

Ukraine: Macroeconomic policy challenges during a full-scale war

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9th ECB conference on Central, Eastern and South-Eastern European (CESEE) countries

Frankfurt am Main, Germany July 17, 2023



Policymaking under shelling, risk of occupation and blackouts









Ever-changing environment required continuous fine-tuning of conventional policy toolkit and usage of unorthodox measures

The first shock of the war On the way to Victory War of attrition Monetary policy Guidelines for the period of martial law Stages Support the adaptation and stable Ensure persistent disinflation and ER Prevent panic functioning of the economy under sustainability Ensure the smooth martial law Maintain a sufficient level of functioning of the banking and **TASKS** international reserves payment systems Minimize monetary financing of the Facilitate creation of conditions for Ensure uninterrupted state budget reintroduction of inflation targeting financing of Ukraine's defense Manage inflation expectations Avoid monetary financing needs and other critical budget expenditures (Phase I of the EFF (Phase II of the EFF program with IMF) program with IMF) Bank liquidity support, One-time correction of the official Liquidity management, stimulation of including anti-crisis tools ER and maintaining a new level of competition among banks for term the UAH/USD exchange rate Tight FX restrictions deposits of the population, thereby Return to active interest rate policy Fixed ER strengthening monetary transmission Transition from lender of last resort and safeguarding macrofinancial Budget support to market maker of last resort stability Restraining from key policy (reducing the role of refinancing) rate changes As conditions allow: Recalibration of MP operational

design and strengthening monetary

Recalibration of FX restrictions

transmission

Peaceful time

MP Guidelines after

the Victory

Return to

inflation

targeting

(as before the

full-scale war)

Easing of FX restrictions and

Normalization of MP operational

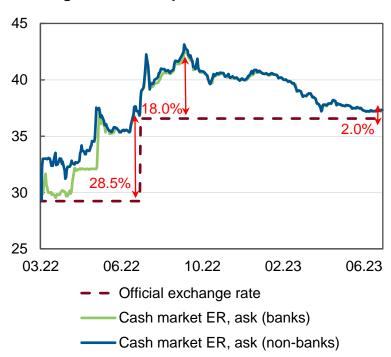
design

minimizing multi-currency practices

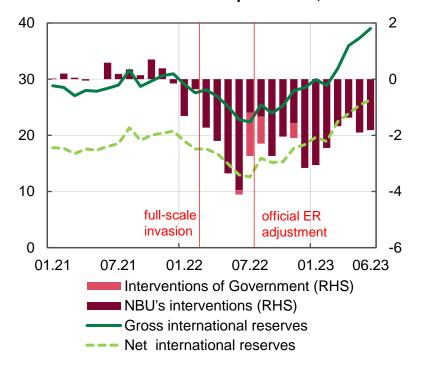
Gradual move to a more flexible ER

NBU measures and international aid allowed to stabilize FX market and accumulate record international reserves

Exchange rates, UAH per USD



FX reserves and NBU net FX purchases, USD bn



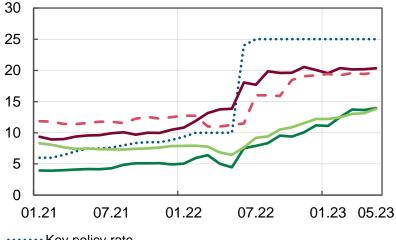
Source: NBU, open sources.

Source: NBU.



Attractiveness of UAH assets has been ensured by key policy rate hike, changes in MP operational design and revival of RR tool

Weighted average interest rates on new hryvnia loans and deposits, %



····· Key policy rate

Term deposits of non-financial corporations

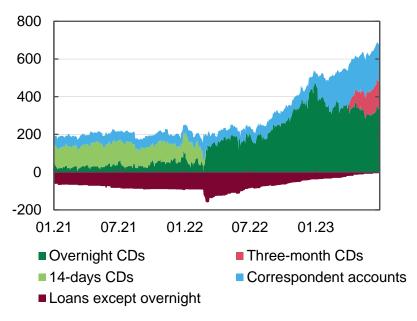
Term deposits of households

Loans to non-financial corporations

Yield on g-bonds on the primary market (> 1 year, average)

Source: NBU.

Indicators of banking sector liquidity*, UAH bn

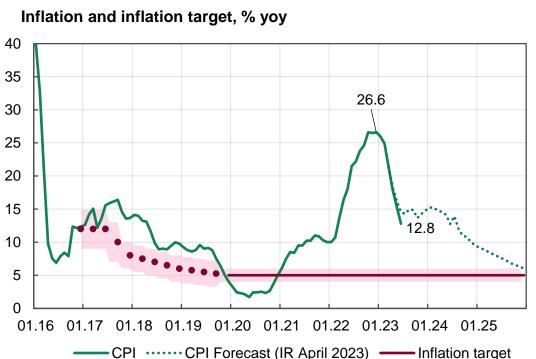


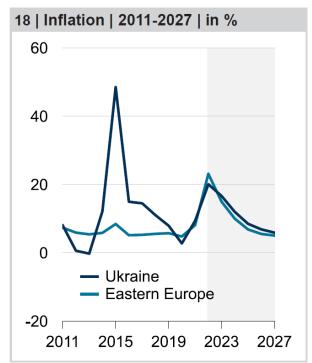
^{*} Loans excluding ones to insolvent banks and banks undergoing liquidation.

Source: NBU.



Disinflation trend continues, although risks are still present. Price stability remains the primary objective of the NBU



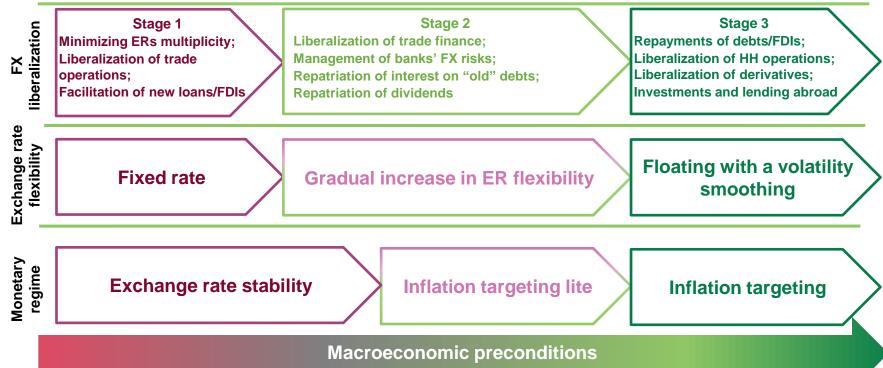


Source: SSSU, NBU Inflation Report (April 2023).

Source: Focus Economics consensus (July 2023).



In the process of monetary policy normalization all elements are interconnected



Source: NBU's Strategy for gradual FX liberalization, increase in exchange rate flexibility and return to inflation targeting regime (June 2023)



Conclusions

- Despite full-scale invasion and continuous terrorist attacks of russia, the Ukrainian financial system and the NBU are well functioning and supporting war efforts
- NBU's policy priorities remain the same: ensuring price and financial stability
- To achieve its goals, the NBU employs a mix of traditional tools (ER-peg and capital controls) and unconventional ones (e.g. specific MP operational design)
- NBU's timely appropriate measures and strong support from partners allowed to quickly restore macroeconomic stability after initial shock. Later on the joint efforts helped stabilize the FX market, establish a disinflationary trend, restore faith in hryvnia and increase international reserves to record levels
- NBU is carefully embarking on the path of gradual "normalization" of monetary policy. The process is conditions-based and is moving forward according to the Strategy, developed with the IMF
- Ukrainian authorities are committed to continue prudent and balanced policies, but international support remains crucial for both economic and military success
- Keep calm and stay with Ukraine!

