

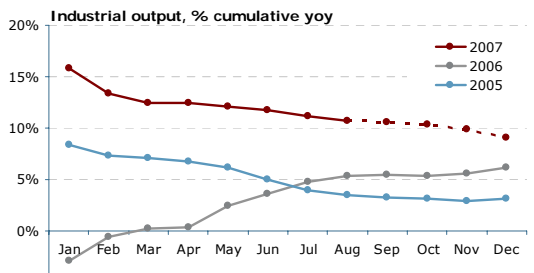
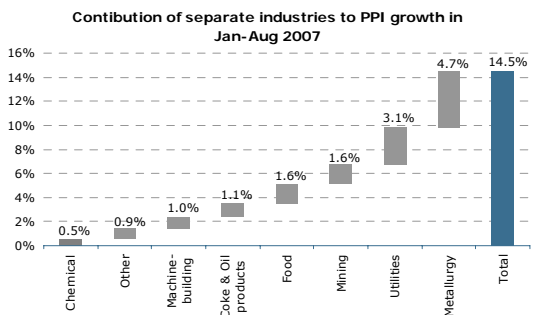
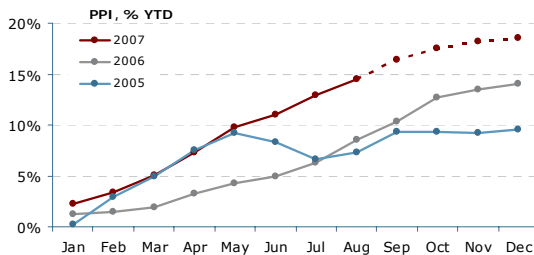
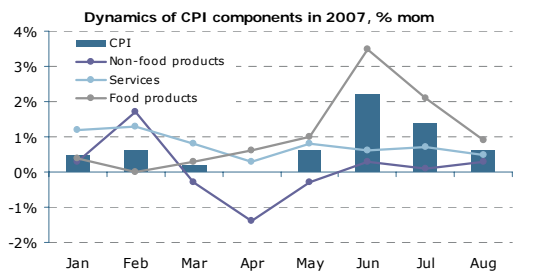
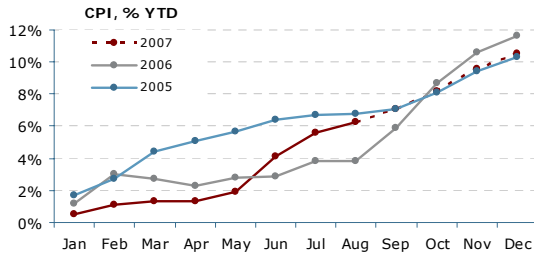


CONCORDE CAPITAL

Ukraine / Macro Economy Industrial Growth, Inflation Forecast Review

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Source: State Statistics Committee, Concorde Capital estimates

While August PPI reported by the State Statistics Committee on September 7 raises some concerns, consumer inflation still looks manageable. We increase our full-year PPI forecast to 18.5% from 14.5%, while leaving our CPI projection unchanged at 10.5% and our industrial growth forecast at 9% for 2007.

Consumer inflation to abate in the coming months

For the third month in a row, monthly CPI gains were the highest in several years. CPI ebbed after the June's record of 2.2% mom, but remained high in August (0.6% mom in a historically deflationary month). Cumulative 8M inflation stands at a tenable 6.2% YTD.

The government's efforts to curb inflation ahead of elections through administrative measures (regulations on the mark-ups for meat and milk products and caps on the maximum profitability of flour and bread production) and the harvest campaign will prevent food producers from speculative pricing in the near future. We do not foresee any inflationary boosters through the end of the year like last autumn's hikes in utility and housing tariffs, and maintain our 10.5% forecast for 2007 CPI. For reference, the government's 2007 inflation forecast is 7.5%, the Ministry of Economy – 10.2%, the Ministry of Finance – 9.5%, the IMF – 10.0%, and the World Bank – 9.7%.

PPI to soar due to growing steel and energy prices

PPI was up 1.4% mom in August, reaching a startling 14.5% YTD. Monthly producer price growth has been remarkably high for 12 straight months now. A 37% increase in gas prices since the end of last year, the escalating cost of crude oil (brent up 22.7% YTD), and rising steel prices (Slabs Black Sea FOB Index +23% YTD) were among the main PPI drivers. Much of this pressure will hold up in the mid-term, pushing producer prices higher. We update our PPI forecast for 2007 accordingly to 18.5%.

Nevertheless, since 2006, the Ukrainian economy has demonstrated a strong ability to cope with cost inflation. Producers have managed to pass-through a significant amount of pricing pressure to international customers (steel alone accounts for 1/3 of total Ukrainian exports). We expect high PPI growth to have a limited impact on consumer prices in the first half of the next year.

Industrial growth sound

On September 11, the State Statistics Committee reported 8M07 industrial output growth of a benign 10.9% yoy. A seasonal slowing in August of 0.05% mom was less than we expected. With the stalwart industrial growth so far this year, our annual forecast of 9% (which would make it the highest yearly increase since 2004) still holds.

Key Economic Data

	2003	2004	2005	2006	2007E	2008E
Real Indicators						
GDP real growth, %	9.4	12.1	2.6	7.1	7.3	6.8
Nominal GDP, USD bln	49.5	65.0	81.7	106.1	126.2	148.4
GDP per Capita, USD	1,040	1,376	1,670	2,275	2,728	3,228
Industrial output growth, %	15.7	12.5	3.1	6.2	9.0	7.5
Capital Investments Growth, %	31.3	28.0	1.9	19.0	20.0	22.0
CPI (eop), %	8.2	12.3	10.3	11.6	10.5	9.0
PPI (eop), %	11.1	24.1	9.5	14.1	18.5	11.0
Foreign economic activity						
FDI inflow, USD mln	1,323	2,253	7,851	5,336	5,500	6,200
FDI (Cumulative since 1991), USD mln	6,794	9,047	16,898	21,186	26,686	32,886
Current Account Balance, % GDP	5.9	10.5	3.1	-1.5	-3.7	-5.4
Total Exports, USD mln	27,328	37,980	40,421	45,872	57,386	71,732
Export Growth, %	24.2%	39.0%	6.4%	13.5%	25.1%	25.0%
Total Imports, USD mln	24,409	31,004	39,052	48,846	63,597	81,723
Import Growth, %	34.4%	27.0%	26.0%	25.1%	30.2%	28.5%
Trade Balance, USD mln	2,919	6,976	1,369	-2,974	-6,212	-9,990
Debt						
Total Public Debt, USD mln	14,543	16,096	15,474	15,950	17,500	19,000
NBU Reserves, USD mln	6,940	9,525	19,395	22,256	28,000	28,500
Social indicators						
Population, mln	47.6	47.4	46.9	46.6	46.3	46.0
Unemployment (ILO)	9.1	8.6	7.2	6.8	6.6	6.2
Monetary indicators						
Monetary Base (M0), USD mln	6,211	7,681	11,764	15,838	17,600	18,500
Broad Money (M2), USD mln	17,714	23,494	37,724	51,369	58,500	75,430
Economy Monetization M2/GDP	35%	36%	44%	48%	50%	51%
Money Supply (M3), USD mln	17,823	23,593	37,905	51,696	67,500	84,200
Money Supply Growth, %	46.3	32.1	60.7	36.4	30.6	24.7
UAH/USD (eop)	5.33	5.31	5.05	5.05	5.05	5.00
UAH/USD (avg)	5.33	5.32	5.12	5.05	5.05	5.00
State Budget, % GDP						
Revenues (incl. credits)	20.6%	20.4%	23.9%	25.1%	24.1%	25.0%
Expenses (incl. credits)	21.0%	23.0%	25.6%	25.8%	26.0%	27.0%
Budget Balance	-0.4%	-3.0%	-1.8%	-0.7%	-1.9%	-2.0%
Retail turnover growth (in real terms), %	20.5%	20.0%	23.0%	25.3%	24.0%	23.0%
Total Assets of Banks growth, %	57%	35%	67%	59%	47%	38%

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