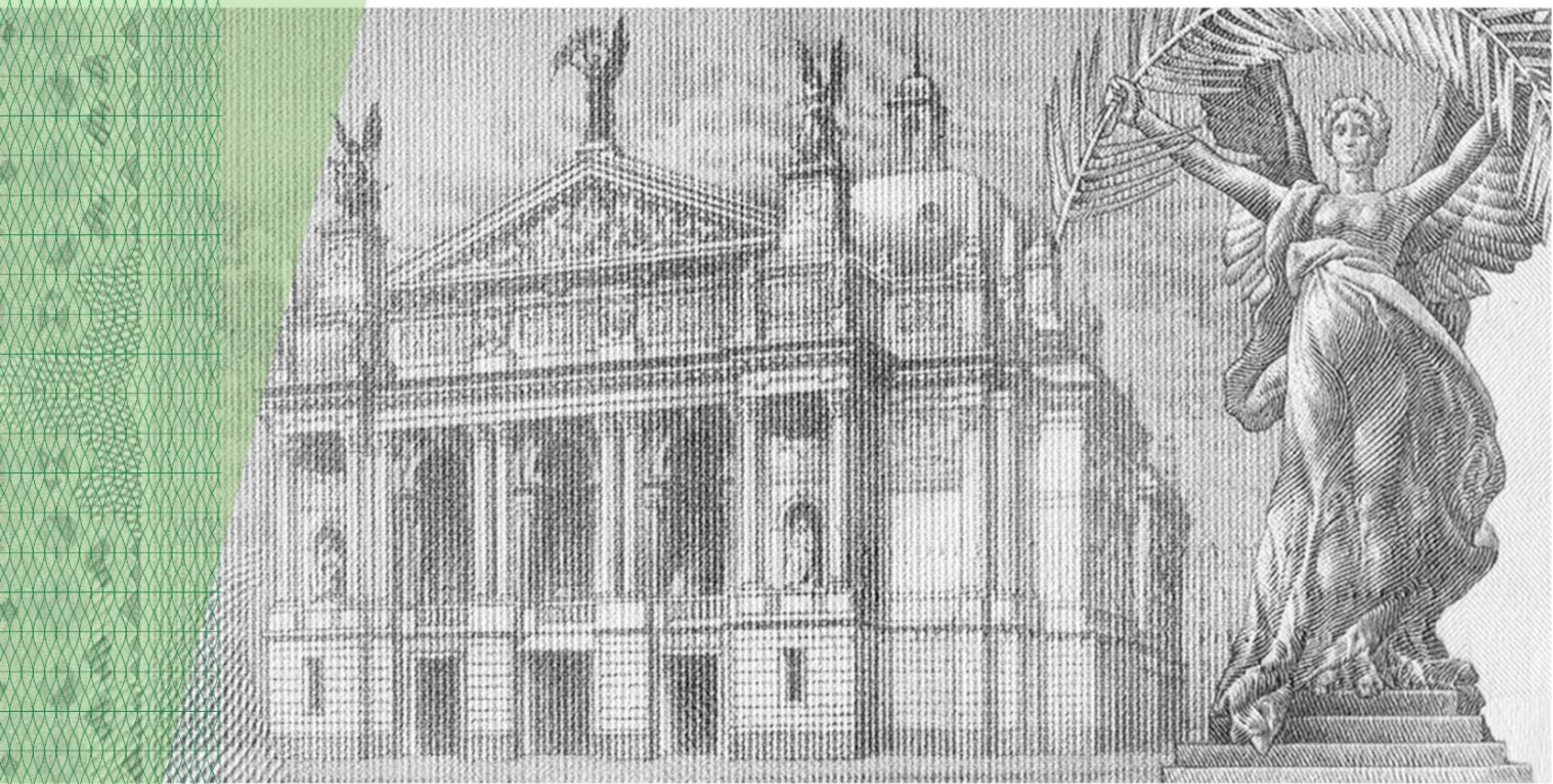
National Bank of Ukraine

Inflation Report

April 2025



Despite the full-scale war's challenges, the NBU remains committed to its mandate to ensure price and financial stability – the key to achieving sustainable economic recovery. At the current stage, price stability is being achieved through flexible inflation targeting and is supported by a coordinated combination of interest-rate-policy and exchange-rate-policy instruments, as well as FX restrictions in accordance with the Monetary Policy Guidelines for the Medium Term and the Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting.

In particular, monetary policy aims to bring inflation, measured by the yoy change in the CPI, to its target of 5% over the relevant policy horizon that does not exceed three years. The flexibility of the current monetary regime allows moderate and relatively short-term deviations of inflation from its quantitative target due to domestic and external factors. This approach, on the one hand, helps the Ukrainian economy adapt to shocks and supports its recovery, and, on the other hand, it allows the NBU to keep inflation expectations under control despite a significant increase in uncertainty, including geopolitical uncertainty, due to the rapid political polarization of countries, intensified de-globalization, and escalating trade and currency confrontations globally.

The NBU is taking steps to strengthen the effectiveness of monetary transmission channels and to continue to restore the key policy rate's function as the monetary instrument. Changes in the key policy rate and adjustments to the operational framework of interest rate policy take into account significant shifts in the balance of risks, and are primarily aimed at maintaining the sustainability of the FX market, keeping inflation expectations under control, and ensuring price stability.

Under the managed flexibility regime, the exchange rate can be either appreciated or depreciated, depending on changes in market conditions. To ensure flexibility in both directions, the NBU compensates for the structural FX deficit of the private sector by channeling excess foreign currency from the public sector (received mostly as international aid) into the economy. Coupled with smoothing out excessive exchange rate volatility, this contributes to keeping inflation and exchange-rate expectations in check, maintaining confidence in the hryvnia, and bringing inflation to the target of 5%. Concurrently, exchange rate flexibility makes it possible to fortify the Ukrainian economy's and the FX market's resilience to domestic and external shocks and reduces the risk of accumulation of external trade imbalances.

Aware of the urgent need to minimize FX market distortions, improve the conditions for doing business in Ukraine and for entry of domestic businesses into new markets, support the economy's recovery, and promote new investment inflows into the country, the NBU is gradually easing the FX restrictions as appropriate prerequisites are met.

The NBU plans to use flexible inflation targeting until the economy's functioning normalizes and inflation targeting is restored to its full format with a floating exchange rate.

The analysis in the current Inflation Report (April 2025) is based on the data available at the time of its preparation, meaning that the time horizon of the analysis may vary for some indicators. The cut-off date for the data in this report is 16 April 2025 for most indicators. The Inflation Report presents a forecast for the country's economic development in 2025–2027 that was prepared by the Monetary Policy and Economic Analysis Department and approved by the NBU Board at its monetary policy meeting on 17 April 2025[1].

The NBU Board makes decisions on the key policy rate and other monetary instruments in line with the schedule published in advance. The decisions the NBU Board makes in January, April, July, and October are based on a new macroeconomic forecast. At the remaining four meetings (in March, June, September, and December), the NBU Board makes its decisions based on assessments of risks and uncertainty that take into account the economic developments in Ukraine and abroad since the latest forecast. The decisions are announced at a press briefing held at 2 p.m., after the NBU Board's monetary policy meeting. A press release that reflects the NBU Board's consensus perspective on its decisions is published at the same time. The summary of the discussion at the Monetary Policy Committee is published on the 11th day after the decision is taken. The summary shows the depersonalized opinions of all MPC members on the optimal monetary policy decisions to be made. It also includes differences of opinion and the reasoning behind them.

Previous issues and presentations of the Inflation Report, the forecast of the main macroeconomic indicators, and data in tables and figures are available here.

[1] NBU Board decision No.141 *On Approval of the Inflation Report* dated 17 April 2025.

Contents

Summary

The baseline scenario of the NBU's macroeconomic forecast assumes that Ukraine will continue to conduct prudent monetary and fiscal policies aiming at maintaining macrofinancial stability and will consistently meet its commitments under programs with international partners, which will keep providing sufficient financial support. The NBU assumes that conditions in which the economy operates will gradually normalize over the forecast horizon. This will take the form of the full unblocking of sea ports, the expansion of opportunities for investment and economic activity, and the gradual return of forced migrants.

In Q1 2025, inflation rose as had been expected

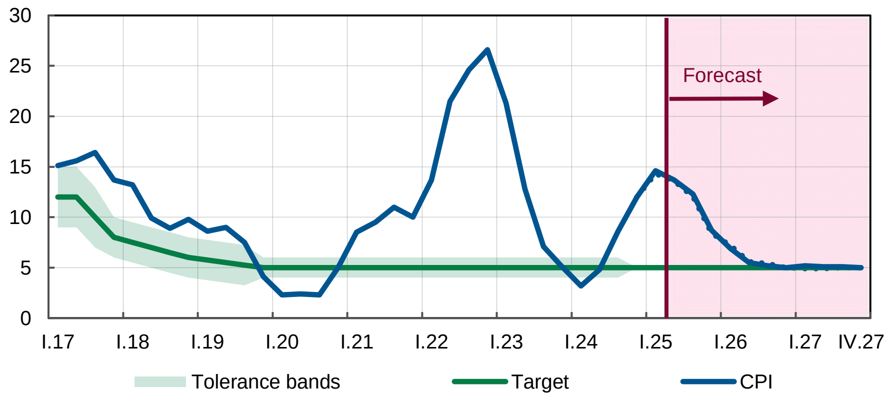
In the first months of the year, the growth of inflation was rather close to the trajectory of the NBU's previous macroeconomic forecast (January 2025 Inflation Report), reaching 14.6% yoy in March. Such dynamics were driven by the residual effects of last year's lower harvests, further increases in 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. Among other things, this was facilitated by the NBU's measures to maintain the sustainability of the FX market and keep inflation expectations in check. 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. Lower crude oil prices in the wake of global trade confrontations will also help reduce price pressures. 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.

Figure 1[2]. CPI change (end of period, % yoy) and inflation targets



Source: SSSU, NBU staff estimates.

2 Unless specified otherwise, a dashed line in the figures indicates the previous forecast.

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 some pickup in 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, although 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. In particular, this will be driven by stronger harvests and lower electricity shortages, which – coupled with large defense industry orders – will support industrial production.

In 2026–2027, 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, which will take place against the backdrop of a decrease in international financial assistance.

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.

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 has kept 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-denominated government bonds and hryvnia term deposits with maturities longer than three months, including those at the leading retail banks.

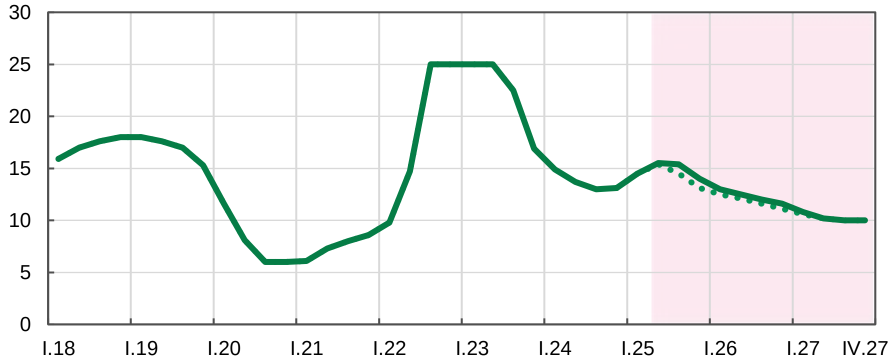
The growing attractiveness of hryvnia instruments was reflected in the greater demand for them. In particular, there has been noticeable progress in the growth of household deposits for terms longer than three months in banks of all groups. The combined net demand for term deposits and domestic government debt securities in March was the greatest in the last 10 months. Stronger interest in hryvnia savings, in turn, helped decrease households' demand for FX and reduce the NBU's FX 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.

Figure 2. **NBU's key policy rate, average, %**



Source: NBU staff estimates.

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

The war is grinding on. Russian aggression 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 caused by russian aggression 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 in 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 global trade confrontations. If these processes are prolonged, tend to increase further, and are accompanied by the rapid political polarization of countries, the external environment may be less favorable than envisaged by the current macroeconomic 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.

On the other hand, 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 (in particular, through the use of the principle from immobilized russian assets) and the international community's efforts to ensure a just and lasting peace for Ukraine. The Ukrainian economy could also receive an additional impetus from faster European integration.

Part 1. Inflationary Developments

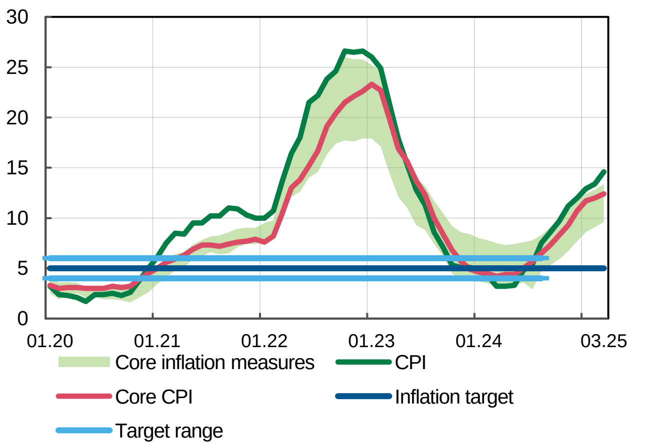
- As expected, inflation rose in Q1 2025, hitting 14.6% yoy in March. Such dynamics were driven not only by the residual effects of last year's lower harvests and further increases in prices for excisable goods, but also by underlying factors, in particular, higher businesses' costs for energy and labor, and by robust consumer demand.
- Thanks to the NBU's monetary policy measures, new and higher crop yields entering the market, an improvement in the energy sector, and moderate price pressures from Ukraine's major trading partners, inflation will decline to single digits by the end of 2025, reaching its 5% target in 2026. Going forward, it will remain near the target level.

Inflation will decline to single digits by the end of the year and will continue to move towards its 5% target over the policy horizon

In Q1 2025, consumer inflation rose as expected, accelerating to 14.6% yoy in March (compared to 12.0% yoy in December 2024). This rate was slightly higher than the NBU's forecast published in the January 2025 Inflation Report. Low domestic food supply due to last year's lower harvests remained a significant driver of price growth. At the same time, the impact of this factor largely materialized at the end of last year, and now only its residual effects are being observed. These effects will gradually diminish due to the expansion of supply, resulting from the arrival of new harvests, including greenhouse products and household produce.

However, the impact of underlying factors remains significant. This is confirmed by the further increase in core inflation (to 12.4% yoy in March compared to 10.7% yoy in December 2024). The war-driven rise in business production costs, in particular labor and energy costs, is then passed on to the cost of final products. Inflation is also fueled by robust consumer demand. The accelerated growth in prices for services is an additional indicator of the persistent domestic price pressure.

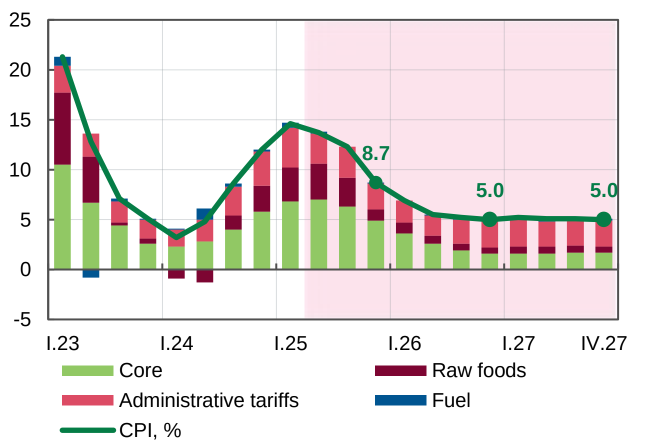
Figure 1.1. Consumer inflation and underlying inflation trends*, % yoy



* Read more in the January 2017 Inflation Report (pages 20–21). The target range remained in effect until August 2024 inclusive.

Source: SSSU, NBU staff estimates.

Figure 1.2. Contributions to annual CPI growth by main components at the end of period, pp



Source: SSSU, NBU staff estimates.

The increase in production costs, along with the strengthening of measures to combat the shadow-market supply of excisable goods, led to a more significant rise in administered prices, which also made a substantial contribution to the rise in consumer inflation in Q1 2025.

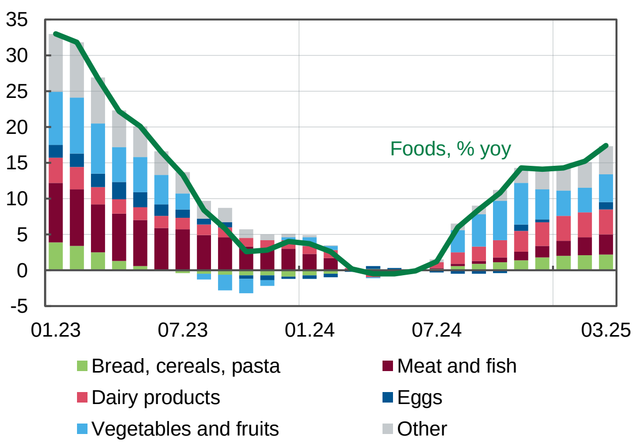
Inflation in annual terms will grow moderately in the coming months due to last year's low base effect, but inflation has almost run out of momentum. This is evidenced by the slower quarterly growth of core CPI and raw food prices, which peaked in Q4 2024. In the summer, price growth will start slowing 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 with electricity supplies, and lower pressures from the labor market. Moreover, an additional factor will be the decline in crude oil prices due to the cooling effect of trade confrontations on the global economy. As a result, inflation will slow to 8.7% at the end of 2025, reaching its target of 5% in 2026.

At the same time, robust growth of administered prices will persist over the forecast horizon, propelled by higher excise taxes and the need to bring utility tariffs to market-based levels. Under the following conditions, in order to achieve the inflation target over the policy horizon, monetary policy should aim to keep other components of inflation (primarily core inflation) at lower levels (around 3%-4%).

The expected increase in harvests will contribute to a rapid decline in food price inflation in H2 2025

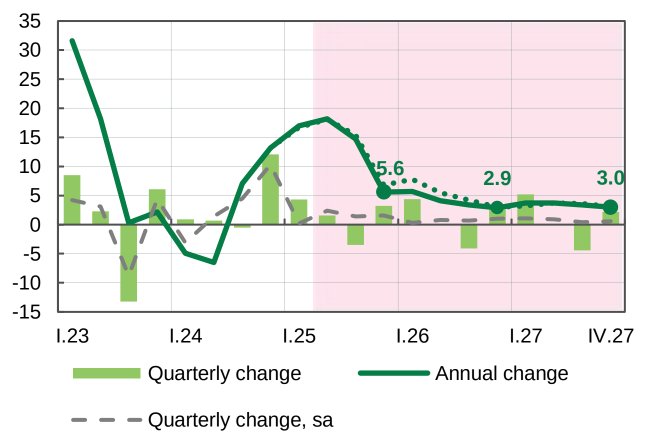
The effects of last year's lower harvests led to higher prices for fruits, livestock products, flour, and cereals. At the same time, the rise in the price of certain vegetables was restrained by increased imports, the sale of stocks after the onset of warm weather in Ukraine, and the arrival of a new greenhouse harvest. The cost of livestock products continued to rise, driven by second-round effects from higher feed and energy prices. Prices for veterinary drugs remained an additional cost driver, given their significant import component, in particular amid the weakening of the hryvnia exchange rate against the euro, as a substantial share of such drugs comes from the EU. The revival in external demand amid an increase in purchase prices on the global markets, was also reflected in higher prices for dairy products, eggs, and meat. At the same time, numerous outbreaks of African swine fever, although decreasing the supply of pork on the domestic market, had a moderate effect on its price, given the rather weak demand. In view of this, the growth in raw food prices generally accelerated (to 17.0% yoy in March compared to 13.2% yoy in December 2024), only slightly exceeding the NBU's January forecast.

Figure 1.3. Contributions to the annual change in food prices, pp



Source: SSSU, NBU staff estimates.

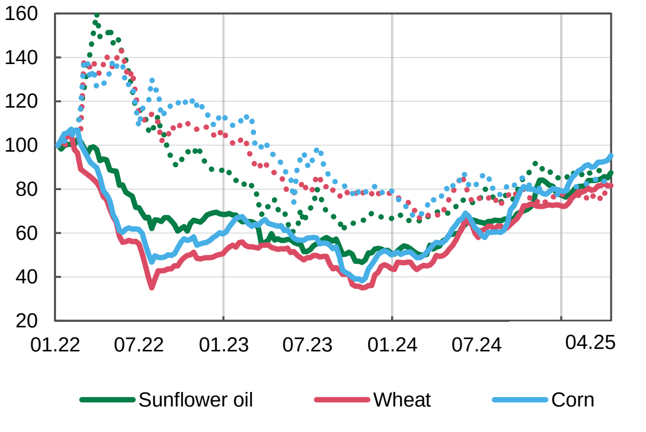
Figure 1.4. Raw food inflation at the end of period, %



Source: SSSU, NBU staff estimates.

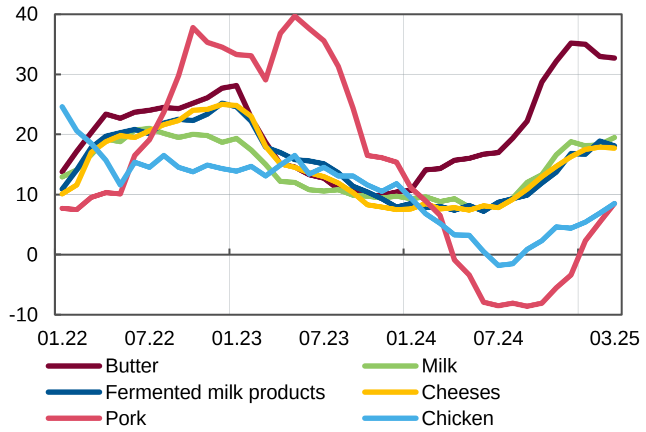
The growth in processed food prices (17.3% yoy in March compared to 14.7% yoy in December 2024) was also close to the forecast. The rise in these prices was fueled by both higher production costs and further increases in raw food prices. The latter increase resulted from limited processing volumes due to last year's low harvests and intensified exports amid rising world prices. In particular, the full-fledged functioning of the sea corridor (for more details, see the box *Sea Corridor's Impact on External Trade: Higher, Faster, Better* on page 32) has helped reduce logistics costs and bring domestic prices closer to the global levels. Certain imported goods, such as tea, fish, and seafood, rose in price due to exchange rate effects, while coffee and chocolate prices were also propelled by limited supply on the global markets.

Figure 1.5. Prices for major agricultural commodities in Ukraine and in foreign markets* in dollar terms, 01.2022 = 100



* The solid lines refer to prices for agricultural products in Ukraine on EXW terms, and the dashed lines are prices in foreign markets on FOB terms.
Source: APK-Inform, NBU staff estimates.

Figure 1.6. Prices for selected livestock products, % yoy



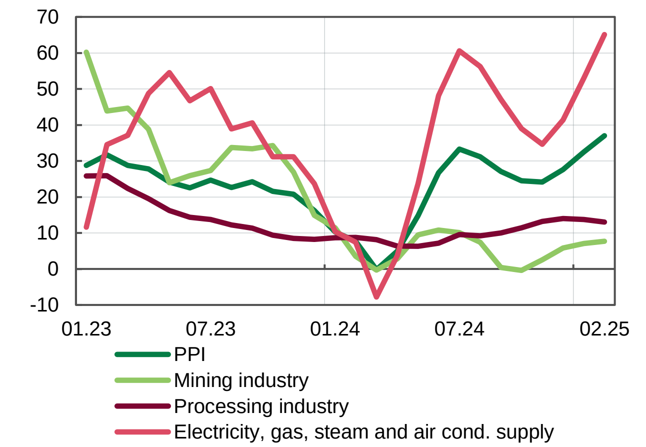
Source: SSSU.

Food price inflation will continue to rise in annual terms in the coming months for both raw and processed foods. However, the residual effects of last year's lower harvests will soon wear off, as evidenced by the dynamics of seasonally adjusted indicators in Q1. With a larger supply of the new harvest coming in this summer, the year-on-year growth of raw food prices will begin to slow rapidly, dropping to single digits by the end of the year. The potential for reining in food price inflation through imports is also greater this year, as domestic prices are much closer to global levels. Further on, assuming there are no significant supply shocks, food price inflation will return to relatively low levels (around 3%), thanks to a gradual increase in food production and improved logistics.

The underlying inflationary pressure will gradually ease, dampened by the NBU's monetary policy measures and by lower pressures from the labor market

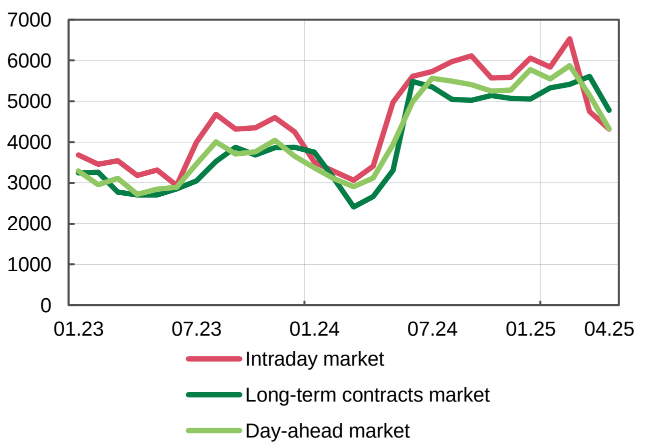
Limited production capacity, rising energy prices, and labor shortages, as well as higher prices for raw foods and materials remained the main drivers of core inflation in Q1 2025. Robust consumer demand, fueled by rising household incomes, also supported inflationary pressures (for more details, see the Section *Economic Developments* on page 20).

Figure 1.7. PPI and its components, % yoy



Source: SSSU.

Figure 1.8. Electricity prices for non-household consumers, UAH/MWh



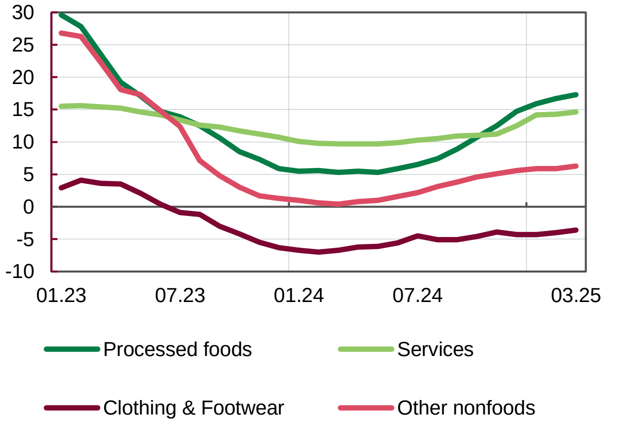
Source: Ukrainian Energy Exchange, Market operator.

The high cost of electricity for non-household consumers and additional expenditures to purchase back-up power equipment and ensure uninterrupted operations contributed to the increased price pressures, primarily in energy-intensive sectors. This is evidenced, in particular, by the rapid acceleration of producer price inflation in February

(37.0% yoy compared to 27.6% yoy in December 2024), primarily on the back of higher price growth in the electricity, gas, and steam supply sector (65.1% yoy compared to 41.4% yoy in December 2024). The increase in the cost of electricity for non-household consumers was also resulted from the revision of the cost of electricity transmission services by Ukrenergo. This, together with the rise in gas transportation tariffs, is likely to lead to further growth in consumer prices through second-round effects. However, these effects will be mitigated by a significant decline in electricity prices for non-household consumers in March–April. The decline was facilitated, in particular, by the seasonal drop in electricity consumption in the EU market, from which there are significant commercial flows to Ukraine. The expansion of technical capabilities for electricity imports (to 2.1 GW, up from 1.7 GW in December 2024) was an additional factor that eased access to imported electricity.

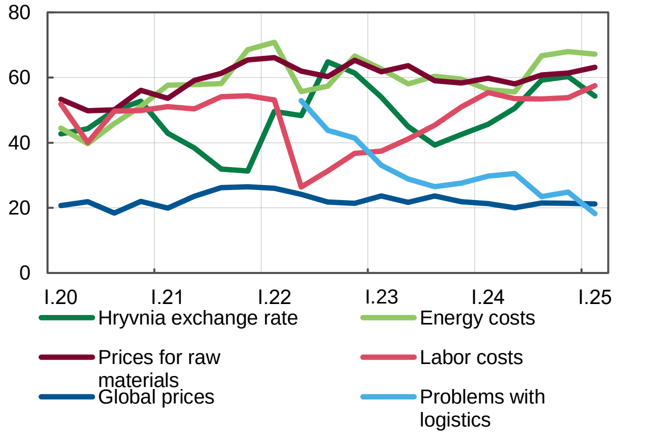
Although a certain increase in the labor supply has eased the search for workers, labor shortages remain a major concern for businesses and are driving further wage increases (for more details, see the Section *Economic Developments* on page 20). This had the greatest impact on the services sector, indicating that domestic price pressures are persistent. The growth of services prices accelerated to 14.6% yoy in March, up from 12.5% yoy in December 2024. In particular, compared to December, there was more rapid growth in prices for healthcare services (due to an updated list of paid medical services in public and municipal healthcare facilities), transportation (because of the rise in fuel prices at the beginning of the year and changes in approaches to calculating the cost of MTPL policies), telecommunications (on the back of higher tariffs by mobile operators and Internet providers), restaurants, hotels, and financial institutions.

Figure 1.9. Selected components of the core CPI, % yoy



Source: SSSU, NBU staff estimates.

Figure 1.10. Major factors affecting businesses' expectations of price changes for their goods and services, % of respondents



Source: NBU.

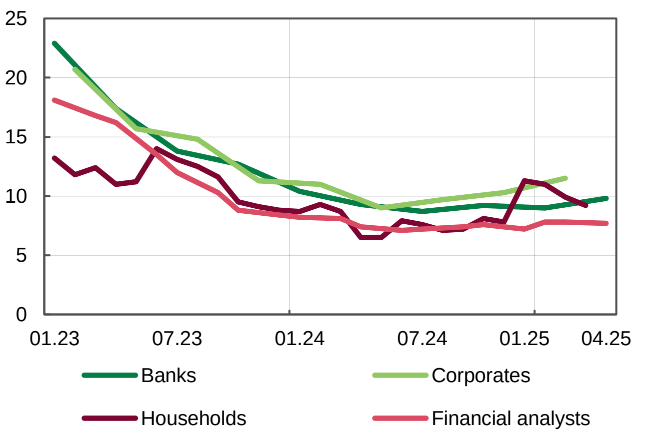
Growth in nonfood prices accelerated (to 4.7% yoy, up from 4.1% yoy in December 2024), but remained moderate amid improved exchange rate expectations. At the same time, the growth of prices for import-dependent services (such as transportation, medical, veterinary, dental services) remained high. On the other hand, prices for clothing and footwear remained lower than last year, likely due to high competition in this segment.

According to businesses, energy costs, prices for commodities, including raw foods, materials, and labor costs will remain the main selling price drivers over the next 12 months. Meanwhile, for the first time since mid-2023, the expected impact of the exchange rate has weakened. Businesses continued to note an easing of logistics problems, in particular due to the intensification of, and lower prices for, container shipping. The increased use of multimodal transportation, which combines sea and road transport and allows businesses to reduce logistics costs, also had a certain impact.

Price increases above the inflation target (5%) and the attention threshold (10%) covered more than half and a third of the consumer basket, respectively (for more details, see the Box *In Search of Optimal Flexibility: What Is an Acceptable Deviation of*

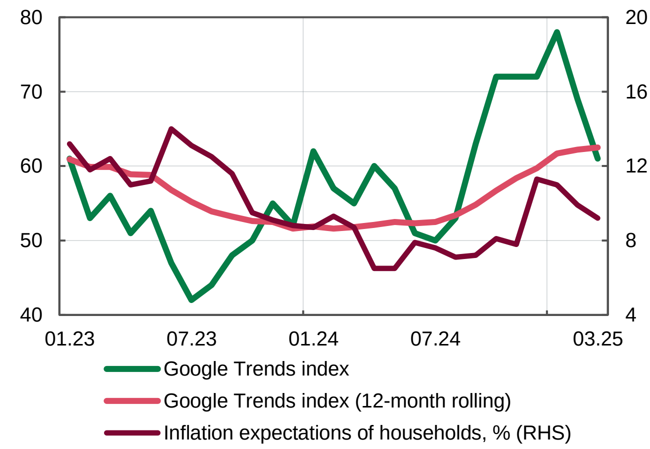
Inflation from the Target in the October 2024 Inflation Report). In spite of that, the inflation expectations of economic agents generally remained relatively stable and lower than actual headline inflation. This indicates a limited pass-through of the backward-looking component to the formation of expectations. What is more, 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, the inflation expectations of businesses and the banks deteriorated somewhat.

Figure 1.11. 12-month-ahead inflation expectations, %



Source: NBU, Info Sapiens.

Figure 1.12. Normalized and seasonally adjusted indices of interest in the Inflation topic and households' inflation expectations*



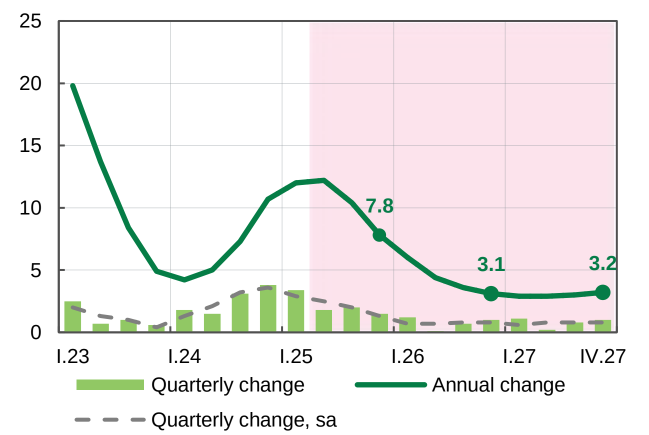
* 12-month-ahead inflation expectations of households.

Source: Info Sapiens, Google Trends, NBU staff estimates.

While underlying inflationary pressures will remain high, core inflation will begin to decline in the middle of this year, dampened by monetary policy measures, an improvement in the electricity supply situation, and more moderate labor market pressures. Real GDP and the hryvnia's REER, among other things thanks to monetary policy measures, will remain close to their equilibrium levels and will not create any additional inflationary pressure.

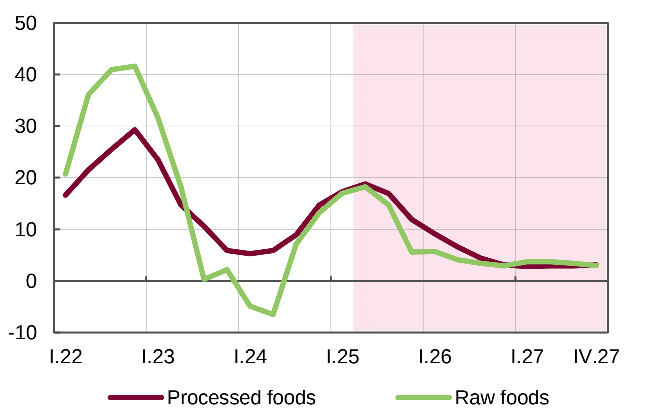
All main components of core inflation will gradually decline, with the most rapid drop being in prices for processed foods due to the second-round effects of lower raw food inflation. As energy shortages decrease, the waning effects of the pass-through to prices of investments made in energy independence will also become a disinflationary factor. Real wages grew faster than productivity in the economy, given the persistence of mismatches in the labor market. However, in the coming years, the impact of this factor will soften, and the pace of wage growth will slow, which will ease price pressures.

Figure 1.13. Core inflation at the end of period, % yoy



Source: SSSU, NBU staff estimates.

Figure 1.14. Food inflation components at the end of period, % yoy



Source: SSSU, NBU staff estimates.

As a result, by the end of 2026, core inflation will decline to around 3%, which will help the NBU achieve its inflation target even in the face of higher growth in administered prices.

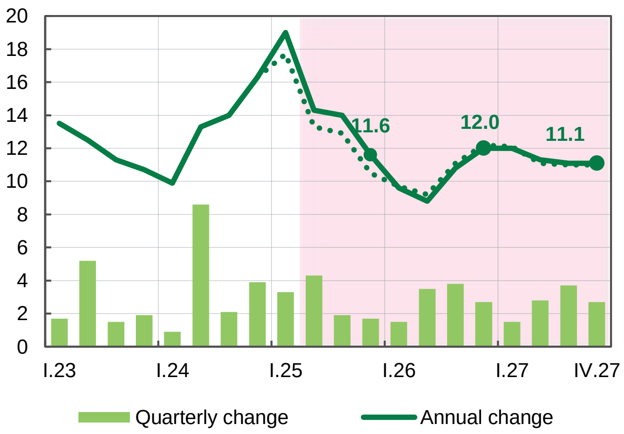
Administered inflation will remain in double digits over the forecast horizon due to higher excise taxes and the need to adjust utility tariffs

The growth of administered prices accelerated markedly in March (to 19.0% yoy compared to 16.3% yoy in December 2024), primarily due to the increase in the prices of tobacco products and alcoholic beverages, including on the back of a further rise in production costs, as well as strengthened measures to combat shadow-market supply. At the beginning of the year, the cost of certain administrative services, such as local telephone services and funeral services, also rose significantly.

Administered inflation will be high over the forecast horizon, driven by increased excise taxes on certain goods in order to strengthen the domestic budget resource base, and to fulfill Ukraine's European integration commitments. Manufacturers and importers of tobacco products have been gradually adjusting prices for some time now in view of the expected rise in excise taxes and the conversion of these taxes to euros, which came into effect at the end of March 2025. According to the current schedule, a significant increase in the excise tax is foreseen only in 2025, while in 2026–2028 it will grow moderately. Moreover, from 1 April to 31 December 2025, tobacco manufacturers and importers will apply a 1.1 multiplier to calculate their minimum excise tax liability. This requirement is due to the fact that in 2024, the share of total excise tax liabilities in the weighted average retail price of cigarettes was less than the required level of 60%. This is expected to gradually push retail prices up, as stocks of excise stamps purchased before the tax changes are depleted.

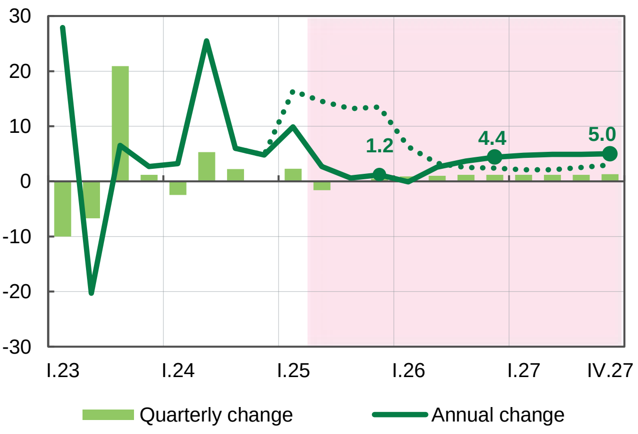
In addition to adjusting the excise rates, the government is taking further steps to improve excise tax administration methods. In particular, important changes have taken place in the sphere of the turnover of excisable goods: digital excise stamps were introduced in March 2025 in a test mode, which will become mandatory in 2026. The government has also introduced the finalized tax rules for bioethanol producers starting from May 2025 to take into account the maximum productivity of equipment when calculating the excise tax.

Figure 1.15. Administered price inflation at the end of period, %



Source: SSSU, NBU staff estimates.

Figure 1.16. Fuel price at the end of period, %



Source: SSSU, NBU staff estimates.

At the same time, the current moratorium on raising households' tariffs for certain utilities will remain a factor that will restrain price pressures this year, continuing to curb administered price inflation in 2025. However, given the difficult state of the energy system, the NBU's forecast is based on the assumption that utility tariffs will be gradually adjusted in the coming years (for more details, see *Forecast Assumptions and Risks* on page 53). This will remain a significant inflationary factor keeping administered inflation in double-digits.

The growth in fuel prices accelerated to 9.9% yoy in March, compared to 4.8% yoy in December 2024. This growth resulted, among other things, from the next stage of excise tax increases and high price volatility in the global commodity markets. Early warming and the start of spring field work also somewhat revived demand for fuel in March, although sales in Q1 2025 remained lower compared to both the previous quarter and the corresponding period last year. Additional upward pressure on fuel prices came from the effects of the March depreciation of the hryvnia against the euro.

Overall, however, the rise in fuel prices was lower than expected. This was due, in particular, to the sufficient stocks and optimization of import logistics. At the end of March, retail fuel prices declined following a drop in wholesale prices as the cost of raw materials fell. The parameters of further price correction will depend on the dynamics of global prices, in particular, the decline in crude oil prices. The impact of this factor will be partially offset by the requirement to add bioethanol to motor gasoline starting 1 May 2025, through the producers' markup for adding alcohol.

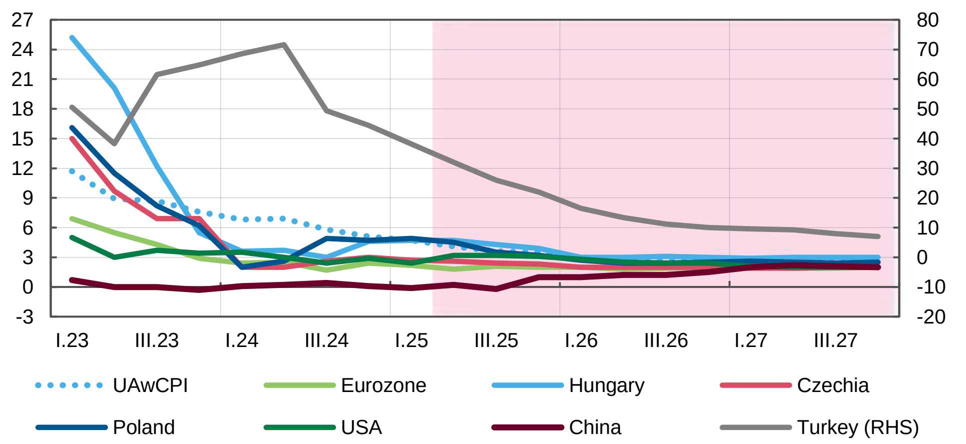
The fuel price growth forecast for the current year has been revised downward due to cheaper oil, given the cooling effect of trade confrontations on the global economy, and taking into account the partial absorption of the excise tax increase by sellers at the expense of their margins. In the medium term, the decline in global oil prices will partially offset a further increase in the excise tax burden. This will ensure there is moderate growth in fuel prices (less than 5%) over the forecast horizon, which will restrain inflationary pressures, including through the impact on the cost of certain goods and transportation services.

Inflation in Ukraine's MTPs will remain moderate, which will restrain domestic price pressures

In Q1, thanks to a synchronous decrease in inflation in both advanced economies and emerging markets, inflationary pressures from Ukraine's MTPs weakened. The decline in energy prices and the slowdown in wage growth, which depressed the growth of service prices, were significant factors in this dynamics.

Inflationary pressures from Ukraine's MTPs are expected to remain moderate until the end of this year, but the asynchrony of inflationary processes in some countries will resume. Relatively weak global demand, high central bank rates amid unprecedented uncertainty, and a decline in global crude oil prices on the back of oversupply and trade wars will slow inflation in Ukraine's MTPs overall. However, the exacerbation of global trade confrontations will disrupt established supply chains and push up both production and transportation costs, which will exert inflationary pressure. Given the rather successful experience of reestablishing such chains during the pandemic, it is assumed that this impact will be moderate.

Figure 1.17. Consumer inflation in selected countries – Ukraine's MTPs (eop) and weighted average of Ukraine's MTP countries' CPI (UAwCPI), % yoy



Source: national statistical agencies, NBU staff estimates.

Inflation will return to growth in the United States as production costs are passed on to consumers due to a relatively strong labor market and the high dependence of the consumer market on imports of cheap consumer goods from China, which are subject to high import duties. The effect of the pass-through to prices of the rapid depreciation of the dollar against a basket of currencies will be an additional inflation driver. At the same time, high inflation in the United States, which in most cases in history has been exported to the rest of the world, will be a local process this time around, and in particular, will put no pressure on inflation in Ukraine.

In the Eurozone, inflationary pressures from higher import tariffs will be relatively weak. Lower demand forced industrial companies to maintain a low capacity utilization rate in recent quarters. In Q1 2025, it stood at 77% in both Germany and the Eurozone, a level previously seen only in times of crisis. A negative output gap will significantly restrain inflationary pressures. Additional factors contributing to low inflation will be the greater propensity to save in Europe compared to the United States, as well as the possibility of additional cheaper imports from changes in trade relations.

The return of the Central Bank of the Republic of Türkiye to orthodox monetary policy will help further bring down inflation from high levels amid weakening domestic demand due to political turmoil. However, the depreciation of the lira could prevent inflation from approaching its target faster. At the same time, the People's Bank of China will continue to take measures to stimulate the economy, which, in the context of low inflation, will prevent the development of a deflationary trend. Such actions, coupled with fiscal stimulus, will help revive consumption in the face of structural changes, which will gradually raise inflation to the central bank’s targets.

In the coming years, inflationary pressures from Ukraine's MTPs will slowly ease and remain close to their long-run equilibrium. The waning negative effects of most shocks amid the stabilization of the global commodity markets due to the reestablishment of supply chains and the disappearance of mismatches on the labor market will keep prices close to the central banks' targets. This will restrain external price pressures on domestic inflation in Ukraine.

Box 1. The Accuracy of Macroeconomic Forecasts

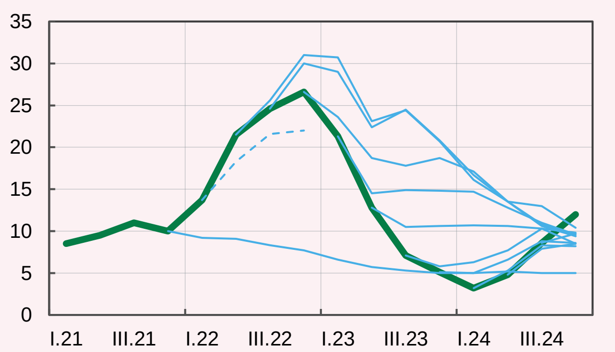
High-quality macroeconomic forecasts by the NBU can reduce uncertainty and boost economic agents' confidence in monetary policy. To do this, forecasts must avoid systematic one-sided errors, take into account the interrelationships between all sectors of the economy, and be relatively accurate, which means being on average on a par with or better than forecast by other forecasting organizations.

Under the flexible inflation targeting regime, assessing the accuracy of forecasts is as important a tool for accountability and improving forecasting methods as it is under a regular IT regime. The NBU regularly compares the accuracy of its forecasts with those of other organizations for four key macroeconomic indicators: the consumer price index (CPI), gross domestic product (GDP), the current account balance, and the key policy rate. Overall, the accuracy of the NBU's forecasts in 2019–2024 was above the average level among all organizations evaluated.

In 2024, the materialization of certain risks caused by supply-side shocks amid the full-scale war led to periodic changes in input assumptions and revisions to inflation forecasts throughout the year. The rise in inflation was driven primarily by unfavorable weather conditions, which resulted in lower harvests, as well as stronger underlying price pressures due to higher business costs for raw materials, electricity, and labor. The weakening of the hryvnia exchange rate in H1 2024 was also an inflation driver.

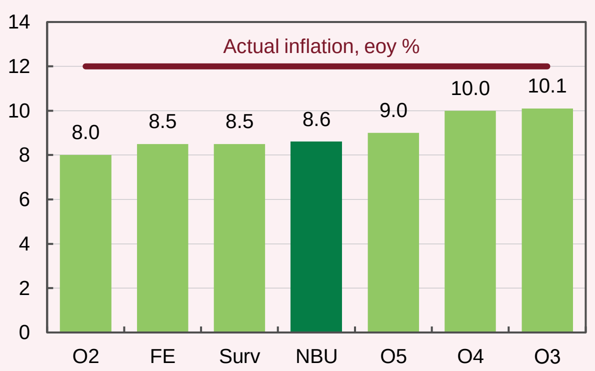
At the same time, actual inflation was close to the NBU's forecasts during the year, with the deviation being due to a surge in prices in Q4. At the beginning of 2024, the NBU forecast that annual consumer inflation would reach 8.6%, which was close to the estimates of other organizations. However, at the end of the year, inflation hit 12% yoy and exceeded the expectations of all assessed analytical institutions.

Figure 1. Forecast history: CPI (2022–2024), annual change, eop, %



Source: NBU staff estimates.
Note: a dashed line indicates an unpublished April 2022 forecast of the NBU

Figure 2. Comparison of the CPI forecasts for 2024 made in January 2024, annual change, eoy, %[3]



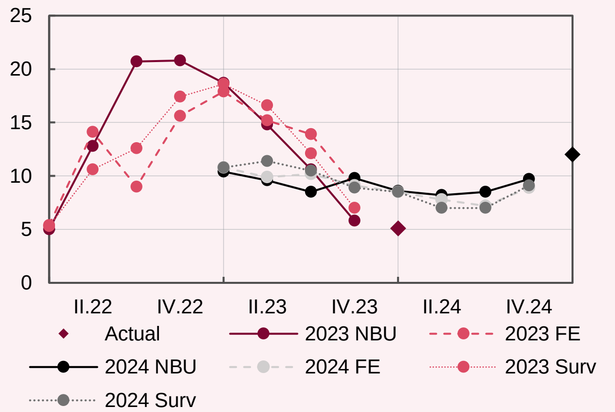
Source: NBU staff estimates.

In recent years, the NBU's inflation forecasts have not been systematically biased in one direction: disinflationary factors dominated in 2023 and H1 2024, and in H2 2024, a powerful inflationary shock occurred due to a more significant pass-through of higher producer costs to prices. However, the NBU anticipated a reversal of the inflation trend in 2024. At the same time, in 2024, the NBU's forecasts were mostly more conservative than consensus estimates, although the difference was not large. In general, the accuracy of the NBU's inflation forecasts for 2019–2024 (Adj.MAE) remained average

[3] Hereinafter, the names of the organizations, except the IMF, were obscured and replaced with codes O1–O8 (the Ministry of Economy of Ukraine, Sense Bank, ICU, Dragon Capital, Raiffeisen Bank Aval, J.P. Morgan, OTP Bank, Goldman Sachs). The consensus forecasts [Focus Economics (FE), Consensus Economics (CE)] and the NBU's survey of financial analysts (Surv.) are also shown. The order does not correspond to the order in which the organizations appear in the figures.

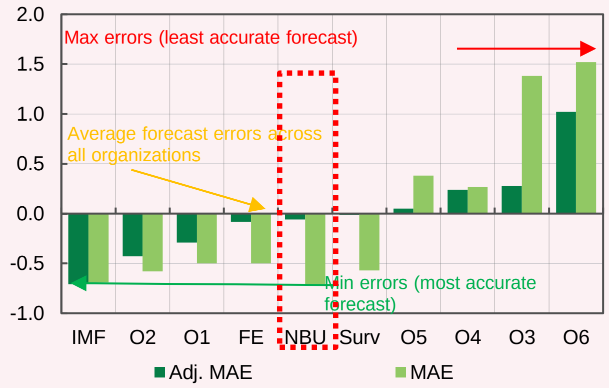
(Figure 4). Among unadjusted inflation forecast errors (MAEs), the NBU's estimates were the best.

Figure 3. Forecast history: CPI (2023–2024), annual change, eoy, %



Source: NBU staff estimates.

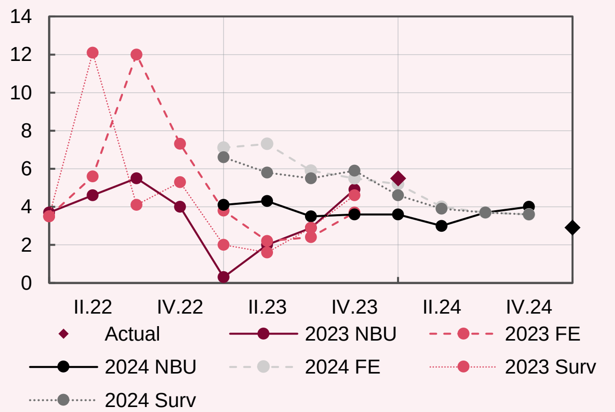
Figure 4. Forecast ranking: CPI (2019–2024), annual change, eoy, %[4]



Source: NBU staff estimates.

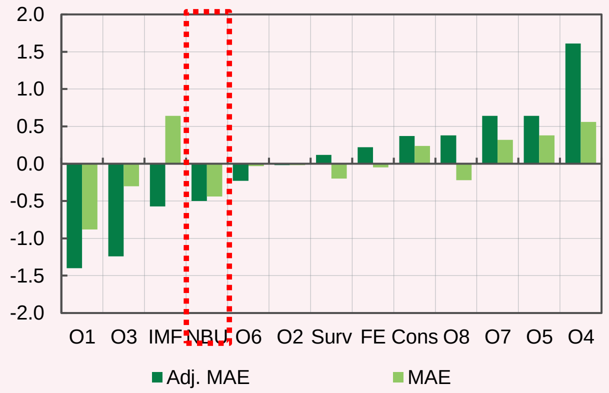
The NBU's official forecasts for real GDP change in 2024 were mostly more conservative (lower) than consensus estimates and were quite close to the SSSU's official figure (2.9% yoy). The use of typical forecasting methods, in particular, certain nowcasting models, was complicated by the high level of uncertainty and a lack of current statistics under conditions of full-scale war. To improve the accuracy of economic activity forecasts, the NBU has developed estimation methods that rely on alternative publicly available data.

Figure 5. Forecast history: real GDP (2023–2024), % yoy



Source: NBU staff estimates.

Figure 6. Forecast ranking: real GDP (2019–2024), % yoy



Source: NBU staff estimates.

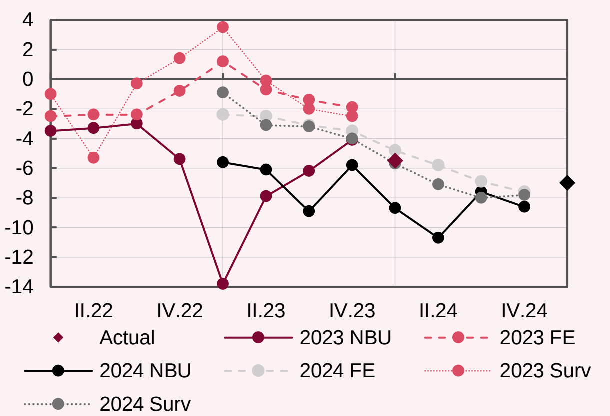
In 2024, the NBU's forecasts did not contain any significant systematic deviations, despite the scale of uncertainty and new shocks in wartime conditions. In terms of GDP forecast accuracy in 2019–2024, the NBU ranked above average among the organizations evaluated, and in terms of unadjusted forecast errors, the NBU ranked second in the rating.

The NBU's forecasts for the current account balance in 2024 were more pessimistic than the consensus ones. The change in the forecasts for 2023–2024 was primarily due to revised assumptions about the amount of external financing in the form of grants. The

[4] The ratings were produced on the basis of the forecasts' mean absolute errors (MAEs) and their values adjusted for the duration of the forecasting period (Adjusted MAEs, Adj.MAEs). Zero values on the figures signify that the forecast errors of a specific organization correspond to the average forecast errors of all organizations; positive values mean that the average forecast errors of a specific organization are greater than the average errors of all forecasts, while negative values indicate that the organization's average errors are lower.

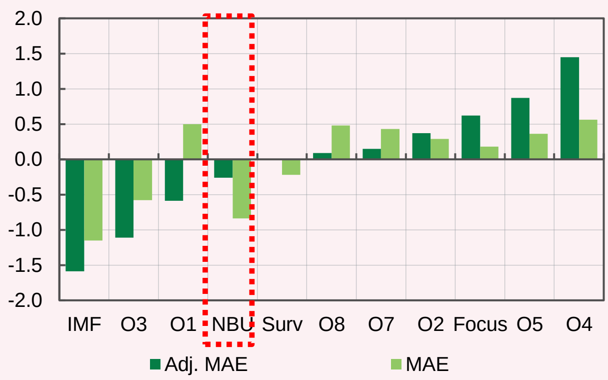
NBU also took a conservative approach to estimating the effects of eased FX restrictions when developing its current account forecasts. The actual figure of the current account in 2024 turned out to be quite close to both the NBU's forecasts and the latest consensus forecasts. The accuracy of the NBU's current account balance forecasts for 2019–2024 was generally better than consensus forecasts, and above the average of other organizations. The NBU's forecasts, excluding the time effect, were the second most accurate among the forecasting organizations.

Figure 7. Forecast history: current account balance (2023–2024), % of GDP



Source: NBU staff estimates.

Figure 8. Forecast ranking: current account balance (2019–2024), % of GDP

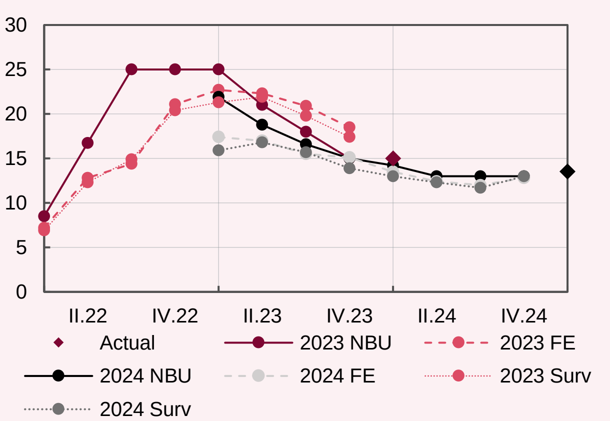


Source: NBU staff estimates.

In 2023–2024, the NBU mostly revised downward its key policy rate forecasts for the end of 2024 (see Figure 9). This was due to, among other things, a rapid deceleration in inflation until mid-2024, a favorable situation in the FX market, and improved prospects for external financing. Following the NBU, other market participants also adjusted their expectations regarding the key policy rate. As usual, the accuracy of the NBU's key policy rate forecasts has been higher than that of other forecasting organizations (see Figure 10). In terms of adjusted errors, the accuracy of the NBU's key policy rate forecasts in 2019–2024 remained one of the best among all forecasters, and in terms of unadjusted errors, it was the best.

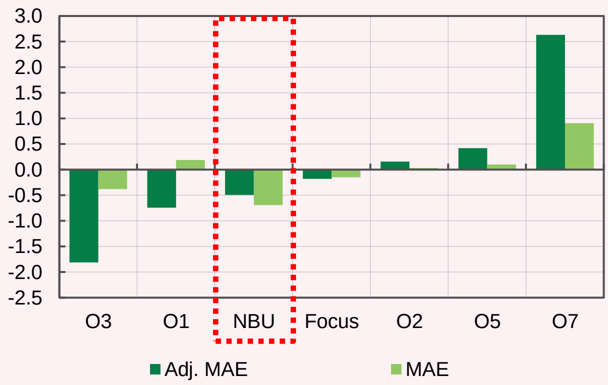
Thus, the accuracy of the NBU's forecasts of key macroeconomic indicators in 2024 remained above average among the estimates of analytical organizations. At the same time, the central bank's forecasts remained generally more conservative, as mistakes in monetary policy have an asymmetric impact on the economy.

Figure 9. Forecast history: key interest rate (2023–2024), eoy, %



Source: NBU staff estimates.

Figure 10. Forecast ranking: key interest rate (2019–2024), eoy, %



Source: NBU staff estimates.

The NBU’s openness in publishing its forecasts is an important element of its accountability, while also helping to improve the quality of analytical support for monetary policy decisions. Despite the ongoing full-scale war, the NBU remains open and regularly publishes its macroeconomic forecasts to reduce uncertainty for both decision makers and other economic agents. Regular analysis of forecast performance encourages the improvement of internal models and forecasting methods. In particular, the NBU is currently working to upgrade its Quarterly Projection Model (for more details, see the Box *QPM+: Updated Quarterly Projection Model to Guide Monetary Policy Decisions* on page 49).

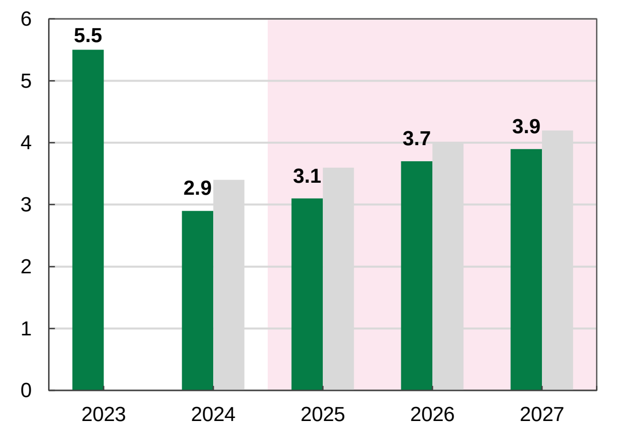
Part 2. Economic Developments

- The economy will continue to grow in 2025, driven by the expected increase in harvests, a reduction in electricity shortages, and large defense orders. On the demand side, the growth will be supported by recovery investments and sustainable consumption. However, growth will remain restrained (3.1% this year after 2.9% last year) due to the effects of the war, including labor shortages and damage to gas infrastructure, as well as the effects of global trade confrontations.
- In 2026–2027, real GDP growth will accelerate to 3.7%–3.9%, primarily thanks to increased investment in reconstruction, recovered production and infrastructure, and robust consumer demand.
- GDP is close to its potential level, so further economic growth will depend primarily on an increase in factors of production (amid investments in fixed assets and migration processes), and a rise in total factor productivity. The GDP gap will remain close to zero over the forecast horizon, given a combination of cautious monetary easing as inflation approaches its target, and gradual fiscal consolidation.

In 2025, despite the full-scale war, the economy will continue to grow, driven by increased harvests and a reduction in electricity shortages. Going forward, economic growth will be supported by a faster recovery in production and a revival of domestic demand

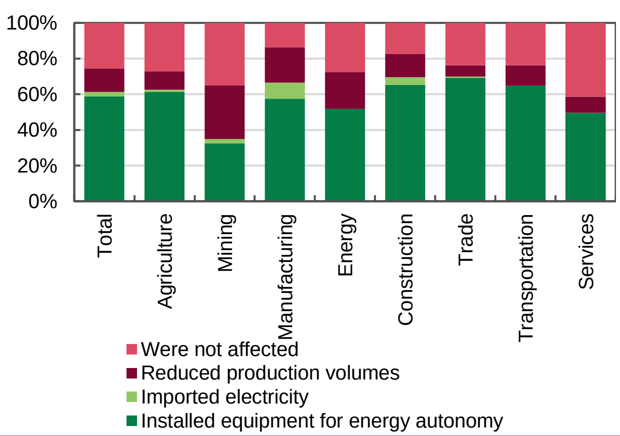
The NBU estimates that real GDP grew by 0.5% yoy in Q1 2025. A significant factor in economic growth was the largely stable electricity supply. Thus, in Q1 2025, electricity shortages were lower than expected due to warm weather and rapid repairs of facilities and infrastructure. A significant contribution was made by the further adaptation of businesses to power outages, including the development of distributed generation and the installation of backup power equipment, along with electricity imports, as evidenced by company surveys. As a result, business expectations improved across most sectors in Q1, and the BOI rose to 108.2% (compared to 101.8% in Q4 2024).

Figure 2.1. Real GDP, % yoy



Source: SSSU, NBU staff estimates.

Figure 2.2. Business reaction to energy shortages by type of activity, % of responses*



* The survey was conducted in February 2025.
Source: NBU.

The stable energy situation has supported the operations of a number of companies, including industrial ones. The high demand for arms production and the construction of fortifications contributed to the capacity utilization of metallurgical and machinery companies, while preparations for the spring sowing campaign boosted fertilizer production. Certain branches of livestock production also grew amid rebounding exports of some products.

At the same time, a shortage of agricultural raw materials due to last year's low harvests hampered the food industry and transportation, particularly export transportation. The destruction of gas production facilities as a result of russian missile and drone attacks decreased gas production in Q1 and increased the need for gas imports. The shortage of labor also constrained economic growth.

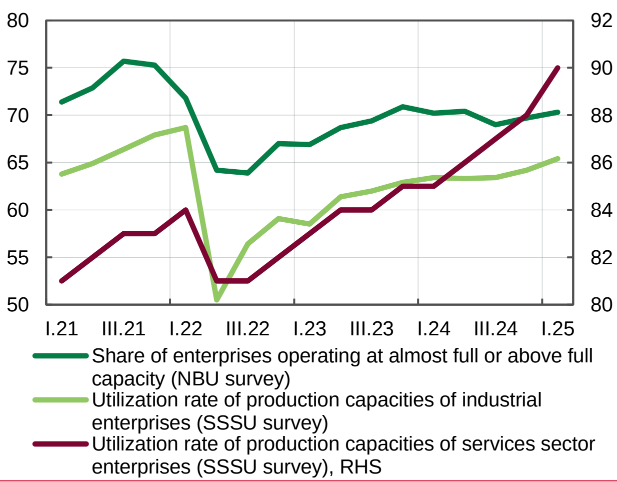
GDP growth in 2025 will remain restrained. The growth will be hampered by the consequences of the war, such as labor shortages – including due to the continued negative migratory balance – intensified missile and drone attacks, the destruction of gas infrastructure – which will increase dependence on imports – as well as the adverse effects of global trade confrontations. The latter two factors have led to a downgrade in the forecast for 2025 real GDP growth, to 3.1% (compared to 3.6% in the January 2025 Inflation Report).

Looking ahead, GDP growth will speed up, driven by rebounding investment and consumption amid the gradual normalization of economic conditions and the acceleration of European integration processes. The economy will be boosted by investments in rebuilding damaged facilities, in particular energy facilities, and by reduced electricity shortages, further increases in harvests, and the optimization of logistics. Lower inflation will help improve investment and consumer sentiment. Nevertheless, the economy has completed a rapid recovery from the initial shock of the full-scale invasion. As a result, real GDP has approached its potential level, so its growth will be restrained over the forecast horizon, and will accelerate only if large-scale investment projects are implemented or migrants return quickly to the country (for more details, see *Assumptions and Risks to the Forecast* on page 53).

Over the forecast horizon, GDP will be close to its potential level, which will curb inflationary pressures

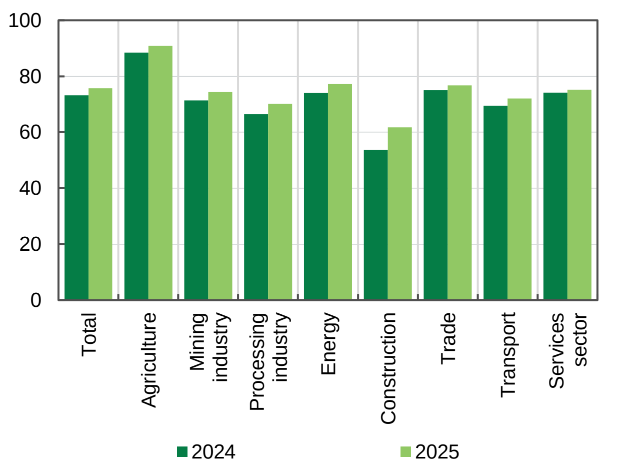
According to the latest business outlook survey, the utilization rate of existing production facilities increased further in Q1 2025. Companies expect this trend to continue in 2025. The capacity utilization rate of industrial companies is close to the level seen in H1 2021, while that of service sector companies is the highest since the survey began in 2017. Survey results and a decline in the unemployment rate indicate that factors of production are being intensively used and that consumer demand is robust. The record capacity utilization rate of service sector companies is mainly the result of the limited supply in the labor market, i.e., a shortage of personnel, as labor is a more important component for the services sector than capital.

Figure 2.3. Production capacity utilization indicators, %



Source: SSSU, NBU.

Figure 2.4. Capacity utilization by type of economic activity, %*



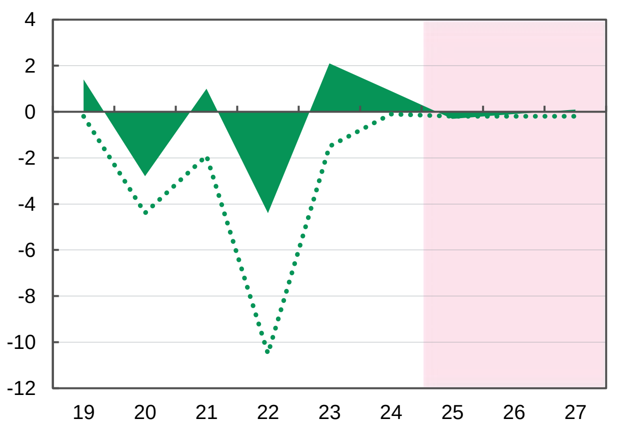
* The survey was conducted in February 2025.
Source: NBU.

Potential GDP will grow at about 4% per year and will be constrained by a lack of present population growth amid a difficult migration situation and moderate fixed capital formation. The largest contribution to potential GDP growth will come from productivity. In the medium term, productivity will be boosted by European integration, which will encourage the spread of technology and foreign investment.

The GDP gap will remain close to zero. This year, monetary policy will restrain the pro-inflationary effects of consumer demand amid still high public spending. Going forward, decreased fiscal stimulus from the public sector will be offset by rising private investment and steady consumption growth. The gradual easing of monetary conditions as inflation approaches its 5% target will play a role in this.

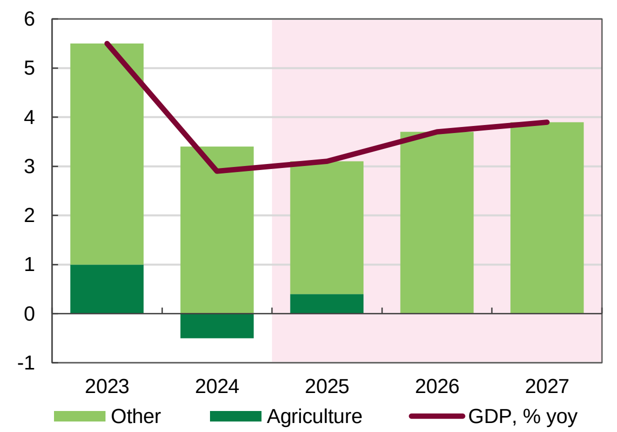
A significant change in the estimates of the GDP gap in 2019–2024 is due to the transition to the QPM+ version (for more details, see Box 6 *QPM+: Updated Quarterly Projection Model to Guide Monetary Policy Decisions* on page 49). In particular, the smaller negative gap in 2022 is consistent with a larger drop in potential GDP (higher estimates of production capacity losses) and lower disinflationary pressures. The opening of a positive GDP gap in 2023 reflects favorable weather conditions and a bumper harvest. The disinflationary effect of the large supply of agricultural products outweighed the inflationary effects of high aggregate demand, so overall inflation declined. This is confirmed by calculating the contribution of agriculture to real GDP growth. In 2023, high yields of grain and vegetable crops contributed to a significant increase in the value added of agriculture and a rapid decline in raw food inflation. In contrast, in 2024, due to a relatively poor harvest, the contribution of agriculture was negative, so the positive GDP gap was one of the reasons for the rise in inflation.

Figure 2.5. Output gap, % of potential GDP



Source: SSSU, NBU staff estimates.
Note: updated estimates were made using the QPM+ version.

Figure 2.6. Contribution of agriculture to real GDP growth, pp



Source: SSSU, NBU staff estimates.

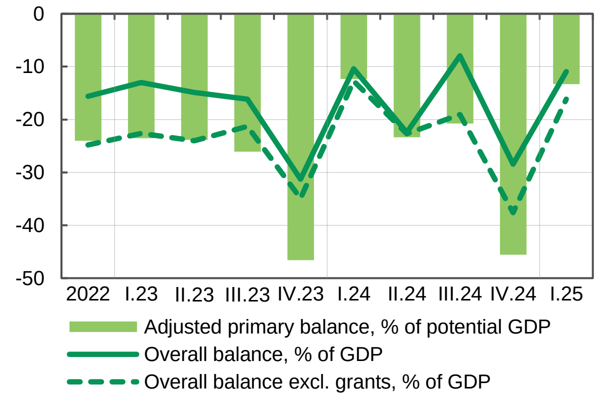
Fiscal stimulus will remain an important factor in supporting economic growth, but will gradually be replaced by the private sector

In Q1 2025, large budget spending continued to fuel aggregate demand. Unlike at the beginning of the previous year, resources were sufficient to finance high deficits. The cyclically adjusted primary and consolidated budget deficits were slightly higher than in the previous year, indicating a relatively loose fiscal policy. Consolidated budget revenues excluding grants grew in Q1 by about 33% yoy, according to NBU estimates, mainly thanks to an increase in some tax rates in 2024. International support was also an important source of budget resources, which helped the government accumulate a significant amount of FX liquidity. This made it possible to increase consolidated budget expenditures in Q1 by more than 36% yoy, according to NBU estimates, which at the beginning of the year were primarily directed to finance defense needs, social programs, and recovery projects.

High military allowance and spending on social programs, along with scheduled pension indexation and further wage increases, supported robust consumer demand. This demand was an important factor in the subsequent recovery of trade and services.

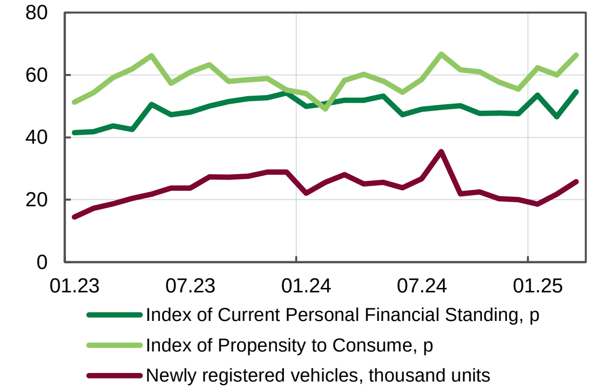
Government investment in military and related projects (weapons production and the construction of engineering structures) and reconstruction projects (including compensation to the population for damaged or lost property) were a significant source of investment growth. Private investment also grew, particularly investment in the construction of commercial and warehouse real estate and in backup power equipment.

Figure 2.7. General government fiscal balance*



* Overall balance is the consolidated budget balance, taking into account loans to the PFU from the STA. Cyclically adjusted primary fiscal balance (CAPB) is the difference between seasonally adjusted revenues, in the structure of which tax revenues are adjusted for cyclical changes in GDP, and seasonally adjusted primary expenditures. Additionally, one-off proceeds are subtracted from revenues. A negative value indicates expansionary fiscal policy. 2025 GDP figure is the NBU's estimate.
Source: STSU, SSSU, NBU staff estimates.

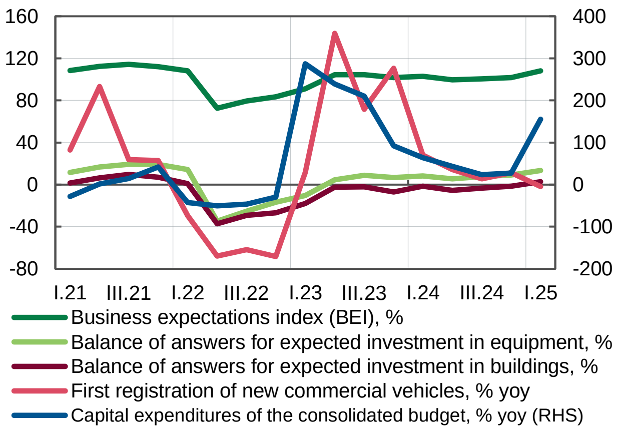
Figure 2.8. Selected indicators of consumer demand



Source: Info Sapiens, Ukravtoprom.

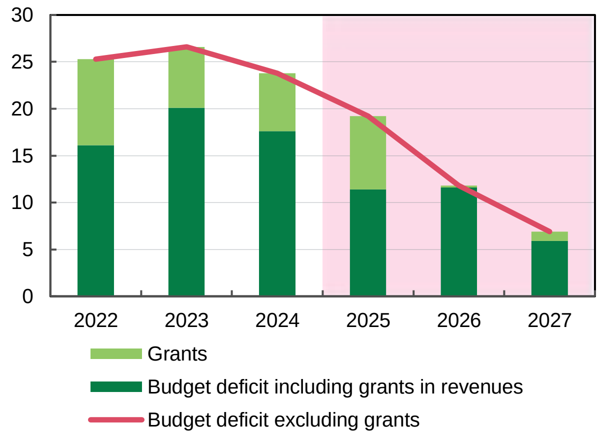
The public sector will continue to drive economic development in the years ahead. The funding will primarily be used to support defense capabilities, implement reconstruction and infrastructure projects, as well as for social protection and humanitarian needs. Given the significant defense needs in 2025, the budget deficit is expected to remain relatively high (19% of GDP), supporting economic activity in both the public and private sectors. In 2026–2027, the budget deficit will continue to shrink (about 12% of GDP in 2026 and 7% in 2027) due to restricted public spending and the strengthening of the domestic resource base, which will stimulate revenue growth.

Figure 2.9. Selected indicators* of investment demand



* Capital expenditures of the consolidated budget in Q1 2025 are data for January-February 2025 compared to January-February 2024.
Source: SSSU, STSU, NBU, Ukravtoprom.

Figure 2.10. Consolidated budget deficit, % of GDP



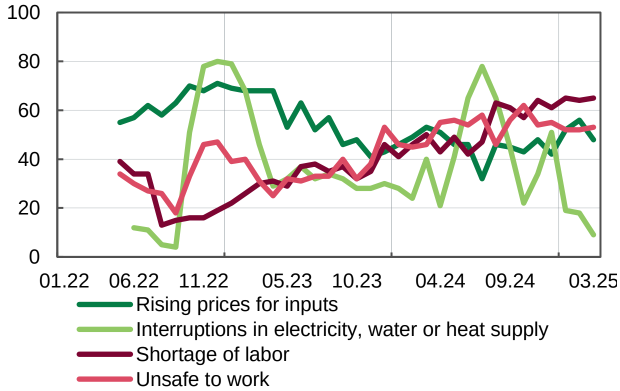
Source: STSU, SSSU, NBU staff estimates.

Thus, fiscal stimulus will gradually wear off, which will be offset by the growing role of the private sector as economic processes normalize. There will be an increase in private investment in rebuilding damaged infrastructure, restoring production facilities, and the modernization of active production facilities that had been postponed. This will be facilitated by greater opportunities to raise capital amid accelerating European integration processes. The reconfiguration of global trade opens up opportunities for Ukrainian businesses to integrate into new logistics and production chains and enter new markets (for more details, see *Assumptions and Risks to the Forecast* on page 53).

Labor market pressures are gradually easing, but mismatches will persist over the forecast horizon, dampening economic growth

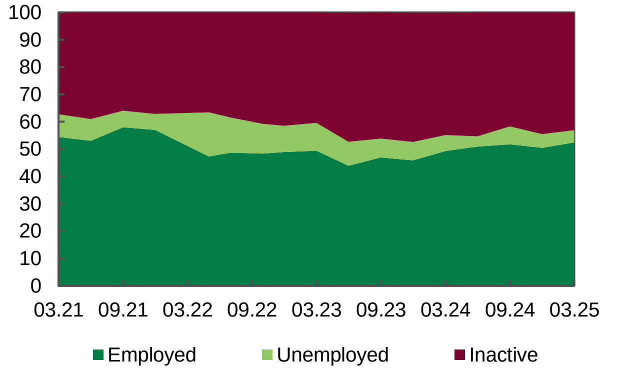
In Q1 2025, both labor supply and demand grew on the labor market: the number of vacancies as well as resumes increased compared to Q1 2024[5]. The growth in labor supply was also evidenced by an increase in labor force participation according to a survey of households: in Q1 2025, the share of the economically active population among respondents increased compared to Q1 2024. At the same time, the high demand for labor has decreased the unemployment rate and increased the employment rate (to a new high since the full-scale invasion). Businesses have also stepped up efforts to attract people who were previously less represented in the labor market: students, pensioners, people with disabilities, and veterans[6]. As a result, labor shortages, which are primarily related to the consequences of the war (migration, mobilization, and increased labor market mismatches), have eased. Nevertheless, the shortages remained significant, particularly because of ongoing outward migration, constraining business activity and output growth[7]. The persistence of a significant shortage of personnel fueled wage growth, household incomes, and, accordingly, aggregate demand.

Figure 2.11. Main obstacles to doing business during wartime, % of responses



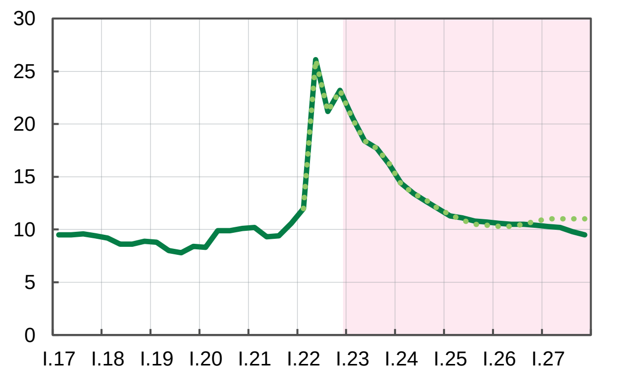
Source: IER.

Figure 2.12. Structure of labor force participation according to surveys, % of responses



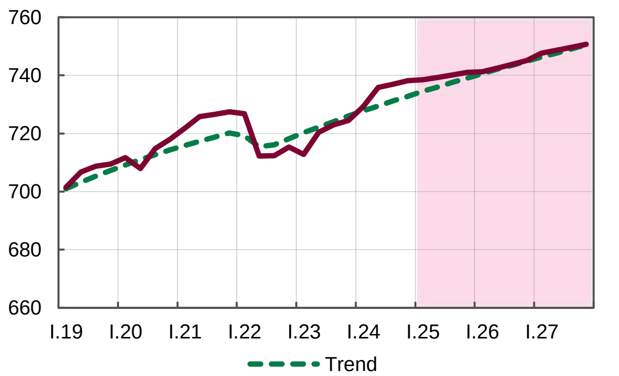
Source: Info Sapiens, NBU staff estimates.

Figure 2.13. ILO unemployment rate, sa, %



Source: SSSU, NBU staff estimates.

Figure 2.14. Real wages, level (logs)



Source: SSSU, NBU staff estimates.

Growing labor demand amid a limited supply will drive the unemployment rate below 10% by the end of the forecast period. However, this process will be hampered by labor market mismatches resulting from structural changes to the economy, external and internal migration, mobilization and demobilization processes, and from differing rates

[5] According to work.ua, a job search website, the average quarterly number of new resumes increased by 18.7% yoy, while that of new vacancies grew by 12.9% yoy.
[6] According to work.ua, in Q1 2025, 24% of vacancies indicated that the employer hires students, 12% said that the employer hires people with disabilities, and 6% said that the employer hires pensioners.
[7] According to the UNHCR, in Q1 2025, the number of Ukrainian migrants increased by more than 100,000, to 6.9 million people as of mid-March 2025.

of recovery across regions and industries, which will be reflected in a limited supply of skilled labor. The mismatches will be exacerbated by the slow return of migrants to Ukraine (for more details, see *Assumptions and Risks to the Forecast* on page 53) as they adapt to life abroad, and by future increases in labor migration.

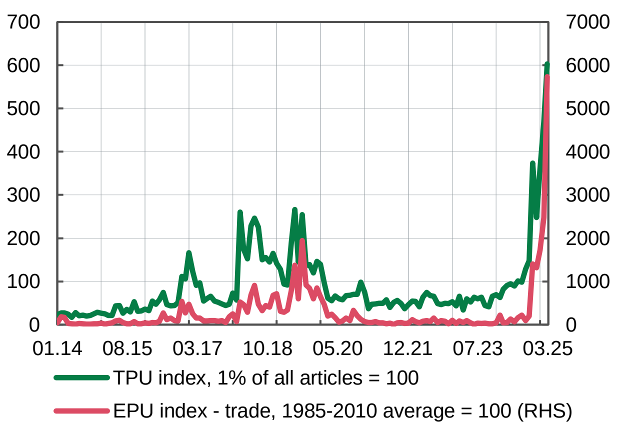
The mismatch between the demand for and supply of skilled labor amid the economic recovery will drive wage increases in the private sector. This will have the largest inflationary effect this year. However, this effect will gradually subside as wage growth slows over the forecast horizon due to the gradual decline in labor market mismatches.

The intensification of trade confrontations will restrain the growth in some of Ukraine's MTP countries, but may open up opportunities for Ukrainian exports

Leading indicators showed signs of a gradual synchronization of growth in the economies of Ukraine's MTP countries in Q1 2025 thanks to the stability of the services sectors and a gradual recovery in manufacturing, particularly in the Eurozone and China. An additional factor was more rapid world trade growth ahead of potential tariff measures by the United States. Rebounding domestic demand contributed to an increase in the production of consumer and intermediate goods. The exception is the United States, where manufacturing growth has stalled due to higher production costs, primarily for steel and aluminum, and uncertainty about the government's next steps, which confirmed the negative impact of the imposed import duties. At the same time, business expectations in Ukraine's MTPs deteriorated as concerns about disruptions to global trade flows grew. This slowed the growth of new export orders and decreased employment.

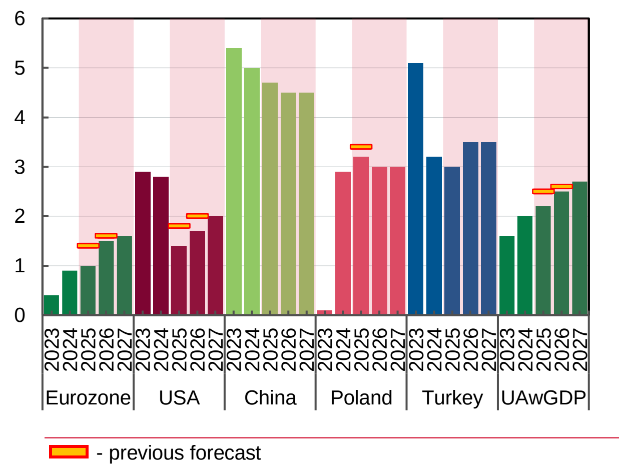
Early April saw a sharp exacerbation in trade confrontations. The import duties shook the decades-old global trade order, which was reflected in a downward revision of expectations for economic activity in some of Ukraine's MTPs. An additional factor in the latter is the expected decline in labor productivity in industries protected by the state from foreign competition, as evidenced by expert studies, in particular by Klein and Meissner (2025) and by Furceri et al. (2019). The aggressive protection of domestic industry usually results in markets being filled with less productive firms, and weaker competition removes incentives for domestic firms to invest in efficiency, while deceased international cooperation and knowledge sharing reduces opportunities for technological progress.

Figure 2.15. Trade policy uncertainty indices*



* Based on textual analysis of news. The methodology of calculating TPU is described in Caldara et al. (2020), and EPU – in Baker et al. (2016).
Source: Matteo Iacoviello webpage, EPU webpage.

Figure 2.16. Real GDP of selected countries and weighted average of annual GDP growth in Ukraine's MTP countries (UAwGDP), % yoy



Source: National statistical offices, NBU staff estimates.

External demand is expected to slow in the near term, but as the economy adjusts to new challenges, growth will normalize in 2026 and continue in 2027. The manufacturing will suffer the most from the reshaping of global trade, but it will recover quickly thanks to fiscal stimulus. In contrast, slower growth in the services sector will be less pronounced due to the still strong labor market.

China's economy, which is mainly targeted by the U.S. tariffs, will be negatively affected primarily due to serious disruptions in export sectors. However, this impact could be mitigated by measures to adjust the exchange rate, cuts in costs (including logistics costs) by exporters and importers, reduced profit margins, and the refocusing of exports from the United States to other markets. Over the past few years, China has increasingly diversified its export markets, expanding its presence in regions, such as Latin America, the Middle East, and russia, which are expected to potentially absorb additional exports. Therefore, China will maintain its high export volumes even amid escalating trade tensions. What is more, in March, China unveiled an action plan containing structural changes to shift its economy from an export-oriented model onto a consumption-oriented one. This plan complements previous measures, including the consumer goods trade-in initiative, which was introduced in 2024 and expanded in 2025, and aims to increase household income and reduce financial burdens. Accommodative fiscal and monetary policies, as well as expected robust consumer demand, will help offset external negative factors, despite the ongoing real estate challenges. Given that the trade war between the United States and China was expected, the forecast for China's economic growth remains unchanged. The GDP growth rate will slow gradually and stabilize at 4.5% in the medium term.

Heightened uncertainty and the tariff increases that have already taken place will also dampen economic growth in the Eurozone. As a result, the forecast for GDP growth in 2025 was downgraded to 1%. Sectors, such as the automotive and high-tech industries, where Germany plays a significant role, will face a decline in export demand. However, Germany's historic shift away from decades of fiscal conservatism and increased defense and infrastructure spending will allow the German economy to recover moderately. Together with the ReArm Europe Plan/Readiness, this will support the Eurozone's labor market, boosting productivity and the overall economic growth in the bloc. In addition, increased spending will provide the necessary impetus for investment growth, boost consumer confidence, and contribute to a revival in demand. Demand will also be fueled by relatively low inflation and monetary policy easing, which will support consumption. The Eurozone's economic growth is expected to rebound to 1.5%-1.6% yoy in 2026–2027 respectively. The fiscal impetus will continue beyond 2026, which will also boost growth in the medium term. Fiscal stimulus in the EU, coupled with a gradual recovery in the Eurozone's economy, will support growth in the CEE economies. Growth in these economies will be also driven by their use of EU funds under the 2021–2027 funding programs. U.S. tariffs, third-country countermeasures, and policy uncertainty are slowing the growth of the U.S. economy, primarily due to higher production costs. It is expected that the passing of some of the additional costs onto consumers will lead to a significant rise in inflation. This, in turn, will reduce consumer spending, which accounts for about 70% of the U.S. economy, curtail sales, and drive unemployment up. Small businesses, which rely heavily on goods and components from China, will be extremely vulnerable to higher customs duties. At the same time, giant companies may look for alternative production bases. In addition, China's countermeasures have threatened a halt in the supply of materials on which the U.S. defense and tech sectors depend. However, the services sector will remain relatively resilient, while fiscal policy will support the economy (the 2017 Tax Cuts and Jobs Act, which expires this year, is expected to be extended). Thus, the baseline scenario of the forecast assumes that the U.S. economy will make a "soft landing", avoiding a recession this year, and that its growth rate will accelerate in the future.

In 2026–2027, growth in Ukraine's MTPs will rebound moderately on the back of robust private consumption, easing financial conditions, and the impact of higher government spending. Growth will also be driven by the relative resilience of global trade due to its high flexibility. Indeed, most countries continue to view trade as a key driver of economic growth, and U.S. trade barriers might only strengthen ties between other countries[8]. Thus, the U.S. share of global imports at the end of 2024 was 13%, while the share of exports was 9%. This is enough for the United States to have a significant impact on other countries, but not enough to unilaterally determine the future of world trade. As a result, some countries, including Ukraine, will gain new opportunities from the reshaping

[8] According to the DHL Trade Atlas 2025.

of global trade (for more details, see the Box *U.S. Tariff Policy: Carpe Diem* on page 29).

In 2025, net exports will continue to make a high negative contribution to GDP growth. Further on, this contribution will decrease on the back of lower energy needs, higher harvests, and reviving external demand

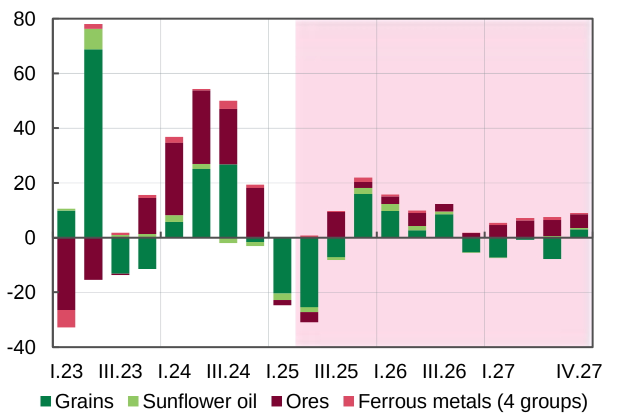
In Q1, the negative contribution of net exports to GDP growth widened significantly, primarily due to a drop in exports of goods and services. The main reason was last year's high base effect. Last year, when the sea corridor was fully operational, stocks of agricultural crops and iron ore and metals were actively exported. In addition, raw materials shortages in the domestic market resulting from the 2024 poor harvest reduced sunflower oil exports. Exports of services also declined due to the stop of gas transit.

At the same time, imports continued to grow. More specifically, electricity shortages further pushed up imports of energy equipment and electricity. Missile and drone attacks on gas infrastructure also affected imports: imports of gas and fertilizers increased, as the production of the latter declined significantly. The stable agrarians' proceeds seen in the previous periods drove up imports of other agricultural products: plant protection products and agricultural machinery. Meanwhile, imports of services continued to decline as forced migrants continued to lose their residency.

Overall, the volumes of exports goods are expected to fall in 2025. The key factor will be the depletion of last year's grain and oilseed stocks amid a high base effect. In addition, metal exports will be constrained by a shortage of coking coal and coke for metallurgical companies due to the suspension of mines in Pokrovsk. An increase in ore exports will be hampered by relatively weak economic growth in Europe and cooling demand from China.

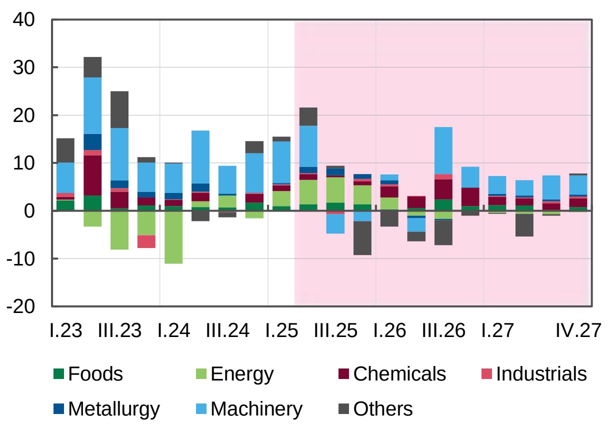
In 2026–2027, export growth will resume thanks to higher harvests and a pickup in global demand. However, further export growth will remain restrained over the forecast horizon due to the loss of a significant portion of production facilities and the long process of their recovery, as well as due to labor shortages and a gradual increase in domestic demand.

Figure 2.17. **Contributions of selected commodities to the annual change in exports volumes, pp**



Source: SCSU, NBU staff estimates.

Figure 2.18. **Contributions to the annual change in imports, pp**



Source: SCSU, NBU staff estimates.

Meanwhile, import growth in 2025 will accelerate primarily due to the energy component. Thus, damage to the gas infrastructure and low gas stocks in storage facilities will stimulate imports. In addition, imports of coking coal and coke are expected to rise to support the production of metallurgical companies. Demand for oil products and electricity will also remain high. Despite the fiscal consolidation, budget expenditures will remain significant, which will support domestic demand for consumer imports, in particular for food, household appliances, and certain chemicals. Imports of machinery and metals will also grow at a high pace amid sustained demand from the defense sector and the need to further rebuild infrastructure and production facilities.

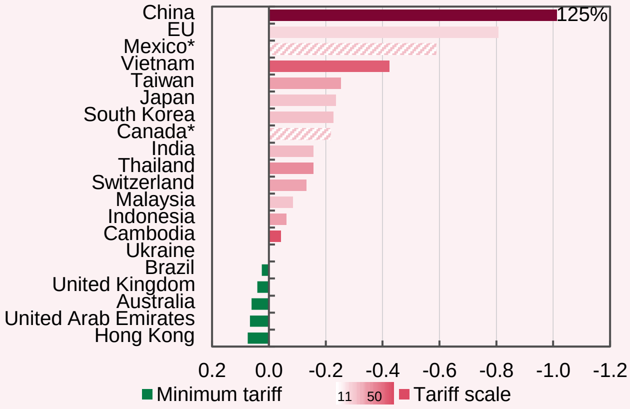
In 2026–2027, the growth of imports of goods is expected to slow down due to the restoration of gas infrastructure. In addition, as Ukrainian migrants lose their tax residency and gradually return home, imports of travel services will continue to decline. In 2025, the contribution of net exports to GDP growth will remain negative amid the need to import energy and a decline in agricultural exports due to low stocks. Starting in 2026, the negative contribution of net exports will narrow due to the gradual recovery of production capacity and a lower need for gas purchases.

Box 2. U.S. Tariff Policy – Carpe Diem[9]

In 2025, the fragmentation of global trade risks taking on unexpected forms, as the newly declared trade policy of the United States is affecting both the country's geopolitical opponents and its traditional allies, including the EU. At the same time, Ukraine has been assigned the lowest tariff of 10% due to running a trade deficit with the United States. This creates certain competitive advantages in traditional export categories, such as food. In addition, the potential introduction of retaliatory tariffs by the main trading partners (MTPs) of the United States will create preconditions for expanding Ukraine's presence in existing markets, including in the EU and China, and for entering new ones. Therefore, increased exports may partially offset the expected decline in aggregate demand from Ukraine's MTPs.

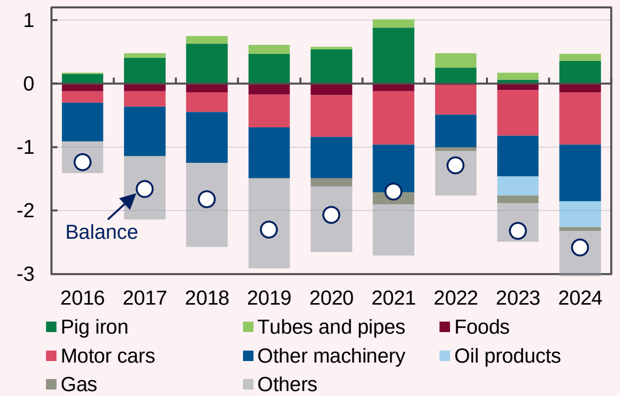
The increase in protectionism in the United States in the past months has affected almost all countries: from Canada and Mexico, the closest trading partners of the United States, to countries with which the United States had a trade surplus. Such a tariff policy of the newly elected U.S. President Donald Trump reflects his attitude to tariffs not only as an economic tool, but also as a negotiating one. Therefore, it is likely that the rates of reciprocal tariffs announced in April in the range of 10%–50% will not be final: having received requests for negotiations from more than 75 countries, the United States suspended the tariffs for 90 days (a 10% tariff will apply for most countries). That said, for China, which first imposed a 34% duty and then added another 91 pp in a reciprocal escalation with the United States, the rate will now be 125% (145% together with the previously imposed tariffs).

Figure 1. U.S. balance of trade in goods with selected countries in 2024, by reciprocal tariff rate, % of GDP



* March tariffs on goods that do not qualify as originating under USMCA have been extended.
Source: U.S. Census, U.S. BEA, NBU staff estimates.

Figure 2. Ukraine's balance of trade in goods with the USA, USD billions



Source: NBU.

However, it is quite likely that the tariffs will be revised significantly, given the new agenda of the U.S. trade policy, which is focused on reindustrialization and reducing the U.S. trade deficit. In 2024, the latter exceeded USD 1.2 trillion (4.1% of GDP), primarily on account of China, Mexico, Vietnam[10], and the EU. At the same time, about half of the industrial goods imported to the United States were not previously subject to tariffs, and the weighted average customs duty rate was only about 2%[11] until 2025. However, low tariffs had also been applied to U.S. goods by the MTPs of the Unites States (but to a lesser extent by EMs). Therefore, the United States simply bringing them to the level of exporting countries would have much more moderate consequences: 12% for India, 7% for Vietnam, Thailand, and Cambodia, 1% for the EU, 0% for South Korea and Japan, and so on[12]. Additional adjustments for the difference in non-tariff barriers, the

[9]From Latin *seize the day*, i.e. make the best use of the current moment.
[10]According to IMF estimates, Mexico and Vietnam have received relatively more Chinese FDIs and have increased exports to the United States the most since 2017, which could indicate the lengthening of supply chains from China to the United States, particularly to optimize customs payments.
[11]According to various estimates, the overall weighted average rate was 2.4%–2.5% (Bloomberg, Tax Foundation).
[12]The greatest impact of such tariffs would be on African countries, where the difference sometimes reached more than 20 pp, although the volume of trade with them was limited.

consumption tax[13], and the digital services tax[14], as mentioned in the initial plan, could have added at least 10–20 pp to the tariffs. However, according to the formula of the Office of the U.S. Trade Representative, the primary factor in calculating the tariffs was the trade deficit in 2024 with a given country. Meanwhile, countries with which the U.S. had a trade surplus faced a minimal additional tariff of 10%. This tariff also applies to Ukraine, which imports primarily vehicles, other machinery, and weapons from the United States.

The United States focusing its efforts on the countries with the largest deficits could lead to a certain oversupply of a number of goods. For example, the United States was the top importer of motor cars, importing more than twice the value of the next-ranked country, and its net trade in this category represented approximately 15% of the global market. A similar situation was observed in imports of telephones and computer equipment and components for them, ready-made medicines, spare parts for cars, etc. However, these goods, along with electronics, are not currently subject to the reciprocal tariffs, although they may fall under sectoral tariffs in the future, as automobiles and spare parts for them[15] do now. The new rules also do not apply to steel and aluminum[16], gold bullion, energy, and some minerals not available in the United States. Although some diversion of certain goods to other countries is likely, there may be some difficulties due to higher import prices to the United States.

Figure 3. U.S. deficit of trade in goods, by 4-digit HS code and difference in tariffs, USD billions

Shows only commodity groups where U.S. imports exceeded exports. Rectangle size reflects each group's ratio of its trade deficit to the sum of the deficits. Labels inside the rectangles highlight primarily groups with the highest such ratios.
Numbers in the bottom right corners show 2023 deficit as a ratio of global trade for that commodity.
Goods exported by Ukraine include those with Ukraine's share in the world market exceeding 0.1% and the ratio to U.S. imports above 1%.
Difference in tariffs is the difference between old (including Ad Valorem Equivalents) and new tariff rates (by country and sector), weighted by U.S. import volumes.
Source: BACI CEPII, UNCTAD TRAINS, NBU staff estimates.

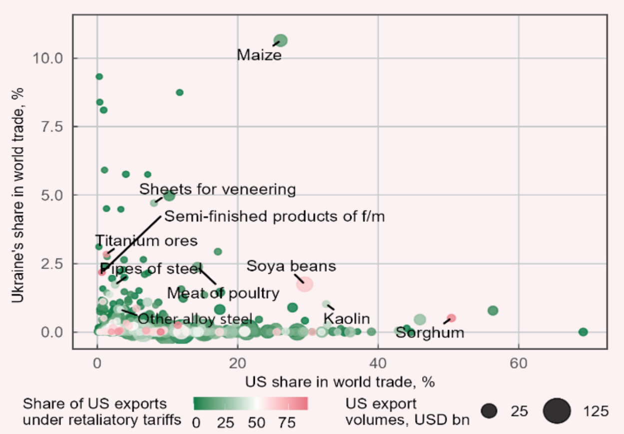
Unlike true reciprocal tariffs, which would have traditionally resulted in the highest rates for agricultural products, tariffs increased significantly primarily for consumer and industrial goods imported from China and certain Asian countries. Instead, Ukrainian goods, in particular those in the categories with the largest trade deficit with the United States, gained a competitive advantage due to lower-than-average tariffs. While for pig iron, sunflower oil, copper profiles, honey, or apple juice the difference with all exporters did not exceed 9 pp, it reached 30 pp for some furniture (except for items made of metal) or electro-thermic appliances. U.S. companies searching for alternative supplies could

[13]Most countries use the value-added tax (VAT) or a nationwide sales tax, as opposed to the U.S. sales tax, which varies by state and locality. The highest weighted average combined rate as of 1 January 2025 was 10.1% (the maximum possible rate is 12.6%), and it was applied to imports subject to certain preconditions (nexus). At the same time, there is a misconception in the United States that VAT refunds when exporting goods act as an export subsidy (Feldstein and Krugman, 1990).
[14]The EU is a leader in digital services taxation, which the Unites States considers discriminatory due to the double taxation of a company's income. This also applies to India and Canada.
[15]If cars and their spare parts qualify under the USMCA, the 25% tariff applies only to the value of the non-U.S. content (for spare parts – from the date the relevant U.S. authorities establish the procedure for determining such value).
[16]Tariffs of 25% on steel and aluminum were already introduced separately in February 2025.

also increase demand for Ukrainian flour products, sports equipment, wood and wood products (if no separate sectoral tariffs are imposed), luminaires, etc. In addition, in the event of a prolonged trade confrontation between the United States and its MTPs, some companies may resort to lengthening their supply chains and relocating production if the difference in tariff rates exceeds logistics costs. Ukraine, as the EU's closest neighbor, could become one such hub, which would facilitate its integration in EU supply chains, provided that security risks are reduced and European integration reforms are implemented.

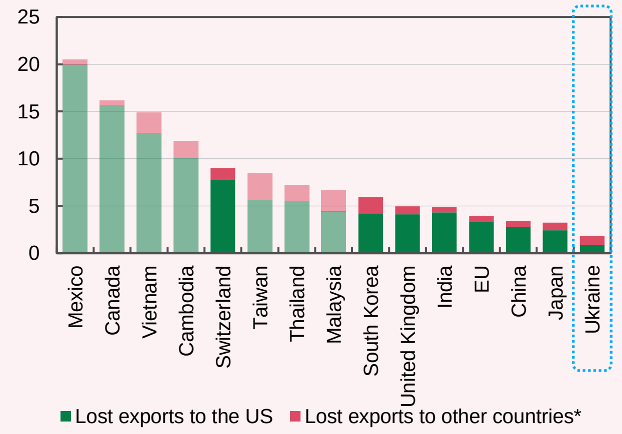
The impact of the trade confrontation on the global economy will also be determined by the countermeasures taken by other countries. For example, the EU agreed (but postponed for 90 days) tariffs on more than EUR 20 billion of goods after the U.S. imposed new restrictions on steel and aluminum imports. The list includes, among others, soybeans, cereals, sugar, poultry, wood, and wood products, which are the goods Ukraine could potentially export more to the EU. Canada imposed a 25% tariff on goods worth USD 29.8 billion (excluding cars), with ferrous metals among other things. In turn, China imposed countervailing duties on all goods from the United States (currently 125%), including on agricultural products. At the same time, China continued to use asymmetric instruments, including tightening controls over exports of seven types of rare earth elements and five metals that are at the bottom of the supply chain for defense and technology goods.

Figure 4. U.S. and Ukraine's shares in goods trade, by 4-digit HS code and exports under retaliatory tariffs



F/m – ferrous metals. Includes measures by China, Canada, and the EU.
Source: BACI CEPII, NBU staff estimates.

Figure 5. GDP losses of trading partners if exports to the U.S. come to a halt, pp



* Resulting from a decline in their exports to the U.S.
Non-MTPs of Ukraine are shown in semi-transparent.
Source: OECD TiVA, NBU staff estimates.

The uncertainty over prospects for a significant change in U.S. tariff policy have already affected economic activity. Thus, a pickup in certain manufacturing sectors was caused by an increase in the number of orders and an accumulation of inventories by companies ahead of the possible imposition of new tariffs. This was partly confirmed by a record widening of the U.S. trade deficit in goods from USD 98 billion on average for the first eleven months of 2024 to almost USD 140 billion in January–February 2025[17]. However, if reciprocal tariffs and countervailing duties are introduced in 90 days, exports to the United States, according to Bloomberg estimates, could decline by 30% in the medium term – in particular, by more than 35% from the EU and India and by almost 100% from China. Accordingly, the loss of the U.S. market will significantly reduce the GDP of Southeast Asian countries, given their high dependence on demand from the United States and the level of reciprocal tariffs. However, the trade war could also have a major adverse effect on the U.S. economy. According to various estimates, U.S. GDP may decline by 1.7% within a year and by 3.5% within two to three years. Instead, the impact is expected to be more moderate on most of Ukraine's MTPs (except for China and the United States) and on Ukraine itself. A certain narrowing of aggregate demand from MTPs may be partially offset by an increase in Ukrainian exports to both established and to new markets.

[17] Although it was primarily driven by the rapid growth in imports of finished metal shapes, with gold bullion accounting for almost all of it, imports of pharmaceuticals, computer equipment, and electronics also increased.

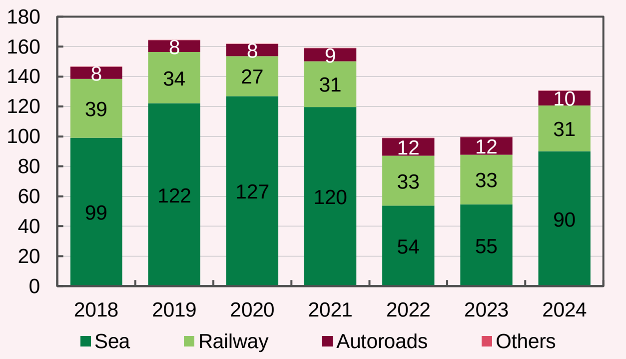
Box 3. Sea Corridor's Impact on External Trade: Higher, Faster, Better

Until 2022, exports of goods accounted for about 30% of GDP and half of FX inflows. With the onset of the full-scale invasion, export potential declined significantly due to both the destruction of production infrastructure and territorial losses, as well as limited transportation capacity. Logistics problems, especially maritime logistics, were most pronounced in 2022–2023. They eased somewhat with the opening of the grain corridor and almost disappeared after the launch of the sea corridor. Thanks to the efforts of the Armed Forces and the reduction of security risks in the Black Sea, the diversification of commodity exports has improved, and export prices have approached global levels. The freeing up of transportation capacities also contributed to an improvement in transportation by other routes. However, a full recovery in exports and their growth in the long term will require ensuring the stability of the port system, further optimization of transportation, and an increase in production capacity.

The opening of the sea corridor had a decisive impact on the dynamics of exports, primarily by increasing the volume of exports and expanding the range of goods transported by sea. Sea transport played a key role in the transportation of exports before the full-scale invasion. In 2021, three-fourths of exports were transported by sea. Therefore, the blockade of the Black Sea ports was the biggest problem hampering exports in the first months of the full-scale war. The subsequent active development of transportation routes and the opening of the grain corridor contributed to the gradual resumption of exports (read more in the box *Development of Ukraine's External Trade Routes: Time to Take Back What's Ours* in the January 2024 Inflation Report). However, this was not enough to transport all the necessary volumes of exports. With the launch of the sea corridor, both the range of exported goods and the possibilities for transporting imported goods significantly expanded.

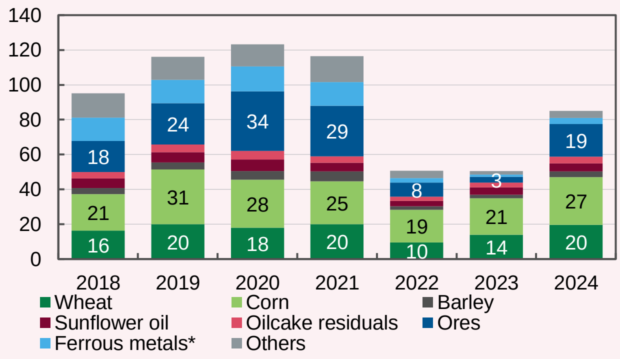
Thus, in 2024, mining and metals producers gained unimpeded access to sea transportation routes, which immediately translated into the growth of external supplies. However, exports of these products are limited by the loss of production capacity, electricity shortages, and regular air attacks on infrastructure. As a result, external supplies of mining and metals remain significantly lower than before the full-scale invasion. At the same time, exports of agricultural products have almost fully recovered, and grain supplies by all modes of transport have even exceeded the levels of 2020–2021.

Figure 1. Exports transportation, million tons



Source: SCSU.

Figure 2. Exports by sea transport, million tons



Source: SCSU.
* Four groups (7201, 7207, 7208, 7214).

The sea corridor has also had a major impact on the geographical structure of exports. It has made it possible to resume shipments to Ukraine's traditional destinations – Asia and Africa – to which delivery by other modes of transport was mostly difficult or completely impossible. In addition, Ukrainian exporters have managed to enter new, very exotic sales markets. For example, in 2024, exports were recorded to Dominica (pumps), Laos (oilcake and poultry meat), Malawi (oil-cake residues and packaging bags), Eswatini (medicines), East Timor (packaging bags), and others.

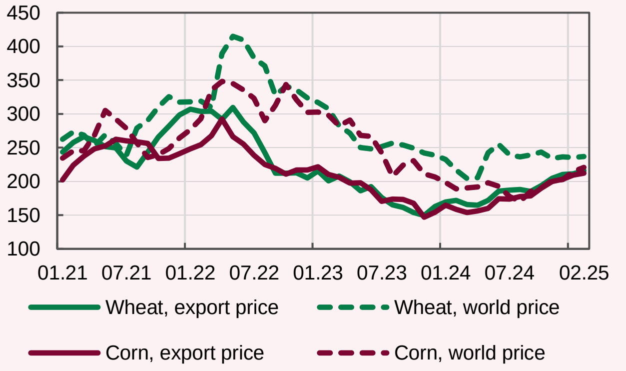
For imports of goods, transportation by sea is less important compared to other routes, but the sea corridor played a significant role here as well. According to the results of 2024, the volume of imports of goods rose by 7.8% due to a significant increase in transportation by sea. Thus, sea transportation grew 1.6 times due to higher purchases of primarily oil products, fertilizers, and coal. The structure of imports of goods by sea has remained almost unchanged since the launch of the sea corridor: chemical products (40% in 2024, including 20% fertilizers), oil products (32%), and metallurgical products (8%). Rail transportation increased by 31.6%, driving growth in imports by 6.5 pp, while road transportation decreased by 16%.

The expansion of export opportunities led to the convergence of export prices for grain crops to global-level prices. At the start of the full-scale invasion, the impossibility to export Ukrainian grain in sufficient volumes led to the accumulation of significant stocks of agricultural products. This, together with rising freight and insurance rates amid high war risks and the need to export surpluses, led to a considerable decline in export prices. In contrast, global prices rose sharply due to disruptions in supplies from Ukraine.

With the reduction of security risks in the Black Sea and the launch of the sea route, Ukrainian exporters were able to restore logistics and supply chains and cut costs, including the cost of freight. As a result, export prices for Ukrainian grain reached world levels. Farmers began to receive a fair price for their products, which enabled them to increase investments in production.

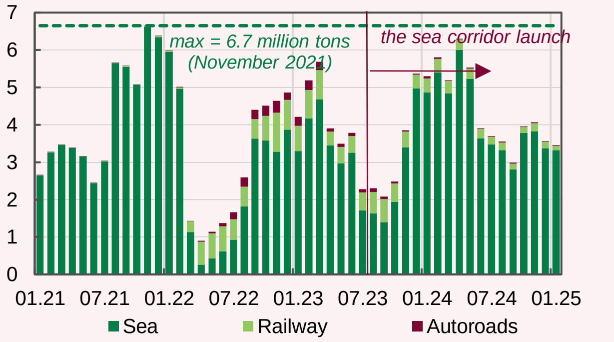
Given the full operation of the sea corridor, the available transportation capacities provide the necessary volumes of transportation for farmers. Thus, the volume of grain transportation through the sea corridor in 2024 was close to the level of 2021. Given the lower harvest volumes, primarily due to a decrease in sown areas, current transportation capacity is more than sufficient to export crops, which is confirmed by the restoration of the seasonality inherent in agricultural exports before the full-scale invasion.

Figure 3. World and export prices of grains, USD/t



Source: SCSU, IMF, World Bank.

Figure 4. Grains exports by transportation mode, million tons



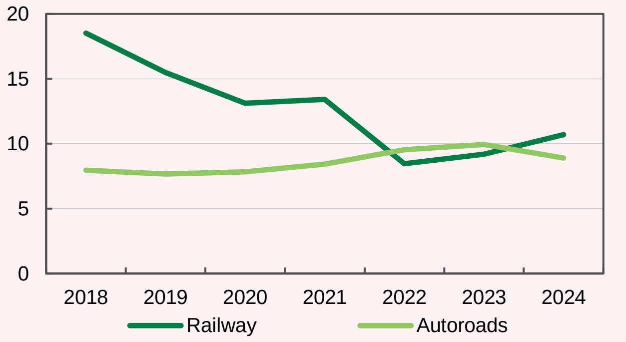
Source: SCSU.

The resumption of full-fledged maritime shipments has freed up some of the capacity of other modes of transport. Thanks to the freeing up of railway capacity, transportation of mineral products (pebbles, gravel, Portland cement) to Poland, Romania, and Slovakia increased. In contrast, the transportation of goods by road declined, which was partly due to the blockade of the Polish border in the first months of the year. The decrease was primarily driven by lower volumes of food and wood products being transported to Poland, Romania, and Hungary.

In addition, the concentration of exports of goods transported by road and sea decreased in 2024. Research by the UN and Samen, S. (2010) shows that a more even commodity distribution helps to reduce the volatility of export revenues, thus strengthening the sustainability of external trade. Export diversification can also increase a country's investment attractiveness, as it reduces risks for investors in the event of economic shocks.

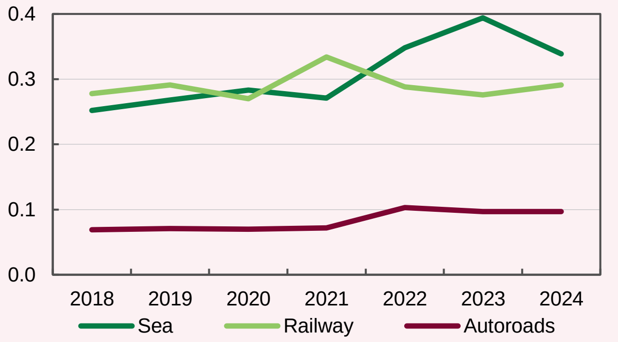
In addition, the lowest index of concentration of exports of goods is observed in road transportation, and current volumes of transportation by road exceed the level before the full-scale invasion. Road transport is more maneuverable than other modes of transport due to its better infrastructure, shipment flexibility (without the use of additional modes of transport), and speed. Goods transported by trucks have a higher value compared to goods exported by other modes of transport: in 2024, only 7.5% of exports volumes were transported by road, but it accounted for 30% of export revenues. This once again confirms the importance of this means of transportation for Ukrainian exports.

Figure 5. Goods transportation excluding main exports[18], million tons



Source: SCSU, NBU staff estimates.

Figure 6. Concentration index of goods exports by transportation mode



Source: SCSU, NBU staff estimates..

Thus, the opening of the sea corridor was an important strategic step for Ukraine's economy, providing new opportunities for exports and greatly facilitating logistics. However, some transportation problems persist: still-high costs, some inconvenience in logistics processes, and the cost of insurance remain factors that limit exports. Therefore, further optimization of transportation is important for the stable development of external trade. Ensuring the security situation in the Black Sea is also of great importance: if russia stops its air attacks on Ukrainian ports and if the ports of Kherson and Mykolaiv are restored to normal operation, transportation will revive. This, provided that production capacity is restored, will allow for an increase in the volume of external trade, which will contribute to sustainable economic growth.

[18] Goods excluding wheat, corn, sunflower oil, iron ores, and four ferrous metal group (7201, 7207, 7208, 7214)

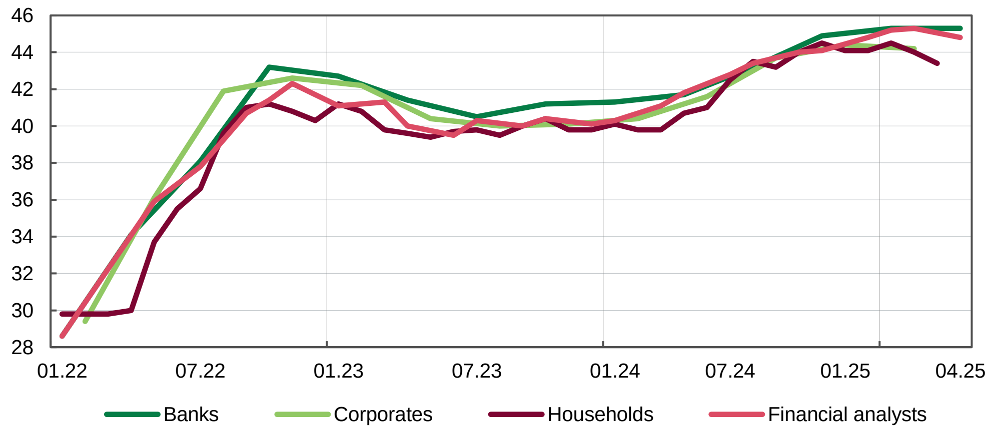
Part 3. Monetary Conditions and Financial Markets

- The tightening of interest rate policy supported the demand for hryvnia assets and the sustainability of the FX market. In the coming months, the key policy rate is expected to remain at 15.5%, and the NBU will return to the interest rate easing cycle only after the price surge has peaked, and the risk of inflation staying in double digits has been reduced.
- Improved FX market conditions, driven by seasonal factors and monetary policy measures contributed to improved expectations and led to a strengthening of the hryvnia against the U.S. dollar. At the same time, the weakening of the U. S. dollar in the global financial markets has been causing the hryvnia's depreciation against the euro and other currencies of Ukraine's MTPs in recent months.
- Sufficient amounts of international assistance, as well as previous decisions to tighten interest rate policy and maintain FX market sustainability, will help to continue keeping inflation expectations under control and to gradually reduce inflation to its 5% target over the policy horizon.
- In the coming years, the growth of the budget's ability to raise domestic financing in the face of an expected decline in external financial assistance will enable it to avoid resorting to monetary financing.

Seasonal factors, a tighter interest rate policy, and the NBU's measures to ensure the sustainability of the FX market helped improve exchange rate expectations, reduce pressures on international reserves and prices

In Q1 2025, the net demand for both cash and non-cash FX declined significantly. This was largely due to seasonal factors, including annual and quarterly tax payments by businesses, as well as the NBU's monetary policy measures. As a result, the hryvnia gradually strengthened against the U. S. dollar. Meanwhile, the hryvnia moderately weakened against the euro, reflecting the corresponding dynamics of the EUR/USD currency pair.

Figure 3.1. 12-month-ahead exchange rate expectations, %



Source: NBU, Info Sapiens.

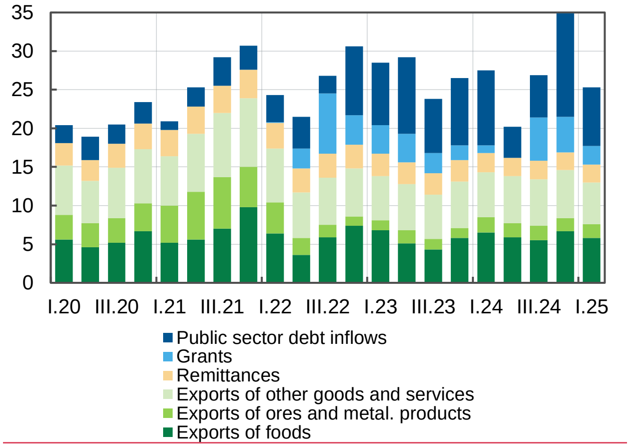
Net purchases of FX cash by households in Q1 2025 decreased to USD 2.8 billion (from USD 3.7 billion in Q4). The decline in demand was driven by stabilizing exchange rate expectations amid moderate two-way exchange rate fluctuations and the tightening interest rate policy, which supported the attractiveness of hryvnia instruments.

The improved exchange rate expectations of households helped keep the spread between the cash and official exchange rates at a low level: about 0.6% on average. During the period when the exchange rate rose above the level of 42 UAH/USD, the spread widened to 1.7%, but as the exchange rate strengthened, the spread narrowed to 0.1%.

In the non-cash segment of the FX market, demand for FX declined due to lower budget expenditures, which was reflected, among other things, in a reduction in imports of certain consumer foods. Imports of power equipment decreased due to the stable situation in the energy sector. Transfers from business transactions allowed under FX liberalization also declined seasonally. More than a third of such payments were made using the businesses' own foreign currency, which did not put any pressure on international reserves.

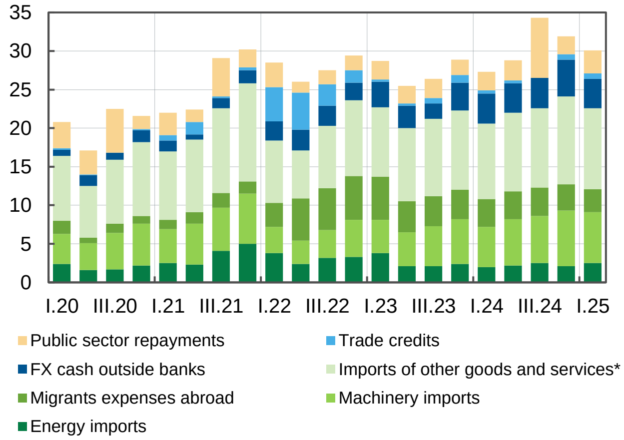
At the same time, there were factors that drove demand for non-cash FX. For example, imports of gas and fertilizers (the production of which depends on gas) increased as a result of missile and drone attacks on gas infrastructure. Stable revenues of agricultural companies in previous periods also increased purchases of machinery and goods for the sowing campaign (plant protection products, seeds).

Figure 3.2. Key components of FX inflows to Ukraine, USD billions



Source: NBU.

Figure 3.3. Key components of FX outflows, USD billions



* Excluding humanitarian aid.

Source: NBU.

The supply of FX declined, but not as much as demand. In particular, agrarian companies' FX earnings declined amid low stocks of last year's harvest, and payments for gas transit stopped.

As a result, the NBU decreased its net FX sales in the interbank market to USD 9.4 billion in Q1 2025 (from USD 11.4 billion in Q4 2024) in response to the reduction in the structural FX deficit of the private sector.

In Q1, Ukraine received funds totaling USD 9.2 billion under the ERA mechanism. The seventh revision of the Extended Fund Facility with the IMF was also approved. As a result of the reduction in the structural FX deficit of the private sector and the inflow of international aid, gross international reserves remained high as of late Q1 2025, at USD 42.4 billion, which is 14% higher than the minimum level according to the IMF's composite metric.

More favorable FX market conditions, sustained high levels of international reserves, and improved exchange rate expectations contributed to the gradual strengthening of the UAH/USD exchange rate in Q1, to 41.5 (from 42.0, or by 1.3%).

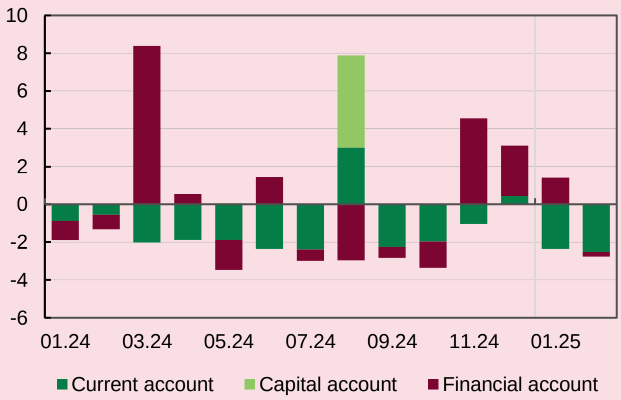
At the same time, the NBU comprehensively considers the impact of exchange rate dynamics on achieving its goals. For this purpose, the effects of changes in the hryvnia exchange rate are taken into account not only against the U. S. dollar, but also changes in the weighted average exchange rate of the hryvnia against a basket of MTP currencies, i.e. the hryvnia's NEER. Thus, the hryvnia's appreciation against the U. S. dollar was offset by its weakening against the euro and other currencies, which was one of the consequences of the tariff confrontation. As a result, in Q1 2025, the hryvnia's NEER remained relatively stable.

Unlike the NEER, the hryvnia's REER appreciated due to higher inflation in Ukraine compared to its MTP countries. Going forward, the hryvnia's REER will be close to its equilibrium level and, accordingly, will have a neutral impact on inflation. This will be due to, among other things, the NBU's measures to maintain the sustainability of the FX market, and sufficient international financing.

Revision of Balance of Payments data in 2024

In March 2025, the NBU revised the balance of payments data for 2024. The revision had a neutral impact on the overall balance of payments, but redistributed capital flows between the financial and capital accounts. This is the first time that such significant amounts have been recorded in the capital account. The data was revised to reflect updated information on the debt restructuring that took place in August. During this transaction, 13 series of government Eurobonds and one series of sovereign-guaranteed Ukravtodor Eurobonds totaling USD 20.5 billion were exchanged for eight new series of Eurobonds worth USD 15.2 billion in principal. The remaining USD 5.2 billion was written off. In addition, the holders of government bonds were paid USD 240 million for their consent to the transaction. Also, payments on GDP warrants were reclassified.

Overall balance of payments, USD billions



Source: NBU.

As a result, the balance of payments data for August 2024 were changed as follows:

1) capital outflows from the public sector financial account in the portfolio investment item increased by USD 5.2 billion

2) capital account inflows were increased by USD 5.2 billion

3) payments to holders of Eurobonds (USD 238 million) and GDP warrants (USD 170 million) were transferred from the financial account portfolio investment and financial derivatives items to the capital account capital transfers item.

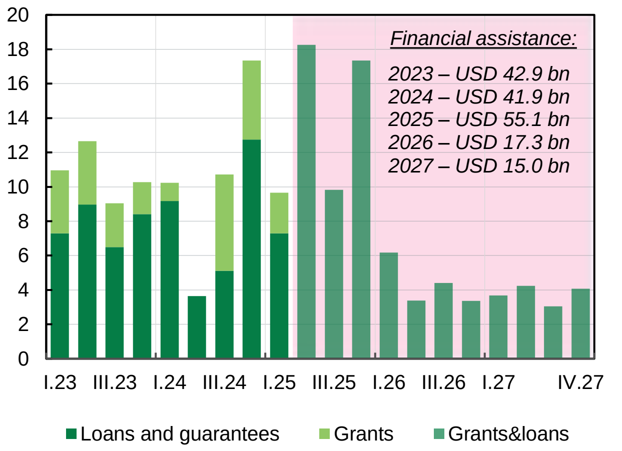
In 2025, the private sector's FX deficit will remain significant. FX inflows will increase slightly. Export earnings will remain almost unchanged due to low crop stocks, lower global prices for sunflower oil and ore amid rising global supply, and the halt of gas transit (for more details, see *Assumptions and Risks to the Forecast* on page 53). Remittances from labor migrants will remain at the level of 2024 due to slow economic growth in the recipient countries of Ukrainian migrants. FX outflows will remain high, despite a further decline in demand for FX cash on the back of attractive yields on hryvnia instruments. Thus, gas imports are expected to expand driven by both a decline in domestic production and rising import prices (for more details, see *Assumptions and Risks to the Forecast* on page 53). The need for non-energy imports will remain significant due to the necessity to supply the defense sector, repair and restore infrastructure, as well as high domestic consumer demand (for more details, see *Economic Developments* on page 20).

In 2026–2027, the private sector's FX deficit is expected to narrow due to a further decline in demand for FX cash, and to fiscal consolidation. In addition, further FX liberalization and the normalization of economic conditions will help to increase the inflow of investments and debt capital. Increased seasonal labor migration and faster economic growth in European countries will boost remittances to Ukraine. Exports of goods are also expected to gradually increase due to higher harvests and a revival in global demand, primarily for iron ore and metal products. This, together with rising export prices for grains and metals amid cheaper transportation logistics, will contribute to a significant increase in export earnings. At the same time, the outflow of FX is expected to decline due to lower gas purchases amid the rebuilding of gas infrastructure and lower energy prices. Further changes in the residency of Ukrainian migrants abroad will contribute to a decrease in imports of travel services. Meanwhile, non-energy imports will grow moderately to ensure a gradual economic recovery and further infrastructure rebuilding.

This year, Ukraine may receive larger-than-expected international financial assistance (of about USD 55 billion) thanks to prompter tranche disbursements under the ERA Loans mechanism. Tranches under the Ukraine Facility and IMF programs are also expected. These funds will be sufficient not only for financing the budget deficit this year, but also for creating a safety buffer for public finances for the next year, when the amounts of international financial assistance are likely to start declining.

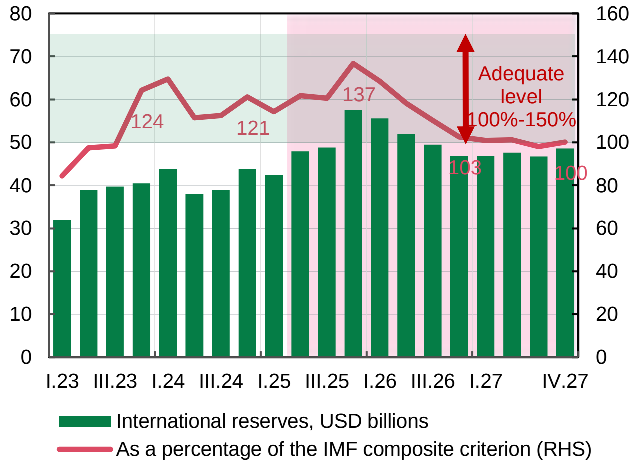
This year's large inflows will also enable Ukraine to increase its international reserves, to USD 58 billion, thus maintaining the sustainability of the FX market. However, due to a decline in international financial assistance and an increase in servicing and repayments on external public debt, gross reserves will decline to USD 47-49 billion in 2026–2027. However, such amounts will remain sufficient and make up about 100% of the minimum level according to the IMF's composite metric.

Figure 3.4. International financial assistance, USD billions



Source: NBU, MFU, data from open sources, NBU assumptions.

Figure 3.5. Gross international reserves



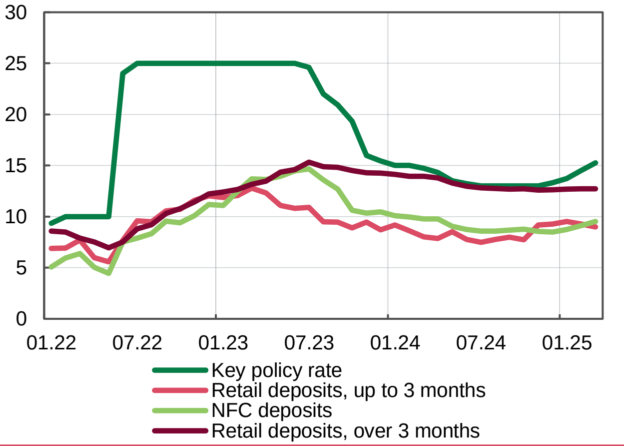
Source: NBU staff estimates.

A hike in the key policy rate and changes to the operational design parameters of interest rate policy contributed to the growth in interest rates on term hryvnia instruments and to the greater protection of hryvnia savings from losing value to inflation

The further acceleration of inflation has significantly increased the risks of inflation expectations becoming unanchored and, consequently, the risk of inflation remaining at high levels for longer. In response, the NBU continued the cycle of interest rate policy tightening that it started in December and raised its key policy rate in January and March by a total of 2 pp, to 15.5%. The NBU also updated the operational design of its interest rate policy to enhance the effects of key policy rate changes and improve the attractiveness of hryvnia savings. In April, the NBU kept the key policy rate unchanged, as the measures taken, coupled with the efforts to ensure FX market sustainability, should prove sufficient to reverse the inflationary trend in the coming months and gradually reduce inflation to its 5% target over the policy horizon.

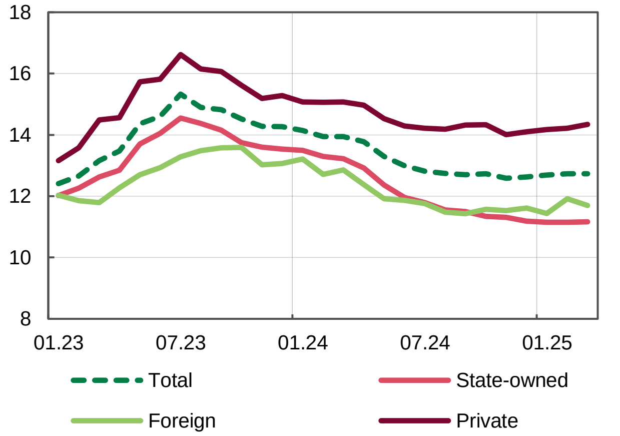
The NBU's previous measures to tighten its interest rate policy initially halted the decline in hryvnia instrument yields and subsequently ensured their gradual growth. Thus, March–April saw a rise in interest rates on both hryvnia domestic government debt securities and hryvnia deposits with maturities longer than three months, including those at the leading retail banks. At the same time, while interest rates on NFCs' term deposits rose by 1.0 pp during the quarter, interest rates on retail deposits increased by only 0.1 pp. This situation is partly explained by a more significant decline in interest rates on corporate deposits during the key policy rate cut cycle, which determined a significant spread between these rates and, accordingly, room for a stronger response.

Figure 3.6. Weighted average interest rates on hryvnia term deposits and key policy rate*, %



* Monthly average.
Source: NBU.

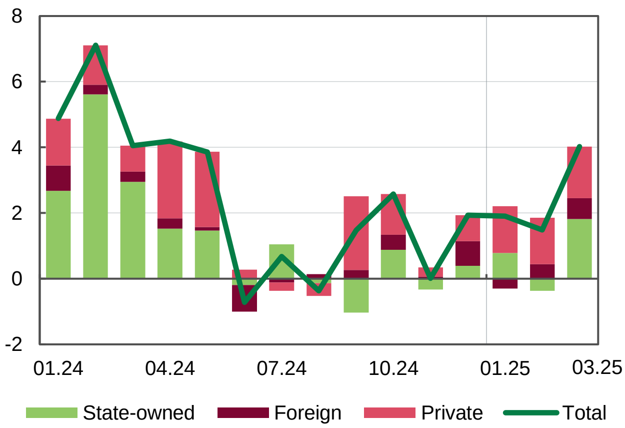
Figure 3.7. Weighted average interest rates on hryvnia retail deposits with a term of over 3 months (by bank group*), %



* Bank groups as of 01.04.2025.
Source: NBU.

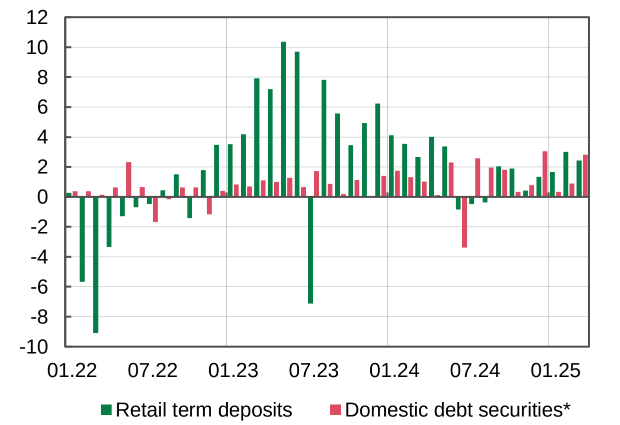
Transmission to retail deposit rates was restrained by a significant liquidity surplus in the banking system, high uncertainty, and significant market concentration. In view of this, the NBU decided to calibrate the operational design of its interest rate policy to provide additional incentives for banks to compete for depositors and increase retail term deposits in the hryvnia. This prompted the banks to raise interest rates on retail deposits with maturities longer than three months. As expected, private banks were the first to raise these rates. As state-owned banks announced interest rate revisions only at the end of the quarter, their response has not yet been reflected in the weighted average rate for March. However, the dynamics of the Ukrainian Index of Retail Deposit Rates indicates that the NBU's March measures to tighten monetary transmission were effective.

Figure 3.8. Changes in the stock of hryvnia retail deposits with a term of over 3 months, UAH billions



* Bank groups as of 01.04.2025.
Source: NBU.

Figure 3.9. Changes in the stock of hryvnia domestic debt securities held by individuals and hryvnia retail term deposits, UAH billions



* At outstanding nominal value.
Source: NBU.

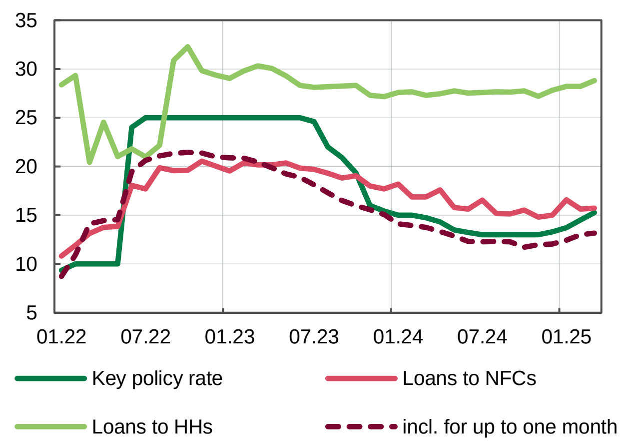
The increased attractiveness of hryvnia instruments was reflected in the rising demand for them. As a result, the monthly nominal growth of retail hryvnia deposits with a maturity of more than 92 days increased markedly in March–April. Banks of all groups stepped up their efforts to attract such funds. In particular, two largest state-owned banks played an active role. Moreover, the higher interest rates on households' funds enabled private banks to significantly increase their share of deposits with terms of more than three months. The share of term deposits in the hryvnia retail deposit portfolio also resumed growth.

Yields on hryvnia domestic government debt securities also responded to the key policy rate hike. Together with the non-taxation of income from domestic government debt securities, this further fueled public interest in these instruments. The portfolio of hryvnia domestic government debt securities held by individuals grew by 10% in Q1 2025, and their share among other holders (excluding the NBU and banks) has increased from 8% to almost 20% since the beginning of 2022. The total net demand for retail term deposits and domestic government debt securities of individuals in March was the greatest in the last 10 months.

Previous decisions to raise the key policy rate had a limited impact on the lending market. In Q1, the weighted average interest rate on NFCs' hryvnia loans increased by 0.7 pp, but remained close to its pre-COVID level. The restrained response of interest rates was due to, among other things, strong competition between banks for reliable borrowers and a significant liquidity surplus in the banking system. Instead, the NBU's measures have increased the confidence of economic agents in the central bank's ability to curb inflation. Macrofinancial stability and stable expectations are important prerequisites for a further reduction in the cost of credit and the development of lending.

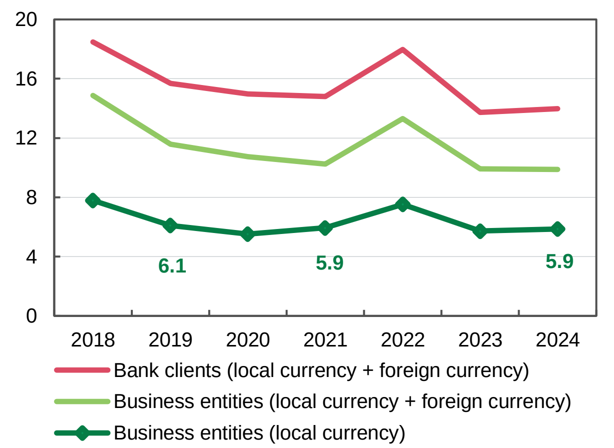
According to the latest Bank Lending Survey, in Q1, respondents expected an increase in demand for almost all types of corporate loans, as well as an easing of lending standards, especially for large companies. As a result, hryvnia corporate loan stocks grew by 6.2% during the quarter. The leaders in terms of growth were the manufacturing industry, the retail trade, and energy supply. Growth in retail lending has also resumed. In Q1, retail hryvnia portfolio grew by 5.6%.

Figure 3.10. Weighted average interest rates on hryvnia loans and monthly average key policy rate, %



Source: NBU.

Figure 3.11. Ratio of performing* loans to adjusted GDP, %**



* Excluding overdue debt. ** Excluding the public administration and defense sector.

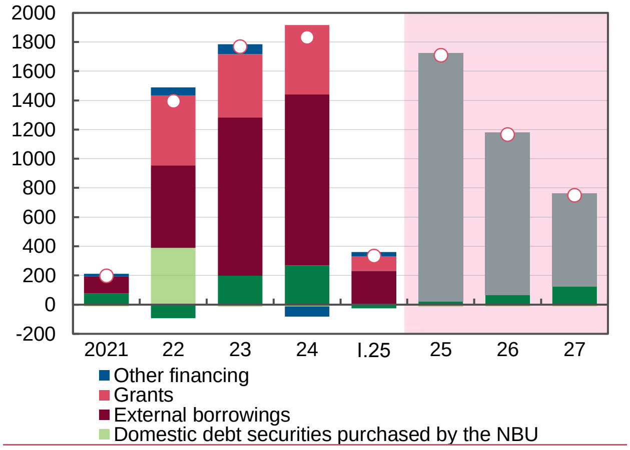
Source: SSSU, NBU staff estimates.

Overall, lending to the economy is slowly recovering and returning to market conditions. In 2024, the ratio of performing hryvnia corporate loans to GDP, excluding the public administration and defense sector (which does not generate demand for loans), was at the level seen before the full-scale war. The financial performance of certain companies is also currently close to that of 2021. Therefore, banks are slowly returning to lending on a market basis. At the same time, under martial law, there are market segments where lending still requires significant government support. These include the energy sector, the defense industry, and lending in what are termed “resilience areas” located near the combat zone.

Significant external assistance allowed the government to create a liquidity buffer, which, together with domestic borrowing, will help finance the budget deficit without resorting to monetary financing

Significant amount of international assistance received in Q1 2025 (USD 9.6 billion) was sufficient not only to finance budgetary needs, but also to increase the liquidity buffer, which was already considerable. At the same time, the domestic debt market was relatively weak in Q1, and only revived at the end of the quarter as government debt securities yields rose. Gross placements of domestic government debt securities amounted to about UAH 104 billion, of which UAH 76 billion was in the local currency. As a result, the rollover of domestic government debt securities in all currencies in Q1 was about 82%.

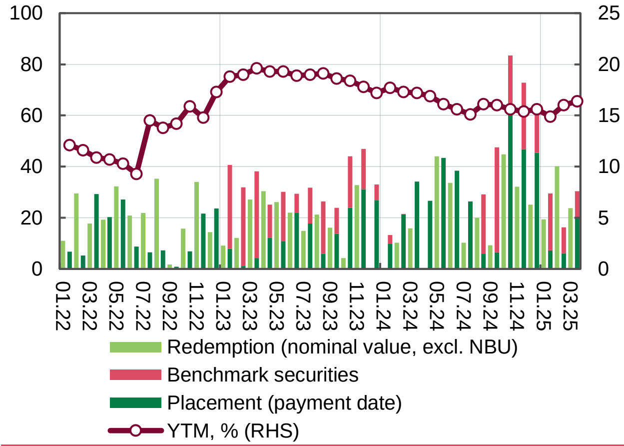
Figure 3.12. Financing* of the state budget deficit (excluding grants in revenues), UAH billions



* Net borrowing. Hryvnia-denominated borrowings include domestic government debt securities issued to increase the authorized capital of banks, the Deposit Guarantee Fund (DGF) and other state-owned enterprises. Deficit in 2025–2027 reflects the NBU's forecast. The grey color denotes external borrowings, grant funds, and other financing, in particular, the use of relatively large cash balances on gov`t accounts at the end of the previous period.

Source: STSU, NBU staff estimates.

Figure 3.13. Primary placement* and redemption of hryvnia domestic government debt securities, UAH billions and YTM

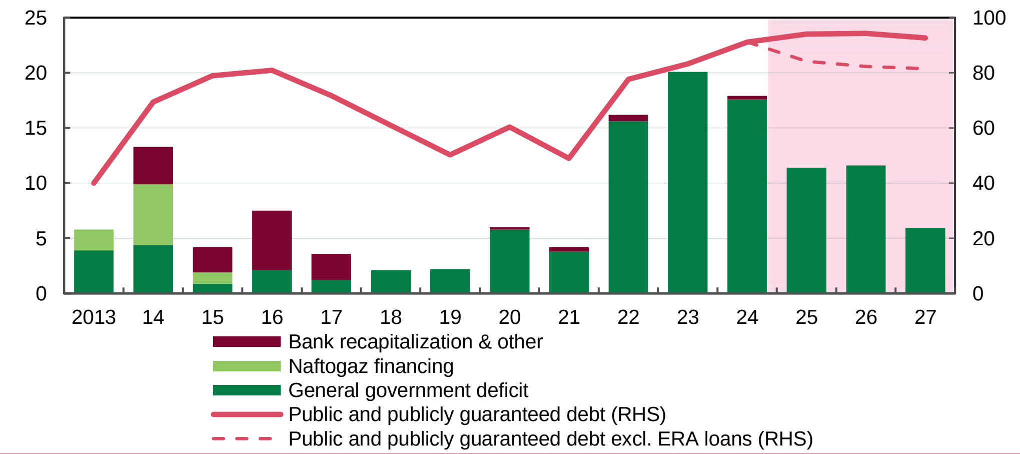


* According to the results of auctions for the placement of domestic debt securities before reflecting the price effects due to the additional placement of securities. Excluding hryvnia domestic debt securities issued in 2022 and 2024 for recapitalization of Ukrfinzhytlo and purchase of war bonds by the NBU.

Source: NBU staff estimates.

Measures to increase the budget's own resources will help to maintain high expenditures throughout the year. In addition, record international financial assistance is expected in 2025, which will be sufficient to cover this year's budget expenditures and to create a liquidity buffer for the next year, when assistance is likely to decline (for more details, see *Assumptions and Risks to the Forecast* on page 53). Together with larger domestic borrowings, this will be enough to finance the budget deficit without resorting to monetary financing and to maintain the sustainability of the FX market.

Figure 3.14. Broad public sector deficit, public and publicly guaranteed debt, % of GDP



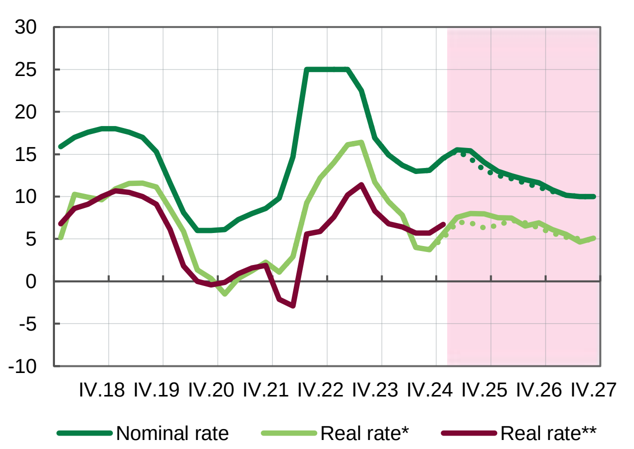
Source: MFU, STSU, IMF, SSSU, NBU staff estimates.

Fiscal deficits will be reduced, but will remain significant. This will continue to drive up public and publicly guaranteed debt to 94% of GDP over the forecast horizon. However, part of this debt will be formed by funds received under the ERA mechanism, which will be repaid exclusively from proceeds from russian immobilized assets. These funds will not be taken into account when assessing external debt sustainability. Furthermore, concessional terms of loans from international partners and increased efficiency of domestic public debt management (in particular, through auctions for the replacement of domestic government debt securities) will help to reduce the burden on expenditures and free up resources to finance budgetary needs.

The NBU expects to keep the key policy rate at 15.5% and will return to the cycle of interest rate easing after the price surge has peaked and the risk of inflation staying in double digits has declined

Curbing high inflation requires appropriate monetary conditions. With this in mind, the NBU has kept the key policy rate at 15.5% since March. Tight monetary conditions will continue to be ensured by a relatively high ex-ante real interest rate of around 8% in 2025, which will gradually decline to 5% over the forecast horizon. Maintaining sufficiently tight monetary conditions in 2018–2019, while keeping the real key policy rate at a comparable level, reversed the inflationary trend. In this regard, tight monetary conditions are not excessive.

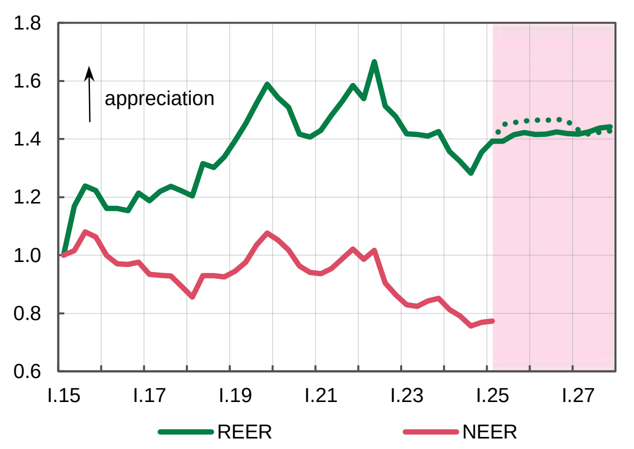
Figure 3.15. Key policy rate, %



* Deflated by model expectations (QPM+). Updated estimates were conducted using the QPM+ version (model description is presented in the Box "QPM+: Updated Quarterly Projection Model to Guide Monetary Policy Decisions", page 49). ** Deflated by the expectations of financial analysts.

Source: NBU staff estimates.

Figure 3.16. REER and NEER indices, Q1 2015 = 1



Source: IMF, national statistical offices, NBU staff estimates.

Keeping the real interest rate relatively high will help the NBU achieve its 5% inflation target over the policy horizon. The easing of price pressures expected in H2 2025 will allow the NBU to return to the cycle of interest rate policy easing. According to the current macroeconomic forecast, the key policy rate will be cut to 14% in Q4 2025 (on average per quarter).

At the same time, given the significant level of uncertainty, which has only increased in recent months, the NBU will respond flexibly to changes in the balance of risks to price movements and inflation expectations. If the risks of high inflation and unanchored inflation expectations intensify, the NBU will keep the key policy rate at the current level for longer than envisaged in the updated macroeconomic forecast, and will stand ready to take additional measures.

Box 4. Consequences of Tariff Wars for the Ukrainian Economy and Monetary Policy

Given the election rhetoric of the new U.S. President Donald Trump, a reversal in U.S. tariff policy was expected, but its scale and nature came as a surprise to the world. The increased turbulence in the financial and commodity markets is further confirmation of this. Throughout April, reports of revised U.S. tariffs or retaliatory measures by other countries appeared almost daily. The process of resetting global trade relations is very dynamic, and it is extremely difficult to predict its final configuration. The NBU's updated macroeconomic forecast is based on assumptions that the global tariff wars will have a moderate impact on the Ukrainian economy, in part due to the accumulated experience of countries in restructuring global value chains, the high adaptability of Ukrainian producers to new challenges, and a number of other multidirectional effects that will offset each other.

Consequences for the Ukrainian economy. In early April, the United States sharply increased duties for a large number of trading partners, but with a differentiated approach, so Ukraine found itself among perhaps the least affected countries. In particular, due to the surplus of trade in goods with Ukraine, the United States imposed the lowest duty of 10% on the country. The direct impact of the new tariffs on the Ukrainian economy is expected to be insignificant, as the volume of domestic exports to the U.S. market is quite small. In addition, some Ukrainian exporters may be able to reorient their supplies to other destinations, while some of them may gain competitive advantages in the U.S. market in the face of higher entry barriers for other countries (read more in the box *U.S. Tariff Policy – Carpe Diem* on page 29).

The indirect impact of the tariff wars on the Ukrainian economy will be stronger. An obvious consequence of trade confrontations will be a slowdown in economic activity in some MTPs of Ukraine, primarily in the euro area and CEE, which is likely to lead to a decline in external demand for Ukrainian products. This was one of the reasons for the downgrading of Ukraine's GDP growth forecast to 3.1% in 2025 (read more in the *Economic Developments* section on page 20). At the same time, taking into account the experience of countries in restructuring global value chains gained during previous trade confrontations and the coronavirus crisis, as well as the introduced fiscal stimulus measures, the NBU expects that the slowdown in MTPs will be short-lived and will not have a long-term negative impact on Ukraine's real GDP growth. In particular, the updated macro forecast envisages faster growth in the economies of both MTP countries and Ukraine in 2026–2027.

The NBU's estimates of the moderate impact of the tariff wars on Ukraine is also based on the structural features of the domestic economy, in particular the significant share of agricultural exports and the high dependence on energy imports. Thus, as the global economy cools, Ukraine may benefit from lower crude oil prices, but it is unlikely to lose markets for agricultural products, demand for which is much less sensitive to changes in business cycles. Moreover, the deterioration of trade and political relations between countries may prompt them to strengthen their own food security and, consequently, to increase food reserves, which will support prices for agricultural products. The well-developed and investment-attractive Ukrainian transport sector may also reap certain "dividends" from the restructuring of global logistics chains and their partial reorientation from the U.S. market to other markets.

An additional factor contributing to the resilience of the Ukrainian economy will be the adaptability of all domestic businesses to new challenges, whether these be logistical difficulties or entering new markets. The best confirmation of this is the rapid and successful transformation of the production, logistics, and trade links of the Ukrainian enterprises during the full-scale invasion. Therefore, taking all these factors into account, the impact of the tariff wars on the pace of Ukraine's economic recovery through the external demand channel should be limited and short-term.

The NBU’s forecast also does not foresee a significant impact of the tariff wars on inflationary processes in Ukraine. On the one hand, the restructuring of value chains in the world is a costly process, which will also be accompanied by a temporary decline in productivity. This will put upward pressure on prices. An additional inflationary factor may be the expected strengthening of the euro, which affects consumer import prices. However, the cooling of the global economy will, on the contrary, limit external price pressures, and the associated decline in crude oil prices will directly support disinflationary processes in Ukraine across a wide range of goods and services. In addition, the redirection by other countries of part of their trade flows from the United States to alternative markets, including Ukraine, may contribute to lower prices for imported consumer goods.

At the same time, the side effects of the tariff wars could have long-term consequences for Ukraine, these effects being the acceleration of deglobalization and the associated geopolitical polarization of countries. This process is not new; it has been ongoing for several years, but at a much slower pace. As a result of the acceleration of geopolitical polarization, the regionalization of the world will intensify, and incentives for the formation of not only new economic alliances but also political and military blocs (formal or informal) will increase. High tensions in the world may complicate access for Ukrainian products to relatively "unfriendly" markets, while the emergence of new "hot spots" may reduce attention to the russian-Ukrainian war and dampen support for Ukraine in general. At the same time, the increased focus by other countries on their own defense capabilities could be used to Ukraine's advantage, as it could supply its partners with metals, weapons, and technologies developed to resist russian aggression.

Consequences for monetary policy. Given the heightened general uncertainty and turbulence in financial markets, the NBU will continue to adhere to the principles of flexible IT to maintain confidence in monetary policy and ensure macrofinancial stability. In the event of escalating trade conflicts and currency wars around the world, the NBU will also be ready to ensure adequate exchange rate flexibility to avoid the accumulation of significant external imbalances. At the same time, even under such conditions, the NBU will remain active in the FX market, compensating for the structural foreign currency deficit of the private sector, and ensuring two-way exchange rate fluctuations are moderate.

It should also be expected that, as a result of higher risks to the role of the U.S. dollar as the world’s dominant currency, including in trade settlements, the UAH/USD exchange rate may become less significant for inflation and GDP. Therefore, the NBU will closely monitor further changes in the role of the U.S. dollar, while paying increasing attention to the exchange rate of the euro and other global currencies.

One of the important consequences of these processes may be a trend towards a decrease in the share of the U.S. dollar in the structure of savings in Ukraine. In order to increase the role of the hryvnia in savings and reduce the dollarization of the economy, the NBU will continue to maintain the appropriate monetary conditions. This will help ease pressure on the exchange rate, international reserves, and prices.

Box 5. Could the Confiscation of Immobilized russian Assets Affect the Role of the Euro in the Global Economy?

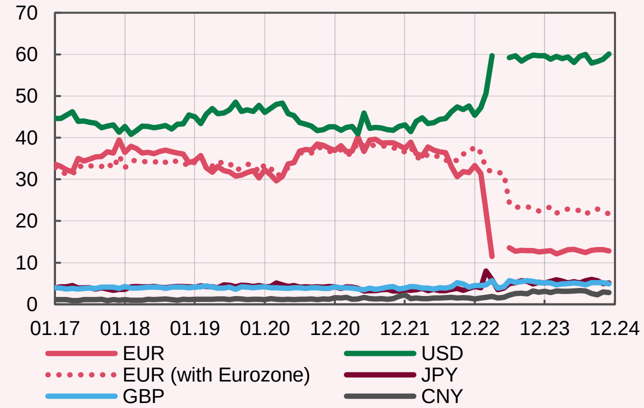
Since its inception, the euro has confidently held the second position after the U.S. dollar in both international financial markets and global trade. However, the introduction of sanctions against russia by leading countries due to its invasion of Ukraine and the increasing geopolitical rivalry between China and the United States have brought the issue of currency dominance in the international financial system to the forefront. Nevertheless, despite attempts by some EMs to find alternatives, the role of the euro (as the world's second currency) remains steadfast. Therefore, coordinated measures with other advanced economies to completely confiscate russian sovereign assets will not weaken the role of the euro and are unlikely to have a material impact on the perception of this currency.

In January 2025, Ukraine received the first EUR 3 billion from the EU under the ERA loans initiative, which will be repaid with proceeds from immobilized russian assets. This event did not cause a noticeable reaction in the foreign exchange or stock markets, just like the previous steps of approving the ERA initiative in June and October 2024, or authorizing the direct use of central securities depositories' windfall profits to support Ukraine in May 2024. However, even such limited measures have previously raised concerns in the ECB about potential adverse effects on the euro's role in the global financial system, in particular due to other central banks' reluctance to hold euro-denominated reserves, higher financing costs for EU countries due to higher euro yields, currency diversification in trade settlements, and so forth.

In the context of the ambiguous position of the United States in Europe, calls for the confiscation of the bulk of immobilized russian assets in favor of Ukraine have been voiced once again. In contrast, the ECB insists on the risks, primarily for the euro. Behind-the-scenes pressure from third countries, including China, Indonesia, and Saudi Arabia (the latter even threatened to sell its European assets in response to the confiscation of russian ones), only heightens concerns.

Meanwhile, the NBU's analysis of all aspects of the euro's position in the global environment confirmed that there is no threat to the role of this currency in the event of a complete confiscation of immobilized russian assets in favor of Ukraine.

Figure 1. Shares of currencies in SWIFT payments, excluding payments within Eurozone, %



Source: SWIFT.

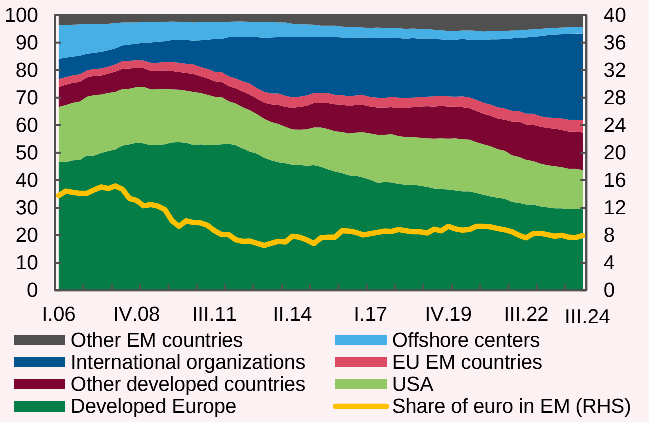
Figure 2. Share of the euro in EU trade with non-EU countries, %

Source: Eurostat.

In international trade, a global currency is characterized not only by its use in the issuing country's settlements with the outside world, but also in trade transactions between third countries. While the euro is consistently ranked first in exports and second in imports in European countries, other countries do not use it frequently, which determines its regional status. Thus, the share of the euro in trade finance over the previous five years has fluctuated around 6%, significantly lower compared to the U.S. dollar. At the same time, the share of the euro in international payments in the SWIFT system exceeded 30% in 2019. The euro was more frequently used in Europe, some African countries, and Iran. However, since the beginning of 2023, the euro's share has declined markedly and stabilized at around 13%, which was due to major infrastructure change in payment systems in Europe.

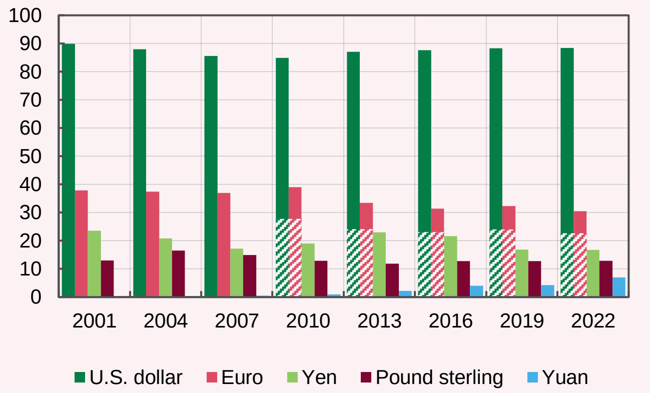
In international financial transactions, the euro also holds a significant share in European countries. The share of euro-denominated bonds issued by these countries is over 40%, while in the rest of the regions, it mostly does not exceed 20% (with the exception of developed countries in North America, where it is higher). Overall, at the end of Q3 2024, 23.7% of the world's outstanding bonds were denominated in the euro, and only about 8% in EMs. The popularity of this currency declined significantly as a result of the global financial and debt crises and has partially recovered since 2018, primarily in Europe and North America. More than half of all outstanding debt securities denominated in the euro were issued by advanced economies, primarily European ones, and more than 30% by international organizations. The share of the latter has increased considerably since 2020, in particular against the backdrop of a rise in EU bond issuance. In contrast, the share of euro-denominated debt securities issued by EMs, although gradually increasing after 2012 to a peak of almost 6% in 2020–2021, has subsequently declined to about 4%, in part due to the decrease in the corresponding debts of China, Indonesia, and russia. It is estimated that if EMs outside the EU had refused to issue such debt, the share of the euro in the total volume of bonds (in all currencies) in Q3 2024 would have decreased by 1 pp, to 22.7%.

Figure 3. Outstanding euro-denominated international debt securities by issuing region, eop, %



Source: BIS, NBU staff estimates.

Figure 4. Shares of currencies in the OTC foreign exchange turnover, %



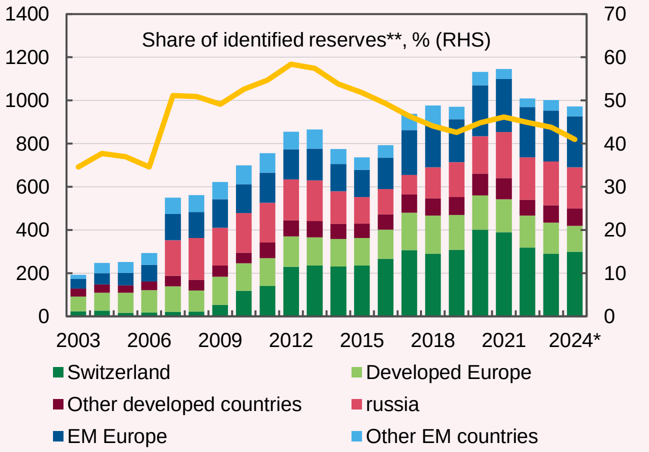
Shaded portion represents the share of USD/EUR pair.
Source: BIS Triennial Central Bank Survey.

Similar trends were observed in international bank lending. The UK was its main center, with its share of euro-denominated loans growing even after Brexit to 51% at the end of 2022. In contrast, the share of banks from all EMs (together with European ones) was only about 7% of all loans in the euro. The share of EM countries in outstanding international loans in euros has fluctuated between 25%–30% since 2013, with a significant place held not only by Central and Eastern European countries but also by countries such as China, UAE, Qatar, and Turkey. Usually, stronger trade and financial ties between a country and a currency issuer result in an increase in bank loans in the respective currency. According to the ECB's estimates, for both the euro and the U.S. dollar, there was a direct correlation between the shares of a currency in foreign trade payments and bank lending. However, these volumes were quite moderate. A complete withdrawal of EMs outside the EU would reduce the total share of euro-denominated loans by 2.7 pp (to 23.8% in Q3 2024).

The positions of currencies on international currency markets generally reflect their role in international trade and the global capital market, in particular through network effects (Shin, 2023). The share of the euro, although it decreased somewhat after the debt crisis in the early 2010s, was 30.5% of global turnover in 2022. In the markets of European countries, the share of the euro was predominantly higher; in particular, in Poland, Sweden, and Hungary, over 50% of transactions were in euros, in Bulgaria and Romania it was over 90%, while in Japan, South Africa, and China it was less than 15%. In total, euro pairs with European currencies accounted for about 4.4% of transactions, EUR/CNY – for 0.1%, and others mostly with U.S. dollars. It is estimated that should all other countries[19] and China cease using the euro in the FX market, with other things being equal, its share would fall by only 1.4 pp. However, trading in the USD/EUR pair would likely also experience a certain decline, as Singapore and Hong Kong account for 8.5% of FX transactions involving the euro (about 2.6% of global turnover). The main volumes of euro trading (82%) have traditionally been concentrated in the UK, the United States, the euro area, and Switzerland.

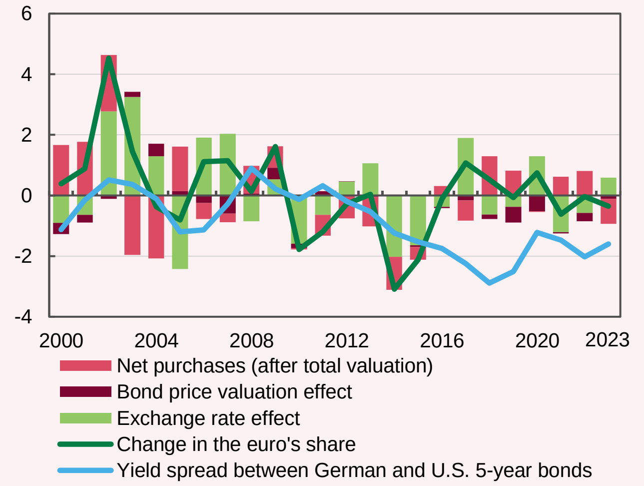
The total share of the euro in the global official foreign exchange reserves has stabilized at 20% since 2015. According to NBU calculations based on data from the ECB, other central banks, Chinn et al. (2022), and Iancu et al. (2020), the countries with the largest foreign exchange reserves in the euro are russia and Switzerland: they account for about half of the identified and more than 20% of total euro reserves. Another 13% were held by EU member states outside the euro area and other developed European countries, in line with their strong strategic, trade, and financial ties to the euro area. However, the share of identified reserves in the euro was only 40%–60% in various periods. Some countries with significant holdings of international reserves, primarily China, India, Taiwan, Singapore, and Japan, do not disclose their currency structure.

Figure 5. Identified euro-denominated international reserves by country, USD billions



* Preliminary data. For russia, 2022-2024 – NBU staff estimates.
** The combined euro reserves held by the countries shown as a share of total identified euro-denominated reserves. The unbalanced panel includes between 12 and 41 countries in different periods.
Source: ECB, IMF, Chinn et al. (2022), Iancu et al. (2020), official web pages of central banks, NBU staff estimates.

Figure 6. Change in the euro's share in the currency structure of international reserves and the Germany–US yield spread, pp



Source: ECB, Bloomberg.

If the influence of geopolitical factors outweighs economic considerations in reserve allocation in the coming years, as a number of central bank surveys suggest (OMFIF, Central Banking, HSBC, Invesco), the euro's role in the global financial system could decline, and financial stability in the euro area may be threatened. Official investors from the BRICS+ countries (excluding russia) held about EUR 610 billion worth of euro-denominated government bonds as of the end of 2023 (+EUR 50 billion in 2023), so their sale in response to the confiscation of russian assets would lead to a significant tightening of financial conditions in the euro area.

[19] Excluding the UK, Japan, Switzerland, Sweden, Norway, Australia, Canada, Poland, Denmark, Hungary, and the Czech Republic, the volume of transactions with which is detailed in the BIS report.

However, from a technical point of view, the complete elimination of reserves in euros is unlikely. Firstly, the simultaneous sale of such volumes of bonds would lead to losses for the central banks of the respective countries. Secondly, the synchronized confiscation of russian assets by all advanced economies would limit the options for reserves diversification, as these countries have the most instruments that are in line with the standards of the level of safety (preservation of capital) and liquidity. Reserve management policy allows only 32% of the central banks to hold EM bonds, and their actual share in reserves averaged about 1.2% in 2021 (the median across countries was 0%). In addition, China cannot invest its international reserves in the yuan, which significantly restrains the increase in the role of this currency. At the same time, about 70% of the central banks surveyed by OMFIF, on the contrary, consider the geopolitical factor an obstacle to the accumulation of Chinese assets. For example, the Czech central bank had liquidated about USD 2.3 billion of yuan reserves (almost 2% of the total) by the end of Q2 2023.

There is also some potential for diversification into gold: since 2022, annual purchases of this metal have amounted to more than 1,000 tons, whereas a decade before that, they averaged around 500 tons. However, only a third of the OMFIF respondents were guided by geopolitical considerations for the increase in gold reserves. In addition, gold has a number of disadvantages (storage costs, low liquidity, zero yield), which makes it more attractive primarily to potentially sanctioned countries (Arslanalp et al., 2023).

Direct confiscation of russian assets, which account for more than 8% of total reserves in the euro, and placing them under the management, for example, of an international trust fund, could mechanically reduce the share of the euro in reserves by almost 1.1 pp, but such a change would not have any meaningful economic implications.

However, statistical data and expectations in Europe are quite positive, and reaching a consensus on the ERA Loans for Ukraine initiative has likely had no proven negative impact on either the role or status of the euro as the second leading currency of official reserves, or on third-country investments in the euro area, or on investor expectations and the level of confidence in securities, the European market, and the region's financial system as a whole.

Despite the EU’s trade restrictions with russia and the sanctions imposed (along with the immobilization of russian assets), the share of the euro in trade settlements and financial transactions has remained almost unchanged. Therefore, the complete confiscation of russian assets in favor of Ukraine is likely to have little impact on third countries’ perception of the risks with using the euro. Synchronized confiscation by all advanced economies would also limit the ability of EMs, particularly China, to diversify their reserves. In addition, in times of high turbulence, the euro might even gain an advantage compared to the U.S. dollar and other currencies.

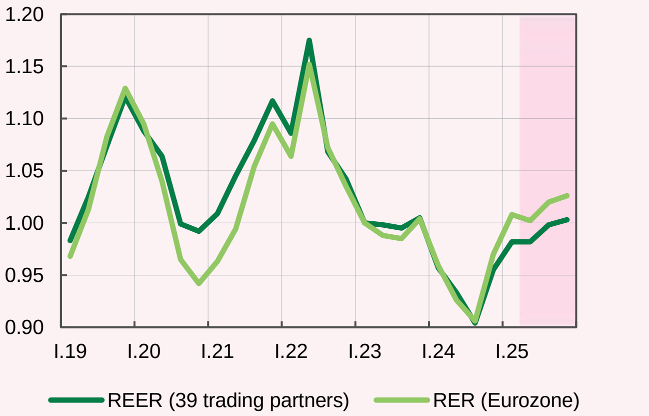
Box 6. QPM+: Updated Quarterly Projection Model to Guide Monetary Policy Decisions

The NBU operates a semi-structural Quarterly Projection Model (QPM) to build macroeconomic forecasts and analyze monetary policy (for more details, see the box *Quarterly Projection Model to Guide Monetary Policy Decisions* in the January 2020 Inflation Report). The updated version of the model (QPM+) used by the NBU takes into account the changes that have taken place in Ukraine's economy in recent years. These include the growing role of the euro and shifts in exchange rate policy regimes. Furthermore, the model directly incorporates various implicit targets for the components of consumer inflation. The current macroeconomic forecast is based on the QPM+.

The QPM+ emphasizes the role of the euro area as Ukraine's largest trading partner. In the model, the UAH/EUR exchange rate is the determinant of imported inflation, while external demand for domestic goods and services primarily depends on the economic cycle of the euro area. The euro is becoming an increasingly important currency for Ukraine's external trade payments. On Ukraine's European integration path, the role of the euro area will continue to grow. The previous version of the model focused on the UAH/USD exchange rate and grouped the euro area's GDP into one index along with other countries – Ukraine's MTPs. The current version has GDP, inflation, and the interest rate in the euro area as separate components, and also takes into account the interrelationships between them.

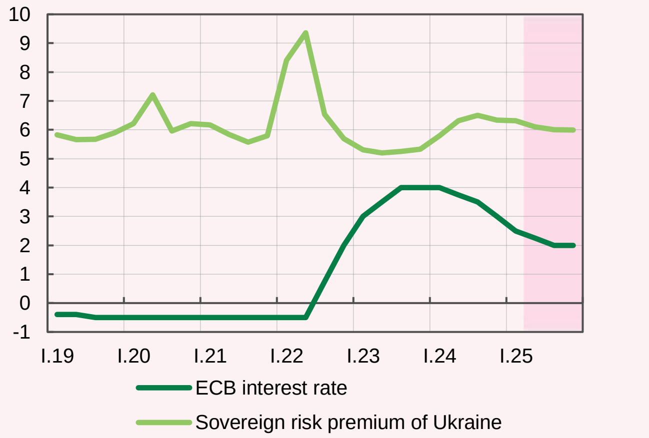
According to the modeled uncovered interest rate parity (UIP), the nominal UAH/EUR exchange rate depends on the interest rate differential between the NBU and the ECB, as well as the Ukrainian sovereign risk premium. The NBU's higher interest rate on overnight certificates of deposit compared to that of the ECB helps strengthen the hryvnia, as it boosts the investment attractiveness of hryvnia financial assets, and encourages external capital inflows and an increase in hryvnia savings.

Figure 1. Hryvnia's REER and real exchange rate (RER) of the hryvnia against the euro, I.2023 = 1



Source: NBU staff estimates.

Figure 2. ECB interest rate, %, and sovereign risk premium of Ukraine, pp



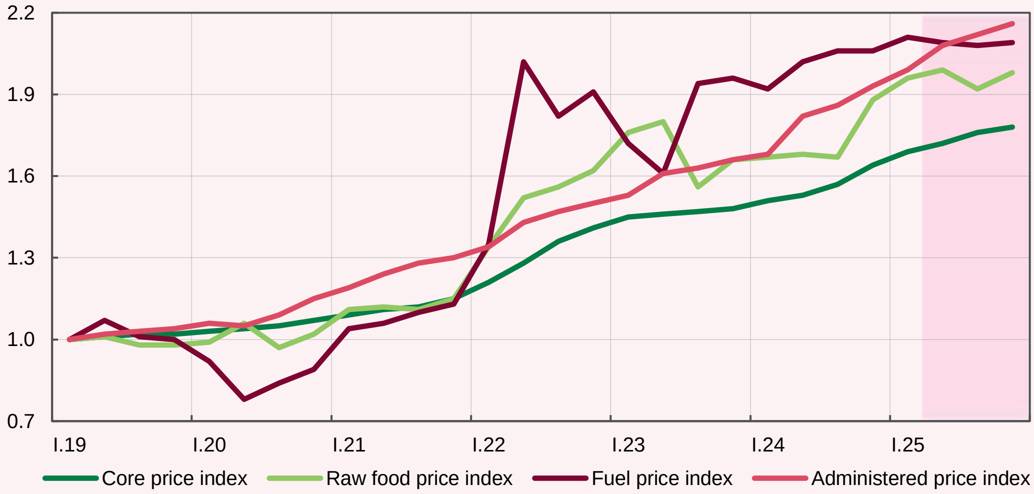
Shaded portion represents the share of USD/EUR pair.
Source: BIS Triennial Central Bank Survey.

The UIP in the QPM+ takes into account Ukraine's sovereign risk premium (estimated value), which reduces the investment attractiveness of hryvnia assets and accordingly adjusts the interest rate differential. According to model estimates, this premium rose significantly in H1 2022 amid the full-scale russian invasion, but later declined and hovered around its medium-term equilibrium level of 6 pp. The decline in the risk premium reflects non-market inflows of international financial assistance, which comes in the form of grants or concessional loans. The relatively low premium reduces pressures on the nominal exchange rate. At the same time, investment risks in Ukraine are higher than in other Eastern European countries, which raises the NBU's equilibrium key policy rate.

The effectiveness of the UIP mechanism in Ukraine has been significantly weakened by the capital controls introduced in early 2022. Instead, a significant role in the formation of the exchange rate is played by the NBU's exchange rate policy (FX interventions), aimed at supporting the sustainability of the FX market by redistributing the structural FX surplus from the public sector to the private sector. The QPM+ assumes that fluctuations in the UAH/USD exchange rate will be smoothed out (in March of this year, 100% of FX interventions were denominated in dollars, as were 84% of international reserves).

The QPM+ directly takes into account trends in relative prices, and thus different equilibrium growth rates of CPI components. The target for headline consumer inflation remains 5% per annum, but the implicit targets for its components differ. Thus, administrated prices (excisable goods other than fuel, utilities, and so on) are growing faster than other components due to a significant increase in excise taxes on tobacco products and alcohol over the forecast horizon, as well as the need to bring utility tariffs to market levels. The model assumes an equilibrium growth rate of administered prices of about 12% per annum over the forecast horizon.

Figure 3. CPI components, indices, I.2019=1

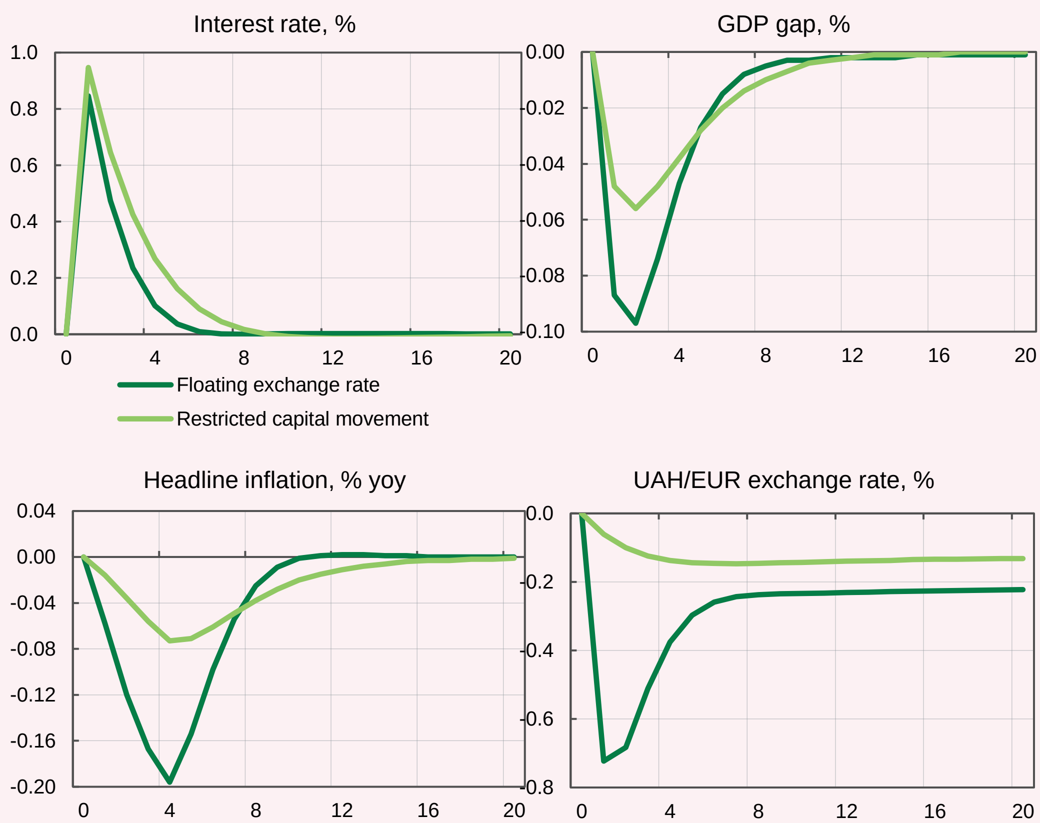


Source: NBU staff estimates.

Prices for a set of raw foods (vegetables, fruits, meat, and so on) will grow more slowly, by 4% per annum, as they have already approached world prices due to Ukraine's high trade openness. In equilibrium, fuel prices will grow by 5% per year, subject to a gradual increase in excise taxes and costs, even with a moderate decline in global oil prices. Core inflation (services, processed food, and so on) is most responsive to domestic consumer demand and monetary policy measures. The NBU will target it at 3% per annum to bring headline consumer inflation to 5% per annum.

The transmission from changes in the key policy rate to inflation has declined due to the almost complete cessation of market-based cross-border capital flows, although interest rate differentials remain an important element in the choice between assets in different currencies for Ukrainian residents. Model simulations of the responses of key macroeconomic variables to a temporary unexpected increase (shock) in the hryvnia interest rate show that the exchange rate appreciates and aggregate demand is restrained. As a result, inflation is slowing. At the same time, the responses under restricted capital flows and managed flexibility (the current monetary policy regime) are much less pronounced than they could be under free capital movement and a floating exchange rate.

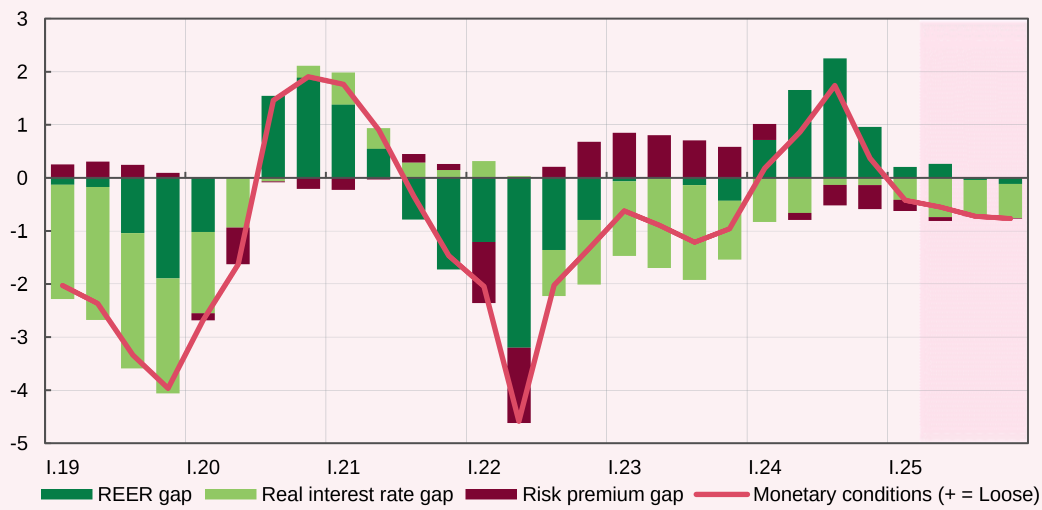
Figure 4. Impulse response functions to interest rate shock, % (x-axis – quarters)



Source: NBU staff estimates.

The key obstacle to monetary transmission in the conventional sense is that it is unrealistic to attract foreign investors to trade hryvnia securities on a market basis. Therefore, recent decisions to raise the key policy rate are aimed at encouraging domestic economic agents to make hryvnia savings. The interest rate continues to affect economic activity and inflation through its impact on the cost of hryvnia borrowing and savings. However, this channel also weakened during the full-scale invasion (for more details, see the box *Transmission of NBU Key Policy Rate to Rates on Households' Hryvnia Term Deposits* in the July 2023 Inflation Report). When the economy normalizes and the investment attractiveness of Ukraine rises, the NBU will ease capital controls and increase exchange rate flexibility, which will strengthen the transmission of the interest rate.

Figure 5. Real monetary conditions index and its decomposition by factors, pp



Source: NBU staff estimates.

The QPM+ assesses the impact of monetary policy on cyclical fluctuations in economic activity (the GDP gap) using what is termed the monetary conditions index, which contains a weighted sum of the gaps of the real interest rate, the hryvnia's REER, and the sovereign risk premium. The real interest rate reflects the cost of hryvnia borrowing and savings adjusted for modeled inflation expectations of economic agents. The contribution of the interest rate was one of the factors that tightened monetary conditions from H2 2022. However, by the end of 2024 it had come close to being neutral. In 2025, the real interest rate is again tightening monetary conditions.

The hryvnia's REER shows the competitiveness of domestic producer prices compared to foreign ones. The REER contribution was negative in 2022: the exchange rate was relatively strong for an economy that had lost much of its potential output as a result of the russian invasion. The overvalued REER stimulated imports, but prevented an uncontrolled rise in inflation. In 2024, the REER was undervalued due to nominal depreciation. Over the forecast horizon, the REER will remain close to its equilibrium level, and its contribution to monetary conditions will stay close to neutral.

The third determinant of the monetary conditions index is the sovereign risk premium, which is not directly influenced by monetary policy. The premium plays a role similar to that of the real interest rate, as it reflects the attractiveness of hryvnia financial assets for foreign investors and determines the cost of borrowing for companies that can borrow abroad. The start of the full-scale invasion significantly increased the risk premium, which was one of the factors behind the economic downturn of 2022. In 2023, Ukraine became an "attractive" destination for international financial assistance, which the QPM+ sees as a reduction in the risk premium and a temporary economic stimulus. In 2024–2025, the premium has not been playing any significant role, as financial assistance is relatively regular and there is virtually no foreign market financing.

Monetary conditions were generally tight in 2022–2023, but their components varied. In H1 2022, the REER and the risk premium provided the largest contributions, and from H2 2022, the real interest rate was the largest contributor. In 2024, monetary conditions eased due to a relatively weak REER and a cycle of cuts in the key policy rate, which approached its equilibrium level. In the medium term, restraining cyclical consumer demand and returning inflation to its target will require maintaining tight monetary conditions, which will be ensured by a relatively high real interest rate.

A QPM or other similar model is an integral part of the forecasting and policy analysis of any central bank that targets inflation. It should be adaptable to changes in the structure of the economy or monetary policy regimes. Further improvements to the model will build on the IMF's research on the Integrated Policy Framework and will follow the Forecasting Model of Internal and External Balance (FINEX). New versions of the QPM will focus on adding a GDP decomposition by expenditure, on factoring in the balance of payments indicators, and on quantifying the impact of FX market interventions on exchange rate movements.

Part 4. Assumptions and Risks to the Forecast

- The macroeconomic forecast is based on a number of assumptions about the gradual normalization of economic conditions. Thus, it is assumed that the state budget deficit will decrease and the role of domestic sources in financing its expenditures will increase. Accordingly, after this year's record-high amounts of external financial assistance, it will decline in the coming years. The electricity deficit will narrow thanks to the restoration of infrastructure. Also, natural gas production will gradually resume.
- The main risks to this macroeconomic forecast are related to the course of the war: additional budgetary needs, primarily to maintain defense capabilities, the potential need to raise taxes, further damage to critical infrastructure and production facilities, and deepening negative migration trends.
- These risks are further exacerbated by rising geopolitical uncertainty and accelerating de-globalization, including the rapid escalation of global trade confrontations. At the same time, such confrontations, depending on their nature and scale, could also provide certain benefits to the Ukrainian economy. A number of other upside scenarios remain possible, related to efforts to secure a just and lasting peace for Ukraine, as well as increased international financial assistance.

The NBU assumes a gradual normalization of security conditions over the forecast horizon. The full-scale war remains the main risk to the forecast

The main assumption of this macroeconomic forecast is a gradual normalization of economic activity over the coming years. The speed of the economy's return to normal functioning will primarily depend on the nature and duration of the war, as well as the results of efforts to secure a just and lasting peace in Ukraine. The ongoing war generates risks of a further decline in economic potential, in particular due to the loss of people, territories, and production facilities, which limits the possibilities for rapid economic growth. Military risks for Ukraine are also exacerbated by growing geopolitical tensions in the world. At the same time, there remains an upside risk that a fair peace for Ukraine will be achieved relatively quickly through efforts made by the international community, which will significantly improve the prospects for economic recovery.

The NBU assumes a significant decline in the budget deficit over the forecast horizon. However, the risks of increased needs to support defense capabilities remain substantial

The NBU has maintained its forecast for the budget deficit for 2025 at 19% of GDP (excluding grants in revenues), which will be financed primarily by external assistance. Budget expenditures will continue to be high in the coming years, as the need to support defense and reconstruction, and to meet the state's social obligations, will remain in place. At the same time, the normalization of the economy, the reduction of certain expenditure items, and the corresponding decrease in the need for external financing will help reduce the budget deficit to about 7% of GDP in 2027.

However, there remains a high risk of additional financial needs in the defense sector or those related to the restoration of critical infrastructure. Given the nominal growth of the economy, their funding could be partially financed by increased budget revenues. However, a scenario in which the budget deficit relative to GDP remains at the level of the previous year is quite likely. Much of the additional spending to meet the needs of the defense sector will probably be spent on imported goods, widening the trade deficit. The NBU will compensate for higher imports with FX interventions. As a result, international reserves will be lower, but will remain sufficient to ensure the sustainability of the FX market. Given the high probability of such a scenario materializing, the record amount of international reserves included in the baseline forecast should not be considered excessive and create grounds for unjustified optimism in economic policy decision-making. Given that most budget spending is on imports, a rise in the deficit will not provide a significant boost to economic growth. The impact on inflation will also be minor.

Higher budget expenditures can be financed by using the international assistance buffer, which is expected to be created in 2025. This buffer can be used both in the event of an increase in defense needs in 2025 and to finance additional budget deficits in the following years. An increase in the budget deficit in 2025 will reduce the government's carryover balances for the next year, which are envisaged in the baseline scenario, requiring an increase in borrowing in the following years. The government is expected to seek additional sources of financing by mobilizing domestic resources or external assistance without resorting to monetary financing of the budget deficit.

The forecast takes into account the latest taxation changes, but new initiatives are also possible, which, depending on their parameters, might have a varied impact on inflation

The baseline scenario of the forecast takes into account the effects of previous changes in certain taxes, in particular the increase in the military tax at the end of 2024. However, if additional budget needs arise, they might be financed by raising existing tax rates and/or introducing new taxes, which is a risk to the baseline scenario of the macroeconomic forecast. Such tax initiatives might have a varied impact on inflation, depending on their parameters. Potential increases in direct taxes would reduce inflationary pressures or have a neutral effect on inflation by restricting private consumption, thus offsetting the impact of higher budget expenditures. An increase in consumption taxes carries more inflationary risks, as it would be directly reflected in higher consumer prices. The NBU's monetary policy will respond to possible tax changes depending on their parameters and an assessment of their impact on inflation, while taking into account the flexibility of the inflation targeting regime in tolerating temporary short-term shocks.

The baseline scenario of the forecast assumes a significant increase in external financial support in 2025 due to the redistribution of funds under the ERA mechanism from 2026. In 2026–2027, volumes of international assistance will decrease markedly, although they will remain substantial. However, there are risks associated with both the under-receiving and the irregularity of assistance inflows, and receiving larger amounts in the following years

Ukraine is expected to receive record-high amounts of foreign financial assistance this year. The baseline scenario of the forecast assumes that Ukraine will receive USD 55 billion, USD 17 billion, and USD 15 billion in international assistance in 2025–2027, respectively. In 2025, most of the external financial support will come through the ERA Loans mechanism. The rest of the funds under this program will be received in the following years. Part of this funding will go directly to defense spending. Funds under the ERA program will come in the form of grants and loans. ERA loans will be included in Ukraine’s external debt but deducted when analyzing its sustainability according to IMF methodology, as repayments and servicing will be made from future revenues generated by immobilized russian sovereign assets.

In 2025–2026, the risk of not receiving the expected international funding has decreased, but the processes of de-globalization and the associated risks of world polarization will put pressure on the public finances of Ukraine’s allies, which may prevent the allocation of funds to support its defense capabilities. The realization of this risk will require the implementation of additional measures to mobilize budget revenues, cut expenditures, and increase borrowing from the market. If these measures are insufficient, the risk of a resumption of monetary financing of the budget will rise. If inflationary pressures increase, the NBU will pursue a tighter monetary policy.

Since the start of the full-scale invasion, the NBU has been revising its external financing assumptions upward as needs have grown and support from international partners has increased. Increased defense spending by European allies could also lead to greater support for Ukraine, both in the form of military aid and financial support. Under this scenario, international reserves will be higher than in the baseline scenario, which will strengthen the country's external resilience and create positive expectations in the FX market. This will allow the NBU to pursue a looser monetary policy.

The NBU expects the direct impact of the new U.S. tariffs on exports will be minimal

In 2024, Ukraine's exports to the United States accounted for only 2.2% (USD 0.9 billion) of total exports of goods. The main exported goods were pig iron (42% of exports to the United States), tubes and pipes (13%), and some food products (15.8%, mostly vegetable oil, honey, and juices). According to the NBU, exports of metallurgical products will not undergo critical changes due to the relatively high share of pig iron imports in U.S. consumption (about 20% in 2023). Previous experience also shows that even in the face of anti-dumping duties being imposed by the United States, exports of tubes and pipes continue. Given the low price elasticity of food products, the popularity of these products in other markets, and the new opportunities for exporters as a result of the closure of markets for American products, the reorientation to other markets is expected to be successful and result in minimal losses for exporters.

At the same time, geopolitical uncertainty is growing, and the processes of de-globalization are intensifying, including due to the rapid escalation of global trade confrontations (read more in the box *U.S. Tariff Policy – Carpe Diem* on page 29). If these processes are prolonged, tend to increase further, and are accompanied by the rapid political polarization of countries, the external environment may be less favorable than envisaged in the current macroeconomic forecast. This could lead to a more significant and prolonged weakening of the global economy and external demand. However, food prices are unlikely to decline, given the incentives to stockpile amid the unstable global political environment.

Moreover, depending on their nature and scale, trade and political confrontations could also bring certain benefits to the Ukrainian economy (read more in the box *Consequences of Tariff Wars for the Ukrainian Economy and Monetary Policy* on page 43). In particular, it is possible that energy prices will decline as the global economy cools, and that demand for Ukrainian metals and defense technologies will be supported amid rising tensions between countries. In addition, the more active use of Ukraine's transportation and investment potential is possible, given the restructuring of logistics and production chains. An additional compensator may be the high level of adaptability of Ukrainian businesses, which will help redirect exports to more accessible markets.

The baseline scenario assumes the continuation of the duty-free trade regime with the EU on similar or relatively close terms to the previous version, while the materialization of the risk of the termination of the regime might have a significant adverse impact on Ukrainian exports of goods

The introduction of autonomous trade preferences in 2014 and the DCFTA with the EU in 2016 contributed to a significant increase in food supplies to these countries. After the start of russia's full-scale invasion in 2022, the sea transport routes were blocked. As a result, alternative supply routes were actively developed, and some goods were redirected to neighboring countries. This, along with the introduction of duty-free and quota-free trade regime with the EU, contributed to a significant increase in exports of primarily food products to the EU (up by 1.7 times, or by USD 5.2 billion). However, food exports to the EU have remained almost unchanged thereafter.

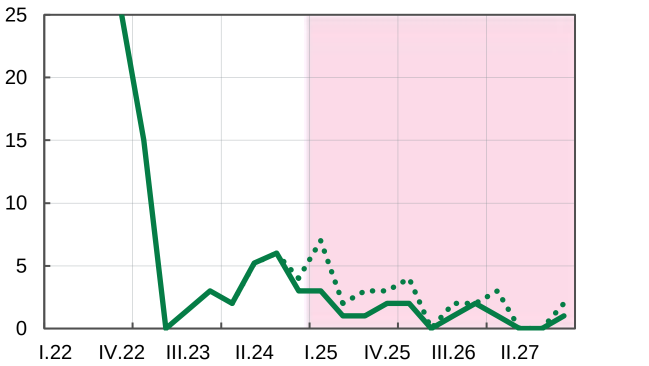
A return to the 2021 agreement is considered a baseline scenario risk. If it materializes, the net loss of goods exports could reach about USD 1 billion a year. Greater losses can be avoided by increasing supplies to Africa and Asia, and by Ukrainian exporters actively developing new markets after the opening of the sea corridor in 2023–2024 (read more in the box *Sea Corridor's Impact on External Trade: Higher, Faster, Better* on page 32). Given the resolution of logistical problems and the high global demand for food, a significant portion of food products could be quickly redirected to these markets. In addition, Ukraine and the EU are currently working on an updated trade regime, which is designed to provide favorable and predictable conditions for access to the European market. The new system of tariff quotas is likely to be more favorable than a return to the terms of the DCFTA. As a result, the negative effects on Ukrainian exports may be even smaller.

Thanks to quick repairs, the electricity deficit will be less than previously expected. At the same time, the materialization of the risk of damage to natural gas infrastructure would lead to an increase in gas imports

Rapid repairs of shunting generation and energy infrastructure, the development of distributed electricity generation and renewable energy capacities against the background of continued stable electricity imports allow the assessment of the electricity shortage over the forecast horizon to be improved. The shortage of electricity, including imports, is estimated at 3% in 2025 (4% in the January 2025 Inflation Report) and 1% in 2026 (2%). The shortage will almost disappear in 2027 (1%). Consequently, the negative contribution of limited energy supplies to the change in real GDP will decrease. Annual electricity imports will amount to about USD 0.5 billion in 2025–2027.

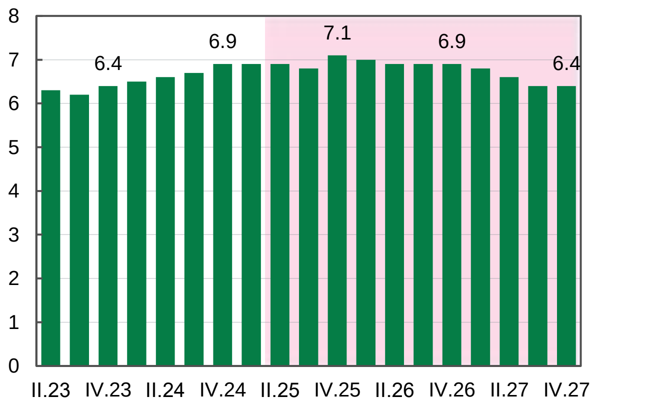
russia's attacks have damaged natural gas infrastructure, which has already led to a reduction in gas production. Over the forecast horizon, production will gradually recover, but it will not be enough to fully cover the domestic needs of the economy – both those of industrial producers and those of utility companies and households. As a result, gas imports will increase to USD 2.9 billion in 2025, and then the need for gas purchases will drop to about USD 1.1 billion in 2026 and about USD 0.4 billion in 2027. It is expected that gas imports will be partially financed by international partners.

Figure 4.1. Electricity deficit, %



Source: NBU staff estimates.

Figure 4.2. Number of migrants staying abroad, million persons (end of quarter)



Source: UNHCR, NBU staff estimates.

The persistence of the electricity deficit and losses in the gas production industry will hinder GDP recovery over the forecast horizon and increase the dependence of the energy and industrial sectors of the economy on imports, which will generate respective price risks that may be passed on to consumer prices. There are also significant risks of the further destruction and loss of energy infrastructure. Their materialization would further limit GDP growth and put pressure on inflation. Faster repairs of electricity or natural gas infrastructure and/or the commissioning of new facilities continue to be the upside risk to the forecast.

A gradual return of Ukrainian migrants is expected only after security risks subside notably

Negative migration trends persist, as despite the start of negotiations on a potential ceasefire, their outcome is uncertain, while air attacks on the entire territory of Ukraine and terrorist attacks against civilians continue.

The intentions of recipient countries to change or cancel the legal status of temporary protection of Ukrainian migrants after peace is achieved have not yet been finalized. Therefore, net outward migration is expected to continue as long as security risks remain high. The forecast assumptions remain unchanged: further net outflow of migrants to other countries in 2025 (about 0.2 million people) and the beginning of their return in 2026 (about 0.2 million people), which will accelerate in 2027 (about 0.5 million people).

The return of migrants will be gradual, so the labor shortage will persist over the forecast horizon. This will stimulate further wage growth at a rate higher than productivity growth, which will increase inflationary pressures. It will also restrain economic recovery going forward, due to the shortage of labor.

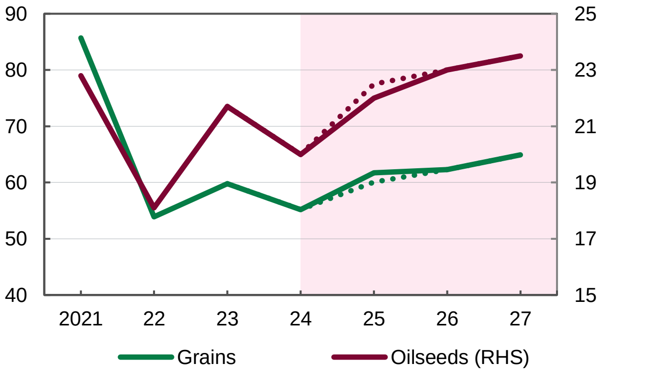
Various surveys show that Ukrainians are increasingly adapting to life abroad. More and more of them are working and providing their families with a standard of living comparable to what they had in Ukraine before the full-scale invasion. Successful adaptation in a new place reduces the share of those who want to return and increases the likelihood of family reunification abroad rather than in Ukraine. A possible deterioration of the security situation, renewed energy supply disruptions, and active policies of recipient governments to retain Ukrainian migrants are the downside risks for the migration forecast. If these risks materialize, domestic consumer demand can be expected to decline, and labor shortages to increase. The situation on the labor market will become more complicated, and the adverse effects on inflation and GDP will be more pronounced.

However, there are also upside risks: according to surveys, high incomes and the availability of housing in Ukraine encourage people to stay. Thus, economic growth and the government's efforts to restore housing and infrastructure losses will encourage Ukrainians to return more quickly and/or remain in Ukraine.

The harvest estimates for 2025 have been adjusted due to the redistribution of sown areas between certain crops. Overall, harvests are expected to increase. However, yields will depend on weather conditions during spring and summer

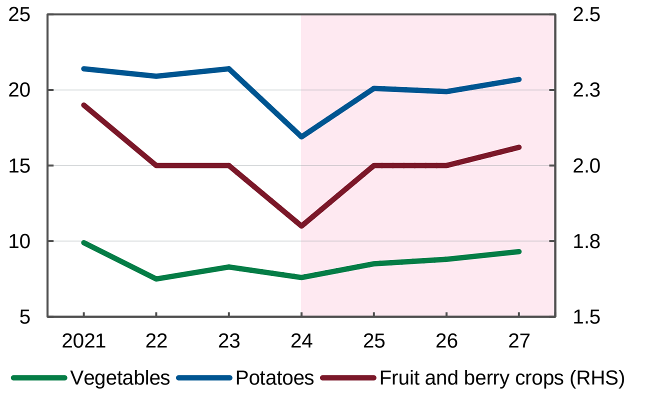
In 2025, a redistribution of sown areas is expected compared to 2024, taking into account the profitability of main crops, as well as a normalization of weather conditions. Thus, farmers are planning to reduce acreage for soybean and increase for sunflower and corn, given their higher profitability in the previous season and under-sowing of winter crops in the autumn due to dry weather. Accordingly, the forecast for the harvest of grains and legumes in 2025 has been increased (to 61.7 million tons), while that for the harvest of oilseeds has been reduced (to 22.0 million tons). Harvests of potatoes, vegetables, fruits and berries, and sugar beet will also grow.

Figure 4.3. **Harvest of grains and oilseeds, million tons**



Source: SSSU, NBU staff estimates.

Figure 4.4. **Harvest of fruits and vegetables, million tons**



Source: SSSU, NBU staff estimates.

With further investments by farmers in productivity and adaptation to current climate conditions (irrigation systems and adaptive crops and varieties, sufficient fertilization, and use of plant protection products), crop harvests will continue to grow. In 2026–2027, the grain harvest will reach 65 million tons, and the harvest of oilseeds will be 23.5 million tons. The development of irrigation and greenhouses will also help increase the output of vegetables and fruits.

At the same time, there remain significant risks of an adverse impact of weather conditions on harvest volumes over the forecast horizon. Long periods of drought and severe spring frosts could negatively affect yields. This will limit GDP growth, and inflationary pressures might increase due to a lower food supply.

Gradual growth of harvests will support the development of livestock production due to the sufficient supply and relatively low price of feed. However, risks to livestock production will remain, including the spread of animal diseases, a sharp increase in feed prices in the event of lower yields, and losses due to the effects of the war.

Further increases in excise taxes and gradual adjustments of utility tariffs are assumed in the coming years, but the timing and parameters of their revision are subject to uncertainty and pose a risk to the inflation forecast

The forecast takes into account the adoption of legislative amendments regarding further gradual increases in excise tax rates on tobacco products until 2028, the largest of which is expected in 2025, as well as their conversion to the euro.

The current tariffs for natural gas and for heating and hot water supplies are not expected to be revised this year. However, the difficult situation in the energy sector and fiscal consolidation are likely to lead to a gradual adjustment of these tariffs in the coming years. In particular, it is assumed that they will begin to be gradually brought to economically justified levels in 2026. However, uncertainty over the timing and scale of energy tariff adjustments is a significant risk for the inflation forecast. Further postponement of decisions to increase the tariffs will lead to lower inflation, but will accumulate quasi-fiscal imbalances and worsen the financial standing of state-owned energy companies. At the same time, the risks of instability in the energy market will increase, the industry's investment potential will deteriorate, and price pressures will only be postponed to the future. On the other hand, a sufficiently rapid and significant increase in energy prices to eliminate imbalances in the energy sector would increase inflationary pressures in the respective period, and would require household subsidies to be increased.

The NBU's forecast includes moderately conservative estimates of foreign assistance and investment in the medium term, but large-scale reconstruction projects in Ukraine, along with rapid European integration, could significantly accelerate economic growth

With the normalization of security conditions, there will be a need to attract investment to rebuild Ukraine's destroyed infrastructure and industries. Immobilized russian assets or funds raised by international creditors and donors could be used for this purpose. The implementation of such projects, together with European integration reforms, will significantly accelerate the pace of economic recovery. This will lead to a rise in real household incomes, which will boost underlying inflationary pressures. However, the hryvnia will appreciate as a result of foreign currency inflows and a decline in the risk premium, which will partially offset inflationary pressures from other factors.

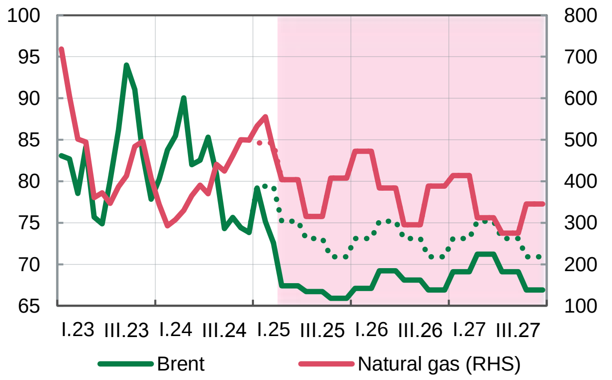
Currently, such projects are not included in the baseline scenario, and their implementation is considered an upside risk to the forecast.

Terms of trade will improve for Ukraine despite trade wars

The intensification of trade confrontation between the United States and third countries, primarily China, has led to changes in trade flows and an increase in the role of regional markets. It is expected that world energy prices will move in different directions, taking into account the specifics of each market. Brent oil prices will be under pressure from a surplus in 2025 due to a slowdown in demand growth in the largest consumer countries: China, the United States, and the Eurozone. However, crude oil consumption will remain relatively stable in EMs thanks to steady demand for air transportation and the high mobility of road transport, particularly diesel vehicles and trucks, as well as sustained activity in industrial production, construction, and agriculture. At the same time, supply will grow due to the expected increase in production by OPEC+ countries, the United States, Canada, and Norway. In addition, the U.S. sanctions against Venezuela's oil sector will only partially limit the supply of its crude oil on the world market (in 2024, the country produced about 1 million barrels per day), which will from now on go primarily to China and India. The supply will be constrained by production cuts in Iran, with the sanctions on the country only getting tighter. In 2026–2027, crude oil prices will slowly stabilize against the background of a gradual balancing of the market. The expected growth in crude oil demand due to the increase in capacity and margins of the petrochemical industry in China and the Middle East amid a gradual recovery in economic activity in the Eurozone and the United States will be met by supply growth.

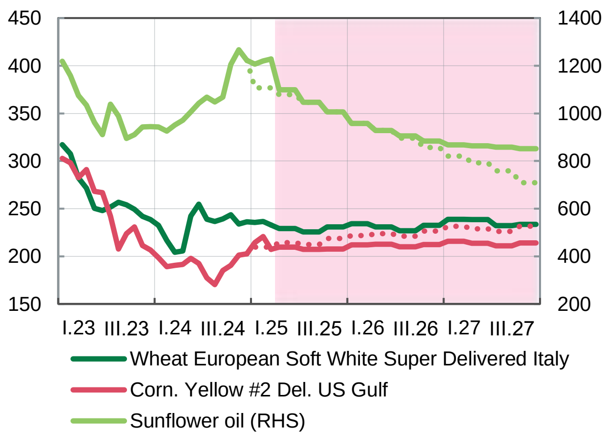
Natural gas prices on the European market will fluctuate sideways. The anticipated decrease in gas consumption due to slower economic activity in the EU, along with higher volumes of gas flows through the TurkStream and from North Africa, will be more than offset by increased injection of gas into storage facilities (the stock level of which at the end of March is almost 40% lower compared to the same period last year). At the same time, smaller volumes of natural gas from russia and Norway, as well as larger imports by Ukraine, will increase Europe's need for LNG imports. The United States, which is one of the world's leading suppliers of LNG, is expected to increase its LNG exports (by 17% yoy in 2025 alone), thanks to the operation of two new liquefaction plants. However, price competition for LNG between the European and Asian markets will continue. At the same time, cheaper russian gas may partially satisfy demand from Asian buyers, and China's duties on American LNG may force some companies to redirect contracted gas to Europe. In 2026–2027, the increase in LNG supplies, in particular by the United States and Qatar, will be sufficient to stabilize prices amid a balanced accumulation of stocks and a further increase in renewable energy production, despite the expected pickup in demand from Europe.

Figure 4.5. World crude oil prices (USD/bbl) and Dutch TTF natural gas prices (USD/kcm)



Source: World Bank, LSEG, NBU staff estimates.

Figure 4.6. World prices for selected grains and sunflower oil, USD/MT



Source: World Bank, IMF, NBU staff estimates.

Global grain prices, particularly for wheat and corn, will fluctuate sideways: the expected bumper crop of wheat and corn in MY 2025/2026 will be enough to meet the steady growth in demand with the extremely low stocks as of the end of MY 2024/2025. In addition, the United States will be partially pushed out of the grain and oilseed markets of China and the EU due to their countermeasures. Latin American countries, especially Brazil, are likely to take the place of the United States, thanks to strong ties with China, the EU, and Southeast Asia, as well as due to competitive prices and forecasts of good harvests for both MY 2024/2025 and MY 2025/2026. At the same time, Ukraine will also have opportunities to increase access to the EU and Asian markets, given competitive prices, well-established supply logistics, and strong ties.

Sunflower oil prices will slowly decline due to the expected increase in supply of both sunflower and related oilseeds, primarily due to the record-high soybean harvest in Brazil. However, a significant reduction in ending stocks of vegetable oil in MY 2024/2025 and steady growth in demand, including from bioethanol producers, will keep prices from falling steeply.

Iron ore prices will slowly decline due to increased production by the world's leading ore producers (by more than 1.5% annually over the next three years by Rio Tinto (Australia) and by about 3%–5% annually over the next two years by Vale (Brazil)), as well as production growth in China, India, and some African countries. On the other hand, steel prices will fluctuate sideways due to increased demand in the European market as a result of rising security and infrastructure spending in the wake of emission control policies. Additional factors will be the reduction in steel production in China and the intensification of the tariff confrontation between the United States and third countries.

Global financial conditions will be eased cautiously due to high levels of uncertainty

The leading central banks emphasize the unprecedented uncertainty caused by the more aggressive than expected U.S. import tariffs, as well as the unpredictability of further developments, including countermeasures by other countries. The Fed as expected maintained its target rate range in March (4.25%–4.5%) and signaled a possible pause due to high risks to the U.S. economy and inflation from tariff policy, even in the long run. According to the median forecast of FOMC members, the rate is expected to be cut by 50 bp in 2025, 50 bp in 2026, and 30 bp in 2027. However, the Fed's ability to cut rates below the long-term neutral level will be limited by concerns about inflationary pressures caused by rising production costs due to tariffs and a worsening of the labor market due to immigration policy.

In contrast, the ECB, as expected, continued its cycle of cutting rates (the deposit rate was reduced to 2.5%), which brought them closer to the neutral level. Thus, the ECB will approach the end of the monetary easing cycle faster than the Fed. Due to extremely high uncertainty, especially regarding economic and, in particular, trade policy, the ECB's future policy will be reviewed from meeting to meeting without pre-commitment to any particular interest rate path. Given the need to stimulate economic growth amid weaker inflationary risks than in other countries, the financial markets expect the ECB to cut rates further and potentially to return to unconventional monetary measures, including bond purchases.

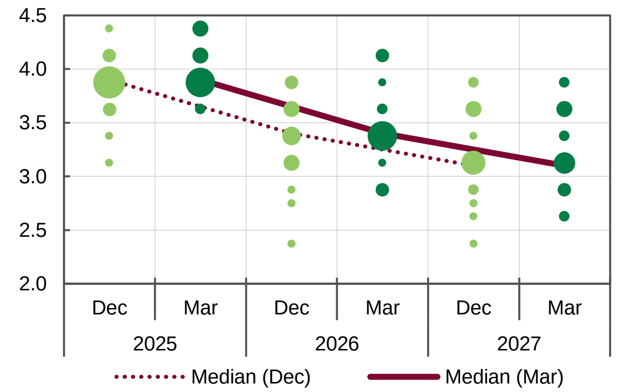
The cautious approach of the leading central banks to their next steps amid growing global uncertainty did not meet the expectations of financial market participants. At the same time, the deepening trade confrontation, which will disrupt global supply chains and cause a cooling of the U.S. economy, has led to a rapid depreciation of the U.S. dollar in global financial markets and a sell-off of risky assets. Moreover, the rate of decline in the assets of advanced economies was stronger than in that of EMs, indicating a higher macroeconomic resilience of the latter to external challenges. EM countries continued to benefit from the easing of policies of the leading central banks and the depreciation of the U.S. dollar. This reduced the cost of servicing debts in the local currency. Therefore, despite the risks for EM countries, they will be the priority markets for foreign investment, primarily in countries with strong fundamentals, a stable political situation, and opportunities for fiscal stimulus. The main risks will be generated by the uncertainty of the geoeconomic situation and the need for the leading central banks to find a compromise between their goals, which will complicate the fulfillment of the tasks of EM CBs.

In such circumstances, the EMs are mostly taking a wait-and-see approach, given both growing inflationary risks and rising risks of economic weakening in the face of global financial market imbalances. This position is also confirmed by the dynamics of the CFR's Global Monetary Policy Tracker index.

The exception is the People's Bank of China, which, in the face of unprecedented foreign trade tariffs, has changed its FX strategy from a focus on "flexibility" to a priority of "resilience," which means allowing for greater exchange rate volatility. The yuan is expected to depreciate moderately against the U.S. dollar in 2025–2026, while government bond yields are likely to decline as monetary policy eases further. The PBoC will continue to cut the key rate to promote fiscal expansion, and will use alternative monetary instruments, including purchases of domestic government bonds.

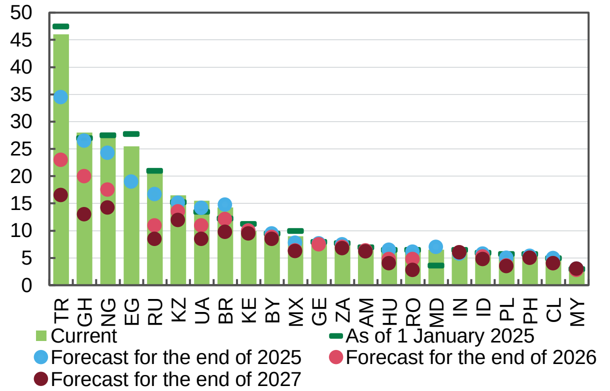
In the coming years, the attractiveness of EM assets is expected to increase due to the mitigation of the negative impact of restrictive trade measures, diversification of supply chains, higher growth rates of EM economies compared to advanced economies, and growing investor demand for high-yield assets. This will help attract foreign capital and revitalize the economies of EMs, including Ukraine.

Figure 4.7. Projected appropriate policy path at the end of the year according to the expectations of the FOMC members, based on the results of the meetings



* The size of the circle is determined by the number of participants supporting the respective rate level.
Source: Fed.

Figure 4.8. Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 17.04.2025.

The balance of risks in the baseline forecast is shifted toward a slowdown in economic activity in the short term

Table 4.1.1. Probability that a risk will materialize

Degree of impact on the baseline scenario	Low <15%	Medium 15%–25%	High 25%–50%
Weak			Rising inflation in the MTPs (particularly in the U.S.) Increasing cost of debt for the EMs
Moderate	Quick restoration of damaged infrastructure Acceleration of European integration processes	Increased negative migration trends Tax hikes Access to new markets due to the reorientation of global trade flows Cheaper oil and consumer imports	Deepening trade wars: slowdown of MTP economies and reduced demand for Ukrainian exports Termination of the duty-free trade agreement with the EU
Strong	Rapid implementation of the large-scale reconstruction plan for Ukraine A faster end to active hostilities	Less regular international aid Strengthening of financial support from partners	Escalation of hostilities, further destruction of production facilities Higher electricity and natural gas deficit / imports due to further damage to the energy infrastructure Additional budget needs

Table 1. Macroeconomic forecast (April 2025)

Indicators	2022	2023	2024		2025						2026						2027					
			actual	forecast 01.2025	I	II	III	IV	current forecast	forecast 01.2025	I	II	III	IV	current forecast	forecast 01.2025	I	II	III	IV	current forecast	forecast 01.2025
REAL ECONOMY, % yoy, unless otherwise stated																						
Nominal GDP, UAH bn	**5239**	**6628**	**7659**	7720	1876	2015	2430	2593	**8915**	8840	2123	2257	2681	2828	**9890**	9800	2321	2473	2946	3121	**10860**	10790
Real GDP	**-28.8**	**5.5**	**2.9**	3.4	0.5	1.6	3.5	5.9	**3.1**	3.6	5.0	4.5	3.3	2.5	**3.7**	4.0	2.9	3.5	4.2	4.7	**3.9**	4.2
GDP Deflator	34.9	19.9	12.6	12.6	14.6	13.8	12.3	11.6	12.9	10.5	7.8	7.2	6.8	6.4	7.0	6.6	6.2	5.8	5.5	5.4	5.7	5.7
Consumer prices (period average)	20.2	12.9	6.5	6.5	-	-	-	-	12.7	12.4	-	-	-	-	6.0	6.2	-	-	-	-	5.1	5.0
Consumer prices (end of period)	**26.6**	**5.1**	**12.0**	12.0	14.6	13.7	12.3	8.7	**8.7**	8.4	6.9	5.5	5.2	5.0	**5.0**	5.0	5.2	5.1	5.1	5.0	**5.0**	5.0
Core inflation (end of period)	22.6	4.9	10.7	10.7	12.4	12.7	11.4	8.9	8.9	7.8	6.6	4.8	3.5	3.0	3.0	3.1	2.9	3.0	3.1	3.1	3.1	3.2
Non-core inflation (end of period)	30.6	5.7	13.8	13.8	17.3	14.9	13.2	8.3	8.3	9.2	7.2	6.3	7.3	7.6	7.6	7.3	8.0	7.7	7.6	7.4	7.4	7.1
raw foods (end of period)	41.6	2.2	13.2	13.2	17.0	18.2	14.7	5.6	5.6	6.8	5.7	4.1	3.4	2.9	2.9	3.0	3.7	3.7	3.4	3.0	3.0	3.1
administered prices (end of period)	15.3	10.7	16.3	16.3	19.0	14.3	14.0	11.6	11.6	10.5	9.6	8.8	10.8	12.0	12.0	12.2	12.0	11.3	11.1	11.1	11.1	11.0
Nominal wages (period average)	6.0	17.4	23.2	22.0	23.6	19.9	16.1	10.1	17.0	16.7	10.8	10.0	9.1	8.1	9.4	10.6	9.7	9.5	8.3	8.0	8.8	8.1
Real wages (period average)	-11.4	3.7	15.6	14.4	8.8	4.6	2.6	0.4	3.9	3.8	3.1	3.9	3.6	2.9	3.3	4.2	4.3	4.0	2.9	2.8	3.5	3.0
Unemployment rate (ILO, period average)	21.1	18.2	13.1	13.1	-	-	-	-	10.9	10.8	-	-	-	-	10.5	10.5	-	-	-	-	10.0	11.0
FISCAL SECTOR																						
Consolidated budget balance, UAH bn*	**-845**	**-1332**	**-1351**	-1351	**-**	**-**	**-**	**-**	**-1017**	-332	**-**	**-**	**-**	**-**	**-1145**	-1104	**-**	**-**	**-**	**-**	**-642**	-641
% of GDP*	-16.1	-20.1	-17.6	-17.5	-	-	-	-	-11.4	-3.8	-	-	-	-	-11.6	-11.3	-	-	-	-	-5.9	-5.9
excluding grants from revenues, % of GDP	-25.3	-26.6	-23.8	-23.7	-	-	-	-	-19.2	-19.3	-	-	-	-	-11.8	-11.9	-	-	-	-	-6.9	-7.0
BALANCE OF PAYMENTS (analytical presentation)																						
Current account balance, USD bn	8.0	-9.6	-13.7	-14.6	-5.5	-7.7	-5.2	1.1	-17.3	2.6	-7.3	-8.8	-8.0	-7.2	-31.3	-28.3	-7.3	-6.5	-7.7	-6.2	-27.7	-27.9
Exports of goods and services, USD bn	57.5	51.3	56.1	56.1	13.1	13.1	14.2	17.0	57.3	58.1	15.2	14.5	15.9	17.5	63.1	63.5	15.9	15.7	16.5	19.1	67.2	67.0
Imports of goods and services, USD bn	83.3	89.2	92.0	91.8	23.3	26.0	24.0	24.6	97.8	96.9	23.9	24.9	25.4	25.7	99.9	99.3	24.3	24.2	26.0	26.9	101.4	102.2
Remittances in Ukraine, USD bn	12.5	11.3	9.5	9.6	2.4	2.3	2.4	2.4	9.6	10.1	2.6	2.7	2.8	2.9	10.9	11.4	2.9	2.9	3.0	3.1	12.0	12.0
Financial account, USD bn	11.1	-18.9	-8.6	-14.3	-3.3	-13.0	-6.1	-7.1	-29.5	6.4	-4.4	-5.7	-5.0	-5.0	-20.2	-26.3	-6.6	-7.6	-7.2	-8.3	-29.7	-29.7
BOP overall balance, USD bn	**-2.9**	**9.5**	**0.0**	0.0	-2.2	5.4	0.9	8.1	**12.2**	-3.8	-2.8	-3.1	-3.0	-2.2	**-11.1**	-2.0	-0.8	1.1	-0.6	2.1	**1.9**	1.9
Gross reserves, USD bn	**28.5**	**40.5**	**43.8**	43.8	42.4	47.9	48.8	57.6	**57.6**	40.5	55.6	52.0	49.5	46.8	**46.8**	38.5	46.8	47.6	46.7	48.6	**48.6**	40.2
Months of future imports	3.8	5.3	5.4	5.4	5.2	5.9	5.9	6.9	6.9	4.9	6.6	6.3	5.9	5.5	5.5	4.5	5.5	5.5	5.3	5.5	5.5	4.5
As a percentage of the IMF composite criterion	78.6	124.2	121.2	120.3	114.3	121.8	120.6	136.7	136.7	109.0	128.4	118.1	110.2	102.6	102.6	92.4	100.9	101.2	98.0	100.2	100.2	88.6
MONETARY ACCOUNTS (cumulative since the beginning of the year)																						
Monetary base, %	**19.6**	**23.3**	**7.7**	7.7	-3.9	2.1	4.6	9.5	**9.5**	11.9	2.6	5.0	7.2	13.9	**13.9**	13.4	0.8	3.4	5.6	10.1	**10.1**	10.5
Broad money, %	**20.8**	**23.0**	**13.4**	13.4	-0.8	2.3	3.9	10.1	**10.1**	10.3	1.5	3.7	6.1	10.4	**10.4**	9.6	1.5	4.6	5.5	8.7	**8.7**	9.1
Velocity of broad money (end of year)	**2.1**	**2.2**	**2.2**	2.2	-	-	-	-	**2.3**	2.3	-	-	-	-	**2.3**	2.3	-	-	-	-	**2.4**	2.3

* The loans under the ERA program have been reclassified and excluded from revenues

Table 2. Comments on the forecast revision

Indicators	2024	2025	2026	2027	Factors behind the revision
Inflation, %, eop	**12.0**	**8.7**	**5.0**	**5.0**	The pass-through effects of higher production costs in 2025
		0.3			
Real GDP growth, %	**2.9**	**3.1**	**3.7**	**3.9**	Revision of actual GDP for 2024 by the SSSU, damage to infrastructure, in particular gas infrastructure, effects of global trade confrontations
	-0.5	-0.5	-0.3	-0.3	
Nominal GDP, UAH bn	**7659**	**8915**	**9890**	**10860**	Higher GDP deflator but lower real GDP growth
	-61	75	90	70.0	
Consolidated budget balance (excluding grants and ERA financing from revenues), % of GDP	**-23.8**	**-19.2**	**-11.8**	**-6.9**	Revision of nominal GDP
	-0.1	0.1	0.1	0.1	
Current account balance, USD bn	**-13.7**	**-17.3**	**-31.3**	**-27.7**	Reclassification of part of the grant funds under the ERA mechanism into loans in 2025. Increased imports due to damage to natural gas production facilities, lower remittances
	0.9	-19.9	-3.0	0.2	
Gross international reserves, USD bn	**43.8**	**57.6**	**46.8**	**48.6**	More significant volumes of international financial assistance and faster transfer of tranches under the ERA Loans mechanism
		17.1	8.3	8.4	
Key policy rate (period average), %	**13.7**	**14.9**	**12.3**	**10.2**	Higher inflationary pressures
		0.5	0.5		

The indicator has been revised downwards (pp)

The indicator has been revised upwards (pp)

Table 3. Forecast assumptions

Indicators		2022*	2023*	2024*	2025	2026	2027
Official financing	USD bn	32.2	42.9	41.9	55.1	17.3	15.0
Migration (net, excluding russia and belarus)	m		-0.2	-0.5	-0.2	0.2	0.5
Real GDP of Ukraine's MTPs (UAwGDP)	% yoy	3.7	1.6	2.0	2.2	2.5	2.7
Consumer inflation in Ukraine's MTPs (UAwCPI)	% yoy	13.8	7.6	5.1	3.5	2.6	2.5
World prices:**							
Steel price, Steel Billet Exp FOB Ukraine	USD/t	618.1	539.7	504.1	478.1	492.0	502.5
	% yoy	0.5	-12.7	-6.6	-5.2	2.9	2.1
Iron ore price, China import Iron Ore Fines 62% FE	USD/t	121.4	120.6	109.4	97.0	88.6	87.6
	% yoy	-25.0	-0.7	-9.3	-11.3	-8.7	-1.1
Wheat price, European Soft White Super Delivered Italy	USD/t	353.5	264.1	232.1	230.1	231.1	235.8
	% yoy	35.5	-25.3	-12.1	-0.9	0.4	2.0
Corn price, Yellow #2 Delivery USA Gulf	USD/t	318.4	252.7	190.6	209.7	211.8	213.7
	% yoy	22.7	-20.6	-24.6	10.0	1.0	0.9
Crude oil price, Brent	USD/bbl	99.8	82.6	80.7	68.9	67.8	69.1
	% yoy	41.8	-17.2	-2.3	-14.6	-1.6	1.9
Natural gas price, Netherlands TTF	USD/kcm	1355.9	465.6	393.9	412.0	384.7	336.5
	% yoy	135.9	-65.7	-15.4	4.6	-6.6	-12.5
Volumes of gas transit	bcm	20.6	14.6	15.0	0.0	0.0	0.0
Harvest of grain and leguminous crops	t m	53.9	59.8	55.2	61.7	62.3	64.9
Minimum wage**	UAH	6550	6700	7775	8000	8370	8950

* *Actual data*

** *Annual average.*

Terms and Abbreviations

AFU	Ukraine's Armed Forces
BOI	Business Outlook Index
CB	Central bank
CEE	Central and Eastern Europe
CMU	Cabinet of Ministers of Ukraine
CPI	Consumer Price Index
ECB	European Central Bank
EM	Emerging markets
ERA	Extraordinary Revenue Acceleration
EU	European Union
Fed	U.S. Federal Reserve System
FTA	Free trade agreement
GDP	Gross domestic product
IER	Institute for Economic Research
IT	Information technologies
MPC	Monetary Policy Committee
QPM	Quarterly Projection Model
IMF	International Monetary Fund
ILO	International Labor Organization
LNG	Liquefied natural gas
MY	Marketing year
MFU	Ministry of Finance of Ukraine
MTP	Main trading partner
NBU	National Bank of Ukraine.
NEER	Nominal effective exchange rate
NFC	Non-financial corporations
OPEC	Organization of the Petroleum Exporting Countries
PFU	Pension Fund of Ukraine
PMI	Purchasing Managers' Index
REER	Real effective exchange rate
russia	russian federation
SCSU	State Customs Service of Ukraine
SESU	State Employment Service of Ukraine
SSSU	State Statistics Service of Ukraine
STSU	State Treasury Service of Ukraine
T-bills&bonds	Domestic government debt securities
UAwCPI	Weighted average of the CPI in Ukraine's MTP countries
UAwGDP	Weighted average of economic growth in Ukraine's MTP countries
UIIR	Ukrainian Index of Interbank Rates
UN	United Nations Organization
U.S.	United States of America
VAT	Value-added tax

bbl	barrel
bn	billion
bp	basis point
eoy	end of year
m	million
mom	in monthly terms; month-on-month change
p	point
pp	percentage point
qoq	in quarterly terms; quarter-on-quarter change
rhs	right-hand scale
sa	seasonally adjusted
UAH	Ukrainian hryvnia
USD	U.S. dollar
yoy	in annual terms; year-on-year change