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September Economic Review

Special topic: Ukraine’s budget is short of money again: what can be done?

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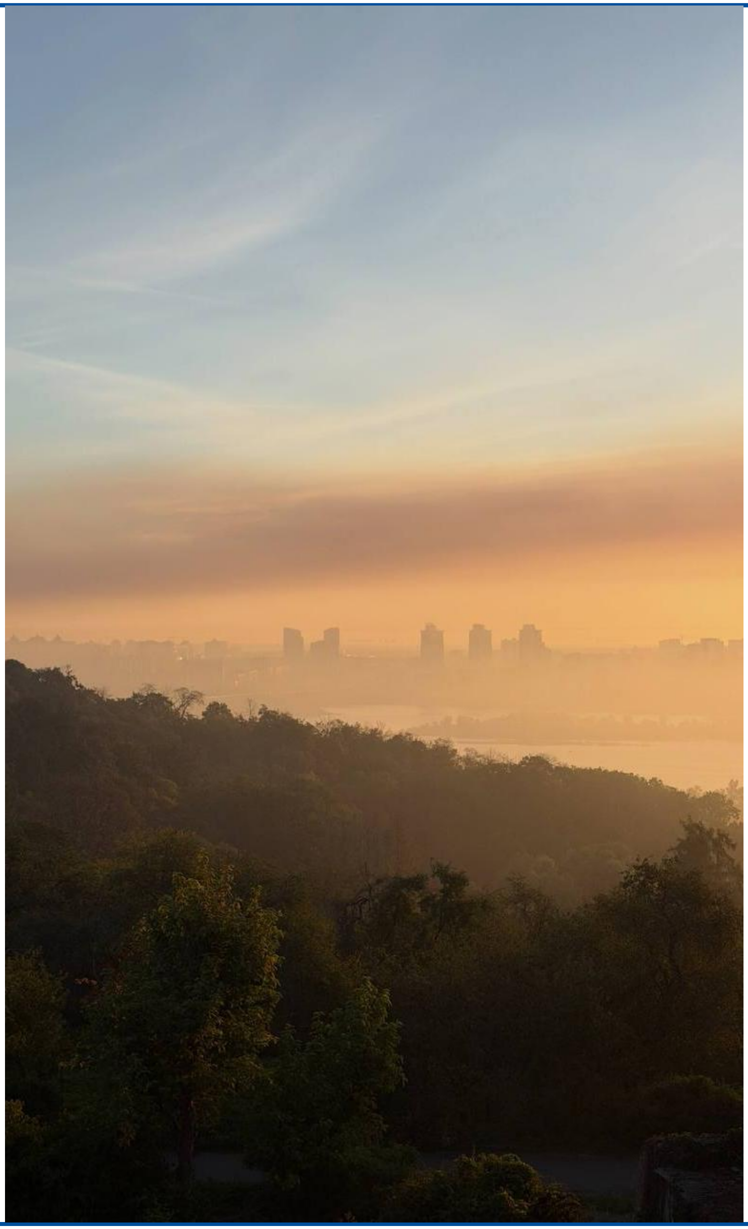
Authors: CES Team

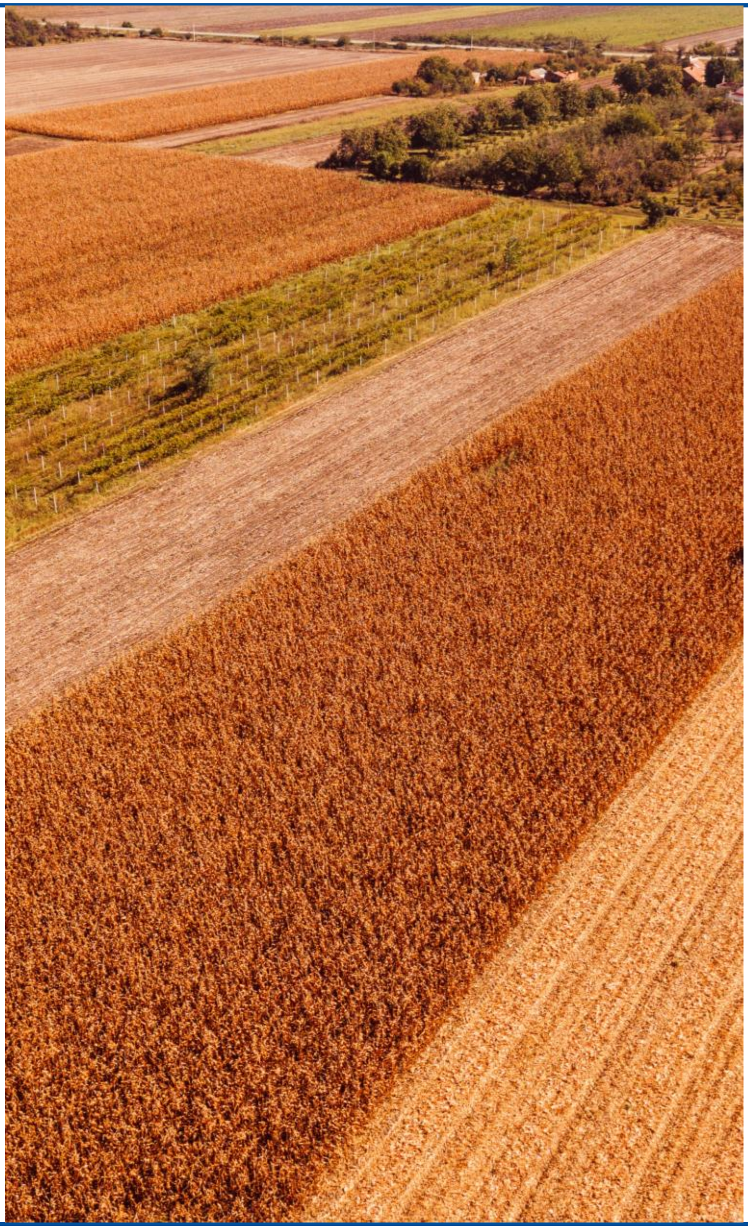


Executive summary

Executive summary

- **Sectoral analysis:** In August-September, economic activity struggled due to blocked ports, intensified shelling, and further losses to production capacities, as well as to the logistics and transport infrastructure. However, the negative impact was partly offset by a stable energy situation, a high harvest and reoriented exports through alternative routes.
- **Monetary sector:** Inflation in August 2026 reached 8.1% y-o-y, up from 7.7% in June, and 0.1% m-o-m. In response, the key policy rate was increased to 16%. International reserves declined 5% in August due to lower international financing.
- **Fiscal sector / Special topic:** Budget situation is extremely challenging. War costs are up a third, revenue is missing, international in-kind aid is cut in half. By the end of the year, $56.5 billion must be brought in, out of which $29.5 bn is covered if commitments are met, and "$27 bn" for war needs to be found. There could be three scenarios, from “fully covered” to a $56.5 billion hole in 2026, and the situation is no better for 2027.

See our report below for further details.

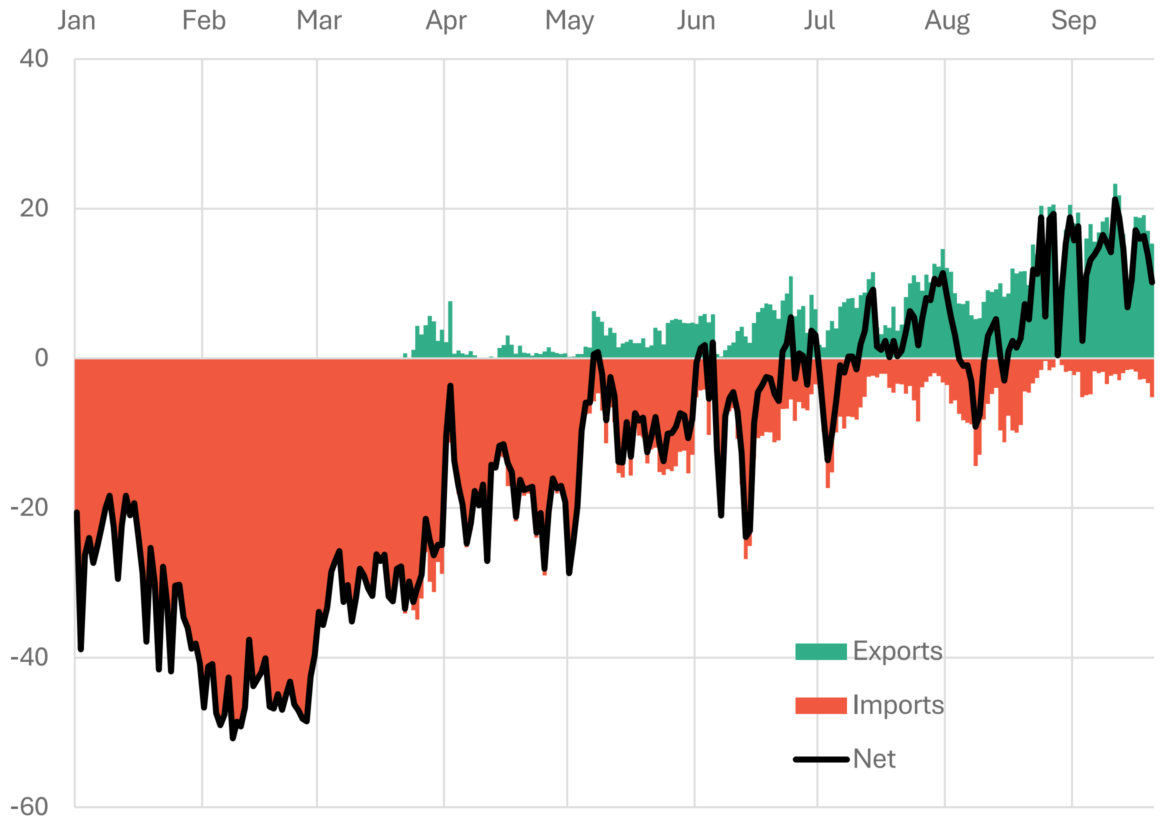


Sectoral analysis

Ukraine remains a net electricity exporter

Historically weak domestic demand contributed to the growing electricity surplus

Ukraine commercial electricity EXIM in 2026, GWh



Source: ENTSO-E

Ukraine remained a net electricity exporter for the second month in a row. In August, exports rose by 43% m/m to 333 GWh. The trend continued in September, with exports in the first 20 days already exceeding the August total and were six times higher than imports.

However, **the growing surplus partly reflects weaker domestic demand**. According to ExPro Consulting, **electricity consumption fell by 9% y-o-y to a historical low of 5.6 TWh in August.** The decline was driven by a 23% y-o-y drop in industry consumption due to weaker economic activity following Russian attacks on steel plants, logistics and railway infrastructure, as well as blocked ports. Household consumption fell by only 2% y-o-y, reflecting growing use of rooftop solar.

The winter energy funding gap narrowed from €650 mln to €194 mln, supported by contributions to the Ukraine Energy Support Fund, including €249 mln from Germany in September.

Agriculture grew by 5.9% y-o-y in January–August

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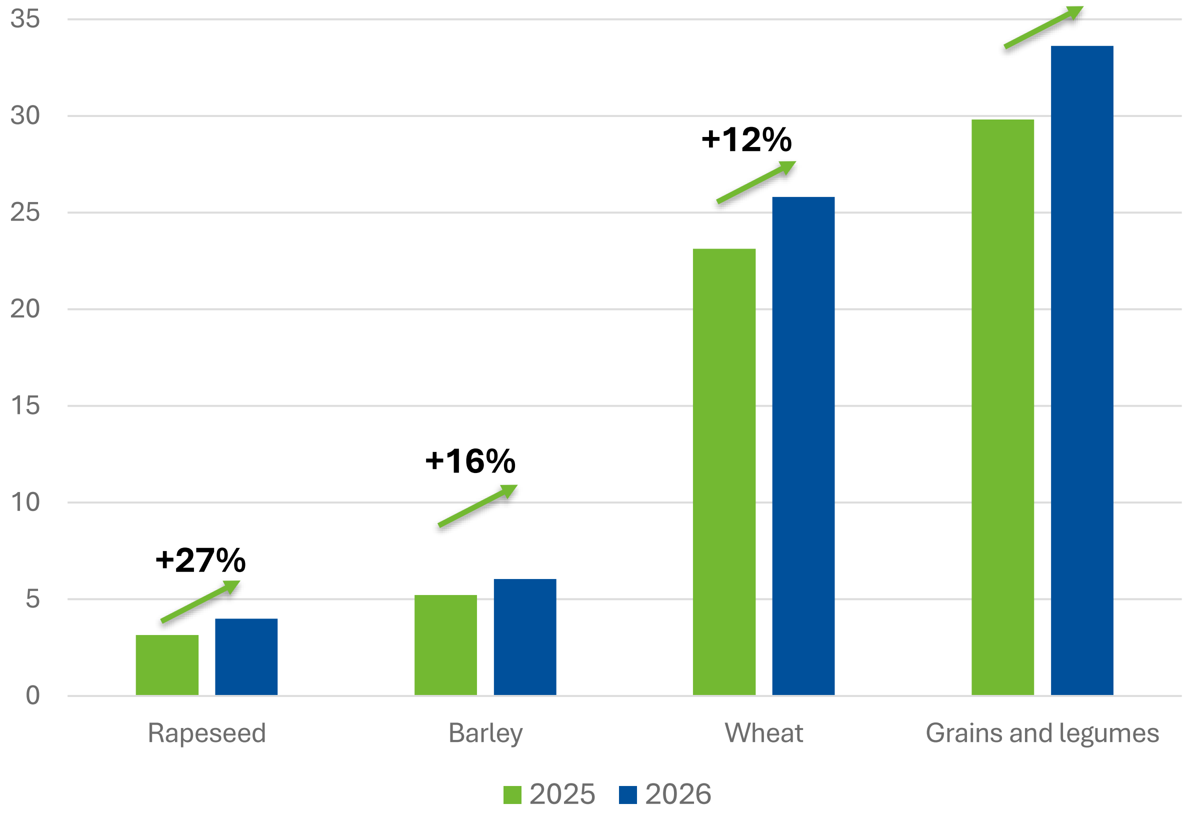
Winter crop harvest exceeded the 2025 level

Harvest of main crops as of August 31, million tons



Sources: SSSU.

The 2026 harvest exceeded the 2025 level amid mostly favourable weather conditions, which has boosted yields for both winter and spring crops (an increase by ~10-20% y-o-y). As of 22 September, ~39 million tons of cereals and oilseeds had been harvested (a 7% y-o-y increase). However, due to a shift in the harvest pace, agriculture fell by 16.7% y-o-y in August.

Alternative logistics routes are functioning better in September than in August. According to the Ministry of Agriculture, Ukraine exported ~44% of its full capacity in September (compared to ~30% in August).

Storage and financing issues have arisen due to blocked ports and export restrictions. Farmers in 9 frontline regions have submitted 2 319 applications to receive storage sleeves for temporary crop storage, enabling the storage 2,8 million tons of grain. Kernel has launched a pilot programme to store grain in mobile silos.

Ukrainian industry: a perfect storm amid intensified shelling

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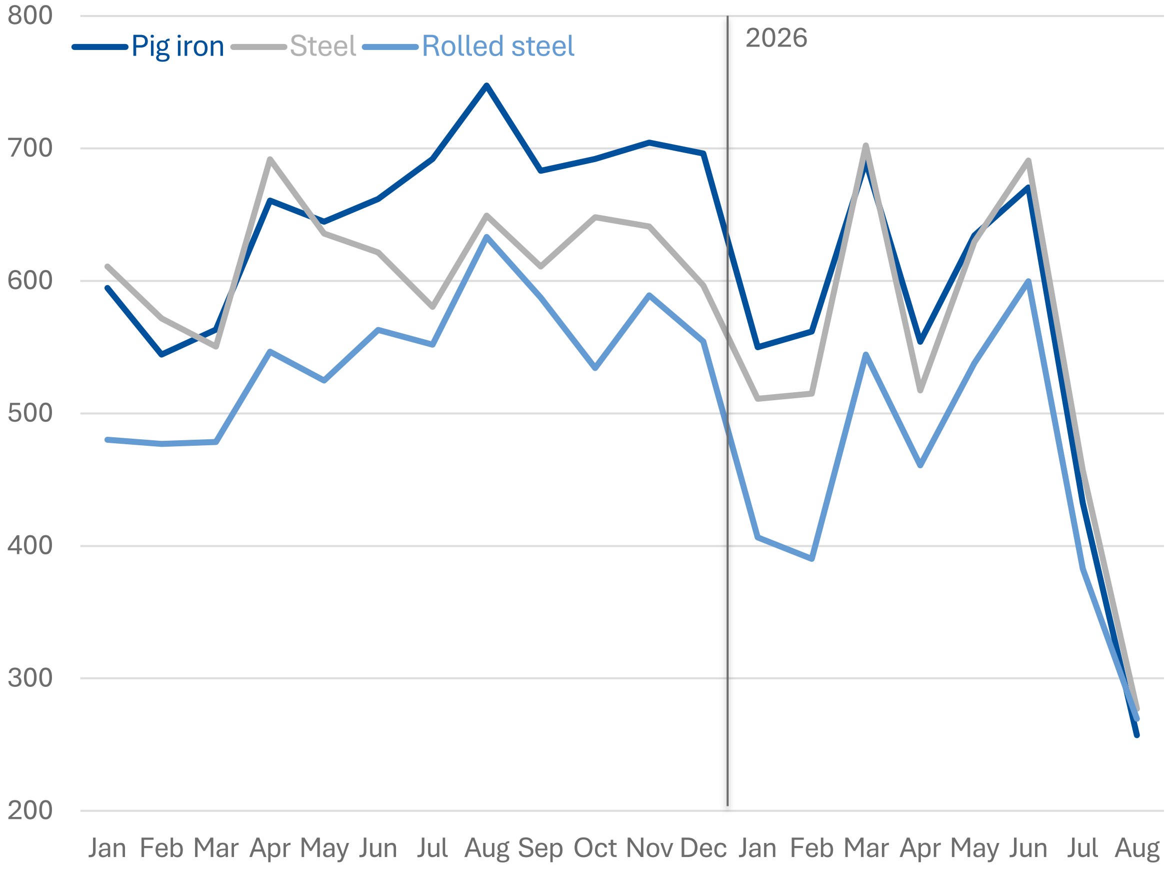
Metallurgical production plummeted

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



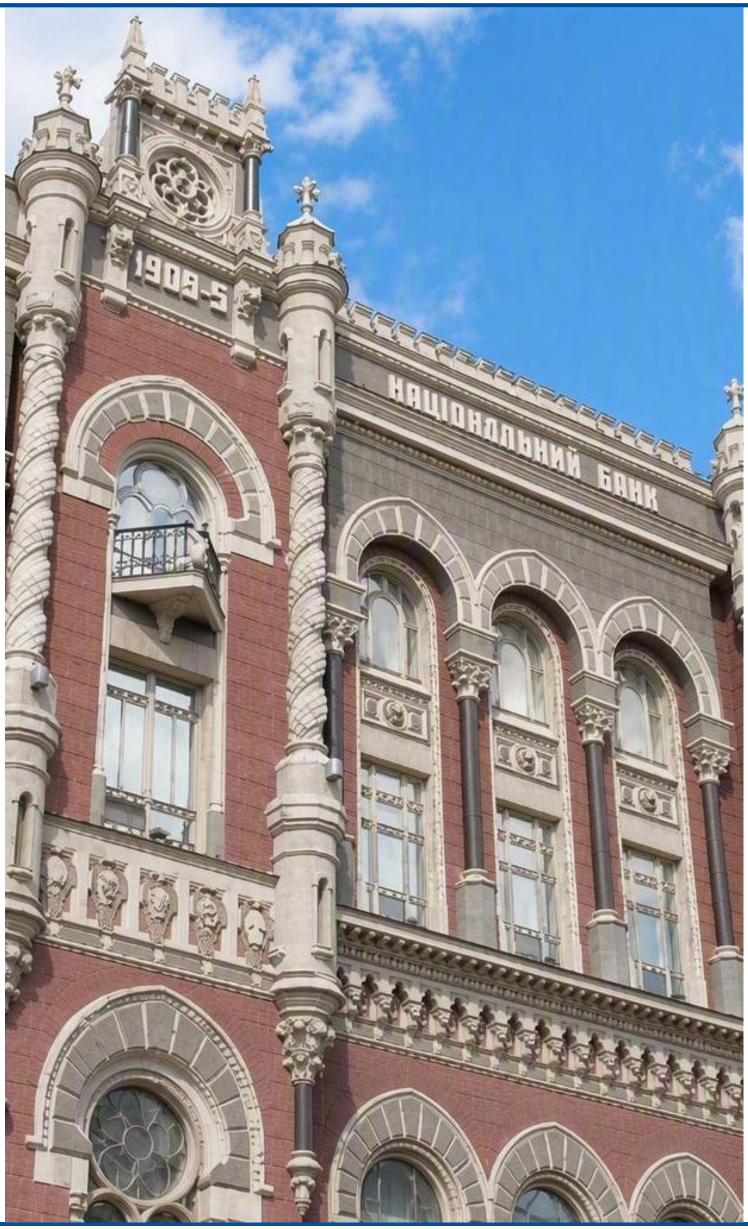
Sources: Ukrmetallurgprom.

In August, **metallurgical production fell by 30–40% m-o-m** due to the halt of sea exports, EU steel export quotas, CBAM regulations, and the destruction of capacity at the largest metallurgical plants amid intensified shelling.

Attacks on warehouses, railways, shopping centres, offices, the energy sector and gas production facilities continue. Blocked ports are hampering production in the food industry and metal ore mining, limiting freight volumes. Consumer demand and passenger transport have also weakened due to increased security risks.

The Business Activity Expectations Index (BAEI) fell to 48.4 in August on a seasonally adjusted basis. The unadjusted BAEI data also fell below the neutral level. According to the IER survey, security risks hindered the operations of 50% of businesses in August. According to the EBA survey, only 3% of companies plan to undertake large investment projects in 2027.

Given the difficult economic situation and the likely decline in production, employment, and exports, budget resources may shrink in 2026–2027.



Monetary sector

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Inflation continued accelerating in August

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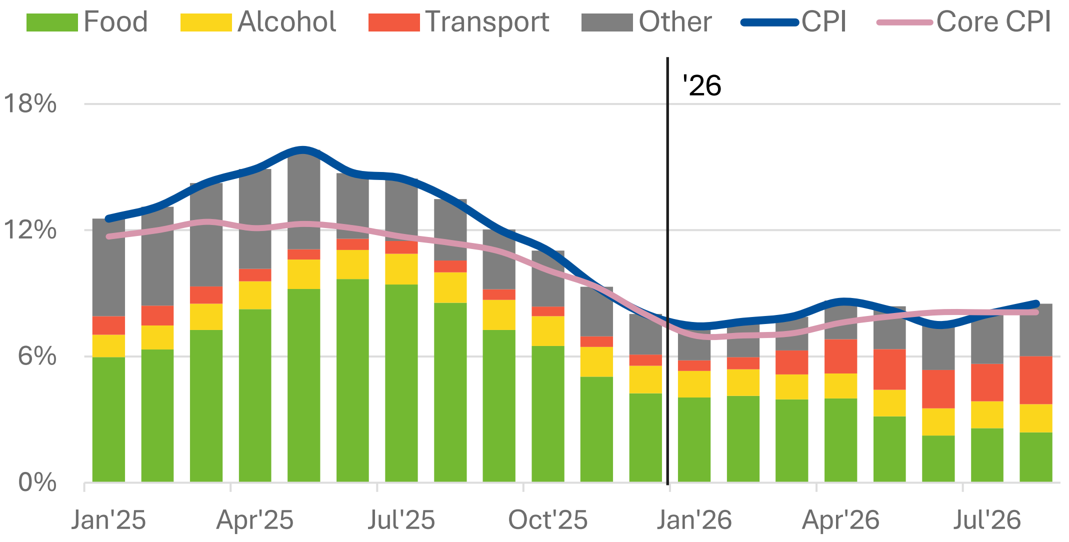
Higher fuel prices drive up transport costs and contributed 1.1 p.p. to the inflation rate

Inflation reached **8.1% y-o-y and 0.1% m-o-m**.

Food prices increased by 6% y-o-y but continued to fall as compared to the previous month (by 1.3%), driven by fruit and vegetable prices.

Fuel prices, on the other hand, **increased 38.7% y-o-y and 8.1% from July – the largest increase since March.**

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

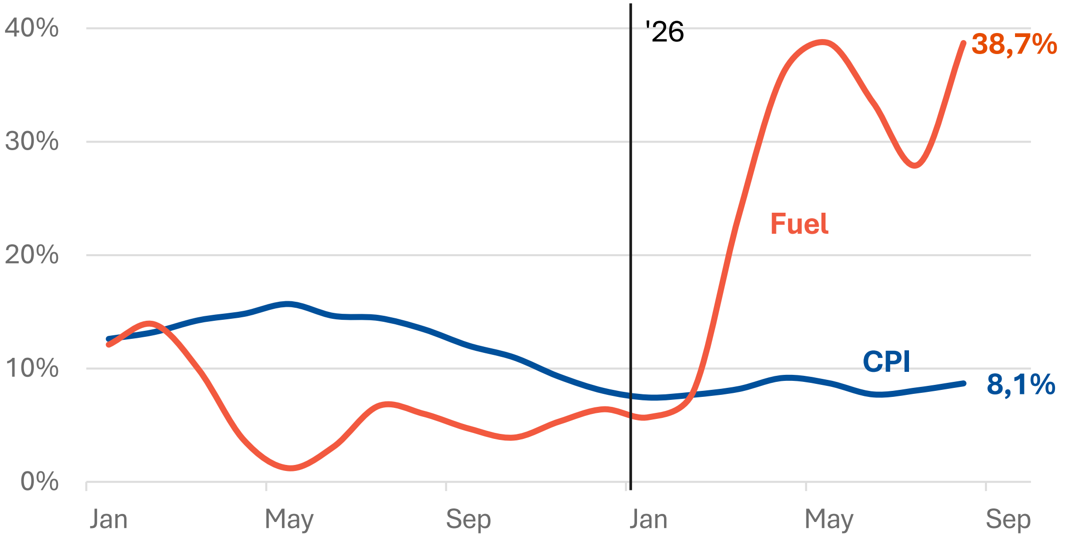


Source: State Statistics Service of Ukraine, CES calculations & visualisation.

This came as **global fuel prices reached the highest levels since 2022** because of renewed Hormuz Strait disruptions and Russia placing export bans on diesel.

Global fuel prices have continued to rise so far in September, indicating that the **inflationary pressure from fuel prices and transport costs is likely to persist**.

CPI & its component (Fuel), y-o-y, %.



Source: State Statistics Service of Ukraine, CES calculations & visualisation.

Key policy rate raised for the second time in a row to 16%

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As need to mitigate higher prices from Russian strikes on infrastructure grows

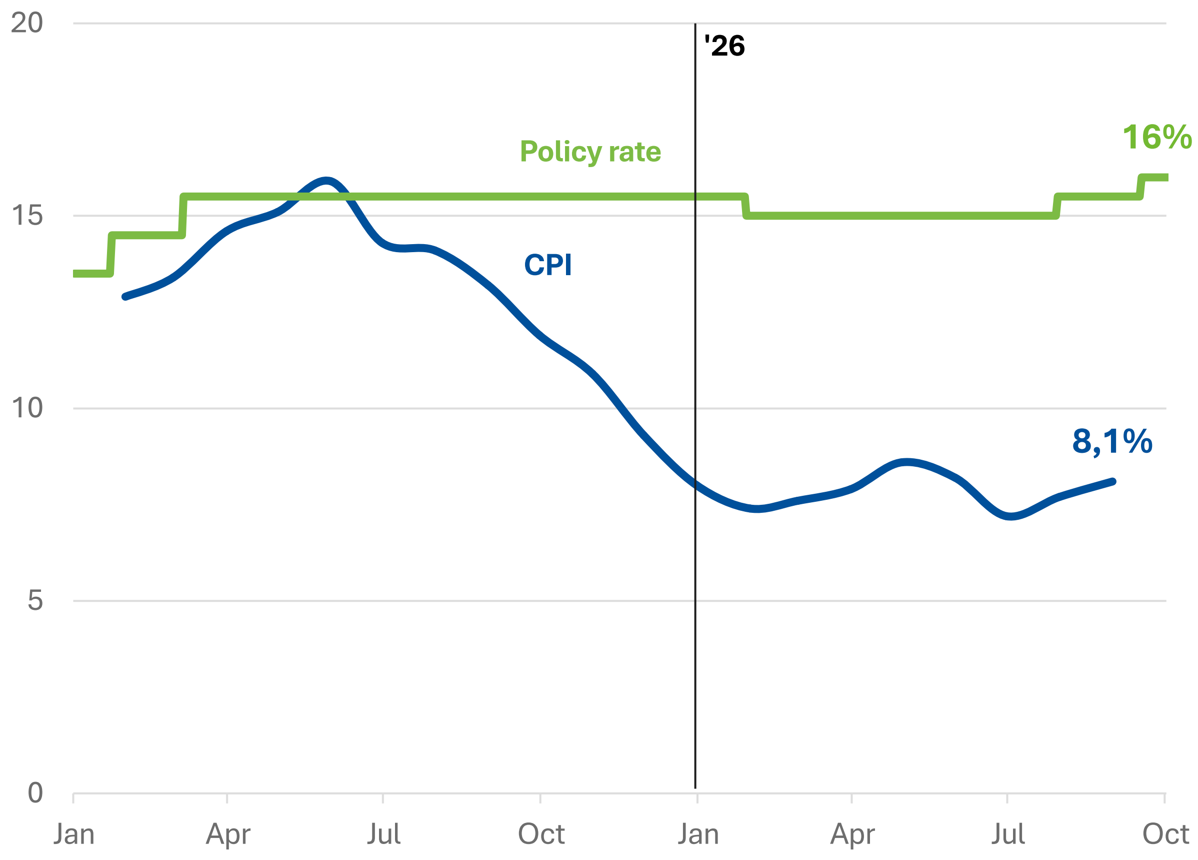
The key policy rate had already been increased from 15% to 15.5%.

The decision to raise it again reflects not only the concern over the currently accelerating inflation, but also **expectations of it increasing further in the future**.

The Russian **attacks on infrastructure, storage, logistics, production facilities are all likely to cause higher prices** in the future.

At the same time, higher supply of food products in the domestic market could mitigate some of the rising costs.

Consumer Price Index (CPI, Inflation, y-o-y) and key policy rate, %.



Sources: SSSU, NBU, CES calculations & visualisation.

International reserves declined in August to $48.7 bn

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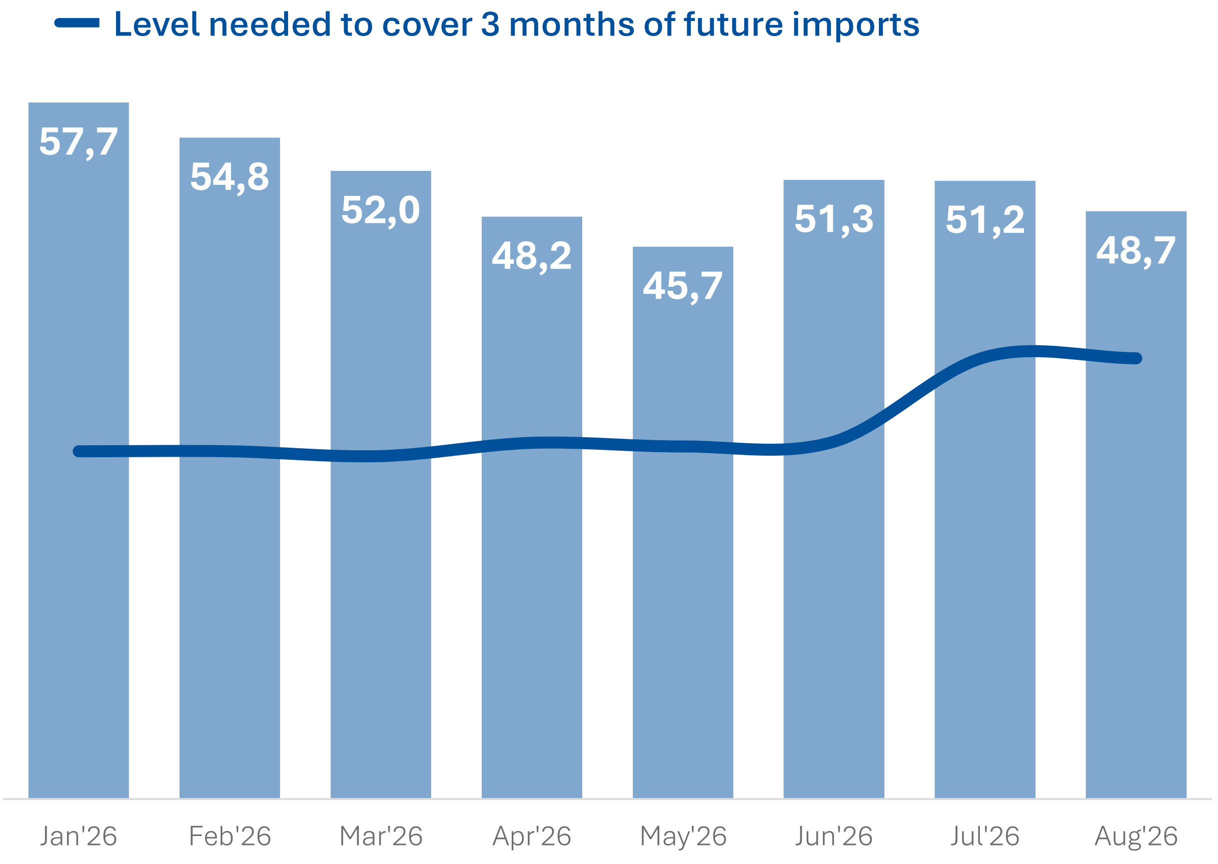
The 5% decrease needed to maintain currency stability

Gross international reserves in 2026, $ bn.



Source: NBU, CES calculations & visualisation.

NBU interventions in August remained on roughly the same level as the previous month. Still, **international reserves declined as international financing was lower than before**.

Higher imports in preparation for winter and lower exports due to the port blockade reflect negatively on the currency. NBU interventions stabilise it to prevent sharp depreciation.

The current levels of international reserves are enough to cover 4 months of future imports – above the recommended 3 months.

Nevertheless, insufficient foreign financing will lead to further decreases of the international reserves and limit the ability to prevent sharp fluctuations in the future.

Fiscal sector / Special topic

Ukraine's budget is short of money again

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Why?

War costs are up a third, revenue is missing, international in-kind aid is cut in half

Slides 15–17

How much more money is needed?

$56.5 billion through year-end with an intended "$27 billion" on war

Slide 18

What can be done?

Three scenarios, from "fully covered" to a $56.5 billion hole

Slide 19

Same problem in 2027?

Yes, and the starting point is worse

Slide 20

War is becoming increasingly expensive for Ukraine

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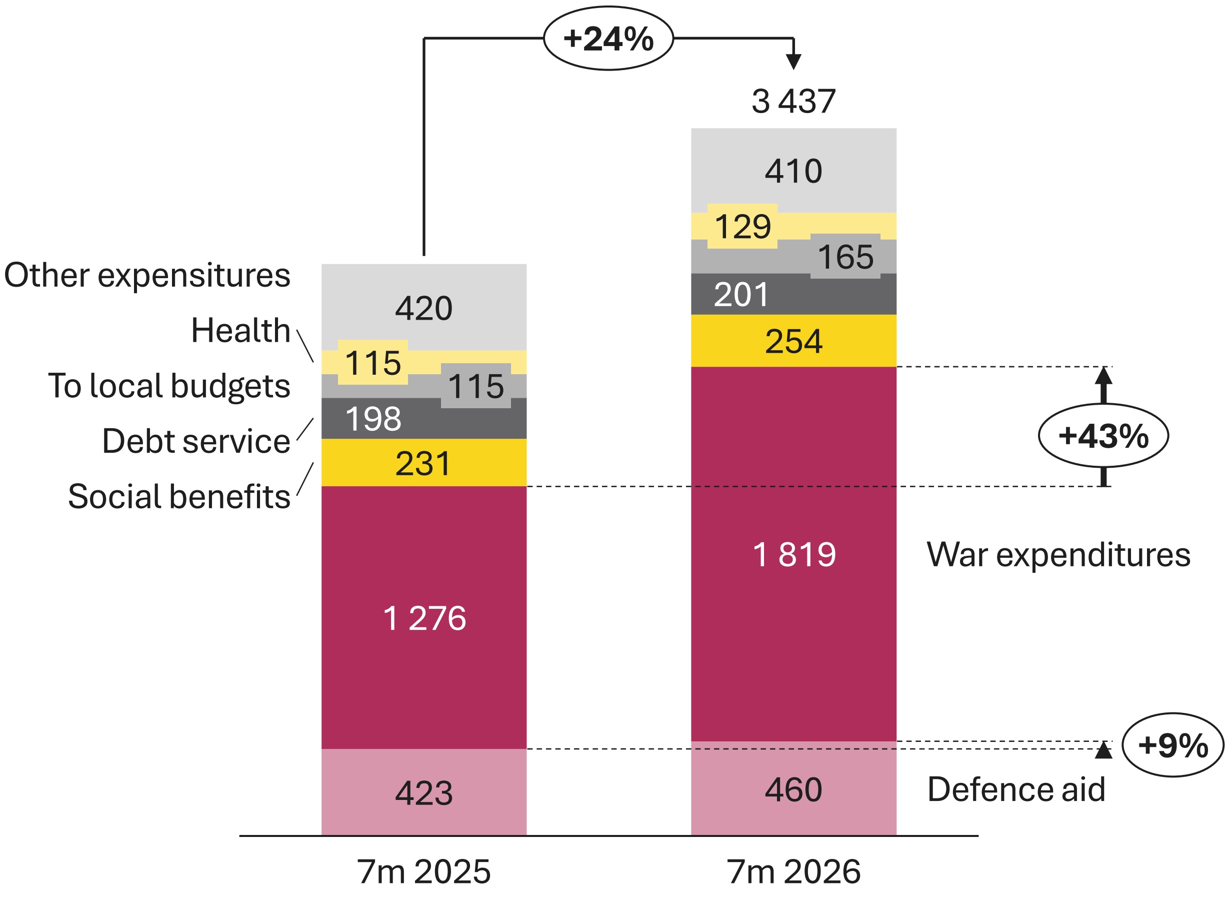
War expenditures are up by more than a third

Expenditures of state budget in Jan-Jul, UAH bn.



In the first 7 months of 2026, expenditures of the state budget are UAH 660 bn higher than last year. 82% of this increase is **war-related**.

While defence aid is not growing as much, war expenditures from own revenues are the main driver of growth – they increased by 43%.

The rising cost of war reflects two converging pressures.

Human dimension: a growing army, an increase in military pay, and mounting social benefit obligations for families of the fallen.

Procurement dimension: the high intensity of the war.

Sources: Ministry of Finance, CES calculations.

Meanwhile, revenue is failing to meet the plan

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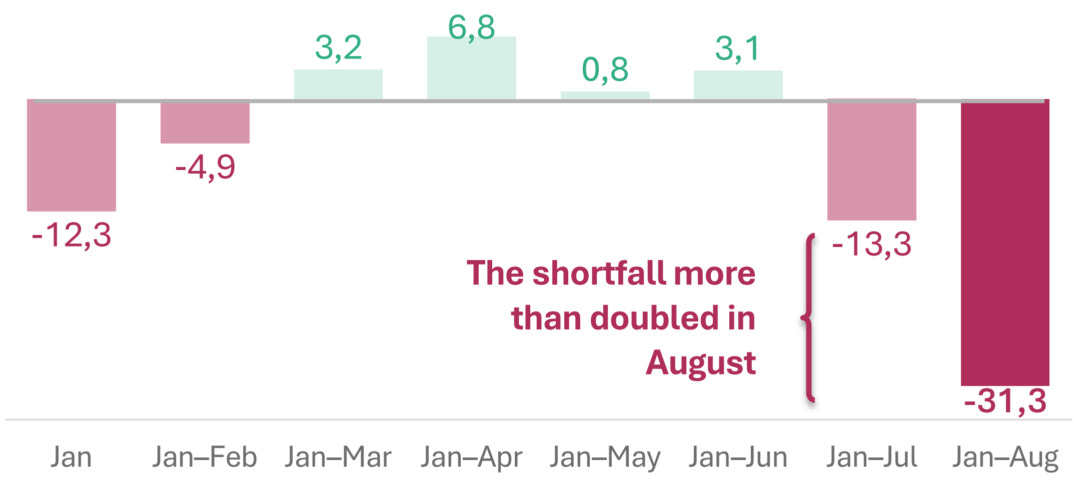
More than UAH 30 billion in tax revenue has been lost due to Russian attacks

The total figure for July and August resulted in a shortfall in tax revenues of UAH 31.3 billion compared to plan.

The largest shortfall is in VAT – UAH 25.3 billion in only two months.

Cumulative deviation from plan on tax revenues (general fund), UAH billion

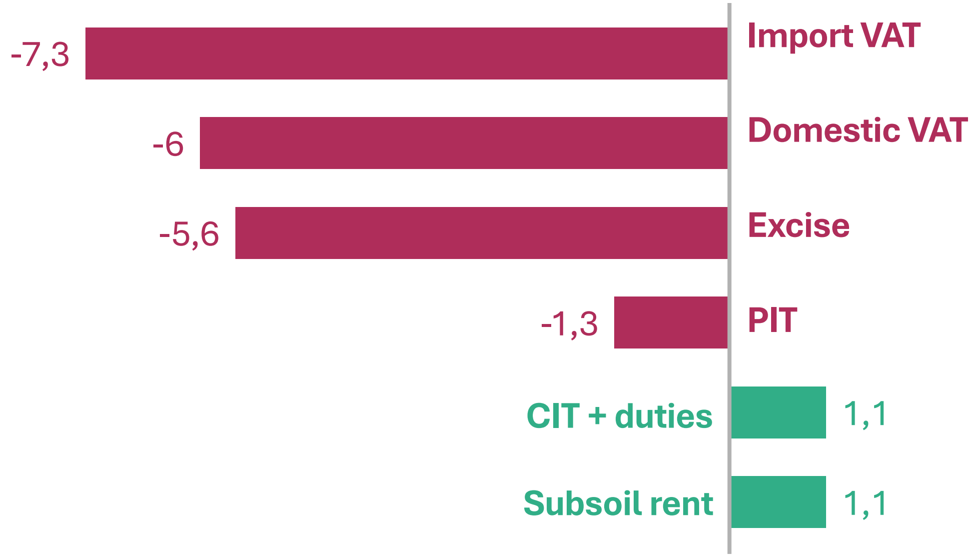


Sources: Ministry of Finance, Kyiv School of Economics, CES calculations.

In annual terms, however, it is rising (22% in Aug'26 compared to Aug'25), albeit at a slower pace than in June (38% in Jun '26 compared to Jun '25).

The situation will not improve by year-end: Russian attacks may reduce tax revenue by UAH 70 billion.

Deviation from a plan on tax revenues (general fund), in August, UAH billion



Sources: Ministry of Finance, Kyiv School of Economics, CES calculations.

International military support to Ukraine is at its lowest level ever

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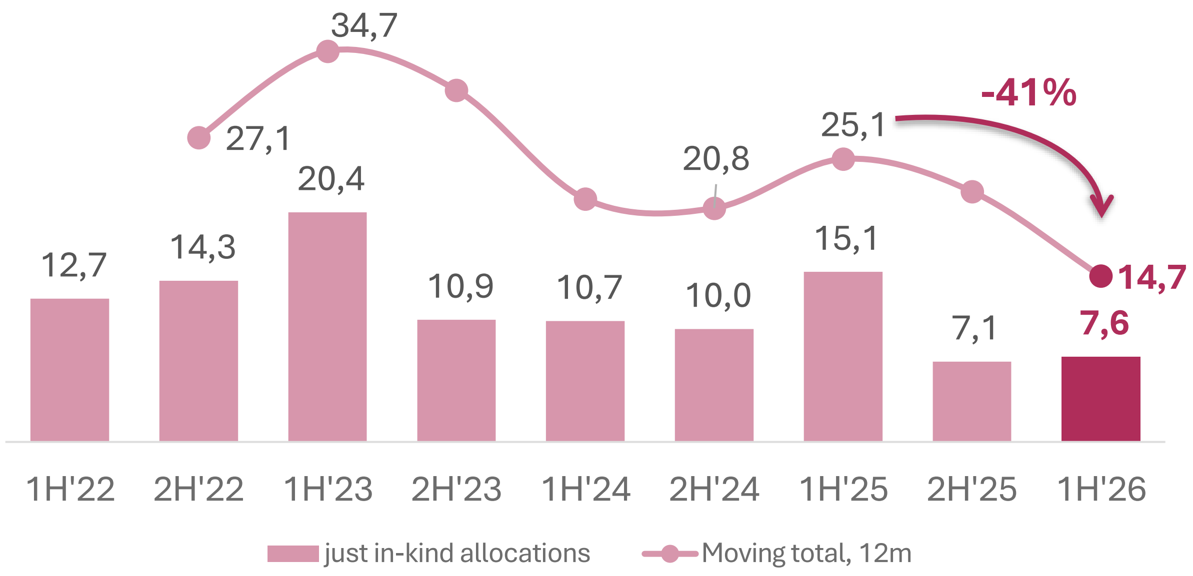
Due to the military component of the USL, donors are sending less in-kind

Dynamics of support: in-kind military allocations, € billion



Sources: Kiel Institute for the World Economy, CES calculations

Main reason: Defence component in USL.

The introduction of the USL's defence support may have reduced partners' incentive to provide in-kind support, which had been a significant source of funding for the war's needs.

What this means: The need for weapons was covered by using own funds from future periods, in particular, funds for military salaries.

International in-kind support fell to its lowest levels in 1H'26 and 2H'25 (€7.6bn and €7.1bn respectively)
In-kind support fell by 50% in 1H'26 compared to 1H'25

Ukraine needs $56.5 bn by year-end, and $27 bn has no source yet

External financing needs through end-2026

$56.5 bn total

$29.5 bn	$27 bn
Covered if commitments are met Ukraine Facility, USL, IMF, World Bank	**More money needed to be found** USL front-loading? In-kind from other partners?

Why the $29.5 bn is at risk

The funds were included in the plan and are to be covered by the partners, but this requires that commitments be met on time, and **it is currently falling behind**.

Why is more funding needed for defence?

- Less in-kind aid in the first half of the year
- The war is becoming more expensive
- An increase in military pay (which will require an additional UAH 265 billion, or $6 billion, by the end of the year, according to the Accounting Chamber)

How accurate is the "$27 billion" figure?
The figure for additional security and defence needs through the end of 2026 is questionable. **"$27 billion"** is the term used for the defence deficit through the end of 2026.

Ukraine Says It Needs $27 Billion More. Europe Wants to Know Why.

How $56.5 bn shortfall can be covered?

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Possible scenarios of budget financing till the end of 2026

Scenario 1. The "Good"

1. Complete and timely funding for: Ukraine Support Loan, Ukraine Facility, IMF, World Bank.
2. USL front-loading from 2027.

Uncovered need, 2026

≈ $ 0

Conditions:

1. Full and timely implementation of all international commitments.
2. Agreement on USL front-loading.
3. Advocacy for the unfreezing of Russian assets to cover the larger unfunded need for 2027.

Scenario 2 . The "Bad"

1. Complete and timely funding for: Ukraine Support Loan, Ukraine Facility, IMF, World Bank.
2. No agreement on USL front-loading, or not on time.

Uncovered need, 2026

≈ "$27 bn"

Conditions:

1. Full and timely implementation of all international commitments.
2. **Suspension of non-protected expenditures.**
3. Advocacy for the unfreezing of Russian assets.

Scenario 3. The "Ugly"

1. Incomplete and/or untimely funding for: Ukraine Support Loan, Ukraine Facility, IMF, World Bank.
2. No agreement on USL front-loading, or not on time.

Uncovered need, 2026

≈ $56.5 bn

Conditions:

1. **Suspension of non-protected expenditures.**
2. **Printing money.**
3. Continued efforts to fulfil international commitments and agreements with partners on unfreezing Russian assets.

Budget-2027: situation is no better

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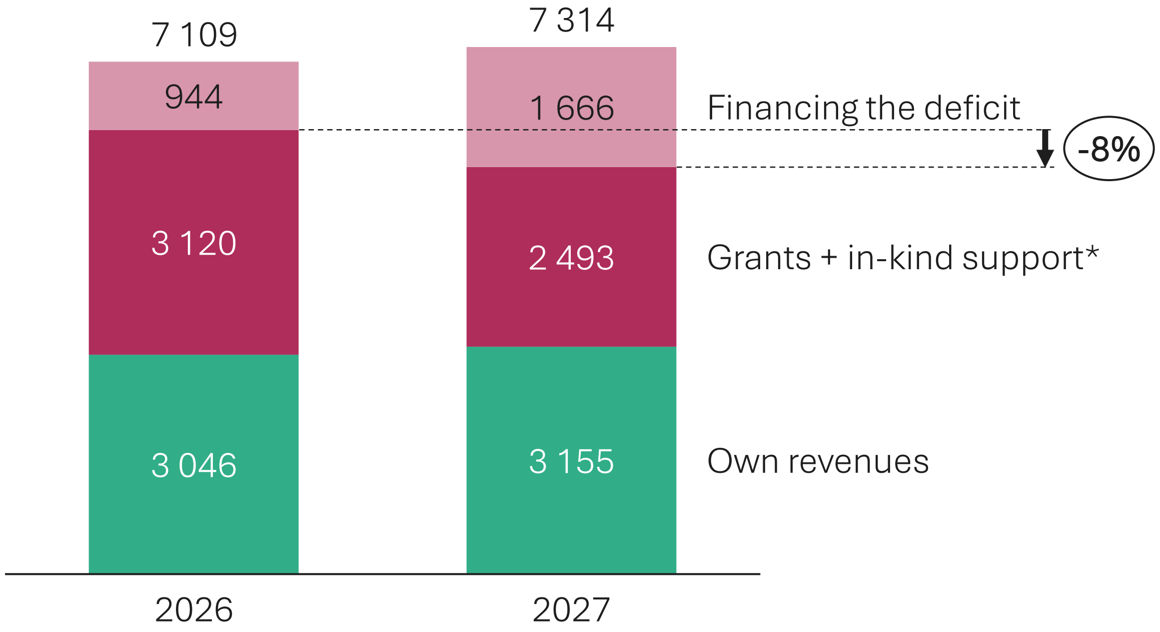
Expenditures continue to rise, while revenue is declining

UAH 7,109 → 7,314 bn
Total expenditures **+3%**

UAH 4,719 → 4,646 bn
War expenditures **-2%**

UAH 2,390 → 2,668 bn
Civil expenditures **+12%**

Planned sources of the state budget in 2027, UAH bn



Note: 2026 is according to the revised plan, including military in-kind support, which have come in first 7 months. For the plan of the next year in-kind support is never included
Sources: Ministry of Finance, Project of the Law of the State Budget for 2027, CES calculations

Own revenues will be slightly above the 2026 plan – but the plan for 2027 includes tax increases, which have not been confirmed yet. Also, if Russian attacks will continue, will the budget receive such tax revenues?

Grants will be down (UAH 2.7tn → 2.5tn).

Foreign financing needs are $52.6 bn, of which $32.6 bn is still not covered.

If we need "$27 bn" more this year, how much more will we need next year?

Recap: September Economic Review

- Economic activity weakened in August-September amid intensified shelling, which may lead to a shrinking budget tax revenue.
- War costs are up a third, revenue is missing, international in-kind aid is cut in half.
- Ukraine needs up to $56.5 bn by year-end, and $27 bn has no source yet.
- Budget situation will not get better in 2027, according to the current 2027 Budget project.

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Thank you!