National Bank of Ukraine

Inflation Report

January 2026

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*.

Monetary policy aims to bring inflation, as measured by the year-on-year 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 inflation to deviate from its quantitative target of 5% in certain periods 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 maintain control over inflation expectations despite significant uncertainty, including geopolitical uncertainty, due to the rapid political polarization of countries and intensified de-globalization.

The NBU is taking steps to enhance the effectiveness of monetary transmission channels and to continue restoring the key policy rate's role as the main monetary instrument. Changes in the key policy rate and adjustments to the operational framework of interest rate policy reflect 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.

The managed flexibility regime allows the exchange rate to strengthen and weaken, 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 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 strengthen the Ukrainian economy's and the FX market's resilience to domestic and external shocks, while reducing 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 economic recovery, and promote new investment inflows into Ukraine, the NBU is gradually easing the FX restrictions as appropriate preconditions are in place. The NBU plans to apply 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 (January 2026) is based on the data available at the date of its preparation. Thus, the time horizon of the analysis may vary for some indicators. For the majority of indicators, the cut-off date for the data in this report is 28 January 2026. The assumptions underlying the forecast were made the same day. The Inflation Report presents a forecast for the country's economic development in 2026–2028, which was prepared by the Monetary Policy and Economic Analysis Department and approved by the NBU Board at its monetary policy meeting on 30 January 2026[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., following 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. It 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. 29 *On Approval of the Inflation Report* dated 30 January 2026.

Contents

Summary

The baseline scenario of the NBU's macroeconomic forecast assumes that Ukraine will continue to conduct prudent monetary and fiscal policies aimed at maintaining macrofinancial stability, consistently implement reforms to achieve its European integration aspirations, and thus fulfill 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 expanded opportunities for investment and economic activity, and the gradual return of forced migrants. The baseline scenario accounts for the current consequences of air attacks and destruction, but the risks of their aggravation remain high.

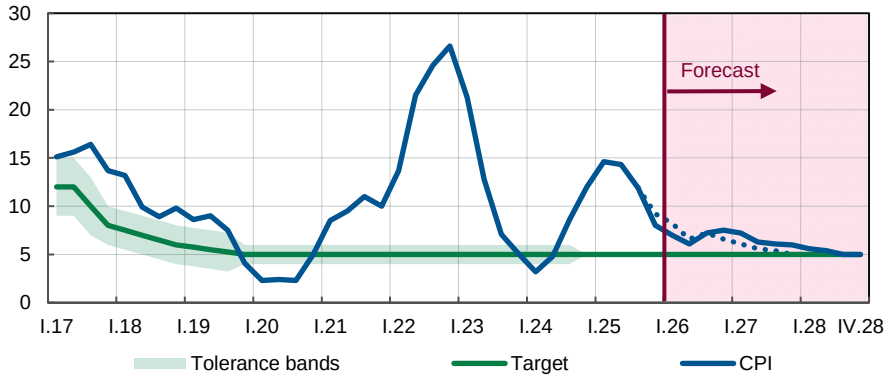
Inflation continued to decline in recent months

In December, both consumer and core inflation slowed to 8% yoy. Such dynamics were driven primarily by the effects of higher harvests, as well as by a certain decline in pressures on the labor market and the maintained sustainability of the FX market. According to the NBU's estimates, annual growth rates of consumer prices decreased in January as well. At the same time, inflation expectations remained relatively high.

Inflation will be moderate in 2026 and will be close to the 5% target going forward, with the target to be reached in mid-2028

Inflation will keep declining in the coming months, primarily thanks to the continued effects of stronger harvests of 2025. At the same time, the impact of the massive damage in the energy sector will put pressure on prices through both market and administrative mechanisms. Coupled with low base effects, this will drive a moderate acceleration of inflation in H2. Therefore, as of the end of 2026, inflation will decline moderately, to 7.5%.

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



Source: SSSU, NBU estimates.

In the next years, inflation will slow steadily due to a decrease in energy shortages and lower external price pressures, as well as higher harvests and the situation on the labor market improving as security risks subside. The NBU's monetary policy will contribute to curbing the underlying price pressure. However, deferred effects of the damage to the energy sector will restrain disinflation. The NBU forecasts inflation to decline to 6% at the end of 2027 and reach the target of 5% in 2028.

The economy continues to grow, but the growth remains moderate due to the effects of the war

The NBU estimates that the economy revived in late 2025 thanks to more active harvesting, including in view of the harvesting campaign shifting to Q4, as well as due to an increase in budgetary spending. At the same time, as a result of the disruption of

2 Unless indicated otherwise, a dashed line in the figures denotes the previous forecast.

logistics and a larger-than-expected electricity deficit, in the past months the NBU somewhat lowered its estimate of real GDP growth for 2025 – to 1.8%.

Stronger harvests and investments in infrastructure reconstruction and in the defense industry will support further economic recovery. That said, the difficult situation in the energy sector will continue to restrain business activity for a long time. In view of this, real GDP will grow moderately in 2026, by 1.8%.

A gradual improvement in the energy sector, further reconstruction of infrastructure, and an increase in private investment will contribute to an acceleration of economic growth to around 3%–4% in 2027–2028.

Expected volumes of external financial assistance will be sufficient to finance the budget deficit without resorting to monetary financing and to maintain adequate international reserves to support the sustainability of the FX market

At the end of 2025, the EU Council decided to provide Ukraine with EUR 90 billion in financial assistance over 2026–2027 (USL, Ukraine Support Loan). Ukraine will also continue to receive support under the current mechanism ERA Loans. The approval is underway for a new IMF program of USD 8.1 billion.

External assistance will enable Ukraine both to finance the still-high budget deficits caused by the war and to maintain the high level of reserves. The NBU's forecast assumes that international reserves will amount to USD 65 billion as of year-end 2026, and will continue to grow going forward – to USD 71 billion at the end of 2028. This will enable the NBU to support the sustainability of the FX market and implement FX liberalization measures provided that risks are under control..

A decline in price pressures, supported by the NBU's monetary policy measures, coupled with weaker risks of insufficient external financing, created room for starting a cycle of interest rate policy easing

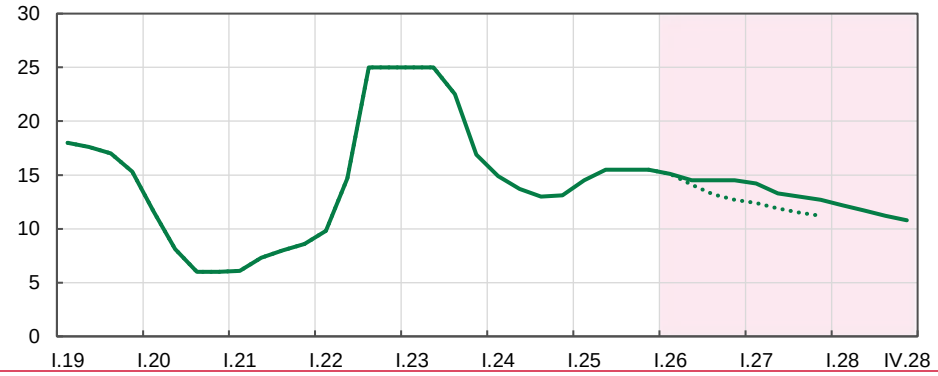
Keeping the key policy rate unchanged over previous months ensured there was robust demand for hryvnia assets. Real yields on hryvnia instruments remained positive, while household investments in both domestic government debt securities and hryvnia deposits continued to grow.

This appetite for hryvnia assets helped curb households' FX demand compared to last year, easing pressures on the FX market. Despite a modest seasonal depreciation of the hryvnia, market conditions remained generally under control and exchange rate expectations stayed relatively stable.

Taking into account the steady decline in inflation and weaker risks of insufficient external financing, in January the NBU started an interest rate policy easing cycle by cutting the key policy rate by 0.5 pp, to 15%.

This decision will facilitate the economy's ongoing adaptation to wartime challenges – specifically by supporting lending, which has grown at a rate of over 30% yoy in recent years. At the same time, monetary conditions will remain sufficiently tight to maintain FX market sustainability and steer inflation back toward its 5% target over the policy horizon.

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



Source: NBU estimates.

The forecast envisages a gradual reduction in the key policy rate over the forecast horizon. At the same time, the NBU will continue to respond flexibly to changes in the distribution of risks

The baseline scenario of the NBU's January macroeconomic forecast foresees a gradual reduction in the key policy rate over the forecast horizon. That said, if risks to price dynamics increase, the NBU will refrain from further easing its interest rate policy, and will be ready to take additional measures if required. At the same time, a weakening of pro-inflationary risks will signal faster cuts in the key policy rate than foreseen by the revised macroeconomic forecast.

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 threats to price dynamics and economic activity. Over the past few months, risks associated with damage to energy infrastructure have largely materialized and intensified, increasing pressure on companies' costs and limiting their production capacity.

The following risks are also relevant:

- the emergence of additional budgetary spending on defense capabilities and reconstruction
- a deepening of adverse migration trends and a widening of labor shortages on the domestic labor market, and
- greater global geopolitical fragmentation, which may also have a negative impact on external aid for Ukraine.

Conversely, owing to recent EU decisions to support Ukraine through 2026–2027, the risk of insufficient external aid has diminished substantially.

Furthermore, the potential for upside scenarios remains, including bolstered military and financial support from partners and substantial progress in securing a just and lasting peace for Ukraine.

An area of uncertainty persists regarding the pace of utility tariff adjustments over the forecast horizon, which could trigger a revision of the inflation forecast in either direction.

Part 1. Inflation Developments

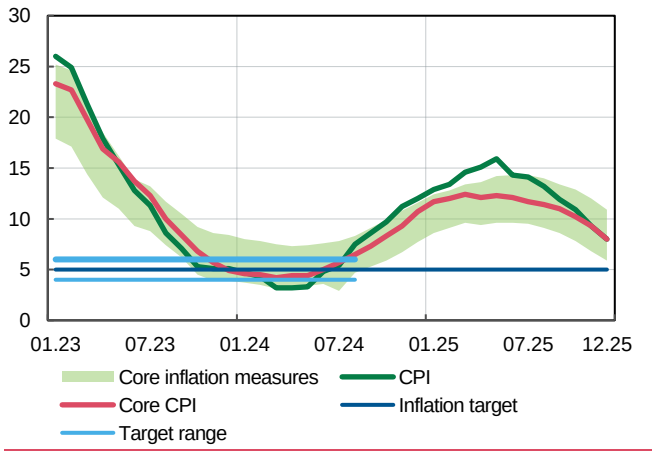
- In December 2025, consumer inflation slowed to 8% yoy. These dynamics were driven primarily by the effects of higher harvests, as well as by a certain decline in pressures on the labor market and the maintenance of sustainability in the FX market. Inflation continued to trend down in January, according to the NBU's estimates.
- In 2026, inflation will be moderate (dropping to 7.5% yoy at the end of the year), driven in particular by the impact of the damage to the energy sector and last year's low base, but will then approach the 5% target and reach it in 2028. This will be facilitated by the easing of imbalances in the labor market, a decrease in energy deficits and imported inflation, a gradual increase in harvests, and monetary policy measures.

Inflation has slowed over recent months, primarily driven by higher agricultural harvests

The slowdown in inflation, which began in June last year, continued throughout Q4. In particular, in December, the CPI fell to 8% yoy, compared to 11.9% yoy in September (at the end of Q3). According to preliminary estimates, this trend continued in January.

Consumer price growth slowed more quickly than expected in the NBU's previous forecast (Inflation Report, October 2025). This was primarily due to a sharper decline in inflation in raw foods (7.4% yoy in December, compared to 18.1% yoy in September), in particular due to cheaper borshch vegetables, as well as slower price increases for certain fruits and meat products.

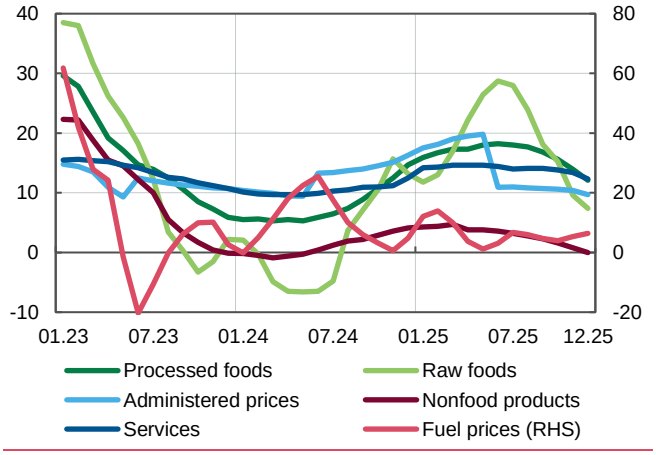
Figure 1.1. Consumer inflation and underlying inflation trends*, % yoy



* 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. Selected CPI components, % yoy



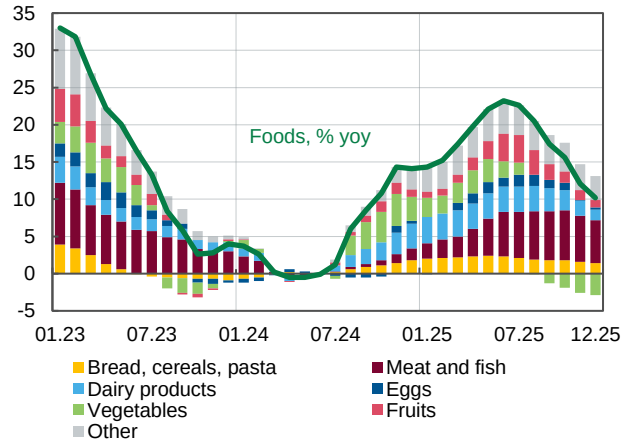
Source: SSSU, NBU staff estimates.

Low yields and high vegetable prices in 2024 encouraged producers to significantly increase sown areas in the new season. This led to a substantial increase in supply in 2025. At the same time, the low quality of certain vegetables and the deterioration of the situation in the energy sector, which made storing them more difficult, stimulated sales. As a result, prices for borshch vegetables declined more rapidly in recent months (-55.3% yoy in December, compared to -22.3% yoy in September).

The growth in fruit prices also slowed (to 15.2% yoy in December, compared to 30.4% yoy in September). This was primarily due to a noticeable slowdown in the growth of apple prices (to 15% yoy at the end of the year, compared to 76.5% yoy in September) as a result of the new harvest entering the market against a high base. The slowdown in fruit inflation was further facilitated by stable prices for major imported fruits

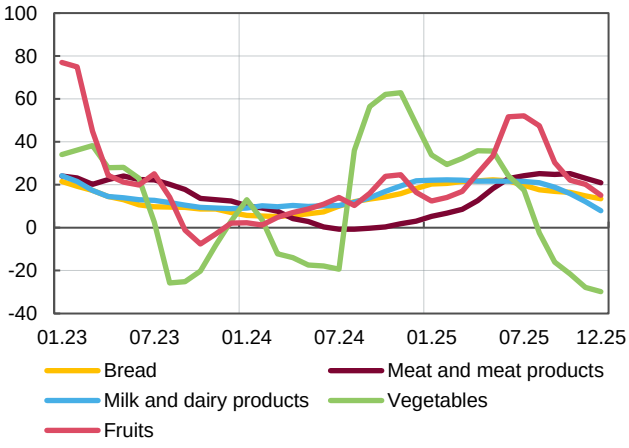
(oranges, bananas) against the backdrop of FX market sustainability, with their prices increasing by only 1%–2% yoy in December.

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



Source: SSSU, NBU staff estimates.

Figure 1.4. Prices for selected food product groups, % yoy



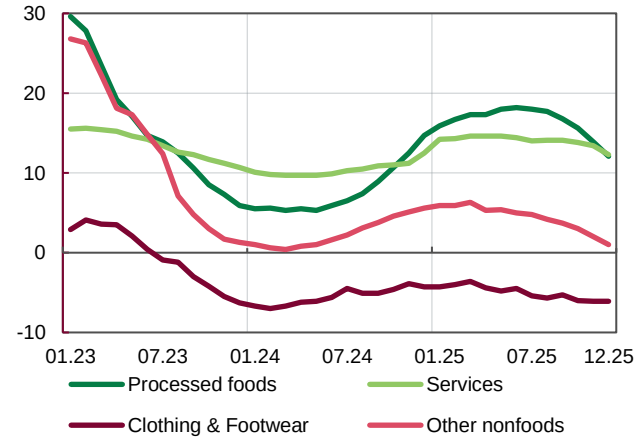
Source: SSSU, NBU staff estimates.

Growth of meat product prices decelerated (to 21% yoy in December, compared to 24.8% yoy in September), primarily due to a slower rise in pork prices (26.5% yoy, compared to 34.2% yoy). This was facilitated by larger imports from EU countries, which increased the supply on the domestic market. The rise in poultry meat prices also slowed (to 23% yoy in December, compared to 28.9% yoy in September) amid the saturation of the domestic market and stable feed prices, which restrained the growth in production costs. The latter factor, together with the high base effect, also contributed to a slowdown in egg price growth (to 10.8% yoy in December, compared to 50.9% yoy in September).

Underlying price pressures have eased significantly thanks to the second-round effects of higher harvests, improved conditions on the labor market, and FX market sustainability

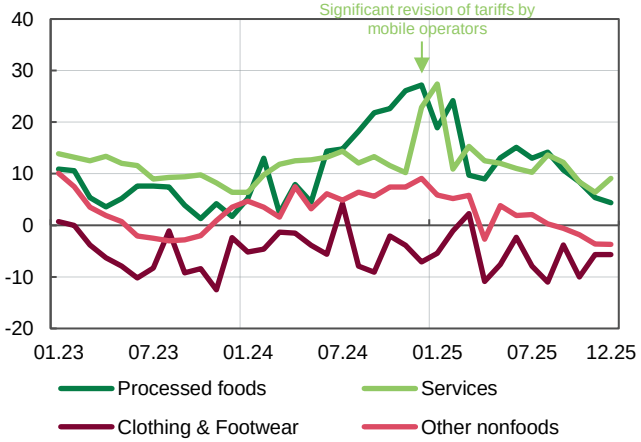
The decline in core inflation accelerated in Q4 2025 (to 8% yoy in December, compared to 11% yoy in September) and was faster than projected in the NBU's October forecast. A significant decrease in annualized seasonally adjusted monthly growth rates of the core CPI and all its components also indicated a decrease in underlying pressures. In particular, the average monthly annualized growth in prices for processed foods and services (seasonally adjusted) slowed to 6.1% and 8% in Q4, down from 14.2% and 13.9% in Q1–Q3, respectively.

Figure 1.5. Components of the core CPI, % yoy



Source: SSSU, NBU staff estimates.

Figure 1.6. Annualized* changes in the main components of the core CPI, %



*Annualized monthly change, seasonally adjusted.

Source: SSSU, NBU staff estimates.

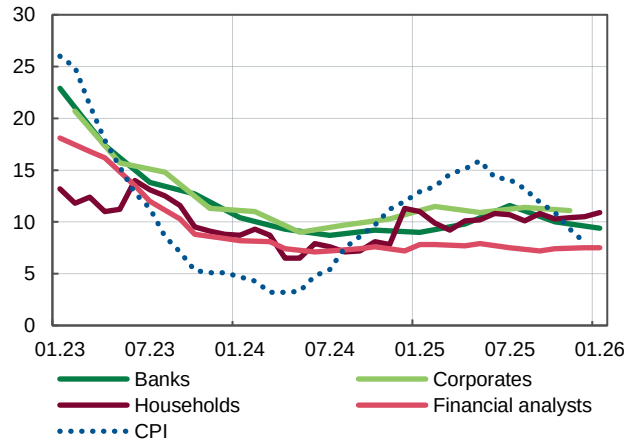
Second-round effects from cheaper raw foods contributed to a noticeable decline in inflation for processed food products. For instance, the rise in prices for dairy slowed significantly (to 7.9% yoy in December, compared to 18.9% yoy in September) due to lower prices for raw milk amid the accumulation of excess stocks and a decrease in global prices. The temporary suspension of dairy exports to the EU in December (due to changes in licensing requirements for quota volumes) further supported these trends.

The slowdown in the growth of prices for bread and bakery products continued thanks to an increase in the share of milling wheat in the harvest. Prices for other foods also grew more slowly, in particular the prices of sunflower oil (due to the arrival of the new sunflower harvest) and non-alcoholic beverages – primarily coffee (due to a decline in global prices in December).

Services inflation, which had been fluctuating between 14% and 15% during the first three quarters of 2025, slowed in Q4, to 12.3% yoy in December. This trend likely reflected a gradual easing of pressure from the labor market. In particular, price growth slowed for insurance and financial services, services of cafes and fast food restaurants, outpatient services, etc.

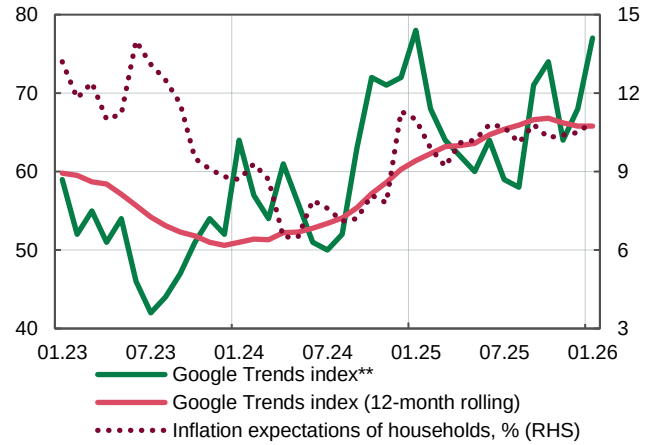
Prices for non-food products remained unchanged in 2025 (0.0% yoy in December). This was primarily supported by the stable situation in the FX market. As before, prices for clothing and footwear continued to fall, with the decline deepening in Q4.

Figure 1.7. 12-month-ahead inflation expectations and inflation in annual terms, %



Source: NBU, Info Sapiens, SSSU.

Figure 1.8. Normalized indices of interest in the *Inflation* topic and households' inflation expectations*



* 12-month-ahead inflation expectations of households.
** Google Trends index as of 31 January 2026. Values for the period from November 2025 to January 2026 have been adjusted to exclude an abnormal spike in interest in the query "inflation" in English.

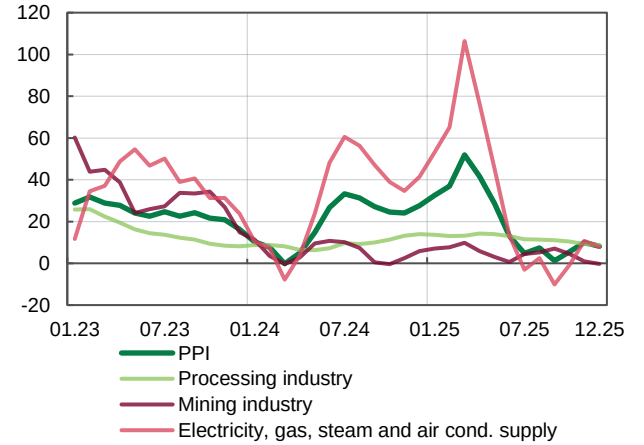
Source: Info Sapiens, Google Trends, NBU staff estimates.

Despite a steady slowdown in inflation, inflation expectations remained relatively high among most respondent groups during Q4. Financial analysts' expectations were close to the NBU's forecasts, and the banks' expectations improved in January 2026. However, other respondent groups continued to report double-digit figures. A trend indicator based on web-search statistics also suggested that households' attention to the topic of inflation remained elevated.

The increase in air attacks on energy infrastructure both in frontline regions and in Kyiv, Odesa, and Dnipropetrovsk oblasts, among other things, increased the pressure on businesses' production costs. Due to the shortage caused by damage to energy infrastructure, average monthly wholesale prices of electricity soared to all-time highs in Q4. As a result, producer price growth accelerated to 8.2% yoy in December, compared to 1.3% yoy in September, primarily due to rapid price increases in the electricity, gas, and steam supplies sector. In January 2026, electricity prices reached new peaks due to widening energy shortages caused by new air strikes. In addition to limited domestic supply, the sharp rise in prices was exacerbated by more expensive

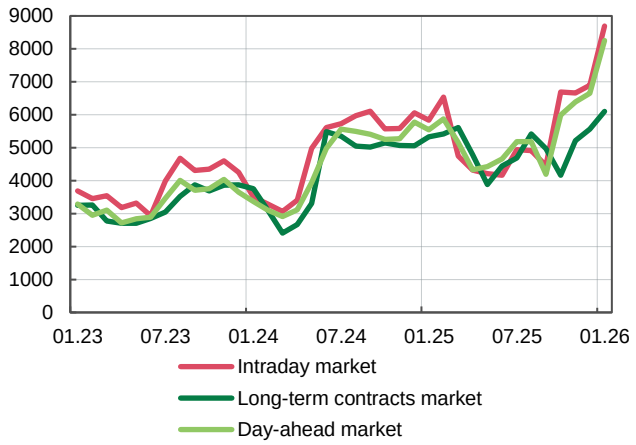
imports amid cold weather in Europe. The NEURC introduced a temporary[3] increase in price caps to UAH 15,000/MWh throughout the day to raise imports, as technological capabilities were not fully utilized.

Figure 1.9. PPI and its components, % yoy



Source: SSSU.

Figure 1.10. Electricity prices for non-household consumers, UAH/MWh



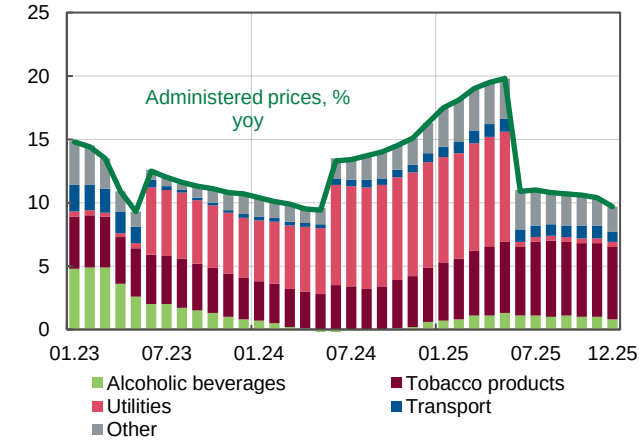
Source: Ukrainian Energy Exchange, Market Operator.

In other industrial sectors, price dynamics remained subdued, confirming the general trend toward easing underlying inflationary pressures. In particular, price growth in the mining industry stalled (-0.3% yoy in December) amid stable commodity prices on external markets. Inflation in the manufacturing sector also slowed markedly. Food production made a significant contribution: price growth in this sector slowed to 13.6% yoy in December, compared to 19.2% yoy in September. This was a further indication of a weakening of pass-through effects from the cost of raw inputs in food production to the prices of processed products.

Administered inflation slowed down due to lower growth rates for certain excisable and socially important goods and unchanged tariffs for most utility services

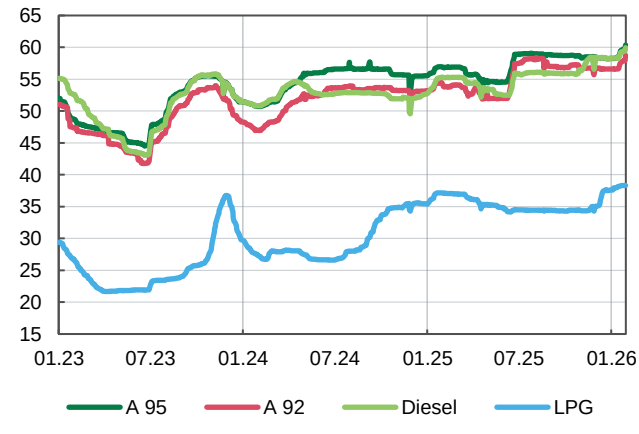
Administered inflation also fell to single digits at the end of the year (9.7% yoy in December, compared to 10.7% yoy in September). This trend was driven, in particular, by slower growth in prices for socially important types of bread, pharmaceutical products, certain categories of tobacco products, and alcoholic beverages.

Figure 1.11. Contributions to the annual change in administered prices, pp



Source: SSSU, NBU staff estimates.

Figure 1.12. Fuel prices, UAH/liter



Source: minfin.com.ua.

[3] From 31 March 2026, the price caps are planned to be returned to their previous levels, except for the period between 5:00 p.m. and 11:00 p.m., for which the maximum price of UAH 15,000/MWh will remain in effect.

The dynamics of pharmaceutical product prices were influenced by tightened state control over prices and markups, in particular through declaration mechanisms, which became mandatory for all market participants from 1 November 2025. The rate of price growth for tobacco and alcoholic beverages decreased amid a gradual exhaustion of the effects of previous tax changes.

Growth in administered prices continued to be limited by the moratorium on increases in the tariffs for natural gas, heating, and hot water supplies. In addition, electricity prices for household consumers remained unchanged throughout the year.

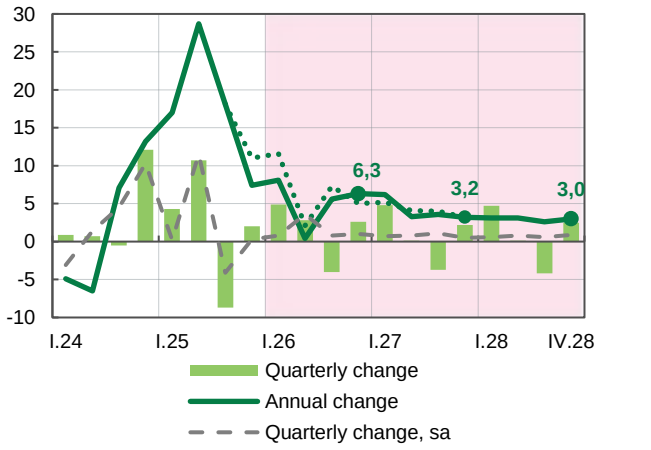
At the same time, a significant increase in fuel prices at the end of Q4 prevented a faster decline in inflation. The rise in diesel fuel prices was caused by logistics problems, worsened weather conditions, and higher demand amid power outages. Liquefied gas became more expensive due to significant delays in deliveries in early December.

Inflation will be moderate in 2026 and will approach the 5% target going forward, with the target to be reached in H2 2028

Inflation will continue to decline in the coming months, primarily thanks to the remaining effects of the higher harvests of 2025. At the same time, the impact of the massive damage in the energy sector will put pressure on prices through both administrative and market mechanisms, in particular by increasing businesses' costs for energy independence. These inflationary effects will be partially offset by a decline in consumer purchasing activity due to power outages and the cold winter. The consequences of the damage to the energy sector will cause a moderate acceleration of inflation in H2 against the backdrop of the exhaustion of the disinflationary effects of last year's high harvests. However, inflation will then return to a path of steady decline toward the 5% target.

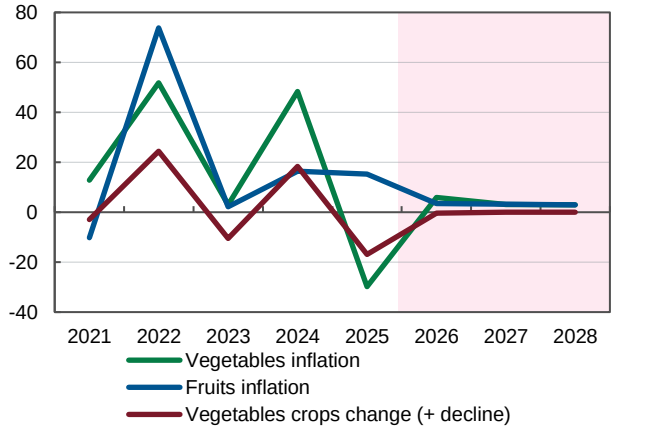
Inflation in raw food products will temporarily decline to near zero in mid-2026. Last year's high grain harvest will continue to hold back growth in flour prices. Larger vegetable harvests gathered last year in both Ukraine and the EU will ensure there is a year-on-year decline in vegetable prices (especially potatoes) in H1. Growth rates of meat prices will also decrease amid easing price pressure from fodder (feed grain), particularly corn, and high competition from imports.

Figure 1.13. **Raw food inflation at the end of period, %**



Source: SSSU, NBU staff estimates.

Figure 1.14. **Individual components of food inflation and harvest, change, % yoy**



Source: SSSU, NBU staff estimates.

External factors will also contribute to the decline in food inflation. In its January report, the USDA raised its forecast for global wheat production in MY 2025/26 by 4.4 million tons on the back of better-than-expected harvests in exporting countries (primarily in Argentina). This will not only limit the potential for grain price growth in external markets, but will also impact domestic price dynamics.

According to the NBU's assumptions, harvests in Ukraine in 2026 will be roughly the same as last year's, so in H2, raw food inflation is expected to stabilize at 6%–7%.

From 2027, volumes of grain, legume, and oilseed crops are expected to rise gradually due to an increase in sown areas. Vegetable and fruit and berry harvests will remain relatively stable – barring any weather shocks. Accordingly, food inflation will slow to around 3% and remain low until the end of the forecast period.

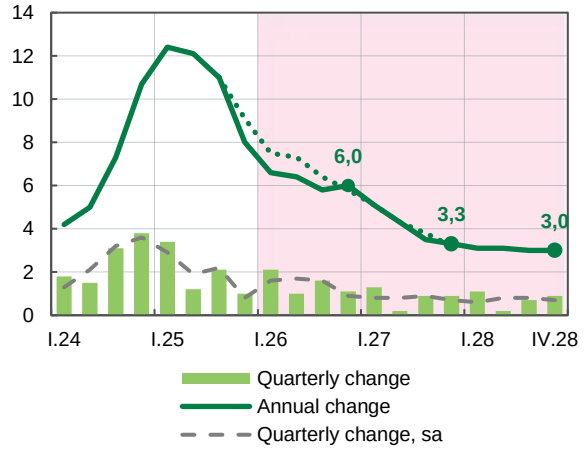
Underlying price pressures will also continue to ease. The NBU forecasts a decline in core inflation to around 6% in 2026 and around 3% in 2027–2028. This will be facilitated by a number of factors, including the effects of slowing raw food inflation amid increases in harvests.

A disinflationary impact is also expected from a decrease in the labor market mismatches that have been persisting since 2025. The stabilization of migration processes and the return of migrants at the end of the forecast period, as well as more active involvement of various categories of workers, will increase employment and contribute to some easing of pressure on businesses' labor costs. The pace of growth in real wages is forecast to stabilize from 2026, at about 6%–7% per year.

The moderate increase in real wages and generally restrained economic growth (with the GDP gap remaining close to zero over the forecast horizon) will have a close-to-neutral impact on prices.

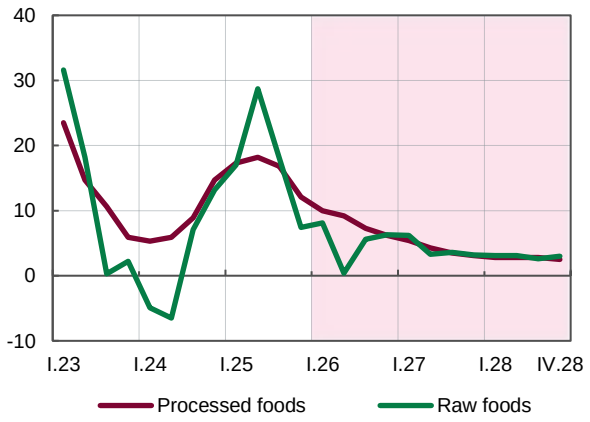
Monetary policy measures will also be a significant factor in easing the underlying inflationary pressure. Maintaining a positive real interest rate gap will support interest in hryvnia savings, which will restrain inflation both by reducing pressure on consumer demand and the FX market, and by keeping inflation expectations in check.

Figure 1.15. Core inflation at the end of period, %



Source: SSSU, NBU staff estimates.

Figure 1.16. Food inflation components at the end of period, % yoy



Source: SSSU, NBU staff estimates.

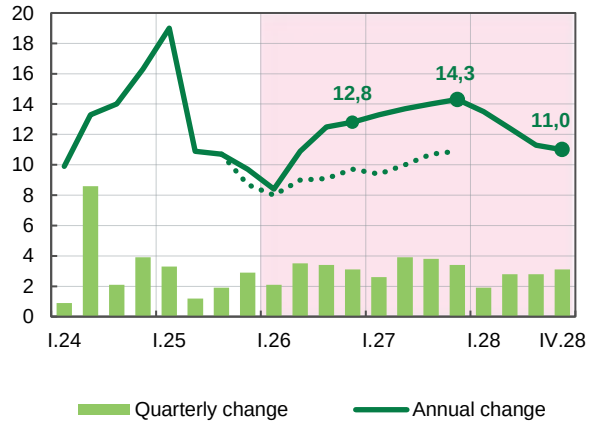
At the same time, disinflation will continue to be held back for a long time by an increase in businesses' costs of ensuring uninterrupted operations amid energy shortages (read more about the assumptions regarding energy shortages in the part *Economic Developments* on page 22). Disruptions to technological processes at enterprises and the suspension or reduction of production will push up the cost of products. In the short term, product costs will also be affected by the temporary increase in the regulatory price caps on the electricity market, which will be in effect until 31 March 2026.

The need to restore electricity generation and distribution facilities, as well as natural gas production infrastructure after large-scale damage, increases the likelihood that tariffs for utility services will be adjusted. This, in turn, will affect the dynamics of administered prices.

The NBU assumes that, by the end of the current heating season, administered inflation will decline due to the ongoing moratorium on raising some utility tariffs for households. However, in the future, given the high need to restore the energy system, the forecast

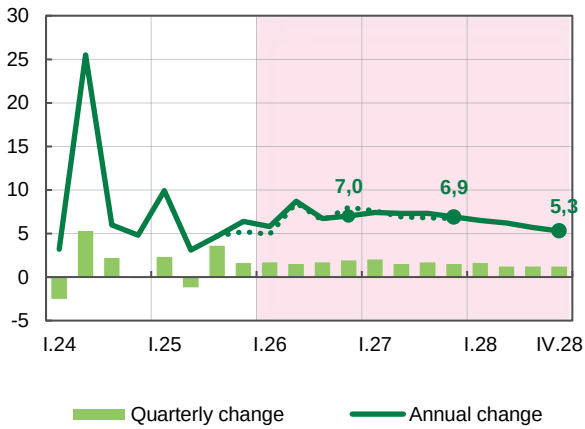
includes a technical assumption[4] regarding an increase in electricity prices for household consumers. In addition, the NBU assumes that tariffs for other utilities subject to the moratorium will also be adjusted to gradually reach market-justified levels. This, along with the planned annual increase in the excise taxes on tobacco products to support budget revenues and meet European integration commitments, will accelerate administered inflation to the double-digit level.

Figure 1.17. Administered price inflation at the end of period, %



Source: SSSU, NBU staff estimates.

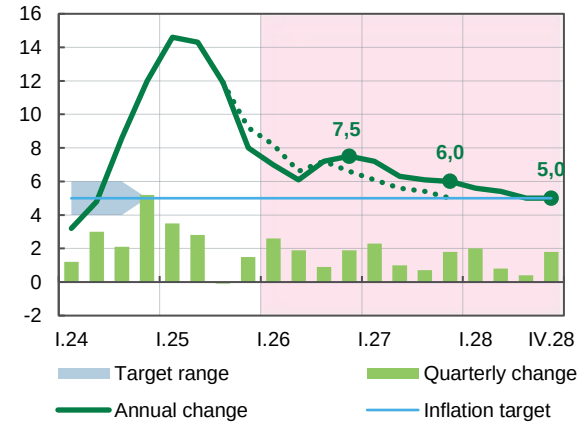
Figure 1.18. Fuel price at the end of period, %



Source: SSSU, NBU staff estimates.

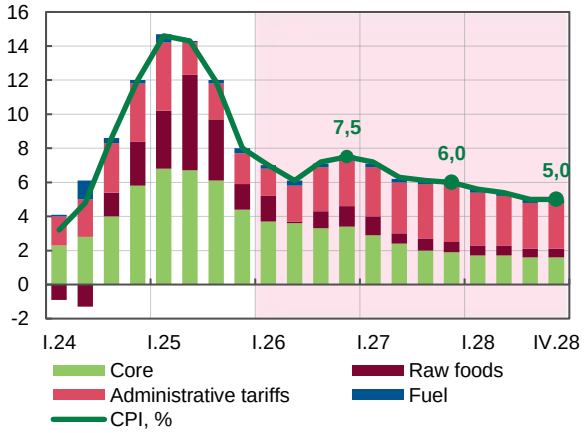
The planned annual increase in the fuel excise taxes and the gradual increase in global crude oil prices will also feed into inflation. These factors will put additional pressure on the cost of certain goods and transportation services through their impact on production costs.

Figure 1.19. CPI at the end of period, %



Source: SSSU, NBU staff estimates.

Figure 1.20. Contributions to annual CPI growth by main components at the end of period, pp



Source: SSSU, NBU staff estimates.

According to the NBU's forecast, as a result of all these multidirectional drivers, inflation will gradually decline to 7.5% in 2026, slow to 6.0% in 2027, and reach the target of 5.0% in H2 2028.

[4] The NBU has no information and does not provide advice to the government on the schedule or parameters for reviewing utility tariffs. The future dynamics of administered prices are based on purely technical assumptions that are important for shaping the overall macroeconomic forecast.

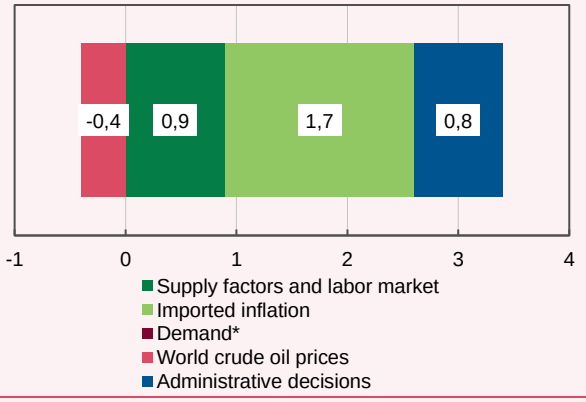
Box 1. Factors That Caused Inflation to Deviate from Target in 2025

In May 2025, consumer inflation reached a local peak of 15.9% yoy, but then declined rapidly to 8.0% yoy. At the same time, year-end inflation was 3 pp above the target. A notable contribution to this deviation was from the imported component, which was driven primarily by the depreciation of the U.S. dollar against the euro and the currencies of Ukraine's other MTPs. Supply-side factors, such as higher labor costs and spending on energy independence, also exerted significant inflationary pressure. Administrative decisions, including tax changes for tobacco producers and importers, further hindered inflation's return to its target. While the impact of demand on prices remained largely neutral, the decline in global oil prices provided a disinflationary effect.

In H1 2025, accelerating inflation was fueled by a limited food supply following poor harvests in 2024, high raw material and labor costs, the June 2024 hike in electricity prices for households, and the pass-through effects of the hryvnia's depreciation against the euro. Consumer price growth slowed as new harvests hit the market and the labor market gradually improved amid a persistently sustainable FX market. However, despite easing, underlying pressures remained quite high. Consequently, by the end of the year, inflation had fallen to 8.0% yoy, though it remained 3 pp above its target.

The factors that contributed most to this deviation were global financial market conditions and the further increase in business production costs.

Figure 1. Decomposition of inflation deviation from the target in December 2025, pp



* The contribution of demand is zero and is not shown on the graph.

Source: NBU staff estimates.

Table 1. Comparison of values of selected variables in 2024–2025

Indicator	2024	2025
Brent oil price, USD/bbl, annual average	80.7	69.0
Gas price at the TTF hub (Netherlands), USD/kcm, annual average	393.9	430.5
Grain harvest, million tons	56.2	63.5*
Vegetable harvest, million tons	6.8	7.9*
Consolidated budget deficit (excluding grants), % of GDP	23.8	24.8*
Real wage growth, annual average, % yoy	15.6	7.3

* NBU staff estimates.

Source: Refinitiv, STSU, SSSU, NBU staff estimates.

Imported inflation. In 2025, the NBU continued to adhere to a managed flexibility exchange rate regime, offsetting the private sector's structural FX deficit, smoothing excessive fluctuations of the hryvnia exchange rate, and maintaining FX market sustainability. Throughout the year, the UAH/USD exchange rate experienced moderate two-way fluctuations, ending the year largely unchanged from its starting level. At the same time, the hryvnia depreciated by over 13% against the euro due to the sharp decline of the dollar on the global financial markets. These developments were primarily driven by the unpredictability of U.S. trade policy, pressure on the Federal Reserve to accelerate the pace of monetary easing, and deepening domestic fiscal imbalances. The weakening of the dollar against the euro and the currencies of Ukraine's other MTPs kept external price pressure elevated: in 2025, the corresponding inflation rate (in dollar terms) rose by about 10 pp. This had a marked impact on the imported component of inflation, particularly core inflation.

Administrative decisions. The high growth rate of tobacco prices resulted from tax changes for manufacturers and importers that took effect in March 2025, as well as from stepped-up efforts to combat the shadow market. The hike in excise tax rates linked to the euro, particularly those on fuel, served as an additional inflationary factor.

Furthermore, prices for transport services rose, specifically those for road passenger transport. At the same time, the moratorium on increases in tariffs for certain utility services remained in place, keeping prices for natural gas, heating, and hot water unchanged for households.

Supply-side factors and the labor market. Pressure on prices stemming from the labor market remained elevated, despite some easing throughout the year. Wage growth rates remained high due to labor shortages caused by migration, mobilization, and structural mismatches between employers' needs and workers' skills. A significant electricity deficit at the end of the year further increased business production costs, forcing companies to rely more heavily on more expensive back-up power supplies, such as generators. Meanwhile, the annual growth in raw food prices slowed significantly, thanks to better harvests of certain crops – primarily vegetables – compared to last year. The pass-through of these effects to processed food prices also contributed to a gradual decline in core inflation.

Consumer demand made a near-zero contribution to the deviation of inflation from its target. While private consumption in Ukraine was bolstered by rising real wages and fiscal stimulus, it was simultaneously tempered by the difficult security situation. Furthermore, amid continued FX market sustainability, the NBU's interest rate policy supported the propensity to save in hryvnias. As a result, household hryvnia term deposits grew by nearly 20% (UAH 51 billion) in 2025, driven primarily by growth in deposits with maturities exceeding three months. Similarly, holdings of hryvnia domestic government debt securities increased by 67% (UAH 27 billion). At the same time, the NBU's interest rate policy did not exert a significant restraining effect on lending activity. Consequently, GDP remained close to its potential level.

The decline in global oil prices was a major factor in easing inflationary pressures. The gradual phasing out of production cuts by OPEC+ countries, record-breaking oil production in the United States, and steady supply from sanctioned countries ensured there was a robust market supply. Meanwhile, demand remained relatively weak, partly due to the negative impact of geopolitical uncertainty. As a result, oil prices in December were down 15% yoy, and the monthly average of USD 62.7 per barrel was the lowest since February 2021. This curbed fuel price growth in Ukraine, while also reining in price increases for a wide range of other goods through second-round effects.

Part 2. Economic Developments

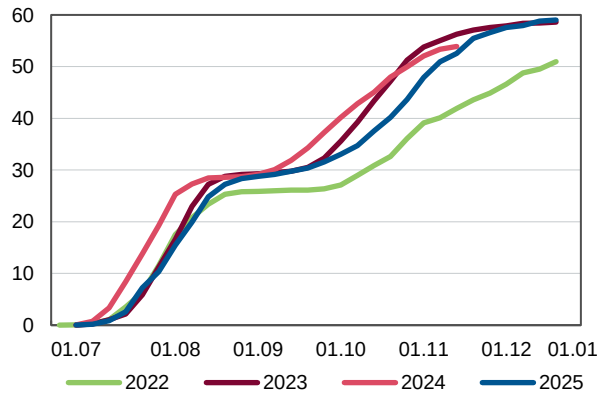
- According to NBU estimates, economic growth accelerated significantly in Q4 2025, driven by better harvest, a late harvest season, and increased budget expenditures. However, due to logistical disruptions and higher electricity shortages in recent months, the NBU slightly lowered its 2025 real GDP growth estimate, to 1.8%.
- The challenging situation in the energy sector will continue to constrain business activity for a prolonged period. Nevertheless, larger harvests, along with investments in infrastructure reconstruction and the defense sector, will support further GDP growth of 1.8% in 2026. These factors, combined with improvements in the energy sector and an uptick in private investment, are expected to accelerate economic growth to approximately 3%–4% in 2027–2028.
- Real GDP will remain close to its potential level. The growth of the latter will be hindered by the loss of production facilities and labor force.

New crop supplies and increased budget expenditures supported economic growth in Q4

Economic growth accelerated markedly at the end of the year due to the larger harvest and its shift into Q4, as well as a ramp-up in budget spending. According to NBU estimates, Ukraine's real GDP grew by 3% in Q4 2025.

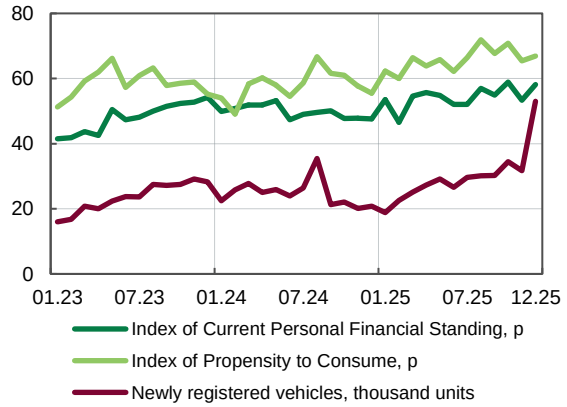
According to SSSU data, the agricultural production index rose by an average of 19.2% yoy in Q4 2025. The continuation of the corn harvest into December supported a recovery in agriculture in annual terms, as in 2024 the late-crop harvest ended in early December. According to the Ministry of Agrarian Policy and Food, as of year-end 2025, 89% of the corn and 95% of the grain and leguminous crops had been harvested. Due to significantly higher corn yields, the total grain and leguminous crop harvest exceeded the previous year's figures by 7.4% according to preliminary ministry data, or by 3% when compared to final SSSU data. The NBU revised upward its 2025 grain and leguminous crop harvest estimate by 1.9 million tons (to 63.5 million tons). Conversely, the 2025 oilseed harvest estimate was revised downward by 0.7 million tons (to 18.6 million tons) due to a slightly lower-than-expected soybean harvest and the inability to harvest a portion of the sunflower crop due to adverse weather and the difficult security situation in growing regions.

Figure 2.1. Grain and leguminous crop harvest volumes, million tons, cumulative



Source: MinAgro.

Figure 2.2. Selected indicators of consumer demand



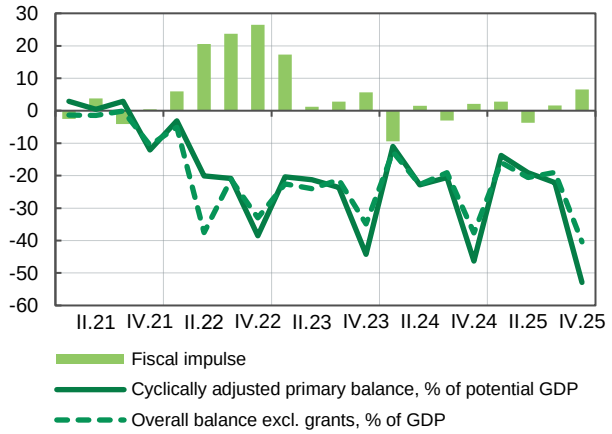
Source: Info Sapiens, Ministry of Internal Affairs.

In late 2025, the cyclically adjusted primary budget deficit widened due to seasonal factors, and the fiscal impulse strengthened. In Q4, consolidated budget expenditures

grew at a faster pace (20% yoy) than revenues (16% yoy). This led to a peak widening of the budget deficit both in Q4[5] and for the full year 2025.

High budget expenditures were primarily directed toward military needs[6]. At the same time, a significant focus on social and humanitarian spending remained, which fueled consumer demand and was reflected in the continued growth in retail trade volumes[7]. The uptick in demand was driven, among other things, by increased household spending on back-up power supplies, food, and consumer durables. Additionally, ahead of the expiration of the preferential tax regime for electric vehicle imports, passenger car registrations surged (by 89% yoy in Q4, compared to 8% yoy in Q3). Overall, consumer sentiment remained resilient and significantly better than in 2024[8].

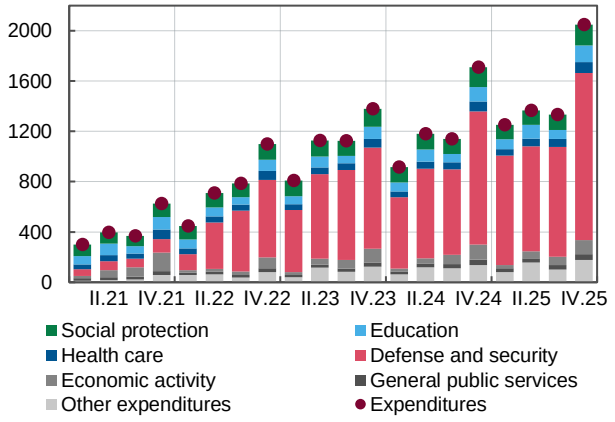
Figure 2.3. General government fiscal balance*



* The overall balance is the consolidated budget balance, taking into account loans to the PFU from the STA. The 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. For fiscal impulse, a positive value is stimulus policy. The 2025 GDP figure is the NBU's estimate.

Source: STSU, SSSU, NBU staff estimates.

Figure 2.4. Consolidated budget expenditures, UAH bn (functional classification)



Source: STSU, NBU staff estimates.

Several investment demand indicators also improved. Considerable defense needs supported a production ramp-up in the defense and metallurgy sectors[9], while also driving strong investment activity in specific engineering sectors. Construction activity grew as well, driven by housing repairs and the restoration of logistics, infrastructure, and energy facilities[10]. The latter also contributed to a rise in commercial vehicle registrations, primarily in registrations of trucks and repair vehicles[11].

[5] In Q4 2025, the consolidated budget deficit (excluding grants in revenue) exceeded UAH 1,024 billion, compared to UAH 825 billion in the same quarter of 2024. In 2025, the consolidated budget deficit was UAH 2,209 billion (compared to UAH 1,827 billion in 2024).

[6] Defense spending grew by 29% yoy in Q4, despite a significant 2024 base effect (37% yoy in Q4 2024 and 33% yoy in Q3 2025).

[7] Retail trade growth accelerated to an average of 13.6% yoy in Q4 (compared to 5.8% on average in Q3), partly reflecting higher consumer activity during the holiday season than in the previous year.

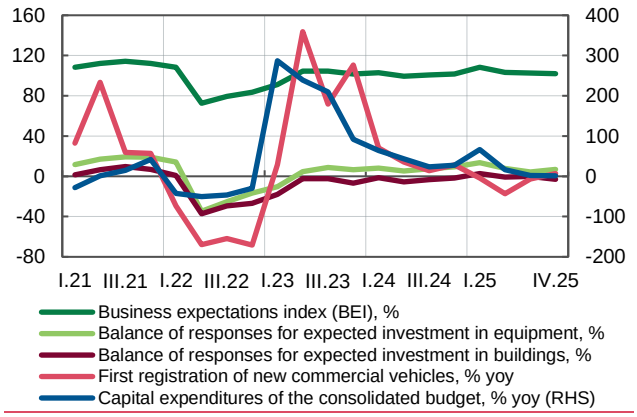
[8] According to Info Sapiens, the Consumer Confidence Index eased slightly in Q4 (to 76.4 p) compared to Q3 2025 (77.7 p), but remained substantially higher than in Q4 of last year (70.2 p).

[9] According to Ukrmetalurgprom data, production growth for primary metallurgical products accelerated sharply year-on-year in Q4 (pig iron +21% yoy, steel +12% yoy, and rolled products +20% yoy). According to SSSU data, metallurgical production growth accelerated to an average of 11.3% in Q4, compared to an average of +2.7% in Q3 2025.

[10] According to the Register of Construction Business, the number of buildings starting construction in Q4 rose by 19% yoy (compared to 38% in Q3), driven by residential construction (+77% yoy), infrastructure and logistics facilities (+24% yoy), and buildings for the trade and services sectors (+19% yoy). The number of buildings commissioned grew by 21% yoy (compared to a 4% yoy decline in Q3), driven, among other things, by construction of housing (+40% yoy), infrastructure and logistics facilities (+33% yoy), industrial buildings (+8% yoy), and public sector facilities (+7% yoy).

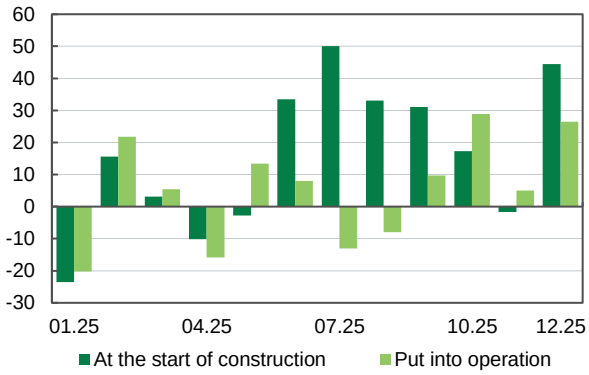
[11] According to Ukravtoprom, commercial vehicle registrations returned to growth in Q4 (+2.8% yoy, compared to (-2.7% yoy in Q3 and (-7.3%) yoy on average for the first three quarters of 2025). According to Ministry of Internal Affairs data, registrations of trucks and specialized vehicles in Q4 rose by 5% yoy, primarily driven by registrations of trucks (+12% yoy) and repair vehicles (+44% yoy).

Figure 2.5. Selected indicators of investment demand



Source: SSSU, STSU, NBU, Ukravtoprom, NBU staff estimates.

Figure 2.6. Change in the number of new buildings constructed by businesses*, % yoy



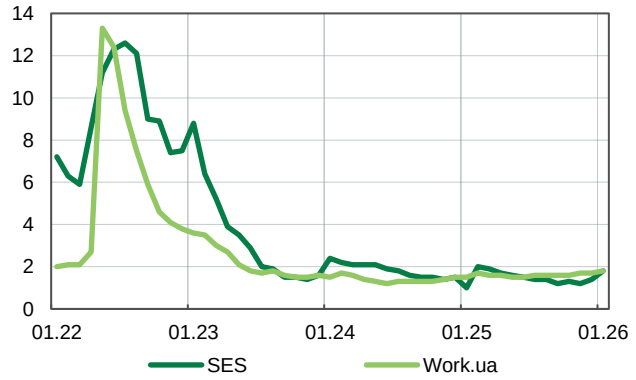
* Buildings constructed by legal entities and individual entrepreneurs.

Source: Construction activity registry.

The labor market situation also improved. According to data from both the State Employment Service and private job search platforms, labor supply grew faster than labor demand[12] at the end of the year. Business surveys also recorded a decrease[13] in the share of companies reporting a reduction in staff, alongside improved expectations regarding new hiring[14]. Estimates of the number of unemployed people from Info Sapiens surveys increased slightly compared to previous quarters, further indicating an increase in the labor supply.

However, despite this gradual improvement, labor shortages persisted, primarily due to mobilization and migration processes. The worsening security situation at the end of the year, combined with the easing of travel restrictions for young people, led to a slightly higher-than-anticipated outflow of migrants. According to updated UN data, the number of migrants from Ukraine in 2025 totaled 0.3 million people. Nevertheless, this net outflow was significantly lower than in 2024 (0.5 million people).

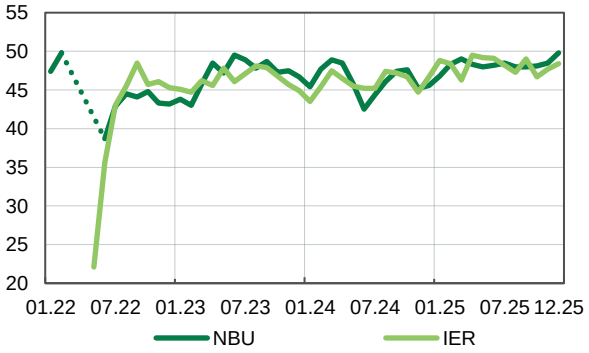
Figure 2.7. Number of candidates per job opening, persons*



* SES data are given as of the 1st day of the corresponding month.

Source: SES, Work.ua.

Figure 2.8. Diffusion index of changes in the number of employees compared to the previous month, p.



Source: NBU, IER.

[12] According to SES data, the ratio of registered unemployed persons to job openings rose to 1.8 in December 2025, compared to an annual average of 1.5. Similar data from Work.ua shows that in December the ratio of resumes to job openings reached 1.8, compared to a 2025 average of 1.6. The number of candidates per job opening increased primarily due to the rise in the number of resumes.

[13] According to NBU monthly business outlook surveys, in December 2025, the diffusion index for the change in the total number of employees reached its highest level of 49.8 since the start of the full-scale invasion. Surveys of companies conducted by the IER (Institute for Economic Research and Policy Consulting) also recorded an improvement in December, though this indicator remains more volatile.

[14] According to the IER's monthly survey, 15.8% of surveyed companies declared intentions to hire more staff in December 2025, while 5.6% said they would cut staff. The annual averages were 15.2% and 5.5% respectively. According to the NBU's quarterly survey, while a majority of companies in Q4 2025 still expected a further reduction in staff (the balance of responses being (-3.8)), this figure improved compared to Q3 2025 (-4.4) and Q4 2024 (-6.6).

In late 2025, economic growth was hampered by renewed logistical disruptions and longer-lasting power outages

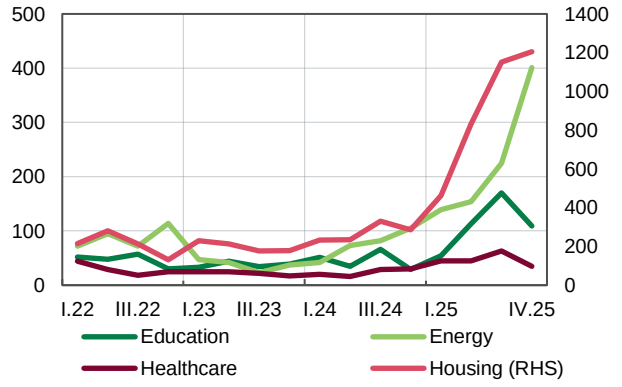
A difficult security situation, large-scale destruction of energy facilities, gas, ore, and coal extraction capacity, along with damage to logistics and infrastructure, constrained economic activity across several sectors at year-end.

A substantial increase in the electricity deficit led to a deterioration in business sentiment across various industries, particularly in energy-intensive sectors[15]. According to business surveys, power outages have surged in importance among the most critical challenges complicating business operations[16].

The loss of production facilities caused a slump in the energy and mining sectors, which, among other things, curtailed industrial production[17]. Furthermore, a decline in vegetable oil production, following a lower-than-previous-year oilseed harvest[18], slowed growth in the food industry and, consequently, in the processing industry.

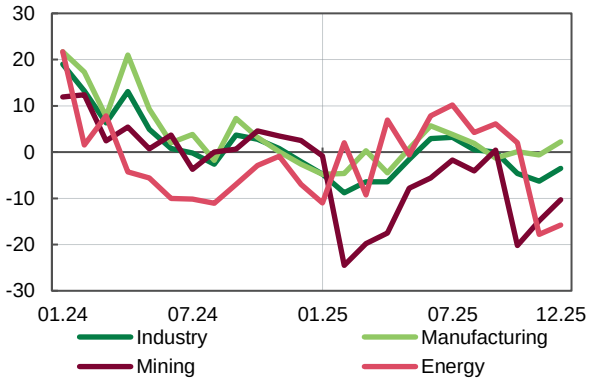
Power outages and damage to logistics and infrastructure facilities, including ports, negatively impacted the transport sector, specifically limiting rail passenger and freight transport[19]. While agricultural freight exports continued to decline yoy, the pace of contraction slowed due to the arrival of the new harvest.

Figure 2.9. Number of new damages to housing and infrastructure due to russian shelling



Source: ACLED, NBU staff estimates.

Figure 2.10. Production in main manufacturing sectors, % yoy



Source: SSSU.

Intensified aerial attacks also impacted external trade. The recovery of exports was held back by the slow shipment of the new grain harvest. Meanwhile, imports of energy and equipment necessary for infrastructure restoration increased. However, due to slower growth in non-energy imports and imports of certain business services, the negative contribution of net exports to GDP change decreased in Q4 2025.

[15] According to the Business Activity Expectations Index (BAEI), business expectations in Q4 remained in negative territory (-0.4 p), though they showed slight improvement compared to Q3 (-0.8 p) and were significantly better than in Q4 of the previous year (-2.5 p). Specifically, the economic outlook of the industrial sector deteriorated sharply ((-2.6 p) compared to (-1.2 p) in Q3); there was a slight decline in the expectations of the construction sector (to 0.3 p, down from 1.5 p in Q3). Conversely, expectations improved substantially in trade (to 3.5 p, up from 2.3 p in Q3) and in the services sector (to (-0.8 p), up from (-2.6 p) in Q3). The NBU's Business Outlook Index (BOI) worsened in Q4 (to 2.1 p, down from 2.5 p in Q3), primarily due to the agricultural and industrial sectors.

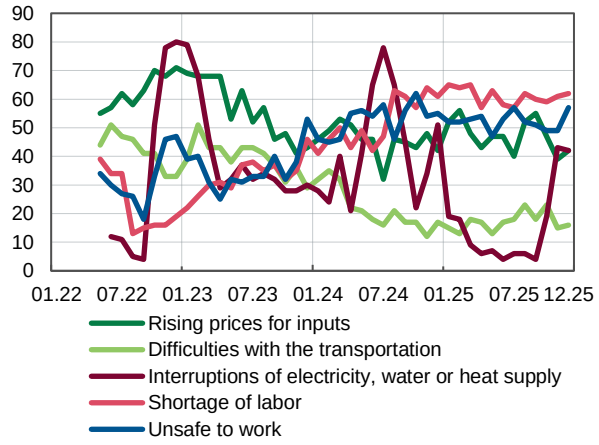
[16] According to IER surveys on the most pressing business problems, the share of respondents reporting disruptions in electricity, water, or heat supplies rose from an average of 5% in Q3 to an average of 35% in Q4.

[17] According to SSSU data, industrial production contracted by an average of 4.8% yoy in Q4 (compared to average growth of 1.2% yoy in Q3). This was primarily due to a significant slump in the energy sector (down by an average of 10.5% yoy in Q4, following 6.8% average growth in Q3) and the mining industry (down by an average of 15.1% yoy in Q4, compared to an average contraction of 1.8% in Q3).

[18] Growth in the manufacturing industry slowed to an average of 0.6% yoy in Q4 (compared to average growth of 1.5% yoy in Q3), driven mainly by a reduction in vegetable oil production.

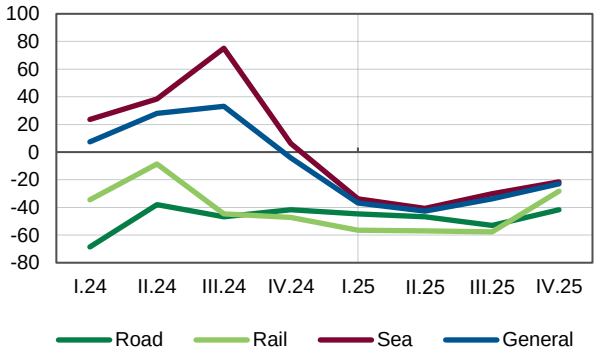
[19] According to data from the Ministry of Agrarian Policy and Food, agricultural freight exports in Q4 dropped by 23% yoy (compared to 34% yoy in Q3), primarily due to a further decline in maritime transport (down 22% yoy, compared to 30% yoy in Q3). Rail transport contracted by 28% yoy (compared to 58% yoy in Q3), and road transport fell by 42% yoy (compared to 53% yoy in Q3). According to SSSU data, the contraction in freight turnover accelerated to an average of 18% yoy in Q4 (compared to a 13% average decline in Q3). Passenger turnover growth slowed to an average of 0% yoy in Q4 (compared to average growth of 7% in Q3).

Figure 2.11. The most important problems for the surveyed businesses, % of responses



Source: IER.

Figure 2.12. Volumes of agricultural products transportation for export purposes by mode of transport, % yoy

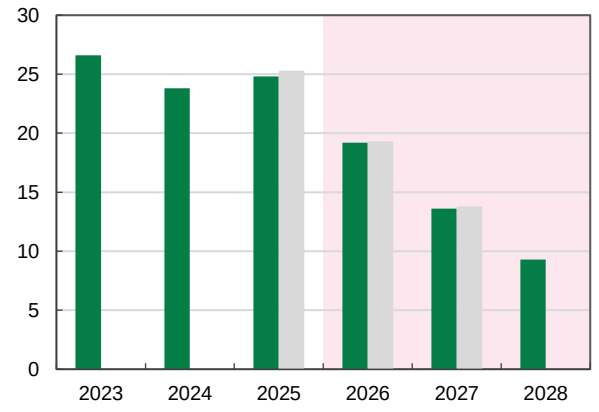


Source: MinAgro.

Future economic growth will be driven primarily by larger harvests and private investment, while fiscal stimulus will gradually decline

Economic growth will continue to be bolstered by fiscal stimulus, which is expected to taper off as the security situation normalizes. The NBU has kept its budget deficit forecast unchanged, at 19% of GDP for 2026, in line with the Law *On the State Budget*. Moving forward, deficits are assumed to gradually decrease to 14% of GDP in 2027 and 9% of GDP in 2028. This relatively slow pace of fiscal consolidation will be due to the considerable need to maintain national defense capabilities (specifically through the development of the defense sector), restore and modernize infrastructure, and to implement humanitarian and social policies. As before, these high deficits will be financed mainly through international aid (for more details, see *Monetary Conditions and Financial Markets* on page 31).

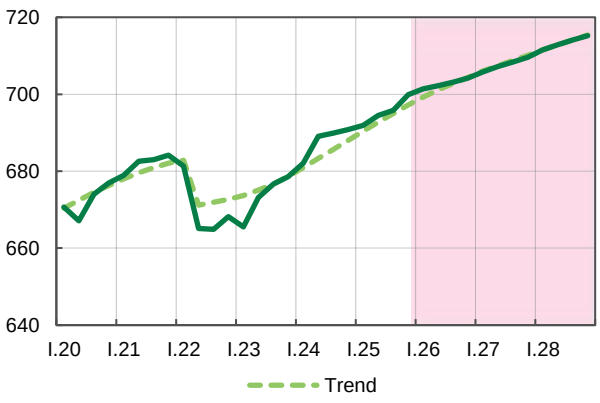
Figure 2.13. Consolidated budget deficit excluding grants, % of GDP



Gray bars are previous forecast.

Source: STSU, SSSU, NBU staff estimates.

Figure 2.14. Real wages, level (logs)



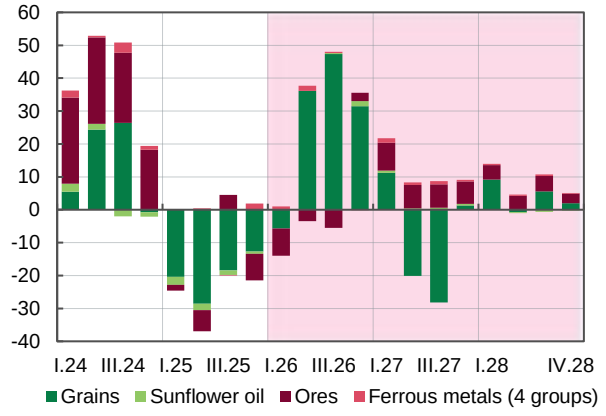
Source: SSSU, NBU staff estimates.

At the same time, fiscal stimulus will be progressively replaced by private sector drivers. As business conditions normalize, the private sector's contribution to GDP growth will steadily increase through both consumption and investment activity. Investments will be directed toward restoring damaged facilities and launching new projects, with the defense sector accounting for a significant share. European integration processes will enhance the country's investment attractiveness and stimulate the modernization of production facilities to expand access to European markets. While the share of investment in GDP is expected to rise, consumer demand will remain the primary driver of economic growth. Real wages will increase throughout the forecast horizon due to competition among employers for the available workforce, which will fuel private consumption. In 2026, the growth rate of real wages will be close to that of the previous

year, though it is expected to slow slightly starting in 2027 as the labor shortage gradually eases. Wage levels will begin to converge toward their trend.

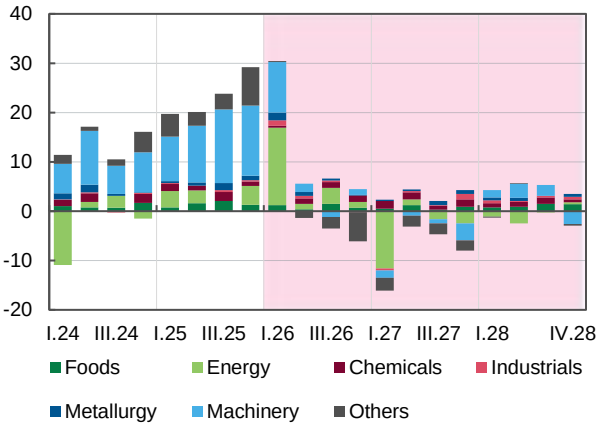
Ukraine's external trade position is also expected to improve. In 2026, exports will grow significantly as the backlog of the previous year's grain harvest is cleared on the back of the gradual restoration of port capacities and rail transport. Further increases in exports of goods and services will be driven by rising crop harvests and a revival of external demand, as economic growth accelerates among Ukraine's MTPs. While needs for infrastructure restoration, defense sector support, and energy will continue to drive import growth in 2026, but at a slower pace than in 2025. Fiscal consolidation and anticipated improvements in the energy sector will constrain imports of goods and services. Consequently, starting in 2026, the contribution of net exports to GDP change will turn positive and remain there.

Figure 2.15. Contributions of selected commodities to the annual change in exports volumes, pp



Source: SCSU, NBU staff estimates.

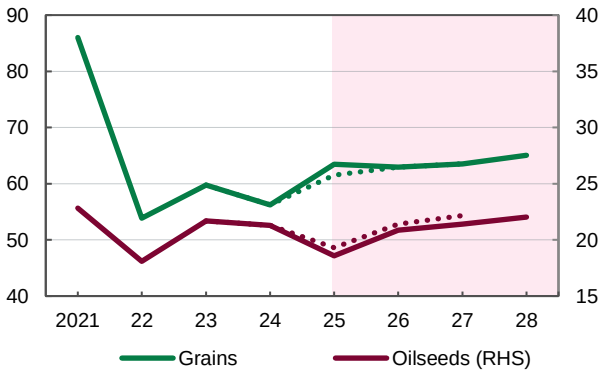
Figure 2.16. Contributions to the annual change in imports, pp



Source: SCSU, NBU staff estimates.

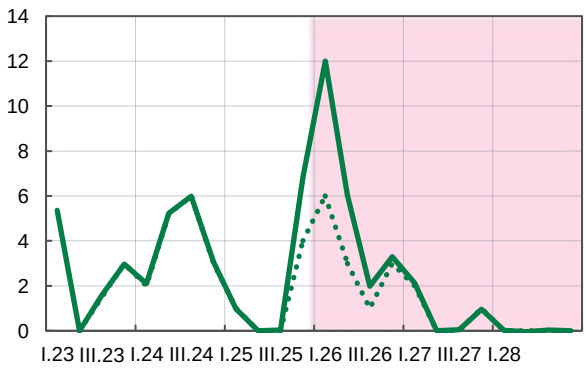
The positive contribution of agriculture to economic growth will remain substantial throughout the forecast horizon, driven by the output of arable farming products. In 2026–2027, the production of grain and leguminous crops (62.9 million tons and 63.5 million tons respectively) will remain close to current levels before growing more substantially in 2028 (65.0 million tons). Oilseed production will grow moderately in 2026–2028 (reaching 22 million tons by the end of the forecast period) amid gradual productivity improvements. However, growth will be restrained by climate change in southern regions – compounded by the consequences of the destruction of the Kakhovka HPP – as well as by ongoing security risks.

Figure 2.17. Harvest of grains and oilseeds, million tons



Source: SSSU, NBU staff estimates.

Figure 2.18. Electricity deficit, %



Source: NBU staff estimates.

The NBU continues to assume there will be a negative contribution from livestock farming to agricultural value added due to the expected contraction in livestock numbers and pressure from production costs. However, this contribution will be smaller than

previously anticipated, thanks to growth in poultry farming and the active recovery of pig farming following significant losses sustained in 2024.

Larger-than-expected electricity shortages and the slow recovery of the labor market will dampen economic activity, although the impact of these factors will gradually weaken over the forecast horizon

The large-scale destruction of energy infrastructure and coal and gas mining facilities has sharply deteriorated the energy situation in recent months. The cold winter has further complicated matters. Accordingly, assumptions for electricity shortages have been revised upward.

The actual electricity shortage in Q4 averaged approximately 7% nationwide, whereas the previous macroeconomic forecast had assumed 4%. Given the scale of the destruction, the NBU assumes that in 2026, the economy will operate under an average annual electricity shortage of 6% (compared to 3% in the previous forecast). For 2027, the electricity shortage forecast remains unchanged (averaging approximately 1% per year).

The worsening of electricity shortage assumptions led to a 0.2 pp downward revision of the 2026 GDP forecast, bringing it down to 1.8%. The total contribution of electricity shortages to GDP growth is estimated at (-0.4 pp) in 2026 and approximately (-0.1 pp) in 2027.

The slow return of migrants will also constrain economic activity. It is currently assumed that due to the worsening security situation, there will be a net population outflow of approximately 0.2 million people in 2026. A net return is expected to begin only in 2027 and will be modest, at around 0.1 million people. In 2028, a more active return of migrants is assumed (0.5 million people), given the expected reduction in security risks and the overall improvement in the economic situation. At the same time, the labor market will require a significant number of workers to support the country's reconstruction and the rise in investment.

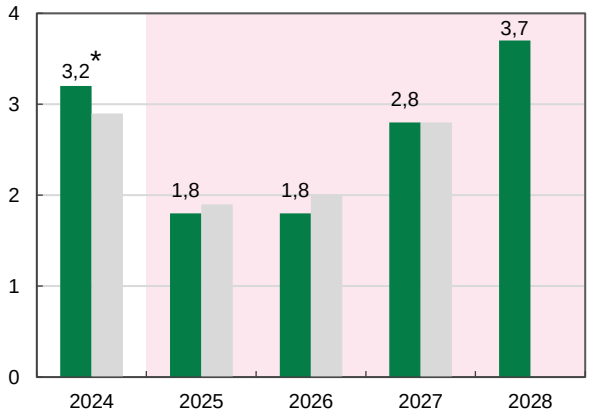
High labor demand will drive a further reduction in the unemployment rate to approximately 9% by the end of the forecast period. As economic conditions normalize, labor market mismatches are expected to diminish gradually. This will ease the pressure on business costs by slowing the growth of real wages.

GDP growth will remain constrained due to the impact of the war, but it is expected to accelerate over the forecast horizon

Taking into account the impact of a larger electricity shortage, the NBU has slightly revised its real GDP growth forecast for 2026, down to 1.8%. Gradual improvements in the energy sector, an increase in private investment, European integration reforms, and a reversal of migration trends will facilitate faster economic growth, which will reach2.8% in 2027 and 3.7% in 2028.

The GDP gap will remain close to zero and will not exert any significant influence on inflation. This dynamic in the GDP gap will be driven, on the one hand, by the gradual improvement in the labor market (which will reduce the positive contribution to the gap), and on the other hand by the decline in interest rates over the forecast horizon (for more details, see *Monetary Conditions and Financial Markets* on page 34).

Figure 2.19. Real GDP, % yoy

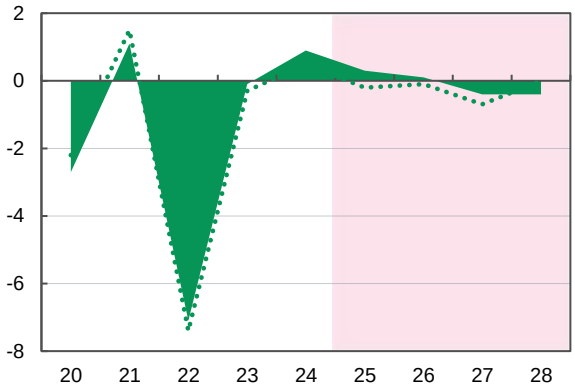


Gray bars are the previous forecast.

* The SSSU revised the estimate for 2024 from 2.9% to 3.2%.

Source: SSSU, NBU staff estimates.

Figure 2.20. Output gap, % of potential GDP



Source: SSSU, NBU staff estimates.

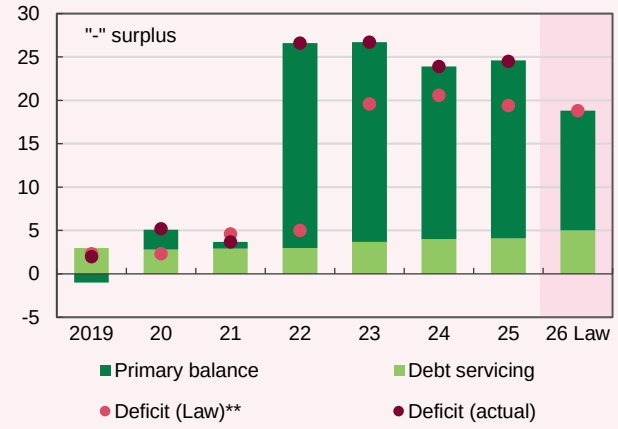
In the medium term, Ukraine's potential GDP will grow at a moderate pace. Its growth will be constrained by the consequences of the war. At the same time, the trend toward gradually increasing harvests – driven by rising investment as security conditions improve – will provide a positive contribution to potential output dynamics. As the economic situation normalizes and reconstruction and European integration efforts continue, the primary drivers of potential GDP growth will be increased productivity and capital investment.

Box 2. State Budget Parameters in 2026

Ukraine's state budget for 2026 was approved with a deficit of 18.8% of GDP (excluding grants in revenues). This deficit is lower than the actual 2025 figure, making its financing realistic given the already committed external aid from international partners. However, as in previous years, there is a high probability that spending will need to be increased to support national defense capabilities and reconstruction, including the restoration of energy infrastructure.

The planned state budget deficit for 2026 (excluding grants in revenues) is significantly lower than the actual 2025 figure, both in absolute terms – UAH 1,940 billion compared to UAH 2,184 billion (excluding grants in revenues) – and as a percentage of GDP.

Figure 1. State budget balance*, % of GDP



* Functional classification was used to calculate the primary balance for 2019-2025, and program classification – for 2026. Deficits in 2022-2026 – excluding grants in revenues. GDP for 2019-2024 – actual data, 2025 – NBU staff estimates, 2026 – CMU estimates. ** According to the first approved version of the state budget law for the corresponding year (for 2022, version of the law with amendments dated 15 March 2022).
Source: STSU, VRU, SSSU, NBU staff estimates.

Table 1. Main macroeconomic parameters

Indicator	2026	
	CMU	NBU
Nominal GDP, UAH billions	10309	9980
Real GDP, % yoy	2.4	1.8
Consumer price index, % (December to December)	9.9	7.5
Exports of goods and services (USD billions)	61.4	63.6
Imports of goods and services (USD billions)	105.8	117.8
Nominal average wage, UAH thousands	30.0	29.9

Source: first column (CMU – Cabinet of Ministers of Ukraine) – VRU (explanatory note to the first reading and information from the MFU website); second column (NBU) – the NBU's January 2026 forecast.

The GDP and inflation projections that underlie the budget parameters are higher than those in the NBU's forecast, which poses risks for tax revenues. Conversely, the import estimate is more conservative than the NBU expects, which may create room for additional revenues. At the same time, the risk of declining budget revenues has intensified in recent months due to strikes on energy and transport infrastructure.

Overall, the budget envisions a further strengthening of revenues through a series of tax initiatives, with tax revenues projected to grow by 23.4%. To mobilize these funds, the corporate income tax rate on banks has once again been raised [from 25% to 50% for the 2026 tax (reporting) periods], and the VAT exemption on electric vehicle imports has been abolished. The budget also accounts for tax initiatives not yet passed by parliament, such as the introduction of an excise tax on beverages (including mineral water and carbonated drinks containing added sugar, sweeteners, or flavorings), and taxing income from digital platforms. Passing legislation for the above income is a prior condition for the launch of a new IMF arrangement. Furthermore, meeting other prior conditions regarding the tax package under the IMF arrangement will also contribute to revenue growth.

National defense capabilities remain the primary budget priority. Spending on defense and security is projected to account for 54% of total expenditures (or 25% of GDP[20]). However, the risk remains of a mid-year revision of budget parameters, which has become traditional in recent years. Another risk of increased expenditures stems from the need to restore facilities, particularly energy infrastructure.

[20] For the first time, the budget includes a contingency reserve for the security and defense sector (UAH 199 billion). Part of this reserve is funded by customs revenues. Provision is also made for state guarantees to ensure defense capabilities (up to UAH 30 billion). Including these funds and the reserve, total defense and security spending amounts to 27.2% of GDP.

Table 2. Selected indicators of state budget expenditures

	2023		2024		2025		2026
	Law	Actual*	Law	Actual*	Law	Actual*	Law
Defense and security expenditures, UAH billions**	1944	2637	2137	2948	2932	3824	2578
% to total expenditures	57	66	57	66	63	70	54
% of revenues relative to defense and security expenditures	72	85	89	90	82	86	111

* International military aid is included in revenues and expenditures in the state budget special fund. The revenue indicator excludes grant funds. ** The program classification of expenditures according to the key spending units.
Source: STSU, VRU, NBU staff estimates.

Social programs also remain a key focus: core social standards have been raised[21], pensions have been indexed, teachers' salaries have been increased, and support for demographic development has been introduced. Existing household support programs have also been retained. Furthermore, funds have been allocated to support the agro-industrial complex, as well as loans under the 5-7-9% program and the eOselia mortgage scheme.

The budget deficit will be financed primarily through international aid (UAH 2,155 billion, or USD 47.2 billion[22]). The risk of a shortfall in international financing has decreased significantly following the EU Council's decision to provide Ukraine with EUR 90 billion in financial assistance for 2026–2027 via the Ukraine Support Loan (USL), funded through EU capital market borrowing. This loan will be split between budget support – contingent upon the implementation of reforms – and the procurement of military products. A portion of the funds under the ERA mechanism will also be directed toward military needs. At the same time, the NBU assumes slightly larger international aid, totaling USD 51 billion (for more details, see *Monetary Conditions and Financial Markets* on page 31).

Gross domestic borrowing is planned to be rather moderate in 2026 (UAH 420 billion), with a rollover rate of 80% (net repayments of UAH 105 billion). Such restrained borrowing volumes indicate the government's intention to reduce debt service costs, given the built-up FX liquidity buffer. At the same time, this creates room for additional market borrowing should the need arise.

Thus, the risks to budget execution under the approved parameters are considered moderate. The main risk is the emergence of additional financial needs to support defense capabilities and reconstruction. In view of this, Ukraine's fulfillment of the commitments required for obtaining international assistance, including that under the IMF's program, is of particular importance. The approval of the program will serve as a signal to other donors of Ukraine's commitment to responsible policy-making and continued reforms. A steady inflow of aid will allow for the continued financing of the budget deficit without resorting to monetary financing, thereby ensuring macrofinancial sustainability.

[21] The minimum wage has been increased from UAH 8,000 to UAH 8,647, while the subsistence level has been raised from UAH 2,920 to UAH 3,209.
[22] This includes grants under EU assistance programs that are accounted as revenues, as well as financing for the special fund of the state budget.

Part 3. Monetary Conditions and Financial Markets

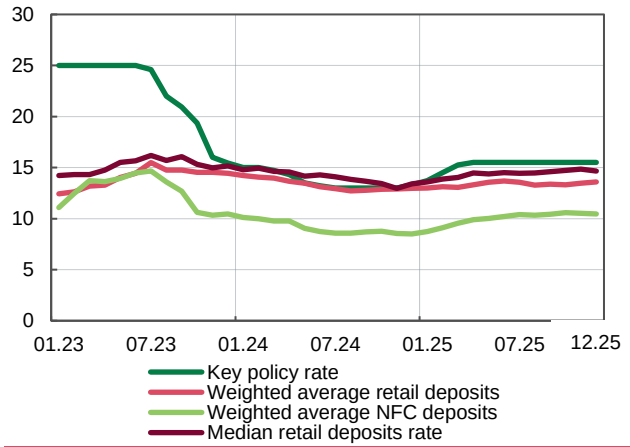
- Lower price pressures, driven by NBU monetary policy measures, coupled with weaker risks of insufficient external financing, have enabled the central bank to start a key policy rate cutting cycle.
- The NBU will maintain appropriate monetary conditions to slow inflation further and to achieve its 5% inflation target over the policy horizon. At the same time, interest rate policy will be gradually eased, supporting lending and economic growth. The current forecast envisages further key policy rate cuts.
- Expected international assistance will suffice to finance the budget deficit without resorting to monetary financing throughout 2026–2028. This will also keep international reserves at a level sufficient to maintain FX market sustainability and implement FX liberalization measures, provided that risks remain under control.

Keeping the key policy rate unchanged in recent months ensured robust demand for hryvnia assets without restraining lending

In late 2025, the NBU refrained from easing its interest rate policy due to elevated inflation expectations amid uncertainty regarding official financing, rising energy shortages, and greater budgetary needs.

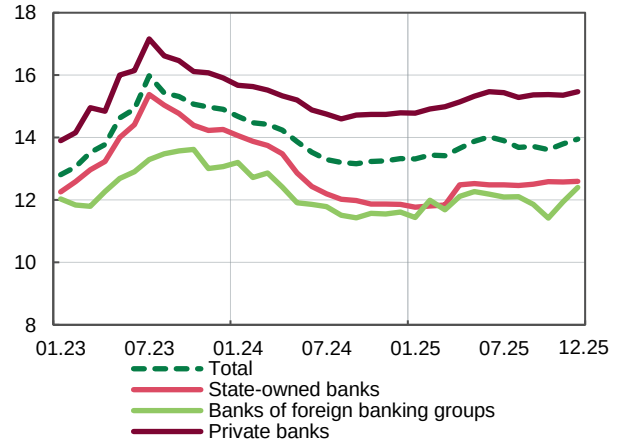
Keeping the key policy rate unchanged prevented a decline in interest rates for hryvnia instruments. The weighted average interest rate on retail term deposits even grew slightly during the quarter, primarily driven by banks of foreign banking groups. The median of weighted average interest rates on retail deposits with a term of more than three months rose to 15.4%, up from 15.1% over the quarter. Consequently, attractive real yields on hryvnia term instruments fueled growth in individuals' investments in both domestic government debt securities and in hryvnia deposits.

Figure 3.1. Rates on term hryvnia deposits and average monthly key policy rate, %



Source: NBU.

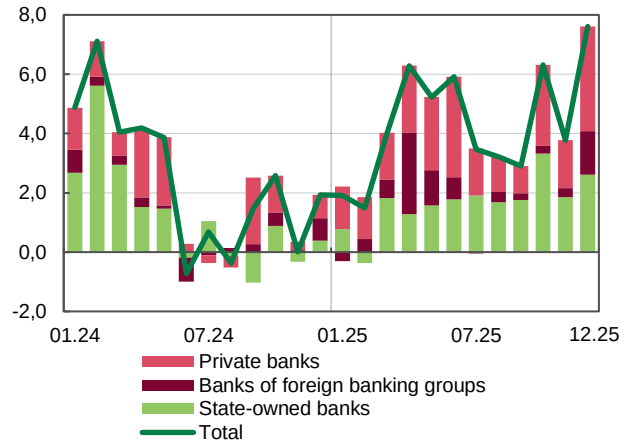
Figure 3.2. Weighted average interest rates on hryvnia retail deposits with a term of over three months (by bank group), %



Source: NBU.

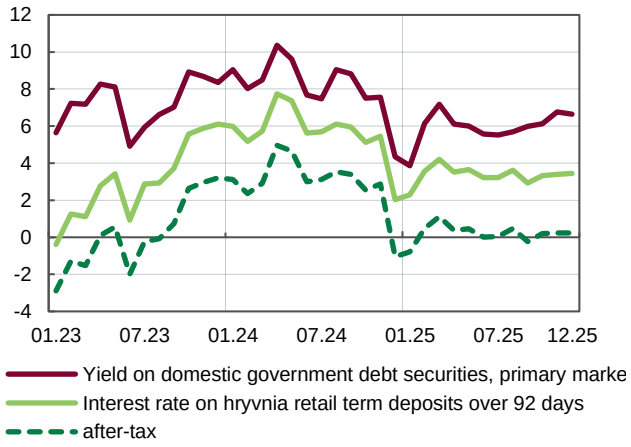
Specifically, hryvnia retail term deposits grew by 5.9% qoq, or UAH 17.7 billion (compared to 1.4% qoq, or UAH 3.7 billion, in Q4 2024). Meanwhile, the portfolio of hryvnia domestic government debt securities held by individuals increased by 15.0% qoq, or UAH 8.6 billion (compared to 11.8% qoq, or UAH 4.2 billion, in Q4 2024). Retail hryvnia holdings expanded across all banking groups. The smooth and efficient operation of the sector, despite numerous operational risk events in recent years, has bolstered customer confidence in the banks. Furthermore, interest rate hikes by foreign banking groups in November–December pushed up their share of the hryvnia retail term deposit portfolio.

Figure 3.3. Changes in the stock of hryvnia retail deposits with a term of over three months (by bank group), UAH billions



Source: NBU.

Figure 3.4. Real interest rates* on hryvnia domestic government debt securities and retail deposits, %



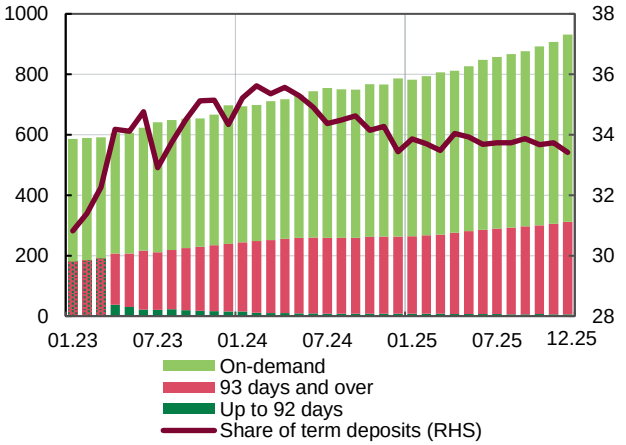
* Deflated by households' 12-month-ahead inflation expectations.

Source: NBU staff estimates.

At the same time, the share of retail term deposits in total hryvnia deposits has remained largely unchanged over recent months. The slight decline of this share in December was primarily due to seasonal factors – the payment of year-end bonuses and premiums, which led to a substantial increase in funds held in retail current accounts.

Thus, interest in hryvnia deposits persisted, largely driven by the so-called portfolio effect, when depositors maintained a relatively stable maturity structure of their deposits to diversify risks. This also indicates that monetary conditions were not overly tight. Further evidence of this was the continued positive lending dynamics.

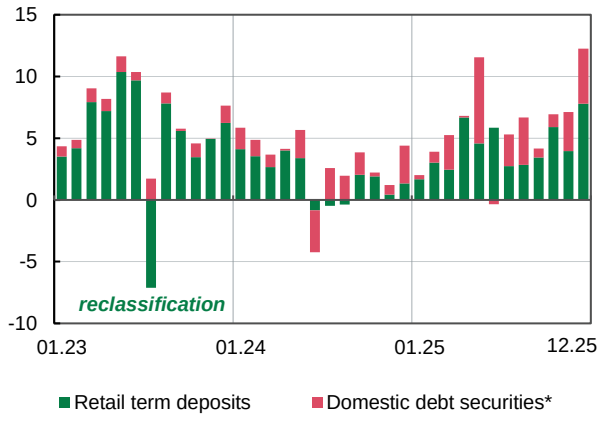
Figure 3.5. Monthly average* stocks of hryvnia retail deposits, UAH billion, and share of term deposits in the portfolio, %



* Calendar days.

Source: NBU.

Figure 3.6. Changes in the stock of hryvnia domestic debt securities held by individuals and hryvnia retail term deposits, UAH billions



* At outstanding nominal value.

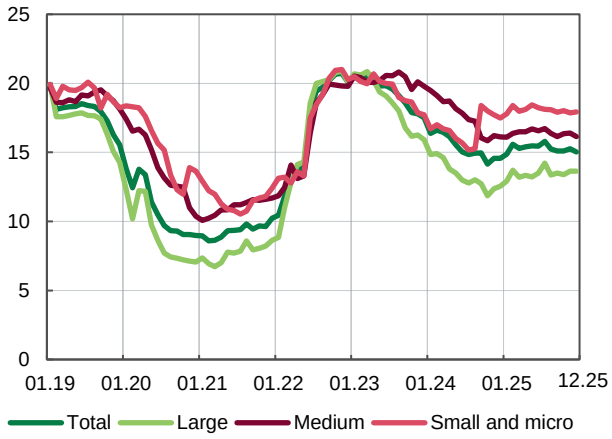
Source: NBU.

Interest rates on new corporate loans remained at pre-pandemic levels, and banks across all groups actively expanded their corporate lending. According to Survey results, the share of companies planning to obtain bank loans increased. They also eased their assessments of lending conditions tightness. Competition with non-banks and ample bank liquidity contributed to the easing of lending standards for SMEs. As a result, net hryvnia corporate loans continued to rise at a high pace: by 4.4% qoq or by 35.5% yoy.

In 2025, the loan-to-GDP ratio increased for the first time since the start of the full-scale invasion. The bulk of the banks' new portfolios consisted of market-rate loans that meet customers' needs. Meanwhile, the role of government support decreased as it became more targeted. In recent months, loans to large corporate clients grew notably (by

7.6% qoq). This was partly driven by the need to restore energy infrastructure and purchases of energy carriers following russian strikes. Additionally, Ukrainian banks have joined forces to provide over UAH 20 billion in financing for defense industry companies. The banks plan to continue expanding their lending activity and expect an increase in demand for all types of corporate loans. The share of long-term loans for capital investment is also rising actively; over the past year, such loans have grown to represent a quarter of the total loan portfolio.

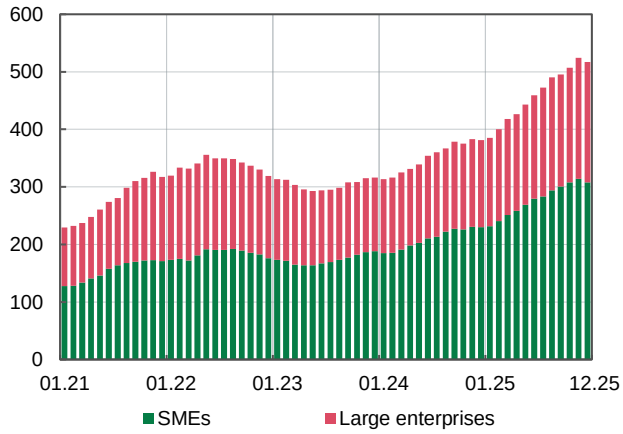
Figure 3.7. Weighted average interest rates on new* hryvnia loans of NFCs (by size of enterprises), %



* Excluding transactions under additional agreements where there was a change in the loan principal and/or interest rate, as well as prolongation.

Source: NBU.

Figure 3.8. Net hryvnia loans of NFCs, UAH billions



Source: NBU.

The retail loan portfolio also grew rapidly, driven by robust consumer sentiment and strong competition among banks for clients. Net retail loans rose by 7.5% qoq or by 33.9% yoy. The state-run eOselia program continued to shape the dynamics of the mortgage portfolio. The debt burden of bank clients increased throughout the year but remained at an acceptable level. In the first three months of 2026, the banks expect demand for both mortgages and consumer loans to grow.

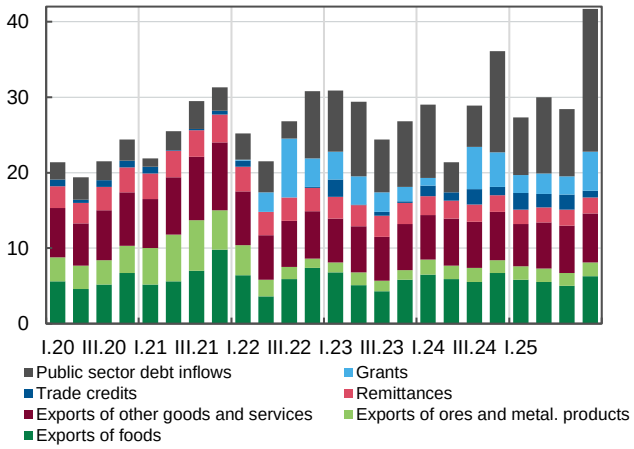
Substantial international assistance enabled the NBU to meet private sector demand for FX, while simultaneously increasing reserves to record levels

In Q4 2025, the deficit in the trade in goods widened to USD 15.7 billion due to larger government spending and business operations at year-end. Driven by the strong needs of the military and infrastructure restoration, imports of specific machinery products – particularly electronic and energy equipment – continued to rise. Intensified aerial attacks on infrastructure also pushed up gas and electricity imports. What is more, imports of motor cars continued to grow ahead of the expiration of the VAT exemption for electric vehicles.

Conversely, export growth remained quite modest. Larger exports of grain and vegetable oil from the new harvest were partially offset by lower exports of mining and metals products amid weak global demand. Additionally, exports of iron ore and agricultural crops were constrained at year-end by intensified aerial attacks on infrastructure, particularly at ports.

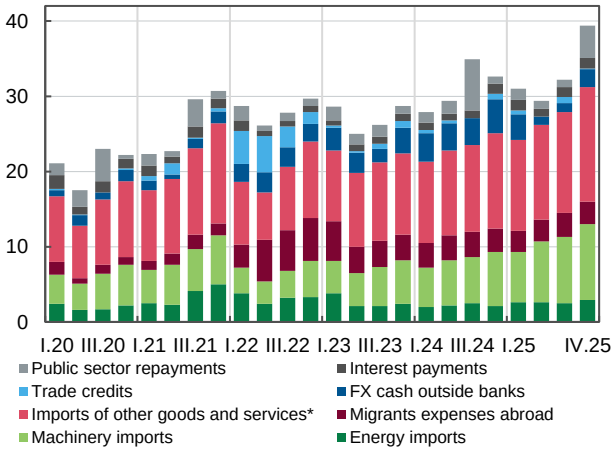
Net demand for FX cash in Q4 2025 doubled compared to Q3 due to seasonal factors, hitting USD 2.2 billion. The increase was mainly driven by net demand for U.S. dollars, which rose by USD 0.8 billion to USD 1.2 billion, while net demand for euros increased by only EUR 0.3 billion to EUR 0.9 billion. At the same time, aggregate demand was significantly lower than in Q4 2024 (USD 3.7 billion), partly because households maintained their interest in hryvnia savings instruments.

Figure 3.9. Key components of FX inflows to Ukraine, USD billions



Source: NBU.

Figure 3.10. Key components of FX outflows, USD billions



* Excluding humanitarian aid.

Source: NBU.

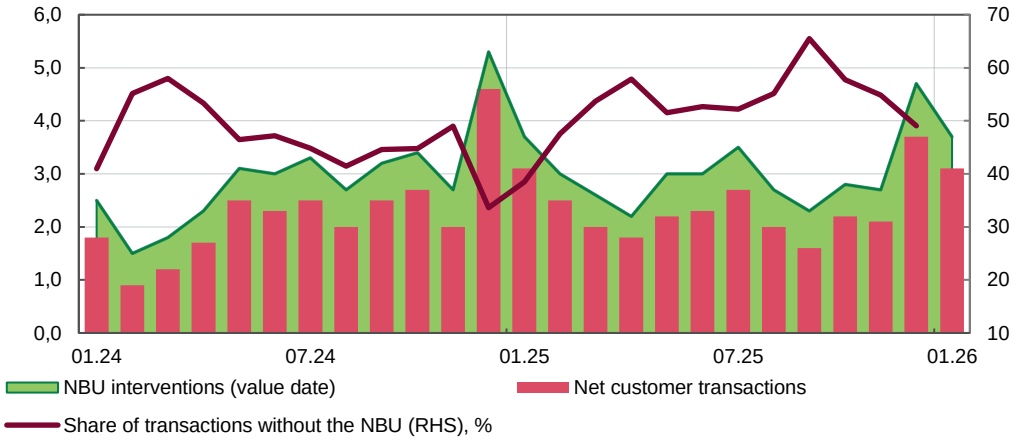
Transfers related to business operations permitted under FX liberalization also increased. The primary drivers were dividend payments for 2023 and scheduled coupon payments on Eurobonds. About one third of transactions continued to be conducted using businesses' own FX, which did not put pressure on international reserves. Thanks to the sustainability of the FX market and the formation of the necessary preconditions, the NBU continued to act according to its FX liberalization roadmap. More specifically, in late December 2025, the central bank eased several FX restrictions to support the defense sector. In January 2026, the NBU introduced a new stimulating loan limit to increase the flexibility of Ukrainian companies in managing funds they raised abroad. At the same time, the NBU introduced several other measures in the area of currency supervision. They are as follows: the requirements regarding settlements deadlines will not apply to goods that are exported under a foreign economic agreement where the right of claim has been transferred to the PrJSC Export Credit Agency; and the export of insurance services was removed from the list of transactions subject to the requirement to comply with settlement deadlines. What is more, the NBU revised the conditions for making payments to refund returned or undelivered goods.

The widening FX deficit of the private sector was partially offset by a significant increase in inflows of funds from international partners as part of cooperation to localize weapon production in Ukraine. Furthermore, inflows to charitable foundations from abroad grew substantially; in October alone, these foundations received over USD 1 billion. Overall, in Q4 2025, the amount of FX sold by clients on the non-cash market was the highest recorded during the entire period of martial law.

As a result, the NBU's interventions to sell FX rose by USD 1.8 billion in Q4 2025 to USD 10.3 billion, totaling USD 36.2 billion for the entire year, compared to USD 34.8 billion in 2024. In January, following a decline in clients' net demand, the NBU's net FX sales decreased significantly compared to December.

The FX market's capacity for self-balancing continued to strengthen throughout 2025. This was evidenced by the growing share of transactions conducted without NBU intervention. The average share of such transactions on the interbank FX market rose to 53%, up from 47% in 2024. In Q4 2025, this figure was 54%, which is 11 pp higher than in Q4 2024, and nearly double the level recorded when the managed exchange rate flexibility regime was first introduced (29% in October 2023).

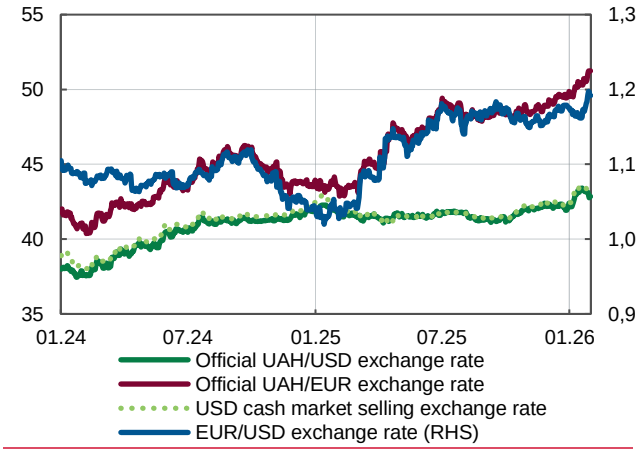
Figure 3.11. Net FX purchases by banks' clients and net FX sales by the NBU, USD bn



Source: NBU.

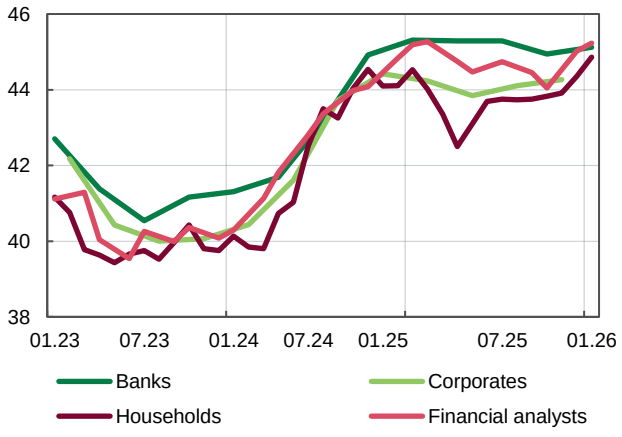
FX market sustainability was bolstered by international assistance inflows, which increased sharply in Q4 2025 (USD 20.2 billion). In 2025, Ukraine received the largest ever amount of financial aid since the start of the full-scale war: USD 52.4 billion (including USD 32.7 billion from the EU, USD 12.0 billion from the United States, and USD 3.4 billion from Canada). As a result, gross international reserves grew by USD 10.7 billion in Q4 2025, reaching a new high: by the beginning of 2026, international reserves had risen to USD 57.3 billion. International reserves now cover 5.8 months of future imports and are 27% higher than the minimum level of the IMF's composite metric. Given the expansion of EU financial aid provided in euros, the share of euros in international reserves has increased significantly since the start of 2025 – from 6.8% to 27.8%.

Figure 3.12. Hryvnia to USD and EUR exchange rates, and EUR to USD



Source: NBU, ECB.

Figure 3.13. 12-month-ahead exchange rate expectations, UAH per USD



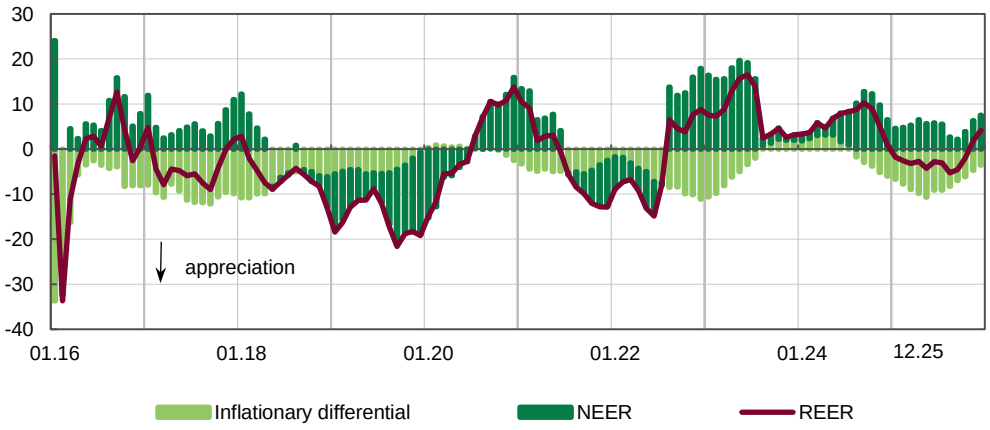
Source: NBU, Info Sapiens.

Substantial international reserves enabled the NBU to continue maintaining FX market sustainability, smoothing out excessive exchange rate fluctuations to keep exchange rate and inflation expectations under control. Fluctuations in the UAH/USD exchange rate remained two-way and were primarily driven by market conditions. Exchange rate expectations were relatively stable throughout the past year and in January of the current year.

The rise in net demand for FX, which began in October 2025, shaped exchange rate dynamics in Q4 2025: the average hryvnia exchange rate weakened by 1.1% qoq against the U.S. dollar and by 0.7% qoq against the euro. The spread between the cash U.S. dollar and euro selling rates and their official exchange rates averaged 0.4% and 0.6% respectively in Q4. Despite there being a rise in pressure at year-end due to

seasonal factors, the hryvnia weakened only slightly against the U.S. dollar from the beginning of 2025 – by 0.8% – demonstrating moderate two-way fluctuations throughout the year. Specifically, the average UAH/USD exchange rate strengthened during five months of the year, while moderately weakening during the other seven. At the same time, the hryvnia weakened from the beginning of 2025 by 13.5% against the euro as a result of the significant strengthening of the euro caused by the dollar's depreciation on the global financial markets. Similarly, the dollar's depreciation led to the appreciation of the currencies of other Ukraine's MTPs (except Turkey), resulting in a weakening of the hryvnia's NEER both in Q4 (by 0.8% qoq) and overall in 2025 (specifically by 7.5% yoy in December). Consequently, despite inflation still being higher in Ukraine than in its MTPs, the hryvnia's REER depreciated by 0.2% qoq in Q4 (by 4.2% yoy in December), offsetting its strengthening seen at the end of 2024. Nevertheless, the average annual REER of the hryvnia was 2.1% stronger than in 2024.

Figure 3.14. Contributions to the change in the REER index, % yoy



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

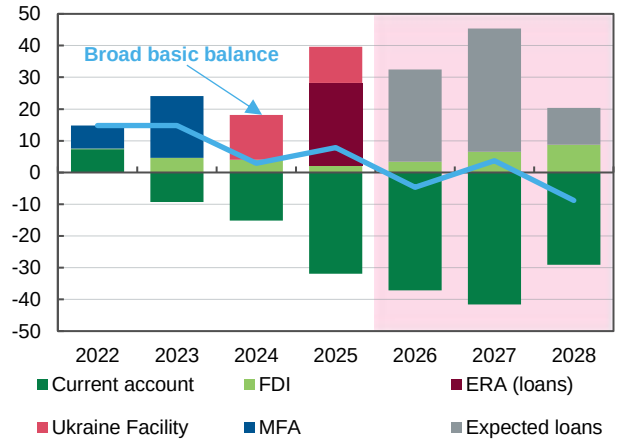
In early January 2026, exchange rate dynamics were largely driven by seasonal and situational factors. Budget expenditures, which reached record levels in December, were shifted toward the very end of the year and coincided with the usual seasonal decline in market activity, making the exchange rate highly sensitive to shifts in market conditions. Furthermore, large-scale strikes on the energy sector increased the country's need to import fuel, electricity, and relevant equipment, pushing up the demand for FX. At the same time, attacks on logistics infrastructure, particularly ports, limited the supply of FX by complicating exports. Consequently, the average exchange rate of the hryvnia weakened by 1.7% against the U.S. dollar and by 1.9% against the euro in January.

Expected international financial assistance will be sufficient to maintain international reserves at a high level, which will contribute to FX market sustainability

In late November 2025, the IMF mission and the Ukrainian authorities reached a staff-level agreement on a new four-year extended arrangement under the Extended Fund Facility (EFF), with potential access to USD 8.1 billion. The arrangement is expected to catalyze large-scale external support to close Ukraine's financing gaps in 2026–2028.

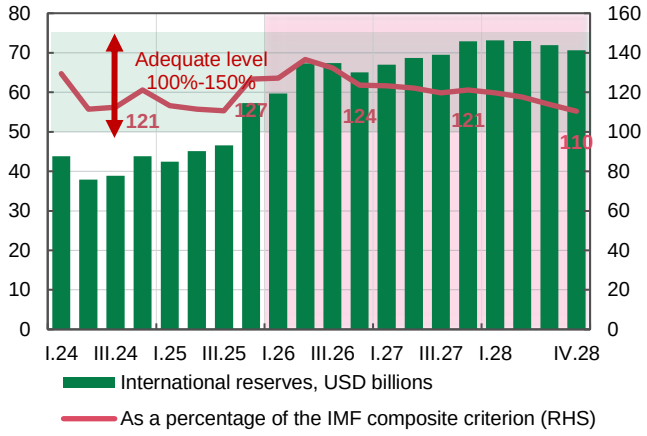
What is more, in December, EU leaders agreed to provide Ukraine with a EUR 90 billion loan for 2026–2027. The loan amount will be divided between budget support and off-budget procurement of military products, primarily manufactured in Ukraine, the EU, and EEA countries. The actual size of individual tranches and the final allocation between the budgetary and off-budget defense components will be determined on the basis of a strategy prepared by the Government of Ukraine. The updated macroeconomic forecast also incorporates the European Commission's plans to allocate EUR 100 billion to Ukraine, as outlined in the draft EU long-term budget for 2028–2034. The disbursement of these funds is expected to begin in 2028.

Figure 3.15. Broad basic balance, USD billions



Source: NBU staff estimates.

Figure 3.16. Gross international reserves



Source: NBU staff estimates.

Consequently, the NBU expects international financing to remain steady and sufficient. Specifically, international financial assistance is projected to exceed USD 51 billion in 2026, followed by nearly USD 43 billion in 2027 and USD 22 billion in 2028. The conditions for receiving a portion of these funds include the implementation of European integration reforms and successful cooperation with the IMF.

International assistance will be sufficient to maintain international reserves at a level that ensures FX market sustainability and keeps exchange rate and inflation expectations in check. Gross reserves are expected to reach USD 65 billion by the end of 2026 and continue growing to USD 71 billion by the end of 2028, consistently exceeding the minimum required under the IMF' composite metric. The economy's external position will remain balanced. In 2026–2027, the broad basic balance is expected to hover around zero, as the current account deficit will continue to be financed through medium-term programs providing funding on concessional terms (for more details, see Box *Current Account Balance in 2025: Why NBU Is not Afraid of Deficit* on page 34 of the October 2025 Inflation Report). As the security situation improves, the NBU anticipates an inflow of foreign debt capital into the private sector, which will provide financing for imports required for reconstruction needs.

The trade deficit is expected to narrow over the forecast horizon. In 2026, export earnings will increase as the country catches up on exporting both the grain stocks from the previous year and the current year's harvest. In the coming years, stable agricultural export earnings will be sustained by rising crop harvests. At the same time, growth in external demand amid favorable global prices will drive an increase in exports of mining and metallurgical products. In addition, the revival of global economic activity will promote exports of services, particularly in the IT sector. FX earnings will also grow due to the continued development of domestic military production and technology.

Simultaneously, the need to supply the defense sector, scale up domestic military production, and the continued reconstruction of damaged infrastructure will drive an increase in imports of machinery, metals, and chemical products in 2026. The challenging situation in the energy sector will necessitate significant imports of gas, petroleum products, and electricity.

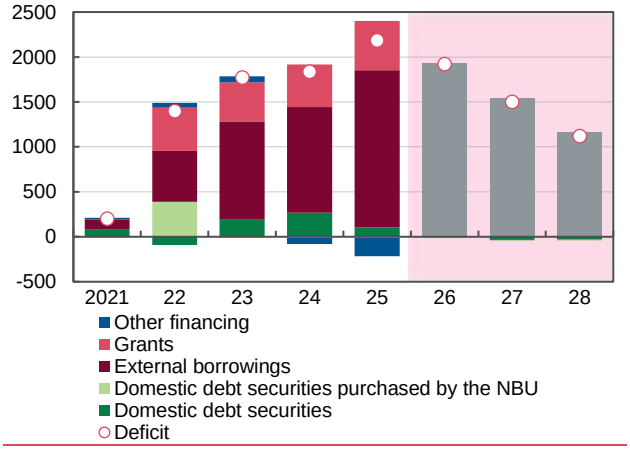
Starting in 2027, imports will begin to contract, primarily due to fiscal consolidation. Repairs and the reconstruction of energy infrastructure will help reduce the need for energy imports. As a result, the private sector's FX deficit will narrow. This deficit will be further reduced thanks to a substantial inflow of investment and debt capital as the security situation gradually improves, and thanks to FX liberalization measures. The supply of FX will also be bolstered by larger remittances from labor migrants as seasonal migration resumes. Additionally, as economic conditions normalize, demand for FX cash is expected to decline. Consequently, international reserves will remain at a high level, exceeding USD 70 billion by the end of 2028.

International financial assistance and domestic borrowing will be sufficient to finance the budget deficit without resorting to monetary financing

Predictable and regular international financial assistance was the main source of financing budgetary needs and the build-up of significant government FX liquidity in Q4 2025.

At the same time, the government borrowed reasonably actively on the domestic market, in both the hryvnia and FX segments. Placements of hryvnia domestic government debt securities remained stable; specifically, UAH 119 billion[23] was raised in Q4, and the rollover rate exceeded 137%. Although placements of FX domestic government debt securities decreased compared to the previous quarter, the rollover rate rose to 110%. As a result, in 2025 the domestic government debt securities rollover rate across all currencies (including exchange auctions) stood at 116%.

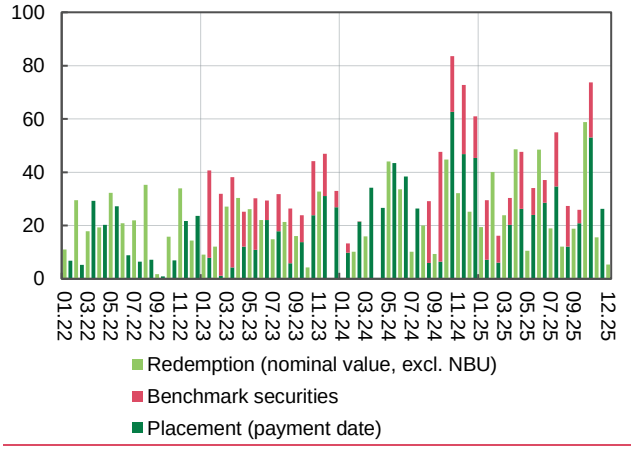
Figure 3.17 Financing* of the state budget deficit (excluding grants in revenues), UAH billions



* Net borrowing. Hryvnia-denominated borrowings include domestic debt securities issued to increase the authorized capital of banks, the Deposit Guarantee Fund (DGF), and other state-owned enterprises. Deficit in 2026–2028 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 3.18. Primary placement* and redemption of hryvnia domestic government debt securities, UAH bn



* 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, 2024 and 2025 for recapitalization of Ukrfinzhytlo and purchase of war bonds by the NBU.

Source: NBU staff estimates.

Demand for government securities was supported by their higher yields compared to other instruments, as well as by investors' desire to fix yields ahead of the expected easing of interest rate policy in 2026.

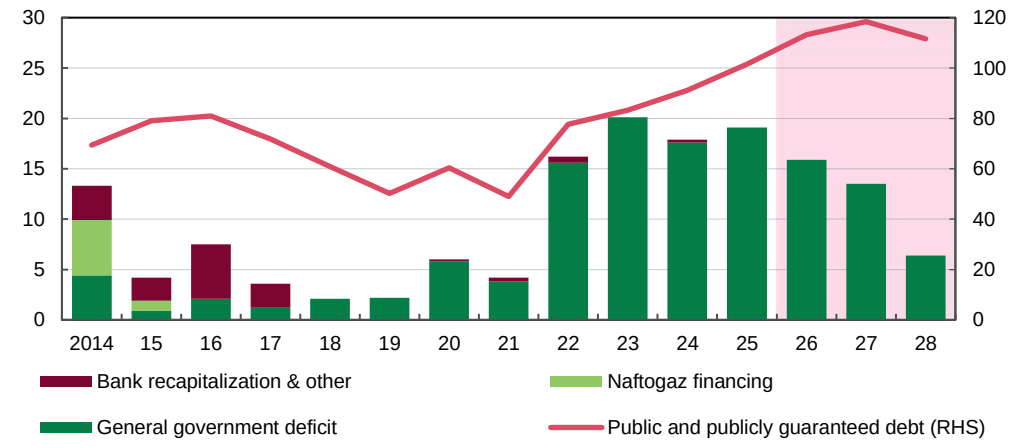
Due to the strong need for maintaining defense capabilities and restoring the economy, the budget deficit will decrease gradually (for more details, see *Economic Developments* on page 20). Consequently, international assistance will remain the primary source of financing these needs. Receiving this aid in a timely and complete manner will require continued cooperation with international partners and the fulfillment of all obligations undertaken by the country. Meanwhile, placements of government securities are expected to be more moderate than in 2025, partly due to the government's aim to reduce debt servicing costs[24] and maintain fiscal space to respond to unforeseen events.

Persistently high budget deficits will remain the key driver of the growth in state and state-guaranteed debt, keeping it at a level exceeding 100% of GDP over the forecast horizon. The restructuring of GDP-linked securities (GDP-linked warrants) conducted in

[23] Figures regarding placements of domestic government debt securities are based on auction dates.
[24] From 2023 through 2025, the share of debt servicing fluctuated between 6.2% and 6.9% of total state budget expenditures (according to functional classification).

late 2025 acted, on one hand, as an additional factor pushing up the state debt[25], while on the other, it significantly improved the predictability of debt payments.

Figure 3.19. Broad public sector deficit, public and publicly guaranteed debt, % of GDP



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

A substantial part of the state debt is considered contingent liabilities, as it arises from loans based on immobilized russian assets. The concessional loan terms from international partners, along with moderate domestic borrowing and prudent domestic debt management, will help reduce pressure on debt servicing costs and enhance the quality of budget liquidity management.

Easing price pressures, supported by NBU monetary policy measures and the reduction of risks related to external financing shortfalls, creates room for a prudent reduction in the key policy rate

In January, the NBU started an easing cycle by cutting the key policy rate by 0.5 pp, to 15%. This decision was driven by the steady slowdown in inflation – including a weakening of underlying price pressures – and a substantial reduction in uncertainty regarding external financing for 2026–2028.

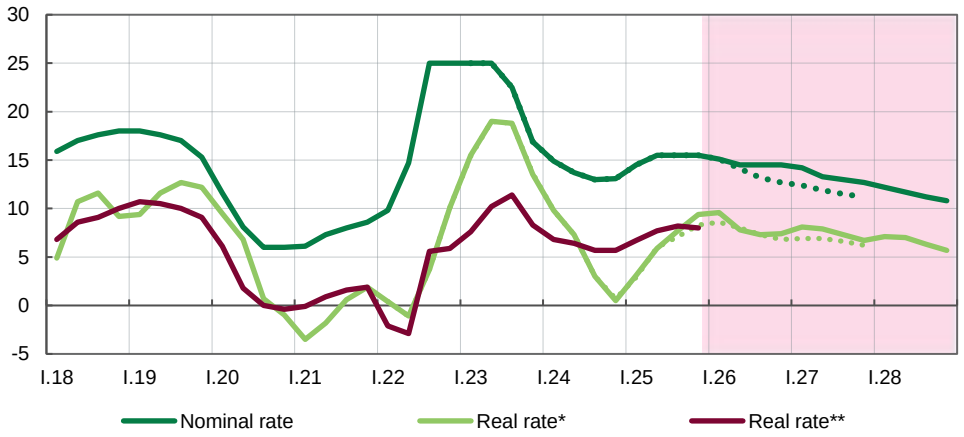
This decision will facilitate the economy's ongoing adaptation to wartime challenges – specifically by supporting lending, which has grown at a rate of over 30% yoy in recent years. At the same time, monetary conditions will remain sufficiently tight to maintain FX market sustainability and bring inflation back toward its 5% target over the policy horizon.

The forecast envisions further cuts in the key policy rate, provided that inflation slows in line with the trajectory outlined in the updated macroeconomic forecast, and that there are no significant adverse shifts in the balance of risks. Under the baseline scenario of the NBU's January macroeconomic forecast, the key policy rate is projected to be reduced gradually to 14.5% in 2026 and to 12.5% by the end of 2027.

The NBU will ease its interest rate policy in a well-considered and gradual manner, given the still-elevated inflation expectations and significant inflationary risks, particularly those stemming from energy shortages.

[25] In December 2025, Ukraine finalized the restructuring of GDP-linked warrants, which involved a full exchange of these derivatives for conventional Ukrainian debt securities (through the issuing of new Eurobonds).

Figure 3.20. Key policy rate, %



* Deflated by model expectations (QPM+). ** Deflated by the expectations of financial analysts.

Source: NBU staff estimates.

As inflation slows and the security situation improves, the NBU will shift toward a more active normalization of interest rate policy. At the same time, the key policy rate will remain relatively high in real terms (5.9% by the end of 2028). Combined with the gradual appreciation of the REER amid the expected economic recovery, this will create the necessary monetary conditions to bring inflation back to its 5% target over the forecast horizon.

The NBU stands ready to respond flexibly to changes in the balance of risks. If risks to price dynamics increase, the NBU will refrain from easing its interest rate policy further, and will be ready to take additional measures if necessary. At the same time, an easing of inflationary risks will signal faster cuts in the key policy rate than projected in the updated macroeconomic forecast.

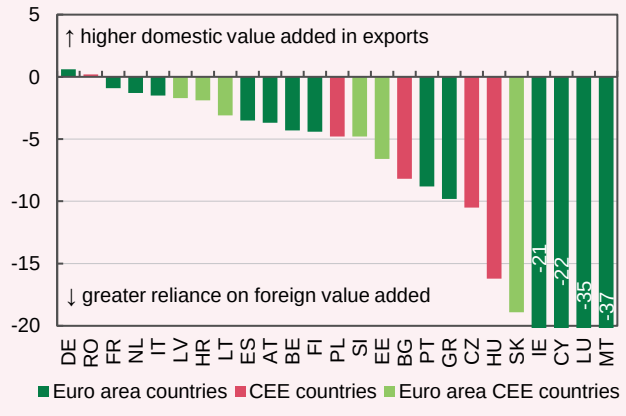
Box 3. Pockets of Monetary Independence in CEE

Despite their close economic and financial ties with the euro area, and the significant impact of ECB policy on financial conditions, the largest CEE countries that are EU members remain outside the economic and monetary union (EMU). For one thing, the disparity in development between these countries and the euro area remains wide enough for a single monetary policy to align with their own economic conditions. At the same time, the weakness of alternative shock adjustment mechanisms, primarily those involving the labor market and fiscal policy, raises risks for macrofinancial stability and economic convergence after these countries enter the euro area. Therefore, the advantages of maintaining monetary independence for these countries currently outweigh the potential benefits of switching to the euro.

Since the beginning of the 21st century, the EU has had three waves of enlargement, resulting in 11 new CEE countries joining the union. According to the terms of membership, all are obliged to adopt the euro as their official currency[26], but so far only seven have done so (Bulgaria did so on 1 January 2026). The largest CEE economies – Poland, the Czech Republic, and Hungary – still have no plans to enter the euro area. In addition to not meeting the formal criteria, these countries mainly want to maintain an independent monetary policy and use the exchange rate as a tool for absorbing economic shocks. In contrast, in Romania, the postponement of the transition to the euro is primarily related to difficulties in ensuring fiscal discipline[27].

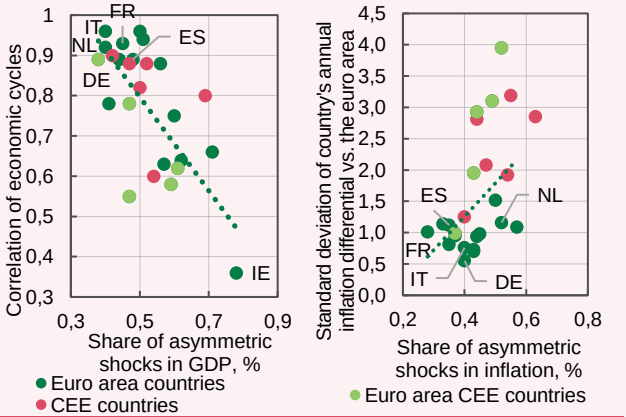
The abandonment of one's own currency in favor of joining the EMU, according to the theory of optimal currency areas (OCA), involves a trade-off between macroeconomic flexibility and microeconomic efficiency (Krugman, 1993). The latter entails lowering transaction costs, reducing FX risk, and accessing a broader capital market, which fosters foreign investment inflows and expansion of trade within the currency area. Although it is quite difficult to quantify this impact, particularly in the context of the European integration process of the CEE countries, the additional growth in trade with other euro area countries alone may range from 4%–6% to 15%–20%, depending on the estimation method and category of goods (Gunnella et al., 2021). Furthermore, in countries with a floating exchange rate, the transition to the euro contributed more significantly to an increase in exports (Lalinsky and Merikull, 2018).

Figure 1. Positions of selected EU countries in global value chains in 2020



The positions of Ireland, Cyprus, Luxembourg, and Malta reflect their roles as financial centers rather than production linkages.
Source: OECD TiVA, NBU staff estimates.

Figure 2. Shares of asymmetric shocks in GDP and inflation in CEE countries and the euro area, 2004–2025*, %



* The methods used to estimate the respective indicators are described in the notes to the main text.
Source: Eurostat, NBU staff estimates.

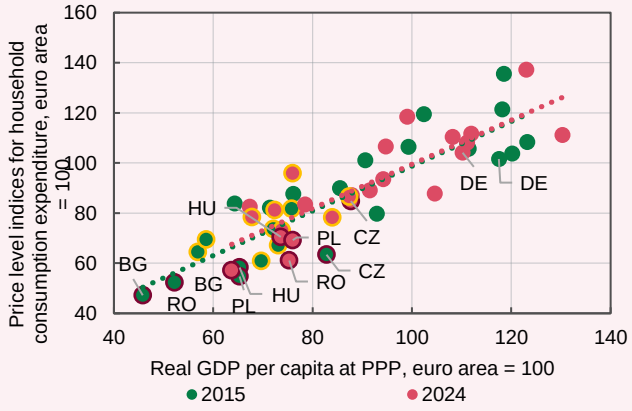
[26] Among EU countries, only Denmark has an officially formalized opt-out from adopting the euro.
[27] According to the recollections of the Governor of the National Bank of Romania, ten years ago, when his country had a real opportunity to begin preparations for joining the euro area, there was no political will to keep the budget deficit within 3% of GDP, given the relatively low level of public debt (in 2014, it was only 39% of GDP, which was more than 20 pp below the Maastricht criterion). Currently, the fiscal consolidation plan envisages a deficit of around 6% of GDP in 2026 and its gradual reduction to 5% of GDP by 2030, as well as an increase in public debt to 70% of GDP. At the same time, the Deputy Governor of the National Bank of Romania expressed his conviction that the country must return to the path of euro adoption as soon as possible.

The growth in trade within the EU has historically been accompanied by the integration of CEE countries into European supply chains. This facilitated the synchronization of economic cycles between countries (Duval et al., 2016), as the CEE countries primarily hosted the later and more labor-intensive production stages with a relatively higher share of value added produced in other countries. In addition, industry and trade, the share of which in the structure of CEE economies exceeds the average in the euro area, made the primary contribution to the convergence of cycle dynamics (Palenzuela et al., 2024; Battistini and Gareis, 2024). However, asymmetric shocks[28] play a relatively larger role in the GDP and inflation of CEE countries, which undermines the effectiveness of a common monetary policy due to a weaker correlation of economic cycles[29] and higher volatility of inflation[30].

Income convergence in CEE countries toward the European average will exert additional inflationary pressure. At the same time, this pressure might be partially neutralized by nominal exchange rate appreciation. The narrowing of the gap between CEE countries and the euro area in terms of real GDP per capita by an average of almost 11 pp in 2015–2024 was accompanied by a commensurate (13 pp) narrowing of the difference in price levels for consumer goods and services. In the event of euro adoption, continued real convergence, particularly due to faster productivity growth, will lead to higher inflation, which will be the sole channel of nominal convergence. Still, as effects from technology adoption and integration into supply chains are exhausted, the impact of convergence on inflation in CEE countries may become more moderate.

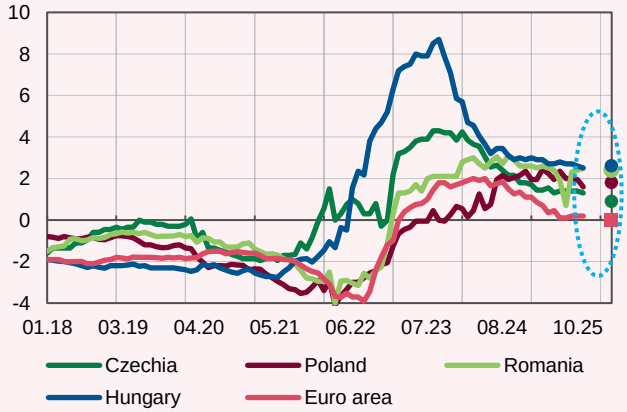
Differences in productivity also lead to discrepancies in long-term neutral rate levels between countries (Platzer et al., 2022; Bielecki et al., 2024). Taking into account expected inflation deviations from the average in the euro area, the nominal neutral rate in CEE countries may be 1–2.5 pp higher. Accordingly, to avoid excessive fluctuations in economic activity (Brzoza-Brzezina et al., 2010), these countries require a higher nominal key policy rate level than in the euro area.

Figure 3. Relative real GDP per capita at PPP and price level of household consumption expenditure, euro area = 100



CEE countries in the euro area are circled in yellow; those outside are circled in burgundy. Luxembourg and Ireland are excluded.
Source: Eurostat, NBU staff estimates.

Figure 4. Real ex-ante* key policy rates and their neutral levels, %**



* Adjusted for 12-month-ahead inflation expectations.
** Average estimate based on several studies published in 2017–2025.
Source: Official webpages of CBs, Consensus Economics, NBU.

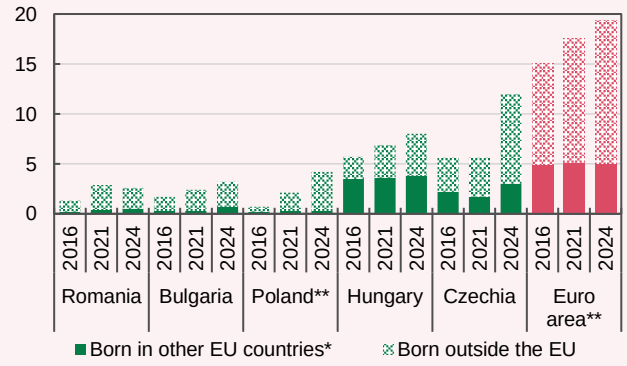
Differences in monetary transmission may also weaken the impact of ECB rates. Earlier studies indicated shorter lags[31] and weaker transmission due to the underdeveloped financial sector, greater openness of economies, and lower trust in institutions. However, due to the long-standing implementation of inflation targeting (in particular, for more than 20 years in CEE countries), transmission in advanced economies and

[28] Asymmetric shocks include not only country-specific ones, but also initially symmetric common shocks that affect the country and the euro area (or the rest of the euro area) in the opposite direction (Kunovac et al., 2022). The contributions of the respective shocks are calculated using the historical shock decomposition of the BVAR model described by Deskar-Škrbić and Kunovac (2020) and estimated for the period of 2004–2019.
[29] Here it is represented by the GDP gap estimated using the Hodrick-Prescott filter with parameter $\lambda = 1600$. The correlation was calculated for the period from Q1 2004 to Q2 2025.
[30] The standard deviation of the difference between the annual inflation in the respective country and the euro area (or the rest of the euro area) in 2004–2025.
[31] 10–20 months in the new EU member states versus 25–50 months in advanced economies (Havranek and Rusnak, 2012).

EMs currently differs very little when the exchange rate channel is taken into account (Brandao-Marques et al., 2020; Deb et al., 2023; Checo et al., 2024). The latter played a relatively larger role in the small open economies of CEE than in the euro area[32]. In contrast, the reaction of bank rates to changes in the key policy rate, particularly during the 2021–2023 tightening cycle, was commensurate (Beyer et al., 2024). Although the size of the financial sector and the level of private sector debt in CEE countries were smaller, banks remained the primary financial intermediaries in both groups of countries[33], and concentration in the banking sector was slightly lower than the EU average, which improved transmission.

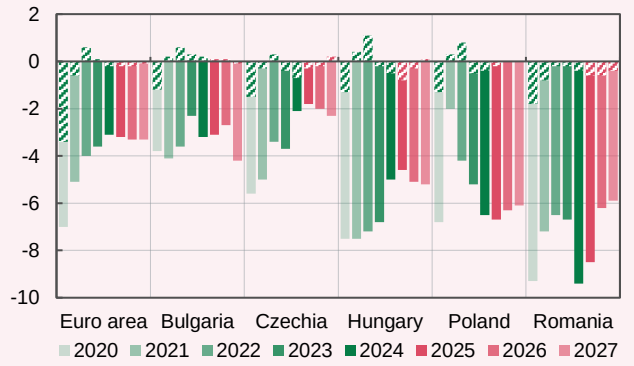
At the same time, alternative mechanisms for adjusting to asymmetric shocks in the CEE countries are quite weak. Given the downward wage rigidity in both nominal and real terms (Babecky et al., 2010), one such mechanism could be the mobility of production factors, primarily labor (Mundell, 1961). However, in the EU, it remains insignificant: while in the United States over 37% of the working-age population originated from other states, in the euro area about 5% came from other EU countries, and in CEE, this figure ranged from 0.3% to 3.8%. Although weak intra-EU migration was partially offset by migration from third countries, during the first year, mobility absorbed only 25% of the asymmetric labor demand shock, whereas in the United States, this percentage was almost twice as high (Arpaia et al., 2016). Consequently, this led to more prolonged employment adjustments and persistent discrepancies in unemployment levels between countries. An additional problem may be the social aspects of migration, which would make it less politically acceptable compared to the depreciation of the national currency.

Figure 5. Share of migrants in the total population, %



* For 2016, data include the United Kingdom. ** For Poland and Slovakia, persons granted temporary protection were added manually.
Source: Eurostat, NBU staff estimates.

Figure 6. Budget deficit, cyclical and cyclically adjusted components, % of potential GDP



The cyclical component is hatched. Data for 2025–2027 are the European Commission forecast (November 2025).
Source: European Commission.

Another instrument for adjusting to asymmetric shocks could be a fiscal policy common to the entire currency area (Kenen, 1969). Until the EU forms a fiscal union, this mechanism depends on the effectiveness of automatic stabilizers and the space for countercyclical fiscal policy at the national level. However, conducting the latter usually faces challenges; therefore, in 1999–2015, in more than half of the cases, fiscal policy in the euro area countries was procyclical, particularly during the debt crisis (Eyraud et al., 2017). With public debt close to or above the Maastricht criterion of 60% (except in the Czech Republic), there is increasingly limited fiscal space in CEE countries to respond to asymmetric shocks. Furthermore, the effectiveness of automatic stabilizers in CEE countries has generally been worse than the EU average (Mohl et al., 2019).

Thus, CEE countries outside the euro area are already largely integrated into its supply chains and trade; therefore, they see limited additional benefits from transitioning to the euro. Instead, the primary risks lie in the loss of conventional shock adjustment mechanisms – independent monetary policy and a floating exchange rate – amidst the

[32] For example, in Poland, the exchange rate channel accounted for about 47% of the change in headline inflation, and 25% of core inflation (Greszta et al., 2023).
[33] Except for Hungary and a number of euro area countries (Cyprus, Luxembourg, Malta, and the Netherlands), where over 40% of assets were held by captive financial institutions. In Hungary, these companies were established to lend to intra-group companies and to optimize taxation.

weaker synchronization of cyclical fluctuations and the continued convergence of prices and wages toward the EU average. Consequently, despite having comparable or better convergence indicators than other CEE countries at the time of their entry into the euro area, Poland, the Czech Republic, and Hungary fear that such a step might be premature. Furthermore, only in Hungary and Romania does the majority (over 70%) of the population support a transition to the euro, while in the Czech Republic and Poland, it is supported by less than 50%.

Part 4. External Assumptions

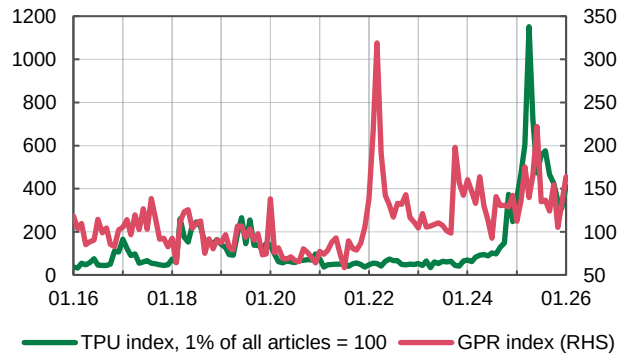
- Economic growth in Ukraine's MTPs will gradually accelerate due to an increase in government spending, particularly on defense, and in private investment – as well as a pickup in lending. Private consumption will remain robust, despite the cooling of labor markets.
- Decreased mismatches in labor markets will contribute to a decline in external inflationary pressures: in most of Ukraine's MTPs, inflation will return to target levels.
- Terms of trade will gradually improve for Ukraine thanks to lower energy prices amid the stabilization of prices for most major export goods.

Economic growth in Ukraine's MTPs will pick up thanks to an increase in government spending and private investment

The economies of Ukraine's MTPs have adapted better than expected to increased protectionism and new terms of trade. Leading indicators show that economic growth is stabilizing in most partner countries, albeit at a relatively low level due to still-high geopolitical uncertainty and increasing trade fragmentation. Manufacturing indicators weakened in December due to a slowdown in new orders and inventory sell-offs, but overall in Q4 they remained at levels consistent with a moderate expansion of production. Growth in the services sector remained stable, and the level of business confidence held firm. However, the retention of high trade tariffs between the United States and third countries, including the EU, and the intensification of geopolitical risks at the end of 2025 are continuing to hamper investment activity and restrain external trade.

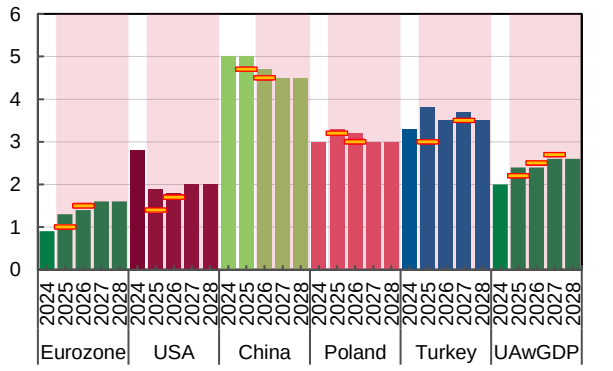
Growth in the economies of Ukraine's MTPs is expected to pick up in 2026–2027 and remain stable in 2028 thanks to a moderate increase in real income, which will support private consumption, the easing of financial conditions, and fiscal stimuli – including spending on defense and infrastructure projects.

Figure 4.1. Trade Policy Uncertainty index (based on textual analysis of news) and Geopolitical Risk index



Source: Matteo Iacoviello webpage.

Figure 4.2. Real GDP of selected countries and weighted average of annual GDP growth in Ukraine's MTP countries (UAwGDP), % yoy



- previous forecast
Source: National statistical offices, NBU staff estimates.

The economies of the euro area and CEE countries will continue to grow on the back of consistently high performance in the services sector and a gradual recovery in manufacturing. The latter will be supported by exporters' further adaptation to new terms of trade amid elevated government spending on infrastructure and defense, as well as the utilization of EU funds within the 2021–2027 financial programs. Fiscal stimulus will also help boost investment, while consumption will be supported by a resilient labor market, despite some signs of cooling.

Economic growth in the United States will remain relatively steady against the backdrop of a low unemployment rate and an increase in household income. Increased

productivity due to the start-up of new high-tech businesses, particularly those using AI, and larger exports because of the displacement of russia, primarily from the energy markets, will also prop up economic growth.

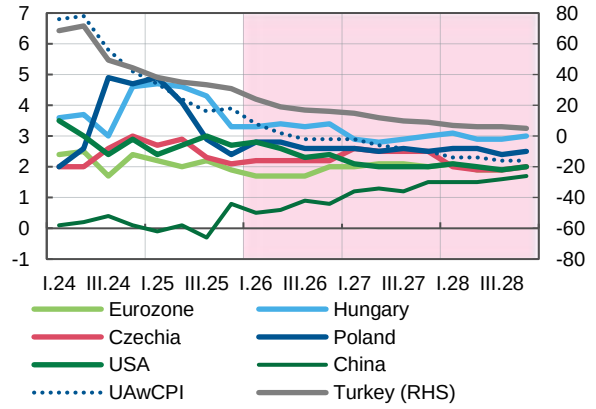
China's GDP growth will stabilize in the long term at 4.5% per year. This will be facilitated by the easing of fiscal and monetary policies amid the diversification of export markets and a high level of investment in AI and other emerging technologies. However, faster growth will be hindered by several factors: intensifying confrontation with the United States, a weak labor market, a prolonged downturn in the real estate sector, and limited domestic demand.

Decreased mismatches in labor markets will contribute to a decline in external inflationary pressures: in most of Ukraine's MTPs, inflation will return to targets

In Q4, inflationary pressure from Ukraine's MTPs stabilized at the level of the previous quarter: the effects of price pass-through from wage increases, primarily in the services sector, were offset by lower energy prices and a slowdown in food price growth.

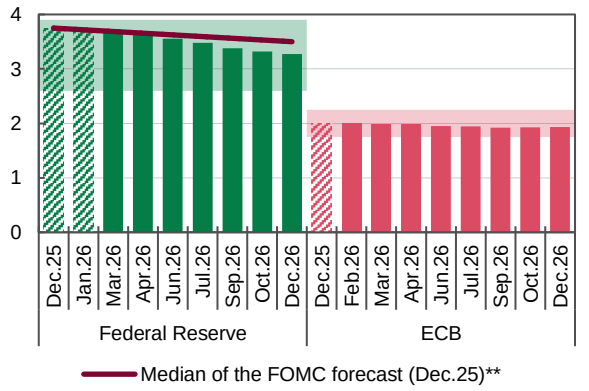
External inflationary pressure on the Ukrainian market is expected to gradually decrease. This will be facilitated by smaller mismatches in labor markets, central banks' cautious monetary policies, and lower U.S. dollar volatility on the global financial markets. Accordingly, in most of Ukraine's MTPs, inflation will return to targets. At the same time, in China, it will remain low due to a slowdown in economic growth.

Figure 4.3. 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.

Figure 4.4. Market expectations (according to OIS) of key policy rates* on the respective meeting dates, %



* For the Fed – upper limit of the target range, for the ECB – deposit rate. Ranges of the Fed long-term rate and the ECB neutral rate are shown as a transparent band. As of 30 January 2026.
** Projections unchanged from September 2025.
Source: Bloomberg, official webpages of the Fed and ECB.

In the United States, both headline and core inflation have decreased significantly from the peaks of mid-2022. However, this progress has slowed over the past year, so inflation still remains higher than the target. The decline in services inflation was offset by rising prices for staple goods, partially reflecting the effects of higher trade tariffs. Short-term inflation expectations are still elevated, although they are slowly declining. At the same time, most indicators of long-term inflation expectations are close to the target. Inflation in the United States is expected to drop to its target in mid-2027. Therefore, risks for Fed policy remain shifted from inflation toward employment due to the cooling of the labor market. As a result, in December, the Fed lowered the target range for its rate for the third consecutive time by 25 bp, to 3.5%–3.75%. According to the December forecast, FOMC members, as in September, expect one 25 bp reduction in the target range in 2026 and another in 2027, with the level of 3.1% to be kept unchanged in 2028 (median expectations). Meeting its own projections in January 2026, the Fed maintained its target rate range and will continue to adjust the forecast and balance of risks to determine the extent and timing of adjustments to the target range.

Headline inflation in the euro area remains close to its 2% target level, while core inflation is higher due to pressure from wage growth. However, long-term indicators

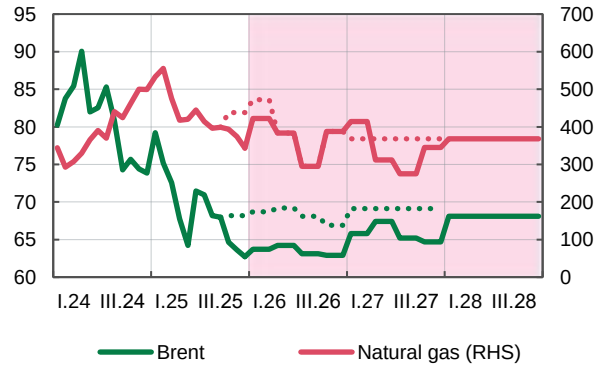
suggest a likely slowdown in wage growth in the coming quarters, with further stabilization by the end of 2026. This confirms there is a high probability of inflation becoming firmly anchored within the target in the medium term. Accordingly, following a cumulative rate cut of 200 bp since June 2024, the ECB, as expected, kept rates unchanged (deposit rate at 2%) in December for the fourth consecutive time. According to ECB representatives, rates are currently at a neutral level.

Despite the gradual narrowing of the spread between the Fed and ECB rates, in Q4 2025, the U.S. dollar strengthened against the euro amid decreasing trade uncertainty and optimism regarding the state of the U.S. economy. As a result, during certain periods, the U.S. dollar fell below the level of USD 1.15 per euro. However, in January 2026, a further intensification of geopolitical risks and political pressure on the Fed led to a depreciation of the U.S. dollar to the level of USD 1.19 per euro. The expected narrowing of the spread between the Fed and ECB interest rates, as well as the still elevated level of unpredictability in the United States' trade and geopolitical positions, may stimulate a shift in capital flows to other regions, particularly Europe, and a further depreciation of the U.S. dollar against the euro. At the same time, the ECB's concerns over the euro's current rapid appreciation could limit exchange rate adjustments.

Terms of trade will improve for Ukraine thanks to lower energy prices amid the stabilization of prices for most major export goods

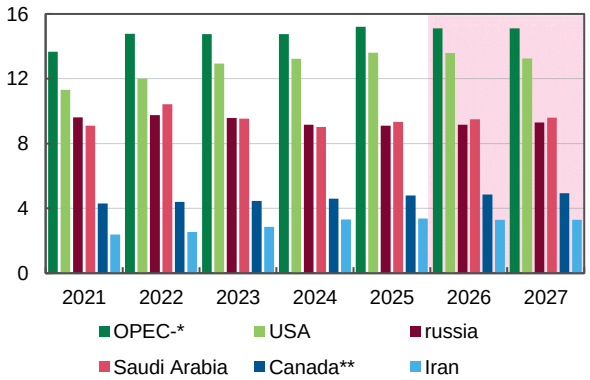
Global crude oil prices will remain relatively low, although they will rise slightly over the forecast horizon. The expected supply surplus in 2026 will be driven by the accelerated ramp-up of production by non-OPEC+ countries – in particular the United States, Canada, Brazil, and Guyana – as well as by the gradual easing of sanctions on Venezuelan oil. At the same time, global demand will grow at a moderate pace given the relatively slow recovery of economic growth in certain countries, notably in Europe. In subsequent years, the recovery of economic activity and the need for countries to replenish their stocks, primarily in the United States, will stimulate a gradual increase in oil prices.

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



Source: World Bank, LSEG, NBU staff estimates.

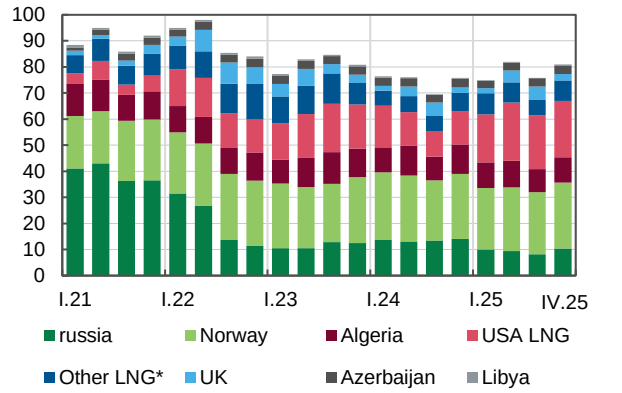
Figure 4.6. Crude oil production, million barrels per day



* OPEC excluding Saudi Arabia and Iran.
** Data for 2025 is an estimate.
Source: U.S. Energy Information Administration, Canadian Centre for Energy Information; 2026 and 2027 – NBU staff estimates.

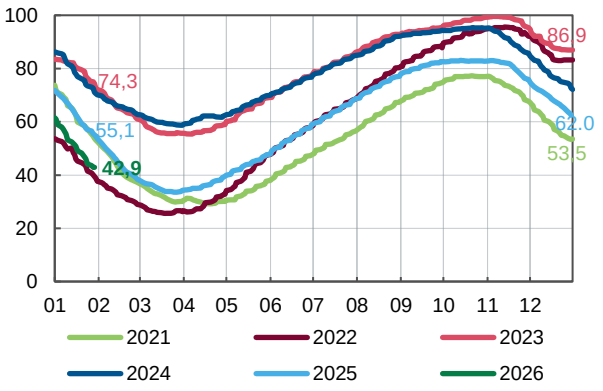
Natural gas prices on the European market will gradually decline. In 2026, natural gas demand will be higher both from Europe, due to more significant storage replenishment needs than in previous years, and from Asian countries, whose economies will grow dynamically. At the same time, higher demand will be met by increasing LNG production, primarily thanks to the deployment of large new projects in the United States, as well as the growth of renewable energy production in Europe. In subsequent years, the natural gas market in Europe will be relatively balanced.

Figure 4.7. EU quarterly imports of natural gas by origin, bcm



* LNG excluding russia, the USA, Norway, and Algeria.
Source: Bruegel based on ENTSOG, GIE, and Bloomberg.

Figure 4.8. Filling level of gas storage facilities in the EU in the corresponding year, %

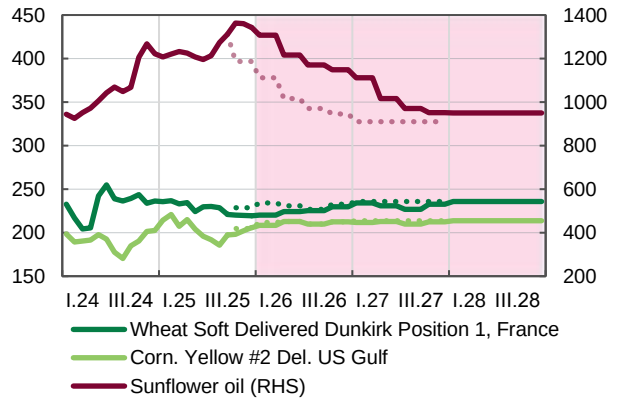


Source: LSEG, as of 29 January 2026.

After a short-term rise due to low stocks, global wheat and corn prices will fluctuate sideways. A significant increase in global production is expected in MY 2025/26 due to larger harvests in global exporting countries, including Australia, Argentina, and the United States. At the same time, global consumption will also grow from both animal farming (primarily in China) and bioethanol producers (particularly in Brazil), as well as the need to replenish stocks in several countries. As a result, the market will be relatively balanced.

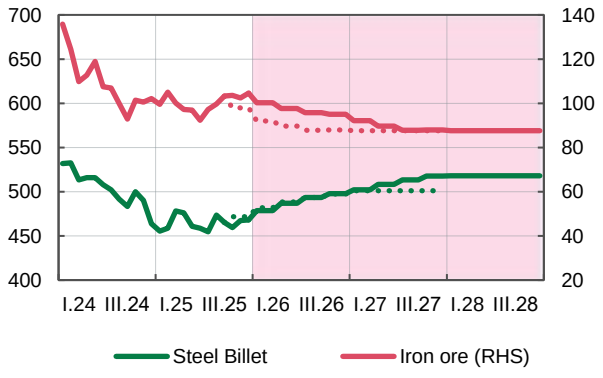
Sunflower oil prices, despite a slight decline influenced by lower prices for related oils, particularly soybean oil, will remain relatively high. This is due to limited supplies of Ukrainian sunflower oil following russia's strikes on Ukraine's oil extraction plants and Black Sea port infrastructure and against the backdrop of a lower harvest gathered in MY 2025/26. An additional factor is the USDA's downward revision of the forecast for global sunflower oil production and stocks against a backdrop of robust consumption, which will have a negative impact on price formation in subsequent years.

Figure 4.9. World prices for selected grains and sunflower oil, USD/MT



Source: World Bank, LSEG, NBU staff estimates.

Figure 4.10. World steel and iron ore prices*, USD/MT



* Steel Billet Exp FOB Ukraine and China import Iron Ore Fines 62% FE spot (CFR Tianjin port).
Source: World Bank, LSEG, NBU staff estimates.

Iron ore prices will slowly decline under pressure from increased supply by both major producers (Australia [specifically from Australian-led projects in Guinea] and Brazil) and smaller players like India and China. At the same time, price levels will remain relatively high against the backdrop of decarbonization policies. Steel prices, particularly in Europe, will gradually rise on the back of a recovery in consumption by industry and construction amid increasing costs for production decarbonization. An additional factor will be the export licensing system introduced by China, which will lead to an increase in the price of Chinese steel.

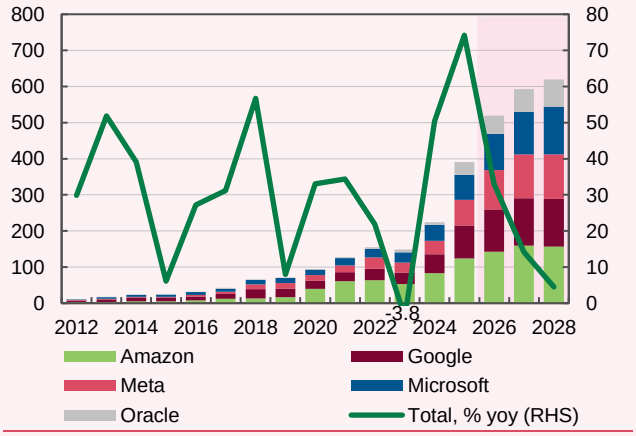
Box 4. Optimism about AI: Growth Driver or Economic Risk?

The rapid increase in the capitalization of U.S. companies engaged in the development and deployment of artificial intelligence (AI) technologies has sparked concerns among market participants, international financial institutions, and regulators about the formation of a speculative bubble in the United States stock market. If market expectations regarding AI deployment prove to be overblown, the consequences could threaten the stability of global financial markets and the sustainability of economic growth worldwide. The direct impact of a potential crisis on Ukraine's FX market, financial system, and economy would likely be limited. However, second-round effects would be more pronounced and, under certain circumstances, would require a monetary policy response from the NBU.

Although AI technologies, including large language models (LLMs), have existed for some time, they became particularly widespread with the emergence of the ChatGPT chatbot in late 2022, which intensified competition in this market. Several studies independently estimate a rather sizable impact of mass AI adoption on productivity growth in the United States. The potential benefits for many economic sectors have piqued investor interest significantly. Specifically, the share prices of seven U.S. technology companies (the "Magnificent Seven"[34]) rose cumulatively by nearly 330% in 2023–2025. In contrast, the rest of the S&P 500 index increased by only around 50% over the same period, which was consistent with the dynamics of other global stock indices.

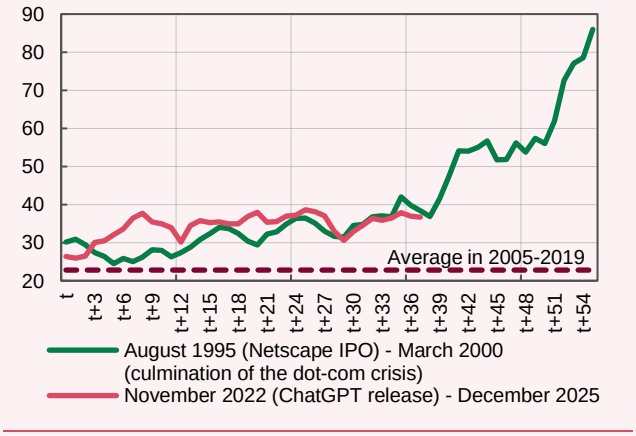
At the same time, substantial uncertainty remains regarding the ultimate size of the AI market, the timing of its commercialization, and the list of leading companies. Further investment growth at AI companies, particularly in data center construction, among other things, is increasingly being financed through debt, which is causing significant investor concern. Additional doubts relate to potential infrastructure constraints in equipment usage, specifically electricity shortages, and the stated useful life of such equipment, especially for newly introduced components. Another challenge is the circular nature of investment flows among AI companies, which may bias their valuations. As a result, fears have grown among many market participants of a possible recurrence of the late-1990s dot-com crisis, which led to a sharp stock market correction and a slowdown in economic growth in the United States from an average of 4.3% in 1996–2000 to 1.0% in 2001.

Figure 1. Capital expenditures of selected cloud service providers, including for AI-related purposes, USD billions



Source: Bloomberg, NBU staff estimates.

Figure 2. Price-to-earnings (P/E) ratio of the NASDAQ-100 index, by month since the hypothetical start of the "bubble"



Source: LSEG.

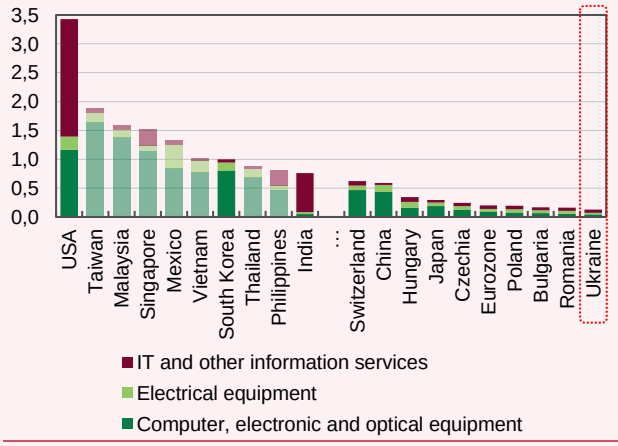
[34] The index consists of seven companies – Apple, Microsoft, Amazon, Alphabet, Tesla, Nvidia, and Meta – which are also members of S&P 500. It covers several of the most influential companies in the AI sector, but not all; for instance, Oracle and Palantir are not included.

However, the current situation differs from the previous dot-com bubble in several respects. The largest technology companies generate stable cash flows, which currently primarily finance their investments, and also have established business models beyond AI. Furthermore, valuations of NASDAQ-100[35] companies remain significantly lower than in the late 1990s. That is why international financial institutions, such as the IMF, along with central banks like the Fed and the Bank of England, currently view these risks as only moderate.

At the same time, some studies indicate mixed business outcomes from AI adoption, while further model improvements may require increasingly large outlays. Against this background, a loss of investor confidence in the commercial success of AI projects could lead to a substantial correction in technology stocks and major stock indices. This correction could once again affect the U.S. economy most, given the large share of stocks in households' assets (about a quarter), making consumer demand sensitive to stock market fluctuations. Furthermore, AI-related investments across various sectors contributed 0.6 pp to real GDP growth (2.1% yoy) in the United States in Q1–Q3 2025. Economic activity could also slow markedly in certain Southeast Asian countries, where the production facilities of companies involved in the supply chains for AI infrastructure development are concentrated.

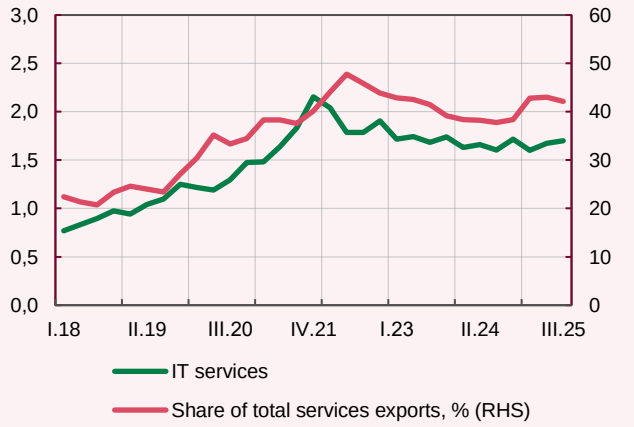
For other countries, including Ukraine, the consequences will be primarily indirect, transmitted through tighter financial conditions and weaker external demand. Specifically, the share of Ukrainian value added absorbed by the U.S. IT sector directly and via third countries accounts for only 0.13% of GDP. At the same time, a global downturn in the technology sector, potentially driven by the deteriorating financial position of international IT companies, could adversely affect Ukraine's IT services exports. This might weaken one of the stable FX inflow channels (USD 6.8 billion, or 12.6% of total goods and services exports in 2025), reduce tax revenues to the budget, and dampen consumer demand.

Figure 3. Share of GDP in selected countries dependent on demand from the U.S. IT sector*, %



* Both directly and through exports via third countries.
Countries that are not Ukraine's MTPs are shown in semi-transparent shading.
Source: OECD TiVA, NBU staff estimates.

Figure 4. Exports of IT services from Ukraine, USD billions



Source: NBU staff estimates.

A moderate slowdown in economic activity in Ukraine's MTP countries, most of which are currently moderately engaged in AI development, and a subsequent decline in external demand for Ukrainian-made goods would also weigh on other export sectors, in particular metallurgy and machine building. An additional transmission channel could be labor market developments in the countries hosting Ukrainian refugees and migrant workers. Rising unemployment among these population groups would lower remittance

[35] The NASDAQ-100 is an index of the 100 largest non-financial companies by market capitalization listed on the Nasdaq exchange. The share of technology companies in the index currently exceeds 60%, with the "Magnificent Seven" companies (Nvidia, Apple, Microsoft, Amazon, Tesla, Meta, and Alphabet) carrying the heaviest weight. In the 1990s, it was this index that was significantly affected by the dot-com bubble – after nearly fivefold growth in 1998–2000, it decreased by almost the same amount over the following two years.

inflows to Ukraine, constraining the supply of foreign currency in the domestic market and weakening consumer demand. However, these effects will be limited. In particular, the share of IT specialists, account for no more than 5% of migrants, according to SEIS and NBP surveys.

Conversely, reduced investment in AI and related infrastructure could lead to lower prices for certain commodities, in particular energy. According to IEA estimates, electricity consumption by data centers will more than double by 2030 relative to 2024. While their share of total consumption will remain modest (at around 3%), about 40% of the additional electricity demand from data centers will be met by natural gas and coal. Therefore, fewer new AI facilities could contribute to lower energy prices. On the one hand, this would limit export revenues for russia, while on the other, it would help improve the trade balance of Ukraine, which primarily imports energy resources. Furthermore, through the corporate cost channel, this would support a decline in consumer inflation across a wide range of goods and services.

The potential direct impact of a correction in major stock indices on Ukraine's financial system would also be negligible. Ukraine remains weakly integrated into the global financial markets, and economic agents have limited access to both technology stocks and related financial instruments.

However, Ukraine could face second-round effects through tighter financial conditions and shifts in global capital flows. Macroeconomic imbalances in the United States following a stock market decline could weaken the U.S. dollar against other major currencies, particularly the euro. The appreciation of the euro, in turn, would raise prices of imported goods from Europe and slow disinflation in Ukraine. At the same time, external inflationary pressure would ease over the medium term. This will be supported, in particular, by the likely ECB interest rate adjustments in response to the significantly stronger euro.

Furthermore, in the event of substantial direct or indirect (through non-bank institutions) losses on loans to AI companies, the risk premium would also rise beyond stock markets, specifically for corporate bonds. Tighter financial conditions and the possible budget expenditures reallocation toward maintaining financial stability could reduce the capacity of partner countries to support Ukraine. Even if the total volumes of declared assistance are maintained, delays in its disbursement could complicate fiscal planning. Any funding shortfalls would require a search for alternative financing sources, which could undermine macro-financial stability and necessitate a monetary policy response.

Part 5. Risks to the Forecast

- The war is grinding on. russian aggression continues to pose threats to price dynamics and economic activity. Over the past few months, the risks associated with damage to energy infrastructure have largely materialized and intensified, increasing pressure on companies' costs and limiting their production capacity.
- Other war-related risks remain high: the emergence of additional budgetary needs to ensure defense capabilities and infrastructure restoration, as well as the deepening of negative migration trends. Risks of insufficient and/or irregular inflows of international financing have subsided, yet remain significant.
- At the same time, the potential for upside scenarios remains, including bolstered military and financial support from partners and substantial progress in securing a just and lasting peace for Ukraine.

As before, the main risk to the forecast lies in the duration and intensity of the full-scale war

The NBU assumes a gradual improvement in the security situation and the return of the economy to normal functioning conditions in the coming years. Conversely, a continuation of high intensity war could further reduce Ukraine's economic potential, specifically through the loss of people, territories, and production facilities, and will also put pressure on public finances. At the same time, the probability of upside scenarios remains, particularly those related to the efforts of Ukraine and the international community to achieve peace quickly. An improvement in the security situation would have a significant positive impact on economic growth prospects, facilitate the normalization of the energy sector, and create preconditions for the return of some migrants.

The intensification of air attacks on energy facilities and ports is exacerbating the risks of a further deterioration of the energy situation and export logistics

As a result of the intensification of russia's air attacks on Ukrainian energy infrastructure amid a cold winter, the electricity deficit has increased significantly, and there is an increasing need for the prompt restoration of damaged facilities and the construction of new protected distributed generation facilities. In the event of further destruction, the electricity deficit would increase substantially, which would have an additional direct negative impact on GDP dynamics through lower energy production, as well as an indirect impact through limited energy supplies to households and businesses. Due to power supply interruptions, enterprises' production costs would rise, particularly on ensuring backup energy generation, and imports of fuel and electricity would increase, putting additional pressure on the exchange rate and inflation. The decrease in consumer demand due to electricity outages would offset these effects, but only partially.

Due to damage to port infrastructure, the export of grain crops and ore is being delayed, and export revenues are declining accordingly. In the baseline scenario, a gradual improvement in port operations is expected starting from Q2, which would facilitate an increase in grain exports. However, in the event of further infrastructure damage or the impossibility of its prompt restoration, export proceeds would be lower than forecast. Coupled with the increase in imports of energy resources and energy equipment, this would exert pressure on the FX market and, consequently, on prices. The prolonged persistence of logistical constraints and elevated risks to exports might restrain agricultural production, specifically through a reduction in sown areas resulting from a decline in expected profitability.

Risks of a wider budget deficit persist due to increased spending on defense capabilities and restoration

The NBU forecast assumes a gradual fiscal consolidation over 2026–2028, although budget deficits will remain relatively high. However, there is a significant risk of

expanding budget needs for defense capabilities and infrastructure restoration, including in the current year. This will significantly increase pressure on public finances, given the limited internal resources and the lack of room to optimize other budget expenditures.

If international assistance is received in the volumes envisioned in the NBU forecast, the government will have room to expand the budget deficit in 2026, specifically to the level of the previous year (as a percentage of GDP). At the same time, more substantial budget needs would require the more active mobilization of resources in the domestic debt market. Higher budget deficits would raise risks to price dynamics. In these circumstances, the NBU would refrain from easing its interest rate policy further, and would be ready to take additional measures as required.

Risks of insufficient and/or irregular inflows of international financial assistance have subsided, but still exist

The baseline scenario of the forecast assumes the continued stable and sufficient international financing of Ukraine's budgetary needs, as well as the approval of a new cooperation program with the IMF (read more in the section *Monetary Conditions and Financial Markets* on page 31).Ukraine will also continue to be supported under the existing ERA Loans mechanism. Thanks to the EU Council's decision to provide Ukraine with EUR 90 billion in financial assistance in 2026–2027 (USL, Ukraine Support Loan), the risks of insufficient financing have decreased, although they remain significant, especially if budgetary needs rise. Under such a scenario, Ukraine will have to take a set of measures to mobilize budget revenues, reduce non-priority expenditures, and increase market borrowing. If this proves insufficient, the risk of activating the "last line of defense" measures will rise, specifically monetary financing of the budget deficit, which could negatively affect inflationary processes and would require the NBU to conduct a tighter interest rate policy.

At the same time, it is still probable that partners will step up their military and financial support, including extra-budgetary financing for weapons production.

The difficult security situation and migrants' further adaptation to living in other countries continue to pose significant risks to the labor market

The baseline forecast scenario assumes a reversal of negative migration trends in 2027–2028. At the same time, a worsening of security situation and the further adaptation of Ukrainians to living abroad might slow the expected return of Ukrainians home. Recent studies indicate an increase in the economic activity and employment of Ukrainian migrants in Poland and Germany. Research has also recorded a higher level of skills in the host country's language compared to previous surveys. In most EU countries, programs to facilitate the adaptation of Ukrainian migrants remain in effect, which reduces the likelihood of their return to Ukraine. A deterioration in migration trends would increase labor shortages and reduce the number of domestic consumers. The labor shortage could be alleviated by a faster normalization of economic conditions, increased investment, and job creation, as well as government policies aimed at encouraging migrants to return.

A separate risk to the forecast is significant fluctuations in food supply volumes due to sharp changes in weather conditions, which may cause the inflation trajectory to deviate significantly from the forecast

Changes in weather conditions and their impact, particularly on energy consumption and the volatility of crop harvests, are among the risks to the forecast. A decrease in the profitability of agricultural production resulting from a worsening of the security situation may also have a negative impact on agriculture. A decline in the supply of agricultural raw inputs would create inflationary pressure, given the high weight of the food component in the CPI. At the same time, an increase in investment in adaptive technologies, which would be possible if the investment climate improves, would contribute in the medium term to higher agricultural productivity, export growth, and the stabilization of prices in the domestic market.

Parameters of future revisions of utility tariffs and some administered prices are subject to uncertainty and thus pose a risk to the inflation forecast

It is assumed that the current tariffs for electricity, natural gas, heating, and hot water supplies will not be revised until the end of the current heating season. The NBU does not have information regarding potential decisions in this area and does not participate in shaping tariff policy. At the same time, given the growing financing needs for the restoration of the energy system following massive air attacks, the probability of a further gradual and phased alignment of some of these tariffs with their economically justified levels has increased. Uncertainty over the scale and timing of energy tariff adjustments poses a risk to the inflation forecast. In particular, an accelerated rise in energy prices to quickly eliminate imbalances in the energy sector could be a source of additional inflationary pressure, which would require a significant increase in subsidies for households. On the other hand, a longer postponement of decisions to bring utility tariffs into line with economically justified levels would rein in inflation but would accumulate quasi-fiscal imbalances and worsen the financial standing of state-owned energy companies. This would raise the risks of instability in the energy market and hamper the investment potential of the energy sector, which requires urgent large-scale restoration, while the increase in the price pressure would only be deferred until the future.

Administrative decisions regarding changes to existing excise tax rates, particularly on tobacco and alcohol products, may also cause inflation to deviate from the forecast.

The risk of a deterioration in external conditions amid intensifying geopolitical fragmentation remains relevant

The baseline scenario of the forecast is based on the gradual adaptation of both the economies of Ukraine's MTPs and the economy of Ukraine to new geoeconomic conditions, and on the assumptions that no unexpected changes in trade policy will occur. Although uncertainty regarding the latter has somewhat decreased with the conclusion of agreements between the United States and a number of third countries, there are still risks of the non-implementation or revision of these agreements.

Thus, a further aggravation of geopolitical fragmentation is a significant risk. This could lead to a contraction in global trade, disruption of supply chains, and a deterioration in investment sentiment. Accordingly, the economic growth of Ukraine's MTPs would slow, limiting external demand for Ukrainian products. A cooling of the economies of international partners could also negatively affect external support for Ukraine.

Furthermore, the intensification of geopolitical fragmentation and protectionist measures may cause a further weakening of the U.S. dollar on the financial markets, particularly against the euro. A stronger euro would raise the prices of imports from Europe and restrain disinflation in Ukraine.

Revitalization of European integration processes along with the attraction of large amounts of investment could substantially accelerate economic growth

Attracting large amounts of investment for the reconstruction of Ukraine, together with European integration reforms, could substantially accelerate economic growth. However, such programs, which would also require significant participation from international partners, are currently not included in the NBU's baseline forecast scenario and are viewed as an upside risk. This risk's materialization would contribute to faster growth in household income, which would push up underlying inflationary pressures. The latter, however, would be largely offset by appreciation effects resulting from the inflow of foreign currency into the country.

The course of the full-scale war remains the main risk to inflation dynamics and economic development

Table 5.1. Probability of Risk Occurrence

Degree of impact on the baseline scenario	Low <15%	Average 15–25%	High 25–50%
Weak		Strengthening negative migration trends and widening labor shortages	
Moderate	Accelerating European integration processes and reconstruction	Unforeseen adjustments to administratively regulated prices Weather-related supply shocks Greater global geopolitical fragmentation	Additional budgetary needs
Strong	A faster end to active hostilities	Change in the volume of international aid	Escalation of hostilities, further destruction of production facilities and logistics, including in the energy sector

Table 1. Macroeconomic forecast (January 2026)

Indicators	2023	2024	2025						2026						2027						2028				
			I	II	III	IV	current forecast	forecast 10.2025	I	II	III	IV	current forecast	forecast 10.2025	I	II	III	IV	current forecast	forecast 10.2025	I	II	III	IV	current forecast
REAL ECONOMY, % yoy, unless otherwise stated																									
Nominal GDP, UAH bn	**6628**	**7662**	1923	2021	2428	2533	**8905**	8915	2206	2298	2704	2773	**9980**	9935	2418	2521	2990	3066	**10995**	10870	2668	2771	3274	3346	**12060**
Real GDP	**5.5**	**3.2**	0.9	0.7	2.1	3.0	**1.8**	1.9	2.4	2.5	1.6	1.0	**1.8**	2.0	1.6	2.2	3.1	3.9	**2.8**	2.8	4.0	3.9	3.6	3.4	**3.7**
GDP Deflator	19.9	12.0	16.9	15.2	13.7	11.9	14.2	14.2	12.0	10.9	9.7	8.4	10.1	9.3	7.9	7.3	7.2	6.4	7.2	6.4	6.1	5.8	5.7	5.6	5.8
Consumer prices (period average)	12.9	6.5	-	-	-	-	12.7	12.9	-	-	-	-	6.9	7.3	-	-	-	-	6.5	5.7	-	-	-	-	5.4
Consumer prices (end of period)	**5.1**	**12.0**	14.6	14.3	11.9	8.0	**8.0**	9.2	7.0	6.1	7.2	7.5	**7.5**	6.6	7.2	6.3	6.1	6.0	**6.0**	5.0	5.6	5.4	5.0	5.0	**5.0**
Core inflation (end of period)	4.9	10.7	12.4	12.1	11.0	8.0	8.0	9.1	6.6	6.4	5.8	6.0	6.0	5.8	5.1	4.3	3.5	3.3	3.3	3.2	3.1	3.1	3.0	3.0	3.0
Non-core inflation (end of period)	5.7	13.8	17.3	17.6	13.2	8.5	8.5	9.4	8.1	6.0	9.1	9.6	9.6	7.6	9.8	8.7	9.2	9.2	9.2	7.3	8.7	8.1	7.5	7.5	7.5
raw foods (end of period)	2.2	13.2	17.0	28.7	18.1	7.4	7.4	11.0	8.1	0.4	5.6	6.3	6.3	5.0	6.2	3.3	3.6	3.2	3.2	3.2	3.1	3.1	2.6	3.0	3.0
administered prices (end of period)	10.7	16.3	19.0	10.9	10.7	9.7	9.7	8.7	8.4	10.9	12.5	12.8	12.8	9.7	13.3	13.7	14.0	14.3	14.3	10.9	13.5	12.4	11.3	11.0	11.0
Nominal wages (period average)	17.4	23.2	25.0	21.7	20.0	17.3	20.8	19.8	17.2	16.6	14.3	12.5	15.0	13.4	13.5	13.2	13.4	12.5	13.1	10.3	12.6	12.0	11.5	10.3	11.6
Real wages (period average)	4.1	15.6	10.0	5.8	6.2	7.4	7.3	6.2	9.2	9.6	7.2	4.8	7.6	5.6	5.8	6.2	6.8	6.1	6.2	4.4	6.4	6.1	5.9	5.0	5.9
Unemployment rate (ILO, period average)	18.2	13.1	-	-	-	-	11.3	11.3	-	-	-	-	10.2	10.2	-	-	-	-	9.3	9.2	-	-	-	-	9.0
CONSOLIDATED BUDGET, excluding grants from revenues																									
Balance, UAH bn	-1765	-1827	-	-	-	-	-2209	-2260	-	-	-	-	-1921	-1921	-	-	-	-	-1499	-1499	-	-	-	-	-1119
Balance, % of GDP	**-26.6**	**-23.8**	-	-	-	-	**-24.8**	-25.3	-	-	-	-	**-19.3**	-19.3	-	-	-	-	**-13.6**	-13.8	-	-	-	-	**-9.3**
BALANCE OF PAYMENTS (analytical presentation)																									
Current account balance, USD bn	-9.3	-15.2	-7.0	-8.4	-9.7	-6.8	-31.9	-36.6	-8.8	-6.9	-10.2	-11.4	-37.2	-35.3	-9.5	-10.4	-11.2	-10.4	-41.6	-38.4	-6.1	-7.7	-8.7	-6.6	-29.1
Exports of goods and services, USD bn	51.6	56.6	13.2	13.4	13.0	14.7	54.3	56.1	14.3	15.6	16.2	17.5	63.6	63.0	16.1	15.8	16.2	19.1	67.3	67.9	18.1	17.1	17.9	20.9	73.9
Imports of goods and services, USD bn	89.3	95.4	24.6	26.6	28.2	31.7	111.0	111.9	30.4	27.4	28.9	31.2	117.8	116.1	26.3	27.0	28.0	30.1	111.5	110.7	27.1	28.0	29.5	30.5	115.0
Remittances in Ukraine, USD bn	11.3	9.4	1.9	2.0	2.1	2.1	8.0	8.5	1.9	2.2	2.3	2.4	8.8	8.8	2.3	2.4	2.5	2.6	9.8	9.8	2.7	2.8	2.8	2.9	11.1
Financial account, USD bn	-18.6	-10.1	-5.6	-10.9	-10.7	-17.2	-44.4	-44.2	-10.2	-14.3	-10.2	-8.5	-43.2	-33.6	-11.9	-11.5	-12.4	-13.3	-49.0	-44.6	-5.6	-7.8	-7.9	-5.4	-26.7
BOP overall balance, USD bn	**9.5**	**0.0**	-1.3	2.6	1.0	10.5	**12.8**	7.8	1.4	7.4	0.0	-2.8	**6.0**	-1.7	2.3	1.1	1.2	2.8	**7.4**	6.2	-0.5	0.1	-0.8	-1.2	**-2.4**
Gross reserves, USD bn	**40.5**	**43.8**	42.4	45.1	46.6	57.3	**57.3**	53.6	59.7	67.3	67.4	65.0	**65.0**	52.2	67.0	68.7	69.5	72.9	**72.9**	59.2	73.1	73.0	71.9	70.6	**70.6**
Months of future imports	5.1	4.7	4.4	4.6	4.7	5.8	5.8	5.5	6.3	7.1	7.2	7.0	7.0	5.7	7.2	7.3	7.3	7.6	7.6	6.1	7.5	7.4	7.2	7.0	7.0
As a percentage of the IMF composite criterion	124.1	121.1	113.3	111.5	110.6	126.7	126.7	119.3	127.1	136.6	132.3	123.6	123.6	102.2	123.2	122.1	119.7	121.2	121.2	102.0	119.7	117.6	113.9	110.4	110.4
MONETARY ACCOUNTS (cumulative since the beginning of the year)																									
Monetary base, %	**23.3**	**7.7**	-3.9	4.4	7.0	11.6	**11.6**	12.1	4.3	7.1	9.2	15.3	**15.3**	12.4	2.4	4.4	5.7	10.6	**10.6**	9.1	0.7	2.4	5.3	9.8	**9.8**
Broad money, %	**23.0**	**13.4**	-1.0	3.0	4.9	15.3	**15.3**	12.2	0.5	3.1	5.2	11.9	**11.9**	9.7	0.2	2.2	4.3	8.2	**8.2**	7.9	0.0	2.3	4.7	8.1	**8.1**
Velocity of broad money (end of year)	**2.2**	**2.2**	-	-	-	-	**2.2**	2.3	-	-	-	-	**2.2**	2.3	-	-	-	-	**2.3**	2.3	-	-	-	-	**2.3**

Table 2. Comments on the forecast revision

Indicators	2025	2026	2027	2028	Factors behind the revision
Inflation, %, eop	**8.0** -1.2	**7.5** 0.9	**6.0** 1.0	**5.0**	Higher yields in 2025; impact of large-scale energy disruptions on prices through market and administrative mechanisms in 2026-2027
Real GDP growth, %	**1.8** -0.1	**1.8** -0.2	**2.8** 0.0	**3.7**	New infrastructure destruction and a higher electricity deficit
Nominal GDP, UAH bn	**8905** -10	**9980** 45	**10995** 125	**12060**	Slower real GDP growth, but a higher GDP deflator due to higher inflation
Consolidated budget balance (excluding grants and ERA financing from revenues), % of GDP	**-24.8** 0.5	**-19.3** 0.0	**-13.6** 0.2	**-9.3**	Incorporation of actual 2025 data and the effects of nominal GDP revisions over the forecast period
Current account balance, USD bn	**-31.9** 4.7	**-37.2** -1.9	**-41.6** -3.2	**-29.1**	Expansion of international programs financing weapons production in 2025. Higher imports due to destruction, primarily in the energy sector
Gross international reserves, USD bn	**57.3** 3.7	**65.0** 12.9	**72.9** 13.7	**70.6**	Higher levels of international aid
Key policy rate (period average), %	**15.3** 0.0	**14.6** 0.8	**13.3** 1.5	**11.5**	A more gradual decline in inflation over the forecast horizon and, accordingly, higher risks to inflation expectations

The indicator has been revised downwards (pp)

The indicator has been revised upwards (pp)

Table 3. Forecast assumptions

Indicators		2023*	2024*	2025*	2026	2027	2028
Official financing	USD bn	42,9	41,9	52,4	51,4	42,7	21,6
Migration (net, excluding russia and belarus)	m	-0,2	-0,5	-0,3	-0,2	0,1	0,5
Real GDP of Ukraine's MTPs (UAwGDP)	% yoy	1,6	2,0	2,4	2,4	2,6	2,6
Consumer inflation in Ukraine's MTPs (UAwCPI)	% yoy	7,6	5,1	3,9	2,9	2,5	2,2
World prices:**							
Steel price, Steel Billet Exp FOB Ukraine	USD/t	539,7	504,1	464,7	489,2	510,4	518,0
	% yoy	-12,7	-6,6	-7,8	5,3	4,3	1,5
Iron ore price, China import Iron Ore Fines 62% FE	USD/t	120,6	109,4	100,2	97,2	89,4	87,6
	% yoy	-0,7	-9,3	-8,4	-3,0	-8,0	-2,0
Wheat price, Soft Delivered Dunkirk Position 1, France	USD/t	264,1	232,1	227,7	225,0	231,1	235,8
	% yoy	-25,3	-12,1	-1,9	-1,2	2,7	2,0
Corn price, Yellow #2 Delivery USA Gulf	USD/t	252,7	190,6	203,2	210,9	211,8	213,7
	% yoy	-20,6	-24,6	6,6	3,8	0,4	0,9
Crude oil price, Brent	USD/bbl	82,6	80,7	69,0	63,5	65,8	68,1
	% yoy	-17,2	-2,3	-14,5	-8,0	3,6	3,5
Natural gas price, Netherlands TTF	USD/kcm	465,6	393,9	430,5	372,2	336,5	367,7
	% yoy	-65,7	-15,4	9,3	-13,5	-9,6	9,3
US dollar exchange rate against the euro	USD/EUR	1,08	1,08	1,13	1,18	1,18	1,19
Harvest of grain and leguminous crops	t m	59,8	56,2	63,5	62,9	63,5	65,0
Minimum wage**	UAH	6700	7775	8000	8647	9374	9997

** Actual data.*

*** Annual average.*

Terms and Abbreviations

ACLED	Armed Conflict Location & Event Data
BAOI	Business Activity Outlook Index
BOI	Business Outlook Index
CB	Central bank
CEE	Central and Eastern Europe
CMU	Cabinet of Ministers of Ukraine
Core CPI	Core consumer price index
CPI	Consumer Price Index
ECB	European Central Bank
EEA	European Economic Area
EM	Emerging markets
ERA	Extraordinary Revenue Acceleration
EU	European Union
FDI	Foreign direct investment
Fed	U.S. Federal Reserve System
FEU	Federation of Employers of Ukraine
FTA	Free trade agreement
GDP	Gross domestic product
IER	Institute for Economic Research
ILO	International Labor Organization
IMF	International Monetary Fund
IT	Information technologies
LNG	Liquefied natural gas
MFA	Macro-Financial Assistance
MFU	Ministry of Finance of Ukraine
MIA	Ministry of Internal Affairs of Ukraine
Ministry of Agriculture	Ministry of Agrarian Policy and Food of Ukraine
MPC	Monetary Policy Committee
MTP	Main trading partner
MY	Marketing year
NEURC	National Energy and Utilities Regulatory Commission
NBU	National Bank of Ukraine.
NEER	Nominal effective exchange rate
NFC	Non-financial corporations
OPEC	Organization of the Petroleum Exporting Countries
PBC	People's Bank of China
PFU	Pension Fund of Ukraine
PMI	Purchasing Managers' Index
QPM	Quarterly Projection Model
REER	Real effective exchange rate
russia	russian federation
SCSU	State Customs Service of Ukraine
SESU	State Employment Service of Ukraine
SMEs	Small and medium enterprises
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
USDA	United States Department of Agriculture
VAT	Value-added tax

bbl	barrel
bn	bilion
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