

Yakiv Smolii: National Bank of Ukraine press briefing – monetary policy statement

Speech by Mr Yakiv Smolii, Governor of the National Bank of Ukraine, at a press briefing on monetary policy, Kyiv, 14 March 2019.

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Dear colleagues,

Please be informed that the NBU Board has decided **to maintain its key policy rate at 18% per annum**.

We believe that the tight monetary conditions continue to be an important prerequisite for gradually reducing inflation to the 5% target in 2020.

What inflation developments followed the last key policy rate decision?

Inflation continued to decelerate in the early months of 2019, effectively staying on the trajectory the NBU predicted in its [January 2019 Inflation Report](#). By the end of February, inflation had declined to 8.8% yoy, with core inflation down to 7.8% yoy, indicating that the underlying inflationary pressure is easing off as anticipated.

The NBU's tight monetary policy contributed to the lower inflation, including by being one of the [reasons for the strengthening of the hryvnia](#). Other factors that made the hryvnia stronger:

- ♦ favorable global prices for Ukrainian exports, in particular, agricultural and metals exports, and stable exports earnings
- ♦ the approaching deadline for annual tax payments to the state budget, which encouraged businesses to sell foreign currency more actively
- ♦ weak growth in imports of goods, and low volumes of repatriated foreign currency dividends
- ♦ net sales of foreign currency by households.

The excess of FX supply over demand in the interbank market enabled the NBU to buy foreign currency to replenish international reserves without throwing the exchange rate off the course determined by market forces. The NBU has made USD 625 million in net FX purchases since the year started. Favorable FX market conditions were another factor that helped keep international reserves above USD 20 billion despite sizable public debt repayments.

The stronger hryvnia affected the prices of imported goods and goods that have a substantial import content.

In addition, the consistency of the monetary policy, which aims to tackle inflation, and the FX market conditions contributed to the gradual improvement of inflation expectations. This raises interest rates in real terms and thus ensures tight monetary conditions necessary to reduce inflation.

What will be the future trajectory of inflation?

In 2019, in line with the January forecast, inflation will decelerate to 6.3%, and return to its target range of 5% ± 1 pp early next year.

This forecast still holds, despite new factors emerging since the NBU Board last met to discuss monetary policy.

On the one hand, increases in social payments, as well as the monetization of utility subsidies are planned for the coming months.

Although the effects of these individual factors are insignificant, their combined impact on inflation expectations could be substantial, on the back of greater uncertainty arising from presidential and parliamentary elections.

On the other hand, a more noticeable strengthening in the hryvnia exchange rate than is envisaged in the current forecast, is helping curb inflation.

That said, the risks to inflation decreasing mentioned by the NBU in its January macroeconomic forecast continue to persist.

What will the NBU's monetary policy stance be in future?

After balancing the need to bring inflation back to its target against the risks that could prevent inflation from decreasing, the NBU Board has decided to leave the key policy rate unchanged, at 18.0% per annum.

Although leaving the key policy rate unchanged, the NBU Board said that it could cut it in the future.

How soon the NBU will adopt an easing cycle will depend on how steadily risks of inflation decrease and inflation expectations improve. Looking ahead, any changes to the key policy rate will be based on the NBU's updated macroeconomic forecast that will be published in April.

A summary of the discussion by Monetary Policy Committee members that preceded this decision will be published on 25 March 2019.

The next meeting of the NBU Board on monetary policy issues will be held on 25 April 2019.

Thank you for your time!