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, 9 December 2021.

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Dear colleagues, Please be informed that the NBU Board has decided to raise the key policy rate to 9% per annum.

The decision is aimed at neutralizing the impact of additional pro-inflationary risks, improving inflation expectations, and ensuring steady disinflation toward the NBU's target of 5%.

What price dynamics followed the previous NBU Board meeting on monetary policy issues?

The growth in consumer prices decelerated to 10.9% yoy in October. The NBU estimates inflation continued to decline in November.

The decline was driven by:

- the vanished effect of the last year's low comparison base
- better harvests gathered this year
- administrative decisions on public utility rates
- the strengthening of the hryvnia in previous months
- the impact of the NBU's previous decisions to tighten its monetary policy.

At the same time, disinflation was somewhat slower than the NBU had predicted in itsOctober forecast. The decline in inflation was restrained by:

- higher pressures on prices of an increasingly wider list of consumer-basket goods and services due to the rise in food and energy prices
- businesses' higher expenses on logistics and wages
- domestic consumer demand remaining robust despite a slight deterioration in consumer confidence and the quarantine restrictions.

Additional pro-inflationary risks have also materialized.

First, rising geopolitical tensions are affecting prices of Ukrainian assets and FX market conditions.

Second, global prices for natural gas and food exceed the NBU's expectations and are likely to remain high in the coming months.

Third, higher global inflation is prompting leading central banks to step up their monetary policy tightening. In turn, this lowers investor interest in assets of emerging markets (including Ukraine).

Moreover, emerging market central banks are also actively raising their rates. For example, yesterday the central bank of Brazil hiked its rate by 150 bp, to 9.25% per annum. This means the competition for foreign capital is getting stronger among emerging markets.

How will prices change further on?

Inflation will continue to decline gradually until the end of this year and throughout the whole of 2022.

This year's record-high harvest and a correction in global prices will help decelerate food price inflation. Natural gas prices in Europe are also expected to go down in spring, after the heating season is over. This will also help decrease production costs in Ukraine.

Underlying inflationary pressures will also gradually ease, due to, among other things, the expected slower growth in wages next year, and the sustained effect of the monetary policy tightening by the NBU.

What were the other considerations behind today's decision?

A key factor behind the reduction in uncertainty was the IMF Executive Board's approval of the first review of Ukraine's progress in implementing the Stand-By Arrangement and the extension of this arrangement until June 2022. This factor partly offset the effect of stronger geopolitical risks on the financial markets. It is critically important that Ukraine continues to implement the structural reforms envisaged in the Stand-By Arrangement and maintains partner relations with other official lenders, with a view to making its economy less vulnerable to these and other risks.

Key risks to the economy are posed by an escalation of the military conflict with Russia and a longer-than- expected global price surge

In particular, considerable uncertainty over whether or not the military conflict will escalate could worsen expectations and cause investors to put off their investment decisions, which would dampen economic recovery.

A related geopolitical risk arises from high gas prices persisting longer than envisaged in the forecast. The risk of an increase in global food prices also remains important. Through second-round effects, these factors could push up prices for an increasingly larger number of goods and services.

A more prolonged surge in global inflation, especially in central and eastern Europe, could also put pressures on domestic prices in Ukraine. A faster-than-expected monetary response by leading central banks poses the risk of there being capital outflows from emerging markets.

The economic repercussions arising from the spread of new coronavirus variants are creating a lot of uncertainty. These repercussions could increase the risk of global stagflation on the back of logistic and production problems.

The NBU continues to assess the balance of risks for its baseline scenario of inflation and the key policy rate as having tilted to the upside.

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

If pro-inflationary risks continue to materialize, the NBU stands ready to raise its key policy rate at the next Board meetings on monetary policy issues.

Thank you for your attention!