

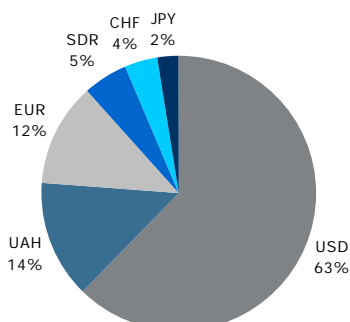
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Structure of Public Debt

	USD bln	Share
External	12.52	79.6%
Direct	9.72	61.8%
Guaranteed	2.80	17.8%
Domestic	3.21	20.4%
Direct	3.21	20.4%
Guaranteed	0.00	0.0%
TOTAL	15.73	100.0%

Source: Finance Ministry

Breakdown by Currency



Sovereign Ratings

Agency	Rating	Outlook
S&P	BB-	Stable
Moody's	B1	Positive
Fitch	BB-	Positive
R&I	BB	Stable

Source: Finance Ministry

At the end of last week, the government shed light on its plans to borrow roughly USD 2 bln from domestic and external sources in 2007. Local auctions will start soon and are scheduled to bring in 39% of the target, the Eurobond issue previously announced for May – 36%, and World Bank credit – 25%. The government also outlined its plans to improve secondary market liquidity of its local bonds and facilitate the activity of the State Mortgage Institution.

Renewal of local auctions

The government pledged to renew its local bond auctions in the near future. Five instruments are going to be offered with two, three, five, seven and 10-year maturities. With no threat of devaluation on the horizon and healthy local liquidity, the government has a good chance to borrow under favorable terms and meet the planned target of UAH 3.8 bln (USD 750 mln) for domestic borrowing in 2007, contrary to last year when the Finance Ministry attracted only 35% of the planned amount.

External borrowing plan

The disclosed plans consist of a World Bank credit for USD 500 mln and a public Eurobond offering of USD 700 mln. Although the currency of the Eurobond issue is not specified yet, the government is very likely to target a low interest rate market.

Institute of Primary Dealers for local government bonds

In the near future, the government promised to introduce a new regulation that will clearly define requirements for a financial institution to become a primary dealer, which will, among other things, provide liquidity on the secondary market. We think that the government will favor state-owned and commercial banks while securities traders might fail to qualify.

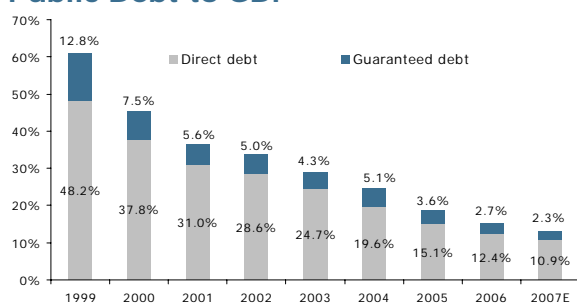
Premature redemption of local bonds?

The government is looking at the possibility of buying back previously issued securities that are illiquid on the secondary market or are "expensive" for the government. We think that the government is likely to buy back small issues as it did in January with UAH 100 mln (USD 20 mln) bonds held by Oshchad Bank.

Support for the State Mortgage Institution

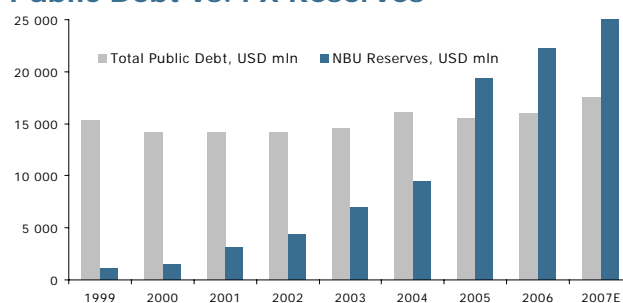
The Finance Ministry also announced upcoming changes to the charter documents of the State Mortgage Institution (SMI) to reduce uncertainty regarding its functions. Previously, the uncertainty caused delays in obtaining governmental guarantees and made the consortium of underwriters, consisting of BNP Paribas and Ukrsibbank, refuse to place the SMI's UAH 1 bln debut bond issue.

Public Debt to GDP



Source: Finance Ministry, NBU, Concorde Capital estimates

Public Debt vs. FX Reserves



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