

Andriy Pyshnyy: High-Level Conference for the Governors of the IMF Constituency

Speech by Mr Andriy Pyshnyy, Governor of the National Bank of Ukraine, at the High-Level Conference for the Governors of the IMF Constituency on "Central Bank Independence in a Changing World", organised by the National Bank of Belgium, Brussels, 9 February 2024.

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Dear colleagues,

First and foremost, I would like to thank Pierre [the Governor of the National Bank of Belgium Pierre Wunsch] and his wonderful team for the opportunity to take part in this conference and share the experience of the Ukrainian central bank.

I want to present for your professional judgment some conclusions made by myself and the National Bank of Ukraine team over the past two years. These insights have been shaped during the 716 days of the full-scale Russian war against Ukraine that takes place in our country but influences the entire world.

On 24 February 2022, as Ukrainians were jolted awake by explosions, the global order changed. This made us look at many things differently, including at the central bank's mandate and the ways of its implementation.

I could tell a lot about the NBU's experience and our mandate at the times of war. However, due to time constraints, I will focus only on key issues.

- **First, we faced the issue of security in a broad sense.**

Our usual peaceful environment turned into the martial law reality at once. When our armed forces defended the borders on land and in the air, the foremost task for the NBU was to safeguard the functions of the national currency, guarantee uninterrupted payments, and alleviate panic.

In the first hours of the full-scale war, the central bank initiated its action plan that was prepared in advance. The NBU immediately fixed the exchange rate, imposed necessary restrictions, and activated protocols for uninterrupted operation of the banking system. Even in the midst of battle for Kyiv, people could use their payment cards in shops, withdraw cash, and make transfers.

Hence, the first conclusion or insight I would like to share: in crises, we do not rise to the level of our potential occasion; we fall to the level of our preparedness. And the level of our preparedness will ultimately determine our ability to fulfill our mandate.

- **Second, we faced the challenge of power terror and massive cyber-attacks.**

Between October 2022 and March 2023, Russia launched 875 missiles and hundreds of drones targeting critical energy infrastructure. Cities and villages suffered many hours and even days without electricity and communication, and the looming threat of week-long blackouts became a reality. What did it mean for us as a central bank? A new task emerged: to ensure seamless operation of the banking system and uninterrupted access to banking services under any conditions.

A wide-scale project POWER BANKING, implemented in cooperation with Ukrainian banks, provided a solution. It consolidated over two thousands branches of different banks into a single network. These branches were equipped with alternative power sources, backup communication channels, had enhanced cash collection capacity, additional staff, and a shared system of continuous operation protocols. Even during the darkest and coldest winter days, people could conduct cash transactions or just charge their phones and find warmth in these bank branches.

But POWER BANKING is more than a mere response to missile attacks. Once again, we adopt a broader perspective, since a blackout may be caused by a cyber-attack or a natural disaster. Our POWER BANKING protocols comprehensively address these scenarios, and you will agree that they can happen anywhere.

Therefore, my second insight is this: a central bank must execute its mandate under any conditions. The NBU has ingrained this principle into its DNA. In May 2023, we updated the NBU Strategy, broadening our mission statement. Same as before, the NBU should ensure price and financial stability. However, we have now made a commitment to fulfill this mandate under all conditions.

- **Third, spotlighting the sanction track became one of the survival conditions.**

The matter of resources is essentially the matter of opportunities. For Ukraine it signifies the ability to endure and eventually win. For Russia it represents the means to continue its aggression and the global order destruction.

Sanctions help change the balance of power. Thus, their enhancement and ongoing monitoring have been added to our list of tasks since financial companies are always a part of this "supply chain".

We are taking all the necessary steps domestically, severing any connections of our financial sector with Russia. We successfully nationalized Russian banking assets in order to ensure financial stability. These actions mitigate the risks related to terrorist attempts of Russia to target our financial system and to undermine our defense.

Additionally, we cooperate with our partners to strengthen international sanctions pressure. It is unacceptable to turn a blind eye to the global impact of Russian war against Ukraine.

Here is my third insight: sanctions are a crucial element of global policy. Central banks are inevitably involved in their implementation and face associated challenges.

- **Fourth, support of the defense effort became an integral part of our mandate in the times of war.**

In 2022, we made difficult yet necessary steps to provide short-term assistance in the government's financing of defense expenses. The war caused unprecedented increase in the budget needs.

The war cannot be put on hold. It is impossible to find sources of budget financing in a couple of days. So, the NBU had to make a swift and sensible decision and resort to monetary financing. Simultaneously, it had to develop a remediation plan and avoid monetary financing in the future.

Cooperation between fiscal and monetary authorities is an integral element of such plan. This matter is frequently discussed at global conferences. I've heard it emphasized by our IMF and ECB colleagues.

We have gained some extraordinary experience.

Reboot of our relations amid the full-scale invasion allowed us to revive the domestic debt market and avoid monetary financing in 2023. We successfully restored confidence in the local currency, which eased pressure on the exchange rate and prices. As a result, we effectively mitigated the risks of forced monetary financing. The independence of the NBU played a crucial role in that.

As a result, the inflation that peaked at 27% in 2022, decreased to the pre-war inflation target of 5%. We successfully halted the decline in economic activity and transitioned to gradual recovery: last year, the GDP grew by more than 5% after nearly one-third slump in 2022.

The unity of Ukrainian authorities and the mutual respect of both institutions' to each other's mandates allowed us to prove our capability and raise the required finances. I want to thank Ms Kristalina Georgieva for trust, support and leadership of the International Monetary Fund that consolidated the donor coalition around Ukraine, becoming its cornerstone. I hope, this collaboration will persist.

This year, the significance of international support and the consolidation of efforts will not diminish; it will only intensify. The war continues.

Thus, my fourth insight: efficient cooperation with fiscal authorities and international partners not only provides resources for the implementation of the central bank mandate but also serves as a source of capacity.

- **And the last, the fifth point. It is crucial to develop and implement measures to ensure steady recovery and post-war reconstruction.**

This was clearly manifested in both internal policy and documents on cooperation with our partners. While the first stage of our program with the IMF defined the key task as "maintain macroeconomic, external, and financial stability, in order to strengthen

Ukraine's capacity on its way to victory", the second stage focuses on recovery and reconstruction. These words are mentioned in the Memorandum with the IMF more than 80 times.

To achieve this, it is important to switch from anti-crisis measures to forward-looking and balanced policy. For this purpose, we moved from the fixed rate to ER managed flexibility. We are cutting our policy rate. Gradually, we are easing the FX market restrictions and moving towards our strategic objective: return to inflation targeting.

We are returning to normality, and I remain hopeful that we will continue on this path, despite the ongoing war.

Strong economic recovery requires revival of lending. This is why we prepare our Lending Revival Strategy taking into account war realities, including the need to boost the defense of the country.

In conclusion, I would like to emphasize that Ukrainian experience shows, that despite the fact that the mandate of a central bank is clearly defined, new challenges make us look for the new ways to fulfill it, and these ways may vary.

And the most important insight from the two years of the full-scale war is that we, as central bankers, should learn to take a broader perspective.

Today it is the 716th day of war in Ukraine. During this time, there were 978 air raid alerts in Kyiv alone. The number and magnitude of challenges have grown, and their impact extends beyond Ukraine. I am convinced, that everyone present at this conference would agree.

Full-scale, cruel, destructive war of Russia against Ukraine aggravated the risks of global war, geopolitical fragmentation and deglobalization. It has disrupted the "metabolism" of the financial system. This challenge is global, and a risk to global security and global macrofinancial stability, now and in the future.