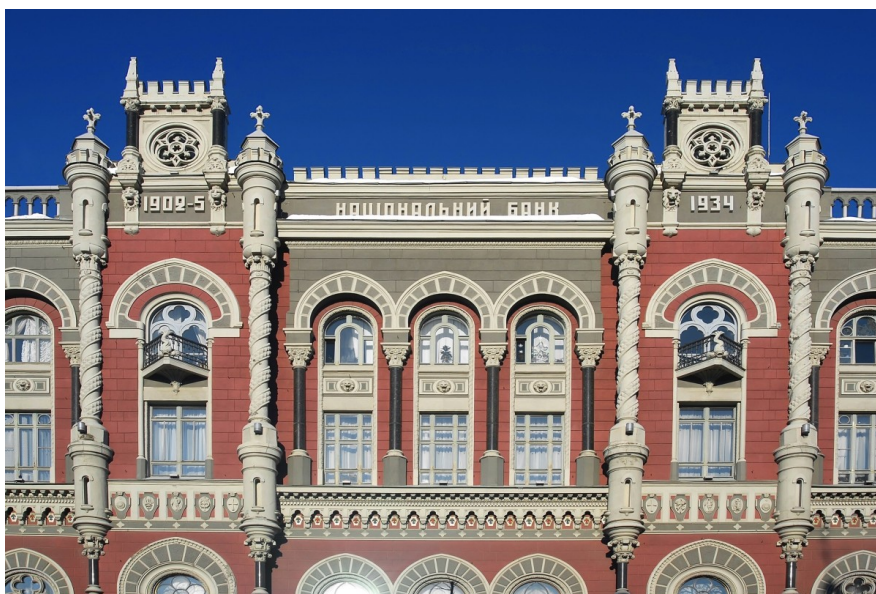


Ukraine key rate goes up to 17%

The National Bank of Ukraine sticks to a prudent approach despite signs of rising critique of its policy from the political side



17%

NBU key rate

vs INGF/consensus of 16.50%/16%

Higher rate is needed to curb inflation risks

Despite market expectations of no change in the key rate of 16%, the National Bank of Ukraine (NBU) decided to hike the rate further to 17% vs ING forecast of a rise to only 16.50%. Hence, it tightened policy for the fourth consecutive time since Oct-17.

The NBU's decision was mostly driven by a lack of clear signs of lowering inflation risks and higher-than-expected inflation pace in Jan-18 missing the NBU target set in the latest Inflation report (6% \pm 2ppt). Consumer prices came in at 14.1% YoY in Jan-18 accelerating from 13.7% in Dec-17 due to higher growth in raw food and fuels' prices. The core print made up 9.8% in Jan-18 vs 9.5% in Dec-17 reflecting higher production costs and faster recovery in consumer demand.

The NBU kept its initial CPI forecast of 8.9% YoY in 2018 with a return to the target range trajectory

in mid-2019 unchanged assuming that the delivered policy easing in recent months is sufficient to keep inflation in check. Yet, the regulator has reiterated the list of the potential inflation risks, including a delay in the IMF tranche, high inflation expectations and the pace of the recovery in consumer demand as the key points to monitor.

We see the key rate staying on-hold in the near term

Given heightened price pressure in Jan-18 and its previous policy communication the final outcome looked generally foreseeable, even though in our updated forecasts we expected more gradual rate hikes. As for the outlook, the NBU has pointed out that the monetary policy conditions seem to be tight enough to curb inflation. We thus think that together with UAH stability this will allow it taking a wait-and-see approach in the near term.

Yet, to keep its hands untied, the NBU kept a phrase that “if fundamental inflation risks increase further, the NBU may resort to further key rate hikes”. So, keep an eye on the stated inflation risks with restored IMF funding staying at the first place. Given signs of rising political pressure on the NBU, it clearly decided to take a precautionary measure aiming not only to tame inflation risks, but also to remind about its independence. Well done.