

# New Europe Economics & Strategy

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## Focus Notes: Ukraine

### Positive steps forward in Ukraine

- ✓ On April 27, 2010, Ukraine's Parliament approved the long-awaited **state budget for 2010** paving the way for resuming the IMF loan and the start of the so much needed economic reforms. The approved state budget targets a UAH57.7bn or **5.3% of GDP deficit** including a deficit of UAH29.6bn or 2.7% of GDP for the State Pension Fund, but excluding support to Naftogaz (the Ukrainian natural gas supplier). Naftogaz deficit amounted to ca 2.5% of GDP in 2009, but given the new gas deal with Russia, the government anticipates managing to reduce Naftogaz support to 1% of GDP in 2010 or even to zero. The IMF called for a state budget deficit of 6% of GDP including the support for Naftogaz and the State Pension Fund but excluding banking sector recapitalization costs. Therefore, the state budget target is broadly **in line with the IMF's reported requirements**. The budget is based on an assumption of **real GDP growth of 3.7% yoy in 2010** and inflation rate (eop) of 13.1% yoy, which appear to be realistic.
- ✓ Meanwhile, although no official confirmation has come from the **IMF** yet, reports suggest that a **new \$20bn loan programme of 2.5 years** will soon be formally agreed. An IMF mission is expected to arrive to Kiev on May, 17 for further talks.
- ✓ Ukraine's **inflation rate dropped to 9.7% yoy in April 2010** from 11% yoy recorded in the previous month. This drop beats the consensus of 10.8% yoy and reflects that consumer demand remained weak. On April, prices fell to 0.3% mom.
- ✓ Slowing inflation may allow the Ukrainian central bank (NBU) to cut its key discount rate, currently the highest in Europe at 10.25%, to spur lending. What's more, the NBU cut its overnight interest rates for the second time this year as the inflation rate fell to a 3-year low reading. The overnight rate was reduced to 11.5% from 12.5%.

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