

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, 5 June 2025.

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Dear colleagues,

The Board of the National Bank of Ukraine has decided to keep its key policy rate at 15.5%. This will support the sustainability of the FX market and keep inflation expectations in check, which will help bring inflation back to a steady decline trajectory.

If threats to the sustainable decline in inflation toward the 5% target increase, the NBU will keep its key policy rate unchanged longer than envisaged by the April macroeconomic forecast.

Inflation is likely to have reached its local maximum in May

In April, inflation picked up to 15.1% yoy. The NBU's estimates show that inflation continued to rise in annual terms in May and was somewhat above the current forecast trajectory. Food prices were additionally affected by spring frosts, which impacted the prices of the first batches of fruits and vegetables of the new harvest.

On the other hand, after core inflation slowed in April, the NBU estimates it resumed to accelerate in May closely following the forecast. As before, the underlying inflationary pressure was fueled by robust consumer demand and continued increases in production costs, in particular labor costs.

Inflation expectations of economic agents deteriorated slightly but remained fairly sustainable and much lower than the current inflation rate. Web search statistics also pointed to a further decline in attention to the topic of inflation.

These tendencies were also supported by the NBU's measures to protect hryvnia savings from inflation and maintain the sustainability of the FX market.

Inflation will gradually decline going forward

In the summer, price growth will start to slow for a wide range of goods and services, and will gradually move toward the target of 5%. This will be facilitated by the arrival of the new harvest, better situation in the energy sector compared to last year, lower global crude oil prices, and a decline in external price pressures, as well as the continued effects of the NBU's monetary policy measures.

Last year's high base of administered prices will also have a significant statistical effect, in particular due to the one-time increase in electricity tariffs in June 2024.

At the same time, the disinflation trajectory in the coming months will largely depend on the impact the spring frosts and weather conditions in the summer have on the supply and prices of agricultural products.

Inflows of external financial assistance are expected to be sufficient, allowing to maintain macrofinancial resilience

Ukraine has received USD 18 billion in official financing since the start of the year. Regular inflows of external assistance make it possible to finance critical expenditures of the budget as well as to support a proper level of international reserves, thus maintaining the FX market sustainability.

The NBU expects international support to remain strong. This will be facilitated, among other things, by the staff level agreement having been reached on the eighth review of the IMF's Extended Fund Facility.

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

The war 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 hostilities.

The main risks remain the same:

- the emergence of additional budget needs, mainly those to maintain defense capabilities
- further damage to infrastructure, especially energy infrastructure
- a deepening of adverse migration trends and a widening of labor shortages on the domestic labor market.

Another significant risk for inflation and economic development is if the negative impact of weather conditions on this year's harvest were to be more significant than currently estimated.

Risks associated with potentially less favorable external conditions amid growing geopolitical uncertainty and de-globalization are also relevant.

So far, trade and political confrontations have not had a significant impact on the Ukrainian economy and have even partially supported it due to lower oil prices.

However, a further escalation of trade tensions between countries could noticeably weaken the global economy, leading to a decline in external demand and threatening the regularity of international financing.

At the same time, some positive scenarios are also likely to materialize. They are primarily related to increased financial support from partners and the international community's efforts to ensure 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 keep the key policy rate at 15.5%

The NBU's previous monetary policy tightening measures have contributed to a noticeable revival of interest in hryvnia term deposits.

Thus, at the beginning of the year the monthly growth of hryvnia retail deposits with maturities longer than 3 months did not exceed UAH 2 billion, while in March it increased to UAH 4 billion, rising to UAH 5–6 billion in April–May.

Overall, from the beginning of the year through the end of May, these retail term deposits increased by UAH 19 billion, while investments in hryvnia domestic government debt securities grew by UAH 11 billion. The maturity of hryvnia savings has also improved – interest in 6–12-month deposits and long-term government debt securities rose.

The growth in hryvnia deposits contributed to a significant decline in households' net FX demand, to about USD 200 million per month in April and May compared to USD 1.5 billion in January. This mitigated the effect of the seasonal rise in companies' FX needs, which was an important factor in maintaining a stable situation in the FX market, controlling expectations, and containing price pressures.

Risks to macrofinancial stability and international reserves subsided, without having any substantial restraining effect on lending. Overall, interest rates on new corporate loans increased slightly and remain at their pre-Covid-19 levels. The growth of net hryvnia corporate loans accelerated in April to almost 30% yoy, from 21% yoy in February.

Keeping the key policy rate at 15.5% will allow the NBU to continue to provide appropriate monetary conditions for reversing the inflation trend in the coming months. At the same time, this decision is expected to have no negative impact on lending.

If threats to the sustainable decline in inflation toward its 5% target increase, the NBU will keep its key policy rate unchanged longer than envisaged by the April macroeconomic forecast.

A return to the easing of interest rate policy is only possible after the price surge has peaked and risks of inflation becoming stuck in the high levels have abated. At the same time, the NBU will be ready to take additional measures if it becomes necessary to tighten monetary conditions.

Thank you for your attention!

