# 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, 23 January 2025.

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Dear colleagues,

*The Board of the National Bank of Ukraine has decided to raise the key policy rate to 14.5% per annum. This decision is intended to support the sustainability of the FX market, keep inflation expectations in check, reverse the inflation trend, and gradually bring inflation down to the target of 5%. Curbing the price pressure is likely to require a further tightening of interest rate policy*

**Inflation reached 12% in 2024, and the pressure on prices has continued in early 2025**

In December 2024, inflation accelerated to 12% yoy, exceeding the NBU's previous forecast. According to the NBU's estimates, inflation continued to rise in January.

The rapid growth in consumer prices was to a large extent driven by temporary factors. At the same time, underlying price pressures also increased. This was evidenced by the continued acceleration of core inflation (to 10.7% yoy in December), in particular on the back of the sharp rise in services prices.

Such price dynamics were driven by businesses' higher expenses on raw inputs, materials, and electricity, as well as by wage increases against the backdrop of persisting staff shortages. That said, in recent months, price growth has been somewhat restrained by a strengthening of the UAH/EUR exchange rate, which is important for Ukrainian imports.

Inflation reaching double digits is affecting inflation expectations of households and businesses. Nevertheless, expectations of financial analysts and banks remain relatively stable.

**Thanks to the depletion of temporary factors behind the price pressure and the NBU's interest rate and exchange rate policy measures, inflation will decline to 8.4% in 2025 and reach the 5% target in 2026**

In the first months of 2025, inflation is likely to continue to rise due to the persistent impact of both temporary factors, including the effects of last year's lower harvests, and underlying drivers, among them pressure from businesses' production costs. Inflation will peak in Q2 and will start to decline from the middle of the year.

It is expected to slow to 8.4% at the end of 2025 and to reach the target of 5% in 2026. The NBU's interest rate and exchange rate policy measures, as well as stronger harvests, improved energy supply, a narrower fiscal deficit, and subdued external price pressures, will contribute to the slowing of inflation.

**Economic recovery will continue, although it will be limited due to the consequences of the war**

Ukraine's economy keeps recovering thanks to significant international support and the high adaptability of businesses and households to wartime conditions.

According to the NBU's estimates, Ukraine's real GDP grew by 3.4% in 2024, which was below the central bank's forecast made in October. The pace of economic growth slowed compared to 2023.

Apart from smaller harvests and weaker-than-expected external demand, the causes of this were the materialization of risks of more intensive hostilities, increased air attacks, and the resulting electricity shortages. The persistence of high security risks also restrained the return of migrants and led to a significant labor shortage.

Taking into account security risks and the difficult situation in the labor market, the NBU has revised its real GDP growth forecast for 2025 downward, to 3.6%. At the same time, the baseline scenario of the NBU's forecast keeps envisaging that the economy will gradually return to normal functioning conditions.

Therefore, the pace of economic growth is expected to accelerate moderately in 2026–2027, to around 4%. On the one hand, the fallout from the war, which resulted in labor shortages and production capital deficit, will continue to constrain the economy. On the other hand, investment into energy and production capacity, sustained loose fiscal policy, and private consumption rising on the back of an increase in household income will contribute to the recovery.

**International support will be sufficient to finance the budget deficit without resorting to monetary financing, and to maintain a stable FX market**

In 2024, Ukraine received USD 42 billion from its international partners in the form of loans and grants.

These funds allowed the government to finance a substantial budget deficit, and the NBU to maintain the sustainability of the FX market and to increase international reserves to a new all-time high (USD 43.8 billion at the end of 2024).

It is expected that in 2025 Ukraine will receive USD 38.4 billion in external financing. Taking into account the government's measures to increase its own revenues and borrowing on the domestic debt market, these funds should be enough to fully cover the planned budget deficit for next year, without resorting to monetary financing.

For its part, the NBU will be able to compensate for the structural FX shortage in the private sector and smooth out excessive exchange rate fluctuations. This will help maintain the sustainability of the FX market under the regime of the managed exchange rate flexibility, which will be consistent with achieving the 5% inflation target over the policy horizon.

**The war remains the key risk to inflation and economic development**

The war is continuing and poses the risk of a further reduction 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 the war.

The main risks remain the same:

- the emergence of additional budget needs, mainly those to maintain defense capabilities
- the likelihood of an additional hike in taxes, which – depending on its parameters – might drive up pressures on prices
- further damage to infrastructure, especially energy infrastructure, which will restrain economic activity and put supply-side pressures on prices
- a deepening of adverse migration trends and a further increase of labor shortages on the domestic labor market.

There are also risks that international assistance will become less regular and that foreign economic trends will be less favorable than currently expected, in particular due to greater geopolitical polarization and the corresponding fragmentation of global trade.

However, positive scenarios could also materialize, primarily related to increased financial support from partners  and the international community's efforts to end the war in Ukraine. What is more, 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 14.5%**

The acceleration of inflation in H2 2024 and the related deterioration in households' inflation expectations has decreased real yields on hryvnia savings instruments.

The key policy rate hike is intended to ensure that hryvnia savings are adequately protected from inflation, and to maintain public interest in hryvnia assets. This will help reduce pressures on the FX market and prices.

**The NBU's updated macroeconomic forecast envisages further key policy rate hikes to curb inflation**

The NBU is likely to continue tightening its interest rate policy at the Board's next monetary policy meetings if signs of persistent inflationary pressures and the threat of inflation expectations becoming unanchored persist.

Thank you for your attention!