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November 19, 2008

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EXECUTIVE SUMMARY

The Ukrainian economy is headed into deep recession: industrial output slumped 19.8% y/y in October, pushing GDP into negative territory, down -2.1%. The collapse of metallurgy, and other export sectors like machinery and chemicals, were mainly responsible. This leaves the country outlook gloomy, and heavily dependent upon government and Central Bank policy.

We expect GDP growth to shrink -1.9% in 2009. But even this forecast depends upon currency devaluation of as much as 45%; otherwise, even greater shrinkage is highly probable.

New anti-crisis legislation that de facto nationalized major banks could help the banking sector to a soft landing. But other steps will be needed to revive real sector performance. The IMF's recommendation for currency devaluation is crucial. The Ukrainian economy is based on industrial growth, and in our opinion, *hryvnia* devaluation is Ukraine's only chance to restore domestic demand.

Though the Central Bank is fighting depreciation, we expect the currency to be about 6.5 to the dollar by yearend. It could approach >>>

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