



National Bank of Ukraine

Monetary Policy Guidelines for years 2016 – 2020 *

*** Proposals of the Executive Board to the Main Guidelines of Monetary Policy**

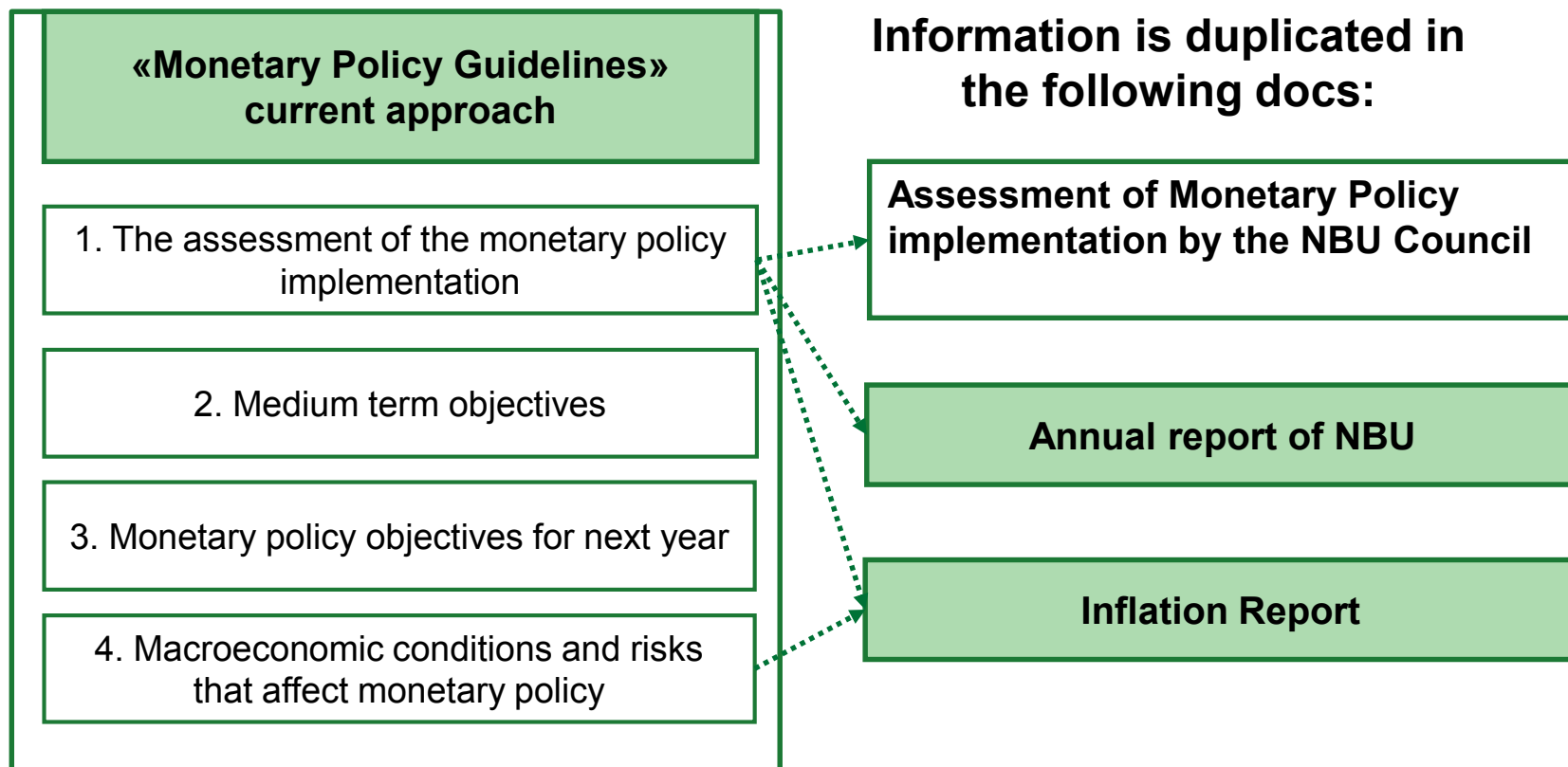
National Bank of Ukraine
Kyiv, 27-Aug-2015



It is necessary to improve the approach to developing Monetary Policy Guidelines

Disadvantages of the current approach:

- lack of clear and unchanging goals;
- lack of strategic approaches to monetary policy;
- no single program document;
- the complexity of communication;
- congestion and duplication of information.





The advantages of the proposed Monetary Policy Guidelines

Draft

Monetary Policy Guidelines for years 2016 – 2020

1. Basic principles of monetary policy

2. The motivation for introducing IT regime

3. Exchange rate policy

4. Key elements of the strategy

5. Communications

6. Independence of NBU

The draft Monetary Policy Guidelines is **the first document of the NBU**, which clearly defines:

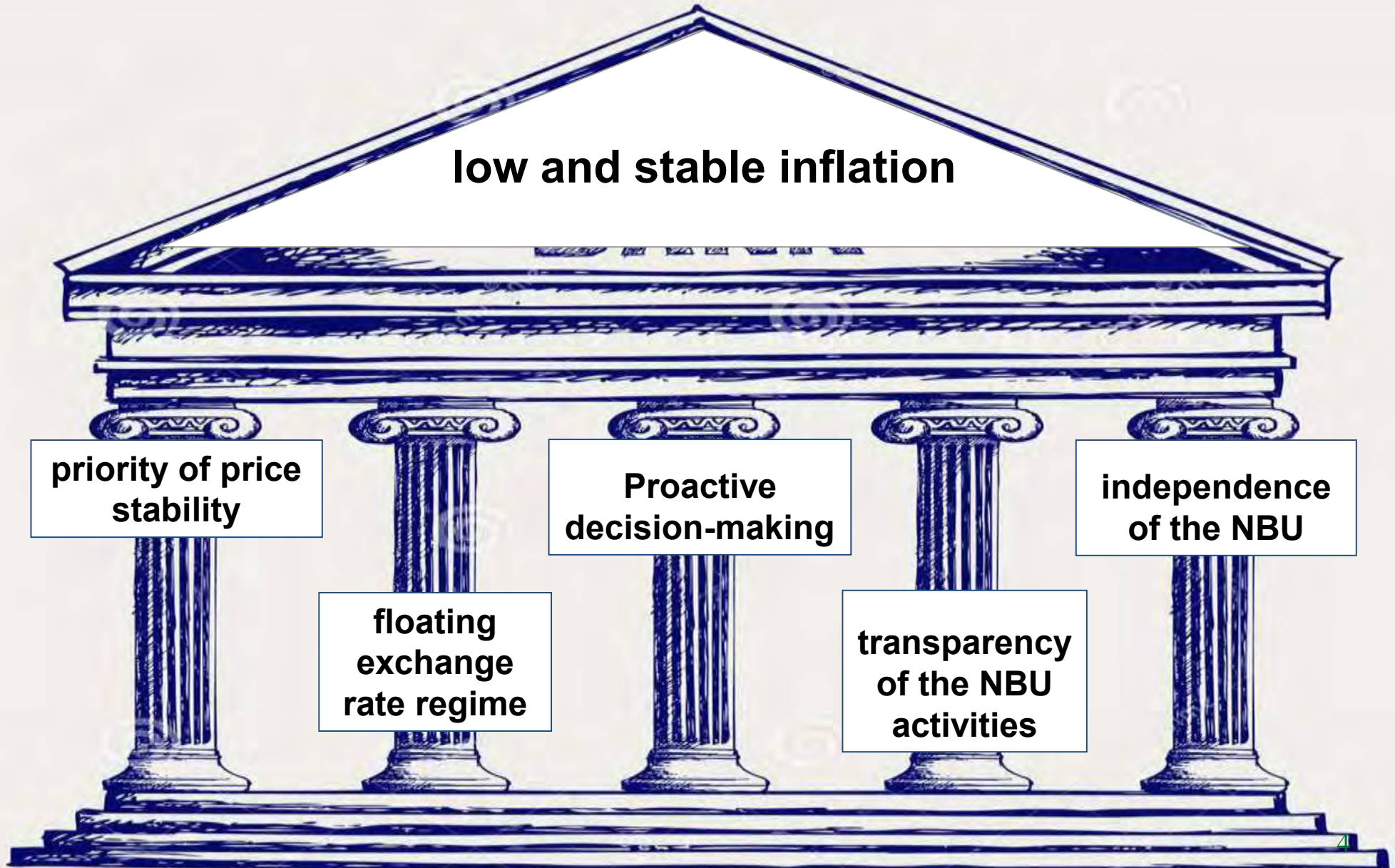
- purpose of implementing the IT regime;
- terms of transition to the IT regime;
- medium-term quantitative inflation targets;
- mechanisms to achieve irrevocable inflation targets;
- strategic directions of communication on monetary policy issues.

The draft is based on the experience of the Czech Republic, Poland, Serbia, Turkey and other countries.

Lack of duplication of a wide array of analytical information will make **a brief document** in scope and **more effective** in bringing the main goal of the National Bank.



Basic principles of monetary policy



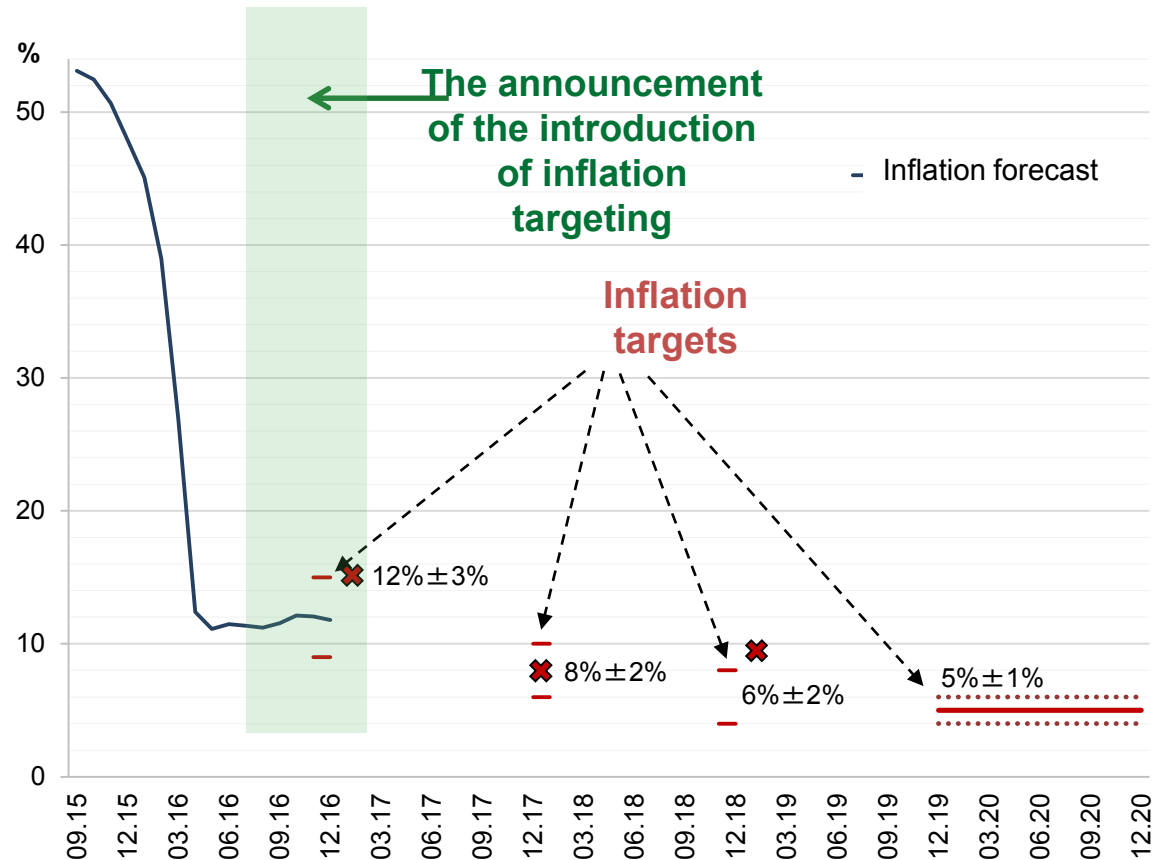


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Inflation objectives

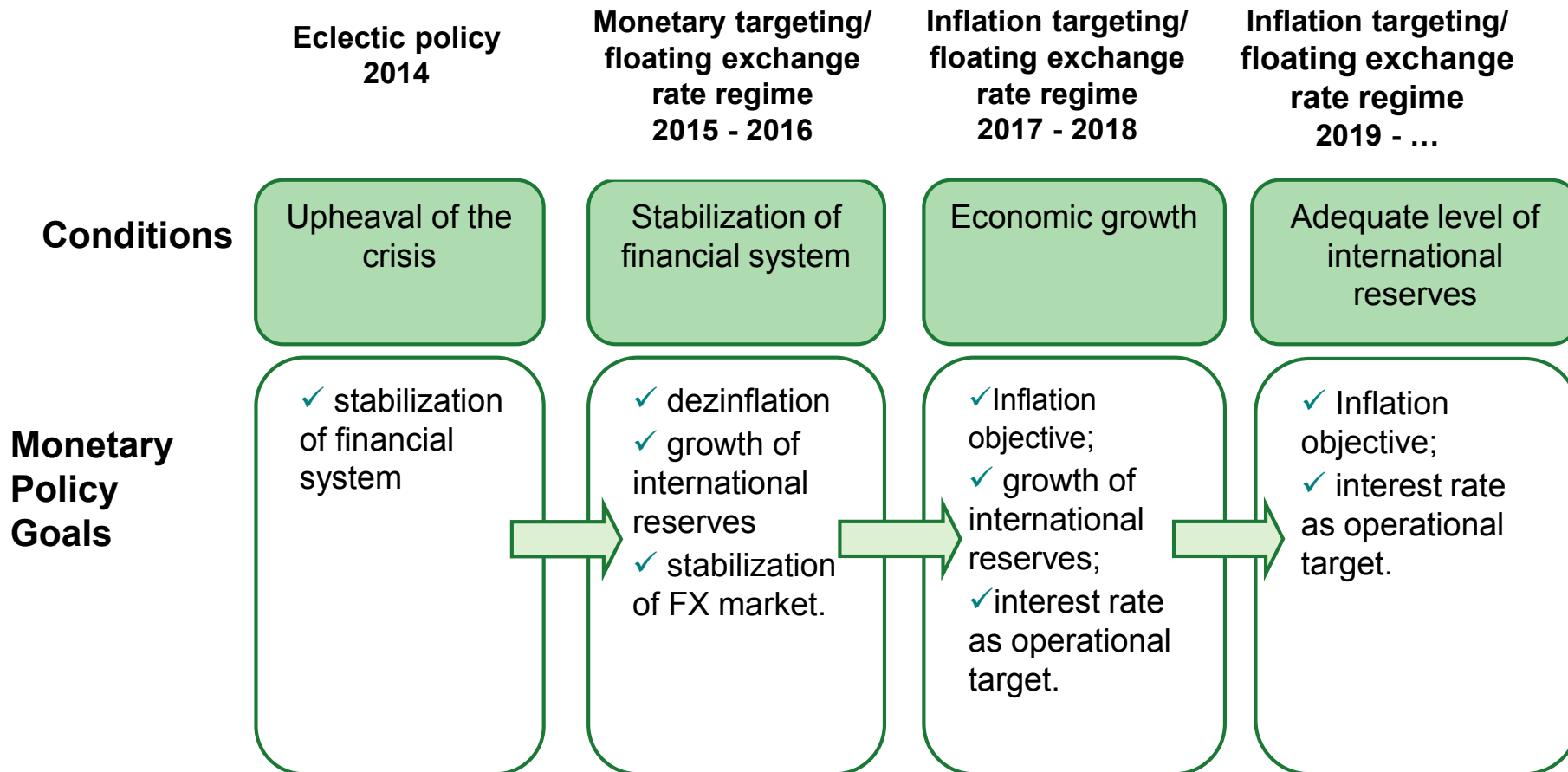
Price stability is defined as the retention of the purchasing power of the national currency by maintaining low and stable inflation, measured by the Consumer Price Index, over the medium-term (3 to 5 years) - the Law "On the National Bank of Ukraine"

The inflation objectives (targets) are to be set by the Council of the National Bank of Ukraine and could not be changed.





The evolution of monetary regimes in Ukraine





The motivation for introducing IT regime

The benefit of low and stable inflation, which IT regime can provide

- Reducing the risks of the business environment
- Increasing the confidence in the national currency
- Dedolarization
- Low nominal interest rates
- Adequate assessment of risks

Negative consequences of fixed exchange rate

The need to move away from quantitative targets on monetary aggregates



Exchange rate regime: floating exchange rate



The monetary policy will not be aimed at achieving the certain level or interval of exchange rate.

Shift public attention from the exchange rate movements to the inflation rate



The possibility to use of FX interventions to smooth excessive exchange rate volatility

Development of transparent and liquid domestic FX market

- gradual relaxation of administrative measures and regulations, which limit exchange rate flexibility;
- announcement and explanation of NBU`s regulation acts to the market participants.

Using FX interventions for purposes of

- smooth functioning of the FX market;
- FX reserve accumulation;
- support to the transmission of the interest rate as the main policy instrument.



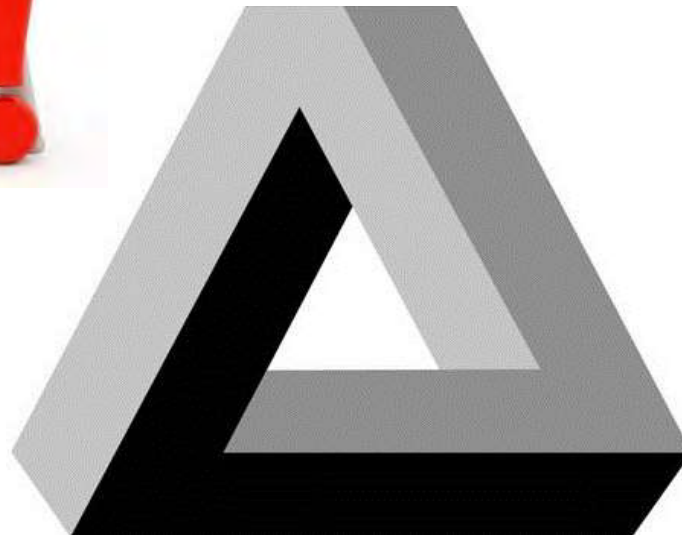
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For the purpose of avoiding conflicts of currency interventions need to prioritize them



**Achieving price
stability**

**Limit excessive
exchange rate
fluctuations**

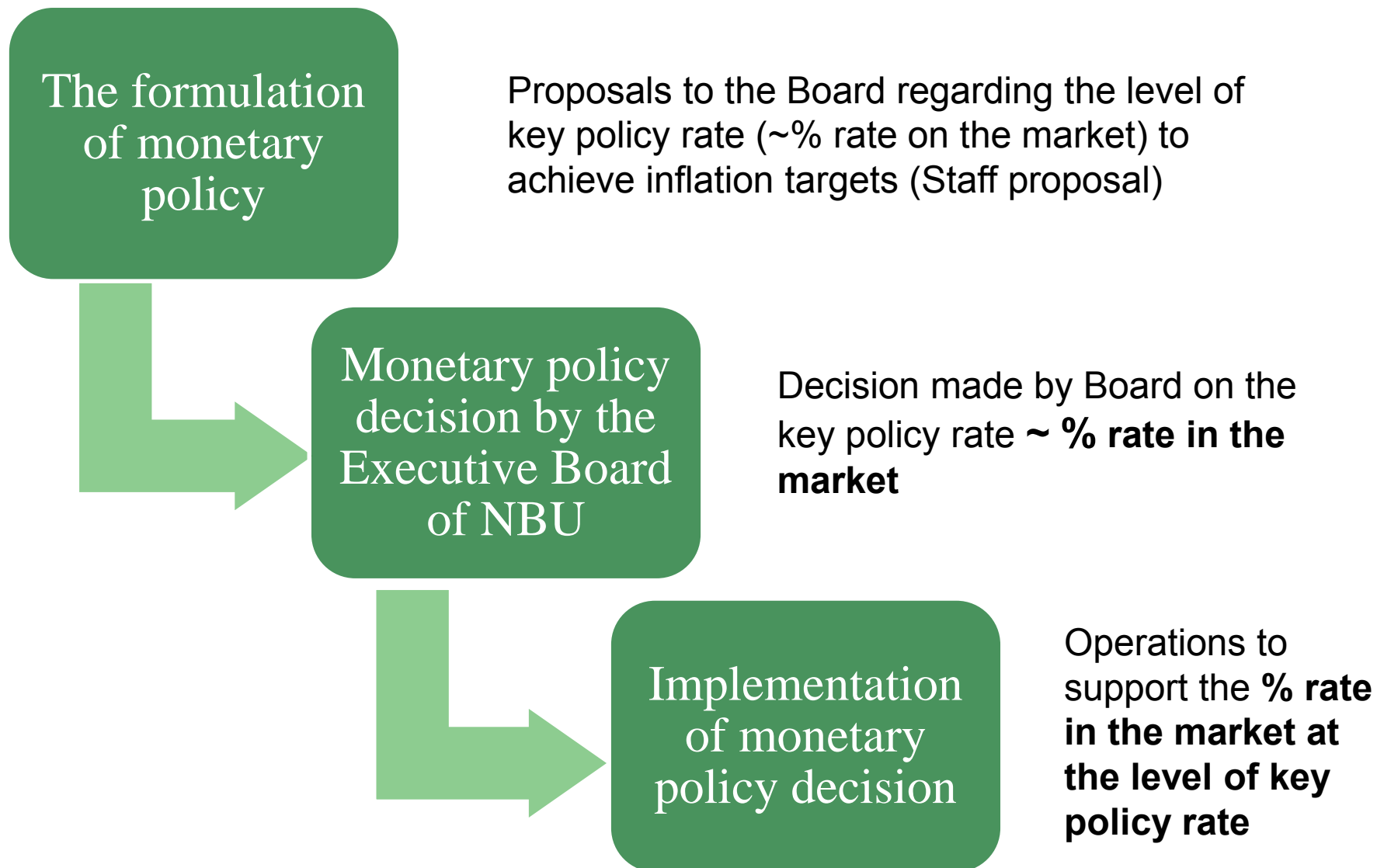


**FX reserve
accumulation**

- The priority of price stability over other goals of FX intervention



Decision-making process on monetary policy issues





The key policy rate – the main instrument of monetary policy

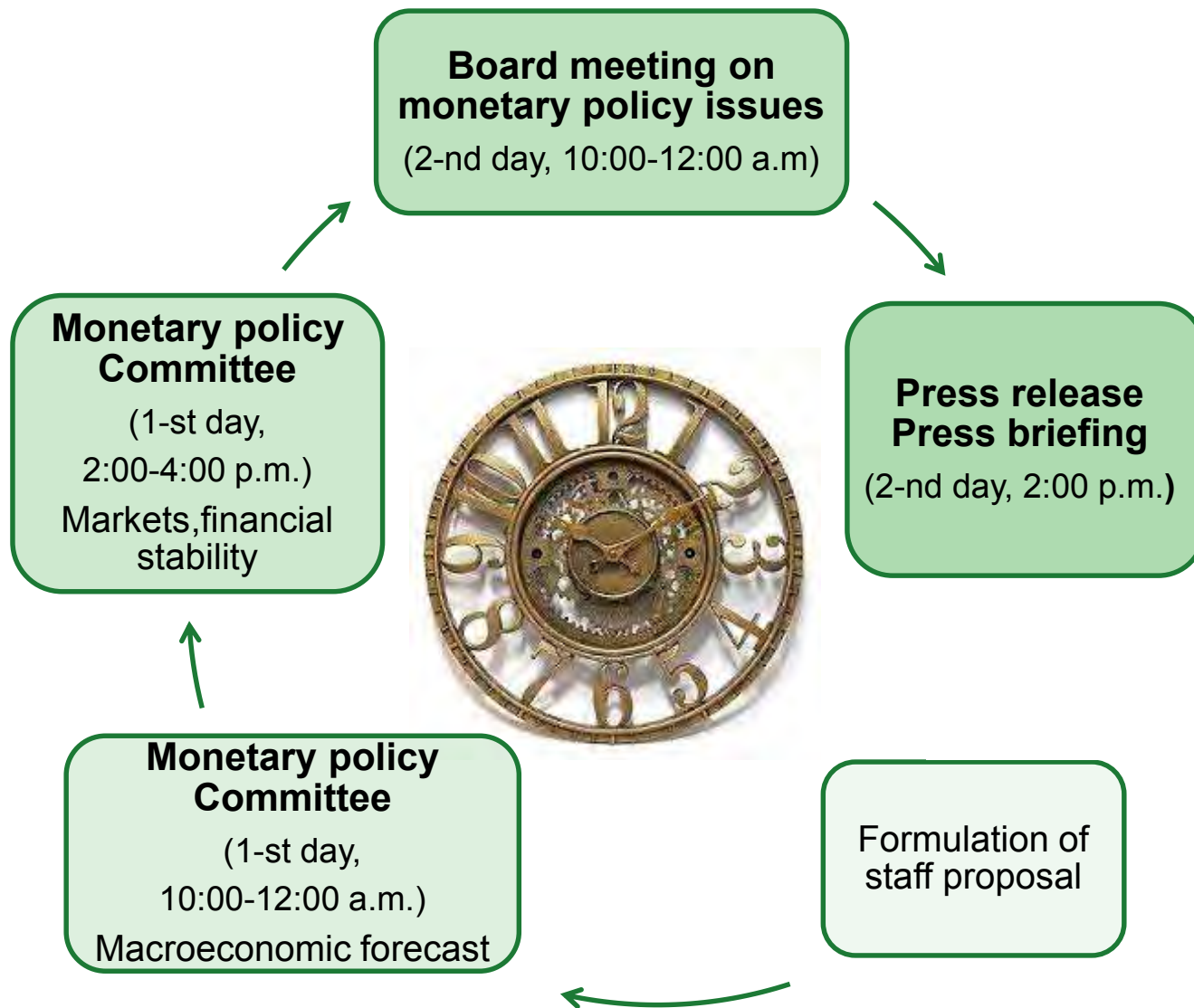
Steps to bring the key policy rate of the NBU to the "classic" IT operational design:



- ✘ identification of main operations on liquidity regulation (currently - absorbing operation);
- ✘ convergence and unification of the discount rate and the rate on main operations;
- ✘ narrowing corridor of NBU`s interest rate for overnight operations (for efficient management of short-term rates in the money market);
- ✘ using other operations to smooth the effects on interest rates of significant fluctuations of liquidity in the market and promote the development of financial markets.



Decision-making process and communication – building of a routine cycle



Advantages:

- ❖ accustom the market to regular communications;
- ❖ avoiding "noise" in communication;
- ❖ improving the efficiency of monetary instruments.

Must do:

- de facto existing scheme of work - need only a clear organization;
- institutionalization (scheme of work should not change by changing people).