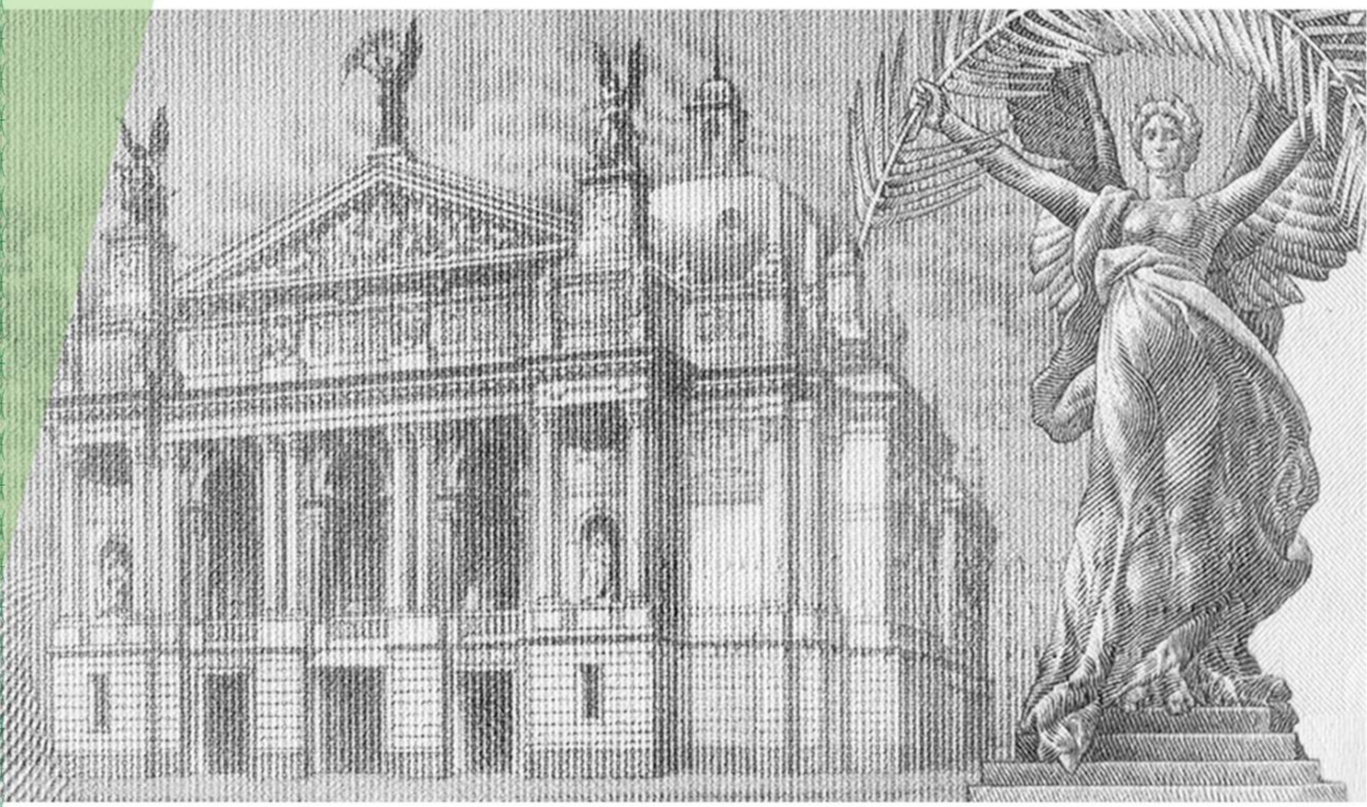
National Bank of Ukraine

Inflation Report

April 2025

Summary



Despite the full-scale war's challenges, the NBU remains committed to its mandate to ensure price and financial stability – the key to achieving sustainable economic recovery. At the current stage, price stability is being achieved through flexible inflation targeting and is supported by a coordinated combination of interest-rate-policy and exchange-rate-policy instruments, as well as FX restrictions in accordance with the Monetary Policy Guidelines for the Medium Term and the Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting.

In particular, monetary policy aims to bring inflation, measured by the yoy change in the CPI, to its target of 5% over the relevant policy horizon that does not exceed three years. The flexibility of the current monetary regime allows moderate and relatively short-term deviations of inflation from its quantitative target due to domestic and external factors. This approach, on the one hand, helps the Ukrainian economy adapt to shocks and supports its recovery, and, on the other hand, it allows the NBU to keep inflation expectations under control despite a significant increase in uncertainty, including geopolitical uncertainty, due to the rapid political polarization of countries, intensified de-globalization, and escalating trade and currency confrontations globally.

The NBU is taking steps to strengthen the effectiveness of monetary transmission channels and to continue to restore the key policy rate's function as the monetary instrument. Changes in the key policy rate and adjustments to the operational framework of interest rate policy take into account significant shifts in the balance of risks, and are primarily aimed at maintaining the sustainability of the FX market, keeping inflation expectations under control, and ensuring price stability.

Under the managed flexibility regime, the exchange rate can be either appreciated or depreciated, depending on changes in market conditions. To ensure flexibility in both directions, the NBU compensates for the structural FX deficit of the private sector by channeling excess foreign currency from the public sector (received mostly as international aid) into the economy. Coupled with smoothing out excessive exchange rate volatility, this contributes to keeping inflation and exchange-rate expectations in check, maintaining confidence in the hryvnia, and bringing inflation to the target of 5%. Concurrently, exchange rate flexibility makes it possible to fortify the Ukrainian economy's and the FX market's resilience to domestic and external shocks and reduces the risk of accumulation of external trade imbalances.

Aware of the urgent need to minimize FX market distortions, improve the conditions for doing business in Ukraine and for entry of domestic businesses into new markets, support the economy's recovery, and promote new investment inflows into the country, the NBU is gradually easing the FX restrictions as appropriate prerequisites are met.

The NBU plans to use flexible inflation targeting until the economy's functioning normalizes and inflation targeting is restored to its full format with a floating exchange rate.

The analysis in the current Inflation Report (April 2025) is based on the data available at the time of its preparation, meaning that the time horizon of the analysis may vary for some indicators. The cut-off date for the data in this report is 16 April 2025 for most indicators. The Inflation Report presents a forecast for the country's economic development in 2025–2027 that was prepared by the Monetary Policy and Economic Analysis Department and approved by the NBU Board at its monetary policy meeting on 17 April 2025[1].

The NBU Board makes decisions on the key policy rate and other monetary instruments in line with the schedule published in advance. The decisions the NBU Board makes in January, April, July, and October are based on a new macroeconomic forecast. At the remaining four meetings (in March, June, September, and December), the NBU Board makes its decisions based on assessments of risks and uncertainty that take into account the economic developments in Ukraine and abroad since the latest forecast. The decisions are announced at a press briefing held at 2 p.m., after the NBU Board's monetary policy meeting. A press release that reflects the NBU Board's consensus perspective on its decisions is published at the same time. The summary of the discussion at the Monetary Policy Committee is published on the 11th day after the decision is taken. The summary shows the depersonalized opinions of all MPC members on the optimal monetary policy decisions to be made. It also includes differences of opinion and the reasoning behind them.

Previous issues and presentations of the Inflation Report, the forecast of the main macroeconomic indicators, and data in tables and figures are available here.

[1] NBU Board decision No.141 *On Approval of the Inflation Report* dated 17 April 2025.

Summary

The baseline scenario of the NBU's macroeconomic forecast assumes that Ukraine will continue to conduct prudent monetary and fiscal policies aiming at maintaining macrofinancial stability and will consistently meet its commitments under programs with international partners, which will keep providing sufficient financial support. The NBU assumes that conditions in which the economy operates will gradually normalize over the forecast horizon. This will take the form of the full unblocking of sea ports, the expansion of opportunities for investment and economic activity, and the gradual return of forced migrants.

In Q1 2025, inflation rose as had been expected

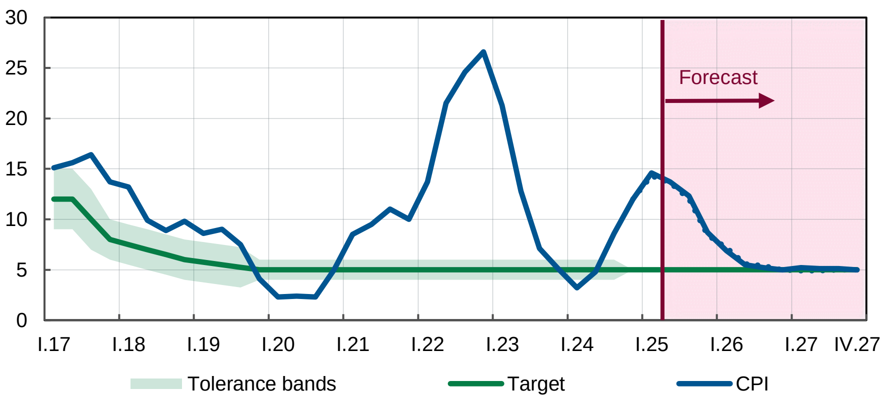
In the first months of the year, the growth of inflation was rather close to the trajectory of the NBU's previous macroeconomic forecast (January 2025 Inflation Report), reaching 14.6% yoy in March. Such dynamics were driven by the residual effects of last year's lower harvests, further increases in prices for excisable goods, and the impact of underlying factors, in particular higher energy and labor costs for businesses and robust consumer demand. Continued growth in services inflation also points to the persistently high domestic price pressure.

At the same time, seasonally adjusted monthly inflation dynamics show an easing of price pressures. Among other things, this was facilitated by the NBU's measures to maintain the sustainability of the FX market and keep inflation expectations in check. The March survey showed a further improvement in households' expectations, while web search statistics reflected a decline in the public's attention to the inflation topic, compared to peaking levels at the start of the year. In contrast, inflation expectations of businesses and the banks deteriorated somewhat. Overall, despite the increase in the annual inflation rate, economic agents' inflation expectations remain relatively stable.

Inflation will resume decline in the summer and will slow to a single-digit level at the end of the year

According to the NBU's forecast, in the summer, the price growth will start slowing year-on-year for a wide range of goods and services. The expected increase in harvests will contribute to a decline in food price inflation from Q3 2025 and to its stabilization at a relatively low level going forward. The underlying inflationary pressure will gradually ease, dampened by the NBU's monetary policy measures, the improved situation in the electricity supply, and lower pressures from the labor market. Lower crude oil prices in the wake of global trade confrontations will also help reduce price pressures. As a result, inflation is expected to slow to 8.7% at the end of 2025 and to reach the target of 5% in 2026.

Figure 1[2]. CPI change (end of period, % yoy) and inflation targets



Source: SSSU, NBU staff estimates.

2 Unless specified otherwise, a dashed line in the figures indicates the previous forecast.

Economic recovery will continue, although it will remain limited due to the consequences of the war and global trade confrontations

In Q1 2025, economic growth continued to be restrained, in part due to the destruction of the natural gas infrastructure and resulting higher needs for gas imports. Despite some pickup in the labor market, surveys showed that businesses kept citing the war-driven shortage of qualified workers as an important restraining factor.

An escalation of global trade confrontations has not yet impacted the Ukrainian economy, but it will slow its recovery later on. Tariff wars will probably lead to a decline in external demand for some of Ukraine's exported goods, although agricultural products will remain in demand even as the global economy cools.

In view of the above factors, the NBU has slightly downgraded its estimates of the dynamics of economic recovery. Ukraine's economy is expected to grow by 3.1% in 2025. In particular, this will be driven by stronger harvests and lower electricity shortages, which – coupled with large defense industry orders – will support industrial production.

In 2026–2027, the growth of real GDP will accelerate to 3.7%–3.9%, primarily thanks to increased investment in reconstruction, recovered production, and robust consumer demand. Private investment and consumption will offset the effects of fiscal consolidation, which will take place against the backdrop of a decrease in international financial assistance.

Following this year's significant inflows, external financial assistance will decrease in the coming years, but it will still be sufficient to avoid monetary financing of the budget deficit and support FX market sustainability

This year, Ukraine may receive larger-than-expected volumes of international financial assistance thanks to prompter tranche disbursements under the ERA Loans mechanism. These funds will be sufficient not only for financing the budget deficit this year, but also for creating a cushion for public finances for the next year, when external assistance volumes are likely to start declining. This year's large inflows will also enable Ukraine to increase its international reserves to USD 58 billion in 2025 and keep them high in the following years, thus maintaining the sustainability of the FX market. The latter, together with the interest rate policy measures, will help keep inflation expectations in check and gradually bring inflation down to the 5% target over the policy horizon.

To maintain FX market sustainability, keep expectations under control, and to gradually bring inflation back to its 5% target over the policy horizon, the NBU has kept the key policy rate at 15.5%

The NBU's previous measures to tighten its interest rate policy initially halted the decline in hryvnia instrument yields and subsequently ensured their gradual growth. More specifically, March–April saw a rise in interest rates on both hryvnia-denominated government bonds and hryvnia term deposits with maturities longer than three months, including those at the leading retail banks.

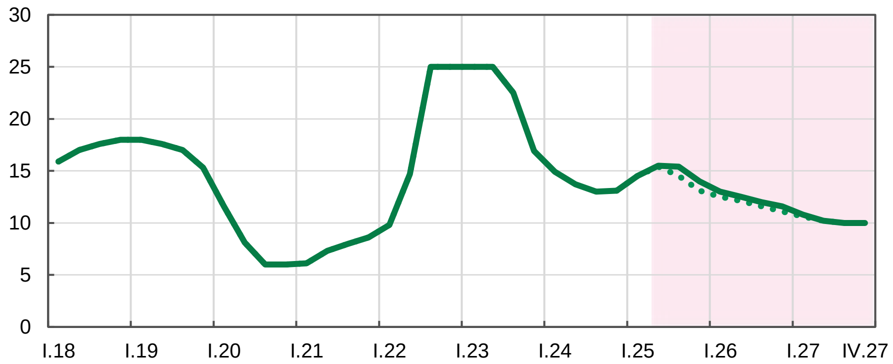
The growing attractiveness of hryvnia instruments was reflected in the greater demand for them. In particular, there has been noticeable progress in the growth of household deposits for terms longer than three months in banks of all groups. The combined net demand for term deposits and domestic government debt securities in March was the greatest in the last 10 months. Stronger interest in hryvnia savings, in turn, helped decrease households' demand for FX and reduce the NBU's FX interventions.

A prudent monetary policy will help consolidate these positive trends, further improve economic agents' expectations, and return inflation to a steady decline trajectory this year.

Considering the high level of uncertainty, which has only increased over past months, the NBU will respond flexibly to changes in the balance of risks to the price dynamics and inflation expectations

The NBU's forecast envisages keeping the key policy rate at 15.5% over the coming months and returning to a cycle of interest rate policy easing after the peak of the price surge has passed and the risk of inflation staying in double digits has been reduced. If this risk intensifies, the NBU will maintain the key policy rate at the current level for longer than the updated macroeconomic forecast suggests, and will be ready to take additional measures.

Figure 2. NBU's key policy rate, average, %



Source: NBU staff estimates.

The course of the full-scale war continues to be the key risk to inflation dynamics and economic development

The war is grinding on. Russian aggression continues to pose the risk of a protracted decline in the country's economic potential, in particular due to the loss of people, territories, and production facilities. The speed of the economy's return to normal functioning conditions will depend on the nature and duration of the war. The main risks caused by russian aggression remain the same:

- the emergence of additional budget needs, mainly those to maintain defense capabilities
- further damage to infrastructure, especially energy infrastructure, which will restrain economic activity and put pressures on prices due to rises in production costs
- a deepening of adverse migration trends and a further increase of labor shortages in the domestic labor market, which will increasingly limit the long-term potential of the economy.

These risks are further exacerbated by rising geopolitical uncertainty and intensified de-globalization as a result, among other things, of the rapid escalation of global trade confrontations. If these processes are prolonged, tend to increase further, and are accompanied by the rapid political polarization of countries, the external environment may be less favorable than envisaged by the current macroeconomic forecast. This could lead to a more significant and prolonged than expected weakening of the global economy and external demand, as well as changes in the regularity of international financing.

On the other hand, trade and political confrontations, depending on their nature and scale, could also provide certain benefits to the Ukrainian economy. These include a possible decline in energy prices amid a cooling of the global economy, an increase in demand for Ukrainian metals and defense technologies amid rising tensions between countries, and the more active use of Ukraine's transportation and investment potential in view of a possible restructuring of logistics and production chains. An additional compensator may be the high level of adaptability of Ukrainian businesses, which should help redirect exports to more affordable markets.

A number of other positive scenarios are also likely to materialize. They are primarily related to increased financial support from partners (in particular, through the use of the principle from immobilized russian assets) and the international community's efforts to ensure a just and lasting peace for Ukraine. The Ukrainian economy could also receive an additional impetus from faster European integration.

Macroeconomic forecast (April 2025)

Indicators	2022	2023	2024		2025						2026						2027					
			actual	forecast 01.2025	I	II	III	IV	current forecast	forecast 01.2025	I	II	III	IV	current forecast	forecast 01.2025	I	II	III	IV	current forecast	forecast 01.2025
REAL ECONOMY, % yoy, unless otherwise stated																						
Nominal GDP, UAH bn	**5239**	**6628**	**7659**	7720	1876	2015	2430	2593	**8915**	8840	2123	2257	2681	2828	**9890**	9800	2321	2473	2946	3121	**10860**	10790
Real GDP	**-28.8**	**5.5**	**2.9**	3.4	0.5	1.6	3.5	5.9	**3.1**	3.6	5.0	4.5	3.3	2.5	**3.7**	4.0	2.9	3.5	4.2	4.7	**3.9**	4.2
GDP Deflator	34.9	19.9	12.6	12.6	14.6	13.8	12.3	11.6	12.9	10.5	7.8	7.2	6.8	6.4	7.0	6.6	6.2	5.8	5.5	5.4	5.7	5.7
Consumer prices (period average)	20.2	12.9	6.5	6.5	-	-	-	-	12.7	12.4	-	-	-	-	6.0	6.2	-	-	-	-	5.1	5.0
Consumer prices (end of period)	**26.6**	**5.1**	**12.0**	12.0	14.6	13.7	12.3	8.7	**8.7**	8.4	6.9	5.5	5.2	5.0	**5.0**	5.0	5.2	5.1	5.1	5.0	**5.0**	5.0
Core inflation (end of period)	22.6	4.9	10.7	10.7	12.4	12.7	11.4	8.9	8.9	7.8	6.6	4.8	3.5	3.0	3.0	3.1	2.9	3.0	3.1	3.1	3.1	3.2
Non-core inflation (end of period)	30.6	5.7	13.8	13.8	17.3	14.9	13.2	8.3	8.3	9.2	7.2	6.3	7.3	7.6	7.6	7.3	8.0	7.7	7.6	7.4	7.4	7.1
raw foods (end of period)	41.6	2.2	13.2	13.2	17.0	18.2	14.7	5.6	5.6	6.8	5.7	4.1	3.4	2.9	2.9	3.0	3.7	3.7	3.4	3.0	3.0	3.1
administered prices (end of period)	15.3	10.7	16.3	16.3	19.0	14.3	14.0	11.6	11.6	10.5	9.6	8.8	10.8	12.0	12.0	12.2	12.0	11.3	11.1	11.1	11.1	11.0
Nominal wages (period average)	6.0	17.4	23.2	22.0	23.6	19.9	16.1	10.1	17.0	16.7	10.8	10.0	9.1	8.1	9.4	10.6	9.7	9.5	8.3	8.0	8.8	8.1
Real wages (period average)	-11.4	3.7	15.6	14.4	8.8	4.6	2.6	0.4	3.9	3.8	3.1	3.9	3.6	2.9	3.3	4.2	4.3	4.0	2.9	2.8	3.5	3.0
Unemployment rate (ILO, period average)	21.1	18.2	13.1	13.1	-	-	-	-	10.9	10.8	-	-	-	-	10.5	10.5	-	-	-	-	10.0	11.0
FISCAL SECTOR																						
Consolidated budget balance, UAH bn*	**-845**	**-1332**	**-1351**	-1351	**-**	**-**	**-**	**-**	**-1017**	-332	**-**	**-**	**-**	**-**	**-1145**	-1104	**-**	**-**	**-**	**-**	**-642**	-641
% of GDP*	-16.1	-20.1	-17.6	-17.5	-	-	-	-	-11.4	-3.8	-	-	-	-	-11.6	-11.3	-	-	-	-	-5.9	-5.9
excluding grants from revenues, % of GDP	-25.3	-26.6	-23.8	-23.7	-	-	-	-	-19.2	-19.3	-	-	-	-	-11.8	-11.9	-	-	-	-	-6.9	-7.0
BALANCE OF PAYMENTS (analytical presentation)																						
Current account balance, USD bn	8.0	-9.6	-13.7	-14.6	-5.5	-7.7	-5.2	1.1	-17.3	2.6	-7.3	-8.8	-8.0	-7.2	-31.3	-28.3	-7.3	-6.5	-7.7	-6.2	-27.7	-27.9
Exports of goods and services, USD bn	57.5	51.3	56.1	56.1	13.1	13.1	14.2	17.0	57.3	58.1	15.2	14.5	15.9	17.5	63.1	63.5	15.9	15.7	16.5	19.1	67.2	67.0
Imports of goods and services, USD bn	83.3	89.2	92.0	91.8	23.3	26.0	24.0	24.6	97.8	96.9	23.9	24.9	25.4	25.7	99.9	99.3	24.3	24.2	26.0	26.9	101.4	102.2
Remittances in Ukraine, USD bn	12.5	11.3	9.5	9.6	2.4	2.3	2.4	2.4	9.6	10.1	2.6	2.7	2.8	2.9	10.9	11.4	2.9	2.9	3.0	3.1	12.0	12.0
Financial account, USD bn	11.1	-18.9	-8.6	-14.3	-3.3	-13.0	-6.1	-7.1	-29.5	6.4	-4.4	-5.7	-5.0	-5.0	-20.2	-26.3	-6.6	-7.6	-7.2	-8.3	-29.7	-29.7
BOP overall balance, USD bn	**-2.9**	**9.5**	**0.0**	0.0	-2.2	5.4	0.9	8.1	**12.2**	-3.8	-2.8	-3.1	-3.0	-2.2	**-11.1**	-2.0	-0.8	1.1	-0.6	2.1	**1.9**	1.9
Gross reserves, USD bn	**28.5**	**40.5**	**43.8**	43.8	42.4	47.9	48.8	57.6	**57.6**	40.5	55.6	52.0	49.5	46.8	**46.8**	38.5	46.8	47.6	46.7	48.6	**48.6**	40.2
Months of future imports	3.8	5.3	5.4	5.4	5.2	5.9	5.9	6.9	6.9	4.9	6.6	6.3	5.9	5.5	5.5	4.5	5.5	5.5	5.3	5.5	5.5	4.5
As a percentage of the IMF composite criterion	78.6	124.2	121.2	120.3	114.3	121.8	120.6	136.7	136.7	109.0	128.4	118.1	110.2	102.6	102.6	92.4	100.9	101.2	98.0	100.2	100.2	88.6
MONETARY ACCOUNTS (cumulative since the beginning of the year)																						
Monetary base, %	**19.6**	**23.3**	**7.7**	7.7	-3.9	2.1	4.6	9.5	**9.5**	11.9	2.6	5.0	7.2	13.9	**13.9**	13.4	0.8	3.4	5.6	10.1	**10.1**	10.5
Broad money, %	**20.8**	**23.0**	**13.4**	13.4	-0.8	2.3	3.9	10.1	**10.1**	10.3	1.5	3.7	6.1	10.4	**10.4**	9.6	1.5	4.6	5.5	8.7	**8.7**	9.1
Velocity of broad money (end of year)	**2.1**	**2.2**	**2.2**	2.2	-	-	-	-	**2.3**	2.3	-	-	-	-	**2.3**	2.3	-	-	-	-	**2.4**	2.3

* The loans under the ERA program have been reclassified and excluded from revenues

Comments on the forecast revision

Indicators	2024	2025	2026	2027	Factors behind the revision
Inflation, %, eop	**12.0**	**8.7**	**5.0**	**5.0**	The pass-through effects of higher production costs in 2025
		0.3			
Real GDP growth, %	**2.9**	**3.1**	**3.7**	**3.9**	Revision of actual GDP for 2024 by the SSSU, damage to infrastructure, in particular gas infrastructure, effects of global trade confrontations
	-0.5	-0.5	-0.3	-0.3	
Nominal GDP, UAH bn	**7659**	**8915**	**9890**	**10860**	Higher GDP deflator but lower real GDP growth
	-61	75	90	70.0	
Consolidated budget balance (excluding grants and ERA financing from revenues), % of GDP	**-23.8**	**-19.2**	**-11.8**	**-6.9**	Revision of nominal GDP
	-0.1	0.1	0.1	0.1	
Current account balance, USD bn	**-13.7**	**-17.3**	**-31.3**	**-27.7**	Reclassification of part of the grant funds under the ERA mechanism into loans in 2025. Increased imports due to damage to natural gas production facilities, lower remittances
	0.9	-19.9	-3.0	0.2	
Gross international reserves, USD bn	**43.8**	**57.6**	**46.8**	**48.6**	More significant volumes of international financial assistance and faster transfer of tranches under the ERA Loans mechanism
		17.1	8.3	8.4	
Key policy rate (period average), %	**13.7**	**14.9**	**12.3**	**10.2**	Higher inflationary pressures
		0.5	0.5		

The indicator has been revised downwards (pp)

The indicator has been revised upwards (pp)

Forecast assumptions

Indicators		2022*	2023*	2024*	2025	2026	2027
Official financing	USD bn	32.2	42.9	41.9	55.1	17.3	15.0
Migration (net, excluding russia and belarus)	m		-0.2	-0.5	-0.2	0.2	0.5
Real GDP of Ukraine's MTPs (UAwGDP)	% yoy	3.7	1.6	2.0	2.2	2.5	2.7
Consumer inflation in Ukraine's MTPs (UAwCPI)	% yoy	13.8	7.6	5.1	3.5	2.6	2.5
World prices:**							
Steel price, Steel Billet Exp FOB Ukraine	USD/t	618.1	539.7	504.1	478.1	492.0	502.5
	% yoy	0.5	-12.7	-6.6	-5.2	2.9	2.1
Iron ore price, China import Iron Ore Fines 62% FE	USD/t	121.4	120.6	109.4	97.0	88.6	87.6
	% yoy	-25.0	-0.7	-9.3	-11.3	-8.7	-1.1
Wheat price, European Soft White Super Delivered Italy	USD/t	353.5	264.1	232.1	230.1	231.1	235.8
	% yoy	35.5	-25.3	-12.1	-0.9	0.4	2.0
Corn price, Yellow #2 Delivery USA Gulf	USD/t	318.4	252.7	190.6	209.7	211.8	213.7
	% yoy	22.7	-20.6	-24.6	10.0	1.0	0.9
Crude oil price, Brent	USD/bbl	99.8	82.6	80.7	68.9	67.8	69.1
	% yoy	41.8	-17.2	-2.3	-14.6	-1.6	1.9
Natural gas price, Netherlands TTF	USD/kcm	1355.9	465.6	393.9	412.0	384.7	336.5
	% yoy	135.9	-65.7	-15.4	4.6	-6.6	-12.5
Volumes of gas transit	bcm	20.6	14.6	15.0	0.0	0.0	0.0
Harvest of grain and leguminous crops	t m	53.9	59.8	55.2	61.7	62.3	64.9
Minimum wage**	UAH	6550	6700	7775	8000	8370	8950

* *Actual data*

** *Annual average.*