National Bank of Ukraine

Summary of the Key Policy Rate Discussion by the NBU Monetary Policy Committee

Date of the meeting: **24 April 2019**

Attendees: nine out of ten members of the NBU Monetary Policy Committee (MPC):

Yakiv Smolii	Governor of the National Bank of Ukraine
Kateryna Rozhkova	First Deputy Governor
Roman Borysenko	Deputy Governor
Dmytro Sologub	Deputy Governor
Sergii Kholod	Deputy Governor
Oleg Churiy	Deputy Governor
Sergiy Nikolaychuk	Director of the Monetary Policy and Economic Analysis Department
Yurii Polovniov	Director of the Statistics and Reporting Department
Serhii Ponomarenko	Director of the Open Market Operations Department

During the discussion, eight of the MPC members proposed to cut the key policy rate by 0.5 pp to 17.5%, while one member advocated maintaining the key policy rate at the current level (18.0%).

Macroeconomic prerequisites for launching a cycle of monetary policy easing have been met, all of the MPC members pointed out. The decrease in inflation is a sustainable trend and is in line with the NBU's projection. At the same time, the elections did not pose an impediment to positive developments in the financial market and inflation expectations. The inflow of foreign capital into government securities accelerated significantly. Coupled with favorable price conditions for Ukrainian goods in external markets and sustained export revenues, this strengthened the hryvnia.

The key policy rate cut is in line with the vision of future monetary policy the NBU declared when it made its previous decisions. More specifically, the NBU has previously said that a sustainable slowdown in inflation towards the target and an improvement in inflation expectations were the necessary prerequisites for a monetary policy easing. Postponing the key policy rate cut could cause economic imbalances to accumulate. More specifically, delays would drive a significant inflow of short-term capital and an increase in the current account deficit. By contrast, the launch of the cycle of monetary policy easing will raise the attractiveness of longer-term government securities.

At the same time, the gradual reduction of the key policy rate will keep its real value sufficiently high to make monetary policy tight enough for inflation to slow.

Along with that, there are new significant risks, the MPC members pointed out. Recent lawsuits and court rulings that call into question the measures to ensure the stability, transparency, and efficiency of the banking system create threats to the overall financial stability. In addition, political uncertainty continues to put the NBU's independence at risk. The central bank's independence is at the core of increasing the confidence of businesses and the public in the NBU's monetary policy and banking supervision decisions.

Should they materialize, the risks noted above would have large-scale implications, as they threaten to cut off support from international partners and make it harder for Ukraine to access financial resources to make public debt repayments set to peak this year.

Materialization of these risks is treated as force majeure and, as such, is not part of the baseline macroeconomic scenario that provides for a gradual monetary policy easing, **eight of the MPC members** argued.

But if the probability of these risks increases, the NBU will have to respond accordingly, including through monetary instruments.

By contrast, one MPC member said that the key policy rate should be kept at its current level (18.0%). It is premature to launch the monetary policy easing amid risks to financial stability, the MPC member argued.

The decision to set the key policy rate at 17.5% per annum was approved by the NBU Board at the monetary policy meeting held on 25 April 2019.

For reference:

The Monetary Policy Committee (MPC) is the NBU's advisory body that was created to share information and opinions on monetary policy formulation and implementation in order to deliver price stability. The MPC comprises the NBU Governor, other NBU Board members, and directors of the Monetary Policy and Economic Analysis, Open Market Operations, Financial Stability, and Statistics and Reporting Departments. The MPC meets the day before the NBU Board meeting on monetary policy issues. Decisions on monetary policy issues are made by the NBU Board.