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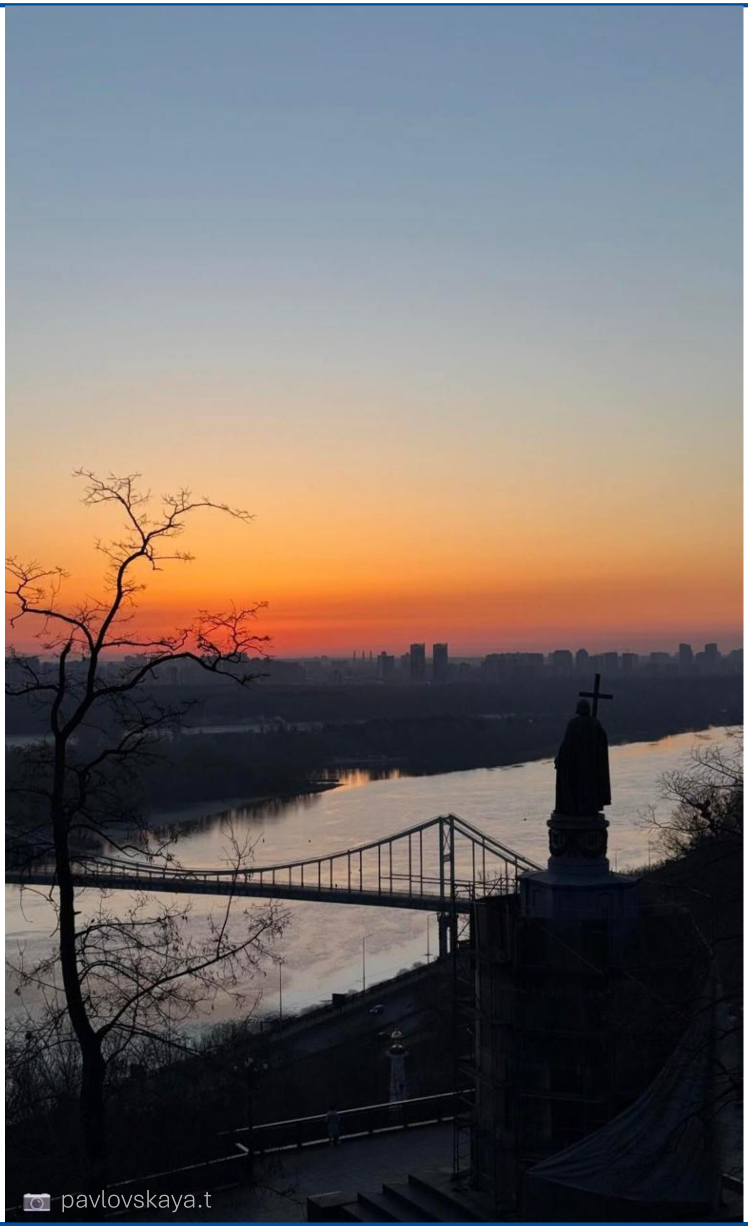
March Economic Review

Special topic: How to unleash bank lending to boost the Ukrainian economy?

Date: 19 March 2026

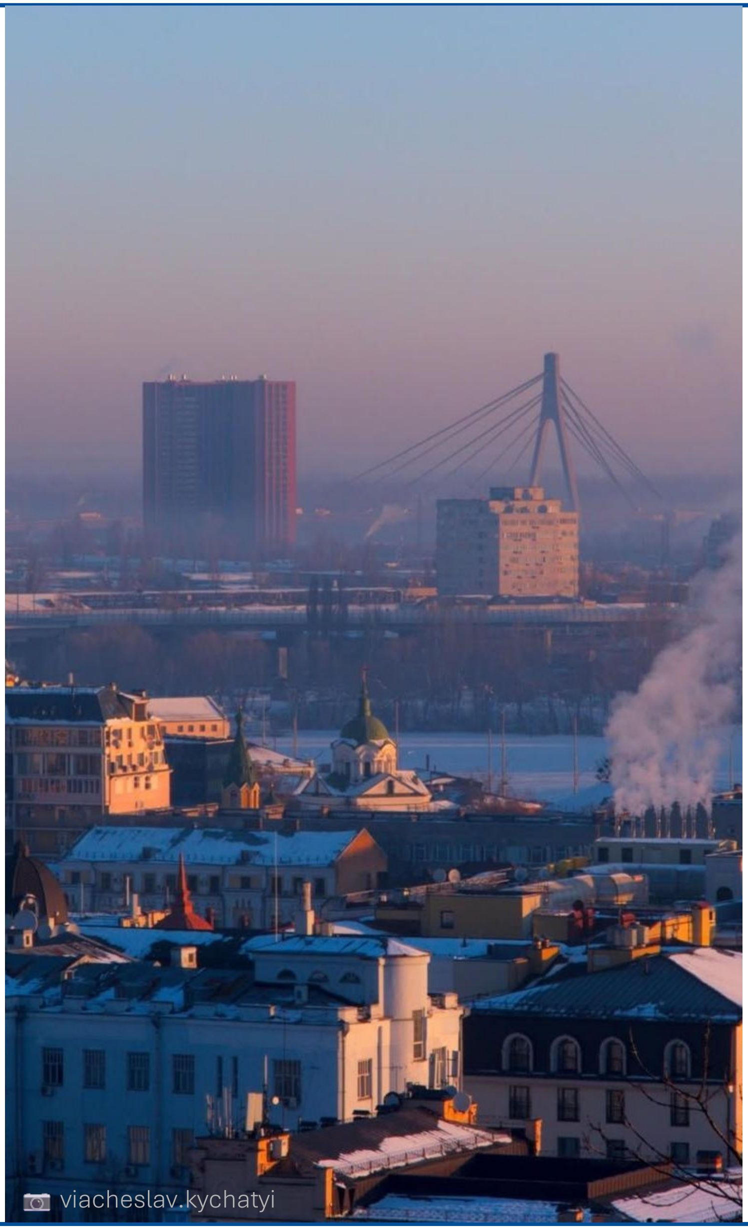
Authors: CES Team



Executive summary

Executive summary

- **Sectoral analysis:** Business sentiment and business activity deteriorated in February amid essential electricity outages. The energy situation improved in March thanks to repairs and sunny weather. The sowing campaign for summer crops has started, and the condition of winter crops is good. The Iran war has driven up fuel and gas prices and increased the risk of supply disruptions. Limited access to loans almost does not impede the increase in production.
- **Fiscal sector:** In February, tax revenues amounted UAH 154 bn, adding 15% compared to January, but the plan was still not met. The biggest increase was in CPT by 3.2 times due to its seasonality. Total spending of state budget in January 2026 showed significant reduction in both monthly and annually terms. The "5-7-9%" business support program leads economic activity expenditures in 2026, with UAH 18 bn planned for it – the same amount as in 2025.
- **Monetary sector:** Consumer inflation accelerated to 7.6% y-o-y in Feb 2026 as the winter energy shock — driven by a 30% electricity supply deficit — passed through to production and logistics. Externally, the onset of the Iran war on February 28 triggered a global oil shock and a "safe haven" flight to the US dollar, causing the hryvnia to weaken significantly against the USD in the following weeks.
- **Special topic:** Credit growth is record high by January 2026, driven increasingly by market-based lending as the influence of the "5-7-9%" subsidised program declines. New lending remains highly concentrated in Trade, Processing, and Agriculture, with a 30% uptick in medium-term loans to support energy autonomy and defence-adjacent production. Despite NPLs falling to a 15-year low of 13.9%, bank lending still only finances 5% of capital investments, and long-term credit remains stagnant due to persistent war-related risks.
- **See our report below for further details.**



Sectoral analysis

Energy situation improved in March

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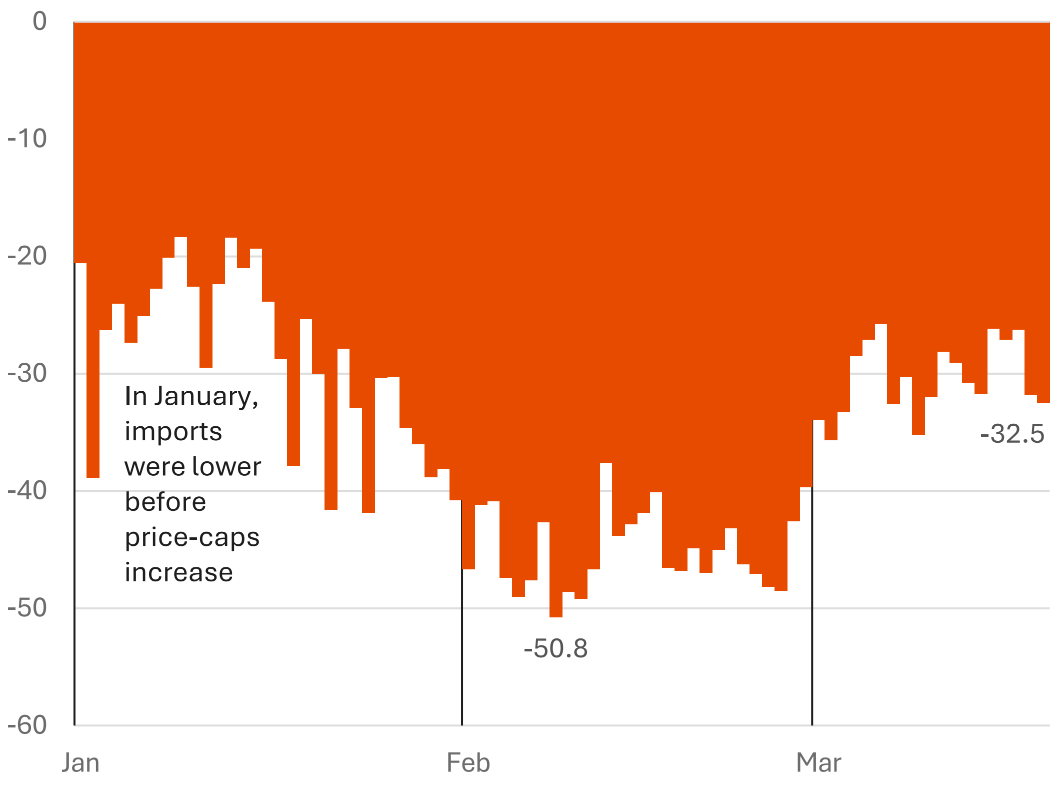
Ukraine resumed electricity exports on certain days in March

Ukraine net electricity commercial exports in 2026, GWh



The electricity deficit in March fell to 1 GW in peak hours thanks to finished repairs and sunny weather, according to the Ministry of Energy. The electricity outages were cancelled across almost the entire country.

As of mid-March, nearly 3.5 GW of capacity has been restored across combined heat and power plants, thermal power plants, and hydroelectric power plants. An additional 2 GW is expected to be repaired by end-May with support from international partners.

In February, electricity imports reached a historic peak of 1.263 GWh. In March, imports declined, and Ukraine even resumed exports. Imports still cover around 12% of consumption. The Ministry of Energy expects to add at least 1.5 GW of interconnection capacity with the EU over the next two years.

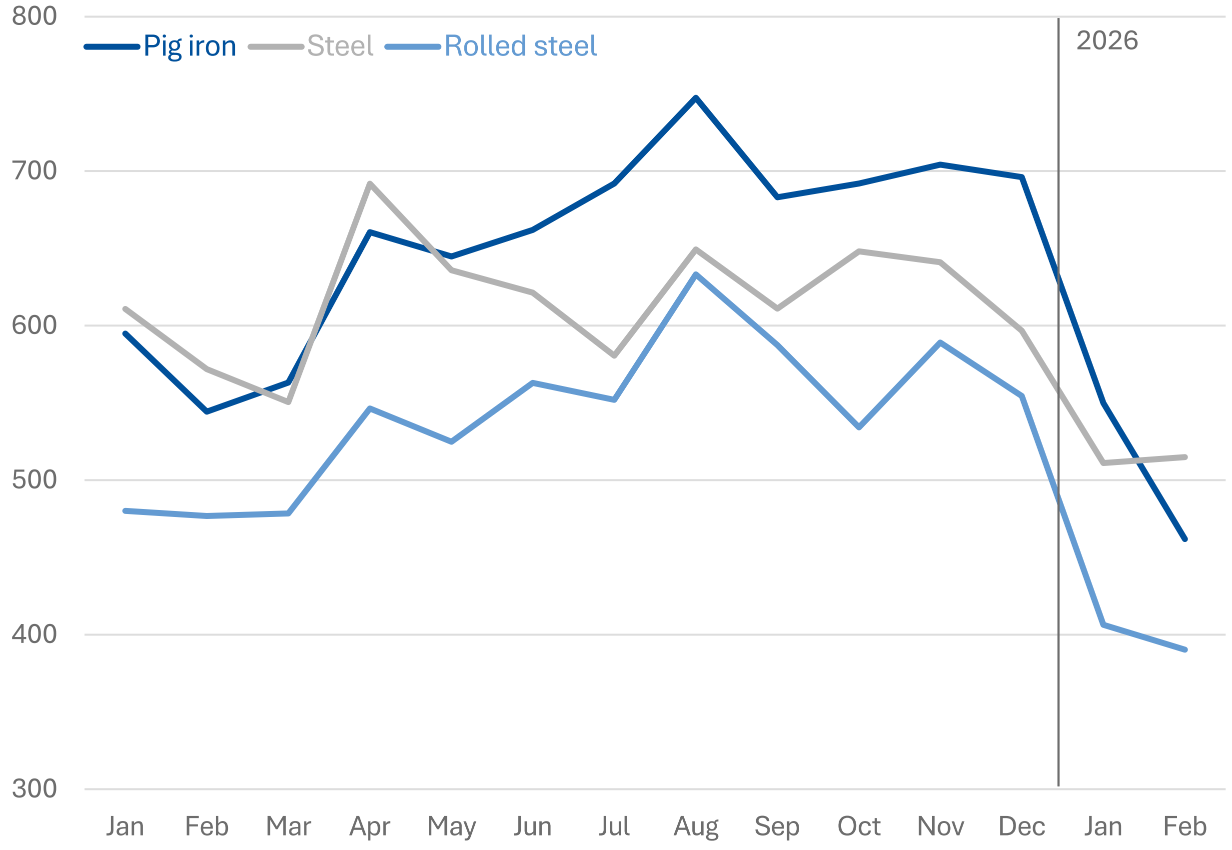
The Iran war led to a significant increase in fuel prices: +UAH 6-8 for gasoline, +UAH 16 for diesel. Gas prices in Ukraine rose by 15–20%, well below the increase in the EU, where prices more than doubled.

Source: ENTSO-E.

Industry was hit by electricity outages at the start of 2026

Metallurgy production fell

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



Sources: Ukrmetallurgprom.

In February, metallurgical production fell by 10-20% y-o-y amid electricity outages, high energy costs, logistics disruptions, and the influence of CBAM measures.

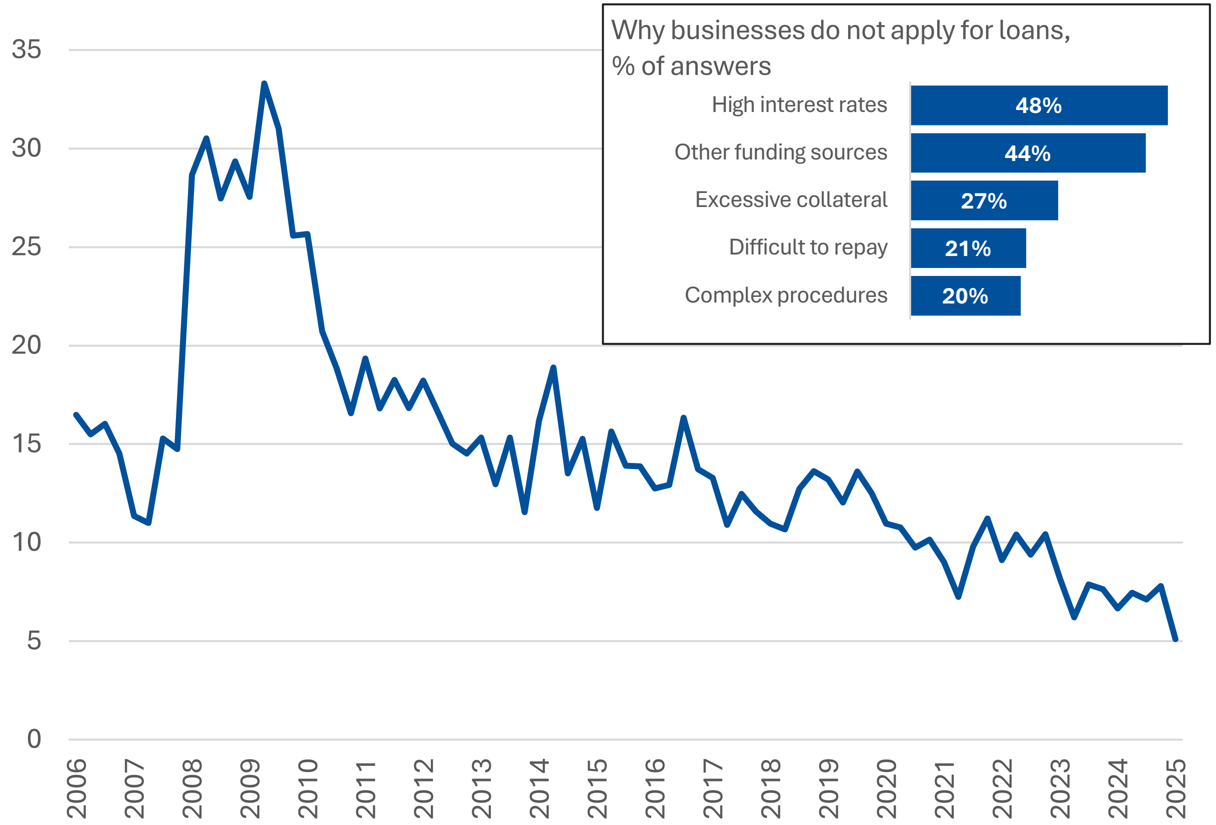
The Government has allocated UAH 16 bn to finance domestic passenger rail transport in 2026. This ends cross-subsidisation from freight, improving Ukrzaliznytsia's financial position.

As of 16 March, the sowing season has begun in nine regions. The planted area in 2026 is expected to match 2025, according to the Ministry of Economy. Winter crops are in good condition, with losses not expected to exceed 3–5%; affected areas will be replanted mainly with corn and sunflowers. The soybean area will decline this year, in particular due to the export duty introduced last year. The risk of fuel shortages for farmers is currently low thanks to accumulated reserves.

Limited access to loans does not significantly slow production growth

Businesses do not apply for loans due to high interest rates and other funding sources

Share of enterprises reporting limited access to credit as a constraint on business activity, % of responses



Source: NBU.

The business activity expectations index (BAEI) remained below the neutral level in February, in both seasonally adjusted (47.7 p.) and headline NBU data (45.9 p.), amid power outages, higher production costs, and lack of staff.

Since 2022, the war has been the main factor impeding business activity, according to the NBU's Business Outlook Survey. Staff shortages and high energy prices ranked 2nd and 3rd in Q4 2025.

Lending standards for businesses sharply tightened in 2022 and began to ease since the end of 2023, returning to 2020 levels, according to business answers.

Only 36% of businesses plan to take loans in 2026 (81% in UAH). Businesses consider interest rates to be too high, while a significant share (44%, the highest level since 2027) has other sources of financing.

Fiscal sector

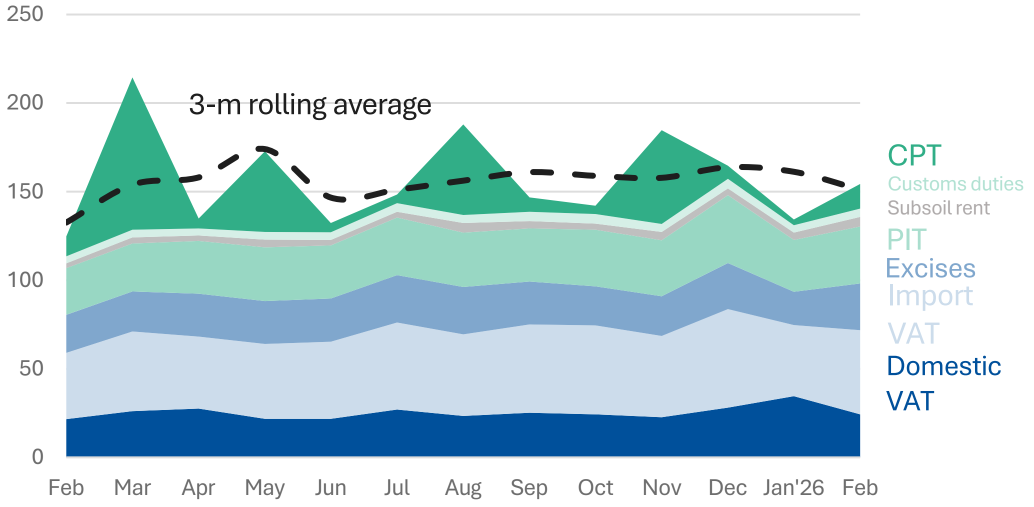
CPT and subsoil rent drive budget revenue growth in early 2026

While other tax revenues are not performing well

- **CPT surged** 3.2x m-o-m due to seasonality, but still a +24% annual increase. **PIT grew steadily:** +10% m-o-m and +22% y-o-y.
- **Import taxes spiked in February**: excises rose by 40% and Import VAT by 18% compared to January, due to higher level of electricity imports.
- **Domestic VAT decreased m-o-m, but outperformed plan** (by 8%) due to higher demand for energy products in January.

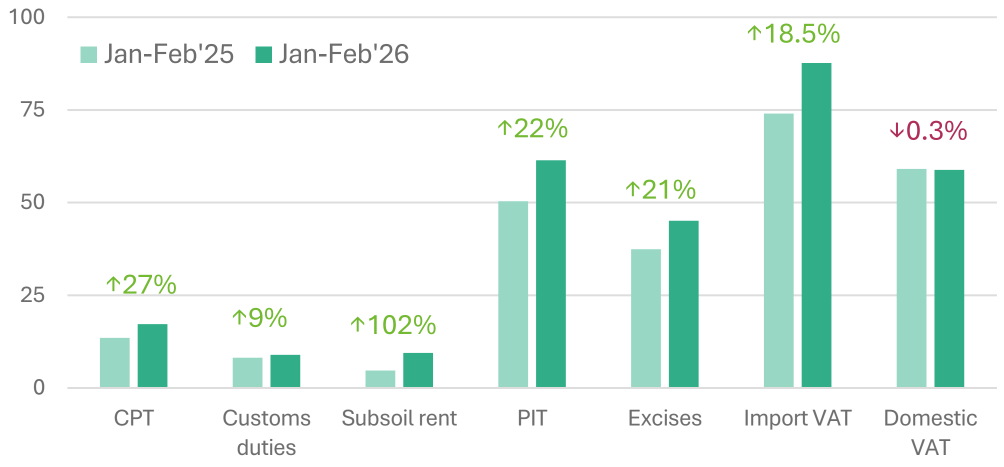
- **Subsoil rent led growth** (+102% y-o-y) and exceeded plan by 27% due to low initial targets.
- **CPT followed with a +22% y-o-y increase**, outperforming the budget plan by 9%.
- **Domestic VAT was the only outlier**, falling short of both last year's figures (-0.3%) and the budget target (-12%) due to lower economic activity.

Tax revenues of the general fund of the state budget, UAH bn



Sources: Ministry of Finance, CES estimates.

Tax revenues to the general fund of the state budget in the first two months of the year, UAH bn



Sources: Ministry of Finance, CES estimates.

Business support programs programs lead 2026 economic spending

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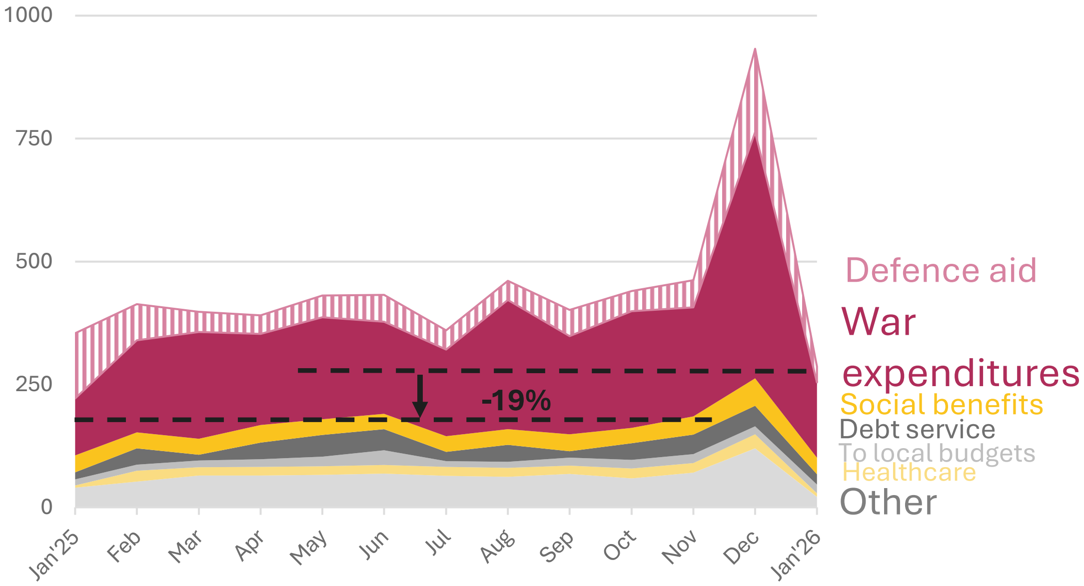
83% of the Ministry of Economy's top programme is dedicated to interest rate subsidies

- **January 2026 total spending:** UAH 268 bn, missing the monthly target and facing a seasonal drop from December.
- **Defence aid**: decreased 4x y-o-y.
- **Debt service:** underperformance by UAH 12 bn or 36% below plan, contributed to the overall spending gap.
- **Economic expenditures:** totalled just over UAH 3 bn, a 10% decrease y-o-y.

Expenditures of state budget by functions, UAH bn



Sources: Open Budget, CES estimates.

- **The NDI "5-7-9%" programme plan at the level of 2025:** UAH 18 bn annual budget, or 10% of all economic activity spending.
- **Focus on lending:** 83% of the program's funds are dedicated to partial compensation of interest rates on business loans.
- **Consistent execution:** Jan-Feb spending reached UAH 3.5 bn in both 2025 and 2026 years.

Top 5 programmes of SB in economic activity by execution in the first two months of 2026, by general fund, UAH bn or %

Program	Plan for Jan-Feb'2026	Fact for Jan-Feb'2026	Execution for the period, %	Execution for the year, %
Operations of the National Development Institution (5-7-9%)	**3.5**	**3.5**	**100%**	**20%**
Repayment of debt for road development	2.6	2.4	91%	16%
Procurement of heating and electricity equipment for communities	2.6	0.8	31%	31%
Activities of the State Food Safety Service	0.4	0.4	94%	13%
Restructuring of the coal industry	0.4	0.3	92%	15%

Sources: The state Treasury Service of Ukraine, CES estimates.

Monetary sector

Winter energy shock drove up inflation

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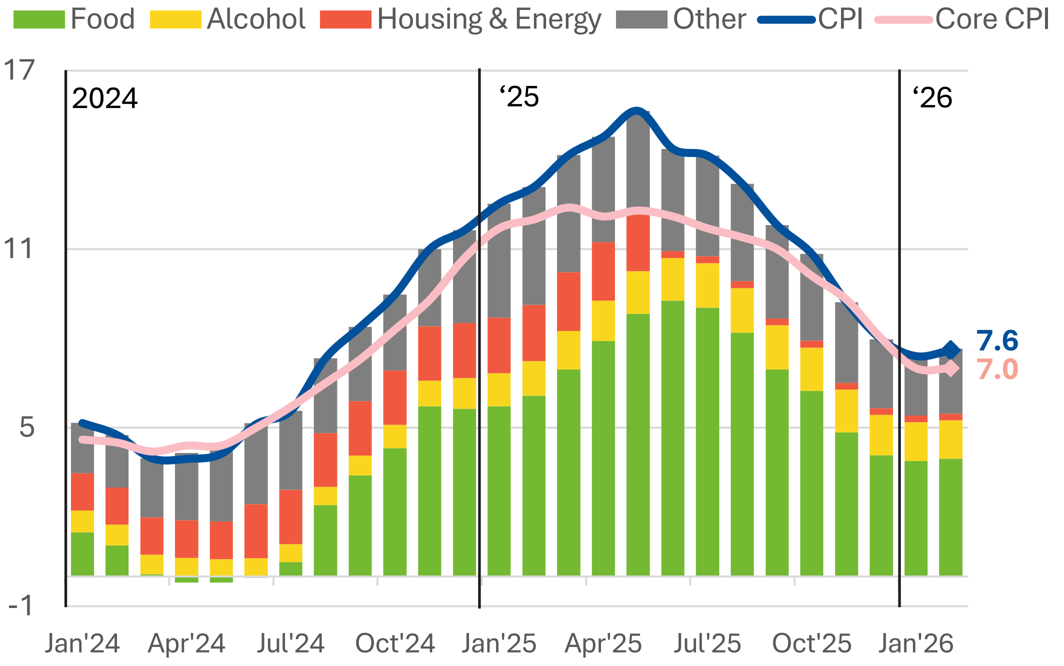
Consumer price growth accelerated in February

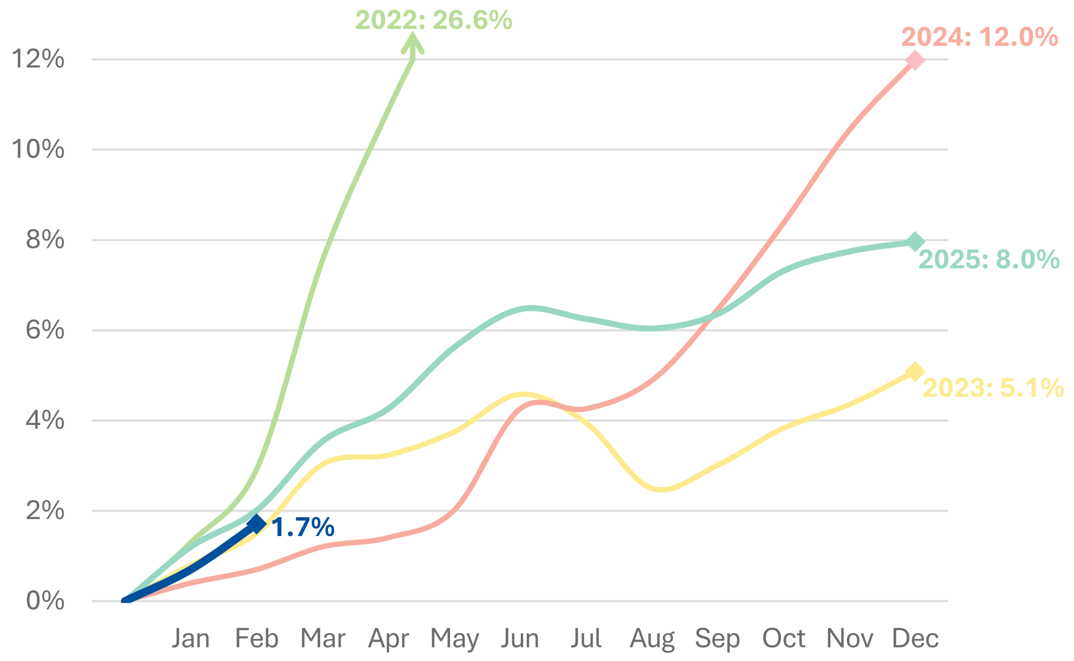
Inflation in February 2026:

- 7.6% y-o-y (up from 7.4% in Jan 2026);
- 1% m-o-m.

- Energy costs passed through to production and logistics.
- As electricity supply normalized in March, energy pressure on inflation should gradually ease over next months. However, it might be replaced with the oil shock if the Iran war persists.



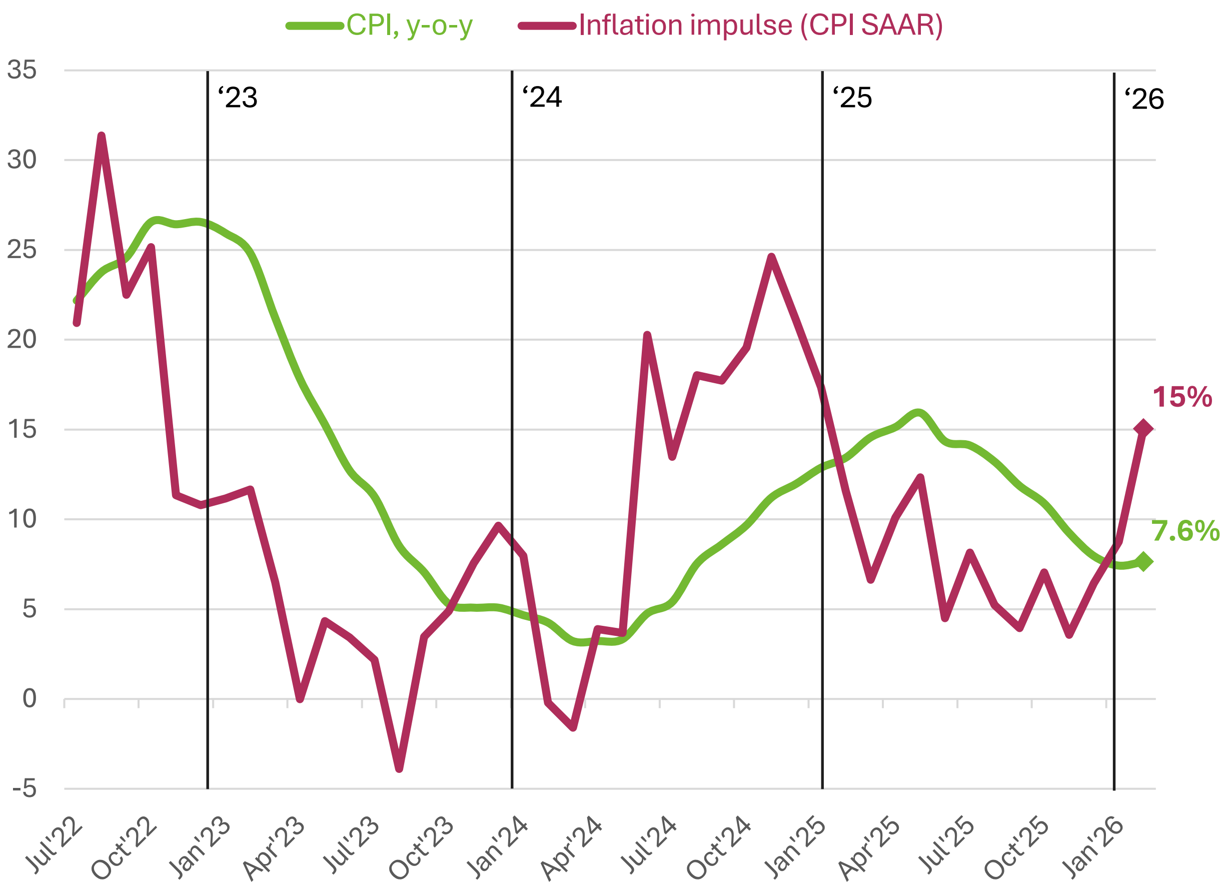
Source: Ukrstat, NBU, CES calculations.



Source: Ukrstat, NBU, CES calculations.

Inflation impulse surged during winter

Prices accelerated due to winter energy shock

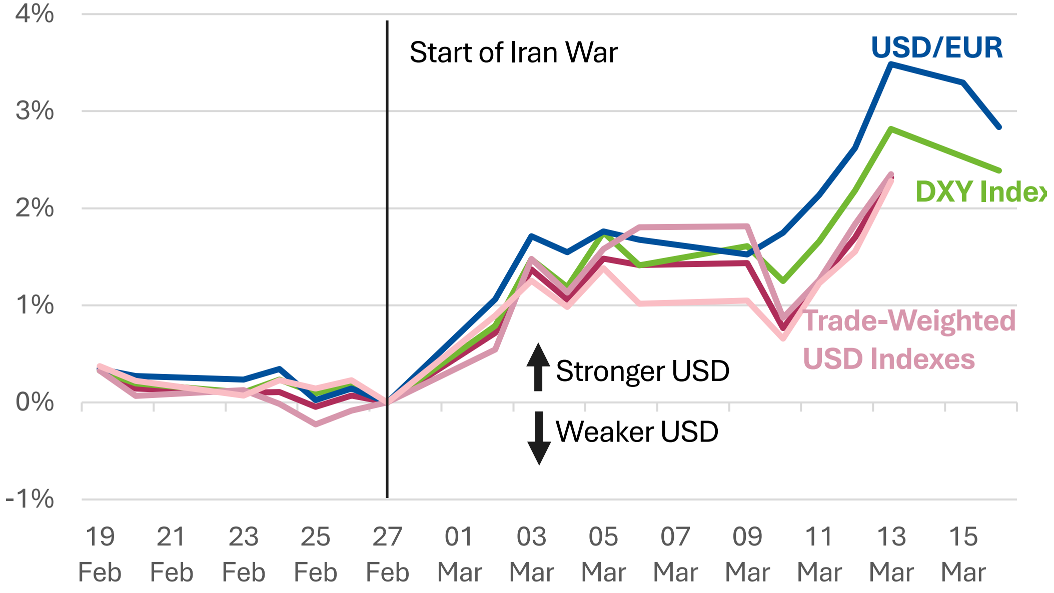


Source: NBU, CES calculations.
Note: CPI SAAR is adjusted using X13ARIMA-SEATS algorithm on the last 5 years of data.

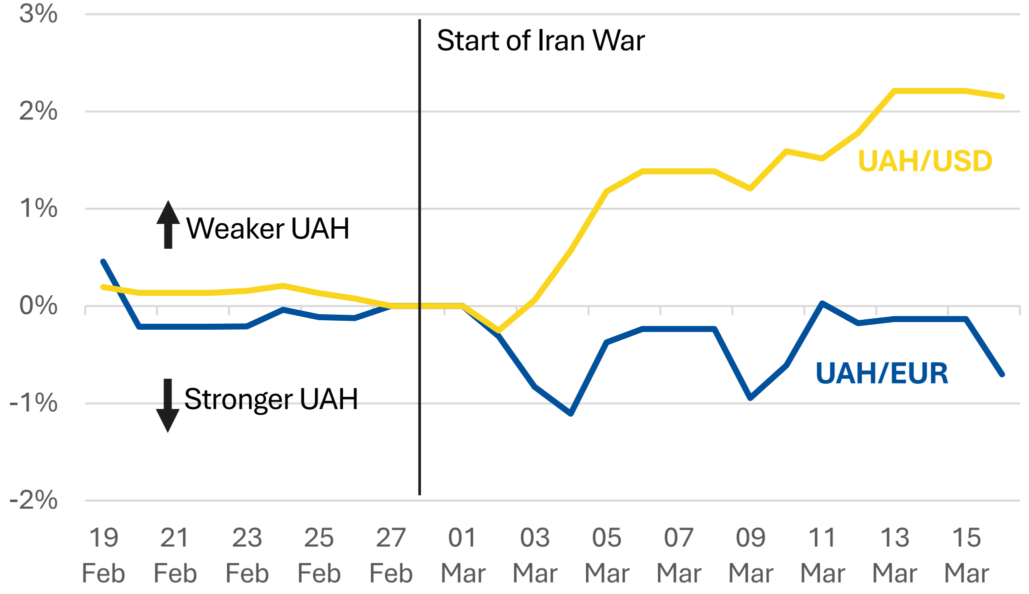
- The monthly 'impulse' (Seasonally adjusted annual rate, SAAR) tripled over the winter months, driven by the immediate pass-through of industrial electricity price hikes.
- According to our estimates, energy demand had exceeded supply by 30% in January and February.
- Businesses began adjusting prices in late February in anticipation of higher logistics and fuel costs following the Strait of Hormuz disruptions.
- The winter energy shock was temporary but will likely result in higher inflation over the next months.
- Uncertainty around high energy prices because of the Iran war remains elevated.
- On March 19, the NBU left the key policy unchanged.

Iran war strengthened US dollar against other currencies, and hryvnia

Relative changes of FX rates after the start of the Iran War



Source: FRED, Investing.com, CES calculations.



Source: NBU, CES calculations

- On 28 February, US and Israel started war against Iran.
- The war caused a persistent oil shock due to Hormuz strait blockage (20% of oil).
- After the start of Iran war, the US dollar indexes suggest it strengthened by 2-4%.

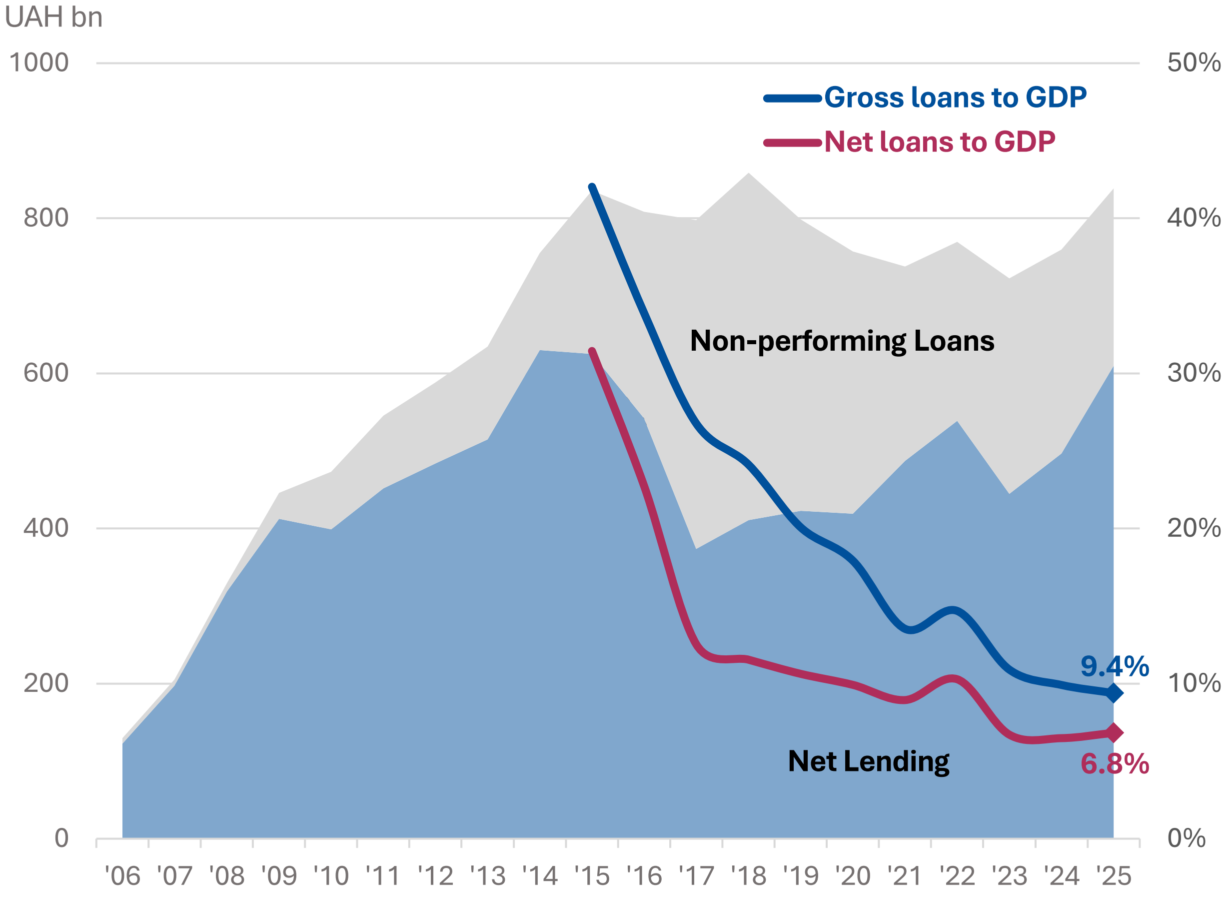
- The US dollar strengthened due to safe haven effects: investors flock to US Treasuries as a safe asset.
- This weakened hryvnia significantly against US dollar – by more than 2% over two weeks.

Special topic: Credit Growth

Loans from banks play a limited role in business development

After the 2015 banking crisis, the credit penetration is low and stable

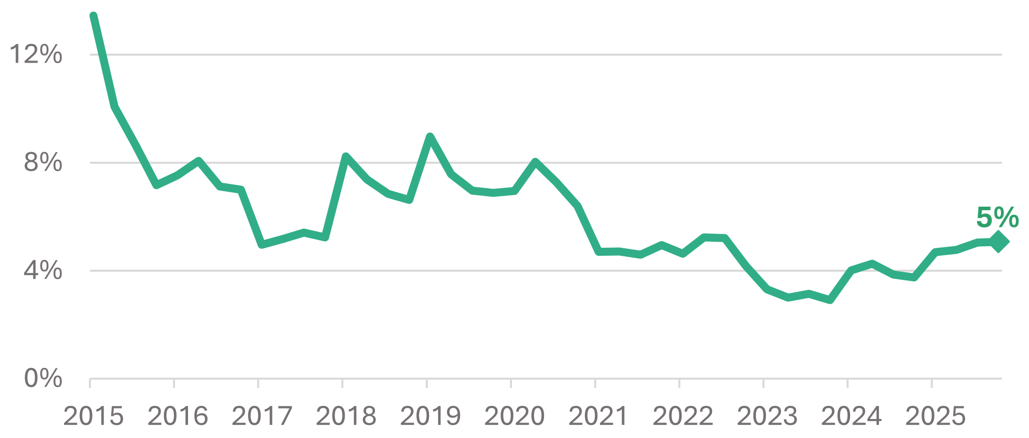
Credit Penetration Ratios, %, 2006-2025



Source: NBU, Ukrstat, CES calculations.

- Net loans to GDP remain around 7%.
- The banking system is highly liquid but risk aversion in wartime and high real interest rates keep the credit-to-GDP ratio far below regional peers.
- In late 2025, Non-Performing Loans (NPLs) dropped to a 15-year low of 13.9%, thanks to aggressive write-offs and a higher quality of new loans.

Only 5% of capital investments are financed with bank lending



Source: Ukrstat, CES calculations.

Market-based lending dominates the credit growth

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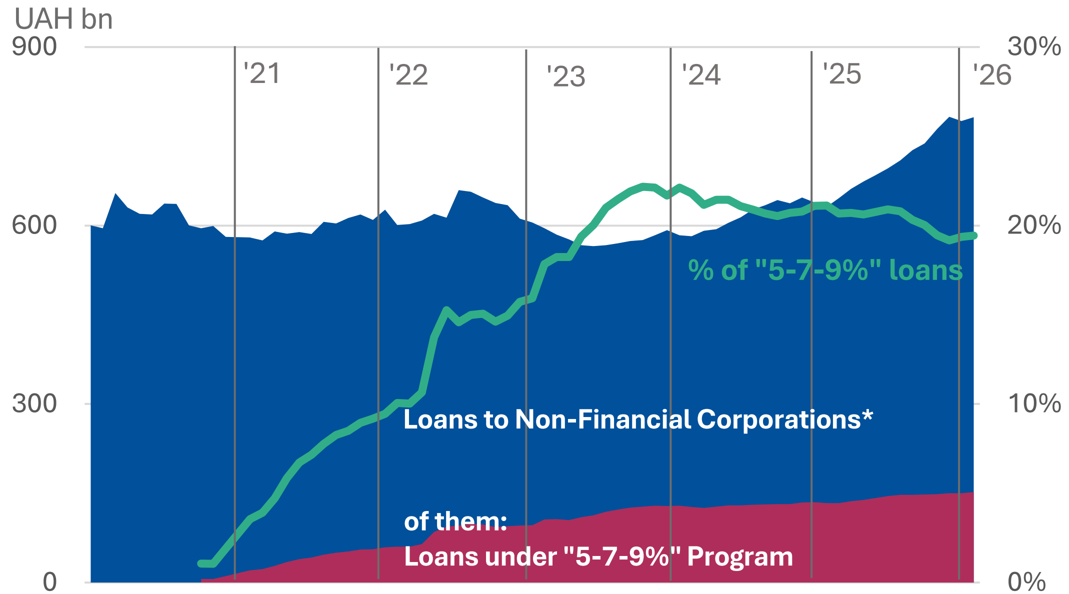
- The government programme of subsidized loans "5-7-9%" had been an important driver of credit in the first two years of the full-scale invasion.
- **"5-7-9%" importance peaked in late 2023 and has been in decline since.**

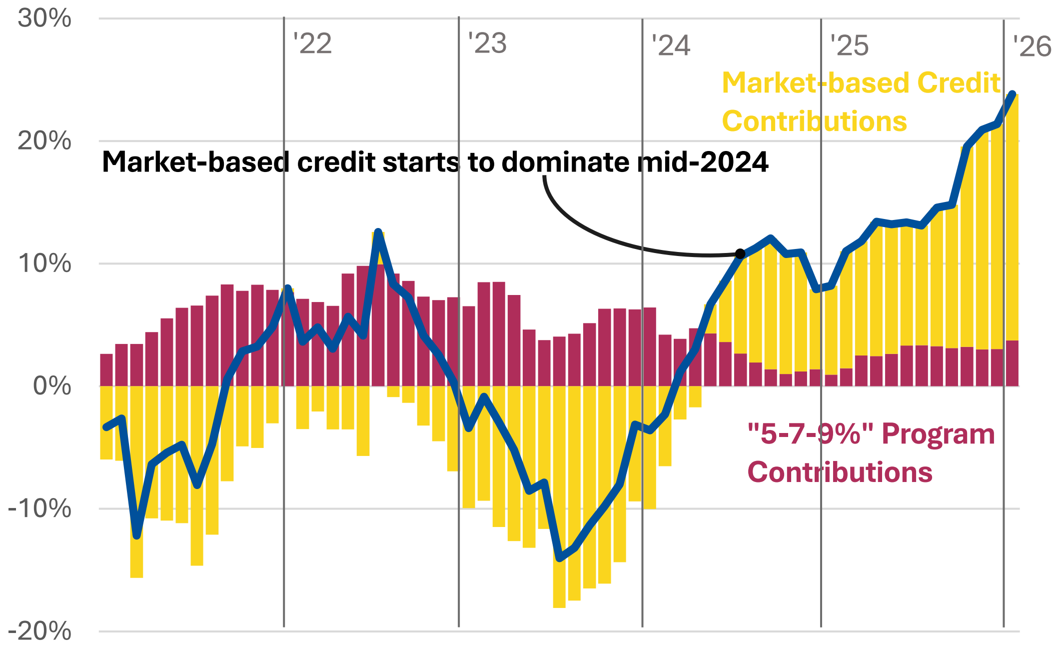
- **Since the Q3 2024, the growth of credit accelerated, mainly driven by market-based loans.**
- Gross credit growth to non-financial corporation has reached the growth of almost 25% y-o-y.
- According to the NBU, the net lending growth (accounting for NPL and reserves) is above 30%.

Share of Subsidized Loans in Gross Loan Stock to non-financial corporations*



Source: NBU, Business Development Fund, CES calculations.
*Gross loans to non-financial corporation with PrivatBank legacy deadweight NPLs excluded.

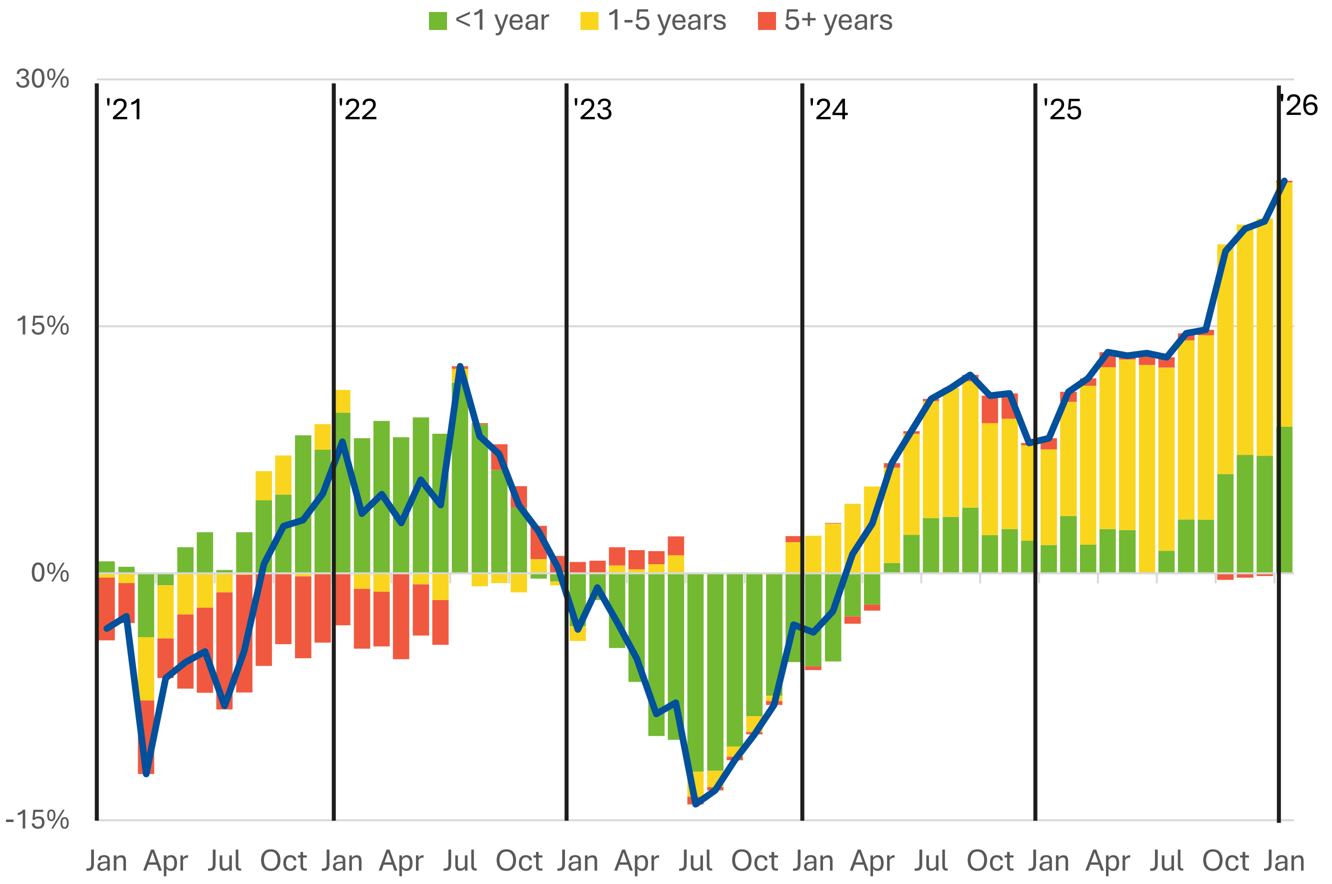
Contributions to Growth of Gross Loans to non-financial corporations, y-o-y



Source: NBU, Business Development Fund, CES calculations.

A shift toward medium-term loans

The credit growth is mainly driven by medium-term lending



- The medium-term loans lead the credit growth.
- Recent uptick within short-term loans, likely associated with preparation and adaptation to winter energy shortages.
- These loans grew by ~30% y-o-y, supporting equipment upgrades in the energy and defence-adjacent sectors.
- Long-term loans (5+ years) remain stagnant.
- War-related risks limit both the demand and willingness to supply long-term loans. Banks and business remain wary of long-term planning without security guarantees and insurance.

Source: NBU, CES calculations.

Who gets the credit?

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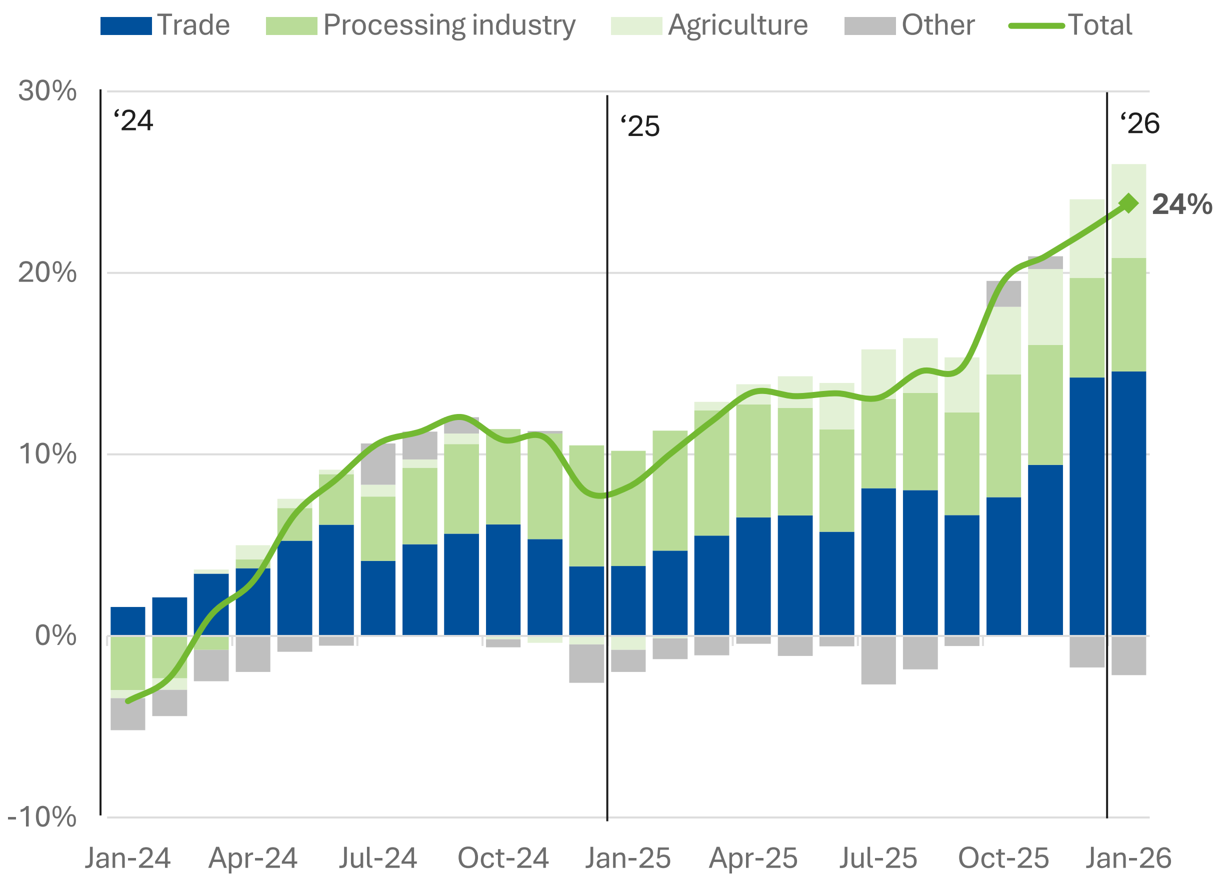
New credit is highly concentrated in three industries



- As of January 2026, credit growth remains highly concentrated in three strategic areas — **Trade, Processing Industry, and Agriculture** — which together account for nearly the entire increase in the performing loan portfolio.
- Trade continues to be the primary engine of lending, receiving over 50% of all new loans. This is driven by the high demand for short-term working capital.
- Processing industry has seen uptick in credit growth, likely driven by investments in energy autonomy and defence-adjacent production.
- Lending to the agrifood industry has seen a major increase since the mid of the 2025.

Source: NBU, CES calculations.

Recap: March Economic Review

- Energy outages in February weighed on business activity, but the electricity situation improved in March thanks to repairs and favourable weather.
- External risks increased amid the Iran war, pushing up oil and gas prices and weakening the hryvnia.
- **Credit growth reached a record high, increasingly driven by market-based lending.**
- **But access to long-term finance remains constrained** by war-related risks.
- **The banking system is highly liquid** but risk aversion in wartime and high real interest rates keep **the credit-to-GDP ratio far below regional peers.**

Thank you!