

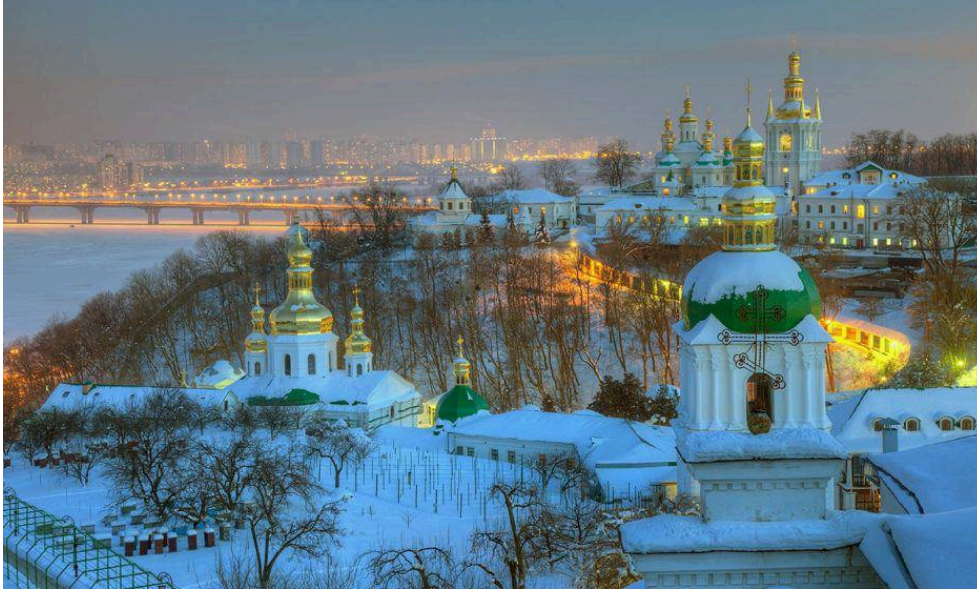
Ukraine Watch: NBU maintained key rate at 15% and considers some easing in 2024

The NBU was expected to keep its policy rate unchanged at 15% and slightly improve its inflation forecast for 2024-2025. In contrast to the previous forecast, the regulator showed the possibility of returning to a rate cut in the H2 2024, which is in line with our expectations.

The NBU maintained the key rate at 15% and is considering some easing in 2024 **1**

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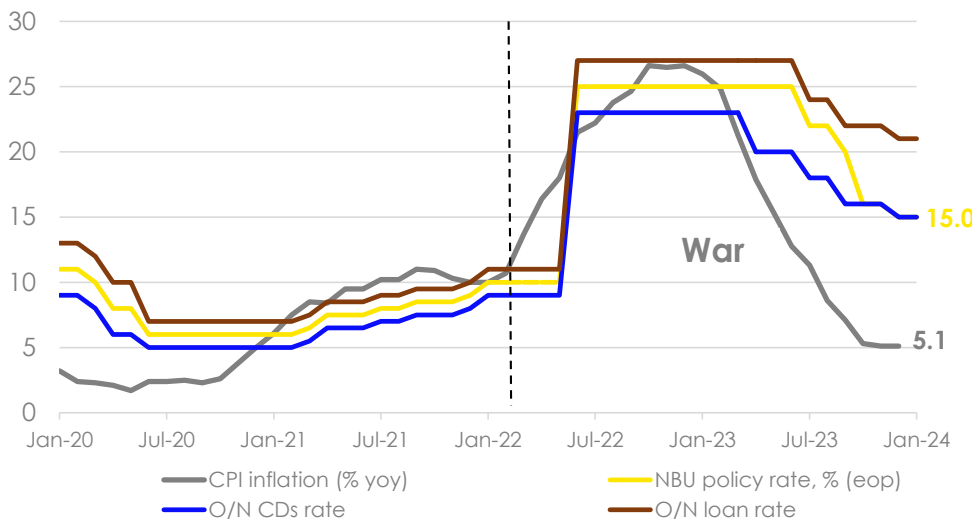
Analyst **6**



The NBU maintained the key rate at 15% and is considering some easing in 2024

Our expectations and the consensus forecast of analysts were **fully met** as the NBU took a pause from cutting **the key rate** by preserving it **unchanged at 15%**. The NBU **also did not change its working rates** for other monetary policy instruments. This decision fully fits the view of the regulator released at the end of 2023 on the absence of strong factors allowing to keep the pace of monetary easing this year the same as a year before. Moreover, the intention of the NBU to keep hryvnia financial instruments attractive raises the probability of **no changes in the policy rate at least in the coming several months**.

Inflation and NBU policy rates (in %)



Source: NBU, RBI/Raiffeisen Research

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Even though the NBU considers the risks of inflation accelerating in 2024, it has **improved its year-end CPI forecast** from 9.8% to 8.6% yoy, which is slightly more optimistic than our unchanged projection of 9.0%. Nevertheless, this upward pattern in inflation is considered a temporary one, because the regulator expects inflation to return back to the target already in 2025. As the key risk of the uncertainty regarding the duration of the war remains high, we think increasing chances for its continuation even in 2025 have been the core reason behind **the slight worsening in economic growth forecasts** of the NBU in 2025 (from 6.0% to 5.8%). On the other hand, we notice a continuation of the positive assessment of current economic performance vs. previous projections of the NBU. In particular, the estimate of economic growth by the regulator for 2023 has been improved, from 4.9% previously to 5.7%, which matches our forecast exactly. The preservation of the NBU GDP forecast at the same level of 3.6% for this year (which is moderately worse than our current projection of 4.9%) might reflect **an absence of any concerns** of regulators regarding **worsening security risks**. Moreover, in our view, the stable operation of the alternative sea route and, strengthening of both private and government consumption will support growth in 2024, thus allowing us to preserve our forecasts of economic growth for this year.

We believe that improving clarity on the path of inflation for this year, as well as the presence of strong growth drivers, **allowed the NBU to ease somewhat the baseline trajectory of its key rate** for 2024, thus making possible a slight cut by 100bp to 14% in the second half of the year. The new projection came closer to our view of a 200bp cut in the policy rate to 13% by the end of this year. **We keep our view** that any actions on further monetary easing this year may be possible only from the middle of the year onwards, when there is even more clarity on the path of inflation, external financing flows and the ability of the economy to adapt again to current risks and challenges for this year.

Definitely, all core macro projections for this year are based on the assumption of **receiving external financial assistance worth USD 37 bn**. Therefore, in case of smaller actual support, some of the indicators, as well as the reaction of the NBU regarding its monetary policy, may be reviewed to the downside. Nevertheless, we do not see factors, so far, to disprove our projection **of a preservation of the policy rate in the next NBU monetary committee meeting** on 14 March.

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
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
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