

# A Decade of Inflation Targeting in Ukraine: Lessons for a New Era of Uncertainty

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# Journey through Ukraine's inflation targeting experience:

## Lecture Outline

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'A decade since a bold turn'

2

Why Ukraine chose inflation targeting (IT)

3

Building the IT framework

4

Performance before the full-scale war

5

Resilience under full-scale war

6

Conclusion: Inflation targeting in a new era of uncertainty

# A bold decision amid the 'perfect storm' and its consequences for Ukraine's economy

## 2010–13: Accumulation of Macroeconomic Imbalances

- Fixed exchange rate (~8 UAH/USD) supported by FXI
- Reserves peaked at \$38 bn (2011) → fell to \$20.4 bn (Jan 2014)

## 2016: Monetary stabilization amid IT introduction

- Complete overhaul of MP restored some credibility
- Inflation → 12.4% in 2016
- Reserves → \$15.5 bn

## 2020-21: Stimulative MP during COVID-19 crisis

- Easing MP helped a lot for economy to withstand the pandemic
- Inflation at 5% in 2020

## 2014-15: Perfect storm

- Russia's Annexation of Crimea and the Start of the War Against Ukraine in Donbas
- Triple crisis: Macroeconomic-Banking-BoP
- Reserves down to almost \$5 bn at the beginning of 2015
- Inflation > 60% in mid 2015

## 2017–19: Dealing with inflation shock

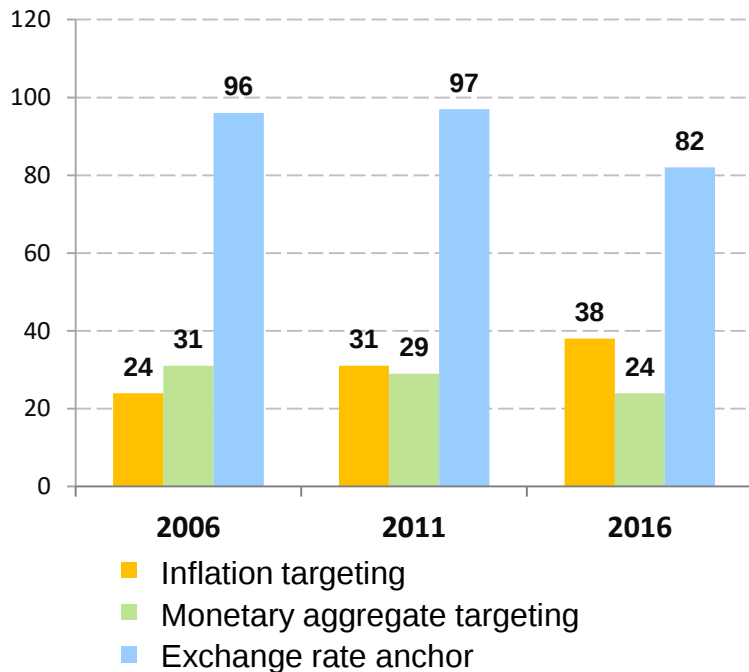
- After exceeding 16% in mid-2017 inflation ↓ to 4.1% in 2019
- Reserves → \$25.3 bn (2019)
- NBU's MP under maturing IT gained credibility

## February 2022: Start of the Full-Scale War

- NBU and banks faced the existential challenge in good shape
- Credibility and reforms → resilience
- Temporary deviation from IT

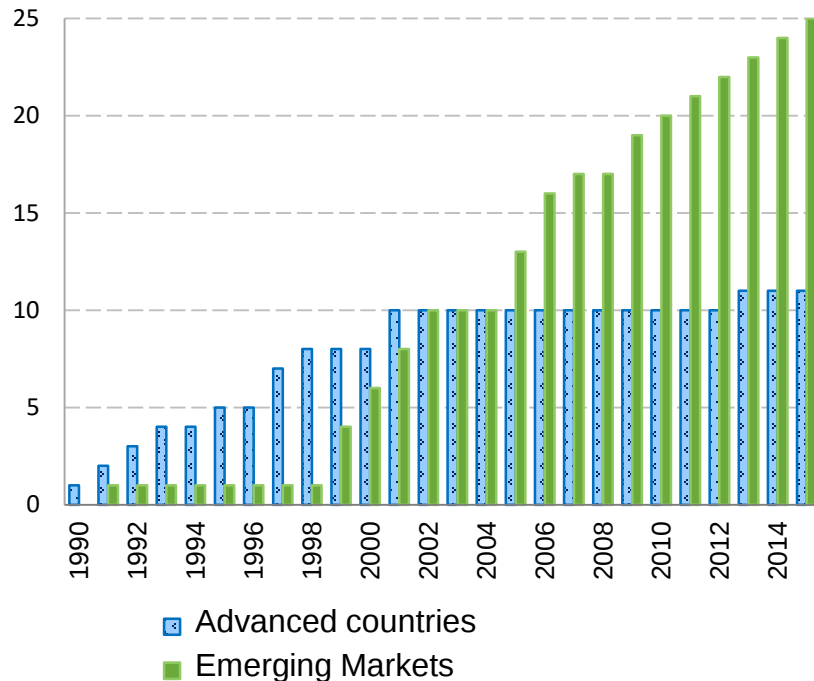
# Why Ukraine chose inflation targeting: Aligning monetary policy with modern international standards

## Monetary policy framework



Source: IMF, Annual Reports on Exchange Arrangements and Exchange Restrictions, 2006, 2011, 2016

## Countries with the IT regime, 1989-2015



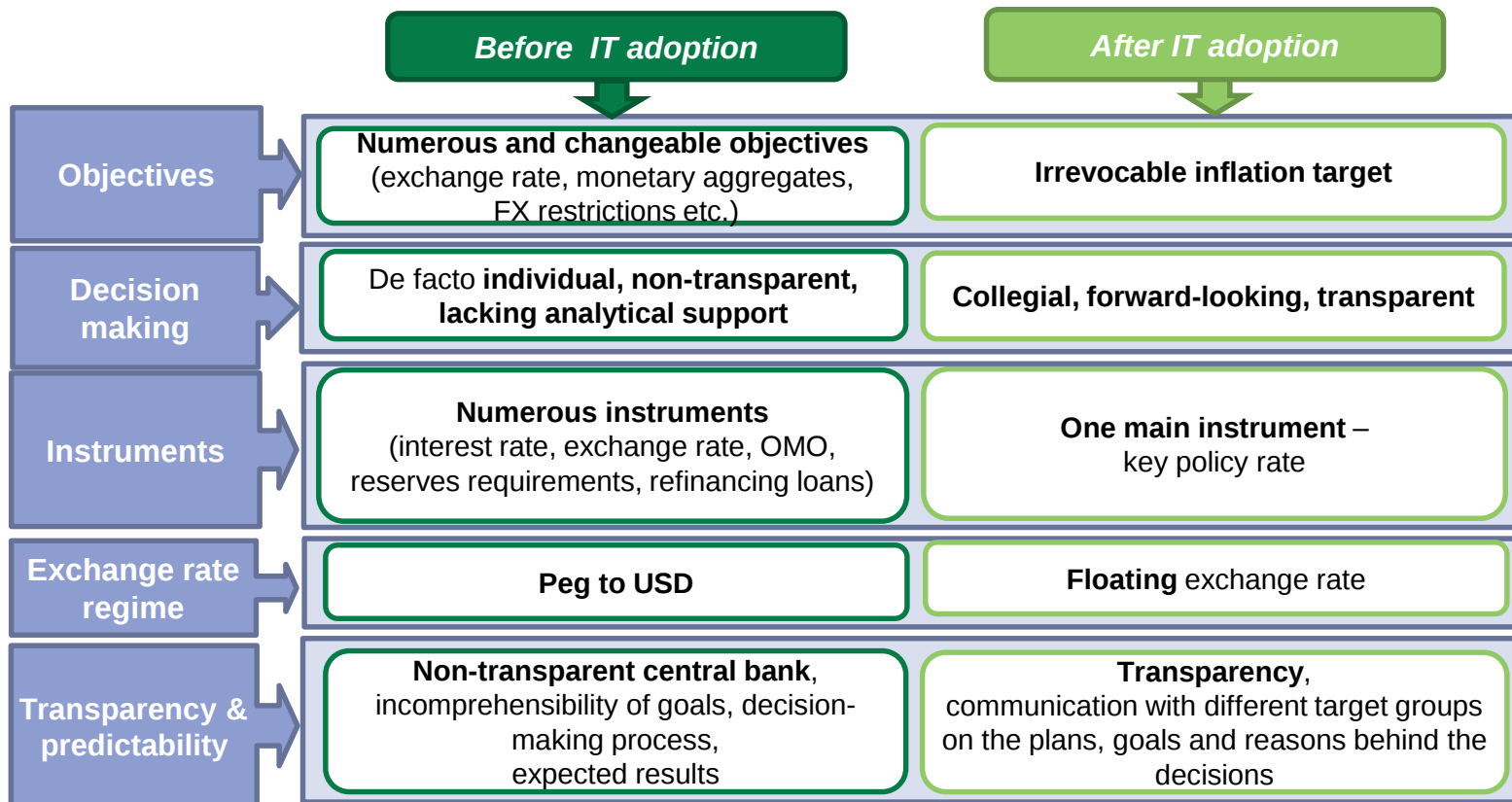
Source: Klaus Schmidt-Hebbel, Martín Carrasco (2016)

# What is inflation targeting regime?

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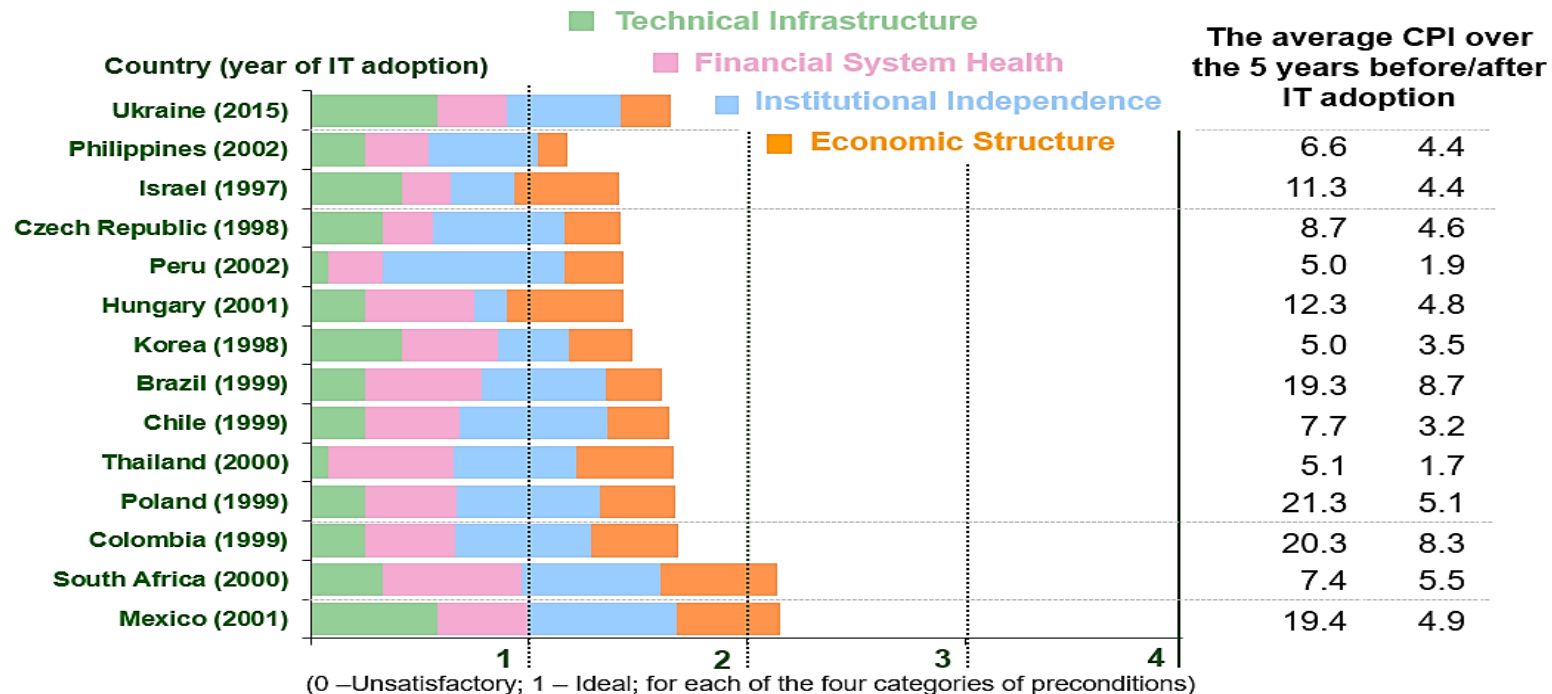
- **Inflation as the only quantitative target → for anchoring expectations**
- **Clear institutional mandate for the Central Bank to achieve it**
- A collection of modern central banking practices
- Changes the way monetary policy is done
  - ✓ Relatively flexible exchange rate
  - ✓ Policy based on interest rate changes
  - ✓ Strong emphasis on forecasts and analysis of risks
  - ✓ Combining flexibility with a rules-based policy framework
  - ✓ Focus on transparency and accountability
- Appealing long-term solution for many countries
  - Some adopted it out of necessity in a balance-of-payments crisis*
- **Political Will: The Decisive Factor Behind Choosing Inflation Targeting as the Only Viable Option**

# The shift to inflation targeting marked a deliberate break from Ukraine's previous monetary policy frameworks



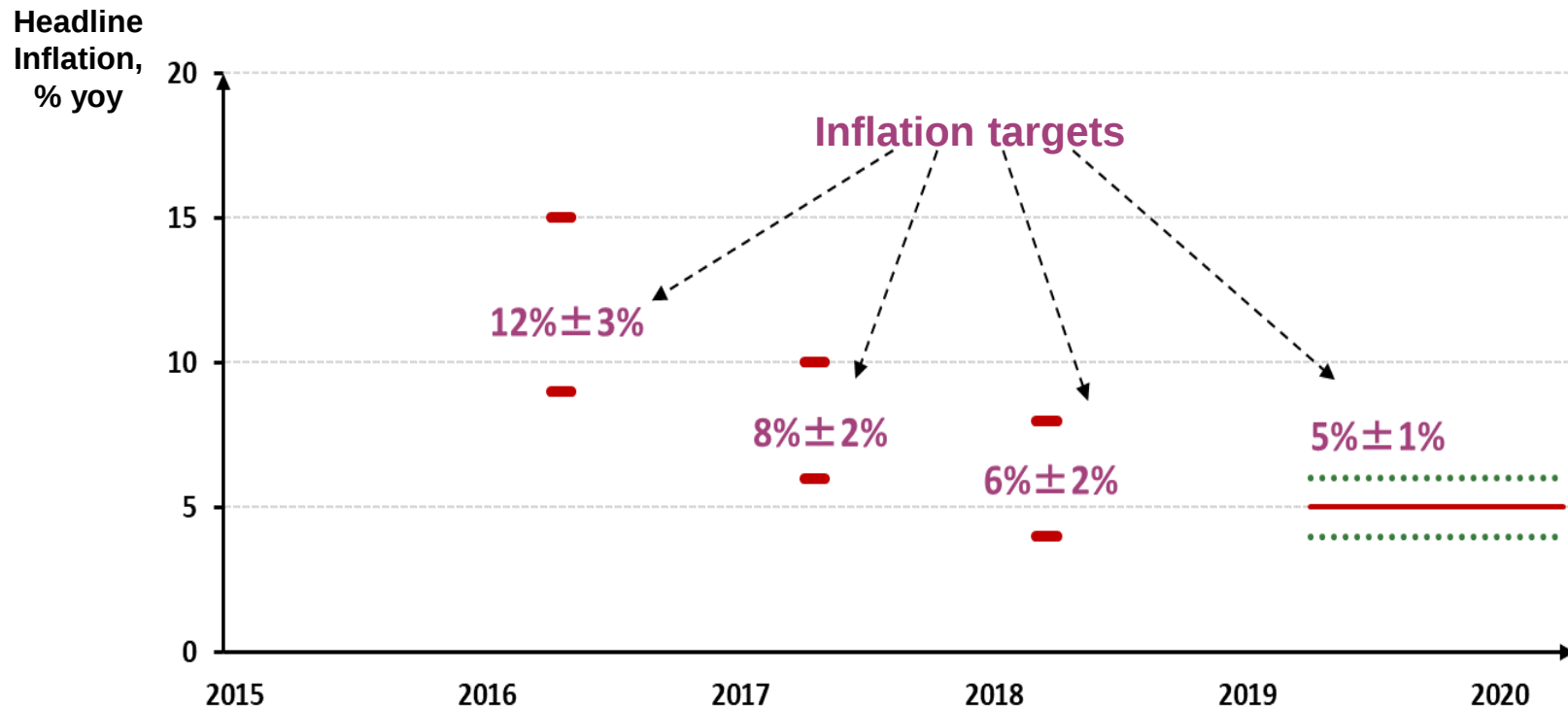
# How well was Ukraine prepared compared with other IT adopters?

## Comparative Country Analysis of IT Preconditions at Time of Adoption



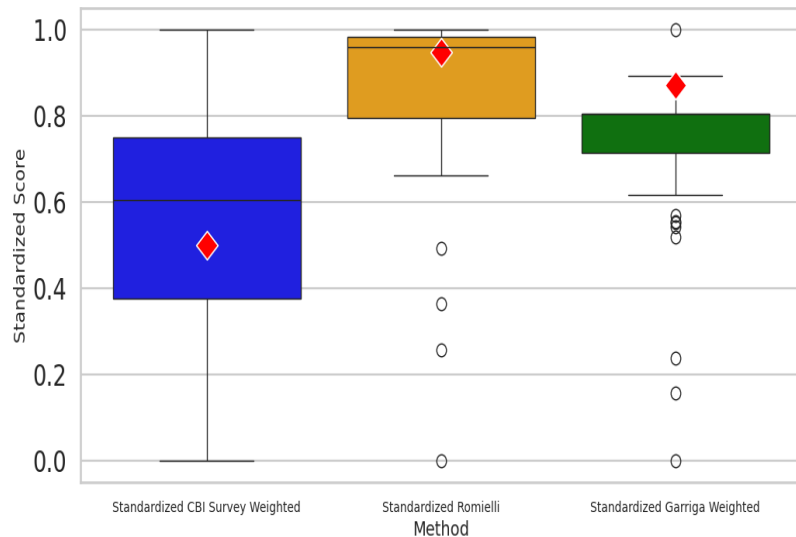
Source: World Economic Outlook, September 2005: Chapter 4. Does Inflation Targeting Work in Emerging Markets?; NBU staff estimates.

# Setting an irrevocable inflation target by NBU in August 2015



# The introduction of inflation targeting became a catalyst for profound institutional changes

## Ukraine CBI index among other countries in Europe

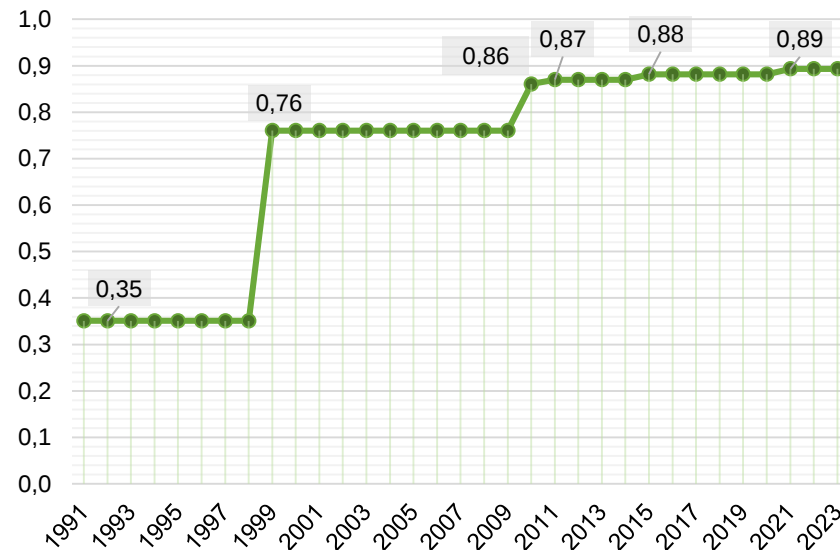


Notes:

Provided by Ashraf Khan (IMF) based on [Adrian, Khan, and Menand \(2024\)](#)

The assessment does not account for the temporary relaxation of monetary financing restrictions introduced in 2022 due to the full-scale war in Ukraine

## Ukraine CBI index

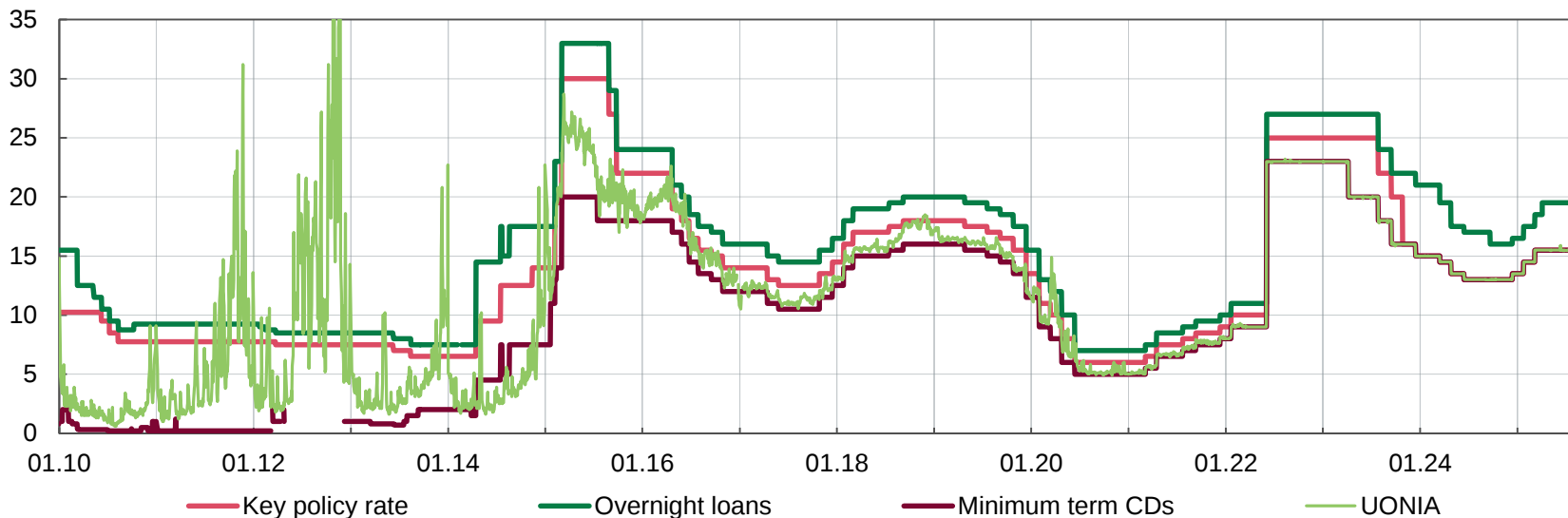


Notes:

Source: <https://cbidata.org/> (based on [Romelli \(2024\)](#))

# Instruments and operational framework under inflation targeting

## NBU's interest rates and UIIR/UONIA, %

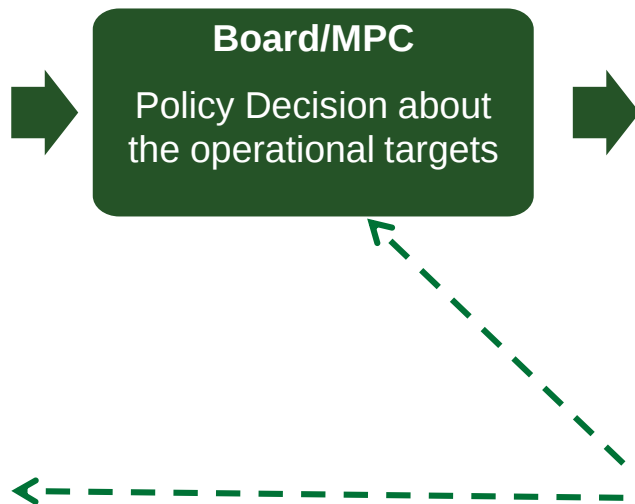
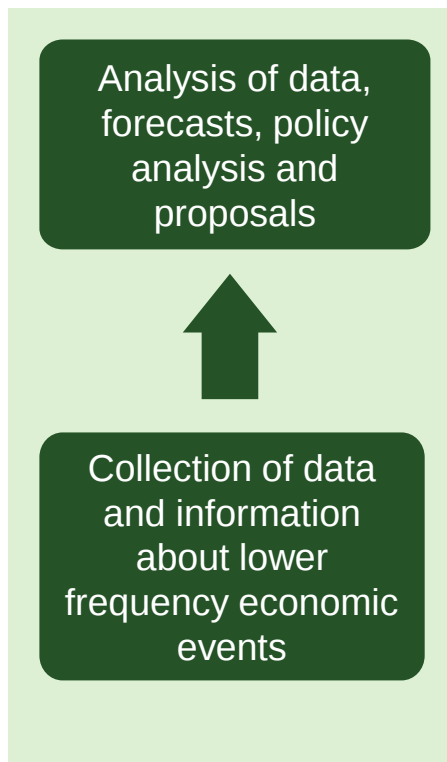


Source: NBU.

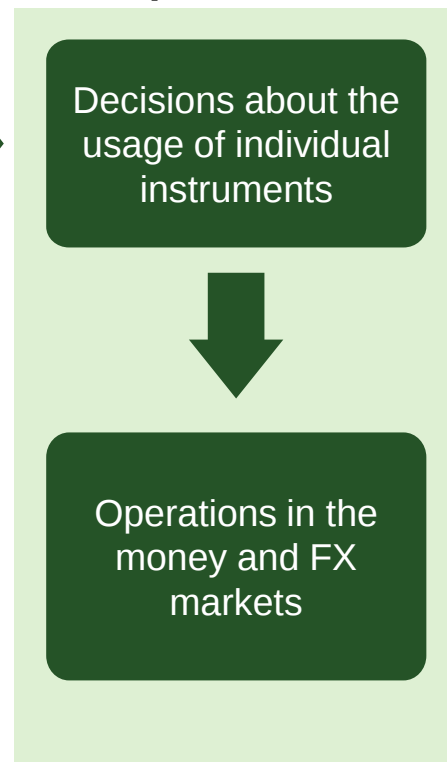
- In early 2016, the operational design of monetary policy was refined: the role of the key policy rate as the main policy instrument was reinforced, and the interest rate corridor was narrowed to improve the transmission of policy signals to money market rates

# Proactive monetary policy decision making based on macroeconomic forecast

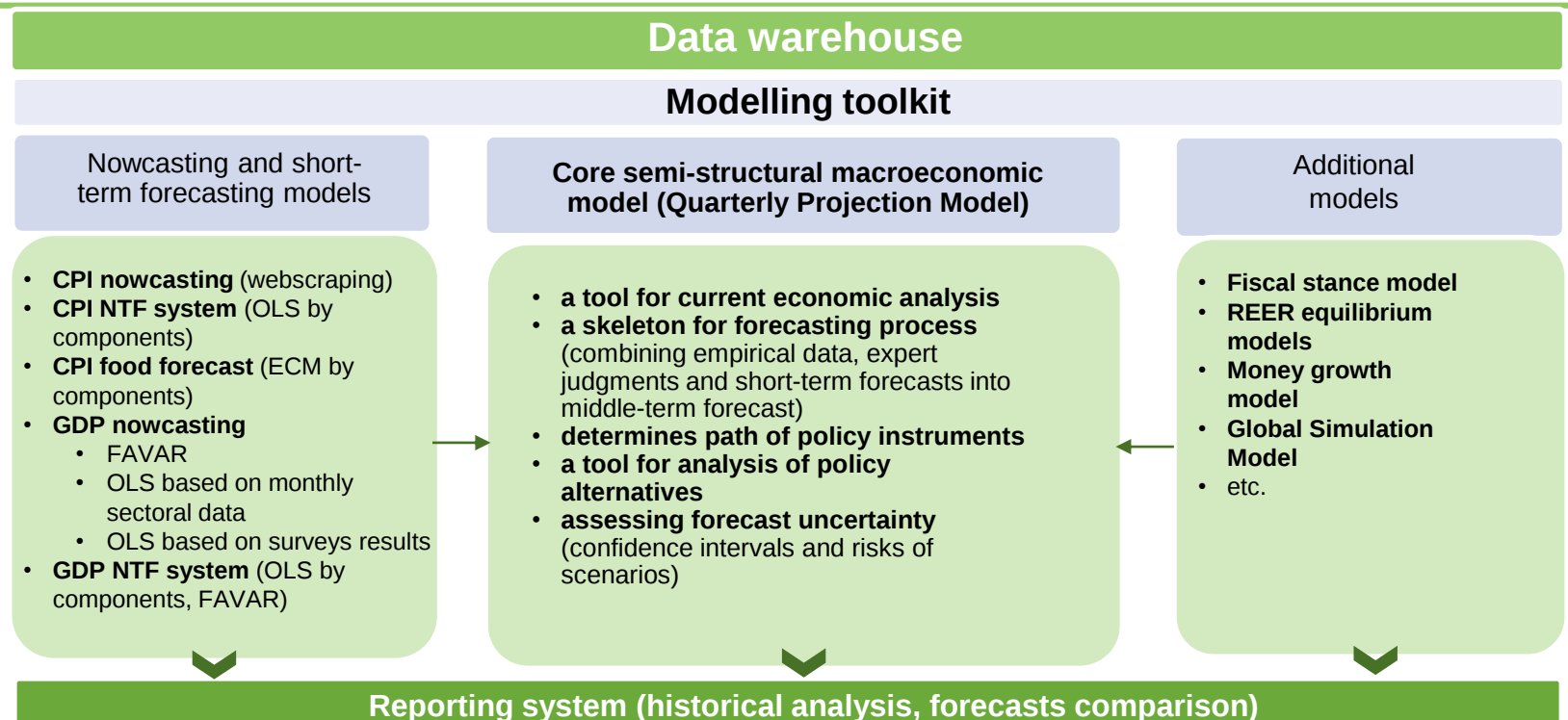
## MP Formulation



## MP Implementation



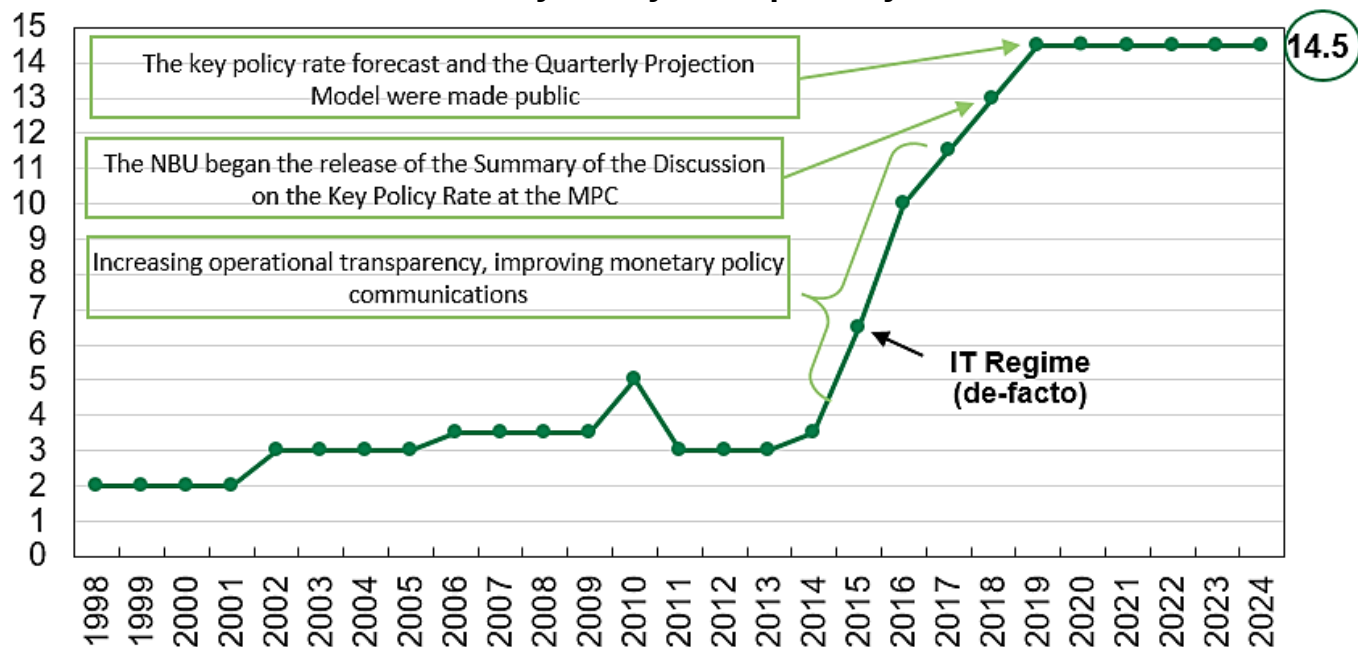
# Forward-looking decisions are supported by sophisticated analytical toolkit



- The NBU also strengthened its research function by launching the Working Papers Series, and publishing studies on the development of macroeconomic models ([Nikolaychuk, Sholomytskyi \(2015\)](#); [Grui, Lepushynskyi and Nikolaychuk \(2018\)](#); [Shapovalenko \(2021\)](#))

# Communication became a strategic pillar of the IT framework

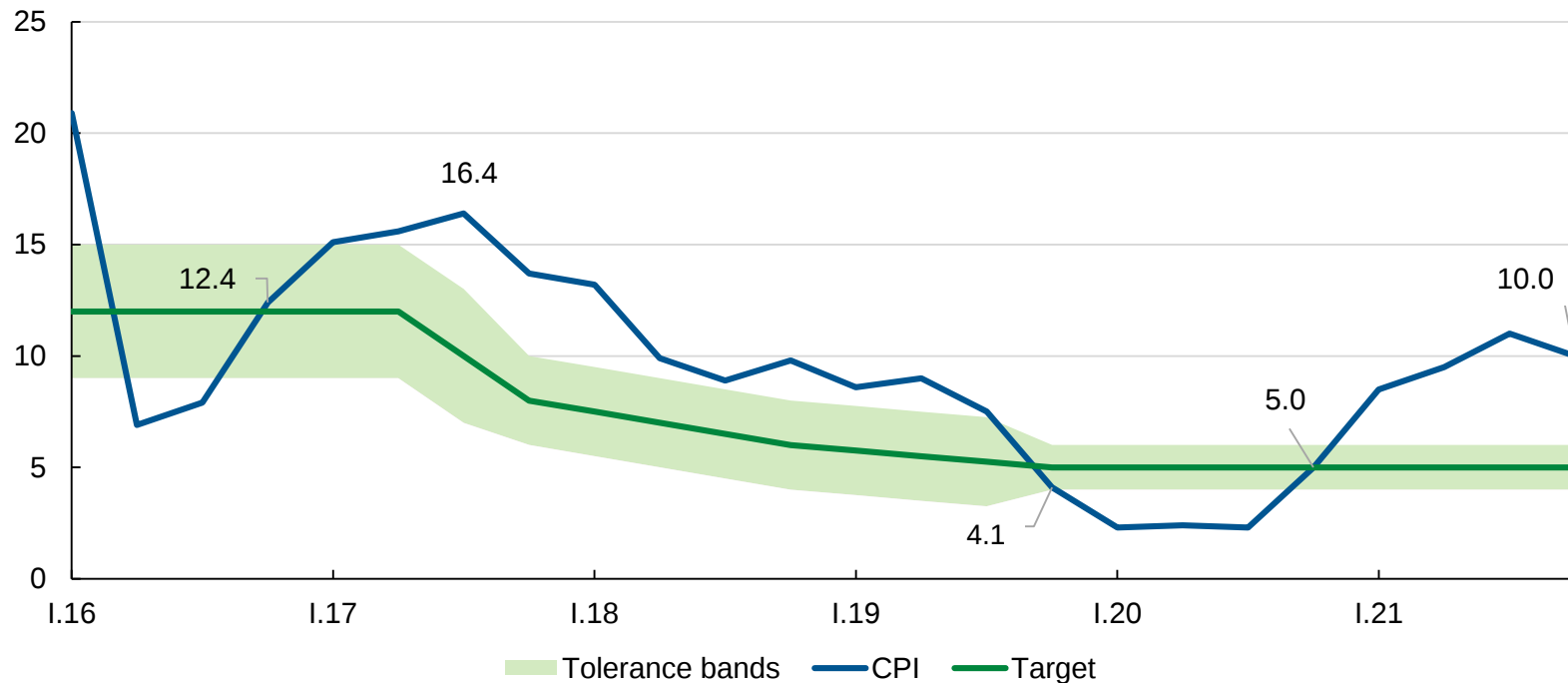
## Monetary Policy Transparency Index



Source: NBU staff estimates based on the methodology by [Dincer, Eichengreen and Geraats \(2022\)](#).

# First tangible evidence that IT works

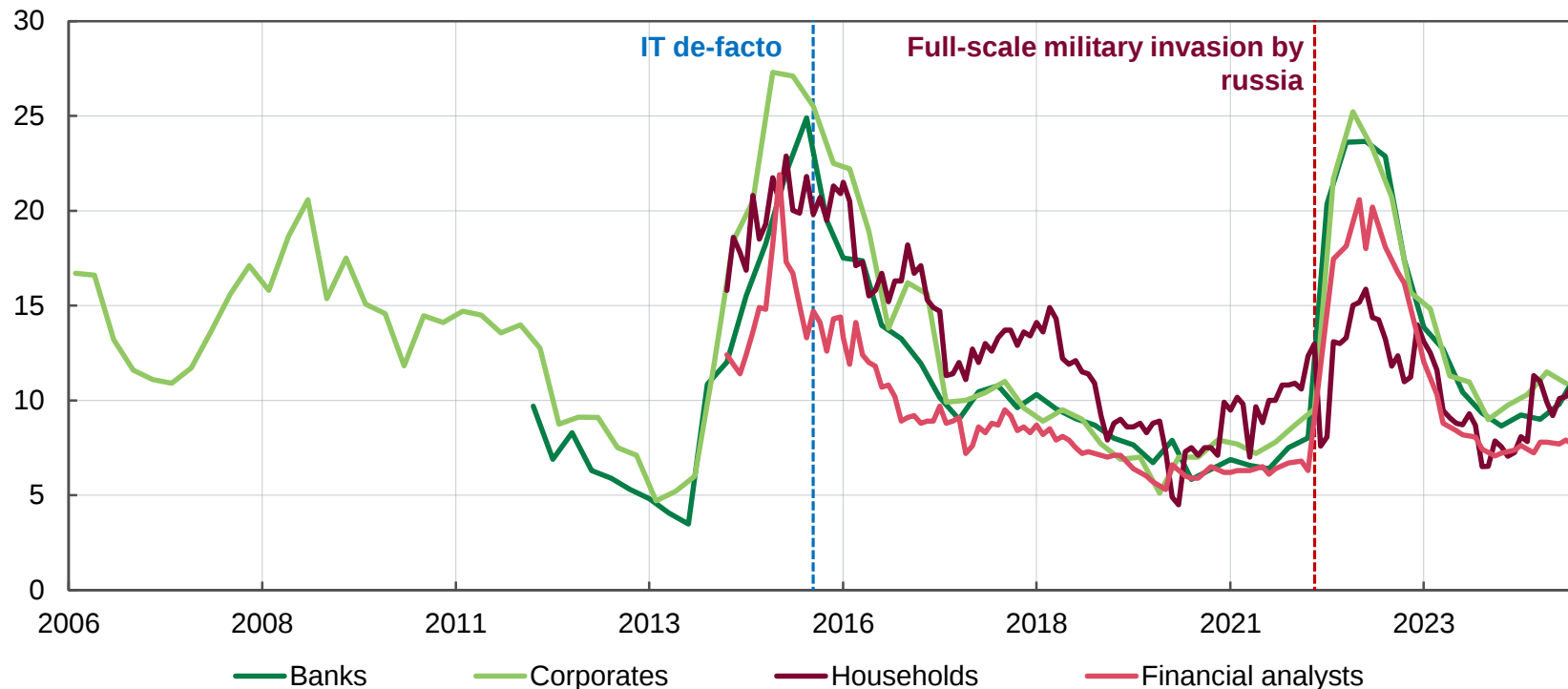
Inflation and Inflation Targets, %



Source: Source: SSSU, NBU staff estimates.

# Inflation targeting taught the market to trust the central bank's actions and targets

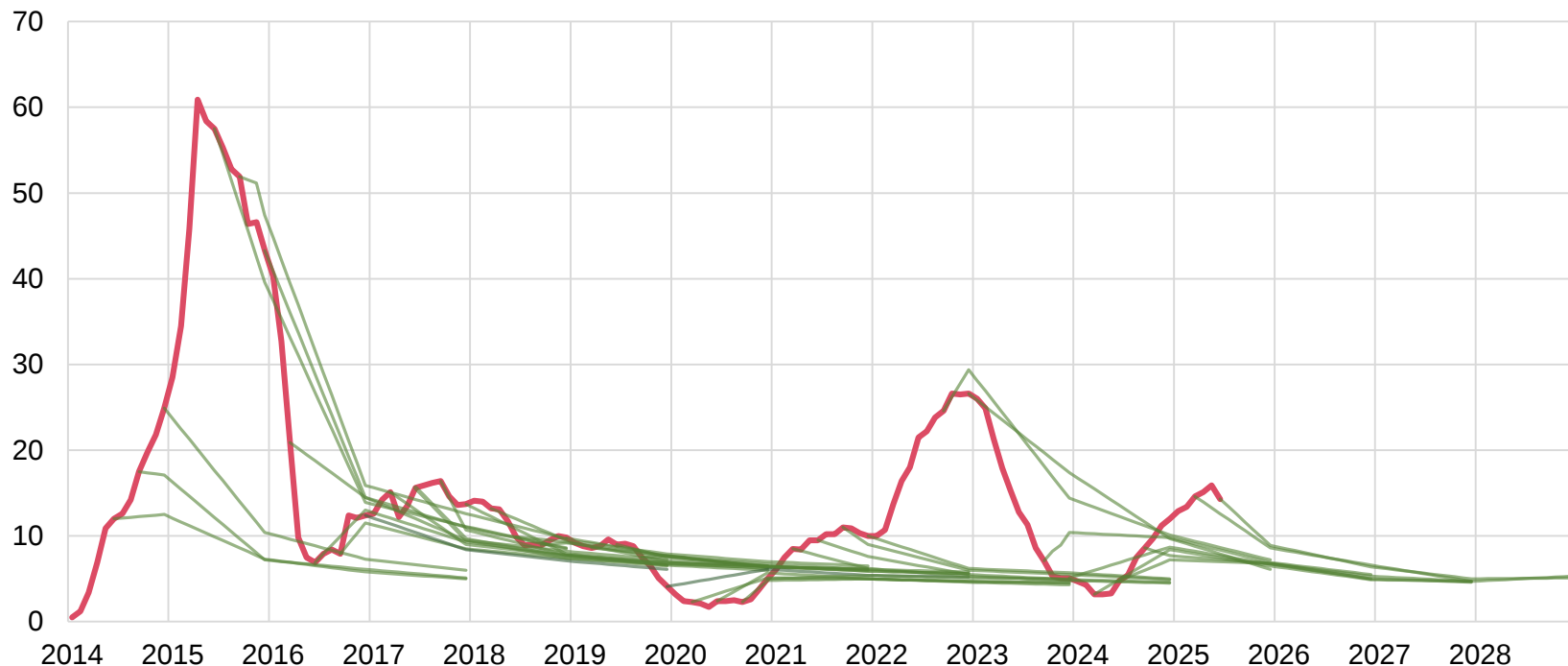
## 12-Month-Ahead Inflation Expectations, %



Source: Info Sapiens, NBU.

# Stabilizing inflation expectations and gradually anchoring them around the announced target

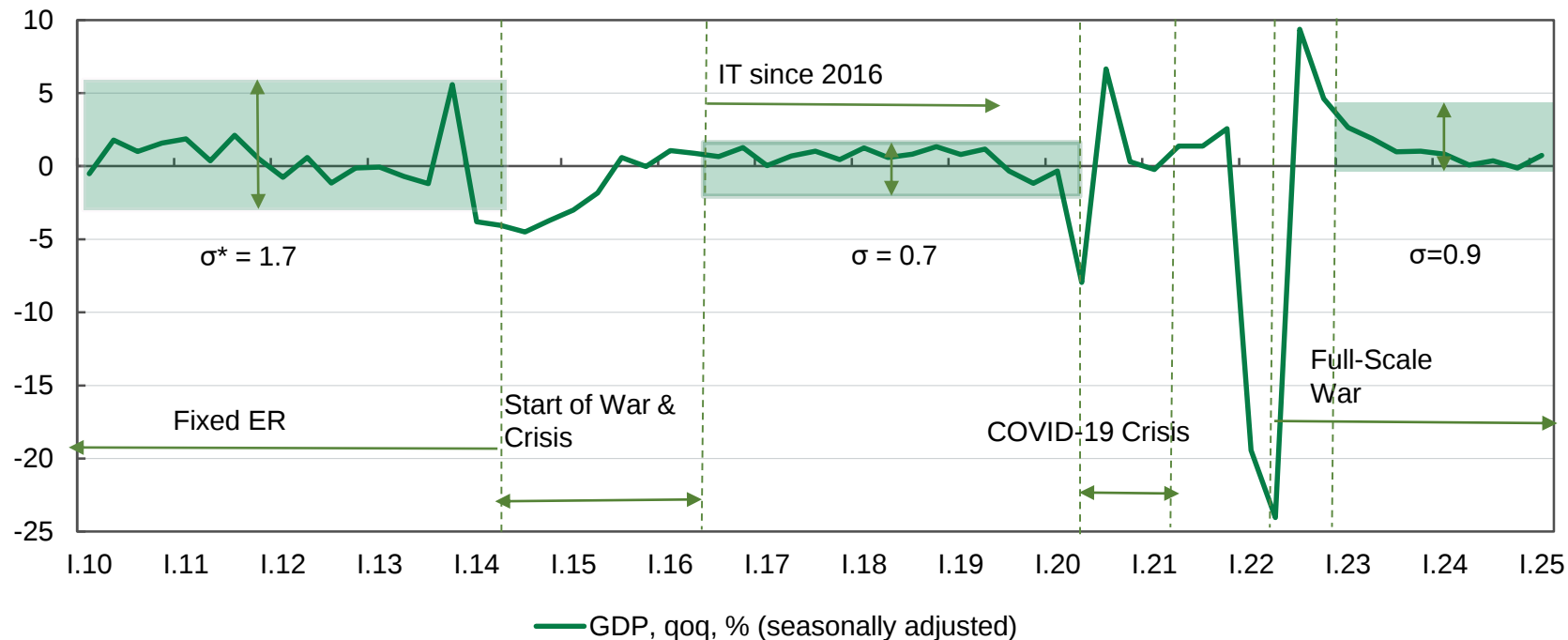
CPI and Financial Analysts' Short- and Medium-term Inflation Expectations, %



Source: FocusEconomics, NBU.

# Significant reduction in GDP growth volatility

Real GDP, qoq, % (seasonally adjusted)

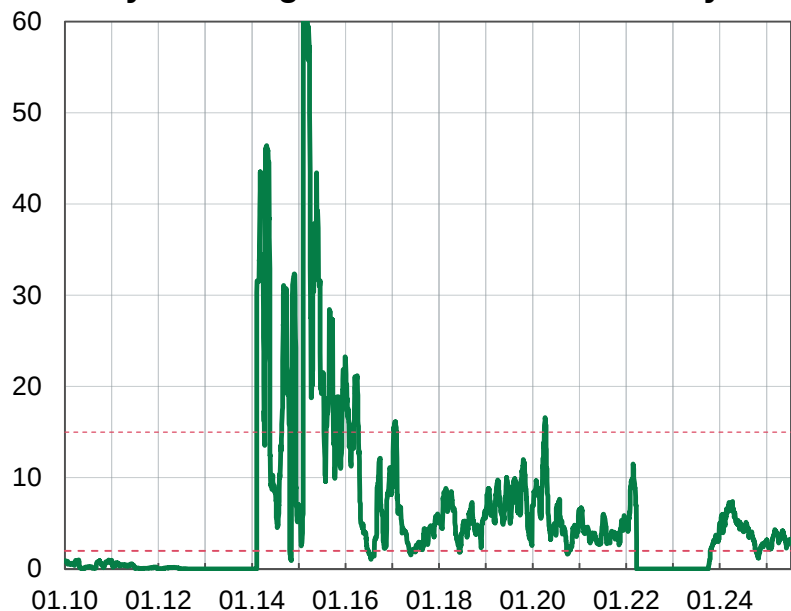


\* $\sigma$  - standard deviation

Source: SSSU, NBU staff estimates

# Adaptation to ER flexibility and improved external position

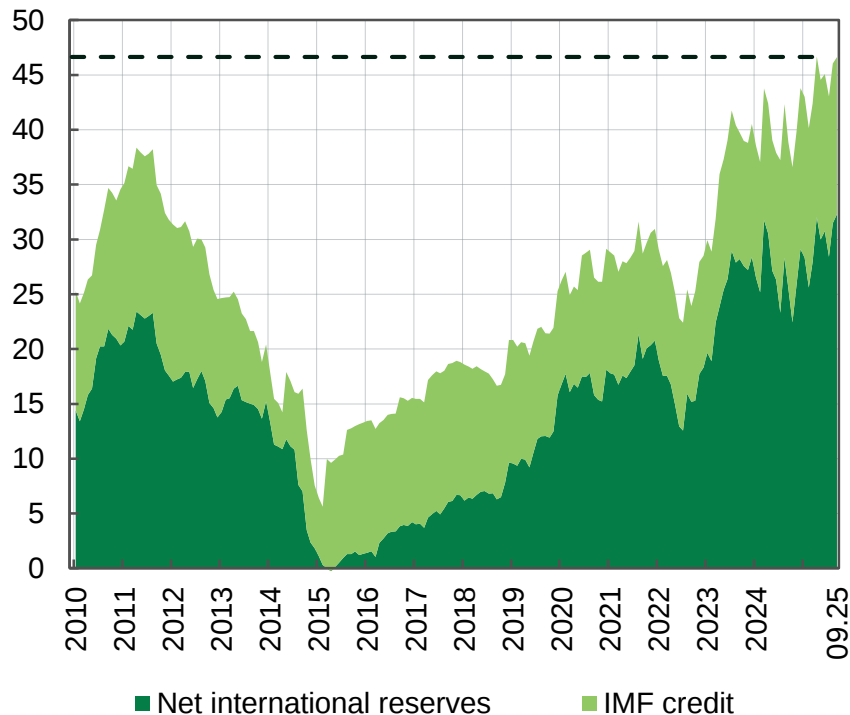
## Monthly Exchange Rate UAH/USD Volatility\*



\* Standard deviation of the daily ER change over a rolling month (quarter), annualized

Source: NBU staff estimates.

## International reserves, USD billions



Source: NBU staff estimates.

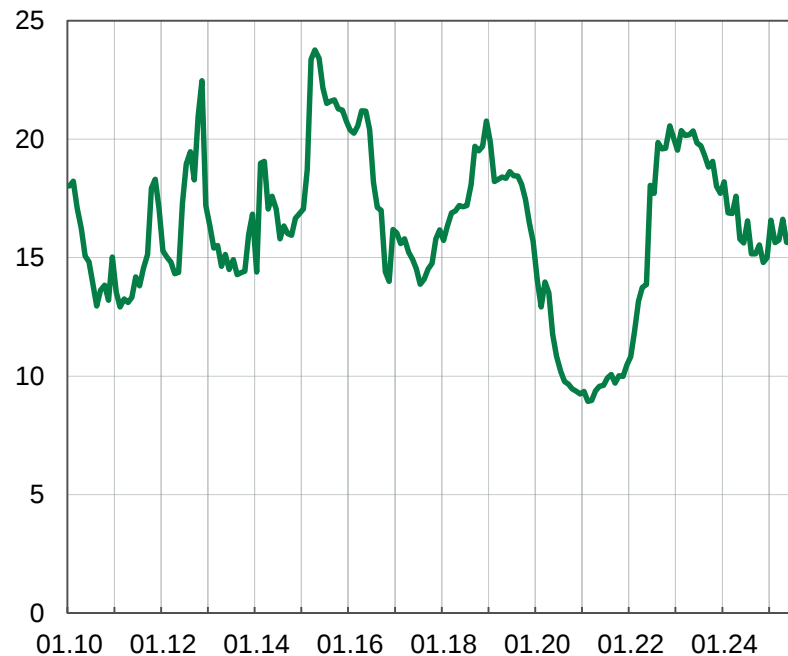
# Dedollarization of loans and deposits and lower lending rates

**Share of Foreign Currency Loans and Deposits, %**



Source: NBU.

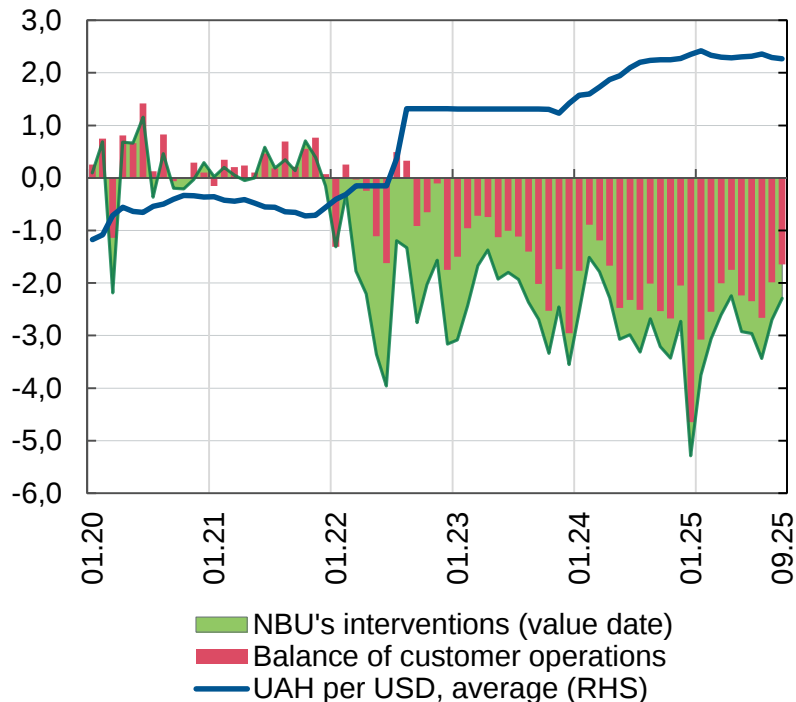
**Interest Rates on UAH Loans to Non-financial Corporations, %**



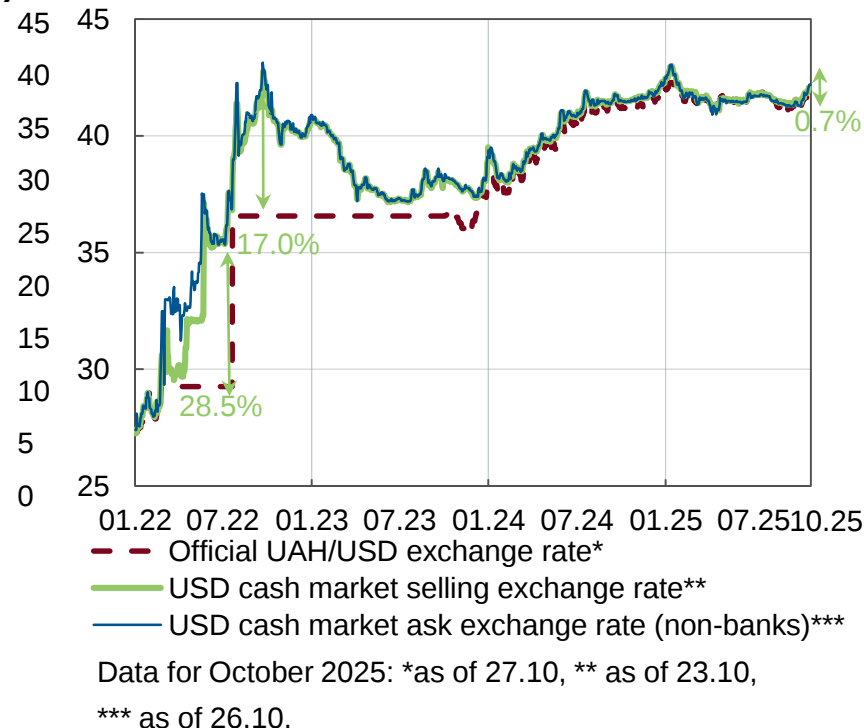
Source: NBU.

# A 180-degree turn: Monetary policy at the onset of the full-scale invasion of Ukraine

Bank clients' FX transactions and NBU's FX interventions (USD billions), UAH/USD ER (avg.)



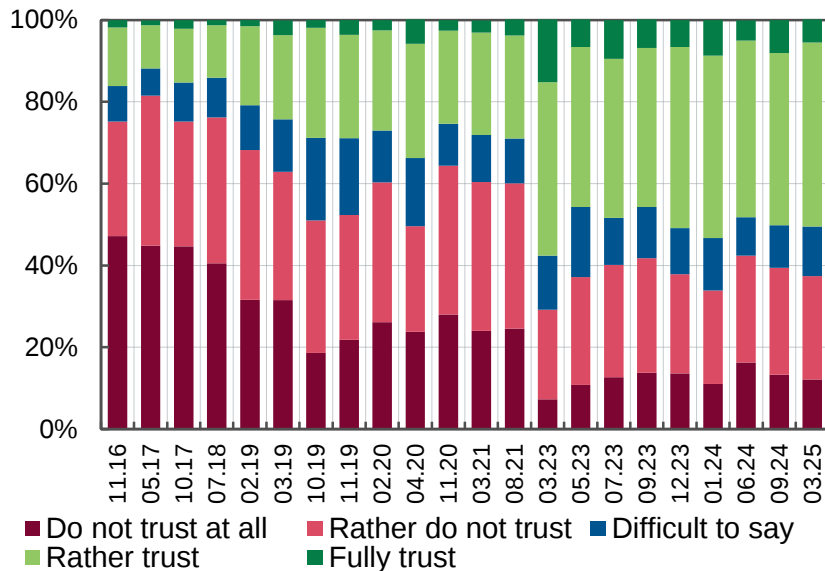
Hryvnia per USD exchange rates



Source: NBU, open data sources.

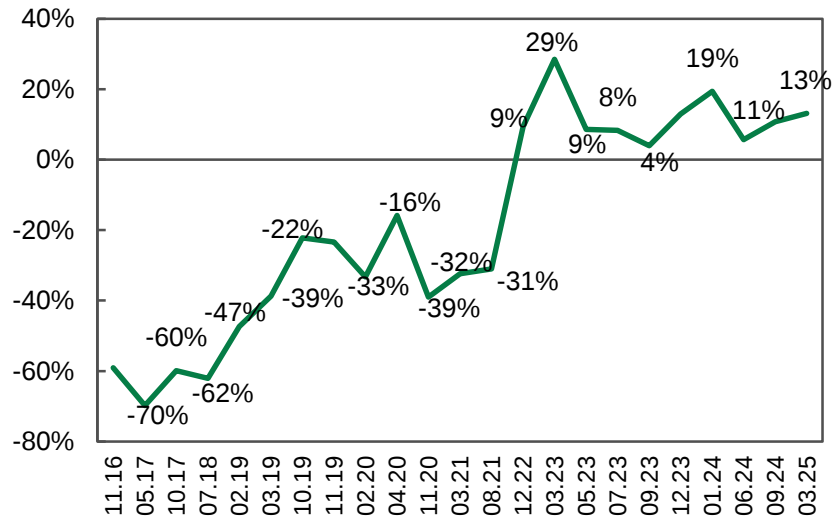
# The foundation for Ukraine's shift from a 'Survival strategy' to a 'Recovery strategy'

## The Level of Public Confidence in the NBU



Source: [Razumkov Centre](#) sociological studies.

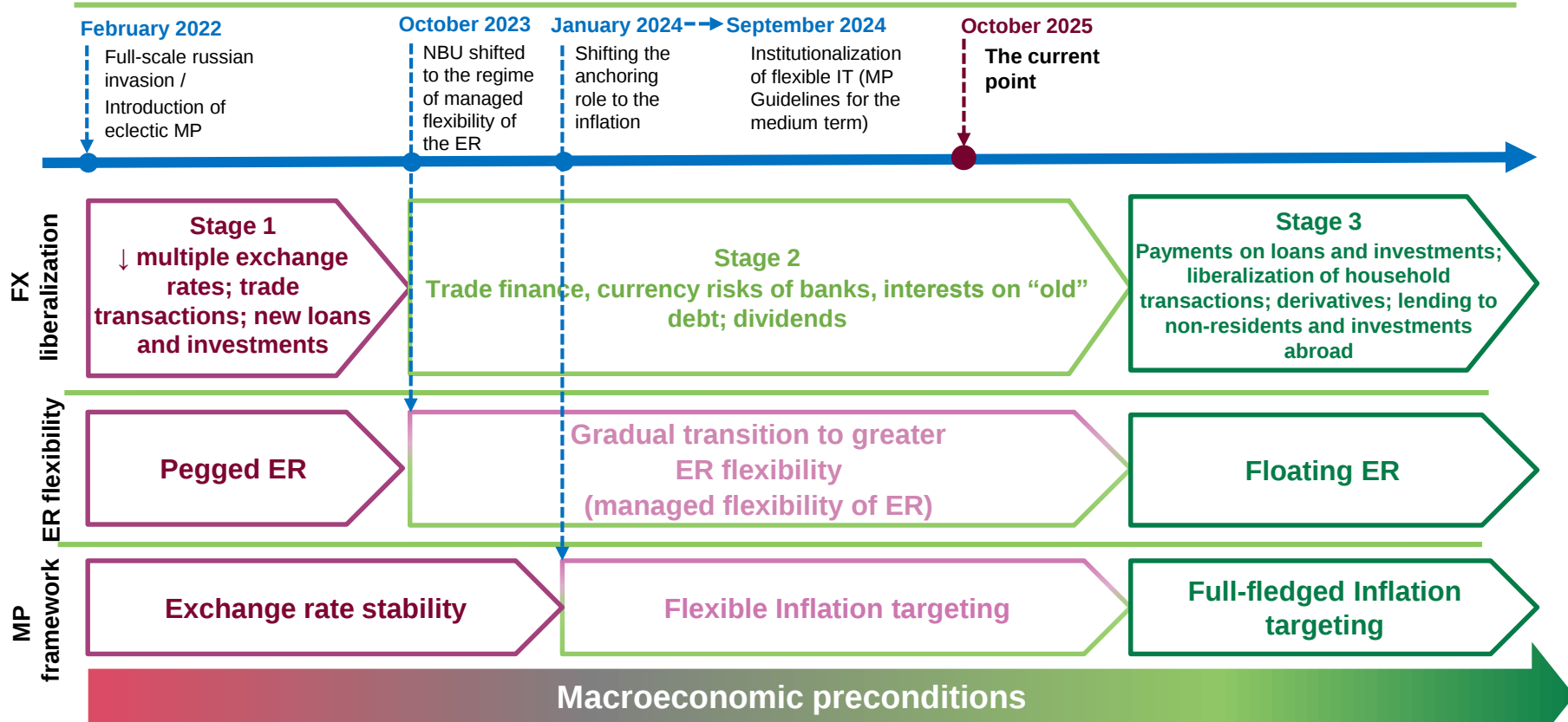
## Trust-mistrust balance\*, %



\*Difference between share of those who trust the NBU and share of those who don't trust it

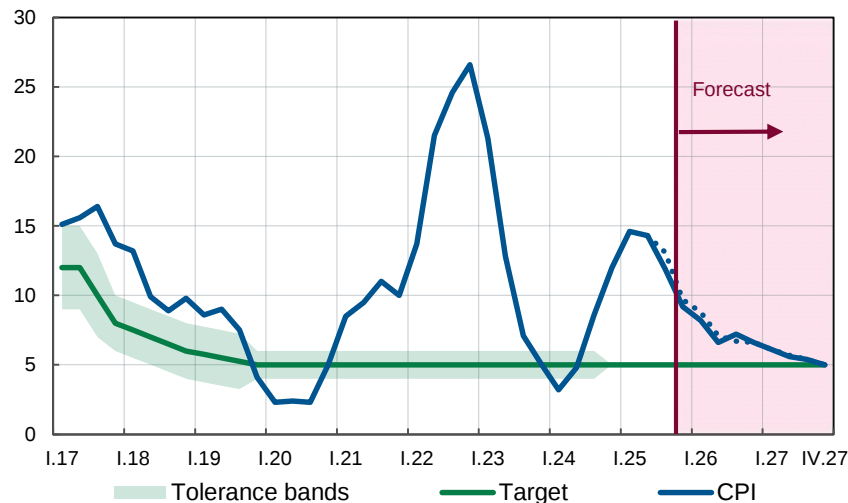
- After an initial surge in inflation to nearly 27% due to the direct and indirect effects of the invasion, a comprehensive set of monetary policy measures enabled the NBU to bring inflation down to 5.1% by the end of 2023, effectively returning it to the 5% target
- This achievement became a key driver of improved public trust in the NBU

# MP Roadmap: NBU plans to return gradually to a full-fledged IT with floating exchange rate as proper preconditions are in place



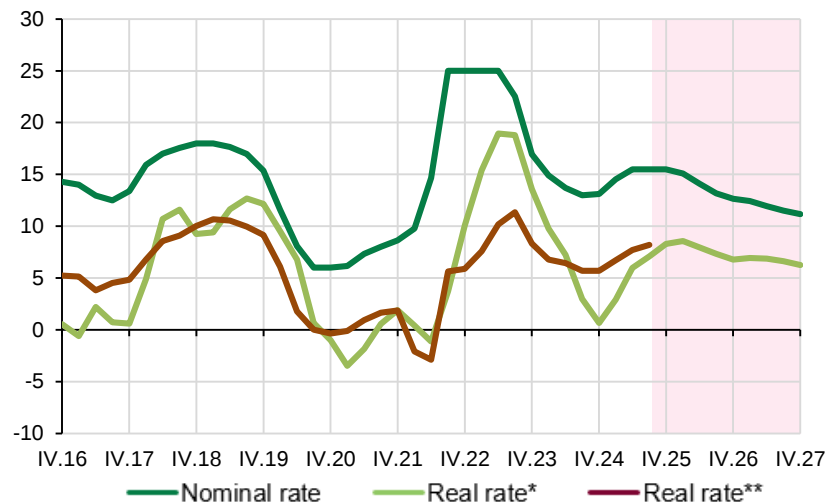
# Not an autopilot: Rules provide the compass, but judgment steers the ship

## Inflation and Inflation Targets (with Forecast), %



Source: SSSU, NBU staff estimates.

## Real Key Policy Rate (with Forecast), %



\*Deflated by model expectations (QPM+).

\*\*Deflated by the expectations of financial analysts.

Source: NBU staff estimates.

- By the end of 2024, the NBU switched from easing to tightening monetary policy, strengthening this shift through changes in its operational design
- These calibrated steps helped reverse the inflation trend by mid-2025 while keeping expectations stable — a sign that monetary policy had matured from firefighting to fine-tuning

# Steering inflation targeting in a new era of uncertainty resembles the 'Pep Guardiola theory of monetary policy'

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- Inflation targeting has fundamentally transformed the NBU's capacity to deliver on its mandate
- It stands as one of the most significant and successful reforms since the Revolution of Dignity
- The institutional capacity of monetary policy today is incomparably stronger than it was a decade ago
- The 5% inflation target has served as a reliable nominal anchor through some of the most severe and prolonged shocks in modern economic history
- The ultimate test of a monetary policy framework is not the absence of deviations from the target, but the central bank's ability to respond appropriately to shocks
- Looking ahead, the key challenge will be to preserve credibility and effectiveness in an environment of persistent uncertainty
- As before, the NBU will make everything possible to provide price stability, adapting our policy frameworks to new realities. In an age of turbulence, a strong and credible commitment to our inflation target is more important than ever



# National Bank of Ukraine

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