

Ukraine Watch: Another key rate hike in face of increasing geopolitical risks

On the back of the geopolitical uncertainty and various prolonged effects on the supply and demand side, the National bank of Ukraine increased the key rate by 100bp to 10%. We updated our key rate forecast and expect 10.5% by the end of 2022 and 8.0% (eop) in 2023.

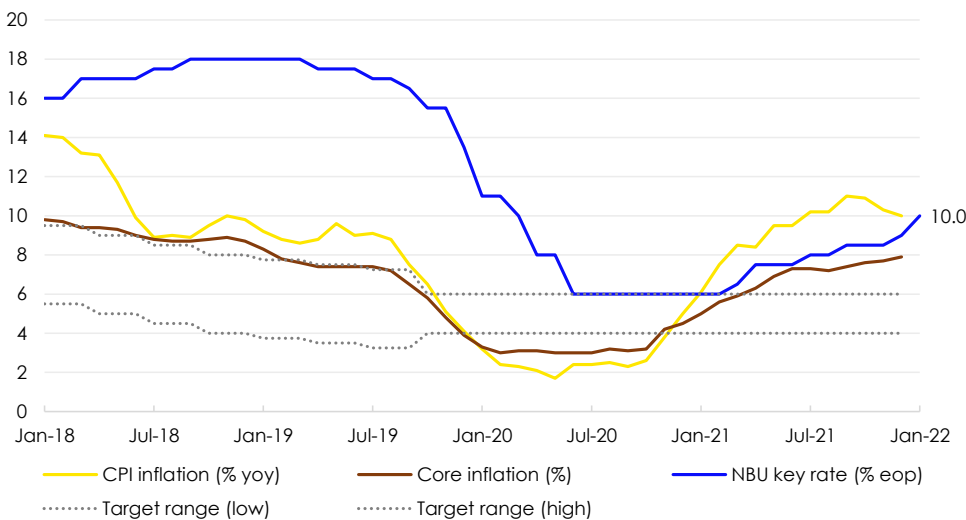
NBU raised key rate again and worsened inflation and growth forecasts **1**

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Chart 1 - Inflation and key rate dynamics



NBU, RBI/Raiffeisen Research

NBU raised key rate again and worsened inflation and growth forecasts

The increase of the key rate was above analysts' expectations, which were expecting an increase to 9.5%, i.e. by 50bp. **Yet, the NBU wants to maintain an aggressive stance against inflation and plans to increase the key rate further to 11.0% in March.** The central bank underlines that the key rate will be above the neutral level in the coming years.

According to the NBU's expectations, **the shock from the high energy prices will be in place longer than expected** earlier, thus remaining one of the key inflationary factors in

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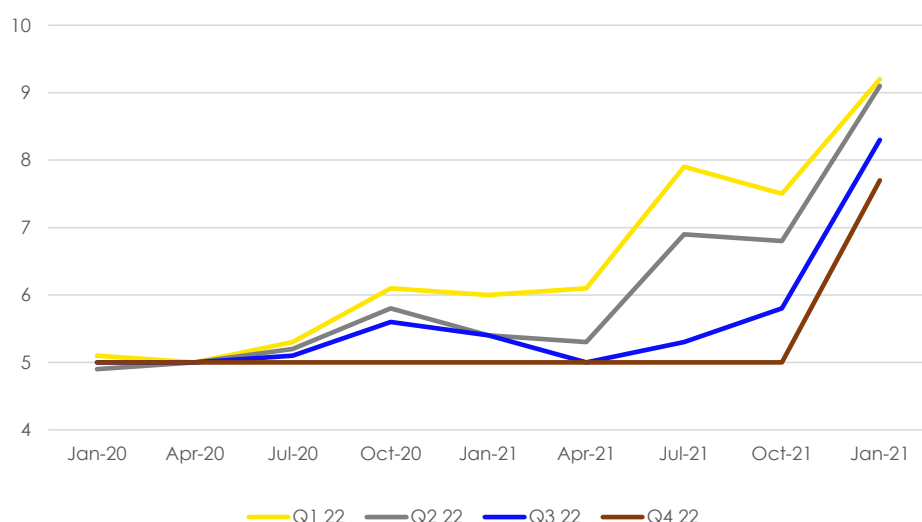
2022. Other factors remained to be a significant rise of prices in the key countries' trade partners along with the pick up of the local demand-side and higher wages.

Moreover, in order to make the monetary transmission smoother, the NBU implements an increase to the ratio of required reserves for current accounts in hryvnia, as well as funds in foreign currency by 2pp.

At the same time, the **central bank states that it will deter from the usage of planned daily interventions on the FX market**, and the only formal intervention will be to smooth the liquidity gap for the hryvnia market.

The increase of the key rate was accompanied by the **new economic forecast from the NBU**, which shows that the banking regulator made a **downward revision of the real sector economy**. In 2022, the real GDP growth was downgraded to 3.4% from 3.8% (former forecast in October 2021), CPI from 5% to 7.7%, and core CPI to 5.9% (previously 3.3%).

Chart 2 - NBU's CPI forecasts* for the next four quarters



NBU, RBI/Raiffeisen Research

Revisions of forecasts for each quarter (Q1 22 until Q4 22) over the past 12 months

The **NBU has also substantially revised its inflation forecast upwards for the next seven quarters** compared to the previous estimates. There is also a possibility of a further increase in the discount rate due to increased pro-inflationary risks. Given the current balance of risks, **we have revised our key rate forecast upwards for 2022 and 2023 and expect 10.5% at the end of 2022 and 8% at the end of 2023.**

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