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Economy outlook for 2013

Time to deliver external expectations

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2013 promises to be another turbulent year, though we see good chances for better economic growth: we project 1.6% GDP growth vs. 0.2% in 2012. A lot will depend on IMF negotiations and exchange rate policy. The main risk for the year is a growing financial gap that may trigger an NBU reserves decline to a critical level. In this respect, resumed IMF cooperation and a steady hryvnia devaluation are the tools to control balance of payments risk and secure smooth economic growth.

- The external financing gap will remain the key headache for the government in 2013. Unlike last year, a status quo scenario (no IMF deal, no natural gas price discount and no hryvnia devaluation) suggests a steep gross NBU reserves decline (by up to USD 10.4 bln) to an un-sustainable level of USD 14.1 bln (1.6 months of imports). The authorities have to be active already in 1Q13 to avoid this scenario.

- The IMF deal is the fulcrum which smooth economic growth in 2013 is relying on. Ukraine will have to pay back USD 5.5 bln to the Fund this year (1.6x more yoy). To make matters worse, Eurobond holders will be increasingly attentive to any signals from the Fund. In our base-case, we assume a standby program – or some signal on its potential resumption – will arrive in March. Otherwise, we will see gross reserves falling to 2M of imports by the end of spring.

- Hryvnia policy will be another tough matter for the authorities. Growing household incomes, and subsequently non-energy imports, promises further C/A deficit expansion. A stable hryvnia policy will cost an extra USD 4 bln of gross reserves (vs. our base-case of a 10% devaluation). Monetary authorities might be willing to keep stability for one more year, but we believe it is much more reasonable to allow the devaluation. The clear demand for it – beginning in late 2011 from external creditors – will likely be clearly spelled out by the IMF in the ongoing loan negotiations. As a positive externality, devaluation would allow the C/A deficit to stay at USD 14.8 bln, or 8.2% of GDP.

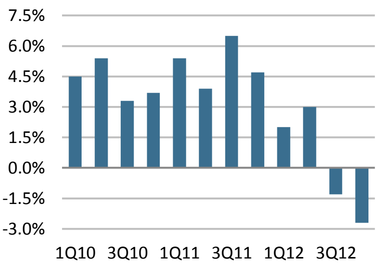
- We expect Ukraine's economy will strengthen to 1.6% GDP growth from 0.2% in 2012. Resilient private consumption (+8.4% yoy in 2013E) and devaluation-sensitive improvement in net exports should be the key drivers.

Key macro data and forecasts

	2009	2010	2011	2012E	2013E
GDP growth yoy	-14.8%	4.1%	5.2%	0.2%	1.6%
Household consumption yoy	-14.2%	7.2%	15.0%	12.0%	8.4%
CPI, avg	15.4%	9.6%	8.0%	0.6%	5.3%
C/A balance, % of GDP	-1.5%	-2.2%	-6.1%	-8.2%	-8.2%
General budget balance (incl. Naftogaz), % GDP	-4.5%	-7.9%	-2.0%	-5.5%	-4.5%

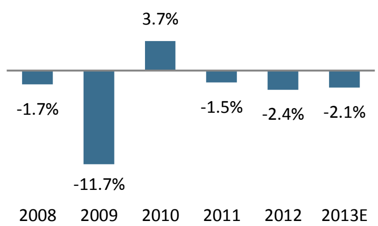
Source: Concorde Capital research

Real GDP change



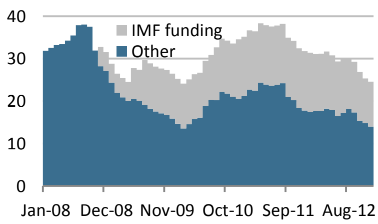
Source: UkrStat

External financing balance, % of GDP



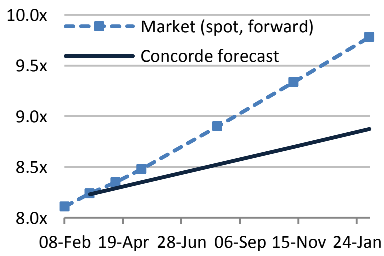
Source: NBU, Concorde Capital research

Gross NBU reserves, USD bln



Source: NBU

UAH/USD



Source: Bloomberg, Concorde Capital research

EXECUTIVE SUMMARY

Better off in 2013 if "painful policy homework" is done

Chance for more pragmatic economic policy
If the government does not make silly policy blunders, 2013 might be somewhat better than 2012 in terms of GDP growth. The key difference between 2012 and 2013 is that the latter has no elections – economic policy can therefore be more pragmatic. This raises the chance that the Cabinet will allow for some painful steps (gas tariffs increase and hryvnia devaluation) to secure IMF cooperation and, subsequently, safe development of the economy, a controlled C/A balance and easing devaluation expectations (at least external ones).

Executive power is consolidated enough
President Viktor Yanukovych managed to consolidate power around his close allies during the three years of his presidency. It's difficult to say how this arrangement is sustainable in long term since many are unhappy with this layout, even within the ruling groups. However, in the short term, this structure secures good coordination of actions between different bodies of executive power that guarantees, to some extent, smoothness of necessary decision-making.

High chances for IMF debt rollover
A rollover of IMF debt will be the main task for 2013. A 60% yoy increase in principle payments to the IMF (USD 5.6 bln) poses a serious challenge. This task looks manageable if the Cabinet resumes the IMF standby program in February, or at least gives some positive signal about cooperation with the Fund. Any of these outcomes will keep external markets open for Ukraine against the current backdrop of high risk appetite in the world (consider the recent USD 1 bln Eurobonds placement). Complete failure of negotiations is hardly probable, in our view.

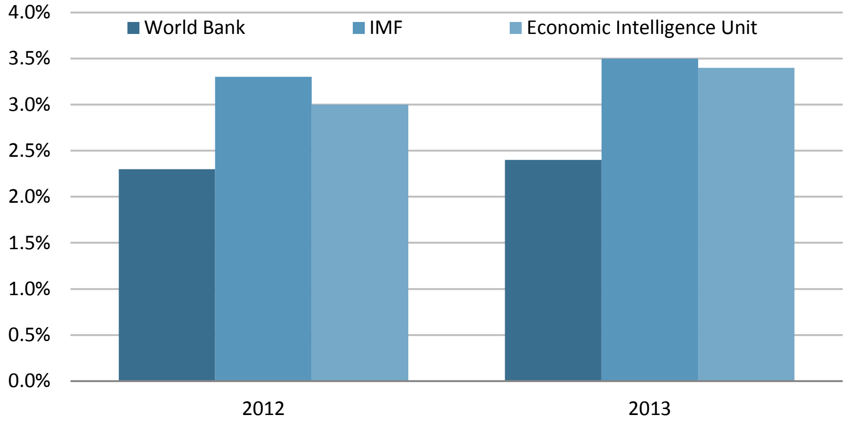
Controlled hryvnia decline on the agenda
Despite preserved hryvnia stability in 2012, we expect pressure on the national currency will only increase this year. Household hryvnia spending will grow, much of it on imports. We also expect investment demand will be on the rise to add more to imports. Against this backdrop, the successfully rolled over debt will be not enough to improve the C/A deficit and keep NBU reserves within a sustainable range. In this respect, we believe it's logical to expect a controlled devaluation of the national currency by about 10% over the next 12 months given that 2013 is the last year before authorities become concerned about another election (for more details, refer to our Dec. 26 note on the hryvnia).

Energy bill to stay flat
The energy import bill is expected to remain almost flat in 2013. Even more, if declining oil imports continue, we should expect the total energy bill to decline slightly to USD 25.5 bln from USD 26.5 bln in 2012E. Gas imports will remain unchanged with a potential of supplies from EU-based entities. In particular, Naftogaz intends to import up to 5 bcm of gas from German RWE Supply & Trading. And Gazprom's supplies will be split between Naftogaz (near 20 bcm) and Ostchem (near 8 bcm), which seems to have been granted some discount. We expect total gas imports will remain flat yoy (at about 33 bcm) and will cost nearly USD 14 bln, or the 2012 level.

External markets may revive in 2H13

Resource markets show some upside jerks but they aren't signs of revival. At this stage, the markets most likely will keep stagnating with prices fluctuating at the current level. At the same time, IFIs and many investment bankers believe a modest revival will start in mid-2013. So far, it is difficult to say how realistic these assumptions are but we accept them in our estimates.

World economy growth estimates

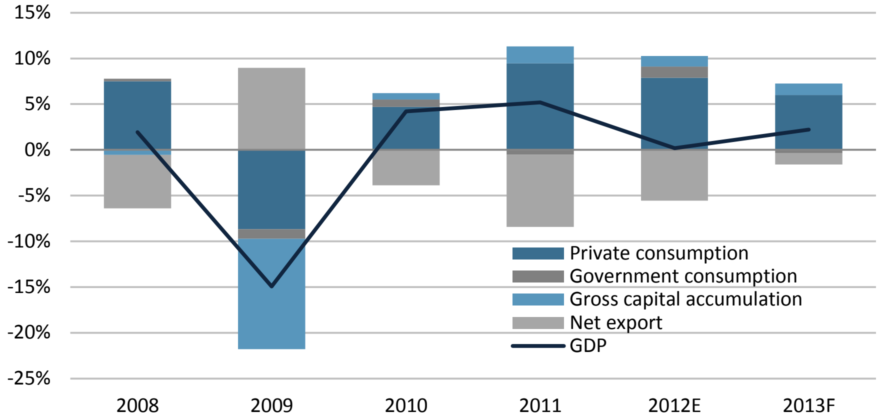


Source: Agency data

GDP TO GROW UP TO 1.6% IN 2013

We are quite optimistic about 2013 GDP growth. IFIs and investment bankers do not anticipate the markets slumping over the next 12 months, which is encouraging for our exporters. At the same time, revival will be slow - we expect 2013 GDP will 1.6% yoy compared to 0.2% in 2012.

Components of GDP growth



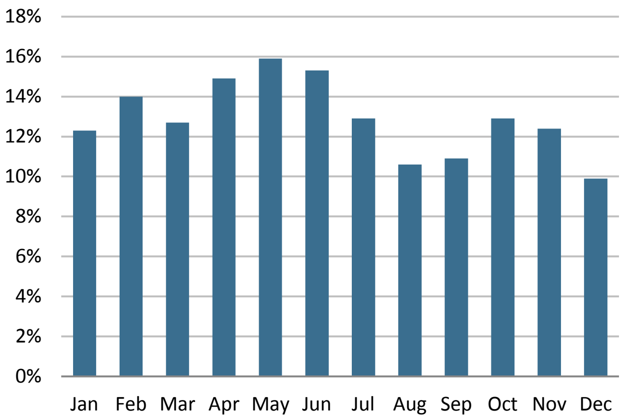
Source: UkrStat, Concorde Capital estimates

Household demand is the main pillar of growth

Private consumption will remain the key driver of GDP growth in 2013. Household demand proved to be resilient in 2012 (estimated at 12.0% yoy) despite no consumer credit rebound being observed (-7.6% yoy in 11M12). An acceleration in real incomes (+14.4% yoy in 2012) against the backdrop of near-zero inflation and relatively low savings underpinned private spending.

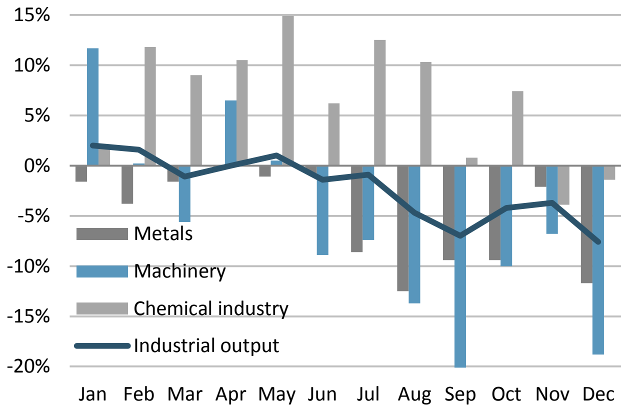
This trend is expected to preserve itself in 2013 with household consumption growth slowing down only slightly (to 8.4%) amidst modest nominal minimum wage growth (+5.0% yoy) and expected accelerating inflation (to 5.3% yoy). Ukrainians are inclined to cut their savings rate for the sake of maintaining their current standard of living.

Retail trade in 2012, yoy change



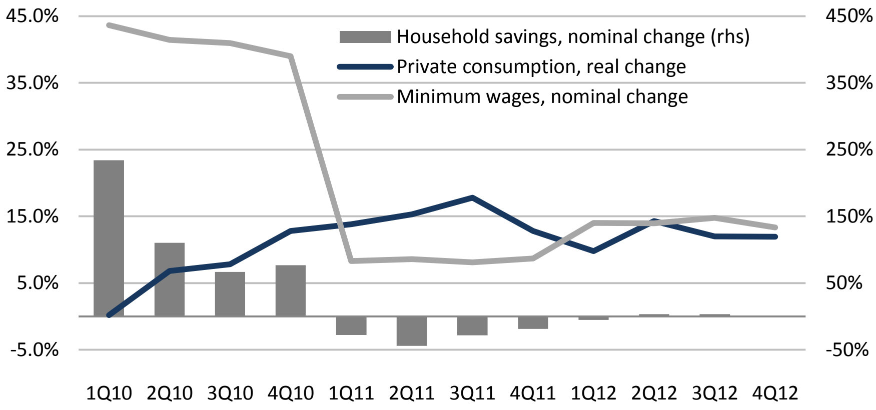
Source: UkrStat

Industrial output in 2012, yoy change



Source: UkrStat

Private consumption vs. minimum wages and household savings, yoy change



Source: UkrStat

Industry to grow marginally in 2013

Industrial output fell 1.8% yoy in 2012, owing to sliding metal markets and subdued machinery and chemical markets. Over the last months of the year, we observed some timid revival signals (for instance, traders' attempts to increase metal prices). But that optimism looks premature given the generally sluggish global economy. Still, we expect marginal strengthening of world trade in mid-2013, which should help Ukraine's industry to grow 1.5% yoy in 2013.

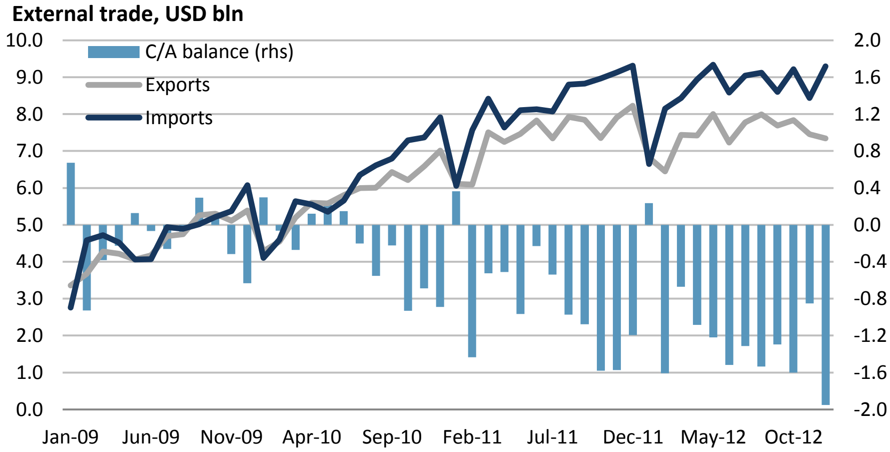
Agri production to improve 3.5%

Agricultural production declined 4.5% yoy in 2012 due to an 18.6% grain harvest slump last year. This means we will be in much better position to report harvest growth in 2013. So far, we can tell little about next year's grain crops since weather conditions are volatile. But we assume a 3.5% agri-production increase, which is a quite realistic number against the backdrop of a decline in 2012. We note there is a high upside potential here.

Net exports to strengthen their role

We expect a minor revival of external commodity markets in mid-2013. IFIs and leading investment banks assumed the recovery might happen closer to the year's end. Against this backdrop, we expect the negative net exports will only weigh on GDP growth by 1.1 ppt, which is much better than -5.5 ppt estimated for 2012. A slowdown in non-energy imports on the back of an expected hryvnia decline is another assumption that stands behind our view.

External trade, USD bln

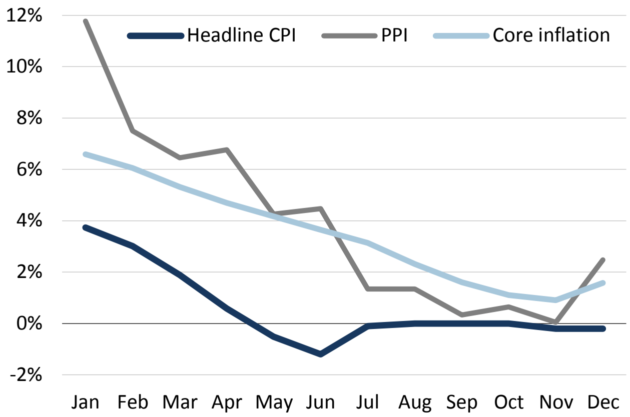


Source: NBU

INFLATION TO SPEED UP IN 2013

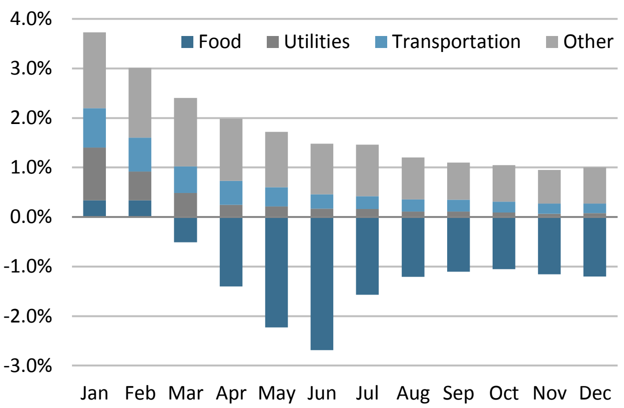
Ukraine's CPI in 2012 (0.6% yoy) was the lowest in Ukraine's history, beating the last record of 0.8% yoy in 2002. The key driver was a 2.1% decline in food prices. Hryvnia stability, as well as flat heating tariffs, also contributed to the result.

CPI and PPI, yoy



Source: UkrStat

Headline CPI breakdown, 2012



Source: UkrStat

We see the CPI pattern will change in 2013, driven by the following:

- Some speed up in food prices is expected (up to 5% yoy) in 1H13, which used to be a traditional seasonal effect of grain harvest reduction (grain crop production dropped 18.2% yoy in 2012);
- The critical need for an IMF deal makes us believe that some residential gas tariff increase should be anticipated soon (at least 20%);
- we expect a 10% hryvnia devaluation (which is our base-case scenario) will inflate prices of imported goods and services;
- After devaluation expectations pass away following a controlled hryvnia decline, we expect a relaxed monetary policy with growing money supply will contribute to price growth.

We expect food and utility prices will contribute the most to the CPI increase at 2.0-2.5 ppt each. In all, we expect CPI to grow 5.3% yoy in 2013.

We see producer prices will also accelerate over the next 12 months. Energy prices are projected to fluctuate around the current level unless the Middle East situation gets more complicated. At the same time, we assume a gradual revival of the metal markets could push PPI up in 2H13. We project 7.2% yoy PPI growth in 2013.

BALANCE OF PAYMENTS:

IMF deal and safe currency decline needed

Our base-case scenario for external accounts is hanging on two assumptions:

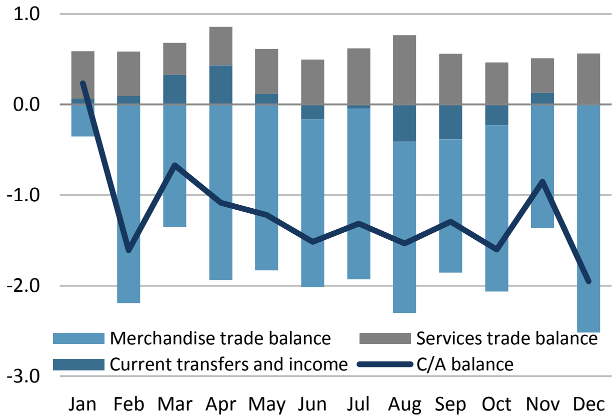
- Controlled devaluation happens in 2013;
- Cooperation with the IMF is resumed.

These assumptions allow for foreseeing smooth external accounts developments with gross NBU reserves at USD 21 bln by the end of 2013 - above the next psychological level of two months of imports (near USD 18 bln).

Controlled devaluation to keep C/A deficit below USD 15.0 bln

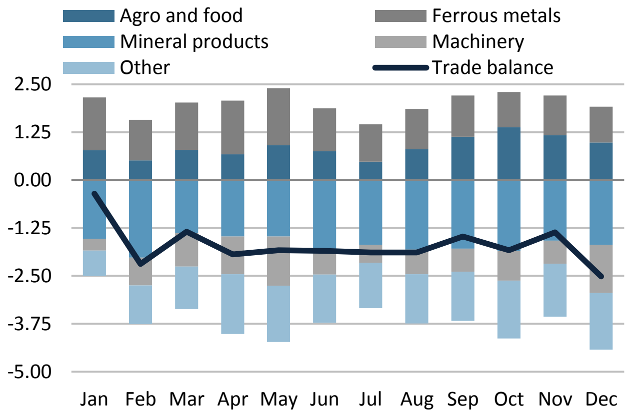
By the end of December, the C/A deficit reached USD 14.4 bln, or 8.2% of GDP (+USD 4.2 bln yoy). The C/A deficit growth was much faster than initially expected (+USD 1.6 bln), but still the yoy growth was far below that of 2011 (up to USD 10.3 bln from USD 3.0 bln in 2010).

C/A balance, 2012, USD bln



Source: NBU

Merchandise trade balance, 2012, USD bln



Source: NBU

In 2012, a declining import energy bill (-7.8% yoy) and 39.6% yoy food exports increase underpinned external balance against the backdrop of falling ferrous metals exports (-14.6% yoy) in 2012. As a result, imports increased 5.3% nominally, while exports grew 0.5% over the year.

For 2013, we project quite a similar external accounts pattern, with the only difference being in the exchange rate effect on non-energy imports. We assume the authorities will finally allow a controlled devaluation of the hryvnia (to 8.8-8.9/USD by the year's end), which should slow down the import spending of Ukrainians to 6.5% yoy (from nearly +13.0% yoy in 2012). At the same time, we expect the USD energy bill to remain almost flat, or even somewhat lower: no gas price hikes are expected while 33 bcm of imported gas will be needed regardless of who's the supplier (Gazprom or RWE Supply & Trading etc.). In all, we estimate nominal imports will increase 2% yoy in 2013.

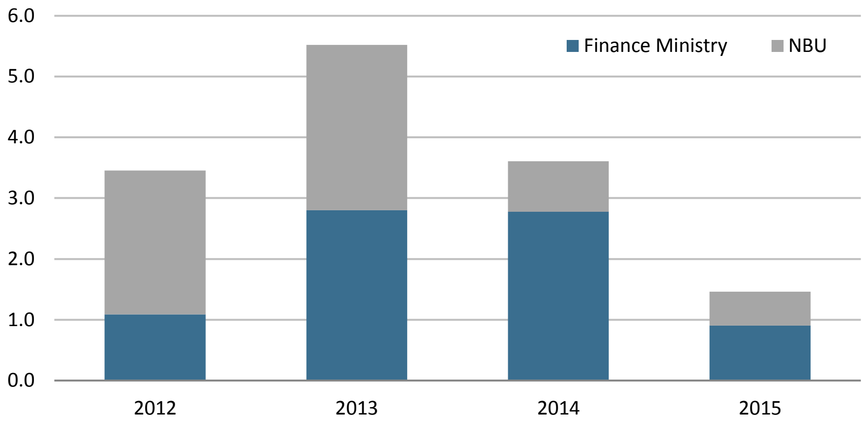
Exports are also not likely to grow by more than 2% yoy in 2013. We expect strengthened external demand in mid-2013, but that will prop up export growth only marginally from nearly 1% in 1H13 to nearly 3% by the year's end. We also expect a near 18% yoy decline in grain exports in 1H13 since traders have already shipped a major part (nearly 60%) of their grains scheduled for the 2012/13 marketing year.

Against this backdrop, we expect the C/A balance staying at USD 14.8 bln, or 8.2% of GDP in 2013.

Only positive signals from the IMF will keep capital inflow high

Securing sufficient financial flows this year might be an even more challenging task than in 2012. Ukraine was lucky to meet a risk appetite driven by QE3, which is what effectively saved the government when an IMF rollover was critical in 2H12. However, such fortune is not guaranteed for 2013, when the IMF loan redemption will be 60% higher than in 2012 (USD 5.6 bln).

IMF debt redemption, USD mln



Source: NBU, Concorde Capital estimates

A lot will depend on the IMF negotiations that started on Jan. 29. Ukraine has done little to comply with IMF requirements over the last two years. But given high risk appetite globally is not fading away, an absence of negative messages from the IMF and continued "constructive talk" with the Fund is considered as a positive signal. Against this backdrop, the authorities have done good preparatory work by sending foreign audiences consistently encouraging messages about IMF cooperation to make investors optimistic. As a result, the Finance Ministry managed to place USD 1.0 bln in Eurobonds on Feb 4, which provides for a safe USD 1.3 bln IMF redemption by Feb. 12.

Still, the authorities will have to do something beyond "promises to reform" by April-May, when the next USD 1.3 bln payment to the IMF is due. Without constructive IMF talks, both short-term corporate debt (nearly USD 50 bln in 2013) and sovereign debt (USD 6.5 bln) redemption will be under risk.

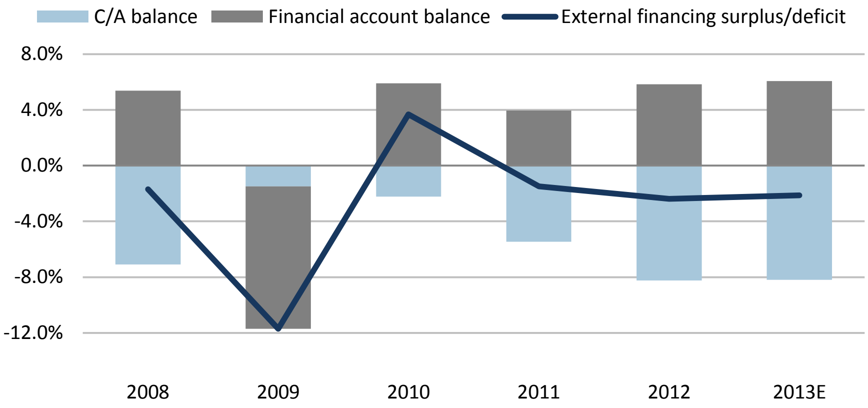
FDI inflow is assumed to increase in 2013

In 2012, net FDI was reported at USD 7.0 bln, and it's not a leap to expect USD 7.5 bln next year. Surely, the investment climate remains challenging, but crony businesses feel quite safe to continue investment projects. What's more, the absence of election-related volatility should allow for both a smooth privatization and new investment initiatives in 2013.

Reduced household cash demand for dollars in 2013 is assumed to be extra positive factor for mitigating the foreign currency deficit. In 2012, households bought USD 8.8 bln in cash, being scared by a potential hryvnia decline. The NBU managed to get the panic under control with regulatory measures and blatantly scaring the population. Given that some elements of cash market regulations are preserved, we might expect lower cash demand for foreign currencies in 2013 (nearly USD 6.0 bln).

In all, we estimate financial and capital accounts to stay close to USD 11.0 bln (IMF transfers excluded) vs. USD 10.2 bln in 2012, assuming IMF cooperation is resumed and external markets remain favourable.

External financing gap, % of GDP

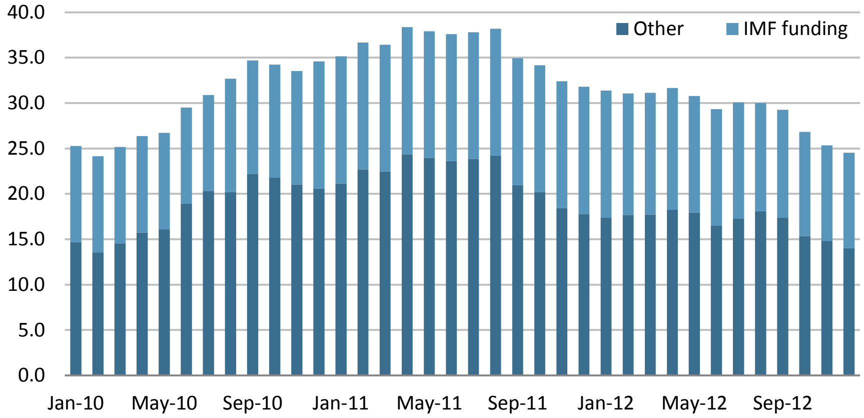


Source: NBU, Concorde Capital estimates

Gross NBU reserves to lose extra USD 4 bln in 2013

Gross NBU reserves declined USD 7.25 bln in 2012 (to USD 24.55 bln), with USD 3.5 bln used to cover IMF payments and the rest covering the general financial gap (combined C/A and financial account balances). That was the price of protecting the hryvnia from devaluation over the year.

Gross NBU international reserves, USD bln



Source: NBU

For base-case 2013, we assume the hryvnia will decline gradually to 8.8/USD and IMF cooperation will resume (or positive signals will be sent), which will allow for a relatively minor gross reserves decline to USD 20.7 bln (2.4 months of future imports).

THE HRYVNIA:

Devaluation is not only likely, but necessary

The IMF deal will define forex trends in 2013. We see a strong intention of the administration of President Viktor Yanukovych to demonstrate economic stability (with the hryvnia being under control as the main indicator of success). For this policy, the money authorities have only USD 4.5 bln from gross reserves to stay above the USD 20 bln waterline. We do not know whether falling to USD 20 bln gross reserves will be critical for the forex market; however, this level is a psychological one and we can talk about smooth developments only above that line.

In this respect, we outline a base scenario with IMF cooperation resumed in March and controlled devaluation (by 5%) arranged by May, at the latest. In this case, we can expect the authorities to be in a position to rollover IMF redemptions (USD 5.5 bln) and Eurobond payback (USD 1.0 bln) throughout the year. What's more, a hryvnia decline should curb non-energy import growth, allowing for a modest C/A deficit below USD 14.0 bln by the year's end. If those conditions are met, gross reserves should stay in a safe zone, declining only to USD 20.7 bln till December 2013.

All the alternatives look risky or improbable

Though the baseline with the IMF and controlled devaluation is the optimal scenario to secure smooth economic development, we see a few other alternatives that also might happen.

The next likely scenario is constructive talks with the IMF (securing access to external markets) without a hryvnia decline, which is quite probable given the sacred meaning of a stable hryvnia for the ruling authorities. In this case the country still has a good chance to avoid shocks since the authorities will be able to replenish gross reserves from new Eurobonds (such as the Feb. 4 USD 1.0 bln Eurobond placement). However in this case, the expanding C/A deficit would keep pressure on the forex market to pull gross NBU reserves down to quite risky level of two months of imports in 4Q12.

This outcome does not look desirable for the president, who would have too limited a set of instruments to keep the hryvnia stable during 2014, when he will have to deliver the demands for "stability" from his electorate (to save a chance for re-election in early 2015). To say it clear, if the president chooses between devaluation in 2013 to secure some stability in 2014, vs. a stable hryvnia in 2013 and lot of uncertainties afterwards, the first choice is obviously preferred.

Another possibility is the coincidence of the factors:

- Ukraine signs a new gas deal with Russia to save up to USD 3 bln, or hard commodity market revives fast;
- Higher risk appetite globally remains till end of 2013.

In that case, we can hardly expect the government would comply with the IMF requirements. That scenario will curb C/A deficit growth and will allow a rollover of sovereign debt despite no deal with the IMF (just building "positive dialogue" with the Fund). So far, however, the chance for this scenario appears miserable.

Forex policy / IMF scenarios, 2013

Scenario	Probability	Comments	C/A deficit, bln USD	End-year NBU reserves, USD bln	UAH/USD by end-13
Base-case: The IMF deal is resumed and a controlled devaluation is arranged (by 10%)	80%	The 10% devaluation would save about USD 4.0 bln in NBU reserves only as a result of a smaller C/A deficit. Devaluation should be the key point on the IMF's agenda – satisfying the demands of the IMF, Ukraine's largest creditor, will widen opportunities to rollover debts via other debt instruments. We expect at least positive signals from the IMF in mid-February and more concrete steps toward cooperation by mid-April.	14.8	20.7	8.8
No devaluation, maintaining the image of "engaging in constructive talks" with the IMF	15%	Authorities are very proud of preserving UAH stability in 2010-12, and the temptation to maintain it further is enormous. This scenario has the chance to go smoothly if: - a significant revival of global commodity markets happens - a deal is reached with Gazprom for significant gas discounts - or the global risk appetite will be enormous Otherwise, NBU reserves will reach the 2M-import threshold already in 4Q13 that would cause the NBU to lose control over the hryvnia. The latter would be a nightmare for the president.	16.0-19.0	16.7-19.7	8.2 – 9.5
Status quo	5%	The least probable scenario, which presumes an accelerating decline in gross reserves. The government would lose control of the forex market already in 2Q13	18.8	14.1	9.5+

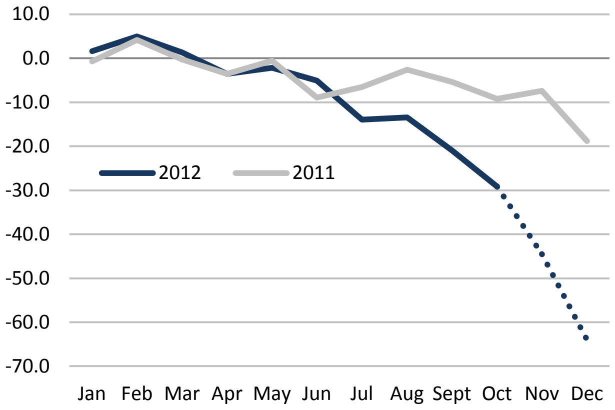
Source: Concorde Capital research

THE BUDGET:
2013 fiscal plan is realistic as never before

Accrued fiscal balance in 2012 reached 4.8% of GDP
Fiscal accounts were getting worse during the last months of the year. The State Treasury reported only 10.0% growth in budget income in 2012 vs. a 23.0% growth plan. The underperformance amounted to UAH 28 bln (7.5% of the plan). The estimated 2012 fiscal gap is UAH 67.6 bln, or 4.8% of GDP.

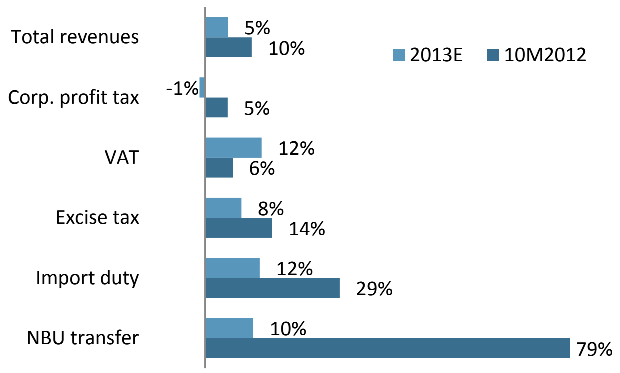
The 2012 deficit was covered from privatization proceeds (UAH 6.75 bln), new loans (UAH 28.6 bln domestically and USD 1.36 bln externally) and some cash residuals accumulated at treasury accounts.

Central budget balance, YTD, UAH bln



Source: MinFin, Concorde Capital estimates

Central budget revenue growth, yoy



Note: for total revenues we suggest 12 M 2012 revenues growth
Source: MinFin, Concorde Capital estimates

Down-to-earth spending plan for 2013
The budget outlook for 2013 has been partially adjusted for problems detected in 2012:

- the authorities cut the compensation for lost Soviet Savings Bank deposits and envisaged modest growth for minimum wages (+5.0%) and the minimum subsistence level (+6.8%) to limit state spending growth from 2012 levels;
- MinFin stuck to a quite realistic 2013 revenue target, presuming only a 4.9% increase (vs. +10.0% in 2012), which is seen as quite feasible given that some economic growth is projected.

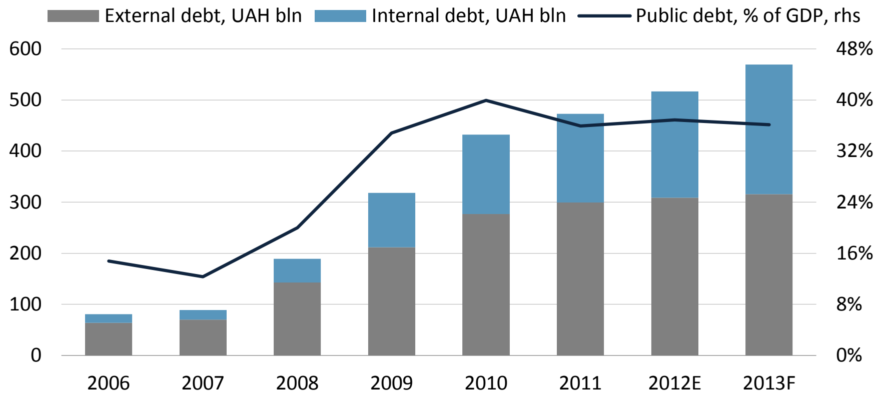
At the same time, the 2013 budget preserved a subsidy to Naftogaz (UAH 8.0 bln raised through bond issues) with flat gas tariffs and an expanded Pension Fund subsidy to 5.3% of GDP (from 4.6% in 2012), which might be an issue during IMF negotiations. However, even those points alone do not look that risky in terms of fiscal policy.

Manageable fiscal gap in 2013
The fiscal gap is targeted at 3.1% GDP for the central budget and 4.0% GDP for the general budget (local budgets included). The Naftogaz statutory fund replenishment will add 0.5 ppt to the numbers. Deficit financing looks manageable assuming external funding is available and devaluation sentiments are neutralized.

MinFin plans to raise nearly USD 5 bln in 2013 in foreign cash, which is feasible if the markets are favorable (in 2012 USD 3.85 bln in Eurobonds were placed and USD 2.9 bln was raised locally).

Local treasury bonds are scheduled to bring UAH 47.4 bln in 2013 to partially cover the gap – and a negative externality in this case would be the increased devaluation pressure. In 2012, this channel of monetary base formation was among the key sources of internal demand for foreign currency. If the sentiments are preserved, the NBU might face elevated devaluation risks when purchasing UAH bonds through the year.

Public debt stats



Source: MinFin, Concorde Capital estimates

The privatization target (UAH 10.9 bln) looks also realistic. Even with political volatility in 2012, the State Property Fund (SPF) managed to cover 67% of its revenue plan (UAH 6.75 bln). Assuming smooth developments, we can expect a privatization target will be implemented via crony business purchases. Overall, missing the privatization target could only occur if the SPF doesn't offer enough assets for sale.

Central budget deficit financing, 2013 plan

	UAH bln	% of GDP
External borrowing	42.7	2.7%
External redemptions	35.6	2.3%
incl. IMF debt	20.5	1.3%
incl. Eurobonds	8.2	0.5%
Net external borrowings	7.1	0.4%
Domestic borrowings	92.9	5.9%
incl. Naftogaz capitalization	8.0	0.5%
Domestic redemptions	45.5	2.9%
Net domestic borrowing	47.4	3.0%
Privatization revenues	10.9	0.7%
Total financing	**65.4**	**4.1%**
Total needs	**49.2**	**3.1%**

Source: Verkhovna Rada, Concorde Capital estimates

APPENDICES

Appendix I. Key macro indicators

Key historical data and forecasts

	2006	2007	2008	2009	2010	2011	2012E	2013E
Economic activity indicators								
Real GDP, chg yoy	7.3%	7.9%	2.3%	-14.8%	4.1%	5.2%	0.2%	1.6%
Household consumption, chg yoy	15.9%	17.2%	13.1%	-14.2%	7.2%	15.0%	12.0%	8.4%
Investments in fixed capital, chg yoy	20.9%	24.4%	-1.2%	-50.5%	3.9%	10.1%	6.2%	6.0%
Nominal GDP, UAH bln	544	721	948	913	1,083	1,317	1,400	1,576
Nominal GDP, USD bln	108	143	180	117	136	165	175	181
GDP per capita, USD	2,312	3,077	3,902	2,548	2,978	3,624	3,843	3,973
Industrial output, chg yoy	6.2%	7.6%	-5.2%	-21.9%	11.2%	7.6%	-1.7%	1.5%
CPI (eop)	11.6%	16.6%	22.3%	12.3%	9.1%	4.6%	-0.2%	10.7%
CPI average	9.1%	12.8%	25.2%	15.9%	9.4%	8.0%	0.6%	5.3%
PPI (eop)	14.1%	23.3%	23.0%	14.3%	18.7%	14.2%	0.4%	13.8%
External accounts								
Current account balance, USD bln	-1.6	-5.9	-12.8	-1.7	-3.0	-10.2	-14.4	-14.8
% GDP	-1.5%	-4.2%	-7.1%	-1.5%	-2.2%	-6.1%	-8.2%	-8.2%
Merchandise trade balance, USD bln	-5.2	-10.6	-16.1	-4.3	-8.4	-16.3	-20.5	-20.6
% GDP	-4.8%	-7.4%	-8.9%	-3.7%	-6.2%	-9.9%	-11.7%	-11.4%
Service trade balance, USD bln	2.1	2.4	1.7	2.4	4.4	6.1	6	6.0
% GDP	1.9%	1.7%	0.9%	2.1%	3.2%	3.7%	3.4%	3.3%
Financial account balance, USD bln	4.0	14.7	9.7	-12.0	8.0	6.6	10.2	11.0
% GDP	3.7%	10.3%	5.4%	-10.3%	5.9%	4.0%	5.8%	6.1%
FDI net, USD bln	5.7	9.2	9.9	4.7	5.8	7.0	7	7.5
% GDP	5.3%	6.4%	5.5%	4.0%	4.3%	4.2%	4.0%	4.1%
Gross NBU reserves (eop), USD bln	22.4	32.5	31.5	26.5	34.6	31.8	24.6	20.7
Public debt								
Public debt, USD bln	15.9	17.6	24.6	39.8	54.3	59.6	64.6	68.3
% GDP	14.7%	12.3%	13.7%	34.0%	39.9%	36.1%	36.9%	37.7%
Public external debt, USD bln	12.7	13.9	18.5	26.6	34.8	37.5	38.7	41.9
% GDP	11.8%	9.7%	10.3%	22.7%	25.6%	22.7%	22.1%	23.1%
Gross external debt, USD bln	54.5	80.0	101.7	103.4	117.3	126.2	132.5	140.7
% GDP	50.5%	55.9%	56.5%	88.4%	86.3%	76.5%	75.6%	77.7%
Monetary and banking sector indicators								
Monetary base, UAH bln	97	142	187	195	226	240	245	260
chg yoy	17.2%	46.4%	31.7%	4.3%	15.9%	6.2%	2.1%	6.1%
Money supply (M3), UAH bln	261	396	516	487	598	686	733	782
chg yoy	34.5%	51.7%	30.2%	-5.5%	22.7%	14.7%	6.9%	6.6%
Monetary multiplier (eop M3/MB)	2.7	2.8	2.8	2.5	2.6	2.9	3.0	3.0
Monetization (eop M3/GDP)	48.0%	55.0%	54.4%	53.4%	54.6%	52.1%	52.4%	49.6%
Bank loans, chg yoy	71.0%	74.1%	72.0%	-1.5%	1.3%	9.4%	2.8%	5.5%
Bank deposits, chg yoy	38.0%	52.7%	26.7%	-6.9%	24.4%	18.0%	10.3%	8.5%
Loan-to-deposit ratio	1.32	1.50	2.04	2.16	1.76	1.63	1.52	1.52
Exchange rate								
Official UAH/USD (eop)	5.05	5.05	7.58	7.97	7.96	7.99	7.99	8.80
Official UAH/USD (avg)	5.05	5.05	5.27	7.79	7.94	7.97	7.99	8.70
Fiscal indicators								
Consolidated budget revenues, USD bln	34.0	43.6	56.5	37.0	39.6	50.0	54.8	53.2
% GDP	32%	30.5%	31.4%	31.7%	29.1%	30.3%	31.3%	29.4%
Consolidated budget expenditures, USD bln	34.7	44.8	58.7	39.4	47.6	52.3	63.5	60.4
% GDP	32%	31.3%	32.6%	33.7%	35.0%	31.7%	36.2%	33.3%
Consolidated budget balance, USD bln	-0.7	-1.2	-2.2	-2.4	-8.0	-2.3	-8.7	-7.2
% GDP	-0.7%	-0.8%	-1.2%	-2.1%	-5.9%	-1.4%	-5.0%	-4.0%
General budget balance (incl. Naftogaz), USD bln	n/a	n/a	n/a	-5.3	-10.7	-3.2	-9.7	-8.1
% GDP	n/a	n/a	n/a	-4.5%	-7.9%	-2.0%	-5.5%	-4.5%
Social indicators								
Population, mln (eop)	46.6	46.4	46.1	46.0	45.8	45.6	45.6	45.6
Unemployment (ILO methodology, avg.), %	7.4%	6.9%	6.9%	9.6%	8.8%	8.6%	8.3	8.0
Average monthly salary, USD	206	268	343	245	282	330	375	375
Real disposable income, chg yoy	11.8%	14.8%	7.6%	-10.0%	17.1%	8.0%	13.5	7.9

Source: NBU, UkrStat, Concorde Capital research

Appendix II Concorde vs. Consensus

	Concorde Capital	Consensus*
Real GDP, chg yoy	1.6%	2.2%
Household consumption, chg yoy	8.4%	4.1%
Gross fixed investment, chg yoy	6.0%	2.0%
Industrial production, chg yoy	1.5%	2.5%
Consumer prices, avg chg	5.3%	5.3%
Merchandise trade balance, USD bln	-20.6	-18.2
Current account balance, USD bln	-14.8	-11.5

** Eastern European Consensus Forecast, December 2012*

Source: Consensus Economics, Concorde Capital

Appendix III GDP outlook by components

Component	2011	2012E	2013F	Comment
Household consumption	15.0%	12.0%	8.4%	Household consumption proved to be steady on the back of continued double-digit real wage growth (+14.4% yoy in 2012) on both a minimum wage increase (+14.0% yoy) and low inflation (+0.6% yoy in 2012). This was despite a 7.6% yoy drop in consumer loans in 11M12. In 2013, the pattern of household consumption growth will remain similar despite real incomes growth slowing due to the modest minimum wage upgrade (+ 5.0% yoy). Household consumption will preserve resilient growth rates at the expense of reduced savings, as was the case in 2011: savings fell 29.6%.
Government consumption	-2.6%	6.9%	-1.7%	The role of government consumption in 2012 was elevated due to infrastructure projects (dedicated to the EURO 2012 soccer championship) and some pre-election investment. With a downgraded spending plan for 2013, we should see government consumption declining.
Fixed capital investments	10.1%	6.2%	6.0%	EURO 2012 projects underpinned the 12.2% growth in fixed capital formation in 1H12. The situation changed significantly in 3Q312: -2.8% yoy. Pre-election uncertainty and the generally poor investment environment took a major toll. Based on this experience, we do not expect any investment boom in 2013. However, crony businesses will continue their investment projects to maintain fixed capital investments in the green.
Exports	2.2%	-5.5%	0.2%	Real exports declined 7.3% yoy in 2012 (our estimate) on sluggish commodity markets. An acceleration in grain exports in 4Q12 should somewhat improve the annual stats. We expect a minor revival in the markets in mid-2013 to result in minor real export growth for the year.
Imports	16.8%	4.6%	-1.3%	2012 imports grew 2.7% yoy (our estimate) in real terms on the back of rising non-energy imports. At the same time, energy costs declined in line with lower gas and fuel imports. In 2013, we expect consumer and investment imports (non-energy) to fall slightly in real terms due to the hryvnia's anticipated weakening. The nation's energy bill is expected to remain unchanged.
Real GDP	**5.2%**	**0.2%**	**1.6%**	

Source: NBU, UkrStat, Concorde Capital research

Analyst certification

I, Alexander Paraschiy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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