



CENTRE  
FOR ECONOMIC  
STRATEGY

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## September Economic Review

Special topic: Has the Ukrainian economy reached its limits?



## Executive summary

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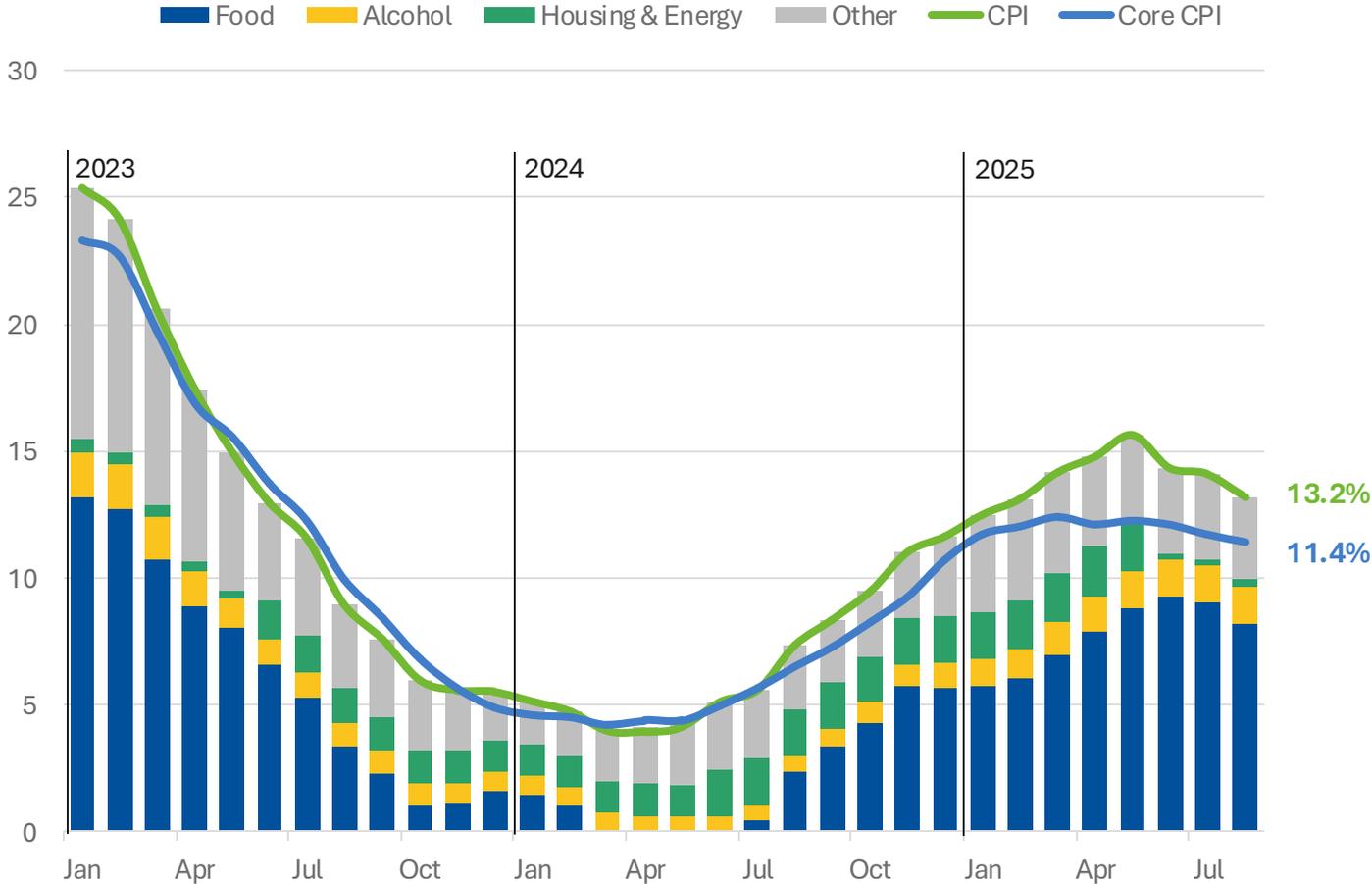
- **Monetary sector:** Inflation fell to 13.2%, key policy rate remains steady at 15.5%. The key policy rate remains unchanged in the face of pro-inflationary risks and high inflation expectations. The tight monetary policy keeps hryvnia deposits attractive, decreasing dollarization rates.
- **Foreign trade:** Ukrainian exports continue to stagnate, while imports show double-digit growth. The trend of increasing trade deficit persists. A large share of import statistics is classified under the category “99”, most likely concealing the imports of war-related goods. The imports of electric cars have increased fivefold since the start of the full-scale invasion. The imports of energy security items has surged in need for adaptation.
- **Fiscal sector:** The state budget received UAH 188 bn of taxes, adding 26% y-o-y. Seasonal growth in CPT payments boosted August revenues. War expenditures via own sources further decreased in July while defence aid also showed declining trend. Government presents fourth wartime plan – Budget 2026. All own revenues of the budget will be spent on war
- **Sectoral analysis:** The winter crop harvest has already finished with positive results, and the summer crop harvest is expected to exceed last year's level. Ukraine has set a new record for net electricity exports in August. Although consumer confidence improved in August, business confidence remained subdued.
- **Special topic:** According to forecasts, GDP growth will not exceed 3% in 2025–26 amid the ongoing war. Businesses are operating at almost full capacity and are under significant pressure due to labor shortages. Private sector investment is limited during the war but is critically needed to increase productivity in a rigid labor market.
- **See our report below for further details.**



# Monetary sector

# Steady disinflation continues, but pressure is still high

CPI inflation (year-over-year), decomposed, %



**In August 2025, inflation fell to 13.2% y-o-y (-0.2% m-o-m),** largely due to an increased supply of unprocessed food (-23.9% y-o-y), particularly vegetables.

Core inflation also continued to decline, reaching 11.4%, indicating an easing of fundamental price pressures.

Further disinflation is expected, supported by tight monetary policy and better harvests.

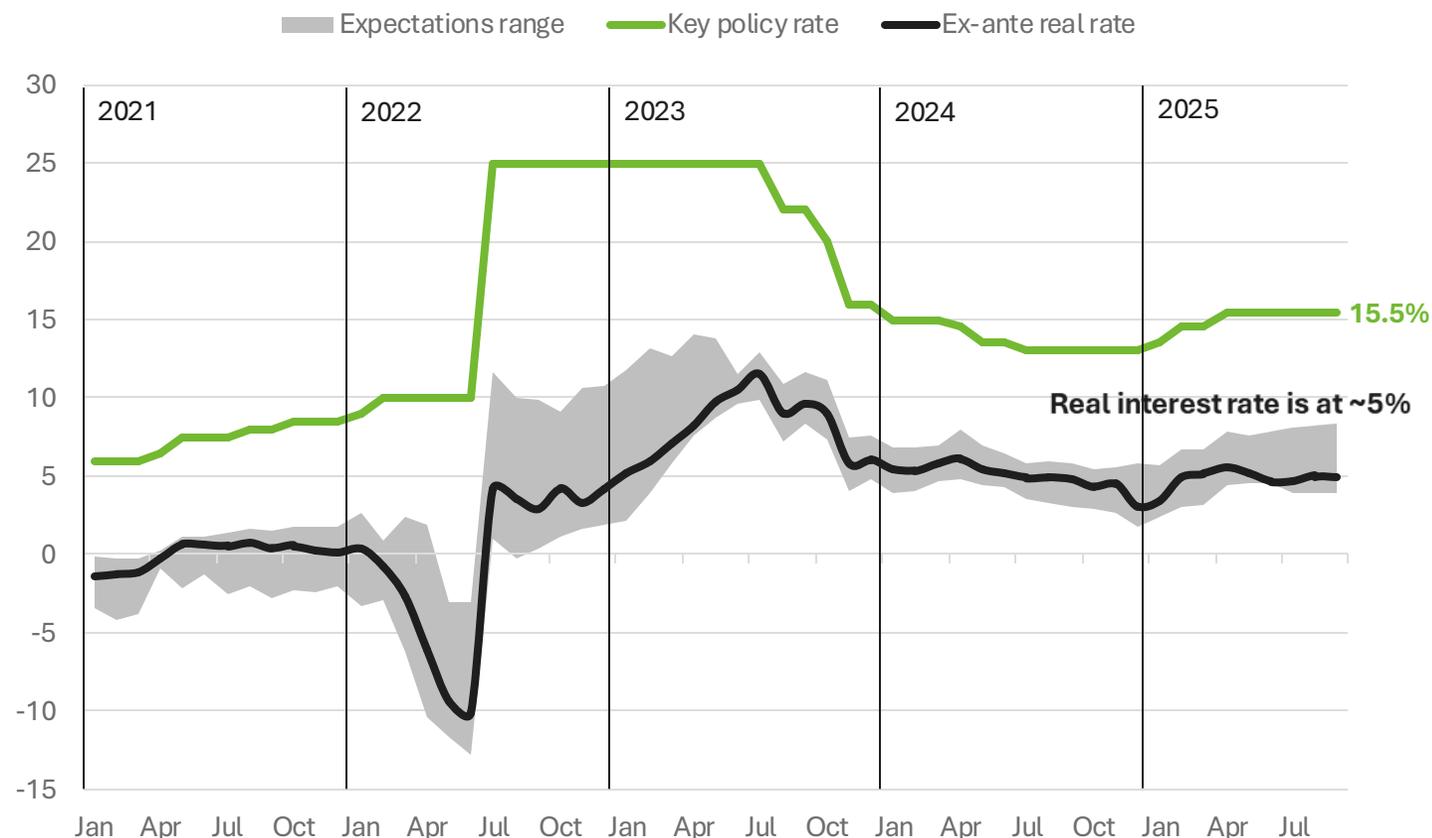
**The NBU projects inflation to fall to 9.7% by end-2025 and reach its 5% target in 2027.**

While inflation continues to decrease somewhat faster than anticipated, the NBU remains cautious of loosening prematurely amid uncertainty over future shocks.

Sources: NBU, Ukrstat, CES calculations.

# NBU avoids premature loosening in face of risks

Key policy rate and ex-ante real interest rate, %



**In September, the NBU kept the key policy rate unchanged at 15.5%** amid strong pro-inflationary risks: foreign financing uncertainty, global markets volatility, worsening of labour market conditions.

The NBU may resume rate cuts by year-end if disinflation persists and financing remains secure, but a full easing cycle is unlikely before late 2025.

**The real interest rate** (measured as the nominal rate minus expected inflation) **has held near 5%** since late 2023, **signaling persistently tight monetary conditions** needed to anchor expectations and maintain financial stability.

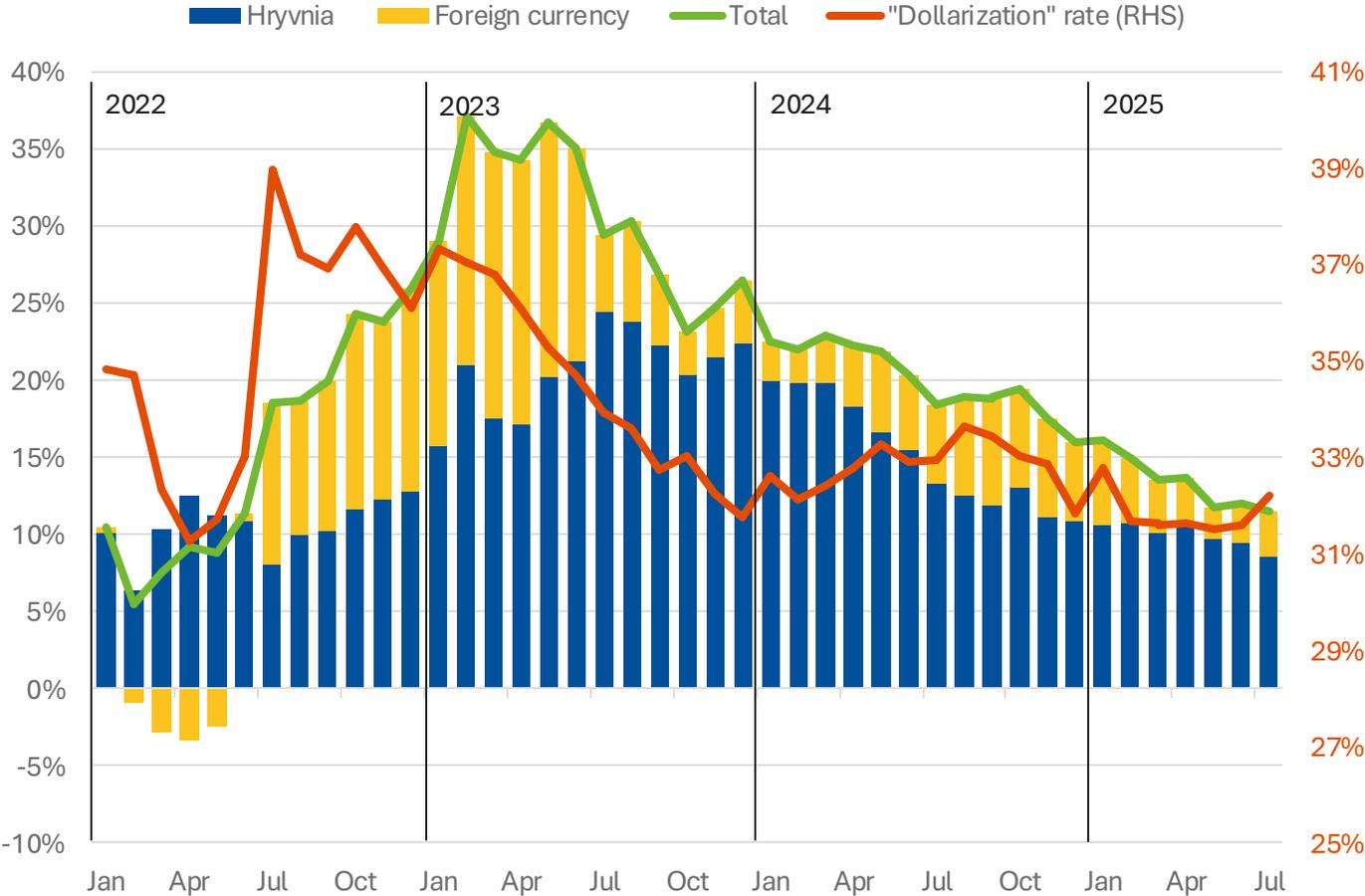
Sources: NBU, CES calculations.

Note: Expectations range includes banks, businesses, households, and financial analysts.

Real rate is based on median expectations.

# Tight monetary policy, attractive hryvnia assets

Change in balance of residents' deposits (y-o-y), %



Sources: NBU, CES calculations.

**With tight monetary policy, NBU also manages to keep hryvnia assets attractive to the population.**

After the 2023 surge, the growth in deposits moderated. At the same time, the growth in interest rates gradually lowers the “dollarization” of deposits to levels close to historical minimum.

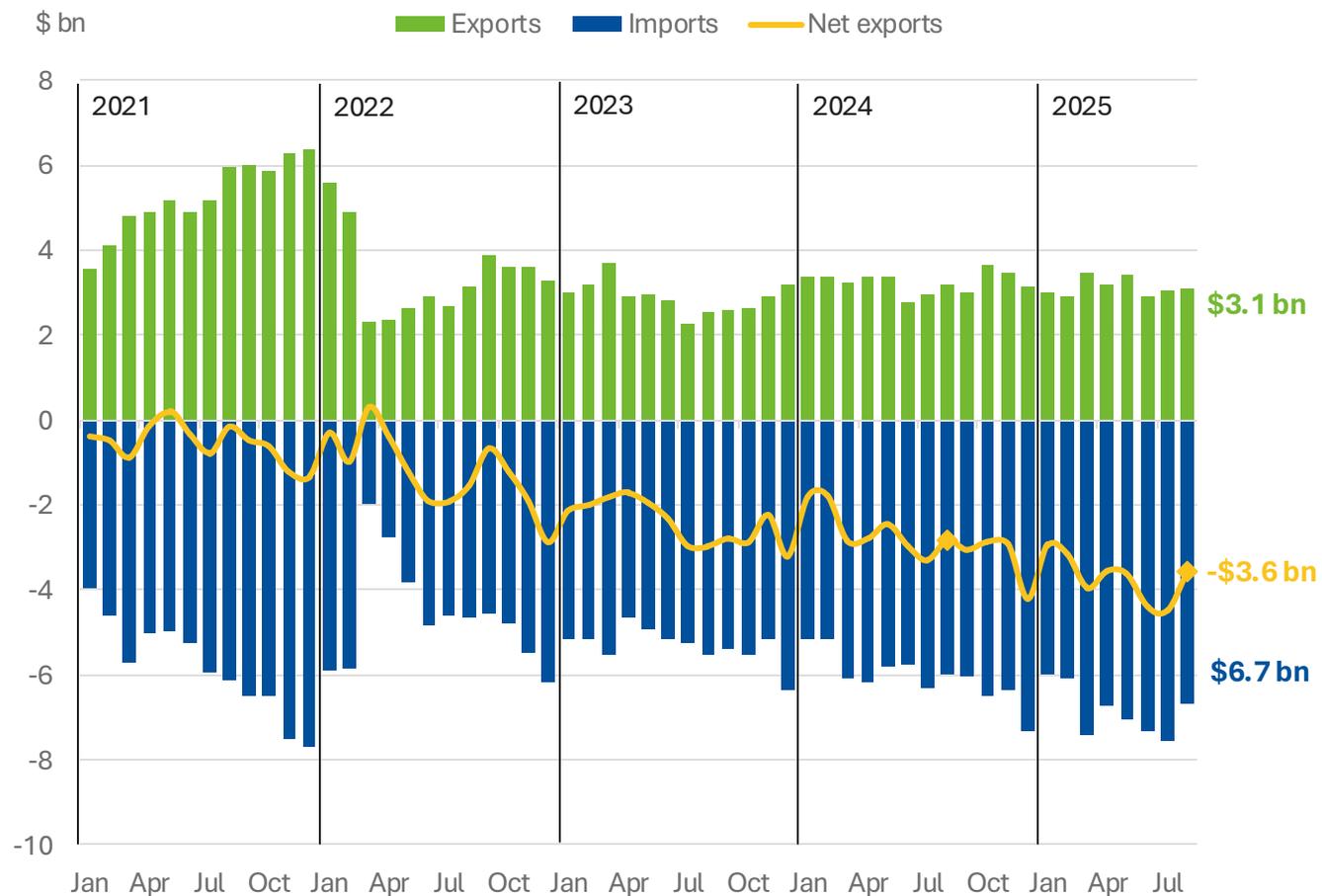
In Q2 2025, hryvnia deposits increased by 13% year over year (the largest growth since 2021).



# Foreign Trade

# Ukrainian net exports are still weaker but recovering

## Trade balance trends downwards

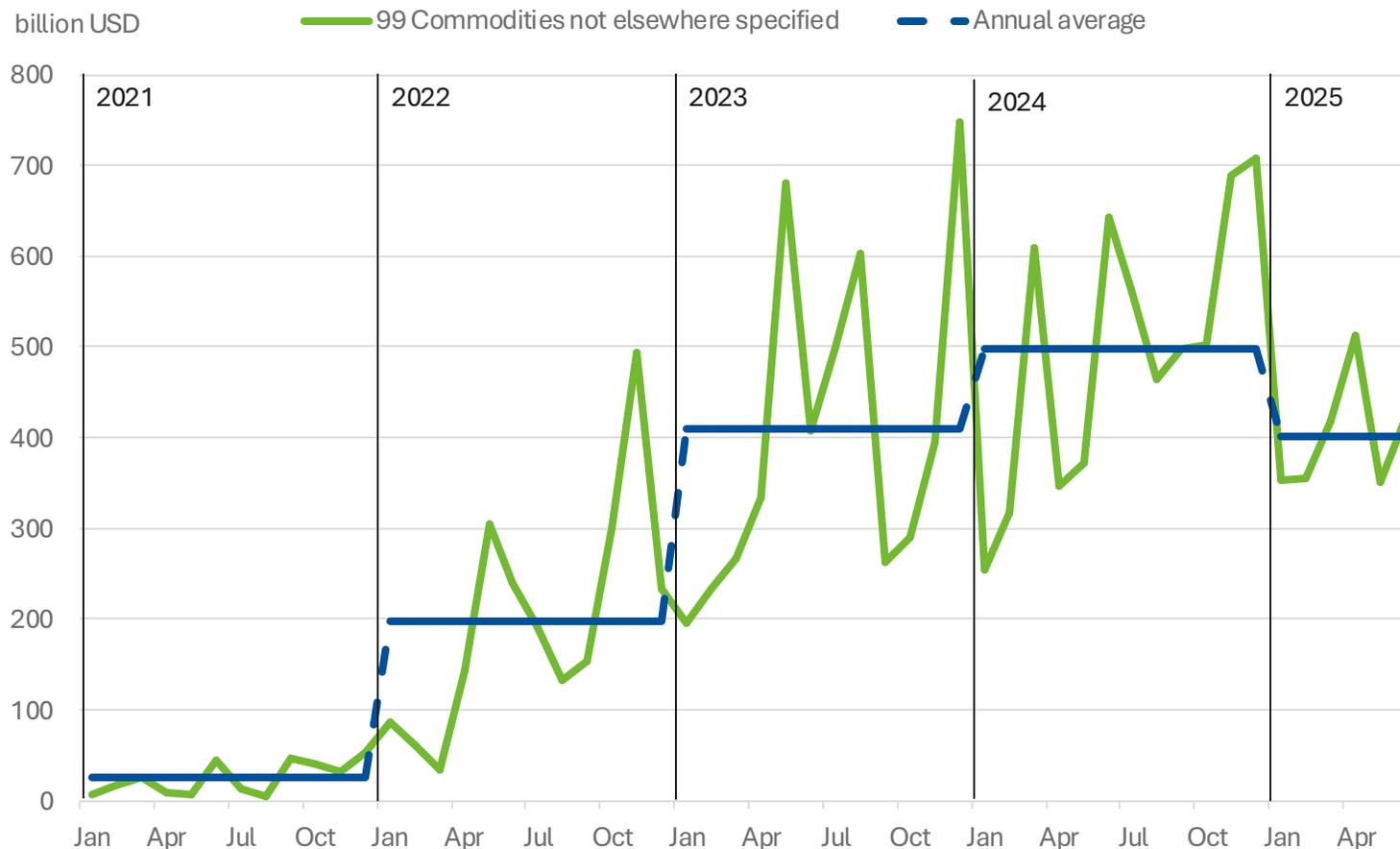


Sources: NBU, State Customs Service, Diia.Business.  
Data for April-August 2025 is preliminary.

- In August, the trade balance slightly improved month-over-month due to fall in imports by 11.5% (m/m).
- At the same time, trade balance has weak performance year-over-year.
- Exports are -2.5% year-over-year, still recovering after the shocks to exporting industries this year.
- Imports grew 11.7% year-over-year, the main drivers of which are gas, energy infrastructure goods, and military/dual-use technology.
- According to Taras Kachka, Council of the EU can approve the DCFTA 2.0 already this month. This will create a stable framework for Ukrainian exporters.

# Heavy weaponry is hidden in the statistics...

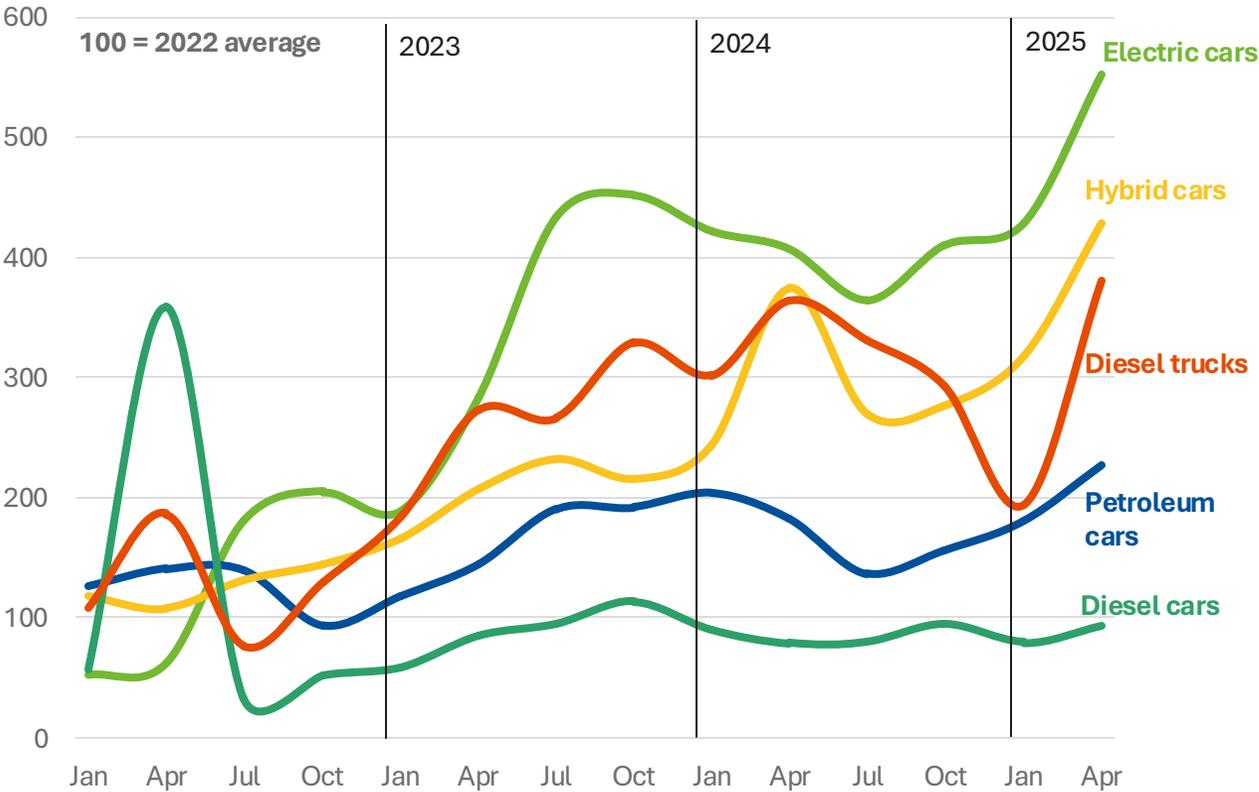
## The “unspecified” category of imports surged after the invasion



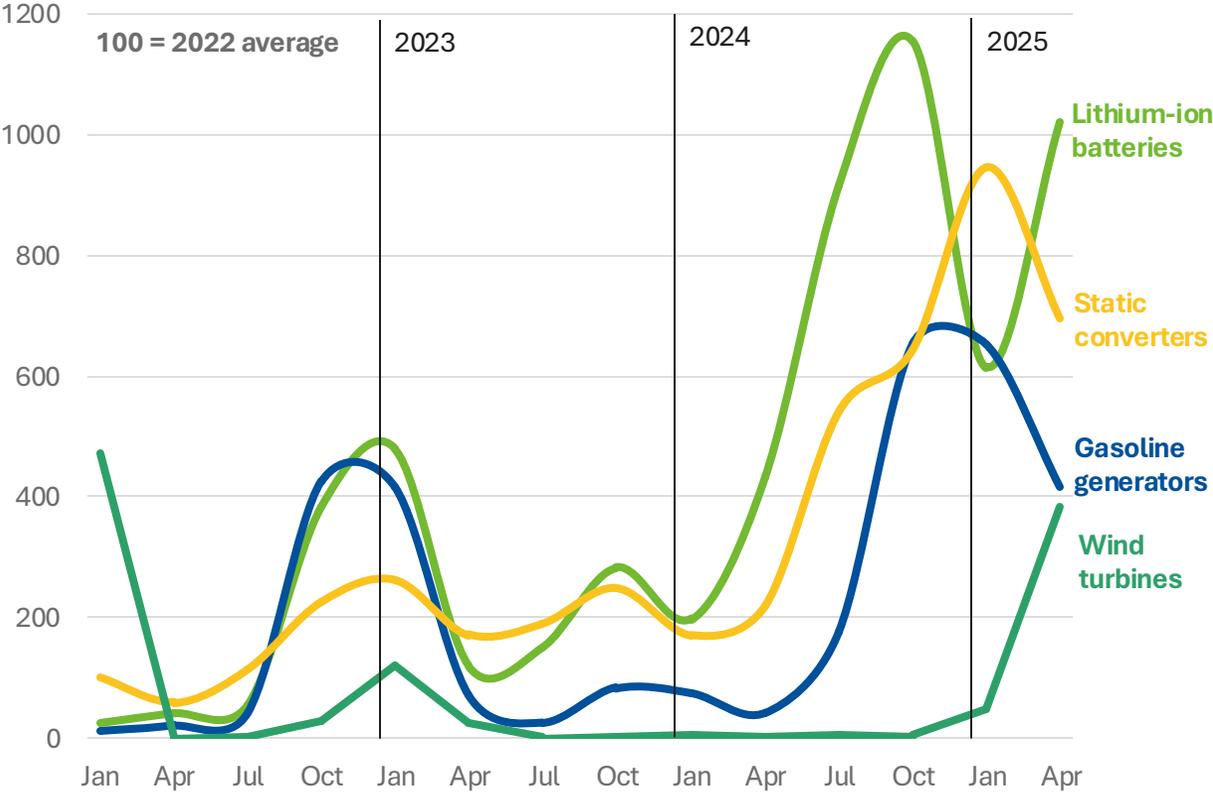
Source: ITC Trademap, CES Calculations.

- International trade statistics has the last category “99 Commodities not elsewhere specified”. In civilian times, the category includes unclassified items, statistical adjustments, returned goods, etc.
- In the times of war, Ukraine, hides the imports of classified wartime goods, including heavy weapons.
- However, it is hard to identify which share of the category are military goods, as it is suspected that it also includes articles of informal untaxed trade.

# Cars and energy are important contributors to import growth



Sources: ITC Trademap, CES calculations.



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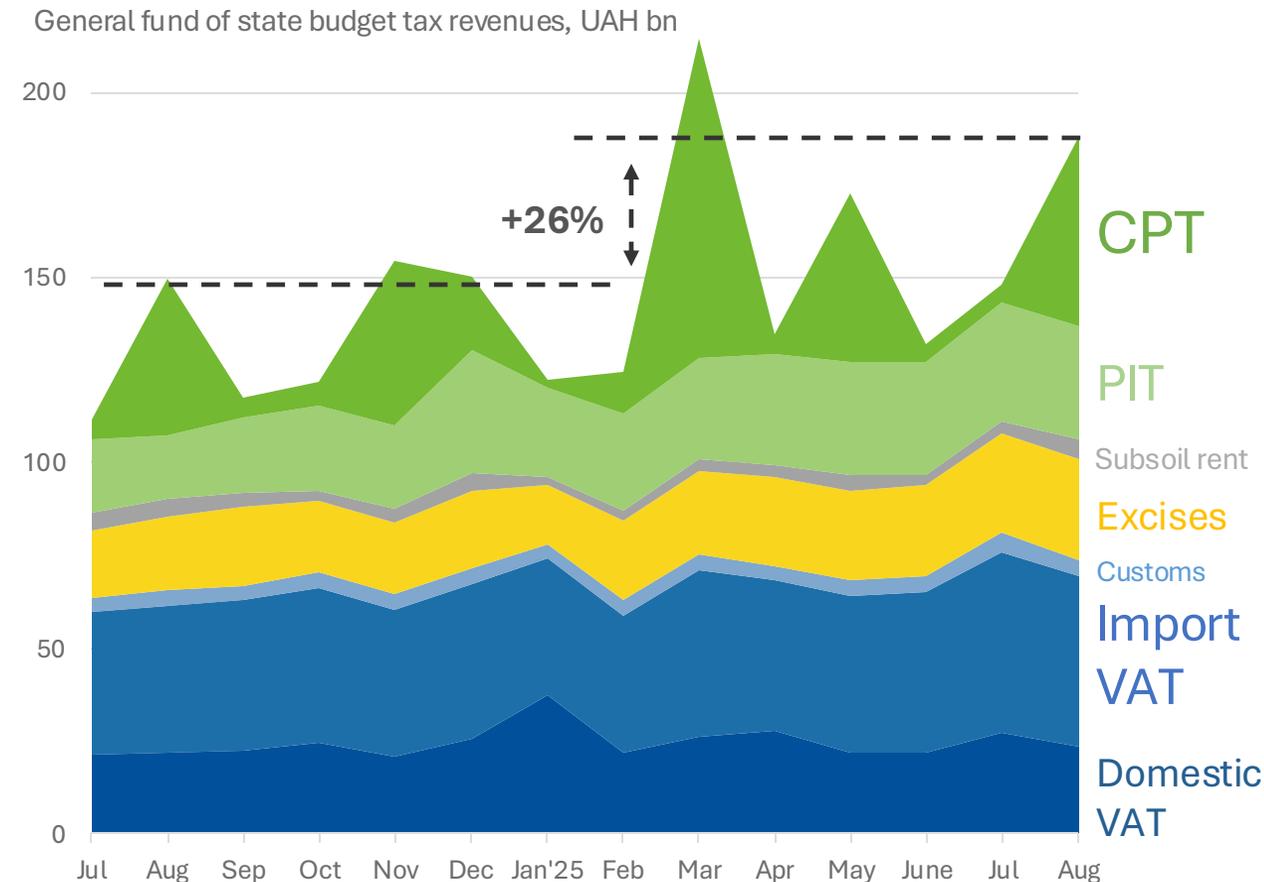
- Nine highlighted goods (cars and key energy items) account for ~10% of Ukraine’s imports.
- Electric car imports surged on tax exemptions set to expire in 2026.
- Energy goods are imported to support adaptation to blackouts.



# Fiscal sector

# Seasonal growth in CPT payments boosted August revenues

The state budget received UAH 188 bn of taxes, adding 26% y-o-y



**In August 2025**, the driver of the revenue increase compared to previous months was **CPT** due its seasonal nature. These budget revenues amounted to UAH 51 bn, +21% y-o-y.

Inflows from **PIT** have substantially increased (+75% y-o-y) and amounted to UAH 30.7 bn.

Visible increase in **excise** revenues which amounted to UAH 26.8 bn, +34% y-o-y. However, the plan for the month was not fully executed.

**Domestic VAT** amounted to UAH 23.4 bn, +8% y-o-y.

**Import VAT** amounted to UAH 46 bn, +16% y-o-y. The reason for that are lower than expected imports.

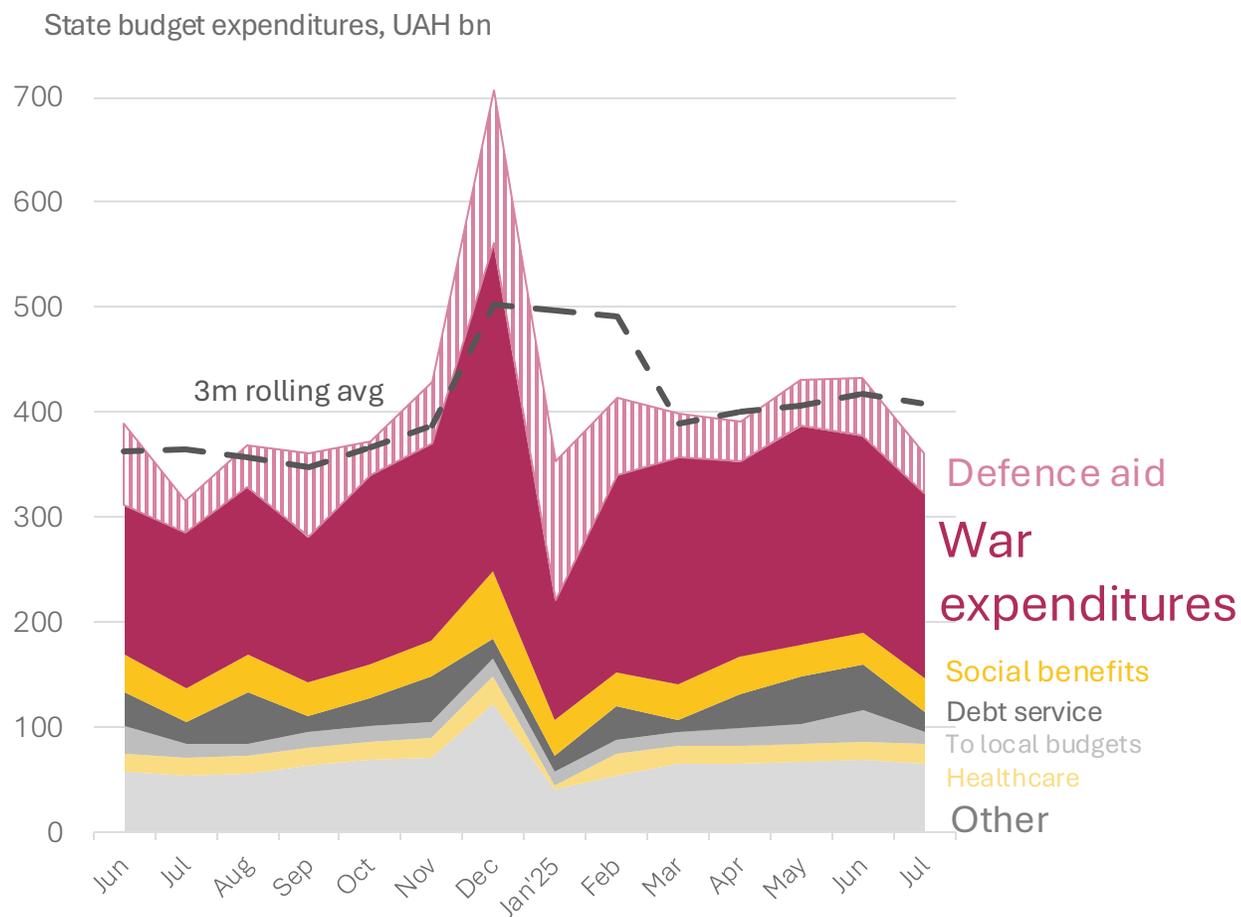
**Subsoil rent** revenues are still showing positive trend – UAH 5.4 bn, +17% y-o-y and +64% m-o-m. But still, these revenues do not meet the plan for the period.

Customs revenues amounted to UAH 4.6 bn.

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

# War expenditures via own sources further decreased in July

While defence aid also showed declining trend



Source: OpenBudget, CES calculations.

**In July 2025, total expenditures decreased** compared to June – from UAH 432 billion to UAH 361 billion (-16% m-o-m). However, this is still 15% higher y-o-y.

**War expenditures decreased by 6% m-o-m** down to UAH 176 billion. Despite this decline, they are still 18% higher y-o-y. **Defence aid slightly decreased** (-29m-o-m) after rapid growth in June but remains 35% higher y-o-y.

**Social benefits** slightly increased in July compared to previous month and amounted UAH 32.2 bn but are at the same nominal level as in July 2024.

**Transfers to local budgets** fell by 61% m-o-m, after the usual mid-year peak in June. Debt service also contracted sharply (-57% m-o-m), following high payments in the previous month.

The **deficit** for 7 m 2024 amounted to UAH 678 bn, most of which was covered by foreign debt allocation – UAH 776 bn with a repayment of 304 bn.

## Government presents fourth wartime plan – Budget 2026

All own revenues of the budget will be spent on war

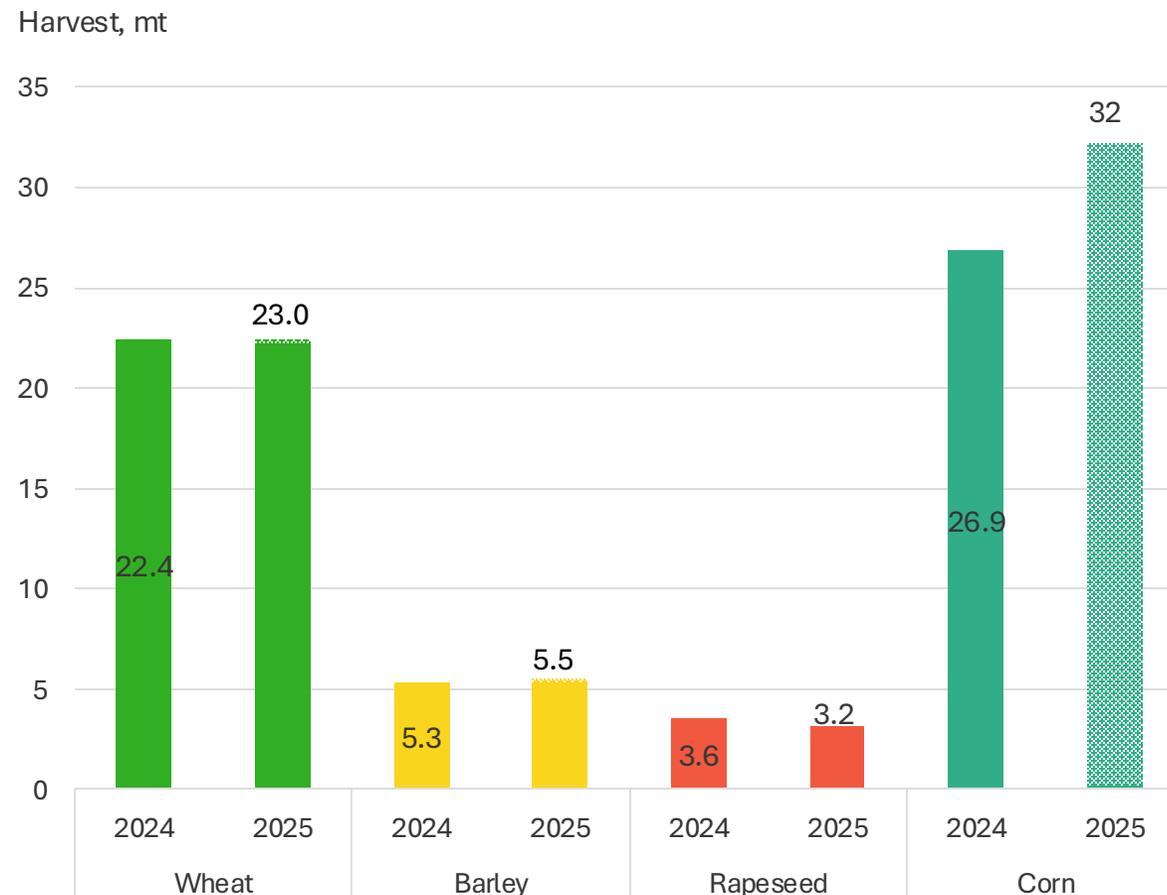
- **On 15 September, the Government published the draft budget for 2026.** It is based on an alternative (pessimistic) scenario of the Budget Declaration, assuming that the war will continue throughout 2026.
- **The planned revenues are UAH 2.8 trillion,** UAH 452 bn more than planned for this year, mainly by raising revenues from VAT, personal income tax, and part of the National Bank's profits.
- **The planned expenditures are much higher – UAH 4.8 trillion** (+ UAH 415 bn more than this year). The main priority – defence and security – UAH 2.8 trillion or all state budget revenues.
- **New budget increases social spending** after cuts in 2025 and 2024.
- **As a result, the 2026 budget deficit is expected to reach nearly UAH 2 trillion (18.4% of GDP).** To cover this gap Government will allocate foreign financing, which is partially already secured, but there is still funding gap of €16 bn (+- UAH 790 bn).



# Sectoral analysis

# The risk of a third drought year increased amid dry weather

## The early crops have already been harvested



The shaded column shows the forecast. Sources: SSSU, Ministry of Economy, USDA, CES calculations.

**The pace of the harvest campaign is still behind last year's:** as of mid-September, the area harvested was 17% lower y-o-y. However, the winter cereals have already been harvested with good results, and the corn and sunflower harvest has begun.

**In its September report, the USDA increased Ukraine's wheat harvest estimate to 23 mt** but lowered its export estimate to 15.5 mt. The estimates for the corn harvest and exports remained unchanged.

**According to the SSSU, agricultural production fell by 18.5% y-o-y in January–July.** Along with the slow pace of harvesting in August and September, this will result in agriculture making a negative contribution of 1–1.5 pp to GDP in Q3 of 2025.

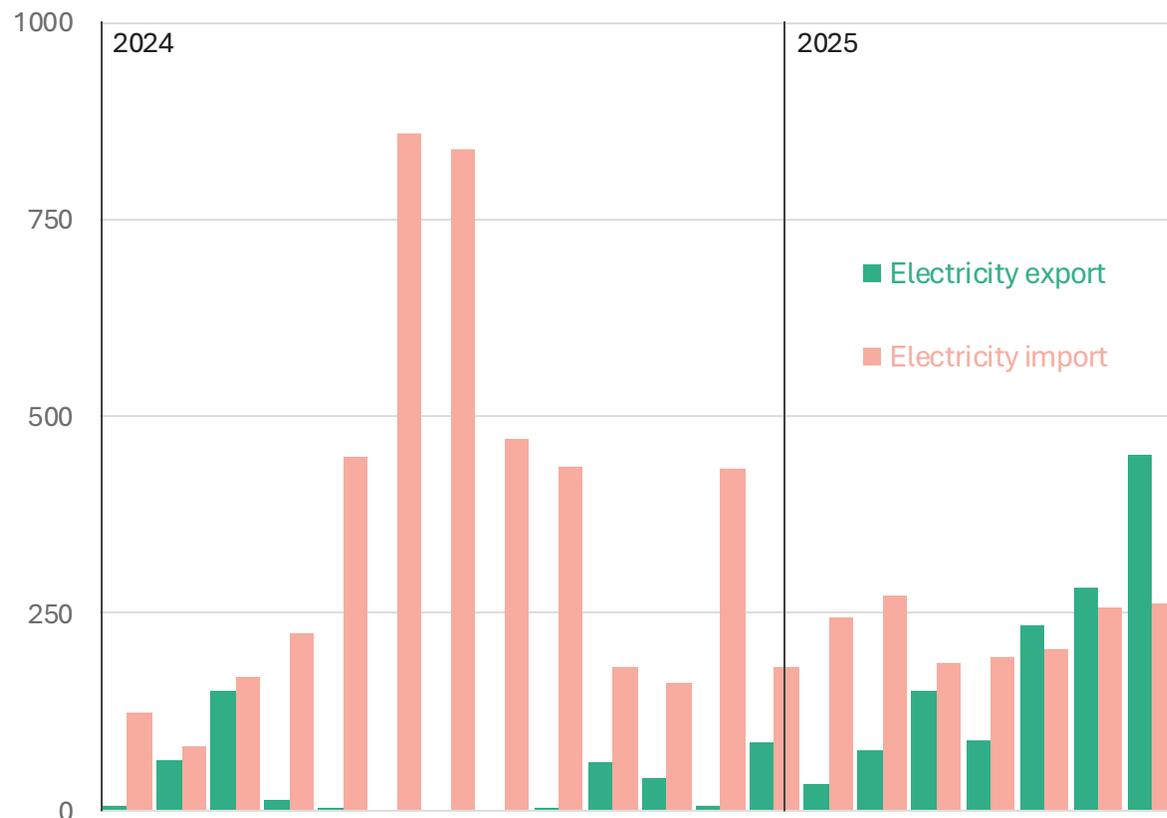
**Although winter crop sowing has begun,** productive moisture reserves were insufficient in most regions due to dry weather in August and September. The risk of a third drought year in a row has increased.

**A 10% export duty on soybeans and rapeseed came into effect on 4 September 2025.**

# The fourth winter of war is coming

## Ukraine has set a new record for net electricity exports

Ukraine monthly electricity commercial trade, GWh



Source: ENTSO-E.

**Ukraine's power system is operating steadily in Q3 2025.** In August, electricity exports reached 451 GWh, record high level since 2021, and exceeded imports for the third month in a row.

**DTEK Group connected to the power grid Ukraine's largest battery-based energy storage with a total capacity of 200 MW** in the Kyiv and Dnipro regions. It have the capacity to store 400 MWh of electricity, which is enough to power 600 thousands of Ukrainian households for two hours.

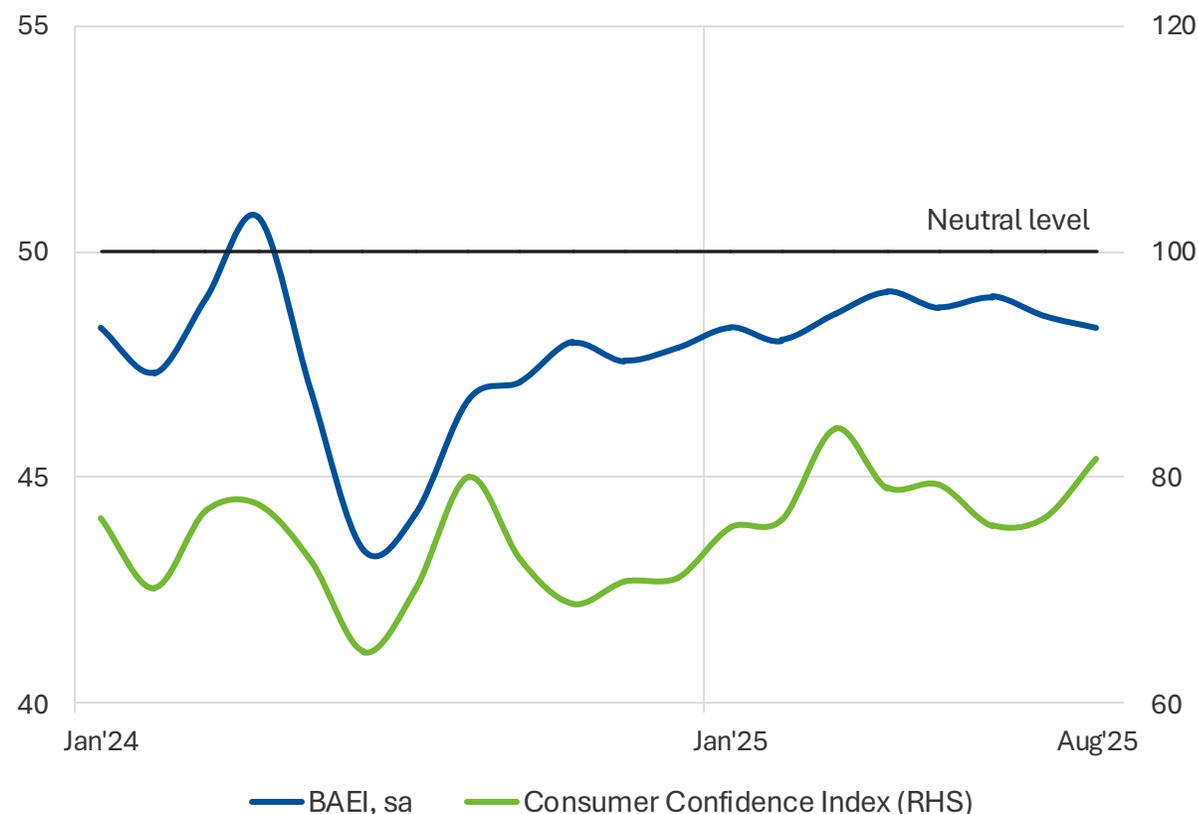
**A total capacity of 17.6 GW will be available for the heating season**, according to Energy Minister Svitlana Hrynychuk. 194 MW of distributed generation has been commissioned this year, with a further 380 MW planned by the end of the year.

**Gas imports are continuing and gas volumes in storages as of mid-September exceeded last year's level.** Government's plans to reach 13.2 bcm until 01 November 2025 appears achievable amid stable gas prices in Europe. In addition, in September Naftogaz has imported about 400 mcm of American LNG.

# Consumer confidence essentially improved in August

## Business confidence deteriorated further

Business and consumer confidence indicators



Sources: NBU, InfoSapiens.

**Consumer confidence improved in August, rising to 81.7 points** due to an improvement in both current situation estimates and economic expectations. However, **BAEI seasonally adjusted (sa) declined slightly.**

**In August, the production of all major steel products increased** amid a stable energy situation, the full operation of the maritime corridor, and the expansion of destinations for metallurgical exports. Pig iron production increased by 16% to 747.5 kt and rolled products by 8% to 633.2 kt, reaching the highest levels in 2025. Steel production fell by 6% to 649.4 kt. Nevertheless, [Metinvest enterprises](#) are operating at only 65–70% of their pre-war capacity.

On 8 September, **the government permitted the deferrals of all employees of critical enterprises in the frontline zone** and the defence industry.

**Sales of new commercial vehicles fell by 14% y-o-y in August,** signaling low investment demand in 2025.

In September, **US representatives visited the titanium deposits in the Kirovohrad region** as part of the critical minerals deal.



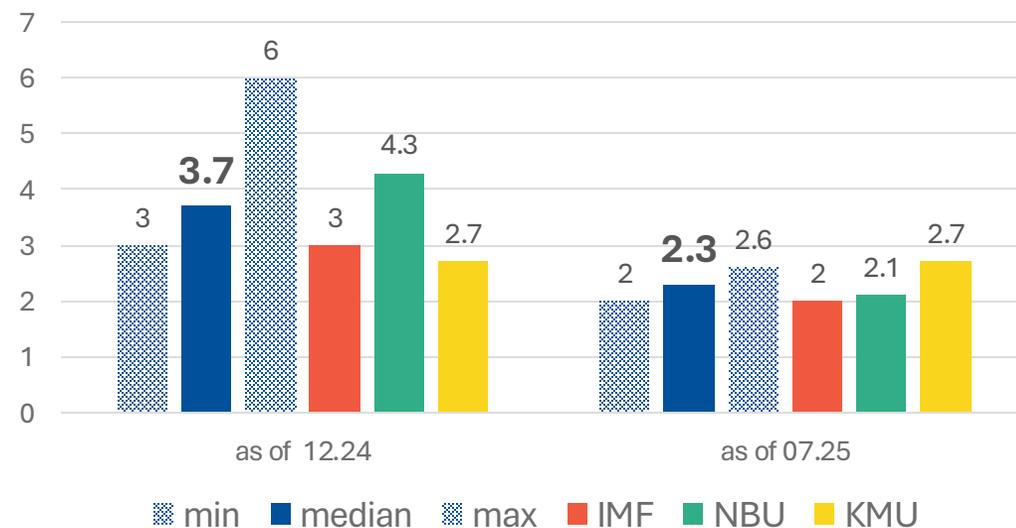
# Special topic: Has the Ukrainian economy reached its limits?

# The growth capacity of the Ukrainian economy is limited?

In 2025–2026 GDP growth will not exceed 3% y-o-y

Government and non-government experts have revised the GDP forecast for 2025–2026 downwards, estimating the limited growth capacity of the Ukrainian economy. On average, GDP is expected to grow by 2.3% in 2025 and 3% in 2026.

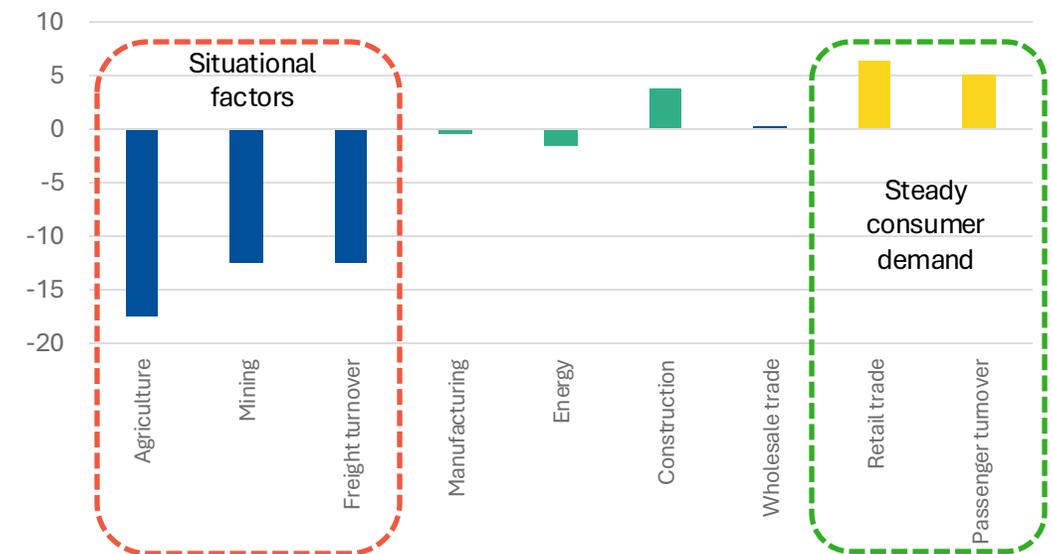
Real GDP change in 2025 forecast, % y-o-y



Sources: Non-governmental experts, CES calculations, KMU, NBU.

Weak activity in 2025 is partly linked to temporary factors, such as delays in harvesting, the base effect of the maritime corridor and the closure of mines in Pokrovsk. Nevertheless, consumer demand has remained steady.

Output in Jan-Jun 2025, % y-o-y

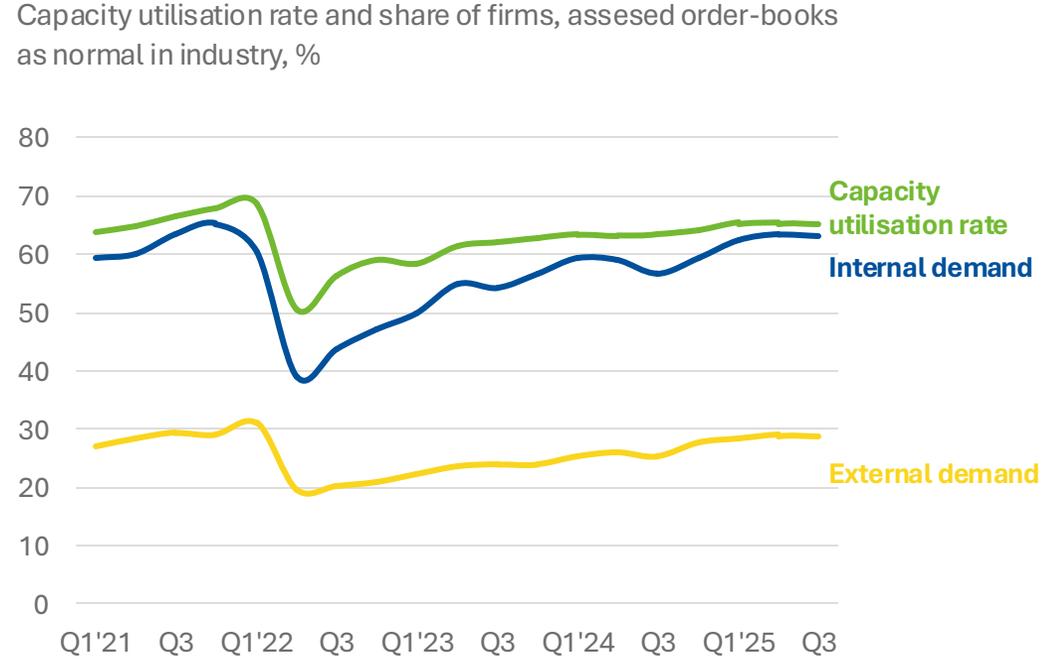


Source: State Statistics Service of Ukraine.

# A shortage of labor and a high utilization rate are restraining growth

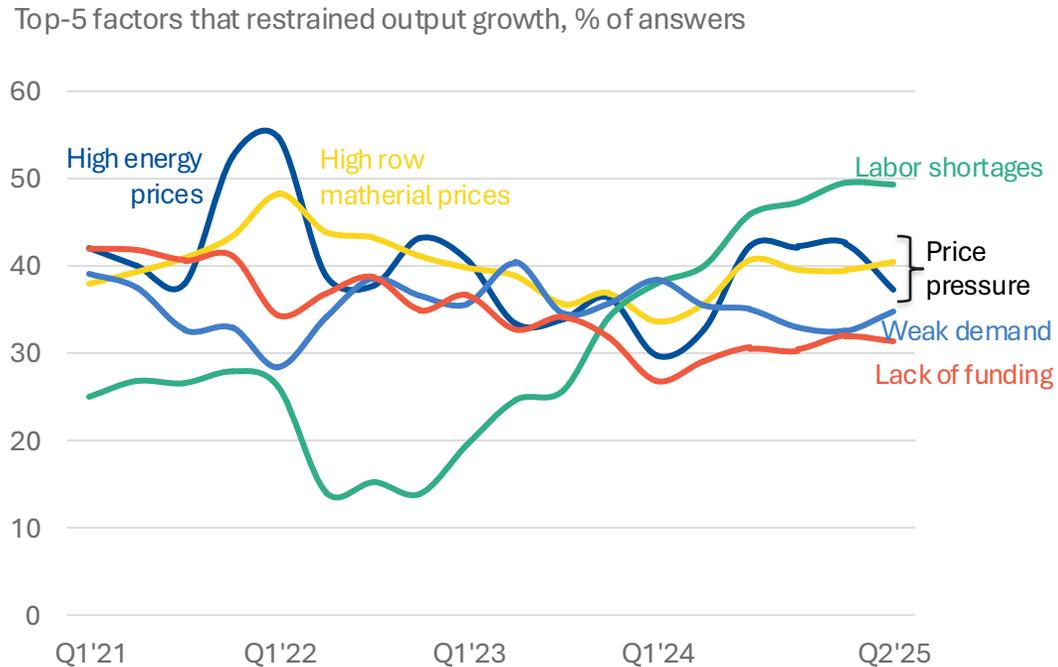
According to the NBU, GDP approached its potential level in 2024–2025

In 2024–2025, the capacity utilization rate and order books in the industry almost recovered to the level seen in 2021. Although aggregate demand is being driven by high budget expenditure.



Source: State Statistics Service of Ukraine.

The labor market moved towards overheating since 2024. Growth in potential GDP was dampened by a shortage of labor and a lack of investment in production capital.



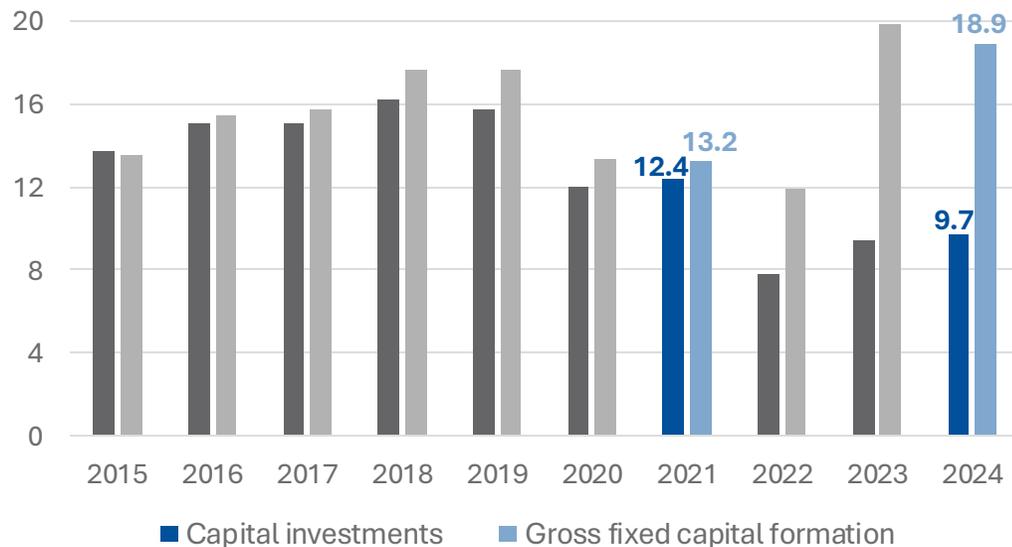
Source: NBU.

# The fiscal sector is crowding out private sector investment

Private investments have deteriorated since the pandemic

In Ukraine, investment levels are insufficient for rapid growth, averaging around 16% between 2016 and 2019. During the war, investment activity was primarily related to budget funding for the purchase and production of weapons.

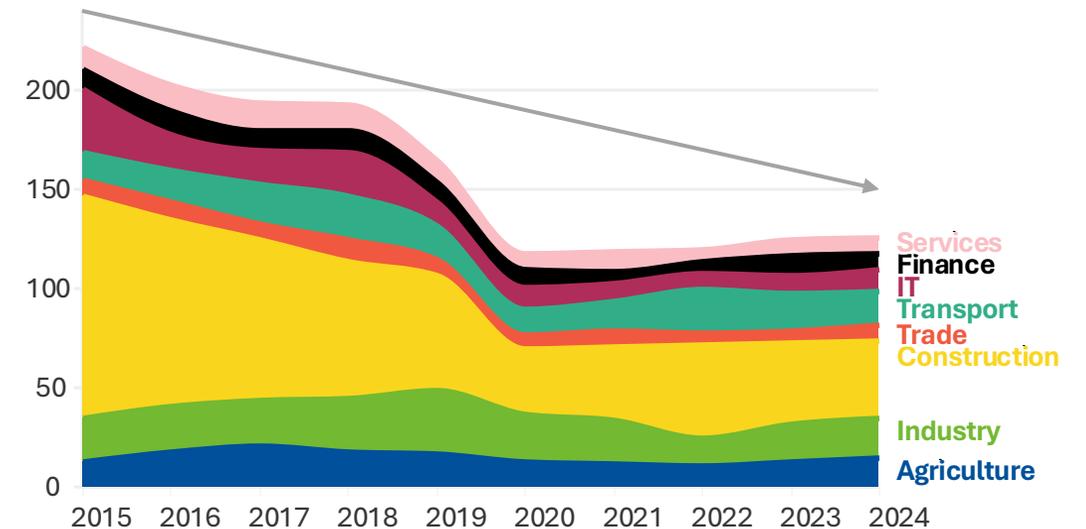
Capital investments and Gross fixed capital formation, % of GDP



Sources: Non-governmental experts, CES calculations, KMU, NBU.

Currently, investments are being directed towards rebuilding capacities and infrastructure, relocating businesses, and developing new logistics routes, primarily in safe regions.

Capital investments by type of activity, % of GVA



Sources: State Statistics Service of Ukraine, CES calculations.

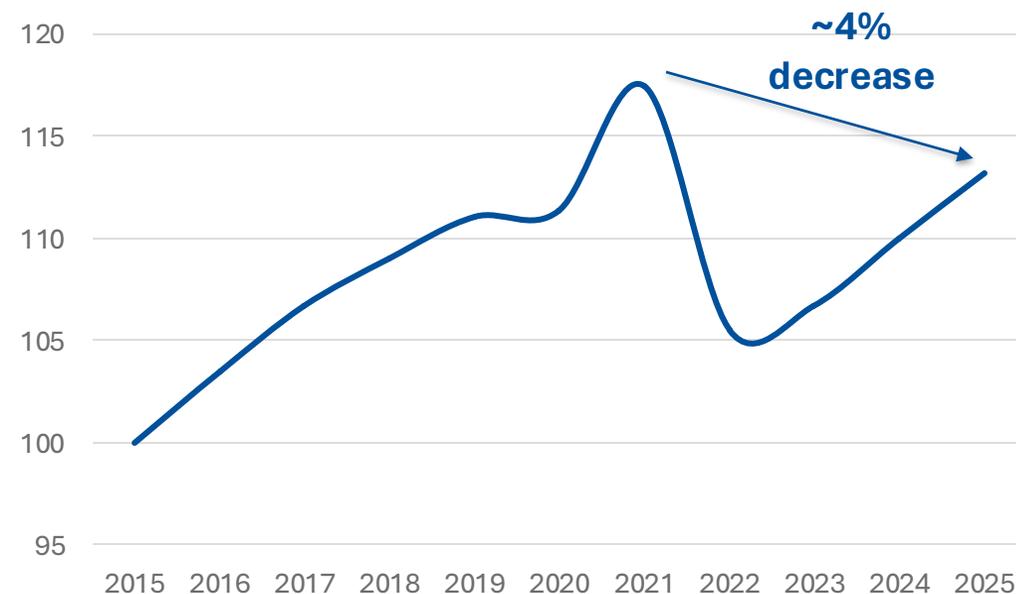
# Productivity growth will boost GDP

Despite the war, productivity grew at a slow pace

**In a rigid labor market, investment should focus on increasing productivity.**

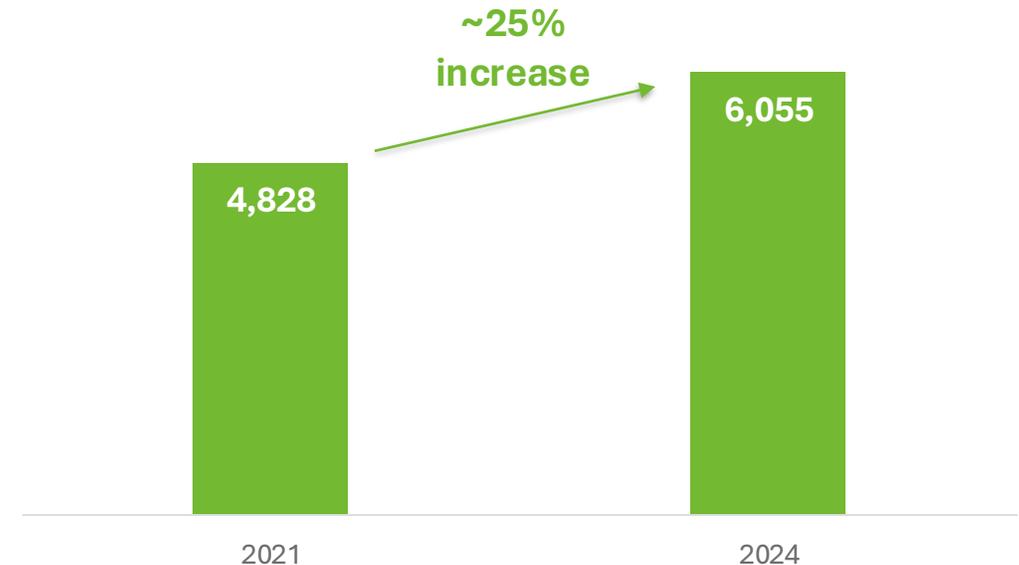
Safety comes first. Furthermore, expanding access to financing, establishing a compensation framework for war-related losses and accelerating the implementation of EU accession reforms are all essential.

Labor productivity, index 2015=100%



Sources: State Statistics Service of Ukraine, Ministry of Economy, CES calculations.

GDP per capita, \$



Sources: SSSU, Institute for Demography, NBU, CES calculations.



Thank you!

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