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June Economic Review

Special topic: What's changing in Ukraine's 2026 state budget?

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Authors: CES Team



Executive summary

Executive summary

- **Sectoral analysis:** After a fall in Q1 2026, economic activity gradually restored amid a stable energy situation. Metallurgy production grew in May. The spring sowing campaign has already been finished, and harvest expectations remain good despite the risks of lower fertilisation.
- **Monetary sector:** Inflation in May 2026 reached 8,2% y-o-y, down from 8,6% in April, and rose by 0,9% m-o-m. The government released a new 2027-2029 forecast, expecting 4,5% real GDP growth next year. The official UAH/USD exchange rate approached 45 in June, caused by a higher trade deficit.
- **Fiscal sector:** The effects of the fuel crisis have already faded. Import VAT — the largest non-seasonal revenue source - decreased, tracking an import contraction. May's increase in revenues is only due to the seasonality of CPT. April expenditures saw a rebound after a decline in the first quarter. War and debt service expenditures are striking. However, the defence spending is still less than expected, 80% fulfillment of the plan.
- **Special topic:** Rada has adopted amendments to the Law of Budget-2026. New European support made this possible. Revenues are increasing more than expenditures, so the resulting deficit now is smaller — 12.1% of GDP against 18.5% of GDP in the original plan. Most of the increase in expenditures is due to the war needs, both procurement and salaries, which were underfunded in the original plan. But to increase the military salaries budget needs even more sources and its reallocation.
- **See our report below for further details.**

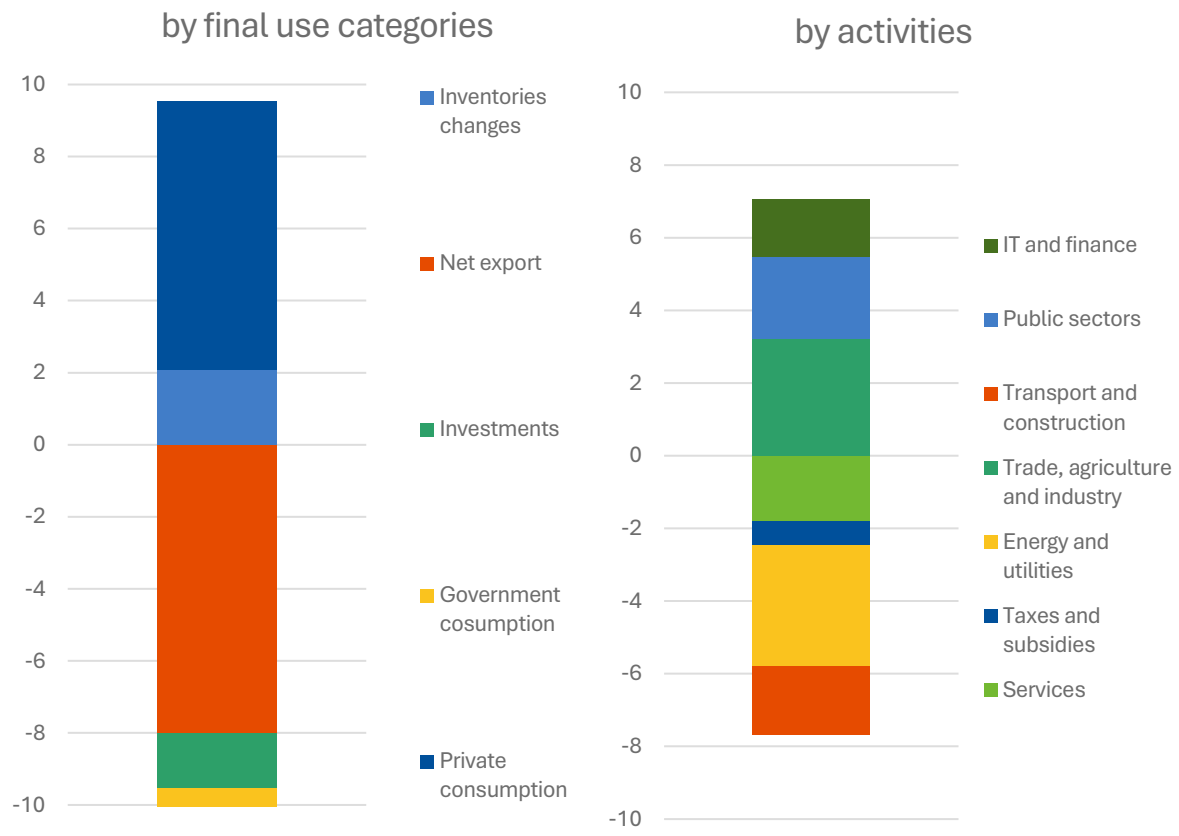


Sectoral analysis

Real GDP fell in Q1 2026 by 0,6% y-o-y

Net export and the energy sector made the largest negative contribution to the real GDP growth

Contribution to real GDP growth in Q1 2026, pp



Source: SSSU, CES calculations.

In Q1 2026, real GDP fell by 0.6% y-o-y and 0.7% q-o-q sa amid the energy crisis, cold weather and budgetary constraints due to uncertainty over external financing.

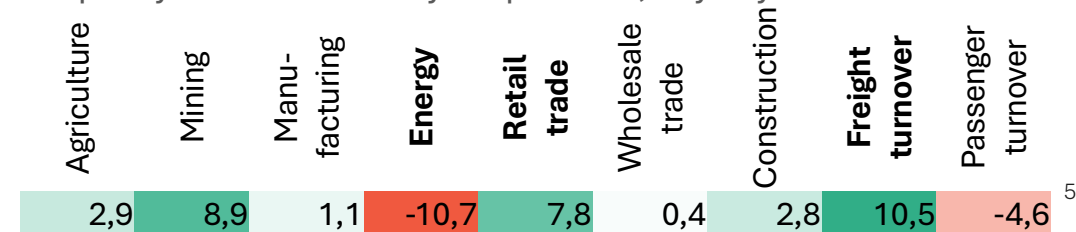
Electricity outages and damaged infrastructure led to a **decline in the energy, utilities, services, transport and construction sectors** and to a surge in imports.

Restrained government spending led to a **decline in investments and government consumption**, while private consumption supported economic growth.

Further economic activity has gradually been restored, according to the SSSU data in April, despite the energy sector and passenger transportation.

The Business Activity Expectations Index remained very close to a neutral level in May (49,8 p. seasonally adjusted) and improved in headline NBU data (to 52,1 p).

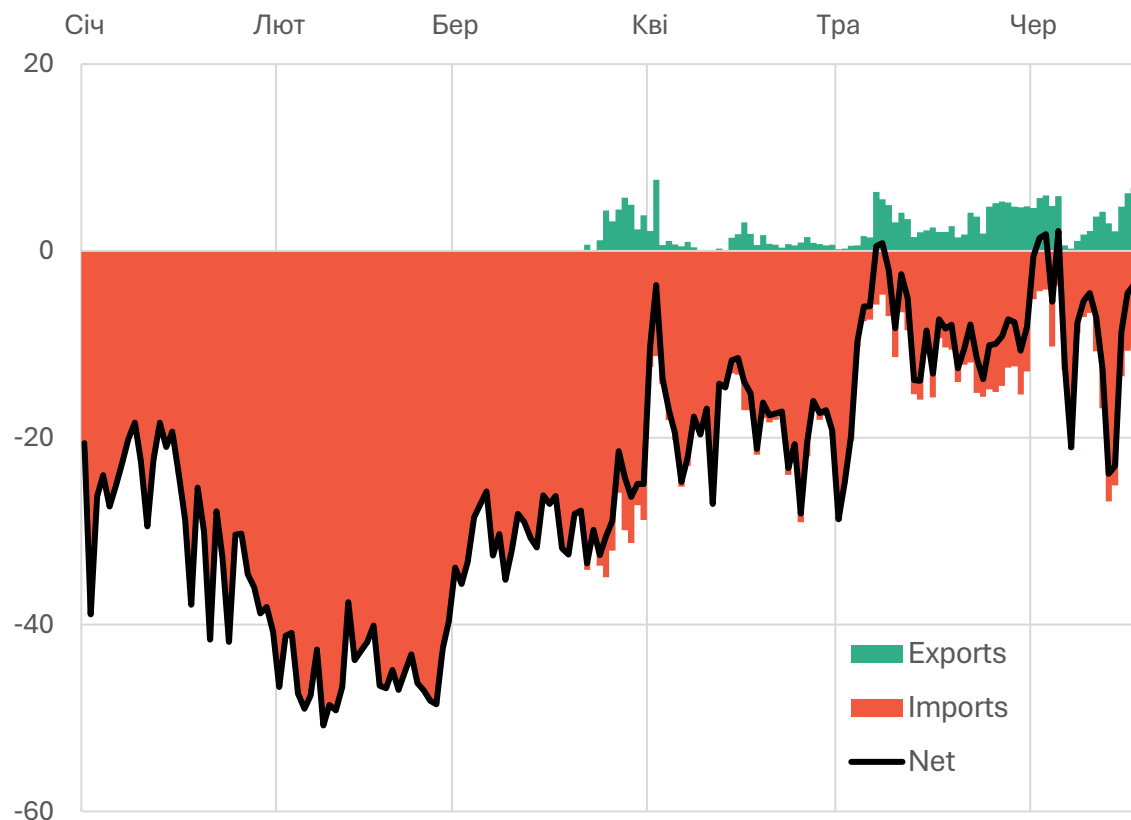
Output by economic activity in April 2026, % y-o-y



The energy situation remained stable in May - June

Electricity export increased in May

Ukraine commercial electricity EXIM in 2026, GWh



Source: ENTSO-E.

The energy situation remained stable in May – June: electricity imports fell by 30% m-o-m in May to 398 GWh. However, imports exceeded the 2025 level during periods of supply shortages, driven by rising electricity price caps since 1 May. **Electricity exports increased threefold** m-o-m to 94 GWh, driven by lower demand and higher solar generation. However, CBAM measures restrained faster export growth.

The restoration of the following energy system after shellings is ongoing: a tender has been announced for the construction of 1.5 GW of new generating capacity; renewable energy support quotas for this year have increased to 1 GW; the Government has allocated UAH 3 bn to implement resilience plans for regions and cities (~UAH 1 bn for Kyiv).

However, **the risks of summer power outages are significant**, with a deficit of 0,7-6,2 GW during peak hours, [according to the Dixi group's assessment](#).

The Government introduced pilot long-term contracts on the electricity market, allowing Ukrainian businesses to protect themselves against sharp price fluctuations.

Metallurgical production restored in May

Metallurgical production increased



Sources: Ukrmetallurgprom.

In May, metallurgical production grew by 15-22% m-o-m. However, in Jan – May it remained lower by 1-7% y-o-y amid competition with China and Turkey dumped imports and CBAM regulations, which reduced EU demand for Ukrainian metallurgical products.

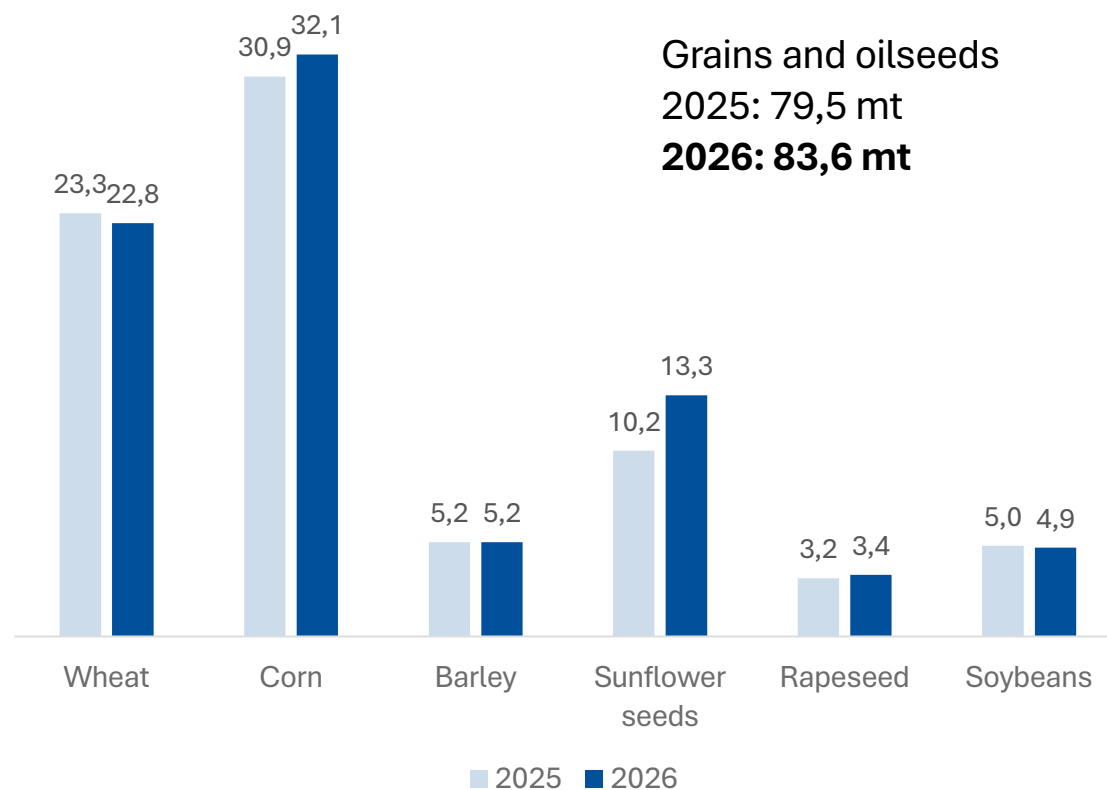
The Interagency Commission on International Trade has initiated an anti-dumping investigation into metallurgical imports from Turkey, Vietnam, the Republic of Korea, and India.

Ukrzaliznytsia plans to increase freight tariffs by at least 45% in 2026 due to rising repair costs for damaged infrastructure and debt service. However, it will cover about half of the expected UAH 26 bn deficit. Agricultural and metallurgical companies warn that a sharp increase in transportation costs could reduce the competitiveness of Ukrainian products on global markets and hurt exports.

More than 20 million hectares have been planted for the 2026 harvest

Grains and oilseeds harvest will slightly exceed 2025 volumes

Harvest of main crops in Ukraine



Sources: SSSU, UGA.

As of 15 June, 98% of spring crops or 5,9 million hectares have been sown, which is slightly higher than up to the same date in 2025 (5,7 million hectares) due to the need to replant winter crops lost in the extremely cold winter.

The conditions for winter crops are better than in 2025 across most of the country, thanks to sufficient soil moisture reserves. However, the recent rainfall and the cold start of summer have created favourable conditions for the diseases.

The total harvest of grains and oilseeds is expected to reach 81–83 million tons, with 60-61 million tons of grain, according to the Ministry of Economy.

USDA improved Ukraine's wheat harvest forecast for 2026/2027 MY by 0,5 million tons to 23,5 million tons and an unchanged corn harvest forecast (30 million tons), despite risks to yields due to a lack of fertilisers.

The Ministry of Economy updated the procedure for the duty-free export of soybeans and rapeseed.



Monetary sector

Inflation slowed in May due to lower food prices

Nevertheless, transport costs continue to create pressure

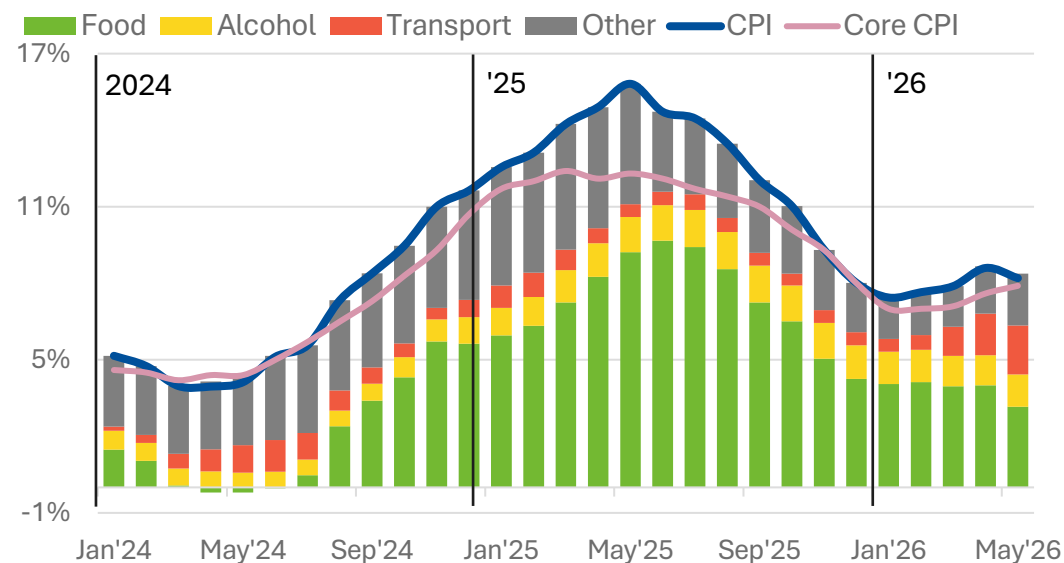
Inflation in May 2026 reached 8.2% y-o-y (down from 8.6% in April), and rose by 0.9% m-o-m.

The emergence of fresh produce led to a 16.8% decrease in vegetable prices y-o-y, partially due to a high base comparison with last year.

Core CPI continues to rise, reaching 7.9% y-o-y. This suggests that despite a lower inflation rate in May, **the fundamental inflationary pressure persists.**

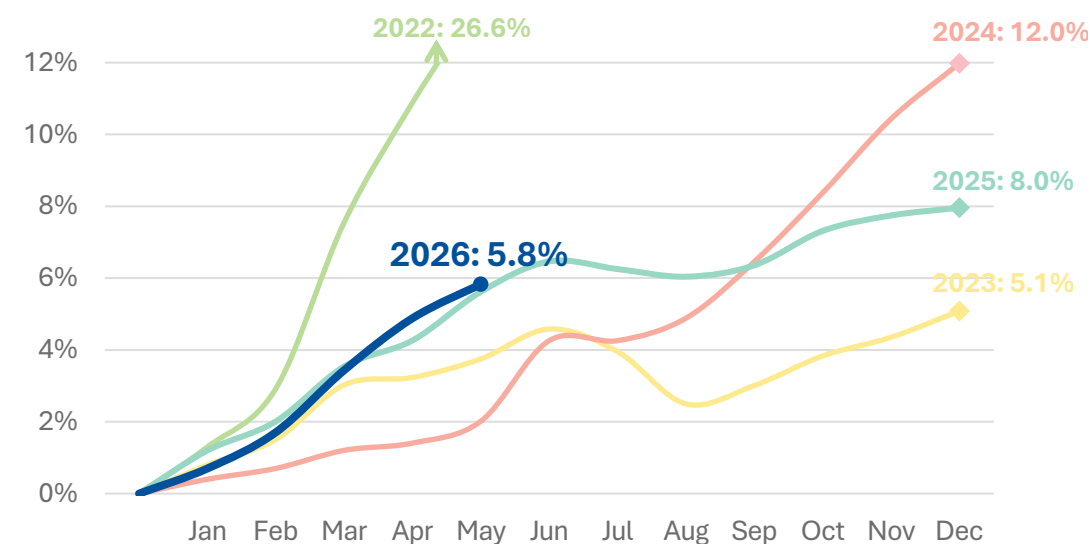
Transport costs (+20% y-o-y) continue to impact logistics costs.

Consumer Price Index (CPI, Inflation) decomposition, y-o-y, %



Sources: State Statistics Service of Ukraine, NBU, CES calculations.

Cumulative CPI change since January, by year (%)



Sources: State Statistics Service of Ukraine, NBU, CES calculations.

The government released a new 2027-2029 economic forecast

The forecast serves as a basis for future budget planning

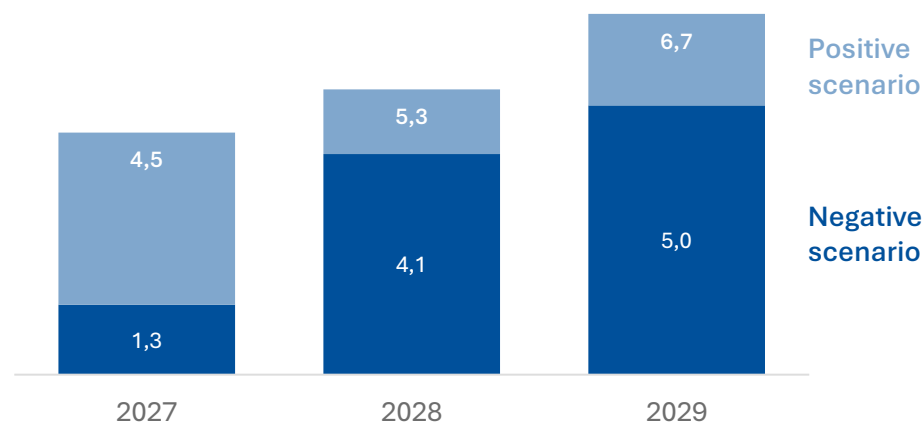
The new forecast includes two scenarios, which differ based on assumptions of length and intensity of the war.

The positive scenario — where the full-scale invasion is set to end in 2027 — is seen as more likely by the government.

Under the positive scenario, real GDP growth is set to reach 4.5% in 2027, but only 1.3% if the war persists.

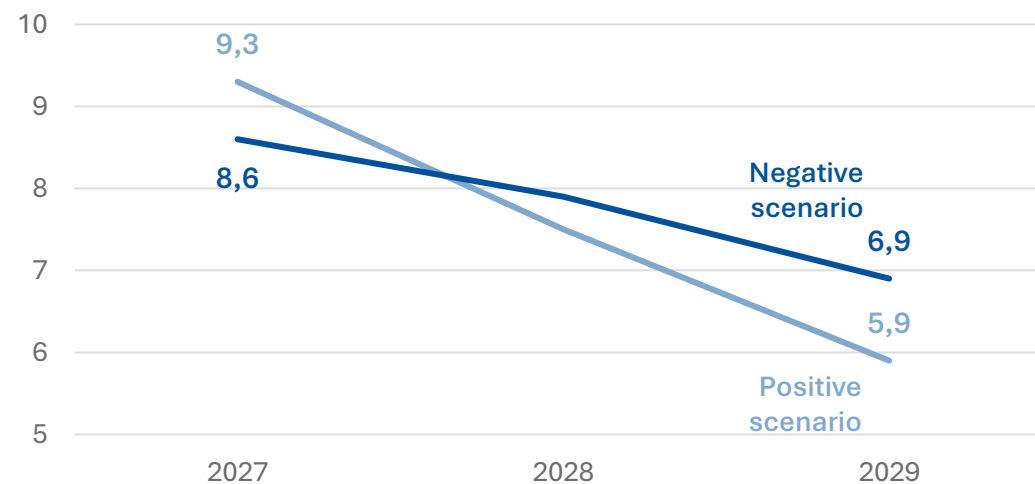
Inflation is expected to decline gradually, reaching average rates of 6.9% or 5.9% depending on the scenario.

Forecasted real GDP growth, %



Sources: Government Portal, CES visualisation.

Forecasted average annual CPI change, %



Sources: Government Portal, CES visualisation.

The official UAH/\$ exchange rate approached 45 in June

The biggest driver is the widening trade deficit

Official UAH to \$ exchange rate, UAH



Source: NBU.

The weakening is driven by the trade deficit, which reached \$20.8 bn in 4M2026.

The increase in the value of imports was driven by the need to purchase weapons previously supplied by the US, as well as drones, components, and power equipment for the next heating season.

The NBU spent \$18.1 bn defending the hryvnia in 5M2026, up from \$14.3 bn in the same period last year.

The depreciation remains below the 2024 pace of ~10% y-o-y and acts to support the balance of payments and keep exports competitive.

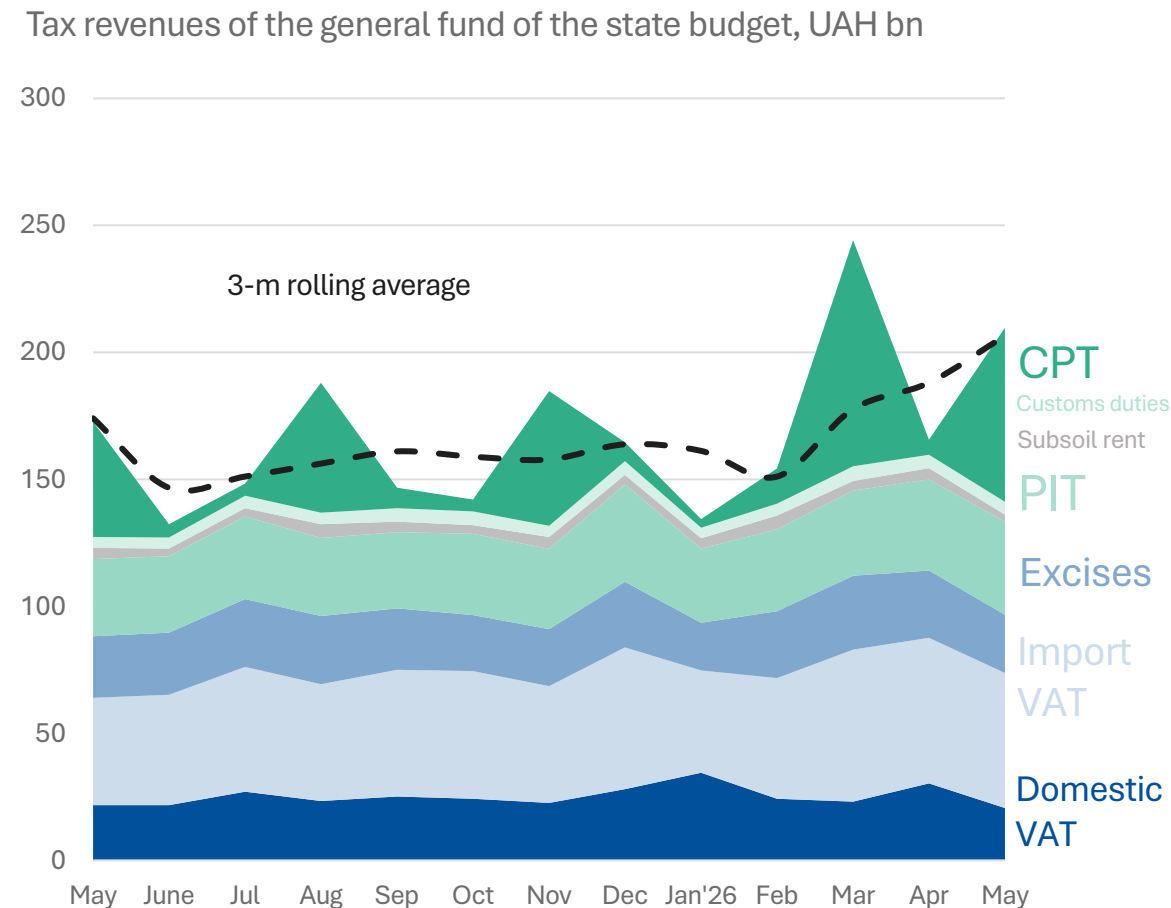
The government expects the dollar exchange rate to reach 45.8 by the end of 2026 and 48.3 in 2027.



Fiscal sector and Special topic: Changes to the Budget-2026

The effects of the fuel crisis have already faded

Revenues increase only due to the seasonality of CPT



Sources: Ministry of Finance, CES calculations.

Total tax revenues rose 27% m-o-m to UAH 210 bn in May.

However, the monthly increase is largely seasonal: UAH 68.6 bn came from corporate profit tax (CPT) – as Q1 filings fall due in May. This is 1.5x higher y-o-y, partly reflecting post-fuel-crisis economy recovery.

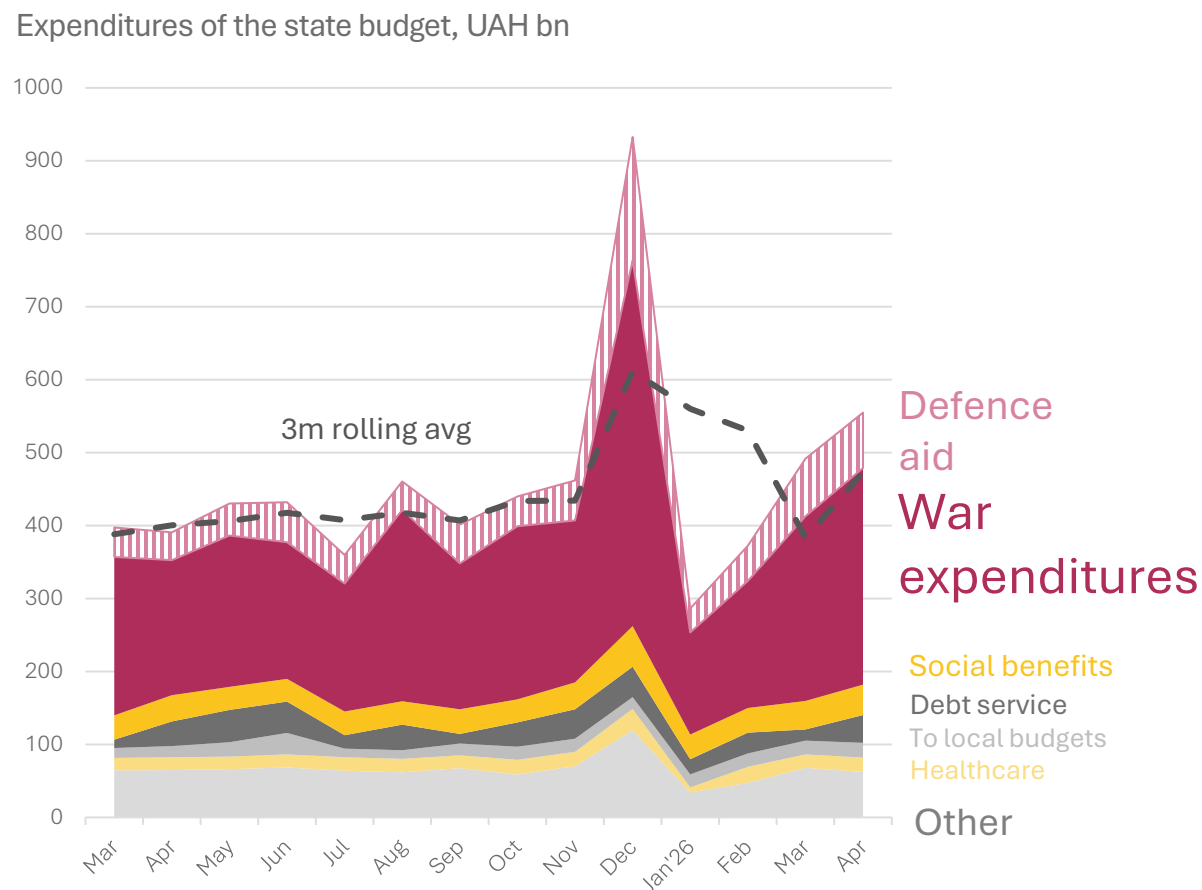
Personal income tax revenues also increased: edged up 2% m-o-m and 21% y-o-y to UAH 36.7 bn. This is consistent with real wage growth (avg. salary: UAH 25,160 in April 2025 → UAH 30,515 in April 2026 per State Statistics Service).

Revenues from other taxes weakened, especially against the backdrop of reduced consumption following the fuel crisis.

Import VAT — the largest non-seasonal revenue source — fell 7% m-o-m to UAH 53.1bn, tracking an import contraction (\$9.8bn → \$7.3bn, led by fuel).

War expenditures are recovering after Q1 fiscal squeeze

Still, the plan for the first 4 months has not been met



After nominal war spending declined 1% y-o-y in Q1 2026 amid tight budget resources, **April saw a rebound to UAH 373 bn** (UAH 297 bn domestic-funded - 1.6x y-o-y + UAH 76 bn defence aid — 2x y-o-y). However, the defence spending plan from the General Fund for January–April was only 80% fulfilled.

The Q1 pattern reflects front-loaded fiscal constraints rather than reduced commitment; the March–April acceleration is a catch-up effect.

Security and defence remain the dominant priority at ~63% of war spending.

Social protection holds second place at 7.5% of the total state budget (UAH 41 bn in April, +UAH 2 bn m-o-m).

The sharpest non-military increase was debt servicing — UAH 38 bn, 2.4x m-o-m — driven by domestic bond obligations, with elevated payments expected through at least June.

Sources: Ministry of Finance, CES calculations.

The Rada amended the 2026 Budget Law

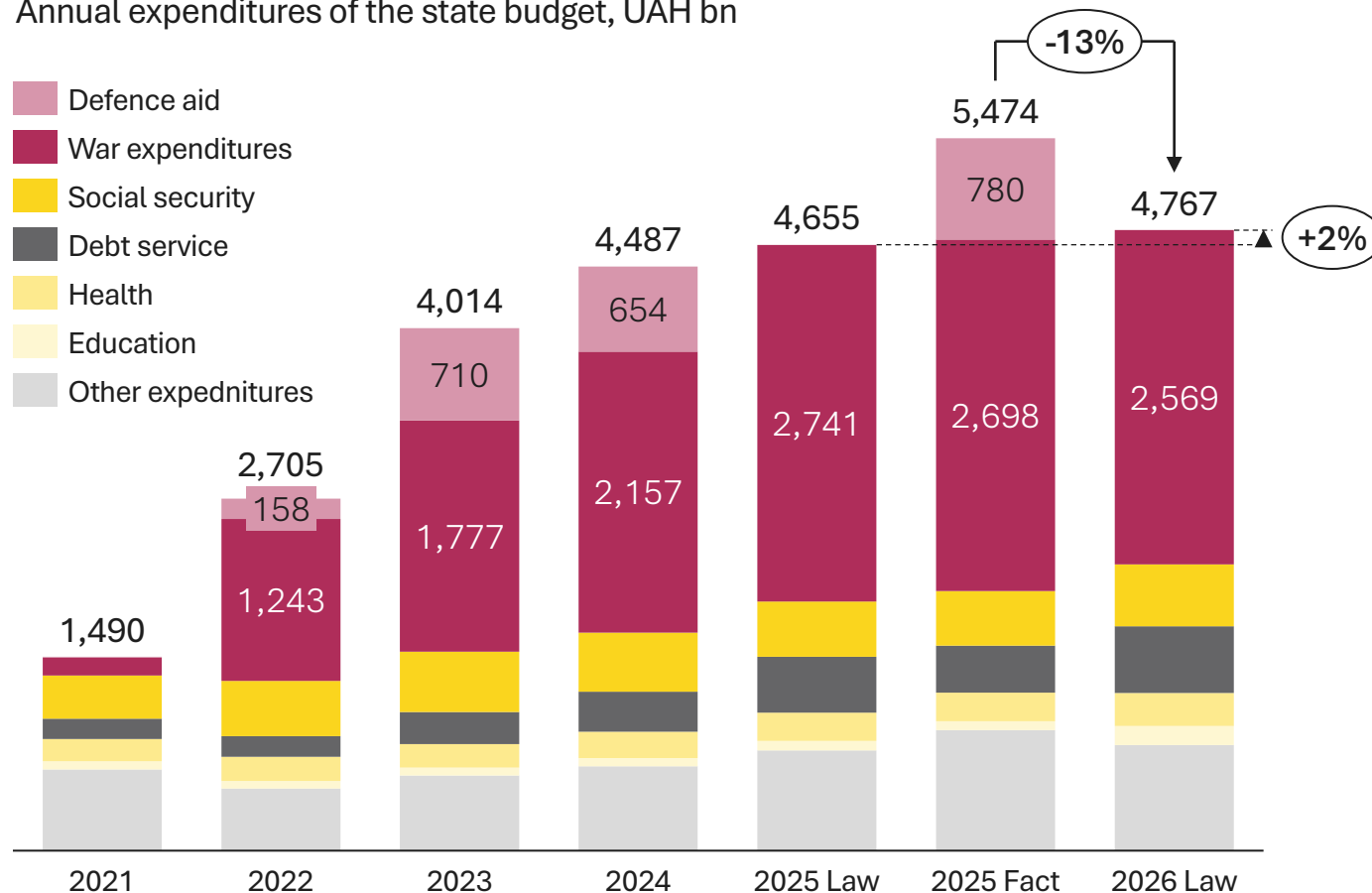
New Ukraine Support Loan from the EU made this possible

	Original Law of the State budget	Amendments	Current Law with amendments
Revenues	UAH 2905 bn 85% from taxes 13% other own revenues 1% of international grants	+UAH 2221 bn USL +UAH 48 bn Ukraine Facility +UAH 23 bn PIT	UAH 5196 bn 48% from tax revenues 7% from other own revenues 45% from grants
Expenditures	UAH 4767 bn 54% to war 11% to debt service 10% to social security 25% to other costs	+UAH 1.56 tr on war +UAH 40 bn sustainability of regions +UAH 40 bn to the reserve fund	UAH 6407 bn 64% to war 8% to debt service 7.5% to social security 20% to other costs
Financing deficit	UAH 1902 bn 18.5% of GDP	Increase in revenues \approx decrease in deficit	UAH 1251 bn 12.1% of GDP

Why did we need changes to the Budget Law?

Previously planned funds are insufficient to cover necessary expenditures

Annual expenditures of the state budget, UAH bn



The 2026 State Budget initially allocated insufficient funding for war needs relative to what is required to sustain the war throughout the year.

Total expenditures were planned at UAH 4.8 tr, only 2% higher than the 2025 budget plan.

This is 13% lower in nominal terms than actual spending in 2025.

Adjusted for inflation, this implies a nearly 19% reduction in real fiscal resources.

One key reason was uncertainty around external donor assistance during 2026.

Sources: Ministry of Finance, CES calculations.

Defence was underfunded prior to the changes

Planned defence spending was almost UAH 1 tr lower than actual for 2025

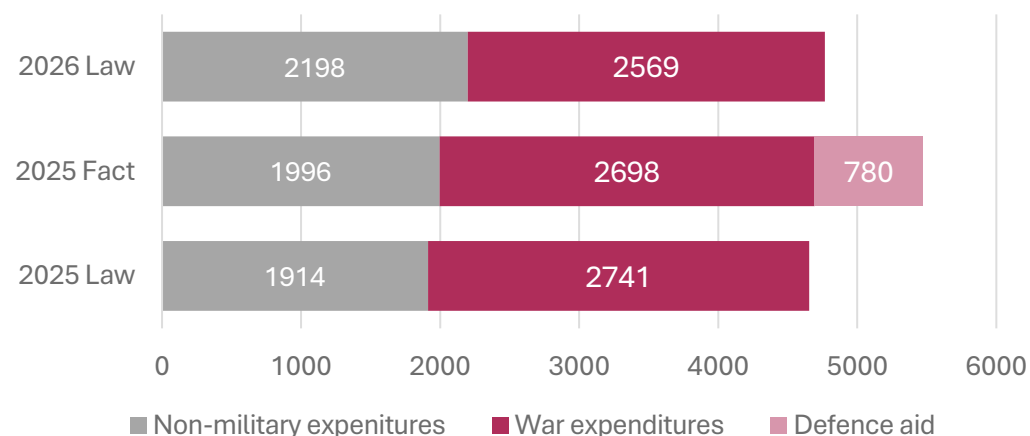
Planned defence spending was **UAH 961 bn below the actual 2025 spending***.

Most of this gap came from **weapons and ammunition procurement**.

The budget assumed part of these needs would be covered by **international military aid**.

* according to the functional classification of the budget

Expenditures of the State budget, UAH bn

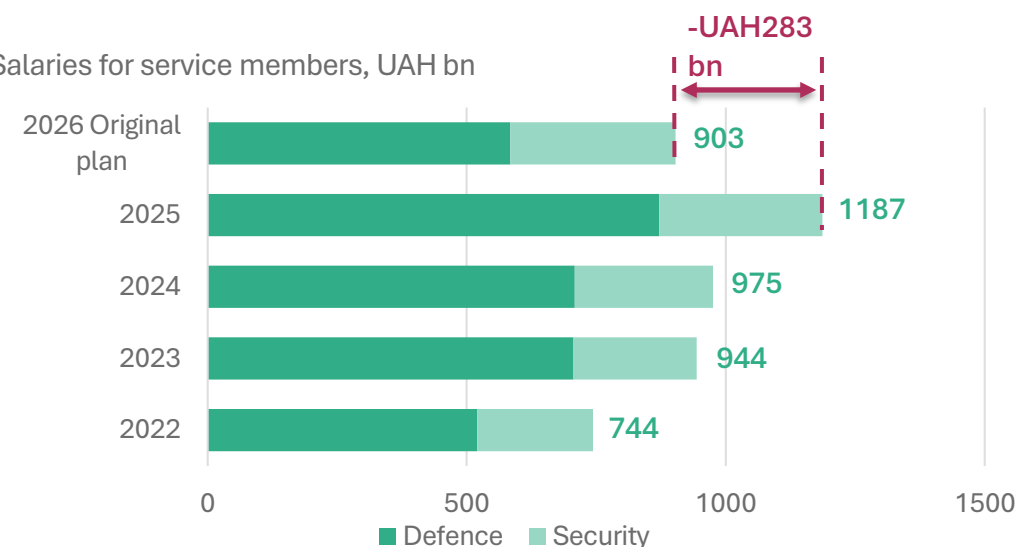


Sources: Ministry of Finance, CES calculations.

Military compensation was also underfunded.

The initial budget had a **UAH 283 bn shortfall in military salaries** — just to maintain compensation at the 2025 level. This gap has now been covered.

Salaries for service members, UAH bn



Sources: Ministry of Finance, CES calculations.

Military pay has not kept pace with wage growth in the economy

Military compensation has remained unchanged since 2022 despite rising inflation and wages

Military salaries have not increased since 2022.

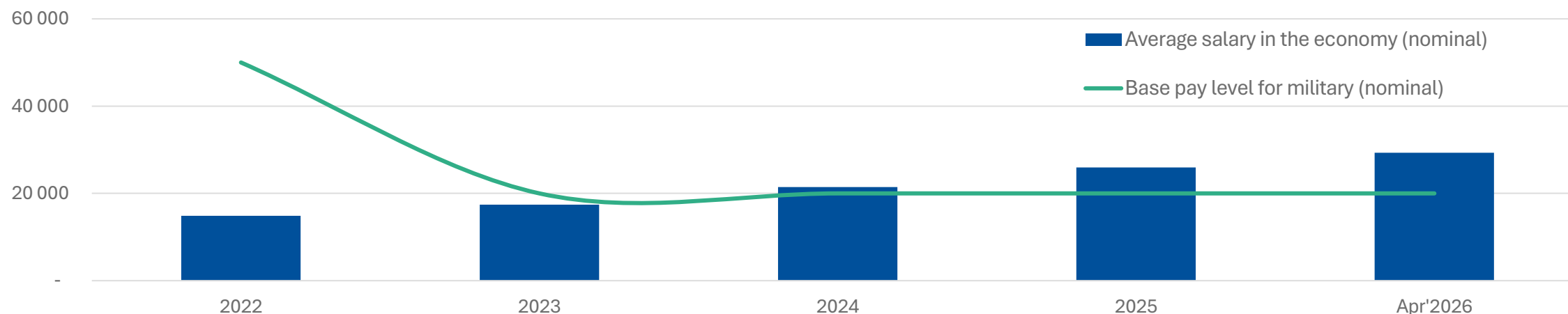
Meanwhile, **average wages in the economy grew by 75%** nominally (36% in real terms) between 2022 and 2025.

Although total spending on military compensation has increased due to the growing number of service members.

Raising military salaries requires additional funding.

A pay increase would require **significantly more than UAH 100 bn** in extra resources this year, which is **fiscally possible through reallocation within the Ministry of Defence.**

EU funding under the **Ukraine Support Loan (USL)** can partially substitute domestic spending on weapons procurement, freeing budget resources for military pay.



Note: base pay level for military reflects the approximate level of basic compensation for military personnel in current prices.

Sources: State Statistics Service of Ukraine, CES calculations.

Recap: June Economic Review

- Economic activity has gradually been restored amid a stable energy situation
- Inflation slowed down but the official UAH/\$ exchange rate approached 45 in June
- **The Rada amended the 2026 Budget Law** to provide adequate funding for the war needs
- **Defence was underfunded prior to the changes.** Planned spending for 2026 was lower than actual spending in 2025.
- **Thanks to the Ukraine Support Loan, the shortfall has been covered for now. However, raising military salaries requires not just money, but a reallocation of resources.**



Thank you!
