Foreign, Commonwealth & Development Office

UK International Development
Partnership | Progress | Prosperity

CENTRE FOR ECONOMIC STRATEGY

October Economic Review

Special topic: Russian assets: will the EU dare to give them to Ukraine?

Date: 21 October 2025

Authors: CES Team

Executive summary

Executive summary

CENTRE FOR ECONOMIC STRATEGY

- **Monetary sector:** Inflation fell to 11.9%, driven disinflationary trend. Food inflation and vegetables in particular decreases due to high harvests. The credit growth is strong and continues to grow after the post-invasion slump.

- **Sectoral analysis:** Real GDP grew by just 0.7% y-o-y in Q2 2025, due to delays in harvesting and a fall in government consumption. However, the economy was supported by steady consumer demand and improved exports. The energy situation deteriorated in October due to renewed Russian shelling, which is expected to restrain economic growth in the coming months. The EU Council has agreed to reduce or eliminate customs duties on various Ukrainian agri-food products.

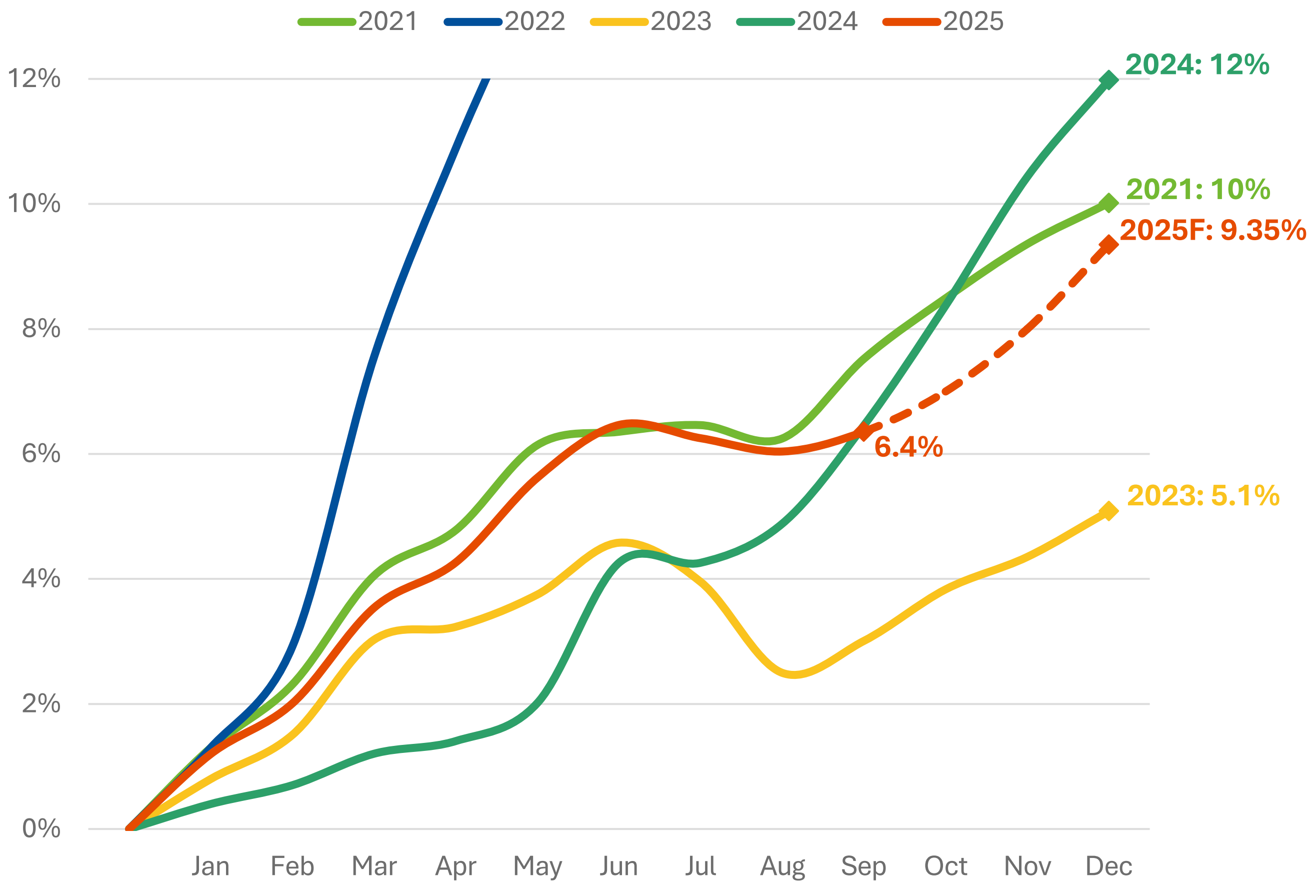
- **Fiscal sector:** In September 2025, state budget revenues reached UAH 147 billion, up 25% y-o-y, with every third hryvnia coming from import VAT. Income and profit taxes grew strongly, while total revenues fell 22% m-o-m due to seasonal PIT fluctuations. In August, expenditures rose 28% m-o-m to UAH 462.5 billion, driven by a 49% increase in war spending — the highest in 2025. The budget deficit for January–August reached UAH 822 billion, largely financed by foreign borrowing.

- **Special topic:** Will the European Union dare to give the Russian frozen assets to Ukraine? There is a total of €289.5 bn of Russian frozen assets. €209.2 bn are in the European Union, €180 bn of which are in Belgium. Under the proposed Ukraine Reparation Loan, the EU would borrow this cash associated with Russia’s assets and lend €140 bn to Ukraine interest-free. The EU scheme can cover 2-3 years of the war expenditures for Ukraine. But is it the best option to fund the war?
- **See our report below for further details.**

Monetary sector

Seasonal disinflation is over

CPI inflation, from the start of the year, %



Sources: NBU, CES calculations.

Note: 2025 end-of-year forecast is the median forecast of non-governmental analysts.

In September 2025, inflation slowed down to 11.9% y-o-y (+0.3% m-o-m). The inflation continued to be lower than the NBU projections (July 2025). The seasonal monthly disinflation has ended.

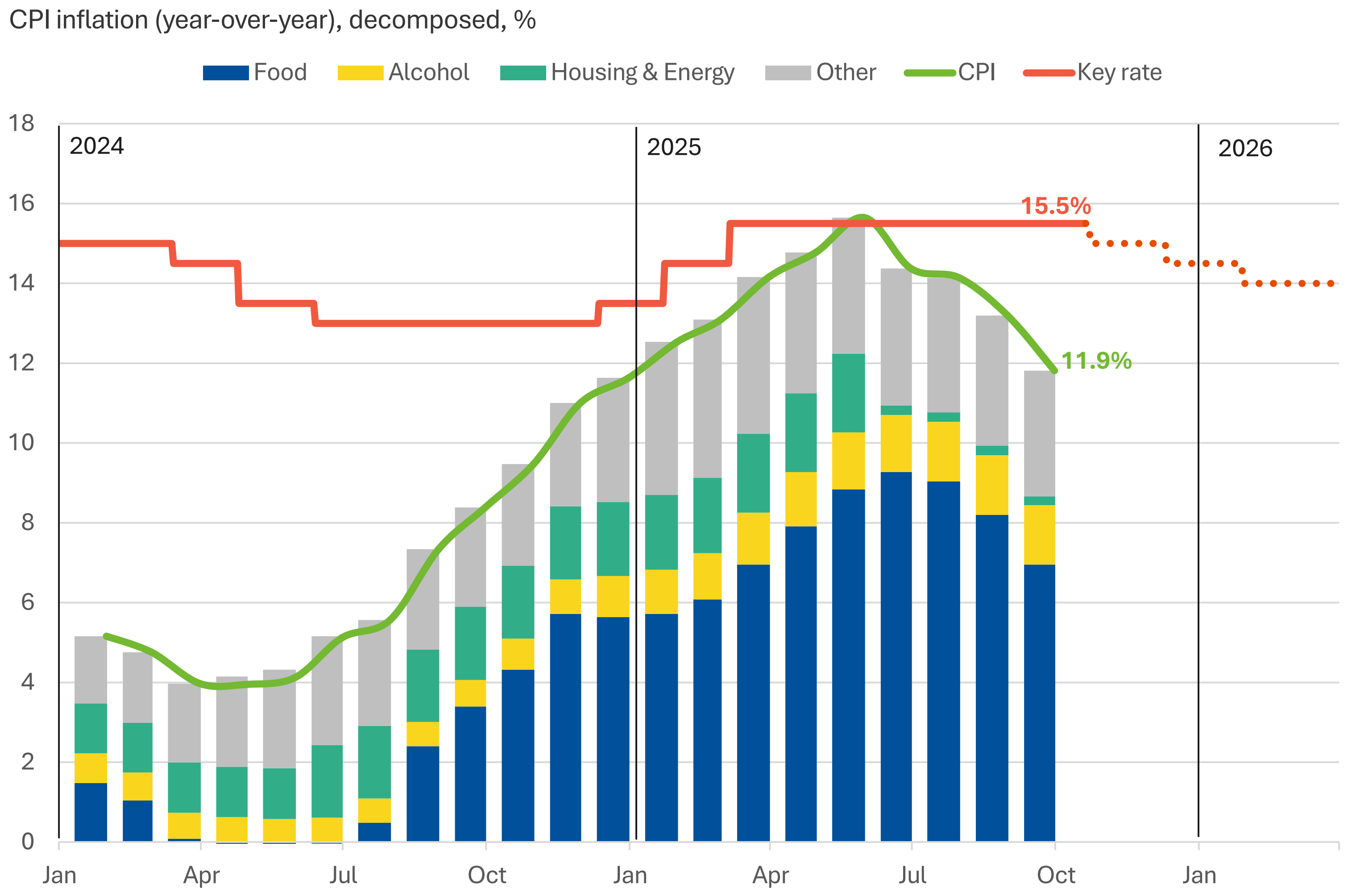
The disinflation is driven by the seasonal reduction in vegetable prices (-16% y-o-y) due to high harvests. The growth in fruit prices has slowed significantly (from 47.5% in August to 30.4% in September).

Core inflation also continued to decline, reaching 11.0%, continuing an easing of fundamental disinflation trend.

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

Steady disinflation continues, but pressure is still high

CENTRE FOR ECONOMIC STRATEGY



Sources: NBU, Ukrstat, CES calculations.
Note: trajectory of the key policy rate is from the NBU's Inflation Report (July 2025).

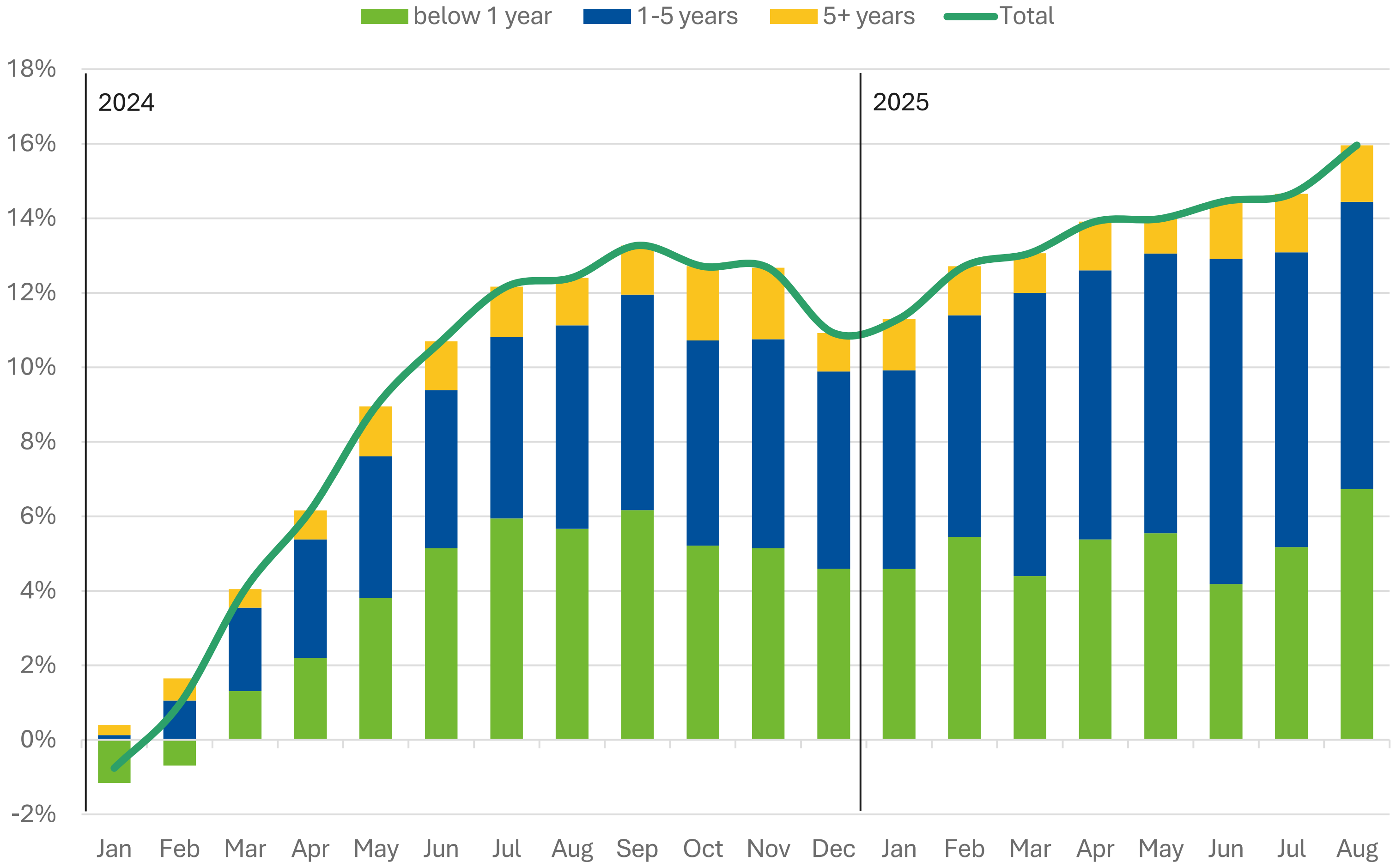
Strong disinflationary trend creates a favourable ground for the easing of monetary stance by the central bank.

On October 23, 2025, the NBU's decision on key policy rate is to be announced. In its July Inflation report, central bank projected a decrease by 50 bps (0.5 pp).

However, in the midst of attacks on energy infrastructure and continued uncertainty regarding the budget financing, the NBU might decide to delay the start of the cutting cycle.

The credit growth is strong after post-invasion slump

Change in balance of loans (y-o-y), by terms of loans, %



Sources: NBU, CES calculations.

The growth in credit to Ukrainian residents demonstrates a strong upward dynamics.

In August, amount of loans has increased by 16% (y-o-y) – the strongest growth since 2015, after a post-invasion slump in credit.

Half of the growth is explained by the medium-term loans (for 1 to 5 years).

The net growth in credit to business is even stronger, showing 30.8% increase in September.

Sectoral analysis

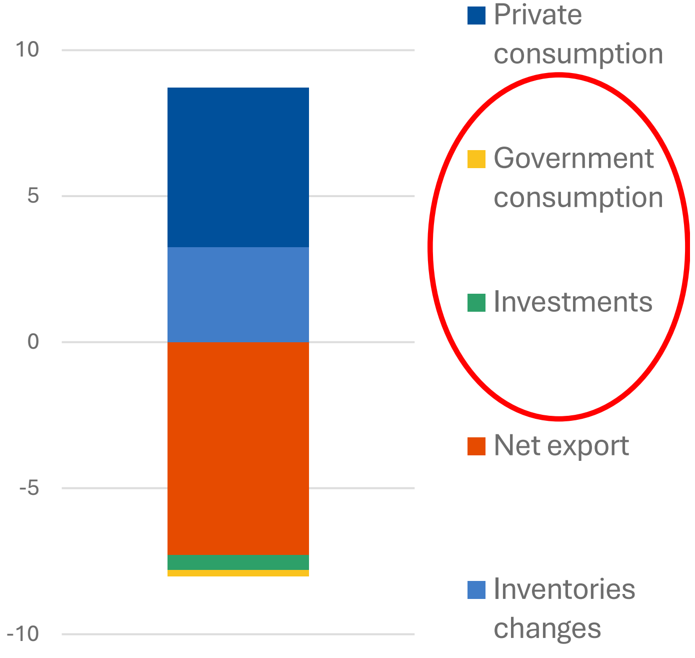
Real GDP increased only by 0.7% y-o-y in Q2 2025

CENTRE FOR ECONOMIC STRATEGY

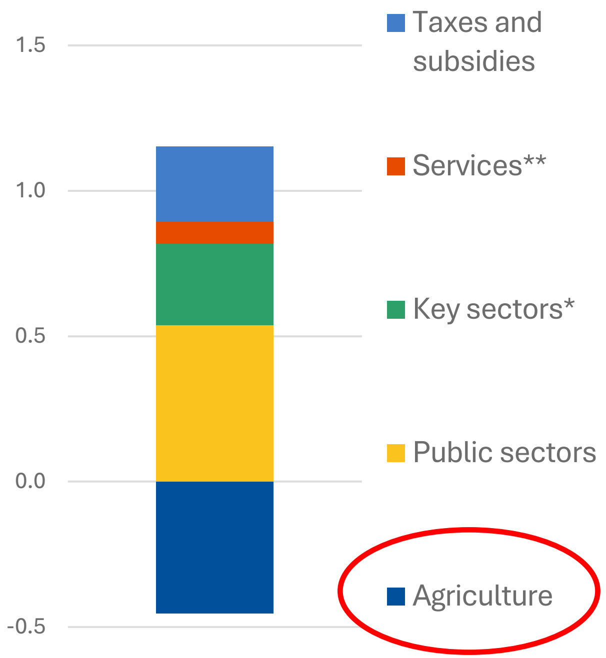
Weak growth due to poor agricultural results and lower public spending

Real GDP
+0.7% y-o-y in Q2'25

Contribution of **final use categories** to real GDP growth in Q2'25, pp



Contribution **of activities** to real GDP growth in Q2'25, pp



Sources: SSSU, CES calculations.

*Industry, construction, trade, transport. **IT, finance and other services.

Real GDP grew by 0.7% y-o-y in Q2 2025 and by 0.8% y-o-y in the first half of the year.

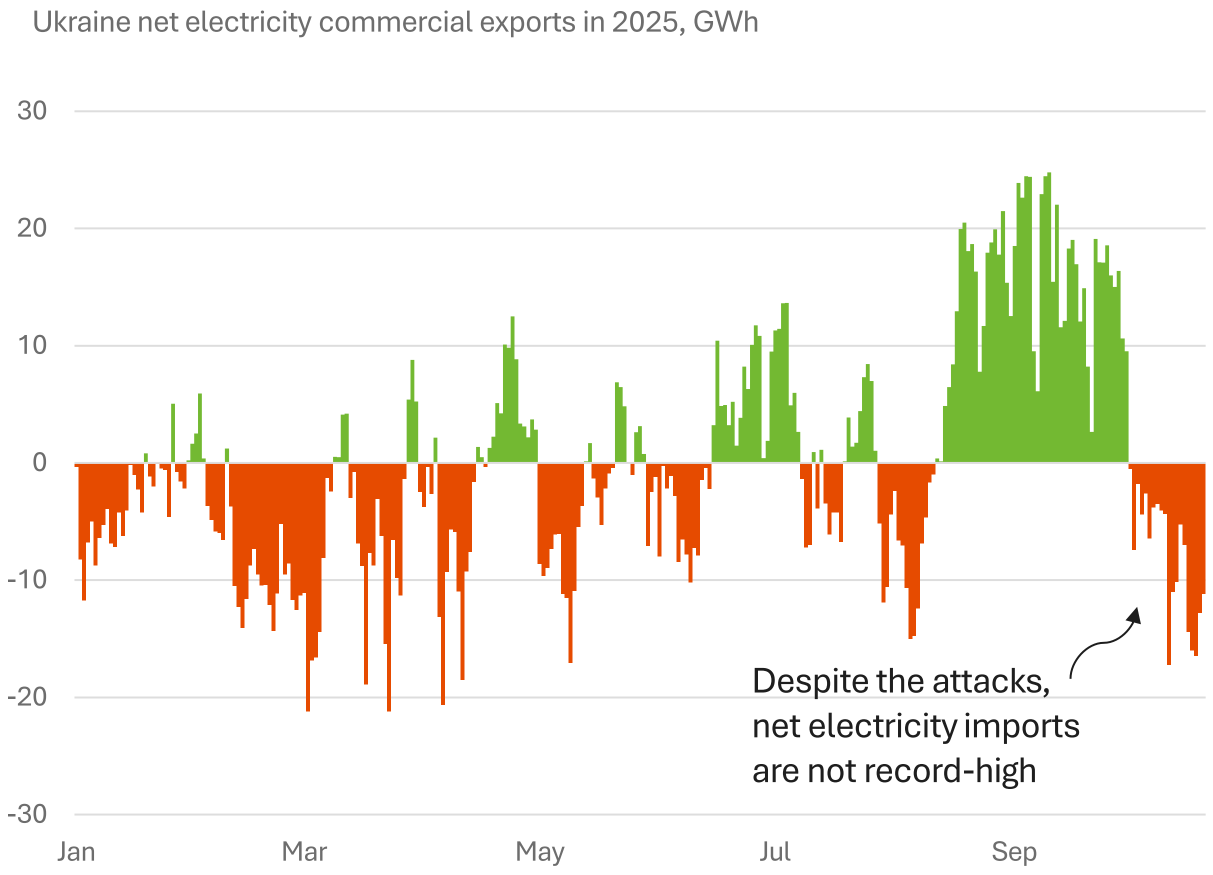
The public sector's role weakened as government consumption and investment demand fell in Q2 (-0,7 pp). The negative contribution of the net exports narrowed due to a surge in shipments to the EU before trade restrictions were reintroduced.

Steady consumer demand, supported by rising wages, helped sustain overall growth.

Gross value added (GVA) in agriculture fell, making the largest negative contribution to GDP growth (-0.5 pp) among activities as adverse weather delayed the harvest.

Energy crisis deepens

Ukraine is experiencing power shortages again



Source: ENTSO-E.

Ukraine's power system remained stable in Q3 2025. Electricity exports hit a record 634 GWh in September, far surpassing imports.

Since late September, renewed Russian attacks have damaged power generation and transmission facilities. Ukraine has had to introduce near-daily emergency outages nationwide, disrupting both businesses and households. The most severe shortages are in central and eastern regions, and the resulting capacity losses have driven electricity prices higher.

Despite gas production losses reaching 60%, storage volumes hit the target of 13.2 bcm by mid-October. However, the Ministry of Energy reports a 30% rise in import needs. The EBRD plans to provide Naftogaz with an additional €500 million to fund urgent gas purchases.

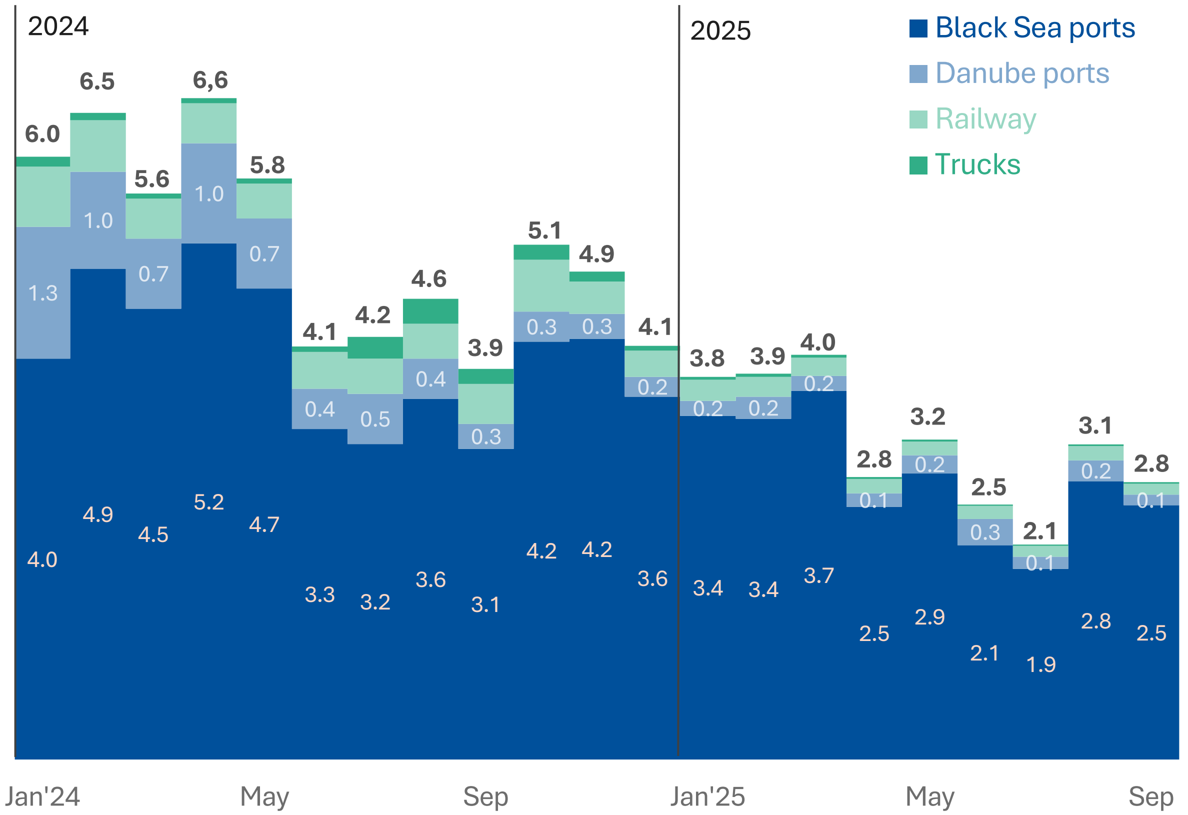
Russia has also stepped up attacks on transport infrastructure, especially railways. The resulting delays are likely to further disrupt economic activity.

Harvest delays hit agricultural performance

CENTRE FOR ECONOMIC STRATEGY

Exports of grain from Ukraine have decreased

Exports of grain and oilseeds by transport and total, mt



Sources: Dragon Capital estimates.

Agricultural production fall by 14% y-o-y in January-September 2025 (after falling by 8,4% y-o-y in January-August), according to the SSSU, due to a shift in harvest pace compared to 2024.

As of mid-October, **adverse weather continued to delay both harvesting and sowing.** About 35 mt of grain had been harvested, down from ≈43 mt a year earlier, and winter crop planting reached 4,8 million hectares (vs over 5,4 million hectares in 2024). Yields of late crops are expected to match last year's levels, except for sunflowers.

The new export duty on rapeseed spurred processing (250,000 t in September vs 60,000 t in July–August) **and boosted rapeseed oil exports** (109,000 t).

On 13 October, the EU agreed to cut or remove tariffs on many Ukrainian agri-food products, including dairy, fruit, vegetables, and meat.

CENTRE FOR ECONOMIC STRATEGY

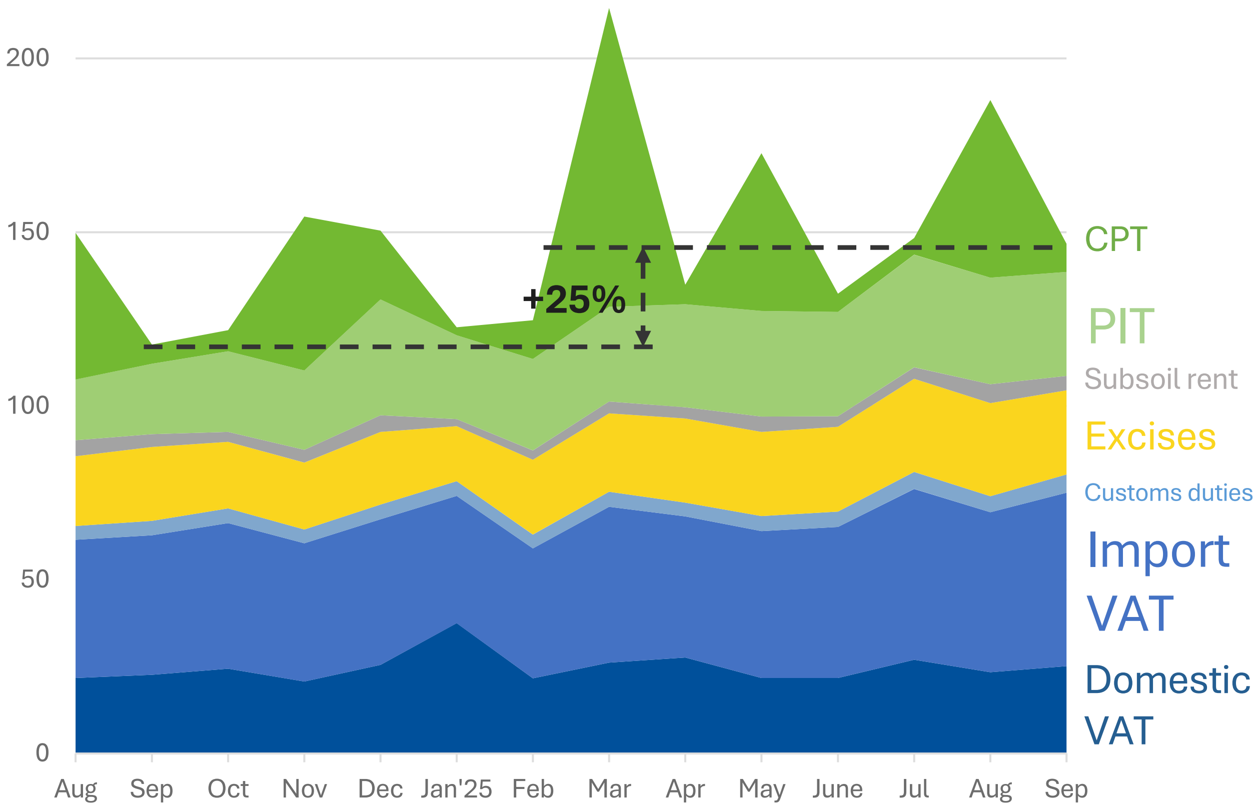
Fiscal sector

Every third hryvnia of September's revenue was Import VAT

CENTRE FOR ECONOMIC STRATEGY

The state budget received UAH 147 bn of taxes, adding 25% y-o-y

General fund of state budget tax revenues, UAH bn



In September 2025, the total tax revenues of general fund decreased m-o-m (-22%) due to seasonality in PIT revenues but remained 25% higher y-o-y.

Significant positive dynamics y-o-y are **in income tax and corporate taxes**:

- PIT increased by 49% to UAH 30 billion;
- CPT increased by 45% to UAH 8.1 billion.

Import VAT shows a 24% increase y-o-y due to higher amounts of imports.

The biggest m-o-m increase was in **custom duties** – 15% up to UAH 5.3 billion.

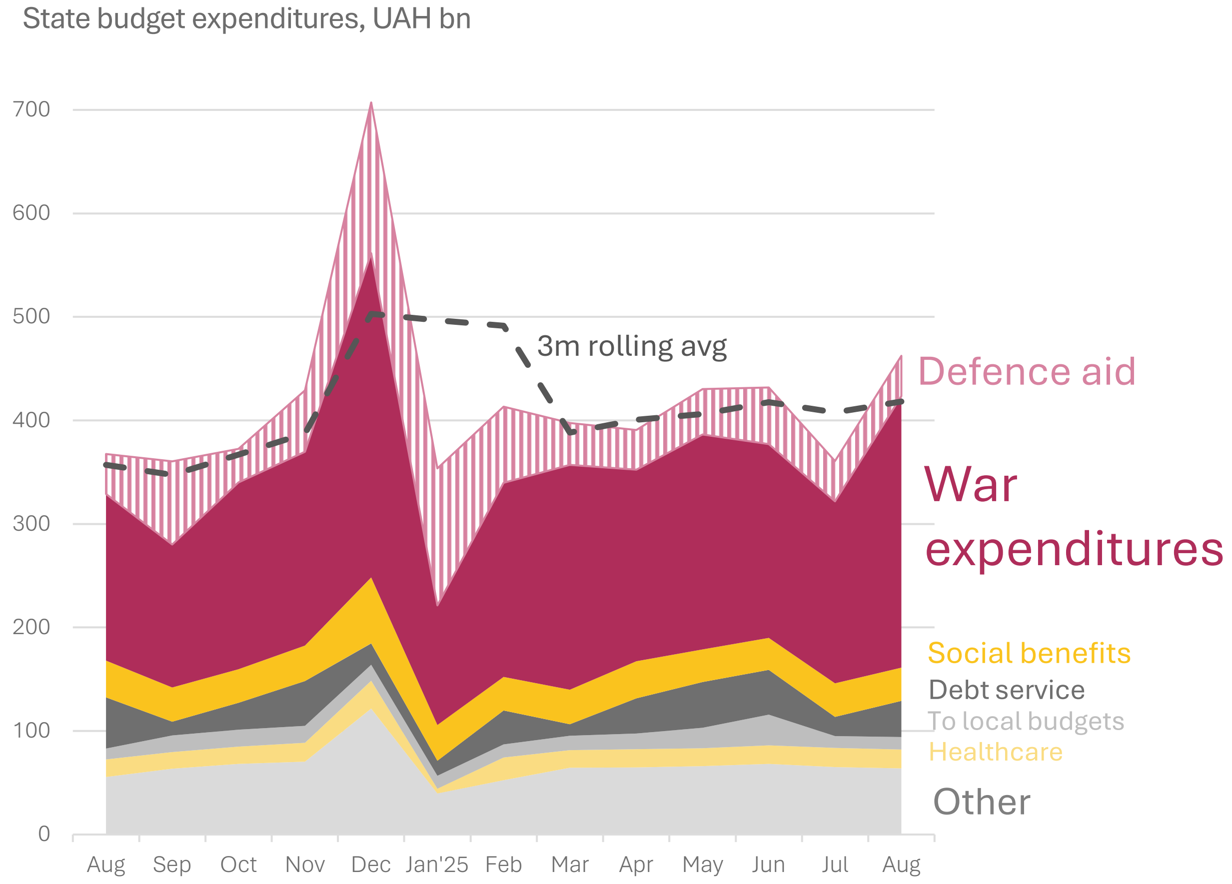
In September, the general fund received UAH 53.9 billion of international assistance in the form of **grants**.

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

War expenditures in August rose by half compared to July

CENTRE FOR ECONOMIC STRATEGY

Defence aid remained at July levels



Source: OpenBudget, CES calculations.

In August 2025, total expenditures increased to UAH 462.5 billion, up 28% from July and 26% higher than a year earlier.

War-related spending from own revenues jumped 49% m-o-m to UAH 263 billion — the highest level in 2025 and 63% higher y-o-y. **Defence aid from partners remained unchanged from July.**

In August, social benefits edged down to UAH 31.9 billion. Economic activity spending fell the most — down 35% m-o-m to UAH 10.3 billion — though it remained above last year's level. **Debt service costs almost doubled** (+87% m-o-m) after low payments in July.

The largest y-o-y increase was in **housing and communal services**. In August, spending reached UAH 419 million — 205 times higher than in August 2024 — driven by a public investment project to build water pipelines in the Mykolaiv region, launched in April 2025.

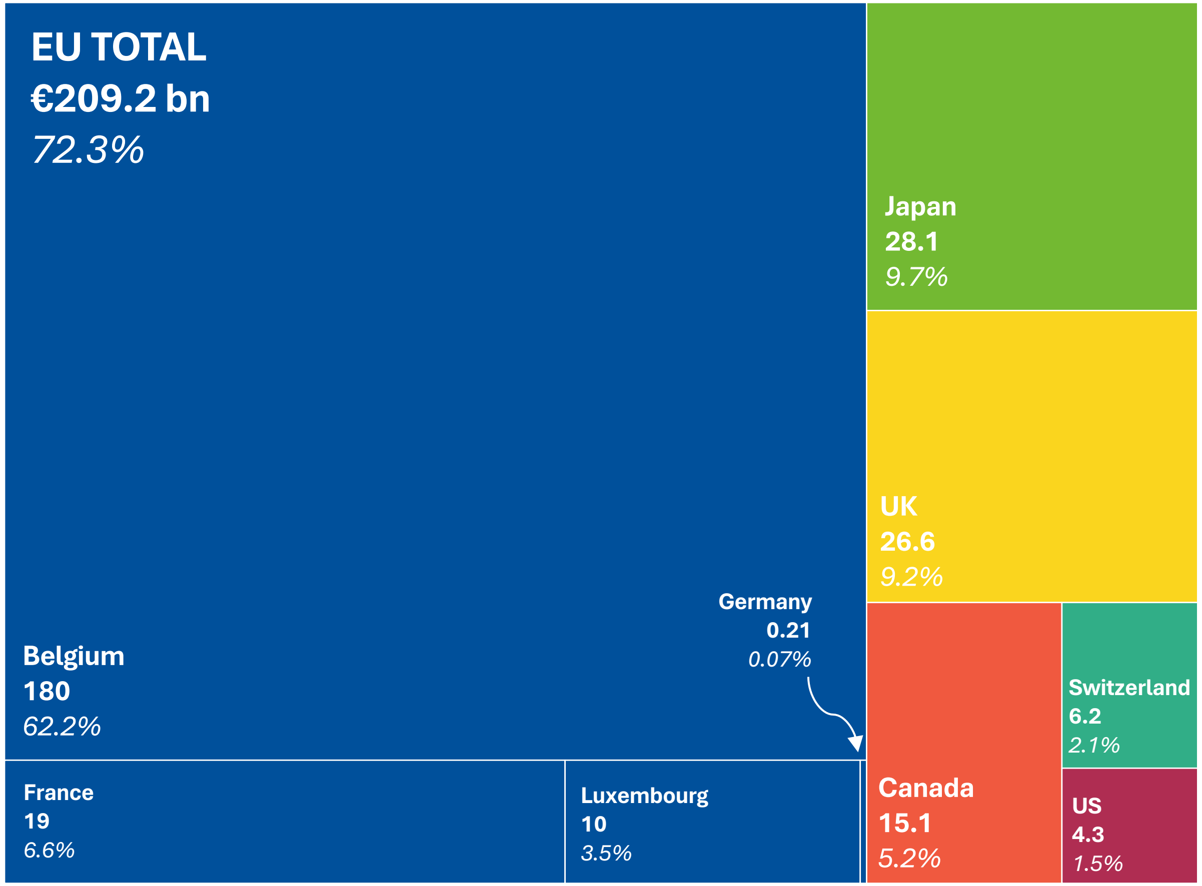
In January–August 2025, the **state budget deficit** reached UAH 822 billion, mainly financed through foreign borrowing. External debt issuance totalled UAH 981 billion, with repayments of UAH 77 billion. Domestic borrowing was nearly three times lower at UAH 346 billion, with repayments of UAH 328 billion.

Special topic:
Russian assets: will the EU dare to give them to Ukraine?

There is a total of €289.5 bn of Russian frozen assets

CENTRE FOR ECONOMIC STRATEGY

Most of them are in the European Union/Belgium



- **A joint decision is needed** because Japan, the UK, and Canada are also significant jurisdictions (€70 bn in total).
- Other G7 countries expect the EU to be the first and lead the way. Will the US be on board?
- **Up to 90% of the Russian state assets have already matured into cash,** according to estimations.

Source: EPRS.

How the Ukraine Reparation Loan would work

CENTRE FOR ECONOMIC STRATEGY

Russian frozen assets worth **€170 bn** have already matured

The EU would borrow this cash associated with Russia's assets from Euroclear (etc?)

€30 bn will be used to repay the ERA

€140 bn will be lent to Ukraine interest-free

Other countries can join the scheme: only the UK has committed, but Canada and Japan are also likely to join

Ukraine will return the loan
ONLY
when/if reparations are paid by Russia

The EU scheme can cover 2-3 years of the war

CENTRE FOR ECONOMIC STRATEGY

- Ukraine's funding gap is $61 bn for 2026-27, according to the Ministry of Finance.
- **The actual gap can be larger** if direct military support (PURL, etc.) is lower than expected or/if defence becomes more expensive.
- The EU scheme **can cover 2-3 years** of the current war intensity, as of now.
- Starting from 2028, Ukraine Reserve of €100 bn in the proposed 2028-34 EU budget (Multiannual Financial Framework, MFF) can be used for further funding.
- **Contributions from the UK, Japan, and Canada** under the same reparation loan scheme can **close the gap in the direct military support.**

Is it the best option to fund the war?

- **The negotiating position of Ukraine will be stronger and a just peace will be closer** if money is frontloaded and invested into strengthening the Ukrainian military in 2026.

- However, **there will be no money to rebuild Ukraine** after the war.

- **Are there other options?**
  - Special Drawing Right (SDR) grant to Ukraine?
  - Frontloaded accession funding after the war ends?
  - Or just deal with the pressing issues first?

Foreign, Commonwealth & Development Office

UK International Development
Partnership | Progress | Prosperity

CENTRE FOR ECONOMIC STRATEGY

Thank you!