

Future Investment Strategies in Ukraine

Oleg Ustenko

Executive Director, The Bleyzer Foundation



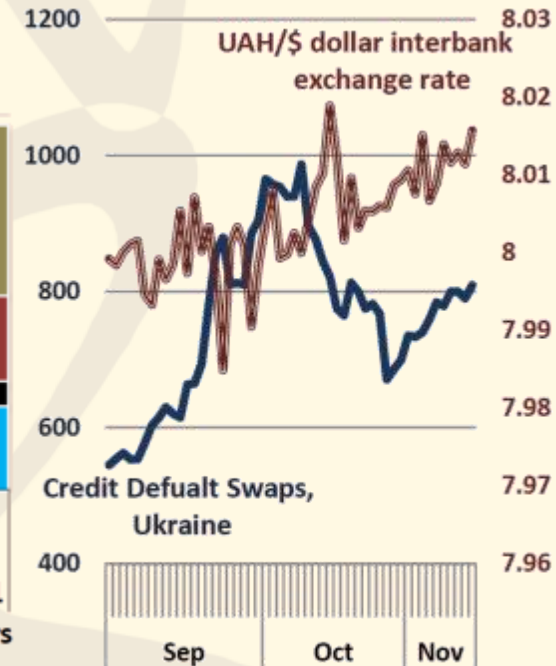
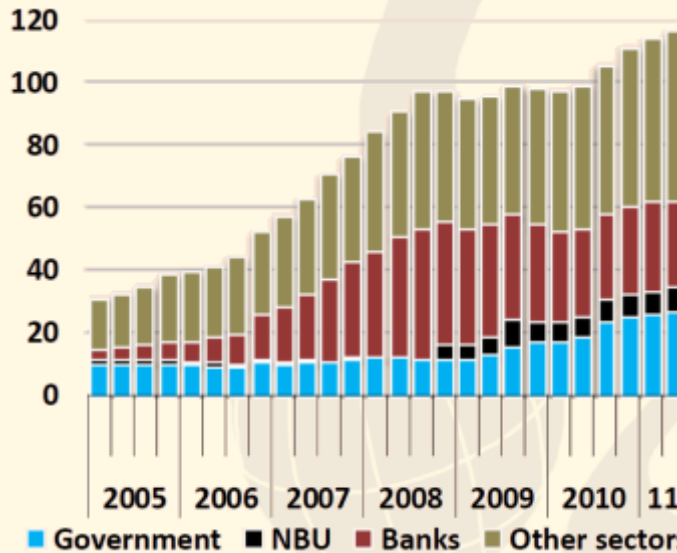
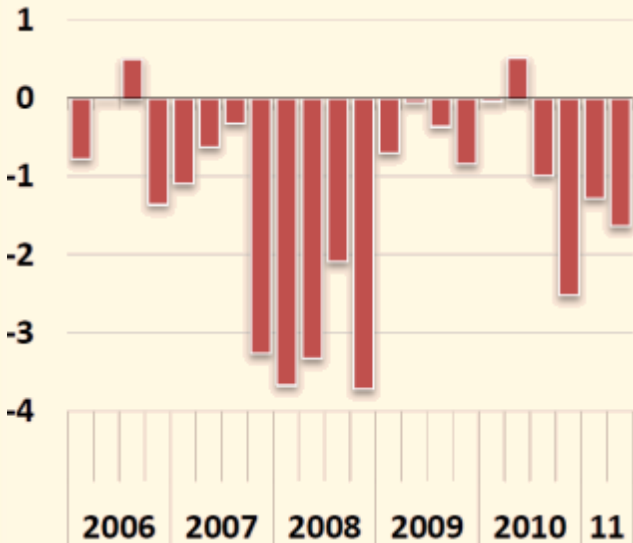
Emerging Investment Risks

- Weaker growth outlook due to economic troubles in the Euro zone.
- Increasing political uncertainty on the eve of the Parliamentary elections.
- The banking sector remains vulnerable to liquidity problems of the EU banks.
- Macroeconomic stability is rather fragile.

Current account balance, \$ billion

Foreign external debt, \$ billion

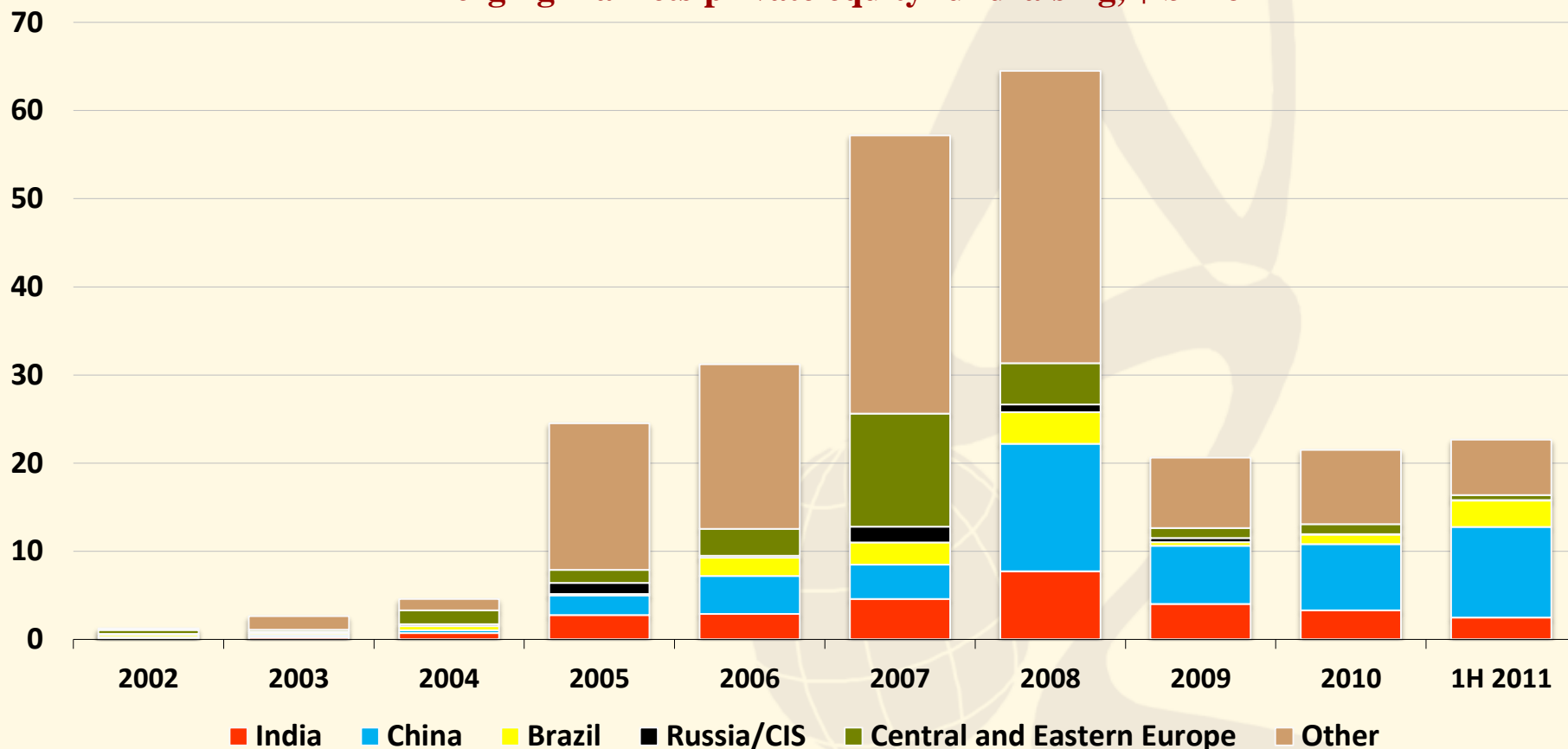
UAH/\$ dollar interbank exchange rate



PE investors are putt off by European uncertainties

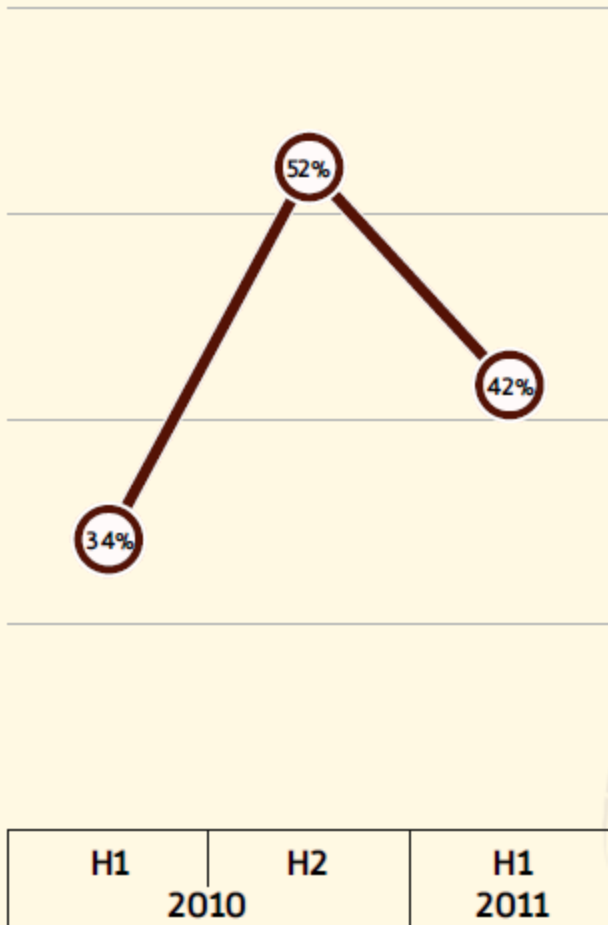
- Emerging markets private equity fundraising slumped following the global financial crisis. Growth resumed in 2011, yet primarily thanks to increased investor appetite for assets in China and Brazil.

Emerging markets private equity fundraising, \$ billion

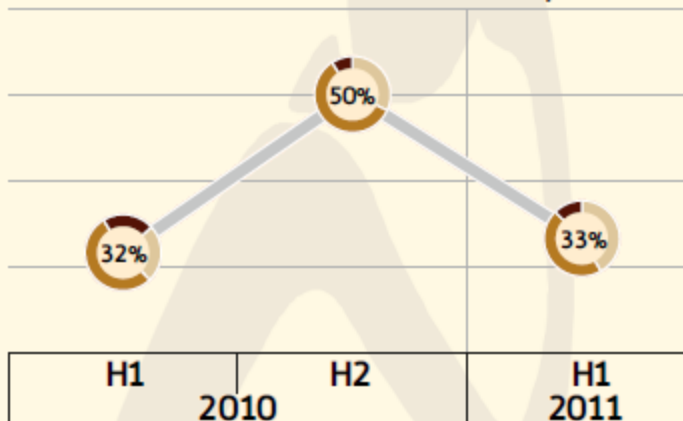


Investors lose interest in Ukraine...

TBF Investor Sentiment Index

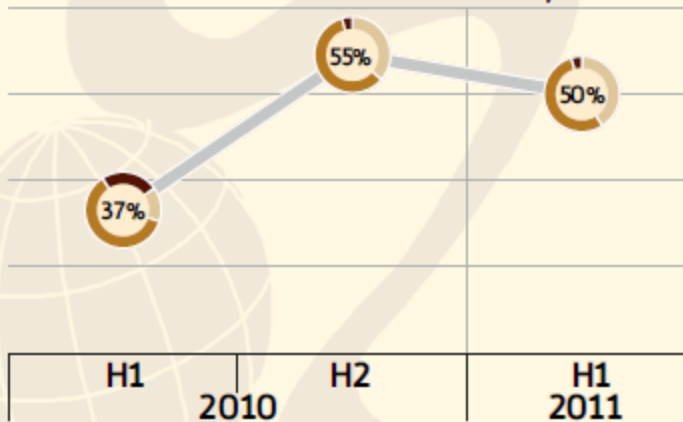


TBF Investor Sentiment Index: component I



Six months from now your investments in **Ukraine** will:
 ■ Increase ■ Decrease ■ Stay the same

TBF Investor Sentiment Index: component II



Six months from now your investments in **other countries** will:
 ■ Increase ■ Decrease ■ Stay the same

Source: The Bleyzer Foundation – Investor Sentiment Survey

Conditions are becoming less appealing

TBF Investor Sentiment Index: Business and Investment Outlook

H1 2011

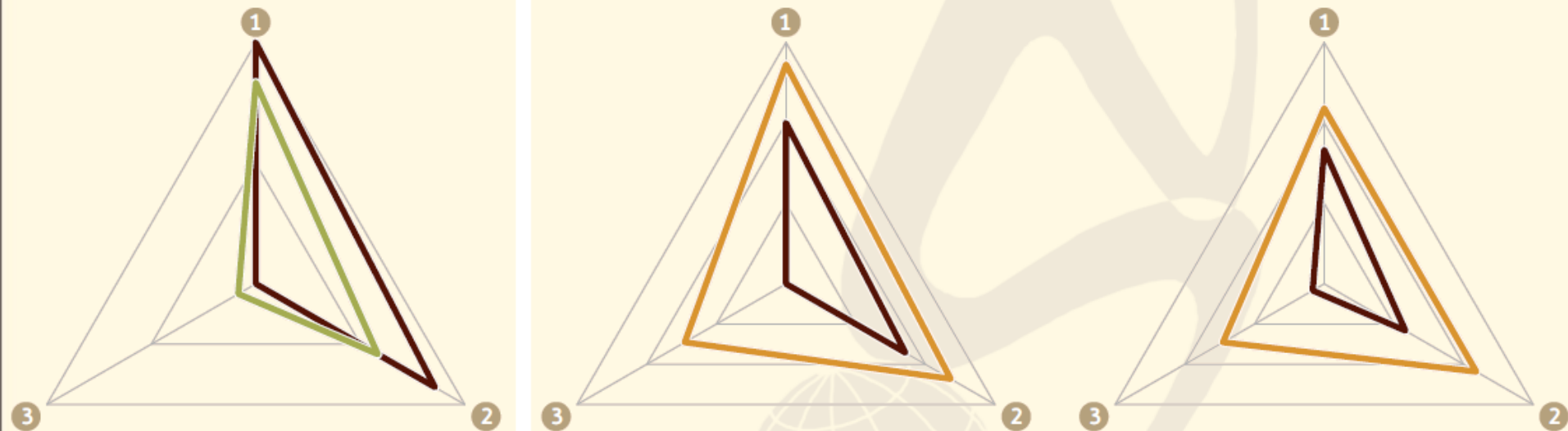
— current conditions vs.
— expectations

Current conditions

— H1 2011 vs. — H2 2010

Expectations

— H1 2011 vs. — H2 2010



1. Company outlook
2. General business activity
3. Investment outlook Ukraine

Source: The Bleyzer Foundation – Investor Sentiment Survey

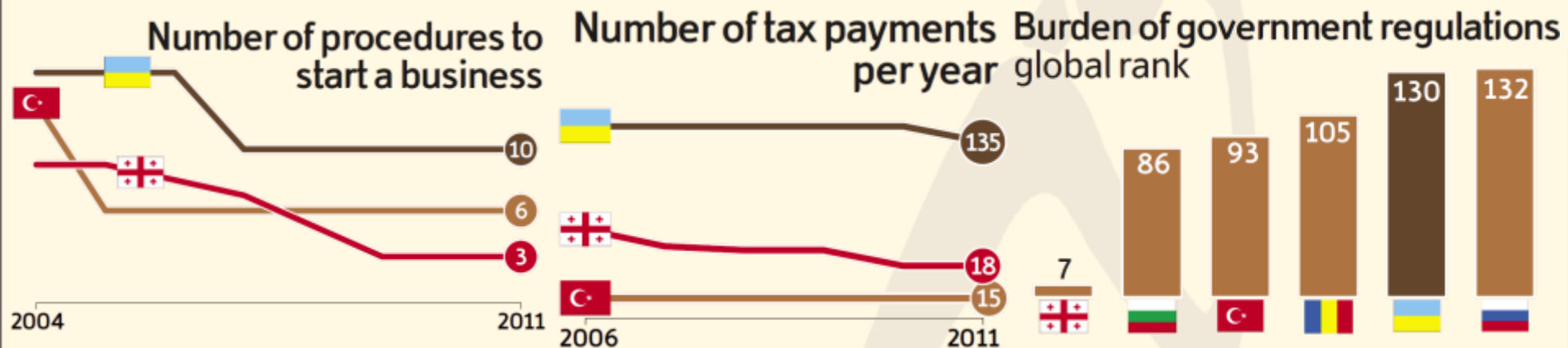
Corruption remains a big problem in Ukraine



Source: The Bleyzer Foundation – Investor Sentiment Survey

WHAT HAS TO BE FIXED

- Businesses are choked by regulatory and tax burdens



- Corruption saps business spirit



Source: World Bank, IMF, WEF, EBRD, Transparency International

WHAT HAS TO BE FIXED

- Government lacks accountability and wastes economic resources

Government efficiency percentile rank



Accountability percentile rank

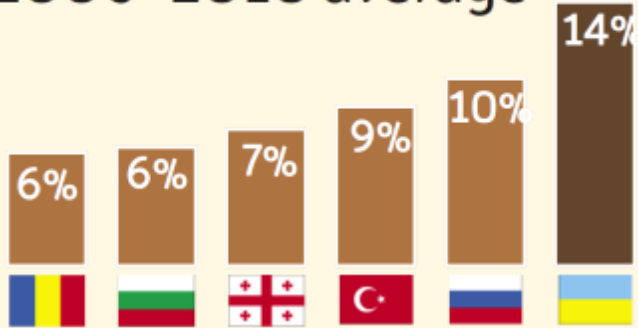


Rule of law percentile rank

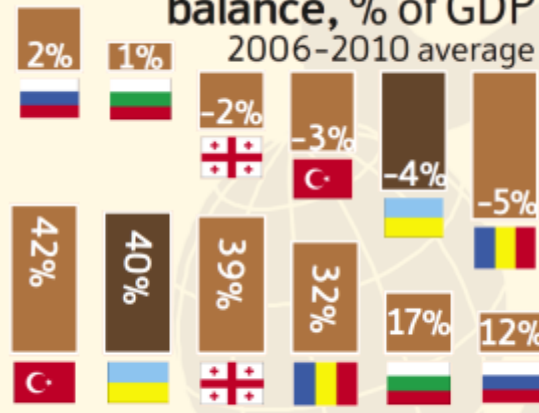


- Macroeconomic vulnerabilities add to business risks

Inflation 2006-2010 average



General government balance, % of GDP 2006-2010 average



Credit Default Swaps percentage points

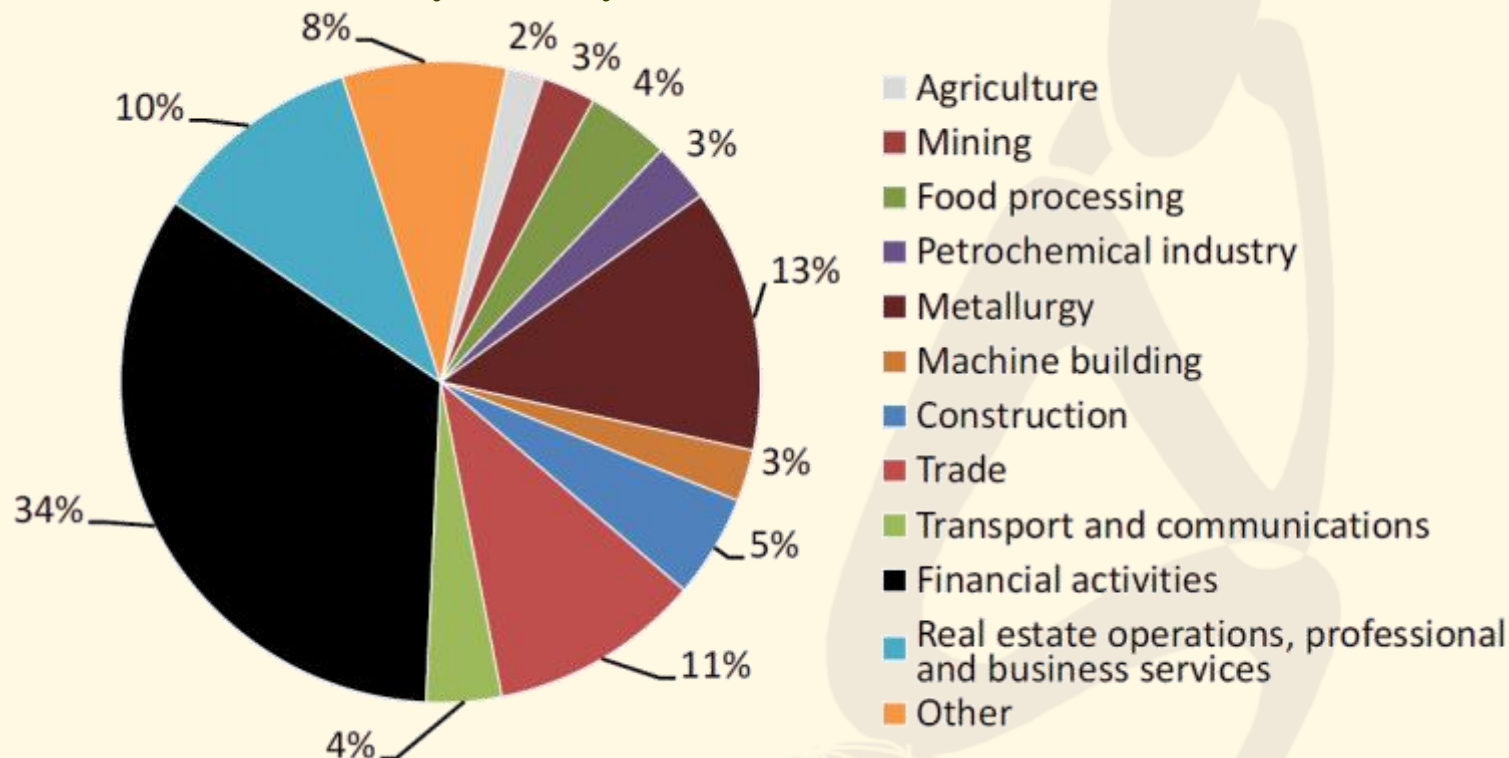


Government gross debt % of GDP, 2010

Source: World Bank, IMF, Bloomberg

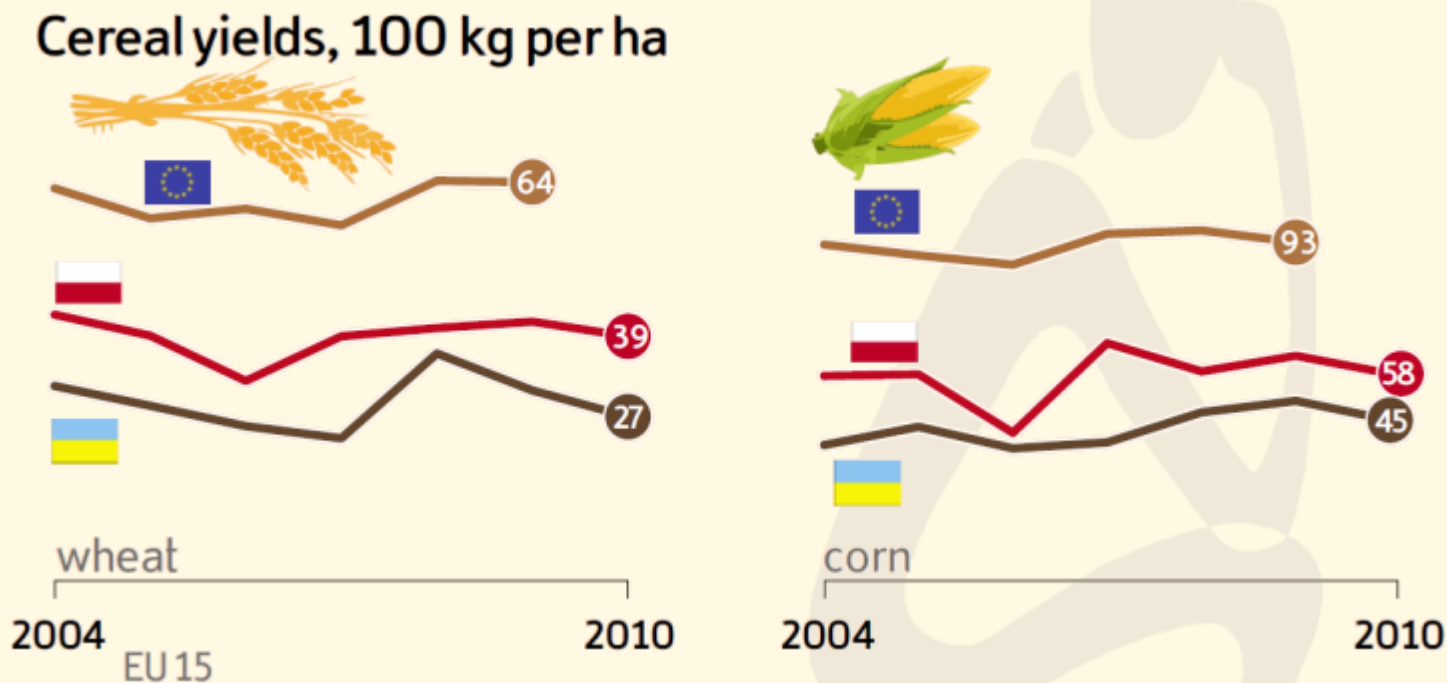
OPPORTUNITIES TO INVEST

FDI stock by industry, % of total



- **With less than 2% of all FDI in agriculture, FDI inflows can hardly be said to reflect competitive advantages of Ukraine.**
- **Over a third of all FDI is in finance – good for the stability of the sector; however, excessive focus on the banking industry led to overreliance on debt in construction and trade.**
- **Most of FDI in manufacturing are in low value added metallurgy.**

Source: State Statistical Committee of Ukraine

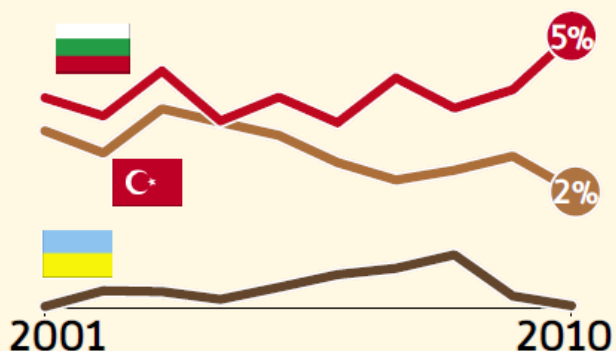


- Increasing global demand for food supports investment opportunities in agriculture.
- However, Ukraine still fails to capture its natural advantage – crop yields are well below the European levels.
- Above all, lack of adequate land regulations prevent the consolidation of small farms into large agricultural holdings which are much more efficient, productive and can invest into new technologies and better seeds.

Source: Eurostat, State Statistics Committee of Ukraine

OPPORTUNITIES TO INVEST: **TURISM**

Balance in trade in travel services, % of GDP



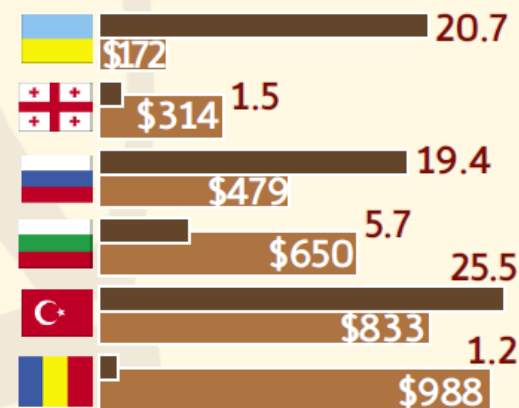
Travel & Tourism Competitiveness Rank



International arrivals

Revenues per person, \$

Quantity, million people

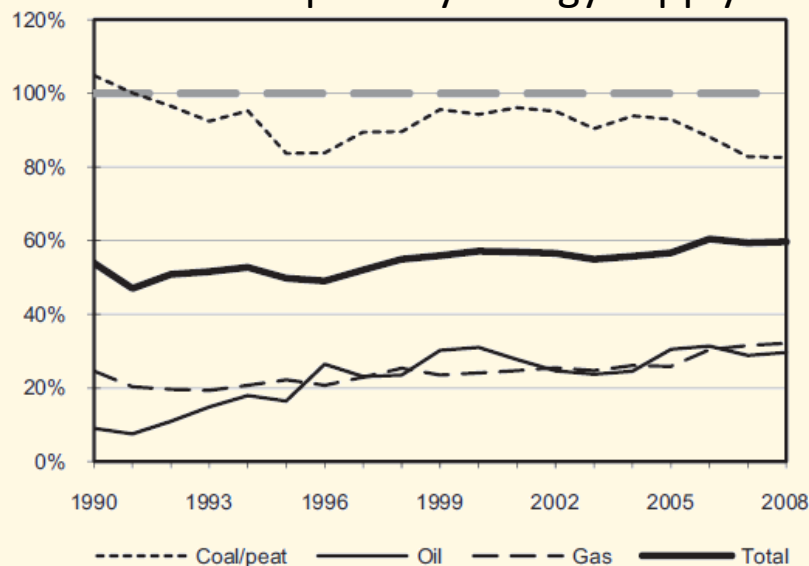


- Access to the Black Sea gives Ukraine many opportunities for tourism development.
- Overall, the geography and history of Ukraine allow for diverse cultural and geo tourism, including ski and sea resorts.
- However, Ukraine needs significant investments in upgrading the infrastructure to support a healthy and growing tourism sector.

Source: Eurostat, IMF, NBU, World Travel & Tourism Council, WEF

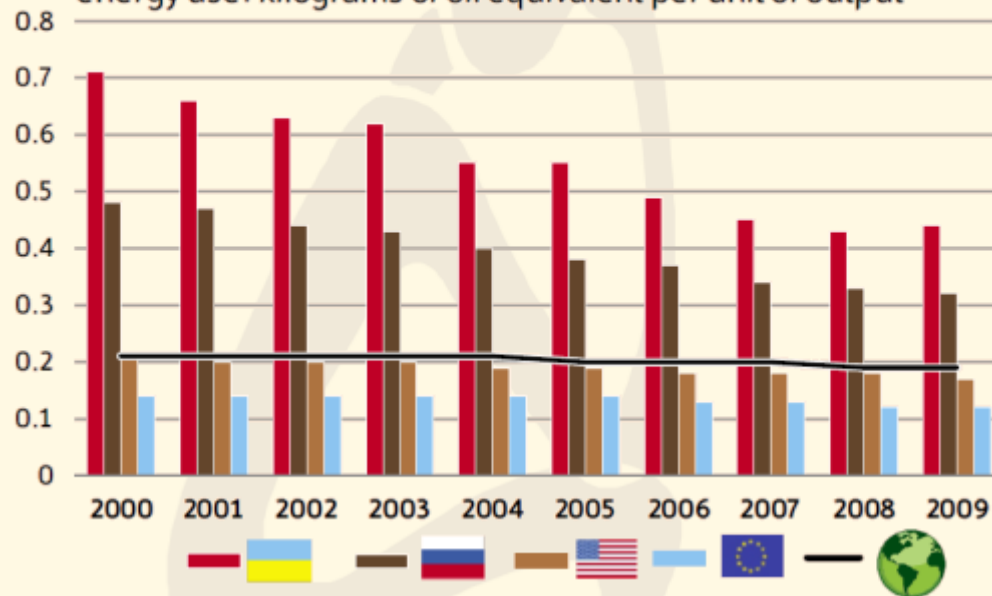
Energy self-sufficiency

% of total primary energy supply



Energy efficiency,

energy use: kilograms of oil equivalent per unit of output



- **Ukraine imports about 40% of its total energy needs.**
- **At the same time, the country remains one of the least energy efficient both in Europe and worldwide. Unfortunately, investments in energy efficiency are still lacking.**
- **A recent change of attitudes toward traditional sources of energy (and in particular, nuclear energy) opens many opportunities for the development of alternative energy sources in Ukraine.**

Source: International Energy Agency, Enerdata