# Andriy Pyshnyy: National Bank of Ukraine press briefing - monetary policy decisions

Speech by Mr Andriy Pyshnyy, Governor of the National Bank of Ukraine, at a press briefing on monetary policy decisions, Kyiv, 6 March 2025.

* * *

Dear colleagues,

The Board of the National Bank of Ukraine has decided to raise the key policy rate to 15.5% per annum and to adjust the operational framework parameters of its interest rate policy. These decisions aim to support the attractiveness of hryvnia savings, maintain the sustainability of the FX market, and keep inflation expectations in check, which will allow bringing back the steady disinflation trajectory toward the 5% target. The NBU stands ready to take additional monetary measures if risks to the price dynamics and inflation expectations continue to rise.

As expected, inflation continued to increase at the start of the year, including due to the stronger impact of underlying factors

In January, inflation accelerated to 12.9%. In February, it continued to rise, according to the NBU's estimates. Temporary factors were the main drivers behind the increase in consumer inflation. Such trends had been expected and were generally in line with the NBU's forecast.

At the same time, the impact of underlying inflationary factors increased as businesses' expenses on energy and wages continued to pass through to prices and as consumer demand remained rather strong. As a result, core inflation grew rapidly and outpaced forecast estimates, especially in terms of the services component.

Economic agents' inflation and exchange rate expectations were mixed but generally remained relatively sustainable. This was supported by the NBU's previous measures to safeguard the sustainability of the FX market and protect hryvnia savings from inflation.

These measures resulted in lower volumes of net FX purchases by businesses and households in February, as well as in sustained demand for hryvnia savings instruments.  Households' inflation expectations improved at the start of the year.

At the same time, the statistics of search queries show that attention to inflation remains high. Given a potentially long-lasting period of high inflation readings, this could negatively affect inflation expectations and make price pressures more persistent.

The NBU's measures will help bring inflation down to its 5% target over the policy horizon

Inflation will rise in the coming months due to continued effects of last year's lower harvests and increases in businesses' production costs. At the same time, measures taken by the NBU to tighten its monetary policy will rein in underlying inflationary pressures, and the arrival of new harvests in the summer will restrain the growth in food prices.

Thanks to the NBU's measures and the gradually waning effects of temporary drivers of price growth, inflation should return to the downward trajectory in H2 and decline to single digits at the end of the year. Inflation will decline to the 5% target over the policy horizon.

Expected volumes of international support will be sufficient to finance the budget deficit without resorting to monetary financing, and to maintain the sustainability of the FX market

Ukraine continues to receive international support. G7 countries disbursed the first tranches of assistance to Ukraine under the ERA Loans program. In late February, Ukraine also reached a staff level agreement with the IMF on the seventh review of the Extended Fund Facility.

Risks to the sufficiency of international financing remain balanced. The volumes of external support confirmed for this year should be enough for both non-monetary financing of the budget deficit and maintaining an adequate level of international reserves. This will enable the NBU to continue to ensure a sustainable situation in the FX market and keep inflation and exchange rate expectations under control.

The course of the war remains the key risk to inflation and economic development

The war is grinding on and continues to pose the risk of a further decline in 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 hostilities.

At the same time, geopolitical uncertainty has increased. This is elevating war-caused risks, such as:

- 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 arising from production costs on prices
- a deepening of adverse migration trends and a further increase of labor shortages on the domestic labor market.

In addition, the risks of less favorable foreign economic trends than currently expected have increased, in particular due to further geopolitical polarization of countries and the corresponding fragmentation of global trade.

On the other hand, positive scenarios could also materialize. They are primarily related to increased financial support from partners and the international community's efforts to ensure a just and lasting peace for Ukraine. A further acceleration of European integration processes and the rebuilding of infrastructure, including energy infrastructure, are also possible.

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 Board decided to raise the key policy rate by 1 pp, to 15.5%

The NBU's previous measures to tighten its interest rate policy halted the downward trend in hryvnia deposit rates, while interest rates on hryvnia domestic government debt securities responded quite strongly to the key policy rate hike. This supported demand for hryvnia instruments. At the same time, a further tightening in monetary conditions is required to reverse the inflation trend.

Therefore, from 7 March 2025, the NBU will raise its key policy rate and other rates for its transactions with the banks by 1 pp, in line with its January forecast. With the FX market remaining sustainable, this step will help to further support demand for hryvnia savings instruments, keep inflation expectations under control, and thus limit pressures on prices.

In addition, to make hryvnia savings more attractive, the NBU is amending the parameters of the operational framework of its interest rate policy. More specifically, from 4 April 2025:

- the spread between the key policy rate and the interest rate on three-month certificates of deposit will be increased by 1 pp
- the key policy rate and the interest rates on refinancing loans will be also raised by 1 pp
- the NBU will provide greater opportunities for banks to place funds in three-month certificates of deposit, depending on how well they expanded their portfolios of hryvnia retail deposits with a maturity of more than three months.

The above measures will bolster the market incentives that encourage the banks to raise hryvnia retail term deposits. This will ensure continued growth in interest rates on term hryvnia instruments, thus more strongly protecting hryvnia household savings from being eroded away by inflation. As a result, the risks to price movements, the FX market, and international reserves are expected to decline.

The NBU stands ready to take additional measures if risks to the price dynamics and inflation expectations continue to rise

Stronger-than-expected pressure from underlying factors and higher pro-inflationary risks are increasing the risk that inflation expectations will worsen and that inflation will remain high for longer.

This raises the likelihood that the NBU will start a cycle of key policy rate cuts later than expected in the January macroeconomic forecast.

In addition, if inflationary risks continue to rise, the NBU will not hesitate to tighten its interest rate policy further.

Thank you for your attention!