MARKETPLACE

Ukraine raises interest rate to 30 percent

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It's tough to be a Ukrainian right now. In addition to Ukraine's ongoing conflict with Russia—and partially because of it—the country's currency is collapsing and inflation rates are soaring. As a result, Ukraine's central bank has raised its benchmark interest rate to 30 percent, up from just over 19 percent.

How did Ukraine get here?

"Ukraine is fighting a war that it cannot pay for [and] it has a budget that isn't balanced," says Keith Darden, a professor at the School of International Service at American University. He adds it also has long history of government corruption and it's running out of money. As a result, Ukrainians are moving to more stable currencies or rushing to purchase staples like sugar and flour in bulk.

Steve Hanke, a professor of applied economics at Johns Hopkins University and the director of the Troubled Currency Project at the Cato Institute, estimates Ukraine's real annual inflation rate is now around 270 percent. Theoretically, raising interest rates could draw investors and convince people into leave their money in the bank, but Hanke says it also kills demand for loans and that without credit, Ukraine's economy will sink further into a "death spiral." He says to reverse it Ukraine must tackle the structural problems that got it here in the first place.