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Ukraine / Strategy

FX Tax Reduction

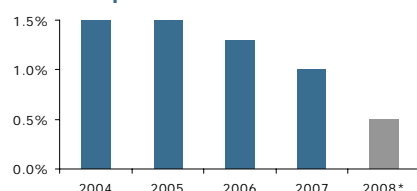
Foreign Currency Returns to Increase

Analyst Notebook

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Oleksandr Klymchuk
+380 44 391 5577
ok@concorde.com.ua

Historic pension fund tax rate



* As proposed by the Finance Ministry
Source: minfin.kmu.gov.ua

- Yesterday the Finance Ministry proposed to cut the pension tax on foreign currency purchases from 1% to 0.5% effective January 2008;
- Good news for foreign investors: the cut will increase foreign currency returns on hryvnia-denominated assets;
- With strong government backing and all major political camps supporting the move, we foresee an easy adoption of the cut.

The Finance Ministry became the third state authority to propose a reduction in the pension tax on foreign currency purchases – a clear indication of common agreement among top decision-makers that the tax should be relieved in 2008. The State Tax Administration's draft law suggests a steady decline. Meanwhile, the National Bank of Ukraine is for quick elimination, which is promoted by influential figures such as the Head of the NBU's Supervisory Board, Petro Poroshenko, and the Deputy Head of the NBU, Anatoliy Shapovalov.

Summary of proposals for the pension tax rate

	2007	2008F	2009F	2010F
NBU	1.0%	0.0%	0.0%	0.0%
Finance Ministry	1.0%	0.5%	n/a	n/a
STA	1.0%	0.7%	0.4%	0.0%

Source: NBU, Finance Ministry, State Tax Administration

To come into force, the new tax rate must be adopted by Parliament (as a separate law or in the State Budget law for 2008) and signed by the President. We consider the most probable outcome to be a tax reduction to 0.5% in 2008, with cancellation in 2009 as a trade-off between the NBU's plans and the latest proposal by the Finance Ministry.

Concorde Capital
2 Mechnikova Street
21st Floor
Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO
 Igor Mazepa im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Head of Equity Sales
 Lucas Romriell lr@concorde.com.ua

Strategy
 Konstantin Fisun kf@concorde.com.ua
 Oleksandr Klymchuk ok@concorde.com.ua

Equity Sales
 Marina Martirosyan mm@concorde.com.ua
 Anastasiya Nazarenko an@concorde.com.ua
 Duff Kovacs, CFA dk@concorde.com.ua
 Tatyana Chub tc@concorde.com.ua
 Zack Watson zw@concorde.com.ua

Metals & Mining
 Eugene Cherviachenko ec@concorde.com.ua

Utilities (Telecom, Energy)
 Alexander Paraschiy ap@concorde.com.ua

Director of Research
 Konstantin Fisun, CFA kf@concorde.com.ua

Oil & Gas, Chemicals
 Vladimir Nesterenko vn@concorde.com.ua

Consumer/Retail Group
 Andriy Gostik, CFA ag@concorde.com.ua
 Olha Pankiv op@concorde.com.ua
 Alexander Romanov ar@concorde.com.ua
 Anna Dudchenko ad@concorde.com.ua

Machinery
 Olha Pankiv op@concorde.com.ua
 Eugene Cherviachenko ec@concorde.com.ua
 Inna Perepelytsya pi@concorde.com.ua

Financial Services
 Alexander Viktorov av@concorde.com.ua

Macroeconomics
 Alexander Viktorov av@concorde.com.ua
 Polina Khomenko pk@concorde.com.ua

Fixed Income
 Oleksandr Klymchuk ok@concorde.com.ua

Corporate Governance
 Nick Piazza np@concorde.com.ua

News/Production
 Nick Piazza np@concorde.com.ua
 Polina Khomenko pk@concorde.com.ua

Editor
 Brad Wells bw@concorde.com.ua

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