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# UKRAINIAN MARKET FLASH

## Politics/Economics

### FITCH SAYS GLOBAL ECONOMY STABILIZING; MEDIUM-TERM FISCAL CHALLENGE AHEAD

Fitch Ratings has said in a new report that the global economy has likely stopped shrinking and will slowly begin to recover during the second half of this year.

However, economic recovery will be slow and unemployment will continue to rise through most of the next year and, consequently, the world's major central banks are not expected to begin raising policy interest rates until late 2010 at the earliest, the report says.

Outside of the advanced economies, emerging market (EM) sovereigns remain buffeted by the global crisis, with the principal rating risk so far centered on sharp declines in private capital flows, including cross-border bank lending, which continue to pressure balance of payments and financial stability, especially in central and Eastern Europe. Furthermore, the very weak global economic environment and reduced availability and higher cost of financing is pressurizing non-sovereign credit quality, with approximately one third of emerging market companies and banks with international ratings from Fitch.

### IMF MISSION IN UKRAINE AGAIN

International Monetary Fund (IMF) Mission Chief in Ukraine Ceyla Pazarbasioglu arrived in Kyiv on Tuesday, the IMF Resident Representative Office in Ukraine reported.

The office said that the goal of her visit to Ukraine is to complete the next review of the country's stand-by program with the IMF.

The updated tranche schedule envisages a third tranche of SDR 2.125 billion (\$3.27 billion at the current rate), which is to be allocated following the second review slated for June 2009.

### EU TIES AID FOR BUYING RUSSIAN GAS TO REFORM UKRAINE'S GAS SECTOR

The European Commission and European financial institutions are ready to help Ukraine buy Russian gas but do not want "to play first fiddle".

A joint statement by the European Commission and international lenders on Ukraine's settlements for gas, circulated on Tuesday by the European Commission's representative office in Russia, states that the European Commission will continue searching for a solution.

At the same time, the international partners note that further support to ease gas purchases will depend on further reforms in the gas sector, and be an addition to the financial assistance the International Monetary Fund has been providing under a program to support the Ukrainian economy, the statement says.

### YANUKOVYCH WOULD GET 34.7%, TYMOSHENKO 21.5% IF PRESIDENTIAL ELECTIONS IN UKRAINE WERE HELD THIS SUNDAY

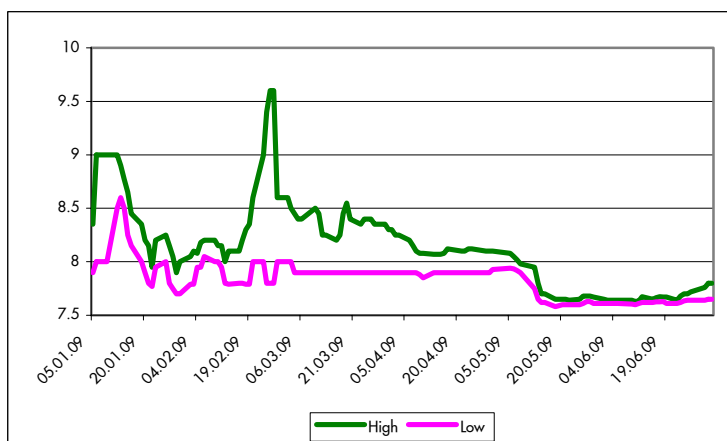
If presidential elections in Ukraine were held this Sunday, Party of Regions leader Viktor Yanukovich would garner 34.7% of the vote, Prime Minister Yulia Tymoshenko 21.5%, and Change Front leader Arseniy Yatseniuk 17.6%, according to a public opinion poll conducted by the Kyiv International Sociology Institute in June.

Communist Party leader Petro Symonenko would get 5.7%, Verkhovna Rada speaker Volodymyr Lytvyn 3.8%, and President Viktor Yushchenko 3.5% of votes.

02.07.2009			
Term	KIEIBID/OR (UAH)	LIBOR (USD)	EURIBOR (EUR)
o/n	0.26 / 1.23	0.26813	0.360
1wk	1.03 / 2.33	0.28438	0.450
2wk	2.58 / 5.92	0.29250	0.535
1m	5.62 / 8.75	0.30438	0.728
2m/3m/3m	8.68 / 13.43	0.57750	1.072
3m/6m/6m	11.38 / 16.25	1.07875	1.291
12m		1.57625	1.486

Official NBU FX Rates		
	03.07.2009	weekly change
USD/UAH	7.638	0.13%
EUR/UAH	10.731	0.91%
RUR/UAH	0.245	0.41%

FX rate USD/UAH (interbank rates)



FX rate EUR/UAH (interbank rates)



## Economics

### UKRAINE'S GDP IN JAN-MAR 2009 FALLS BY 20.3%

Ukraine's GDP in Q1'09 fell by 20.3% year-on-year, according to a statement on the State Statistics Committee's official Web site.

The country's GDP in actual prices in the first quarter of 2009 was estimated at UAH 183.217 billion, reads the report.

In 2009, the Ukrainian government expects economic growth to slow to 0.4%, while experts, including those from the NBU, forecast a drastic decline. The IMF admits it may worsen its forecast for the fall in Ukraine's GDP in 2009 from 8% to 12%.

*Comments:* in Q2'09, GDP continued decreasing and may reach -22-23%. Despite the fact that main industries stopped falling, private consumption demonstrated downward dynamics. Thus, services and retail trade will increase their negative contribution in Q2.

### UKRAINE'S BALANCE OF PAYMENTS DEFICIT TOTALS \$6.6 B IN JAN-MAY

Ukraine had a balance of payments deficit of \$6.6 bln in January-May 2009 compared to a surplus of USD 1.2 bln in the same period of 2008, the National Bank of Ukraine (NBU) said in a statement.

The balance of payments deficit totaled USD 275 million in May versus a surplus of USD 852 million in the first five months of 2008.

The May deficit was significantly lower than the deficits of \$1.1 billion recorded in April, USD1.289 billion in March and USD 2.135 billion in February. The reduction of deficit can be explained by the positive current account balance achieved in May – USD 230 million (deficit of USD 660 mln in January-May), which can be mainly explained by the slowdown of export and imports growth rates. At the same time, the substantial reduction of financial account deficit (USD 505 mln) can be explained by the slowdown of currency outflow from the banking system.

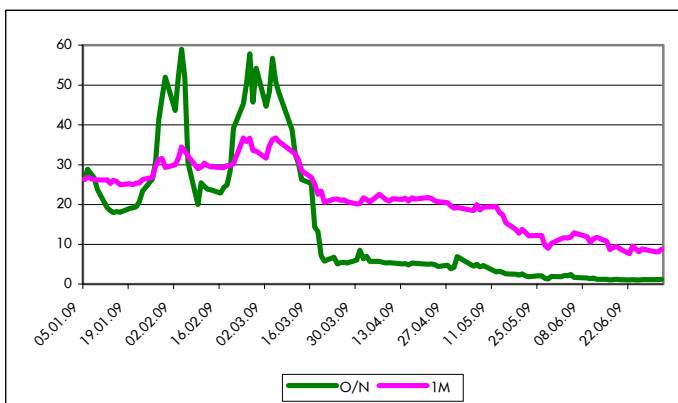
*Comments:* the positive current account balance in May is not a positive tendency. In May, exports of goods fell by 53.2% yoy, while imports of goods fell by 58.9% yoy. It's the collapse of the international trade.

### UKRAINE'S STATE DEBT 7.9% UP IN MAY

Ukraine's overall state (direct) and guaranteed debt in May 2009 grew by 7.9%, or \$1.931 billion, to \$26.483 billion, the Finance Ministry reported on its official Web site.

January through May, the country's currency-denominated state debt increased by 7.7%, or \$1.884 billion.

### UAH interest rates (KIEIBOR- ask rates)



### REVENUES TARGET OF UKRAINE'S NATIONAL BUDGET OVER-FULFILLED BY 3.6% IN JANUARY-JUNE 2009

The revenues target of Ukraine's national budget in January to June 2009 was over-fulfilled by 3.6%, according to a posting on the Web site of the State Treasury of Ukraine.

*Comments:* Over-fulfillment of the national budget is just the manipulation of the government with the figures. The fulfillment of the budget can be evaluated only in the end of the year. Interim results do not show the picture.

## Outlook

### FX MARKET

In the end of June, the hryvnia began depreciating on the interbank market. The only reason for the hryvnia depreciation was one more speculative attack.

Last Friday, USD/UAH rate increased to 7.69/7.72, but the National Bank remained passive not selling the dollars. On Tuesday, the NBU declared intention to sell the dollars at 7.64, but the hryvnia depreciated to 7.725/7.76. On Wednesday, the NBU conducted the special auction, but many banks were not able to buy currency because of the high cut-off price. As a result, the National Bank made additional interventions on the market selling the dollar at 7.65. The NBU did not close all the demand for the currency. As a result, the hryvnia continued depreciating on Thursday and reached 7.8.

Over the week, the official USD/UAH rate was increased by 0.13% and reached 7.6384. The official UAH/EUR rate was increased by 0.91% as the reaction on a depreciation of the Euro against the dollar on the international FOREX market and depreciation of the hryvnia on the domestic interbank market.

### MONEY MARKET

Over the last several weeks, Overnight KIEIBOR was fluctuating in 1.03-1.23%% supported by high balances of the correspondent accounts of the banking system.

Overnight KIEIBOR decreased to 1.03% in the end of June supported by high balances of the correspondent accounts. 1-month KIEIBOR was fluctuating in 7.67-9.53%% range.

The balances of the correspondent accounts increased to UAH 24.7 bln. on June 26 with a decrease to UAH 21.2 bln. on July 02. Taking into account that the level of mandatory reserves is UAH 11.9 bln., free liquidity of the banking system was fluctuating in UAH 9.3-12.8 bln. range. This level of liquidity is enough to support normal functioning of the banking system.

The National Bank continued controlling liquidity of the banking system by mobilizing extra liquidity from the market. Over the last two weeks, the level of mobilization reached UAH 4.05 bln., while the level of refinancing was only UAH 86.2 mln.

### Economic information

	01.01.08	01.01.09	01.06.09
Discount rate of NBU	10.0%	12.0%	12.0%
Gross monetary reserves of NBU in millions USD	32 462	31 540	27 792
Monetary base in billion UAH	141.9	186.7	181.7
Monetary supply M0 in billion UAH	111.1	154.8	153
Amounts at correspondent accounts in billion UAH	19.05	18.6	16.7
Inflation (from the beginning of the year)	16.6%	22.3%	7.4%
GDP growth	7.3%	2.1%	

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**Results of Consensus Forecast. June 2009**

Indicator	Unit of measurement	Average	Min	Max
Nominal GDP	UAH bln	955.3	882.3	1 008.0
Change of real GDP	%	-12.8	-17.8	-8.0
Real consumption change	%	-13.3	-16.6	-8.4
Real investment change	%	-25.2	-35.0	-11.5
Value-added growth rate in industry	%	-18.1	-22.3	-15.5
Unemployment rate (ILO methodology, people in able-bodied age) to the economically active population	%	11.2	6.5	16.0
Real disposable income	%	-13.4	-21.0	3.0
<b>Prices</b>				
GDP deflator (average in a year)	%	15.8	12.0	22.2
CPI (average in a year)	%	17.4	16.2	18.5
PPI deflator (average in a year)	%	6.8	5.0	8.5
<b>External sector</b>				
CA Balance	% GDP	-0.9	-5.0	1.9
Financial account balance	% GDP	-5.3	-12.5	6.1
FDI	% GDP	3.7	1.8	5.1
<b>Money and credit</b>				
Exchange rate (average in a year)	UAH/USD	8.19	7.80	8.50
Exchange rate (average in a year)	USD/EUR	1.36	1.33	1.40
NBU international reserves	USD bln	25.5	22.0	29.0
Change of nominal monetary base	%	9.9	1.8	18.0
Change of nominal money supply	%	2.1	-5.0	15.0
<b>Budget</b>				
Revenues of Consolidated Budget	UAH bln	250.4	215.1	275.3
Expenditures of Consolidated Budget	UAH bln	293.0	267.3	312.2
Balance of Consolidated Budget	% GDP	-6.0	-9.2	-3.9
Receipts from external government takings	USD bln	8.3	0.9	35.0
Receipts from internal government takings	UAH bln	22.4	12.5	30.0
Aggregate government debt (at the year end)	% GDP	33.4	20.0	45.0

*Members of Consensus:* Astrum Investment Management, Dragon Capital, Concorde Capital, Ukrainian business journal "Expert", Institute of economic research and policy consulting, ING Bank Ukraine, OTP Bank, Phoenix Capital, Sokrat, "Troika Dialog Ukraine", ICPS, Blayzer Foundation, Institute of economics and forecasting of National Academy of Science Ukraine.