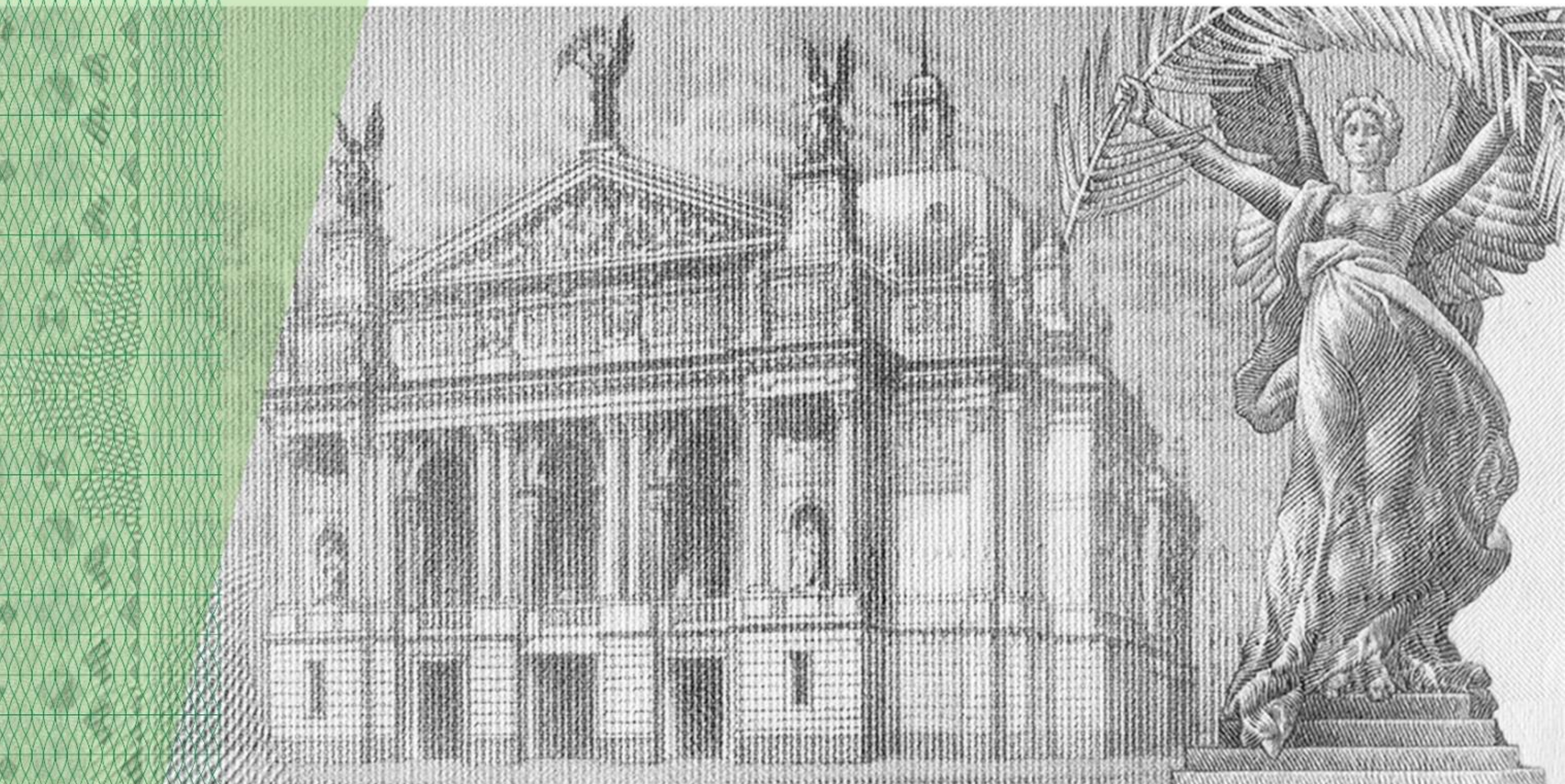
National Bank of Ukraine

Inflation Report

January 2025



Despite the challenges of full-scale war, the NBU remains committed to its mandate to preserve price and financial stability – the key to achieving sustainable economic recovery. At the current stage, price stability is being delivered through the use of a flexible inflation targeting regime and a consistent combination of interest-rate-policy and exchange-rate-policy instruments, along with FX restrictions applied in accordance with the *Monetary Policy Guidelines for the Medium Term* and *the Strategy for easing FX restrictions, transition to greater exchange rate flexibility and return to inflation targeting*.

In particular, monetary policy aims to bring inflation, measured by the yoy change in the CPI, to its target of 5% over the relevant policy horizon, which does not exceed three years. The flexibility of the current monetary regime allows moderate and relatively short-term deviations of inflation from its quantitative target due to domestic and external factors. On the one hand, such an approach helps the Ukrainian economy adapt to shocks and supports its recovery, and, on the other hand, it allows inflation expectations to be kept under control.

The NBU is taking steps to strengthen the effectiveness of monetary transmission channels and to continue to restore the key policy rate's function as a monetary instrument. Changes in the key policy rate and adjustments to the operational framework of interest rate policy take into account significant shifts in the balance of risks and are primarily aimed at maintaining the sustainability of the FX market and ensuring price stability.

Sticking to the principles of managed flexibility of the exchange rate, the NBU maintains an active presence in the FX market and compensates for any structural shortage of foreign currency in the private sector. This ensures that the exchange rate fluctuates moderately in both directions as market conditions change. Coupled with smoothing out excessive exchange rate volatility, this also 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 fortify the Ukrainian economy's and the FX market's resilience to domestic and external shocks, as well as reducing the risk of accumulation of external trade imbalances.

Aware of the urgent need to minimize FX market distortions, the NBU is gradually easing the FX restrictions as appropriate prerequisites are met. This will improve the conditions for doing business in Ukraine, and for the entry of domestic businesses into new markets. It will also support the economy's recovery and promote new investment inflows into the country.

The NBU plans to use flexible inflation targeting until the economy resumes normal functioning and inflation targeting is restored to its full format, with a floating exchange rate.

The analysis in the current Inflation Report (January 2025) is based on the data available at the date of its preparation. Thus, the time horizon of the analysis may vary for some indicators. For the majority of indicators, the cut-off date for the data in this report is 22 January 2025. The Inflation Report presents the 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 23 January 2025[1].

The NBU Board makes decisions on the key policy rate and other monetary instruments in line with a schedule published in advance. The decisions the NBU Board makes in January, April, July, and October are based on the latest 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 last 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. The summary shows the depersonalized opinions of all MPC members on the optimal monetary policy decisions to be made. It includes differences of opinion and the reasoning behind them.

Previous issues and presentations of the Inflation Report, the forecast of the main macroeconomic indicators, and data in tables and figures are available here.

[1] NBU Board decision No. 25 *On Approval of the Inflation Report* dated 23 January 2025.

Contents

Summary

The baseline scenario of the NBU's macroeconomic forecast assumes that Ukraine will continue to conduct prudent monetary and fiscal policies aiming at maintaining macrofinancial stability, and will consistently meet its commitments under programs with international partners, which will keep providing sufficient financial support. The NBU assumes that conditions in which the economy operates will gradually normalize over the forecast horizon. This will take the form of the full unblocking of seaports, the expansion of opportunities for investment and economic activity, and the gradual return of forced migrants to Ukraine.

Inflation reached 12% in 2024, and pressure on prices persists in early 2025

In December 2024, inflation accelerated to 12% yoy, exceeding the NBU's previous forecast (October 2024 Inflation Report). According to the NBU's estimates, inflation continued to rise in January.

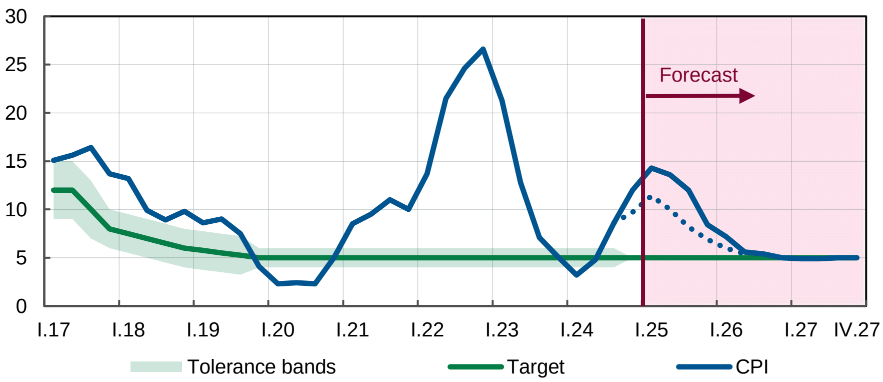
The rapid growth in consumer prices was to a large extent driven by temporary factors, primarily the ones related to effects of last year's weaker harvests. At the same time, underlying price pressures also increased. This was evidenced by the continued acceleration of core inflation (to 10.7% yoy in December), in particular due to a sharp rise in services prices (12.5% yoy in December). These price dynamics were driven by businesses' higher expenses on raw inputs, materials, and electricity, as well as by wage increases against the backdrop of persisting staff shortages. That said, in recent months, price growth has been somewhat restrained by a strengthening of the UAH/EUR exchange rate, which is important for Ukrainian imports.

Inflation reaching double digits is negatively affecting the inflation expectations of households and businesses. Nevertheless, the expectations of financial analysts and banks remain relatively sustainable.

Thanks to the waning of temporary factors behind the price pressure and the NBU's interest rate and exchange rate policy measures, inflation will decline to 8.4% in 2025 and reach the 5% target in 2026

In the first months of 2025, inflation is likely to continue to rise due to the persistent impact of both temporary factors – including the effects of last year's lower harvests – and underlying drivers – among them pressure from businesses' production costs. Inflation will peak in Q2 and will start to decline from the middle of the year.

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



Source: SSSU, NBU staff estimates.

Inflation is expected to slow to 8.4% at the end of 2025 and to reach the target of 5% in 2026. The NBU's interest rate and exchange rate policy measures, as well as stronger

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

harvests, improved energy supply, a narrower fiscal deficit, and subdued external price pressures will contribute to the slowing of inflation.

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

Ukraine's economy is continuing to recover thanks to significant international support and the high adaptability of businesses and households to wartime conditions.

According to the NBU's estimates, Ukraine's real GDP grew by 3.4% in 2024, which was below the central bank forecast made in October. The pace of economic growth slowed compared to 2023. Apart from smaller harvests and weaker-than-expected external demand, the causes of this were the materialization of risks of more intensive hostilities, russia increasing its air attacks, and the resulting electricity shortages. The persistence of high security risks also restrained the return of migrants and led to significant labor shortages.

Taking into account security risks and the challenging situation in the labor market, the NBU has revised its real GDP growth projection for 2025 downward, to 3.6%. At the same time, the baseline scenario of the NBU's forecast continues to envisage that the economy will gradually return to normal functioning. Therefore, the pace of economic growth is expected to accelerate moderately in 2026–2027, to around 4%. On the one hand, the fallout from the war, which resulted in labor shortages and a production capital deficit, will continue to constrain the economy. On the other hand, investment being made into energy and production capacity, fiscal policy remaining rather loose, and private consumption rising on the back of an increase in household income will all contribute to recovery.

International support will be sufficient to finance the budget deficit without resorting to monetary financing, and to maintain the sustainability of the FX market

In 2024, Ukraine received USD 42 billion from its international partners in the form of loans and grants. These funds allowed the government to finance a substantial budget deficit (around 24% of GDP, excluding grants in revenues), and the NBU to maintain the sustainability of the FX market and to increase international reserves to a new all-time high (USD 43.8 billion at the end of 2024).

It is expected that in 2025 Ukraine will receive USD 38.4 billion in external financing. Taking into account the government's measures to increase its own revenues and borrowing on the domestic debt market, these funds should be enough to fully cover the planned budget deficit for this year (around 19% of GDP, excluding grants in revenues) without resorting to monetary financing. For its part, the NBU will be able to compensate for the structural FX deficit in the private sector and smooth out excessive exchange rate fluctuations. This will help maintain the sustainability of the FX market, in particular sustaining exchange rate dynamics that are consistent with achieving the 5% inflation target over the policy horizon.

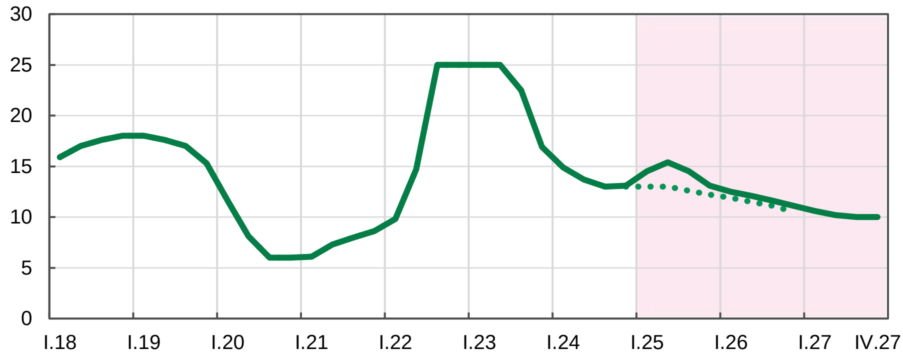
To maintain FX market sustainability, keep expectations under control, and to gradually bring inflation back to its 5% target over the policy horizon, the NBU raised the key policy rate to 14.5%

The acceleration of inflation in H2 2024 and the related deterioration in households' inflation expectations has decreased real yields on hryvnia savings instruments. The key policy rate hikes (by 0.5 pp in December and 1 pp in January) are intended to ensure that hryvnia savings are adequately protected from inflation, and to maintain public interest in hryvnia assets.

The NBU's updated macroeconomic forecast envisages further key policy rate hikes to curb inflation

The NBU is likely to continue tightening its interest rate policy at the Board's next monetary policy meetings if signs of persistent inflationary pressures and the threat of inflation expectations becoming unanchored are still present.

Figure 2. Key policy rate, quarter average



Source: NBU staff estimates.

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

russian aggression poses the risk of a further decline in economic potential, in particular due to the loss of people, territories, and production facilities. The speed of the economy's return to normal functioning conditions will depend on the nature and duration of the war.

The main risks caused by russian aggression remain the same:

- the emergence of additional budget needs, mainly those to maintain defense capabilities
- possible additional hike in taxes, which – depending on its parameters – might drive up pressures on prices
- further damage to infrastructure, especially energy infrastructure, which will restrain economic activity and put supply-side pressures on prices
- a deepening of adverse migration trends and a further increase of labor shortages in the domestic labor market.

There are also risks that international assistance will become less regular and that international economic trends will be less favorable than currently expected, in particular due to greater geopolitical polarization and the corresponding fragmentation of global trade.

However, positive scenarios could also materialize, primarily related to increased financial support from partners (in particular, by using the principal of immobilized russian assets to compensate for Ukraine's losses) and the international community's efforts to ensure a just and lasting peace for Ukraine. What is more, a further acceleration of European integration processes and the rebuilding of infrastructure, including energy infrastructure, are also possible.

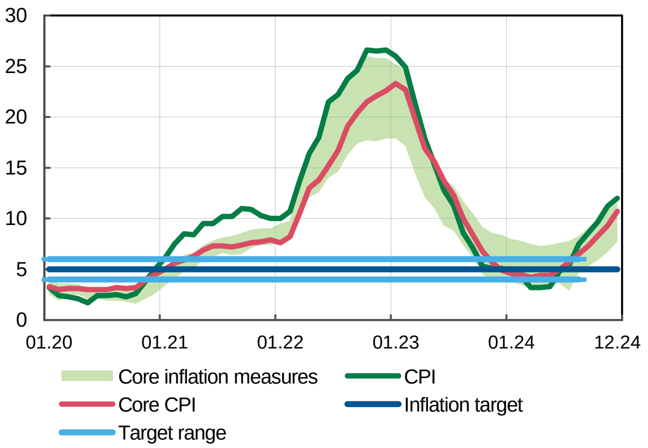
Part 1. Inflation Developments

- While the acceleration of inflation in H2 2024 had been expected, the actual CPI growth rate at year-end (12.0%) significantly exceeded the NBU's previous forecast. Temporary factors, such as the effects of lower harvests, made a sizeable contribution to the rise in inflation. However, underlying price pressures also rose as a result of businesses' higher expenses on raw inputs, materials, and electricity, as well as on wages, against the backdrop of persisting labor shortages. Inflation reaching double digits had a negative effect on the inflation expectations of households and businesses.
- Inflation will peak in Q2 and start to decline in the middle of the year. It will slow to 8.4% at the end of 2025, reaching the target of 5% in 2026. The NBU's interest rate policy measures, the sustainability of the FX market, higher harvests, improved energy supplies, a narrower fiscal deficit, and moderate external price pressures will support disinflation.

From mid-2025, inflation will resume a steady decline

Consumer inflation increased rapidly in Q4: it accelerated to 12.0% yoy in December (up from 8.6% yoy in September). This rate of inflation was higher than the NBU had forecast in its October 2024 Inflation Report. According to the NBU's estimates, inflation continued to rise in January. On the one hand, temporary factors remain a significant driver of price growth – primarily limited food supplies caused by smaller harvests of certain crops due to unfavorable weather conditions. On the other hand, the inflationary surge is starting to look more like an underlying problem, which is evidenced by the further growth seen in core inflation (to 10.7% yoy). This is associated with increases in production costs, including the costs of electricity and labor, as well as with exchange rate effects from the weakening of the hryvnia against the U.S. dollar in previous periods. Meanwhile, in recent months price growth has been somewhat restrained by the appreciation of the UAH/EUR exchange rate, which is important for Ukrainian imports.

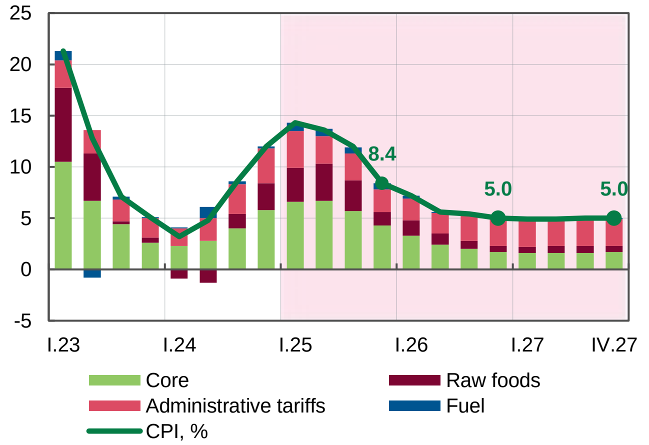
Figure 1.1. Consumer inflation and underlying inflation trends*, % yoy



* Read more in the January 2017 Inflation Report (pages 20–21). The target range remained in effect until August 2024 inclusive.

Source: SSSU, NBU staff estimates.

Figure 1.2. Contributions to annual CPI growth by main components at the end of period, pp



Source: SSSU, NBU staff estimates.

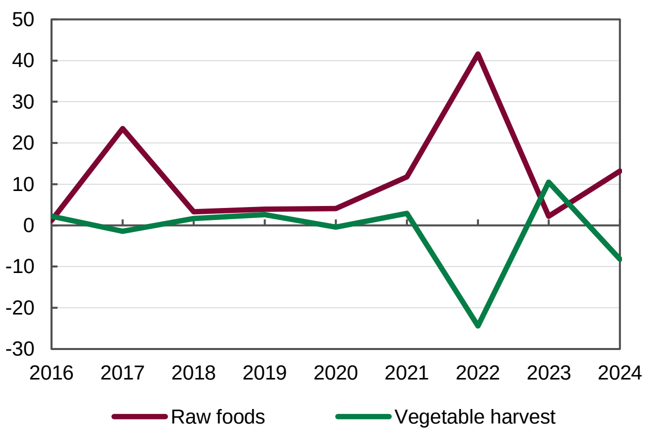
Against the previous year's low base, in H1 2025 these factors will make headline inflation continue to grow in annual terms (to around 15% at its peak), along with the majority of its components. However, consumer inflation will start to decline in the middle of the year, primarily due to the NBU's interest rate policy measures, the sustainability of the FX market, and the increase in food supplies. The effect of higher energy costs being passed through to inflation, which has already largely taken place, will gradually diminish. Wage growth will remain an inflationary factor, but it will weaken as wage growth slows. As a result, inflation will slow to 8.4% at the end of 2025.

In the medium term, administered prices will grow the fastest due to higher excise taxes and the need to bring utility tariffs to market levels. Therefore, in order to achieve the inflation target over the policy horizon, monetary policy should aim to keep other CPI components (primarily core inflation) at lower levels (around 3%–4%). This, together with the gradual normalization of the functioning of the economy, improvements in the energy sector, fiscal consolidation, and monetary policy measures, is expected to support the NBU's ability to attain its inflation targets over the policy horizon.

Food inflation will slow significantly in H2 2025, and continue to decline due to the expected increase in harvests

The rapid acceleration of food inflation in Q4 2024 was primarily due to temporary factors. The negative impact of the current year's weather conditions[3], which was more severe than expected, affected the supply of certain food products. The harvest of field-grown vegetables and potatoes was lower both compared to last year and to the NBU's estimates in the October 2024 Inflation Report. Moreover, shortages of electricity and its high cost affected both prices for greenhouse vegetables and the cost of storing fruit and vegetables, which was also a significant factor in the rise in raw food prices. At the same time, imports continued to increase, as did sales of low-quality products due to a lack of properly equipped storage facilities, which somewhat slowed price growth at the end of the year.

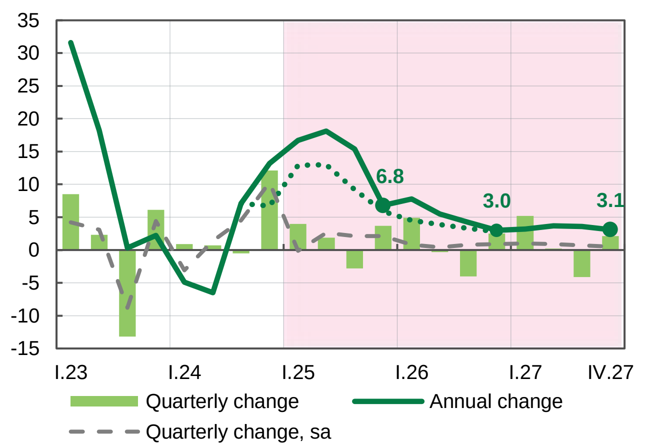
Figure 1.3. **Vegetable harvest* and raw food prices at the end of period, % yoy**



* Harvest in 2024 according to the NBU's estimates.

Source: SSSU, NBU staff estimates.

Figure 1.4. **Raw food inflation at the end of period, %**



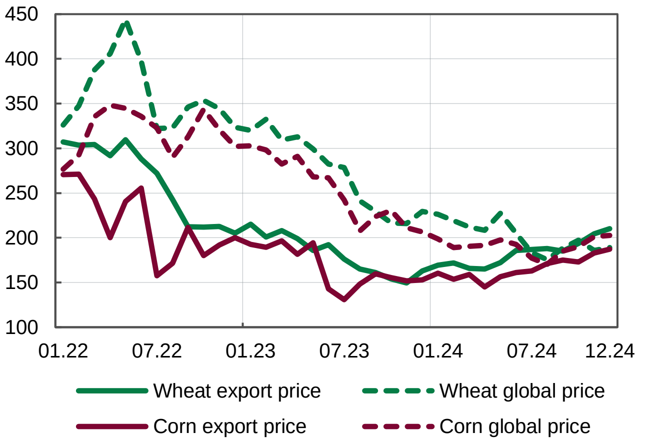
Source: SSSU, NBU staff estimates.

Restored regular export supplies of food (read more in the section *Economic Developments* on page 17) and lower freight and insurance rates pushed up domestic and export grain prices in MY 2023 to the level of global prices. Since mid-2024, prices for grains and oilseeds have been rising due to the harvest in the Black Sea region being lower than last year's. On the one hand, this, together with the poor quality of the 2024 harvest, led to higher prices for raw inputs for the food industry. As a result, prices of cereals resumed growth, while growth in flour prices accelerated rapidly. On the other hand, this led to a rise in the price of feed, which affected production costs in animal farming and led to a resumption of the decline in the output of these products from H2 2024, with a corresponding pressure on prices.

Other production costs also increased, including expenses on uninterrupted power supplies and energy independence (given the resumption of power outages in November), including for storing products. The prices of fuel, medicines, and veterinary services also rose, which significantly increased the cost of producing meat, milk, and eggs, as well as the cost of their logistics. The stabilization of domestic demand and Ukraine returning to external markets slowed the decline in sugar prices. As a result, the growth in raw food prices accelerated sharply (to 13.2% yoy in December, up from 7.1% yoy in September 2024), considerably exceeding the NBU's official forecast.

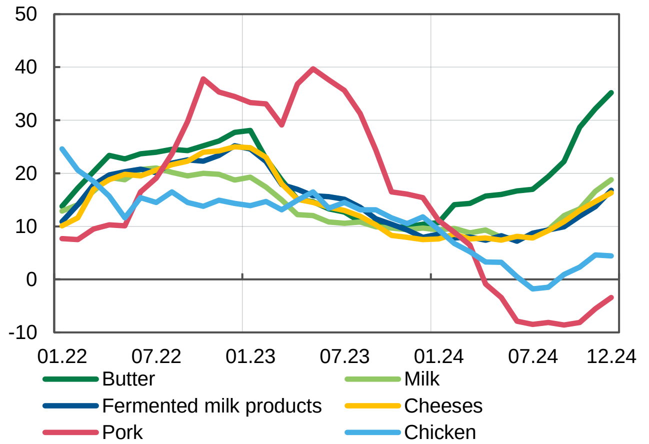
[3] In 2024, the food supply was negatively affected by spring frosts, record heat in July, and prolonged periods of drought in summer and early autumn.

Figure 1.5. Prices for selected grain crops, USD/t



Source: SCSU, IMF, World Bank.

Figure 1.6. Prices for selected livestock products, % yoy



Source: SSSU.

Prices for processed foods also grew faster than expected (to 14.7% yoy in December). Thus, higher prices for raw food inputs, further increases in businesses' production costs for uninterrupted energy supplies, wages, and logistics spurred rapid growth in prices for bread and bakery products, meat products, and dairy. Prices for the latter were also affected by continued strong external demand for dairy products and rising global prices. Export demand, together with low processing volumes, contributed to a sharp rise in the price of sunflower oil. Exchange rate effects also had an impact on pricing: certain imported goods, such as tea, fish and seafood, and coffee and chocolate, rose in price faster, in part due to their limited supply on global markets.

Food inflation will rise in H1 2025 under the influence of these factors and against the last year's low base. The growth in raw food prices driven by second-round effects will also lead to a further increase in the prices of the highly processed foods that are included in the core CPI. This will be exacerbated by the effects of businesses' higher costs for energy and labor.

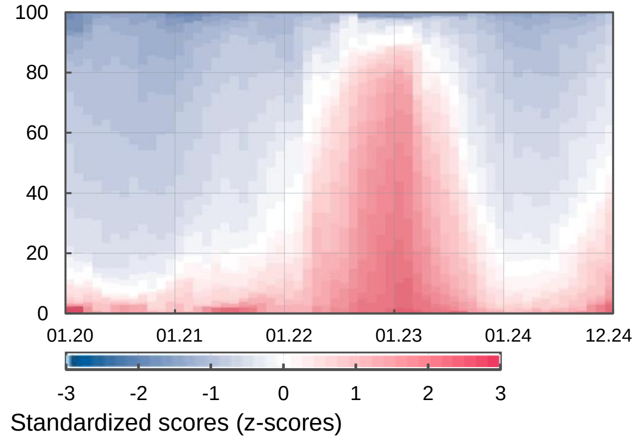
As new harvests enter the market in the summer, raw food inflation will begin to slow rapidly and will decline to single digits by the end of the year. The likelihood of dry weather recurring for the second year in a row is low. If unfavorable weather conditions are not widespread globally, the deficit of domestic products will be compensated for by imports. In the coming years, given there are no major supply shocks, food inflation will slow to around 3% thanks to higher harvests, increased production of processed foods, and further improvements in logistics.

Core inflation will also return to single digits at the end of this year, in particular under the influence of the NBU's monetary policy measures

Underlying inflationary pressures increased more than expected in Q4 2024. The acceleration in core inflation was primarily driven by a shortage of factors of production, as well as by the cost of raw materials. Certain inflationary factors, such as the tense situations in the labor market and the energy sector, are becoming persistent.

As a result, price growth above the inflation target is reflected in an increasingly large part of the consumer basket. In particular, the growth rate of prices for services (which largely determine domestic price pressures) accelerated to 12.5% yoy in December, driven by higher input costs and operating expenses. In addition, the weakening of the hryvnia against the U.S. dollar in previous periods further increased price pressures on import-dependent services (transportation, medical services, etc.) and non-food products, which are mostly imported. At the same time, prices for clothing and footwear remained lower than last year.

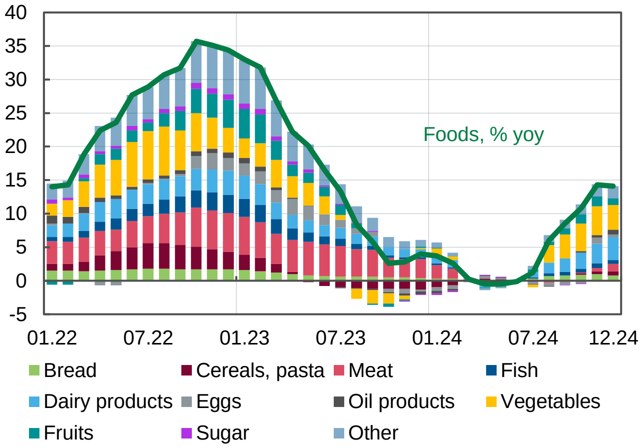
Figure 1.7. **Core CPI heatmap*, %**



* The heatmap shows the weight distribution of individual core CPI components by growth rate. The colors on the heatmap provide information on whether the inflation of a particular component is above the average for the respective period (red) or below it (blue); the saturation of the colors indicates the degree of such an event measured in standard deviations, and the size of the cells indicates the distribution of values between the indicators.

Source: SSSU, NBU staff estimates.

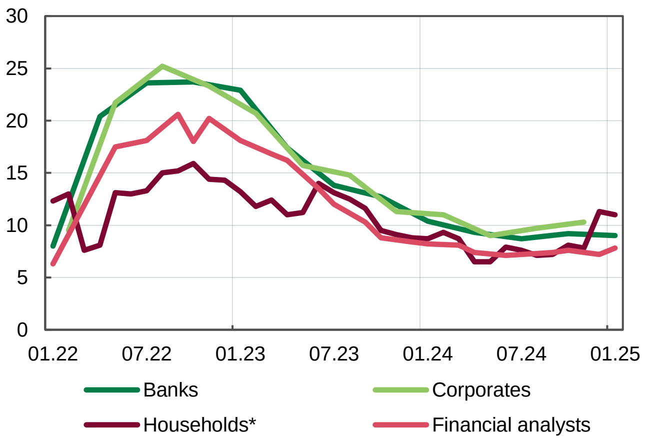
Figure 1.8. **Contributions to the annual change in food prices, pp**



Source: SSSU, NBU staff estimates.

As price pressures intensified more significantly in 2024 and exceeded the threshold level of attention, which the NBU estimates at around 10% (read more in the October 2024 Inflation Report), economic agents' concerns about the prices of goods and services grew, making a corresponding impact on their expectations. In particular, households' inflation expectations deteriorated markedly in December, although they had been relatively stable in previous months. Businesses' expectations also worsened at the end of last year, although not as significantly, amid the long-lasting growth in production costs. At the same time, the expectations of financial analysts and banks remain relatively stable.

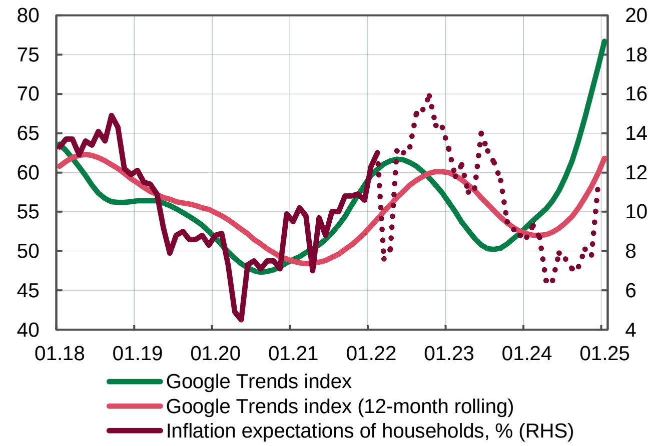
Figure 1.9. **12-month-ahead inflation expectations*, %**



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

Source: NBU, Info Sapiens.

Figure 1.10. **Normalized and seasonally adjusted indices of interest in the *Inflation* topic* and households' inflation expectations****



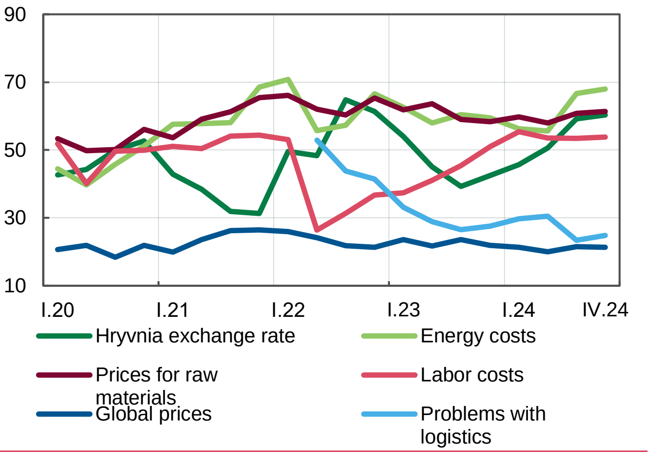
* Google Trends index of search requests for the *Inflation* topic smoothed by the Hodrick-Prescott filter (lambda=100).

** 12-month-ahead inflation expectations of households. Dotted lines indicate a change of survey method from face-to-face to telephone interviews.

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

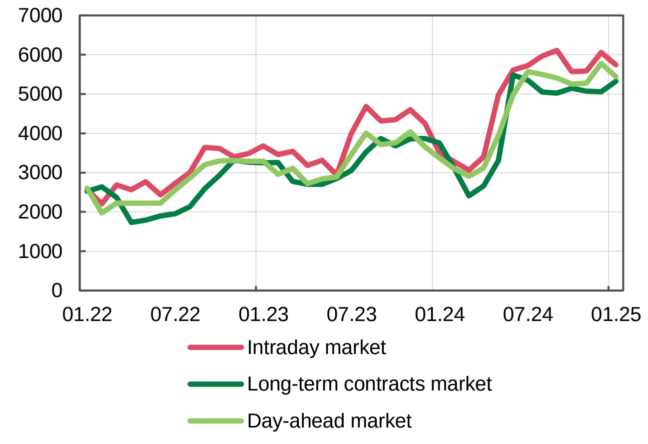
According to the Q4 2024 Business Outlook Survey, the main drivers of changes in selling prices over the next 12 months will be the costs of energy, raw inputs, including food, and materials. The high cost of electricity for non-household consumers, as well as the need to cover costs to ensure energy independence and uninterrupted operation of enterprises, resulted in higher prices, primarily in energy-intensive sectors. This is evidenced by the persistence of high levels of producer price inflation in December (27.6% yoy, compared to 27.1% yoy in September). The growth in prices of electricity, gas, steam, and air conditioning supplies slowed somewhat (to 41.4% yoy in December, compared to 47.1% yoy in September), albeit remaining significant. At the same time, the revision of the price of electricity transmission services by NPC Ukrenergo starting from 1 January 2025 may further push up consumer prices through second-round effects.

Figure 1.11. Major factors affecting businesses' expectations of price changes for their goods and services, % of respondents



Source: NBU.

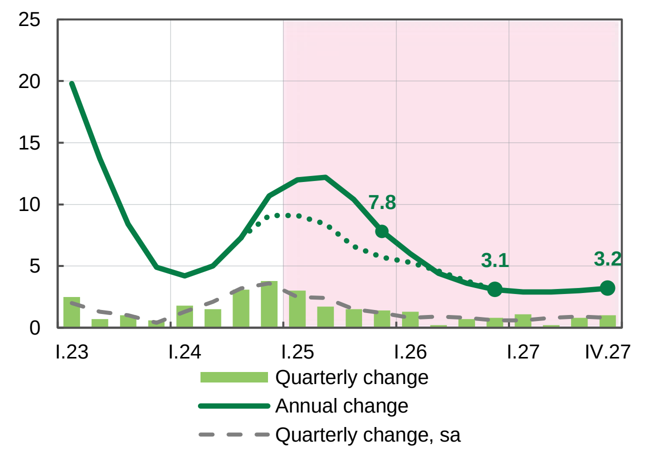
Figure 1.12. Electricity prices for non-household consumers, UAH/MWh



Source: Ukrainian Energy Exchange, Market operator.

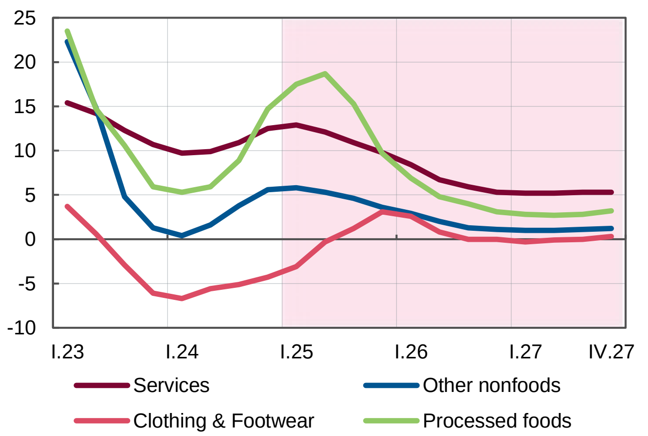
Additional pressure on production costs came from further increases in businesses' labor costs due to a shortage of personnel and labor market mismatches (read more in the section *Economic Developments* on page 17). Over the forecast horizon, high real wages will put pressure on inflation from the demand side. The effects of wage growth are expected to be reflected primarily in persistently high rates of growth in the prices of services. At the same time, in 2024, businesses' perceptions of logistics problems weakened somewhat. This was facilitated by the gradual resolution of logistical difficulties as infrastructure continues to be restored and access to regional and global markets improves.

Figure 1.13. Core inflation at the end of period, % yoy



Source: SSSU, NBU staff estimates.

Figure 1.14. Core CPI components at the end of period, % yoy



Source: SSSU, NBU staff estimates.

Over the forecast horizon, GDP will remain close to its potential level, which will have a neutral impact on inflation. Underlying inflationary pressures will be determined by the mixed contributions of high real wages and the hryvnia's relatively strong real effective exchange rate (REER). Labor market mismatches will put upward pressure on prices, but the contribution of this factor will gradually decline as wage growth, which was at a record high in 2024, slows. In the meantime, monetary policy measures will keep the hryvnia's REER strong, which will help reduce imported inflation. In addition, businesses' investments in energy independence have for the most part already been reflected in prices, so this factor will also help slow inflation amid expected lower power shortages. Second-round effects from lower prices of raw food products will also restrain core inflation. Over the next two years, core inflation will decline to almost 3%, which will help the NBU achieve the inflation target even amid strong growth in administered prices.

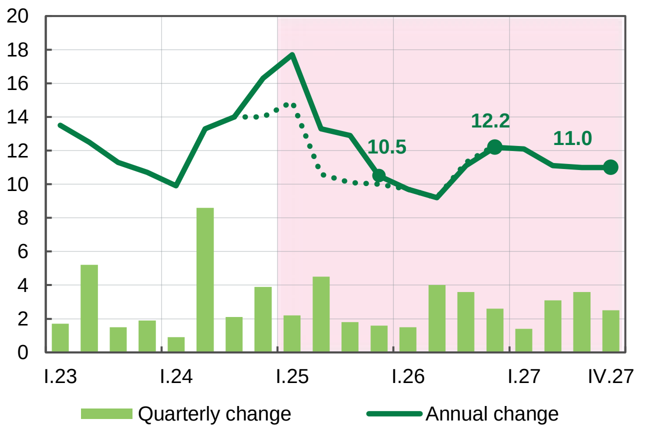
Administered inflation will remain high due to further increases in excise taxes and the need to bring utility tariffs to economically justified levels

The growth in administered prices accelerated in December (to 16.3% yoy, up from 14.0% yoy in September 2024), primarily due to higher prices for tobacco products and a resumption in the growth of prices for alcoholic beverages, including due to changes in tax legislation, exchange rate effects in previous periods, and measures to combat the shadow market supply of these products (the size of the shadow tobacco market is estimated to have halved in 2024). Manufacturers and importers of tobacco products raised prices in advance of the expected increase in excise taxes on tobacco products in 2025. Prices for certain alcoholic beverages also increased as a result of the December hike in the excise tax rate for intermediate alcoholic products (from UAH 8.42 to UAH 12.23 per liter) and a 50% increase in the minimum wholesale and retail prices for wine products.

A number of adopted and expected changes in tax legislation will result in high levels of administered inflation over the forecast horizon. Thus, in view of the need to expand the domestic resource base to finance substantial budgetary needs and to fulfill Ukraine's European integration commitments, excise taxes will continue to be gradually increased for tobacco products, fuel, and alcoholic beverages. An additional factor behind the increase in the price of tobacco products and alcoholic beverages will be the stepping up of measures to combat the shadow market for these products, one of which is the expected change in the tax regime for ethanol and bioethanol producers (payment of excise tax on the volume corresponding to the maximum productivity of their equipment). The system for turnover of alcohol and tobacco products will also undergo changes – from March 2025, electronic excise stamps will be introduced in a test mode, and they will become mandatory in 2026.

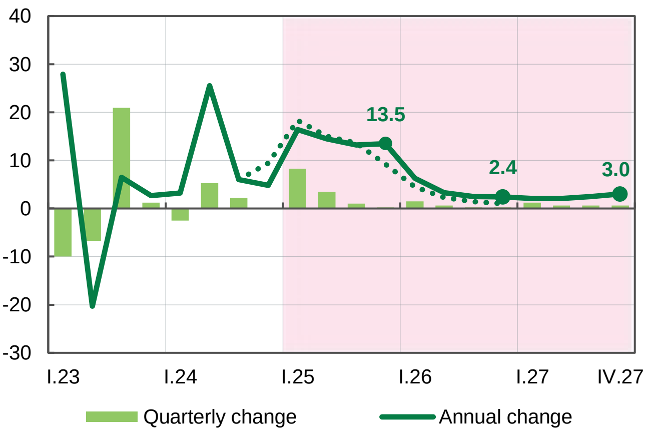
The moratorium on raising tariffs for households for certain utility services will continue to be a restraining factor for administered inflation. According to the forecast assumptions (read more in the section *Assumptions and Risks to the Forecast* on page 35), the moratorium will limit the growth in administered prices in 2025. At the same time, the gradual alignment of energy tariffs with market levels is expected to be a significant inflationary factor in the coming years.

Figure 1.15. Administered price inflation at the end of period, %



Source: SSSU, NBU staff estimates.

Figure 1.16. Fuel price at the end of period, %



Source: SSSU, NBU staff estimates.

Fuel price growth continued to decelerate in Q4, to 4.8% yoy in December (down from 6.0% yoy in September), which was lower than had been forecast. The September increase in excise taxes on fuel was primarily reflected in the price of liquefied natural gas. The latter also rose in price due to higher raw material costs and increased demand in Europe, in particular due to the embargo on imports of raw materials from russia imposed from 20 December. At the same time, the generally downward trend in global crude oil prices and restrained demand amid sufficient stocks, which were built up for wholesale and retail sale by importers and filling station chains before the first stage of the excise tax hike, limited the growth in petrol and diesel prices.

In addition to the cost of raw materials and exchange rate dynamics, fuel prices were also affected by changes in tax legislation and marketing methods of competing for customers. In particular, in early December, a rule came into effect requiring filling station chains to pay income tax in advance. The entry into force on 24 December of the law on minimum stocks of crude oil and petroleum products, which was adopted at the end of 2023 and provides for the creation of stocks of crude oil and petroleum products equal to 90 days of average daily net imports or 61 days of average daily domestic consumption, is likely to result in a review of margins and trade markups by importers and filling station chains. To boost demand, filling station chains also stepped up their marketing campaigns, including weekend discounts and Black Friday offers. At the end of the year, fuel imports also increased so that sufficient stocks could be accumulated before the next excise tax hike at the start of 2025. This will somewhat restrain fuel price growth in the coming months, although this effect will be temporary.

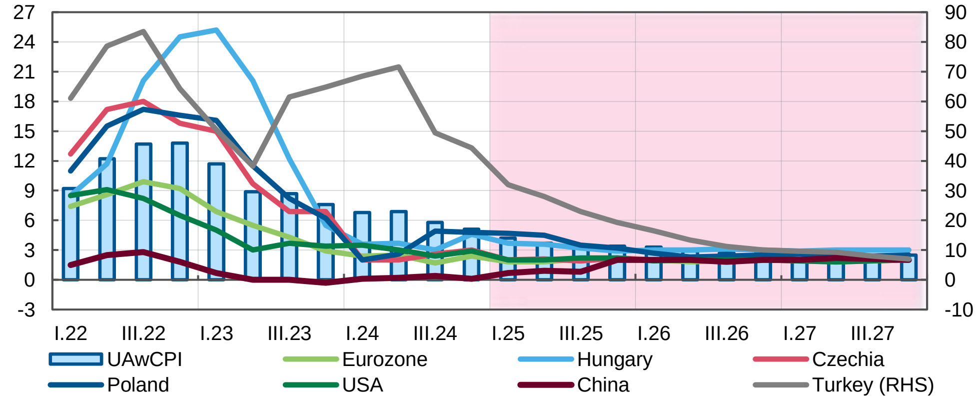
As stocks are depleted in the wake of the approved excise tax hike, fuel price growth will accelerate to over 13% this year. Higher fuel prices will put additional pressure on the cost of certain goods and transportation services by impacting production costs. In the medium term, a decline in global crude oil prices will partially offset the further growth in the excise tax burden. As a result, the growth in fuel prices will slow significantly.

Inflation in Ukraine's main trading partners (MTPs) will remain moderate, which will limit domestic price pressures

Inflation over the past two years has been slowing from its peak levels almost simultaneously in Ukraine's MTPs. However, in Q4 2024, price dynamics varied significantly by country. In advanced economies, inflation continued to trend downward as demand narrowed, although it remained above the target level at the end of the year due to pressure from the services sector. In contrast, CEE countries saw an expected acceleration in inflation, driven by higher food prices due to lower harvests. Against the backdrop of a significant slowdown in price growth in Türkiye and near-zero inflation in China, inflationary pressures from Ukraine's MTPs continued to ease.

Asynchronous consumer price developments are expected to continue in 2025. Lower harvests, especially of fruits and certain vegetables, will keep food prices in CEE countries high at least until the middle of this year, despite a pause in central banks' rate cut cycles, which will restrain demand. An additional factor will be the effect of the depreciation of local currencies being passed through to prices as a result of the strengthening of the U.S. dollar in global financial markets. In contrast, in advanced economies, consumer inflation will continue to decelerate, given the impact of previous monetary policy tightening. However, this process will be gradual, given the rapid growth in nominal wages, which will keep service prices relatively high.

Figure 1.17. 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.

Türkiye and China will remain the outliers. The Turkish central bank returning to traditional monetary policy will contribute to a further decline in inflation. At the same time, China's fiscal and monetary stimuli to its economy will lead to a gradual increase in inflationary pressures, which are currently extremely low. However, the targets of both the Central Bank of the Republic of Türkiye and the People's Bank of China are expected to be achieved beyond the forecast horizon.

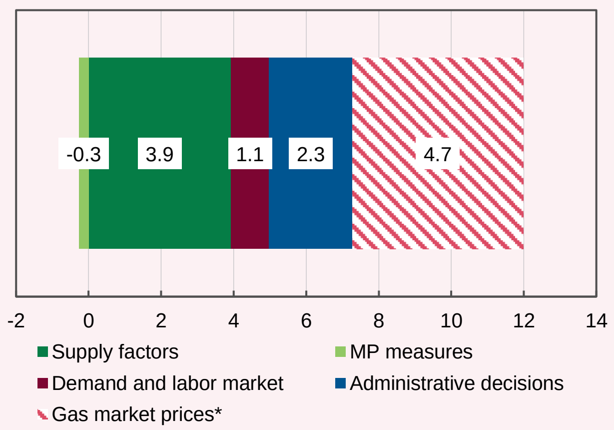
Thus, after reaching the long-term equilibrium level of 3% at the end of Q2 2026, the weighted average inflation rate in Ukraine's MTPs will continue to fluctuate around this level until the end of the forecast horizon.

Box 1. Factors That Caused Inflation to Deviate from Target in 2024

Consumer inflation hit the 12.0% yoy mark in December 2024, and core inflation came in at 10.7% yoy. The H2 2024 uptick in price growth had been expected, but it exceeded the NBU's previous forecasts. The deviation from the 5% inflation target was caused by a number of factors, primarily temporary ones. Poor harvests, resulting in a lower supply of raw foods and thus higher costs for the food processing industry, played a significant role in the rise in inflationary pressures. At the same time, the impact from underlying factors also increased, primarily due to a further rise in businesses' expenses on energy and labor. The depreciation of the hryvnia exchange rate also had a certain impact. Administered prices grew markedly as well, due to higher electricity tariffs for households and a hike of certain excise taxes. On the other hand, inflationary pressures were restrained by the NBU's measures to maintain FX market sustainability, a moratorium on increases in tariffs for certain utility services, and in recent months, the hryvnia's appreciation against the euro.

Macrofinancial stabilization in 2023 was accompanied by inflation returning to the 5% target. However, the course of the war remained the key risk to inflation dynamics and economic development. Its effects expose the economy mainly to upside inflationary shocks. Consumer inflation accelerated considerably in H2 2024, reaching 12.0% yoy as of the year-end. The deviation of inflation from the target was the result of a combination of upside inflationary factors that were only partially offset by monetary policy measures.

Figure 1. Decomposition of inflation deviation from the target in December 2024, pp



* The difference between market-justified natural gas prices and tariffs for households was compensated for by a moratorium on raising utility tariffs.
Source: SSSU, NBU staff estimates.

Table 1. Comparison of the values of individual variables in 2023 and 2024

Indicator	2023	2024
Brent oil price, USD/bbl, annual average	82.6	80.7
Price of gas at the TTF hub (Netherlands), USD/kcm, annual average	465.6	393.9
Grain harvest, million tons	59.8	55.2*
Vegetable harvest, million tons	8.3	7.6*
Consolidated budget deficit (excl. grants), % of GDP	26.6	23.7*
Real wages growth, % yoy	3.7	14.4

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

The upside factors for inflation included:

Supply shocks. Due to unfavorable weather conditions, the yields of certain crops declined significantly in 2024. This resulted in higher prices for raw and processed foods, as well as higher prices for certain types of services (such as eating out). Due to the impact of the heat wave on harvests and rising feed costs, the supply of animal farming products also decreased. In addition, food prices on foreign markets, although declining, remained relatively high. As a result, the imported component of food inflation could not be curbed significantly. Also, the improvement in export logistics contributed to domestic grain prices rising to global levels. The impact of electricity shortages was also pronounced, as it increased businesses' costs on installing autonomous energy supplies and using imported electricity.

Demand and the labor market. Domestic demand revived as a result of a loose fiscal policy and rising real household incomes. Mismatches in the labor market, which emerged due to labor shortages, led to a rapid increase in wages. This increased pressure on prices through both the demand channel and the channel of businesses' expenses.

Administrative decisions. The need to restore damaged energy facilities and bring tariffs to economically justified levels led to an increase in the price of electricity for households in June 2024. Excise taxes on fuel rose in September 2024, which, in addition to direct effects, produced second-round effects on price growth. Tobacco products became more expensive due to the efforts to combat shadow market supply, which affected the production costs of enterprises (compliance with labeling requirements, video surveillance at production facilities, etc.). The effects of the depreciation of the hryvnia in previous periods also had a certain impact. In addition, it is likely that manufacturers and importers raised prices for tobacco products in advance and in stages in anticipation of the hike of excise taxes in 2025. Some alcoholic beverages also became more expensive due to legislative and tax changes.

Non-market approaches to setting certain tariffs for utility services. Global natural gas prices remained significantly higher than those used to calculate the tariffs for a number of utility services for households (supplies of natural gas, heating, and hot water). Bringing tariffs to market-justified levels would have potentially made a sizeable positive contribution to CPI growth (4.7 pp, according to NBU estimates). However, this impact was blocked by the moratorium on tariff increases for certain utility services.

Monetary policy measures remained a factor restraining inflationary pressures. The NBU continued to be active on the FX market under a managed exchange rate flexibility regime, compensating for the structural deficit of foreign currency in the private sector, and smoothing out excessive exchange rate fluctuations. As a result, the NBU managed to avoid there being an imbalance in the FX market and a more significant hryvnia depreciation in 2024. Furthermore, the hryvnia strengthened against the euro at the end of the year. Given the expected acceleration in inflation, the NBU stopped cutting its key policy rate in July 2024 and started a tightening cycle of its interest rate policy at the end of the year. The continued sustainability of the FX market, together with interest rate policy measures, supported the attractiveness of hryvnia assets and helped prevent a deterioration in economic agents' expectations for inflation and the exchange rate and keep them in check – thus somewhat reducing the pressure on prices.

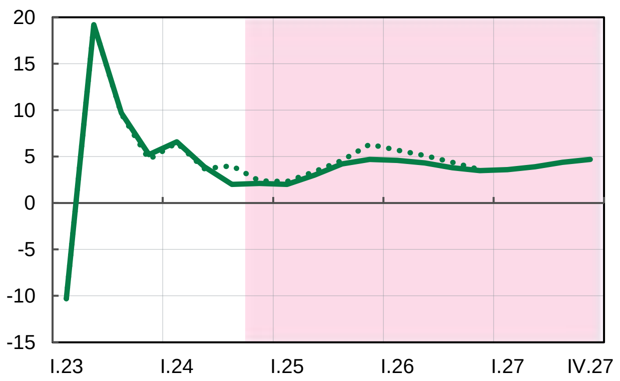
Part 2. Economic Developments

- In 2024, the economy recovered thanks to its successful adaptation to the challenging conditions of the war. However, the recovery gradually slowed due to the deteriorating security situation, comparatively weak external demand, and lower harvests. As a result, the estimate of real GDP growth for the year was revised downward, to 3.4%.
- In 2025–2027, real GDP growth will accelerate (3.6% to 4.2%) on the back of a further recovery in private consumption amid rising household incomes and investment in reconstruction.
- Real GDP is currently close to its potential level and will remain close to it in the future. Potential GDP will grow, driven by increased productivity. However, growth will be constrained by labor shortages and limited investment in production capital.

The economy continues to recover thanks to sustained domestic demand, but the war is holding back GDP growth

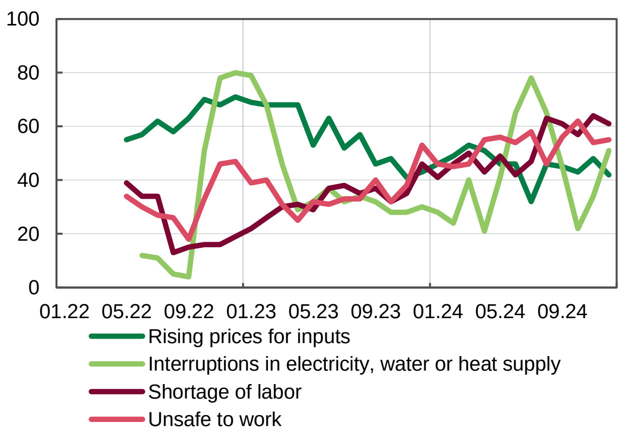
Real GDP growth in Q3 2024 slowed significantly, to 2.0% yoy, which was markedly lower than the NBU's estimates in the October 2024 Inflation Report. According to the NBU, economic activity continued to recover at a moderate pace in Q4, with real GDP growth estimated at 2.1% yoy.

Figure 2.1. Real GDP, % yoy



Source: SSSU, NBU staff estimates.

Figure 2.2. The most important problems for the surveyed businesses, % of responses



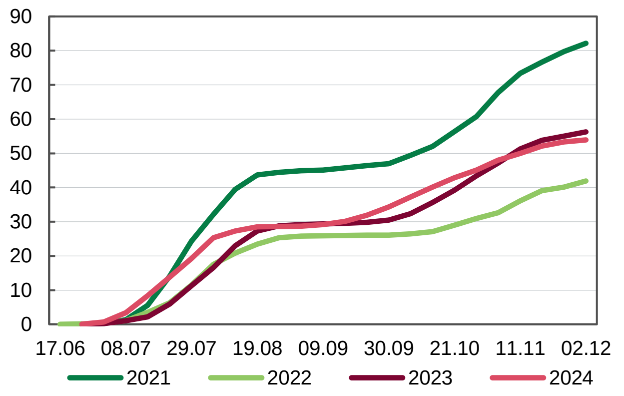
Source: IER.

An important factor behind the weak economic activity in H2 2024 was the shortage of electricity caused by the destruction of energy infrastructure, including shunting generation, due to new missile and drone attacks by russia. Significant electricity shortages were observed in July, November, and December. The security situation also deteriorated markedly, especially at the end of the year. For example, the number of air raids and missile, bomb and drone attacks increased significantly, primarily in a number of frontline regions, and some production facilities were lost. As a result, business expectations and production activity weakened in a number of industries, including energy, mining, and metallurgy.

An extreme heat wave in July increased energy demand, which also complicated the economic situation in Q3. However, a fairly warm winter, rapid repairs and larger electricity imports, despite more destruction of infrastructure, improved the electricity supply in Q4. According to the NBU's estimates, the electricity deficit turned out to be slightly below the NBU's previous expectations (for more details, see *Assumptions and Risks to the Forecast* on page 35).

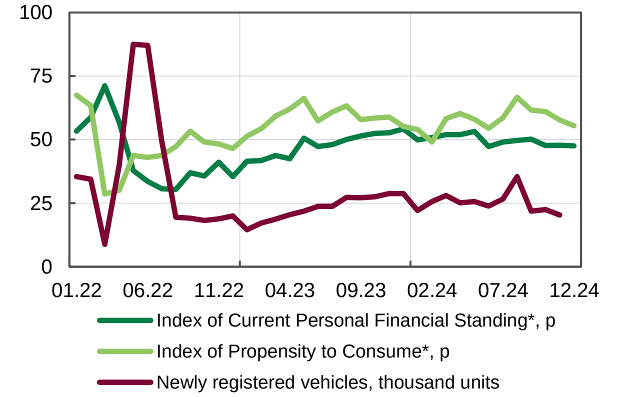
The hot, dry conditions in summer and fall had an adverse impact on late crop yields and animal breeding performance. Thus, the harvests of grains and legumes, as well as oilseeds, were lower than in 2023, and that of oilseeds turned out even lower than the NBU's previous estimates. The shortage of electricity, rising costs of autonomous power supplies, and higher feed prices due to lower harvests also had a negative impact on animal breeding. As a result, agricultural performance weakened, and the food supply was lower than expected. Weak industrial and agricultural performance caused a slowdown in exports and a deterioration in transportation performance. At the same time, the stable operation of the sea corridor supported the transportation industry and exports. Meanwhile, lower harvests and a simultaneous increase in agricultural exports amid high global prices have led to a shortage of raw materials for certain branches of the food industry.

Figure 2.3. **Grain and leguminous crop volumes, million tons, cumulative**



Source: Ministry of Agrarian Policy and Food of Ukraine.

Figure 2.4. **Selected indicators of consumer demand**



*Change of the survey method from face-to-face to the phone interview in March 2022.
Source: Info Sapiens, Ukravtoprom.

Economic growth will accelerate to 3.6% in 2025 and to about 4% in the following years

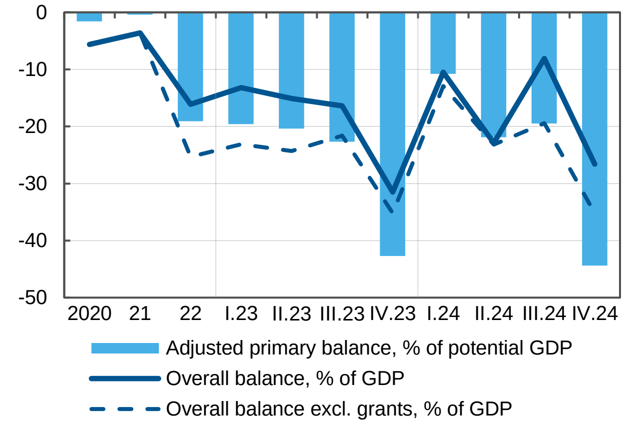
GDP growth will be driven by investments in rebuilding energy facilities, a loose fiscal policy, the revival of domestic demand amid rising wages, and increased food production due to higher harvests. However, limited production capacity, weak business sentiment, continued migration, and the slow normalization of economic conditions will restrain the recovery over the forecast horizon. The NBU has revised downward its GDP growth estimates compared to the October forecast due to the loss or shutdown of production facilities at the end of 2024, including in Pokrovsk, sluggish growth in external demand, and a stronger hryvnia REER. At the same time, the improved estimates of the electricity deficit are a positive factor (for more details, see *Assumptions and Risks to the Forecast* on page 35).

Budgetary incentives continue to play a major role in supporting the economy, but the role of the private sector will also grow

Amid the war, the public sector continued to support economic activity. Expenditures in Q4 2024 reached a historic high. This resulted in a large expansion in the consolidated budget deficit (over UAH 824 billion) and a widening of the negative cyclically adjusted primary balance in Q4 2024. In total, in 2024, the consolidated budget deficit in nominal terms exceeded last year's level and reached UAH 1.826 trillion, excluding grants in revenues (23.7% of GDP, compared to 26.6% of GDP last year). The loose fiscal policy significantly boosted aggregate demand. The increase in expenditures was supported by measures to mobilize budget revenues[4] and the active borrowing in the domestic debt market. This made it possible to increase spending – primarily on military needs, which remain a top priority area. Social programs were also prioritized, and humanitarian and investment expenditures increased at the end of the year. These huge expenditures generated a significant fiscal impetus at the end of the year, the effects of which will boost economic activity in early 2025.

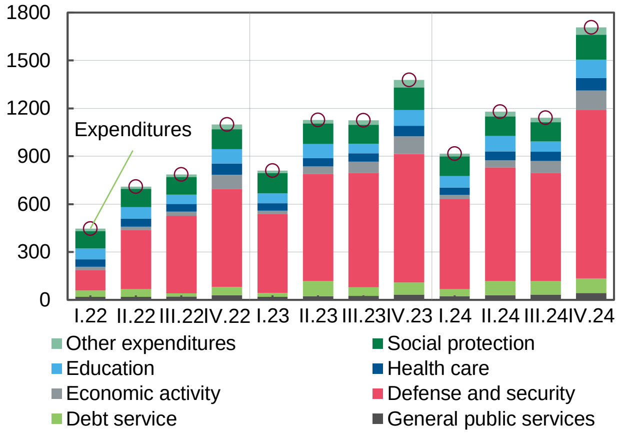
[4] A revision of fuel excise tax rates from 1 September, an increase in the military tax rate from 1 December, improved tax administration, and so on.

Figure 2.5. 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. 2024 GDP figure is the NBU's estimate.
Source: STSU, SSSU, NBU staff estimates.

Figure 2.6. Consolidated budget expenditures, UAH billions (functional classification)



Source: STSU, NBU staff estimates.

The increase in budget expenditures on social programs, together with other forms of support for the population, was one of the factors behind the steady consumer demand in H2 2024. Another important factor behind the growth in household consumption was the high growth of real wages (by 14.2% yoy in Q3 2024). Robust domestic demand made a decisive contribution to economic growth in 2024, facilitating the steady growth of retail trade and the further recovery of the services sector. Additional factors included better adaptation of retail and service companies to power outages due to having more autonomous power supplies, further growth of the online segment, and the shift in Christmas holidays to the end of the year.

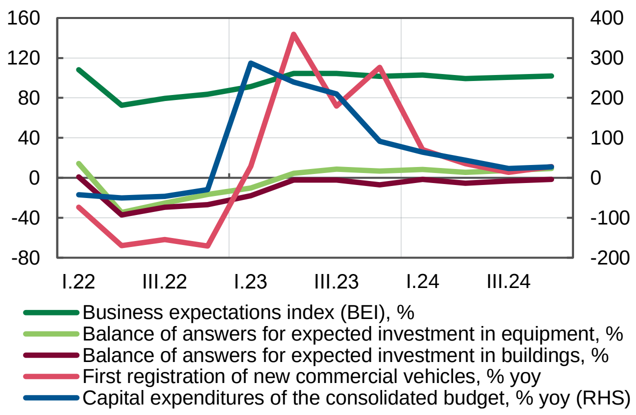
Investment, including public investment, also continued to grow, which further bolstered GDP growth. Investment demand was fuelled by government capital expenditures on military and related projects (weapons production, construction of fortifications and shelters), and on the restoration of destroyed or damaged sites, and other repairs. An additional factor behind the growth in investment was the compensation provided to households for the cost of damaged property through government programs. At the same time, the improved financial performance[5] of companies continued to drive private sector investments in establishing logistics capacities and ensuring energy independence. Investment in energy production (particularly in gas and oil production) also continued to grow.

The role of the public sector in shaping economic development trends will remain significant. This is primarily due to the need for expenditures to strengthen defence capabilities, implement recovery and humanitarian projects, and build infrastructure. However, the budget deficit will gradually decline (from 19.3% of GDP in 2025 to 7% of GDP in 2027) thanks to the strengthening of the domestic resource base and a lower share of public spending relative to the overall economy.

The gradual reduction of budgetary incentives will be offset by the growing role of the private sector. This will be done through investments in the restoration of production facilities and logistics capacities and the more active raising of private capital amid accelerating European integration processes. The gradual normalization of the economy, coupled with improved business and consumer sentiment, will help revive investment demand and private consumption.

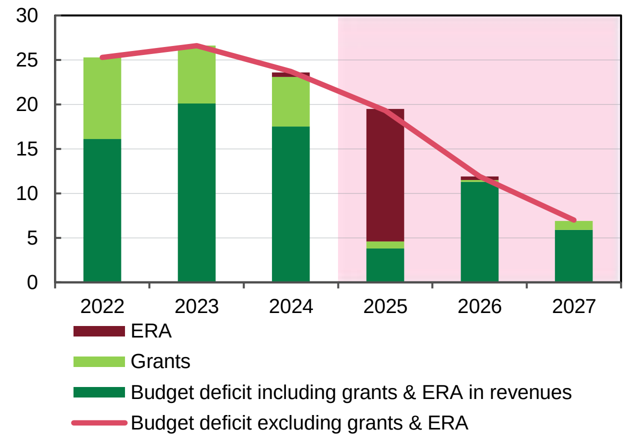
[5] Companies' profits grew further in Q3 2024, albeit at a somewhat slower pace (40% yoy in January–September), while losses for the first nine months increased by only 13.6% yoy.

Figure 2.7. Selected indicators of investment demand



Source: SSSU, STSU, NBU, Ukravtoprom.

Figure 2.8. Consolidated budget deficit, % of GDP

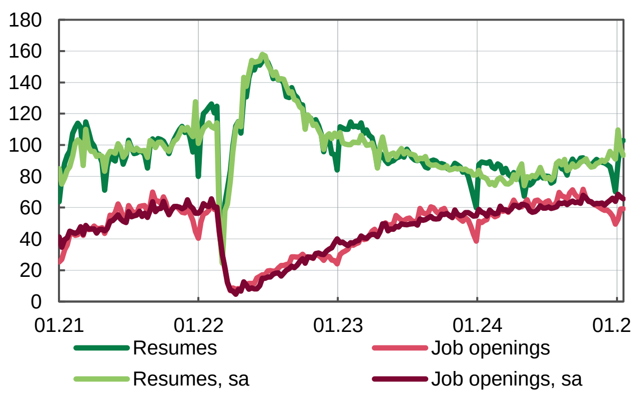


Source: STSU, SSSU, NBU staff estimates.

The labor shortage will remain significant over the forecast horizon and will restrain economic recovery

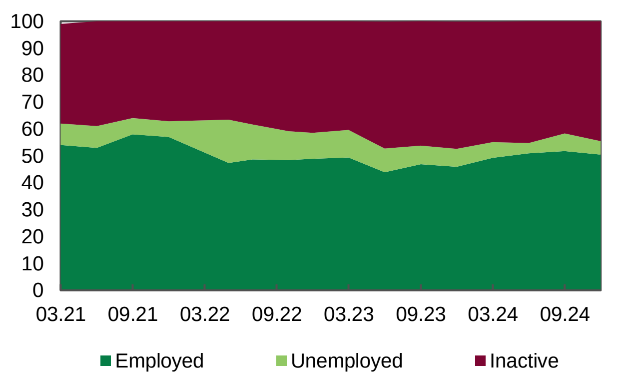
The issue of labor shortages worsened in 2024, and the labor market remained tight. However, in H2 2024, the labor force participation rate increased slightly, as did the number of new resumes. It is likely that Ukrainians were resuming their search for jobs due to further wage increases. However, the consequences of the war continued to limit the supply of labor – the number of migrants abroad increased by about 500,000 in 2024, and mobilization also played a role.

Figure 2.9. New resumes and job openings, thousands



Source: work.ua, NBU staff estimates.

Figure 2.10. Surveyed respondents by economic activity status, % of responses



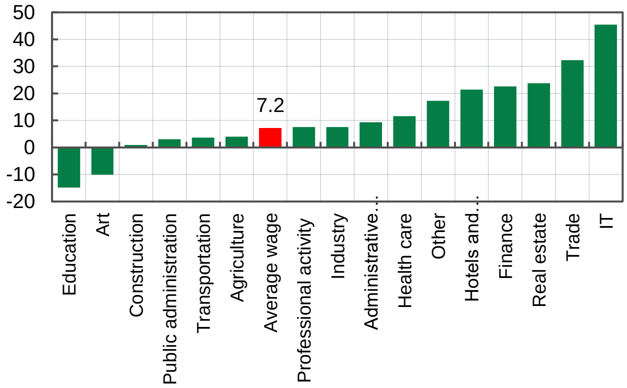
Source: Info Sapiens, NBU staff estimates.

At the same time, labor demand remained high, and a shortage of workers limited the ability to step up production and contributed to rising production costs. As a result, the number of applicants per job opening was even smaller than in 2021, which helped reduce unemployment last year. However, the reduction in the unemployment rate is constrained by its significant structural component, which is caused by substantial mismatches between the needs of employers and the knowledge and skills of potential employees. Considerable regional disparities in unemployment rates also persist. This is due, in part, to the effects of the war: according to the NBU's estimates, unemployment is higher in the regions closest to the war zone.

Figure 2.11. **Number of applicants per one job opening, persons**

Source: SESU, work.ua.

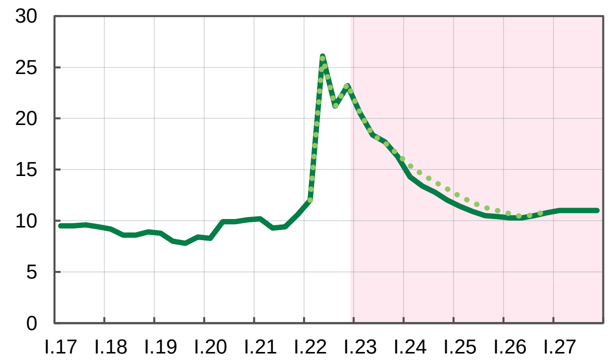
Figure 2.12. **Real wages by economic activity in Q3 2024 compared to Q3 2021, %**



Source: SSSU, NBU staff estimates.

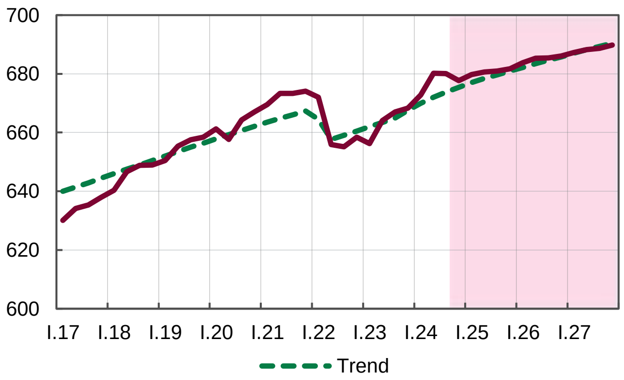
The shortage of staff spurred further wage growth, which according to NBU estimates, continued until the end of 2024, albeit slowing gradually. In Q4, real wage growth decelerated to single-digits due to both rising inflation and a reduction in labor shortages, which nevertheless remain significantly larger than before the full-scale invasion. However, as early as Q3 2024, real wages exceeded pre-war levels in most sectors of the economy.

Figure 2.13. **ILO unemployment rate, sa, %**



Source: SSSU, NBU staff estimates.

Figure 2.14. **Real wages, level (logs)**



Source: SSSU, NBU staff estimates.

Driven by rising labor demand, unemployment will gradually decline, but will nevertheless remain higher than before the full-scale invasion. Mismatches in the labor market will persist over the forecast period, mainly due to a limited supply of skilled labor. These mismatches are currently being shaped by migration abroad and mobilization.

As economic conditions continue to normalize and demand for labor increases, mismatches will result from the slow return of migrants to Ukraine (for more details, see *Assumptions and Risks to the Forecast* on page 35) as they adapt to life abroad, from Ukrainians leaving to reunite with their families, and from the resumption of labor migration. The expected return of demobilized to civilian life will increase the supply of labor, but additional challenges for the labor market may arise from greater regional and sectoral mismatches. Thus, the demand for skilled workers will remain elevated over the forecast horizon, which will fuel further wage growth in the private sector. Coupled with a continued loose fiscal policy, this will also drive up consumer demand.

The Ukrainian economy will be supported by a further recovery in external demand, although the boost from it will be less than expected

Leading indicators showed an unsustainable recovery in the economies of Ukraine's MTPs in Q4. Although the overall economic growth rate accelerated, it was accompanied by sectoral and regional disparities. In particular, the steady growth of the services sector compensated for the decline in manufacturing (primarily in metals and mining), while the solid growth of the U.S. economy contrasted with the weakness of the euro area and CEE economies.

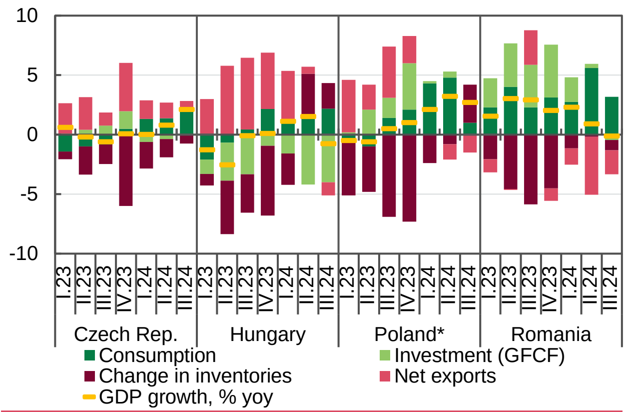
Services business activity rose mainly propelled by the financial and consumer services categories. In contrast, in manufacturing, growth production in consumer goods failed to offset the decline in the intermediate and investment goods. Households and companies were in no hurry to buy durable goods due to still elevated costs, economic uncertainty, and tighter financing conditions. On the other hand, the supply deficit narrowed, and global trade in goods grew moderately. Export orders indicate there will be a steady increase in trade in the near term. However, the business environment was adversely affected by the high probability of new import tariffs being imposed by the United States. WTO monitoring also shows that trade is becoming more fragmented: restrictive measures have increased rapidly over the past year, and trade is increasingly conducted between countries with a similar geopolitical stance.

At the same time, the growth in the U.S. economy remains robust. Despite weakness in manufacturing, the services sector is growing rapidly. Unemployment is low, and household income growth is steady. Although the large-scale savings accumulated during the pandemic have been reduced in many households, a significant rise in income continues to support consumer spending. Increased productivity due to the opening of new high-tech businesses, and larger exports because of the displacement of russia, primarily from the energy markets, also supported economic growth. In the coming years, private consumption is expected to shore up the growth of the U.S. economy, both through a steady increase in the number of jobs and a rise in real wages. Productivity growth will continue thanks to sizable investments by U.S. companies in artificial intelligence and other advanced technologies.

In contrast, China's economy is still struggling with real estate problems and weak domestic demand, while exports remain stable despite new import tariffs imposed by the United States and the EU. Looking ahead, fiscal and monetary stimulus measures will support domestic demand and investment, which should ensure relatively high growth rates in the Chinese economy.

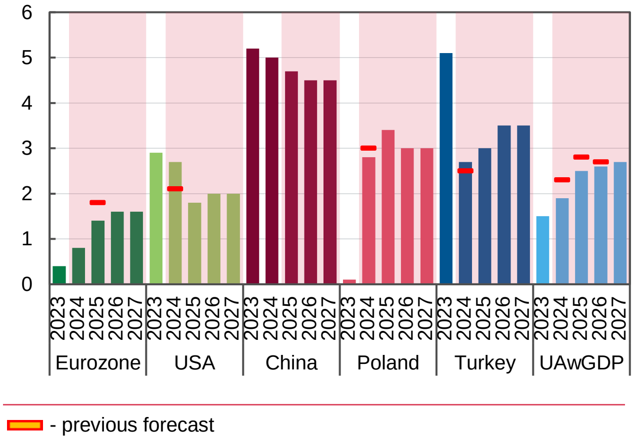
The euro area economy is also showing weakness in manufacturing. This sector is in crisis primarily due to low competitiveness caused by high energy prices and insufficient innovation. Thus, the services sector is the mainstay of the euro area's economic growth, although leading indicators showed a gradual slowdown in this sector as well. In contrast to the United States, households' behaviour remains cautious, and the savings rate remains elevated due to still pessimistic sentiment, despite the growth in real incomes. Employment indicators show that the labor market is cooling. The impact of the ECB's tight monetary policy and greater political uncertainty are keeping corporate investment low, although the decline in interest rates in H2 2024 contributed to a slight increase in lending. In 2025, the Eurozone economy is expected to grow more slowly than previously expected, primarily due to a further industrial decline and depressed investment demand in Germany. In the coming years, economic growth in the Eurozone will be driven by a recovery in household consumption, supported by rising real incomes amid a consistently favourable labor market. The increase in private investment will be facilitated by monetary policy easing, while public investment will be supported by defence spending.

Figure 2.15. Contributions to annual real GDP growth in selected CEE countries by final use categories, pp



*At constant prices of the previous year; for other countries – at 2020 prices.
Numbers may not add up due to rounding.
Source: National statistical agencies, Eurostat, NBU staff estimates.

Figure 2.16. Real GDP of selected countries and weighted average of annual GDP growth in Ukraine's MTP countries (UAwGDP), % yoy



Source: National statistical offices, NBU staff estimates.

Growth in the CEE economies also slowed, primarily due to a drop in net exports, which reflected weak demand from Germany. The growth was driven mainly by private consumption (thanks to higher wages) and less by public consumption. Low harvests (in the wake of drought in the region) had an additional negative impact on economic development in 2024. Private consumption is expected to remain the main driver of growth in these countries. This will be driven primarily by improved household consumer sentiment, supported by persistently high real wage growth and larger investment. The transition between budgetary periods in the EU, accompanied by a reduction in disbursements to CEE countries, had a negative impact on investment in 2024. However, the use of EU funds under the 2021–2027 funding programs is expected to accelerate in the future, except for Hungary. Instead, economic growth will be temporarily restrained by a slower recovery in external demand, particularly from the Eurozone.

Despite the current challenges, there are grounds for cautious optimism about the economic recovery in Ukraine's MTPs in 2025–2027. The resilience of global trade and the services sector, as well as pent-up demand, should contribute to this. Real household incomes and consumer spending will continue to grow, and the easing of financing conditions thanks to further interest rate cuts by the major central banks will prop up economic activity. As a result, external demand will slowly improve for the Ukrainian economy.

The negative contribution of net exports to GDP growth will increase in 2025 due to lower harvests in 2024 and the shutdown of production facilities in Pokrovsk. This contribution will decrease in future thanks to improved external demand, but it will remain significant

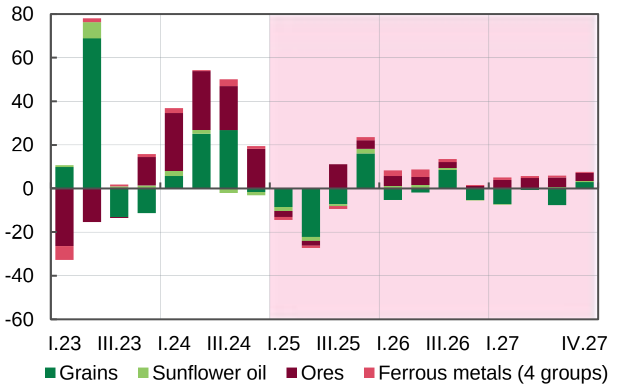
The negative contribution of net exports to GDP growth in Q4 increased due to the export component. More specifically, weaker external demand for iron ore and metals products, deteriorating business expectations on the back of intensified missile and drone attacks and a difficult situation in the energy system slowed the growth of ferrous metal exports. In addition, russia's aggressive pricing policy in the markets of Africa and the Middle East, together with changes in the export regime, caused a certain delay in grain shipments at the end of the year. Coupled with last year's high base effect caused by the launch of the sea corridor, this led to a decline in grain exports in Q4. Exports of services also dropped: the continued narrowing in demand for the services of the Ukrainian IT industry resulted mainly from high risks to business operations continuity under martial law.

At the same time, the growth in imports of goods accelerated, although there were divergent trends for different commodity groups. More specifically, imports of non-energy goods increased significantly, driven by a rise in budget spending, including on defence, and amid fairly strong consumer sentiment. What is more, the low base effect caused by the beginning of the blockade of the Polish border in November 2023 also played a role. As a result, the volume of imports of food, machinery, industrial goods, and wood products accelerated. In contrast, the growth in energy imports slowed noticeably on the back of lower volumes of coal imports because of large coal stocks, and electricity imports due to high prices on the European market and low margin prices in the domestic market. Imports of travel services also continued to decline due to the continued loss of residency of forced migrants.

The dynamics of exports of goods and services over the forecast horizon will be determined by both internal and external factors. Thus, in 2025, export volumes are expected to drop due to low stocks remaining from last year's corn and sunflower harvests and problems with the supply of coking coal to metallurgical enterprises due to the suspension of mines in Pokrovsk... In addition, weak economic activity in Europe and China will restrain the growth of ore exports. Starting in 2026, the gradual revival of economic activity in Europe will drive an increase in the volumes of exports of goods. However, the growth pace will remain low due to limited production capacity, a gradual recovery in domestic consumption, stronger competition in external markets, and labor shortages. The relatively slow growth of the economies of Ukraine's MTPs will also hamper the recovery of service exports, particularly in the IT sector.

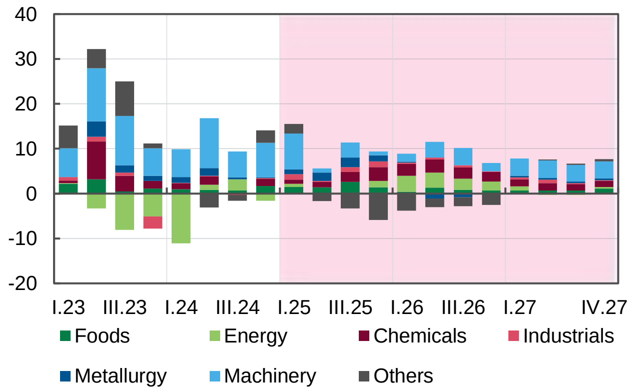
Imports of goods and services will grow at a high pace over the forecast horizon. Robust demand for imports, particularly of machinery, chemicals, and metals, will persist on the back of the defence sector's significant needs and the continued restoration of infrastructure and production facilities. Imports of electricity and oil products are also expected to be consistently high amid problems in the energy system (for more details, see *Assumptions and Risks to the Forecast* on page 35). In addition, as a result of the suspension of mines in Pokrovsk, imports of coking coal will increase to support domestic metal production. Significant budget expenditures will boost the growth of consumer imports, in particular food and industrial goods, household appliances, and various chemicals, as well as military products. On the other hand, the return of Ukrainian migrants will help reduce imports of travel services in the coming years.

Figure 2.17. Contributions of selected commodities to the annual change in exports volumes, pp



Source: SCSU, NBU staff estimates.

Figure 2.18. Contributions to the annual change in imports, pp



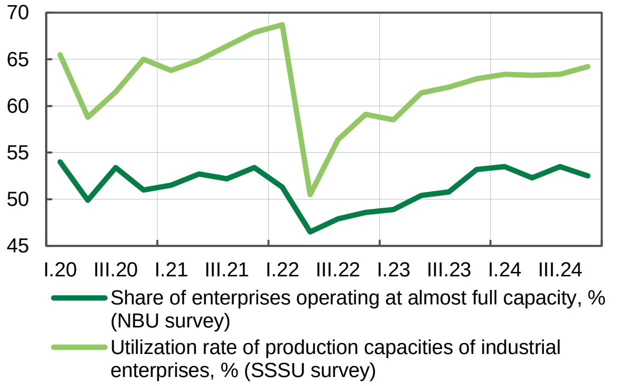
Source: SCSU, NBU staff estimates.

As a result, in 2025, the negative contribution of net exports to GDP growth will increase due to a decline in exports of goods. Looking ahead, export growth will resume thanks to rebounding economic activity in Europe and a recovery in domestic production. At the same time, imports will continue to grow at a steadily high pace. Consequently, the negative contribution of net exports to GDP growth will gradually narrow, but remain significant.

In 2024, GDP approached its potential level. The GDP gap will remain close to zero over the forecast horizon

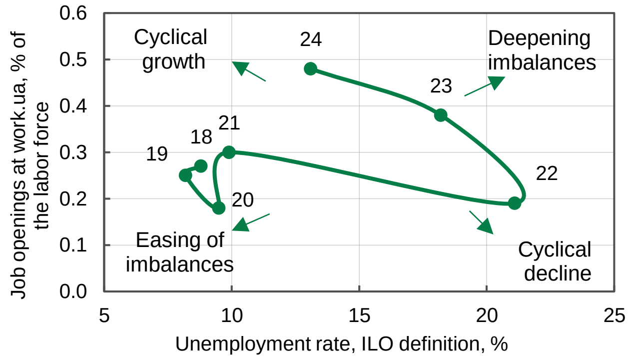
The number of production facilities has decreased due to their destruction, and because of the loss of territories. At the same time, the latest business outlook survey indicates that the utilization of existing production facilities has recovered to the level of 2021, which is a sign of a significant revival in aggregate demand. Unemployment has also declined, although it remains above its pre-war levels amid labor market mismatches. Thus, according to the Beveridge curve, labor market mismatches since the beginning of the full-scale invasion have been much higher than in 2018–2021 due to significant migration abroad and internal displacement. As the economy continued to recover, the labor market moved towards overheating in 2023–2024.

Figure 2.19. Indicators of production capacity utilization



Source: SSSU, NBU.

Figure 2.20. The Beveridge curve

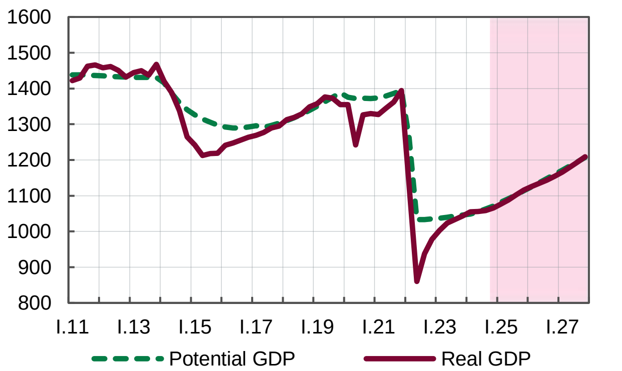


Source: SSSU, work.ua, NBU staff estimates.

Updated estimates show there was a small GDP gap in 2024, which is no longer a disinflationary factor. Aggregate demand is being driven by high budget expenditures, but is being held back by a weak appetite for private investment. Over the forecast horizon, the GDP gap will remain close to zero due to the diverging contributions of the relatively strong REER and a loose fiscal policy. This output gap will have a neutral impact on price growth.

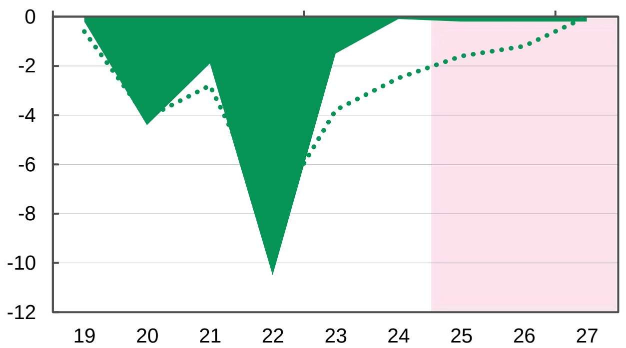
Potential GDP will grow, propelled by increased productivity. However, the growth of potential GDP will be dampened by a shortage of labor and a lack of investment in production capital. In the medium term, economic growth will be boosted by European integration, which will facilitate technological progress and capital inflows.

Figure 2.21. Real and potential GDP, sa, at 2021 constant prices (UAH billions)



Source: SSSU, NBU staff estimates.

Figure 2.22. Output gap, % of potential GDP



Source: SSSU, NBU staff estimates.

Box 2. State Budget Parameters in 2025

Ukraine's state budget for 2025 was approved with a substantial deficit (20.4% of GDP), as it includes significant military spending . Looking ahead, there will still be a need to finance the budget with funds from international partners. At the same time, the uncertainty about the amount of aid has significantly decreased, primarily thanks to the Extraordinary Revenue Acceleration Loans for Ukraine (ERA) initiative. The key risks arising from the course of the war remain, and, above all, the likelihood of expanding defense and security expenditures and, accordingly, finding sources of funding.

The planned state budget deficit in 2025 (excluding grants in revenues) will remain significant, but lower than the actual figure for 2024. In addition, the primary deficit will gradually decrease. A loose fiscal policy will support the economy during the war, while gradual fiscal consolidation resulting from the government's efforts to improve revenues, along with prudent expenditures, will help stabilize public debt levels.

The main parameters of the state budget are based on a rather conservative macroeconomic forecast.

Table 1. Main state budget parameters, UAH billions

Indicator	2023	2024*	2025 Law
Revenue**	2,673	3,123	2,327
% of GDP	40.3	40.4	27.5
Revenue excluding grants	2,239	2,649	2,239
% of GDP	33.8	34.3	26.5
Expenditure**	4,015	4,487	3,929
% of GDP	60.6	58.1	46.4
Net lending	-5.5	-5.5	38.7
Balance (- deficit)	-1,337	-1,359	-1,641
% of GDP	-20.2	-17.6	-19.4
Balance (- deficit) excluding grants in revenue	-1,771	-1,832	-1,728
% of GDP	-26.7	-23.7	-20.4
Primary balance excluding grants in revenue (- deficit)	-1,523	-1,525	-1,247
% of GDP	-23.0	-19.8	-14.7

* GDP for 2024 is an NBU estimate. ** In 2023–2024, actual indicators include military assistance provided by international partners, which is accounted for in the special fund.
Source: STSU, VRU, NBU staff estimates.

Table 2. Main macroeconomic parameters

Indicator	2025	
	CMU	NBU
Nominal GDP, UAH billions	8,466	8,840
Real GDP, % yoy	2.7	3.6
Consumer price index, % (December to December)	9.5	8.4
Exports of goods and services (USD billions)	57.2	58.1
Imports of goods and services (USD billions)	97.9	96.9
Nominal average wage, UAH thousands	24.4	24.8

Source: first column (CMU – Cabinet of Ministers of Ukraine) – VRU (explanatory note to the first reading and information from the MFU website); second column (NBU) – the NBU's January 2025 forecast.

On the one hand, the higher inflation and imports accounted for in the budget compared to the NBU's forecast create risks of a shortfall in tax revenues, while on the other hand, the government's estimate of economic growth and, accordingly, nominal GDP, is somewhat more pessimistic than the NBU's forecast. At the same time, budget revenues remain sensitive to both the course of the war (in particular, due to damage to infrastructure and a decline in production as a result of destruction) and other potential shocks (for example, such as the blockade of Ukraine's western borders in late 2023 and early 2024). Given that the budget's own resources are directed to military needs, which will remain high in 2025, a number of tax initiatives have been implemented to increase the budgetary resources (according to the estimates by the Finance Ministry of Ukraine, additional tax revenues in 2025 will amount to UAH 140 billion). As a result, there will more of the budget's own revenues for financing military expenditures in 2025.

[6]Defense capability is expected to remain the key spending area: defense and security expenses account for 56% of total expenditures (or 26% of GDP). [7]Although social programs remain a priority, basic social standards are to be maintained at the level of

[6] State guarantees for defense capabilities (up to UAH 30 billion) are also envisaged in the budget. Together with these funds, defense and security expenditures amount to 26.3% of GDP.
[7] The minimum wage is UAH 8,000 and the subsistence level is UAH 2,920.

2024, while the transfer to the Pension Fund has been reduced. At the same time, the government plans to index pensions and increase schoolteachers` payment, preserve the household support programs launched in 2024, and provide funds as a compensation for damaged property and for the e-Recovery program. Economic activity will also be shored up by public investment spending and assistance from the Business Development Fund (in particular, to provide concessional loans under the 5%-7%-9% program).

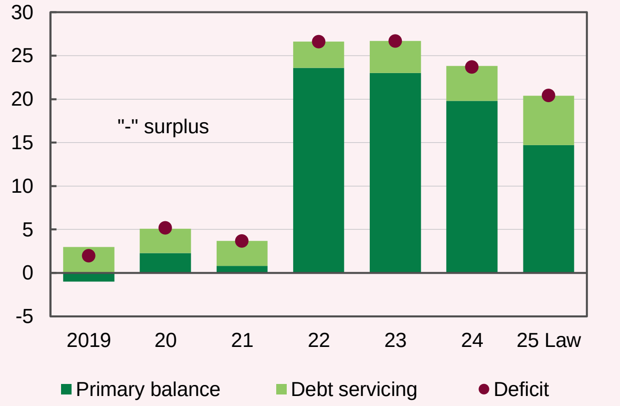
However, despite the restrained approach to spending, there is a significant risk of a forced increase in expenditures, especially on defense. Higher defense needs, in the context of the limited potential for expenditures optimization in wartime, will mean that additional resources will be required to finance these needs (for more details, see *Assumptions and Risks to the Forecast* on page 35).

Table 3. Selected indicators of state budget expenditures

	2023 Actual*	2024 Law	2024 Actual*	2025 Law
Defense and security expenditures, UAH trillions**	2.6	2.1	2.9	2.2
% to total expenditures	66	57	66	56
% of revenues to defense and security expenditures	85	89	90	102

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

Figure 1. State budget balance*, % of GDP



* Functional classification was used to calculate the primary balance of 2019 – 2024, and program classification for 2025. Deficits exclude grants in revenues. GDP for 2024 is the NBU's estimate.
Source: STSU, VRU, SSSU, NBU staff estimates.

[8]The government intends to finance the state budget deficit almost entirely by international aid (UAH 1.746 trillion or USD 38.8 billion). Therefore, dependence on international partners remains very high. At the same time, the risks of a shortfall in international financing have decreased due to substantial progress in the implementation of the ERA program. Thus, in December 2024, Ukraine received USD 1 billion from the United States, and in January 2025, another EUR 3 billion from the EU. It is assumed that in 2025 part of the international aid funds under the ERA initiative may be used for military needs. The receipt of funds under other support programs will require the fulfillment of the conditions stipulated by the respective programs. The fulfillment of these conditions will demonstrate Ukraine's readiness to honor its commitments and implement reforms, despite the challenges of war. Under these conditions, the amount of international support will be sufficient to fully finance the deficit without resorting to monetary financing, as well as to maintain a sustainable FX market under a regime of managed exchange rate flexibility.

For 2025, the government plans significant gross domestic borrowing (over UAH 579 billion), but net borrowing will amount to only UAH 17 billion (a rollover of 103%). This amount of net borrowing demonstrates a balanced approach to the domestic debt market capacity and to the burden of debt servicing expenditures. In addition, there is room to accumulate additional resources in case of unforeseen events.

[8] The total amount of international financing provided for by the Law is USD 40.4 billion. This includes about USD 4 billion of the special fund and EUR 1.5 billion of grants from the EU, which are accounted for in the revenues.

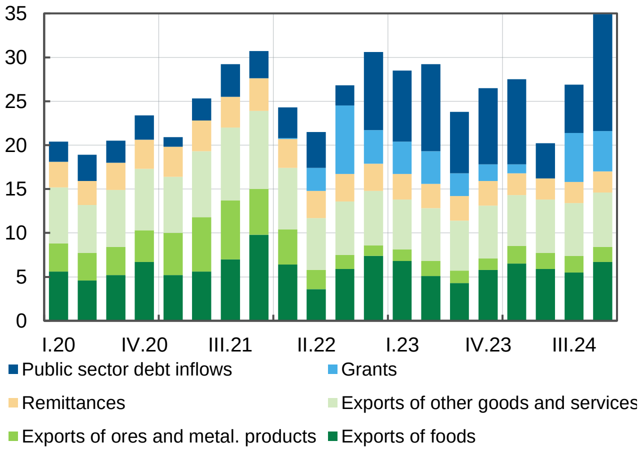
Part 3. Monetary Conditions and Financial Markets

- The cycle of interest rate policy tightening continues, aimed at maintaining public interest in hryvnia assets and ensuring that hryvnia savings are adequately protected from inflation. This is helping reduce pressures on the FX market and on prices.
- The high level of international reserves, together with significant international assistance, enable the NBU to maintain FX market sustainability under a regime of managed exchange rate flexibility, which is consistent with achieving the 5% inflation target over the policy horizon.
- The support of international partners, coupled with the sufficient capacity of the domestic debt market to accumulate resources, makes it possible to cover budgetary needs without resorting to monetary financing.

Substantial international reserves and significant external support will enable the NBU to further ensure the sustainability of the FX market

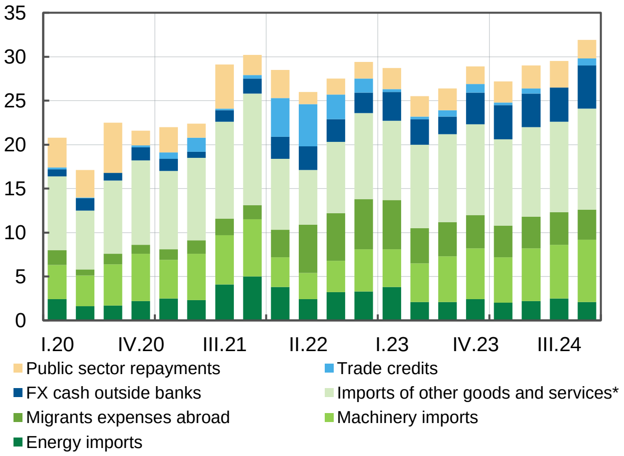
The relative stability of the main FX supply and demand factors contributed to a sideways trend in the hryvnia exchange rate and relatively moderate FX interventions from August through the first half of November. However, amid a growing structural FX deficit in the private sector, due, among other reasons, to significant budget expenditures at the end of the year, the NBU increased its presence in the FX market. The further restoration of some “normalcy” in the FX market, especially in the seasonality of supply and demand and the corresponding reaction of the exchange rate to their changes, indicates that its role as a shock absorber is strengthening and that market participants are adapting to the regime of managed exchange rate flexibility. Thus, due to an increase in net demand for foreign currency, the average official hryvnia exchange rate against the US dollar weakened slightly (by 0.7%) in Q4. On the other hand, the hryvnia exchange rate strengthened against the euro (by 2.0%). The growing role of the euro in external trade payments (the euro has almost reached parity with the dollar in import payments) has restrained imported inflation. The process of reorienting trade flows to EU countries has influenced the increase in the share of the euro in banks’ deposit and lending operations. Household demand for the euro is also growing. Accordingly, the hryvnia's appreciation against the euro had a calming effect on both the non-cash and cash markets, where the share of euro transactions also grew.

Figure 3.1. Key components of FX inflows to Ukraine, USD billions



Source: NBU.

Figure 3.2. Key components of FX outflows, USD billions



* Excluding humanitarian aid.

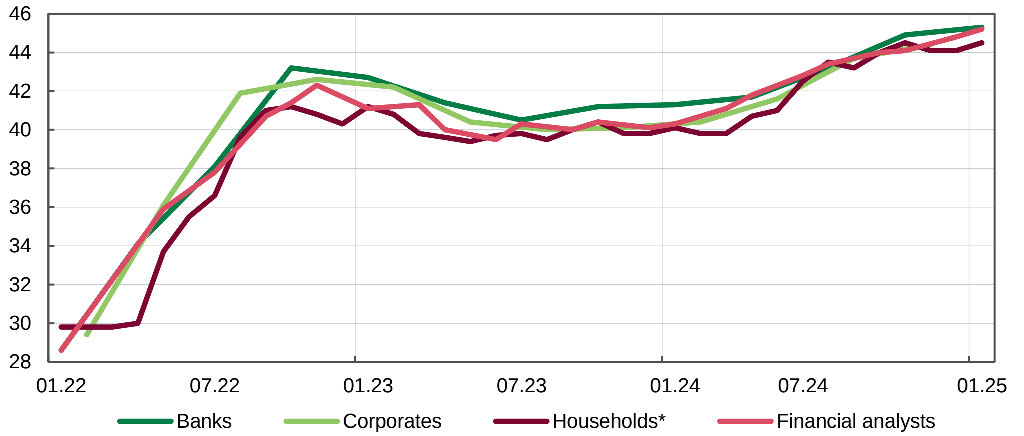
Source: NBU.

Overall, Q4 saw an increase in supply in the FX market. Agricultural exports continued to be the main source of the increased supply, driven by seasonal factors, namely the sale of new crops. The substantial supply of foreign currency was also resulted from its conversion for making quarterly tax payments, as evidenced by record tax revenues in December. On the other hand, amid weak global demand, deteriorating business sentiment, an increase in enemy missile and drone attacks, and a difficult situation in the energy sector, revenues from exports of iron ore and metals products declined.

At the same time, the demand for foreign currency grew more significantly in Q4. Among the key factors that determined demand dynamics were record high budget expenditures. The growth in these expenditures was largely financed by international financial assistance. In addition, importers' purchases of certain consumer goods intensified, and business transactions allowed under the easing of FX restrictions increased. Meanwhile, despite the difficult situation in the energy sector, electricity purchases declined because of high prices in Europe and lower margin prices in the domestic market. Along with seasonal factors (including purchases of foreign currency by small agricultural producers and the payment of annual bonuses), the growth in demand for FX cash was also driven by a decline in real yields on hryvnia instruments due to deteriorating expectations and changes in taxation.

Under such conditions, the NBU increased net FX sales to USD 11.4 billion in Q4 (compared to USD 9.2 billion in Q3), primarily in response to the rising structural FX deficit in the private sector at the end of the year. This calmed the expectations of market participants, especially households, and helped stabilize demand in the cash segment. As a result, the difference between the cash and official exchange rates in Q4 was insignificant, at around 1%.

Figure 3.3. 12-month-ahead exchange rate expectations*, %



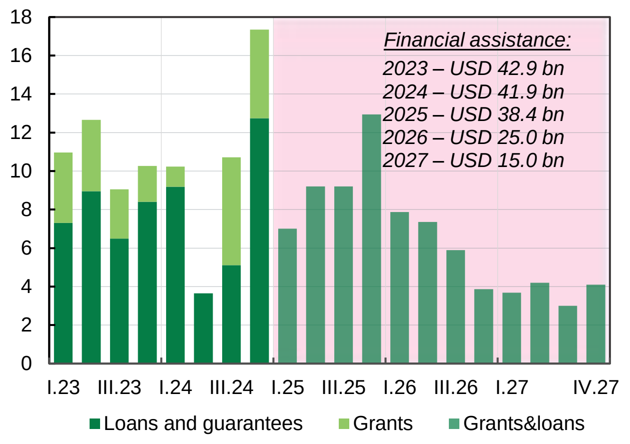
* In March 2022, the survey method was changed from face-to-face to telephone interviews.

Source: NBU, Info Sapiens.

The inflows of significant amounts of international financial assistance in November and record-high amounts in December further strengthened the NBU's ability to maintain a sustainable FX market and had a calming effect on market participants. In Q4, official financing reached USD 17.3 billion. As a result, despite significant FX interventions, gross international reserves had increased to USD 43.8 billion by the end of 2024, which is 20% higher than the minimum level recommended by the IMF's composite metric.

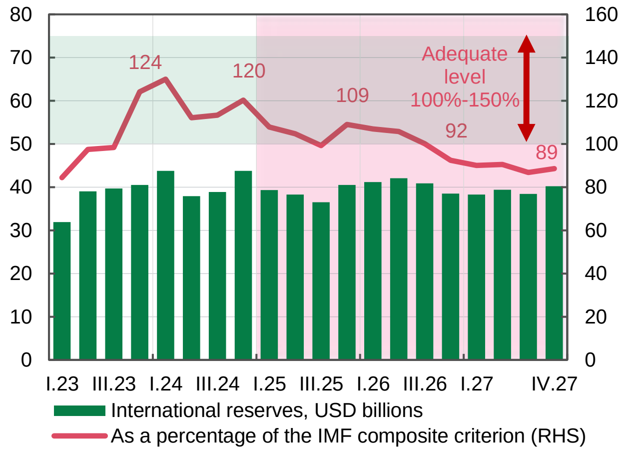
Given the amounts of expected international financial assistance in 2025 (for more details, see *Assumptions and Risks to the Forecast* on page 35), the NBU will maintain its high capacity to compensate for the structural FX deficit in the private sector and smooth out excessive exchange rate fluctuations. FX market sustainability will remain an important element in keeping economic agents' expectations under control, and in bringing inflation back to the 5% target. The prudent use of international reserves remains a relevant task for the NBU. In view of this, the NBU, along with FX liberalization measures, took steps in November and December to strengthen discipline with regard to FX restrictions compliance.

Figure 3.4. International financial assistance, USD billions



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

Figure 3.5. Gross international reserves



Source: NBU staff estimates.

In 2025, the private sector's structural FX deficit will remain significant, but will gradually decline further on. Thus, amid the normalization of the economy and continued FX liberalization, the private sector will raise more investment and debt financing. Export proceeds will also grow propelled by a gradual rise in global grain prices and a certain increase in harvests of agricultural products (for more details, see *Assumptions and Risks to the Forecast* on page 35). However, any further significant growth in export proceeds will be constrained by limited production capacity, stronger competition on external markets, and a shortage of labor (see more in *Economic Developments* on page 17). With fiscal consolidation gradually underway, the growth rate of imports of goods and households' demand for FX cash will decline. Imports of travel services will also drop due to lower spending by Ukrainian migrants abroad. However, the demand for imported goods will remain high, given the need to meet the domestic needs of the economy as economic conditions normalize.

As a result, the need for the NBU's FX interventions will gradually decline. However, against the backdrop of fiscal consolidation, international financial assistance will also be reduced, while external debt repayments will increase. Under the influence of these factors, international reserves will fluctuate at a relatively stable level of about USD 40 billion in 2025–2027.

The NBU sees a need to tighten its interest rate policy to maintain FX market sustainability, keep expectations under control, and to gradually bring inflation back to 5% target over the policy horizon

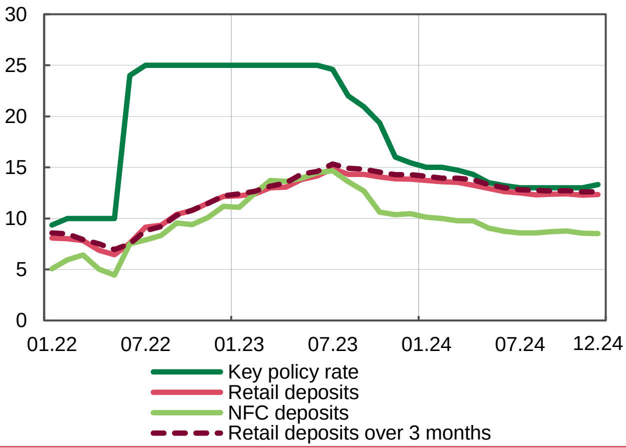
Given the rapid increase in price pressures and the risk of inflation expectations becoming unanchored, the NBU has switched to a cycle of key policy rate hikes. More specifically, in December, the key policy rate was raised by 0.5 pp, and in January by 1 pp, to 14.5%.

Along with the key policy rate, the interest rates on the NBU's main liquidity management instruments, namely overnight certificates of deposit, three-month certificates of deposit, and refinancing loans also increased – to 14.5%, 17.0%, and 17.5%, respectively.

These decisions are aimed at maintaining the sustainability of the FX market, keeping inflation expectations under control, reversing the inflation trend, and gradually slowing inflation to its 5% target.

At the same time, it will take some time for the tightening of interest rate policy to be transmitted to bank rates. As a rule, banks have been rather inert in making decisions on raising deposit rates in the face of a significant liquidity surplus. Thus, in Q4 2024, interest rates on hryvnia deposits remained almost unchanged. It was only at the end of 2024 that the banks showed signs of activity, with the Ukrainian Index of Retail Deposit Rates (UIRD) resuming growth.

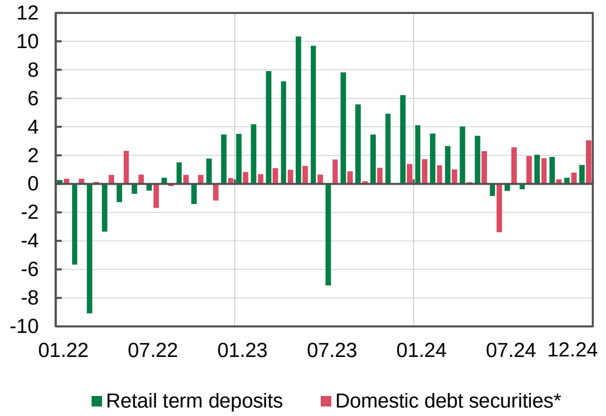
Figure 3.6. Weighted average interest rates on hryvnia term deposits and key policy rate*, %



* Monthly average.

Source: NBU.

Figure 3.7. Changes in the stock of hryvnia domestic debt securities held by individuals and hryvnia retail term deposits, UAH billions



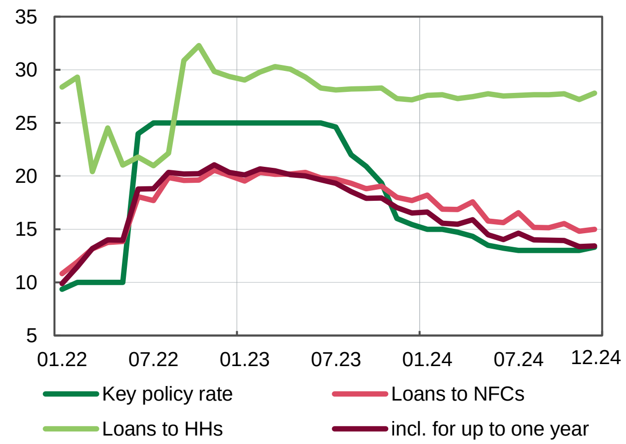
* At outstanding nominal value.

Source: NBU.

Households' inflation expectations had remained fairly stable for a long time, but deteriorated significantly in December. This, together with the increase in the military tax rate to 5% starting in December 2024, had a negative impact on the real yield on hryvnia deposits. As a result, while the inflow of retail term deposits continued in Q4, it was significantly lower than in the same period last year. In addition, the share of term deposits in the portfolio of hryvnia retail deposits decreased. This has raised the issue of boosting the attractiveness of hryvnia term deposits to prevent depositors from shifting to buying foreign currency.

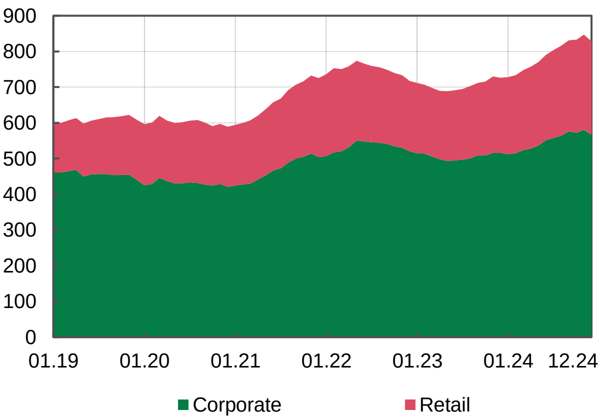
At the same time, the tax exemption on income from domestic government debt securities and the high nominal yields of these securities have increased the public's interest in this savings instrument. The portfolio of hryvnia domestic government debt securities held by individuals increased by 50% in 2024, and its growth in Q4 exceeded the growth in term deposits.

Figure 3.8. Weighted average interest rates on hryvnia loans and monthly average key policy rate, %



Source: NBU.

Figure 3.9. Hryvnia loans, UAH billions



Source: NBU.

Interest rates on corporate loans continued to decline gradually: in Q4, the weighted average interest rate on hryvnia loans to NFCs dropped by 0.2 pp, and on those for a term of up to one year by 0.5 pp. Improved lending conditions contributed to the revival of lending, and to an increase in the share of unsubsidized loans. More specifically, hryvnia corporate loans grew by 2.9% in the fall. The leaders in terms of growth were the manufacturing industry, wholesale and retail trade, and energy supply. The decline in the corporate loan portfolio in December was caused by a decrease in the need for businesses to obtain loans amid a significant increase in account balances due to high budget expenditures.

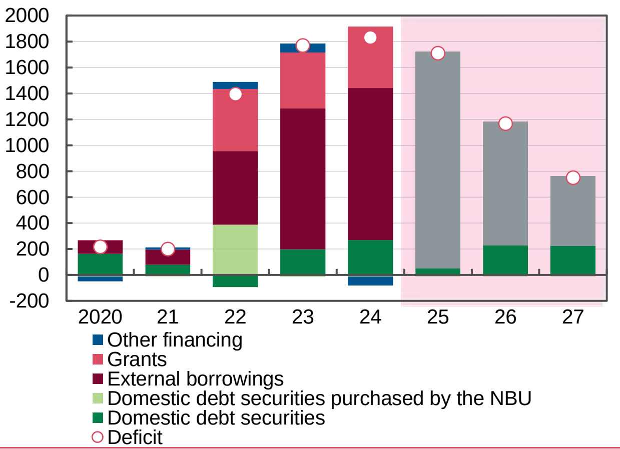
Interest rates on hryvnia loans to households remained almost unchanged in Q4. The loan portfolio continued to grow at a high rate of 2.5% for the quarter (24.5% YTD), and its growth exceeded the figures seen before the full-scale invasion. Unsecured loans comprise the largest share of such loans, and competition for them has increased somewhat. Almost all mortgage lending continues to be carried out under the government's eOselia program, and its growth rate has slowed somewhat.

The NBU does not expect the tightening of its interest rate policy to have a significant negative impact on lending. The banks' interest margins remain rather high, and competition among banks for borrowers will restrain the impulse from the key policy rate hike on lending costs. Instead, it is expected that the easing of inflationary pressures and the stabilization of expectations in the middle of this year will enable the banks to return to lowering interest rates and provide increasingly more resources to the economy to overcome the consequences of the war.

International assistance, together with the high capacity of the domestic government borrowing market, will facilitate non-monetary financing of budgetary needs

In Q4 2024, Ukraine received record amounts of international assistance thanks to the fulfillment of its commitments under cooperation programs with its partners, and progress in implementing the Extraordinary Revenue Acceleration (ERA) Loans mechanism. This made it possible not only to catch up with budget expenditures in December, but also to create a substantial liquidity buffer for the beginning of 2025.

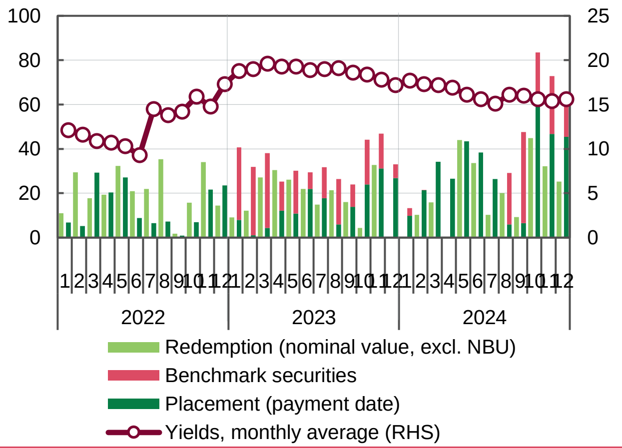
Figure 3.10. Financing* of the state budget deficit (excluding grants in revenues), UAH billions



* Net borrowing. Hryvnia-denominated borrowings include domestic government 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 3.11. 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.

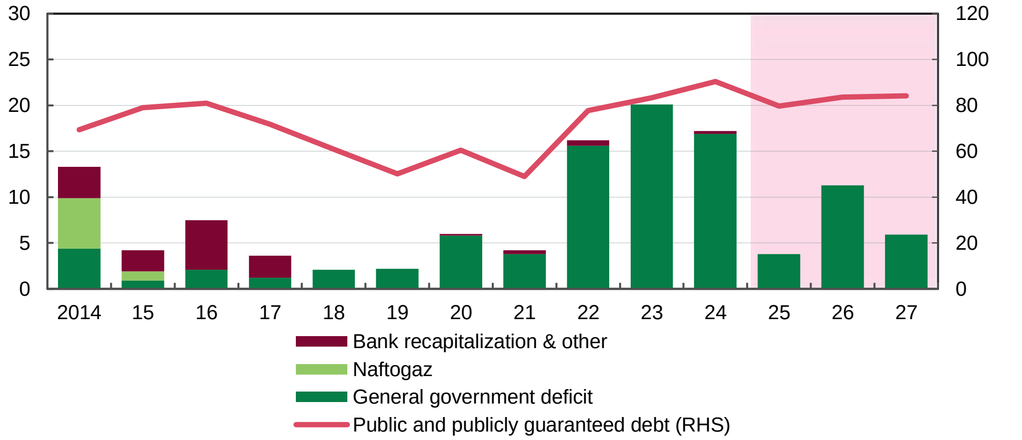
Source: NBU staff estimates.

In Q4, the domestic debt market was marked by high activity. Thus, gross placements of domestic government debt securities were the highest since the beginning of the full-scale invasion, amounting to UAH 249 billion, of which UAH 217 billion were denominated in the hryvnia. The high demand for government securities was fueled by their competitive yields, as well as by additional measures taken by the NBU to increase the banks' flexibility in managing their own liquidity and stimulate demand for benchmark domestic government debt securities. The latter made it possible to accumulate UAH 62 billion in Q4. Since the announcement of the measures to increase the mandatory reserve requirements in October 2024, while simultaneously increasing the share of required reserve ratios that the banks can meet with benchmark domestic government debt securities, the banks have purchased UAH 127 billion worth of these securities. As a result, the rollover on domestic government debt securities in Q4 was

180%, while in 2024 it was 167%. The high capacity of the domestic market has strengthened the government's ability to finance the additional needs of the defense and security sector.

The implementation of the tax initiative package and the boost of economic activity will increase the budget's own resources. Although the risks of not receiving international assistance in full have decreased, its amounts will gradually decline over the forecast horizon (for more details, see *Assumptions and Risks to the Forecast* on page 35). Therefore, the domestic debt market will continue to play a significant role as a rapidly available source of resources to finance both current and unforeseen budgetary needs. This will make it possible to finance the budget deficit without resorting to monetary financing.

Figure 3.12. Broad public sector deficit, public and publicly guaranteed debt, % of GDP



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

Significant budget deficits will continue to drive up public and publicly guaranteed debt in nominal terms. However, the debt-to-GDP ratio will decline slightly and stabilize at 80%-85% over the forecast horizon, thanks to steady economic growth. Funds under the ERA mechanism are not included in the external debt, as they will be provided on a non-repayable basis secured by proceeds from immobilized russian assets. At the same time, loans from international partners on concessional terms and the expected restructuring of the remaining external commercial public debt will help free up resources to meet budgetary needs.

The tightening of interest rate policy, along with the continued sustainability of the FX market, will help curb inflation in 2025 and bring it back to its 5% target further on

The acceleration of inflation seen in H2 2024 exceeded the NBU's previous forecast. Containing underlying inflationary pressures requires tightening monetary conditions, namely raising interest rates, along with measures to safeguard the sustainability of the FX market. Given the high expected inflation rate in the coming months and the negative impact of such developments on inflation expectations, the NBU's updated macroeconomic forecast envisages further tightening of interest rate policy in H1 2025 to contain inflationary pressures.

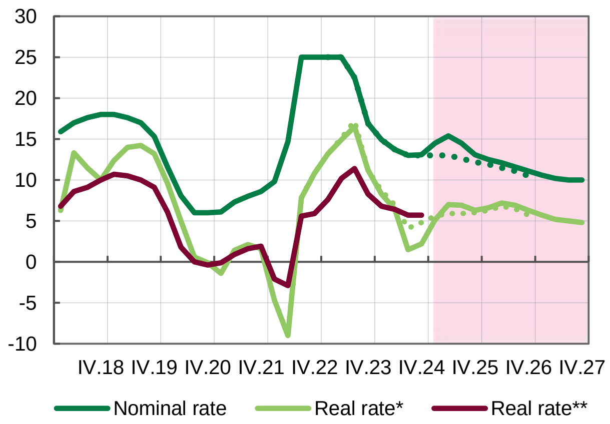
An increase in the real rate will help improve expectations, as well as redistribute households' financial flows from consumption and foreign currency purchases to hryvnia savings, easing pressures on the hryvnia exchange rate and international reserves. The NBU will also maintain active presence in the FX market, compensating for the structural FX deficit in the private sector, and smoothing out excessive exchange rate fluctuations.

A consistent interest rate policy, along with active communications, ensuring the sustainability of the FX market under the regime of managed exchange rate flexibility, and other measures taken by the NBU, will help bring inflation back to 5% target over the policy horizon. If inflationary pressures ease as expected in H2 2025, the NBU will be able to return to a gradual easing of its interest rate policy.

The depreciation of the hryvnia nominal exchange rate in Q3 2024 against the currencies of trading partner countries supported Ukraine's external trade balance and FX market inflows. However, starting in October, a significant strengthening of the US dollar in the global financial markets led to a deep weakening of the currencies of Ukraine's MTPs, especially the euro. This restrained further depreciation of the hryvnia's NEER. A faster acceleration of inflation in Ukraine at the end of the year compared to its trading partners led to a significant appreciation of the hryvnia's REER in Q4. As a result, the REER remained strong relative to its equilibrium level, tightening real monetary conditions.

In 2025–2027, the gradual improvement in the terms of trade and a prudent monetary policy, against the backdrop of still higher inflation in Ukraine compared to its MTPs, are expected to keep the hryvnia's REER relatively strong. As a result, real monetary conditions will remain tight, which will contribute to a steady disinflationary trend over the forecast horizon.

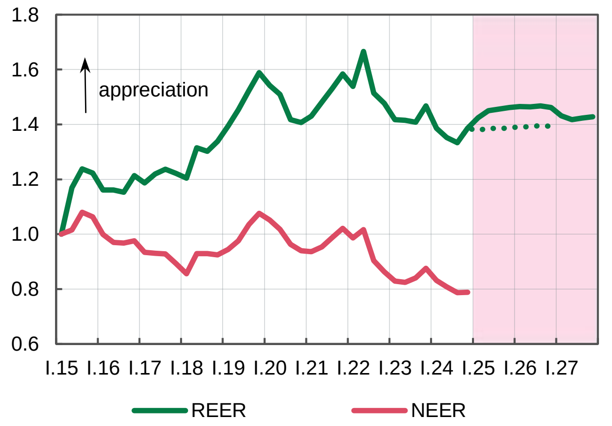
Figure 3.13. Key policy rate, %



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

Source: NBU staff estimates.

Figure 3.14. REER and NEER indices, Q1 2015 = 1



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

Part 4. Assumptions and Risks to the Forecast

- The baseline scenario of the macroeconomic forecast is based on the assumptions that external support will remain significant and that the environment for the functioning of the economy will gradually normalize. Electricity shortages will persist in the coming years, especially during periods of peak load on the power system, but will decrease thanks to the restoration of infrastructure.
- The key risks of the current macroeconomic forecast are related to the course of the war: additional budgetary needs (primarily to maintain defense capabilities), potential tax increases, and damage to energy infrastructure and production facilities, along with deepening negative migration trends and a further increase in labor shortages in the domestic labor market. However, positive scenarios could also materialize, primarily related to increased financial support from partners and the international community's efforts to ensure a just and lasting peace in Ukraine.

The NBU assumes that conditions for the functioning of the economy will gradually normalize over the forecast horizon, but full-scale war remains the key risk to the forecast

The intensity and scale of the war and the related losses of economic potential limit the possibility of a rapid economic recovery, while complicating the task of bringing inflation closer to the target. Thus, the duration and nature of the war pose the main risk to the forecast for the economy returning to normal over the forecast horizon. War risks for Ukraine persist against the backdrop of global geopolitical tensions. At the same time, there is a possibility that the international community's efforts to reach agreements on a just and lasting peace for Ukraine will be realized in the near future.

The NBU expects a significant budget deficit to persist, with its gradual narrowing over the forecast horizon. However, there are high risks that the country will need to increase spending to support its defense capability and reconstruct infrastructure

The significant needs of the defense sector will keep the budget deficit high for the current year (at around 19% of GDP excluding grants in revenues). The macroeconomic forecast takes into account the approved budget for the current year and legislative changes in the field of taxation. The approved measures to mobilize budget revenues and the planned amount of borrowing will ensure that the significant expenditures required by the defense sector and the social obligations of the budget will be met. The restoration of the domestic resource base of budget revenues and lower pressure on budget expenditures, amid the normalization of economic conditions, will make it possible to gradually reduce the budget deficit to 7% of GDP in 2027.

However, the risk of an increase in the budget deficit over the forecast period remains significant due to the high probability that the defense sector's needs will grow, given the limited potential for optimizing expenditures. In addition, this risk will rise in the event of further significant damage to critical infrastructure and the need for its prompt restoration. This will require additional sources of financing to be found, including increased external support. If this risk materializes, the government might also take additional measures to mobilize domestic resources in order to avoid monetary financing of the budget, including increasing domestic debt market borrowing or raising taxes.

The forecast takes into account recent tax changes, but new initiatives are also possible. The impact on inflation will depend on the nature of the tax novelties

Along with the 2025 budget, parliament has adopted a number of legislative changes to increase the rates of certain taxes (including the military tax, corporate income tax on banks and non-bank financial institutions, etc.), the effect of which has been taken into account in the current macroeconomic forecast.

However, additional budget needs may require additional tax innovations, which is a risk to the baseline scenario of the macroeconomic forecast. Depending on their parameters, new tax initiatives may have different impacts on inflation. An increase in consumption taxes (e.g., the VAT rate) will be immediately reflected in consumer prices. In the case of an increase in direct taxes, the effect may be close to neutral or disinflationary, as they restrict private consumption, which offsets the inflationary impact of higher budget spending. Therefore, the NBU's monetary policy response to potential further tax changes will depend heavily on their configuration.

The baseline scenario of the forecast assumes that significant external financial support will continue, most notably in 2025. However, the volume and pace of inflows might vary both more and less favorably

Significant external financial assistance from international partners is expected to continue, with a gradual decline over the forecast horizon as economic conditions normalize.

The baseline scenario of the forecast envisages attracting international financing of USD 38.4 billion, USD 25 billion, and USD 15 billion in 2025, 2026, and 2027, respectively. The bulk of the aid under the Extraordinary Revenue Acceleration (ERA) Loans for Ukraine initiative is expected to be disbursed in 2025. The rest of the funds to be provided under this mechanism will be received in subsequent years. Part of the funds (from the EU and the UK) could be spent directly on defense needs. The advantage of the ERA loan is that it is non-repayable macro-financial assistance, and its repayment will be made exclusively from future proceeds from the immobilized sovereign assets of russia. In accordance with the amendments to the Budget Code, the funds received under this program are considered contingent debt that is not accounted for in the public debt. This will not create an additional debt burden for Ukraine, but rather will help to ensure external sustainability. Given these changes, the ERA loans are classified as grant aid in the balance of payments.

International assistance could be increased or disbursed sooner. Also, Ukraine's losses could be compensated for through using the principal amount of immobilized russian assets. Since the onset of the full-scale invasion, the NBU's macroeconomic forecast assumptions for external financing have been regularly revised upward as the war dragged on and needs increased accordingly.

The risk of not receiving the expected funding in the current year is relatively low, but uncertainty remains high for the following years. The receipt of official funding is linked to the adoption of budgets in partner countries in the coming years, so its regularity and sufficiency might not be fully guaranteed. The materialization of this risk could require taking additional measures to mobilize budget revenues, cut spending, and increase market borrowing. In addition, the risk of resuming monetary financing of the budget would increase, while it will continue to be considered as a last resort measure if proceeds from other sources cannot be used or they are insufficient. Under this scenario, to reduce the pressure on the FX market and inflation, the NBU will respond by raising its key policy rate, increasing the volume of its FX interventions, and changing the parameters of other monetary instruments to curb inflation.

Given the significant destruction of the power system and the significant resources needed to restore it, electricity deficit will persist over the forecast horizon

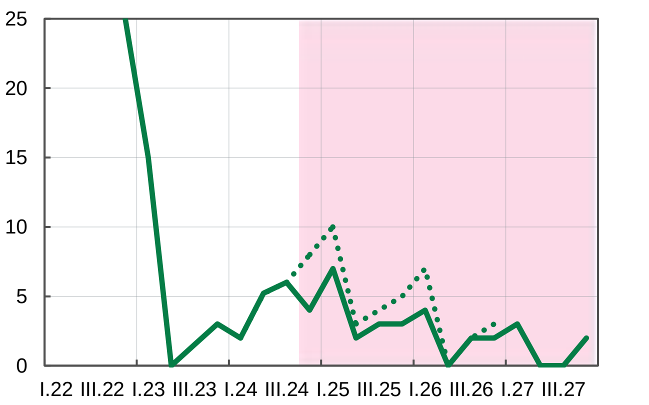
Despite significant losses and constant air attacks, Ukraine's energy system has demonstrated sufficient resilience, in part due to rapid repairs of equipment. In 2024, businesses and households continued to adapt to power outages, and the shortfall was partially covered by electricity imports. Currently, the situation is developing even slightly better than the NBU's previous assumptions, allowing for a revision of the deficit estimates over the forecast horizon.

The shortages are expected to gradually decrease, but will persist in the coming years, as the restoration of the power system requires significant time and funding. The demand for electricity will grow as the economy continues to recover. Electricity production will also increase as a result of further repairs of shunting generation (thermal power plants and hydro power plants) and the development of renewable energy capacities. Stable electricity imports, including as a result of an increase in the maximum possible volume of imports from the EU to 2.1 GW from 1 December 2024, will also contribute to a further decline in power shortages. Annual electricity imports will amount to around USD 700 million in 2025–2027.

Taking into account imports, the electricity deficit is estimated at 4% in 2025 (6% in the October 2024 Inflation Report), 2% (3%) in 2026, and around 1% in 2027. As previously expected, electricity shortages will hold back the recovery of GDP over the forecast horizon. Electricity imports and businesses' efforts to develop and use more expensive autonomous energy supplies will increase production costs. This will remain a factor driving inflation upward, although its impact will decrease.

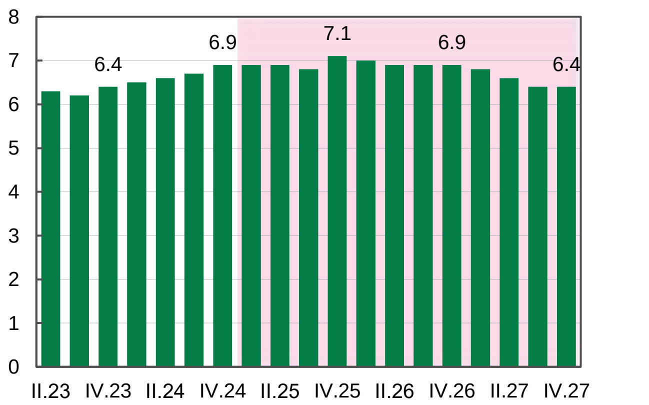
The risks of further destruction and an increase in the shortages remain significant. If they materialize, GDP growth will be lower than under the baseline scenario, while price growth will be higher. An upside risk to the forecast is that completing repairs and/or launching new capacities might be done more quickly than expected, and that the capacity for importing electricity to Ukraine might be increased further, resulting in a smaller electricity deficit.

Figure 4.1. Electricity deficit, %



Source: NBU staff estimates.

Figure 4.2. Number of migrants staying abroad, million persons (end of quarter)



Source: UNHCR, NBU staff estimates.

If the hostilities escalate, there is a risk that adverse migration trends will deepen and labor shortages will increase. At the same time, the rapid achievement of a just and lasting peace for Ukraine will encourage the return of Ukrainians from abroad

High security risks, constant air attacks and destruction, and persistent electricity shortages are affecting the quality of life of Ukrainians, leading to further migration from the country. In 2024, the outflow of migrants from Ukraine continued and totaled about 0.5 million people over the year, which was in line with the NBU's estimates. This gives reason not to change the assumptions about further migration dynamics. In 2025, the net outflow of external migrants is expected to continue (around 0.2 million people), while the net return of migrants to Ukraine will begin in 2026 (around 0.2 million people) and will accelerate in 2027 (to around 0.5 million people).

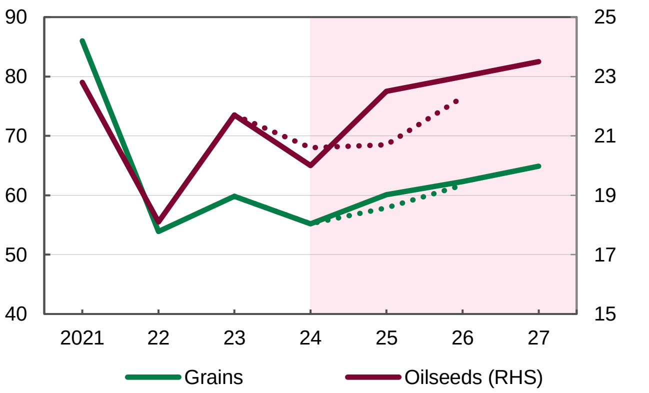
There is a decrease in the share of those willing to return due to the further adaptation of Ukrainians to life abroad. Therefore, a massive and rapid return of migrants under the status quo seems unlikely. As a result, the labor shortage will persist over the forecast period. This will lead to continued mismatches in the labor market and wage growth that is faster than productivity growth in certain sectors, which will increase inflationary pressures. The slow return of migrants will also limit the recovery in domestic demand.

The risks of a larger outflow of migrants abroad and a smaller return remain present. If they materialize, the condition of the labor market would deteriorate, and domestic consumer demand might decline. At the same time, changes in the policies of recipient countries toward Ukrainian migrants and the Ukrainian government's proactive policy of returning migrants home could revive migration inflows. Inflows of migrants would also be spurred by a rapid decline in security risks in Ukraine. In this case, labor shortages would decrease, and consumer demand would recover more quickly. At the same time, the risks of an increase in unemployment in the short term might also rise.

Harvest volumes will gradually increase due to the normalization of weather conditions, an increase in sown areas, and the growth of agricultural productivity

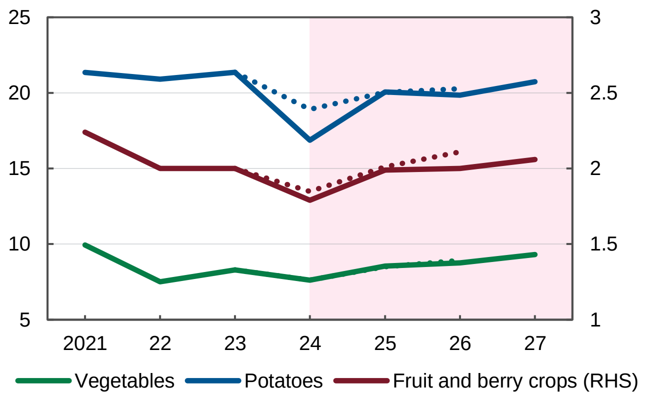
After the record heat wave of 2024, which affected the yields of a number of crops and the productivity of animal farming, weather conditions are expected to normalize in the coming years. Given the trends towards further growth in agricultural productivity and a gradual increase in sown areas thanks to demining, the harvest of major crops is expected to increase. In addition, it is assumed that in 2025 sown areas will be redistributed in favor of winter grains, so the estimates for the grain and leguminous crop harvests have been raised (from 57.9 to 60.1 million tons). Grain harvests will also increase in the following years (to 62.3 million tons in 2026 and 64.9 million tons in 2027).

Figure 4.3. Harvest of grains and oilseeds, million tons



Source: SSSU, NBU staff estimates.

Figure 4.4. Harvest of fruits and vegetables, million tons



Source: SSSU, NBU staff estimates.

Harvest volumes of oilseeds will also increase (the estimate has been raised from 20.7 million tons to 22.5 million tons in 2025 and from 22.3 million tons to 23.0 million tons in 2026; in 2027, the harvest is expected to reach about 23.5 million tons), primarily due to their significantly higher margins compared to grain crops and strong demand from the food industry. The normalization of weather conditions will have a positive impact on the harvests of potatoes, vegetables, and fruit and berry crops, while estimates of the sugar beet harvest have been upgraded due to the sustainable development of the sugar industry. Animal farming is also expected to recover gradually in 2025–2027, but its recovery will be constrained by the effects of the war and the occupation of territories.

At the same time, the risks of significant weather fluctuations and their stronger impact on agriculture are rising considerably in the context of global climate change. Increased volatility in harvest volumes and animal farming will have a corresponding impact on inflation. At the same time, the expansion of sown areas and additional investments – in particular in irrigation, increased productivity in crop and animal farming, as well as in autonomous energy supplies – will strengthen the sustainability of production, reduce dependence on changes in weather conditions, and help increase yields and revive the animal farming sector. This will contribute to faster GDP growth and export revenues. A steady supply of food will limit inflationary spikes associated with poor crop harvests in the future.

It is assumed excise taxes and utility tariffs will be raised gradually, but the timing and parameters of their adjustment are subject to uncertainty and thus pose a risk to the inflation forecast

The forecast is based on the assumption that certain tariffs for utility services (natural gas, heating, and hot water supplies) will remain unchanged through 2025. However, the difficult situation in the energy sector and the state budget may lead to tariff adjustments in subsequent years. It is assumed that a gradual alignment of tariffs with economically justified levels may begin in 2026.

Uncertainty over the timing and scale of energy tariffs adjustments is a separate risk to the inflation forecast. A large hike in energy prices to quickly address imbalances in the energy sector would push up inflationary pressures and create a need for an increase in household subsidies. On the other hand, a longer delay in bringing utility tariffs into line with economically justified levels would lead to lower inflation, but cause a buildup of quasi-fiscal imbalances and worsen the financial standing of state-owned energy companies. This would create additional risks for the investment potential of the industry and raise the risks of instability in the energy market, while price pressures would only be postponed to the future.

Large-scale reconstruction projects, increased financial support from partners, and further acceleration of European integration processes could significantly boost economic growth, but the baseline forecast is based on moderately conservative estimates of external aid and investment

As the security situation improves, the need to attract investment for large-scale projects to rebuild destroyed infrastructure will increase. Such funds could be attracted if international lenders and donors mobilize respective resources. In addition, a source of investment for such projects could be the provision of the principal amount of immobilized russian assets to compensate for Ukraine's losses, if Western partners make the appropriate decisions. Such decisions are not included in the baseline scenario, but are considered an upside risk for the forecast in the medium term. Together with European integration reforms and the corresponding growth in productivity and investment, this will contribute to a significant acceleration of economic recovery. At the same time, underlying inflationary pressures will increase due to pressure from aggregate demand. However, they may be partially offset by exchange rate effects due to the inflow of foreign currency into the country.

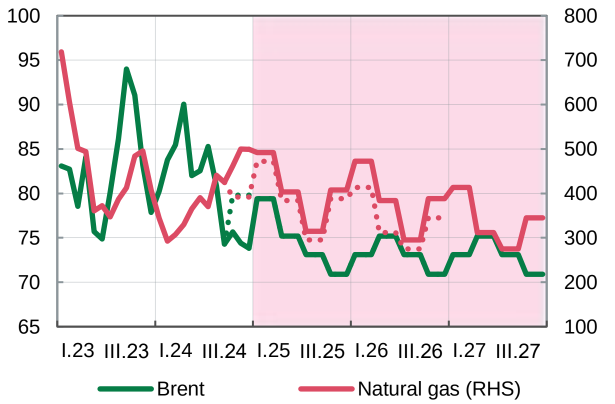
Terms of trade will improve for Ukraine, although there are growing risks of less favorable foreign economic trends than currently expected amid increasing geopolitical polarization and, consequently, global trade fragmentation

Global energy prices will remain volatile. Crude oil prices will fluctuate between 70–80 USD/bbl. The large-scale sanctions imposed by the United States in early 2025 against russian oil giants and 183 tankers transporting russian and Iranian oil will limit the supply of this oil, primarily to the Asian market, and increase freight costs. This will put upward pressure on oil prices. However, supply will increase both by OPEC countries (from April 2025 to October 2026) and by non-OPEC countries, including China and the United States, amid the declared state of emergency in the energy sector and large-scale measures to step up production. As a result, global supply will be sufficient to sustainably meet global demand. At the same time, global demand growth will be driven by the expected revival of economic activity in Europe, steady growth in the United States, and oil consumption peaking in China by 2027.

Natural gas prices on the European market will slowly decline despite the expected growth in demand from industrial producers, primarily due to increased LNG supplies. The latter is due to the fact that global LNG production capacity is increasing markedly, and its role is becoming more prominent in Europe due to the development of LNG infrastructure. Unfortunately, russia remained the second largest supplier of LNG to the EU after the United States (russian LNG supplies to the EU in 2024 increased by more than 23%). It is expected that the increase in LNG supplies, in particular by the United States and Qatar, against the backdrop of balanced stockpiling and growth in renewable energy production, will be enough to meet the rise in demand amid the competition with the Asian market. Demand growth in China, particularly in 2025 (by 6.6%), will be covered, among other things, by increased natural gas supplies from russia (the Power of Siberia pipeline alone currently supplies 7% of China's demand in winter), which will partially reduce competition in the LNG market.

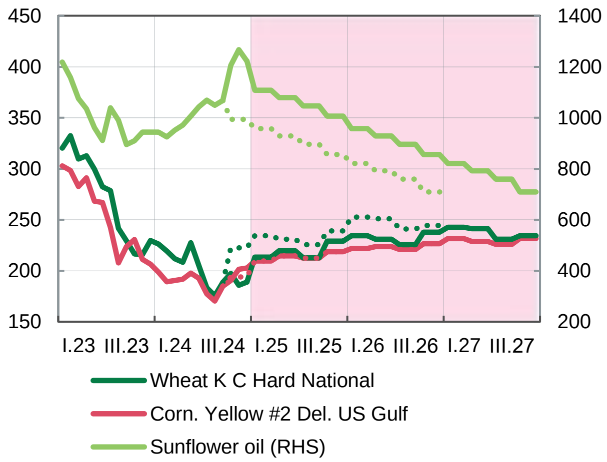
Expectations of a more expansive policy in the United States as regards offshore drilling and hydraulic fracturing are raising uncertainty in energy markets, increasing price volatility. An additional factor may be the imposition of new sanctions on the oil sectors of russia and Iran by the United States.

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



Source: World Bank, LSEG, NBU staff estimates.

Figure 4.6. **World prices for selected grains and sunflower oil, USD/MT**



Source: World Bank, IMF, NBU staff estimates.

Global grain prices will gradually rise. The forecast of the global wheat market for MY 2024/2025 assumes production volumes will be almost unchanged compared to last year and there will be high consumption volumes, which will additionally be satisfied by using stocks. Thus, exports are expected to decline from the EU (due to lower harvests) and from russia (due to the introduction of an export quota and a relatively smaller harvest). As a result, the global ending stocks will be the lowest since MY 2015/2016 , which will put upward pressure on prices. Global corn production will decline in MY 2024/2025: expected increases in harvests in Argentina and Brazil will be offset by lower harvests in the EU and Mexico. At the same time, global consumption will remain high, in particular due to increased ethanol production in the United States and Brazil. Only an increase in domestic production by China, one of the world's largest importers, will help partially meet demand. As a result, ending stocks both in the United States and globally will decline, which will lead to higher corn prices. An additional factor behind these dynamics will be the ban on corn exports by russia until the end of the current marketing year. In the following years, despite the expected increase in harvests, wheat and corn prices will trend upward due to low stocks and, accordingly, additional demand.

Global prices for sunflower oil will slowly decline, but will remain rather high. Limited supply of sunflower in Ukraine and the EU in MY 2024/2025 will keep the prices high on the back of strong demand. The only downward pressure on prices will be an ample supply of related oilseeds, primarily soybeans, due to record-high harvests in Latin America, and high processing volumes in the United States. On the other hand, global vegetable oil ending stocks will decline by 7% yoy, which will keep sunflower oil prices relatively high despite the expected increase in palm and soybean oil production in the coming years.

Global steel prices will move in a sideways trend despite the slow decline in iron ore prices. Plans announced by the world's leading ore producers Rio Tinto (Australia) to increase production by more than 1.5% annually over the next three years and Vale (Brazil) by about 3% to 5% annually over the next two years, as well as further production growth in China and India, will lead to a decrease in iron ore prices. On the other hand, the global economic recovery, which will spur demand for steel, amid emission control policies, as well as a reduction in Chinese production and an intensification of the tariff confrontation between the United States and third countries, will keep steel prices from declining.

These forecasts are based on a scenario that assumes the United States imposing selective additional import tariffs on third countries, primarily as a negotiating tool. However, a significant risk to the growth in external demand is the likelihood that the United States and other countries will impose wider import tariffs. Under such conditions, global trade could decline markedly, supply chains could be disrupted, and investment sentiment could deteriorate. The impact of such changes would be especially pronounced for the economy of China, where export sectors would experience serious disruptions, with potential effects on global supply chains. However, the consequences of a trade war will also spread to the economies of other countries, including the euro area, which is deeply integrated into the global trading system. Sectors such as the automotive and high-tech industries, where Germany plays a major role, might face a sharp decline in export demand. Export-dependent EM countries, especially those specializing in raw materials and manufacturing, would also face the same risks. On the other hand, the U.S. economy would also face rising costs, which will lead to increased inflationary pressures. All of this would ultimately increase the geopolitical polarization of countries and, consequently, global trade fragmentation, which would limit external demand for Ukrainian products.

Global financial conditions are expected to ease on the back of slowing inflation, but the risks of a reverse trend are also rather high

The Fed, after the third cut in a row, signaled caution about the pace of further steps amid persistent inflation and continued economic growth. The estimate of the long-term neutral rate was significantly raised (to 3%, which is a six-year high). The Fed is expected to cut the rate only twice by 25 bp each time in 2025, which is a more restrained response than previously anticipated. Concerns about inflationary pressures caused by rising input costs due to tariffs and contracting labor markets due to immigration restrictions are likely to limit the Fed's ability to cut rates further.

The ECB's concerns about higher inflation have almost vanished, despite the U.S. dollar's further strengthening, and the focus has shifted to still-slow economic growth. However, the ECB has no reason to cut interest rates below the neutral level, as current forecasts do not foresee a recession.

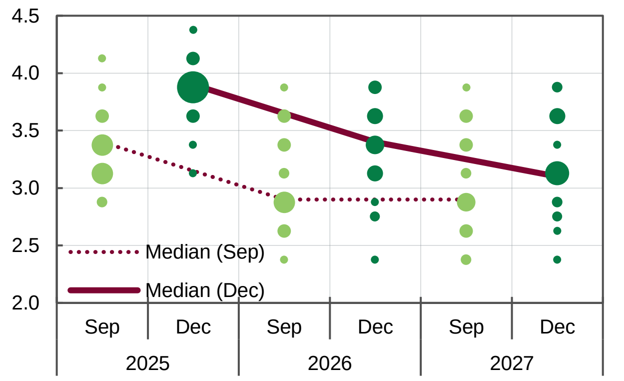
Financial markets expect the Fed to cut its rate by a total of 25 bp by December 2025, and the ECB to cut its rates by 100 bp by October 2025 (the probability of a deeper cut is about 47% and 56%, respectively).

At the same time, the dynamics of the CFR's Global Monetary Policy Tracker show that EM CBs are slowing down their rate cuts and taking a wait-and-see attitude in view of the growing inflationary risks. Such a cautious approach is explained, among other things, by the strengthening of the U.S. dollar, which has restrained the inflow of non-resident funds into EM local currency bonds. In 2025, capital flows from non-residents to EMs will decline somewhat due to increased trade and geopolitical uncertainty, a slowdown in China's economy, and a more moderate-than-expected pace of rate cuts by the Fed. However, local-currency bond markets will remain attractive due to supply chain diversification and investor demand for high-yield assets.

The Fed cutting the interest rates to a long-term neutral level would prompt a resumption of the U.S. dollar's weakening trend. Thus, local-currency bonds in EM markets will also revive, offering attractive yields to global investors. This will help attract foreign capital and, consequently, foster economic growth in EM countries, including Ukraine.

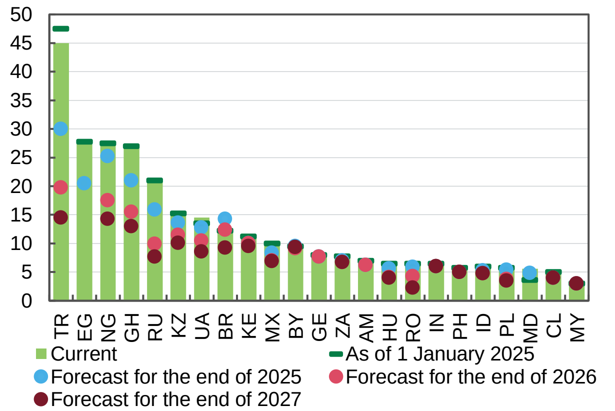
At the same time, there remains a significant risk that fiscal expansion by the new U.S. administration will combine with a likely rise in inflation due to higher import tariffs. This could lead to a suspension or even a reversal of the Fed's policy easing cycle in 2025. As a result, U.S. interest rates would increase and the U.S. dollar would strengthen, lowering the relative attractiveness of EM assets and reducing capital inflows. In addition, a stronger U.S. dollar would push up the cost of servicing dollar-denominated debt for EMs, making these economies more vulnerable to external shocks. Uncertainty about the timing of fiscal stimuli and tariff policy will increase volatility in financial markets and reduce the global appetite for risk.

Figure 4.7. Projected appropriate policy path at the end of the year according to the expectations of the FOMC members, based on the results of the meetings



* The size of the circle is determined by the number of participants supporting the respective rate level.
Source: Fed.

Figure 4.8. Key policy rates in selected EM countries, %



Source: official web pages of central banks, Focus Economics, Oxford Economics, as of 28 January 2025.

The balance of risks in the baseline forecast is shifted toward an increase in price pressures in the short term

Table 4.1.1. Probability that a risk will materialize

Degree of impact on the baseline scenario	Low <15%	Medium 15%–25%	High 25%–50%
Weak			
Moderate	Quick restoration of damaged infrastructure Acceleration of European integration processes	Increased negative migration trends Raising taxes	Increased geopolitical polarization and, consequently, global trade fragmentation
Strong	Rapid implementation of the large-scale reconstruction plan for Ukraine A faster end to active hostilities	Less regular international aid Strengthening of financial support from partners	Escalation of hostilities, further destruction of production facilities Larger electricity deficit due to further damage to the energy infrastructure Additional budget needs

Source: NBU staff estimates.

Macroeconomic forecast (January 2025)

Indicators	2022	2023	2024		2025						2026						2027				
			actual/ estimate	forecast 10.2024	I	II	III	IV	current forecast	forecast 10.2024	I	II	III	IV	current forecast	forecast 10.2024	I	II	III	IV	current forecast
REAL ECONOMY, % yoy, unless otherwise stated																					
Nominal GDP, UAH bn	**5239**	**6628**	**7720**	7630	1839	1961	2359	2681	**8840**	8720	2073	2181	2602	2943	**9800**	9715	2276	2399	2866	3249	**10790**
Real GDP	**-28.8**	**5.5**	**3.4**	4.0	2.0	3.0	4.2	4.7	**3.6**	4.3	4.6	4.3	3.8	3.5	**4.0**	4.6	3.6	3.9	4.4	4.7	**4.2**
GDP Deflator	34.9	19.9	12.6	12.2	12.0	11.5	10.0	9.3	10.5	9.6	7.8	6.6	6.2	6.1	6.6	6.5	6.0	5.8	5.6	5.4	5.7
Consumer prices (period average)	20.2	12.9	6.5	6.1	-	-	-	-	12.4	9.5	-	-	-	-	6.2	5.7	-	-	-	-	5.0
Consumer prices (end of period)	**26.6**	**5.1**	**12.0**	9.7	14.3	13.6	12.0	8.4	**8.4**	6.9	7.2	5.6	5.4	5.0	**5.0**	5.0	4.9	4.9	5.0	5.0	**5.0**
Core inflation (end of period)	22.6	4.9	10.7	9.1	12.0	12.2	10.4	7.8	7.8	5.7	6.0	4.4	3.6	3.1	3.1	3.1	2.9	2.9	3.0	3.2	3.2
Non-core inflation (end of period)	30.6	5.7	13.8	10.4	17.2	15.4	14.0	9.2	9.2	8.2	8.5	7.0	7.4	7.3	7.3	7.3	7.3	7.1	7.2	7.1	7.1
raw foods (end of period)	41.6	2.2	13.2	6.7	16.7	18.1	15.4	6.8	6.8	5.9	7.8	5.5	4.2	3.0	3.0	2.8	3.2	3.7	3.6	3.1	3.1
administrative prices (end of period)	15.3	10.7	16.3	14.0	17.7	13.3	12.9	10.5	10.5	10.0	9.7	9.2	11.1	12.2	12.2	12.3	12.1	11.1	11.0	11.0	11.0
Nominal wages (period average)	6.0	17.4	22.0	21.0	22.8	18.8	14.3	12.1	16.7	16.0	11.5	11.4	10.0	9.5	10.6	8.9	8.2	7.7	8.3	8.2	8.1
Real wages (period average)	-11.4	3.7	14.4	14.0	8.2	3.7	1.3	2.6	3.8	6.5	3.6	5.0	4.2	4.0	4.2	2.9	3.1	2.6	3.1	3.0	3.0
Unemployment rate (ILO, period average)	21.1	18.2	13.1	14.2	-	-	-	-	10.8	11.6	-	-	-	-	10.5	10.6	-	-	-	-	11.0
FISCAL SECTOR																					
Consolidated budget balance, UAH bn*	**-845**	**-1332**	**-1351**	-1347	-	-	-	-	**-332**	-1640	-	-	-	-	**-1104**	-1182	-	-	-	-	**-641**
% of GDP*	-16.1	-20.1	-17.5	-17.7	-	-	-	-	-3.8	-18.8	-	-	-	-	-11.3	-12.2	-	-	-	-	-5.9
excluding grants from revenues, % of GDP	-25.3	-26.6	-23.7	-23.3	-	-	-	-	-19.3	-19.6	-	-	-	-	-11.9	-12.4	-	-	-	-	-7.0
BALANCE OF PAYMENTS (analytical presentation)																					
Current account balance, USD bn	8.0	-9.6	-14.6	-16.3	-1.9	0.3	-0.8	5.1	2.6	-27.9	-6.7	-7.0	-7.7	-6.9	-28.3	-28.4	-7.4	-6.4	-7.7	-6.3	-27.9
Exports of goods and services, USD bn	57.5	51.3	56.1	57.2	14.0	13.0	13.9	17.2	58.1	57.7	15.3	14.7	16.0	17.5	63.5	63.6	15.9	15.7	16.5	18.9	67.0
Imports of goods and services, USD bn	83.3	89.2	91.8	92.1	23.7	23.1	24.7	25.4	96.9	95.6	24.0	23.9	25.5	25.9	99.3	97.3	24.6	24.3	26.1	27.1	102.2
Remittances in Ukraine, USD bn	12.5	11.3	9.6	9.9	2.5	2.4	2.5	2.7	10.1	11.1	2.7	2.8	2.9	3.0	11.4	12.4	2.9	2.9	3.0	3.1	12.0
Financial account, USD bn	11.1	-18.9	-14.3	-15.2	2.6	1.6	1.1	1.1	6.4	-24.9	-7.0	-8.4	-6.0	-5.0	-26.3	-22.2	-6.5	-7.8	-7.1	-8.4	-29.7
BOP overall balance, USD bn	**-2.9**	**9.5**	**0.0**	-0.8	-4.5	-1.3	-1.9	3.9	**-3.8**	-2.9	0.2	1.4	-1.7	-1.9	**-2.0**	-6.2	-0.9	1.3	-0.6	2.0	**1.9**
Gross reserves, USD bn	**28.5**	**40.5**	**43.8**	43.6	39.3	38.3	36.5	40.5	**40.5**	41.0	41.2	42.1	40.9	38.5	**38.5**	34.7	38.3	39.4	38.4	40.2	**40.2**
Months of future imports	3.8	5.3	5.4	5.5	4.9	4.7	4.4	4.9	4.9	5.1	4.9	5.0	4.9	4.5	4.5	4.1	4.4	4.5	4.4	4.5	4.5
MONETARY ACCOUNTS (cumulative since the beginning of the year)																					
Monetary base, %	**19.6**	**23.3**	**7.7**	13.3	2.9	4.9	7.4	11.9	**11.9**	13.1	2.0	4.8	6.8	13.4	**13.4**	11.4	0.4	3.6	5.9	10.5	**10.5**
Broad money, %	**20.8**	**23.0**	**13.4**	13.3	0.7	3.5	4.9	10.3	**10.3**	11.2	1.1	3.5	5.5	9.6	**9.6**	9.7	2.1	5.3	6.3	9.1	**9.1**
Velocity of broad money (end of year)	**2.1**	**2.2**	**2.2**	2.2	-	-	-	-	**2.3**	2.2	-	-	-	-	**2.3**	2.3	-	-	-	-	**2.3**

Comments on the dynamics of the main indicators in the macro forecast and factors behind their revision

Indicators	2024	2025	2026	2027	Factors behind the revision
Inflation, %, eop	**12.0**	**8.4**	**5.0**	**5.0**	Rising food prices driven by adverse weather conditions, the pass-through of higher production costs, including those resulting from labor market mismatches
	2.3	1.5	0.0		
Real GDP growth, %	**3.4**	**3.6**	**4.0**	**4.2**	Revised potential GDP due to further losses in production factors and the ongoing impact of shelling
	-0.6	-0.7	-0.6		
Nominal GDP, UAH bn	**7720**	**8840**	**9800**	**10790**	Revised data for 2023, higher GDP deflator but lower real growth
	90	120	85		
Consolidated budget balance (excluding grants and ERA financing from revenues), % of GDP	**-23.7**	**-19.3**	**-11.9**	**-7.0**	Higher budget expenditures financed by increased foreign aid at the end of 2024, higher nominal GDP
	-0.4	0.3	0.5		
Current account balance, USD bn	**-14.6**	**2.6**	**-28.3**	**-27.9**	Financing under the ERA program expected mostly in 2025 reclassified as grants
	1.7	30.5	0.1		
Gross international reserves, USD bn	**43.8**	**40.5**	**38.5**	**40.2**	Higher inflows of debt capital into the private sector in 2026
	0.2	-0.5	3.8		
Key policy rate (period average), %	**13.7**	**14.4**	**11.8**	**10.2**	Higher inflationary pressures
	0.1	1.7	0.6		

The indicator has been revised downwards (pp)

The indicator has been revised upwards (pp)

Forecast assumptions

Indicators		2022*	2023*	2024	2025	2026	2027
Official financing	USD bn	32.2	42.9	41.9	38.4	25.0	15.0
Migration (net, excluding russia and belarus)	m		-0.2	-0.5	-0.2	0.2	0.5
Real GDP of Ukraine's MTP (UAwGDP)	% yoy	3.6	1.5	1.9	2.5	2.6	2.7
Consumer inflation in Ukraine's MTP (UAwCPI)	% yoy	13.8	7.6	5.1	3.4	2.7	2.5
World prices:**							
Steel price, Steel Billet Exp FOB Ukraine	USD/t	618.1	539.7	504.1	490.0	501.5	508.0
	% yoy	0.5	-12.7	-6.6	-2.8	2.3	1.3
Iron ore price, China import Iron Ore Fines 62% FE	USD/t	121.4	120.6	109.4	92.6	81.2	76.2
	% yoy	-24.9	-0.7	-9.3	-15.3	-12.3	-6.2
Steel price, No.1 Hard Red Winter, ordinary protein, Kansas City	USD/t	360.2	272.3	201.5	218.7	232.2	237.3
	% yoy	35.5	-24.4	-26.0	8.5	6.2	2.2
Corn price, Yellow #2 Delivery USA Gulf	USD/t	318.4	252.7	190.6	213.8	223.3	229.5
	% yoy	22.7	-20.6	-24.6	12.2	4.4	2.8
Oil price, Brent	USD/bbl	99.8	82.6	80.7	74.7	73.1	73.1
	% yoy	41.8	-17.2	-2.3	-7.4	-2.1	0.0
Natural gas price, Netherlands TTF	USD/kcm	1355.9	465.6	393.9	404.7	384.7	336.5
	% yoy	135.9	-65.7	-15.4	2.7	-4.9	-12.5
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	55.2	60.1	62.3	64.9
Minimum wage**	UAH	6550	6700	7775	8000	8370	8950

** Actual data*

*** Annual average.*

Terms and Abbreviations

CB	Central bank
CPI	Consumer Price Index
CEE	Central and Eastern Europe
ECB	European Central Bank
EM	Emerging market
EU	European Union
Fed	U.S. Federal Reserve System
GDP	Gross domestic product
GW	Gigawatt
HPP	Hydropower plant
IER	Institute for Economic Research
ILO	International Labour Organization
IMF	International Monetary Fund
IT	Information technologies
MFU	Ministry of Finance of Ukraine
Ministry of Agriculture	Ministry of Agrarian Policy and Food of Ukraine
MPC	Monetary Policy Committee
MTP	Main trading partner
MY	Marketing year
NEER	Nominal effective exchange rate
NFC	Non-financial corporation
NBU	National Bank of Ukraine
OPEC	Organization of the Petroleum Exporting Countries
PFU	Pension Fund of Ukraine
PMI	Purchasing Managers' Index
REER	Real effective exchange rate
russia	russian federation
SCSU	State Customs Service of Ukraine
SESU	State Employment Service of Ukraine
SSSU	State Statistics Service of Ukraine
STSU	State Treasury Service of Ukraine
T-bills&bonds	Domestic government debt securities
UAwCPI	Weighted average of the CPI in Ukraine's MTP countries
UAwGDP	Weighted average of economic growth in Ukraine's MTP countries
UIIR	Ukrainian Index of Interbank Rates
VAT	Value-added tax

bbl	barrel
bn	billion
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