



CENTRE
FOR ECONOMIC
STRATEGY

Date: 14 August 2025

Authors: CES Team

August Economic Review

Special topic: How is arms production transforming
Ukraine's economy?



Executive summary

Executive summary

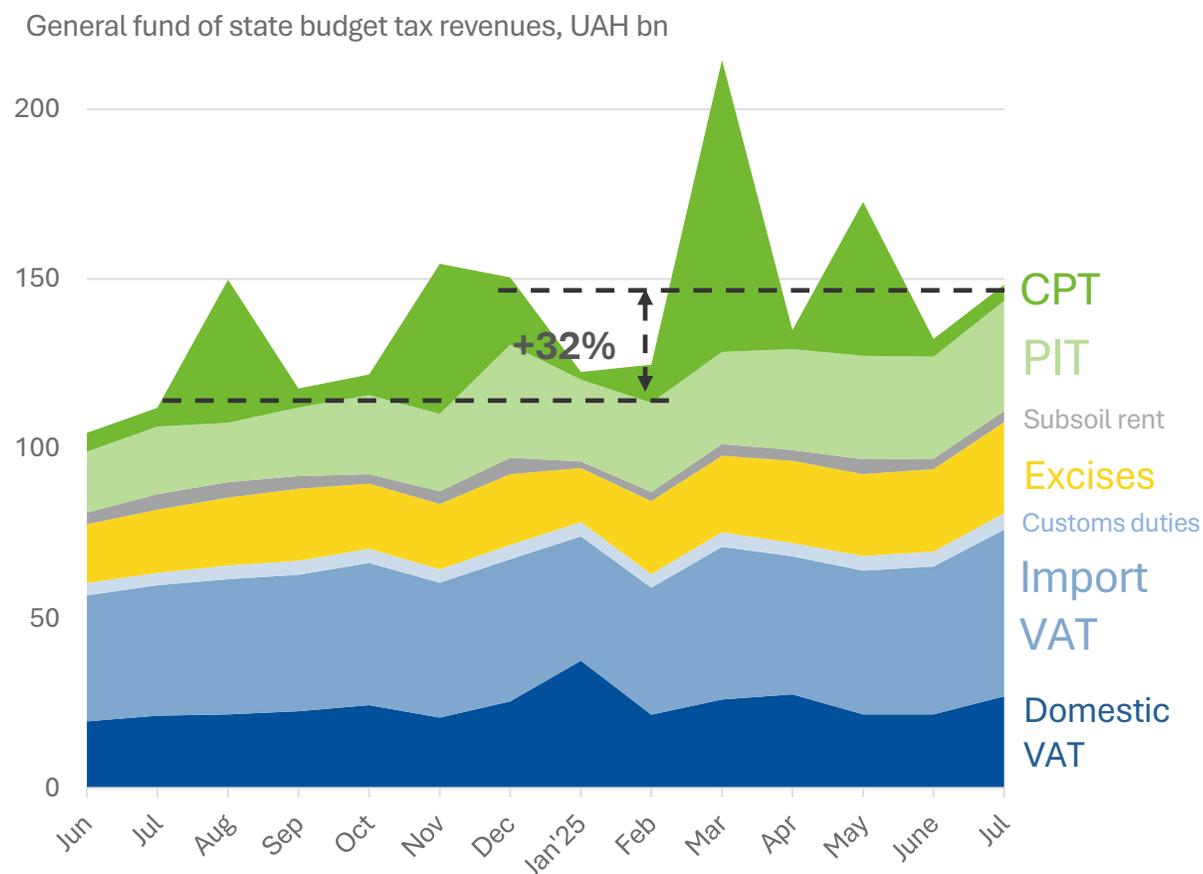
- **Monetary and FX sectors:** Inflation falls to 14.1%, key policy rate remains steady at 15.5%. The key policy rate remains unchanged due to slower-than-expected decline in inflation and emerging pro-inflation risk with limited space of possible decrease by end-2025. Reserves went down, while Hryvnia remained relatively stable to Dollar and Euro with slight signs of appreciation.
- **Fiscal sector:** Every third Hryvnia of tax revenues in July was Import VAT. The state budget received UAH 148 bn of taxes, adding 32% y-o-y. War expenditures via own sources decreased in June while defence aid increased.
- **Foreign trade:** Ukrainian exports continue to stagnate, while imports show two-digit growth. This creates a trend of increasing trade deficit. The deficit is driven by fundamental reasons related to the war-related needs: mainly imports of weapons, dual-use products, machinery required for energy infrastructure. Further trade balance trend is expected to worsen but is highly dependent on foreign financing and the developments of the war.
- **Sectoral analysis:** Despite the resumption of Russian attacks on energy infrastructure, the sector remains stable and continues to support economic growth. Consumer and business sentiment indicates that the economy is slowly recovering in Q2 2025. Early grain and oilseed yields are lower than in 2024. However, a good harvest and exports are expected this year, primarily due to the late crops.
- **Special topic:** The role of arms production in the economy grows during full-scale war, with a rising number of enterprises and people being employed. Growth in defence production exceeds the pace of recovery in other industries, making a significant positive contribution to GDP. However, defence production is mainly financed from the budget and is experiencing a lack of funding. International financing, particularly according to the 'Danish model', could provide an additional boost to the industry.
- **See our report below for further details.**



Fiscal sector

Every third Hryvnia of tax revenues in July was Import VAT

The state budget received UAH 148 bn of taxes, adding 32% y-o-y



In July 2025, revenues from **imported VAT** reached UAH 49 bn (+28% y-o-y), contributing about one-third of general fund state budget tax revenues. However, **the plan for the first half of the year was underexecuted by 4%** (UAH 10 bn short), with July likely showing the same trend due to a high share of untaxed imports (24% in 2025 vs 14% in 2024).

Domestic VAT revenues brought in UAH 27 bn (+27% y-o-y), exceeding the plan by 7% (for the first half year).

Excise revenues totalled almost UAH 27 bn (+44% y-o-y; +10% m/m). Imported excises—especially on electricity and tobacco—exceeded the plan for 6 m., while domestic excises slightly underperformed.

PIT revenues rose sharply to +63% y-o-y in July, 14% above plan for 6 m., also due to higher wages. **CPT** fell to UAH 4.8 bn (-13% y-o-y; -8% m/m).

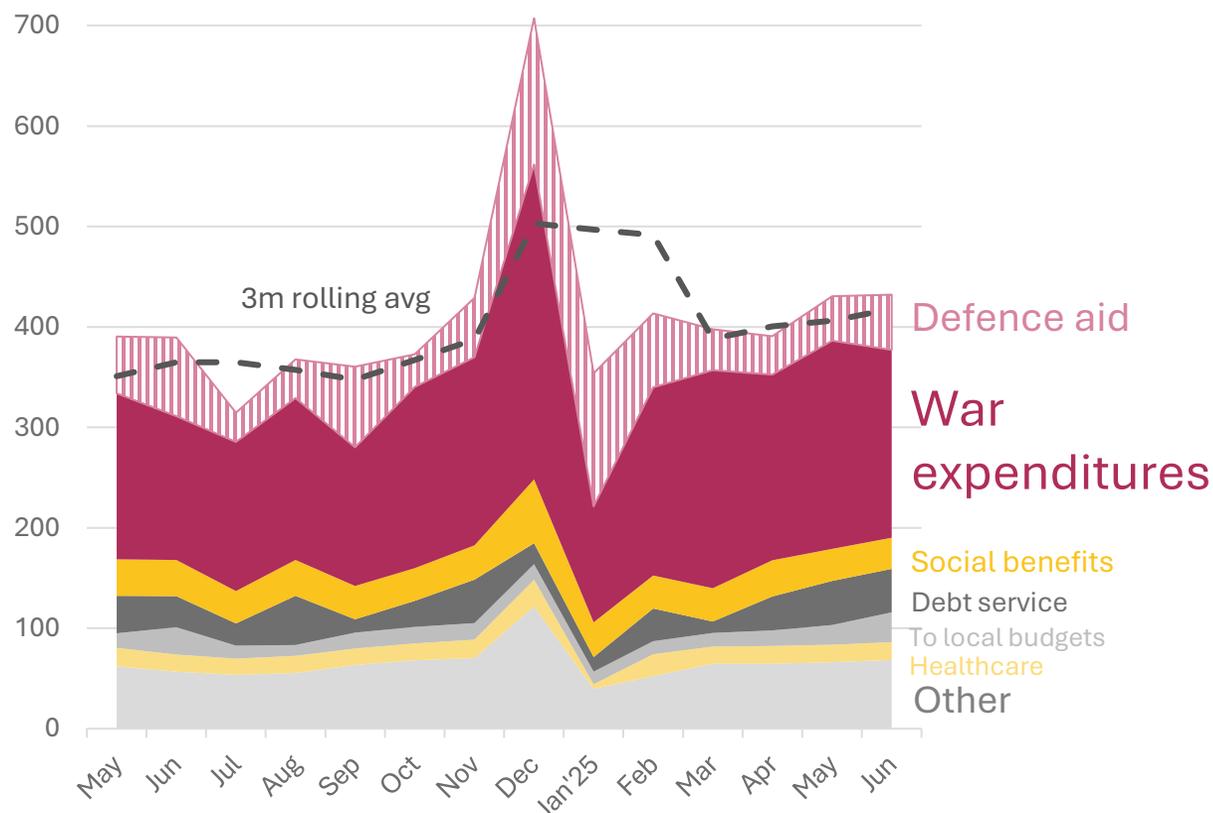
Subsoil rent revenues continued their decline from the beginning of full-scale invasion, at UAH 3.3 bn in July (-28% y-o-y).

Source: Ministry of Finance. Note: based on the Treasury's preliminary budget data released by the MoF

War expenditures via own sources decreased in June

While defence aid increased

State budget expenditures, UAH bn



Source: OpenBudget, CES calculations

In July 2025, **amendments to the State Budget for 2025 were adopted**. Expenditures were increased only for defense and security needs, while other spending remained unchanged.

Total expenditures in June 2025 remained at the May level—UAH 432 billion compared to UAH 430 billion in May—but increased by 11% compared to the same period last year.

War expenditures decreased by 10% compared to May, while defence aid increased by 24%. However, war expenditures in the first half of the year are 35% higher than in the same period in 2024. And even with such performance, the plan for the first half of the year for the general fund was not fulfilled.

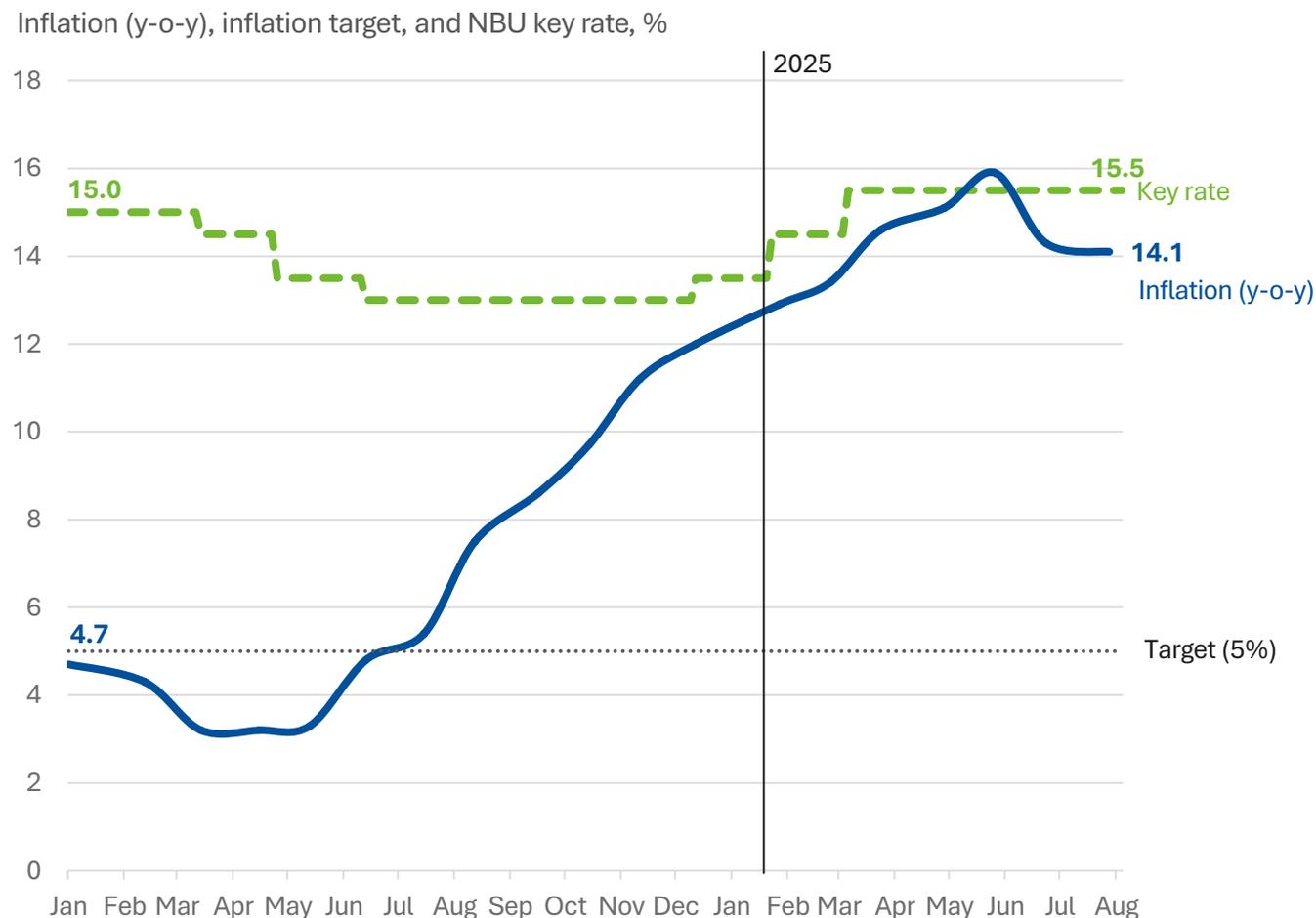
There is a **downward trend in social benefits** – in June, they decreased compared to May this year (-2%) and compared to June 2024 (-14%). Total social expenditures of the state budget in the first half of 2025 are 11% lower than in the first half of 2024.

The largest increase in spending was in transfers to local budgets (+50%), but such growth occurs annually in June. Expenditures on recovery and humanitarian aid also increased.



Monetary and FX sectors

Inflation falls to 14.1%, key policy rate remains steady at 15.5%



Sources: NBU and State Statistics Service

In July 2025, inflation fell to 14.1% year-on-year (-0.2% m/m), driven mainly by a sharp drop in vegetable prices (-23.9% m/m).

Further declines are expected from the tight monetary policy, better harvests, and moderate external price pressures.

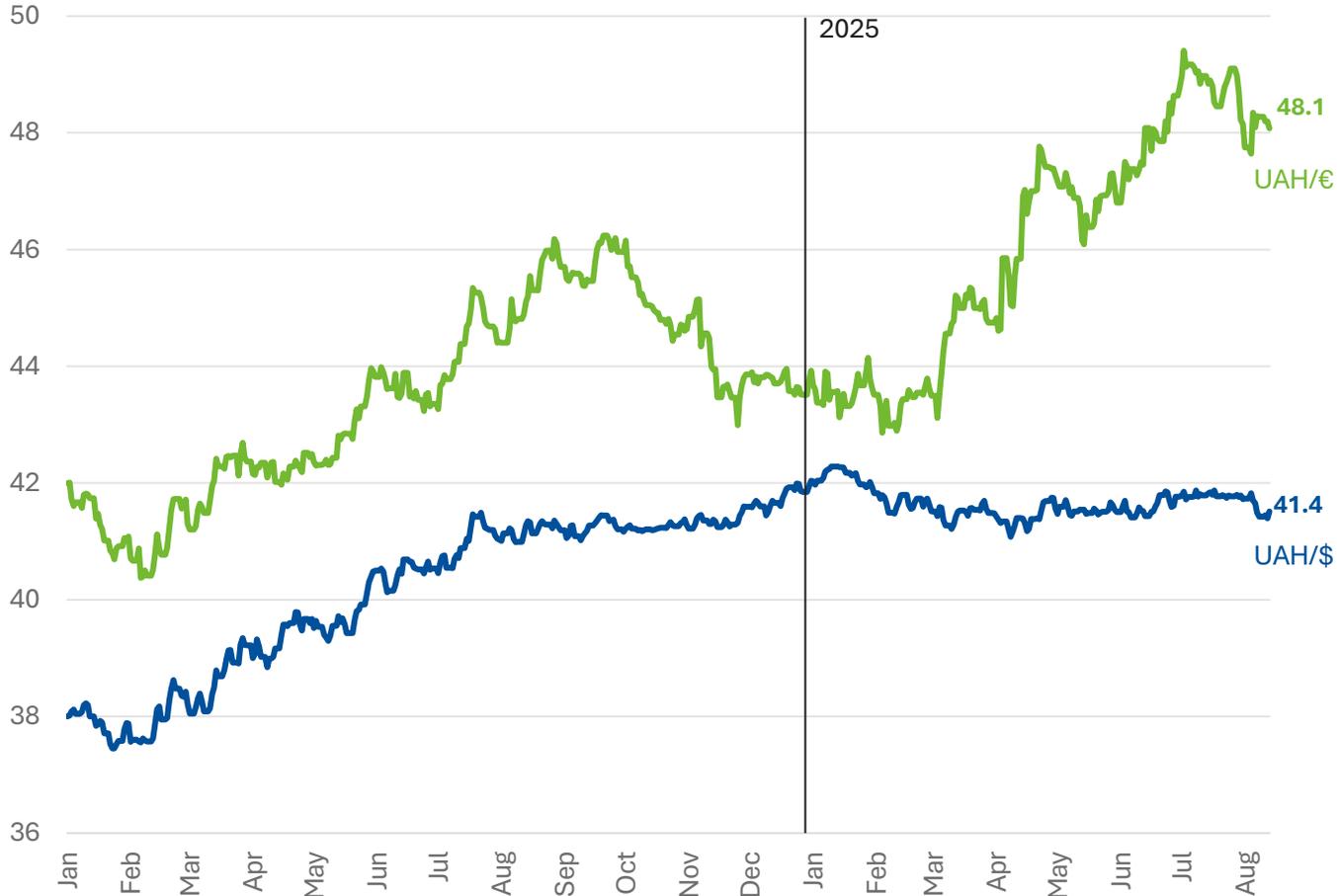
The NBU projects inflation to fall to 9.7% by end-2025 and reach its 5% target in 2027.

In late July, the NBU kept the key policy rate unchanged at 15.5% amid a slower-than-expected decline in inflation and emerging pro-inflation risk.

However, the NBU may resume interest rate cuts by year-end if inflation continues toward 5% target and future financing remains secure. The key policy rate might decrease to 14.5% as of end-2025.

Reserves down, Hryvnia stable to Dollar and Euro with slight appreciation

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



As of late July, Ukraine’s foreign exchange reserves fell by 4.5% to \$43 billion. NBU FX interventions and debt repayments, partly offset by foreign aid and FX bond inflows, drove the decline.

Reserves remain sufficient to sustain the FX market, **covering 4.7 months of imports** — well above the three-month benchmark.

The NBU projects reserves will rise to \$54 billion by end-2025, then fall to \$45 billion in 2026 and remain at that level in 2027 due to reduced foreign support.

Exchange rate fluctuations were moderate, with the official hryvnia slightly appreciating against both the USD and EUR compared to June.

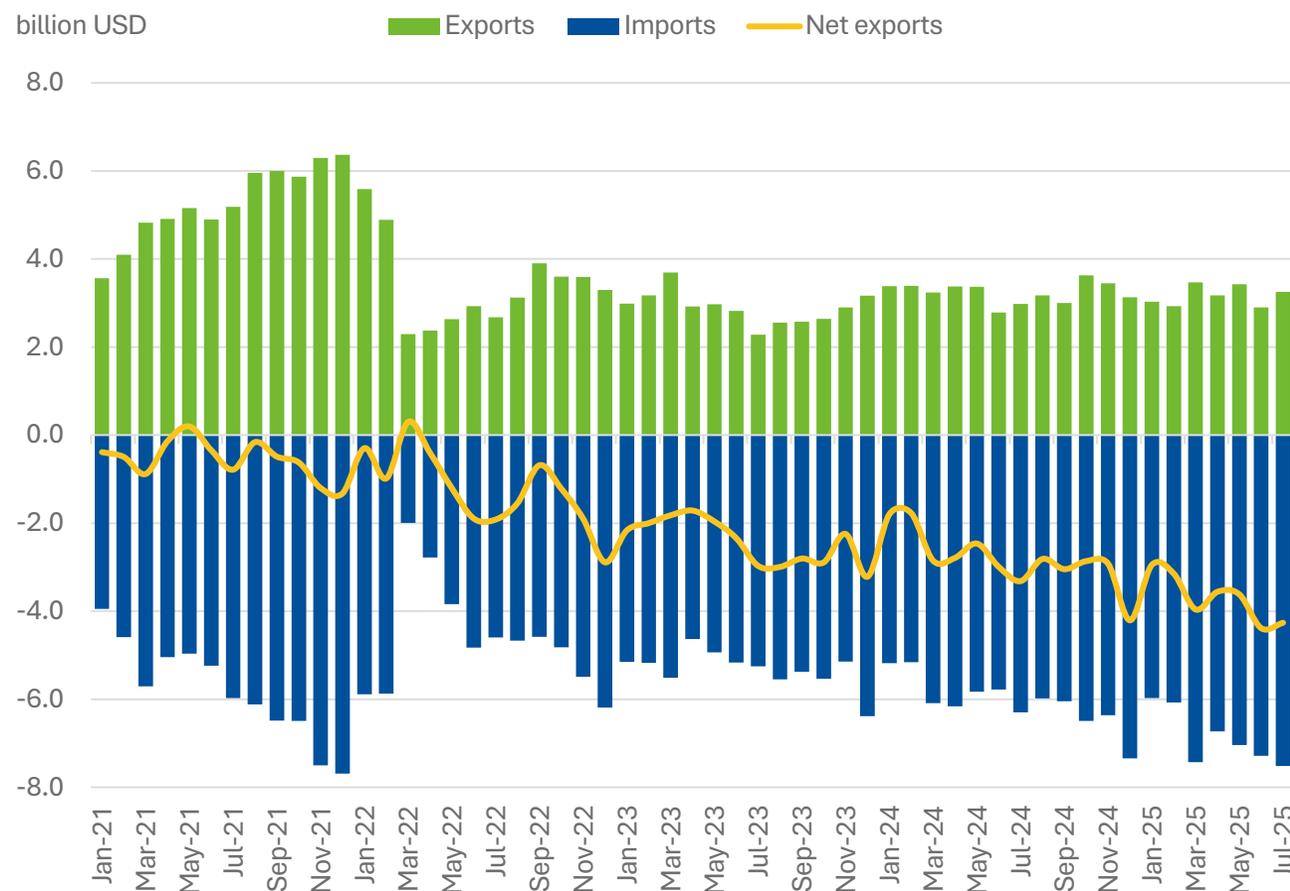
Sources: NBU



Foreign Trade

Ukrainian net exports are record low

Trade balance trends downwards

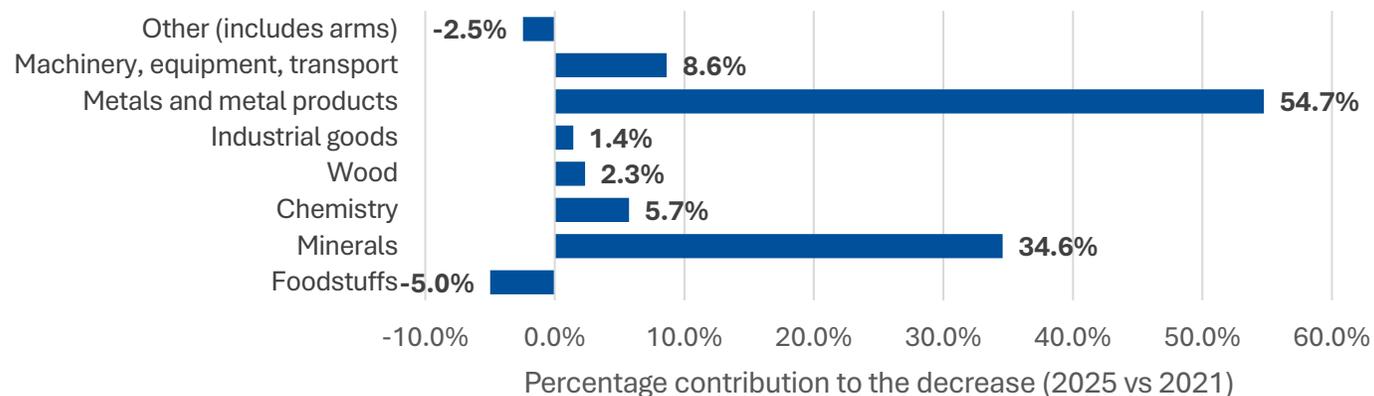
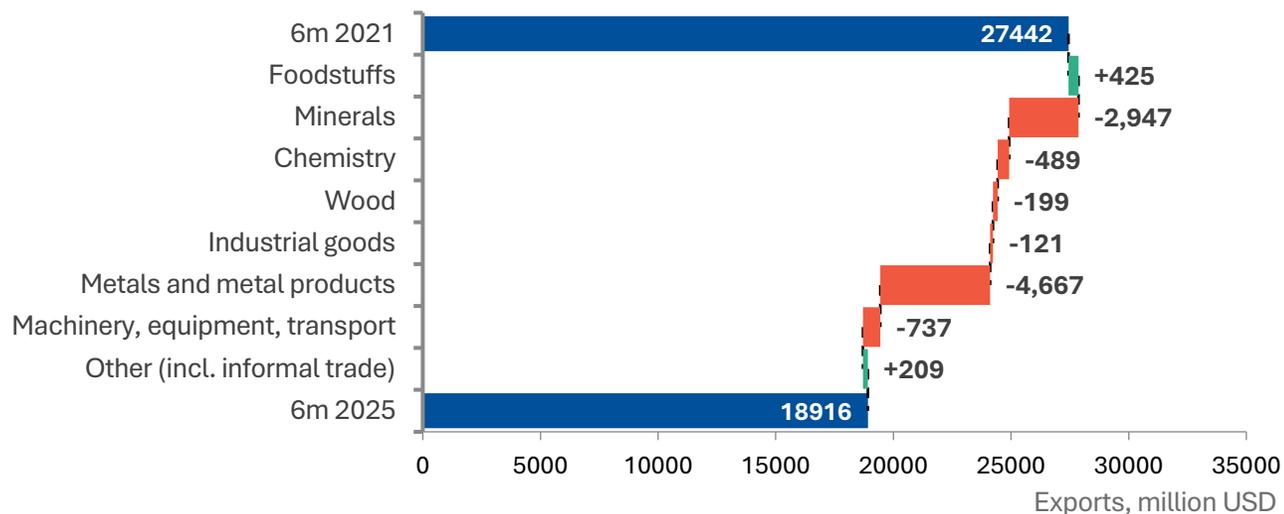


Source: NBU, State Customs Service, Diia.Business.
Data for April-July 2025 is preliminary.

- In July, Ukrainian exports rose 9.2% year-over-year, partially offsetting a weaker start to the year. Over January-July, the exports remain 1.5% below the same period in 2024.
- In the same 7-month period 2025, imports grew 18.7%, with year-over-year growth mostly in the double digits for over a year. Imports have recovered to the pre-invasion levels.
- With exports stagnating and imports demand rising, the trade balance continues to hit its negative peaks and to exert pressure on the exchange rate.

The war erased 30% of exports, primarily in extractive industries

Sectors concentrated in the occupied and frontline regions

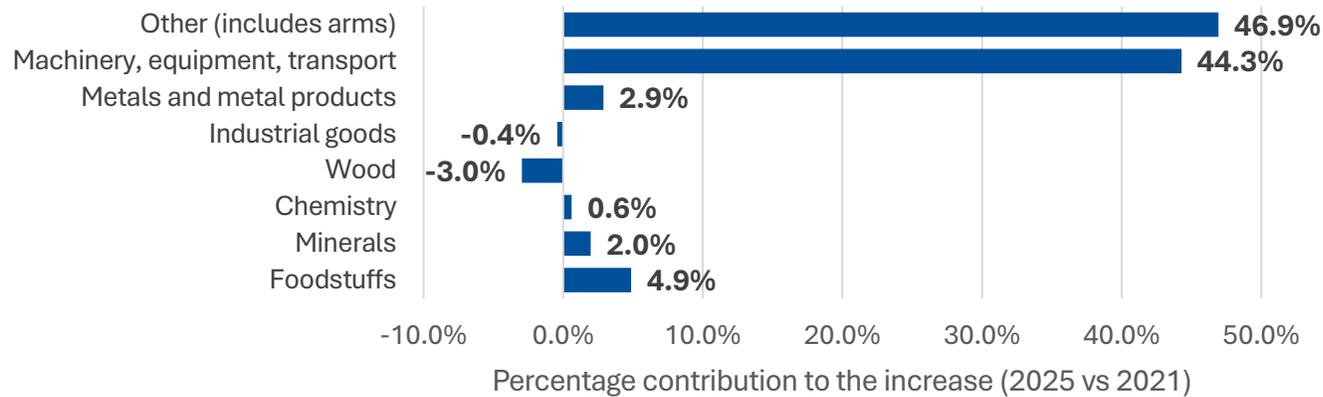
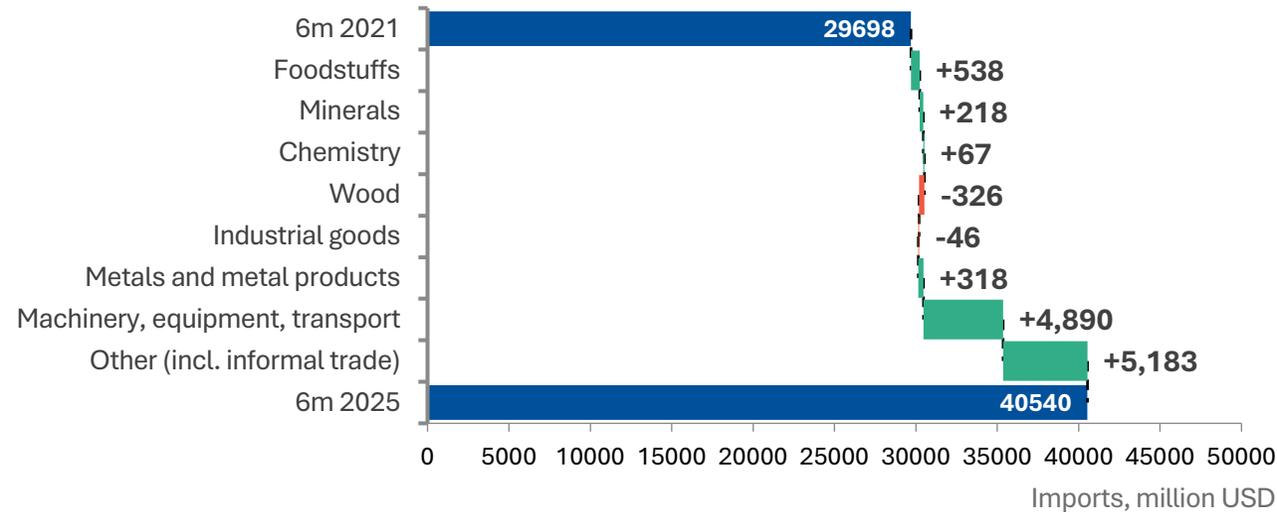


- With the initial war shock, exports lost one third of the 2021 capacity.
- The losses are concentrated in extractive industries — mining, quarrying, metallurgy — with around 90% of export losses in those sectors.
- These losses are largely unrecoverable, as they stem from physical objects (mines, industrial plants) lost to Russian occupation.
- Other industries are struggling to adapt to new challenges—climate change, terms-of-trade shocks, infrastructure attacks—so the “export side” of the trade balance is unlikely to contribute positively anytime soon.

Source: NBU, CES calculations

Higher imports are driven by war-related needs

Higher imports explained by machinery, transportation and weapons



- Higher imports are also driven by Ukrainian wartime needs, be it for the frontline or the rear.
- Almost the whole growth in imports is machinery, transport, and arms.
- The increased imports of machinery also are explained by the active losses of energy capacities which need to be replaced: transformers, generators, electronic modules.
- Due to review of the BoP statistics, the “Other” category now also includes international postal shipments under 150 EUR which are currently untaxed.

Source: NBU, CES calculations

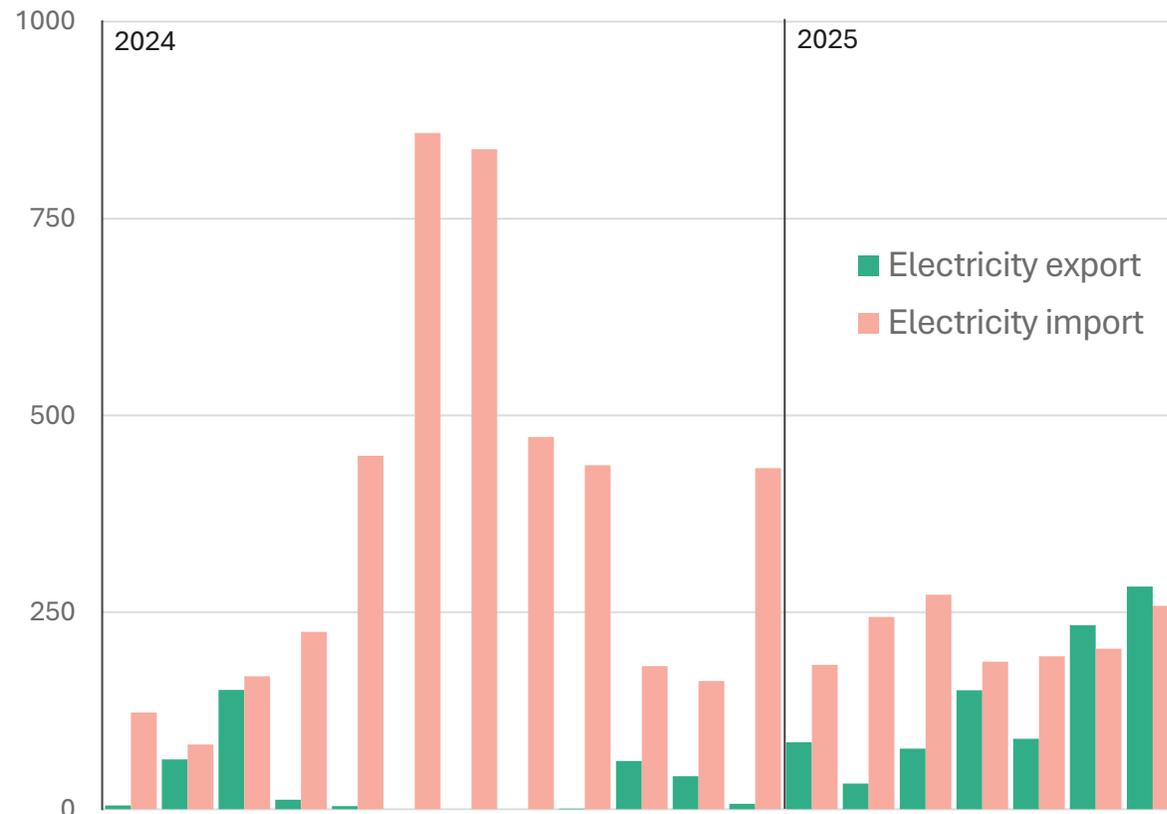


Sectoral analysis

Energy sector is stable despite new Russian attacks

Electricity exports reached the highest level during the full-scale war

Ukraine monthly electricity commercial trade, GWh



Source: ENTSO-E

Ukraine's power system is operating steadily despite the resumption of Russian attacks on the energy infrastructure. In July, electricity exports have exceeded imports for the second month in a row.

The National Energy and Utilities Regulatory Commission increased the price cap on the electricity market during the evening peak by 1.6 times, acting from July 31. This decision aims to reduce barriers to electricity import.

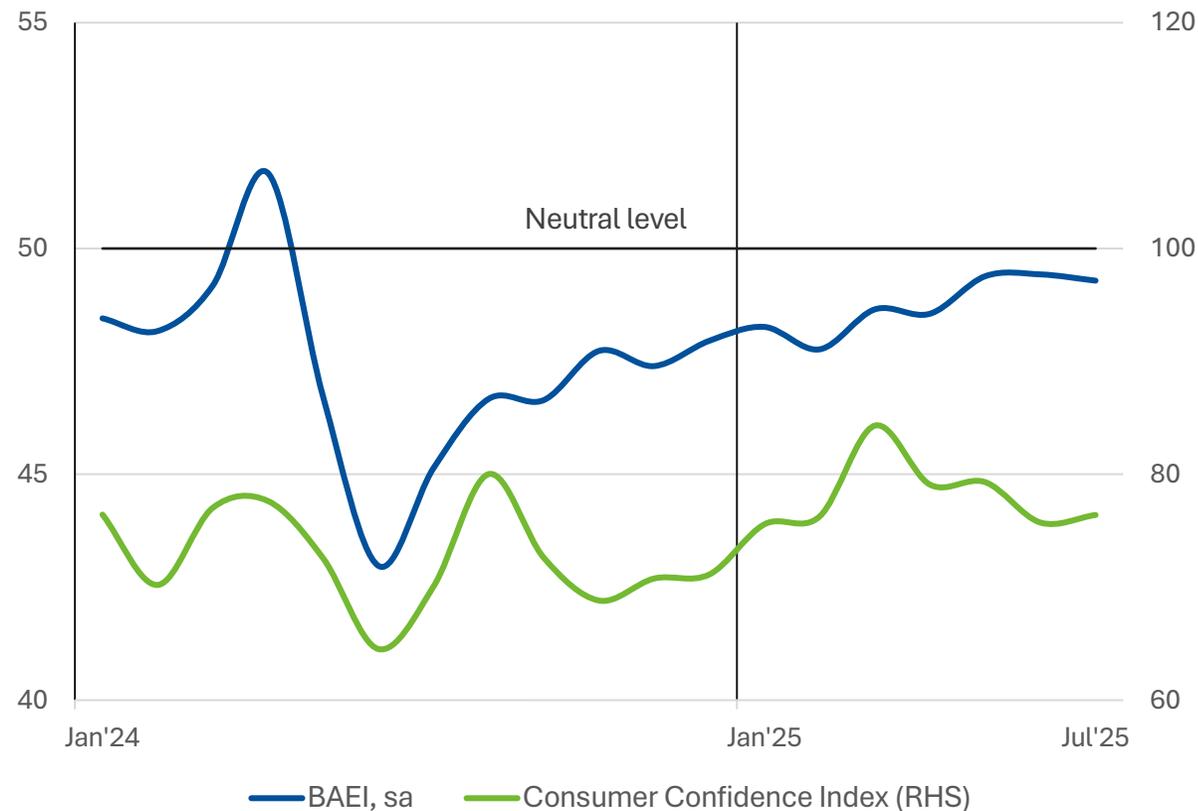
Gas imports are continuing at a rapid pace. According to [Expro](#), in July gas imports reached their highest monthly level since 2023. Storage facilities held more than 10 bcm of gas at the beginning of August.

Ukraine aims to accumulate at least 13.2 bcm of natural gas in storage by 1 November, according to Energy Minister Svitlana Hrynychuk.

Consumer and business confidence remained stable

Low rates of economic growth are indicated by low consumer and business confidence

Business and consumer confidence indicators, points



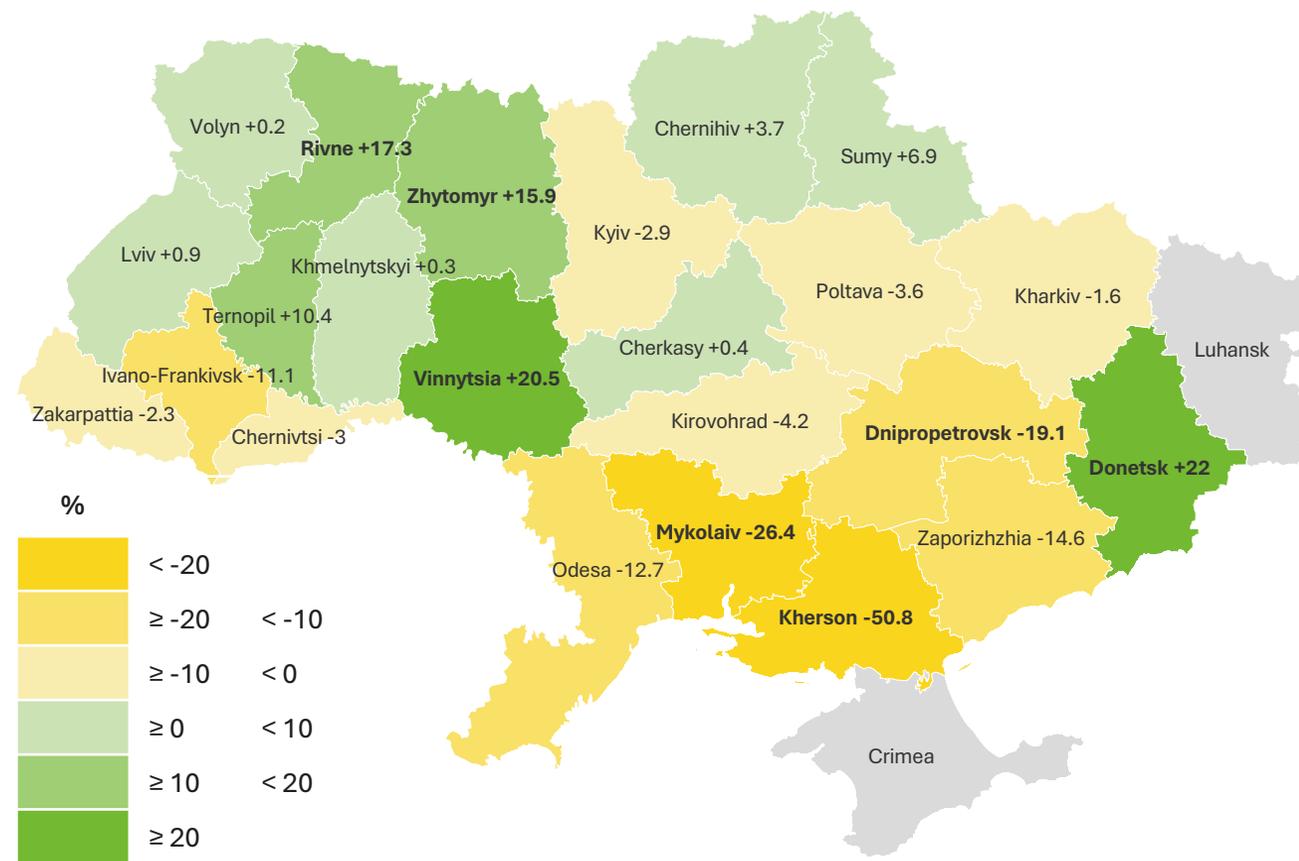
- **In seasonal-adjusted terms, the NBU's monthly Business Activity Expectations Index (BAEI) remained almost stable** for the third month in a row and close to the neutral level, despite high security risks, rising production costs, and staff shortages. However, it exceeds the figures for 2024, indicating further economic recovery, which is supported by a stable energy situation.
- **Consumer confidence improved slightly in July to 76.4 points**, driven by an increased propensity to consume and positive long-term economic expectations.

Source: NBU, InfoSapiens

A good harvest is expected this year, primarily due to the late crops

Early grain and oilseeds yields lower than in 2024

Grain and legumes yields as of 8 August, % y-o-y



Source: minagro.gov.ua, CES calculations

The yield of winter cereals is 10% lower y-o-y due to unfavorable weather conditions. A similar situation applies to rapeseed with yields down by 9%. Yields vary across regions with better situation in the West of the country due to uneven moisture.

The harvesting campaign is slower than last year. By the first ten days of August last year, 97% of early crops were harvested. This year, only about 85% of rapeseed and barley and 72% of wheat have been collected so far.

The USDA expects Ukraine's wheat harvest to reach 22 mt this marketing year, with exports expected to total 15.5 mt. In the August report, the corn harvest estimates were revised upwards to 32 mt, and exports were estimated at 22.5 mt.

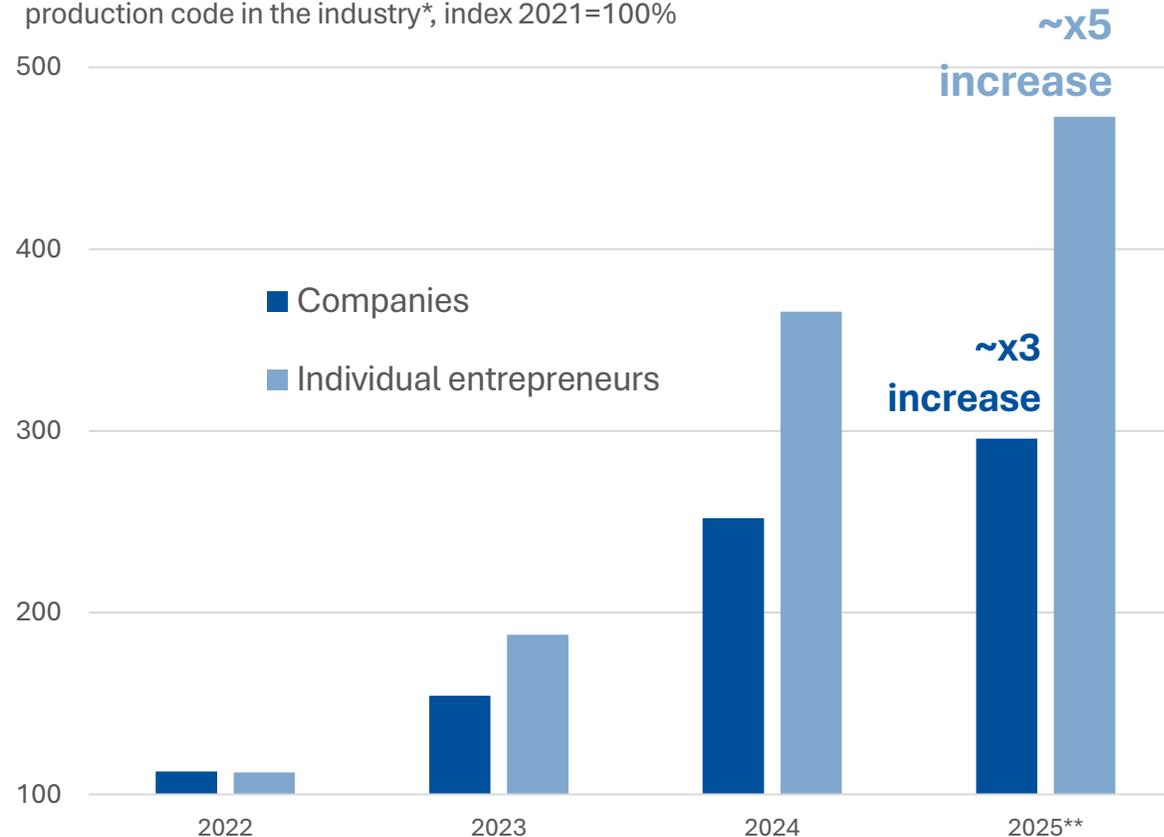


Special topic:
How is arms production
transforming Ukraine's
economy?

The role of arms production in the economy has grown

The number of firms producing arms increased significantly during the full-scale war

The number of economic entities registered under the direct arms production code in the industry*, index 2021=100%



* Production of explosives, weapons and ammunition, air and spacecraft, and military vehicles.

** As of 11.08.2025. Source: [Youcontrol](#), CES calculations

The rapid growth in Ukraine's arms production is driven by the high demand for weapons during a full-scale war, limited and irregular supplies from partners, and probably the lower cost of Ukrainian weapons.

As of August 2025, the number of businesses registered under one of the direct arms production codes in industry had increased threefold compared to the end of 2021.

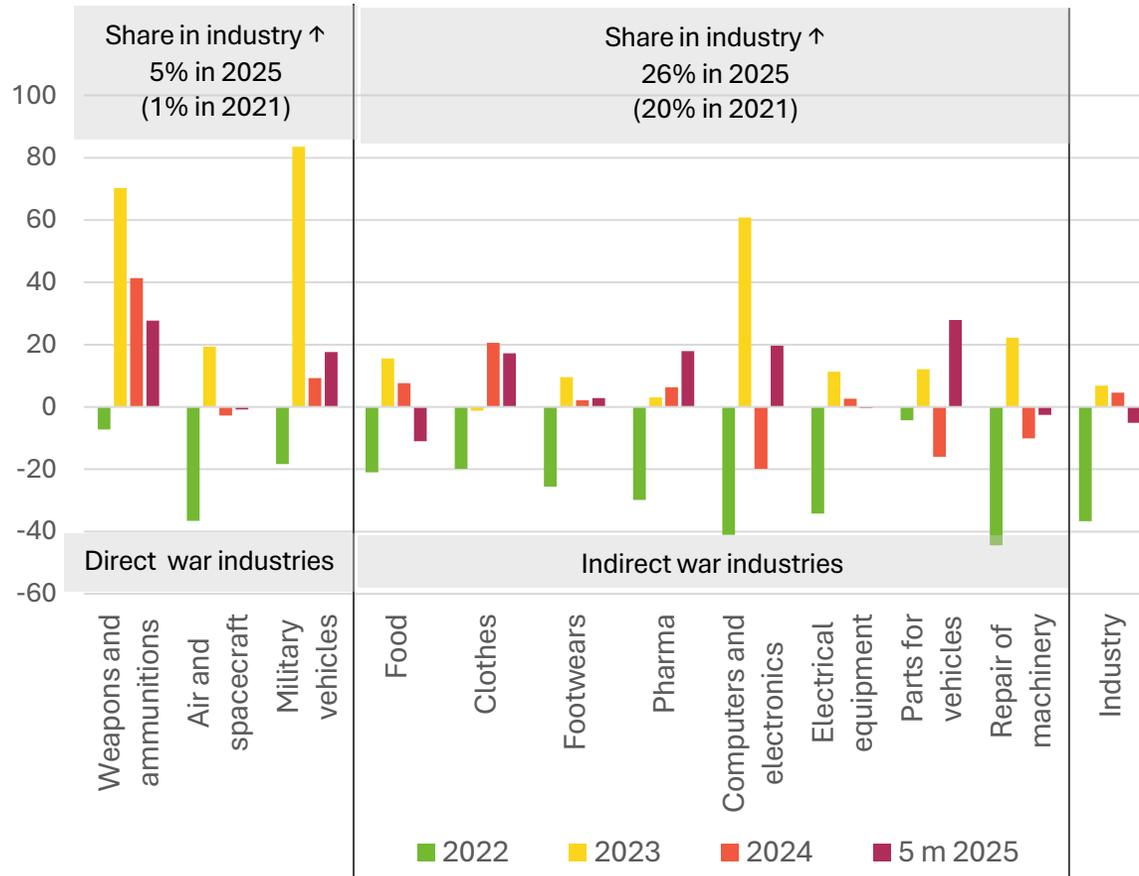
The sector's role in the labor market has also grown. According to indirect data, the proportion of these enterprises' employees in the industry almost doubled between 2021 and 2025.

According to the Ukrainian authorities, **the current supply of Ukrainian arms meets 40% of the front's needs.**

Military production supported economic growth

The production of arms grew at a faster pace than other industries

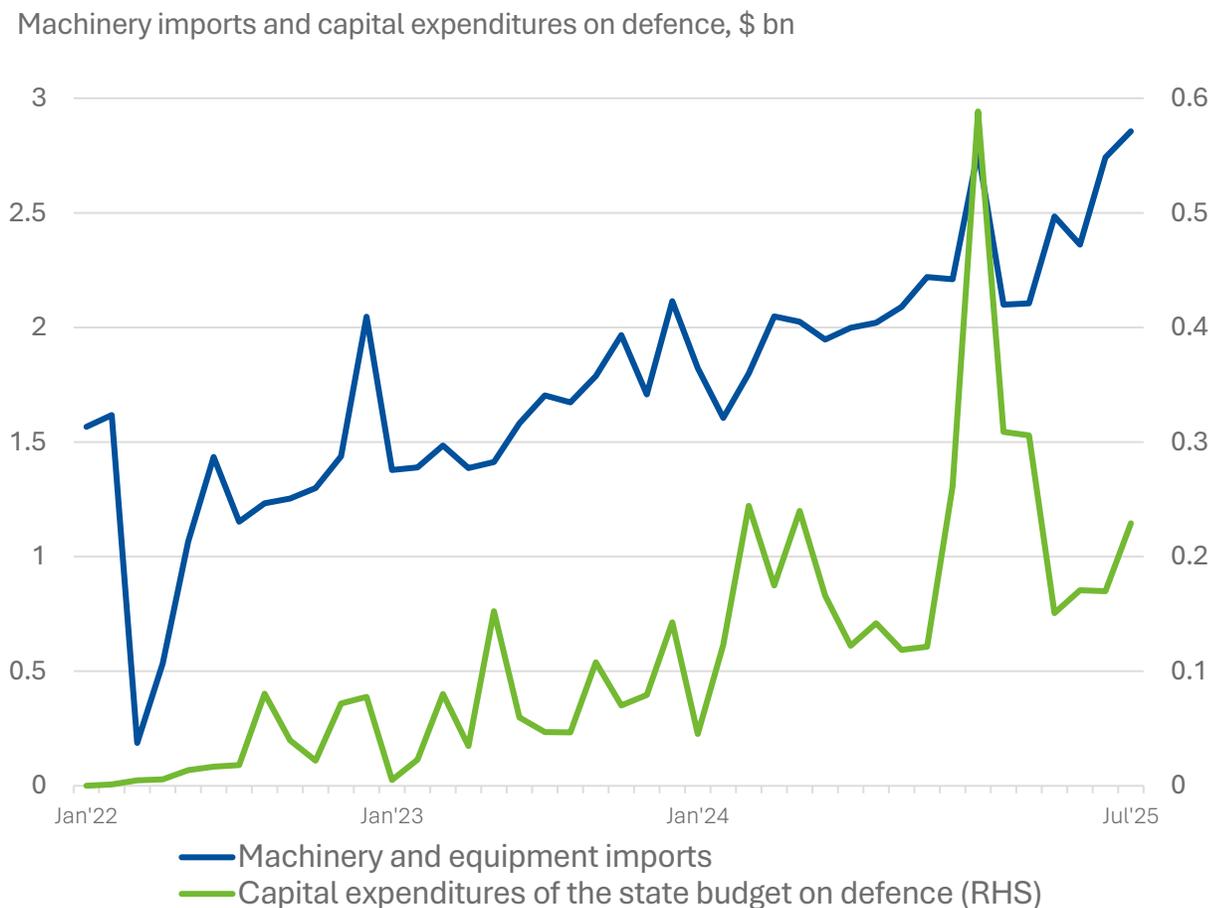
Industrial production by types of activity, % y-o-y



Source: SSSU

- **During the full-scale war, the defence industry played a pivotal role in sustaining economic activity.** While industry remains down by a third, weapons and ammunition production more than doubled in 2024 compared to 2021.
- **Defence production volumes increased from \$3 billion in 2023 to \$9 billion in 2024**, according to Ukrainian authorities. Last year, the potential value of defence production reached \$20 billion, and it is predicted to surge to \$35 billion in 2025.
- **Military production contributed ~1/3 of annual real GDP growth in 2024**, according to Dragon capital.

Budget expenditures are driving investments in arms production



Source: NBU, OpenBudget, CES calculations

In 2024, **Ukraine's budget defence expenditures reached 30% of GDP**. However, a significant part of this was allocated to military allowances.

At the same time, **the state budget allocates significant resources to defence-related purchases and capital investments in this sector**, providing the industry with a substantial source of funding. Along with the purchase of weapons from abroad, this stimulates the import of machinery.

The industry has not yet realized its full potential. Its ability to develop further is currently being hindered by a shortage of funding for extending production capacity. International financing, particularly based on the 'Danish model', could provide an additional boost to the industry.



Thank you!
