



COUNCIL OF THE NATIONAL BANK OF UKRAINE

**MONETARY POLICY GUIDELINES FOR THE DURATION OF
MARTIAL LAW**

Approved by a Decision of the Council of the National Bank of Ukraine
dated 15 April 2022

Kyiv, 2022

Introduction

The Monetary Policy Guidelines for the Duration of Martial Law (hereinafter referred to as “the Guidelines”) were developed in accordance with the Constitution of Ukraine, the Law of Ukraine *On the National Bank of Ukraine*, Presidential Decree No. 64/2022 *On Introducing Martial Law in Ukraine* dated 24 February 2022, as approved by Law of Ukraine No. 2102-IX *On Approval of the Presidential Decree On Introducing Martial Law in Ukraine* dated 24 February 2022, and the Law of Ukraine *On Currency and Currency Operations*.

The Guidelines will be in effect temporarily – during the period of martial law, and, if necessary, for some time after its termination – until the economy and the financial system return to normal. The Guidelines will remain in effect until the Council of the National Bank of Ukraine (hereinafter referred to as “the NBU Council”) makes a separate decision to renew the validity of the Monetary Policy Guidelines for 2022 and the Medium Term¹, or new Monetary Policy Guidelines are adopted in accordance with the powers of the NBU Council.

Monetary Policy Objectives and Monetary Regime

In the context of the large-scale military aggression against Ukraine and the introduction of martial law, the priorities are to ensure the reliable and stable functioning of the banking and financial systems of the country, as well as to provide the maximum assistance in meeting needs for the defense of Ukraine and ensure the continuous operation of the public finances system and critical infrastructure.

The lower effectiveness of market instruments and high uncertainty caused by full-scale hostilities make it impossible to conduct monetary policy in the inflation targeting format with a floating exchange rate. The effectiveness of monetary transmission channels is further weakened by administrative restrictions on the foreign exchange market and restrictions on the movement of capital. Under such conditions, the National Bank of Ukraine (hereinafter referred to as “the NBU”) may temporarily not rely on the use of market monetary instruments, in particular the key policy rate, as the main instrument of monetary policy.

In order to fulfill the above tasks and minimize risks to price and financial stability, the NBU, in accordance with the current laws of Ukraine, determines the specifics of

¹Approved by NBU Council Decision No. 31 dated 13 September 2021.

money market regulation, currency regulation and supervision, and, if necessary, introduces the safeguarding measures specified in the Law of Ukraine *On Currency and Currency Operations*.

The high uncertainty caused by active hostilities also makes it difficult to forecast economic developments with an acceptable level of probability. Therefore, the NBU may temporarily refrain from publishing its own macroeconomic forecasts.

Monetary Policy Instruments

The NBU is flexibly adapting the operational design of its monetary policy and taking the necessary anti-crisis measures to maintain an adequate level of liquidity in the banking system (including, if necessary, partially through blanket refinancing mechanisms), and to enhance the flexibility of the banks in managing their own liquidity.

Considering that the level of uncertainty is high and that the economy is operating under conditions of shock, the NBU introduced administrative restrictions on the foreign exchange market and on capital flows.

In view of the need to provide a proper response to Russia's full-scale military aggression and ensure the uninterrupted functioning of public finances under martial law, the NBU can support the state budget through purchasing securities issued by the government of Ukraine (hereinafter referred to as "the government") on the primary market (such temporary institutional powers are provided under the martial law legislation²). The feasibility of financing the state budget and volumes of transactions for this will be determined by separate decisions of the NBU, taking into account the situation on the financial markets and in public finances, including the possibility of financing the state budget from other sources.

Recognizing the potential risks arising from the monetary financing of the state budget deficit, the NBU will finance only critical government expenditures in limited amounts, and only through purchasing government securities on the primary market. The NBU will also maintain maximum transparency with regard to such transactions. Together, the restrictions on the monetary financing of the budget deficit and transparent communications will help prevent:

- the threat of an increase in fiscal dominance and, consequently, fiscal crowding out and high inflation,

²The provisions of the Law of Ukraine *On the National Bank of Ukraine* in terms of the prohibition of purchasing securities from the issuer and the prohibition on providing loans to the state were suspended for the period of martial law, in accordance with Law No. 2118-IX dated 3 March 2022, as amended by Law No. 2120-IX dated 15 March 2022.

- a weakening of confidence in monetary policy and an unanchoring of expectations, and
- hindrances in Ukraine pursuing its European integration path and cooperating with international financial donors.

At the same time, the NBU will continue to act in accordance with the need to preserve its institutional, financial, and operational independence in order to properly pursue its mandate. The NBU will do its best to avoid introducing measures and instruments that could weaken public trust in its monetary policy, unanchor expectations, and strengthen fiscal dominance.

Interacting with the Government and Responding to Wartime Challenges

The NBU will work closely with the government in order to help the country raise the necessary external financing from international organizations and partner countries. Among other things, this financing will be used to resolve humanitarian problems, restore destroyed infrastructure, and revive/transform the Ukrainian economy. The NBU will make every effort, jointly with the government, to fulfill the goals, criteria, and measures for reforming the economy and the financial system, as envisaged by its cooperation with the IMF, other international financial organizations, and EU institutions.

In addition, the NBU, together with the government, will focus its efforts on increasing economic pressure on the aggressor, in particular through appropriate actions, and providing arguments to international partners, leading government agencies of other countries, and commercial corporations to impose new financial sanctions aimed at completely isolating Russia from the global economy and the global financial system. The NBU will also call on international financial institutions to stop cooperating with the aggressor and remove it from practical participation in decision-making in intergovernmental organizations.

In order to promote information resistance to the large-scale hybrid aggression and to increase the efficiency of managing the expectations of economic agents, the NBU will continue to improve the quality and effectiveness of its public communications. The NBU will continue to support Ukrainian refugees abroad, in particular by enabling them to exchange cash hryvnias for the currencies of their host countries. In particular, it is concluding agreements on buying back cash hryvnia for foreign currencies with central banks and other financial institutions.

The NBU will take a firm position on preventing the narrowing of the usage of the hryvnia as the only legal tender in Ukraine and/or the creation of loopholes to circumvent the current state regulation, supervision, and monitoring when conducting

transactions with virtual assets – in particular in the area of FX transactions and transactions on the export, transfer, and sending of currency valuables, as well as preventing and counteracting money laundering, terrorism financing, and financing the proliferation of weapons of mass destruction. At the same time, the NBU will make efforts to build a system of transparent and understandable state regulations that will promote the development of the fair and effective circulation of virtual assets.

Gradual Return of Monetary Policy to Its Traditional Format

As the Ukrainian economy and financial system return to normal, the NBU undertakes to resume, as soon as possible, the principles and instruments of monetary policy stipulated by the NBU's Monetary Policy Strategy³ and Monetary Policy Guidelines for 2022 and the Medium Term.

The NBU remains committed to pursuing its inflation-targeting regime with a floating exchange rate and a ban on the NBU financing the state budget.

To this end, the NBU will gradually remove administrative restrictions on FX transactions, following an improvement in the balance of payments of Ukraine. The resumption of production and the restoration of transportation logistics (the reopening of ports and/or setting up alternative transportation routes), a revival in exports, and growth in FX inflows from other sources will enable a recovery of the foreign currency supply. At the same time, the gradual decline in the propensity to convert savings into foreign currencies and the weakening of incentives to withdraw capital will help stabilize demand on the FX market. The NBU will strive to restore the FX market to full operation as soon as possible and return to a floating exchange rate, provided that this does not pose a threat to the stable functioning of the banking and/or financial systems of Ukraine. With restrictions being lifted and the FX market reviving, the NBU will return to making FX interventions, taking into account the tasks and principles stated in the NBU's Foreign Exchange Intervention Strategy⁴.

As the situation stabilizes and uncertainty about military actions diminishes, the NBU will resume its forecasting cycle as soon as possible and return to publishing the Inflation Report with a macroeconomic forecast.

The NBU will use the key policy rate as the main tool of monetary policy for controlling inflation expectations and pursuing inflation targets as soon as monetary transmission channels resume operating and it becomes possible to forecast, with reasonable probability, the effects of monetary decisions over the policy horizon. Monetary policy decision-making will be forward-looking and proactive, and will be based on the most likely scenarios foreseen in macroeconomic forecasts.

The NBU will seek to completely abandon the financing of the state budget deficit, given the need to ensure an optimal balance between keeping inflation developments and expectations under control on the one hand, and on the other supporting the combat capability of the Armed Forces of Ukraine and the uninterrupted operation of the public finance system and critical infrastructure.

³ Approved by NBU Council Decision No. 37 dated 13 July 2018.

⁴ Approved by NBU Board Decision No. 769 dated 29 December 2020.

The NBU will provide further support and take immediate measures to ensure financial stability. Taking into account the structural liquidity position of the banking system (surplus or deficit), and its volumes, the NBU will, if necessary, flexibly adapt the operational design of its monetary policy to promote an optimal balance between maintaining an adequate level of liquidity in the banking system to respond to possible turbulence on financial markets, and strengthening the interest rate channel of monetary transmission. If risks to the banking system's liquidity decline, the NBU will phase out its emergency support measures for banks.

Ensuring an environment of low and stable inflation under a floating exchange rate regime will remain the NBU's main contribution to Ukraine's sustainable economic recovery in the post-war period.