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UKRAINE

QUARTERLY REPORT
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Links Cut to Occupied Donbas Likely to Stymie Growth

GDP expanded 2.3% y/y in 2016, far more than we'd expected. An upsurge in local investment, of 20.1% y/y, and expansion of inventories, were the main drivers. Investment grew, despite scarce FDI, on the back of agro and state investment. An impressive +9.7% y/y grain harvest increased inventories.

Yet we expect economic growth to slow this year. The need to adjust for the cut in trade with occupied Donbas is the main reason. We have therefore lowered our 2017 GDP growth forecast, to 1.8% y/y from 2.4% y/y, to account for this.

Though the real sector is slowing, high metal prices are preventing a dramatic negative impact on external accounts. For the first two months of 2017, a $541 million CAD was reported, far below the $861 million of a year ago. By H2, we expect resource prices to roll back, amid recovering metals production, after broken connections with Donbas. We expect the impact of Donbas events on the CAD to be almost neutral, and forecast a CAD of $4.5 billion, or 4.6% of GDP, in 2017 **>>>**

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