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August 11, 2008

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EXECUTIVE SUMMARY

A major flood that damaged nearly 25% of the lands in Ukraine, destroyed houses and infrastructure and killed dozens of people in late July was a national disaster, but doesn't appear to have affected the prospects for a standout 2008 harvest. Parliament, in recess, met in special session, and approved UAH 5.8 billion (about \$1.3 billion) to address the damage.

But the Agriculture Ministry provisionally raised its grain harvest forecast, nonetheless. Experts anticipate 40 million to 43 million tons of crops, a more than 30% increase over last year. Traders are planning to export some 17 million to 18 million tons – four times last year's exports. The optimistic outlook is constrained, however, by storage and transportation problems. Ukraine lacks enough grain elevators to store all of its crops, and transshipment capacities to export the excess. Producers, traders and government are all looking for some kind of solution -- but it looks as though the infrastructure problem won't be resolved this year.

The strong harvest will help lift the economy. We keep our 2008 GDP growth forecast the same, at 6.4%, and lower our projection for the current account deficit, to 6.8% of GDP from 7.4%. Too, the harvest seems to be constraining soaring consumer prices a bit. By the end of July, CPI demonstrated deflation of -0.5% m/m (to 26.8% y/y). But the structure of this result was disappointing. No key foodstuffs declined in price, though fruits and vegetables, for seasonal reasons, did. Meat and even flour products rose ever higher. We maintain our 2008 CPI forecast at 26% y/y.

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