Ukraine's 1Q05 Economic Outlook

The Government's Tight-Rope Act

Alexander Viktorov
av@con-cap.com

Konstantin Fisun, CFA
kf@con-cap.com

+380 44 206 8370

26 May, 2005

The Economic Challenge

Between a rock and a hard place

Having inherited a budget burdened by increased social obligations, rising inflation and decelerating economic growth, the new government has its hands full. The government will need to balance the high expectations of the Orange Revolution, with the reality of growing macro-economic threats.

Everything hinges on the amended 2005 Budget. The budget contains significant social obligations that will be a challenge for the government to fulfill, while simultaneously implementing its broad reform plans.

Patience is a virtue

The government has succeeded in persuading its opponents and allies that the economy has a sufficient margin of safety to tolerate a year of restructuring. However, the methods they will use to achieve this goal remain obscure.

Prime Minister Yulia Tymoshenko is an excellent crisis manager and will be key to the reform process. We do not expect quick results, but we are confident that the effects of reform will begin to materialize by year end.

Contents

Concorde Capital

The Orange Budget

Budget – Key Points

In late December 2004, the Ukrainian Parliament adopted the "Budget Law for 2005," which was a compromise between the presidential camp and opposition parties. Later, Yushchenko and his team claimed the budget was not suitable and proceeded to amend it. The new authorities secured broad support in the legislative branch and on March 25, the Parliament voted in favor of the budget amendments prepared by the government.

The new budget features a substantial increases in expenditures and revenues, which will be 19.4% and 22.6% higher, respectively, compared with the December 2004 budget. The increased spending and revenues will support the government's ambitious social program, which was created to help Yushchenko fulfill his pre-election promises, and create a positive public image. The total amount of social payments is estimated to be USD 6.3bn higher than in 2004, in order to accommodate:

- A 12.5% increase in minimum pension payments to USD 65;
- A 26.7% rise in the minimum wage to USD 65;
- A three to 12 fold increase in other social benefits.

The amended budget is based on a positive outlook for Ukrainian economic performance in 2005: GDP growth of 8.2%, industry growth of 12.0% and annual inflation under 10%.

To provide the budget with the additional funds needed to support increased social payments, the government introduced a number of measures that were extremely unpopular with businesses:

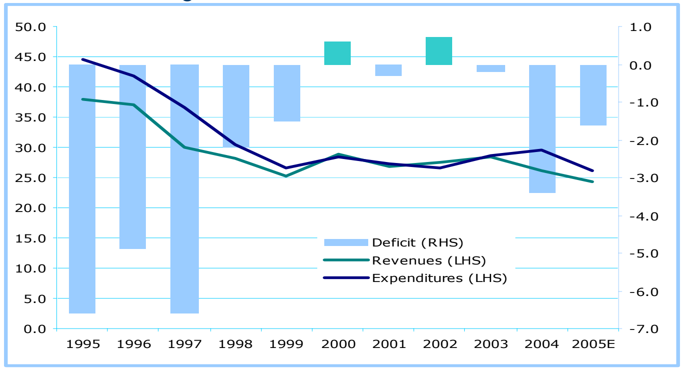
Canceling all Free Economic Zones (tax-free areas) and some benefits for industries, such as automotive and aircraft manufacturers.

- Increased import duties, such as a 15% to 20% duty on imported cars.
- Higher excise duties (alcohol and tobacco).
- A mandatory dividend payment equal to 50% of net income on all state-run companies (up from a previous requirement of 15%).

In the long term, the government will implement broad-sweeping reforms to **bring capital out of the shadows**.

Budget Parameters	**Dec'04**	**Mar'05**
Revenues, USD bn	16.3	20.8
Revenues, % of GDP	*21.1*	*24.1*
Expenditures, USD bn	18.0	22.4
Expenditures, % of GDP	*23.3*	*26.0*
Deficit, USD bn	1.6	1.4
Deficit, % of GDP	*2.1*	*1.6*
Borrowing, USD bn	2.3	1.8
Nominal GDP, USD mn	77.2	86.1
GDP growth %	6.5	8.2
Industry growth %	9.0	12.0
CPI, %	8.7	9.8
PPI, %	7.9	12.9

Ukraine's Budget Parameters



Source: Finance Ministry, State Statistic Committee

Where Will The Funds Come From?

BUDGET

GDP Growth
from +6.5% to +8.2%

Borrowing
USD 1.7 bn
(7.5% of Budget Expenditures)

Canceling benefits
to Free Economic Zones
and some industries

Revenues of ~USD 1.3 bn from
privatization (re-privatization)
(5.8% of Budget Expenditures)

An increased share of
contributions from
state-run companies
(from 15% to 50%)

Increased railway tariffs (~50%)
by the state-run railroad company

Increased excise duties
(alcohol, beer & tobacco)

Higher oil & gas rental payments
and export duties

Eliminating The Shadow Economy

Eliminating corruption and bringing capital out of the shadows was one of the key concepts of Yushchenko's election platform. Since taking office in January 2005, the new President proclaimed there would be large-scale changes to achieve these strategic goals.

Necessary Steps

Tymoshenko At The Helm. The new Prime Minister, Yulia Tymoshenko, is known for her decisive reform tactics and firm handling of local oligarchs.

Customs Reforms. The President and PM have subjected the customs authorities to severe criticism, saying the agency is "the most corrupt state institution." Since February, customs have undergone a number of changes: 1) Customs Chief, Nikolai Kalensky and other top-officials were fired; 2) A government program to stop smuggling was implemented, including a hot-line to report bribery; 3) Simplified customs procedures were implemented; 4) A ban on customs officers from carrying more than UAH100, foreign currencies and mobile phones in the customs control zone was also imposed. As a result of these reforms, customs revenues in March were 42% higher than projected.

Reduced Import Duties. The amended 2005-Budget calls for a 10-100% reduction in import duties, particularly on consumer products. The measure not only had a mitigating effect on inflation, but has replaced a *de-facto* ~6% "bribe tax", which was previously systematically paid by importers to customs employees.

No More Benefits & Free Economic Zones (SEZ). The tax-free regime used in SEZs was criticized by Yushenko as a tool for tax-evasion schemes. More than a half of these zones were established by initiatives by previous President Leonid Kuchma. Arguably, they were misused by business groups close to the former President. SEZs were deprived of all benefits in March, when Parliament amended the 2005 Budget. In April, a group of MPs proposed restoring tax benefits for certain projects within SEZs. They are a powerful group and the struggle against them will be difficult.

Railway Tariffs. Starting in April 1, the state-run monopoly railway carrier raised tariffs by 50% on average. Apparently, this was an attempt by the government to redistribute some portion of its super-profits from the booming steel industry, which are usually sent to off-shore trading companies.

The Unified Social Tax. President Yushchenko announced that he intends to introduce a single 20% social tax rate in place of the current complicated system of taxes and duties that amount to 35.7% of employer payrolls. This simplification will bring a substantial amount of wage payments out of the shadows. However, there have been no concrete changes yet, only talk.

Re-Privatization Fever

2004 Privatization Auctions Questioned

Throughout his election campaign, Yushchenko questioned almost all 2004-privatizations as violating the law and benefiting a few business groups close to former President Kuchma. Privatization revenues reached their historical peak in 2004, totaling USD 1.8 bn. The government sold the steel giant Kryvorozhstal, nine iron ore companies (GOKs) and two major coal mining companies (Pavlogradugol and Krasnodonugol). Two business groups, System Capital Management and Interpipe, were especially successful in winning privatization auctions that year. The price paid for the privatized objects – well below the fair value – is an area of major concern for the new government.

Re-privatization

"The 2004 Privatization results must be revised." A special commission to rule on questionable privatization issues was established in February.

Initially, only Kryvorizhstal (KRST) was considered a potential re-privatization candidate. However, eventually 30 companies emerged on the list. In March, the government's "black list" (never publicly announced) was extended to 3,000 companies. However, by April Yushchenko announced that re-privatization will affect no more than 40 companies.

On May 13, some clarity in this process seemed likely to emerge. Deputy PM Anatoliy Kinakh told the press that the "re-privatization list," including 29 strategic enterprises, was completed and submitted to President Viktor Yushchenko. Upon the President's approval, the list will be published.

However, it is not clear when the list will be finally approved and published. Additionally, the Parliament still has to consider the re-privatization law drafted by the Cabinet of Ministers that is supposed to list valuation criteria.

Lawsuits & Kryvorozhstal

KRST remains the number one target on the government list for re-privatization. The President and government have adopted a hard-line position with regard to returning the company to state ownership. In 2004, 93.02% of the company was sold to SCM and Interpipe for USD800 mn (P/S x0.6, P/E x5.3, Mcap/Output x121). This was significantly less than steel plant privatizations in Central and Eastern Europe (P/S=1.4 and MCap/Output = 346 on average) and was lower than the competition's bids (LNM USD 1.5bn and Severstal USD 1.2bn). Lacking a legislative base is the biggest obstacle for the government's re-privatization plans. This reflects a situation in which different courts have issued contradictory decisions on KRST.

In addition to the KRST case, the government began questioning the sale of a 50%+1 stake in NFER - Interpipe's crown jewel. As a result, the list has grown to include at least 29 companies.

Ways Out

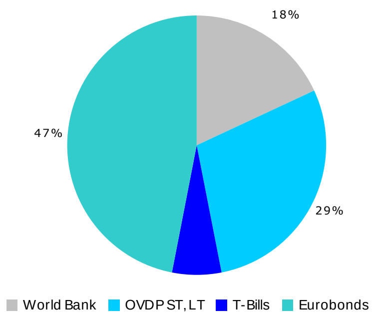
So far, the Government has tackled the problem on a case-by-case basis. On a positive note, the government has sought a legitimate resolution in the courts. However, in order to accelerate the process the government may try to bargain with the new owners. They may request that the new owners make compensation payments to make up for obtaining the companies at low multiples.

Privatization-2005

The amended 2005 Budget calls for privatization proceeds of USD 1.3 bn. Although it is not clear which part will be financed through additional payments and privatization revenues from 2005, as the State Privatization Program for 2005 has not yet been adopted. The appointment of Valentina Semenuk to head the State Property Fund, means the privatization of strategic companies, such as Ukrtelecom, is unlikely in 2005, as she is a known opponent of state property sales.

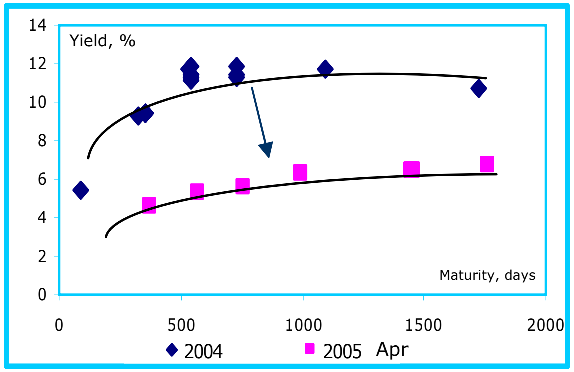
Debt Financing

Structure Of State Borrowings For 2005



Source: Finance Ministry

Government Bond Issues, 2004-2005



Source: Finance Ministry

The government decided to stop increasing debt in 2005 and net borrowings will be close to zero. The amended budget calls for an annual borrowing limit of ~USD 1.8 bn (for both internal and external sources), which will be offset by equal repayments.

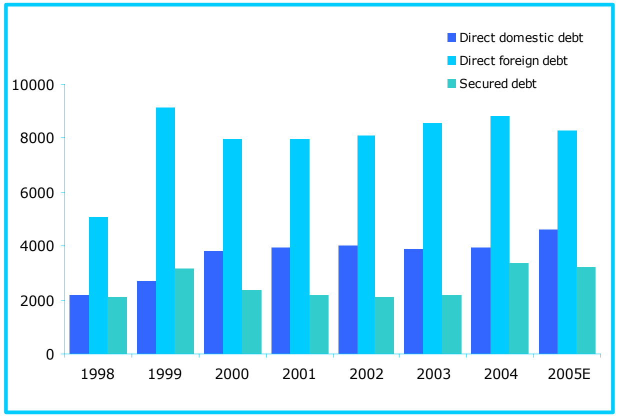
A ~USD 13 bn limit has been set for total debt by the end of 2005: USD 4.7 bn for internal debt; USD 8.3 bn for external debt. The budget also contains a clause calling for a switch to domestic borrowing, while limiting external debt to USD 3.2 bn, which must be repaid by the end of the year (from USD 11.5bn), to meet the target.

The Finance Ministry was active on the domestic bond market. Local currency denominated bonds were issued for ~USD 450mn during the first quarter – more than for all of 2004 (USD 415 mn). Thus, in only three months the government has already used up almost half of its internal debt borrowing limit of USD 1.2 bn for 2005.

The steadily growing demand for Ukrainian bonds from foreign investors resulted in a remarkable drop in yield (from 11.94% in January to 6.74% in March for 5-year bonds). This allowed the government to attract funds at cost close to Eurobond rate and to extend maturity to 4-5 years compared to 1.5-2 on average during the last two years. The last bond issues were on April 26 1Y @ 4.57%; May 5 3Y 6.30%.

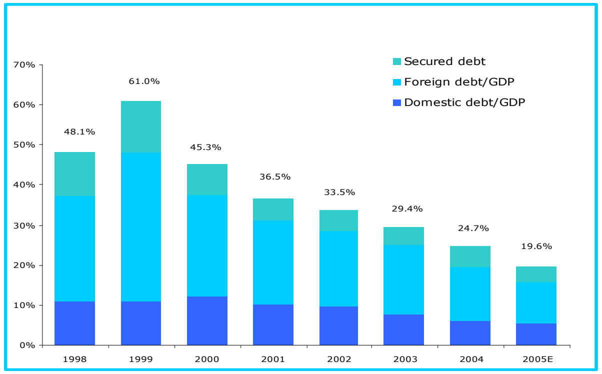
With rates falling, the government will refinance its old, expensive debts to the National bank.

Ukraine's Debt Dynamics, USD mn



Source: Finance Ministry

Ukraine's Debt Breakdown, % To GDP



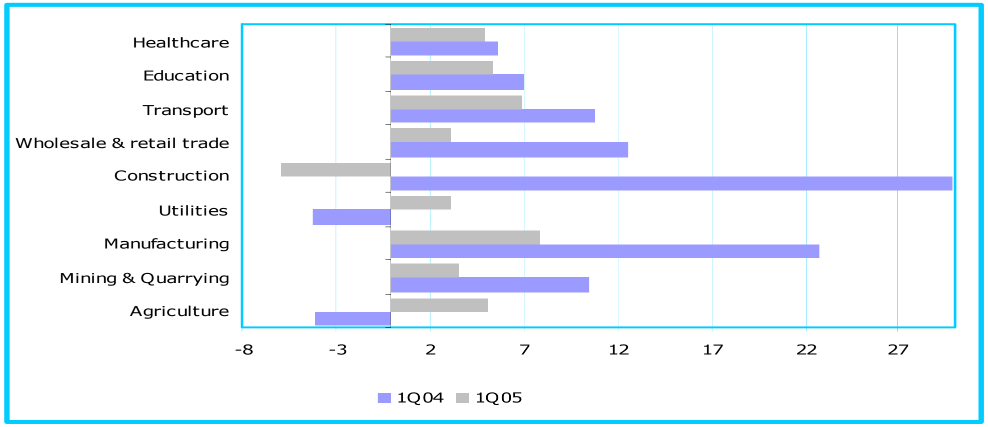
Source: Finance Ministry

Concorde Capital

Economic Performance

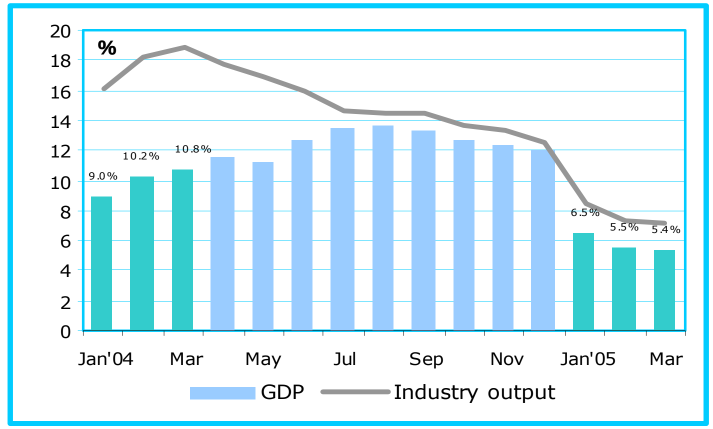
Gross Domestic Product

Real GDP Dynamics By Sector, %



Source: State Statistic Committee

Real GDP & Industry Output Dynamics, % Cumulative



Source: State Statistic Committee

The national economy cannot continue growing at the same rate as the two previous years. The GDP growth rate in 1Q05 is two times below that of 2004 at 5.4% versus 10.8%. GDP deceleration began in 4Q04, preceded by early signals from industrial contraction as early as 2Q04.

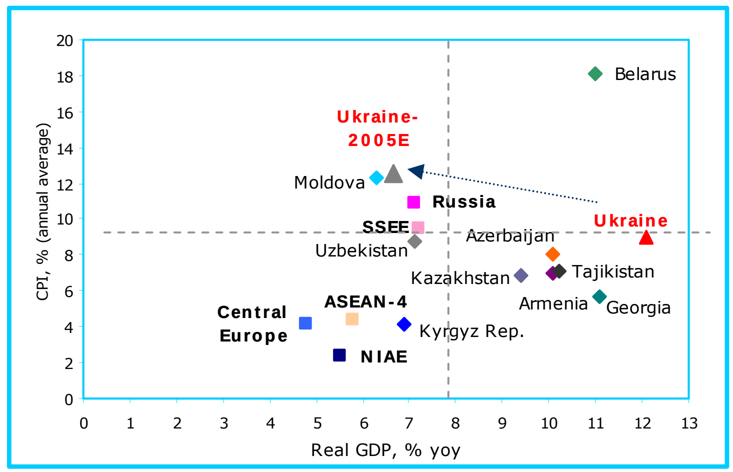
Notwithstanding this year's positive dynamics in agriculture, GDP was dragged lower by a slowdown in industrial output. Industrial growth rates totaled 7.1% in 1Q05, compared with 18.8% in 1Q04.

Construction was an important factor, posting a negative growth rate of -5.9% (compared to the remarkable rate of +30% in 1Q04). However, last year's completion of strategic infrastructural projects in the fuel-energy sector (the Khmelnizk and Rivne nuclear power plants, and Dnister GES), transportation (the Kiev-Odessa highway) and large-scale reconstruction projects in the ferrous industry, explain to some extent the fall in construction activities in 1Q05.

An unexpected four-fold slow down in wholesale and retail trade to 3.1% from 12.6% in 1Q04 also took place. Regardless, investment projects are still underway and more are being planned in the sector, with new "Big name" players entering the market and a remarkable growth in incomes (40.8% versus 17.5% in 1Q04), making us positive about the renewed growth in the sector.

The government has forecast an annual GDP growth rate of 8.2%, but this is too optimistic, in our view. At the same time, the IMF has upgraded its GDP forecast for Ukraine from 6% to 7%. We estimate an annual GDP growth rate of 7%.

Real GDP & Consumer Prices, 2004



Source: International Monetary Fund

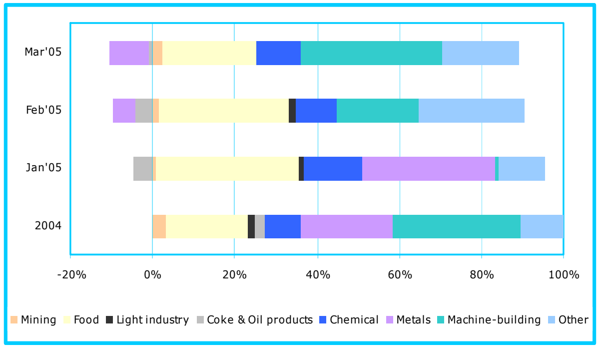
Note: NIAE - Newly Industrialized Asian Economies

ASEAN-4 – Indonesia, Thailand, Philippines, Malaysia

SSEE – South and South-Eastern Europe

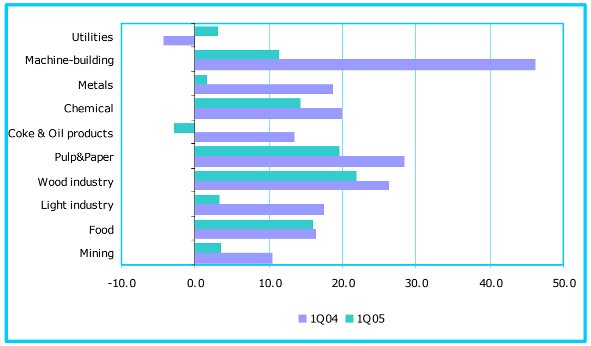
Industry Growth

Contribution To Industry Growth By Sector, 2004



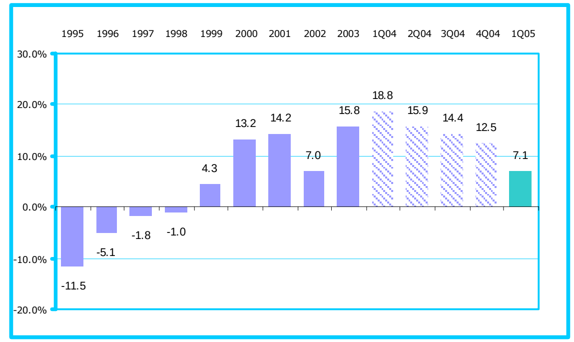
Source: State Statistic Committee, Economic Ministry

Industry Output Dynamics By Industry, %



Source: State Statistic Committee

Industrial Output, Cumulative Chg. %



Source: State Statistic Committee

1Q05 marked a sharp reduction in industry output to +7.1% (18.8% in 1Q04), with a slow down in all industries. Unprecedented growth rates were demonstrated by all industries last year and Ukrainian industry has grown at a median annual rate of 13.2% since 2000.

The decrease in metallurgy had a large impact, as growth slowed to +1.6% (18.8% in 1Q04). The resulting contribution to total growth in 1Q04 fell to 5.6% (24.4% in 1Q04). Reasons: 1) World steel prices peaked (with an estimated 5% correction in 2005); 2) Ukrainian steel mills run at 96% capacity; 3) Political uncertainty: many metallurgical companies are targets for re-privatization, encouraging owners to harbor funds in affiliated structures.

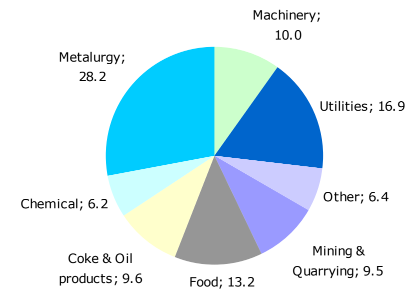
Metallurgy is gradually stepping aside as the "Ukrainian economic engine." We expect food, machine-building and chemicals to drive industrial growth this year.

Sluggish at the onset (+0.8% in January), machine-building accelerated its pace of growth significantly by the end of the quarter, increasing 18.6% in March, or 11.3% for the quarter. We have attributed the weak January performance to political disturbances, as many industries are sensitive to Russian-Ukrainian relations which were clouded in the course of the election campaign. The negative impact seems to be in the past and we expect this industry to resume its growth in 2005.

Chemicals, one of the main export-oriented sectors, suffered to a lesser extent from the general slow down, benefiting from favorable world market conditions, to post +14.2% growth (19.9% in 1Q04).

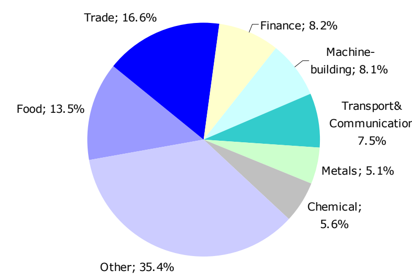
The food industry was the only sector that managed to maintain its pace of growth: +16% vs. 16.5% in 1Q04. Increased incomes (+40.8% in 1Q05) backed the growth. Further expansion of the industry is expected this year, driven by growing individual consumption.

Industry By Segment In Sold Products, 2004



Source: State Statistic Committee

FDI By Industry, 2004

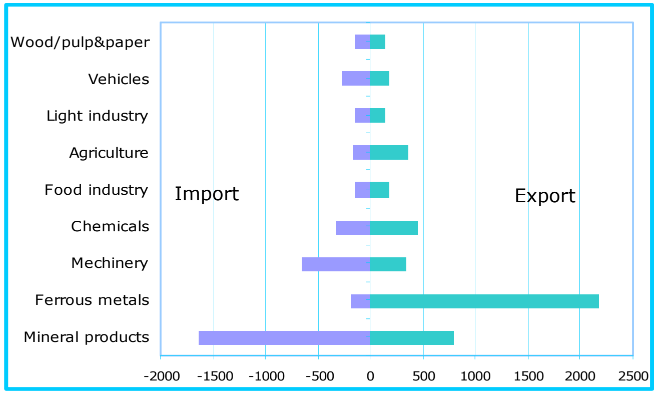


Source: State Statistic Committee

Concorde Capital

Trade Balance

Foreign Trade Composition, 2m2005, USD mn

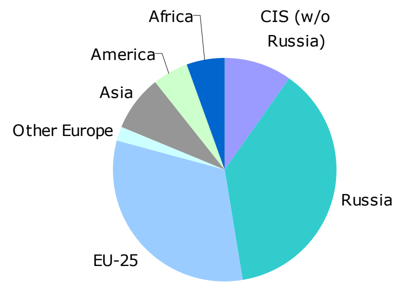


Source: State Statistic Committee

Foreign Trade Dynamics, USD mn

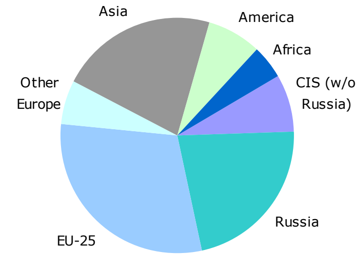
Source: State Statistic Committee

Import By Country, USD mn



Source: State Statistic Committee

Export By Country, USD mn



Source: State Statistic Committee

Exports of goods increased 14.7% yoy Jan-Feb 2005 to USD 5.1 bn, imports grew by 9% yoy to USD 4.2 bn and the accumulated foreign trade balance surged 51% yoy to USD 917 mn. However, since the start of this year, in line with our forecasts, import dynamics have steadily accelerated, with monthly export surpluses quickly disappearing (USD 680 mn in January, USD235 mn in February, -USD59 mn in March). We estimate import growth will continue to outpace export growth: +16% and +10% respectively, due to UAH appreciation, simplified customs procedures, increasing wages and growing internal demand. This will result in the trade balance diminishing from 10% of GDP in 2004 (one of the largest in Europe) to ~7% in 2005.

With the metal and chemical industries together accounting for more than 50% of total exports, Ukraine maintains its raw materials export profile.

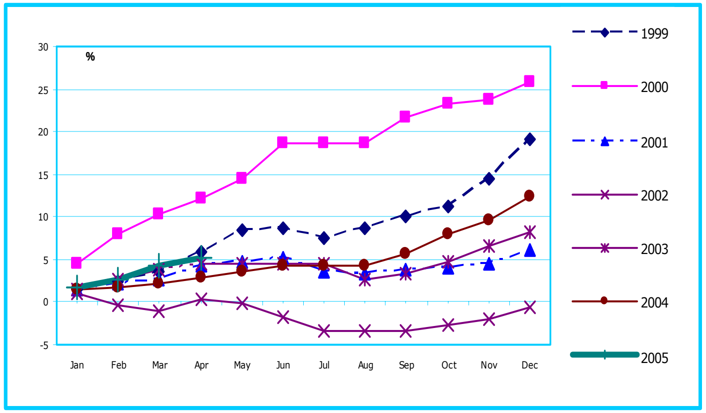
Machinery demonstrated negative growth (-22.3%) Jan-Feb 2005 vs. +70% growth in 2M04 with a slow down in imports to +19.8% (41.6% in 1Q04)

The structure of Ukrainian exports did not change. Ukraine maintains well balanced trade with the EU and the CIS countries other than Russia, is net exporter to Asia and remains heavily dependant on importing energy from Russia. Of note: in 2004 Ukraine achieved the highest Current Account/GDP level (11%), which is twice the average figure for countries that are net energy importers in the CIS. According to IMF estimates, this tendency will persist in 2005 at 7.2% for Ukraine, compared with 3.1% for CIS net energy importers.

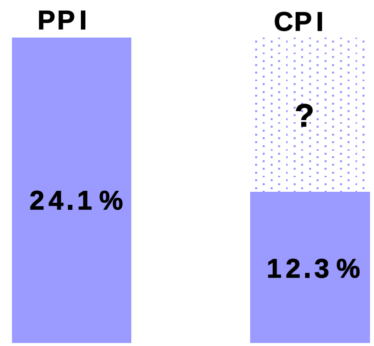
Inflation – Ukraine's Biggest Concern

Inflation Growth

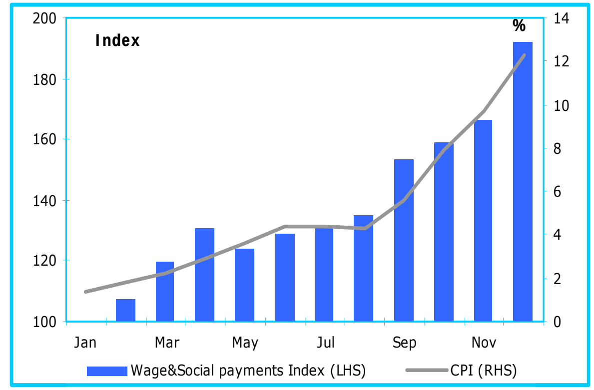
Cumulative Inflation, %



Source: State Statistic Committee



Social Payments & CPI in 2004



Source: State Statistic Committee

Inflationary pressures are on the rise…

The new team inherited an accelerating inflation rate of 12.3%, with half of that accumulated in 4Q05 (6.3%), spurred by an increase in social payments on the eve of the presidential elections.

Yushchenko's desire to fulfill his pre-election promises put the government in a difficult position: the new social program costs an additional 33% over 2004 to USD 6.3 bn.

Consumer inflation in Jan-Apr 2005 fluctuated wildly. A Slowdown in the CPI rate in April to 0.7% leaves room for hope that the government will manage to contain inflation at relatively reasonable limits. However, we consider the government's 9.8% forecast for annual inflation to be too optimistic. Our expectation of annual CPI is 13%.

PPI threatens CPI inflation…

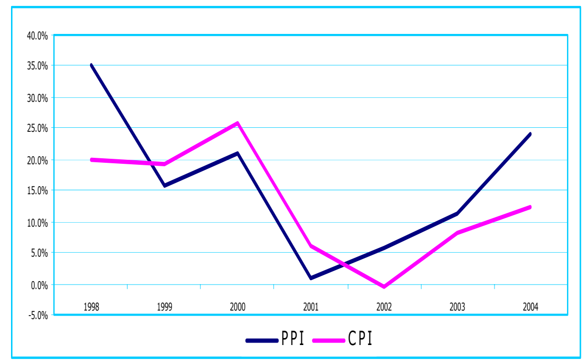
Since 2002, a steadily increasing gap between CPI and PPI was observed. In 2004, PPI/CPI differential was at a historical peak of 11.8%. PPI continued to outpace CPI growth in 1Q05, reaching 4.9/4.4%.

- More than 50% of Ukrainian industrial output is exported, shifting increases in producer prices onto consumers outside Ukraine (the steel industry alone accounts for one-quarter of GDP, selling ~80% abroad). Outlook: with steel prices peaking, this will be increasingly difficult.

- The government applied for price caps (on fertilizers and gasoline) and price-fixing agreements (on meat producers), but many industries were enjoying sound margins and able to tolerate cost pressures without passing them onto domestic consumers.

- A significant part of PPI is achieved through consumer durables and real estate, which is not reflected in CPI.

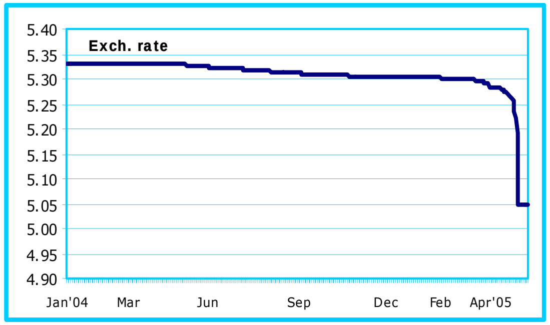
CPI & PPI Dynamics, % yoy



Source: State Statistic Committee

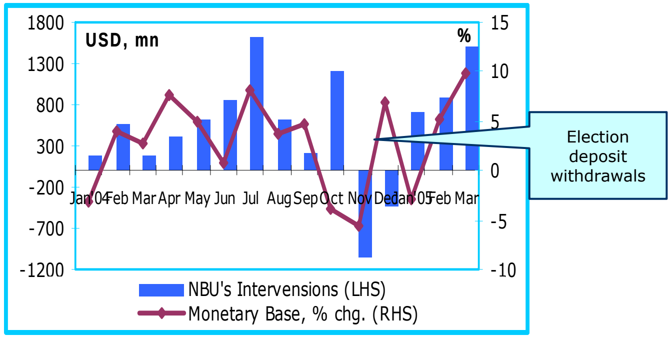
Challenge #1: Curbing Inflation

USD/UAH Official Exchange Rate



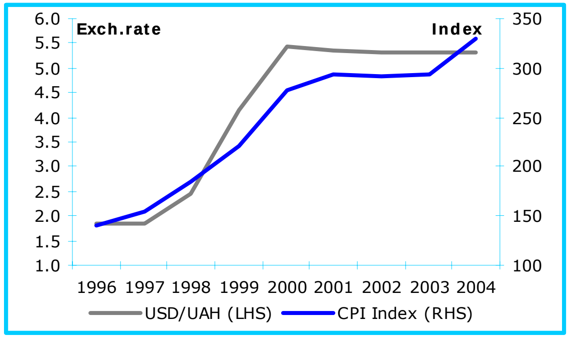
Source: State Statistic Committee, National Bank

NBU's Interventions & Monetary Base Growth



Source: State Statistic Committee, National Bank

CPI & Exchange Rate Dynamics



Source: State Statistic Committee, National Bank

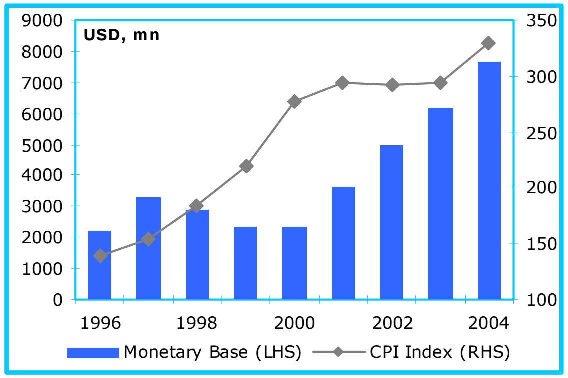
The government believes that new Hryvnia emissions and excessive money supply are among the main inflation drivers. So, the government relies heavily on monetary tools in curbing inflation. Buying foreign currency on the open market proved efficient during periods of stability, however, was ineffective in crisis periods.

Hryvnia Appreciation. April's rapid Hryvnia appreciation was one of the most remarkable events this year. The Ukrainian currency gained 3.4% to 5.05 against the USD in only three days starting April 18. While changes in exchange rate over the last 12 months had not been more than a hundredth of a decimal point, on April 21 the rate fell another 2.7%.
According to the National Bank of Ukraine (NBU), the Hryvnia's appreciation was meant to maintain an annual average rate of 5.1, as set in the budget. Additionally, by making the Hryvnia stronger, the government intends to reduce Hryvnia emission volumes in the economy during the NBU's foreign currency buy-out, and thus shrink the money supply. Indeed, during 1Q05 the NBU purchased ~USD 3 bn that corresponded with a USD 2.7 bn growth in the money supply.

However, this is likely to only minimally affect CPI dynamics. Most NBU Hryvnia reserves go into the banking sector in exchange for foreign currency. This was proved by the weak reaction of consumer prices to changes in the monetary base;
- The Hryvnia's appreciation may also serve as compensation to oil companies for introducing a 13% ceiling on gasoline retail prices;

Stricter Requirements for Commercial Banks. Beginning March, the National Bank embarked on a policy of tightening the money supply through stricter commercial bank requirements:
- Daily reserve rates increased from 60% to 80%;
- Cash is excluded from the calculation of obligatory reserve levels.

CPI & Monetary Base Dynamics



Source: State Statistic Committee, NBU, Concorde Capital estimates

Concorde Capital

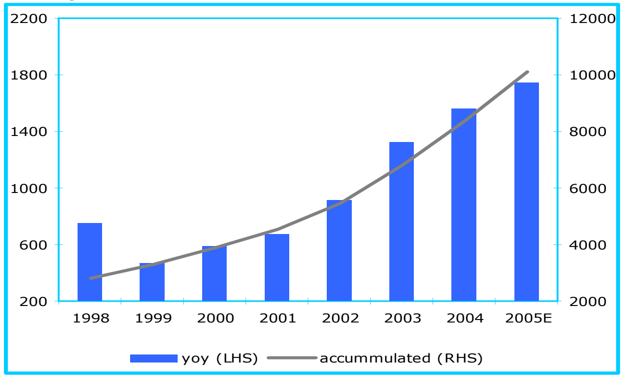
Investment Concerns

FDI & Capital Investments

	2002	2003	1Q04	1H04	3Q04	2004
Gross Fixed Investment						
USD mn	8571	11232	*2186*	*5159*	*9173*	16791
% of GDP	20.2	22.7	*18.7*	*20.0*	*20.8*	25.8
Capital Investment						
USD mn	6980	9566	*1924*	*4457*	*7918*	14234
% of GDP	16.5	19.3	*16.5*	*17.2*	*18.0*	21.9

Source: State Statistic Committee

Foreign Direct Investments, USD mn



Source: State Statistic Committee

We observe that Ukrainian investments (21.9% of GDP) into the national economy are only reaching the levels of Asia. Even more important is their historical record: Asian investment levels during the 80s-90s were close to 30% of GDP, while Ukraine only recently started to increase investments – passing the 20% level in 2004.

In 2004, the share of foreign investment in total capital investments constituted a mere 3.6%. However, FDI demonstrated remarkable growth recently: 20% - 2002, 24% - 2003, 30% - 2004. However, uncertainty (prolonged re-privatization) so far restrains further FDI growth in 2005.

In recent years, retained earnings of enterprises accounted for 61%-62% of national capital investments. However, the government has increased 'mandatory' dividend payments (from 15% of profit to 50%) and undermined the main source of capital investments, while the state's share in total capital investment remains insignificant.

The current policy of the new government (sacrificing investment to fulfill social obligations) must inevitably be short-lived. Otherwise, long-term growth will be significantly harmed.

State & Private Investment Breakdown

	2000	2001	2002	2003	2004
State budget	5%	5%	5%	7%	10%
Other	95%	95%	95%	93%	90%

Source: State Statistic Committee

Total Capital Investment % of GDP

	2004	Avg. 1996-2003	Avg. 1980-96
China	45	35	30
India	23	24	22
NIEs	24	25	29
Asean-4	20	18	27

Source: International Monetary Fund, State Statistic Committee

Note: NIE - newly industrialized economies: Korea, Taiwan, Hong-Kong, Singapore

Macro Economic Forecasts

Ukrainian Economic Indicators

	1999	2000	2001	2002	2003	2004	1Q2005	2005E
Real Indicators								
GDP real growth, %	-0.2	5.9	9.2	5.2	9.4	12.1	5.4	7.0
Nominal GDP, USD mn	31581.0	31261.7	38009.3	42392.9	49536.8	65039.1	15001.1	78665.4
Industrial output growth	4	12.4	14.2	7	15.7	12.5	7.1	9.5
Real Agricultural Growth, %	-6.9	9.8	10.2	1.2	-10.2	19.1	3.9	2.0
Capital Investments Growth	-25.0%	2.2%	39.6%	15.1%	37.1%	48.4%	n/a	14.7%
CPI (eop), %	19.2	25.8	6.1	-0.6	8.2	12.3	4.4	13
PPI (eop), %	15.7	20.8	0.9	5.7	11.1	24.1	4.9	19
Foreign economic activity								
FDI annual, USD mn	471.1	593.2	680.3	916.5	1322.6	1559.5	n/a	1746.1
FDI (Cumulative since 1991), USD mn	3281.8	3875.0	4555.3	5471.8	6794.4	8353.9	n/a	10100.0
FDI per Capita (Cumulative since 1991), USD	66.4	79.2	94.0	114.0	142.7	176.2	n/a	214.4
Current Account Balance, USD mn	1705.4	1438.0	1406.3	3179.5	2922.7	6804	n/a	5585.2
Current Account Balance, % GDP	5.4	4.6	3.7	7.5	5.9	10.5%	n/a	7.1
Total Exports, USD mn	16332	19248	19809	22012	27328	37980	5128.4	41000
Export Growth, %	-7.3%	17.9%	2.9%	11.1%	24.2%	39.0%	14.7%	8.0%
Total Imports, USD mn	15237	18166	16924	18164	24409	31004	4211.3	37800
Import Growth, %	-19.1%	19.2%	-6.8%	7.3%	34.4%	27.0%	9.0%	22.0%
Trade Balance, USD mn	1095	1082	2885	3848	2919	6976	917.1	3200.0
Debt								
Total Public Debt, USD mn	15300	11804	11852	12099	12400	12757	12597	13700
Total Public Debt, %GDP	48.4	37.8	31.2	28.5	25.0	19.6	--	17.4
NBU Reserves, USD mn	1094.0	1475.0	3089.0	4417.0	6940.0	9525.0	11953.0	13200
Social indicators								
Population, mn	49.4	48.9	48.5	48.0	47.6	47.4	47.2	47.1
Unemployment (ILO)		11.7	11.1	10.1	9.1	8.5	8.5	8.2
Monetary indicators								
Monetary Base (M0), USD mn	2320.1	2352.7	3623.4	4962.6	6210.6	7681.3	8140.2	10188.0
Broad Money (M2), USD mn	5257.1	5798.3	8411.2	12075.4	17713.9	23494.3	26411.7	32000
Economy Monetization M2/GDP	16.6%	18.5%	22.1%	28.5%	35.8%	36.1%	--	40.7%
Money Supply (M3), USD mn	5343.3	5928.5	8517.2	12178.5	17822.7	23547.8	26485.2	32894.7
Money Supply Growth, %	-16.2%	11.0%	43.7%	43.0%	46.3%	32.1%	12.5%	39.7%
UAH/USD (eop)	5.216	5.435	5.299	5.332	5.332	5.31	5.28	5.32
UAH/USD (avg)	4.130	5.440	5.372	5.327	5.333	5.32	5.29	5.32
Budget, % GDP								
Revenues	25.2%	28.9%	26.9%	27.4%	28.5%	26.0%	24.5%	26.6%
Expenses	26.7%	28.3%	27.2%	26.7%	28.6%	28.9%	21.9%	29.4%
Budget Balance	-1.5%	-0.7%	-0.3%	0.7%	-0.2%	-2.9%	2.4%	-2.8%

Source: State Statistic Committee; Ministry of Finance, National Bank; Concorde Capital estimates

International Comparison

Country	Ratings S&P	Real GDP, % yoy		CPI, %		Current Account Balance, % to GDP	
		2004	2005	2004	2005	2004	2005
CIS countries							
Ukraine	**BB-**	**12.1**	**7**	**9**	**12.5**	**11**	**7.2**
Russia	BBB-	7.1	6	10.9	11.8	10.2	11.4
Kazakhstan	BBB-	9.4	8	6.9	7.3	2.3	1.8
Belarus	-	11	7.1	18.1	13	-3	-3.4
Armenia	-	10.1	8	7	2	-5.8	-5.5
Georgia	-	8.5	6	5.7	6.8	-7.5	-8.1
Kyrgyz Republic	-	6	5	4.1	4	-3	-6.3
Moldova	-	7	5	12.3	10	-7.1	-6.1
Tajikistan	-	10.6	8	7.1	5.7	-3.9	-4.2
Uzbekistan	-	7.1	3.5	8.8	14.1	0.8	4.5
Central Europe							
Czech Republic	A-	4	4	2.8	2.5	-5.2	-4.8
Hungry	A-	4	3.7	6.8	4	-9	-8.6
Poland	BBB-	5.3	3.5	3.5	3.1	-1.5	-2.1
Slovak Republic	A-	5.5	4.8	7.5	3.6	-3.4	-6
Slovenia	AA-	4.4	4	3.6	2.3	-0.6	-1.4
South and south-eastern Europe							
Bulgaria	BBB-	5.7	5.5	6.1	4	-7.4	-7.6
Cyprus	A	3.7	3.8	2.3	2.5	-4.1	-3.4
Malta	A	1.5	1.5	2.7	2.4	-10.3	-4
Romania	BB+	8.3	5.5	11.9	8.2	-7.5	-6.9
Newly industrilized Asian economies							
Korea	A-	4.6	4	3.6	2.9	3.9	3.6
Taiwan	AA-	5.7	4	1.6	1.6	6.2	6.6
Hong Kong	A+	8.1	4	-0.4	1	9.6	9.4
Singapore	AAA	8.4	4	1.7	1.5	26.1	23.4

Source: International Monetary Fund, Bloomberg

Concorde Capital

32 Chervonoarmijska St,
2nd Entry, 6th Floor
Kiev 03150, UKRAINE
Tel: +380 44 206 8370

General Director	
Igor Mazepa	im@con-cap.com
Managing Director	
John Suggitt	js@con-cap.com
Chief Investment Officer	
Steven Cheshire, CFA	steven.cheshire@con-cap.com
Corporate Finance	
Maxim Bougriy	mb@con-cap.com
Equity Sales	
Marina Martirosyan	mm@con-cap.com
Lucas Romirell	lr@con-cap.com
Head Of Research, Strategy	
Konstantin Fisun, CFA	kf@con-cap.com
Utilities (Telecommunications, Energy)	
Alexander Paraschiy	ap@con-cap.com
Macroeconomics	
Alexander Viktorov	av@con-cap.com
Oil&Gas, Pipes, Non-Ferrous Metals	
Andriy Gostik	ag@con-cap.com
Ferrous Metals	
Viktor Koval	vk@con-cap.com
Machine Building, Chemicals	
Olga Pankiv	op@con-cap.com