CENTRE FOR ECONOMIC STRATEGY

UK International Development
Partnership | Progress | Prosperity

August Economic Review

Special topic: Ports under siege: How can Ukraine keep exporting?

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Authors: CES Team

Executive summary

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- **Sectoral analysis:** In July, peak summer heat was managed without power outages, the harvest was bountiful, and business and consumer sentiment improved. However, economic activity slowed in August due to a series of russian attacks on production capacity and logistics infrastructure, as well as port blockages and EU restrictions on steel exports.
- **Monetary sector:** Inflation in July 2026 reached 7.7% y-o-y, up from 7.2% in June, and 0.3% m-o-m. The key policy rate was increased to 15.5%. The new NBU forecast expects 10% inflation and 16% key policy rate by the end of 2026. Some currency restrictions targeting households were relaxed.
- **Fiscal sector:** In July 2026, tax revenue shortfalls erased the entire first-half surplus. Spending fell short of the plan due to insufficient borrowing and grants. With most EU aid earmarked for weapons and a UAH 108 bn military pay scheme left unfunded, an autumn budget revision is inevitable.
- **Special topic:** Blocked ports could result in a loss of 30 mln t of agrifood exports. Redirecting exports to alternative transport routes and providing government support for producers could partially mitigate these losses.

See our report below for further details.

Sectoral analysis

Grid handled peak heat with zero outages

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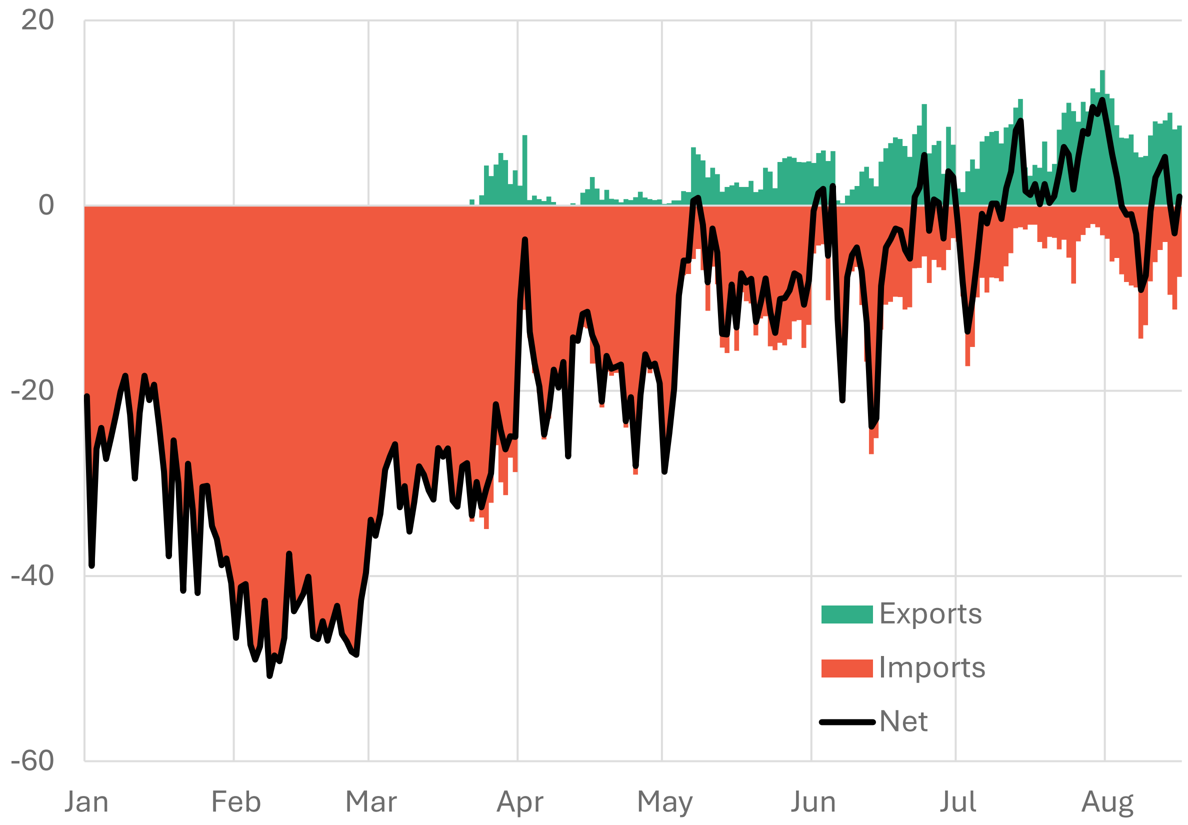
July marks the first net electricity exports since September 2025

Ukraine commercial electricity EXIM in 2026, GWh



The power system remained balanced due to stable production, supported by seasonally high solar generation, scheduled maintenance, and modest imports. In July, exports rose by 51% m-o-m to 233 GWh, while imports fell by 41% m-o-m to 175 GWh.

Winter preparations are well underway, with gas stocks reaching nearly 14 bcm, in line with the government's plan. **The target is to restore at least 8 GW of generation and add 0.8 GW of new distributed gas-fired capacity.** In August, the EU contributed €30 mln to the Energy Support Fund, while partners delivered at least 250 t of energy equipment.

Nevertheless, €650 mln in funding gaps remain in the energy sector, according to the Prime Minister.

Source: ENTSO-E.

Economic activity picked up in July

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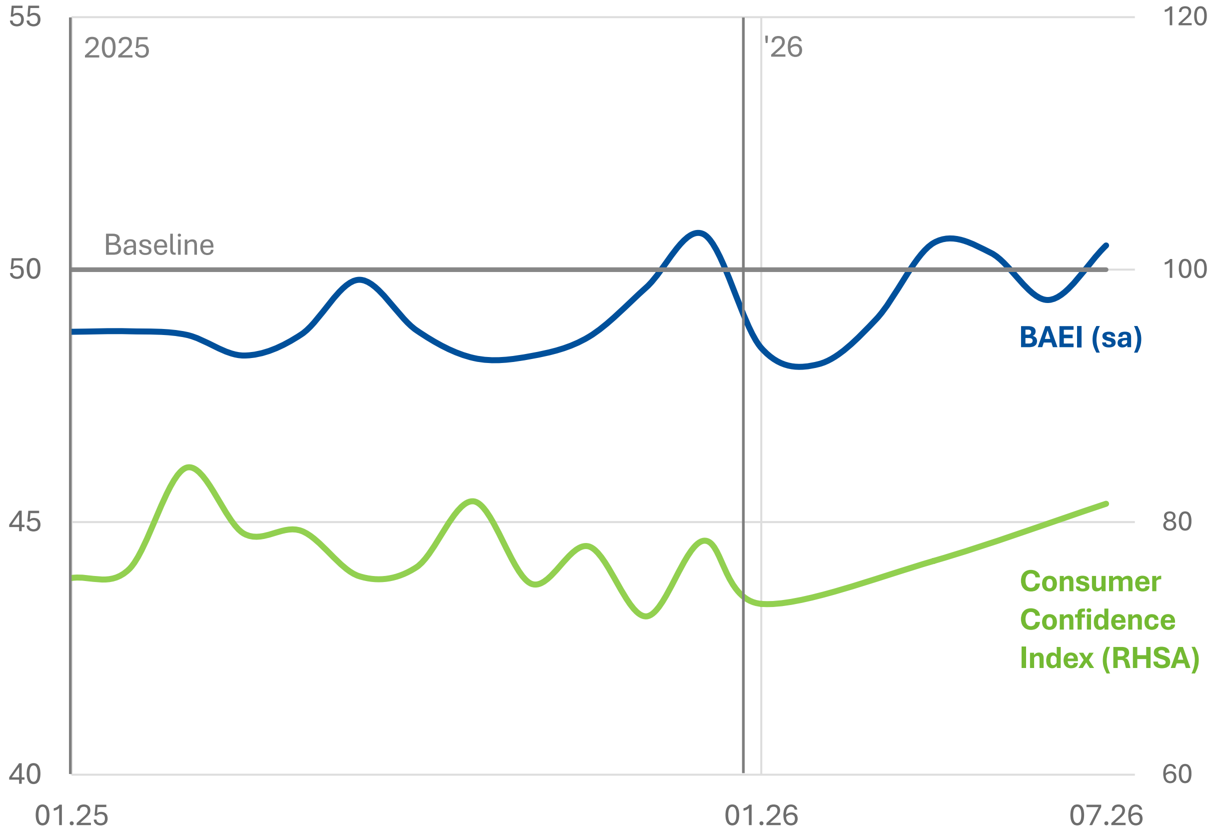
Businesses and consumer confidence improved

Business and consumer confidence indicators



The business activity expectations index (BAEI) improved to 50.5 in July on seasonally adjusted terms, moving back into positive territory slightly above the neutral level. Although the unadjusted BAEI data dipped slightly, it also remained positive.

A stable energy situation, steady consumer demand, and international financial aid were the main drivers behind the improved sentiment.

The consumer confidence index rose to 81.5 in July 2026, up from 76.9 in April, signalling strong consumer demand.

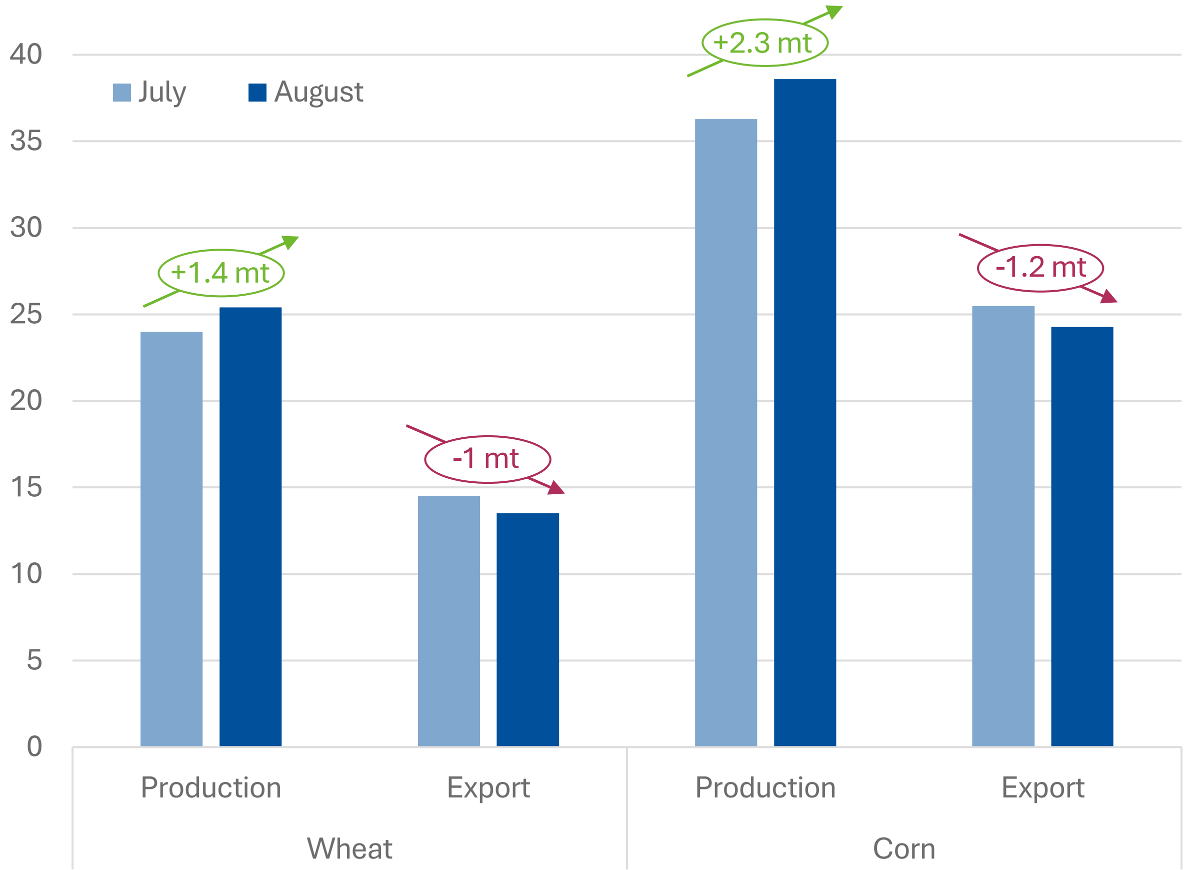
Additionally, fiscal stimulus – bolstered by international aid – supported economic activity. The IER estimated **real GDP growth at 1.3% y-o-y in July**, the highest level recorded this year.

Source: NBU, InfoSapiens.

A good harvest is expected this year

The USDA revised the harvest forecast upward

Ukraine's production and export



The winter crop harvest has been proceeding at a high pace through July and August. Favourable weather and adequate moisture levels have boosted yields; as of August 17, rapeseed yields are up 12% y-o-y, while cereals have increased by 17% y-o-y. Almost 31 mln t of cereals have already been harvested (an increase by 24% y-o-y).

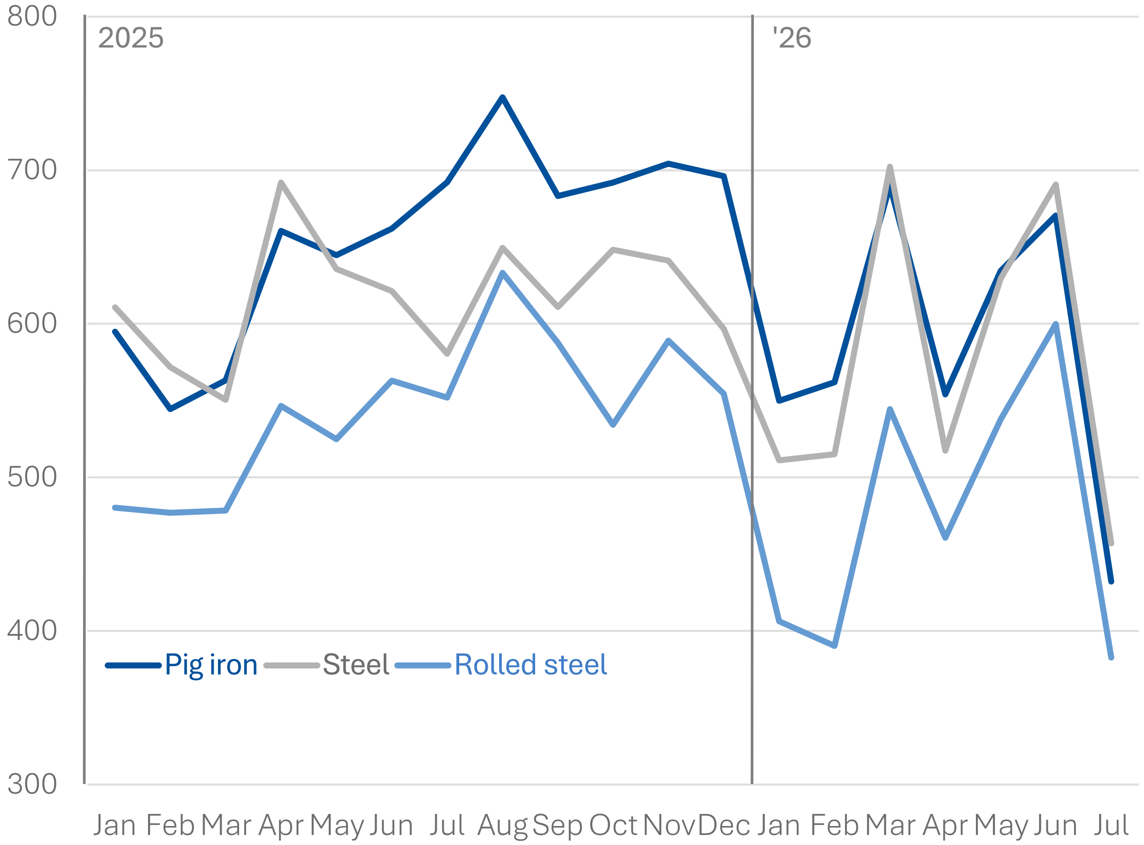
The USDA has increased its forecast for the Ukrainian wheat and corn harvest for the 2026/2027 MY to 25.4 mln tonnes and 38.6 mln t, respectively. However, following the halt in exports through the Greater Odesa ports since July 23, the USDA has downgraded its export expectations.

Sources: USDA.

Metallurgical production fell in July

Export quotas and closed ports led to a decline in metallurgy

Production of major iron & steel products, thousands metric t



Sources: Ukrmetallurgprom.

In July, **metallurgical production dropped by 34–36% m-o-m** due to a halt in sea exports, the EU's steel export quotas, and CBAM regulations. Ferrexpo and Metinvest had to suspend operations at their ore-mining plants after sea routes were closed. Furthermore, the shelling of the largest metallurgical plants in August forced Arcelor to cut production and Zaporizhstal to halt operations entirely.

Recent shelling has severely impacted the Ukrainian industry, logistics, and transport. In July and August, 20 large businesses sustained damage. Additionally, 10 warehouses were destroyed in the Kyiv region on August 5. Ukrainian Railways reported an increase in damaged locomotives, and Naftogaz reported 13 strikes on gas production facilities over the previous week.

The vast majority of the economy remains at risk of further losses. According to our calculations, 8 western oblasts – where ballistic missile alerts are rarely declared – account for only 22% of GDP.

Monetary sector

Inflation began to accelerate again in July

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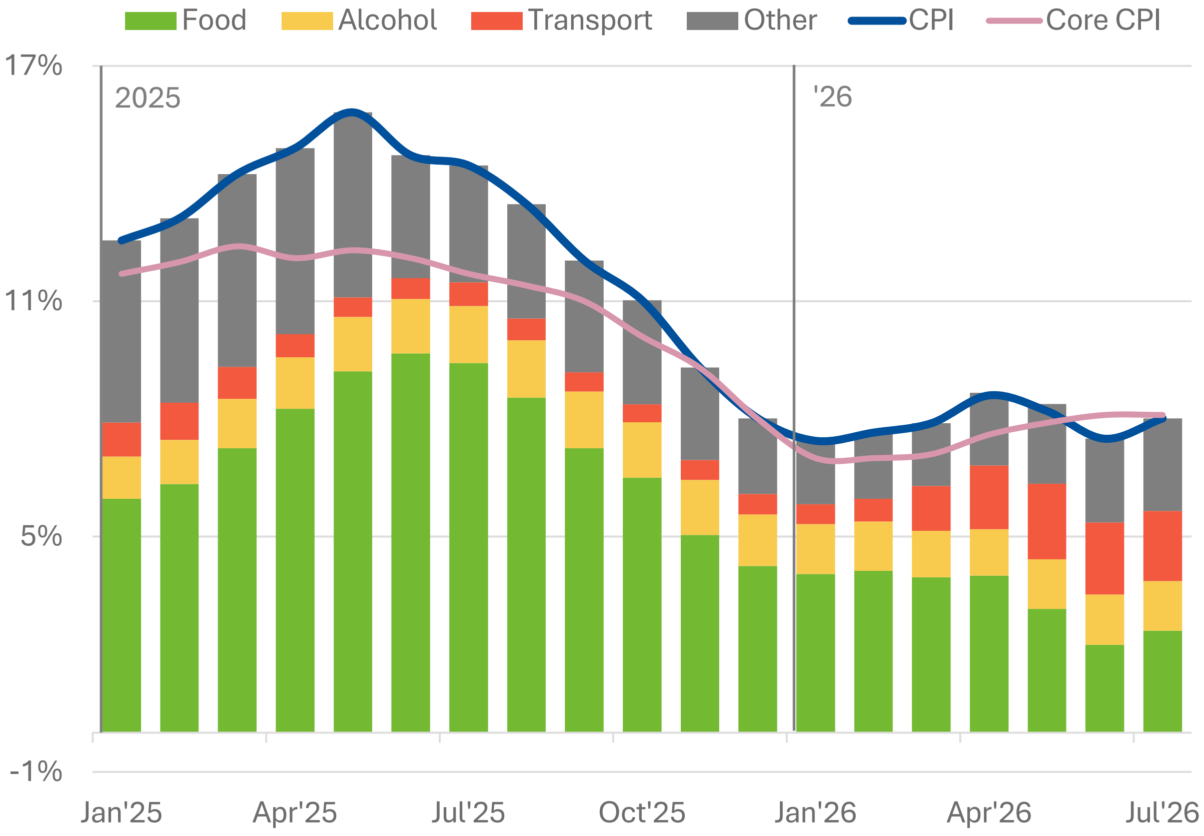
Food prices continued falling, but at a slower pace

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



- **Inflation accelerated to 7.7% y-o-y in July, from 7.2% in June.** Prices increased by 0.3% m-o-m.
- Food prices fell for the second month driven by eggs, vegetables, meat and grain. **The 0.2% decrease, however, is smaller than in the previous month.**
- Some food prices also increased, such as fruit, fish and milk.
- Fees on water supply and sewerage services increased sharply in July, by 31.9% and 29.8% respectively, contributing 0.4 p.p. to inflation.
- Attacks on Greater Odesa, which are going to affect prices of imported goods, and the destruction of businesses' warehouses will **cause higher inflation in the coming months**.

Source: NBU, CES calculations and visualisation.

NBU raised the key policy rate to 15.5%

The unexpected 0.5 p.p. increase motivated by persistent inflationary pressure

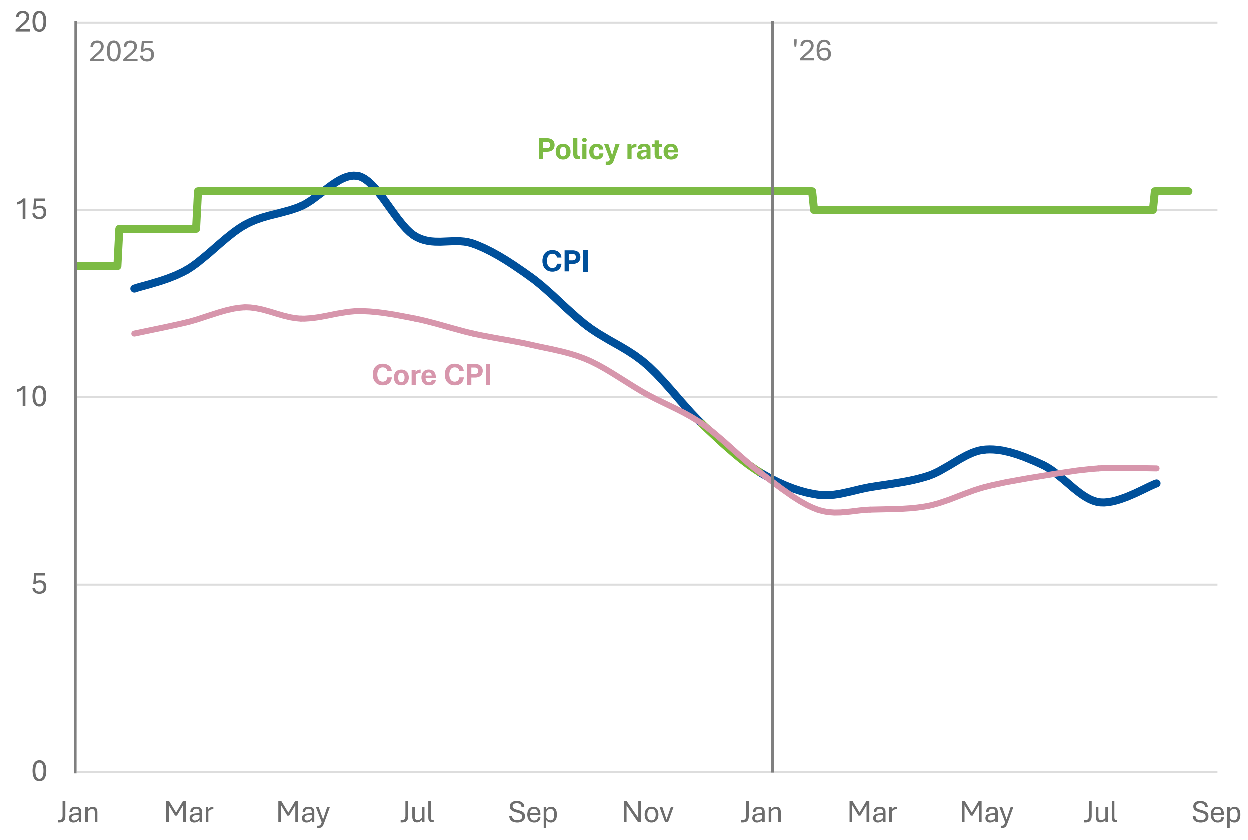
High supply of food products in recent months caused **a temporary slowing of inflation**.

Despite this, Core CPI, which excludes the more volatile components when measuring inflation, outpaced CPI in both June and July.

This means that despite disinflationary periods, **the underlining inflationary pressure from logistics and energy costs has persisted**.

At the same time, inflation remains substantially lower than in 2025 because of the larger-scale damage to the energy infrastructure last year.

CPI (Inflation), Core CPI, policy rate, %



Source: NBU, CES visualisation.

Inflation to reach 10% by the end of the year

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NBU released a new forecast, expecting higher inflation and policy rate

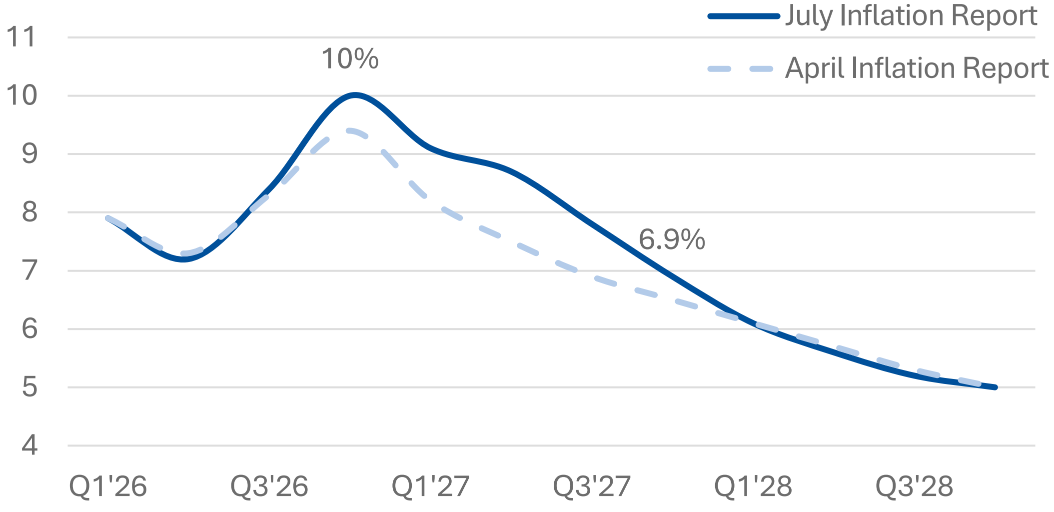
The inflation forecast for end-2026 **changed from 9.4% to 10%**.

Higher prices are expected to be caused by **fiscal stimuli**, as well as **the continuing effect of higher fuel prices and currency depreciation**.

As a response to higher inflation, **the NBU expects to raise the key policy rate to 16%** in late 2026 and early 2027.

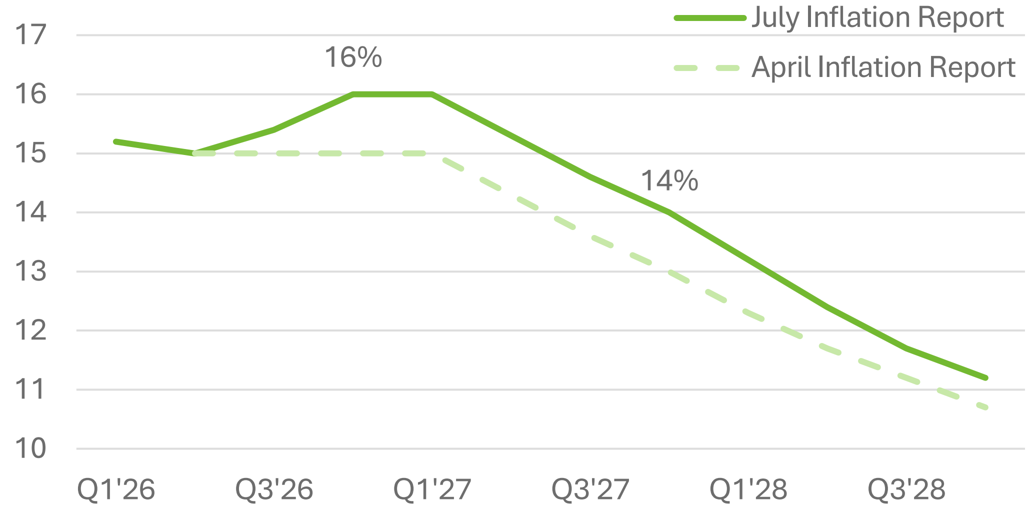
Previously, the key policy rate **was expected to stay at 15% until Q2 2027** – from which the central bank has already deviated.

CPI (Inflation), EOP, y-o-y, %



Source: NBU.

NBU key policy rate, average, %



Source: NBU.

Some currency restrictions were relaxed in August

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The liberalisation included measures targeted at households and businesses

Non-cash currency exchange

Limits **increased fourfold** from UAH 50 thousand to **UAH 200 thousand per month**

Payment abroad from UAH accounts

Limits **doubled** from UAH 100 thousand to **UAH 200 thousand per month**

Cash withdrawals from accounts in foreign currency

Limits **doubled** from UAH 100 thousand to **UAH 200 thousand per month,** both in Ukraine and abroad

New "additional" limit for businesses

Formed with **direct donations** to units of Armed Forces of Ukraine, as confirmed by an audit

The liberalisation is not expected to affect international reserves.
The NBU forecast projects their growth to $69.7 bn.

Fiscal sector

July moved cumulative tax revenues from above plan to below plan

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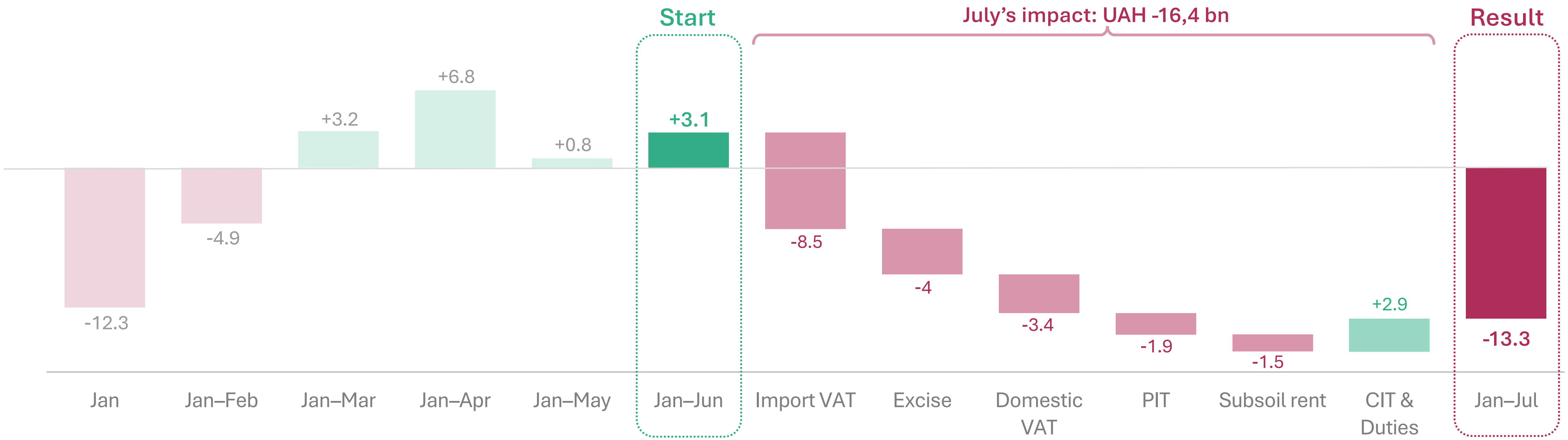
Five taxes fell short of plan in July, led by import VAT

By end-July, cumulative tax revenues were UAH 13.3 bn below plan, down from UAH 3.1 bn above plan at end-June. They had run at 100–101% of plan from March through June.

Import VAT alone explains half the gap. Taxable imports fell to $6.8 bn. Excise lost UAH 4 bn to a firmer hryvnia and zero-rated diesel for the army. Domestic VAT lost 3.4 bn to record refunds.

Cumulative deviation from plan, UAH bn



Note: General fund, tax revenues only; the July plan is net of the military levy.

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

No spending category met its half-year plan

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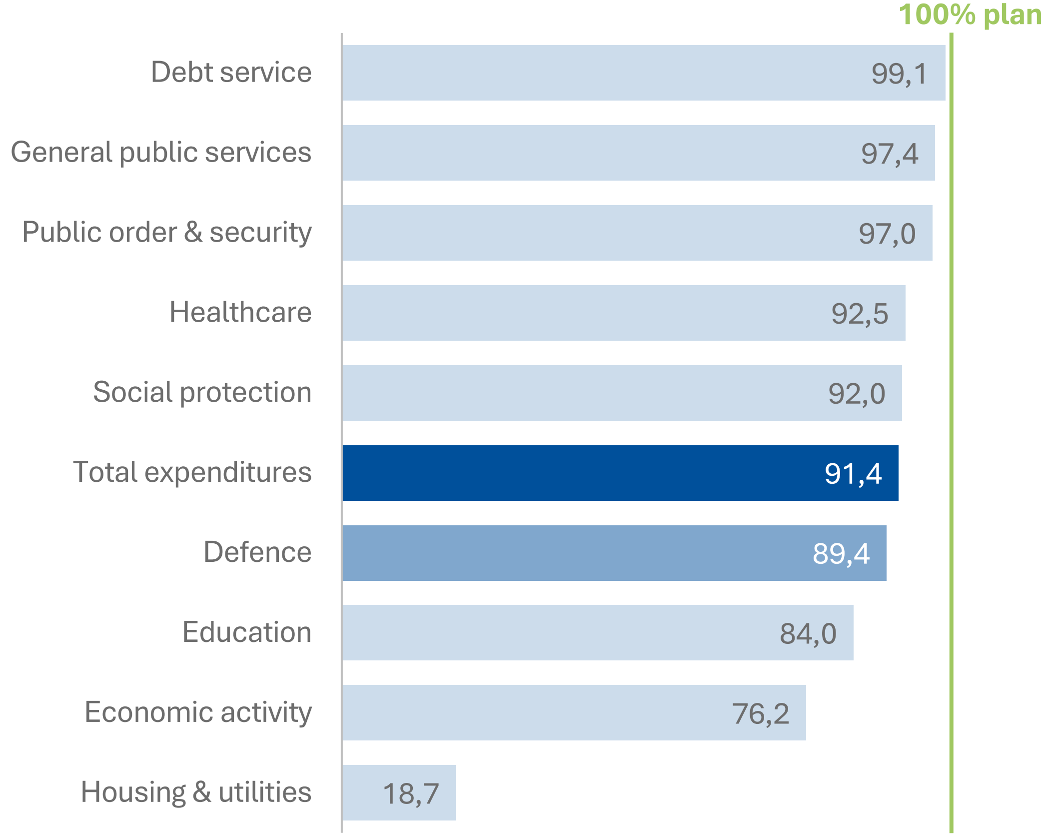
The constraint is money coming in, not money to spend: borrowing and grants both fell short

General fund: H1 execution vs plan for the period, %



Note: Special fund excluded – its annual plan was enlarged in June.

Sources: State Treasury (Jan-Jun 2026, general fund), Ministry of Finance, VoxUkraine.

June was the highest-spending month of 2026. The state spent UAH 575 bn across both funds. **War-related spending accounted 64% of the total**, or UAH 368 bn.

H1 general fund spending reached only 91% of plan. UAH 211 bn was budgeted but not spent. **Defence was underfunded by UAH 135 bn against the H1 plan.**

Borrowing fell further behind plan in July. It reached 65% of plan in H1. By the end of July, borrowing stood at 59% of the target, or UAH 608 bn. External borrowing accounted for UAH 309 bn of that.

Grant inflows stopped in July. Total remained at UAH 570 bn, unchanged from end-June. The UAH 90 bn planned for July didn't arrive, widening the gap to plan.

Ukraine has defence money it cannot spend on soldiers’ pay

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The EU funds are restricted to weapons, while domestic funding does not cover the need

The funding problem is structural. Funding pools cannot be used interchangeably, and money available for procurement cannot be redirected to military pay.

The pay reform was launched without a source. The new system of military payments, introduced by government resolution No. 768 of 12 June, costs UAH 108 bn for June–December 2026.

EU defence window (special fund)
EU rules allow one use only: purchase, repair and modernisation of weapons

cannot be used for payments to soldiers

General fund (defence)
The spending was approved in June, but no corresponding revenue source was provided.

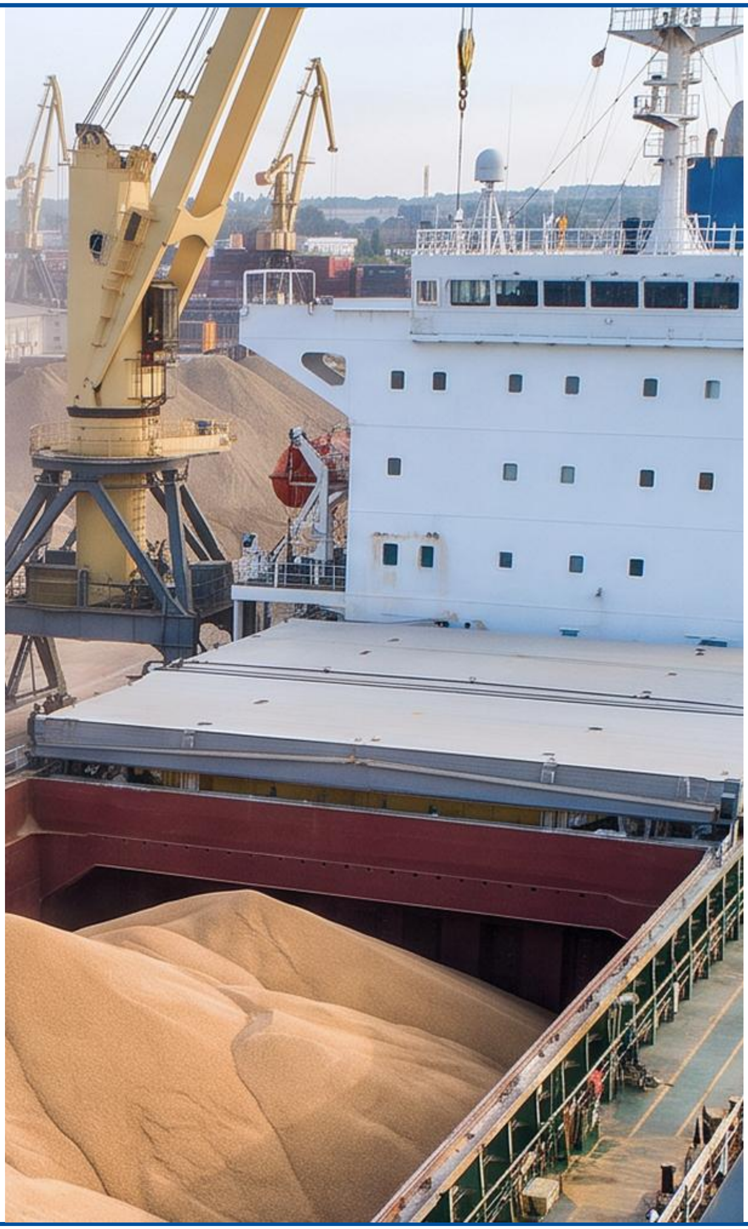
available, but not enough

UAH 108 bn

Funding needed for the new military pay system
need during June–December 2026

UAH 0 was provided for it in the budget law

Sources: State Treasury (Jan-Jun 2026 execution report), Cabinet resolution No. 768 of 12.06.2026, European Commission, Regulation (EU) 2026/467.



Special topic

Agricultural export losses could reach 30 mln tonnes in 2026

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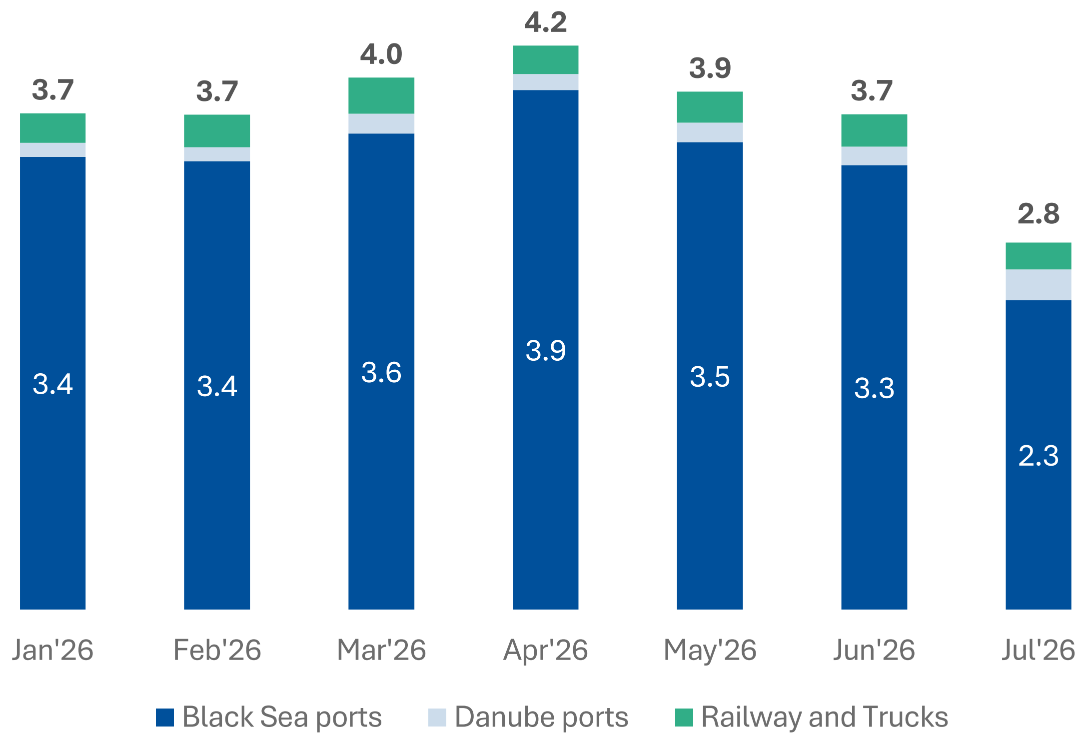
Grain export dropped by 1 mln tonnes in July

Grain and oilseeds exports in 2026 by mode of transport, mln t



Source: Dragon Capital estimate.

In H1 2026, Ukrainian seaports handled 42.4 mln t of cargo, with agrifood traditionally accounting for approximately 50% of the total volume. Furthermore, the ports managed roughly 90% of agrifood exports, 50% of steel exports, 95% of pig iron exports, and 50% of iron ore exports. Total export values for H1 2026 reached $12.5 bn for agrifood,
$2.2 bn for metallurgy, and $0.9 bn for iron ore. Ports also play a significant role in imports, particularly in container shipping and coking coal deliveries.

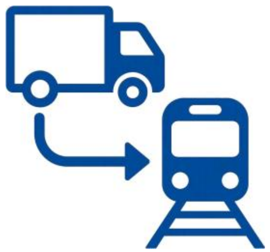
A prolonged port blockade would result in export losses, exchange-rate fluctuations, lower domestic prices for export goods, and exhausted storage capacity. It would also lead to higher logistics costs, reduced profit margins and working capital, disruptions to upcoming sowing campaigns, loss of market share, and halted business operations.

Resolving the port blockade will support economic activity

Potential solutions will require time, weapons, negotiations, funding, and international support

MILITARY SOLUTION

NEW GRAIN CORRIDOR



ALTERNATIVE ROUTES

GOVERNMENT SUPPORT

EU SUPPORT

Recap: August Economic Review

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- Stable energy situation, high harvest and improved business and consumer confidence supported economic activity in July.
- Inflation accelerated again in July to 7.7% y-o-y, prompting the NBU to raise the key policy rate to 15.5%.
- Fiscal execution fell behind plan in July: tax revenues, borrowing and grants all came in below target, while spending also remained below plan.
- The suspension of exports via the ports of Greater Odesa and the intensification of russian shelling have led to significant losses for Ukrainian businesses.

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Thank you!