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# Quarterly Report

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**April**
**2012**

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# Executive summary

***"Economic forecasters divide into two groups. There are those who cannot know the future but think they can – and then there are those who recognise their inability to know the future."***

*Lawrence Summers, former US Treasury Secretary, in his op-ed article for the Financial Times, 26 March, 2012*

**Our view on the economy and its perspectives in the 2012-14 period is comprised of the following key viewpoints:**

- **Slowdown in sight, risks of recession low.** Eventually, a slower pace of economic growth will be taking place in 2012, as the global economic slowdown materialises. Our base-case scenario envisages 2% YoY growth in both quarters of the 1H12, then acceleration will follow, resulting in 3.5% YoY, full-year, real GDP growth. In our view, Ukraine's industrial sector will speed up domestic economic activity, as demand for Ukraine's exports will be set on recovery trajectory starting in the 2H of the year. There are myriad risks surrounding the global economy, starting from the Eurozone debt crisis and high crude oil price that threatens a pick-up in inflation and aggravation of growth momentum. However, the activist monetary policy of the central banks of leading developed economies as well as by Chinese authorities should work on supporting demand in their economies from slipping into recession. In Russia, the economy benefits from a high oil price and fiscal stimulus of the newly elected president.
- **Ukraine's economy is still below its pre-crisis level.** Our calculations show that despite quite vigorous GDP growth in 2010-11, by 4.2% YoY and 5.2% YoY, the economy's size is still well below its pre-crisis level. It would take nearly two years at growth rates of our base-case scenario for the economy to fully recover from the deep recession of 2008-09. This factor characterises broad economic demand in Ukraine as being relatively weak if compared to pre-crisis demand, which was supported by bank lending. This contrasts with the economic recovery seen in some of Ukraine's main trading partners like Russia, Turkey, and Poland, which have totally recovered from the recession of 2008-09.
- **Lasting external price shock.** Our research shows that Ukraine's economy has been functioning in an environment of protracted external price shock, which itself stems from dependence on natural gas imports by the economy. This started in early 2011 and spilled over into 2012, as the crude oil price remained well above US$100 a barrel. Our adjustment of trade data for the USD monetary effect shows that the current external price shock from the high oil price has been stronger than that in 2008 (see Table 2 on page 29 in the section "Today's characteristics of domestic demand," which starts on page 25). This leads us to conclude that the current trade deficit is in large part driven by energy imports, and particularly by natural gas imports. We project the current account to widen from US$9.0bn (5.4% of GDP) in 2011 to US$11.4bn (6.6% of GDP) in 2012, sliding over the next two years down to 3.4% in 2013 and 1.1% in 2014.
- **Naftogaz as prime victim.** State-run company Naftogaz appears to be the prime victim of the lasting external price shock, as its deficit has been widening alongside the trade deficit since early 2011. Politics are to blame here. The upcoming parliamentary

elections do not allow reform of regulated tariffs, which would otherwise breathe new life into the price elasticity of demand for natural gas. Our calculations show that over the last three years, the average growth rate of the import price of natural gas grew by 19.9% YoY, while imports of natural gas in physical terms contracted by a mere 0.2% YoY (see Chart 25, pp.32). Naftogaz's deficit in 2011 amounted to UAH45bn (3.4% of GDP), and will stay elevated in 2012 at UAH65bn (4.5% of GDP) under our base-case scenario.

- **Economic policymaking to keep an eye on Naftogaz.** Fiscal policy in 2011 was one of the bright spots of Ukraine's macro picture: since August, the government has been running a practically zero primary deficit, representing a noticeable fiscal consolidation. This was partially in preparation for creation of fiscal scope for the president's pre-election initiatives that were announced this March, and to cost 1.0-1.5ppt of GDP. We project fiscal policy to consolidate in early 2013-14 to allow fiscal room for the next wave of pre-elections social spending, to be unveiled by the president, who will seek re-election in early 2015. Monetary policy in 2012 is going to be pro-growth to support fiscal policy and narrow the fiscal deficits under additional social spending, as well as to provide assistance to the government in solving the Naftogaz liquidity issue.
- **Kremlin and IMF: Evolving talks.** Given the higher deficits in foreign trade and of state-run Naftogaz, Ukraine's authorities will expedite their talks on both of these fronts. Talks with the Kremlin will be held at an accelerated rate, while a bit more slowly with the IMF, due to elections this fall. However, our base-case scenario as for the outcome of the talks with the Kremlin assumes that the talks will continue. Making concessions to the Kremlin is costly, both politically and business-wise. Hence, the current price formula has not changed under our base-case scenario, under which the volume of imports is lowered to 30bcm in 2012. In parallel, talks with the IMF will continue to prepare the gradual normalisation of the domestic tariff system on natural gas consumption. This may also accelerate after the parliamentary elections, in order to persuade the IMF to modify its rigid position and resume or even reframe its lending programme. Ukraine's active play in global geopolitics may help: it recently supported the US's calls for international cooperation in nuclear security, as well as in the Internet copyright issue; hence, it would likely seek renewed support from the US to back its bid at the IMF.
- **Politics: Next presidential elections are a top priority.** While this year's parliamentary elections do hold some intrigue, in our view, the incumbent ruling parties led by the Party of Regions are likely (our base-case scenario) to retain the majority of seats (see "Ukraine's politics," pp.12). It appears that all of today's political maneuvers made by the incumbent ruling parties and the president himself are keeping an eye to next election cycle, which starts right after the parliamentary election and lasts till early 2015. In this regard, economic policymaking would not be highly pro-market or reformist. Instead, our base-case scenario assumes a further gradual approach, which would involve a complex array of tools.
- **UAH: Gradual weakening is our base-case scenario.** Due to Naftogaz's deficit, which is now high, and could be even higher on a hypothetical local-currency rebasement (read: devaluation), as well as due to our previous viewpoint on politics, authorities should seek to escape a sudden, and hence sizable, devaluation of the local currency. As domestic demand remains relatively subdued compared to 2008, an additional dose of sizable devaluation of the currency would bode for more problems for domestically oriented sectors like banks, retail, and services. Hence, this would tip

the economy into recession and sour debt sustainability metrics (which were improving over 2011, as public debt-to-GDP fell by 3.2ppt, to 26.9%[1]). At the same time, a bit of flexibility in the currency will be gradually added by the central bank as time passes. Hence, we reiterate our call that the 2012 year-end USD/UAH rate will rest at 8.10/USD, and we changed our rate projections for year-end 2013 and 2014 to incorporate this viewpoint, to 8.50 and 8.20 per USD, respectively.

[1] Direct public debt. Total public debt, which includes guaranteed debt, fell by 4.5ppt to 35.3% over the same time span.

# Geopolitics

**In our view, today's global geopolitical setting poses threats to Ukraine's economy, and at the same time, provides opportunities. Among threats, the primary one is the high crude oil price, which is subject to the fate of the Iran nuclear programme talks, which are to unfold this year. The already high crude oil price, if pushed up further, would put sizable, additional pressure on Ukraine's government's fiscal position. There is another significant factor: Kremlin's agenda on shoring up a pan-Eurasian regional organisation on economic cooperation. The Kremlin held elections earlier than most global powers that face rotations in power this year (France, the US, China). Hence, while other major powers will be focused on their elections later this year, the Kremlin has an opportunity to focus on promoting its own geopolitical agenda. One the key pillars of the Kremlin's geopolitical agenda is the promotion of the Russian currency, the ruble (RUB), as a regional currency. This mimics China's own policy on increasing the usage of the yuan (CNY) in commerce with its key trading partners. There are signs that Ukraine's authorities have realised that Russia's and China's ambitions with regard to their currencies provide the opportunity to access additional pools of liquidity. Hence, our base-case scenario assumes that Ukraine will pragmatically develop its ties with Russia and China, not least for the sake of gaining access to RUB and CNY liquidity, as an alternative to, and sometimes a substitution for, USD liquidity.**

## Issues relevant to Ukraine's economy

*Three main issues are in play; …*

The following are the main geopolitical issues that affect the Ukraine's economy in the future in general and this year in particular. In short, these are the Kremlin, the Strait of Hormuz, and the White House. Currently, they represent a great deal of geopolitical activity that is taking place among the major global powers.

*...the first is a Kremlin policy on creating a pan-Eurasian economic union; …*

- **Kremlin.** A flash return of Vladimir Putin to the Kremlin as the next president of Russian Federation will extend the complexities and particularities of the delicate Ukraine-Russia relations, including relations in the economic sphere. This is because of Mr Putin's, or rather now, the Kremlin's, busy agenda on transforming Russia into a regional heavyweight within the CIS and beyond that pulls rank on the near-abroad states through membership in the Kremlin-led, regional organisations like the Customs Union (formed by some of the major CIS members) and the Eurasian Economic Union.

*…also, the Kremlin has leverage over Ukraine's economy, as it has provided substantial lending, …*

While campaigning for the presidency, Mr Putin uttered the remark, "We have to fix it." This phrase referred in particular to the 1990s, a lengthy period of economic depression that affected most of the countries that now constitute the CIS. But, that fixation on the part of Mr Putin was implicitly addressed not only toward the Russian domestic issues like the disputed privatisation movement of the 1990s, but also toward his political *raison d'être* that the Soviet Union's break-up was the greatest modern humanitarian tragedy of his nation. In his seven pre-election essays,[2] written as a programme for his presidency, he was carefully avoiding rhetoric that would hint of his desire to restore a Soviet state.

Instead, he wrote about this issue in the essays through the prism of 'soft' power: the promotion of cultural and language linkages, economic cooperation, and business

[2] These essays can be found at http://www.putin2012.ru.

ties[3]. Hence, as long as Mr Putin remains Russia's chief, the issue of greater, and even total, engagement of the CIS countries in the sphere of Kremlin interests will top Mr Putin's agenda. Out of all the CIS members, however, Ukraine's engagement in this sphere is considered as one of the most valued prizes of Kremlin's foreign policy.

***… and has an upper hand in the natural gas supply to Ukraine***

Kremlin's participation in the Ukraine's economy has grown since the economic and financial crisis of 2008-09. It in fact bailed out a part[4] of the banking sector that as a whole plunged into crisis (in particular, investment by VEB into Prominvestbank, then Ukraine's No.6 bank by assets, is the most outstanding example). The banks ultimately owned by the Russian public sector[5] increased their market share by assets in Ukraine's banking sector from 7.3% as of the end of 1Q09 to 8.7% as of end-2011 as a whole (see more details on this development in the Appendix section, "Ukraine's top 42 banks' key financial figures, 2009-11", pp.70-81). State-controlled VTB has been providing sizable loans to Ukraine's major borrowers: it provided a US$2bn loan to Ukraine's government in the summer of 2010, lending alongside the Ukraine's private sector. And lastly, the Kremlin carries the most weight in the natural gas agreement between state-owned companies of Naftogaz of Ukraine and Gazprom of Russia in urging Ukraine's authorities for more engagement in the Kremlin's geopolitical projects like the Customs Union and the Eurasian Economic Union. We characterise the Kremlin as "carrying the most weight" because it places a liability on Ukraine's state-owned natural gas company Naftogaz of Ukraine to pay a price that is indirectly linked to the global price for crude oil. The latter is currently is determined to a large extent by another geopolitical game, which is Iran's nuclear programme.

***The geopolitics over Iran's nuclear programme have an impact on the crude oil price; …***

- **Strait of Hormuz.** Due to Ukraine's long-lasting status as a net importer of energy, it is to a large extent dependent on the geopolitics surrounding the Iranian nuclear programme, which nowadays has a direct impact on the crude oil price. A declaration of sanctions by the US and EU on Iran, and particularly on oil supplies from the country, and subsequent broad talks on a possible military strike on the country's nuclear sites gave rise to a US$15-20 premium per barrel.

***… the latter is an essential element of the natural gas economics between Ukraine and Russia***

The sides—the so-called P5+1[6] group of global powers and Iran—relaunched their talks recently. If the sides do fail in the process of, as the *Wall Street Journal* put it, "confidence-building steps," i.e. effectively failing to return the issue back to the negotiating table, then the wait for a resolution via use of 'hard power' politics would spur the crude oil price upwards. Hence, under such conditions, Ukraine's economy will continue to be hooked by the high energy price bill it has to pay.

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[3] This, however, does not mean that alongside 'soft' power, there will be no options for less soft means of power. To clarify, recall the long-lasting stand-off between Russia and Georgia, then both active members of the CIS, over Georgia's breakaway regions like Abkhazia and South Ossetia ending up in an open military conflict in August 2008. This points out that in the extremes, the possibility of the use of 'hard' power should not be dismissed as an outdated practice, but rather regarded as a last resort following modern political and geopolitical developments within the former Soviet Union.

[4] This is the part of the banking sector which at the time of the economic and financial crisis of 2008, was under the control of the Russian authorities via the troika of Russia's main financial institutions, namely, Sberbank, VTB, and VEB.

[5] Russian state-owned banks Sberbank, VTB and VEB.

[6] P5+1 stands for five permanent members of the UN security council, which are the US, China, Russia, France, and the UK, plus Germany.

*The 'reset button' policy has been shelved, and the US has become more self-focused; …*

- **White House.** If Ukraine has been off the radar of the White House strategists, it will be even further off in the election year in the US near the end of this year. In Washington, the incumbent president's 'reset button' policy with Kremlin, which has been in effect until 2011, had only allowed, in our view, more or less comfortable talks between Ukraine's authorities and IMF during 2008-10.

*… this provides an opportunity for Kremlin-run projects to expand within the states of the former Soviet Union*

All the efforts of Ukraine's foreign policy to position itself as a solid regional player (independent of Kremlin-sponsored organisations) have succeeded only as far as in the Asian hemisphere[7]. In 2011, Ukraine's foreign policy succeeded only once, in bringing to Kiev the leader of the second-largest economy, China's President Hu Jintao, when he paid a one-day visit to the capital for talks with Ukraine's President Yanukovych on 20 June, 2011. In other major attempts by Ukraine's foreign policy to establish itself in global and regional geopolitics and hence provide gains for the economy were the official visits of Ukraine's leadership to the capitals of such economic heavyweights as Japan, Turkey, and Brazil in 2011.

The fact that the US leadership did not upgrade the status of its relations with Ukraine to some viable level[8] proves that the legacy of the 'reset button' policy exists, and Ukraine's own failings in maintaining democracy in its domestic politics do matter. Previous attempts by Ukraine's authorities in supporting US initiatives in the global arena—on nuclear security and copyright issues—appeared to be waiting for an appropriate assessment by the US authorities.

Thus, in the nuclear security issue, Ukraine agreed with the US during the Nuclear Security Summit in Washington in 2010 to dispose of its remaining stockpile of highly enriched uranium by March 2012[9], the time of Nuclear Security Summit in Seoul. This promise was delivered by Ukraine in timely fashion, according to a WSJ report on Ukraine's president's visit to Seoul[10].

In the copyright issues, Ukraine joined a US-led international assault on Internet websites like Megaupload, which specialises in high-volume file transfers and data sharing among users on a charge-free basis. Nearly simultaneously, when US authorities filed legal charges against the group's executives–three Germans and one Dutch resident of Megaupload, a Hong-Kong based company–Ukraine's authorities took the same action against ex.ua, the domestic clone of Megaupload. This move by Ukraine's authorities was made under heavy public criticism by the regular Internet users, and opposition media.

These two examples are quite illustrative in our view, of Ukraine's aspirations to build bridges with the key heavyweights of the global geopolitics, namely, the US.

In the meantime, the US is entering its own elections cycle, which ends in 4Q12, and until then, candidates will be campaigning hard, joining populist rhetoric that will be

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[7] As Kishore Mahbubani put it in his book, The New Asian Hemisphere.

[8] President Yanukovych, unable to be granted an official visit to Washington, has been seeking every opportunity to shake hands with US president Obama. The recent Nuclear Security Summit in Seoul of South Korea held on 26-27 March 2012 is an illustrative example. The Ukraine and US presidents crossed paths only on the sidelines of the summit, seemingly mostly by Mr Yanukovych's initiative, resulting in a brief conversation while standing, which lasted no more than 20 minute. Ukraine's opposition media described an embarrassingly short, four-minute chat, whereas the *Wall Street Journal* reported that presidents' meeting lasted "about 20 minutes."

[9] See US Department of State press release on this issue, http://www.state.gov/r/pa/prs/ps/2011/09/174012.htm.

[10] See "Ukraine's President in Q&A on Nuclear Safety, IMF, Russian Gas" on 28 March, 2012, by this hyperlink http://blogs.wsj.com/emergingeurope/2012/03/28/ukraines-president-in-qa-on-nuclear-safety-imf-russian-gas/?mod=WSJBlog&mod=emergingeurope

running high in all election campaigns taking place this year (from Moscow to Paris to Washington); thus, the above-mentioned, comfortable talks between Ukraine's authorities and the IMF seen previously and until late 2010 may now experience a hardening of tone, especially on the part of the IMF.

## Conclusions and ongoing developments

From the above-described comments, we draw the following conclusions:

*Oil geopolitics feed the commodity market, resulting in a crude oil price above US$100/bbl; …*

- First, Ukraine's economy is inexorably linked to the geopolitics now unfolding around the Strait of Hormuz, which, if blocked by an uncompromising Iran, have the potential to send the crude oil price up further. As a net importer of energy, the prices of which are directly linked to oil, Ukraine appears to be part of the club of countries that are prime victims in the new wave of high energy prices.

*… this creates a more dire fiscal position for Ukraine, as price subsidies on natural gas are extended by the government*

- Second, thanks to high energy prices, the newly elected president of Russia is not only enjoying support from the high crude oil price to his programme policies (like additional social spending for public sector workers). He, again, thanks to dearer oil, also has leverage over Ukraine's authorities, which grapple with the growing dilemma of the public deficit due to the state subsidy of domestic consumption of natural gas, to engage them in bringing the Ukraine state under the umbrella of a Kremlin-run, pan-Eurasian union. In a nutshell, domestic consumption of natural gas is a prime example of the complex web of inefficiency and likely, vested interests. Later in this report, we focus on the former issue, while we leave further analysis of the latter to the investigative media.

*2012, as a year of elections, will see a global unveiling of populist politics; …*

- Third, while the year of 2012 could be called the year of elections in major parts of the global economy, the very fact of elections puts two players of the geopolitics surrounding Ukraine—the Kremlin and the White House—in very different positions. The position of the former has the advantage over that of the latter. Elections (read: a political battle) over the Kremlin were over even before 4 March, the election day, because of: (1) the tight model of democracy in place there; and (2) the outburst of populist promises to voters for greater social spending. These factors eliminated a surprise outcome. The US elections are much different, as outcome is much more uncertain; however, a populist element has been observed there, too. US populism by the political leadership is more about protectionism of domestic labour and domestic industries versus, for instance, "currency manipulators" (China has been the first call in this regard). In our view, populism at the US will not go far, however, and the country will remain as the prime outpost of market-based capitalism.

*… US politics will be eclipsed by domestic elections, while the Kremlin's politics have just passed elections*

- However, the US election cycle will hold much of the country's political and economic focus, especially on domestic issues, until end-2012. Hence, the IMF's position with regard to Ukraine is not likely to thaw out in the interim. Furthermore, the US election cycle is not synchronised with Russia; thus, Ukraine will be even more off the White House's radar, while the Kremlin's main geopolitical focus will be in creating a pan-Eurasian economic union, mimicking to some extent the vastness of the former Soviet Union. The US will leave the Kremlin alone, albeit for the time being, in dealing with near-abroad issues'[11]. This poses the risk of messy and less democratic politics in Ukraine (for more details on this view, please see the following section, "Ukraine's politics", pp.12), which also focuses on the elections to be held this year, which are the parliamentary elections held this October.

[11] The countries that border Russia and were formerly the parts of the Soviet Union.

***One of the Kremlin's main targets is to make the RUB a regional currency and catch up with China, which is promoting the CNY as a regional currency***

- Fourth, Russia's currency has become a key element in the country's geopolitical game. It goes alongside the target set by the Russian leadership to make Moscow one of the global financial centres. This aspiration arose as a result of the government's desire to catch up with the other, much larger, BRIC economies, namely, China, which prioritised a broader usage of national currencies in international trade. Naturally, Russia views the states that formerly were a part of Soviet Union as the prime audience to which it can sell the opportunities of switching from, say, the US dollar to the ruble as a means of trade payments. Ukraine and Russia have quite sizable trade turnover, encompassing exports and imports of goods and services and totaling US$55.5bn for the full-year of 2011, of which imports of natural gas by Naftogaz bought from Gazprom were valued at US$14.3bn. Hence, there is room for further realisation of Russia's policy of making the ruble more usable in bilateral trade.

***Ukraine sees these as opportunities to establish access to RUB and CNY liquidity***

- Fifth, sensing the opportunity to obtain access to the available pool of additional liquidity, Ukraine has been exercising a complementary as well as opportunistic policy,.which is about cooperating in this geopolitical game being carried out by Russia and China, both of whom would like to promote their own currencies as the next global currencies to rival the US dollar and euro. While dealing with Russia on a complex range of issues, Ukraine is willingly becoming more engaged in the realisation of its efforts to make the ruble more usable in trade. Among the steps that have been made in this direction were: (1) the amendment and signing of the Naftogaz-Gazprom agreement on natural gas supplies to allow the ruble to act as another payment currency along with the US dollar; hence, previously, the only US dollar payments by Naftogaz have been mixed since last December with partial ruble payments; and (2) the central bank has been working out the ruble issue since last year, voicing its willingness to include it in the basket of international reserves, and on 21 March, adopting a resolution on bringing a reserve requirement ratio (RRR) to banks' ruble liabilities obtained from other banks to a level equal to and enjoyed by local currency liabilities, which is essentially zero.

- Alongside constructing the conditions for channeling the ruble's liquidity into the domestic financial market, the NBU has been in talks with China's central bank on signing a currency-swap agreement. On 14 March, the NBU's governor had a meeting with China's ambassador to Ukraine, during which they discussed the upcoming visit of Ukraine's delegation of government officials, likely including the central bank governor. The key target of the NBU's governor visit to China will be a currency-swap agreement with the PBOC. According to Ukraine's central bank, the sides are within reach of eventually signing the agreement (a press release quoted the NBU's governor as saying that, "there are several technical issue[s] left to be resolved."[12]). Apparently, the aim of this is to tap the renminbi's liquidity, if there is demand for the currency.

[12] Full text of the press release is available at NBU's website (in Ukrainian), follow this hyperlink: http://www.bank.gov.ua/control/uk/publish/article?art_id=106976&cat_id=55838

# Ukraine's politics

**In our view, there is limited room for a surprise outcome of the parliamentary elections this October, in which we expect the ruling parties to retain at least a 239 MP majority, which is a functional enough level to adhere to the laws required by the government. Much more crucial events will take place after October, when the next political cycle starts unfolding, which will culminate with the presidential elections in 1Q15. If the presidential elections are held next Sunday, President Yanukovych's re-election prospects are thin. Hence, all the economic reforms that were shelved during 2011-12 will be realised, however gradually, and with many trade-offs along the way. Finally, there is a risk that Ukraine's democracy standing in the parliamentary elections would slide, damaging its standing in the West and complicating its future access to official and privates lenders there.**

## The 2010-12 political cycle comes to an end

*The ruling parties' high public support has vanished, …*

Ukraine's current political cycle began in March 2010, when presidential elections took place, and will run till October 2012, when parliamentary elections will be carried out. Along the way, the incumbent authorities have been struggling to balance general government finances, which have been in the red during this cycle due to, first, the deep recession of 2009, which had a lasting effect on state financing; and second, Naftogaz's deficit, as authorities found it unacceptable to fix it via raising natural gas tariffs for consumers.

*… as austerity measures were used by the government, …*

There have been attempts by the government at concrete steps to reform the economy, but they stalled once it appeared that authorities could not garner broad political support for the steps needed to be made. Naturally, the ruling authorities also found that public support has been slipping in favour of political opponents.

*… in addition to the jailing of prominent political opponents and perpetuation of the unresolved, long-lasting issue of a friendly business environment, …*

This shift in the public political preferences and prejudices was reinforced over the course of 2011 due to the 'Yulia factor,' by which the authorities decided to play hardball with political opponents. They allowed the judicial system to jail the leader of a formidable political force and the former rival to incumbent president, Yulia Tymoshenko, for a seven-year term. Then, another staunch opponent of the incumbents, former Interior Minister Yuriy Lustenko, was also jailed for a four-year term. Another high-profile scapegoat, former Minister of the Economy Bohdan Danylyshyn, ended up seeking asylum in the Czech Republic, which prevented him from the same fate as his former boss and the colleague mentioned above.

*… all weighing on the public approval ratings*

Add to this the turbulent talks in the media[13] that local businessmen are still facing a tough business environment, despite the fact that one of the key reformist calls of the incumbents since 2010 has been the creation of more friendly business conditions. It is no wonder that the above-mentioned trend of waning public support for the ruling politicians has deep-roots.

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[13] One of the prime example of this is available at this hyperlink in Russian: http://www.pravda.com.ua/articles/2012/02/28/6959655/.

***The law on elections of lawmakers was changed from 100% party lists to a 50-50 mix of party lists and regional constituencies; …***

All of the above led to the authorities foresightedly refurbishing the parliamentary elections law,[14] changing the procedure from a pure party-based one to an equal mix, by electing the future members of the parliament (MPs) from the party lists and electing MPs from regional constituencies. They also changed the elections law, raising the threshold from 4% to 5% for the least amount of votes the party can gain in an election to allow it a seat in the parliament. More detail on the chances of the incumbents to retain their hold of the parliament, which has begun to resemble a quasi-rubber stamp office of the executive power, is provided in the next section "Mapping the political landscape", pp. 13.

***… the incumbent ruling parties are consolidating their efforts for the Oct-12 elections; …***

Surely, the incumbents will consolidate their efforts to break the above-mentioned trend (of waning public support) until election day this October. Already, President Yanokovych has taken a populist stand and declared additional social spending to be incorporated into the state budget law till the end of April. The incumbent Party of Regions began officially taking over smaller parties in an aim to strengthen its support base; a prime example of this was unveiled in mid-March, when President Yanukovych and PM Azarov presided over a gathering of top activists of the ruling Party of Regions, effectively making a prime representation of current decision-makers and top bureaucracy, during which the 'Strong Ukraine' party-led Deputy PM Tigipko was declared as merging with Party of Regions. It is expected that smaller parties will follow suit.

***… hence, there is a fair level of risk that the legitimacy of election results will receive weak support***

However, there is concern over another aspect of the pre-election consolidation of efforts by the incumbents: the reasonably possible risk that the.best democratic principles of the elections could be compromised during the elections compared to previous elections (the presidential elections held in 1Q10). In other words, there is a risk that election results will receive weaker legitimacy support or acknowledgment from opposition parties, as well as from domestic and foreign observers monitoring the election process. However, there is a kind of silver lining in this regard: Ukraine's authorities issued an official invitation to OSCE observers to monitor the election process, and won praise from the UK ambassador in Kiev[15].

# Mapping the political landscape

***The key variable of the elections will be in the regional constituencies; …***

In the appendix, there is a section called "Ukraine's political map after October 2012" (pp.58-61), in which we provide our quantitative assessment on the outcome of October's parliamentary elections, based on the most recent poll by respected pollster Kiev International Institute for Sociology, which was carried out this February. Given that the key election intrigue will be in the regional constituencies, where one-half of the parliamentary seats (225 out of 450 total) will be determined, we introduced an indicator called the 'crowd-out' ratio, which characterises the level of incumbent political parties' capability to swing voters in the regional constituencies (or their elected MPs) in their favour and gain additional votes above the share determined by the nationwide opinion poll. The ratio is expressed as a percentage.

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[14] The law— as a letter as a letter by Ukraine delegation to the OSCE put it—received "an overwhelming support" in the Ukraine's parliament, where 366 MPs out of 450 MPs supported the it by "their votes". The letter is available by this hyperlink: http://www.osce.org/pc/86719.

[15] UK ambassador to Ukraine Leigh Turner described this move as a positive sign in his blog, which is available in Ukrainian by this hyperlink: http://blogs.pravda.com.ua/authors/turner/4f6c534f5b5c2/.

***… as such, we introduce the 'crowd-out' ratio to determine the election results in regional constituencies***

For instance, assuming that the crowd-out ratio equals 25%, and given that the current opinion poll gives the Party of Regions a 26.3% share of votes, this party should eventually win 153 seats in the parliament, with 67 seats won through the elections by party list, and the rest of the, or 86, MPs are won in the regional constituencies; the latter figure is equal to 67 seats x 1.25, plus two seats. The latter figure, two seats, balances the overall equation of the final seats won by each party or bloc to 450 seats. These balancing seats are to be retained by the key ruling party.

In our view, given the obtained results (see Table 8, pp.61), it appears that the level of the crowd-out ratio in the regional constituencies will crucially determine the outcome of the elections.

***We base our assessment of the election results on the Feb-12 opinion poll***

Under a crowd-out ratio of 0%—meaning that election results in the constituencies would precisely mirror the results of nationwide election by party lists—the incumbents would lose control of the parliament (see Chart 49, pp.58). We assign a zero percent probability to this assumption on the crowd-out ratio, due to the fact that regional constituencies in the southern and eastern parts of the country, which are considered as strongholds of the ruling incumbents, have a larger number of constituencies versus the ones where opposition parties are likely to receive support from voters (see Table 7, pp.60).

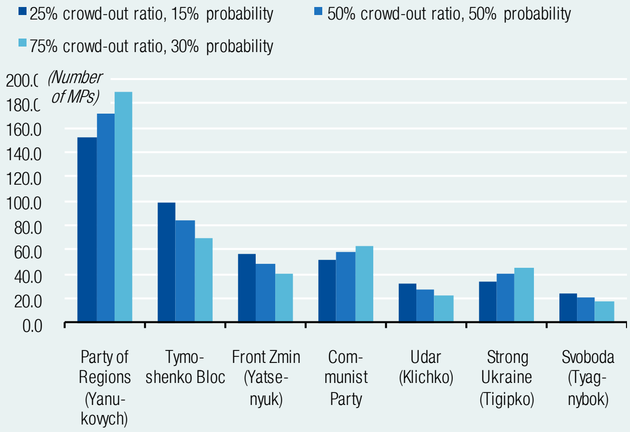
To the opposite situation, with a crowd-out ratio of 100%—meaning that election results in the constituencies would only favour the incumbent ruling parties, and their results would be equal to those gained in the nation-wide election by party lists—we assign a 5% probability.

***The results show that incumbent ruling parties would retain a majority***

A more realistic outcome, in our view, would be for a crowd-out ratio in the range of 25-75%. Hence, our remaining three assumptions out of five have a crowd-out ratio of 25%, 50%, and 75%, and their probabilities, in our view, are 15%, 50%, and 30%, respectively (Chart 1). The average number of seats to be gained by the key parties and blocs (Chart 2), which is based upon the above-mentioned three scenarios and weighted by the probability ratio, provides that incumbent ruling parties are to retain a majority of 274 MPs in the next parliament. Currently, the ruling incumbents have 285 MPs.

**Chart 1. The parties that most likely win seats in the parliament**

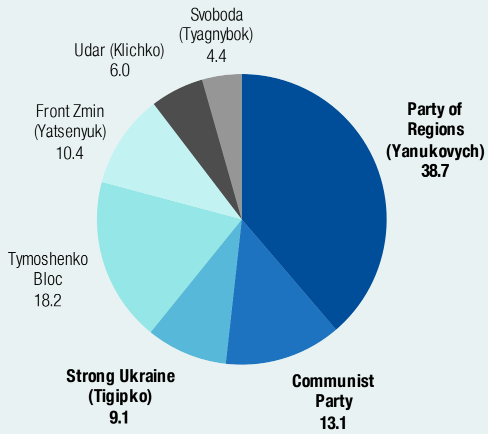
*The listed parties that pass the 5% threshold of minimal share of votes. There are three assumptions in the crowd-out ratio that have the possibility of materialising*




Source: Investment Capital Ukraine LLC.

**Chart 2. Political shape of the parliament after Oct-12 (%) incumbent ruling parties are indicated in bold**

*Breakdown of parliament's seats by parties and blocs (100% = 450 MPs). Each party's share of total MPs is calculated as the weighted-average of the three assumptions on crowd-out ratios, which are shown in the chart on the left*




Source: Investment Capital Ukraine LLC.

# The next political cycle of 2012-15 approaches

***The above analysis suggests that, …***

The above-mentioned approach to determine the political landscape after this October's parliamentary elections provides us with evidence, albeit subjective, that despite plunging public approval ratings (see Chart 3, pp.16), the incumbent ruling parties are quite capable of retaining their majority in the parliament.

***… while retaining a majority in parliament is highly probable, …***

Hence, in our view, the notion that incumbent ruling parties have exclusively heightened their efforts for October 2012 is a bit misleading. Rather, it is the next political cycle that is the main focus nowadays for the incumbents, which starts right after this October's parliamentary elections and lasts till presidential elections in March 2015.

***…the key challenge for authorities is not the Oct-12 elections, but the 2015 presidential elections***

Judging from the most recent poll by a Kiev-based social research company, KIIS, which asked the public that if presidential elections were next Sunday, whom they would vote for (see Chart 4, pp.16), President Victor Yanukovych is facing a challenging task for re-election in 2015. His staunch rivals like Yulia Tymoshenko (despite being jailed, she has not given up her aspirations for the top political job in the country), who has been in tense talks with Arseniy Yatsenyuk, another opponent to Mr Yanukovych, on possible cooperation in the 2012 and 2015 elections. Vitaliy Klichko, whose global fame as heavyweight boxing champion goes hand in hand with his ambitious political agenda at home, is also considered as a viable opponent to Victor Yanukovych. This troika of opposition leaders together have the support of 28% of the vote, according to KIIS. At the same time, the combined rating of two prominent politicians who represent the ruling parties—President Yanukovych and Deputy Prime Minister Sergiy Tigipko—accounts for just 21%.

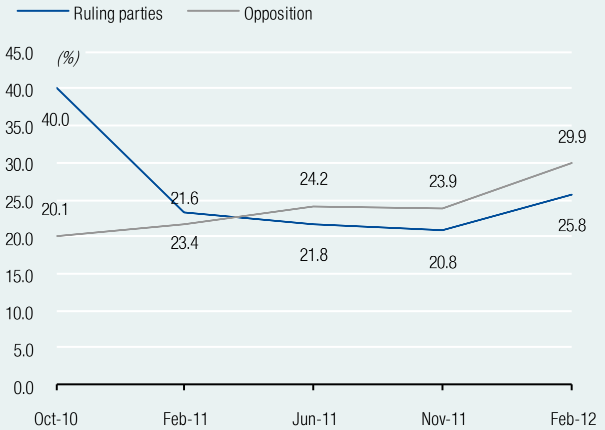
***Mr Yanukovych's recent maneuvers are aimed at winning his 2015 bid for re-election***

There is evidence that Mr Yanukovych is searching for ways to mend his tarnished public image. There is much public talk that people who were called to top positions in the government were chosen by any qualities but their merit. However, just last week, a surprise move followed as Mr Yanukovych appointed Petro Poroshenko as Minister of the Economy; he served in the government in a different post under the Yuschenko presidency and managed to emerge from the past several years of turbulent politics with sensible views on the economy. However, more revealing in Mr Yanukovych's move to tap Mr Poroshenko is that the latter was a very close ally of the previous president, Viktor Yushchenko. Previously, in 2011, Mr Yanukovych called into his camp another individual close to the former president, Iryna Stavniychuk, an expert on constitutional law and acting member of the Venice Commission. It appears that the presence of Ms Stavniychuk's membership in this international body that advises on legislation is of great value to President Yanukovych. Nearly the same factor is in play, in our view, in the appointment of Mr Poroshenko, who is somewhat of an outsider to the president's own circle and his Party of Regions, but who is also relatively young, ambitious and, not least, possesses an entrepreneurial spirit.

It is natural to expect that after October's elections, the president will reshuffle the government, by mixing his allies with people like Mr Poroshenko. However, his approach to economic policymaking in many aspects—monetary policy, the exchange rate, the Naftogaz deficit, and regulating tariffs, etc—will most likely remain similar to the ones seen in 2011 and early 2012. There will instead be gradual moves forward, with many trade-offs along the way.

**Chart 3. Evolution of public approval rating of ruling parties and opposition (% of votes)**

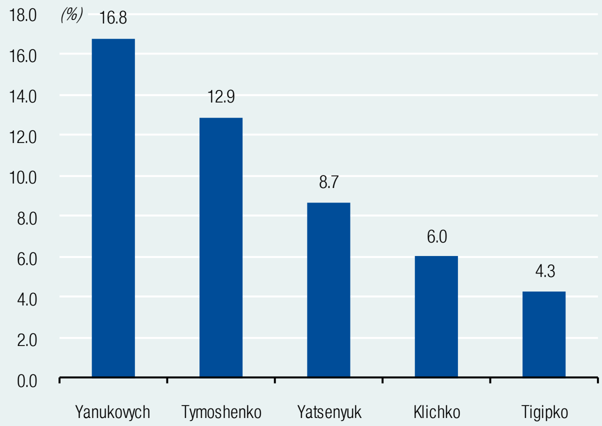
*Ruling parties: Party of Regions, Strong Ukraine (Tigipko), Communist Party*
*Opposition: Tymoshenko Bloc, Front Zmin (Yatsenyuk), Svoboda, Udar (Klichko)*




Sources: KIIS, Investment Capital Ukraine LLC.

**Chart 4. KIIS opinion poll in Feb-12 (% of votes)**

*If presidential elections are held next Sunday*




Source: Investment Capital Ukraine LLC.

# Conclusions

From the above analysis, we draw the following conclusions:

***In our view, there are fair chances for the incumbent ruling parties to retain a majority in parliament in the Oct-12 elections; …***

- As the current political cycle comes to an end, culminating with parliamentary elections in October 2012, there is a fair risk that the legitimacy of the elections results will receive weak support from the broader domestic political spectrum as well as from observers (both local and foreign). Facing plunging support from the public due to austerity measures as well as from its tough stance on political opponents (two former members of the government were jailed; one sought asylum abroad), the incumbent ruling parties fell to the temptation to reshape legislation. Alongside constitutional changes that shifted powers in the presidency, the law on elections of the lawmakers was changed. Though it did receive overwhelming support from MPs (366 out of 450 total), the changes allowed the ruling parties to gain over the opposition in the regional constituencies in many aspects, and public support for the ruling parties being historically much more favourable than for opposition, was larger than the number of constituencies, whereas the opposite is normally true (see Table 7, pp.60).

***… they should be able to retain at least 239 seats out of 450 total***

- Our own assessment of election results this past October show that incumbent ruling parties are able to retain a majority in the legislature. The margin with which the incumbents could win over the opposition would depend on how effectively they would be able to consolidate. Some of these consolidation efforts would come in the form of normal political practices (party mergers, populist pledges and their realisation). Later on, most probably, there will be many would-be lawmakers posing as independents while campaigning in their constituencies. However, these independents may turn out to be quite flexible in aligning with the ruling incumbents. We conclude that a majority of at least 239 MPs is achievable, with minimal threat to the legitimacy of the election results.

***By far, the presidential elections in 2015 pose a much more crucial challenge***

- Hence, in our view, this political cycle (2010-12) is not yet as crucial as the next one, which will begin in 2015, when the next presidential elections will be held. This leaves just a two-year period for Mr Yanukovych to manage the economy in such a way that guarantees his re-election. This means that economic policymaking would not necessarily go in line with the previously agreed-upon Ukraine-IMF guidelines (otherwise known as IMF requirements). For instance, the issue of raising the regulated tariffs on electricity and natural gas will remain a hugely unpopular policy in the next political cycle, as well. Hence, economic reforms will continue at a slow pace and via complex decisions.

***The legitimacy of the elections results may be at risk, …***

- Returning to the election results, alongside the ‘normal practices,’ there could be some consolidation efforts of the ‘dirty tricks’ variety which would be designed to raise the parliament majority controlled by the incumbents to as high as to nearly 300 MPs, which may come at some cost. This would result in lower legitimacy of the elections results, causing a further slide in the country’s position in democracy rankings and an additional shift in the country’s leadership into isolation from the West, which would critically affect the elections in the eyes of international observers of violations.

***… which is welcome by the Kremlin, which plays a zero-sum game with Ukraine***

- In addition to the above-mentioned risk, there is another: the Kremlin factor. For the Kremlin, in a brief analysis of Russian opinion-making media, a further slide of democracy in Ukraine would be a welcome development. It is much easer to deal with a partner who has no recourse over strategic assets, and membership in the Kremlin-run, interstate organizations, than with a side that has alternatives (namely, the IMF, Eurobond market investors, and the likes). Hence, from the Kremlin’s point of view, there would be implicit encouragement for local incumbent ruling parties to engender the lowest level of legitimacy in elections results possible.

# Global economy

**Across the globe, economic growth is faltering despite a proactive policy stance of the central banks of the leading economies—namely, the Fed, ECB, BoE, and BoJ, along with China's PBOC—in supporting their own economies and financial systems. The markets have been reacting with a sell-off of risky assets, after it became apparent that major central banks may not be as generous going forward as they have been recently. Nevertheless, the politics in the US and Eurozone, however messy, leave the central bankers as the last safeguard of their economies from dipping into recession again. Recent evidence: the Eurozone debt crisis which erupted in the 2H11 was eased by the ECB, which injected liquidity into the banks and in doing so, extended its balance sheet 1.5x since last summer, the largest balance-sheet expansion among the above-mentioned central banks. Going forward, in our view, this 'activist' mood among the central bank majors is set to continue, as macro data continues to remain week, and any central bank-led monetary stimulus unsynchronised with other major central banks would likely lead to unwanted currency appreciations. Hence, in our base-case scenario, the monetary policies of at least the Fed and ECB will be matching each other. In China, which expects an economic slowdown this year, there is scope in the central bank's arsenal to support local banks with liquidity injections. Hence, our base-case scenario assumes a growing global economy, albeit with some areas of the developed world struggling to sustain it, not least due to the WTI crude oil price remaining elevated. Our projections provide for oil at a bit above the US$100 mark in 2012-13, declining to US$95 in 2014. Steel prices are projected to hover within the US$600-645 a tonne range.**

## Activist central banking

The past year, and especially its second half, proved, in our view, something special about the functioning of the global economy and one of its most politically complex parts, the EU's economy. Our two most significant conclusions in this regard are the following:

*The EU has proven to be a resilient economic entity, not least thanks to …*

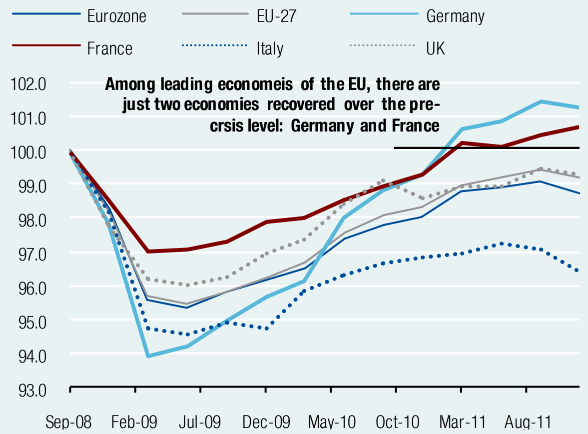
**The EU, like high-grade German-machinery, albeit not a Silicon Valley-produced, ultra-fast tablet, appears to be functional.** The EU has been widely criticised and sometimes misunderstood due to its allegedly outdated habit of consensus-seeking and consensus-building in handling the economic and debt crises that have swept the region. The procedures set and guided by the German leadership and nurtured by a complex web of EU interests (French, Polish, and Italian, as well as German itself) have nevertheless turned out not to be die-hard, rigid procedures, but rather versatile. The economic recovery from the 'Great Recession' in the EU over last year proved to be uneven (Chart 5, pp.19), as more Eurozone sovereigns were infighting with debt market investors over their debt sustainability. This culminated into a full-on Eurozone debt crisis in 2H11. The positive element that has emerged from these EU complexities, despite the huge negative impact on investor sentiment, as well as erosion of its international image, is that the EU managed, albeit temporarily putting at the risk its long-held democratic traditions, to install capable technocrats into the most weak governmental offices (namely, Greece and Italy). This set the tone for the EU's path to the region's recovery from recession, however bumpy, by linking fiscal austerity and consolidation of the member states towards assistance from pan-EU financial rescue institutions (ESM and EFSF[16]), and then over time, towards more

[16] The European Stability Mechanism and European Financial Stability Facility, respectively.

sustainable debt metrics of member states, which would engender greater market access to private lenders.

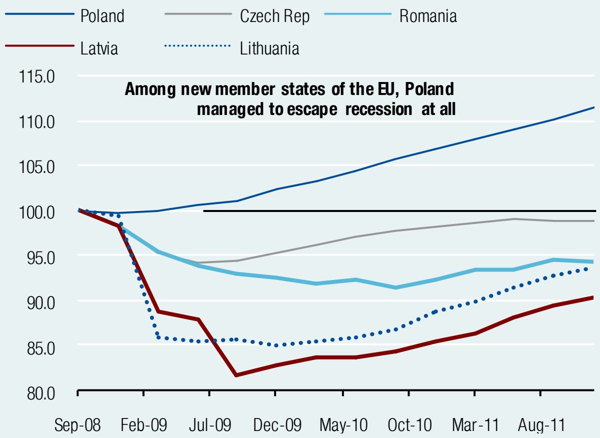
**Chart 5. In the developed world, there are few economies that have recovered from their pre-crisis levels: EU economies as a prime example**

*Real economic growth, rebased at 100 points on September 2008*




Sources: Bloomberg, Investment Capital Ukraine LLC.

*Real economic growth, rebased at 100 points on September 2008*




Sources: Bloomberg, Investment Capital Ukraine LLC.

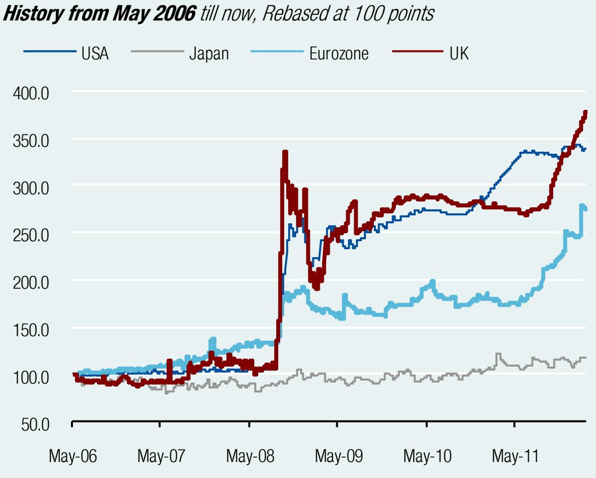
***… the ECB's new monetary stance favouring the Fed and BoE stances***

- **The EU did engender an activist central bank, which calmed the markets.** The EU's dominant thinking and economic policy-making set-up has been developed and guided by Germany's mainstream politicians and inflation-wary economists, including such prominent ones as Bundesbank President Jens Weidmann and Munich-based Ifo Economic Institute President Hans-Werner Sinn. As mentioned in our previous viewpoint, the EU leaders' handling of the Eurozone's economic troubles with prudent fiscal and monetary tools (read: fiscal austerity front loaded) has quite a solid foundation and basis, though it has faced equally strong criticism from non-German economists who argue for more fiscal and monetary stimulus. This debate was lively in 2011 and is still unfolding this year.

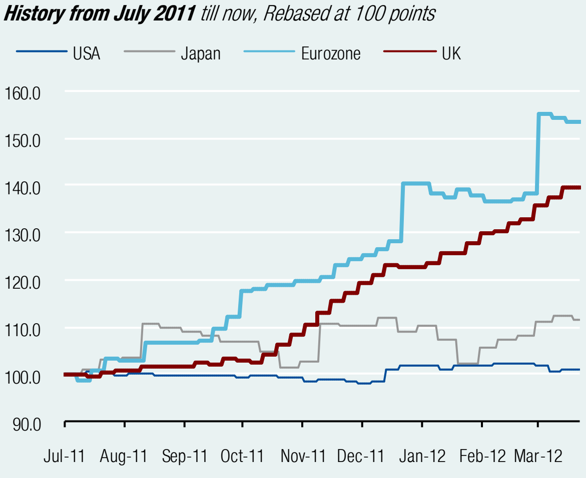
In spite of such a controversial backdrop, the EU internal debate and its sizable engagement in global economic policymaking did provide for the arrival of Mario Draghi, a tight-lipped monetary technocrat of Italian origin, to ECB governor post. The Italian shifted the ECB's monetary policy and tone into an activist one—first by lowering the ECB key rate to 1% and keeping it at this level for at least the 1H12, and then by staging two LTRO auctions since last December—alongside the policies of the Federal Reserve, Bank of England, and Bank of Japan. Since mid-2011, the ECB's fresh liquidity injections into the financial system and bond purchases made in 2010-11 expanded its balance sheet by more than 50%, or 1.5x, overcoming the BoE's activism, which, on the back of its continued policy of quantitative easing, allowed its balance sheet to expand by 40%, or 1.4x, over the same period. If viewed from a pre-crisis perspective, from May 2006, there have been three central banks that are the most active in supporting their economies via liquidity injections, namely, the BoE, the Fed, and the ECB, and their balance sheets rose[17] by 278%, 239%, and 175%, respectively (see Chart 6, pp.20).

[17] In nominal terms.

**Chart 6. Balance sheet size of major global central banks: US Federal Reserve, ECB of the Eurozone, Bank of England, Bank of Japan**




Sources: Bloomberg, Investment Capital Ukraine LLC.




Sources: Bloomberg, Investment Capital Ukraine LLC.

***Central bank majors are set to extend their quantitative support of the economies***

- **Central banks' activism is key, but for how long?** There is great deal of consensus that central banks' unconventional measures since late 2008 did divert a repetition of the depression in the global economy, and especially its developed parts. This activism on the part of the central banks of the leading global economies has begun working now. In the US, it has apparently succeeded in pushing down the unemployment rate, albeit slowly, and rekindling the stock market along the way (see left-hand section of Chart 7, pp.21). In the UK, the BoE's activism aims to lift the economy towards its pre-crisis level, under a growth-restrictive fiscal policy (see left-hand section of Chart 5, pp.19). In the EU, it did eased the strain in the sovereign bond markets, where yields were dangerously rising for countries like Spain and Italy, of which the debt market investors are suspicious of their debt sustainability metrics.

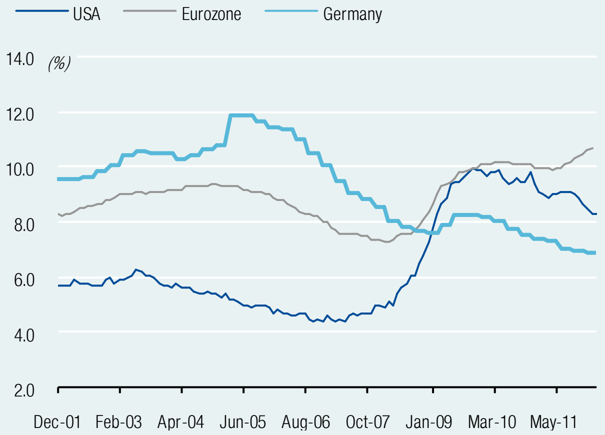
  Regarding the future developments with the central bank majors activism, in our view, today's economic conditions and political shift to fiscal austerity (observed in every economy where the named central banks carry out their policies) do leave the policymakers with one available tool, which is easing monetary policy. In the US, the Fed has been addressing the issue of employment that is not sustainable without acceleration of economic growth; this is the verbal code for an additional dose of stimulus by the Fed in the future, probably this year, if macro statistical data spells out anaemic recovery. In the UK, authorities have decided to wage fiscal austerity in order to avoid risking sovereign creditworthiness and leaving monetary policy capable of supporting demand in the economy, for as long as the UK economy remains below its pre-crisis level, in our view, the BoE will be on the side of activist central banking.

  The EU itself is, as is the UK, effecting a fiscal austerity regime in order to stabilise and minimise the public finance deficits of the member states. In doing so, however, the EU risks experiencing this year largely sluggish growth at best, or plunging the entire region into recession. Already high unemployment rates are being seen in the weakest member states, whereas Germany has been enjoying somewhat of a shortage of employees amid its better-placed[18] work force. In the environment of super-easy monetary conditions in the US and UK, which account for a sizable share of trade and capital flows with the EU, the ECB has no other options currently but to avert appreciation pressures on its currency and catch up with the Fed and BoE in relative balance-sheet size.

[18] Most arguments in this regard are referring to higher labour productivity ratios and unit labor costs in Germany versus other Eurozone member states.

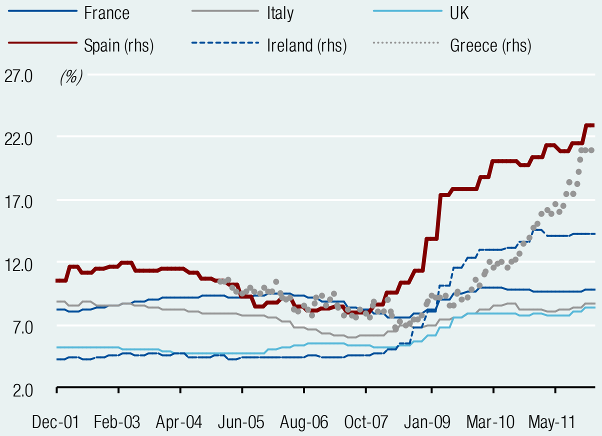
**Chart 7. Unemployment rates in the developed market economies: history from December 2001 to February 2012**

*Unemployment rates in the US, Eurozone and Germany*




Source: Bloomberg, Investment Capital Ukraine LLC.

*Unemployment rates in other main countries of the EU*




Source: Bloomberg, Investment Capital Ukraine LLC.

***Inflation due to a rising crude oil price could reduce the activist role of the central bank majors***

- **Oil and inflation are feeding investor concerns. However, it appears that rate-setters will not blink if there no oil price shock.** The only stop sign in the way of the central bank majors' activism would be inflation, which so far has not alarmed the governors, who tended to shrug off last year's spike in the crude oil price, as its impact on consumer prices was considered to be temporary (the Fed turned out to be right in this regard). It was the ECB that tightened its monetary stance last summer, only to discover later in the year that the Eurozone debt crisis had burst into flame in the fall.

  So indeed, today's crude oil price is dangerously high not only for net importers of hyrdocarbons, but also for the major global economies, among which there are countries with their sufficient own production. If the geopolitics on Iran do implode, lifting up the crude oil price, then the monetary stance among majors this year will be shared, from the Fed to the ECB to the BoE and BoJ, and would shift to a tighter stance by raising rates and limiting liquidity operations. This development poses the risk, however, of rekindling a global recession going forward. Otherwise, if the geopolitics on Iran instead centre on containing the dispute, then we think the major central banks will be more focused on watching price developments, avoiding precautionary rate increases in order to support demand in their economies, and not stoking the economies with tighter monetary policies (read: higher rates). In this regard, in our view, geopolitics in the Middle East will be supportive to the monetary policy stance in the West and in Japan, in particular, avoiding escalation of international tensions over Iran's nuclear programme.

# Indicators vital to Ukraine's economy

The global economy is experiencing a protracted recovery from the 'Great Recession;' this is especially true in the developed market economies. A global rebalancing of current accounts' deficits and surplus economies is taking place, but rather incrementally, and not progressing at a vigorous enough pace. The trouble spots have been spawning last year and this one, ranging from the previous year's Eurozone debt crisis—which was all about Greece, and this year's is about Spain and Italy—to the current issues of high crude oil, inflation, consumption, Iran's nuclear programme, and China's slowdown, which are evident.

With all these factors in mind and those conclusions we drew from our discussion on geopolitics earlier in this report, we have constructed our base-case scenario of Ukraine's economy for the period of 2012-14, on the assumptions regarding the following key global indicators (see Table 1, pp.23).

***Our base-case scenario for global growth ranges from 3.3-4.5% YoY in 2012-14; …***

- **Global economic growth** is unfolding this year in line with the IMF's own projections, expressed in the World Economic Outlook series[19]. It is regarded this as a manageable recovery, albeit at lower rates than it previously thought by IMF. The activism by central bankers of leading, developed-market economies are acting in concert in guiding a recession-proof path for the economies. This discounts the threat of further deterioration of economic conditions or some political stalemate. Hence, we see this year's global growth at 3.3% YoY, followed by 3.9% YoY and 4.5% YoY in 2013 and 2014,[20] respectively.

***… in Russia, we expect more rapid growth of 4.5-4.9% YoY, thanks to oil and fiscal stimuli from the newly elected president***

- **In Russia**, which is one of Ukraine's main trading partners, accounting for a 28.9% share of total merchandise exports from Ukraine in the last 12-month period to January 2012, we use the same WEO series, albeit somewhat adjusted for realisation of our own scenario of the pace of economy growth in the forecasted period. Thus, we think that most recent WEO update by the IMF understates Russia's economy in the 2012-13 period. Our view is that the Russian economy is set to benefit from market conditions that spell out a crude oil price above US$100 per barrel, as oil-based budget revenues would support newly-elected president Putin's busy domestic agenda to extend social subsidies and realise his package of pre-election promises on raising salaries for the public sector employees. Hence, in our view, whereas the global economy should slowly recover, Russia should see slightly faster growth rates as a net exporter of hydrocarbons; as such, we project a 4.5% YoY growth rate this year, followed by 4.1% YoY and 4.9% YoY in the next couple of years, 2013-14.

***We expect the crude oil price to be at US$108 and US$102 in 2012-13, falling to US$95 in 2014***

- **Crude oil price.** We tend to base our view of crude on a troika of factors: (1) current conditions in the spot and futures market for crude oil (see Chart 8, pp.23); (2) the IMF's view on commodities, including oil; and (3) our perspective on future economic and/or geopolitical developments that may have an impact on the crude oil price. We use WTI crude as the benchmark crude oil price for our macroeconomic model. On the spot market, it has been trading in an upward trend, closing the day at US$107/bbl on 26 March. The futures market view has been still about a sturdy oil price in the next two years, in the US$106-107/bbl range, and trending off not until 2014 towards the US$100/bbl mark. The futures market view is somewhat linear, being attached to the latest spot market price. We tend to view dearer oil ahead, due to: (1) geopolitics around Iran; (2) monetary stimuli which the central bank majors are ready to provide; and likely (3) surprise supply shortages, amid (4) strong global demand formed by rising demand by EM consumers and some "relative wastefulness" of oil consumption in the West[21]. All of these factors are acting to support oil at above US$100 for a while—and project it to be at US$110/bbl in the remaining part of 2012 (US$108.22/bbl on average, followed a slowing price every quarter in 2013, from US$110 in 1Q13 to US$95 in 4Q13 (US$101.25 on average). In 2014, the average yearly price is projected to be US$95/bbl.

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[19] See "World Economic Outlook Databases" by this hyperlink http://www.imf.org/external/ns/cs.aspx?id=28 .

[20] Global real GDP growth forecast for 2014 is by Investment Capital Ukraine.

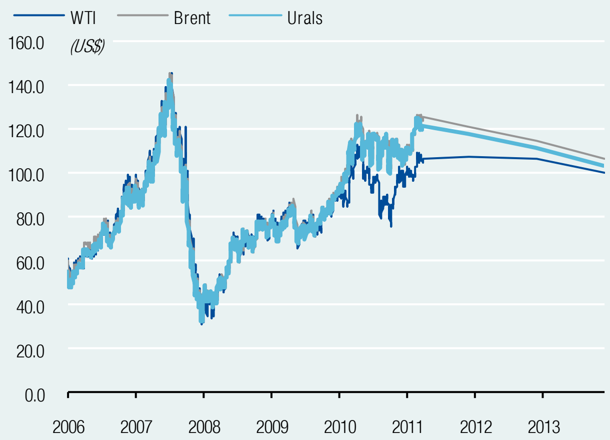
[21] As Martin Wolf, FT chief economics commentator, put it in his comment "Prepare for a new era of oil shocks" at the *Financial Times*, 27 March 2012.

***Our economic model incorporates steel prices of US$600-645/tonne in 2012-14***

- **Steel prices.** As for steel prices, another leading variable of the economy, we tend to consider LME steel billet futures as guidance for prices in domestically produced steel sold on the global marketplace. We project the price of hot-rolled steel products, which is a kind of a benchmark for all steel products exported by Ukraine's steel sector. In our view, aggregate demand in China—one of the key, basic indicators for global steel market conditions—is set to be sustained, despite the slowing economy there and authorities' efforts to cool down property prices. China's central bank has the capacity to inject liquidity in the banking sector by lowering further the reserve requirement ratios. Hence, our view on the steel price for 2012 is US$600 per tonne on average, followed by a forecast of US$645 and US$620 for 2013-14, respectively.

**Chart 8. Crude oil price (US$ per barrel)**

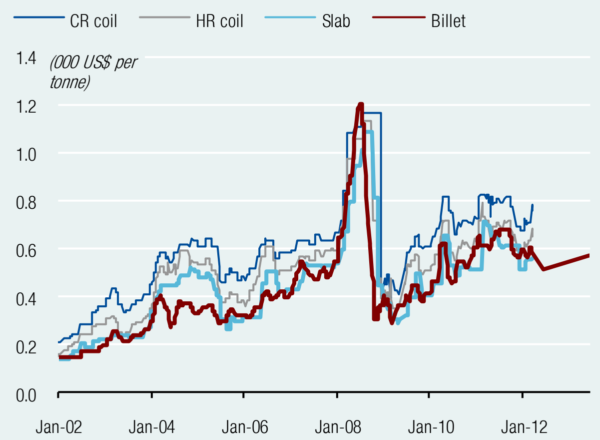
*Spot and futures markets quotations*




Sources: Bloomberg, Investment Capital Ukraine LLC.

**Chart 9. Steel prices (US$ 000s per tonne)**

*Spot and LME futures market quotations*




Sources: Bloomberg, Investment Capital Ukraine LLC.

**Table 1. ICU's 3-year quarterly and yearly forecast for the global economy's key indicators that are vital to Ukraine's economy**
According to our base-case scenario

| Indicator | Quarterly forecast | | | | | | | | | | | | | Annual forecast[4] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 4Q11E | 1Q12E | 2Q12F | 3Q12F | 4Q12F | 1Q13F | 2Q13F | 3Q13F | 4Q13F | 1Q14F | 2Q14F | 3Q14F | 4Q14F | 2011E | 2012F | 2013F | 2014F |
| World real GDP[1] | 3.0 | 2.5 | 2.5 | 4.8 | 3.4 | 3.6 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 5.0 | 5.0 | 3.8 | 3.3 | 3.9 | 4.5 |
| Russia real GDP[1] | 4.5 | 4.0 | 4.5 | 4.5 | 5.0 | 4.0 | 4.0 | 4.5 | 4.0 | 5.0 | 4.5 | 4.8 | 5.5 | 4.2 | 4.5 | 4.1 | 4.9 |
| Crude oil (US$[2]) | 93.91 | 102.88 | 110.00 | 110.00 | 110.00 | 110.00 | 100.00 | 100.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 | 94.92 | 108.22 | 101.25 | 95.00 |
| Steel (US$[3]) | 624.00 | 624.00 | 592.00 | 592.00 | 592.00 | 653.00 | 653.00 | 653.00 | 620.35 | 620.35 | 620.35 | 620.35 | 620.35 | 677.00 | 600.00 | 644.84 | 620.35 |

Notes: [1] real GDP growth rate to previous year; [2] crude oil price is WTI crude and priced as per barrel; [3] steel price is HR coil price and priced as per tonne; [4] crude oil and steel prices are the average for the period.

Source: Investment Capital Ukraine.

# Ukraine's economy

**This section provides ICU's view on key economic conditions that have been unfolding over 2011, and that are likely to determine the future path of the economy this year and up to 2014. This view results from our 2012-14 projections of key macroeconomic indicators (pp.55-56).**

## Still below pre-crisis level and lagging behind

***Despite the fact that Ukraine's economy grew by 4.2% and 5.2% YoY in 2010-11, …***

Ukraine indeed managed to set a solid pace of recovery after its own deep recession of late 2008 and early 2009 by growing by 4.2% and 5.2% YoY in 2010 and 2011, respectively. However, such a recovery in the past two-year time did not allow the economy to recover to the its pre-crisis level, according to our calculations of the Ukraine's quarterly size of its economy in constant prices and adjusted for the seasonal factor (results of the calculations are at Table 9, pp.63). It is still below its pre-crisis peak seen in 3Q08 by a 7.8% margin (see Chart 54, pp.62), due to two consecutive quarter-on-quarter declines of GDP by nearly 10% in both 4Q08 and 1Q09.

***… its GDP size is still well below the pre-crisis peak seen in mid-2008***

Our base-case scenario envisages a growing economy in 2012-14 by an average of 4.6% YoY each year. This, according to our calculations, will allow Ukraine's economy to reach its pre-crisis level by year-end 2013. In the broader term of recession—an economy with GDP size at constant prices still below its pre-recession level is considered to still be in recession—Ukraine's economy is still only well in the middle of its full recovery. It could recover faster only if growth accelerates during this forecast period from our base-case average of 4.6% YoY to a best-case one of 6.4% YoY. And, under our base-case scenario, Ukraine would totally recover from the deep drop in output a bit later than under our base-case scenario, in early 2013[22].

***Ukraine's main export destinations like Russia and Turkey have recovered much faster, …***

At the same time, while Ukraine's economy is still recovering, some of its main trading partners, for instance, such as Russia, the Eurozone, Turkey, and Poland[23] fared better. Russia's full-year growth rates of 4.3% YoY allowed it to recover fully from the recession of 2008-09. Poland escaped a recession of its economy altogether and staged sustainable economic growth in the past five years (see Chart 10, pp.25).

***… while Poland escaped the recession altogether***

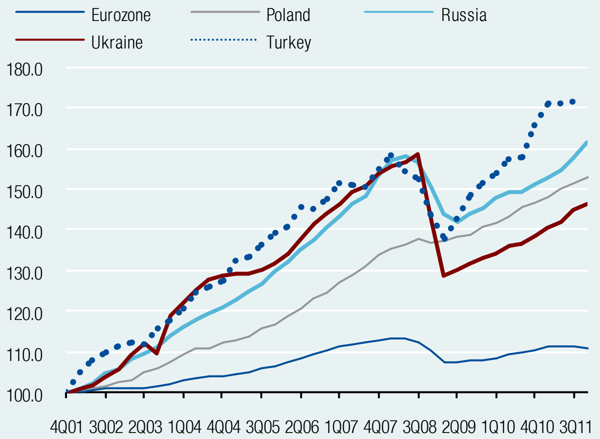
This underscores that the economic conditions of Ukraine's main trading partners, particularly those on the exports side, have been experiencing economic growth that outpaces Ukraine's, and hence domestic demand in these countries appears less depressed than in Ukraine. In our view, exports and imports dynamics in Ukraine provide support to this assertion; more details are in the next section, "Today's characteristics of domestic demand" below.

[22] Naturally, the economy would stay below its pre-recession level if our worst-case scenario materialises that envisage a yearly average growth rate of 1.3% YoY in 2012-14.

[23] They in total account for a 51% share of total merchandise exports by Ukraine in the last 12-month period to January 2012. Russia's share was at 29%. The Eurozone accounted for 12%, Poland's share in Ukraine's total merchandise exports during this period amounted to 4%. Ukraine's exports of goods to Turkey held a 5% share of the total.

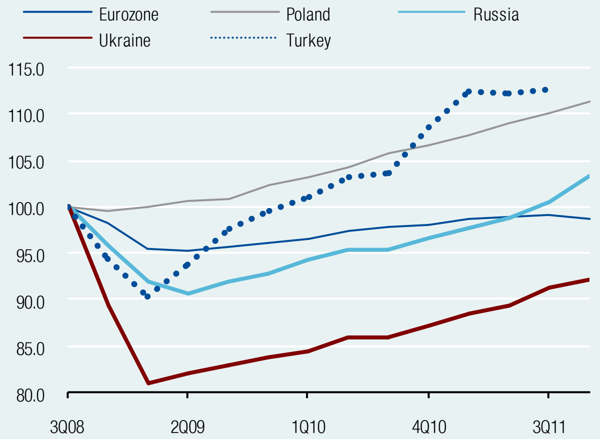
**Chart 10. Ukraine's economy size (at constant prices and seasonally-adjusted) versus its largest trade partners**

*Rebased at 100 points, history from 4Q of 2001 till 4Q of 2011*




Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

*Rebased at 100 points, history from 3Q of 2008 till 4Q of 2011*




Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

## Today's characteristics of domestic demand

One of our preferred ways to assess the domestic economy's demand conditions is by reviewing retail trade dynamics, the banking sector, and netting Ukraine's merchandise trade statistics (available until February 2012) of minerals trade. The minerals trade of Ukraine has been subject to regular external price shocks from the high crude oil price, which has a direct impact on the US dollar value of imported natural gas, which itself accounts for a sizable share of the total minerals imports volume.

In this regard, we draw the following statistical evidence and conclusions:

***Domestic demand is vibrant, and is more focused now on buying locally produced goods***

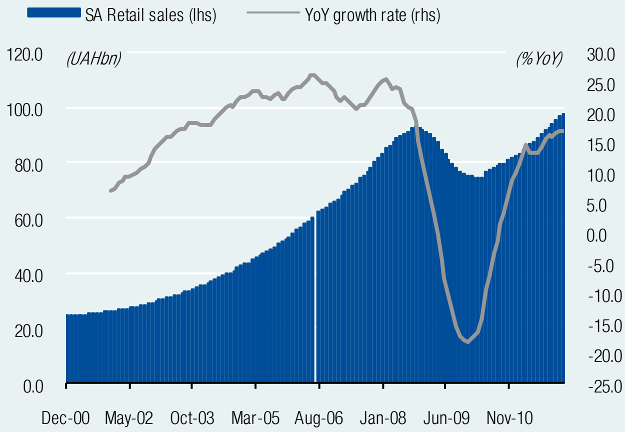
- **Locally produced stuff in demand.** Domestic demand has recovered fully and become a driver of economic growth in the past year. As our data shows, turnover of retail trade at constant prices (Chart 11) recovered over late 4Q11 to the pre-crisis level, and had grown at the robust rate of 17% this February. The latest data on this statistical series say that price- and seasonal-adjusted volume of retail turnover is staying 5% above the pre-crisis peak reached in early fall of 2008.

  At the same time, imports of cars (a proxy for overheated domestic demand, being supported by bank lending) is far below its pre-crisis peak, although it has been recovering, too, alongside the entire economy. Thus, according to the latest statistics for January, the last 12-month volume of imports of cars amounted to US$3.1bn (with total number of vehicles imports at 198,023), well below the pre-crisis peak of November 2008, when the quantity of imported cars in the last 12-month period amounted to 382,237 at a total value of US$5.8bn (Chart 12).

  This data, in our view, suggests that the recovery of the domestic demand has been quite remarkable, and its sizable component—consumer demand—has been demanding more (or rather is more capable of consuming) locally produced goods.

**Chart 11. Retail trade: volume (UAHbn) and growth (% YoY)**

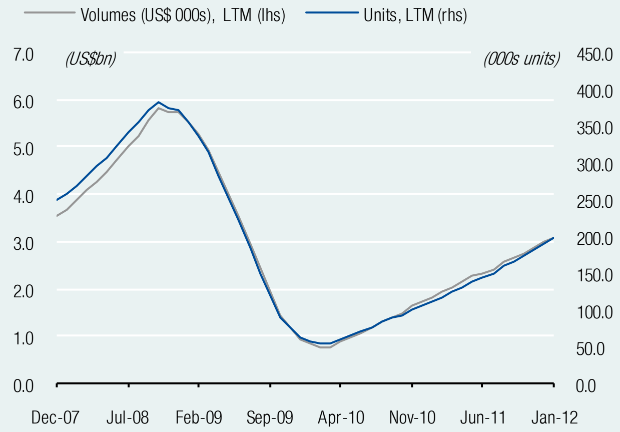
*Volume is LTM data of monthly seasonally adjusted volume (UAHbn) of retail run-over in constant prices of December 1999. History till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 12. Imports of cars: volume (US$bn) and quantity (000s unit)**

*All data series are LTM. History from January 2007 till January 2012*



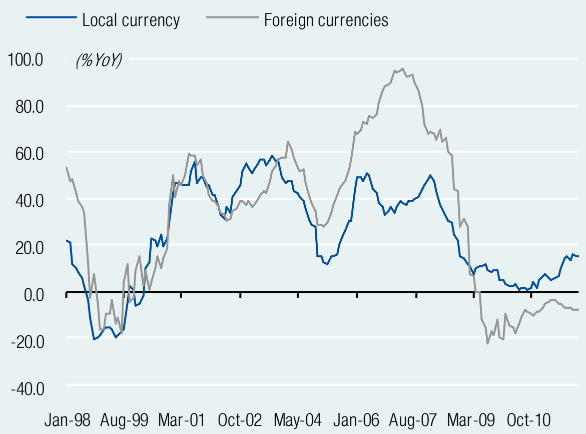

Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***A deleveraging banking sector will keep domestic demand restrained***

- **Banking lending is sluggish.** The banking sector has been rather cautious in terms of extending its lending operations after the deep recession of 2008-09, as real growth rates of the loan book (in local and foreign currencies) bottomed from the pre-crisis peaks (of nearly 50% and 100% respectively), see Chart 13. The banks as a whole have been deleveraging by bringing down the sector-wide loan-to-deposit ratio back beyond 1.5x. Our view on the sector [24] in general is that it will continue deleveraging in the next two years, bringing down the loan-to-deposit ratio to the level of 1.2x as early as 1Q12. Hence, this will keep domestic demand in restraint and prevent an overheating of consumer demand, as was the case in the run-up to the deep recession in Ukraine's economy that started in late 3Q08.

**Chart 13. Real growth of banking sector loan book (% YoY)**

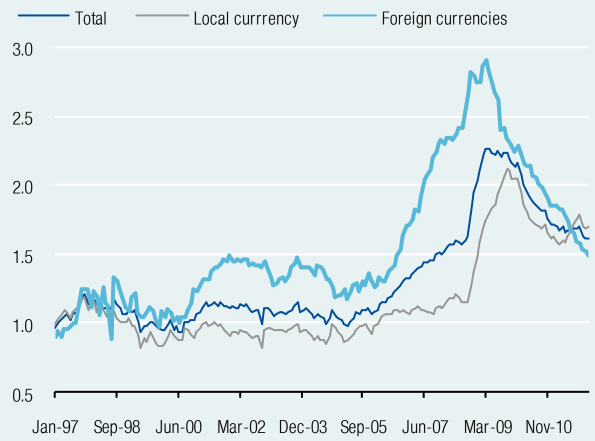
*Breakdown of the banking sector's loan book by local and foreign currencies. Loan book in local currency is adjusted to Ukraine CPI series, whereas loan book in foreign currencies was recalculated into USD terms and adjusted for CPI in the US*




Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 14. Loan-to-deposit ratio (x) of the banking sector**

*History since January 1997 till February 2012*
*Loan-to-deposit ratio is based upon loan book size in gross terms*




Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

[24] View our Banking sector primer "From lending to landing" published in January 2012.

*Domestic demand did pull back since the crisis, allowing for a consistent US$6bn ex-minerals trade surplus in LTM terms*

- **'Core' external balance confirms economy did cut back on demand.** We pay a great deal of attention to such indicators as the merchandise trade balance netted of trade in minerals, which proved to be prone to external price shock.

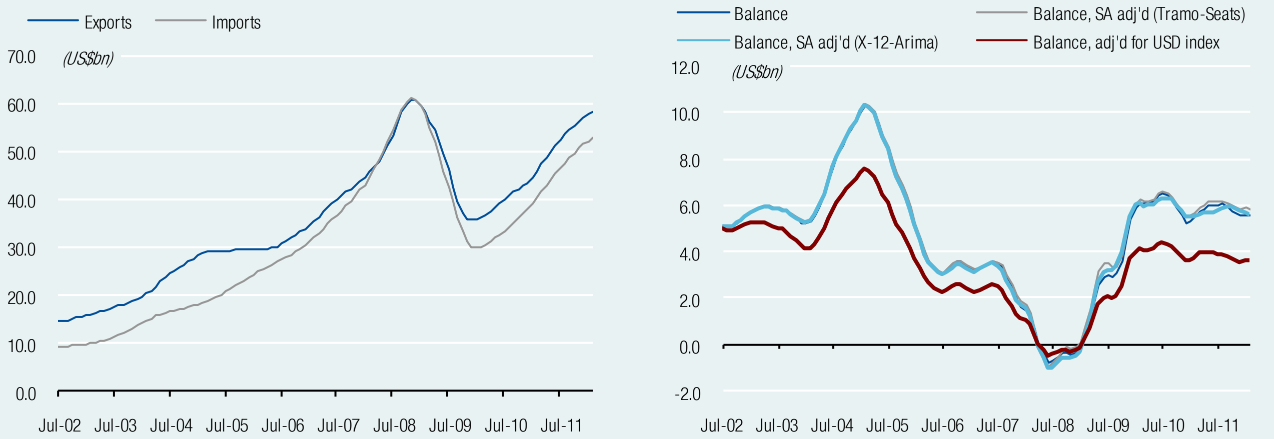
The chart below (Chart 15, pp.27), depicting the LTM ex-minerals volumes of exports and imports, adjusted for the seasonal factor, reveals that after sizable contraction in trade volumes that took place in late 2008 and 2009, domestic demand for imported goods and external demand for exports from Ukraine did start to recover. This recovery appeared quite robust in the last two-year period of 2010-11. However, the key result of the recession and cutting back in domestic demand was not only the elimination of the trade deficit in goods excluding minerals, which was observed in the peak consumer boom in the country in 2007 and 1H08, but also a consistent trade surplus that has amounted to about US$6bn in LTM terms since January 2010.

The volume of LTM exports as of the end of January 2012 was 3.8% short of the pre-crisis peak seen in November 2008, while the same indicators for imports stand at 13.7%.

**Chart 15. Ukraine's merchandise trade excluding minerals: Historical data from July 2002 till February 2012**

*Volumes of exports and imports; LTM monthly data, seasonally adjusted by Tramo-Seats model*

*Trade balance: reported and seasonally adjusted by two models: Tramo-Seats and X12-Arima. LTM monthly data, there are three lines representing*




Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, Investment Capital Ukraine LLC.

Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, Investment Capital Ukraine LLC.

*Our research of external trade uses two adjustment metrics for eliminating: (1) the seasonal factor; and (2) the USD monetary factor*

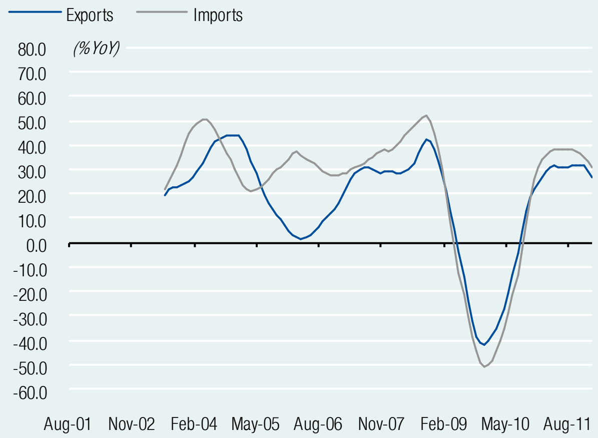
- **Trade in minerals provides a continued external price shock.** The above-mentioned reference on the ex-minerals merchandise trade balance needs to be complemented by a missing component, i.e., the trade in minerals. The charts below provide our calculations made with the reported trade statistics on measuring growth rates of exports and imports in two dimensions: total trade in goods without minerals, and trade in minerals only. These two sets of data were adjusted for seasonality and for the USD index (the measure of relative value of the US dollar versus the basket of major global currencies).

*It shows that second one is more revealing; …*

The year-on-year growth rates of exports and imports from the ex-minerals trade data set that was adjusted for seasonality (see left-hand chart below), shows a slowdown in late 2011 and early 2012 in both domestic demand for imported goods as well as external demand for exports from Ukraine, although this slowdown is in its early stages and is taking place after quite a strong rebound–however, partially thanks to a low base effect. It also shows that imports growth has been outpacing exports with some margin since December 2010; nevertheless, this did not have a downside impact on that US$6bn surplus that was mentioned in our previous viewpoint. At the same time, growth rates in minerals trade, both exports and imports, reveal that they were stronger in the peak of mid-2008 than in the 2010-11 rebound, and the growth rates of minerals trade, exports and imports, again was stronger than the rebound in the ex-minerals trade. Thus, the growth rate of imports of minerals in May 2011 peaked to 52.7% YoY, versus the growth rate of imports, ex-minerals, which peaked to 38.7% YoY in June 2011.

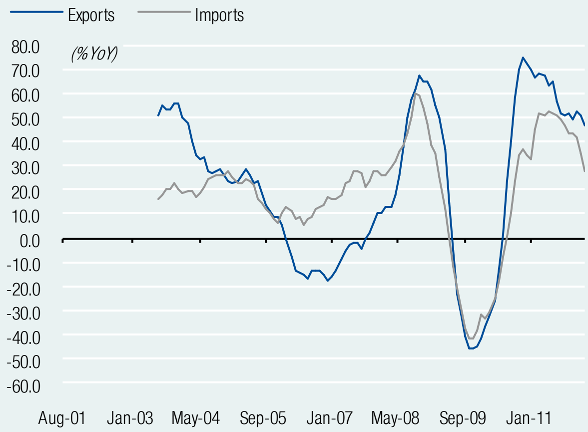
**Chart 16. Merchandise trade growth rates (% YoY, LTM and <u>adjusted for seasonality</u>):History from July 2003 till February 2012**

***Ex-minerals*** *trade*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

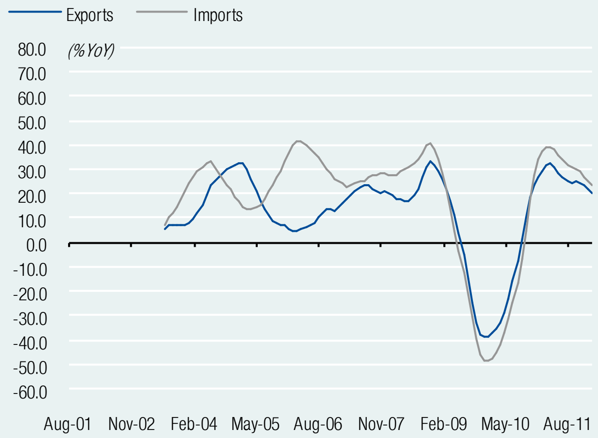
***Minerals*** *trade*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

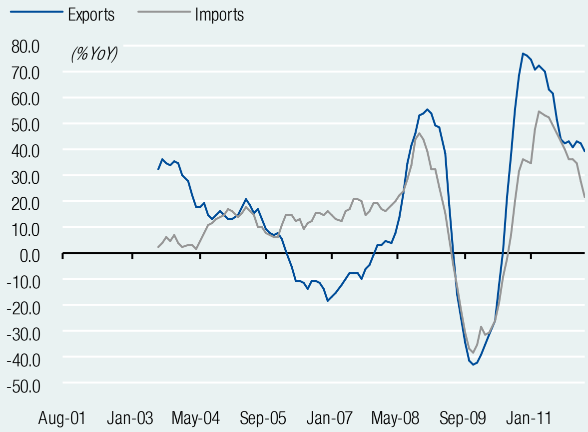
**Chart 17. Merchandise trade growth rates (% YoY, LTM and <u>adjusted for USD index</u>): History from July 2003 till February 2012**

***Ex-minerals*** *trade*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***Minerals*** *trade*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***… in our view, the 2011 external price shock is stronger than in 2008, …***

The minerals trade data set adjusted for the seasonal factor shows that the 2008 peak in imports growth was at 59.7% YoY in September 2008, while as was mentioned above, the 2011 rebound in minerals imports reached a 52.7% YoY peak. At first glance, the most recent peak appeared a bit softer than the previous one, by 7ppt. However, our next set of minerals trade data, which is adjusted for the USD index to eliminate monetary policy[25]-related effects on the value of trade flows (Chart 17),

[25] Carried out by the US Federal Reserve. During the recent, unprecedented round of monetary easing, the Fed, commodity prices received additional impetus to reach their pre-crisis levels. This policy retained much of criticism from emerging-market economies for spurting commodity prices to rise, then instigating inflation and eventually leading to social instability. Our purpose of the adjustment of the USD-based statistics series for USD-index factor is reveal fundamental changes in the data that is free from the “liquidity tsunami” or “monetary morphine,”, as its critics say, created by the US Fed as well as by other central bank majors.

reveals that there was a stronger rebound in imports of minerals in 2011 than during the peak of the booming economy in mid-2008. The growth rate of 54.6% YoY seen in March 2011 is 8.7ppt above the peak growth rate of 45.9% seen in October 2008.

***… and it is taking place amid a weaker economy***

The table below summarises the above-mentioned discussion by comparing two previous episodes, in 2008 and in 2011, of external shocks stemming from imports of minerals. First, it appears that, if the data is adjusted for the USD index, the 2011 external shock from minerals trade was stronger than in 2008. Second, the rebound in domestic demand in 2011 that does not factor in the minerals trade was also stronger than if viewed in the USD index non-adjusted terms (it is 1.5ppt short of the 2008 peak versus the 13.2ppt shortage gap, if viewed from the perspective of seasonal adjustment only). Third, the USD index adjustment also shows that the most recent external shock of 2011 is a bit stronger than if it is viewed through the raw data (albeit being seasonally adjusted). The percentage gap between the growth rate of mineral imports over the growth of imports of non-minerals goods amounted to 15.1ppt in the former case, versus 14.0ppt in the latter. Back to 2008, it appears that then, an external shock coincided with a bit stronger domestic demand. The same technique of data adjustment for the USD index produced a 4.9ppt gap between the growth rate of minerals to non-minerals goods, whereas the technique of data adjustment for the seasonal factor provides the assumption that the shock was more pronounced, as the gap in growth rates was 7.8ppt.

***The shock of 2011 has spilled over into 2012, and has a good chance of lasting longer than the 2008 shock***

Going forward, it appears that the current price shock that peaked in 2011 is lasting well into 2012, as the crude oil price continues to be above the US$100 mark. This situation has fairly good chances of persisting, as the global economy's risk of slipping into recession again has been reduced by activist central banking, on which we elaborate in the section, "Activist central banking," on pp.18. Back in 2008, the Lehman factor turned the 2008 external price shock from the high crude oil price into a worldwide decline in output and trade; this later became known globally as the 'Great Recession.' This time, the new Lehman factor appears to be deeply hidden, again, thanks to central banks' liquidity injections. The major central banks are eager to engineer a soft transition of the global economy through the 2011 crude oil price shock.

This is going to have a lasting effect on Ukraine's economy, which is a net importer of hydrocarbons, and which has parts of its energy market functioning under politically sensitive conditions. More on this follows in the next section, "Why mineral imports matter," on pp.30-34.

**Table 2. Two peaks in imports of minerals (% change to previous year): 2008 and 2011 compared by growth rates**

| | Growth of imports adj'd for seasonality [1] | | | Growth of imports adj'd for USD index factor [2] | | | Gap in growth rates between [1] and [2] | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Minerals** | **Ex-minerals** | **Gap** | **Minerals** | **Ex-minerals** | **Gap** | **Minerals** | **Ex-minerals** |
| **2008** | 59.7% | 51.9% | 7.8ppt | 45.9% | 41.0% | 4.9ppt | +13.8ppt | +10.9ppt |
| **2011** | 52.7% | 38.7% | 14.0ppt | 54.6% | 39.5% | 15.1ppt | -1.9ppt | -0.8ppt |
| **2011 vs 2008** | **-7.0ppt** | **-13.2ppt** | | **+8.7ppt** | **-1.5ppt** | | | |

Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

## Why mineral imports matter

*Ex-minerals trade balance is in steady surplus of US$6bn…*

In support of our discussion above, the next chart below depicts Ukraine's economy merchandise trade balance in US dollar terms, [26] broken down by key groups of merchandise items (left-hand chart below) and in a more simplified breakdown between ex-minerals trade and minerals only trade (right-hand chart below). The following relevant factors are worth pointing out:

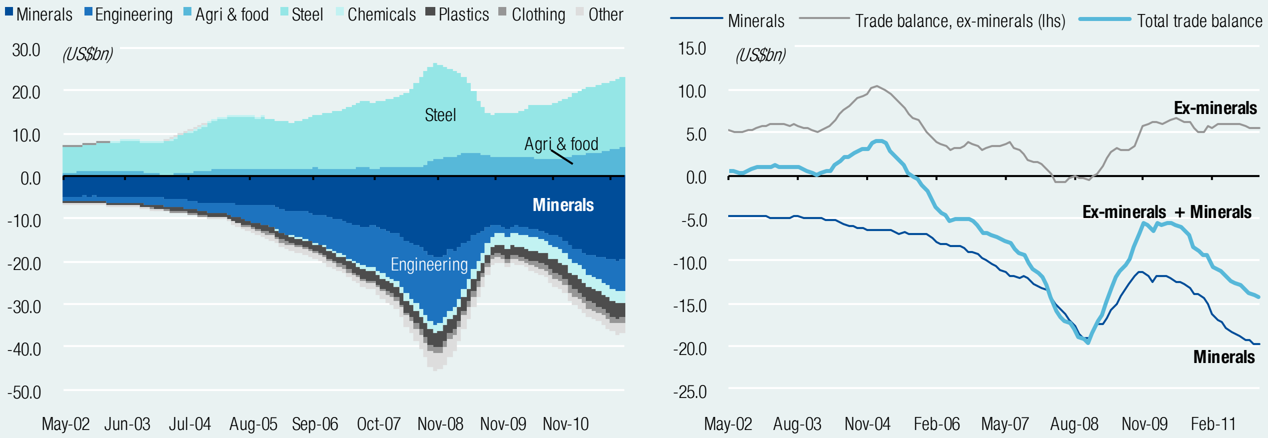
*…while minerals trade is in a record deficit of US$19.5bn*

- **2008 versus 2011-12: 'This time, it's different'.** As was underlined in the section above, the 2011 external price shock, which in fact has spilt over into 2012, has been larger than the previous one in 2008. The chart below also underscores this view; the current, external price shock on Ukraine's economy via minerals imports that has been unfolding since early 2011 is taking place amid quite restrained domestic demand, which is proxied by the ex-minerals trade surplus being steady, at US$6bn since January 2010, in terms of LTM data. Back in 2008, the external price shock that materialised due to dearer crude oil and natural gas was unfolding hand in hand with booming consumption that turned the ex-minerals trade balance into deficit. According to the latest data on merchandise trade available from the authorities (in preliminary reading) for February 2012, the LTM volume of minerals trade reached US$19.5bn, the largest figure in history, as 2008's peak was US$19.0bn in November 2008, while ex-minerals trade amounted to US$5.6bn for the period, up 0.8% MoM and 0.99% YoY.

**Chart 18. LTM merchandise trade balance (US$bn): Grouped by key merchandise items (L) and minerals and ex-minerals divide (R)**

***Left:*** *Breakdown by key components. History from May 2002 till January 2012*

***Right:*** *Trade balance breakdown into minerals trade and non-mineral trade. History from May 2002 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC. Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

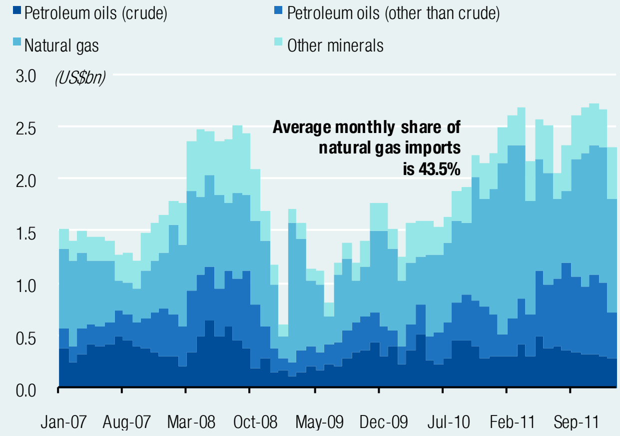
*Natural gas is a key component of Ukraine's energy imports, and its import price turned out to be more resilient than oil import prices to global commodities market downturns*

- **Gross minerals imports: Structure and prices.** The following page is devoted charts, which show the details of the structure of imports by key components and average prices at which imports were made. In relative physical terms (tonnes of oil equivalent), natural gas is the country's key imported energy, accounting for a more than 70% share of total energy imports (see Chart 23 pp.31, Table 11 pp.67). In US dollar terms, natural gas imports are also the largest component of other imported minerals, accounting for an average 44% share of LTM imports in the period from January 2007 until January 2012. The following charts also reveal a divergence of monthly prices between all main components of imported minerals: the natural gas price was on the rise, while oil prices have turned south since last summer.

[26] In nominal terms, no adjustment (for seasonality or for USD monetary effect) was made with the data.

### Chart 19. Monthly volume of imports of minerals (US$bn)

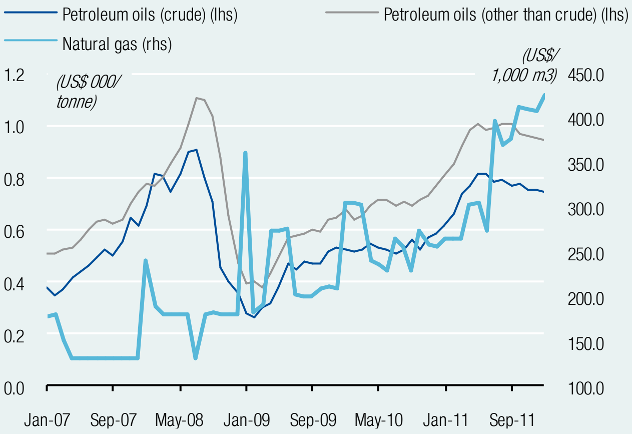
*Breakdown by key components. History from January 2007 till January 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

### Chart 20. Monthly average price of imported minerals (US$)

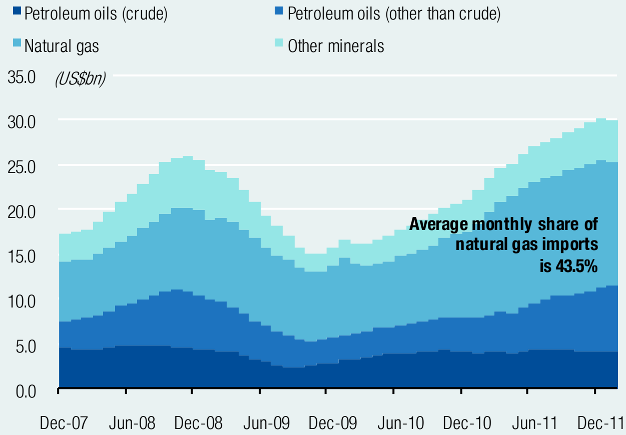
*Breakdown by key components. History from January 2007 till January 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

### Chart 21. LTM volume of imports of minerals (US$bn)

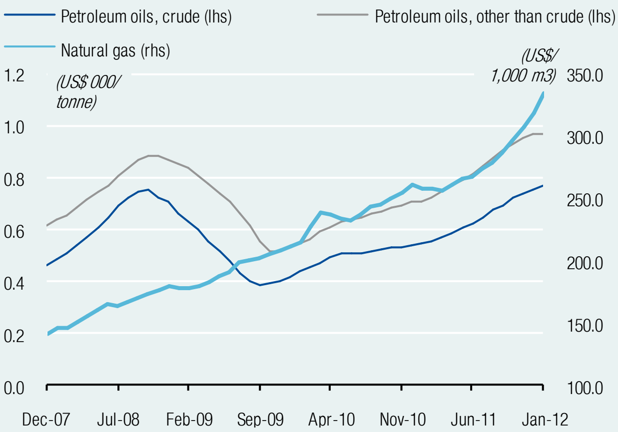
*Breakdown by key components. History from December 2007 till January 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

### Chart 22. LTM average price of imported minerals (US$)

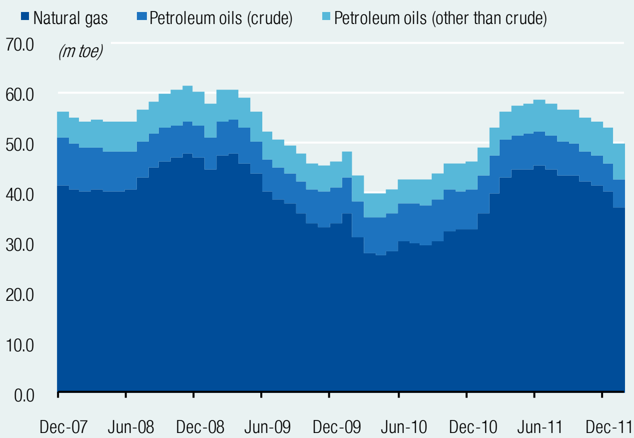
*Breakdown by key components. History from January 2007 till January 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

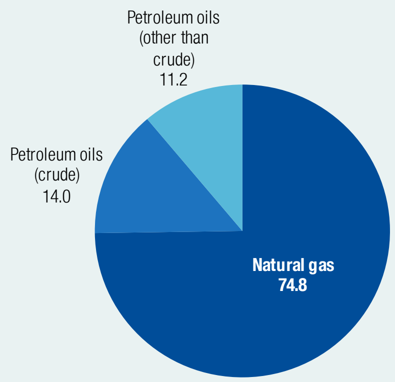
### Chart 23. LTM volume of imported minerals: Natural gas, crude oil and petroleum products in physical volumes (tonnes oil equivalent)

*History from December 2007 till January 2012.*
*In millions tonnes of oil equivalent*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

*LTM data as of end January 2012. 100% = 50.1m toe*



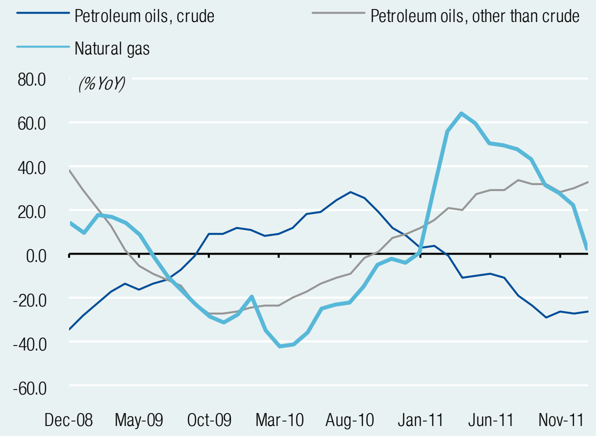

Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***Demand for natural gas has shown no visible price elasticity over 2008-12, …***

- **Price elasticity of demand is not functioning properly.** The following two charts, in our view, tellingly depict one particular issue with the domestic economy: that such a thing as price elasticity of demand does not work in due course, especially with regard to natural gas consumption. As the following charts show, it is demand for natural gas that has been very resilient to the constant increase in import prices.

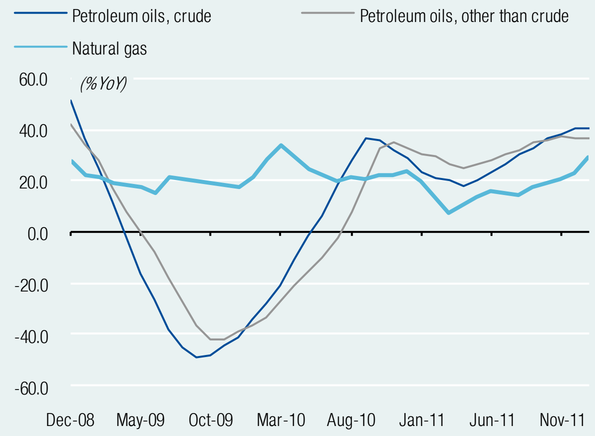
**Chart 24. Gross imports of minerals: On-year percentage change (% YoY) in physical volumes (L) and average monthly price (R)**

***Left:*** *physical volume of imports of minerals' key components*
*History from December 2008 till January 2012*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

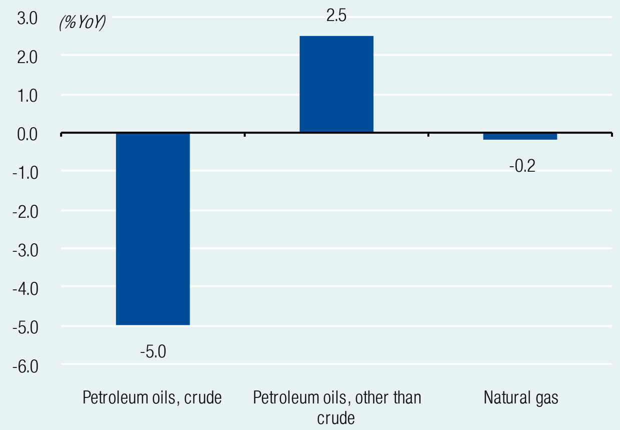
***Right:*** *physical volume of imports of minerals' key components*
*History from December 2008 till January 2012*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

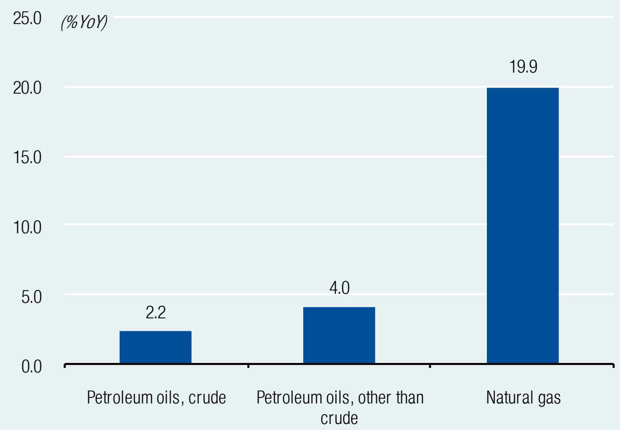
**Chart 25. Average growth rate (% YoY) from December 2008 till January 2012: Physical volumes (L) and average monthly price (R)**

***Left:*** *physical volume of imports of minerals' key components*
*History from December 2008 till January 2012*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***Right:*** *physical volume of imports of minerals' key components*
*History from December 2008 till January 2012*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***… as import prices grew on average by 19.9% YoY, while imports growth declined by a mere 0.2% YoY***

Over the period of December 2008 through January 2012, the growth rate of the physical volume of natural gas imports did fluctuate quite sizably, due to the recession and then recovery in the economy, and subsequently, this has had an impact on demand for energy. However, an averaging of growth rate of natural gas imports in bcm terms[27], depicted in the left-hand part of Chart 24, yields just a 0.2% YoY decrease of imported volume over the period of December 2008 through January 2012 (see left-hand part of Chart 25). At the same time, the import price growth, depicted in the right-hand part of Chart 24, had hovered around the 20% mark all during this period, then accelerated to 29.2% YoY in January 2012. As a result, an averaging of

[27] In billion cubic metres.

this growth rate yielded a 19.9% YoY increase in the same period (see right-hand part of Chart 25).

In our view, this provides strong grounds for us to conclude that Ukraine's economy is functioning such that its demand for natural gas, one of its primary energy sources, has shown no meaningful level of price elasticity during the last three years, which was characterised by continued price increases. A persistent price increase over the three years in natural gas imports, averaging nearly 20%, indentifies the key element of the external price shock that the economy has been facing in 2008-12.

***Natural gas consumption is highly regulated by the state, and hence protected by subsidies from the government***

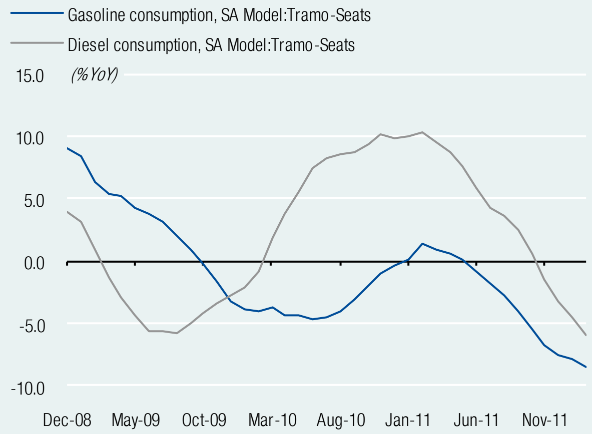
- **State-protection, or lack of it, makes a difference.** Our previous viewpoint was nearly exclusively devoted to natural gas imports in terms of volumes and import prices. The aim was to show evidence that amid near-zero price elasticity of demand and a constant import price rise that averaged 20% YoY in 2008-12, literally in the past three years, natural gas imports were a major part of the factors that produced external price shocks in the economy, which were discussed above (see Chart 17, pp.28 and Table 2, pp. 29). The fact is that domestic demand of natural gas by end consumers is highly regulated and protected by the state with subsidies via low tariffs paid by households and heating companies, which ultimately service the public.

***Consumption of petroleum products is market-based***

As for the imports of other minerals components like oil and oil products, there is much less concern, and price elasticity of demand here works much better in our view than with consumption of natural gas. With all the price fluctuations on these two components of minerals imports, its 2008-12 average was much lower than that of natural gas import price growth, at 2.2% YoY and 4.0% YoY, respectively (see right-hand part of Chart 25 above). The import volumes' (in tonnes) growth rates varied, as imports of crude oil declined by an average of 5.0%, while imports of petroleum products rose by 2.5%.

**Chart 26. Growth rates of consumption of petroleum products through the network of filling stations of Ukraine (% YoY)**

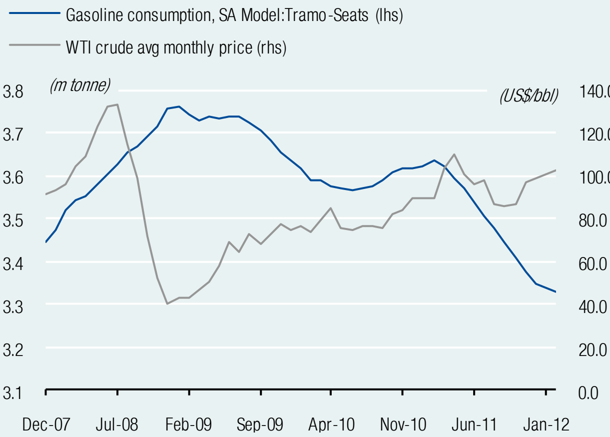
*LTM data of seasonally adjusted reported monthly volumes of consumption History from December 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 27. Gasoline consumption volume (m tonnes) versus oil crude price (US$ per barrel)**

*LTM data of seasonally adjusted reported monthly volumes of gasoline consumption. History from December 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

***Previous state interference in capping gasoline prices produced disruptions in supply***

However, final consumption of petroleum products, which have historically proved to be less socially sensitive, are ruled by market-based principles in Ukraine. The state watches closely over filling station operators to eliminate unjustifiable price increases, but ultimately, this market does pass all crude oil price increases onto the final consumer, albeit at a measured and state-controlled pace. State interference in pricing mechanisms in the sector once practiced by previous governments ended up subsiding, as such heavy intervention led to supply shortages, eventually undermining state regulation.

***Demand of petroleum products has shown price elasticity***

Hence, free of state interference, end consumption of petroleum products in Ukraine is indeed sensitive to price changes at the filling stations. And, the crude oil price shocks of 2008 and of 2011 have produced a declining trend in gasoline consumption growth in Ukraine (Chart 27, pp.33). There was a visible trend in substitution of demand for gasoline with diesel; however, this trend has also turned south, as growth rates of consumption of both gasoline and diesel have been in negative territory since last November.

All in all, the external price shock that Ukraine's economy has been experiencing since mid-2011 due to the high crude oil price is eventually passed on to two consumer groups. The first of which is Ukraine's motorists, who, facing higher price tags on petroleum products at the filling station, have been cutting back consumption. The second group is the much more diverse one encompassing all income brackets of Ukraine's society, which is why the state finds itself obliged to support, consumers natural gas via their home heating or cooking utilities at state-subsidised tariffs.

## Ukraine's energy balance: Natural gas as key component

Ukraine's statistical office released this February its first ever public report (a quite detailed one on the first attempt) on the balance of energy in 2010 (see appendix section, "Ukraine's energy balance in 2010," pp. 67-68), revealing the following:

***Ukraine's energy balance uses natural gas as a primary energy source***

- **Natural gas is the prime energy source for the economy.** In terms of tonnes of oil equivalent (toe), natural gas tops the other sources of energy supplied to the economy from own production, net imports, and depletion of available stock from underground storage facilities. It accounted for a 42.6% share of 130.3m toe of the total energy supply in 2010 (natural gas supplied was 55.6m toe, or 61.7bcm). The same principle concerns the consumption side: it had a 30.3% share of 73.8m toe of total energy consumed in the same year (29.0mm toe, or 32.2bcm). The difference in these two figures was reported as energy transformation usage.

***In terms of energy transformation, natural gas ranks second after coal in Ukraine as an energy source***

- **Natural gas: One of the fuels used in energy transformation.** Indeed, the 2010 official balance shows that natural gas usage in energy transformation (for electric and heating power) was quite significant alongside coal usage for the same purpose. While the economy consumed 28.1m toe of coal for energy transformation, it used 26.6m toe of natural gas in the same manner, as the statistics data shows. One of the key items in the natural gas transformation, alongside the usage at electricity plants (0.7m toe), heating plants (14.8m toe), and the energy industry's own use (1.1m toe) was one called "Statistical differences" (9.3m toe), which in our view, represented the volume of gas that was used to stock for recovery, i.e., pumped into underground storage facilities.

***Household consumption tops other types of end consumption of natural gas***

- **Households as top consumers of natural gas.** On the end of the energy consumption side, households consumed 14.3m toe (15.8bcm) of natural gas. This is more than the entire consumption in the industrial sector (6.5m toe, or 7.3bcm), own consumption by the pipeline system (3.3m toe, or 3.7bcm), and non-energy use (4.2m toe, or 4.6bcm).

- **Why state interference in the sector does matter.** In total, politically sensitive consumption (household consumption and the volume of gas used in energy transformation heating plants) amounted to 29.1m toe, or 32.3bcm, the equivalent of the country's entire imports volume. That is why the authorities who used to subsidise the sector are no longer doing so, in the current political cycle that is nearing its end this October.

## Naftogaz as a vehicle in supporting the economy

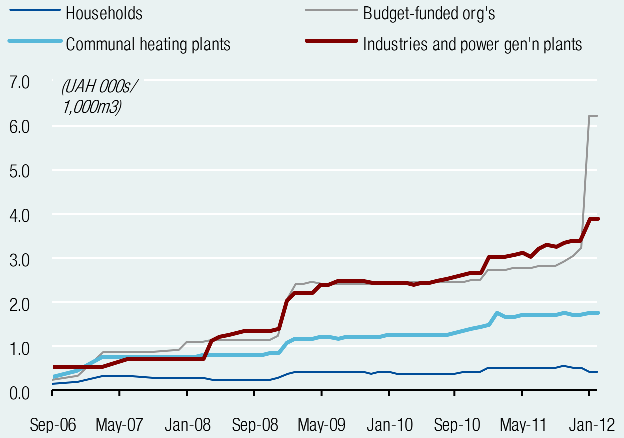
State-owned company Naftogaz of Ukraine appears as not only the prime producer, importer, and distributor of hydrocarbons, but also as the key state vehicle that absorbs all the mismatches the authorities encounter on the imports of natural gas and the USD-based revenues they collect from the consumers.

***Politics keep domestic prices on natural gas at a sizable disparity among consumers; …***

**Domestic prices, albeit increasing, still allow a sizable disparity among consumers.** The following chart (Chart 28) shows the evolution of the average monthly price paid by key consumer groups of Naftogaz. Households—the key group of consumers, which accounted for a 39.2% share (39.2bn) of the total consumption of natural gas in 2011, which was 44.0bn (see Chart 30, pp.36)—has been enjoying the lowest price level among other consumers. This group paid UAH508 per 1,000 $m^3$ on average during 2011, or 70% below the weighted average price level of UAH1,734 per 1,000 $m^3$ in the same year Naftogaz was selling natural gas domestically. Another socially sensitive group of consumers, the plants producing heating utilities, have also been paying at a below-average price level, which though it was increasing over 2009-11, was still 3% short of the average price level. Hence, the industrial enterprises and power generation companies have been experiencing the heaviest domestic price increases, paying UAH3,175, or an 83% premium over the average price level.

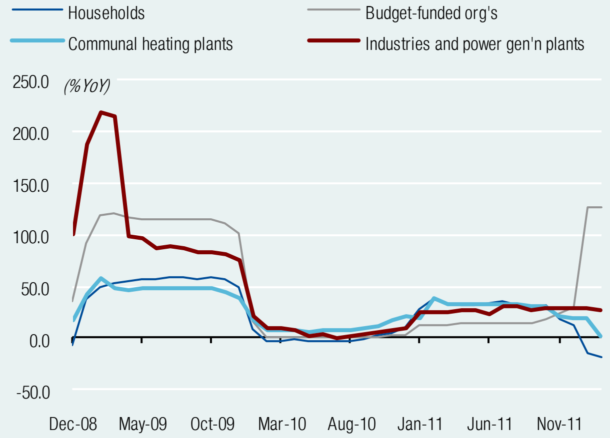
**Chart 28. Domestic natural gas price charged by Naftogaz of Ukraine from its customers: Nominal level (L) and growth rate (R)**

***Left:*** *Domestic price levels for different type of consumers.*
*History from September 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***Right:*** *Percentage change in price level to previous year.*
*History from September 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

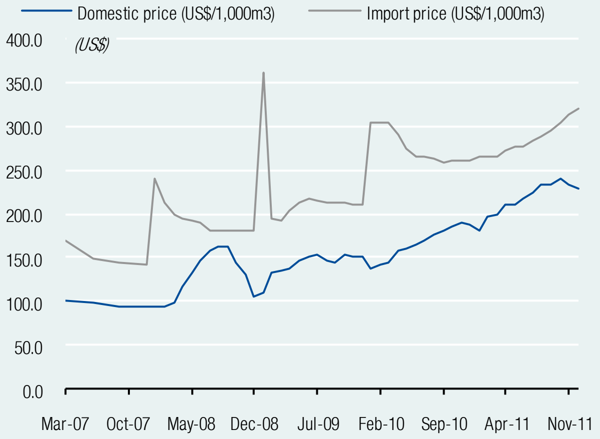
***… moreover, the domestic price on natural gas is well below the import price, and slow to catch up, if the latter rises***

- **Domestic price level well below the import price.** The above-mentioned average price level in 2011 of UAH1,734 per 1,000 $m^3$, or US$217 per 1,000 $m^3$, still appears well below the import price, which has been on the rise over the past three years by an average yearly rate of nearly 20% (as was shown in Chart 24 and Chart 25 on page 32).

As Chart 29 below shows, there has been a constant gap between the import price and average domestic price level over the past several years that has been totally accounted for on Naftogaz of Ukraine's balance sheet. To a large extent, the government's lack of political will to level off that gap is due to the persistent issue of Naftogaz's deficit, which was challenged enough when the crude oil price was at its bottom, but was even more so when the crude oil price, and hence the price of natural gas, has been at its peak.

**Chart 29. Evolution of prices on natural gas: average domestic price and import price (US$ per 1,000 m3)**

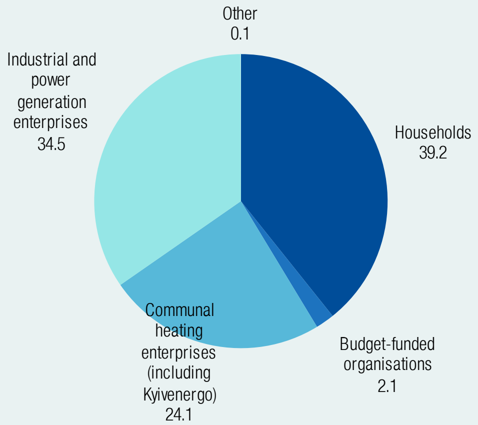
*History from March 2007 till December 2011*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 30. Breakdown of natural gas consumption by different type of consumers (%)**

*Full year data for 2011. 100% = 44bcm*

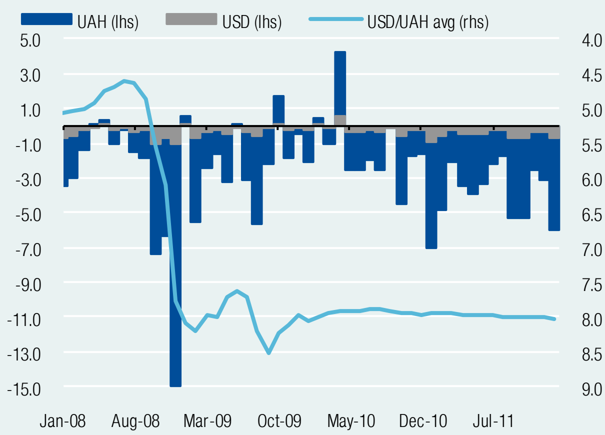



Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

- **Naftogaz deficit due to a troika of factors.** We define Naftogaz's deficit as the difference between the volume of its revenues raised from the domestic sales of natural gas to consumers (here we take into account payments actually made by the customers, and not the value of natural gas sold) and the import value of the natural gas[28].

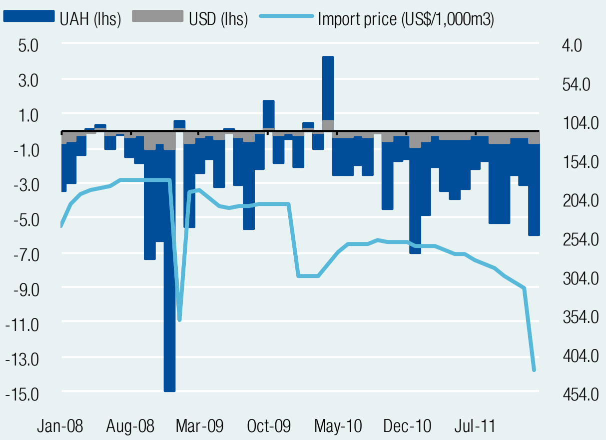
**Chart 31. Monthly volume of balance of Naftogaz's books (in USD and in UAH) versus USD/UAH exchange rate (L) and import price (R)**

***Left:*** *Balance volumes and USD/UAH exchange rate. Right axis is inverted.*
*History from January 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***Right:*** *Balance volumes and import price. Right axis is inverted.*
*History from January 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

[28] The 2010 energy balance shows that imports of natural gas eventually equals to the volume of gas consumed in the country; see appendix, "Ukraine's energy balance in 2010," pp.68.

***Volumes, prices, and UAH devaluation have impacted Naftogaz's balance***

There is a troika of factors that, in our view, impact Naftogaz's deficit: the domestic and import prices, the UAH exchange rate, and the volume of imports. The domestic and import prices impact the deficit ,as they have different step-ups. The latter is determined via the Naftogaz-Gazprom agreement, whose price formula tracks the crude oil price. Whereas the former is subject to domestic politics, they are lagging behind import price increases when they take place. Volumes of natural gas also matter, as there is a price gap, resulting in greater USD-based, external funding needs by Naftogaz.

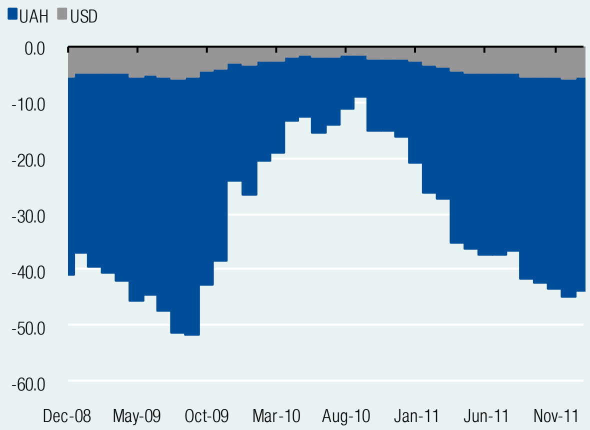
The left-hand part of Chart 31 also provides evidence that UAH devaluation results in a spike of UAH-based deficits. This is not only the result of local currency rebasement, and hence an accounting increase of a USD-based deficit in the weaker local currency, but it also shows that a sizable rebasement of the local currency's exchange rate to US dollar provides consumers with lower purchasing power as well as less willingness to pay for the service authorities provide, and payment discipline suffers as a result).

***The Naftogaz deficit increased more than two-fold in 2011, to 3.3% of GDP, up from 1.5% in 2010, …***

- **Naftogaz deficit rising again due to ongoing external oil price shock.** Our calculations of the Naftogaz deficit in the local currency (see left-hand part of Chart 32) show that due to the external price shock on Ukraine's economy, stemming from the dear crude oil price,[29], the UAH-based deficit climbed to UAH45bn as of year-end 2011 (3.3% of GDP). It is still short, however, of the LTM deficit of UAH52bn seen in September 2009 (5.8% of GDP, see right-hand part of Chart 32).

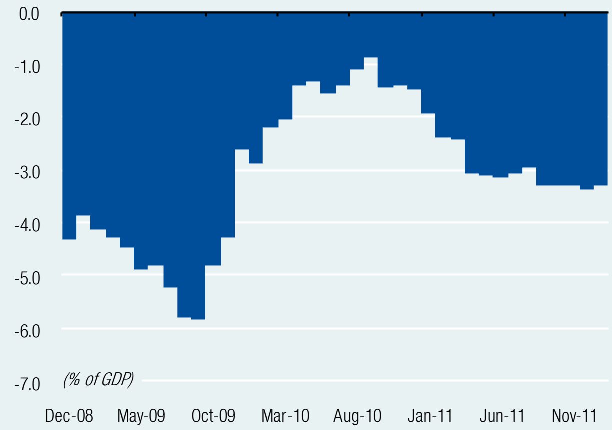
**Chart 32. LTM volume of balance of Naftogaz's books: In US$bn and in UAHbn (L) and as percentage of GDP (R)**

***Left:*** *Balance volumes in nominal terms, in UAHbn and US$bn.*
*History from December 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***Right:*** *Balance volume as % of GDP (based on UAH data).*
*History from December 2008 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***… and there is a risk that it may soar to as high as 6.7% of GDP, breaking the previous record of 5.8% seen in Sep-08***

If the Ukraine-Russia high level talks on the natural gas agreement, which were unfolding in 2010-11 and are to be continued this year, do stall—a quite realistic, but at the same time, extreme scenario—and domestic consumption of natural gas (in terms of prices due to politics and volumes) remain intact, then Naftogaz's deficit this year risks spiking up to UAH97bn (6.7% of GDP), up from the previous year's UAH45bn (3.4% of GDP); see Chart 33 on page 39.

[29] The crude oil price, the WTI crude, has been above the US$100 mark again since 2011, moving into the same territory where it was in the 2008 crude oil price shock that preceded the 2008 global meltdown in late 2008.

***Our projections for 2012 provide for a wide range of 1.6-6.7% of GDP for the Naftogaz deficit, …***

On the other hand, if Ukraine-Russia talks produce a favorable turn to Ukraine's desired price level (of US$260 per 1,000 $m^3$) and Ukraine cuts the volume of imports to 30bcm this year[30], then without changing the domestic price level which consumers pay to Naftogaz of Ukraine, Naftogaz's deficit this year may be cut by as much as to UAH23bn (1.6% of GDP), down from the previous year; see Chart 35 on page 39.

***… and the actual deficit in 2012 could be inside this range***

The solution may turn out to be a bit more complex, however, and Naftogaz's deficit this year may end up somewhere in the middle of the above-mentioned assumptions. Judging from the vigorous approach the Ukraine's side is employing to resolve the Naftogaz deficit issue, its resolution will indeed be quite complex, not least due to the current political cycle, which comes to an end this October with the parliamentary elections. To be more specific: domestic political rivalry, in our view, would put Ukraine's authorities into quite a defensive position while talking to Russia during the negotiations on natural gas in particular, as well as on other issues. The Russian side is demanding control of Ukraine's pipeline system, and would like Ukraine to join the Kremlin-run regional unions. This is not within Ukraine's national interests, which, albeit somewhat politically vague, are equally shared across the broad spectrum of political parties. Ukraine's proposals differ from Russia's desired outcome. Hence, it is quite difficult to predict the outcome of the talks between Ukraine and Russia. It may appear that these talks would come to a dead end, leaving the sides with the status quo, i.e., no changes in the natural gas agreement taking place. Faced with no change in the pricing formula, Ukraine would seek to lower its imports of natural gas to as low as 30bcm. This strategy would yield a Naftogaz deficit in 2012 amounting to UAH47.0bn, or 3.2% of GDP (see Chart 36, pp.40).

## Conclusions

One of our key conclusions to the above-mentioned description of Naftogaz deficit is that authorities have been continuing their long-standing practice of preventing the economy, and its consumers, from external shocks of high crude oil price. Keeping a lid on probable social discontent and on inflation, which would have obtained the impetus to rise if authorities allowed the higher import price on natural gas to pass into households' home utilities bills, authorities put the brunt on Naftogaz, and made its creditworthiness a prime victim of the affair. Naftogaz has been running deficits over the past several years of varying sizes. In 2011, its deficit moved beyond the UAH40bn threshold for the first time since crisis-laden 2008 and leveled off at UAH45bn, according to our calculations. This year's conditions in terms of physical volume of imports and the import price, if not down from the previous year's levels, spell an even higher deficit which could—*in extremis*—perhaps both double the 2011 level of UAH45 and cross the UAH90bn level to up to UAH97bn. But, our view leans toward the idea that the authorities will seek to minimize this, lowering this impact as much as possible by different means. Reaching a new agreement on better terms with Russia is the best-case outcome; however, a partial agreement with Russia on a variety of issues may provide half-measures, but they would be improving the situation. Ukraine may decide to rationalise its domestic usage of natural gas, resulting in lower imports. And, it may even start to increase, albeit gradually, the natural gas tariff later this year in order to fix Naftogaz's deficit.

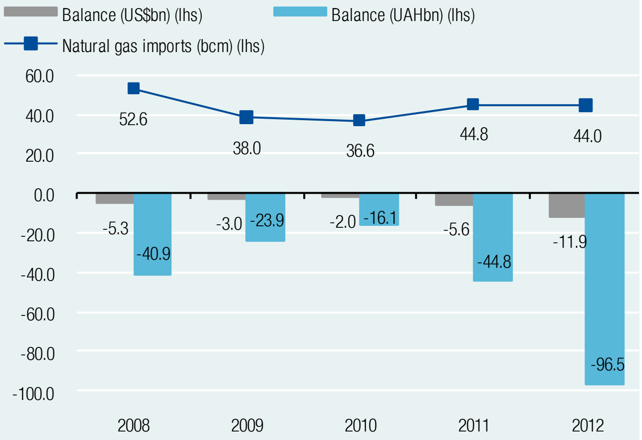
[30] This approach of cutting Naftogaz imports by nearly 10bcm to 30bcm from the previous year's 40bcm (the remaining 4bcm was imported by private-sector market players) appears to be sensible, in our view. As 2010 energy balance shows Ukraine extensively uses its underground storage facilities (USFs) to maintain a balance in the supply and consumption of natural gas. It pumped out about 11.2bcm from USFs in 2010, while likely pumping back into USFs 10.3bcm. Hence, by rationalizing that annual exercise (of pumping from/into USFs) into more efficient way, albeit temporarily for the sake to withstand the future import price increase, Naftogaz may reduce its annual need to buy about 10bcm of natural gas.

**Chart 33. Projecting Naftogaz deficit in 2012 – if pricing and consumption remain intact compared to 2011**
Import price in 2012 at US$436.5 in average and imports of natural gas amounts to 44.0bcm, a fraction below of the 2011 level

*Naftogaz's yearly average price: 1997-2011 history, ICU's forecast for 2012-14*


Sources: Bloomberg, Investment Capital Ukraine LLC.

*Naftogaz deficit: history 2008-11 and ICU's projection for 2012*



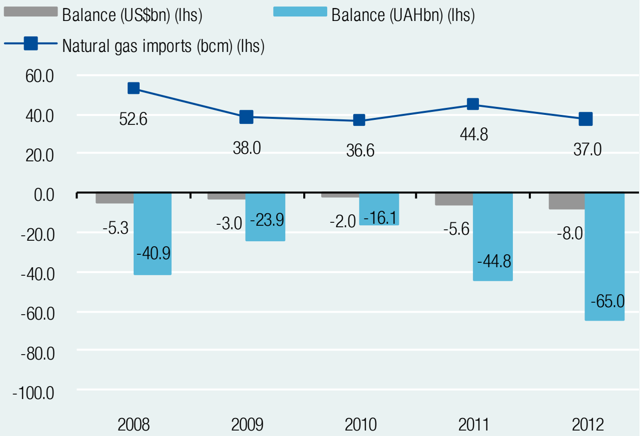

Sources: Bloomberg, Investment Capital Ukraine LLC.

**Chart 34. Projecting Naftogaz deficit in 2012 – if Ukraine accepts 10% discount to current price and import volumes reduced gradually.** Import price in 2012 at US$413.9 in average and imports of natural gas amounts 37.0bcm

*Naftogaz's yearly average price: 1997-2011 history, ICU's forecast for 2012-14*


Sources: Bloomberg, Investment Capital Ukraine LLC.

*Naftogaz deficit: history 2008-11 and ICU's projection for 2012*



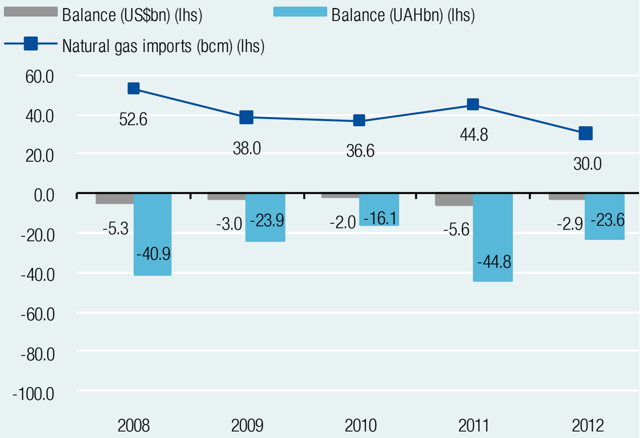

Sources: Bloomberg, Investment Capital Ukraine LLC.

**Chart 35. Projecting Naftogaz deficit in 2012 – if pricing and consumption is changed to the Ukraine required level**
Import price in 2012 at US$340.4 in average (US$260 is in effect since 2H12) and imports of natural gas amounts 30.0bcm

*Naftogaz's yearly average price: 1997-2011 history, ICU's forecast for 2012-14*


Sources: Bloomberg, Investment Capital Ukraine LLC.

*Naftogaz deficit: history 2008-11 and ICU's projection for 2012*

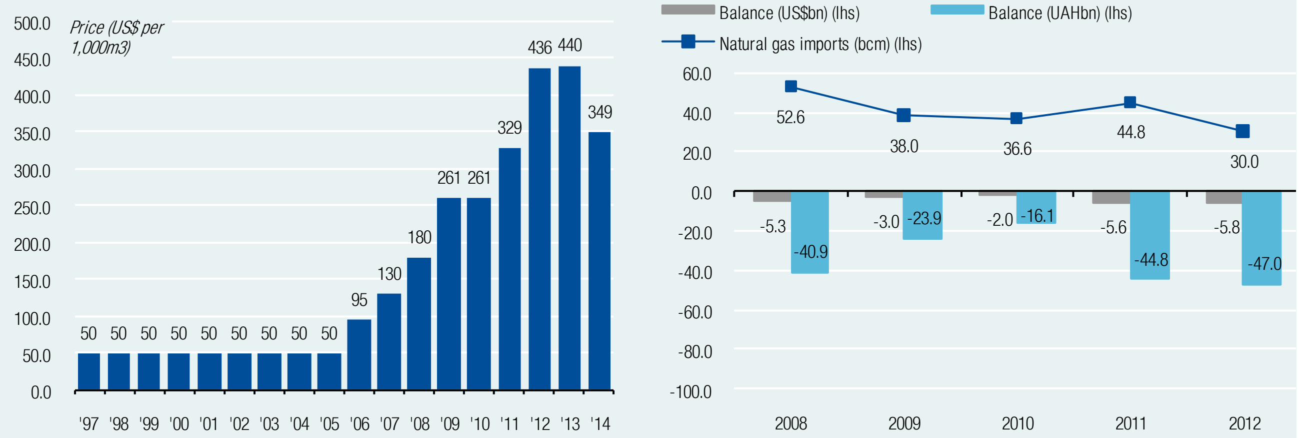



Sources: Bloomberg, Investment Capital Ukraine LLC.

**Chart 36. Projecting Naftogaz deficit in 2012 – if pricing remains intact compared to 2011 but consumption trimmed**

Import price in 2012 at US$436.5 in average and imports of natural gas amounts to 30.0bcm

*Naftogaz's yearly average price: 1997-2011 history, ICU's forecast for 2012-14* | *Naftogaz deficit: history 2008-11 and ICU's projection for 2012*




Sources: Bloomberg, Investment Capital Ukraine LLC. | Sources: Bloomberg, Investment Capital Ukraine LLC.

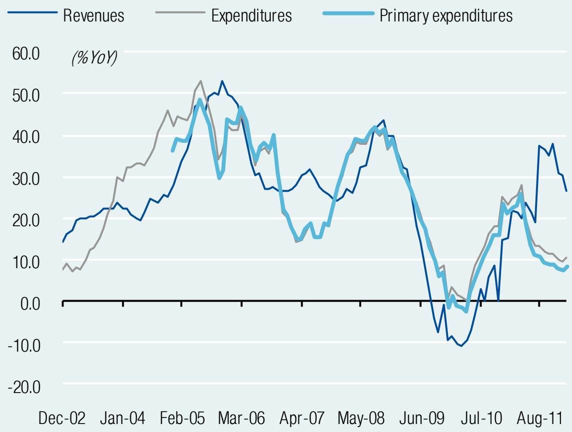
# Fiscal policy: Sizable consolidation did take place in 2011

***2011 was a year of sizable fiscal consolidation of the state budget***

In our view, the central government has been quite effective in the fiscal consolidation of the central government's state budget. Since early last year, it has been keeping primary expenditures' growth on a slowdown path, while revenues growth has been accelerated (see Chart 37). This allowed the government to run the primary balance at near the zero level since August 2011. The latest data available for February 2012 shows the primary balance still at near zero. Hence, the overall state budget balance at year-end 2011 at 1.8% of GDP has illuminated the size of sate debt servicing. The fiscal consolidation that took place in 2011 also reveals the government's realisation of the extent of the Naftogaz deficit issue, and that without state backing, Naftogaz lacks creditworthiness.

**Chart 37. Growth rates of state budget revenues and expenditures (% YoY)**

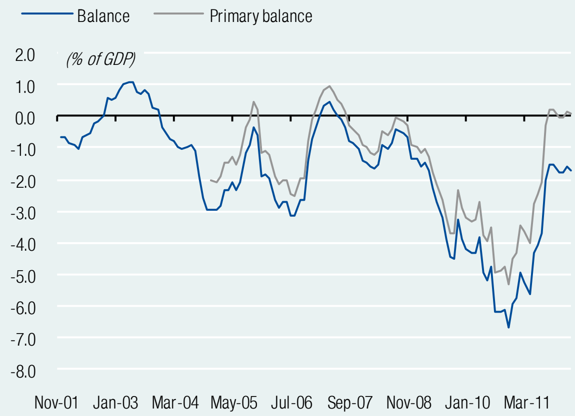
*History from December 2002 till February 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 38. State budget balance (% of GDP)**

*History from November 2001 till February 2012*




Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

***This year, fiscal policy will be a bit looser, followed by a new wave of fiscal consolidation in 2013***

Such a fiscal policy by the government needs to be well executed and constructed to provide fiscal room for pre-election populist expenditure increases, which are an obligatory exercise for the incumbent governments that enjoy economic growth, and hence have some room for maneuvering. In mid-March, President Yanukovych declared a string of social initiatives costing UAH16-25bn, which are yet to be voted into law by lawmakers. Hence, this year's state budget balance, expected at 2.0%, may rise under our base-case scenario to 3.0-3.7% of GDP. This is likely to cause the primary deficit to grow towards 1.0-1.7% of GDP in 2012, given that debt service expenditures will rise from the current 1.8% to 2.0% of GDP. Then, next year in 2013, in our view, a new wave of fiscal consolidation is likely to follow to provide fiscal room for new social initiatives from President Yanukovych, who will seek re-election in 1Q15; hence, his campaign will start in early 2014 and will be in full swing by the end of 3Q14.

# Monetary policy: NBU among activists

***The NBU has been quite active is supporting the economy in the post-crisis period***

Ukraine's central bank has been quite active in terms of supporting the economy, having expanded its balance sheet nearly 2x since September 2008 (in hryvnia terms, although in USD terms, this expansion was 27%, according to our calculations). In the appendix section, "NBU's balance sheet size: Absolute and relative terms, 2002-12" on pp.69, we provide a set of charts providing the extent to which the NBU balance has risen over the past ten years. In relative terms as a percentage of GDP, the NBU's balance has risen nearly 2x since September 2008, from about 20% of GDP to a peak of 44% of GDP in mid-2009, when the economy encountered sizable deficits on central government books as well as in those of Naftogaz (see Chart 32 and Chart 37 above).

***The NBU's balance sheet doubled to 44% of GDP in mid-2009, and recently slid to 33% of GDP***

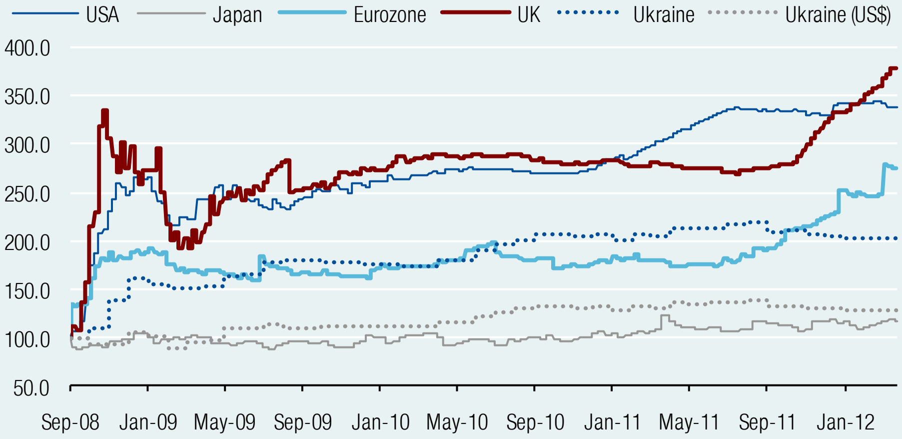
Later on in 2011, the NBU exercised monetary tightening to withstand the Eurozone debt crisis and amid accelerated demand for hard currency from the local public, which feared that another wave of crisis would hit the economy. On the back of this development, the NBU's balance sheet size as a share of GDP contracted by 8ppt over the full year 2011 to 34.2% and slid further as of the end of January to 33.4%. In 2012, the central bank said it would target a money base increase of 16% overall, or by UAH38.4bn, muting down the above-mentioned trend of balance-sheet contraction as a share of GDP.

***From a global perspective, the NBU's activism looks comparatively shy***

From a global perspective, the NBU's activism in the 2008 post-crisis economy has been much more modest if compared to the monetary stimulus provided by the US Federal Reserve and the BoE in the UK (their balance sheets have risen more than three times). In the Eurozone, the ECB's recent refinancing options have lifted its balance closer to the 3x expansion threshold since September 2008; see Chart 38 below.

**Chart 39. NBU's balance sheet expansion in the 2008 post-crisis period on the back of activism by major central banks of leading developed economies**

*Rebased at 100 points as of 31 May, 2006*




Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

***While we are still rather comfortable with inflation dynamics for this year, …***

Ukraine's monetary situation in terms of the central bank's activism appears rather similar to those seen in developed economies. The money supply in Ukraine has been growing, but at historically low levels in the post-crisis period and in the last half-year, similar that in to developed economies. Ukraine's banking sector has also been deleveraging like the banks in the developed economies. So, monetary conditions have not led to inflationary pressures in Ukraine, some of them being mitigated by Naftogaz (see our previous discussion). However, wage growth in the Ukraine economy has been quite solid in the past year, which may provide soil for inflationary pressures to appear later this year or next.

***… the NBU may reactivate its arsenal of tools on balance sheet expansion, if need be***

Still, this year's headline inflation, as well as NBU's preferred economic gauge, core CPI, have been at quite comfortably low levels. PPI has been on a slowing trend, and may stay on this course in the next few months as global markets of commodities tracked by the CRB Commodities Index has been declining. This gives us with impression that PPI dynamics in the near future will be at comfortable levels for authorities, so they can stop worrying about inflationary pressures, and if need be, the NBU may rekindle its activism once again this year by expanding its balance sheet in order to support the economy.

***Some of the NBU's monetary tools have reached their limits***

The NBU's activism in the post-crisis period points to a dilemma, of the most exploited instrument used to influence banks' liquidity: the reserve requirements ratios (RRRs) on the UAH liabilities of the banks have been kept at a zero level since the early stages of the 2008-09 recession. Recent changes by the NBU in the monetary policy tools have also left RRRs on UAH funds at zero, pointing to NBU's inability to boost UAH liquidity by this very instrument, and leaving its arsenal with few other tools. Hence, one of the next moves by the NBU may be a sizable shift in influencing banks' liquidity via interest rates (this tool to date has been in a rather rudimentary form), but this would require more flexibility in the FX market. But, for the NBU to move into this terrain, some time needs to be spent on fine-tuning the system of its regulations and communications with the banking sector.

***The NBU has been in talks with Russia and China on currency-swap agreements***

For the time being, the NBU's activism is seen in another area: currency swaps with Ukraine's main trading partners. So far, the NBU was seen in talks on this with Russian and Chinese counterparts, and in both areas has shown progress, though signing a currency swap agreement may be a few weeks away (an official Ukrainian government delegation is set to make a visit to China, and one of the agreements to be signed will be a currency-swap between the NBU and PBOC). In its talks with Russia, the NBU is assisting Naftogaz with access to RUB-based liquidity. The NBU's recent move in leveling out the RRRs on banks' RUB-based liabilities raised from foreign banks indicates that the NBU is actively assisting the government in resolving the Naftogaz deficit issue.

## External balance: External shock extended

All of the above is shifting the focus of research on Ukraine's economic external balance towards its energy component, particularly natural gas.

***Our research shows that Ukraine's steel exports have not recovered to the 2008 level, …***

At the same time, Ukraine's economy's famed status as a leading net steel producing exporter at first glance seems it is being neglected. To fix this issue, we provide the following four charts which, first, address the steel exports' performance over the past five-year period; and second, provide extended support to our above-mentioned view that it is the external price shock stemming from a high crude oil price that matters most.

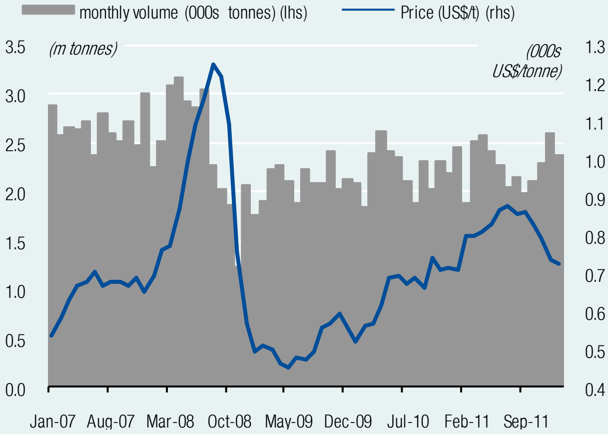
In Chart 40 and Chart 41 on the next page, we depict the average monthly prices for exported steel products and imports hydrocarbons, which include the troika of Ukraine's main fuels of crude oil, petroleum products, and natural gas. Whereas the imported steel price has truly reflected the global economy's demand conditions for commodities in general, the average price of imported hydrocarbons weighted by physical volume of imports of the energy in tonnes of oil equivalent has been rising since 2007 and accelerating since early 2011, as a rising crude oil price has been pushing up the import price for Naftogaz. Due to the heavy share of natural gas in the total imports of hydrocarbons in tonnes of oil equivalent, accounting for a 75% share (Chart 23, pp.31), the weighted-average price tracks the price of natural gas rather than import price of crude oil and petroleum products.

***… while imports of minerals spiked strongly above their 2008 peak in 2011 and early 2012***

A simple rebasement of the above-mentioned prices (Chart 42 below) to indentify their relative performance over the past five-year period shows that the import price on hydrocarbons outperformed the import price of steel by 68%. Then, Chart 43 provides evidence as to how the USD-based value of steel exports underperformed the import value of hydrocarbons; the gap appears quite similar to the previous one indentified for prices. This confirms the key feature of the Ukraine's external balance; its steel (steel exports) is largely market- and economy-driven, which contrasts strikingly with a much more significant element of the external balance of nowadays, energy imports, which are driven by the market for crude oil as well as by complex, non-market-driven factors (inefficiencies in domestic consumption and rigidity in their regulation).

**Chart 40. Monthly exports of steel products: volumes (m tonnes) and average export price (000s US$/tonne)**

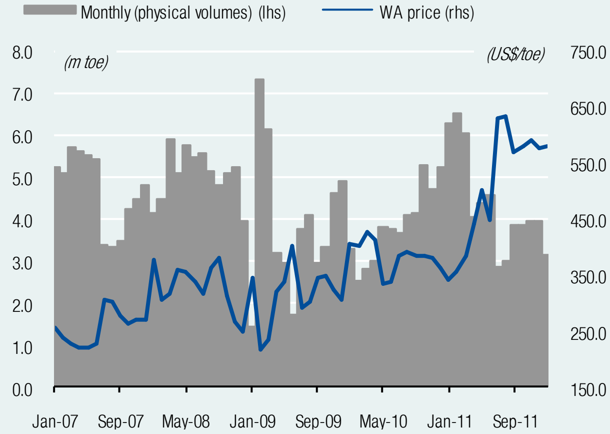
*Five-year history from January 2007 till January 2012*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 41. Monthly imports of hydrocarbons[1]: volumes (m toe[2]) and weighted average import price[3] (US$/toe)**

*Five-year history from January 2007 till January 2012*



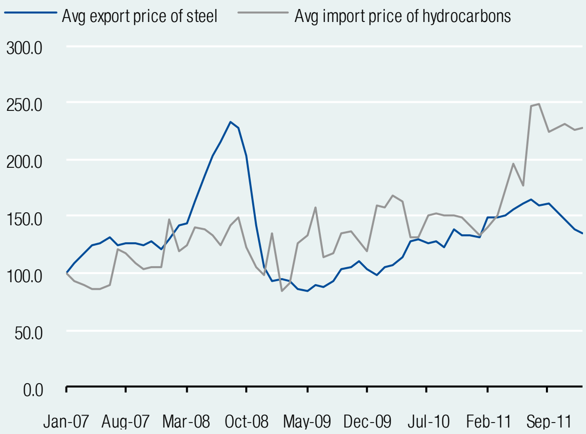

Notes: [1] crude oil, petroleum products and naturals gas (see Chart 23, pp.31); [2] toe – tonnes of oil equivalent, [3] WA price – average price of imported hydrocarbons weighted by physical volume in toe.

Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 42. Monthly average export and import prices on steel products and hydrocarbons,[1] respectively**

*Rebased at 100 points as of January 2007*

*Five-year history from January 2007 till January 2012*

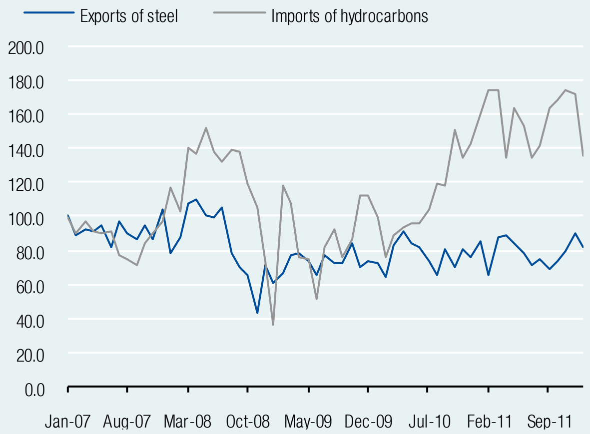



Notes: [1] crude oil, petroleum products and naturals gas (see Chart 23, pp.31).
Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 43. Monthly USD volumes of steel exports and imports of hydrocarbons[1]**

*Rebased at 100 points as of January 2007*

*Five-year history from January 2007 till January 2012*




Notes: [1] crude oil, petroleum products and naturals gas (see Chart 23, pp.31).
Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

***The current agreement on natural gas imports spells out a 33% average price increase in 2012, followed by a 1% rise in 2013 and a 21% drop in 2014***

As natural gas imports constitute a significant part of the imports of hydrocarbons and drive up the trade deficit, a great deal of our forecast on the external balance is based upon projecting the prices and physical volume of imports. The following Chart 44 depicts the dynamics of quarterly price levels that Naftogaz of Ukraine is likely to pay to Gazprom, based on the current agreement between the sides in early 2009 and ICU's base-case scenario on Ukraine's economy prospects in the 2012-14 period. This chart shows that the average annual price for Naftogaz imports this year is set to increase by 33%, to US$436 per 1,000m$^3$ after the previous year's level of US$329, which itself increased by 26% in 2011. Next year, 2013, will be another year of price increases to US$440, although it will be a mere 0.8% increase. Not until 2014, according to our base-case scenario and under the condition that the Naftogaz-Gazprom agreement contains the same formula as now, will there be a decline in price by 21%, to US$349 (see Chart 33, pp.39).

***There are, however, options stemming from the Ukraine-Russia negotiations on this agreement***

In terms of natural gas price projections, the above-mentioned development is one available option at present, and subject to negotiations between Ukraine's and Russia's leadership. The negotiation process has been lengthy, lasting from mid-2010 until now, and set to continue, and there have been no fruitful results as of yet. The new presidential elections in Russia stalled the process for a while, allowing time and space for the sides to formulate their positions for the next round of talks. It is expected that after 7 May, after the inauguration of a newly elected president of Russia, the talks will accelerate.

So far, the following possible price levels of natural gas that have been discussed by the sides are:

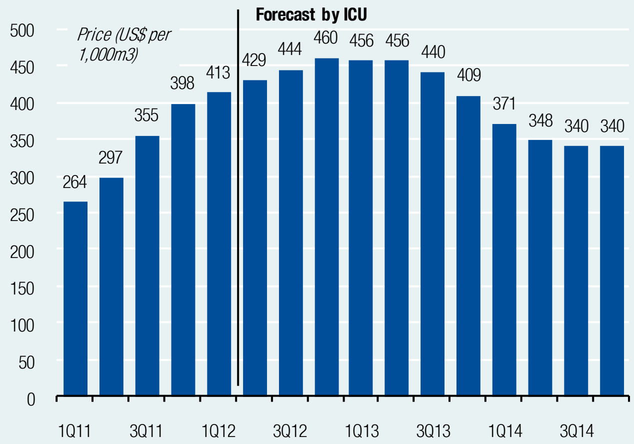
1) a 10% discount to the present price formula (this was voiced as an option by Gazprom, but it did not bring any enthusiasm among Ukraine's authorities, and hence this offer may slip off altogether from the negotiation table, in our view);

2) a total renegotiation of the price formula to provide a US$260 price level (this is the desired outcome voiced by Ukraine's authorities); and finally,

3) no outcome from the talks, meaning no changes to the current agreement.

**Chart 44. Quarterly projection of natural gas price to be paid by Naftogaz of Ukraine under current agreement with Gazprom and upon ICU's base-case macro scenario[1] (US$ per 1,000m3)**

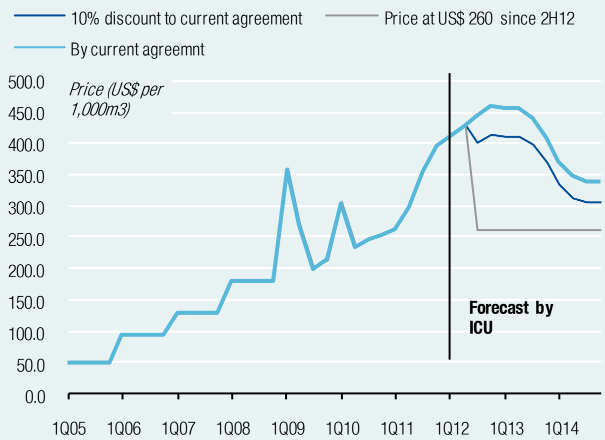
*Quarterly price projections for the period starting from 2Q12 till 4Q14*




Notes: [1] ICU's base-case macro scenario is provided in Table 5, pp.55.
Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

**Chart 45. Three scenarios for quarterly natural gas projections: (1) implied by current agreement, (2) renegotiated to US$260 and (3) a 10% discount agreed (US$ per 1,000m3)**

*History of quarterly prices paid by Naftogaz from 1Q05 till 1Q12.*
*Quarterly price projections for the period starting from 2Q12 till 4Q14*




Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

***Since 2012, the volume of natural gas imports has become a major economic factor,…***

Another significant factor in our projections of the external balance concerns the physical volume of natural gas to be consumed. In 2011, Ukraine's economy (Naftogaz and independent market players) imported 44.8bcm of natural gas. Facing the prospect of a further rising natural gas price, Ukraine authorities began to claim that in 2012, the total volume of imports would amount to 27-30bcm. This looks at first glance as a quite ambitious cut in domestic demand, which could be due to economic recession or recent structural changes in the economy that could result in more efficient consumption of natural gas.

*... likely amounting to import volumes that may be in the 30-44bcm range in 2012*

However, both of these assumptions are of a noble nature; a more practical reason for such a cut (by one-quarter) could be the rationalisation of the natural gas balance[31], which is managed by Naftogaz (read: by authorities). In reality, the volume of imports could be inside this range of 27-44bcm, i.e., between the volume of imports desired by the authorities and 2011's volume.

These three assumptions on the volume of imports are provided in the Table 3 below. For each assumption on the import volumes in 2012-14, there are three price options, which were described above, and are depicted in the same table.

*In our view, the most likely scenario to materialise will be inside the indicated assumptions*

The table provides results showing the ranges of the possible current account balance under extremely negative conditions as well as under moderate and positive ones. The former would unfold if the economy consumes 44bcm in 2012, and under the current agreement, which could remain unchanged as for the price formula or price level, this would eventually result in a current account deficit of US$16.5bn, or 9.2% of GDP, sizably up from 5.4% in 2011.

Another extreme development, which would be highly positive for the economy but only in the short-term, would be when import volumes decline to 30bcm, and prices are renegotiated to US$260. This development would spell out an improvement in the current account deficit to US$4.7bn, or 2.6% of GDP in 2012, down by one-half, from 5.4% in 2011, which would be fully covered by an FDI inflow, projected at 3.9% of GDP in 2012. However, this would come at sizable and potentially politically suicidal costs. To soften the Kremlin to such an extent, Ukraine's authorities would do well to make significant political as well as strategic corporate ownership concessions on swapping a controlling stake in the natural gas pipeline system to the Kremlin for better terms of the natural gas agreement.

**Table 3. Assessment of the current account deficit in 2012-14 under three options as for price level and three options physical volumes of natural gas imports**

| Year | Natural gas imports (bcm) | Natural gas price (US$/1,000m3) | | | Current account[1] balance (US$m) | | | Current account balance[2] (% of GDP) | | | FDI[1] (% of GDP) | C/A balance and FDI[2] (% of GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Option #1 Current price | Option #2 10% discount from 2H12 | Option #3 Price at $260 from 2H12 | Option #1 Current price | Option #2 10% discount from 2H12 | Option #3 Price at $260 from 2H12 | Option #1 Current price | Option #2 10% discount from 2H12 | Option #3 Price at $260 from 2H12 | | Option #1 Current price | Option #2 10% discount from 2H12 | Option #3 Price at $260 from 2H12 |
| **#1: imports of natural gas 2012 remain the same as in 2011 44bcm and then decline to 36bcm in 2014** | | | | | | | | | | | | | | |
| 2012 | **44** | 436.5 | 413.9 | 340.4 | -16,461 | -15,072 | -10,521 | -9.2 | -8.4 | -5.9 | 3.9 | -5.2 | -4.5 | -1.9 |
| 2013 | **40** | 440.1 | 396.1 | 260.0 | -11,611 | -9,407 | -2,708 | -6.0 | -4.8 | -1.4 | 3.7 | -2.3 | -1.1 | +2.3 |
| 2014 | **36** | 349.5 | 314.5 | 260.0 | -5,321 | -3,734 | -1,272 | -2.4 | -1.7 | -0.6 | 3.3 | +0.9 | +1.6 | +2.7 |
| **#2: imports of natural gas in 2012-14 is an average of options #1 and #3** | | | | | | | | | | | | | | |
| 2012 | **37** | 436.5 | 413.9 | 340.4 | -12,581 | -11,414 | -7,587 | -7.0 | -6.4 | -4.2 | 3.9 | -3.1 | -2.4 | -0.3 |
| 2013 | **35** | 440.1 | 396.1 | 260.0 | -8,857 | -6,928 | -1,066 | -4.6 | -3.6 | -0.5 | 3.7 | -0.9 | +0.1 | +3.2 |
| 2014 | **33** | 349.5 | 314.5 | 260.0 | -3,999 | -2,544 | -287 | -1.8 | -1.1 | -0.1 | 3.3 | +1.5 | +2.2 | +3.2 |
| **#3: imports of natural gas 2012-14 cut to 30bcm a year** | | | | | | | | | | | | | | |
| 2012 | **30** | 436.5 | 413.9 | 340.4 | -8,702 | -7,755 | -4,653 | -4.9 | -4.3 | -2.6 | 3.9 | -0.9 | -0.4 | +1.3 |
| 2013 | **30** | 440.1 | 396.1 | 260.0 | -6,102 | -4,449 | 575 | -3.1 | -2.3 | +0.3 | 3.7 | +0.6 | +1.4 | +4.0 |
| 2014 | **30** | 349.5 | 314.5 | 260.0 | -2,676 | -1,354 | 698 | -1.2 | -0.6 | +0.3 | 3.3 | +2.1 | +2.7 | +3.6 |

Notes: [1] projections by ICU, according to our base-case macro scenario; [2] the cells are colored (1) dark red if deficit is more than 2%, (2) light red when deficit is at or lower than 2%, (3) light green if surplus is less than 2% and (4) dark green if surplus is equal or more than 2%.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

[31] For more comment on this aspect, please turn to the footnote 30 on page 38.

***Our base-case scenario assumes a C/A deficit of US$8.7bn or 4.9% of GDP***

Another option, which we have characterised as a moderate one, envisages the view we described in the section, “Naftogaz as a vehicle in supporting the economy,” on page 38. It assumes that Naftogaz would seek to lower its 2012 imports to 30bcm, and its import price would be made under the current natural gas agreement, implying no change to the price formula, with Ukraine’s and Russia’s talks being stalled and their positions, especially in the natural gas sphere, remaining poles apart. Under such conditions, the current account deficit in 2012 would rise to US$8.7bn, or 4.9% of GDP. However, it would be fractionally better than the current account deficit in 2011, which was at US$9.0bn, or 5.4% of GDP. This is, in our view, is our base case scenario.

***Our model for the 2012 balance of payments is based on the above-mentioned scenario on gas imports, …***

The following Table 4, on page 50, provides an extension to the above table, as just three scenarios on import volumes and import prices are used to model the shape of the balance of payments in 2012. The worst-case scenario assumes that there is no change in the price formula and import volume, at nearly the same level as in 2011 (44bcm). The best-case scenario assumes a 30bcm volume of natural gas imports and price being renegotiated to US$260 and going into effect from 2H12. The base-scenario is in a fact a mixture of the above-mentioned scenarios, as it lies on the assumption of a 30bcm volume of imports and import price remaining unchanged.

Then, the table was constructed on the following data and assumptions with regard to external debt rollover ratios:

- **Current account balances.** We used the data on the 2012 current account balance in USD terms from Table 3 on page 46.

***… taking into account the external debt due this year as of end 2011, …***

- **External debt due in 2012.** We used the central bank’s data for short-term debt due in the next 12 months, which amounts to US$56.8bn as of end 2011. Then, we applied the available data on outstanding Eurobonds and loans from VTB and the IMF provided to Ukraine’s government and the central bank (for more details on this data, please see Schedule of external public debt due in 2012-14,” pp. 70) to differentiate them from other debt, information on which in many cases is not publicly available, and assigned to them a specific level of rollover ratios (see next point).
- **Foreign direct investments.** In our view, the inflow of FDI this year is going to be supported by ongoing, large-scale privatization. While most likely, the ultimate owners of the state-owned enterprises are local private sector businesses, who are buying the assets via offshore companies that effectively bring capital into the economy. Ukraine’s authorities showed a reasonable level of willingness to carry out a wide privatization programme this year. In 2011, only one sizable privatization case took place when Ukrtelecom, the fixed-line telecommunication company, was sold, and from which total privatisation proceeds for the year amounted to UAH11.5bn. In 2012, the government is set to extend its privatisation further, with plans to raise UAH12bn. In January-February of 2012, privatisation proceeds going into state coffers amounted to UAH2.7bn, up from UAH0.04bn in the same period of 2011. The pipeline of assets to be likely privatised includes power generation and distribution companies (Dniproenergo), chemicals companies (Odesa OPZ, with a unofficial price tag desired by the government of UAH5-7bn), natural gas regional distribution companies, as well as railroad enterprises. The build-up in the pipeline of assets that could be privatised this year indicates that the 2012 plan for privatistion proceeds will be fulfilled with an excess margin. In total, with private sector inflows of FDI, as well as the inflows associated with privatisation, in our view, the FDI inflow will reach US$7.1bn in 2012.
- **Rollover ratios.** These rollover ratios are subject to our judgment of the ability of the borrower to refinance the debt. To the parts of external debt owed by different sectors

of the economy (government, central bank, banks, and corporations) which are classified as other debt, we assigned the rollover ratios that are derived from the central bank's balance of payments historical data, and adjusted them to our own realisation of future developments and capability of the certain sectors to borrow from abroad.

***… assumes a range of external debt rollover ratios for the MoF, NBU, banks, and the non-banking sector***

For instance, for IMF loans, there is a rollover ratio of 0%, indicating our view that there is slim chance that the IMF programme could be removed from the current deadlock in 2012. Hence, both the government and central bank have 0% rollover ratios for their respective parts of IMF loans due this year.

As for the US$2bn loan from VTB obtained by Ukraine's government, we think that it will be refinanced. Likely, it would not be a pure refinancing, i.e., Ukraine's government would raise new money from the markets to redeem the loan to VTB Bank. In the past, there have been discussions between the government and VTB in 2011 on repackaging the loan into a long-term tradable security, with the loan approaching maturity in June 2012. There is, however, the risk that if Ukraine-Russia natural gas negotiations, which in fact encompass much broader issues, from the financial sector to the energy sector and to agriculture, turn sour, then Russia may in the extreme demand the outright maturity of the loan this June. But, this development is not our base-case scenario; hence, we assign a 100% rollover ratio to this debt.

As for the US$0.5bn Eurobond bond due this June, in our view, Ukraine's government will struggle to place the new Eurobond at a yield level of the secondary market, for Ukraine's outstanding sovereign debt is prohibitively high. However, the government would seek an opportunity to place the bond if market conditions are right. Hence, we assigned a 300% rollover ratio for this debt, implying that this year, the MoF will issue a US$1.5bn Eurobond, according to our base-case scenario.

In our view, banks will redeem all the Eurobonds due this year, as secondary market yields remain elevated, and the market perception of Ukraine's banks as a highly risky borrower would keep new bank Eurobond issues at bay. Hence, our rollover ratio here is set 0%.

As for banks' other debt, which is comprised of the majority of intragroup lending facilitated by parent banks to their daughter entities in Ukraine, we adjusted the historical average rollover rate for banks up from 58%, an extremely low level, in our view, by 38%, to 80%. This is a more realistic rollover ratio, in our view, as the first massive wave of EU banks deleveraging out of Ukraine took place in 2011. They will continue deleveraging in 2012-onwards, but at a slower pace.

As for corporations, we assign an average roll-over ratio of 110%, calculated from central bank data on the balance of payments, and given our conservative view on the ability of corporations to raise debt abroad. There is a small fraction of Eurobond debt (US$225m) due this year and issued by Ukraine corporations (KyivStar and GNG Finance), but it was redeemed or bought out from the market by shareholders. Hence, we assigned a 0% rollover ratio to this debt. We also think that new Eurobond issues by Ukrainian corporations will be postponed beyond 2012, due to unfavourable market conditions as for Ukraine borrowers.

- **Euro-2012 and parliamentary adjustments.** This year, two events—the Euro 2012 and the parliamentary elections—are likely to attract inflows of capital from abroad. In our view, football fans will bring in US$1bn of cash, and political parties would spend about US$1.5bn in onshore campaigning of their backers' money held offshore. Hence, we adjusted the rollover ratio as for corporations' debt from other lenders from 110% to 121%, to account for the inflow of funds for political campaigning. We also adjusted the volume of demand for hard currency by local holders by US$1bn to account for the effect of Euro-2012.

***The BoP model for 2012 yields diverse results under the three scenarios indicated above***

The results of our modeling of the 2012 balance of payments show that under one (negative) extreme scenario of continuing to import 44bcm of natural gas in 2012 and paying the import price under the current agreement, there could be a US$14.3bn wipeout of FX reserves. Under another (positive) extreme scenario—when imports of natural gas are kept at 30bcm and prices are being renegotiated with the Kremlin down to US$260, effective as of 2H12—there could be a US$2.5bn drain on FX reserves, all other things being equal. Actual developments, however, may be skewed into inside of the range, with the above-mentioned boundaries.

***Our base-case scenario projections yield a US$6.6bn BoP deficit***

In our view, the most likely scenario as for the outcome of natural gas talks between Ukraine and Russia will be the following: a bilateral partnership between the sides is gradually evolving, with Ukraine and Russia still struggling to find a common resolve as for the new terms. This would leave the price formula unchanged, while Ukraine will lower its annual volume of imports to 30bcm in 2012. This would result in a US$8.7bn current account deficit and a US$6.6bn deficit of the overall balance of payments this year.

## Table 4. Assessment of the balance of payments in 2012 (US$m) from the perspective of current account size and capital account debt flows

Under three scenarios: price as implied by the current agreement with Gazprom, price of US$260 desired by Ukraine, and physical volumes of natural gas imports (see Table 3, pp. 46)

| | **Worst-case** scenario Natural gas imports **44bcm, current price** | **Base-case** scenario Natural gas imports **30bcm, current price** | **Best-case** scenario Natural gas imports **30bcm, $260 from 2H12** | **Rollover ratios** | **Comment** |
|---|---|---|---|---|---|
| **Current account balance** | **-16,461** | **-8,702** | **-4,653** | | |
| Short-term debt due next 12-month period by | -56,799 | -56,799 | -56,799 | | |
| **Government** | | | | | |
| Official lenders (IMF) | -774 | -774 | -774 | 0% | ICU assumption |
| Russian banks (VTB) | -2,000 | -2,000 | -2,000 | 100% | ICU assumption |
| Eurobonds | -500 | -500 | -500 | 300% | ICU assumption |
| Other lenders | -1,348 | -1,348 | -1,348 | 100% | All-time avg roll-over ratio for authorities (BoP monthly data) |
| **Central bank** | | | | | |
| Official lenders (IMF) | -2,676 | -2,676 | -2,676 | 0% | ICU assumption |
| Other lenders | -15 | -15 | -15 | 0% | ICU assumption |
| **Banks** | | | | | |
| Eurobonds | -1,106 | -1,106 | -1,106 | 0% | ICU assumption |
| Other lenders | -11,796 | -11,796 | -11,796 | 80% | All-time avg roll-over ratio for banks (BoP monthly data) adjusted up by 38% |
| **Corporations** | | | | | |
| Eurobonds | -225 | -225 | -225 | 0% | ICU assumption |
| Loans | -10,691 | -10,691 | -10,691 | 110% | All-time avg roll-over ratio for corporations (BoP monthly data) |
| Trade loans | -17,579 | -17,579 | -17,579 | 110% | The same as bove |
| Other lenders | -8,089 | -8,089 | -8,089 | 121% | The same as bove net of inflow of election money (~US$1.5bn) |
| Demand for currency by local savers | -3,249 | -3,249 | -3,249 | | All-time avg (BoP monthly data) net of inflow of Euro-2012 fans' money (~US$1bn) |
| **Total financing needs** | **-76,508** | **-68,750** | **-64,700** | | |
| FDI, inflows | 7,052 | 7,052 | 7,052 | | ICU forecast for the period |
| **Borrowings** | | | | | |
| Government | 4,848 | 4,848 | 4,848 | | ICU calculations based on debt due this year and roll-over ratios |
| Central bank | 0 | 0 | 0 | | ICU calculations based on debt due this year and roll-over ratios |
| Banks | 9,378 | 9,378 | 9,378 | | ICU calculations based on debt due this year and roll-over ratios |
| Corporations | 40,894 | 40,894 | 40,894 | | ICU calculations based on debt due this year and roll-over ratios |
| **Total financing** | **62,172** | **62,172** | **62,172** | | |
| **Addition to (use of) FX reserves** | **-14,336** | **-6,577** | **-2,528** | | |

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

# UAH: Our view on the currency

Our view on the Ukrainian currency hryvnia (UAH) is based on the following factors:

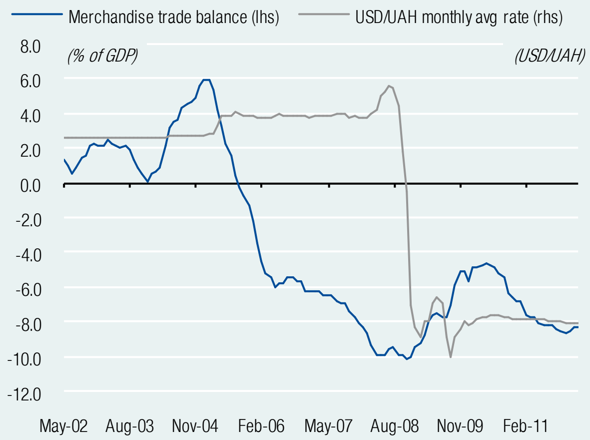
***The market's and public's trust to the pegged FX regime have worn thin***

- **FX market still acting as shock generator, not absorber.** Ukraine's domestic foreign-exchange market has long been wary of economic policymaking by the authorities, which is usually (now and in recent history) subject to a political purpose. Populism, ineffective communications between authorities and markets, and lack of will to follow through with reforms have created an enduring legacy that yields little trust to the basic pillars of economic policymaking by the authorities. In particular, market and public trust in one of the current cornerstones of policy—an exchange rate of a nominally stable USD/UAH rate at roughly 8/USD—has slimmed down. Merchandise trade statistics—showing a widening deficit over 2011 and early 2012, which is 2ppt short of the 2008 pre-crisis peak of 10% of GDP—spawned current expectations among the market players and investors of an imminent break-up of the *de-facto* USD peg. The latter, in other words the authorities' determination to defend the peg, has been quite rigid, creating the risk that market pressure on the FX rate to correct would overshoot the adjustment of the rate. Hence, this has created conditions, in our view, for the FX market, instead of acting as an external shock absorber, becoming a shock creator, with the subsequent impact of a devalued currency on inflation, consumer demand, as well as non-exporting businesses' ability to invest in imported capital goods.

  This factor helps maintain our view on the UAH's market value as wary of downside risk, which has been fostered by a lengthy record of poor economic policymaking in Ukraine.

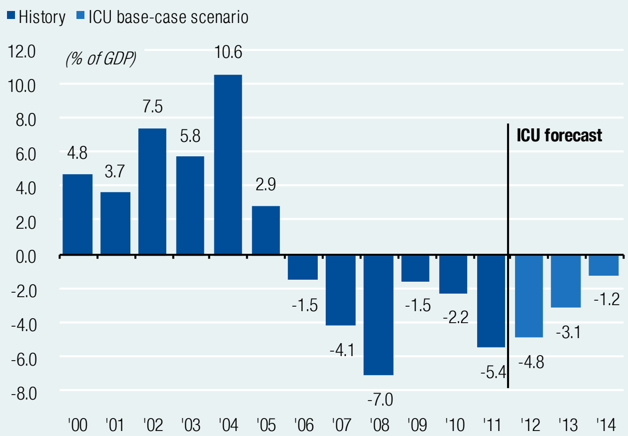
**Chart 46. USD/UAH market rate and trade balance (% of GDP)**

*Trade balance data is based upon the last 12-month period volumes. History since May 2002 till January 2012*




Sources: State Statistics Committee of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

**Chart 47. Current account balance in 2000-11 and 2012-14 forecast by ICU (% of GDP)**




Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

***The C/A deficits of 2011 and estimated for 2012 are spelling weakness for the UAH***

- **External balance, gapping in the red, would spell a weaker currency.** If Ukraine's FX market could function (or rather would be allowed to function efficiently by authorities) with a proven record of flexibility, then every subsequent rise in domestic demand (read: imports into Ukraine) over external demand (read: exports from Ukraine) would be adjusted by the FX market with available capital flows on a daily basis. The reality proves otherwise – the FX market did little to correct the exchange rate while merchandise trade statistics reported a rising deficit over the course of 2011 (see Chart 46). The latest statistical data show that the economy is running a current account deficit of 5.3% of GDP in the last 12 month through February, down 0.1ppt from year-end 2011. Under our base-case macro scenario and our call on the natural gas talks outcome (the current price level remains intact, while volume of imports is lower), the economy will face a 4.8% of GDP C/A deficit in 2012, which is projected to slow to 3.1% and 1.2% in the subsequent two years (see Chart 47 and the previous section, “External balance: External shock extended,” pp.43-50, for more details). Hence, this year’s expected C/A deficit by size is quite far from that of 2008 (7.0% of GDP), when crisis hit the economy, and the authorities decided that the FX market would devalue the currency, and, broadly speaking, that the USD/UAH rate should adjust in order to correct domestic demand and boost exports.

***By nature, the C/A deficits of 2011-12 are due to the external price shock stemming from natural gas imports, …***

- **Today, the trade deficit is due to a strong external price shock, …** In this report, we showed that the current gapping trade deficit is quite different from the previous spike in the trade gap in 2008 (see “Today’s characteristics of domestic demand,” on pp.25). Today’s trade deficit, which has lasted since early 2011, is characterised by subdued domestic demand and a sizable rise in the value of imported energy, mostly due to natural gas imports. The previous deficit was the result of a twin-boom in consumer demand and energy demand. Today, an ex-minerals trade in goods is running a US$6bn surplus on a LTM basis since early 2010. Hence, a record spike in the minerals trade deficit up to US$19.5bn (in 2008, it was at one time at hair below US$19bn) is a result of today’s trade deficit.

***… which have been absorbed by state-run Naftogaz***

- **… which is due to natural gas imports by state-run Naftogaz.** This trade deficit, as our research shows, is being handled by Naftogaz of Ukraine, which intermediates between natural gas supply and demand, where one-half of supply is from imports, and domestic consumption, where tariffs for end consumers are regulated by government, and where households are paying a penny-low tariff account for a key consumer group. Hence, the external gap mirrors Naftogaz’s chronic deficits and domestic natural gas consumption, which has low efficiency and has become a kind of political liability for authorities to maintain the status quo. That is why the IMF programme has been stalled, and the current political cycle does not allow the authorities to change the tariff policy for Naftogaz’s good: if in theory, the UAH would have devalued, then Naftogaz deficit’s would increase, because the key price shock absorber is Naftogaz, which does not pass through the price hikes to its consumers, in particular, its largest group, the households, which paid US$60 per 1,000m$^3$ in December.

***Politics put a great weight on the Naftogaz deficit adjustment by lowering the natural gas import bill***

That is why the prime task of the authorities, who face parliamentary elections later this year, was to adjust the external deficit via gaining better pricing terms with the Kremlin (which has so far showed little wiliness to concede), as well as by rationalisation of the domestic energy balance of natural gas, to lower the imports volume from 44.8bcm in 2011 to 30bcm in 2012, as claimed by top government officials. Chart 47 on page 51 shows that if Ukraine’s official target of 30bcm of imports of natural gas is achieved, the economy is projected to have an improved current account deficit of 4.5% of GDP, which is lower than the 5.4% seen in 2011, and a minor loss of FX reserves (of US$3bn).

Both viewpoints discussed above lead us to believe that a sizable adjustment of the USD/UAH rate is undesirable by authorities due to the upcoming elections, and what is more important, because a new, sizable devaluation of the exchange rate would make

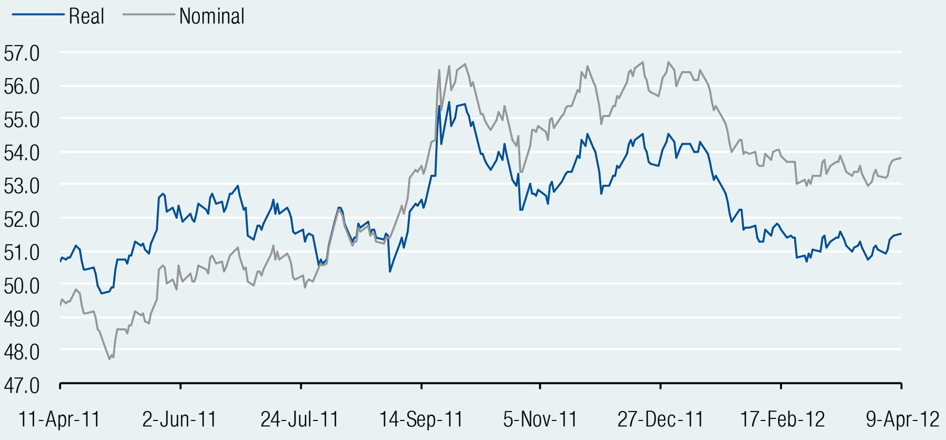
Naftogaz's internal deficits larger, putting more strain on state-owned banks and the government to finance them.

***By the ICU's real trade-weighted index, the UAH does not look overvalued versus the currencies of its main trading partners***

- **Hryvnia's trade-weighted value is not a reason for concern.** A reasonable part of our view on the currency is formed by ICU's proprietary, trade-weighted indices (nominal and real), which track the currency's value versus the basket of 27 countries, incorporating their currencies' exchange rates with the US dollar value and their headline inflation levels. These indices do not capture trade imbalances directly; however, they do capture a growing size of bilateral trade between, say, Ukraine and Russia, relative to the overall size of Ukraine's external trade.

  The chart below depicts the performance of the indices from early March 2011 until now. The UAH's real, trade-weighted index, which is our preferred measurement, as it captures relative price levels, currently stands at a hair below 51 points, which is roughly the same level as in the beginning of the observed period. This lowered index is a result of a strong rally in the EM currencies, particularly in Russian ruble, as well as the euro, which took place over the course of 1Q12. This allowed the index to devalue since the peak levels seen in early fall as well as in December of 2011. In our view, the current, low level of the index suggests that fundamentally (in relative terms), the Ukrainian currency is not characterised by strength, but rather, weakness, as far as the past period of last one-year is concerned. The future path of the real index depends on several factors, including the exchange-rate movements of Russian ruble and euro. If the US dollar increases versus these two currencies, for instance, on the back of more hawkish rhetoric by the Fed relative to the ECB, then the UAH's real TWI would rise more profoundly than in recent few days, and may even reach the last 12-month high of 55 points. But only then would this lay the ground for concern about the UAH's fundamental strength.

**Chart 48. ICU's trade-weighted indices of the hryvnia (nominal and real)**
History since 11 April 2011 till 10 April 2012




Source: Investment Capital Ukraine LLC.

***In our view, a managed weakness of the currency will be allowed in 2013***

- **Balance of payments details.** Our base-case projection of the balance of payments for 2012, albeit quite conservative in terms of rollover ratios, yields a US$6.6bn deficit, i.e., downward pressure on FX reserves. Authorities are likely to suffer this loss of FX reserves in this year of elections. Hence, the market and public trust in the current FX regime would decline further. After elections, authorities would face growing pressure to progress on the broad economic agenda, including resumption of IMF lending. This would result in more (but still managed) flexibility allowed by authorities in the FX market, which would push the UAH into lower territory versus the USD first. Later on, as the C/A account would decline under our base-case assumption in 2013-14, the greater flexibility in the FX market would play in favour of the UAH, as a stronger currency would be welcome by authorities. Hence, we project the USD/UAH at 8.10 at the end of 2012, then followed by 8.50 and 8.20 as of year-end 2013 and 2014, respectively.

# Yearly forecast for 2012-14, base-case scenario

**Table 5. Forecast of key macroeconomic indicators for 2012-14 (annual)**

| | Historical data for 2002-11 | | | | | | | | | | Forecast by ICU | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012F | 2013F | 2014F |
| **Activity** | | | | | | | | | | | | | |
| Real GDP (%YoY) | 5.2 | 9.6 | 12.1 | 2.7 | 7.3 | 7.9 | 2.3 | -14.8 | 4.2 | 5.1 | **3.5** | **4.6** | **5.7** |
| Nominal GDP (UAHbn) | 226 | 267 | 345 | 441 | 544 | 721 | 948 | 913 | 1,083 | 1,327 | **1,446** | **1,658** | **1,878** |
| Nominal GDP (US$bn) | 42 | 50 | 65 | 87 | 108 | 143 | 184 | 114 | 136 | 166 | **179** | **197** | **227** |
| GDP per capita (US$, ann) | 874 | 1,044 | 1,371 | 1,850 | 2,319 | 3,091 | 3,982 | 2,474 | 2,977 | 3,643 | **3,942** | **4,324** | **5,008** |
| Unemployment rate (%) | 9.6 | 9.1 | 8.6 | 7.2 | 6.2 | 6.4 | 6.4 | 8.8 | 8.1 | 8.2 | **8.1** | **8.0** | **7.8** |
| **Prices** | | | | | | | | | | | | | |
| CPI headline (%YoY, eop) | -0.6 | 8.2 | 12.3 | 10.3 | 11.6 | 16.6 | 22.3 | 12.3 | 9.1 | 4.6 | **6.8** | **8.7** | **5.4** |
| CPI headline (%YoY, average) | 0.8 | 5.2 | 9.0 | 13.6 | 9.1 | 12.8 | 25.3 | 16.0 | 9.4 | 8.0 | **3.2** | **9.4** | **6.3** |
| PPI (%YoY, eop) | 5.8 | 11.2 | 24.3 | 9.6 | 15.4 | 23.2 | 21.1 | 15.3 | 18.8 | 17.4 | **9.4** | **9.4** | **7.4** |
| PPI (%YoY, average) | 3.1 | 7.8 | 20.3 | 17.0 | 9.6 | 20.5 | 33.6 | 7.4 | 21.4 | 19.9 | **6.9** | **10.3** | **8.3** |
| **Fiscal balance** | | | | | | | | | | | | | |
| Consolidated budget bal. (UAHbn) | 1.7 | -0.5 | -11.8 | -7.7 | -3.7 | -7.7 | -24.9 | -67.5 | -63.3 | -18.3 | **-36.3** | **-41.7** | **-47.2** |
| Consolidated budget bal. (% of GDP) | 0.8 | -0.2 | -3.4 | -1.7 | -0.7 | -1.1 | -2.6 | -7.4 | -5.9 | -1.4 | **-2.5** | **-2.5** | **-2.5** |
| Budget balance (UAHbn) | 1.2 | -1.0 | -10.2 | -7.9 | -3.8 | -9.8 | -12.5 | -32.7 | -63.0 | -11.0 | **-28.5** | **-32.7** | **-37.1** |
| Budget balance (% of GDP) | 0.5 | -0.4 | -3.0 | -1.8 | -0.7 | -1.4 | -1.3 | -3.6 | -5.8 | -0.8 | **-2.0** | **-2.0** | **-2.0** |
| **External balance** | | | | | | | | | | | | | |
| Exports (US$bn) | 23.4 | 29.0 | 41.3 | 44.4 | 50.2 | 64.0 | 85.6 | 54.3 | 69.3 | 88.8 | **89.7** | **96.2** | **101.7** |
| Imports (US$bn) | 21.5 | 27.7 | 36.3 | 43.7 | 53.3 | 71.9 | 100.1 | 56.2 | 73.2 | 97.8 | **98.2** | **102.0** | **104.0** |
| Trade balance (US$bn) | 1.9 | 1.3 | 5.0 | 0.7 | -3.1 | -7.9 | -14.5 | -2.0 | -4.0 | -8.9 | **-8.5** | **-5.8** | **-2.2** |
| Trade balance (% of GDP) | 4.4 | 2.6 | 7.7 | 0.8 | -2.8 | -5.5 | -7.9 | -1.7 | -2.9 | -5.4 | **-4.7** | **-2.9** | **-1.0** |
| Current account balance (US$bn) | 3.2 | 2.9 | 6.9 | 2.5 | -1.6 | -5.9 | -12.9 | -1.7 | -3.0 | -9.0 | **-8.7** | **-6.1** | **-2.7** |
| Current account balance (% of GDP) | 7.5 | 5.8 | 10.6 | 2.9 | -1.5 | -4.1 | -7.0 | -1.5 | -2.2 | -5.4 | **-4.9** | **-3.1** | **-1.2** |
| Net FDI (US$bn) | 0.7 | 1.4 | 1.7 | 7.5 | 5.7 | 9.2 | 9.7 | 4.7 | 5.8 | 7.0 | **7.1** | **7.2** | **7.4** |
| Net FDI (% of GDP) | 1.6 | 2.8 | 2.6 | 8.7 | 5.3 | 6.4 | 5.3 | 4.1 | 4.2 | 4.2 | **3.9** | **3.7** | **3.2** |
| C/A bal. + net FDI (% of GDP) | 9.1 | 8.6 | 13.3 | 11.6 | 3.8 | 2.3 | -1.8 | 2.6 | 2.0 | -1.2 | **-0.9** | **0.6** | **2.1** |
| External debt (US$bn, eop) | N/A | 23.8 | 30.6 | 39.6 | 54.5 | 80.0 | 101.7 | 103.4 | 117.3 | 126.2 | **127.0** | **127.8** | **128.8** |
| External debt (% of ann'd GDP, eop) | N/A | 47.5 | 47.2 | 45.6 | 50.4 | 55.8 | 55.3 | 90.9 | 86.1 | 75.9 | **70.5** | **64.9** | **56.5** |
| FX reserves (US$bn, eop) | 4.2 | 6.9 | 9.5 | 19.4 | 22.3 | 32.5 | 31.5 | 26.5 | 34.6 | 32.8 | **25.2** | **27.2** | **29.2** |
| FX reserves (% of ann'd GDP, eop) | 10.0 | 13.8 | 14.7 | 22.3 | 20.6 | 22.6 | 17.2 | 23.3 | 25.4 | 19.7 | **14.0** | **13.8** | **12.8** |
| External debt / FX reserves (x, eop) | N/A | 3.4 | 3.2 | 2.0 | 2.4 | 2.5 | 3.2 | 3.9 | 3.4 | 3.9 | **5.0** | **4.7** | **4.4** |
| FX reserves imports cov (months) | 2.8 | 3.6 | 3.8 | 6.4 | 6.1 | 6.4 | 4.5 | 7.1 | 6.8 | 4.7 | **3.1** | **3.2** | **3.4** |
| **Interest rates** | | | | | | | | | | | | | |
| Central bank key rate (%, eop) | 7.00 | 7.00 | 9.00 | 9.50 | 8.50 | 8.00 | 12.00 | 10.25 | 7.75 | 7.75 | **7.25** | **7.00** | **7.00** |
| 3-month rate (%, eop 4Q) | N/A | 17.91 | 15.03 | 11.46 | 9.90 | 7.58 | 21.60 | 17.59 | 6.12 | 19.72 | **8.00** | **8.00** | **8.00** |
| **Exchange rates** | | | | | | | | | | | | | |
| UAH trade-weighted index (nominal) | 77.64 | 66.81 | 67.19 | 77.84 | 70.90 | 64.93 | 45.89 | 46.09 | 53.28 | 56.87 | **52.95** | **49.81** | **51.63** |
| UAH trade-weighted index (real) | 70.35 | 67.17 | 70.39 | 80.94 | 74.89 | 70.21 | 52.42 | 49.11 | 54.76 | 54.70 | **53.75** | **51.52** | **51.52** |
| UAH/US$ (eop) | 5.33 | 5.33 | 5.31 | 5.05 | 5.05 | 5.05 | 7.80 | 8.00 | 7.97 | 8.00 | **8.10** | **8.50** | **8.20** |
| UAH/US$ (average) | 5.33 | 5.33 | 5.32 | 5.10 | 5.03 | 5.03 | 5.25 | 8.03 | 7.95 | 8.03 | **8.06** | **8.43** | **8.28** |
| UAH/€ (eop) | 4.75 | 5.60 | 6.71 | 7.20 | 5.97 | 6.66 | 7.36 | 10.90 | 11.45 | 10.66 | **10.13** | **11.05** | **10.66** |
| UAH/€ (average) | 5.04 | 6.04 | 6.62 | 6.35 | 6.32 | 6.89 | 7.67 | 11.19 | 10.54 | 10.51 | **10.43** | **10.43** | **10.76** |
| US$/€ (eop) | 1.05 | 1.26 | 1.36 | 1.18 | 1.32 | 1.46 | 1.40 | 1.43 | 1.34 | 1.30 | **1.25** | **1.30** | **1.30** |
| US$/€ (average) | 0.95 | 1.13 | 1.24 | 1.24 | 1.26 | 1.37 | 1.47 | 1.39 | 1.33 | 1.31 | **1.30** | **1.24** | **1.30** |
| **Population** | | | | | | | | | | | | | |
| Population (million, eop) | 48.5 | 48.0 | 47.3 | 47.0 | 46.6 | 46.4 | 46.1 | 46.0 | 45.8 | 45.6 | **45.5** | **45.4** | **45.4** |
| Population (%YoY) | -1.0 | -0.9 | -1.4 | -0.8 | -0.7 | -0.6 | -0.5 | -0.4 | -0.4 | -0.3 | **-0.3** | **-0.1** | **-0.1** |

Notes: eop – end of period; cov. – coverage; con'd – consolidated; ann – annualised.
Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, Investment Capital Ukraine LLC.

# Quarterly forecast for 2012-14, base-case scenario

**Table 6. Forecast of key macroeconomic indicators for 2012-14 (quarterly)**

| | | Quarterly forecast by ICU | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **4Q11** | **1Q12E** | **2Q12F** | **3Q12F** | **4Q12F** | **1Q13F** | **2Q13F** | **3Q13F** | **4Q13F** | **1Q14F** | **2Q14F** | **3Q14F** | **4Q14F** |
| **Activity** | | | | | | | | | | | | | |
| Real GDP (%YoY) | 4.6 | 2.0 | 2.0 | 5.0 | 5.0 | 4.0 | 4.5 | 5.0 | 5.0 | 5.0 | 6.0 | 6.0 | 6.0 |
| Nominal GDP (UAHbn) | 359.3 | 284.4 | 334.6 | 425.7 | 401.3 | 324.2 | 384.1 | 490.5 | 459.7 | 368.2 | 436.3 | 555.3 | 518.4 |
| Nominal GDP (US$bn) | 44.9 | 35.5 | 41.6 | 52.9 | 49.5 | 39.5 | 45.2 | 57.7 | 54.1 | 43.3 | 53.2 | 67.7 | 63.2 |
| GDP per capita (US$, ann) | 3,640 | 3,693 | 3,736 | 3,834 | 3,939 | 4,030 | 4,111 | 4,218 | 4,319 | 4,403 | 4,580 | 4,801 | 5,003 |
| Unemployment rate (%) | 8.2 | 8.4 | 8.7 | 8.2 | 8.1 | 8.0 | 8.0 | 8.0 | 8.0 | 7.8 | 7.8 | 7.8 | 7.8 |
| **Prices** | | | | | | | | | | | | | |
| CPI headline (%YoY, eop) | 4.6 | 2.1 | 1.1 | 3.8 | 6.8 | 9.3 | 9.8 | 9.6 | 8.7 | 7.1 | 6.1 | 5.7 | 5.4 |
| CPI headline (%YoY, average) | 5.0 | 2.9 | 1.1 | 3.0 | 5.8 | 8.6 | 10.0 | 9.7 | 9.1 | 7.6 | 6.2 | 6.0 | 5.5 |
| PPI (%YoY, eop) | 17.4 | 0.0 | 5.7 | 5.9 | 9.4 | 10.7 | 9.9 | 10.2 | 9.4 | 8.9 | 8.4 | 7.9 | 7.4 |
| PPI (%YoY, average) | 19.2 | 8.5 | 5.9 | 6.1 | 7.2 | 10.9 | 10.2 | 10.3 | 9.7 | 9.1 | 8.6 | 8.1 | 7.6 |
| **Fiscal balance** | | | | | | | | | | | | | |
| Consolidated budget bal. (UAHbn) | -18.1 | -1.9 | -11.1 | 7.6 | -31.0 | -2.8 | -12.6 | 9.4 | -35.7 | -2.9 | -13.8 | 10.6 | -41.0 |
| Consolidated budget bal. (% of GDP) | -5.0 | -0.7 | -3.3 | 1.8 | -7.7 | -0.9 | -3.3 | 1.9 | -7.8 | -0.8 | -3.2 | 1.9 | -7.9 |
| Budget balance (UAHbn) | -13.5 | -1.7 | -8.8 | 5.5 | -24.3 | -2.5 | -10.1 | 6.9 | -28.0 | -2.6 | -11.1 | 7.7 | -32.2 |
| Budget balance (% of GDP) | -3.8 | -0.6 | -2.6 | 1.3 | -6.1 | -0.8 | -2.6 | 1.4 | -6.1 | -0.7 | -2.5 | 1.4 | -6.2 |
| **External balance** | | | | | | | | | | | | | |
| Exports (US$bn) | 23.5 | 21.1 | 22.2 | 22.6 | 23.9 | 23.0 | 23.8 | 24.0 | 25.4 | 24.4 | 24.9 | 25.2 | 27.2 |
| Imports (US$bn) | 27.1 | 22.9 | 23.0 | 24.6 | 27.7 | 25.0 | 24.4 | 25.1 | 27.4 | 25.4 | 25.1 | 25.6 | 27.9 |
| Trade balance (US$bn) | -3.6 | -1.9 | -0.8 | -2.0 | -3.8 | -2.1 | -0.6 | -1.1 | -2.0 | -1.0 | -0.2 | -0.4 | -0.7 |
| Trade balance (% of GDP) | -7.9 | -5.2 | -2.0 | -3.8 | -7.6 | -5.2 | -1.4 | -1.9 | -3.7 | -2.3 | -0.4 | -0.5 | -1.1 |
| Current account balance (US$bn) | -4.0 | -1.5 | -1.1 | -2.1 | -4.1 | -1.9 | -0.8 | -1.2 | -2.2 | -1.0 | -0.4 | -0.5 | -0.9 |
| Current account balance (% of GDP) | -8.9 | -4.2 | -2.6 | -3.9 | -8.2 | -4.8 | -1.8 | -2.0 | -4.1 | -2.2 | -0.7 | -0.7 | -1.4 |
| Net FDI (US$bn) | 1.6 | 1.4 | 2.0 | 1.9 | 1.8 | 1.6 | 1.9 | 1.8 | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 |
| Net FDI (% of GDP) | 3.6 | 3.9 | 4.7 | 3.6 | 3.6 | 4.1 | 4.1 | 3.2 | 3.4 | 4.1 | 3.5 | 2.7 | 3.0 |
| C/A bal. + net FDI (% of GDP) | -5.3 | -0.3 | 2.1 | -0.3 | -4.6 | -0.7 | 2.3 | 1.2 | -0.7 | 1.9 | 2.8 | 2.0 | 1.6 |
| External debt (US$bn, eop) | 126.2 | 128.7 | 126.2 | 127.0 | 126.9 | 125.9 | 126.0 | 127.8 | 127.8 | 128.6 | 127.0 | 128.8 | 128.7 |
| External debt (% of ann'd GDP, eop) | 75.9 | 75.2 | 72.0 | 70.5 | 68.9 | 67.1 | 65.5 | 64.9 | 63.6 | 61.6 | 58.1 | 56.5 | 75.2 |
| FX reserves (US$bn, eop) | 32.8 | 29.4 | 27.7 | 25.2 | 25.7 | 26.2 | 26.7 | 27.2 | 27.7 | 28.2 | 28.7 | 29.2 | 29.4 |
| FX reserves (% of ann'd GDP, eop) | 19.7 | 17.2 | 15.8 | 14.0 | 14.0 | 14.0 | 13.9 | 13.8 | 13.8 | 13.5 | 13.1 | 12.8 | 17.2 |
| External debt / FX reserves (x, eop) | 3.9 | 4.4 | 4.5 | 5.0 | 4.9 | 4.8 | 4.7 | 4.7 | 4.6 | 4.6 | 4.4 | 4.4 | 4.4 |
| FX reserves imports cov (months) | 4.7 | 3.6 | 3.4 | 3.1 | 3.1 | 3.1 | 3.1 | 3.2 | 3.3 | 3.3 | 3.3 | 3.4 | 3.6 |
| **Interest rates** | | | | | | | | | | | | | |
| Central bank key rate (%, eop) | 7.75 | 7.50 | 7.25 | 7.25 | 7.25 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| 3-month rate (%, eop 4Q) | 19.72 | 15.34 | 12.00 | 10.00 | 8.00 | 10.00 | 10.00 | 10.00 | 10.00 | 8.00 | 8.00 | 8.00 | 8.00 |
| **Exchange rates** | | | | | | | | | | | | | |
| UAH trade-weighted index (nominal) | 56.87 | 54.46 | 53.70 | 53.06 | 52.95 | 51.99 | 50.53 | 50.53 | 49.81 | 49.81 | 51.63 | 51.63 | 51.63 |
| UAH trade-weighted index (real) | 54.70 | 51.85 | 51.75 | 51.81 | 53.75 | 53.03 | 51.78 | 52.02 | 51.52 | 51.07 | 52.46 | 51.99 | 51.52 |
| UAH/US$ (eop) | 8.00 | 8.03 | 8.05 | 8.05 | 8.10 | 8.20 | 8.50 | 8.50 | 8.50 | 8.50 | 8.20 | 8.20 | 8.20 |
| UAH/US$ (average) | 8.01 | 8.02 | 8.05 | 8.05 | 8.10 | 8.20 | 8.50 | 8.50 | 8.50 | 8.50 | 8.20 | 8.20 | 8.20 |
| UAH/€ (eop) | 10.36 | 10.71 | 10.47 | 10.47 | 10.13 | 10.25 | 10.20 | 10.20 | 11.05 | 11.05 | 10.66 | 10.66 | 10.66 |
| UAH/€ (average) | 10.13 | 10.25 | 10.47 | 10.47 | 10.13 | 10.25 | 10.20 | 10.20 | 11.05 | 11.05 | 10.66 | 10.66 | 10.66 |
| US$/€ (eop) | 1.31 | 1.33 | 1.30 | 1.30 | 1.25 | 1.25 | 1.20 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| US$/€ (average) | 1.31 | 1.33 | 1.30 | 1.30 | 1.25 | 1.25 | 1.20 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| **Population** | | | | | | | | | | | | | |
| Population (million, eop) | 45.63 | 45.62 | 45.56 | 45.54 | 45.51 | 45.56 | 45.50 | 45.48 | 45.45 | 45.53 | 45.47 | 45.45 | 45.42 |
| Population (%YoY) | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |

Notes: eop – end of period; cov. – coverage; con'd – consolidated; ann – annualised.

Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, Investment Capital Ukraine LLC.

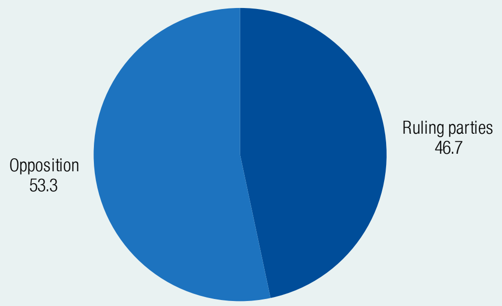
# Appendices: Thematic charts & tables

**The following pages contain the details charted and tabled data for the appropriate sections in this report.**

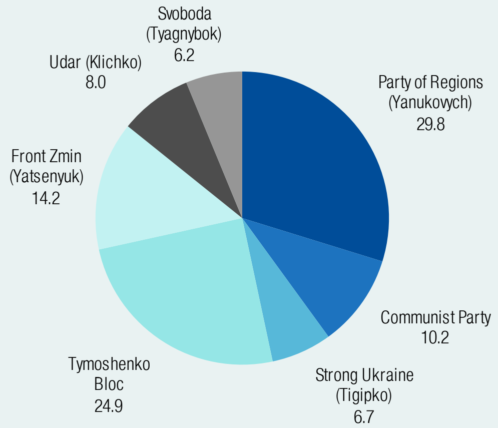
# Ukraine's political map after October 2012

The following graphs (Chart 49-Chart 53 on pp.58-59) and Table 8 on page 61 are provided to show our view on the possible outcome of the parliamentary elections this October, under different assumptions. The main assumption is that elections by party lists will mirror the public opinion poll carried out by KIIS[32] held in February 2012. As for the overall election results, which comprise the elections by party lists and by regional constituencies, the main unknown variable is how much the results of the latter will differ from those of the former. There is a myriad of nuances and factors that determine why a certain politician gets elected in the regional constituency, for example, in the Kyrovograd oblast of central parts of Ukraine. She or he could be, for instance, a member of the Tymoshenko Bloc or having been positioned for voters as an independent. In the end, there is no guarantee that future lawmakers would not change their political affiliation and join the MPs of ruling parties. Hence, we make five assumptions, each of which determines the ratio of how incumbent parties 'crowd out' opposition from the elections in the regional constituencies. For example, a 75% ratio means that incumbent parties would eventually gain 75% of seats, being elected via constituencies.

**Chart 49. Assumption #1: the crowd out ratio at 0%, probability rate 0%.** Breakdown of parliament by parties and blocs, 100% = 450 MPs.

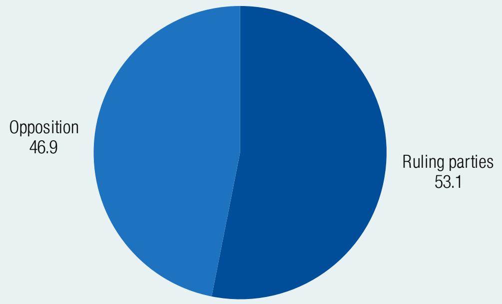



Source: Investment Capital Ukraine LLC.

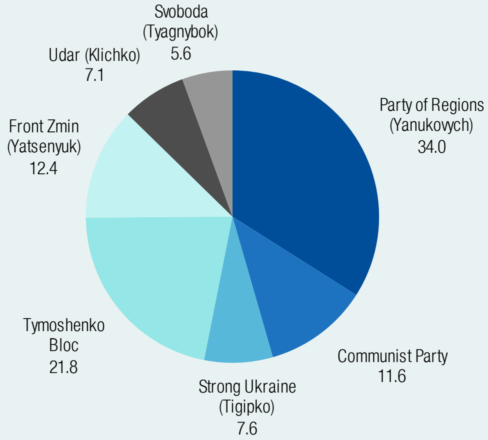



Source: Investment Capital Ukraine LLC.

**Chart 50. Assumption #2: the crowd out ratio at 25%, probability rate 15%.** Breakdown of parliament by parties and blocs, 100% = 450 MPs.



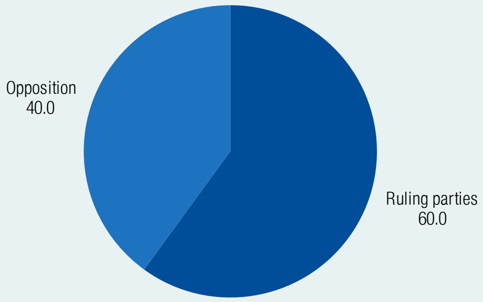

Source: Investment Capital Ukraine LLC.



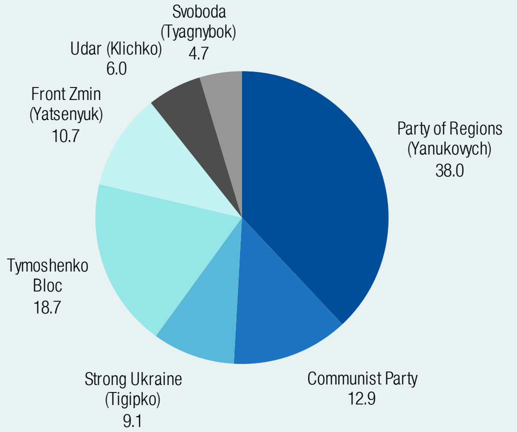

Source: Investment Capital Ukraine LLC.

[32] Kiev International Institute for Sociology. See http://kiis.com.ua/en/news/.

**Chart 51. Assumption #3: the crowd out ratio at 50%, probability rate 50%.** Breakdown of parliament by parties and blocs, 100% = 450 MPs.

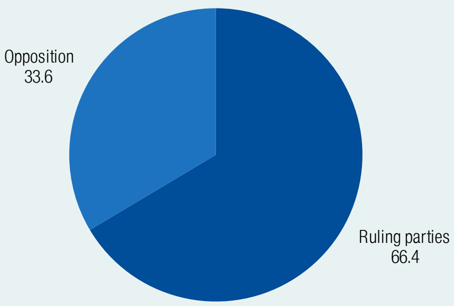



Source: Investment Capital Ukraine LLC.

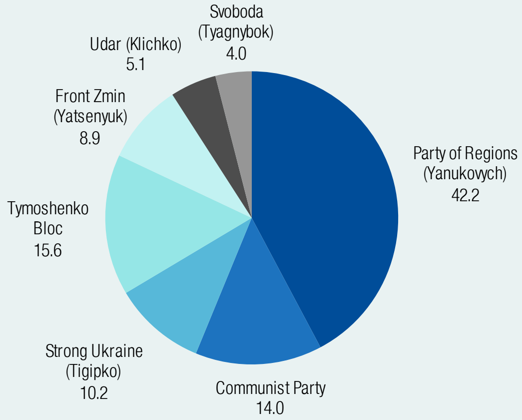



Source: Investment Capital Ukraine LLC.

**Chart 52. Assumption #4: the crowd out ratio at 75%, probability rate 30%.** Breakdown of parliament by parties and blocs, 100% = 450 MPs.

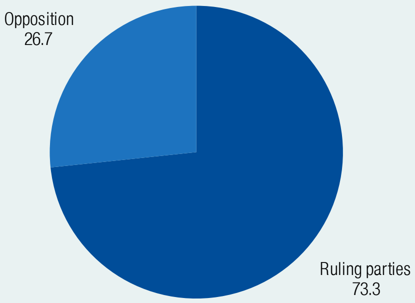



Source: Investment Capital Ukraine LLC.

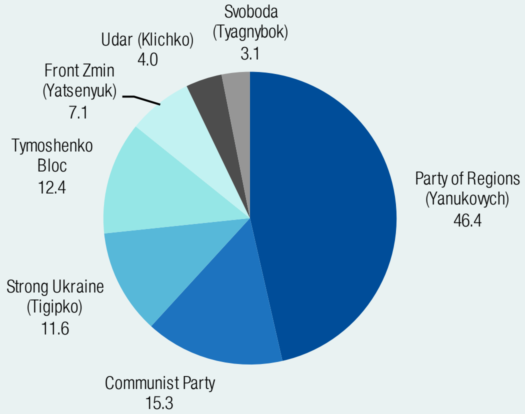



Source: Investment Capital Ukraine LLC.

**Chart 53. Assumption #3: the crowd out ratio at 100%, probability rate 5%.** Breakdown of parliament by parties and blocs, 100% = 450 MPs.




Source: Investment Capital Ukraine LLC.




Source: Investment Capital Ukraine LLC.

**Table 7. List of regional constituencies and ICU's view on which side, ruling parties or opposition, each constituency would align during the parliamentary elections in October 2012,** data is based upon the 2002 parliamentary election campaign[1]

| Oblast or city | Voters preferences[2] | Number of regional constituencies | Number of election units |
|---|---|---|---|
| Crimea Rep. | Ruling parties | 10 | 1,180 |
| Vinnytsya oblast | Opposition parties | 8 | 1,590 |
| Volyn oblast | Opposition parties | 5 | 1,149 |
| Dnipropetrovsk oblast | Ruling parties | 17 | 1,781 |
| Donetsk | Ruling parties | 23 | 2,284 |
| Zhytomyr | Opposition parties | 6 | 1,421 |
| Zakarpattya | Ruling parties | 6 | 738 |
| Zaporizhya | Ruling parties | 9 | 1,133 |
| Ivano-Frankivsk | Opposition parties | 6 | 999 |
| Kyiv | Opposition parties | 8 | 1,325 |
| Kirogohrad | Opposition parties | 5 | 980 |
| Luhansk | Ruling parties | 12 | 1,489 |
| Lviv | Opposition parties | 12 | 2,071 |
| Mykolayiv | Ruling parties | 6 | 908 |
| Odesa | Ruling parties | 11 | 1,417 |
| Poltava | Opposition parties | 8 | 1,315 |
| Rivne | Opposition parties | 5 | 985 |
| Sumy | Ruling parties | 6 | 1,073 |
| Ternopil | Opposition parties | 5 | 1,143 |
| Kharkiv | Ruling parties | 14 | 1,698 |
| Kherson | Ruling parties | 5 | 753 |
| Khmelnytsk | Opposition parties | 7 | 1,548 |
| Cherkasy | Opposition parties | 7 | 1,089 |
| Chernivtsi | Opposition parties | 4 | 535 |
| Chernihiv | Ruling parties | 6 | 1,116 |
| City of Kyiv | Opposition parties | 12 | 1,029 |
| City of Sevastopol | Ruling parties | 2 | 196 |
| **Total** | | **225** | **32,945** |
| **Assessment by ICU** | | | |
| | Ruling parties | 127 | |
| | Opposition parties | 98 | |
| **Total** | | **225** | |

Notes: [1] the parliamentary elections in 2002 were the last one, when 50/50 election system was used (when 50% of MPs were elected by party lists and 50% of MPs were elected via regional constituencies; [2] Assessment by ICU based on previous election campaigns.

Sources: Central Election Committee of Ukraine, Investment Capital Ukraine LLC.

**Table 8. The opinion polls by KIIS held in the period of October 2010 – February 2012 and modeling of parliamentary election results upon the data of most latest poll**

| Participation rate[1] (% of total) | Oct-10 | | Feb-11 | | Jun-11 | | Nov-11 | | Feb-12 | | Calculations of election results based on Feb-12 poll | | | | | | | | Current number of MPs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | N/A | | 53% | | 54% | | 53% | | 63% | | | | Total numbers of seats: elected by party lists and via constituencies by crowd-out ratio (probability)[5] | | | | | WA number of seats[7] | |
| Party or bloc of parties | Share of all voters (%) | Share of voted[2] (%) | Share of all voters (%) | Share of voted[2] (%) | Share of all voters (%) | Share of voted[2] (%) | Share of all voters (%) | Share of voted[2] (%) | Share of all voters (%) | Share of voted[2] (%) | Share of total votes[3] (%) | Number of seats by party list[4] | 0% (0% odds) | 25% (15% odds) | 50% (50% odds) | 75% (30% odds) | 100% (5% odds) | | |
| Party of Regions (Yanukovych) | 28.5 | 42.5 | 16.8 | 31.9 | 13.5 | 24.8 | 12.5 | 23.8 | 16.5 | 26.3 | 29.6 | 67 | 134 | 153 | 171 | 190 | 209 | **174** | 192 |
| Tymoshenko Bloc | 9.9 | 14.8 | 10.4 | 19.7 | 10.9 | 20.1 | 10.2 | 19.3 | 14.0 | 22.3 | 25.1 | 56 | 112 | 98 | 84 | 70 | 56 | **82** | 100 |
| Front Zmin (Yatsenyuk) | 5.3 | 7.9 | 6.5 | 12.4 | 7.7 | 14.1 | 7.0 | 13.4 | 7.9 | 12.6 | 14.2 | 32 | 64 | 56 | 48 | 40 | 32 | **47** | No seats |
| Communist Party | 3.4 | 5.1 | 3.3 | 6.3 | 4.0 | 7.3 | 5.1 | 9.6 | 5.7 | 9.0 | 10.1 | 23 | 46 | 52 | 58 | 63 | 69 | **59** | 25 |
| Udar (Klichko) | 2.3 | 3.4 | 1.6 | 3.0 | 3.1 | 5.7 | 4.4 | 8.4 | 4.6 | 7.3 | 8.2 | 18 | 36 | 32 | 27 | 23 | 18 | **27** | No seats |
| Strong Ukraine (Tigipko) | 8.1 | 12.1 | 3.3 | 6.3 | 4.3 | 7.9 | 3.2 | 6.1 | 3.6 | 5.8 | 6.5 | 15 | 30 | 34 | 41 | 46 | 52 | **41** | No seats |
| Svoboda (Tyagnybok) | 2.6 | 3.8 | 3.1 | 5.9 | 2.5 | 4.7 | 2.3 | 4.4 | 3.4 | 5.5 | 6.2 | 14 | 28 | 25 | 21 | 18 | 14 | **20** | No seats |
| Civil position (Hrytsenko) | 0.8 | 1.2 | 1.2 | 2.3 | 1.2 | 2.2 | 1.1 | 2.1 | 1.9 | 3.0 | | | | | | | | | |
| Other party/bloc | 4.0 | 9.2 | 4.2 | 7.9 | 5.1 | 5.9 | 4.5 | 8.6 | 5.1 | 8.2 | | | | | | | | | |
| Against all | 9.9 | | 17.6 | 4.3 | 17.1 | 4.1 | 18.0 | 4.3 | X | X | | | | | | | | | |
| Will not vote | 10.0 | | 14.7 | | 14.8 | | 14.3 | | 16.1 | | | | | | | | | | |
| Difficult to say | 15.2 | | 17.3 | | 15.8 | | 17.4 | | 21.2 | | | | | | | | | | |
| **TOTAL** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **225** | **450** | **450** | **450** | **450** | **450** | **450** | |
| **By number of seats** | | | | | | | | | | | | | | | | | | | |
| Ruling parties and blocs[6] | | | | | | | | | | | | 105 | 210 | 239 | 270 | 299 | 330 | **274** | |
| Opposition parties and blocs | | | | | | | | | | | | 120 | 240 | 211 | 180 | 151 | 120 | **176** | |
| **By share of total (%)** | | | | | | | | | | | | | | | | | | | |
| Ruling parties and blocs | | | | | | | | | | | | 46.7 | 46.7 | 53.1 | 60.0 | 66.4 | 73.3 | **60.9** | |
| Opposition parties and blocs | | | | | | | | | | | | 53.3 | 53.3 | 46.9 | 40.0 | 33.6 | 26.7 | **39.1** | |

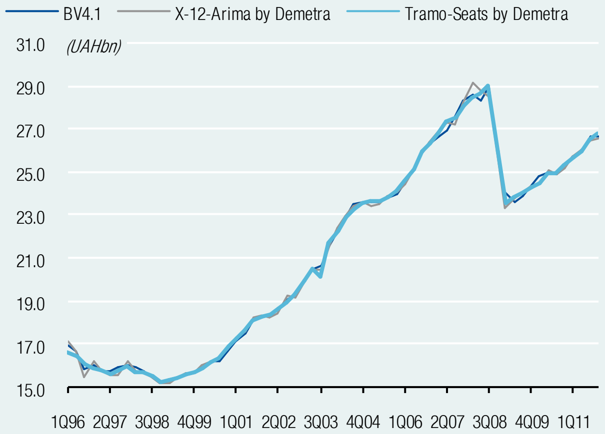
Notes: [1] Participation rated as of date of poll that is the share of those who was going to take in the elections; [2] share of votes by those who was going to take part in the elections; [3] share of votes gained the parties and blocs that pass through the 5% election threshold; [4] number of seats the party or bloc gain through the election by party list; [5] total number of seats the party or bloc receives after the elections, it is a sum of number of seats gained through the election by party list and a number of seats gained through the elections in the constituencies, the latter figure is calculated upon the ratio of seats that incumbent ruling parties will win from the opposition parties; the ratio has five assumptions – from 0% to 100%; 0% means that incumbent ruling parties and opposition parties are gaining seats in the parliament in the exactly the same proportion as from the election by party list; 100% means that incumbent ruling parties would totally defeat the opposition parties in the constituencies and gain all the seats there;
[6] Ruling parties and blocs are consist of Party of Regions, Strong Ukraine and Communist Party; [7] weighted-average number seats calculated upon three assumptions, which have crowd-out ratio at 25%, 50% and 75, data weighted by probability ratio.
X means that since December 2011 the law on the parliamentary elections does not provide a possibility for a voter to cast her/his vote against all listed parties and blocs;

Sources: KIIS, Investment Capital Ukraine LLC.

# Quarterly GDP: Reported statistics and ICU's calculations

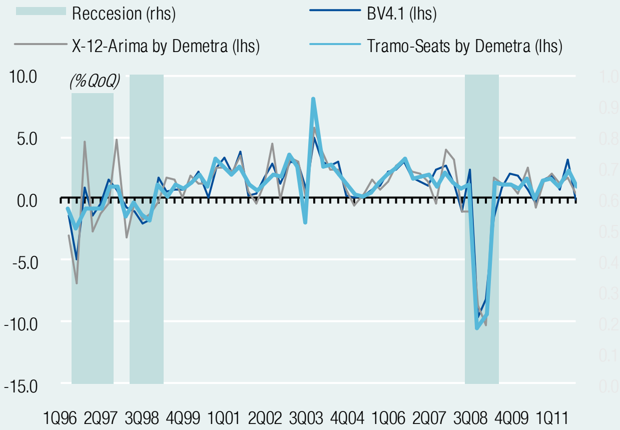
**Chart 54. Ukraine's economy from the perspective of quarterly GDP volumes (left) and on-quarter growth rates (right)**
History from 1Q96 till 4Q11. Data is adjusted for inflation and seasonal factors

*Quarterly GDP size in constant prices of Dec-95, data is seasonally adjusted by three methods BV4.1, X-12 Arima and Tramo-Seats*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

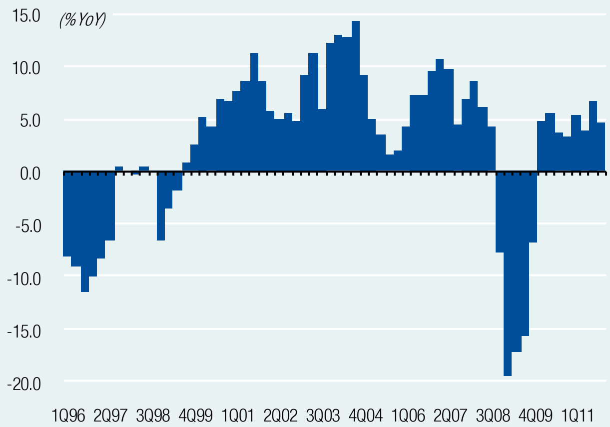
*Quarterly GDP growth rates (% QoQ), data is seasonally adjusted by three methods BV4.1, X-12 Arima and Tramo-Seats*




Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 55. Reported on-year quarterly GDP growth (% YoY)**

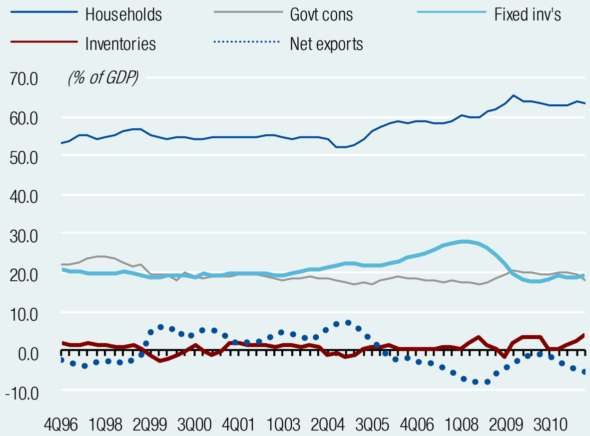
*History from 1Q 1996 till 4Q 2011*




Source: State Statistics Committee of Ukraine.

**Chart 56. Breakdown of GDP by key components from expenditure side (% of total, data for the last 12-month period)**

*History from 4Q 1996 till 4Q 2011*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Table 9. Ukraine quarterly GDP size: History from 4Q96 till 4Q11 (UAHm, if not otherwise indicated)**
Reported statistics and ICU calculations of quarter-on-quarter growth in real and seasonally-adjusted terms

| Period | Reported statistics on quarterly GDP | | | | ICU calculations | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GDP at current prices (UAHm) | Real growth (%YoY, qtly) | Real growth (% QoQ, SA) | Deflator (% YoY) | Real growth (%YoY, ann'd) | GDP at cons prices[1] (UAHm, NSA) | GDP at cons prices[1] (UAHm, SA) | | | Real GDP growth (%QoQ, SA) | | |
| | | | | | | | BV4.1 | X-12-Arima by Demetra | Tramo-Seats by Demetra | BV4.1 | X-12-Arima by Demetra | Tramo-Seats by Demetra |
| 4Q96 | 24,454 | -10.0 | | 40.1 | -9.7 | 17,404 | 16,006 | 16,228 | **15,918** | 0.9 | 4.6 | **-0.8** |
| 1Q97 | 18,728 | -8.3 | | 22.3 | -9.8 | 14,114 | 15,779 | 15,780 | **15,779** | -1.4 | -2.8 | **-0.9** |
| 2Q97 | 20,485 | -6.6 | | 22.7 | -9.1 | 14,117 | 15,723 | 15,586 | **15,659** | -0.3 | -1.2 | **-0.8** |
| 3Q97 | 26,076 | 0.5 | | 15.3 | -6.2 | 17,544 | 15,968 | 15,531 | **15,815** | 1.6 | -0.4 | **1.0** |
| 4Q97 | 28,076 | 0.0 | | 14.8 | -3.7 | 17,405 | 16,073 | 16,258 | **15,974** | 0.7 | 4.7 | **1.0** |
| 1Q98 | 20,871 | -0.3 | | 11.8 | -1.6 | 14,068 | 15,941 | 15,744 | **15,744** | -0.8 | -3.2 | **-1.4** |
| 2Q98 | 23,367 | 0.5 | | 13.5 | 0.2 | 14,188 | 15,764 | 15,701 | **15,693** | -1.1 | -0.3 | **-0.3** |
| 3Q98 | 28,908 | -0.1 | | 10.9 | 0.0 | 17,538 | 15,431 | 15,435 | **15,498** | -2.1 | -1.7 | **-1.2** |
| 4Q98 | 29,447 | -6.6 | | 12.3 | -1.7 | 16,256 | 15,157 | 15,236 | **15,221** | -1.8 | -1.3 | **-1.8** |
| … | … | … | … | … | … | … | … | … | **…** | … | … | **…** |
| 1Q04 | 66,981 | 12.9 | | 12.8 | 10.5 | 20,030 | 22,260 | 22,406 | **22,284** | 3.0 | 3.7 | **2.5** |
| 2Q04 | 78,607 | 12.7 | | 14.8 | 10.9 | 20,773 | 22,864 | 22,923 | **22,895** | 2.7 | 2.3 | **2.7** |
| 3Q04 | 99,405 | 14.3 | | 14.7 | 13.0 | 26,909 | 23,530 | 23,455 | **23,332** | 2.9 | 2.3 | **1.9** |
| 4Q04 | 100,120 | 9.1 | | 17.4 | 12.2 | 24,800 | 23,572 | 23,617 | **23,572** | 0.2 | 0.7 | **1.0** |
| 1Q05 | 88,104 | 5.0 | | 25.3 | 10.2 | 21,027 | 23,598 | 23,474 | **23,647** | 0.1 | -0.6 | **0.3** |
| 2Q05 | 101,707 | 3.5 | | 25.1 | 7.9 | 21,484 | 23,638 | 23,568 | **23,678** | 0.2 | 0.4 | **0.1** |
| 3Q05 | 122,861 | 1.5 | | 21.8 | 4.7 | 27,306 | 23,789 | 23,925 | **23,804** | 0.6 | 1.5 | **0.5** |
| 4Q05 | 128,780 | 1.9 | | 26.3 | 3.0 | 25,257 | 24,027 | 24,093 | **24,109** | 1.0 | 0.7 | **1.3** |
| 1Q06 | 106,348 | 4.3 | | 15.7 | 2.8 | 21,937 | 24,553 | 24,426 | **24,571** | 2.2 | 1.4 | **1.9** |
| 2Q06 | 126,319 | 7.2 | | 15.9 | 3.7 | 23,023 | 25,129 | 25,078 | **25,141** | 2.3 | 2.7 | **2.3** |
| 3Q06 | 152,406 | 7.3 | | 15.6 | 5.2 | 29,301 | 25,870 | 25,847 | **25,929** | 2.9 | 3.1 | **3.1** |
| 4Q06 | 159,080 | 9.6 | | 12.8 | 7.1 | 27,659 | 26,289 | 26,419 | **26,351** | 1.6 | 2.2 | **1.6** |
| 1Q07 | 139,444 | 10.6 | | 18.6 | 8.7 | 24,253 | 26,665 | 26,929 | **26,803** | 1.4 | 1.9 | **1.7** |
| 2Q07 | 166,869 | 9.7 | | 20.4 | 9.3 | 25,260 | 26,945 | 27,304 | **27,326** | 1.1 | 1.4 | **2.0** |
| 3Q07 | 199,535 | 4.4 | | 25.4 | 8.5 | 30,592 | 27,589 | 27,196 | **27,593** | 2.4 | -0.4 | **1.0** |
| 4Q07 | 214,883 | 6.9 | | 26.4 | 7.9 | 29,558 | 28,327 | 28,250 | **28,145** | 2.7 | 3.9 | **2.0** |
| 1Q08 | 191,459 | 8.5 | | 26.6 | 7.4 | 26,303 | 28,645 | 29,125 | **28,482** | 1.1 | 3.1 | **1.2** |
| 2Q08 | 236,033 | 6.2 | | 33.2 | 6.5 | 26,824 | 28,351 | 28,825 | **28,702** | -1.0 | -1.0 | **0.8** |
| **3Q08** | **276,451** | **4.3** | | **32.9** | **6.5** | **31,892** | **28,988** | **28,511** | **29,030** | **2.2** | **-1.1** | **1.1** |
| 4Q08 | 244,113 | -7.8 | | 23.3 | 2.6 | 27,233 | 26,192 | 26,052 | **25,965** | -9.6 | -8.6 | **-10.6** |
| 1Q09 | 189,028 | -19.6 | | 22.8 | -4.8 | 21,148 | 24,040 | 23,364 | **23,541** | -8.2 | -10.3 | **-9.3** |
| 2Q09 | 214,103 | -17.3 | | 9.7 | -10.6 | 22,181 | 23,652 | 23,769 | **23,826** | -1.6 | 1.7 | **1.2** |
| 3Q09 | 250,306 | -15.7 | | 7.4 | -15.2 | 26,886 | 23,859 | 24,070 | **24,072** | 0.9 | 1.3 | **1.0** |
| 4Q09 | 259,908 | -6.7 | | 14.1 | -15.0 | 25,412 | 24,335 | 24,363 | **24,336** | 2.0 | 1.2 | **1.1** |
| 1Q10 | 219,428 | 4.8 | | 10.7 | -9.1 | 22,176 | 24,781 | 24,465 | **24,539** | 1.8 | 0.4 | **0.8** |
| 2Q10 | 260,150 | 5.5 | | 15.1 | -3.4 | 23,415 | 24,973 | 25,073 | **24,945** | 0.8 | 2.5 | **1.7** |
| 3Q10 | 304,709 | 3.6 | | 17.5 | 1.7 | 27,855 | 24,881 | 24,905 | **24,952** | -0.4 | -0.7 | **0.0** |
| 4Q10 | 310,320 | 3.3 | 0.7 | 15.6 | 4.3 | 26,247 | 25,253 | 25,230 | **25,328** | 1.5 | 1.3 | **1.5** |
| 1Q11 | 263,550 | 5.3 | 1.4 | 14.1 | 4.4 | 23,344 | 25,723 | 25,734 | **25,721** | 1.9 | 2.0 | **1.6** |
| 2Q11 | 316,480 | 3.8 | 0.4 | 17.2 | 4.0 | 24,305 | 25,895 | 26,038 | **25,965** | 0.7 | 1.2 | **1.0** |
| 3Q11 | 387,970 | 6.6 | 0.7 | 19.5 | 4.7 | 29,679 | 26,704 | 26,477 | **26,529** | 3.1 | 1.7 | **2.2** |
| 4Q11 | 363,948 | 4.6 | 2.9 | 12.1 | 5.1 | 27,454 | 26,663 | 26,575 | **26,767** | -0.2 | 0.4 | **0.9** |

Notes: [1] at constant prices of December 1995; SA – seasonally adjusted data; NSA --- non seasonally adjusted data.
Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

# ICU consumer basket: Observation of Kiev, New-York and Moscow prices

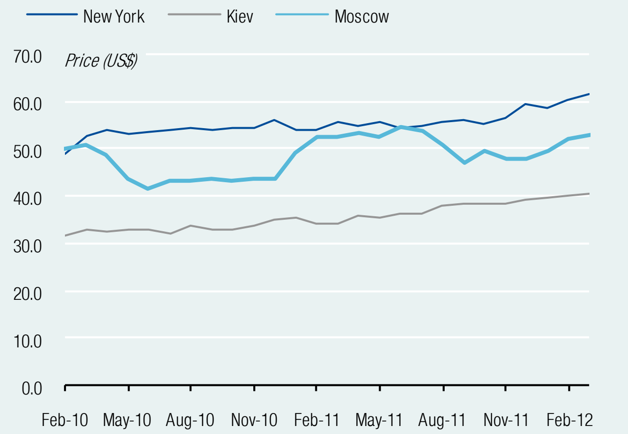
**Table 10. ICU consumer basket as of end of March 2012**
price observation in the urban areas of Ukraine, USA and Russia, i.e., in the countries' most populated cities – Kiev, New-York, and Moscow

| Item of the basket | Description | Kiev, central district 28-Mar-12 Price (UAH) | New York metropolitan area 27-Mar-12 Price (US$) | Moscow, central district 28-Mar-12 Price (RUR) |
|---|---|---|---|---|
| **Consumer goods** | | | | |
| Coca-cola (0.5 liter, plastic bottle) | Non-alcohol beverages | 7.50 | 0.68 | 44.90 |
| Beer Stella Artois (0.33 litre, glass bottle) | Alcoholic beverages | 7.02 | 1.67 | 46.90 |
| Bunch of fresh bananas (1 kg) | From Ecuador | 13.67 | 1.52 | 52.90 |
| Pack of milk (1 liter) | Locally produced, soft package, i.e., not glass bottle | 8.37 | 2.03 | 59.90 |
| Chicken meat (1 kg pack) | Locally produced and branded package, boneless breast | 46.99 | 12.74 | 159.00 |
| Canned pineapple (0.85 kg, can) | Pineapple circles, Dole brand | 23.42 | 3.00 | 129.00 |
| Pasta (0.5 kg) | Soft package, produced in Italy | 22.63 | 2.12 | 62.90 |
| Sugar (1 kg) | | 7.58 | 3.18 | 29.90 |
| Package of table salt (0.5 kg) | | 3.49 | 0.53 | 17.90 |
| Chicken eggs (10 units pack) | White eggs, standard size | 16.22 | 2.50 | 42.00 |
| Chocolate (100 g) | Made by Craft Foods Corp, Milka brand | 11.44 | 2.99 | 62.90 |
| Toothpaste (100ml package) | Colgate | 22.52 | 1.56 | 96.90 |
| Shampoo (200ml package) | Head & Shoulders brand, for normal hair | 29.31 | 1.42 | 159.00 |
| Toilet paper (4 rolls package) | Kleenex Cottonelle brand, white paper, Regular toilet tissue | 18.78 | 4.32 | 68.90 |
| Magazine | Men's Health, local edition, A4 format (standard one, not a pocket book format) | 28.27 | 4.99 | 119.00 |
| Gasoline (1 liter) | Lukiol, regular | 11.35 | 1.11 | 29.92 |
| **Services** | | | | |
| Underground commuite ticket | Within the central part of the city | 2.00 | 2.25 | 28.00 |
| Cinema ticket | Thursday's night price for the seat with good location, Hollywood film | 45.00 | 13.25 | 350.00 |
| **Total basket value (in local currency)** | | **325.56** | **61.86** | **1,559.92** |
| Exchange rate versus US dollar at spot market as of date of observation | | 8.026 | 1.000 | 29.411 |
| **Total basket value (in US$)** | | **40.56** | **61.86** | **53.04** |
| **Overvalued "+" / undervalued "-" (%)** | | | | |
| UAH vs USD | | **-34.43** | | |
| UAH vs RUR | | **-23.52** | | |
| **Fair value in the long-run as of observation date** | | | | |
| UAH per USD | | **5.263** | | |
| UAH per RUR | | **0.209** | | |

Source: Investment Capital Ukraine.

**Chart 57. ICU consumer basket value (US$)**, from Feb-10 till Mar-12

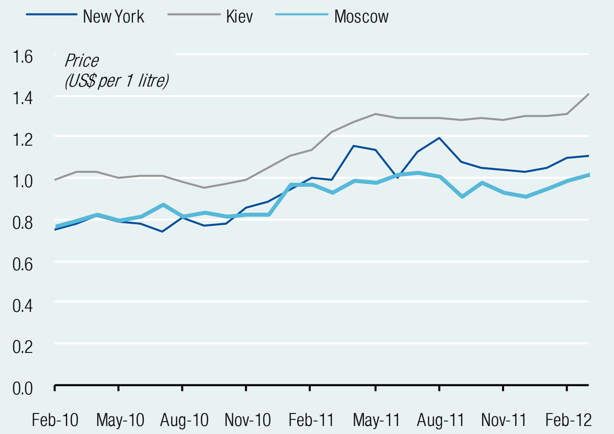
*Total value of the ICU basket in US dollar terms*




Source: Investment Capital Ukraine.

**Chart 58. Gasoline A95 equivalent 1 litre (US$)**

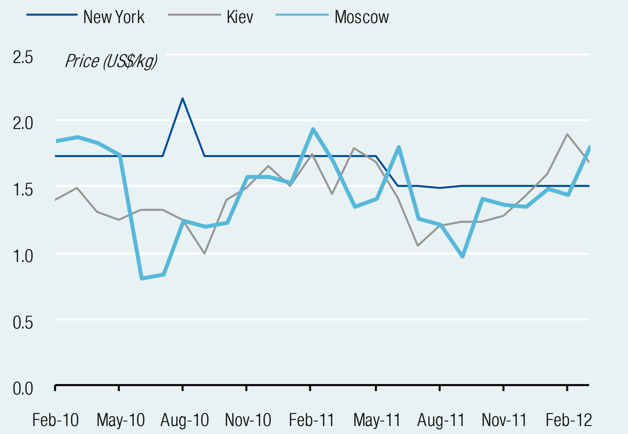
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

**Chart 59. Fresh banana 1 kg bunch (US$)**

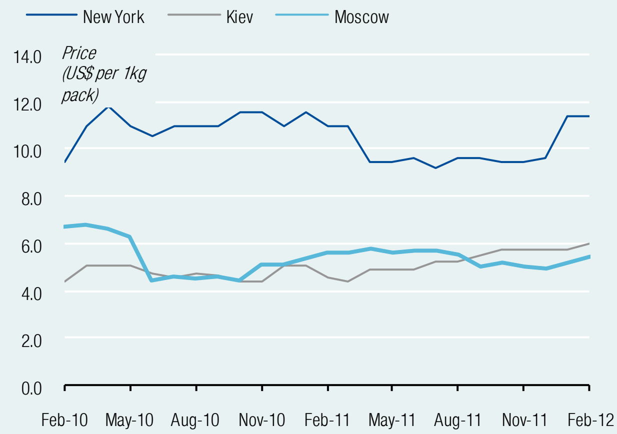
*Price history from February 2010 till March 2012*




Source: Investment Capital Ukraine.

**Chart 60. Chicken meat 1 kg pack of boneless breast (US$)**

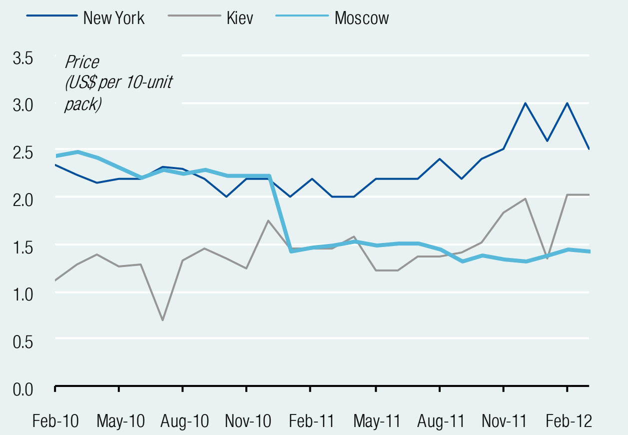
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

**Chart 61. Chicken eggs 10-unit pack (US$)**

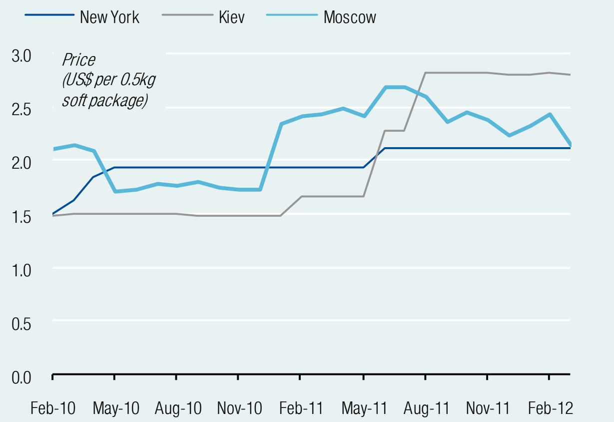
*Price history from February 2010 till March 2012*




Source: Investment Capital Ukraine.

**Chart 62. Pasta 0.5 kg soft package Italy-made (US$)**

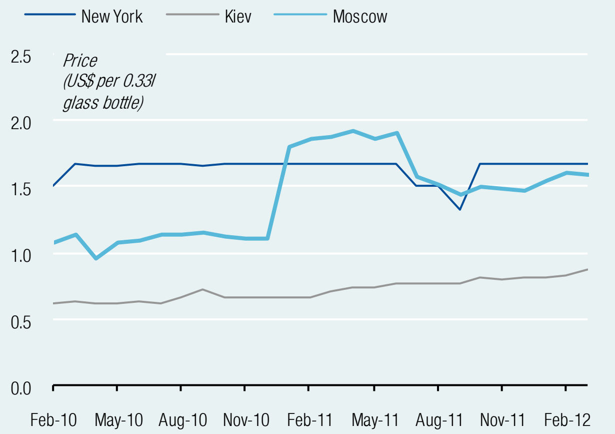
*Price history from February 2010 till March 2012*




Source: Investment Capital Ukraine.

### Chart 63. Beer Stella Artois 0.33 litre glass bottle (US$)

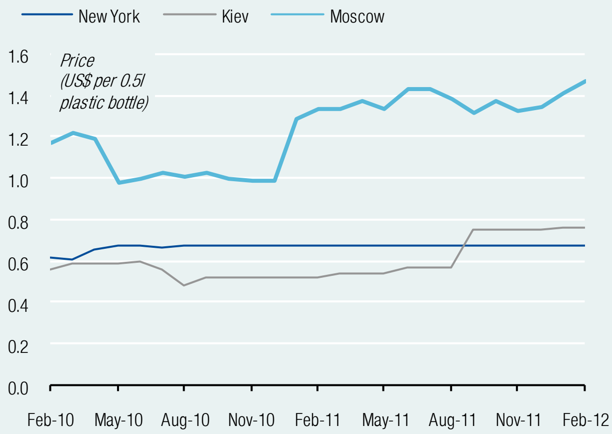
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

### Chart 64. Coca-Cola 0.5 litre plastic bottle (US$)

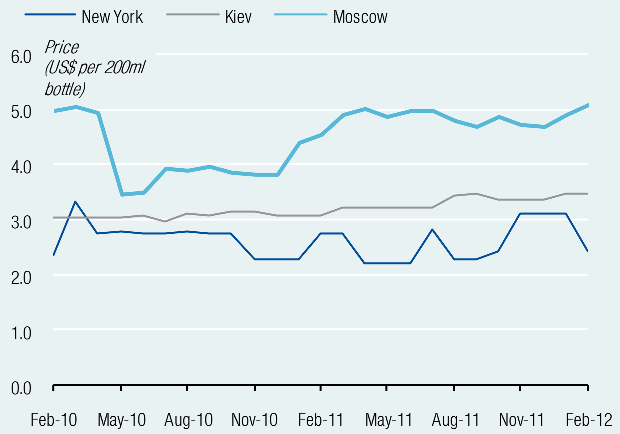
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

### Chart 65. Shampoo 200ml bottle Head & Shoulders (US$)

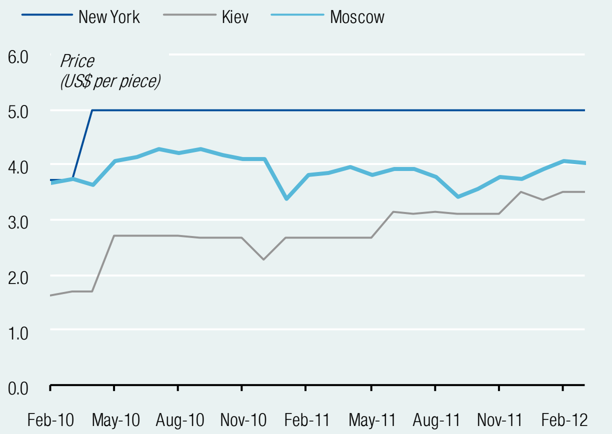
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

### Chart 66. Magazine *Men's Health*, A4 format (US$)

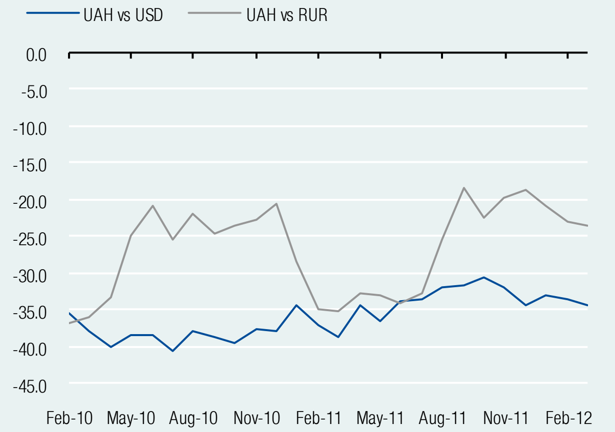
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

### Chart 67. Value gap of ICU basket in UAH vs USD and RUB (%)

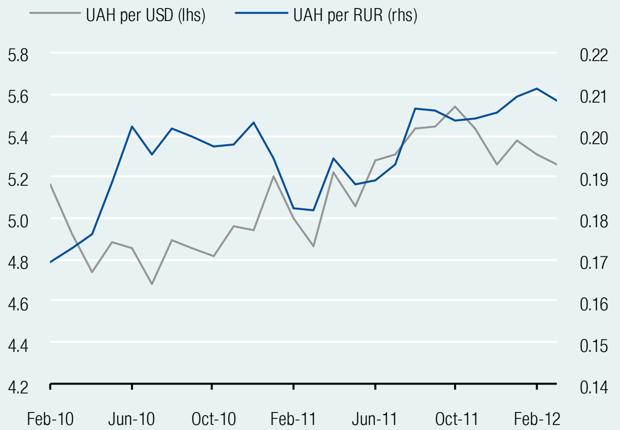
*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

### Chart 68. An exchange rate level of UAH per USD and UAH per RUB, which would eliminate the value gap of ICU basket

*Price history from February 2010 till March 2012*




Source: State Statistics Committee of Ukraine.

# Ukraine's energy balance in 2010

**Table 11. Ukraine's energy balance in 2010**

| Supply, transformation and consumption of energy | Energy flow breakdown by type of energy (000s of tonnes of oil equivalent) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Coal & peat | Crude oil | Oil products | Natural Gas | Nuclear | Hydro | Geotherm. Solar | Bio fuels & waste | Electricity | Heat | Total |
| **SUPPLY** | | | | | | | | | | | |
| Production | 31,019 | 3,590 | 0 | 15,426 | 23,387 | 1,131 | 8 | 899 | 0 | 0 | 75,460 |
| Imports | 7,615 | 7,827 | 6,017 | 30,040 | 0 | 0 | 0 | 0 | 2 | 0 | 51,501 |
| Exports | -4,429 | 0 | -4,066 | -5 | 0 | 0 | 0 | 0 | -351 | 0 | -8,850 |
| Intl. Marine Bunkers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intl. Aviation Bunkers | 0 | 0 | -267 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -267 |
| Stock changes | 2,271 | 59 | -8 | 10,099 | 0 | 0 | 0 | 18 | 0 | 0 | 12,439 |
| **Total energy supply** | **36,476** | **11,476** | **1,677** | **55,561** | **23,387** | **1,131** | **8** | **917** | **-349** | **0** | **130,284** |
| **TRANSFORMATION** | | | | | | | | | | | |
| Transfers | 0 | 522 | -466 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 56 |
| Statistical differences | 679 | -100 | -545 | -9,293 | 0 | 0 | 0 | 0 | 0 | 833 | -8,427 |
| Electricity Plants | -16,535 | 0 | -75 | -696 | -23,234 | -1,131 | -8 | 0 | 14,792 | 0 | -26,887 |
| CHP Plants | -1,791 | 0 | -136 | -5,429 | 0 | 0 | 0 | -394 | 1,426 | 4,759 | -1,565 |
| Heat Plants | -1,051 | 0 | -134 | -9,376 | -153 | 0 | 0 | 0 | 0 | 10,102 | -614 |
| Blast furnaces | -4,674 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -4,674 |
| Gas works | 44 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 44 |
| Coke/pat.fuel/BKB plants | -2,801 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2,801 |
| Oil Refineries | 0 | -11,874 | 12,629 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 755 |
| Petrochemical plants | 0 | 0 | -146 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -146 |
| Liquefaction plants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Transformation | -8 | 0 | -102 | 0 | 0 | 0 | 0 | -73 | 0 | 0 | -183 |
| Energy industry own use | -1,790 | -2 | -544 | -1,076 | 0 | 0 | 0 | -3 | -2,478 | -2,561 | -8,454 |
| Losses | -202 | -12 | -7 | -691 | 0 | 0 | 0 | 0 | -1,866 | -834 | -3,611 |
| **Total energy transformation** | **-28,133** | **-11,466** | **10,475** | **-26,562** | **-23,387** | **-1,131** | **-8** | **-470** | **11,875** | **12,299** | **-56,506** |
| **CONSUMPTION** | | | | | | | | | | | |
| **Industry, total** | **7,174** | **4** | **1,345** | **6,522** | **0** | **0** | **0** | **55** | **5,668** | **5,155** | **25,923** |
| Iron and steel | 5,930 | 0 | 255 | 4,215 | 0 | 0 | 0 | 8 | 2,183 | 1,435 | 14,026 |
| Chemical and petrochemical | 16 | 0 | 80 | 333 | 0 | 0 | 0 | 0 | 426 | 1,221 | 2,075 |
| Non-ferrous metals | 30 | 0 | 6 | 216 | 0 | 0 | 0 | 0 | 115 | 291 | 659 |
| Non-metallic minerals | 608 | 0 | 64 | 744 | 0 | 0 | 0 | 21 | 243 | 91 | 1,771 |
| Transport equipment | 2 | 0 | 22 | 56 | 0 | 0 | 0 | 0 | 156 | 103 | 340 |
| Machinery | 11 | 0 | 38 | 202 | 0 | 0 | 0 | 1 | 342 | 174 | 767 |
| Mining and quarrying | 96 | 0 | 302 | 410 | 0 | 0 | 0 | 0 | 850 | 439 | 2,097 |
| Food and tobacco | 32 | 0 | 132 | 252 | 0 | 0 | 0 | 11 | 380 | 1,080 | 1,887 |
| Paper Pulp and Printing | 1 | 0 | 9 | 26 | 0 | 0 | 0 | 0 | 93 | 143 | 272 |
| Wood and wood products | 0 | 0 | 10 | 25 | 0 | 0 | 0 | 14 | 44 | 63 | 155 |
| Construction | 5 | 0 | 268 | 38 | 0 | 0 | 0 | 1 | 102 | 80 | 493 |
| Textile and leather | 1 | 0 | 3 | 6 | 0 | 0 | 0 | 0 | 30 | 35 | 75 |
| Non-specified | 442 | 4 | 156 | 0 | 0 | 0 | 0 | 0 | 703 | 0 | 1,305 |
| **Transport, total** | **27** | **0** | **7,539** | **3,341** | **0** | **0** | **0** | **1** | **772** | **0** | **11,678** |
| Domestic aviation | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Road | 0 | 0 | 7,270 | 46 | 0 | 0 | 0 | 0 | 0 | 0 | 7,316 |
| Rail | 24 | 0 | 178 | 0 | 0 | 0 | 0 | 0 | 539 | 0 | 741 |
| Pipeline transport | 0 | 0 | 9 | 3,287 | 0 | 0 | 0 | 0 | 105 | 0 | 3,402 |
| Domestic Navigation | 0 | 0 | 80 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 80 |
| Non-specified | 3 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 127 | 0 | 138 |
| **Other sectors, total** | **672** | **6** | **2,385** | **14,970** | **0** | **0** | **0** | **391** | **5,086** | **7,144** | **30,655** |
| Residential | 482 | 0 | 60 | 14,248 | 0 | 0 | 0 | 368 | 3,160 | 6,529 | 24,846 |

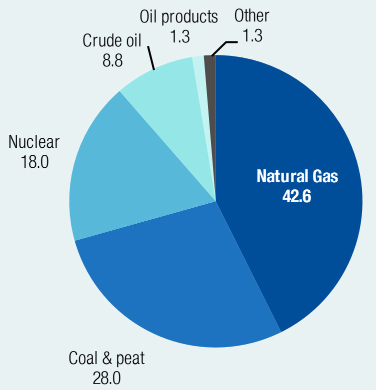
**Table 11. Ukraine's energy balance in 2010**

| Supply, transformation and consumption of energy | Energy flow breakdown by type of energy (000s of tonnes of oil equivalent) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Coal & peat | Crude oil | Oil products | Natural Gas | Nuclear | Hydro | Geotherm. Solar | Bio fuels & waste | Electricity | Heat | Total |
| Comm. and Publ. Services | 174 | 0 | 775 | 353 | 0 | 0 | 0 | 6 | 1,644 | 537 | 3,490 |
| Agriculture/forestry | 16 | 0 | 1,255 | 130 | 0 | 0 | 0 | 17 | 282 | 79 | 1,778 |
| Fishing | 0 | 0 | 8 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 9 |
| Non-specified | 0 | 6 | 287 | 239 | 0 | 0 | 0 | 0 | 0 | 0 | 532 |
| **Non-energy use, total** | **479** | **0** | **884** | **4,167** | **0** | **0** | **0** | **0** | **0** | **0** | **5,529** |
| in Industry/Transf./Energy | 479 | 0 | 858 | 4,167 | 0 | 0 | 0 | 0 | 0 | 0 | 5,503 |
| of which: Feedstocks | 43 | 0 | 11 | 3,997 | 0 | 0 | 0 | 0 | 0 | 0 | 4,051 |
| in Transport | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| in other | 0 | 0 | 23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 23 |
| **Total energy consumption** | **8,343** | **10** | **12,152** | **28,999** | **0** | **0** | **0** | **447** | **11,526** | **12,299** | **73,778** |

Sources: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 69. Energy supply in Ukraine in 2010 (%)**

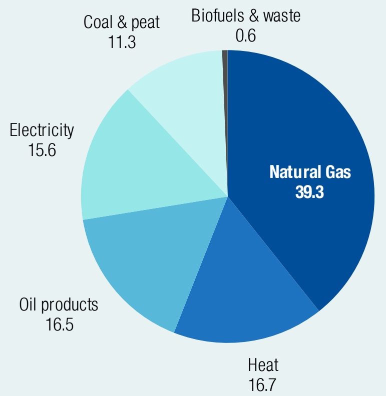
*100% = 130.3m tonnes of oil equivalent*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 70. Energy consumption in Ukraine in 2010 (%)**

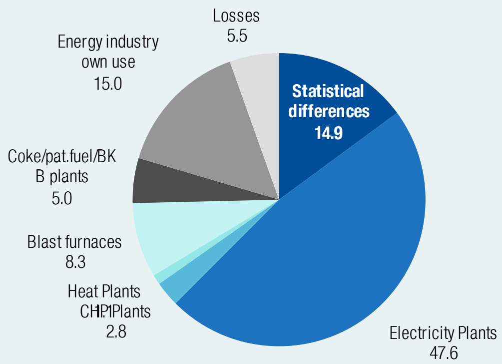
*100% = 73.8m tonnes of oil equivalent*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 71. Energy transformation breakdown in Ukraine, '10 (%)**

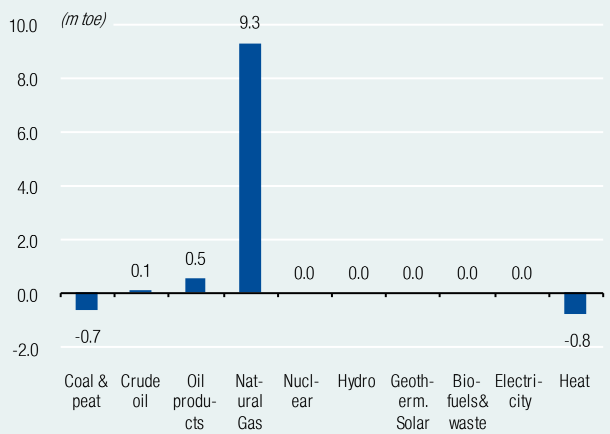
*100% = 130.3m tonnes of oil equivalent*




Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

**Chart 72. Statistical differences by energy in 2010 (m toe)**

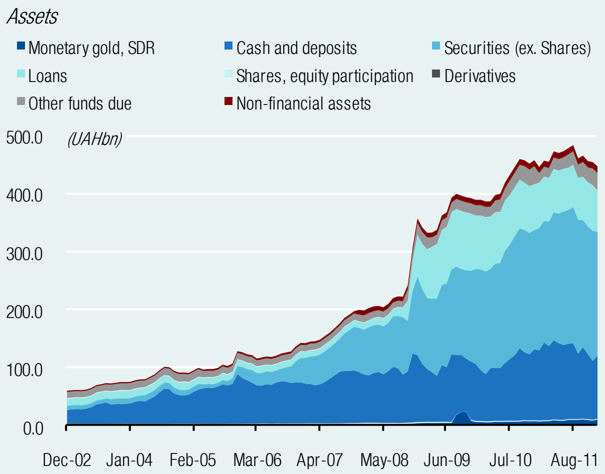
*In millions tones of oil equivalent*

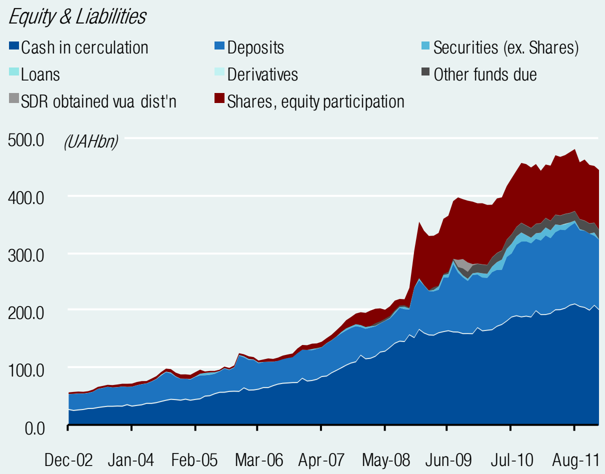



Source: State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

# NBU's balance sheet size: Absolute and relative terms, 2002-12

**Chart 73. NBU's balance sheet size (UAHbn), history from December 2002 till January 2012**

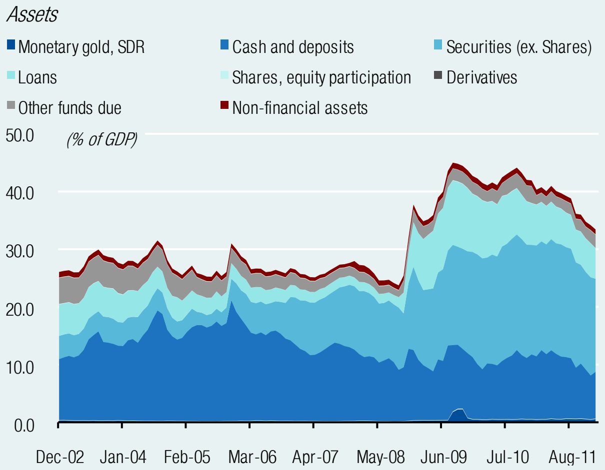


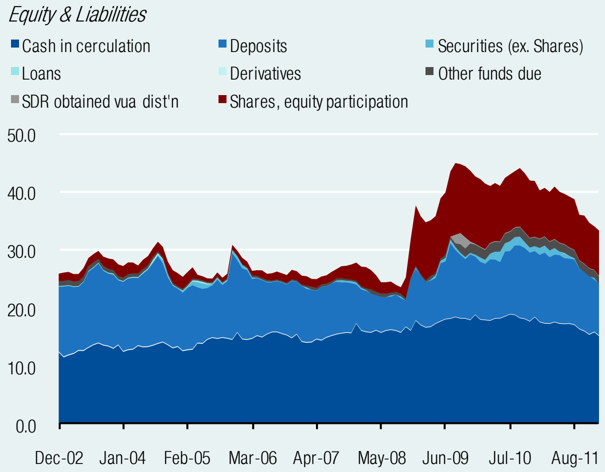




Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 74. NBU's balance sheet size as share of GDP (%), history from December 2002 till January 2012**

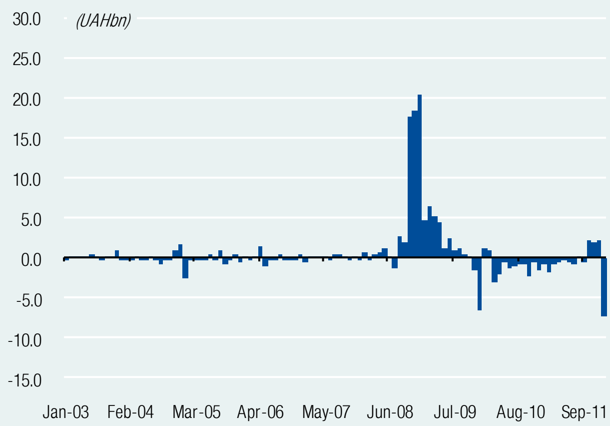


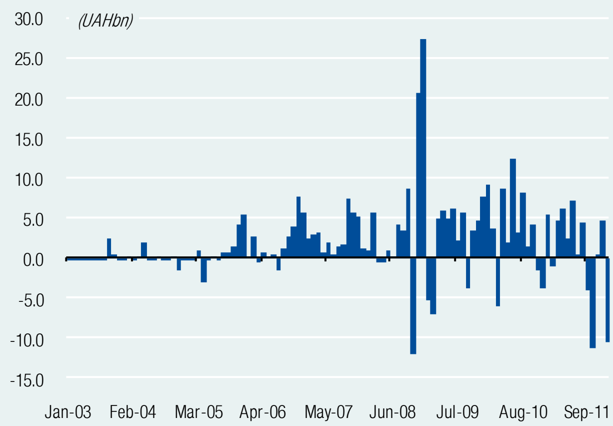




Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 75. NBU month changes in the balance sheet items, monthly history from January 2003 till January 2012:**
loans to banking sector (left) and net purchases of bonds on the market (right)




Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

# Schedule of external public debt due in 2012-14

**Table 12. List of external debt redemption by Ministry of Finance, National Bank of Ukraine and Naftogaz of Ukraine in 2012-14**
Volumes are in the currency of borrower

| Date | Borrower | Bond or loan | Volume | Currency |
|---|---|---|---|---|
| **2012** | | | | |
| 2-Feb-12 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 3-May-12 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 4-Jun-12 | Ministry of Finance | Loan | 2,000,000,000 | USD |
| 26-Jun-12 | Ministry of Finance | Eurobond | 500,000,000 | USD |
| 27-Jul-12 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 27-Jul-12 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 2-Aug-12 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 24-Oct-12 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 26-Oct-12 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 26-Oct-12 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 1-Nov-12 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| **Total USD** | | | **2,500,000,000** | |
| **Total XDR** | | | **2,240,000,000** | |
| **2013** | | | | |
| 23-Jan-13 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 25-Jan-13 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 25-Jan-13 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 31-Jan-13 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 24-Apr-13 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 26-Apr-13 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 26-Apr-13 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 2-May-13 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 11-Jun-13 | Ministry of Finance | Eurobond | 1,000,000,000 | USD |
| 24-Jul-13 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 26-Jul-13 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 26-Jul-13 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 1-Aug-13 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 29-Sep-13 | National Bank of Ukraine | Loan | 71,874,625 | XDR |
| 29-Sep-13 | Ministry of Finance | Loan | 84,375,375 | XDR |
| 23-Oct-13 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 25-Oct-13 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 25-Oct-13 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 31-Oct-13 | National Bank of Ukraine | Loan | 375,000,000 | XDR |
| 29-Dec-13 | National Bank of Ukraine | Loan | 71,874,625 | XDR |
| 29-Dec-13 | Ministry of Finance | Loan | 84,375,375 | XDR |
| **Total USD** | | | **1,000,000,000** | |
| **Total XDR** | | | **3,822,500,000** | |
| **2014** | | | | |
| 22-Jan-14 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 24-Jan-14 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 24-Jan-14 | National Bank of Ukraine | Loan | 118,750,000 | XDR |
| 20-Mar-14 | Ministry of Finance | Loan | 81,701,875 | XDR |
| 20-Mar-14 | National Bank of Ukraine | Loan | 43,298,125 | XDR |
| 30-Mar-14 | Ministry of Finance | Loan | 84,375,375 | XDR |
| 30-Mar-14 | National Bank of Ukraine | Loan | 71,874,625 | XDR |
| 23-Apr-14 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 25-Apr-14 | National Bank of Ukraine | Loan | 118,750,000 | XDR |

**Table 12. List of external debt redemption by Ministry of Finance, National Bank of Ukraine and Naftogaz of Ukraine in 2012-14**
Volumes are in the currency of borrower

| Date | Borrower | Bond or loan | Volume | Currency |
|---|---|---|---|---|
| 25-Apr-14 | Ministry of Finance | Loan | 118,750,000 | XDR |
| 19-Jun-14 | Ministry of Finance | Loan | 81,701,875 | XDR |
| 19-Jun-14 | National Bank of Ukraine | Loan | 43,298,125 | XDR |
| 29-Jun-14 | Ministry of Finance | Loan | 84,375,375 | XDR |
| 29-Jun-14 | National Bank of Ukraine | Loan | 71,874,625 | XDR |
| 23-Jul-14 | Ministry of Finance | Loan | 265,000,000 | XDR |
| 18-Sep-14 | Ministry of Finance | Loan | 81,701,875 | XDR |
| 18-Sep-14 | National Bank of Ukraine | Loan | 43,298,125 | XDR |
| 28-Sep-14 | National Bank of Ukraine | Loan | 71,874,625 | XDR |
| 28-Sep-14 | Ministry of Finance | Loan | 84,375,375 | XDR |
| 30-Sep-14 | Naftogaz of Ukraine | Eurobond | 1,595,017,000 | USD |
| 18-Dec-14 | National Bank of Ukraine | Loan | 43,298,125 | XDR |
| 18-Dec-14 | Ministry of Finance | Loan | 81,701,875 | XDR |
| 28-Dec-14 | Ministry of Finance | Loan | 84,375,375 | XDR |
| 28-Dec-14 | National Bank of Ukraine | Loan | 71,874,625 | XDR |
| **Total USD** | | | **1,595,017,000** | |
| **Total XDR** | | | **2,395,000,000** | |

Notes: XDR – special drawing rights.
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

# Projections of 2012 balance of payments under different scenarios

**Table 13. Assessment of the balance of payments in 2012 (US$m) from the perspective of current account size (determined by variables on natural gas imports) and capital account debt flows**

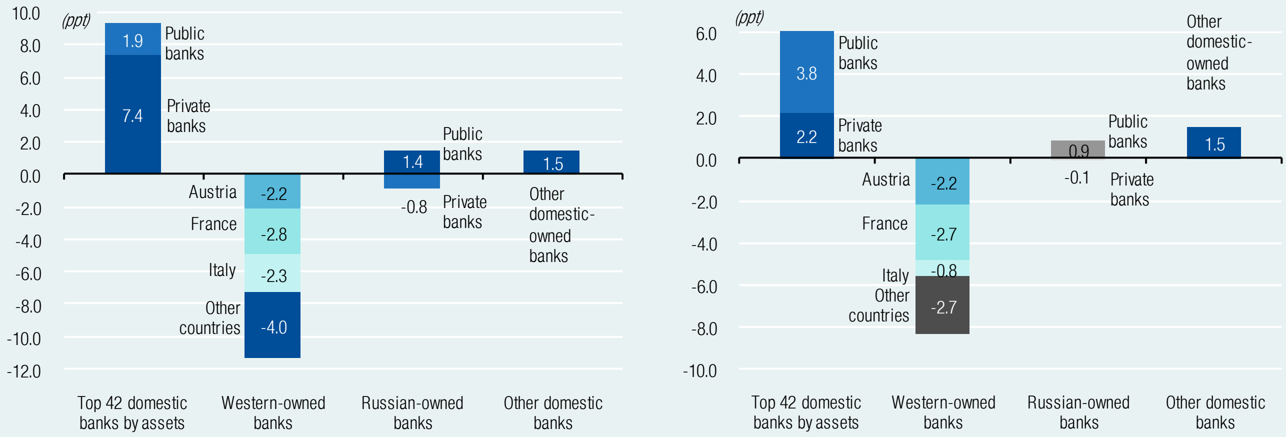
| | 44bcm | | | 37bcm | | | 30bcm | | | 27bcm | | | Roll-over ratios | Comment |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current price | 10% disc't[1] | $260[1] | Current price | 10% disc't[1] | $260[1] | Current price | 10% disc't[1] | $260[1] | Current price | 10% disc't[1] | $260[1] | | |
| **Current account balance** | **-16,461** | **-15,072** | **-10,521** | **-12,581** | **-11,414** | **-7,587** | **-8,702** | **-7,755** | **-4,653** | **-7,040** | **-6,188** | **-3,395** | | |
| Short-term debt due next 12-month perid by | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | -56,799 | | |
| **Government** | | | | | | | | | | | | | | |
| Official lenders (IMF) | -774 | -774 | -774 | -774 | -774 | -774 | -774 | -774 | -774 | -774 | -774 | -774 | 0% | ICU assumption |
| Russian banks (VTB) | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | -2,000 | 100% | ICU assumption |
| Eurobonds | -500 | -500 | -500 | -500 | -500 | -500 | -500 | -500 | -500 | -500 | -500 | -500 | 300% | ICU assumption |
| Other lenders | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | -1,348 | 100% | All-time avg roll-over ratio for authorities (BoP monthly data) |
| **Central bank** | | | | | | | | | | | | | | |
| Official lenders (IMF) | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | -2,676 | 0% | ICU assumption |
| Other lenders | -15 | -15 | -15 | -15 | -15 | -15 | -15 | -15 | -15 | -15 | -15 | -15 | 0% | ICU assumption |
| **Banks** | | | | | | | | | | | | | | |
| Eurobonds | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | -1,106 | 0% | ICU assumption |
| Other lenders | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | -11,796 | 80% | All-time avg roll-over ratio for banks adjusted up by 38% |
| **Corporations** | | | | | | | | | | | | | | |
| Eurobonds | -225 | -225 | -225 | -225 | -225 | -225 | -225 | -225 | -225 | -225 | -225 | -225 | 0% | ICU assumption |
| Loans | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | -10,691 | 110% | All-time avg roll-over ratio for corporations (BoP monthly data) |
| Trade loans | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | -17,579 | 110% | The same as bove |
| Other lenders | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | -8,089 | 121% | The same as bove net of inlfow of election money (~US$1.5bn) |
| Demand for currency by local savers | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | -3,249 | | All-time avg net of inflow of Euro-2012 fans' money (~US$1bn) |
| **Total financing needs** | **-76,508** | **-75,120** | **-70,569** | **-72,629** | **-71,461** | **-67,634** | **-68,750** | **-67,803** | **-64,700** | **-67,087** | **-66,235** | **-63,442** | | |
| FDI, inflows | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | 7,052 | | ICU forecast for the period |
| **Borrowings** | | | | | | | | | | | | | | |
| Government | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | 4,848 | | ICU calculations based on debt due this year and roll-over ratios |
| Central bank | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | ICU calculations based on debt due this year and roll-over ratios |
| Banks | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | 9,378 | | ICU calculations based on debt due this year and roll-over ratios |
| Corporations | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | 40,894 | | ICU calculations based on debt due this year and roll-over ratios |
| **Total financing** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | **62,172** | | |
| **Addition to (use of) FX reserves** | **-14,336** | **-12,947** | **-8,396** | **-10,456** | **-9,289** | **-5,462** | **-6,577** | **-5,630** | **-2,528** | **-4,915** | **-4,063** | **+3,785** | | |

Notes: Shaded area is ICU's base-case scenario; [1] effective since 2H12. Source: Investment Capital Ukraine LLC.

# Ukraine's top 42 banks' key financial figures, 2009-11

**Chart 76. Banks' repositioning in terms of their market share by their ownership – cumulative change in market share in 2009-11 (ppt)**

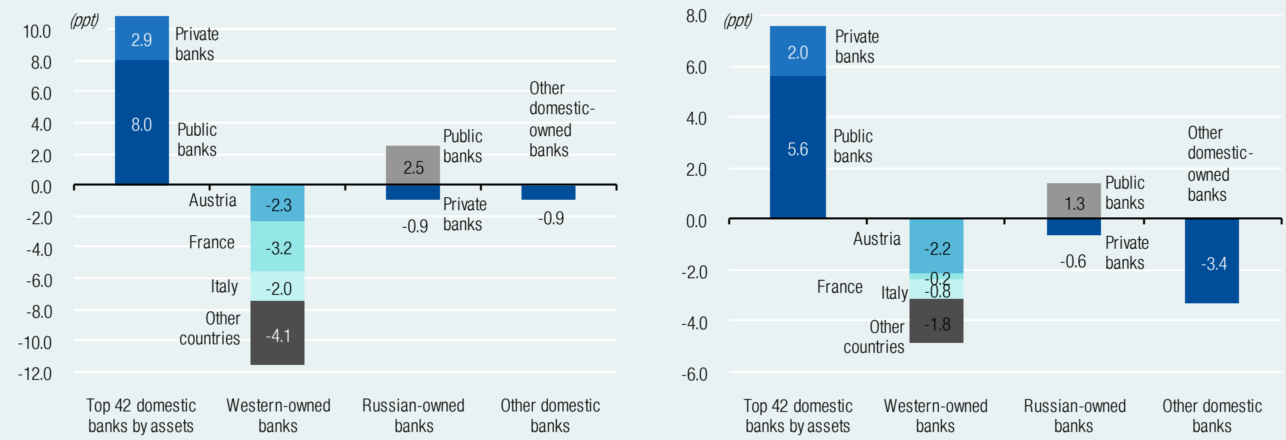
*Market share in terms of* ***assets*** | *Market share in terms of* ***equity***




Source: National Bank of Ukraine, Investment Capital Ukraine LLC. | Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 77. Banks' re-positioning in terms of their market share by their ownership – cumulative change in market share in 2009-11 (ppt)**

*Market share in terms of* ***loans*** | *Market share in terms of* ***deposits***




Source: National Bank of Ukraine, Investment Capital Ukraine LLC. | Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

## Table 14. Banking sector by key groups of banks by ownership and the groups' changes in market share (in percentage points)

| | ASSETS: changes in market share (% of total) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 3Q11 | 4Q11 | Total[1] |
| Local banks (private sector) | +0.58 | -0.07 | +1.53 | +0.84 | +0.35 | +0.85 | +0.55 | +0.50 | +0.42 | +0.89 | +0.95 | +7.40 |
| Local banks (public sector) | +0.31 | +0.33 | +1.24 | +0.09 | +0.11 | -0.21 | -0.12 | +0.25 | +0.72 | -0.70 | -0.16 | +1.86 |
| **Local banks (total)** | **+0.89** | **+0.26** | **+2.77** | **+0.93** | **+0.47** | **+0.64** | **+0.43** | **+0.75** | **+1.14** | **+0.19** | **+0.79** | **+9.26** |
| DM owned banks (Austria) | -0.18 | +0.23 | -0.87 | +0.49 | -0.43 | +0.05 | -0.38 | -0.35 | -0.05 | -0.32 | -0.36 | -2.16 |
| DM owned banks (France) | +0.14 | -0.64 | -0.08 | -0.18 | -0.19 | -0.37 | +0.22 | -0.21 | -0.20 | -0.36 | -0.96 | -2.83 |
| DM owned banks (Italy) | -0.19 | -0.28 | +0.06 | -0.22 | -0.06 | -0.30 | -0.35 | -0.22 | -0.38 | -0.08 | -0.26 | -2.28 |
| DM owned banks (Other) | -0.40 | +0.06 | +0.35 | -0.77 | -0.13 | -0.71 | -0.65 | -0.56 | -0.49 | -0.25 | -0.48 | -4.04 |
| **DM owned banks (total)** | **-0.64** | **-0.63** | **-0.54** | **-0.68** | **-0.82** | **-1.33** | **-1.16** | **-1.34** | **-1.11** | **-1.01** | **-2.06** | **-11.31** |
| Russian banks (public sector) | -0.37 | +0.29 | +0.23 | +0.08 | -0.16 | +0.02 | +0.82 | -0.10 | -0.07 | +0.39 | +0.28 | +1.41 |
| Russian banks (private sector) | +0.25 | +0.07 | -0.53 | -0.17 | -0.05 | -0.11 | -0.14 | +0.04 | -0.04 | -0.28 | +0.11 | -0.84 |
| **Russian banks (total)** | **-0.12** | **+0.37** | **-0.30** | **-0.09** | **-0.21** | **-0.09** | **+0.68** | **-0.07** | **-0.11** | **+0.11** | **+0.39** | **+0.57** |
| Other banks | -0.14 | +0.00 | -1.93 | -0.16 | +0.56 | +0.78 | +0.05 | +0.66 | +0.09 | +0.70 | +0.87 | +1.49 |
| **All banks** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **+0.00** | **0.00** |

| | EQUITY: changes in market share (% of total) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 3Q11 | 4Q11 | Total[1] |
| Local banks (private sector) | -0.17 | -1.29 | +0.44 | -0.57 | +0.34 | -0.47 | -0.20 | +0.26 | +1.51 | +1.31 | +1.04 | +2.21 |
| Local banks (public sector) | -0.26 | +2.97 | +0.57 | +3.40 | -0.31 | -1.56 | -0.86 | -0.21 | +1.04 | -0.27 | -0.70 | +3.83 |
| **Local banks (total)** | **-0.43** | **+1.68** | **+1.01** | **+2.83** | **+0.03** | **-2.03** | **-1.06** | **+0.05** | **+2.56** | **+1.05** | **+0.34** | **+6.04** |
| DM owned banks (Austria) | -0.47 | -0.77 | -0.61 | -0.21 | +0.69 | +0.16 | -0.22 | -0.03 | -0.36 | -0.05 | -0.30 | -2.17 |
| DM owned banks (France) | +1.48 | -0.67 | -0.33 | -0.72 | -0.33 | -0.67 | +1.28 | +0.01 | -0.59 | -0.60 | -1.55 | -2.69 |
| DM owned banks (Italy) | +0.07 | -0.08 | +0.43 | -0.51 | -0.02 | -0.25 | +0.13 | -0.01 | -0.17 | -0.17 | -0.17 | -0.77 |
| DM owned banks (Other) | +0.68 | -1.23 | -2.54 | -0.48 | -1.00 | +3.86 | -1.65 | +0.69 | -0.52 | +0.19 | -0.70 | -2.71 |
| **DM owned banks (total)** | **+1.75** | **-2.75** | **-3.05** | **-1.92** | **-0.66** | **+3.09** | **-0.45** | **+0.66** | **-1.65** | **-0.63** | **-2.72** | **-8.34** |
| Russian banks (public sector) | -0.61 | -1.21 | +3.64 | -1.25 | -0.39 | -0.52 | +1.20 | -0.59 | -0.18 | -0.14 | +0.91 | +0.87 |
| Russian banks (private sector) | +0.08 | -0.20 | -0.19 | -0.59 | +0.65 | -0.13 | -0.07 | -0.00 | -0.12 | -0.07 | +0.54 | -0.09 |
| **Russian banks (total)** | **-0.53** | **-1.41** | **+3.45** | **-1.84** | **+0.26** | **-0.64** | **+1.13** | **-0.59** | **-0.30** | **-0.20** | **+1.46** | **+0.78** |
| Other banks | -0.80 | +2.48 | -1.41 | +0.93 | +0.37 | -0.42 | +0.38 | -0.12 | -0.61 | -0.21 | +0.92 | +1.52 |
| **All banks** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |

Notes: private sector – state ultimate ownership; private sector – non-government ultimate ownership; DM – develop markets; [1] total of quarterly changes in the market share from 2Q09 till 4Q11.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

## Table 15. Banking sector by key groups of banks by ownership and the groups' changes in market share (in percentage points)

| | LOANS: changes in market share (% of total) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 3Q11 | 4Q11 | Total[1] |
| Local banks (private sector) | -0.09 | +0.27 | +0.97 | +1.12 | +0.92 | +0.92 | +1.65 | +0.80 | +0.62 | -0.08 | +0.90 | +8.01 |
| Local banks (public sector) | +0.82 | +0.31 | +0.38 | +0.09 | +0.01 | +0.33 | -0.39 | -0.06 | +0.26 | +0.85 | +0.30 | +2.89 |
| **Local banks (total)** | **+0.74** | **+0.58** | **+1.35** | **+1.22** | **+0.93** | **+1.25** | **+1.26** | **+0.73** | **+0.88** | **+0.77** | **+1.19** | **+10.89** |
| DM owned banks (Austria) | -0.39 | -0.15 | -0.09 | -0.21 | -0.12 | -0.43 | -0.22 | -0.18 | -0.12 | -0.09 | -0.29 | -2.29 |
| DM owned banks (France) | -0.23 | -0.09 | +0.02 | -0.12 | -0.13 | -0.21 | -0.32 | -0.27 | -0.47 | -0.64 | -0.77 | -3.23 |
| DM owned banks (Italy) | -0.26 | -0.06 | +0.05 | -0.27 | -0.17 | -0.28 | -0.17 | -0.27 | -0.13 | -0.26 | -0.15 | -1.97 |
| DM owned banks (Other) | -0.36 | +0.34 | +0.71 | -0.50 | -0.68 | -0.58 | -0.91 | -0.58 | -0.50 | -0.45 | -0.56 | -4.07 |
| **DM owned banks (total)** | **-1.24** | **+0.04** | **+0.69** | **-1.10** | **-1.10** | **-1.50** | **-1.63** | **-1.29** | **-1.22** | **-1.45** | **-1.77** | **-11.57** |
| Russian banks (public sector) | +0.18 | +0.22 | +0.18 | +0.27 | +0.02 | +0.24 | +0.51 | +0.13 | -0.02 | +0.40 | +0.36 | +2.48 |
| Russian banks (private sector) | +0.33 | -0.55 | -0.09 | +0.09 | -0.26 | +0.04 | -0.30 | +0.06 | -0.01 | -0.16 | -0.06 | -0.93 |
| **Russian banks (total)** | **+0.50** | **-0.33** | **+0.08** | **+0.36** | **-0.24** | **+0.28** | **+0.21** | **+0.18** | **-0.04** | **+0.24** | **+0.30** | **+1.55** |
| Other banks | -0.00 | -0.29 | -2.13 | -0.48 | +0.42 | -0.03 | +0.16 | +0.38 | +0.38 | +0.44 | +0.28 | -0.87 |
| **All banks** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |

| | DEPOSITS: changes in market share (% of total) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 3Q11 | 4Q11 | Total[1] |
| Local banks (private sector) | -0.41 | -0.15 | +1.18 | +2.12 | -0.10 | +0.70 | +1.18 | -0.52 | +0.79 | +0.34 | +0.46 | +5.60 |
| Local banks (public sector) | +1.17 | +0.36 | +1.92 | -1.92 | -0.19 | -0.05 | +0.08 | +1.74 | -0.12 | -0.41 | -0.64 | +1.95 |
| **Local banks (total)** | **+0.76** | **+0.21** | **+3.11** | **+0.20** | **-0.29** | **+0.65** | **+1.27** | **+1.22** | **+0.67** | **-0.07** | **-0.18** | **+7.55** |
| DM owned banks (Austria) | +0.19 | +0.25 | -0.06 | -0.14 | -0.73 | -0.17 | -0.38 | -0.50 | +0.12 | -0.46 | -0.31 | -2.18 |
| DM owned banks (France) | +0.06 | -0.25 | +0.15 | +0.07 | +0.36 | -0.30 | -0.05 | +0.21 | -0.43 | -0.15 | +0.18 | -0.17 |
| DM owned banks (Italy) | -0.05 | -0.26 | +0.34 | -0.02 | +0.03 | -0.32 | -0.29 | -0.32 | -0.07 | +0.47 | -0.33 | -0.81 |
| DM owned banks (Other) | +0.02 | +0.58 | +0.51 | -0.14 | -0.25 | -0.31 | -0.55 | -0.40 | -0.32 | -0.11 | -0.78 | -1.76 |
| **DM owned banks (total)** | **+0.22** | **+0.32** | **+0.94** | **-0.24** | **-0.59** | **-1.10** | **-1.26** | **-1.01** | **-0.70** | **-0.25** | **-1.24** | **-4.91** |
| Russian banks (public sector) | +0.13 | +0.31 | +0.20 | +0.65 | +0.45 | +0.11 | -0.12 | -0.15 | -0.04 | -0.57 | +0.38 | +1.35 |
| Russian banks (private sector) | +0.23 | +0.12 | -1.18 | -0.08 | +0.17 | +0.00 | -0.02 | +0.13 | -0.00 | -0.19 | +0.19 | -0.63 |
| **Russian banks (total)** | **+0.36** | **+0.43** | **-0.97** | **+0.57** | **+0.62** | **+0.11** | **-0.13** | **-0.02** | **-0.05** | **-0.75** | **+0.56** | **+0.72** |
| Other banks | -1.33 | -0.96 | -3.07 | -0.54 | +0.26 | +0.34 | +0.13 | -0.19 | +0.08 | +1.08 | +0.86 | -3.35 |
| **All banks** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |

Notes: private sector – state ultimate ownership; private sector – non-government ultimate ownership; DM – develop markets; [1] total of quarterly changes in the market share from 2Q09 till 4Q11.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Table 16. Quarterly development of the banks' assets (UAHbn) from 1Q09 to 4Q11

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 | CAGR (%) | Share (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 74,366 | 79,509 | 81,510 | 86,066 | 91,978 | 97,469 | 104,398 | 113,437 | 128,360 | 135,741 | 141,363 | 145,118 | 26.8 | 13.8 |
| Ukreximbank | Local banks (public sector) | 51,070 | 56,731 | 55,149 | 57,197 | 62,652 | 66,057 | 68,978 | 73,172 | 76,255 | 80,012 | 73,072 | 75,103 | 27.3 | 7.1 |
| Oschadbank | Local banks (public sector) | 54,797 | 53,542 | 60,721 | 59,927 | 57,626 | 58,747 | 59,506 | 59,019 | 68,081 | 72,452 | 75,349 | 73,968 | 39.9 | 7.0 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 59,808 | 57,223 | 60,236 | 54,048 | 54,028 | 53,983 | 55,932 | 55,100 | 54,886 | 55,090 | 53,168 | 51,347 | 3.7 | 4.9 |
| Ukrsibbank | DM owned banks (France) | 52,371 | 50,972 | 48,454 | 46,348 | 45,794 | 44,752 | 43,301 | 46,128 | 46,868 | 46,286 | 42,235 | 32,868 | -3.3 | 3.1 |
| Ukrsotsbank | DM owned banks (Italy) | 46,674 | 44,976 | 44,273 | 43,657 | 42,211 | 42,671 | 42,949 | 41,603 | 41,745 | 39,968 | 39,619 | 40,207 | 6.5 | 3.8 |
| Prominvestbank | Russian banks (public sector) | 32,662 | 27,866 | 30,803 | 30,437 | 29,963 | 28,650 | 28,914 | 34,613 | 34,948 | 34,590 | 35,279 | 38,161 | 10.0 | 3.6 |
| VTB Bank | Russian banks (public sector) | 26,521 | 27,283 | 28,258 | 28,780 | 27,997 | 29,845 | 30,826 | 33,145 | 33,589 | 35,870 | 36,661 | 37,067 | 33.4 | 3.5 |
| Alfa Bank | Russian banks (private sector) | 30,387 | 32,383 | 33,964 | 28,694 | 27,289 | 27,167 | 27,142 | 26,595 | 28,473 | 28,786 | 26,157 | 27,965 | 16.7 | 2.7 |
| OTP Bank | DM owned banks (Other) | 30,981 | 29,733 | 29,934 | 29,395 | 28,107 | 26,790 | 26,204 | 24,682 | 24,630 | 23,225 | 22,826 | 22,785 | 6.2 | 2.2 |
| Nadra Bank | Local banks (private sector) | 28,073 | 26,293 | 25,893 | 24,846 | 25,080 | 22,852 | 23,094 | 22,908 | 22,449 | 22,485 | 24,566 | 26,739 | 5.9 | 2.5 |
| Finance & Credit Bnk | Local banks (private sector) | 18,316 | 17,590 | 18,449 | 19,457 | 20,455 | 22,202 | 21,708 | 22,367 | 23,176 | 24,410 | 21,698 | 22,007 | 10.7 | 2.1 |
| First Ukrainian Int'l B | Local banks (private sector) | 18,551 | 17,757 | 17,866 | 17,400 | 20,179 | 17,042 | 18,744 | 18,098 | 20,002 | 19,506 | 29,278 | 34,866 | 25.9 | 3.3 |
| Brokbiznesbank | Local banks (private sector) | 13,470 | 14,309 | 14,154 | 16,163 | 14,534 | 15,557 | 15,240 | 15,826 | 16,594 | 17,842 | 19,398 | 18,940 | 12.1 | 1.8 |
| Creditprombank | Local banks (private sector) | 13,549 | 13,155 | 13,921 | 13,578 | 13,069 | 13,823 | 13,853 | 14,235 | 14,589 | 14,993 | 13,241 | 12,508 | 0.0 | 1.2 |
| Bank Forum | DM owned banks (Other) | 19,385 | 19,132 | 18,645 | 19,453 | 17,135 | 17,105 | 15,523 | 14,021 | 13,707 | 13,208 | 12,453 | 10,474 | -7.7 | 1.0 |
| Ukrgazbank | Local banks (public sector) | 12,496 | 12,140 | 12,941 | 12,090 | 14,171 | 13,996 | 14,498 | 13,837 | 13,491 | 17,213 | 15,941 | 18,157 | 15.2 | 1.7 |
| Delta Bank | Local banks (private sector) | 5,316 | 5,520 | 6,115 | 8,465 | 6,511 | 8,155 | 13,071 | 13,798 | 15,331 | 16,368 | 18,856 | 23,216 | 59.8 | 2.2 |
| Swedbank | DM owned banks (Other) | 15,137 | 13,841 | 13,735 | 13,853 | 12,852 | 12,348 | 12,325 | 12,250 | 11,288 | 11,602 | 8,589 | 8,419 | -2.0 | 0.8 |
| Rodovid Bank | Local banks (public sector) | 10,988 | 8,730 | 9,098 | 16,952 | 12,795 | 11,173 | 10,558 | 10,480 | 9,938 | 9,571 | 9,364 | 9,012 | -2.4 | 0.9 |
| Pivdenny | Local banks (private sector) | 10,656 | 10,481 | 10,641 | 10,703 | 10,447 | 10,468 | 10,862 | 10,276 | 10,381 | 10,883 | 10,530 | 10,208 | 5.6 | 1.0 |
| Dongorbank | Local banks (private sector) | 6,894 | 7,210 | 7,473 | 7,098 | 8,070 | 8,797 | 9,869 | 10,141 | 9,308 | 7,274 | ... | ... | N/M | N/M |
| Sberbank of Russia | Russian banks (public sector) | 4,654 | 5,034 | 5,501 | 6,198 | 8,259 | 7,097 | 8,394 | 9,924 | 12,477 | 11,839 | 15,118 | 16,933 | 70.4 | 1.6 |
| Erste Bank | DM owned banks (Austria) | 9,680 | 10,198 | 11,238 | 8,487 | 12,930 | 9,999 | 10,814 | 9,832 | 10,260 | 11,201 | 10,437 | 10,006 | 13.3 | 0.9 |
| ING Bank Ukraine | DM owned banks (Other) | 8,870 | 8,259 | 9,572 | 9,700 | 8,135 | 9,070 | 8,896 | 9,633 | 9,347 | 9,393 | 10,843 | 10,771 | 18.2 | 1.0 |
| Universal Bank | DM owned banks (Other) | 7,574 | 7,729 | 8,532 | 9,109 | 8,664 | 9,294 | 9,473 | 8,585 | 8,218 | 6,971 | 6,680 | 6,461 | 22.3 | 0.6 |
| Unicredit Bank | DM owned banks (Italy) | 9,561 | 9,015 | 9,240 | 8,693 | 8,445 | 8,755 | 8,676 | 8,494 | 8,689 | 8,082 | 8,509 | 6,556 | 1.8 | 0.6 |
| Kreschatyk Bank | Local banks (private sector) | 4,869 | 5,425 | 6,013 | 6,426 | 6,009 | 6,454 | 6,960 | 7,066 | 7,211 | 7,137 | 7,318 | 7,392 | 5.9 | 0.7 |
| VAB Bank | DM owned banks (Other) | 7,104 | 6,913 | 7,443 | 7,258 | 7,007 | 7,116 | 6,785 | 6,662 | 7,294 | 7,737 | 8,698 | 9,128 | 7.7 | 0.9 |
| Finance Initiative | Local banks (private sector) | 5,065 | 5,278 | 5,414 | 5,361 | 6,069 | 5,707 | 5,904 | 6,502 | 6,743 | 7,247 | 7,845 | 9,179 | 19.1 | 0.9 |
| Imexbank | DM owned banks (France) | 4,844 | 4,928 | 4,950 | 5,663 | 5,440 | 6,028 | 6,030 | 6,279 | 6,447 | 6,654 | 6,776 | 7,304 | 16.1 | 0.7 |
| Bank Credit Dnipro | Local banks (private sector) | 3,502 | 4,273 | 4,632 | 4,834 | 4,487 | 4,573 | 5,174 | 6,036 | 5,717 | 6,493 | 7,187 | 8,556 | 37.9 | 0.8 |
| Citibank | DM owned banks (Other) | 4,357 | 3,567 | 4,104 | 4,168 | 4,831 | 4,826 | 5,414 | 5,772 | 6,042 | 5,660 | 5,425 | 5,574 | 11.5 | 0.5 |
| Pravex-Bank | DM owned banks (Italy) | 7,062 | 7,226 | 6,989 | 7,541 | 7,372 | 6,711 | 5,891 | 5,656 | 6,260 | 6,209 | 5,855 | 5,806 | -1.1 | 0.6 |
| Crédit Agricole | DM owned banks (France) | 5,687 | 7,464 | 6,127 | 5,637 | 5,263 | 4,940 | 5,053 | 5,332 | 5,310 | 6,500 | 6,603 | 6,892 | 23.1 | 0.7 |
| Kyivska Rus | Local banks (private sector) | 3,587 | 3,749 | 3,728 | 3,743 | 4,317 | 4,304 | 4,663 | 4,949 | 5,562 | 6,127 | 6,226 | 5,644 | 23.0 | 0.5 |
| Credobank | DM owned banks (Other) | 6,267 | 5,734 | 5,531 | 5,475 | 5,481 | 5,010 | 4,810 | 4,450 | 4,288 | 4,223 | 4,149 | 3,794 | -4.7 | 0.4 |
| Crédit Agricole CIB | DM owned banks (France) | 4,051 | 4,353 | 4,488 | 4,503 | 4,219 | 3,988 | 4,092 | 4,378 | 4,862 | 3,597 | 4,283 | 4,222 | 8.5 | 0.4 |
| BTA Bank | Local banks (private sector) | 2,735 | 2,066 | 2,473 | 3,202 | 3,656 | 3,452 | 3,764 | 3,834 | 4,419 | 4,803 | 5,156 | 5,744 | 49.2 | 0.5 |
| Marfin Bank | DM owned banks (Other) | 3,779 | 4,247 | 5,171 | 5,093 | 4,788 | 5,011 | 4,374 | 4,128 | 4,236 | 4,393 | 4,704 | 4,563 | 33.1 | 0.4 |
| Piraeus Bank | DM owned banks (Other) | 2,856 | 2,960 | 2,936 | 3,180 | 3,101 | 3,542 | 3,483 | 3,588 | 4,396 | 4,381 | 4,686 | 4,161 | 30.1 | 0.4 |
| Megabank | Local banks (private sector) | 3,029 | 2,950 | 2,965 | 3,172 | 3,366 | 3,303 | 3,524 | 3,509 | 3,491 | 3,603 | 4,207 | 4,540 | 22.6 | 0.4 |
| Other banks | | 129,031 | 126,952 | 130,679 | 111,400 | 110,181 | 116,428 | 127,829 | 131,744 | 145,675 | 150,184 | 158,816 | 171,908 | 14.2 | 16.3 |
| **Total** | | **870,634** | **864,695** | **889,959** | **873,450** | **874,965** | **885,256** | **917,497** | **942,084** | **995,033** | **1,019,811** | **1,029,163** | **1,054,272** | **15.2** | **100.0** |
| | Local banks (private sector) | 211,979 | 215,564 | 221,246 | 230,514 | 238,227 | 244,156 | 260,827 | 272,983 | 293,332 | 304,913 | 316,869 | 334,659 | 19.2 | 31.7 |
| | Local banks (public sector) | 129,351 | 131,143 | 137,910 | 146,166 | 147,244 | 149,973 | 153,540 | 156,508 | 167,766 | 179,247 | 173,726 | 176,242 | 26.8 | 16.7 |
| | **Local banks (total)** | **341,330** | **346,707** | **359,156** | **376,680** | **385,472** | **394,129** | **414,367** | **429,491** | **461,098** | **484,160** | **490,596** | **510,900** | **21.5** | **48.5** |
| | DM owned banks (Austria) | 69,488 | 67,421 | 71,474 | 62,535 | 66,959 | 63,982 | 66,746 | 64,932 | 65,145 | 66,290 | 63,605 | 61,353 | 5.0 | 5.8 |
| | DM owned banks (France) | 66,953 | 67,717 | 64,018 | 62,150 | 60,717 | 59,709 | 58,476 | 62,117 | 63,487 | 63,038 | 59,896 | 51,285 | 1.8 | 4.9 |
| | DM owned banks (Italy) | 63,297 | 61,217 | 60,502 | 59,891 | 58,028 | 58,136 | 57,515 | 55,753 | 56,694 | 54,259 | 53,982 | 52,569 | 4.9 | 5.0 |
| | DM owned banks (Other) | 106,311 | 102,116 | 105,604 | 106,685 | 100,101 | 100,113 | 97,287 | 93,770 | 93,446 | 90,794 | 89,052 | 86,132 | 6.2 | 8.2 |
| | **DM owned banks (total)** | **306,049** | **298,470** | **301,598** | **291,261** | **285,804** | **281,940** | **280,025** | **276,572** | **278,772** | **274,381** | **266,536** | **251,339** | **4.7** | **23.8** |
| | Russian banks (public sector) | 63,837 | 60,184 | 64,562 | 65,415 | 66,219 | 65,592 | 68,134 | 77,682 | 81,014 | 82,299 | 87,058 | 92,161 | 23.4 | 8.7 |
| | Russian banks (private sector) | 30,387 | 32,383 | 33,964 | 28,694 | 27,289 | 27,167 | 27,142 | 26,595 | 28,473 | 28,786 | 26,157 | 27,965 | 16.7 | 2.7 |
| | **Russian banks (total)** | **94,224** | **92,566** | **98,526** | **94,109** | **93,508** | **92,758** | **95,277** | **104,277** | **109,487** | **111,086** | **113,215** | **120,125** | **21.6** | **11.4** |
| | Other banks | 129,031 | 126,952 | 130,679 | 111,400 | 110,181 | 116,428 | 127,829 | 131,744 | 145,675 | 150,184 | 158,816 | 171,908 | 14.2 | 16.3 |
| | **All banks** | **870,634** | **864,695** | **889,959** | **873,450** | **874,965** | **885,256** | **917,497** | **942,084** | **995,033** | **1,019,811** | **1,029,163** | **1,054,272** | **15.2** | **100.0** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Table 17. Quarterly development of the banks' loan portfolios (UAHbn) from 1Q09 to 4Q11**

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 | CAGR (%) | Share (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 71,359 | 70,372 | 73,527 | 74,992 | 81,179 | 85,437 | 90,977 | 101,855 | 111,470 | 118,003 | 123,697 | 122,922 | 31.0 | 15.1 |
| Ukreximbank | Local banks (public sector) | 42,947 | 44,375 | 46,822 | 48,309 | 48,834 | 48,271 | 51,963 | 52,094 | 52,357 | 52,898 | 54,152 | 52,753 | 23.9 | 6.5 |
| Oschadbank | Local banks (public sector) | 37,155 | 41,969 | 43,648 | 44,601 | 43,858 | 44,101 | 45,049 | 44,778 | 45,037 | 49,452 | 57,384 | 58,838 | 60.5 | 7.2 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 53,783 | 51,042 | 50,844 | 48,725 | 47,023 | 46,267 | 44,910 | 43,854 | 43,750 | 44,211 | 45,111 | 42,725 | 3.5 | 5.2 |
| Ukrsibbank | DM owned banks (France) | 48,677 | 46,834 | 46,814 | 45,276 | 43,363 | 41,406 | 40,984 | 38,699 | 36,934 | 34,787 | 30,066 | 23,371 | -6.7 | 2.9 |
| Ukrsotsbank | DM owned banks (Italy) | 42,691 | 41,126 | 41,480 | 40,557 | 39,084 | 38,474 | 38,046 | 37,474 | 37,165 | 37,705 | 37,387 | 37,251 | 11.4 | 4.6 |
| Prominvestbank | Russian banks (public sector) | 23,452 | 23,718 | 24,582 | 24,462 | 25,242 | 24,958 | 27,147 | 25,712 | 27,380 | 27,162 | 28,974 | 29,227 | 8.4 | 3.6 |
| VTB Bank | Russian banks (public sector) | 24,852 | 25,284 | 26,509 | 26,219 | 26,412 | 26,159 | 26,206 | 30,519 | 30,581 | 32,262 | 33,194 | 33,140 | 38.0 | 4.1 |
| Alfa Bank | Russian banks (private sector) | 28,075 | 30,376 | 26,767 | 25,314 | 25,756 | 23,843 | 24,938 | 22,908 | 23,878 | 24,432 | 23,928 | 23,399 | 19.2 | 2.9 |
| OTP Bank | DM owned banks (Other) | 30,248 | 29,606 | 30,578 | 29,056 | 27,422 | 23,748 | 23,876 | 21,480 | 20,583 | 19,511 | 19,717 | 20,139 | 6.5 | 2.5 |
| Nadra Bank | Local banks (private sector) | 25,099 | 24,834 | 25,324 | 24,793 | 24,184 | 23,692 | 24,086 | 24,547 | 24,990 | 25,105 | 24,329 | 25,184 | 14.7 | 3.1 |
| Finance & Credit Bnk | Local banks (private sector) | 15,880 | 15,495 | 15,942 | 16,659 | 17,199 | 18,028 | 18,878 | 18,849 | 19,371 | 19,648 | 19,342 | 19,186 | 13.8 | 2.4 |
| First Ukrainian Int'l B | Local banks (private sector) | 14,498 | 14,025 | 13,940 | 13,560 | 13,325 | 12,923 | 13,238 | 13,620 | 14,105 | 14,479 | 18,666 | 19,695 | 23.1 | 2.4 |
| Brokbiznesbank | Local banks (private sector) | 10,619 | 10,641 | 11,194 | 11,390 | 11,934 | 12,483 | 11,998 | 12,482 | 12,405 | 12,554 | 12,971 | 13,510 | 17.0 | 1.7 |
| Creditprombank | Local banks (private sector) | 11,690 | 11,570 | 11,932 | 11,782 | 11,787 | 11,756 | 11,893 | 11,072 | 11,255 | 11,326 | 12,087 | 12,252 | 9.8 | 1.5 |
| Bank Forum | DM owned banks (Other) | 16,874 | 16,546 | 17,243 | 17,000 | 15,465 | 15,311 | 15,070 | 14,118 | 14,072 | 13,787 | 14,093 | 11,320 | 4.1 | 1.4 |
| Ukrgazbank | Local banks (public sector) | 9,223 | 9,059 | 9,283 | 9,741 | 9,819 | 10,135 | 11,834 | 10,540 | 12,165 | 12,457 | 14,016 | 16,213 | 35.1 | 2.0 |
| Delta Bank | Local banks (private sector) | 3,851 | 3,952 | 4,160 | 4,200 | 4,036 | 4,842 | 10,599 | 12,313 | 11,420 | 13,606 | 14,784 | 18,052 | 62.4 | 2.2 |
| Swedbank | DM owned banks (Other) | 13,994 | 13,092 | 13,240 | 18,127 | 17,745 | 17,289 | 16,672 | 15,435 | 13,024 | 12,289 | 9,559 | 8,724 | 5.9 | 1.1 |
| Rodovid Bank | Local banks (public sector) | 9,220 | 8,827 | 8,573 | 5,355 | 5,381 | 5,232 | 4,983 | 4,445 | 4,417 | 4,380 | 4,452 | 4,374 | -8.1 | 0.5 |
| Pivdenny | Local banks (private sector) | 8,964 | 8,693 | 8,629 | 8,351 | 7,974 | 8,173 | 8,465 | 8,425 | 8,269 | 8,866 | 8,594 | 8,524 | 6.9 | 1.0 |
| Dongorbank | Local banks (private sector) | 5,046 | 5,034 | 4,901 | 4,971 | 5,092 | 4,785 | 4,511 | 4,274 | 4,110 | 3,931 | … | … | N/M | N/M |
| Sberbank of Russia | Russian banks (public sector) | 3,886 | 4,282 | 4,749 | 4,842 | 5,439 | 5,981 | 7,504 | 8,972 | 9,747 | 9,986 | 12,754 | 15,360 | 79.5 | 1.9 |
| Erste Bank | DM owned banks (Austria) | 6,520 | 6,198 | 6,262 | 6,067 | 5,874 | 5,648 | 5,549 | 5,383 | 5,269 | 5,236 | 5,179 | 5,129 | 24.6 | 0.6 |
| ING Bank Ukraine | DM owned banks (Other) | 6,707 | 6,228 | 7,298 | 6,976 | 6,954 | 6,572 | 6,347 | 6,550 | 6,518 | 6,366 | 7,363 | 7,874 | 25.8 | 1.0 |
| Universal Bank | DM owned banks (Other) | 6,579 | 6,520 | 6,873 | 6,989 | 6,770 | 6,511 | 6,663 | 5,253 | 5,387 | 5,318 | 5,498 | 5,622 | 25.7 | 0.7 |
| Unicredit Bank | DM owned banks (Italy) | 8,370 | 8,089 | 8,353 | 7,993 | 7,487 | 6,719 | 6,723 | 6,824 | 6,453 | 6,039 | 5,635 | 4,523 | -0.9 | 0.6 |
| Kreschatyk Bank | Local banks (private sector) | 3,387 | 3,890 | 3,839 | 4,080 | 3,968 | 4,120 | 4,135 | 4,309 | 4,254 | 4,471 | 4,444 | 4,514 | 7.0 | 0.6 |
| VAB Bank | DM owned banks (Other) | 5,994 | 5,958 | 6,355 | 6,158 | 6,088 | 5,913 | 5,923 | 5,473 | 6,118 | 6,343 | 6,660 | 6,433 | 9.0 | 0.8 |
| Finance Initiative | Local banks (private sector) | 4,563 | 4,553 | 4,606 | 5,002 | 5,731 | 5,775 | 5,957 | 6,364 | 7,050 | 7,652 | 8,318 | 9,729 | 27.6 | 1.2 |
| Imexbank | DM owned banks (France) | 3,621 | 3,549 | 3,635 | 3,902 | 4,574 | 5,063 | 5,218 | 5,455 | 5,900 | 6,210 | 6,414 | 6,805 | 30.1 | 0.8 |
| Bank Credit Dnipro | Local banks (private sector) | 2,934 | 3,195 | 3,415 | 3,196 | 3,058 | 3,314 | 3,661 | 4,158 | 4,412 | 4,889 | 5,056 | 5,657 | 32.4 | 0.7 |
| Citibank | DM owned banks (Other) | 2,410 | 2,017 | 2,165 | 2,409 | 2,132 | 2,365 | 1,992 | 2,293 | 2,177 | 2,490 | 2,464 | 2,200 | 0.0 | 0.3 |
| Pravex-Bank | DM owned banks (Italy) | 5,982 | 5,708 | 5,617 | 5,695 | 5,329 | 5,371 | 5,444 | 5,046 | 4,824 | 5,001 | 5,163 | 5,081 | 6.7 | 0.6 |
| Crédit Agricole | DM owned banks (France) | 3,725 | 3,579 | 3,441 | 3,366 | 3,466 | 3,930 | 4,287 | 4,366 | 4,686 | 4,981 | 5,240 | 5,528 | 36.0 | 0.7 |
| Kyivska Rus | Local banks (private sector) | 3,012 | 3,037 | 3,030 | 3,101 | 3,258 | 3,520 | 3,827 | 3,933 | 4,437 | 4,509 | 4,355 | 3,939 | 20.8 | 0.5 |
| Credobank | DM owned banks (Other) | 5,176 | 5,131 | 5,210 | 4,841 | 4,670 | 4,468 | 4,398 | 4,102 | 3,975 | 3,702 | 3,580 | 2,025 | -13.1 | 0.2 |
| Crédit Agricole CIB | DM owned banks (France) | 2,982 | 3,094 | 3,486 | 3,304 | 3,193 | 3,165 | 3,329 | 3,350 | 3,498 | 2,776 | 3,386 | 3,070 | 8.6 | 0.4 |
| BTA Bank | Local banks (private sector) | 1,347 | 1,626 | 1,687 | 1,642 | 1,596 | 1,522 | 1,831 | 2,173 | 2,297 | 2,384 | 2,322 | 2,231 | 31.3 | 0.3 |
| Marfin Bank | DM owned banks (Other) | 3,310 | 3,184 | 3,211 | 3,020 | 2,969 | 2,942 | 2,890 | 2,948 | 3,091 | 3,140 | 3,149 | 3,160 | 30.1 | 0.4 |
| Piraeus Bank | DM owned banks (Other) | 2,387 | 2,412 | 2,598 | 2,662 | 2,687 | 2,718 | 2,698 | 2,772 | 2,921 | 3,136 | 2,839 | 2,709 | 32.6 | 0.3 |
| Megabank | Local banks (private sector) | 2,390 | 2,377 | 2,380 | 2,412 | 2,496 | 2,674 | 2,759 | 2,726 | 2,769 | 2,911 | 2,997 | 3,408 | 26.3 | 0.4 |
| Other banks | | 104,434 | 104,000 | 103,636 | 85,198 | 81,097 | 83,964 | 86,625 | 88,592 | 93,543 | 99,156 | 106,000 | 108,065 | 12.2 | 13.3 |
| **Total** | | **737,913** | **735,095** | **747,775** | **726,296** | **720,949** | **719,570** | **744,082** | **750,536** | **768,066** | **789,549** | **815,320** | **813,864** | **17.3** | **100.0** |
| | Local banks (private sector) | 184,640 | 183,294 | 188,506 | 190,131 | 196,817 | 203,044 | 216,814 | 231,102 | 242,615 | 254,335 | 261,963 | 268,803 | 23.1 | 33.0 |
| | Local banks (public sector) | 98,546 | 104,229 | 108,326 | 108,007 | 107,893 | 107,739 | 113,829 | 111,858 | 113,976 | 119,188 | 130,005 | 132,178 | 33.0 | 16.2 |
| | **Local banks (total)** | **283,186** | **287,523** | **296,832** | **298,137** | **304,710** | **310,783** | **330,643** | **342,959** | **356,591** | **373,523** | **391,968** | **400,981** | **25.9** | **49.3** |
| | DM owned banks (Austria) | 60,303 | 57,239 | 57,105 | 54,791 | 52,896 | 51,915 | 50,460 | 49,237 | 49,019 | 49,448 | 50,290 | 47,855 | 5.0 | 5.9 |
| | DM owned banks (France) | 59,004 | 57,056 | 57,375 | 55,848 | 54,596 | 53,564 | 53,818 | 51,870 | 51,017 | 48,755 | 45,106 | 38,774 | 1.2 | 4.8 |
| | DM owned banks (Italy) | 57,043 | 54,923 | 55,451 | 54,245 | 51,899 | 50,565 | 50,212 | 49,344 | 48,442 | 48,745 | 48,184 | 46,856 | 9.3 | 5.8 |
| | DM owned banks (Other) | 93,679 | 90,693 | 94,769 | 97,238 | 92,901 | 87,837 | 86,528 | 80,423 | 77,866 | 76,082 | 74,921 | 70,206 | 8.9 | 8.6 |
| | **DM owned banks (total)** | **270,029** | **259,912** | **264,700** | **262,122** | **252,293** | **243,881** | **241,018** | **230,874** | **226,345** | **223,029** | **218,501** | **203,691** | **6.4** | **25.0** |
| | Russian banks (public sector) | 52,189 | 53,284 | 55,840 | 55,524 | 57,093 | 57,099 | 60,858 | 65,203 | 67,708 | 69,410 | 74,923 | 77,727 | 25.1 | 9.6 |
| | Russian banks (private sector) | 28,075 | 30,376 | 26,767 | 25,314 | 25,756 | 23,843 | 24,938 | 22,908 | 23,878 | 24,432 | 23,928 | 23,399 | 19.2 | 2.9 |
| | **Russian banks (total)** | **80,265** | **83,660** | **82,607** | **80,838** | **82,849** | **80,941** | **85,796** | **88,111** | **91,586** | **93,842** | **98,851** | **101,126** | **23.6** | **12.4** |
| | Other banks | 104,434 | 104,000 | 103,636 | 85,198 | 81,097 | 83,964 | 86,625 | 88,592 | 93,543 | 99,156 | 106,000 | 108,065 | 12.2 | 13.3 |
| | **All banks** | **737,913** | **735,095** | **747,775** | **726,296** | **720,949** | **719,570** | **744,082** | **750,536** | **768,066** | **789,549** | **815,320** | **813,864** | **17.3** | **100.0** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Table 18. Quarterly development of the banks' deposits (UAHbn) from 1Q09 to 4Q11

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 | CAGR (%) | Share (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 44,042 | 46,980 | 47,659 | 49,835 | 55,254 | 61,878 | 67,747 | 75,183 | 81,532 | 89,488 | 92,096 | 91,842 | 24.61 | 17.5 |
| Ukreximbank | Local banks (public sector) | 14,586 | 18,594 | 17,705 | 19,425 | 20,695 | 21,432 | 24,868 | 27,332 | 31,455 | 35,202 | 32,279 | 31,682 | 27.56 | 6.0 |
| Oschadbank | Local banks (public sector) | 16,804 | 18,617 | 24,867 | 24,524 | 19,521 | 22,265 | 22,756 | 24,421 | 33,129 | 36,580 | 38,255 | 38,585 | 29.06 | 7.4 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 25,594 | 26,490 | 27,940 | 27,668 | 27,464 | 26,926 | 28,484 | 28,342 | 28,149 | 29,752 | 28,179 | 27,635 | 4.68 | 5.3 |
| Ukrsibbank | DM owned banks (France) | 12,420 | 13,553 | 13,499 | 14,149 | 15,253 | 17,293 | 18,001 | 17,867 | 20,630 | 19,921 | 18,931 | 20,701 | 15.70 | 3.9 |
| Ukrsotsbank | DM owned banks (Italy) | 12,286 | 12,182 | 11,581 | 12,340 | 12,455 | 14,052 | 14,728 | 15,337 | 14,909 | 15,726 | 18,205 | 17,708 | 2.23 | 3.4 |
| Prominvestbank | Russian banks (public sec.) | 12,188 | 12,972 | 13,756 | 14,593 | 14,829 | 15,540 | 16,983 | 19,482 | 18,750 | 18,488 | 16,140 | 16,507 | -5.79 | 3.1 |
| VTB Bank | Russian banks (public sec.) | 4,392 | 4,359 | 4,984 | 5,170 | 7,040 | 9,119 | 9,517 | 8,085 | 8,985 | 10,385 | 9,987 | 11,936 | 32.51 | 2.3 |
| Alfa Bank | Russian banks (private sec.) | 9,910 | 10,841 | 11,558 | 7,421 | 7,249 | 8,487 | 9,232 | 9,653 | 11,004 | 11,602 | 10,815 | 12,174 | 23.42 | 2.3 |
| OTP Bank | DM owned banks (Other) | 5,538 | 6,064 | 6,666 | 7,119 | 6,956 | 7,041 | 7,196 | 7,786 | 7,461 | 8,033 | 8,250 | 8,700 | 7.09 | 1.7 |
| Nadra Bank | Local banks (private sector) | 10,595 | 10,243 | 9,601 | 8,520 | 8,873 | 7,741 | 7,469 | 7,782 | 7,015 | 5,887 | 7,449 | 8,667 | -6.97 | 1.7 |
| Finance & Credit Bnk | Local banks (private sector) | 7,666 | 6,472 | 5,962 | 6,985 | 7,044 | 8,008 | 8,776 | 10,124 | 10,011 | 11,948 | 9,707 | 10,717 | 4.56 | 2.0 |
| First Ukrainian Int'l B | Local banks (private sector) | 4,909 | 4,895 | 5,168 | 5,765 | 6,425 | 6,635 | 8,266 | 8,003 | 8,115 | 9,126 | 16,235 | 20,094 | 41.14 | 3.8 |
| Brokbiznesbank | Local banks (private sector) | 7,342 | 6,820 | 7,261 | 7,575 | 8,020 | 8,620 | 8,968 | 9,169 | 10,097 | 10,950 | 11,278 | 11,591 | 18.07 | 2.2 |
| Creditprombank | Local banks (private sector) | 4,198 | 3,928 | 4,032 | 3,911 | 4,293 | 4,794 | 5,929 | 6,610 | 7,187 | 7,647 | 7,479 | 7,071 | 5.92 | 1.3 |
| Bank Forum | DM owned banks (Other) | 5,824 | 6,678 | 7,274 | 7,386 | 7,515 | 8,129 | 7,998 | 7,558 | 8,041 | 7,961 | 7,769 | 6,688 | -3.59 | 1.3 |
| Ukrgazbank | Local banks (public sector) | 6,345 | 5,566 | 4,198 | 4,040 | 4,465 | 4,925 | 5,720 | 5,235 | 5,426 | 5,664 | 5,969 | 5,615 | 2.02 | 1.1 |
| Delta Bank | Local banks (private sector) | 3,256 | 3,124 | 3,594 | 4,277 | 4,071 | 4,993 | 5,626 | 6,728 | 7,826 | 8,745 | 9,462 | 10,353 | 76.38 | 2.0 |
| Swedbank | DM owned banks (Other) | 3,131 | 2,692 | 2,808 | 3,195 | 2,687 | 2,737 | 2,586 | 2,396 | 2,036 | 1,953 | 1,742 | 611 | -36.87 | 0.1 |
| Rodovid Bank | Local banks (public sector) | 4,472 | 4,056 | 2,582 | 7,992 | 5,340 | 4,699 | 4,377 | 4,248 | 4,190 | 334 | 290 | 272 | -52.03 | 0.1 |
| Pivdenny | Local banks (private sector) | 5,439 | 5,527 | 5,844 | 5,681 | 6,171 | 6,431 | 7,538 | 7,318 | 7,275 | 7,858 | 7,353 | 7,061 | 7.06 | 1.3 |
| Dongorbank | Local banks (private sector) | 4,542 | 4,616 | 5,053 | 5,011 | 5,733 | 5,473 | 6,393 | 7,436 | 7,314 | 5,996 | ... | ... | N/M | N/M |
| Sberbank of Russia | Russian banks (public sec.) | 1,969 | 1,939 | 2,128 | 1,774 | 2,294 | 3,162 | 4,178 | 4,280 | 5,849 | 6,379 | 6,758 | 7,593 | 69.64 | 1.4 |
| Erste Bank | DM owned banks (Austria) | 644 | 795 | 960 | 976 | 1,113 | 1,144 | 1,319 | 1,433 | 1,551 | 2,238 | 1,920 | 1,916 | 115.91 | 0.4 |
| ING Bank Ukraine | DM owned banks (Other) | 2,227 | 2,076 | 1,947 | 1,989 | 1,923 | 2,429 | 3,083 | 2,393 | 2,891 | 3,181 | 2,669 | 2,245 | 1.87 | 0.4 |
| Universal Bank | DM owned banks (Other) | 2,148 | 2,444 | 2,923 | 3,244 | 3,233 | 3,413 | 3,242 | 3,189 | 3,214 | 3,220 | 3,051 | 3,149 | 43.95 | 0.6 |
| Unicredit Bank | DM owned banks (Italy) | 1,439 | 1,228 | 1,336 | 1,448 | 1,455 | 2,045 | 2,165 | 2,028 | 2,216 | 2,262 | 2,544 | 1,968 | 8.66 | 0.4 |
| Kreschatyk Bank | Local banks (private sector) | 2,744 | 2,697 | 3,050 | 3,338 | 3,453 | 4,052 | 4,334 | 4,557 | 4,780 | 4,919 | 4,916 | 4,851 | 4.01 | 0.9 |
| VAB Bank | DM owned banks (Other) | 2,939 | 2,728 | 2,844 | 2,930 | 3,126 | 3,539 | 3,835 | 4,357 | 4,610 | 5,041 | 5,442 | 5,436 | 9.19 | 1.0 |
| Finance Initiative | Local banks (private sector) | 1,179 | 945 | 991 | 1,010 | 1,279 | 998 | 1,020 | 855 | 1,669 | 2,084 | 2,097 | 3,561 | 17.95 | 0.7 |
| Imexbank | DM owned banks (France) | 2,857 | 2,207 | 1,893 | 1,681 | 1,578 | 1,803 | 1,822 | 2,223 | 2,291 | 2,461 | 2,674 | 2,849 | 2.86 | 0.5 |
| Bank Credit Dnipro | Local banks (private sector) | 2,086 | 2,116 | 2,385 | 2,414 | 2,306 | 2,372 | 2,902 | 3,636 | 3,589 | 4,037 | 4,480 | 5,585 | 39.06 | 1.1 |
| Citibank | DM owned banks (Other) | 3,221 | 2,562 | 3,105 | 3,064 | 3,540 | 3,402 | 4,040 | 4,201 | 4,526 | 3,969 | 4,555 | 4,196 | 33.61 | 0.8 |
| Pravex-Bank | DM owned banks (Italy) | 3,631 | 4,038 | 4,090 | 4,377 | 4,476 | 3,878 | 3,468 | 2,834 | 3,118 | 3,050 | 2,989 | 3,169 | -5.08 | 0.6 |
| Crédit Agricole | DM owned banks (France) | 2,034 | 2,173 | 2,077 | 2,083 | 2,167 | 2,398 | 2,758 | 2,916 | 2,933 | 3,582 | 3,566 | 3,610 | 21.37 | 0.7 |
| Kyivska Rus | Local banks (private sector) | 2,266 | 2,255 | 2,153 | 2,192 | 2,651 | 2,621 | 3,125 | 3,503 | 3,742 | 4,235 | 4,062 | 3,793 | 20.14 | 0.7 |
| Credobank | DM owned banks (Other) | 2,993 | 3,249 | 3,461 | 3,606 | 3,455 | 3,348 | 3,301 | 2,972 | 2,875 | 2,859 | 2,787 | 2,633 | -5.12 | 0.5 |
| Crédit Agricole CIB | DM owned banks (France) | 2,561 | 2,432 | 2,552 | 2,602 | 2,069 | 2,656 | 2,392 | 3,120 | 3,280 | 2,636 | 3,056 | 3,002 | 24.09 | 0.6 |
| BTA Bank | Local banks (private sector) | 385 | 323 | 334 | 578 | 651 | 649 | 818 | 827 | 910 | 1,132 | 1,276 | 1,545 | 24.18 | 0.3 |
| Marfin Bank | DM owned banks (Other) | 1,371 | 1,359 | 1,565 | 1,677 | 1,760 | 1,721 | 2,180 | 2,251 | 2,376 | 2,487 | 2,510 | 2,595 | 21.47 | 0.5 |
| Piraeus Bank | DM owned banks (Other) | 469 | 527 | 629 | 720 | 753 | 1,039 | 1,246 | 1,311 | 1,443 | 1,362 | 1,284 | 1,135 | 14.70 | 0.2 |
| Megabank | Local banks (private sector) | 1,574 | 1,409 | 1,449 | 1,390 | 1,456 | 1,474 | 1,737 | 1,806 | 1,825 | 1,904 | 2,275 | 2,278 | 13.92 | 0.4 |
| Other banks | | 69,926 | 66,425 | 64,821 | 53,962 | 52,887 | 58,123 | 64,562 | 68,659 | 73,041 | 77,542 | 84,099 | 91,592 | 10.32 | 17.4 |
| **Total** | | **336,143** | **341,197** | **350,284** | **349,636** | **354,978** | **383,483** | **416,683** | **439,446** | **473,264** | **499,827** | **506,879** | **524,909** | **13.31** | **100.0** |
| | Local banks (private sector) | 102,224 | 102,351 | 104,536 | 108,483 | 117,680 | 126,739 | 140,648 | 153,538 | 162,886 | 175,956 | 180,164 | 189,007 | 18.31 | 36.0 |
| | Local banks (public sector) | 42,207 | 46,832 | 49,351 | 55,981 | 50,021 | 53,321 | 57,721 | 61,237 | 74,200 | 77,780 | 76,793 | 76,154 | 20.44 | 14.5 |
| | **Local banks (total)** | **144,431** | **149,183** | **153,887** | **164,464** | **167,701** | **180,059** | **198,369** | **214,774** | **237,085** | **253,737** | **256,957** | **265,161** | **18.90** | **50.5** |
| | DM owned banks (Austria) | 26,238 | 27,285 | 28,901 | 28,643 | 28,577 | 28,070 | 29,803 | 29,775 | 29,701 | 31,989 | 30,100 | 29,552 | 6.35 | 5.6 |
| | DM owned banks (France) | 19,871 | 20,365 | 20,022 | 20,515 | 21,067 | 24,150 | 24,973 | 26,125 | 29,133 | 28,600 | 28,227 | 30,163 | 15.36 | 5.7 |
| | DM owned banks (Italy) | 17,357 | 17,448 | 17,006 | 18,165 | 18,387 | 19,975 | 20,361 | 20,199 | 20,243 | 21,037 | 23,738 | 22,845 | 1.50 | 4.4 |
| | DM owned banks (Other) | 29,861 | 30,379 | 33,222 | 34,929 | 34,948 | 36,798 | 38,706 | 38,414 | 39,473 | 40,067 | 40,059 | 37,387 | 4.58 | 7.1 |
| | **DM owned banks (total)** | **93,328** | **95,477** | **99,151** | **102,252** | **102,978** | **108,993** | **113,843** | **114,514** | **118,550** | **121,694** | **122,123** | **119,946** | **6.59** | **22.9** |
| | Russian banks (public sec.) | 18,548 | 19,270 | 20,868 | 21,537 | 24,163 | 27,820 | 30,678 | 31,846 | 33,584 | 35,252 | 32,885 | 36,036 | 8.77 | 6.9 |
| | Russian banks (private sec.) | 9,910 | 10,841 | 11,558 | 7,421 | 7,249 | 8,487 | 9,232 | 9,653 | 11,004 | 11,602 | 10,815 | 12,174 | 23.42 | 2.3 |
| | **Russian banks (total)** | **28,458** | **30,111** | **32,426** | **28,958** | **31,411** | **36,308** | **39,910** | **41,500** | **44,588** | **46,854** | **43,700** | **48,210** | **11.68** | **9.2** |
| | Other banks | 69,926 | 66,425 | 64,821 | 53,962 | 52,887 | 58,123 | 64,562 | 68,659 | 73,041 | 77,542 | 84,099 | 91,592 | 10.32 | 17.4 |
| | **All banks** | **336,143** | **341,197** | **350,284** | **349,636** | **354,978** | **383,483** | **416,683** | **439,446** | **473,264** | **499,827** | **506,879** | **524,909** | **13.31** | **100.0** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Table 19. Quarterly development of the banks' deposits (UAHbn) from 1Q09 to 4Q11**

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 | CAGR (%) | Share (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 8,507 | 8,573 | 8,689 | 10,271 | 10,485 | 10,890 | 11,502 | 11,880 | 12,326 | 12,684 | 16,288 | 16,747 | 32.77 | 10.8 |
| Ukreximbank | Local banks (public sector) | 8,192 | 8,106 | 9,216 | 10,869 | 17,284 | 17,289 | 17,435 | 17,454 | 17,597 | 17,622 | 17,644 | 17,729 | 62.18 | 11.4 |
| Oschadbank | Local banks (public sector) | 16,129 | 16,422 | 16,842 | 16,386 | 16,576 | 16,542 | 16,615 | 16,626 | 16,838 | 17,396 | 17,534 | 17,647 | 68.32 | 11.3 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 7,110 | 6,455 | 5,957 | 5,313 | 5,449 | 6,429 | 6,424 | 6,441 | 6,454 | 6,444 | 6,601 | 6,472 | 5.50 | 4.2 |
| Ukrsibbank | DM owned banks (France) | 4,020 | 5,277 | 5,017 | 4,902 | 4,247 | 3,712 | 3,055 | 4,855 | 4,866 | 4,470 | 3,629 | 1,259 | -19.74 | 0.8 |
| Ukrsotsbank | DM owned banks (Italy) | 5,249 | 5,242 | 5,768 | 6,028 | 6,043 | 6,064 | 6,068 | 6,570 | 6,590 | 6,579 | 6,570 | 6,608 | 19.93 | 4.2 |
| Prominvestbank | Russian banks (public sec.) | 4,128 | 3,268 | 2,326 | 5,610 | 5,459 | 4,989 | 4,855 | 4,590 | 4,537 | 4,593 | 4,569 | 5,082 | 17.31 | 3.3 |
| VTB Bank | Russian banks (public sec.) | 2,469 | 2,462 | 2,465 | 3,248 | 2,316 | 2,327 | 2,183 | 4,343 | 3,597 | 3,872 | 3,877 | 4,057 | 50.57 | 2.6 |
| Alfa Bank | Russian banks (private sec.) | 3,170 | 3,141 | 3,051 | 2,878 | 2,292 | 3,129 | 3,102 | 3,121 | 3,135 | 3,173 | 3,158 | 4,075 | 27.15 | 2.6 |
| OTP Bank | DM owned banks (Other) | 2,279 | 1,933 | 2,351 | 2,840 | 2,901 | 3,047 | 3,045 | 3,437 | 3,667 | 3,274 | 3,255 | 3,427 | 27.07 | 2.2 |
| Nadra Bank | Local banks (private sector) | 1,281 | 798 | 501 | 475 | 479 | 479 | 479 | 479 | 480 | 3,980 | 3,980 | 4,029 | 23.08 | 2.6 |
| Finance & Credit Bnk | Local banks (private sector) | 2,477 | 2,289 | 2,258 | 2,027 | 2,004 | 1,973 | 1,973 | 1,857 | 1,923 | 1,860 | 1,861 | 1,779 | -0.09 | 1.1 |
| First Ukrainian Int'l B | Local banks (private sector) | 3,362 | 2,871 | 2,908 | 2,628 | 2,615 | 2,621 | 2,647 | 2,851 | 2,881 | 2,968 | 3,056 | 4,030 | 16.43 | 2.6 |
| Brokbiznesbank | Local banks (private sector) | 2,315 | 2,323 | 2,322 | 2,313 | 2,332 | 2,350 | 2,360 | 2,367 | 2,379 | 2,391 | 2,392 | 2,382 | 0.93 | 1.5 |
| Creditprombank | Local banks (private sector) | 1,596 | 1,422 | 1,477 | 1,222 | 1,768 | 1,847 | 1,818 | 1,857 | 1,825 | 1,856 | 1,103 | 2,129 | 17.44 | 1.4 |
| Bank Forum | DM owned banks (Other) | 2,443 | 2,247 | 2,108 | 1,867 | 1,595 | 384 | 1,965 | 765 | 468 | 1,708 | 1,833 | 1,491 | 2.57 | 1.0 |
| Ukrgazbank | Local banks (public sector) | 1,456 | 1,373 | 2,772 | 95 | 1,812 | 1,944 | 1,798 | 1,991 | 1,932 | 1,971 | 2,736 | 2,804 | 31.80 | 1.8 |
| Delta Bank | Local banks (private sector) | 583 | 584 | 586 | 590 | 592 | 594 | 595 | 607 | 621 | 977 | 1,442 | 1,450 | 28.75 | 0.9 |
| Swedbank | DM owned banks (Other) | 2,154 | 1,848 | 1,348 | -1,827 | -1,878 | -1,842 | 1,451 | 1,476 | 1,488 | 1,516 | 1,560 | 953 | 3.29 | 0.6 |
| Rodovid Bank | Local banks (public sector) | 1,238 | -212 | 1,590 | 4,336 | 2,043 | 1,675 | 1,188 | 1,154 | 760 | 4,196 | 3,996 | 3,648 | 33.70 | 2.3 |
| Pivdenny | Local banks (private sector) | 1,421 | 1,445 | 1,457 | 1,457 | 1,468 | 1,476 | 1,497 | 1,505 | 1,519 | 1,523 | 1,535 | 1,588 | 19.08 | 1.0 |
| Dongorbank | Local banks (private sector) | 1,053 | 966 | 789 | 632 | 628 | 639 | 642 | 682 | 657 | 637 | … | … | N/M | N/M |
| Sberbank of Russia | Russian banks (public sec.) | 932 | 826 | 651 | 1,061 | 1,098 | 1,087 | 1,054 | 1,105 | 1,142 | 1,178 | 1,254 | 2,215 | 71.36 | 1.4 |
| Erste Bank | DM owned banks (Austria) | 1,219 | 1,023 | 973 | 1,018 | 958 | 874 | 1,413 | 1,385 | 1,371 | 1,380 | 1,365 | 1,212 | 16.59 | 0.8 |
| ING Bank Ukraine | DM owned banks (Other) | 835 | 1,348 | 1,300 | 1,400 | 1,524 | 1,445 | 1,498 | 1,532 | 1,609 | 1,698 | 1,734 | 1,704 | 29.70 | 1.1 |
| Universal Bank | DM owned banks (Other) | 835 | 767 | 697 | 836 | 829 | 964 | 904 | 546 | 875 | 823 | 554 | 455 | -3.18 | 0.3 |
| Unicredit Bank | DM owned banks (Italy) | 820 | 771 | 790 | 828 | 834 | 846 | 858 | 871 | 881 | 886 | 896 | 906 | 3.16 | 0.6 |
| Kreschatyk Bank | Local banks (private sector) | 760 | 759 | 735 | 657 | 644 | 671 | 674 | 570 | 582 | 581 | 581 | 549 | -5.53 | 0.4 |
| VAB Bank | DM owned banks (Other) | 895 | 831 | 749 | 672 | 631 | 537 | 595 | 280 | 747 | 671 | 528 | 332 | -15.41 | 0.2 |
| Finance Initiative | Local banks (private sector) | 1,255 | 1,255 | 1,255 | 1,605 | 1,606 | 1,606 | 1,606 | 1,907 | 1,907 | 1,907 | 1,907 | 1,908 | 11.29 | 1.2 |
| Imexbank | DM owned banks (France) | 795 | 925 | 890 | 840 | 833 | 937 | 956 | 962 | 966 | 1,022 | 1,028 | 1,079 | 22.23 | 0.7 |
| Bank Credit Dnipro | Local banks (private sector) | 556 | 522 | 557 | 569 | 571 | 572 | 572 | 578 | 579 | 600 | 601 | 600 | 10.31 | 0.4 |
| Citibank | DM owned banks (Other) | 902 | 782 | 709 | 814 | 958 | 981 | 1,049 | 706 | 827 | 616 | 635 | 785 | 19.91 | 0.5 |
| Pravex-Bank | DM owned banks (Italy) | 1,291 | 1,139 | 836 | 1,192 | 957 | 929 | 932 | 891 | 884 | 1,197 | 1,168 | 1,060 | 9.98 | 0.7 |
| Crédit Agricole | DM owned banks (France) | 400 | 551 | 370 | 247 | 475 | 482 | 515 | 722 | 732 | 751 | 764 | 764 | 17.85 | 0.5 |
| Kyivska Rus | Local banks (private sector) | 371 | 360 | 356 | 289 | 279 | 279 | 280 | 285 | 283 | 283 | 424 | 430 | 21.39 | 0.3 |
| Credobank | DM owned banks (Other) | 74 | 988 | 714 | 591 | 440 | 256 | 553 | 625 | 596 | 581 | 578 | 721 | 13.67 | 0.5 |
| Crédit Agricole CIB | DM owned banks (France) | 735 | 633 | 674 | 698 | 582 | 606 | 569 | 511 | 539 | 464 | 558 | 617 | 21.24 | 0.4 |
| BTA Bank | Local banks (private sector) | 1,531 | 1,510 | 1,508 | 1,535 | 1,535 | 1,537 | 1,524 | 1,536 | 1,517 | 1,497 | 1,508 | 1,557 | 119.47 | 1.0 |
| Marfin Bank | DM owned banks (Other) | 519 | 520 | 523 | 511 | 511 | 516 | 514 | 510 | 513 | 516 | 513 | 521 | 39.55 | 0.3 |
| Piraeus Bank | DM owned banks (Other) | 472 | 472 | 350 | 293 | 311 | 292 | 418 | 293 | 385 | -245 | 561 | 552 | 47.85 | 0.4 |
| Megabank | Local banks (private sector) | 334 | 484 | 484 | 634 | 634 | 639 | 636 | 637 | 637 | 649 | 649 | 651 | 19.27 | 0.4 |
| Other banks | | 18,921 | 17,299 | 21,048 | 19,756 | 22,003 | 22,548 | 22,986 | 24,366 | 24,323 | 25,071 | 25,440 | 27,484 | 12.74 | 17.7 |
| **Total** | | **117,082** | **112,597** | **117,968** | **120,208** | **126,721** | **127,162** | **132,802** | **137,725** | **138,435** | **147,817** | **151,866** | **155,487** | **22.27** | **100.0** |
| | Local banks (private sector) | 27,401 | 26,160 | 25,883 | 26,904 | 27,641 | 28,174 | 28,805 | 29,597 | 30,115 | 34,392 | 37,328 | 39,829 | 19.83 | 25.6 |
| | Local banks (public sector) | 27,015 | 25,689 | 30,421 | 31,688 | 37,715 | 37,450 | 37,036 | 37,226 | 37,127 | 41,185 | 41,910 | 41,828 | 57.30 | 26.9 |
| | **Local banks (total)** | **54,416** | **51,849** | **56,304** | **58,591** | **65,356** | **65,624** | **65,841** | **66,822** | **67,242** | **75,577** | **79,238** | **81,657** | **32.93** | **52.5** |
| | DM owned banks (Austria) | 8,329 | 7,478 | 6,930 | 6,331 | 6,407 | 7,303 | 7,837 | 7,826 | 7,825 | 7,824 | 7,965 | 7,684 | 6.92 | 4.9 |
| | DM owned banks (France) | 5,950 | 7,387 | 6,950 | 6,686 | 6,137 | 5,737 | 5,095 | 7,051 | 7,103 | 6,707 | 5,979 | 3,718 | -2.99 | 2.4 |
| | DM owned banks (Italy) | 7,360 | 7,153 | 7,394 | 8,048 | 7,833 | 7,839 | 7,858 | 8,332 | 8,354 | 8,663 | 8,634 | 8,574 | 16.10 | 5.5 |
| | DM owned banks (Other) | 11,407 | 11,735 | 10,848 | 7,997 | 7,821 | 6,579 | 11,992 | 10,168 | 11,175 | 11,158 | 11,750 | 10,943 | 14.65 | 7.0 |
| | **DM owned banks (total)** | **33,046** | **33,753** | **32,122** | **29,063** | **28,198** | **27,458** | **32,782** | **33,378** | **34,458** | **34,352** | **34,329** | **30,918** | **9.99** | **19.9** |
| | Russian banks (public sec.) | 7,529 | 6,555 | 5,442 | 9,919 | 8,872 | 8,403 | 8,091 | 10,038 | 9,276 | 9,644 | 9,700 | 11,353 | 32.09 | 7.3 |
| | Russian banks (private sec.) | 3,170 | 3,141 | 3,051 | 2,878 | 2,292 | 3,129 | 3,102 | 3,121 | 3,135 | 3,173 | 3,158 | 4,075 | 27.15 | 2.6 |
| | **Russian banks (total)** | **10,699** | **9,697** | **8,493** | **12,797** | **11,164** | **11,532** | **11,193** | **13,160** | **12,411** | **12,816** | **12,858** | **15,428** | **30.69** | **9.9** |
| | Other banks | 18,921 | 17,299 | 21,048 | 19,756 | 22,003 | 22,548 | 22,986 | 24,366 | 24,323 | 25,071 | 25,440 | 27,484 | 12.74 | 17.7 |
| | **All banks** | **117,082** | **112,597** | **117,968** | **120,208** | **126,721** | **127,162** | **132,802** | **137,725** | **138,435** | **147,817** | **151,866** | **155,487** | **22.27** | **100.0** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Table 20. Quarterly development of the banks' loan-to-deposit ratio (x) from 1Q09 to 4Q11**

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| Ukreximbank | Local banks (public sector) | 2.9 | 2.4 | 2.6 | 2.5 | 2.4 | 2.3 | 2.1 | 1.9 | 1.7 | 1.5 | 1.7 | 1.7 |
| Oschadbank | Local banks (public sector) | 2.2 | 2.3 | 1.8 | 1.8 | 2.2 | 2.0 | 2.0 | 1.8 | 1.4 | 1.4 | 1.5 | 1.5 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.5 | 1.6 | 1.5 | 1.6 | 1.5 |
| Ukrsibbank | DM owned banks (France) | 3.9 | 3.5 | 3.5 | 3.2 | 2.8 | 2.4 | 2.3 | 2.2 | 1.8 | 1.7 | 1.6 | 1.1 |
| Ukrsotsbank | DM owned banks (Italy) | 3.5 | 3.4 | 3.6 | 3.3 | 3.1 | 2.7 | 2.6 | 2.4 | 2.5 | 2.4 | 2.1 | 2.1 |
| Prominvestbank | Russian banks (public sector) | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 | 1.3 | 1.5 | 1.5 | 1.8 | 1.8 |
| VTB Bank | Russian banks (public sector) | 5.7 | 5.8 | 5.3 | 5.1 | 3.8 | 2.9 | 2.8 | 3.8 | 3.4 | 3.1 | 3.3 | 2.8 |
| Alfa Bank | Russian banks (private sector) | 2.8 | 2.8 | 2.3 | 3.4 | 3.6 | 2.8 | 2.7 | 2.4 | 2.2 | 2.1 | 2.2 | 1.9 |
| OTP Bank | DM owned banks (Other) | 5.5 | 4.9 | 4.6 | 4.1 | 3.9 | 3.4 | 3.3 | 2.8 | 2.8 | 2.4 | 2.4 | 2.3 |
| Nadra Bank | Local banks (private sector) | 2.4 | 2.4 | 2.6 | 2.9 | 2.7 | 3.1 | 3.2 | 3.2 | 3.6 | 4.3 | 3.3 | 2.9 |
| Finance & Credit Bnk | Local banks (private sector) | 2.1 | 2.4 | 2.7 | 2.4 | 2.4 | 2.3 | 2.2 | 1.9 | 1.9 | 1.6 | 2.0 | 1.8 |
| First Ukrainian Int'l B | Local banks (private sector) | 3.0 | 2.9 | 2.7 | 2.4 | 2.1 | 1.9 | 1.6 | 1.7 | 1.7 | 1.6 | 1.1 | 1.0 |
| Brokbiznesbank | Local banks (private sector) | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.4 | 1.2 | 1.1 | 1.2 | 1.2 |
| Creditprombank | Local banks (private sector) | 2.8 | 2.9 | 3.0 | 3.0 | 2.7 | 2.5 | 2.0 | 1.7 | 1.6 | 1.5 | 1.6 | 1.7 |
| Bank Forum | DM owned banks (Other) | 2.9 | 2.5 | 2.4 | 2.3 | 2.1 | 1.9 | 1.9 | 1.9 | 1.8 | 1.7 | 1.8 | 1.7 |
| Ukrgazbank | Local banks (public sector) | 1.5 | 1.6 | 2.2 | 2.4 | 2.2 | 2.1 | 2.1 | 2.0 | 2.2 | 2.2 | 2.3 | 2.9 |
| Delta Bank | Local banks (private sector) | 1.2 | 1.3 | 1.2 | 1.0 | 1.0 | 1.0 | 1.9 | 1.8 | 1.5 | 1.6 | 1.6 | 1.7 |
| Swedbank | DM owned banks (Other) | 4.5 | 4.9 | 4.7 | 5.7 | 6.6 | 6.3 | 6.4 | 6.4 | 6.4 | 6.3 | 5.5 | 14.3 |
| Rodovid Bank | Local banks (public sector) | 2.1 | 2.2 | 3.3 | 0.7 | 1.0 | 1.1 | 1.1 | 1.0 | 1.1 | 13.1 | 15.4 | 16.1 |
| Pivdenny | Local banks (private sector) | 1.6 | 1.6 | 1.5 | 1.5 | 1.3 | 1.3 | 1.1 | 1.2 | 1.1 | 1.1 | 1.2 | 1.2 |
| Dongorbank | Local banks (private sector) | 1.1 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.7 | 0.6 | 0.6 | 0.7 | ... | ... |
| Sberbank of Russia | Russian banks (public sector) | 2.0 | 2.2 | 2.2 | 2.7 | 2.4 | 1.9 | 1.8 | 2.1 | 1.7 | 1.6 | 1.9 | 2.0 |
| Erste Bank | DM owned banks (Austria) | 10.1 | 7.8 | 6.5 | 6.2 | 5.3 | 4.9 | 4.2 | 3.8 | 3.4 | 2.3 | 2.7 | 2.7 |
| ING Bank Ukraine | DM owned banks (Other) | 3.0 | 3.0 | 3.7 | 3.5 | 3.6 | 2.7 | 2.1 | 2.7 | 2.3 | 2.0 | 2.8 | 3.5 |
| Universal Bank | DM owned banks (Other) | 3.1 | 2.7 | 2.4 | 2.2 | 2.1 | 1.9 | 2.1 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 |
| Unicredit Bank | DM owned banks (Italy) | 5.8 | 6.6 | 6.3 | 5.5 | 5.1 | 3.3 | 3.1 | 3.4 | 2.9 | 2.7 | 2.2 | 2.3 |
| Kreschatyk Bank | Local banks (private sector) | 1.2 | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| VAB Bank | DM owned banks (Other) | 2.0 | 2.2 | 2.2 | 2.1 | 1.9 | 1.7 | 1.5 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 |
| Finance Initiative | Local banks (private sector) | 3.9 | 4.8 | 4.6 | 5.0 | 4.5 | 5.8 | 5.8 | 7.4 | 4.2 | 3.7 | 4.0 | 2.7 |
| Imexbank | DM owned banks (France) | 1.3 | 1.6 | 1.9 | 2.3 | 2.9 | 2.8 | 2.9 | 2.5 | 2.6 | 2.5 | 2.4 | 2.4 |
| Bank Credit Dnipro | Local banks (private sector) | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 | 1.4 | 1.3 | 1.1 | 1.2 | 1.2 | 1.1 | 1.0 |
| Citibank | DM owned banks (Other) | 0.7 | 0.8 | 0.7 | 0.8 | 0.6 | 0.7 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 |
| Pravex-Bank | DM owned banks (Italy) | 1.6 | 1.4 | 1.4 | 1.3 | 1.2 | 1.4 | 1.6 | 1.8 | 1.5 | 1.6 | 1.7 | 1.6 |
| Crédit Agricole | DM owned banks (France) | 1.8 | 1.6 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.4 | 1.5 | 1.5 |
| Kyivska Rus | Local banks (private sector) | 1.3 | 1.3 | 1.4 | 1.4 | 1.2 | 1.3 | 1.2 | 1.1 | 1.2 | 1.1 | 1.1 | 1.0 |
| Credobank | DM owned banks (Other) | 1.7 | 1.6 | 1.5 | 1.3 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 | 1.3 | 1.3 | 0.8 |
| Crédit Agricole CIB | DM owned banks (France) | 1.2 | 1.3 | 1.4 | 1.3 | 1.5 | 1.2 | 1.4 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 |
| BTA Bank | Local banks (private sector) | 3.5 | 5.0 | 5.0 | 2.8 | 2.5 | 2.3 | 2.2 | 2.6 | 2.5 | 2.1 | 1.8 | 1.4 |
| Marfin Bank | DM owned banks (Other) | 2.4 | 2.3 | 2.1 | 1.8 | 1.7 | 1.7 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| Piraeus Bank | DM owned banks (Other) | 5.1 | 4.6 | 4.1 | 3.7 | 3.6 | 2.6 | 2.2 | 2.1 | 2.0 | 2.3 | 2.2 | 2.4 |
| Megabank | Local banks (private sector) | 1.5 | 1.7 | 1.6 | 1.7 | 1.7 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | 1.3 | 1.5 |
| Other banks | | 1.5 | 1.6 | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| **Total** | | **2.2** | **2.2** | **2.1** | **2.1** | **2.0** | **1.9** | **1.8** | **1.7** | **1.6** | **1.6** | **1.6** | **1.6** |
| | Local banks (private sector) | 2.0 | 2.2 | 2.2 | 2.0 | 1.9 | 2.0 | 1.9 | 2.0 | 1.7 | 1.7 | 1.7 | 1.5 |
| | Local banks (public sector) | 2.2 | 2.1 | 2.5 | 1.8 | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 4.5 | 5.2 | 5.5 |
| | **Local banks (total)** | **2.1** | **2.2** | **2.3** | **1.9** | **1.9** | **1.9** | **1.9** | **1.8** | **1.7** | **3.1** | **3.4** | **3.5** |
| | DM owned banks (Austria) | 6.1 | 4.9 | 4.2 | 4.0 | 3.5 | 3.3 | 2.9 | 2.7 | 2.5 | 1.9 | 2.1 | 2.1 |
| | DM owned banks (France) | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 | 2.0 | 2.0 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 |
| | DM owned banks (Italy) | 3.6 | 3.8 | 3.7 | 3.4 | 3.2 | 2.5 | 2.4 | 2.5 | 2.3 | 2.2 | 2.0 | 2.0 |
| | DM owned banks (Other) | 3.1 | 2.9 | 2.8 | 2.7 | 2.7 | 2.4 | 2.3 | 2.2 | 2.1 | 2.1 | 2.1 | 3.0 |
| | **DM owned banks (total)** | **3.7** | **3.4** | **3.2** | **3.1** | **2.9** | **2.6** | **2.4** | **2.3** | **2.2** | **2.0** | **2.0** | **2.1** |
| | Russian banks (public sector) | 3.2 | 3.3 | 3.1 | 3.2 | 2.6 | 2.1 | 2.0 | 2.4 | 2.2 | 2.0 | 2.3 | 2.2 |
| | Russian banks (private sector) | 2.8 | 2.8 | 2.3 | 3.4 | 3.6 | 2.8 | 2.7 | 2.4 | 2.2 | 2.1 | 2.2 | 1.9 |
| | **Russian banks (total)** | **3.0** | **3.0** | **2.7** | **3.3** | **3.1** | **2.5** | **2.4** | **2.4** | **2.2** | **2.1** | **2.3** | **2.1** |
| | Other banks | 1.5 | 1.6 | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| | **All banks** | **2.2** | **2.2** | **2.1** | **2.1** | **2.0** | **1.9** | **1.8** | **1.7** | **1.6** | **1.6** | **1.6** | **1.6** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Table 21. Quarterly development of the banks' loan-to-deposit ratio (x) from 1Q09 to 4Q11**

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| Ukreximbank | Local banks (public sector) | 2.9 | 2.4 | 2.6 | 2.5 | 2.4 | 2.3 | 2.1 | 1.9 | 1.7 | 1.5 | 1.7 | 1.7 |
| Oschadbank | Local banks (public sector) | 2.2 | 2.3 | 1.8 | 1.8 | 2.2 | 2.0 | 2.0 | 1.8 | 1.4 | 1.4 | 1.5 | 1.5 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.5 | 1.6 | 1.5 | 1.6 | 1.5 |
| Ukrsibbank | DM owned banks (France) | 3.9 | 3.5 | 3.5 | 3.2 | 2.8 | 2.4 | 2.3 | 2.2 | 1.8 | 1.7 | 1.6 | 1.1 |
| Ukrsotsbank | DM owned banks (Italy) | 3.5 | 3.4 | 3.6 | 3.3 | 3.1 | 2.7 | 2.6 | 2.4 | 2.5 | 2.4 | 2.1 | 2.1 |
| Prominvestbank | Russian banks (public sector) | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 | 1.3 | 1.5 | 1.5 | 1.8 | 1.8 |
| VTB Bank | Russian banks (public sector) | 5.7 | 5.8 | 5.3 | 5.1 | 3.8 | 2.9 | 2.8 | 3.8 | 3.4 | 3.1 | 3.3 | 2.8 |
| Alfa Bank | Russian banks (private sector) | 2.8 | 2.8 | 2.3 | 3.4 | 3.6 | 2.8 | 2.7 | 2.4 | 2.2 | 2.1 | 2.2 | 1.9 |
| OTP Bank | DM owned banks (Other) | 5.5 | 4.9 | 4.6 | 4.1 | 3.9 | 3.4 | 3.3 | 2.8 | 2.8 | 2.4 | 2.4 | 2.3 |
| Nadra Bank | Local banks (private sector) | 2.4 | 2.4 | 2.6 | 2.9 | 2.7 | 3.1 | 3.2 | 3.2 | 3.6 | 4.3 | 3.3 | 2.9 |
| Finance & Credit Bnk | Local banks (private sector) | 2.1 | 2.4 | 2.7 | 2.4 | 2.4 | 2.3 | 2.2 | 1.9 | 1.9 | 1.6 | 2.0 | 1.8 |
| First Ukrainian Int'l B | Local banks (private sector) | 3.0 | 2.9 | 2.7 | 2.4 | 2.1 | 1.9 | 1.6 | 1.7 | 1.7 | 1.6 | 1.1 | 1.0 |
| Brokbiznesbank | Local banks (private sector) | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.4 | 1.2 | 1.1 | 1.2 | 1.2 |
| Creditprombank | Local banks (private sector) | 2.8 | 2.9 | 3.0 | 3.0 | 2.7 | 2.5 | 2.0 | 1.7 | 1.6 | 1.5 | 1.6 | 1.7 |
| Bank Forum | DM owned banks (Other) | 2.9 | 2.5 | 2.4 | 2.3 | 2.1 | 1.9 | 1.9 | 1.9 | 1.8 | 1.7 | 1.8 | 1.7 |
| Ukrgazbank | Local banks (public sector) | 1.5 | 1.6 | 2.2 | 2.4 | 2.2 | 2.1 | 2.1 | 2.0 | 2.2 | 2.2 | 2.3 | 2.9 |
| Delta Bank | Local banks (private sector) | 1.2 | 1.3 | 1.2 | 1.0 | 1.0 | 1.0 | 1.9 | 1.8 | 1.5 | 1.6 | 1.6 | 1.7 |
| Swedbank | DM owned banks (Other) | 4.5 | 4.9 | 4.7 | 5.7 | 6.6 | 6.3 | 6.4 | 6.4 | 6.4 | 6.3 | 5.5 | 14.3 |
| Rodovid Bank | Local banks (public sector) | 2.1 | 2.2 | 3.3 | 0.7 | 1.0 | 1.1 | 1.1 | 1.0 | 1.1 | 13.1 | 15.4 | 16.1 |
| Pivdenny | Local banks (private sector) | 1.6 | 1.6 | 1.5 | 1.5 | 1.3 | 1.3 | 1.1 | 1.2 | 1.1 | 1.1 | 1.2 | 1.2 |
| Dongorbank | Local banks (private sector) | 1.1 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.7 | 0.6 | 0.6 | 0.7 | ... | ... |
| Sberbank of Russia | Russian banks (public sector) | 2.0 | 2.2 | 2.2 | 2.7 | 2.4 | 1.9 | 1.8 | 2.1 | 1.7 | 1.6 | 1.9 | 2.0 |
| Erste Bank | DM owned banks (Austria) | 10.1 | 7.8 | 6.5 | 6.2 | 5.3 | 4.9 | 4.2 | 3.8 | 3.4 | 2.3 | 2.7 | 2.7 |
| ING Bank Ukraine | DM owned banks (Other) | 3.0 | 3.0 | 3.7 | 3.5 | 3.6 | 2.7 | 2.1 | 2.7 | 2.3 | 2.0 | 2.8 | 3.5 |
| Universal Bank | DM owned banks (Other) | 3.1 | 2.7 | 2.4 | 2.2 | 2.1 | 1.9 | 2.1 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 |
| Unicredit Bank | DM owned banks (Italy) | 5.8 | 6.6 | 6.3 | 5.5 | 5.1 | 3.3 | 3.1 | 3.4 | 2.9 | 2.7 | 2.2 | 2.3 |
| Kreschatyk Bank | Local banks (private sector) | 1.2 | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| VAB Bank | DM owned banks (Other) | 2.0 | 2.2 | 2.2 | 2.1 | 1.9 | 1.7 | 1.5 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 |
| Finance Initiative | Local banks (private sector) | 3.9 | 4.8 | 4.6 | 5.0 | 4.5 | 5.8 | 5.8 | 7.4 | 4.2 | 3.7 | 4.0 | 2.7 |
| Imexbank | DM owned banks (France) | 1.3 | 1.6 | 1.9 | 2.3 | 2.9 | 2.8 | 2.9 | 2.5 | 2.6 | 2.5 | 2.4 | 2.4 |
| Bank Credit Dnipro | Local banks (private sector) | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 | 1.4 | 1.3 | 1.1 | 1.2 | 1.2 | 1.1 | 1.0 |
| Citibank | DM owned banks (Other) | 0.7 | 0.8 | 0.7 | 0.8 | 0.6 | 0.7 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 |
| Pravex-Bank | DM owned banks (Italy) | 1.6 | 1.4 | 1.4 | 1.3 | 1.2 | 1.4 | 1.6 | 1.8 | 1.5 | 1.6 | 1.7 | 1.6 |
| Crédit Agricole | DM owned banks (France) | 1.8 | 1.6 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.4 | 1.5 | 1.5 |
| Kyivska Rus | Local banks (private sector) | 1.3 | 1.3 | 1.4 | 1.4 | 1.2 | 1.3 | 1.2 | 1.1 | 1.2 | 1.1 | 1.1 | 1.0 |
| Credobank | DM owned banks (Other) | 1.7 | 1.6 | 1.5 | 1.3 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 | 1.3 | 1.3 | 0.8 |
| Crédit Agricole CIB | DM owned banks (France) | 1.2 | 1.3 | 1.4 | 1.3 | 1.5 | 1.2 | 1.4 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 |
| BTA Bank | Local banks (private sector) | 3.5 | 5.0 | 5.0 | 2.8 | 2.5 | 2.3 | 2.2 | 2.6 | 2.5 | 2.1 | 1.8 | 1.4 |
| Marfin Bank | DM owned banks (Other) | 2.4 | 2.3 | 2.1 | 1.8 | 1.7 | 1.7 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| Piraeus Bank | DM owned banks (Other) | 5.1 | 4.6 | 4.1 | 3.7 | 3.6 | 2.6 | 2.2 | 2.1 | 2.0 | 2.3 | 2.2 | 2.4 |
| Megabank | Local banks (private sector) | 1.5 | 1.7 | 1.6 | 1.7 | 1.7 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | 1.3 | 1.5 |
| Other banks | | 1.5 | 1.6 | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| **Total** | | **2.2** | **2.2** | **2.1** | **2.1** | **2.0** | **1.9** | **1.8** | **1.7** | **1.6** | **1.6** | **1.6** | **1.6** |
| | Local banks (private sector) | 2.0 | 2.2 | 2.2 | 2.0 | 1.9 | 2.0 | 1.9 | 2.0 | 1.7 | 1.7 | 1.7 | 1.5 |
| | Local banks (public sector) | 2.2 | 2.1 | 2.5 | 1.8 | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 4.5 | 5.2 | 5.5 |
| | **Local banks (total)** | **2.1** | **2.2** | **2.3** | **1.9** | **1.9** | **1.9** | **1.9** | **1.8** | **1.7** | **3.1** | **3.4** | **3.5** |
| | DM owned banks (Austria) | 6.1 | 4.9 | 4.2 | 4.0 | 3.5 | 3.3 | 2.9 | 2.7 | 2.5 | 1.9 | 2.1 | 2.1 |
| | DM owned banks (France) | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 | 2.0 | 2.0 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 |
| | DM owned banks (Italy) | 3.6 | 3.8 | 3.7 | 3.4 | 3.2 | 2.5 | 2.4 | 2.5 | 2.3 | 2.2 | 2.0 | 2.0 |
| | DM owned banks (Other) | 3.1 | 2.9 | 2.8 | 2.7 | 2.7 | 2.4 | 2.3 | 2.2 | 2.1 | 2.1 | 2.1 | 3.0 |
| | **DM owned banks (total)** | **3.7** | **3.4** | **3.2** | **3.1** | **2.9** | **2.6** | **2.4** | **2.3** | **2.2** | **2.0** | **2.0** | **2.1** |
| | Russian banks (public sector) | 3.2 | 3.3 | 3.1 | 3.2 | 2.6 | 2.1 | 2.0 | 2.4 | 2.2 | 2.0 | 2.3 | 2.2 |
| | Russian banks (private sector) | 2.8 | 2.8 | 2.3 | 3.4 | 3.6 | 2.8 | 2.7 | 2.4 | 2.2 | 2.1 | 2.2 | 1.9 |
| | **Russian banks (total)** | **3.0** | **3.0** | **2.7** | **3.3** | **3.1** | **2.5** | **2.4** | **2.4** | **2.2** | **2.1** | **2.3** | **2.1** |
| | Other banks | 1.5 | 1.6 | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 |
| | **All banks** | **2.2** | **2.2** | **2.1** | **2.1** | **2.0** | **1.9** | **1.8** | **1.7** | **1.6** | **1.6** | **1.6** | **1.6** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Table 22. Quarterly development of the banks' loan loss reserves ratio (% of loan portfolio) from 1Q09 to 4Q11**

| Bank | Ownership | 1Q09 | 2Q09 | 3Q09 | 2009 | 1Q10 | 2Q10 | 3Q10 | 2010 | 1Q11 | 2Q11 | 3Q11 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Privatbank | Local banks (private sector) | 14.6 | 15.5 | 16.0 | 17.8 | 18.1 | 17.6 | 16.8 | 16.2 | 15.5 | 16.0 | 16.9 | 18.0 |
| Ukreximbank | Local banks (public sector) | 5.0 | 6.4 | 7.5 | 8.9 | 10.0 | 11.8 | 12.7 | 14.2 | 15.8 | 16.9 | 16.3 | 18.6 |
| Oschadbank | Local banks (public sector) | 2.8 | 3.0 | 3.4 | 6.4 | 8.4 | 9.6 | 10.8 | 12.4 | 13.7 | 13.7 | 13.2 | 14.2 |
| Raiffeisen Bank Aval | DM owned banks (Austria) | 9.3 | 12.4 | 16.0 | 19.7 | 21.6 | 23.3 | 25.5 | 27.6 | 28.8 | 29.8 | 30.2 | 28.8 |
| Ukrsibbank | DM owned banks (France) | 9.2 | 10.9 | 13.2 | 14.8 | 17.6 | 21.1 | 25.5 | 27.0 | 29.2 | 28.6 | 23.9 | 20.8 |
| Ukrsotsbank | DM owned banks (Italy) | 5.6 | 7.2 | 8.9 | 11.1 | 12.9 | 14.5 | 16.3 | 17.6 | 18.8 | 19.9 | 21.5 | 22.0 |
| Prominvestbank | Russian banks (public sector) | 11.6 | 12.5 | 17.3 | 20.1 | 19.9 | 22.3 | 21.9 | 8.1 | 9.0 | 10.0 | 10.4 | 7.5 |
| VTB Bank | Russian banks (public sector) | 4.3 | 5.4 | 6.9 | 8.5 | 14.2 | 15.2 | 16.5 | 15.3 | 18.6 | 16.9 | 16.6 | 16.1 |
| Alfa Bank | Russian banks (private sector) | 10.4 | 11.3 | 12.0 | 17.0 | 20.8 | 23.8 | 24.2 | 26.4 | 26.4 | 26.6 | 26.6 | 23.5 |
| OTP Bank | DM owned banks (Other) | 8.7 | 11.6 | 14.6 | 12.6 | 13.9 | 13.1 | 14.4 | 15.6 | 15.3 | 16.4 | 16.1 | 15.4 |
| Nadra Bank | Local banks (private sector) | 7.4 | 9.7 | 12.0 | 12.5 | 13.5 | 18.5 | 19.0 | 21.1 | 23.3 | 23.8 | 24.9 | 19.5 |
| Finance & Credit Bnk | Local banks (private sector) | 4.6 | 6.6 | 7.1 | 7.7 | 7.7 | 7.5 | 7.2 | 8.1 | 7.7 | 8.1 | 8.9 | 9.0 |
| First Ukrainian Int'l B | Local banks (private sector) | 9.0 | 13.9 | 16.9 | 18.9 | 20.6 | 22.1 | 22.2 | 22.1 | 22.5 | 22.2 | 21.6 | 20.9 |
| Brokbiznesbank | Local banks (private sector) | 4.7 | 5.1 | 5.7 | 6.1 | 6.0 | 6.3 | 7.1 | 6.9 | 7.1 | 7.0 | 6.6 | 5.4 |
| Creditprombank | Local banks (private sector) | 7.1 | 9.4 | 9.9 | 11.9 | 12.0 | 12.6 | 13.2 | 14.5 | 14.7 | 14.5 | 19.7 | 19.0 |
| Bank Forum | DM owned banks (Other) | 5.5 | 7.2 | 8.3 | 9.9 | 11.8 | 17.8 | 22.0 | 30.5 | 32.8 | 34.2 | 31.9 | 35.7 |
| Ukrgazbank | Local banks (public sector) | 4.9 | 5.5 | 20.7 | 45.9 | 47.2 | 47.4 | 41.7 | 46.7 | 41.2 | 40.8 | 55.1 | 48.9 |
| Delta Bank | Local banks (private sector) | 6.0 | 6.7 | 6.3 | 6.1 | 6.1 | 5.6 | 25.2 | 27.1 | 23.7 | 24.1 | 23.2 | 23.4 |
| Swedbank | DM owned banks (Other) | 9.4 | 14.0 | 19.1 | 38.4 | 40.5 | 43.0 | 45.7 | 47.1 | 45.2 | 47.1 | 39.5 | 41.2 |
| Rodovid Bank | Local banks (public sector) | 3.2 | 18.7 | 25.3 | 45.0 | 56.6 | 63.3 | 71.7 | 70.3 | 76.0 | 86.5 | 86.7 | 93.5 |
| Pivdenny | Local banks (private sector) | 4.9 | 5.4 | 6.2 | 6.4 | 6.8 | 6.8 | 7.0 | 7.4 | 7.8 | 7.6 | 7.4 | 7.0 |
| Dongorbank | Local banks (private sector) | 7.7 | 10.9 | 16.9 | 18.7 | 19.7 | 21.3 | 23.8 | 26.0 | 28.5 | 32.4 | … | … |
| Sberbank of Russia | Russian banks (public sector) | 12.2 | 16.9 | 21.2 | 10.4 | 9.9 | 35.4 | 30.6 | 27.3 | 25.6 | 25.5 | 20.9 | 17.6 |
| Erste Bank | DM owned banks (Austria) | 9.6 | 13.5 | 15.5 | 18.2 | 20.9 | 24.1 | 25.1 | 26.0 | 27.0 | 27.5 | 27.9 | 28.2 |
| ING Bank Ukraine | DM owned banks (Other) | 1.2 | 1.4 | 1.5 | 1.5 | 1.6 | 1.8 | 1.9 | 2.3 | 2.4 | 2.4 | 2.5 | 4.2 |
| Universal Bank | DM owned banks (Other) | 6.5 | 8.6 | 11.2 | 12.7 | 14.2 | 16.7 | 18.9 | 22.9 | 23.9 | 26.3 | 27.5 | 28.9 |
| Unicredit Bank | DM owned banks (Italy) | 4.1 | 6.0 | 7.0 | 8.0 | 8.4 | 9.6 | 10.8 | 11.2 | 12.8 | 14.5 | 16.2 | 21.0 |
| Kreschatyk Bank | Local banks (private sector) | 1.4 | 1.6 | 2.0 | 4.2 | 4.3 | 4.3 | 4.3 | 9.0 | 8.7 | 8.7 | 8.7 | 8.6 |
| VAB Bank | DM owned banks (Other) | 6.0 | 7.3 | 8.1 | 12.2 | 13.7 | 15.2 | 18.1 | 22.4 | 21.2 | 21.2 | 21.5 | 23.2 |
| Finance Initiative | Local banks (private sector) | 9.6 | 9.7 | 10.6 | 11.1 | 10.6 | 11.4 | 13.1 | 12.7 | 14.1 | 13.7 | 14.7 | 14.0 |
| Imexbank | DM owned banks (France) | 2.9 | 4.0 | 5.7 | 6.7 | 6.4 | 6.5 | 7.3 | 8.2 | 8.9 | 9.8 | 10.9 | 9.4 |
| Bank Credit Dnipro | Local banks (private sector) | 10.9 | 11.6 | 10.5 | 11.2 | 11.9 | 11.5 | 11.2 | 10.0 | 9.9 | 9.5 | 9.3 | 8.5 |
| Citibank | DM owned banks (Other) | 1.8 | 4.1 | 4.2 | 3.5 | 4.0 | 6.0 | 6.9 | 6.0 | 4.6 | 4.5 | 4.6 | 2.9 |
| Pravex-Bank | DM owned banks (Italy) | 8.6 | 11.8 | 18.8 | 21.5 | 27.5 | 27.8 | 28.7 | 21.1 | 18.8 | 19.5 | 18.2 | 17.8 |
| Crédit Agricole | DM owned banks (France) | 16.6 | 20.7 | 20.7 | 19.7 | 20.5 | 17.9 | 16.2 | 13.7 | 12.5 | 11.9 | 9.6 | 8.3 |
| Kyivska Rus | Local banks (private sector) | 4.3 | 4.2 | 4.3 | 6.4 | 6.7 | 6.2 | 5.7 | 5.7 | 5.1 | 5.1 | 5.2 | 5.8 |
| Credobank | DM owned banks (Other) | 15.7 | 18.8 | 25.0 | 25.1 | 28.7 | 33.7 | 35.2 | 33.6 | 34.9 | 33.2 | 32.9 | 12.3 |
| Crédit Agricole CIB | DM owned banks (France) | 1.2 | 1.3 | 2.4 | 4.9 | 1.6 | 2.6 | 5.5 | 8.1 | 8.1 | 10.7 | 8.1 | 8.2 |
| BTA Bank | Local banks (private sector) | 12.8 | 13.4 | 15.8 | 16.2 | 18.2 | 19.2 | 16.8 | 11.4 | 13.2 | 14.7 | 15.1 | 13.6 |
| Marfin Bank | DM owned banks (Other) | 11.7 | 13.1 | 14.9 | 16.2 | 17.4 | 19.1 | 20.3 | 19.8 | 19.5 | 19.8 | 20.3 | 21.0 |
| Piraeus Bank | DM owned banks (Other) | 3.1 | 3.8 | 9.0 | 15.4 | 16.5 | 16.6 | 20.1 | 23.1 | 21.9 | 43.8 | 36.1 | 31.2 |
| Megabank | Local banks (private sector) | 3.2 | 3.6 | 3.8 | 4.0 | 4.0 | 4.0 | 4.3 | 4.8 | 5.3 | 5.6 | 5.7 | 5.4 |
| Other banks | | 11.6 | 14.3 | 16.0 | 16.8 | 15.1 | 15.8 | 16.0 | 15.2 | 16.0 | 15.8 | 14.0 | 11.2 |
| **Total** | | **8.4** | **10.4** | **12.4** | **14.8** | **16.0** | **17.5** | **18.6** | **18.6** | **19.0** | **19.3** | **18.9** | **18.2** |
| | Local banks (private sector) | 9.7 | 11.2 | 12.3 | 13.6 | 14.1 | 14.6 | 15.2 | 15.6 | 15.4 | 15.7 | 16.4 | 16.3 |
| | Local banks (public sector) | 4.0 | 6.0 | 8.4 | 13.0 | 15.1 | 16.7 | 17.5 | 18.8 | 20.0 | 20.6 | 21.5 | 22.9 |
| | **Local banks (total)** | **7.7** | **9.3** | **10.9** | **13.3** | **14.4** | **15.3** | **16.0** | **16.6** | **16.8** | **17.3** | **18.1** | **18.4** |
| | DM owned banks (Austria) | 9.3 | 12.5 | 16.0 | 19.5 | 21.5 | 23.4 | 25.5 | 27.4 | 28.6 | 29.5 | 30.0 | 28.7 |
| | DM owned banks (France) | 8.8 | 10.6 | 12.5 | 13.9 | 15.9 | 18.4 | 21.8 | 22.7 | 23.9 | 23.5 | 19.2 | 16.0 |
| | DM owned banks (Italy) | 5.7 | 7.5 | 9.6 | 11.8 | 13.7 | 15.2 | 16.9 | 17.0 | 18.0 | 19.2 | 20.5 | 21.4 |
| | DM owned banks (Other) | 7.6 | 10.0 | 12.6 | 16.7 | 18.4 | 20.5 | 22.7 | 25.2 | 24.6 | 26.2 | 23.4 | 22.8 |
| | **DM owned banks (total)** | **7.8** | **10.2** | **12.7** | **15.7** | **17.6** | **19.6** | **21.9** | **23.3** | **23.9** | **24.8** | **23.4** | **22.6** |
| | Russian banks (public sector) | 8.2 | 9.5 | 12.7 | 13.7 | 16.3 | 20.4 | 20.6 | 14.2 | 15.8 | 15.4 | 14.9 | 13.2 |
| | Russian banks (private sector) | 10.4 | 11.3 | 12.0 | 17.0 | 20.8 | 23.8 | 24.2 | 26.4 | 26.4 | 26.6 | 26.6 | 23.5 |
| | **Russian banks (total)** | **8.9** | **10.2** | **12.5** | **14.8** | **17.7** | **21.4** | **21.7** | **17.3** | **18.5** | **18.3** | **17.8** | **15.6** |
| | Other banks | 11.6 | 14.3 | 16.0 | 16.8 | 15.1 | 15.8 | 16.0 | 15.2 | 16.0 | 15.8 | 14.0 | 11.2 |
| | **All banks** | **8.4** | **10.4** | **12.4** | **14.8** | **16.0** | **17.5** | **18.6** | **18.6** | **19.0** | **19.3** | **18.9** | **18.2** |

Notes: DM – developed economies; … data does not exist due to bank merger. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

# Disclosures

## ANALYST CERTIFICATION

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