National Bank of Ukraine

Inflation Report (July 2025)

5 Aug 2025

Key takeaways

- **Inflation peaked in May, as expected, and went back to declining in June (14.3% yoy).** At the same time, it was higher than forecast – primarily due to the impact of unfavorable weather conditions on supply of food products. On the other hand, core inflation decreased (to 12.1%) somewhat faster than forecast. **Inflation will decline significantly by the end of this year, and it is expected to be brought to the target in 2027**
- Taking into account more significant losses from the war and businesses' expenses continuing to pass through to prices, a worsened harvest forecast, and the effects from the actual depreciation of the hryvnia against the euro, the NBU has revised the forecast trajectory of inflation, **projecting that inflation will decline more slowly**. Inflation is expected to decelerate to 9.7% in 2025, 6.6% in 2026, and the 5% target in 2027. The decline in inflation will be facilitated by monetary policy measures, gradual increases in harvests, moderate external price pressures, and improving labor market conditions against the backdrop of FX market sustainability and sufficiency of international financing
- **The economic growth was restrained** in H1 due to more intensive air attacks and further destruction of production facilities, infrastructure, and housing. In view of this, the NBU forecasts **economic recovery to be slower** than last year: real GDP will grow by 2.1% in 2025. Going forward, the pace of recovery will depend on the course of the war. The baseline scenario of the NBU's forecast envisages that the economy will gradually return to normal functioning and the economy will grow by 2%–3% in 2026–2027. At the same time, if the normalization occurs quickly, private investment and consumption will increase significantly, offsetting the effects of the rapid fiscal consolidation, while GDP growth might reach 3%–3.5%
- **The NBU will stick to a rather tight monetary stance as long as it is needed in order to ensure that inflation is steadily declining toward its 5% target.** Compared to the April forecast, the NBU's revised forecast already incorporates a longer maintenance of the key policy rate at 15.5% (until Q4 2025) and then a slower pace of cutting it

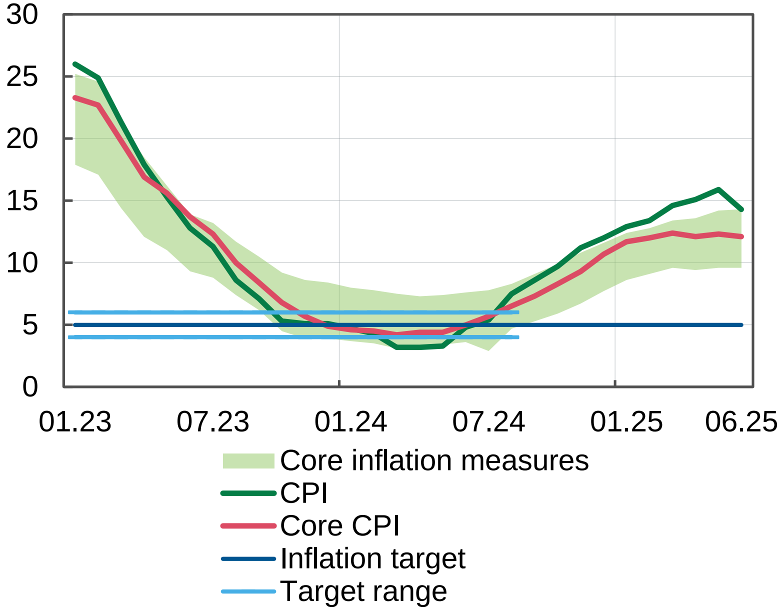
Macroeconomic forecast*

Forecast	2024**	2025	2026	2027
Real GDP, change, %	**2.9**	**2.1** (3.1)	**2.3** (3.7)	**2.8** (3.9)
CPI, % yoy (eop)	**12.0**	**9.7** (8.7)	**6.6** (5.0)	**5.0** (5.0)
Current account balance, USD bn	**-15.9** (-13.7)	**-34.6** (-17.3)	**-34.9** (-31.3)	**-37.3** (-27.7)
International reserves, USD bn	**43.8**	**53.7** (57.6)	**44.7** (46.8)	**45.2** (48.6)
Consolidated budget deficit, % GDP ***	**23.8**	**22.0** (19.2)	**18.8** (11.8)	**12.0** (6.9)
Assumptions	**2024****	**2025**	**2026**	**2027**
Official financing, USD bn	**41.9**	**53.7** (55.1)	**34.9** (17.3)	**30.0** (15.0)
Harvest of cereals and legumes, million tons	**56.2**	**57.9** (61.7)	**59.6** (62.3)	**60.4** (64.9)
Migration (net), million persons	**-0.5**	**-0.2** (-0.2)	**-0.2** (0.2)	**0.1** (0.5)
Real GDP of Ukraine's MTPs, %	**2.0**	**2.2** (2.2)	**2.5** (2.5)	**2.7** (2.7)
CPI of Ukraine's MTPs, %	**5.1**	**3.4** (3.5)	**2.5** (2.6)	**2.5** (2.5)

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

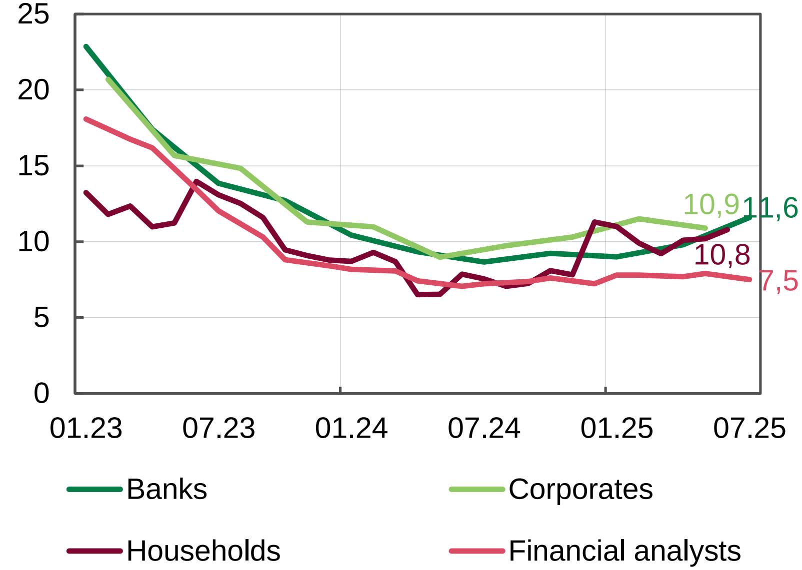
Inflation has begun to decline as expected, and inflation expectations remain under control

Consumer inflation and underlying inflation trends, % yoy



Source: SSSU, NBU staff estimates.

12-month-ahead inflation expectations, %



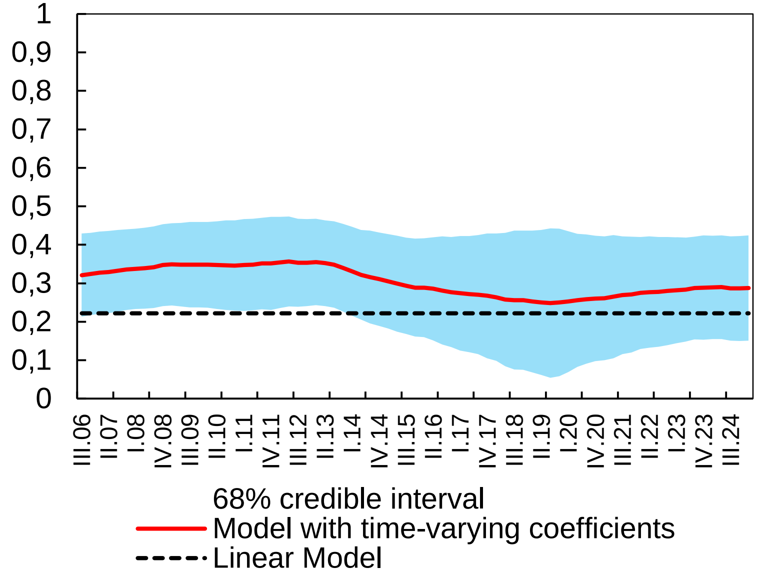
Source: NBU, Info Sapiens.

- **Inflation peaked in May, as expected, and began to decline in June**
- **At the same time, it was higher than forecast**, mainly due to the impact of adverse weather conditions on food supply. **However, the slowdown in core inflation was slightly faster than forecast.**
- The inflation expectations of economic agents showed mixed dynamics. **Overall, the expectations of all respondent groups** remained under control and **were below the actual inflation rate**

National Bank of Ukraine

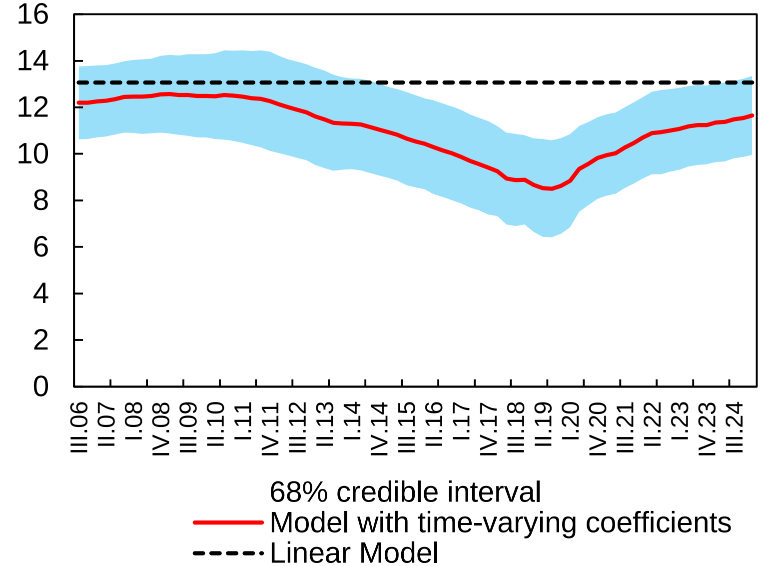
Box. Storm and anchor: adaptability to shocks and the long-run level anchor of inflation expectations of enterprises in Ukraine

Adaptability of inflation expectations based on a simple VAR model and a model with time-varying coefficients



Source: NBU staff estimates.

Long-run level anchor of inflation expectations based on a simple VAR model and a time-varying coefficient model

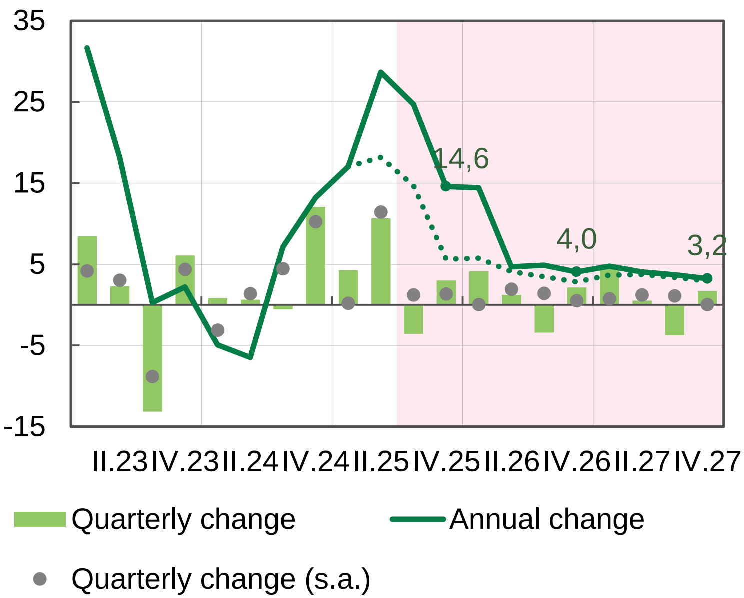


Source: NBU staff estimates.

- After the introduction of the IT regime, the degree of adaptability decreased from 35% to 25%, and since 2022 it has gradually increased to only 28%. **Firms' expectations are relatively anchored around a certain long-term level** even in extreme conditions. The "anchor" level fell after IT from ~12.5% to 8.5%. **Since 2022, the level has been moving towards ~11.5%**
- **The established level of inflation expectations of firms' currently does not exceed actual inflation, and the adaptability factor remains at a relatively low level**

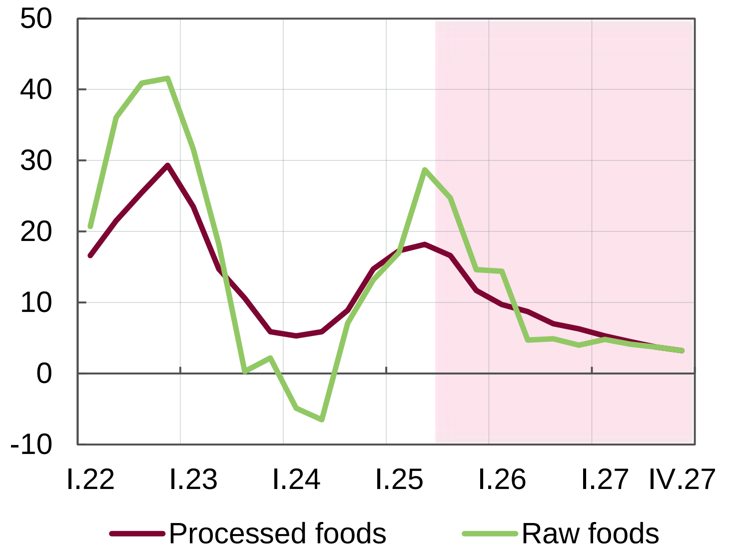
The arrival of new crops on the markets will contribute to a reduction in food inflation over the forecast horizon

Raw food inflation at the end of period, % yoy



Source: SSSU, NBU staff estimates.

Food inflation components at the end of period, % yoy

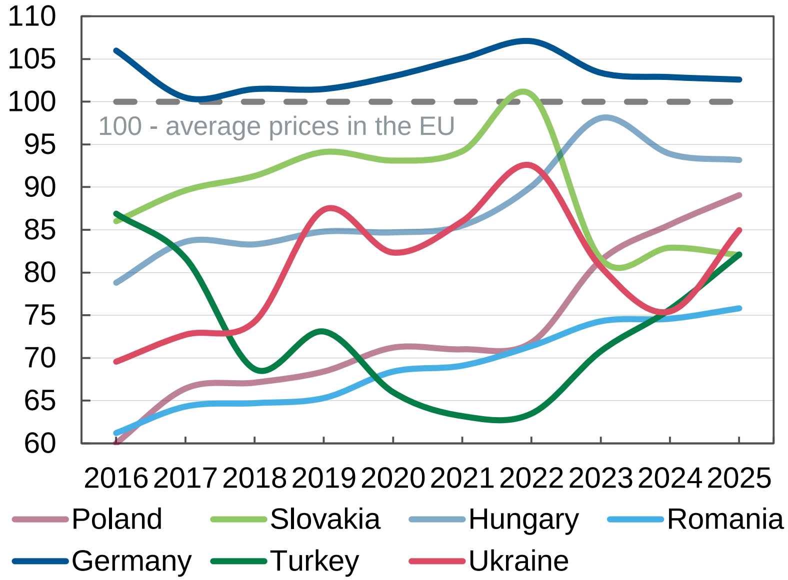


Source: SSSU, NBU staff estimates.

- **Inflationary pressure on the food market grew** due to the depletion of stocks of last year's harvests. At the same time, prolonged cold snaps in the Q2 delayed the ripening of certain agricultural crops. This led to an increase in prices for stone fruits, berries and apples. In addition, the increase in the price of all types of meat has accelerated significantly
- **According to the NBU's estimates, food inflation is close to a local peak** and will continue to decline in the categories of both processed and raw products along with the arrival of new harvests on the markets

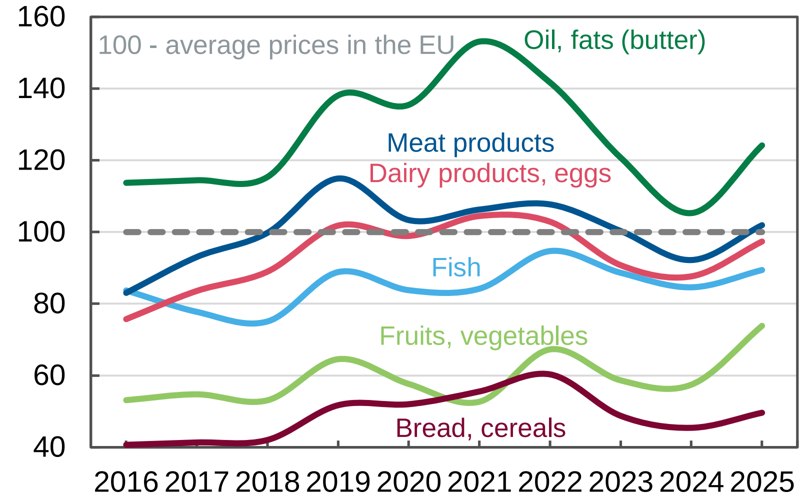
Box. Ukraine and the EU: convergence of food prices

Relative food price indices in selected countries*



* Data for 2025 - on average from January to May 2025.
Source: Eurostat, Czech Statistical Office, official web pages of central banks, SSSU, NBU staff estimates.

Price indices for certain food product groups in Ukraine compared to the averages in the EU*

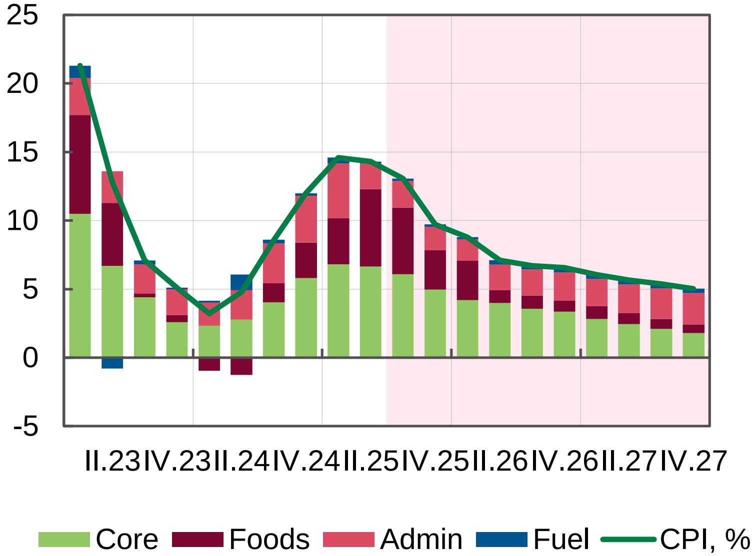


* Data for 2025 - on average from January to May 2025.
Source: Eurostat, Czech Statistical Office, SSSU, NBU staff estimates.

- In recent years, **food prices in Ukraine have converged with those in EU countries**, and for a number of goods have even exceeded the levels of neighboring countries
- During periods when domestic factors are unfavorable, relatively high food prices **boost imports.** This **reduces price volatility** and strengthens the NBU's ability to control inflation. However, it **worsens the situation for domestic producers and increases pressure on international reserves**

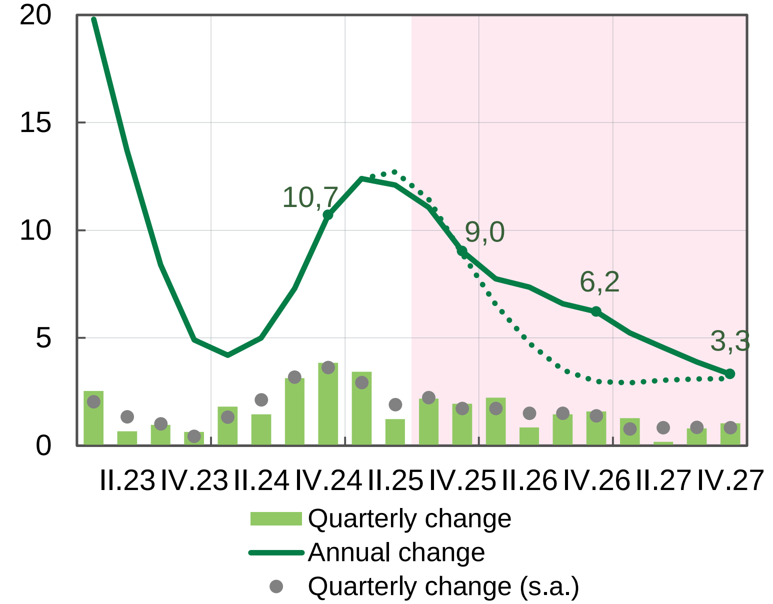
Inflation will decline to single-digit levels by year-end and will move towards the 5% target over the 3-year policy horizon

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



Source: SSSU, NBU staff estimates.

Core CPI, % yoy

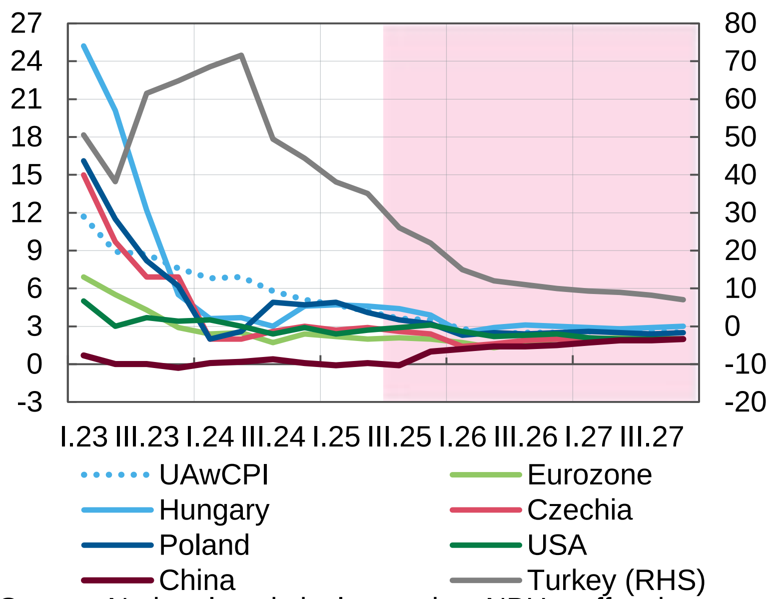


Source: SSSU, NBU staff estimates.

- **A noticeable decrease in inflation is forecast by the end of the year**
- **Fundamental inflationary pressures will ease** primarily due to the NBU keeping a relatively tight monetary policy. The significant contribution of the administrative component over the forecast horizon will be offset by lower-than-target core inflation
- **The inflation trajectory has been revised towards a slower decline** due to more significant losses from the war, the pass-through of business costs to prices, a deterioration of the harvest forecast, and the effects of the actual weakening of the hryvnia against the euro

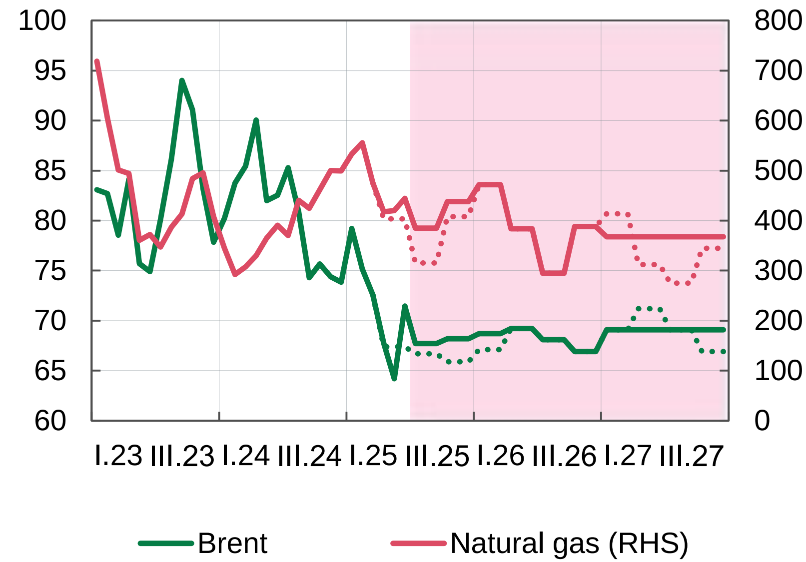
Inflation will remain moderate in most of Ukraine's MTPs, while energy prices will remain in a sideways trend

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



Source: National statistical agencies, NBU staff estimates.

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

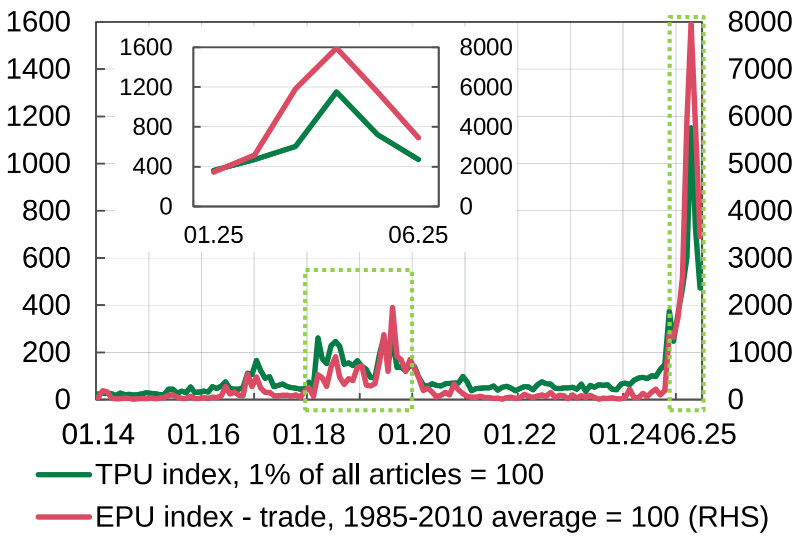


Source: World Bank, LSEG, NBU staff estimates.

- **Moderate external price pressure on the Ukrainian market will remain until the end of the year. Further on, it will slowly ease**. Inflation is expected to sustainably approach the CBs' targets by the end of 2026. Increased volatility in major currencies will be an additional factor in fluctuations in external price pressure
- **Global commodity markets are slowly returning to normal, and global prices for most commodities will move in a sideways trend.** However, global energy prices will remain highly volatile

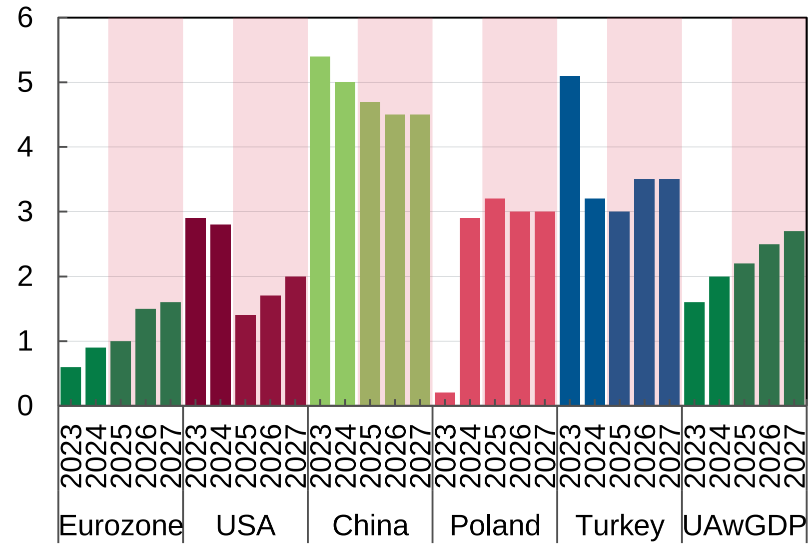
Persistence of economic and political uncertainty in the world will restrain economic growth in Ukraine's MTPs

Trade policy uncertainty indices based on textual analysis of news*



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

Real GDP of selected countries and UAwGDP, % yoy

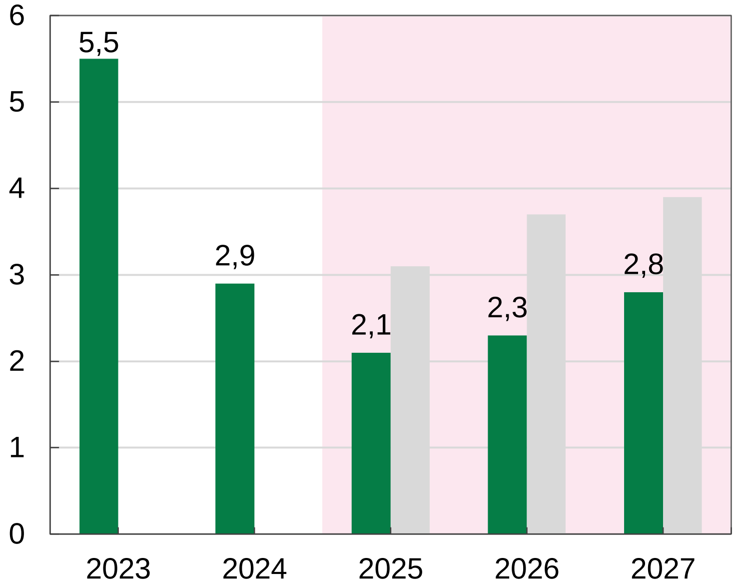


Source: National statistical offices, NBU staff estimates.

- **The negative impact of uncertainty on businesses has decreased since April, thanks to the signing of certain agreements between the U.S. and third countries.** However, its level is still too high by historical standards. Increased uncertainty is curbing consumption and investment
- **In the coming years, as economies of MTPs adjust to the new environment, their growth will accelerate**, driven by robust private consumption, easing financial conditions, and increased government spending

The economic recovery will be slower than last year. The further pace of recovery will depend on the course of the war

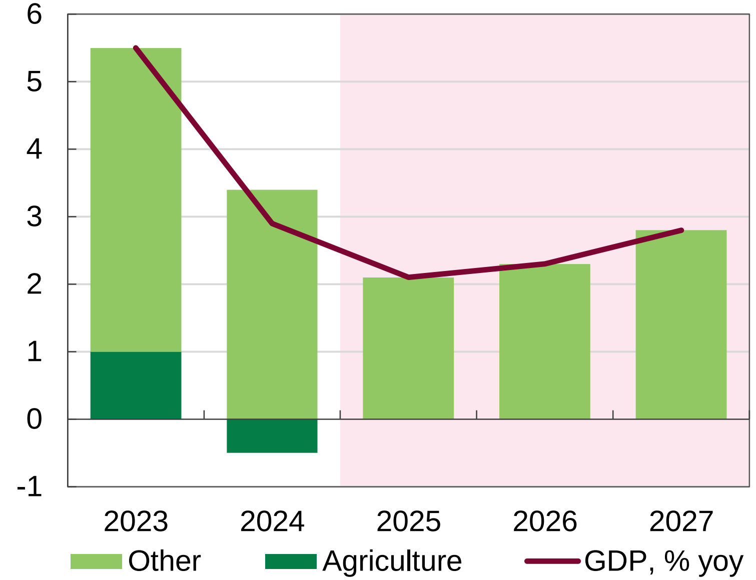
Real GDP, %



gray bars – previous forecast

Source: SSSU, NBU staff estimates.

Contribution of agriculture to real GDP growth, pp

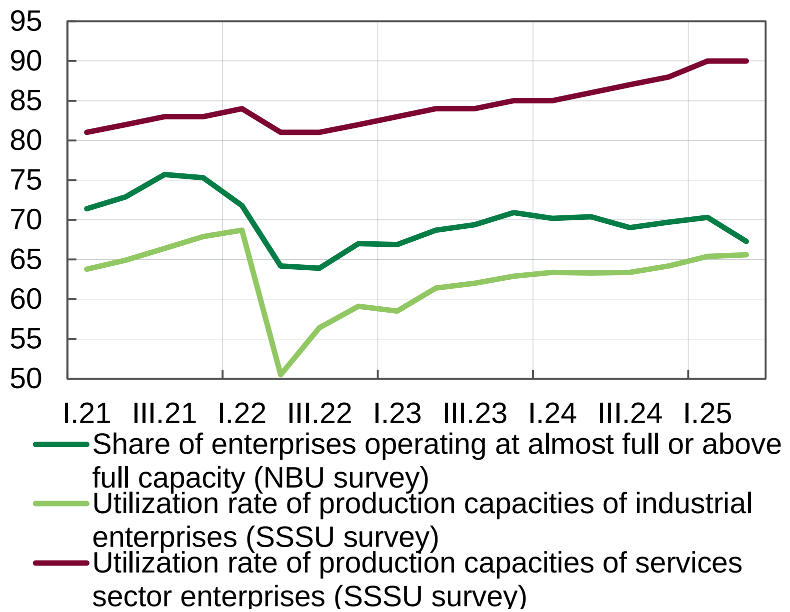


Source: SSSU, NBU staff estimates.

- **Economic growth in the first half of 2025 was subdued** due to increased shelling and further destruction of production facilities, infrastructure and housing
- Due to **adverse weather conditions**, estimates of this year's harvests have been reduced, so the contribution of agriculture in 2025 will be close to zero
- The baseline scenario of the NBU's forecast envisages that the economy will gradually return to normal functioning and the **economy will grow by 2%–3%** in 2025–2027

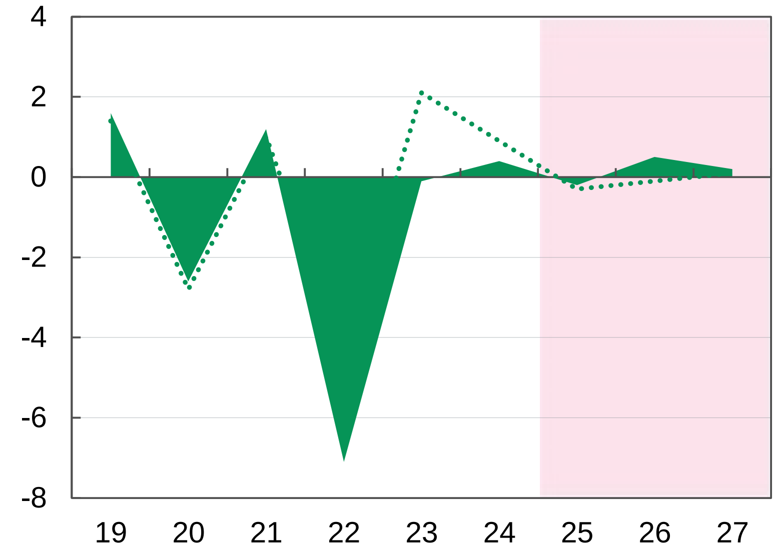
Overall, the economy is close to its potential level and will slightly exceed it over the forecast horizon

Production capacity utilization indicators, %



Source: SSSU, NBU.

Output gap, % of potential GDP

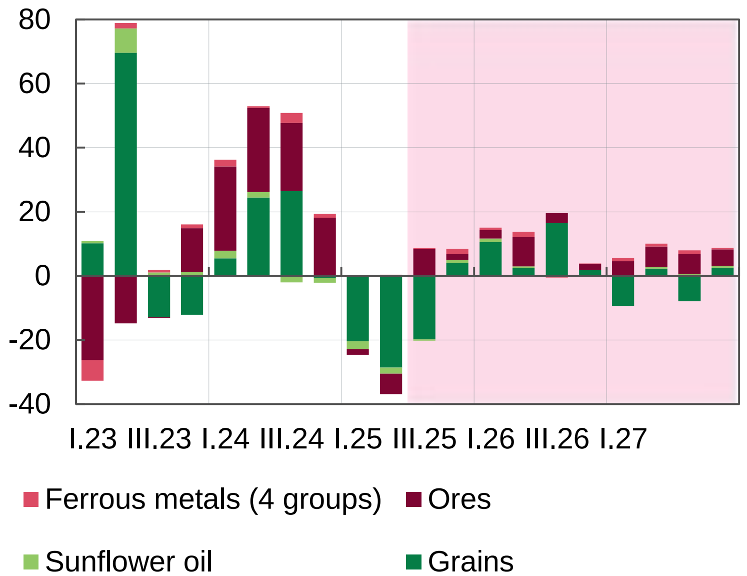


Note: updated estimates were made using the QPM+ version.
Source: SSSU, NBU staff estimates.

- **The utilization rate of industrial enterprises is at the level of 2021**, and that of service enterprises is at a record high (90%), which, together with other facts, primarily indicates a shortage of labor
- In general, the economy is close to the potential level, although the labor market remains "overheated". In 2025-2026, potential GDP will grow by 2%, and will be limited by losses of production potential due to the aggression of the russian federation and the slow recovery of agriculture (negative impact of climate change)

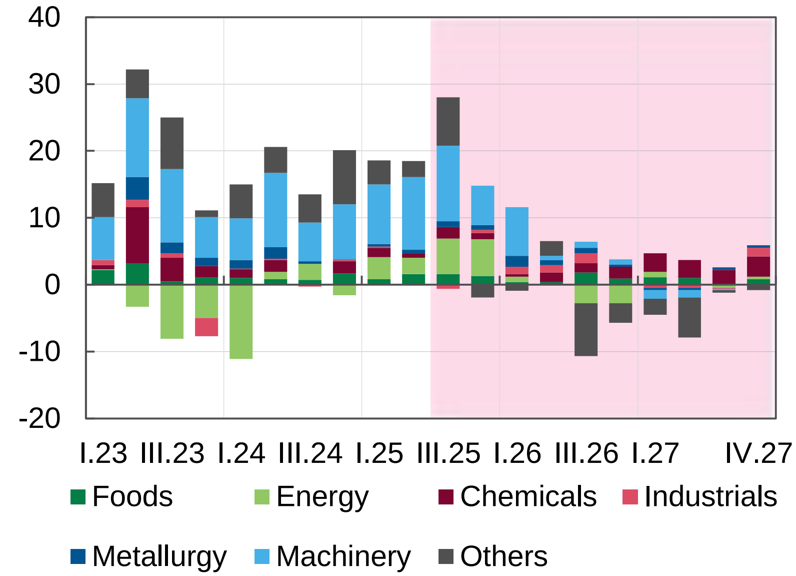
Export volumes will remain restrained, while demand for import will remain high

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

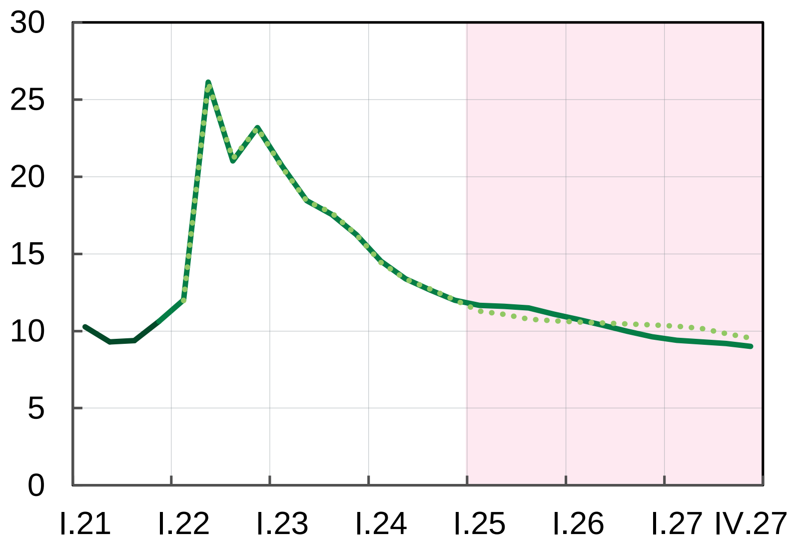


Source: SCSU, NBU staff estimates.

- **In 2025, physical exports of goods are expected to fall** and imports of goods to rise. This will lead to a significant negative contribution of net exports in 2025, which will improve in the following years (export growth outpacing imports). Increased harvests and a recovery in global demand will contribute to the recovery of export growth in 2026–2027
- **Import growth will slow due to gradual fiscal consolidation**, although it will be supported by accelerating private consumption growth and brisk investment

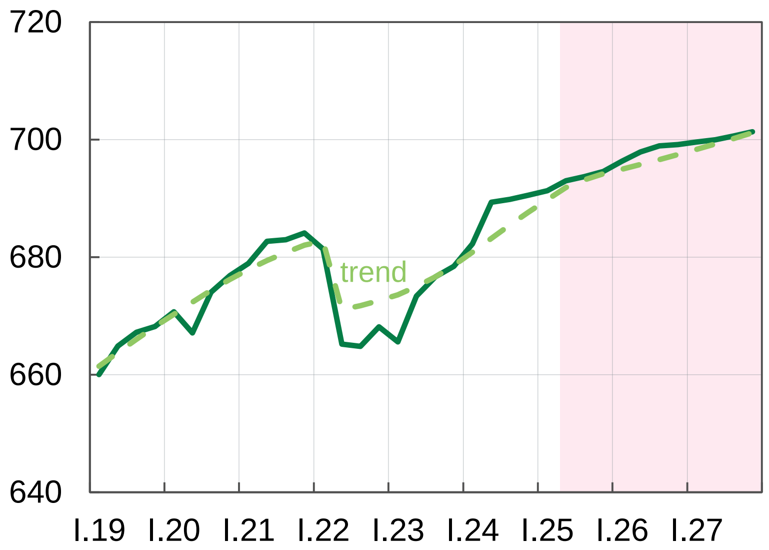
Labor shortages will remain significant and limit economic recovery

Unemployment (ILO), %, sa



Source: SSSU, NBU staff estimates.

Real wages, level (logarithms)

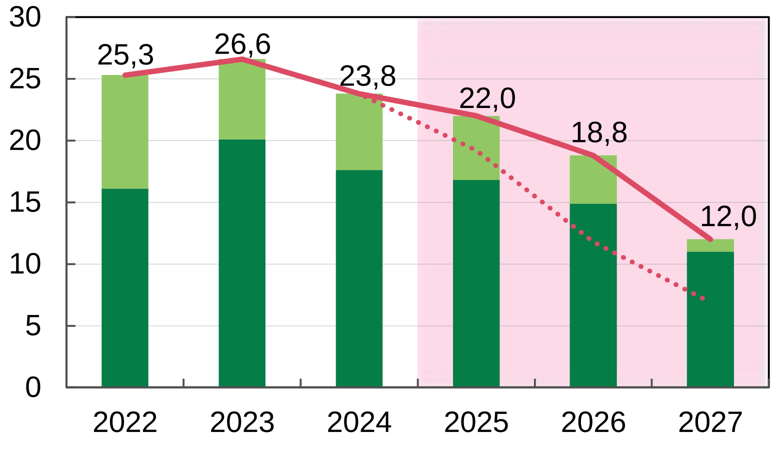


Source: SSSU, NBU staff estimates.

- **Disproportions in the labor market will persist,** but will gradually weaken along with the normalization of security conditions
- **Unemployment will decrease** and stabilize below 10% by the end of 2027, driven by growing demand for labor
- **Real wages will continue to grow** as demand outstrips labor supply and economic activity recovers

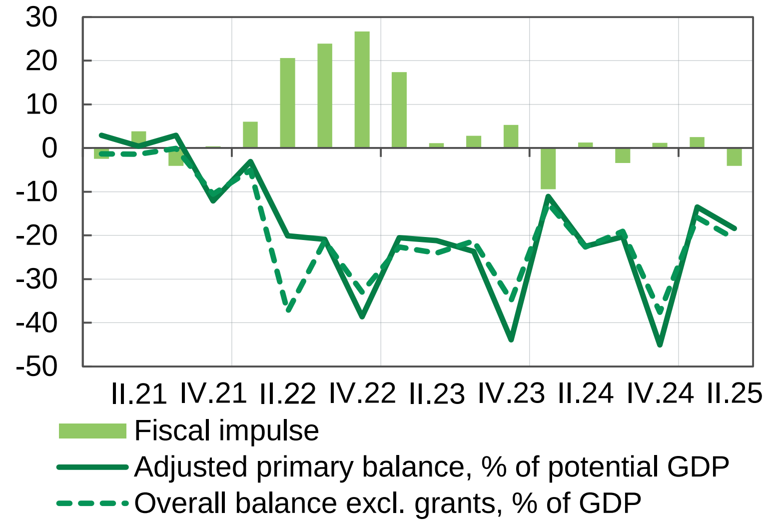
Fiscal stimulus will remain a significant factor supporting the economy, the deficit will decline slowly

Consolidated budget deficit, % of GDP



Source: STSU, SSSU, NBU staff estimates.

General government fiscal balance*

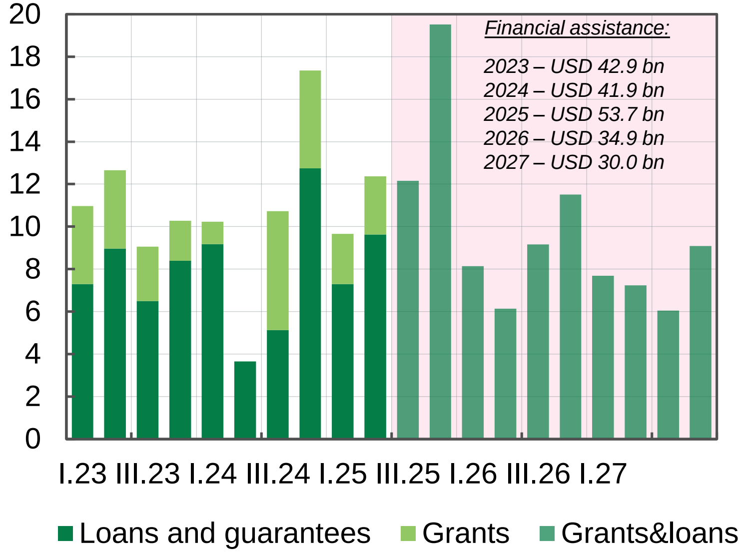


* Overall balance is the consolidated budget balance, taking into account loans to the PFU from the STA. A negative value indicates expansionary fiscal policy.
Source: STSU, SSSU, NBU staff estimates.

- **The significant needs of the defense sector will lead to a slow reduction of the budget deficit**, which will in turn support economic activity. However, it will decline to 12% of GDP in 2027
- **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

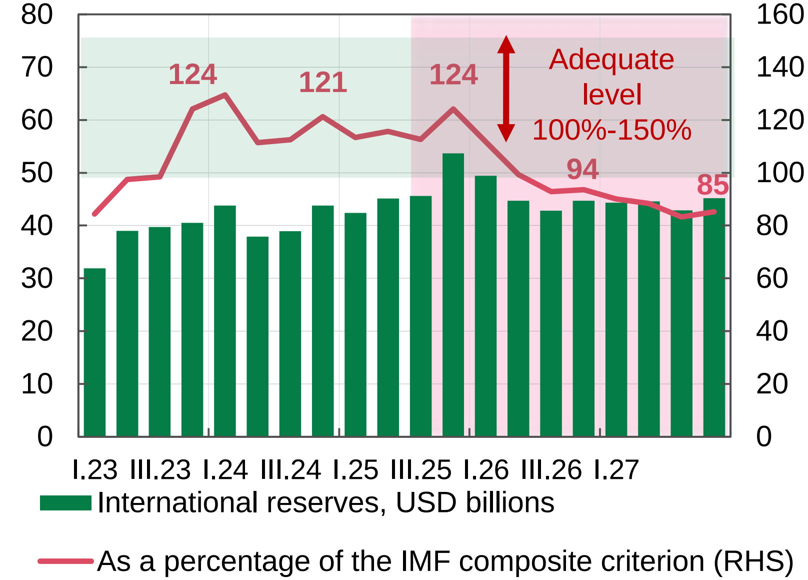
Record-high volumes of external financial assistance will enable int. reserves to grow to 54 billions USD by the end of 2025

International financial assistance, USD billions



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

Gross international reserves, USD billions

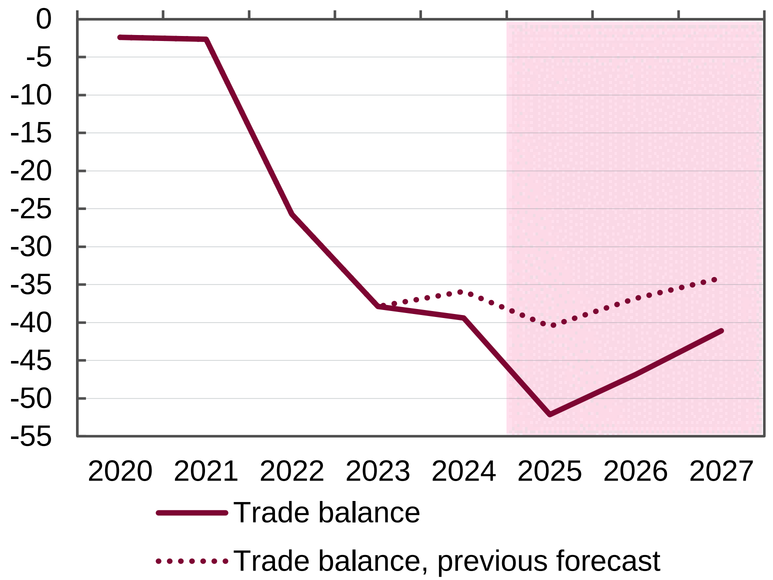


Source: NBU staff estimates.

- **External financing** will make it possible to maintain international reserves at a high level, which will continue to support the stability of the foreign exchange market, anchor expectations, and limit price pressures.
- **The expected volumes of external financing will be sufficient** to finance the budget deficit without monetary issuance and to maintain an adequate level of international reserves (according to the NBU forecast, around 45 billion USD in 2026-2027)

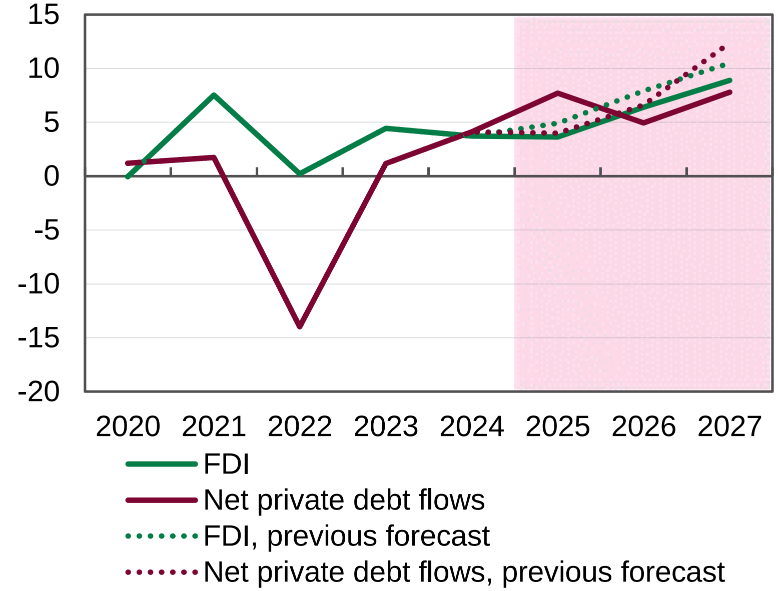
Due to the full-scale invasion, the trade deficit is increasing, while capital inflows to the private sector are stagnating

Trade balance, USD billion



Source: NBU staff estimates.

Net investment and debt capital inflows to the private sector, USD billion

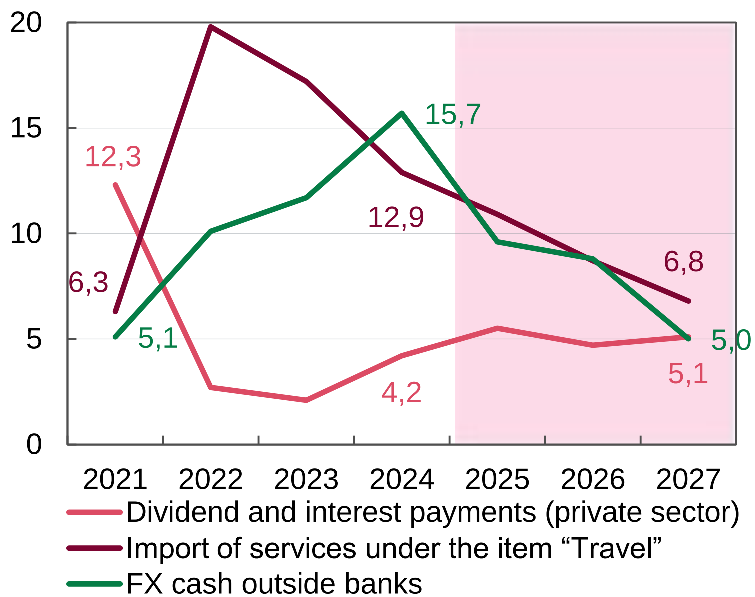


Source: NBU staff estimates.

- **The trade deficit is large due to the consequences of the war**, and is only partially covered by capital inflows to the private sector
- **Export forecast lowered** due to revised crop assumptions
- **Imports revised upward** due to a wider budget deficit, the abolition of preferential trade with the EU, and a technical reason - taking into account the value of parcels up to 150 euros

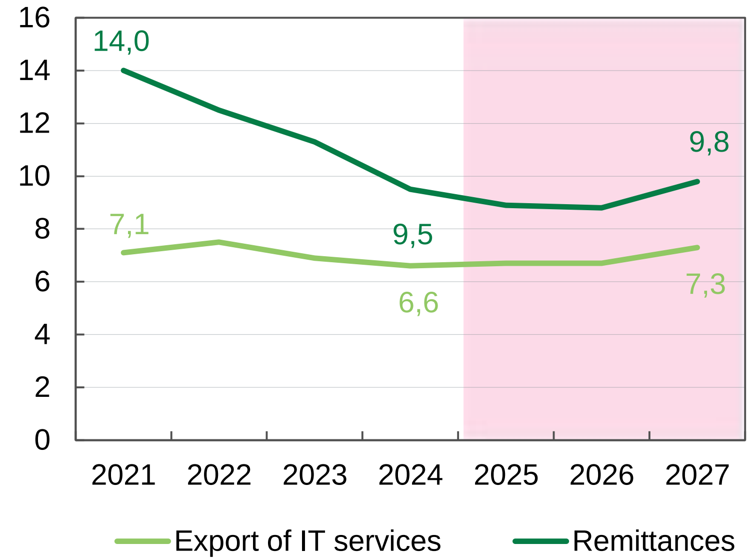
The full-scale invasion caused sharp fluctuations in both the outflow and inflow of foreign currency

Selected components of FX outflows, USD billion



Source: NBU staff estimates.

Selected components of FX inflows, USD billion

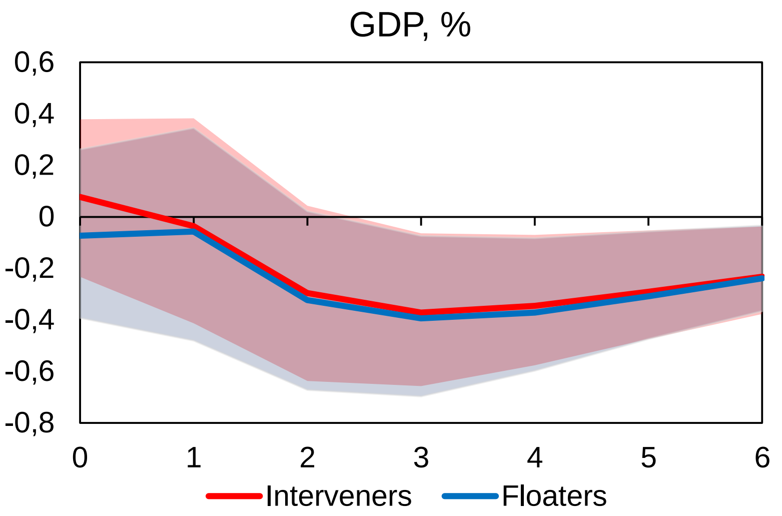


Source: NBU staff estimates.

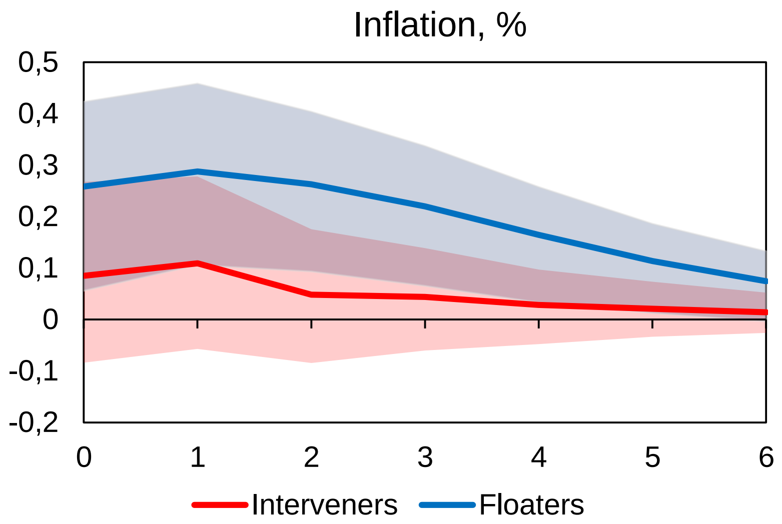
- Import of services under the item “Travel” increased due to **the large number of forced migrants**
- Demand for foreign cash peaked in 2024. **Elevated security risk** enhanced the attractiveness of foreign currency as a means of savings
- Dividend and interest payments in the private sector declined significantly due to the introduction of **administrative restrictions** on capital outflows
- Remittances declined due to a **decrease in seasonal labor migration** and some families' reunions abroad

Box. Monetary response to geopolitical shocks: how can FX interventions ease inflationary pressures?

Weighted responses of macroeconomic variables of two groups of countries to a geopolitical risk shock



Source: NBU staff estimates.



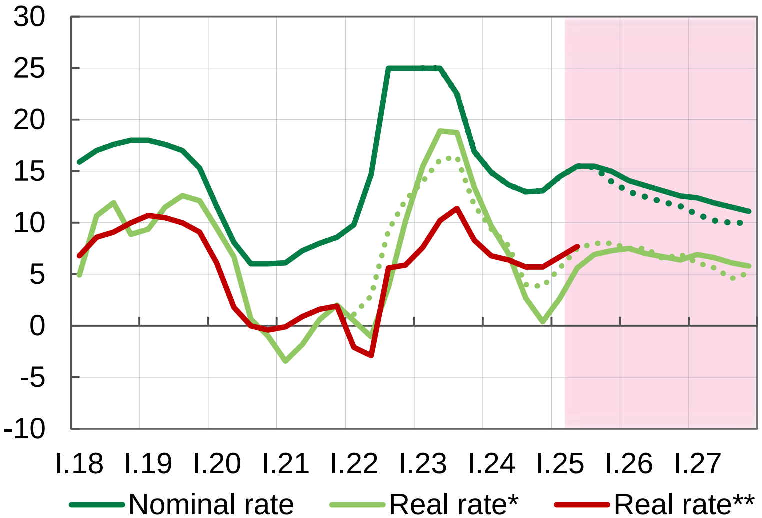
Source: NBU staff estimates.

Note: "Interveners" are a group of countries that intervene to stabilize the exchange rate due to a geopolitical shock. "Floaters" are a group of countries that do not implement it and adhere to a floating exchange rate.

- The presence of foreign exchange interventions (FXI) in the arsenal of the Central Bank's instruments allows it to respond flexibly to external shocks and **more effectively balance the goals of price stability and maintaining economic activity**
- The use of FXI during periods of geopolitical turbulence **helps reduce inflation without significantly suppressing economic growth.** At the same time, **the effectiveness** of FXI largely depends on the availability of a sufficient level of international reserves

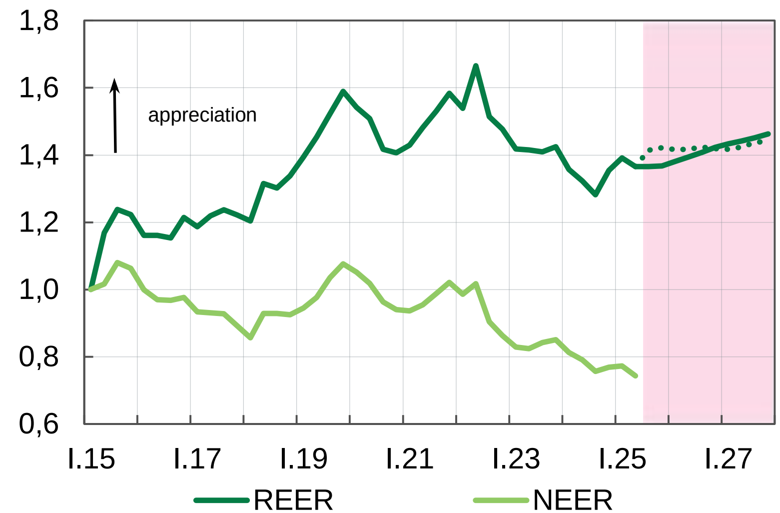
The NBU will maintain sufficiently tight monetary conditions to ensure a sustained decline in inflation to the 5% target

Key policy rate, average, %



* Deflated by model expectations (QPM+). Revision of historical estimates is due to changes in modelling the expectations in QPM+.
** Deflated by the expectations of financial analysts.
Source: NBU staff estimates.

REER and NEER indices, Q1 2015 = 1

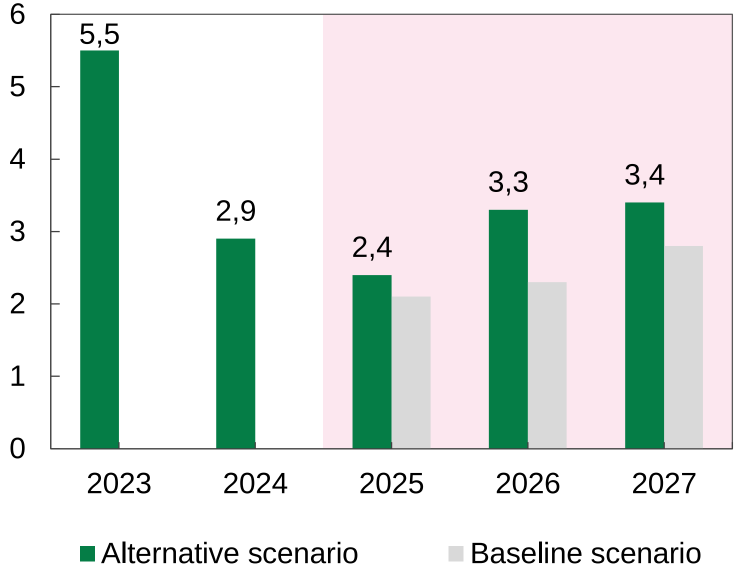


Source: IMF, national statistical offices, NBU staff estimates.

- Given the slower-than-expected actual decline in inflation and the implementation of a number of pro-inflationary factors that have pushed the achievement of the inflation target to 2027, but within the policy horizon, the NBU should maintain sufficiently tight monetary conditions for longer
- Compared to the April forecast, the NBU's **revised forecast incorporates a longer maintenance of the key policy rate** (15.5%) and then a slower pace of cutting it
- After the actual easing in Q2 2025, the **REER will strengthen**, narrowing the gap with the equilibrium level and **contributing to disinflation**

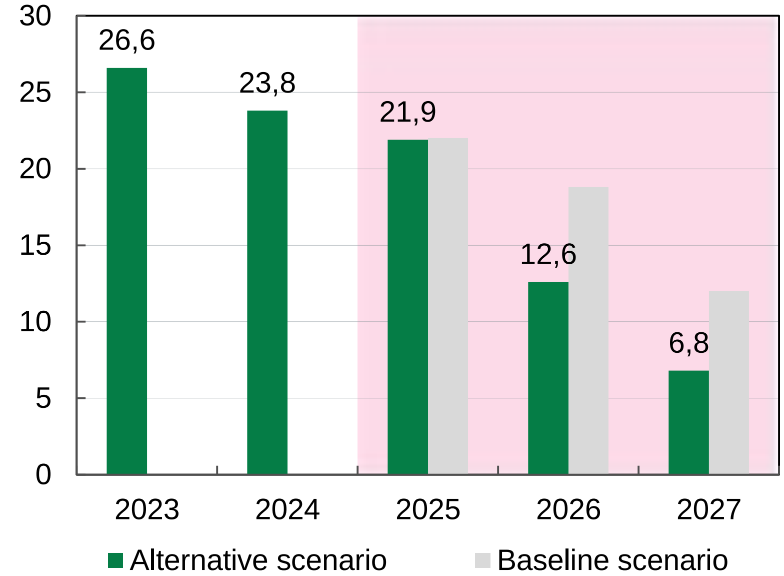
Alternative forecast scenario – assumption of a faster improvement in the security situation

Real GDP, %



Source: SSSU, NBU staff estimates.

Consolidated budget deficit excluding grants, % of GDP



Source: STSU, NBU staff estimates.

- **Real GDP growth will exceed the baseline scenario** due to a more vigorous recovery of economic potential. However, the trajectory of headline inflation differs only slightly. Therefore, the easing of interest rate policy will occur at the same pace in both scenarios
- **The structural foreign exchange deficit in the private sector will be lower** due to faster fiscal consolidation. At the same time, lower budget needs will determine a faster reduction in international financing, so the NBU reserves will be close in both scenarios

Risks

Degree of impact on the baseline scenario	Probability of Risk Occurrence: Low <15%	Average 15%–25%	High 25%–50%
Weak		Unusual weather conditions	
Moderate	Accelerating European Integration Processes and reconstruction	Deepening negative migration trends Access to new markets due to the reorientation of global trade flows	Geoeconomic uncertainty and economic slowdown in the MTP countries
Strong		Additional budgetary needs A faster end to active hostilities Higher electricity and natural gas deficit/import due to further damage to the energy infrastructure	Escalation of hostilities, further destruction of production facilities Insufficient volume of international aid

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