# Andriy Pyshnyy: National Bank of Ukraine press briefing - monetary policy decisions

Speech by Mr Andriy Pyshnyy, Governor of the National Bank of Ukraine, at a press briefing on monetary policy decisions, Kyiv, 13 June 2024.

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Dear colleagues,

The Board of the National Bank of Ukraine decided to cut the key policy rate to 13%.

Taking into account the still moderate rate of inflation, the improvement in inflation expectations, and the balance of risks for further inflation dynamics, the NBU continues the cycle of interest rate policy easing in order to support economic recovery.

**Consumer inflation remains below the target range set by the NBU**

After a long period of decline, inflation remained unchanged in April and rose only slightly in May – to 3.3%. Such pace of growth in consumer prices was lower than the NBU had expected.

As before, the deviation from the forecast was primarily driven by the rapid decrease in raw food prices thanks to favorable weather conditions, effects of last year's strong harvests, and some producers reorienting toward the domestic market.

However, the underlying inflationary pressure was in line with the forecast the NBU made in April – core inflation was 4.4%, remaining within the target band for more than six months.

On the one hand, second-round effects from lower prices of food products and relative resilience of inflation expectations to exchange rate fluctuations restrained the growth in prices for a wide range of goods and services. On the other hand, further increases in businesses' expenses spurred price growth for a large share of core CPI components.

**Inflation will accelerate by the end of the year but will remain moderate**

The NBU expects inflation to accelerate moderately in the coming months and exceed the target range by the end of the year. Such price dynamics will be primarily driven by the persisting pressure on business costs during the war, somewhat weaker harvests compared to last year's bumper crop, wage increases passing through to prices, and a hike in electricity prices.

At the same time, the NBU's prudent monetary policy and the moratorium on raising the majority of public utility tariffs will curb price growth. The NBU will not only stick to the policy of protecting hryvnia savings from inflation, but also will cover the structural deficit of foreign currency and smooth out excessive exchange rate fluctuations to ensure the sustainability of the FX market.

These measures are important to maintain control over inflation expectations, keep inflation moderate in 2024, and bring it into its target range of 5% ± 1 pp in the following years.

### The continuation of international financial support and measures to strengthen the resilience of public finances provide ground for sustaining macrofinancial stability

From May through early April, budget needs were largely financed from funds provided by international partners in the previous months. In the meantime, inflows of external assistance are expected to increase in the coming weeks. In particular, a staff level agreement has already been reached on the fourth revision of the Extended Fund Facility. In such a way, this month, Ukraine is expected to receive USD 2.2 billion from the IMF in addition to EUR 1.9 billion from the EU.

As the economy is gradually recovering, the government is increasing tax revenues, which exceeded the planned levels for the period of January–May. Domestic market borrowing also remains an important instrument for meeting budget needs amid sustained high demand for hryvnia domestic government debt securities.

Considering the expected inflows from international partners and internal efforts to mobilize financial resources, the government will continue to be able to carry high expenditures of the state budget.

At the same time, the NBU will maintain international reserves at a comfortable level sufficient to ensure a stable and controllable situation on the FX market.

### The course of the war continues to be the key risk to inflation dynamics and economic development

The war russia has been waging for the third year is inflicting serious economic losses on Ukraine and keeps on fueling the price pressure. The NBU assumes that security risks will subside and that conditions for the functioning of the economy will normalize in the coming years.

However, the further development of the war and its actual duration remain the main factors of uncertainty. A protracted war of high intensity that exhausts the country is the main risk for the economy.

There are other risks, most of which are also directly or indirectly related to the war, including:

- the emergence of additional budget needs to maintain defense capabilities or cover substantial quasi-fiscal deficits, in the energy sector in particular
- further damage to infrastructure, especially energy and port infrastructure, which will curb economic activity and put supply-side pressures on prices
- the continuation of the partial blockade of freight transportation at border crossings with some EU countries, which will restrain exports and make imports more expensive

- the deepening of adverse trends in migration.

What is more, a potential increase in indirect taxes and excise duties to finance budget needs could contribute to higher inflation rates this year. At the same time, this increase will support the country's defense capabilities and the sustainability of public finances.

At the same time, a number of scenarios are also likely to materialize, including further expansion of export opportunities, the acceleration of European integration processes, the implementation of a large-scale recovery program, and the transfer of funds from immobilized russian assets to Ukraine.

In particular, Ukraine expects a decision on the use of russia's immobilized assets to be made following a G7 meeting, which may complement the decisions already taken in the United States and the EU.

The implementation of these scenarios will reduce inflationary pressures and boost economic recovery.

**Given the balance of risks, still subdued inflation, and ongoing improvement in inflation expectations, the NBU Board decided to cut the key policy rate by 0.5 pp, to 13.0%**

In recent months, hryvnia savings instruments have remained in demand, despite a gradual decline in nominal rates. Yields on domestic government debt securities and hryvnia deposits continue to protect savings from being eroded away by inflation, so demand for them remains high.

The growth of households' hryvnia deposits with a maturity of three months or more is stable and continues to exceed the growth of both short-term hryvnia and term FX deposits. People's investments in hryvnia domestic government debt securities continue to grow.

This enabled the NBU to continue cutting its key policy rate in line with its April macroeconomic forecast. This step is consistent with the continued protection of hryvnia savings from being eroded away by inflation, while also contributing to a further revival of lending, which is important for economic recovery.

**The baseline scenario of the April macroeconomic forecast envisaged a cut in the key policy rate to 13% this year, but the NBU is ready to adapt its monetary policy if the balance of risks to inflation and the FX market changes**

The underlying price pressures from the war will continue, and inflation is expected to accelerate in H2 of this year. In view of the above, the NBU will use its monetary policy to maintain moderate inflation this year, and to return it to its target range of 5% ± 1 pp in the coming years.

The NBU may revise its key policy rate forecast trajectory if risks to inflation and FX market sustainability change.