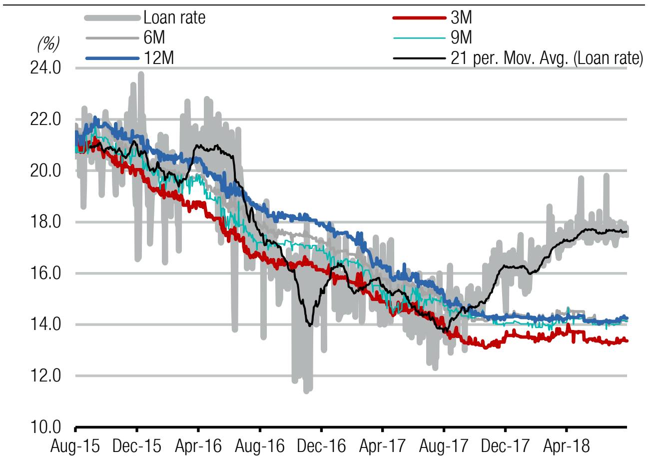
In terms of lending activity, loan volumes over 4Q17, 1Q18, and 2Q18 reveal that banks were not that discouraged by the monetary tightening by the central bank (via a cumulative interest rate increase of 5ppt). Our base-case scenario assumes that bank credit growth will gradually continue, albeit at lower pace than widely expected, and will be both UAH and FX based. At the same time, the key limiting factors will be high NPL ratios, rising loan interest rates and small number of corporates with positive credit profile.

Chart 5. Last three-year history of UAH interest rates: The NBU's key policy rate and interbank overnight rate (%, left-hand side) and commercial banks' aggregate interest rates on loans and on a range term deposits (%, right-hand side)

Monthly history from 1 August 2015 through 1 August 2018



Monthly history from 1 August 2015 through 1 August 2018



Source: National Bank of Ukraine, ICU.

Bank lending: Focus on consumer lending

- **Retail lending in UAH is growing 44.4% YoY in June due to the improved consumer expectations and increased car sales.**
- **Despite the significant growth of consumer loans we are still far from the 2012-2013 retail lending boom suggesting more credit expansion is expected in the segment**
- **Loans to corporates started growing slightly as the shortage of borrowers without default history is limited pushing banks in to previously explored SME sector.**

Bank lending growth in the corporate sector was below expectations in 1H18, although improvement in consumer expectations spurred retail lending. The latter stimulates imports, as a significant portion of purchased goods such as electronics or cars are manufactured abroad. Growth in macro segments that facilitate economic growth, such as corporate lending or retail mortgages, was less than anticipated.

A slow recovery in corporate lending will continue while current monetary policy remains in place

Corporate portfolio: More loans but modest growth. The gross corporate loan portfolio increased by 5.7% YoY in June 2018, as UAH-denominated loans increased by 7.0% YoY, and FX loans grew by 3.8% YoY. Loans to both private and state-owned enterprises (SOE) grew over the last 12 months. However, private enterprises tend to borrow more in local currency while restructuring FX loans into UAH. On the other hand, loans to state-owned enterprises declined 2.1% YoY in UAH but grew 11.0% YoY in FX. Loans to SOE comprise 9.3% of the total gross outstanding loans to the corporate sector.

In sum, the NBU's current monetary policy will restrict lending to corporations by means of higher interest rates. Therefore, we do not expect significant growth in corporate lending in 2018.

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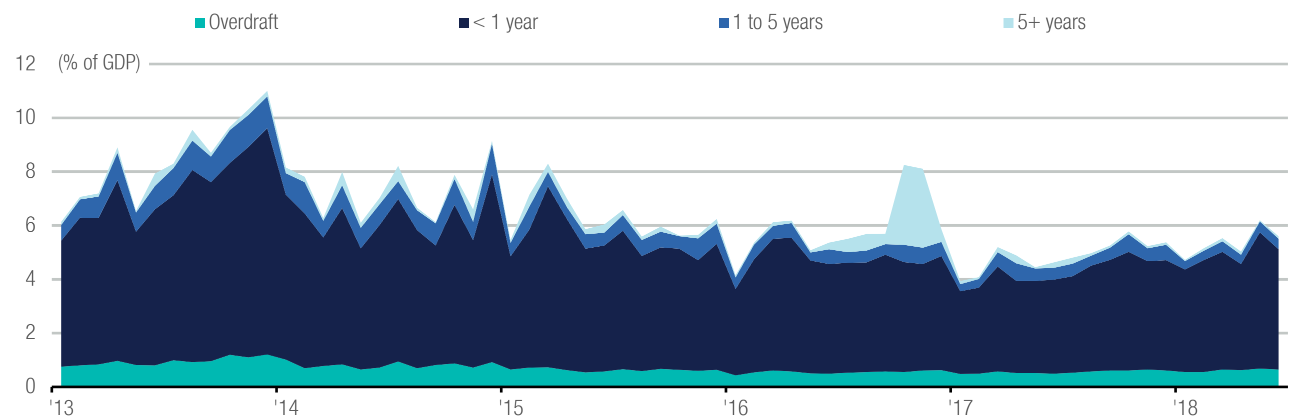
Chart 6. New corporate loans issued per month [% of annual GDP]



Sources: NBU, ICU estimates

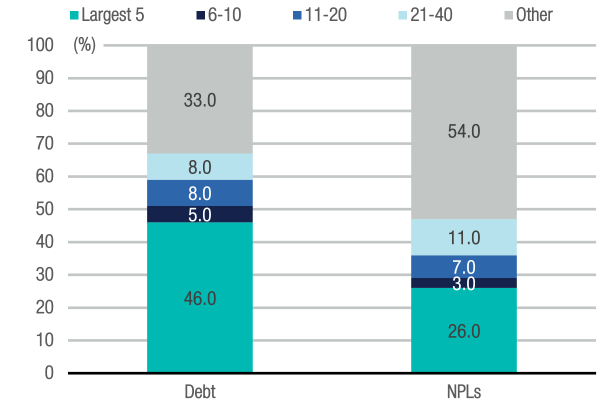
NPLs reached 57.9% of the total gross loan portfolio, or 34.3% of total gross assets. As we mentioned in our previous report,[1] Ukrainian state-owned banks as well as banks with Russian state capital accumulated the highest share of NPLs, ranging from 60 to 86%. Local European banks managed to restructure some of their bad loans. Therefore, we estimate NPLs to be c.25% in those two groups combined.

A high concentration of the loan portfolio was seen in state-owned banks and banks with Russian capital. The largest borrowers are normally the least conscientious, as the largest five borrowers defaulted on 93% of their debt to Ukrainian banks by volume. The next 35

[1] See Debt deflation Я Us *https://www.icu.ua/download/2637/ICUQtlyReport-20180209.pdf*

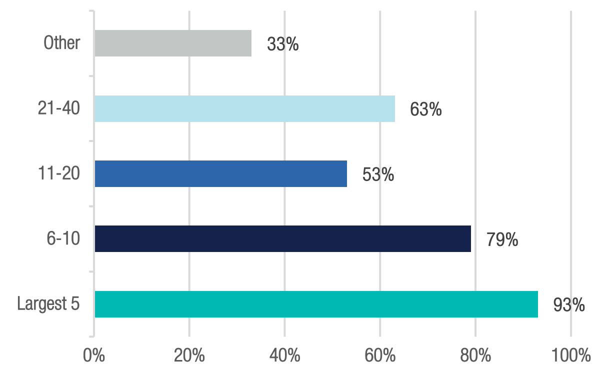
largest borrowers have slightly better statistics, yet their unwillingness to repay or restructure debts is the primary reason for the enormously high amount of NPLs.

Chart 7. Loan and NPL structure among top borrowers (business groups)



Source: NBU, ICU estimates.

Chart 8. NPLs as a % of banks' exposure to the largest business groups



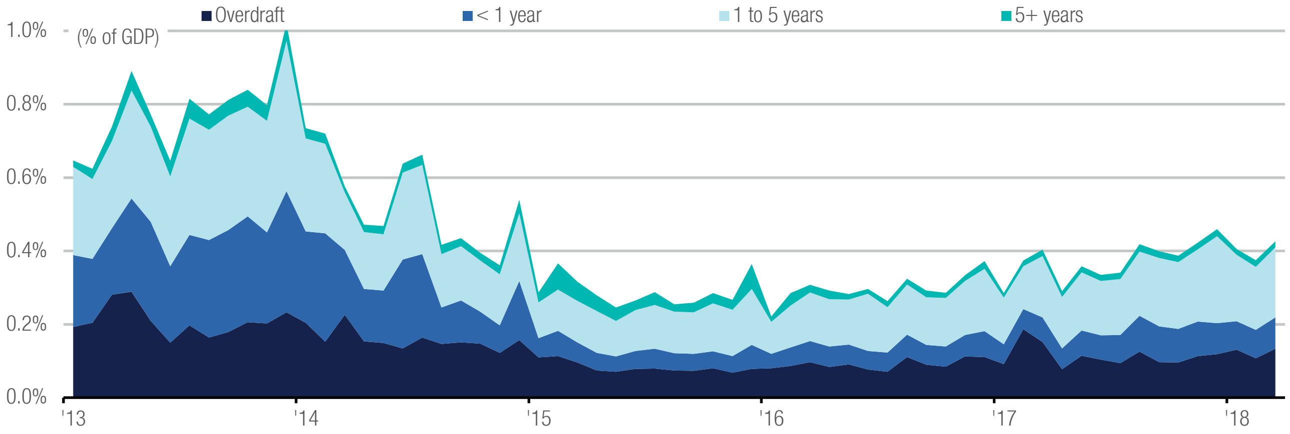
Source: NBU, ICU estimates

High growth in retail lending persists due to improved consumer expectations

Retail lending keeps growing after 2.5 years of stagnation. UAH loans to individuals grew by 44.4% YoY in June 2018, significantly outpacing the growth of nominal GDP (22.7% YoY). Both the consumer-loan and car-loan segments showed above-40% growth YoY, while mortgage lending remains stagnant. It is likely that this growth will continue to prevail, as the current level, although a healthy number, is still far from historic levels.

Current monetary policy is unlikely to hamper further growth of consumer lending, since price is only a secondary factor. Consumer sentiment and the rise in wages ensure that borrowers will seek loans and banks will be ready to provide them.

Chart 9. New retail loans issued per month [% of annual GDP]

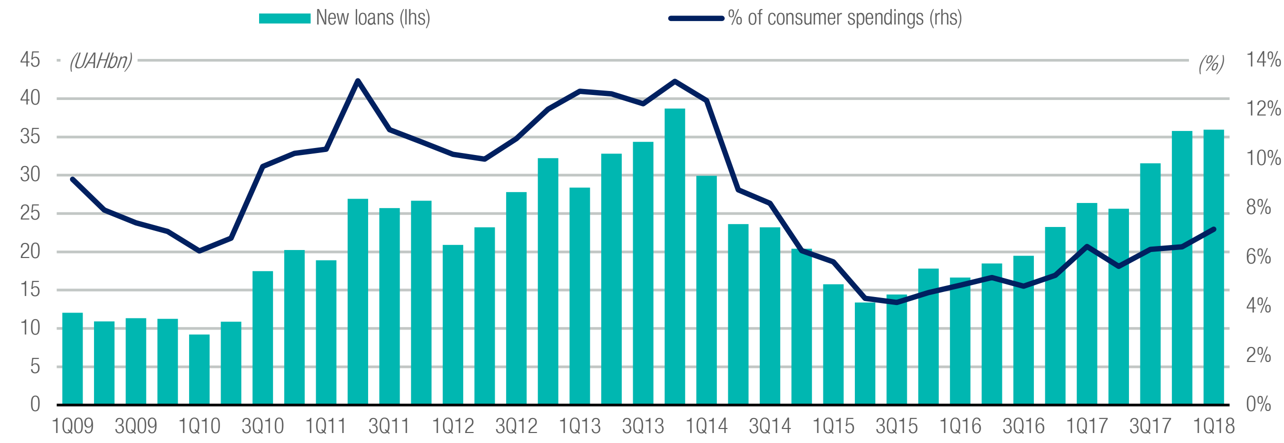


Sources: NBU, ICU estimates

During the boom in consumer lending in 2011-13, new retail loans amounted to 10% of GDP, new retail loans amounted to a greater share of the total consumer spending by households - 10% or more compared to the current 7.1% (See Chart 10). This level subsequently dropped to below 5% in 2015, and it has been on a constant rise since. Retail lending is likely to grow further, as universal banks are focusing more on this sector. The most prominent players are:

- State-owned Privatbank, which specialises in credit card loans; Oschadbank and Ukrgazbank, which provide loans toward energy efficiency improvement;
- Local FUIB and Universalbank; and
- Banks with foreign capital: Alfa Bank, Crédit Agricole, Ukrsibbank, OTP Bank Kredobank.

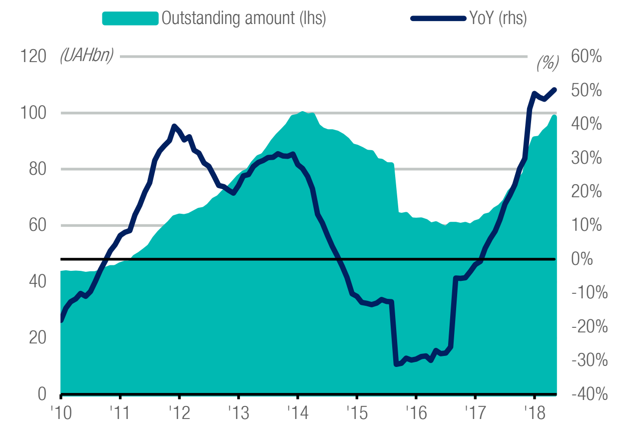
Chart 10. New retail loans issued per month [UAHbn] as a percentage of annual GDP [%]



Sources: NBU, ICU estimates

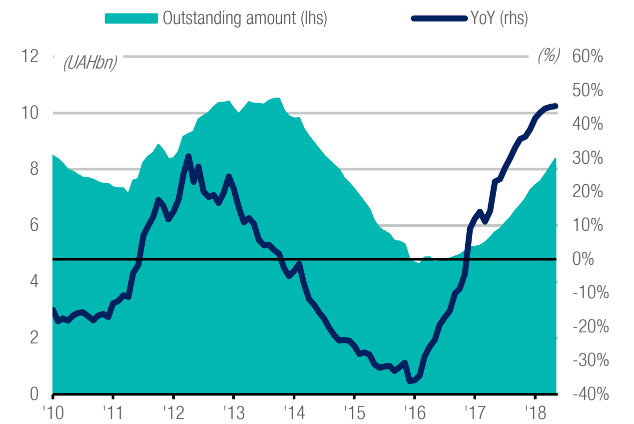
Auto loans are growing alongside sales of new cars. Despite the increasing popularity of second-hand cars that are, in fact, imported without customs duties, LTM new car sales reached 85,000 in 1H18—a new high since 2014. However, this is still significantly lower than the more than 200,000 sold in 2013. While car sales are unlikely to reach the pre-2014 level any time soon, as demand for low-budget cars is being satisfied by used imports, there is potential for further growth in the mid-range, premium segment. This will contribute to an increase in demand for bank loans.

Chart 11. UAH consumer loans to households (stock)



Source: NBU, ICU estimates.

Chart 12. UAH auto loans to households (stock)



Source: NBU, ICU estimates

Balance of payments: Trade deficit widening

- **C/A deficit will widen due to rising consumption and higher energy prices**
- **Still, the current account deficit will be nearly fully covered by capital inflows**
- **Projected C/A deficits for 2018 and two years beyond are quite manageable thanks to expected FX flexibility**

Trade balance deficit will keep rising due to resumed natural gas imports and lower metal prices in 2H18

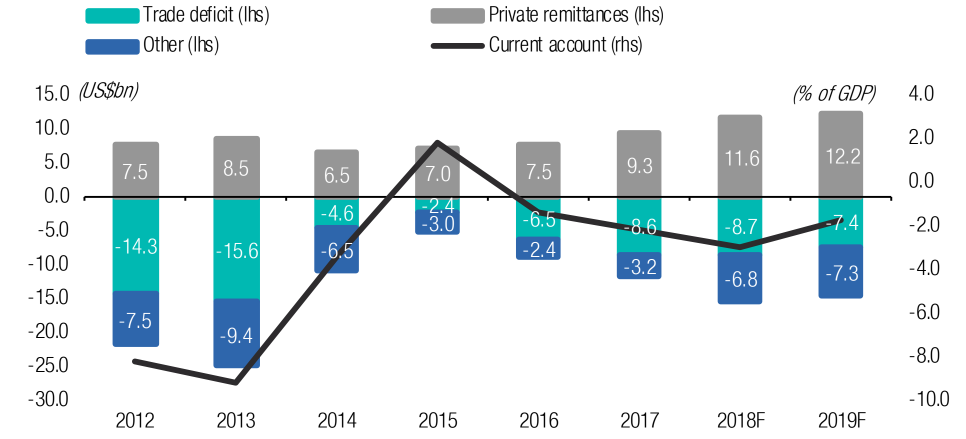
In our view, in full-year 2018, the external trade deficit is set to widen to US$8.7bn (6.9% of GDP), boosted by resumed imports of natural gas and other energy products against the backdrop of high prices, and robust investment activity and consumer imports. Growth in exports will be restricted by decreasing world prices for metals, the key driver of Ukraine's exports in the first half of the year. In 1H18, the merchandise trade balance deficit rose 26.8% YoY to US$4.3bn, while the services trade balance surplus increased 59.1% YoY to US$0.5bn, bringing the total external trade balance deficit to US$3.8bn (+23.7% YoY).

Rising remittances from labour migrants will smoothen growth in C/A deficit

At the same time, growing private remittances from Ukrainian labour migrants will partially offset the negative impact of a larger trade deficit on the current account. Given NBU's estimate of remittances (US$11.6bn), we tend to view that the current account deficit is set to widen to US$3.8bn in 2018, which is 3% of GDP.

Furthermore, inflows of investment and debt capital, as well as the government raising debt in the markets, obtaining the IMF tranche and aid from other international financial institutions will allow Ukraine to reach a balance of payment surplus and increase FX reserves to US$20bn in 2018 from US$18.8bn in 2017.

Chart 13. Ukraine's current account by components (US$bn, % of GDP)

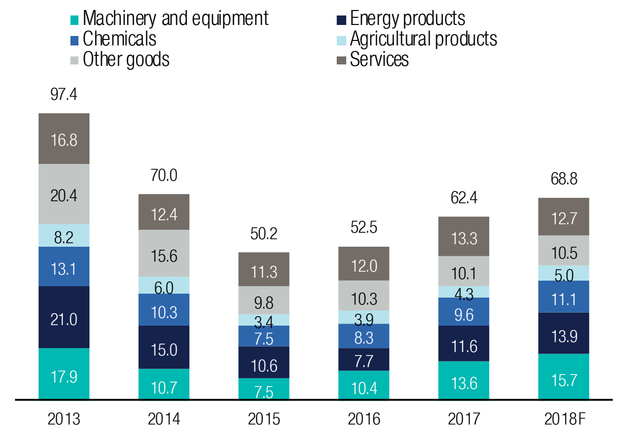


Source: State Statistics Service of Ukraine, ICU.

High investment activity and consumer demand contribute to imports growth

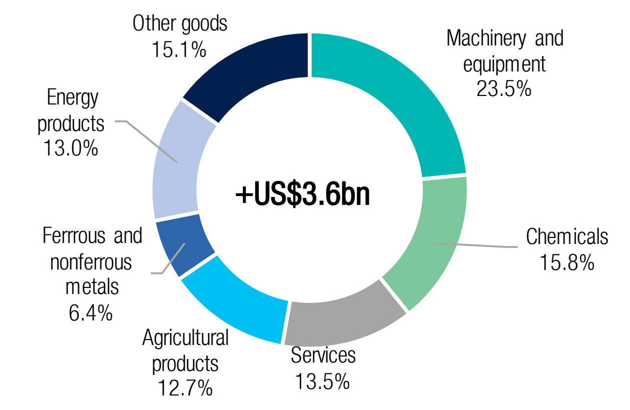
In 1H18, imports of goods rose 14% YoY and amounted to US$25.5bn. The highest contribution to growth in imports of goods was made by machinery and equipment, chemicals, and energy products, see Chart 15. It should be noted that in May-June, imports of energy products surged 23.5% YoY due to resumed imports of natural gas, while in 4M18, energy imports rose only 0.8% YoY, mostly due to a 55% decline in gas imports to 2.2bcm by Naftogaz. Imports of services rose 7.8% YoY to US$6.7bn in 1H18, prompted by the category "travelling", per data from the NBU.

Chart 14. Imports of goods and services in Ukraine (US$bn)



Source: NBU, ICU estimates.

Chart 15. Contribution to 1H18 growth in Ukraine's imports of goods and services by sector



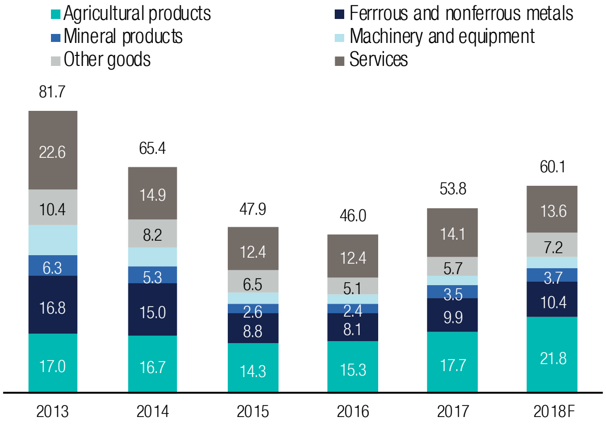
Source: NBU, ICU estimates

Higher metal prices boosted metallurgical exports

Exports of goods increased 11.7% YoY and totaled US$21.2bn in 1H18. Because of last year's drought in eastern and southern Ukraine, exports of agri products declined 1.7% YoY in US dollar terms, as lower real volumes were offset by higher prices. At the same time, thanks to increased real volumes (+15.2% YoY in 1H18) and higher steel prices (US$466/t in 1H17 vs. US$583/t in 1H18, ie +25.1% YoY) metallurgical exports surged 32.4% YoY. Therefore, metallurgy became the main booster of Ukraine's exports in 1H18, with a 52%

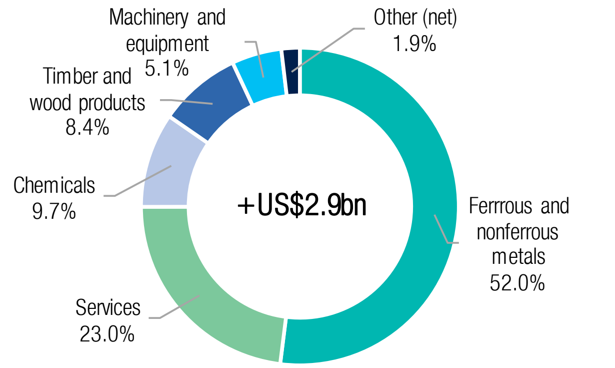
share in total exports growth (Chart 17). We, however, expect that due to trade wars and weaker steel demand the positive effect from steel exports on the trade balance will significantly deteriorate in 2H18. Exports of services increased 10.1% YoY to US$7.2bn, driven by air transportation, the IT-sector and raw material processing. Still, growth rates of services exports were constrained by lower gas transit volumes from Russia to the EU.

Chart 16. Exports of goods and services from Ukraine (US$bn)



Source: NBU, ICU estimates.

Chart 17. Contribution to 1H18 growth in Ukraine's exports



Source: NBU, ICU estimates

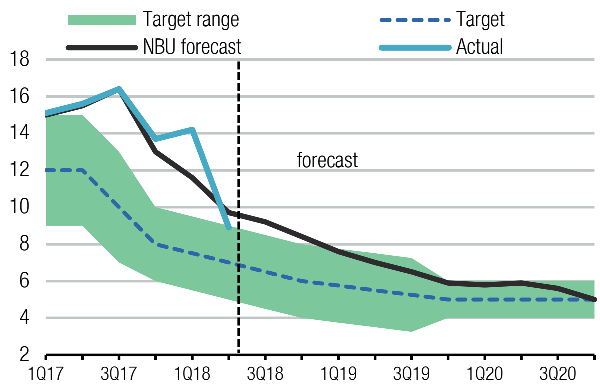
Interest rates: Still some room to go up

- **NBU likely to add 50bps to the key rate in September to suppress inflation**
- **Domestic bond yields should rise in line with the key rate to 17-18.5% by YE2018**
- **We expect further rise in bank rates**

In 2H18, we expect one more 50bps rise of the key rate

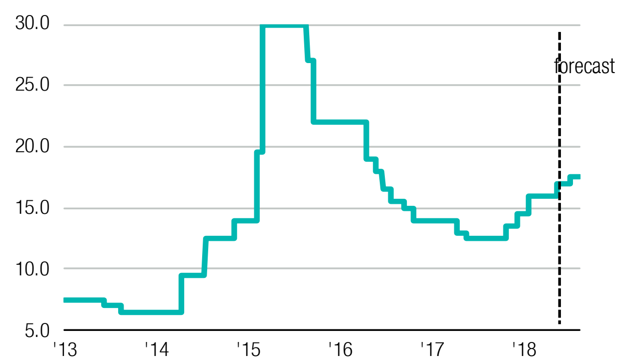
We expect that following NBU's hike in July, the key policy rate can still go up by additional 50bps on the next Monetary Policy Committee (MPC) meeting in September. In our view, risks of inflation exceeding NBU forecast of 8.9% by YE2018 are rising, exacerbated by the recent drop in UAH. During July MPC meeting, five out of nine of its members supported a 100bps hike as appropriate to quell inflationary pressures and increase credibility of the NBU's monetary policy. In our view, the Board's final decision to approve just a 50bps rate hike implied intentions to make the rise in several stages rather than trying to force the issue after the last meeting.

Chart 18. Inflation: NBU forecasts and targets vs actual [%]



Source: NBU, ICU estimates.

Chart 19. NBU key policy rate [%]



Source: NBU, ICU estimates

The government's domestic bonds, correspondingly, should price in the hike, therefore in the next six months we expect their yields to rise in line with the key policy rate to 17-18.5% levels. At the same time, we expect further 0.5-1ppt rise in banks' deposit interest rates from current 14.2-14.3% and a 1-2ppt rise in banks' corporate loan rates.

Exchange rate: IMF tranche to mitigate pressure on UAH

- **Hryvnia to stay near UAH28/USD by YE2018, supported by FX inflows from IFIs**
- **Seasonality and devaluation expectations keep downside risks high for UAH**
- **Over longer term, UAH looks overvalued according to our real TWI analysis**

We expect the hryvnia to temporarily rebound in 4Q18, before ending 2018 at near UAH28/USD

Since mid-June, the hryvnia has lost more than 6% and returned to elevated February level of UAH28/USD. Such fast decline was driven by devaluation expectations, which in turn were triggered by situational hike in demand for USD in July from investors exiting Ukraine's domestic bonds and exporters who received VAT refunds.

Nevertheless, we are keeping our previous FX projections intact and expect the hryvnia to stay near the UAH28/USD level at the end of 2018. We think the key mitigating factor for the hryvnia will be successful unlocking of the IMF program and the resulting FX inflows from the Fund and other international financial institutions in 4Q18.

Downside risks for UAH are quite high

Still, we admit the downside risks to our base case are high due to still strong devaluation expectations and seasonally high demand for USD from importers of consumer goods, natural gas and thermal coal.

The general view on the future developments of the hryvnia outlook is still being influenced by the following factors:

(1) **The central bank is ready and willing to raise interest rates,** if the FX market signals a risk of exchange-rate devaluation leading to higher consumer inflation.

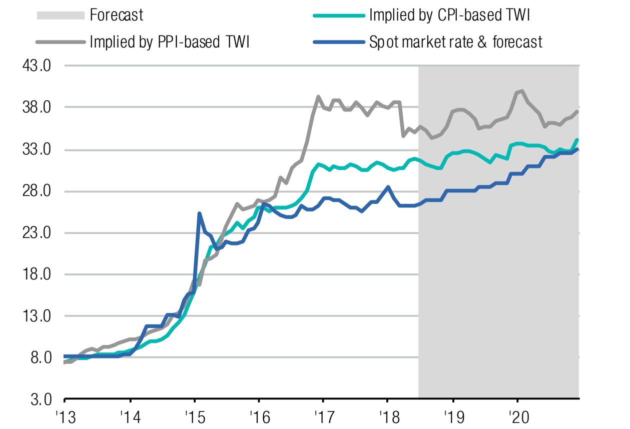
(2) **External environment: Recent dollar strengthening should appear short-lived.** The weaker USD will mitigate the negative impact of the higher Fed rate on emerging and frontier economies including Ukraine and make for them capital markets more favorable.

(3) **ICU's real trade-weighted indices** (real TWIs) point to a weakening of future market FX rates. The indices capture Ukraine's domestic monetary conditions against those of its main trading partners. Chronically higher inflation in Ukraine versus abroad yields appreciation in the real TWIs and sizable positive misalignment of the market exchange rate versus the fair-value rate. The latter outcome (either positive or negative misalignment) appears to be the prevailing state for most currencies, including the UAH. That is why we project only gradual elimination of misalignment during 2018-20.

Chart 20. UAH/USD rate in 2016-18

Source: NBU, ICU estimates.

Chart 21. UAH's market rate and ICU's real TWI-implied value



Source: NBU, ICU estimates

Real GDP: Gradual acceleration of growth

- **Weak performance of real sectors is offset by higher investments and a stronger services sector**
- **Rising real disposable income and private remittances boost household consumption**
- **Consumer demand will be the major growth engine of Ukraine's economy throughout 2018**

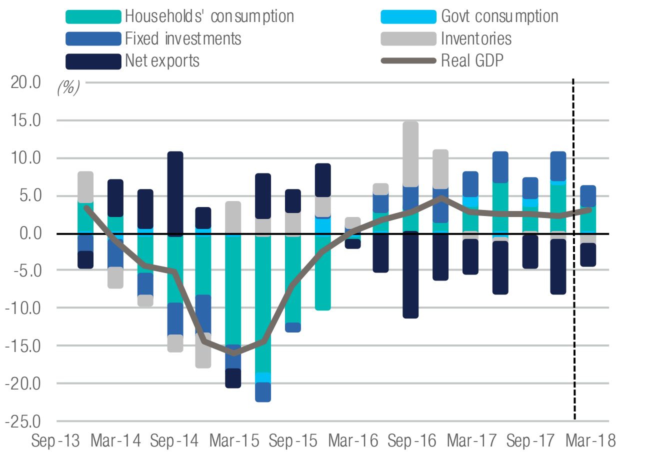
Private consumption, fiscal stimulus and favourable external markets will be the key drivers of 3.5% GDP growth in 2018

Ukraine's economy is set to accelerate to 3.5% in 2018, thanks to: 1) a further increase in consumer demand—retail sales rose 6.2% YoY in 1H18—against the backdrop of rising real incomes and retail lending; 2) fiscal policy with its stance on higher government expenditures on infrastructure projects; and 3) favourable external conditions, as the economies of Ukraine's main trading partners continue to grow, which raises demand for exports from Ukraine.

According to the preliminary estimate from the State Statistics Service of Ukraine, in 2Q18, real GDP growth remained at 0.9% QoQ SA and accelerated to 3.6% YoY, up from 3.1% YoY in 1Q18. In our view, the growth drivers were 1) strong consumer demand (retail sales rose 4.8% YoY in 2Q18), 2) high investment activity (imports of machinery and equipment grew 12.7% YoY, while fixed investment rose 16.5% YoY in 2Q18), 3) an earlier start of the grain harvesting season, and 4) the low base effect due to the trade blockade of Donbas since March 2017.

Chart 22. The structure of real GDP growth (YoY) (%)

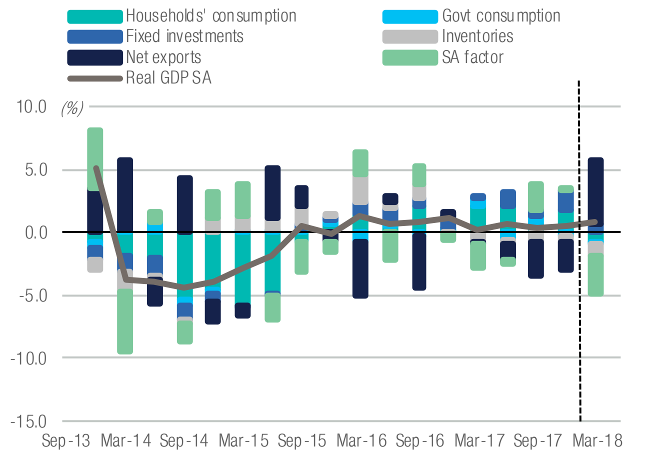
Quarterly history from 4Q of 2013 through 1Q of 2018, by expenditure



Source: State Statistics Service of Ukraine, ICU.

Chart 23. The structure of real GDP growth (QoQ SA) (%)

Quarterly history from 4Q of 2013 through 1Q of 2018, by expenditure



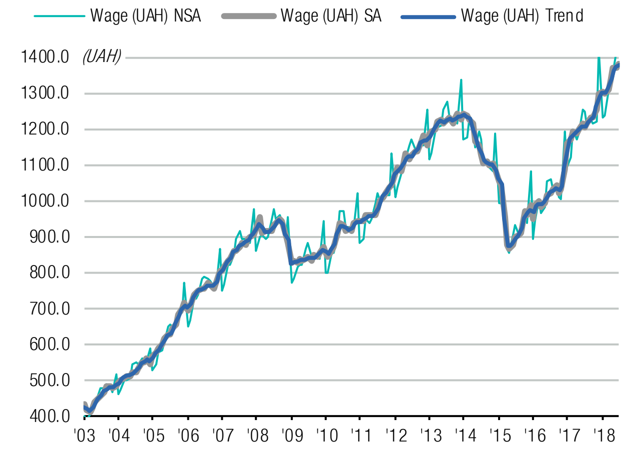
Source: State Statistics Service of Ukraine, ICU.

Household consumption will continue to grow at a high pace thanks to growth in real incomes and retail lending

Households' consumption will remain the key growth engine in 2H18 driven by higher real incomes thanks to further growth of real wages (+13.3% YoY in 2Q18) and higher volumes of social assistance (+18.5% YoY in real terms in 1Q18). Growth of real wages is supported by an increase of the minimum nominal wage in 2018 (+16.3%), economic growth and a tight labour market against the backdrop of labour emigration (thanks to visa-free entrance to the EU), while social assistance volumes keep rising thanks to the increase of pensions in October 2017 and March 2018. All in all, we believe, real incomes will continue to be boosted by the government's initiatives to increase living standards in the run-up to 2019 presidential elections

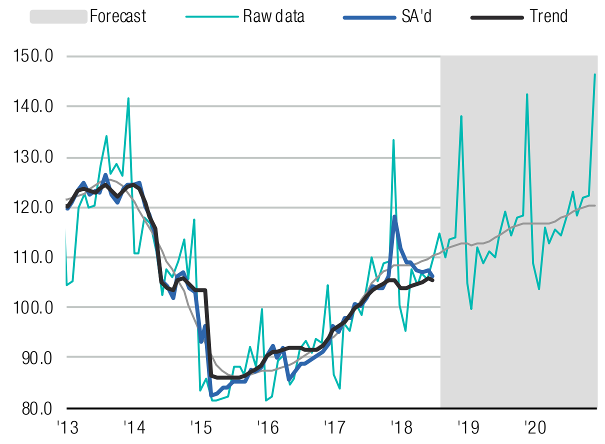
Other drivers of consumer demand will be increased inflows of remittances (NBU's est.+24.7% YoY in 2018) thanks to labour migration, and the significant growth of UAH loans to individuals, which soared 44.4% YoY in June. However, despite this positive trend, the current lending level is still far from the historical level (see p. 9 for details).

Chart 24. Average monthly wage through July 2018 (UAH, adjusted for CPI) at constant prices of December 2001



Source: State Statistics Service of Ukraine, ICU.

Chart 25. Index of retail turnover of retail trade enterprises*



Note: * Volume index of retail turnover (in comparable prices), MoM SA.
Source: State Statistics Service of Ukraine, ICU.

Economic growth is to accelerate to 4.1% YoY in 3Q18

Taking into account 1) strong consumer demand, 2) acceleration of government expenditure on infrastructure projects in 2H18, and 3) the low base effect due to the trade blockade of Donbas since March 2017 we expect economic growth to accelerate to 4.1% YoY and 1% QoQ SA in 3Q18.

Table 3. Performance of key sectors of Ukraine's economy in July and over May-July

Sector's indicators	Seasonally adjusted*			Trend*		
	Change[1] (%MoM)	Change[2] (%QoQ)	Change[3] (%YoY)	Change[1] (%MoM)	Change[2] (%QoQ)	Change[3] (%YoY)
Agriculture index	-29.5	+11.8	-5.4	-0.0	-0.2	-0.7
Retail trade, retailers (UAHm, CPI-adj)	-1.9	+1.7	+4.6	-0.8	+0.8	+4.5
Transport turnover, cargo (tonne*km)	-0.5	+2.3	+10.0	+1.0	+2.3	+10.6
Transport turnover, passenger (passenger*km)	-1.1	+1.3	+4.9	-0.2	+0.6	+4.8
Industrial production index	-1.3	+0.9	+1.8	-0.3	+0.0	+0.5
Construction (UAHm, CPI-adj)	+1.4	+5.4	+46.9	+1.9	+6.1	+42.2
Composite index	-8.8	+3.8	+3.3	-0.2	+0.7	+3.8

Notes: * adjusted by Demetra using adjustment method of Tramo-Seats; [1] month-on-month change of July of 2018 to June 2018; [2] quarter-on-quarter change of May-Jul of 2018 to Feb-Apr of 2018; [3] year-on-year change of July of 2018 to July of 2017.
Source: State Statistics Service of Ukraine, ICU.

Inflation: Contained by hawkish central bank

- **Inflation slowed to 8.9% YoY in July, and will average 10% through YE2018**
- **Strong consumer demand, high inflationary expectations and an expected increase in gas prices will continue to put pressure on consumer prices**
- **PPI growth is driven by higher prices in the mining sector and increased gas prices for industry**

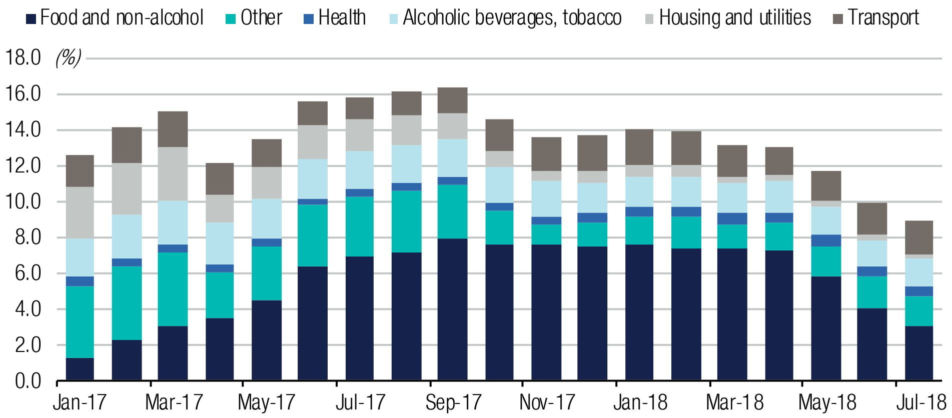
Headline inflation is slowing thanks to the tight monetary policy, a good harvest and slowing utility prices

Headline inflation slowed for the sixth consecutive month and amounted to 8.9% YoY in July, the lowest reading since September 2016. The decrease in the growth rate of consumer prices was thanks to several factors:

(1) The appreciation of the hryvnia (+4.4% YTD in July) due to the increased key policy rate, and seasonality, which had a positive impact on the prices of imported goods.
(2) A good harvest of early fruits and vegetables, and the decline in world prices for meat.
(3) The growth rates of prices on utilities slowed to 4.6% YoY, down from 10.6% YoY in December thanks to the high base effect.

Chart 26. Headline inflation by components (%, YoY)

Monthly history from January 2017 through July 2018



Source: State Statistics Service of Ukraine, ICU.

Year-end inflation will be close to 10.2% YoY; the NBU's rhetoric is hawkish, implying its readiness to continue to strengthen monetary policy

In our view, headline inflation will somewhat exceed the NBU's forecast of 8.9% YoY at the end of 2018, and will be close to 10.2% YoY. Consumer prices will remain under pressure from 1) solid consumer demand thanks to higher real incomes and remittances, 2) a limited supply of some food products (e.g. meat, and milk products), 3) further growth in nominal wages, which will likely result in production costs being passed on to customers; and 4) high prices for energy products on world commodity markets. At the same time, the NBU's tight monetary policy should contain the inflationary effect, and the NBU signals readiness to further raise the key policy rate should inflation deviate from the target

Rising gas prices for industry and higher costs in production of coal push PPI up

Producer prices growth accelerated to 17.7% YoY in July, up from a two-year low of 14.1% YoY in April. The trend turnaround was due to increased prices in mining and quarrying (19.4% YoY in July vs 8.3% YoY in April) because of 1) higher prices in manufacturing of coal (+30% YoY) and 2) resumed growth in iron ore prices (15.5% YoY) after declining in March and April. An additional boost for PPI growth was an increase in gas prices for industry by more than 5% MoM in May and more than 8.5% MoM in June, which pushed prices in the supply of electricity, gas, steam and air conditioning up to 25.3% YoY. Our baseline scenario envisages rising prices on oil, gas and coal in 2H18, counterbalanced by decreasing prices on steel and iron ore, thus we expect PPI growth to remain close to current level in 2H18 and will be at 17.8% YoY at year-end.

Forecast for 2018-20

The following two pages of statistics are our yearly and quarterly key macroeconomic indicators with forecasts through 2019.

Yearly forecast 2018-20, base-case scenario

Table 4. Forecast of key macroeconomic indicators for 2018–20 (annual)

	Historical data for 2008-17										Forecast by ICU		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018F	2019F	2020F
Activity													
Real GDP (%YoY)	2.6	-15.0	4.2	5.1	0.5	-0.1	-6.4	-10.3	2.2	2.5	**3.5**	**1.9**	**2.0**
Nominal GDP (UAHbn)	948.1	913.3	1,082.6	1,302.1	1,408.9	1,465.2	1,566.7	1,957.0	2,383.2	2,982.9	**3,607.4**	**4,277.1**	**5,064.6**
Nominal GDP (US$bn)	147	113	136	162	173	178	108	85	92	111	**129**	**143**	**153**
GDP per capita (US$, ann)	3,178	2,451	2,973	3,561	3,793	3,937	2,526	1,991	2,162	2,608	**3,045**	**3,371**	**3,632**
Unemployment rate (%)	6.4	8.8	8.1	7.9	7.5	7.2	9.3	9.1	9.3	9.9	**9.2**	**8.6**	**7.8**
Prices													
CPI headline (%YoY, eop)	22.3	12.3	9.1	4.6	-0.2	0.5	24.9	43.3	12.4	13.7	**10.2**	**13.6**	**11.5**
CPI headline (%YoY, average)	25.3	16.0	9.4	8.0	0.6	-0.3	12.1	48.5	14.9	14.4	**11.2**	**12.9**	**13.2**
PPI (%YoY, eop)	21.1	15.3	18.8	17.4	0.4	1.7	31.8	25.5	35.8	17.3	**15.1**	**17.3**	**13.5**
PPI (%YoY, average)	33.6	7.4	21.4	19.9	6.0	-0.1	17.0	36.6	20.5	27.5	**17.3**	**15.9**	**15.6**
Fiscal balance													
Consolidated budget bal. (UAHbn)	-11.3	-34.4	-63.3	-18.3	-46.9	-63.0	-67.1	-27.8	-52.8	-40.0	**-91.7**	**-124.4**	**-104.9**
Consolidated budget bal. (% of GDP)	-1.2	-3.8	-5.9	-1.4	-3.3	-4.3	-4.3	-1.4	-2.2	-1.3	**-2.5**	**-2.9**	**-2.1**
Budget balance (UAHbn)	-12.5	-35.5	-64.3	-23.6	-53.4	-64.7	-78.1	-45.2	-70.2	-46.1	**-111.9**	**-129.7**	**-117.3**
Budget balance (% of GDP)	-1.3	-3.9	-5.9	-1.8	-3.8	-4.4	-5.0	-2.3	-2.9	-1.5	**-3.1**	**-3.0**	**-2.3**
External balance													
Exports (US$bn)	82.5	52.1	65.6	83.7	86.5	81.7	65.4	47.9	46.0	53.8	**60.1**	**64.0**	**67.1**
Imports (US$bn)	96.8	54.0	69.6	93.8	100.9	97.4	70.0	49.6	51.5	62.4	**68.8**	**71.5**	**75.4**
Trade balance (US$bn)	-14.4	-2.0	-4.0	-10.1	-14.3	-15.6	-4.6	-1.7	-5.5	-8.6	**-8.7**	**-7.4**	**-8.3**
Trade balance (% of GDP)	-9.8	-1.7	-2.9	-6.2	-8.3	-8.8	-4.2	-2.0	-5.9	-7.8	**-6.7**	**-5.2**	**-5.4**
Current account balance (US$bn)	-12.8	-1.7	-3.0	-10.2	-14.3	-16.5	-4.6	-0.2	-3.5	-2.4	**-3.8**	**-2.6**	**-3.4**
Current account balance (% of GDP)	-8.7	-1.5	-2.2	-6.3	-8.3	-9.3	-4.2	-0.2	-3.8	-2.2	**-3.0**	**-1.8**	**-2.2**
Net FDI (US$bn)	9.9	4.7	5.8	7.0	7.2	4.1	0.3	3.0	3.3	0.2	**1.5**	**2.8**	**4.0**
Net FDI (% of GDP)	6.8	4.1	4.2	4.3	4.2	2.3	0.3	3.5	3.6	0.2	**1.2**	**2.0**	**2.6**
C/A bal. + net FDI (% of GDP)	-2.0	2.6	2.0	-2.0	-4.1	-7.0	-4.0	3.3	-0.2	-2.0	**-1.8**	**0.1**	**0.4**
External debt (US$bn, eop)	101.7	103.4	117.3	126.2	134.6	142.1	126.3	118.8	113.7	118.3	**122.1**	**124.7**	**128.1**
External debt (% of ann'd GDP, eop)	69.3	91.8	86.2	77.7	77.9	79.6	116.5	139.6	123.7	107.0	**94.8**	**87.5**	**83.5**
FX reserves (US$bn, eop)	31.5	26.5	34.6	31.8	24.5	20.4	7.5	13.3	15.5	18.8	**20.0**	**19.5**	**21.0**
FX reserves (% of ann'd GDP, eop)	21.5	23.5	25.4	19.6	14.2	11.4	6.9	15.6	16.9	17.0	**15.5**	**13.7**	**13.7**
External debt / FX reserves (x, eop)	3.2	3.9	3.4	4.0	5.5	7.0	16.8	8.9	7.3	6.3	**6.1**	**6.4**	**6.1**
FX reserves imports cov (months)	7.0	4.6	4.4	3.8	3.0	3.5	1.8	3.1	3.1	3.3	**3.4**	**3.1**	**3.3**
Interest rates													
Central bank key rate (%, eop)	12.00	10.25	7.75	7.75	7.50	6.50	14.00	22.00	14.00	14.50	**17.00**	**15.00**	**13.00**
Exchange rates													
UAH nominal TWI change (% YoY)	-29.32	0.44	15.59	6.75	-3.93	-9.23	-34.88	-34.61	-17.85	-14.09	**-4.05**	**-12.88**	**-2.64**
UAH CPI-based real misalign't[1] (%, eop)	-21.61	-28.15	-15.35	-8.46	-7.68	4.16	-8.59	6.08	18.37	13.49	**14.30**	**2.55**	**3.38**
UAH PPI-based real misalign't[2] (%, eop)	-24.69	-33.07	-19.05	-5.21	-10.30	19.38	-3.38	11.99	49.32	38.55	**39.28**	**21.50**	**20.89**
UAH/US$ (eop)	7.80	8.00	7.94	8.00	8.05	8.24	15.82	24.03	27.10	28.07	**28.00**	**30.00**	**33.00**
UAH/US$ (average)	6.47	8.11	7.95	8.01	8.15	8.21	14.45	22.99	25.91	26.98	**28.00**	**30.00**	**33.00**
UAH/€ (eop)	10.90	11.45	10.63	10.37	10.62	11.32	19.14	26.10	28.50	33.70	**34.44**	**37.50**	**41.25**
UAH/€ (average)	8.53	11.97	10.81	10.81	10.57	11.18	18.05	25.16	27.85	31.77	**34.44**	**37.50**	**41.25**
US$/€ (eop)	1.40	1.43	1.34	1.30	1.32	1.37	1.21	1.09	1.05	1.20	**1.23**	**1.25**	**1.25**
US$/€ (average)	1.32	1.48	1.36	1.35	1.30	1.36	1.25	1.09	1.07	1.18	**1.23**	**1.25**	**1.25**
Population													
Population (million, eop)	46.14	45.96	45.78	45.63	45.55	45.33	42.93	42.76	42.54	42.39	**42.32**	**42.29**	**42.26**
Population (%YoY)	-0.5	-0.4	-0.4	-0.3	-0.2	-0.5	-5.3	-0.4	-0.5	-0.5	**-0.2**	**-0.1**	**-0.1**

Notes: eop – end of period; cov – coverage; con'd – consolidated; ann – annualised; TWI – trade-weighted index of UAH; [1] misalignment of UAH by its CPI-based real TWI in percentage of the five-year moving-average of the index; [2] misalignment of UAH by its CPI-based real TWI in percentage of the five-year moving-average of the index; [1 & 2] when marked in green/red, it means UAH has negative/positive misalignment and likely future path of UAH's market exchange rate over next three-month period is strengthening/weakening).
Sources: State Statistics Service of Ukraine, NBU, ICU.

Quarterly forecast 2018–20, base-case scenario

Table 5. Forecast of key macroeconomic indicators for 2018-20 (quarterly)

				Forecast by ICU										
	3Q17	4Q17E	1Q18E	2Q18F	3Q18F	4Q18F	1Q19F	2Q19F	3Q19F	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F
Activity														
Real GDP (%YoY)	2.4	2.2	3.1	**3.2**	**4.1**	**3.9**	**2.5**	**2.0**	**1.8**	**1.5**	**2.0**	**2.0**	**2.0**	**2.0**
Nominal GDP (UAHbn)	833.1	894.0	700.4	**793.8**	**991.5**	**1,061.5**	**878.0**	**951.3**	**1,186.9**	**1,260.9**	**1,048.4**	**1,128.9**	**1,407.7**	**1,479.6**
Nominal GDP (US$bn)	32.2	33.1	25.7	**30.3**	**36.7**	**37.9**	**31.4**	**33.4**	**40.9**	**42.0**	**33.8**	**35.3**	**43.3**	**44.8**
GDP per capita (US$, ann)	2,519	2,645	2,737	**2,911**	**3,020**	**3,134**	**3,217**	**3,289**	**3,389**	**3,487**	**3,546**	**3,591**	**3,648**	**3,715**
Unemployment rate (%)	9.4	9.9	9.8	**9.6**	**9.4**	**9.2**	**9.0**	**8.9**	**8.8**	**8.6**	**8.4**	**8.2**	**8.0**	**7.8**
Prices														
CPI headline (%YoY, eop)	16.4	13.7	13.2	**9.9**	**9.4**	**10.2**	**10.1**	**14.7**	**13.6**	**13.6**	**13.6**	**13.6**	**13.7**	**11.5**
CPI headline (%YoY, average)	16.2	13.9	13.8	**11.6**	**9.4**	**10.0**	**9.7**	**14.0**	**14.4**	**13.6**	**13.6**	**13.6**	**13.7**	**12.2**
PPI (%YoY, eop)	23.1	17.3	16.9	**18.5**	**17.1**	**15.1**	**13.2**	**17.7**	**16.5**	**17.3**	**17.1**	**15.4**	**15.4**	**13.5**
PPI (%YoY, average)	23.6	18.6	20.1	**16.7**	**16.8**	**15.5**	**12.0**	**17.5**	**17.3**	**16.8**	**17.1**	**15.6**	**15.4**	**14.4**
Fiscal balance														
Consolidated budget bal. (UAHbn)	-10.6	-81.5	-3.1	**-50.8**	**-11.3**	**-26.5**	**-22.4**	**-50.0**	**-0.9**	**-51.0**	**-25.5**	**-60.1**	**-2.2**	**-17.1**
Consolidated budget bal. (% of GDP)	-1.3	-9.1	-0.4	**-6.4**	**-1.1**	**-2.5**	**-2.6**	**-5.3**	**-0.1**	**-4.0**	**-2.4**	**-5.3**	**-0.2**	**-1.2**
Budget balance (UAHbn)	-14.5	-60.6	-20.7	**-48.2**	**-14.5**	**-28.5**	**-23.7**	**-48.4**	**-6.5**	**-51.1**	**-27.1**	**-58.1**	**-8.6**	**-23.4**
Budget balance (% of GDP)	-1.7	-6.8	-3.0	**-6.1**	**-1.5**	**-2.7**	**-2.7**	**-5.1**	**-0.5**	**-4.1**	**-2.6**	**-5.1**	**-0.6**	**-1.6**
External balance														
Exports (US$bn)	13.6	14.7	13.8	**14.2**	**15.9**	**16.2**	**15.9**	**16.0**	**15.9**	**16.2**	**16.4**	**16.7**	**16.7**	**17.3**
Imports (US$bn)	16.3	17.5	15.6	**16.5**	**18.0**	**18.8**	**17.2**	**17.7**	**18.0**	**18.7**	**17.9**	**19.2**	**19.7**	**18.7**
Trade balance (US$bn)	-2.7	-2.8	-1.8	**-2.3**	**-2.1**	**-2.6**	**-1.3**	**-1.7**	**-2.1**	**-2.5**	**-1.5**	**-2.5**	**-3.0**	**-1.4**
Trade balance (% of GDP)	-8.4	-8.6	-6.9	**-7.5**	**-5.6**	**-6.8**	**-4.0**	**-5.0**	**-5.0**	**-5.9**	**-4.5**	**-7.1**	**-6.8**	**-3.0**
Current account balance (US$bn)	-1.1	-0.9	-1.3	**-1.1**	**-0.9**	**-1.4**	**0.0**	**-0.4**	**-0.8**	**-1.2**	**-0.3**	**-1.3**	**-1.7**	**-0.1**
Current account balance (% of GDP)	-3.3	-2.7	-5.1	**-3.5**	**-2.3**	**-3.6**	**-0.2**	**-1.3**	**-2.1**	**-2.9**	**-0.9**	**-3.7**	**-4.0**	**-0.3**
Net FDI (US$bn)	0.3	0.4	0.0	**0.5**	**0.5**	**0.5**	**0.7**	**0.7**	**0.7**	**0.7**	**1.0**	**1.0**	**1.0**	**1.0**
Net FDI (% of GDP)	1.1	1.1	0.0	**1.6**	**1.4**	**1.3**	**2.2**	**2.1**	**1.7**	**1.7**	**3.0**	**2.8**	**2.3**	**2.2**
C/A bal. + net FDI (% of GDP)	-2.3	-1.6	-5.1	**-1.8**	**-1.0**	**-2.3**	**2.1**	**0.8**	**-0.4**	**-1.3**	**2.1**	**-0.8**	**-1.7**	**1.9**
External debt (US$bn, eop)	117.3	118.2	120.5	**119.9**	**120.8**	**122.1**	**122.2**	**122.6**	**123.5**	**124.7**	**125.0**	**126.3**	**128.0**	**128.1**
External debt (% of ann'd GDP, eop)	109.6	105.3	103.7	**97.1**	**94.3**	**91.9**	**89.6**	**88.0**	**86.0**	**84.4**	**83.2**	**83.1**	**82.9**	**81.5**
FX reserves (US$bn, eop)	18.6	18.8	19.1	**19.4**	**19.7**	**20.0**	**19.9**	**19.8**	**19.6**	**19.5**	**19.9**	**20.3**	**20.6**	**21.0**
FX reserves (% of ann'd GDP, eop)	17.4	16.7	16.5	**15.7**	**15.4**	**15.1**	**14.6**	**14.2**	**13.7**	**13.2**	**13.2**	**13.3**	**13.4**	**13.4**
External debt / FX reserves (x, eop)	6.3	6.3	6.3	**6.2**	**6.1**	**6.1**	**6.1**	**6.2**	**6.3**	**6.4**	**6.3**	**6.2**	**6.2**	**6.1**
FX reserves imports cov (months)	3.4	3.4	3.4	**3.3**	**3.3**	**3.4**	**3.3**	**3.3**	**3.2**	**3.1**	**3.2**	**3.2**	**3.2**	**3.3**
Interest rates														
Central bank key rate (%, eop)	12.50	14.50	17.00	**17.00**	**17.50**	**17.50**	**17.50**	**16.00**	**15.00**	**15.00**	**14.00**	**13.00**	**13.00**	**13.00**
Exchange rates														
UAH nominal TWI change (% YoY)	-6.58	-14.09	-9.59	**-12.74**	**-6.56**	**-4.05**	**-7.12**	**-3.31**	**-11.34**	**-12.88**	**-12.38**	**-11.96**	**-5.68**	**-2.64**
UAH CPI-based real misalign't[1] (%, eop)	16.82	13.49	17.31	**12.78**	**15.70**	**14.30**	**14.56**	**13.99**	**6.13**	**2.55**	**2.27**	**2.67**	**3.37**	**3.38**
UAH PPI-based real misalign't[2] (%, eop)	41.53	38.55	46.96	**33.34**	**41.22**	**39.28**	**43.00**	**36.02**	**27.07**	**21.50**	**23.97**	**17.13**	**21.18**	**20.89**
UAH/US$ (eop)	26.64	28.07	26.29	**26.18**	**27.00**	**28.00**	**28.00**	**28.50**	**29.00**	**30.00**	**31.00**	**32.00**	**32.50**	**33.00**
UAH/US$ (average)	25.91	26.98	27.29	**26.18**	**27.00**	**28.00**	**28.00**	**28.50**	**29.00**	**30.00**	**31.00**	**32.00**	**32.50**	**33.00**
UAH/€ (eop)	31.47	33.70	32.39	**31.18**	**32.67**	**34.44**	**35.00**	**35.63**	**36.25**	**37.50**	**38.75**	**40.00**	**40.63**	**41.25**
UAH/€ (average)	30.46	31.77	33.53	**31.18**	**32.67**	**34.44**	**35.00**	**35.63**	**36.25**	**37.50**	**38.75**	**40.00**	**40.63**	**41.25**
US$/€ (eop)	1.18	1.20	1.23	**1.19**	**1.21**	**1.23**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**
US$/€ (average)	1.18	1.18	1.23	**1.19**	**1.21**	**1.23**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**
Population														
Population (million, eop)	42.43	42.39	42.45	**42.40**	**42.37**	**42.32**	**42.43**	**42.37**	**42.34**	**42.29**	**42.40**	**42.34**	**42.31**	**42.26**
Population (%YoY)	-0.5	-0.5	-0.2	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**

Notes: eop – end of period; cov – coverage; con'd – consolidated; ann – annualised; TWI – trade-weighted index of UAH; [1] misalignment of UAH by its CPI-based real TWI in percentage of the five-year moving-average of the index; [2] misalignment of UAH by its CPI-based real TWI in percentage of the five-year moving-average of the index; [1 & 2] when marked in green/red, it means UAH has negative/positive misalignment and likely future path of UAH's market exchange rate over next three-month period is strengthening/weakening).
Sources: State Statistics Service of Ukraine, NBU, ICU.

Disclosures

ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark

11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Partner
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

ASSET MANAGEMENT

Grigoriy Ovcharenko, Director
Head of Local Asset Management
grigoriy.ovcharenko@icu.ua

Liliya Kubytovych
Head of Marketing and Sales
liliya.kubytovych@icu.ua

TRADE OPERATIONS

Konstantin Stetsenko
Managing Partner
konstantin.stetsenko@icu.ua

Vlad Sinani, Director
Strategy and Business Development
vlad.sinani@icu.ua

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

Yevgeniya Gryshchenko
Head of Brokerage Services Department
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach
Trader, Fixed-Income & Forex
vitaliy.sivach@icu.ua

Bogdan Vorotilin
bogdan.vorotilin@icu.ua

RESEARCH

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

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

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

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

Dmitriy Dyachenko
Junior financial analyst
dmitriy.dyachenko@icu.ua

Artem Gladchenko
Junior financial analyst
artem.gladchenko@icu.ua