Ukraine Burns Reserves as World-Beating Currency Loses Crown (2)

2018-08-06 12:26:32.842 GMT

By Volodymyr Verbyany and Daryna Krasnolutska

(Bloomberg) -- Ukraine’s foreign reserves are facing a $1 billion hit as the central bank supports what was up until recently this year’s best-performing currency.

Delays in aid transfers from the International Monetary Fund mean the stockpile could drop below $17 billion by the end of September, according to Oleg Churiy, a deputy governor at the National Bank of Ukraine who’s in charge of foreign-exchange policy.

The bank has spent more than $300 million since July 1 on propping up the hryvnia, which has slid as companies repatriate dividends.

“We depend on the IMF and how quickly the Finance Ministry will be able to borrow on the market,” Churiy said in an interview in the capital, Kiev. “If there are no external funds, our reserves will decline due to debt repayments and interventions. That’s the kind of signal we’d like to avoid giving to the market.”

Ukraine’s $17.5 billion bailout, sealed in the wake of its second pro-European revolution in a decade, has been held up for more than a year as the government failed to pass reforms quickly enough. Of particular concern is corruption, though parliament recently approved legislation creating a special court to punish crooked officials. An agreement is still needed with the IMF on raising household prices for natural gas. The finance minister has said a deal is close, and that the government still plans to tap international debt markets this year. Additional financial assistance of $2.1 billion is also due from the World Bank and the European Union.

The outlook for the economy, which grew 3.1 percent from a year earlier in the first quarter, is “mostly positive,” according to investment bank Dragon Capital, though “that’s conditional on the government successfully resolving its major near-term challenge, external refinancing, by securing the next IMF tranche.”

The hryvnia, the No. 1 performer against the dollar in the first half of the year, has lost 2.8 percent since the start of July. It’s now been eclipsed by Georgia’s lari, Mexico’s peso and Moldova’s leu. Dividend repatriation was $350 million in July and the central bank sees it reaching at least $3.5 billion in 2018.

“We expected what’s going on now on the FX market since hryvnia exchange-rate dynamics are very seasonal,” Churiy said. “The situation is determined by non-fundamental and psychological factors. We link psychological factors to the frozen IMF program and elections next year.”

Ukraine maintains some currency controls, a throwback to the worst of the hryvnia’s plunge as conflict raged with Russian-backed forces near the two nations’ border in 2014. The central bank has been relaxing restrictions in recent years, which has helped boost the country’s foreign-exchange market.

Volumes jumped 43 percent from a year earlier in the first six months, according to Churiy, who says there are no plans to tighten currency restrictions again unless there’s an extreme negative event. “Negative developments mean some geopolitical issues, a sharp worsening of trade, no tranche from the IMF, some political issues that will create huge psychological pressure,” he said.