**Executive Summary**

- On May 20, Volodymyr Zelenskyy was inaugurated as the sixth President of Ukraine. In his inaugural speech the President reconfirmed his commitment to build a better Ukraine for all, to stop corruption and deliver all necessary reforms. At the end of his address to the Parliament, the President dissolved the Verkhovna Rada of the eighth convocation. Parliamentary elections are expected to take place on July 21.

- Despite political uncertainties related to the elections and weak external demand, the latest monthly data from the State Statistics Service show that the economy continues to recover at a reasonable rate. In particular, industrial production grew by 5.2% yoy in April, the highest growth rate since the end of 2016. This expansion was led by manufacturing, which increased by 7.4% yoy. Other economic sectors that performed well in April 2019 included construction activities, which enjoyed a growth rate of 30.2% yoy. It was followed by retail trade with a growth rate of 9.1% yoy, and passenger transportation, with a growth rate of 6.3% yoy.

- The consolidated budget balance was positive in April thanks to sharp acceleration in growth of state revenues. Cumulative consolidated budget balance totaled UAH 17.6 billion in January-April (1.4% of period GDP).

- Consumer inflation increased by 0.2 percentage points in April reaching 8.8% yoy. Core inflation continued to decelerate dropping another 0.2 percentage points to 7.4% yoy due to the tight monetary policy of the NBU.

- The situation with banking deposits further deteriorated in April. Growth of total national currency deposits decelerated to 7.4% yoy as both corporate and household deposits reported slower growth (3.1% yoy and 13.7% yoy respectively). On the lending side, bank loans sustained mixed developments in April, with Hryvnia loans increasing by 4.6% yoy while US denominated loans declining by 4.2% yoy in the reporting month.

- The UAH/USD exchange rate was relatively stable during the month of May, except for the last three days of the month, when it depreciated by 1.9% to 26.6 UAH/USD. This depreciation was caused by increases in Hryvnia supply to exporters associated with large VAT reimbursements, which led to large dollar purchases.

- In April 2019, the current account of the balance of payments was almost in balance, with a small deficit of USD 8 million, compared to a deficit of USD 171 million in April 2018. The lower current account deficit was due principally to an improvement in the primary income account, which grew by 101% yoy and had a surplus of USD 471 million in April. International reserves remained at about USD 20.5 billion at the end of the month.

### Main Macroeconomic Indicators

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<tbody>
<tr>
<td>GDP, USD billion</td>
<td>180</td>
<td>130</td>
<td>87</td>
<td>93.4</td>
<td>113</td>
<td>125</td>
<td>135</td>
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<tr>
<td>Real GDP Growth, % yoy</td>
<td>0.0</td>
<td>-6.6</td>
<td>-9.9</td>
<td>2.4</td>
<td>2.5</td>
<td>3.3</td>
<td>2.8</td>
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<tr>
<td>Fiscal Balance (incl. Naftogaz/Pension Fund), % of GDP</td>
<td>-6.5</td>
<td>-11.7</td>
<td>-2.1</td>
<td>-2.3</td>
<td>-1.4</td>
<td>-1.9</td>
<td>-2.3</td>
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<tr>
<td>Public Debt, External and Domestic, % of GDP</td>
<td>40.4</td>
<td>69.4</td>
<td>79.1</td>
<td>80.9</td>
<td>71.8</td>
<td>62.6</td>
<td>64.5</td>
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<tr>
<td>Consumer Inflation, eop, % yoy</td>
<td>0.5</td>
<td>24.9</td>
<td>43.3</td>
<td>12.4</td>
<td>13.7</td>
<td>9.8</td>
<td>8.0</td>
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<tr>
<td>NBU Key Policy Interest Rate, % eop</td>
<td>6.5</td>
<td>14.0</td>
<td>22.0</td>
<td>14.0</td>
<td>14.5</td>
<td>18.0</td>
<td>16.0</td>
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<td>Hryvnia Exchange Rate per USD, eop</td>
<td>8.2</td>
<td>15.8</td>
<td>24.0</td>
<td>27.1</td>
<td>28.1</td>
<td>27.7</td>
<td>30.0</td>
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<tr>
<td>Current Account Balance, % of GDP</td>
<td>-9.2</td>
<td>-3.5</td>
<td>1.8</td>
<td>-1.5</td>
<td>-2.2</td>
<td>-3.7</td>
<td>-3.0</td>
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<tr>
<td>Merchandise Exports, USD billions</td>
<td>59</td>
<td>51</td>
<td>35</td>
<td>34</td>
<td>40</td>
<td>43</td>
<td>46</td>
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<tr>
<td>Merchandise Imports, USD billions</td>
<td>81</td>
<td>58</td>
<td>39</td>
<td>40</td>
<td>49</td>
<td>56</td>
<td>58</td>
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<tr>
<td>FDI, Net Annual Inflow, USD billion</td>
<td>4.5</td>
<td>0.4</td>
<td>3.0</td>
<td>3.3</td>
<td>2.3</td>
<td>2.4</td>
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<tr>
<td>International Reserves, USD billion</td>
<td>20.4</td>
<td>7.5</td>
<td>13.3</td>
<td>15.5</td>
<td>18.8</td>
<td>20.8</td>
<td>18.0</td>
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<tr>
<td>Public External Debt, USD billion</td>
<td>31.7</td>
<td>34.9</td>
<td>42.6</td>
<td>42.5</td>
<td>47.0</td>
<td>49.9</td>
<td>50.0</td>
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<tr>
<td>Private External Debt, USD billion</td>
<td>110.3</td>
<td>91.2</td>
<td>76.0</td>
<td>69.9</td>
<td>70.0</td>
<td>71.0</td>
<td>72.0</td>
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Political and Reform Developments

On May 20, Volodymyr Zelenskyy was inaugurated as the sixth President of Ukraine. In his inaugural speech the President reconfirmed his commitment to build a better Ukraine for all, to stop corruption and deliver all necessary reforms, which will permit “…Ukrainians at least not to cry any more”. At the end of his address to the Parliament, the President dissolved the Verkhovna Rada of the eighth convocation. Parliamentary elections are expected to take place on July 21.

During his first days in the office, the President called members of Parliament to change the electoral legislation. In particular, the President said that the electoral process should be more open and transparent. For this, he proposed to abolish single-member majoritarian electoral districts (which is used for 50% of the Rada seats), while allowing partly-closed party lists for the remaining 50% of the Rada seats, under which the party have to reveal only the top five names on their lists to voters. He also proposed lowering the entry barrier for Parliament to three percent of the vote instead of the current five percent. These initiatives were blocked by various groups for whom removing of the single-member majoritarian system meant losing power, as this system makes it easier to buy votes. Therefore, the Rada elections will be carried out under the old system. In addition, President Zelenskyy submitted to Rada two draft laws concerning (i) the removal of immunity of members of parliament and (ii) impeachment of the President. Two laws are expected to be passed before the Rada elections.

In the meantime, President Zelenskyy undertook his first visit to Brussels to confirm the course of the new administration towards the EU and NATO. An IMF mission visited Kyiv at the end of May. At the conclusion of the visit, the IMF made a clear statement that it would continue its active cooperation with Ukraine immediately after the new government is functional.

Economic Growth

Despite political uncertainties related to the elections and weak external demand, the latest monthly data from the State Statistics Service show that the economy continues to recover at a reasonable rate. In particular, industrial production grew by 5.2% yoy in April, the highest growth rate since the end of 2016. This expansion was led by manufacturing, which increased by 7.4% yoy in the month. Mining expanded at a lower rate of 2.7% yoy.

Within manufacturing the highest growth rates took place in pharmaceuticals (23% yoy), chemicals (14.7% yoy), machinery and equipment (10.8% yoy), and foodstuffs (6.6% yoy). On the other hand, the manufacturing of textiles and wood products had negative rates of growth of -9.1% yoy and -4% yoy, respectively. The regions that had the highest rates of industrial output in April were Rivne (29.7% yoy), Vinnytsya (28.6% yoy), Sumy (24.6% yoy), Donetsk (15.0% yoy) and Ternopil (10.8% yoy). On the other hand, the Oblasts with the highest negative growth included Volyn (-6.6% yoy), Zhytomyr (-3.5% yoy), and Lviv (-2.9% yoy).

Other economic sectors that performed well in April 2019 include construction activities, led by civil engineering and non-residential buildings, with a growth rate of 30.2% yoy. It was followed by retail trade
with a growth rate of 9.1% yoy, and passenger transportation, with a growth rate of 6.3% yoy. On the other hand, agricultural production declined by 0.2% yoy in April.

Given political uncertainties and weak external factors, GDP in 2019 is expected to growth at a rate of about 2.8%.

**Fiscal Policy**

The consolidated budget balance was positive in April thanks to sharp acceleration in growth of state revenues. The state budget surplus reached UAH 24.4 billion, while local budgets were executed with a cumulative surplus of UAH 2.2 billion. The cumulative consolidated budget balance returned to positive territory totalling UAH 17.6 billion in January-April.

On the revenue side, the growth of consolidated budget revenues significantly accelerated in April, partially because of temporary factors. The 37% yoy growth was driven mainly by expansion of non-tax revenues which increased by 108.4% yoy, thanks to the transfer of funds by the NBU. The banking sector regulator transferred UAH 47.6 billion of its profits to the state budget in accordance with current legislation. Tax revenues in general continued to grow at a reasonable rate of 11.6% yoy. Receipts from personal income tax and especially corporate profit tax continued to grow at high rates of 25.5% yoy and 97.4% yoy, respectively. Internal taxes on goods and services posted mixed developments. Receipts from excise taxes on both domestic and imported goods posted accelerated growth in the reporting month. At the same time, receipts from the VAT on domestic goods dropped 41.5% yoy. Growth of cumulative consolidated budget revenues from the beginning of the year accelerated to 18.0% yoy in January-April.

Regarding consolidated budget expenditures, they also posted accelerated growth in April. However, this growth at 13.9% yoy was still smaller than that of revenues. Transfers to the Pension Fund served as the major driver of growth. Also there was some acceleration in the growth of expenditures on state debt servicing. Payroll expenditures and expenditures on goods and services continued to grow at high rates. At the same time, current transfers saw some deceleration in growth because of lower subsidies to the population. Cumulative consolidated budget expenditures from the beginning of the year grew by 13.1% yoy over the first four months of the year.

Principal and servicing repayments on state and guaranteed debt denominated in foreign currency were almost the same in April as compared to March. The total repayment amount of USD 881.7 million consisted of USD 710.3 million spent as principal and servicing payments on domestic sovereign bonds denominated in foreign currency; USD 78.0 million spent on Eurobonds servicing; and USD 93.4 million spent as principal and servicing payments to IFIs. The mentioned debt expenditures were partially offset by inflows from placement of domestic sovereign bonds denominated in foreign currency totalling USD 416.6 million and EUR 2.6 million.
Monetary Policy

Inflation. Consumer inflation slightly accelerated in April. The all items index inched up by 0.2 percentage points and returned to the level of 8.8% yoy observed in February. At the same time, core inflation continued to decelerate dropping another 0.2 percentage points to 7.4% yoy due to tight monetary policy of the NBU.

Acceleration in growth of the inflation all items index was caused by price dynamics in two major groups of goods and services. Transport prices grew 0.8 percentage points faster than in March at 8.1% yoy, while prices of foodstuffs and nonalcoholic beverages saw their growth accelerating by 0.4 percentage points to 7.4% yoy. Other major groups of goods and services observed stable prices in April (housing and utilities, healthcare, and education) or decelerating growth by 0.2-0.4 percentage points.

Taking into accounts recent developments in consumer prices dynamics, we leave our forecast for inflation unchanged at 8.0% yoy at the end of the year.

Banking Sector. Banking deposits observed mixed developments in April. Growth of national currency deposits further decelerated reaching 7.4% yoy, as both corporate and household segments reported slower growth (3.1% yoy and 13.7% yoy respectively). The situation with foreign currency deposits denominated in USD slightly improved. The decrease of total foreign currency deposits denominated in USD halved to 0.5% yoy as the decline in deposits of the corporate segment decelerated from 3.9% yoy to 1.7% yoy and growth in household deposits remained almost unchanged at 1.0% yoy.

On the lending side, bank loans sustained mixed developments in April but this time Hryvnia lending saw positive changes, while foreign currency lending saw negative trends. The situation with national currency loans saw minor improvements as their growth inched up to 4.6% yoy being drive by a high growth in household loans of 28.5% yoy. The decline in corporate national currency loans continued to deteriorate as both corporate and household loans declined at accelerated rates of 2.3% yoy and 14.9% yoy, respectively. Total foreign currency loans denominated in USD declined by 4.2% yoy in the reporting month.

The monetary base expanded by 3.1% mom in April on the back of seasonal increases in cash resources on the eve of holidays. However, the year-over-year growth of the monetary base decelerated to 6.0% yoy. Growth of money supply also slowed but not that much (to 6.1% yoy).
Hryvnia Exchange Rate. The UAH/USD exchange rate was relatively stable during the entire month of May, except for the last three days of the month. It depreciated by 1.9% during the last three trading sessions from 26.1 UAH/USD to 26.6 UAH/USD because of two major factors. The first is common increase in demand for dollar on the back of importers at the end of the month to close foreign exchange contracts. And the second is VAT reimbursements on the side of the Treasury. Reimbursements provided exporters with hryvnia resources, which they usually get from selling their foreign currency revenues above the obligatory 30% share. Thus, they decreased their dollar supply to the market, which was already under increased depreciatory pressure due to higher demand for dollar on the side of importers. The world trend of dollar strengthening at the developing markets due to the trade dispute between the US and China had little impact on the exchange rate in Ukraine because Ukrainian foreign exchange market is thin and domestic developments usually have more significant impact on its dynamics.

The NBU continued its policy of gradual softening of foreign exchange regulations in May. In particular, the regulator increased the limit for dividends repatriation from USD 7 million to USD 12 million per month. It also simplified foreign exchange oversight by lifting the deadlines for some export and import operations settlements (imports of goods under the state defense contracts, imports of medicines and medical services under agreements of the Ministry of Healthcare, etc.).

International Trade and Capital

In April 2019, the current account of the balance of payments was almost balanced, with a small deficit of USD 8 million, compared to a deficit of USD 171 million in April 2018. The lower current account deficit was due principally to an improvement in the primary income account (in particular net compensation of employees), which grew by 101% yoy and had a surplus of USD 471 million in April.

This improvement in the current account occurred despite a deterioration in the balance of good and services, which had a deficit of USD 736 million in April 2019, compared to a deficit of USD 344 million in April 2018. Imports of good amounted to USD 4,701 million in April 2019 (an increase of 14.4 yoy), while exports of goods amounted to USD 3,768 million, an increase of only 2.5% yoy over April 2018.

Agricultural products continue to be the largest export category, with exports of USD 1,711 million in April.
Metallurgical exports represent the second largest export group with a share of 23% of exports (amounting to USD 878 million in April), but had 14% yoy decline compared to April 2018. Exports of mineral products amounted to USD 381 million in April, showing a growth rate of 32% yoy.

From a geographical point-of-view, in January-April 2019 Ukraine exports to Russia fell by 17.9% yoy and amounted to USD 817 million. They now represent 5.4% of total exports. Exports to Europe continue to show high growth rates, increasing by 8.5% yoy and now account for 39.2% of total exports. Exports to Asia increased by 6.9% yoy in January-April, representing 31.3% of the total Ukrainian exports. Exports to Africa are also growing fast at a rate of 20% yoy and amounted to USD 1,789 million in January-April 2019. Exports to America and Australia are still not significant.

With regard to merchandise imports, in April 2019, machinery and equipment accounted for the major share (28% of the total import amount, or USD 1,302 million). The second largest imports category was mineral products (including energy), which accounted for 22% of the total imports (USD 1,051 million), increasing by 31% yoy. Imports of chemical products are the third largest import category, amounting to USD 1003 million. Agricultural imports represent the fourth largest import group (with 10% of the total at USD 452 million) and increased by 14.4% yoy in January-April.

Geographically, Europe is the largest supplier of goods to Ukraine, with a growth rate of 14.5 yoy in January-April 2019. Europe has now a 41.5% share of imports. It was followed by Asia with a 23.5% share and a growth rate of 20.1% yoy. On the other hand, the share of Russia in Ukrainian imports has been reduced to 13.4% of the total, compared to 15.4% in January-April 2018.

In April 2019, the financial account had net outflows of USD 38 million. The largest outflows were due to foreign exchange purchases by the population (USD 504 million) and loan repayments by the banking system (about USD 280 million). On the other hand, foreign direct investments amounted to USD 290 million in April 2019.

The current account deficit and net financial outflows amounted to USD 46 million, not a significant amount. This small deficit in the overall balance of payments caused international reserves to remain at about USD 20.5 billion as of the beginning of May. However, the NBU has reported that according to preliminary data international reserves declined to USD 19.4 billion at the beginning of June, due to heavy foreign debt repayments by the government.