GlobalSource UKRAINE MONTHLY REPORT

The Orange Coalition's Second Chance

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EXECUTIVE SUMMARY

Although the Orange coalition's slim majority in the September 30th parliamentary elections makes Yulia Tymoshenko the most probable candidate for prime minister, the Party of Regions may have enough power to block her ascendancy. The first session of the new Verkhovna Rada is expected at the beginning of November. It's hard to say, yet, who will occupy key cabinet posts.

Five parties surpassed the 3% threshold required to win parliamentary representation. Besides Tymoshenko's popularity, the other surprise was the resurgence of former parliamentary speaker Volodymyr Lytvyn. As expected, the Socialist Party lost support, failing to garner enough votes to win any seats.

Though GDP was still strong, up 7.3% for the first nine months of the year, the economy continued to slow, due to a slump in agriculture But the stock market rebounded on the heels of the Fed's September 18th rate cut.

The government has decided to sell one of Ukraine's largest chemical plants, Sumyhimprom, and to allow the sale of the Zaporozhe titanium and magnesium plants after all, in an effort to boost privatization income.

Inflation in September hit a seven-year high, with CPI up 8.3% ytd, and 14.4% y/y. Food price rises continue to be a driving force, with the meager grain harvest (down 16% from a year ago) a major factor. Meat prices also rose, since producers factored in fodder costs. The electoral campaign seems to have also pushed inflationary expectations higher.

After keeping the local hryvnia fixed at 5.05 to the U.S. dollar for the past two years, the Central Bank seems poised to allow the local currency to strengthen very soon. The foreign currency balance is still positive, and the Central Bank continues to rack up gross reserves via intervention in the currency markets. By the end of September, monetary reserves were $30.6 billion, equivalent to about 5.8 months of imports.

The election delayed approval of the 2008 budget. The new government will probably want to revise it, so we expect a spending plan to be voted upon only in early 2008.