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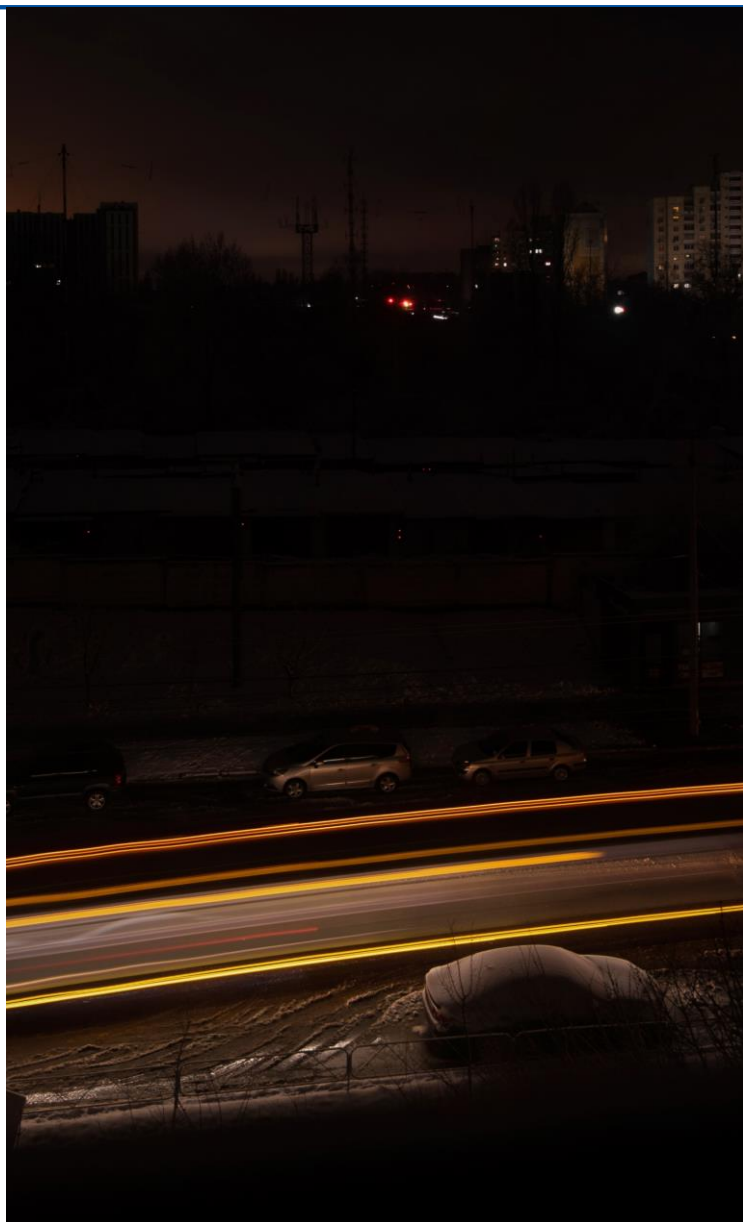
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## January Economic Review

### Special topic: Ukraine's economy in 2025

Date: 16 January 2026

Authors: CES Team



# Executive summary

## Executive summary

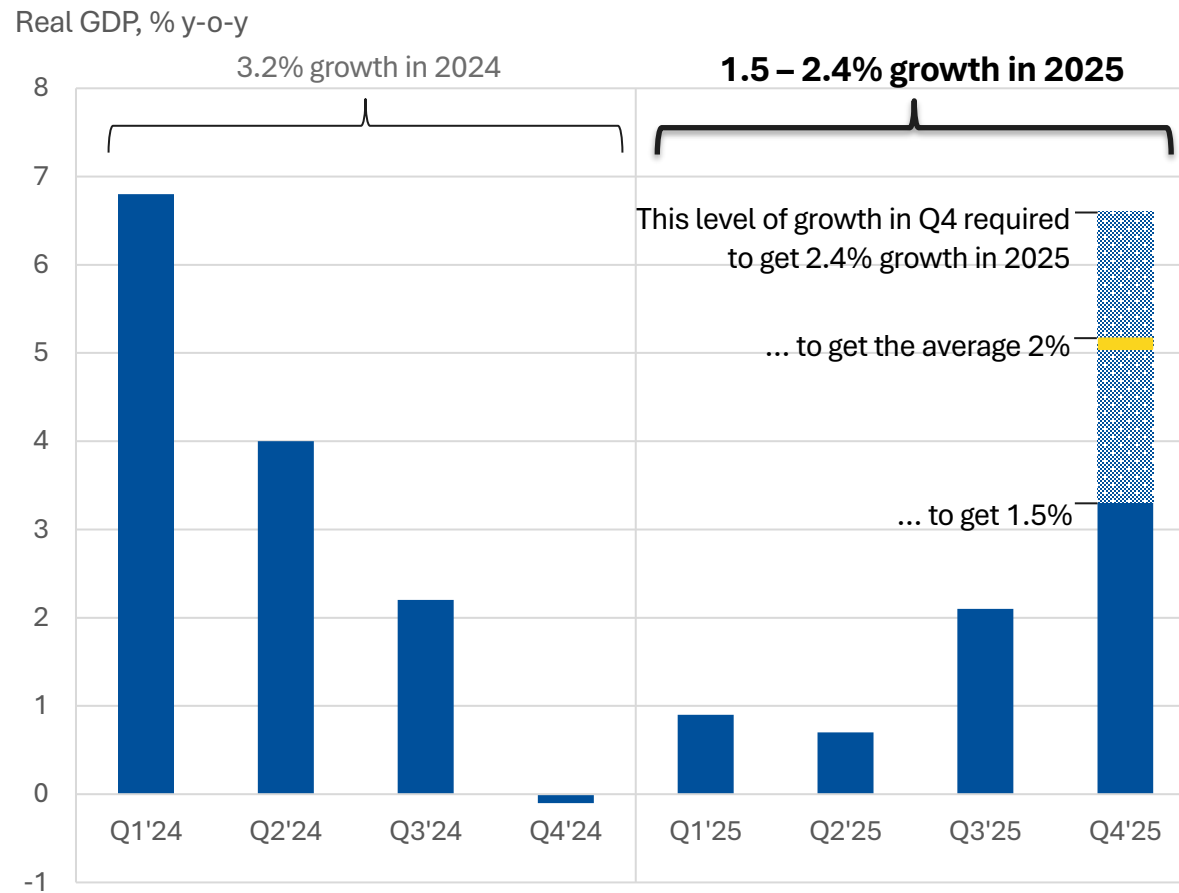
- **Sectoral analysis:** Real GDP growth slowed in 2025 to ~2% due to the deteriorating security situation, new infrastructure and production capacity losses, and a significant electricity shortage at the end of the year. Other factors included the adverse impact of weather conditions on harvest pace, the restoration of EU quotas on Ukrainian agricultural exports, labour shortages amid further migration, and high production costs. Nevertheless, fiscal stimulus remained a key driver of economic growth, supporting investment demand, while consumer demand remained high due to continued wage growth. Nevertheless, due to limited domestic production capacity and significant defence needs, high domestic demand was mainly met by imports.
- **Monetary sector:** Inflation concluded 2025 at 8.0% y-o-y, significantly outperforming both NBU (9.3%) and private forecasts (8.8%). While the year was marked by volatility, shifting from negative supply shocks in the first half to strong disinflation from oversupply in the second. Food prices remain elevated at 10.2%, keeping inflation expectations high. Meanwhile, NBU foreign reserves reached an all-time high of \$57.3 billion, providing a sufficient buffer for nearly 6 months of imports.
- **International sector:** The trade deficit continued its deepening trend in 2025 as imports reached \$84.8 billion (more than 2x exports) driven by the critical need for energy and defense-related goods. While overall refugee outflows slowed by 34% in 2025 compared to 2024, a significant shift occurred following the liberalization of cross-border movement for men aged 18-22. Roughly one out of every seven young men in this cohort exited the country since August.
- **Fiscal sector:** Total state budget revenues in 2025 increased nominally by 21%, but it is still insufficient to cover budgetary needs. In January, revenues fell by 11% and the plan for the period was not met due to overly high expectations in the latest budget amendments. Annual growth is driven by income taxation due to military tax. In November, non-military expenditures increased, while defence spending declined. Total financial support to Ukraine in 2025 amounted \$52.4 bn, which is the highest level since 2022.
- **See our report below for further details.**



# Sectoral analysis

# Real GDP growth slowed in 2025 due to the effects of war

In 2025, real GDP was just over 80% of the level in 2021



Real GDP growth slowed down to an estimated ~2% y-o-y in 2025 (3,2% y-o-y in 2024) due to the deteriorating security situation, loss of infrastructure and production capacity, and a severe electricity shortage at the end of the year.

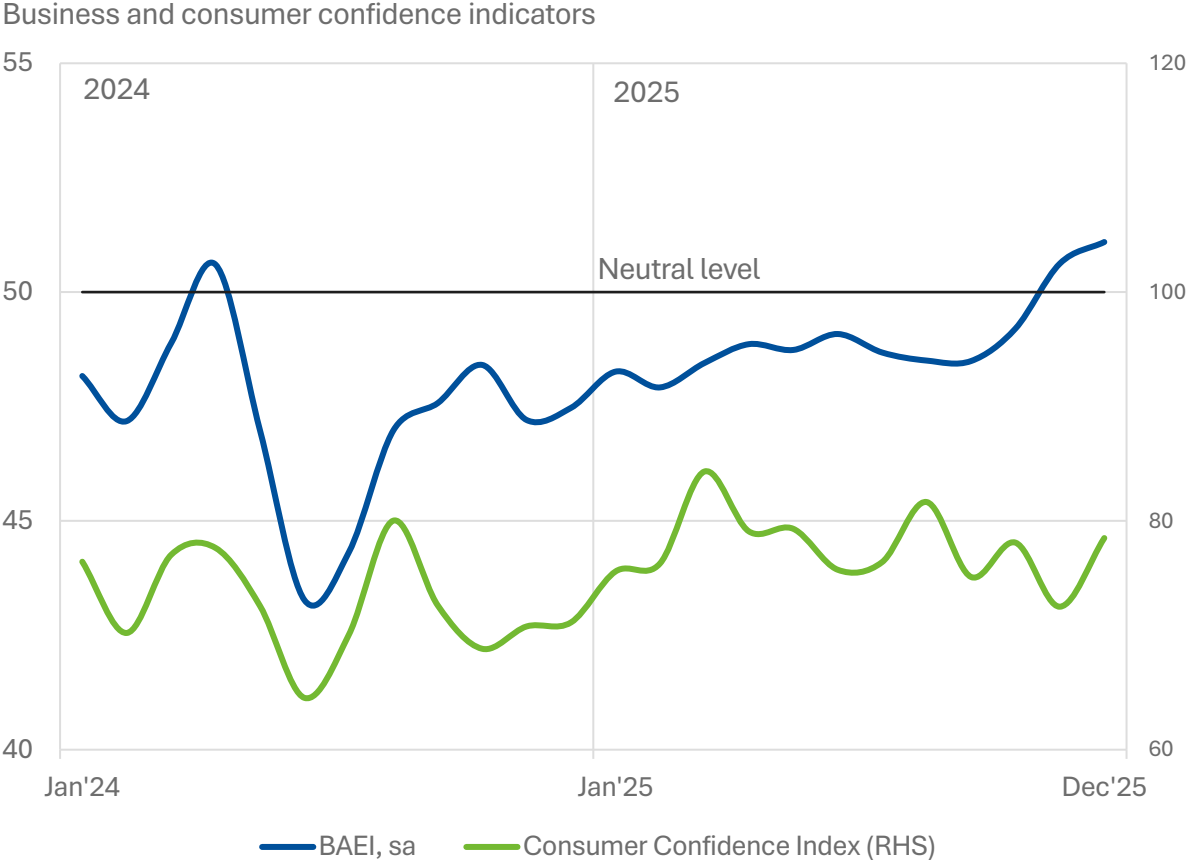
Amid high defence needs, **the public sector made a significant positive contribution to GDP growth**, driving investment growth. Amid rising wages, **consumer demand remained steady**. However, **net exports continued to have a negative impact**, as high domestic demand and energy needs were primarily met through imports.

Economic activity was also restrained by **labour shortages amid further migration** (estimated at approx. 300,000 in 2025) and high production costs.

Sources: SSSU, CES estimates.

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## Business and consumer confidence improved in 2025



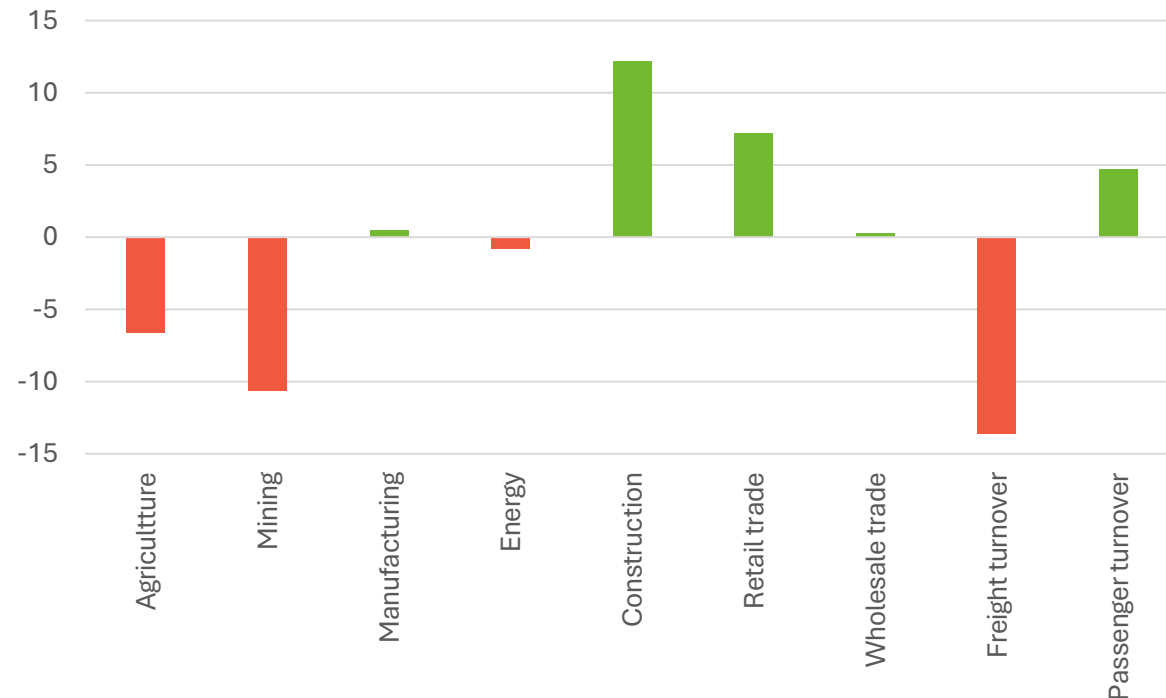
- **The average level of business and consumer confidence was 2–5 pp higher in 2025 than in 2024.**
- This suggests that economic agents have further adapted to the war conditions, despite the renewed electricity outages at the end of the year.

Source: NBU, InfoSapiens.

# Internal demand was the key driver of economic growth

## Construction and retail trade grew rapidly

Output in main activities in Jan-Nov 2025, % y-o-y



Source: SSSU.

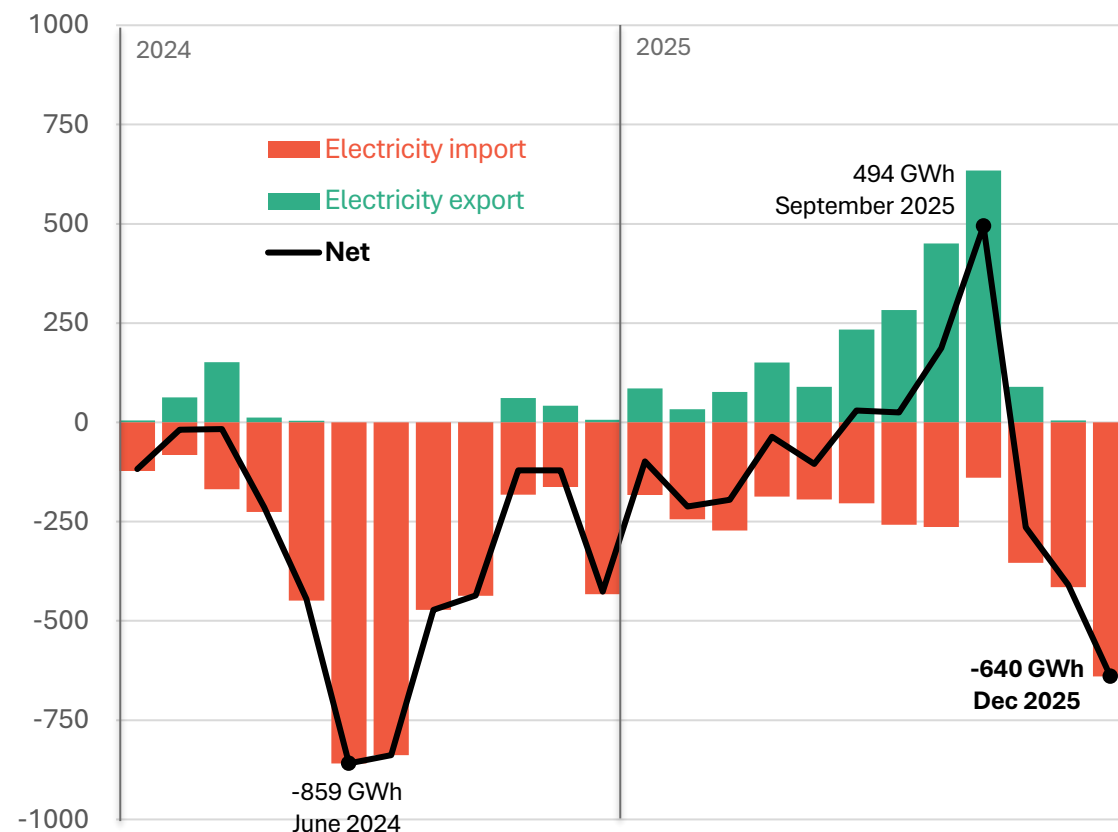
**Steady consumer demand and improved sentiment supported growth in retail trade** (by 7,2% y-o-y in January–November 2025). Furthermore, the number of new passenger car registrations rose by 17% in 2025 compared to the previous year. More than 110,000 new and used electric vehicles were registered — twice as many as in 2024.

**Growth in construction (by 12,2% y-o-y in Jan–Nov 2025) indicates high investment demand.** Given the need to rebuild housing destroyed by the russia, residential construction accelerated (to 11,6% y-o-y in Jan–Nov 2025), supported by an increase in domestic production of building materials (by 6,8 y-o-y in January–November 2025). The repair of energy infrastructure, the construction of fortifications and private investment in trade, logistics and energy facilities led to significant growth in the construction of non-residential buildings (to 30.7% y-o-y in January–November 2025) and in civil engineering (to 3.5% y-o-y in January–November 2025).

# The ongoing Russian attacks have worsened the power outages

Ukraine has imported a large amount of electricity since October

Ukraine commercial electricity trade in 2024-2025, GWh



Source: ENTSO-E.

**Ukraine's power system operated steadily from Q1 to Q3 of 2025.** There were minimal or no outages for households and industrial consumers until October 2025. This enabled large volumes of electricity to be exported during seasonal surpluses.

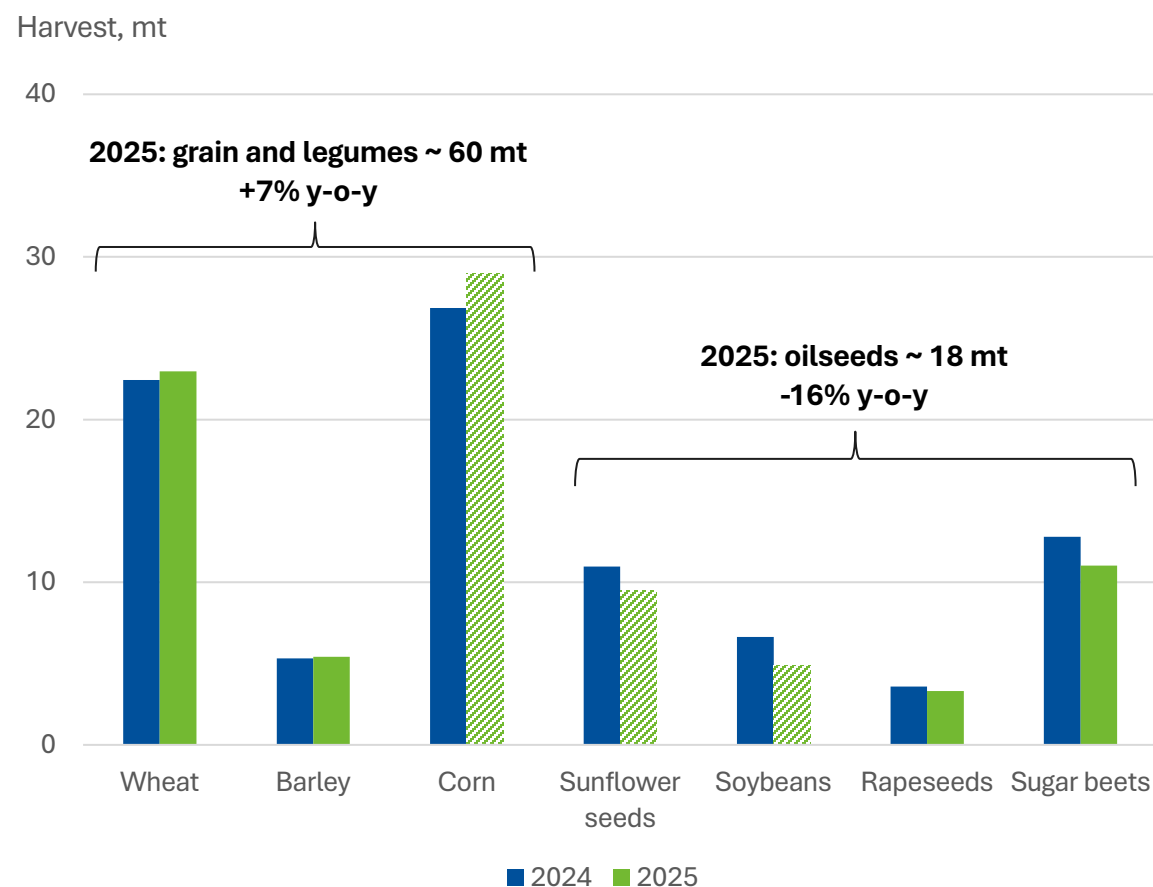
**The energy situation deteriorated significantly at the end of the year due to Russia's relentless attacks.** The average deficit reached at least 10% of needs in Q4. The energy sector output fell by 0,8% y-o-y in January–November 2025.

The electricity deficit was partially offset by commercial imports. **Electricity imports increased from 415 GWh in November to 640 GWh in December,** reaching the highest level since the beginning of 2025. **However, this figure remains below the record monthly peaks of summer 2024.**

The capacity for electricity imports permitted by ENTSO-E has increased by 17%, reaching 2.45 GW, since January 2026.

# Despite the adverse weather conditions, the harvest was good

The grain harvest exceeded the 2024 level, the oilseed harvest was lower



Source: SSSU, Ministry of economy, CES estimates for corn, sunflower and soybeans.

**Adverse weather conditions impacted the pace of harvesting, leading to a 6.6% y-o-y fall in agricultural output in January–November 2025.**

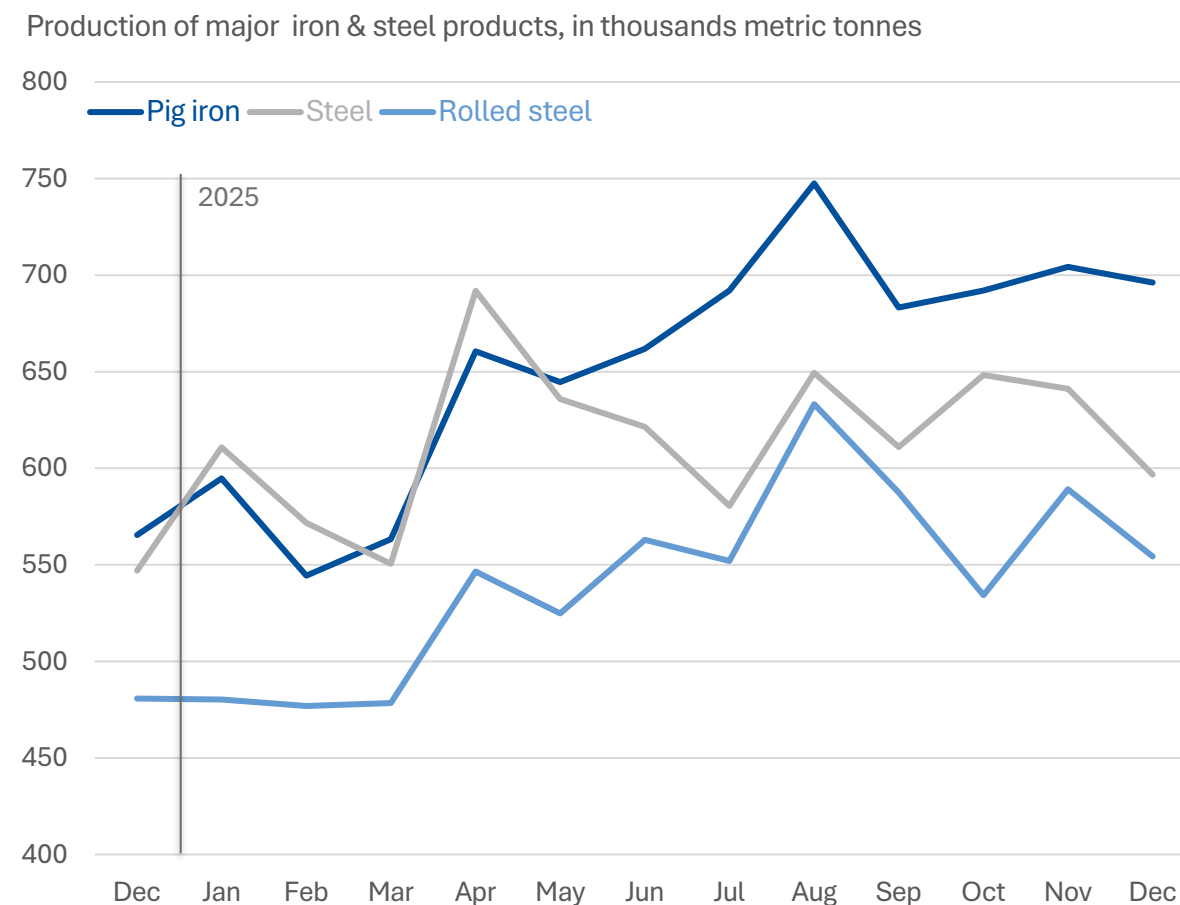
Late crops were mainly harvested at the end of Q4, with higher corn yields than in 2024 (by 7% as of end-December). Despite ~10% of the corn remaining in the fields, the grain and legumes harvest is expected to reach 60 mt.

**The oilseed harvest fell compared to 2024**, due to both droughts and smaller areas being used for oil crops, and it will not reach the expected 20 mt. A 10% export duty on soybeans and rapeseed came into effect in September 2025.

Slow harvesting, restrictions on soybean and rapeseed exports and the reintroduction of EU quotas all **restrained Ukrainian agricultural exports**. However, oil exports grew, and Ukrainian agricultural producers continued to reorient exports towards countries in the Middle East, North Africa and Asia.

# Industrial production fell in 2025 but metallurgy restored

## Metallurgy adapted to current market conditions



Sources: Dragon Capital estimates.

**Industrial production fell by 2,5% y-o-y in January–November 2025**, partly due to the negative impact of electricity outages in Q4. However, the situation varied by sector.

**The mining industry fell by 10,6 y-o-y in January–November 2025** due to suspended coal production in Pokrovsk, the loss of gas extraction facilities as a result of Russia's attacks, and lower external prices for metal ores.

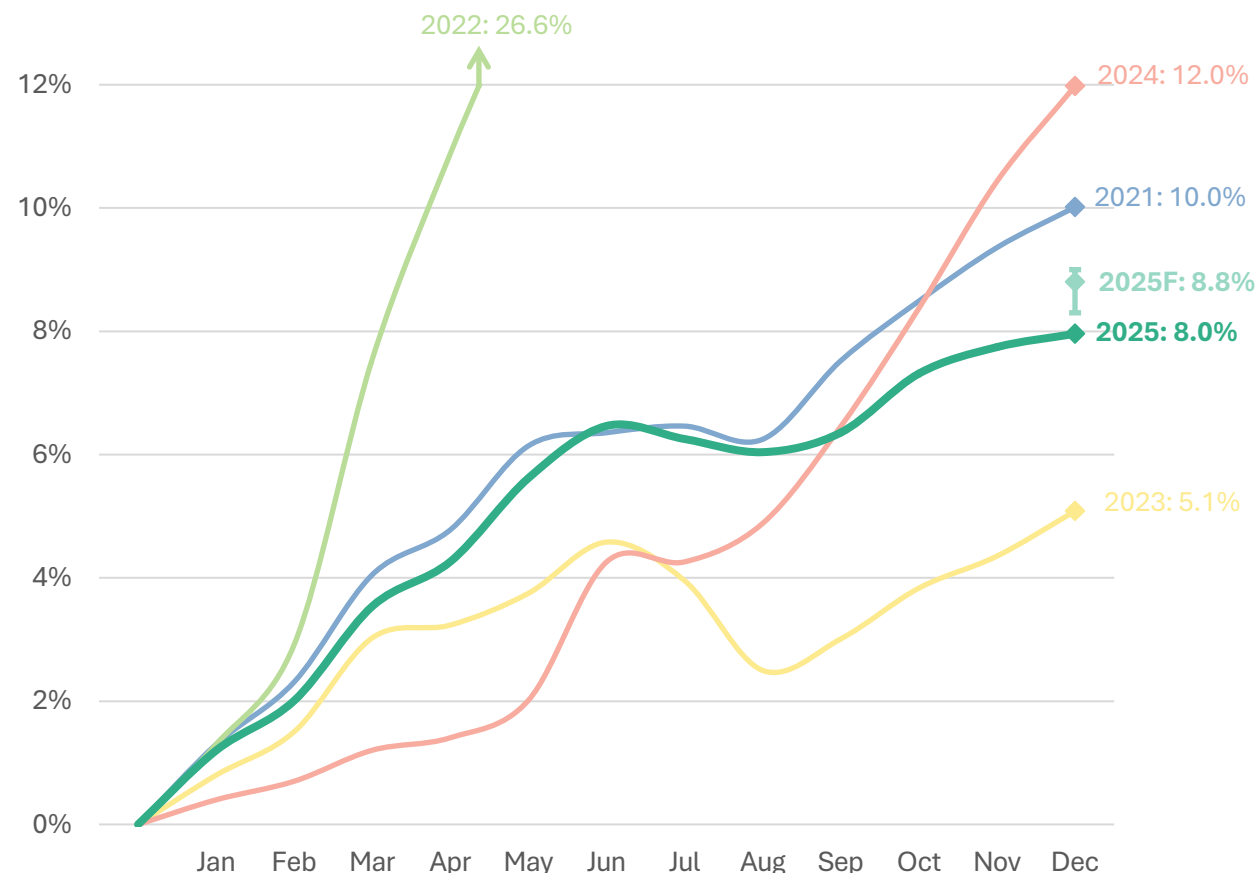
**The manufacturing industry grew by 0,5% y-o-y in January–November 2025.** Metallurgy grew rapidly (by 8,3% y-o-y in January–November 2025), demonstrating its ability to adapt to current market conditions and high levels of internal and external demand. The machine building sector also grew (by 1,9% y-o-y in January–November 2025), particularly in the production of military equipment. However, the food industry was held back by delays in harvesting and changes in trade rules with the EU, falling by 5,4% y-o-y in January–November 2025.



# Monetary sector

# In December, price growth declined faster than expected

## Consumer price index, YTD



Source: NBU, CES calculations.

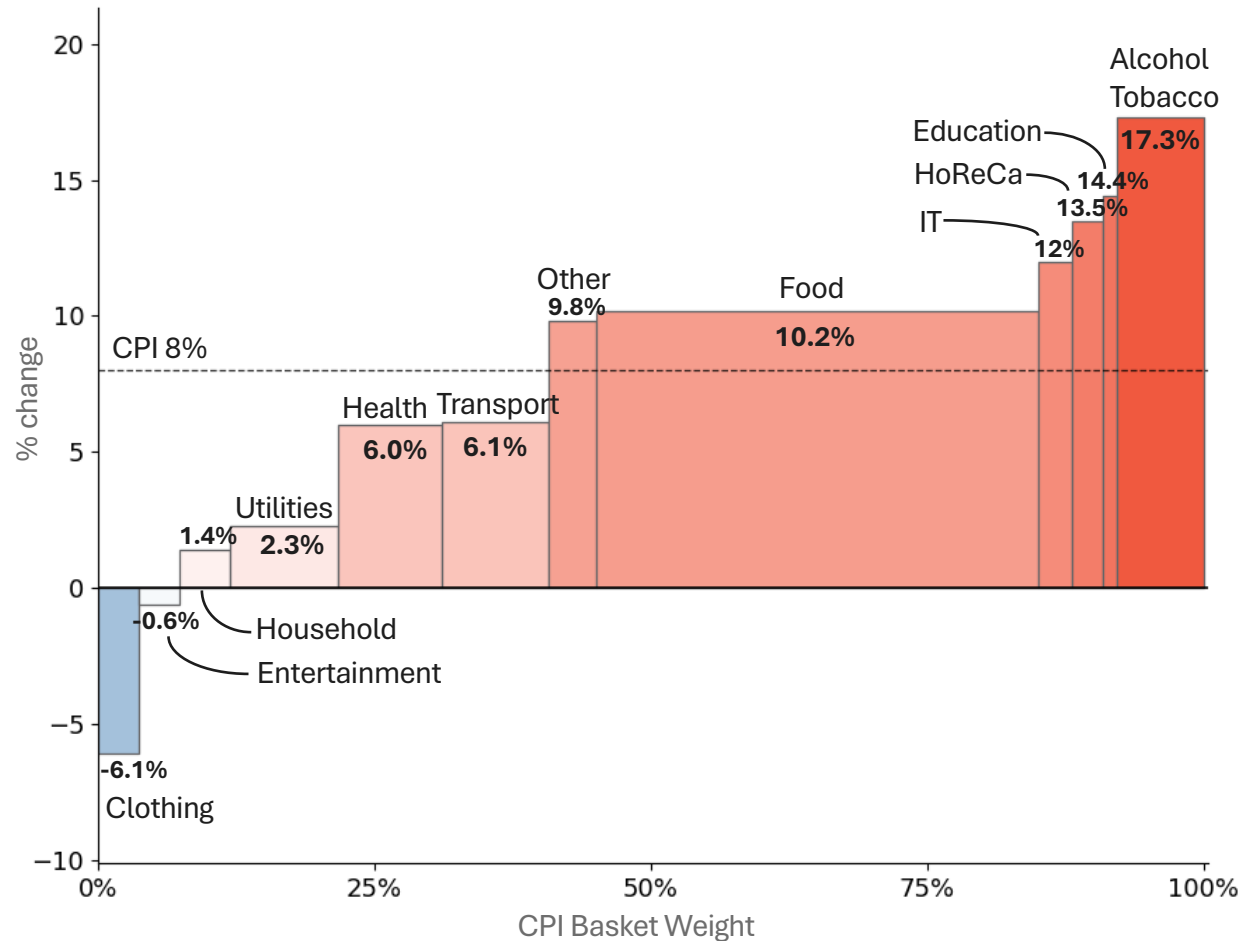
Note: in Dec 2025, private forecasters projected median 8.8% inflation for end-2025.

### Inflation in December 2025:

- 8.0% y-o-y;
- 0.2% m-o-m.

- **The end-2025 result for inflation turned out much lower than all forecasts.**
- Private forecasters expected median 8.8% inflation for end-2025 (min 8.3%, max 9.0%).
- In its October report, the NBU projected 9.3% inflation for the end-2025.
- **While the surprise decrease in inflation is primarily explained by oversupply via good harvest, the fundamental price pressures go down as well.**
- NBU is likely to start cutting the interest rate in the end-January decision.

## Consumer price index, end-2025

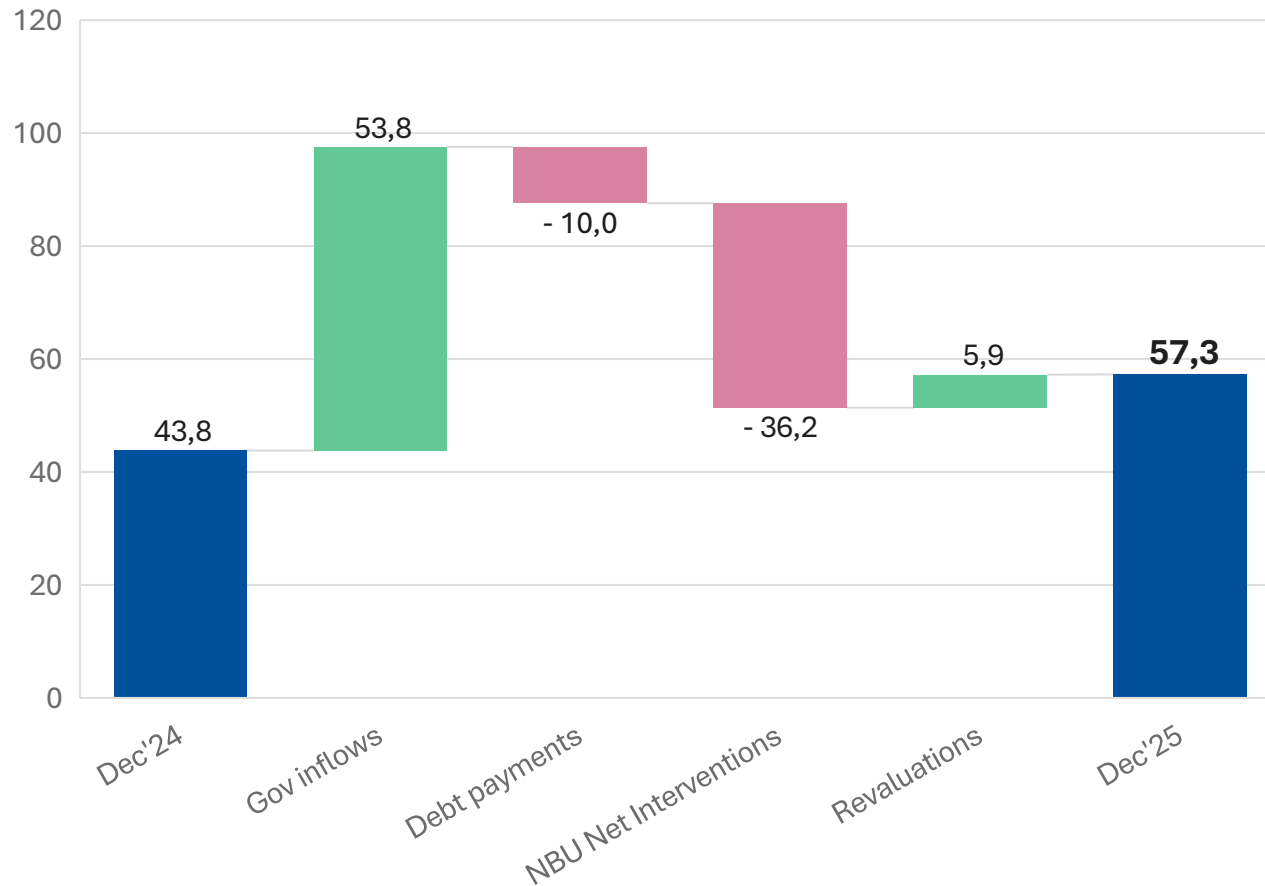


Source: NBU, State Statistics Service of Ukraine.

- **Food takes up the largest share of the consumption basket.** Average consumer spends 40% on food.
- **Stabilizing food prices is critical for anchoring inflation expectations** as households tend to overweight food inflation relative to its true share in consumption.
- **Food, services and administratively regulated prices were pushing inflation up** throughout 2025.
- In foodstuffs, 1H2025 was dominated by negative supply shocks of bad harvest due to unfavourable weather. 2H2025 saw strong food disinflation due to oversupply.
- Alcohol and tobacco prices grew the strongest, subject to increases in excise taxes over the year.
- Services industry sees a strong human capital shortage.

# Foreign reserves are all time high at \$57.3 bn

## NBU Foreign Reserves Breakdown, \$ bn

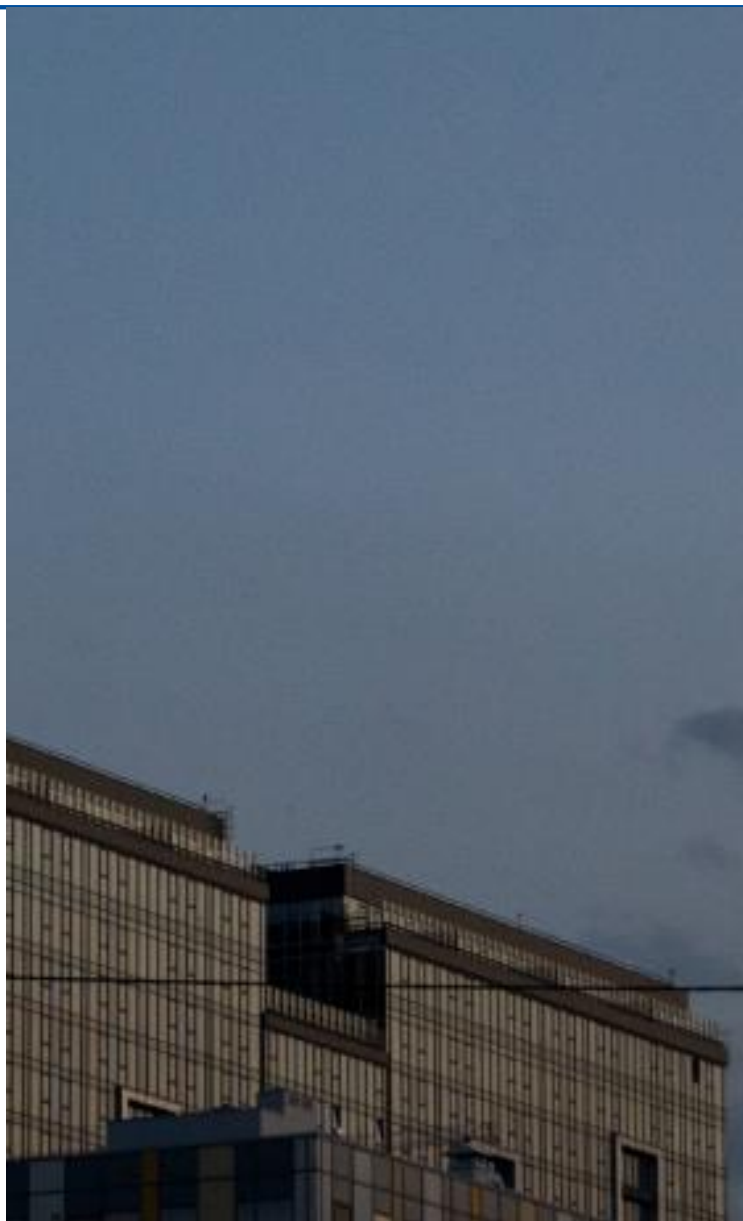


- **Over 2025, the NBU reserves increased by 30.8%, reaching the historical peak of \$57.3 bn.**
- The level of reserves is more than sufficient, covering almost 6 months of imports.
- The main financial donor in 2025 was the European Union with \$32.7 bn of funding.
- Foreign currency-denominated government bonds brought around \$3.3 bn of reserve inflows.
- \$10 bn were spent for foreign debt payments, \$3.2 bn of which was to the IMF.
- The balancing on the FX market required the central bank to intervene via open market operations, which totaled \$36 bn spent from the reserves.
- The rise of EUR/USD rate and gold appreciation were favourable to the size of reserves, contributing more than \$5 bn to the reserves.

Source: NBU press releases, CES calculations.

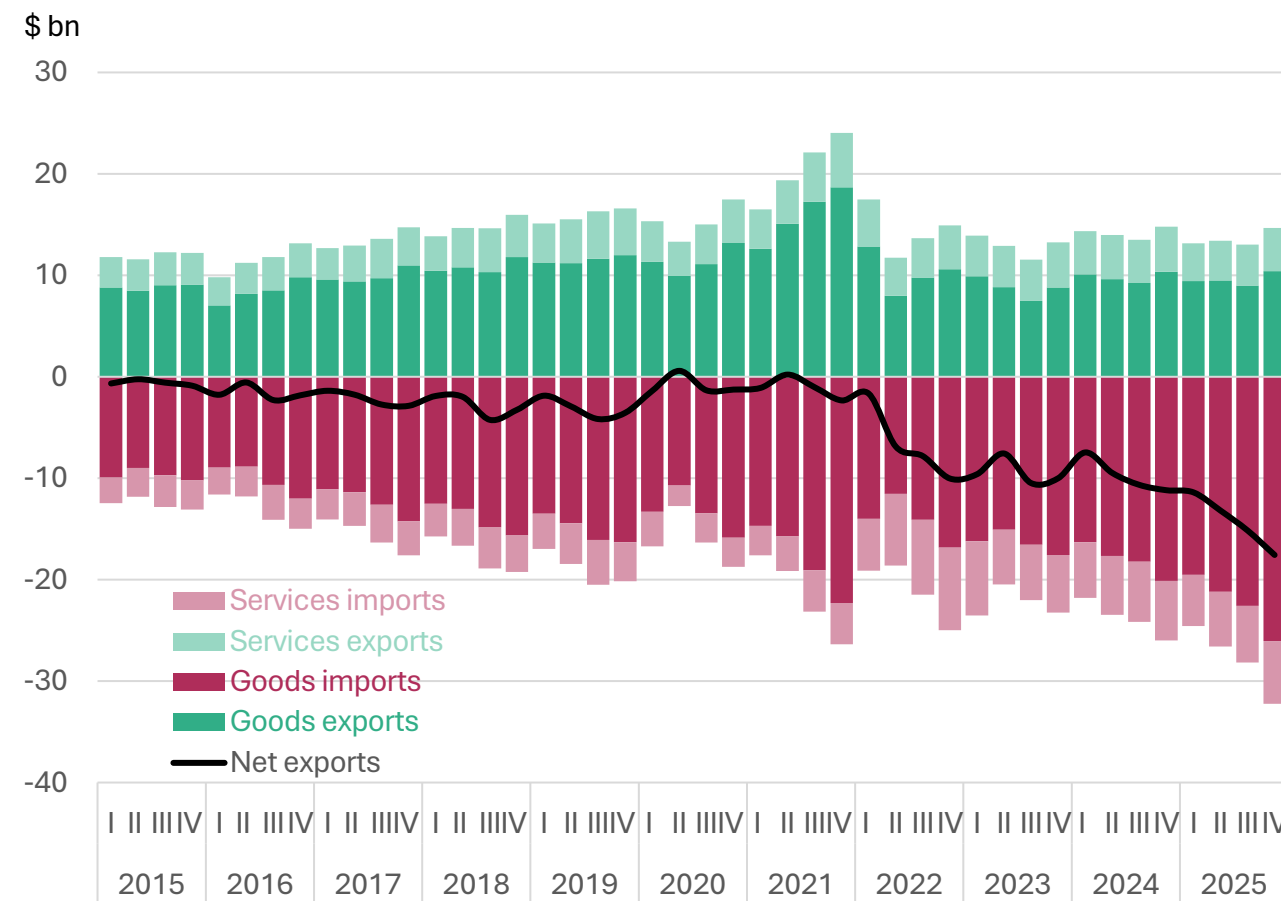
Note: Government inflows include foreign financial assistance and FX government bonds.

# International sector



# War and energy attacks require more and more imports

## Trade balance, \$ bn



Source: NBU.

- Trade deficit continued the deepening trend in 2025.
- Exports stay flat due to business development and logistics constraints caused by the war.
- Imports surge as Ukraine imports more of energy- and defence-related goods to counteract to the worsening conditions in energy sector and supply the needs of the military.

Goods trade in 2025 (customs preliminary data):

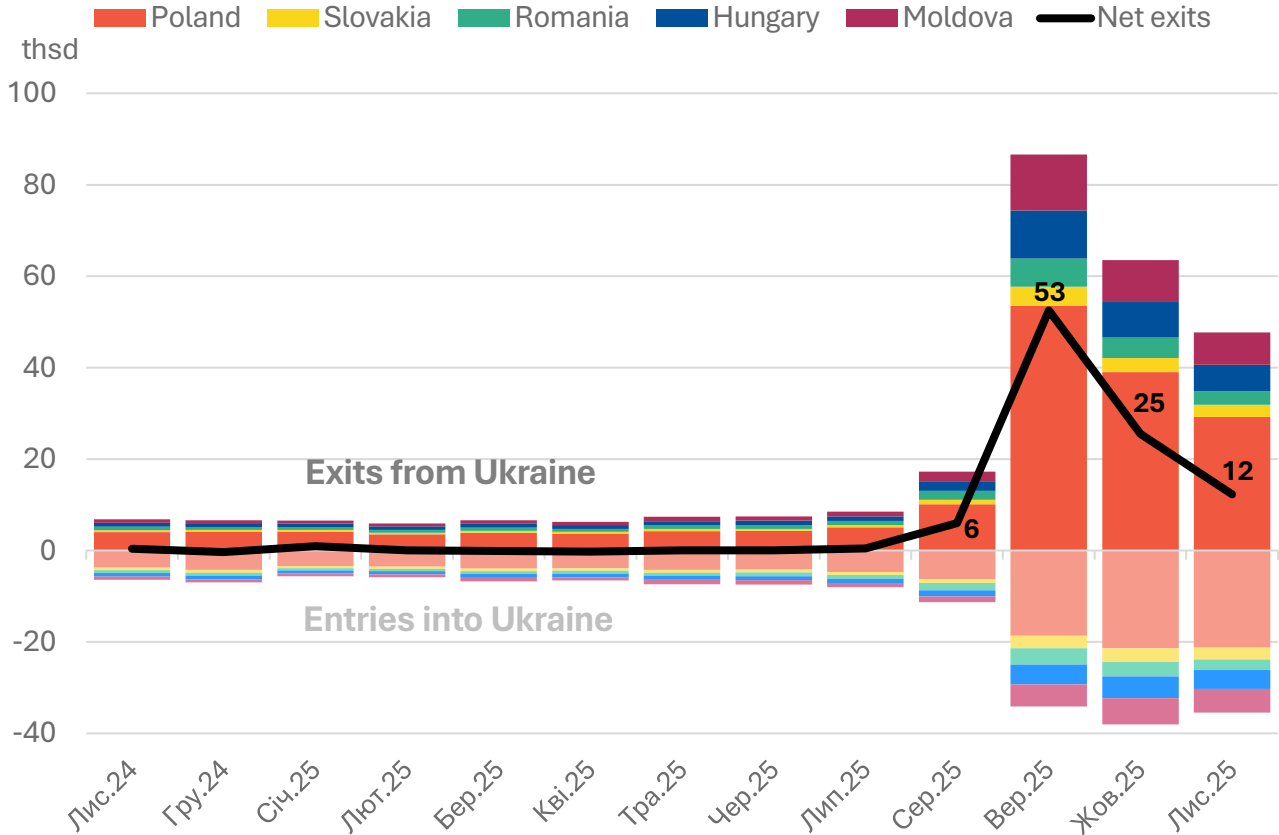
- Exports: \$40.3 bn.
- Imports: \$84.8 bn (more than 2x exports).

Largest import suppliers: China, Poland, Germany

Largest export destinations: Poland, Turkey, Germany

# Lost human capital

## Cross-border movements of Ukrainian men aged 18-22



Source: Polish, Slovak, and Romanian Border Guards; Centre for Economic Strategy estimates based on DPSU data. Figures for Hungary and Moldova are proportionally extrapolated based on Ukrainian Border Guard data on total border crossings.

- In late August 2025, the Government liberalized the cross-border movement for men aged 18–22 and allowed them to exit Ukraine freely.
- Before the introduction of the policy, just ~130 more men aged 18–22 exited Ukraine than entered it each month.
- **Over the Aug-Nov 2025, around 96,000 more men aged 18–22 left the country than entered it.**
- Roughly one out of every seven young Ukrainian men aged 18–22 left the country after the introduction of the policy.
- To calculate this, we requested data from our neighbouring countries. Polish, Slovak, and Romanian border guards responded.
- Data for Moldova and Hungary was imputed based on DPSU data on shares of border crossing via each country.

## The outflow of refugees is lower

Net outflow of Ukrainians from Ukraine, million (to neighbouring countries excl. Russia and Belarus)

Month	2022	2023	2024	2025
Jan		0.09	0.06	-0.04
Feb	<b>0.51</b>	0.12	0.05	0.01
Mar	<b>2.50</b>	-0.03	0.02	0.01
Apr	<b>0.26</b>	-0.11	-0.06	-0.05
May	-0.11	0.03	0.15	0.11
Jun	-0.07	0.15	<b>0.20</b>	<b>0.21</b>
Jul	-0.02	-0.05	-0.02	-0.02
Aug	-0.12	-0.14	-0.09	-0.13
Sep	0.00	0.11	0.06	0.11
Oct	0.05	-0.02	0.01	0.04
Nov	0.07	0.02	0.01	-0.02
Dec	0.04	-0.01	0.07	0.06
<b>YEAR TOTAL</b>	<b>3.09</b>	<b>0.16</b>	<b>0.46</b>	<b>0.30</b>

- In 2025, 303 thousand more Ukrainians left the country than returned, according to the Ukrainian Border Guard Service.
- One-third of the net outflows in 2025 are men aged 18-22.
- The net outflow in 2025 is 34% lower than in 2024, when it was 459 thousand of Ukrainians.

Source: Ukrainian Border Guard Service, UNHCR, neighbouring countries' border guards (excluding Russia and Belarus).

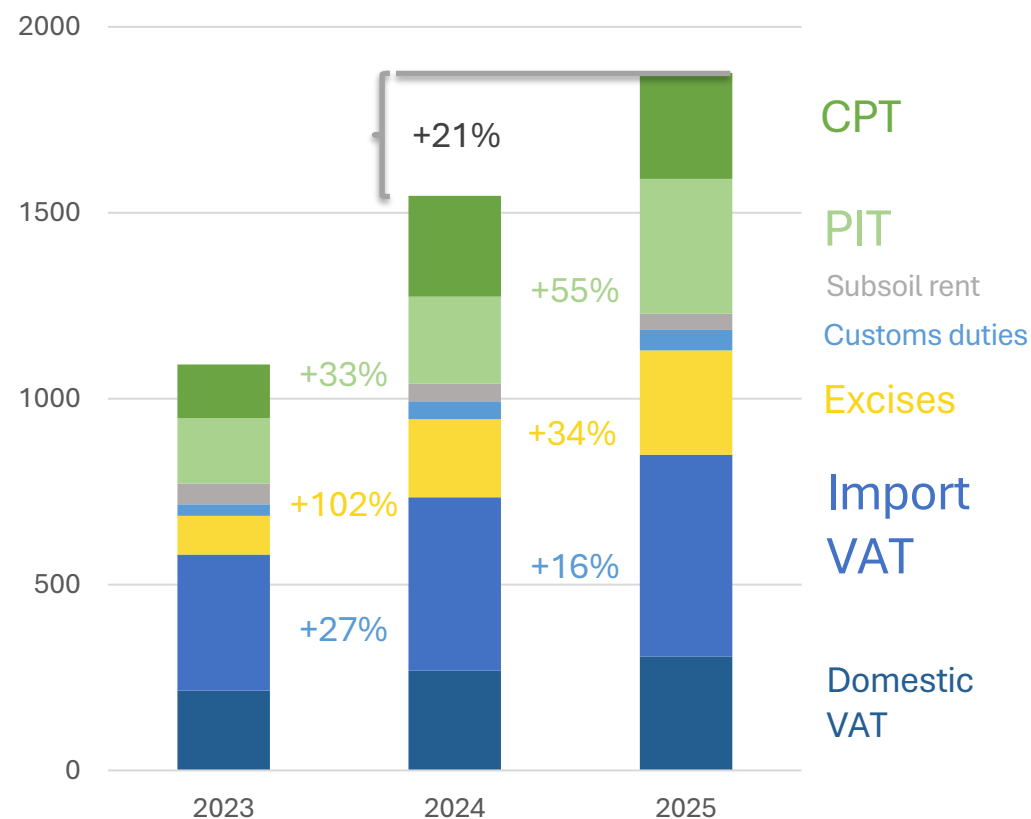


# Fiscal sector

# Income taxes drive the revenues

## Tax revenues increased by 21% in 2025

Annual tax revenues to general fund of the state budget, UAH bn

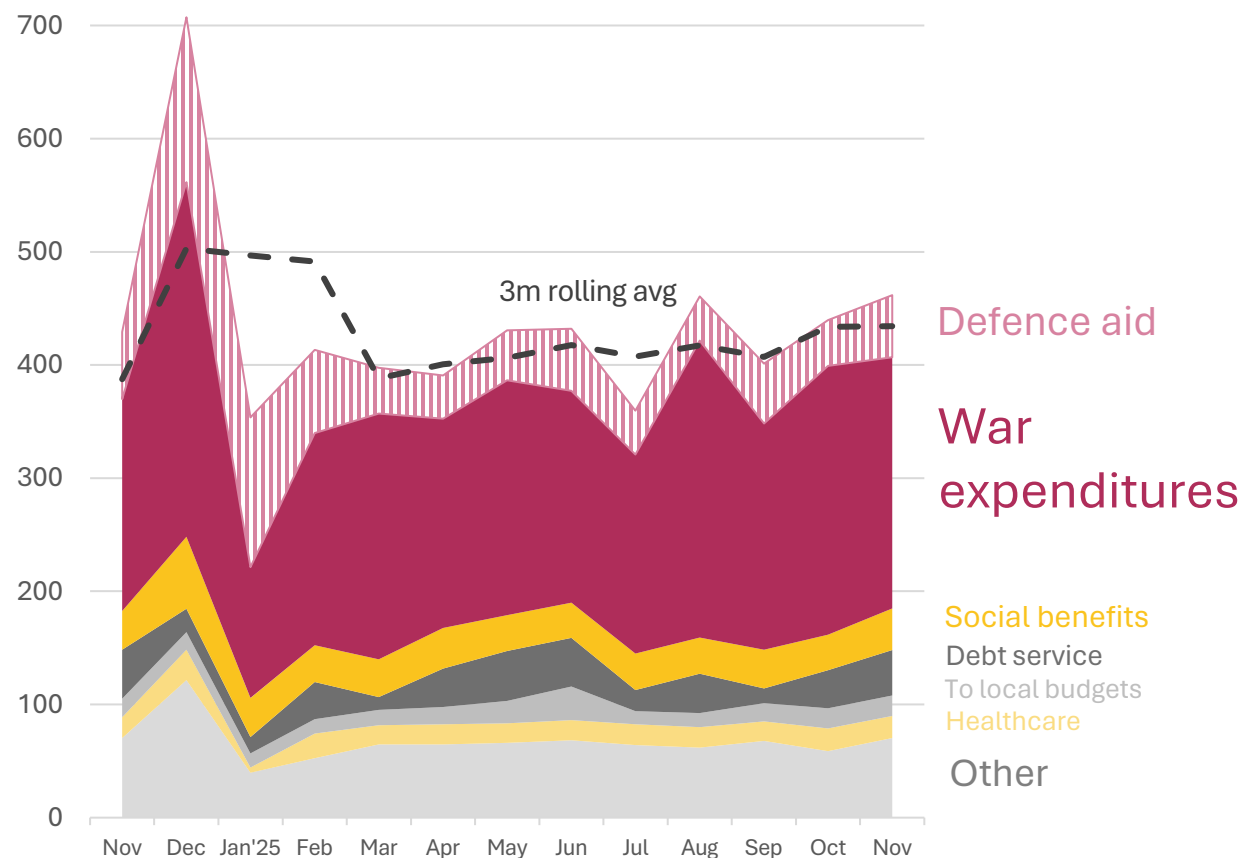


Sources: Ministry of Finance, CES calculations.

- **In December, the tax budget revenues totalled UAH 167 bn**, which is 11% lower than in November. Greatest decrease was in CPT revenues due to its seasonality. Compared to December 2024, revenues are 9% higher driven by import VAT (+33% y-o-y).
- **In 2025, state budget general fund received tax UAH 1876 bn of tax revenues**, +21% more than in 2024 and +72% compared to 2023.
- **The biggest increase was in income taxes**, due to increase in the military tax from 1.5% to 5% from December 2024. These revenues increased by 55%.
- Excises increased by 34% annually and 16% in December compared to November.

# Non-military expenditures increased

While war expenditures are falling slightly



Sources: Ministry of Finance, CES calculations.

- In November 2025, state budget expenditures amounted to UAH 462 bn
- War expenditures decreased by 6% compared to October, but defence aid increased by more than a third and was the highest since March.
- Non-military expenditures increased by 14% , with highest increase in housing and utilities (+128%), economic activity (+66%), debt servicing (+19%), and social benefits (+17%).
- Debt service expenditures amounted to UAH 40 bn — the highest level since July but less than in November 2024.
- Social benefits amounted to UAH 37 bn — the highest level in 2025 and +7% y-o-y.

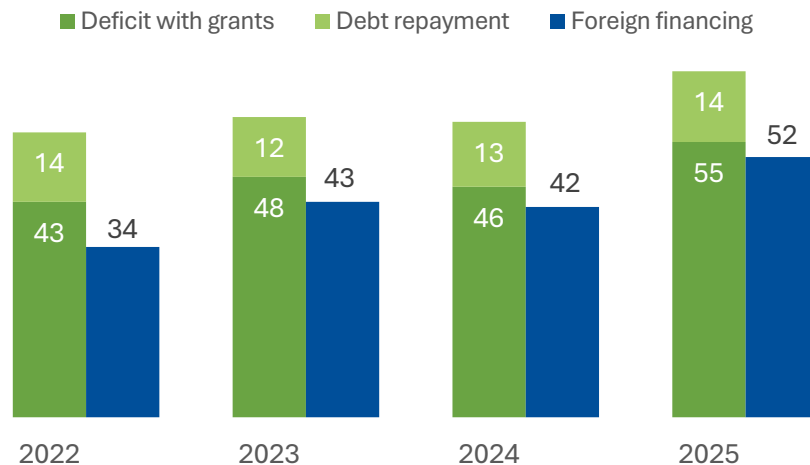
# Financial support covered 95% of budget deficit in 2025

## Ukraine received \$52.4 bn of financial assistance

**International aid covered most of the deficit and helped the country to hold out** despite the difficult situation with military assistance, which led to the budget being increased twice in the middle of 2025.

**The budget deficit with grants amounted to more than UAH 2.2 trillion**, and debt repayment amounted to UAH 0.6 trillion.

Ukraine's state budget financing needs, \$ bn



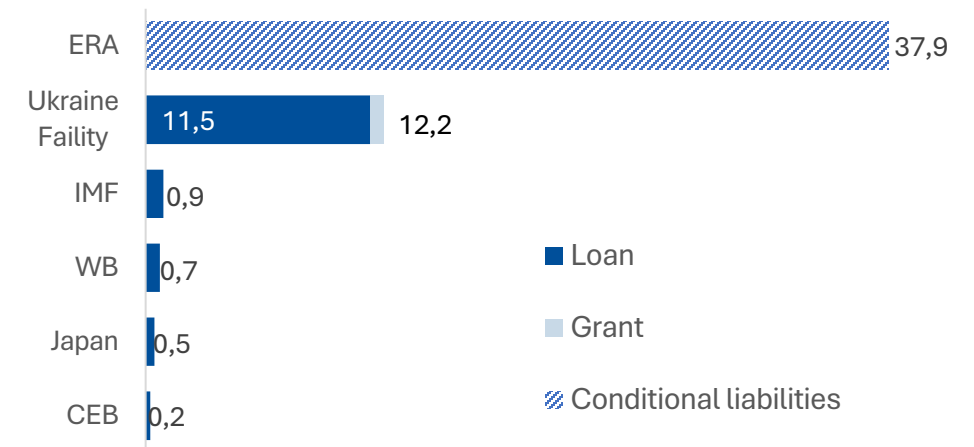
Sources: Ministry of Finance, CES calculations.

**72% of financial support was provided by the ERA financing mechanism**, which is a conditional liability.

**The budget also received a large share through the Ukraine Facility mechanism** — 22%, or \$11.5 bn.

Failure to meet the Ukraine Facility indicators in 2025 resulted in a €3.6 bn loss of funding.

External financing of Ukraine state budget in 2025, \$ bn



Sources: Ministry of Finance, CES calculations.

## Recap: Ukraine's economy in 2025

- **Real GDP growth slowed to ~2% in 2025** due to security risks, infrastructure and capacity losses, electricity shortages, and labour constraints; demand remained strong but was largely met by imports.
- **Inflation ended 2025 at 8.0% y-o-y**, below all forecasts.
- **FX reserves hit a record \$57.3 bn**, covering nearly 6 months of imports.
- **The trade deficit deepened as imports rose to \$84.8 bn (more than 2x exports)**, driven by energy and defence needs.
- **Refugee outflows slowed in 2025 to 0.3 million people**, but liberalised travel led to a notable exit of young men aged 18–22.
- **State budget revenues grew by 21% nominally in 2025 but remained insufficient**; international financial support reached a record \$52.4 bn which covered 95% of deficit.



Thank you!

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