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July Economic Review

Special topic: How the economy is getting over one winter and bracing for the next

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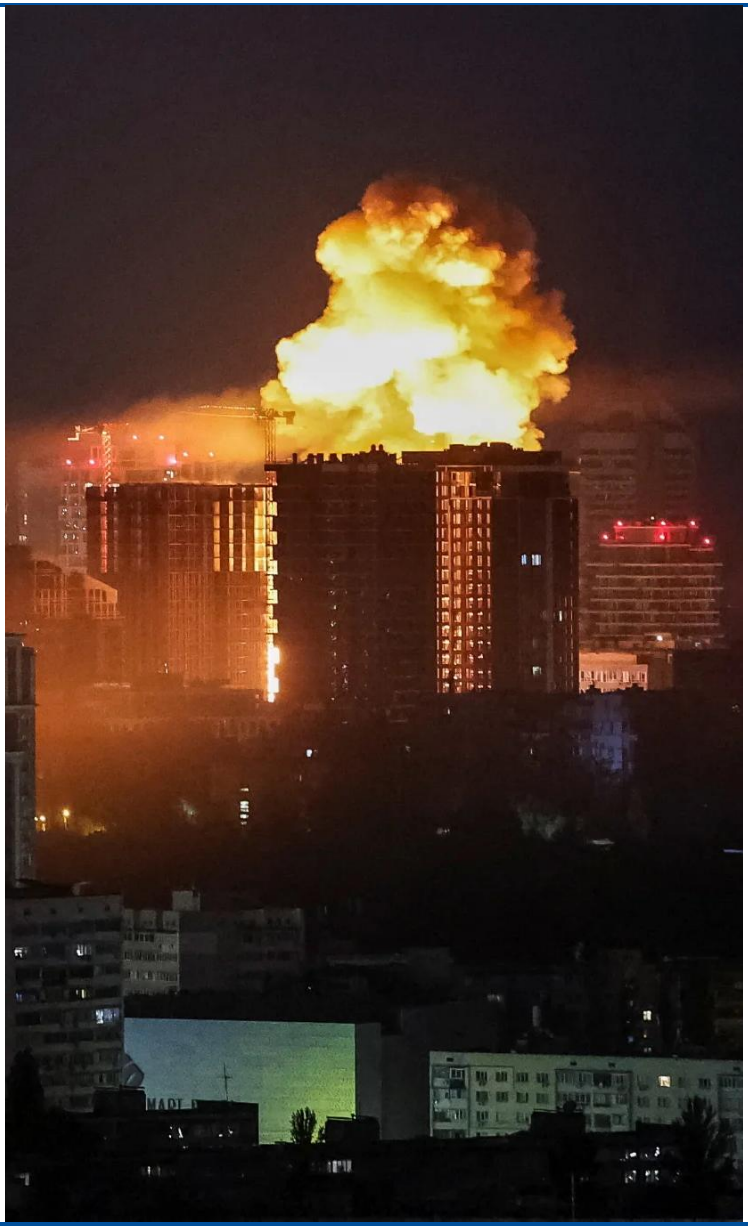
Authors: CES Team



Executive summary

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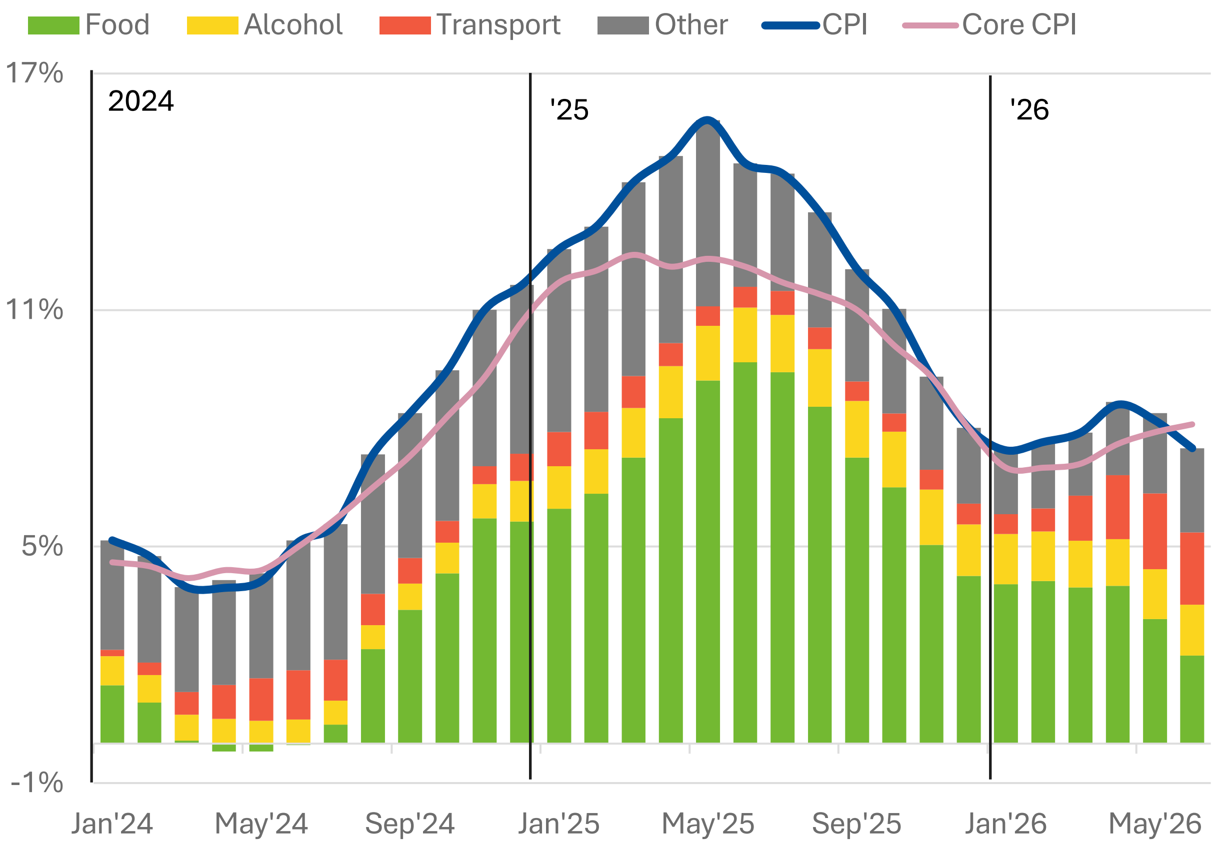
- **Monetary sector:** Inflation in June 2026 reached 7.2% y-o-y, down from 8.2% in May, and fell by 0.2% m-o-m. Ukraine's banks are in the middle of their longest, fastest lending boom in over 15 years. International reserves grew for the first time in months, supported by the EU and the World Bank.
- **Fiscal sector:** In H1 2026, government revenues rose by 35%, but this growth was driven primarily by an increase in international aid received. War needs are requiring an expanding amount of budgetary resources, and Ukraine is covering a growing share of these costs on its own. However, domestic revenues can cover only about half of total expenditures. That is why external financing is crucial, and the record inflow of funds in June is helping to bridge the budget gap.
- **Sectoral analysis and special topic:** The recovery in economic activity following a difficult winter is continuing. The energy situation is stable, consumer demand remains high, and yields for early crops exceed last year’s levels. However, the materialisation of several war-related risks is dampening the outlook for 2026 economic growth.
- **See our report below for further details.**

Monetary sector

Inflation slowed in June due to lower food prices

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



- **Inflation in June slowed to 7.2% y-o-y** (down from 8.6% in May). M-o-m, prices fell by 0.2%.
- This was caused by falling food prices (-0.8% m-o-m), such as eggs, vegetables, grains, and poultry meat.
- Transport costs are 19% higher y-o-y, but their growth has slowed to 0.2% m-o-m.
- **In the coming months, inflation can accelerate again**, as lower food prices will only have a temporary effect.

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

The longest credit boom in over 15 years

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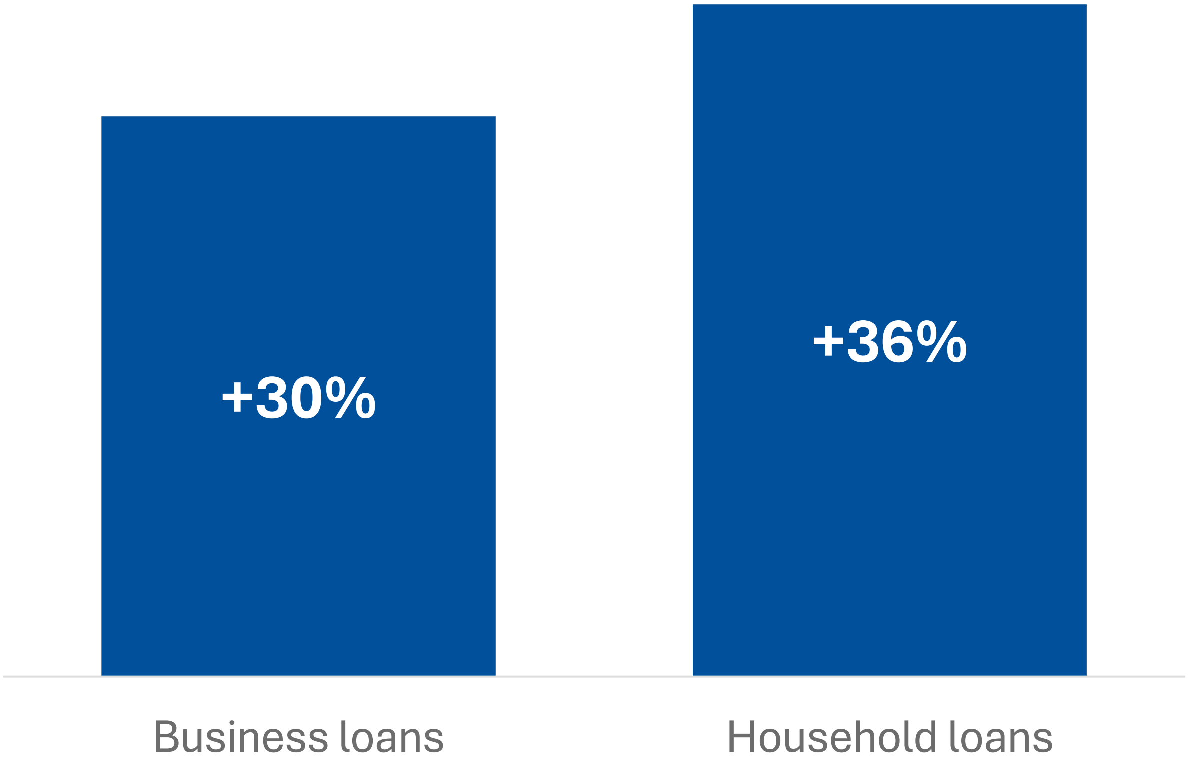
Most businesses, however, still do not borrow

Growth of net hryvnia loans, y-o-y, %



- **Banks of every size are lending more** – over the last decade, the number of actively-credited companies has doubled.
- New money is flowing to energy generation and rebuilding, as well as manufacturers in the defence industry.
- 33% of businesses’ UAH-based portfolio was received as part of the “5-7-9” programme in June.
- However, **only a third of business currently borrow from banks**, leaving room for future growth.

Source: NBU.

International reserves increased for the first time in 5M2026

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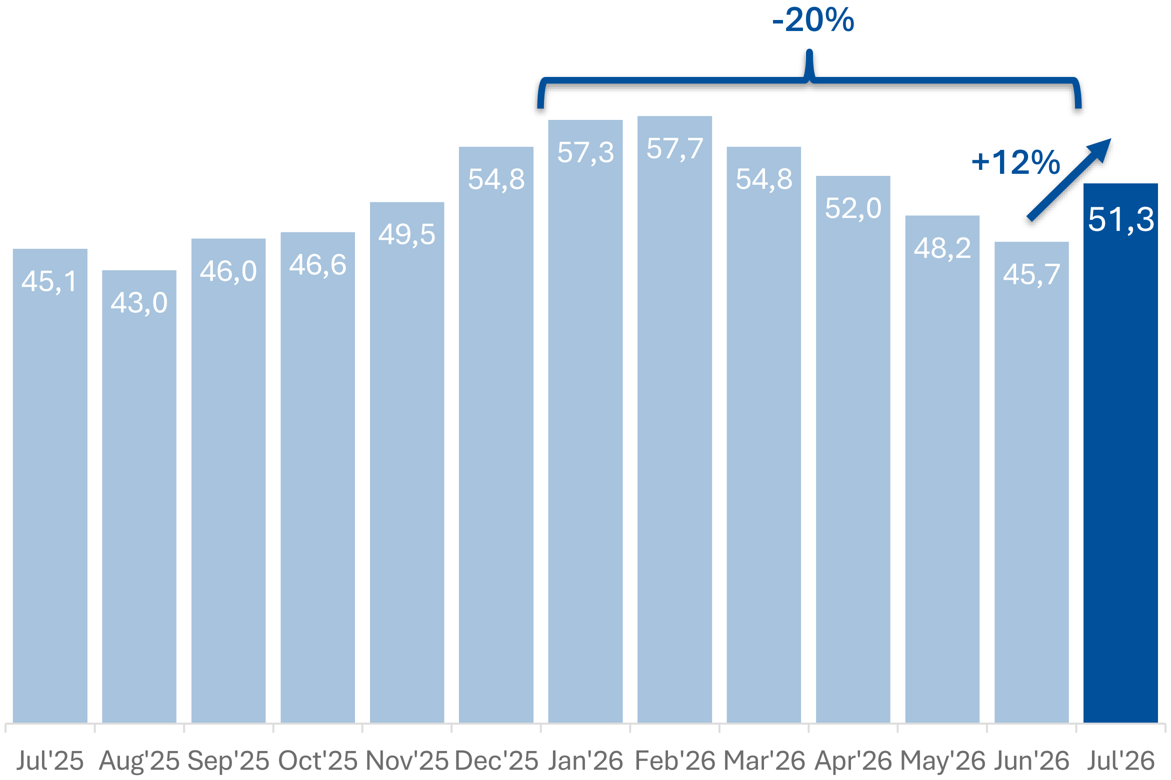
Foreign financing compensated increased NBU interventions

- $11.3 bn of financing from the EU and World Bank came into the government's foreign exchange accounts.
- This increased international reserves despite spending on debt servicing and NBU's currency interventions.
- NBU's interventions also reached the highest level of 2026, exceeding $5 bn.
- International reserves now cover 5.2 months of future imports.

Gross international reserves, $ bn.



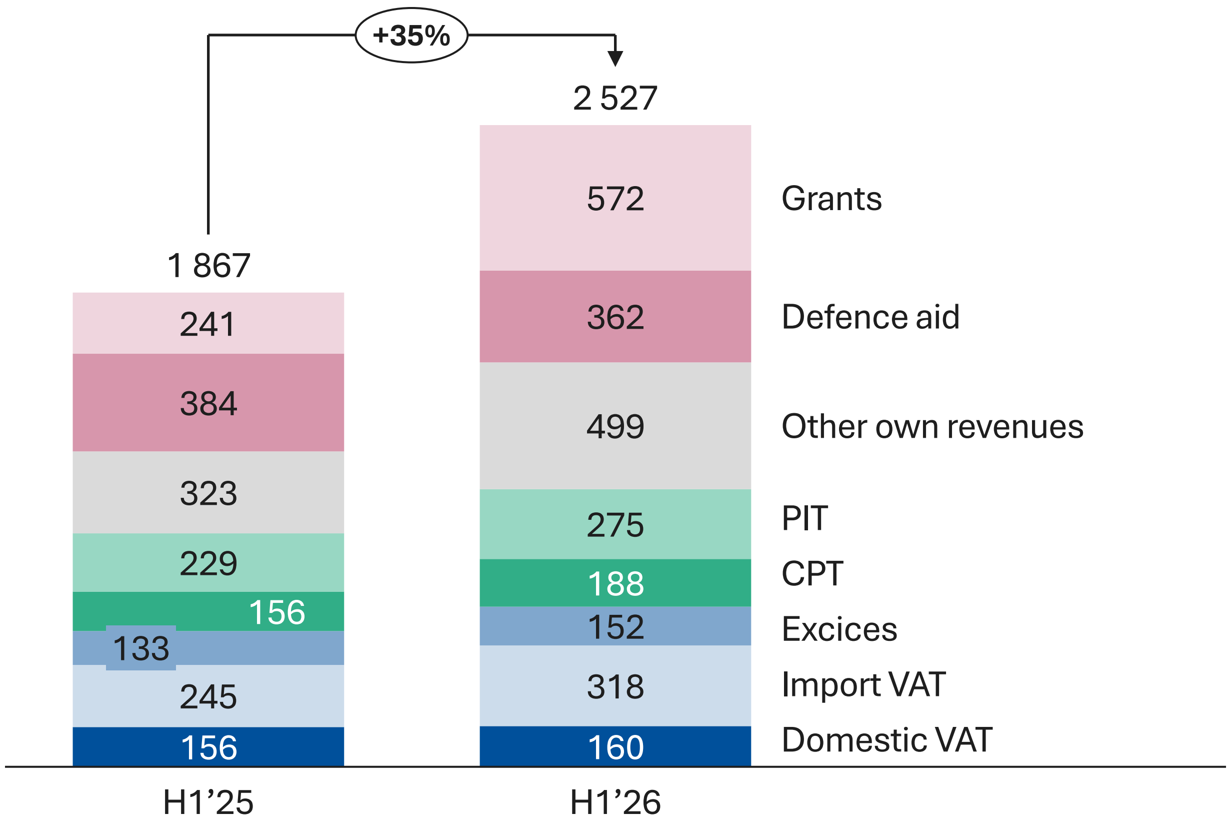
Source: NBU.

Fiscal sector

State revenues grew by 35% in H1 2026

But the increase is mainly due to higher foreign financing received

Revenues of the state budget in H1, UAH bn.



Note: Defence aid in H1 ’26 is approximate.

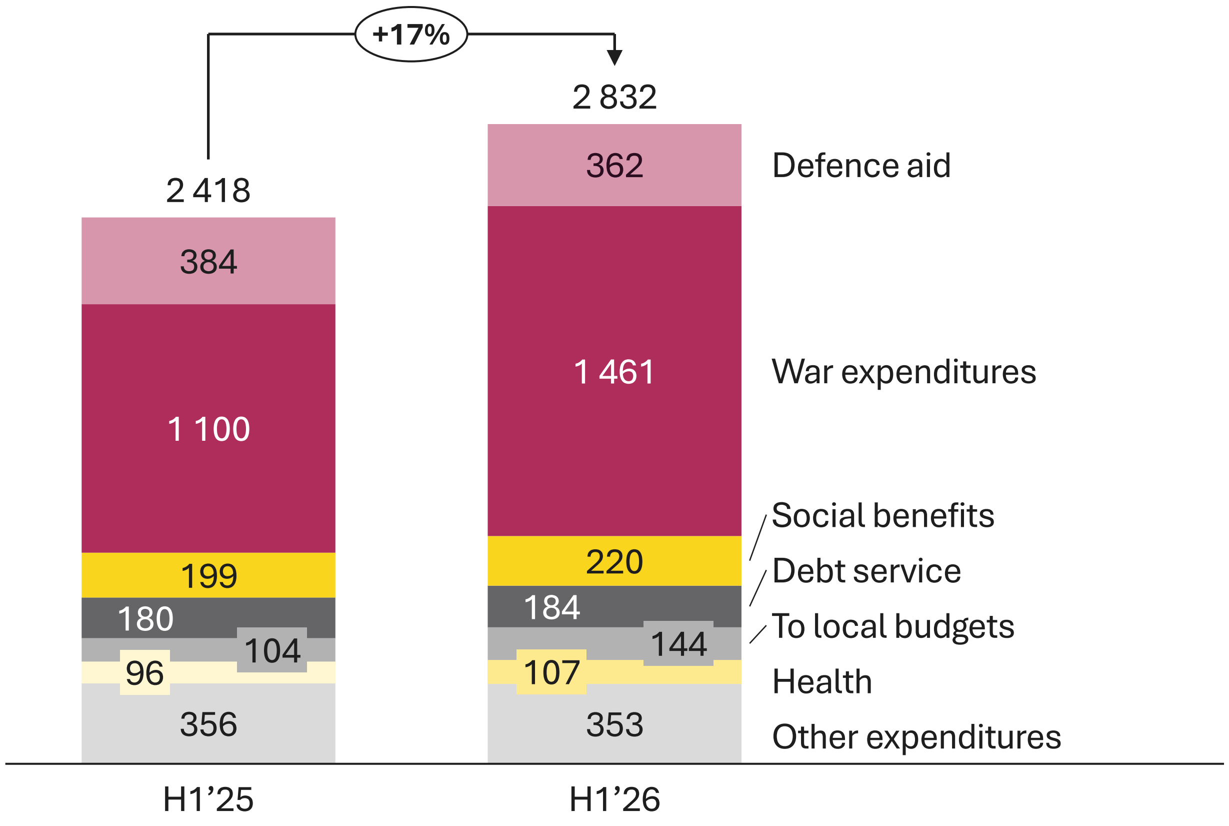
Sources: Ministry of Finance, State Treasury Service, CES calculations.

- **In H1 2026, state budget revenues reached UAH 2.5 tn**, up 35% y-o-y.
- **Foreign financing sources grew 49% y-o-y**, far outpacing own budget revenues.
- **Grants more than doubled (+137%)** to UAH 572 bn.
- **Own revenues increased by 28% y-o-y. The biggest increase:** the NBU’s funds to the budget rose by 74% due to higher profits, and rent payments by +35%, driven by higher natural gas prices.
- **Import VAT revenues also rose (+30%), reflecting import growth** ($49.3 bn in H1'26 vs $38.3 bn in H1'25, +29%).

War needs require more and more budget resources

Ukraine is covering a growing share of war costs itself

Expenditures of the state budget in Jan-Jun, UAH bn



Note: Defence aid in H1 '26 is approximate.

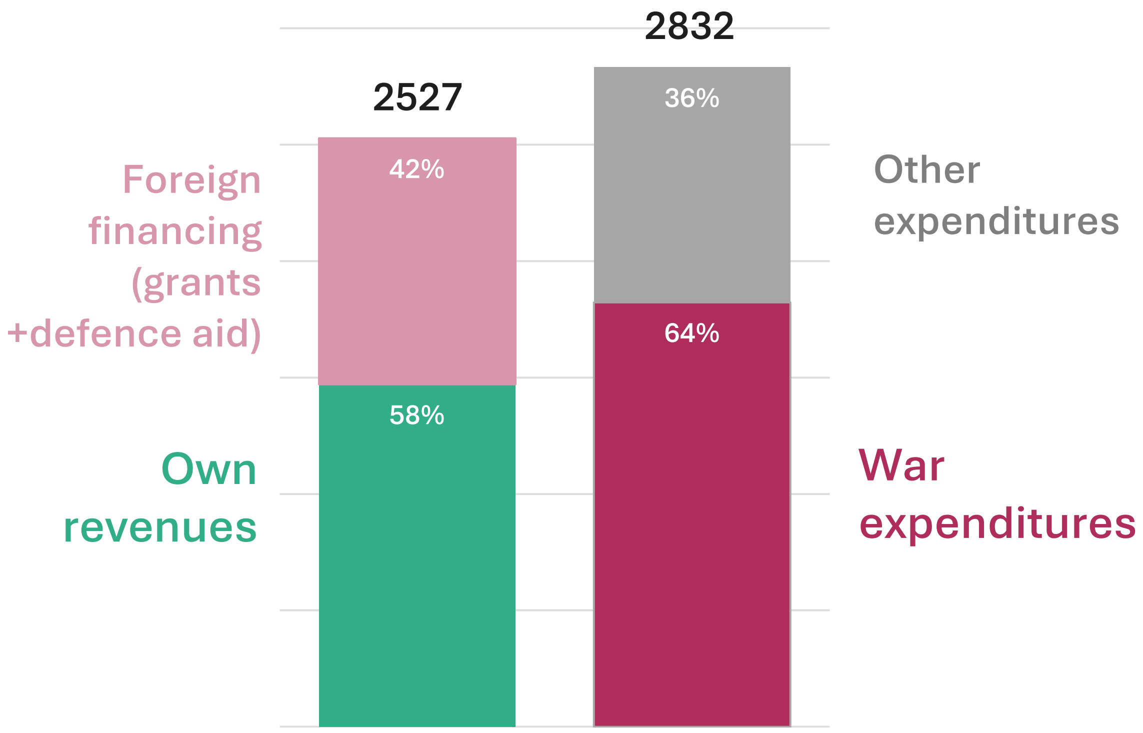
Sources: Ministry of Finance, State Treasury Service, CES calculations.

- **In H1 2026, total state budget expenditures reached UAH 2.8 tn,** up +17% y-o-y.
- **War-related spending totaled UAH 1.8 tn, or 64% of all expenditures**: 51% financed from own sources, 13% from international defence aid.
- A year earlier, the split was 45%/16% — **own-source war financing is growing much faster** (+33%) than defence aid (-6%).
- **Civilian expenditures remain below 40% of the budget**; social protection, the largest civilian category, grew 10% y-o-y.

Domestic revenues cover only about half of total expenditures

The gap is filled by foreign financing — without it, war costs alone would outstrip own resources

Revenues and expenditures of the state budget in H1’26, UAH bn



- **Own revenues make up 58% of total revenues but only cover roughly half of total expenditures.**
- War expenditures alone account for 64% of all spending.
- **The nominal budget deficit in H1 2026 was UAH 305 bn**, but this includes grants and in-kind aid on the revenue side.
- Excluding that aid, **the real financing gap reaches UAH 1.36 tn**.

Sources: Ministry of Finance, State Treasury Service, CES calculations.

A record inflow of foreign financing bridged the budget gap in June

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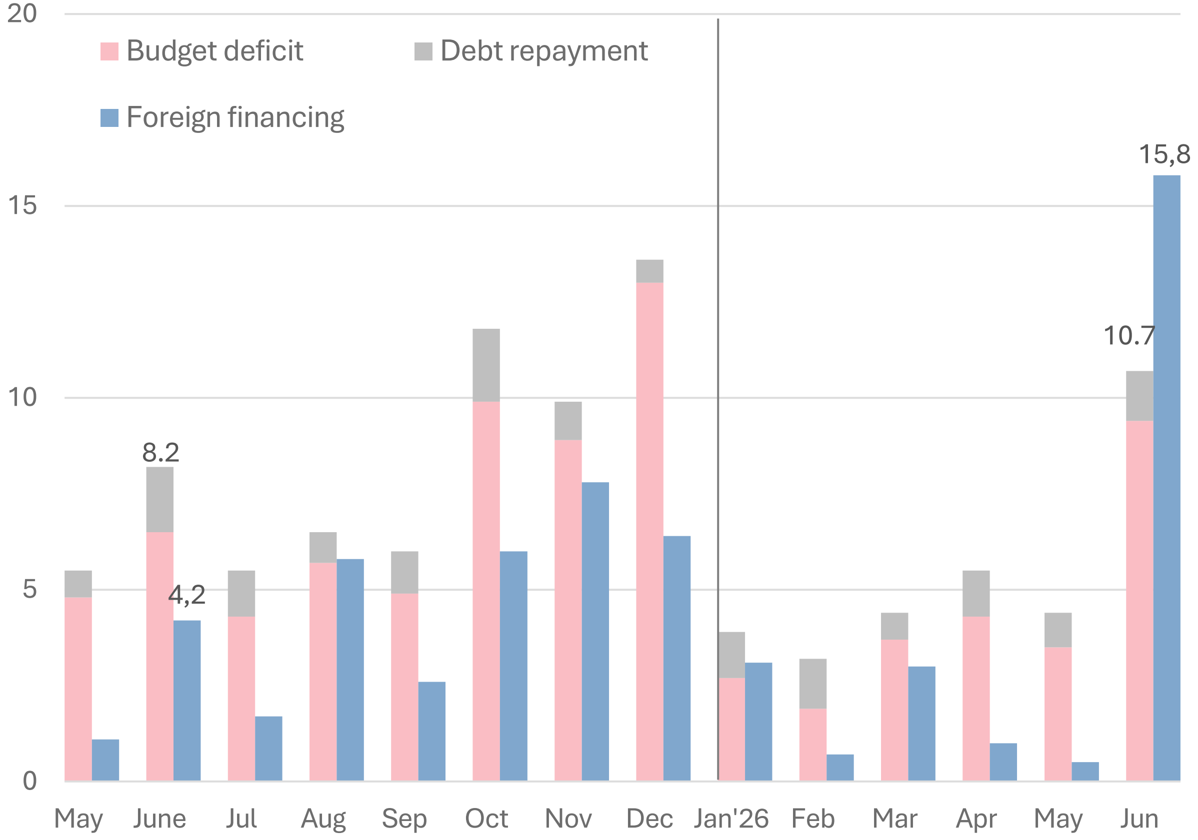
Ukraine received almost $16 billion in external financing in a single month

Ukraine's state budget financing needs, $ bn



- In June 2026, Ukraine received **$15.8 bn in foreign financing** — the largest monthly inflow since the full-scale invasion.
- The record inflow was largely driven by the first tranches of the EU's support: **Ukraine Support Loan with €3.2 bn in budget support** and **€3.9 bn in defence financing, Ukraine Facility with €2.8 bn.**
- **Total foreign financing reached $24.1 bn in H1 2026**, providing critical resources to cover Ukraine's exceptionally high wartime financing needs.

Sources: Ministry of Finance, National Bank of Ukraine, CES calculations.

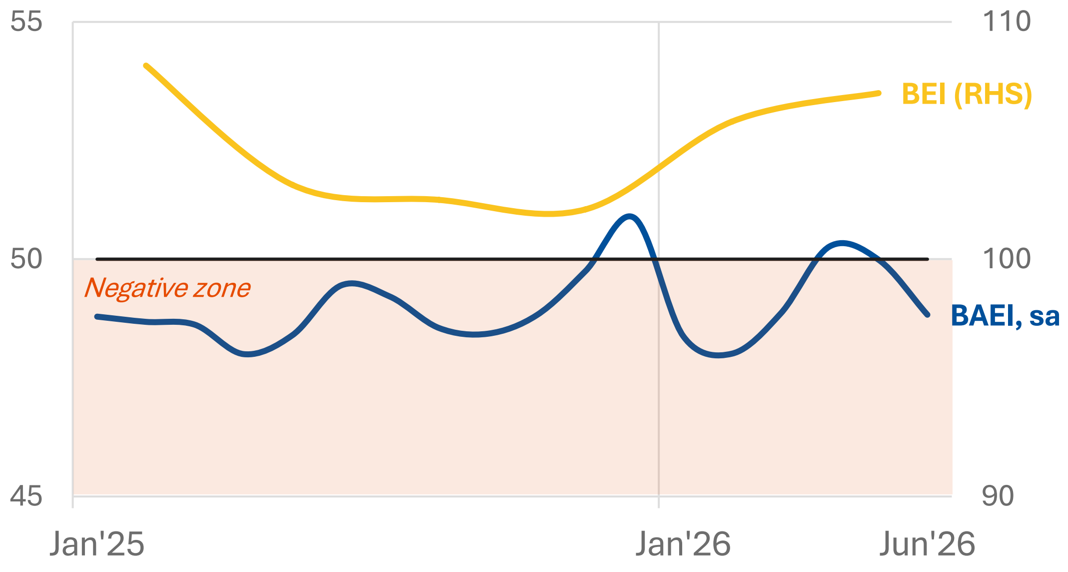
Sectoral analysis & Special topic

Business sentiment improved in Q2

War-related risks intensified in June-July

The quarterly Business Expectations Index (BEI) improved in Q2 to 107,0% (105,8% in Q1) due to stronger sales and investment expectations, signalling an improvement in economic activity in the short- and medium-term.

Business confidence indicators

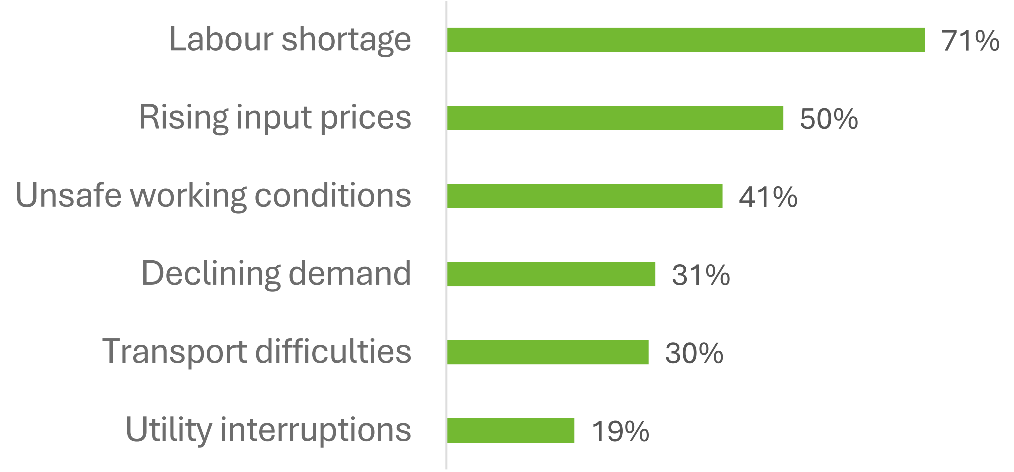


Source: NBU.

The Business Activity Expectations Index (BAEI) deteriorated in June in both headline NBU data (50,4 p vs 52,1 p in May) and seasonally adjusted.

Labour shortages, high prices and unsafe conditions are the main problems amid intensified attacks in June–July.

Major obstacles to doing business during wartime, % of answers



Source: IER. Category labels shortened from original wording for readability.

The energy situation was seasonally stable in Q2

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Repairs, renewable generation and imports supported electricity supply

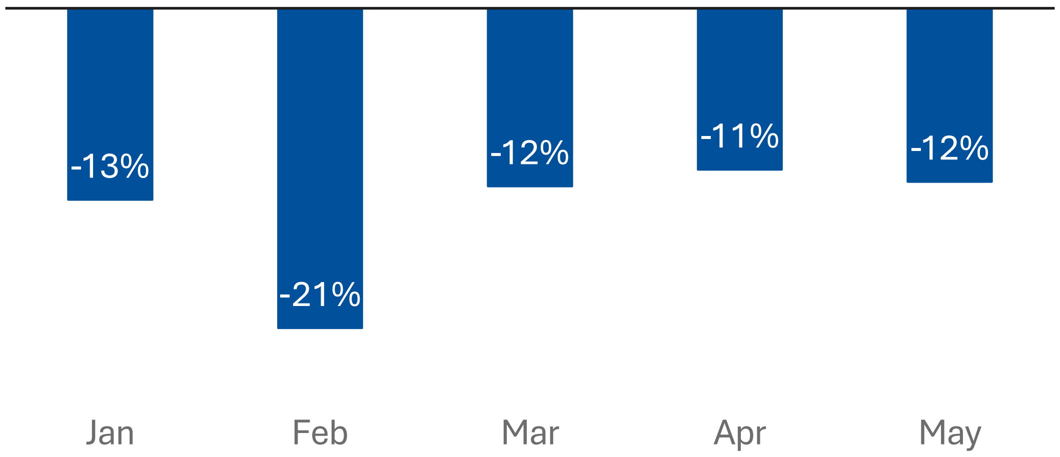
In Q2, energy sector production improved but was still lower by ~11% y-o-y due to significant damage caused by Russia this winter.

Renewable electricity generation seasonally increased by 17% m-o-m in May to 1052 GWh.

Electricity imports fell by 25% m-o-m in June to 295 GWh, while exports grew by 61% to 152 GWh.

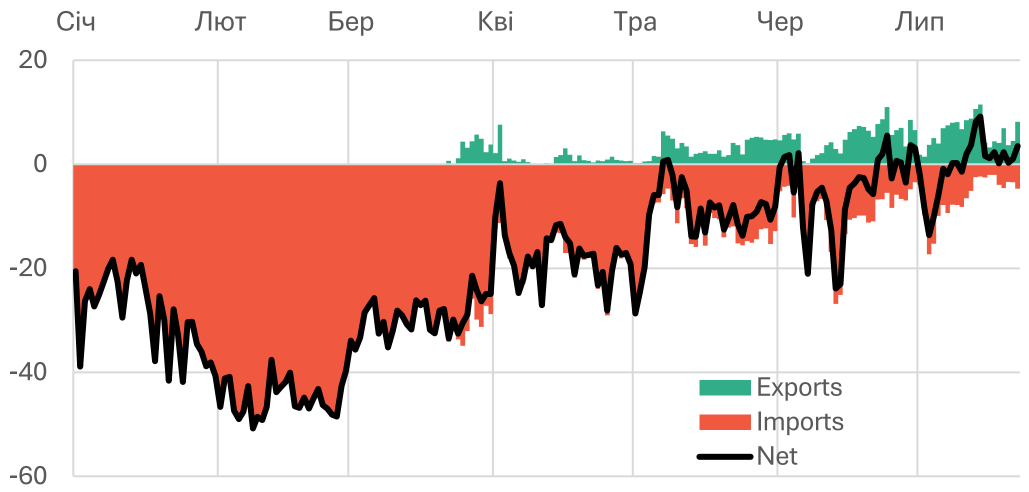
However, Russia has intensified attacks on fuel infrastructure, including gas stations, particularly in the front-line areas.

Index of Electricity, Gas, Steam, and Air Conditioning Supply in 2026, % y-o-y



Source: SSSU.

Ukraine commercial electricity EXIM in 2026, GWh



Source: ENTSO-E.

Agricultural production grew in Q2 due to early harvesting

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The livestock sector and early crop yields improved

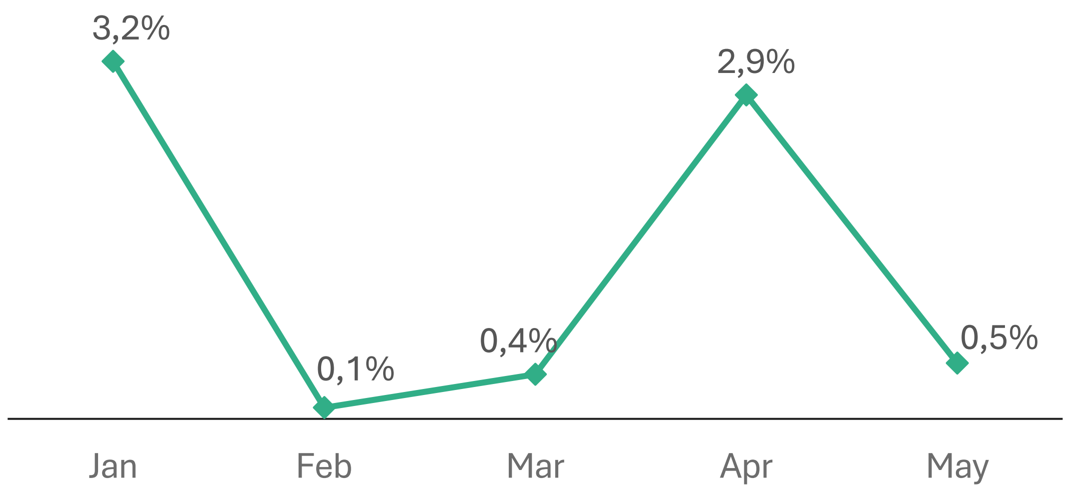
In Jan–May, agricultural production (including only livestock) **grew by 1,4% y-o-y.**

In June, the volume of harvested crops was higher by 20%, according to the Ministry of Economy, amid better yields and early start of harvesting campaign.

The USDA in July raised its 2026 wheat harvest forecast by 0,5 mt to 24 mt, with exports of 14 mt.

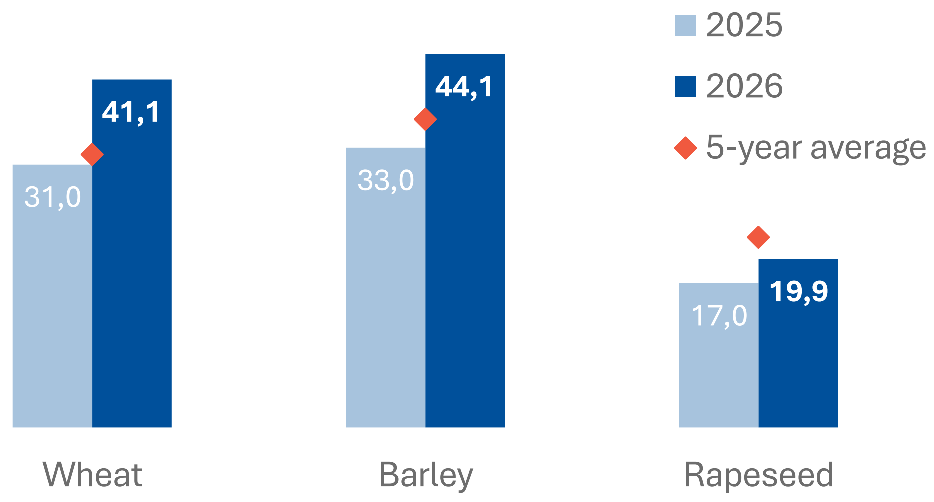
The Government expects 81–83 mt of grain and oilseed harvests, close to 2025 levels.

Agricultural Production Index in 2026, % y-o-y



Source: SSSU. The Jan-May reflects only livestock production.

Yields of early crops as of mid- July, centners per hectar



Source: Ministry of Agriculture.

The transport improved in Q2 amid stable energy situation

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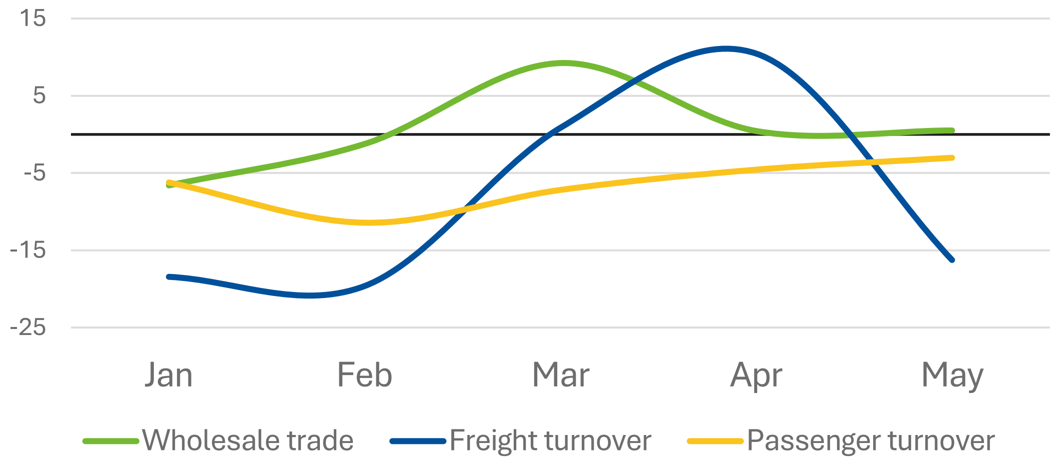
The transportation is suffering from Russian attacks

In 1H 2026, Ukrainian ports handled 42.4 million tonnes of cargo, with agrifood cargo up 20% y-o-y.

Ukrzaliznytsia raised freight tariffs by 30% starting August 1, due to a decline in freight volumes, infrastructure losses, and high production costs.

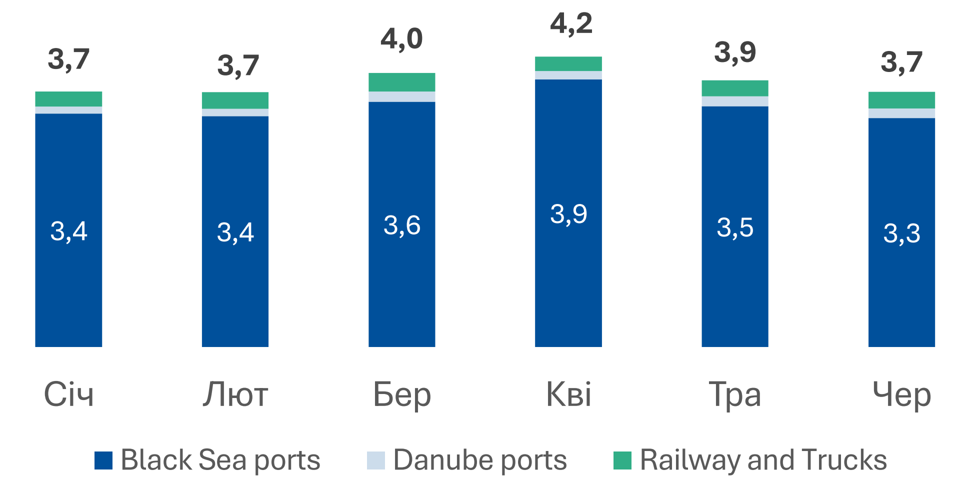
Export facilities at the Big Odessa ports decreased by 30% amid intensified Russian attacks on elevators, logistics facilities, and vessels. Only 1 million tonnes can be reallocated to Danube ports, according to the Ministry of Agriculture.

Wholesale trade, freight turnover and passenger turnover in 2026, % y-o-y



Source: SSSU.

Grain and oilseeds exports by mode of transport in 2026, mt



Source: Dragon Capital estimate

The industrial recovery has been uneven

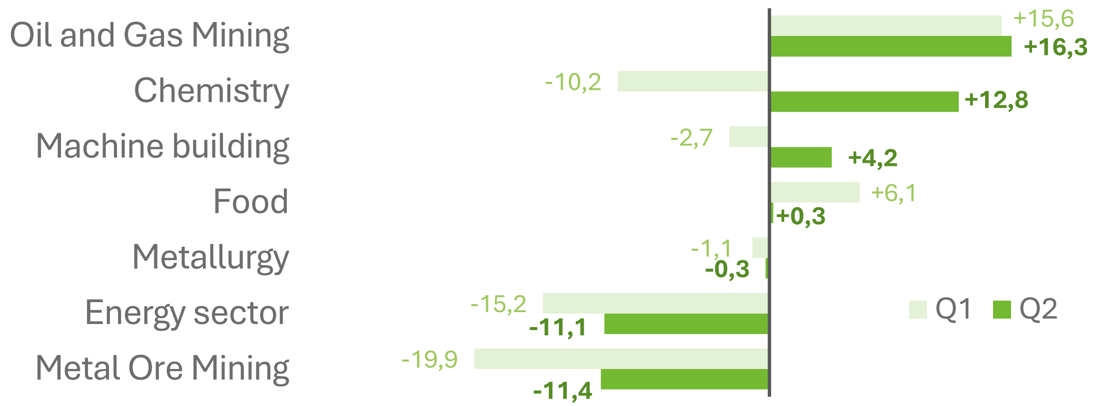
Military-related activities steadily grew

On average, industrial production grew by 0.8% y-o-y in Q2 (-6,2% y-o-y in Q1) amid a stable energy situation. Mining, chemistry, building materials, printing industries, automotive parts and war-related machine building showed steady growth.

In June, metallurgical production grew by 1-11% m-o-m. However, in Q2, metallurgical production fell by 2-6% y-o-y.

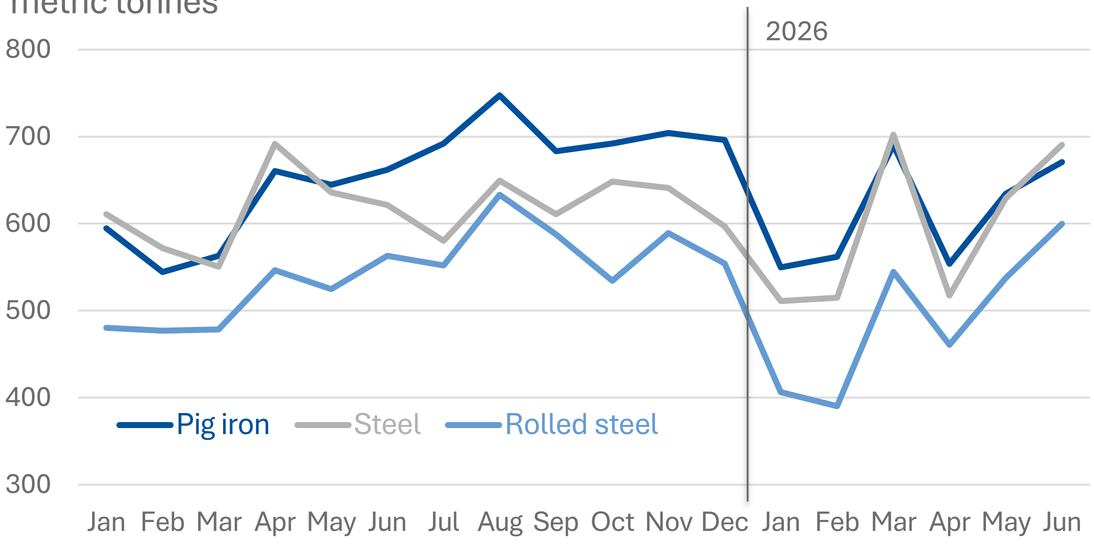
Ukraine is allowed to export only 1.05 million tonnes of steel products per year, 60% less than in 2025, amid new EU quotas.

Industrial production index in some activity, % y-o-y, quarterly average



Source: SSSU, CES calculations.

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



Source: Ukrmetallurgprom.

Internal demand was the main driver of economic growth in Q2

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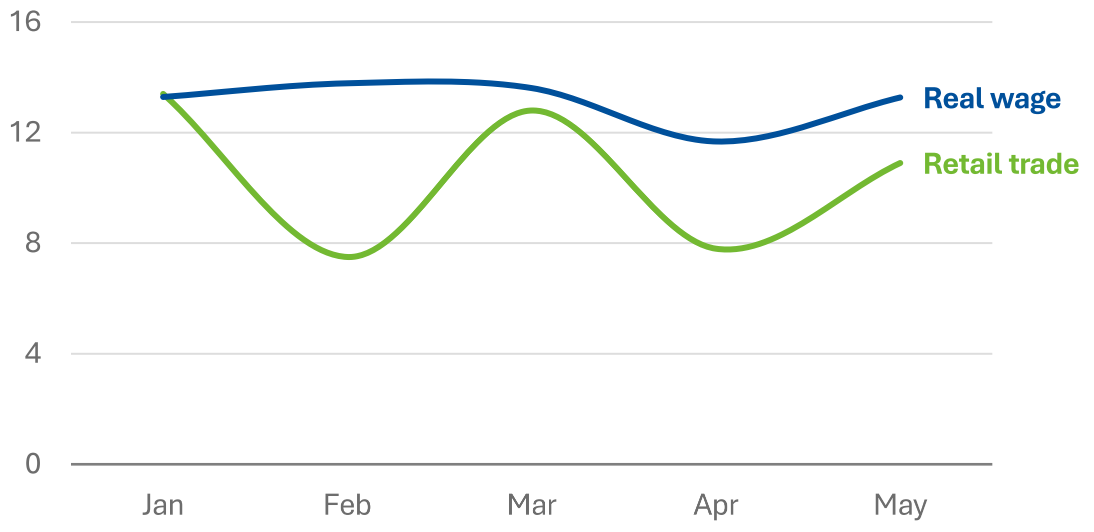
Consumer demand was steady, while investments were weak

In May, the average nominal wage reached UAH 30,961 (up 23% y-o-y and returning to the level of end-2025), driven by labour shortages (which reached an all-time high) and a 30% increase in salaries in education. Average pensions grew by 14% y-o-y as of July 2026. Military salaries grew by 17% p-o-p in 6 m 2026.

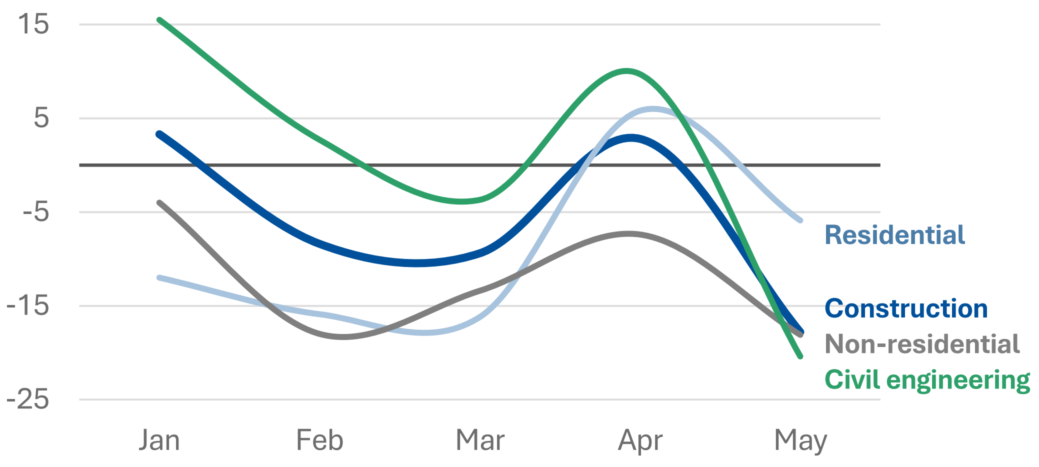
Construction deteriorated in Q2 amid a deep fall in engineering facilities construction. Consolidated budget capital expenditures were low by 5% p-o-p in 5 m 2026, given the uncertainty with external financing at the beginning of the year.

Retail trade and real wage in 2026, % y-o-y



Source: SSSU.

Construction by type in 2026, % y-o-y



Source: SSSU.

The expected GDP growth in 2026 remains at risk

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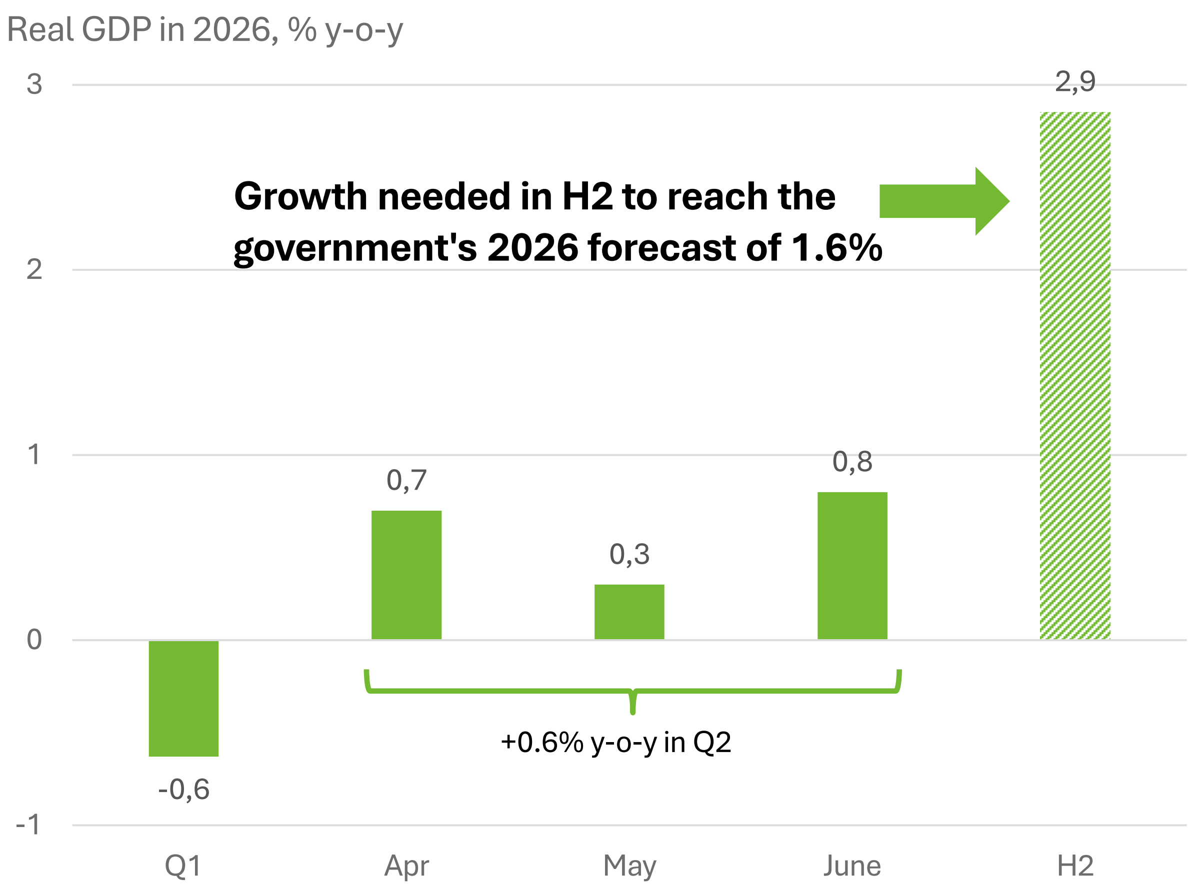
Economic activity recovered in Q2



Source: SSSU, IER, CES calculations.

The recovery in economic activity in Q2 mostly offset the decline of real GDP in Q1.

Achieving the expected GDP growth in 2026 remains at risk. Intensified attacks against transportation, logistics, and production facilities, as well as residential buildings, might worsen business and consumer sentiment. Export restrictions, a fragile energy system, potentially adverse weather conditions, and a slowdown in domestic demand may limit growth.

Agriculture could support GDP growth in H2 thanks to a harvest larger than last year's, as well as higher budget spending resulting from external financing received, in particular, USL.

Recap: July Economic Review

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- Inflation slowed in June due to lower food prices.
- In June, Ukraine received a record-high amount of international funding — $16 bn.
- **The recovery in economic activity in Q2 offset the decline in Q1,** but war-related risks have intensified.
- **Q2 improvement was broad-based** — business sentiment, transport, agriculture, and retail trade all strengthened
- **A much stronger performance in the second half of the year is needed** to hit the government's target for GDP growth.

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Thank you!