



CONCORDE CAPITAL

Ukraine / Economics

# Macro forecast review

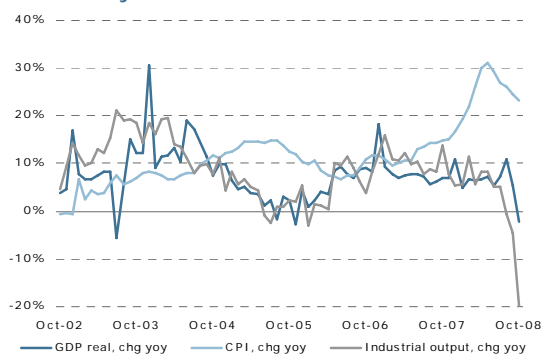
GDP growth, C/A deficit, UAH/USD rate

November 17, 2008

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- We downgrade our GDP growth forecast to 3.3% yoy in 2008 and -2.0% in 2009; we also change our projection of the 2009 C/A deficit to 3.3% of GDP
- We forecast the hryvnya to depreciate further, and average 6.50 against the dollar in 2009

## Business cycle indicators



Source: State Statistics Committee

## Key macroeconomic indicators

	2007	2008E	2009F
<b>Business cycle</b>			
Real GDP, % yoy	7.6	3.3	-2.0
Nominal GDP, USD bln	141.2	188.4	167.3
Industrial output, % yoy	10.2	-4.0	-2.7
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	-3.3
Trade balance, % GDP	-5.6	-6.8	-4.8
External debt, % of GDP	59.9	60.4	59.6

### Exchange rate

Interbank UAH/USD (avg)	5.03	5.12	6.50
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Source: State Statistics Committee, National Bank of Ukraine, Bloomberg, Concorde Capital estimates

## Prices for core commodities, as of November 17

	Current	%, YTD	%, yoy
Gas imports, USD/tcm	179.5	0%	38%
Crude oil (URALS), USD/bbl	49.0	-47%	-46%
Winter wheat, USD/mt, FOB**	160.0	-38%	-37%
Steel square billet, USD/mt, FOB**	310.0	-47%	-37%

\*\*Black Sea ports

Source: Gas of Ukraine, Bloomberg

## GDP by sector in October

	10M08	2008E
Agriculture	18.3%	16.0%
Industrial production	3.2%	-4.0%
Construction	-12.7%	-15.0%
Trade	6.3%	5.0%
Transport and communication	10.4%	9.0%
Education	-0.1%	1.0%
Health, social work	-0.8%	1.0%
Other economic activity	4.1%	3.0%
Net taxes	14.6%	15.0%
<b>GDP</b>	<b>5.8%</b>	<b>3.3%</b>

Source: State Statistics Committee, Concorde Capital estimates

## GDP slows to 5.8% yoy in 10M08, falls 2.1% yoy in Oct

Ukraine's overheated economy has combined with pressure from the global economic crisis to result in a sharp deceleration in GDP growth in October: 5.8% yoy in 10M08, versus 6.9% yoy in 9M08. For just the month of October, GDP fell 2.1% versus October 2007.

The key factor undermining economic growth so far has been the slump in the processing industry, mainly metallurgy but other sectors have also started to deteriorate. The only sector whose growth appears unaffected was agriculture.

## Ukraine suffers from low diversity

The risks of having a low-diversified, commodity-based economy are showing: with a quarter of Ukraine's value-added directly or indirectly dependent on the metallurgy sector and 45% of exports consisting of metallurgy products, the Ukrainian economy was badly hit by the more than 80% tumble in steel prices from their mid-July peak and the drop in demand for the sector's products.

As of October, metallurgy output was down 35.6% yoy. The consensus is that the global economy will continue slowing over 2009, and we think metallurgy will remain weak until at least the end of 2009, as will Ukraine's overall economy.

## Economy to recover only in 2010

We downgrade our 2008 forecast of real GDP growth to 3.3% yoy and 2009 forecast to -2.0% yoy. We believe that the economy will recover only in 2010.

The decline in industrial production is likely to lead to a downturn in most service sectors, while agriculture could remain unaffected. On the back of the global food crisis, demand for Ukrainian crops is not likely to abate even in times of economic hardship. We project that value-added in agriculture will increase 2% yoy in 2009.

We forecast that household consumption will be cut 4-6% yoy in 2009; and investment in fixed capital will contract 2-4% yoy next year. Therefore, we anticipate imports to decrease about 5% yoy in 2009 in dollar terms, while exports should remain virtually unchanged. As a result, the C/A deficit should shrink to 3.3% of GDP in 2009, from an expected 5.8% of GDP in 2008.

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**Hryvnya to depreciate further in 2009**

We think that in 2009, it is more likely that the NBU will not intervene to support the UAH/USD exchange rate, and follow a flexible policy, with the rate mostly determined by macroeconomic factors. We estimate that in 2009, due to weak investment inflow and new debt attraction, the capital account will fail to cover the current account imbalance, and the hryvnya will further depreciate against the dollar. We forecast the average UAH/USD rate in 2009 at 6.50.

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