QUARTERLY REPORT

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UKRAINE

Alert: Currency Risk Ahead

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Ukraine is facing a new challenge: QE3 tapering. The end of the cheap money era will change a lot for the economy. Over the past year, only the abundant international liquidity has propped up the *hryvnia* and, by extension, economic growth. The outflow of money from emerging market countries presents Ukrainian authorities with a formidable new challenge.

This comes on top of the struggle to contain large current account deficit (at 8.1% of GDP by April), falling industrial output (-9.3% y/y in May), and sliding budget revenues (-9.4% y/y in May).

Now everything hinges on the authorities' ability to find an alternative source of currency deficit coverage. Their failure to place Eurobonds in May has already created tension in the market. If no fresh cash arrives by August, it's highly likely that the *hryvnia* could decline by 20%>>>