

# New Europe Economics & Strategy

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## Focus Notes: Ukraine

### Ukraine's economy grew by a revised 5.9% yoy in Q2-2010

- ✓ According to the Ukrainian State Statistics Committee **GDP growth in Q2-2010 was revised** downwards by 0.1ppt to **5.9% yoy** from 6.0% estimated previously. A sectoral breakdown suggests that growth was mainly driven by increased industrial production (**manufacturing was up by 14.7% yoy in Q2-10** from 12.4% yoy growth in Q1-10). On the demand side, **household consumption grew by 5.1% yoy** and 3.7% qoq in Q2-10 from 0.5% yoy posted in Q1-10, implying improved consumer confidence and household purchasing power.
- ✓ Ukraine's **industrial production grew by 9.2% yoy in August**, from 6.4% yoy in July (Table). Yet, on a monthly basis, the August reading stood at 1.5% mom, down from 2.9% mom in July, mainly reflecting seasonal factors.

**Table**  
**Industrial production dynamics**

	August 2010	July 2010	June 2010	May 2010	April 2010	March 2010
<b>Yearly % changes</b>	<b>9.2</b>	<b>6.4</b>	<b>8.9</b>	<b>12.7</b>	<b>17.4</b>	<b>13.8</b>
<b>Monthly % changes</b>	<b>1.5</b>	<b>2.9</b>	<b>-0.5</b>	<b>-2.4</b>	<b>-1.8</b>	<b>16.2</b>

Source: National Statistics, Eurobank Research

- ✓ **Retail sales picked-up in August**; they accelerated 4.6% yoy. This was the fourth consecutive month of positive growth after 17 months of contraction (retail sales tumbled 18.3% yoy in 2009).
- ✓ Ukraine's **unemployment stood at 7.9% in Q2-10 down from 9.0% in Q1-10** and 8.8% in 2009 as a whole. Recent data suggest that **annual real wage growth has started to slow**; it stood at 8.5% yoy in August from 9.7% yoy in July.

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- ✓ In mid-September, **Fitch** rating agency **upgraded Ukraine's long-term foreign and local currency issuer default ratings to B** from B- in July. Fitch cited authorities' strong start in implementing the recently-signed IMF program but added that a number of short-term risks prevented a further upgrade at this point; namely those related to the banking system as well as the country's rising gross external debt stock and rollover requirements. Ukraine remains vulnerable to an external demand and commodity price shock, while the growth outlook of its main European export markets remains uncertain. With respect to domestic banking sector developments, **Fitch expects** average **non-performing loans** (NPLs) which include restructured credits **to reach 50% of total loans**.

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