



CONCORDE CAPITAL

Ukraine / Economics

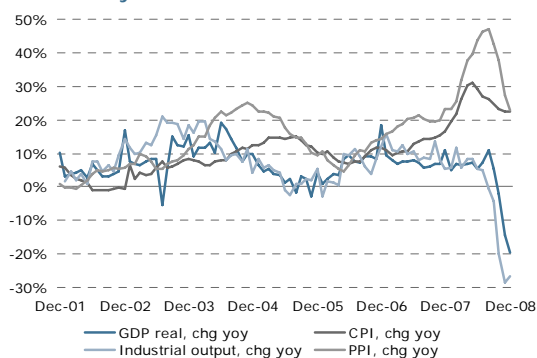
Balance of Payments

2008 data, 2009 outlook

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Business cycle indicators



Source: State Statistics Committee

Key macroeconomic indicators

	2007	2008	2009E
Business cycle			
Real GDP, chg yoy	7.6	2.1	-7.0
Nominal GDP, USD bln *	141.2	178.4	118.1
Industrial output, chg yoy	10.2	-3.1	-11.5
CPI (eop), chg yoy	16.6	22.3	15.0
PPI (eop), chg yoy	23.3	23.0	18.0

External sector

NBU reserves (eop), USD bln	32.5	31.5	23.3
FDI net, USD bln *	9.2	9.9	7.5
C/A balance, % GDP	-4.2	-6.7	-1.1
Trade balance, % GDP *	-5.6	-7.7	-1.9
External debt, % of GDP *	58.6	60.7	78.9

Exchange rate

Interbank UAH/USD (avg)	5.03	5.27	8.50
Interbank UAH/USD (eop)	5.05	8.05	8.30

Source: State Statistics Committee, National Bank of Ukraine, Ministry of Finance, Bloomberg, Concorde Capital estimates

Prices for core commodities, as of January 29

	Current	% YTD	% yoy
Gas imports, USD/tcm	360.00	0%	101%
Crude oil (URALS), USD/bbl	42.20	0%	-53%
Winter wheat, USD/mt, FOB**	132.00	7%	-49%
Steel square billet, USD/mt, FOB**	395.00	8%	-39%

**Black Sea ports

Source: Gas of Ukraine, Bloomberg

- Yesterday the National Bank of Ukraine released preliminary figures on the 2008 balance of payments
- The C/A deficit was USD 11.9 bln (6.7% of GDP). Exports grew 33.9% yoy, imports by 38.3% yoy
- We expect the C/A shortfall in 2009 to shrink to USD 1.3 bln (1.1% of GDP), and the capital account deficit to be USD 7.0 bln (5.9% of GDP)

C/A deficit dips to 6.7% of GDP in 2008

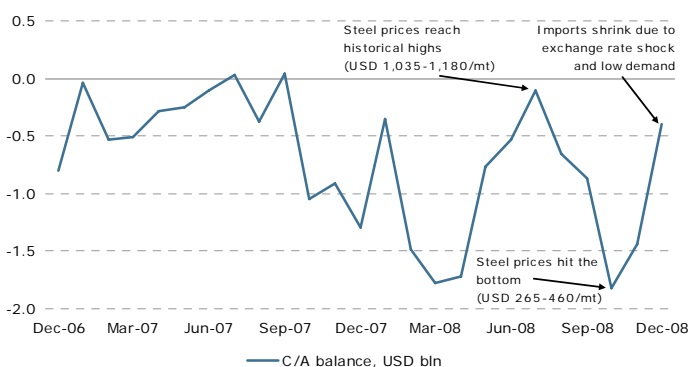
On January 28, the National Bank of Ukraine reported that current account shortfall in 2008 was USD 11.9 bln (6.7% of GDP), versus USD 5.9 bln (4.2% of GDP) in 2007. The number was close to our forecast of USD 10.7 bln.

Exports increased 33.9% yoy to USD 85.7 bln, while imports surged 38.3% yoy to USD 99.4 bln. By yearend, external trade contracted markedly. In December, merchandise exports only amounted to USD 4.1 bln (down 15% yoy); imports came to USD 4.7 bln (down 29% yoy).

The capital account ran a surplus of USD 8.8 bln, supported by strong net FDI inflow (USD 9.9 bln) and long-term debt financing (USD 14.8 bln). These constituents, however, were minimal in 4Q08: FDI amounted to USD 1.2 bln; long-term loans and Eurobonds totaled USD 2.0 bln.

In its report, the NBU also noted that in 4Q08, external corporate debt decreased 1.6% qoq to USD 89.7 bln. Banking sector debt shrank 5.5% qoq to USD 39.8 bln.

C/A balance seesaw



Source: National Bank of Ukraine, Concorde Capital

2009 outlook: Current & capital accounts to flip directions

In 2009, we expect a reversal in the directions of the current and capital accounts: as current account deficit shrinks, potentially even turning into a surplus, the capital account will switch from a surplus into a deficit.

We forecast the current account deficit to contract from USD 12.3 bln in 2008 to USD 1.3 bln (1.1% of GDP) in 2009, as imports drop off 33% yoy on the back of deteriorating internal consumption and the weakening hryvnya, while exports will only fall 24% yoy.

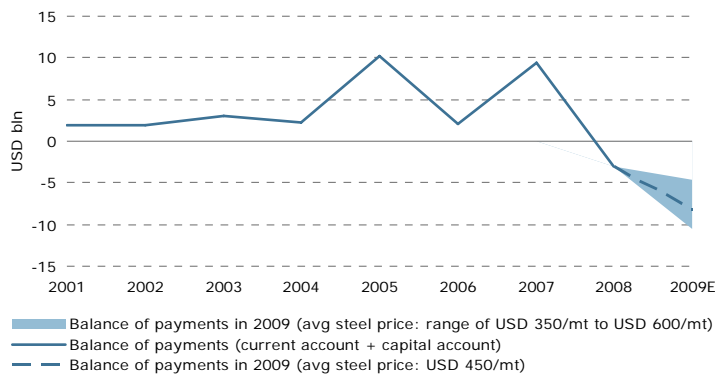
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We do not rule out that the 2009 C/A balance could even turn positive if imports contract more than we projected due to deep UAH devaluation, or if the price of steel (~45% of Ukraine's exports) exceeds USD 450/mt, the average export price we employed in our balance of payments forecast.

Sensitivity of balance of payments to steel price



Source: National Bank of Ukraine, Concorde Capital

Our forecast of the capital account shortfall in 2009 is USD 7.0 bln (5.9% of GDP). The reverse in the capital account deficit will be mainly caused by the net outflow of debt capital, in our view.

Ukrainian companies' corporate debt due in 2009 is USD 38.2 bln, according to IMF estimates. Of that amount, USD 13.5 bln is trade credits, literally delayed payments for imported goods, and are the most likely to be fully repaid. As for the remaining USD 24.7 bln, only around USD 20 bln will be rolled over, according to our estimates. As a result, outstanding external corporate debt will drop by almost a third by end-2009 to USD 63.4 bln.

FDI will also be meager in 2009 as investors become more risk averse, and liquidity dries up. Key factors influencing the FDI inflow will be the extent of consolidation in the banking sector, and projects related to co-hosting the UEFA Euro-2012 Football Championships. We expect net FDI to come to USD 7.5 bln in 2009.

Ukraine's balance of payments

	USD bln			% GDP		
	2007	2008	2009E	2007	2008	2009E
Current account	-5.9	-11.9	-1.3	-4.2%	-6.7%	-1.1%
Trade account	-7.9	-13.7	-2.3	-5.6%	-7.7%	-1.9%
Exports	64.0	85.7	64.5	45.3%	48.0%	54.6%
Goods	49.8	67.7	47.5	35.3%	37.9%	40.2%
Services	14.2	18.0	17.0	10.0%	10.1%	14.4%
Imports	-71.9	-99.4	-66.8	-50.9%	-55.7%	-56.5%
Goods	-60.4	-83.6	-55.1	-42.8%	-46.9%	-46.7%
Services	-11.5	-15.8	-11.6	-8.1%	-8.9%	-9.8%
Income balance	-2.1	-2.0	-3.6	-1.5%	-1.1%	-3.1%
Current transfers	4.1	3.8	4.7	2.9%	2.1%	4.0%
Capital and financial accounts	15.3	8.8	-7.0	10.9%	4.9%	-5.9%
Capital account	0.0	0.0	0.0	0.0%	0.0%	0.0%
Financial account	15.3	8.8	-7.0	10.9%	4.9%	-5.9%
FDI (net)	9.2	9.9	7.5	6.5%	5.5%	6.4%
Portfolio investment (net)	5.8	0.0	1.0	4.1%	0.0%	0.8%
Other investment	0.4	-1.1	-15.5	0.3%	-0.6%	-13.1%
Balance	9.4	-3.1	-8.2	6.7%	-1.7%	-6.9%

Source: National Bank of Ukraine, Concorde Capital

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