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UK International Development
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December Economic Review

Special topic: State budget 2026: Will Ukraine have enough money?

Date: 22 December 2025

Authors: CES Team

Executive summary

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- **Monetary sector:** Inflation decreased to 9.3% y-o-y, with disinflation stronger than both NBU and private forecasts. Food inflation continues to ease due to high harvest surpluses and lack of storage. Core inflation eased more slowly while inflation expectations remain in the double digits. In its December decision, the NBU held its key policy rate at 15.5% in face of foreign funding uncertainties. The corporate credit growth is record high.

- **Sectoral analysis:** Real GDP growth accelerated to 2.1% y-o-y in Q3 2025, driven by government consumption and investment. The economy was also supported by steady consumer demand and a stable energy situation. However, the situation in the energy sector essentially deteriorated in Q4 2025 and has since had a restraining effect on the economy, while the pace of harvesting has accelerated, supporting agricultural production.

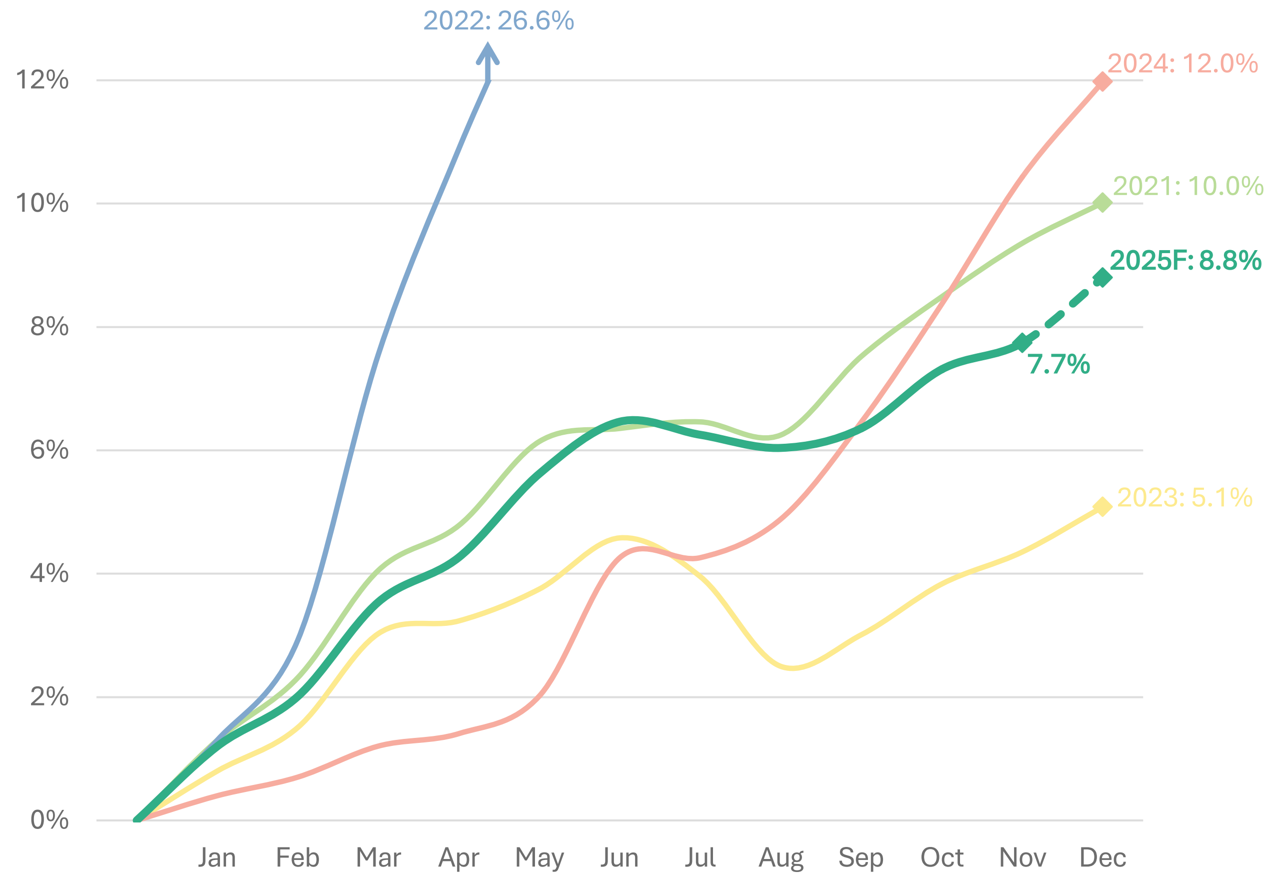
- **Special topic: Budget-2026.** Internal revenues are not high enough: even with nominal deficit of 18.5% of GDP expenditures are underfunded. Ukraine is maximising budget revenue collection: own revenues will increase by 121% in 2026 compared to 2021. War expenditures remain a budgetary priority. In 2025, war expenditures are expected to be 32% higher than in 2024. But in 2026 not enough money budgeted for the war and less than in 2025. This is accompanied by an expected increase in non-defence spending. Still, spending grows only nominally: non-military expenditures are effectively frozen while war spending is insufficient.

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

Monetary sector

Inflation slowing down, projections revised downward

Consumer price index, YTD



Inflation in November 2025:

9.3% y-o-y;

0.4% m-o-m;

7.7% YTD.

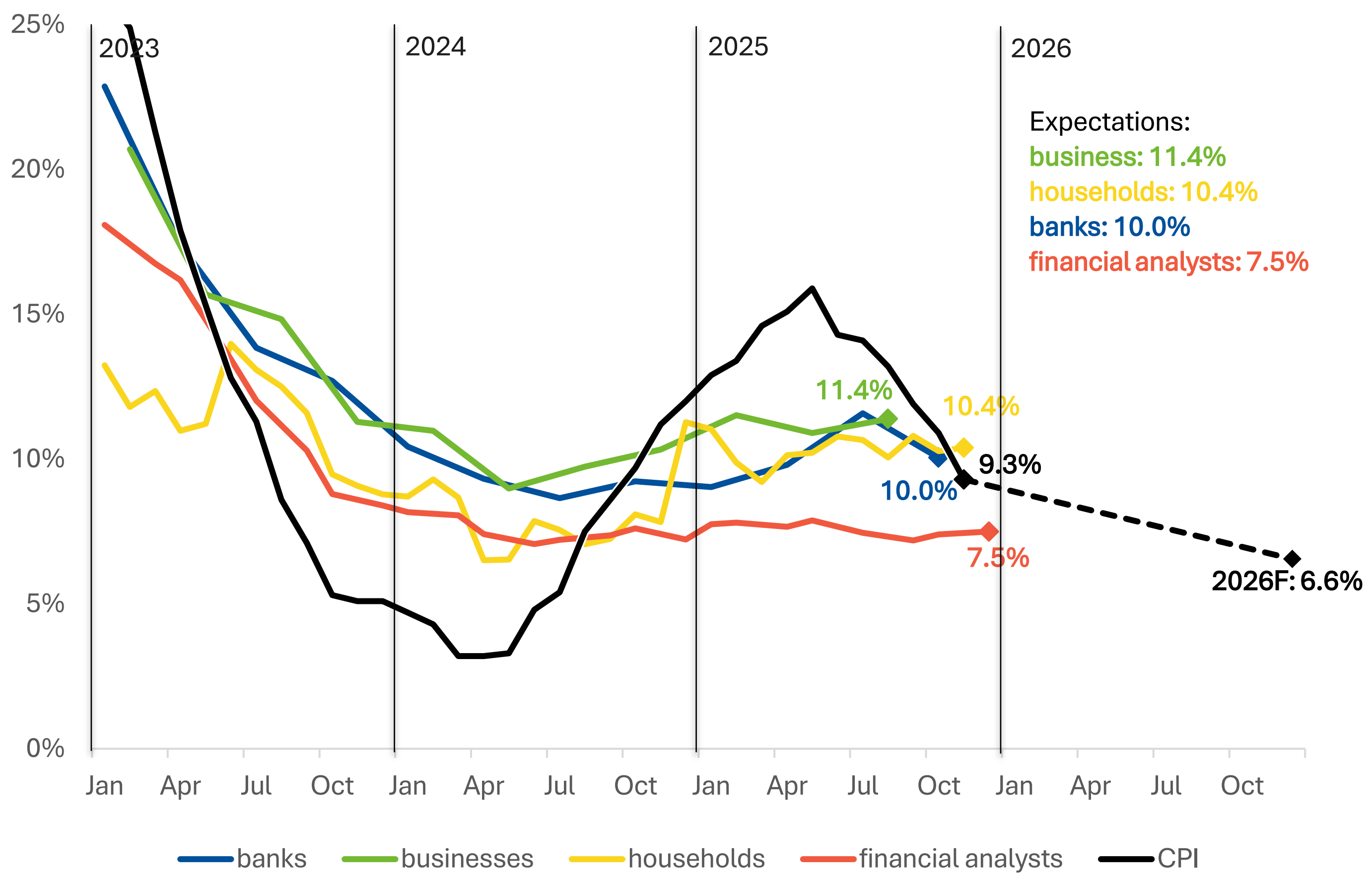
In the second half of the year, inflation was decelerating faster than expected. In July, median analyst projected 9.35% inflation for end-year. In December, analysts updated their median expectation down to 8.8%.

Food inflation is down both in y-o-y and m-o-m terms. Prices for fruits slowed down growth, while vegetables deepened the deflation due to the surplus and lack of storage.

Source: NBU, median of private forecasts for 2026 (Dec’25).

Households, banks, and business are wary of high inflation

12-month inflation expectations of economic agents



As expected, on December 11, the NBU kept the key policy rate at 15.5% in face of inflationary risks, uncertainty about budget financing, and high inflation expectations.

Despite inflation under 10% and professional forecasts aligned with the NBU's forward guidance, households, business, and banks expect two-digit inflation.

Last Friday, the European Council has agreed to provide a loan to Ukraine of €90 bn for the years 2026-2027.

This decision will create more certainty for Ukraine's macroeconomic outlook and might be a precondition for the NBU to cut the key rate in January.

Source: NBU, median of private forecasts for 2026 (Dec'25).

Corporate credit growth hits 10-year record high

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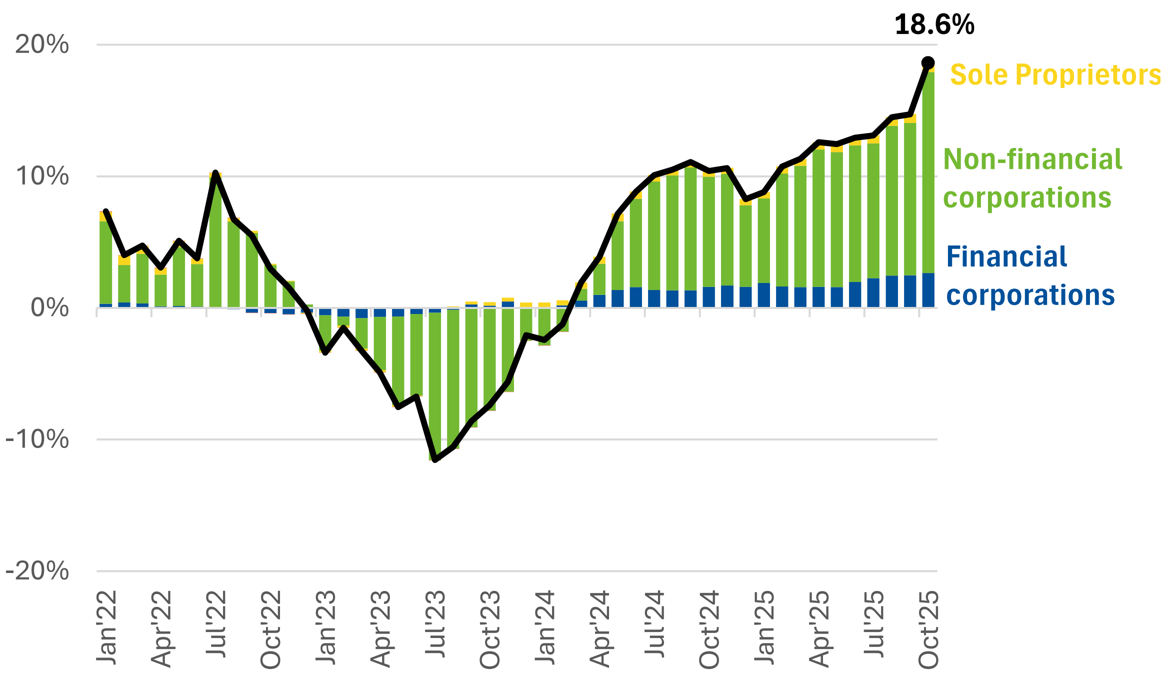
Corporate credit growth, y-o-y, %



Source: NBU, CES calculations.

- Banks are optimistic about the future of the credit growth.
- The record high corporate credit growth makes it easier for the central bank to maintain the tight monetary policy.

- Historically unusually, significant share of credit growth is attributed to financial corporations.
- We observe an unprecedented "explosion" of loans issued to the financial corporations which now take up almost 5% of credit stock.

Share of loans to financial corporations, %

Source: NBU, CES calculations.

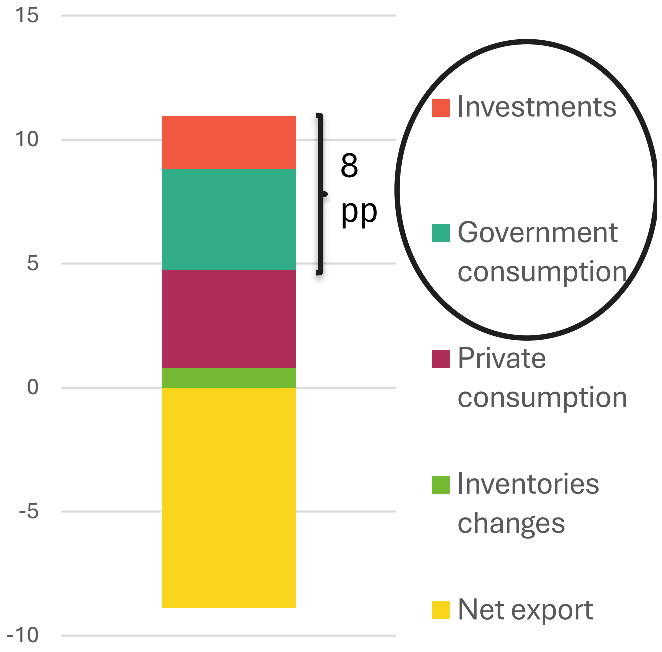
Sectoral analysis

Real GDP growth accelerated to 2.1% y-o-y in Q3 2025

Government sector and stable energy situation contributed to GDP growth

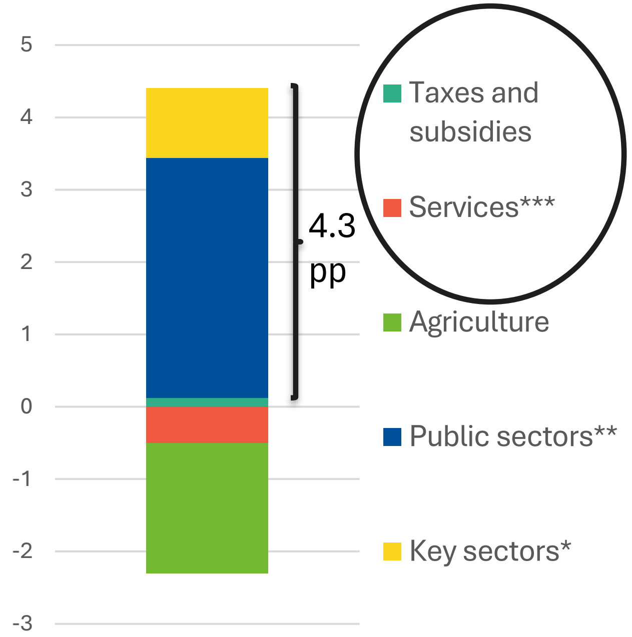
Real GDP
+2.1% y-o-y in Q3’25

Contribution of **final use categories** to real GDP growth in Q3'25, pp



Sources: SSSU, CES calculations.

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



*Industry, construction, trade, transport. **Public administration and defence, health, eductaion. ***IT, finance and other services.

Real GDP grew by 2.1% y-o-y in Q3 2025 and by 1.3% y-o-y over 9M2025.

In Q3, the public sector made a significant contribution, with government consumption showing robust growth (12.2% y-o-y). Furthermore, budget capital expenditure was a key factor in the 11.5% y-o-y investment growth. Consumer demand remained steady amid rising wages. However, the negative contribution of net exports increased to meet the rise in domestic demand.

The stable energy situation in Q3 2025 (in contrast to the electricity shortage in Q3 2024), as well as steady consumer and investment demand (including for military purposes), supported key sectors. However, harvesting was delayed further and agriculture made the largest negative contribution to GDP growth (-1.8 pp).

The ongoing Russian attacks have worsened the power outages

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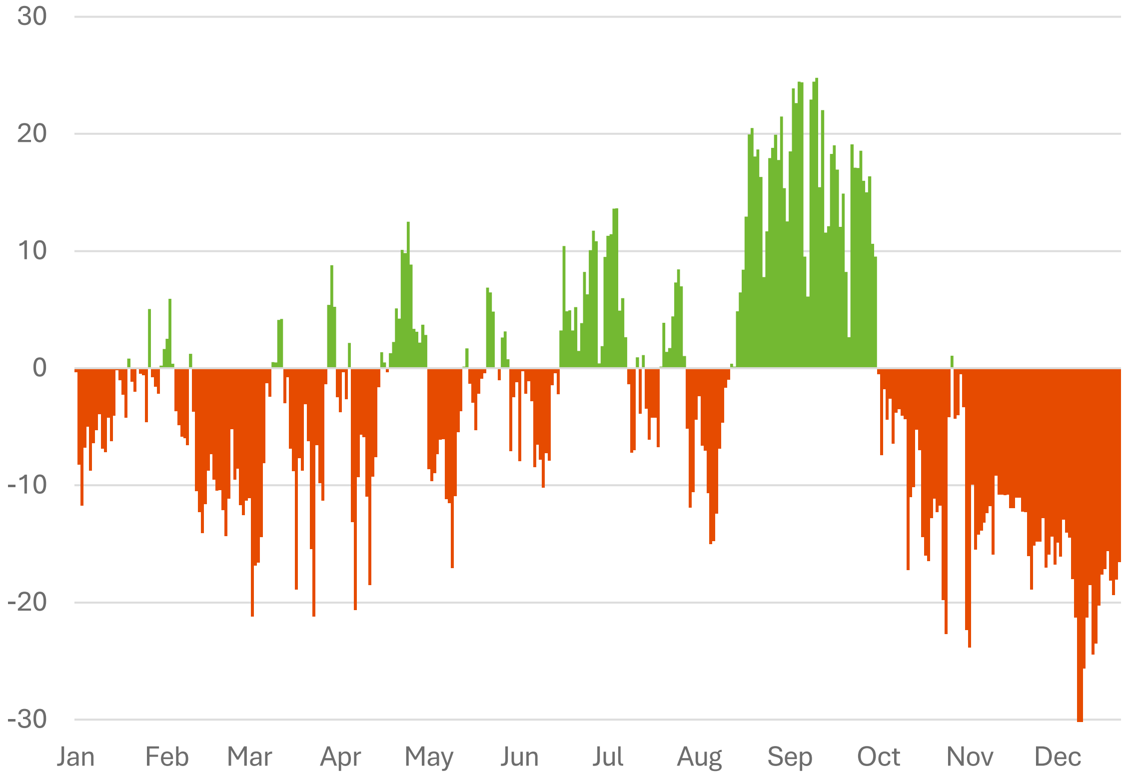
Since October, Ukraine has imported considerably more electricity

Ukraine net electricity commercial exports in 2025, GWh



Source: ENTSO-E.

In November, Ukraine imported 415 GWh of electricity and exported just 5 GWh. Commercial electricity exports have been stopped completely since the beginning of November.

The government revised the list of critical infrastructure and identified an extra **~800 MW of capacity for households.**

In November 2025, the upper price cap was reached in 31% of payment periods for hourly day-ahead electricity prices. The debt of participants in the balancing market to Ukrenergo has already exceeded UAH 41 bn (a record high). Energoatom settled the full UAH 148 bn PSO for electricity prices for households in January-November.

The Parliament has decided to extend **the VAT exemption on imports of energy equipment** for distributed generation until 2028.

Ukraine's gas storage facilities currently hold ~ 13 bcm of gas reserves, enough for the current heating season, given the lower gas consumption than last year due to the warm weather.

On 10 December, **EU countries agreed to cease the import of russian natural gas** by the end of 2027.

Metallurgy and agriculture remain resilient

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The pace of harvesting has speeded up, supporting economic growth

Production of major iron & steel products, in thousands metric tonnes

Sources: Ukrmetalurgprom.

As of mid-December, **the harvest is not yet complete**, with only 86% of corn, 93% of sunflowers, and 98% of wheat having been harvested. Grain harvest reached 57 mt (+5% y-o-y). The USDA had expected corn harvest to be 29 mt. The Ministry of Economy has forecast that 60 mt of grain and 20 mt of oilseeds will be harvested in 2025.

As a result, **agricultural indexes improved** (to -6.6% y-o-y in January-November compared to -12.4% y-o-y in January-October).

Metallurgical production also saw notable improvements in November, with pig iron production increasing by 29.7% y-o-y, steel by 18.5% y-o-y, and rolled products by 23.5 y-o-y due to robust demand, along with the stable coal supply despite the closure of mines in Pokrovsk.

Consumer demand remained steady. In November, registrations of new passenger cars reached 8,3 thousands (+58% y-o-y) and electric 11 thousands (+3 times y-o-y).

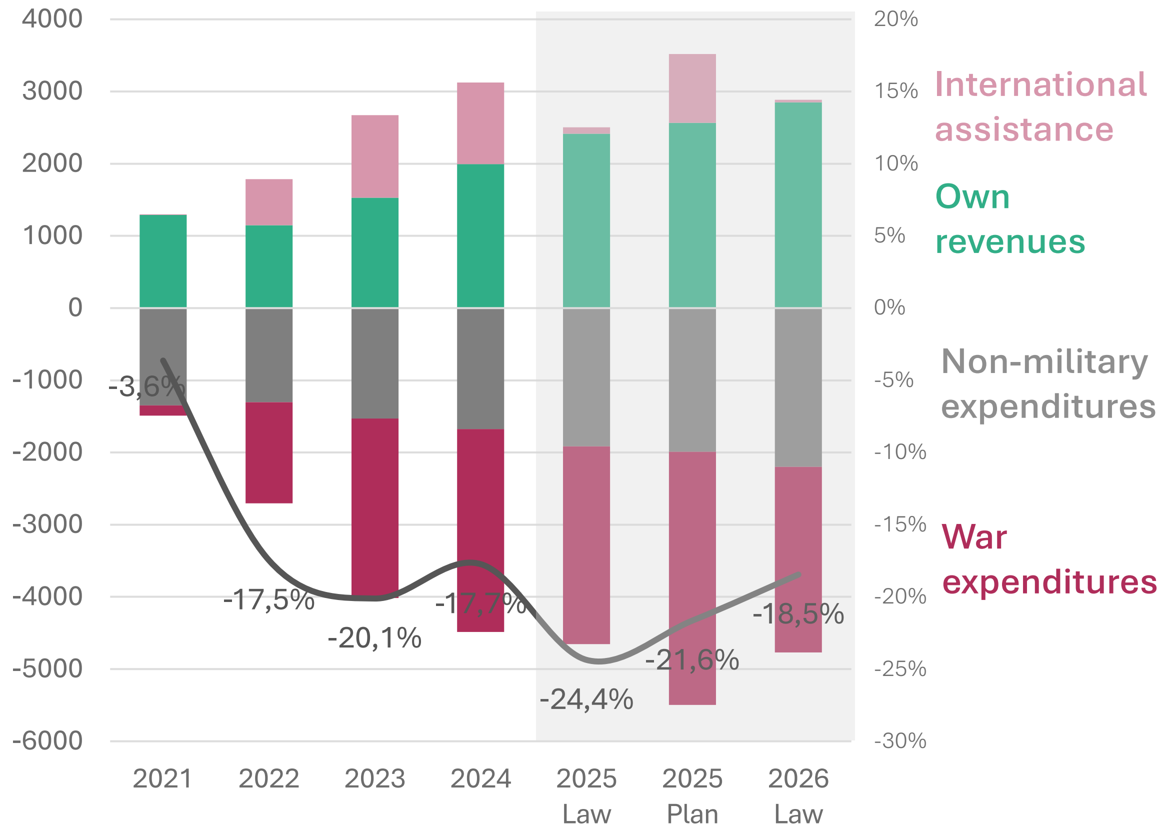
However, **other key sectors are suffering from electricity outages and shelling by Russian forces**.

Special topic: Budget-2026

Internal revenues are not high enough

Even with nominal deficit of 18.5% of GDP expenditures are underfunded

State budget, UAH bn and deficit as % of GDP (rhs)



In early December, the State Budget Law for 2026 was adopted — the fifth war budget.

Key parameters:

- Total expenditures: UAH 4.8 trillion ($104 bn, incl. UAH 2.8 trillion or $56 bn on defence and security)
- Total revenues: UAH 2.9 trillion ($63 bn)
- Nominal deficit: UAH 1.9 trillion ($41 bn or 18.5% of GDP)
- Total financing needs: UAH 2.6 trillion (deficit + debt repayment)

War-related spending amounts to **54% of total expenditures**, but is planned **below 2025 levels**, indicating underfunding already at the planning stage.

To cover the budget gap, Ministry of Finance plans to raise more than UAH 2 trillion in external funding ($45.5 bn) through a new EU initiative (substituting for the reparations loan), Ukraine Facility, the remaining funds from the ERA programme, and other sources.

Sources: Open Budget, Ministry of Finance, CES calculations

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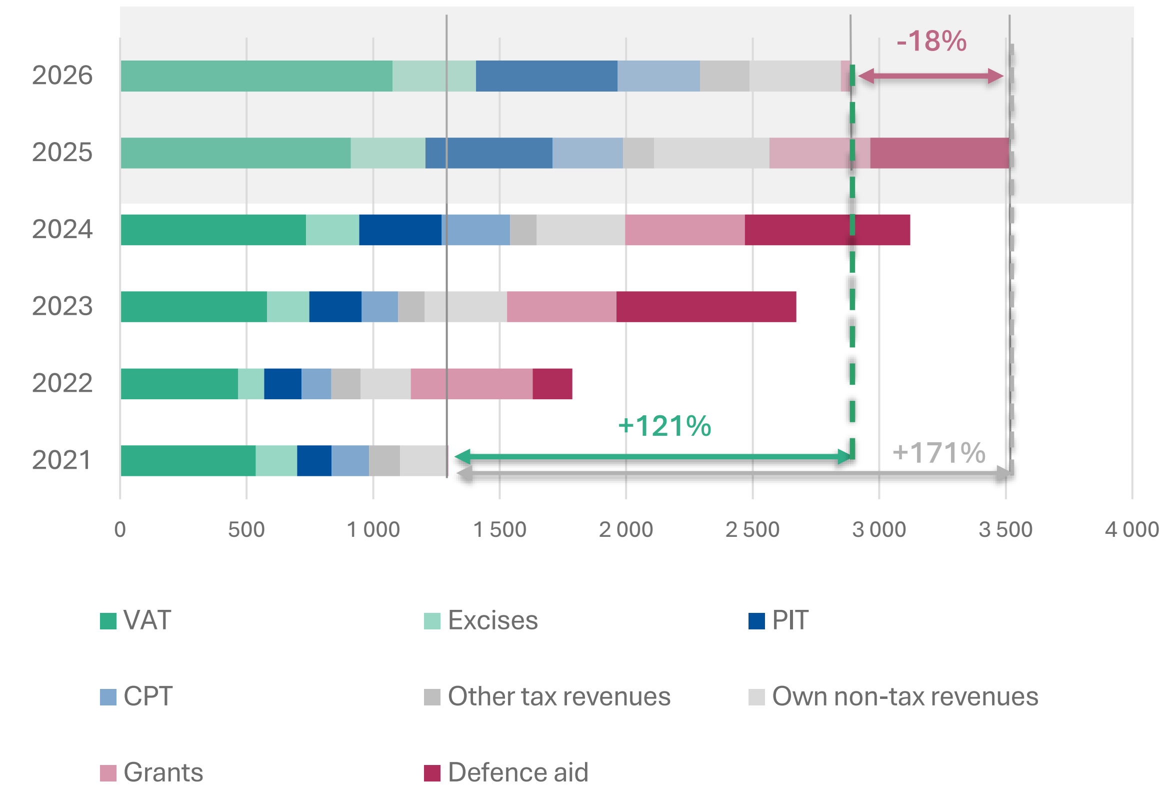
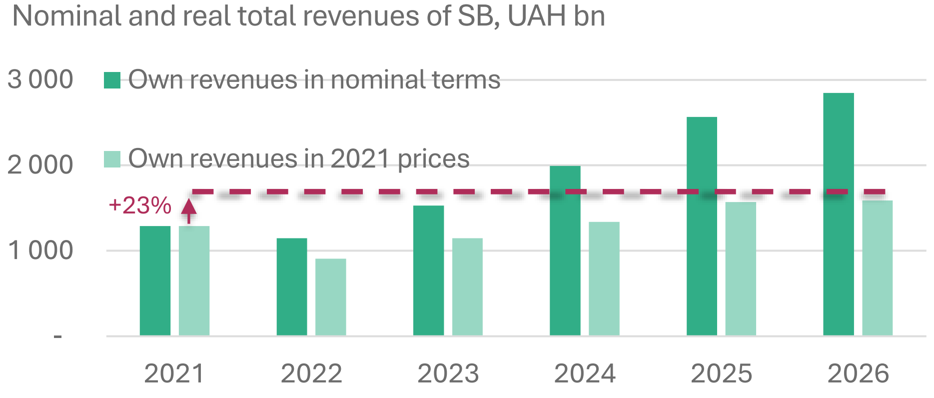
Own revenues will increase by 121% in 2026 compared to 2021



Sources: Open Budget, Ministry of Finance, CES calculations

- **Total revenues** in 2026 will be lower by 18% y-o-y. This includes foreign aid — grants (15% of total revenues in 2024) and defence aid (21%). Only grants are planned for next year, and at a very conservative level of UAH 38 bn. In 2024, Ukraine received UAH 475 bn.
- **Own revenues** of the state budget will increase next year y-o-y: +11% nominally, +1% in real terms. Growth compared to the 2021: +121% nominal, +23% real.



Sources: Open Budget, Ministry of Finance, National bank of Ukraine, CES calculations

War expenditures remain a budgetary priority

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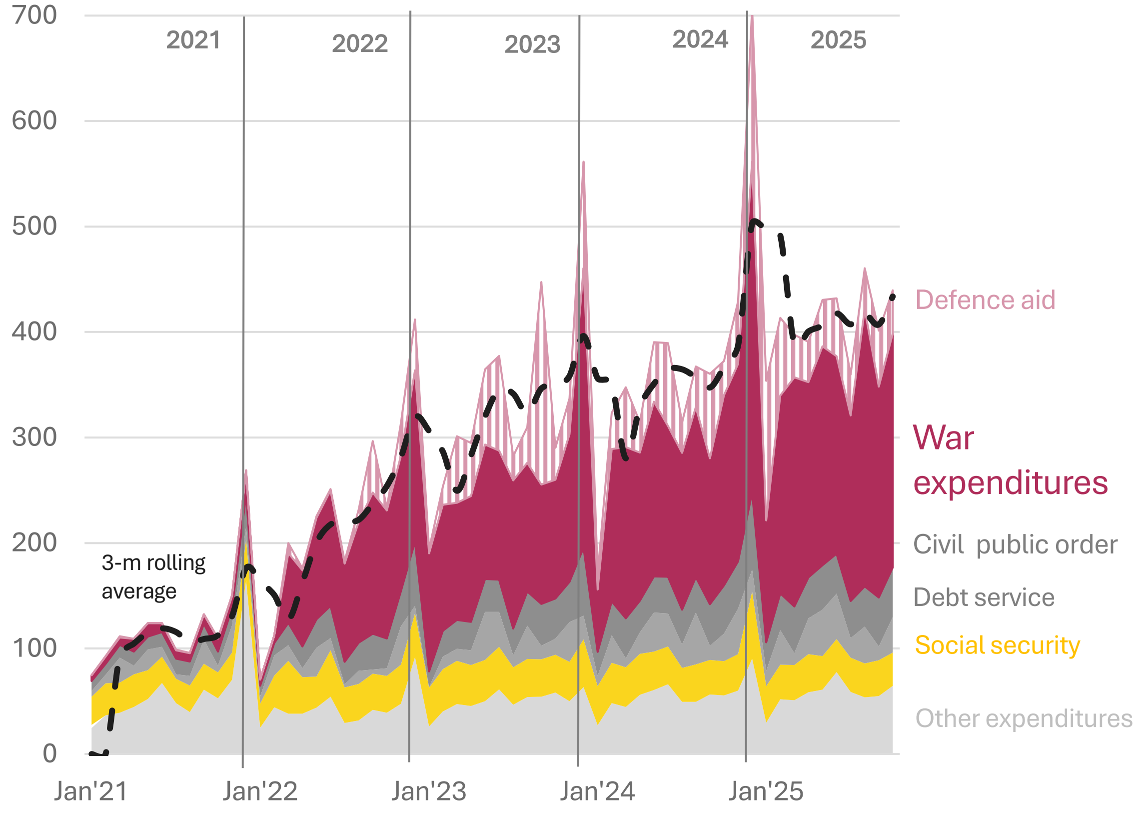
In 2025, war expenditures are expected to be 32% higher than in 2024

Expenditures of state budget, UAH bn



Sources: Open Budget, CES calculations

In 10M2025, **war expenditures** increased by 36% y-o-y. **Defence aid** also increased by 24%.

In January-October 2025, all civil categories of state budget expenditures increased, except for **social protection** (-8% in nominal terms). For the whole 2025, social security expenditures are expected to be 1% lower than in 2024.

Education spending (excluding education subsidies to local budgets) also increased by 4% in 10M2025. In annual terms, an increase of 25% is expected.

2026: not enough money budgeted for the war and less than in 2025

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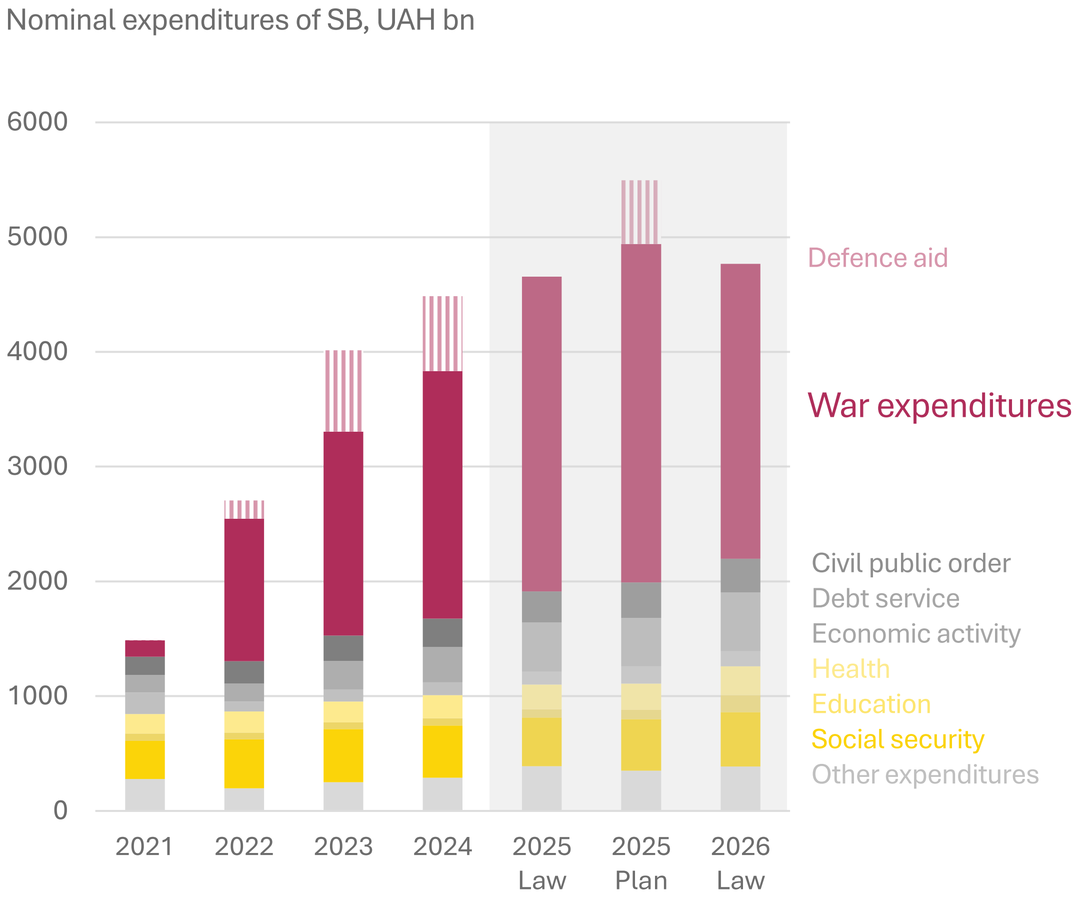
However non-defence spending is expected to increase



Sources: Open Budget, Ministry of Finance, CES calculations

Total expenditures of the state budget in 2026:

- UAH 4.8 trillion ($104 bn)
- +2% nominal compared to the last version of Law of 2025.

Planned **war expenditures** for 2026 are **below recent spending levels:**

- UAH 2.6 trillion ($56 bn)* or 54% of total spending
- -6% nominal

The revised spending plan for 2025: UAH 3.5 trillion on war (UAH 2.9 trillion from domestic sources, UAH 555 bn from defence aid). Compared to this plan, **war spending next year will be underfunded by 13%**.

The second largest share of the state budget is **debt servicing**. In 2026, it will exceed half a trillion hryvnia, +21% y-o-y.

Education spending has the largest increase. +107% compared to the 2025 Law due to an initiative to raise teachers' salaries (+UAH 65bn total).

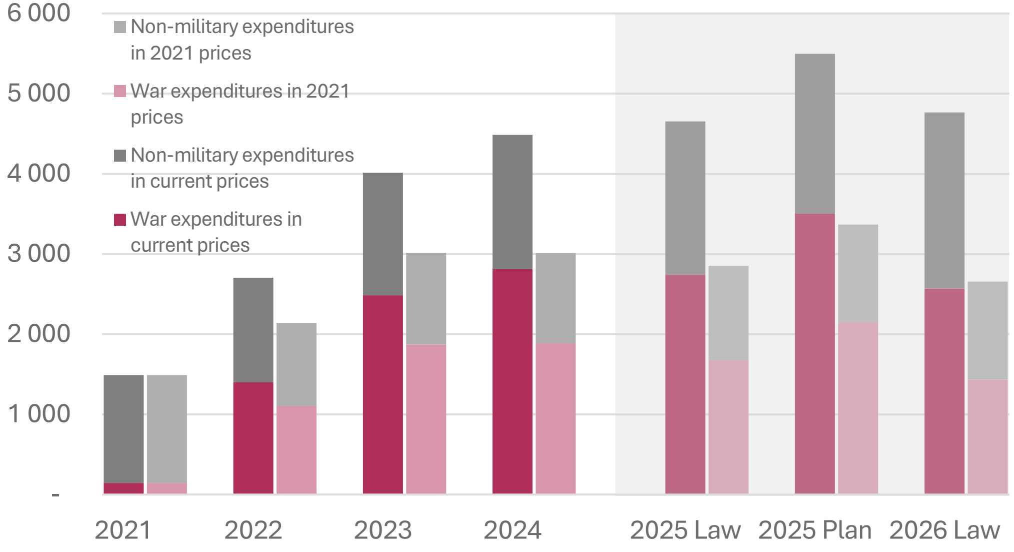
*Our definition of war expenditure is narrower than the entire security and defence sector. We separate civil and military functions of the budget from expenditures on public order, social protection, and economic activity.

Spending grows only nominally

Non-military expenditures are frozen while war spending is insufficient

- Real expenditures are planned to **decrease by 7%** compared to the law for 2025.
- **Non-military expenditures:** +4.5% in real terms.
  War expenditures: -15% in real terms.
- Total defence expenditures down by 28% in nominal terms compared to the 2025 revised plan. The increase in war spending between the 2025 Law and the revised plan is related to the disbursements of defence aid — 397% increase in special fund spending.

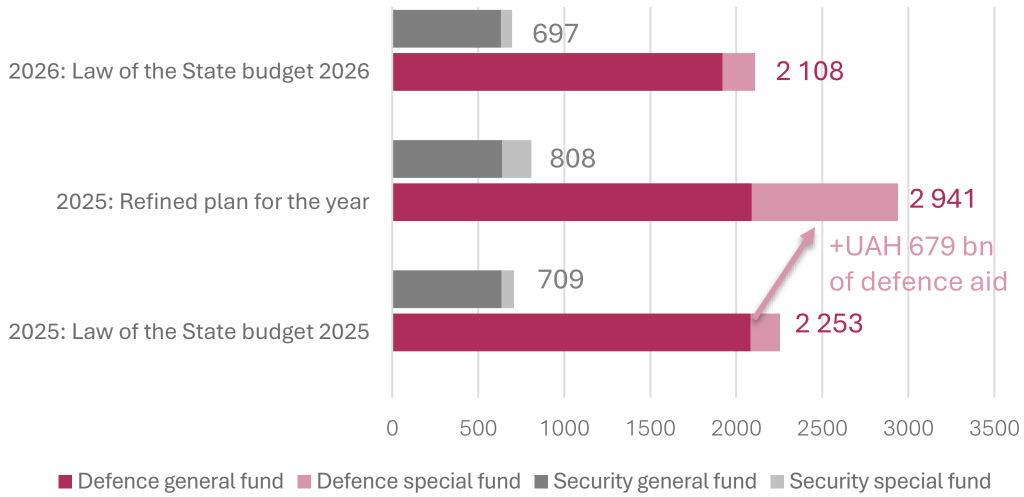
Nominal and real SB expenditures, UAH bn



Sources: Open Budget, Ministry of Finance, National bank of Ukraine, CES calculations

- Expenditures on defence from own domestic sources are planned in the general fund, but they are still 8% lower in next year's plan.
- Therefore, even without considering foreign aid, **war expenditures next year will be underfunded by at least UAH 160 bn (**The difference between defence expenditures in the general fund in the 2026 state budget Law and the 2025 state budget Law).

War-related expenditures, UAH bn



Sources: Ministry of Finance, National bank of Ukraine, CES calculations

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Thank you!