

UKRAINE

Glimmers of Recovery

CONTENTS**Fragile Recovery on the Way****Assumptions****Activity: Trends are Mixed****Inflation Eases****Monetary Aggregates to Grow
on FX Interventions and Budget
Spending****Fiscal Accounts: Still in Good
Stance****External Accounts: U-Turn
Ahead****Business Conditions: Improving****Risks: Reviving Economy Will
Endanger Reform Momentum**

Ukraine is definitely on recovery path. Macroeconomic statistics are exceeding projections, and political life is finally stabilizing. The business environment has also begun improving, with evidence of some steps taken toward reform. But the recovery should largely be understood as stemming from a low indicator baseline from the same period in 2015. What will occur when this temporary statistical effect begins to fade is anyone's guess. Another danger is that Ukraine's improved economic status makes painful reform seem less pressing – which will threaten further reform efforts. So we unfortunately envision stunted growth prospects for the near term.

GDP ticked up 0.1% y/y in Q1, the first quarter of growth since the end of 2013, with net exports and investment the main drivers. Yet private consumption was still falling (-2.1% y/y in Q1). Though the composition of Q1 growth is by no means homogeneous, the general trend is positive. We expect private consumption to strengthen on the back of growing confidence, amid relative economic stability. We expect to see GDP grow 1.4% y/y by yearend, and then by 2.5% in 2017 >>>