

Ukraine to Hike Interest Rates to 30% Amid Economic 'Tailspin'

By [The Moscow Times](#)

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KIEV — Ukraine's central bank will raise its benchmark refinancing rate to 30 percent from 19.5 percent, the head of the central bank said on Tuesday, as the bank tries to rein in rocketing inflation and stem persistent currency weakness.

The hryvna has halved in value so far in 2015 after shedding 50 percent last year. Last week it hit record lows of below 30 to the dollar after political upheaval and conflict pushed the ex-Soviet republic to the brink of bankruptcy.

The new interest rate, which takes effect on Wednesday, is the highest for 15 years and will inflict further pain on an economy expected to shrink by 5.5 percent this year. The government sees inflation at 26 percent in 2015, though Prime Minister Arseniy Yatsenyuk has said that may be "too optimistic."

Kiev, which is battling an insurgency by pro-Russian separatists in eastern Ukraine, hopes a \$17.5 billion bailout package from the International Monetary Fund will help to stabilize the economy.

The hryvna's average rate firmed to 26.6 against the dollar at 5 p.m. local time from almost 29 earlier in the day, based on banks' trades registered with the central bank.

Traders say demand on the market is low and that some of the currency's firming since last week is due to tougher controls put on importers who wish to buy dollars.

Explaining the rate hike at a news briefing, central bank chief Valeria Gontareva said the bank believed "the threat of inflation had risen strongly due to negative consequences from currency market panic."

The bank will also extend a rule obliging companies to sell 75 percent of their foreign currency earnings, among other measures to help stabilize the hryvna, which Gontareva said she hoped would return to a level of 20-22 to the dollar "quickly."

Exchange booths in Kiev were buying dollars at 24 hryvna to the dollar and selling dollars at 29 to the hryvna.

The bank intervened in the currency market on Tuesday for the second time this week, buying dollars at a rate of 24.82. The bank had bought dollars at a rate of 26.86 on Monday

'Tailspin'

Ukraine's parliament passed a raft of amendments, including pension cuts and tax hikes, to a 2015 budget draft late Monday. Kiev hopes this will help clinch the loan package when the IMF's executive board meets on March 11.

"It is obvious that the economy is in a tailspin and Ukraine needs the IMF support urgently, and they are resorting to all sorts of emergency measures to stabilize the currency at all costs," said Tatyana Orlova, a senior economist at RBS.

"I hope there will be a clause ... to support the banking sector because the recapitalization of the banks will be required in any case," she added.

Separately, the bank declared Ukraine's fourth largest Delta Bank insolvent after Gontareva said it had adopted risky policies during a period of economic turmoil.

Delta's insolvency is due to a "failure to take timely, effective and sufficient measures to improve the finances of the bank," the central bank said.

No one from the bank was immediately available for comment.

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