

### Staying in high gear

#### Summary

- ▶ The Ukrainian economy is set to enjoy an outstanding year in 2006, and not only because it demonstrated strong GDP growth despite a surge in gas prices and protracted political instability. Foreign strategic investors seem to have changed their attitude towards the country after avoiding it for a long time. Our analysis of recent foreign direct investment (FDI) dynamics leads us to believe Ukraine will see its FDI stock surge in the next several years to 3.9% of GDP, surpassing many European peers. This level may become sustainable over the medium term if the government steps up efforts to improve domestic investment climate.

#### Real Economy

- ▶ Real GDP growth continued accelerating in October, boosted by the services sector, while industry expectedly entered a phase of moderate growth. Consumer prices surged in October on utility tariff hikes, harmful for consumers but long awaited by utility companies, causing an upgrade of our full-year forecast, which, however, becomes increasingly conditioned on government efforts to curb inflation.

#### External Sector

- ▶ Favorable world markets spurred Ukrainian exports, driving the country's trade balance into a surplus in 3Q06 after four straight quarters of deficits. The trade balance, however, is expected to slip back into the red in 4Q06 and in 2007F but will be securely covered by inflows of FDI and other capital.

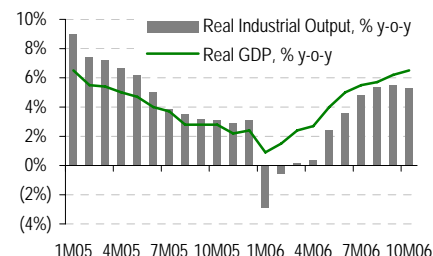
#### Fiscal Policy

- ▶ Parliament amended 2006 budget parameters, leaving the deficit target unchanged at 2.3% of GDP. The deficit will be financed primarily by borrowings, on which the government has made noticeable progress recently. The budget draft for 2007 is likely to have a deficit of 2.5% of GDP.

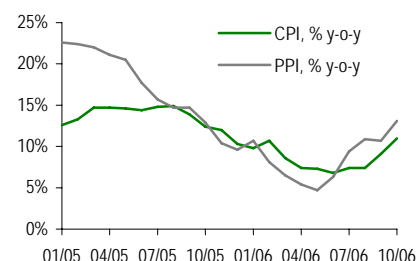
#### Foreign Exchange

- ▶ Central bank gross international reserves topped \$19.5bn in October, exceeding the end-2005 level for the first time this year. The recent sovereign Eurobond placement for \$1bn boosted central bank reserves further, their year end level seen at \$20.5bn. We expect the reserves to advance moderately in 2007 on expected strong inflows of capital, FDI and long-term borrowings, which will cover the widening C/A deficit.

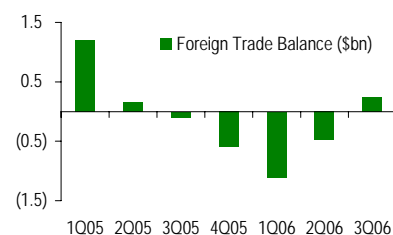
GDP and Industrial Growth



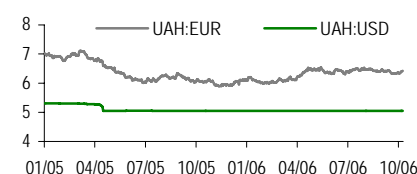
Inflation



Foreign Trade



Hryvnia Performance



#### Key Macroeconomic Indicators

Year	2001	2002	2003	2004	2005	2006E	2007F
Real GDP Growth (y-o-y; %)	9.2%	5.2%	9.4%	12.1%	2.6%	6.6%	4.6%
Nominal GDP (\$bn)	38.0	42.4	49.5	65.0	82.9	104.2	123.7
Real Industrial Growth (y-o-y; %)	14.2%	7.0%	15.8%	12.5%	3.1%	5.4%	4.3%
Consumer Price Index (e-o-p; %)	6.1%	(0.6%)	8.2%	12.3%	10.3%	11.9%	8.2%
Consolidated Fiscal Balance (% of GDP)	(1.4%)	0.8%	(0.2%)	(2.9%)	(1.8%)	(2.3%)	(2.5%)
Total Public Debt (% of GDP)	37%	33%	29%	24.7%	18.4%	15.2%	14.7%
NBU Gross Reserves (\$bn)	3.1	4.4	6.9	9.5	19.4	20.5	21.3
C/A Balance (% of GDP)	3.7%	7.5%	5.8%	10.5%	3.1%	(0.9%)	(2.4%)
Foreign Direct Investments (\$bn)	0.77	0.70	1.41	1.72	7.50	4.20	5.23
UAH:USD (e-o-p)	5.30	5.33	5.33	5.31	5.05	5.05	5.05

Sources: State Statistics Committee, Ministry of Finance, National Bank of Ukraine, Dragon Capital estimates & forecasts

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# Focus

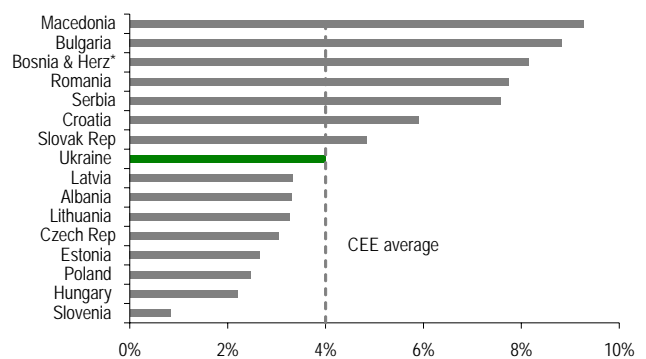
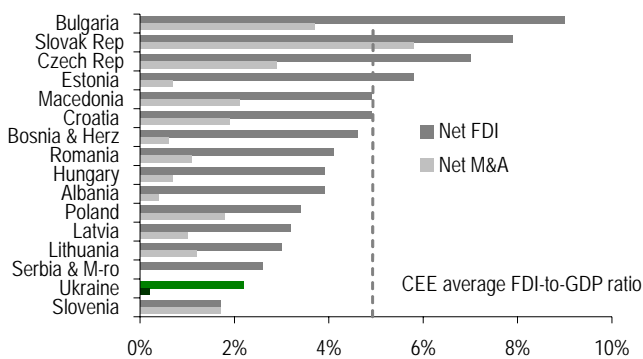
## FDI IN UKRAINE: READY TO TAKE OFF

There is no doubt that foreign direct investment is beneficial for emerging economies, bringing, in addition to capital, new technologies, know-how and up-to-date management practices, which help raise production efficiency and create a foundation for long-term economic growth. Ukraine has long been viewed as an attractive destination for foreign capital thanks to its large domestic market (47 million population), solid economic performance (2000-2004 real GDP CAGR of 8.4%) and well-educated and cheap labor. Yet, the country had failed to attract a substantial amount of FDI up until 2005, falling behind CEE markets in terms of FDI-to-GDP due to slow economic and political transformation.

**Ukraine has long lagged behind CEE peers in terms of FDI...**

The situation changed in 2005, when privatization of the largest domestic steel producer, Kryvorizhstal, acquired by Mittal Steel, brought Ukraine's annual FDI figure to the level comparable with cumulative inflows of foreign investment in the country since 1991. This was surely a unique event, not likely to repeat in the foreseeable future. However, there are grounds to believe Ukraine will see its FDI stock surge in the next several years, surpassing most of the country's CEE peers.

**...but is likely to catch up in coming years**



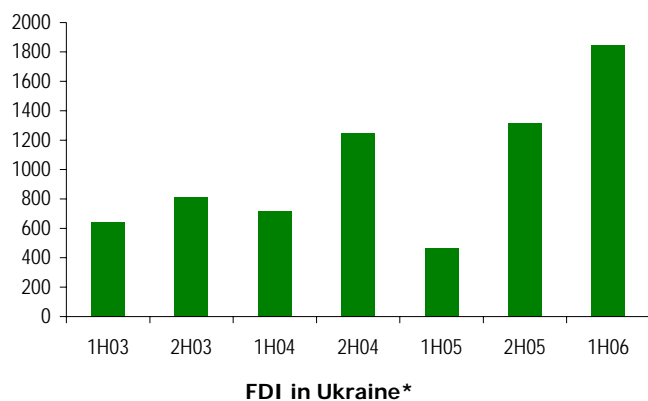
**Net FDI and M&A Deals in Ukraine and CEE as % of GDP (average for 2000-04)**

**Expected Net FDI in Ukraine and CEE as % of GDP (average for 2006E-08F)**

Note: \*Average over 2006E-07F. Sources: UNCTAD World Investment Report 2006, World Development Indicator's Database, ING, IMF, Dragon Capital estimates

In 1H06, net FDI in Ukraine surged by 240% y-o-y, to \$2.1bn, and continued expanding rapidly in 3Q06, reaching, according to preliminary central bank estimates, \$3.6bn (up 240% y-o-y). The upsurge was partially explained by the completion of several large takeovers in banking and telecommunication sectors. Although best international practices suggest M&A deals should be included in FDI statistics, and some countries saw their FDI stock grow thanks mostly to acquisitions of domestic companies by foreigners, FDI data adjusted for the largest deals may give a better insight into the underlying drivers of capital flows. Therefore, to get a better understanding of growth dynamics and cross-sector distribution of FDI flows in Ukraine, we adjusted the country's 2005 and 2006 FDI data to exclude the largest privatization and M&A deals.

**Closer look at FDI statistics...**



Share Capital and Reinvested Earnings	1,336
<i>of them:</i>	
Financial Services	224
Construction	212
Real Estate	149
Metallurgy	127
Agriculture and Food Processing	124
Trade	94
Inter-company Loans	507
<b>Total</b>	<b>1,843</b>

FDI Inflows by Sector in 1H06\*

Note: \*Adjusted for the largest M&A and privatization deals: Kryvorizhstal and Aval Bank in 2H05, Mriya Bank, Ukrsibbank and Wellcom in 1H06.

Source: NBU, Dragon Capital estimates

Our first conclusion from the adjusted series is that inward flows of foreign investment are still impressive even disregarding the major deals, up an estimated 130% y-o-y in 1H06, likely pointing to some underlying economic factors that cause FDI to accelerate. A sector-by-sector breakdown of 1H06 FDI shows that apart from financial services large inflows were registered in consumption-related sectors, such as construction, real estate, food processing and trade. It seems that buoyant consumption spurred these sectors, bringing projected investment returns to a level high enough to compensate for higher risks. International experience suggests that a consumption boom, once started, typically lasts for several years. From this we may assume that domestic consumption-related sectors will continue attracting foreign investors in the next couple of years even if the overall investment climate improves slowly.

**...suggests consumption-related sectors will attract large inflows of new foreign capital...**

At the same time, we believe that international financial groups will remain active in taking over domestic banks and insurance companies, fuelling inflow of fresh capital. An important point here is that foreign newcomers to the financial sector make FDI inflows self-reinforcing over a short term. Once in, foreign owners strive to seize market share, bringing more capital to finance expansion. According to our estimates, in 2007F share capital increases of fully or partially foreign-owned commercial banks will bring in \$1bn of FDI, or 20% of the projected annual inflow.

**... while existing foreign owners will bring in more money to strengthen their positions**

On top of this, Ukraine's accession to the WTO will provide additional stimulus to inflows of foreign capital. Taking into account the country's recent substantial progress with reform of its legislation in compliance with WTO requirements, it is increasingly likely Ukraine will finally join the world trade club in 1H07. This will promote FDI in two ways: directly, through facilitated access for foreign companies to the domestic services market, especially in financial intermediation and communication, and, indirectly, through boosting the country's image in the eyes of international community.

**Approaching WTO accession will also support FDI...**

All of these factors give grounds to expect acceleration of FDI in Ukraine in the coming years. We forecast net FDI in the country to average 3.9% of GDP in 2006-08F, propelling it to a middle position among CEE peers. This level may become sustainable over the medium term if the government steps up efforts to improve the investment climate and business environment. In this case, Ukraine may enjoy a second wave of FDI triggered by international corporations seeking to relocate their businesses from the increasingly expensive new EU member states to lower cost markets. The importance of improving the investment climate is highlighted by the fact that despite the expected acceleration of FDI inflows in the near term, per capita FDI in Ukraine will remain low, averaging \$102 in 2006E-08F, versus CEE peers' \$250-600.

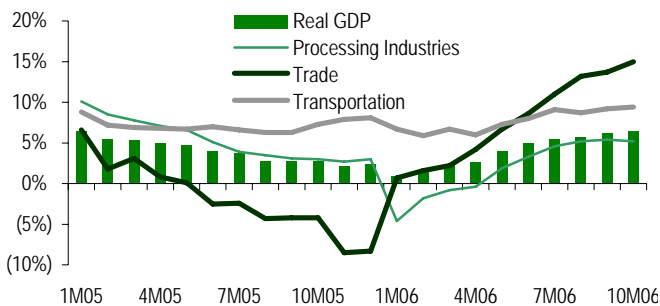
**...expected to average 3.9% of GDP in 2006-08**

# Real Economy

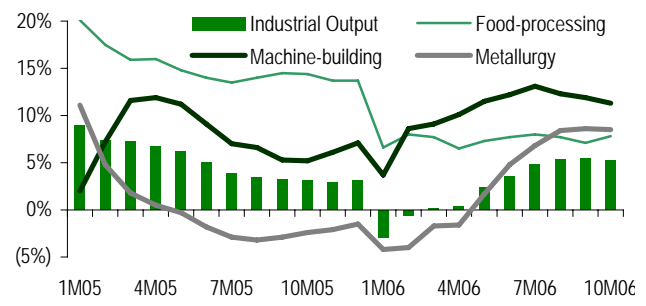
## ECONOMIC GROWTH

Provisional GDP data point to acceleration of economic growth in October despite a slowdown in industry, the largest GDP component by weight. The Ukrainian economy advanced by 9% y-o-y in October, slightly up from 8.9% in September, bringing 10M06 growth to 6.5% y-o-y, up from 6.2% in 9M06 and 2.8% in 10M05. Wholesale and retail trade remained the major growth driver over the period, posting a 15% y-o-y increase in value added, up from 14% in 9M06. The sector's rapid expansion was likely attributable to wholesale trade as real retail trade turnover, directly related to private consumption, maintained its growth pace at a robust 25% y-o-y in 10M06, flat compared to 9M06. Other services sectors also gained speed in October, compensating for slower industrial growth and a decline in agriculture. Although we treat monthly real GDP data with caution, as they are rough estimates subject to revision, the 10M06 provisional figures suggest full-year growth is likely to be close to our estimate of 6.6% y-o-y. We also maintain our 2007 real GDP growth forecast at 4.6% y-o-y, expecting a modest deceleration due to higher gas prices and no increase in metal prices.

### Real GDP growth speeds up...



Real GDP and Major Sectors Growth (% y-o-y)



Industrial Output and Major Industries Growth (% y-o-y)

Sources: State Statistics Committee, Dragon Capital

## INDUSTRY

Industrial production data for October confirmed our expectation that the phase of rapid industrial expansion had come to an end, giving way to a moderate growth trend. Industrial output was up 3.8% y-o-y in October (slowing from 6.2% y-o-y growth in September), bringing the 10M06 result to 5.3% y-o-y, down slightly from 5.5% in 9M06. In line with previous months, industrial growth was supported by the three major processing industries: metallurgy, food-processing and machine-building, which altogether accounted for almost 90% of 10M06 industrial expansion. Coke and oil refining (treated by government statisticians as one sector) remained the only industry to report a decline in output, which was even steeper in October than before (down 30% y-o-y) as two of the six domestic oil refineries stood idle and another one was under maintenance. This held back overall industrial output growth, bringing the 10M06 figure slightly below our estimate. However, we maintain our full-year forecast at 5.4% y-o-y, expecting oil refining to recover. In our view, next year's industrial production dynamics will depend largely on foreign demand for metals and government policy with respect to domestic oil processing. We think the government will take measures to boost the sector after it was hit hard by a slashing of import tariffs on oil products in 2005. Assuming moderate state support for the oil processing industry, expecting no large increases in world metal prices and taking into account the adverse effect of another gas price hike to be felt by some chemical enterprises, we forecast 2007 industrial output to grow by a moderate 4.3% y-o-y.

### ... while industry remains on moderate growth track

**INCOME AND SALARIES**

In 9M06 nominal personal disposable income grew by 28% y-o-y, to UAH 254bn (\$50bn), decelerating gradually from 29% in 8M06 and 30% in 1H06. As inflation dynamics was rather smooth over the period, real disposable income exhibited a similar trend, its growth slowing to 18% in 9M06 from 19% in 8M06 and 20% in 1H06. Since social payments from the budget remain an important source of personal disposable income (25% in 9M06), a slower increase in social payments set in this year's state budget and their further deceleration envisaged for 2007F will rein in disposable income growth. Yet, the expected slowdown in inflation in 2007F will provide for two-digit real income growth, letting private consumption continue expanding strongly. With consumption to be boosted also by bank lending, we expect it to remain a major source of economic growth for the remainder of 2006E and in 2007F.

**Real disposable income growth decelerates, but is set to remain two-digit**

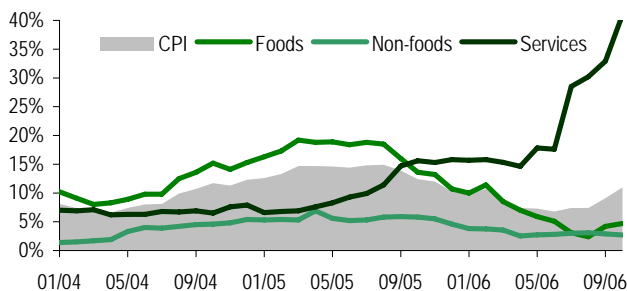
**PRICES**

Inflation continued accelerating in October, driven primarily by an adjustment in heating tariffs, which boosted the CPI's services component by 13.4% m-o-m and 41% y-o-y. As food and non-food prices advanced modestly, the CPI grew by 2.6% m-o-m in October, bringing y-o-y inflation to 11.0% (up 1.9pp from September). Recent government actions signal the year end inflation may be anywhere between 11% and 13% depending on how the cabinet tackles the issue. It seems that state authorities have decided to curb inflation by reintroducing various administrative regulations, including memorandums with market players on price cuts, restriction of grain exports (eased recently) and delay of further heating tariff hikes by regional governments. Although the goal of keeping inflation low is commendable, we definitely do not welcome such policies as they contribute to the accumulation of medium-term inflationary pressures or development of hidden inflationary processes. In any case, October's jump in utility tariffs will keep the CPI at a relatively high level until year end and provide for a higher comparison base, thus supporting our 2007F inflation estimates. We therefore revise our 2006E e-o-p inflation forecast up by 2pp, to 11.9%, while maintaining next year's e-o-p projection at 8.2%. Yet, we do not rule out 2007F inflation may be higher depending on this year's actual inflation and government tariff policy, which remains uncertain.

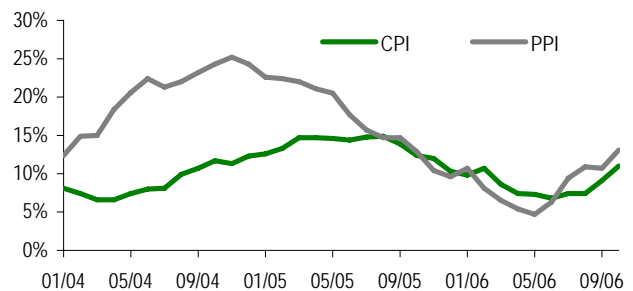
**Adjustments in services tariffs fuel CPI**

Growth in producer prices also accelerated last month despite a further decline in domestic gasoline prices. The PPI jumped by 2.2% m-o-m in October (up from 1.7% in September), bringing y-o-y growth to 13.1%. The upsurge was fuelled by higher prices in extracting industries (mostly non-energy materials, such as ores) and metallurgy, likely reflecting higher domestic metal prices as world metal prices were declining in October. Domestic gasoline prices continued falling in November, supported by government efforts to keep them in line with global moves, thus partially compensating for the expected moderate rise in ore prices. Expecting also that domestic and foreign metal prices will remain flat until year end and likely in 2007, we maintain our 2006E and 2007F e-o-p PPI forecasts at 11.9% and 7.0% y-o-y respectively.

**PPI growth also speeds up despite sliding gasoline prices**



Growth of CPI and Its Major Components (% y-o-y)



CPI and PPI Development (% y-o-y)

Sources: State Statistics Committee, Dragon Capital

# External Sector

## FOREIGN TRADE

Foreign trade data from both the NBU and the State Statistics Committee, despite different methodologies they are based on, revealed a noticeable reduction of Ukraine's trade deficit in 9M06 as compared to 1H06, contributing to an improved C/A balance. According to provisional estimates of balance of payments flows by the NBU, on which we rely more than on SSC trade figures, in 3Q06 the trade balance turned to a surplus of \$247m, bringing 9M06 deficit to \$1.3m, or 1.9% of 9M06 GDP, significantly lower than the 3.9% deficit recorded in 1H06.

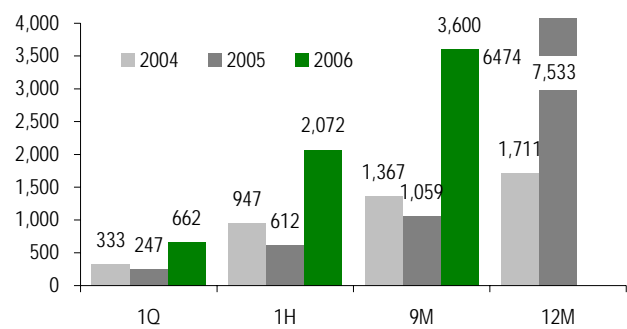
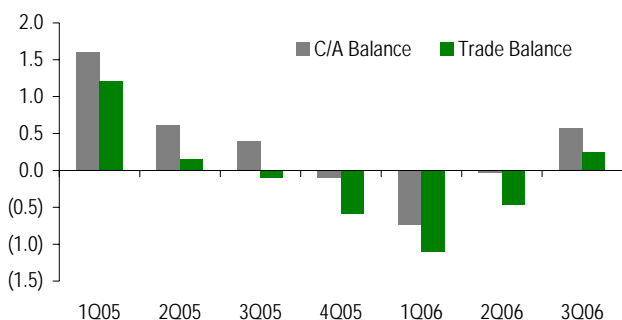
**3Q06 trade balance turns to surplus...**

The NBU reported 9M06 goods exports rose 9.6% y-o-y, to \$28bn, driven by metals, chemicals and machinery, while merchandise imports increased by 19% y-o-y, to \$31.2bn, led by machinery and fuels and mineral products. On the latter sector, the NBU noted that the surge in energy prices had a limited effect on import growth due to a decline in physical volumes of oil and gas imports. Besides, the upsurge in the imported gas price had been split by NBU statisticians into two components reported separately in merchandise import and services import categories, thereby contributing to lower energy imports and higher imports of transportation services than expected. In any case, the overall trade balance was not affected by gas import technicalities and its improvement was conducive to the current account balance. In 3Q06 the estimated C/A balance turned to a surplus of \$582m, bringing 9M06 deficit to \$202m, or 0.3% of 9M06 GDP, versus 1.9% of GDP in 1H06.

**...thanks to upsurge in exports...**

Taking into account a seasonal spike in energy imports in 4Q06, deceleration of exports growth due to stabilization of foreign demand for metals and the government's imposition of grain export quotas, we expect Ukraine's trade balance to slip into the red in 4Q06, bringing the full-year deficit to \$2.8bn and C/A deficit to \$1.0bn (0.9% of GDP). Deterioration in trade and C/A balances is expected to continue in 2007F due to another gas price hike (up 37% to \$130/tcm at the Ukraine-Russia border) and no significant rise in world demand for metals. At the same time, Ukraine's WTO accession is expected to have a neutral or marginally positive impact on the trade balance since higher exports of metallurgical and chemical products will be offset by larger imports of agricultural products. We therefore forecast Ukraine's 2007F trade and C/A deficits to widen to \$5.4bn and \$3.0bn, respectively, translating into 4.4% and 2.4% of 2007F GDP. At the same time, the intensification of FDI inflows (up 240%, to \$3.6bn, in 9M06, according to preliminary NBU data) is set to continue, comfortably covering the C/A deficit (please refer to this report's Focus section).

**...to be followed by moderate deficit in 4Q06 and further on**



C/A and Trade Balance Dynamics (\$bn)

Net FDI in Ukraine (\$m)

Note: 3Q06 and 9M06 figures are preliminary NBU estimates; Sources: NBU, Dragon Capital

# Fiscal Policy

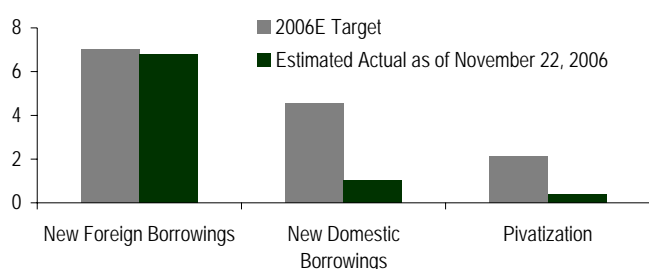
## BUDGET EXECUTION

In early November, the Verkhovna Rada approved amendments to the 2006 state budget law proposed by the government. Both revenues and expenditures (including net crediting) were raised by UAH 1.7bn (\$0.34bn), to UAH 128bn and UAH 141bn respectively, with the budget deficit left unchanged at UAH 13.2bn (\$2.6bn) or 2.3% of 2006E GDP. On the revenue side, parliament simply adjusted the full-year target for the actual revenue collection, which had exceeded the plan by UAH 1.5bn in 9M06 (general fund) thanks mainly to higher than expected VAT receipts. Among the main changes on the spending side, the government estimated debt service could be reduced by UAH 0.9bn due to early redemption of a part of the state debt in 2005 and more favorable than expected exchange rate dynamics. These funds, together with UAH 1.7bn of additional revenues, were allocated to social payments and transfers to local budgets to compensate for higher utility tariffs.

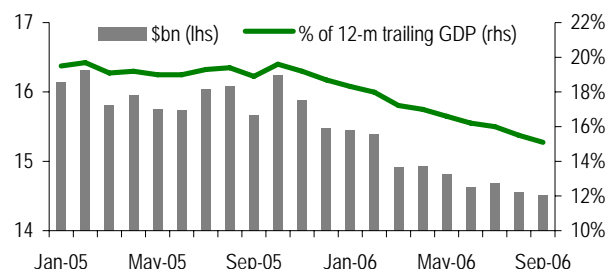
In the meantime, the government made substantial progress with new borrowings, placing \$1bn of Eurobonds and tapping the domestic market for UAH 1bn YTD, or 23% of the full-year domestic borrowing target (though the latest Treasuries placement likely was a substitution of redeemed issues in domestic borrowers' portfolios). In addition, Deputy Finance Minister Vadym Kopylov announced recently Ukraine may sell another CHF 374m (\$302m) 12-year Eurobond in a private placement, following CHF 384m raised in the same way in September. Although the government has yet to make a final decision on the second tranche and could delay it until 2007, we do not think it will postpone the Eurobond and use the proceeds to compensate for the shortage of privatization receipts and domestic borrowings. On top of this, taking into account that full-year budget spending may fall 2-4% below the target, thereby reducing the actual deficit by UAH 2bn to 5bn, the 2006 budget seem to be on the safe side. Parliament is to debate the budget draft for 2007 at the end of November. We do not expect next year's budget deficit target to be changed substantially from the current UAH 15.5bn, or 2.5% of GDP.

**Parliament amends 2006 budget parameters, keeping deficit at 2.3% of GDP**

**New borrowings and underexecution of outlays will keep 2006 budget on safe side**



2006 State Budget Major Deficit Financing Items (UAH bn)



Ukraine Public Debt Dynamics (e-o-p)

Sources: Finance Ministry, State Treasury, Dragon Capital

## PUBLIC DEBT

Although September was marked by this year's first sovereign Eurobond issue for CHF 384m and renewal of primary Treasury auctions, the new borrowings were offset by principal payments on the existing direct and conditional state liabilities, resulting in a marginal decline in public debt by 0.3% m-o-m and 6.2% YTD, to \$14.5bn, or 15.1% of 12-month trailing GDP. Yet, the intensification of borrowings in 4Q06 is expected to bring end-2006 public debt to \$15.9bn, or 15.2% of 2006E GDP. Next year's debt dynamics will depend largely on privatization policy. Assuming the government manages to raise 70% of the targeted UAH 10bn of privatization revenues (approved in the first reading), we expect end-2007 public debt to top \$18.2bn, or 14.7% of GDP.

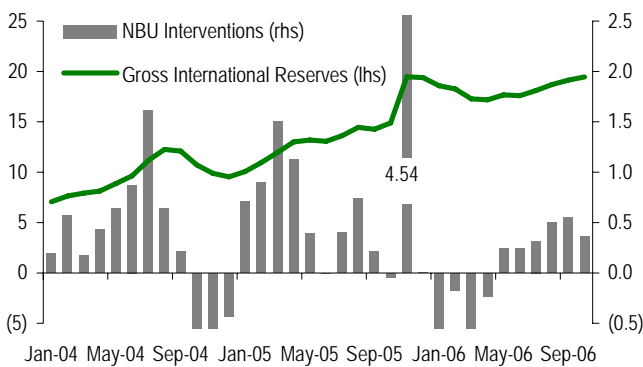
**Public debt to increase moderately due to intensification of borrowings**

# Monetary Policy and Foreign Exchange

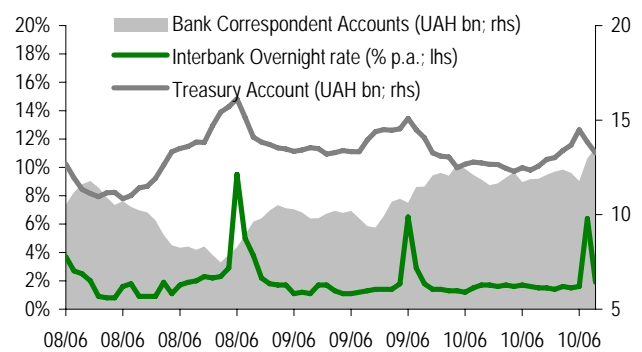
## FOREIGN RESERVES AND EXCHANGE RATE

NBU gross international reserves topped \$19.5bn in October, exceeding the end-2005 level for the first time this year. In terms of imports coverage, central bank reserves reached 4.5 months of 2006E goods and services imports, well above the internationally recognized threshold of 3 months. In a recent interview, NBU Governor Volodymyr Stelmakh said the bank will continue F/X interventions despite mounting inflationary pressures, rightly pointing out that monetary policies had little to do with the utility tariff-related inflation jump in October. The NBU governor's statements support our view on the reserves dynamics this year. We expect the reserves to continue growing gradually, picking up to \$20.5bn by year end (up 5.6% y-o-y) on accelerating capital inflows, which should compensate for a seasonal widening in trade deficit. In particular, the reserves have already benefited from the government's recent placement of a \$1bn Eurobond as the cabinet had to convert these funds into hryvnia to finance the budget deficit. We expect the NBU to continue accumulating reserves next year, bringing them up 4% y-o-y, to \$21.3bn, as a widening C/A deficit will be sufficiently covered by inflows of capital, FDI and long-term borrowings.

**NBU reserves exceed end-2005 level**



**NBU Interventions and F/X Reserves (\$bn)**



**Money Market Indicators (3-month development)**

Sources: NBU, Dragon Capital

## MONETARY POLICY

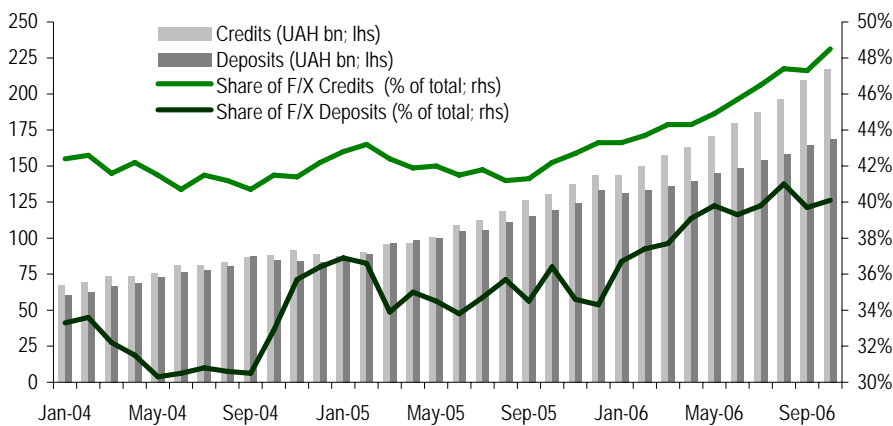
The monetary base continued to expand gradually in October, driven by NBU purchase interventions on the F/X market and a moderate reduction of funds in the State Treasury account (down 8.3% m-o-m). Thanks to the continuing swelling of bank deposits, the money supply was up by 1.8% m-o-m (up 23% YTD), to UAH 239bn (\$47.3bn), bringing end-October monetization (M3/trailing 12-month GDP) to 49.2%, down 0.4 percentage points m-o-m. Bank correspondent accounts rose 22% m-o-m, to UAH 13bn, following another change in reserve requirements (down for national currency deposits and flat or slightly up for F/X deposits), effective from the start of October. It seems the NBU has no tough monetary policy measures in mind for this year. According to the Bank governor, the NBU is unlikely to raise its discount rate, now at 8.5%, as such a move will have little effect on inflation but may discourage economic growth. Yet, some changes in the monetary policy framework may be necessary in 2007 as diminishing role of F/X interventions will force the NBU to use its monetary policy instruments more actively, in particular standing facilities and reserve requirements. Yet, open-market operations, an effective monetary policy tool worldwide, will remain limited unless the government undertakes measures to develop a liquid secondary market for Treasuries.

**Monetary policy set to remain loose**

**DEPOSITS AND CREDITS**

**Bank lending is booming  
backed by borrowings from  
abroad**

Bank lending continues growing rapidly in response to buoyant consumption demand and reviving investment activity. As of end-October, commercial bank lending was up 51% YTD (up 3.6% m-o-m), to UAH 217bn (\$43.1bn), implying a Lending/trailing 12-month GDP of 44.7% (up 9.8pp YTD and 0.4pp m-o-m). Although deposits still remain the main funding source for banks, accounting for 64% of their total liabilities, their role is diminishing as banks shift to longer-term and cheaper foreign borrowings. By the end of October, inter-bank loans and deposits rose by 85% YTD, to UAH 51bn (\$10bn), mostly thanks to foreign borrowings, while deposits by households and legal entities grew by 27% YTD, to UAH 169bn (\$33.4bn). Accordingly, the share of inter-bank loans and deposits in total bank liabilities rose by 4.7pp YTD, to 19.4%. We expect this trend to continue in the next few years, supported also by the ongoing takeover of domestic banks by foreign majors. The macroeconomic consequences, however, will be two-fold. On the one hand, the inflow of cheap and long-term foreign capital will press down interest rates, supporting investment through lower cost of capital and fuelling consumption boom. On the other hand, F/X loans will continue dominating in the currency structure of bank credit portfolio, increasing household exposure to F/X risks.



**Bank Credits and Deposits (2004-10M06)**

Sources: NBU, Dragon Capital

## CURRENT TRENDS

	2005					2006													
	2Q05	3Q05	4Q05	1Q06	2Q06	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
<b>Real Sector</b>																			
Real GDP (cum.; % y-o-y) <sup>1)</sup>	4.1%	3.0%	2.6%	3.2%	5.4%	2.8%	2.2%	2.4%	0.9%	1.5%	2.4%	2.7%	4.0%	5.0%	5.5%	5.7%	6.2%	6.5%	
Household Consumption (cum.; % y-o-y)	16.1%	16.4%	16.6%	19.7%	19.8%	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross Fix. Cap. Formation (cum.; % y-o-y)	(1.2%)	(0.6%)	(0.3%)	8.2%	9.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	
Nominal GDP (cum.; UAH bn) <sup>1)</sup>	181.8	301.2	424.7	102.0	224.8	327.7	363.2	404.9	29.8	60.5	93.1	128.7	166.6	206.1	253.7	300.8	350.6	400.6	
Nominal GDP (cum.; \$bn) <sup>1)</sup>	35.0	58.5	82.9	20.2	44.5	62.7	69.7	77.8	5.9	12.0	18.4	25.5	33.0	40.8	50.2	59.6	69.4	79.3	
Real Industrial Output (cum.; % y-o-y)	5.0%	3.1%	3.1%	0.2%	3.6%	3.0%	2.9%	3.1%	(2.9%)	(0.6%)	0.2%	0.4%	2.4%	3.6%	4.8%	5.4%	5.5%	5.3%	
Real Agricultural Output (cum.; % y-o-y)	6.4%	3.4%	0.0%	4.0%	3.2%	1.4%	1.4%	0.0%	3.3%	3.6%	4.0%	4.1%	4.7%	3.2%	(1.9%)	(2.8%)	(2.8%)	(1.1%)	
<b>Prices</b>																			
Consumer Price Index (e-o-p; % y-o-y)	14.4%	13.9%	10.3%	8.6%	6.8%	12.4%	12.0%	10.3%	9.8%	10.7%	8.6%	7.4%	7.3%	6.8%	7.4%	7.4%	9.1%	11.0%	
Consumer Price Index (avg.; % y-o-y) <sup>2)</sup>	14.6%	14.5%	11.6%	9.7%	7.2%	14.0%	13.8%	13.5%	13.3%	13.1%	12.6%	12.0%	11.4%	10.7%	10.1%	9.5%	9.1%	9.0%	
Producer Price Index (e-o-p; % y-o-y)	17.7%	14.7%	9.6%	6.5%	6.3%	12.9%	10.4%	9.6%	10.7%	8.1%	6.5%	5.4%	4.7%	6.3%	9.4%	10.9%	10.7%	13.1%	
Producer Price Index (avg.; % y-o-y) <sup>2)</sup>	19.7%	15.0%	10.9%	8.4%	5.5%	18.4%	17.7%	17.0%	16.0%	14.8%	13.6%	12.2%	10.9%	10.0%	9.5%	9.1%	8.8%	8.8%	
<b>Merchandise Trade<sup>3)</sup></b>																			
Merch. Exports (cum.; \$bn)	16.94	25.27	34.29	7.99	17.36	28.20	31.14	34.29	2.34	4.86	7.99	10.94	14.05	17.36	20.71	24.22	27.90	-	
Merch. Exports (cum.; % y-o-y)	9.0%	6.0%	4.9%	(4.4%)	2.5%	6.3%	5.6%	4.9%	(5.9%)	(5.3%)	(4.4%)	(3.9%)	(0.9%)	2.5%	4.8%	7.9%	10.4%	-	
Merch. Imports (cum.; \$bn)	16.55	26.02	36.14	9.76	20.28	29.22	32.48	36.14	2.71	5.88	9.76	13.04	16.67	20.28	23.97	27.81	31.96	-	
Merch. Imports (cum.; % y-o-y)	26.1%	25.8%	24.6%	30.2%	22.5%	25.3%	24.6%	24.6%	50.2%	39.7%	30.2%	23.2%	24.6%	22.5%	21.3%	21.2%	22.2%	-	
Merch. Trade Balance (cum.; \$bn)	0.38	(0.75)	(1.85)	(1.77)	(2.92)	(1.02)	(1.34)	(1.85)	(0.37)	(1.03)	(1.77)	(2.10)	(2.63)	(2.92)	(3.26)	(3.59)	(4.06)	-	
Merch. Trade Balance (% of cum. GDP)	1.1%	(1.4%)	(2.4%)	(9.6%)	(7.2%)	(1.6%)	(1.9%)	(2.4%)	(6.3%)	(8.6%)	(9.6%)	(8.2%)	(8.0%)	(7.2%)	(6.5%)	(6.0%)	(5.8%)	-	
<b>Balance of Payments<sup>4)</sup></b>																			
Current Account Balance (cum.; \$bn)	2.22	2.63	2.53	(0.74)	(0.78)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Current Account Balance (% of cum. GDP)	6.4%	4.5%	3.1%	(4.0%)	(1.9%)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Trade Balance (cum.; \$bn)	1.36	1.27	0.67	(1.11)	(1.59)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Current Transfers (cum.; \$bn)	1.32	2.07	2.85	0.62	1.40	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net FDI Inflow (cum.; \$bn)	0.61	1.06	7.53	0.66	2.07	-	-	-	-	-	-	-	-	-	-	-	-	-	
Change in Gross F/X Reserves (\$bn)	1.12	1.26	5.14	(2.14)	0.30	0.63	4.58	(0.08)	(0.81)	(0.31)	(1.01)	(0.09)	0.49	(0.10)	0.50	0.60	0.44	0.31	
Gross F/X Reserves (\$bn)	13.07	14.26	19.39	17.26	18.10	14.89	19.47	19.39	18.58	18.27	17.26	17.17	17.66	17.60	18.10	18.70	19.14	19.45	
Gross F/X Reserves (Weeks of Imports)	15.55	16.96	23.07	17.27	18.11	17.71	23.17	23.07	18.59	18.28	17.27	17.18	17.67	17.60	18.11	18.71	19.15	19.46	
<b>Consolidated Budget</b>																			
Revenues (cum.; % of cum. GDP)	33.8%	32.9%	33.1%	35.3%	35.0%	32.2%	32.8%	33.1%	31.5%	34.1%	35.3%	34.8%	35.6%	35.0%	34.4%	35.0%	34.3%	-	
Expenditures (cum.; % of cum. GDP)	32.7%	30.8%	35.1%	34.9%	35.5%	30.6%	31.9%	35.1%	23.0%	30.0%	34.9%	35.5%	34.8%	35.5%	34.8%	34.1%	33.5%	-	
Balance (cash basis; % of cum. GDP)	1.1%	2.0%	(2.0%)	0.4%	(0.5%)	1.6%	0.9%	(2.0%)	8.4%	4.1%	0.4%	(0.7%)	0.7%	(0.5%)	(0.4%)	0.8%	0.7%	-	
Balance (cash basis; cum.; UAH bn)	1.86	5.85	(7.97)	0.39	(1.00)	5.36	3.15	(7.97)	2.51	2.50	0.39	(0.86)	1.18	(1.00)	(0.97)	2.52	2.58	-	
<b>Debt Indicators</b>																			
Total Public Debt (\$bn)	15.7	15.7	15.5	14.9	14.6	16.2	15.9	15.5	15.4	15.4	14.9	14.9	14.8	14.6	14.7	14.6	14.5	-	
Total Public Debt (% of 12-m trailing GDP)	21.7%	20.3%	18.7%	17.2%	16.2%	20.7%	19.9%	18.7%	18.3%	18.0%	17.2%	17.0%	16.6%	16.2%	16.0%	15.5%	15.1%	-	
External Public Debt (\$bn)	11.3	11.2	11.7	11.2	11.1	11.9	11.8	11.7	11.7	11.6	11.2	11.2	11.1	11.1	11.1	12.1	13.1	-	
Gross External Debt (\$bn) <sup>4)</sup>	33.4	36.1	38.8	39.9	41.6	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross External Debt (% of 12-m trailing GDP)	46.1%	46.8%	46.8%	46.1%	45.9%	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Monetary Indicators &amp; Exchange Rate</b>																			
Monetary Base (% y-o-y)	38.7%	27.2%	53.9%	25.2%	22.4%	34.8%	49.3%	53.9%	44.3%	39.4%	25.2%	24.0%	23.9%	22.4%	23.8%	19.5%	20.3%	22.4%	
Money Supply (M3; % y-o-y)	37.2%	31.3%	54.3%	39.4%	37.0%	38.5%	43.9%	54.3%	50.1%	46.1%	39.4%	37.4%	40.2%	37.0%	39.2%	37.4%	37.3%	36.7%	
Credit Rates (avg.; hryvnia; % p.a.)	15.9%	15.6%	16.2%	15.9%	15.5%	16.1%	16.2%	16.4%	16.0%	15.9%	15.8%	15.7%	15.3%	15.5%	15.0%	14.6%	14.6%	14.3%	
Deposit Rates (avg.; hryvnia; % p.a.)	8.3%	7.9%	8.0%	7.7%	7.3%	7.7%	8.2%	8.1%	8.1%	7.8%	7.3%	7.8%	7.8%	7.3%	7.0%	7.3%	7.4%	7.9%	
UAH:USD (e-o-p)	5.06	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	
UAH:USD (avg.)	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	
UAH:EUR (e-o-p)	6.11	6.08	6.02	6.07	6.33	6.13	5.92	6.02	6.15	6.01	6.07	6.27	6.48	6.33	6.40	6.47	6.42	6.42	
UAH:EUR (avg.)	6.44	6.16	6.00	6.07	6.34	6.07	5.97	5.99	6.11	6.04	6.06	6.17	6.44	6.40	6.40	6.47	6.43	6.37	

Note: <sup>1)</sup> Monthly data are preliminary and differ from quarterly figures; <sup>2)</sup> 12-month rolling average for monthly data and simple average for quarterly; <sup>3)</sup> State Statistics Committee data; <sup>4)</sup> NBU data. Sources: State Statistics Committee, Ministry of Finance, National Bank of Ukraine, Dragon Capital estimates.

## MACROECONOMIC INDICATORS

Year	2000	2001	2002	2003	2004	2005	2006E	2007F
<b>Real Sector</b>								
Real GDP (% y-o-y)	5.9%	9.2%	5.2%	9.4%	12.1%	2.6%	6.6%	4.6%
Household Consumption (% y-o-y)	2.5%	9.6%	9.5%	11.2%	13.3%	16.6%	17.8%	12.5%
Gross Fixed Capital Formation (% y-o-y)	12.4%	6.2%	3.4%	22.3%	20.4%	(0.3%)	9.8%	8.0%
Nominal GDP (UAH bn)	170.1	204.2	225.8	267.3	345.9	424.7	526.1	624.9
Nominal GDP (\$bn)	31.3	38.0	42.4	50.1	65.0	82.9	104.2	123.7
GDP per Capita (at F/X rate: \$)	634	785	883	1,053	1,376	1,766	2,233	2,664
Real Industrial Output (% y-o-y)	12.4%	14.2%	7.0%	15.8%	12.5%	3.1%	5.4%	4.3%
Real Agricultural Output (% y-o-y)	9.8%	10.2%	1.2%	(11.0%)	19.9%	0.0%	0.9%	0.2%
<b>Prices</b>								
Consumer Price Index (e-o-p; % y-o-y)	25.8%	6.1%	(0.6%)	8.2%	12.3%	10.3%	11.9%	8.2%
Consumer Price Index (avg.; % y-o-y)	28.2%	12.3%	0.8%	5.2%	9.0%	13.5%	9.1%	11.3%
Producer Price Index (e-o-p; % y-o-y)	20.8%	0.9%	5.8%	11.2%	24.1%	9.6%	11.9%	7.0%
Producer Price Index (avg.; % y-o-y)	20.9%	9.0%	3.1%	7.6%	20.1%	17.0%	10.7%	9.5%
GDP Deflator (% y-o-y)	23.1%	9.9%	5.1%	8.0%	15.1%	18.2%	16.2%	13.5%
<b>External Sector</b>								
Current Account Balance (\$bn)	1.5	1.4	3.2	2.9	6.8	2.5	(1.0)	(3.0)
Current Account Balance (% of GDP)	4.7%	3.7%	7.5%	5.8%	10.5%	3.1%	(0.9%)	(2.4%)
Merchandise Trade Balance (\$bn)**	0.8	0.2	0.7	(0.3)	3.7	(1.1)	(4.4)	(8.1)
Services Trade Balance (\$bn)**	0.6	0.4	1.1	1.6	1.1	1.8	1.6	2.7
Capital and Financial Accounts Balance (\$bn)*	(0.9)	(0.2)	(1.1)	0.3	(4.2)	8.1	2.0	4.5
FDI Inflow (\$bn)	0.59	0.79	0.69	1.42	1.72	7.53	4.21	5.23
FDI Inflow per Capita (\$)	12.0	16.4	14.4	29.9	36.3	160.5	90.1	112.6
FDI (Cumulative since 1991, \$bn)	3.87	4.67	5.36	6.78	9.05	16.58	20.79	26.02
Gross F/X Reserves (\$bn)	1.5	3.1	4.4	6.9	9.5	19.4	20.5	21.3
Gross F/X Reserves (Weeks of Imports)	4.3	7.9	10.6	13.0	14.2	23.1	20.5	18.3
<b>Consolidated Budget</b>								
Revenues (% of GDP)	27.7%	25.8%	26.8%	28.2%	26.5%	31.6%	30.8%	28.5%
Expenditures (% of GDP)	28.3%	27.2%	26.2%	28.4%	29.3%	33.4%	33.1%	31.0%
Balance (% of GDP)	(0.7%)	(1.4%)	0.6%	(0.2%)	(2.9%)	(1.8%)	(2.3%)	(2.5%)
Balance (UAH bn)	(1.1)	(2.8)	1.3	(0.5)	(9.9)	(7.7)	(12.2)	(15.5)
Privatization Revenues (UAH bn)	2.1	2.2	0.6	2.2	9.5	20.7	0.5	7.0
<b>Debt Indicators</b>								
Total Public Debt (\$bn)	14.2	14.1	14.2	14.5	16.1	15.5	15.9	18.2
Total Public Debt (% of GDP)	45.3%	36.5%	33.5%	29.0%	24.7%	18.4%	15.2%	14.7%
External Public Debt (\$bn)	10.4	10.1	10.2	10.2	12.1	11.7	12.0	14.4
Gross External Debt (\$bn)**	-	-	-	23.8	30.6	38.8	48.6	56.0
Gross External Debt (% of GDP)	-	-	-	47.5%	47.1%	46.8%	46.6%	45.3%
<b>Monetary Indicators &amp; Exchange Rate</b>								
Monetary Base (% y-o-y)	39.9%	37.4%	34.0%	29.8%	34.1%	53.9%	12.9%	21.7%
Money Supply (M2, % y-o-y)	44.5%	43.4%	42.2%	47.6%	32.8%	53.9%	37.4%	35.7%
Credit Rates (avg.; hryvnia; % p.a.)	41.5%	31.9%	24.8%	20.2%	17.9%	16.4%	15.0%	14.7%
Deposit Rates (avg.; hryvnia; % p.a.)	13.7%	11.0%	7.9%	7.0%	7.8%	8.5%	7.0%	6.5%
UAH:USD (e-o-p)	5.43	5.30	5.33	5.33	5.31	5.05	5.05	5.05
UAH:USD (avg.)	5.44	5.37	5.33	5.33	5.32	5.12	5.05	5.05

Note: \*Analytical presentation; \*\* NBU data. Sources: State Statistics Committee, Ministry of Finance, National Bank of Ukraine, Dragon Capital estimates & forecasts

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