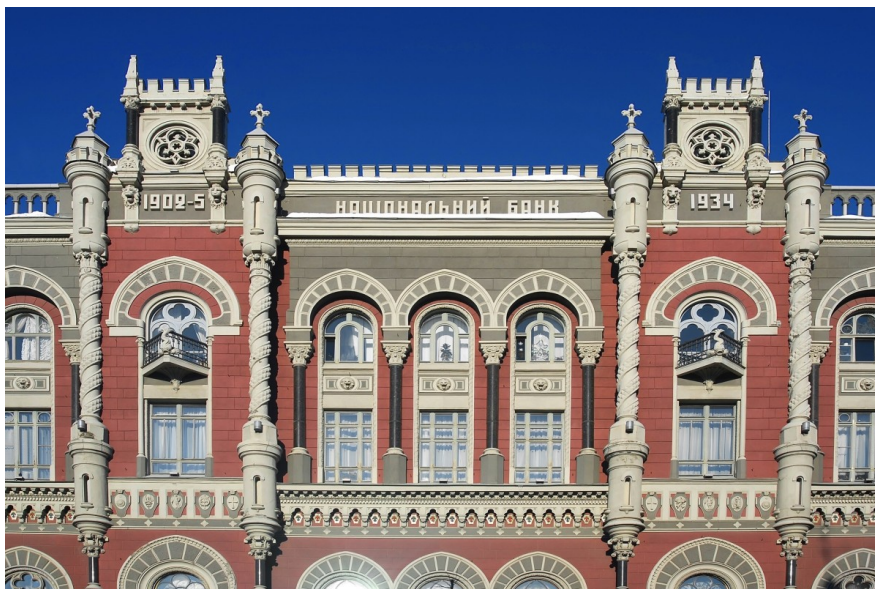


Ukraine: NBU minutes – profiting from the window of opportunity

After surprising the markets with a 200bp cut to 8.00%, the Monetary Policy Committee hints that there is room for more this year. We are revising our year-end key rate forecast to 6.50%



As we have been [anticipating](#) – though at a less cautious pace than expected – the National Bank of Ukraine is turning growth supportive. While we still believe that the monetary policy will remain – or turn immediately when needed – FX-centered, the calm waters on the FX front provides a window of opportunity to slash the interest rate. And the NBU is fully taking advantage of it.

Inflation is seen as closing the year within the $5\% \pm 1$ percentage point target range both in 2020 and 2021. The NBU's inflation forecast remains below what the market expects right now. We share the same view and expect inflation to surprise to the downside this year, as plunging domestic demand and energy prices will far offset the weaker hryvnia and some one-off price increases caused by circumstantial stronger demand for essential goods.

On the FX topic, we have entered a period of relative calm, with the seasonal appreciation pattern still at work, largely balanced by the bond redemptions which are partly exchanged into dollars by investors wanting to exit. We maintain our already established view for the hryvnia to stay in the 27-28 range this year.

Last but definitely not least, is the long-awaited IMF agreement. As things seem to be unfreezing in the Parliament, we still believe that the IMF Board will approve a deal by the end of May 2020, although it could be June as well. It is worth mentioning that this agreement is likely priced-in to a large extent by the markets and probably by the NBU as well.

Given the background of a more benign inflation outlook and the prospects of a medium-term FX-stabilising IMF agreement, we believe that the NBU will take the opportunity and further slash the key rate beyond its initially indicated 7.00% level by the end of 2020. We are now expecting the key rate to reach 6.50% this year and believe that there is scope for an even lower rate should the FX conditions turn more favourable than we currently expect.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.