National Bank of Ukraine

Inflation Report (April 2025)

29 Apr 2025

Key takeaways

- **In the first months of the year, the growth of inflation was rather close to the trajectory of the NBU’s previous forecast.** Such dynamics were driven by the residual effects of last year’s lower harvests and the impact of underlying factors, in particular higher energy and labor costs for businesses and robust consumer demand. At the same time, seasonally adjusted monthly inflation dynamics show an easing of price pressures. **Economic agents’ inflation expectations remain relatively stable**
- **Inflation will resume decline in the summer and will slow to a single-digit level at the end of the year.** Inflationary pressures will gradually subside under the influence of the NBU's monetary policy measures, the arrival of new higher crops on the markets, an improvement in the electricity supply situation, more moderate pressure from the labor market, and lower global oil prices. As a result, inflation will decrease to 8.7% by the end of 2025, and to the target of 5% in 2026.
- **Economic recovery will continue, although it will remain limited** due to the consequences of the war and global trade confrontations. In 2026–2027, a moderate acceleration of economic growth is expected - to about 4%
- **Following this year’s significant inflows, external financial assistance will decrease in the coming years, but it will still be sufficient** to avoid monetary financing of the budget deficit and support FX market sustainability. This will allow international reserves to increase to $58 billion in 2025 and maintain them at a high level in the future
- **The NBU’s forecast envisages keeping the key policy rate at 15.5% over the coming months** and returning to a cycle of interest rate policy easing after the peak of the price surge has passed and the risk of inflation staying in double digits has been reduced
- Given the significant level of uncertainty, which has only intensified in recent months, **the NBU will respond flexibly to changes in the balance of risks to price dynamics and inflation expectations**. In the event of their strengthening, it will keep the policy rate at 15.5% for longer than expected in the updated macro forecast, and will be ready to take additional measures

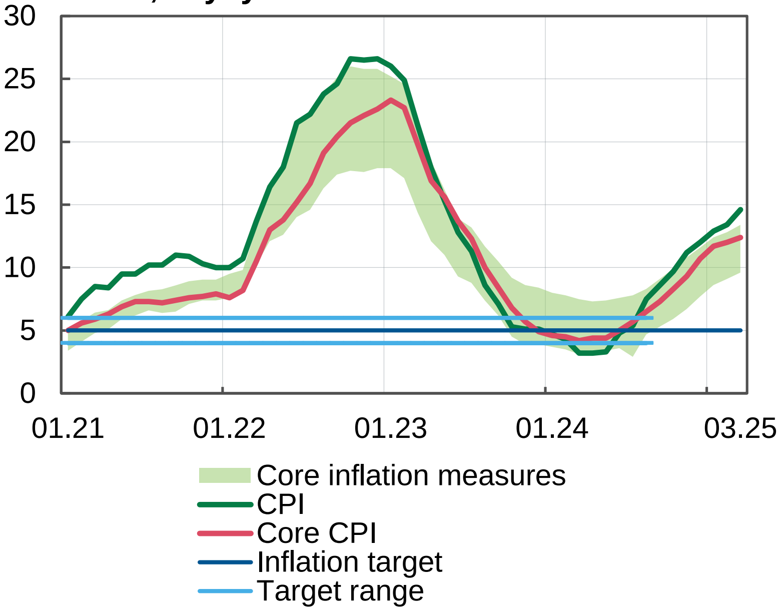
Macroeconomic forecast*

Forecast	2024**	2025	2026	2027
Real GDP, change, %	2.9 (3.4)	3.1 (3.6)	3.7 (4.0)	3.9 (4.2)
CPI, % yoy (eop)	12.0	8.7 (8.4)	5.0 (5.0)	5.0 (5.0)
Current account balance, USD bn	-13.7 (-14.6)	-17.3 (2.6)	-31.3 (-28.3)	-27.7 (-27.9)
International reserves, USD bn	43.8	57.6 (40.5)	46.8 (38.5)	48.6 (40.2)
Consolidated budget deficit, % GDP ***	23.8 (23.7)	19.2 (19.3)	11.8 (11.9)	6.9 (7.0)
Assumptions	**2024****	**2025**	**2026**	**2027**
Official financing, USD bn	41.9	55.1 (38.4)	17.3 (25.0)	15 (15.0)
Harvest of cereals and legumes, million tons	55.2	61.7 (60.1)	62.3 (62.3)	64.9 (64.9)
Migration (net), million persons	-0.5	-0.2 (-0.2)	0.2 (0.2)	0.5 (0.5)
Real GDP of Ukraine's MTPs, %	2.0 (1.9)	2.2 (2.5)	2.5 (2.6)	2.7 (2.7)
CPI of Ukraine's MTPs, %	5.1	3.5 (3.4)	2.6 (2.7)	2.5 (2.5)

* in brackets – previous forecast (Inflation report, January 2025), decrease/increase marked by color
** actua
*** excluding grants

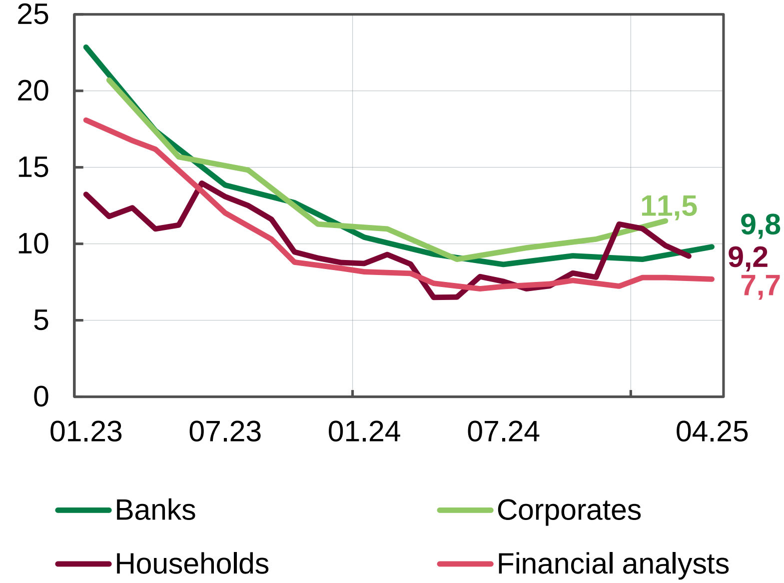
Inflation was quite close to the trajectory of the NBU's January macro forecast, reaching 14.6% yoy in March

Consumer inflation and underlying inflation trend estimates, % yoy



Source: NBU, Info Sapiens.

Inflation expectations for the next 12 months, %

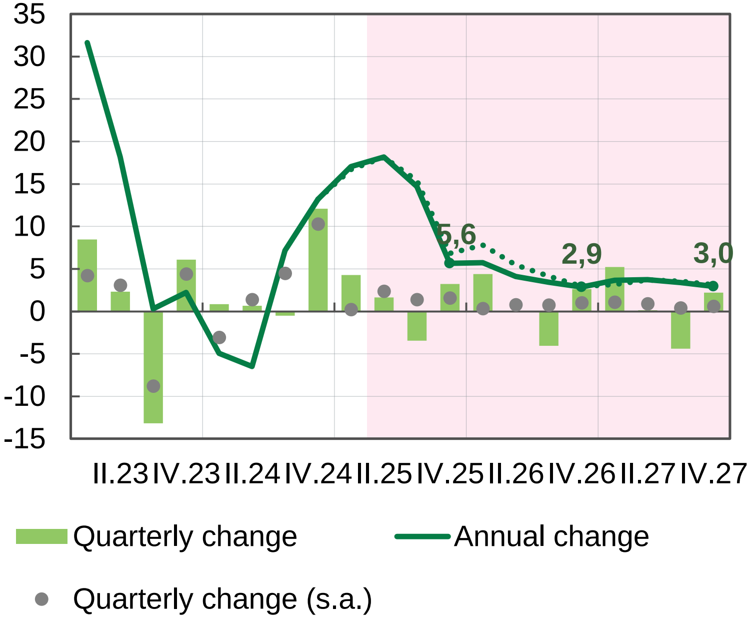


Source: NBU, Info Sapiens.

- The residual effects of last year's poor harvests and a further increase in prices for excisable products **were important drivers of price growth**
- **Significant underlying price pressures persisted** due to rising energy and labor costs incurred by businesses, as well as robust consumer demand
- **Inflation expectations remained relatively stable and lower than actual headline inflation**, indicating a limited pass-through of the backward-looking component to the formation of expectations

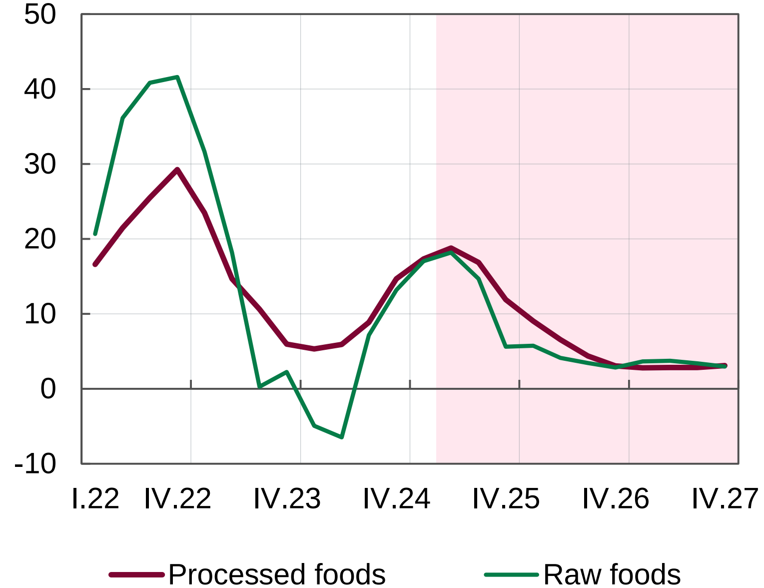
Food inflation will remain high, but will decline sharply as the new harvest arrives

Raw food inflation at the end of period, %



Source: SSSU, NBU staff estimates.

Secondary effects in food inflation, price change, % yoy

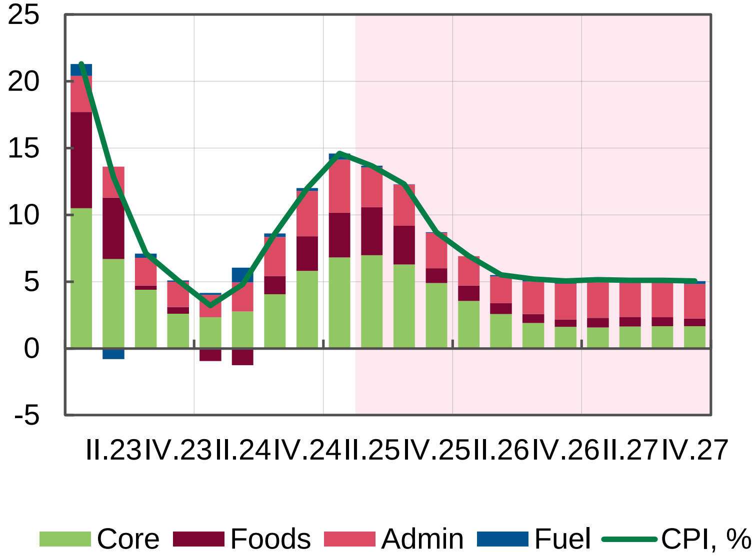


Source: SSSU, NBU staff estimates.

- **Food inflation will reach almost 20% in the near term**, but with the arrival of a new harvest and the absence of significant supply shocks, it will decline rapidly to 5.6% by the end of 2025
- **Inflation of processed food products will decrease significantly in the second half of the year** due to the second-round effects of the decrease in raw foods inflation

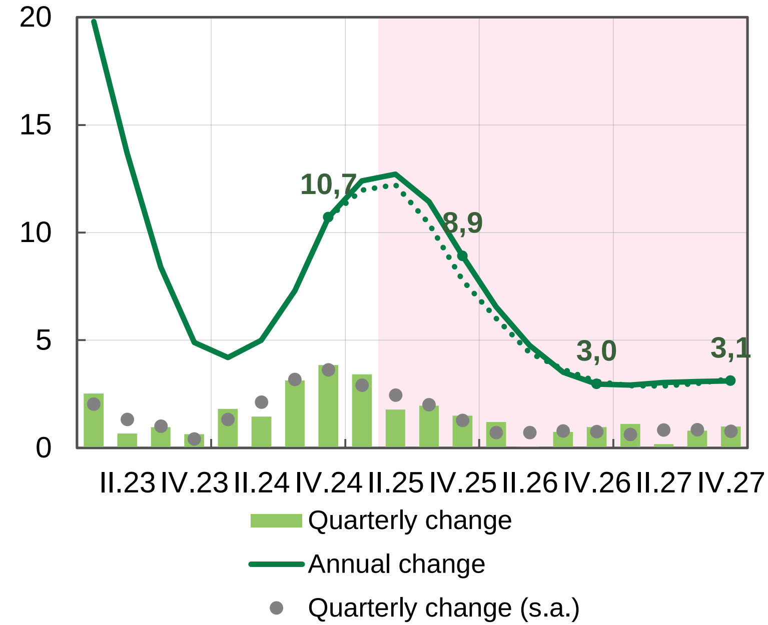
Inflation will soon begin to decline and move towards the target due to the exhaustion of temporary factors and the NBU's policy

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



Source: SSSU, NBU staff estimates.

Core CPI, % yoy

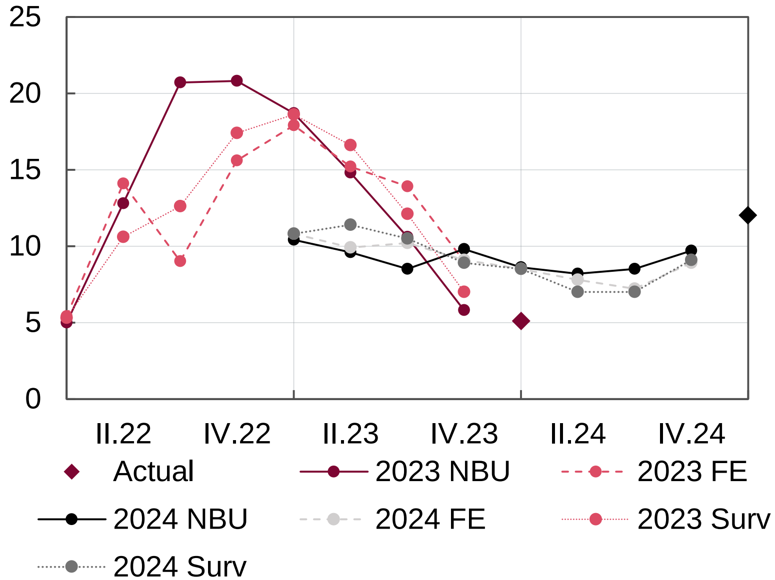


Source: SSSU, NBU staff estimates.

- **After reaching peak values, inflation will begin to slow down in the coming months** due to the NBU's monetary policy measures, the arrival of new higher yields on the markets, an improvement in the electricity supply situation, more moderate pressure from the labor market, and a decrease in world oil prices.
- As a result, inflation will fall to single-digit values by the end of 2025 and to the target in 2026

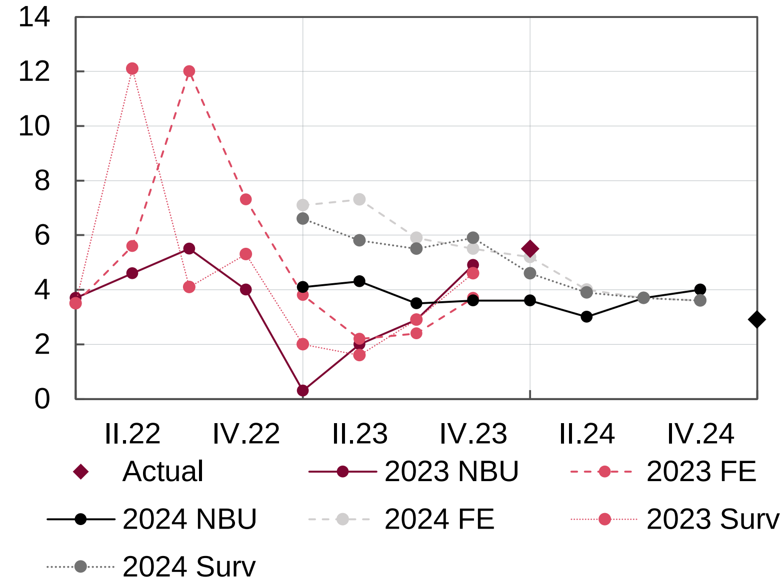
Box. Accuracy of macroeconomic forecasts

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



Source: NBU staff estimates.

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

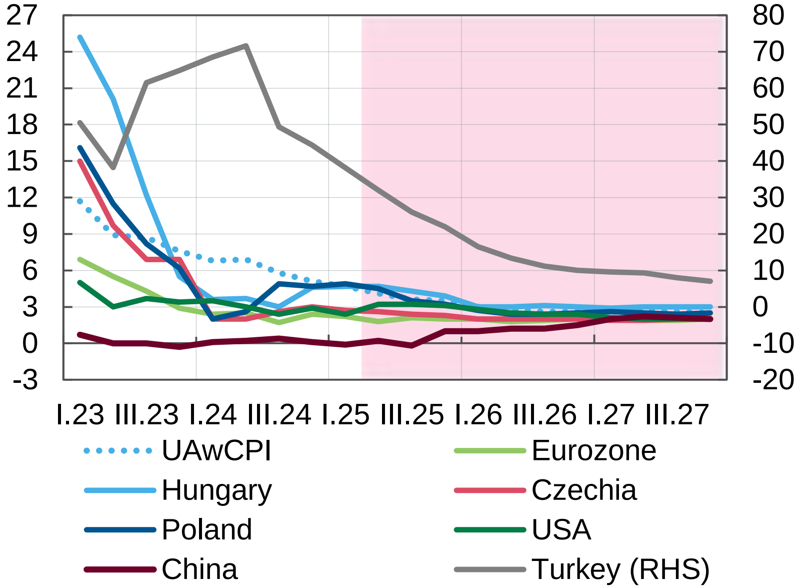


Source: NBU staff estimates.

- Despite the ongoing full-scale war, **the NBU remains open and regularly publishes macroeconomic forecasts** to reduce uncertainty for economic agents
- **The accuracy of the NBU's forecasts of key macroeconomic indicators remained above the average among the estimates of analytical organizations.** In 2024, the NBU's forecasts did not contain any significant systematic deviations, despite the scale of uncertainty and new shocks in the wartime conditions

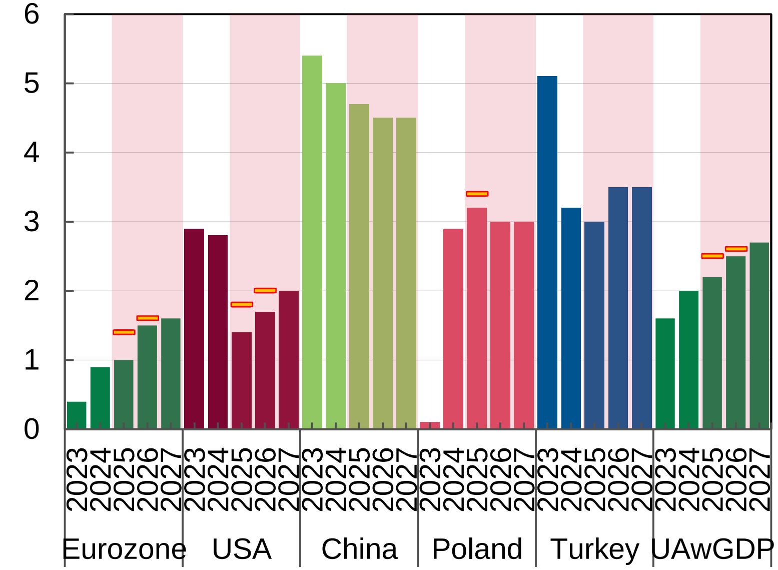
External inflation will be moderate, increased trade confrontation will restrain demand from some MTP countries

Consumer inflation in selected countries – Ukraine's MTPs (eop) and UAwCPI, % yoy



Source: National statistical offices, NBU staff estimates.

Real GDP of selected countries and UAwGDP, % yoy

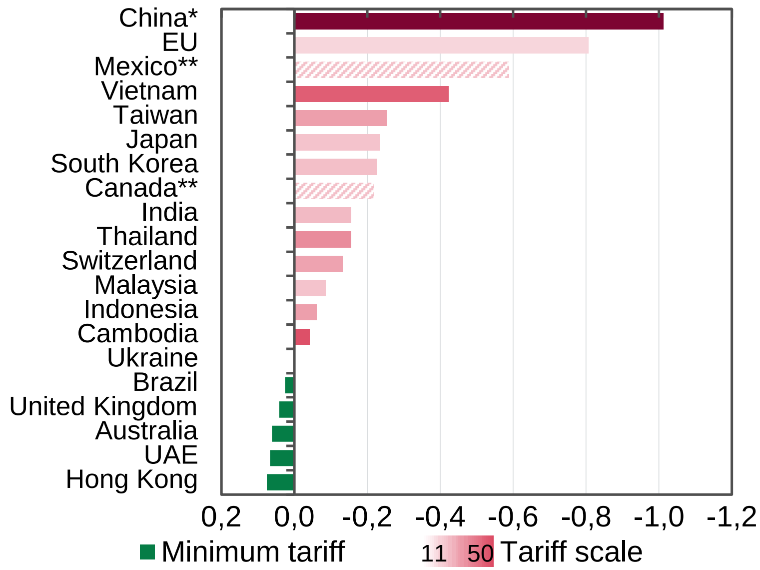


Source: National statistical offices, NBU staff estimates.

- **Inflationary pressures will remain moderate**: relatively weak global demand, high CBs rates amid unprecedented uncertainty, and lower global oil prices under pressure from oversupply and trade wars
- **Demand from individual MTPs will slow** in the near term, but as they adjust to new challenges amid robust private consumption, easing financial conditions, and the impact of increased government spending, growth will normalize
- **Terms of trade for Ukraine will improve despite trade wars**

Box. U.S. tariff policy: carpe diem

US balance of trade in goods with selected countries, by reciprocal tariff rates, % GDP

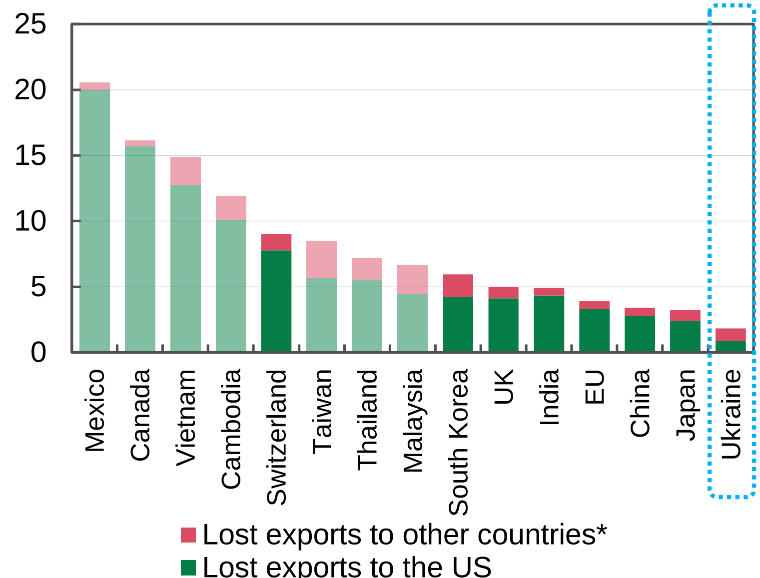


* Maximum of 125%.

** March tariffs on goods that do not qualify under USMCA.

Source: US Census, US BEA, NBU staff estimates.

GDP losses of trading partners if exports to the US come to a halt, pp



* Due to a decline in their exports to the US.

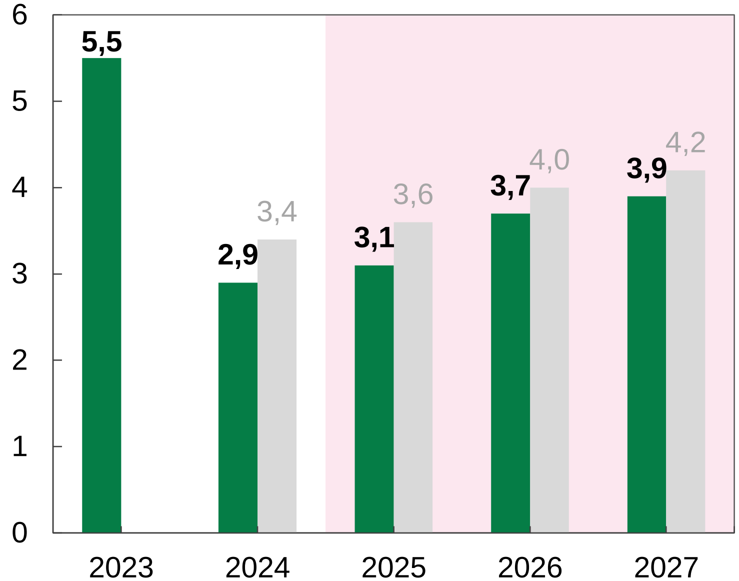
Countries that are not Ukraine's MTPs are semi-transparent.

Source: OECD TiVA, NBU staff estimates.

- **Due to its trade deficit with the US, Ukraine received the lowest tariff rate** of 10%
- **Countermeasures by US MTP countries in response to tariffs would create preconditions for Ukraine** to expand its presence in existing markets, particularly of the EU and China, and to enter new ones
- **The main negative impact on the Ukrainian economy would come from a decline in aggregate demand from Ukraine's MTP** countries

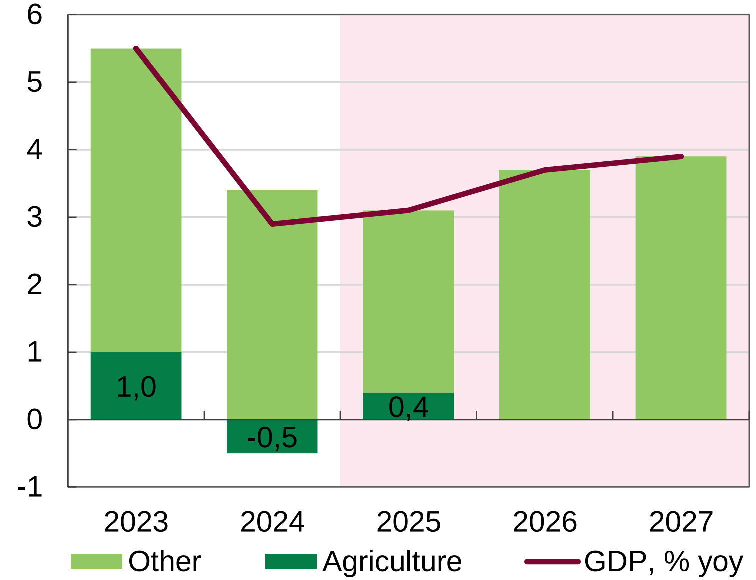
Economic recovery will continue, although it will remain limited due to the consequences of the war

Real GDP, %



gray bars – previous forecast
Source: SSSU, NBU staff estimates.

Contribution of agriculture to real GDP growth, pp



Source: SSSU, NBU staff estimates.

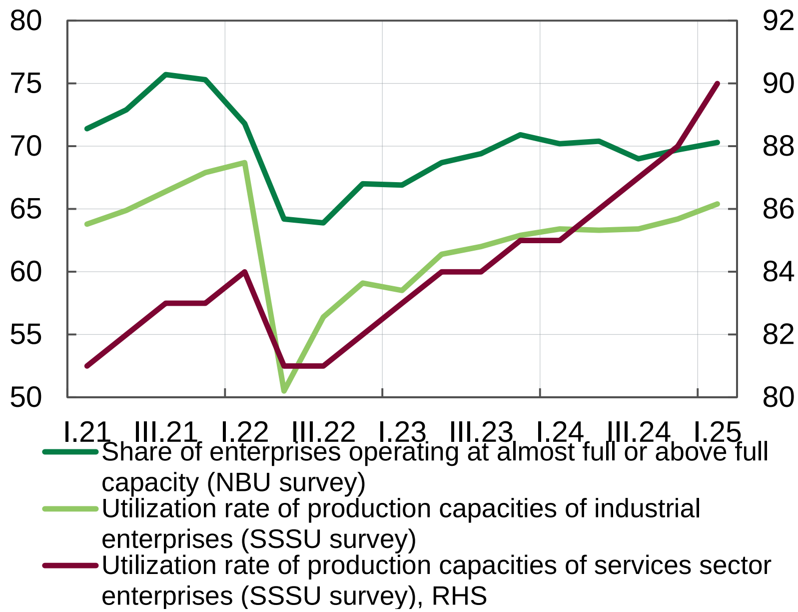
- **GDP growth will remain limited (3.1% this year)** due to the consequences of the war, including labor shortages and damage to gas infrastructure, and the effects of global trade tensions. At the same time, a higher harvest will contribute to GDP growth and lower inflation
- **In 2026–2027, the growth of real GDP will accelerate to 3.7%–3.9%**, primarily thanks to increased investment in reconstruction, recovered production, and robust consumer demand

Box. Consequences of tariff wars for the Ukrainian economy and monetary policy

- The NBU's forecast is based on assumptions about the **moderate impact of tariff wars** on the growth of the Ukrainian economy and inflationary developments
- **The direct effects of the new US tariffs will be insignificant**: the share of exports to the US is small, the introduced 10% duty is lower compared to other countries, and some of the products can be relatively easily redirected to other markets
- **Indirect effects of trade wars will be more significant, but not critical: the weakening of MTPs' economies will restrain the growth rate of the Ukrainian economy**, but this effect should not be long-lasting given **the countries' accumulated experience in restructuring value chains, as well as the high level of adaptability of the Ukrainian business to new challenges**
- **The impact on inflation is expected to be insignificant: the increase in global logistical costs and the strengthening of the euro (higher prices for consumer imports)** will be offset by **lower oil prices due to the cooling of the global economy and cheaper imports after its reorientation from the US market**
- Additional "dividends" from trade and political confrontations may be received by certain sectors of the Ukrainian economy, in particular transport and the defense industry
- Given the escalation of trade conflicts, **the NBU will adhere to the principles of flexible IT and, if necessary, will be ready to provide appropriate exchange rate flexibility to avoid the accumulation of significant external economic imbalances**
- The NBU will monitor the changing role of the dollar in the world and will likely **pay more attention to the role of the euro** (and other world currencies), also using opportunities to **reduce the dollarization of the economy** and **strengthen the role of the hryvnia in savings**

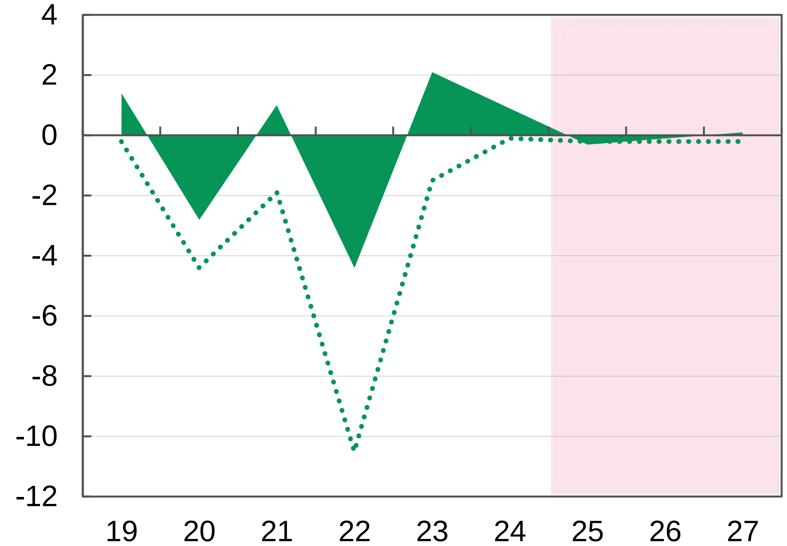
Over the forecast horizon, GDP will be close to potential, limiting inflationary pressures

Production capacity utilization indicators, %



Source: SSSU, NBU.

Output gap, % of potential GDP

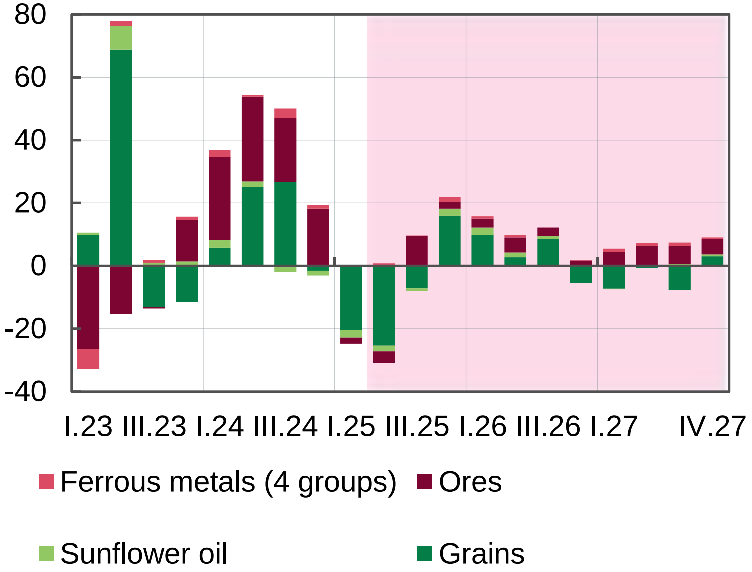


Note: updated estimates were made using the QPM+ version.
Source: SSSU, NBU staff estimates.

- **The utilization of existing production capacities**, according to the results of a survey of enterprises, **continued to grow** in the first quarter of 2025
- **The GDP gap will remain close to zero.** This year, monetary policy will contain the pro-inflationary effects of consumer demand against the backdrop of still high government spending
- **Potential GDP will grow at a rate of about 4%** per year and will be held back by the lack of growth in the existing population against the backdrop of a difficult migration situation and moderate rates of fixed capital accumulation

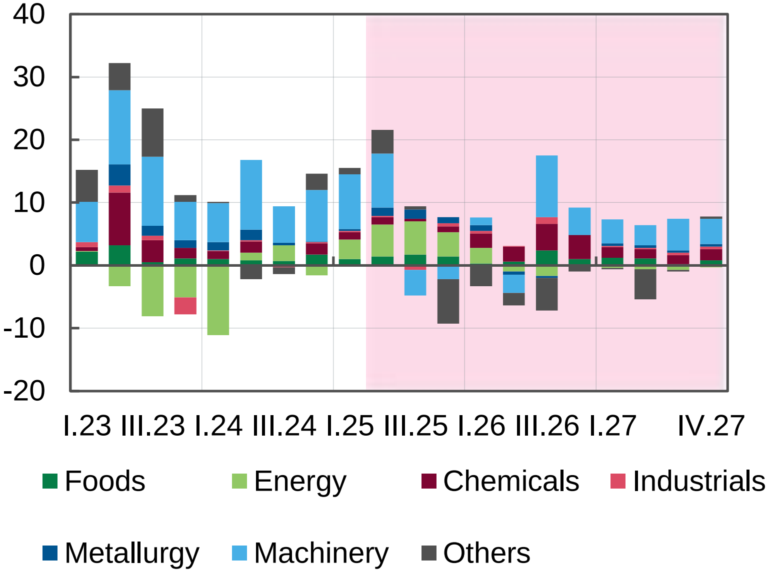
Export growth will remain limited, while demand for imported goods will persist high

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



Source: SCSU, NBU staff estimates.

Contributions to the annual change in imports, pp

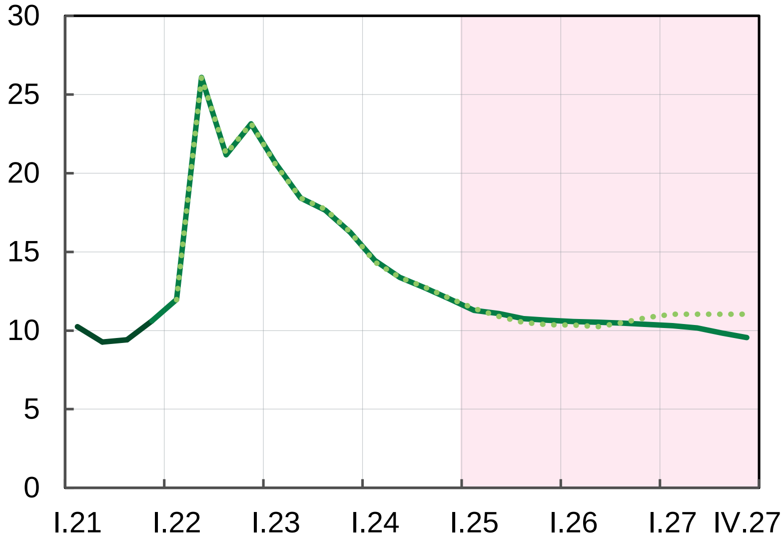


Source: SCSU, NBU staff estimates.

- **In 2025, the physical volumes of exports of goods are expected to fall (nominal volumes will grow at the expense of prices)** due to the stock depletion of last year's grain and oilseed harvests. Further, export growth will resume thanks to higher harvests and a revival in world demand
- **Import growth in 2025 will accelerate** primarily due to the energy component. Further, the growth in imports of goods will slow due to a lower need for gas purchases. Non-energy imports will grow to support economic recovery and infrastructure rebuilding

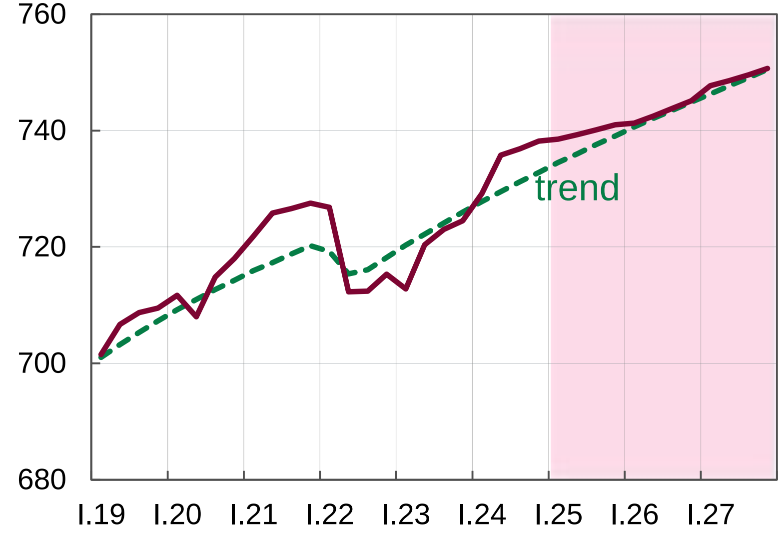
Labor market disparities will remain significant and limit economic recovery

Unemployment (ILO), %, sa



Source: SSSU, NBU staff estimates.

Real wages, level (logarithms)

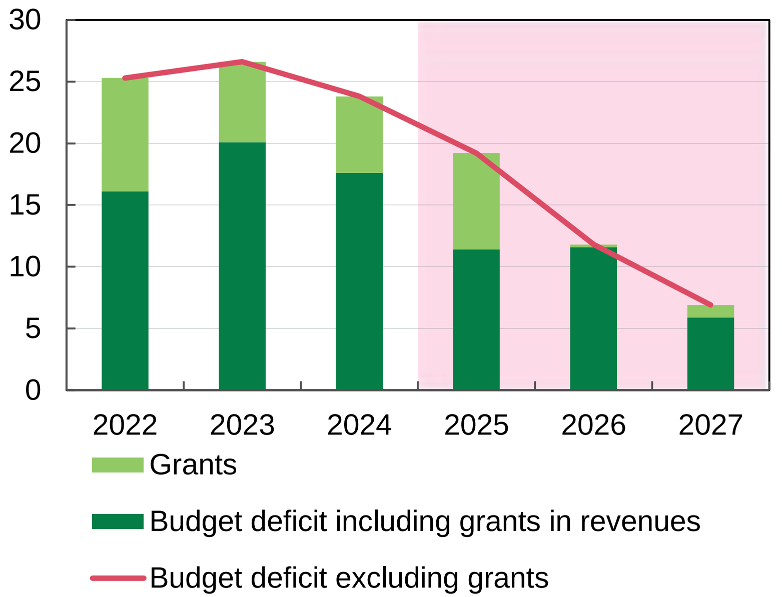


Source: SSSU, NBU staff estimates.

- **Disproportions in the labor market will persist** primarily due to the limited supply of labor with appropriate qualifications
- **The labor shortage will hold back GDP recovery**, but at the same time stimulate further wage growth
- **The security situation will deter the return of migrants**, which will limit the recovery in the labor market. **As labor demand increases, unemployment will gradually decline**, but will still remain high

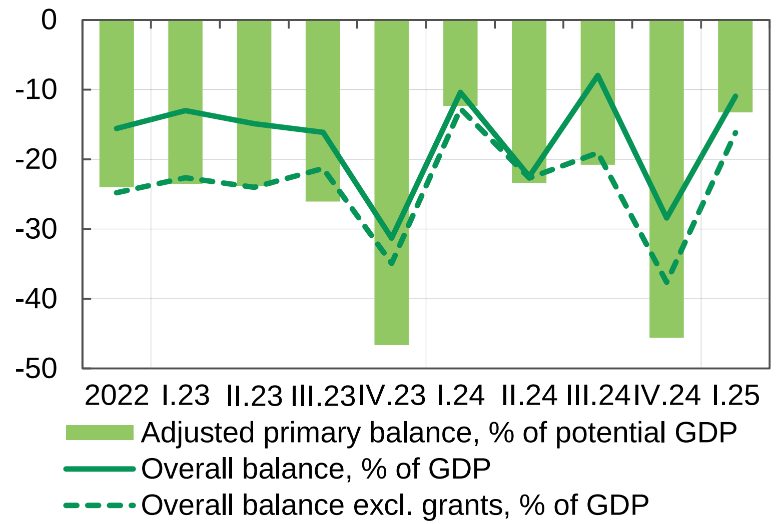
The budget deficit will decrease (from 19% of GDP in 2025 to 7% of GDP in 2027)

Consolidated budget deficit, % of GDP



Source: STSU, SSSU, NBU staff estimates..

General government fiscal balance*



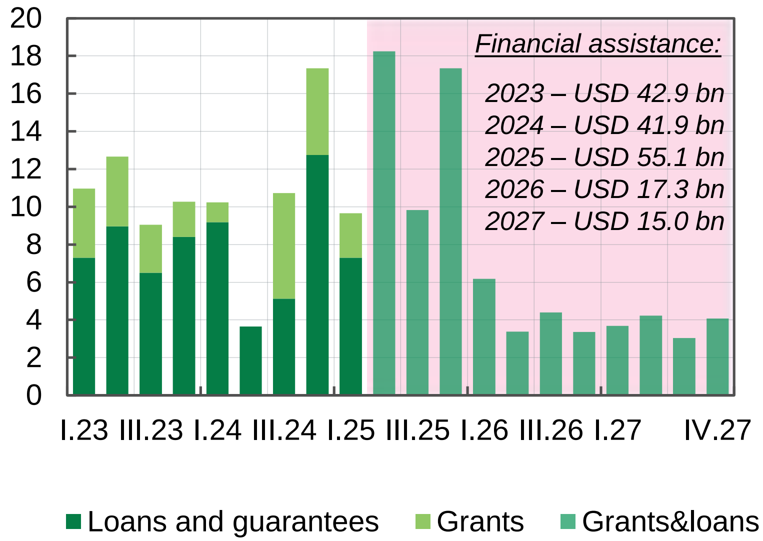
* Overall balance is the consolidated budget balance, taking into account loans to the PFU from the STA. A negative value indicates expansionary fiscal policy.

Source: STSU, SSSU, NBU staff estimates.

- **Significant budget deficits will be financed by international aid and domestic borrowing**
- **International support will be sufficient for non-emission financing** of the budget deficit
- **The gradual reduction of fiscal stimulus will be offset by the increasing role of the private sector** in economic growth

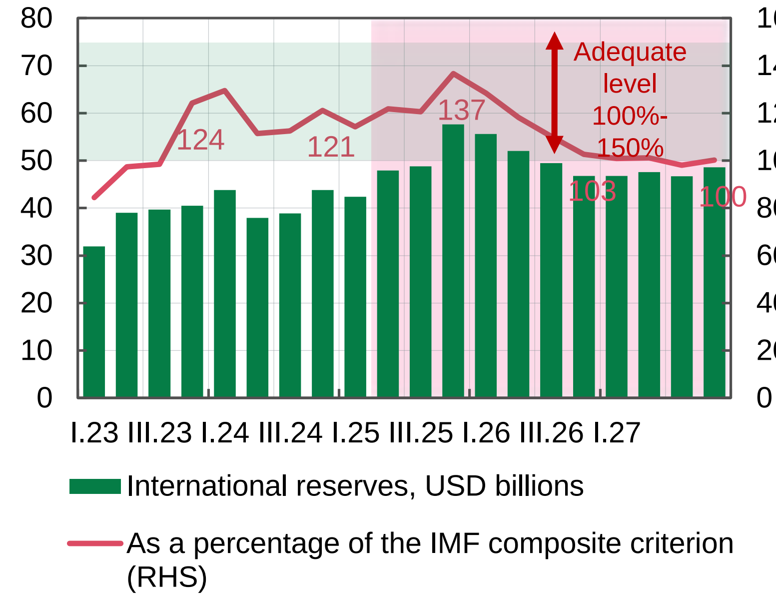
International reserves will remain adequate and exceed 100% of the ARA metric

International financial assistance, USD billions



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

Gross international reserves, USD billions

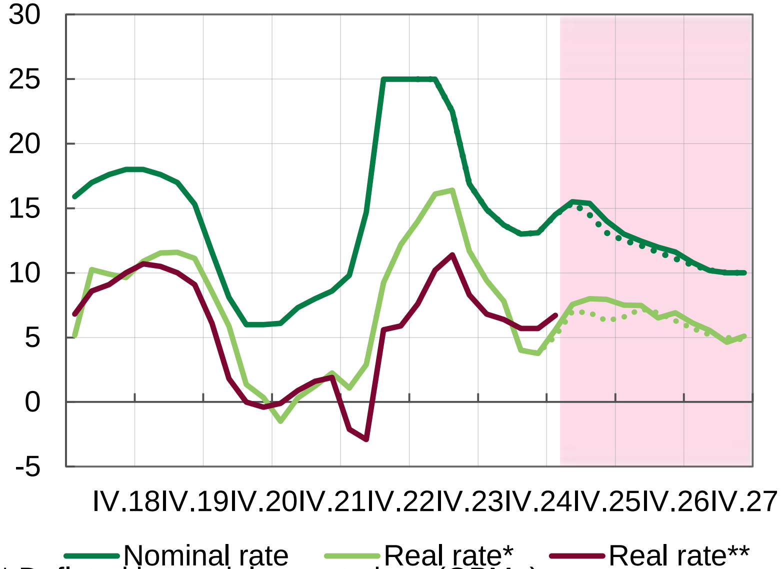


Source: NBU staff estimates.

- **This year's significant inflows will allow Ukraine to increase its international reserves to USD 58 billion** and further ensure the stability of the foreign exchange market
- **In 2026-2027, the private sector's FX deficit is expected to decline.** However, due to a lower volume of international financial assistance and an increase in external public debt servicing and repayments, gross reserves will decrease to USD 47-49 billion in 2026-2027

The NBU will return to a cycle of interest rate policy easing after the peak of the price surge has passed

Key policy rate, average, %

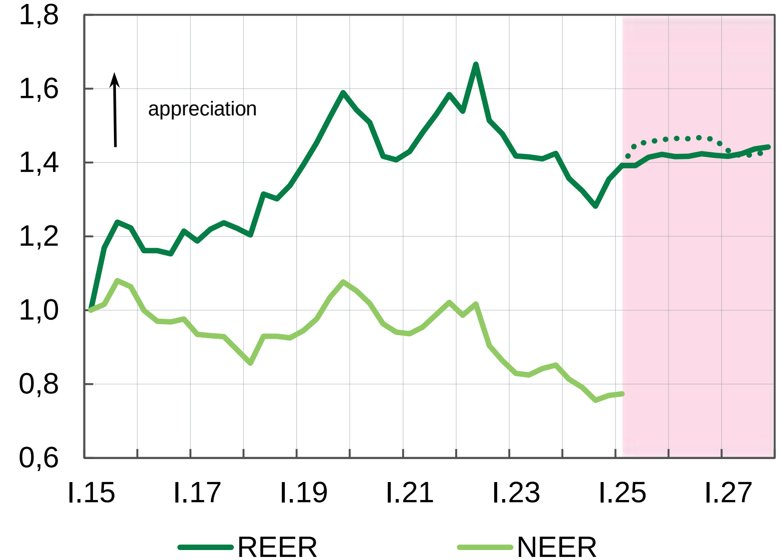


* Deflated by model expectations (QPM+).

** Deflated by the expectations of financial analysts.

Source: NBU staff estimates.

REER and NEER indices, Q1 2015 = 1

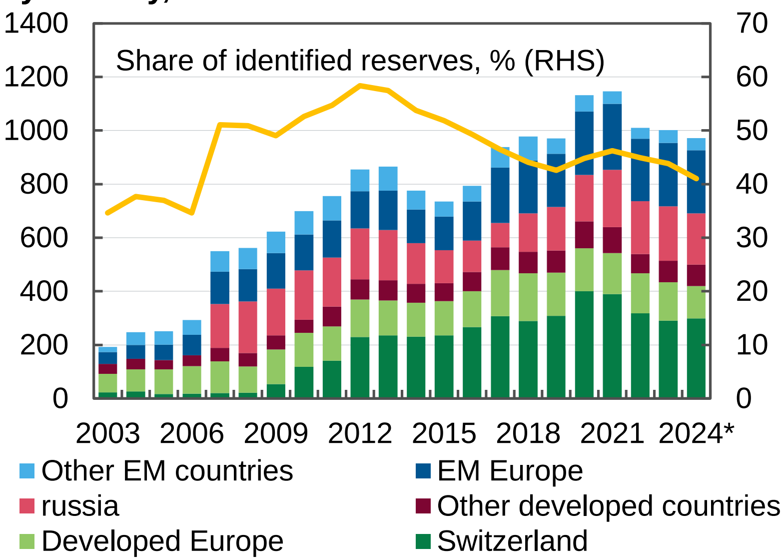


Source: IMF, national statistical offices, NBU staff estimates.

- **The NBU's forecast envisages keeping the KPR at 15.5%** over the coming months and returning to a cycle of interest rate policy easing after the peak of the price surge has passed and the risk of inflation staying in double digits has been reduced
- **Maintaining a relatively high real interest rate will help** achieve the 5% inflation target over the policy horizon. **If this risk intensifies, the NBU will maintain the key policy rate at the current level for longer** than the updated macroeconomic forecast suggests, and will be ready to take additional measures

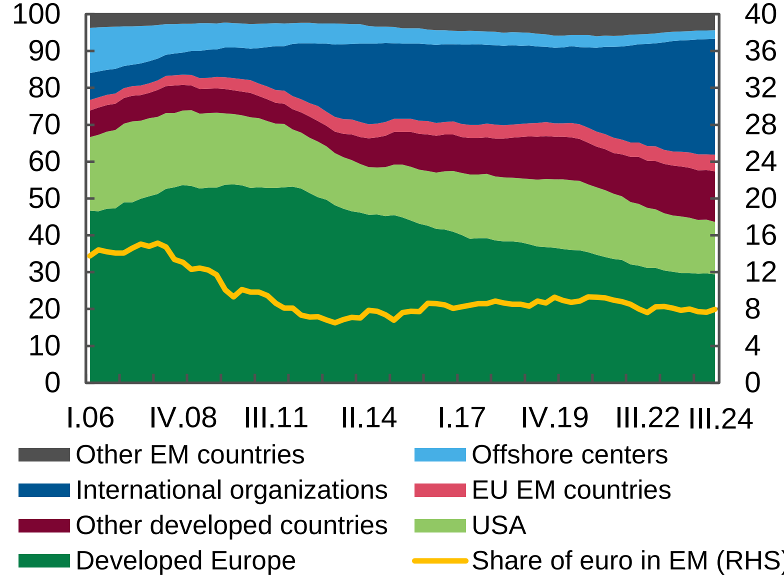
Box. Could seizure of frozen russian assets affect euro's global perception?

Identified euro-denominated international reserves by country, USD billions



Source: ECB, IMF, Chinn et al. (2022), Iancu et al. (2020), official web pages of central banks, NBU staff estimates

Outstanding euro-denominated international debt securities by region of emission, end of period, %

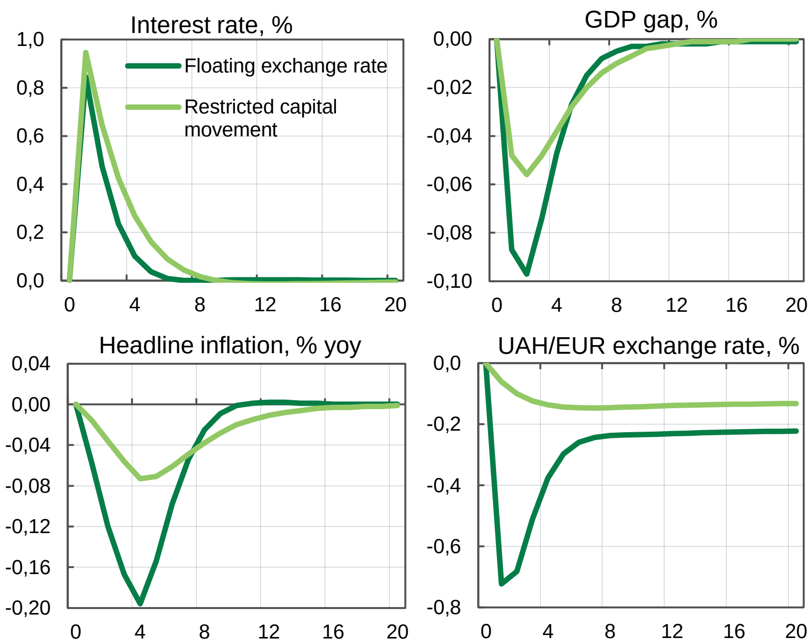


Source: BIS, NBU staff estimates.

- **Despite efforts by some EM countries to look for alternatives, the euro's position as the world's second-most important currency remains solid.** Thus, seizure of sovereign russian assets, coordinated with other developed countries, is unlikely to undermine the euro's role or significantly change perception of this currency
- **The share of identified euro-denominated reserves is 40%–60%,** with nearly half held by Switzerland and russia. Several countries with large reserve holdings (China, India, Taiwan, Singapore, and Japan) do not disclose their currency composition, posing a risk should their euro assets decline significantly. Nevertheless, a full liquidation of euro reserves is unlikely from a technical standpoint

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

Figure 1. Impulse response functions to interest rate shock, % (x-axis – quarters)



Source: NBU staff estimates.

Figure 2. CPI components, indices, I.2019=1

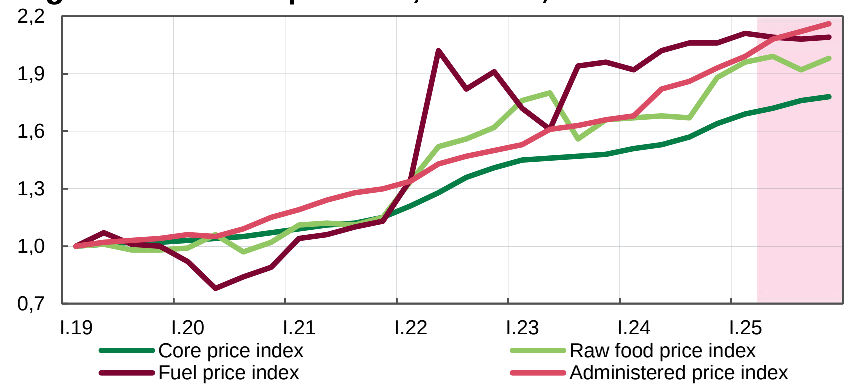
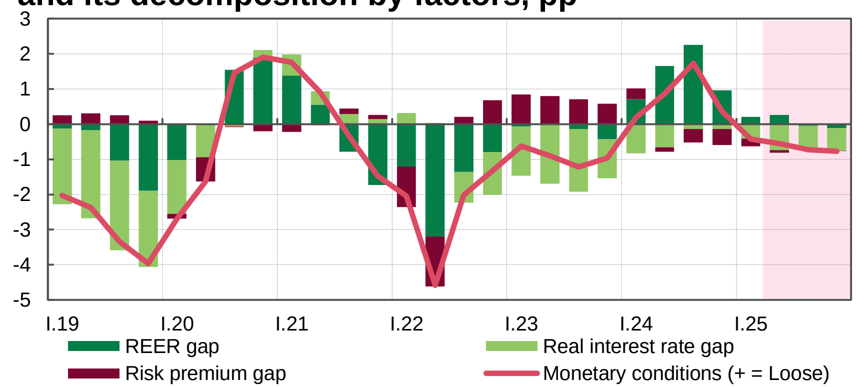


Figure 3. Real monetary conditions index and its decomposition by factors, pp



The Updated Quarterly Projection Model of the NBU (QPM+) considers changes that have happened in the Ukrainian economy recently and contains a number of new features:

- Reflects the increasing role of the euro for the economy and switch of currency policy in the last years
- The model directly incorporates different implicit targets for the components of inflation
- Changes in the historical interpretation of the real monetary conditions and trend/gap decomposition of GDP and REER

Risks

Degree of impact on the baseline scenario	Probability of Risk Occurrence: Low <15%	Probability of Risk Occurrence: Average 15%–25%	Probability of Risk Occurrence: High 25%–50%
Weak			Rising inflation in the MTP (particularly in the US) Increasing cost of debt
Moderate	Rapid restoration of damaged energy infrastructure Accelerating European Integration Processes	Negative migration trends Raising taxes Access to new markets due to the reorientation of global trade flows Cheaper oil and consumer imports	Deepening trade wars: slowdown of MTP economies and reduced demand for Ukrainian exports Termination of the duty-free trade agreement with the EU
Strong	Rapid implementation of the large-scale plan for the reconstruction of Ukraine A faster end to active hostilities	Less regular international assistance Strengthening financial support from partners	Escalation of hostilities, further destruction of production facilities Higher electricity and natural gas deficit due to further damage to the energy infrastructure Additional budgetary needs