

CONTENTS

Next Parliament will Look Similar

Economic growth

CPI at its Eight-Year High

The Exchange Rate, Interest Rates and Monetary Policy

Financial Markets

The Public Sector

Foreign Trade

Don't Expect Surprises

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EXECUTIVE SUMMARY

All eyes are on the September 30th elections, but we don't expect the vote to produce any surprises. Three leading parties will define the political landscape, and dominate the next Parliament. Rather, the big guessing game is over which of them will participate in the ruling coalition. All combinations are possible; political experts are even uncertain of who will be prime minister next.

Despite the uncertain political outlook, the economy continues to grow rapidly, though GDP growth at 7.5% during the first eight months of 2007 represents a slowdown. The real sector slowed somewhat, mainly due to weakening external demand and the poor grain harvest.

The Central Bank, the NBU, continues to intervene in the FX market, to keep the hryvnia stable against the U.S. dollar. In August, the NBU bought \$1.6 billion, bringing gross reserves to a \$28.6 billion, or more than five months of imports.

The positive foreign currency balance stems from the influx of investment. On the one hand, Ukrainian banks attract cheap external resources to satisfy a booming retail loan market. On the other, institutional investors are purchasing domestic banks and local real estate assets.

Two large deals were completed in September: Germany's Commerzbank bought a local bank, with which it aimed to access the retail credit market, and British developer London & Regional Properties bought Globes, one of the largest and prestigious shopping centers in central Kiev.

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