Contents

1. Stock Markets: Ukraine and the World

In early 2020, the world's **developed stock markets** were moving sideways, barely growing, amid some easing of geopolitical and geoeconomic tensions amid signals of the first steps towards the US administration's signing of a new trade agreement with China. Leading European markets have shown particularly subdued dynamics, driven by worrying macroeconomic data from the EU's largest economies and uncertain prospects for economic relations with the UK following the expected end of Brexit by the end of the year, formally launched on 1 February. Thus, the new statistics of industrial production in Germany for the last months of 2019 showed its further decline - the most in the last 10 years, according to the European Commission. It was particularly noticeable in the automotive industry, where production fell to its lowest level in almost 25 years due to declining export orders and labor shortages. This gave grounds for pessimistic forecasts for a further slowdown in economic growth in the country and the EU in 2020.

With the global economy slowing and after a protracted period of active growth in the stock markets, investors began to gradually shift to less risky assets, including US Treasury bonds, which especially attracted American corporations and households, and only then - foreign investors. In these circumstances, against the background of growing budget deficits and, consequently, the need for its financing, in January the State Treasury announced the issuance of 20-year "treasuries" designed to extend US government debt and longer fix a low rate (less than 2% per annum on classic 10-year bonds) formed due to significant demand from investors. At the same time, even such a rate was very attractive for European players - in comparison with the negative or close to zero rates of leading European countries (including Germany), as well as Japan, whose government bond market is also considered illiquid.

However, very soon rates on US 10-year treasuries fell three times - to 0.5-0.6% per annum, when in Europe and the United States began to appear pandemic of the new coronavirus disease COVID-19, a wave of which reached China to these parts of the world in the last decade of February . This dramatically changed the dynamics of key international markets, which collapsed by 34-39% in three to four weeks, from peaks in February to March 20. It was an unprecedented rapid decline in history, with a depth reminiscent of the Great Depression in the early 1930s and eventually called the IMF's "The Great Lockdown." After all, the exponential growth of the number of patients in southern and western Europe, and later in the United States, at this time forced the governments of most of these and other countries, followed by China, to introduce quarantine measures that limited economic activity and even movement of citizens within individual countries. This immediately caused a radical change in the forecasts of national and world GDP growth in the first half of 2020 and in the future, which turned mainly into forecasts of decline[1]. But their main characteristic was uncertainty, which increased rapidly. At this time, the world's largest central banks, including The US Federal Reserve, the ECB, the Bank of England, etc. again set - or kept - their base rates at almost zero and, together with the IMF and other international financial organizations, promptly adopted programs to expand economic stimulation by hundreds of billions and trillions of dollars or euros. emergency fiscal assistance to businesses and people of their countries. Against this background, the markets were gripped by extreme volatility, which continued with the transition to Q2.

In general, in January-March 2020, the shares of leading American public companies lost 20.0-23.2% (after + 6-8.5% in Q4 2019), Japanese - 20.0% (after + 8.7%), British - 24.8% (after + 1.8%), German - 25.0% (after + 6.6%), French - 26.5% (after + 5.3%). The main Polish index fell by 29.6% (after -1.1%).

[1] Already in early April, the IMF revised its official estimate of world GDP dynamics in 2020-21 to -3% and + 5.8%, respectively, in the baseline scenario, with the most affected developed countries: https://www.imf.org/en/Publications / WEO / Issues / 2020/04/14 / weo-April-2020. (Back in February, the adjusted preliminary estimate for 2020 was + 3.2% - only 0.1 percentage points lower than the official January forecast). The baseline scenario assumes that the pandemic will subside in the second half of this year, and economic activity will resume due to the introduced stimulus measures. In late March, IMF Managing Director Christina Georgieva said the world was in recession and that the duration and depth of this "giant crisis" would depend on the effectiveness and coordination of restrictive measures by governments, while the Fund is ready to use all $ 1 trillion it has to lend and has additionally adopted a $ 50 billion rapid support program for low-income and emerging economies. United States and released from debt 25 of its poorest member countries. If the pandemic lasts longer, forcing governments to reinstate or maintain restrictions until the end of the year or beyond, the IMF predicts that the decline in 2020 will be deeper and continue into 2021.

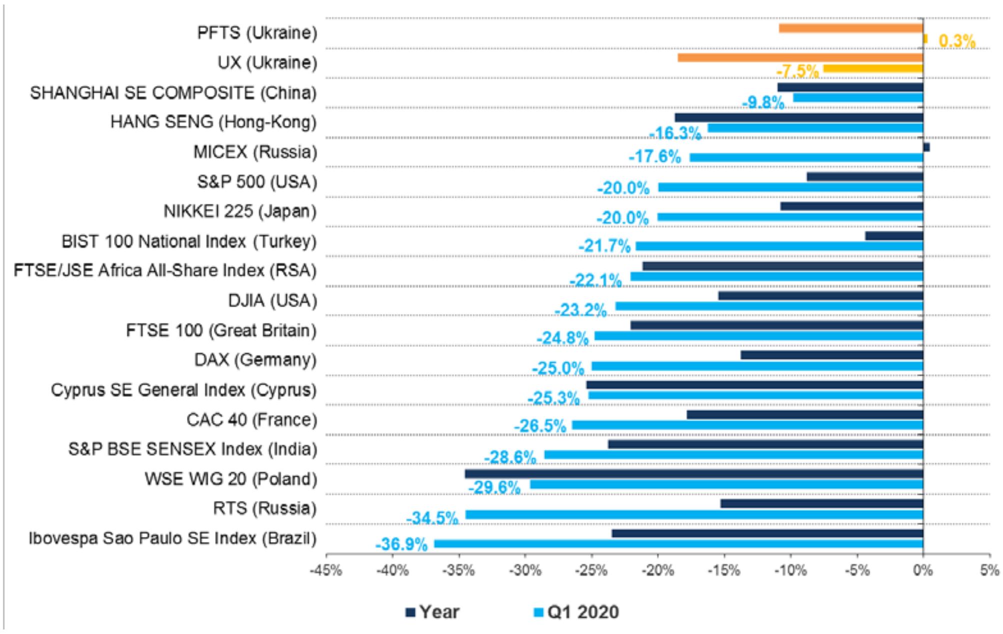

*Chart 1. Dynamics of the world stock indices in Q1 2020**

** Based on the data of exchanges and Bloomberg Agency. Ranking in the chart is based on quarterly figures.*

Emerging markets, despite being pandemic on a global scale, have generally maintained a more volatile dynamic, especially since China, which belongs to them, began to demonstrate overcoming the pandemic and quarantine by the end of March, resuming economic activity. With the opening of the Chinese market in February, after the celebration of the Lunar New Year for 10 days in late January, local indices fell by 8-12%, but quickly recovered. However, Chinese stocks did not avoid further failure of 16% from a new peak in the 2-3 weeks of March - to even lower values than in February - already in sync with developed markets - China's largest trading partners. As it became known later from data published by the National Bureau of Statistics, the Chinese economy in Q1 2020 shrank by 9.8% (-6.8% year on year, after + 6% in Q4 2019). At the same time, according to official figures, industrial production fell less than expected in March, according to economists, thanks to tax exemptions introduced in February and easing of credit conditions for Chinese companies, which helped speed up the recovery of the relevant sectors. Finally, the key Chinese index showed only -9.8% in Q1 2020 (after + 5.0% in Q4 2019), becoming one of the least affected by the pandemic during this period. In Hong Kong, where the protest movement paused for quarantine, the quarterly decline was still deeper: -16.3% (after + 8.0%).

The two main Russian stock market indicators had very different results in January-March 2020: the ruble index of the Moscow Stock Exchange (MICEX) fell by a relatively moderate 17.6% (after + 10.9% in Q4 2019), when oil prices fall three times (-66%, after + 8.6%); The dollar RTS was among the outsiders in the world, losing more than a third of its value (-34.5%, after the leader + 16.1% in the previous quarter), while the ruble fell against the US dollar by 21.2% (after + 4.6%). At this time, the Brazilian currency depreciated even more - by 22.7%, and shares - by 36.9% (after + 10.4% in Q4 2019).

The Ukrainian stock market started 2020, as well as the world's leading markets, with a sideways trend. However, in February, volatility rose sharply, and although the blue chips still rose by 5% over the month, March brought a collapse of 4-11% on two key stock indices, which eventually lowered the result from the beginning of the year in the negative zone for one of them, while the other almost returned to the level in early January (the differences can be explained by a slightly different composition of index baskets). This allowed domestic stock indicators to be among the world leaders in quarterly results in January-March 2020, rising from outsider positions in the previous quarter.

In the first months of 2020, laws and regulations directly or indirectly related to the activities of stock market participants were adopted or entered into force in Ukraine, and events took place that differently affected Ukraine's image in international financial markets.

Thus, in January the National Bank of Ukraine, the National Commissions on Securities and Stock Market and Financial Services Market Regulation, the Individual Deposit Guarantee Fund and the Ministry of Finance of Ukraine presented the Strategy for the Development of the

Financial Sector of Ukraine until 2025 and in the Finance Committee of the Parliament the discussion of the bill on amendments to some legislative acts of Ukraine on simplification of attraction of investments and introduction of new financial instruments proceeded (№2284), not supported at the end of 2019 by the Committee on Integration with the EU and professional market participants and their associations.

However, as early as mid-March, the government and lawmakers focused on preventing the spread of coronavirus disease in Ukraine, so appropriate restrictive measures were introduced, and legislative and regulatory requirements were relaxed. In particular, the Resolution of the Cabinet of Ministers of Ukraine "On prevention of the spread of coronavirus COVID-19" №211 of 11.03.2020 and the Laws of Ukraine "On amendments to certain legislative acts of Ukraine aimed at preventing the spread and spread of coronavirus disease (COVID-19) "№ 530-IX of 17.03.2020", "On amendments to the Tax Code of Ukraine and other laws of Ukraine to support taxpayers for the period of measures aimed at preventing the occurrence and spread of coronavirus disease (COVID-19)" № 533 - IX from 17.03.2020 (effective from 18.03.2020); "On Amendments to Certain Legislative Acts Aimed at Providing Additional Social and Economic Guarantees in Connection with the Spread of Coronavirus Disease (COVID-2019)" № 540-IX of 30.03.2020 (effective from 2 April), which provided, in particular , some tax cuts and amended by another bill passed in May.

At this time, the NBU, responding to statements and actions of foreign and international financial organizations, promptly adopted or announced a number of decisions to support the banking system during the restrictions associated with the spread of COVID-19, including postponing the use of additional capital buffers for banks, introduced more flexible conditions and expanded the refinancing of banks and supported their possible further debt restructuring.

The NSSMC, for its part, has announced that in the event that professional stock market participants continue to operate during the quarantine period, they must report within the normal timeframe, in accordance with the Commission's regulations; in case of impossibility to carry out professional activity due to the circumstances provided by the above-mentioned Law №530-IX, it provided an opportunity to extend the deadlines for submission of reports in accordance with the law. Also, for the period of quarantine, the NSSMC suspended the scheduled inspections of professional market participants, provided for in the previously approved Annual Plan for State Supervision (Control) of the NSSMC for 2020.

In addition to the above laws due to the impact of the pandemic on economic activity in Ukraine, in late March the parliament adopted the law "On Amendments to Certain Legislative Acts of Ukraine on the Circulation of Agricultural Land" № 552-IX (draft 172178-10), which was identified as one of urgent to ensure that Ukraine meets the conditions of international partners in order to receive financial assistance from them. The final text of the law contains several restrictions, for the purchase of agricultural land by foreigners, etc., and will enter into force on July 1, 2021

Also in March, the Ukrainian side of the EU-Ukraine Civil Society Platform (CSP), which is one of the official bodies established under the EU-Ukraine Association Agreement, supported the UAIB initiative, which is a member of one of the CSP working groups and sent to Deputy Prime Minister for European and Euro-Atlantic Integration Address-Proposal on Ukraine's European Integration in the Financial Sector (in particular, on the field of collective investment). It proposes a practical and realistic, according to UAIB, approach to this issue, which is gaining considerable relevance, given the deadlines set in the Association Agreement between Ukraine and the EU.

As for Ukraine's position in international financial markets, in February Ukraine's GDP warrants placed during the debt restructuring with international investors in 2015 fell by 1% on the data on the slowdown in economic growth in Q4 2019, but continued quoted above face value (107.9%). In other words, this was a slight correction after the rapid growth in the second half of last year and in early 2020 in anticipation of Ukraine's achievement of the criteria for economic growth provided by the warrants.

At the same time, at the end of January, the Ministry of Finance placed the first 10-year Eurobonds of Ukraine at 1.25 billion euros at 4.375% per annum, which was the lowest coupon rate in the country's history and achieved due to significant demand from investors around the world. at the peak of bids, demand exceeded supply by almost 7 times[2]. This continued the first positive steps taken by Ukraine in international markets last year after a long break. The government successfully attracted funding to the state budget and the domestic market through the placement of OVDPs: auctions lasted weekly, except for March 10, until March 24, when the Ministry of Finance

[2] https://espreso.tv/news/2020/01/23/ukrayina_rozmistyla_10_richni_yevrobondy_na_1_25_mlrd_yevro_pid_menshe_5

raised almost UAH 25 billion. in the equivalent of the sale of dollar and euro bonds, the rates on which have remained low so far (3.00% per annum in dollars for 3-month and 2.22% per annum in euro for 14-month OVDPs). The auctions had to be canceled in late March when the situation in the domestic and foreign markets deteriorated sharply.

In total, in Q1 2020, the Ministry of Finance raised UAH 66.6 billion through OVDPs auctions. in equivalent, including UAH 29.3 billion, $ 1.1 billion and 0.3 billion euros[3]. According to the NBU, at the end of March 2020, as at the beginning of January, more than 14% of OVDPs in circulation (at their value in hryvnia equivalent) belonged to nonresidents, and excluding NBU due 38.2% of all government bonds in circulation, the share of nonresidents as of 31.03 .2020 was the same 30% as at the beginning of the year.

Rising volatility in international financial markets in February-March and a sharp start in capital outflows in emerging markets, as well as declining production and exports in Ukraine in late 2019 - early 2020 put pressure on the hryvnia exchange rate, so in Q1 it lost 15.6 % against the US dollar and 14.7% against the euro (after growing by 16.9% against the dollar and by 20.0% against the euro in 2019). The main subsidence took place in March, following the almost simultaneous introduction of quarantine measures in Europe, the United States and Ukraine. It is noteworthy, however, that the national currency held up better than the currencies of several other countries, including developed ones, including Norway, Australia and New Zealand, as well as several BRICS countries during this period.

In this situation, the National Bank smoothed the fluctuations of the hryvnia exchange rate, but remained faithful to the policy of inflation targeting, so it used a relatively small part of Ukraine's international reserves (about $ 2 billion from the peak of $ 27 billion in February). Finally, according to the NBU, in January-March 2020 they decreased by only $ 0.4 billion (1.6%) to $ 24.9 billion, which was sufficient to cover the same 3.7 months of imports as at the beginning of the year - with the minimum required 3 months as one of the criteria of macrostability.

Real GDP of Ukraine, according to the State Statistics Committee for Q1 2020, for the first time in 4 years decreased by 1.5% year on year (after growing by 1.5% in the previous quarter). This was, however, 4.5 times better than China's result. At the same time, industrial production in Ukraine in January-March 2020 fell by 5.1% over the same period last year, construction - by 5.5% in general (although non-residential buildings - increased by 7%), the agricultural sector lost 1.8%[4]. At the same time, inflation continued to decline, with the CPI growing by only 0.7% in Q1 (with deflation rising by 0.3% in February) and by 2.3% year on year at the end of March 2020, after 4.1% in December. 2019. This allowed the NBU to lower the discount rate from 13.5% in January to 10% in March several times during the quarter and faster and more significantly than previously planned. The NBU also announced its intention to reduce it further if inflation remains low, to help intensify bank lending and reduce the cost of servicing Ukraine's public debt.

Finally, against this background, the stock market of Ukraine in January-March 2020 showed a generally negative trend, and one of the stock indices even had a slight increase: the UX index lost 7.5% (after -2.8% in the previous quarter), and the PFTS index rose by 0.3% (after -2.9%). Thus, domestic blue chips were the least affected by the effects of the covid-19 pandemic during this period. Over the current year, they improved their results, losing the world average of 11-19%, while the Polish market fell by 35%, Russia - increased by 0.5% (ruble index), and the leading markets in Europe and the United States lost from 9 % to 22%.

At the same time, the composition of index baskets of Ukrainian stock indices has not changed since the beginning of 2020: the UX index included 6 shares (4 energy companies, one - machine-building and one bank); PFTS index - 7: in addition to 5 shares from the UX index (excluding the machine-building enterprise), there is also another machine-building and one telecommunication company.

The stock market in Q1 2020 maintained the trends of previous quarters in terms of reducing the number of issues of securities admitted to trading on stock exchanges in general and "listing" of instruments and the growth of trading volume. In January-March 2020, the consolidated stock exchange list of all current stock exchanges decreased by 5.4% to 507, ie the number of securities in it decreased by almost a third over the last year (Table 1). At the same time, “listing” (securities in stock exchanges) decreased by only 1.9% in Q1 - entirely due to government bonds (OVDPs), although in the annual period its dynamics was more negative than the consolidated stock list as a whole (- 41.9%).

[3] https://mof.gov.ua/uk/ogoloshennja-ta-rezultati-aukcioniv

[4] Data on the financial services sector in particular and more detailed data on GDP in Q1 2020 have not yet been published by the State Statistics Committee at the time of preparing this Review.

Table 1. Dynamics of the stock market of Ukraine in Q1 2020 and over the last year

Indicator / Date	31.03.2019 (Q12019)	31.12.2019 (Q4 2019)	31.03.2020 (Q1 2020)	*Q1 2020 change*	*Annual change in Q1 2020*
Number of Securities in the listing of stock exchanges, incl.:	**736**	**536**	**507**	***-5.4%***	***-31.1%***
Number of securities in the registers ('listing') of stock exchanges, incl.:	**365**	**216**	**212**	***-1.9%***	***-41.9%***
State bonds (OVDP)	**347**	**201**	**195**	***-3.0%***	***-43.8%***
municipal bonds**	0	2	2	*0.0%*	*x*
corporate bonds	10	9	10	*11.1%*	*0.0%*
equities*	3	3	3	*0.0%*	*0.0%*
CIF shares	4	1	1	*0.0%*	*-75.0%*
investment certificates	1	0	0	*x*	*-100.0%*
Trading volume on all stock exchanges in total, UAH M, incl.:	**76 342.5**	**73 158.2**	**78 293.8**	***7.0%***	***2.6%***
State bonds (OVDP+OZDP)	**73 155.4**	**71 914.2**	**77 336.0**	***7.5%***	***5.7%***
municipal bonds	0.0	0.0	52.3	*x*	*x*
corporate bonds	2 790.1	1 136.9	533.3	*-53.1%*	*-80.9%*
equities	165.8	22.4	326.8	*1356.3%*	*97.2%*
investment certificates and CIF shares	169.1	0.1	43.6	*39545.5%*	*-74.2%*
derivatives (excl. state derivatives)	**62.1**	**72.5**	**1.1**	***-98.5%***	***-98.3%***

Sources: data on securities in lists of stock exchanges and trading volumes – NSSMC, stock exchanges; calculations – UAIB.
** Including depositary receipts of MHP S.A.*

As of the end of March, OVDPs, the number of which decreased by 3.0% since the beginning of 2020, already covered 92% of the total stock exchange listing, after 93.1% in December 2019. Their weight in the stock exchanges decreased both due to the withdrawal of a number of OVDPs issues from them and in the context of a symbolic increase in the number of corporate bonds in them (+1 issue, + 11.1%), which in March 2020 returned to the level of 10 years ago. The number of other instruments in the stock exchange listing in Q1 did not change.

Over the past 12 months, two issues of municipal bonds of the Lviv City Council have appeared in the stock exchange listing (with a total of 7 issues of three city councils included in the stock exchange lists at the end of March 2020).

The total quarterly trading volume on all exchanges in Q1 2020 increased by 7.0% (after -12.2% in Q4 2019) and amounted to UAH 78.3 billion. This was mainly due to an increase in OVDPs trading activity (+ 7.5%) and, to some extent, shares (14.5 times), the share of which in the total trading volume was less than 1%. The contribution of trades in municipal bonds, as well as certificates and shares of investment funds, which revived after a lull in late 2019, was also weak with small volumes in these market segments. Corporate bonds somewhat slowed down the increase in trading on the stock exchanges, the value of transactions with which in January-March 2020 decreased more than twice compared to the previous quarter. Trading in derivatives on stock exchanges at this time decreased even more rapidly - from UAH 72.5 million in Q4 2019 to UAH 1.1 million in Q1 2020. In general, almost 99% of exchange trading Q1 2020 accounted for transactions with OVDPs (after more than 98% in Q4 2019.

2. Asset Management Industry

2.1. Number of AMC, CII, NPF and IC with assets under management

At the beginning of 2020, the Ukrainian asset management industry of institutional investors continued to grow steadily, not only in terms of the number of funds (CIIs) and the value of assets under management, but also in terms of the ***number of operating asset management companies***. During Q1, 6 new AMCs were created and two were closed. Therefore, as of March 31, 2020 in Ukraine, according to UAIB, there were 297

AMCs - four more than at the beginning of the year (Chart 2).

In January-March 2020, 40 new CII also appeared in the state register. Considering the funds that closed during this quarter, as of the end of March, the total ***number of registered CII***, according to UAIB, increased to 1926 (+ 1.9% for this quarter).

The ***number of formed CII***, which reached the minimum asset ratio, grew for the tenth consecutive quarter - to 1357 (+31 fund, or + 2.3% for Q1 2020, after + 3.3% for Q4 2019).

The ***number of non-state pension funds (NPFs) under management*** as of March 31, 2020 remained at 60 (excluding the NBU corporate fund), including 48 open, 6 corporate and 6 professional. NPF assets were managed by 34 AMCs[5].

In January-March 2020, the ***number of insurance companies (ICs) that transferred their assets into AMC management*** was invariably equal to two, the assets of which were managed by one AMC.

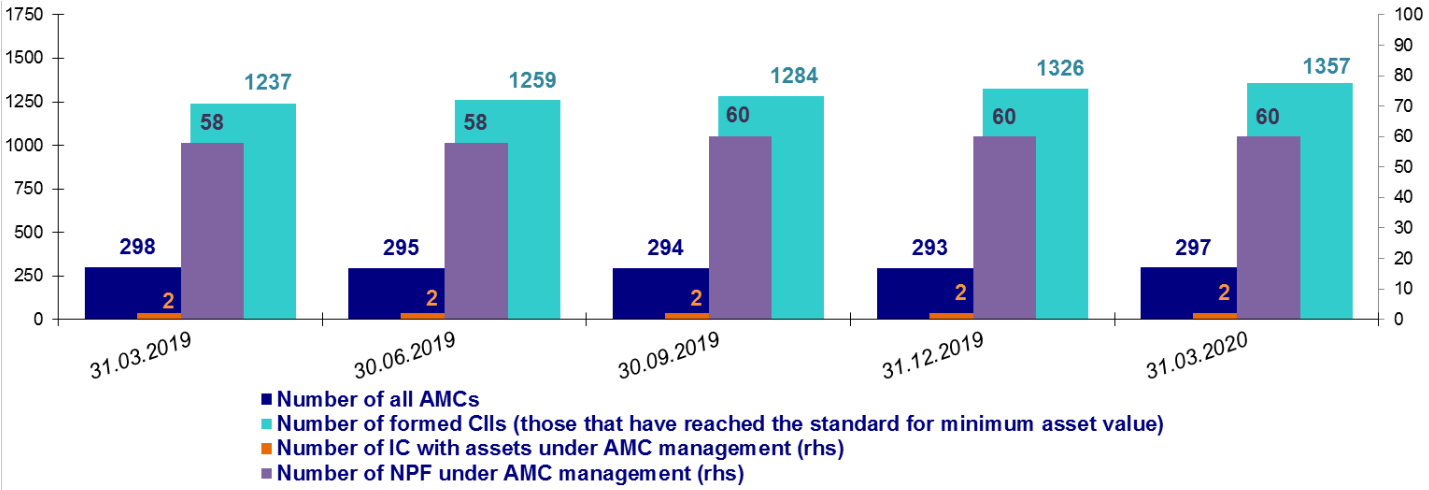

Chart 2. Dynamics of the number of AMC and CII, NPF and IC with assets under AMC management in Q1 2019-2020

2.2. Assets under management, CII NAV and Net Flow of Capital in Open-Ended CII

The ***total assets of all institutional investors under AMC management*** in Q1 2020 accelerated more than twice, to + 3.3%, and amounted to UAH 366,825 million at the end of March. Their annual growth slowed to + 9.0%.

As of March 31, 2020, ***total CII assets under management***, including those that have not yet reached the minimum assets ratio, reached UAH 364,995 million. In January-March 2020, they also grew by 3.3% and 9.0% for the year, providing more than 99% growth in total assets under AMC management.

The ***total assets of acting CII managed by AMC and reached the standards ('established' CII)***, as of 31.03.2020 amounted to UAH 356,884 million. (Chart 7). In Q1 2020, they grew by 5.2%[6], and in the last year - by 12.4%. As before, the lion's share of growth in CII assets was provided by venture funds, whose number of reports increased by 6.3% over the quarter, although the growth rate of their assets in this period was lower than in other CII sectors (except open-ended). In January-March 2020, the total assets of venture CII increased by 5.1% (by 13.4% over the last year) to UAH 340,550 million. The assets of open-end CII in this quarter increased by 4.8% (after -3.6% in Q4 2019) and reduced the annual decline from -5.3% in December 2019 to -0.7% in March 2020.

[5] Data on NPFs with assets under management of those AMCs at the end of 2019 have been updated, taking into account those for which the relevant annual report has not been submitted.

[6] Here and below, these indicators include data as of December 31, 2019 according to the annual AMC reports on CII, as well as the assets of NPFs and ICs under management, received at the time of preparation of the Review for Q4 2019 and annual. Their number was less than it should have been: UAIB estimates that the completeness of the annual reports received was at least 95% and 99%, by the number of reports on institutional investors and the volume of their assets under management than should be due to the restrictive measures introduced in March 2020 to counter the spread of the covid-19 pandemic and the corresponding extension of the deadlines for submission of these reports.

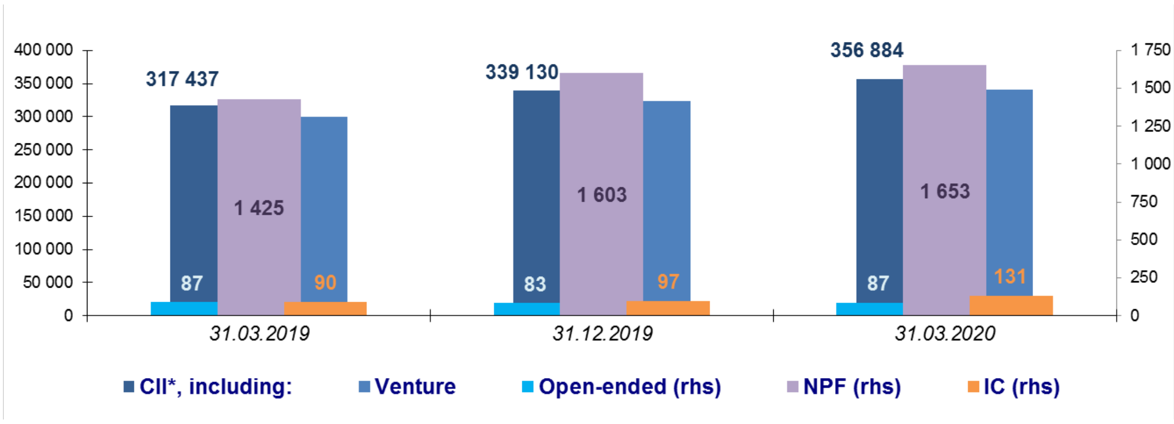

Chart 3. Dynamics of the value of assets under management in Q1 2019-2020, UAH M

NPF assets managed by AMC in Q1 2020 slightly slowed down to 3.1% (up to 16.1% over the year). As of March 31, 2020, they reached UAH 1,653 million.

The assets of the IC under the management of AMC increased rapidly at the end of March (+ 35.7% since the beginning of 2020, + 46.4% year on year). As of March 31, 2020, these assets amounted to UAH 131 million.

The ***net asset value of CII***, which reached the standards, as of 31.03.2020 reached UAH 274,322 million. In the first three months of 2020, it grew by 5.0% (see above the footnote on total assets), and in the last 12 months - 11.2%. NAV of venture CII in Q1 2020 grew by 4.8%, and for the year - by 12.3% and at the end of March amounted to UAH 259,427 million. This corresponded to 94.6% of the total net assets of all operating CII. Open-ended CII, with the same number and composition of funds in the sector (17) in Q1 2020 showed the same quarterly increase (+ 4.8%, after -3.7% in Q4 2019), more than offsetting losses at the end last year. The current annual change in the net assets of this sector at the end of March 2020 significantly slowed down the negative dynamics - to -0.8%. As of March 31, 2020, its NAV amounted to UAH 87 million. Positive quarterly changes were partly due to the growth of quotations of certain securities in the portfolios of funds, but 86% growth in NAV of open-ended CII was provided by net capital inflows.

The total ***net flow of capital in open-ended CII*** in Q1 2020 was positive and the largest since Q2 2011: UAH +3.4 million. (after UAH -2.2 million in Q4 2020, Chart 4).

This ensured a decline in the annual outflow of capital from open-ended CII to almost zero at the end of March 2020 (-0.3 million UAH, from -5.8 million UAH in December 2019).

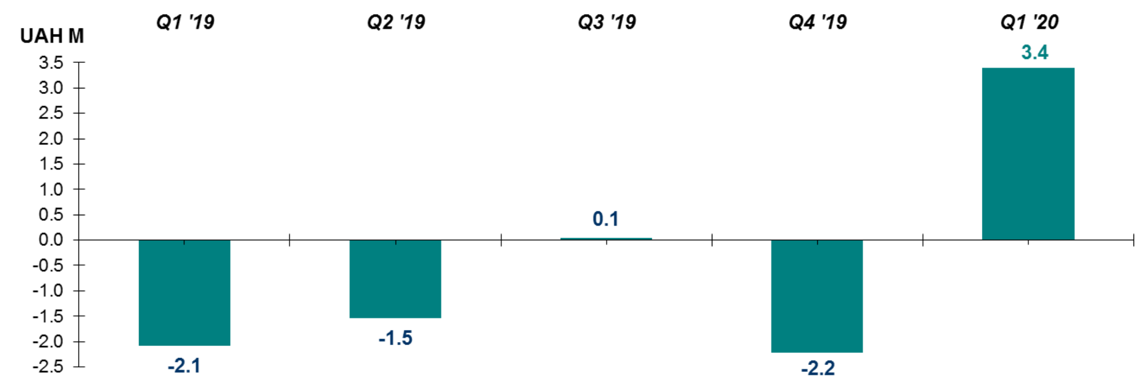

Chart 4. Net inflow/outflow of capital in open-ended CII in Q1 2019-2020

For more detailed information on the performance of asset management markets of CII, NPF and IC, see special UAIB reviews, which will be published on the website: http://www.uaib.com.ua/analituaib/publ_ici_quart.html

See additional and statistical information on the UAIB website:

- The Ukrainian Fund Market in Figures

For more information about UAIB please visit UAIB website.

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