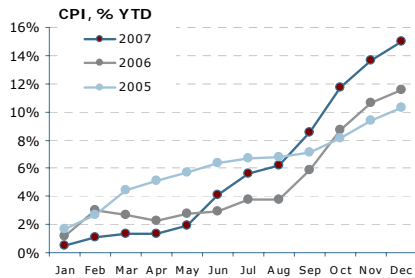




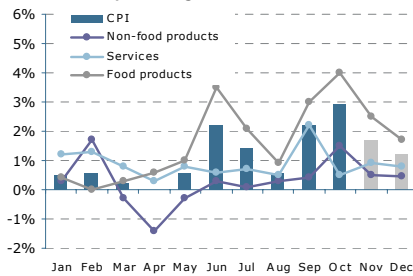
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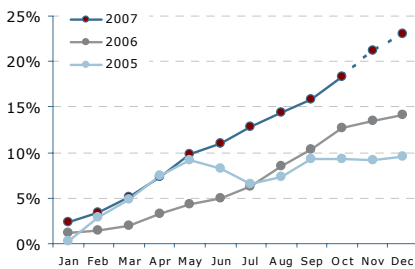
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CPI components growth, % mom



PPI, % YTD

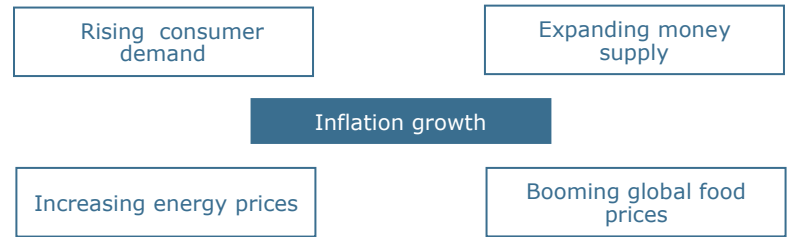


Source: State Statistics Committee, Concorde Capital estimates

Forecast Revision

	2007E		2008E	
	New	Old	New	Old
CPI, %	15.0	12.5	11.0	9.0
PPI, %	23.0	18.5	15.5	11.0
GDP real growth, %	7.3	7.3	6.8	6.8
GDP nominal, USD bln	141	135	177	160

Extremely high inflation rates reported in September and October stimulated the government to upgrade its inflation forecast to 14.5% from 7.5%. We increase our 2007 forecast for CPI 2.5 pp to 15% and PPI 4.5 pp to 23%. Standing by our real GDP growth forecast of 7.3% for 2007, we upgrade the nominal GDP estimate to USD 140.5 bln. We also adjust our subsequent 2008 forecasts.



Vigorous external capital inflows ramp up money supply

Capital inflows from abroad since the beginning of the year outstripped the whole of 2006. External borrowings reached USD 10.9 bln YTD (vs. USD 6.4 bln in 2006); FDI in 9M07 increased by 66.7% yoy. Excessive inflows of capital gave rise to NBU interventions, which spilled into expanding money supply. Over Jan-Sept, the monetary base grew by 31% (against +2% in 9M06).

Booming loans to population is boosting consumer demand

Expansion in banking loans to individuals (+74.3% yoy in 10M07) and real disposable income (+11.7% yoy in 9M07) is strengthening consumer demand. We estimate commercial bank's run into retail is half financed by foreign borrowing.

Strong exports leave gaps on domestic food market

Booming global food prices this year made export markets relatively more attractive to Ukrainian producers. Shrinking supply to the local market pushed domestic prices higher. While meat output increased 10% yoy in 9M07, exports of meat surged 3.6 times; raw milk and eggs output decreased by 7.2% yoy and 2% yoy, respectively, while exports of dairy products and eggs grew 67.4% yoy.

PPI under pressure from energy prices

A 31% YTD increase in gasoline prices that has driven up transportation costs; and inflated steam coal prices (up 40% YTD domestically) that has impacted the cost per kW of electricity produced – are pushing up producers' costs.

Effects to prevail next year, NBU stepping in

We see the inflationary forces mentioned above spilling into next year, but to a lesser extent - due to the NBU's recent tightening efforts. In Oct-Nov, the NBU introduced a 4% reservation rate for foreign borrowings and increased the overnight refinancing rate from 9% to 12%. During this period, the NBU has been active in sterilizing money supply through open market intervention. It is also considering measures to cool consumer lending.

Key Economic data

	2003	2004	2005	2006	2007E	2008F
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	140.5	177.3
GDP per Capita, USD	1,040	1,376	1,670	2,275	3,032	3,847
Industrial output growth, %	15.7	12.5	3.1	6.2	9.0	7.5
CPI (eop), %	8.2	12.3	10.3	11.6	15.0	11.0
PPI (eop), %	11.1	24.1	9.5	14.1	23.0	15.5
Foreign economic activity						
FDI inflow, USD mln	1,323	2,253	7,851	5,336	9,000	8,000
FDI (Cumulative since 1991), USD mln	6,794	9,047	16,898	21,186	30,186	38,186
Current Account Balance, % GDP	5.9	10.5	3.1	-1.5	-2.9	-4.1
Total Exports, USD mln	27,328	37,980	40,421	45,872	61,292	76,614
Export Growth, %	24.2%	39.0%	6.4%	13.5%	33.6%	25.0%
Total Imports, USD mln	24,409	31,004	39,052	48,846	66,847	85,898
Import Growth, %	34.4%	27.0%	26.0%	25.1%	36.9%	28.5%
Trade Balance, USD mln	2,919	6,976	1,369	-2,974	-5,555	-9,284
Debt						
Total Public Debt, USD mln	14,543	16,096	15,474	15,950	16,000	17,000
NBU Reserves, USD mln	6,940	9,525	19,395	22,256	32,500	35,000
Social indicators						
Population, mln	47.6	47.4	46.9	46.6	46.3	46.1
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	27,921	34,221
Broad Money (M2), USD mln	17,714	23,494	37,724	51,369	72,658	89,280
Economy Monetization (avg M3/GDP), %	30.3%	32.0%	36.7%	42.5%	44.5%	52.0%
Money Supply (M3), USD mln	17,823	23,593	37,905	51,696	75,170	90,000
Money Supply Growth, %	46.3	32.1	60.7	36.4	45.4	19.7
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

Source: State Statistics Committee, Concorde Capital estimations

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