COUNCIL OF THE NATIONAL BANK OF UKRAINE

MONETARY POLICY GUIDELINES FOR THE MEDIUM TERM

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Contents

Summary

The Monetary Policy Guidelines for the medium term (hereinafter referred to as the “Guidelines”) define the goals, tasks, and principles of monetary policy and the specifics of the utilization of monetary instruments designed to fulfil the primary objective and legally defined goals of the National Bank of Ukraine (hereinafter referred to as the “NBU”) considering their priority for the duration of conditions of full-scale war and a certain period of post-war recovery.

Under Article 99 of the Constitution of Ukraine, the NBU’s primary objective is to ensure the stability of the Ukrainian currency. According to Article 6 of the Law of Ukraine *On the National Bank of Ukraine*, the NBU, in fulfilling its primary objective, prioritizes achieving and maintaining price stability in the country. The NBU’s secondary goal is to promote financial stability, including the stability of the banking system, provided that this does not hinder the achievement and maintenance of price stability. The third goal is to facilitate sustainable economic growth and to support the economic policies of the Cabinet of Ministers of Ukraine (hereinafter referred to as the “Government”), as long as this does not conflict with the first two goals.

Under Article 1 of the Law of Ukraine *On the National Bank of Ukraine*, price stability is defined as safeguarding the purchasing power of the domestic currency by maintaining low and stable rates of inflation, as measured by the Consumer Price Index (hereinafter referred to as the “CPI”), over the medium term (three to five years).

To maintain price stability, the NBU will apply a flexible inflation targeting regime, which will remain in place until the economy normalizes, allowing the NBU to resume full-fledged inflation targeting with a floating exchange rate.

Under this regime, monetary policy will be aimed at bringing inflation, measured by year-over-year CPI, to a target of 5% within the relevant policy horizon (up to three years).

Inflation may during certain periods deviate from said target when influenced by domestic and external factors beyond the effective reach of the NBU’s monetary policy. The relevant policy horizon, i.e. the period of time during which the NBU intends to return inflation to the target of 5%, will be determined flexibly, taking into account the need to retain a balance between facilitating the adaptation of the Ukrainian economy to shocks and maintaining its recovery on the one hand, and retaining control over inflation expectations on the other. However, this horizon will be no longer than three years. This format distinguishes the current monetary policy regime from full-fledged inflation targeting, as before the full-scale invasion the NBU defined the policy horizon to bring inflation to its target to be between nine and 18 months.

The NBU will achieve its legally defined goals by applying a consistent combination of tools with which to implement its interest rate and exchange rate policies, as well as FX restrictions. To fulfil relevant monetary policy tasks, the NBU can use other instruments, such as reserve requirements and open market operations, along with other safeguards stipulated in Ukrainian laws.

The NBU will make further efforts to strengthen the effectiveness of its key policy rate as the main instrument of monetary policy. To this end, the NBU will continue to reinforce the effectiveness of the channels of the monetary policy transmission mechanism, in particular through reducing economic uncertainty, maintaining confidence in hryvnia instruments, calibrating the parameters of the operational framework of interest rate policy, and optimizing the structural liquidity of the banking system.

To mitigate risks to the sustainability of the FX market and the manageability of inflation expectations, the NBU will also strive to maintain sufficiently high real interest rates on hryvnia term instruments, thereby protecting household hryvnia savings from inflation depreciation.

While transitioning back to a floating exchange rate, the NBU will adhere to the principles of managed flexibility of the exchange rate.

The NBU will continue to work towards the important monetary policy task of ensuring a sustainable and manageable stance of the FX market, in order to facilitate exchange rate developments that support the role of the exchange rate as a shock absorber, and that will be conducive to maintaining inflation expectations.

Recognizing the need to minimize FX market distortions, improve business conditions in Ukraine, facilitate the entry of domestic businesses into new markets, support the economy’s recovery, and promote investment inflows into the country as appropriate macroeconomic preconditions are met, the NBU plans to proceed with a gradual easing of FX restrictions – subject to maintaining price stability and the sustainability and manageability of the FX market stance, maintaining an adequate level of reserves, and taking into account national security interests.

Guided by Ukraine’s European integration aspirations, the NBU, along with other authorities, will make every effort to meet the criteria for joining the European Union (hereinafter referred to as the “EU”) in the area of monetary policy, in particular through ensuring the central bank’s independence, and avoiding direct financing of the public sector by the NBU or the privileged access of the public sector to financial institutions.

As ensuring sustainable economic development in Ukraine is impossible without progress being made on reforms, the NBU will make every effort, jointly with the Government, to continue to pursue the goals, criteria, and measures for reforming the economy and the financial system, including by cooperating with the International Monetary Fund (IMF), other international financial institutions, and EU institutions.

These Guidelines were developed in accordance with the Constitution of Ukraine, the Law of Ukraine *On the National Bank of Ukraine*, Presidential Decree No. 64/2022 *On Introducing Martial Law in Ukraine*, dated 24 February 2022, as approved by Law of Ukraine No. 2102–IX *On Approval of the Presidential Decree On Introducing Martial Law in Ukraine*, dated 24 February 2022, and the Law of Ukraine *On Currency and Currency Operations*.

1. Macroeconomic Environment and Risks

1.1. External Developments

The global economy is gradually recovering from the effects of the pandemic and the fallout from russia's full-scale war against Ukraine, which led to an unprecedented rise in the cost of living and tight financial conditions in 2022-2023, among other things. Slowing inflation will support consumer demand in many countries, as will near-record rates of employment. The drawdown of excessive stocks accumulated in previous periods and the stable operation of global supply chains has contributed to a pick-up in industrial production after a rather long period of stagnation. However, world trade, despite moving towards normalization, remains weak as geopolitical tensions and protectionist measures grow in strength. On the other hand, the service sector is growing at a steady pace, restraining a further decline in inflationary pressures. This prevents the central banks of developed countries from easing monetary policy sharply. Meanwhile, central banks in emerging markets continue to actively cut interest rates. Space for this was accumulated in previous years, when regulators responded more aggressively to accelerations in inflation.

Growth in Ukraine's main trading partners is expected to pick up going forward, given the increase in real incomes, an anticipated loosening of financial conditions, and the recovery of global trade. Private consumption will continue to be the main driver of growth in both the developed and the emerging markets. Investment will be supported by certain fiscal measures in Europe and China. Because of higher trade fragmentation, however, the increase in world trade will remain below its historical trend, restraining growth in certain countries to some extent.

Inflation's retreat from its peaks of 2022-2023 continues. The broadscale disinflationary momentum, driven by increased supply and the removal of supply chain disruptions, has already fed into commodity prices. In contrast, services inflation is holding steady, underpinned primarily by upward pressure on wages amid tight labor markets and declining labor productivity. Pressure from tight labor markets is expected to ease off gradually. In addition, wage growth will be restrained by firmly anchored medium- and long-term inflation expectations in advanced economies. As a result, inflation is expected to return to central bank targets in 2025, and remain close to these targets thereafter thanks to more moderate labor costs and the waning of adverse effects from the energy shocks of previous periods and from supply chain bottlenecks.

Inflation's persistence will make it necessary to maintain tight financial conditions for a longer period. Expected real interest rates, inflation, and the term premium continue to point to potentially higher long-term yields in developed countries compared to their historical levels, despite projected rate cuts by the Fed and the ECB. As a result, global financial conditions will remain tight in real terms until at least mid-2025. Given the relative persistence of inflationary pressures, as well as the work already done, the central banks of emerging markets are expected to cut interest rates more moderately this year and take a wait-and-see approach next year.

In subsequent years, oil will become somewhat cheaper thanks in part to a glut generated by an increase in production by OPEC+ countries. The European market's natural gas prices, despite continuing to be highly volatile, will slowly decline over the forecast horizon. This will be due to: the growth in LNG production globally, primarily in the United States, Qatar, and Australia; a rise in russian supplies of natural gas to Asian countries; increased renewable power generation; and a balanced accumulation of stocks. Oversaturation of the steel and iron ore markets due to increased competition will also lead to lower prices for these goods. At the same time, grain prices will hover around current levels, facing upward pressure as key exporters draw down reserves from previous periods' record harvests, adverse weather affects main grain-growing regions, and demand rises.

1.2. Economic and financial development of Ukraine

Ukraine's economy will gradually recover going forward, thanks to the high resilience of Ukrainian businesses and households. This will also be facilitated by a loose fiscal policy with international financial support, a revival in external demand, the further development of export routes, and rising household incomes. However, the fallout from the war will persist even if security risks abate. Specifically, destroyed and damaged power generation facilities will be a significant brake on the economy's recovery within the forecast horizon.

As security risks moderate, conditions for economic activity are expected to go back to normal more quickly, spurring GDP growth in the medium term. This will be facilitated by improved consumer and investment sentiment, the gradual return of migrants, and progress on European integration reforms.

Demand for labor will continue to rise, while its supply will remain limited due to migration and other effects of the full-scale war. This means the unemployment rate will gradually shrink, but structural unemployment will remain significant due to changes in the makeup of the economy and because of uneven recovery across regions and sectors. Difficulties in finding qualified workers amid a revival of economic activity and increased competition for labor with foreign employers will push up wages further. On the one hand, this will drive growth in household incomes. On the other hand, business costs will rise.

International aid will remain an important source of financing for the budget deficit and for building up international reserves in the medium term. The budget deficit will remain substantial for a long time due to massive security and defense needs, but the expansion of the domestic funding base against the backdrop of economic normalization and additional fiscal measures will help gradually reduce the budget deficit.

The structural deficit in the FX market will gradually narrow as export potential grows. The private sector is expected to raise increased amounts of investment and debt. Meanwhile, demand for FX from households will decline. As a result, international reserves will be sufficient to maintain a sustainable and manageable situation on the FX market.

Convergence with EU economies, pressure on the labor market from structural factors and efforts to bring administered prices to market-based levels, along with high business costs as companies try to recover from the war’s consequences, will be the key drivers of upward pressure on prices. Meanwhile, lower external price pressures and a growing supply of goods and services as productivity rises and logistical obstacles disappear will restrain inflation. In the medium term, inflation will fluctuate close to its 5% target thanks to the NBU’s monetary policy measures. A higher inflation target than in the EU will cushion the convergence process and give the NBU more flexibility to absorb the impact of the said factors and more space to respond to changes in external and domestic factors.

1.3. Main Risks

As before, the main risk to inflation and economic recovery will be the course and length of the full-scale war, potentially driving up budget expenditures on ramping up the country’s defenses and restoring critical infrastructure. This risk, if materialized, will increase the need to find additional sources of financing for the budget deficit and, after the war, to conduct an expedited fiscal consolidation to repay a growing public debt. To meet the need for more spending due to the effects of the war, additional steps to mobilize domestic revenues are likely to be taken to support the nonmonetary financing of defense spending. Moreover, the Government may increase its borrowing on the domestic debt market, with macrofinancial sustainability being maintained.

Risks remain regarding the sufficiency of the volumes and the regularity of inflows of international assistance, especially in the coming years. In the event of a delay in external assistance inflows, the risk of the NBU resuming monetary financing of the budget would increase amid the limited capacity of the domestic financial market. Lower volumes of international assistance would also lead to a drawdown of international reserves, weakening the country's external sustainability. Under this scenario, exchange-rate and inflation expectations would deteriorate, and the NBU would pursue a tighter monetary policy.

There are still risks of more damage being inflicted on the country's energy infrastructure, and thus of more widespread, frequent and longer power shortages. The risk of russia intensifying its attacks on energy infrastructure remains high for both production and distribution capacities. In the event of further destruction, GDP growth would be lower than envisaged in the baseline scenario, and inflationary pressures would be higher due to higher costs resulting from the use of more expensive power generation sources. However, the level of preparedness of businesses and households for potential power outages is higher than in 2022-2023, which will limit the adverse impact of power shortages on the economy. Strengthening anti-aircraft and anti-missile defenses, accelerating repairs, and adjusting the energy system to meet wartime challenges may enable a more rapid narrowing of the electricity deficit. Developments in the energy sector will also depend on both weather conditions and the expansion of the capacity to import electricity.

There remains a high risk that many Ukrainians will not return to Ukraine. Migration may increase due to a rise in the intensity of hostilities and to the shelling of infrastructure, or due to further losses incurred by the Ukrainian economy. Given the adaptation of Ukrainians refugees to their host countries amid a protracted war, the share of those who decide not to return or to postpone their return may further increase. Emigration processes may intensify as a result of family reunifications abroad or productive searches for better-paying jobs. This will further degrade not only the recovery of domestic demand due to the decrease in the number of potential consumers, but also reduce the supply of labor. Disparities in the labor market will also grow, putting upward pressure on wages, with a corresponding pass-through to prices. However, the rapid reconstruction of housing and infrastructure, an increase in the number of jobs due to Ukraine's economic growth, and changes in the policies of host countries regarding the legal status of Ukrainian migrants may facilitate their more active return.

Risks exist that sea transportation may face complications due to russian attacks. If these materialize, the effectiveness of the sea route will be significantly reduced, which will affect export revenues and the further operations of the agriculture and metals industries.

Large-scale reconstruction projects in Ukraine, along with rapid European integration, could significantly accelerate economic growth. The investments needed to restore destroyed Ukrainian infrastructure and production facilities could be attracted if international lenders and donors mobilize the appropriate resources and/or decide to use frozen russian assets for this purpose. The implementation of such a program, together with European integration reforms, will significantly accelerate economic recovery. Household incomes would also grow quickly, driving up underlying inflationary pressures. At the same time, FX inflows into the country and a decline in the risk premium will put pressure on the hryvnia to appreciate, which would limit the growth in prices. This would make it possible for the NBU to maintain lower interest rates in order to promote lending.

The surprising resilience to macroeconomic and geopolitical challenges that the world economy has shown in the previous two years gives reason to be cautiously optimistic about its future development. However, there are still significant risks on the forecast horizon that, should they materialize, may deplete the global economy’s margin of safety, which will in turn adversely affect Ukraine’s economy.

Such risks are:
A further aggravation of geopolitical tensions: An erosion of trust between main global players amid the russian invasion of Ukraine and an escalation of the conflict in the Middle East will lead to the spread of protectionism and the fragmentation of world trade. Restrictions on the movement of goods, including critical raw materials and components, could cause price volatility and a drop in production around the globe. For their part, countries that subsidize their own producers can impede competition on the world market. Given Ukraine’s position as a supplier of raw materials, this will lead to a narrowing of external demand for Ukrainian products. However, Ukraine, which has EU membership candidate status, may receive new incentives for growth as EU countries diversify trade with each other. Other threats to supply chains are fueled by the intensified terrorist activities of non-state entities, in the Red Sea in particular. Terrorism, as well as escalating hostilities in the Middle East with the involvement of other countries in the region, may cause considerable disruptions to the supply of energy, especially oil and gas, to the world market. This will push energy prices higher, and this rise will feed into food prices due to carryover effects. As a result, external inflationary pressures on Ukraine’s domestic market will increase.

Protracted tight financial conditions: Strong labor markets or new disruptions to supply chains could significantly slow the return of inflation rates to their targets. This would require leading central banks to continue to keep interest rates high. In addition, long-term yields will gravitate to higher levels with the fading of most of the factors that previously drove decline in their main components – the expected real interest rate, inflation, and the term premium. As a result, global financial conditions will remain tight in the medium-term perspective, and demand for assets, including from emerging markets, will be restrained and selective. An increase in the cost of refinancing the debt raised when rates were low will activate the need to ease the debt burden, potentially posing a challenge to global growth. In addition, for countries with large debt burdens, risks to macrofinancial stability will intensify, requiring careful monetary and fiscal policies.

2. Specifics of Monetary Policy Implementation in the Medium Term

2.1. Monetary Regime, Monetary Policy Goals and Tasks

The comprehensive efforts made by the NBU in line with the priorities, principles, and preconditions set out in the *Monetary Policy Guidelines for the Duration of Martial Law*, which were approved by NBU Council Decision No. 4, dated 15 April 2022 and later elaborated further in the *Strategy for Easing FX Restrictions, Transitioning to Greater Flexibility of the Exchange Rate, and Returning to Inflation Targeting* approved by NBU Board Resolution No. 16, dated 29 June 2023 (hereinafter referred to as the “Strategy”), helped withstand the first shocks of russia’s full-scale invasion of Ukraine, ensured macrofinancial resilience and the uninterrupted operation of the banking system and critical infrastructure of the financial system, supported the further development of the bank and non-bank sectors, reduced economic uncertainty, and maintained Ukrainians’ trust in the national currency.

At the start of the full-scale war, the NBU was forced to change approaches to performing its priority functions. At the same time, the *Monetary Policy Guidelines for the Duration of Martial Law* set the NBU’s strategic intention to return to full-fledged inflation targeting with a floating exchange rate as soon as possible, as it is this regime that allows the goals of price and financial stability to be achieved, and that supports sustainable economic growth in the long run.

In 2023, steady disinflation and improving inflation expectations – achieved, among other things, through ensuring exchange rate sustainability and a subsequent successful transition to managed exchange rate flexibility – have strengthened the role of inflation as the nominal anchor of monetary policy. At the same time, the gradual restoration of the effectiveness of monetary transmission channels, including through measures taken by the NBU, has helped to strengthen the impact of the key policy rate on the stance of the money market, the motives of economic agents, and the dynamics of macroeconomic variables, including inflation and the exchange rate.

This has become an important basis for strengthening Ukraine's macrofinancial resilience, moving from a "survival strategy" to a "recovery strategy," and has created the proper preconditions for further progress toward a gradual return to full-fledged inflation targeting with a floating exchange rate as a more sustainable monetary regime.

Until then, the NBU intends to use a flexible inflation targeting regime, characterized by managed exchange rate flexibility, the application of FX restrictions, and an extended policy horizon.

Under such a regime, monetary policy will be aimed at bringing inflation, measured by year-over-year CPI, to its target of 5% within the relevant policy horizon (up to three years).

Inflation may during certain periods deviate from said target when influenced by domestic and external factors beyond the effective reach of the NBU's monetary policy. In particular, among such factors can be changes in prices of commodities and other highly volatile components of the CPI, deviations of administered prices from previously declared levels, etc. The policy horizon, i.e. the period of time during which the NBU intends to return inflation to the target of 5%, will be flexibly determined taking into account the need to balance between facilitating the adaptation of the Ukrainian economy to shocks and maintaining its recovery – on the one hand, and retaining the control over inflation expectations – on the other, however, such horizon will not be longer than 3 years. Such a format will distinguish the current monetary policy regime from full-fledged inflation targeting, as before the full-scale invasion the NBU defined the policy horizon of 9-18 months to bring inflation to the target.

The NBU will continue to work toward the important monetary policy task of ensuring there is a sustainable and manageable situation in the FX market in order to support the role of the exchange rate as a shock absorber, and to keep inflation expectations in check. Taking into account the principle of recognizing the level of uncertainty and risks, the NBU will adapt its monetary policy accordingly in the event of significant unexpected changes in the actual dynamics of macroeconomic variables, and in the balance of risks to inflation, the sustainability and the manageability of the FX market, and to economic developments over the forecast horizon. In particular, the NBU will be prepared to respond appropriately to an increase in the risks and/or unfolding crisis scenarios in accordance with plans developed in advance.

2.2. Principles of Monetary Policy

Under the flexible inflation targeting regime the NBU intends to adhere to the following key principles of monetary policy:

the priority of achieving and maintaining price stability

implementing a regime of managed exchange rate flexibility

maintaining consistency in the use of a combination of tools to implement interest rate and exchange rate policies, FX restrictions, and other instruments and safeguards to achieve monetary policy goals and tasks

ensuring that the easing of FX restrictions, as well as return to a full-fledged inflation targeting format with a floating exchange rate, are conducted gradually and are determined by appropriate macroeconomic preconditions

ensuring the consistency, predictability, and forward-looking nature of monetary policy decision-making, while recognizing the high level of uncertainty, and being prepared to respond to significant deviations in the current dynamics of macroeconomic variables from their forecast trajectories, and to significant changes in the balance of risks to inflation dynamics, sustainability, and the manageability of the FX market

securing the NBU's institutional, financial, and operational independence for the proper exercise of its functions and to prevent fiscal dominance

ensuring the transparency and accountability to the public of the NBU's activities (in particular, with the use of an effective communications system).

2.3. Monetary Instruments

Until the return to full-fledged inflation targeting – with the key policy rate as the main monetary policy instrument and a floating exchange rate – the NBU will achieve its legally defined goals primarily by applying a consistent combination of tools to implement interest rate and exchange rate policies, as well as FX restrictions.

The NBU will pursue further efforts to strengthen the effectiveness of its key policy rate as the main instrument of monetary policy. To this end, the NBU will continue to reinforce the effectiveness of the channels of the monetary policy transmission mechanism, in particular by reducing economic uncertainty, maintaining confidence in hryvnia instruments, calibrating the parameters of the operational framework of interest rate policy, optimizing the structural liquidity of the banking system, and gradually easing FX restrictions as the relevant preconditions are met.

Confidence in hryvnia instruments will also be supported by the NBU's stated intention of keeping real interest rates on hryvnia term instruments at sufficiently high levels, ensuring that households' hryvnia savings are protected from inflation depreciation.

In October 2023, the NBU transitioned from a mid-corridor system to a floor system as the basis for the operational framework of its interest rate policy, making the key policy rate equal to the rate on overnight certificates of deposit – the main liquidity management transaction. This improved the effectiveness of communications about the current monetary stance and expected changes in interest rate policy. As a result, the role of the key policy rate as a monetary instrument increased. The NBU also continued offering three-month certificates of deposit (access to which is linked to the growth in hryvnia retail term deposits) as an element of the operational framework that supports real interest rates and the volumes of such deposits.

Given that the banking system is expected to maintain a liquidity surplus in the medium term, the NBU intends to continue using an operational framework based on the floor system. At the same time, the NBU may adjust the operational framework of its interest rate policy and take measures to manage the banking system's structural liquidity in order to strengthen monetary transmission, create an appropriate monetary stance for bringing inflation to the target over the forecast horizon, and fulfil additional relevant tasks.

Such tasks may include, among other things, influencing the economic behavior of the banks to ensure the level of real interest rates on hryvnia instruments is appropriate; activating the domestic debt market to avoid monetary financing of the budget deficit; providing banks with more flexibility in managing their own liquidity to respond to increased turbulence in financial markets, and so on.

To achieve its goals and fulfil its tasks, the NBU may also use other monetary policy instruments, such as reserve requirements and open market operations, as well as the safeguards stipulated in Ukrainian legislation.

That said, the NBU will strive to avoid taking measures or using tools and instruments that would significantly increase economic uncertainty, weaken confidence in monetary policy, and/or threaten to destabilize expectations or complicate Ukraine's European integration and cooperation with international financial institutions.

In particular, the NBU will continue to strive to avoid the build-up of fiscal dominance and will provide support to the state budget only in exceptional cases, as a measure of last resort. Short-term financing may be provided only to cover unexpected temporary liquidity needs to ensure the uninterrupted functioning of the public finance system. Long-term financing may be provided to cover the Government's critical expenditures to maintain Ukraine's defense capability if no other sources of financing are available. The mechanism of both short-term and long-term financing of the Government will remain in effect exclusively for the duration of the legal regime of martial law (the temporary institutional possibility for this is set by the martial law legal framework[1]). Such financing will be provided for clearly defined purposes, for a limited period, and in strictly limited amounts, with due regard for risks to price and financial stability, and in compliance with other principles, prerequisites, conditions, and mechanisms agreed between the NBU and the Government.

The challenges of full-scale war have made it necessary for the NBU to take a number of unconventional measures to maintain macrofinancial stability. At the same time, a return to the full-fledged inflation targeting format will require the NBU to carefully and consistently wind down such measures in the areas of interest rate and exchange rate policies, as well as FX restrictions, as soon as the necessary preconditions for this are in place, as envisaged by the Strategy. Such a wind-down will be based on a thorough analysis of the effectiveness of previous steps and the impact of potential

[1]The provisions of the Law of Ukraine *On the National Bank of Ukraine* in terms of prohibiting the purchase of securities from the issuer and the prohibition on providing loans to the state were suspended for the period of martial law, in accordance with Law No. 2118-IX, dated 3 March 2022, as amended by Law No. 2120-IX, dated 15 March 2022.

changes in one area on changes in other areas, taking into account the goals of economic development and the risks to price and financial stability.

2.4. Exchange Rate Regime and FX Interventions

Until it returns to a floating exchange rate, the NBU will use a transitional regime of managed flexibility of the exchange rate.

When applying the managed exchange rate flexibility regime, the NBU plans to conduct FX interventions to achieve its goals and tasks in compliance with the following key principles:

gradually strengthening the role of the exchange rate as a corrective mechanism for Ukraine's economy in order to increase its ability to adapt to changes in internal and external conditions

maintaining the consistency of interest rate policy and the policy of easing FX restrictions to retain credibility. When calibrating the parameters of FX interventions, the NBU will align them with the relevant parameters of interest rate policy and FX restrictions to achieve the desired synergies. To this end, the NBU will carefully and consistently implement measures in these areas, based on a thorough analysis of the effectiveness of previous steps and the potential impact of changes in one area on changes in other areas, as well as cumulative effects

maintaining a sustainable and manageable situation on the FX market given the high level of uncertainty. This is necessary to avoid any negative impacts from extraordinary events and excessive exchange rate volatility on exchange rate and inflation expectations, the transmission of the key policy rate, international reserves, and, accordingly, on price and financial stability, as well as the sustainability of economic growth. To this end, the NBU plans to smooth out the functioning of the FX market, in particular by limiting excessive fluctuations in the hryvnia exchange rate through making FX and verbal interventions, and striving to minimize exchange rate multiplicity (the difference between exchange rates in different segments of the FX market)

ensuring the exchange rate fluctuates both ways in response to changes in the balance of supply and demand in the FX market. To this end, the NBU plans to remain active on the FX market of Ukraine covering the structural deficit of foreign currency. If the exchange rate fluctuates in both directions in response to changes in market conditions, this will help maintain constructive ambiguity about future exchange rate dynamics, and thus keep inflation and exchange rate expectations under control, maintain confidence in the hryvnia, ensure awareness of FX risks, weaken speculative motives for playing against the hryvnia, and protect international reserves. At the same time, the gradual strengthening of the link between the exchange rate and FX market conditions will help reinforce the resilience of Ukraine’s economy and FX market against internal and external shocks, reduce the risk of the accumulation of foreign-trade imbalances, and protect international reserves

maintaining constructive ambiguity about the parameters and tactics of FX interventions for FX market participants. The NBU will determine the scope, frequency, and timing of FX interventions so as to achieve its goals in the most effective manner. Given the high sensitivity of such information, the parameters of FX interventions, as well as their tactics, will remain undisclosed to the general public and difficult to predict for market participants. This ensures a level playing field for all market participants, supports constructive ambiguity about future exchange rate dynamics, and makes FX interventions effective. That said, the NBU will stick to effective (reasonable) transparency when disclosing information about results of FX interventions

acknowledging risks and being ready to respond to them. When designing the exchange rate regime, the NBU will envisage appropriate safeguards against the unfolding of crises and make contingency plans. In particular, depending on the circumstances, it may be possible to return to a less flexible exchange rate, and, if necessary, to switch to a different exchange rate regime.

2.5. FX Restrictions

Aware of the urgent needs to minimize FX market distortions, improve the conditions for doing business in Ukraine and for the entry of domestic businesses to new markets, support the economy’s recovery, and promote new investment inflows into the country, the NBU plans to continue easing FX restrictions on condition that price stability and the sustainability and the manageability of the FX market are maintained, there is an adequate level of reserves, and that national security interests are taken into account.

The easing of FX restrictions will be in line with the following key principles:

they will be gradual, prioritized, and clearly linked to the formation of the macroeconomic preconditions envisaged by the Strategy, as well as to Ukraine’s commitments within the framework of its cooperation with the IMF, other international financial institutions, and EU institutions

that the accumulation of macroeconomic imbalances will be avoided – FX restrictions will not be used to replace necessary macroeconomic adjustments (in particular, the use of interest rate or exchange rate policy instruments)

consistency with the overall set of monetary and economic policy measures, in particular with the NBU's interest rate and exchange rate policies, with the rest of FX restrictions that remain in force to minimize the risk of undermining their effectiveness, and with the Government's economic policy, taking into account the prioritization of the NBU's goals and wartime conditions

they will be justified – every step to ease the FX restrictions is carried out based on assessments of the effect of previous steps as well as its potential impact on inflation dynamics, the state of the FX market, international reserves, macroeconomic and financial stability, the business and investment climate, and national security

minimizing the risk of bypassing existing FX restrictions – the NBU will continue to closely monitor the effectiveness of the FX restrictions system in order to detect and eliminate potential ways to bypass FX restrictions

minimizing the risk of FX restrictions being re-imposed

acknowledging risks and being ready to respond to them – in the event of adverse circumstances, the easing of FX restrictions might be paused, and, if necessary, the restrictions might be re-imposed or tightened, including through the introduction of new safeguard measures. However, understanding the undesirability of such measures for the development of the financial market and economy of Ukraine, the NBU will consider them only as a “last line of defense.”

The final aim of FX liberalization is to transition to a regime of free movement of capital in line with EU standards. This will become the basis for easing the conduct of business and improving Ukraine’s investment climate.

3. Promoting Financial Stability

The NBU's efforts and reforms implemented prior to the full-scale invasion created vital safety margins, while timely anti-crisis measures helped Ukraine's financial system to overcome the first shocks of the invasion and supported its further adaptation to the challenges of a protracted war. The NBU has succeeded in preserving confidence in the banking system and ensuring financial stability, among other things, thanks to its prudent and consistent monetary policy.

The NBU's ongoing efforts to maintain financial stability will be aimed at reducing economic uncertainty and increasing the resilience of the financial system to systemic risks, which will allow the NBU to provide effective support for economic growth through ensuring the efficient redistribution of financial resources. This will be achieved, among other things, through a prudent, consistent, and predictable monetary policy that will help stabilize inflation expectations and ensure a balanced assessment of FX risks by economic agents, as well as through maintaining a sustainable and manageable situation in the FX market, creating an environment of low and stable inflation, increasing trust in the hryvnia, achieving a gradual de-dollarization of the economy, and bolstering trust in banks and other financial institutions.

In line with the Strategy, the actual (over a sufficiently lengthy period) and expected dynamics of the financial stability parameters, along with other key criteria, will continue to be taken into account by the NBU when determining the appropriate preconditions for employing interest rate and exchange rate policy tools, and gauging whether further progress has been made toward easing FX restrictions and returning to a full-fledged inflation targeting with a floating exchange rate.

If there are adverse circumstances, the NBU will take appropriate and urgent measures to ensure financial stability, including the provision of emergency liquidity assistance for banks. At the same time, as financial markets stabilize and liquidity risks in the banking system fall, these instruments will lose their relevance. Therefore, the NBU will gradually phase out these emergency measures to ensure banks remain motivated to work with depositors, as well as promote the development of the money market and enhance the efficiency of the monetary transmission mechanism.

Given the importance of minimizing risks to monetary sovereignty, price and financial stability, and tax revenues, the NBU will maintain a firm position on preventing the narrowing of the usage of the hryvnia as the only legal tender in Ukraine and/or the creation of loopholes to circumvent current state regulation, supervision, and monitoring when conducting transactions with virtual assets – in particular in the area of FX transactions and transactions on the export, transfer, and sending of currency valuables, as well as preventing and counteracting money laundering, terrorism financing, and financing the proliferation of weapons of mass destruction. At the same time, the NBU will make efforts to build a system of transparent and understandable state regulations that will promote the development of the fair and effective circulation of virtual assets, in line with international best practices, taking into account economic development goals and mitigating risks to price and financial stability.

The NBU will work closely with the Government in order to help the country raise the necessary external financing from international organizations and partner countries, including through the use of frozen russian assets. The financing will be used to strengthen the foundation of Ukraine's macroeconomic and financial stability, resolve humanitarian problems, rebuild destroyed infrastructure, and revive/transform Ukraine's economy.

In order to promote financial stability, the NBU will continue to work closely with the Government and other regulators, particularly through the work of the Financial Stability Council. In addition, the NBU, together with the Government, will focus its efforts on increasing economic pressure on russia as the aggressor country, in particular through relevant actions, and providing arguments to international partners, leading government agencies of other countries, and commercial corporations to impose new financial sanctions aimed at completely isolating russia from the global economy and the global financial system. The NBU will also call on international financial institutions to stop cooperating with the aggressor and remove it from practical participation in decision-making in intergovernmental organizations.

4. Ramping up lending and supporting Ukraine's economic recovery

Safeguarding monetary stability and reducing economic uncertainty will continue to be the NBU's main contribution to sustainable economic growth and the revival of lending. This will be achieved, in particular, by maintaining sustainable and manageable situation in the FX market and creating an environment with low and stable inflation, as well as ensuring the financial stability of the banking system.

The predictability of inflation and its reduced volatility ensured, among other things, by prudent, consistent, and predictable monetary policy, will help anchor inflation expectations, reduce the inflation risk component in the structure of market interest rates, and stabilize these rates at low levels. A regime of managed flexibility of the exchange rate and, ultimately, a return to a floating exchange rate will help maintain trust in the hryvnia and promote a balanced assessment of FX risks by economic agents, reduce the risk of an accumulation of foreign trade imbalances, and increase the resilience of the Ukrainian economy and the FX market to internal and external shocks. The risk premium will also be gradually decreased and bank lending standards will be loosened as lower economic uncertainty boosts business expectations and production efficiency, while financial market participants will be able to predict borrowers' creditworthiness and returns on investments more confidently.

With a gradual easing of FX restrictions and a continuation of the appropriate monetary stance, the ensuing financial stability and increase in liquidity will expand the capacity of the banks and other financial intermediaries to effectively redistribute financial resources, increase lending, and make long-term investments in the national economy.

The implementation of the Lending Development Strategy, approved by the Financial Stability Council on 6 June 2024, will help maintain credit demand and focus credit supply on the country's priority areas to ensure a sustainable recovery of the country's competitive economy. The key vector of this development will be directed at restoring energy independence and strengthening the country's defense capabilities.

The NBU's monetary policy creates conditions for the development of Ukraine's economy, but monetary policy alone cannot be a sufficient precondition for a steady increase in economic potential, meaning that further structural reforms and the pursuit of a prudent fiscal policy are critical to achieving this goal. Therefore, the NBU, jointly with the Government, will make every effort to continue to meet the goals, criteria, and measures for reforming the economy and financial system, as envisaged by cooperation with the IMF, other international financial organizations, and EU institutions. The NBU, together with the Government and other regulators, will also work to strengthen the coordination of monetary and fiscal policies, and will make efforts to maintain macrofinancial stability, build efficient financial markets, and generate long-term, more easily accessed investment resources.

5. NBU Communication Policy

The NBU will continue to pursue a consistent, transparent, and accountable monetary policy as it gradually seeks to return to full-fledged inflation targeting with a floating exchange rate.

The NBU’s communications on monetary policy will focus primarily on achieving the following key tasks:

increasing understanding of monetary policy by explaining the goals, principles and expected results of monetary policy decisions, macroeconomic forecasts, and other information that informs relevant decisions, as well as to elucidate the NBU’s intentions regarding its monetary policy

strengthening the confidence of households, businesses, the financial sector, and the expert community in monetary policy, the national currency, and the banking sector, and shaping the perception of the NBU as an open, independent, competent, and effective regulator

minimizing information asymmetry, reducing economic uncertainty and creating a predictable economic environment for all participants in economic relationships

strengthening the effectiveness of monetary transmission channels.

Together, this will help to strengthen the effectiveness of monetary policy, achieve the central bank’s statutory goals (the priority of which is to achieve and maintain price stability) and fulfil the NBU’s tasks.

According to the NBU Communications Strategy, the NBU's monetary policy communications are to be based on the following key principles:

effective (appropriate) transparency – the NBU will strive to achieve the highest possible transparency, in particular by more fully disclosing the goals, tasks, principles, and expected results of monetary policy decisions, macroeconomic forecasts, and other information that forms the analytical basis for the NBU's decision-making and that is useful to key stakeholders when making informed decisions. At the same time, given its high sensitivity, some of the information (in particular, on the forecast trajectory of the exchange rate, parameters, and the tactics of FX interventions) will remain non-public to maintain constructive ambiguity and ensure the effectiveness of the NBU's policy

integration and regularity – monetary policy communications will be carried out in a systematic, coordinated, and planned manner, and information will be made public at regular, pre-determined, and publicly announced intervals

targeting, clarity, and equal access to information – the NBU will continue to apply a multi-layer approach to monetary policy communications, including through publishing its Inflation Report in versions for target audiences with different levels of economic knowledge, while ensuring that all have equal access to public information on monetary policy to make informed decisions

proactivity – communication campaigns will be prepared in advance, taking into account potential future risks, needs, and changes in monetary policy, so that the NBU can shape the desired information field. At the same time, the NBU will continue to adhere a "silence regime" in its monetary policy communications for seven days before the relevant monetary policy decisions are made and announced

forward-looking – the NBU will shape the expectations of target audiences, in particular by publishing forward guidance regarding further changes in monetary policy in each press release on the key policy rate decision; by publishing the opinions of Monetary Policy Committee members on further key policy rate dynamics in each of the Summaries of the Discussion; and by publishing a key policy rate forecast on a quarterly basis as part of the updated macroeconomic forecast

consistency – the NBU will seek to avoid discrepancies and inconsistencies in communications, taking into account, in particular, the key messages of previous communications and forward guidance. At the same time, while recognizing the high level of uncertainty, the NBU will be ready to adapt its monetary policy and communications according to realities and significant changes in the balance of risks to inflationary dynamics, the sustainability and the manageability of the FX market, and economic prospects over the forecast horizon. Forward guidance and expected trajectories of the key policy rate will continue to have the status of forecasts, not commitments regarding the NBU's policy

one voice policy – to maintain the high quality of the discussion that precedes the monetary policy decision-making and to ensure consistency, the NBU will adhere to a unified position in further communications of such decisions. In particular, Summaries of the Discussion on the Key Policy Rate at the Monetary Policy Committee and other communications of the NBU will continue to disclose only the depersonalized positions of the persons involved in monetary policy decision-making, including respective arguments not only in favor the decision approved by NBU Board, but alternative opinions as well

neutrality – the NBU will remain apolitical in its monetary communications and will communicate decisions made, announced, and/or expected by other public authorities only as factors and assumptions that it takes into account in its macroeconomic forecasts and monetary decisions

accountability and responsibility – the NBU will be accountable for the results of its monetary policy to the public as a key target audience, and in the event of policy failures, will explain their causes and propose ways to resolve the problems. In particular, the NBU will publish a monthly commentary on the correlation between the actual inflation rate and the forecasted one, explaining the reasons for the deviation (if any)

feedback – the NBU will strive to continue developing effective channels of feedback from target audiences, while also remaining open to criticism.