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QUARTERLY REPORT
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September 25, 2012

UKRAINE

Shock Risk: High

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The aura of economic stability notwithstanding, Ukrainian fundamentals are deteriorating fast, and seem unlikely to improve soon. The current account deficit widened to 7.3% of GDP by July; industrial output fell deeper into the red in August (at 0.4% for the first eight months of the year); and, over the past two months, tax collections have fallen sharply.

Yet the Ukrainian authorities have been extremely lucky (or extremely efficient) in short-term problem solving, easily overcoming the first wave of speculative attacks on the currency, via intervention and administrative tools. The funds due to the IMF this year have been already offset via Eurobond placements. And public funds are safe for 2012, thanks to H1 tax collections and savings. So, though the risk of shock over the next six months is very high>>>