Tight monetary policy helping to target inflation, NBU minutes say

Ukraine

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Analyst: “Securing IMF financing should alleviate pressure on Ukraine’s external accounts. It will also remove the risk of a further key policy rate hike, bringing more certainty to Ukraine’s financial markets.”

KYIV, June 6, 2018 - The National Bank of Ukraine (NBU) disclosed more details of its March decision to keep its key policy rate unchanged at 17%, Concorde Capital informed clients based on the minutes of the monetary policy committee published on June 4. The minutes reveal that all eight present committee members agreed to keep the key policy rate unchanged as the actual inflation trend corresponds to the forecast published in the latest inflationary report of April 2018. Tight monetary policy should help to manage inflation to meet the mid-term target. The committee members discussed the current growth of oil prices on the global markets, stating that this should create additional inflationary pressure in the short term. At the same time, favorable weather conditions this spring promise a good harvest of grains, early fruits and vegetables that should subdue any growth of food prices. Given the better-than-expected GDP results in 1Q18, as well as the expected good harvest and private consumption revival, the NBU might resort to an upward revision of its GDP forecast. Meanwhile, the majority of committee members agreed that the probability of cutting the key policy rate before the year end is low. It should happen only when clear signs of disinflation appear. The NBU’s base-case scenario assumes receiving a USD 2 bln loan tranche from the IMF in the nearest future, as well as ongoing structural reforms. In this case, further liberalization of the currency market is appropriate for maintaining the economic upsurge. Failure to secure the IMF tranche in and of itself will not be a reason for a possible key policy rate hike, the NBU stated. However, the lack of institutional financing makes Ukraine’s economy and financial markets more vulnerable, given their increasingly limited access to global capital markets. Concorde analyst Evgeniya Akhtyrko added: “All important governing decisions at this point are being discussed in light of Ukraine’s success in securing IMF financing. The nearest three weeks are critical for Ukraine’s parliament to adopt the bill creating an independent anti-corruption court which is the key requirement for receiving the fifth IMF loan tranche this summer. A positive sign is that all of Ukraine’s highest power brokers (including the president, prime minister and parliamentary speaker) have recently emphasized the urgency of a positive outcome of Ukraine-IMF talks. We remain convinced that national interests will be placed higher than protecting oligarchic wealth. “Securing IMF financing should alleviate pressure on Ukraine’s external accounts. It will also remove the risk of a further key policy rate hike, bringing more certainty to Ukraine’s financial markets.”

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