National Bank
of Ukraine

# Inflation Report
# (January 2026)

10 Feb 2026

# Key takeaways

- **Inflation has been steadily declining in recent months** (to 8% yoy in December). **At the same time, inflation expectations remained relatively high**
- **In 2026, inflation will decrease moderately - to 7.5%** (due to the effects of a low comparison base and large-scale disruptions in the energy sector), will aproach 5% target afterwords and reach it in 2028. This will be supported by a reduction in energy deficits, easing external price pressure, as well as increasing harvests and improving the situation on the labor market as security risks decline. Monetary policy will help limit fundamental price pressure
- **The worsening situation in the energy sector will limit business activity in 2026** (real GDP will grow by 1.8%). However, a gradual reduction in energy deficits, further infrastructure reconstruction, and increased private investment will contribute to an acceleration of economic growth to about 3-4% in 2027–2028. GDP will remain close to its potential level, without generating inflationary pressure
- **The external position of the economy will remain relatively balanced:** in 2026-2027, the CA deficit will continue to be largely offset by programs providing financing on preferential terms and designed for the medium term
- **Expected volumes of external assistance will be sufficient to finance the budget deficit** without debt monetization by the NBU (with gradual fiscal consolidation assumed)
- **A high level of international reserves will allow the NBU to maintain the sustainability of the FX market** and implement further FX liberalization measures while controlling risks
- Given the steady decline in inflation and the easing of risks related to the adequacy of external financing, **the NBU has begun a cycle of interest rate policy easing**. A gradual reduction in the key policy rate is envisaged over the forecast horizon, while the NBU is ready to adapt the policy flexibly

# Macroeconomic forecast*

| Forecast | 2025** | 2026 | 2027 | 2028 |
|---|---|---|---|---|
| **Real GDP**, change, % | **1.8** (1.9) | **1.8** (2.0) | **2.8** (2.8) | **3.7** |
| **CPI**, % yoy (eop) | **8.0** (9.2) | **7.5** (6.6) | **6.0** (5.0) | **5.0** |
| **Current account balance**, USD bn | **-31.9** (-36.6) | **-37.2** (-35.3) | **-41.6** (-38.4) | **-29.1** |
| **International reserves**, USD bn | **57.3** (53.6) | **65.0** (52.2) | **72.9** (59.2) | **70.6** |
| **Consolidated budget deficit**, % GDP *** | **24.8** (25.3) | **19.3** (19.3) | **13.6** (13.8) | **9.3** |
| **Assumptions** | **2025**** | **2026** | **2027** | **2028** |
| **Official financing**, USD bn | **52.4** (51.5) | **51.4** (45.5) | **42.7** (39.1) | **21.6** |
| **Harvest of cereals and legumes**, million tons | **63.5** (61.5) | **62.9** (62.9) | **63.5** (63.5) | **65.0** |
| **Migration (net)**, million persons | **-0.3** (-0.2) | **-0.2** (-0.2) | **0.1** (0.1) | **0.5** |
| **Real GDP of Ukraine's MTPs**, % | **2.4** (2.2) | **2.4** (2.5) | **2.6** (2.7) | **2.6** |
| **CPI of Ukraine's MTPs**, % | **3.9** (3.8) | **2.9** (2.8) | **2.5** (2.5) | **2.2** |

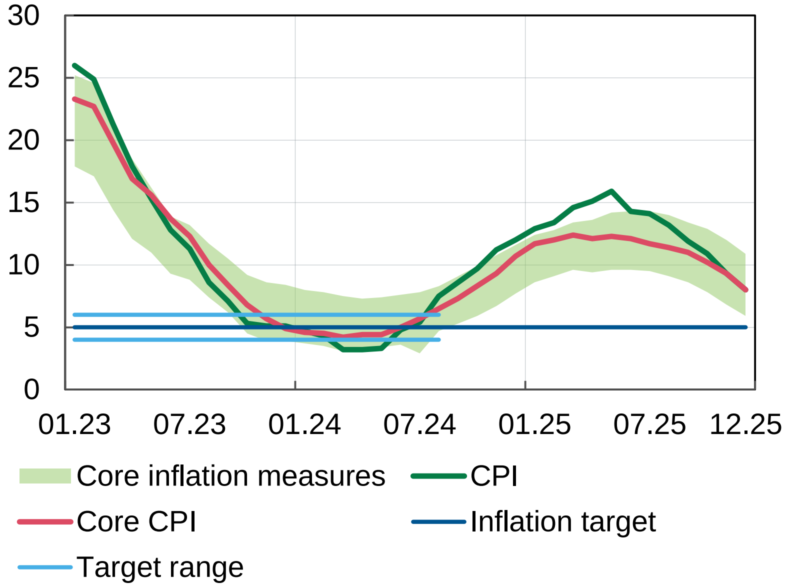
* in parentheses – previous forecast (Inflation report, October 2025), decrease/increase marked by color

** actual

*** excluding grants

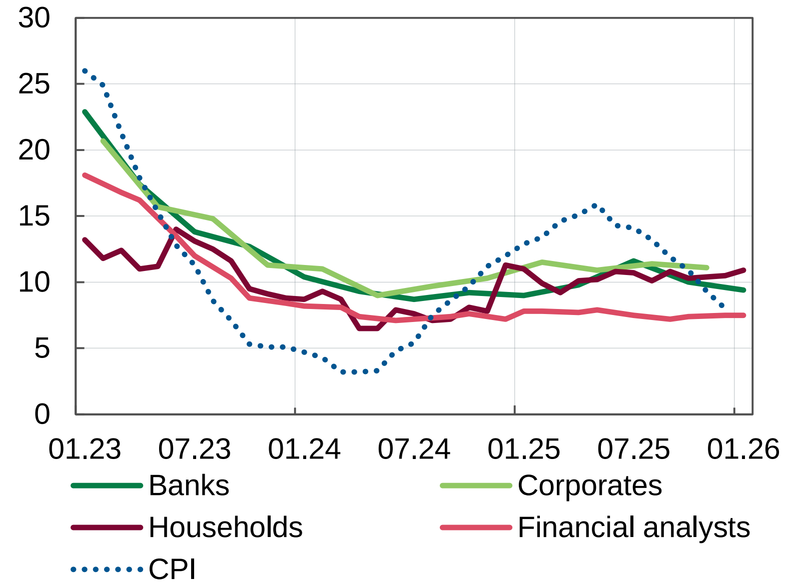
# Inflation has been steadily declining in recent months, but inflation expectations remain relatively high

**Consumer inflation and underlying inflation trends, % yoy**




Source: SSSU, NBU staff estimates.

**12-month-ahead inflation expectations, %**




Source: NBU, Info Sapiens.

- **The growth rate of consumer prices slowed faster than expected** by the NBU's October forecast (9.2%). This was primarily due to a more rapid decline in raw food inflation
- **Fundamental price pressures eased markedly**, in particular due to second-round effects from better harvests, improved labor market conditions, and a sustainable FX market
- **However, inflation expectations remained relatively high** across most respondent groups

# Box. Factors That Caused Deviation of Inflation from the Target in 2025

**Decomposition of inflation deviation from the target in December 2025, pp**


* The contribution of demand is zero and is not displayed on the graph.
Source: NBU staff estimates.

**Comparison of the values of selected variables in 2024–2025**

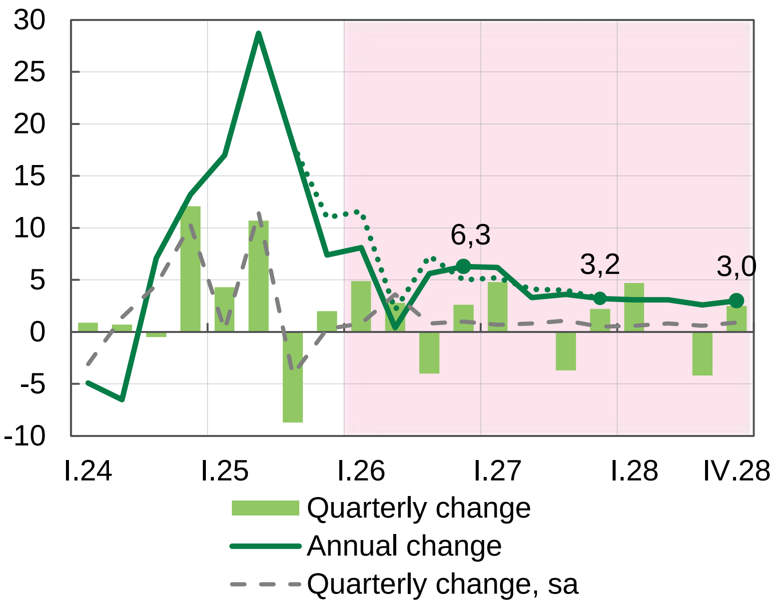
| Indicator | 2024 | 2025 |
|---|---|---|
| Brent oil price, USD/bbl, annual average | 80.7 | 69.0 |
| Gas price at the TTF hub (Netherlands), USD/kcm, annual average | 393.9 | 430.5 |
| Grain harvest, million tons | 56.2 | 63.5* |
| Vegetable harvest, million tons | 6.8 | 7.9* |
| Consolidated budget deficit (excl. 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**. Weakening of the US dollar and, therefore, hryvnia against the euro and other currencies of Ukraine's MTPs supported substantial external price pressure
- **Administrative decisions**. Tobacco products became more expensive due to tax changes for manufacturers and importers. Excise duties tied to the euro increased
- **Supply shocks and labor market**. Although food inflation eased, the effects of the poor 2024 grain harvest have not yet fully dissipated. Businesses' labor costs and the costs of gaining energy independence increased
- **Consumer demand** had a close-to-neutral impact on prices
- The **decline in world oil prices** reduced inflationary pressures

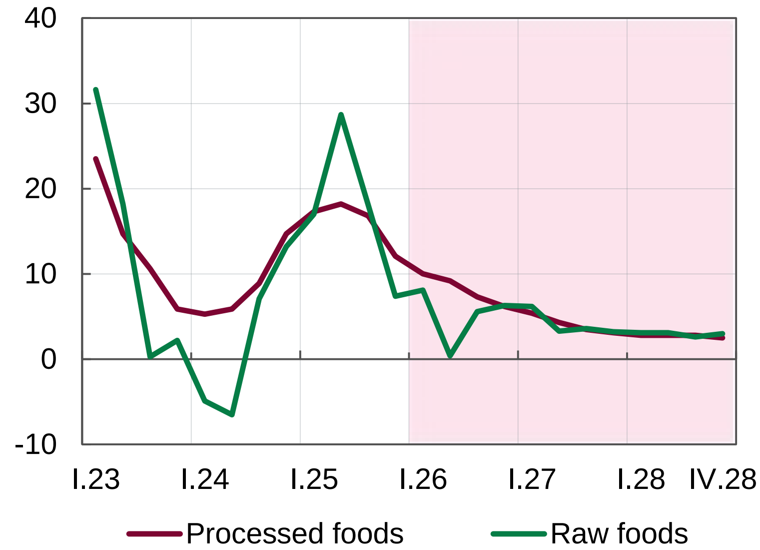
# Expected crop growth in 2026-2027 will restrain food inflation

**Raw food inflation, %**




Source: SSSU, NBU staff estimates.

**Food inflation components, % yoy**

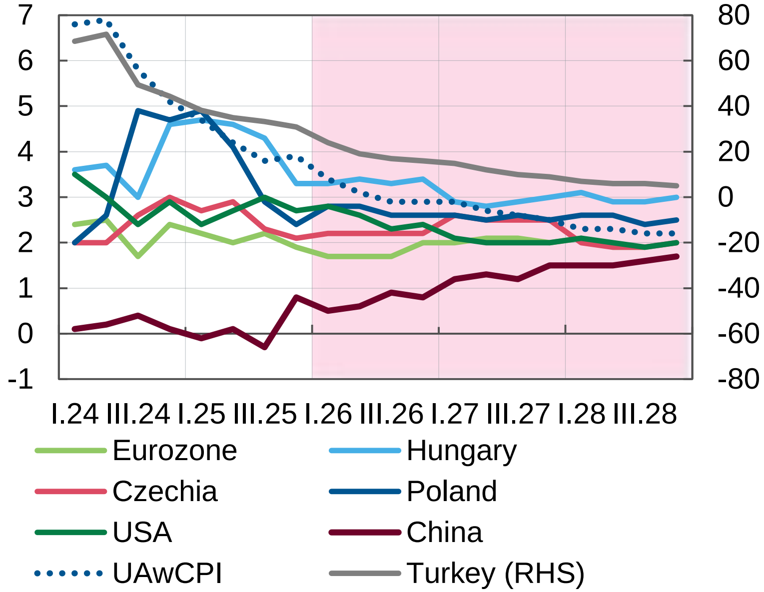



Source: SSSU, NBU staff estimates.

- **Harvests in Ukraine in 2026 will differ slightly from last year**, so raw product inflation will stabilize at 6–7% in the second half of the year
- **From 2027, a gradual increase in grain, leguminous, and oilseed harvests is expected** due to increased sowing. Harvests of vegetables, fruit and berry crops will remain relatively stable. Accordingly, food inflation will slow down to ≈3%
- **Second-round effects from the subsiding raw foods inflation** will contribute to a decrease in the rate of price growth for highly processed products

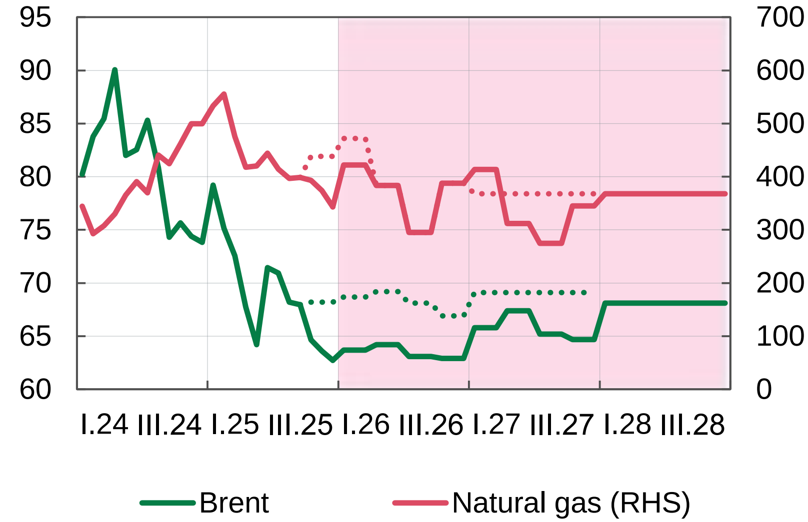
# External inflationary pressures will ease

**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)**

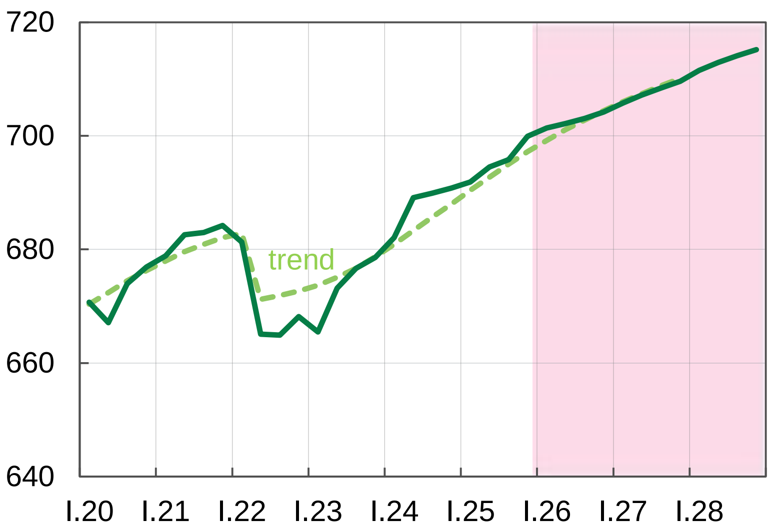



Source: World Bank, LSEG, NBU staff estimates.

- **External inflationary pressures are expected to gradually ease**
- **This will be supported by** the easing of imbalances in labor markets, cautious monetary policy by central banks, and reduced volatility of the US dollar in global financial markets
- **Global oil prices will remain relatively low**, although they will rise slightly due to the revival of economic activity and countries' need to replenish their reserves, primarily in the US

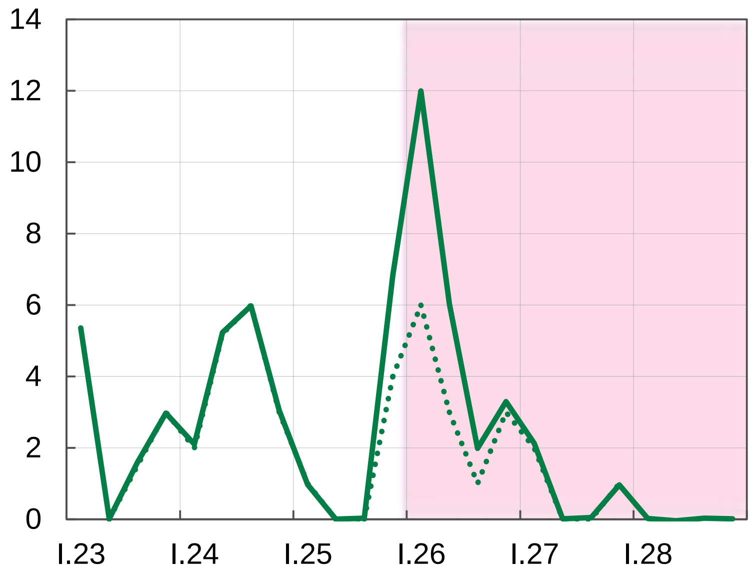
# Improving labor market conditions will contribute to disinflation, but the effects of disruptions in the energy sector will restrain it

**Wages, level (in logs)**




Source: SSSU, NBU staff estimates.

**Deficit of electricity, %**

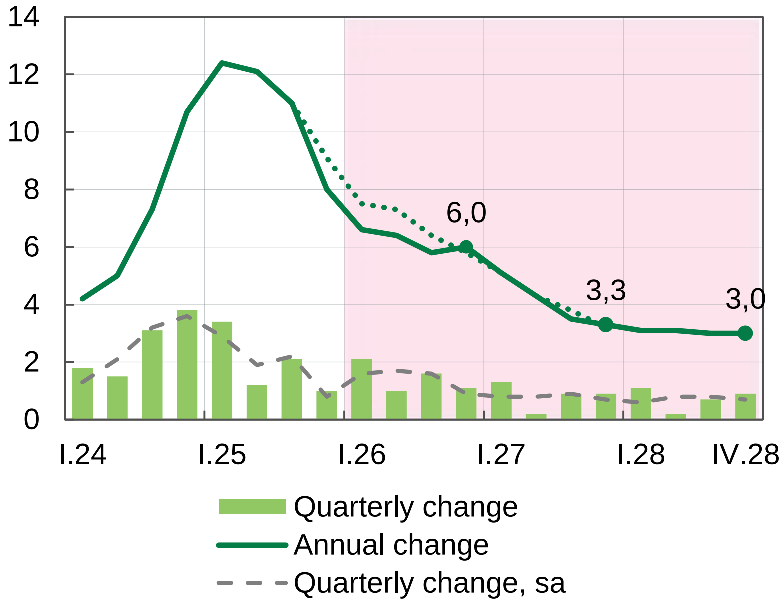



Source: SSSU, NBU staff estimates.

- **Real wage growth will continue**, but will gradually slow down as labor market imbalances continue to ease. Wage levels will remain close to trend
- **The impact of large-scale disruptions in the energy sector will put pressure on prices** through both market and administrative mechanisms
- Due to the high needs for energy system restoration, the forecast includes a **<u>technical assumption</u> of an increase in tariffs** for electricity and other utility services that would gradually bring them to market-based levels

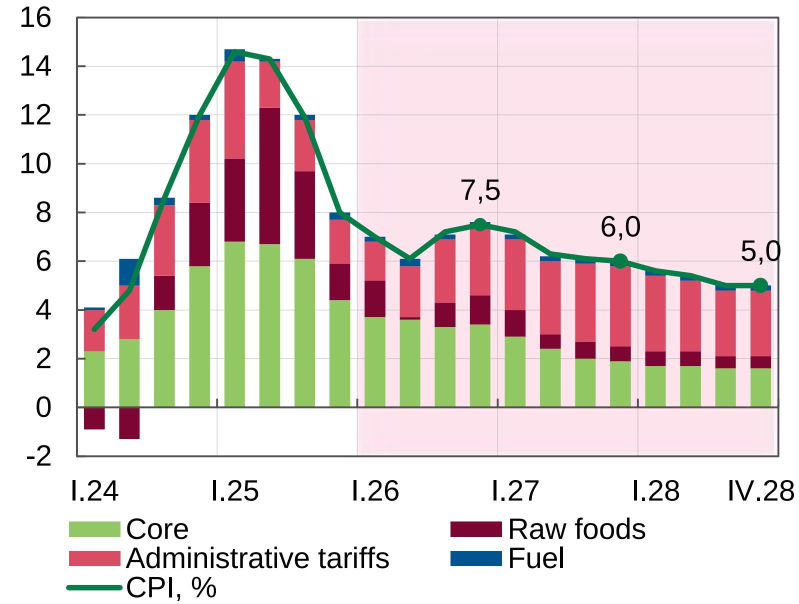
# Inflation will be moderate in 2026 and will be close to the 5% target thereafter, with the target to be reached in mid-2028

**Core CPI, % yoy**




Source: SSSU, NBU staff estimates.

**Contributions to annual CPI growth, pp**

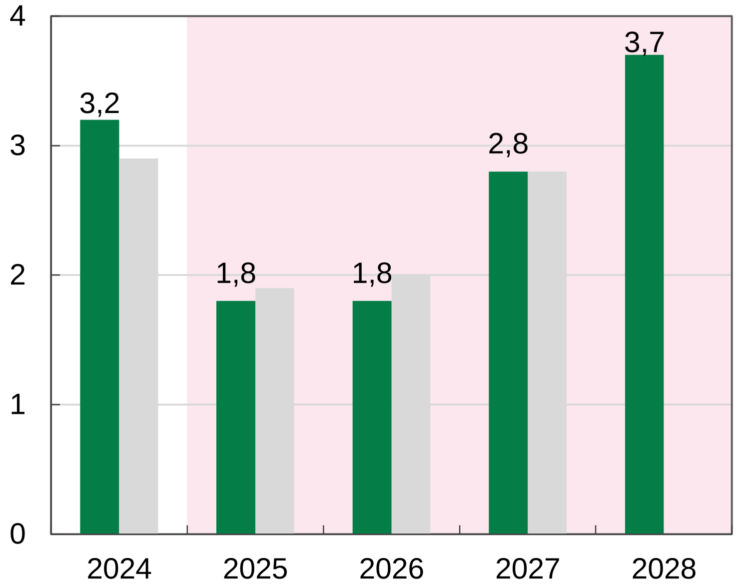



Source: SSSU, NBU staff estimates.

- **Fundamental price pressures will ease**, in particular due to the effects of slowing raw food inflation, lower labor market imbalances, and monetary policy measures
- At the same time, the decline in inflation will be constrained for a prolonged period by the **lagged effects of disruptions in the energy sector**

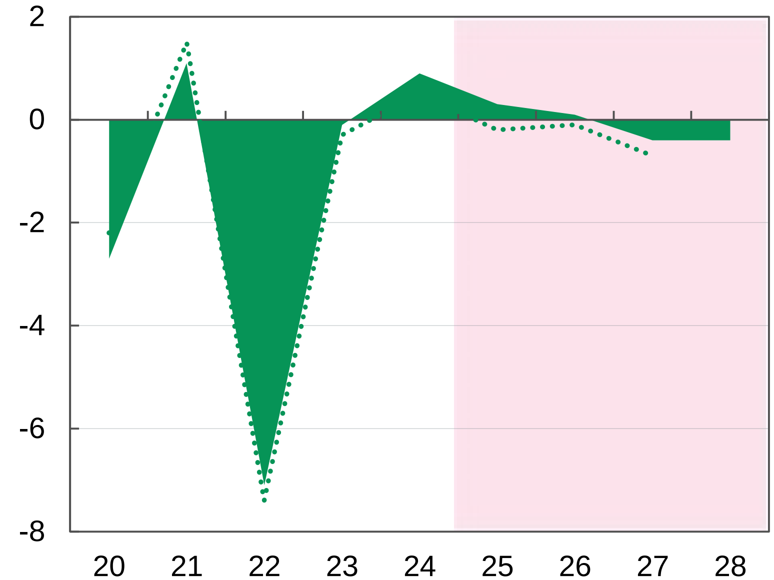
# The economy will continue to grow, although growth will remain moderate due to the effects of the war

**Real GDP growth, %**




Gray bars are previous forecast.
Source: STSU, SSSU, NBU staff estimates..

**Output gap, % of potential GDP**

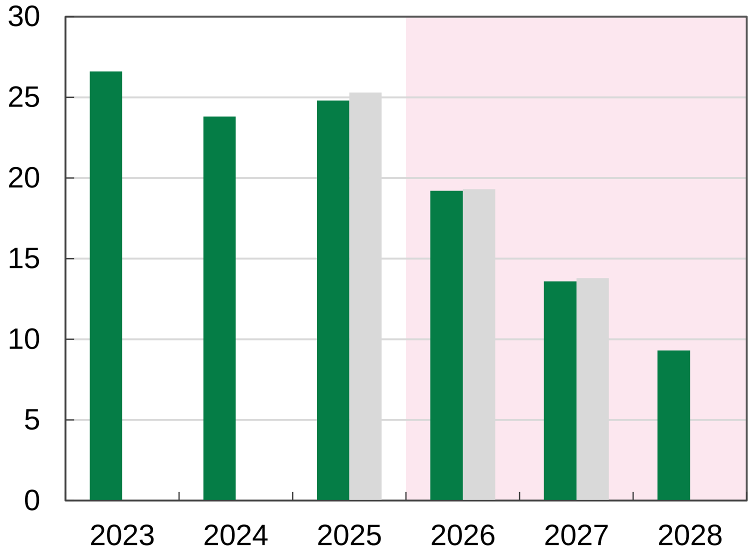



Source: SSSU, NBU staff estimates.

- **The worsening situation in the energy sector will limit business activity**: GDP will grow moderately by 1.8% in 2026
- **GDP growth will accelerate to about 3-4% in 2027–2028**, supported by a gradual improvement in the energy sector, further reconstruction of infrastructure, and increase in private investment
- **Real GDP will remain close to its potential level, without generating inflationary pressures.** The growth of economic potential will be restrained by the losses incurred in production capacity and labor force

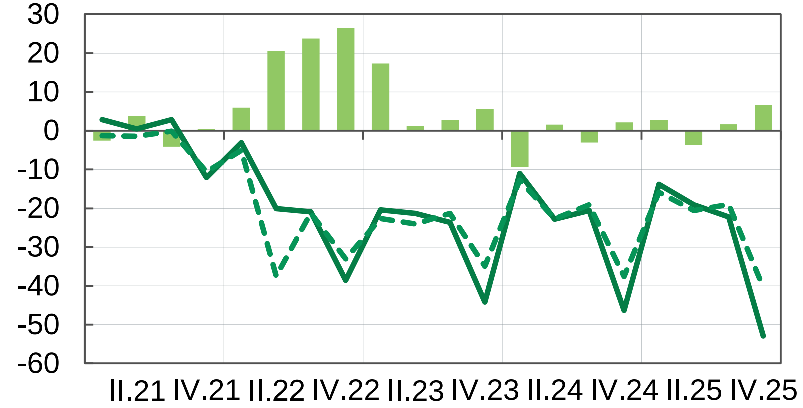
# Gradual fiscal consolidation and deficit financing primarily with international aid are assumed

**Consolidated budget deficit, excluding grants from revenues, % of GDP**




Gray bars are previous forecast.
Source: STSU, SSSU, NBU staff estimates.

**General government fiscal balance***

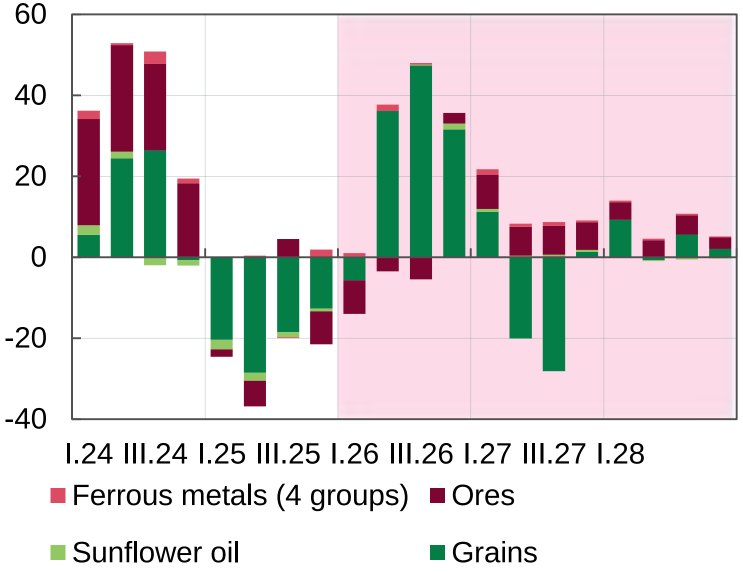



* Overall balance is the consolidated budget balance, taking into account loans to the PFU from the STA. A negative value indicates expansionary fiscal policy.
Source: STSU, SSSU, NBU staff estimates.

- **The forecast includes a gradual reduction in the budget deficit** to 19% of GDP in 2026, and to 14% and 9% of GDP in 2027 and 2028, respectively
- **The rather slow fiscal consolidation** will be driven by significant needs to maintain the country's defense capabilities, restore and modernize infrastructure, and implement humanitarian and social policies
- **At the same time, fiscal stimuli will gradually be replaced by private ones**

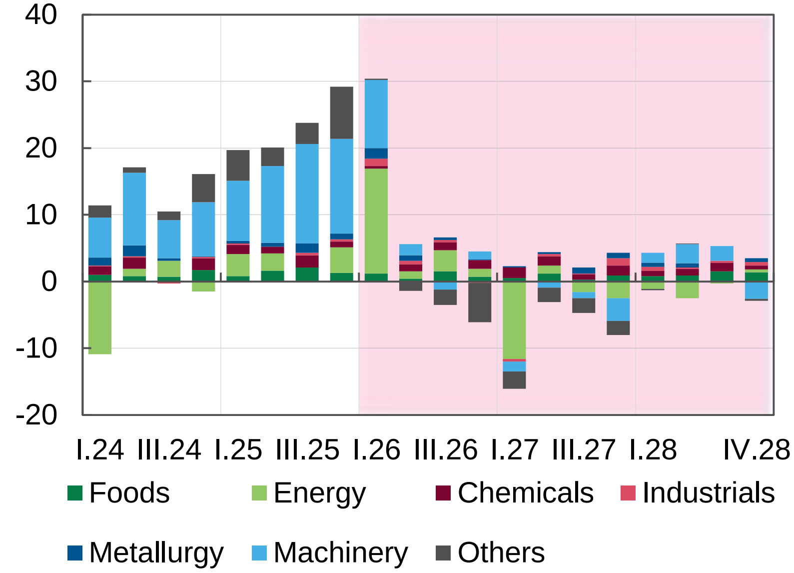
# Further fiscal consolidation will restrain imports. Grain harvest is expected to catch up in 2026…

**Contributions to the annual change in physical export volumes of selected goods, p.p.**




Source: SCSU, NBU staff estimates.

**Contributions to the annual change in imports of goods, p.p.**

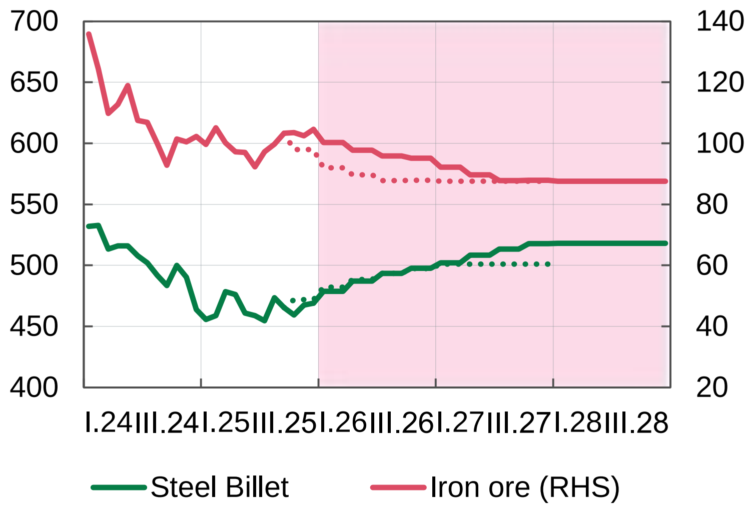



Source: SCSU, NBU staff estimates.

- **In 2026, exports will grow significantly** due to the recovery of grain shipments from the previous year's harvest, amid the gradual restoration of port capacity and rail transport. Further export growth will be supported by increasing crop yields and a revival in external demand
- **Infrastructure reconstruction needs, defense sector procurement, and energy resources will also drive import growth in 2026**, albeit at a slower pace than in 2025. Fiscal consolidation and the expected improvement in the energy sector will restrain the import of goods and services

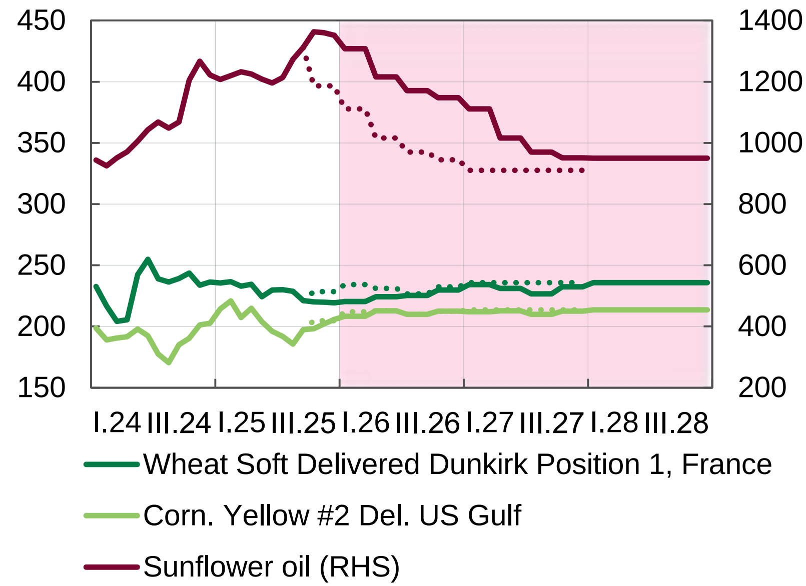
# ... at the same time, Ukraine's terms of trade will improve

**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.

**World prices for selected grains and sunflower oil, USD/MT**

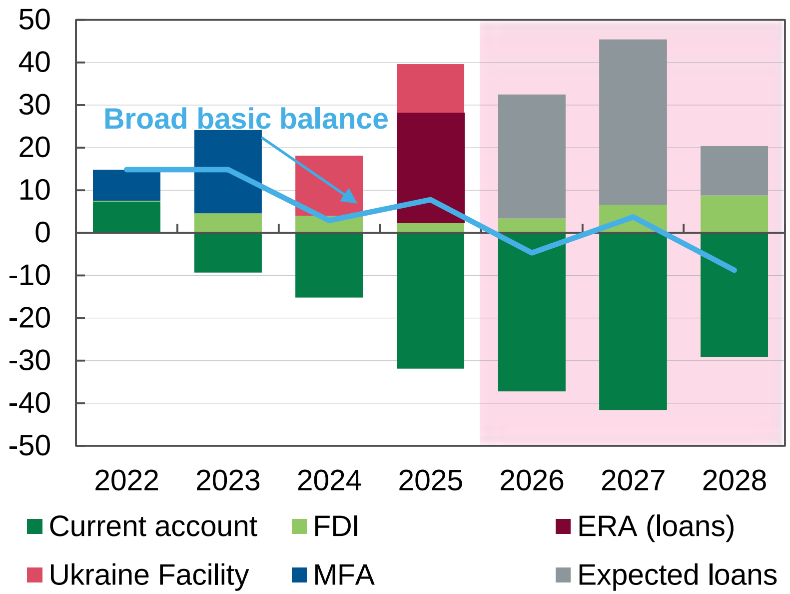



Source: World Bank, LSEG, NBU staff estimates.

- Steel prices, particularly in Europe, will gradually rise driven by **recovering consumption in the industrial and construction sectors** amid increasing decarbonization costs
- **Sunflower oil prices will remain relatively high** (despite a slight decline due to lower prices for related oils, particularly soybean oil)
- **Ukraine's terms of trade will improve**, in particular due to cheaper energy resources

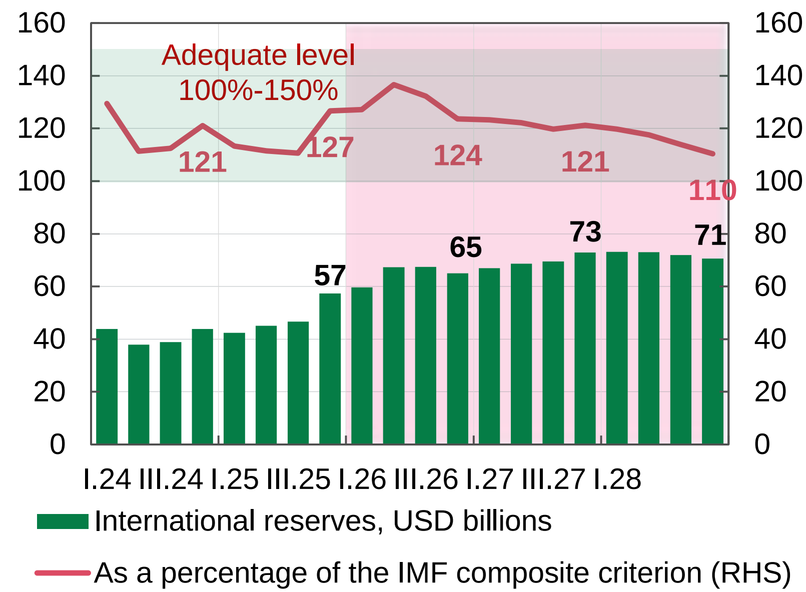
# The economy's external position will remain balanced, and international reserves will be maintained at an high level

**Broad Basic Balance, USD bn**




Source: NBU staff estimates.

**Gross International Reserves, USD bn**

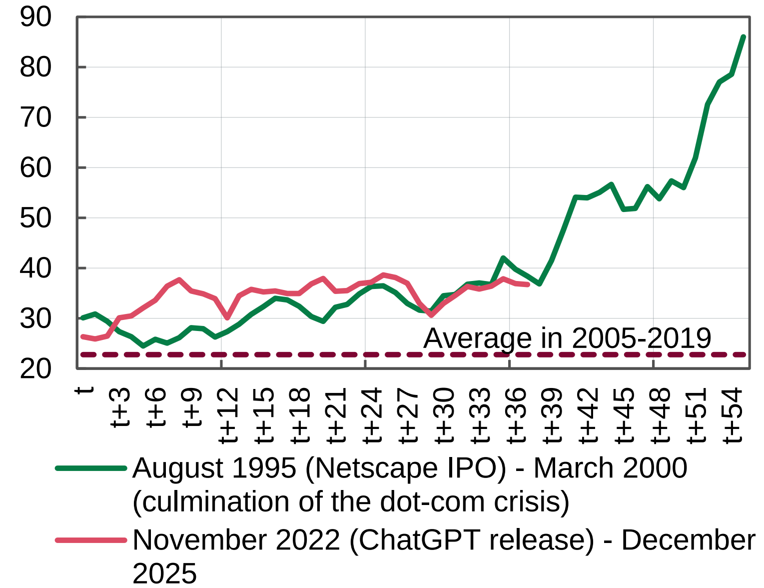



Source: NBU staff estimates.

- **Ukraine's external economic position will remain balanced**. Specifically, in 2026–2027, the broad basic balance will hover around zero, as the current account deficit will continue to be financed through medium-term programs offering financing on preferential terms
- **The volume of international support will be sufficient** for non-monetary budget financing and for maintaining international reserves at a level that ensures FX market sustainability and keeps exchange rate and inflation expectations under control

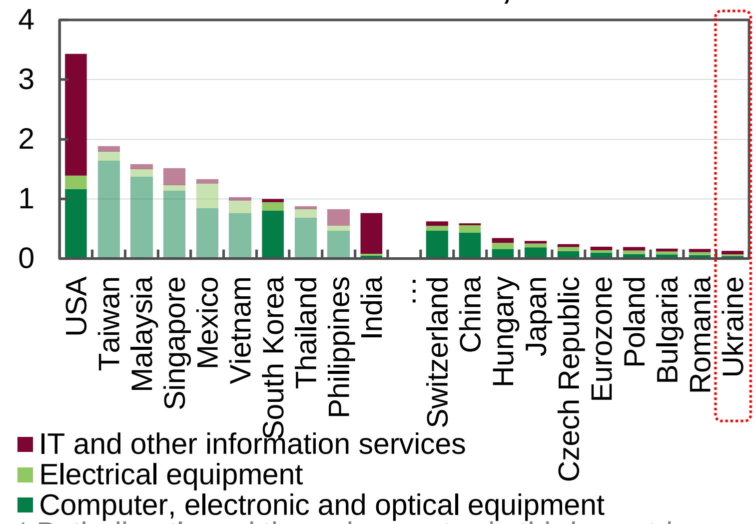
# Box. Optimism about AI: Growth Driver or Economic Risk?

**Price-to-earnings ratio of the NASDAQ-100 index, by month since the hypothetical start of the "bubble"**




Source: LSEG.

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



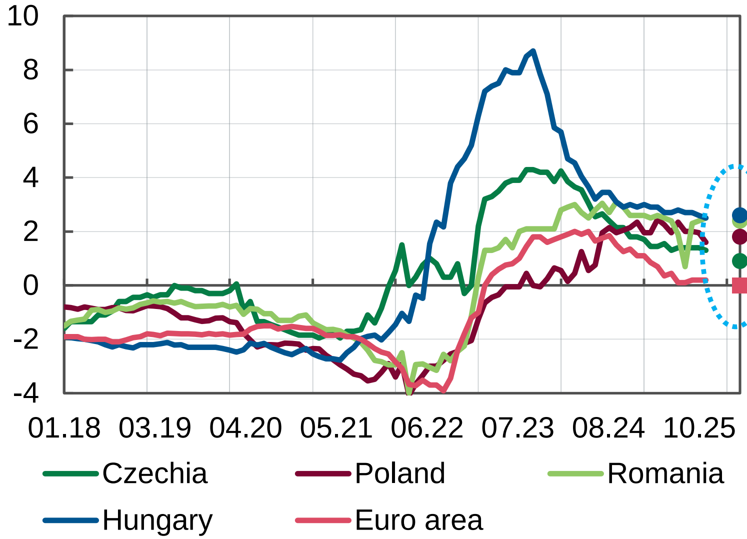

* Both directly and through exports via third countries. Countries that are not Ukraine's MTPs are shown in semi-transparent shading.

Source: OECD TiVA, NBU staff estimates.

- **The rapid growth in the capitalization of U.S. companies** related to AI has raised concerns about the formation of a speculative “bubble” in the US
- **A loss of investor confidence in AI projects** could destabilize financial markets and the sustainability of economic growth, primarily in the US and some Southeast Asia countries
- **The direct impact of a potential crisis on Ukraine’s economy** is likely to be relatively minor. However, second-round effects might be more noticeable and, under certain circumstances, require a monetary policy response from the NBU

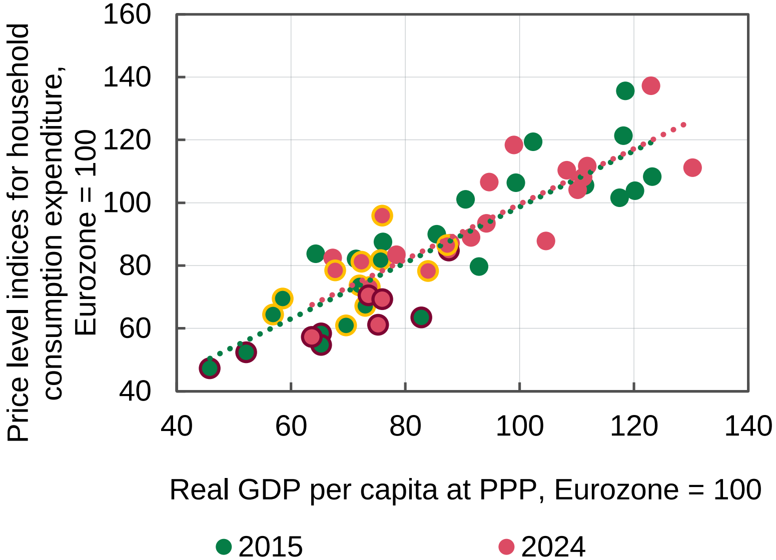
# **Box**. Pockets of Monetary Independence in CEE

**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.

**Relative real GDP per capita at PPP and price level of HH consumption expenditure, Eurozone = 100**

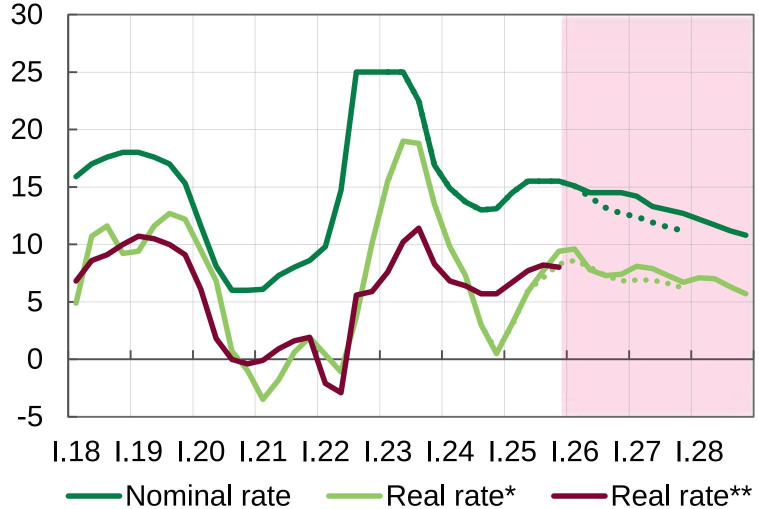



CEE countries in the Eurozone are circled in yellow; those outside – in burgundy. Luxembourg and Ireland are excluded.
Source: Eurostat, NBU staff estimates.

- **The largest CEE countries – EU member states have so far refrained from joining the euro area**, despite close economic and financial ties
- **The main risk for them is the loss of effective mechanisms for responding adequately to shocks** – independent monetary policy and a floating exchange rate
- **Risks for macrofinancial stability are further exacerbated by weaker synchronization of economic cycles** with euro area countries and the continued convergence of prices and wages toward the EU's average level

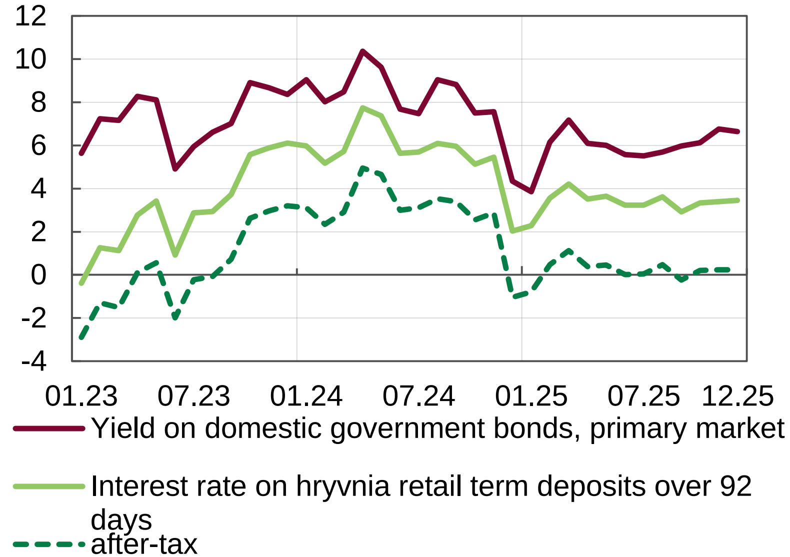
# The real interest rate will remain relatively high to bring inflation to target over the policy horizon

**Key policy rate, average, %**




* Deflated by model expectations (QPM+).
** Deflated by the expectations of financial analysts.
Source: NBU staff estimates.

**Real interest rates* on hryvnia domestic government bonds and retail deposits, %**




* Deflated by households' 12-month-ahead inflation expectations.
Source: NBU staff estimates.

- **The NBU will maintain appropriate monetary conditions** to support the attractiveness of savings in hryvnia, maintain FX market sustainability, and ensure a sustained decline in inflation to the 5% target over the policy horizon
- **The NBU will continue to respond flexibly to changes in the distribution of risks**: if they intensify, the NBU will refrain from further easing of interest rate policy and will be ready to take additional measures if necessary. Conversely, a weakening of pro-inflationary risks will signal a faster than expected reduction in the policy rate relative to the updated macroeconomic forecast

# 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 | | Strengthening negative migration trends and widening labor shortages | |
| Moderate | Accelerating European integration processes and reconstruction | Unforeseen adjustments to administratively regulated prices<br>Weather-related supply shocks<br>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 |