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QUARTERLY REPORT
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March 26, 2013

UKRAINE

Surviving on QE3

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Ukraine has crossed into the red by many parameters (such as the CAD and gross reserves), and under normal conditions would have already experienced many unpleasant consequences. But the world is changing: investors don't seem to see a QE3 program running at full tilt, ailing industry, a CAD above 8% GDP, and the expired IMF program as problems.

So our alternative scenario now looks less dramatic, at least in the short term. The Fed is unlikely to stop creating money anytime soon, which gives the Ukrainian authorities room to maneuver. Even if the IMF leaves Kyiv having committed to nothing, after yet another round of "constructive talks," we still expect Ukraine to be able to raise some funds to roll over liabilities, and to maintain "static stability." Yet we can hardly expect a soft landing after the QE3 program ends>>>