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Ukraine Central Bank Says Economy Unaffected by Protests

By The Moscow Times

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KIEV — A bailout package from Russia has protected Ukraine's economy so far from unrest in the capital Kiev but monetary policy needs to be softened to try to kickstart growth after five quarters of recession, a top central bank official said.

The violence sparked by President Viktor Yanukovych's rejection of an EU trade agreement, and resulting political twists and turns in the government, have yet to be felt by the economy, Olena Shcherbakova, head of the bank's monetary policy department, said in an interview.

She said a December agreement with Moscow, which ended trade barriers against Ukrainian goods, cut the price of Russian gas and provided a $15 billion bailout by buying Ukrainian eurobonds had cushioned the economy from any immediate fallout.

"There were uncertainties on the market last year but they declined once the agreement had been reached," she said.

She said the central bank planned to take further steps to increase investment to spur economic recovery before a presidential election next year.

"Our main goal for this year is creating conditions for boosting bank lending to the economy and for the implementation of investment projects that should bring results," she said.

She said a decrease in the main interest rate — the discount rate — was one of the measures being considered.

The government has targeted 3 percent growth in 2014, but the State Statistics Service has not yet published gross domestic product data from last year.

Analysts at 16 Ukrainian banks and brokerages, polled in December, expected GDP to shrink by 0.5 percent in 2013 after it grew 0.2 percent in 2012.

"We will do everything required on our side. We will provide a proper money supply," Shcherbakova said.

Last year, the central bank provided banks with refinancing of 71.5 billion hryvnas ($9 billion). Bank lending grew by 96.6 billion hryvnas, or 12 percent, last year.

Shcherbakova said the bank was going to employ stimulus measures, one of which would be a gradual release of banks' funds from the central bank.

In 2008 to 2009 the regulator ordered banks to transfer 100 percent of their mandatory reserves into a central bank account in order to withdraw billions of hryvna from the local market and restrain pressure on the exchange rate.

In 2011 to 2013 the central bank decreased the requirement to 40 percent. At the end of 2013 about 11 billion hryvnas remained frozen in the central bank account.

"We will bring this requirement down to zero percent. If possible, within the year. We will strive to do it," Shcherbakova said. "We will continue to move in this direction in order to return banks all their funds."

The discount rate is also possible this year, she said.

Ukraine posted 2013 inflation at 0.5 percent after deflation at 0.2 percent in 2012. The government targets to keep inflation at 4.3 percent in the coming year.

"We have all conditions and reasons to cut the rate further," Shcherbakova said, but she did not give a level.

Shcherbakova also said she expected a decline of bank rates for corporate lending to 12 to 13 percent from the current level of 16.6 percent.

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