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**UKRAINE**

**QUARTERLY REPORT**
Vladimir Dubrovskiy & Dmytro Boyarchuk

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# Economic Recovery: Steady As She Goes

Ukraine's economy is steadily recovering now. During H1, GDP grew 2.4% y/y, twice as fast as forecast. Local investments grew 22.2% y/y, and private consumption grew 4.7%, driving growth, despite the continuing decline in industrial output, and contraction in farm production. We expect a 2% y/y GDP increase by yearend, and acceleration to 3% y/y in 2018.

A very good sign is the modest uptick in non-energy imports, despite soaring domestic demand, and currency strengthening to August. This trend is quite unusual for Ukraine, and could reflect structural changes. As a result, the September CAD reached $3 billion, only slightly higher than the $2.7 billion deficit of a year ago. Against this backdrop, we have improved our 2017 CAD forecast to $4.1 billion, or 3.9% of GDP, from the $4.4 billion we projected earlier. For 2018, we maintain our projection that CAD will expand to $5.1 billion, or 4.6% of GDP.

A delayed IMF tranche spoiled prospects for financial flows. A Eurobond placement prior to the fourth review eased pressure and removed the incentive for the government to undertake further painful steps. At the same time, the issue of natural gas rates — Ukraine did not raise gas prices as promised — appears to have been critical for the Fund. The next IMF wire might only come in early 2018, in the best case. So we've lowered our 2017 gross international reserves forecast to $18.1 billion, or 3.6 months of imports, from $19.6 billion **>>>**

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