

Ukraine's Hryvna Currency Plunges as Foreign Currency Auctions Scrapped

By [The Moscow Times](#)

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KIEV — Ukraine's hryvna currency plunged about 30 percent against the dollar on Thursday, traders said, after the Central Bank abandoned the foreign currency auctions that had effectively pegged the exchange rate.

The Central Bank scrapped the daily auctions, which had set an unofficial peg for banks to follow, and also raised its main interest rate to 19.5 percent on Thursday as it sought to avert a Ukrainian financial collapse, brought ever closer by fighting in the country's east and a lack of foreign funding.

With the hryvna declining even before Thursday's drop, and Ukraine's foreign exchange reserves falling to \$6.4 billion — barely enough to cover five weeks of imports — the bank has few ways to revive an economy on the brink of bankruptcy.

The scrapping of the auctions was aimed at closing the gap between the black market exchange rate and the official rate, which the Central Bank said would eliminate market uncertainty.

But following the announcement, the hryvna was trading at 24-25 against the dollar, down about 30 percent from Wednesday's close, traders said.

According to Reuters data, the hryvna was trading at 23.90 late afternoon Moscow time.

"The market is increasingly active, but from the side of buyers [of foreign currency]. There are not many sellers. The true level now is 24 or 25. I cannot say if there are real deals, but they were the live quotes," said one trader.

"The official rate does not yet reflect the real picture, it's far from it."

The Central Bank raised its key refinancing rate to 19.5 percent from 14 percent, to take effect on Friday, as it seeks to curb annual inflation which hit almost 25 percent in December.

Announcing the measures, Central Bank Governor Valeriya Gontareva told a news conference: "There is still panic on the market, connected with ongoing fighting."

The former Soviet republic desperately needs funds from donors to fill an estimated \$15 billion funding gap to withstand the financial crisis, deepened by a surge in fighting in eastern regions where pro-Russian rebels have seized new ground.

But analysts say the renewed fighting, which has all but buried a September cease-fire, makes it more difficult for lenders such as the International Monetary Fund (IMF) to offer funds.

"If there is any worsening of the situation, the National Bank is ready with the tools needed to calm the foreign exchange market," Gontareva said.

She said the bank was forecasting consumer price inflation this year of 17.2 percent and warned that inflationary and currency devaluation risks would continue in the near term.

IMF Talks Tough

Gontareva, a former top executive at Western banks who was appointed soon after President Petro Poroshenko was elected last May, said the bank had agreed terms with the IMF to boost financial aid but gave no figures.

However, the terms are unclear, and an IMF team is still in the capital Kiev after extending its mission beyond Jan. 29, a move seen by some analysts as a sign that talks on boosting its financial support are tough.

Ukraine has already received \$4.6 billion from the IMF as part of a \$17 billion aid program, but is seeking to extend that program in terms of time and money.

Some analysts said that without a cease-fire, any foreign financing from the IMF and others would be difficult to secure.

Kiev has said it wants to restore the cease-fire agreed with the Moscow-backed rebels last

September in the Belarussian capital Minsk and accuses Russia of sending new troops and arms to help the separatists take ground in eastern Ukraine.

Moscow denies arming the rebels and says it too wants the cease-fire to hold.

Tim Ash, head of emerging markets research at Standard Bank, said Russian President Vladimir Putin was betting that no amount of Western financing would work unless the conflict was halted.

"This is just finger-in-the-dyke stuff. The conflict has to be halted, period," he said in a note.

U.S. Secretary of State John Kerry arrived in Kiev on Thursday for talks with Poroshenko and government leaders. A senior State Department official said Kerry would offer U.S. support for efforts by Ukraine to negotiate a new cease-fire.

Kerry also intends to provide an additional \$16.4 million in humanitarian aid to help civilians in eastern Ukraine, U.S. officials said.

Analysts said continued fighting ensured any move by the Central Bank to secure the economy would fail.

"It's more about economic failings and the war situation at this stage. Interest rates won't make any difference, just as they are not [making a difference] in Russia," said Simon Quijano-Evans head of emerging market research at Commerzbank in London.

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