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Structure of public debt

	USD bln	Share
External	11.94	79.8%
Direct	9.29	62.1%
Guaranteed	2.65	17.7%
Domestic	3.03	20.2%
Direct	3.03	20.2%
Guaranteed	0.00	0.0%
TOTAL	14.97	100.0%

Source: Finance Ministry

2006 Auctions summary

Tenor	Weighted average yield*, %	# of successful auctions	Amnt sold, UAH mln
2y	8.99	16	583
3y	9.39	19	812
5y	9.50	2	202

* For all the auctions in 2006
Source: Finance Ministry

Sovereign ratings

Agency	Rating	Outlook
S&P	BB-	Negative
Moody's	B1	Positive
Fitch	BB-	Positive
R&I	BB	Stable

Source: Finance Ministry

On June 25, the Finance Ministry held its first local bond auction this year. Strong demand for 1.5 year notes allowed it to place UAH 0.8 bln (USD 159 mln) at 7.12%, 8 bp below the stop yield. We believe bidders were ready to buy other mid-term securities at offered yields, but they were withdrawn as the size of the shorter-term placement let the Finance Ministry raise the funds it needed. If the government is not tempted to decrease yields for mid-term securities, it has a good chance of meeting its year-end target of UAH 3.8 bln (USD 750 mln) after just a few more auctions.

Revival of local auctions

After a six months halt, the Finance Ministry renewed its local bond auctions on June 25, revealing the stop yields for the five instruments that will be offered this year.

Tenor	Stop yield	Weighted avg. yield	Amnt sold, UAH mln
1.5y	7.2%	7.12%	801
3y	7.7%	-	-
5y	7.2%	-	-
7y	6.2%	-	-
10y	5.7%	-	-

Source: Finance Ministry

Stop yields are too low on the long end of the curve

The government will have to increase offered yields for the long-term bonds if they want them to be accepted by the market. Even accounting for a decrease in interest rates in the long-term, we see a minimum yield of 6.95% for 7y and 6.90% for 10y bonds.

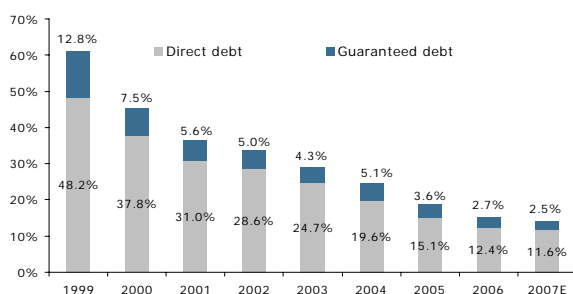
Mid-term securities priced attractively

The very first auction of the year, at which 1.5y securities were sold, brought in 21% of the domestic borrowing target for 2007. We believe that bidders were ready to pay for other mid-term bonds at offered yields (which were close to the yields on the secondary market) but they were withdrawn by the government, likely because the volume of the shorter-term placement was enough to meet current budget needs.

Get in before it's too late

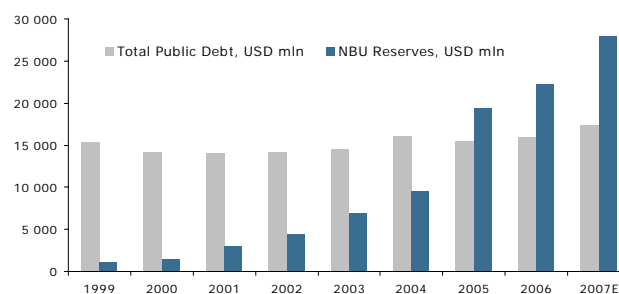
In 2006 the government held 78 auctions and raised only 35% of the planned amount. This year the number of offerings is almost certain to be limited. At these rates for mid-term securities, the Finance Ministry will meet the planned annual target of UAH 3.8 bln (USD 750 mln) after holding just a few more auctions. High local liquidity, the lack of quality securities on the market, and no threats of devaluation on the horizon all favor the government.

Public debt to GDP



Source: Finance Ministry, NBU, Concorde Capital estimates

Public debt vs. FX Reserves



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