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Focus Notes: Ukraine

S&P upgrades Ukraine's sovereign rating to B with outlook stable

- ✓ On May 17, 2010, **Standard & Poor's (S&P) upgraded Ukraine's sovereign rating to B/C** from B-/C and **raised the local currency ratings to B+/B** from B/B, while keeping the **outlook stable**. S&P last raised the sovereign rating by one notch, to B-/C from CCC+/C, on March 12, 2010, after the formation of the new government. S&P had cut Ukraine's sovereign rating five times in the past two years. Regarding the current upgrade, the rating agency cited **improved policy coordination**, a stabilizing Ukraine's external liquidity position, expectations for an increase in useable foreign-exchange reserves relative to short-term debt, and a moderate general government debt burden (the latter is expected to reach 27% of GDP). The upgrade highlights the **improved investor sentiment** towards Ukrainian assets as domestic activity gains pace and February's elections ended months of policy and political uncertainty in Ukraine.
- ✓ According to the State Statistics Committee in Kiev, Ukraine's economy expanded by **4.8% yoy in Q1-2010**. This was the first quarter of positive growth since the third quarter of 2008 i.e. after five consecutive quarters of contraction.
- ✓ **Industrial production rose to 17.4% yoy in April** from 13.8% yoy increase in March. A strong rise in external demand for steel and chemical stimulated the expansion in industrial production. The manufacturing sector recorded substantial growth benefiting from seasonal and base effects – last April's reading for industrial production was -31.8% yoy. Overall, a recovery in the mining and steel sector is supporting a **strong rebound in Ukraine's industrial production in 2010**. Moreover, industrial production accounts for nearly a quarter of Ukrainian GDP.
- ✓ The annual pace of decline in retail sales has eased to -2.7% yoy in April 2010 from -20.6% yoy posted in December 2009.

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