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1. Stock Markets: Ukraine and the World

The year 2020 passed for the world in the fight against the coronavirus SARS-CoV-2, causing lockdowns of economies and, consequently, a sharp and deep recession in all countries of the world. For developed markets, in particular the EU, it was the largest in history, surpassing the previous one, which had fundamentally different - financial - reasons and nature. Measures to combat the spread of the COVID-19 pandemic in different countries and regions varied considerably, depending on their financial and other resources and capabilities, as well as the severity of the pandemic in each country. After falling sharply in March-April and in the first half of the year, economic growth began to resume in most parts of the world in Q3, along with easing of quarantine restrictions amid declining morbidity.

In Q4 2020, the **developed world stock markets** grew rapidly in the context of continued fiscal, monetary, and other support from governments and central banks of the richest countries, and especially against the background of news of successful development and high efficiency of the first tested coronavirus vaccines. For some of these markets, the increase over the last three months of the year was double-digit and at least equal to or exceeded the full-year result.

In the United States, which summed up the first results of the presidential election in November, Democrat Joe Biden's victory predicted a much more active and tough policy to combat the spread of COVID-19, backed by the announcement of the first vaccine developed by the American company. At the same time, the new president's plans announced during the election campaign to significantly increase large-scale financial support programs for the population affected by the pandemic and lockdown provoked mixed reactions from businesses and markets, as they were associated with expected tax increases for wealthy taxpayers. A similar response came from the new administration's desire to repeal some changes in financial legislation that investors saw as a minor risk, as it would require complex and lengthy work with Congress, where the newly elected party could not get a significant majority in both chambers. Therefore, in general, the growth of US stock indices accelerated slightly during this period but was relatively more restrained than in most other leading markets (+ 9.5-11.0% in Q4, after + 7.6-8.5% in Q3). For the whole of 2020, the US market rose by 6.6% -15.5%.

In Europe, the results of the US election were very positive, given the statements of the future administration to return to the club of world leaders in the fight against climate change and international conflicts. Key markets in the EU grew strongly at the end of the year, thanks in part to the emergence of the coronavirus vaccine amid a rise in a second, stronger wave of disease in Europe at this time. Investors were optimistic about government and monetary support programs, even though they feared risks to national economies after they ended and lower estimates of economic growth in the EU. Thus, there was no growth expected in the 4th quarter of 2020 (after a decline of 3.9% in Q3 and 11.4% in Q2 year on year) and -7.4% for the whole year, an increase of 4.1% in 2021 and by 3.0% in 2022. Thus, the return of the EU to the pre-pandemic level of GDP was expected by the end of 2022, but for some member states the picture looked worse. World GDP was expected to fall by 3.8% in 2020, which is much more significant than during the global financial crisis of 2008-9, and in 2021-22 - to grow by 4.7% and 3.7%, respectively[1].

Finally, the stock indices of the leading EU economies in October-December jumped by 7.5% in Germany (after + 3.7% in Q3) and by 16.6% in France (after -2.7%). Such a rapid growth of the French market at the end of the year did not help to end it with a positive result (-6.3%), but the German market showed an upward annual trend: + 3.5%.

In the UK in November, some concerns from analysts were more than expected by the new stimulus package from the Bank of England, which raised questions about the true state of the British economy and, consequently, the need to support and recover from the coronavirus crisis[2]. However, in late December, after difficult negotiations and on the verge of a transitional year after Brexit, the UK and the EU finally signed an agreement on future trade relations, which supported the markets. Despite the lack of clear mechanisms for further cooperation in the financial sector (with some exceptions for clearing) and the services sector in general, the very fact of its signing was perceived by market participants as a more positive option than the existing ones. Over the last three months of 2020, the country's key stock index rose by 11.8% (after falling by 4.9% in Q3), but for the whole year it lost 13.1% - the most among both developed markets and the world.

[1] https://ec.europa.eu/commission/presscorner/detail/en/speech_20_2040

[2] https://www.funds-europe.com/news/boe-stimulus-package-sparks-concerns-over-uk-economy

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In Japan, the shares of leading companies rose the most among developed markets in Q4 2020 - by 18.4% (after + 4.0% in Q3), bringing the annual result to a positive zone - up to 16.0%. This is even though, according to OECD estimates, in 2020 the country's economy was to shrink by 5.15%, and in 2021-22 - to grow by only 2.25% and 1.50%, respectively - provided it is further stimulated by the government and the Bank of Japan and consumer recovery demand in partner countries[3].

In Poland, which some international organizations refer to as developed markets, blue chips rose by 15.8% in the last quarter (after -2.6% in Q3) but lost 7.7% in the whole of 2020.

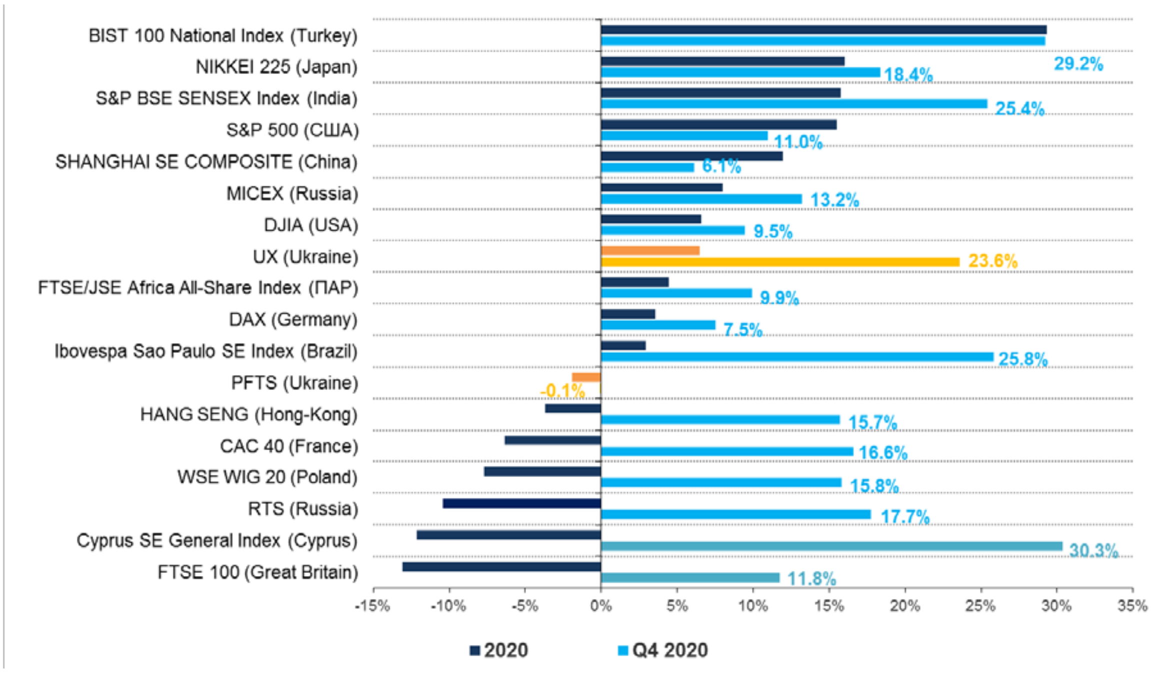

Chart 1. Stock Markets Indices Dynamics in Q4 2020 and in 2020

Based on data of the stock exchanges and Bloomberg. Ranking by the annual rate

Emerging markets generally continued to diversify in 2020, but due to the predominantly commodity-oriented structure of their economies, in contrast to developed markets, many of them experienced the pandemic crisis more easily. In Q4, they grew on average almost one and a half times more than developed, and for the whole of 2020 - at least 4-5 times.

In October-December, Cypriot shares grew the most (+ 30.3%, after -13.3% in Q3). However, they remained among the outsiders in terms of annual results, although better at the end of December 2020 than the British (-12.1%).

Among the leaders in both Q4 and the whole of 2020 were the stock indices of Turkey (+ 29.2%, after -1.7% in Q3) and India (+ 25.4%, after + 9.0%). The positive expectations of the global economic recovery, which pushed these markets at the end of the year, brought them into a positive zone in recent months, providing annual growth of 29.3% and 15.7%, respectively.

Shares of leading Brazilian companies in Q4 had a very similar dynamics (+ 25.8%, after -0.5% in Q3), but a much more modest annual result: + 2.9% at the end of December (after -10% at the end of September).

The Chinese economy has been recovering for the third consecutive quarter in October-December 2020. According to official data, after growing by 4.9% in the 3rd quarter year on year, China's GDP growth accelerated to 6.5% in the 4th, thus providing growth in 2020 by 2.3% - the only positive growth among the world largest economies[4]. However, constrained by the more difficult situation in the countries - the main consumers of Chinese products, the key stock index of the country rose moderately in Q4: + 6.1% (after + 7.8% in Q3). This raised the increase from the beginning of 2020 to 11.9%, which was significantly higher than the average for emerging

[3] https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-2_39a88ab1-en

[4] https://www.china-briefing.com/news/china-gdp-up-6-5-percent-q4-2020/

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markets (+ 7.2%). At the same time, in Hong Kong, where the political confrontation between the local community and the central government in Beijing and its representatives on the ground continued, the key stock index recovered rapidly at the end of the year (+ 15.7% in Q4, after -4.0% in Q3), but for the whole of 2020 it still fell by 3.7%.

In October-December, the Russian dollar RTS jumped 17.7% (after -2.8% in Q3) on comfortable oil prices and the ruble, which rose after the OPEC + agreement to reduce production, and the MICEX ruble index added 13.2% during this time (after + 5.9% in Q3). For the whole of 2020, oil prices fell by almost 23%, and the ruble against the US dollar - by more than 14%, so with the growth of the MICEX index by 8% during this time, the RTS fell by 10.4%.

The Ukrainian stock market, similarly to foreign ones, had a turbulent year during the coronavirus crisis. The collapse in late March - early April was replaced by a sideways trend that lasted until the end of October. Towards the end of 2020, the local market recovered, but the two key stock indices had very different dynamics, despite the similar composition of their index baskets. Thus, the UX index in October-December jumped by 23.6% (after -4.0% in Q3), approaching the world leaders in quarterly profitability. The PFTS index, on the other hand, lost 0.1% (after -0.2%), maintaining a sideways trend during Q4. At the same time, the composition of shares included in both Ukrainian indices did not change at the end 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 UXindex (energy and banking), there is also one machine-building and one telecommunications company.

According to the results of 2020, the Ukrainian stock market showed a return on the UX index above the average both among world markets in general and among emerging ones, in particular: + 6.5% (after outsiders - 10.9% in 2019). The PFTS index fell by another 1.9% in 2020 (after -8.9% in the previous year).

During 2020, several laws and regulations were adopted or entered into force, which directly or indirectly determine the functioning of the stock market in Ukraine. Some of them were related to the fight against the spread of the coronavirus pandemic and some support for the population and business during quarantine activities. These were separate tax breaks and a "COVID" fund created by the Government in the amount of UAH 65 billion[5]. Other acts and measures concerned mainly the country's obligations to implement the Association Agreement with the EU. Thus, in January, all financial regulators of the country approved the Strategy for the Development of the Financial Sector of Ukraine until 2025, which declared the transposition of all current EU legislation governing the investment market and asset management. Against the background of the coronary crisis, the NBU postponed the application of additional capital requirements for banks to be introduced this year and facilitated the refinancing of banks and simplified the conditions for debt restructuring to them; The NSSMC, for its part, allowed in case of impossibility to carry out professional activities through quarantine to extend the reporting deadlines of professional stock market participants and suspended scheduled inspections of their activities for the period of quarantine. At the end of March, the parliament adopted the long-awaited and necessary for Ukraine international financial assistance Law “On Amendments to Certain Legislative Acts of Ukraine Concerning the Circulation of Agricultural Land” № 552-IX, although its final text contained several restrictions that would hinder the development of the local land market. stage, and its entry into force is scheduled for July 1, 2021.

The main event in 2020 in the legislative field related to the stock market of Ukraine was the adoption in June of the Law № 738-IX "On Amendments to Certain Legislative Acts of Ukraine to Facilitate Investment and Introduction of New Financial Instruments" (the so-called “Law on Derivatives”). The law, which sought to comprehensively regulate the infrastructure and functioning of capital markets, derivatives and organized commodity markets in Ukraine and bring its legislation in this area closer to European in accordance with the Association Agreement, was sharply criticized by market participants and their representative organizations. It is expected that the Law will enter into force on July 1, 2021, except for certain rules, some of which came into force immediately after its publication, and others - in 2022 and 2023.

In July 2020, the Law №79-IX “On Amendments to Certain Legislative Acts of Ukraine on Improving the Functions of State Regulation of Financial Services Markets” entered into force - on the “split” of functions of the former National Commission for State Regulation of

[5] Also, during the year the European Commission provided macro-financial assistance to Ukraine in the fight against the economic consequences of the pandemic, subject to policy requirements to strengthen public financial management, governance and the rule of law, judicial reform, gas market competition, improving the business climate and state-owned enterprises.

Financial Services Markets, between the National Bank and the NSSMC. According to him, the administrators of private pension funds and the NPFs themselves came under the regulation and supervision of the latter and one of the items of the IMF financial assistance program to Ukraine was implemented. On the eve of this event, UAIB sent to the NSSMC comments and proposals to the draft decision to amend the Regulations on Prudential Standards (NSSMC Decision № 1597) on NPF administrators, which were fully considered by the regulator. Thus, as of January 1, 2021, only two of those prudential capital ratios that would fully correspond to those already available to AMCs should be applied to NPF administrators who do not combine their pension fund administration activities with asset management. At this time, some laws and regulations of the NSSMC have also entered into force, which regulate the activities of professional stock market participants in terms of financial monitoring, valuation of CII assets, etc.

In May, UAIB, among other unions, organizations and associations, appealed to the Prime Minister of Ukraine to support pension reform and the introduction of the second level of the pension system, and in June re-sent a joint letter with the CSS[6] to the newly appointed Deputy Prime Minister European integration in the financial sector, in particular in the field of mutual investment, under the Association Agreement with the EU.

At the end of 2020, professional stock market associations uniting financial institutions regulated by the NSSMC - AUFT, NAPFA, FIMA, UAIB - sent a letter to the President of Ukraine in which they drew attention to the institutional danger and poor transposition of EU legislation in the field of capital markets. The Association Agreement in the form of the Law № 738-IX ("on Derivatives") adopted in June, substantiated the comments of the investment community to which were not considered when adopting it. In addition, market participants were concerned that no by-laws had been adopted six months after the adoption of the Law. The appeal proposed to initiate a set of necessary measures to restore confidence in the legal framework for the functioning of national capital markets, including the earliest possible preparation of amendments to the Law necessary to remove legal uncertainty, including the procedure for its entry into force and non-compliance.

The macroeconomic situation in Ukraine in October-December 2020 improved somewhat in the context of easing quarantine restrictions and reviving business activity and consumer demand amid resumption of household income growth, including in the form of social support from the government. Real GDP, according to the State Statistics Committee, for Q4 decreased by only 0.5% year on year (after -3.5% in Q3 and -11.4% in Q2), and for the whole year it lost 4.0 % (after + 3.2% in 2019). This was a better result than expected by both the Government of Ukraine and the NBU, as well as international organizations[7], and was mainly due to reduced investment demand and related costs, as well as lower yields. At the same time, the decline in the index of industrial production in 2020, compared to 2019, slowed to -5.2% (from -7.0% in January-September), agricultural - to -11.5% (from -13.1%), and the index construction products at the end of 2020 accelerated to + 5.6% (from + 0.2%), which was facilitated by the direction of budget expenditures on road infrastructure. Financial and insurance activity in Q4 grew by 4.2% year on year and by 1.2% for the whole of 2020 compared to 2019, the IT sector - by 5.1% and 2.3%, and wholesale and retail trade - by 10.9% and 4.9%, respectively. Consumer prices in Q4 2020 increased by 3.2% (after deflation by 0.3% in Q3), and annual inflation in December accelerated more than twice compared to September: from 2.3% to 5.0%.

Despite the expected acceleration of inflation by the end of 2020 and the continuation of this trend at least at the beginning of the next, in October the NBU kept its key rate unchanged at 6%, thus continuing the stimulus policy in the face of uncertainty over the COVID-19 pandemic in Ukraine. Thus, over the past two years, the NBU discount rate has tripled, which has significantly affected the overall decline in interest rates in Ukraine's economy, including the reduction in the cost of credit resources, including those accumulated by the government for the sale of government bonds.

The official exchange rate of hryvnia against the US dollar and the euro in Q4 2020 strengthened by 0.1% and fell by 4.6%, respectively (after falling by 5.7% and 9.6% in Q3). Finally, over the whole year, the hryvnia depreciated

[6] *The EU-Ukraine Civil Society Platform (CSP) is one of the official bodies established under the EU-Ukraine Association Agreement.*
The CSP is a platform through which civil society organizations of both parties monitor the implementation of the Agreement from the point of view of civil society, as well as make recommendations to the relevant authorities. The CSP is composed of thirty members, fifteen on each side, representing civil society in Ukraine and the European Economic and Social Committee (EESC). The CSP also has six Working Groups. UAIB is a member of Working Group 3 "Economic Cooperation, Free Trade Area, Cross-Border Cooperation". More details - at the link.

[7] In the October IMF World Economic Forecast, Ukraine's GDP decline in 2020 was estimated at -7.2%, and growth in 2021 - at 3.0%:https://www.imf.org/-/media/Files/Publications/WEO/2020/October/English/text.ashx

by 16.2% against the dollar. US, and the lion's share of this fall in the exchange rate fell at the end of Q1, and by 23.9% against the euro. Thus, it lost all growth for the previous year and almost returned to the level of the end of 2018 at the dollar exchange rate and to the level of the beginning of the same year against the euro.

Despite this, Ukraine's international reserves, after a reduction of 2 billion US dollars (in equivalent) in the 3rd quarter, according to the NBU, in the 4th quarter grew and by the end of 2020 exceeded the August peak. Thus, they reached an 8-year high of more than USD 29.1 billion. At the end of December[8] (+USD 2.6 billion, or + 9.8% for Q4), adding 15.1% for the whole of 2020 and almost 40% (8.3 billion) for the last two years. This was due to the net purchase of foreign currency for the year for more than 1 billion dollars. The US against the background of the activity of non-residents at OVDPs auctions, despite the cost of the March smoothing of the hryvnia exchange rate. The increase in reserves was also due to the increase in the value of financial instruments due to changes in their market value and exchange rates, while the level of foreign exchange earnings in favor of the government was almost equal to the number of payments on public and state-guaranteed debt this year. Thus, the volume of international reserves at the end of December covered 4.8 months of future projected imports and, accordingly, provided macro-financial stability, as it was more than sufficient to meet Ukraine's commitments and current operations of the government and the National Bank, despite a pause in relations with the IMF.

During 2020, except for March-April, when the COVID-19 pandemic hit all world markets, the Ministry of Finance of Ukraine held regular weekly auctions for the sale of OVDPs, despite instability in international financial markets and less favorable placement conditions (growth of rates on hryvnia one-year OVDPs from less than 10% to more than 11% per annum). This was due to the need to attract significant resources to the budget since this and next years accounted for the largest in the history of the country's multibillion-dollar payments on public debt. Mostly successful auctions were provided by demand from both domestic investors and non-residents, which often exceeded the supply of these instruments by the government at times. Q4, the Ministry of Finance placed OVDPs for a total of almost UAH 166 billion, i.e., 2.5 times more than in Q3, including over UAH 51 billion - for only one auction in mid-December, and UAH 97 billion - for the last three auctions of the year. Of these, 122.6 billion were for hryvnia bonds, the yield on which rose from less than 10% to 11.7% per annum (for one-year OVDPs). Also in October-December, foreign currency OVDPs were sold for USD 1.3 billion and EUR 0.2 billion, the rates on which also increased slightly - to 3.8% and to 2.5% per annum on one-year bonds[9], respectively, although since the beginning of the year rates on 3-month securities in US dollars even fell from 3.0% to 2.9% per annum.

In October-December, the greatest demand for OVDPs was from banks, which increased their portfolios of these instruments by more than UAH 90 billion during this time (+ 21%), as well as local enterprises (+ UAH 26.2 billion, + 85%) and individuals (+2.7 billion UAH, + 32%).

For the whole of 2020, the government attracted to the budget through the sale of OVDPs almost UAH 390 billion in equivalent, 2/3 of which - for hryvnia securities (+ 13.7% compared to 2019), and for foreign currency – USD 3.9 billion (-47.3%) and EUR 0.8 billion (+ 100%). At the end of the year, domestic government bonds were mostly purchased by resident enterprises, which increased their total investments in OVDPs by 2.2 times at the end of the year, to UAH 57.1 billion, Ukrainian banks (+ 54%) to UAH 514.4 billion and Ukrainian citizens (+14 %) - up to UAH 11.0 billion. At the end of December, banks owned 51.9% of all OVDPs in circulation, after 48.7% in September and 40.6% (almost on a par with the NBU) at the beginning of January.

At the same time, in contrast to 2019, in 2020 foreign investors reduced their OVDPs portfolio (-27%) to UAH 84.4 billion, mainly selling these securities during Q2 and Q3, although in Q4 non-residents increased it almost UAH 1 billion. The share of OVDPs in circulation (at their value in hryvnia equivalent) owned by non-residents decreased from 14.1% (in hryvnia - 15.9%) at the beginning of 2020 and 9.6% (10.8%) in September to 8.5% (9.8%) in December, which is many times less than in the countries - Ukraine's western neighbors. At the same time, excluding NBU-owned domestic government bonds (41.0% of all OVDPs in circulation at the beginning of the year and 38.2% at the end, including due to a 4% reduction in the portfolio in Q1), the share of nonresidents decreased by 2020 even faster - almost twice - from 30.0% to 15.8%. Thus, the outflow of capital from OVDPs due to the withdrawal of non-residents in 2020, mainly due to their "escape to safe assets" from riskier markets during the

[8] https://bank.gov.ua/ua/news/all/u-2020-rotsi-mijnarodni-rezervi-ukrayini-zrosli-do-vosmirichnogo-maksimumu

[9] Results of placement of domestic government bonds on December 22 and December 15, 2020 on the website:https://mof.gov.ua/uk/ogoloshennja-ta-rezultati-aukcioniv

pandemic turbulence, was one of the factors of devaluation of the national currency.

However, OVDPs remained the main instrument for investors in the domestic stock market, although, in addition to stocks included in the indices of leading exchanges and other Ukrainian securities on the stock exchange lists, during 2020 there was a moderate increase in issues of foreign financial instruments that allowed to circulation in Ukraine - in particular, corporate issuers and funds.

In general, **the stock exchange market of Ukraine in Q4 2020 and for the whole year decreased in terms of the number of issues of securities admitted to trading, but the volume of trades increased in general.**

The consolidated stock exchange list of all operating stock exchanges in October-December 2020 decreased by 2.3% (by 4.7% over the year) and included 511 issues (Table 1). "Listing" (securities in stock exchanges), in contrast to Q3, expanded in Q4: + 1.0% (after -2.4%), although only due to government bonds (OVDPs), the number of issues of which on stock exchanges increased by three (+1.6%, after -2.6%).

Table 1. Dynamics of the Stock Market of Ukraine in Q4 2020 and in 2020

Indicator / Date	31.12.2019 (Q4 2019)	31.12.2019 (2019)	30.09.2020 (Q3 2020)	31.12.2020 (Q4 2020)	31.12.2020 (2020)	*Q4 2020 change*	*Annual change in 4Q 2020*	*2020 change*
Number of Securities in the listing of stock exchanges*, incl.:	**536**	**536**	**523**	**511**	**511**	*-2.3%*	*-4.7%*	*-4.7%*
Number of securities in the registers (listing) of stock exchanges, incl.:	**216**	**216**	**204**	**206**	**206**	*1.0%*	*-4.6%*	*-4.6%*
State bonds (OVDP)	**201**	**201**	**189**	**192**	**192**	*1.6%*	*-4.5%*	*-4.5%*
municipal bonds	2	2	2	2	2	*0.0%*	*0.0%*	*0.0%*
corporate bonds	9	9	9	8	8	*-11.1%*	*-11.1%*	*-11.1%*
equities**	3	3	3	3	3	*0.0%*	*0.0%*	*0.0%*
CIF equities	1	1	1	1	1	*0.0%*	*0.0%*	*0.0%*
investment certificates	0	0	0	0	0	*x*	*x*	*x*
Trading volume on all stock exchanges in total, UAH M, incl.:	**73 158.2**	**304 965.7**	**82 471.3**	**96 334.3**	**335 410.4**	***16.8%***	***31.7%***	***10.0%***
State bonds (OVDP+OZDP)	**71 914.2**	**295 249.5**	**80 440.2**	**94 429.2**	**329 809.3**	***17.4%***	***31.3%***	***11.7%***
municipal bonds	0.0	5.4	1 705.3	1 510.1	3 856.5	*-11.4%*	*x*	*71184.7%*
corporate bonds	1 136.9	8 761.9	239.5	182.2	998.9	*-23.9%*	*-84.0%*	*-88.6%*
equities	22.4	363.5	69.8	189.1	601.1	*170.8%*	*742.5%*	*65.4%*
investment certificates (and CIF shares)	0.1	331.8	3.3	2.0	54.6	*-38.6%*	*1754.5%*	*-83.5%*
derivatives (ex. state derivatives)	72.5	209.5	10.2	18.7	83.2	*84.3%*	*-74.2%*	*-60.3%*

Sources: data on securities in lists of stock exchanges and trading volumes - NSSMC, stock exchanges; calculations - UAIB.
** In total, as of December 31, 2020, the lists of the UX, including "listing", included 127 issuings of equities, 15 of shares of CIFs, 27 of investment certificates of UIFs, 88 of corporate bonds, 15 of municipal bonds.*
*** Including the depositary receits of MHP S.A.*

In 2020, the number of listed securities decreased by 4.6%, again mainly due to OVDPs (-4.5%) and, to a lesser extent, corporate bonds (-11.1%). The number of issues of municipal bonds, shares and CII securities in the stock exchange registers did not change for the second year in a row (6 in total). Thus, as of the end of September 2020, OVDPs accounted for 93.2% of all listed instruments on stock exchanges (after 92.6% in September and 93.1% at the beginning of 2020).

The total quarterly trading volume on all stock exchanges in Q4 2020 accelerated tripled, to 16.8% versus Q3, and, according to the NSSMC, amounted to UAH 96.3 billion. Compared with Q4 year ago, trade grew even faster - by 31.7%.

The lion's share of the total value of exchange transactions in October-December, as in the whole of 2020, was held by government bonds: 98.0%. At the same time, the share of external loan bonds (OZDP) was only 0.5% (after 0.4%) of the total trading volume on stock exchanges. The total volume of transactions with government securities in Q4 grew by 17.4% versus Q3 and by 31.3% year on year. The value of transactions with them for the whole of 2020 increased by 11.7%, slowing down the annual dynamics from almost + 20% in 2019.

Trade in municipal securities weakened slightly in Q4 2020 (-11.4% compared to Q3) but grew from zero to UAH 1.5 billion in the quarter. For the whole of 2020, the volume of exchange transactions with local government bonds increased more than 700 times, to UAH 3.9 billion, which made these instruments the second most popular among investors.

The volume of corporate bond transactions for Q4 2020 decreased by almost a quarter compared to Q3 and more than 6 times - with the same period last year, which lowered these instruments from second to fourth position in the total value of transactions during this time . For the whole of 2020, the volume of trades in corporate bonds on the stock exchanges of Ukraine fell almost 9 times (-88.6%). The dynamics of trade in certificates and shares of investment funds was similar: -38.6% for the 4th quarter, -83.5% for the whole of 2020.

Instead, the total value of stock transactions in Q4 2020 grew sharply for the second consecutive quarter (+ 170.8% compared to Q3 and more than 8 times on an annualized basis). However, it still amounted to less than UAH 190 million and, thus, equties were only the third most popular stock exchange instrument with a share of 0.2% of the total quarterly trading volume on stock exchanges.

Over the entire 2020 trade in equities increased by 65.4% (after a threefold increase in 2019), to over UAH 600 million - also 0.2% of the total volume of exchange trading.

The total trading volume on the stock exchanges of Ukraine in 2020 increased by 10.0% and amounted to UAH 335.4 billion (after + 16.9% in 2019).

2. The Asset Management Industry

2.1. Number of AMCs and CII, NPFs and ICs with assets under management

Despite the unprecedented economic crisis in the history of the pandemic, in 2020 the Ukrainian asset management industry continued to grow: both the number of market participants and the total amount of assets under management increased. In contrast to the previous year, the number of operating ***asset management companies*** increased almost quarterly and as of December 31, 2020 increased by 10 since the beginning of the year - to 303 companies (Chart 2).

In Q4, according to UAIB, 5 new AMCs were created, and during the whole of 2020 - 16.

During October-December 2020, 65 new CII were registered, of which 64 were corporate funds, i.e., immediately after registration they were recognized as having taken place.

The total number of ***formed CIIs,*** which reached the minimum asset ratio ("established"), grew for the 13th consecutive quarter and at the end of 2020 amounted to 1478 (+ 2.4% Q4 and + 11.5% for the whole year).

The number of ***non-state pension funds (NPFs) under management*** as of 31.12.2020 was 59 (excluding the NBU corporate fund), including 47 open, 6 corporate and 6 professional. NPF assets were still managed by 34 AMCs.

The number of ***insurance companies (ICs)*** that transferred their assets to AMC management in 2020 also remained constant, as did the number of AMCs that provided the following services: one such company managed the assets of two insurance companies.

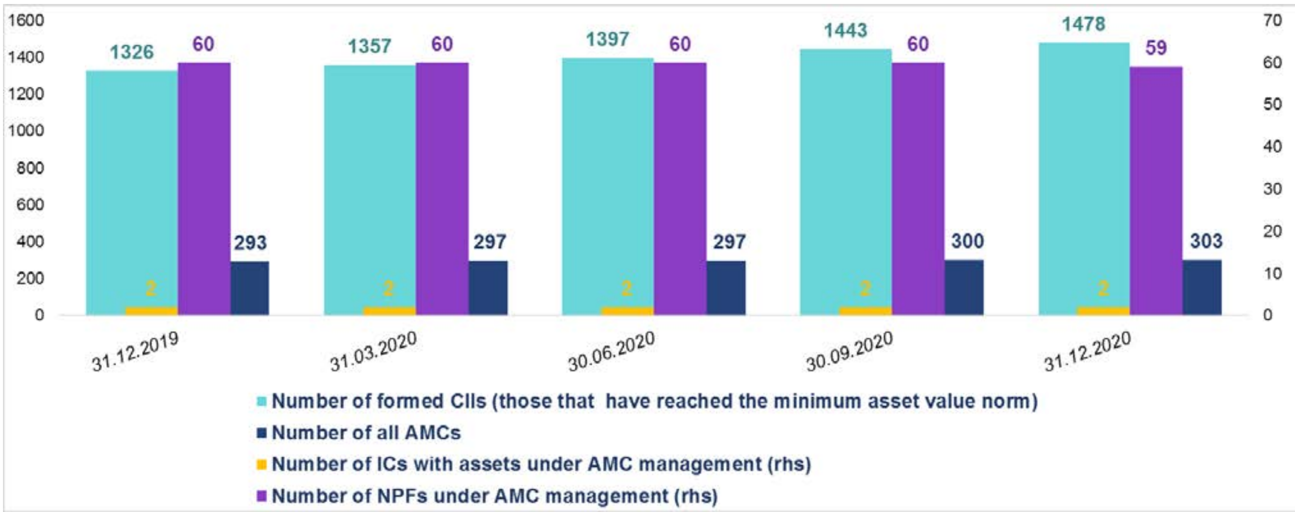

Chart 2. Dynamics of the number of AMCs and CIIS, NPFs and ICs with assets under AMC management in 2010-2020

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2.2. Assets under management, CII NAV and net capital flow in open-ended CII

The ***total assets of all institutional investors under the AMC management*** continued to grow in Q4 2020 at the same rate (+ 6.1%) and amounted to UAH 424,723 million at the end of December. Finally, for the whole of 2020, they increased by 19.6% (after + 12.8% in 2019).

CII assets under management, including those that have not yet reached the minimum assets ratio, also grew by 6.1% in Q4 and by 19.6% for the whole of 2020 (after + 12.8% in 2019). As of December 31, 2020, they amounted to UAH 422,594 million.

The ***total assets of formed CIIs***, which were managed by AMC and reached the standards (formed, "established" CII), as of 31.12.2020 reached 414 193 million UAH (Chart 7). In Q4 2020, they grew by 5.0%, and for the whole year - by 22.1%.

In general, the assets of established CII grew quarterly throughout 2020. Venture funds made the largest contribution to the value growth of the CII industry, which was facilitated by an increase in their number, but open-ended funds showed a relatively faster growth. Total assets of venture CII in Q4 added 5.4% (for the whole of 2020 - 23.1%) and at the end of December amounted to UAH 399,103 million.

Assets of open-ended CII, even though their number decreased from 17 to 16 funds in 2020, changed the decline by double-digit growth: in the 4th quarter they jumped by 16.6%, and for the whole year - by 43.0% (after +5.3 % in 2019). As of December 31, 2020, the sector's assets amounted to almost UAH 119 million.

NPF assets managed by AMC in Q4 2020 slowed down to 0.6% and accelerated to 20.0% for the whole year (after + 17.5% in 2019). As of December 31, 2020, they reached UAH 1,924 million.

The ***assets of the IC under AMC management*** grew by 5.4% in Q4, and for the whole of 2020 - by more than ¾ (+ 76.6%, after + 21.2% in 2019). As of December 31, 2020, these assets amounted to UAH 171 million.

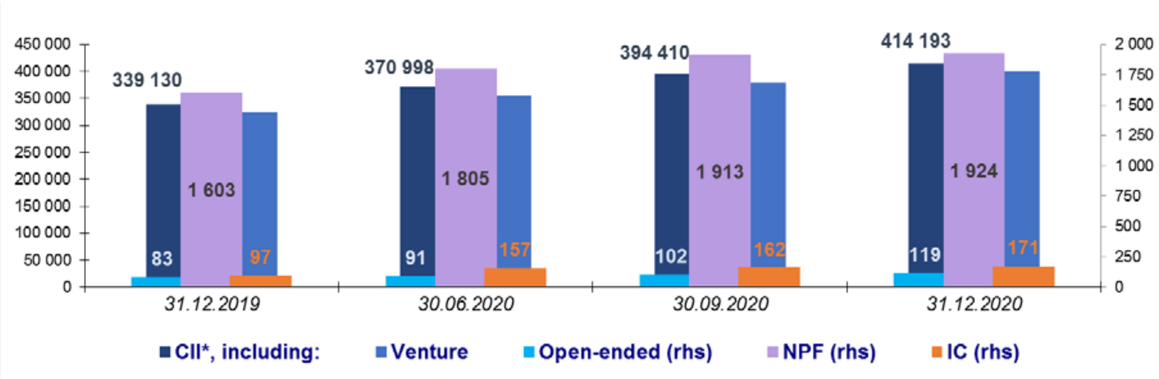

Chart 3. Assets under management dynamics in Q4 2019-2020 UAH million

The ***total NAV of CIIs*** as of 31.12.2020 reached UAH 322,029 million. In Q4 2020, it grew by 4.0%, and for the whole year - by 23.3%. Thus, growth accelerated compared to the previous year at least twice[10]. This was facilitated, among other things, by the active creation of new funds and, accordingly, an increase in the total number of existing funds, in particular, closed-end (venture) CIFs.

NAV of venture CII in Q4 2020 grew by 4.4%, and for the whole year - by 24.2% and at the end of December amounted to UAH 307,360 million. Thus, this sector covered 95.4% as of 31.12.2020 (after 94.8% a year earlier) and shows a steady upward trend.

Open-ended CII, which decreased by one in 2020, also changed the decline in net assets by rapid growth: by 16.2% in Q4 and by 42.4% for the whole of 2020 (after -5.4% in 2019). The increase was ensured by the increase in the value of portfolio investments of these funds, against the background of divergent movement of Ukrainian stock indices and half with a net inflow of capital from investors of these CII. As of December 31, 2020, their NAV amounted to UAH 118 million.

[10] Given that the completeness of reporting for 2019 was slightly lower than for 2020, due to the emergency quarantine measures introduced in the spring of 2020 in a pandemic.

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The total net movement of capital in open-ended CII in Q4 of 2020 was positive for the fourth time in a row: UAH +3.9 million (after UAH +8.9 million in Q3, Chart 4).

This increased the annual inflow of capital to open-ended CII (Chart 5), which eventually in 2020 became the largest since 2010 (UAH 20 million) and amounted to UAH +18.0 million (after UAH -5.8 million in 2019).

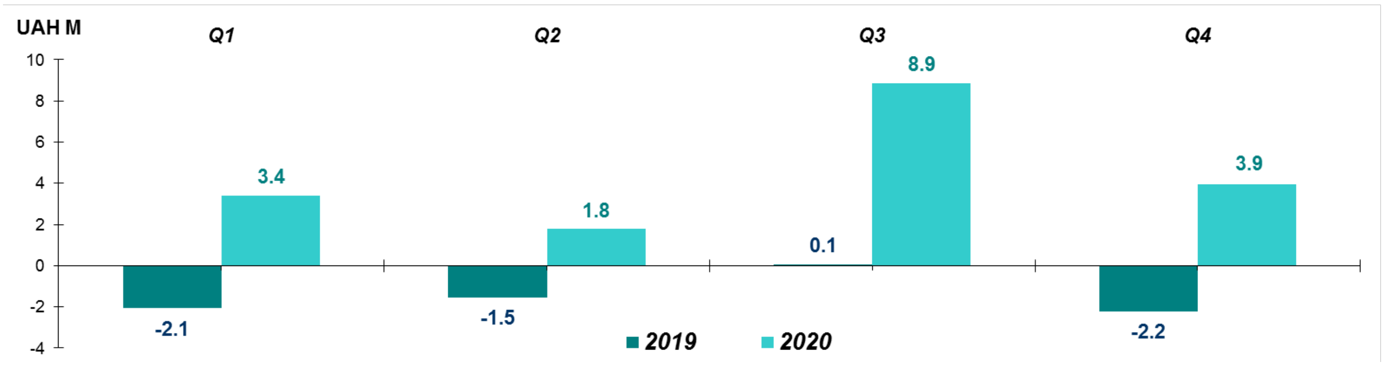

Chart 4. Net quarterly capital flow in open-ended CII in Q4 2019-2020

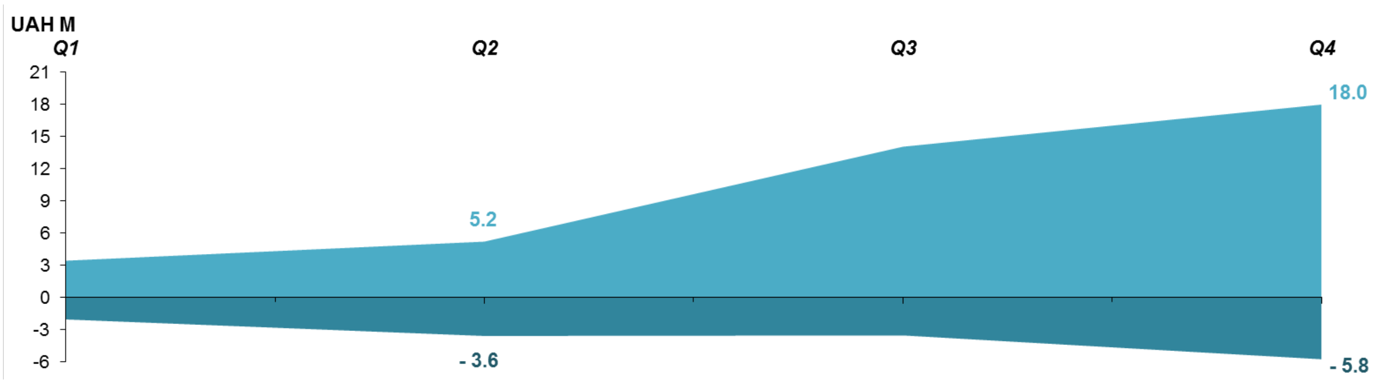

Chart 5. Net quarterly capital flow in open-ended CII in 2020, cumulatively

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For more detailed information on the performance of CII, NPF and IC asset management markets, see separate UAIB analytical reviews, which will be published on the website: https://www.uaib.com.ua/en/analituaib/publ-ici-quart

See additional information and statistical data on the UAIB website:

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