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# UKRAINIAN MARKET FLASH

## Politics/Economics

### UKRAINE OUTLOOK REVISED TO POSITIVE ON BUDGETARY AND FINANCIAL REFORM PROGRESS; RATINGS AFFIRMED

Standard & Poor's Ratings Services revised its outlook on Ukraine from negative to positive.

"We affirmed the 'CCC+/C' long- and short-term foreign currency sovereign credit ratings, the 'B-/C' long-term and short-term local currency ratings, and the 'uaBBB' Ukraine national scale ratings," S&P said in the statement.

According to S&P, the outlook revision reflects recent progress made by Ukraine on implementing structural budgetary and financial sector reforms in compliance with the \$16 billion International Monetary Fund (IMF) Stand-By Arrangement. This led to the disbursement of the third lending tranche of \$3.2 billion earlier this week.

With more than 60% of the IMF loan already disbursed, the Ukraine government has been able to fund capital injections into the financial system worth more than 5% of GDP, while increasing its 2009 budgetary deficit target from 0% to 6% of GDP.

Strong and coordinated banking measures have helped to improve depositor confidence. To meet IMF deadlines, the government has passed several prior actions by decree rather than by submitting them to parliament.

### CABINET GRANTS UAH 275 MILLION FROM STABILIZATION FUND TO SUPPORT AGRARIANS

The Cabinet of Ministers has allocated UAH 275 million from the stabilization fund of the national budget to support the Ukrainian farming sector.

### NAFTOHAZ UKRAINY SETTLES GAZPROM FOR JULY GAS SUPPLIES

The Naftohaz Ukrainy national joint-stock company has settled the Gazprom gas monopolist (Russia) for the natural gas it supplied in July. Prime Minister Yulia Tymoshenko announced this at a news briefing.

"The government settled [Gazprom] for the pumping of Russian gas into the Ukrainian underground gas storage facilities today ahead of schedule. We paid USD 605 million," she said. Tymoshenko expressed confidence that Naftohaz Ukrainy would continue to pay for gas supplies.

Naftohaz Ukrainy's spokesman Valentyn Zemlianskiy told Ukrainian News that the company has completed all the technical procedures involving transfer of payment for the gas supplies. Gas was imported into Ukraine at the price of USD 198.34 per 1,000 square meters in the third quarter.

### CABINET TO RECAPITALIZE NADRA BANK AND UKRPROMBANK

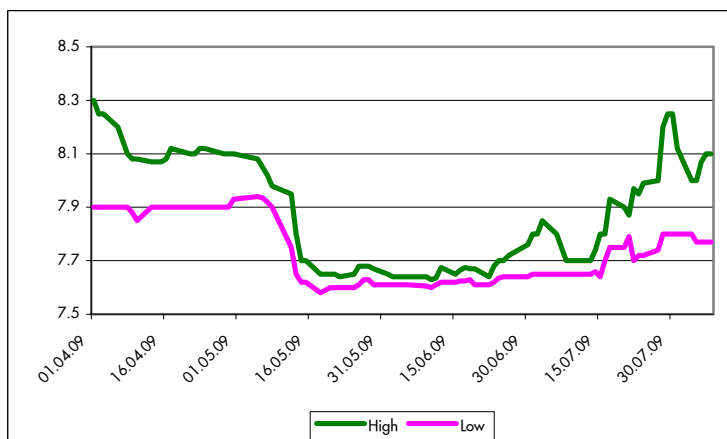
The Cabinet of Ministers intends to recapitalize the Nadra Bank and Ukprrombank, two of the largest banks in Ukraine.

Prime Minister Yulia Tymoshenko announced this. "By our estimates, there are today another two large systematically important banks that are essentially on the brink of bankruptcy. They are Nadra Bank and Ukprrombank. They are large banks with millions of clients who are without their money", she said.

07.08.2009			
Term	KIEIBID/OR (UAH)	LIBOR (USD)	EURIBOR (EUR)
o/n	0.25 / 1.13	0.24500	0.341
1wk	1.28 / 2.91	0.26250	0.352
2wk	4.33 / 7.25	0.26875	0.391
1m	6.95 / 10.15	0.27563	0.521
2m/3m/3m	8.93 / 14.37	0.46125	0.881
3m/6m/6m	10.75 / 16.62	0.90750	1.131
12m		1.51000	1.348

Official NBU FX Rates		
	10.08.2009	weekly change
USD/UAH	7.704	0.06%
EUR/UAH	11.060	1.61%
RUR/UAH	0.244	-1.17%

FX rate USD/UAH (interbank rates)



FX rate EUR/UAH (interbank rates)



## Economics

### 0.1% DEFLATION REGISTERED IN JULY

Consumer prices decreased by 0.1% in July. The State Statistics Committee announced this in a statement.

Prices of foodstuffs and nonalcoholic beverages reduced by 0.2%, prices of housing and utility services – by 3.3%, and the cost of transport services – by 1.1% in July.

An inflation rate of 8.5% was registered in the period of January-June. Compared with July 2008, the inflation rate increased to 15.5% in July 2009.

**Comments:** The deflation in July is rather a seasonal factor, explained by reduction of food prices in summer. We can expect a slight revival of inflationary dynamics at the beginning of autumn due to seasonal factors. Besides, the increase of social spending before Presidential election will be a factor stimulating price dynamics in autumn.

### BANKS EXPERIENCED UAH 14.3 BILLION LOSSES FOR JANUARY-JUNE

For January-June 2009, commercial banks bore combined losses of UAH 14.32 bln., reads a statement made by the National Bank of Ukraine. "As of July 1, 2009, negative financial performance in the banking system reached some UAH 14.3 billion because of growing banking expenses, specifically, dedications to provisions against banks' active operations," the statement said.

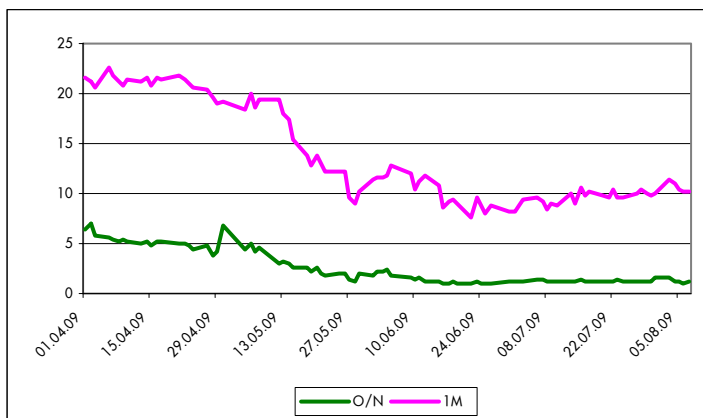
By July 1, UAH 33 bln had been deducted to the reserves. The number of banks operating with losses reached 64 as of July 1 (41 banks as of April 1). The biggest loss in the first-half year 2009 was suffered by Ukrprombank (UAH 4.603 billion), Raiffeisen Bank Aval (UAH 1.085 billion), Nadra (UAH 1.041 billion), UkrSibbank (UAH 831 million), and FUIB (UAH 604 million).

### NBU: UKRAINES FOREIGN CURRENCY AND GOLD RESERVES UP 8.4% TO USD 29.6 BILLION IN JULY AFTER IMF THIRD TRANCHE OF STAND-BY LOAN

The National Bank of Ukraine (NBU) explains growth of foreign currency and gold reserves by 8.4% to USD 29.635 billion in July by having obtained the IMF third tranche of stand-by loan, Valerii Lytvyskyi, the head adviser to NBU reported.

"Of course, the reserves grew due to the IMF tranche. It strengthens our foreign currency reserves regardless it will be directed either to the state budget or to back our balance of payment", Lytvyskyi said.

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



### REVENUES TARGET OF UKRAINE'S NATIONAL BUDGET OVER FULFILLED BY 0.2% IN JULY 2009

The revenues target of Ukraine's national budget in July 2009 was over fulfilled by 0.2%, receiving UAH 13.2 billion, State Treasury of Ukraine Head Tetiana Sliuz has said at a briefing in Kyiv.

The national budget general fund in July got UAH 11.3 billion, which was 0.3% up on the plan for the period.

**Comments:** as we warned in our previous issues, these figures is not an accurate indicator of the situation with the budget. Only data for the whole year may give some accurate information.

## Outlook

### FX MARKET

Last week, the hryvnia continued depreciating due to unwillingness of the National Bank to support the national currency.

On Monday, the rate stabilized at 7.90/7.95. The National Bank was selling the dollars at 7.75, but in limited quantity. This policy of the NBU led to the growth of USD/UAH rate on Tuesday and Wednesday. On Tuesday, the rate reached 7.95/7.98 with further increase to 8.00/8.07 on Wednesday. On Wednesday, the NBU sold USD 34.06 mln. at USD/UAH 7.75 at the special auction. The next two days the dollar remained quite stable, and, as a result, the week was closed at 8.02/8.07. The policy of the National Bank and growing demand for the dollars for repaying external debts and buying gas do not allow us to expect stability of USD/UAH exchange rate till the end of the year.

Over the week, the official USD/UAH rate was increased by 0.06 and reached 7.7038. The official UAH/EUR rate was increased by 1.61% as the reaction on an appreciation of the Euro against the dollar on the international FOREX market.

### MONEY MARKET

Over the last week, interbank interest rates remained stable even despite a decrease of the balances of the correspondent accounts of the banking system.

Overnight KIEIBOR decreased from 1.61% on Monday to 1.06% on Thursday with stabilization at 1.13% on Friday. 1-month KIEIBOR decreased from 11.34% on Monday to 10.15% on Friday.

The balances of the correspondent accounts decreased from UAH 24.6 bln. on Monday to UAH 19.6 bln. on Friday. Taking into account that the level of mandatory reserves is UAH 11.9 bln., free liquidity of the banking system decreased to UAH 7.7 bln. Such a drastic decrease of the balances of the correspondent accounts is the reaction of the banking system on the new order of forming the reserves, issued by the National Bank.

The National Bank continued controlling liquidity of the banking system by mobilizing extra liquidity from the market. Over the last week, the level of mobilization reached UAH 2.01 bln., while the level of refinancing was UAH 25.9 mln.

### Economic information

	01.01.08	01.01.09	01.08.09
Discount rate of NBU	10.0%	12.0%	11.0%
Gross monetary reserves of NBU in millions USD	32 462	31 540	29 640
Monetary base in billion UAH	141.9	186.7	
Monetary supply M0 in billion UAH	111.1	154.8	
Amounts at correspondent accounts in billion UAH	19.05	18.6	24.6
Inflation (from the beginning of the year)	16.6%	22.3%	8.5%
GDP growth	7.3%	2.1%	-20.3% (Q1)

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