

Ukraine's Currency Moves Provoke Russian Threats

By ALEXANDER KOLYANDR AND GEOFFREY T. SMITH

Fresh attempts to stabilize Ukraine's falling currency Thursday met with Russian threats to cut off natural-gas supplies and a call by the prime minister for the central bank's chairman to be fired.

The central bank intervened in markets by selling more dollars and promising another increase in already high interest rates. The hryvnia is down 12% this week and by about half since September.

The drop has increased unease among the population and the banking system. A weaker hryvnia raises the chances of bank defaults, as many have lent

in dollars or euros to Ukrainians whose only income is in local currency. Popular protest is starting to bubble across the country, though an opinion poll published Thursday by the Gorsehin Institute think tank showed few are ready to take to the streets.

Much of the ire is directed at the country's banks, which have been suspected of using foreign currency made available by the central bank to speculate on the interbank lending market rather than making it available in the country.

Prime Minister Yulia Tymoshenko on Thursday called for the firing of Volodymyr Steelmakh, chairman of the National Bank of Ukraine, for mismanaging the situation. President Viktor Yush-

chenko is considering restrictions on the use of foreign currency by exporters and reducing central-bank refinancing funds available to commercial banks.

Compounding the problem is that natural gas must be bought from Russia. Local consumers pay **Natfogaz Ukraine**, the country's gas utility, in hryvnia for gas it has to buy from Russia's **GAZprom** in dollars.

GAZprom, which supplies a quarter of Europe's natural gas, said Thursday that it isn't obliged to continue supplying natural gas to Ukraine, which has fallen behind on payments, and may halt deliveries beginning Jan. 1. The Russian company says it has received \$800 million from Ukraine, but believes Ukraine

won't complete payments for November and December before 2009. Natfogaz says it is paying its debts regularly.

The dispute has broader ramifications, as Ukraine is a key transit point for gas headed to Europe. The European Union expressed concern about the threat of a midwinter cutoff and urged a solution to the standoff.

The hryvnia has fallen from around 4.75 to the dollar in September to historic lows of 9.8 on Thursday. Finance Minister Viktor Pynzenyuk said the central bank will sell dollars at 8.95 hryvnia Thursday and at 8.70 hryvnia Friday.

Central bank Chairman Steelmakh said the National Bank of Ukraine will cut the money sup-

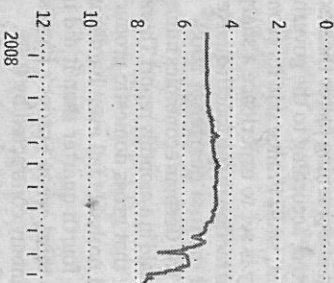
ply by increasing the key rate from the current 12%. He didn't specify what the new rate will be or when the increase will come.

Last month the central bank allowed the hryvnia to trade freely as stipulated by the International Monetary Fund when it gave Ukraine a \$16.5-billion stabilization loan.

The cost of insuring Ukrainian sovereign debt against default continues to trade at extremely high levels. It now costs around \$3.2 million a year to insure \$10 million of Ukraine bonds against default for five years, up from \$1.9 million a month ago and \$230,000 a year ago.

—Clare Connaghan and Jeffrey Sparshott contributed to this article.

Weakening
Ukraine hryvnia per U.S. dollar: scale inverted to show the strength of the hryvnia



Source: Thomson Reuters Datastream