Guest lecture by Sergiy Nikolaychuk, First Deputy Governor,
National Bank of Ukraine
'A Decade of Inflation Targeting in Ukraine: Lessons for a New Era of Uncertainty'
27 October, 2025 – Kyiv School of Economics

It is a great honor and pleasure for me to share what we have achieved over the past ten years in the field of monetary policy. When we look back and compare the monetary policy of today with that of a decade ago, the transformation is truly remarkable.

This has been a journey that the NBU has gone through since introducing inflation targeting in 2015 — a reform that fundamentally changed the way monetary policy is conducted in Ukraine.

First, I will outline the context and conditions under which this decision was made. Then, I will explain why the move toward an inflation targeting framework was necessary and describe the main steps we took to build a new monetary policy framework. After that, I will discuss the performance of the NBU in conducting monetary policy and the outcomes of implementing this new regime, both before and after the full-scale war in Ukraine. Finally, I will touch upon the lessons learned and how this experience shapes our approach to monetary policy in a new era of elevated uncertainty.

Introduction: 'A Decade since a Bold Turn'

Ten years ago, the NBU was brave enough to take a decisive step toward a new monetary policy regime.

When this decision was taken in 2015, Ukraine was facing what could fairly be described as a perfect storm — a classic 'triple crisis' combining a banking crisis, a macroeconomic crisis, and a balance-of-payments crisis.

There was a period when the Ukrainian hryvnia lost two-thirds of its value and inflation surged above 60%. To a large extent, these developments were the result of the first wave of the war — the annexation of Crimea and the occupation of parts of the Donbas region. Yet they also reflected the deep macroeconomic imbalances accumulated over the preceding years, particularly between 2010 and 2013, as well as the lingering legacy of the 2008–2009 global financial crisis.

At that time, the NBU relied mainly on a fixed exchange rate regime supported by FX interventions. As a result, external sustainability was already fragile even before the start of 2014, and the monetary policy framework itself was largely outdated.

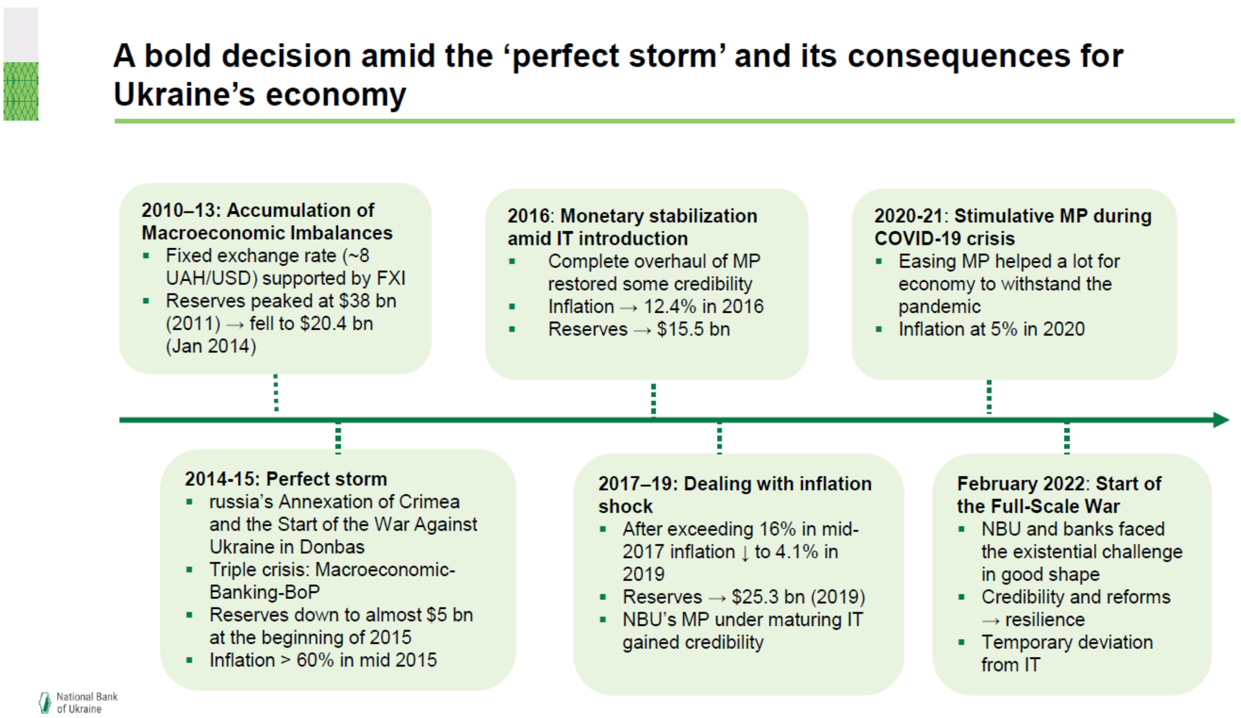
After the switch to the IT regime, our first and foremost task was to stabilize the monetary sphere — and we succeeded. I will go into more detail later, but in 2016 we managed to bring inflation down to 12.4%, very close to our first inflation target. This was, in many ways, the first tangible achievement of the new regime and a clear sign that the situation was stabilizing.

But after that, in 2017, we faced the next challenge — an inflation surge. This episode was mainly driven by adverse supply-side factors, including a poor harvest, but also by growing labor market tightness that followed the introduction of the visa-free regime with the EU. It took us around three years to overcome this shock and bring inflation back down to 5%, and even to 4% at the end of 2019.

This episode, in fact, helped us strengthen our credibility within a more mature inflation targeting framework and further improve our external position. As a result, when the next challenge came — the pandemic shock — we were in much better shape to respond.

The period of 2020–2021 was marked by the extraordinary circumstances of the pandemic, but it was also a time when the NBU was able to ease monetary policy to support economic recovery. Importantly, this response did not undermine monetary stability: inflation in 2020 remained close to 5%, demonstrating that the central bank was capable of maintaining price stability while supporting the economy through the crisis.

In 2021, we again faced a rise in inflation — a typical post-pandemic surge. However, the NBU started to respond to this increase much earlier than many other central banks, not only in advanced economies but also in emerging markets. In our case, the situation was additionally and quite significantly affected by rising security risks. And everything changed completely in February 2022 — but I will come back to that a bit later.



Why Ukraine Chose Inflation Targeting?

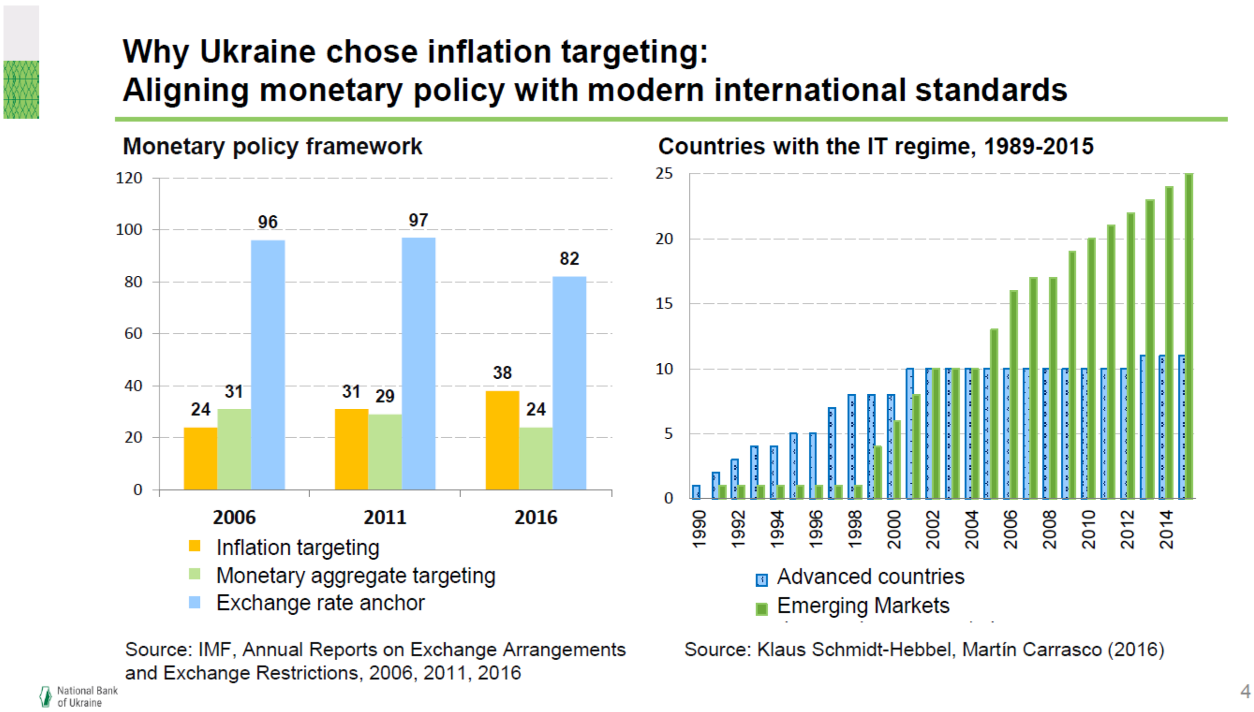
Let us turn back to 2015. At that time, Ukraine was experiencing a triple crisis. A large number of commercial banks were declared insolvent and transferred to the Deposit Guarantee Fund for liquidation. Within just two years, GDP fell by around 15% compared with 2013, the hryvnia lost two-thirds of its value, and inflation hovered near 50–60%.

In these circumstances, the main focus of the central bank's efforts was to stabilize the financial system and restore confidence. Yet, despite this turbulence, in August 2015 the NBU announced its transition to the inflation targeting regime.

What was behind this decision? First of all, we sought to apply the best international practices in the conduct of monetary policy. Since Ukraine entered the community of inflation-targeting central banks relatively late, this timing allowed us to benefit from the lessons of earlier adopters (summarized for Ukraine by Vavra (2015)) and to embed global best practices in policy design, communication, and institutional setup from the very outset.

Secondly, in my view, what is truly crucial — and certainly so in the case of the NBU — is the political will to implement policies that are consistent with the mandate of a modern central bank. We considered inflation targeting as the only viable choice.

Looking back to 2015, we can see that the IT framework had already gained broad global popularity. During the 2000s, many central banks adopted this regime to achieve their key monetary policy objectives.



But what is inflation targeting really about? And why did it become so popular around the world?

In essence, I would describe this regime as a combination of rules and discretion. It is often referred to as ‘constrained discretion’— and here, it is hard not to agree with Ben Bernanke, who once described this approach as the most balanced way to combine rules and flexibility in modern monetary policy (Bernanke (2003)).

On the one hand, the central bank commits to a single quantitative target — inflation — and promises society that all its actions will be aimed at achieving this target over a reasonable policy horizon. If the central bank enjoys sufficient credibility, this commitment helps anchor inflation expectations and improve the overall functioning of monetary transmission in the economy.

On the other hand, this framework is quite flexible — flexible enough to allow the central bank to respond to different shocks in different ways and to decide, in each case, what the most appropriate reaction or policy approach should be.

Frankly speaking, when we talk about inflation targeting, there is still no single, universally accepted definition — and perhaps that flexibility is part of its strength.

Of course, we can talk about the announcement of inflation targets and the central bank’s commitment to achieving them. But what truly defines a central bank is not the setting of the goal, but the journey that follows: the unwavering discipline and consistency in doing whatever it takes to reach that target over the policy horizon.

The main policy instrument under the IT framework is the key policy rate — but even here, there are deviations. Many central banks operating under inflation targeting increasingly use FX interventions, capital flow management measures, and macroprudential tools as complementary instruments.

Typically, under IT, monetary policy operates with a relatively flexible exchange rate. Still, there are exceptions to this rule. For example, the Czech National Bank for several years relied on exchange rate management.

Another defining feature of the IT framework is the strong reliance on forecasts and risk assessments. Inflation targeting is therefore often described as inflation forecast targeting, as central banks aim to align their policies with the projected inflation path over the policy horizon. However, in recent years, many central banks have shifted toward a more data-driven approach, basing their decisions primarily on real-time developments. This shift partly reflects the limitations of traditional macroeconomic models and forecasts, which often failed to capture the post-pandemic inflation surge and subsequent surprises, as well as the growing non-linearities in the economy that need to be properly assessed (Lagarde (2025)).

So, central banks have taken many different paths under inflation targeting, all leading toward the same destination — price stability. What we see today is a map of best practices, shaped by the lessons of modern central banking.

What is inflation targeting regime?

- **Inflation as the only quantitative target → for anchoring expectations**
- **Clear institutional mandate for the Central Bank to achieve it**

- A collection of modern central banking practices
- Changes the way monetary policy is done
  - ✓ Relatively flexible exchange rate
  - ✓ Policy based on interest rate changes
  - ✓ Strong emphasis on forecasts and analysis of risks
  - ✓ Combining flexibility with a rules-based policy framework
  - ✓ Focus on transparency and accountability
- Appealing long-term solution for many countries

  Some adopted it out of necessity in a balance-of-payments crisis

- **Political Will: The Decisive Factor Behind Choosing Inflation Targeting as the Only Viable Option**

National Bank of Ukraine 5

So what actually changed in Ukraine when we shifted from the old-style monetary policy to the modern inflation targeting framework? Essentially, we moved away from multiple and constantly changing objectives — such as maintaining the exchange rate, controlling monetary aggregates, or imposing administrative restrictions — toward a single, irrevocable inflation target.

And this word 'irrevocable' is very important. I remember well the times when the NBU's management claimed to be conducting monetary policy under an inflation targeting regime. Yet every year, the government and the central bank jointly set new targets — and were always remarkably successful in meeting them. Why? Because sometime in September or in October, the NBU Council would simply adjust the official target to match the expected inflation outcome for the end of the year.

Before the introduction of inflation targeting, the NBU's monetary policy decisions were largely based on individual judgments — mostly taken by the Governor, with only a few people influencing the process.

As you can imagine, the effectiveness of such a regime looked excellent on paper but lacked real substance. It was not consistent with the best international practices — where the central bank actively manages expectations, takes independent decisions, and ensures genuine accountability for achieving its objectives.

Today, we have a collegial, forward-looking, and highly transparent decision-making framework. I will speak about that a bit later when we discuss the institutional setup and instruments.

In the past, the NBU relied on a wide range of instruments — interest rates, FX interventions, open market operations, reserve requirements, and others. However, with the launch of the inflation targeting regime, we made it clear that the key policy rate would become the central instrument of monetary policy. Of course, we also used an auxiliary toolkit, but the hierarchy of instruments was clearly defined from the very beginning.

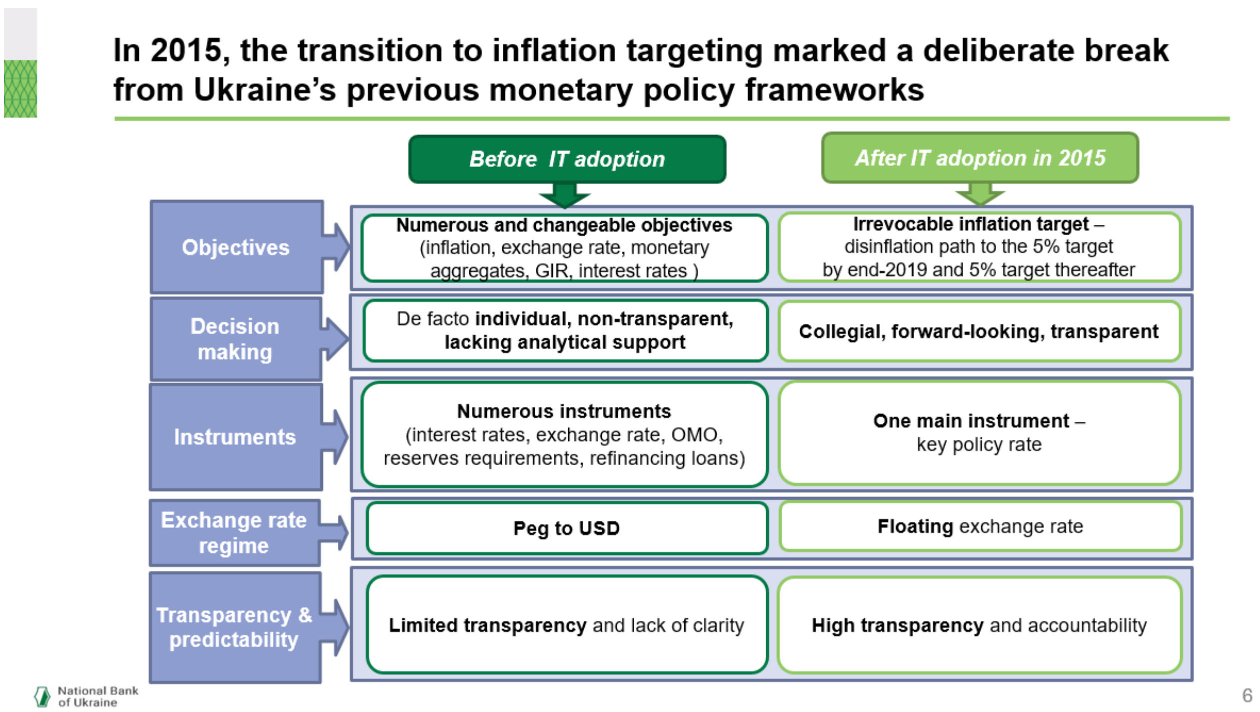
Before 2015, our policies were heavily dependent on exchange rate management — primarily against the US dollar. At best, this frameworks provided temporary stability; in practice, is collapsed under pressure, leaving the economy vulnerable to cycles of devaluation, price surges, and erosion of public trust.

The first discussions about a possible transition to inflation targeting date back to the early 2000s, during the NBU's cooperation with the IMF—particularly in the context of preparing for greater exchange rate flexibility. At the end of 2008, amid the global financial crisis, the NBU abandoned its hard peg to the US dollar. However, doubts persisted about the potential of active monetary policy, given the high degree of openness of the economy, underdeveloped financial markets, and the large share of administratively regulated prices. As a result, in 2009 the NBU effectively re-pegged the hryvnia to the US dollar.

Recognizing these constraints, the IMF's 2008 and 2010 programs with Ukraine identified the transition to inflation targeting as a medium-term objective, allowing time to create the necessary conditions for a gradual shift to exchange rate flexibility.

Since the transition we have relied on a floating exchange rate, which serves as a shock absorber instead of being a nominal anchor.

Transparency and accountability have also become central elements of our framework, and you will clearly see the difference between these two NBU models — before and after 2015.



This brings us to a crucial question: how well was Ukraine prepared for the transition to inflation targeting?

The criteria for assessing readiness largely stem from the framework defined by the IMF. According to IMF (2006), several key preconditions are essential for a successful transition to inflation targeting:

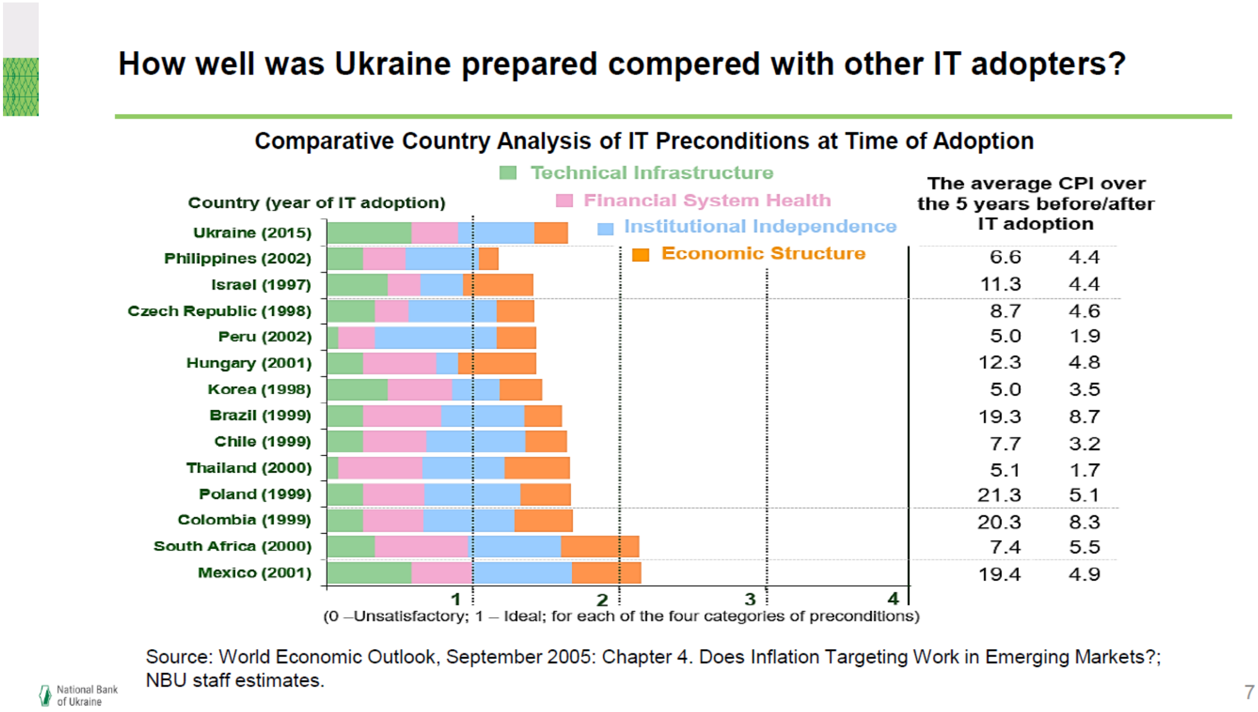
- Institutional independence of the central bank, with a clear mandate to ensure price stability and protection from fiscal and political pressures.
- Strong analytical capacity for forecasting inflation and understanding the monetary transmission mechanism.
- An economic structure characterized by liberalized prices, moderate sensitivity to shocks, and low dollarization.
- A stable, well-developed financial system to enable effective policy transmission.

Frankly speaking, assessing ourselves at that moment, we were not really prepared. In fact, the IMF team at the time was caucious about introducing inflation targeting in Ukraine. Their main argument was that the NBU lacked the institutional capacity required for such a demanding framework — one that calls for much stronger capabilities than any other monetary regime.

However, after conducting our own internal assessment, we concluded that we were not as unprepared as it might have seemed. Of course, some areas were in a very weak stance. The economy was in the midst of a severe triple crisis, and the financial system was extremely fragile.

At the same time, on the technical side, we benefited greatly from the IMF's technical assistance — particularly in operations, forecasting, modelling, and policy analysis. This support proved invaluable during that period. With it, we were able to convince our IMF colleagues that, in fact, we had no real alternative. Other monetary policy regimes — such as the exchange rate peg or monetary aggregate targeting — were simply unsuitable for Ukraine's economic conditions.

So, despite our limited preparedness, we decided to move forward. And this became one of the key lessons we still emphasize today: you don't need to be perfect to start something important. Once you begin moving in the right direction, you learn, you build the necessary skills, and you strengthen your institution along the way.



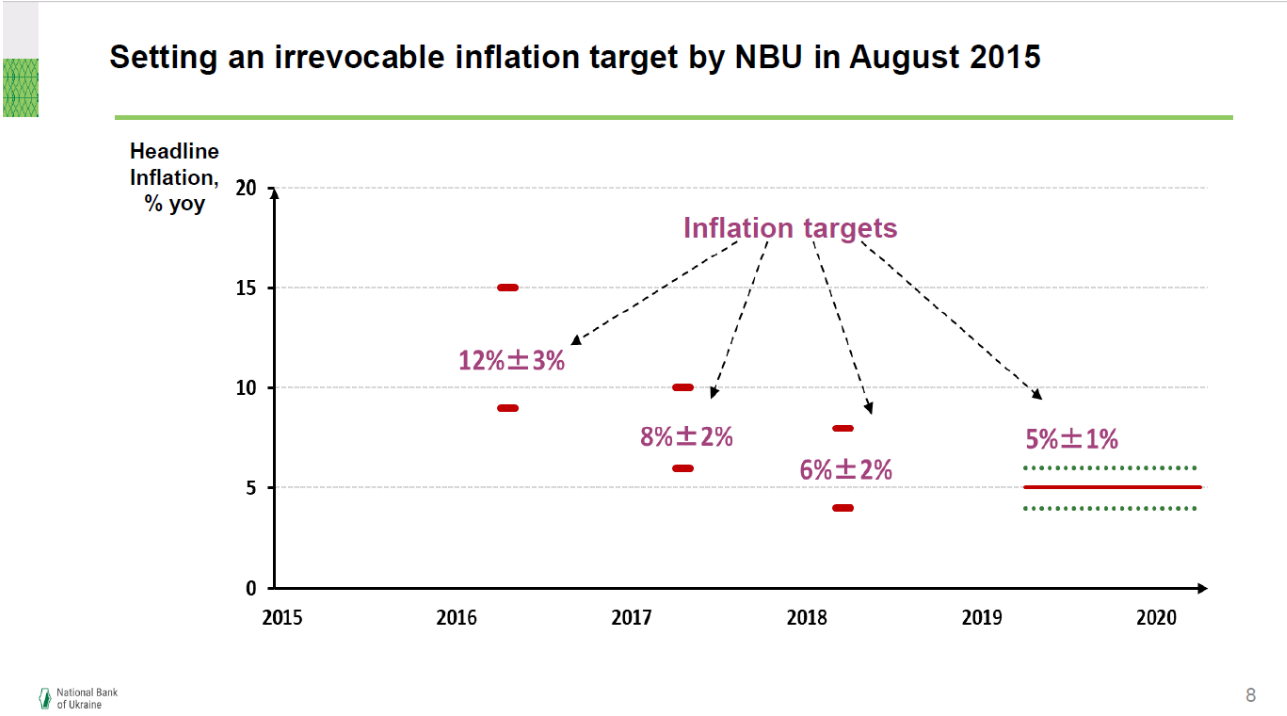
Building the IT Framework

Since 2014, the NBU has been consistently upgrading the architecture of monetary policy — from internal decision-making procedures to mechanisms for communicating with economic agents. The shift to inflation targeting was not implemented overnight; its key elements were built step by step, combining institutional reform, analytical enhancements, and communication improvements.

However, the most important and crucial step was the announcement of irrevocable inflation targets in August 2015. That was a very strong expression of political will by the NBU's management, supported by the commitment of the staff. At that time, there were many skeptics who doubted that such a regime could work in our circumstances. But again, this clear declaration and the political commitment behind it did the job.

From August 2015, inflation, as measured by the Consumer Price Index, has become the main benchmark for monetary policy decision-making. The NBU publicly set a medium-term inflation target of 5% ± 1 pp for 2019 and further. In addition, we presented a disinflation trajectory with annual targets for 2016, 2017, and 2018.

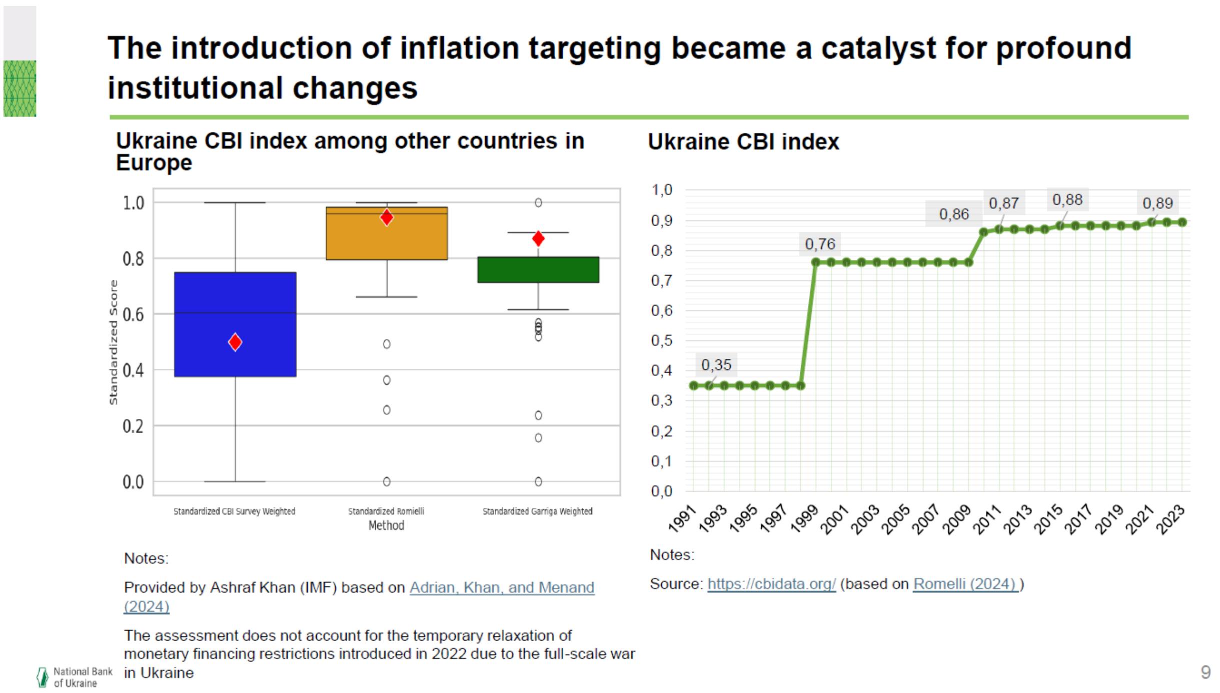
The choice of a 5% target for Ukraine was not accidental. In emerging markets, frequent shocks and ongoing structural changes often justify somewhat higher inflation targets than in advanced economies. According to Gorodnichenko (2014),taking into account the volatility of shocks, a target range of 3 to 5 % could be considered optimal for Ukraine. With effective targeting and clear communication, even this level can anchor expectations and preserve confidence in the central bank's policy.



Let me now turn to the key pillars of this new regime — the foundations that enabled us to achieve tangible results.

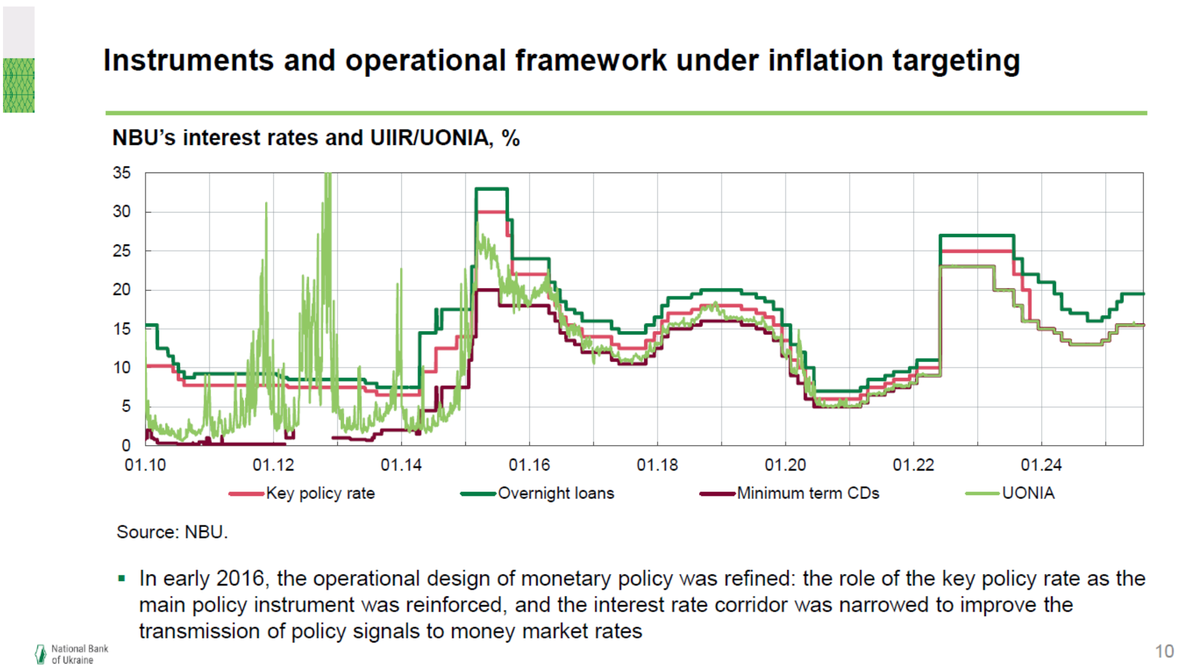
A critical milestone came in 2015 with substantial amendments to the NBU Law, These changes shielded the central bank from short-term political pressures and clearly anchored its primary mandate of price stability.

In fact, just recently, while preparing for the screening meeting with the European Commission, we updated the assessment of the NBU's institutional independence, and the results confirmed that its level was in line with European peers.



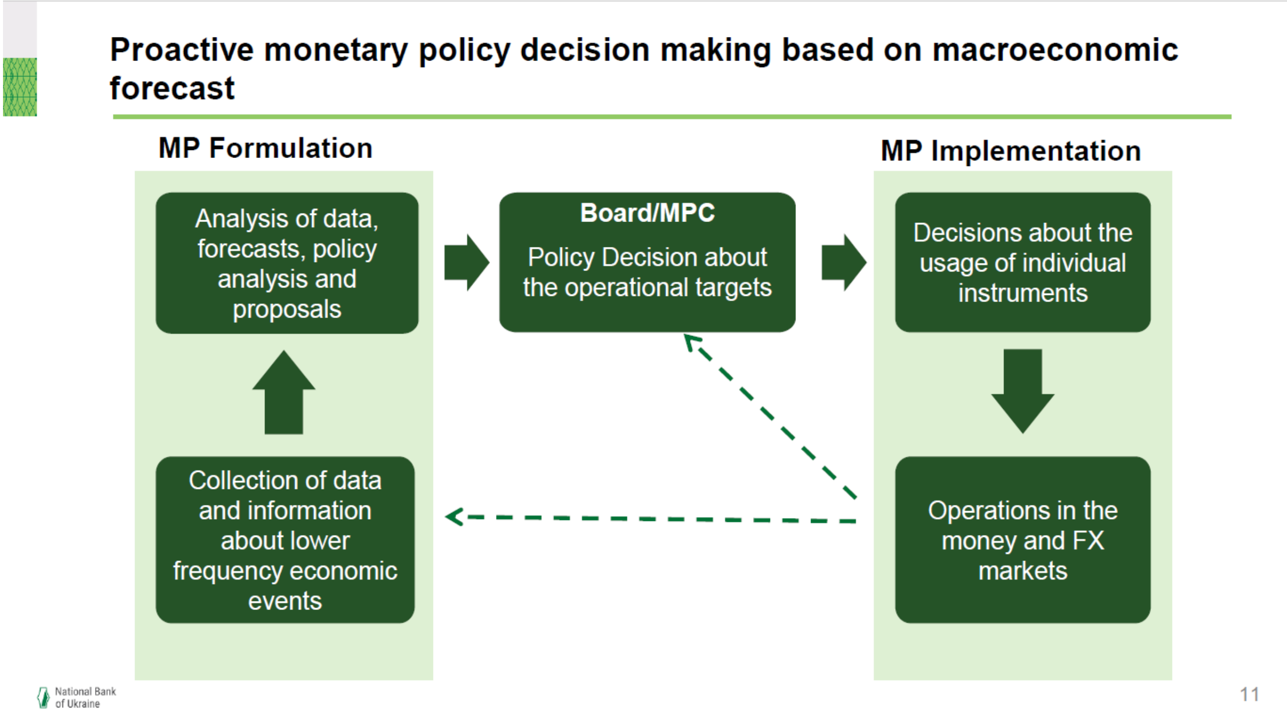
Another important pillar is operational design of monetary policy. Before 2015 nobody really cared what the NBU's key policy rate was — not even market participants. But the situation changed completely in early 2016, when the operational design of monetary policy was refined and the role of the key policy rate as the main policy instrument was reinforced. From that point, the central bank began conducting its main liquidity-regulating operations at the policy rate. At that time, these were weekly placements of certificates of deposit.

We also established a clear interest rate corridor by setting overnight deposit and refinancing rates around the key policy rate. As a result, interbank market rates became effectively anchored within this corridor.



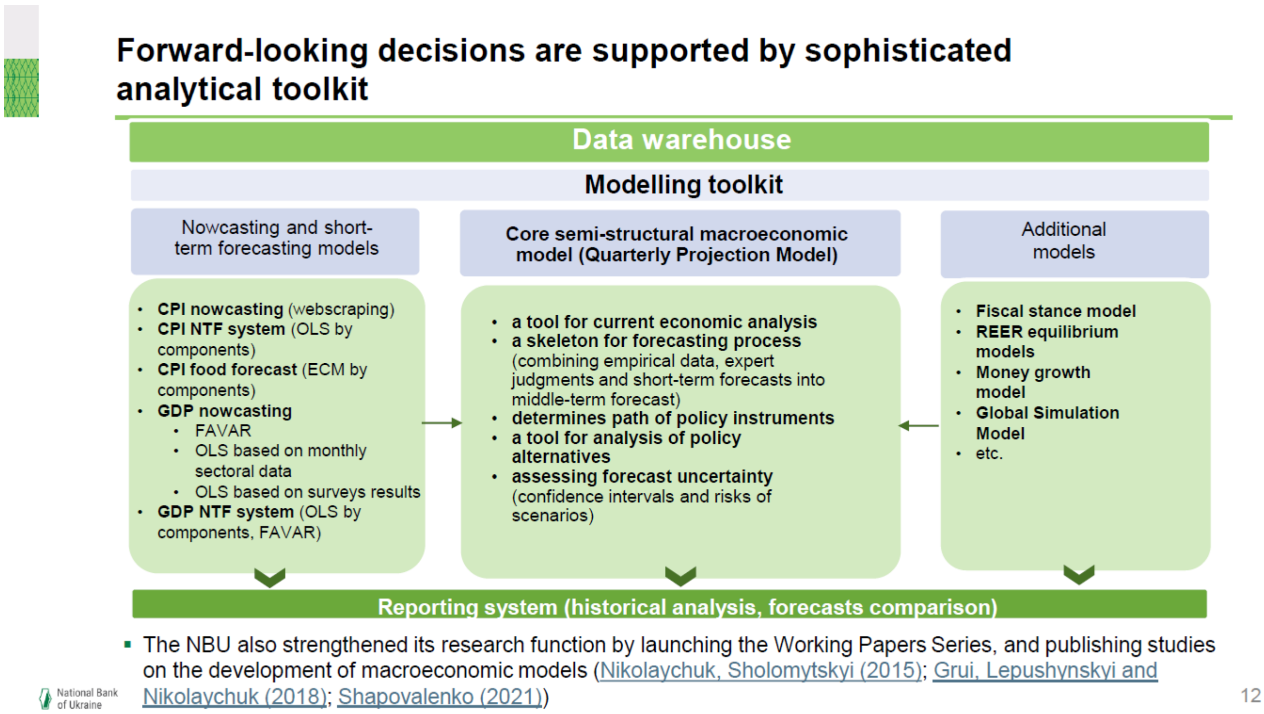
Another important institutional innovation was the establishment of the Monetary Policy Committee (MPC) — a formal platform for collective discussion and for facilitating decision-making on the policy stance. This step strengthened transparency and accountability both within the NBU and externally to the public.

By contrast, this setup was completely different from what we had before 2015, when monetary policy decisions were driven mainly by short-term market considerations rather than by a systematic assessment of macroeconomic developments and policy effects.



On the analytical side, the NBU continued to strengthen its modelling toolkit and forecasting techniques. Like many other central banks, we relied on nowcasting and short-term forecasting models, which were mostly data-driven. At the same time, our semi-structural macroeconomic model — the Quarterly Projection Model (QPM) — became the workhorse tool for forecasting and policy analysis. We employed a range of complementary and auxiliary models, placing strong emphasis on continuous methodological improvement.

The NBU also strengthened its research function, launching the Working Papers Series and expanding research outreach. Publications increasingly addressed topics such as the effectiveness of the monetary transmission mechanism (Zholud, Lepushynskyi and Nikolaychuk (2019)), the development of macroeconomic models (Nikolaychuk, Sholomytskyi (2015); Grui, Lepushynskyi and Nikolaychuk (2018);Shapovalenko (2021)), central bank independence (Koziuk (2016)), and inflation expectations formation (Coibion, Gorodnichenko (2015)).

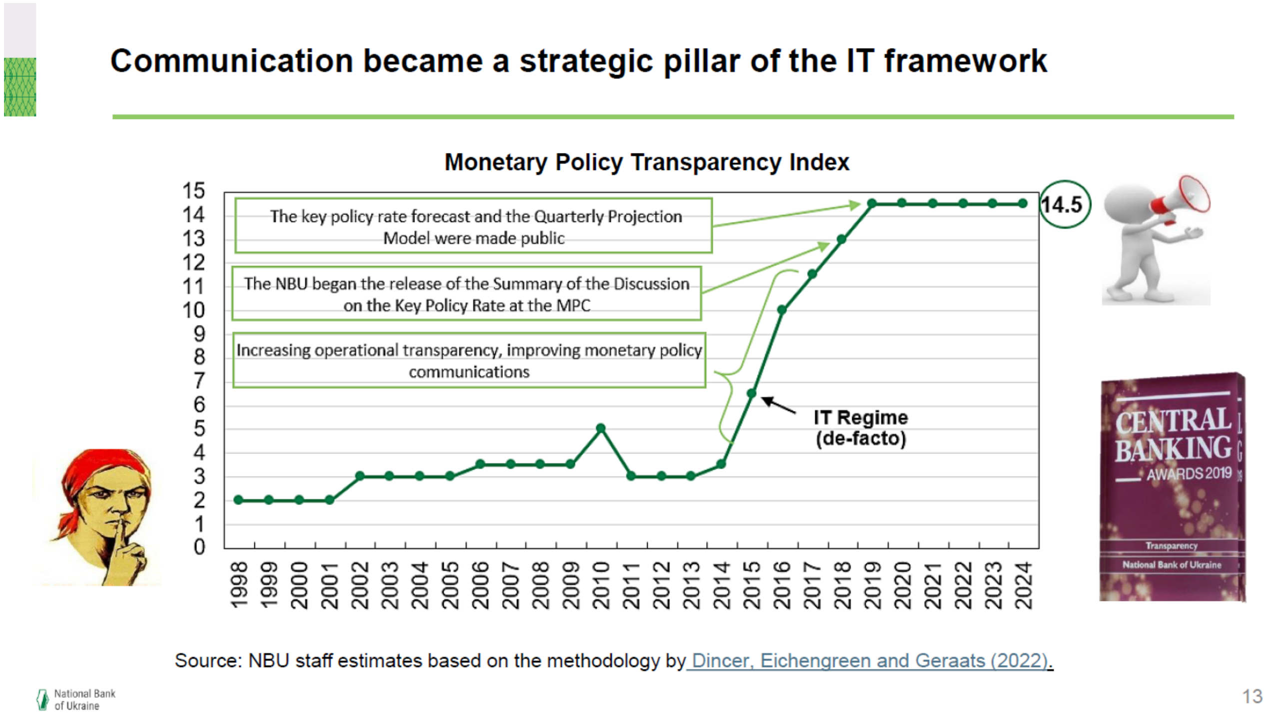


Another crucial pillar of the IT regime is communication. The way the NBU communicates with the public and with various groups of economic agents today is impossible to compare with what we had ten years ago. Before 2014, we operated in a rather ‘silent mode’, trying to explain as little as possible to the public.

However, as shown by the Monetary Policy Transparency Index, we made remarkable progress in a very short period of time. We moved from being one of the most closed central banks in the world to one of the most transparent. This was complemented by the introduction of regular press conferences and detailed press releases explaining the reasoning behind monetary policy decisions, as well as the launch of the quarterly Inflation Report. Over time, the report became one of the primary analytical references for market participants, journalists, and policymakers. In subsequent years, the NBU began publishing Summaries of Discussions from MPC meetings and joined the ranks of the most transparent central banks by discovering for the public the projected path of the key policy rate.

It is therefore not surprising that in 2019 the NBU received the prestigious Central Banking Award for Transparency — a recognition of our efforts to build openness, credibility, and accountability in monetary policy.

By combining these institutional, operational, analytical, and communication reforms, the NBU built the infrastructure required for a credible inflation targeting regime.



Performance before the Full-Scale War

And now, let us look at the main outcomes — starting with inflation management. Back in 2015, doubts about the appropriateness of the new regime were widespread — both outside the NBU and even within the institution itself. Many believed that inflation could not be reduced so quickly from 50–60% to around 12% by the end of 2016, but experience proved otherwise. As you can see from the chart, the actual outcome was 12.4%. From my point of view, that success was the result of a good combination of effort, discipline, and a bit of luck.

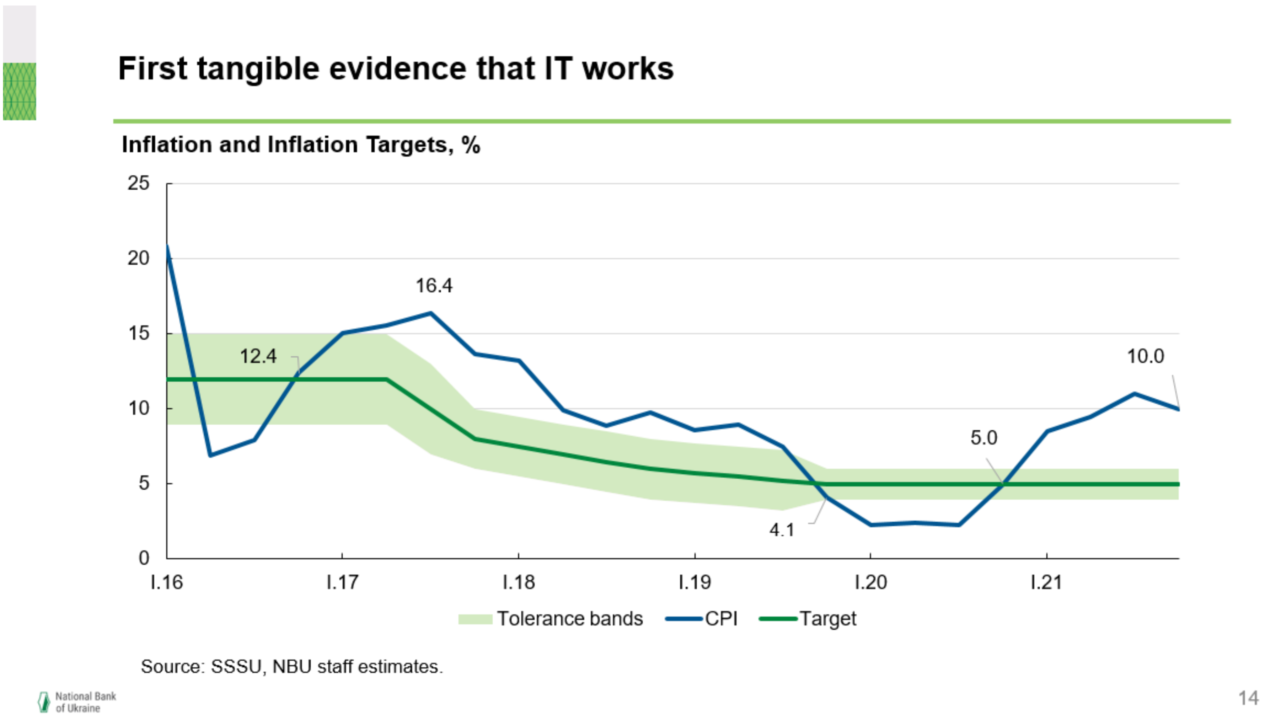
Then, in mid-2017, our luck ran out for a while. The NBU faced a renewed inflation surge — mostly driven by adverse food supply shocks and significant labor market tightness caused by the introduction of a visa-free regime with the EU and large-scale labour migration. This became our second major challenge. But I strongly believe we handled it quite effectively. In response, the NBU first paused its monetary policy easing and then moved decisively to tighten, raising the key policy rate from 12.5% to 18% in several steps. It took us about two and a half years to bring inflation back to target. By the end of 2019, inflation had slowed to 4.1% — even below the 5% target we had announced in 2015 to be achieved by that time.

I still remember that some external analysts and investment companies started to refer to us as the 'Bundesbank of Eastern Europe' — which, in a way, was a recognition of our adherence to the inflation targeting achievements.

Our next challenge came in the spring of 2020, when the pandemic crisis hit Ukraine — as it did the rest of the world. I remember that during the 2008 global financial crisis, many countries were able to ease their monetary policy to support their economies. For instance, Poland was remarkably successful in doing so, and it was the only European economy that avoided a recession at that time. In contrast, back then, Ukraine did not have such an opportunity. We were forced to deal simultaneously with a banking crisis and a currency crisis.

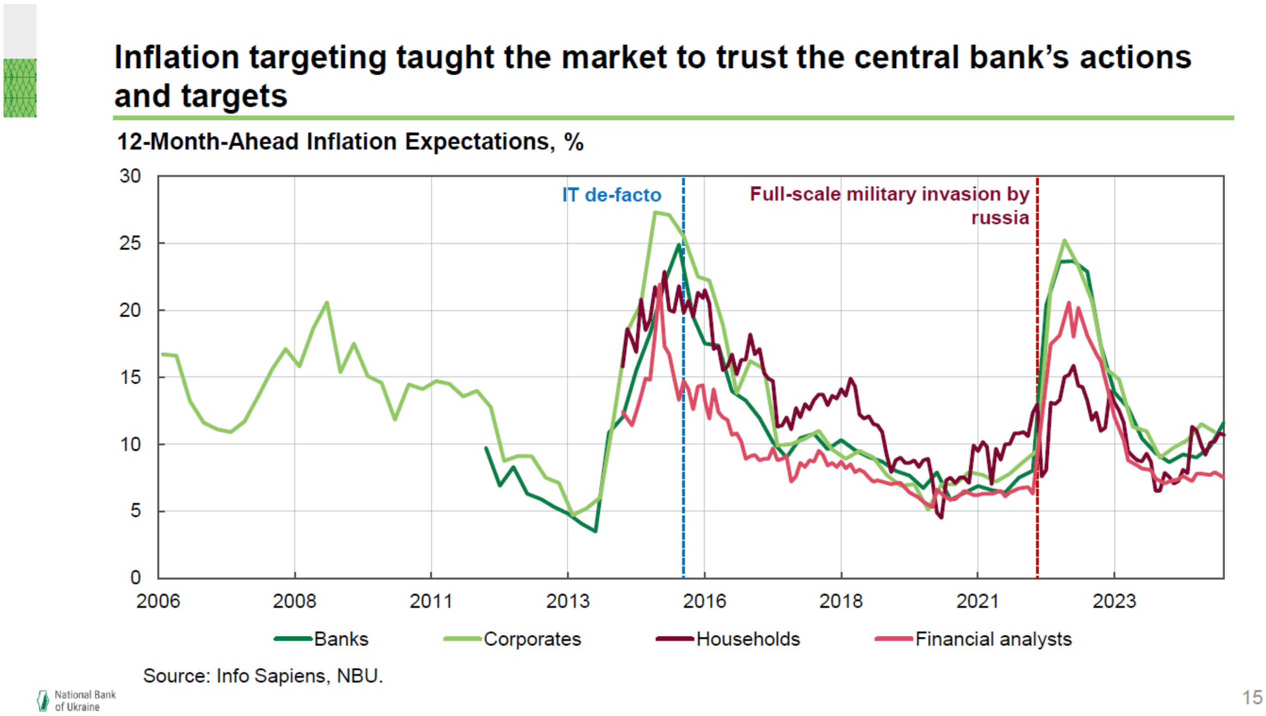
The situation in 2020 was, of course, difficult — but at least this time we faced no such trade-off. We were able to ease monetary policy to support the economy without jeopardizing our monetary stability mandate. As a result, inflation remained low and close to the 5% target.

In 2021, we encountered a new challenge — the post-pandemic surge in inflation. The NBU reacted promptly and decisively. We were among the first central banks in the world to start raising interest rates and were even able to reverse the inflationary trend. Yet, at the beginning of 2022 we faced a far more extreme challenge.



Still, inflation management is not the only measure of success for an inflation-targeting central bank. What is even more important is building credibility and ensuring that economic agents trust the central bank’s policies. The introduction of inflation targeting created the conditions for stabilizing inflation expectations and gradually anchoring them around the announced target.

As you can see from the chart showing 12-month-ahead inflation expectations among four groups of respondents, we were quite successful in bringing these expectations closer to our 5% target — especially among professional analysts, banks, and corporations. By 2020–2021, even household expectations had moved closer to the target. This credibility paid off — even during the war.

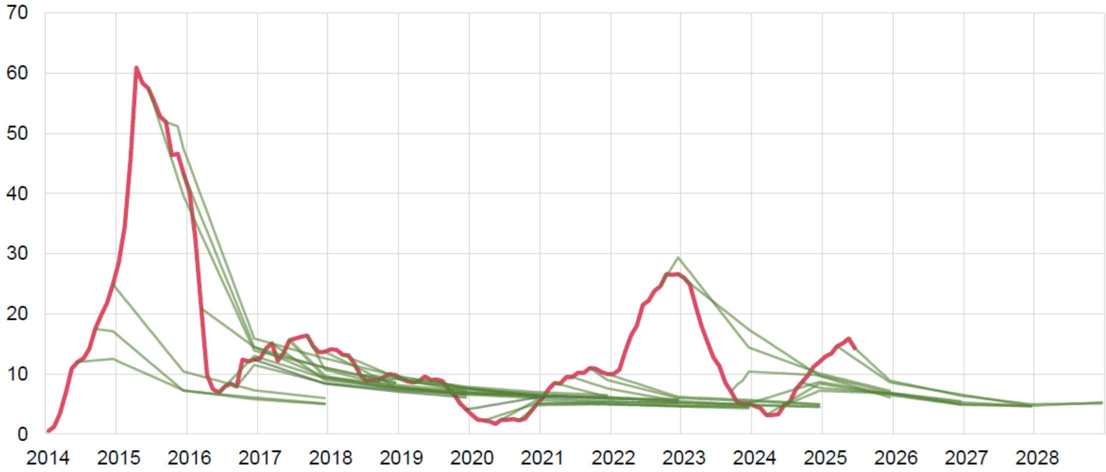


Of course, we experienced a surge in inflation in 2022, but we were able to normalize the situation quite effectively and relatively quickly. It is also important to look at medium-term inflation expectations. Here, we refer to two- and three-year-ahead forecasts collected by FocusEconomics. As you can see, several years after the introduction of inflation targeting, these medium-term expectations became well anchored around our 5% target. Even after the relaunch of the inflation-targeting regime in 2024, the current projections remain very well aligned with this target.

This persistence underscores a broader lesson: how crucial it is for a central bank to build the infrastructure of trust from the very beginning of implementing the IT regime — and to maintain it consistently over time.

Stabilizing inflation expectations and gradually anchoring them around the announced target

CPI and Financial Analysts' Short- and Medium-term Inflation Expectations, %



Source: FocusEconomics, NBU.

National Bank of Ukraine

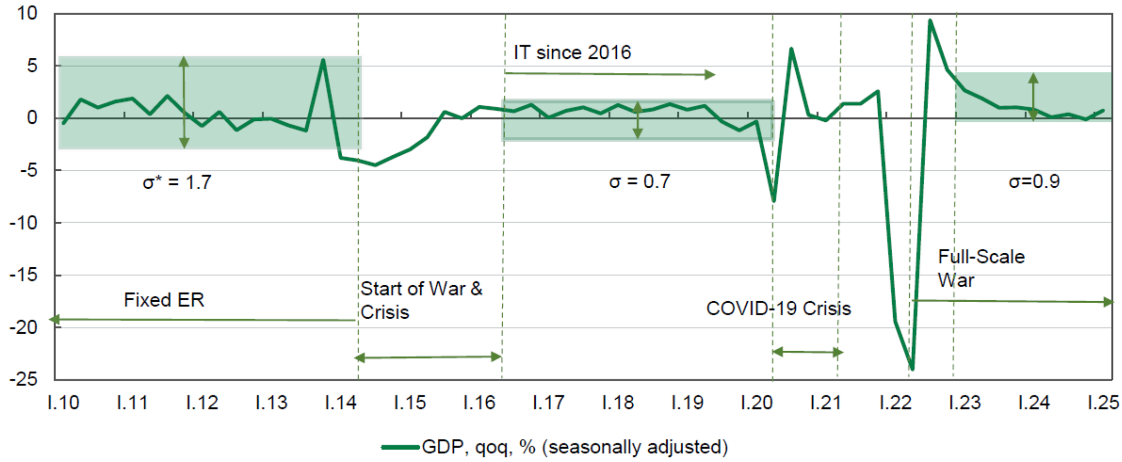
16

Beyond disinflation and expectations anchoring, the 2016–2021 period brought other notable achievements under the inflation targeting regime. There is often discussion in the literature about the potential growth losses that a central bank must accept to bring inflation down to target.

In our case, however, we did not observe a substantial negative effect of tight monetary policy on economic growth. This is probably related to the relatively low level of financial intermediation in Ukraine, as well as to the fact that macroeconomic and financial stability itself strongly supports the economy.

Moreover, if you compare the volatility of GDP growth in Ukraine before the 2014–2015 crisis with the period from 2016 to 2020 — before the pandemic — you can clearly see that this volatility decreased substantially.

Significant reduction in GDP growth volatility



*σ - standard deviation
Source: SSSU, NBU staff estimates

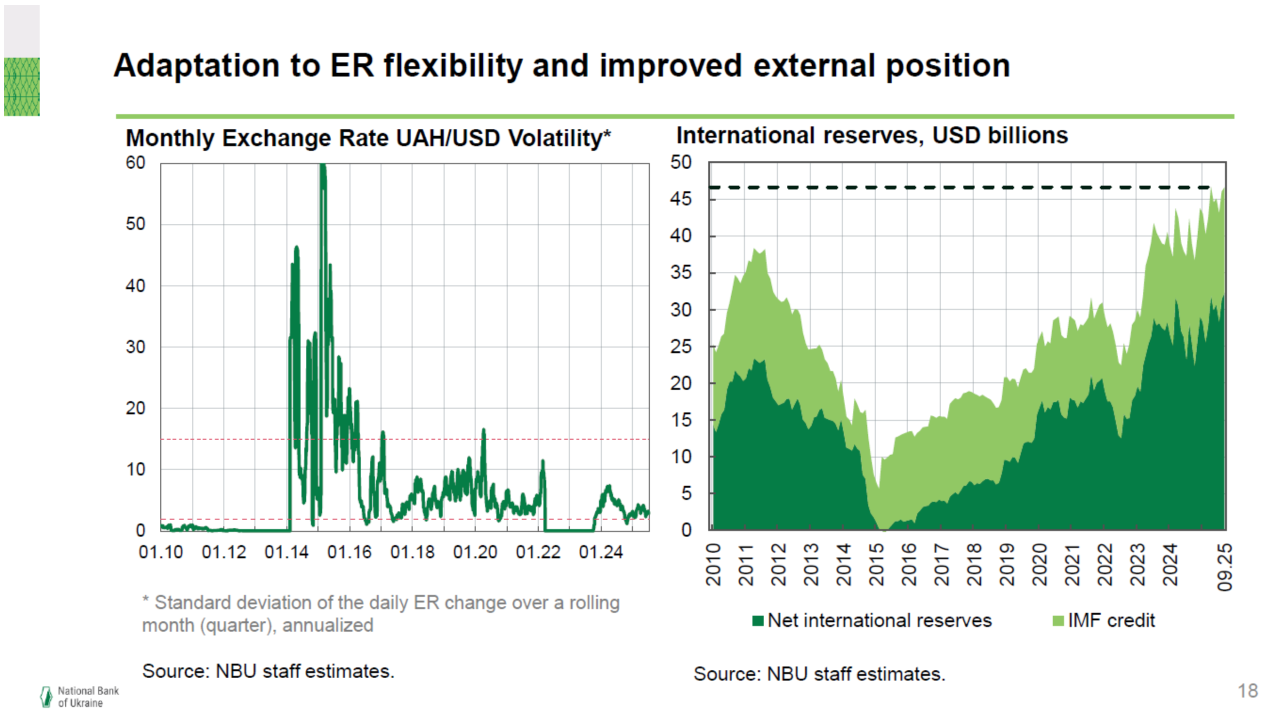
National Bank of Ukraine 17

It was also very important for us that economic agents gradually adapted to exchange rate volatility. For instance, if you look at the indicator of the monthly volatility of the hryvnia–US dollar exchange rate, you can clearly distinguish two very different periods: the first one, before February 2014, when volatility was close to zero; and the second, during the crisis period of 2014-15, when volatility spiked to extreme levels.

Under the inflation targeting regime, we aimed to achieve something different — a balanced situation in between these two extremes. The system now functions amid moderate exchange rate volatility, which allows it to absorb shocks while maintaining stability. Economic agents have learned to live with this volatility and no longer expect the central bank to keep the exchange rate fixed or constantly intervene to maintain a particular level.

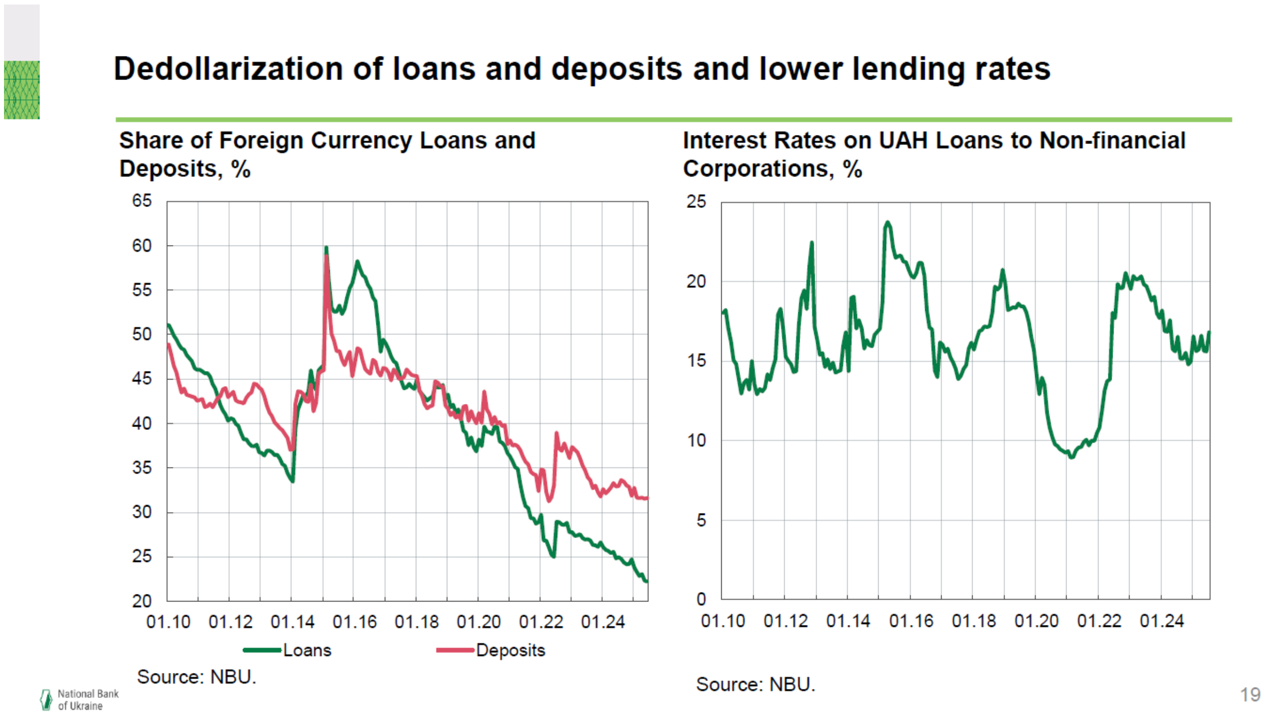
From my point of view, we successfully achieved this goal. Most market participants and businesses have adapted to operating under these new conditions. Moreover, this approach has greatly strengthened our external sustainability. In February 2015, Ukraine’s international reserves had fallen to almost 5 billion US dollars, but since then, we have ensured an almost continuous upward trend in reserve accumulation.

This policy not only allowed us to maintain macro-financial stability, but also contributed to the accumulation of buffers that helped us in the spring of 2022 to avoid even more negative scenarios — and to normalize the situation relatively quickly afterward.



Another important result of implementing the inflation targeting framework was a substantial decline in dollarization across the economy — both in loans and in deposits. Moreover, this policy helped us achieve historically low interest rates for corporate borrowers in the national currency. It is interesting to compare this outcome with earlier periods: in 2020–2021, corporate lending rates in hryvnia dropped below 10 %, while in 2012–2013 — despite near-zero inflation — the cost of capital for non-financial corporations remained high, with interest rates hovering from 15 to 20%.

This contrast illustrates how the credibility of monetary policy and the anchoring of inflation expectations can reduce risk premia and bring lasting benefits to businesses and the economy.



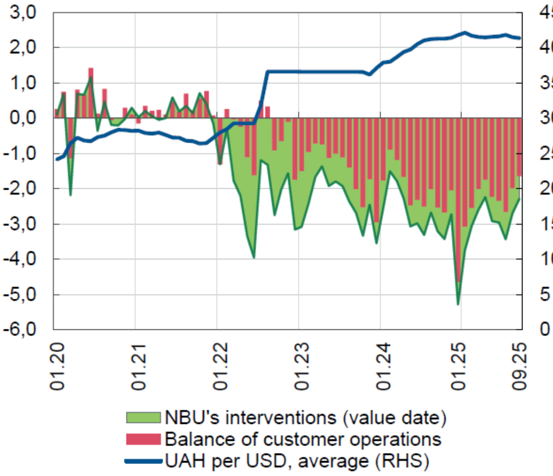
By the eve of the full-scale war, I would say these were our main achievements. The inflation-targeting framework had firmly established itself as a credible, flexible, and well-understood monetary policy regime in Ukraine — one capable of ensuring price stability and strengthening macroeconomic resilience even amid major shocks.

Resilience under the Full-Scale War

The intensification in February 2022 radically changed the operating environment and became a severe test for Ukraine's monetary policy and the NBU's ability to fulfil its mandate. On the very first day of the invasion, we fixed the exchange rate against the US dollar and introduced strict — even draconian — capital controls. This necessary '180° turn' preserved international reserves, stabilized the financial system, and curbed inflationary pressures under the extraordinary conditions of a wartime economy.

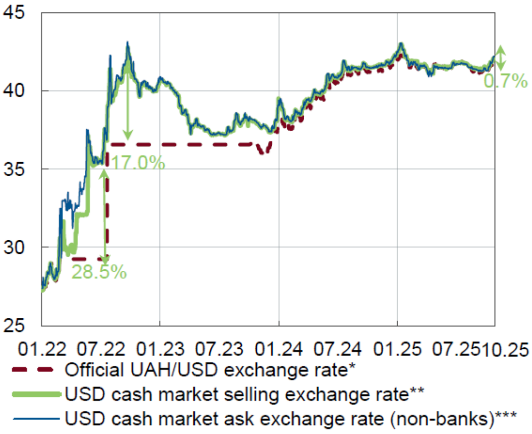
A 180-degree turn: Monetary policy at the onset of the full-scale invasion of Ukraine

Bank clients' FX transactions and NBU's FX interventions (USD billions), UAH/USD ER (avg.)



Source: NBU.

Hryvnia per USD exchange rates



Data for October 2025: *as of 27.10, ** as of 23.10,
*** as of 26.10.

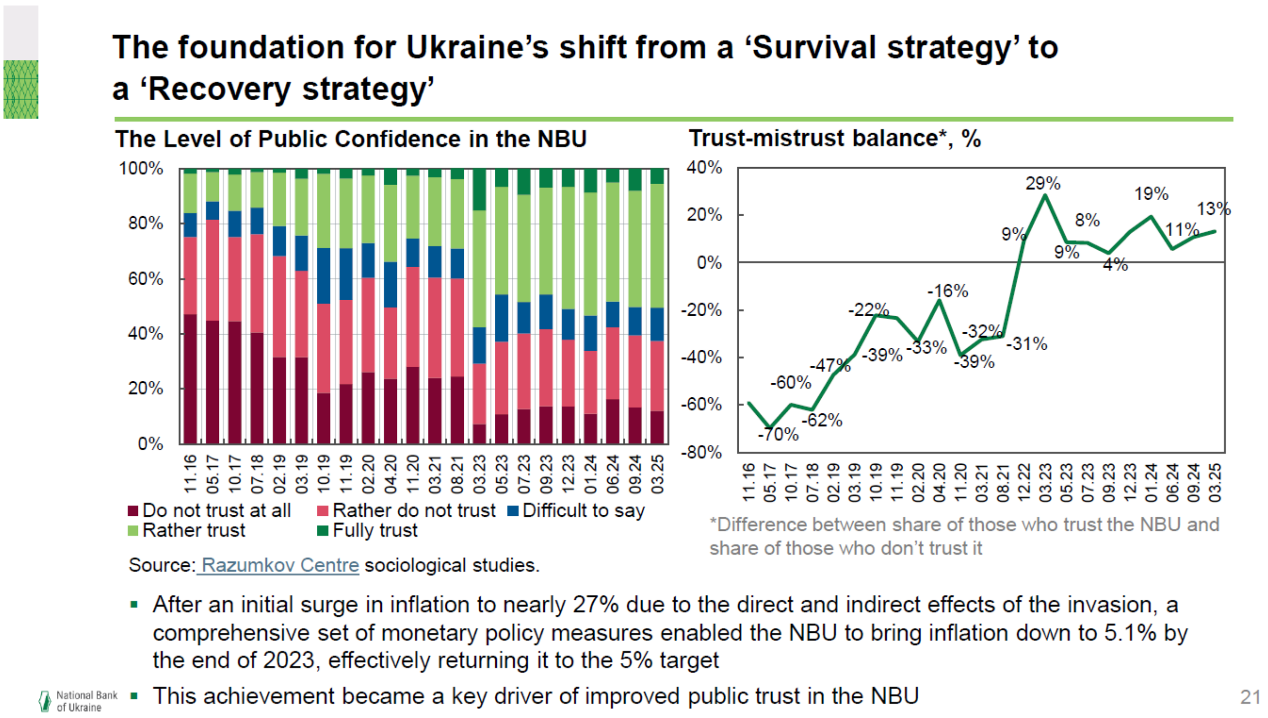
Source: NBU, open data sources.

National Bank of Ukraine

20

After an initial surge in inflation to nearly 27% due to the direct and indirect effects of the invasion, a comprehensive set of monetary policy measures — including exchange rate stability, making hryvnia-denominated instruments more attractive, unprecedented support from international partners, and favourable food supply factors — enabled the NBU to bring inflation down to 5.1% by the end of 2023, effectively returning it to the 5% target.

What was truly crucial for the success of monetary policy — both before and during the period of intensification — was public confidence in the central bank's actions. As you can see from this chart, back in 2016, when we had just started implementing inflation targeting, the level of trust in the NBU was very low. That was understandable, given the deep scars left by the 2014–2015 crisis. The situation improved steadily. By 2020–2021, confidence in the NBU's policies had increased substantially, and in 2022–2023, it reached even higher levels. This was likely the result of our agile and consistent approach to both monetary and exchange rate policy during the war.

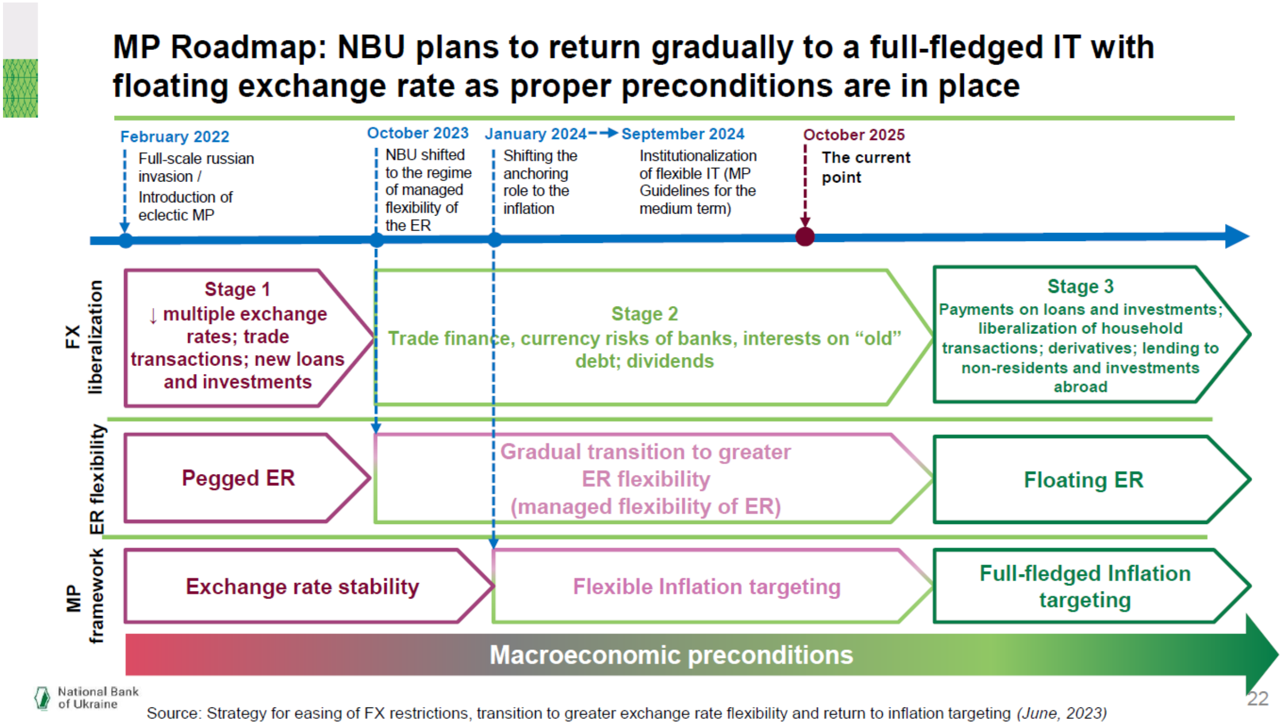


This high level of public trust allowed us to lay the groundwork for Ukraine's transition from a survival strategy — which dominated policy in 2022 and the first half of 2023 — to a recovery strategy.

From that period on, I would like to highlight a few important milestones. First, in October 2023, we moved from a fixed exchange rate to a regime of managed exchange rate flexibility. In 2024, the NBU transitioned to an interim monetary regime — flexible inflation targeting. Under this framework, monetary policy — as before 2022 — is aimed primarily at achieving and maintaining price stability, bringing inflation to the 5% target over an appropriate policy horizon. At the same time, the specific features of the new regime allowed the NBU to respond more flexibly to shocks, tolerating moderate temporary deviations of inflation from the target to help the economy adapt to changes in domestic and external conditions.

The shift to flexible IT enhanced the NBU's ability to maintain an optimal balance between ensuring price stability and supporting economic recovery during wartime, using a coordinated mix of interest rate policy, exchange rate policy, FX restrictions, and, if needed, other monetary tools.

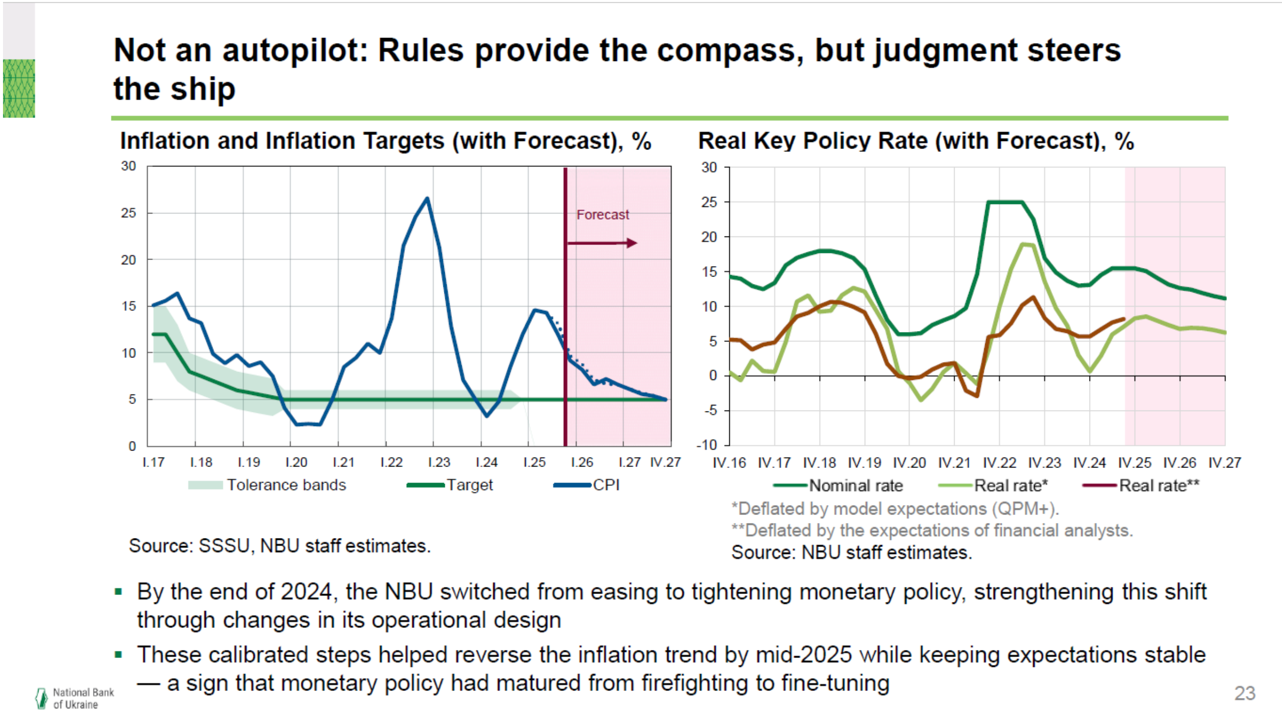
In many respects, our current policies are already very similar to those we pursued before 2022, although they are now implemented in a more flexible and adaptive manner. We still view the current regime as transitional — a bridge toward returning to the orthodox inflation targeting framework with a floating exchange rate. What has remained unchanged under both monetary frameworks is our firm commitment to achieve the inflation target and to conduct monetary policy consistently and responsibly.



As you can see from our latest projections published last week, we still expect to bring inflation back to the 5 % target by 2027. To achieve this, we stand ready to maintain relatively tight monetary conditions for as long as necessary.

However, it is worth noting that the projected real interest rate is now lower not only compared with 2022 — which is understandable — but also relative to 2017–2019, when the NBU had to build credibility by keeping monetary conditions tight.

NBU estimates show that this prolonged monetary policy response is expected to have a largely neutral effect on lending, which has continued to expand robustly thanks to strong competition among banks for reliable borrowers, and on overall economic recovery. In general, this wartime monetary regime demonstrates not only tactical flexibility, but also a new level of strategic thinking in an environment of constant turbulence.



Conclusion: Inflation Targeting in a New Era of Uncertainty

Let me conclude. Inflation targeting has fundamentally transformed the way the NBU delivers on its mandate of price stability. From our point of view, it stands as one of the most significant and successful reforms since the Revolution of Dignity — going hand in hand with broader institutional modernization. The institutional capacity of monetary policy today is incomparably stronger than it was a decade ago.

The 5% inflation target has served as a reliable nominal anchor through some of the most severe and prolonged shocks in modern economic history. It has brought tangible benefits for economic agents and for the economy as a whole.

It is also important to understand that inflation targeting is not about hitting the target at all times. Rather, it is about the central bank's ability to respond to deviations from the target in a consistent, transparent, and explainable way. In other words, inflation targeting is not about avoiding misses — it is about how the central bank reacts when those misses occur. In such conditions, the NBU will continue to constantly follow the data-dependent approach, basing decisions on the inflation outlook, the latest economic and financial data, and the strength of monetary policy transmission. While publishing its key policy rate projection, the NBU will not pre-commit to any particular rate path. Instead, it will focus on providing clarity about its reaction function — explaining how policy will respond to shocks of different origin, size, and persistence.

Looking ahead, our key challenge will be to preserve the credibility and effectiveness of monetary policy in an environment of persistent uncertainty. And here, I would refer to what central bankers call the ‘Pep Guardiola theory of monetary policy’ — equipping players to make the right decisions on the pitch, in real time.

Rules provide the compass, but judgment steers the ship. I believe this principle captures the essence of modern monetary policy. The central bank cannot predict all possible situations or have ready-made solutions for every shock. But it must be prepared; its team must be well-trained, and it must have the capacity to find the best possible decision at every moment when that decision is needed.

As before, the NBU will make everything possible to provide price stability, adapting our policy frameworks to new realities. In an age of turbulence, a strong and credible commitment to our inflation target is more important than ever.

I will stop here. Thank you for your attention.

References

1. Bernanke, Ben S. (2003). 'Constrained Discretion' and Monetary Policy. *Remarks by Governor Ben S. Bernanke. The Federal Reserve Board*. https://www.federalreserve.gov/boarddocs/Speeches/2003/20030203/default.htm
2. Coibion, O., Gorodnichenko, Y. (2015). Inflation Expectations in Ukraine: A Long Path to Anchoring?. *Visnyk of the National Bank of Ukraine*. 233, 6-23. https://doi.org/10.26531/vnbu2015.233.006
3. Dincer, N., Eichengreen B. & Geraats P. (2022). Trends in Monetary Policy Transparency: Further Updates*. International Journal of Central Banking.* vol. 18(1), 331-348. https://www.ijcb.org/journal/ijcb22q1a8.pdf
4. Gorodnichenko, Y. (2014). Inflation target for Ukraine. *VoxUkraine.* https://voxukraine.org/en/51
5. Grui, A., Lepushynskyi, V., Nikolaychuk, S. (2018). A Neutral Real Interest Rate in the Case of a Small Open Economy: Application to Ukraine. *Visnyk of the National Bank of Ukraine*. 243, 4-20. https://doi.org/10.26531/vnbu2018.243.004
6. International Monetary Fund. (2006). Inflation Targeting and the IMF. *Policy Papers (Washington)*. https://www.imf.org/external/np/pp/eng/2006/031606.pdf
7. International Monetary Fund. Research Dept. (2005). Chapter 4. Does Inflation Targeting Work in Emerging Markets? *World Economic Outlook, September 2005*.
8. Koziuk, V. (2016). Independence of Central Banks in Commodity Economies. *Visnyk of the National Bank of Ukraine.* 235, 6-25. https://doi.org/10.26531/vnbu2016.235.006
9. Lagarde, C. (2025). Strategy assessment: lessons learned. *Introductory speech at the opening reception of the ECB Forum on Central Banking 2025 "Adapting to change: macroeconomic shifts and policy responses". European Central Bank.* https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250630_1~ba0ef03e6f.en.html
10. Nikolaychuk, S., Sholomytskyi, Y. (2015). Using Macroeconomic Models for Monetary Policy in Ukraine. *Visnyk of the National Bank of Ukraine.* 233, 54-64. https://doi.org/10.26531/vnbu2015.233.054

11. Resolution on the Monetary Policy Guidelines for 2016-2020, No 541, August 18, 2015. *National Bank of Ukraine.* https://zakon.rada.gov.ua/laws/show/v0541500-15?lang=en#Text
12. Shapovalenko, N. (2021). A Suite of Models for CPI Forecasting. *Visnyk of the National Bank of Ukraine.* 252, 4-36. https://doi.org/10.26531/vnbu2021.252.01
13. Vavra, D. (2015). Inflation Targeting Experience: Lessons for Ukraine. *Visnyk of the National Bank of Ukraine.* 233, 39-53. https://doi.org/10.26531/vnbu2015.233.039
14. Zholud, O., Lepushynskyi, V., Nikolaychuk, S. (2019). The Effectiveness of the Monetary Transmission Mechanism in Ukraine since the Transition to Inflation Targeting. *Visnyk of the National Bank of Ukraine.* 247, 19-37. https://doi.org/10.26531/vnbu2019.247.02