

UKRAINE

Fragile Stability

Ukraine's economic situation has improved significantly. GDP performance is still horrendous (at -17.2% y/y in Q1); however, the main reason for this development is the loss of the Eastern Donbas. Simultaneously, the economic position of the rest of mainland Ukraine has stabilized. The CAD narrowed to \$265 million in the first four months of 2015; officials report that the state budget has seen an impressive surplus of UAH 19.4 billion (\$900 million) for the year through May; and the hryvnia has not only calmed down, but has shown signs of strengthening. These data lead us to conclude that Ukraine has hit rock bottom, and that in H2 we can expect improving statistics.

Still, many risks remain on the way to a return to growth, including a possible default -- among the most discussed items right now. The Ukrainian authorities are making very loud public assertions, and are threatening to announce a default, to punish stubborn creditors. But in our view>>>

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