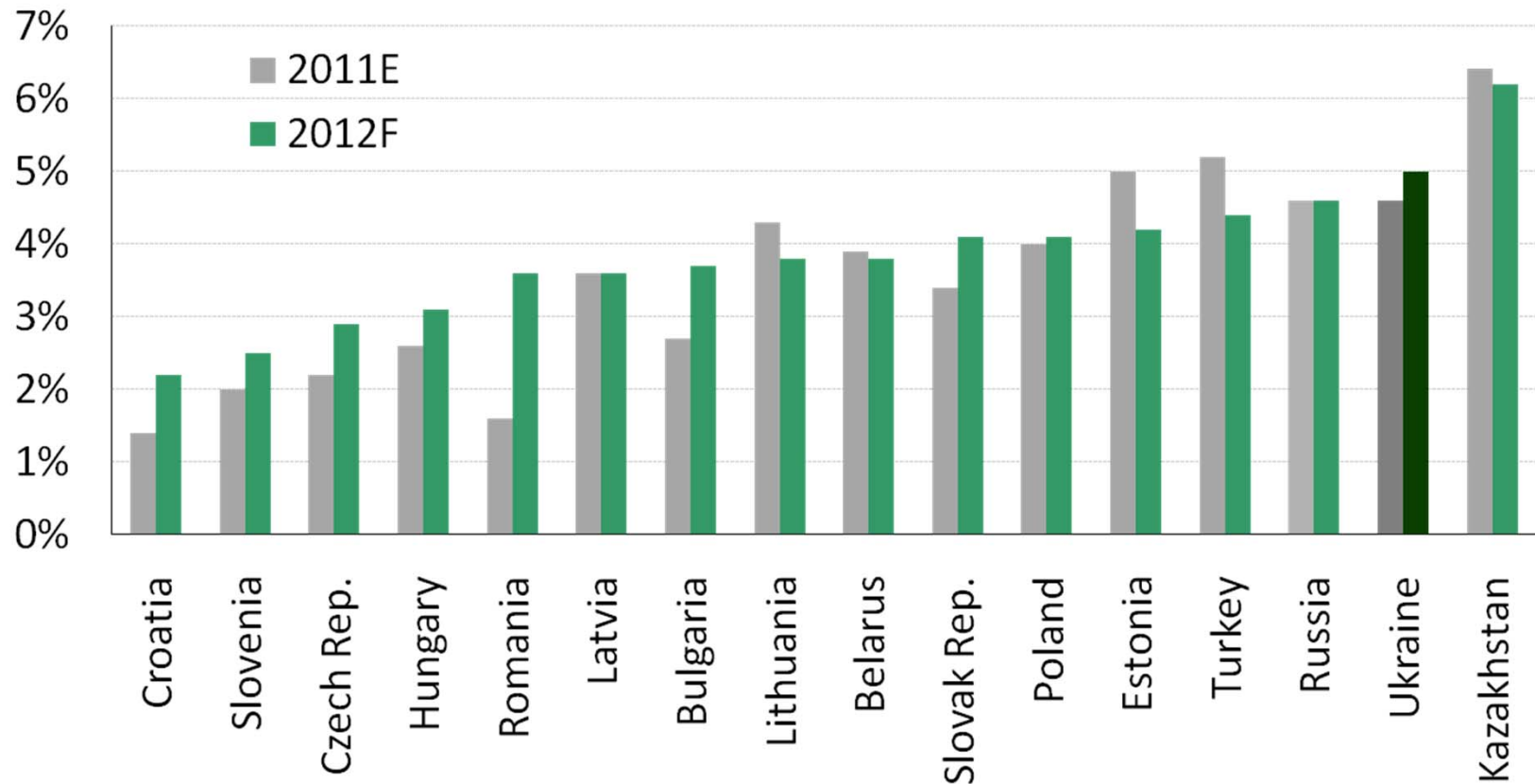




Ukraine Economy in 2011-12 : Opportunities and Risks

Cbonds VIII CIS and Baltic Region Bond Congress
June 16-17, 2011

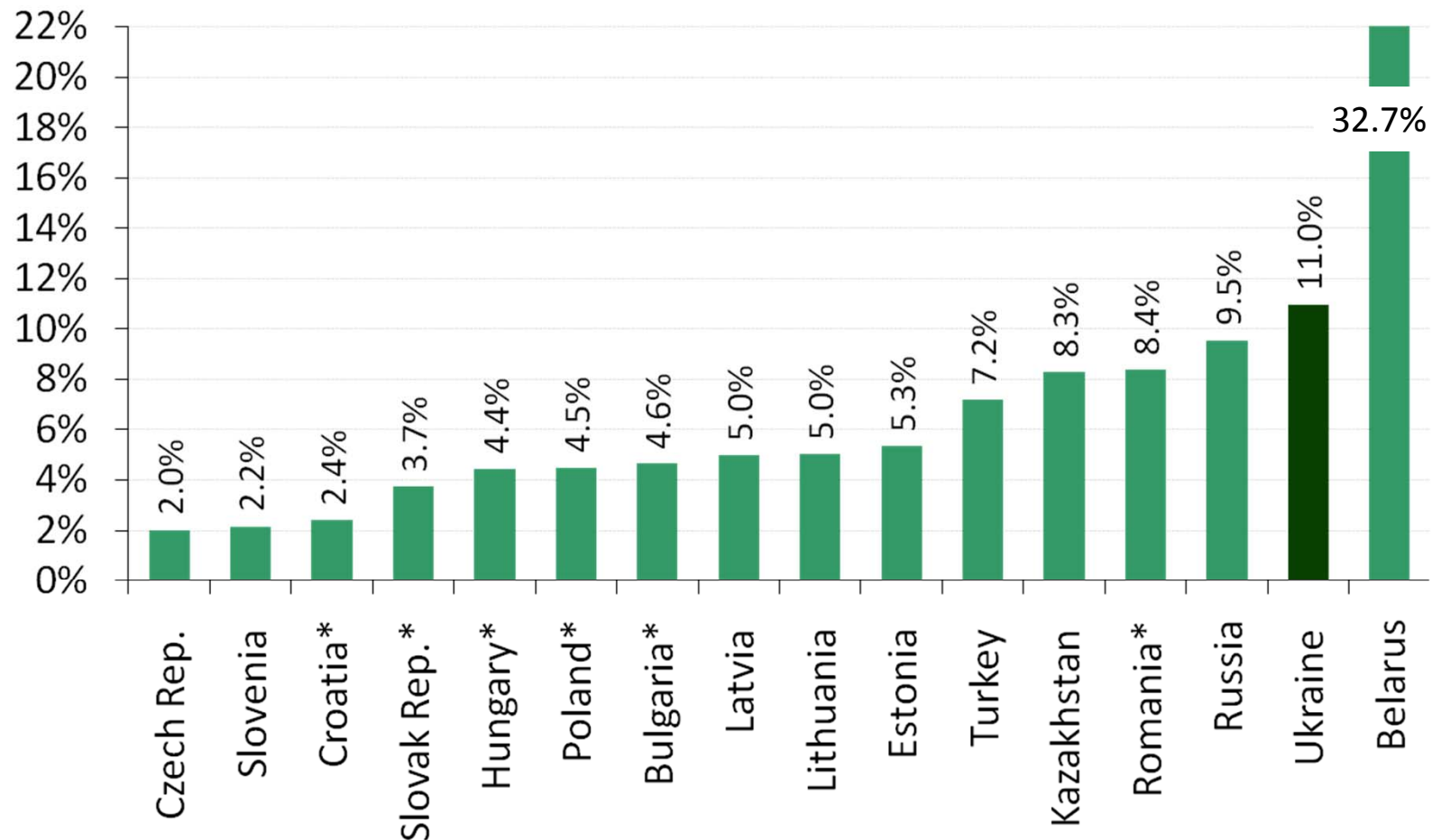
Economic Recovery – Ahead of the Region



2011E-12F Real GDP Growth: Ukraine vs. Regional Peers (% y-o-y)

Sources: Eastern Europe Consensus, Dragon Capital

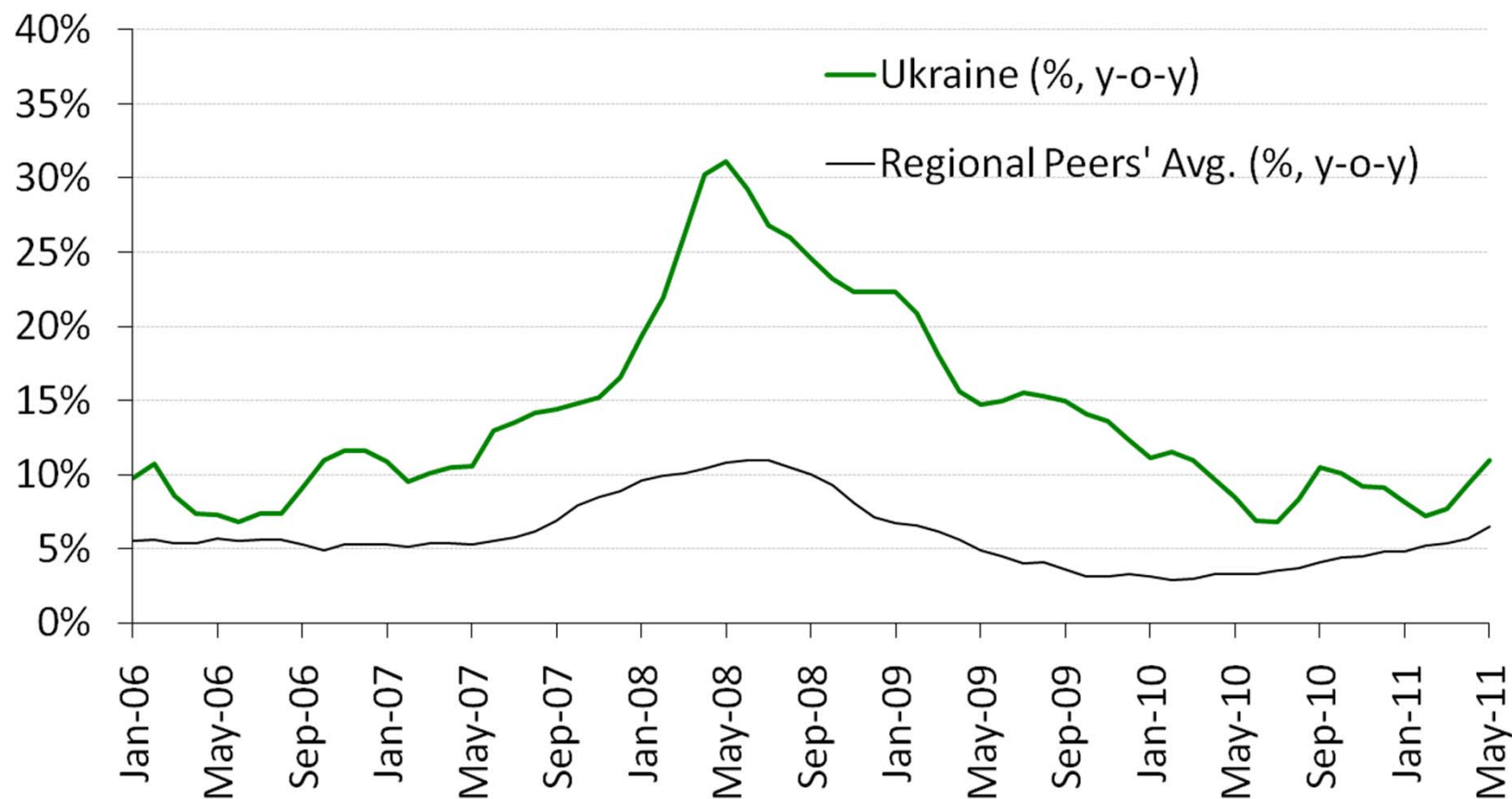
Inflation: One of The Highest Regionally...



Consumer Inflation: Ukraine vs. Regional Peers (May-2011; % y-o-y)

Note: *Apr-2011 data. Sources: SSC, National Statistical Offices

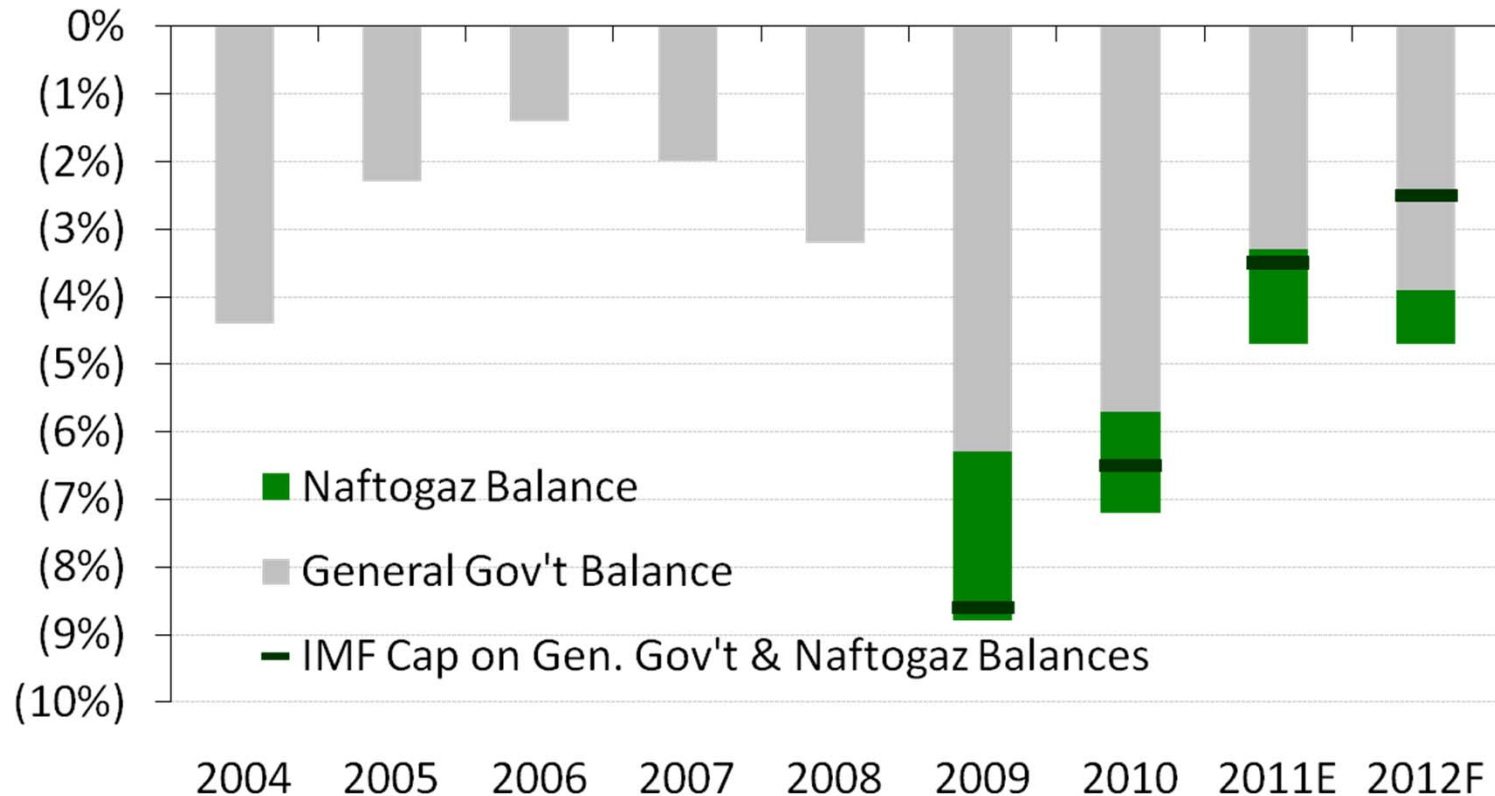
...but Moderate by Historical Standards



Ukraine's Consumer Inflation Dynamics in 2006-2011 (% y-o-y)

Sources: SSC, National Statistical Offices

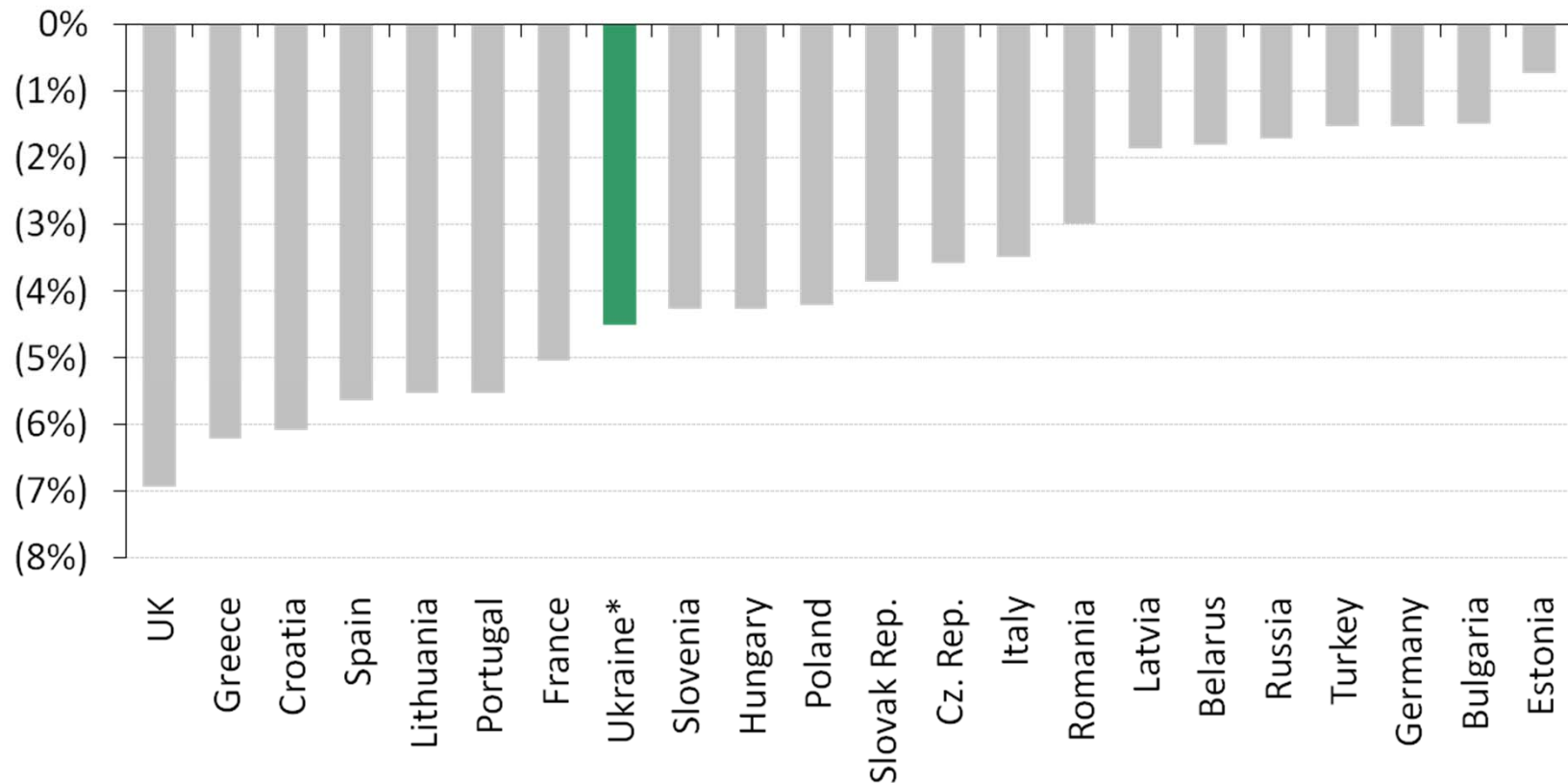
3 Years of Fiscal Consolidation...



Ukraine's Fiscal Balance Dynamics (% of GDP)

Note: *including Naftogaz Ukrainy. Sources: IMF, Dragon Capital forecast for Ukraine

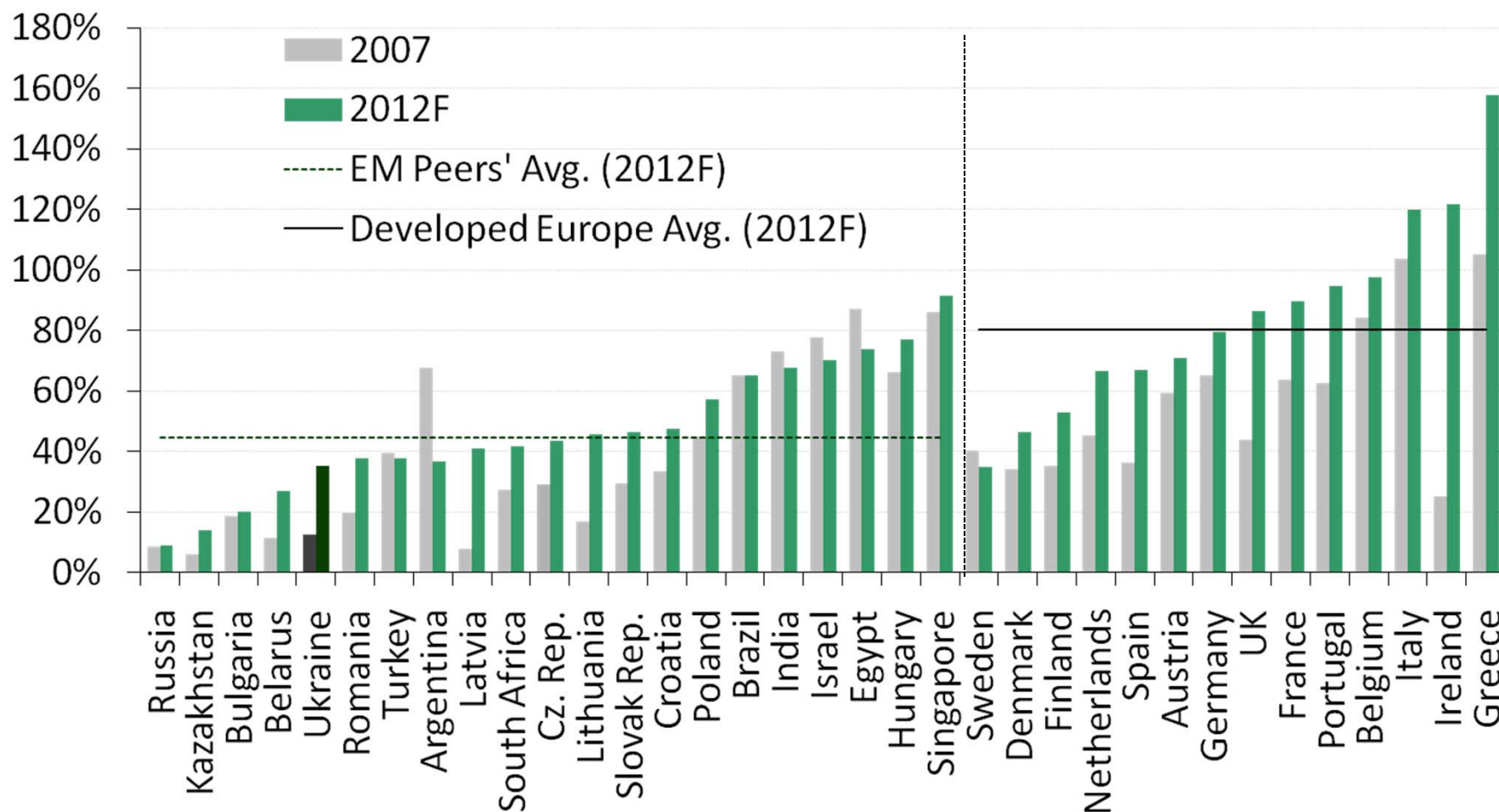
...To Keep Fiscal Deficit Below European Peers



2012F General Government Balance (% of GDP)

Note: *including Naftogaz Ukrainy. Source: IMF

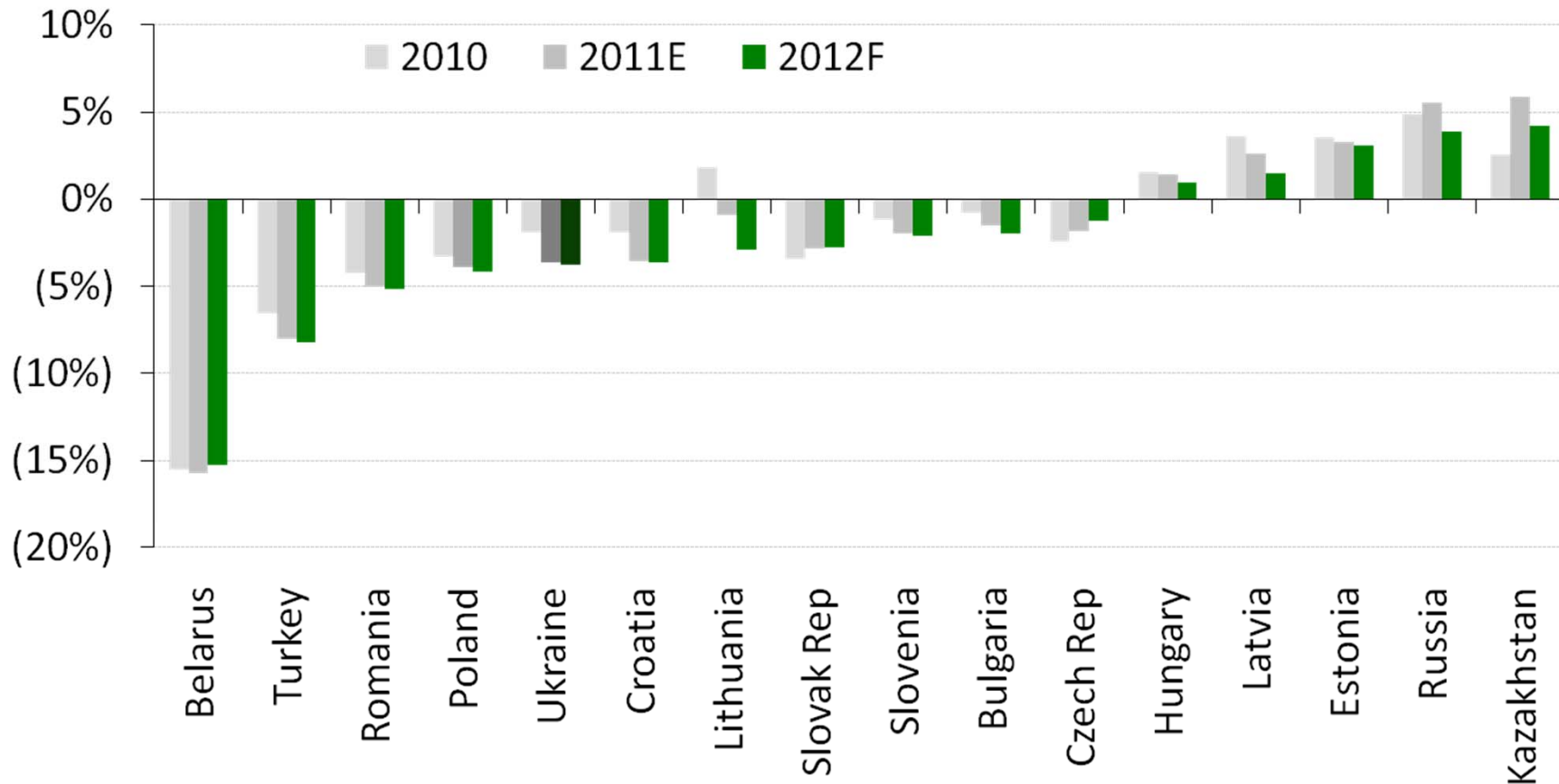
Public Debt – Still Low by International Standards



Public Debt: Ukraine vs. EM Peers and Developed Europe (% GDP)

Source: IMF

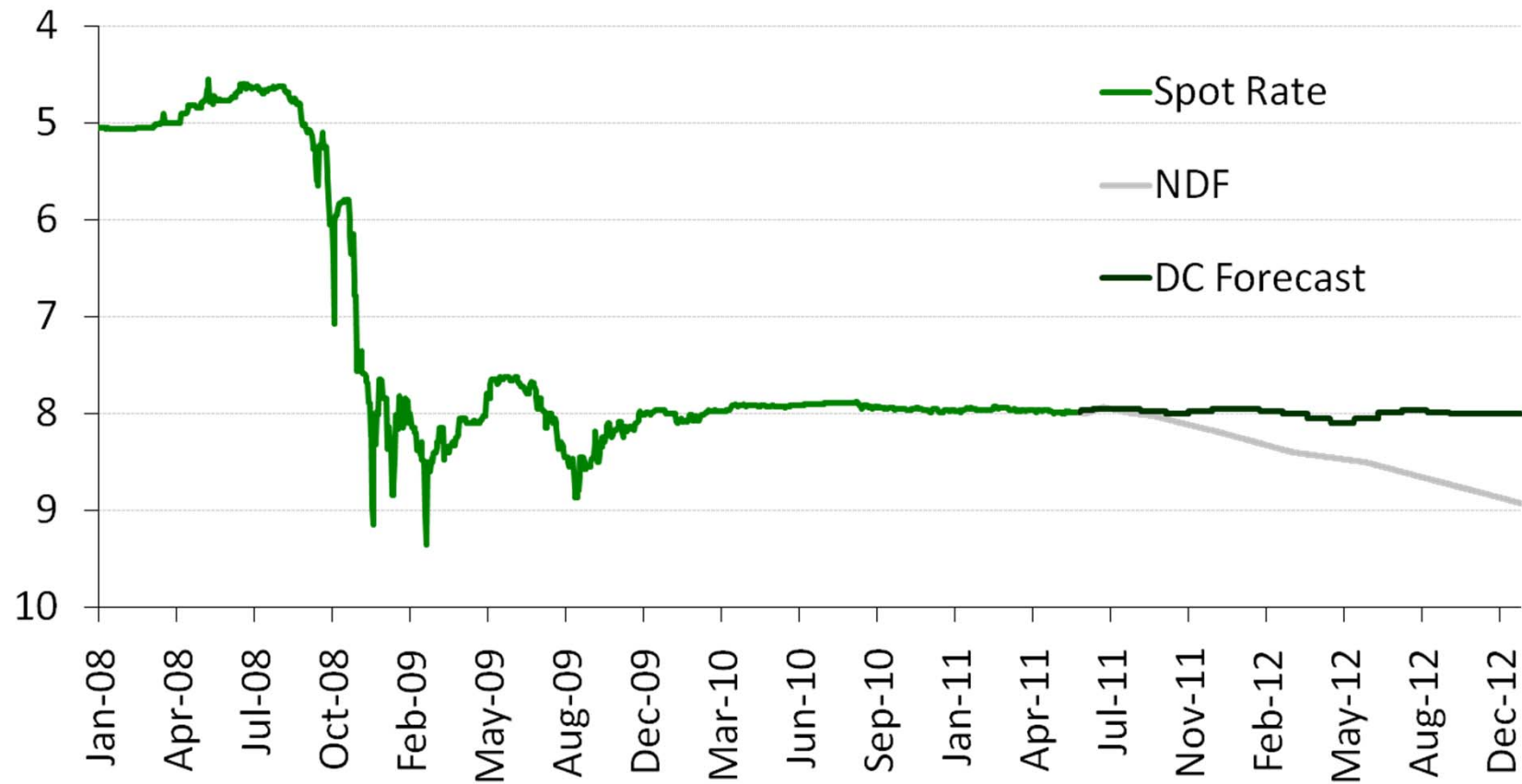
Current Account – Moderate Widening



Current Account Balance: Ukraine vs. Regional Peers (% of GDP)

Source: IMF

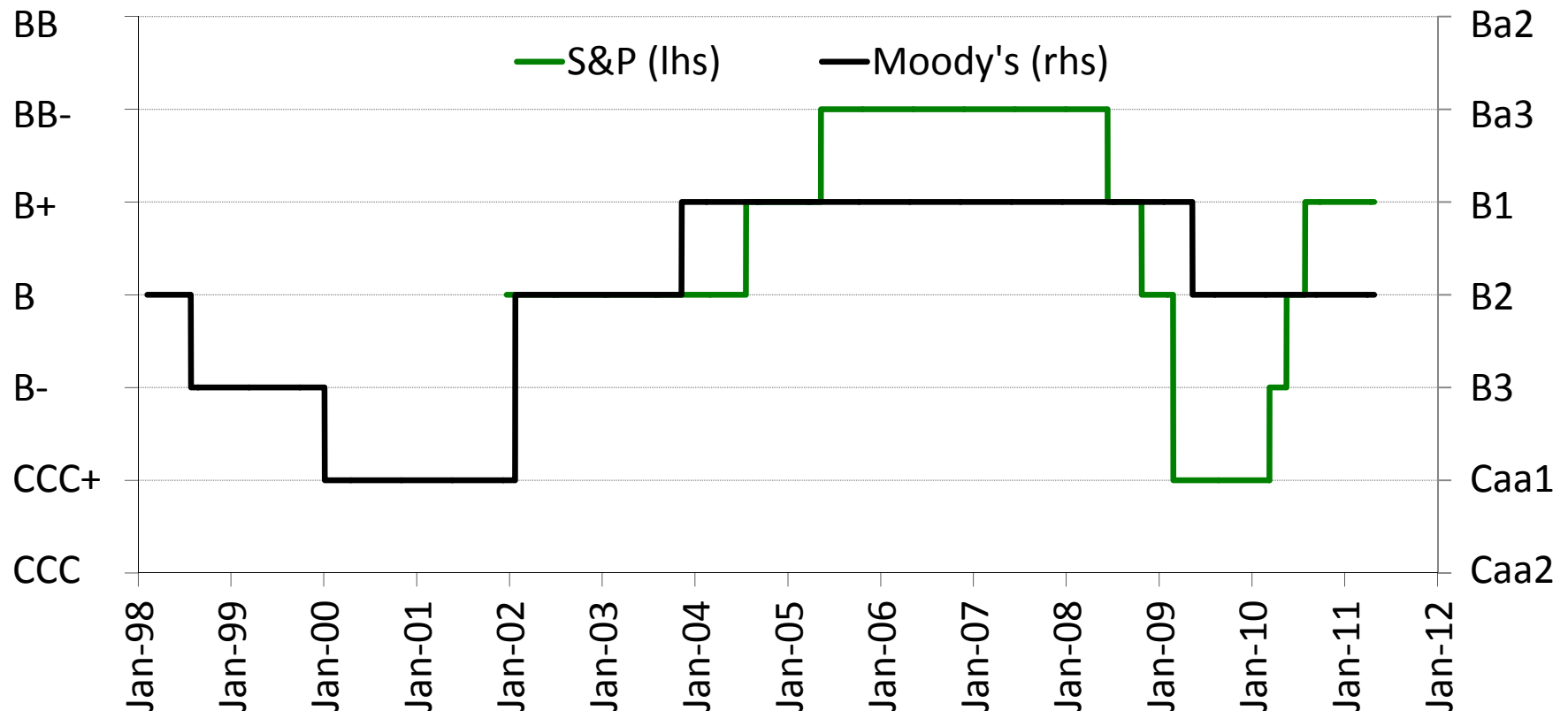
Stable Currency



UAH:USD Spot Rate and NDFs

Sources: Bloomberg, Dragon Capital

Ukraine's Credit Ratings Are Below Their Peaks...



Ukraine's Long-Term Foreign Currency Ratings

Sources: S&P, Fitch

...and Low Compared to Regional Peers

Current Sovereign Credit Ratings	Ukraine	Regional Peers*		
		Avg.	Min	Max
Fitch	B	BBB+	BB+	AA
Moody's	B2	Baa1	Ba2	Aa2
S&P	B+	BBB+	BB	AA

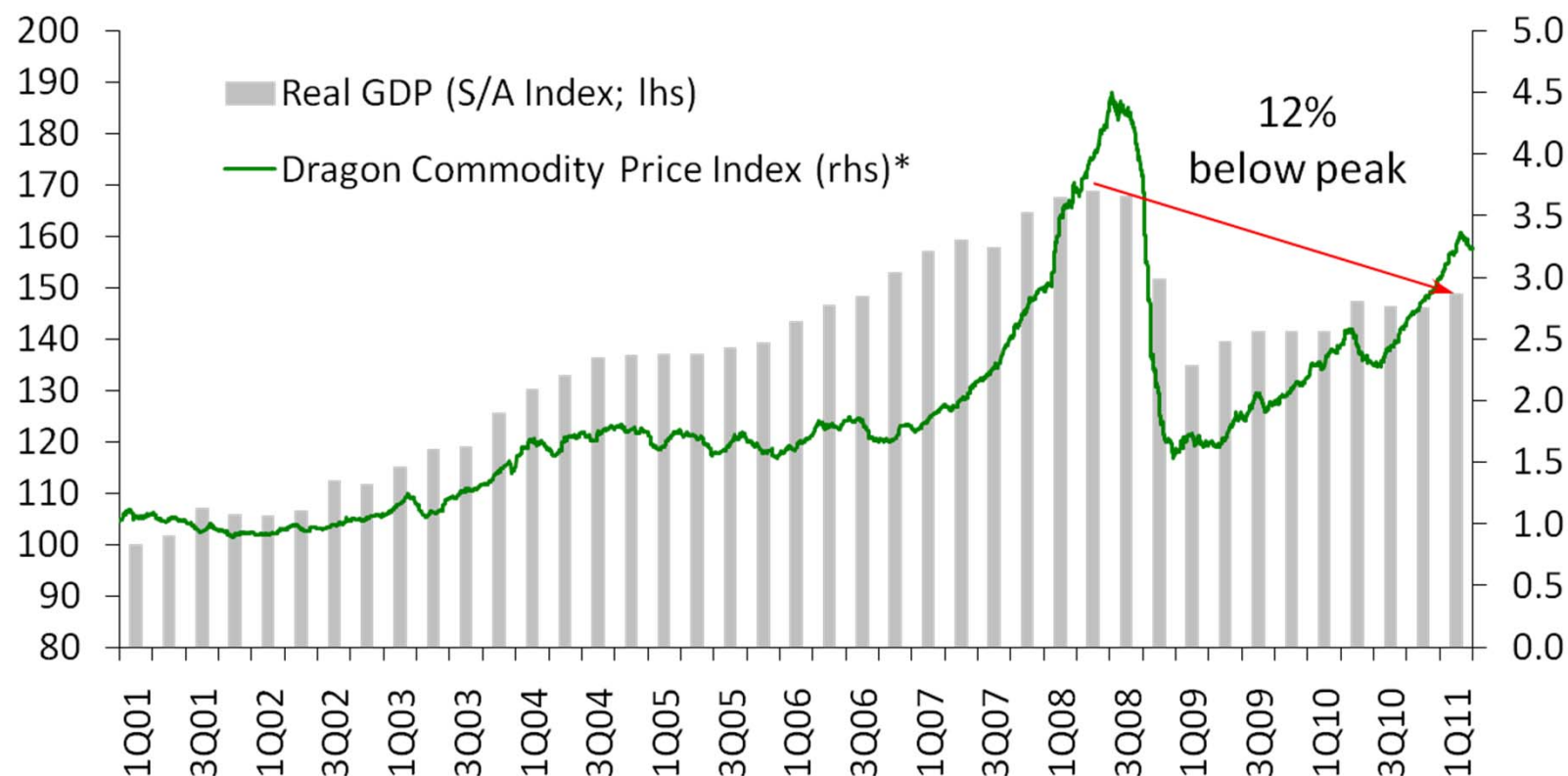
Key Macro Indicators	2011E		2012F	
	Ukraine	Reg. Peers* Avg.	Ukraine	Reg. Peers* Avg.
Real GDP (% y-o-y)	4.5%	3.6%	5.0%	4.0%
Inflation (% y-o-y; avg.)	9.4%	4.4%	9.5%	3.8%
Fiscal Balance (% GDP)	(2.8%)	(3.6%)	(2.5%)	(2.9%)
Public Debt (% GDP)	43%	37%	43%	38%
C/A Balance (% GDP)	(3.7%)	(0.8%)	(3.8%)	(1.3%)

Note: *includes 11 CEE countries as well as Kazakhstan, Russia and Turkey. Sources: Dragon Capital, IMF, Eastern Europe Consensus Forecast, Fitch, Moody's, S&P

Factors Restricting Ukraine's Credit Ratings

- ✓ **Vulnerability to external shocks**
- ✓ **Sizeable external and fiscal financing requirements**
- ✓ Weak banking system
- ✓ Dependence on IMF lending program
- ✓ Economic policy uncertainties

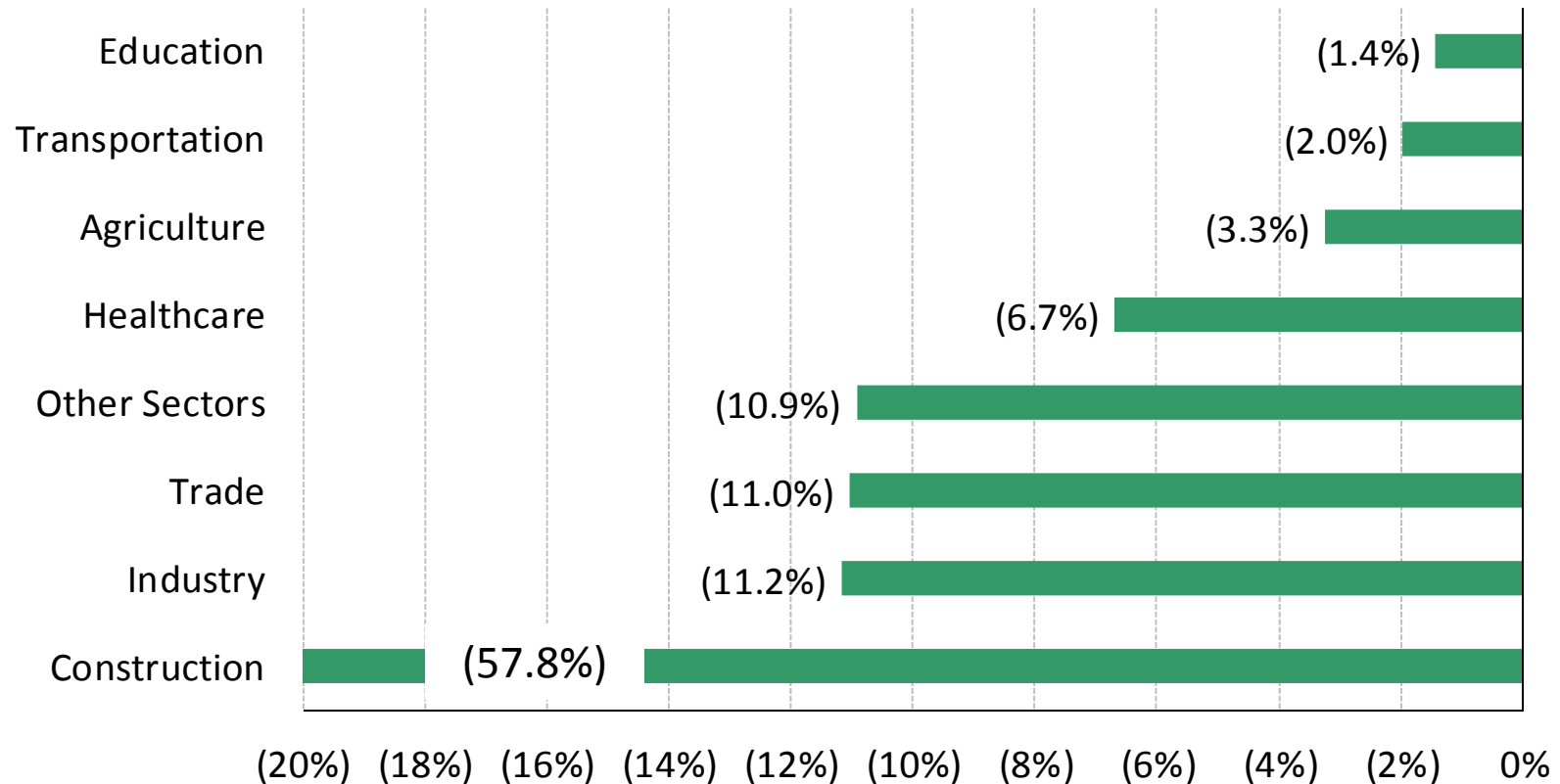
Growth Drivers: Commodities...



Ukraine's Real GDP and Commodity Prices (2001-1Q11)

Note: *Dragon Commodity Price Index includes prices of wheat, sunflower oil, crude oil, ammonia, urea, hot rolled steel, iron ore and thermal coal. Sources: SSC, Bloomberg, Dragon Capital

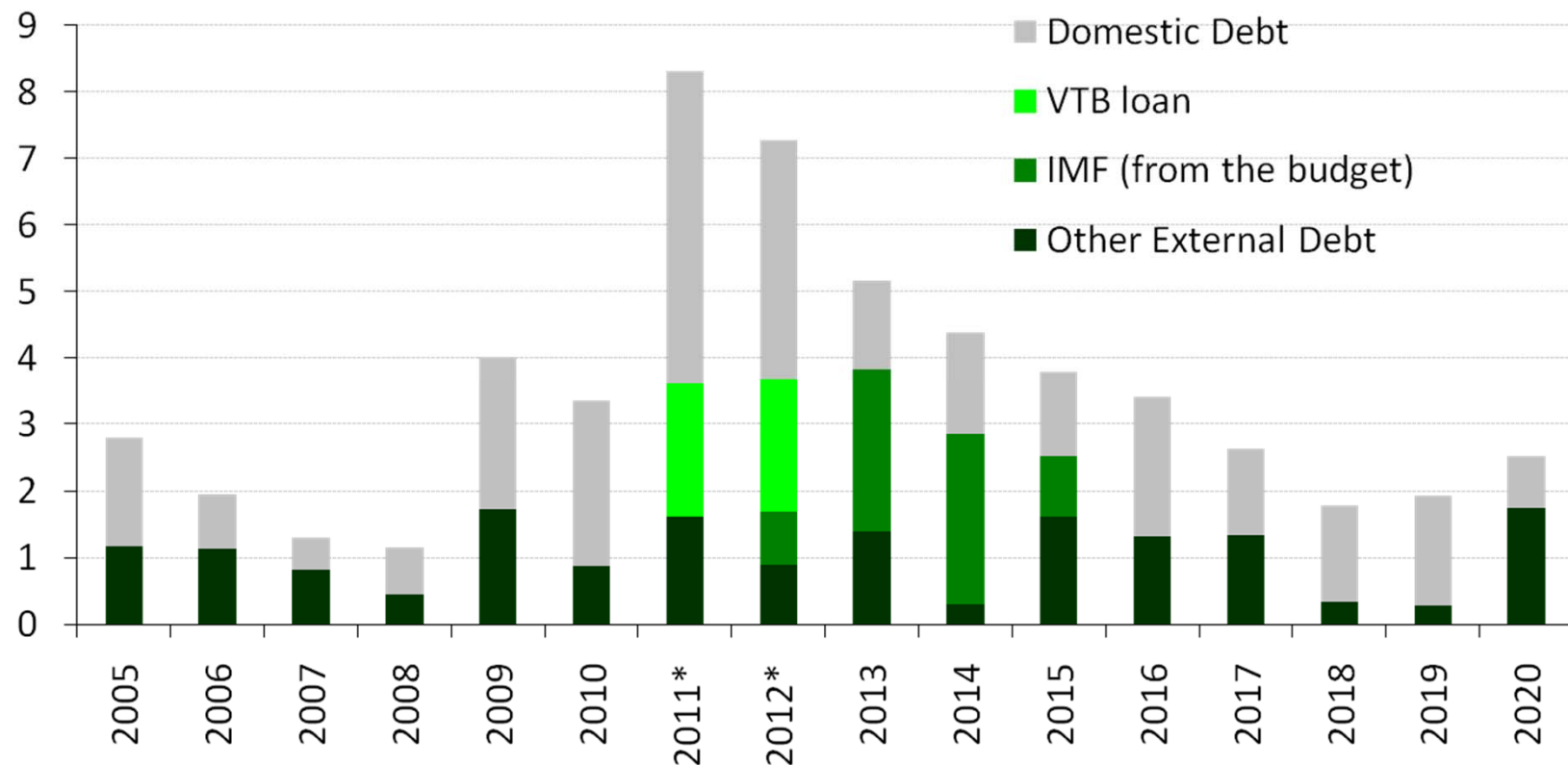
...and Spare Capacities



1Q11 Value Added Compared to Pre-Crisis Peak (%)

Note: based on seasonally adjusted data. Sources: SSC, Dragon Capital estimates

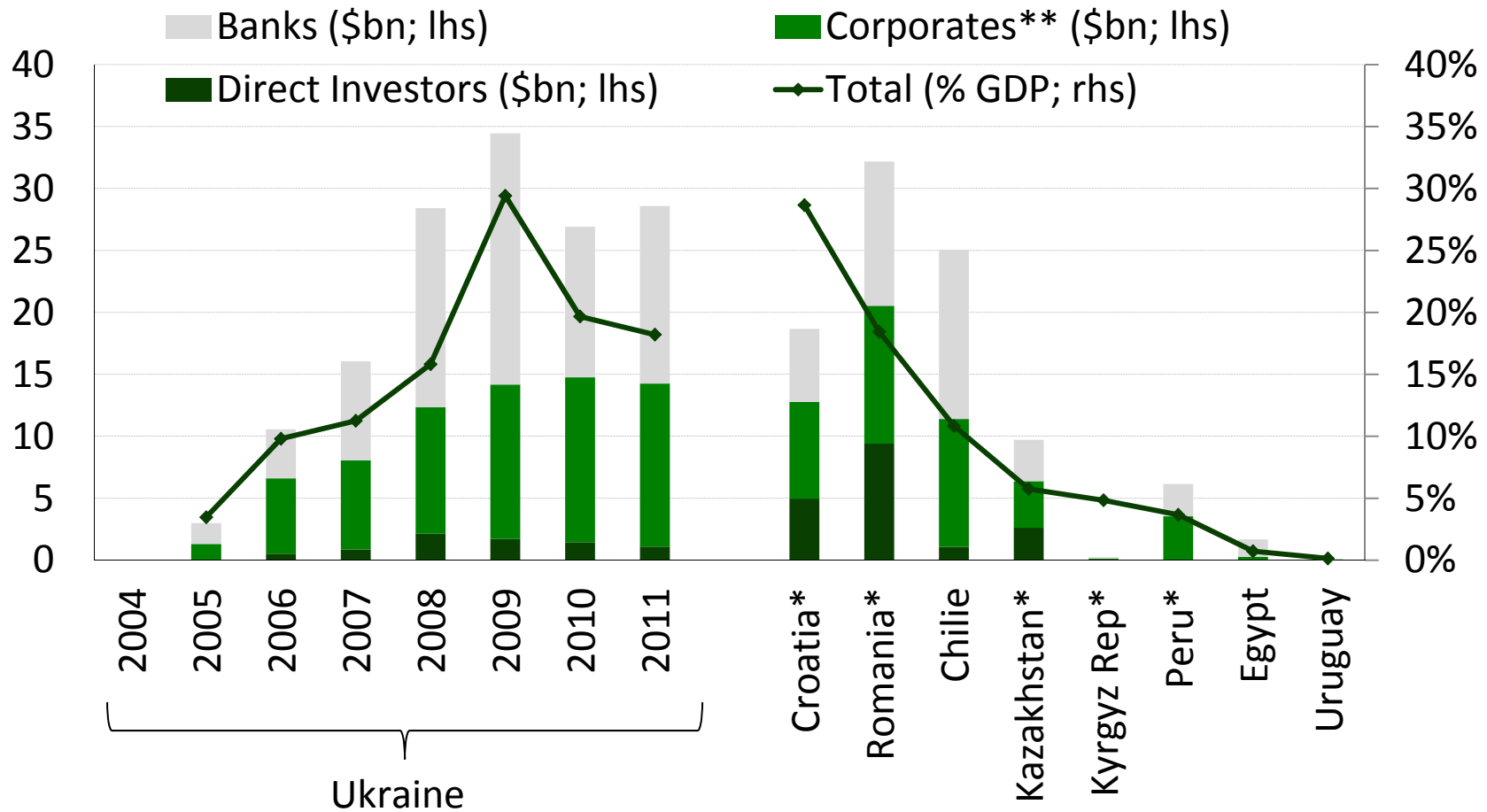
Gov't Financing Needs to Remain High through 2015



Previous Repayments and Scheduled Public Debt Redemptions in 2005-2020 (\$bn)

Note: *Assuming \$2bn loan maturing in Dec-11 will be prolonged till Jun-12. Domestic debt repayments in 2011 and 2012 include estimated UAH 10bn (\$1.3bn) and UAH 5bn (\$0.7bn) of short-term debt raised during the same year. Sources: Finance Ministry, Dragon Capital

Private Sector Also Depends on External Financing



Private Sector External Debt Repayments

Note: all countries for which data is available; *in 4Q10-3Q11; **net of trade loans. Sources: World Bank, IMF

What Could Trigger Upgrade to Investment Grade

✓ Structural reforms reducing the economy's vulnerability to external shocks

- **Consistent fiscal policy aimed at permanent improvement of public finances** to reduce government financing needs
- **Pension reform, including introduction of the second pillar**, to generate a long-term domestic funding base
- Large-scale nation-wide **stimulus for investment in modernization** and energy efficient technologies
- **Development of small and medium-sized businesses** to increase share of the domestic market and reduce the economy's dependence on global commodity cycles
- **Enhancement of creditor protection rights and prudential banking supervision** to make banking system supportive of the economy

Thank you for attention!

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