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February Economic Review

Special topic: How do Russian attacks on the energy system affect Ukrainian business?

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Authors: CES Team

Executive summary

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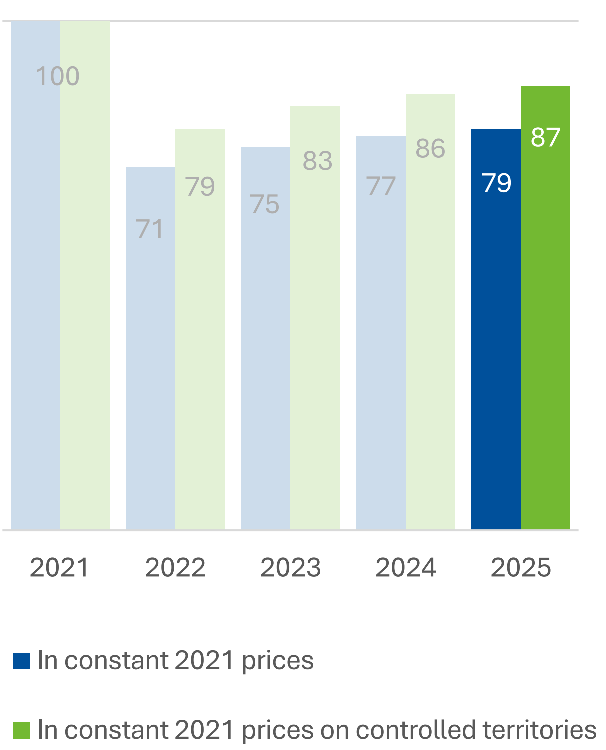
- **Sectoral analysis:** The energy situation deteriorated significantly in January and February due to intense Russian shelling and adverse weather conditions. This led to a decline in business and consumer sentiment, and the destruction of railways and ports negatively affected business activity.
- **Monetary sector:** In January 2026, inflation continued to fall, reaching 7.5% y-o-y due to persistent effects of high 2025 harvests and easing of labour market conditions. NBU expects inflation to continue to decrease in the coming months but revert to 7.5% by the year-end. With that, the central bank lowered the key policy rate from 15.5% to 15.0% in January, forecasting only one more 50bp (0.5 pp) rate cut in March. The market has inverted the yield curve on domestic gov bonds suggesting a belief in lower inflation despite short-term inflationary risks of energy deficit.
- **International sector:** With incoming donor support and increased war-related and reconstruction needs, Ukrainian trade deficit continues to grow. In Q4 2025, imports grew 29% y-o-y with primary contributing sectors being machinery, equipment, and transport (49% of growth in imports), mineral products (13%), and unclassified/informal sector (29%). In 2025, spending on imports of battery storage reached $1.5 bn, which is 2.5 times the amount spent on direct electricity imports.
- **Fiscal sector:** Harsh winter conditions and seasonality reduced budget revenues in January by 18% m-o-m. December spending surged, driven mainly by war-related outlays and defence aid. In 2025, almost all growth in state budget expenditure came from war needs, while civilian spending remained broadly stable.
- **Special topic:** Most enterprises have been affected by energy outages, and a significant number have already invested in autonomous energy supplies. However, the energy crisis has forced enterprises to reduce production volumes due to declining demand and rising production costs. There is a high risk of business closures and rising unemployment, which may be partially mitigated by government support.
- **See our report below for further details.**

Sectoral analysis

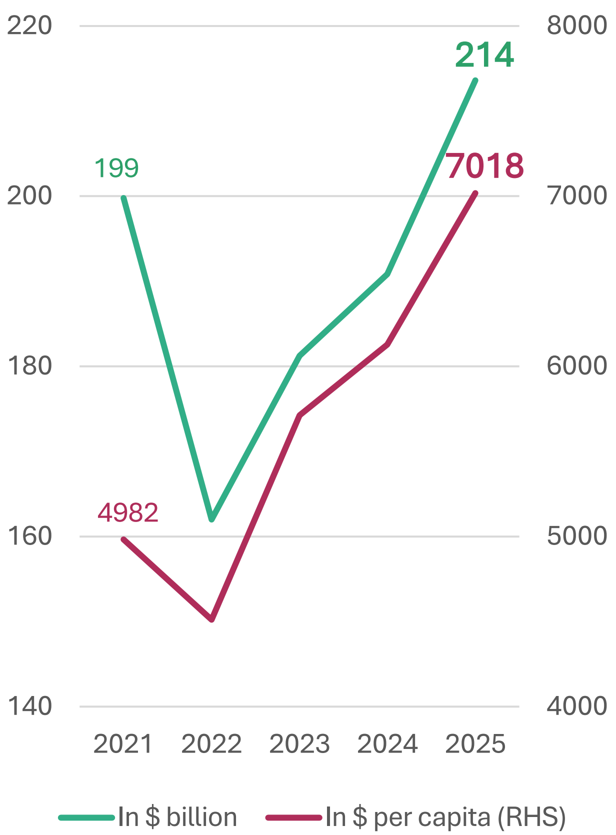
Real GDP grew by an estimated 1.8% y-o-y in 2025

In 2025, real GDP was 21% lower than in 2021

Real GDP, % of 2021



GDP in $



Real GDP grew by 3.0% y-o-y in Q4 2025 and by an estimated 1.8% in 2025, which is still 21% below 2021 level. If we only account for the territories controlled by Ukraine at the start of 2026, the GDP is 13% below 2021 level.

In 2025, GDP reached ~$210 million, and GDP per capita grew by ~40% compared to 2021.

Real GDP growth slowed in 2025, the second year in a row (5.5% in 2023, 3.2% in 2024), amid the consequences of the war: high security risks, new infrastructure and production capacity losses and labour shortages.

Despite the ongoing full-scale war, **slow but steady wartime growth indicates that businesses and households have adapted to wartime conditions.** Public expenditure, funded by foreign financing, was the main driver of economic growth. However, the economy was operating at almost full capacity.

Sources: SSSU, NBU, Institute for Demography, CES estimates. Nominal GDP 2025 – NBU estimates.

Energy outages rose sharply

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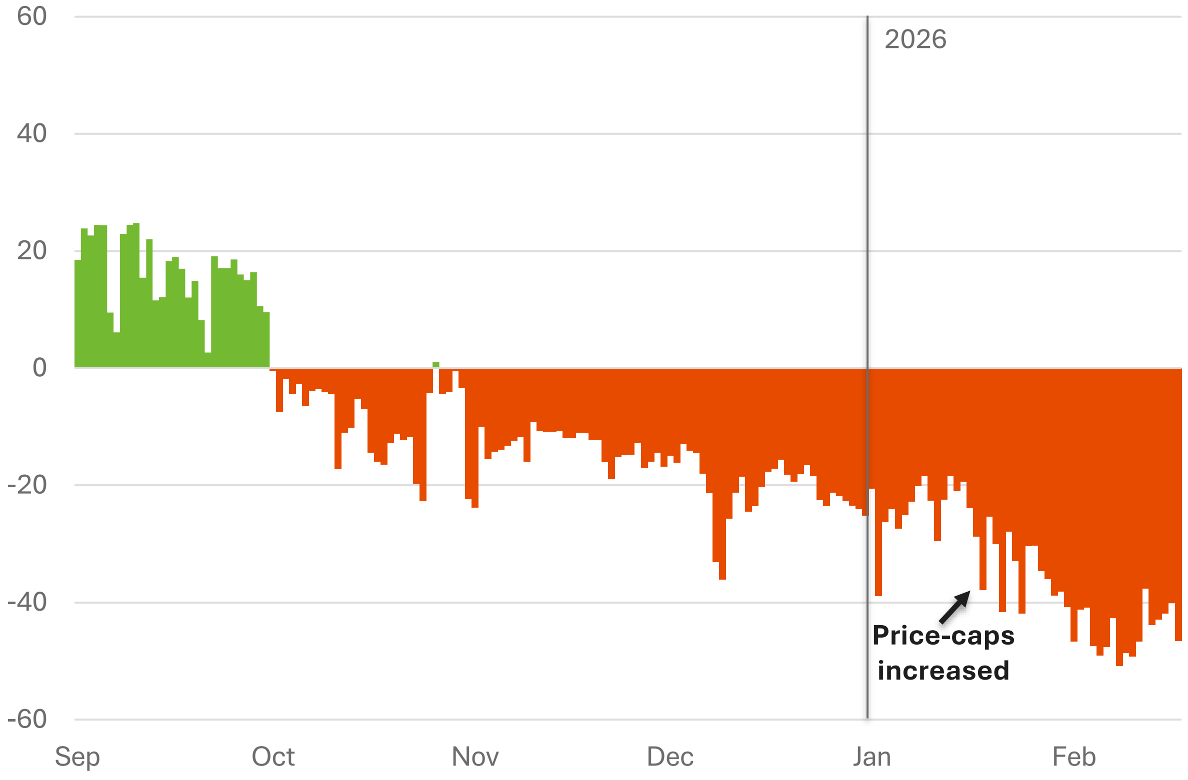
Ukraine electricity import reached a record high in February

Ukraine net electricity commercial exports in 2025-2026, GWh



Source: ENTSO-E.

The electricity deficit rose sharply in January-February due to new damage and increased demand connected with the destruction of heat and water supplies and cold weather.

In January, electricity imports increased to 896 GWh, peaking further in February amid higher price caps and requirements for state companies to cover at least 50% of their own electricity consumption through imports.

The government has introduced support for communities and businesses:

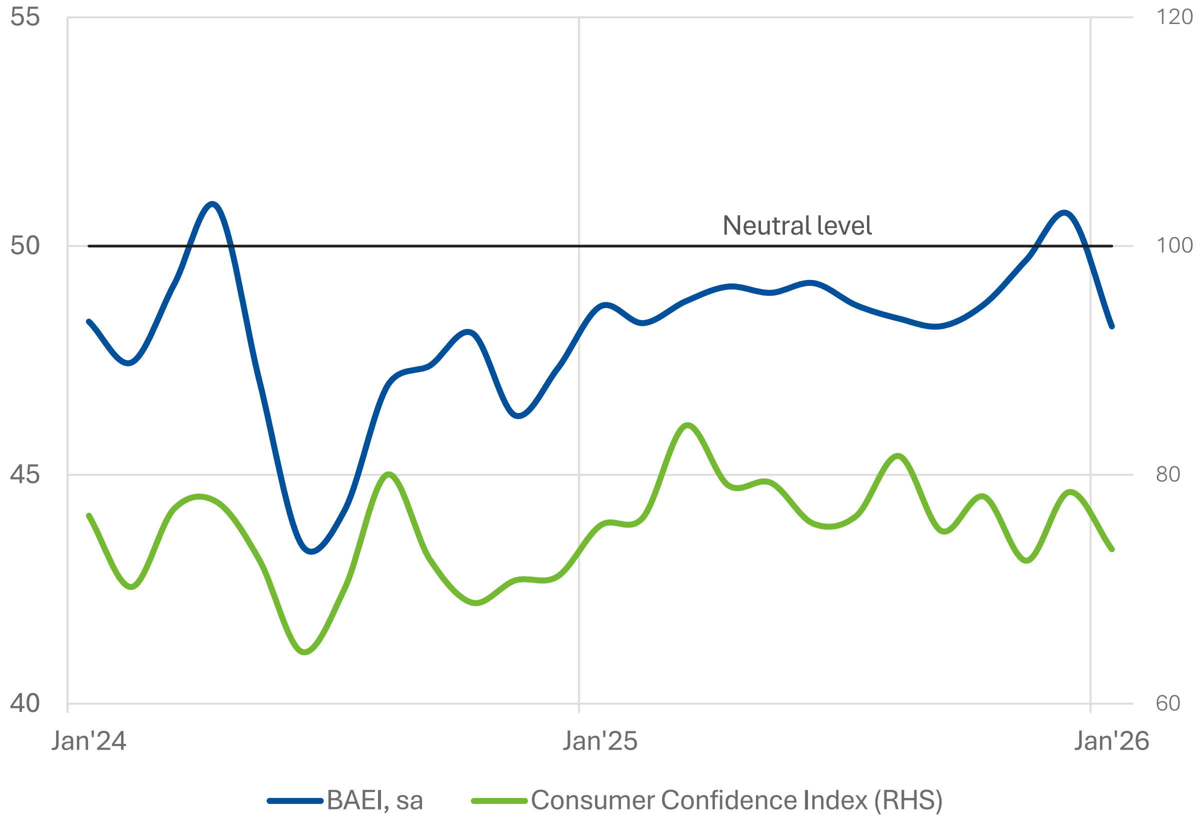
- allocated UAH 2.5 bn for the purchase of generators for local communities and UAH 800 m for apartment buildings;
- increased the size of investment loans for enterprises under the '5-7-9' program to cover the installation of distributed generation to UAH 250 million and introduced grants for generators for private entrepreneurs at UAH 7500-15000.

International energy support accelerated: Naftogaz received an €85 m grant from Norway and a €50 m loan from the EBRD for gas imports. International donors have delivered over 714 tons of energy equipment in recent weeks.

Businesses and consumer confidence deteriorated

The power outages were the main driver behind worsened expectations

Business and consumer confidence indicators



The Business Activity Expectations Index (BAEI) fell below the neutral level in January, in both seasonally adjusted and original NBU data. The reasons were a worsening security situation, intensified attacks on energy and logistics infrastructure, power outages, higher costs of alternative power supply and logistics disruptions.

Consumer confidence indicator fell by 5 pp to 73.5 points, one of the lowest levels in 12 months, due to prolonged power outages, which began to weigh on sentiment.

In January, Ukrainians purchased more than 5100 new passenger cars, the best result for January in the last three years. However, the import of new and used EVs decreased almost twice m-o-m.

Source: NBU, InfoSapiens.

Industry faced major electricity outages in early 2026

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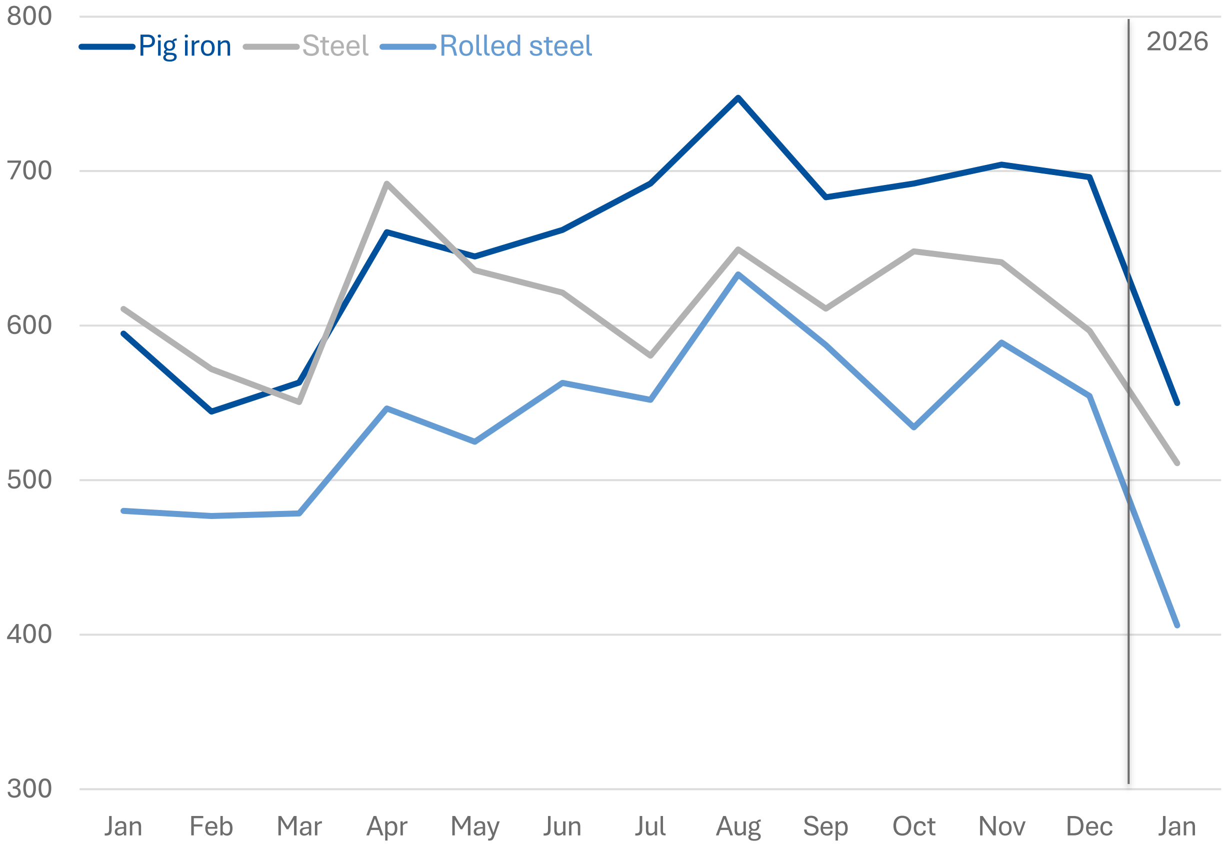
Metallurgy production fell

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



Metallurgical production in January 2026 fell by 15-25% m-o-m. Export of major metallurgical products also decreased (steel by 25%, pig iron by 27%, metal ore by 34%). The decline in production and exports is linked to high energy costs, logistics disruptions, lower iron ore prices and demand.

CBAM came into effect for Ukrainian producers at the beginning of 2026, despite the discussions with the European Commission about a transition period due to the ongoing full-scale war. By GMK Center estimates, the introduction of CBAM will affect ~15% of Ukrainian exports (cement, fertilisers, pig iron and rolled steel, etc.), and export losses could reach $4.7 bn in 2026-2030, starting from $400 million in 2026. CBAM imposes additional costs on producers, making production uncompetitive compared to European or lower-carbon producers.

Sources: Ukrmetalurgprom.

Monetary sector

Slowdown in price growth persists

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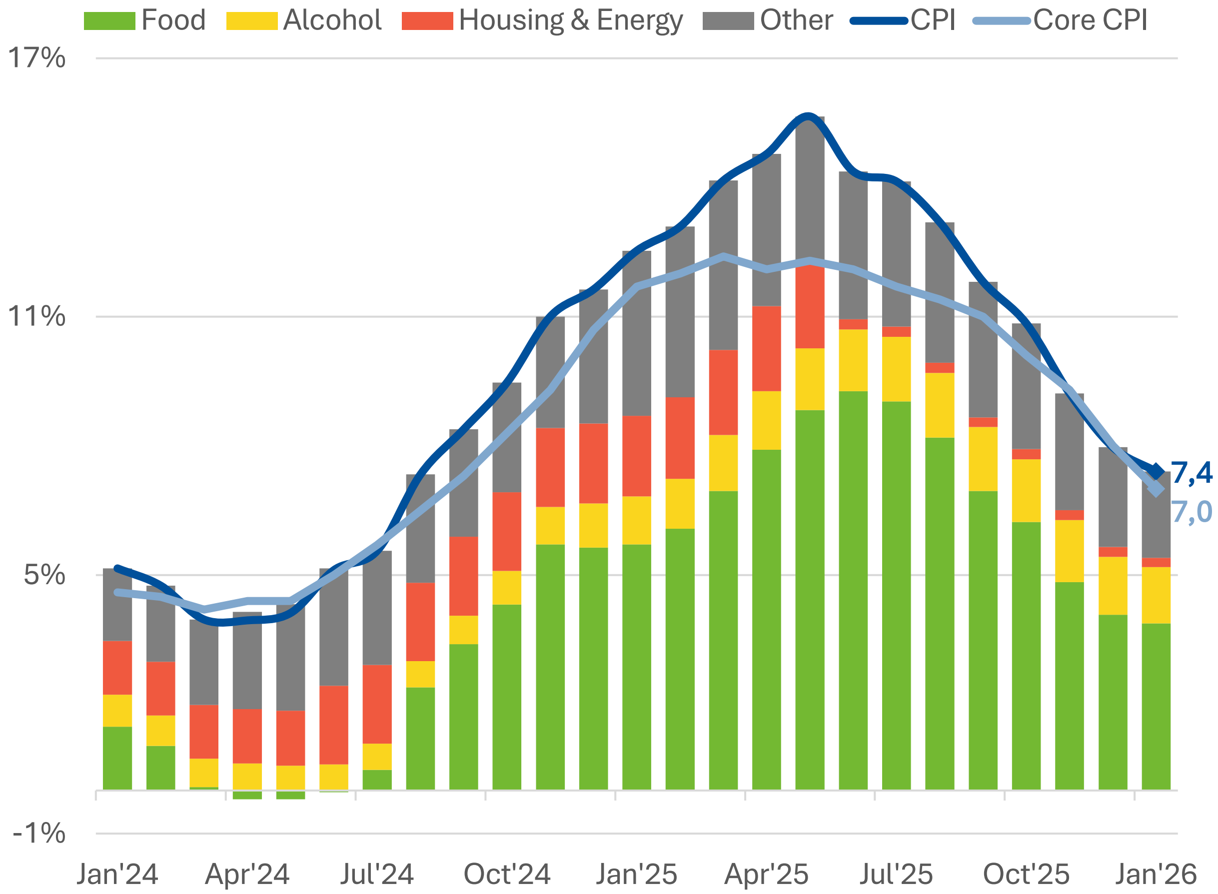
Energy infrastructure damages have not yet affected prices



Inflation in January 2026:

7.4% y-o-y (down from 8.0% in Dec 2025);

0.7% m-o-m.

Disinflation in January reflected a broad-based slowdown in price increases across most consumption categories.

NBU explains the dynamics with a reduction in labour market imbalances, the persistent effects of 2025 high harvests and increased competition from imported products.

Core CPI decreased even further, to 7.0%, reflecting lower inflation of processed foods, services, and decrease in prices of non-tradable goods.

NBU expects further disinflation in the coming month but by a smaller magnitude due to the destructions of energy infrastructure.

Source: Ukrstat, NBU, CES calculations.

Attacks on energy force a more conservative monetary stance

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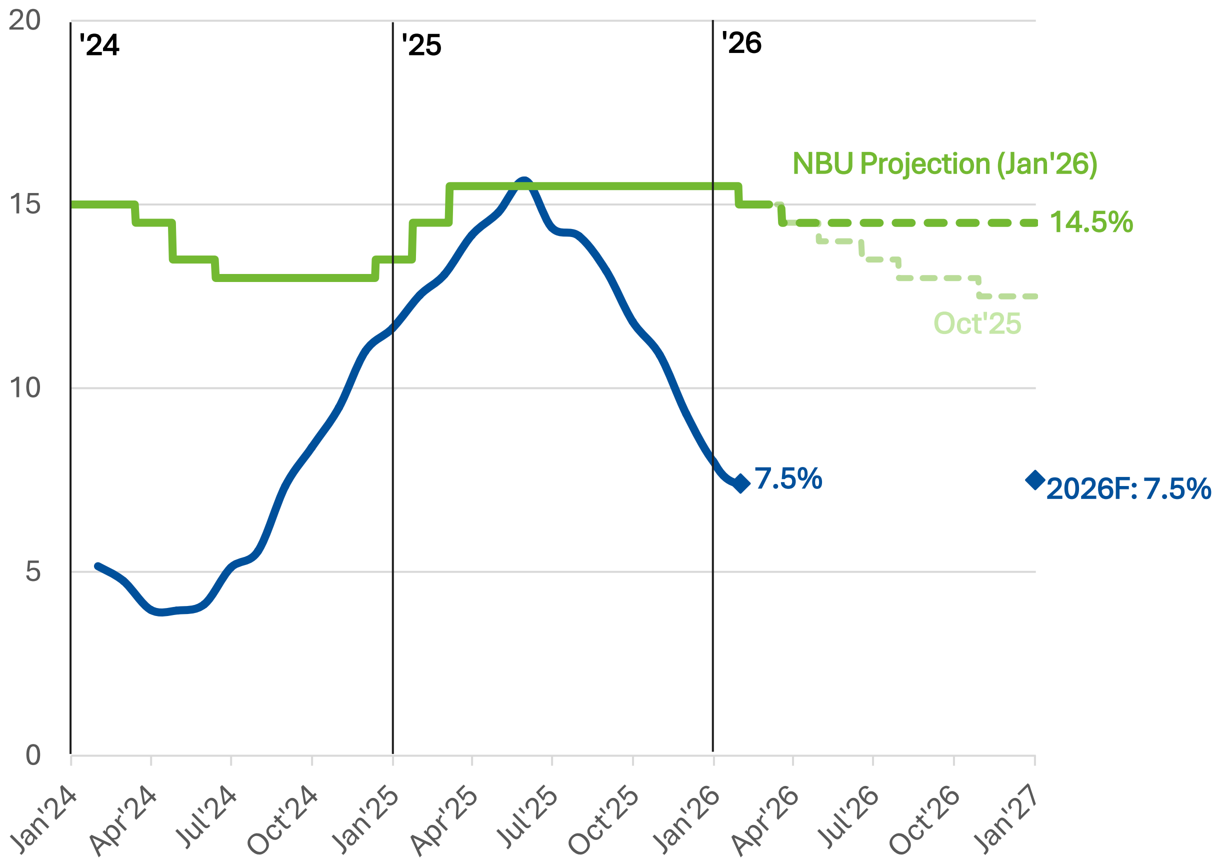
CPI, key policy rate, and NBU key policy rate projections, %



- **Lower and decreasing inflation created a space for the central bank to lower the key policy rate.**
- In its January decision, the NBU started the cycle of lowering the key policy rate and published an updated forecast.
- Due to increased Russian attacks on energy infrastructure, the projected inflation for the end-2026 was increased from 6.6% to 7.5% with the target inflation to be reached in 2028.
- The implied trajectory of the key policy rate also became more conservative with only two 0.5 pp cuts in January and March, instead of six 0.5 pp cuts as was expected in October 2025.
- **NBU expects inflation to decrease further in the coming months due to disinflationary momentum but then return to the same levels by the end of the year.**

Source: Ukrstat, NBU, CES calculations.

Yield curve inversion: balance of energy destruction and disinflation

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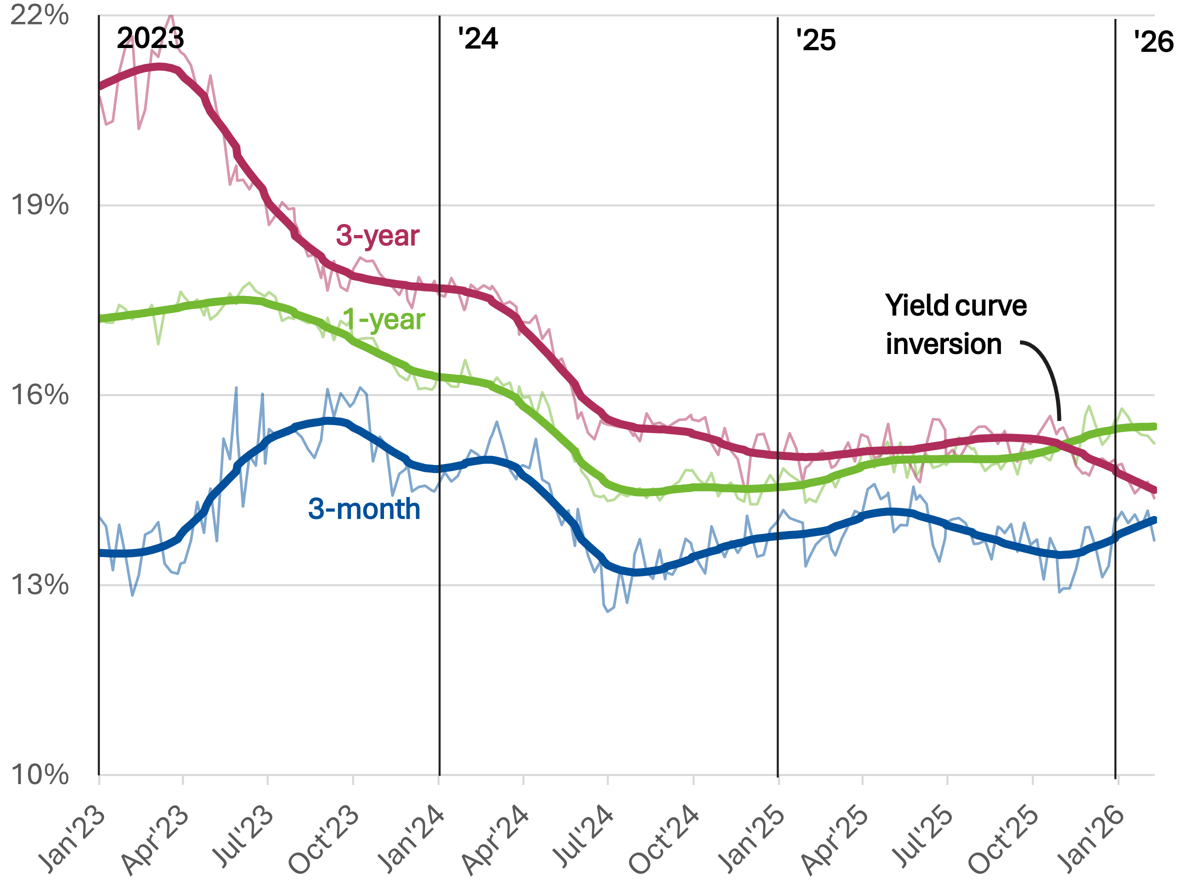
Yields on UAH-denominated Domestic Government Bonds



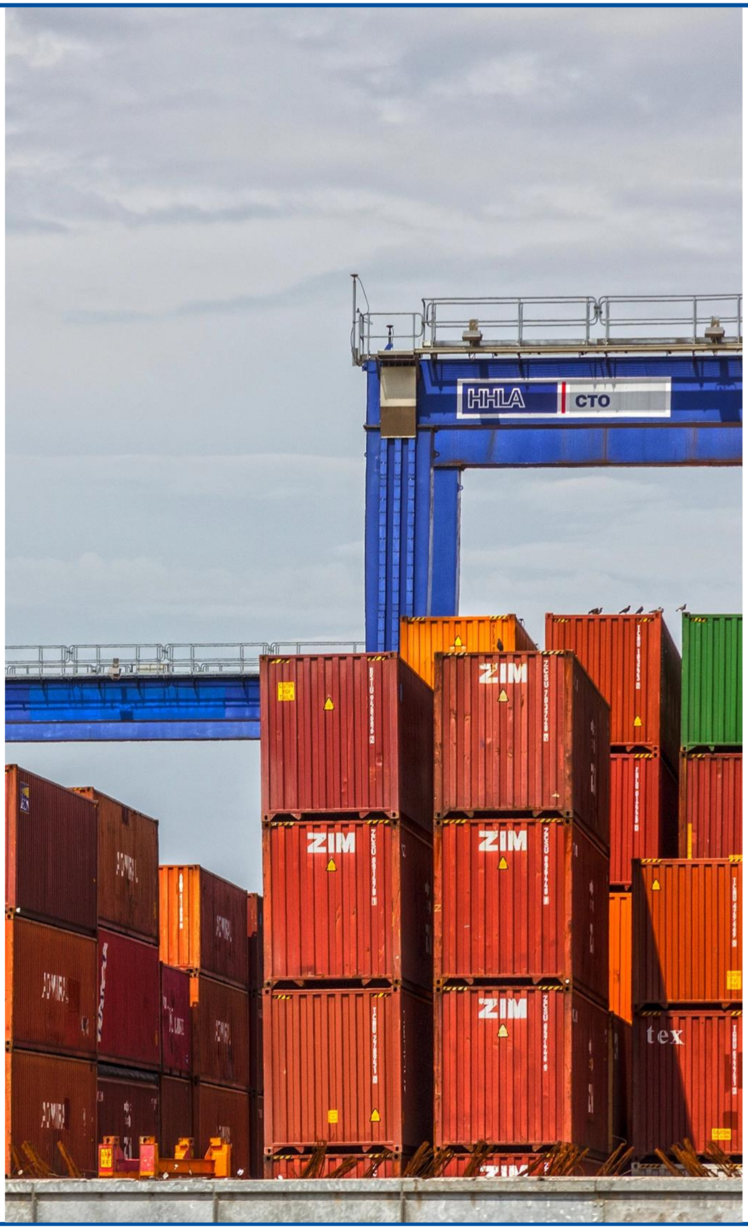
Source: NBU, CES calculations.
Yield trajectory is smoothed using HP-filter on NSS-implied yields fitted by the NBU.

Despite energy attacks and short-term volatility, market participants are changing how they value the long-term cost of capital, signalling that today's elevated inflation is temporary and the expected inflation will fall on a longer horizon.

Short-term yields remain sticky and elevated, close to the NBU's conservative policy rate. This likely reflects the immediate inflationary risks from war and energy damage as well as the NBU's signal that easing will be slower than previously forecast.

Long-term yields (3-year) have detached downwards, falling below short-term rates in Q4 2025. This signals that the market views the energy-driven price pressure as transitory, **looking past the 2026 turbulence toward a lower-inflation equilibrium**.

The negative term premium (2+ years) indicates strong demand for longer-duration assets, as market participants rush to secure current yields before the NBU resumes more active easing once energy risks subside.



International sector

Import growth is primarily driven by war and recovery needs

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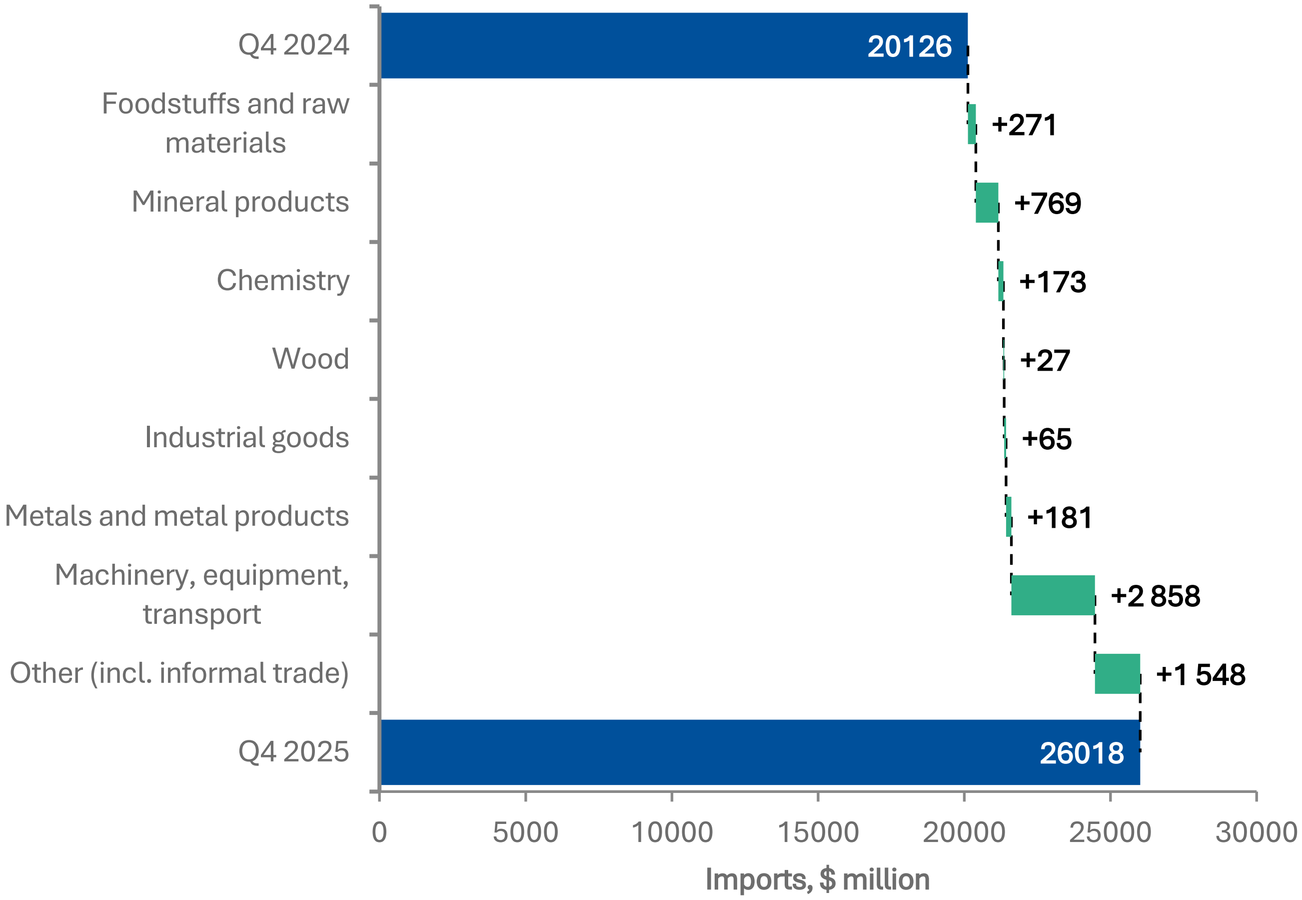
Decomposition of imports growth by sectors, $ million



In the last quarter of 2025, Ukrainian imports increased by 29% y-o-y.

The imports increased by all broad sectors, with **machinery, equipment, and transport being the main contributor to the growth** (49%). The increase by almost $3 bn is explained by increased domestic demand for energy infrastructure equipment.

Mineral products explained 13% of imports growth. This is primarily driven by record high imports of electricity as well as natural gas.

Unclassified/informal trade was responsible for 26% of growth in imports. While it is difficult to estimate the specific drivers of the imports increase in this category, it is likely facilitated by untaxed postal parcels under €150.

Source: NBU, CES calculations.

Imports play important role in adapting to attacks on energy

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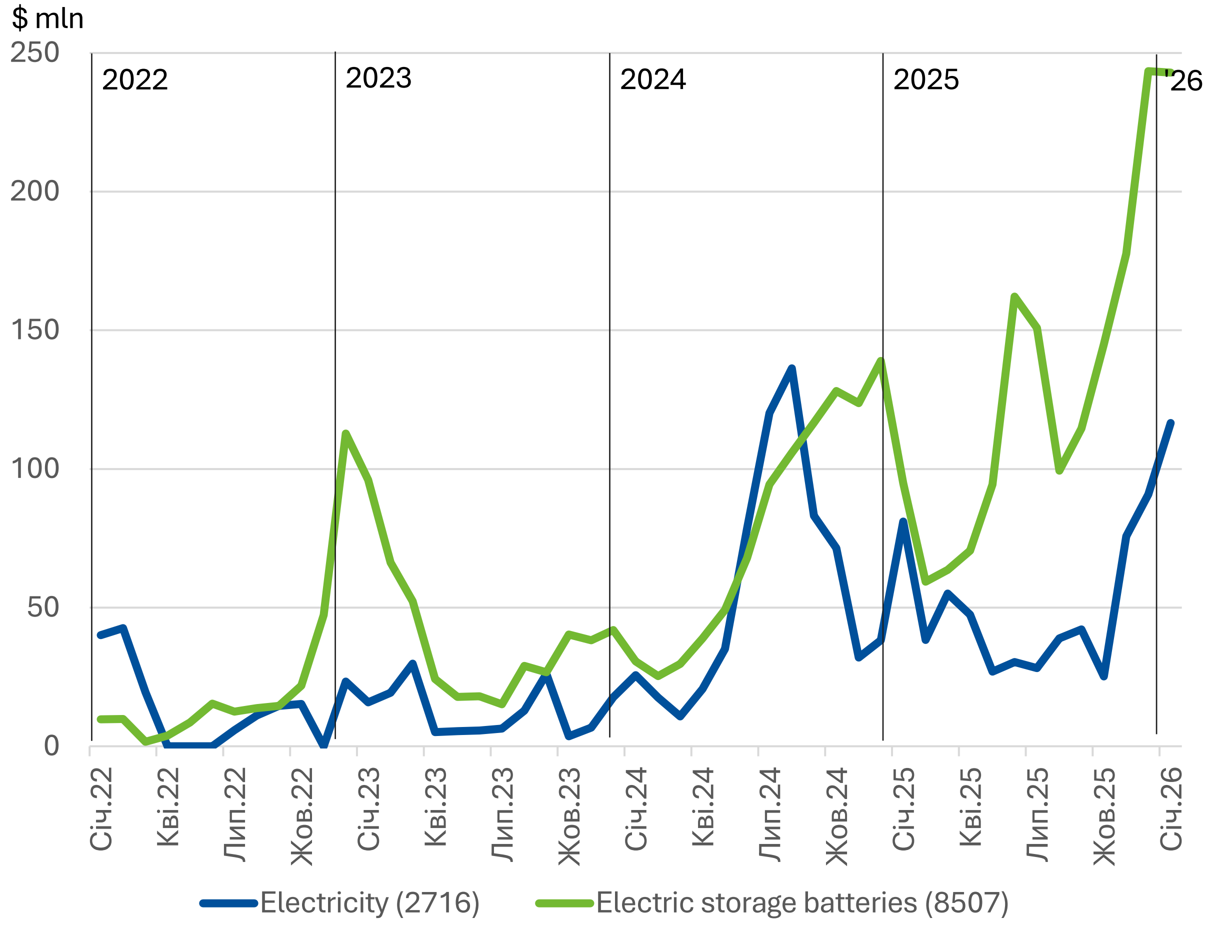
In 2025, Ukrainian imports of electric storage batteries reached $1.5 bn



- Ukrainians try to compensate energy shortages through electricity imports and battery storage.
- Home and business storage capacity has reached an estimated 1.6 GWh, with 3 GW simultaneous potential output — figure comparable to an output of a major nuclear power plant.
- In 2025, spending on imports of battery storage reached $1.5 bn, which is 2.5 times the amount spent on direct electricity imports.

Source: State Customs Service, Diia Business.

Fiscal sector

Harsh winter conditions deepened the January slowdown

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Decline in business activity in the first month of the year affects revenues – it fell by 18% m-o-m

PIT revenues rose 21% y-o-y on higher wages but fell 24% m-o-m due to a high December base.

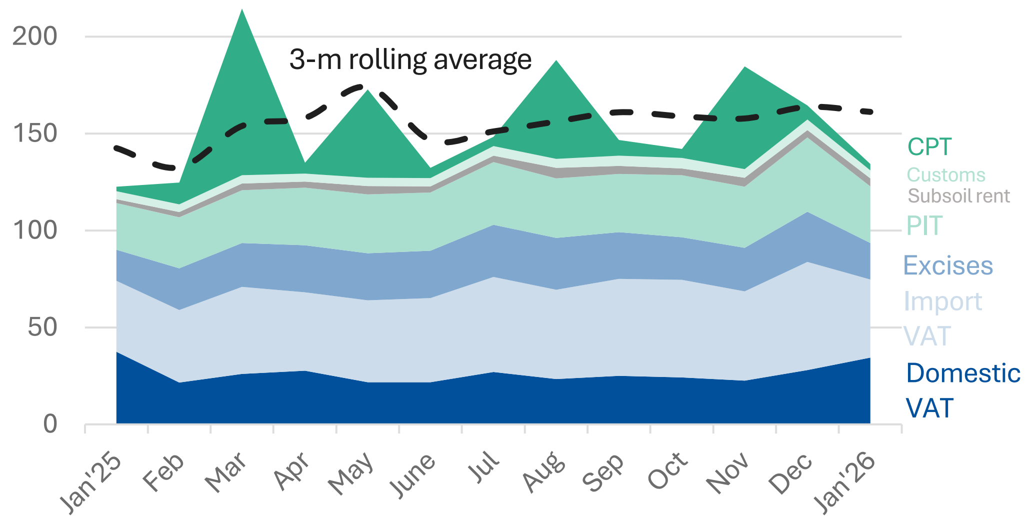
Subsoil rent revenues increased 105% y-o-y on a low comparison base amid weak resource prices last year, and edged up 8% m-o-m.

Excise revenues grew 18% y-o-y after rate hikes but dropped 27% m-o-m due to seasonal slowdown and pre-hike stockpiling.

Import VAT rose 10% y-o-y but fell 28% m-o-m due to seasonality.

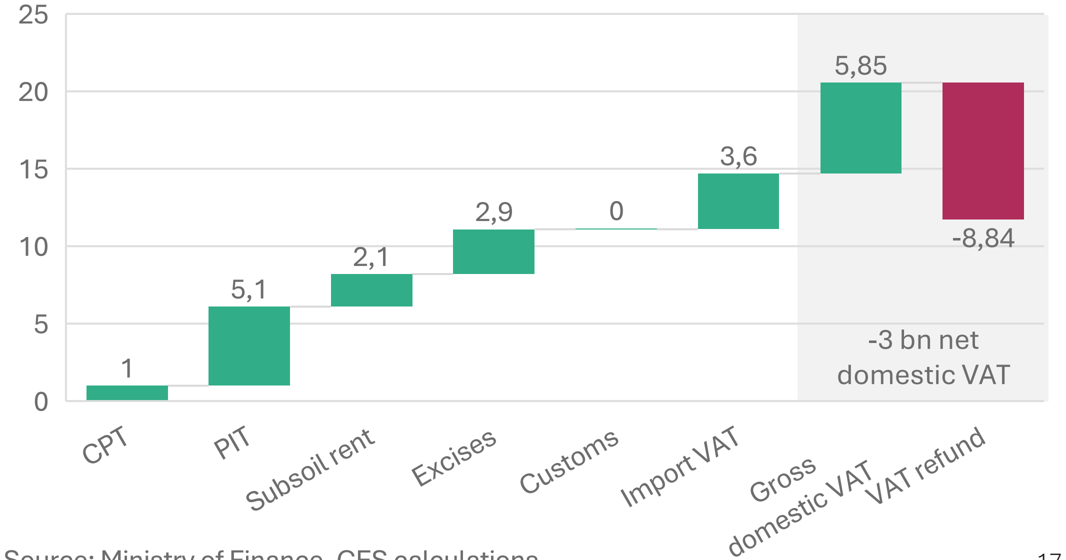
Net domestic VAT declined 8% y-o-y. In January 2026, gross domestic VAT hit a record UAH 58.9 bn (+11% y-o-y; +42% m-o-m), but refunds surged to UAH 24.3 bn (+57% y-o-y; +80% m-o-m) as the Treasury repaid arrears accumulated under martial law payment sequencing.

Monthly general fund of state budget tax revenues, UAH bn



Source: Ministry of Finance, CES calculations.

Changes in general fund of state budget tax revenues Jan'2026-Jan'2025, UAH bn



Source: Ministry of Finance, CES calculations

War-related expenditures are skyrocketing

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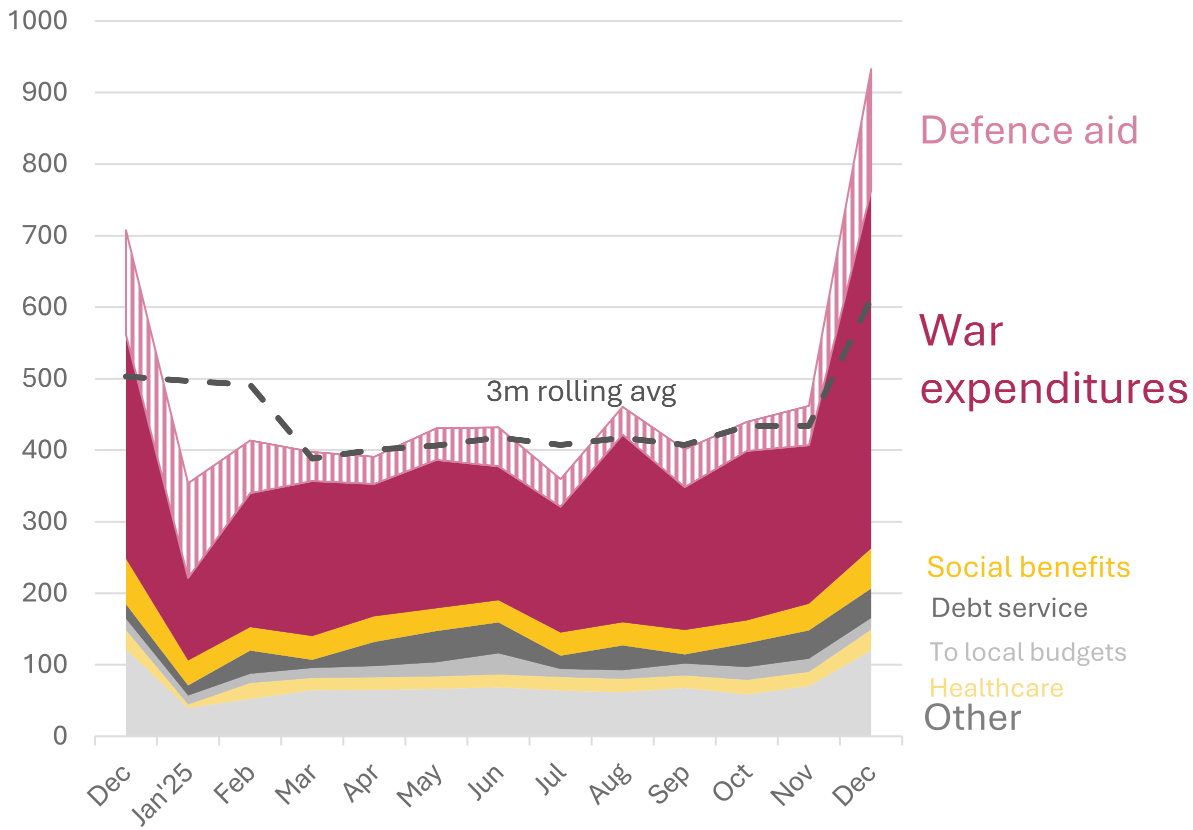
In December 2025, war expenditures including defence aid were 2.4 times higher than in November

Monthly state budget expenditures, UAH bn



State budget spending reached UAH 933 bn in December 2025. Of this, 54% came from domestic resources for war-related needs and 18% from defence aid.

Total spending was 32% higher y-o-y and twice as high as in November. War-related expenditures drove the surge: they rose 46% y-o-y and 2.4 times m-o-m. Defence aid fuelled the monthly jump, while domestically financed war spending grew more strongly in annual terms.

In non-defence items, energy supply restoration led the increase. The government allocated UAH 5 bn to the winter restoration of energy supply programme, lifting housing and utilities spending 15 times m-o-m and 34 times y-o-y (UAH 8 bn m-o-m in nominal terms).

Social protection spending rose 52% m-o-m but fell 12% y-o-y.

Source: Open Budget, CES calculations

More funds are needed for the war every year

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In 2025, war expenditures including defence aid increased by 34%

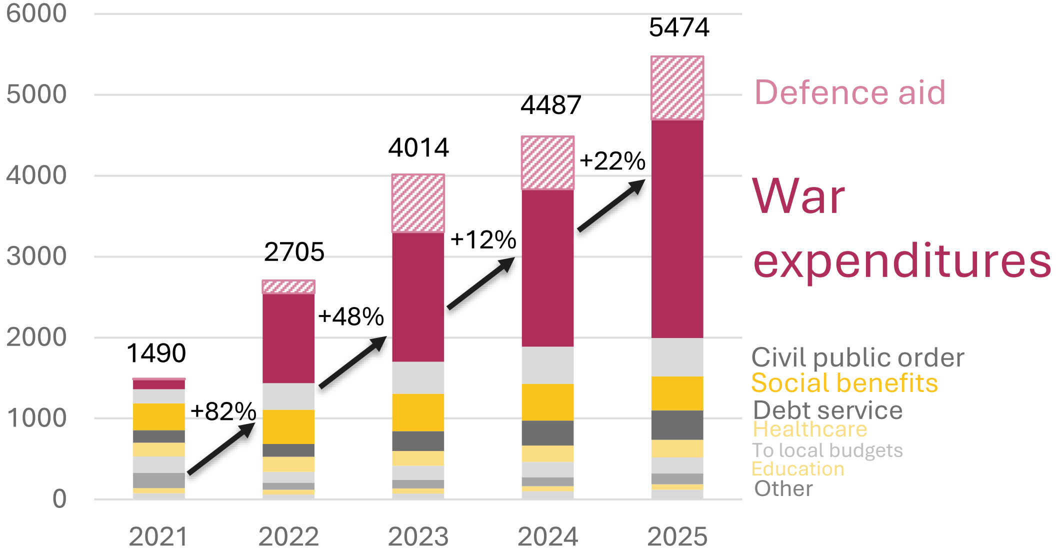
Total state budget expenditures increased from UAH 4.5 trillion in 2024 to 5.5 trillion in 2025 (+22%).

Expenditure growth accelerated in 2025 after a nominal increase in 2024.

Total war expenditures including defence aid in 2025 amounted to UAH 3.5 trillion (+34% y-o-y).

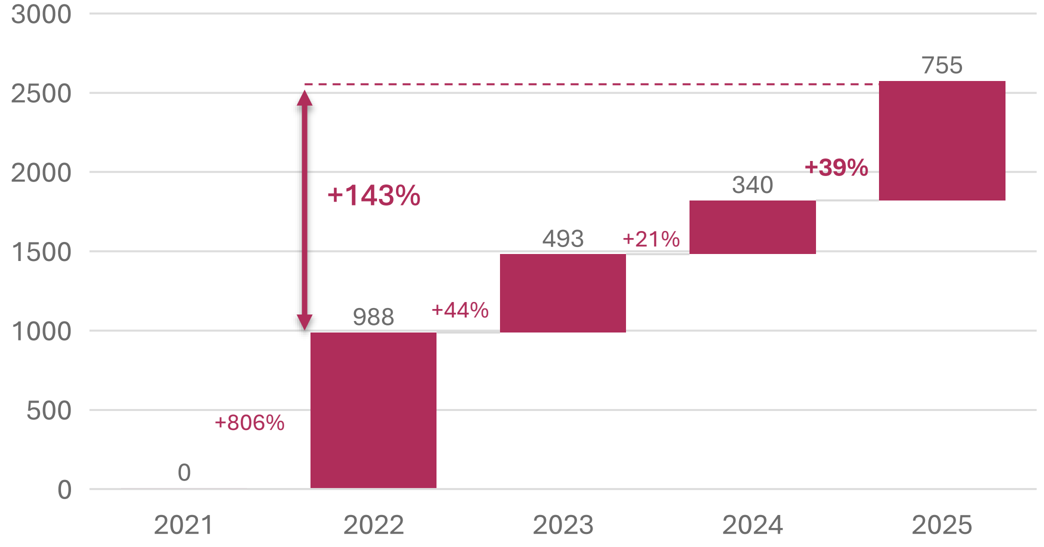
War expenditures via own revenues have been consistently growing – they are 2.4 higher compared to 2022.

Annual state budget expenditures, UAH bn



Source: Open Budget, CES calculations

Annual increase in war expenditures via own revenues 2025-2024, UAH bn



Source: Open Budget, CES calculations

War expenditures accounted for almost all spending growth in 2025

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While non-military expenditures are almost unchanged

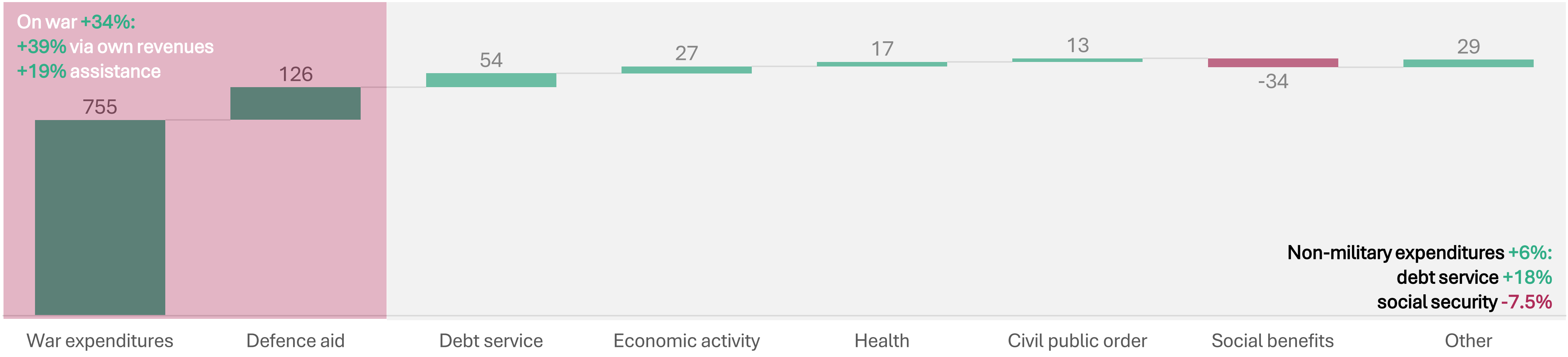
War-related expenditures are the main growth drivers in 2025:

- War spending via own revenues**: +UAH 755 bn (+39% y-o-y and 76% of total increase)**
- Defence aid**: +UAH 126 bn (+19% y-o-y and 13% of total increase)**

Civilian expenditures changed only moderately in 2025.

- Debt service is the largest contributor to non-military increase: **+UAH 54 bn (+18% y-o-y and 5% of total increase)**
- Economic activity: **+UAH 26.5 bn**
- Healthcare spending: **+UAH 17 bn**
- Social protection spending declined: **-UAH 34 bn**

Change in state budget expenditures in 2025 compared to 2024, UAH bn



Source: Open Budget, CES calculations

Special topic: Electricity outages

Energy crisis significantly affected business activity

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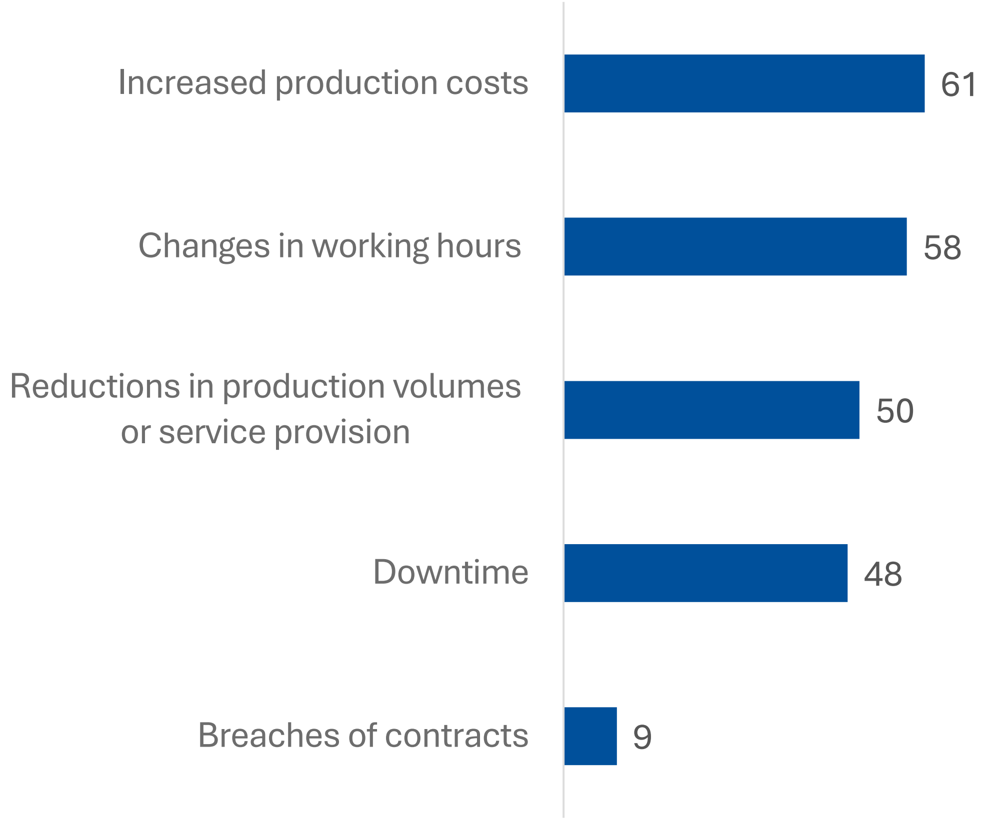
Electricity outages disrupt 80% of companies

Primary consequences of outages, % of answers



Source: EBA survey of 79 companies, January 2026.

48% of companies noted problems with electricity, water and heating supply in January 2026 (42% in December 2025), according to the IER survey.

Outages affected work of 80% of companies, according to the EBA survey. Half of the surveyed companies reduced production volumes and noted technological risks for energy-intensive production.

Companies increased prices for goods and services by 10–30% amid rising electricity costs, with only a small share keeping price increases within the 2–5% range.

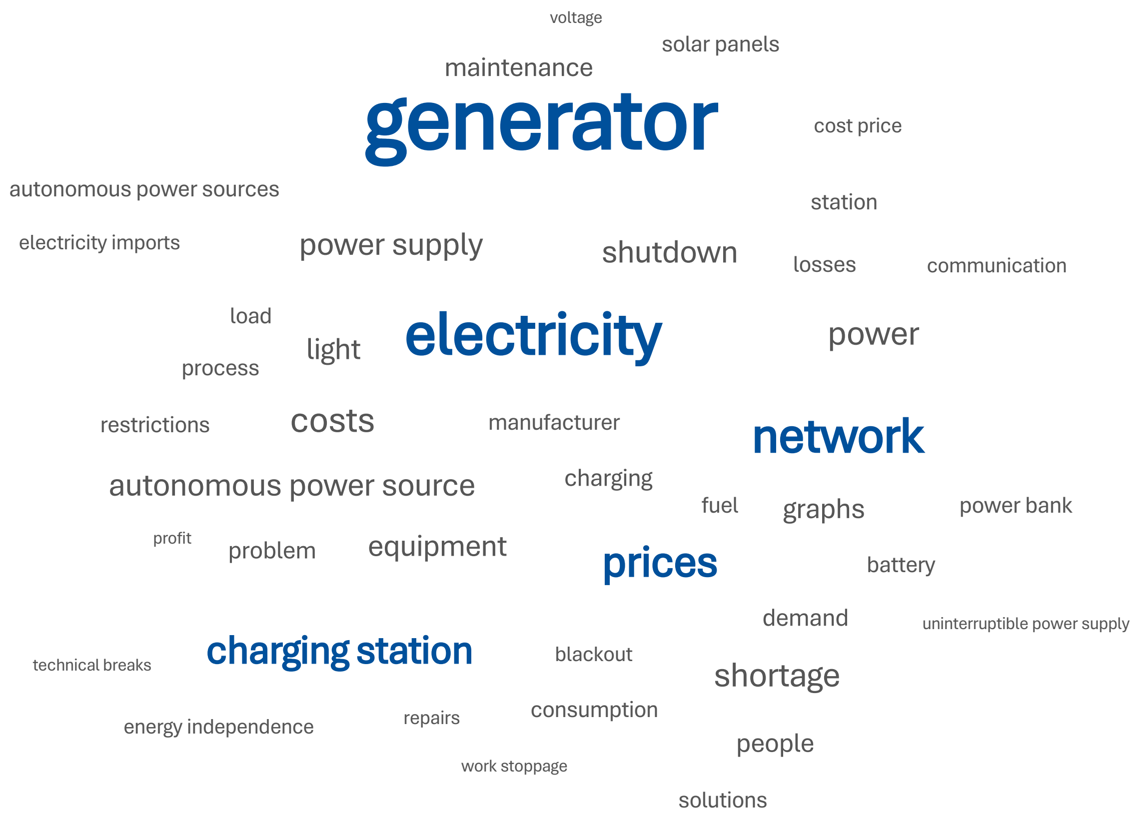
90% of companies reported having own alternative energy sources or generation capabilities. Nearly 23% of surveyed companies achieve complete energy independence. The remaining 38% mainly cover their needs, while another 38% have only partial coverage.

Businesses use a wide range of independent energy solutions. Among them are energy storage systems (35% of respondents), solar power generation (26%), new networks and infrastructure (21%), gas (5%), biogas (3%) or wind power generation (1%).

Businesses need financing and simplified permissions for generation

Autonomous power sources are the main solution for businesses

What do businesses mention the most when talking about the energy crisis?



Businesses need financial support first and foremost. In the first four days of the "Energy Support for Private Entrepreneurs" programme, 14,400 entrepreneurs received UAH 144 million in grants, mainly in HORECA and grocery retail (over 50%), as well as services, healthcare and freight transport. The programme runs until the end of March 2026.

Companies also call for wider support to install distributed and autonomous generation, green energy and storage, and for simpler permits for new capacity.

The government's next steps may include PSO reform and auctions for new power plants.

Despite these measures, the risks of business closures and higher unemployment remain high.

Recap: February Economic Review

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- **The energy situation deteriorated significantly in January and February due to intense Russian shelling and adverse weather conditions, affecting all sectors of the economy.**
- **Despite this, slowdown in price growth persists,** but NBU monetary stance became more conservative.
- **Imports play an important role in adapting to attacks on energy,** with $1.5 bn worth of electric storage batteries imported in 2025.
- **Restoration of energy supply drove the increase in non-defence budget spending,** but war expenditures still dominate.
- **While Ukrainian businesses show resilience, they do need support.**

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Thank you!