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EXECUTIVE SUMMARY

Though this is vacation time in Ukraine, the nation's socio-economic life is stormy. June's hottest topic was a proposal to revise the 2008 budget. The Ministry of Finance has accumulated more than UAH 30 billion at its Treasury account, and politicians have been enthusiastically discussing how to spend the money. There was no consensus on this by July, but the government nonetheless decided to submit its own amended version to Parliament. Stay tuned.

Unfortunately, an amended budget is unlikely to offer any new inflation-fighting opportunities. CPI was up 29.3% y/y by the end of June, down slightly for seasonal reasons -- though that number is still far above the government's expectations. Officials had expected food price rises to start slowing by summer.

Provisional results indicate that this year's grain harvest will be impressive. Agro-experts anticipate output of 45 million tons -- more than 50% more than last year's crop. In addition to deflation pressure, agro-performance will contribute to real economic growth. We've therefore raised our GDP growth forecast, from 5.8% to 6.4% for 2008.

Interestingly, the unusually high crop output could help mitigate the problem of the fast-growing trade deficit. The merchandise trade deficit reached 13.4% of GDP, January through April. If the government doesn't intervene in grain trading, agro-exports can improve trade balance statistics in Q3.

However, crop output won't change the general dynamics of the deteriorating current account balance. As the deficit grows, investment inflows will be vital to currency and economic stability. So far, Ukraine has been enjoying an investment boom, due to generally bullish attitudes about the country's potential. That's tapered off recently, as companies seem to be behaving more cautiously. Only those who plan to tap market share seem to be investing now.

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