



# Big-picture

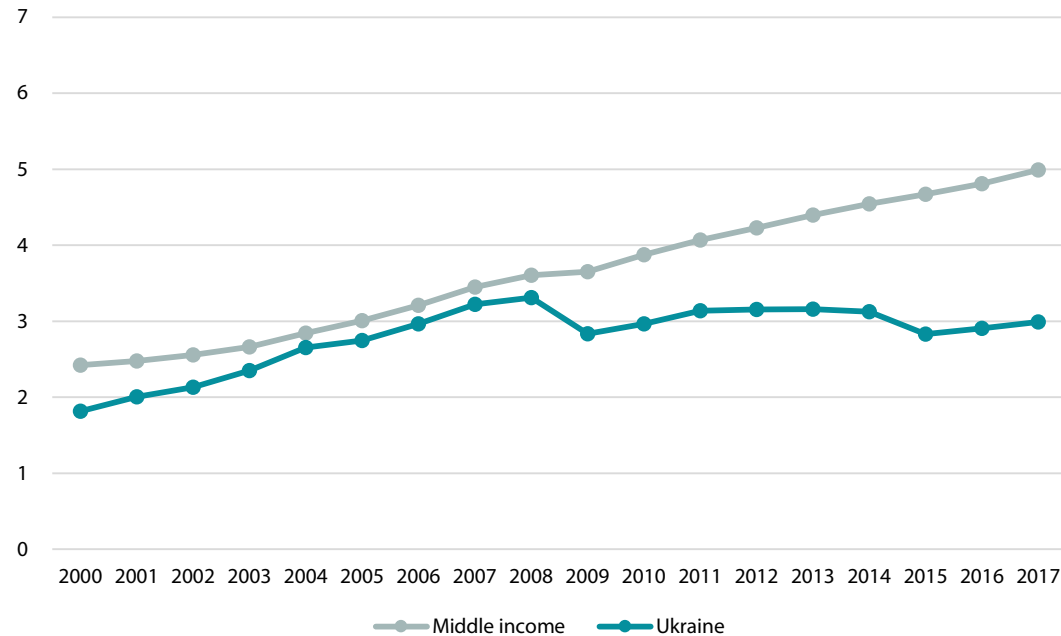
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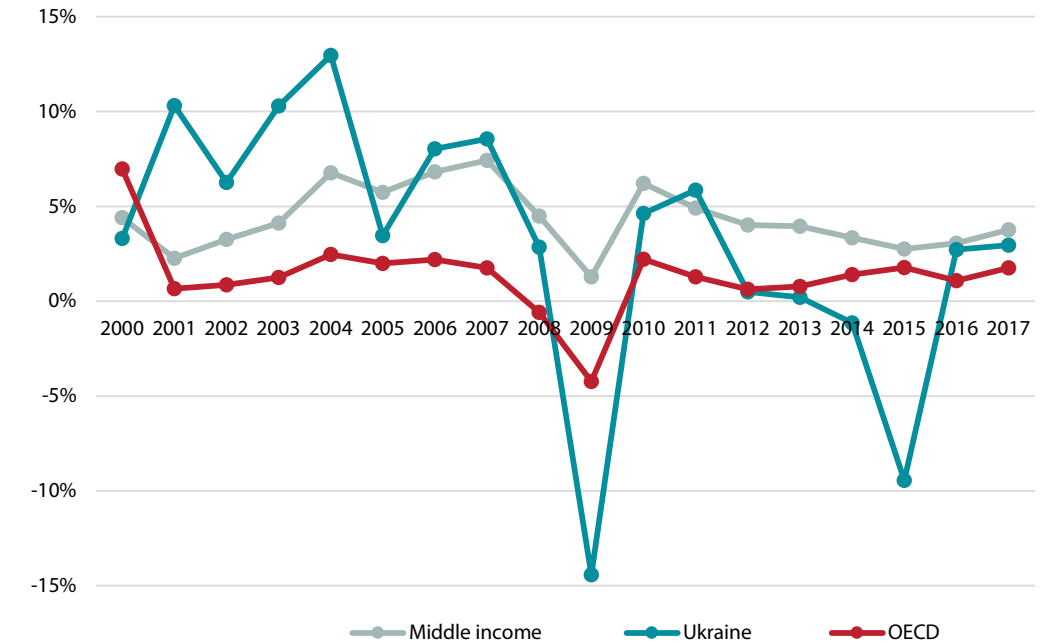
# Economy lacks resilience – and lags behind

## GDP per capita, thous 2010 \$



Source: The World Bank

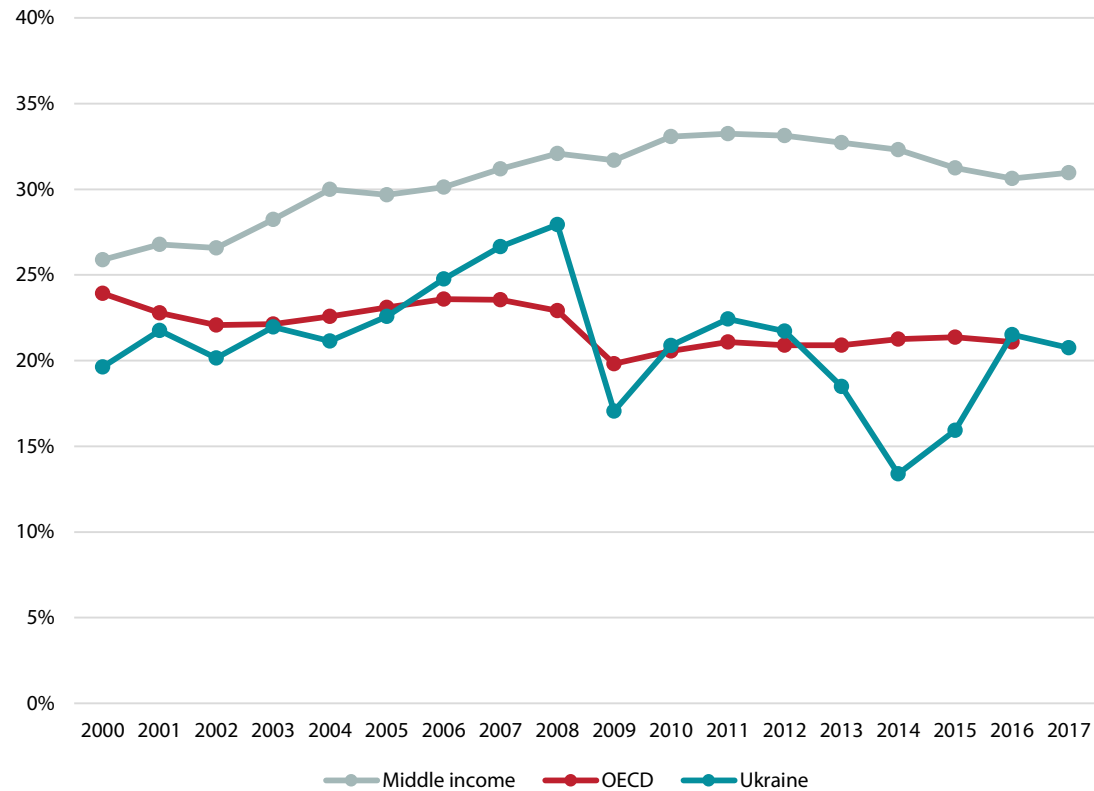
## GDP per capita, annual change



Source: The World Bank

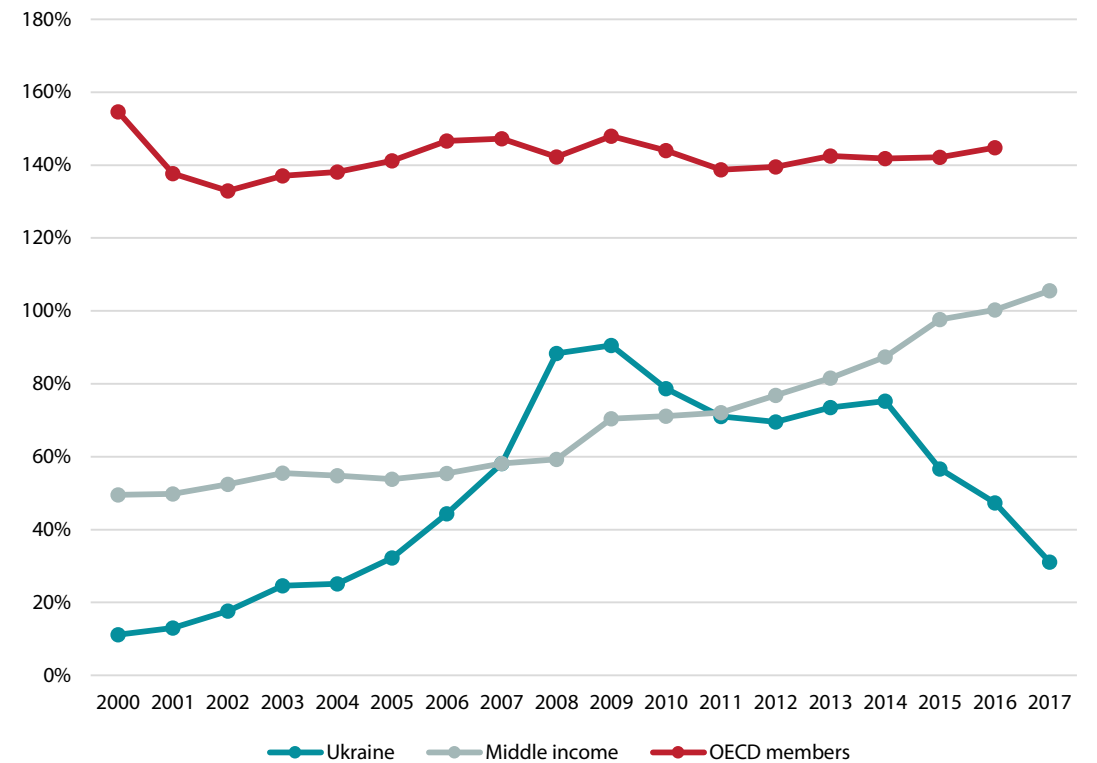
# Investments and lending are volatile

## Gross capital formation, share of GDP



Source: The World Bank

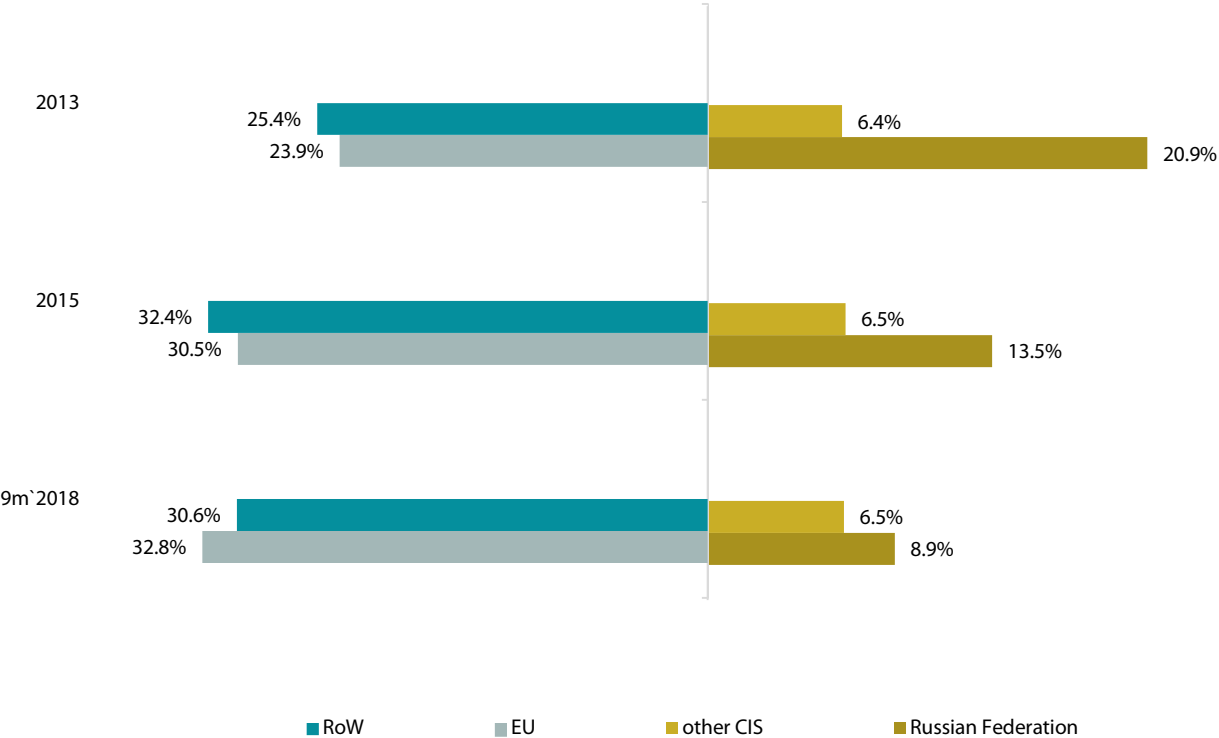
## Domestic credit to private sector, share of GDP



Source: The World Bank

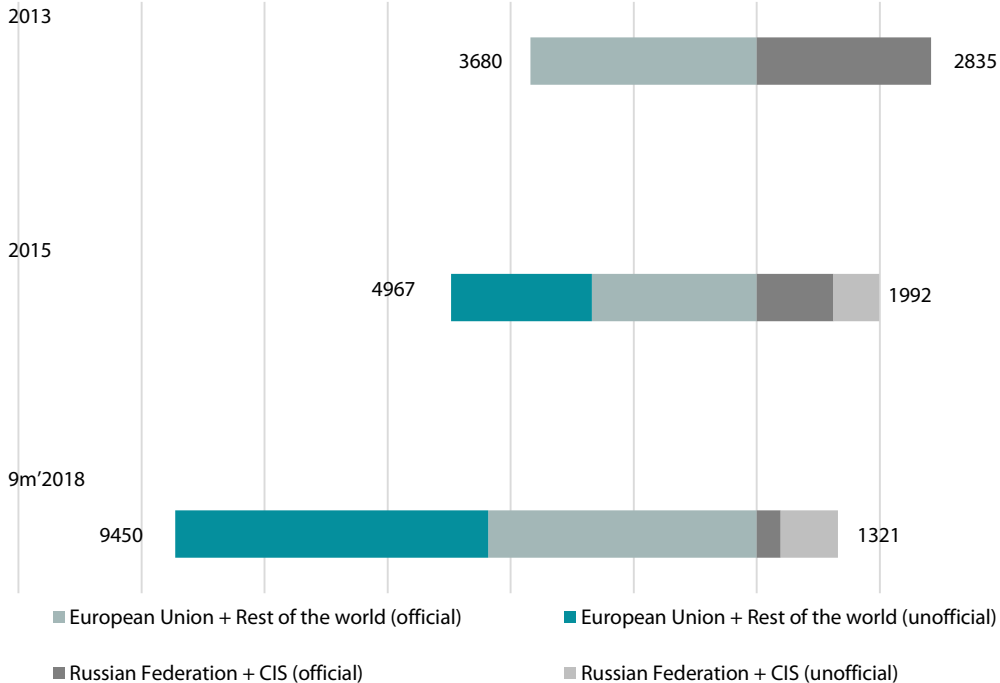
# Economy is slowly turning its wheels from Russia to the EU

UA foreign trade turnover (exports + imports), share of GDP 2010-ttm`2018



Source: State Statistics Service of Ukraine

Remittances in Ukraine 2013-ttm`2018, \$ mln



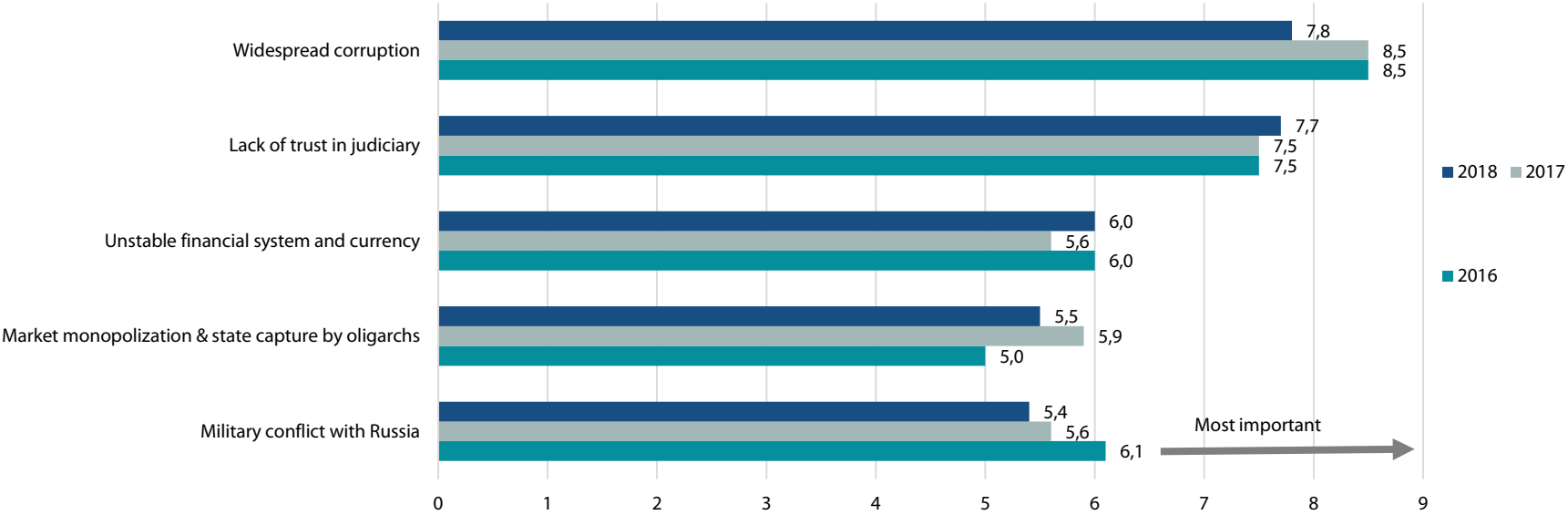
Source: National Bank of Ukraine



Investments

# Lack of rule of law is the major obstacle for foreign investors

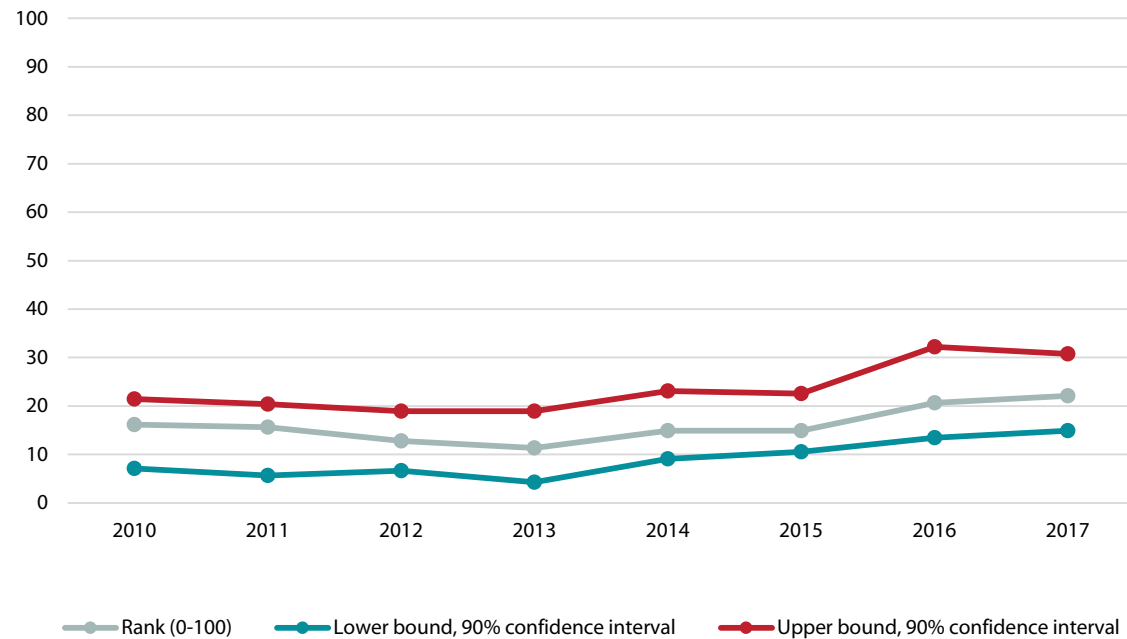
Top-5 major obstacles to foreign investment in Ukraine



Sources: EBA, Dragon Capital, CES, Third Foreign Investor Survey, 109 respondents

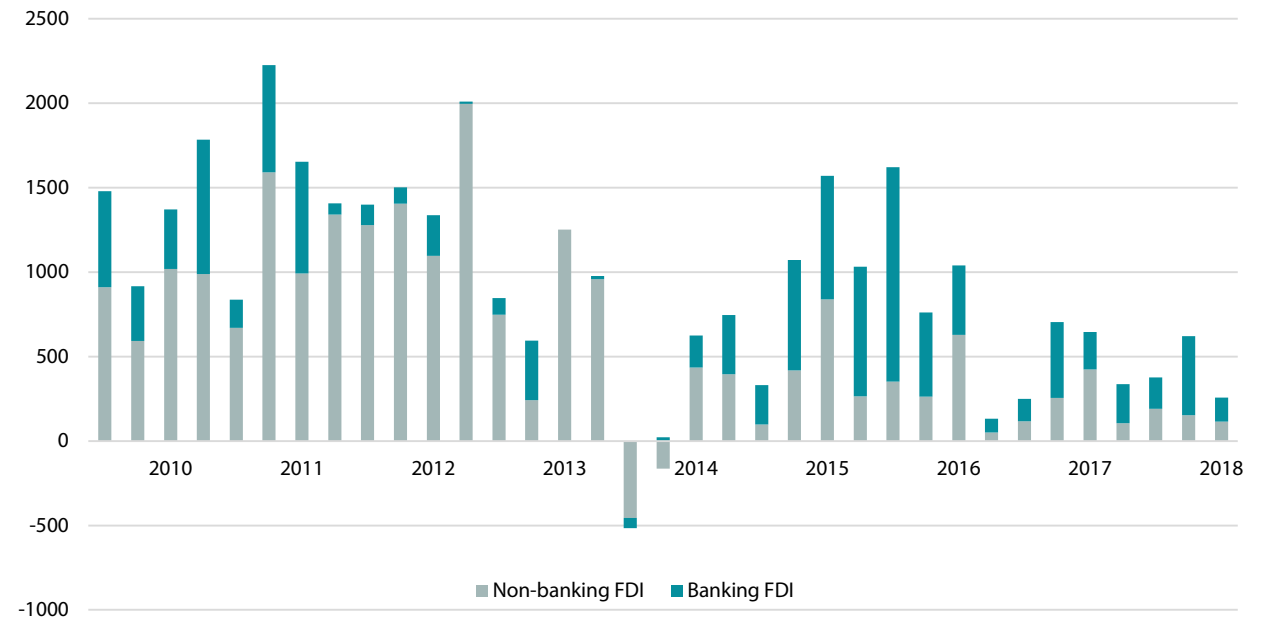
# For those who don't object corruption (incl roundtrip investments) war and FX restrictions played the role

Control of corruption in Ukraine, WGI dimension



Source: The World Bank, World Governance Indicators

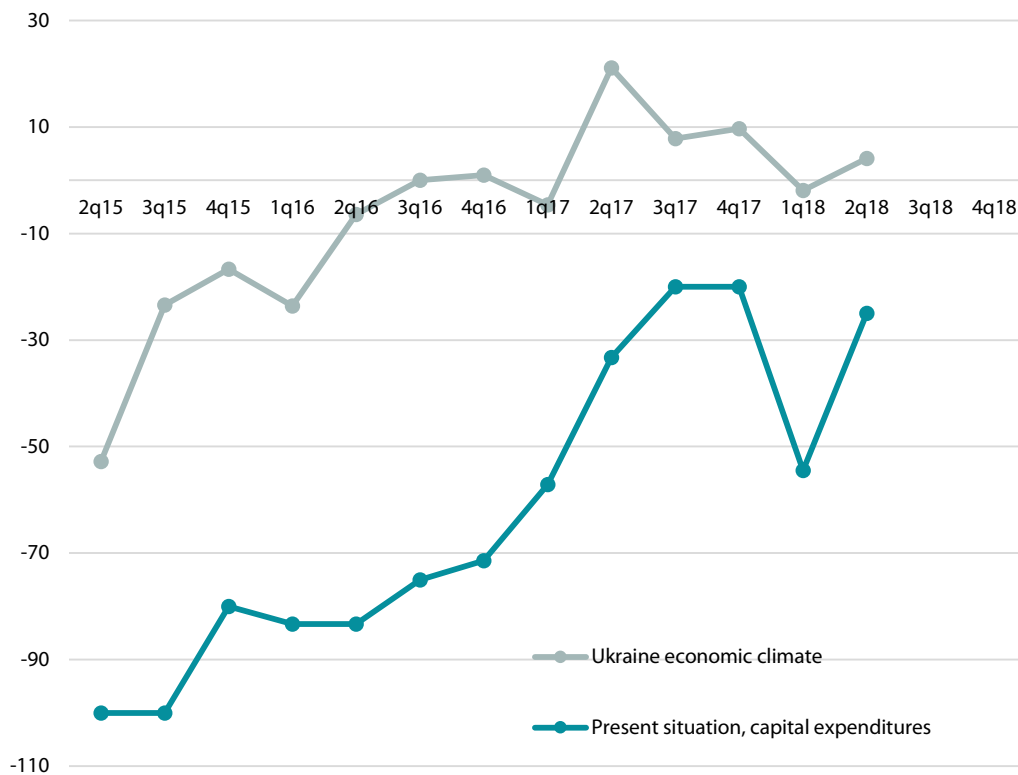
Foreign direct investments, \$ mln



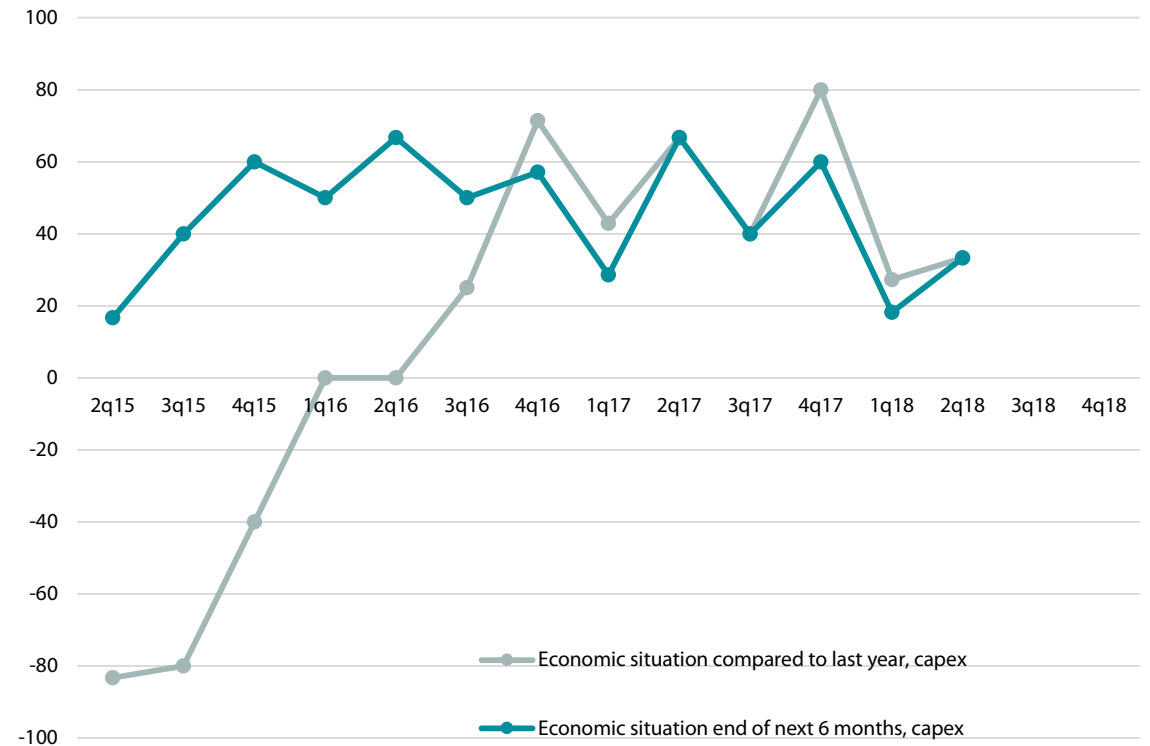
Source: National Bank of Ukraine

# New optimism brought by macro stabilization is under the risk in light of double elections, Russian aggression and volatility in emerging markets

Ukraine economic climate, IFO survey



Ukraine economic climate, IFO survey



Source: The CESifo Group

Source: The CESifo Group





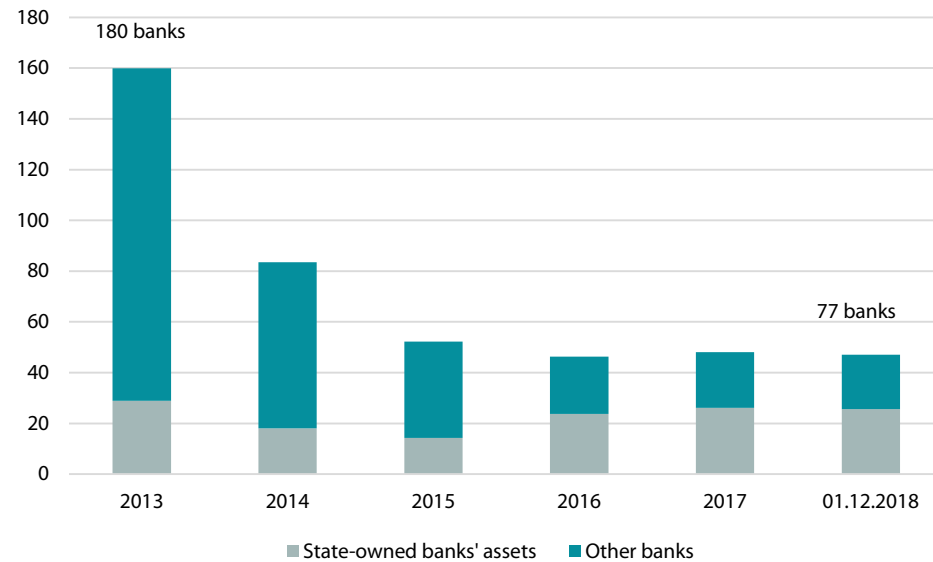
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## Banking system and domestic credit

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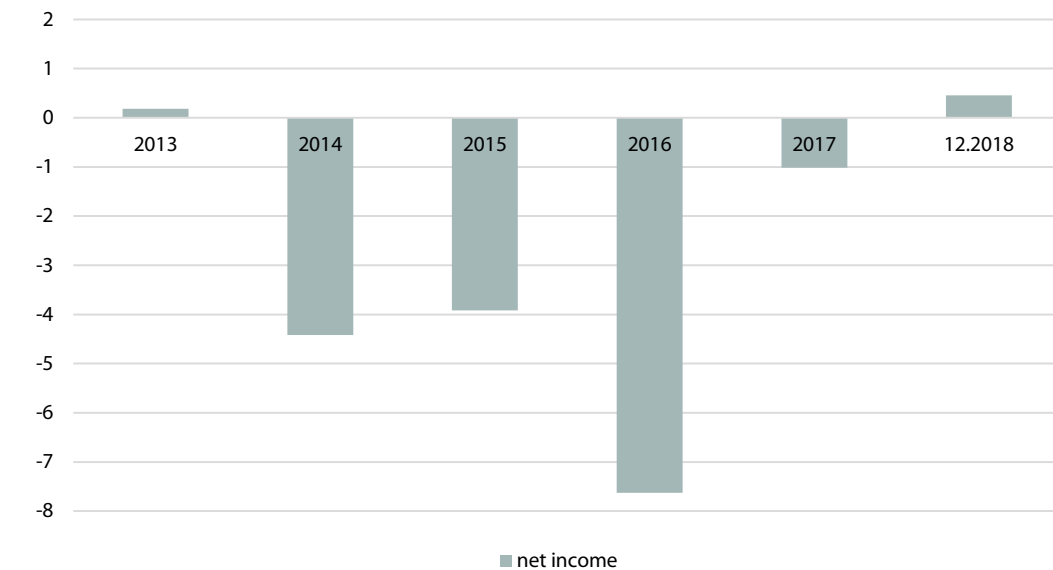
# Banking system survived through a massive clean-up, regained stability, even profits

Banking system net assets, \$ bn



Source: National Bank of Ukraine

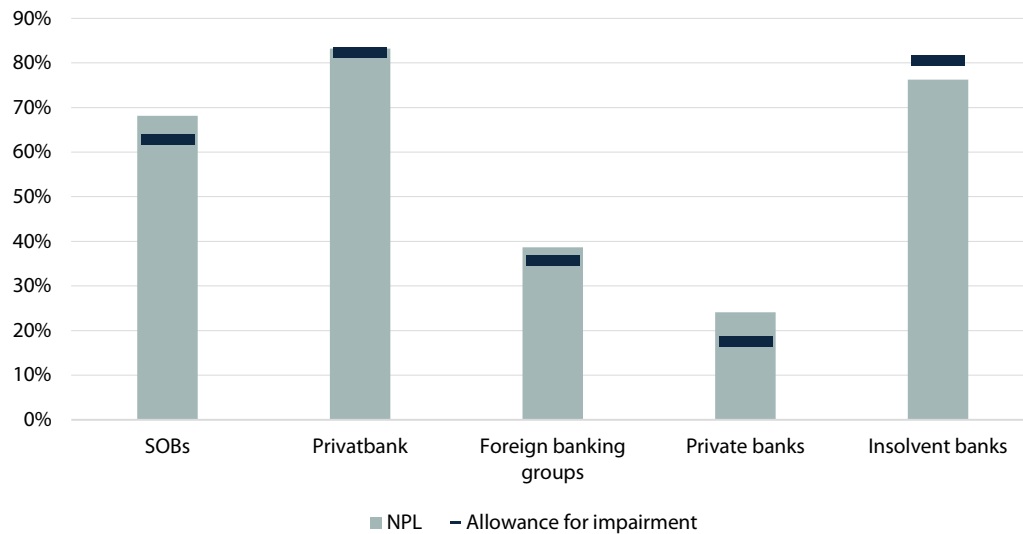
Banking system net profits, \$ bn



Source: National Bank of Ukraine

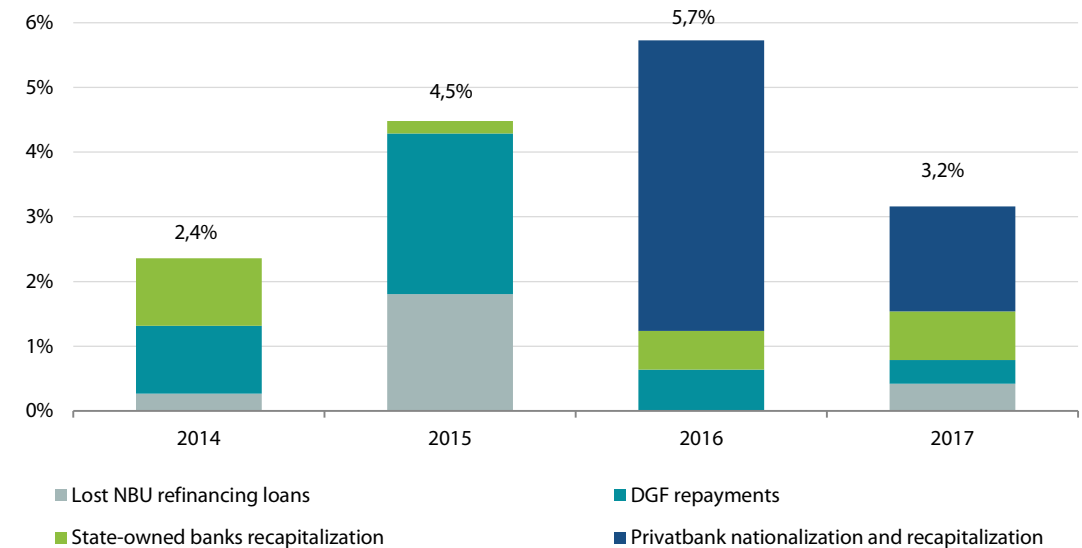
# Sizeable NPL stock are mostly provisioned. The government massively stepped-in to save the day

Non-performing loans and allowance for impairment as of 01.12.2018, share in banks' credit portfolios



Source: National Bank of Ukraine

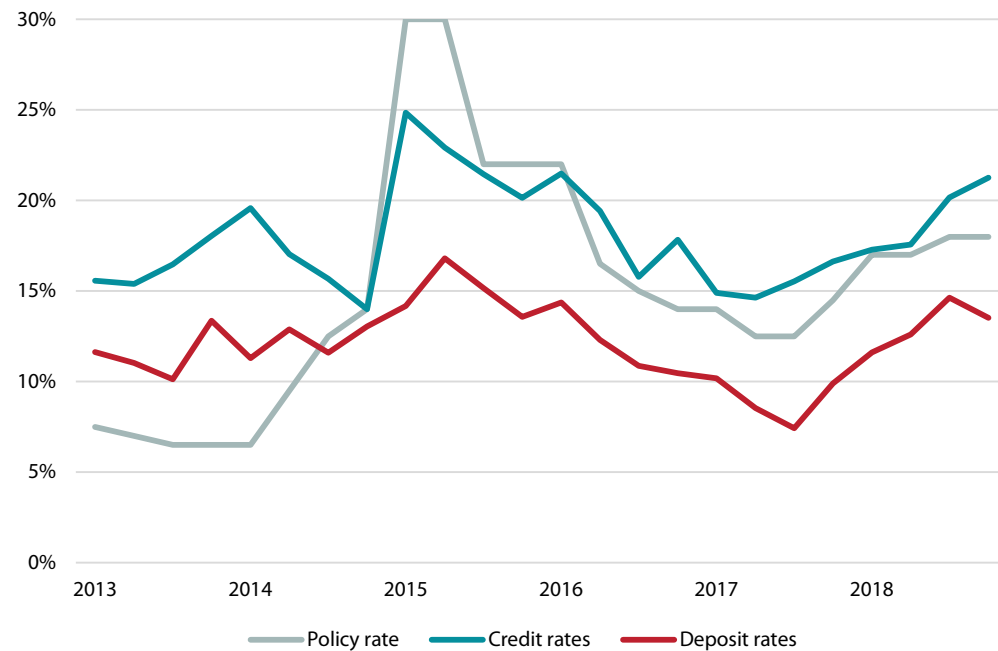
Fiscal costs of economic crisis, share of GDP



Source: National Bank of Ukraine

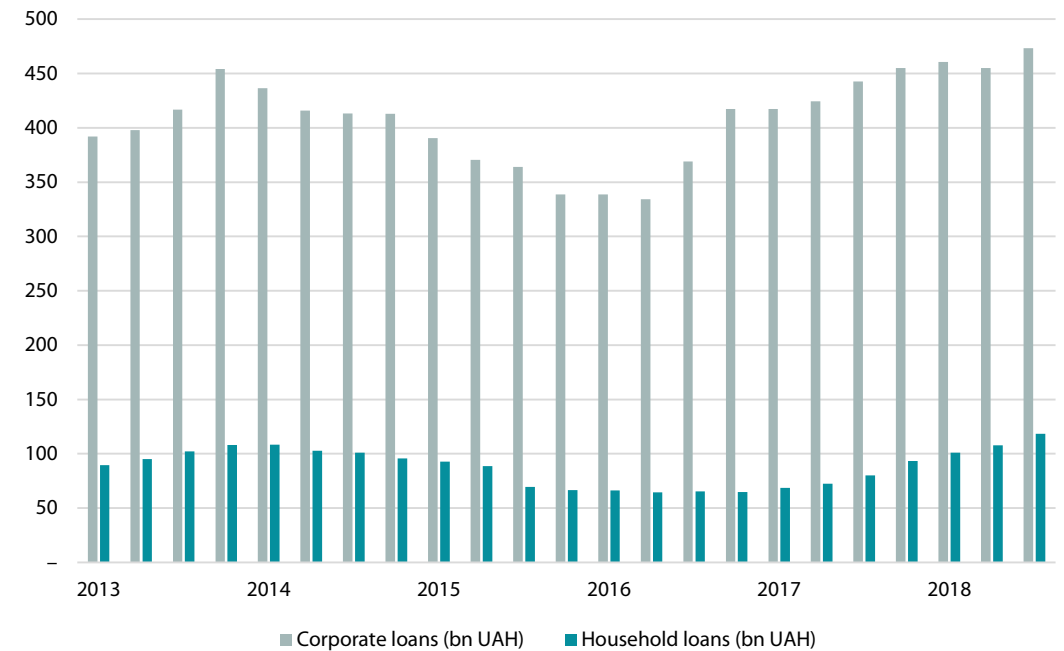
# Domestic credit gradually recovers amid tight monetary policy

Interest rates, % p.a.



Source: National Bank of Ukraine

Gross loans, bn UAH



Source: National Bank of Ukraine

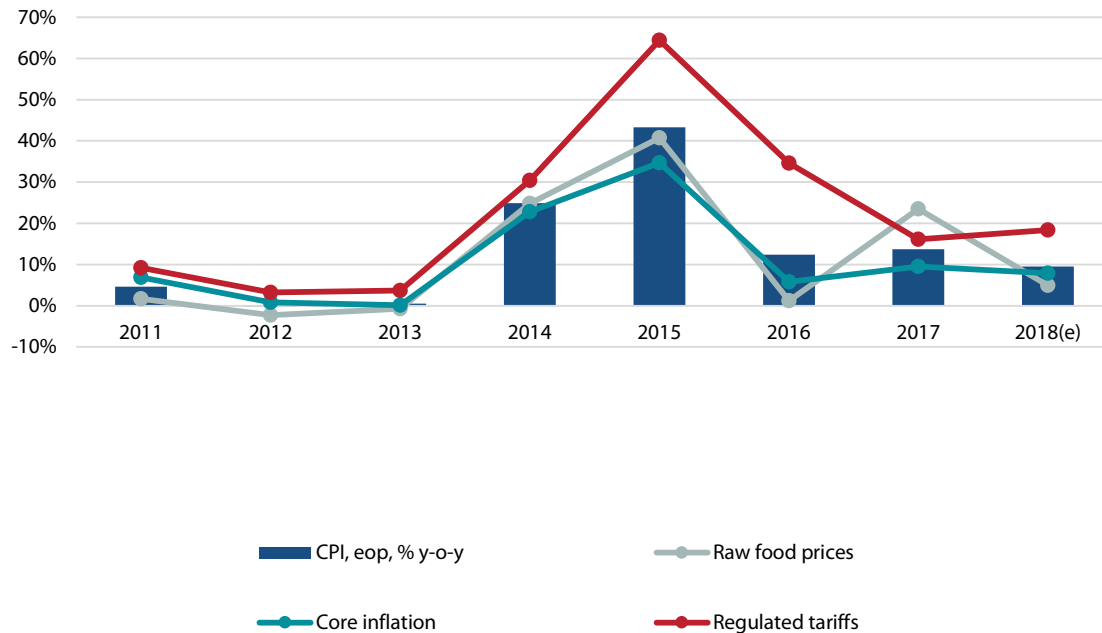


Inflation

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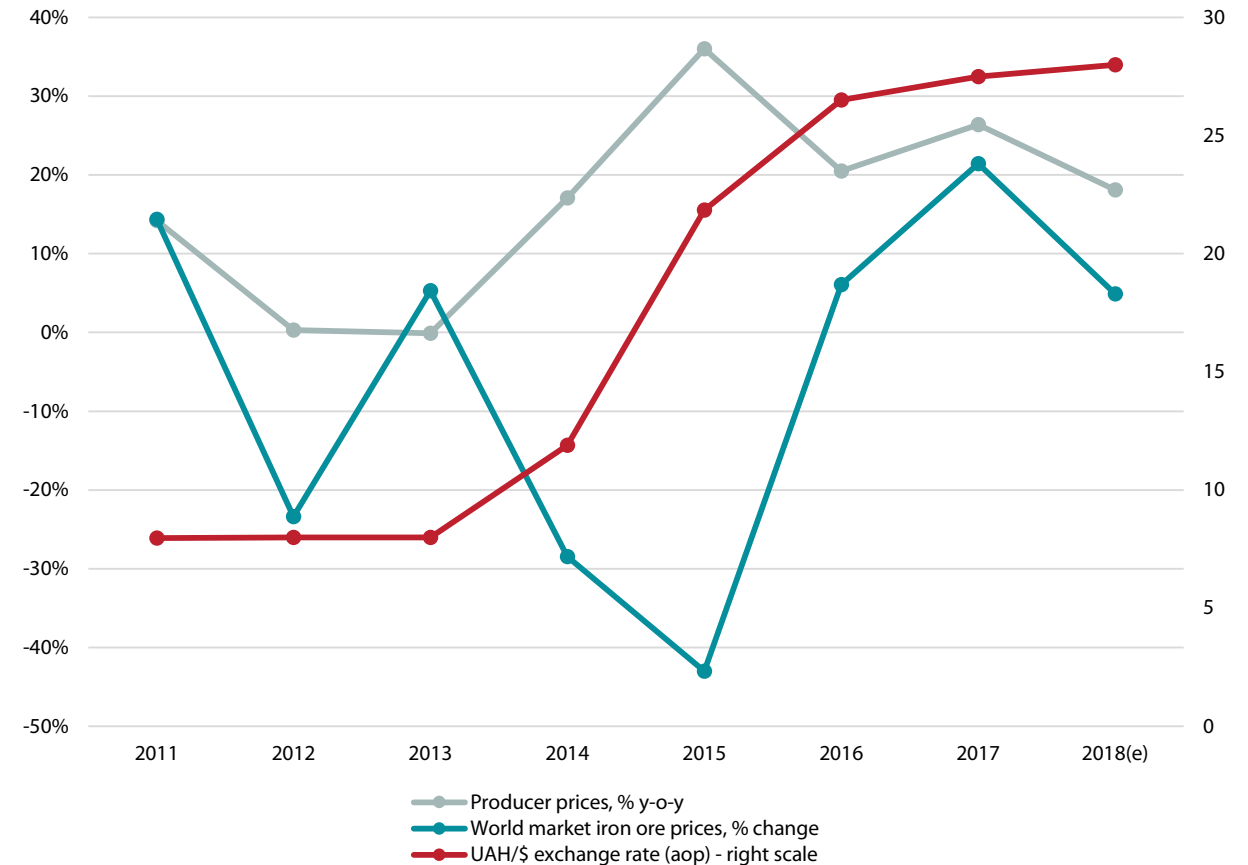
# Tariffs adjustment and hryvnia depreciation fuelled inflation in 2014-16, NBU strives for single-digit inflation

Consumer inflation and its components, % y-o-y



Source: National Bank of Ukraine

Producers' prices and exchange rate developments



Source: National Bank of Ukraine



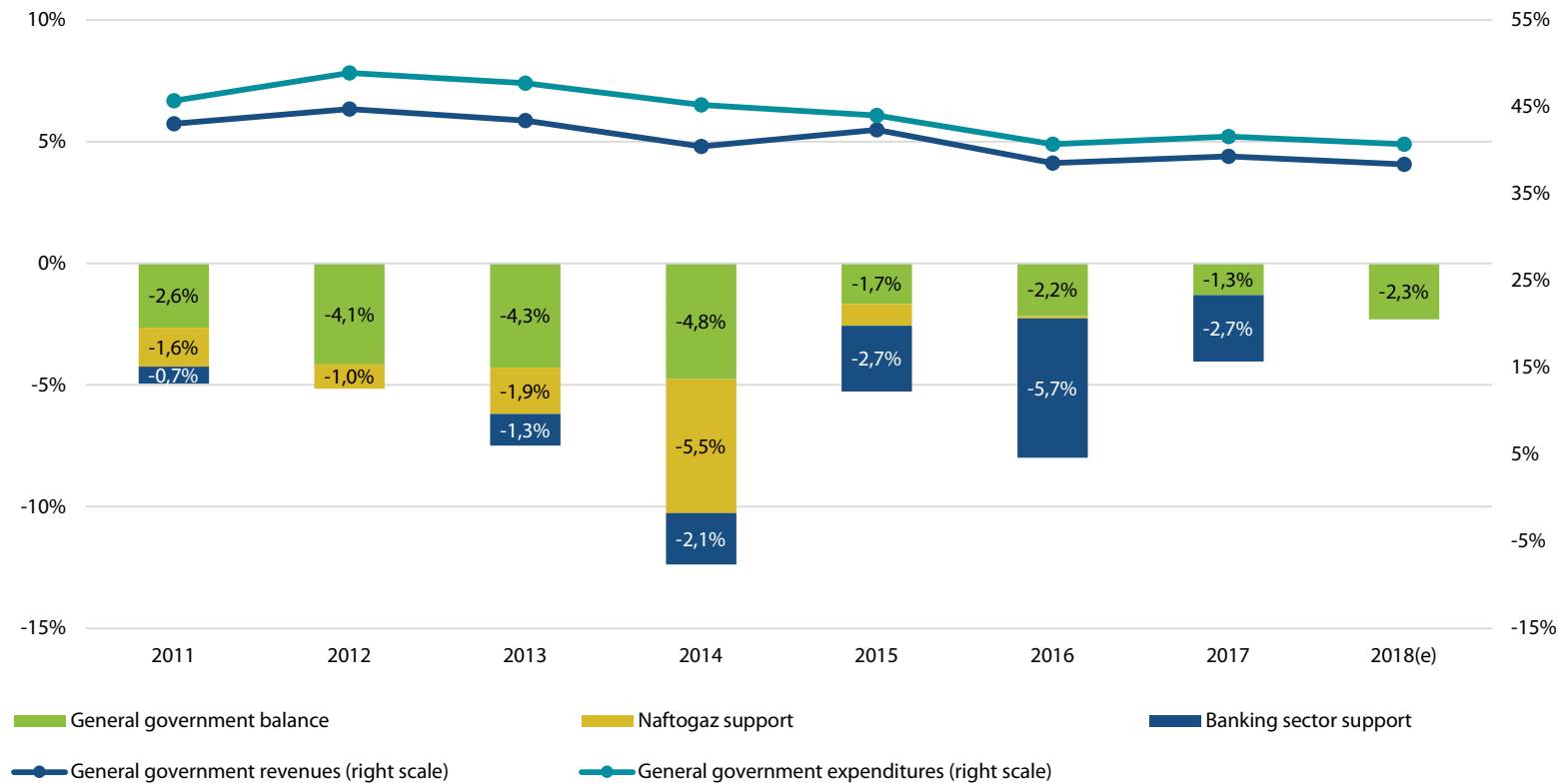
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Fiscal sector

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# Crisis-driven debt build-up calls for fiscal prudence: moderate deficits, more prioritization of spending

General government finances and quasi-fiscal operations, % of GDP

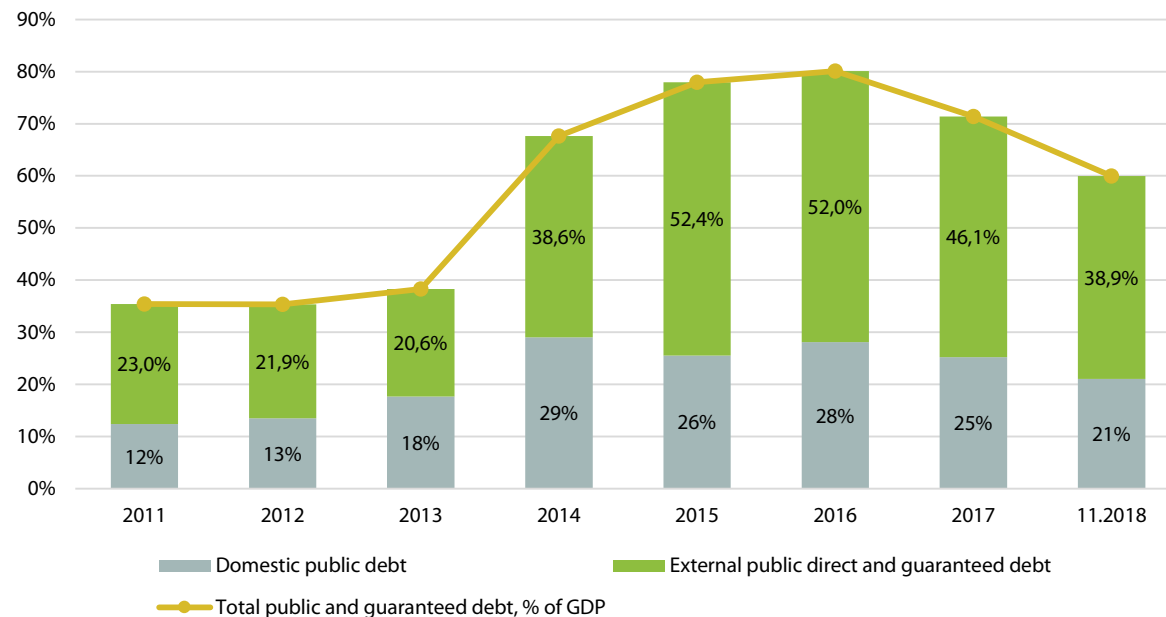


Sources: National Bank of Ukraine, Ministry of Finance, State Treasury Service of Ukraine



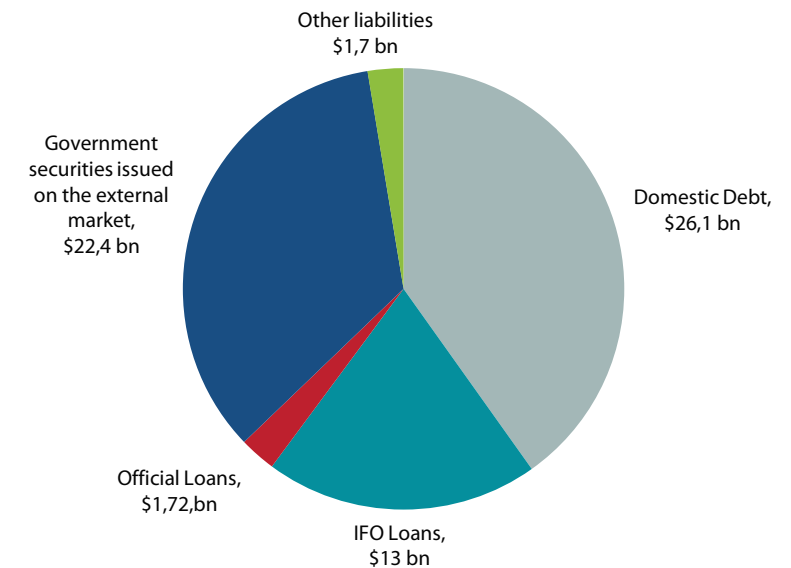
# Public debt-to-GDP ratio declined, but 70% of debt is FX denominated posing currency risks

Gross public and guaranteed debt, % of GDP



Sources: Ministry of Finance, State Statistics Service of Ukraine

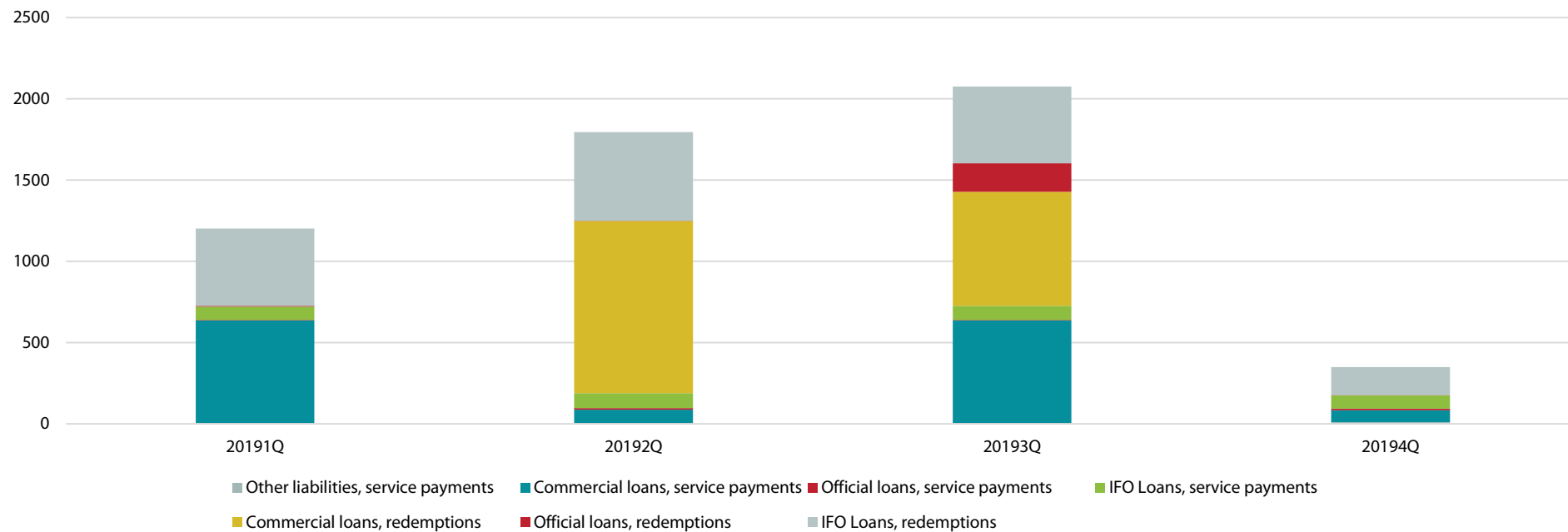
Public debt structure



Source: Ministry of Finance

# Redemption schedule heavy for 2019, the government will try hard to remain within the IMF program

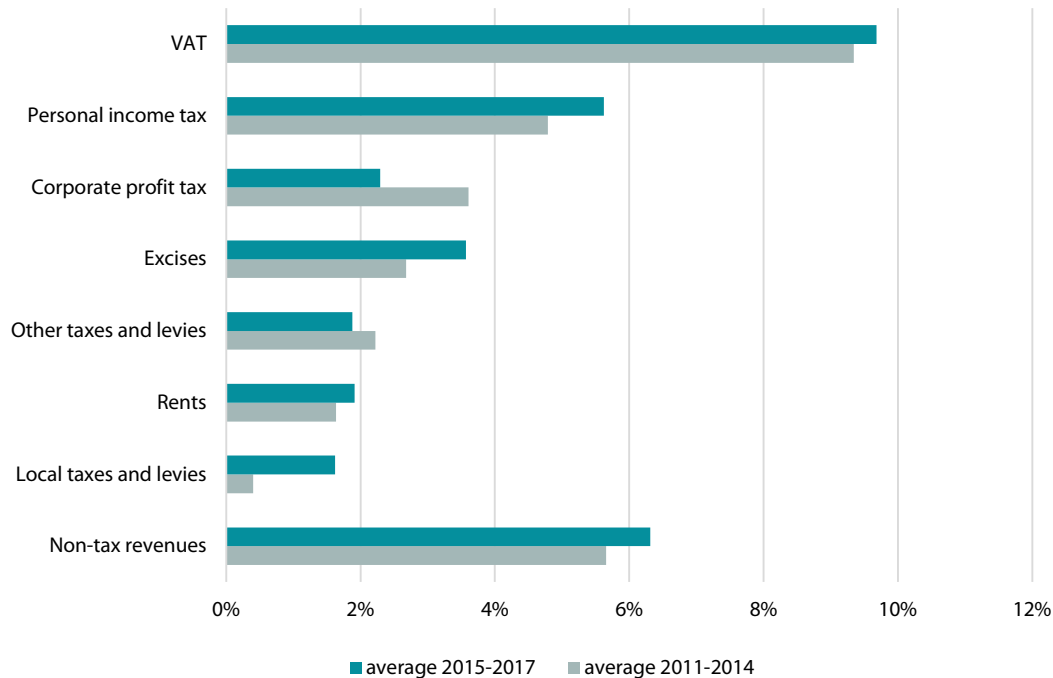
External public debt redemptions in 2019 as of 01.01.2019, \$ mln



Source: Ministry of Finance

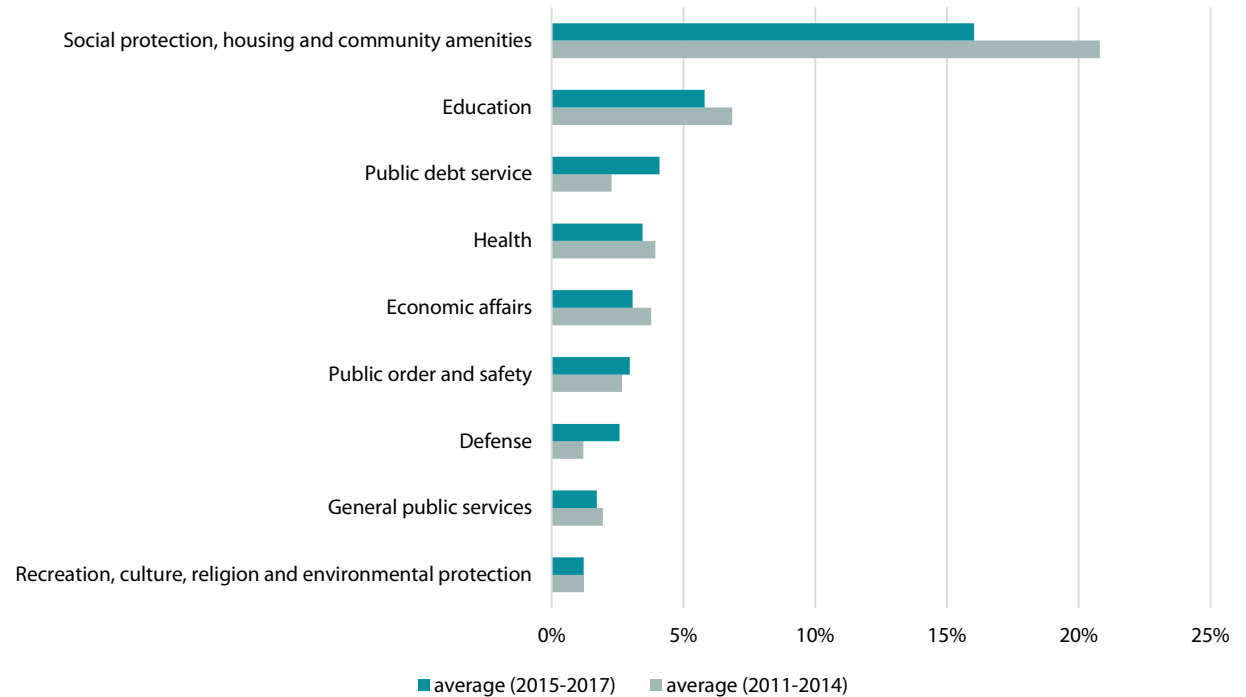
# Budget components shares slightly changed during recent years, social spending still high

Government revenues, share of GDP



Source: State Treasury Service of Ukraine

Government expenses, functional classification composition, share of GDP



Source: State Treasury Service of Ukraine



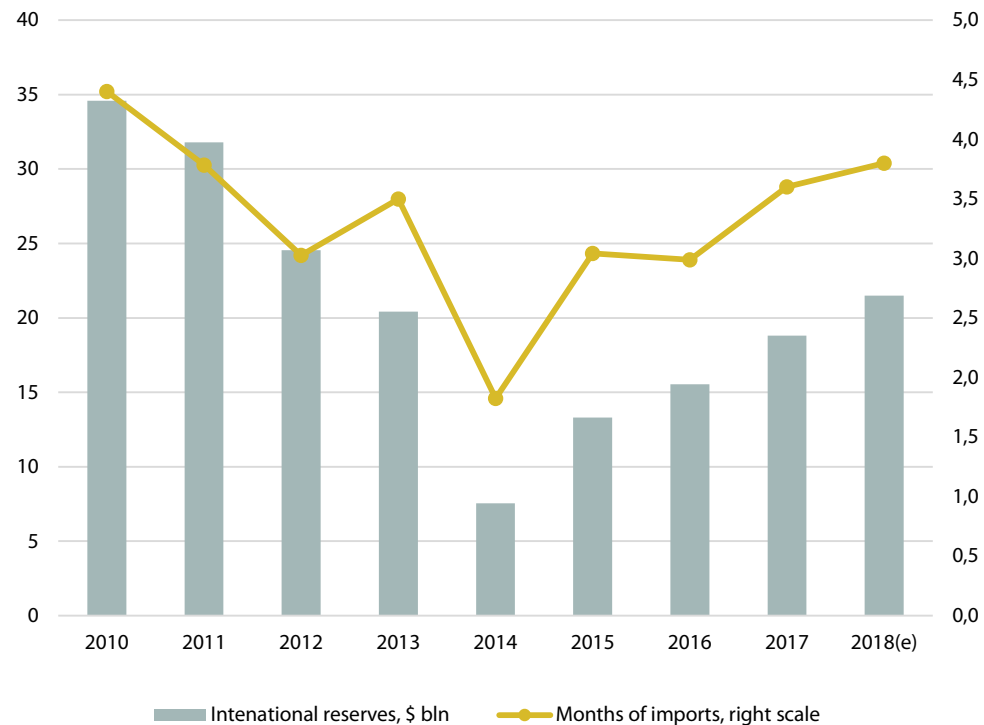
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External sector

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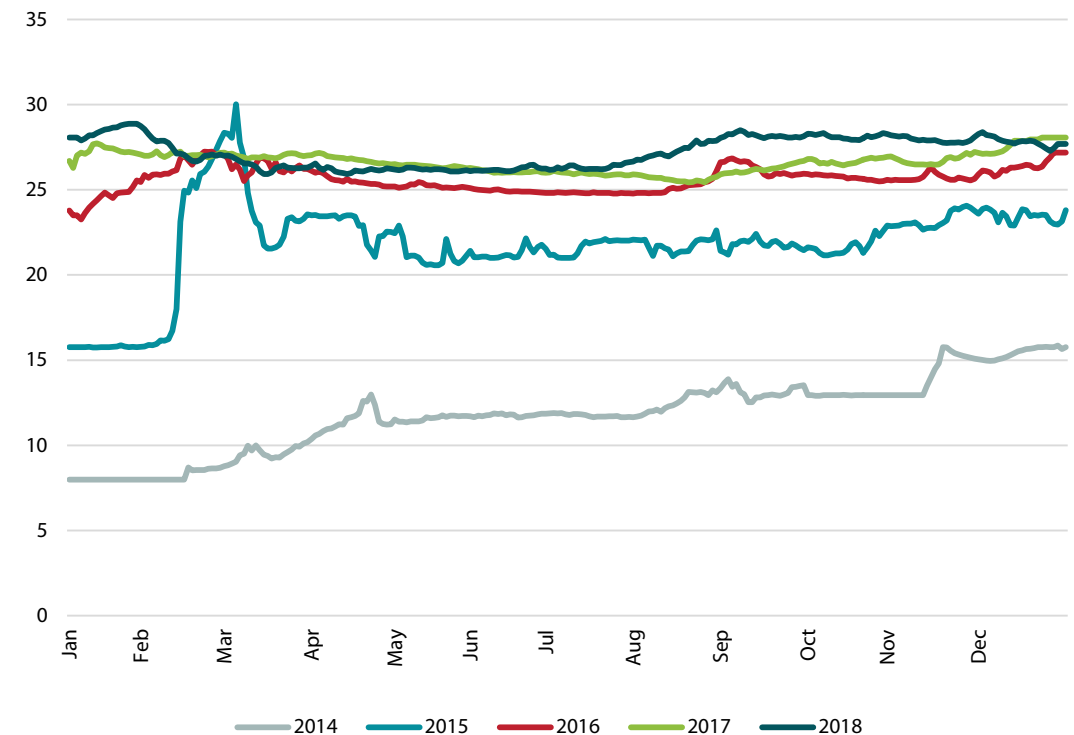
# After severe UAH depreciation exchange rate became flexible, economy stabilized and FX reserves grew back to safe area with the IMF help

## International reserves dynamics



Source: National Bank of Ukraine

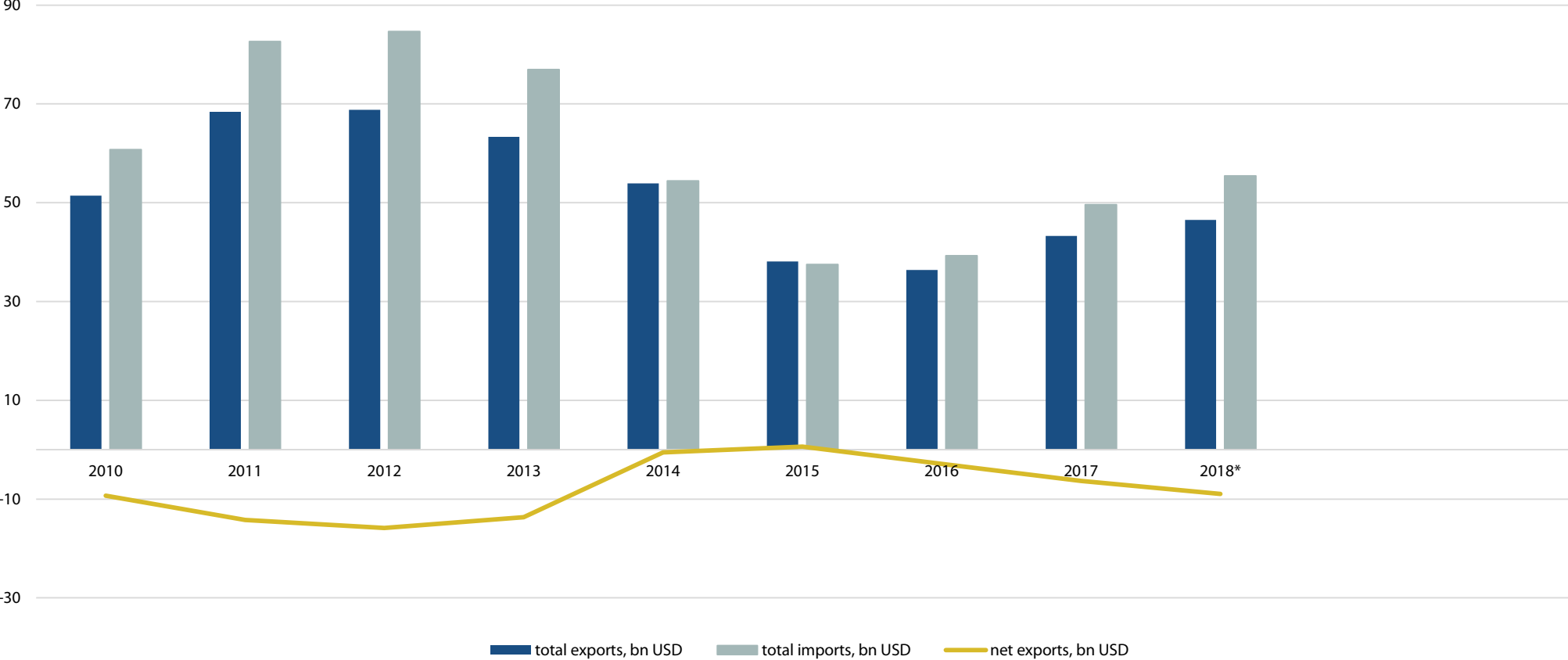
## UAH/\$ exchange rate



Source: National Bank of Ukraine

# The Russian aggression and following crisis severely hit foreign goods trade volumes

Total exports and total imports of goods, \$ bn

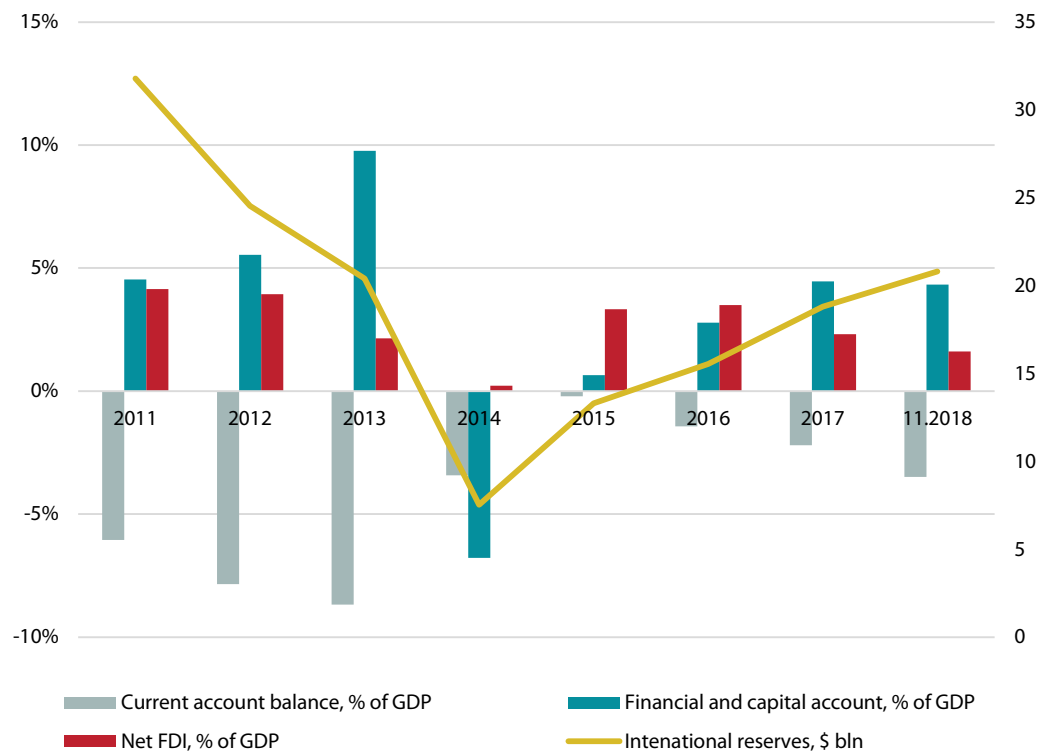


\* - 2017 4q and 2018 1-3q

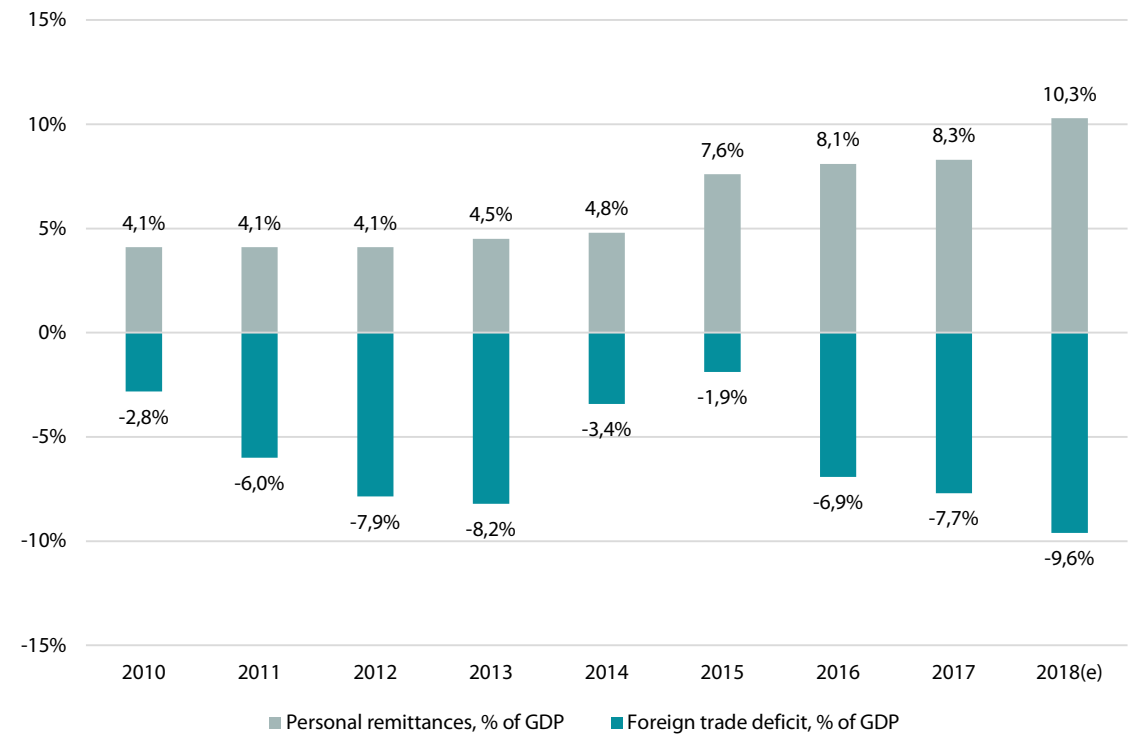
Source: State Statistics Service of Ukraine

# Current account deficit covered by inflows on financial account; growing trade deficit offset by remittances

## Balance of payments



## Foreign trade deficit and private remittances, share of GDP



Source: National Bank of Ukraine

Source: National Bank of Ukraine



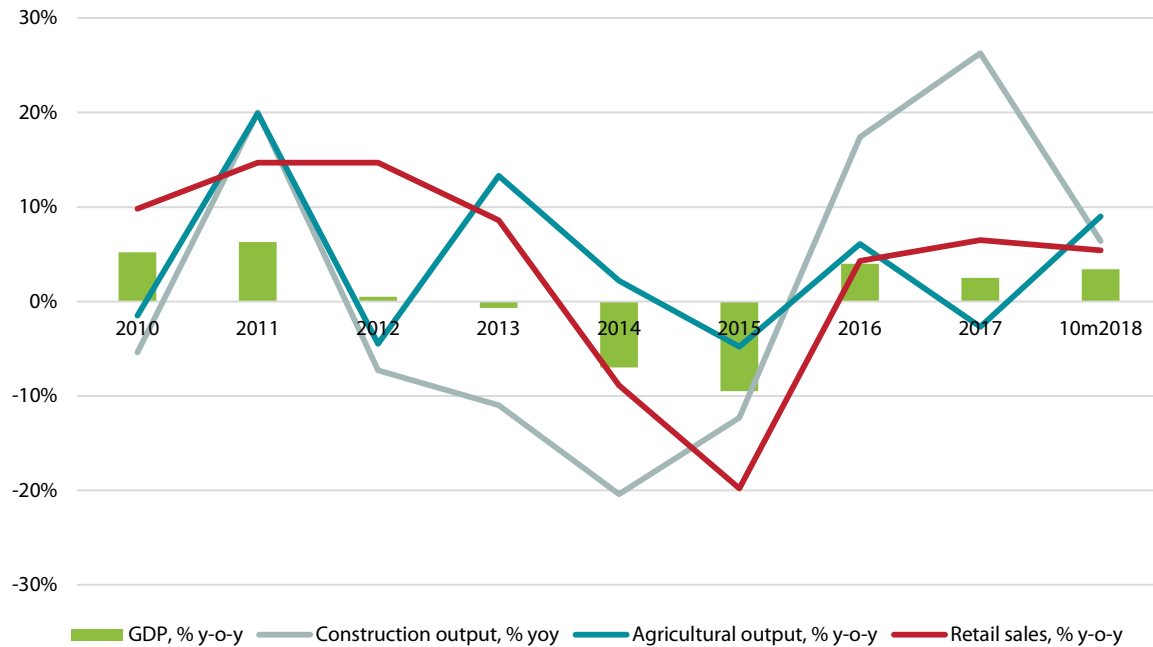
Real sector trends

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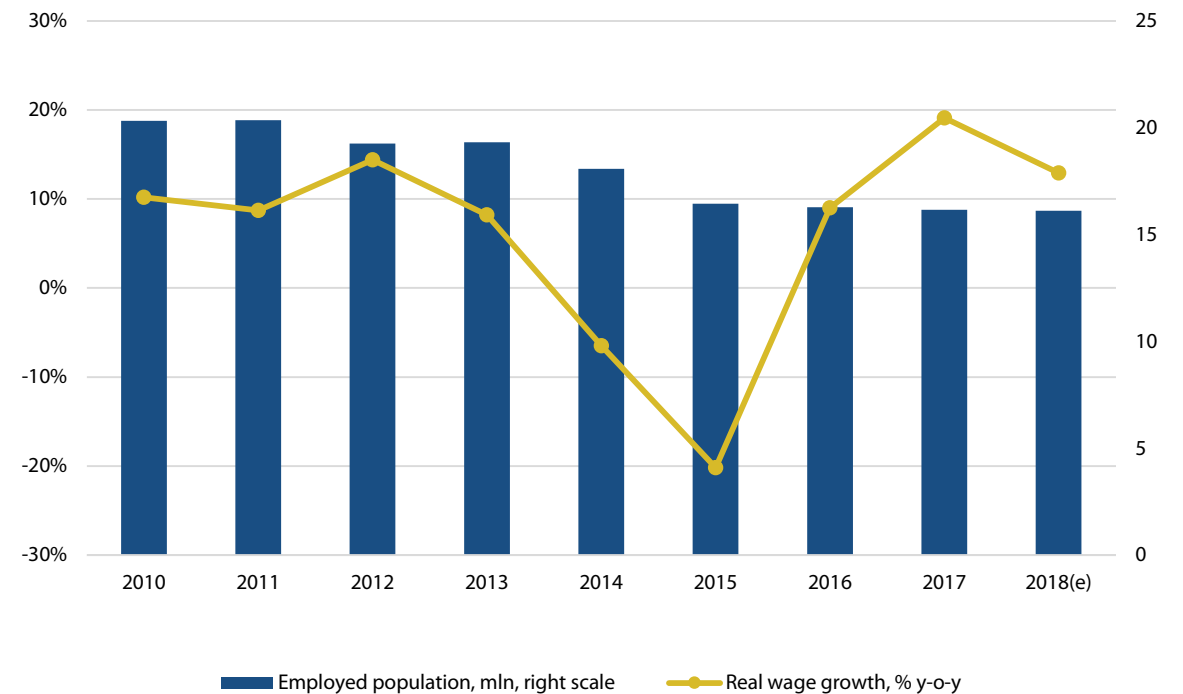
# Real sector growth trends: high output volatility and shrinking labour force

## GDP indicators



Source: State Statistics Service of Ukraine

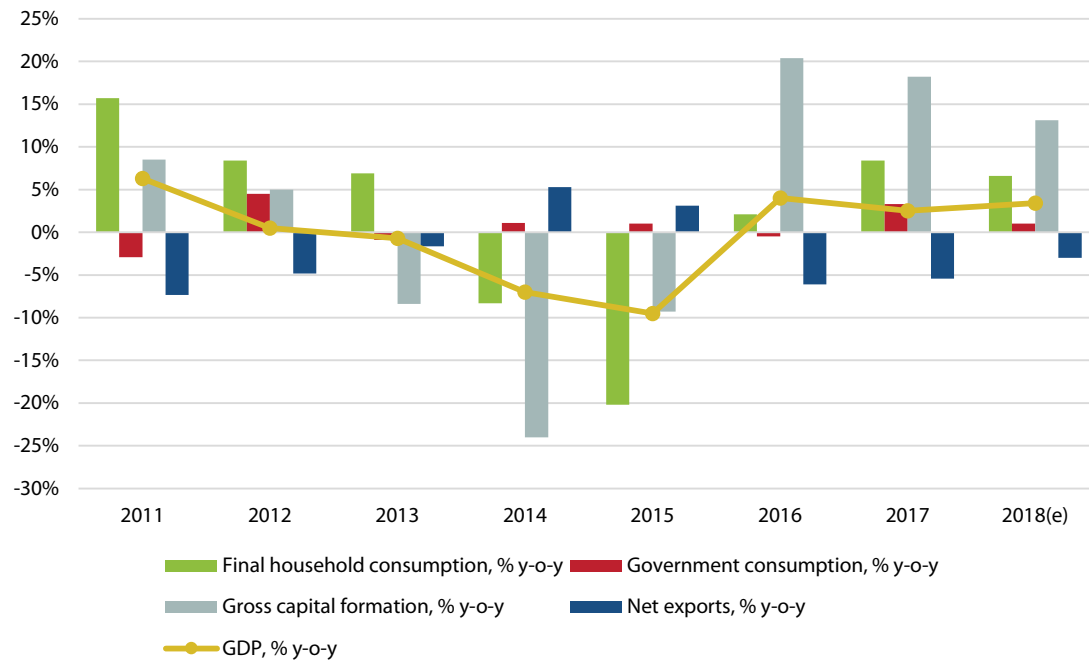
## Labor market indicators



Source: State Statistics Service of Ukraine

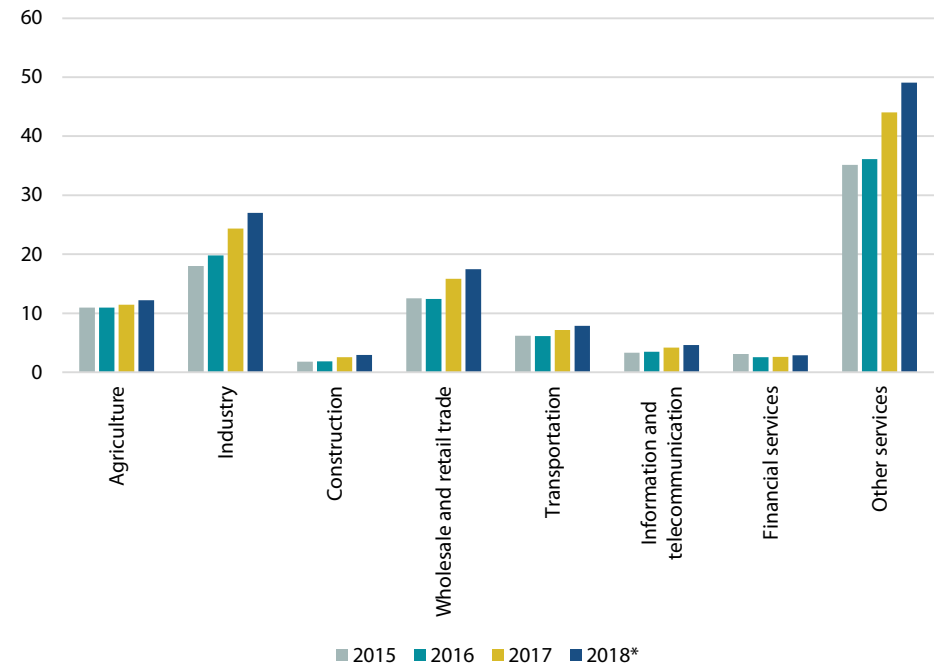
# Post-crisis investments rebound, GDP dominated by services

## GDP components trends 2011-3q2018



Source: State Statistics Service of Ukraine

## GDP by key sectors, \$ bn

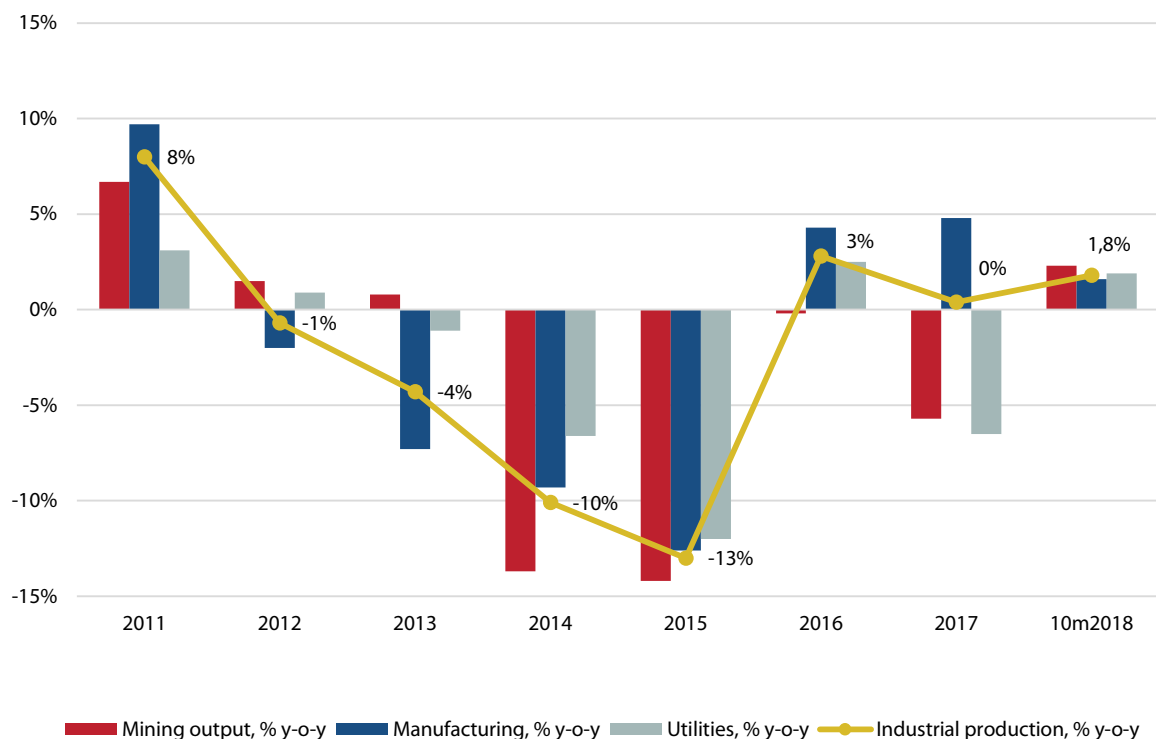


\* - 2017 4q and 2018 1-3q

Source: State Statistics Service of Ukraine

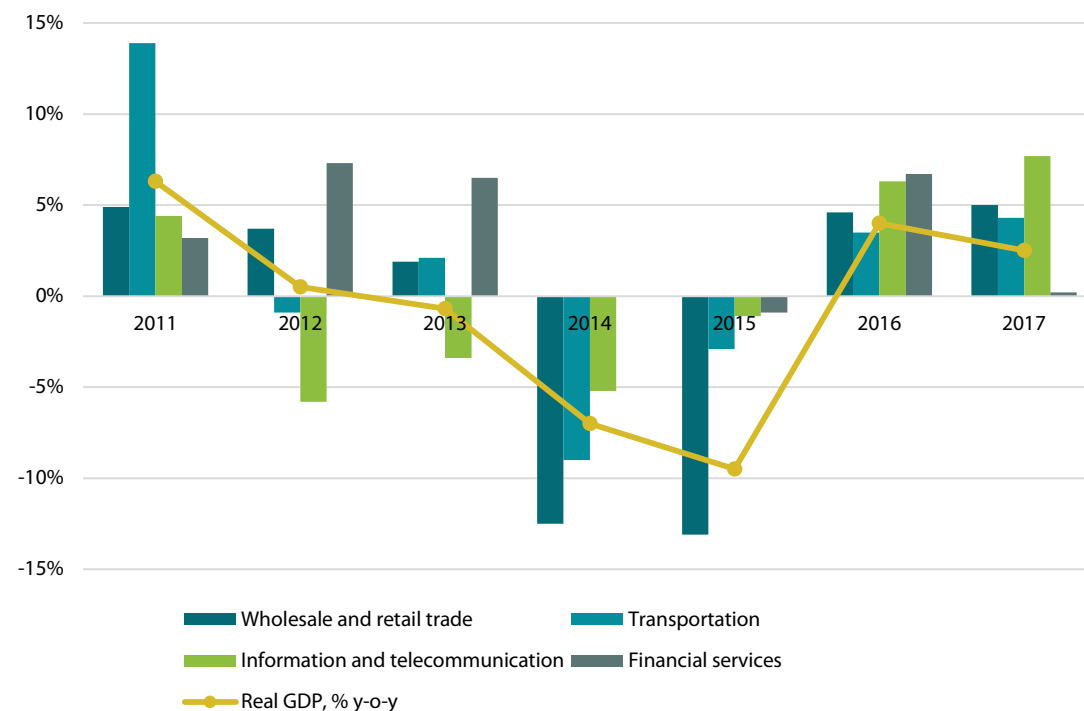
# Sluggish recovery in industry, solid growth in services and trade

## Industrial output growth by sectors, % y-o-y



Source: State Statistics Service of Ukraine

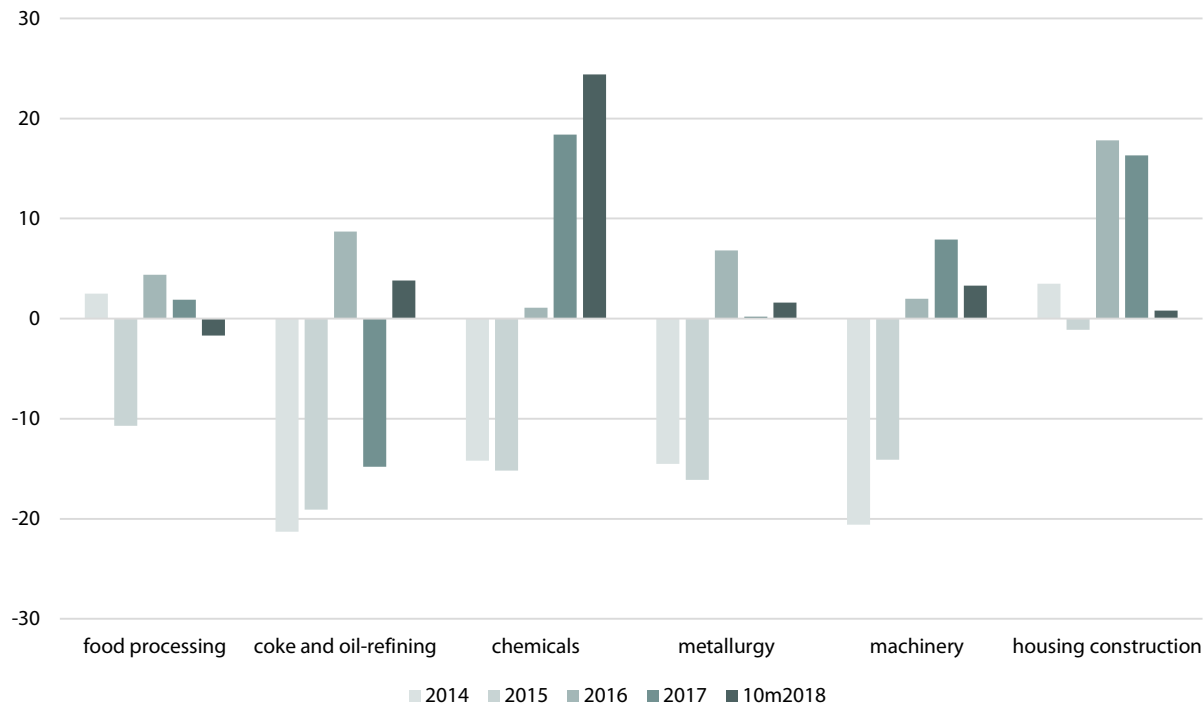
## Services output growth by sectors, % y-o-y



Source: State Statistics Service of Ukraine

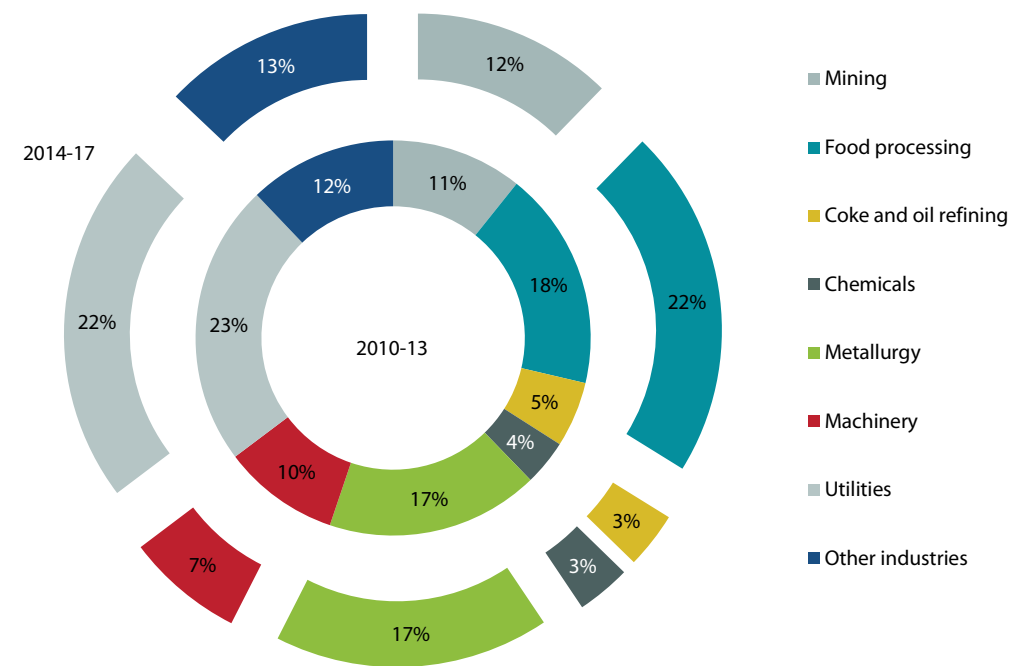
# Industry trends: manufacturing recovery is uneven

Manufacturing output growth by sub-sectors, % y-o-y



Source: State Statistics Service of Ukraine

Industrial output composition, % of total



Source: State Statistics Service of Ukraine



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## Political and external challenges for 2019

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# Political uncertainty and less supportive external environment to keep lid on the growth rates



**New political cycle carries risks:** double-elections in 2019 brings uncertainty and lower business confidence, inflation expectations as well as the hryvnia confidence may worsen; structural reforms may stall

**External conditions are expected to become less supportive** – growth slowdown in the main trading partners, supply pressures on the main commodities markets to drag on the commodities prices and emerging markets volatility. IFIs co-operation will remain the most desirable funding source for the government and necessary element to maintain stability for the National bank.

**Outward migration trends may strengthen:** amid supportive labor migration policies in the neighboring EU countries looking to compensate for their labor shortages. Migration drives up local salaries, pushing household income, retail turnover and inflation higher.

**Escalation of Azov conflict and prolonged martial law:** blockade of Azov Sea Ports by Russia pose risk for the part of Ukrainian exports that go through those ports (mainly metals, agriculture and food products). Russia's potential blockade of shipments via the Azov Sea would cause only limited and temporary export losses for Ukraine, estimated at up to \$125m monthly (\$1.5bn or 1.2% of GDP annualized), as exports can be rerouted via Black Sea ports.



# Big-picture

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