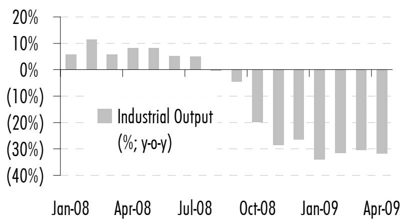
UKRAINIAN ECONOMY

June 1, 2009

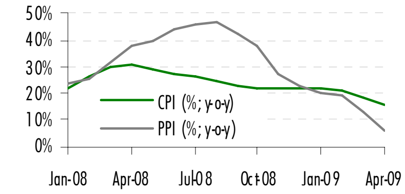
Banking Developments Bode Well for Economy

- May signaled several positive developments in the Ukrainian banking system that may bear important implications for the economy as a whole. The peak of foreign debt repayments for banks may be already behind as the sector successfully repaid or refinanced 45% ($7.8bn) of its estimated full-year external debts in 4M09, posting a rollover rate of 72%. This implies that the average monthly debt burden in the sector for the rest of the year will be some 40% lower compared to 4M09. On the contrary, the corporate sector has yet to deal with about 80% of an est. $11bn of external debts due this year. However, we are not particularly concerned about the latter since debt rollover process in the corporate sector is set to be less problematic thanks to widespread related-party lending, which apparently stood behind the sector's more than 100% rollover rate in 4M09.
- Retail bank deposits posted net monthly growth in April for the first time since last September, signaling public confidence in the banking sector started to improve. These inflows, however, failed to spur lending but rather raised demand for short-term Treasuries, facilitating budget deficit financing for the government. Essentially, some (still fairly small) portion of savings held by wealthier households has been channeled through the banking system and the budget to poorer population groups spending the lion's share of their income on mostly domestically made basic goods. This development signals the reinstatement of one of savings reallocation mechanisms that, should it become widespread, will support domestic producers of basic consumer goods, especially in agriculture and food-processing.
- In other banking sector-related developments, the hryvnia appreciated by 6.2% m-o-m to UAH 7.63:USD in May, reflecting, in our view, the market's reaction to tightened capital controls and F/X market regulations. With NBU reserves (at $28bn as of end-May) considered sufficient to cover this year's remaining external financing gap of $10bn, the hryvnia is likely to fluctuate around UAH 8:USD in the coming months.
- Other than that, the economic situation in April was not significantly different from that in March: industrial output fell by 32% y-o-y; the CPI remained on a downward trend, slowing to 15.6% y-o-y; and merchandise trade flows stabilized, keeping the monthly C/A balance slightly in the red.
- The fiscal sector was a notable exception as the state budget started to feel the pinch of economic downturn. The consolidated budget deficit widened to UAH 3.5bn in 4M09 from virtually zero in 1Q09 and was almost fully monetized. Being undoubtedly a major source of risk for the economy, the fiscal situation, however, is set to remain under control as long as Ukraine's program with the IMF is intact.

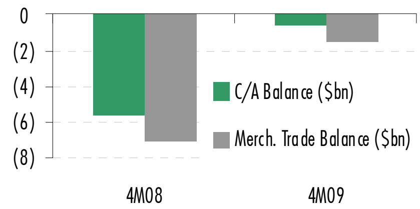
Industrial Growth



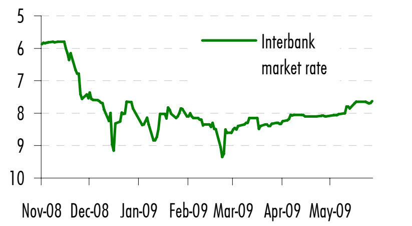
Inflation



C/A Balance



UAH:USD Exchange Rate



Key Macroeconomic Indicators

Year	2003	2004	2005	2006	2007	2008	2009E	2010F
Real GDP growth (y-o-y; %)	9.4%	12.1%	2.7%	7.3%	7.9%	2.1%	(12.5%)	4.0%
Nominal GDP ($bn)	50.1	64.9	86.1	107.8	142.7	180.1	119.0	126.2
Real industrial growth (y-o-y; %)	15.8%	12.5%	3.1%	6.2%	10.2%	(3.1%)	(17.5%)	8.0%
Consumer price index (e-o-p; %)	8.2%	12.3%	10.3%	11.6%	16.6%	22.3%	14.2%	11.2%
Consolidated fiscal balance* (% of GDP)	(0.2%)	(2.9%)	(1.8%)	(0.7%)	(1.1%)	(1.5%)	(3.2%)	(3.0%)
Total public debt (% of GDP)	29.0%	24.7%	17.7%	14.8%	12.3%	19.9%	35.8%	36.6%
C/A balance (% of GDP)	5.8%	10.6%	2.9%	(1.4%)	(4.1%)	(7.2%)	(1.2%)	(0.2%)
Net FDI ($bn)	1.4	1.7	7.5	5.7	9.2	9.9	5.0	8.0
NBU gross international reserves ($bn)	6.9	9.5	19.4	22.3	32.5	31.5	25.4	31.2
UAH:USD (market rate; e-o-p)	5.33	5.31	5.05	5.05	5.05	7.85	8.50	8.50
UAH:USD (market rate; avg.)	5.33	5.32	5.12	5.05	5.05	5.31	8.22	8.50

Note: *Excluding social security funds and bank rehabilitation costs. Sources: Government statistics, National Bank of Ukraine, Dragon Capital estimates & forecasts

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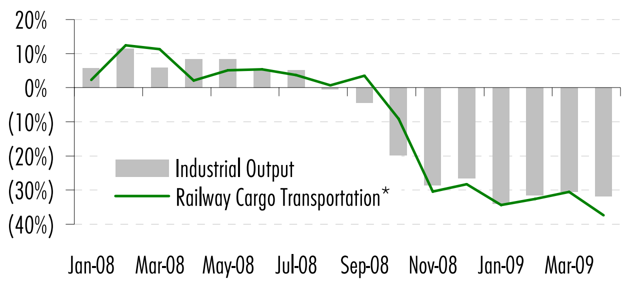
Table of Contents

Real Economy

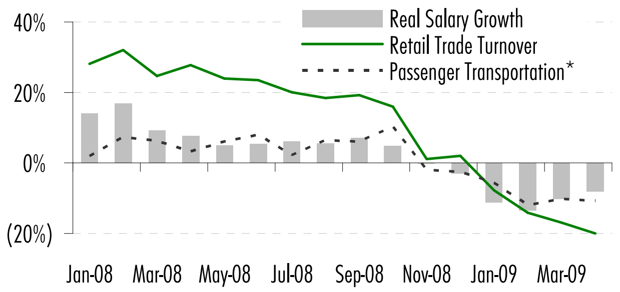
ECONOMIC ACTIVITY

April signaled no major changes in the industrial sector…

Ukraine's industrial sector performed somewhat weaker in April, with the decline in output deepening to 31.8% y-o-y from 30.4% y-o-y in March. Although a bit discouraging, last month's slight deterioration in industrial performance likely reflected short-term fluctuations rather than the beginning of another negative trend. In particular, it was caused by a deeper drop in metallurgy (-46% y-o-y in April vs. -43% in March), which was due in part due to a disruption in iron ore supplies to several steel mills, as well as by weaker performance in the coke and oil refining sector (-16% y-o-y vs. -10% in March due to a higher comparison base). At the same time, other major sectors showed further signs of bottoming out. Output of machinery and chemicals was down 53% and 29% y-o-y, respectively, virtually unchanged compared to March, while the decline in food-processing narrowed sharply to 3% y-o-y from -9% in March thanks to an almost two-fold increase in sunflower oil production on the back of robust foreign demand.



Industry and Railway Cargo Transportation (% y-o-y)



Real Salaries and Consumer Oriented Sectors (% y-o-y)

Note: *Monthly growth rates were estimated based on cumulative growth rates. Source: SSC

…but consumer confidence kept improving and decline in real wages narrowed, providing support for basic consumer sectors

Consumer-oriented sectors were mixed in April. While the decline in passenger transportation stabilized at February-March levels of 11% y-o-y, the drop in retail trade turnover deepened to 20% y-o-y (vs. 17% in March). The continuing improvement in consumer confidence (the GfK-ICPS consumer confidence index was up for the third consecutive month in April) as well as slower decline in real salaries (-8% y-o-y in April vs. -10% in March thanks to an increase in salaries for public sector employees) lead us to believe demand for basic consumer goods will remain robust in the coming months. However, the overall drop in household consumption is set to be more dramatic, reaching 15% y-o-y for the full year according to our forecast, as demand for durables (cars and home appliances) and non-basic services (travel and recreation), which account for about 40% of total household consumption expenditures, has experienced a sharp contraction.

The deep slump in investment is set to reverse after exports recover

The decline in household consumption has been accompanied by a deep slump in investment activity. According to the State Statistics Committee, investments in fixed capital plummeted by 40% y-o-y in 1Q09, driven by industry (-36% y-o-y) and real estate (-54%). We expect investment activity to revive only after there are signs of recovery in exports (expected in 2H10) as companies will still be motivated to upgrade their fixed assets, already more than 50% worn-out. Until this happens, domestic demand (both investment and consumption) will remain depressed and its negative effect on economic growth will be only partly offset by a positive contribution of net exports, pushing real GDP down 12.5% y-o-y for the full year, according to our forecast.

PRICES

The inflation environment continued to improve in the consumer sector…

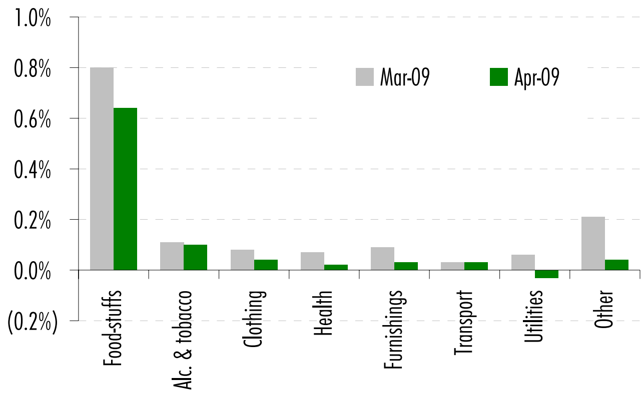
Consumer inflation slowed to 0.9% m-o-m in April (from 1.4% in March) and remained on a decelerating path in annualized terms, slipping to 15.6% y-o-y from 18.1% in March. In m-o-m terms, prices decelerated across all major CPI components. Growth in food prices, the weightiest index item with a 53% share, slowed to 1.2% m-o-m in April from 1.5% m-o-m in March as a stronger increase in meat and sugar prices was fully offset by weakening prices of other foods. Utility tariffs declined by 0.2% m-o-m in April, reflecting the end of the heating season. Replicating CPI dynamics, core inflation slowed to 1.0% m-o-m and to an estimated 21.3% y-o-y in April.

…and, even more profoundly, in the producer sector…

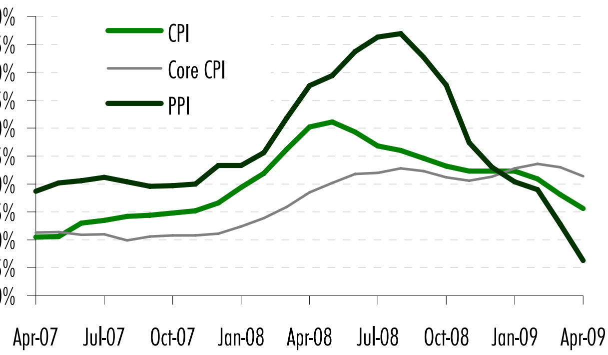
Producer prices inched up 0.4% m-o-m in April, plummeting in y-o-y terms to 6.8% from 12.8% in March on a higher comparison base. The marginal increase in producer prices was driven by growth of 6.3% m-o-m in gasoline prices, 1.4% in food prices (primarily meat and sugar) and 0.8% in utility tariffs for industrial consumers. This offset a 7.3% drop in iron ore prices, with prices of most other industrial products, including metals, changing little.

…in line with our expectations

The YTD performance of consumer and producer price indices (+6.9% and +3.5%, respectively) fell generally in line with our expectations, one exception being consumer non-tradables (education, healthcare and other individual services), which posted a rather surprising rise of 1.3-15% YTD despite contracting domestic demand. Expecting the latter to offset the positive effect of a stronger than earlier expected UAH:USD rate on consumer inflation (see our research note *F/X Forecast Revised on New Capital Controls* from May 13), we maintain our end-2009 CPI forecast at 14.2% y-o-y but downgrade our PPI projection to 11.5% from 16.0% (still higher than April's record due to a lower comparison base at the end of 2008).



Contributions to m-o-m CPI Growth



Price Indexes (% y-o-y)

Source: SSC

External Sector

CURRENT ACCOUNT

The current account was virtually balanced in April…

Ukraine's current account (C/A) was virtually balanced in April, posting a tiny deficit of $70m. Factoring in the NBU's recent revision of the 1Q09 C/A gap to $0.5bn from $0.9bn on a downgraded estimate of merchandise imports, this brought the 4M09 deficit to $0.6bn, a substantial improvement over a gap of $5.6bn recorded in 4M08. April's goods trade deficit stood at $0.5bn - still the main factor pushing the C/A balance into the red, but it was offset by a $0.1bn surplus in service trade and $0.4bn of current transfers that were boosted by a $0.2bn tranche from Japan under the Kyoto protocol.

…as merchandise trade flows stabilized

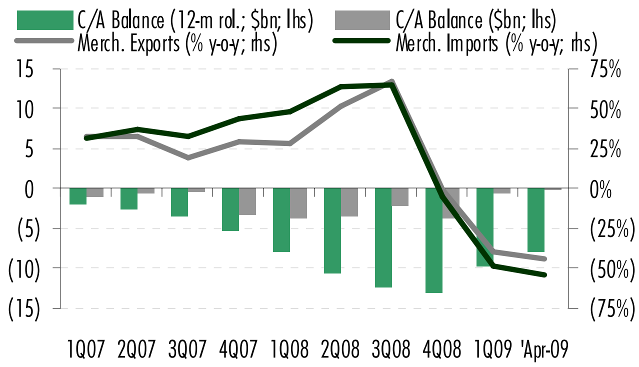
Encouragingly, NBU data show that merchandise trade flows, adjusted for seasonal factors and technical gas imports in February-March (please see our previous monthly for details), have stabilized since January, with average monthly exports and imports totaling $3.1bn (-45% y-o-y) and $3.5bn (-50%), respectively. Virtually all major export items were on a steep downward trend in April, with only exports of agricultural products surging 56% y-o-y on buoyant sales of grain and oil seeds. Yet this only partly compensated for plummeting exports of steel (-62% y-o-y), machinery (-43%) and chemicals (-48%). On the imports side, the largest declines were recorded in machinery imports (-72% y-o-y), metallurgy (-63%) and fuels and minerals (-53%). The latter drop was partly attributable to lower gas imports, which shrank by 17% y-o-y to $620m.

The expected increase in gas imports…

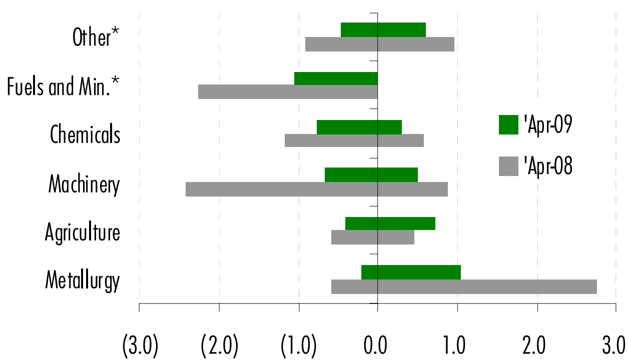
Ukraine will have to increase gas imports in 3Q09 to fill its storages facilities before the heating season and ensure uninterrupted gas transit to Europe. Recent high-level negotiations give us grounds to expect Ukraine will not pay in cash for at least some of its gas imports from Russia (estimated at $4.7-5.0bn), either offsetting them against advance payment for future transit of Russian gas to Europe or receiving other financial assistance from Russia and/or the European Union and/or IFIs.

…will have a marginal effect on the monthly C/A balance, which is likely to run a small deficit until end-2009

Regardless of the scheme that will be used, higher gas imports will be reflected in merchandise trade balance statistics, with all corresponding accounting transactions recorded on the financial account side. The resulting gas-related widening in the merchandise trade deficit is likely to be offset by a seasonal rise in the service trade surplus on the back of higher tourist inflows during the holiday season. We thus expect Ukraine's C/A balance to fluctuate close to April's record in the coming months, approaching our full-year forecast of $1.4bn (1.2% of GDP).



Merchandise Trade Flows & C/A Balance



Composition of Merchandise Trade Flows ($bn)

Note: *Exports of fuels and minerals were not reported separately and thus included in other exports. Source: NBU

CAPITAL FLOWS

Resident-based capital flight subsided and FDI picked up in April…

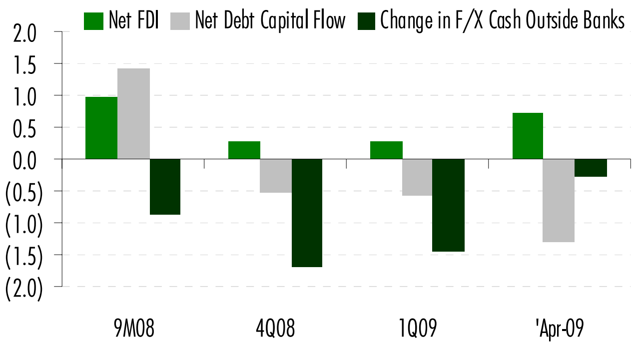
April marked a significant change in the composition of capital flows. On a positive note, resident-based flight to foreign cash – the major contributor to the financial account deficit in 4Q08-1Q09 - slowed substantially in April, with F/X cash outside the banking system increasing by only $0.3bn vs. average monthly outflows of $1.4bn in 1Q09. Also, FDI in the banking sector picked up in April on increased recapitalization flows to foreign-owned banks, bringing total net FDI to $0.7bn, or more than double average monthly FDI in 1Q09.

…but private sector deleveraging intensified, driven by the banking sector…

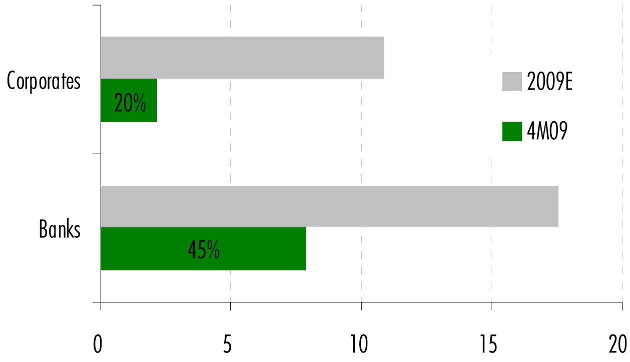
At the same time, deleveraging in the private sector accelerated, with net external debt outflows surging to $1.3bn from $0.6bn on average per month in 1Q09 on account of commercial banks that repaid a net of $1.2bn in April. The private sector's debt rollover rate thus stood at 80% in 4M09, including 72% for the banking system and 103% for the corporate sector. As a result, Ukraine's financial account deficit reached $1.0bn in April, narrowing from the average monthly deficit of $1.6bn in 1Q09 and bringing the 4M09 gap to $5.7bn.

…which has already coped with 45% of external debt repayments expected this year

The reported rollover rates and net debt repayments imply that some $10bn of private sector external liabilities fell due in 4M09, which is roughly one-third of our full-year estimate of $28bn (excluding trade credits). In particular, banks had to deal with $7.8bn of debt in 4M09, or 45% of the estimated full-year due of $17bn, and corporates with $2.2bn (20% of the full-year estimate of $11bn). This breakdown suggests a lower foreign debt burden for banks and higher debt repayments for corporates for the rest of the year, which is actually a positive sign given that debt rollover process in the corporate sector is set to be less problematic thanks to widespread related-party lending.



Monthly Average Capital Flows ($bn)



Private Sector Debt Due ($bn)

Source: NBU, Dragon Capital estimates

Fiscal Policy

BUDGET EXECUTION

Budget revenues deteriorated in April…

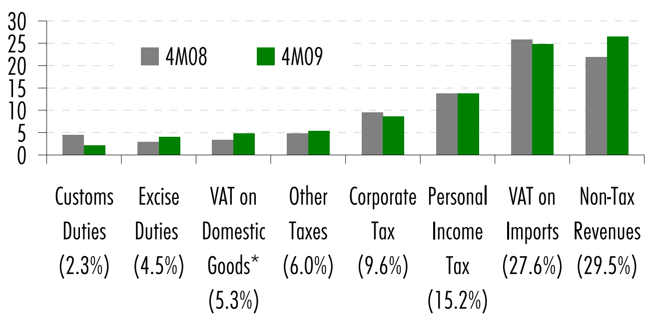
State budget data for April showed that government coffers started to feel the pinch of the steep economic downturn despite all the revenue-boosting measures taken by the government. Consolidated revenues declined by 3% y-o-y in April, though remained up 4% y-o-y in 4M09, to UAH 90bn, undermined by extremely weak collection of VAT on imports (-29% y-o-y) which was no longer supported by the customs clearance of technical gas. Other major taxes were also on a downward trend, except for VAT on domestic goods and excise duties, pushing overall tax revenues down 14% y-o-y in April. That was partly offset by a 44% y-o-y surge in non-tax revenues resulting, among other factors, from an advance transfer of last year's NBU profits to the budget.

…pushing the consolidated budget into the red…

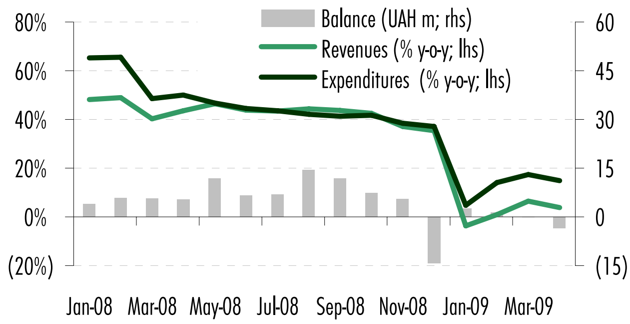
Despite the obvious deterioration in revenue collection, the government continued to inflate expenditures last month, increasing them by 9% y-o-y (+15% y-o-y in 4M09 to UAH 94bn) in a bid to keep social payouts in line with its target. As a result, the consolidated budget ran a cash deficit of UAH 3.5bn in 4M09 after staying virtually balanced in 1Q09.

…with most of the deficit monetized

The government covered the budget gap by domestic borrowings, which was the only source of financing for it given scarce privatization revenues, closed foreign markets and no budget-related IFI lending. Apparently, the lion's share of UAH 5.3bn of domestic debt issued in 4M09 (net) to cover the UAH 3.5bn budget gap and UAH 1.4bn of net foreign debt repayments was eventually bought by the central bank as the whole Treasury volume was auctioned off at below-market rates.



Tax Revenues in Consolidated Budget (UAH bn)



Consolidated Budget Dynamics (% y-o-y)

Notes: *Net of VAT refunds. Consolidated budget includes state and local budgets, but excludes extra-budgetary funds. Figures in brackets next to tax name show its share of 4M09 consolidated budget revenues. Sources: State Treasury, Dragon Capital estimates

Commercial banks started buying Treasuries in May, channeling renewed inflows of deposits to the budget

Yet we observed an increase in demand for short-term debt among private banks in May as their liquidity improved markedly (though very unevenly) thanks to renewed inflows of short-term household deposits. Despite the relatively small volume we estimate they acquired - UAH 0.6bn, or 10% of YTD Treasury sales – it still marks the reinstatement of one of savings reallocation channels: a portion of savings held by wealthier households has been transferred through the banking system and the state budget to poorer population groups (pensioners and public sector employees). Importantly, social groups dependent on the state budget usually spend most of their income on basic goods mostly produced domestically, meaning that part of national savings will provide support to domestic producers, particularly in agriculture and food-processing. Should such savings reallocation gain momentum, the government may manage to cover this year's budget gap without additional bilateral financing, on which IMF insisted to ensure that deficit monetization was sustainable and non-inflationary.

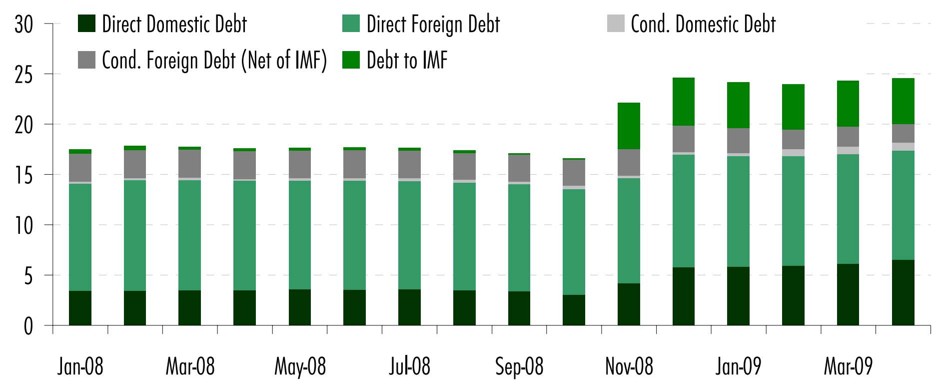
Taking into account the still positive budget revenue dynamics in 4M09, which owed to government efforts to fill state coffers, we upgraded our full-year consolidated revenue forecast by UAH 15bn to UAH 264bn (-11% y-o-y). The new revenue estimate suggests the government could meet its full-year consolidated budget deficit target of UAH 30bn (3.2% of GDP, which is consistent with the IMF's requirement of a general government deficit of 4.0% of GDP) if it succeeded in cutting full-year expenditures by 6% y-o-y to UAH 294bn. Should the government fail to cut fiscal outlays and rather increase them by 10% y-o-y as currently planned, the full-year consolidated deficit may reach 8.5% of GDP (UAH 80bn). We, however, view this scenario as highly unlikely as long as the IMF program remains intact.

Despite government efforts to fill state coffers, budget spending has to be cut to meet the IMF's deficit target of 4% of GDP

PUBLIC DEBT

Treasuries issued in 4M09 to cover the budget gap produced a minor effect on public debt dynamics, with total debt stock inching down 0.2% YTD in April to $24.5bn on repayments of conditional external liabilities. However, public debt is set to increase sharply in May following the disbursement of a $2.8bn IMF tranche. With $1.5bn out of the latter amount channeled to the budget to finance foreign debt repayments and $1.2bn expected from the World Bank for deficit-financing purposes, Ukraine will still need to borrow a net of $3.6bn (UAH 34bn based on the expected official exchange rate) this year to cover the targeted general government deficit of 4.0% of GDP (UAH 38bn, or $4.8bn). Estimating bank recapitalization costs at UAH 20bn ($2.5bn) and expecting IMF financing to reach $9.7bn for the full year, we thus expect Ukraine's end-2009 public debt stock at $40.5bn (36% of GDP).

Public debt has been virtually unchanged so far but is set to rise sharply by end-2009 due to IMF loans



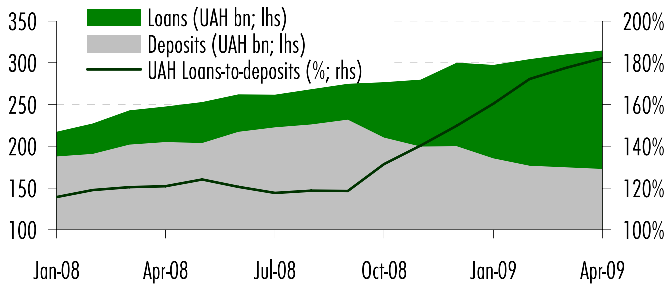
Public Debt Dynamics ($bn; e-o-p)

Source: Finance Ministry

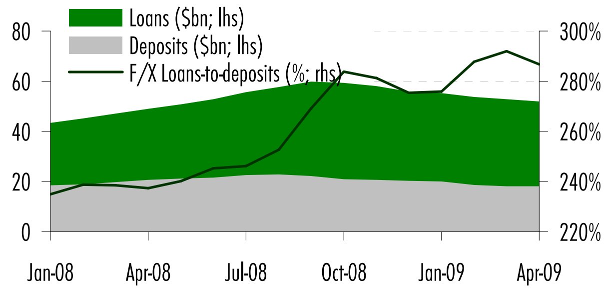
Monetary Policy & Banking

Retail deposits started to recover in April…

April statistics offered further evidence of stabilization in the domestic banking system: net retail deposits rose last month for the first time since September 2008, with hryvnia deposits up 1.1% m-o-m and F/X deposits up 0.1% m-o-m, signaling that public confidence in the banking sector started to improve. Total bank deposits declined moderately (-0.6% m-o-m to UAH 312bn) due to a seasonal drop in corporate hryvnia deposits driven by tax payments to the budget. Nevertheless, the money supply inched up by 0.2% m-o-m to UAH 465bn in April after three consecutive months of decline, led by a 2.5% m-o-m rise in the hryvnia cash volume.



UAH Loans and Deposits (UAH bn)



F/X Loans and Deposits ($ bn)

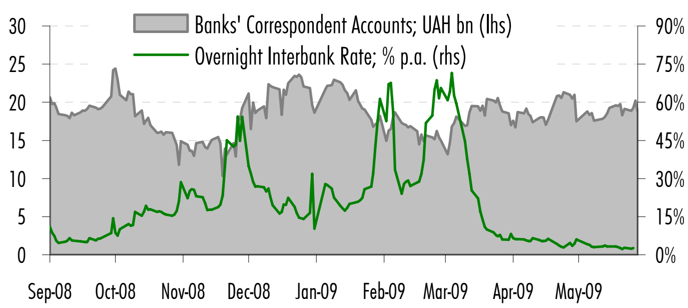
Sources: NBU, Dragon Capital estimates

…supporting banking system liquidity…

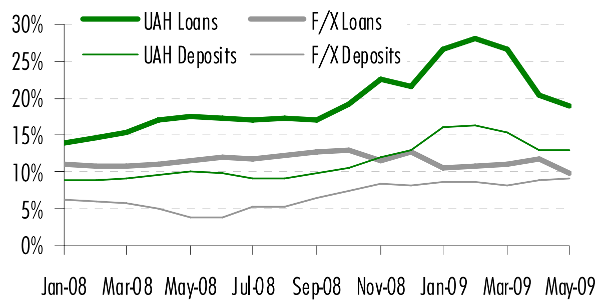
The recovery in retail deposits was supportive of banking system liquidity while tighter capital controls prevented leakage of funds to the F/X market. The overnight interbank rate has stabilized at a low 3.0-6.6% since end-1Q09 after peaking to 60-70% at the beginning of March, and bank correspondent accounts rose 4.2% m-o-m in April to UAH 17bn despite the NBU's intensified sterilization measures. Encouraged by lower hryvnia funding costs, banks reduced loan rates for end-borrowers, with the weighted average interest on hryvnia loans slumping to 20.4% p.a. in April (-6.3pp m-o-m), the lowest level since October 2008, and continuing to decrease in May.

…but bank lending remained stalled

At the same time, renewed inflows of deposits did not stimulate banks to lend but rather spurred their demand for short-term government debt. Although hryvnia lending continued to increase in April for the third consecutive month on account of corporate loans, its pace of growth slowed to 1.5% m-o-m on a net basis (from 1.9% in March) as the disbursement of new hryvnia loans declined by an estimated 12% m-o-m. F/X lending (both retail and corporate) was on a downward trend as corporates remained reluctant to take out new F/X loans in view of significant exchange rate risks, while banks continued to clean up their retail loan portfolios and were discouraged to lend in foreign currencies due to NBU-set high provisioning requirements.



Money Market Indicators



Bank Loan & Deposit Rates (monthly avg.; % p.a.)*

Note: *May-09 monthly average rates are estimated based on daily data. Source: NBU

Foreign Exchange

The hryvnia strengthened by 6% m-o-m in May…

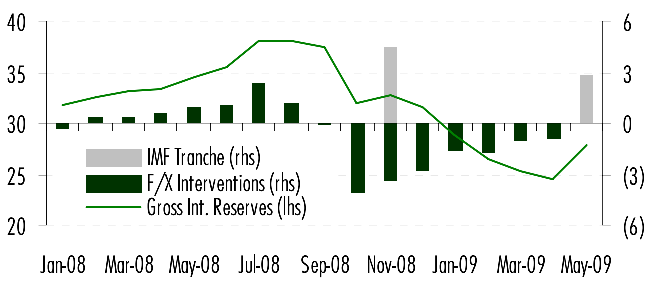
Having stabilized in April, the hryvnia appreciated by 6.2% m-o-m in May to UAH 7.63:USD and would have strengthened even more if the NBU had not started to buy foreign currency from the market. Pushed by the IMF, the central bank finally changed its approach to the official exchange rate, issuing a regulation that limited to 2% the deviation of the UAH:USD official rate from the corresponding interbank market rate. As a result, the official and interbank exchange rates converged by end-May.

…reflecting the market's reaction to tighter capital controls and resumption of IMF lending…

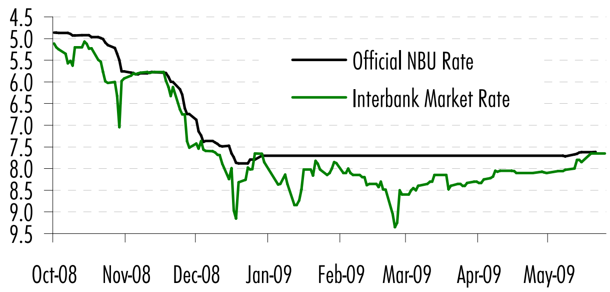
The latest hryvnia appreciation came as a direct result of tightened F/X market regulations that forced commercial banks to sell part of their foreign currency holdings (for more details please see our May 13 note *F/X Forecasts Revised on New Capital Controls*). This dynamics was then reinforced by households, which started to sell their foreign currency cash in response to the hryvnia strengthening and anticipated renewal of IMF lending. All this pushed foreign cash supply up 40% m-o-m in May, allowing the F/X cash market to post a surplus of $150m last month for the first time since July 2008.

…that pushed NBU reserves up 13% m-o-m to $28bn in May

Net sales of foreign currency by households had a positive effect on NBU reserves. The central bank's gross reserves rose by an estimated 13% m-o-m in May to $27.8bn thanks to an IMF loan tranche of $2.8bn and foreign currency purchases and revaluation effect for a combined total of $0.6bn. The NBU also benefited from lower demand for foreign currency from Naftogaz Ukrainy as the latter settled a substantial part of its $0.6bn payment for April gas imports by accepting a prepayment of 2009 transit fees.



NBU Interventions, IMF Financing and F/X Reserves ($bn)



UAH:USD Dynamics

Sources: NBU, IMF, Bloomberg, Dragon Capital estimates

With current NBU reserves deemed sufficient to cover the external financing gap…

NBU reserves have so far performed generally in line with our expectations. We continue to think that private sector deleveraging will remain the main source of pressure on reserves until year-end, while short-term capital flows, in particular resident-based flight to foreign/domestic cash triggered by changes in devaluation expectations (like those observed in May), will either reinforce or mitigate the pressure coming from deleveraging. We think that NBU reserves, being replenished by IMF loans, will be sufficient to cover this year's remaining external financing gap of $10bn. The latter may turn out twice lower if Ukraine secures additional financing from Russia and/or the EU to finance part of its gas imports or settles the issue in a different way. While waiting for the outcome of ongoing gas talks, we maintain our end-2009 estimate of NBU reserves at $25.4bn (-20% y-o-y) but acknowledge upside risk to this forecast.

…the hryvnia is likely to fluctuate around UAH 8.0:USD in the coming months

We also stick to our recently upgraded 2009 exchange rate forecasts of UAH 8.5:USD (e-o-p) and UAH 8.22:USD (avg.), expecting the hryvnia to fluctuate close to UAH 8.0:USD until 4Q09 and weaken towards year-end due to renewed short-term capital flight on the back of increased political volatility ahead of presidential elections. The NBU will likely make use of its 2% deviation limit for the official exchange rate, implying the latter will end 2008 at UAH 8.3:USD and average UAH 7.9:USD for the year.

CURRENT TRENDS

	1Q08	2Q08	3Q08	4Q08	1Q08	2008 Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2009 Jan	Feb	Mar	Apr
Real Sector																			
Real GDP (cumulative; % y-o-y)[1]	6.5%	6.5%	6.7%	2.1%	-	6.0%	6.2%	6.4%	6.3%	6.5%	7.1%	6.9%	5.8%	3.6%	2.1%	-	-	-	-
Household Consumption (cum.;% y-o-y)	22.0%	17.4%	17.1%	11.6%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Fix. Cap. Formation (cum.; % y-o-y)	13.9%	9.9%	5.8%	1.9%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nominal GDP (cum.; UAH bn) [1]	187	419	697	951	-	190	267	348	429	530	628	715	800	875	937	-	-	-	-
Nominal GDP (cum.; $bn) [1]	37	85	132	180	-	38	53	69	86	107	127	144	161	173	178	-	-	-	-
Real Industrial Output (cum.; % y-o-y)	7.8%	7.5%	2.2%	(3.1%)	(31.9%)	7.8%	8.0%	8.0%	7.5%	7.3%	6.3%	5.1%	2.2%	(0.7%)	(3.1%)	(34.1%)	(32.8%)	(31.9%)	(31.9%)
Real Agricultural Output (cum.;% y-o-y)	0.4%	(0.3%)	15.1%	17.5%	1.7%	0.4%	0.1%	0.2%	(0.3%)	10.9%	21.0%	15.1%	17.6%	18.0%	17.5%	0.5%	1.1%	1.7%	2.1%
Prices																			
Consumer Price Index (e-o-p; % y-o-y)	26.2%	29.3%	24.6%	22.3%	18.1%	26.2%	30.2%	31.1%	29.3%	26.8%	26.0%	24.6%	23.2%	22.3%	22.3%	22.3%	20.9%	18.1%	15.6%
Consumer Price Index (avg.; % y-o-y)[2]	22.5%	30.2%	25.8%	22.6%	20.4%	15.9%	17.5%	19.2%	20.6%	21.7%	22.7%	23.5%	24.2%	24.8%	25.3%	25.5%	25.4%	24.8%	23.5%
Producer Price Index (e-o-p; % y-o-y)	31.8%	43.7%	42.7%	23.0%	12.8%	31.8%	37.6%	39.4%	43.7%	46.3%	46.9%	42.7%	37.7%	27.4%	23.0%	20.4%	19.0%	12.8%	6.3%
Producer Price Index (avg.; % y-o-y)[2]	26.9%	40.2%	45.3%	35.3%	17.4%	22.0%	23.6%	25.2%	27.1%	29.2%	31.4%	33.4%	34.9%	35.5%	35.5%	35.2%	34.7%	33.1%	30.5%
Balance of Payments																			
C/A Balance (cum.; $bn)	(3.7)	(7.1)	(9.2)	(12.9)	(0.5)	(3.7)	(5.6)	-	-	-	-	(9.2)	(10.5)	(11.7)	(12.9)	0.6	(0.4)	(0.5)	(0.6)
Merch. Trade Balance (cum.; $bn)	(4.7)	(9.1)	(13.2)	(16.9)	(1.1)	(4.7)	(7.0)	-	-	-	-	(13.2)	(13.9)	(15.3)	(16.9)	0.3	(0.8)	(1.1)	(1.6)
Merch. Exports (cum.; $bn)	14.0	32.9	54.1	67.7	8.5	14.0	19.6	-	-	-	-	54.1	59.9	63.6	67.7	2.5	5.2	8.5	11.6
Merch. Exports (cum.; % y-o-y)	29%	41%	50%	36%	(39%)	29%	36%	-	-	-	-	50%	48%	41%	36%	(33%)	(38%)	(39%)	(41%)
Merch. Imports (cum.; $bn)	18.6	42.0	67.3	84.7	(9.9)	(18.6)	(26.6)	-	-	-	-	67.3	73.8	78.9	84.7	(2.2)	(6.0)	(9.9)	(13.2)
Merch. Imports (cum.; % y-o-y)	48%	57%	60%	40%	(47%)	48%	40%	-	-	-	-	60%	54%	47%	40%	(51%)	(46%)	(47%)	(50%)
Services Trade Balance (cum.; $bn)	(0.2)	(0.7)	(2.3)	(2.4)	0.4	0.2	0.4	-	-	-	-	-	-	-	-	0.2	0.3	0.4	0.5
Income Balance (cum.; $bn)	0.0	(0.3)	(0.7)	(1.5)	(0.4)	0.0	0.0	-	-	-	-	-	-	-	-	(0.1)	(0.3)	(0.4)	(0.6)
Net Current Transfers (cum.; $bn)	0.7	1.6	2.4	3.1	0.5	0.7	1.0	-	-	-	-	-	-	-	-	0.2	0.4	0.5	1.0
Financial Account Balance (cum.; $bn) [3]	3.8	8.0	14.4	11.5	(4.3)	3.6	5.7	-	-	-	-	-	-	-	-	(2.4)	(3.5)	(4.3)	(5.7)
Net FDI Inflow (cum.; $bn)	2.4	5.5	8.8	9.7	0.7	2.4	3.3	-	-	-	-	-	-	-	-	0.2	0.4	0.7	1.5
Change in Gross F/X Reserves ($bn)	0.8	2.2	2.1	(6.0)	(6.2)	0.8	0.1	1.1	1.0	2.5	0.1	(0.5)	(5.6)	0.8	(1.2)	(2.7)	(2.4)	(1.1)	(0.9)
Gross F/X Reserves ($bn)	33.2	37.9	37.5	31.5	25.4	33.2	33.3	34.4	35.4	37.9	38.1	37.5	31.9	32.7	31.5	28.8	26.5	25.4	24.5
Gross F/X Reserves (weeks of imports)	4.0	4.5	4.5	3.8	6.5	4.0	4.0	4.1	4.2	4.5	4.6	4.5	3.8	3.9	3.8	7.3	6.7	6.5	6.2
Consolidated Budget[4]																			
Revenues (cum.; UAH bn)	61.7	136.5	217.9	297.8	65.7	61.7	86.8	115.2	136.5	161.1	192.3	217.9	242.5	267.5	297.8	17.6	41.0	65.7	90.2
Revenues (cum.; % y-o-y)	40.2%	43.8%	43.7%	35.4%	6.5%	40.2%	43.5%	46.5%	43.8%	43.4%	44.4%	43.7%	42.5%	37.1%	35.4%	(3.7%)	0.9%	6.5%	3.8%
Expenditures (cum.; UAH bn)	56.0	130.0	206.2	312.0	65.8	56.0	81.5	103.3	130.0	154.2	177.9	206.2	235.2	262.0	312.0	15.0	39.7	65.8	93.7
Expenditures (cum.; % y-o-y)	48.6%	44.5%	41.3%	37.1%	17.4%	48.6%	50.0%	46.7%	44.5%	43.6%	42.1%	41.3%	41.7%	38.4%	37.1%	4.8%	14.1%	17.4%	14.9%
Balance (cum.; UAH bn)	5.7	6.6	11.8	(14.2)	(0.1)	5.7	5.4	11.8	6.6	6.8	14.4	11.8	7.3	5.6	(14.2)	2.6	1.3	(0.1)	(3.5)
Debt Indicators																			
Total Public Debt ($bn)	17.8	17.7	17.1	24.6	24.3	17.8	17.6	17.7	17.7	17.6	17.4	17.1	16.6	22.1	24.6	24.1	24.0	24.3	24.6
External Public Debt ($bn)	14.1	13.9	13.4	18.5	17.4	14.1	13.9	13.9	13.9	13.8	13.6	13.4	13.2	17.6	18.5	18.1	17.4	17.4	17.3
Debt to IMF ($bn)	0.3	0.3	0.1	4.7	4.5	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	4.6	4.7	4.6	4.5	4.5	4.5
Gross Ext. Debt ($bn)	90.2	97.5	104.8	103.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Ext. Debt (% of 12-m trailing GDP)	59.8%	57.0%	54.9%	83.7%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Monetary Indicators & Exchange Rate																			
Monetary Base (% y-o-y)	41.5%	38.9%	33.8%	31.6%	28.1%	41.5%	45.6%	38.8%	38.9%	41.6%	40.2%	33.8%	33.2%	32.5%	31.6%	32.1%	29.1%	28.1%	24.3%
Money Supply (M3; % y-o-y)	52.7%	48.7%	36.7%	30.2%	11.5%	52.7%	52.2%	48.8%	48.7%	47.4%	44.4%	36.7%	35.6%	31.9%	30.2%	25.5%	18.3%	11.5%	8.2%
Credit Rates (avg.; UAH; % p.a.)	14.6%	17.2%	17.1%	21.1%	27.0%	15.2%	16.9%	17.5%	17.3%	17.1%	17.3%	16.8%	19.1%	22.6%	21.6%	26.5%	27.9%	26.7%	20.4%
Deposit Rates (avg.; UAH; % p.a.)	8.9%	9.8%	9.3%	11.8%	15.9%	9.0%	9.5%	10.1%	9.7%	9.1%	9.0%	9.8%	10.4%	12.0%	13.0%	15.9%	16.4%	15.3%	12.8%
UAH:USD (market rate; e-o-p)	5.00	4.68	5.1	7.85	8.30	5.00	4.82	4.77	4.68	4.69	4.69	5.10	5.95	7.56	7.85	7.87	8.60	8.30	8.10
UAH:USD (market rate; avg.)	5.04	4.82	4.73	6.57	8.33	5.01	4.95	4.76	4.75	4.64	4.65	4.90	5.63	6.19	7.91	8.21	8.43	8.35	8.12

Note: [1] Monthly data are provisional and differ from quarterly figures; Release of monthly data is terminated since January 2009; [2] 12-month rolling average for monthly data and simple average for quarterly; [3] Analytical presentation; [4] Excluding social security funds and banking system rehabilitation costs. Sources: SSC, Finance Ministry, NBU, Dragon Capital estimates

MACROECONOMIC INDICATORS

Year	2003	2004	2005	2006	2007	2008E	2009E	2010F
Real Sector								
Real GDP (% y-o-y)	9.4%	12.1%	2.7%	7.3%	7.9%	2.1%	(12.5%)	4.0%
Household Consumption (% y-o-y)	11.5%	13.1%	20.6%	15.9%	17.1%	11.6%	(15.0%)	2.0%
Gross Fixed Capital Formation (% y-o-y)	22.5%	20.5%	3.9%	21.2%	20.0%	1.9%	(30.0%)	5.0%
Nominal GDP (UAH bn)	267	345	441	544	721	951	942	1,073
Nominal GDP ($bn)	50	65	86	108	143	180	119	126
GDP per Capita (at F/X rate; $)	1,053	1,372	1,836	2,310	3,077	3,900	2,588	2,755
Real Industrial Output (% y-o-y)	15.8%	12.5%	3.1%	6.2%	10.2%	(3.1%)	(17.5%)	8.0%
Real Agricultural Output (% y-o-y)	(11.0%)	19.9%	0.0%	0.4%	(5.6%)	17.5%	(7.7%)	(2.1%)
Prices								
Consumer Price Index (e-o-p; % y-o-y)	8.2%	12.3%	10.3%	11.6%	16.6%	22.3%	14.2%	11.2%
Consumer Price Index (avg.; % y-o-y)	5.2%	9.0%	13.5%	9.1%	12.8%	25.2%	16.3%	9.7%
Producer Price Index (e-o-p; % y-o-y)	11.2%	24.1%	9.6%	15.6%	23.3%	23.0%	16.0%	8.7%
Producer Price Index (avg.; % y-o-y)	7.6%	20.5%	16.7%	9.6%	19.5%	35.5%	5.0%	9.1%
GDP Deflator (% y-o-y)	8.0%	15.1%	24.5%	14.8%	22.7%	29.2%	13.3%	9.5%
External Sector								
Current Account Balance ($bn)	2.9	6.9	2.5	(1.6)	(5.9)	(12.9)	(1.4)	(0.2)
Current Account Balance (% of GDP)	5.8%	10.6%	2.9%	(1.4%)	(4.1%)	(7.2%)	(1.2%)	(0.2%)
Merchandise Trade Balance ($bn)	(0.3)	3.7	(1.1)	(5.2)	(10.6)	(16.9)	(5.1)	(4.4)
Services Trade Balance ($bn)	1.6	1.2	1.8	2.1	2.7	2.4	3.0	3.6
Financial Accounts Balance ($bn)*	0.3	(4.2)	8.0	3.7	15.8	8.8	(14.4)	3.7
FDI Inflow ($bn)	1.4	1.7	7.5	5.7	9.2	9.9	5.0	8.0
FDI Inflow per Capita ($)	30	36	161	123	199	214	109	175
Gross F/X Reserves ($bn)	6.9	9.5	19.4	22.3	32.5	31.5	25.4	31.2
Gross F/X Reserves (months of current year imports)	3.0	3.1	5.3	5.0	5.4	3.8	6.5	7.9
Consolidated Budget**								
Revenues (% of GDP)	28.2%	26.5%	30.4%	31.6%	30.5%	31.3%	28.0%	27.0%
Expenditures (% of GDP)	28.4%	29.4%	32.2%	32.2%	31.6%	32.8%	31.2%	30.0%
Balance (% of GDP)	(0.2%)	(2.9%)	(1.8%)	(0.7%)	(1.1%)	(1.5%)	(3.2%)	(3.0%)
Balance (UAH bn)	(0.5)	(9.9)	(8.0)	(3.7)	(7.7)	(14.2)	(30.0)	(32.0)
Debt Indicators								
Total Public Debt ($bn)	14.5	16.1	15.5	15.9	17.6	24.6	40.5	46.2
Total Public Debt (% of GDP)	29.0%	24.7%	17.7%	14.8%	12.3%	19.9%	35.8%	36.6%
External Public Debt ($bn)	10.2	12.1	11.7	12.7	13.8	18.6	30.3	35.3
Debt to IMF ($bn)	1.9	1.6	1.2	0.9	0.4	4.7	14.5	16.5
Gross External Debt ($bn)	23.8	30.6	38.8	54.5	82.7	103.2	101.6	102.2
Gross External Debt (% of GDP)	47.5%	47.1%	44.4%	50.6%	57.9%	83.6%	89.8%	80.9%
Monetary Indicators & Exchange Rate								
Monetary Base (% y-o-y)	29.8%	34.1%	53.9%	17.5%	46.0%	31.6%	1.8%	20.0%
Money Supply (M2, % y-o-y)	47.6%	32.8%	53.9%	34.3%	50.8%	31.0%	(1.8%)	19.1%
Credit Rates (avg.; UAH; % p.a.)	20.2%	17.9%	16.4%	15.1%	13.9%	17.5%	27.0%	25.0%
Deposit Rates (avg.; UAH; % p.a.)	7.0%	7.8%	8.5%	7.9%	8.2%	10.0%	16.0%	14.5%
UAH:USD (market rate; e-o-p)	5.33	5.32	5.05	5.05	5.05	7.85	8.50	8.50
UAH:USD (market rate; avg.)	5.33	5.32	5.12	5.05	5.05	5.31	8.22	8.50

Note: *Analytical presentation; **Excluding social security funds and banking system rehabilitation costs. Sources: SSC, Finance Ministry, NBU, Dragon Capital estimates and forecasts

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