

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, 17 April 2025.

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Dear colleagues,

The Board of the National Bank of Ukraine has decided to keep its key policy rate unchanged, at 15.5%. This decision will help maintain FX market sustainability, keep inflation expectations under control, and gradually reduce inflation to the 5% target over the policy horizon.

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.

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, 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. This was facilitated by the NBU's measures to maintain the sustainability of the FX market and controllability of inflation expectations.

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. Moreover, lower crude oil prices will be an additional factor in the wake of global trade confrontations. 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.

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 a pickup on 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. However, 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. This will be driven by stronger harvests and lower electricity shortages, which – coupled with large defense industry orders – will support industrial production.

In 2026 and 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.

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.

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 the war.

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, 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 on 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 trade confrontations in the world.

If these processes are prolonged, tend to increase, and are accompanied by the rapid political polarization of countries, the external environment may be less favorable than envisaged by the 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.

At the same time, 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 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 keep 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 domestic government debt securities 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 helped decrease households' demand for FX and reduce the NBU's 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.

Thank you for your attention!