



MACROECONOMIC OVERVIEW

Ukraine, February 2018



Table of Content

3 Brief Outlook

3 Macro Table

4 The Economy

5 Foreign Trade and investments

5 Inflation and Exchange Rate

6 Fiscal and Monetary Policy

7 Politics

8 Disclaimer

Sources:

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The year 2017 saw a reshaping of the country's foreign trade, promoting Europe as the major trading partner, whereas highlighting new economic growth sectors, different from the old soviet and traditional Russian-driven ones.

The Government emphasis on citizens' purchasing capacities, infrastructure development. Industrial modernization has generated additional growth momentum in 2017.

Inflation remains high due to worse than expected agricultural performances and further administrative price expansion, however still remains inside the NBU target band.

In 2017 Ukraine's corporate issuers returned to international capital markets with new Eurobond issues.

The country stands on the eve of another decisive step towards reforms, market development and sustainable growth thanks to the forthcoming introduction of the land market, intensification of the judicial reforms, strengthening efficiency of the newly formed anti-corruption institutions, on backdrop of the full-fledged functioning of the Association Agreement with the European Union.

Macro Indicators	2010	2011	2012	2013	2014	2015	2016	2017E
Real GDP	4.2	5.5	0.2	0	-6.6	-9.9	2.3	1.6
GDP, BN USD	136	163	176	182	131.8	90.6	94.2	106.9
Industrial Production, %	12.2	8	-0.7	-4.3	-10.1	-13	2.4	4.6
Agriculture, %	-1.5	19.9	-4.5	13.3	2.2	-4.8	6.1	8.7
CPI, avg, %	9.4	8	0.6	-0.3	12.1	48.7	13.9	14.4
CPI, eop, %	9.1	4.6	-0.2	0.5	24.9	43.3	12.4	9.1
Nominal Wage, USD	282	330	375	402	291	191	203	261
Real wage, %	10.2	8.7	14.4	8.2	-6.5	-20.2	9	28.5
Current Account, BN USD	-3	-10.2	-14.3	-16.5	-4.6	-0.2	-3.4	-4.1
Exports, BN USD	65.6	83.7	86.5	81.7	65.4	47.9	33.6	43
Imports, BN USD	69.6	93.8	100.9	97.4	70	49.6	40.4	49.4
FDI, BN USD	6.5	7.2	8.2	4.5	0.8	3.1	3.4	2
Foreign Reserves, BN USD	34.6	31.8	24.5	20.4	7.5	13.3	15.5	18.8
Public Debt, BN USD	-	59.2	64.5	73.2	69.8	65.5	71	80.2
USD/UAH, eop	7.97	8.03	8.05	8.15	15.77	24	27.19	28.14
USD/UAH, avg	7.94	7.99	8.07	8.12	11.97	21.93	25.59	26.66

Sources: State Statistics Service of Ukraine; NBU; Ministry of Finances of Ukraine; Ministry of Economic Development and Trade of Ukraine; IMF; World Bank
Estimates: Magister Capital

Overview	Q1/18	Q2/18	Q3/18	Q4/18	2020
GDP Growth Rate, %	0,60	0,50	0,60	0,50	0,60
Unemployment Rate, %	10,00	9,62	9,40	9,40	8,20
Inflation Rate, %	13,00	11,90	9,50	9,00	5,20
Interest Rate, %	16,00	16,00	16,00	16,00	14,00
Balance of Trade, USD MM	-604,00	-585,00	-569,00	-312,00	-222,00
Government Debt to GDP, %	82,90	82,00	82,90	82,90	86,10

Sources: State Statistics Service of Ukraine; NBU; Ministry of Finances of Ukraine; Ministry of Economic Development and Trade of Ukraine; IMF; World Bank
Estimates: Magister Capital



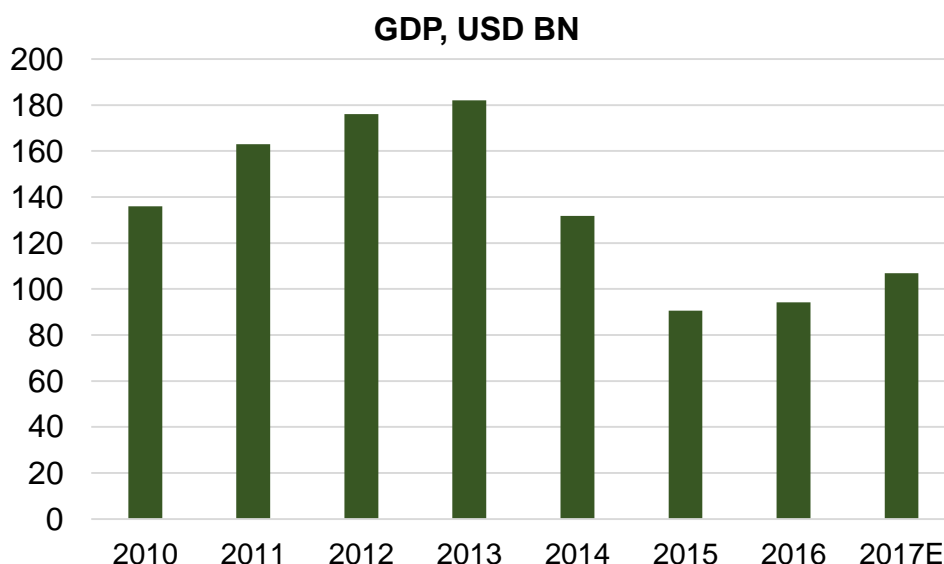
Ukraine's economy successfully developed new growth capacities, overcoming the loss of significant infrastructure and production facilities in the eastern enclaves of Donbas and in Crimea, and growing by 1.36% in 2016. At the same time, the economy withstood the undeclared trade war instigated by Russia, while dramatically reducing its dependency upon the Russian market.

The economy emerged from a two-year recession in 1Q2016, seeing GDP growth accelerating from 0.1% year over year in 1Q2016 to 4.8% in 4Q2016. The economy has demonstrated resilience against the asset losses in its eastern part by early 2017, recording a growth of 2.5% (1Q2016-1Q2017, QoQ) in 1Q2017. Overall, Ukraine's GDP marked 1.6% of real GDP in 2017 and USD 106.9BN in nominal GDP with 40.2% of this value received from exporting activity.

Industrial production increased by 4.6% (2016-2017, YoY), the first time returning to the positive zone since 2012. New growth sectors have emerged, including, among others food processing, pharmaceutical, electronic and optical machinery. Manufacturing led industrial growth, marking a 3.5% increase, thanks to coke and petroleum (+8.1%), plastics and non-metallic minerals (+6.5%), metal (+5.9%), food (+3.9%), and pharmaceutical production (+3.9%).

The share of capital investment in total GDP increased from 15.9% in 2016 to 21.9% in 2017, whereas the contribution of final consumption declined from 86% to 85.2%. In the meantime, the negative contribution of foreign trade fell from -1.9% to -1.8%.

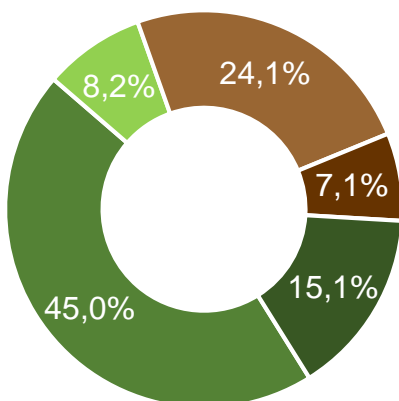
The growth projection for 2017 remains modest at 2%, but progress on the ambitious package of reforms under consideration could accelerate growth to 4% or more going forward. The growth outlook is affected by two key factors. First, Ukraine faces continued headwinds from the conflict in the Donbas region as evidenced by the coal and trade blockade with the uncontrolled areas. Second, the authorities have been working on an ambitious package of reforms to address structural bottlenecks and advance growth prospects.



Sources: State Statistics Service of Ukraine; NBU; World Bank
Estimates: Magister Capital



EXPORT STRUCTURE 2017



- Agricultural Products
- Machinery and Equipment
- Ferrous and Nonferrous metals
- Mineral Products
- Other

Source: Ukrstat

In December 2017, the external environment for Ukraine's major export commodities improved as prices for steel, iron ore and grains rose. Steel prices showed an upward trend amid limited supply volumes from China. Wheat prices rose while corn prices held relatively steady for a third consecutive month. Oil prices traded in a narrow range following the OPEC+ agreement to extend oil cuts and amid increased drilling activity in the United States. Assets in emerging markets remained attractive to investors, although their interest lessened amid shifting focus toward assets in developed market.

The agricultural sector became the major pillar of the economy, returning a record growth of 8.7% (2016-2017, YoY) in 2017, while becoming the major provider of foreign currency to the country following by metal industry.

Overall, the grain harvest hit a record of 66 MT (in standard weight) in 2016 compared with 59 MT in 2015. Nevertheless, agricultural performances are weakened in 2017 due to adverse weather conditions on top of the high comparative base of 2016, resulted in sales decrease of -2.7% (2016-2017, YoY).

At the same time, the public debt level continued to grow, reaching 75% of GDP as in 2017 due to the high cost of bank recapitalization. The yearly balance of payment not only remained positive, but shown a strong growth of 38.5% thanks to inflow on the financial account.

INFLATION AND EXCHANGE RATE

Most Ukrainian CEOs (57.8%) predict the exchange rate of the hryvnia against the U.S. dollar in the range of UAH 26-29 in the 2018, according to a survey of the country's business leaders by the National Bank of Ukraine (NBU). The exchange rate for the beginning of 2018 is expected at UAH 28.68 to the dollar, which is better than the projected rate for the first quarter of 2017 at UAH 29.44 to the dollar, according to the survey.

Average exchange rate in 2017 year was USD 26.66. At the end of the period exchange rate remained stable and indicated to be UAH 28.14 to the dollar.

At its last monetary policy meeting the NBU Board decided to raise the key policy rate by 1 pp to 14.5% pa, effective from 15 December 2017. The decision to tighten monetary policy was mainly prompted by the need to bring inflation closer to target levels in 2018. The tighter monetary policy will help prevent inflation expectations from deteriorating further. Market interest rates for hryvnia resources, primarily interbank interest rates and government bond yields, responded swiftly to the rise in key policy rate. In the meantime, banks' hryvnia deposit and loan portfolios kept growing.



The country entered the year 2017 with the cleansing of the banking system basically completed allowing the regulator to assume a nearly 100% transparency in the banking system. In the beginning of 2017, the Central Bank has started easing the regulation for outwards foreign investments of Ukrainian citizens, for foreign transactions of Ukrainian foreign trade players. On June 8, 2017, the NBU revised upwards the cap on foreign investments by Ukrainian companies to USD 2MM annually, up from an earlier monthly limit of USD 50TH.

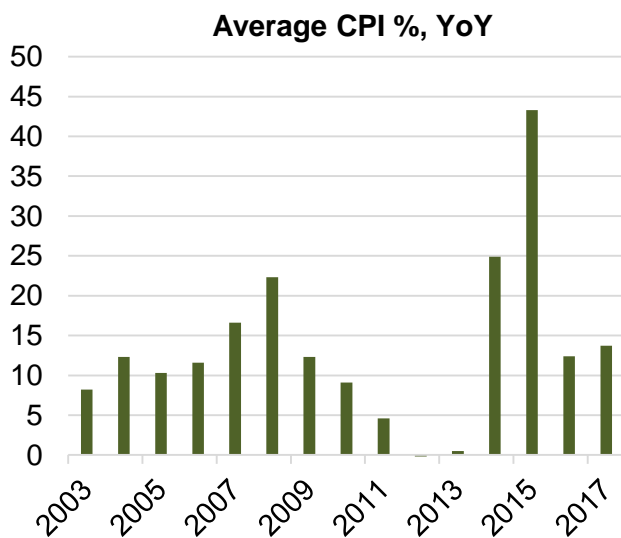
Ukraine image remain weak on the global arena due to the public distrust to authorities for objective and subjective reasons, including hryvna devaluation, inflation level and etc.

Nevertheless, EBRD still provide financing to the effective corporate and institutional players. Only in the December 2017 they have invested EUR 150MM in Kharkov`s subway infrastructure building.

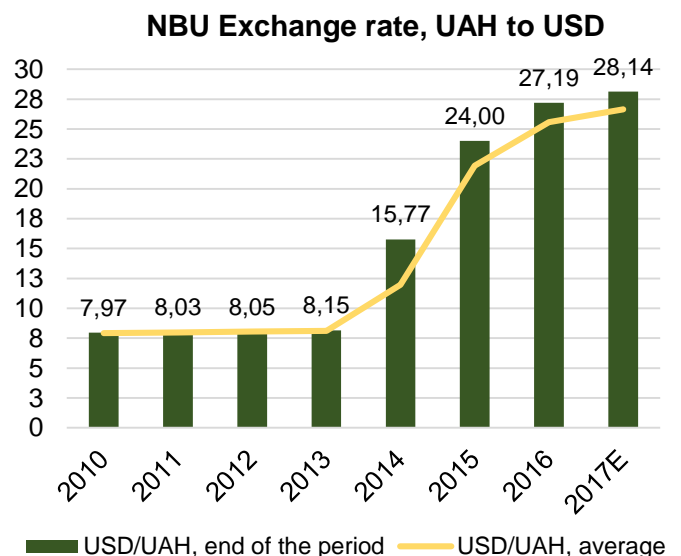
The Ukrainian Finance Ministry is contemplating a return to the international capital markets in 2017 with a sovereign Eurobond placement in an approximate volume of USD 2.3BN. Eurobonds and credit notes remain the most commonly used financial instruments in emerging markets. However, major number of Eurobonds issue have settlement date in 2018-2019 years, adding a pressure for the Ukraine`s economy in the next few years.

The next few months are a critical window of opportunity within which to lock in an important reforms required for the financial sustainability in the long-term prospective.

Establishing a transparent market for land transactions would enable Ukraine to tap its vast potential for agricultural exports. Strengthening the governance of state-owned banks and introducing measures to streamline the resolution of nonperforming loans (NPLs) would enable a gradual resumption of lending to the private sector.



Source: NBU, Ukrstat
Estimates: Magister Capital



Source: NBU, Ukrstat
Estimates: Magister Capital



On July 11, the Council of the European Union adopted a decision to conclude the Association Agreement with Ukraine on behalf of the European Union. The European Union's 28 member states formally endorsed the EU-Ukraine Association Agreement. This is the final step of the ratification process through which the EU and Ukraine commit to a close, long-term relationship in all main policy areas.

Endorsement of the 2017-2021 Country Partnership Framework for Ukraine, which focuses on ensuring that markets work more effectively, the right conditions are put in place for fiscal and financial stability, is expected to support the country's efforts to achieve a lasting economic recovery that benefits all the people of Ukraine. This World Bank Group Strategy for Ukraine implementation has already brought some benefits in a form of on-going portfolio in Ukraine of 8 operations for a total amount of USD 2.25BN from IBDR, current committed IFC's portfolio of USD 695MM and MIGA USD 134MM gross political risk guarantee exposure.



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LLC “Magister Capital”

01034, Ukraine, Kyiv
Volodymyrska street, 45, office 7
Tel/Fax: +38 (044) 234 84 73
www.magister.capital

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