Fitch downgrades Ukraine's credit rating as currency controls are imposed

Ratings agency fears steep and uncontrolled depreciation of the currency as central bank limits private transfers abroad of around $5,700 a month

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Exchange rates in a subway in central Kiev, Ukraine. Photograph: David Mdzinarishvili/REUTERS

Ukraine's economic woes deepened on Friday after Fitch downgraded its credit rating and the central bank imposed new capital controls to bolster the hryvnia. The ratings agency cited the ongong political instability and fears over its debt repayment schedule as it downgraded the country from "B-" to "CCC". Fitch added that "political uncertainty has contributed to a weakening in confidence in the Ukrainian hryvnia and in the exchange rate policy".

Ukraine is struggling to prop up its currency amid a political crisis that has seen anti-government demonstrators take to the streets to protest against a move closer to Moscow's economic orbit, and a debt crisis that has left it on the verge of bankruptcy.

Russia suspended a $15bn (£9.18bn) bailout last week after President Viktor Yanukovich, in a concession to protesters, sacked the pro-Russian prime minister.

Moscow says it will only restart the funding once it knows who will be the new prime minister. Yanukovich was due to meet President Vladimir Putin in the Black Sea resort of Sochi, where the Winter Olympics open on Friday night.

The central bank says the currency controls will be temporary. The controls, announced late on Thursday and imposed from Friday morning, include a limit on private transfers abroad of around $5,700 a month or 50,000 hryvnia and bans on purchases of foreign currency for overseas investment or early repayment of loans.

"The central bank has effectively imposed capital controls. The result will be a flourishing black market (in dollars)," said Tatiana Orlova, an emerging markets strategist at RBS in London.

She said it could send Ukrainians to the cashpoints to withdraw hryvnias, although on Friday there was little sign in the capital Kiev that news had filtered through. Many Ukrainians, hurt by earlier crises, keep their savings at home.

Central bank officials said the hryvnia was now at an "adequate" level after a 10% slide since November, when protesters took to the streets over Yanukovich's rejection of an EU trade agreement in favour of closer ties with Russia. They stressed that the new controls would be temporary.

"There have been strains on the currency market recently, but we are sure this is only a short-term trend," the governor of the National Bank of Ukraine, Ihor Sorkin, told a news conference.

"The National Bank will strengthen monitoring control on the market to try to reduce speculative demand ... When the situation improves, these temporary measures will be removed."

Ukraine's foreign currency reserves fell to $17.8bn as of 31 January, their lowest since 2006, from $20.4n at the end of December. The drop came even though Russia has paid the first $3bn tranche of the bailout.

The bank attributed the January drop in its foreign reserves to debt repayments of $1.1bn, including $650m to the International Monetary Fund, as well as interventions on the currency market totalling $1.7bn.

Among the new controls, clients wishing to buy foreign currency will be required to tie up their funds for six days in special accounts before receiving it. Insurance companies have been banned from buying foreign currency to cover part of insurance reserves.

Individuals can transfer abroad no more than 50,000 hryvnia – now worth about $5,700 – in foreign currency a month. Some exemptions will be available for purposes such as payments for education or medical treatment.

The hryvnia fell below 9 per dollar on Wednesday for the first time in five years. It traded at 8.53/8.56 against the dollar on Friday, having been at around 8.9 on Thursday, and was down against major currencies. Fitch said that while an orderly currency depreciation could aid a reduction in its current account deficit, "there is a risk of a steep and uncontrolled depreciation, given the fragile confidence in the hryvnia."

The head of the bank's monetary policy department, Olena Shcherbakova, said the bank would continue to intervene in the currency markets and the exchange rate for the hryvnia was "adequate" at the moment.

"The situation is completely controllable and manageable," she said.

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