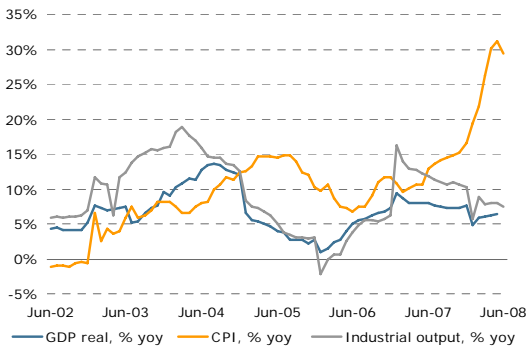




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Business cycle indicators



Source: State Statistics Committee

Key macroeconomic indicators

	2007	2008E	2009F
Real economy			
Real GDP, % yoy	7.6	6.8	6.5
Nominal GDP, USD bln	141.2	194.0	239.3
Industrial output, % yoy	10.2	8.7	7.5
CPI (eop), % yoy	16.6	21.0	15.0
PPI (eop), % yoy	23.2	33.0	18.0
Retail trade, % yoy	28.8	25.5	25.0
Banking assets, % yoy	76.0	50.0	45.0
Construction, % yoy	15.8	5.0	10.0
External sector			
Trade balance, % GDP	-5.6	-5.5	-5.8
Current account balance, % GDP	-4.2	-4.5	-5.3
Net FDI, USD bln	9.9	11.4	15.0
NBU reserves, USD bln	32.5	38.7	37.5
External debt, % GDP	59.9	58.8	58.8
Monetary & fiscal policy			
Money supply (M3), % yoy	51.7	25.0	40.0
Official UAH/USD (eop)	5.05	4.95	4.90
Consolidated budget, % GDP	-1.1	-1.0	-0.5

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

Prices for core commodities, as of July 14, 2008

	Current	%, YTD	%, yoy
Gas imports, USD/tcm	179.5	0%	38%
Crude oil (URALS), USD/bbl	139.6	51%	82%
Winter wheat, USD/mt, FOB**	292.0	14%	47%
Square billet, USD/mt, FOB**	1155.0	99%	142%

**Black Sea ports
 Source: Bloomberg, Metal-Courier

- Friday surprised everyone: the parliament rejected 2008 budget amendments and the State Statistics Committee released an unusually high quantity of macro data
- The Verkhovna Rada failed to adopt updates to the 2008 state budget, which on an upbeat note, has consumption-curbing and antiinflationary implications
- Economy shows signs of letting up: GDP grew 6.5% yoy in 1Q08, off from 8.9% yoy in 1Q07 and 7.6% over 2007; industrial output in 1H08 slowed to 7.5% yoy
- On the other hand, the merchandise trade deficit shrank to 12.6% of GDP in 5M08 from 14.0% in 4M08, with a helping hand from grain exports

Old budget = restrained inflation, consumption

On June 11, amendments to the 2008 state budget proposed by the government fell 10 votes short of being adopted by the Verkhovna Rada in the final session before deputies adjourned for summer recess. A competing proposal, put forward by the president received only 58 votes. Updates to the budget would have expanded both income and expenditures for inflation.

Existing budget expenses, pegged to obviously dated 2008 forecasts (CPI of 9.6% and PPI of 19.2%), on the back of current CPI of 15.5% YTD and PPI of 29.4% YTD, will function to ease inflationary pressure by counteracting consumption. Moreover, the budget deficit could end up smaller than currently planned, if the current budget remains in place, as the state would be able to collect more taxes from inflation-boosted corporate income, keeping expenditures as planned.

Comparison of current and proposed budgets

	Current	Proposed (gov't)	% chg	Proposed (president)	% chg
Income, UAH bln	215.4	240.8	11.8%	243.1	12.9%
Expenditures, UAH bln	235.7	261.0	10.7%	257.7	9.3%
Balance, UAH bln	-20.4	-20.2	0.7%	-14.6	28.4%

Source: Verkhovna Rada

GDP grows 6.5% yoy in 1Q08

Also on June 11, the State Statistics Committee released data on industrial output which slowed to 7.5% yoy in 1H08 from 8.0% yoy in 5M08, as well as GDP breakdown by expenditures in 1Q08. Propped up by inflation (29.3% yoy in June), consumption grew faster than investment. Historically growth in investment varied significantly from quarter to quarter, independent of business cycle. However, given tight lending conditions, the current ebb in the investment pace (13.9% yoy in 1Q08 vs. 25.1% yoy in 4Q07), might indicate the growth will keep abating through yearend.

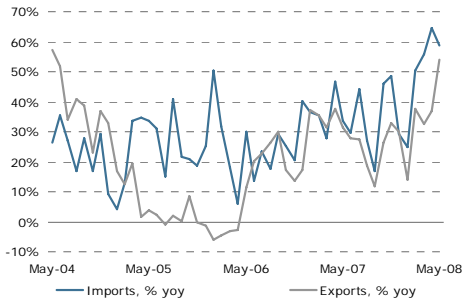
GDP by expenditures, % share

	1Q08	1Q07
Consumption	68.0%	63.8%
Gov't spending	17.9%	18.1%
Investment	25.1%	24.1%
Exports	47.4%	49.0%
Imports	-58.4%	-55.0%

Source: State Statistics Committee

On the other hand, we observed strong fixed-capital investment in construction (+44.6% yoy), mining (+34.0% yoy) and agriculture (+15.4% yoy in 1Q08). The latter has an intense investment schedule this year, on strong private capital inflow.

Growth in exports and imports



Source: State Statistics Committee

External trade deficit recedes to 12.6% GDP

Exports grew 53.9% yoy in May, up from 37.0% yoy in April, while imports weakened to 58.9% yoy in May versus 64.6% yoy in April. The merchandise trade deficit contracted from the historical high of 14.0% of GDP in 4M08 to 12.6% in 5M08. The main accelerator of May's exports were grains: Ukraine exported USD 0.6 bln worth in grain in 5M08, while only USD 0.8 was exported over all of 2007. We confirm our expectation that Ukraine will export USD 3.3 bln in grain in 2008, which together with price-boosted metallurgy exports will help rein in the trade deficit from 5.6% of GDP in 2007 to 5.5% in 2008.

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