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Ukrainian economy expanded by 6.6% yoy in Q3-11; the fastest pace of growth in more than three years

- Ukrainian economy grew by 6.6% yoy (2.2% qoq) in Q3-11 up from 3.8% yoy (0.5% qoq) in Q2-11 helped by strong both agricultural production and domestic demand
- Food inflation drop pushed down headline inflation to a record low of 5.9% yoy in September

GDP growth came in at 6.6% yoy in Q3-11, much better than expected, helped by a rebound in agricultural production and strong domestic demand

Ukraine's economy expanded by 6.6% yoy in Q3-11 up from 3.8% yoy in Q2-11; this is its fastest pace of growth in more than three years (since Q1-08). What's more, even in seasonally adjusted terms there is a brisk growth, to 2.2% qoq in Q3-11 up from 0.5% qoq in Q2-11 figure. Even though acceleration in GDP growth was expected (mainly due to a weak base effect created by last year's heat wave) data exceeded the consensus of 5.9% yoy in Q3-11.

Third quarter's growth was helped by a good harvest and strong domestic demand - official GDP breakdown will be published on December, 30. We estimate that agriculture, which accounts for 7% of annual Ukrainian GDP, would have contributed significantly on Q3-11 GDP rise. Furthermore, taken into account the double digit figures of retail sales in Q3-11 (they average at 14.7% yoy) we anticipate private consumption to have remained the key drive of growth. Moreover, fixed investment after having picked up in Q2-11 (it stood at 8.6% yoy in Q2-11 up from 4.5% yoy in Q1-11) we expect to continue to support growth in the coming quarters ahead of ongoing preparations of EURO 2012 European Football Championship in June 2012.

All in all, we pencil in 4.7% yoy GDP growth in 2011 but to lower slightly at 4.6% yoy in 2012 due to high comparison base stemming from this year's very strong agricultural production. However, there are downside risks to our 2012

projection on the back of increased uncertainty about global growth prospects.

Recent agricultural production rebound led to a drop in food inflation which in turn pushed down headline inflation to a record low of 5.9% yoy in September

Ukraine's September CPI eased to 5.9% yoy down from 8.9% yoy reading in August and from its peak of 11.9% yoy in June, on the back of lower food prices. This record low print was due to a drop in food inflation on the back of the recent rebound in agricultural production. However, the expected rise in public utility tariffs would keep inflation pressures high, even if tariff increases would be postponed to 2012. Furthermore, inflation expectations over the coming 12 months have declined only slightly from 14.5% in Q2-11 to 13.6% in Q3-11.

All in all, although recent inflation print is positive for the Ukrainian economy does not really reduce inflation risk, thus we anticipate headline inflation to average at 9.1% yoy in 2011 and 9.3% yoy in 2012.

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