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Focus Notes: Ukraine

Real GDP growth expanded by 6.1% yoy in Jan-May 2010 on the back of strong rebound in the export-oriented industries

- ✓ On June, 21st the **IMF mission visited Kiev** for the second time this month to discuss with Ukrainian authorities the economic policies that could be supported by a Stand-By-Arrangement with the Fund. The negotiations are expected to be quite tough taking into account the upcoming local elections, most likely to be set for October 2010, and the unwillingness of Ukrainian authorities to pass unpopular fiscal measures namely raising retail gas tariffs, limiting privileged pensions, etc. Meanwhile, the recent **\$2bn loan from Russia** helped the government to bridge its financing gap.
- ✓ Real **GDP growth expanded by 6.1% yoy in Jan-May 2010** on the back of strong rebound in industrial production. Ukraine's industrial production expanded by 12.7% yoy in May from 17.4% yoy rise recorded in April. May's industrial production deceleration is attributed to fewer working days (due to numerous holidays in May) and to the slowdown in steel industry due to weaker external demand and falling global steel prices.
- ✓ **Retail sales returned to positive territory** following 17 months of contraction; at the end of 2008 retail sales started to decline sharply. Retail sales stood at 1.1% yoy in May from 2.7% yoy drop posted in April and 20.6% yoy fall in December 2009.
- ✓ In May, **current account posted a surplus** for a second month in a row; it reached \$263mn of surplus. What's more, **capital and financial account remained positive** for a third successive month in May. Since the beginning of this year financial account surplus amounted to \$1.3bn compared to deficit of \$5.8bn at the same time in 2009. This is largely attributed to the sharp decrease of capital outflows.

Research Team:

Gikas Hardouvelis, *Chief Economist and Director of Research*
 Platon Monokroussos, *Head of Financial Markets Research*
 Tassos Anastasatos, *Senior Economist*
 Ioannis Gkionis, *Research Economist*
 Stella Kanellopoulou, *Research Economist*
 Galatia Phoka, *Emerging Markets Analyst*
 Theodoros Rapanos, *Junior Economic Analyst*

Sales Team:

Fokion Karavias, *Treasurer*
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 Stogioglou Achilleas, *Private Banking Sales*
 Petropoulos Theodore, *Institutional Sales*
 Karanastasis Kostas, *Retail Sales*

EFG Eurobank Ergasias, 8 Othonos Str, GR 105 57, Athens, Tel: (30210) 3718 906, 3718 999, Fax: (30210) 3337 190, Reuters Page: EMBA, Internet Address: <http://www.eurobank.gr>

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- ✓ Ukraine's **inflation rate decelerated for a second month in a row to 8.5% yoy in May** from a 9.7% yoy reading posted in April (beating consensus expectations of 9.5% yoy). This was **the lowest level since August 2006**. Inflation pressures easing benefited by the 30% discount on gas import prices. Yet, once the IMF funding is resumed most likely the government will be forced to raise retail gas tariffs and this will bring about upward pressures on inflation.
- ✓ Following positive inflations dynamics, the National Bank of Ukraine **cut its key discount rate by 75bp to 9.5%** on June, 8th.

*Dr Stella Kanellopoulou, Research Economist
skanellopoulou@eurobank.gr*