CENTRE FOR ECONOMIC STRATEGY

July Economic Review

Special topic: What is happening with the Ukrainian budget?

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Authors: CES Team

Executive summary

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- **Monetary, FX, and banking sectors:** Inflation falls to 14.3%, key policy rate remains steady at 15.5%. The return of inflation to the decline in the summer was expected, due to last year's high base for comparing administratively regulated prices. Reserves up, Hryvnia stable to Dollar but weaker to Euro.

- **Sectoral analysis:** GDP increased by 0.9% in Q1 2025 — Ukraine's economy is idling, with no engine of growth to move it forward. Monthly electricity exports exceed imports for the first time since 2022, with the surplus driven by good weather and lack of large-scale Russian energy attacks. Ukraine secured better DCFTA terms on June 30. Meanwhile, grain exports have dropped to their lowest level since 2022.

- **Foreign trade:** Ukrainian exports are weaker than last year with lower agricultural exports of grains and oilseeds, while imports driven by defence, energy, and fertilizers are stronger than last year. Export volumes are falling, but favourable prices soften the blow: price increases partly offset the sharp decline in export volumes.

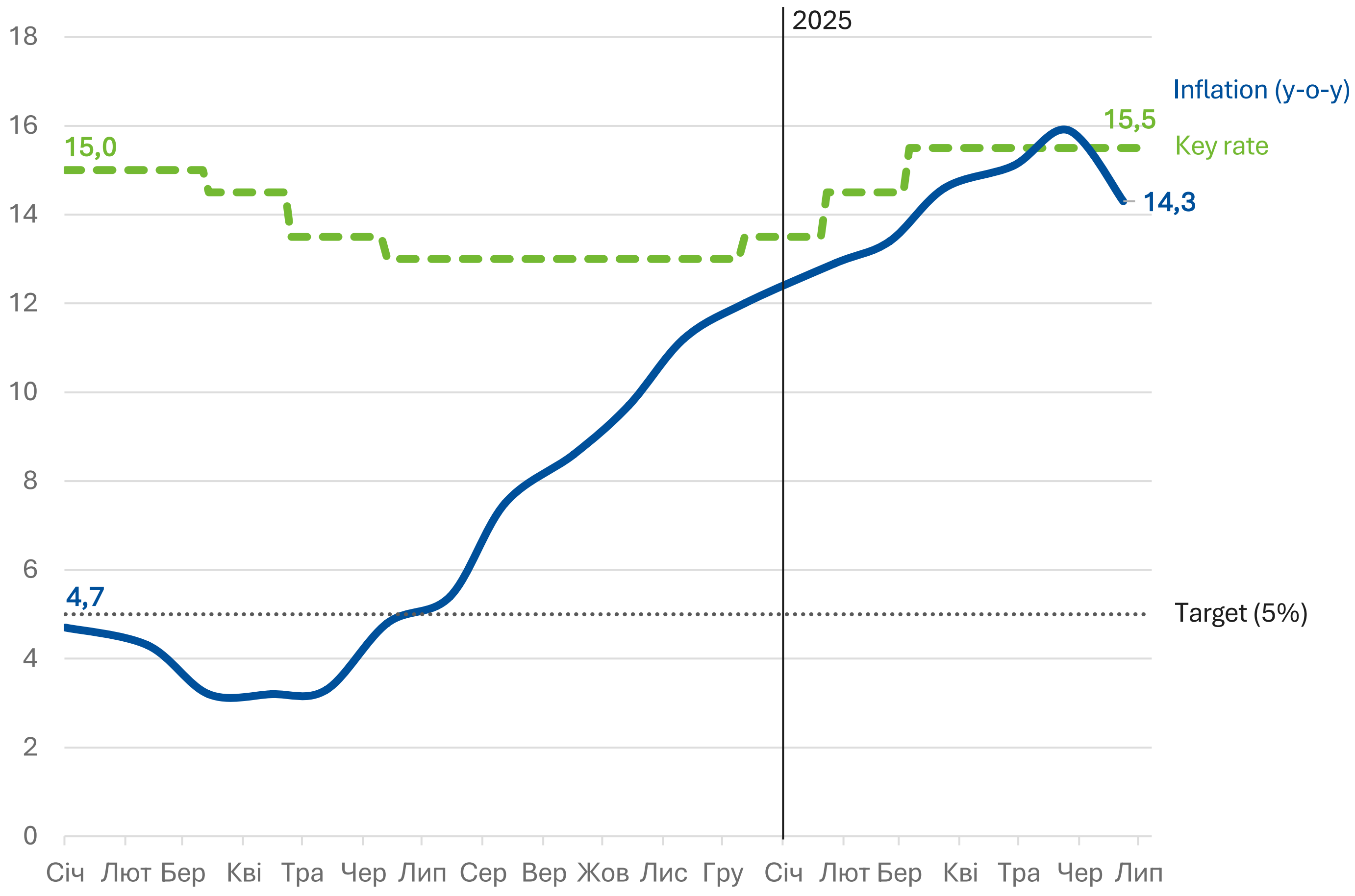
- **Fiscal sector:** Changes to budget for 2025 bring +UAH 412 bn war expenditures, that will be covered by domestic borrowings and overperformance of revenues. In 5m of 2025, revenues are already higher than in 5m of 2024, and defence aid is still being provided. Total expenditures on war are 43% higher than last year, along with increase in debt service. The first half of 2025 has seen increasing financing needs, despite a projected full-year trajectory of gradual deficit-to-GDP reduction. As grant support declines, importance of fiscal planning decreases.

- **See our report below for further details.**

Monetary and FX sectors

Inflation falls to 14.3%, key policy rate remains steady at 15.5%

Inflation (y-o-y), inflation target, and NBU key rate, %



Sources: NBU and State Statistics Service

In June 2025, inflation fell to 14.3% year-on-year (+0.8% m/m). The return of inflation to the decline in the summer was expected, due to last year's high base for comparing administratively regulated prices.

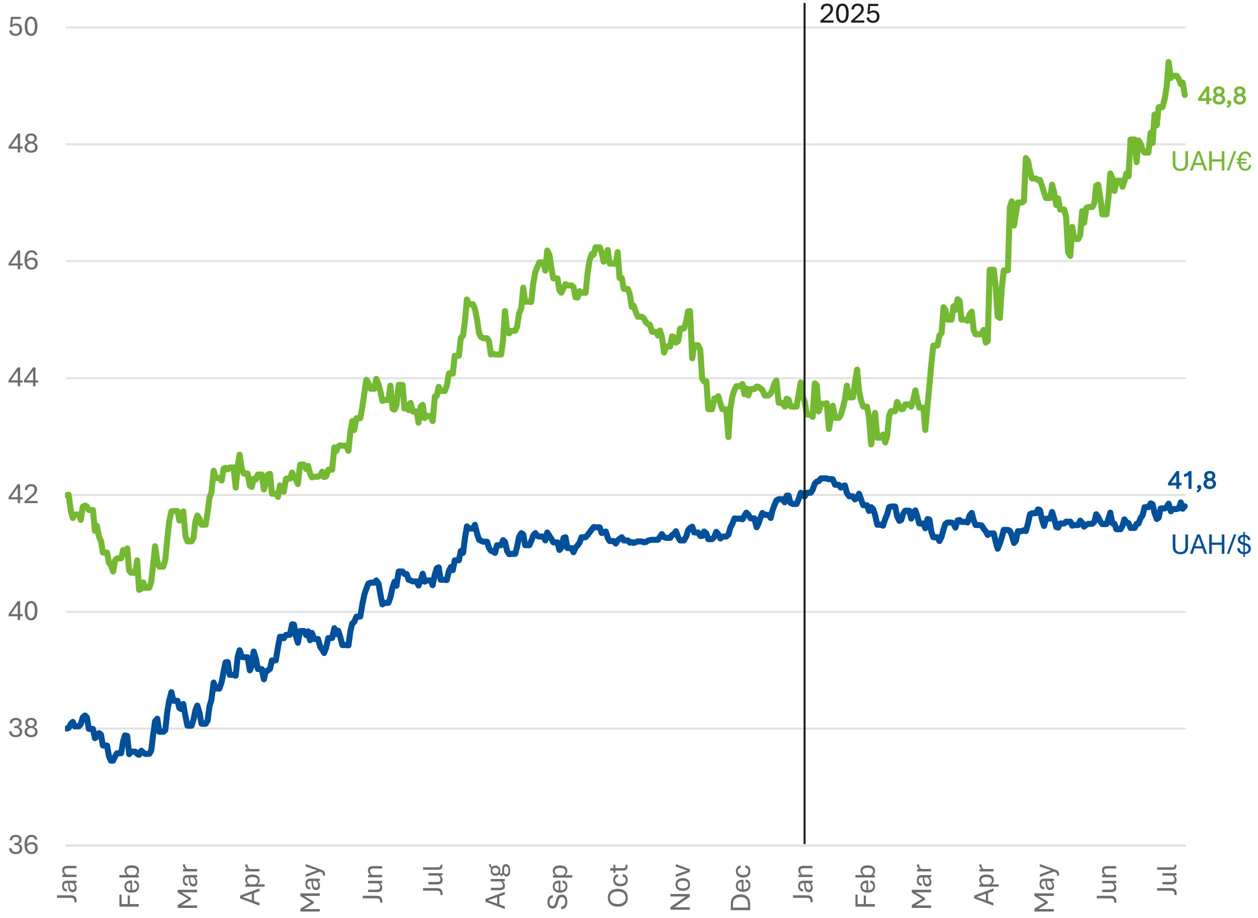
The highest price increases in June were recorded for fruits (+13.5% m/m) and railway passenger transport (+5.4%).

Inflation peaked in May and returned to decline in June. It is expected that the decline in inflation will continue in the second half of the year, thanks to monetary policy measures.

In early June, the NBU kept the key policy rate at 15.5% to stabilise the FX market and guide inflation back to 5%. It is expected to remain unchanged at the next meeting in late July.

Reserves up, Hryvnia stable to Dollar but weaker to Euro

Average daily official exchange rates UAH/USD and UAH/EUR



Source: NBU

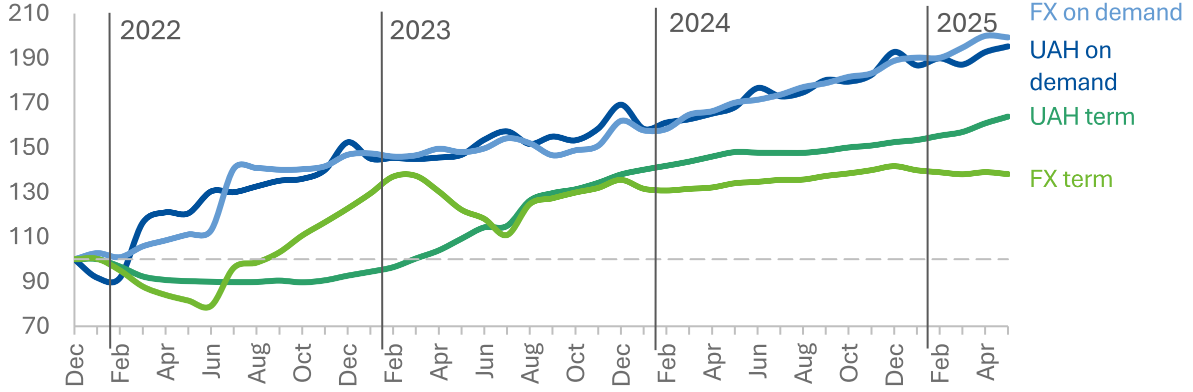
As of late June, Ukraine's foreign exchange reserves rose by 1.2% to $45.1 billion. This increase was driven by large inflows from international partners, which exceeded the NBU's net FX sales and Ukraine's FX debt repayments. The reserves are sufficient to support FX market stability, **covering 5.6 months of imports** — well above the three-month benchmark.

In June, net FX demand was stable, supported by interest in hryvnia deposits and uncertainty over the U.S. dollar. **The NBU's net FX sales were equal to $3 billion.**

Exchange rate fluctuations were moderate and two-sided: the official hryvnia rate slightly weakened by 0.1%, with the cash spread staying below 0.3%. The hryvnia also depreciated against the euro by 2.1%, following EUR/USD trends.

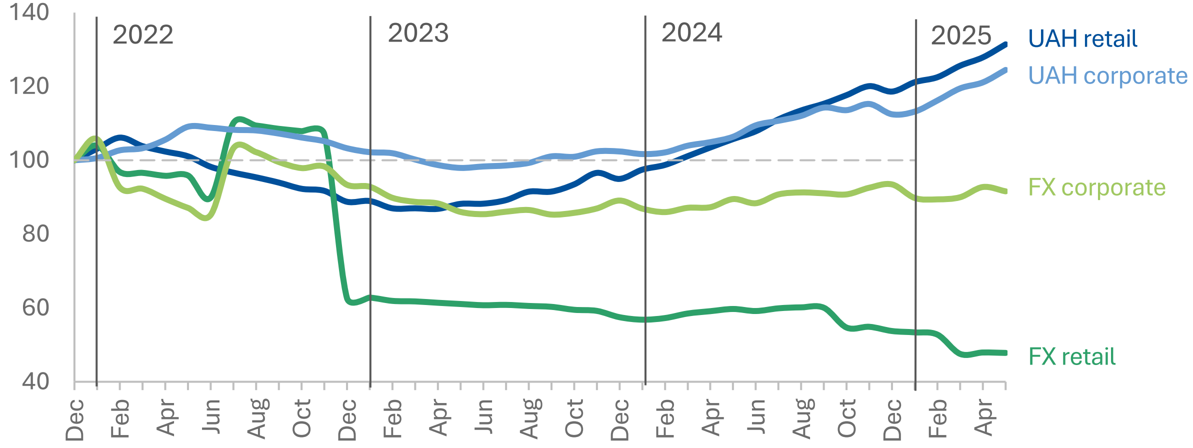
Demand for hryvnia deposits and loans remains high

Household deposits by currency and maturity, index, December 2021 = 100



Source: NBU

Loans to residents by currency and sector, index, December 2021 = 100



Source: NBU

In May, demand for hryvnia term deposits remained strong, continuing the steady upward trend seen since mid-2023. Higher interest rates enabled private banks, including smaller ones, to actively compete for household funds.

The persistent attractiveness of hryvnia instruments — both on-demand and term — helped contain FX deposit growth and reduce pressure on the exchange rate.

Since late 2023, retail and corporate demand for hryvnia loans has steadily accelerated, with May 2025 marking a sharp rise. This upward trend reflects household and business appetite for credit.

In contrast, corporate demand for FX loans continued to soften, underscoring the growing preference for hryvnia-denominated instruments and helping moderate exchange rate pressures.

Sectoral analysis

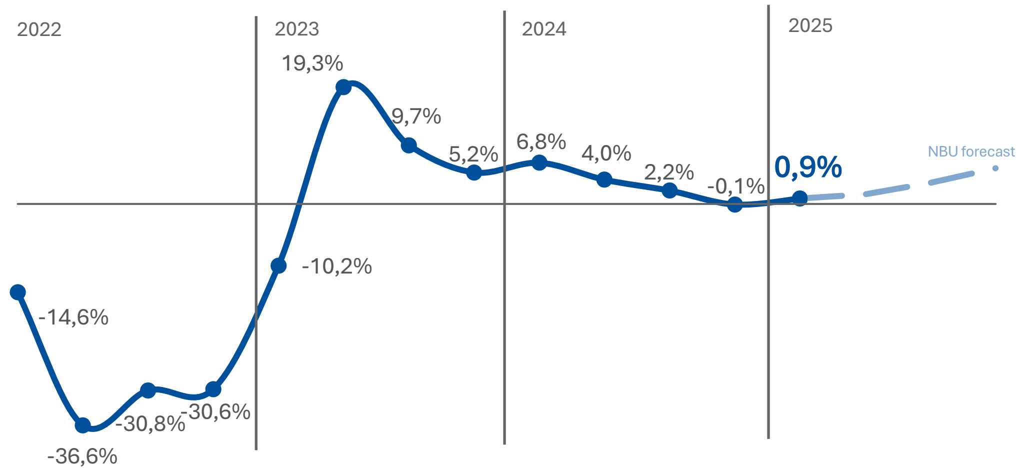
GDP increased by 0.9% in Q1 2025

Ukraine’s economy is idling, with no engine of growth to move it forward

Weak GDP growth is mainly due to ongoing security risks, labour shortages, difficult logistics, and higher production costs. In 2025, growth is expected to remain limited, supported by better harvests, a more stable energy supply, and strong defence production.

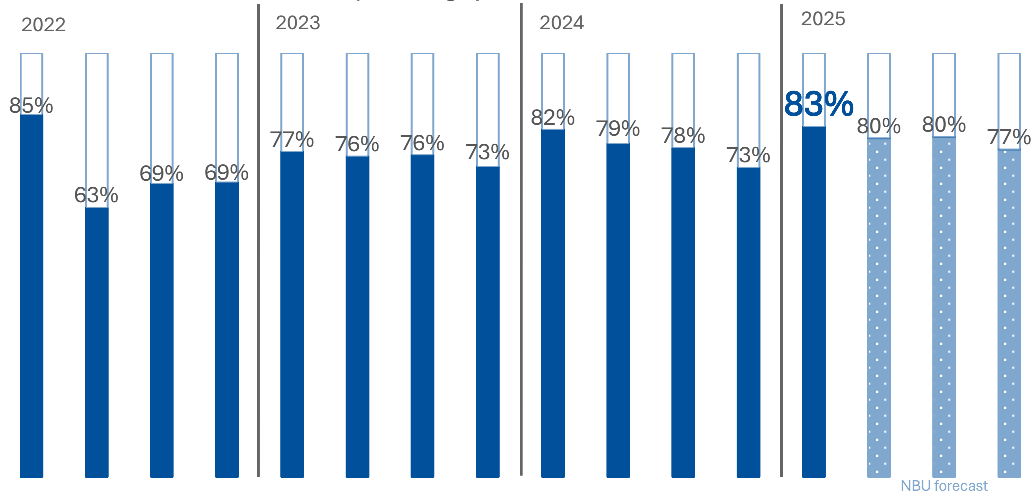
Ukraine’s economy remains around 80% of its 2021 size. This shows that while GDP is growing, the country is still in a recovery phase and has significant ground to cover before it can return to sustained, long-term growth.

GDP growth (y-o-y) per quarter, %



Sources: State Statistics Service of Ukraine, NBU

Real GDP in % to the corresponding quarter of 2021

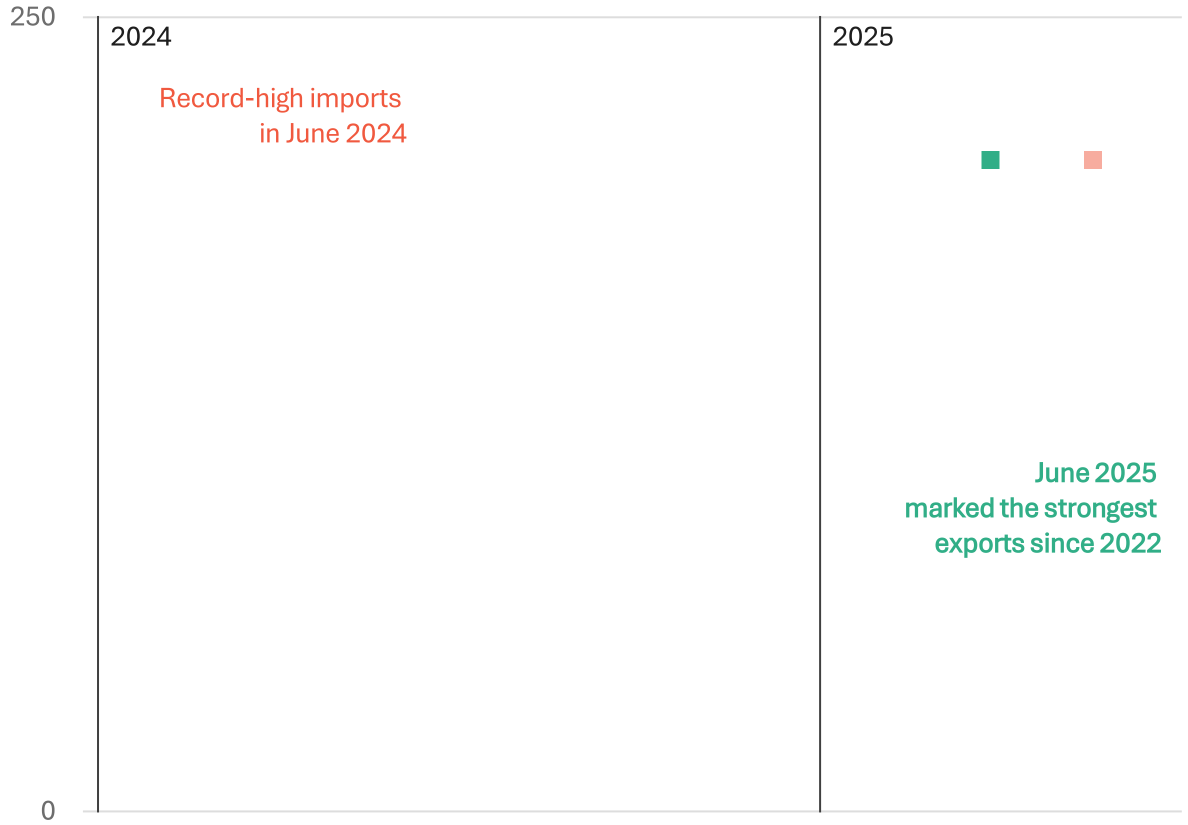


Sources: State Statistics Service of Ukraine, NBU, CES calculations

Monthly electricity exports exceed imports for first time since 2023

Surplus driven by good weather and lack of large-scale Russian energy attacks

Ukraine monthly electricity commercial trade, GWh



Source: ENTSO-E

- **Ukraine's power system operates reliably without emergency outages for a couple of months now.** This return to normalcy marks a major improvement over last year's crisis conditions.
- **Sunny weather and the absence of large-scale Russian attacks on energy have eased pressure** on the grid. These favourable conditions have helped stabilise electricity supply.
- **Vitaliy Zaichenko**, a key figure in wartime grid operations, **was appointed Ukrenergo CEO** in June 2025. His leadership is expected to strengthen the company's strategic direction and partnerships.
- **In July 2025, ENTSO-E raised Ukraine's electricity export limit to 900 MW.** This expansion boosts regional integration and supports system balancing during summer surpluses.

Ukraine secured better DCFTA terms on June 30

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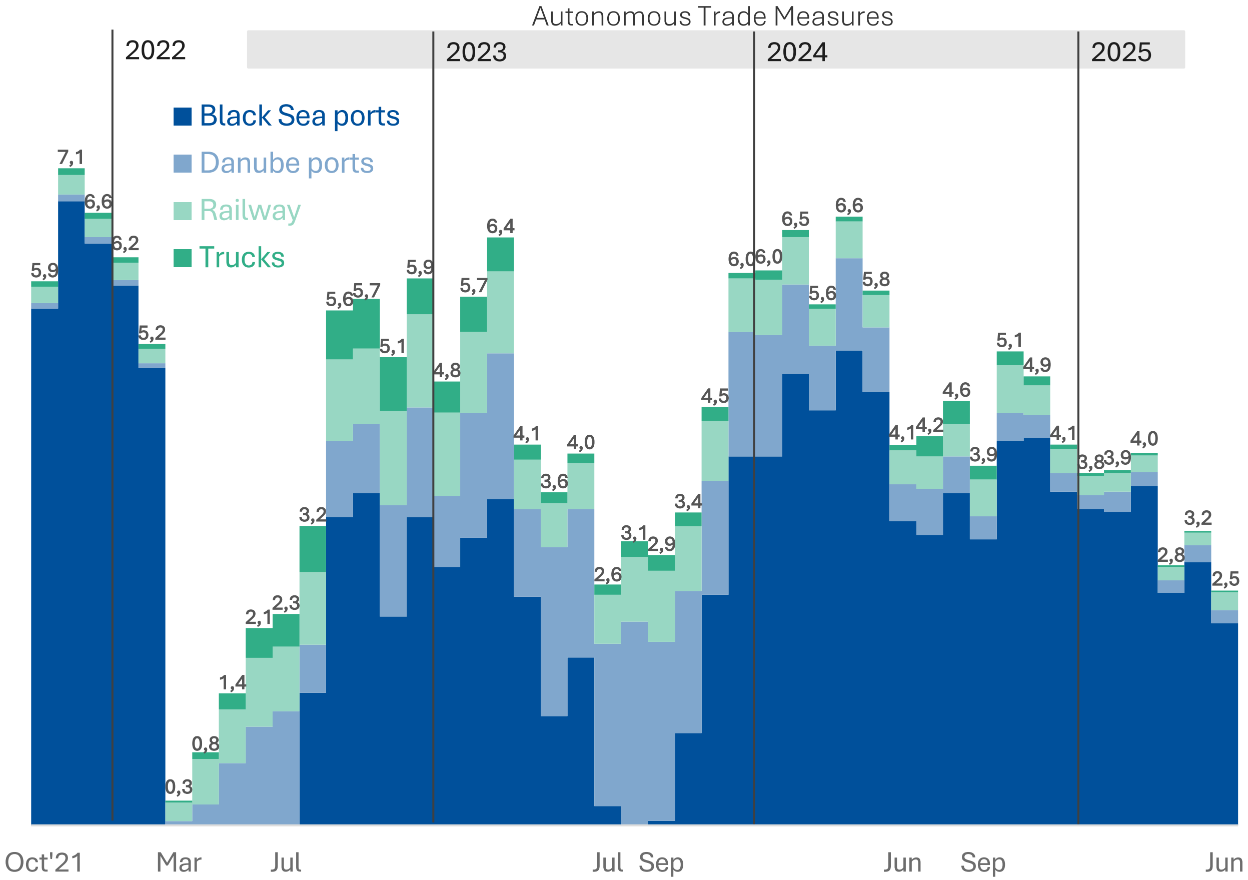
Meanwhile, grain exports have dropped to their lowest level since 2022

Exports of grain and oilseeds by transport and total, mt



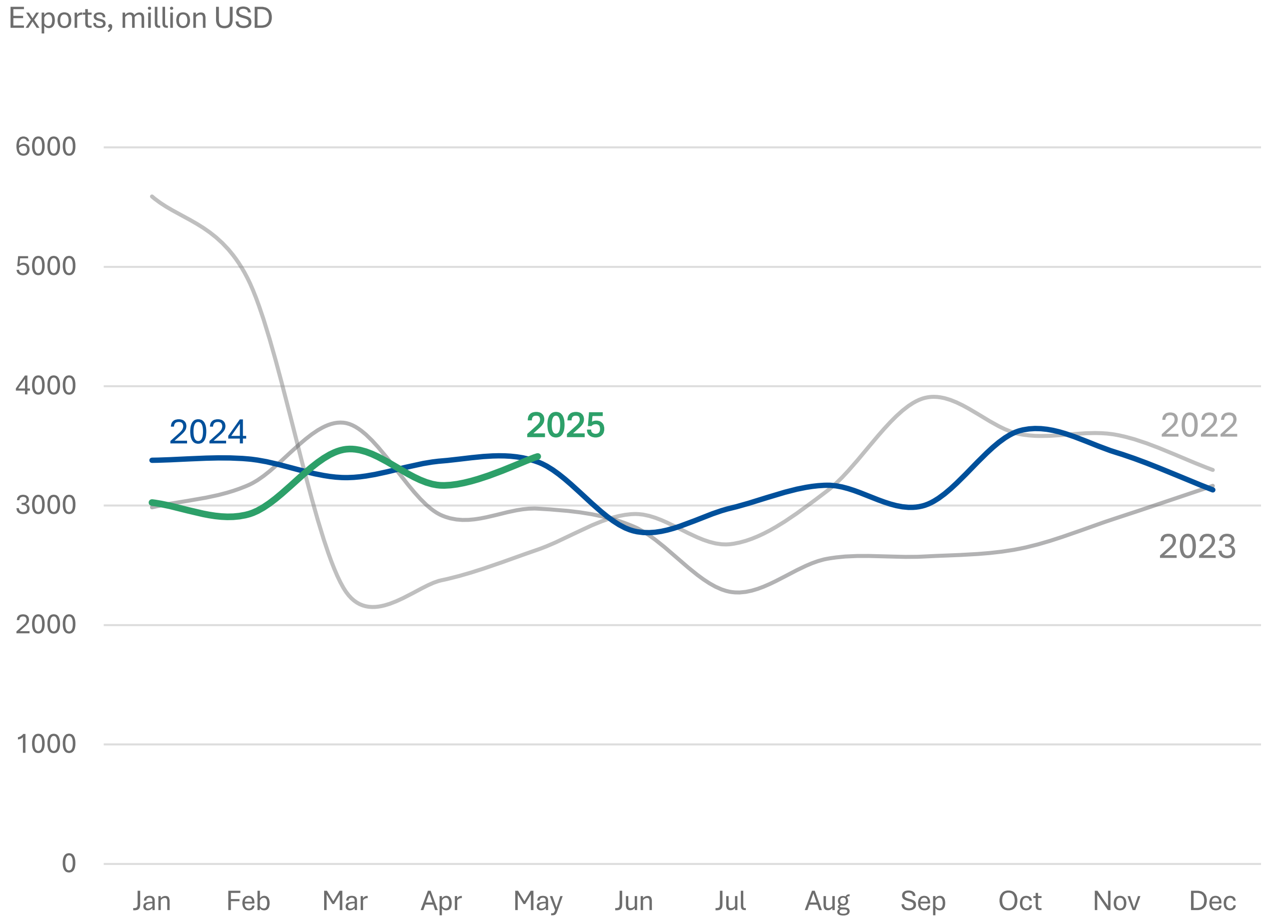
- **In June, Ukraine's exports of grains and oilseeds dropped by 20% to 2.5 million tonnes.** Year to date, exports are 41.5% lower than in the same period of 2024
- **On 30 June, the European Commission announced the so-called DCFTA 2.0 – revision of their existing free trade agreement.** According to Economy Minister Yulia Svyrydenko, the update raises quotas on honey, sugar and poultry meat. Although the limits remain binding, the new terms will significantly reduce tariff costs
- **Full liberalization is expected by 2028, including areas like animal welfare and pesticide use.** This makes trade with EU partners more stable and predictable

Source: Dragon Capital estimates

Foreign Trade

Ukrainian exports are weaker than last year

Lower agricultural exports of grains and oilseeds



Source: National Bank of Ukraine.

- Preliminary data show Ukrainian **exports down 4.5% year-on-year for January–May 2025** compared to the same period in 2024.
- **The main driver is a drop in agricultural exports**, particularly grain and oilseeds, caused by poorer harvests and targeted Russian attacks on agro infrastructure. In April, oil-grain exports were 9% below April 2024.
- **Metallurgical exports also declined** due to a slowdown in the construction sector and structural changes in the Chinese economy that reduced global demand for metals.

Ukrainian imports are stronger than last year

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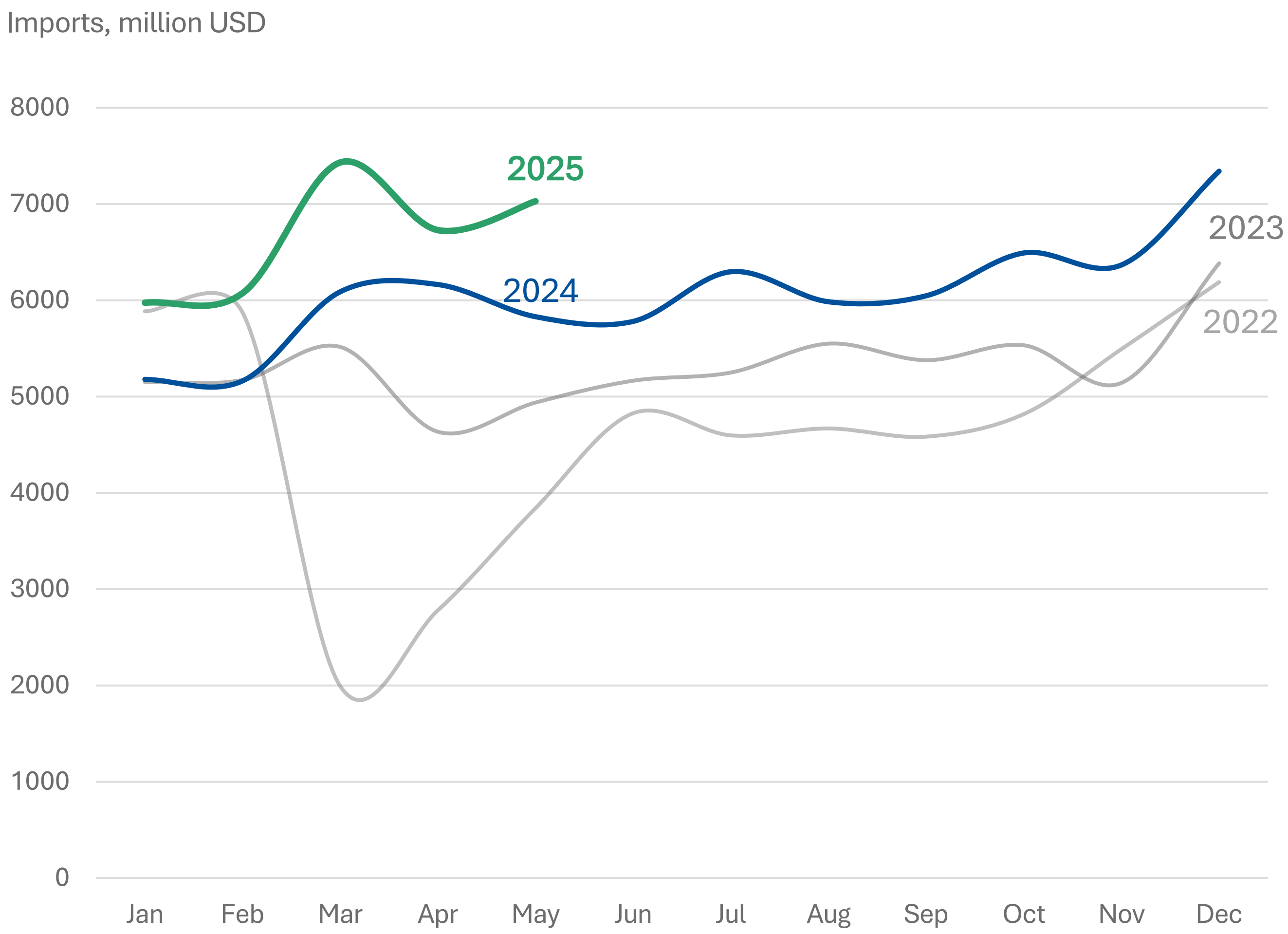
Higher imports driven by defence, energy, and fertilizers



Source: National Bank of Ukraine.

- **Imports of gas, generators, transformers, electricity spiked to compensate for losses in domestic capacities.**
- **Defence technology products imported both as intermediary products and as end-use goods used in frontline.** The former includes electronic modules, components, radioelectronic subsystems. The latter is mostly hidden in the "other" category of imports.
- Meanwhile, consumption imports somewhat decreased or stayed the same.

Export volumes are falling, but favourable prices soften the blow

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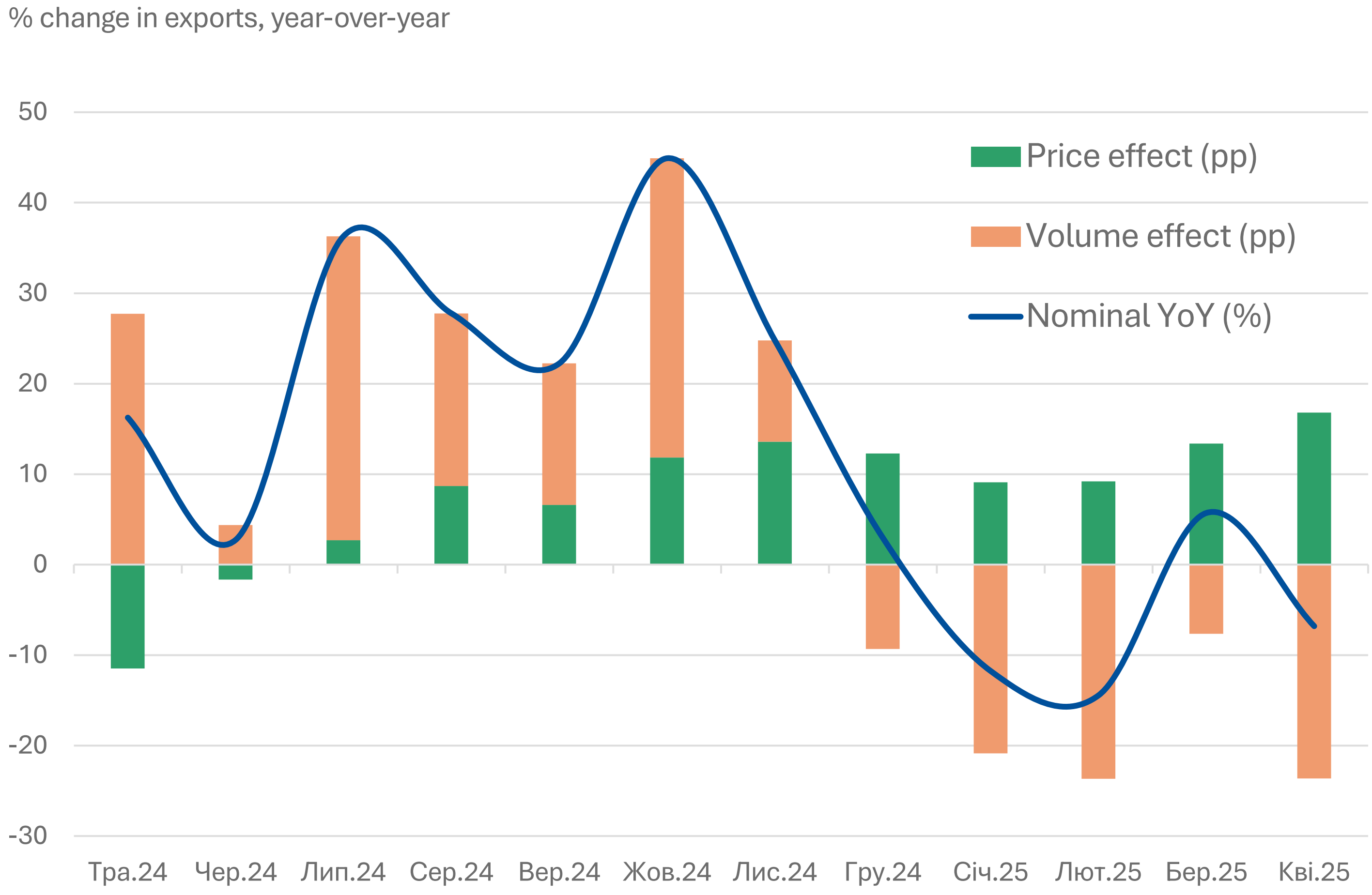
Price increases partly offset the sharp decline in export volumes



- **Since the beginning of 2025, export volumes have declined significantly.** This drop is the main driver behind weaker export performance.
- **At the same time, export prices have remained favourable,** helping to partially compensate for the decline in volumes.
- We used the Fisher-ideal index to break down the change in nominal exports into price effects and volume effects.

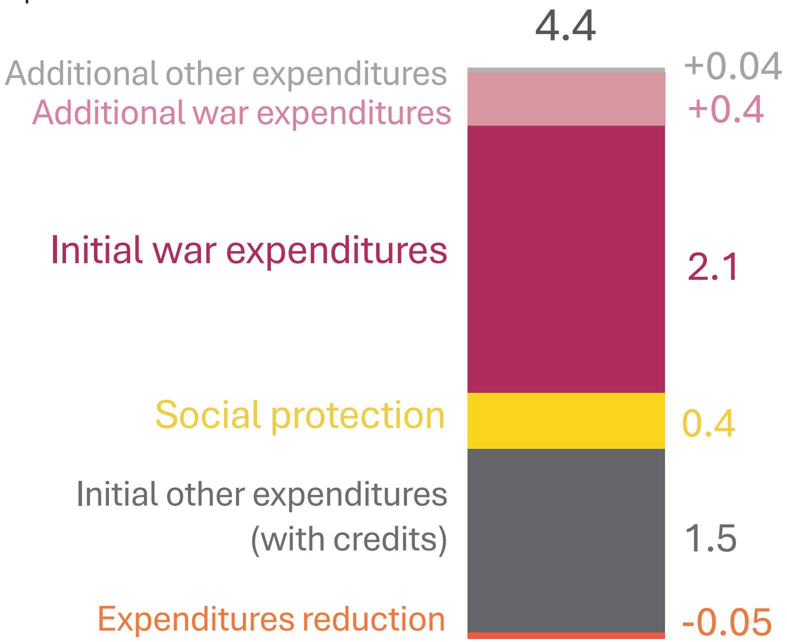
Source: ITC Trade map, Ukrstat, CES calculations.

Fiscal sector

Budget 2025: changes to the Law of the State Budget

+UAH 412 bn expenditures on war

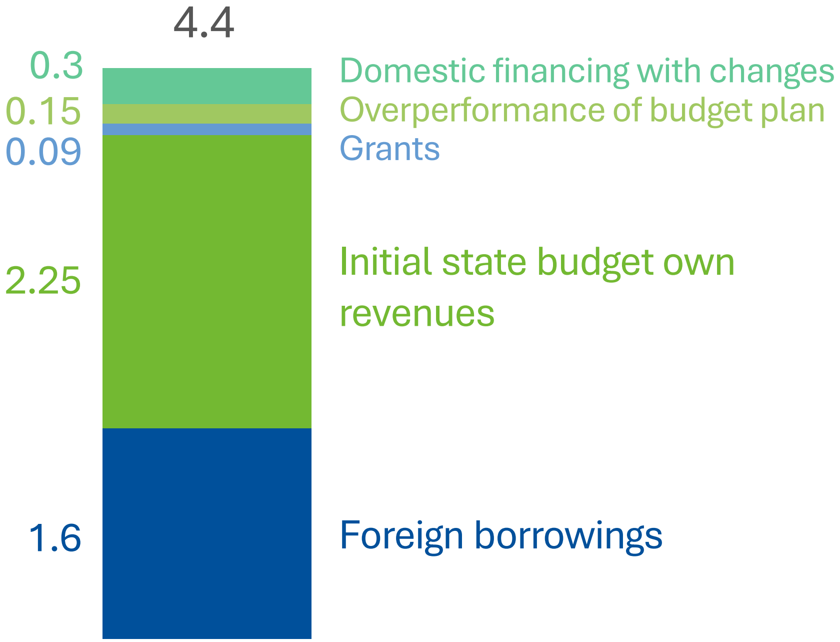
The government proposes changes to the State budget 2025: **+UAH 449 bn in total spending**, of which UAH 412 bn will go to the defence and security sector. This is **almost +20% of the defence budget** and about 10% of total expenditures.



Adjusted state budget expenditures, UAH tn

Source: the Law of State budget, Ministry of Finance.

The **deficit is also formally increasing by 15%**, but it can remain within the original plan by the end of the year, as loans from the ERA are counted as grants, so they do not increase the public debt and do not go to the deficit.



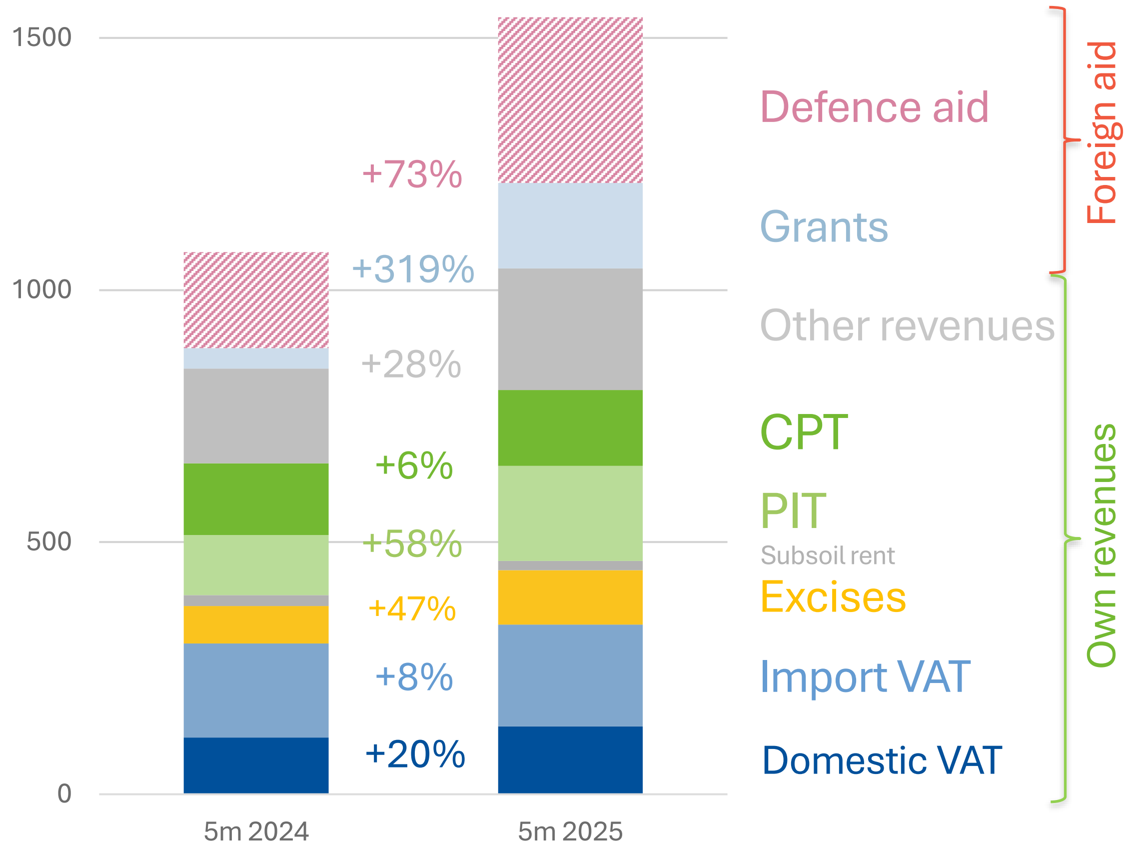
Adjusted sources of state budget, UAH tn

Source: the Law of State budget, Ministry of Finance.

Revenues are higher than last year

Defence aid is still provided

Jan-May revenues of the State budget, UAH bn



Source: Ministry of Finance, CES calculations.

- **With changes to the Law of the State budget, total state revenues in 2025 are planned to amount almost UAH 2.5 tn**, and it does not include direct aid to budget entities, which are in fact defence aid and part of total war expenditures.
- **As for 5m of 2025 State budget received more than UAH 1.5 tn in revenues**, 68% of which were own revenues and rest is foreign aid in form of grants and defence aid. **It is 43% increase compared to 2024**.
- **Own tax revenues to general fund totaled UAH 769 bn**, which is 21% increased from the same period 2024.
- According to the adjusted law one of the sources of additional war expenditures is UAH 147 bn overperformance of revenues. **The part of it is already covered by overperformance of PIT, CPT, NBU revenue**, etc.
- **Defence aid amounted to UAH 329 billion, 73% more than in 2024**, while the forecast for international military aid for 2025 was worse than in 2024. However, we will see the result at the end of the year.

War spending drives budget increase

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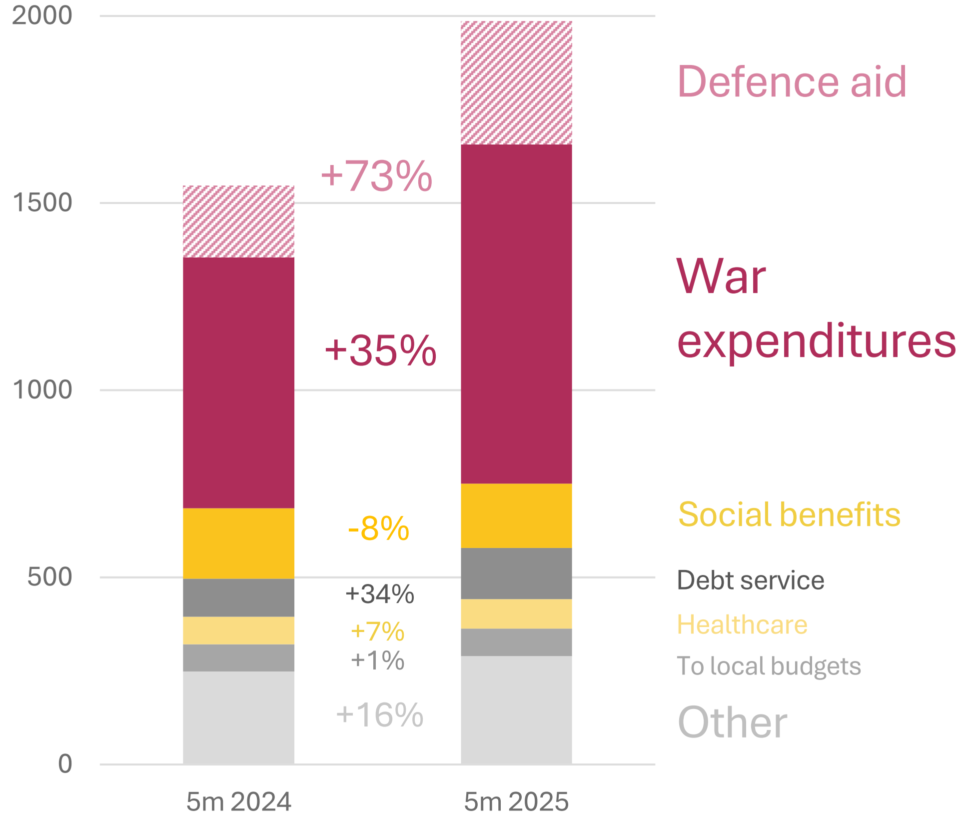
Expenditures on war increase by 43% while other expenses remain almost unchanged

Jan-May expenditures of the state budget, UAH bn



- **Total annual expenditures of State budget are planned to be almost UAH 4.4 tn**, including additional war expenditures according to new budget changes.
- **As for 5m of 2025, State budget expenses amounted almost UAH 2 tn** – 46% of the adjusted plan or 5.5 months of expenditures.
- **5m of 2025 expenditures are 28% higher compared to 2024**. Military spending increased the most, both at the expense of domestic sources (+35%) and aid (+73%).
- **Debt servicing expenses have also increased** due to the increase in the volume of public debt – in May 2025, the public debt amounted to UAH 7.5 tn.
- **Other expenditures remain frozen at pre-war levels**. Social expenditures from the State budget have already fallen by 8% in 5 months, and by the end of the year we expect a 7% overall decrease in social security expenditures. These expenditures are fully financed by international aid (mostly loans), which has limited resources.

Source: OpenBudget, CES calculations.

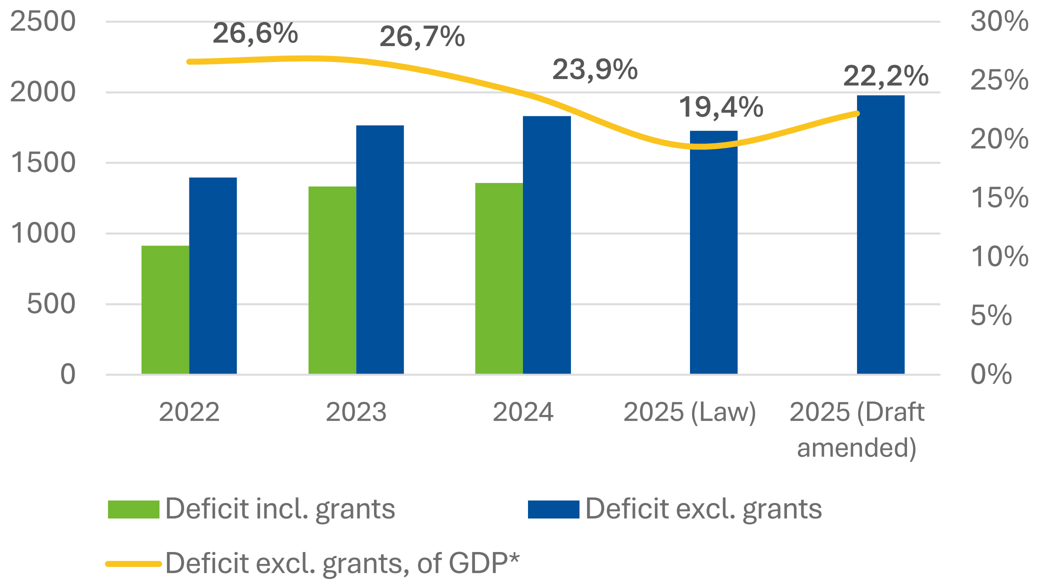
Dependence on external financing remains high

The first half of 2025 has seen increasing financing needs, despite a projected full-year trajectory of gradual deficit-to-GDP reduction.

Following budget amendments and nominal growth of the deficit excluding grants, its share of GDP in 2025 is still expected to be lower than in 2022–2024, reflecting the effects of gradual economic recovery and cautious fiscal policy.

In January–May 2025, the deficit excluding grants reached the highest nominal value and the second highest ratio to GDP among comparable periods since 2022, highlighting the continued need for external financing.

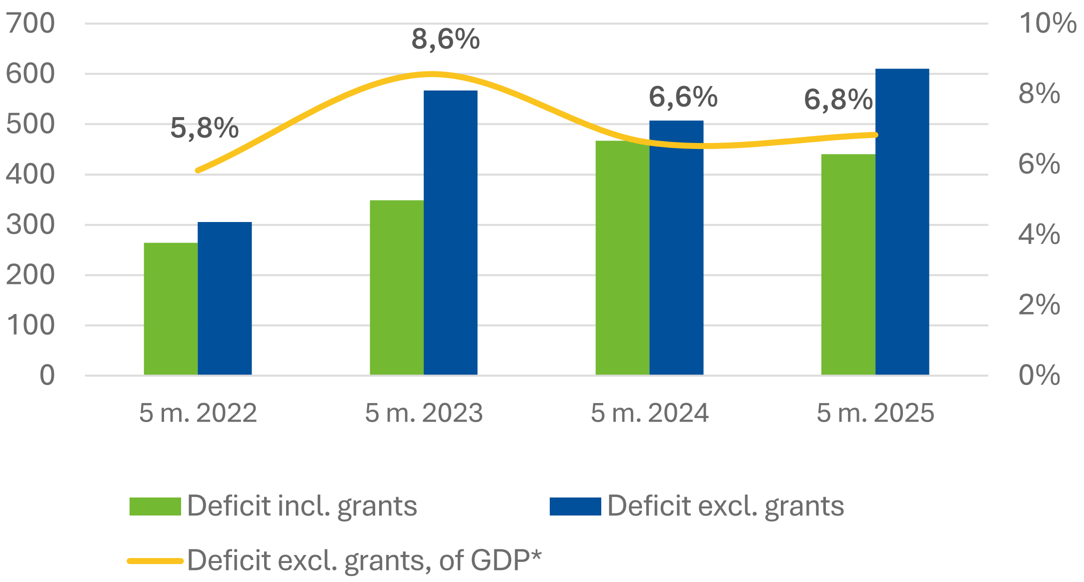
2022–2025 annual state budget deficit, UAH bn



*The 2025 GDP level is based on the NBU forecast (Inflation report, April 2025)

Source: OpenBudget, the Law of State budget, NBU, State Statistics Service, CES calculations.

Jan–May 2022–2025 state budget deficit, UAH bn



*The 2025 GDP level is based on the NBU forecast (Inflation report, April 2025)

Source: OpenBudget, NBU, State Statistics Service, CES calculations.

Financing budget and medium-term planning

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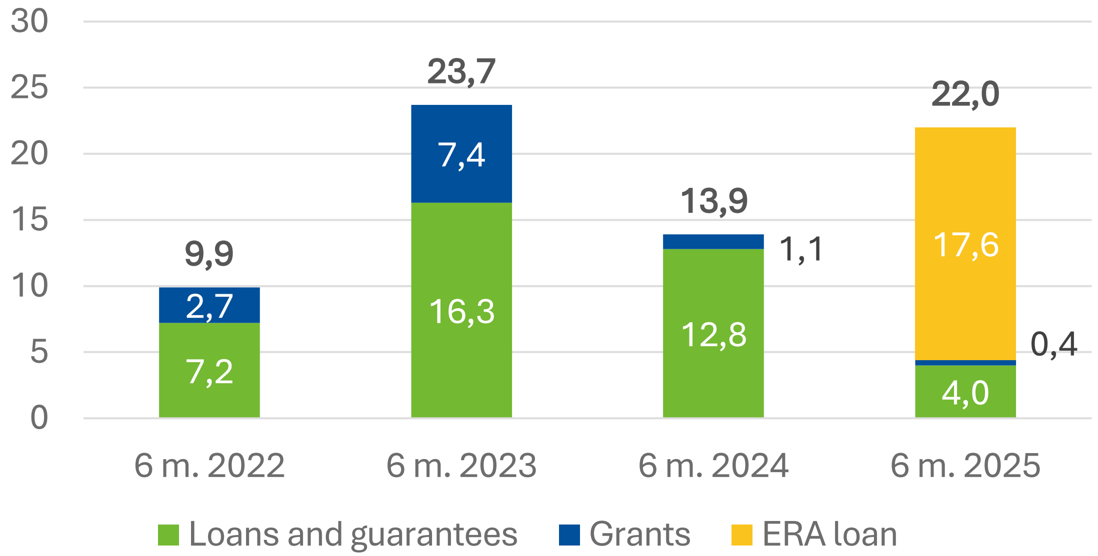
Decline in grant support highlights importance of fiscal planning

Jan–Jun 2022–2025 external budget financing, USD bn



Source: Ministry of Finance, NBU, CES calculations.

- **Grant-based support from international partners is gradually declining** (excluding conditional financing under the ERA loans), and this downward trend is expected to continue.
- **Decrease was caused by the non-fulfillment of some Ukraine Facility indicators**, the state budget will not receive €1.5 billion in August, of which nearly €0.5 billion would have been grants.

- **At the end of June, the Government approved the Budget Declaration for 2026-2028**, which should serve as the basis for the formation of a predictable fiscal policy.
- **For the first time, the Budget Declaration provides for two scenarios – a baseline and an alternative scenario**. The baseline scenario envisages a significant improvement in the security situation in 2026 and a gradual reduction in military spending. The alternative scenario, on the other hand, models a 'negative' course of events with a longer phase of active hostilities.

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Thank you!