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**CABINET OF MINISTERS OF UKRAINE**

**RESOLUTION**  
**# 316-p dated 25 March 2009**  
**Kyiv**

**On Approval of the Concept for Development  
of the Domestic Market of Government Securities  
of Ukraine for 2009-2013**

1. To approve the attached Concept for Development of the Domestic Market of Government Securities of Ukraine for 2009-2013 (hereinafter – the Concept).
2. To approve the attached top-priority measures to ensure development of the domestic market of government securities of Ukraine for 2009.  
The Ministry of Finance with participation of the Ministry of Economy, Ministry of Justice, interested state power bodies and the National Bank shall develop annually and approve the plans for fulfillment of measures aimed at implementation of the Concept.
3. The Ministry of Finance shall annually inform the Cabinet of Ministers of Ukraine on the course of implementation of the Concept.

Yu. Tymoshenko  
Prime-Minister of Ukraine  
Ind.34

**APPROVED**

**by the Resolution of the Cabinet of Ministers  
of Ukraine # 316-p dated 25 March 2009**

**CONCEPT  
for Development of the Domestic Market  
of Government Securities of Ukraine for 2009–2013**

This Concept is aimed at satisfaction of urgent needs in reforming of the primary market of government securities in Ukraine which are determined, first of all, by high cost of public borrowing in the domestic market compared to cost of borrowing in foreign markets.

In recent years, advantages of lower interest rates on borrowings in foreign capital markets have been leveled by the currency risks which are embodied in growth of exchange rate of foreign currencies. Moreover, lack of the definite strategy in choice of the currency of borrowings complicates significantly implementation of the monetary policy by the National Bank of Ukraine.

Proceeding from the fact that an objective of public debt management is lowering of cost of borrowing with minimization of risks, and taking into account the current situation, priority of public debt management policy is to reorganize the primary and secondary government securities markets in order to lower cost of borrowing in the domestic capital market and to reduce risks of the government debt in general.

**Analysis of the Problem Roots and Substantiation of Necessity to Resolve the Problem**

As of 31 December 2007, public debt of Ukraine was UAH 71.3 billion, equivalent of USD 14.12 billion, of which: debt in national currency – UAH 12.6 billion (17.65%), debt in foreign currency – UAH 58.7 billion (82.35%).

As of 31 December 2008, public debt of Ukraine was UAH 130.56 billion, equivalent of USD 16.96 billion, of which: debt in national currency – UAH 36.96 billion (28.31%), debt in foreign currency – UAH 93.6 billion (71.69%).

This structure of public debt is the result of its accumulation in foreign currencies after the policy of public debt management was oriented on foreign borrowings. The indicated policy was carried out after 1998 crisis when forced making of short-term domestic borrowings at high interest rates lead to the necessity of public debt restructuring. Moreover, the reasons for the government to make borrowings predominantly in foreign currency was high cost of borrowing in the domestic market.

Weighted Average Yield on Government Securities  
%

Year	Domestic government bonds	External government bonds
2003	9.73	7.65
2004	11.23	6.17
2005	7.23	4.95
2006	9.26	5.07
2007	8.92	6.16
2008	11.51	Not issued

The reason of high cost of domestic government borrowings was in low liquidity of government securities. Insufficient demand for them by the domestic investors and traders, slow trading in the secondary market testify to low interest of the domestic financial institutions in mid-term investment of financial resources in securities with low level of current liquidity. Moreover, capacity of the domestic capital market is insufficient for satisfaction of needs in financing of the state budget, as a result of which the plan of government domestic borrowings was not fulfilled in 2004-2008.

**Domestic Government Borrowings for Financing  
of the State Budget (Without Domestic Government  
Bond Issues Made According to Separate Decisions)**

Year	Plan, UAH billion	Fact, UAH billion	Difference, UAH billion	Non-fulfillment of plan, %
2004	4.5	4.13	-0.37	8.22
2005	6.24	3.97	-2.27	36.38
2006	4.55	1.58	-2.97	65.27
2007	3.83	3.57	-0.26	6.79
2008	7.77	3.74	-4.03	51.87

Under such conditions, the Cabinet of Ministers of Ukraine was forced to make borrowings in foreign currency.

At the same time, external government borrowings are accompanied by significant currency risks. Maintaining a stable exchange rate of the national currency with relatively low interest rates on borrowings in foreign currencies ensures lower total expenses of the government. In case of lowering of the national currency exchange with respect to currency of the borrowing, cost of liability keeps growing during validity of such liabilities. For instance, 32% (approximately UAH 1.3 billion) of all payments on 2000 external government bonds (redemption in September 2007, 10%

coupon) were made due to growing Euro exchange rate during the whole period of circulation of external government bonds.

In the second six months of 2008, currency risks of the Ukrainian public debt have reached an intolerably high level.

If growth of volume of public debt liabilities (in Hryvna equivalent) in 2007 due to appreciation of foreign currencies was 23.13%, in 2003 it was 52.98%, UAH 1.15 billion and 31.4 billion, respectively. Interest payments on debt denominated in foreign currencies have increased in the same proportion.

At that, expenses of the National Bank connected with restricted supply of excess money stock in economy which appears in connection with financing of the budget deficit from foreign borrowings, and expenses connected with replenishment of currency reserves, increase the total cost of borrowings in foreign currencies.

In addition to currency risks, also interest rate risks and risks of public debt refinancing connected with the current liquidity crisis in the world financial markets increase too. Refinancing risks are determinative for making decisions on government borrowings in the conditions of the financial crisis because the results of their impact jeopardize fulfillment by the government of its liabilities and functions, stability and economic independence of the state.

### **Objective and Key Tasks**

Objective of this Concept is creation of fundamentals and conditions to ensure development of the domestic market of government securities in 2009-2013.

Objective of development of the domestic government securities market of Ukraine is to lower cost of public borrowing with minimization of risks, creation of conditions for activation of the secondary market of government securities and development of a liquid and well-structured financial market of Ukraine in general.

Developing the domestic government securities market is also the first step to achieve an effective management of the government debt with due regard to the world experience. In the future, it means drafting and implementing a middle-term government debt management strategy based on a cost-and-risk analysis and is intended to increase the portion of domestic government debt in the overall amount of sovereign debt as well as to satisfy the needs of developing the domestic market of debt obligations.

Besides, on the overall economic level, further fields for developing public debt management are:

increasing the effectiveness of managing government funds by performing transactions in government securities on a regular basis;

building a government securities yield curve as a securities market benchmark;

encouraging the development of the financial market to have more operations in the secondary market of government securities;

helping to increase the investor base, in particular, developing the institutional investors.

The main tasks of the Concept are:

ensuring the possibility of raising the necessary funds for the state to fulfill its functions and making payments for the account of public debt;

financing the needs of the state with a minimum possible level of expenses in middle-term, provided the risks are minimized;

streamlining the structure of public debt to increase the proportion of government borrowing in the domestic market by types of interest rates and borrowing terms.

### **Ways and means to solve the problem**

To ensure the development of the domestic government securities market, the following measures are required:

1) improving the offer of government securities through:

carrying out regular placements of government securities by maturities in volumes that would ensure the fulfillment of the government borrowing plan established by the law on state budget for the relevant year;

implementing the mechanism of market pricing when placing government securities to take account of interests of the entire investor community;

issuing domestic government bonds with the only objective to invest pension fund assets formed within the accumulative pension coverage system whose yield has regard for the inflationary level.

2) identifying public debt risks and managing those through:

developing a methodological and normative risk management base;

implementing risk management internal controls;  
organizing transactions in public debt within the limits of borrowed funds including swaps and early repurchase of government debentures to save budget funds and minimize the interest rate risk.

3) increasing the liquidity of government securities through:

involving securities traders in listing government securities on the secondary market and supporting the exchange quotations of such securities;

drafting normative acts that would help using government debentures as a liquidity management tool;

placing free funds in the unified treasury account with financial institutions on a competitive basis upon condition of a temporary purchase of government securities with future replenishing these funds by the end of the year;

4) improving the image of the state as the issuer of government securities by increasing transparency and predictability of government borrowing through:

approving the annual schedule of primary placement of government securities and publicizing issue prospectuses of government securities in advance;

listing and circulating government securities at stock exchanges;

implementing modern competitive tender procedures that would allow placing government securities in one stage;

implementing generally accepted international procedures and formulas for accruing interest on government obligations to encourage demand for those;

disseminating standardized data required for the efficient functioning of the government securities market such as daily quotations of securities in the domestic market, government securities yield curve, etc.

### **Expected results**

Implementing the concept would encourage the development of a fully-fledged and liquid domestic government securities market that would help:

- decrease the costs of government borrowing,
- reduce risks,
- improve the image of the state as the issuer of government securities that, in the long run, together with the policy to extend maturities of debentures, would broaden possibilities of their use as an investment instrument, in particular, for non-state pension insurance.

The development of the domestic government securities market could have the following positive consequences for the entire financial sector and the economy of Ukraine:

business entities' using government securities to insure their risks with the view to minimizing their costs;

carrying out regular placements of government securities with different maturities, which would help increase their liquidity and develop the domestic stock market. This would allow balancing demand and supply that is, avoiding a surplus supply that, together with placing unified treasury account funds upon condition of a temporary purchase of government securities, would significantly lessen the debt burden on the state budget;

sustaining lower foreign exchange risks in the financial sector and directly for borrowers. The banking sector needs its internal instruments to manage liquidity and finance portfolios of long-term domestic government securities with the help of transactions to temporarily purchase the said securities with the funds of the unified treasury account. This would lessen the negative impact of foreign exchange risks on the banking sector and make it easier for other borrowers to issue securities in the domestic market;

creating additional opportunities for using government securities by the National Bank with the view to conducting government monetary policy.

**APPROVED**  
**by Decree of the Cabinet of Ministers of Ukraine**  
**No. 316-p dated 25 March 2009**

**Top Priority Measures**  
**to Ensure the Development of the**  
**Domestic Government Securities Market in 2009**

Measure	Term	Executive in charge
1. Approving the annual schedule of primary placement of government securities for 2010	December	MinFin
2. Publicizing issue prospectuses of government securities	2 weeks before issuance	-"
3. Regular placements of a broad range of domestic government bonds by maturities in amounts that would ensure the fulfillment of the government borrowing plan stipulated by the law on state budget for the relevant year.	During the year	-"
4. Performing public debt transactions within the limits of the borrowed funds, including exchange, early redemption and temporary purchase of government securities	-"	-"
5. Developing the methodological and normative and legislative base for managing government debt risks	December	-"
6. Developing the relevant methodological and normative and legislative base to implement the primary dealer (securities trader) pool	-"	-"
7. The development and incorporation to the MinFin forecast of indicators of the consolidated budget by the Ministry of Economy broken down by major types of income, expenditures and financing for the planning year and the following three years of the middle-term public debt management program, which should include the following target indicators: public debt to GDP ratio; average weighted public debt maturity; relation of the amount of loans in the national currency to that in the foreign currency; relation of the amount of borrowing at a fixed interest rate to that at a floating interest rate; currency structure of the public debt.	Pursuant to the schedule of preparing the draft law on state budget	MinFin Ministry of Economy