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1. Stock Markets: Ukraine and the World

The beginning of 2019 was marked by an unprecedented growth of most of the world's leading stock markets, which recovered losses from the turbulent and failed end of 2018, along with the emergence of optimism among investors to resolve trade disputes between the US and China and the US and EU. However, the confrontation lasted for a long time, which, against the background of a more pronounced slowdown in China's economy, worsened investor sentiment. Due to protracted trade and financial disputes and low inflation, in July the US Federal Reserve, for the first time since December 2008, decided to carefully reduce its rates (by 0.25%). Together with previous fiscal stimulus for business from the US government, the return to soft monetary policy pushed US stocks in 2019 by 24-30% (including 6-8.5% in Q4, Chart 1). Thus, they continued to surpass the historical frontiers of growth, securing the status of the longest, 11-year, rally of the stock market and, at the same time, increasing the risks of accelerating the completion of this growth cycle.

The UK has agreed with the EU to postpone the date of withdrawal from the bloc (Brexit) from March 29 to October 31, 2019, which helped improve investor sentiment in the British market. However, the country had difficulty agreeing on terms of exit and further relations with the bloc, which accelerated the resignation of Prime Minister May in the spring. The country's financial sector remained the biggest victim of Brexit, as the flow of capital and other resources to the EU-27 continued, threatening London to lose its status as one of the world's major financial centers. Currently, the annual dynamics of the leading British index was already negative. In late July, the British government announced additional funding to prepare for a possible Brexit without an agreement with the EU, doubling the previously approved amount, after which investor confidence in British assets only continued to fall, devaluing the pound and reducing the role and weight of British investment funds in international markets, lower than after the referendum in June 2016). In the autumn, the internal political conflict between the Prime Minister and the country's parliament escalated, and finally the newly elected parliament after the December 12 elections, along with the head of government, agreed with the EU to postpone Brexit to January 31, 2020, reassuring investors. According to the results of Q4, British stocks still grew, but the least among traditional developed markets - by 1.8%. For the whole of 2019, they rose by 12.0%, without fully recovering the losses of the previous year (-2.4% in 2018).

In the EU itself, European Parliament elections took place in May, showing overwhelming support from citizens of the pro-European bloc, while its economy continued to grow (albeit slowly). The key stock index of the engine of economic growth of the EU - Germany, which by the end of the year reaffirmed its macroeconomic prosperity with the release of new GDP statistics[1] - accelerated growth to +6.6% for the quarter, which provided a confident +25.5% since the beginning of 2019. In France, during October-December, after the protest movement subsided and the domestic political situation stabilized, the equities of leading companies also rose sharply: +5.3% for Q4 and to +27.8% for the whole of 2019.

Japan's leading stocks in Q4 2019 also confidently accelerated growth (+ 8.7%, after + 2.0% in Q3) and ended the year with an average for developed markets - + 18.2%. The relatively restrained growth of the Japanese market was against the background of geopolitical and trade difficulties in the world and the strengthening of the yen against the US dollar.

Despite the rapid growth of markets since the beginning of the year, the IMF in the first half of the year began to lower its forecast for global economic growth in 2019 - from 3.5% in January to 3.3% in April and then to 3.2% in July and 3.0% in October (3.4% for 2020), noting the significant slowdown in industrial production and the increase in trade barriers between countries. Despite the apparent slowdown, by mid-2019, most global institutional investors, according to surveys, did not expect an economic recession until at least the second half of 2020, although two-thirds were "bearish" about the long-term dynamics of the global economy. This was the highest level of expectations of stagnation since at least October 2016. At the same time, emerging markets, despite the reduction of risk appetite of international investors, remained the most attractive for them in the expected further reduction of US Federal Reserve base rates and maintaining other key central banks in the world moderate monetary policy with unchanged (very low, and sometimes negative) rates. Thus, most investors in EM countries' debt instruments tended to invest slightly more

[1] The real GDP growth of the country for Q3 was higher than expected by analysts and showed growth, not decline, although the figure was the same small in modulus - only 0.1% compared to Q2 (in annual terms, GDP grew by 0.5% in Q3): https://www.dw.com/en/germany-narrowly-avoids-recession-with-meager-01-q3-growth/a-51234770

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in local high-yield bonds, among which Egyptian and Ukrainian ones have been popular since April. However, closer to the middle of 2019, the demand for gold in the world as a time-tested asset "shelter" increased rapidly, and equity funds fell and provoked a significant outflow of capital. This trend was exacerbated by the inversion of the US T-bond yield curve, which occurred in August - for the first time since 2007 - and frightened investors, as it was still one of the key harbingers of many previous recessions. Nevertheless, in the coming months, the priority for international investors remained the search for financial instruments with additional returns, even despite the increased risks. In September, investors returned to stock markets, and in October-December, developed markets once again competed for leadership in growth with leading emerging markets.

The main stock index of the new developed market - Poland - in Q1 2019 went into a positive zone both on a quarterly and annual basis, but then experienced increased volatility and kept the downward trend until the end of the year, losing in Q4 1.1 % (after -6.9% in Q3), and for the whole year - 5.6% (after -7.5% in 2018).

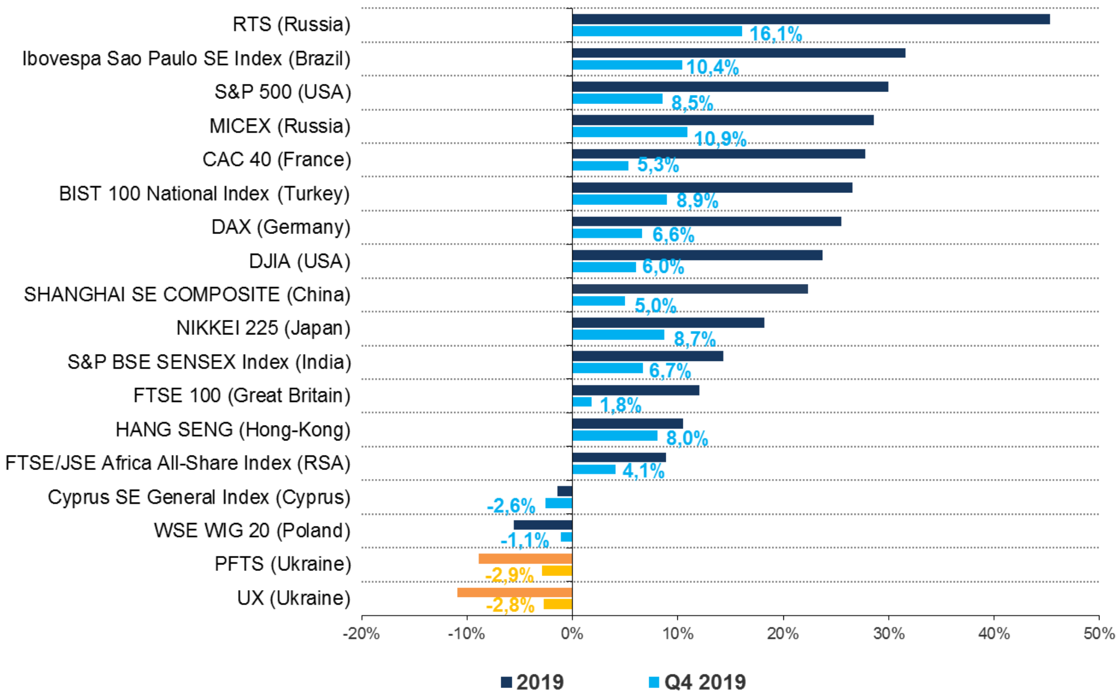

Chart 1. Stock Markets Indices Dynamics in Q4 2019 and in 2019
Based on data of the stock exchanges and Bloomberg. Ranking by the yearly figure

Emerging markets grew more moderately than developed ones at the beginning of the year, and volatility increased closer to the middle of the year. At the same time, their dynamics diverged, depending on both the degree of sensitivity to increased international disruption in trade relations and the presence of internal factors of political destabilization or economic weakening.

Russian indices were leaders both in Q4 and in 2019 among all markets. However, in October, a Russian court froze the assets of a well-known American private investor, Michael Calvey, who had worked in Russia for a long time, which raised some doubts among several investors about the country's investment attractiveness. However, equities of public companies continued to grow rapidly until the end of the year - together with the resumption of oil price growth (+ 8.6% in Q4, after -8.7% in the 3rd). The ruble remained in the top three world currencies at the growth rate against the US dollar in 2019 (+ 12.2%, including + 4.6% in Q4). Finally, the ruble index of the Moscow Stock Exchange (MICEX) grew by 10.9% at the end of the year, accumulating 28.6% for the whole year (after + 12.3% in 2018). The dollar RTS added even more, 16.1% and 45.3% respectively (after falling by 7.6% in 2018).

Brazilian stocks in October-December were again second in growth, as in the previous three months, and were almost on a par with Russian in annual terms: + 10.4% for Q4 and + 31.6% for 2019 (after +19.2 % for 2018). During this time, the Brazilian currency depreciated by 4.2% against the US dollar.

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The Turkish key index lagged relatively insignificantly behind the growth in Q4: + 8.9%, which provided an annual increase in 2019 of 26.5% and, accordingly, the return of losses for the previous year (-21.6%). Further depreciation of the lira (-5.1% against the US dollar in October-December and -11.4% since the beginning of 2019), as well as US sanctions imposed on Turkey in October for military aggression in Syria, were obviously insufficient factors for investors to ignore this market. Following the recession that began in 2018, Turkey's GDP resumed annual growth for the first time in the third quarter of 2019, according to data published in December, with a forecast of further acceleration by the end of the year.

In Q4 2019, China remained in a state of trade conflict with the United States, which exacerbated its previously slow economic growth, but in conditions of high volatility, the key Chinese index recorded + 5.0% in October-December. Starting from the failure at the end of 2018, it also entered a positive zone in terms of dynamics in 2019 but did not fully recover losses from the previous year (+ 22.3%, after -24.6%). In Hong Kong in the last months of the year, protests that erupted in June continued, but in a somewhat calmer mode, which allowed its blue chips to regain most of what was lost in Q3: + 8.0% (after -8.8%). The annual growth of the "offshore" Chinese market has finally risen to a positive zone from + 10.5% since the beginning of 2019.

The Ukrainian stock market, after some rollback at the end of a very successful overall in 2018, began its movement in 2019 by a sideways trend with moderate growth. Later, however, it changed to a steady downward trend, with some positive adjustments (in May, as well as in September and December for one of the two key stock indices).

The ongoing international trade disputes between the world's largest economies are the first significant signals of the approaching global recession against this background, amid declining demand in commodity markets and rising volatility in the financial, as well as the domestic political situation with presidential and parliamentary elections. adjustment of the new regime of activity of state institutions and authorities, further efforts to bring the conditions of activity of participants of local financial markets to the European ones - together with strengthening prospects for their European integration - all this created more risks than added to the attractiveness of the domestic stock market. Nevertheless, several legislative, macroeconomic, and monetary developments took place in Ukraine during 2019, many of which can be considered positive and, without a doubt, supportive of its financial sector in general and the stock market.

Below are the main laws and regulations that were adopted or entered into force in 2019 and which have already affected or should in the future affect the work of the stock market of Ukraine.

Law of Ukraine "On Currency and Currency Transactions" dated 21.06.2018 № 2473-VIII, which entered into force in February 2019 and began the gradual introduction of free movement of payments and capital under the Association Agreement with the EU in the coming years. It was a long-awaited law supported by Ukrainian financial market participants and foreign investors. As a result of its adoption, in particular, since April the National Bank has granted the right to new subjects of the financial market of Ukraine - foreign companies, including foreign investment funds and asset management companies acting on behalf of such investment funds - to open accounts in Ukrainian banks and carry out foreign exchange transactions through such accounts. In July, the limit on repatriation of dividends was finally abolished, and in September - the limits on repatriation of funds from the sale of securities and corporate rights. This law has also simplified and increased the opportunities for investments in foreign securities by individuals and enterprises resident in Ukraine, including professional stock market participants.

Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine on Improving Functions on State Regulation of Financial Services Markets” (on “Split”) № 79-IX, adopted by the Verkhovna Rada in September and signed by the President in October 2019, is designed to strengthen supervision of non-banking financial sector. According to him, the National Commission for State Regulation of Financial Services Markets will be liquidated, and its powers will be divided between the National Bank and the National Commission on Securities and Stock Market, which will transfer the regulation of private funds: pension funds (NPFs), construction financing funds (CFF) and real estate funds (REF). The law will enter into force on July 1, 2020, after the transitional period required for the adoption of all necessary regulations for the NBU and the NSSMC to take over the relevant functions from the National Financial Services. The expert community and business associations of the non-banking financial market of Ukraine are divided in their views on this law. UAIB commented on the bill to Ukrainian MPs and the European Commission, stressing, in particular, its inconsistency with international standards of supervision in the field of

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financial services, which Ukraine is obliged to implement under Article 385 of the Association Agreement with the EU.

The Law of Ukraine "On Protection of Consumers' Rights of Financial Services" № 122-IX, also adopted in September 2019, introduced clearly regulated and strict mechanisms of control by the NBU and other state regulators over compliance of consumer financial services market players with the requirements of consumer protection legislation on the mandatory and accessible disclosure of information about the real value of financial products and services.

The Law "On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction" № 361-IX, introduced in the Verkhovna Rada in September and adopted in December, aims to improve and clarify certain legislation in this area, as well as the harmonization of its provisions with the relevant new international standards, in particular, the transposition of the fourth Directive (EU) 2015/849 "On the prevention of the use of the financial system for the purpose of money laundering and terrorist financing "and Regulation (EU) 2015/847" On information accompanying money transfers ". The law aims to protect the rights and legitimate interests of citizens, society and the state, ensure national security by defining a legal mechanism to prevent and combat money laundering, terrorist financing and financing the proliferation of weapons of mass destruction. Its adoption was also one of the key conditions for the European Union to provide Ukraine in October 2019 with the second tranche of macro-financial assistance of 500 million euros.

During the year there were also lively discussions between professional participants of the stock market of Ukraine and government agencies regarding the previously adopted amendments to the legislation on joint stock companies regarding the forced redemption of shares of minority shareholders (so-called squeeze-out procedure). In July, almost 50 people's deputies of Ukraine filed a petition with the Constitutional Court of Ukraine to review and declare unconstitutional the relevant provisions of domestic law. A group of stock market participants also prepared an Appeal to the CCU, believing that this legislation was an example of a failed transposition of European rules in Ukraine.

At the end of the year, a group of people's deputies submitted to the parliament a draft of a new version of the Law on Joint Stock Companies (registration №2493), which also involved specialists from the NSSMC, NDU, and legal experts. This document provided, inter alia, for the elimination of those urgent problems that were identified in the practice of application of the Law, as well as providing greater flexibility and convenience to shareholders in addressing management of the company through: holding general meetings using electronic voting; improvement of mechanisms of merger, accession, division, separation, transformation of the company; introduction of a one-tier system of corporate governance and corporate governance in professional capital market participants (this has been significantly criticized by professional market associations as excessive and disproportionate).

The draft law "On Amendments to Certain Legislative Acts of Ukraine Concerning Simplification of Attracting Investments and Introduction of New Financial Instruments" (registration № 2284), adopted in the first reading in December 2019 (as a basis), aims to regulate functioning of markets in financial instruments, including derivatives, and organized commodity markets, as well as the development of their infrastructure; ensuring the protection of the rights of bondholders, by providing for the institution of a meeting of bondholders and a collective representative of corporate bondholders. The draft law provides for new versions of the laws "On Commodity Exchange" and "On Securities and Stock Market", changing the name of the latter to the Law "On Capital Markets and Organized Commodity Markets", and proposes appropriate amendments to the Civil, Commercial and Criminal Codes, Code of Ukraine on bankruptcy proceedings, laws "On state regulation of the securities market in Ukraine", "On financial services and state regulation of financial services markets", "On joint stock companies" and a large number of other legislative acts in. It was actively discussed in working groups with representatives of commodity exchanges, stock exchanges, financial intermediaries, relevant associations, etc. The NSSMC, which has in fact been preparing the fourth iteration of this bill in the last few years, has argued that it is a law on 'financial visa-free regime' for Ukraine, as well as on recognizing our country as corresponding to the EU capital market. The law aims to incorporate into domestic legislation the requirements of key European acts on capital markets, their infrastructure, financial intermediaries and financial instruments - Directive of the European Parliament and of the Council № 2014/65 / EU of 15.05.2014 on markets in financial instruments (MiFID II) and the Regulation Of the European Parliament and of the Council № 600/2014 of 15 May 2014 on markets in financial instruments (MiFIR), Regulation of the

European Parliament and of the Council № 648/2012 of 4 July 2014 on European market infrastructure regulation (EMIR), and is aimed at introduction in Ukraine recommendations of the International swaps and derivatives association (ISDA). However, on the eve of the adoption of the bill as a basis, the Verkhovna Rada Committee on Ukraine's Integration into the EU considered it and determined that it contains rules that directly contradict EU law and European regulatory principles, because in addition to financial markets, the document provides for new regulations and other markets, in particular, gas, electricity and grain, the functions of such regulation want to transfer to a specially created state body, which plans to endow with extraordinary powers. Thus, the Committee on Ukraine's Integration into the EU concluded that Bill № 2284 was inconsistent with EU law and the Association Agreement and noted that the document required consultations with the European Commission regarding the regulation of energy markets, as required by Annex XXVII to the Association Agreement.

In 2019, the improvement of the infrastructure of the Ukrainian stock market continued. Thus, in August, the National Depository of Ukraine launched a business model of the depository system to increase its flexibility and efficiency: additional new types of accounts were introduced, NDU was able to make changes in the technology of operations, and its customers choose a convenient accounting system. End-to-end processes have also been introduced for new products and services (including using mobile applications). In September, a new DEPEND Q Central Depository IT platform was launched, allowing depository institutions to choose alternative customer service software that operates according to international post-trading standards, which the NDU has been gradually introducing over the past three years. In addition, in late November, the NDU Supervisory Board adopted a new development strategy for 2019-2022, which defines five strategic goals of the NDU for this period, including the creation of a single Central Depository in Ukraine, which meets the best business practices in Europe and is necessary. a condition for integration into the European and global financial post-trade space, through the implementation of PFMI-IOSCO principles aimed at reducing the level of risks in NDU processes and their standardization.

At the end of the year, the NBU, the NSSMC, Natsfinposlug, the Individual Deposit Guarantee Fund and the Ministry of Finance of Ukraine began the second stage of public discussion of the draft Strategy for the Development of the Financial Sector of Ukraine until 2025. The draft Strategy contained the main directions in which the financial sector will move over the next five years, as well as strategic goals, clear indicators of their achievement and a roadmap for implementing the Strategy with specific deadlines and a list of Ukraine's international financial services obligations. The final text of the Strategy, considering the proposals from financial market participants and the agreed positions of all regulators of the year, was scheduled to be presented in January 2020.

As for the macroeconomic picture, Ukraine's real GDP, according to the State Statistics Committee, slowed down slightly from 3.3% to 3.2% in 2019, although in Q4 the slowdown was more significant (1.5% year on year, compared to 3.7% according to the results of Q4 2018). As in the previous year, the financial sector was one of the most dynamic, although its growth also slowed down - from + 10.1% in 2018, according to updated data from the State Statistics Service, to + 7.5% in 2019. A significant positive trend was the fall in inflation (CPI) more than twice - from 9.8% in December 2018 to 4.1% in December 2019, due to which Ukraine came out of the top 50 countries with the highest inflation, according to the National Bank of Ukraine. [2]

It also allowed the NBU to gradually lower the discount rate from 18.0% at the end of 2018 to 13.5% from mid-December 2019 (to the level of October 2017 - one of the lowest since 2014) and announce plans to further reduce it to unambiguous indicator by the end of next year.

Ukraine's international reserves accumulated by the NBU increased by 21.5% in 2019, from $ 20.8 billion to $ 25.3 billion, which was a 7-year high and covered more than 3.7 months of future imports (compared to 3.5 months at the beginning of the year) and was sufficient to fulfill Ukraine's international financial obligations. Such an increase in reserves was made possible, in part, by the significant interest of foreign investors in Ukrainian debt securities, which the Government, represented by the Ministry of Finance, actively placed on the domestic market this year, and the inflow of foreign currency into Ukraine.

[2] According to the results of 2019, Ukraine took 51st place in the ranking of countries with the highest inflation. In 2015, Ukraine was second in this ranking. Source: https://www.facebook.com/NBUexpertplatform/posts/844400449347 .

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One of the factors was the establishment of a direct correspondent link between the NBU and the international depository Clearstream in May, which made it much easier to place domestic, including hryvnia, OVDPs among foreign investors. This led to an increase in the purchase of these securities by non-residents, as this was also greatly facilitated by the world's highest real yield on sovereign securities (coupon income, reduced by inflation, remained at 8-9% during the year). Another technical facilitator of attracting international investors to the Ukrainian financial market was the launch by the Ministry of Finance of OVDPs auctions on the Bloomberg ETS platform in October.

In 2019, three key international credit rating agencies raised either Ukraine's ratings, or their outlook from stable to positive (like Moody's), or both (Fitch, Standard & Poors). Due to this, the ratings of seven Ukrainian banks[3], as well as 5 cities with a population of millions (Kyiv, Lviv, Odessa, Dnipro and Kharkiv) were "automatically" raised. In addition, Ukraine has also improved its position in the Institute of International Finance's (IIF) annual ranking on the quality of sovereign issuers' interactions with international portfolio investors and data openness: it is one of the top 3 countries with the most progress in data openness among developing countries. Ukraine's assessment of investor relations (IR) increased by 3.5 points to 40 points (from a maximum of 42), and the assessment of data openness - by 4 points - to 36 (from a maximum of 44).

All this contributed to the fact that in 2019 Ukraine successfully attracted financing in international and domestic capital markets, with the Ministry of Finance systematically reducing interest rates on government bonds and focusing on domestic liabilities in hryvnia to reduce the dollarization of public debt and reduce it, as well as strengthen integration of foreign investors into the domestic market. Rates on government hryvnia securities fell by more than a third - from about 18-19% per annum in early 2019 to 10-11% per annum in December (from six-month to 6-year OVDPs - the longest in Ukrainian history). OVDPs denominated in US dollars fell to 3.0% - 3.86% per annum (for one- and two-year OVDPs), in euros - to 2.22% per annum (for semi-annual OVDPs) - the lowest rates for Ukraine in its history. In 2019, the government raised a total of UAH 227.5 billion, $ 7.4 billion and € 0.4 billion from OVDPs auctions, which were mostly purchased by foreign and Ukrainian banks[4], including about $ 4 billion of which were purchased by non-residents, according to the Ministry of Finance.

According to the NBU, at the end of the year over 14% of OVDPs in circulation (at their value) belonged to non-residents, while at the beginning - only 0.8%. However, given that this public debt is mainly concentrated in long-term securities (from 3 to 5 years), and comparing this figure with other countries that can be attributed to the comparison group with Ukraine (it is many times higher, for example, in the Czech Republic, Poland, Romania, etc.), according to the Ministry of Finance, it does not pose a threat to its financial system. Indeed, even without the NBU's due 41% of all government bonds in circulation, the share of non-residents due at the end of 2019 was only 30%, which is on a par with the above countries - taking into account all owners of their public debt. At the same time, the ratio of public and state-guaranteed debt to projected GDP at the end of 2019 was about 50% compared to almost 61% at the beginning of the year. [5] Thus, this figure returned to the classical Maastricht convergence criteria and was significantly better than in a number of EU member states (Italy - 135%, Portugal - 118%, Belgium - 99%, France - 98%, Spain and Cyprus - 96% and the EU as a whole - 79%[6]).

The active and successful policy of the Ministry of Finance to attract non-residents' funds in hryvnia OVDPs during 2019 contributed to further - and intensified - revaluation of the national currency. In 2019, the hryvnia added 16.9% against the US dollar and + 20.0% against the euro (after + 1.4% and + 5.6% in 2018, respectively).

But in addition to the domestic market, the government has strengthened its financial activities in foreign countries: in June 2019, for the first time in 15 years, the Ministry of Finance issued Eurobonds of Ukraine in euros, and "long" 7-year, 1 billion euros, which was due to favorable market conditions (rate - 6.75% per annum, demand exceeded supply by 6 times) and the growth of clearing in this currency under foreign economic contracts. Also, global investors in sovereign debt in July were able to buy hryvnia Eurobonds in foreign markets - thanks to issues issued by the International Finance

[3] *Oschadbank, Ukreximbank, PrivatBank, Ukrgasbank, Credit Agricole Bank, ProCredit Bank and Pravex-Bank.*

[4] The Ministry of Finance has published the rating of primary dealers for 2019 by the volume of purchases of domestic government bonds (OVDPs), the TOP-10 also includes: Citibank, Oschadbank, Ukrgasbank, OTP Bank, Raiffeisen Bank Aval, PUMB, Privatbank and PrivatBank Kredobank. Source: https://finclub.net/ua/news/minfin-nazvav-naibilshykh-pokuptsiv-derzhavnykh-oblihatsii.html

[5] https://mof.gov.ua/uk/news/informatsiia_shchodo_derzhavnogo_borgu_ta_garantovanogo_derzhavoiu_borgu_v_2019_rotsi-2000

[6] https://tradingeconomics.com/country-list/government-debt-to-gdp

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Corporation (IFC), in addition to previously issued EBRD bonds. In August, local market participants decided to give Ukraine's hryvnia Eurobonds the unofficial international name "Trident bonds"[7].

In contrast to the rapid growth and recovery of the Ukrainian public debt market, the stock market in Ukraine in October-December 2019 continued to decline for the third consecutive quarter and finally ***lost about 3% in Q4*** (UX index was -2.8%, PFTS index – -2.9 %), slowing down slightly compared to Q3. ***According to the results of 2019, it showed the worst dynamics against the background of both developed world markets and those that are developing, losing 8.9-10.9%.*** However, this only partially reduced the growth of the previous year when Ukrainian indices were the leaders of growth (+ 77.5% PFTS and + 25.1% UX) and returned them to the level of the end of 2011.

It should be noted that the composition of the index baskets of the two Ukrainian stock indices throughout 2019 was unchanged. The UX index basket still included 6 equities: 4 energy companies, one machine-building company and one bank, the weight of which was periodically adjusted by the stock exchange. The PFTS index basket contained 7 components: in addition to 5 equities from the UX index, there was also another machine-building and one telecommunications company.

As for a wider range of securities and the emergence of new financial instruments on the stock exchanges of Ukraine in 2019, at the end of March, at the initiative of professional stock market participants and in accordance with previously adopted amendments to the legal regulation of admission of securities of foreign issuers on Ukrainian stock exchanges, the sale of Apple equities and US Treasury notes began on the domestic market.

The stock market in Q4 2019 continued the trends of the previous quarter also in terms of its size: the total number of issues of securities admitted to trading on exchanges, as well as of the 'listing' (the SEs' registers as parts of their total lists) decreased. In annual terms, the market dynamics in 2019 resembled 2018, but was more negative – in terms of the number of securities on the stock exchanges – and less positive – in terms of the trading volume.

Table 1. Dynamics of the Stock Market of Ukraine in Q4 2019 and in 2019

Indicator / Date (Period)	31.12.2018 (Q4 2018)	31.12.2018 (2018)	30.09.2019 (Q3 2019)	31.12.2019 (Q4 2019)	31.12.2019 (2019)	*Q4 2019 change*	*Annual change in Q4 2019*	*2019 change*
Number of securities in stock exchanges lists, incl.:	**884**	**884**	**619**	**536**	**536**	***-13,4%***	***-39,4%***	***-39,4%***
Number of securities in stock exchanges registers ('listing'), incl.:	**377**	**377**	**284**	**216**	**216**	***-23,9%***	***-42,7%***	***-42,7%***
State bonds (OVDP)	**357**	**357**	**267**	**201**	**201**	***-24,7%***	***-43,7%***	***-43,7%***
equities*	**5**	**5**	**3**	**3**	**3**	***0,0%***	***-40,0%***	***-40,0%***
corporate bonds	**10**	**10**	**9**	**9**	**9**	***0,0%***	***-10,0%***	***-10,0%***
municipal bonds**	0	0	2	2	2	*0,0%*	*x*	*x*
NBU deposit certificates	0	0	0	0	0	*x*	*x*	*x*
Trading volume on all stock exchanges in total, UAH M, incl.:	**61 608,8**	**260 870,8**	**83 322,0**	**73 158,2**	**304 965,7**	***-12,2%***	***18,7%***	***16,9%***
State bonds (OVDP + OZDP)	**56 663,2**	**246 474,7**	**79 832,8**	**71 914,2**	**295 249,5**	***-9,9%***	***26,9%***	***19,8%***
equities	**171,6**	**1 216,0**	**72,0**	**22,4**	**363,5**	***-68,8%***	***-86,9%***	***-70,1%***
corporate bonds	**4 160,0**	**10 267,0**	**3 356,6**	**1 136,9**	**8 761,9**	***-66,1%***	***-72,7%***	***-14,7%***
municipal bonds	0,0	0,0	0,0	0,0	5,4	*x*	*x*	*x*
NBU deposit certificates	0,0	0,0	0,0	0,0	0,0	*x*	*x*	*x*
investment certificates	199,8	272,0	31,6	0,1	331,8	*-99,7%*	*-99,9%*	*22,0%*
derivatives (excl. state derivatives)	**414,3**	**2 641,2**	**29,7**	**72,5**	**209,5**	***144,1%***	***-82,5%***	***-92,1%***

Sources: data on securities in lists of stock exchanges and trading volumes - NSSMC, stock exchanges; calculations - UAIB.

** Including depositary receipts of MHP S.A., excluding corporate investment funds' equities (as of 31.12.2019 there were equities of one CIF).*

*** As at December 31, 2019, there were six issues of municipal bonds on the SEs lists: three of the Lviv, two of the Ivano-Frankivsk and one of the Khakiv City Councils.*

[7] *According to an open survey conducted among market participants by a local news agency: "Borsch, Bandera, Salo. An unofficial international name was chosen for Ukrainian hryvnia Eurobonds ": https://nv.ua/ukr/biz/finance/borshch-bandera-salo-dlya-ukrajinskih-grivnevih-yevroobligaciy-vibrali-neoficiynu-mizhnarodnu-nazvu-50037876.html*

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The total quarterly trading volume on all exchanges in Q4 2019 decreased by 12.2% (after + 15.5% Q3) and amounted to UAH 73.2 billion. Despite the decrease compared to Q3, trading activity increased significantly compared to Q4 2018 (+ 18.7%).

In general, more than 98% of exchange trades were accounted for by OVDPs (almost 96% in Q3). The increase in the weight of government bonds in the total volume of transactions on stock exchanges was the result of a threefold decrease in the volume of transactions with corporate securities - both for equities and for bonds. Thus, in this period the decline for the former intensified (-26.7% in Q3) and the pendulum-like movement for the latter continued after the surge in activity in Q3 (+ 127.1%). Trading in investment certificates on stock exchanges in October-December 2019 was virtually absent. During this time, only the total value of transactions with derivatives increased, which showed a mirror dynamic to equities (+ 144.1%, after -34.5%).

The volume of trades on the stock exchanges of Ukraine in 2019 increased by 16.9% (after + 26.8% in 2018) and amounted to ***UAH 305 billion***. However, for the second year in a row, growth was driven only by government bonds (almost + 20% in 2019, after + 30% in 2018). Trading in corporate bonds in 2019 decreased by 15% (after + 67.8% in 2018), equities - more than three times (after a more than 4-fold decrease in 2018).

2. The Asset Management Industry

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

In 2019, the Ukrainian asset management industry generally followed an upward trend: both the number of funds (CII) and the total value of assets under management increased. However, as in the previous year, the number of operating ***asset management companies*** fluctuated during the year, but as at December 31, 2019 - decreased by three compared to the beginning of the year - to ***293*** companies (Chart 2). In Q4, according to UAIB, one new AMC was created, while two were closed. Throughout 2019, 5 new AMCs were created, and 8 companies ceased their activities.

During October-December 2019, 47 new CII were registered. Considering the funds that closed during Q4, as at December 31, 2019, the ***total number of registered CII, according to UAIB, increased to 1890*** (+ 2.3% for Q4 and + 6.0% for the year). Thus, its growth lasted for the fourth year in a row and steadily accelerated.

The number of generated CII, which reached the minimum asset standard ***('established' funds), increased for the ninth quarter, and the third year, in a row, to 1326*** (+ 3.3% for Q4 and + 8.0% for the whole of 2019).

The number of ***non-state pension funds (NPFs) under management*** as at December 31, 2019 was ***58*** (excluding the NBU corporate fund), including 46 open, 6 corporate and 6 professional. These NPF assets were managed by 33 AMCs.

The number of ***insurance companies (ICs) that transferred their assets under AMC management*** in 2019 remained constant (***two***), and still just one such AMC managed their assets.

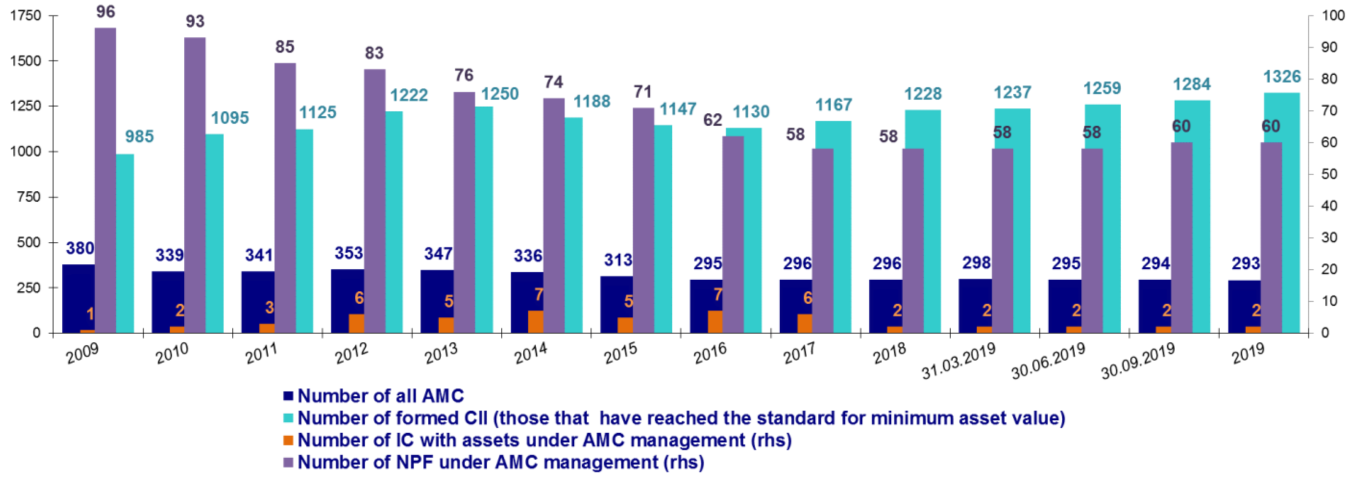

Chart 2. Dynamics of the number of AMCs and CIIS, NPFs and ICs with assets under AMC management in 2009-2019

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 2019 (+1.5%) and amounted to ***UAH 355,086.8 million*** at the end of December. Thus, for the whole of 2019, they increased by 12.8% (after + 18.7% in 2018).

In Q4 2019, ***total CII assets under management***, including those that have not yet reached the minimum assets ratio, grew by 1.4%, and for the whole year, also by 12.8% (after 18.8% in 2018), to ***UAH 353,337.4 million.***

The ***assets of acting CII, which were managed by AMC and reached the standards ('established' funds)***, as at December 31, 2019 amounted to ***UAH 339,130 million*** (Chart 3). In Q4 2019, they formally decreased by 0.2%, and for the whole year - increased by at least 14.3% (after + 7.7% - in 2018). At the same time, the total assets of venture CII in Q4 formally decreased by 0.3% (over the year - increased by 15.9%) and at the end of 2019 amounted to UAH 324 105 million. Assets of open-end CII, for which complete data are available, decreased by 3.6% in Q4, and for the whole of 2019 - by 5.3%, to UAH 83 million.

During 2019, the assets of 'established' CII grew quarterly. The only conditional exception was Q4, which was mainly due to incomplete reporting, as this quarterly reduction was much smaller than the lack of fund reports. Venture funds remained the engine of growth in the CII industry, against the background of a further, even more rapid increase in the number of funds in this category.

NPF assets under AMC management in Q4 2019 accelerated growth to 3.4%, and for the whole year - to 17.5% (after + 14.3% in 2018). As at December 31, 2019, they reached UAH 1,603.2 million.

The assets of the IC under AMC management decreased by 0.1% in Q4 2019 but increased by 21.2% over the year (after + 35.2% in 2018). As at December 31, 2019, these assets amounted to UAH 96.7 million.

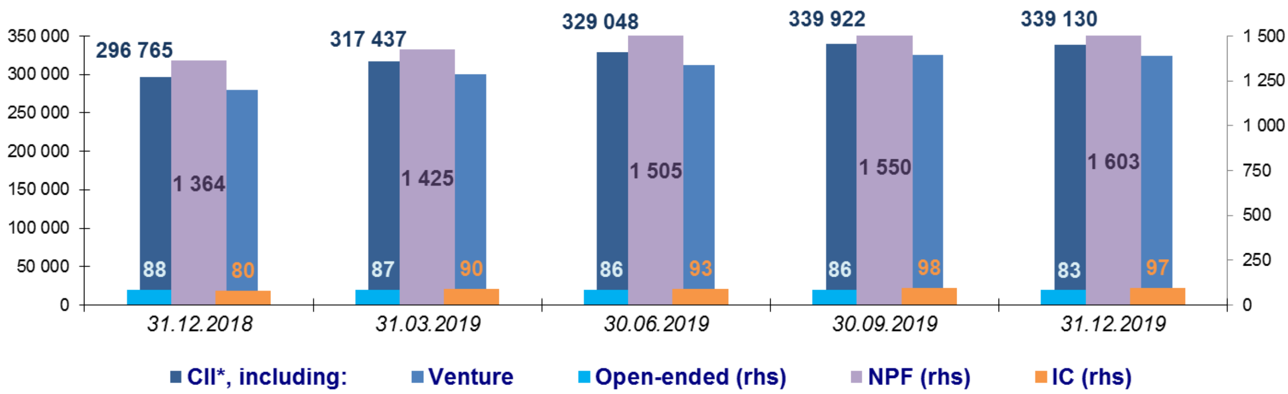

Chart 3. Assets under management dynamics in Q4 2018-2019 UAH million

The Net Asset Value of CII that reached the standards reached ***UAH 261,205.8 million*** as at December 31, 2019. In Q4 2019, it formally decreased by 1.2% (see above the footnote on total assets), and in 2019 - added at least 10.8% (after + 5.7% in 2018). Thus, the growth accelerated compared to the previous year, despite the incomplete reporting by the funds for 2019 at the time of preparation of this Review, as well as some actual reduction in the number of existing funds among closed-end CII (except venture).

The NAV of venture CII in Q4 formally decreased by -1.4%, but for the whole of 2019 it increased by at least 12.3% (after + 2.6% in 2018) and amounted to UAH 247,542.2 million at the end of the year. Thus, it was equal to 94.8% of the total net assets of all current CII (after 93.5% in 2018).

Open-ended CII (the same 17 funds throughout the year) saw a decrease in net assets: by 3.7% in Q4 and by 5.4% for the whole of 2019, which only partially offset the growth in 2018 (+ 16.6%). The reduction occurred in the context of a decrease in stock indices by 3% and 9-11%, respectively, as well as due to the outflow of capital with the exit of some investors from the sector. As at December 31, 2019, its NAV amounted to UAH 82.6 million.

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The total net capital flow in open-ended CII in Q4 2019 was negative and the largest for the whole year: ***UAH -2.2 million*** (after +0.1 million UAH in Q3, Chart 4).

This significantly worsened the ***annual net sales in open-ended CII*** (Chart 5), which eventually became negative in 2019 for the first time in three years and amounted to ***UAH -5.8 million*** (after UAH +3 million in 2018 and UAH 2.2 million in 2017).

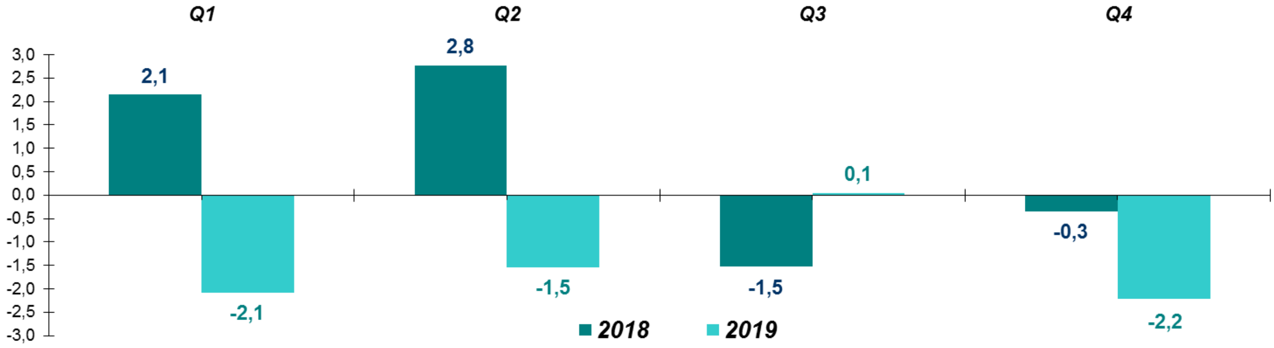

Chart 4. Net quarterly capital flow in open-ended CII in Q4 2018-2019

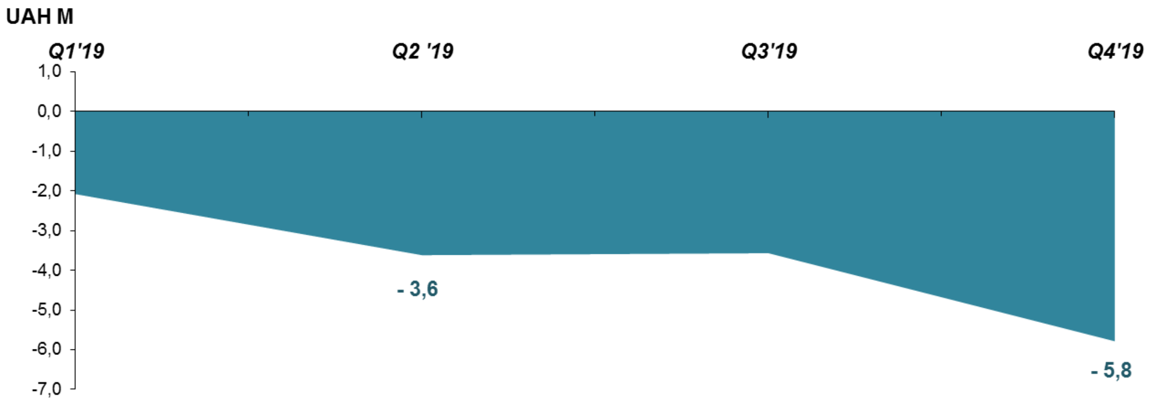

Chart 5. Net quarterly capital flow in open-ended CII in 2019, cumulatively

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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/analituaib/publ-ici-quart

See additional information and statistical data on the UAIB website:

- The Ukrainian Market in Figures
- Monthly analytics & Weekly statistics of investment funds with public offering
- Rankings: CII / AMC

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