CONCORDE CAPITAL

IMF stabilization loan

IMF OK's the second tranche

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FLASH NOTE

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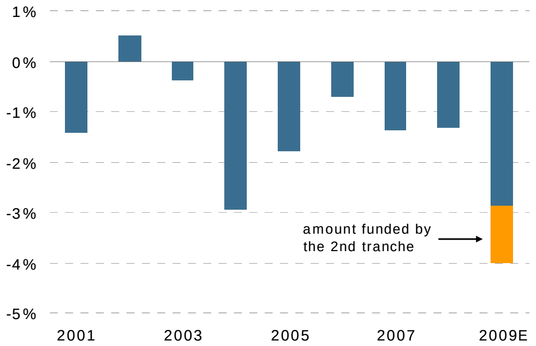
Andrii Parkhomenko
pav@concorde.com.ua
+380 44 391 5577

Key macroeconomic indicators

	2008	2009E	2010F
Business cycle			
Real GDP, chg yoy	2.1	-7.0	4.0
Nominal GDP, USD bln	180.4	119.5	140.2
Industrial output, chg yoy	-3.1	-11.5	7.5
CPI (eop), chg yoy	22.3	15.0	7.0
PPI (eop), chg yoy	23.0	18.0	10.0
External sector			
NBU reserves (eop), USD bln	31.5	23.0	18.1
FDI net, USD bln	9.9	7.5	9.0
Current account balance, % GDP	-6.6	-1.3	1.6
Capital account balance, % GDP	4.9	-5.8	-5.1
External debt, % of GDP	55.5	84.4	70.4
Exchange rate			
Interbank UAH/USD (avg)	5.27	8.50	8.10

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

State budget balance, % of GDP



Source: IMF, Ministry of Finance, Concorde Capital

UAH/USD

Source: Bloomberg

- **Today the IMF mission approved extension of the 2nd tranche of the stabilization loan and increased the tranche amount to USD 2.8 bln**
- **Half of the 2nd tranche would be used to cover the budget deficit of 4% of GDP, the number agreed with Ukrainian authorities; hence, the risk of printing too much money or cutting too much expenses to cover the deficit will be decreased**
- **We will wait for the exchange rate policy details of the agreement before assessing impact of this event on the hryvnya exchange rate**

IMF approves USD 2.8 bln tranche to Ukraine

Today the IMF mission head Ceyla Pazarbasioglu announced that the IMF approved extension of the second tranche of the stabilization loan. The funds will be disbursed in mid-May. Notably, the size of the second tranche will be increased to USD 2.8 bln, up from the previously planned USD 1.8 bln. The mission's decision is still to be formally approved by the IMF board.

Prime Minister Yulia Tymoshenko said that half of the amount would be used to cover the state budget deficit.

Ms. Pazarbasioglu said that the mission will be back shortly to finalize the third tranche, which was initially scheduled for mid-May. She stressed that the talks with the Ukrainian authorities on the program were "very constructive" and that the IMF was "very encouraged by recent stability in Ukraine."

Good for budget, not clear for UAH/USD

The move is obviously positive for Ukraine and we expect that the decision will be officially approved by the IMF board next week. However, we would like to wait for details of the IMF-Ukraine Memorandum of Economic and Financial Policies before making final conclusions. Specifically we wonder whether the IMF will impose any requirements on the exchange rate policy. We also would like to see exact agreements concerning amendments to the state budget.

USD 1.4 bln (half of the second tranche) equals UAH 11.2 bln, which by our estimates is enough to cover 28% of the 4% of GDP budget deficit stated in the press-release. We support the widening of the projected deficit to 4% of GDP from the initially planned 3%, since it means that less budget expenses will be curtailed.

According to the press-release "The authorities will also continue their efforts to mobilize additional financing from international financial institutions and bilateral sources to finance part of the budget deficit." As we mentioned in our yesterday's flash note, the US and the EU had said earlier that they were ready to loan Ukraine to cover the budget gap after the IMF standby loan program is resumed.

On the one hand, the news is positive for the hryvnya exchange rate, as new funds increase the central bank's room to conduct interventions on the forex market. UAH/USD has been quite stable lately, but it continues to be dependent on regular NBU interventions. Since the year beginning the NBU spent more than 20% of its reserves to support the hryvnya, and given expected balance of payments deficit in 2009 (USD 8.2 bln), it will have to continue interventions through the yearend.

However, the press-release said that "the flexible exchange rate regime has served Ukraine well and the authorities will retain this arrangement, including by allowing the official exchange rate to follow the market exchange rate." We question whether this could mean that the National Bank has been forced to alleviate its grasp on the exchange rate.

Concorde Capital, Head office
2 Mechnikova Street, 21st Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571

www.concorde.ua

Concorde Capital
4 Fourth Lesnoy Pereulok, 5th Floor
Capital Plaza
Moscow 125047, Russia
Tel.: +7 495 642 87 15
Fax: +7 495 225 85 00

office@concorde.com.ua

CEO im@concorde.com.ua
Igor Mazepa

Head of Sales & Trading
Roman Nasirov rn@concorde.com.ua

International Sales & Trading
Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Andriy Supranonok sap@concorde.com.ua

Domestic Sales & Trading
Yuriy Pilipenko up@concorde.com.ua
Alisa Tikhomirova at@concorde.com.ua

Director of Research
Konstantin Fisun, CFA kf@concorde.com.ua

RESEARCH

Strategy
Konstantin Fisun kf@concorde.com.ua
Oleksandr Klymchuk ok@concorde.com.ua

Metals & Mining
Eugene Cherviachenko ec@concorde.com.ua
Andriy Gerus ga@concorde.com.ua

Utilities (Telecom, Energy)
Alexander Paraschiy ap@concorde.com.ua

Oil & Gas
Andriy Gerus ga@concorde.com.ua

Real Estate/Construction, Consumer-related
Andriy Gostik, CFA ag@concorde.com.ua

Machinery
Alexander Paraschiy ap@concorde.com.ua
Eugene Cherviachenko ec@concorde.com.ua

Economics, Financial services
Andrii Parkhomenko pav@concorde.com.ua

Fixed Income
Oleksandr Klymchuk ok@concorde.com.ua

Editor
Brad Wells bw@concorde.com.ua