

MEMORANDUM
BETWEEN THE CABINET OF MINISTERS OF UKRAINE AND THE NATIONAL BANK OF
UKRAINE ON COOPERATION TO ACHIEVE SUSTAINABLE ECONOMIC GROWTH
AND PRICE STABILITY

The Cabinet of Ministers of Ukraine (CMU) and the National Bank of Ukraine (NBU), hereinafter referred to as the Parties, recognize the need for joint efforts to ensure sustainable economic growth and price stability in Ukraine. The Parties recognize that ensuring price stability is one of the main prerequisites for sustainable economic growth.

The Parties agree that the sound **economic policy of the CMU** and the **monetary policy of the NBU**, which is aimed at achieving low and stable inflation, will ensure a reduction in interest rates and a revival of lending, thus driving economic growth in Ukraine, in the medium term. In particular, the Government Activities Program that was submitted to the Verkhovna Rada of Ukraine on 29 September 2019 stipulates that in order to achieve the overall goal of rapid, inclusive economic growth, it is important to meet the goals of making public finances predictable, ensuring access by businesses and households to significantly cheaper financial resources, reducing debt service costs, and safeguarding the public from abuse by monopolists, etc. **The NBU will facilitate sustainable economic growth and support the economic policy pursued by the CMU, as long as doing so does not prevent the achievement of price and financial stability objectives.**

For its part, the CMU will support the goals and principles of the **NBU's monetary policy** as defined by the NBU's Monetary Policy Strategy and Monetary Policy Guidelines. Specifically, the NBU will conduct its monetary policy on the basis of the inflation targeting regime by making efforts to ensure that the consumer price index increases by $5\% \pm 1$ pp annually.

In addition, cooperation between the Parties will further improve expectations, including inflation expectations, and increase investor confidence in the Ukrainian economy.

The CMU will support the NBU's efforts to achieve the price stability goal through the conduct of:

- predictable budgetary policy aimed at ensuring the sustainability of public finances, including by adhering to medium-term budgetary planning and by reducing the budget deficit to 1.5% of GDP in 2024
- public debt management policy aimed at reducing debt service costs to taxpayers, in particular by gradually increasing the share of domestic currency debt to 50% by the end of 2024 to mitigate currency risk, cut the cost of public debt servicing, and reduce the public debt to GDP ratio by 40% by late 2024
- financial market development policy, including the development of the domestic market for government securities through the development of the institution of primary dealers and the introduction of market making, the gradual transition to the issuance of hryvnia-only domestic government bonds, the auctioning of domestic government bonds on an international trading platform, the inclusion of domestic government bonds in the JP Morgan EMBI index, the introduction of active instruments of public debt management in the domestic market (including repo transactions, currency swaps, derivatives, switch and buy-back transactions), and the forecasting of movements of funds in the accounts of the Ukrainian government
- management of state-owned banks in line with the predetermined strategy, and the

gradual reduction of the state's share in the banking sector to 20%

- effective antitrust policies to create a competitive environment for pricing mechanisms and to safeguard the public from abuse by monopolists
- transparent privatization, increasing the effectiveness of the activities of state-owned companies, in particular by introducing modern corporate governance standards, and increasing the efficiency of strategic state-owned companies
- transparent and predictable policy in the area of administered prices and tariffs
- measures to dedollarize the economy, in particular by ensuring the use of the hryvnia as the only legal tender in Ukraine, minimizing the pegging of prices and tariffs to foreign currency, and facilitating the spread of cashless payments.

In conducting monetary policy to achieve the inflation targets it has set, the NBU will:

- use the key policy rate as its main monetary instrument for curbing inflation. The central bank will gradually decrease this rate, to 8% by late 2021, as set out in July 2019 Inflation Report, provided inflation falls to its 5% target
- promote financial stability, the effective performance by the banking system of its financial intermediation function, and a pick-up in lending, among other things, by providing long-term refinance loans at floating interest rates, delivering the right conditions for more active lending to small- and medium-sized companies and farms against the collateral of land and mortgage, and so on
- remain committed to the floating exchange rate regime, without applying its policy to achieve a certain level or band of the exchange rate, while relying on FX interventions to accumulate international reserves and smooth out FX market fluctuations
- gradually liberalize the capital flows
- promote the development of the financial market, including the domestic market for government securities and hedges of interest rate and currency risks
- develop payment systems and help introduce innovative technologies in the financial sector.

By so doing, the NBU will be independent in conducting its monetary policy, and this will be supported by the CMU.

Coordination of efforts

The Parties acknowledge that the effective coordination of economic, fiscal, and monetary policies is crucial to ensuring price stability. This coordination will take the form of regular consultations between the leaderships and professionals of the Parties, among other things, in order to:

- discuss current issues and to agree on strategic issues of monetary and fiscal policies in terms of delivering price and financial stability during meetings of the Financial Stability Council
- analyze current economic conditions, macroeconomic forecasts, the achievement of inflation targets, the development of financial markets, liquidity forecasting, and so on
- discuss fiscal policy parameters and the sustainability of public debt, in particular during the preparation of the Budget Declaration and the drafting of the State Budget of Ukraine.

In addition, the above policy coordination will be achieved through the regular sharing of information.

The NBU will regularly inform the CMU and the public about its macroeconomic outlook, the achievement of inflation targets, the factors behind the development of inflationary processes, and the measures aimed at meeting these targets.

The CMU will inform the NBU in advance about planned changes in administered prices and tariffs and provide forecasts of the movement of funds in government accounts and plans for the implementation of public borrowing.

For the Cabinet of Ministers of Ukraine

For the National Bank of Ukraine