CONCORDE CAPITAL

Ukraine gets $16.5 bln IMF loan

Funds to support economic and financial stability

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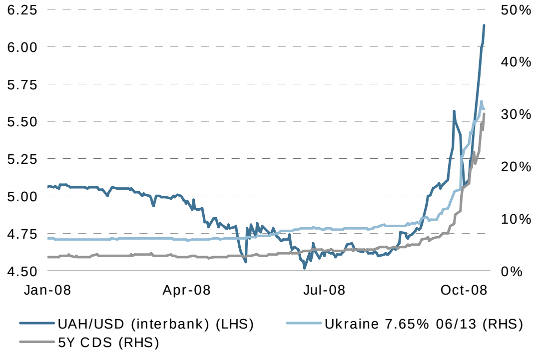
UAH/USD, CDS and sovereign bonds



Source: Bloomberg

Key macroeconomic indicators

	2007	2008E	2009F
Business cycle			
Real GDP, % yoy	7.6	5.3	4.3
Nominal GDP, USD bln	141.2	197.0	231.2
Industrial output, % yoy	10.2	3.0	5.9
CPI (eop), % yoy	16.6	21.0	15.0
PPI (eop), % yoy	23.3	40.0	18.0
External sector			
FDI net, USD bln	9.2	10.4	10.0
C/A balance, % GDP	-4.2	-5.8	-9.1
Trade balance, % GDP	-5.6	-6.5	-9.5
	0.0	0.0	0.0
Debt indicators			
External debt, % of GDP	59.9	56.4	60.3
NBU reserves, USD bln	32.5	30.9	20.4
Exchange rate			
Interbank UAH/USD (avg)	5.03	U/R	U/R

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

Prices for core commodities, as of October 27

	Current	%, YTD	%, yoy
Gas imports, USD/tcm	179.5	0%	38%
Crude oil (URALS), USD/bbl	56.9	-38%	-34%
Winter wheat, USD/mt, FOB**	217.0	-15%	-13%
Steel square billet, USD/mt, FOB**	280.0	-52%	-44%

***Black Sea ports*

Source: Gas of Ukraine, Bloomberg, Metal Courier

- **The IMF said in a statement yesterday that it agreed with the Ukrainian government on an up to USD 16.5 bln loan to help shield Ukraine from the global financial crisis**
- **We believe the USD 16.5 bln, plus the NBU's reserves of USD 34.3 bln, are sufficient for the NBU to bolster liquidity in the banking sector, cover external debt obligations, and support the UAH**
- **The news failed to alter the market's direction: sovereign yields and the CDS spread continue to rise, and the UAH - weaken**

IMF offers USD 16.5 bln loan, requires parliament to act

The International Monetary Fund said yesterday that it reached an agreement with the Ukrainian government on an up to USD 16.5 bln standby loan, valid for the next two years. Approval by the IMF's board is dependent on Ukraine's parliament passing an emergency economic program, the details of which were not disclosed. The Verkhovna Rada is due to convene tomorrow to consider approval of the plan.

IMF Managing Director Dominique Strauss-Kahn, said in a statement, "the (Ukrainian) authorities' program is intended to support Ukraine's return to economic and financial stability, by addressing financial sector liquidity and solvency problems, by smoothing the adjustment to large external shocks and by reducing inflation. At the same time, it will guard against a deep output decline by insulating household and corporations to the extent possible."

Our view: Where the funds will be spent

Although disbursement details were not announced, we believe the funds are most likely to be directed to bolster liquidity in the banking sector (which is, among other things, facing the repayment of about USD 8 bln in individuals' deposits in November-December), support the hryvnya by selling US dollars interbank, and give it the ability to cover short and long-term commercial and public debt obligations in 2008-2009: Ukraine is slated to redeem around USD 8.5 bln in external debt in 4Q08 and USD 41.5 bln in 2009 (for details, see our flash note of October 17).

The USD 16.5 bln figure corresponds to 48% of the central bank's current estimated reserves and 59% of Ukraine's public & corporate short-term debt.

Market reaction

Although the Ukraine-IMF deal clearly sends a positive signal to debt and exchange rate markets, the news has not altered the market's direction: yields and CDS spread on sovereign debt have continued rising today, while the hryvnya has depreciated another 0.4% against the dollar to 6.05, as of 16:30 today. We contend that the woes over sovereign debt are extremely exaggerated, given that Ukraine is only due to pay off USD 2.2 bln in 2008-2009 in interest and principal.

FLASH NOTE
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