

UKRAINE

# Risky Zone

## CONTENTS

**Baseline Scenario for 2011-2013:  
Survive until Elections**

**Our Assumptions**

**Activity: Minimal**

**Prices: The Rise of Oil**

**Interest Rates and Monetary Policy:  
Only Modest Easing**

**The Public Sector: Safe Scenario  
Likely**

**External Accounts: Temporary  
Improvement**

**Business Conditions: Even Worse**

**The President's Reforms**

**Risks: The Currency and the  
Elections**

Though currency crisis fears have passed, the economy is still in a risky zone: export setbacks or escalating political tensions could break the current smooth but fragile scenario. The real sector cooled faster than expected, which meant lowering the 2012 GDP forecast, to 2.6% from 3.7%. But a slightly better trade balance, led by stronger grain exports and declining gas imports, is likely to hold off currency shock until after the October parliamentary elections.

The real sector is expected to weaken further this year. Recovery growth has almost been exhausted, which means that the statistical effect from the low base will no longer work. Sluggish external demand for key export items promises only slight positive performance for industrial output (forecast to 2.5% this year). Agro-production will also be in the red; since the extraordinary 2011 grain harvest created a high comparative base, even a successful 2012 will be reflected as an output decline.>>>