

Key messages

- ✓ The NBU continues the cycle of monetary policy easing as inflation is steadily declining towards the target of 5%.
- ✓ Same as before, inflation is projected to decline to 6.3% as of the end of 2019, meet the target range in early 2020, and reach the medium-term target of 5% at the end of 2020.
- ✓ More rapid decline in underlying inflationary pressures and unchanged balance of risks have made it possible to ease monetary policy somewhat more quickly this year than envisaged in the previous macroeconomic forecast. Therefore, the Board of the NBU has taken a decision to cut its key policy rate by 1 pp. to 15,5%.
- ✓ A delay in entering into a new cooperation agreement with the IMF, and increased threats to macrofinancial stability – mainly due to Ukrainian court rulings – pose the key risks to the said macroeconomic forecast, and in particular to inflation decreasing to its target in 2020.
- ✓ The NBU's forecast scenario envisages that the key policy rate will be cut further, to 8% as of the end of 2021. But the key policy rate could be cut, to 8%, much more quickly. These cuts will greatly depend on whether or not key internal reforms are sped up.

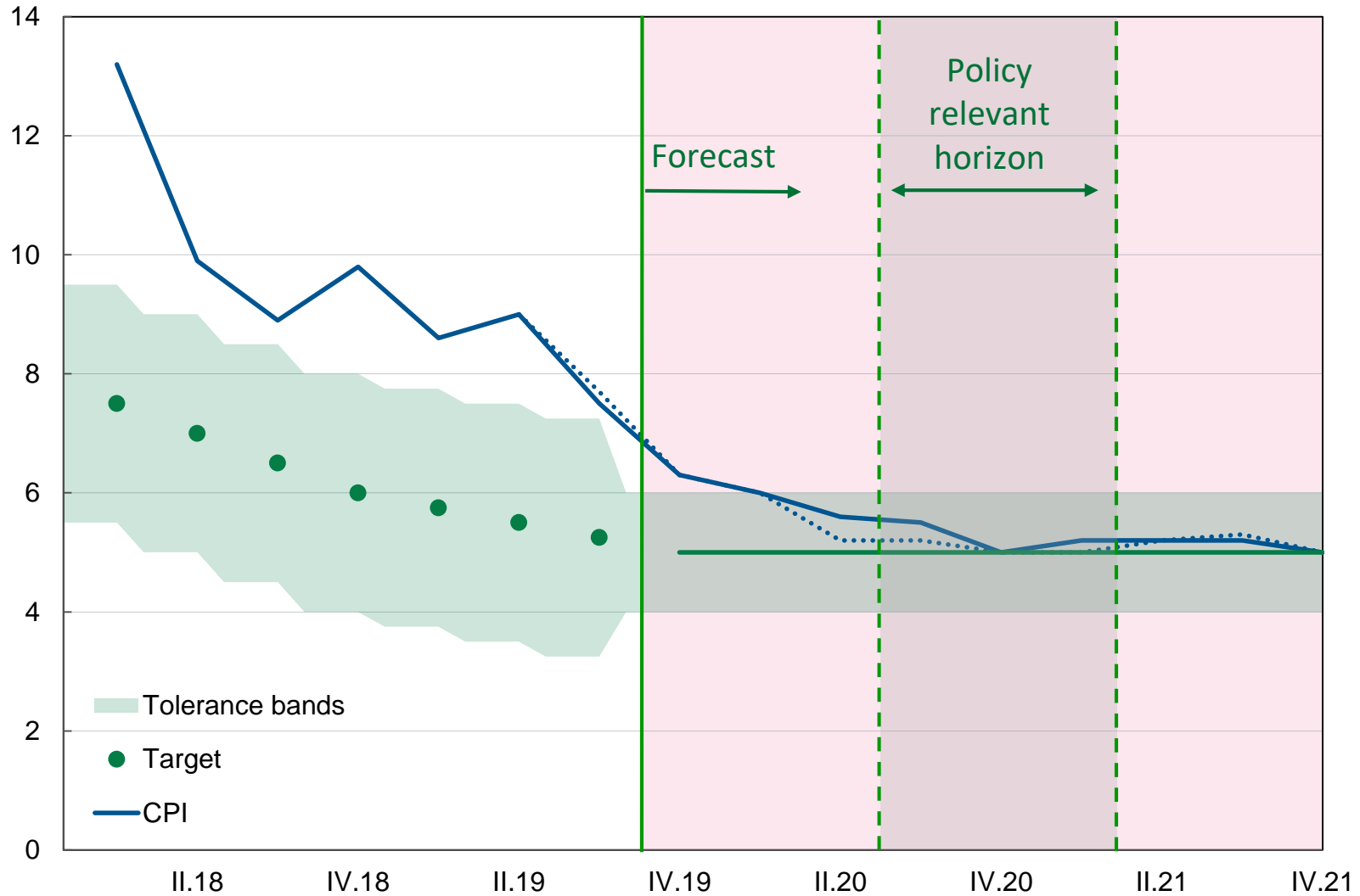
Key macroeconomic indicators

	2018 actual	2019* NBU forecast	2020 NBU forecast	2021 NBU forecast
Real GDP , change, %	3.3	3.5 (3.0)	3.5 (3.2)	4.0 (3.7)
Nominal GDP , UAH bn	3 559	4020 (4 003)	4420 (4 390)	4850 (4 803)
CPI , y-o-y, % (eop)**	9.8	6.3 (6.3)	5.0 (5.0)	5.0 (5.0)
Core CPI , y-o-y, % (eop)**	8.7	5.3 (5.5)	3.7 (3.8)	3.8 (3.8)
Current account balance , USD bn	-4.4	-4.3 (-3.8)	-5.3 (-4.6)	-6.9 (-6.3)
<i>% GDP</i>	-3.3	-2.9 (-2.6)	-3.3 (-2.9)	-4.0 (-3.7)
BOP (overall) , USD bn	2.9	2.6 (0.6)	0.6 (0.2)	-1.1 (-0.4)
Gross reserves , USD bn	20.8	22.9 (21.7)	23.9 (22.8)	23.0 (23.0)

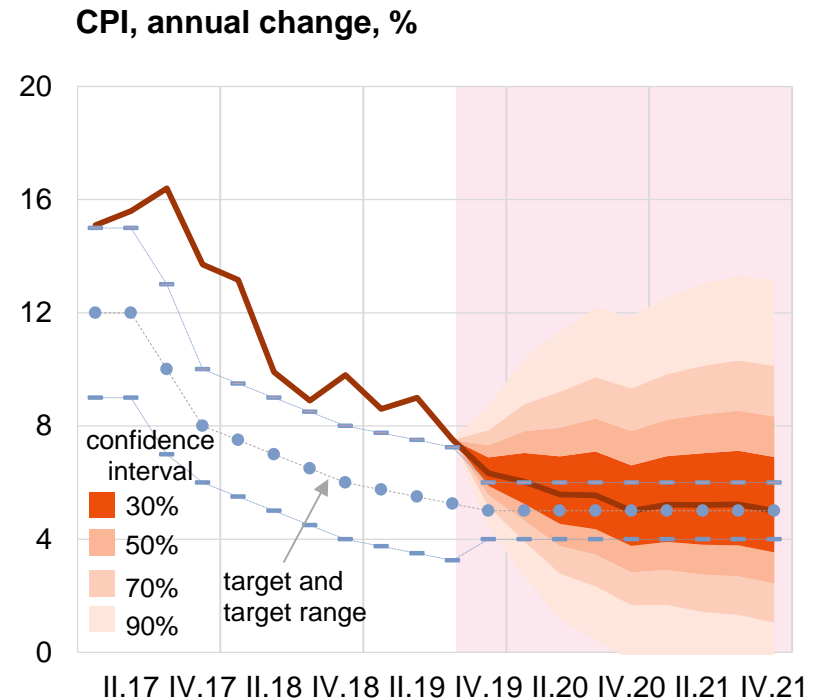
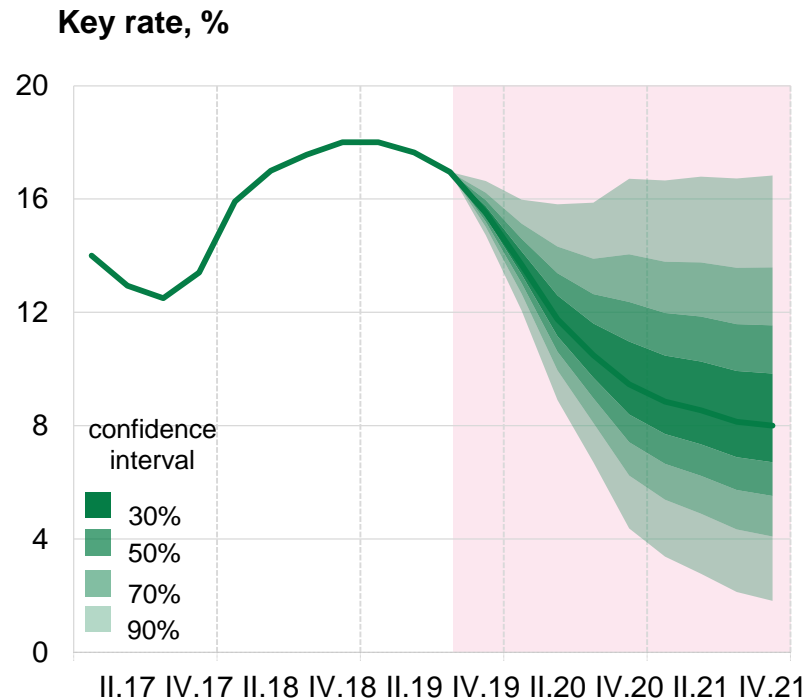
* in brackets – previous NBU forecast (Inflation report, July 2019)

** «eop» – end of period (December to December of previous year)

CPI forecast, annual change, %



Key rate and inflation forecast



The forecast is given in a fan chart. This chart type is used to illustrate uncertainty with regard to predicted future values. For instance, the probability that the indicator will be in the range of the darkest shaded area in the chart (around the central line) is 30%. The same applies to other chart areas, implying the 90% probability that the indicator will be in the range of the lightest shaded area.