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Focus Notes: Ukraine

Ukraine's real GDP growth expanded 6.0% yoy in Q2-10 from 4.9% yoy in Q1-10

- ✓ Ukraine's **real GDP growth** stood at **6% yoy in Q2-10** accelerating from 4.9% yoy in Q1-10 and 15.1% contraction recorded in 2009 as a whole. GDP expanded **3.9% qoq in Q2-2010**. The Ukrainian government expects GDP to grow by 4.5% yoy in 2011, up from 3.7% yoy in 2010. Admittedly, the economy is undergoing a recovery, even though from a low base. We do not expect growth to accelerate much further in the second semester due to weaker foreign demand and lack of favourable base effects (industrial recovery started in summer-fall 2009). The rebound in industrial sector has shown signs of slowing; annual **industrial production declined to 6.4% yoy in July** from 8.9% yoy recorded in June.
- ✓ In late July, **S&P** rating agency **raised Ukraine's** long-term sovereign foreign currency **rating by one notch to B+** and the long-term sovereign local currency rating to BB- from B+. The agency cited the government's decision to increase domestic gas tariffs as an encouraging sign for the IMF loan resumption which, once on track, will reduce the external vulnerability of the Ukrainian economy.
- ✓ The overall **balance of payments** reached \$2.8bn in June; this is the **highest level from the beginning of the crisis**. This was formed due to the credit of \$2bn obtained by the Ukrainian government from the Russian Bank VTB for budget purposes. The surplus led to the increase in **reserve assets of \$ 29.5bn in June**.
- ✓ Underlying price pressures are retreating. Annual **inflation** slowed to **6.8% yoy in July- its slowest rate on record-** from 6.9% yoy in June. Inflation dropped to a single-digit figure in April following more than 3 years of double-digit rates. In addition, in monthly terms inflation fell **0.2% mom in July**, the **forth monthly decline in a row**.

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- ✓ The **central bank** of Ukraine (NBU) **cut the key discount** rate by 75bps to **7.75%** on August, 9 to boost lending to companies and spur economic activity. **In the last two months**, NBU **cut** the Key discount rate **by 275bps**; 100bps in early June from 10.25% to 9.50%, another 100bps in July and further cut of 75bps in August.

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