

# Kyrylo Shevchenko: National Bank of Ukraine press briefing - monetary policy statement

Speech by Mr Kyrylo Shevchenko, Governor of the National Bank of Ukraine, at a press briefing on monetary policy, Kyiv, 4 March 2021.

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Dear colleagues, I would like to inform you that the Board of the National Bank of Ukraine has decided to raise its key policy rate to 6,5% per annum.

The decision is aimed at gradually reducing inflation to the target of 5%, as the Ukrainian and global economies are recovering.

How did prices change at the start of 2021?

As expected, inflation accelerated in January, and deviated from the  $5\pm 1$  pp target range. Inflation continued to accelerate in February according to preliminary estimates. In particular, consumer inflation exceeded the NBU's forecast, while inflation expectations remained high.

At the same time, the underlying inflationary pressure was generally in line with the central bank's forecast trajectory in January–February.

The growth in inflation in the first months of 2021 was driven by a number of factors. Among them were:

- ♦ higher food and fuel prices
- ♦ stronger inflationary pressures from trading partner countries
- ♦ sustained domestic consumer demand.

Moreover, prices continue to be influenced by the effects of last year's hryvnia depreciation.

How will inflation behave in the future?

The growth in consumer prices will peak in mid-2021. However, inflation will start to decelerate afterwards, returning to its target range in H1 2022.

The global and Ukrainian economies, which are recovering rather quickly, will produce significant inflationary pressures throughout the whole of 2021. At the same time, the inflation trend will be reversed gradually as new harvest supplies come to the market, the effect of a low comparison base wanes for some products, and the NBU raises its key policy rate.

Inflation will thus decelerate at the end of the year and will settle within the  $5\% \pm 1$  pp target range in H1 2022.

What other factors were taken into account in the decision on the key policy rate?

The primary assumption of the NBU Board is that Ukraine will continue to cooperate with the IMF. The NBU expects further progress to be made in negotiations between Ukraine and the IMF.

Cooperation with the fund and other international partners is essential for financing budget requirements and providing the economy with an additional impetus for growth. This will enable Ukraine to maintain its international reserves at about USD 30 billion.

As before, the imposition of stricter quarantine restrictions in Ukraine and globally remains the main risk to *macrofinancial stability*

Indeed, vaccination campaigns are already proving to be effective in some countries. However, they are being rolled out rather slowly, as a result of which the risk of tighter quarantine measures this year remains significant. In particular, some regions of Ukraine have seen a significant rise in morbidity in recent months.

Therefore, the pandemic still poses the threat of a decline in business activity and a cooling of consumer and investment demand. This, in turn, could rein in inflation.

Conversely, the rapid recovery of business activity, rebounding commodity markets, the lagged effect of large-scale expansionary measures, and potential pent-up demand are generating risks of higher inflation globally. Under such conditions, among other things, inflationary pressures from Ukraine's main trading partners could increase further.

There are other significant risks. They include:

- ♦ volatile global capital markets
- ♦ a more dramatic deterioration in the terms of trade
- ♦ an escalation of the military conflict in eastern Ukraine or on the country's borders.

Given the above balance of risks and the significant rise in underlying inflationary pressures seen in recent months, the NBU Board decided to raise the key policy rate, to 6,5%.

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

Looking ahead, the NBU stands ready to raise its key policy rate more resolutely in order to curb underlying inflationary pressures, stabilize expectations, and bring inflation back to its target.

The NBU remains committed to its duty to meet the inflation target. Therefore, NBU monetary policy will continue to be aimed at preventing a spike in inflation.

Thank you for your attention!