

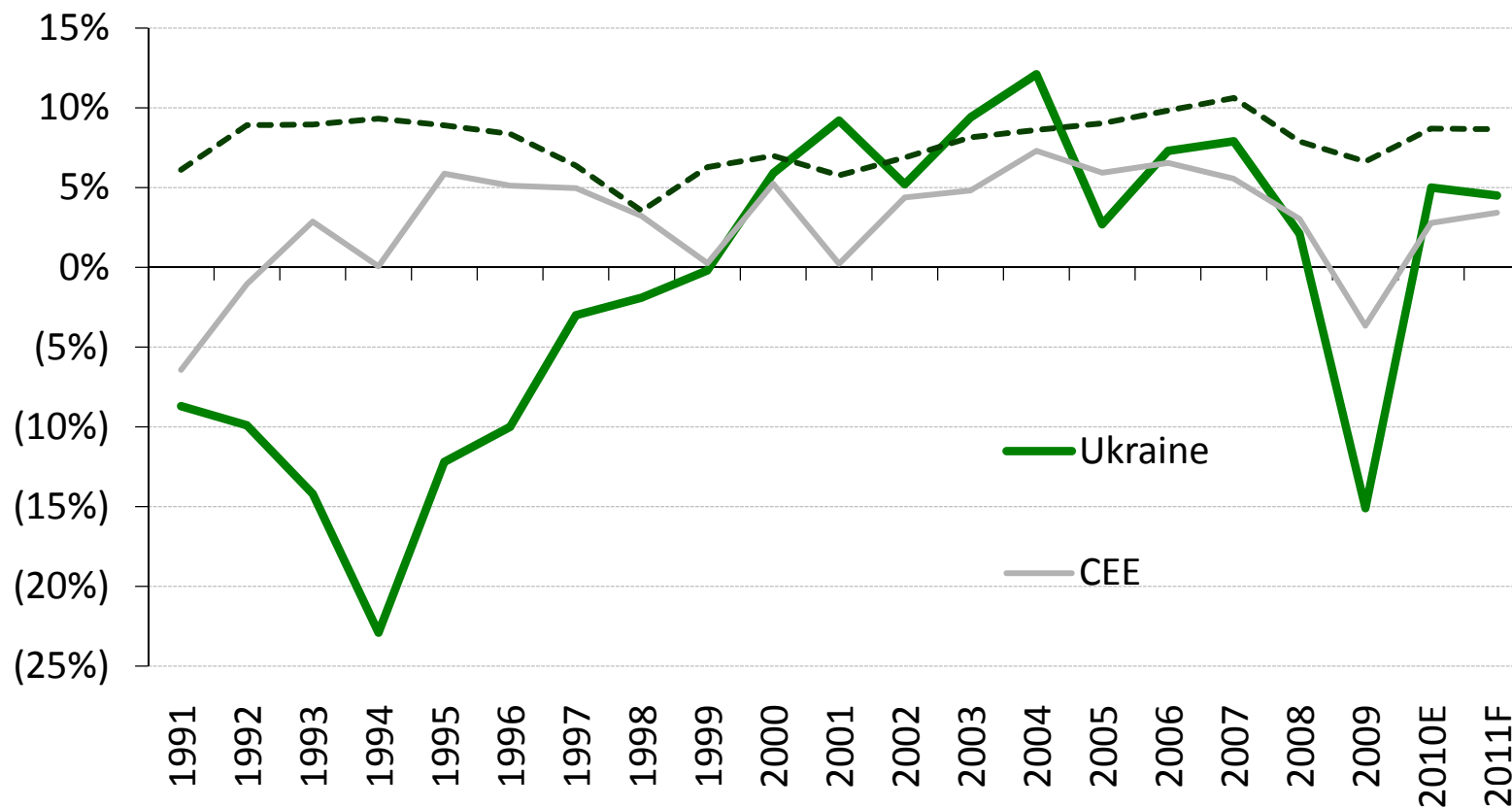
Ukrainian Economy: Reforms or Inertia?

Cbonds Russia & CIS Fixed Income Conference

September 16-17, 2010

London , UK

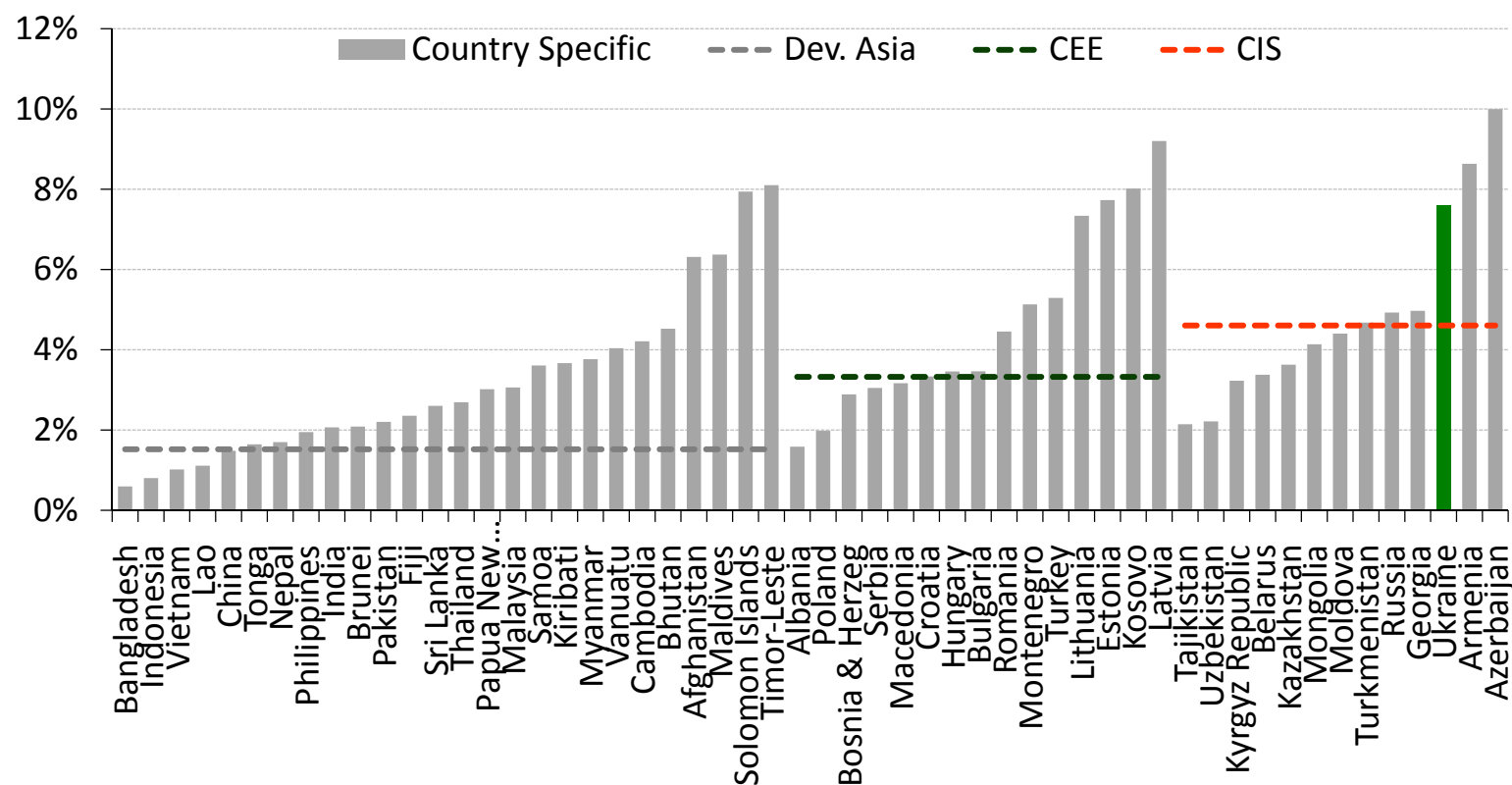
Ukraine's growth pattern has been volatile...



Real GDP Growth (% y-o-y)

Source: IMF

...compared to many EMs and regional peers

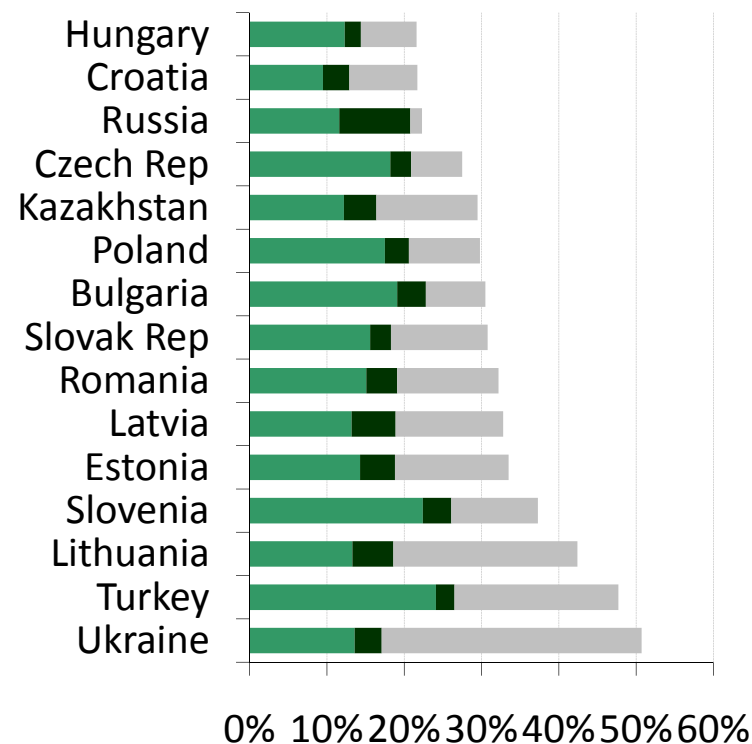
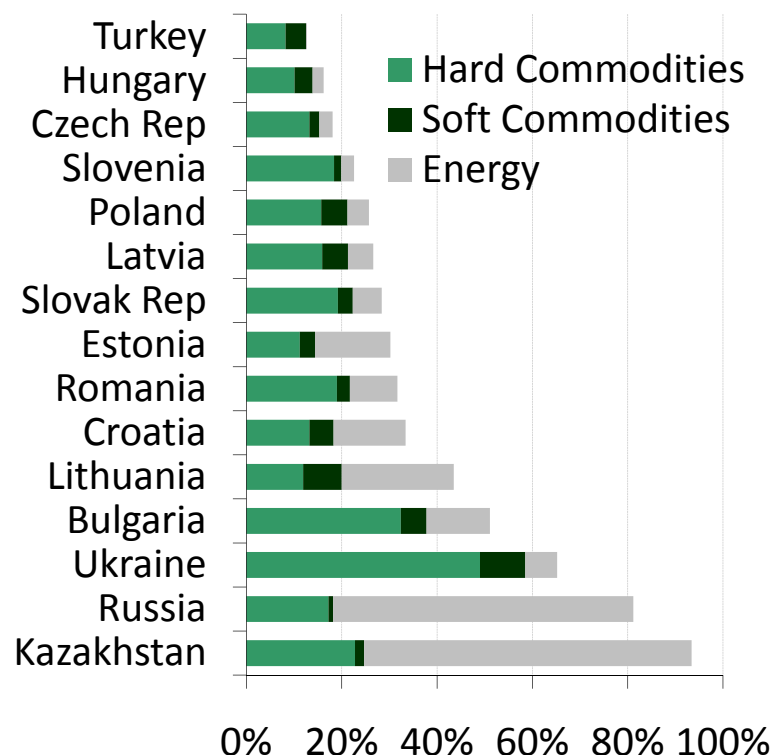


Economic Growth Volatility (2000-09)

Note: volatility measured by standard deviation of real GDP growth over 2000-2009

Sources: IMF, Dragon Capital

The economy's commodity-based structure...

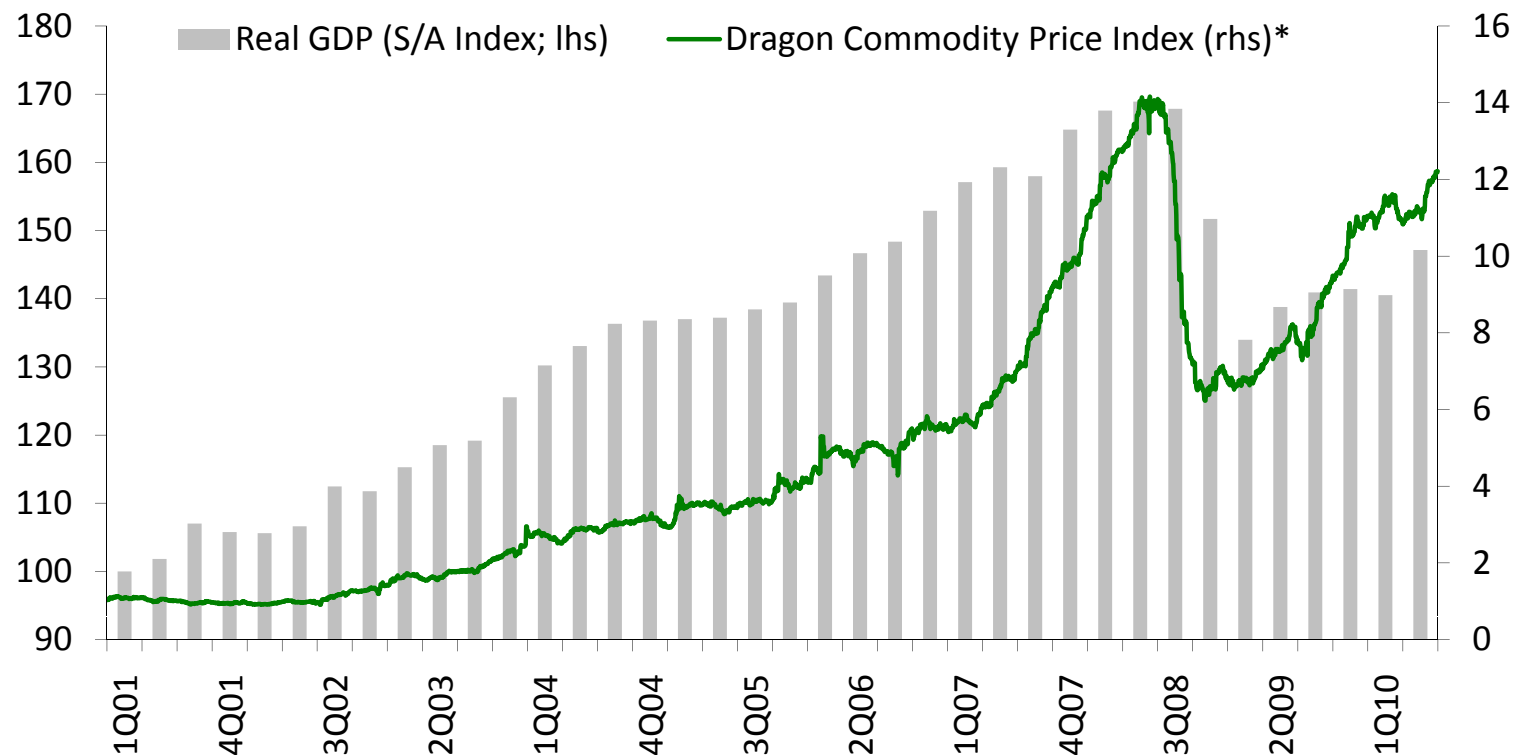


**Exports Composition:
Ukraine vs. Regional Peers**

**Imports Composition:
Ukraine vs. Regional Peers**

Sources: ITC, Dragon Capital

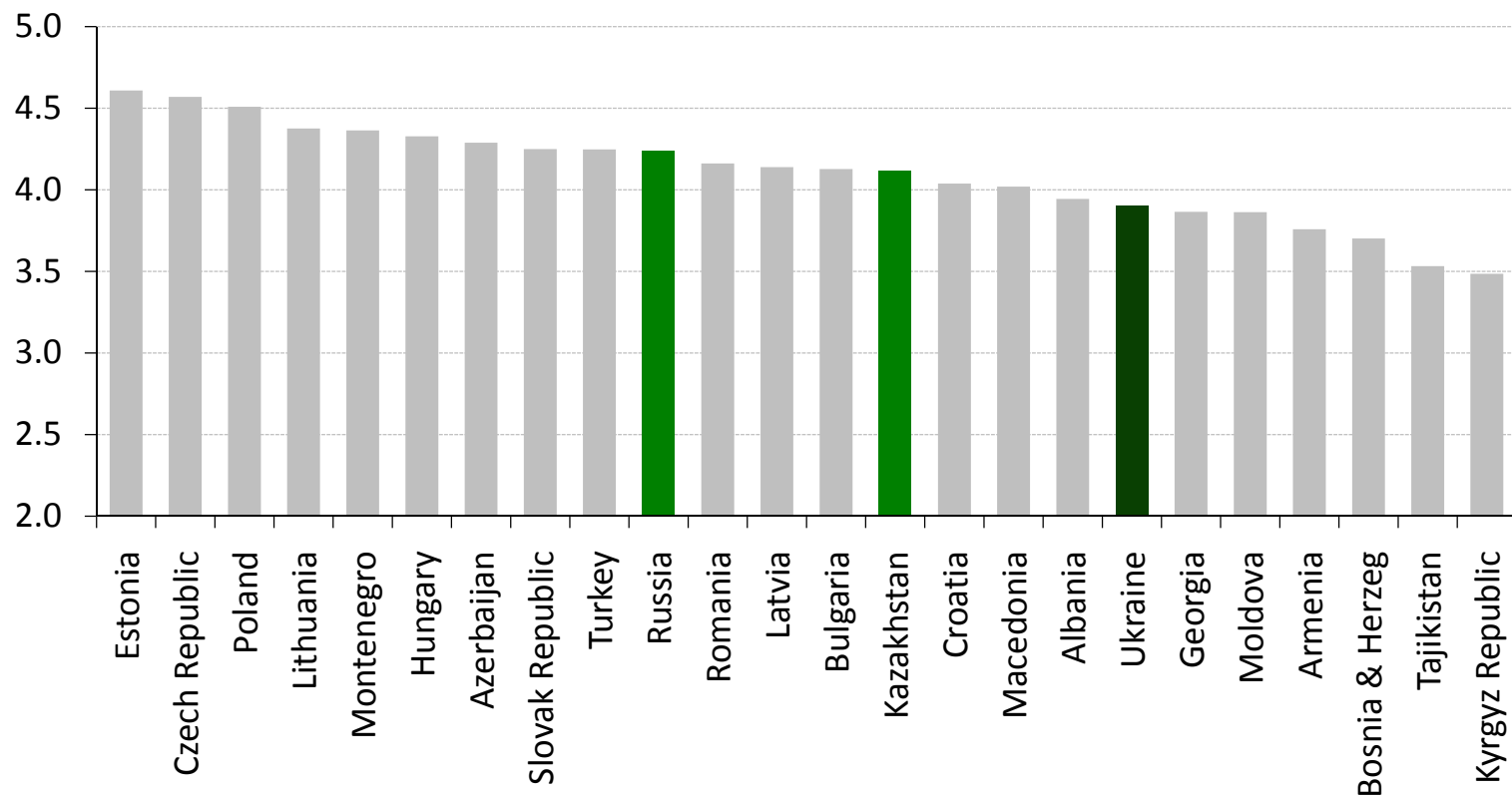
...explains its exposure to commodity cycles



Ukraine's Real GDP and Commodity Prices (2001-2Q10)

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

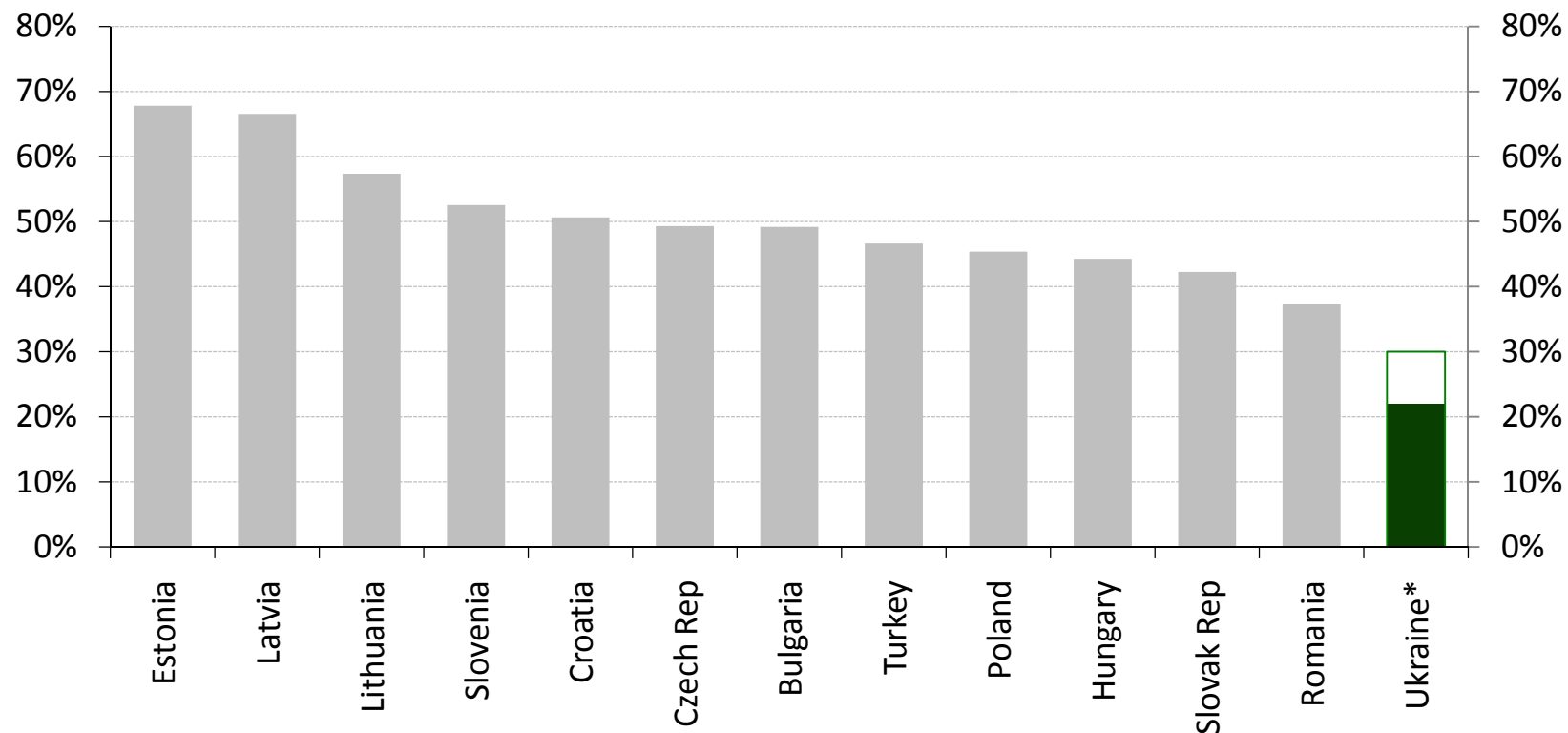
But institutional weaknesses play a role...



Competitiveness Index: CEE & CIS

Source: World Economic Forum Competitiveness Report 2010-2011

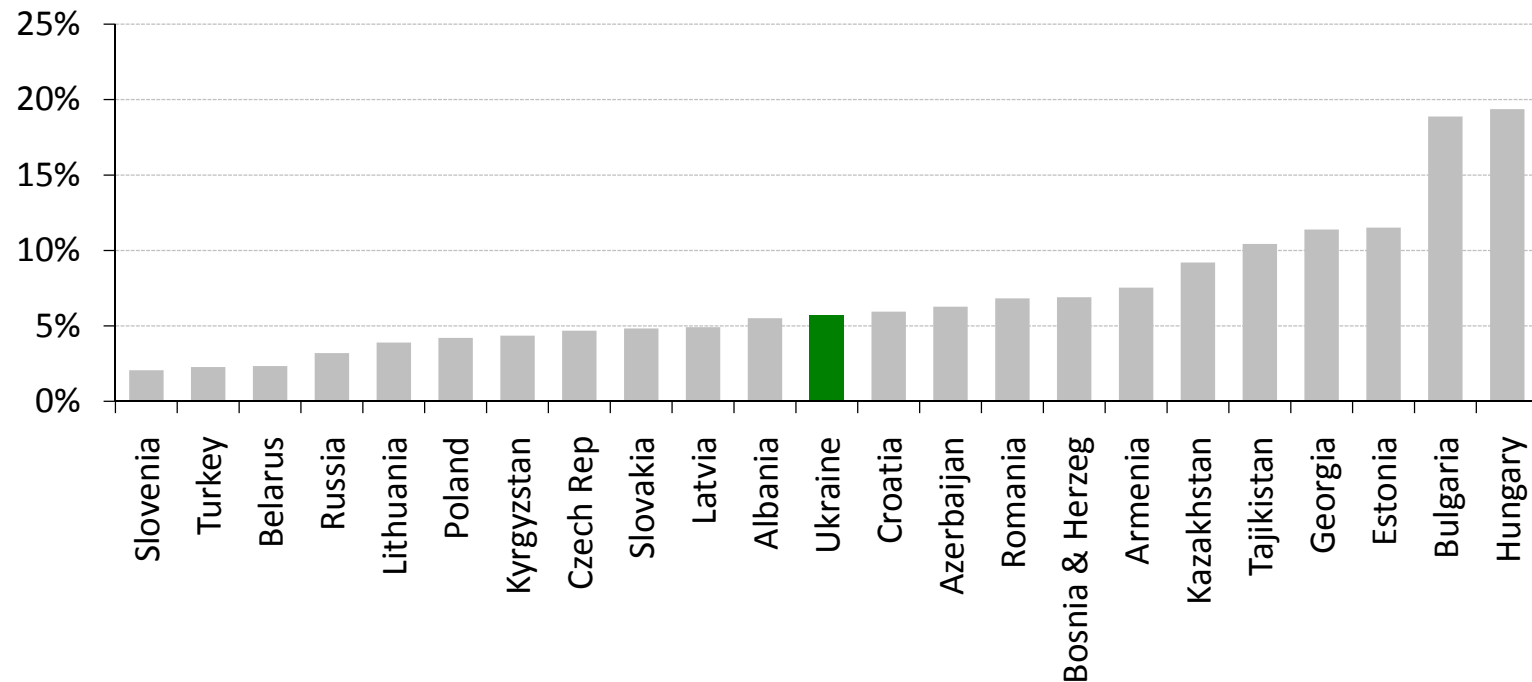
...hindering SME development...



Contribution of Small and Medium Enterprises to GDP (2008; %)

Note: *unofficial estimates for Ukraine. Sources: Eurostat, Dragon Capital

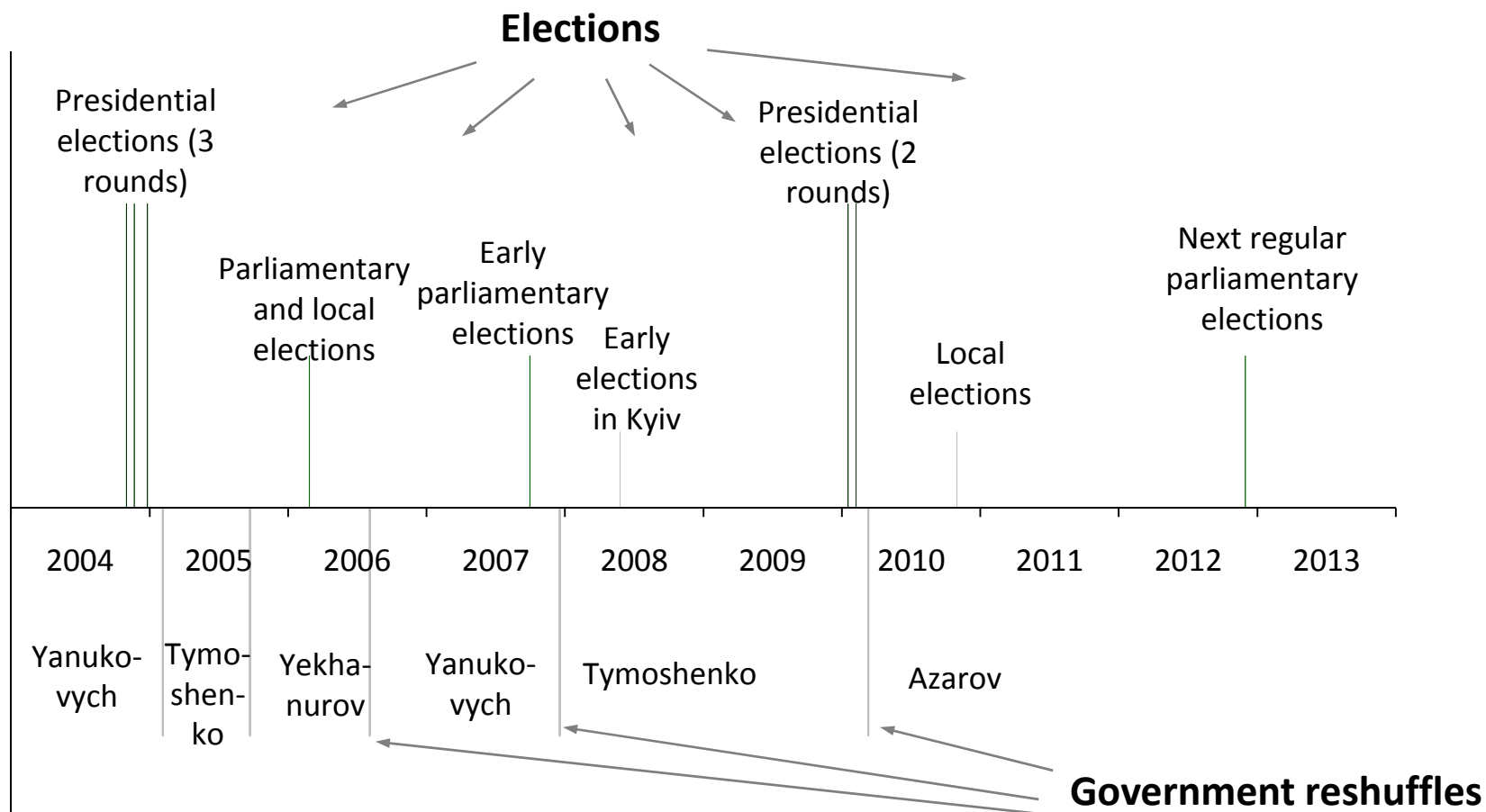
...and limiting FDI inflows



FDI Inflows (% of GDP; 2004-2009 avg)

Source: UNCTAD

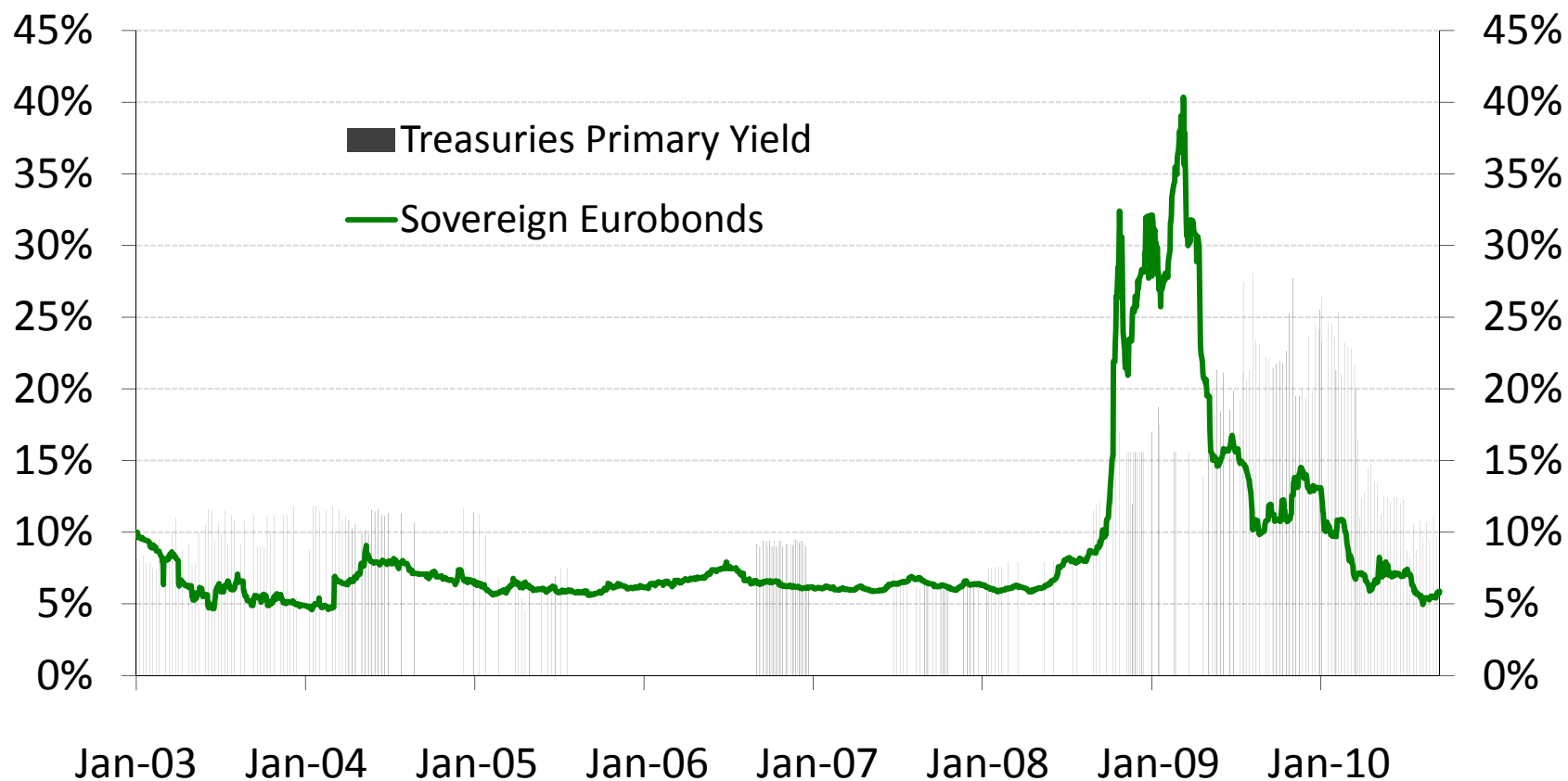
Political landscape gets conducive to reforms



Major Political Events Over 2004-2013

Source: Dragon Capital

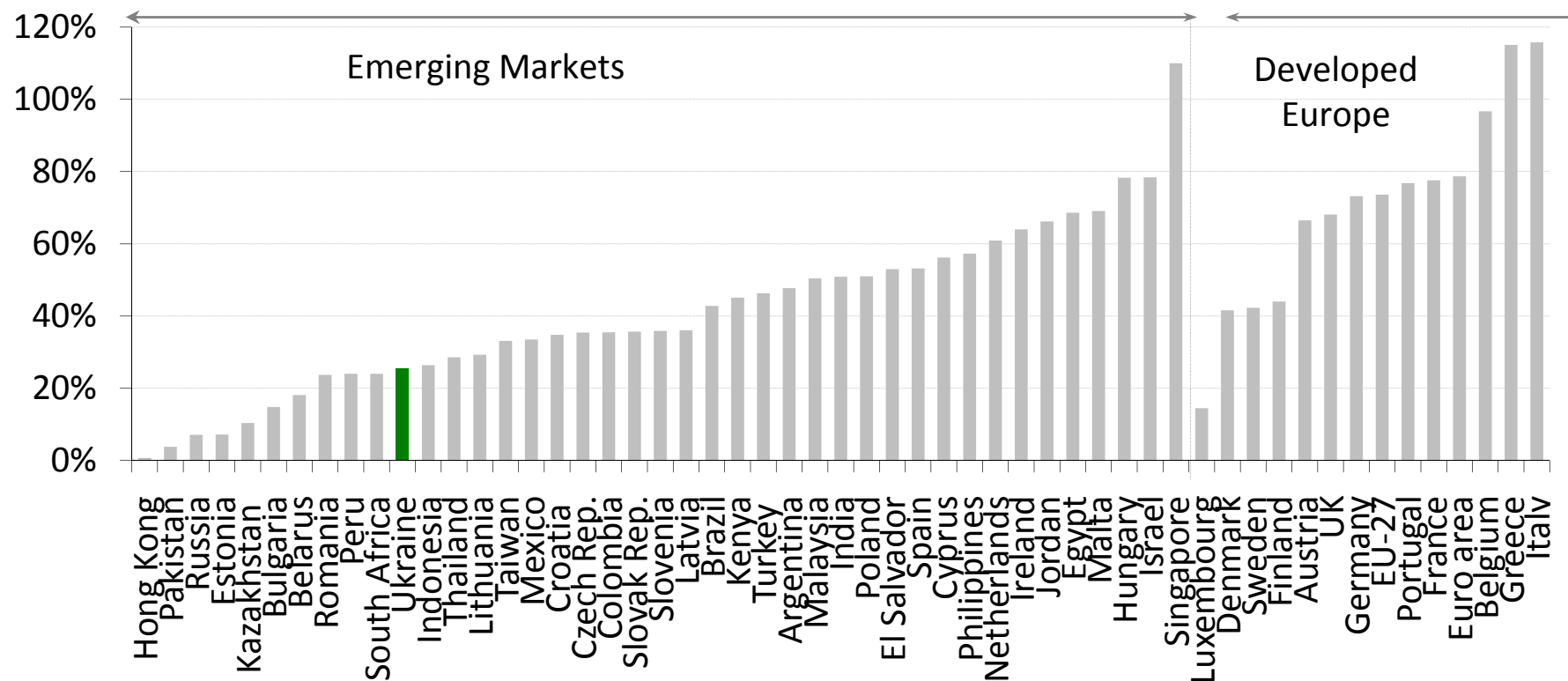
Funding costs are affordable...



Historical domestic and external sovereign yields (%)

Sources: Bloomberg, Finance Ministry


...and public debt remains moderate






Direct Public Debt (2009; % GDP)

Sources: National authorities, European Commission, Dragon Capital estimates




IMF to act as external anchor

 New 2.5-year \$15bn Stand-by program signed in July 2010 aims at supporting reforms


 Key Program objectives:


-  Fiscal consolidation, including pension system reform
-  Energy sector reform
-  Strengthening financial system

Key IMF requirements

-  **Pension system:** increase retirement age for women from 55 years to 60 years; extend qualification period by 10 years
-  **Energy sector:** increase domestic gas tariffs; eliminate gas price privileges; establishment independent heating tariff regulator
-  **Financial sector:** complete bank recapitalization; strengthen state-owned banks; increase central bank's independence and improve its supervisory capacity

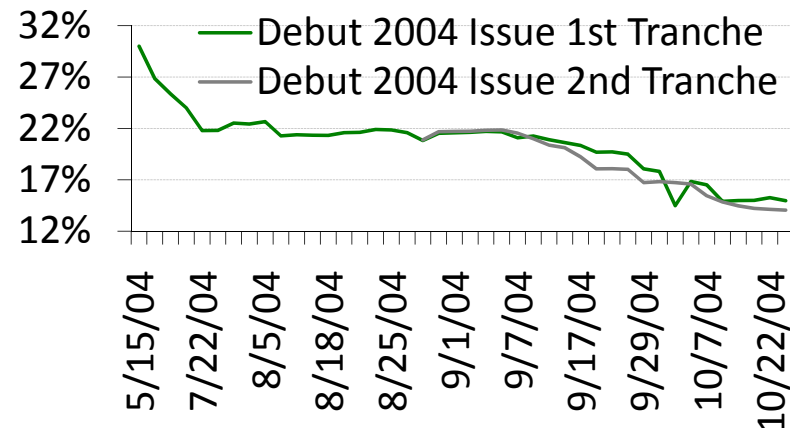
Government's own initiatives

 **Business deregulation:** slash number of economic activities requiring permits three-fold; halve number of controlling government bodies; cut number of licenses by 30%

 **Tax system:** amend Budget Code to redistribute revenues in favor of local authorities; approve Tax Code to streamline tax legislation; adopt new public procurement law; restructure VAT refund arrears by issuing special government bonds

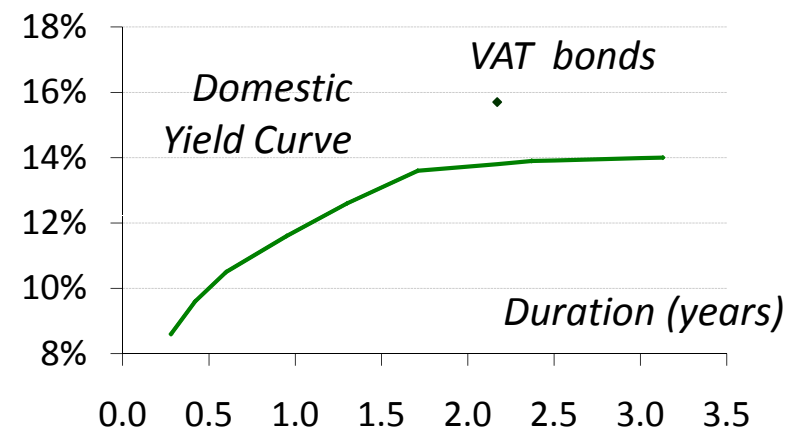
Financial market to benefit from some initiatives

- ▶ Gov't issued UAH 16.4bn (\$2.1bn) of 5-year government bonds in four non-fungible tranches to restructure VAT refund arrears
- ▶ Bonds are set to become the most liquid domestic government debt instrument: large issue size, firm supply from companies
- ▶ Our experience with similar debut paper in 2004 suggests attractive upsides



Historical Yields on Debut 2004 Issue

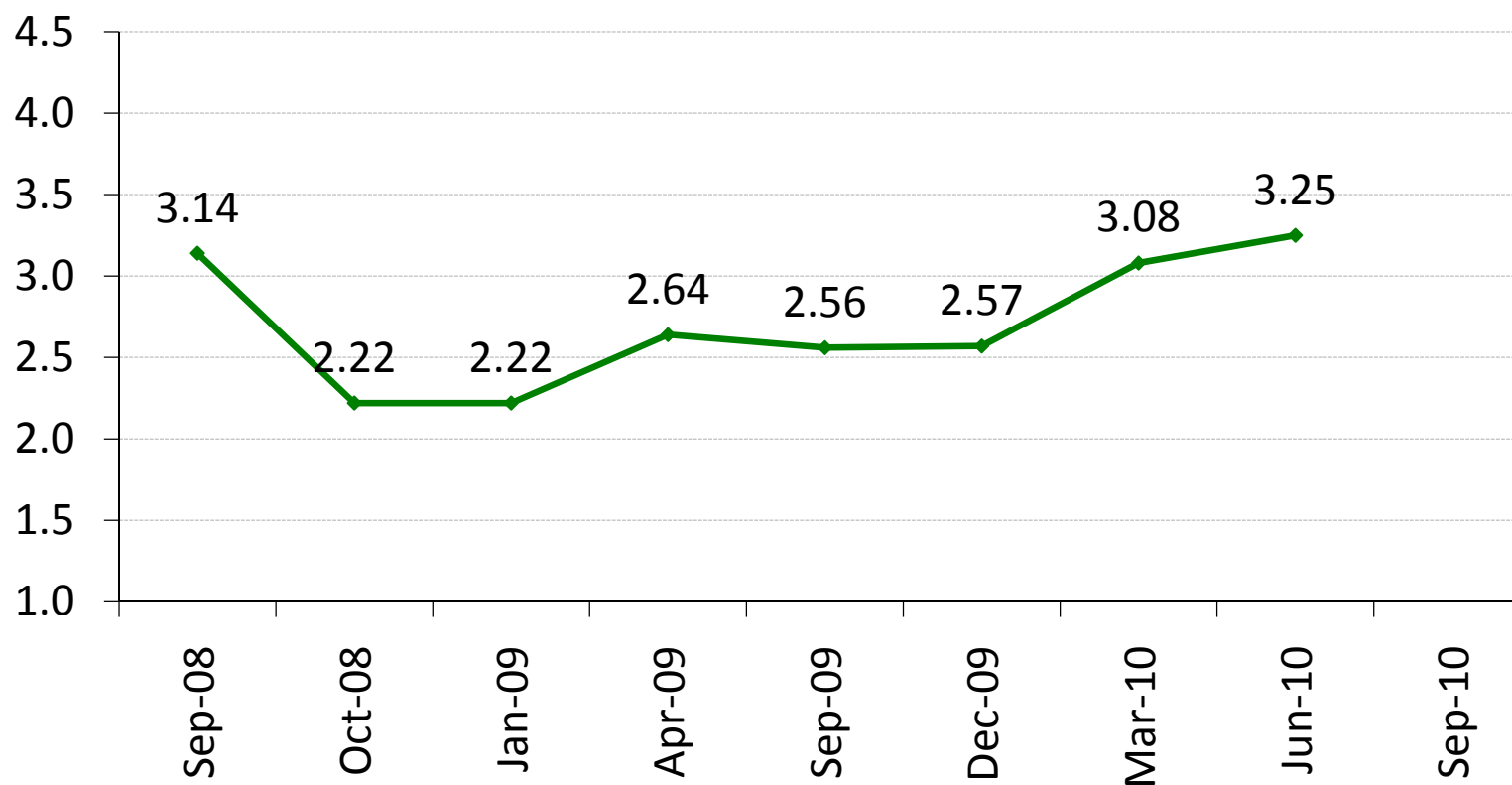
Source: Dragon Capital



VAT Bonds vs. Sovereign Yield Curve

Source: Dragon Capital

Domestic business assesses first steps positively



Investment Attractiveness Index

Source: European Business Association

36D Saksahanskoho
01033 Kyiv, Ukraine
Tel.: (+38 044) 490 7120
Fax: (+38 044) 490 7121
<http://www.dragon-capital.ua>