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## EXECUTIVE SUMMARY

We don't see global slowdown posing significant danger to the Ukrainian economy. Financial markets still don't drive real sector performance, and the household and corporate sectors are so robust that rising interest rates don't look to be a significant impediment to their growth. We project GDP growth at 6.5% this year, down from 7.3% in 2007, and then a slight further drop to 6.4% in 2009.

Commodities trends are most important, due to their effects on domestic producers. Basic commodities are expected to keep rising, which promises to cover the rising cost of importing gas from Russia. Moreover, the growing demand for agricultural products may also benefit Ukraine, since this country's agricultural potential is significant. But this should only be considered in the long run, as Ukraine's agricultural sector requires many complex reforms before it can boost its productivity.

We expect strong internal investment demand in the near future, due to an acute need to modernize production capacities in all sectors. That will create demand for domestic machinery, but also raise imports dramatically.

We therefore expect the current account to deteriorate significantly, to 6.8% of GDP in 2008 and 8.8% in 2009. Most of that should be covered by high FDI and portfolio inflows, driven by bank sales and privatization of several large enterprises. Despite our optimistic view on investment, we think the Central Bank will intervene in the FX market with a negative balance in 2009, creating devaluation pressure on the *hryvnia*.

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