

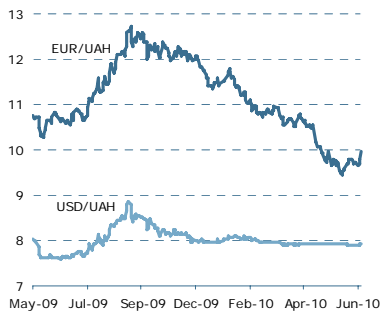
# Ukraine secures \$15 bln from IMF

## Deficit financing and forex risks mitigated

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### UAH exchange rates, mid-market



Source: Ukrdealing

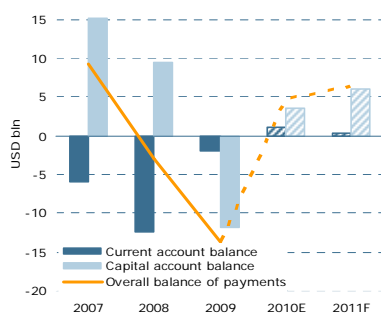
### Key macroeconomics indicators

|                                       | 2009  | 2010E | 2011F |
|---------------------------------------|-------|-------|-------|
| <b>Business cycle</b>                 |       |       |       |
| Real GDP, chg yoy                     | -15.1 | 4.0   | 4.9   |
| Nominal GDP, USD bln                  | 117.4 | 133.7 | 152.8 |
| Industrial output, chg yoy            | -21.9 | 6.8   | 7.7   |
| CPI (cop), chg yoy                    | 12.3  | 10.0  | 8.0   |
| <b>Public finance</b>                 |       |       |       |
| Consolidated budget deficit*, USD bln | -8.3  | -8.8  | -6.6  |
| Consolidated budget deficit, % GDP    | -7.3  | -6.6  | -4.9  |
| Public debt, USD bln                  | 37.8  | 54.8  | 65.4  |
| Public debt, % of GDP                 | 33.0  | 43.1  | 44.4  |
| <b>External sector</b>                |       |       |       |
| NBU reserves (eop), USD bln           | 26.5  | 35.1  | 41.5  |
| Current account balance, % GDP        | -1.6  | 0.8   | 0.3   |
| Capital account balance, % GDP        | -10.2 | 2.6   | 3.9   |
| External debt, % of GDP               | 88.5  | 86.4  | 82.1  |
| <b>Exchange rate</b>                  |       |       |       |
| Interbank UAH/USD (avg)               | 8.11  | 7.90  | 7.90  |

\*Incl. Naftogaz, excl. Banks recapitalization

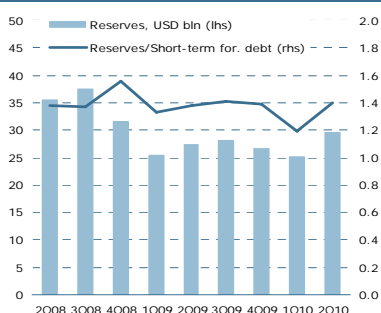
Source: SSC, Finance Ministry, NBU, Concorde Capital

### BoP, USD bln



Source: NBU, Concorde Capital

### NBU Reserves, Reserves/ST for. debt



Source: NBU

**On Saturday, July 3, the International Monetary Fund announced an agreement with Ukrainian authorities on a new 2.5-year USD 14.9 bln stand-by loan. The new deal will facilitate fiscal consolidation, capping the budget deficit at 6.5% of GDP in 2010 and 3.5% in 2011, and help place USD 1-2 bln in sovereign Eurobonds in July. Access to additional forex liquidity will also keep UAH forex risks low.**

### IMF board approval of USD 15 bln loan looks like a lock

An IMF mission on June 21-July 3, 2010 to Kyiv resulted in staff-level agreement with Ukrainian authorities on a new 2.5-year stand-by facility for SDR 10 bln (USD 14.9 bln at current rate or ~50% of central bank reserves). The new deal requires the approval of the IMF's board of directors, which is expected in late July, and depends on Ukraine making legislative changes in the fiscal & financial spheres. We expect the legislature to act in time, as the government is supported by a solid majority in parliament.

This facility will replace the current 2-year USD 16.5 bln stand-by agreement, signed in October 2008 and halted in late 2009. Ukraine received USD 11 bln from that facility (USD 6 bln to central bank reserves and USD 5 bln directly to the government).

### Fiscal deficit financing will get easier

The IMF's announcement did not specify whether funds would be provided exclusively to the central bank (as is the IMF's usual practice), or partly to cover the fiscal deficit as Ukraine did in 2009. It looks logical to us, though, if the IMF directly forwards the government an amount equivalent to, at least, Ukraine's current debt to the IMF (~USD 5 bln) to effectively refinance it.

Even if the government receives no or limited IMF funds, the IMF program:

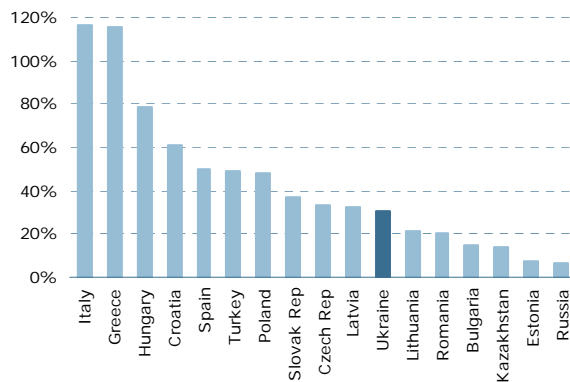
- Promotes discipline: required changes include expense optimization, pension reform, tax improvement (foremost, VAT reimbursement), and eliminating Naftogaz' deficit by 2011. The fiscal deficit should be capped at 6.5% of GDP in 2010 and 3.5% in 2011, after 7.4% in 2009 (incl. Naftogaz' gap). Although we see risks of non-fulfillment, underperformance should not nix the IMF program over these 2.5 years
- Sends a positive signal to foreign investors and creditors, making it easier for the government to finance its fiscal deficit in 2010-2011 through public instruments (it plans to issue USD 1-2 bln in Eurobonds in July) and by loans from other supra-national bodies (World Bank, EBRD)

### FX risks are poised to stay low

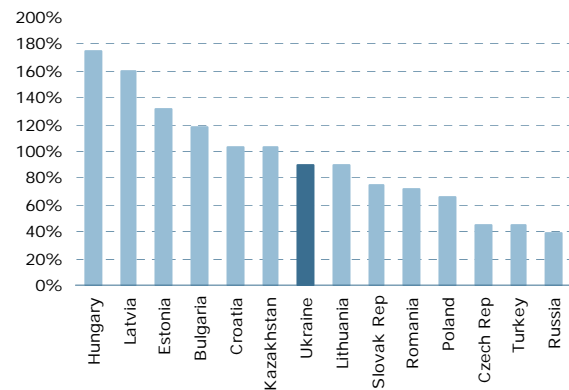
Access to additional FX liquidity will keep UAH forex risks low and support market confidence in the hryvnya in 2H10 by:

- Providing additional forex resources: the downtrend in export steel prices (-27% in May-June) might eventually cause a deficit in domestic forex in 2H10 since metallurgy exports (avg. 13.6% of GDP in 2007-09) account for a significant share of domestic forex supplies and are driving the overall economic recovery (GDP est. +6.1% yoy in 5M10)
- Bolstering Ukraine's ability to timely and fully repay external obligations, incl. redeeming USD 0.4 bln in Eurobonds in December (yen notes), USD 0.6 bln in March 2011, and repaying its debts to the IMF from its previous stand-by facility starting from 2012
- Supporting UAH exchange rate stability as the new agreement obliges the authorities to strengthen the financial sector by enhancing the central bank's independence, and ensuring sufficient capitalization of local banks

As of now, though, UAH forex risks are muted. To keep the hryvnya from appreciating, the NBU bought net USD 4.2 bln in excessive forex supply in March-June, which stemmed from a BoP double surplus worth USD 1.6 bln in 5M10. This also pushed NBU reserves to ~USD 29.5 bln as of end-June (equal to 140% of total short-term external debt and ~5.8 months of projected imports).

**Public debt in 2009, % of GDP**


Source: Concorde Capital, CIA

**Total external debt in 2009, % of GDP**


Source: Concorde Capital, IMF

**Yearly economic indicators and Concorde Capital forecasts**

|                                        | 2002 | 2003 | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010E | 2011F |
|----------------------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Business cycle indicators</b>       |      |      |       |       |       |       |       |       |       |       |
| Real GDP, % chg yoy                    | 5.2  | 9.6  | 12.1  | 2.7   | 7.3   | 7.9   | 2.3   | -15.1 | 4.0   | 4.9   |
| Nominal GDP, UAH bln                   | 226  | 267  | 345   | 441   | 544   | 721   | 948   | 915   | 1056  | 1207  |
| Nominal GDP, USD bln                   | 42.4 | 50.1 | 65.0  | 86.1  | 107.8 | 142.7 | 179.9 | 117.4 | 133.7 | 152.8 |
| GDP per capita, UAH                    | 4685 | 5591 | 7273  | 9372  | 11630 | 15372 | 20495 | 19901 | 23079 | 26495 |
| GDP per capita, USD                    | 880  | 1048 | 1371  | 1829  | 2303  | 3044  | 3890  | 2555  | 2921  | 3354  |
| Consumption, % chg yoy                 | 9.5  | 11.5 | 13.1  | 20.6  | 15.9  | 17.1  | 11.8  | -14.1 | 3.0   | 5.0   |
| Investment, % chg yoy                  | -1.5 | 24.3 | 5.5   | 14.0  | 18.5  | 22.1  | 5.1   | -52.9 | 6.8   | 7.5   |
| Industrial output, % chg yoy           | 7.0  | 15.8 | 12.5  | 3.1   | 6.2   | 10.2  | -3.1  | -21.9 | 6.8   | 7.7   |
| CPI (eop), % chg yoy                   | -0.6 | 8.2  | 12.3  | 10.3  | 11.6  | 16.6  | 22.3  | 12.3  | 10.0  | 8.0   |
| PPI (eop), % chg yoy                   | 5.7  | 11.1 | 24.1  | 9.5   | 14.1  | 23.3  | 23.0  | 14.4  | 10.0  | 15.0  |
| <b>External indicators</b>             |      |      |       |       |       |       |       |       |       |       |
| Current account balance, USD bln       | 3.2  | 2.9  | 6.9   | 2.5   | -1.6  | -5.9  | -12.5 | -1.9  | 1.1   | 0.4   |
| Current account balance, % GDP         | 7.5  | 5.8  | 10.6  | 2.9   | -1.5  | -4.1  | -7.0  | -1.6  | 0.8   | 0.3   |
| Trade balance, USD bln                 | 1.9  | 1.3  | 5.0   | 0.7   | -3.1  | -7.9  | -13.7 | -2.7  | 1.0   | 0.5   |
| Trade balance, % GDP                   | 4.4  | 2.6  | 7.7   | 0.8   | -2.8  | -5.5  | -7.6  | -2.3  | 0.7   | 0.3   |
| Exports, USD bln                       | 23.4 | 29.0 | 41.3  | 44.4  | 50.2  | 64.0  | 85.7  | 54.1  | 62.9  | 70.1  |
| Exports, % chg yoy                     | 10.7 | 24.0 | 42.6  | 7.5   | 13.2  | 27.4  | 34.0  | -36.9 | 16.2  | 11.5  |
| Imports, USD bln                       | 21.5 | 27.7 | 36.3  | 43.7  | 53.3  | 71.9  | 99.4  | 56.1  | 61.2  | 68.6  |
| Imports, % chg yoy                     | 5.0  | 28.7 | 31.3  | 20.4  | 22.0  | 34.8  | 38.3  | -43.5 | 9.1   | 12.0  |
| Capital account balance, USD bln       | -1.2 | 0.1  | -4.3  | 8.0   | 4.1   | 15.1  | 9.5   | -11.9 | 3.5   | 6.0   |
| Capital account balance, % GDP         | -2.9 | 0.2  | -6.7  | 9.3   | 3.8   | 10.6  | 5.3   | -10.2 | 2.6   | 3.9   |
| FDI net, USD bln                       | 0.7  | 1.4  | 1.7   | 7.5   | 5.7   | 9.2   | 9.9   | 4.5   | 5.0   | 6.0   |
| NBU reserves (eop), USD bln            | 4.4  | 5.1  | 9.5   | 19.4  | 22.3  | 32.5  | 31.5  | 26.5  | 35.1  | 41.5  |
| <b>Debt indicators</b>                 |      |      |       |       |       |       |       |       |       |       |
| Public debt, USD bln                   | 13.8 | 14.5 | 16.0  | 15.5  | 15.9  | 17.6  | 24.6  | 37.8  | 54.8  | 65.4  |
| Public debt, % GDP                     | 32.5 | 29.0 | 24.7  | 18.0  | 14.8  | 12.3  | 13.7  | 33.0  | 43.1  | 44.4  |
| Corporate external debt, USD bln       | n/a  | 13.0 | 17.8  | 25.5  | 42.7  | 67.6  | 85.0  | 80.0  | 85.5  | 90.5  |
| Corporate external debt, % GDP         | n/a  | 25.9 | 27.3  | 29.6  | 39.6  | 47.4  | 47.2  | 68.1  | 63.9  | 59.2  |
| Gross external debt, USD bln           | n/a  | 23.8 | 30.6  | 38.9  | 54.5  | 80.0  | 101.7 | 104.0 | 115.5 | 125.5 |
| Gross external debt, % GDP             | n/a  | 47.5 | 47.1  | 45.2  | 50.6  | 56.0  | 56.5  | 88.5  | 86.4  | 82.1  |
| <b>Monetary indicators</b>             |      |      |       |       |       |       |       |       |       |       |
| Monetary base, UAH bln                 | 30.7 | 40.1 | 53.8  | 82.8  | 97.2  | 141.9 | 186.7 | 195.0 | 225.8 | 259.6 |
| Monetary base, % chg yoy               | 33.6 | 30.5 | 34.1  | 53.9  | 17.5  | 46.0  | 31.6  | 4.4   | 15.8  | 15.0  |
| Money supply (M3), UAH bln             | 64.9 | 95.0 | 125.8 | 194.1 | 261.1 | 396.2 | 514.7 | 487.3 | 575.7 | 688.0 |
| Money supply, % chg yoy                | 41.8 | 46.5 | 32.4  | 54.3  | 34.5  | 51.7  | 29.9  | -5.3  | 18.1  | 19.5  |
| Monetary multiplier (eop MB/M3)        | 2.1  | 2.4  | 2.3   | 2.3   | 2.7   | 2.8   | 2.8   | 2.5   | 2.6   | 2.7   |
| Monetization (avg M3/GDP), %           | 24.9 | 30.3 | 32.0  | 36.7  | 42.3  | 46.4  | 46.0  | 55.0  | 50.3  | 52.3  |
| <b>Exchange rate</b>                   |      |      |       |       |       |       |       |       |       |       |
| Interbank UAH/USD (avg)                | 5.33 | 5.33 | 5.32  | 5.10  | 5.04  | 5.03  | 5.30  | 8.11  | 7.90  | 7.90  |
| <b>State budget</b>                    |      |      |       |       |       |       |       |       |       |       |
| Revenues, UAH bln                      | n/a  | 55.1 | 70.3  | 105.2 | 133.5 | 165.9 | 231.7 | 210.3 | 267.5 | 301.8 |
| Expenses, UAH bln                      | n/a  | 55.8 | 79.5  | 112.8 | 137.1 | 174.2 | 241.5 | 242.4 | 323.6 | 338.1 |
| Balance, % GDP                         | n/a  | -0.4 | -3.0  | -1.8  | -0.7  | -1.4  | -1.3  | -3.5  | -5.3  | -3.0  |
| <b>Social indicators</b>               |      |      |       |       |       |       |       |       |       |       |
| Population, mln (eop)                  | 48.0 | 47.6 | 47.3  | 46.9  | 46.6  | 46.4  | 46.3  | 46.0  | 45.8  | 45.6  |
| Unemployment (ILO methodology, avg), % | 9.6  | 9.1  | 8.6   | 7.2   | 6.8   | 6.4   | 6.4   | 8.0   | 7.5   | 7.0   |
| Average monthly salary, UAH            | 376  | 463  | 591   | 806   | 1,043 | 1,351 | 1,806 | 1,909 | 2,163 | 2,523 |
| Real disposable income, % chg yoy      | 18.0 | 5.8  | 16.8  | 20.1  | 16.1  | 12.8  | 10.3  | -9.4  | 3.0   | 8.0   |

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

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