

Inflation Report

July 2025



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

Specifically, 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 to revive 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 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 excess foreign currency from the public sector (received mostly as international aid) into the economy. Coupled with smoothing out excessive exchange rate volatility, this contributes to keeping inflation and exchange-rate expectations in check, maintaining confidence in the hryvnia, and bringing inflation to the target of 5%. Concurrently, exchange rate flexibility makes it possible to 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 analyses laid out in the current (July 2025) Inflation Report are based on cutoff dates for the data, meaning that the time horizons of the analyses may differ for some indicators. The cutoff date for the data in this report is 23 July 2025 for the majority of indicators. The forecast assumptions were finalized on 18 July 2025. The Inflation Report presents a forecast for the country's economic development in 2025–2027 that was prepared by the Monetary Policy and Economic Analysis Department and approved by the NBU Board at its monetary policy meeting on 24 July 2025¹.

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

¹NBU Board decision No.255 *On Approval of the Inflation Report* dated 24 July 2025.

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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 gradual normalization of conditions for the economy's functioning over the forecast horizon. This will take the form of the deferred full unblocking of sea ports, the expansion of opportunities for investment and economic activity, and the gradual return of forced migrants. The baseline scenario takes into account the consequences of increased shelling intensity and destruction caused by Russian aggression, as well as higher defense spending in 2025-2026 compared with April estimates.

As expected, inflation has started to decline, and inflation expectations remain under control

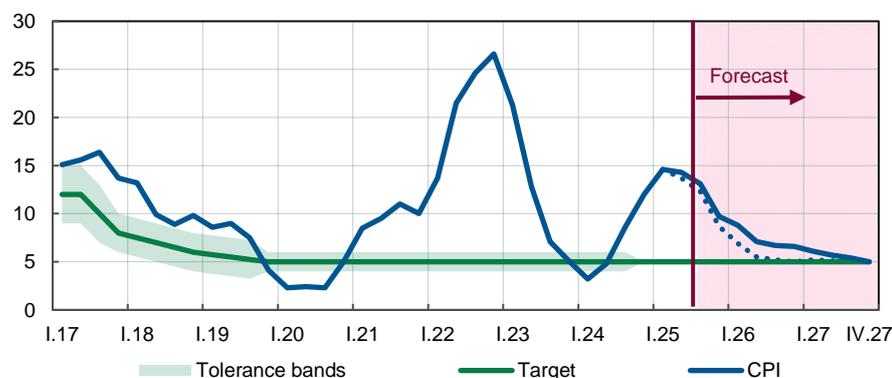
Inflation peaked in May, as expected, and went back to declining in June (14.3% yoy). At the same time, it was higher than forecast – primarily due to the impact of unfavorable weather conditions on supply of food products. On the other hand, core inflation decreased (to 12.1%) somewhat faster than forecast. The still-high underlying price pressure reflected the effects from a rapid rise in food prices and businesses' significant expenses on raw materials and wages. The situation on the FX market was sustainable, in particular thanks to the NBU's previous measures to tighten the interest rate policy. Fluctuations in the UAH/USD exchange rate were moderate, and the weakening of the hryvnia against the euro has had a limited inflationary effect so far.

The dynamics of economic agents' inflation expectations were mixed. Households' expectations deteriorated somewhat. Web search statistics also pointed to a moderate increase in households' attention to the topic of inflation. In contrast, short-term expectations of financial analysts improved, while their medium-term expectations remained stable, demonstrating their confidence in the temporary nature of the current inflation surge. Overall, expectations across all groups of respondents remained controllable and were below the inflation rate.

Inflation will decline significantly by the end of this year, and it is expected to be brought to the target in 2027

The dynamics of inflation in the coming months will largely depend on the actual impact of weather conditions on the supply and prices of agricultural products. According to the NBU's preliminary estimates, headline inflation may rise slightly in July while core inflation will continue to decline. In the following months, inflation is expected to turn onto the steady decline trajectory.

Figure 1². CPI change (end of period, % yoy) and inflation targets



Source: SSSU, NBU staff estimates.

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

At the same time, 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.

Economic recovery will continue but will be restrained by the consequences of the war and the unfavorable impact of weather conditions and climate change on harvests

Fiscal stimuli backed by international financing continued to support economic growth in H1. However, the growth was restrained due to more intensive air attacks and further destruction of production facilities, infrastructure, and housing. The same factors stood behind the persistence of negative migration trends, causing labor market conditions to remain tense. In addition, adverse weather delayed the sowing campaign and hampered future harvests, which, coupled with the gradual depletion of inventories from the harvest gathered last year, was a drag on food industry and transportation with a part of their capacities standing idle.

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%.

Sufficient external financial assistance will be an important factor in maintaining macrofinancial stability under various scenarios

Ukraine continues to receive international support. In 2025, Ukraine is expected to receive external financial assistance in the amount of around USD 54 billion, of which over USD 24 billion has already been received. As for the remaining USD 30 billion, the largest inflows are expected under ERA Loans (USD 18 billion until the end of the year) and Ukraine Facility (USD 8 billion). Further financing volumes may vary depending on Ukraine's defense and reconstruction needs. The baseline scenario of the NBU's macroeconomic forecast assumes receiving USD 35 billion in international assistance in 2026 and USD 30 billion in 2027. A third of these funds has already been announced by partners, and talks are underway regarding the rest.

Expected volumes of international support will be sufficient to finance the budget deficit without resorting to monetary financing, and to maintain the appropriate level of international reserves (USD 45 billion in 2026–2027, according to the NBU's forecast). This will help ensure a sustainable situation in the FX market, the controllability of economic agents' expectations, and the gradual decline of inflation.

If security conditions normalize quickly and budget expenditures on defense decrease, Ukraine may need less of official external support to maintain its defense capabilities.

To maintain FX market sustainability, keep expectations under control, and bring inflation back to its 5% target over the policy horizon, the NBU has kept the key policy rate at 15.5%

The NBU's previous measures to tighten monetary policy proved effective: rates on hryvnia term deposits and domestic government debt securities rose, demand for these instruments grew, and households' net purchases of foreign exchange fell significantly. This bolstered the sustainability the FX market and restrained price pressures.

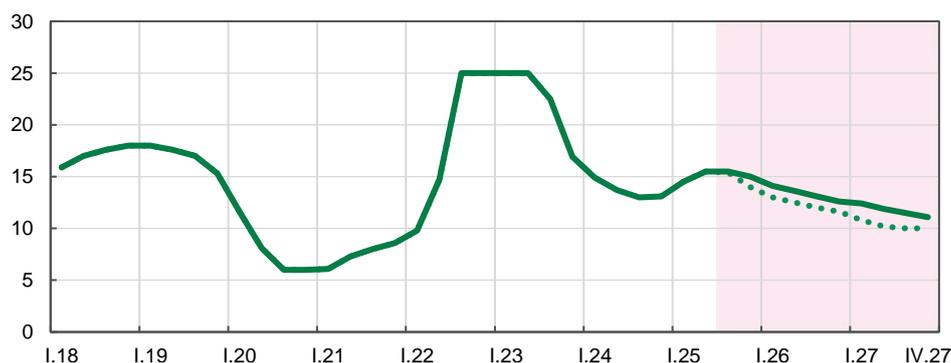
Considering these positive effects, the reversal of the inflation uptrend in June, as well as the controllability of inflation expectations, the NBU sees no need to raise the key policy rate further. However, given the slower-than-expected decline in inflation and the balance of risks to price developments, the NBU currently sees no room for easing its interest rate policy either.

Keeping the key policy rate steady at 15.5% is an important prerequisite for a sustainable slowdown of inflation toward its 5% target. At the same time, this decision will have no impact on lending, considering that the banks are intensely competing for quality borrowers. Lending conditions remain close to pre-COVID-19 levels and are at the peak of their affordability since the onset of the full-scale invasion, with lending developing briskly (net hryvnia loans to businesses have been surging by about 30% yoy in recent months).

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 over the policy horizon

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. At the same time, the NBU will take into account changes in the balance of risks and will only switch to an easing cycle of interest rate policy when there is compelling evidence of there being no risks to the sustainable slowdown of inflation to its 5% target within the policy horizon.

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



Source: NBU estimates.

The course of the full-scale war and the lack of international financing are the main risks to economic and inflation developments

The war is grinding on. The Russian aggression continues to pose the risk of a protracted decline in the country's economic potential, in particular due to the loss of people, territories, and production facilities. The speed of the economy's return to business-as-usual conditions will depend on the nature and duration of hostilities.

The risk of external financing being insufficient also matters, especially if security risks abate slowly. Specifically, part of the needed international assistance for 2026–2027 has yet to be confirmed.

Other risks include:

- the emergence of additional budget needs, mainly those to maintain defense capabilities
- further damage to infrastructure, especially energy infrastructure
- a deepening of adverse migration trends and a widening of labor shortages on the domestic labor market
- a bigger-than-expected negative impact of weather conditions on this year's harvest
- less favorable external conditions amid rising geopolitical uncertainty and de-globalization, as well as heightened volatility in global commodity and financial markets.

Meanwhile, some positive scenarios are also likely to materialize. They are primarily related to increased financial support from partners (including through the use of the principal amount of frozen russian assets) and the international community's efforts to ensure a just and lasting peace for Ukraine.

Part 1. External Environment

- Continued global economic and political uncertainty will restrain the economic growth of Ukraine's main trading partners (MTPs) in 2025. Growth will gradually accelerate in the coming years amid stable private consumption, easing financial conditions, and increased government spending.
- Global commodity markets conditions will gradually normalize as market participants adapt to a new environment, and commodity prices for both exports and imports of important goods will move sideways, despite remaining highly volatile.
- Inflation in most MTPs will remain moderate amid sluggish growth in global demand and a cooling labor market. Central banks expect to achieve their inflation targets in late 2026. Increased exchange rate volatility of the world's major currencies will be an additional factor in the fluctuation of external price pressure.

Trade confrontations will hold back economic growth in Ukraine's MTPs in 2025. But in the years after that, as they adjust to the new conditions, the growth of these economies will pick up pace thanks to sustained private consumption, looser financial conditions, and increased government spending, particularly on defense

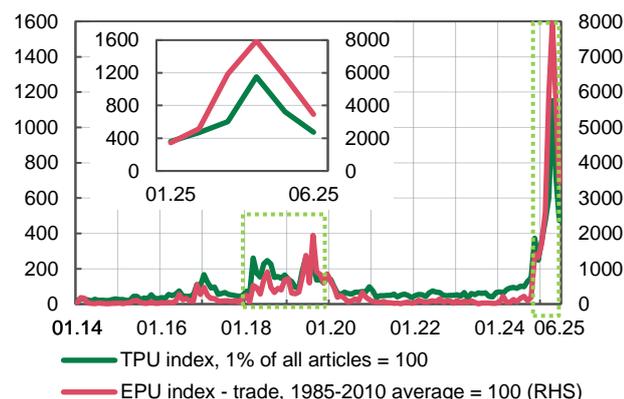
Leading [indicators](#) showed a slight revival of the economies of Ukraine's MTPs in Q2 2025, but overall growth rates remained moderate. Growth in the [services sector](#) was driven by a noticeable pickup in the financial sector, but the growth in other types of services slowed. The negative impact of uncertainty on business has diminished since April thanks to the signing of certain agreements between the United States and third countries, notably the UK and China. However, the level of uncertainty remained too high by historical standards and continued to hold back investment. As a result, businesses' optimism weakened, reducing companies' appetite for hiring new staff.

[Manufacturing](#) in the majority of Ukraine's MTPs recovered in Q2 thanks to the stabilization of new orders. Inventories declined at a slower pace, as did the employment rate. The growth in production costs decelerated. Although demand in the manufacturing sector remained largely subdued, the production of consumer, investment, and intermediate goods slowly increased. Manufacturing gradually recovered in China and the United States, continued to grow in the Eurozone, and showed the fastest growth rates in India compared to other MTPs of Ukraine. In terms of sectors, [automobile production](#) returned to growth for the first time in the last year, while economic activity in the metals and mining industries remained weak.

Economic activity in Ukraine's MTPs is expected to remain weak until the end of this year. Tariffs are detrimental to growth as they increase the cost of final and intermediate goods imported from abroad. This puts pressure on domestic consumption and undermines the competitiveness of exporters due to rising production costs. High uncertainty encourages consumers and businesses to behave cautiously, which restrains consumption and investment.

In 2026–2027, countries will adapt to the new geoeconomic conditions, and no further escalation of trade confrontations is expected. Economic growth in Ukraine's MTPs will gradually accelerate amid sustained private consumption, loosening financial conditions, and increased government spending – particularly on defense. The relative stability of global trade, thanks to its high flexibility, will continue to be a key factor in the economic growth of some countries, while U.S. trade barriers will prompt third countries to build closer ties with each other, including with Ukraine, enabling the latter to strengthen its economic position on the international stage.

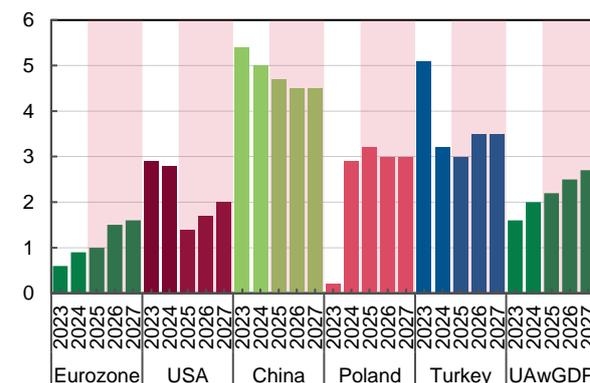
Figure 1.1. Trade policy uncertainty indices*



* Based on textual analysis of news. The methodology of calculating TPU is described in [Caldara et al. \(2020\)](#), and EPU – in [Baker et al. \(2016\)](#).

Source: Matteo Iacoviello [webpage](#), EPU [webpage](#).

Figure 1.2. Real GDP of selected MTP countries and UA wGDP, % yoy



Source: National statistical offices, NBU staff estimates.

Despite a series of changes in trade, fiscal, and immigration policies, the U.S. economy continued to grow thanks to the resilience of the labor market. However, there are increasing signs that the labor market is [cooling](#), and leading indicators point to a slowdown in the U.S. economy as a whole. Companies are adapting to higher resource costs and lower demand, leading to lower investment. Household sentiment indicators regarding economic conditions remain pessimistic. A significant decrease in the influx of immigrants is expected to reduce the labor supply, which will put pressure on certain sectors, including agriculture, construction, and the food industry, as well as the entertainment and hotel industries. On the other hand, a comprehensive package of laws focused on tax legislation (known as the “[One Big Beautiful Bill Act](#)”) passed in July 2025 should contribute to a significant revival of demand from both businesses and households. This, in turn, will support the U.S. economy in the coming years.

China’s economy remained strong overall thanks to strong exports and a pickup in domestic consumption amid government support measures. Companies stepped up the reorientation of trade from the United States to alternative markets: in H1, exports to the United States [dropped by 10.9% yoy](#), while exports to Southeast Asia and the EU grew by 13% yoy and 6.6% yoy, respectively. For its part, the People’s Bank of China eased monetary conditions, and the government increased budget spending. Thus, in 2025, the official [target](#) for the state budget deficit was raised from 3% to 4% of GDP, the first increase in ten years. In addition, a number of measures have been taken to support the economy, including small and medium-sized enterprises and exporters. An additional factor was the conclusion of a temporary trade agreement with the United States at the end of Q2, which allowed for the cancellation of most reciprocal tariffs (the signing of a permanent agreement is expected by 12 August). The deflationary environment, low private investment, and heightened external risks are causing uneven macroeconomic growth in China and making it vulnerable to shocks. However, the transition to a consumption- and innovation-driven growth [model](#) and support from fiscal and monetary policies will offset the negative factors and maintain long-term growth at 4.5% annually.

Despite some weakness, economic activity in the Eurozone was supported by fiscal policy and structural changes aimed at increasing productivity and competitiveness. Previous ECB interest rate cuts continued to be reflected in cheaper corporate loans and contributed to a gradual increase in bank lending, including mortgage lending. Conversely, high trade policy uncertainty and the recent strengthening of the euro, as well as higher import tariffs, will negatively affect this year’s exports and investments in the euro area and, to a lesser extent, consumption. In the coming years, new government spending on infrastructure and [defense](#), primarily in [Germany](#), will stimulate domestic demand. Real wage and employment growth, strong [fiscal stimulus](#), looser financing conditions, and a recovery in external demand will contribute to a gradual

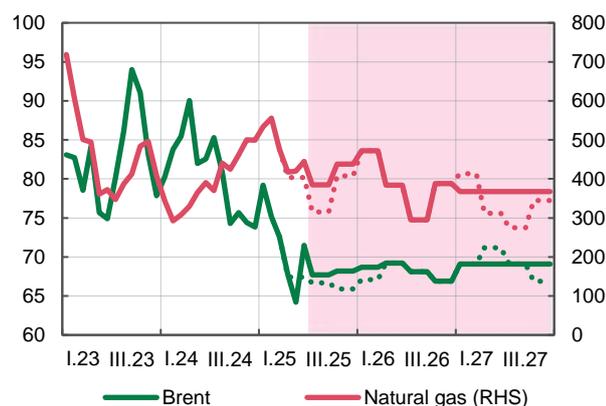
recovery of the euro area's economy. All of this, against the backdrop of the use of EU funds under the [2021–2027 financial programs](#), will support the growth of CEE economies.

Conditions on the global commodity markets are gradually normalizing, and global prices for most commodities will move sideways

Conditions on the global commodity markets remained unstable due to the uncertain nature of the policy and tariff “flexibility” of the United States, which continued to prompt market participants to adopt a wait-and-see approach and suspend stockpiling. Meanwhile, the decline in global trade slowed thanks to a slight increase in new export orders. The current highly volatile trade environment is expected to persist at least until the end of 2025. Accordingly, the growth in the international [goods trade](#) will remain virtually unchanged in 2025, at 0.1% yoy, while the services sector will show better results – at above 4% yoy.

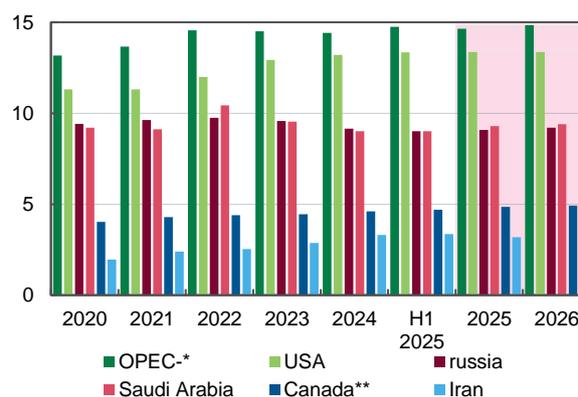
Global trade volumes will gradually grow in the coming years. The sharp increase in new tariffs and the rise in the [share](#) of global trade to which these tariffs apply (which has risen from 12.5% to 19.4% over the past six months) has made the global trade landscape unstable and unpredictable. At the same time, despite the uncertainty of trade policy, geopolitical tensions, and regional conflicts, there has been increased cooperation in the search for negotiated solutions to trade-related disputes. As a result, the situation in the global commodity markets for Ukrainian producers is slowly normalizing as market participants gradually adapt to new conditions and the growing role of regional markets.

Figure 1.3. World crude oil prices (USD/bbl) and Dutch TTF natural gas prices (USD/kcm)



Source: World Bank, LSEG, NBU staff estimates.

Figure 1.4. Crude oil production, million barrels per day



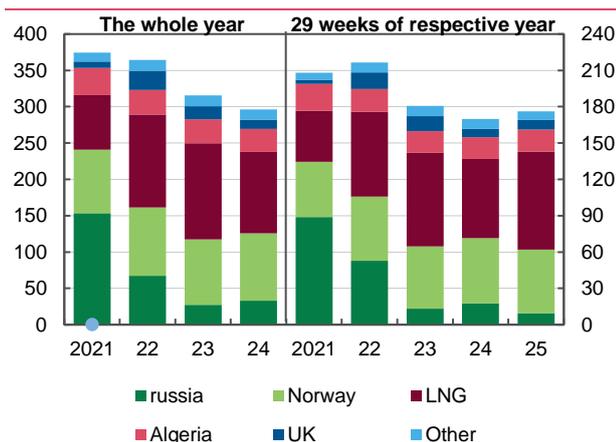
* OPEC excluding Saudi Arabia and Iran.

** H1 2025 – estimates.

Source: U.S. Energy Information Administration, Canadian Centre for Energy Information; 2025 and 2026 – NBU staff estimates.

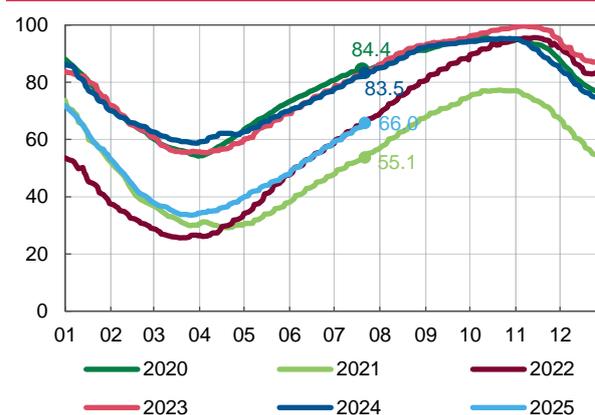
Slowing demand growth in the largest consumer countries (China and the United States) will put downward pressure on crude oil prices. However, this will be offset by relatively stable oil consumption in Southeast Asian countries thanks to steady demand from transportation, as well as sustained activity in industrial production, construction, and agriculture. At the same time, accelerated growth in supply compared to demand indicates a potential surplus in the market. Thus, the market is expected to see further production increases from OPEC+ countries (80% of the planned 2.2 million barrels per day has been returned to the market since April), stable exports from Venezuela (primarily to China), and growth in production in the United States (albeit at a slower pace). Only limited production volumes in Iran and Russia, due to sanctions, will partially offset the existing oversupply. In the coming years, the crude oil market will eventually rebalance: the gradual recovery of demand in advanced economies and growth in emerging markets (EMs) will be met by increased [production](#) in the United States, Brazil, Canada, and Argentina.

Figure 1.5. Natural gas imports to the EU by origin, bcm



Source: Bruegel (Russia, Norway, Algeria – pipelines).

Figure 1.6. Filling level of gas storage facilities in the EU in the corresponding year, %



Source: LSEG, as of 24 July 2025.

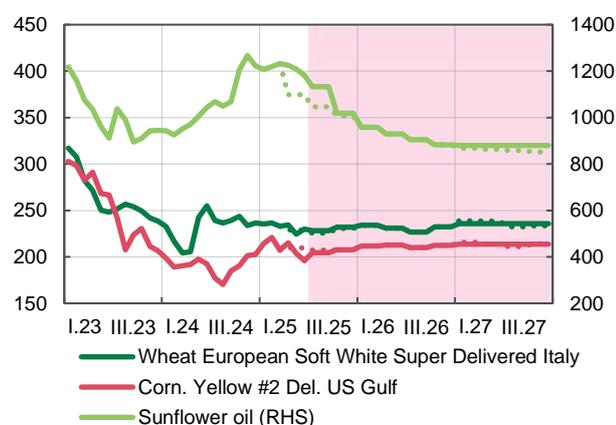
Natural gas prices in the European market will trend sideways. A projected drop in gas consumption, due to relatively weak economic activity in the EU this year, will be fully offset by the need to replenish storage facilities – which were nearly 25% lower at the end of June than the previous year – and by increased imports from Ukraine. With limited supplies from Russia, the market will be supplied by higher volumes of gas from the TurkStream pipeline and North Africa, as well as an increase in LNG imports. Competition with the Asian market will lead to increased volatility in natural gas prices, which will remain significantly higher than historical levels. Several structural factors are contributing to this volatility. A primary factor is the tighter link between the gas and electricity markets. The gradual phase-out of coal and the rapid increase in weather-dependent renewable energy sources have heightened the role of natural gas power plants as a backup for the energy system. Geopolitical tensions are also causing extra short-term price volatility, especially in the import-dependent European and Asian gas markets. Consequently, supply and demand dynamics in one region now impact the other. Accordingly, the natural gas [price correlation](#) coefficient for European and Asian markets has risen from an average of about 0.5 between 2012–2016 to over 0.9 since 2020. This points to significant structural shifts in the global gas market. In particular, trade in LNG grew markedly, driven primarily by Europe's need to replace Russian gas. The share of spot LNG has risen sharply, and the United States has become the world's largest exporter. In the coming years, steady natural gas supplies are expected from Norway and Algeria, alongside growing LNG exports from the United States and Qatar. This will be sufficient to stabilize prices amid a balanced accumulation of stocks and a further increase in renewable energy production, even despite the expected pickup in demand from Europe.

Global grain prices, specifically for wheat and corn, are expected to fluctuate sideways. Despite low inventories from MY 2024/2025, [the anticipated](#) global output of these crops in MY 2025/2026 should be sufficient to meet stable demand. Moreover, the expected increase in wheat exports from the EU and Russia, given EU trade quotas, will force Ukraine to compete for a bigger share of other markets, particularly in North Africa. Meanwhile, the United States will likely be partially displaced from the Chinese and EU corn markets by Latin American countries like Brazil, thanks to their relatively lower prices, larger harvests, and developed logistics.

Prices for sunflower oil are expected to gradually decline due to an anticipated increase in the supply of both sunflower seeds and related oilseeds, notably on the back of a bumper crop of soybeans in Brazil. However, prices will likely remain at a relatively high level overall. A significant reduction in ending stocks of vegetable oil in MY 2024/2025 and steady growth in demand, including from bioethanol producers, will keep prices from falling steeply. For example, the share of soybean oil used by U.S. biofuel producers is expected to hit a record high of 53% of the country's total oil consumption in MY 2025/2026. This is driven by stricter blending requirements and limits on biofuel

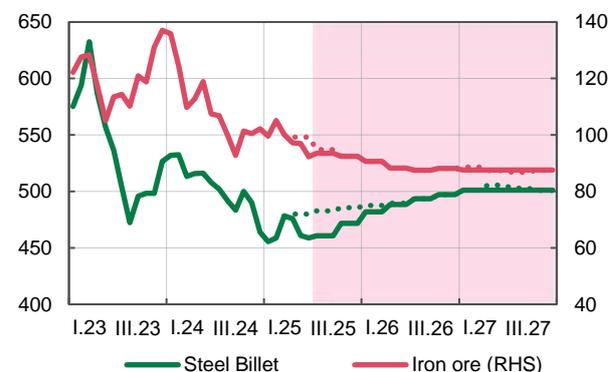
and raw material imports. As a result, U.S. soybean oil exports will drop significantly. Brazil is also expected to continue increasing its bioethanol production.

Figure 1.7. World prices for selected grains and sunflower oil, USD/MT



Source: World Bank, LSEG, NBU staff estimates.

Figure 1.8. World steel and iron ore prices, USD/MT



Source: World Bank, LSEG, NBU staff estimates.

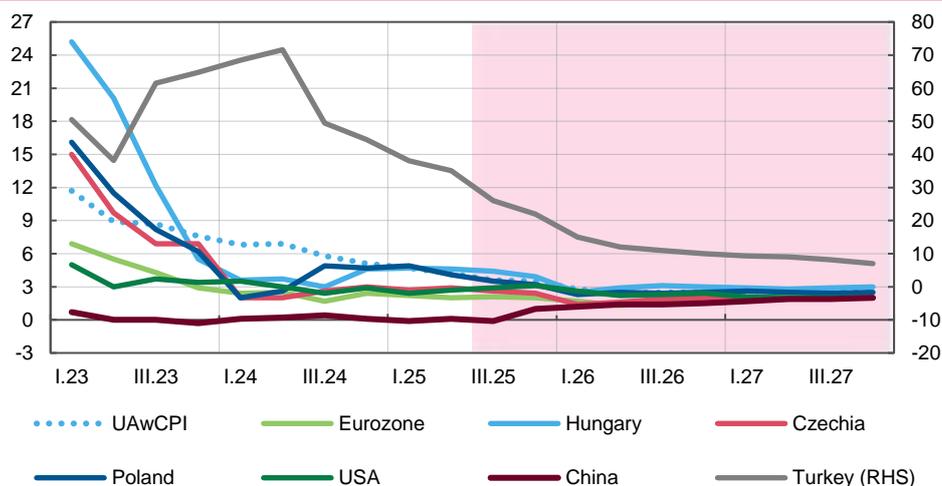
Iron ore prices will face downward pressure due to increased production from global leaders like Australia and Brazil, as well as growth in output from China, India, and certain African countries. However, prices will be prevented from falling deeply by stable global cast iron production, against the backdrop of still-high steel output (even despite a slowdown), and a decrease in blast furnace usage, which is spurring demand for high-quality ore. Meanwhile, steel prices are expected to fluctuate within a relatively narrow range. This is thanks to steady demand from the Middle East and North Africa, as well as a recovery in demand from European countries due to increased spending on security and infrastructure, along with emission control policies. In particular, the Carbon Border Adjustment Mechanism (CBAM) is set to be fully implemented in the EU in 2026. On the other hand, competition among manufacturers in the European market will prevent prices from rising.

Inflation in most of Ukraine's MTPs will remain moderate. Sustained convergence to the central banks' inflation targets is expected by the end of 2026. The heightened volatility of the euro/dollar exchange rate will be an additional factor in the fluctuation of external price pressure

In Q2, inflationary pressure from Ukraine's MTPs generally weakened due to lower energy prices and a slowdown in wage growth, which primarily curbed the increase in services prices. Additionally, the growth rates of both production costs and selling prices slowed, which will restrain consumer inflation. Meanwhile, inflation dynamics were asynchronous: prices in the euro area grew sluggishly, China experienced deflation, and inflation accelerated in the United States. These differences between countries are expected to persist until the end of the current year, leading to overall moderate external price pressure on the Ukrainian market.

Consumer inflation in the United States has accelerated, as expected. Detailed data showed the initial impact of customs policy: the price growth rate for specific categories of goods (toys, furniture, sports equipment, and household appliances) was the highest in several years. Currently, the effects of tariffs have only been moderately reflected. However, they are expected to add [1 pp](#) to consumer inflation in H2 2025 and in 2026. The pass-through effects on prices from the weaker U.S. dollar have also not yet fully materialized. Additionally, despite slower growth in the prices of basic services, they still exceed pre-pandemic levels. As a result, short-term inflation expectations worsened sharply, but most long-term expectations indicators remain anchored, reflecting the temporary nature of certain factors. Under these conditions, inflation in the United States is expected to exceed 3% by the end of 2025 and only slow down to the target by the middle of 2027.

Figure 1.9. 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.

In contrast, in the Eurozone, inflation fluctuated around the 2% target due to weak domestic demand. The strengthening of the euro is putting downward pressure on inflation in the near term. Most indicators of long-term inflation expectations remain anchored, which supports the stabilization of inflation around the target. Services prices will gradually decrease from their high levels as pressure to compensate for past real wage losses diminishes. The drop in energy prices will affect the entire pricing chain. However, the anticipated further trade [fragmentation](#) will gradually be reflected in consumer prices. On the one hand, it could increase inflationary pressure due to the need for European companies to adapt to changing suppliers and partially pass their costs on to consumers. On the other hand, cautious behavior may lead to a decrease in investments and aggregate demand, partly due to an increase in savings. Under these conditions, inflation in the euro area is expected to slow down below the target level, resume growth at the end of 2026, and, further on, remain near the central bank's target on a sustainable basis.

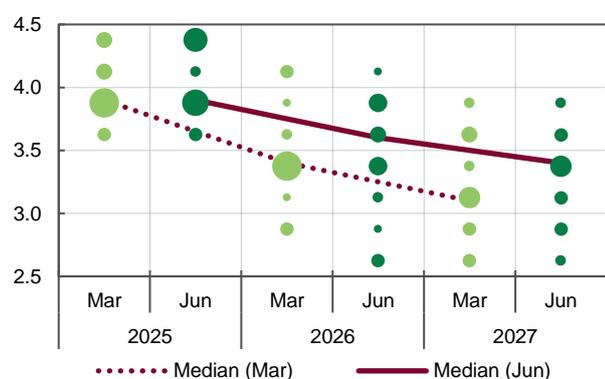
The adherence of the Turkish central bank to conventional monetary policy will also contribute to a further decrease in inflation from high levels, although the depreciation of the lira may hinder a rapid approach to the inflation target. China will continue to take monetary and fiscal measures to stimulate the economy, which will help prevent the deflationary trend from becoming entrenched. Such actions will contribute to a revival of consumption amid the economy's increasing reorientation toward the domestic market, which will gradually move inflation toward the target set by the People's Bank of China.

In the coming years, inflationary pressure from Ukraine's MTPs will gradually subside and will remain close to its long-term equilibrium level, which will limit external price pressure on domestic inflation in Ukraine. The balancing of the labor market and the stabilization of the situation in the global commodity markets will sustainably bring prices closer to central banks' targets by the end of 2026.

The expected rise in inflation in the United States, which contrasts with weak price pressures in Europe, might lead to a further divergence in monetary policy. With elevated inflation risks, the Fed once again kept its target range for interest rate unchanged (4.25%–4.5%). Uncertainty over the Fed's future steps has increased as more FOMC participants forecast unchanged rates in 2025, partly due to their assessment of a more persistent impact of tariffs on inflation. This will limit the Fed's ability to lower rates below the [long-term](#) neutral level, especially amid increasing price pressure from the labor market due to immigration policy. Financial markets expect about two Fed rate cuts by the end of 2025, with a gradual further reduction in 2026.

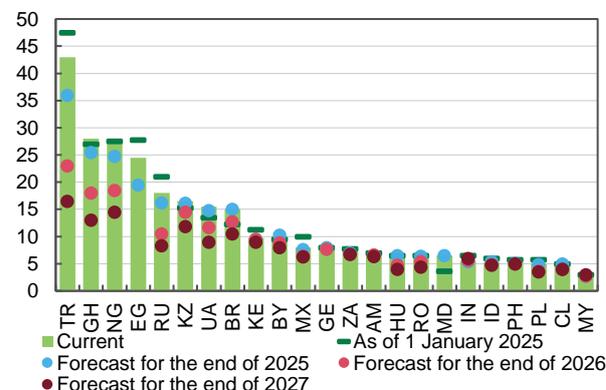
For its part, the ECB continued its policy-easing cycle, lowering rates by 25 bp (the deposit facility rate to 2%), and is already nearing the end of this cycle, given that it has reached a [neutral](#) level of rates. At the current rate level, the ECB is well-placed to “navigate the uncertain conditions”. Additionally, at the end of June, the ECB updated its [Monetary Policy Strategy](#). The ECB confirmed the medium-term orientation of its strategy and maintained the symmetric 2% inflation target. Unlike the previous strategy, the ECB notes that to maintain this target, monetary policy actions will be aimed at responding to significant and persistent deviations of inflation from the target in both directions in order to prevent these deviations from becoming entrenched due to unanchored inflation expectations. The updated strategy also notes that monetary decisions will take into account not only the most likely trajectory of inflation and economic development but also the risks and uncertainties around them, along with the use of scenario and sensitivity analysis. Under current conditions, financial market participants project one rate cut by the end of 2025, with a nearly equal probability of it occurring in September or December, and a stabilization of rates in 2026.

Figure 1.10. Projected appropriate policy path at year-end according to the expectations of the FOMC members*



* The size of the circle is determined by the number of participants supporting the respective rate level. Source: Federal Reserve, based on the meeting results.

Figure 1.11. Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 25 July 2025.

The U.S. dollar depreciated in global financial markets in Q2 (by more than 8% against the euro, crossing the mark of USD/EUR 1.17). This was due to the anticipated narrowing of the gap between the key interest rates of the Fed and the ECB, as well as growth rates; a weakening of confidence in the U.S. dollar, particularly due to pressure on the Fed; and trade inconsistencies of the United States with regard to third countries. The gradual normalization of trade relations, primarily between the United States and the EU, following recent agreements, especially between the United States and Japan, is expected to improve the dollar’s position in global financial markets. Another factor will be the relative resilience of the U.S. economy, despite significant external and internal shocks. As a result, some correction will be observed in the USD/EUR exchange rate, which will reach the level of USD/EUR 1.15. At the same time, there is a risk of a more significant exchange rate correction amid the ECB’s concern about the euro’s current rapid strengthening. However, there is also the potential for the euro to strengthen. Amid geopolitical uncertainty, EMs are gradually diversifying their FX reserves by reducing their share of U.S. dollar, which could support the euro and other currencies. Additionally, according to an assessment by Bank of America, the euro is undervalued relative to historical averages (the long-term average for the USD/EUR pair is 1.19), and some studies ([Martinez M. et al., 2025](#)) indicate an equilibrium level for the USD/EUR pair of 1.2.

With the weak U.S. dollar, the FX component of the MSCI EM reached a historic high in early July. However, the dynamics of currencies against the euro were mixed: CEE currencies mostly strengthened, while those in Latin America and Asia depreciated. Under these conditions, the central banks of EM countries continued to calibrate their monetary policies carefully, either tightening them to curb inflation (Brazil) or easing them to support economic growth (India, Mexico, Kenya, South Africa, Malaysia). The expected slowdown of inflation below the upper limit of the target range in the coming

months allowed Poland's central bank to lower its rate for the second time this year. Going forward, EM central banks are expected to adopt a predominantly wait-and-see approach. This is due to both rising inflationary risks and increasing risks of a slowdown in economic growth amid high turbulence, as rates approach neutral levels. This position is also confirmed by the stabilization of the CFR [Global Monetary Policy Tracker](#) index near zero, which is close to its long-term equilibrium level.

Part 2. Inflation Developments

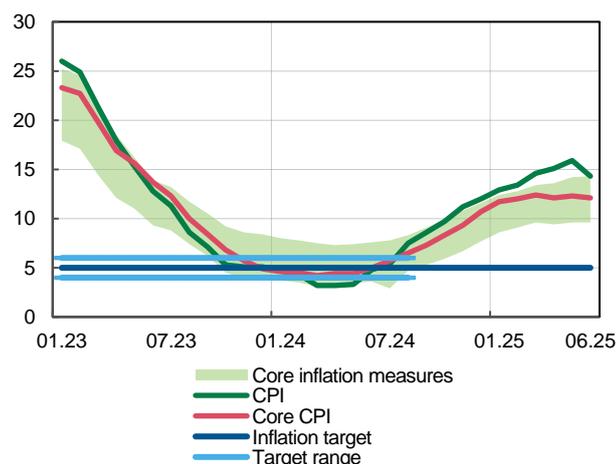
- Inflation peaked in May, as expected, and started to decline in June (14.3% yoy). At the same time, it was higher than forecast – primarily due to the impact of unfavorable weather conditions on the supply of food products. On the other hand, core inflation decreased somewhat faster than forecast. However, underlying price pressures were still high due to the effects of a rapid rise in food prices and businesses' high costs for raw materials and wages.
- Taking into account more significant losses from the war and businesses' growing costs continuing to be passed through to prices, a worsened harvest forecast, and the effects of 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, to 6.6% in 2026, and to its 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 sufficient international financing.

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

Consumer inflation, as expected, peaked in May and started to decline in June. This was primarily driven by a significant slowdown in administered prices growth. Administered inflation accelerated until May (to 19.8% yoy), primarily due to the rising prices of alcoholic beverages and tobacco products. However, it slowed considerably in June (to 10.9% yoy) due to a base effect (last year, electricity tariffs for households were increased in June).

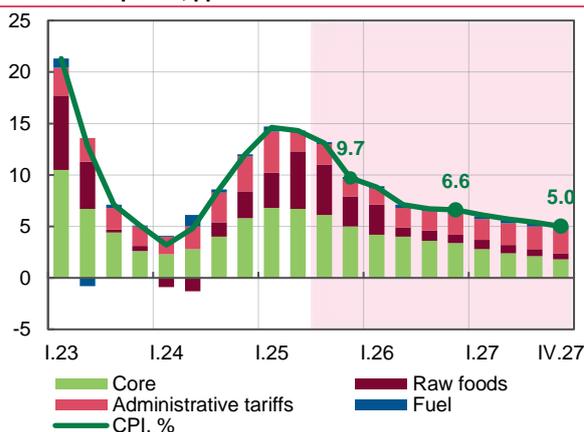
Despite this, headline inflation in June exceeded the forecast published in the [April 2025 Inflation Report](#) (13.7% yoy) due to a larger-than-expected rise in prices of raw food products. This was caused by both a decrease in the supply of certain fruits and vegetables due to spring frosts, and a sharp increase in prices of meat products amid a difficult situation in the livestock sector.

Figure 2.1. 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 2.2. Contributions to annual CPI growth by main components at the end of period, pp



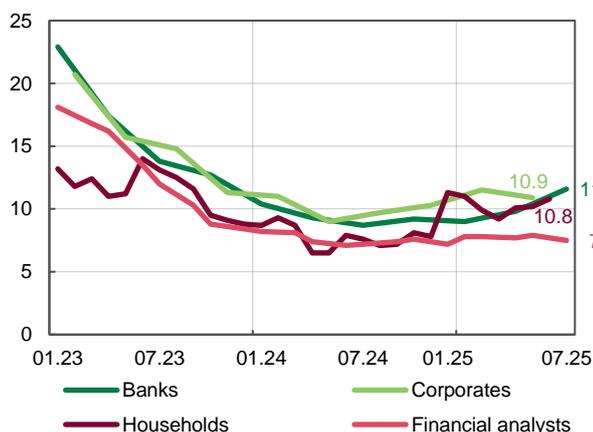
Source: SSSU, NBU staff estimates.

Conversely, underlying price pressures were weaker than had been forecast. Core inflation in June declined to 12.1% yoy, while it had been expected to rise to 12.7% yoy. These price dynamics were primarily due to a slowdown in the growth of real household incomes, which also led to a decrease in the pressure from consumer demand. The

NBU's previous monetary policy measures, aimed at maintaining interest in hryvnia savings, also had an additional effect. A better electricity supply situation than last year also contributed to the slowdown in price growth. Overall, however, underlying price pressures still remained significant due to businesses' high costs for intermediate goods and wages.

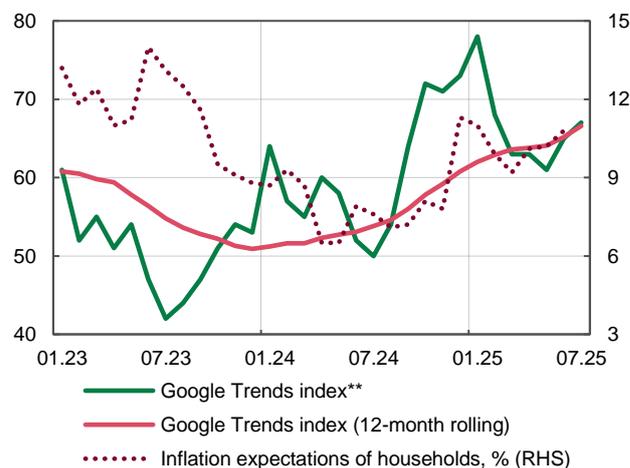
As a result, currently³ 71% of the consumer basket components⁴ have seen prices rise above the inflation target of 5%, and 64% of the components have increased by more than the 10% attention threshold (up from 55% at the end of Q1, read more in the box *In Search of Optimal Flexibility: What Is an Acceptable Deviation of Inflation from the Target* in the [October 2024 Inflation Report](#), page 17). This worsened the inflation expectations of households and banks, although their expectations were still significantly lower than the current inflation rate. Consequently, the impact of the retrospective component on expectations remained limited. In contrast, financial analysts' inflation expectations improved slightly, indicating their confidence in the temporary nature of the current price surge and in the NBU's actions to bring inflation back to its target. At the same time, web search statistics showed that public attention to inflation, after declining from peak levels at the beginning of the year, remained relatively stable from March but increased moderately in June–July.

Figure 2.3. 12-month-ahead inflation expectations, %



Source: NBU, Info Sapiens.

Figure 2.4. Normalized indices of interest in the *Inflation* topic and households' inflation expectations*



* 12-month-ahead inflation expectations of households.
 ** Google Trends index as of 17 July 2025.
 Source: Info Sapiens, Google Trends, NBU staff estimates.

Given that the price peak has passed and inflation expectations have remained relatively stable, inflation is expected to decrease noticeably by the end of the year and continue its trajectory toward the 5% target. However, its dynamics in the coming months will largely depend on the actual impact of weather conditions on the supply and prices of agricultural products. According to the NBU's preliminary estimates, headline inflation may rise slightly in July, while core inflation will continue to decline. In the following months, inflation is expected to take a steady decline trajectory.

Underlying inflationary pressures will ease over the forecast horizon, primarily due to the NBU sticking to a relatively tight monetary policy. Food inflation will slow in H2, although it will remain higher than previously forecast, mainly because of poor harvests of some agricultural crops, along with rising meat prices. In contrast, administered inflation will accelerate over the forecast horizon, due both to hikes in excise taxes and the need to gradually bring tariffs for some utility services to market-based levels. Under these circumstances, to achieve the inflation target over the policy horizon, monetary policy will aim to keep other inflation components, particularly core inflation, at levels lower than the target.

³As of June 2025.
⁴Weighted by weight structure.

The inflation forecast has been revised toward a slower decline due to more significant losses from the war, the continued pass-through of rising business costs, a worsened harvest forecast, and the effects of the actual depreciation of the hryvnia against the euro. Inflation will decline only to 9.7% this year, and to 6.6% next year. It will return to its 5% target in 2027.

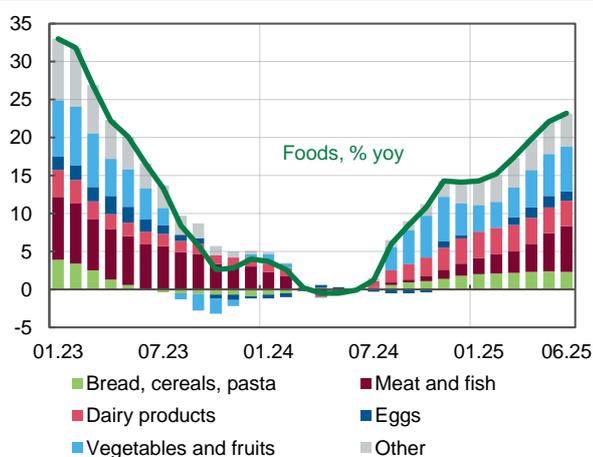
New harvests entering the market will contribute to a slowdown in food price inflation over the forecast horizon

Price growth for raw food products accelerated to 28.7% yoy in June, contrary to the NBU's forecast of a slowdown. Inflationary pressures in the food market grew due to the depletion of last year's harvest stocks, given their low carryover levels. Meanwhile, prolonged cold weather in Q2 delayed the ripening of certain agricultural crops, affecting their yields and worsening expectations for this year's harvest volumes. This spurred a rise in prices for stone fruits, berries, and apples.

In addition, the growth in prices for all types of [meat](#) accelerated significantly due to higher production costs, a decrease in the number of [livestock](#) (partly because of outbreaks of African Swine Fever), and higher [external prices](#) amid active exports. High prices for veterinary drugs remained an additional cost factor, given the significant import component, in particular amid the weakening of the hryvnia exchange rate against the euro, as a substantial portion of such drugs comes from EU countries.

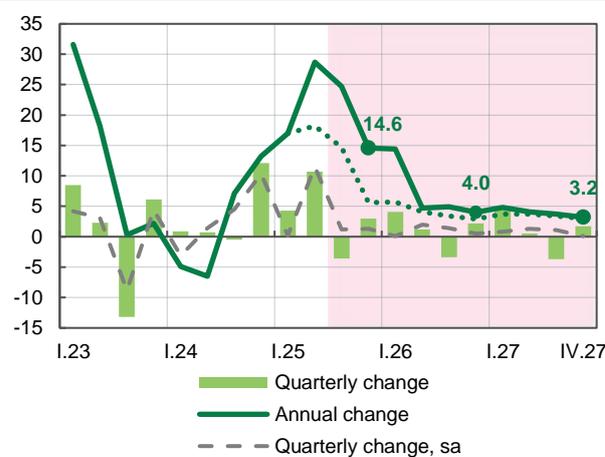
At the same time, the growth in prices for some products was restrained by an increase in imports. Given that, for some foods, the prices in Ukraine have approached the prices in Ukraine's MTPs, imports are partially smoothing out negative supply shocks and, consequently, the volatility of food price inflation (read more in the box *Ukraine and the EU: Food Price Convergence* on page 23).

Figure 2.5. Contributions to the annual change in food prices, pp



Source: SSSU, NBU staff estimates.

Figure 2.6. Raw food inflation at the end of period, %



Source: SSSU, NBU staff estimates.

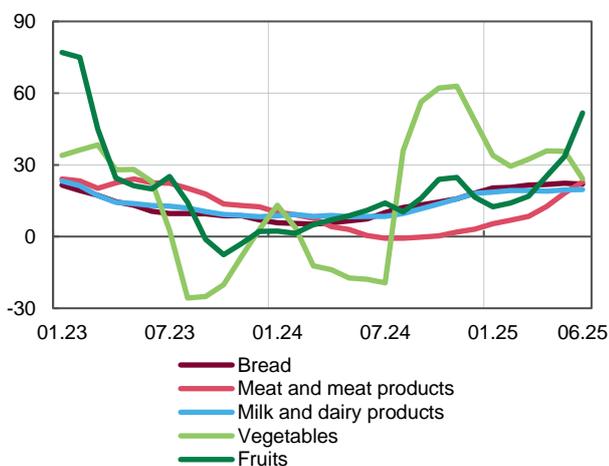
The growth in prices for processed food products accelerated moderately (to 18.2% yoy from 17.3% yoy in March) and was lower than forecast – partly due to a slower increase in dairy prices amid a decline in [milk](#) procurement prices. Compared to the end of Q1, the pace of price growth for [vegetable oil](#) also decreased due to a weakening of price pressure in external markets. The growth in prices of bread and bakery products began to slow in June, largely because flour prices are rising more slowly after the start of the harvesting campaign. The grain harvest is expected to be higher than last year. A stable situation in the energy sector is also restraining the growth in bread prices. In contrast, prices for meat products rose much more rapidly, influenced by the rising costs of raw inputs. Prices for non-alcoholic beverages also grew quickly, particularly for coffee, which responded to [increasing global prices](#).

According to NBU estimates, food price inflation is near its local peak and will begin to decline for both processed food products (starting in July) and raw food products (starting in August) as new harvests enter the market. A significant change in their

volumes usually has a substantial impact on the change in inflation dynamics mid-year. While last year's harvests were quite low, this year's volumes will be sufficient to reverse the inflation trend. However, due to insufficient harvests of certain crops, which have already affected the current inflation rate, raw food inflation will still remain in the double-digit range until the end of the year. In particular, spring frosts primarily affected fruits, and their sharply rising prices are expected to be a significant contributor to food inflation in 2025. In contrast, weather conditions were favorable for vegetables, so their prices might even decrease by the end of the year. Looking ahead, harvest volumes of vegetables and fruits are expected to gradually increase, which should result in slow price growth for these products during the forecast period.

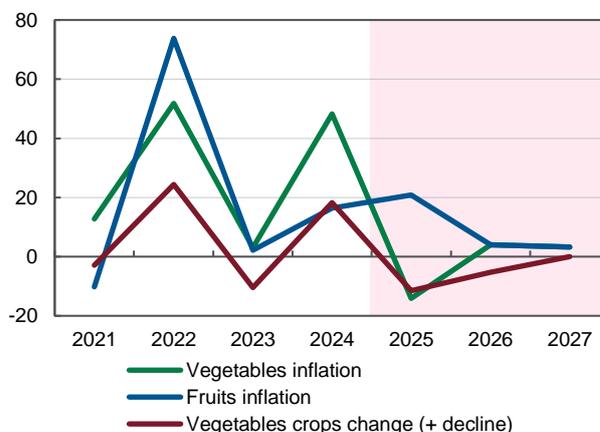
Thanks to larger harvests and an increase in processed food production in the coming years, food price inflation will slow to around 3%–4%. At the same time, the restoration of quotas and import duties by the EU, as well as sustained imports, will curb raw food inflation. On the other hand, the introduction of duties on imports of some vegetables from Türkiye might push up inflationary pressures.

Figure 2.7. Prices for selected food product groups, % yoy



Source: SSSU, NBU staff estimates.

Figure 2.8. Individual components of food inflation and harvest change, % yoy



Source: SSSU, NBU staff estimates.

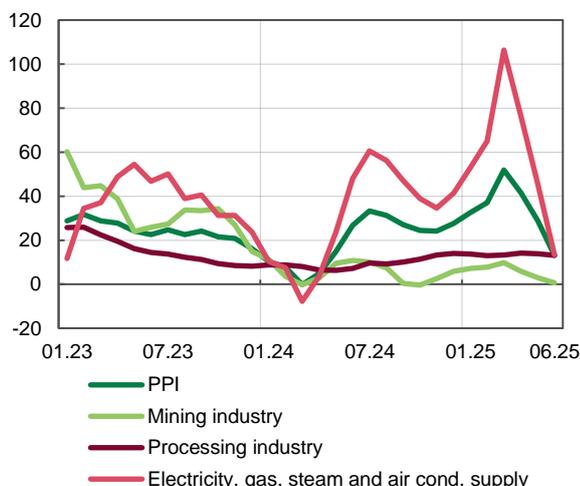
Underlying inflationary pressures will ease under the influence of the NBU's monetary policy measures and more moderate pressure from the labor market

Although underlying pressures remain significant, they have eased slightly amid a slowdown in the growth of real household incomes. They were also restrained by the NBU's previous measures to tighten monetary policy and by reduced pressure in the electricity market. In Q2, the growth in electricity producer prices slowed markedly (the pace of price growth in the electricity, gas, and steam supplies sector slowed from 106.4% yoy in March to 13.4% yoy in June). This was facilitated by the base effect (last year, prices rose sharply amid a significant energy deficit) and relatively moderate prices in the EU wholesale markets, from which electricity is imported into Ukraine. The slower growth of energy prices had second-round effects on prices in other sectors (e.g., producer price inflation decelerated from 51.9% yoy to 13.1% yoy, respectively) and on the cost of energy-intensive consumer goods and services. Furthermore, with a stable energy supply, businesses likely reduced costs on ensuring energy autonomy and uninterrupted operations, which were previously largely passed on to the cost of final products, including consumer goods.

Although the labor shortage remained a major challenge for businesses and stimulated further wage increases (read more in the section *Economic Developments* on page 29), pressure on the labor market has eased slightly in recent months. This was reflected in a slowdown in services inflation in June to 14.4% yoy, from a stable peak level of 14.6% yoy over the previous three months. Specifically, compared to the end of Q1, the prices increased more slowly for insurance, communications, and personal care services, as well as for taxi fares (partly thanks to a significant slowdown in the pace of fuel price increases in March–May). The first signs of declining pressure from consumer

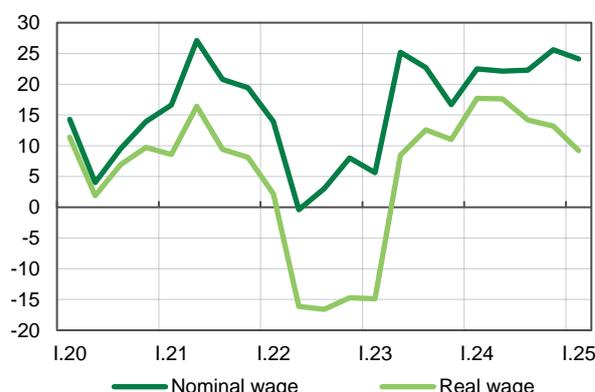
demand, on the back of slower growth in real household incomes (read more in the *Economic Developments* section on page 29), also restrained underlying inflationary pressures.

Figure 2.9. PPI and its components, % yoy



Source: SSSU.

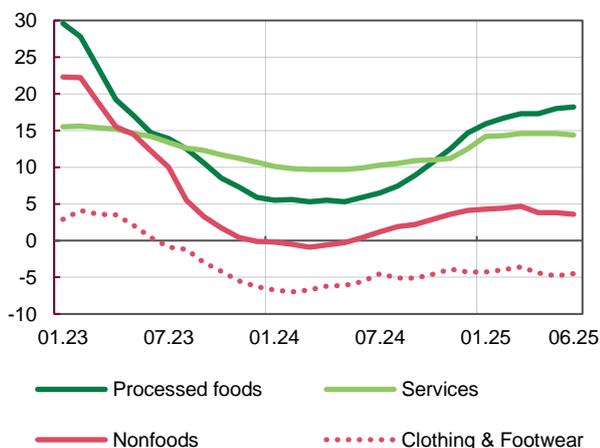
Figure 2.10. Nominal and real wages, % y-o-y



Source: SSSU, NBU staff estimates.

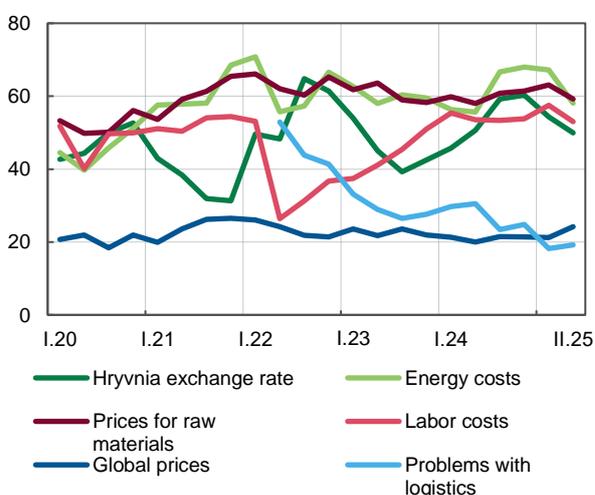
The growth in prices of non-food products also decelerated (to 3.6% yoy in June, compared to 4.7% yoy in March), which was supported by the relatively stable UAH/USD exchange rate. As before, clothing and footwear continued to become cheaper, a trend that even deepened in Q2 (to 4.5% yoy, from 3.6% yoy, respectively). At the same time, over the forecast horizon, inflation for non-food products will be fueled by the effects of a weaker UAH/EUR exchange rate.

Figure 2.11. Selected components of the core CPI, % yoy



Source: SSSU, NBU staff estimates.

Figure 2.12. Major factors affecting businesses' expectations of price changes for their goods and services, % of respondents



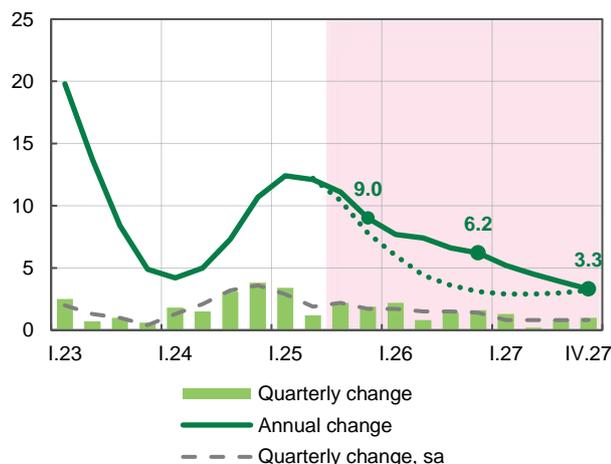
Source: NBU.

[The Business Outlook Survey in Q2](#) also showed a weakening of the main factors influencing businesses' expectations regarding price changes for their goods and services over the next 12 months. Specifically, the impact of energy prices noticeably weakened (which corresponds with the stabilization of the energy situation). The importance of the costs of raw materials (particularly food-related) and labor resources also decreased somewhat. For the second consecutive quarter, the influence of the hryvnia exchange rate weakened, which can be explained by the fairly stable UAH/USD exchange rate. In contrast, the influence of global market prices increased slightly. Logistics problems continue to play a secondary role in shaping businesses' expectations about the prices of their goods, following the setup of the sea corridor, a revival of container shipping and a decrease in its cost, the partial resumption of [ferry](#)

services with Bulgaria and Georgia, and the use of alternative (including multimodal) logistics approaches.

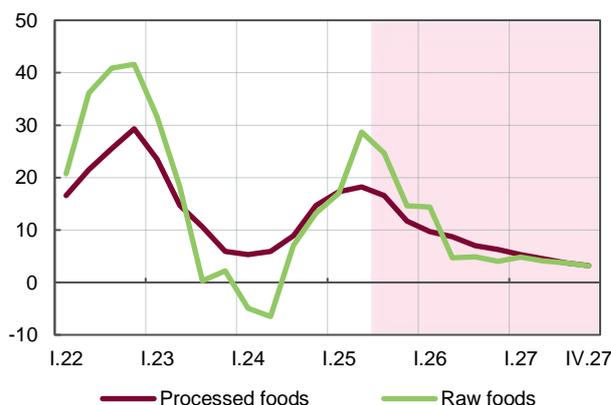
Over the forecast horizon, inflation will be fueled by a relatively weak real effective exchange rate (REER), driven by the hryvnia's depreciation against the euro. In 2026, the positive output gap will also be an inflationary factor. Pressure from the labor market will also persist next year, but it will gradually weaken. At the same time, the prolonged maintenance of a sufficiently tight interest rate policy and measures to support FX market sustainability will ensure a slowdown in core inflation. This will also be driven by second-round effects from a decrease in food price inflation. At the end of this year, core inflation will return to a single-digit level, and at the end of the forecast period, to approximately 3%, which will contribute to achieving the inflation target even against the backdrop of an acceleration in the administered prices component of inflation.

Figure 2.13. Core inflation at the end of period, %



Source: SSSU, NBU staff estimates.

Figure 2.14. Food inflation components at the end of period, % yoy



Source: SSSU, NBU staff estimates.

Administered inflation will rise due to increases in excise taxes and the need to bring utility tariffs to market-based levels

The growth in administered prices gradually accelerated through May (to 19.8% yoy, compared to 19.0% yoy in March), primarily due to higher prices for tobacco products and alcoholic beverages amid rising production costs. Tax changes⁵ also played a significant role in the price increase for tobacco products, as did intensified measures to combat the shadow market supply⁶.

Already in June, administered inflation had slowed significantly (to 10.9% yoy) due to a base effect driven by a one-time increase in electricity tariffs in June 2024. This effect contributed 1.7 pp to the decrease in headline inflation for June 2025.

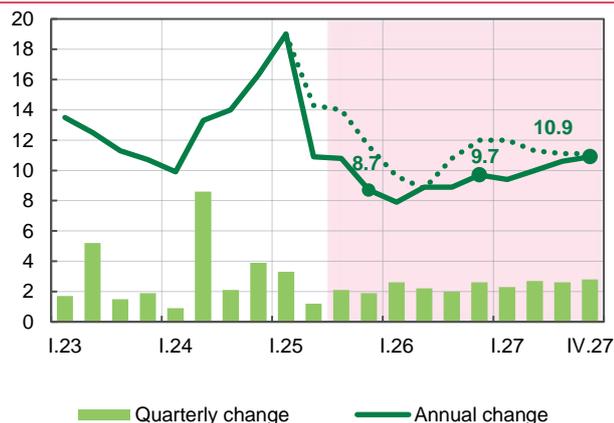
Through the end of this year, administered inflation will decline due to the ongoing moratorium on raising some utility tariffs for households. However, with the further normalization of the economy and given the difficult state of the energy system, some utility tariffs are expected to be gradually increased to market-based levels. This, along with the planned increase in the excise burden on tobacco products in the coming years to support budget revenues and meet European integration commitments (read more in the *Assumptions and Risks to the Forecast* section on page 49), will accelerate administered inflation to the double-digit level at the end of the forecast period.

⁵The increase in excise taxes (and their conversion to euros) on tobacco products came into effect in March 2025. In addition, from 1 April to 31 December 2025, cigarette manufacturers and importers will apply a 1.1 multiplier to calculate their minimum excise tax liability. This requirement is due to the fact that in 2024, the share of total excise tax liabilities in the weighted average retail price of cigarettes was less than the required level of 60%.

⁶In particular, the mechanism for administering the excise tax has been improved: electronic excise stamps were introduced in test mode starting in March 2025 (they will become mandatory in 2026).

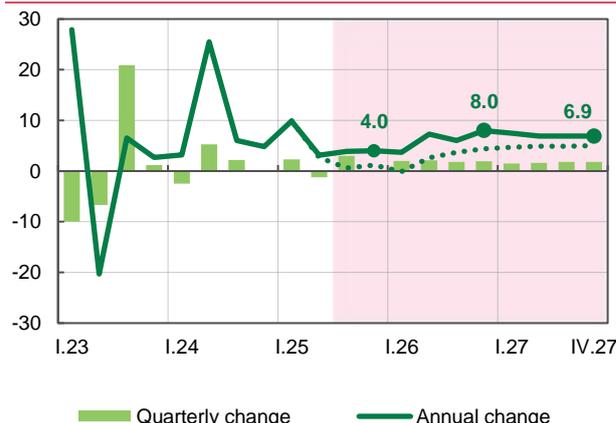
In April–May, the pace of fuel price growth slowed (from 9.9% yoy in March to 1.2% yoy in May) on the back of a decrease in global prices for crude oil, as well as a surplus of [diesel fuel](#) and [liquefied petroleum gas](#) on the domestic market and competition among filling station chains in the [gasoline](#) segment. However, in June, the pace of fuel price growth increased to 3.1% yoy as a result of higher prices for [gasoline and diesel fuel](#) against the backdrop of high volatility in global oil prices and the depreciation of the hryvnia against the euro. The requirement for the mandatory addition of bioethanol to gasoline, which came into force [on 1 May 2025](#), did not have a noticeable impact on its cost, and considering the postponement of this requirement until [1 January 2026](#), it will not be reflected in fuel prices at least until the end of the year.

Figure 2.15. Administered price inflation at the end of period, %



Source: SSSU, NBU staff estimates.

Figure 2.16. Fuel price at the end of period, %



Source: SSSU, NBU staff estimates.

The increase in fuel prices will be relatively low and stable through the end of the year due to a decrease in the volatility of global oil prices, which will also contribute to a decline in headline inflation through second-round effects. However, starting next year, the pace of fuel price growth will accelerate, primarily due to a planned increase in the excise burden.

Box 1. Ukraine and the EU: Food Price Convergence

In recent years, food prices in Ukraine have drawn closer to the level of those in EU countries. This process has continued over the last decade, but was temporarily disrupted due to the weakening of the hryvnia against the euro in 2023–2024. During this period, amid logistical complications, the euro-denominated cost of Ukrainian products decreased. However, convergence resumed in H1 2025, and Ukrainian prices once again began to approach European levels, even surpassing those in neighboring countries for some goods. This dynamic was shaped by both internal factors (weather conditions, consequences of the war, production costs, and domestic demand) and external market conditions (global prices, trade preferences, and external demand). During periods when internal factors are unfavorable, relatively high food prices stimulate imports. On one hand, this reduces price volatility and strengthens the NBU's ability to keep inflation in check. On the other hand, it worsens the situation for domestic producers and increases pressure on international reserves. Thus, ensuring food and macro-financial sustainability requires structural issues related to food supply to be addressed.

Since 2020, [food inflation worldwide has consistently outpaced headline inflation](#). Over the past five years, global food prices have risen by more than 35%, while the prices of a broad range of goods and services have increased by only 25% on average. This sharp rise in food prices can be attributed to a combination of global shocks: the COVID-19 pandemic, the war in Ukraine, and climate change, all of which have disrupted supply chains and led to higher agricultural product prices. These shocks have been further exacerbated by rising energy costs, high fiscal spending, and loose monetary policies in a number of countries, creating a "perfect storm" for food inflation. Together, these factors have significantly impacted both supply and demand in global food markets.

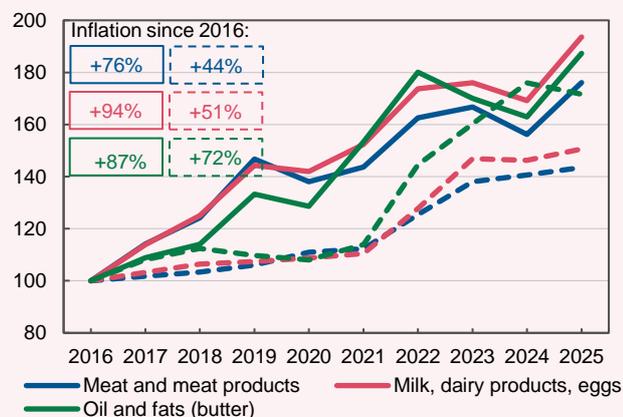
Given the high share of food products in the consumer basket (around 40%), the NBU closely monitors factors critical to food inflation. Food prices in Ukraine are shaped by both internal factors (yields, production costs, consumer demand, and so on) and external market conditions, including global prices, Ukrainian producers' access to foreign markets, and the volume of food exports and imports. Specifically, Ukraine's Free Trade Area Agreement with the EU has contributed to increased trade volumes in food products, thereby serving as one of the factors bringing Ukrainian prices closer to European levels.⁷

Over recent years, food prices in Ukraine and EU countries have risen, reflecting general trends in the global food and energy markets, as well as an increase in aggregate demand. Since 2016, food prices in Ukraine have risen by an average of 79% (in the euro equivalent terms), while in EU countries they have increased by only 46%. However, price dynamics for specific product groups have been uneven, as have the deviations of prices for products in Ukraine from those in EU countries. For example, prices for bread and cereals, fruits and vegetables, and freshwater fish remain lower in Ukraine than in Europe, thanks to lower raw material, labor, and logistics costs compared to the EU. Sunflower oil, on the other hand, is cheaper (specifically, 20–25% less expensive than in Poland) thanks to well-developed domestic production. At the same time, butter prices in Ukraine are relatively higher than the European average (specifically 20–25% higher compared to Poland), which is linked to high production costs and significant state support for agricultural producers in EU countries. Livestock products also show similar contrasts: pork and dairy products in Ukraine are more

⁷ A comparison of inflation indices reflects the direction of relative price dynamics, but does not indicate deviations between price levels. In this context, tracking relative prices between Ukraine and the EU is crucial. Given the limited statistical data on price levels for specific products in Ukraine and individual EU countries, the NBU has developed an alternative approach to comparing consumer food prices in Ukraine and in Ukraine's MTPs. To ensure comparability, prices in Ukraine and European countries are expressed in euros. The price comparison is based on Eurostat's approach and its publication on [price level indices](#) for product groups in EU countries and Turkey (annual average data for 2015–2024). The price level index calculated by Eurostat reflects the price level in a particular country relative to another country (or a group of countries like the EU), and is calculated as the ratio of the purchasing power parity (the ratio of prices between countries without adjustment for the exchange rate) to the current national currency exchange rate. Using this approach, the NBU conducted its own index estimates for selected countries in 2025 (on average for January–May 2025) based on inflation rates and national currency exchange rates.

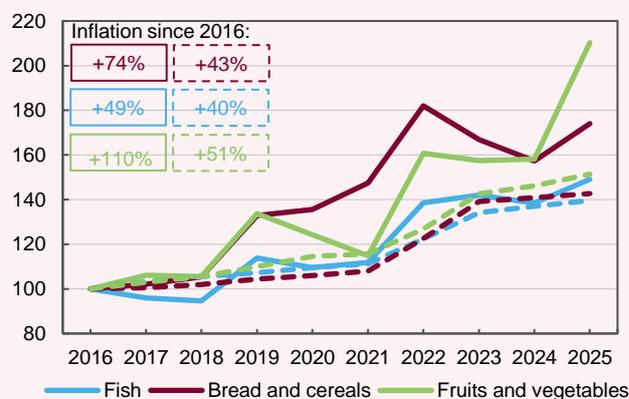
expensive than their Polish equivalents due to structural problems in the industry and differences in state support, while poultry meat and eggs are cheaper thanks to the efficiency of large producers, vertical integration, and economies of scale.

Figure 1. Prices for certain food product groups in Ukraine (in euro equivalent) and the EU* (index: 2016 = 100)**



* Dashed line and in dashed frame – EU data.
 ** Data for 2025 – on average from January to May 2025.
 Source: Eurostat, SSSU, NBU staff estimates.

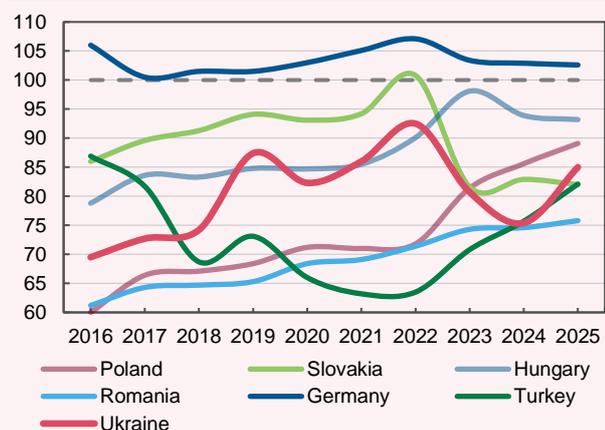
Figure 2. Prices for certain food product groups in Ukraine (in euro equivalent) and the EU* (index: 2016 = 100)**



* Dashed line and in dashed frame – EU data.
 ** Data for 2025 – on average from January to May 2025.
 Source: Eurostat, SSSU, NBU staff estimates.

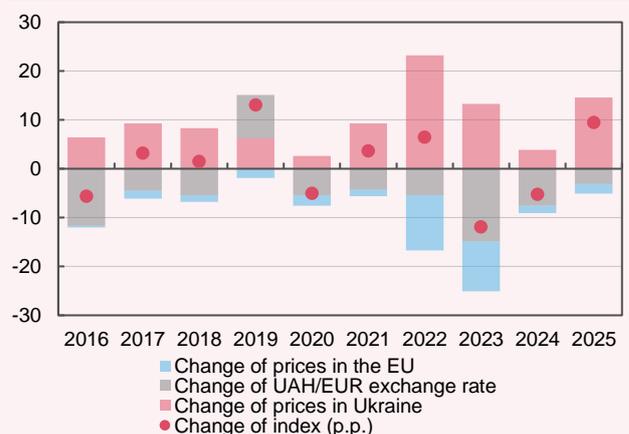
There are several reasons for this selective convergence. Firstly, despite the general trend of prices approaching European levels, for certain basic products (especially for those that were historically much cheaper in Ukraine), there might be a certain psychological threshold after which consumers significantly change their behavior. A rapid convergence of prices for these goods to the European level, or even exceeding the price levels in neighboring countries, could cause a significant drop in domestic demand or a shift towards cheaper substitute goods. Thus, the speed of price convergence is partly determined by the purchasing power of Ukrainian consumers.

Figure 3. Relative food price indices in certain countries (100 – average prices in the EU)*



* 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.

Figure 4. Contributions of factors to the change in the relative price index of products in Ukraine, p. p.*



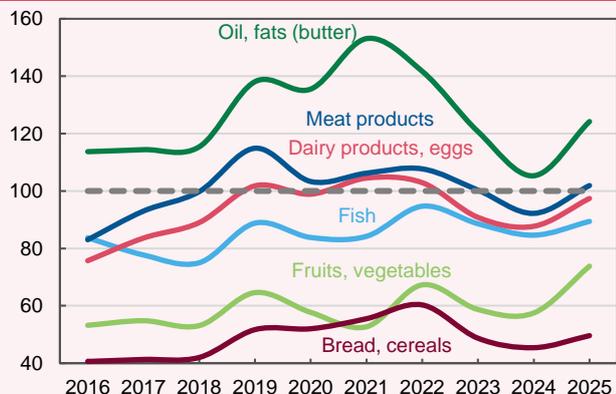
* Data for 2025 – on average from January to May 2025.
 Source: Eurostat, Czech Statistical Office, SSSU, NBU staff estimates.

Secondly, for certain sectors, particularly livestock farming, the increase in prices and their convergence with European levels are largely determined by the level of development of the respective industry. For instance, the continuous decline in livestock numbers leads to shortages in domestic supply and high production costs, making this segment of the Ukrainian market attractive for imports.

A significant factor contributing to higher prices in Ukraine relative to EU countries is the difference in VAT rates. Many EU countries apply a reduced VAT rate to basic food

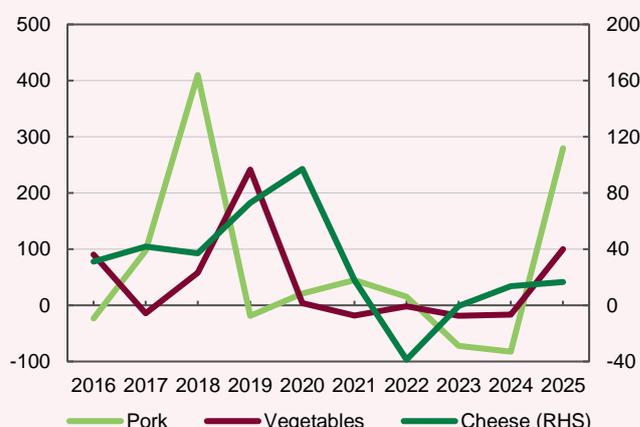
products. For example, in Poland, basic food products⁸ are subject to a 5% VAT rate, while in Ukraine it is 20%. From February 2022 to March 2024, the Polish government temporarily reduced this rate to zero to curb food inflation.

Figure 5. Price indices for certain food product groups in Ukraine compared to the averages in the EU (100 - average prices in the EU)*



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

Figure 6. The volumes of imports of certain food product groups to Ukraine, % yoy*



* Data for 2025 – for January–May 2025 compared to January–May 2024. Source: SCSU, NBU staff estimates.

In 2023–2024, food inflation in Ukraine was slightly higher than in the EU countries. However, due to the depreciation of the hryvnia against the euro, the euro-denominated cost of certain products decreased. At the same time, the relative level of food prices in neighboring countries mostly increased. Specifically, the rise in the euro-denominated Polish prices was linked to the appreciation trend of the zloty. However, in H1 2025, the convergence of Ukrainian prices resumed, despite the hryvnia's depreciation against the euro. This was caused by high rates of food inflation, which was driven in particular by insufficient domestic supply due to unfavorable weather conditions, especially last year. Ukrainian food prices approached Polish levels and even exceeded those in some neighboring countries (including Romania, Slovakia, and Turkey).

Relatively high prices amidst negative domestic factors have pushed up food imports to Ukraine. For instance, in January–June 2025, pork imports increased 4.4-fold compared to the same period last year, milk and cream imports increased 1.6-fold, and cereal imports rose by 48%. Furthermore, vegetable imports doubled, and apple imports increased eightfold, which helped partially smooth out seasonal price fluctuations caused by unfavorable weather conditions. This indicates that imports are increasingly playing a key role in forming additional supply in the domestic market, helping curb price growth and, in general, smooth out price volatility. This channel plays a crucial role by enhancing the NBU's control over inflation, given the high share of food items in the consumer basket. At the same time, higher imports increase pressure on international reserves and worsen the standing of domestic producers. Therefore, the active integration of the Ukrainian food market into the European one presents both advantages, in the form of price stabilization, and challenges related to the need to solve internal structural problems to ensure food and macro-financial sustainability.

⁸ This includes meat and fish (including processed products), dairy products, vegetables and fruits (including processed products), cereals, milling products, and bakery goods.

Box 2. Storm and Anchor: Adaptability to Shocks and the Long-Run Level Anchor of Inflation Expectations of Enterprises in Ukraine

In times of extreme geoeconomic and geopolitical turmoil, inflation expectations can become an anchor for macroeconomic stability. Understanding the factors that shape these expectations allows central banks to more accurately assess the risks of an unanchoring of expectations and the corresponding consequences – including for inflation dynamics. This helps to increase the effectiveness of monetary policy.

Assessments of the degree of anchoring of inflation expectations among firms in Ukraine⁹ indicate that expectations have continued to remain moderately sensitive to price spikes even after the start of the full-scale invasion. At the same time, the underlying level of expectations – the so-called “anchor” – rose significantly after the COVID-19 pandemic and the onset of the full-scale invasion, reaching a double-digit level. These dynamics intensify the challenges for monetary policy, as expectations becoming anchored at a high level, and especially if they become destabilized, increases the risk of an inflationary spiral and makes it more difficult to return inflation to its target. The NBU’s contribution to stabilizing the situation is expressed through consistent actions, effective communication, and maintaining the credibility of the central bank in its ability to contain inflation within its policy horizon.

Inflation expectations play a key role in shaping monetary policy. They influence economic agents’ decisions about consumption, investment, and savings, as well as firms’ price-setting behavior. When businesses expect high inflation, they raise prices in advance, incorporating future increases in the cost of resources, such as commodities and energy, as well as future wage growth for employees. This triggers an inflationary spiral, where expectations of high inflation provoke a rise in current prices, which, in turn, amplifies inflation expectations.

Well-anchored expectations increase the effectiveness of monetary policy. They allow a central bank to respond more mildly to adverse demand shocks and to temporary supply shocks ([Bernanke, 2022](#)). In contrast, unanchored expectations compel central banks to act more quickly and forcefully to demonstrate their commitment to the price stability mandate.

Expectations are an unobservable variable, so there is no uniform method for measuring them. The NBU constantly monitors the expectations of economic agents through regular and irregular surveys, as well as alternative data, including on the basis of analyses of Google search queries, and so on.

Assessing the degree to which expectations are anchored is an even more non-trivial task, which requires a combination of approaches. One of such methods is to analyze two aspects of anchoring: adaptability to shocks, and the consistency of the underlying level of expectations with the central bank’s inflation target ([Ball & Mazumder, 2011](#); [ECB, 2021](#)).

Adaptability is the sensitivity of expectations to current inflationary shocks. If expectations are well-anchored, short-term and relatively minor price fluctuations have little to no impact on them. However, if expectations are not anchored, even a temporary surge in inflation immediately affects their dynamics.

The underlying level of expectations is the “anchor” that expectations gravitate toward in the long term. If this level coincides with or is close to the central bank’s official target, then expectations are considered anchored. If it is not, it is much more difficult to keep inflation at the target level.

⁹ Kramar, V., Chepyha, B. (2025) *Anchoring Firms’ Inflation Expectations in Ukraine: Assessing Shock and Level Anchoring with a VAR Approach*. Visnyk of the National Bank of Ukraine (publication forthcoming).

To quantitatively assess these two characteristics, a vector autoregression (VAR) model was used with two variables: actual inflation (π_t) and firms' inflation expectations (π_t^e):

$$\begin{aligned} \pi_t &= a_0 + a(L)\pi_{t-1} + b(L)\pi_{t-1}^e + e_{1t}, \\ \pi_t^e &= c_0 + c(L)\pi_{t-1} + d(L)\pi_{t-1}^e + e_{2t}. \end{aligned}$$

Based on the estimated coefficients, the degree of adaptability ($1 - \lambda$) and the long-run anchor level of expectations π^* were calculated (following [Demertzis et al., 2012](#)):

1) degree of adaptability

2) long-run anchor level

$$1 - \lambda = \frac{c(L)}{1-d(L)}$$

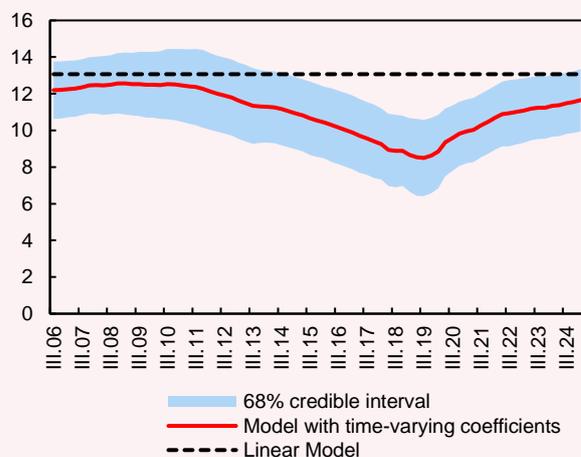
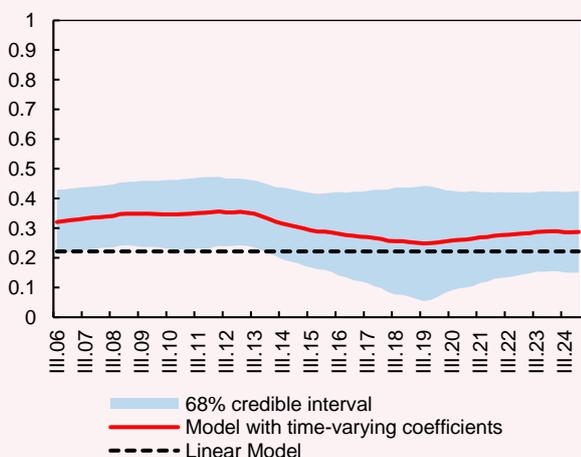
$$\pi^* = \frac{c_0}{(1-d(L))\lambda}$$

The model was estimated using data on firms' expectations¹⁰ from Q1 2006 to Q1 2025, which cover several significant crisis periods: the global financial crisis, the start of the war in eastern Ukraine and the annexation of Crimea in 2014, the COVID-19 pandemic, and russia's full-scale invasion in 2022. In each of these cases, inflation expectations rose sharply. Despite a notable improvement after the implementation of the inflation targeting (IT) regime from 2016 to 2020, expectations remained higher than the NBU's official inflation target.

To track how adaptability and the level of the "anchor" changed over time, a VAR model with stochastic volatility and time-varying coefficients was also applied ([Primiceri, 2005](#); [Del Negro & Primiceri, 2015](#)). This approach allows the evolution of expectation formation to be observed throughout the entire analysis period.

Figure 1. Adaptability of inflation expectations based on a simple VAR model and a model with time-varying coefficients

Figure 2. Long-run level anchor of inflation expectations based on a simple VAR model and a time-varying coefficient model



Source: NBU staff estimates.

Source: NBU staff estimates.

Results from the time-varying coefficient model show¹¹ that after the IT regime was implemented, the degree of adaptability fell from 35% to 25%, and only gradually rose to 28% after the COVID-19 and full-scale invasion shocks. Although the change in the degree of adaptability is not statistically significant over the entire analysis period, these dynamics indicate a relative anchoring of firms' expectations around a certain long-term

¹⁰ Data from the quarterly business outlook survey, which the NBU has been conducting since 2006. Firms' inflation expectations for the next 12 months are relevant because they shape prices, wages, employment, and investment, and they provide the longest available time series of inflation expectations in Ukraine.

¹¹ The results for the degree of adaptability ($1 - \lambda$) and the expectations "anchor" π^* derived from both of the approaches used do not necessarily have to coincide. The standard linear approach may have biased estimates due to the inability to account for non-linearities. In contrast, the time-varying coefficient model also includes stochastic volatility, which affects the interaction and values of the variable coefficients. Accounting for these factors increases the accuracy of the reflection of real economic phenomena ([Primiceri, 2005](#); [Nakaijima, 2011](#); [Lubik & Matthes, 2015](#)). Accordingly, the linear VAR model slightly overestimates the long-run anchor level for inflation and underestimates the degree of adaptability to shocks.

level, even in extreme conditions. Only about a quarter of current inflationary surges are passed through to expectations.

At the same time, the long-run anchor level of expectations had a more persistent downward trend. After the IT regime was implemented, the level of the anchor dropped from around 12.5% to 8.5%, which was still significantly higher than the NBU's 5% inflation target. Unfortunately, this positive trend ended after the COVID-19 pandemic and the start of the full-scale invasion: since then, the long-run anchor level of expectations has been moving toward a double-digit value of around 11.5%. However, the long-run anchor level of firms' inflation expectations does not currently exceed actual inflation, and the adaptability factor remains relatively low.

The prolonged divergence between the long-run anchor level of inflation expectations and the NBU's target complicates the task of ensuring macrofinancial stability. The key factors at play are inflation "memory," dollarization, and war-related shocks. At the same time, while remaining flexible in responding to new challenges, the NBU adheres to a transparent and consistent monetary policy. Following such a policy, which combines strategic vision, adaptability, and confidence in price stability, will make it possible to achieve a sustainable anchoring of expectations at the target level.

Part 3. Economic Developments

- The economy continued to recover in H1 2025. However, economic growth was subdued due to the increased intensity of artillery and air attacks, with the further destruction of production facilities, infrastructure, and housing. These same factors contributed to continued negative migration trends, which kept the labor market tense. Additionally, unfavorable weather conditions delayed the harvest and limited prospective crop yields. This, along with the gradual depletion of the previous year's harvest, slowed the development of the food and transport industries, where some capacities remained idle.
- In light of these factors, the NBU forecasts that the economic recovery will be slower than last year, with real GDP growing by 2.1% in 2025. Future recovery rates will depend on the course of the war. The NBU's baseline forecast scenario assumes a slow return to normal economic functioning and economic growth of 2%–3% in 2026–2027.
- Potential GDP will slowly grow, driven by an increase in fixed capital and higher productivity. Real GDP will slightly exceed its potential level over the forecast horizon, which will also fuel inflation.

In H1 2025, economic growth continued but was limited by intensified air attacks, further losses of production capacity, infrastructure, and housing, as well as by negative migration trends

Despite the challenges of the full-scale war, the economy, as predicted, returned to growth in Q1 2025 (real GDP grew by 0.9% yoy after a 0.1% yoy contraction in Q4 2024). This was primarily driven by relative stability in electricity supplies and resilient domestic demand. In Q2 2025, according to NBU estimates, growth remained subdued (1.1% yoy), primarily due to the worsening security situation both at the front and in frontline regions, as well as in the rear, and due to further losses of production capacity, infrastructure, and housing.¹² This, in particular, weakened business expectations, which in Q2 were generally above the neutral level. The business outlook index (BOI) dropped from 108.2% in Q1 2025 to 103.1% in Q2 2025 (the index fell in all sectors except construction, and in trade it turned negative).

Massive air attacks by Russia negatively impacted economic activity across several industrial sectors.¹³ The situation in the mining industry remained difficult due to the destruction of gas production infrastructure, although the restoration of gas extraction capacity is ongoing. Gas shortages and damage to fertilizer plants hindered the operation of the chemical industry during its peak season. The consequences of fighting near Pokrovsk and a worsening external price environment restrained the work of the mining and metals sector.

Amidst a decline in last year's agricultural raw material stocks to minimal levels, there was a continued downturn in the food and transport industries¹⁴, where some capacities remained idle. The rising cost of commodities put additional pressure on the profitability of livestock production due to more expensive feed. The livestock, milk, and meat processing sectors were also constrained by a further decrease in animal numbers and the reintroduction of trade restrictions by the EU.

Weather conditions in the H1 2025 also had a negative effect on economic activity. Spring frosts reduced the supply of vegetable, fruit, and berry crops, while the uneven

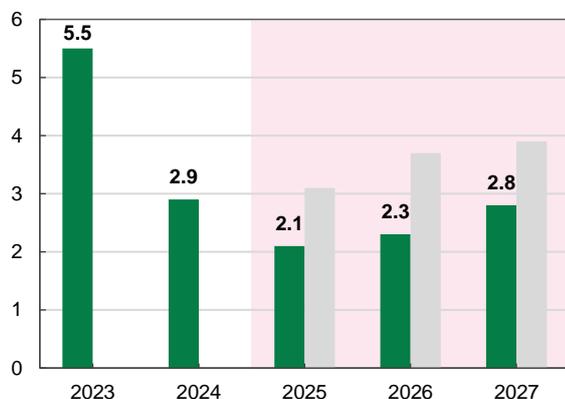
¹² According to ACLED data, in Q2 2025, the number of missile and drone attacks increased by 152% yoy and by 32% qoq. The numbers of damaged housing and infrastructure facilities sharply increased, and massive attacks on energy infrastructure resumed. The number of combat clashes on the front line grew by 83% yoy and by 21% qoq.

¹³ According to the State Statistics Service of Ukraine, production in the mining industry in April dropped by 17.5% yoy, while chemical production decreased by 7.4% yoy.

¹⁴ According to the Ukrainian Grain Association, agricultural product exports in Q2 2025 declined by 42.7% yoy, specifically due to reductions in sea (-40.7% yoy), rail (-56.9% yoy), and road transport (-46.9% yoy) deliveries.

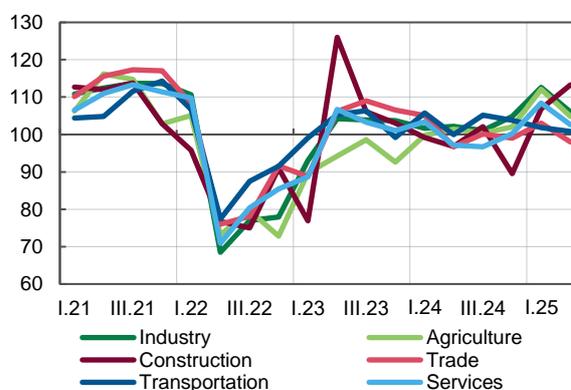
ripening of early grains and oilseeds, along with volatile weather in June, delayed the harvest. As a result, the contribution of agriculture to GDP in Q2 was negative. Colder and more volatile early summer weather compared to the previous year also limited the activity of the hotel and restaurant business.

Figure 3.1. Real GDP, % yoy



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

Figure 3.2. Business Expectations Index by type of activity, %



Source: NBU.

In H2, economic activity will be supported by sustained domestic demand, a soft fiscal policy, and smaller shortages of electricity than last year. However, the worsening security situation and new losses of infrastructure and production facilities due to intensified missile and drone attacks in H1, along with lower yield estimates for several crops due to unfavorable weather conditions early in the year (read more in *Assumptions and Risks to the Forecast* on page 49), have led to a downward revision of the 2025 real GDP forecast – to slower growth of 2.1%.

The baseline macroeconomic forecast scenario assumes a slow normalization of economic conditions. Economic growth in 2026 will accelerate only to 2.3%. Significant fiscal stimuli, enabled by substantial international aid, will support household consumption, partially offsetting the slow pace of private investment growth.

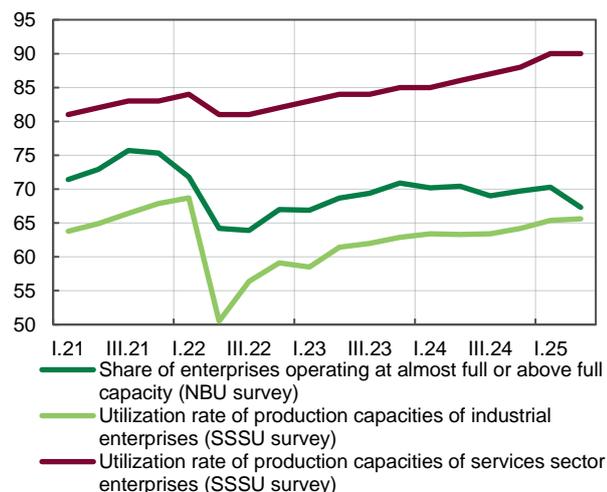
In 2027, real GDP growth will accelerate to almost 3% yoy due to a revival in investment and consumption. Government support for the economy will decrease, so private investment will be the main driver of economic growth. Consumption will be propelled by continued real wage growth and the gradual return of migrants to Ukraine.

GDP will exceed its potential level, which will fuel consumer inflation

In Q2 2025, indicators for production capacity utilization remained at the level of the previous quarter. The capacity utilization rate of industrial companies is at the 2021 level, while that of services companies is at a record-high level (90%). Coupled with other factors, this points primarily to a shortage of labor. At the same time, the results of other surveys show a decrease in the share of companies operating at or above full capacity. Overall, the economy is close to its potential level, although “overheating” in the labor market persists.

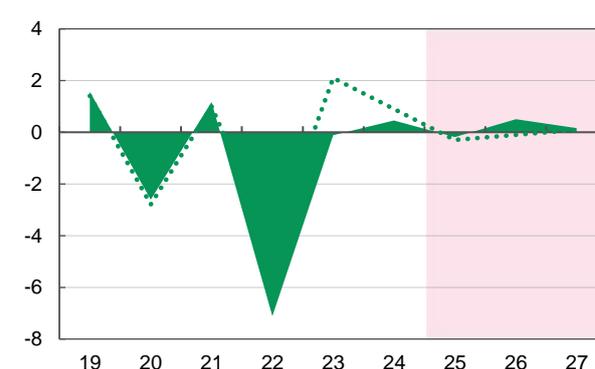
The GDP gap remained close to zero, partly due to a low contribution from agriculture. A sufficiently tight interest rate policy continued to restrain consumer demand, but monetary conditions eased slightly due to the weakening of the hryvnia against the euro, which in turn affected the REER of the hryvnia (read more about the monetary conditions index in Box *QPM+: Updated Quarterly Projection Model to Guide Monetary Policy Decisions* in the [April 2025 Inflation Report](#) on page 50). Fiscal policy remains loose: a high state budget deficit will support aggregate demand throughout 2025.

Figure 3.3. Production capacity utilization indicators, %



Source: SSSU, NBU.

Figure 3.4. Output gap, % of potential GDP



Source: SSSU, NBU staff estimates.

Note: updated estimates were made using the QPM+ version

In 2025–2026, potential GDP will grow at rates close to 2% annually. This growth will be constrained by the loss of production capacity due to Russian aggression, and a relatively slow agricultural recovery because of the negative impact of climate change on harvests. The migration situation will also remain challenging (read more in *Assumptions and Risks to the Forecast* on page 49). In 2027, the pace of potential growth will accelerate. As the economic situation normalizes and the country continues its European integration, the main drivers of potential GDP growth will be increased productivity and capital investments.

Budgetary stimuli will remain a significant factor in supporting economic growth, while private sector substitution will be slow

The public sector has continued to be the main factor supporting aggregate demand. However, in Q2, fiscal stimulus to the economy weakened slightly. The cyclically adjusted primary balance narrowed compared to the same quarter last year, although it remained substantial, while the fiscal impulse turned negative. The budget deficit in nominal terms in Q2 was similar to the corresponding quarter of the previous year¹⁵. Expenditure growth slowed but was still significant¹⁶, with the priority areas remaining defense, social programs, and infrastructure repair.

In H1 2025, economic activity was further supported by growth in consumer demand. At the same time, signs of cooling began to appear, influenced by a slowdown in real income growth. More specifically, the increase in real wages slowed to 9.2% yoy in Q1 2025, and high-frequency indirect indicators suggest this slowdown continued into Q2. Several other sources of household income (including social benefits and pensions) also weakened in real terms. Other available high-frequency indicators and household consumer sentiment, which worsened slightly, also pointed to a slowdown in consumer demand growth.¹⁷

Investment growth also continued. Investment activity was supported by the restoration of gas production facilities, the expansion of food processing capacities, the renewal of agricultural machinery by farmers and the railway fleet by railway workers, as well as the further development of logistics, housing, and commercial real estate, particularly in the west of the country. At the same time, incentives for investment from the budget sector weakened somewhat (the increase in capital expenditures in the consolidated

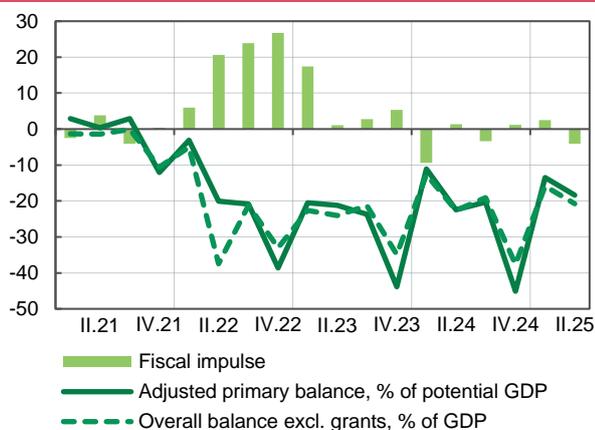
¹⁵ In Q2 2025, the consolidated budget deficit was UAH 417 billion, compared to UAH 397 billion in the corresponding quarter of 2024.

¹⁶ Consolidated budget expenditures in Q2 grew by about 16% (in Q1 2025, the growth was about 37% yoy).

¹⁷ For example, the retail trade volume in May 2025 grew by 7.0% yoy, and by 5.9% yoy for January–May. According to the State Tax Service, the volume of cash register transactions in the retail trade in Q2 2025 grew by an average of 20.8% yoy and by 11.5% qoq. According to the Ministry of Internal Affairs, new car registrations in Q2 2025 increased by 12.0% yoy, and used car registrations by 10.7% yoy. According to Info Sapiens, the Consumer Sentiment Index in 2025 exceeded its 2024 figures (averaging 78.7 points in Q1 2025 and 78.0 points in Q2 2025, compared to 71.6 points in Q2 2024).

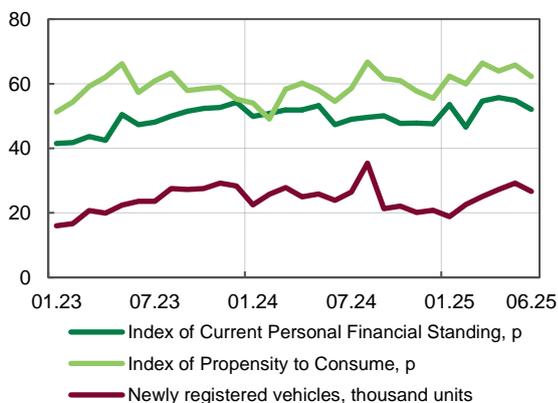
budget, which focused primarily on defense and energy projects, was insignificant).¹⁸ Some indicators of private sector investment activity also deteriorated slightly.¹⁹

Figure 3.5. General government fiscal balance*



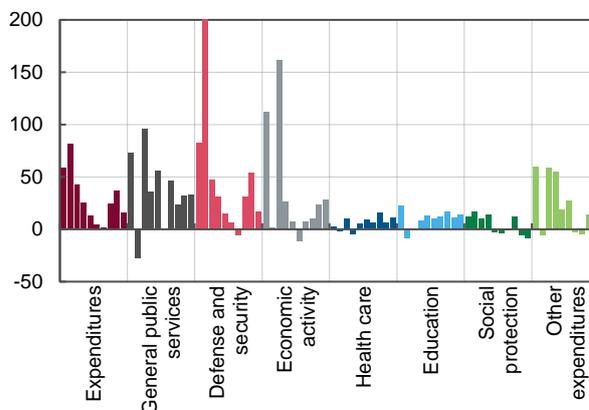
* Overall balance is the consolidated budget balance, taking into account loans to the PFU from the STA. Cyclically adjusted primary fiscal balance (CAPB) is the difference between seasonally adjusted revenues, in the structure of which tax revenues are adjusted for cyclical changes in GDP, and seasonally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

Figure 3.7. Selected indicators of consumer demand



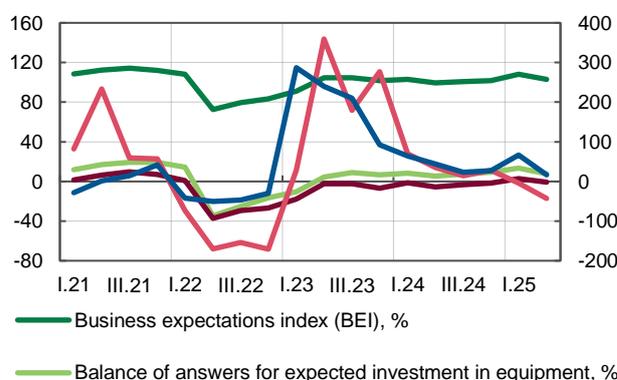
Джерело: Info Sapiens, MBC.

Figure 3.6. Consolidated budget expenditures in 2023-2025, quarterly % yoy (functional classification)



Source: STSU, NBU staff estimates.

Figure 3.8. Selected indicators of investment demand



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

Economic development will continue to be supported by the public sector, reflecting the need to build up strong defense capabilities, implement infrastructure projects, and considerable social and humanitarian needs. Sizable military needs in 2025 will lead to a high budget deficit (22% of GDP), which will in turn support economic activity in both the industrial and services sectors. In 2026, the budget deficit will decrease slightly, and in 2027 the reduction will be much more significant (to about 19% and 12% of GDP respectively).

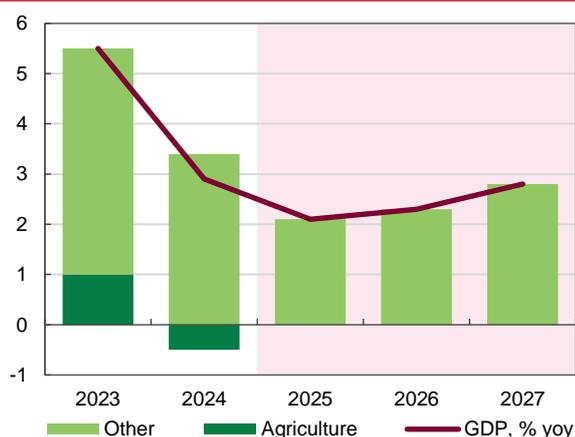
As the economy normalizes, the effects of fiscal stimuli will fade, and the private sector's role will grow significantly. Private investments will focus on restoring production facilities, long-overdue modernizations of existing businesses, and new projects. This will be supported by the country's rising investment attractiveness amidst continued

¹⁸ Growth in capital expenditures in the consolidated budget slowed from 66.3% yoy in Q1 to around 17% yoy in Q2, given the catch-up in capital expenditures in Q2 2024 due to limited resources at the beginning of the year.

¹⁹ The decline in commercial vehicle registrations deepened from 1.8% yoy in Q1 2025 to 17.2% yoy in Q2. According to the Register of Construction Activity, the number of buildings commissioned decreased by 2.9% yoy due to a decline in commercial, retail, and industrial buildings, while the number of buildings for the service sector, budget sectors, and infrastructure increased.

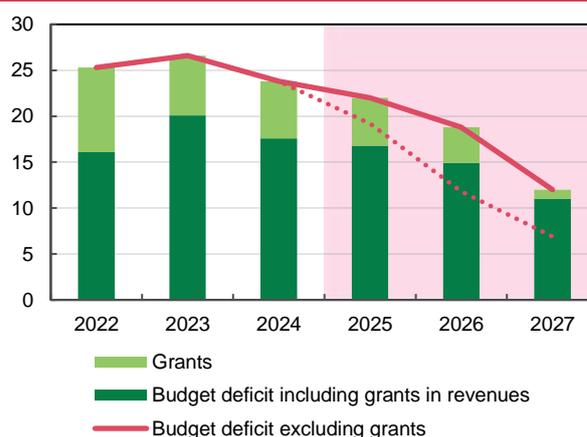
European integration. The growth in investment will, in turn, become a considerable foundation for accelerating economic growth over the forecast period. However, due to the slow increase in harvests and the poor performance of the livestock sector, agriculture will not make a significant contribution to GDP growth (read more in *Assumptions and Risks to the Forecast* on page 49). Specifically, due to unfavorable weather conditions, crop estimates for the current year have been revised downward. Therefore, the contribution of agriculture in 2025 will be close to zero, compared with the previous assumption of a 0.4 percentage points of GDP growth contribution.

Figure 3.9. Contribution of agriculture to real GDP growth, pp



* Source: SSSU, NBU staff estimates.

Figure 3.10. Consolidated budget deficit, % of GDP



Source: STSU, SSSU, NBU staff estimates.

The reshaping of global trade offers opportunities for Ukrainian businesses to integrate into new logistics and production chains and enter new markets (read more in *Assumptions and Risks to the Forecast* on page 49).

Since the beginning of the year, the labor supply has been growing faster than demand, but the shortage of labor remains significant and will constrain economic recovery over the forecast horizon

In H1 2025, businesses' hiring problems eased somewhat, both due to a further increase in labor supply and a decrease in the need for new employees amid more restrained economic growth. The number of resumes on job search websites grew noticeably faster than the number of job openings.²⁰ According to household surveys, the labor force participation rate in H1 2025 exceeded the level of the corresponding period of the previous year. However, persistent mismatches in the labor market remained.²¹

The growth of the labor supply was, as before, constrained by migration: in H1 2025, the number of migrants increased, though at a slower pace than last year (by about 60,000 compared to more than 200,000 in H1 2024, excluding russia). According to the UNHCR, as of 1 July 2025, 5.6 million people were outside Ukraine.²²

²⁰ The growth in the average number of new job openings in Q2 2025 slowed to 5.4% yoy (12.9% yoy in Q1 2025). Conversely, the growth in the average number of new resumes accelerated to 27.4% yoy in Q2 (18.7% yoy in Q1).

²¹ In absolute terms, the highest demand in Q2 was for blue-collar jobs (17.7% of all job offers), the service sector (14.5%), and retail trade (14.2%). There was also a steady increase in job openings in the "Security" category (up by 74.1% yoy in Q2), primarily due to job openings posted by the Security and Defense Forces of Ukraine. Meanwhile, resumes were dominated by middle management (18.4% of all resumes), sales and procurement (14.5%), and the service sector (12.1%).

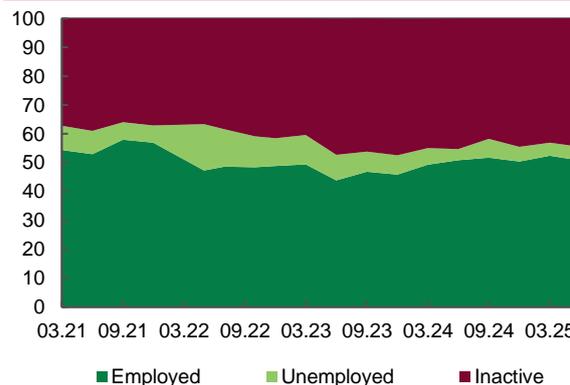
²² Since the beginning of russia's full-scale invasion of Ukraine, the [UNHCR has published statistics](#) on the number of Ukrainians who were forced to leave the country because of the war. From February 2022 through May 2023, the estimate was based on migrant border-crossing statistics. In June 2023, the UNHCR revised its approach. The estimate began to be based on the number of migrants with temporary protection status (or a similar status) according to the reporting of host countries. Although the net balance of border crossings was 8.9 million people, the UNHCR's estimate of the total number of migrants decreased from 8.2 million to 6.3 million (mainly due to a reduction in the number of migrants in russia and belarus). In May 2025, the UN revised its methodology for the second time, removing data on 1.2 million Ukrainians in russia. These included Ukrainians in russia with statuses other than of refugee or being under temporary protection. The russian government reported this data on them as migrants from Ukraine due to the war (these could also have been people forcibly taken to russia) and has not updated it since June 2023. The UNHCR's change in approach in May 2025 again led to a significant decrease in the total figure. According to the latest UNHCR data, only 7,000 people currently have temporary protection status in russia.

Figure 3.11. Average monthly new resumes and job openings, thousand (dotted line – seasonally adjusted)



Source: work.ua, NBU staff estimates.

Figure 3.12. Structure of labor force participation according to surveys, % of responses



Source: Info Sapiens, NBU staff estimates.

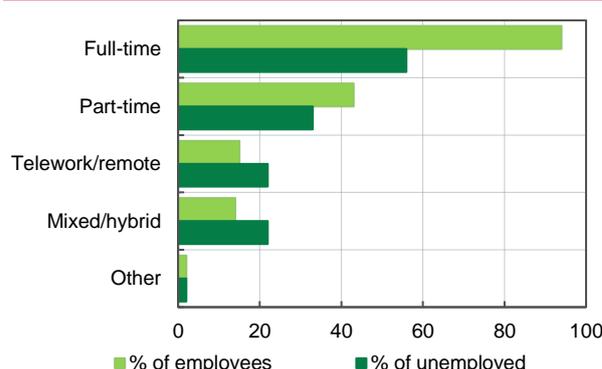
As a result of a brisk increase in the labor supply, the negative impact of the worker shortage on business activities has eased slightly. However, despite some stabilization, the demand for labor remained high. The lack of workers continued to limit the ability of companies to scale up production and caused high rates of nominal wage growth.

Figure 3.13. Labour shortage as a factor limiting business development, % of responses



Source: IER, NBU.

Figure 3.14. Employers' and unemployed persons' demands regarding working conditions, % of responses*



* Multiple answers are possible.
Source: research by SESU, FEU, Helvetas.

The overheating of the labor market is likely to persist. According to a study by the [State Employment Service of Ukraine \(SESU\)](#), the [Federation of Employers of Ukraine \(FEU\)](#), and [Helvetas](#), potential employees are now interested not just in good wages, but also prioritize other working conditions. The study shows that their wage expectations already match market levels, which is also confirmed by data on expected versus offered wages on job search platforms. However, job seekers are increasingly interested in working remotely or part-time, while internally displaced persons (IDPs) are also seeking housing. Given the staff shortage, employers will likely be forced to shift toward non-price competition for employees, which could slightly reduce the rate of wage growth.

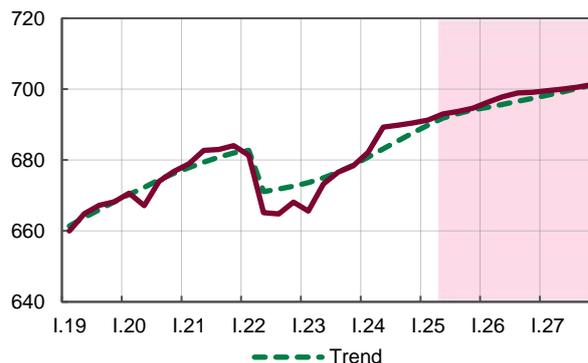
Under the influence of growing labor demand, unemployment will gradually decrease and stabilize below 10% by the end of the forecast period. The labor market mismatches caused by changes in the economy's structure, external and internal migration, and mobilization will persist but gradually weaken as economic conditions normalize. This will be facilitated by the gradual return of migrants to Ukraine (read more in *Assumptions and Risks to the Forecast* on page 49) and the saturation of the labor market, which will increase the supply of skilled labor. Real wages will continue to grow due to demand exceeding labor supply, and because of a general revival of economic activity. However, the pace will be slower (4%–5% annually), given the gradual mitigation of labor market mismatches and non-price competition among employers.

Figure 3.15. ILO unemployment rate, sa, %



Source: SSSU, NBU staff estimates.

Figure 3.16. Real wages, level (logs)



Source: SSSU, NBU staff estimates.

The negative contribution of net exports to real GDP in 2025 will be significant due to high import needs, but a gradual narrowing is expected from 2026 onward

In Q2 2025, the negative contribution of net exports to GDP growth increased due to a revival in domestic demand, particularly for imported machinery. In addition, intensified aerial attacks by Russia pushed up imports of energy equipment and energy. Conversely, services imports continued to decline, primarily because forced migrants were losing their residency status. Overall, the growth of goods and services imports accelerated.

The rate of decline in goods and services exports remained at almost the same level as in the previous quarter. The depletion of agricultural crop stocks and a raw material deficit in the vegetable oil industry further decreases agricultural exports. Exports of mining and metals products were limited by weak external demand and high competition from Russian metal producers. The decline in services exports also continued, mainly due to the cessation of gas transit.

Since the initial shock of the full-scale invasion, volumes of imports of goods and services have been steadily growing. They grew by 8.9% and 7.7% in 2023–2024 respectively, after a 17.4% fall in 2022. By 2025, they were already close to their 2021 level. The largest contributions came from imports related to defense and reconstruction needs. In contrast, exports volumes fell much more significantly in 2022 (42%), and their recovery has been slower and more unstable on average (falling by 5.9% in 2023 and rising by 10.3% in 2024). Agricultural exports have been highly volatile, as they depend on harvest volumes and transportation capabilities, while exports of metallurgical products grew slowly due to the loss of production facilities. These trends are expected to persist in the next few years.

Overall, a drop in volumes of goods and services exports is expected in 2025, following weak performance in H1. Additionally, food exports will be limited by new EU trade conditions introduced in June 2025, which have restored customs quotas on certain goods, in particular on agricultural products. Another factor will be the high comparison base from the previous year, when 2023's stocks were actively exported via the sea corridor. Furthermore, metal exports will be constrained by a deficit of coking coal and coke for metallurgical plants due to the suspension of mining operations in Pokrovsk. The growth of ore exports will be slowed by relatively weak economic growth in European countries and cooling demand from China. Increased harvests and a revival of global demand will contribute to a resumption of growth of goods exports in 2026–2027. A revival in transport services exports is also expected. However, the growth of goods and services exports will remain limited due to the long-term process of restoring production facilities, a labor shortage, and gradual growth in domestic demand.

Conversely, the growth of goods imports in 2025 will accelerate slightly, due to the persistent high budget deficit and a corresponding increase in purchases of machinery, primarily for military purposes. Furthermore, car imports will rise in anticipation of the

repeal of tax benefits for electric vehicles on 1 January 2026. Purchases of energy will also increase amid intensified attacks, damage to energy infrastructure, low gas stocks, and a persistent coal deficit. Starting in 2026, a slowdown in goods import growth is expected, particularly for machinery, both because of the high comparison base of 2025 and the gradual reduction of the budget deficit. The reconstruction of energy infrastructure will help reduce imports of energy, including gas. The continued loss of residency by forced migrants and the gradual return of Ukrainians home will contribute to a decline in services imports over the forecast horizon.

Figure 3.17. Contributions of selected commodities to the annual change in exports volumes, pp

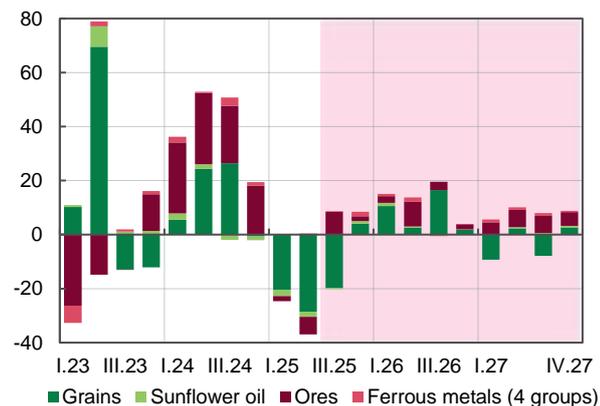
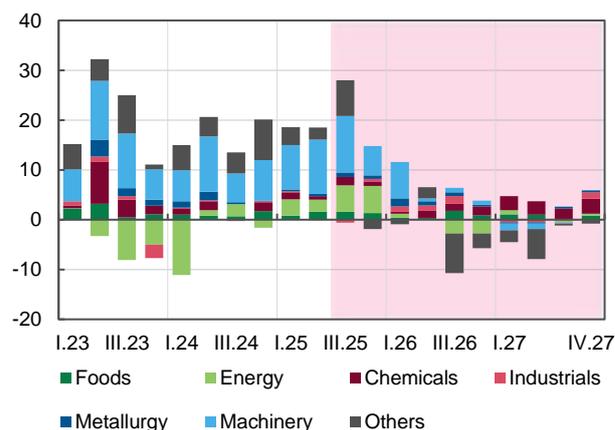


Figure 3.18. Contributions to the annual change in imports, pp



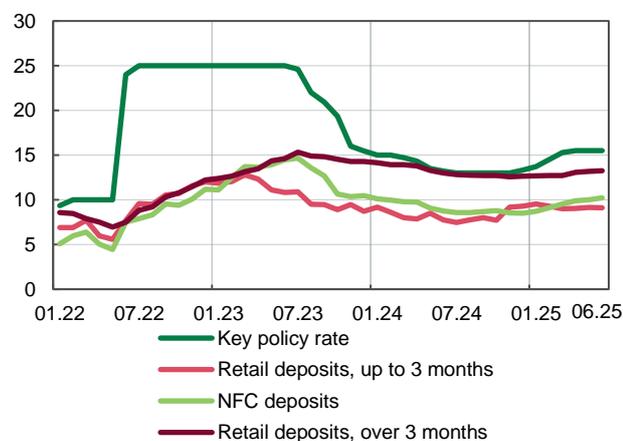
Part 4. Monetary Conditions and Financial Markets

- Previous measures by the NBU to tighten monetary policy have revived interest in hryvnia assets in recent months, which has contributed to a decline in households' net FX demand. This has supported the sustainability of the FX market and limited price pressures.
- At the same time, given the slower-than-expected deceleration in inflation and the balance of risks to price dynamics, the key policy rate is projected to remain at 15.5% for a longer period, with a slower decline compared to the April forecast. The NBU will maintain sufficiently tight monetary conditions for as long as needed to ensure a sustained decline in inflation to its 5% target over the policy horizon.
- The expected foreign assistance will be sufficient for the non-monetary financing of the budget deficit and maintaining an adequate level of international reserves (forecast by the NBU to be around USD 45 billion in 2026–2027). This will ensure there is a sustainable situation in the FX market, kept in check expectations of economic agents, and a gradual slowdown in inflation.

Measures to tighten monetary policy and keeping the key policy rate at 15.5% have boosted the attractiveness of hryvnia instruments and, consequently, sustained public interest in these instruments. At the same time, these steps had a neutral impact on lending, which remained active due to high competition among the banks for quality borrowers

From December 2024 to March 2025, the NBU raised its key policy rate three times by a total of 2.5 pp to 15.5%, and kept it unchanged from April to [July](#).

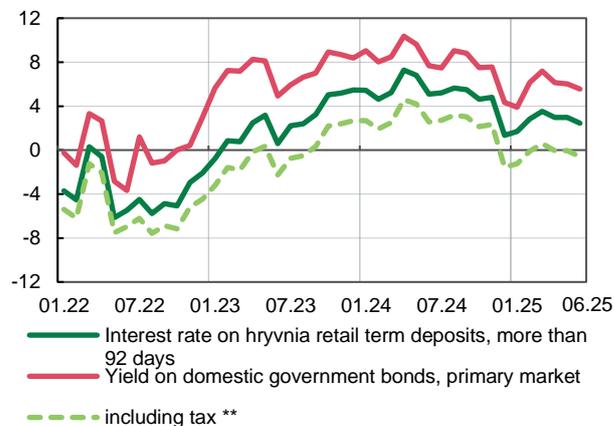
Figure 4.1. Weighted average interest rates on hryvnia term deposits and key policy rate*, %



* Monthly average.

Source: NBU.

Figure 4.2. Real interest rates* on hryvnia domestic government bonds and retail deposits, %



* Deflated by households' 12-month-ahead inflation expectations. ** Until December 2024 – 19.5%, after – 23%.

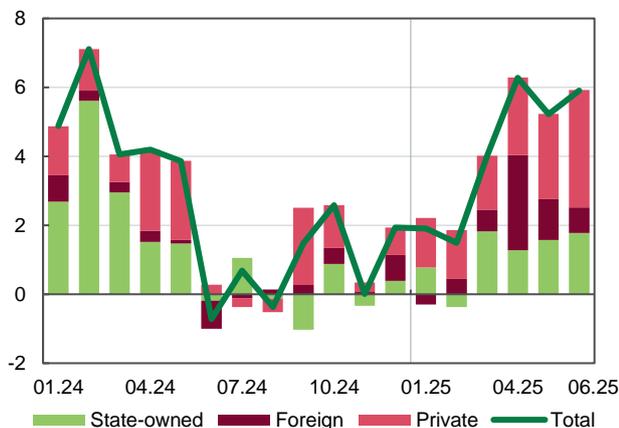
Source: NBU staff estimates.

The NBU's previous key policy rate hikes, along with [the calibration of the operational design, which took effect in April](#), contributed to the increase in the yields of hryvnia deposits. For example, the weighted average interest rate on hryvnia term retail deposits grew by 0.6 pp to 13% in Q2, and on NFCs' deposits – by 0.7 pp to 10.2%. Given that the key policy rate has remained unchanged since March, the upward momentum for rates is gradually waning.

The strengthening of incentives from three-month certificates of deposit in April also intensified non-price competition among banks for depositors: the vast majority of banks introduced special offers and stepped up their advertising campaigns. Current yields on hryvnia instruments and expectations about their future dynamics have generally supported a high demand for term deposits from households. In Q2 2025, all bank

groups were quite active in attracting funds: hryvnia retail deposits for a term of over three months grew by 6.6% qoq, or by UAH 17.4 billion. Due to the higher rates, banks with private capital saw the largest increase in deposits, with smaller banks in this group joining the competition in June.

Figure 4.3. Changes in the stock of hryvnia retail deposits with a term of over three months, UAH billions



* Bank groups as of 01.07.2025.

Source: NBU.

Figure 4.4. Changes in the stock of hryvnia domestic debt securities held by individuals and hryvnia retail term deposits, UAH billions

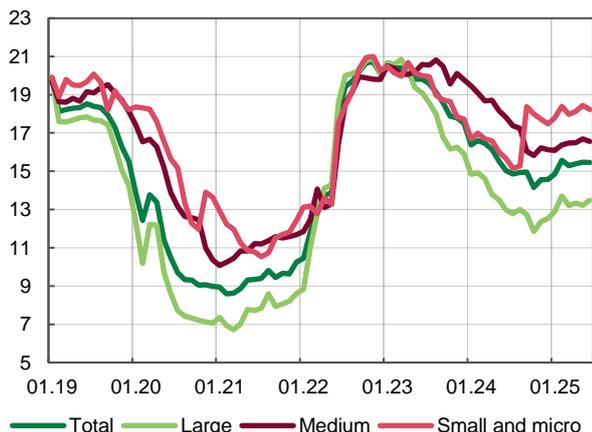


* At outstanding nominal value.

Source: NBU staff estimates.

Real yields on domestic government debt securities remain higher than those on deposits, owing to non-taxation. This has contributed to growing demand for this instrument from households: over the quarter, the hryvnia portfolio of domestic government debt securities held by individuals grew by 15% qoq, or by UAH 6.7 billion. Households' improved financial literacy and greater familiarity in using this financial instrument are increasingly strengthening its role as a savings tool. This will likely contribute to increased competition among the banks for term deposits.

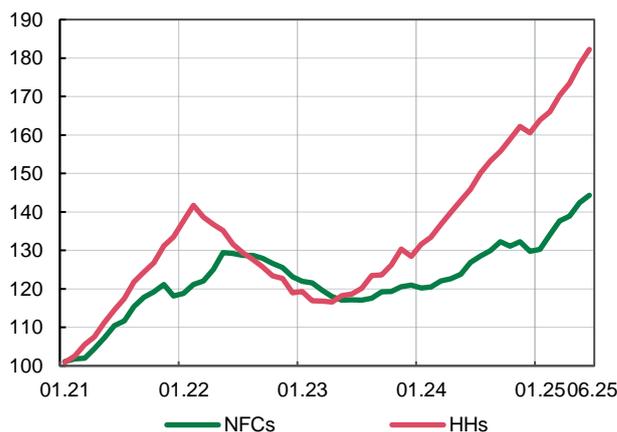
Figure 4.5. Weighted average interest rates on new* hryvnia loans of NFCs (by size of enterprises), %



* 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 4.6. Gross hryvnia loans, 12.2020 = 100



Source: NBU staff estimates.

The tightening of the NBU's interest rate policy was reflected primarily in the yields of savings instruments, but it had no significant impact on lending. This was mainly due to high competition among the banks for quality borrowers. Lending conditions remain close to pre-COVID levels and are the most accessible they have been since the full-scale invasion, with lending dynamics remaining robust.

Interest rates on new corporate loans have generally risen only slightly and remain at pre-COVID levels. As a result, the stock of hryvnia loans to NFCs grew by 4.9% qoq. The growth of net hryvnia corporate loans in recent months has been about 30% yoy. All bank groups are increasing their loan portfolios, and the [share of subsidized loans in new hryvnia corporate loans is now less than a third](#).

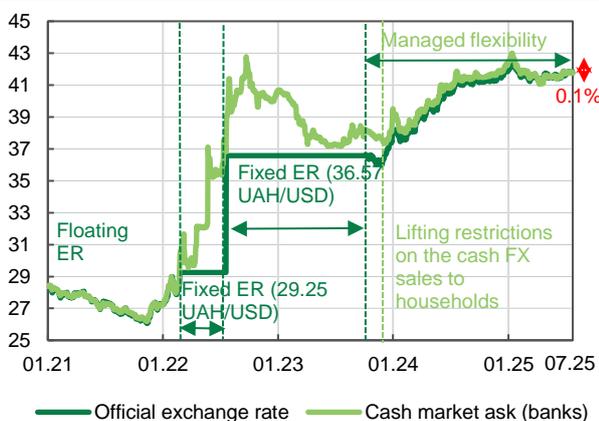
Lending to households is also growing at a steady pace of 7.0% qoq. However, this is almost entirely due to consumer loans. This is why the NBU is currently focused on promoting the development of mortgages – in June, the Financial Stability Council approved a [Mortgage Lending Development Strategy](#).

The results of a [bank survey](#) indicate optimistic expectations regarding the growth of client loan portfolios and an improvement in their quality. Demand for loans continues to grow from both businesses and households. For the first time since the start of the full-scale invasion, demand for long-term loans from large companies has increased. Rising competition has encouraged the banks to ease lending standards for corporations.

NBU's interventions decreased in Q2: the decline in the net demand for FX cash exceeded the widening of the external trade deficit

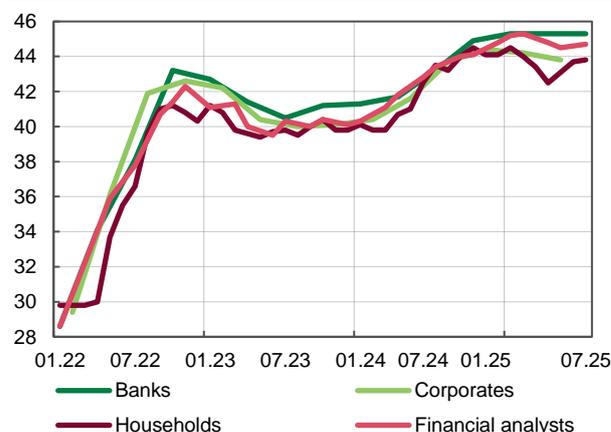
In Q2 2025, the NBU continued to support the sustainability of the FX market, compensating for the structural FX deficit in the private sector with inflows of international aid. The NBU's measures to tighten monetary policy helped maintain attractive yields and, consequently, increased public interest in hryvnia instruments. This was also reflected in a reduction in the households' net demand for FX cash, which reduced pressure on international reserves and on prices through the exchange rate and expectations channels. Thus, the exchange rate expectations of most groups of respondents remained stable.

Figure 4.7. Hryvnia exchange rates, UAH per USD



Source: NBU.

Figure 4.8. 12-month-ahead exchange rate expectations, UAH per USD



In March 2022, the HH's survey method was changed from face-to-face to telephone interviews.

Source: NBU.

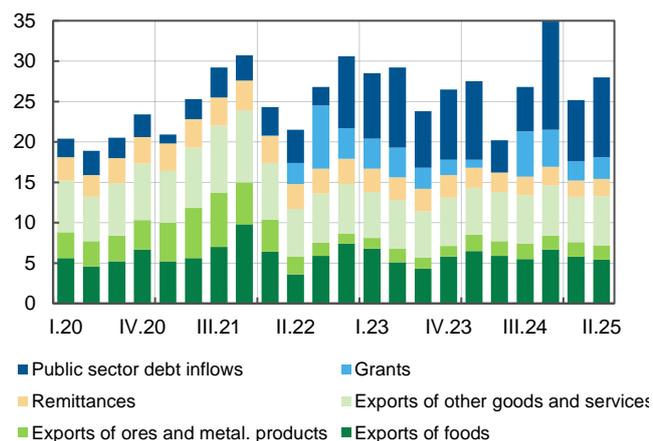
The exchange rate of the hryvnia against the U.S. dollar fluctuated within a relatively narrow range, appreciating slightly by 0.6% qoq on average. In Q2, the U.S. dollar, which is the main anchor currency for Ukraine, significantly depreciated against the currencies of Ukraine's MTPs. Accordingly, the average hryvnia exchange rate depreciated against both the euro (by 7.2% qoq) and against the currencies of Ukraine's MTPs. The hryvnia's NEER depreciated by 3.9% qoq. Despite higher inflation in Ukraine compared to its MTP countries, the hryvnia's REER also weakened (by 1.8% qoq). This REER depreciation eased monetary conditions and will contribute to the competitiveness of Ukrainian producers, but it will also exert inflationary pressure. To offset this pressure, the key policy rate is expected to be held at its current level for longer than in the April forecast, with a more moderate decline thereafter. Over the

forecast horizon, the REER of the hryvnia will strengthen, which will contribute to disinflation.

The weakening of the U.S. dollar against other currencies, especially the euro, likely also explains households' investment decisions. The net demand for cash U.S. dollars in Q2 2025 shrank to USD 0.1 billion from USD 1.9 billion in Q1 2025, while the net demand for cash euros decreased only slightly. Improved household exchange rate expectations (both from the start of the year and on a quarterly average) amid moderate two-way hryvnia against U.S. dollar exchange rate fluctuations and along with rising interest rates on hryvnia instruments, also curbed the demand for FX cash. As a result, the spread between the U.S. dollar ask price and the official exchange rate was negative in some periods, and on average close to zero. Seasonal factors also contributed to maintaining the supply of FX cash. Moreover, the NBU eased a number of FX restrictions for businesses, so a portion of the “gray” demand for FX cash was likely redirected to the non-cash segment.

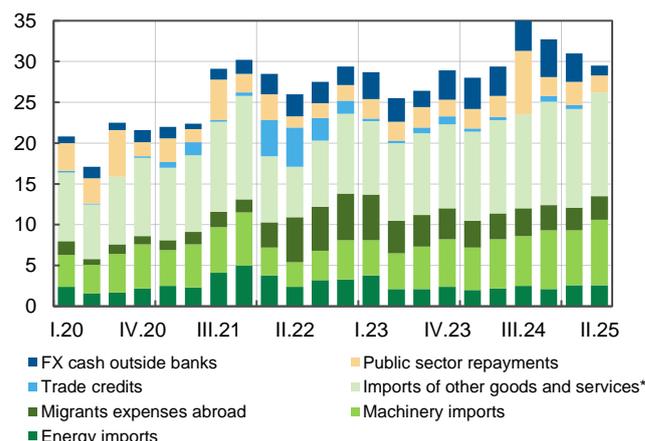
Consequently, net purchases of FX cash by households decreased to USD 0.8 billion in Q2 2025, from USD 2.8 billion in Q1 2025. Monthly figures from April to June 2025 were at their lowest levels since October 2023 – an average of USD 0.3 billion – whereas in the same period of the previous year the average was USD 0.8 billion, and in January of this year the net demand for FX cash was USD 1.3 billion.

Figure 4.9. Key components of FX inflows to Ukraine, USD billions



Source: NBU.

Figure 4.10. Key components of FX outflows, USD billions



* Excluding humanitarian aid.

Source: NBU.

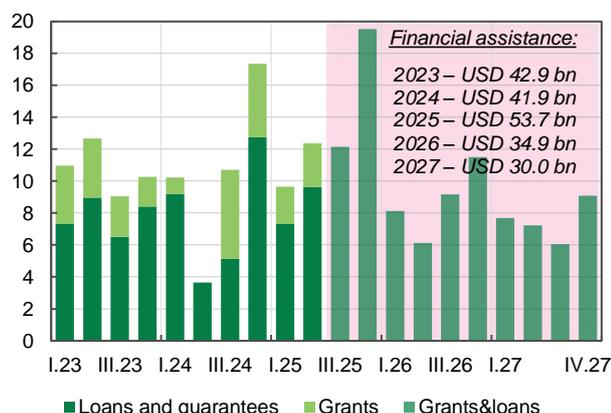
In contrast, in the non-cash segment of the FX market net demand for FX increased in Q2 2025. Purchases of industrial and agricultural equipment, as well as imports of motor cars, rose significantly due to the expected reinstatement of taxes on electric vehicles from 1 January 2026. Imports of metallurgical products also grew, likely for infrastructure reconstruction. Energy imports increased as well: [state-owned companies built up natural gas stocks for the 2025–2026 heating season](#), partly with aid from the EU and international financial institutions, while metallurgical companies purchased coal. However, demand for electricity was restrained due to its low deficit, and demand for oil products decreased thanks to substantial stocks. A seasonal factor influenced a reduction in purchases by agricultural companies, with imports of fertilizers, plant protection products, and seeds all decreasing.

At the same time, the supply of non-cash FX rose slightly. An increase in the share of finished products in ferrous metal exports contributed to the growth of metallurgical export earnings. Exports of transport services, particularly by road, also increased, thanks to the opening of new border crossings and the expansion of existing ones. However, exports of agricultural crops and vegetable oil decreased due to low carryover stocks and a raw material deficit for processing. Additionally, weak global demand and [internal sector problems](#) constrained the export of iron ore raw materials.

Transfers for business operations permitted under the FX liberalization remained at the level of the previous quarter. More than a third of transactions were conducted using businesses' own currency, which did not put pressure on international reserves. To enhance Ukraine's investment attractiveness and support the economy, the NBU continued to calibrate the parameters of FX restrictions. In May 2025, a new approach was introduced: [stimulatory FX liberalization](#). Additionally, a number of existing FX measures were updated: some were eased to support Ukrainian businesses, while others were tightened to prevent unproductive capital outflows abroad. The list of grounds for completing FX supervision of export operations was also [expanded](#), which will help reduce the volume of non-receipt of FX proceeds in Ukraine if the non-resident counterparty defaults on export agreements.

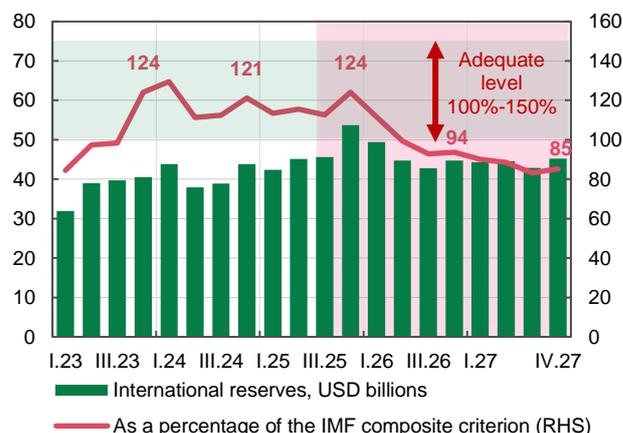
The NBU reduced its interventions to sell FX on the interbank market to USD 8.1 billion in Q2 2025 (down from USD 9.4 billion in Q1 2025). The average share of transactions without the NBU in the total volume of interbank transactions was 54%. This is 7 pp higher than the Q1 2025 average and 5 pp higher than in the same period last year, as well as being nearly twice the level at the time of the introduction of managed exchange rate flexibility (29% in October 2023).

Figure 4.11. International financial assistance, USD billions



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

Figure 4.12. Gross international reserves



Source: NBU staff estimates.

In Q2 2025, international financing increased. Under the ERA and Ukraine Facility mechanisms, Ukraine received a total of USD 12.1 billion, with another USD 200 million coming from other international partners. Amid lower NBU interventions, this pushed up reserves to USD 45.1 billion by the end of June, which is 16% more than the minimum level according to the IMF's composite metric.

The deterioration of security conditions during the full-scale invasion caused sharp fluctuations in both FX outflow and inflow across selected balance of payments items

Imports of travel services surged to a peak of USD 19.8 billion in 2022 due to the large number of forced migrants, after which they began to decline. Migrants are adjusting to life abroad and, over time, are losing their status as residents of Ukraine. A net return to Ukraine is expected in 2027, which will accelerate the decline in travel imports to USD 6.8 billion.

Demand for FX cash peaked in 2024. High security risks increased the appeal of FX as a form of savings. Demand also rose as some FX transactions moved “into the shadows” due to the introduction of restrictions on cross-border capital flows. Over the forecast horizon, demand for FX will decrease to USD 5.0 billion in 2027, thanks to NBU measures aimed at increasing the attractiveness of hryvnia savings, improving depreciation expectations, and combating unproductive capital outflows.

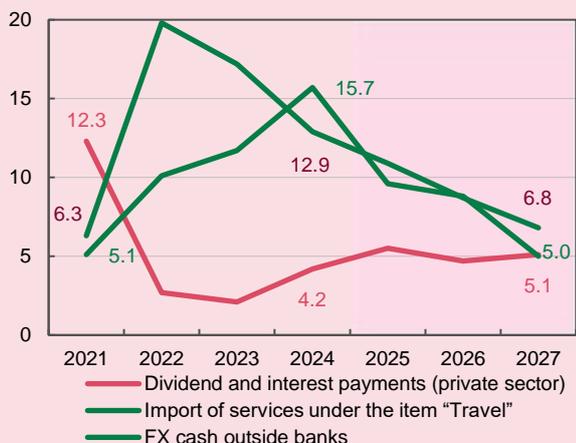
Payments of dividends and interest in the private sector significantly decreased to a minimum of USD 2.1 billion in 2023 due to administrative restrictions on capital outflow. In 2024, the FX outflow began to

recover thanks to FX liberalization, which will continue over the forecast horizon, reaching USD 5.1 billion in 2027. The repatriation of dividends will be the primary driver of this increase.

Remittances gradually decreased to USD 9.5 billion in 2024 as seasonal labor migration fell and some families reunited abroad. Inflows were supported by private donations for the Armed Forces of Ukraine and humanitarian aid, but these contributions have since decreased. Over the forecast horizon, a resumption of labor migration is not expected until 2027, which will contribute to a revival in remittance inflows (USD 9.8 billion in 2027).

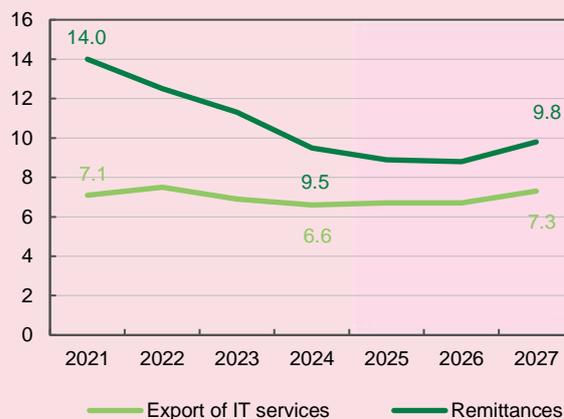
One of the FX inflow items that has remained relatively stable throughout the full-scale invasion is export of IT services. A slight decline in the FX inflows for this item, with a low point in 2024 (USD 6.6 billion), is expected to be followed by a rebound, with inflows in 2027 (USD 7.3 billion) surpassing the 2021 figures (USD 7.1 billion).

Figure 4.13. Selected components of FX outflows, USD billion



Source: NBU staff estimates.

Figure 4.14. Selected components of FX inflows, USD billion



Source: NBU staff estimates.

In 2025 and 2026, FX demand will remain high due to substantial government spending. The need to supply the defense sector and rebuild infrastructure and production facilities will drive an increase in goods imports. At the same time, the private sector's FX supply will remain insufficient for the FX market to be self-balancing. The growth of export earnings will continue to be constrained by limited production capacity. An additional factor for low exports will be the cancellation of the preferential trade regime with the EU as of June 2025, which had been in effect for the previous three years. Higher harvests in 2025 and 2026, along with some improvement in global market conditions, will stimulate faster growth in goods exports in 2026, but they will remain significantly lower than imports. Private sector investment and borrowing will be constrained by high security risks.

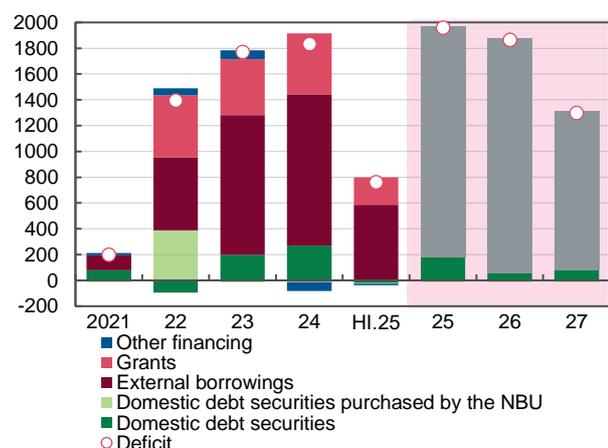
The record amounts of external financing this year (USD 54 billion) will enable the NBU not only to redirect the public sector's FX surplus to compensate for the private sector's deficit, but also to increase reserves to USD 54 billion. By the end of 2025, they will exceed by 24% the minimum level according to the IMF's composite metric. This will further contribute to the sustainability of the FX market, controlled expectations, and limited price pressure. International aid will be sufficient for non-monetary financing of this year's budget deficit and for building up a government finance buffer for next year, when external support is likely to start decreasing. This will lead to a reduction in reserves to USD 45 billion (94% of the IMF's composite metric) in 2026.

Starting in 2027, fiscal consolidation will drive a slowdown in the growth in imports of goods, narrowing FX demand. Furthermore, imports of travel services will decrease. The supply of FX will slowly grow due to an increase in debt and investment capital inflows, thanks to FX liberalization measures and the normalization of economic conditions. Remittances will also increase. International financial aid will enable reserves to be maintained at a stable level in 2027 – at around USD 45 billion, which is 85% of the minimum required level according to the IMF's composite metric.

Substantial international financial aid allows for the financing of budget needs and maintaining high government FX liquidity

Substantial international financial aid has continued to be the main source for financing budget needs and supporting government FX liquidity. At the same time, borrowing on the domestic debt market has also become more active. The increased demand for hryvnia domestic government debt securities with longer maturities is explained by both attractive yields and the desire of market participants to lock in these yields before the NBU's interest rate policy easing cycle begins. Placements of hryvnia domestic government debt securities in Q2 grew to almost UAH 119 billion, with a rollover of over 106%. The rollover for FX domestic government debt securities also increased to about 92% in Q2, although domestic FX borrowing remains relatively insignificant. Overall, the rollover for domestic government debt securities in all currencies in H1 was about 93%.

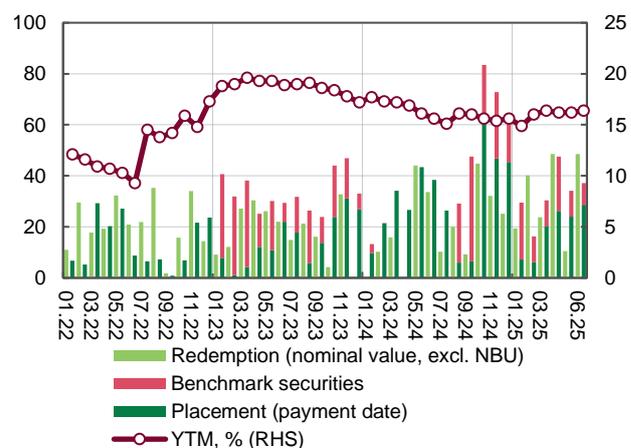
Figure 4.15. Financing* of the state budget deficit (excluding grants in revenues), UAH billions



* 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 2025–2027 reflects the NBU's forecast. The grey color denotes external borrowings, grant funds, and other financing, in particular, the use of relatively large cash balances on gov't accounts at the end of the previous period.

Source: STSU, NBU staff estimates.

Figure 4.16. Primary placement* and redemption of hryvnia domestic government debt securities, UAH billions and YTM

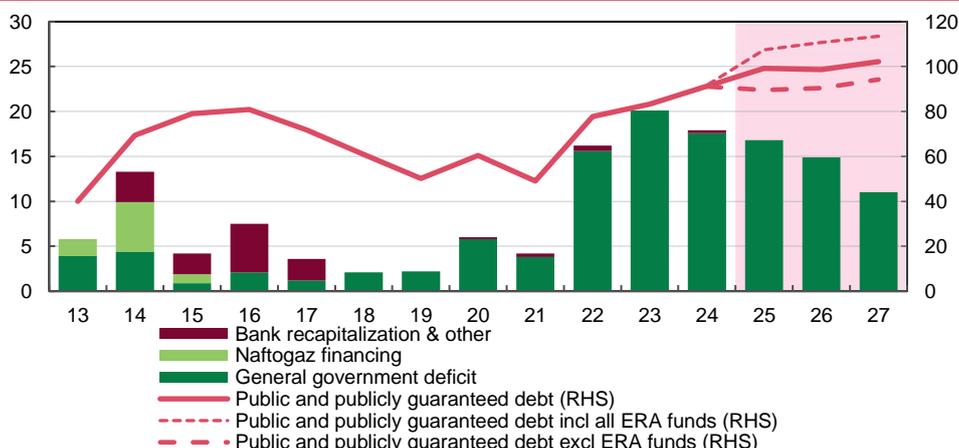


* According to the results of auctions for the placement of domestic debt securities before reflecting the price effects due to the additional placement of securities. Excluding hryvnia domestic debt securities issued in 2022 and 2024 for recapitalization of Ukrfinzhytlo and purchase of war bonds by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

Source: NBU staff estimates.

It is expected that budget expenditures will remain high over the forecast horizon and will be financed by both international aid and domestic resources. Financing the larger-than-previously-expected budget deficits in 2026–2027 will necessitate significantly higher volumes of international support (for more details, see *Assumptions and Risks to the Forecast* on page 49) and increased placements on the domestic debt market.

Figure 4.17. Broad public sector deficit, public and publicly guaranteed debt, % of GDP



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

A sharp reduction in budget expenditures during the forecast period is unlikely, as the return to normal economic conditions will increase the need for reconstruction spending, which will replace defense expenses. Given the high deficits, public and publicly guaranteed debt is expected to continue to rise, reaching around 100% of GDP over the forecast horizon. However, the concessional terms of loans from international partners and the effective management of domestic government debt (including through the introduction of domestic government debt securities replacement auctions) will reduce the burden on expenses and improve budget liquidity management.

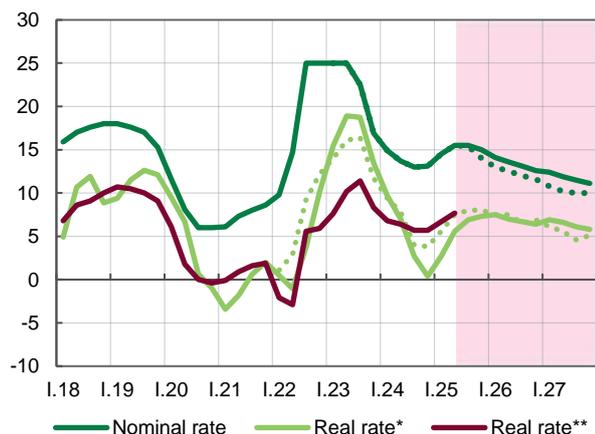
Part of the debt will be formed from funds received under the ERA mechanism, the repayment of which will be covered by revenues from immobilized russian assets²³. Therefore, this portion will not be included in the debt sustainability analysis or for determining the target debt reduction indicators under the IMF program. According to national methodology, only funds received from the EU under the ERA mechanism are included in the debt. However, according to the IMF's methodology, all funds under the ERA mechanism are considered part of the debt. Under this methodology, the debt will exceed 110% of GDP.

The NBU will maintain sufficiently tight monetary conditions for as long as necessary to ensure a sustainable reduction of inflation to the 5% target over the policy horizon

Given the robust demand for hryvnia assets, the reversal in the inflationary trend in June, and the controlled nature of inflation expectations, the NBU currently sees no need for additional steps to raise the key policy rate. However, due to a slower-than-expected deceleration of inflation and the balance of risks to price dynamics, the NBU also sees no room to ease monetary policy.

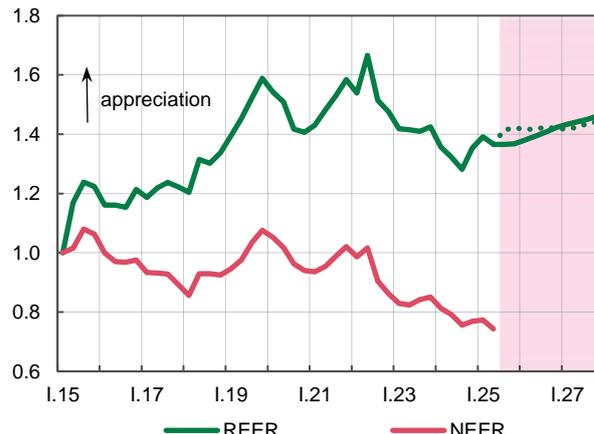
The effectiveness of the NBU's previous measures to ensure the FX market sustainability and to maintain an unchanged key policy rate is evidenced by the slowdown in core inflation, which indicates a weakening of underlying price pressure. However, there are also significant factors that will continue to restrain disinflation, including the hryvnia's depreciation against the euro (which will maintain external price pressures). However, over the forecast horizon, the hryvnia's REER will appreciate, which will contribute to a slowdown in inflation.

Figure 4.18 Key policy rate, %



* 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.

Figure 4.19. REER and NEER indices, Q1 2015 = 1



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

²³According to the Budget Code of Ukraine, financing under the ERA mechanism is considered a contingent debt obligations that are serviced and repaid not from the budget but from the profits of immobilized russian assets. Creditors have a limited right to demand the repayment of such a loan, specifically in the case of russia paying reparations for damage caused by the war.

To limit price pressure through the demand, exchange rate, and expectations channels, the NBU will likely hold the key policy rate at a sufficiently high level for a prolonged period. The updated NBU forecast projects that the key policy rate will remain at 15.5% for longer (until Q4 2025) and will be lowered more slowly compared to the April forecast. Neutralizing the risks of accelerating inflation will allow for a gradual reduction of the average real interest rate from its peak of about 7.3% in Q4 2025 to 5.8% over the forecast horizon.

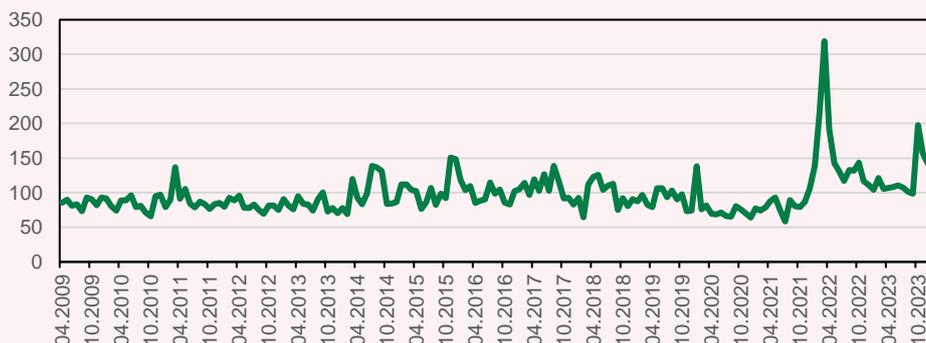
Box 3. Monetary Response to Geopolitical Shocks: How Can FX Interventions Mitigate Inflationary Pressure?

Geopolitical shocks have become a new constant in the global environment. They affect countries' economies through both direct financial and indirect demand and supply channels, increasing uncertainty. This complicates the conduct of monetary policy, as central banks face an acutely heightened classic dilemma: whether to curb rising inflation or support subdued economic activity.

The availability of FX interventions (FXIs) in a central bank's policy toolkit allows it to respond flexibly to external shocks and more effectively balance the goals of achieving price stability and supporting economic activity. In times of increased geopolitical turbulence, when raising the key policy rate could pose risks to banking sector sustainability, the use of FXIs is a viable alternative. FXIs help limit the pass-through of external shocks to domestic prices via the exchange rate and inflation expectations channels.

Geopolitical risks have significantly escalated since the start of russia's full-scale war against Ukraine. This war has catalyzed increased global uncertainty and economic turbulence, amplifying concerns about security, supply chain stability, energy availability, and geoeconomic polarization. Global geopolitical risk indices have risen sharply, reflecting both actual events and expectations of further threats.

Figure 1. Geopolitical risk index



Source: [Caldara & Iacoviello \(2022\)](#).

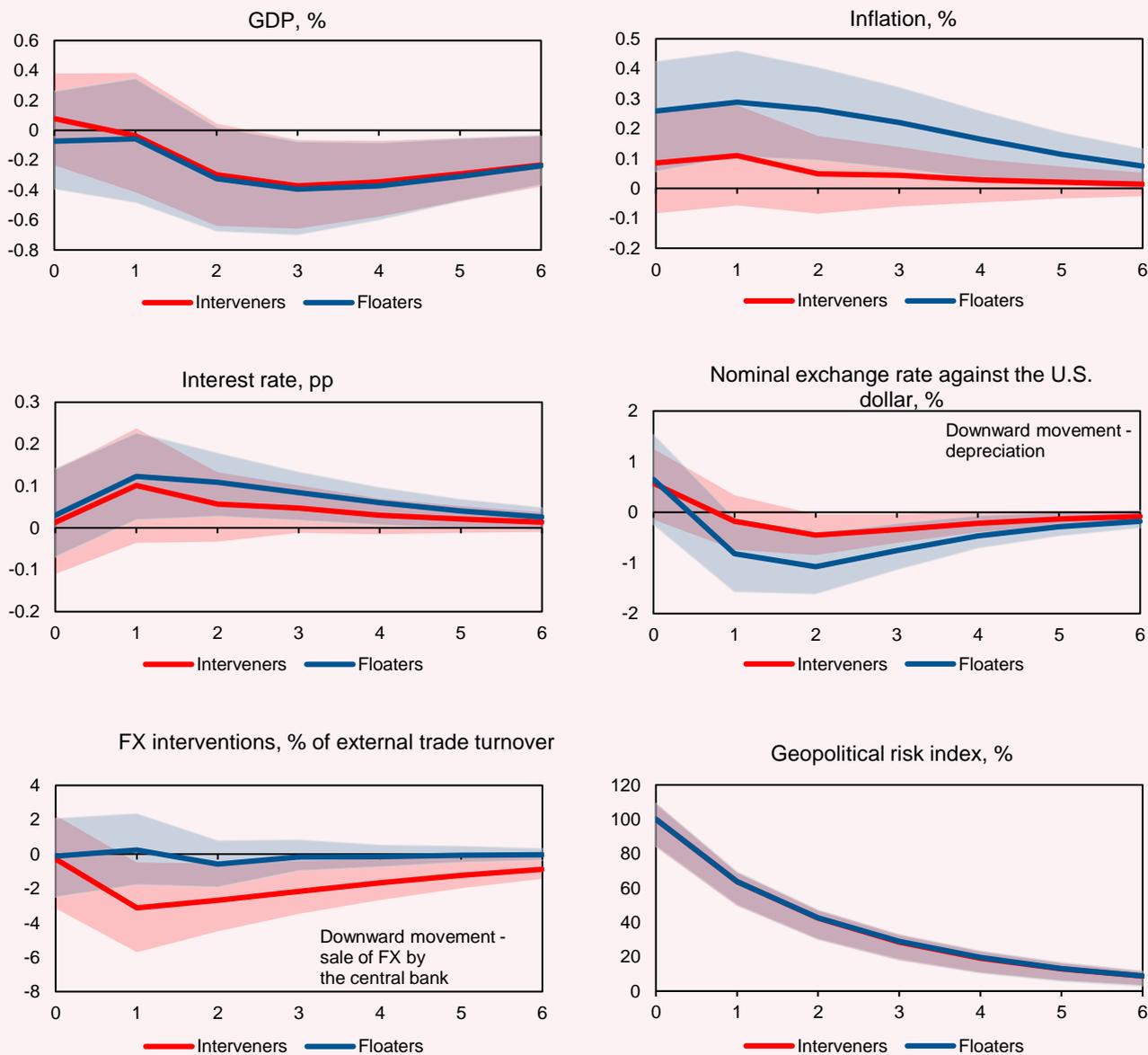
Geopolitical shocks exert a significant and prolonged destabilizing impact on macroeconomics. Such shocks are typically exogenous to the economy and have a complex transmission structure ([Hodula et al., 2024](#)). On the one hand, they affect macro-financial stability through a direct financial channel, increasing volatility in FX and stock markets, leading to capital outflows and rising risk premiums. On the other hand, they also operate through indirect channels: disrupting international trade, causing energy or commodity shocks and logistics disruptions. Ultimately, they amplify uncertainty and worsen the expectations of economic agents ([Cornevin, 2025](#)). Consequently, geopolitical risks not only create inflationary pressure but also undermine economic activity by weakening external demand, causing production delays, or fostering recessionary expectations.

These effects from geopolitical shocks differ significantly from reactions to external financial shocks, which are typically proxied by the VIX index ([Jin et al., 2021](#)). While financial shocks have a rapid but short-lived impact on macroeconomic variables, geopolitical shocks operate over a more prolonged period: they unfold more slowly but have a longer-lasting effect on inflation, expectations, and the pace of economic growth.

The configuration of responses of macroeconomic indicators to geopolitical shocks exacerbates the classic dilemma of monetary policy for central banks

(Brignone et al., 2024). Modeling results using country-specific structural vector autoregression (SVAR) models with a set of key macroeconomic variables²⁴ for 34 countries²⁵ confirm that in response to increased geopolitical risk, the exchange rate depreciates and inflation accelerates on one hand, while real GDP declines on the other.

Figure 2. Weighted responses of macroeconomic variables of two groups of countries to a geopolitical risk shock



Source: NBU staff estimates.

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

²⁴ Faryna, O., Chepyha, B. (2025). Geopolitical Risk Shocks and the Role of FX Interventions: Cross-Country Evidence. NBU Working Paper (forthcoming).

The study uses data on consumer inflation, nominal interest rates, real GDP, nominal exchange rates against the U.S. dollar (depreciation meaning downward movement), the VIX index to account for global financial sector uncertainty, FX interventions according to the IMF research database (Adler et al., 2021), as well as the aforementioned geopolitical risk index as in Caldara & Iacoviello (2022). Data is monthly in frequency for the period 2009–2024. Quarterly GDP time series were interpolated using standard statistical approaches.

²⁵ List of countries: Australia, Bolivia, Bosnia and Herzegovina, Brazil, Chile, Colombia, Costa Rica, Czech Republic, Georgia, Honduras, Hong Kong, Hungary, India, Indonesia, Israel, Kazakhstan, Kenya, Mauritius, Mexico, New Zealand, North Macedonia, Norway, Paraguay, Peru, Philippines, Poland, Romania, Serbia, South Africa, Sweden, Thailand, Türkiye, Ukraine, Zambia.

Stronger inflationary pressure, particularly due to FX depreciation and worsening expectations, call for a tighter monetary policy. However, the real sector, if it is showing signs of slowdown, needs support – including from the central bank.

This raises the question of finding monetary instruments that would allow for at least a partial neutralization of geopolitical shocks transmitted through the financial channel without causing significant harm to economic growth.

The use of FXIs helps mitigate the dilemma between safeguarding price stability and promoting economic activity. Within its Integrated Policy Framework, the IMF views FXIs as part of a broader set of tools, along with interest rate policy and capital flow management measures. During external financial shocks, FXIs can be an effective means of reducing exchange rate volatility, stabilizing inflation expectations, and consequently curbing inflation ([IMF, 2023a](#); [IMF, 2023b](#); [IMF, 2024](#)).

At the same time, preliminary results from the NBU's research, using the aforementioned SVAR models, indicate that FXIs help reduce inflation without significantly suppressing economic growth. Consequently, they allow central banks to pursue an easier interest rate policy. To analyze the role of FXIs, impulse responses of macroeconomic variables to geopolitical shocks were calculated separately for two groups consisting of 34 countries: those that use FXIs to stabilize the exchange rate in response to geopolitical shocks (Interveners), and those that do not, and instead maintain a floating exchange rate (Floaters).²⁶

These findings align with the results of modeling FX interventions in the NBU's Quarterly Projection Model ([Grui & Lepushynskiy, 2016](#)), and are also confirmed by their practical application both under a floating exchange rate regime (2015–2021) and under the regime of [managed flexibility of the exchange rate](#) introduced since October 2023.

Thus, **FXIs can play an important role in stabilizing prices and expectations during periods of geopolitical turbulence, allowing central banks to conduct an easier interest rate policy without deepening economic downturns.** The results obtained underscore the advisability of flexibly applying a consistent combination of various monetary instruments in conditions of geopolitical turbulence. At the same time, the effectiveness of FXIs largely depends on having a sufficient level of international reserves, and therefore requires a careful assessment of the scale, duration, and economic consequences of geopolitical shocks. Consistency, transparency, and prompt responses remain the key principles of an effective monetary policy in the new geoeconomic reality.

²⁶Following [Jin et al. \(2021\)](#), cumulative FXIs responses to geopolitical shocks were calculated over a six-month horizon. Countries were then divided into equal groups, depending on their intervention response to geopolitical shocks – negative or neutral. The weighting of impulse responses for demonstrating group effects took into consideration the width of the confidence interval of the intervention response (the wider the interval, the less weight the country received, due to its lower statistical significance). Six countries (Albania, Canada, Guyana, Iceland, Moldova and Sri Lanka) were excluded from the analysis, as their intervention response to the shocks was positive, meaning they increased their international reserves by purchasing FX.

Part 5. Assumptions and Risks to the Forecast

- The baseline scenario of the macroeconomic forecast is based on assumptions that the economy will slowly return to normal functioning conditions. The scenario takes into account the consequences of the increased intensity of air attacks and the destruction caused by Russian aggression, as well as a significant increase in defense spending in 2025–2026 compared to the April estimates. External financial assistance will decrease in the coming years, however, given the greater defense needs, it is assumed to be considerably larger than projected in the April 2025 Inflation Report. Harvests are expected to be lower than previously forecast but to trend upward over the forecast horizon. Electricity shortages are assumed to be insignificant.
- The main risks to the macroeconomic forecast are related to the course of the war and insufficient international financing. A part of the needed international assistance for 2026–2027 has yet to be confirmed.

The NBU assumes a gradual return of the economy to normal functioning conditions over the forecast horizon. The course of the full-scale war remains one of the main risks to the forecast

The speed of normalization will primarily depend on the nature and duration of the war. A prolonged, high-intensity war could have a significant impact on all indicators of this forecast, as it would further decrease economic potential, particularly due to losses of people, territories, and production facilities. In contrast, there is also an upside risk of the relatively rapid achievement of a just peace, which would significantly improve the prospects for economic recovery (an alternative scenario with rapid normalization is briefly outlined in a separate section on page 58).

Significant budget deficits are expected to persist, although they will gradually narrow over the forecast horizon. However, high risks remain regarding the need to increase defense spending

The NBU has revised upward its forecast of the budget deficit for the current year to 22% of GDP (excluding grants in revenues), taking into account the government's proposals to amend the budget to raise defense spending. Budget expenditures will also remain large in the coming years, both due to the need to maintain an adequate level of defense capabilities and to meet reconstruction needs and the government's social obligations. The budget deficit will decrease slowly in 2026, to 19% of GDP, but fiscal consolidation will accelerate in 2027, with the budget deficit reaching 12% of GDP.

Because a large portion of budget expenditures will be used to finance defense imports, it will not provide a significant boost to economic growth. Therefore, the foreign trade deficit will increase. However, international reserves will remain sufficient to ensure the sustainability of the FX market.

Under the baseline scenario of the forecast, Ukraine expects to receive sufficient external support to ensure non-monetary financing of its budget deficits. However, most of the funding needed to support defense in 2026–2027 remains unidentified

The baseline scenario of the forecast assumes that Ukraine will continue its path toward European integration, carry out reforms, and cooperate with international partners, which will enable it to raise the necessary external financing. This year, Ukraine expects record-high international financial assistance of around USD 54 billion, of which it has already received almost USD 24 billion. Regarding the remaining USD 30 billion, the largest inflows are expected under the ERA Loans program (USD 18 billion by year-end) and the Ukraine Facility (USD 8 billion). Financing in the coming years may vary depending on Ukraine's defense and reconstruction needs. Ukraine is expected to receive about USD 35 billion in external support in 2026 and USD 30 billion in 2027. One-third of these funds has already been announced by partners, with negotiations for

the rest still ongoing. Such volumes are assumed to ensure non-monetary financing of the budget deficit amid a slow normalization of economic activity.

If Ukraine does not receive some of the planned external support, additional measures will be needed to mobilize budget revenues, optimize expenditures, and increase market borrowings. If these measures prove insufficient, the likelihood of monetary financing will increase, which will, in turn, have consequences for inflation developments. In order to limit price pressure and keep expectations under control, the NBU will respond with a tighter interest rate policy.

Electricity shortages will remain minor due to the ongoing repairs and infrastructure reconstruction, while the need for natural gas imports is rising

Despite new damage inflicted on the energy system in 2025, energy workers are continuing repair campaigns, particularly for dispatchable generation capacities, and are quite rapidly restoring electricity supplies after damage occurs. Thanks to the improved situation in the energy sector in H1, the electricity shortages, with imports taken into account, have been reduced to 1% in 2025 (they were estimated at 3% in the [April 2025 Inflation Report](#)). Electricity shortages and import estimates remain unchanged for the forecast horizon: factoring in imports, electricity shortages will be around 1% in 2026, and there will be no shortages at all in 2027. Such electricity shortages will have little impact on economic growth, and lower needs for ensuring backup energy supplies would help lower pressure on businesses' production costs, and consequently, reduce inflation overall.

Natural gas facility repairs are ongoing, but gas imports in 2025 are estimated to be higher than in the previous forecast. This is due to the need to replenish the low stocks of natural gas. Consequently, gas is being pumped into underground storage facilities at a faster rate than previously expected, partly due to expanded gas import capabilities from the EU. Active gas purchases this year are possible thanks to financial assistance from international partners. Over the next few years, the need for natural gas imports will decrease after infrastructure repairs are completed. However, it will remain significant to maintain sufficient stocks amid a gradual recovery in consumption. Specifically, natural gas imports are projected at around USD 3 billion this year, and USD 1 billion in each 2026 and 2027.

If economic conditions normalize more quickly, the pace of infrastructure repairs will exceed the baseline scenario estimates. At the same time, the need for energy resources would also be higher. Therefore, in such a scenario, the estimates for the electricity shortages and gas imports remain unchanged compared to the baseline scenario.

However, significant risks remain that the situation in the energy sector might worsen due to further destruction of infrastructure by the Russia. This would have a direct negative impact on GDP growth through lower volumes of energy production, as well as through an indirect impact through limitations on energy supply, primarily for businesses. The need to provide backup energy supplies and/or increase energy imports would put pressure on businesses' production costs, which would have an inflationary effect. Conversely, the rapid restoration of natural gas production and electricity generation facilities, the development of renewable generation, and stable imports would contribute to a further improvement in the energy sector and mitigate the negative impact on both GDP and inflation.

Also, there are persisting risks of higher-than-expected global energy prices due to the potential escalation of tensions in the Middle East

The baseline scenario of the forecast assumes a sideways trend for natural gas and crude oil prices. However, there remains a risk of increased volatility in energy prices due to rising tensions in the Middle East. The confrontation between Iran and Israel, with the United States involvement, in June led to a temporary surge in energy prices. Although the situation quickly normalized, further escalation is possible. This would intensify the risks of a decrease in the global energy supply, considering Iran's position

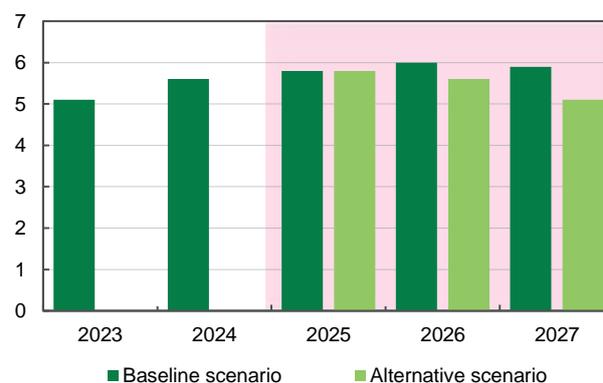
in the global market. Iran accounts for about 12% of OPEC’s oil production, shares the world’s largest gas field with Qatar, and controls the passage of cargo through the Strait of Hormuz (around one-fifth of global oil consumption). Furthermore, potential problems with vessels passing through the Red Sea, the sole route to the Suez Canal, also pose a risk. The Suez Canal connects Europe’s consumer market with major suppliers in Asia, with 12% to 19% of global merchandise trade passing through it. Therefore, increased tensions in the Middle East could lead to a significant rise in prices for both energy (due to limited supply) and other goods (due to increased freight costs). This, in turn, could increase price pressure in Ukraine, both directly through higher fuel costs and through second-round effects. All other conditions being equal, the NBU would have to respond with a somewhat tighter monetary policy to ensure inflation returns to its target within the policy horizon.

Figure 5.1. Electricity deficit, %



Source: NBU staff estimates.

Figure 5.2. Number of Ukrainian migrants staying abroad (excluding in russia), million persons (end of the year)



Source: UNHCR, NBU staff estimates.

A gradual return of Ukrainian migrants is expected before the end of the forecast horizon, but the speed of the return of migrants will depend on security risks

A moderate outflow of Ukrainian migrants abroad has been driven by persistently high security risks, particularly russia’s air attacks across all of Ukraine and terrorist acts against civilians. Concurrently, [Ukrainians have become more accustomed](#) to living abroad. [The EU has extended](#) the temporary protection status for Ukrainian migrants until March 2027. After this, EU countries will determine other legal statuses for Ukrainians remaining in these countries, beyond temporary protection, or provide arrangements for their return home. Specific decisions will primarily depend on the governments of the respective countries (migrant issues are already part of political discourse during elections in several countries). They will also consider the degree of Ukrainian adaptation – employment, tax payments, enrollment in local educational institutions, and so forth. The extension of stays in the EU and/or the transition to more permanent residency statuses will likely hinder the active return of migrants over the forecast horizon.

Due to the slow normalization of economic conditions, migration flow estimates for the coming years have been downgraded. At the same time, the assumptions for 2025 remain unchanged: a net outflow of about 0.2 million people is expected from Ukraine. It is projected that the outflow of migrants will continue in 2026 at a pace similar to this year’s (about 0.2 million people), whereas the April forecast had projected a return of 0.2 million people. A net return will only begin in 2027 (about 0.1 million people, compared to the previous forecast of 0.5 million people). The total number of migrants has been reduced according to the updated UNHCR methodology (read more in the section *Economic Developments* on page 29).

A prolonged migration outflow and the slow return of migrants would result in persistent labor shortages and significant variations of these shortages across economic sectors and regions. This would restrain economic recovery and stimulate a further increase in

wages at a higher pace than productivity growth, which would push up inflationary pressures.

The risks of an escalation of hostilities and/or an intensification of air attacks on rear regions, the occupation of new territories, or a significantly longer duration of high security risks remain significant. If these risks materialize, the migration outflow will increase. A more active policy by the governments of recipient countries to retain Ukrainians, especially those employed in the labor market, is also a downside risk to the migration forecast. The materialization of these risks would lead to a greater labor shortage and a decrease in the number of domestic consumers, with corresponding adverse consequences for GDP and inflation. At the same time, a rapid normalization of economic conditions, a swift increase in investment in the reconstruction of infrastructure and production facilities with a corresponding creation of jobs, as well as active government efforts through campaigns to bring migrants back, could revive the return of Ukrainians and mitigate the labor shortage.

Unfavorable weather conditions, climate change, and the slow expansion of planted areas have led to a decrease in the forecast for harvests of most crops over the forecast horizon

Weather conditions in the spring of 2025 proved to be unfavorable for harvests. Spring frosts covered a significant part of the country's territory, especially damaging winter crops, fruit and berry crops, and vegetable crops. Resowing of damaged winter crops with spring crops will only partially compensate for the losses. Therefore, the estimate for the grain and legume harvest in 2025 has been lowered to 57.9 million tons, and oilseeds to 21.0 million tons (down from 61.7 million tons and 22.0 million tons, respectively, in the April forecast).

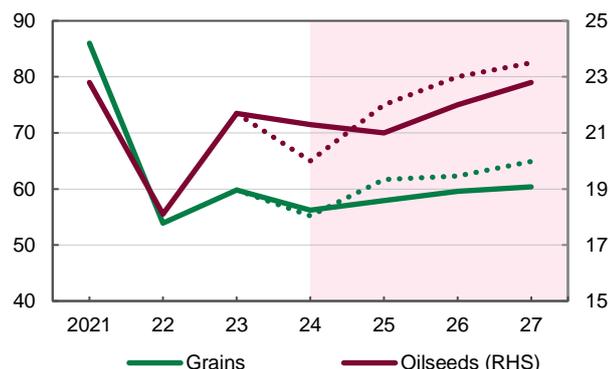
In 2026–2027, harvests will gradually increase as weather conditions normalize and agricultural producers adapt. However, the growth in crop yields, especially in southern Ukraine, will lag behind the trends of previous years due to the [loss of full-fledged irrigation caused by the destruction of the Kakhovka Reservoir](#) and the effects of global climate change. Planted areas are not expected to expand rapidly either, given security factors, the high costs and significant time required for demining. The restoration of EU quotas and import duties will also affect the structure of crops and planted areas, taking into account changes in the profitability of agricultural crops. Therefore, harvest estimates for 2026 and 2027 have been downgraded: for grains to about 60 million tons (down from 62.3 million tons and 64.9 million tons, respectively, in the April forecast), and for oilseeds to about 22 million tons (from 22.0 million tons and 22.8 million tons, respectively, in the April forecast).

A decrease in the feed base due to poor harvests last year and the risks of lower yields this year are worsening the conditions for animal farming, which will create additional pressure on food prices. A faster-than-expected decline in livestock numbers (with the exception of poultry farming) and additional losses due to the spread of animal diseases and the consequences of hostilities are expected in 2025. Afterward, livestock is expected to recover gradually (with the exception of cattle).

If the economy returns to normal operating conditions more quickly, crop yields and animal farming performance are expected to remain unchanged, as this scenario does not assume significant changes in planted areas or a rapid recovery in livestock farming.

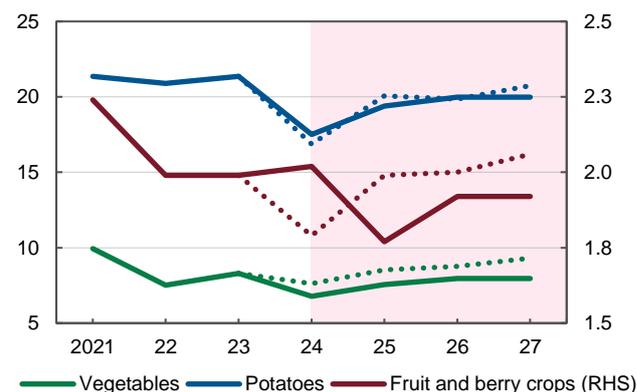
Climate change and its impact on crop yields remain a relevant risk to the forecast. The situation in agriculture could also be negatively affected by a decrease in the profitability of agricultural production due to EU quotas and import duties and a worsening of the security situation, particularly as a result of the expansion of the combat zone. This would lead to a decrease in the supply of agricultural raw materials and create inflationary pressure. At the same time, further investments in adaptive technologies, the expansion of irrigation, and the development of autonomous energy supply would contribute to increased productivity in the medium term, which, in turn, would support exports, have a stabilizing effect on prices in the domestic market, and contribute to GDP growth.

Figure 5.3. Harvest of grains and oilseeds, million tons



Source: SSSU, NBU staff estimates.

Figure 5.4. Harvest of fruits and vegetables, million tons



Source: SSSU, MinAgro, NBU staff estimates.

Further increases in excise taxes are expected in the coming years, along with gradual adjustments of utility tariffs. However, the timing and parameters of the revision of utility tariffs are subject to uncertainty and thus pose a risk to the inflation forecast

The forecast for administered inflation takes into account the adoption of legislative amendments regarding a gradual increase in excise tax rates on tobacco products until 2028, as well as their conversion to the euro.

The NBU assumes that the current tariffs for electricity, gas, heating, and hot water supply will not be revised until the end of 2025. However, given the difficult situation in the energy sector, these tariffs are assumed to be gradually brought to their economically justified levels starting from 2026. Uncertainty over the timing and scale of energy tariffs adjustments is a separate risk to the inflation forecast. In particular, an accelerated increase in energy prices to eliminate imbalances in the energy sector more quickly would be a source of additional inflationary pressure and lead to the need for a significant increase in subsidies for households. In contrast, delaying decisions to bring utility tariffs into line with economically reasonable levels for longer would result in lower 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 industry's investment potential, while price pressures would only be postponed.

Accelerated European integration, along with the attraction of significant investments, will give an additional impetus to economic growth, but the baseline scenario is built on relatively conservative estimates of foreign assistance and investments

The restoration of Ukraine's destroyed infrastructure and production facilities requires large investments, which can only be attracted if there is an appropriate program for reconstruction in cooperation with international partners. The implementation of such a program within the forecast period, together with European integration reforms, could significantly revitalize economic growth. Part of the costs could be financed, in particular, by using the principal amount of immobilized Russian assets. However, such projects are not included in the baseline scenario of the macroeconomic forecast but are only considered as an upside risk. If this risk materializes, the growth in household incomes would accelerate, which would intensify the underlying inflationary pressure. However, this would be offset by revaluation effects due to a decrease in the risk premium and foreign currency inflows.

The balance of risks for the baseline forecast is symmetric for both inflation and economic activity

Table 5.1. Probability that main risks will materialize

		Low <15%	Medium 15–25%	High 25–50%
Degree of impact on the baseline scenario	Weak		Atypical weather conditions	
	Moderate	Acceleration of EU integration and reconstruction	Deepening of adverse trends in migration Access to new markets due to the reorientation of global trade flows	Geo-economic uncertainty and economic slowdown of Ukraine's MTPs
	Strong		Emergence of additional budgetary needs Rapid end to active hostilities Greater shortages/imports of electricity and natural gas due to further damage to energy infrastructure	Escalation of hostilities, further destruction of production facilities Insufficient amounts of international assistance

Source: NBU staff estimates.

Table 1. Macroeconomic forecast (July 2025)

Indicators	2025									2026					2027						
	2022	2023	2024	I	II	III	IV	current forecast	forecast 04.2025	I	II	III	IV	current forecast	forecast 04.2025	I	II	III	IV	current forecast	forecast 04.2025
REAL ECONOMY, % yoy, unless otherwise stated																					
Nominal GDP, UAH bn	5239	6628	7659	1923	2011	2429	2551	8915	8915	2184	2258	2688	2805	9935	9890	2401	2476	2940	3053	10870	10860
Real GDP	-28.8	5.5	2.9	0.9	1.1	2.4	3.5	2.1	3.1	2.1	2.6	2.1	2.4	2.3	3.7	2.6	2.7	2.9	3.0	2.8	3.9
GDP Deflator	34.9	19.9	12.3	16.9	14.1	13.4	12.3	14.0	12.9	11.2	9.4	8.4	7.4	8.9	7.0	7.2	6.8	6.3	5.6	6.4	5.7
Consumer prices (period average)	20.2	12.9	6.5	-	-	-	-	13.3	12.7	-	-	-	-	7.6	6.0	-	-	-	-	5.7	5.1
Consumer prices (end of period)	26.6	5.1	12.0	14.6	14.3	13.1	9.7	9.7	8.7	8.8	7.1	6.7	6.6	6.6	5.0	6.1	5.7	5.4	5.0	5.0	5.0
Core inflation (end of period)	22.6	4.9	10.7	12.4	12.1	11.1	9.0	9.0	8.9	7.7	7.4	6.6	6.2	6.2	3.0	5.2	4.5	3.9	3.3	3.3	3.1
Non-core inflation (end of period)	30.6	5.7	13.8	17.3	17.6	15.9	10.9	10.9	8.3	10.4	6.9	6.9	7.1	7.1	7.6	7.2	7.1	7.4	7.3	7.3	7.4
raw foods (end of period)	41.6	2.2	13.2	17.0	28.7	24.7	14.6	14.6	5.6	14.4	4.7	4.9	4.0	4.0	2.9	4.8	4.1	3.7	3.2	3.2	3.0
administered prices (end of period)	15.3	10.7	16.3	19.0	10.9	10.8	8.7	8.7	11.6	7.9	8.9	8.9	9.7	9.7	12.0	9.4	10.0	10.6	10.9	10.9	11.1
Nominal wages (period average)	6.0	17.4	23.2	24.1	22.0	18.2	13.1	19.0	17.0	14.3	13.4	12.8	11.7	13.0	9.4	11.8	9.5	8.8	8.6	9.6	8.8
Real wages (period average)	-11.9	4.1	15.6	9.2	5.9	3.9	2.3	5.2	3.9	4.8	5.3	5.6	4.7	5.1	3.3	5.3	3.4	3.2	3.4	3.8	3.5
Unemployment rate (ILO, period average)	20.6	18.2	13.1	-	-	-	-	11.5	10.9	-	-	-	-	10.2	10.5	-	-	-	-	9.2	10.0
FISCAL SECTOR																					
Consolidated budget balance, UAH bn	-845	-1332	-1352	-	-	-	-	-1498	-1017	-	-	-	-	-1479	-1145	-	-	-	-	-1191	-642
% of GDP	-16.1	-20.1	-17.6	-	-	-	-	-16.8	-11.4	-	-	-	-	-14.9	-11.6	-	-	-	-	-11.0	-5.9
excluding grants from revenues, % of GDP	-25.3	-26.6	-23.8	-	-	-	-	-22.0	-19.2	-	-	-	-	-18.8	-11.8	-	-	-	-	-12.0	-6.9
BALANCE OF PAYMENTS (analytical presentation)																					
Current account balance, USD bn	8.0	-9.6	-15.9	-6.9	-8.0	-11.4	-8.3	-34.6	-17.3	-8.5	-9.7	-9.0	-7.7	-34.9	-31.3	-9.7	-8.9	-10.1	-8.7	-37.3	-27.7
Exports of goods and services, USD bn	57.5	51.3	56.1	13.2	13.4	13.4	16.0	56.0	57.3	15.0	14.1	15.5	17.1	61.7	63.1	15.7	15.5	16.2	18.8	66.1	67.2
Imports of goods and services, USD bn	83.3	89.2	95.5	24.5	26.5	28.9	28.2	108.2	97.8	26.5	27.2	27.5	27.4	108.5	99.9	25.9	25.6	27.4	28.4	107.2	101.4
Remittances in Ukraine, USD bn	12.5	11.3	9.5	2.0	2.1	2.2	2.4	8.9	9.6	1.9	2.2	2.3	2.4	8.8	10.9	2.3	2.4	2.5	2.6	9.8	12.0
Financial account, USD bn	11.1	-18.9	-10.8	-5.5	-10.6	-11.4	-15.6	-43.0	-29.5	-3.5	-5.5	-6.7	-10.1	-25.8	-20.2	-8.6	-9.4	-8.7	-11.3	-38.0	-29.7
BOP overall balance, USD bn	-2.9	9.5	0.0	-1.3	2.6	-0.1	7.3	8.6	12.2	-5.0	-4.2	-2.3	2.4	-9.1	-11.1	-1.1	0.5	-1.3	2.6	0.7	1.9
Gross reserves, USD bn	28.5	40.5	43.8	42.4	45.1	45.6	53.7	53.7	57.6	49.4	44.7	42.8	44.7	44.7	46.8	44.3	44.6	42.9	45.2	45.2	48.6
Months of future imports	3.8	5.1	4.9	4.6	4.9	5.0	5.9	5.9	6.9	5.5	5.0	4.8	5.0	5.0	5.5	4.9	4.9	4.6	4.8	4.8	5.5
As a percentage of the IMF composite criterion	78.6	124.2	121.2	113.4	115.6	112.6	124.1	124.1	136.7	111.7	99.3	92.8	93.6	93.6	102.6	90.1	88.4	83.2	85.2	85.2	100.2
MONETARY ACCOUNTS (cumulative since the beginning of the year)																					
Monetary base, %	19.6	23.3	7.7	-3.9	4.4	6.6	10.9	10.9	9.5	2.3	4.2	6.4	12.9	12.9	13.9	1.6	4.1	6.3	10.4	10.4	10.1
Broad money, %	20.8	23.0	13.4	-1.0	3.2	4.9	11.7	11.7	10.1	0.9	3.2	5.4	10.0	10.0	10.4	1.4	4.2	5.4	8.3	8.3	8.7
Velocity of broad money (end of year)	2.1	2.2	2.2	-	-	-	-	2.3	2.3	-	-	-	-	2.3	2.3	-	-	-	-	2.3	2.4

Table 2. Comments on the forecast revision

Indicators	2024	2025	2026	2027	Factors behind the revision
Inflation, %, eop	12.0	9.7	6.6	5.0	Deterioration of the harvest forecast, more significant losses from the war, the pass-through of business costs to prices, and weakening of the hryvnia against the euro
		1.0	1.6	0.0	
Real GDP growth, %	2.9	2.1	2.3	2.8	Deterioration of security situation, increasing losses from shelling, lower harvests
		-1.0	-1.4	-1.1	
Nominal GDP, UAH bn	7659	8915	9935	10870	Higher GDP deflator but lower real GDP growth
		0	45	10	
Consolidated budget balance (excluding grants and ERA financing from revenues), % of GDP	-23.8	-22.0	-18.8	-12.0	Higher needs to support defense capabilities and maintain government incentives for the economy
		-2.8	-7.0	-5.1	
Current account balance, USD bn	-15.9	-34.6	-34.9	-37.3	Lower exports due to reduced harvest and higher imports due to wider budget deficit, abolition of preferential trade regime with the EU, revision of historical data for 2024
		-2.2	-3.6	-9.6	
Gross international reserves, USD bn	43.8	53.7	44.7	45.2	Higher imports and lower exports, which will be partly offset by higher levels of international aid
		-3.9	-2.1	-3.4	
Key policy rate (period average), %	13.7	15.1	13.4	11.7	Higher inflationary pressures
		0.2	1.1	1.5	

The indicator has been revised downwards (pp)

The indicator has been revised upwards (pp)

Table 3. Forecast assumptions

Indicators		2022*	2023*	2024*	2025	2026	2027
Official financing	USD bn	32.2	42.9	41.9	53.7	34.9	30.0
Migration (net, excluding russia and belarus)	m		-0.2	-0.5	-0.2	-0.2	0.1
Real GDP of Ukraine's MTPs (UAwGDP)	% yoy	3.7	1.6	2.0	2.2	2.5	2.7
Consumer inflation in Ukraine's MTPs (UAwCPI)	% yoy	13.8	7.6	5.1	3.4	2.5	2.5
World prices:**							
Steel price, Steel Billet Exp FOB Ukraine	USD/t	618.1	539.7	504.1	465.5	490.3	501.1
	% yoy	0.5	-12.7	-6.6	-7.7	5.3	2.2
Iron ore price, China import Iron Ore Fines 62% FE	USD/t	121.4	120.6	109.4	95.8	88.6	87.6
	% yoy	-25.0	-0.7	-9.3	-12.4	-7.5	-1.1
Wheat price, European Soft White Super Delivered Italy	USD/t	353.5	264.1	232.1	231.2	231.1	235.8
	% yoy	26.9	-25.3	-12.1	-0.4	0.0	2.0
Corn price, Yellow #2 Delivery USA Gulf	USD/t	318.4	252.7	190.6	207.8	211.8	213.7
	% yoy	22.7	-20.6	-24.6	9.0	1.9	0.9
Crude oil price, Brent	USD/bbl	99.8	82.6	80.7	69.8	68.2	69.1
	% yoy	41.8	-17.2	-2.3	-13.5	-2.3	1.3
Natural gas price, Netherlands TTF	USD/kcm	1355.9	465.6	393.9	442.9	384.7	367.7
	% yoy	135.9	-65.7	-15.4	12.4	-13.1	-4.4
Volumes of gas transit	bcm	20.6	14.6	15.0	0.0	0.0	0.0
Harvest of grain and leguminous crops	t m	53.9	59.8	56.2	57.9	59.6	60.4
Minimum wage**	UAH	6550	6700	7775	8000	8688	9374

* Actual data

** Annual average.

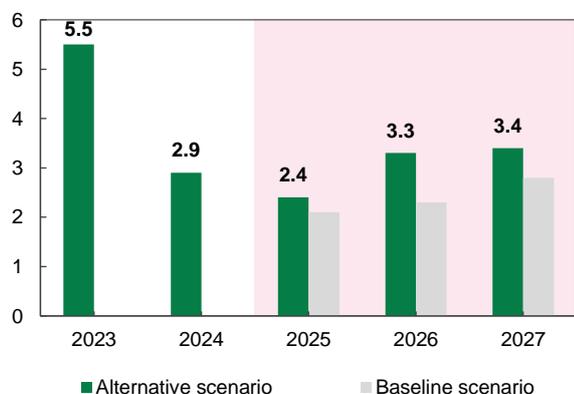
Part 6. Alternative Scenario of the Forecast

- The alternative macroeconomic forecast scenario is based on the assumption of a faster improvement in the security situation than in the baseline scenario, a more significant reduction in the budget deficit, and reduced pressures on the labor market.
- Real GDP growth would surpass the baseline scenario's indicators due to a more robust recovery of economic potential. However, the trajectory of headline inflation differs only slightly: a quicker adjustment of utility tariffs would be offset by lower core inflation, driven by reduced production costs for businesses. Therefore, the easing of interest rate policy would occur at the same pace in both scenarios.
- The structural FX deficit in the private sector would be lower than in the baseline scenario, thanks to more rapid fiscal consolidation. At the same time, smaller budget needs would also dictate a faster reduction in international financing, so NBU reserves would be similar in both scenarios.

The alternative scenario envisions more dynamic economic growth even amidst lower budget deficits

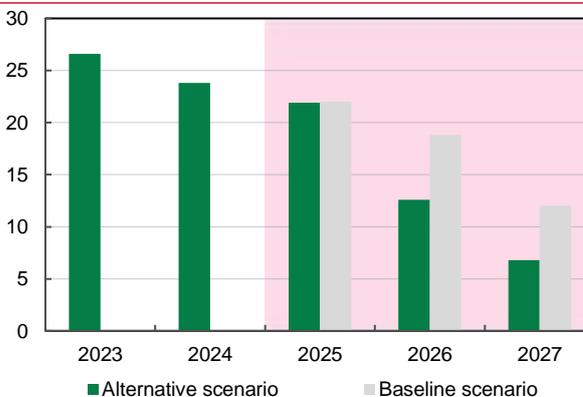
If the economic situation normalizes quickly, real GDP growth would surpass the baseline scenario's indicators, reaching over 3% in 2026–2027, aligning with the potential GDP growth rates. An improved security situation would also facilitate a faster return of migrants. Their net inflow would begin sooner, totaling about 0.7 million people cumulatively in 2026–2027. This, along with demobilization processes, would help ease labor market tensions. Ukraine's investment attractiveness would also increase. However, this alternative scenario does not assume a faster recovery of sown areas or higher harvests. Energy shortages remain equally low in both scenarios.

Figure 6.1. Real GDP, % yoy



Source: SSSU, NBU staff estimates.

Figure 6.2. Consolidated budget deficit excluding grants, % of GDP

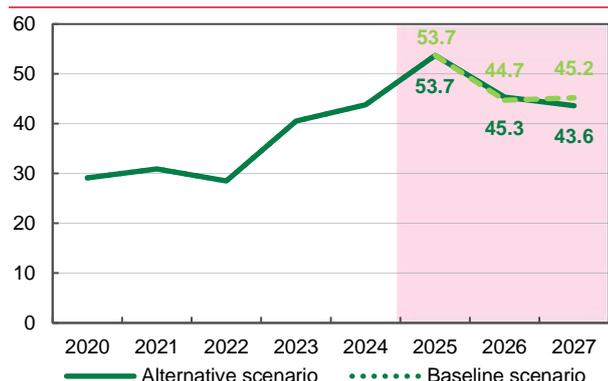


Source: STSU, NBU staff estimates.

A key outcome of an improved security situation would be a sharp reduction in the share of government consumption in GDP, replaced by private consumption and investment demand. Fiscal consolidation in 2026–2027 would be faster than anticipated in the baseline scenario. The budget deficit, excluding grants in revenues, would be 12.6% of GDP in 2026 and 6.8% of GDP in 2027. The alternative scenario assumes lower volumes of international assistance – USD 22.2 billion in 2026 and USD 15 billion in 2027 – which, however, is sufficient to cover the bulk of budget needs.

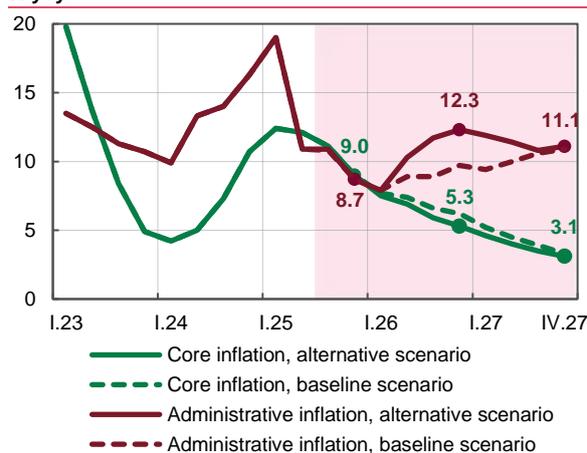
Thanks to lower external borrowing, the growth of public and publicly guaranteed debt would slow down in nominal terms. And due to sustained economic growth, the debt-to-GDP ratio would decrease to 90% by the end of the forecast period.

Figure 6.3. Gross international reserves, USD billion



Source: NBU staff estimates.

Figure 6.4. Core and administrative inflation at the end of period, % yoy



Source: SSSU, NBU staff estimates.

Rapid fiscal consolidation would dampen imports, particularly those of machinery, industrial goods, and metals. Furthermore, a larger inflow of foreign investment and debt capital into the private sector is expected, along with more restrained demand for FX cash. Thanks to a quicker revival of seasonal labor migration, higher volumes of remittances are anticipated. A more active return of forced migrants from abroad would also contribute to a reduction in imports of travel services. As a result, the private sector’s structural FX deficit would shrink faster.

At the same time, international reserves would be close to the baseline scenario, as smaller international aid inflows in 2026–2027 would be offset by a lower structural FX deficit in the private sector. As a result, reserves would amount to USD 45.3 billion by the end of 2026 and USD 43.6 billion by the end of 2027, representing 98% and 87% of the IMF’s composite metric respectively. These reserves levels would remain sufficient to safeguard the stability of the FX market and ensure the further easing of FX restrictions.

The overall inflation trajectory would be similar to that in the baseline scenario, but component contributions would differ

Consumer inflation would decline and move toward the 5% target by the end of the forecast horizon. Lower fiscal stimuli would keep the GDP gap close to zero, having a neutral impact on core inflation. Businesses’ production costs would also be lower, partly due to a more rapid reduction in labor market mismatches. At the same time, inflation would be fueled by the growth in administered prices through quicker adjustments of utility tariffs. The pro-inflationary contribution from the relatively weak REER of the hryvnia is the same in both scenarios. The unchanged inflation trajectory will also determine an unchanged trajectory for the key policy rate. Monetary policy will remain sufficiently tight to stimulate interest in hryvnia financial assets and curb price pressure.

Terms and Abbreviations

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

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