

Ukraine Watch: National Bank left the policy rate intact

NBU decided to keep its policy rate at the same level of 25%. The decision is not surprising if considering the recent rhetoric of NBU officials. We expect no changes there at the next meeting on 20 October and maintain our year-end policy rate forecast at 25.0%.

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The same as the previous one, today's meeting of the Monetary Committee of the National Bank passed without surprise, unlike the meeting in June when the NBU decided to hike the rate to the current level. So, the regulator decided **to keep its policy rate at the same level of 25%**. According to NBU officials, the current policy rate level is enough to keep exchange rate stability and the ability to manage inflation processes. The decision is not surprising to us if considering the recent rhetoric of NBU officials on the issue, the updated NBU macro forecasts for the coming two years, as well as the tone of minutes from the previous NBU Monetary committee meeting.

Even though according to the preliminary NBU estimate, the actual **inflation path** is better than projected, it **still provides some room for acceleration within the medium-term period** due to war factors, worsening inflationary expectations of customers and recent one-time UAH devaluation. In its release on the policy rate, the NBU increased its attention on **the substantial influence of the exchange rate dynamic** on increasing inflationary pressure. Indeed, even despite the fairly confident steps taken by the NBU to contain the gap in the balance of payments, including the recent 25% hryvnia devaluation, problems in this area still exist. Also, the increase in the attractiveness of assets denominated in the hryvnia should be one of the key factors in reducing the current trend associated with the outflow of capital from the country. However, this process runs much slower than it was initially expected, thus preserving additional pressure on the exchange rate. We expect that even though the intervention of the National Bank of Ukraine in the foreign exchange market has decreased, additional regulation may be applied in order to avoid an imbalance in supply and demand for the hryvnia. Among other risks that could keep inflationary trends strong (like the vulnerability of grain corridors, slow progress in additional import taxation, weak sources of non-emission budget deficit financing, low bonds yields in the primary market and still strong migration trends), **active military actions remain the core uncertainty factor** for calming inflation down within medium-term.

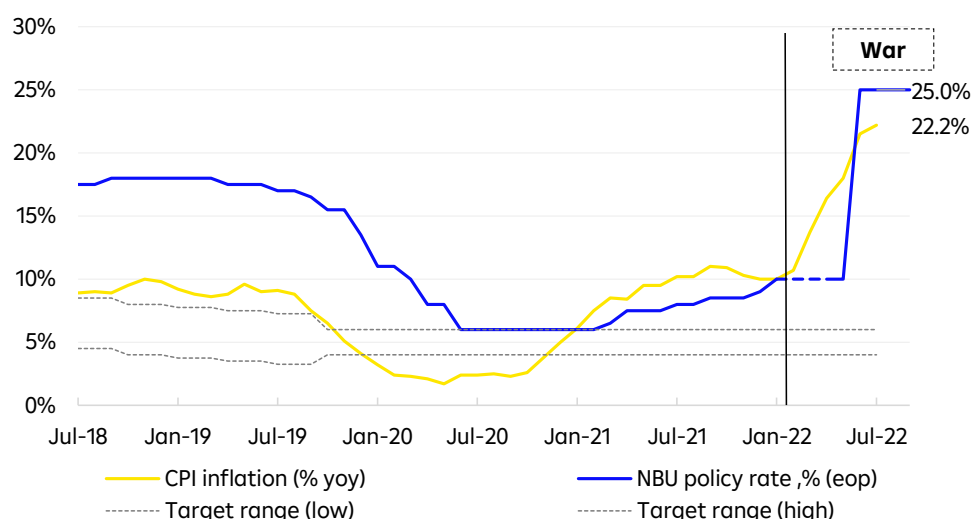
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Policy rate



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NBU officials remain confident that the current decision on the preservation of the policy rate fully fits their forecasts of an unchanged rate until the second quarter of 2024. Nevertheless, they are still **in search of additional measures** for strengthening monetary transmission and minimising the negative impact of monetary emission on inflation and exchange rate. However, they reiterated **the readiness to hike the policy rate** in case of necessity in the near-term future. Under current circumstances, we do not see the urgency for additional actions with the policy rate, **thus expecting no changes there** at the next NBU Monetary committee meeting **on 20 October**. We also maintain our year-end policy rate forecast at 25.0%.

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