Borzenko Olena
Doctor of Economic Sciences, Professor,
Head of the International Financial Research Sector,
State Organization «Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine»
Kyiv, Ukraine

DOI: https://doi.org/10.36059/978-966-397-558-0-35

INFLATION TARGETS AND STABILITY IN UKRAINE[1]

In October 2023, the National Bank of Ukraine announced the departure from the fixed hryvnia exchange rate and the transition to the so-called "managed flexibility" regime – better known in world practice as managed floating [1].

The ideal goal of such a regime is to find an equilibrium exchange rate, when market demand and supply of currency are balanced, and the role of the central bank is reduced to smoothing out short-term fluctuations. But in reality, Ukraine received a completely different model – manual management of the foreign exchange market with minimal influence of market factors and opaque exchange rate formation parameters.

The main tool of "flexibility" has become the NBU's large-scale foreign exchange interventions. Today, the main source of currency supply in Ukraine remains non-market receipts – grants, soft loans, humanitarian aid. For 8 months of 2025, their volume amounted to $ 32.8 billion. USA, almost equal to exports of goods and services ($35.2 billion) [2].

The hryvnia exchange rate is determined not by market trends, but by an administratively established corridor. At the same time, the "changes in both directions" declared by the NBU are more an imitation of flexibility than its real manifestation. In 2024, the hryvnia devalued by 14% with a stable trade balance, and in 2025 it remained "stable" with a 43% increase in the foreign trade deficit.

[1] The scientific publication presents the results of the research project "Opportunities and risks of building a social state in Ukraine in conditions of global uncertainty" (state registration No. 0124U004444), which is being carried out with funding from the Ministry of Education and Science within the framework of international scientific and technological bilateral cooperation with the Republic of Lithuania.

According to the IMF, only 32.5% of the world's countries had freely or managed floating exchange rates in 2023. The rest – 67.5% – adhered to rigid or creeping pegs.

And the trend towards "flexibility" is only decreasing:

- 2005 – 46.5%;
- 2016 – 36.9%;
- 2023 – 32.5%.

Ukraine, on the other hand, has gone in the opposite direction, introducing "flexibility" against the backdrop of war, trade deficit, and non-market sources of foreign exchange earnings.

The fixed hryvnia exchange rate was the same nominal anchor that ensured the predictability of economic processes. The rejection of it destroyed the confidence of business, exporters, and investors. New benchmarks – inflation targets – did not become a real substitute for stability.

Moreover, "managed flexibility" gave rise to expectations of devaluation. After all, there is no longer a guarantee of a stable exchange rate from the NBU, and the state of Ukraine's balance of payments is only worsening.

Since the beginning of the full-scale war, Ukraine has received over 150 billion USD of international financial assistance. These funds, converted into hryvnia through the NBU, are the main source of stability in the foreign exchange market. Without this support, the exchange rate would have "flown into space" long ago. According to the Kiel Institute for World Economics, the total amount of international assistance to Ukraine by July 2025 amounted to 309.6 billion euros, of which 141.3 billion were provided by the EU and 114.6 billion by the USA [3].

Against this background, the statement about "flexibility from a position of strength" looks rather conditional. The Ukrainian hryvnia today depends not on the market power of the economy, but on the geopolitical support of partners.

According to the NBU, international reserves have increased to $46 billion (from $39 billion in 2023). But this increase is the result of foreign aid, not market revenues. Ukraine received more than $71 billion in aid in 2024 and 8 months of 2025, but only 1/10 of this amount replenished reserves. The rest went to currency interventions and debt service.

The real foundation of the exchange rate is weak:

- current account deficit $22.4 billion (17% of GDP);
- negative trade balance – $34.3 billion;
- increase in cash currency outside banks – $12.1 billion.

The total balance of payments gap excluding aid reaches $45 billion or 22% of GDP. After the introduction of the new regime, the volume of NBU foreign exchange interventions only increased:

- in 2024 – by 22% compared to 2023;
- in 2025 (8 months) – by another 17%. The total annual volume of interventions exceeded 38 billion USD.

Net purchases of foreign exchange by businesses increased by 50%, to a historical maximum of 28.8 billion USD. Therefore, maintaining “flexibility” is extremely expensive – both in foreign exchange and in loss of confidence.

Despite formal reserves, Ukraine has an external debt of 145 billion USD, and most of its foreign exchange resources are of debt origin. After 2027, when debt servicing resumes, the pressure on the NBU’s reserves will increase sharply, and the ability to support the exchange rate will decrease.

Foreign exchange reserves created at the expense of loans cannot be a guarantee of stability in the long term. Official “trust in the hryvnia” is a consequence of the war economy – inactive consumption and forced accumulation of hryvnia balances in accounts.

In reality, 61% of financial assets of the population and business are in cash, and their volume outside banks exceeded 140 billion USD. For comparison: term deposits in banks – only 21.2 billion USD. This means that the market does not believe in the stability of “managed flexibility”. Today’s exchange rate “stability” is a mask maintained by international aid. When this flow decreases (and the IMF predicts no more than 12 billion USD per year after the war), Ukraine will inevitably face a large-scale devaluation and a new round of inflation [4].

In these conditions, the NBU’s ambitions to "achieve 5% inflation on an acceptable horizon" look unrealistic. After all, a decrease in external financing will inevitably cause a price explosion due to the economy’s import dependence.

Ukraine needs a real economic recovery program:

- restoration of export potential;
- attraction of productive investments;
- reduction of import dependence.

Exchange rate stability is not the result of “flexibility”, but the result of trust.

Referenses:

1. National Bank of Ukraine/Inflation Report, October 2025. Available at: https://bank.gov.ua/ua/news/all/inflyatsiyniy-zvit-jovten-2025-roku [in Ukrainian]

2. National Bank of Ukraine/Statistics/Financial sector statistics/Indicators of monetary and financial statistics (based on operational data) Available at: https://bank.gov.ua/ua/statistic/sector-financial [in Ukrainian]

3. HICP – monthly data (annual rate of change). Eurostat. Available at: https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_MANR__custom_3761882/bookmark/table?lang=en&bookmarkId=4ad27e6f-358a-4a3d-82a0-587d69a833eb&c=1667558907980

4. Real Effective Exchange Rates (2010=100)//IMF Annual Average Index, 2010 = 100. Available at: https://www.imf.org/external/datamapper/datasets