30 YEARS OF THE HRYVNIA:
A HISTORY OF DISTRUST



Lessons from a Thirty-Year Monetary Experiment That Failed.

Why do Ukrainians keep their money in foreign currencies and distrust the hryvnia?

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The Ukrainian government made **a serious theoretical mistake** by requiring the country's central bank to perform not just two, but even more functions from the very beginning of the National Bank's operations.

This mistake was exacerbated by the conditions surrounding the introduction of the hryvnia — very high inflation, an acute shortage of specialists in monetary and macroeconomic policy, underdeveloped capital and foreign exchange markets, weak public administration institutions, and an underdeveloped financial market. Over the next 30 years, this mistake was never corrected. The lack of a distinct national school of thought on the theory of money, finance, and credit relations, together with a multiple-mandate approach, significantly complicated efforts to ensure monetary and macroeconomic stability throughout the Ukrainian economy.

The architects of Ukraine's financial system in the 1990s ignored the experience of both developed and developing countries in monetary policy and in achieving price stability during the systemic and structural transition from a centrally planned economy to a market economy.

The Ukrainian hryvnia was established on August 25, 1996, by Presidential Decree No. 762/96 issued by President Leonid Kuchma, "On Monetary Reform in Ukraine".

This document was adopted in accordance with Articles 99 and 102 of the Constitution of Ukraine: "The currency unit of Ukraine shall be the hryvnia. Ensuring the stability of the currency unit shall be the major function of the central bank of the State – the National Bank of Ukraine."[1].

[1] https://constitution.in.ua/articles/99/

The Law "On the National Bank of Ukraine"[2] was adopted in 1999, but as of the end of 2025, it had been amended **92 times** — an average of three times a year. This fact speaks volumes about the quality and stability of the legislative framework administered by the main institution responsible for conducting monetary policy.

[2] Law of Ukraine "On the National Bank of Ukraine." (Bulletin of the Verkhovna Rada of Ukraine (VVR), 1999, No. 29, Art. 238) https://zakon.rada.gov.ua/laws/show/679-14#Text

THE LEGAL FRAMEWORK FOR THE NATIONAL BANK AND MONETARY POLICY IN THE WEST

To begin with, let's analyze the legal framework for Ukraine's monetary policy in light of international practices and standards.

> A TIME BOMB BENEATH THE UKRAINIAN HRYVNIA, THE QUALITY OF MONETARY POLICY, AND THE COUNTRY'S FINANCIAL MARKET AS A WHOLE WAS EMBEDDED IN THE VERY LAW "ON THE NATIONAL BANK OF UKRAINE."

In particular, Article 4 states: "The National Bank of Ukraine shall be an economically independent body that carries out expenditures at the expense of its own revenues and, in cases determined by this Law, also at the expense of the State Budget of Ukraine."

This raises a legitimate question: why should a public authority be economically independent, and what exactly is this so-called "self-financing"? By itself, this provision does not pose a serious risk to the National Bank's ability to perform its functions.

Article 6 of the Law defines the **National Bank's primary function:** "In accordance with the Constitution of Ukraine, the primary function of the National Bank shall be to ensure the stability of the monetary unit of Ukraine." Accordingly, the National Bank's top priority is to achieve and maintain price stability in the country. At first glance, everything seems perfectly clear: in carrying out its activities, the National Bank is required to focus on a key performance indicator (KPI) for inflation, namely the Consumer Price Index (CPI). However, the Law contains an important qualification: the National Bank shall **promote financial stability**, including the stability of the banking system, provided that this does not interfere with the achievement of its primary objective and priority—price stability. However, the same Article 6 of the Law "On the National Bank of Ukraine" further **expands the Bank's mandate:**

The National Bank shall also promote the maintenance of sustainable rates of economic growth and support the economic policy of the Cabinet of Ministers of Ukraine, provided that this does not interfere with the achievement of the objectives set out in parts two and three of this Article."[3] Overall, Article 7, "Other Functions," lists 41 additional functions of the National Bank, revealing how the institution's role and functions in the country's economic policy are understood.

[3] https://zakon.rada.gov.ua/laws/show/679-14#Text

Here are some examples of the objectives and functions of central banks in several leading countries around the world.

SWITZERLAND

> *«The SNB has the mandate to conduct monetary policy in such a way that money preserves its value and the Swiss economy develops in an appropriate manner»*[4].

[4] https://www.snb.ch/en/the-snb/mandates-goals/monetary-policy

Data on inflation, financial market development, the Swiss National Bank's purchasing power, and quantitative and qualitative indicators of the Swiss economy provide grounds for concluding that the Swiss National Bank (SNB) is one of the best, if not the best, in the world. Therefore, it is particularly important for Ukraine to study and apply its experience and operating model.

Here is what the legal requirement for the Swiss National Bank looks like:

> *«Article 99 of the Federal Constitution entrusts the SNB, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The mandate is explained in detail in the National Bank Act (art. 5 para. 1), which requires the SNB to ensure price stability and, in so doing, to take due account of economic developments»*[5].

[5] https://www.snb.ch/en/the-snb/mandates-goals/monetary-policy/strategy

Article 5, "Tasks" of the Federal Act on the Swiss National Bank provides that:

> *«1. The National Bank shall pursue a monetary policy serving the interests of the country as a whole. It shall ensure price stability. In so doing, it shall take due account of economic developments»*[6].

[6] https://www.fedlex.admin.ch/eli/cc/2004/221/en

Below is the Swiss National Bank's definition of "price stability," which has, in essence, been adopted by the central banks of virtually all market economies:

> *«The SNB equates price stability with a rise in the Swiss consumer price index (CPI) of less than 2% per annum. Deflation, i.e. a sustained decrease in the price level, also breaches the objective of price stability.»*[7]

[7] https://www.snb.ch/en/the-snb/mandates-goals/monetary-policy/strategy

The importance of price stability and preserving the purchasing power of the national currency is illustrated by the following simple calculation provided by the Swiss National Bank:

> *«How long does it take for the purchasing power of one Swiss franc to be reduced by half?*
>
> *With an annual inflation rate of 1%, it takes 70 years*
> *With an annual inflation rate of 2%, it takes 35 years*
> *With an annual inflation rate of 5%, it takes 15 years*
> *With an annual inflation rate of 10%, it takes 7 years.*[8]
>
> *Price stability means that the level of prices remains unchanged. It also means that while the prices of individual goods may certainly fluctuate, the average of all prices changes so little that it hardly matters in everyday life.».*

[8] https://www.snb.ch/en/snb-explained/price-stability

The European Central Bank's mandate is also clearly defined:

> *«The primary objective of the ECB's monetary policy is to maintain price stability. This means making sure that inflation – the rate at which the prices for goods and services change over time – remains low, stable and predictable. To succeed, we seek to anchor inflation expectations and influence the "temperature" of the economy, making sure the conditions are just right – not too hot, and not too cold. We do this through our monetary policy.*
>
> *The Governing Council considers that price stability is best maintained by aiming for 2% inflation over the medium term»*[9].

[9] HTTPS://WWW.ECB.EUROPA.EU/MOPO/INTRO/HTML/INDEX.EN.HTML

POLAND

Article 3 of the Act on the National Bank of Poland states:

> *«The basic objective of NBP activity shall be to maintain price stability, and it shall, at the same time, act in support of Government economic policies, insofar as this does not constrain the pursuit of the basic objective of the NBP»*[10].

[10] Ustawa z dnia 29 sierpnia 1997 r. o Narodowym Banku Polskim. https://nbp.pl/wp-content/uploads/2022/11/D2022000202501-nbp.pdf

The examples above clearly illustrate the purpose of the National Bank: price stability and, as a result, the preservation of the national currency's purchasing power.

> THUS, THE CENTRAL BANK, AS A SPECIAL INSTITUTION OF PUBLIC ADMINISTRATION, WAS ESTABLISHED AFTER THE ABOLITION OF THE GOLD STANDARD AND THE NATIONALIZATION OF MONEY WITH ONE SPECIFIC, CLEARLY DEFINED GOAL — TO ENSURE PRICE STABILITY.

The consumer price index is generally considered to be the key indicator of this goal. This framework is known as **a single mandate.** Throughout most of the twentieth century, central banks generally operated under this framework. A major departure came in 1977, when the U.S. Congress formally established the dual mandate. The Federal Reserve was tasked with pursuing "maximum employment" and "price stability," thereby expanding the central bank's mandate while also increasing the number and scope of **legally sanctioned interventions** through monetary policy, which increasingly came to accommodate fiscal policy. As a result, the primary objective began to suffer, creating a classic case of conflicting mandates — aptly captured by the saying: "If you chase two hares, you will catch neither."

Following a series of crises — including the dot-com crash of the early 2000s, the global financial crisis of 2008–2009, and the inflation crisis of the 2020s — the debate over the mandate of central banks intensified in the United States, Europe, and across OECD countries. Proponents of New Keynesianism and accommodative monetary policy, including advocates of the so-called Modern Monetary Theory (MMT[11]) argued for a further expansion of central banks' mandates. For example, the European Central Bank decided to support the climate agenda and the transition to net-zero emissions:

[11] **Modern Monetary Theory (MMT)** is a body of theoretical propositions and hypotheses based on Chartalism and the state theory of money. It assumes that money is a form of social debt relationship created by the state primarily to facilitate the collection of taxes. Its proponents argue that government spending can be financed through money creation while achieving full employment without generating inflation. MMT is one of the branches of the broader Post-Keynesian economic tradition. Its practical implementation involves a substantial role for the state in the economy, including the use of active fiscal policy under conditions of strict government control over financial markets, as well as the state's role as the employer of last resort. According to MMT, money creation comes first: the state finances its expenditures by issuing new money and then uses taxation to regulate the amount of money in circulation in order to prevent inflation.

> *«Cutting carbon emissions is the only way to avoid the worst effects of climate change. For this reason, the European Union has committed to a 55% reduction in emissions by 2030 and a net-zero economy by 2050. Although governments and legislators have the primary responsibility for driving and supporting this transition, we at the ECB must also do our part by promoting sustainable finance and greening our monetary policy operations, without prejudice to our primary objective of price stability. Although governments and legislators have the primary responsibility for driving and supporting this transition, we at the ECB must also do our part by promoting sustainable finance and greening our monetary policy operations, without prejudice to our primary objective of price stability»*[12].

[12] Supporting the green transition. https://www.ecb.europa.eu/ecb/climate/green_transition/html/index.en.html

On paper, provisions such as "without compromising the achievement of its primary objective" or "provided that this does not interfere with the achievement of its primary objective" do not appear to threaten price stability. In practice, however, assigning conflicting functions to the central bank **legitimizes its interventionism** in areas of economic activity that extend beyond its mandate to maintain price stability. Such a framework is particularly risky for price and macroeconomic stability in developing countries and economies in transition.

> UKRAINE FELL INTO THE TRAP OF MULTIPLE MANDATES AND, AS A RESULT, BECAME ONE OF THE WORLD'S WORST-PERFORMING COUNTRIES IN TERMS OF PRICE INSTABILITY AND PRESERVING THE PURCHASING POWER OF THE HRYVNIA.

FAILURE TO ACHIEVE THE PRIMARY OBJECTIVE OF MONETARY POLICY IN UKRAINE

BETWEEN 1992 AND 1995, UKRAINE'S AVERAGE ANNUAL INFLATION RATE STOOD AT 3,185%.

From the standpoint of economics in general, and monetary theory in particular, this was a period in which the Ukrainian authorities completely disregarded the fundamental principles, basic truths, and axioms of economic science. Policymakers imposed a devastating inflation tax on the Ukrainian people, wiping out the savings accumulated over many generations.

During the first half of the 1990s, Ukraine witnessed an unprecedented **redistribution of wealth and capital** accumulated during its time as part of the Soviet totalitarian empire. This redistribution benefited 3% of the population at the expense of the remaining 97%. It amounted to legalized plunder, monetary looting, and a campaign that drove more than 70% of the population into poverty and destitution.

The actions of the Ukrainian authorities during that period had nothing to do with liberalism, the free market, or capitalism. They may have been part of a deliberate provocation—an operation aimed at impoverishing the newly independent state on the part of Russia. Unfortunately, the fifth column within Ukraine and Russian agents of influence became accomplices in this unprecedented act of plunder. It may also have been the result of an acute shortage of professional and academic expertise in monetary theory and economics more broadly. Finally, the poor quality of monetary policy may have resulted from the fact that politicians and decision-makers ignored the advice and recommendations of Ukrainian and foreign scholars and experts in monetary and macroeconomic policy.

For comparison, the average annual inflation rate between 1992 and 1995[13] was 32.9% in Slovakia, 922% in Russia, 146.3% in Romania, 33.2% in Poland, 793.8% in Moldova, 357.6% in Lithuania, 1,593.5% in Kazakhstan, 23.1% in Hungary, 12.1% in the Czech Republic, 74.5% in Bulgaria, 1,446.3% in Belarus, 3,538.5% in Armenia, and 1,140.5% in Azerbaijan.

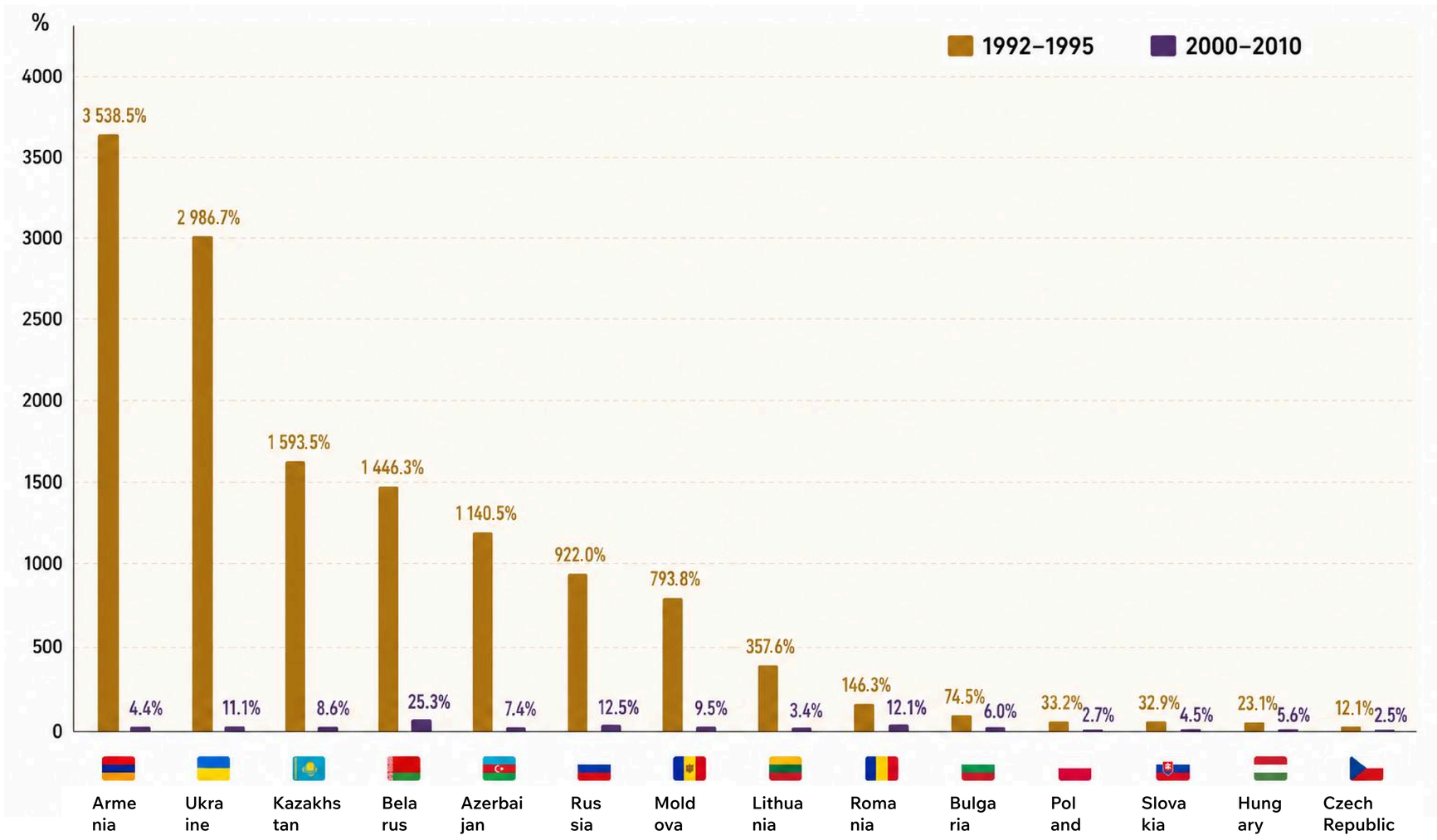
[13] Дані по інфляції 1992–1995 рр. (на кінець періоду) з Transition Report 1997. Enterprise performance and growth. Economic transition in Eastern Europe and the former Soviet Union. https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/office-of-the-chief-economist/transition-report-archive/transition-report-1997/Transition-Report-1997-Enterprise-Performance-and-Growth-Cover-English.pdf

Ukraine recorded the worst performance in terms of price stability not only among the countries of Central and Eastern Europe but, together with Armenia, also emerged as a clear outsider among the post-Soviet states. Armenia, however, learned the lesson of destructive inflation. Between 2000 and 2010, the country's average annual inflation rate was 4.4%, and between 2010 and 2025 it averaged 3.4%. In Ukraine, by contrast, according to the IMF database, the average annual inflation rate since the introduction of the hryvnia, over the period 1996–2025, has been 13.4%.

AVERAGE ANNUAL INFLATION IN SELECTED TRANSITION ECONOMIES, 1992–1995

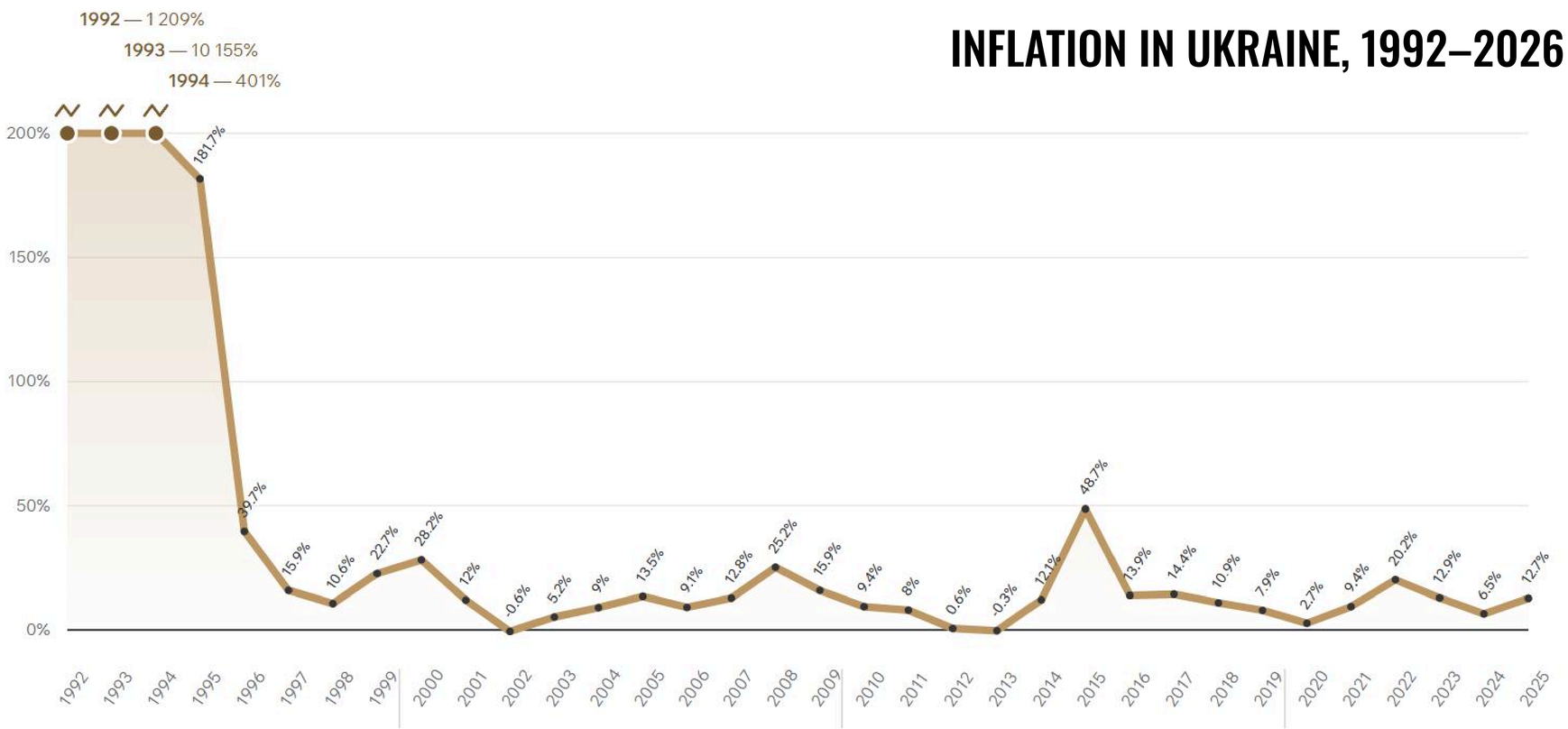
COUNTRY	1992–1995	2000–2010
Armenia	3,538.5%	4.4%
Ukraine	2,986.7%	11.1%
Kazakhstan	1,593.5%	8.6%
Belarus	1,446.3%	25.3%
Azerbaijan	1,140.5%	7.4%
Russia	922.00%	12.5%
Moldova	793.80%	9.5%
Lithuania	357.60%	3.4%
Romania	146.30%	12.1%
Bulgaria	74.50%	6.0%
Poland	33.20%	2.7%
Slovakia	32.90%	4.5%
Hungary	23.10%	5.6%
Czech Republic	12.10%	2.5%

Source: IMF World Economic Outlook (WEO). Indicator: year-on-year change in average consumer prices, %.



Source: IMF World Economic Outlook (WEO). Indicator: year-on-year change in average consumer prices, %.

INFLATION IN UKRAINE, 1992–2026



Source: IMF World Economic Outlook (WEO). Indicator: year-on-year change in average consumer prices, %.

The failure of Ukraine's monetary policy resulted from a fundamental disregard for the nature of money and for the recommendations not only of the Austrian School of Economics (whose representatives were virtually absent from Ukraine in the 1990s at a level that would have enabled them to participate in the formulation of economic policy), but also of the Monetarist School.

The Ukrainian authorities adopted a **Keynesian**, deeply interventionist approach to monetary policy, ignoring the fundamental relationship between the money supply and inflation. Moreover, this cannot be attributed to any single prime minister, president, composition of the Verkhovna Rada, or leadership of the National Bank of Ukraine. Rather, it was a fundamental theoretical and **systemic mistake** embedded in the very foundations of Ukraine's monetary policy in the mid-1990s—a mistake that has yet to be corrected.

> **"There is no doubt that poor monetary policy became one of the factors behind Ukraine's low economic growth rates, as it hindered the development of financial and capital markets, the inflow of money and investment, and the expansion of credit relations.**

The dominance of the state and oligarchic interests in the economy prevented the creation of strong drivers of sustained **demand for the national currency**, which ultimately made it impossible to develop a market-based capital structure. On the other hand, the Verkhovna Rada, which was supposed to oversee the implementation of the National Bank's mandate, also became a participant in the legally sanctioned plundering of the country's economy.

UKRAINE'S BROAD MONEY SUPPLY, UAH BILLION, 1996–2025

Indicators at the beginning of the period	01.01. 1996	01.01.2001	01.01.2006	01.01. 2011	01.01. 2016	01.01. 2021	01.01.2023	01.01.2024	01.01.2025	01.01.2026
M0	2.62	12.8	60.23	182.99	282.67	516.08	666.1	716.17	759.75	866.94
Monetary Base	3.54	16.78	82.76	225.69	336	595.99	792.5	976.94	1,052.1	1,174.5
M1	4.68	20.76	98.57	289.89	472.22	1,050.05	1,571.4	1,863.18	2,129.28	2,524.45
M2	6.85	31.54	193.15	596.84	993.81	1,847.36	2,500.5	3,076.43	3,487.86	4,020.83
M3	6.93	32.25	194.07	597.87	994.06	1,850.01	2,501.6	3,077.19	3,488.38	4,021.31

UKRAINE'S BROAD MONEY SUPPLY. % CHANGE. 2001–2025

Indicators	01/01/2001 – 01/01/1996	01/01/2006 – 01/01/2001	01/01/2011 – 01/01/2006	01/01/2016 – 01/01/2011	01/01/2021 – 01/01/2016	01/01/2026 – 01/01/2021
M0	4.9x increase	↑ 4.7x increase	↑ 3.0x increase	54.50%	82.60%	68.00%
Monetary Base	4.7x increase	↑ 4.9x increase	↑ 2.7x increase	48.90%	77.40%	97.10%
M1	4.4x increase	↑ 4.7x increase	↑ 2.9x increase	62.90%	↑ 2.2x increase	↑ 2.4x increase
M2	4.6x increase	↑ 6.1x increase	↑ 3.1x increase	66.50%	85.90%	↑ 2.2x increase
M3	4.7x increase	↑ 6.0x increase	↑ 3.1x increase	66.30%	86.10%	↑ 2.2x increase

Source: National Bank of Ukraine https://bank.gov.ua/en/

A comparison of changes in Ukraine's monetary parameters with the dynamics of broad money supply in Poland during 1997–2025 and in the euro area during 2000–2025 clearly demonstrates the causes of high inflation in Ukraine and its relationship with money supply growth.

Poland has undoubtedly benefited from its integration into the European Union, but even its half-hearted reforms have unlocked powerful sources of economic growth.

For more than 25 years, the National Bank of Poland has pursued a monetary policy aimed at achieving price stability, defined as keeping inflation at 2% per year. However, it lacked determination, as well as government support, which also had to contribute to macroeconomic stability (the budget deficit, public debt, and the level of government spending).

Compared to Ukraine, Poland appears to be a fairly successful country with relatively responsible authorities that implement macroeconomic policy.

In today's world of fiat money, the monetary policies of **the European Central Bank** and the **U.S. Federal Reserve** serve as a benchmark for other countries.

POLAND'S BROAD MONEY SUPPLY, PLN BILLION, 1996–2025

Indicators at the beginning of the period	01.01.1997	01.01.2001	01.01.2006	01.01.2011	01.01.2016	01.01.2021	01.01.2023	01.01.2024	01.01.2026
M0	34.2	48.77	70.51	139.73	212.18	384.13	422.91	566.14	613.27
M1	67.87	106.46	220.64	449.19	692.12	1,531.71	1,584.9	1,858.5	2,069.91
M2	140.04	300.42	415.16	774.66	1,145.26	1,814.75	2,078.25	2,259.22	2,725.62
M3	140.43	300.76	427.13	783.65	1,154.99	1,822.73	2,091.26	2,268.25	2,737.69

CHANGE IN POLAND'S BROAD MONEY SUPPLY, 1997–2025

Indicators	01.01.2001 – 01.01.1997	01.01.2006 – 01.01.2001	01.01.2011 – 01.01.2006	01.01.2016 – 01.01.2011	01.01.2021 – 01.01.2016	01.01.2026 – 01.01.2021
M0	0.426	0.446	0.982	0.518	81	0.597
M1	0.569	↑ 2.1 times	↑ 2.0 times	0.541	↑ 2.2 times	0.351
M2	↑ 2.1 times	0.382	0.866	0.478	0.585	0.502
M3	↑ 2.1 times	0.420	0.835	0.474	0.578	0.502
Periods	**1997 – 2001**	**2001 – 2006**	**2006 – 2011**	**2011 – 2016**	**2016 – 2021**	**2021 – 2025**
Average annual inflation, end of period, %	8.7	2.1	3.3	1.2	3.1	6.4
Average annual GDP growth rate, %	4.41	3.45	4.73	3.14	3.98	3.17

Source: National Bank of Poland data. https://nbp.pl/

EUROZONE BROAD MONEY SUPPLY, EUR BILLION, 2000–2025

Indicators at the beginning of the period	01.01.2000	01.01.2001	01.01.2006	01.01.2011	01.01.2016	01.01.2021	01.01.2026
M0	588.4	2,201.8	2,670.9	3,712.6	3,604.9	3,469.9	4,984.7
M1	1,925.2	2,025.2	3,422.3	4,710.7	6,612.4	10,273.1	11,092.5
M2	4,078.9	4,227	6,093.2	8,423.3	10,217.3	13,742.9	16,077.2
M3	4,667.2	4,859.2	7,087.7	9,298.8	10,842.6	14,477.1	17,203.3

Source: European Central Bank data. https://www.ecb.europa.eu/home/html/index.en.html

DYNAMICS OF BROAD MONEY SUPPLY CHANGES IN THE EURO AREA, EUR BILLION, 2000–2025

Indicators at the beginning of the period	01.01.2006 до 01.01.2001	01.01.2011 до 01.01.2006	01.01.2016 до 01.01.2011	01.01.2021 до 01.01.2016	01.01.2026 до 01.01.2021
M0	0.213	0.39	-2.90%	-3.70%	0.437
M1	0.69	0.376	0.404	0.554	8
M2	0.441	0.382	0.213	0.345	17
M3	0.459	0.312	0.166	0.335	0.188

Source: European Central Bank data. https://www.ecb.europa.eu/home/html/index.en.html

We observe a relatively conservative and restrained approach by the ECB toward increasing the money supply. This is precisely why average annual inflation during the period 2000–2020 was approximately 2%. Following monetary easing in response to COVID, a sharp increase in active money (the M0 indicator grew by 43.7% between 2021 and 2025), movement toward a stagnation zone, and the loss of institutional competitiveness, average annual inflation in the euro area during 2021–2025 amounted to 4.2%, once again demonstrating the relationship between the quantity of money in circulation and the level of inflation.

The ECB, like the Fed, has been attempting for more than five years to return inflation to its target level of **2% per year**, but due to the requirements imposed on central banks arising from their other mandates (full employment and support for economic growth), they have so far been unable to achieve this goal. Nevertheless, compared with Ukraine, both Poland, the euro area, and the Fed — not to mention Switzerland — represent examples of much higher-quality monetary policy.

UKRAINE'S MONETARY POLICY UNDER DIFFERENT PRESIDENTS

The growth rates of all components of Ukraine's broad money supply between 1996 and 2025, when considered in the context of real economic activity, were a key factor behind **high inflation.**

- During the period 1996–2001, the volume of cash in circulation (M0) increased 4.9-fold, the hryvnia money supply (M2) increased 4.6-fold, and the monetary base increased 4.7-fold.
- During the period 2001–2005, the growth rates of various components of broad money supply did not decline: M0 increased 4.7-fold, the monetary base grew 4.9-fold, and M2 increased 6.1-fold.

It is not surprising that during the presidency of **Leonid Kuchma** (1996–2005), average annual inflation amounted to 15.1%. During this period, the volume of cash in circulation (M0) increased 23-fold, the monetary base grew 23.4-fold, M2 increased 28.2-fold, while the average annual rate of economic growth was **negative 0.48% of GDP.**

During **Viktor Yushchenko**'s presidency (2005–2010), the growth rates of broad money supply declined, but nevertheless remained excessively high if the objective was price stabilization. During this period, the volume of cash in circulation increased 4.3-fold, the monetary base grew 4.2-fold, and M2 increased 4.8-fold. This resulted in the persistence of high inflation, which averaged 13.7% per year during this period. It is particularly important to note that the average annual rate of economic growth during this period was only **1.7% of GDP.**

> The vulgar, pseudo-scientific claim that inflation is a source of economic growth is disproved not only by the example of Ukraine but also by virtually all countries of the world when long-term trends are taken into account.

During **Viktor Yanukovych**'s presidency (2010–2014), Ukraine recorded the historically lowest growth rates in the various components of broad money supply, while average annual inflation declined to 7.8%, with **zero economic growth** during this period.

During **P. Poroshenko**'s presidency (2014–2019), monetary policy remained as irresponsible as under his predecessors. During this period, M0 increased by 61.6%, the monetary base by 55%, and M2 by 58.4%, while average annual inflation amounted to 18.0%, with average annual GDP growth of **1.37%**

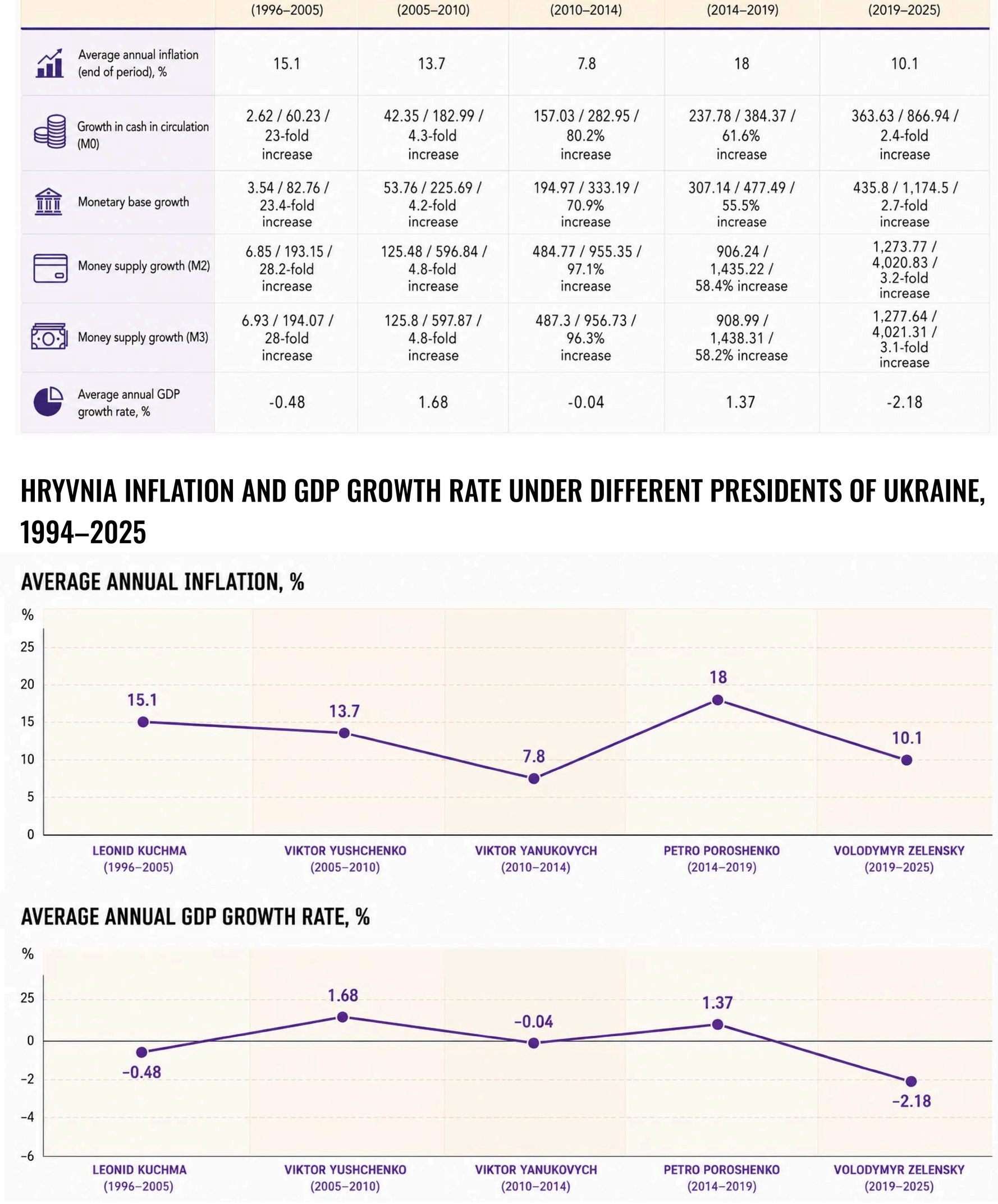
During **V. Zelenskyy**'s presidency (2019–2025), no fundamental changes in the National Bank's monetary policy were recorded. Once again, a rapid increase was observed in the volume of cash in circulation (a 2.4-fold increase), the monetary base (a 2.7-fold increase), and the hryvnia money supply (M2), which grew 3.2-fold, alongside average annual GDP growth of **negative 2.2%** and average annual inflation of 10.1%.

HRYVNIA INFLATION AND BROAD MONEY SUPPLY UNDER DIFFERENT PRESIDENTS OF UKRAINE, 1994–2025

	LEONID KUCHMA* (1996–2005)	VIKTOR YUSHCHENKO (2005–2010)	VIKTOR YANUKOVYCH (2010–2014)	PETRO POROSHENKO (2014–2019)	VOLODYMYR ZELENSKY ** (2019–2025)
Average annual inflation (end of period), %	15.1	13.7	7.8	18	10.1
Growth in cash in circulation (M0)	2.62 / 60.23 / 23-fold increase	42.35 / 182.99 / 4.3-fold increase	157.03 / 282.95 / 80.2% increase	237.78 / 384.37 / 61.6% increase	363.63 / 866.94 / 2.4-fold increase
Monetary base growth	3.54 / 82.76 / 23.4-fold increase	53.76 / 225.69 / 4.2-fold increase	194.97 / 333.19 / 70.9% increase	307.14 / 477.49 / 55.5% increase	435.8 / 1,174.5 / 2.7-fold increase
Money supply growth (M2)	6.85 / 193.15 / 28.2-fold increase	125.48 / 596.84 / 4.8-fold increase	484.77 / 955.35 / 97.1% increase	906.24 / 1,435.22 / 58.4% increase	1,273.77 / 4,020.83 / 3.2-fold increase
Money supply growth (M3)	6.93 / 194.07 / 28-fold increase	125.8 / 597.87 / 4.8-fold increase	487.3 / 956.73 / 96.3% increase	908.99 / 1,438.31 / 58.2% increase	1,277.64 / 4,021.31 / 3.1-fold increase
Average annual GDP growth rate, %	-0.48	1.68	-0.04	1.37	-2.18

* Inflation under L. Kuchma for the period 1996–2005
** 2019-2025 period.

HRYVNIA INFLATION AND GDP GROWTH RATE UNDER DIFFERENT PRESIDENTS OF UKRAINE, 1994–2025



Source: IMF database, April 2026.https://data.imf.org/en/datasets/IMF.RES:WEO

HOW UKRAINE, TURKEY, AND ARGENTINA BECAME MONETARY FAILURES

The fundamental principles of monetary theory can be easily understood through an analysis of long-term trends in inflation, broad money supply, and GDP.

During the period 2000–2025, average annual inflation in Ukraine amounted to 12.1%, while average annual economic growth was only 1.2% of GDP. Over this period, Ukraine's broad money supply (M3) increased 124.5-fold.

Among the world's major economies, higher growth rates of broad money supply were recorded in Argentina (246.1-fold) and Turkey (464.7-fold).

At the same time, average annual inflation in Argentina during this period amounted to 33.2%, with average annual economic growth of 1.7% of GDP, while in Turkey these figures were 17.3% and 5% of GDP, respectively. Under such inflationary conditions and an extremely loose monetary policy, calculations of price dynamics are prone to serious distortions. Therefore, data provided by Turkish statistical authorities, especially under conditions of strong politicization and authoritarianism, should not be taken at face value.

> Turkey is an example of how the state, through monetary, fiscal, and regulatory policy instruments, can create groups of favored businesses that benefit not only from budget transfers and restrictions on competition but also from the inflation tax.

Switzerland has been an exemplary country in terms of monetary policy in the 21st century.

During the period 2000–2025, the Swiss National Bank increased the broad money supply by only 2.5-fold. At the same time, average annual inflation was 0.6%, while average annual GDP growth during this period was 1.9%

The indicators for the United States and the United Kingdom are quite similar.

Between 2000 and 2025, the U.S. Federal Reserve increased the broad money supply 4.4-fold, while the Bank of England increased the broad money supply 3.9-fold.

Average annual inflation was 2.6% in the United States and 2.7% in the United Kingdom.

Average annual GDP growth was 2.2% in the United States and 1.7% in the United Kingdom.

The performance of developing countries and countries with transition economies, as measured by inflation, broad money supply, and economic growth, demonstrates that using monetary policy instruments to accelerate economic growth, attract investment, and improve living standards is both dangerous and risky. Such an approach is accompanied by a wide range of adverse effects that ultimately hinder economic development and contribute to the non-market redistribution of capital within the country in favor of the beneficiaries of inflation and the government's fiscal policy.

INFLATION AND ECONOMIC GROWTH RATES IN SELECTED COUNTRIES, 2000–2025

Country	2000-2010		2010-2020		2020-2025		2000-2025	
	Inflation, %	GDP, %	Inflation, %	GDP, %	Inflation, %	GDP, %	Inflation, %	GDP, %
Switzerland	0.9	2.1	-0.1	1.6	1.0	1.8	**0.6**	1.9
China	2.3	10.4	2.5	7.2	0.7	4.9	**2.0**	8.1
USA	2.5	2.0	1.7	2.0	4.0	2.4	**2.6**	2.2
United Kingdom	2.1	1.8	2.0	0.9	4.4	1.1	**2.7**	1.7
Indonesia	8.5	5.4	4.4	4.7	2.7	3.7	**5.8**	5.0
India	6.1	6.5	6.4	5.5	5.1	5.6	**5.9**	6.3
Brazil	6.6	3.8	5.7	1.0	5.7	2.2	**6.1**	2.4
Russia	12.7	5.4	6.6	1.6	8.0	2.0	**9.9**	3.3
Ukraine	**12.2**	**4.7**	**11.5**	**0.2**	**11.1**	**-3.1**	**12.1**	**1.2**
Turkey	3.8	4.5	9.4	5.5	54.3	5.2	**17.3**	5.0
Argentina	9.5	3.3	22.9	0.0	90.4	1.3	**33.2**	1.7

Source: IMF database, April 2026. https://data.imf.org/en/datasets/IMF.RES:WEO

DYNAMICS OF BROAD MONEY SUPPLY AND INFLATION IN SELECTED COUNTRIES

end of period, in national currency

Country	2000	2010	2020	2025	Growth rate, 2025 vs 2000 (times)
Turkey, TRY billion	57.5	617.5	3,410	26,720	**464.7x**
Argentina, ARS billion	90.51	422.75	9,390	22,273	**246.1x**
Ukraine, UAH billion	32.3	597.9	1,850	4,021.3	**124.5x**
Russia, RUB billion	2,140 (2001)	23,820	75,280	143,190	**66.9x**
Brazil, BRL billion	557.42	2,880	8,310	15,060	**27x**
China, CNY billion	13,600	72,590	214,770	306,910 (2024)	**22.6x**
India, INR trillion	11.69	59.3	174.07	193.74 (2021)	**16.5x**
Indonesia, IDR trillion	748.85	2,470	6,910	10,130	**13.5x**
USA, USD billion	7,020	12,770	23,770	30,680	**4.4x**
United Kingdom, GBP billion	1,040	2,630	3,450	4,100 (2024)	**3.9x**
Switzerland, CHF billion	474.8	754.4	1,141.7	1,210	**2.5x**

Source: World Bank database. https://data.worldbank.org/indicator/FM.LBL.BMNY.CN?locations=US

INFLATION IN SELECTED COUNTRIES AND REGIONS, 1994–2025

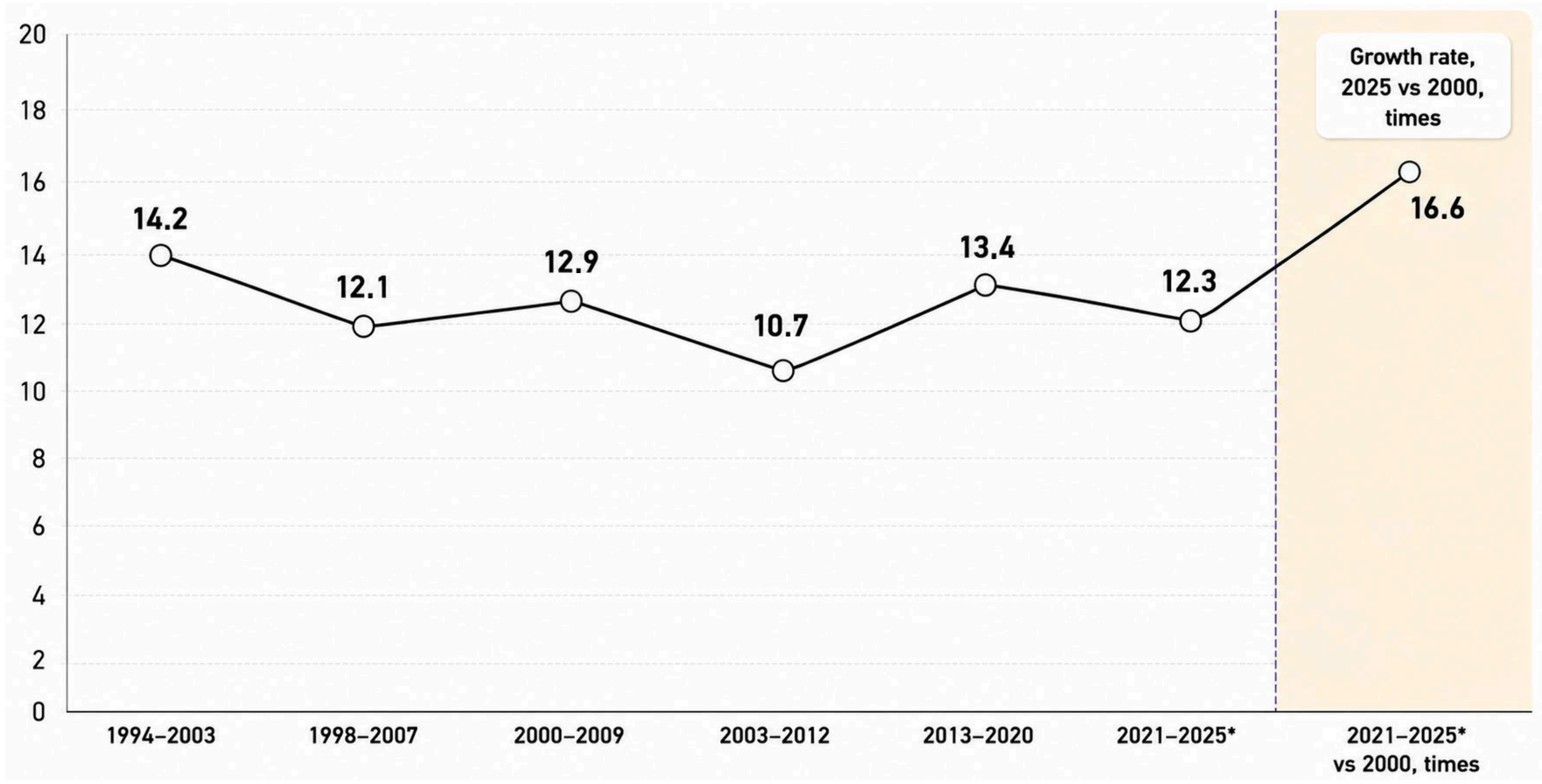
Country	1994–2003	1998–2007	2000–2009	2003–2012	2013–2020	2021–2025*	2021–2025* vs 2000, times
China	4.9	1.1	1.8	3.0	2.1	0.7	**1.4**
Switzerland	0.9	0.8	1.0	0.7	0.1	1.4	**2.3**
Emerging & Developing Asia	6.1	4.2	4.0	4.8	3.1	2.3	**2.3**
Japan	0	-0.2	-0.3	-0.1	0.7	2.3	**2.3**
Taiwan	1.4	0.9	0.9	1.3	0.7	2.3	**3.1**
South Korea	4.1	3.2	3.1	3.1	1.1	3.1	**3.2**
Israel	6.1	2.3	2.0	2.0	0.3	3.2	**3.3**
Singapore	1.0	0.7	1.5	2.5	0.5	3.3	**3.7**
Canada	1.8	2.1	2.1	2.0	1.5	3.7	**4.0**
Advanced Economies	2.1	2.0	2.0	2.0	1.2	4.0	**4.2**
Euro Area	2.0	2.0	2.1	2.1	0.9	4.0	**4.4**
Peru	4.3	2.8	2.6	2.9	2.6	4.4	**4.5**
USA	2.4	2.6	2.6	2.5	1.5	4.5	**4.5**
New Zealand	2.0	2.2	2.7	2.6	1.3	4.5	**6.0**
Croatia	10.4	3.4	3.2	2.8	0.5	6.0	**6.4**
Chile	5.4	3.3	3.5	3.2	3.1	6.4	**6.6**
Slovakia	8.3	6.4	5.2	3.8	1.2	6.6	**6.9**
Czech Republic	7.5	3.3	2.8	2.4	1.7	6.9	**7.3**
Lithuania	6.2	2.2	3.0	3.6	1.4	7.3	**7.6**
Poland	12.8	4.6	3.5	2.8	1.1	7.6	**8.4**
Belarus	175.7	55.3	31.6	20.8	10.5	8.4	**8.7**
Russia	57.5	21.2	13.9	10.2	6.5	8.7	**12.3**
Ukraine	**70.2**	**12.1**	**12.9**	**10.7**	**13.4**	**12.3**	**16.6**
Emerging & Developing Europe**	37.7	18.5	12.7	8.8	6.5	16.6	**16.6**

* Average annual inflation

** The high inflation rate in this group of countries is attributable to the contribution of Turkey and Ukraine.

Source: World Economic Outlook. IMF. April 2026. https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026

AVERAGE ANNUAL INFLATION IN UKRAINE BY PERIOD, 1994 - 2025



* Average annual inflation

Source: World Economic Outlook. IMF. April 2026. https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026

REASSESSING THE DUAL MANDATE

For more than forty years, the American and European academic and research communities have been engaged in an ongoing debate over the central bank's mandate[14]. Leading research institutions, central banks, and universities from around the world take part in this debate. The conclusions and recommendations put forward by many scholars are highly valuable and could make a significant contribution to improving the work of the National Bank of Ukraine, which, like Ukraine's academic and research community, has not participated in this debate.

Let us consider the views of some scholars and monetary policy experts whose ideas have shaped — and continue to shape — monetary policy not only in the United States but around the world.

John Taylor, one of the foremost authorities on monetary policy, argued in the aftermath of the Federal Reserve's failure during the 2008–2009 financial crisis that the Federal Reserve's dual mandate — and, more broadly, the multiple mandates of central banks — should be abolished, with their focus directed exclusively toward maintaining price stability and preserving the purchasing power of the national currency.

> *«Several times in the 1970s the Fed increased money growth, trying to reduce unemployment. But the unintended consequence was actually to increase joblessness: Higher and higher inflation rates eventually required a painful disinflation, with unemployment rising above 10 percent. From 2003 to 2005, the Fed kept interest rates extra low, partly out of concern about employment. But those extra-low rates exacerbated the housing boom, leading to a bust -- a big factor in the financial crisis that eventually caused a devastating increase in unemployment»*[15].

It is worth recalling that in 1993, J. Taylor formulated the monetary policy rule[16] that became part of the theoretical foundation of monetary policy at virtually all central banks around the world.

At that time, the Fed argued that rising and variable inflation since 1965 was largely attributable to non-monetary forces such as the power of labor unions and oil price shocks, and had little to do with rapid money growth. Based on the principles of monetarism developed earlier by Milton Friedman, the SOMC blamed the Great Inflation squarely on Federal Reserve policies that featured excessive money growth.

[14] The Federal Reserve's policy under the dual-mandate framework is clearly and concisely described in the following study: A Dual Mandate for the Federal Reserve. The Pursuit of Price Stability and Full Employment. Jerome Levy Economics Institute of Bard College. No. 60, 2000. Willem Thorbecke, associate professor of economics at George Mason University. https://www.levyinstitute.org/pubs/ppb/ppb60.pdf

[15] End the Fed's Dual Mandate And Focus on Prices: John B. Taylor. September 16, 2011.
John B Taylor. https://www.bloomberg.com/opinion/articles/2011-09-16/end-the-fed-s-dual-mandate-and-focus-on-prices-john-b-taylor

[16] The Taylor rule is a monetary policy rule according to which a central bank's short-term interest rate is determined as a function of the output gap (the deviation of actual output from its potential level) and the deviation of inflation from its target rate. All else being equal, a 1% increase in inflation should be accompanied by an increase in the central bank's interest rate of more than 1%. This relationship is known as the Taylor principle.
Since the real interest rate equals the nominal interest rate minus the inflation rate, the real interest rate must rise in order to prevent the economy from overheating when inflation accelerates. This is achieved by the central bank raising the nominal interest rate by more than the increase in inflation. In this way, tighter monetary policy helps reduce inflationary pressures and stabilize the economy. Discretion versus policy rules in practice. John B. Taylor. Stanford University, Stanford, CA 94305. 1993 https://web.stanford.edu/~johntayl/Papers/Discretion.PDF

The SOMC is an independent group of economists that provides external perspectives on policy choices by the Federal Reserve and other leading central banks. The Committee addresses a wide range of macroeconomic issues, including monetary policy, banking and financial regulations, and fiscal policy matters that bear on monetary policy decisions. Its research and policy recommendations are intended to improve policy discussions among policy makers, journalists and the general public with the hope that wiser policy decisions will result and improve economic performance.

According to members of the influential Shadow Open Market Committee (SOMC[17]), the U.S. Federal Reserve has made three very serious monetary policy mistakes since the mid-1970s.

1. The high inflation of the 1970s, which resulted from accommodative monetary policy.
2. The policy of exceptionally low interest rates, which fueled the housing market bubble in the 2000s.
3. The high inflation of the 2020s, which Federal Reserve Chair J. Powell promised would be a brief and temporary phenomenon, instead persisted for more than five years, and by the end of 2026 the Federal Reserve will still not have achieved its 2% annual inflation target.

[17]The Shadow Open Market Committee (SOMC) is an independent group of economists established in 1973 by Professors Karl Brunner of the University of Rochester and Allan H. Meltzer of Carnegie Mellon University. Its purpose was to provide a monetarist alternative to the prevailing views within the Federal Reserve System and the broader economics profession regarding monetary policy and its impact on inflation. At that time, the Federal Reserve maintained that the increase in inflation and its volatility observed since 1965 were largely attributable to non-monetary factors, such as the influence of labor unions and oil price shocks, and were virtually unrelated to the rapid growth of the money supply. Drawing on the principles of monetarism developed earlier by Milton Friedman, the SOMC attributed full responsibility for the Great Inflation to the Federal Reserve's monetary policy, which was characterized by excessive growth in the money supply.

The SOMC is an independent group of economists that provides an external assessment of the decisions made by the Federal Reserve and other leading central banks. The Committee examines a broad range of macroeconomic issues, including monetary policy, banking and financial regulation, and fiscal policy issues relevant to monetary policy decisions. Its research and policy recommendations are intended to foster more informed and constructive discussion of public policy issues among policymakers, journalists, and the general public, to promote better-informed policy decisions and improved economic outcomes.

Its members included internationally renowned economists such as Allan H. Meltzer, Karl Brunner, Anna J. Schwartz, James A. Meigs, Robert H. Rasche, Jerry L. Jordan, Mickey D. Levy, William Poole, and others. https://shadowfed.org/about/

It is worth noting that American scholars and policymakers consider the average annual inflation rate of 4.5% recorded during the period 2021–2025 to represent a crisis. By comparison, average annual inflation in Ukraine during the period 1996–2025, following the introduction of the hryvnia, was 13%.

The Shadow Open Market Committee (SOMC) was established amid the intellectual confrontation between Keynesianism, on the one hand, and monetarism, on the other, that had dominated economic thought from the postwar period through the early 1980s. Milton Friedman is widely regarded as the leading figure of monetarism. His circle included such prominent economists as Homer Jones, Director of Research and Vice President of the Federal Reserve Bank of St. Louis; Karl Brunner, Professor at Harvard University, the University of Chicago, and the University of California; Allan Meltzer, Professor at Carnegie Mellon University and President of the Mont Pelerin Society; and Anna Schwartz, one of the world's foremost authorities on monetary policy. Through their academic research and scholarly work, they advocated the principles of monetarism[18] as the theoretical foundation for sound monetary policy. Unfortunately, in Ukraine, both at the academic level and in the formulation and implementation of monetary and macroeconomic policy, monetarism remains largely neglected and has not been subjected to the rigorous study it deserves. Karl Brunner and Allan Meltzer formulated the six principles of monetarism (see also Laidler 1991):

[18]The 50-Year History of the SOMC and the Evolution of Monetary Policy By Michael D. Bordo, Rutgers University and Hoover Institution. Mickey D. Levy, Hoover Institution. Griswold Center for Economic Policy Studies. Working Paper No. 341, December 2024 https://gceps.princeton.edu/wp-content/uploads/2024/12/wp341_Bordo_SOMC-history.pdf

1. The real economy is essentially stable, relative prices are determined by the operation of free market forces. This view was in sharp contrast to the dominant Keynesian view in the post war that the basic instability of the real economy had to be offset by activist fiscal policy.
2. The key source of shocks to the economy were monetary, induced by central bank errors, in turn based on flawed economic doctrine.
3. Monetary shocks, i.e. changes in the money stock, impacted the real economy in the short run and the price level in the long run. The adjustment mechanism between the short and long runs was determined by the costs of obtaining information.
4. Changes in the money stock largely reflected changes in the monetary base as a consequence of monetary policy actions. The changes in the monetary base interacted with a stable money multiplier, which reflected the portfolio choices of the banking system and the non-bank private sector.
5. The transmission mechanism of monetary policy worked through a portfolio balance mechanism involving changes in the relative prices of financial and nonfinancial assets which ultimately affected the real price of capital and impacted investment and income.
6. Monetary policy clearly dominated fiscal policy as a tool for economic stabilization. In Brunner's principles of monetarism, a targeted money growth rate was the policy rule to be followed, and discretionary policies did not play a part.

In 2015, proponents of contemporary American monetarism, whose views are shared by the current Chairman of the Federal Reserve, Kevin Warsh, articulated the core principles of the Shadow Open Market Committee[19], that is, the principles of modern monetarism. Following the inflationary episode that followed the COVID-19 pandemic, these principles have increasingly been adopted in practice by the world's leading central banks.

[19]Shadow Open Market Committee, SOMC https://shadowfed.org/about/

Core Beliefs

Statement of the Shadow Open Market Committee's Core Beliefs established in 2015

1. The SOMC takes for granted that U.S. monetary policy will be conducted by the Fed over the foreseeable future.
2. It is essential that the central bank be independent from the fiscal authorities and accountable to the legislature. In particular, the central bank should eschew policies that allocate credit.
3. Price stability is the best contribution that monetary policy can make to overall macroeconomic performance and for this reason should be the primary objective of the central bank. “Price stability” should be defined to ensure that the inflation rate, on average, is not above 2 percent per year.
4. Monetary policy should be conducted in a rule-like manner and be somewhat countercyclical with respect to output and employment, as long as price stability of the long run is not compromised. We expect the central bank to announce the policy rule that it follows so that it can be monitored and held accountable.
5. To provide financial stability, the central bank should promote strong capital buffers.
6. The SOMC expects the central bank will serve as a lender of last resort. In this role:

The central bank should state its lender of last resort rules clearly in advance.

Such activities should be limited to occasional, temporary well-collateralized lending to solvent, supervised depository institutions at an appropriate interest rate premium.

More expansive lending should be agreed and indemnified in advance by the fiscal authorities.

The SOMC believes that, by following these basic principles, the Fed would create the monetary and financial framework that best facilitates the efficient functioning of free-market, prosperity-creating, institutions in the U.S. economy.

Federal Reserve officials explain the formulation of monetary policy in the event of a conflict between the objectives of the central bank's dual mandate — maximum employment and price stability — as follows:

> *«Let’s say inflation is running above target at a time when the labor market is deteriorating or there’s a risk of that happening. Since the FOMC has two objectives but one main policy instrument (the federal funds rate), the FOMC would have to decide what to do: continue fighting inflation to bring it back to 2% or help prevent further deterioration of the labor market»*[20].

We can see that the Federal Reserve has considerable scope for discretionary decision-making because the concept of “maximum employment” is not defined in numerical terms. By contrast, “price stability” is defined by an explicit inflation target of **2%.**

The Federal Reserve explains that

> *«Prices are considered stable when consumers and businesses do not have to worry about costs significantly rising or falling when making plans, or when borrowing or lending for long periods. The Federal Open Market Committee judges that an inflation rate of 2 percent over the longer run, as measured by the annual change in the price index for personal consumption expenditures, is most consistent with the Fed's price-stability mandate. When households and businesses can reasonably expect 2 percent inflation over the longer run, they are better able to make sound decisions regarding saving, borrowing, and investment, which contribute to a well-functioning economy and the well-being of all Americans»*[21].

We therefore conclude that there is a broad academic and policy consensus recognizing price stability as the central pillar of sound monetary policy. Despite the strong academic and intellectual foundations underpinning the formulation of monetary policy, the Federal Reserve committed serious policy errors by misinterpreting the macroeconomic environment and the conditions prevailing in various markets in the context of its dual mandate.

If the United States was unable to strike the right balance between the Federal Reserve's two statutory objectives, accomplishing the same task in a developing transition economy with weak legal, property-rights, and governance institutions is virtually impossible. When establishing the National Bank of Ukraine and defining its mandate, Ukraine's economic and academic elites essentially adopted the mainstream G7 central banking model without having either a well-developed academic and analytical community capable of supporting monetary policymaking or a clear understanding of the cyclical nature of the economy.

[20] How Does the Fed Interpret and Pursue the Dual Mandate? July 08, 2026. Kristie Engemann is a senior coordinator with the St. Louis Fed’s communications team. https://www.stlouisfed.org/open-vault/2026/july/how-does-fed-interpret-pursue-dual-mandate

[21] What economic goals does the Federal Reserve seek to achieve through its monetary policy? https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm

> The primary reason why the National Bank of Ukraine adopted the wrong mandate (a dual mandate) was that, at the time this decision was made, the Ukrainian economy remained fundamentally post-Soviet, with its capital structure and employment patterns largely shaped by the Soviet system of central planning.
>
> The establishment of a fully functioning market economy required the coordinated implementation of macroeconomic stabilization, comprehensive market liberalization, and privatization.

To this end, the National Bank of Ukraine should have focused all its efforts on achieving price stability under a single mandate. Unfortunately, throughout the more than 30 years of the hryvnia's existence as Ukraine's national currency, this objective has not been achieved.

Like many other public institutions, the National Bank of Ukraine became subject to the influence of powerful lobbying groups and vested interests, which used it to pursue their objectives through inflation, currency devaluation, regulation of the foreign exchange and financial markets, as well as the design of credit policies and the coordination of monetary and fiscal policy. Having failed to achieve its primary objective — price stability — the National Bank acted as though a fully developed market structure of capital and employment had already emerged around it.

WHY IS INFLATION SO HARMFUL?

A large body of empirical research provides compelling evidence that inflation has adverse effects on economic growth, lending, and entrepreneurial activity. Unfortunately, both the National Bank of Ukraine and the Ukrainian government have largely ignored these findings. It should be noted that these studies assess the performance of central banks and governments within the framework of the neoclassical model of the interventionist state. To support our hypothesis that Ukraine's monetary policy was of poor quality during the period 1996–2025, we present several examples of such studies together with their main findings.

Economists Isha Agarwal and Matthew Baron, in their paper “Inflation and Disintermediation"[22]), and subsequently in their article “Exploring the Link Between Rising Inflation and Economic Growth: The Role of the Banking Sector”[23] exploring the link between rising inflation and economic growth: The role of the banking sector reach the following conclusion:

> *«Our research demonstrates that unexpected increases in inflation tend to have a contractionary effect on the banking sector . Inflation-exposed banks respond by reducing lending, which, in turn, impacts house prices and construction employment. More generally, these results suggest why rising inflation can lead to financial instability, especially following significant and unexpected increases in inflation. Additionally, our analysis of historical and international inflation episodes reinforces the significance of banking channels in understanding the consequences of inflation worldwide. By shedding light on the relationship between inflation and economic growth, our research contributes to a better understanding of the macroeconomic implications of inflation and its effects on the banking sector».*

In their paper “The Impact of Inflation on Economic Growth" economists Runshuo Zhang and Ziheng Zhou draw the following conclusion based on their analysis of inflation:

[22] Inflation and Disintermediation. Journal of Financial Economic. Isha Agarwal, Matthew Baron, Georgetown University. 2019
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3399553

[23] Exploring the link between rising inflation and economic growth: The role of the banking sector. Isha Agarwal Matthew Baron. 2023
https://blogs.worldbank.org/en/allaboutfinance/exploring-link-between-rising-inflation-and-economic-growth-role-banking-sector

«Inflation not only affects the behavior of consumers and producers, but also has a profound negative impact on economic growth through distorting price signals, improper resource allocation, affecting investment and savings behavior, threatening financial market stability, and weakening international trade competitiveness. Especially in the context of global economic instability, inflation management has become one of the major challenges faced by governments and policymakers around the world. To effectively control inflation, governments of various countries should take comprehensive measures, including implementing tight monetary policies, coordinating prudent fiscal policies, promoting structural economic reforms, and strengthening international cooperation. These measures not only help control inflation but also lay the foundation for long-term stability and sustainable economic growth»[24].

[24] The Effect of Inflation on Economic Growth. 2025 Advances in Economics Management and Political Sciences. https://www.researchgate.net/publication/387717746_The_Effect_of_Inflation_on_Economic_Growth

The following conclusion is drawn from a study of the impact of inflation on economic growth based on evidence from 45 countries over the period 2010–2021:

«This study examines the context of inflation and its impact on the economic growth of 45 different countries around the world in the period 2010-2021 by applying Ordinary least squares (OLS), fixed effects and random effects models to analyze the theoretical content and the influence of variables:

inflation rate, unemployment rate, FDI, trade openness, lending rate, and population growth. Empirical results show that inflation has a negative impact on economic growth, in which developed countries tend to be more severely affected»[25].

[25] Legal perspectives on inflation: Implications for economic growth in 45 nations. Vu Bich Diep, Truong Quynh Anh. Faculty of Economics and Management, International School, Vietnam National University, Hanoi. 2024 https://www.researchgate.net/publication/381748550_Legal_perspectives_on_inflation_Implications_for_economic_growth_in_45_nations

Jönköping University (Sweden) has compiled a fairly comprehensive review of the academic and analytical literature on the relationship between inflation and economic growth.

«The purpose of this study was to investigate the relationship between inflation and GDP growth. For this, we used a panel data fixed effects model with 108 countries between the years 1970 and 2023, to assess how GDP growth is affected by inflation while controlling for variables like money supply, government expenditure, real interest rate, trade openness, and investment. Furthermore, we conducted a quadratic function to analyze the threshold where inflation starts to impact economic growth negatively. Our results show that while inflation influences GDP growth negatively in both developing and developed countries, our point estimate of this effect is higher in developing economies, but the difference is not significant. The results are aligned with theoretical frameworks like the Solow Growth Model and the Quantity Theory of Money. A 1 percent increase in inflation results in a 0.12 percent decrease in GDP growth for developing countries, compared to a 0.07 percent decrease for developed countries»[26].

[26] The relationship between Economic Growth and Inflation. An empirical Analysis of developed and developing countries. ion Ferrari & Bence Hajdu. 2025 https://www.diva-portal.org/smash/get/diva2:1974028/FULLTEXT01.pdf

Below we present the conclusions from the study “Does Inflation Harm Economic Growth? Evidence for the OECD” by economists Javier Andrés and Ignacio Hernando, published by the National Bureau of Economic Research (NBER). They are based on empirical evidence from OECD countries covering the period 1960–1992:

«In this paper we have tried to assess the long-term costs of inflation, within an explicit theoretical framework stemming from the growth literature: the convergence equation. Despite its shortcomings, this approach is well-suited to test the robustness of the correlation between growth and inflation in low-inflation economies with reasonably well-working markets, such as the OECDs ones during the 1960 – 1992 period… The main finding is that current inflation has never been found to be positively correlated with income per capita over the long run. Inflation not only reduces the level of investment but also the efficiency with which productive factors are used. It has a negative temporary impact upon long-term growth rates, which, in turn, generates a permanent fall of income per capita. Our results suggest that the marginal cost of inflation diminishes with the inflation rate.

The estimated benefit of a permanent reduction of inflation by one percentage point depends on the starting level of inflation. Thus, reducing the inflation rate from (say) 20% to 19% may increase output by 0,5% in the long run. This benefit increases with further reduction in inflation and might be twice as large when inflation reaches a low 5%… Overall, these results indicate that the long-run costs of inflation are non-negligible and that efforts to keep inflation under control will sooner or later pay off in terms of better long-run performance and higher per capita income»[27].

[27] Does Inflation Harm Economic Growth? Evidence for the OECD. Javier Andres & Ignacio Hernando. Working Paper 6062. 1997 https://www.nber.org/system/files/working_papers/w6062/w6062.pdf

Below are the findings of a study examining the relationship between inflation and economic growth across a sample of 31 developing and transition economies[28], including Ukraine, over the period 2000–2019:

> *«This paper empirically studies the relationship between economic growth and inflation for a panel of 31 selected emerging market economies for the period 2000 to 2019… We find a statistically significant negative relationship between inflation and economic growth in our linear specifications (static and dynamic), and the results appear robust across all specifications… The nonlinear specification indicates a threshold value of about 2% (and slightly higher with 2.7% for the simple model specification) which segregates the two inflation regimes. Our results support the argument that it is reasonable to distinguish between different inflation regimes: once inflation is below the threshold, we find a positive impact on economic growth; once above the threshold, we find a negative effect on growth… Based on our findings for this group of countries, tolerating inflation above 2% could have negative consequences for economic growth».*

[28] The economic growth and inflation nexus: New empirical assessment for emerging market economies. Benjamin Owusu, Bettina Bökemeier. Department of Business Administration and Economics, Bielefeld University. International Review of Economics and Finance 107 (2026) 105078
https://www.sciencedirect.com/science/article/pii/S1059056026001917

STUDY CONCLUSIONS

1. Throughout more than 30 years of the hryvnia's existence as Ukraine's national currency, the Ukrainian authorities under every president, prime minister, parliament, and leadership of the National Bank of Ukraine have failed to achieve the constitutional objective — **ensuring the stability of the hryvnia, which implies an annual inflation rate of no more than 2%.** This failure is the result of fundamental errors in selecting the theoretical foundation for the National Bank of Ukraine's operations, an acute lack of coordination between monetary and fiscal policy, the neglect of the theory of government failure, and the state's dominance in the economy in general and in the financial market in particular.

2. Ukraine remains only marginally engaged in the pluralistic global discourse on monetary policy, where decision-makers at central banks and governments formulate policy based on academic research, recommendations, and findings from a wide range of schools of economic thought, taking into account actual market conditions and the primary objective of monetary policy. Our authorities formulate monetary policy based on opportunistic motives and approaches that serve the interests of a syndicate of VIP bureaucrats. The mechanism for policy correction in response to observed outcomes such as inflation, economic growth, credit availability, and financial market development does not operate.

3. Ukraine's monetary policy during the period 1996–2025 became one of the three principal impediments to economic growth and development. The second impediment was fiscal (budgetary and tax) policy, while the third was regulatory policy. The mistaken choice of a theory of economic transformation and transition, the disregard for the nature of money, state capture by powerful vested interests, and the acute lack of a genuine partnership between the economics profession and the Government in the broadest sense of the term — all these factors explain why, by the mid-2020s, Ukraine had become one of Europe's laggards in terms of economic growth, per capita income, private sector lending, and labor productivity.

4. The underdevelopment of the financial market and private sector lending, the high cost of credit and its inaccessibility to small businesses and most households, favoritism in providing preferential access to credit for the Government and selected commercial organizations, and the oligopolistic structure of the banking and financial services market — all these are consequences of the mistaken choice of the theoretical foundation of monetary policy, as well as the National Bank of Ukraine's inability to fulfill its constitutional mandate. The preservation of this state of affairs was further reinforced by the policies of the Cabinet of Ministers as a whole, which failed to ensure proper coordination between monetary and fiscal policy to achieve macroeconomic stability and rapid, sustained economic growth.

5 Throughout the entire period of the hryvnia's existence, the Ukrainian authorities ignored a vast body of academic research and empirical evidence demonstrating the monetary nature of inflation and its impact on economic growth, investment attractiveness, and household incomes. The persistently high inflation tax inflicted significant damage on Ukrainians' savings culture, contributed to the dollarization of the economy, the persistence of a large shadow economy (estimated at between 30% and 50% of GDP), capital flight, and the crowding out of private investment in commercial projects and programs directly supported by the state.

6 A significant share of the responsibility for the persistently low quality of Ukraine's monetary policy in particular, and macroeconomic policy in general, lies with the international organizations that, for more than 30 years, have provided not only loans but also technical assistance and policy advice in the establishment of sound legal and economic institutions. Above all, this refers to the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development (EBRD), all of which have been operating in Ukraine since the 1990s. Their approaches, narratives, findings, and recommendations have been promoted and disseminated in Ukraine by research organizations such as the Centre for Economic Strategy, Dragon Capital, Vox Ukraine, German Economic Team, Oxford Economics, Kyiv School of Economics (KSE), ICU, Concorde Capital, and the Institute for Economic Research and Policy Consulting. Their assessments of macroeconomic policy in general, and monetary policy in particular, have been largely supportive of the authorities' current policy course. Their views on money, monetary policy, and the role and functions of the state in the economy have influenced the Ukrainian authorities' choice of monetary, fiscal, and regulatory policy frameworks. Particular attention should be paid to the role of large Ukrainian and foreign businesses, which, through their lobbying organizations and mechanisms, including the European Business Association (EBA), have consistently supported the economic policies of the Ukrainian authorities. Acting as a lobbyist for the oligarchic syndicate, the EBA has thereby helped entrench flawed practices in monetary policy. The reason is obvious — large businesses, together with the Government's favored firms, are the principal beneficiaries of accommodative monetary and fiscal policies. Their influence over economic policy becomes decisive because they have also captured control of Ukraine's regulatory authorities — a classic case of state capture. Such practices have taken place with the consent and approval of international organizations providing policy advice, most notably the OECD.

RECOMMENDATIONS OF THE INTERNATIONAL LIBERTY INSTITUTE

1 To achieve a comprehensive modernization of Ukraine's economy and establish institutions capable of ensuring rapid, long-term economic growth, Ukraine should adopt **the Mises–Hayek–Schumpeter model of entrepreneurial growth.**

2 The National Bank of Ukraine should be assigned **a single mandate** (its sole objective should be to ensure price stability, defined as annual inflation of no more than 2%). All other functions currently performed by the National Bank, including financial market regulation, should be transferred to other public authorities.

3 **To reduce transaction costs** during the war and after Ukraine's victory, when the country is expected to receive hundreds of billions of dollars for reconstruction, and to avoid **Dutch disease**, a sharp appreciation of the hryvnia, high inflation, and adverse effects on Ukrainian exports, Ukraine should adopt **a multicurrency regime**, under which the U.S. dollar, the euro, the British pound, the Swiss franc, the Polish zloty, and the Ukrainian hryvnia would all have equal legal tender status.

4 The Ukrainian Government should urgently undertake **a comprehensive review** of the legislative and theoretical foundations underpinning monetary and macroeconomic policy to improve their overall quality.