Ukraine Freight Transport Report Q1 2011

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Abstracts

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Ukraine's infrastructure sector was in mid-2010 reaping the windfalls from the new government's foreign policy reorientation back towards Moscow. Russia's Sberbank was reportedly arranging a loan for Ukravtodor, Ukraine's state-owned highways agency, for investments in Ukraine's road network. This came hot on the heels of a US$2bn loan from Russia for the renovation of Ukraine's nuclear estate. The influx of Russian loans was seen as breathing new life into Ukraine's infrastructure sector. Most likely the funds would go towards the construction of roads that are part of the preparations for the UEFA Euro 2012 tournament. Ukraine has a target of renovating 5,000km of roads around the country, a venture with an estimated cost of US$4.2bn; but over 2009, amid deep macroeconomic contraction and political stalemate, Ukraine only managed to disburse US$178mn.

After suffering a vicious circle of high political risk and poor economic performance in recent years, we believe Ukraine is set for slow and gradual improvement. Following Viktor Yanukovich's electoral victory earlier in 2010 political risk factors appeared to have eased. After the crippling slump of 2009 the Ukrainian economy began a partial recovery and despite some fluctuations we see this continuing on the back of moderate improvements in exports and domestic consumption, and a gradual reduction in unemployment levels. The pace of improvement will slow in 2011 as fiscal austerity and a slow global economy take its toll, but from 2012 onwards growth will begin to accelerate.

As a result of our analysis, BMI estimates a 2010 GDP growth rate of 3.8% (following on from the massive 15.0% contraction the previous year). Our outlook for 2011 is for moderate GDP growth of 3.4%, edging up to 4.5% in 2012. In the five years to 2015 we expected growth to average 4.5% per annum, implying Ukraine will begin to find a more

stable development path than what the country experienced in the pre-2009 period.

Ukraine International Airlines (UIA) has been expanding its passenger and freight capacity, and we have factored this into our forecasts. After a two-year standstill (with falls of 1.8% and 2.1% respectively in 2008 and 2009), in 2010 total cargo volume carried by air increased by an estimated 4.2% to 104,200 tonnes. For 2011, we are predicting that the industry will see a year of slower growth at 2.7% to 106,900 tonnes.

The resolution of a long-standing legal dispute at the Port of Illichivsk, together with signs of investor interest in the country's ports, have been positive signs, although increased competition from Russian Black Sea ports sounds a note of caution. Ukraine's main port at Odessa was hit by the international recession in 2009, experiencing an 19.0% fall in tonnage handled, down to 28.007mn tonnes. BMI estimates this was followed by another deep contraction of 15.1% in 2010, taking total volume handled to 23.774mn tonnes. Against the background of a wobbling trade recovery in Europe we now project marginal growth of 1.5% in 2011 to reach a total of 24.128mn tonnes.

In terms of cargo volume, Ukraine's railway system experienced two years of decline, culminating in a drop of 21.6% in 2009, when the total came down to 391.0mn tonnes. BMI estimates that a weak recovery began in 2010 with 3.0% growth; for 2011 we foresee a similarly disappointing outcome with 2.1% growth to 411.085mn tonnes.

In 2011, we expect total tonnage volume carried by road to increase by 1.8% to 1.128bn tonnes, following an 4.1% gain in 2010. In real terms, Ukranian trade slumped by a massive 38.6% in 2009, had a moderate recovery in 2010 (estimated growth of 6.0%) and is set to slow down marginally in 2011 (+3.6%). This means that the country's trade value remains significantly below its pre-2009 peak. In nominal terms, we are expecting imports to total US$78.3bn in 2011, with exports slightly lower at US$76.7bn. Ukraine will therefore register a small trade deficit.

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