



Focus  
**Ukraine**

Markets  
**Macroeconomics and  
financial markets**

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# #UkrFinForum17

## Day 1. Panel 3-2

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### **Ukraine macroeconomic and financial situation: achievements to date and outlook.**

The experts agreed that although Ukraine has achieved macroeconomic stability, the growth rate remains low. In order to achieve sustainable growth, it is necessary to continue reforms and cooperate with the IMF. **Ondrej Schneider, Chief Economist on Ukraine, Russia, Poland, and Czech Republic of the Institute of International Finance**, considers the implementation of the IMF program as only a minimum, and it does not always guarantee stable growth. Ukraine can do nothing and grow by 2-3% per year, thanks to already implemented reforms, and the low base of past years. He stressed that Ukraine has a current-account deficit, and is trying to attract foreign currency with the help of external borrowings. That Ukraine borrows in foreign currency is a negative, which, when the hryvnia weakens, results in an increase in external debt. The situation can be improved through an increase in foreign direct investment, which will reduce the current-account deficit. At the same time, attracting investment is possible only if the political situation is stable, and appropriate infrastructure is created.

**Reforms.** Specialists noted that Ukraine has pleasantly surprised the world with its reforms. A year ago, it was impossible to imagine the nationalization of PrivatBank, which became a reality, the same is true with electronic declarations. Police reform is highly appreciated. Experts are hoping for pension reform in the near future. At the same time, although land reform is being discussed, the process is difficult, but it still exists. Land reform is extremely important for Ukraine, as it would boost productivity in the agricultural sector, which is central to Ukrainian exports. Equally important is anti-corruption reform, which would greatly increase the confidence of international investors in the Ukrainian government. Pension reform will help reduce budget deficits. Experts emphasize the importance of privatization, which will: 1) attract additional funds, and 2) improve the efficiency of many enterprises. However, it is noted that political will is needed to carry out reforms.

**Issue of Eurobonds.** The speakers welcomed Ukraine's successful issue of Eurobonds with a par value of US\$3bn, and pointed out the high demand for Ukrainian assets. **Vladimir Osakovskiy, Chief Economist on Russia and the CIS at Bank of America Merrill Lynch**, believes that Ukraine has chosen a very good moment to enter the foreign capital markets, but the main question is, what to do next? Experts note that a yield of 7% is very high for a country like Ukraine, and it is necessary to try to reduce the yield on its Eurobonds to at least 5%. According to **Vladyslav Sushko, Bank for International Settlements**, improvement of the country's international ratings is possible only through further reforms. It should be noted that when comparing Ukraine with peers whose debt has similar yields, only Ukraine is reforming its economy and improving basic macroeconomic fundamentals.

*High demand for Ukrainian Eurobonds is due to market conditions*

The issuance of a long-term bond with a 15-year maturity will serve as a benchmark for future issues, and Ukraine should enter the long-term borrowing market. Experts note that the central banks of the major economies are gradually beginning to raise interest rates, which can help Ukraine buy back its bonds at a discount. However, **Osakovskiy** noted that demand for Ukrainian Eurobonds is due to the current situation in capital markets, while reforms have had less impact on investors.

*Ukraine should continue to work with the IMF and carry out reforms*

**Cooperation with the IMF.** Issuing Eurobonds helped Ukraine improve its financial situation. The burden of significant payments in 2019 was shifted to a later date. Thanks to the issue of Eurobonds and, as a result of replenishment of foreign exchange reserves, Ukraine will be in a better position to negotiate with the IMF, and may delay fulfilment of certain requirements. The experts have different opinions regarding the terms of the next tranche from the IMF. **Vladimir Osakovskiy, Chief Economist for Russia and the CIS, Bank of America Merrill Lynch,** and **Alina Slyusarchuk, Chief Economist on Russia, Ukraine and CIS, Morgan Stanley,** expect that the tranche will be received this year, while **Sergei Voloboev, Director for Emerging Markets Sovereign Strategy in Europa, Middle East and Africa at Nomura International in London,** believes that the tranche will be received next year. Speaking about cooperation with the IMF, all experts agreed that Ukraine should continue to carry out reforms.

*The conflict in eastern Ukraine will be frozen until the presidential elections in Russia*

**Foreign policy situation.** **Christopher Miller, Yale University,** said that the American president is not now focusing on Ukraine, but the country retains the support of the United States. Discussing Russian aggression, the panelists are inclined to believe that Russia will choose a variant of freezing the conflict because of upcoming presidential elections in Russia, which are very important from a political point of view. Russian authorities need to raise social standards in the country, so it is unlikely that they will spend resources on the "project in Ukraine." On the other hand, relations between Russia and the United States are currently very tense, and further boosting the conflict in Ukraine may result in new sanctions. Taking into account the tensions with the US, Russia wants to improve relations with the European Union, which had not been observed before, and this fact is positive for Ukraine.

*Macroeconomic stabilization was achieved, but this is not enough for sustainable economic growth*

**Conclusions.** Ukraine is currently carrying out structural reforms, and has achieved a certain degree of macroeconomic stabilization. However, the growth rate of the economy remains rather low. Ukraine must continue to carry out reforms, first of all anti-corruption and land reforms. In addition, it is necessary to create conditions to attract foreign direct investment, which will help reduce the level of public debt, and bring foreign currency to the country. Experts note that in recent years, Ukraine has experienced two revolutions, which caused political instability. The situation in Ukraine can be safely forecast for two or three months, but it is difficult to say what the situation will be in a year. Lack of political stability is one of the main problems of Ukraine.



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