



CONCORDE CAPITAL

# IMF stabilization loan

## Agreement reached on Ukraine's third tranche

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### Key macroeconomic indicators

	2008	2009E	2010F
<b>Business cycle</b>			
Real GDP, chg yoy	2.1	-12.0	4.0
Nominal GDP, USD bln	180.3	117.0	134.2
Industrial output, chg yoy	-3.1	-19.1	7.5
CPI (eop), chg yoy	22.3	15.0	7.0
PPI (eop), chg yoy	23.0	11.0	10.0

### External sector

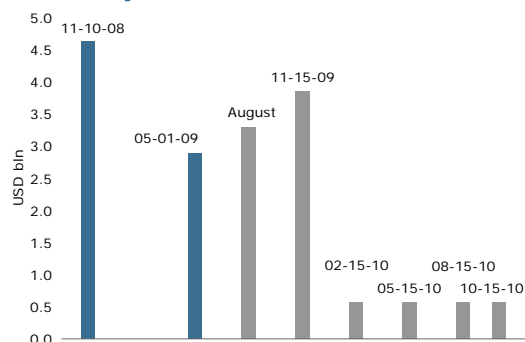
NBU reserves (eop), USD bln	31.5	23.5	21.3
Current account balance, % GDP	-6.6	-0.2	2.9
Capital account balance, % GDP	7.7	-6.7	-4.6
External debt, % of GDP	56.3	87.4	74.6

### Exchange rate

Interbank UAH/USD (avg)	5.27	8.00	7.80
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Source: State Statistics Committee, National Bank of Ukraine, Ministry of Finance, Bloomberg, Concorde Capital estimates

### IMF standby loan tranche schedule



Source: IMF-Ukraine Memorandum of Economic and Financial Policies, May 2009  
Grey bars indicate tranches that have not been disbursed

- On Friday, the IMF said it would seek board approval for the disbursement of a USD 3.3 bln third loan tranche to Ukraine
- USD 1.9 bln will go to the state budget, a portion of which will be used to repay Ukraine's external debt
- The IMF downgraded its forecast for the drop in Ukraine's GDP in 2009 to 14% and budget deficit to 6% of GDP

### Ukraine in line for USD 3.3 bln after IMF review

On Friday, the International Monetary Fund said in a press release that it reached a technical agreement to release a USD 3.3 bln tranche of Ukraine's standby loan. The announcement marks the conclusion of the second review of Ukraine's compliance with loan requirements. Actual disbursement of the tranche would take place in early August after approval by the IMF's executive board.

IMF Mission Head Ceyla Pazarbasioglu said that quantitative performance criteria including the monetary base, net international reserves, and the budget balance were met, and that the authorities had made good progress on to shore up the banking sector and prepare relevant legislative amendments.

In order to secure the decision, Ukraine pledged to pass legislation on the procedure to recapitalize banks, the disclosure of commercial bank shareholders, and to review the financial plan of Naftogaz of Ukraine, and increase gas tariffs for heating companies and the population.

Prime Minister Yulia Tymoshenko said that USD 1.9 bln of the tranche will be directed into the state budget, a portion of which would be used to repay sovereign external debt. Ukraine is due to repay USD 0.5 bln in August, while Naftogaz is up for USD 0.5 bln in September on matured Eurobonds.

### IMF downgrades 2009 economic outlook for Ukraine

Also on Friday, the IMF said that it lowered its forecast for the drop in Ukraine's GDP from 8% yoy to 14% yoy in 2009. The IMF also said that it now foresaw a larger budget deficit, 6% of GDP, vs. 4% previously. The IMF also changed its 2009 CPI growth forecast, improving it to 13% yoy, from 16% yoy.

### Cooperation with IMF to continue despite bumps

As we expected, the IMF proved flexible and granted the third tranche promptly upon conclusion of its second review. We believe the IMF did this deliberately to send a clear message of support to Eastern European countries (including Ukraine).

With presidential elections looming in January 2010, we doubt the likelihood that Ukrainian politicians will bring the country in compliance with all of the IMF's new requirements, particularly with respect to the gas price hike for households. Similarly, a law on the disclosure of commercial bank shareholders could prove divisively sensitive. Nevertheless, we believe the program will continue and Ukraine will receive USD 3.9 bln in a fourth tranche scheduled for November.

We reiterate our 2009 forecasts of a GDP decline at 12% yoy, and CPI growth at 15% yoy. At the same time, we may review our state budget deficit forecast, currently at 4.7% of GDP.

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