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Ukrainian Draft Budget for 2025: Main Characteristics and Strategic Priorities

Summary and Key Findings

1. **The draft budget for 2025[1] is built on similar principles as the 2024 budget**, with a clear focus on defense, security, and social protection. International financial assistance remains crucial to maintaining budgetary stability. The 2025 draft budget aligns with the Budget Declaration for 2025-2027, the first such document adopted after the full-scale invasion, demonstrating continuity in budget policy.
2. **Revenue indicators of the draft budget for 2025 take into account the "resource" bill No. 11416-d**, dated August 30, 2024, which has already been adopted by the Parliament in its first reading. This bill introduces significant changes to tax collection. Among other provisions, it increases the military levy from 1.5% to 5%, extends its application to individual entrepreneurs under the simplified taxation system, raises the corporate tax rate for financial institutions to 25%, and increases the corporate tax rate for banks to 50% for the year 2024. Additionally, it introduces advance payments for businesses engaged in retail of petroleum products. The government expects to raise an additional $2.8 bn in tax revenues in 2025 through these changes.
3. **Expenditures on defense and security remain a top priority throughout 2025**. Planned expenditures under the Ministry of Defense's programs amount to **$34.8 bn** (a significant increase from the initial plan for 2024, which was $28.6 bn), However, this amount is still likely to be insufficient if combat operations continue at the current intensity throughout 2025. Therefore, if 2024 trends persist and no additional funding is provided, the Ministry of Defense's budget will need to be revised in the second half of 2025, similar to the amendments made to the 2024 budget in August of last year.
4. **The main sources of revenue for the budget in 2025 are expected to be taxes amounting to $44.1 bn** (13.9% higher than the planned for 2024) **and external borrowing of $38.8 bn** (5.3% less than the 2024 plan, but 4.7% higher in hryvnia terms). After deducting the costs of servicing external state debt, external borrowing is expected to finance 42.9% of all budget expenditures in 2025, while domestic sources will cover 57.1% (higher than the 2024 plan). Alongside tax revenues, external financial assistance remains critically important to ensure Ukraine's financial stability in 2025.
5. **Growth of tax revenues in 2025 is expected across all key categories** (PIT, CIT, VAT, excise tax). The primary driver of revenue growth will be changes in tax legislation, including higher tax rates and an expansion of the tax base. Part of the growth is also linked to macroeconomic factors, specifically inflation (projected at 9.7%) and the devaluation of Ukraine's currency (the average annual FX rate is expected to be 45 UAH/USD).
6. **The government is relying on substantial and regular financial support from international partners next year.** In 2025, the general fund of the budget is expected to receive $36.9 bn in loans from foreign partners, including $11.9 bn from the European Union under the Ukraine Facility program, $2.7 bn from the IMF, $3.1 bn from the World Bank, and $19.1 bn from other creditors. Additionally, around $2.0 bn in external loans will be allocated to the special fund of the budget. Beyond loans, the government also plans to attract $1.9 bn in grant funding—$1.6 bn from the EU`s Ukraine Facility and $0.3 bn from other foreign partners. At the same time, nearly all domestic borrowing in 2025 is planned to be used for the repayment of domestic state debt (borrowing – $12.9 bn, repayment – $12.5 bn).
7. **The planned state budget deficit is expected to reach $36.5 bn, or 19.4% of GDP.** To finance this deficit, $38.8 bn in external borrowing and $12.9 bn from domestic government bonds will be allocated. As a result, state and state-guaranteed debt is projected to continue to exceed 100% of GDP (101.8% of GDP by the end of 2025). This debt level, even after partial restructuring in 2024, will significantly exceed the Maastricht criterion of 60% of GDP and the "safe" level (which does not impede economic growth) of 64% of GDP for developing countries.
8. **The government anticipates the implementation of the Extraordinary Revenue Acceleration Loans for Ukraine (ERA) mechanism**, which could provide an additional $50 bn. The servicing and repayment of these funds would be covered by the proceeds from frozen Russian sovereign assets held in G7 jurisdictions. Some of these funds could be used for direct budget support as early as 2025[2].

[1] On the 14th of September the Government of Ukraine presented the first draft of the state budget for 2025. The analysis in this paper is made according to its provisions and indicators available at https://itd.rada.gov.ua/billInfo/Bills/Card/44888. Here and after term "budget" is used for the central (state) level budget

[2] The European Commission announced a proposal to provide Ukraine with macro-financial assistance of up to €35 bn for 2024-2025.

General Provisions

(1) In drafting the 2025 budget, **the government relied on a baseline macroeconomic scenario that incorporates cautious assessments of 2024 results and acknowledges the high level of uncertainty surrounding national and regional security.** This uncertainty is driven by potential changes on the frontline, the intensity of combat operations, and their economic consequences. Under such conditions, there is a significant risk that some actual figures may diverge significantly from planned targets. It is already apparent that certain budget parameters — particularly defense spending — may need adjustments during 2025, similar to the modifications made in 2024.

(2) **The baseline forecast macroeconomic indicators for 2023-2025 remain consistent with those used in the preparation of the Budget Declaration**, indicating a unified approach to budget development. In 2025, nominal GDP is expected to grow to $188.1 bn despite significant changes in the economy`s structure (Table 1). Real GDP growth is expected to reach 2.7% (down from the **4% ±1%** forecast for the first half of 2024 by the Ministry of Economy). Inflation is expected to accelerate to average 9.7%, nearly double the figure projected for 2024 (5.4%). Inflationary pressure is driven by higher business costs stemming from energy supply constraints, rising raw material and labor prices (with the average salary expected to increase to **$542 per month**), and the unemployment rate will decrease insignificantly to 17.7%), as well as devaluation of the hryvnia (which has depreciated by **8.3%** since the start of 2024).

Table 1. Main macroeconomic indicators

Indicators	2023	2024		2025
	Report	Resolution of the CMU from 15.12.2023 No.1315	Expected by Ministry of Economy (as of 28.06.2024)	Resolution of the CMU from 28.06.2024 No.780
Nominal GDP, USD bn	178.8	187.8	183.9	188.1
Real GDP Growth, %, y-o-y	5.3	4.6	3.5	2.7
CPI, evg., %, y-o-y	12.9	8.5	5.4	9.7
CPI, December to December of the previous year, %, y-o-y	5.1	9.7	7.9	9.5
Average monthly salary, USD	476.9	535.8	505.7	542.0
Unemployment rate, %	18.9*	18.7	18.2	17.7

**Assessment of the Ministry of Economy*
Source: State Statistics Service of Ukraine, National Bank of Ukraine, Ministry of Economy

(3) **The 2025 draft budget incorporates potential amendments to the Tax Code** (bills No. 11090 dated March 18, 2024, and No. 11416-d dated August 30, 2024), which, among other provisions, include the following:

- Increasing excise tax rates on tobacco products to align with EU standards.
- Raising the military levy to 5% and introducing this levy for individual entrepreneurs under simplified taxation (Group 1, 2, and 4 entrepreneurs would pay 10% of the monthly minimum wage set at the start of the year; Group 3 entrepreneurs would pay 1% of their income).
- Raising the corporate income tax rate for banks from 25% to 50% for 2024 and setting the 2025 rate at 25%, while increasing the corporate income tax for non-bank financial institutions from 18% to 25%.

(4) **The government has identified several important fiscal risks that may lead to revenue shortfalls** and/or require additional expenditures, potentially increasing the budget deficit and state debt:

- *Ongoing military operations.* The World Bank (RDNA3) estimates that since the full-scale invasion began, Ukraine`s economic losses have surpassed $0.5 trillion and they are growing every day;
- *Destruction of production complexes and infrastructure facilities*, which leads to a systematic reduction of fixed capital. The destruction of the energy system negatively affects the entire economy due to the limitation of its potential, as well as the need for additional imports of energy-saving equipment. It will also have a negative impact on the pace of economic recovery;
- *Blockade of Ukrainian seaports*. The well-established activity of the "sea corridor" contributed to the increase of agricultural exports to their pre-war level. Accordingly, a decrease in sea exports due to damage to port infrastructure or restrictions of traffic on sea routes can lead not only to a

The loan repayment will be exclusively funded by frozen Russian sovereign assets in the EU, making this assistance effectively non-repayable for Ukraine. This mechanism will allow for the coverage of the most urgent budgetary needs in the coming months after approval by the European Parliament and the EU Council.

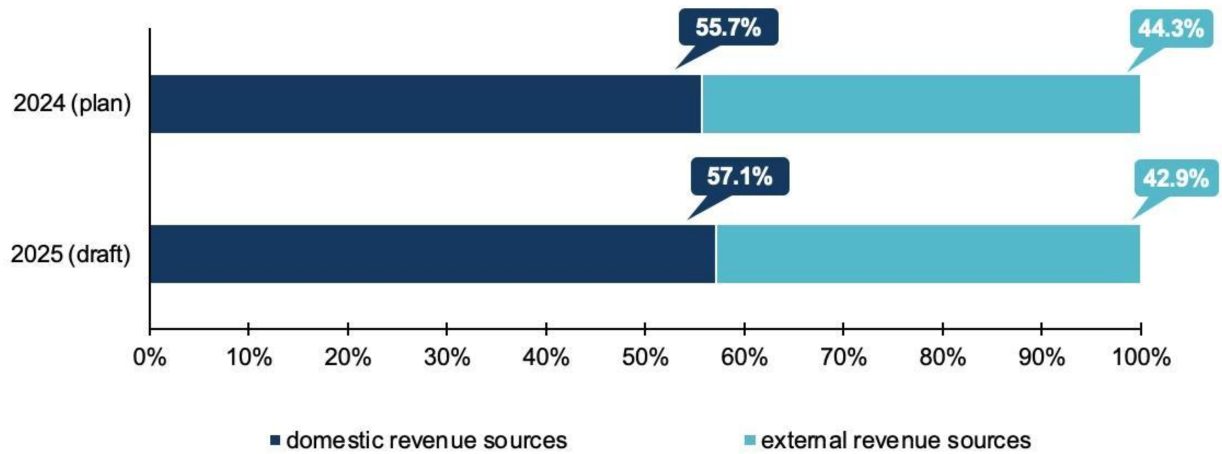
decrease in foreign exchange earnings, but also to an increase in the burden on alternative export routes;

- *Implementation of the demographic crisis* (reduction of the population and labor force). According to the Ministry of Social Policy, the average life expectancy in 2023 compared to 2020 has decreased significantly: by 9.1 years (from 66.4 to 57.3 years) for men and by 5.3 years (from 76.2 to 70.9) for women. Imbalances in the placement of productive forces are also accumulating;
- *Decrease in the yield of grain crops*. The loss of cultivated areas, as well as difficulties in finding workers, create significant medium-term risks in terms of a decrease in the harvest, leading to lower foreign exchange earnings and negatively affecting the agricultural processing industry;
- *Reduction in international financial support*. Limited access to macro-financial assistance (loans and grants) will lead to the search for additional internal resources, which is a challenging task given the difficult economic conditions and limited internal capabilities due to the long war;
- *Rising global energy prices*. This may increase production expenses and reduce the competitiveness of Ukrainian manufacturers;
- *Increased borrowing costs*, as well as non-fulfilment of obligations by SMEs and utilities within the framework of joint projects with IFIs could burden the state with additional obligations.

(5) **The key sources of revenue and financing for the budget in 2025 are expected to be taxes — nearly $44.1 bn** (13.9% higher than the planned for 2024) **and external borrowing — $38.8 bn** (5.3% lower than the 2024 plan but 4.7% higher in hryvnia terms). Tax revenues and net external borrowing will cover 91.4% of 2025 budget expenditures. Specifically, tax revenues will account for 50.4%, and external loans for 41.1% (the current 2024 plan is 47.6% and 44.9%, respectively) — see Figure 1. Remaining budget expenditures will be covered by domestic borrowing and non-tax revenues. This indicates a gradual shift towards greater reliance on domestic revenue sources as external financial assistance is expected to decline. Overall, Ukraine's own fiscal resources (including tax and non-tax revenues, net domestic borrowing etc.) are projected to cover **57.5%** of total expenditures in 2025, compared to **55.7%** in 2024.

(6) **Next year, tax revenues are projected to cover slightly more than half of all budget expenditures** (**50.4%**). This represents a marginal increase compared to the 2024 plan and a significant improvement over the tax revenue share in 2022 (**35.1%**) and 2023 (**30%**). It reflects the growing importance of domestic revenue sources in Ukraine's budget financing amid a reduction in anticipated external assistance. A significant portion of the budget will be financed by domestic government borrowing, projected at **$12.9 bn** for 2025, which is **0.4%** lower than the 2024 plan (though **10.1%** higher in hryvnia terms). Additionally, **$1.9 bn** in grants is expected in 2025, including **$1.6 bn** from the EU's Ukraine Facility program and **$0.3 bn** from other foreign partners.

Figure 1. Structure of Budget Revenue Sources in 2024-2025, %



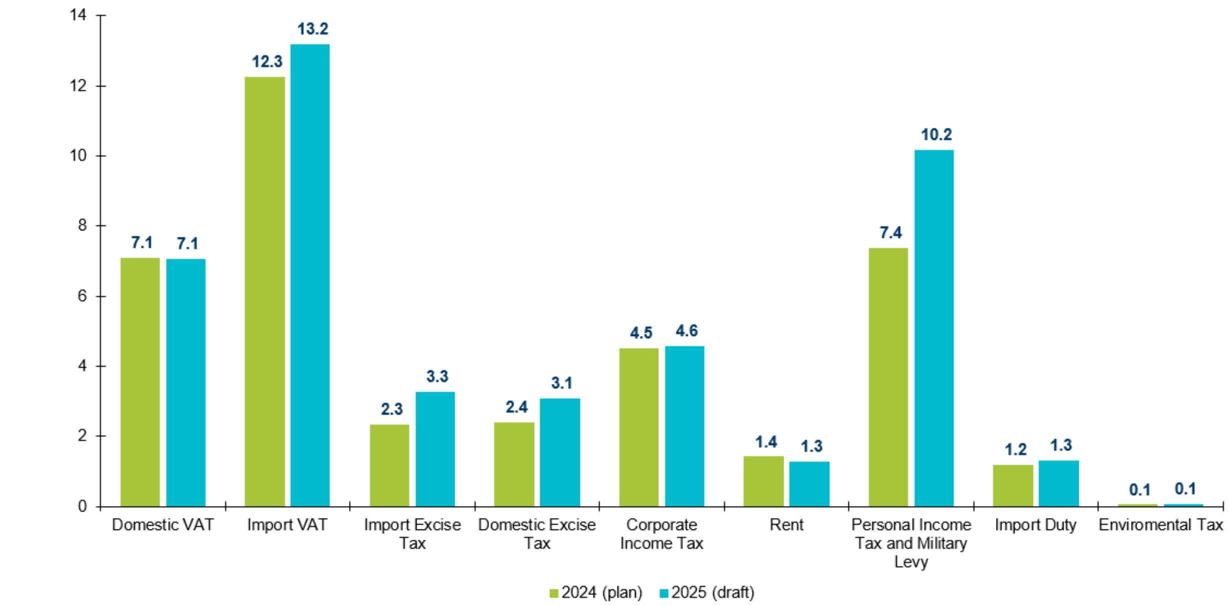
Source: Budget for 2024, Draft Budget for 2025

Budget Revenues

(1) **The draft budget for 2025 projects total revenues of $51.9 bn, which is 19.5% higher than the 2024 plan.** The growth in revenues for 2025 can be attributed primarily to two factors. First, changes in tax legislation are expected to bring in an additional $2.8 bn, raising total tax revenues to $44.1 bn – 13.9% higher than in 2024. Second, changes in macroeconomic conditions such as inflation and currency depreciation are expected to contribute to increased budget revenues.

(2) **The structure of tax revenues is not expected to undergo significant changes compared to the 2024 plan. Indirect taxes will continue to play a key role, accounting for over 51.3% of total revenues for 2025.** VAT (on both imports and domestic goods) is expected to make up 39% of total revenues, while excise taxes (on both imports and domestic goods) will account for 12.3%. Among direct taxes, PIT and the military levy will be the largest contributors, accounting for 19.6% of all revenues.

Figure 2. Tax Revenues in the 2024-2025 Budgets, bn USD



Source: State Budget for 2024, Draft State Budget for 2025

(3) **Grant revenues are expected to be $1.9 bn, or 3.7% of total revenues.** This includes $1.6 bn from the Ukraine Facility and $0.3 bn from other foreign partners. This is significantly higher than the planned amount for 2024 ($0.1 bn) but less than the $6.8 bn grants received during the first eight months of 2024. Therefore, there is moderate optimism that actual grant revenues in 2025 may exceed the planned figures.

(4) In 2025, **tax benefits that reduce budget revenues — referred to as "falling" revenues — will remain substantial.** The government expects the total amount of tax benefits in 2025 to be **$3.4 bn** — an **8.2%** increase compared to actual losses in 2023, a **3.6%** decrease compared to expected losses in 2024, and a **32.5%** increase compared to projected losses for the 2024 budget. More than half of these benefits (**55.7%**) are related to defense needs. From the end of July 2024, VAT benefits for energy-saving equipment imports into Ukraine came into effect, but the amount of losses from them has not yet been reflected in the list of benefits and losses.

Budget Expenditures

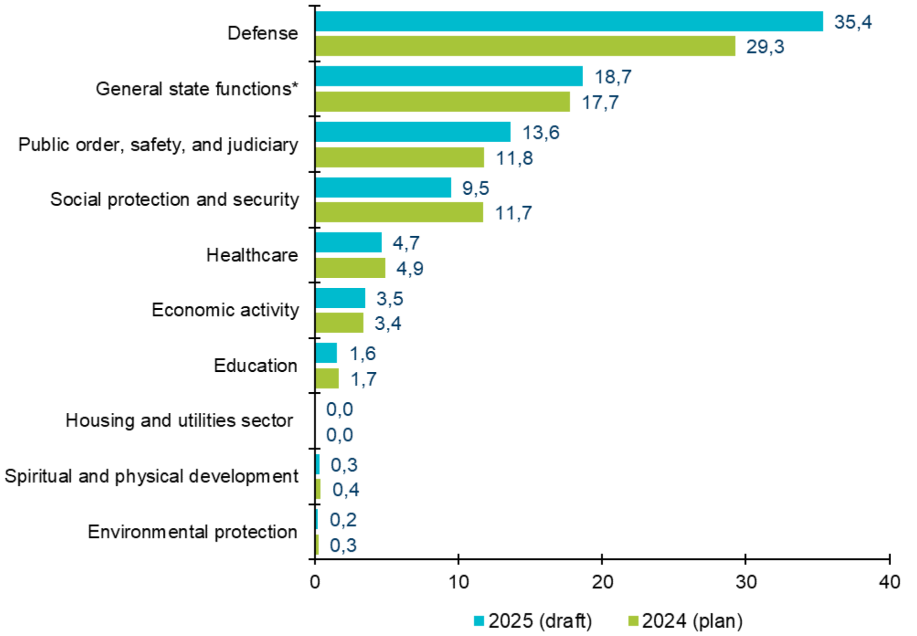
(1) **The draft budget for 2025 sets expenditures at $87.5 bn,** which is $6.2 bn (+7.6%) more than the 2024 plan. The priorities remain defense, security, and the social sector (Fig. 3). Accordingly, over 60% of expenditures will be concentrated in three ministries:

- Ministry of Defense – $34,8 bn (+21.8% or +$6.2 bn compared to the 2024 plan),
- Ministry of Internal Affairs – $9.7 bn (+22.3% or +$1.8 bn compared to the 2024 plan),
- Ministry of Social Policy – $9.3 bn (-19.1% or -$2.2 bn compared to the 2024 plan).

(2) **Defense and security will remain the highest budget priorities for 2025.** Total spending in these sectors is expected to reach $49.4 bn (26.3% of GDP and 56.4% of total expenditures). Of the total Ministry of Defense budget, which is the main part of Defense sector, 99% of funds will be allocated to two budget programs:

- $22.5 bn (+$0.8 bn to 2024 plan) for salaries, healthcare, and assistance to the families of Armed Forces personnel;
- $10.8 bn (+$4.3 bn to 2024 plan) for the procurement and repair of weapons and military equipment.

Figure 3. Budget Expenditures by Functional Classification*, bn USD



** together with of state debt servicing, nationwide expenditures, transfers and loans; general and special funds together*
Source: Budget for 2024, Draft Budget for 2025

(3) Among non-defense and non-security sectors, **14 out of 19 ministries will see increased funding in 2025.** The largest increases are projected for:

- Ministry for Restoration – an increase of $113 mln (+129.8%), driven by an additional $75.6 mln for the critical infrastructure restoration and logistics projects.
- Ministry of Agrarian Policy – an increase of $78 mln (+64.9%) due to expanded support for farmers and other agricultural producers.
- Ministry of Finance – an increase of $13 mln (+1.9%), primarily for the expansion of funding to the State Tax Service.
- Ministry of Energy – an increase of $31 mln (+24.6%) for the restoration and development of energy infrastructure and the restructuring of the coal sector.

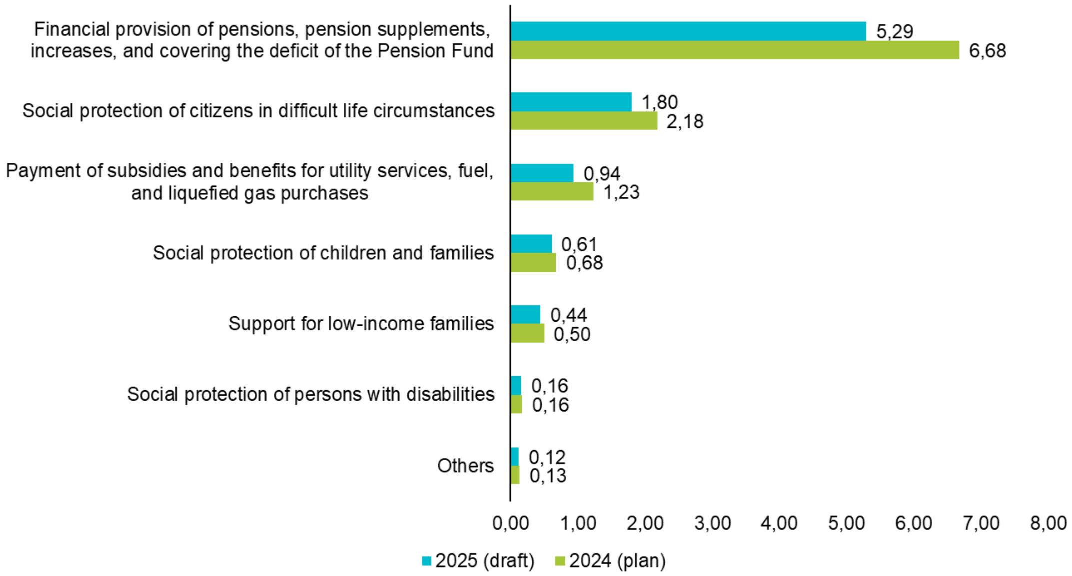
(4) **The government plans to continue supporting businesses under martial law conditions –** the 2025 budget draft allocates **$31.1 mln for a grant support program aimed at creating and developing businesses**. Funding for the Entrepreneurship Development Fund (5-7-9 Program) will remain at the 2024 level of $400 mln. Additionally, $22.2 bn is planned for compensating the agricultural sector for the costs of humanitarian demining of agricultural land, along with another $4.4 mln to support agricultural producers using irrigated lands.

(5) **Public investment projects will be managed under a new system.** According to the new public investment management (PIM) model outlined in the 2025-2027 Budget Declaration, only public investment projects that have undergone preliminary assessment, prioritization, and inclusion in a single project pipeline will receive budget financing or state support. The new PIM model is designed to align public investment with strategic priorities and a medium-term budget framework. **In 2025, the following funds are allocated for public investment financing:**

- Budget funds (Program for Financial Support of Preparation and Implementation of Public Investment Projects) – $555.6 mln;
- Loans from foreign governments and IFIs for ongoing projects – $1.3 bn;
- Funds from Pillar II of the Ukraine Facility (2024-2027) – €6.97 bn

(6) **Expenditures for the Ministry of Social Policy will decrease by 19.1%, or $2.2 bn**, compared to 2024, bringing the total allocation to **$9.3 bn**. This reduction is due primarily to a **$1.7 bn** cut in funding for the Pension Fund of Ukraine and a **$529 mln** reduction in administrative programs under the Ministry of Social Policy.

Figure 4. Ministry of Social Policy Expenditures for 2024-2025, USD bn



Source: Budget for 2024, Draft Budget for 2025

(7) **The ability to finance a new instrument of social support in 2025 is in question.** The government planned to introduce a new instrument -- the basic social assistance programme, which aims to consolidate several types of assistance into a single program, including support for low-income families, children of single mothers, and individuals not entitled to a pension. The basic social assistance program is scheduled to be implemented on **January 1, 2025**, but the proposed draft law has not been adopted yet. The draft law of the State Budget on 2025 does not highlight the introduction of a new type of assistance. No additional state budget expenditures are anticipated, and the plan is to fund the program within existing budget allocations. However, given the reduction in funding for the Ministry of Social Policy, there are concerns about whether sufficient funds will be available to fully finance the program.

(8) **The Pension Fund of Ukraine will also see a decrease in budget transfers in 2025. The Fund's total revenues and expenditures are projected to be equal at $19.1 bn, with 67% of revenues ($12.7 bn) expected to come from social security contributions.** However, the sharp decrease in the population size – down to 32.2 million in 2024 from 41.1 million in early 2022 - has not been matched by a proportionate drop in the number of pension recipients, which fell only slightly from 10.9 to 10.2 million. This disparity between the shrinking population and a relatively stable number of pensioners raises concerns about the sustainability of the pension system, particularly as budget transfers for pensions are set to decrease by 21% ($1.4 bn) and housing subsidies and benefits by 23% ($286 mln). As a result, the pension indexation promised by the government may turn out to be insignificant. Moreover, the status of pension system reform in 2025 remains uncertain.

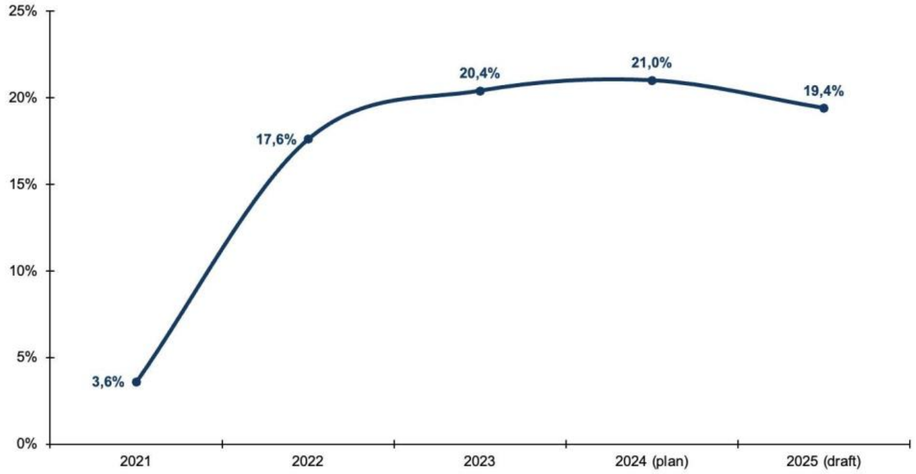
(9) **The size of the subsistence minimum and the minimum wage has been "frozen" at the 2024 level.** Consequently, social benefits "linked" to the subsistence minimum will also remain unchanged. However, in 2025, the subsistence minimum for supporting low-income individuals will increase by 5%. This will negatively affect workers whose wages are tied to the minimum wage, but it will have a positive impact on businesses employing such workers.

(10) **The main goal of the new veteran policy implemented by the Ukrainian Veterans Fund is the shift from preferential assistance to creating conditions for the self-realization of veterans in civilian life.** Accordingly, expenditures for the Ukrainian Veterans Fund (support for veterans and their families) will increase by $1.7 mln (+27.2%) to $7.7 mln.

Budget Deficit and State Debt

(1) **For the fourth consecutive year, the budget deficit exceeds single-digit figures and is planned at 19.4% of GDP in 2025. The deficit is driven by substantial defense expenditures, the slow economic recovery, and limited opportunities for tax increases (Figure 5).** To finance this deficit, the government plans to raise $38.8 bn in external loans and $12.9 bn from the domestic debt market through government bonds. As a result, Ukraine's total state and state-guaranteed debt is expected to reach 101.8% of GDP by the end of 2025. While this level exceeds both the Maastricht criterion (60% of GDP) and the "safe" threshold for developing countries (64% of GDP), these criteria are not fully applicable during wartime when state debt typically increases.

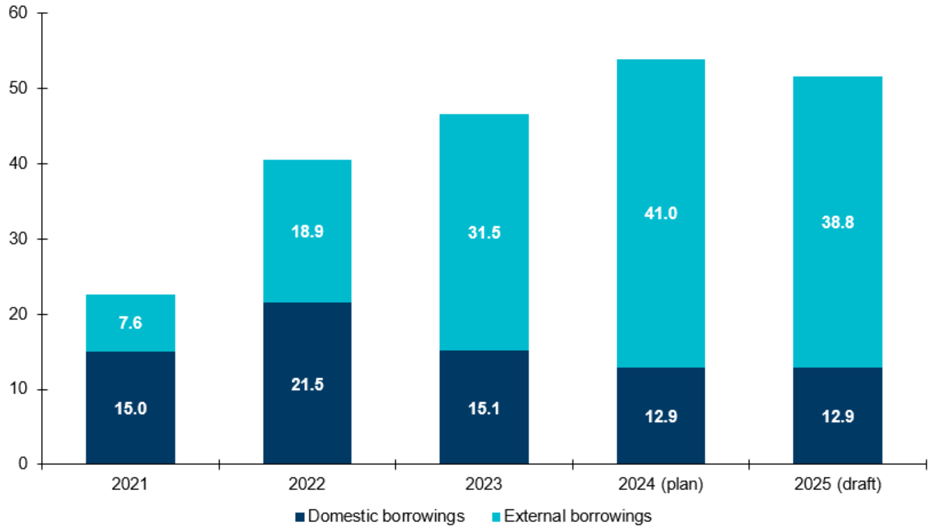
Figure 5. Budget Deficit, % of GDP



Source: Budget for 2024, Draft Budget for 2025

(2) **As in the previous year, most of the debt raised in 2025 (75.1% or $38.8 bn) will come from external loans, primarily from IFIs and foreign governments (Figure 6).** Of this amount $36.9 bn will be used to finance the general fund deficit of the budget, including $11.9 bn from the European Union under the Ukraine Facility program, $2.7 bn from the IMF, $3.1 bn from the World Bank, and $19 bn from other creditors.

Figure 6. Volume of Domestic and External Borrowings, bn USD



Source: Budget for 2024, Draft Budget for 2025

(3) **In 2025, debt accumulation is planned almost entirely through external borrowing. Domestic borrowing ($12.9 bn) will primarily be used to cover repayments of government bonds,** as the government plans to allocate 97% of the funds raised from government bonds sales for this purpose.

(4) **As a result of increased borrowing in 2024-2025, debt repayment expenditures will rise by $1.4 bn, or 10.3%, in 2025 compared to 2024.** This increase will come entirely from domestic debt, as external debt repayments are expected to decrease by **35.8%** due to the restructuring of part of Ukraine's external public debt. Debt servicing expenditures are expected to rise from **$10.3 bn** in 2024 to **$10.7 bn** in 2025. However, the share of debt servicing in total expenditures is projected to decrease slightly, from **12.7%** in 2024 to **12.2%** in 2025. A significant portion of foreign currency debt makes the national debt more sensitive to the depreciation of the national currency. The cost of new borrowing (excluding existing loans) in 2025 will be relatively low, with the average cost of external debt expected to be around 5% annually, while the average cost of domestic public debt will be 16%.

Intergovernmental Relations

(1) The draft budget for 2025 envisages an increase (in UAH) in financial resources for local budgets. However, all new measures reflect an effort to balance the relationship between central government and local self-government, with a priority on maintaining the financial stability of the state budget amid military challenges. The projected total resources for local budgets amount to **$15.9 bn**, which is a 2,4% decrease (but 14% increase in UAH) compared to the 2024 plan. Of this, **$11.1 bn** (-7.7% in USD but +16.5% in UAH) will come from own revenues, while **$4.8 bn** (+12.5% in USD or +24.4% in UAH) will come from transfers from the state budget, including 5 grants totalling **$1.8 bn** and 19 subventions totalling **$3.1 bn** (see Table 2).

Table 2. Top 10 State Budget Transfers to Local Budgets in 2025

Transfers	bn USD	Compared to 2024 plan (in UAH), %	Compared to 2024 plan (in USD), %
Educational subvention	2.3	=	(10)
Additional grant for the exercise of local self-government powers	1.1	+53	+38
Basic grant	0.5	+15	+4
Subvention for compensation of utility tariff differences	0.3	New	New
Road subvention	0.2	-	-
Subvention for the implementation Ukraine Recovery Program projects	0.1	+11	+1
Additional grant for the maintenance of education and healthcare institutions	0.1	=	(10)
Subvention for veteran support	0.1	(24)	(31)
Subvention for metro in Kharkiv	0.04	+189	+62
Subvention for the implementation of projects under the Emergency Credit Program for Ukraine's Recovery	0.03	(34)	(40)

Source: Draft Budget for 2025

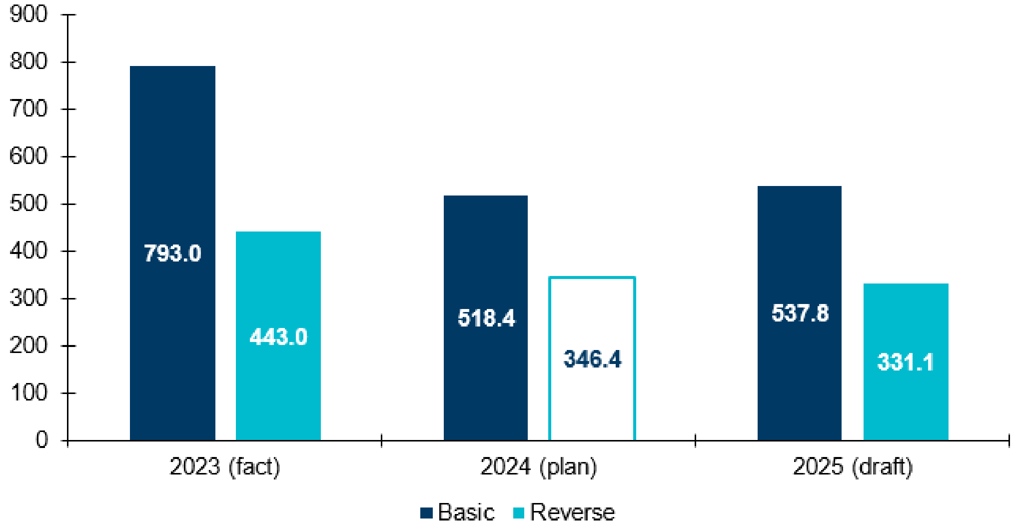
(2) **Nationwide taxes allocated to the general fund of local budgets are projected to reach $7.7 bn.** The main source of revenue will be PIT, amounting to **$6.0 bn** (+4,2% in USD or +15% in UAH). Local taxes and fees are forecasted at $2.8 mln (+8,4% in USD +19.8% in UAH).

(3) **The share of PIT directed to local budgets will decrease from 64% to 60%.** This decision represents a compromise after extended discussions with local governments, which had advocated for maintaining the 64% rate (as applied in 2022, 2023, and 2024) due to rising utility costs. To compensate for the loss from the reduced PIT share, a new subvention is being introduced for the first time to support enterprises providing heating, water supply, and wastewater services. It amounts to $300 mln, equivalent to 4% of PIT revenue that would have gone to local budgets. Unlike PIT revenue, which local governments could allocate at their discretion, this subvention will have a specific designated purpose.

(4) **An important innovation in the 2025 budget is the updated mechanism for horizontal fiscal equalization for communities.** 107 temporarily occupied communities will no longer receive basic grants, but instead will receive transfers based on their local budget performance in 2023. For 1,331 communities in government-controlled territories, the basic and reverse grants will be calculated as in recent years, based on projected PIT revenues for 2024. The basic grant will amount to $538 min, and the reverse grant to $331 mln (unlike in 2024, when reverse grants were kept in local budgets, the 2025 reverse grants will be transferred to the state budget – see Figure 7). A separate provision in the draft law on the state budget stipulates that the Cabinet of Ministers, regional military (state) administrations, and the Kyiv City State Administration **must update population data in the State Migration Service's information system by April 1, 2025.** This update will allow for a more equitable distribution of funds among local budgets starting in 2026.

In 2025, the average per capita PIT revenue used for calculating grants is set at $90.06. Local budgets with a fiscal capacity index below 0.9 (indicating per capita PIT revenue of less than $81.06) will receive basic grants. This includes 1,027 local budgets (18 of which are regional). On the other hand, local budgets with a fiscal capacity index above 1.1 (indicating per capita PIT revenue of more than $99.07) will be required to transfer reverse grants to the state budget. This group includes 194 local budgets, including those in Dnipropetrovsk, Kyiv, Lviv, Odesa, and Poltava regions.

Figure 7. Horizontal Fiscal Equalization of Territorial Fiscal Capacity, mln USD



** In 2024, the reverse grant is not transferred to the state budget*
Source: Openbudget, Draft Budget for 2025

(5) **The additional grant for communities affected by the war will significantly increase in 2025, reaching $1.1 bn (+$418 mln compared to 2024).** These funds will enable the government to assist communities facing substantial budgetary challenges due to the full-scale aggression. The resources will be allocated to cover the most urgent local budget expenditures, particularly wages for public sector employees, including bonuses for those working under difficult conditions. According to the current procedure, this grant is provided to communities located in areas where active combat is taking place or that have been temporarily occupied. Additionally, communities with insufficient tax revenues (from land, property taxes, etc.) or those that have not received income taxes from military personnel and law enforcement officers are eligible for the grant.

Conclusion

The 2025 draft budget largely follows the same approaches as the 2024 budget, with a strong emphasis on defense, security, and social protection. There is a clear resemblance to the previous budget in both revenue and expenditure structures. **The primary sources of funding remain tax revenues**, which are expected to increase due to changes in tax legislation, and external borrowing. **International financial support**, including grants and loans from international organizations and partners, **continues to play a critical role in maintaining budget stability.**

There is a planned significant increase in defense and security expenditures, although these may require further adjustments if the intensity of hostilities persists. Despite higher tax rates and a broader tax base, **the budget deficit remains high, and state debt continues to exceed 100% of GDP.**

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