



CONCORDE CAPITAL

Macro forecast roundtable

Consensus: slow improvement in 2010

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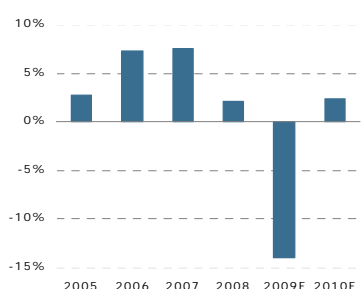
Macroeconomic experts at a round table hosted by the Ministry of Economy yesterday agreed on a slow recovery for the Ukrainian economy and stabilization of the USD/UAH rate at 8.7-8.8 in 2010.

USD/UAH rate, mid-market



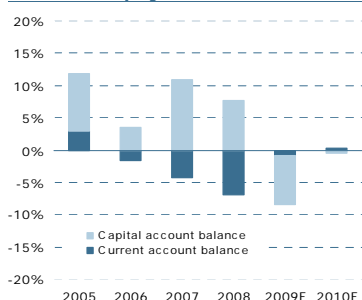
Source: UkrDealing

Real GDP growth



Source: SSC, Consensus forecast

Balance of payments, % of GDP



Source: SSC, Consensus forecast

Yesterday we participated in a roundtable organized by the Ministry of Economy, along with representatives of government bodies, international organizations, think-tanks, investment companies and commercial banks (19 organizations in total were represented).

GDP to decline 14% in 2009 and go up 2.4% in 2010

The mean forecast for the GDP decline in 2009 was 13.9%, due to weak investments (-35.4%) and domestic private demand (-14.8%). In 1H09, real GDP declined ~19% yoy and the 3Q09 consensus estimate is -15%.

The consensus estimate for 2010 GDP growth was 2.4%, driven by a rebound in investments (+6.5%, mostly due to a low comparison base) and a modest recovery in private consumption (+1.1%). Back in July, at a similar Economy Ministry roundtable, the mean 2010 GDP growth forecast was +1.9%.

Inflation to decline modestly in 2010

Experts surveyed at the roundtable expected inflation of 14.4% in 2009 and 11.3% on 2010. The anticipated increase in utility rates for households by 20-40% on average after presidential elections should keep CPI from declining significantly in 2010. In September, CPI went up 15% yoy vs. 22.3% in 2008.

USD/UAH to stabilize around 8.7-8.8 in 2010

The consensus was for an end-2009 USD/UAH rate of 8.8, vs. 8.2 at close yesterday. The exchange rate is expected to stabilize at 8.7-8.8 next year, according to the experts' mean forecast.

The hryvnya is expected to be supported by the current account of BoP turning modestly positive in 2010 (+0.3% of GDP) and the capital account deficit narrowing to -0.5% of GDP, from -7.6% of GDP in 2009, according to the consensus mean forecast.

The NBU's gold and foreign currency reserves are expected to be USD 26.3 bln as of end-2009 and stick around this level in 2010. The yearend figure implies that the NBU will spend net USD 2 bln over 4Q09 to support the hryvnya.

Consolidated budget deficit to persist in 2010

At the same time, experts were more pessimistic on public finances than in July. The forecast for the consolidated budget deficit for 2009 deteriorated from 4% of GDP in July to 5.5%. In 2010, the deficit is expected to be 3.6% of GDP, vs. 2.3% in July.

Our View

We generally support the view that the economy will start recovering slowly next year and predict 4% real GDP growth in 2010. In terms of expenditures, GDP growth will indeed be driven by both moderate investments and improved consumption. In regards to industries, export-oriented ones, mainly metallurgy, will be the key drivers of the rebound.

We are somewhat more optimistic regarding inflation, forecasting consumer prices increasing by some 7% in 2010. Deceleration in CPI will mostly be derived from weak domestic consumer demand.

We also see the exchange rate stabilizing next year, although at a slightly higher level, UAH/USD 9-9.10. The main reason this is that we expect the hryvnya to depreciate more this year ahead of the presidential elections, on the back of a widening budget deficit and political instability. Next year, the NBU will maintain exchange rate stability to facilitate a recovery in the real economy, including not allowing the hryvnya's appreciation to impede in the revival of export-oriented industries. We are also more optimistic regarding current account improvement, predicting its surplus at 2% of GDP in 2010, thanks to a better trade balance due to factors including hryvnya depreciation.

Consensus macro forecast of selected indicators for 2010

	min	mean	median	max
GDP, real change, %	-2.8	2.4	2.9	4.5
Consumer prices change, %	7.0	11.3	11.1	15.0
USD/UAH, period average	8.0	8.7	8.6	9.8
Current account, % of GDP	-1.2	0.3	0.2	3.4
Capital account, % of GDP	-8.2	-0.5	-0.4	3.6
Consolidated budget balance, % of GDP	-7.0	-3.6	-3.3	-0.2

Yearly economic indicators and Concorde Capital forecasts

	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010F
Business cycle indicators										
Real GDP, % chg yoy	9.2	5.2	9.6	12.1	2.7	7.3	7.6	2.1	-14.1	4.0
Nominal GDP, UAH bln	204	226	267	345	441	538	713	950	914	1017
Nominal GDP, USD bln	38.0	42.4	50.1	65.0	86.1	106.5	141.2	180.3	110.1	111.8
GDP per capita, UAH	4195	4685	5591	7273	9372	11630	15372	20600	19926	22275
GDP per capita, USD	781	880	1048	1371	1829	2303	3044	3909	2401	2448
Consumption, % chg yoy	9.6	9.5	11.5	13.1	20.6	15.9	17.1	11.8	-10.0	4.0
Investment, % chg yoy	17.9	-1.5	24.3	5.5	14.0	18.5	22.1	5.1	-35.0	5.0
Industrial output, % chg yoy	14.2	7.0	15.8	12.5	3.1	6.2	10.2	-3.1	-23.1	7.5
CPI (eop), % chg yoy	6.1	-0.6	8.2	12.3	10.3	11.6	16.6	22.3	15.0	7.0
PPI (eop), % chg yoy	0.9	5.7	11.1	24.1	9.5	14.1	23.3	23.0	10.0	10.0
External indicators										
Current account balance, USD bln	1.4	3.2	2.9	6.9	2.5	-1.6	-5.9	-12.5	-1.4	2.3
Current account balance, % GDP	3.7	7.5	5.8	10.6	2.9	-1.5	-4.2	-7.0	-1.3	2.0
Trade balance, USD bln	0.6	1.9	1.3	5.0	0.7	-3.1	-7.9	-13.7	-1.9	1.3
Trade balance, % GDP	1.6	4.4	2.6	7.7	0.8	-2.9	-5.6	-7.6	-1.7	1.2
Exports, USD bln	21.1	23.4	29.0	41.3	44.4	50.2	64.0	85.7	57.9	68.0
Exports, % chg yoy	8.0	10.7	24.0	42.6	7.5	13.2	27.4	34.0	-32.5	17.5
Imports, USD bln	20.5	21.5	27.7	36.3	43.7	53.3	71.9	99.4	59.8	66.7
Imports, % chg yoy	14.1	5.0	28.7	31.3	20.4	22.0	34.8	38.3	-39.9	11.6
Capital account balance, USD bln	0.4	-1.2	0.1	-4.6	7.7	3.7	15.3	13.9	-7.8	-4.0
Capital account balance, % GDP	1.1	-2.9	0.2	-7.1	9.0	3.5	10.9	7.7	-7.1	-3.6
FDI net, USD bln	0.8	0.7	1.4	1.7	7.5	5.7	9.2	9.7	3.5	5.0
NBU reserves (eop), USD bln	n/a	4.4	5.1	9.5	19.4	22.3	32.5	31.5	26.3	24.6
Debt indicators										
Public debt, USD bln	12.5	13.8	14.5	16.0	15.5	15.9	17.6	24.6	39.9	50.0
Public debt, % GDP	33.0	32.5	29.0	24.7	18.0	15.0	12.4	13.6	36.2	44.7
Corporate external debt, USD bln	n/a	n/a	13.0	17.8	25.5	42.7	67.6	85.0	72.5	68.0
Corporate external debt, % GDP	n/a	n/a	25.9	27.3	29.6	40.1	47.9	47.1	65.8	60.8
Gross external debt, USD bln	n/a	n/a	23.8	30.6	38.9	54.5	80.0	101.7	102.4	100.2
Gross external debt, % GDP	n/a	n/a	47.5	47.1	45.2	51.2	56.6	56.4	92.9	89.6
Monetary indicators										
Monetary base, UAH bln	23.0	30.7	40.1	53.8	82.8	97.2	141.9	186.7	186.7	210.9
Monetary base, % chg yoy	37.4	33.6	30.5	34.1	53.9	17.5	46.0	31.6	0.0	13.0
Money supply (M3), UAH bln	45.8	64.9	95.0	125.8	194.1	261.1	396.2	514.7	466.7	569.5
Money supply, % chg yoy	41.9	41.8	46.5	32.4	54.3	34.5	51.7	29.9	-9.3	22.0
Monetary multiplier (eop MB/M3)	2.0	2.1	2.4	2.3	2.3	2.7	2.8	2.8	2.5	2.7
Monetization (avg M3/GDP), %	19.2	24.9	30.3	32.0	36.7	42.3	46.4	47.5	53.7	50.9
Exchange rate										
Interbank UAH/USD (avg)	5.38	5.33	5.33	5.32	5.10	5.04	5.03	5.27	8.30	9.10
State budget										
Revenues, UAH bln	n/a	n/a	55.1	70.3	105.2	133.5	165.9	231.7	182.3	213.6
Expenses, UAH bln	n/a	n/a	55.8	79.5	112.8	137.1	174.2	241.5	238.9	259.4
Balance, % GDP	n/a	n/a	-0.4	-3.0	-1.8	-0.7	-1.4	-1.3	-6.2	-4.5
Social indicators										
Population, mln (eop)	48.5	48.0	47.6	47.3	46.9	46.6	46.4	46.1	45.9	45.7
Unemployment (ILO methodology, avg), %	10.9	9.6	9.1	8.6	7.2	6.8	6.4	6.4	11.0	8.0
Average monthly salary, UAH	n/a	376	463	591	806	1 043	1 351	1 806	1 896	2 090
Real disposable income, % chg yoy	10.0	18.0	5.8	16.8	20.1	16.1	12.8	10.3	-10.0	5.0

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

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