Center of Public Finance and Governance
at Kyiv School of Economics

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Fiscal Digest 2024

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Executive Summary

Ukrainian public finance in 2024 was shaped by three key developments: tax reforms to stabilize revenues, the launch of the ERA mechanism for financing Ukraine through proceeds from frozen Russian assets, and state debt restructuring to ease the debt burden.

- **The first major change was the adoption of tax increases to secure budget[1] revenues for 2025 and sustain public finances during martial law.** The corporate income tax (CIT) rate was raised to 25% for financial institutions (excluding banks) and to 50% for banks. Additional fiscal measures included advance payments for fuel traders and higher pre-payments for currency exchangers as well as a significant increase in the military fee from 1.5% to 5%, which was extended to individual entrepreneurs starting January 1, 2025. These tax adjustments are projected to generate an additional $3 bn in 2025, covering 6.7% of planned tax revenues.
- **The second key development was the launch of the ERA mechanism, which mobilizes $50 bn through proceeds from frozen Russian assets to support Ukraine.** The program secured contributions from the EU ($19.9 bn), the U.S. ($20 bn), the UK ($2.9 bn), Japan ($3.4 bn), and Canada ($3.8 bn). Initial disbursements included a $1 bn grant from the US in December 2024 and an €3 bn loans from the EU in January 2025. Inflows for 2025 are projected at $20 bn, with $17.1 bn allocated to the general fund and $2.9 bn to the special fund of the budget. The EU and UK will be primary funding sources for 2025, with the program set to run until the end of 2027.
- **Finally, Ukraine successfully restructured its external state and state-guaranteed debt in the amount of $20.5 bn**, that will save $11.4 bn over the next three years and a total of $22.8 bn by 2033.

In the third year of the ongoing full-scale war, Ukraine maintained fiscal stability, executing record-high government expenditures of $111.7 bn - just 2.7% below the planned level in hryvnia terms. External financial assistance played a crucial role, amounting to $42.8 bn in 2024. This, coupled with robust tax revenue growth (rising from $32.9 bn to $41 bn), allowed the government to sustain key sectors effectively.

Budget revenues (excl. grants) increased by 7.8% to $66 bn in 2024, driven primarily by tax receipts, which surged by 24.7%. VAT remained the dominant revenue source, contributing 44.6% of total budget revenues. The most significant growth was observed in direct taxes: CIT revenues soared by 71.7% y-o-y and PIT by 43.6% y-o-y. The banking sector contributed 33.9% of total CIT revenues, while military personnel accounted for 53.9% of PIT collections, highlighting the fiscal implications of defense expenditures.

Budget expenditures expanded by 1.7% y-o-y, reaching $111.7 bn. Defense spending remained the government's top priority, with defense sector allocations remaining unchanged from 2023 at $57.4 bn. In hryvnia terms, however, defense expenditures grew by 9.9%, reflecting the impact of exchange rate fluctuations. Security sector expenditures expanded by 10.2% to $17.3 bn, while economic activities allocations rose by 10.8% to $4.1 bn. Conversely, social expenditures were reduced, reflecting shifts in fiscal priorities toward security-related spending amid fiscal constraints: education spending declined by 5.9% to $1.6 bn, while social protection allocations fell by 9.4% to $11.6 bn.

[1] *Here and after term "budget" is used for the central (state) level budget*

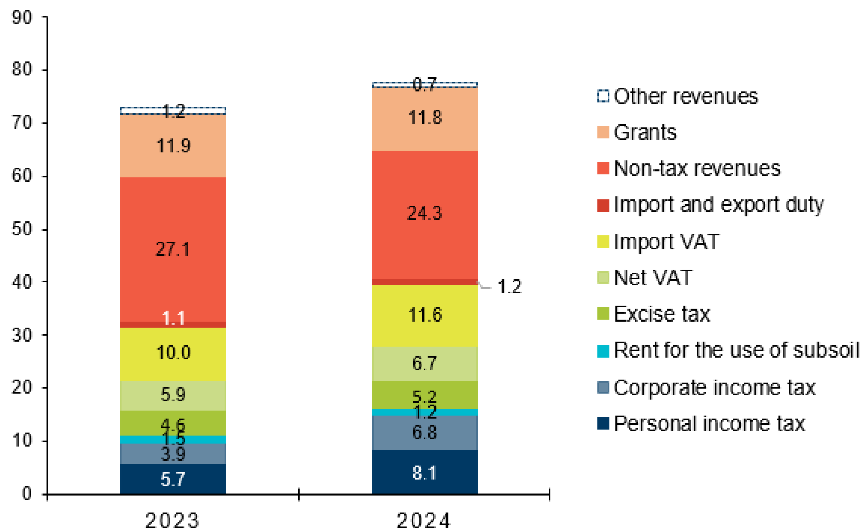
The budget deficit[2] **in 2024 was $2.7 bn or 7.4% lower than in 2023 and amounted to $33.8 bn.** As in 2023 and 2024, external financial assistance remained the main source of financing, amounting to $31 bn in borrowings and $11.8 bn in grants.

Ukraine's state debt (incl. state-guaranteed debt) reached $166.1 bn at the end of 2024, 14.3% y-o-y. At the same time, in 2024, external state debt increased by $20.1 bn, and domestic debt by $2.5 bn. As of the end of 2024, external public debt amounted to 72.2% of the total debt.

Budget Revenues

Taxes remain the cornerstone of Ukraine's budget revenues, ensuring the financing of Ukraine's defense and security needs. Despite the ongoing war and economic challenges, taxpayers continue to fulfill their obligations, leading to resilience in revenue collection. In 2024, tax revenues reached 98.1% of the annual target, totaling $41 bn vs. planned $41.8 bn. Total tax revenues in 2024 increased by 24.7% compared to 2023, rising from $32.9 bn to $41 bn. Own budget revenues (excl. grants) grew by 7.8%, reaching $6 bn, primarily driven by robust tax collection. In contrast, non-tax and other revenues declined by 8.5% y-o-y, from $40.2 bn in 2023 to $36.7 bn in 2024.

Figure 1. Structure of budget revenues in 2023-2024, $bn



Source: Ministry of Finance of Ukraine, Openbudget

VAT remained the dominant source of tax revenues, accounting for 44.6% of the total. PIT and military fees are the next-biggest contributors, accounting for 19.8%. Direct taxes exhibited the highest growth, with corporate income tax receipts surging by 71.7% y-o-y and PIT and the military fee increasing by 43.6%. Sectoral analysis highlights the increasing role of banking sector profits in tax revenues. Bank profit tax accounted for 33.9% of total CIT revenues, generating $2.3 bn, while 53.9% of PIT revenues came from taxes paid by military personnel.

External financial assistance in the form of grants remained largely unchanged in 2024 compared to the previous year, underscoring stable donor support. Ukraine secured $11.8 bn in external grants in 2024, marginally lower than the $11.9 bn received in 2023. The consistent level of grant funding highlights the continued commitment of international partners to Ukraine's fiscal stability. Despite ongoing economic and geopolitical challenges, external assistance remained a crucial component of budgetary financing.

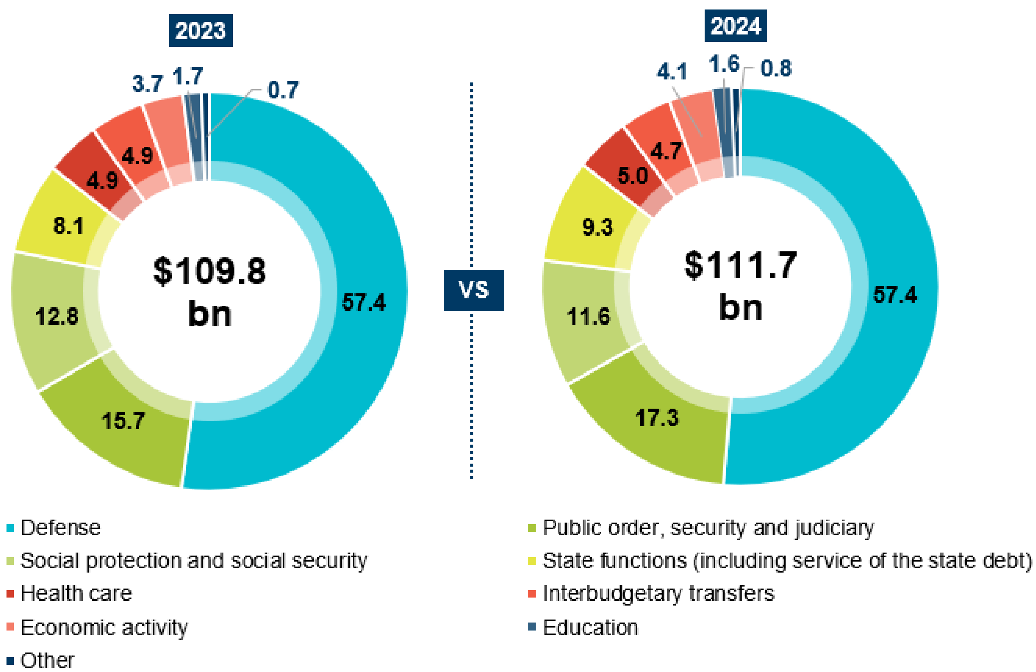
[2] *Deficit includes grants, which are classified as revenues*

Budget Expenditures

In 2024, budget expenditures increased to $111.7 bn, a 1.7% y-o-y rise. Defense and security remained the dominant spending categories, accounting for 66.9% ($74.7 bn) of total funding. A significant increase with regard to these sectors occurred in Q4 2024 due to an additional $12.5 bn allocated through budget amendments, facilitating the execution of 32.5% of the total annual budget in the final quarter of 2024. Consequently, Q4 2024 spending rose by 43.5% compared to Q3 2024, reaching $36.3 bn.

In 2024, the Ministry of Defense was responsible for $55.5 bn, or 49.7% of total expenditures — a 1.8% y-o-y reduction due to exchange rate fluctuations, as funding in hryvnia increased by 7.9%.[3] In Q4 2024, the Ministry of Defense managed to spend nearly $19.5 bn, whereas in Q3 2024 the funding level was only $12.5 bn (a 56% increase). Budget amendments in Q4 helped offset funding challenges caused by delays in international aid earlier in the year.

Figure 2. Structure of budget expenditures in 2023-2024, $bn[4]



Source: Ministry of Finance of Ukraine, Openbudget

Table 1. Actual expenditures on social payments in 2023-2024, $bn

Indicator	2023	2024	Change (%, y-o-y)
Pension Fund funding for pension payments & covering deficit	7.4	6.8	(7.9)
Support for vulnerable citizens	2.8	2.2	(22.1)
Support for low-income families	1.3	1.4	8.5
Support for children & families	0.7	0.6	(12.1)
Support for persons with disabilities	0.1	0.1	30.0

Source: Ministry of Finance of Ukraine

[3] *Exchange rate fluctuations remain a key influencing factor. In the case of defense sector financing, including the Ministry of Defense, the increase in hryvnia allocations does not keep pace with currency depreciation. As a result, while funding appears to grow in nominal hryvnia terms, it declines in real terms when measured in foreign currency.*

[4] *The state functions sector includes the state debt servicing*

Total social expenditures in 2024 declined by $1.2 bn (-9.4%) from 2023, amounting to $11.2 bn. The largest reduction was in social protection for citizens in difficult life circumstances, which fell by $619.3 mn (-22.1%) due to changes in legislation affecting subsistence allowances for internally displaced persons. Social protection expenditures for children and families also declined by $78 mn (-12.1%) linked to the demographic crisis, falling birth rates, and forced migration of families abroad. As of January 2025, the number of Ukrainian migrants worldwide reached 6.9 mn people, which is 400,000 more than at the beginning of 2024.

Despite the overall reduction in social expenditures, certain categories received additional funding. Support for persons with disabilities rose by $36.5 mn (+30%) due to a growing demand for rehabilitation and prosthetics. Housing subsidies and benefits increased by $12.8 mn (+2.1%), reflecting adjustments to rising utility costs. Assistance for low-income families grew by $92.5 mn (+27.3%), driven by increasing poverty amid war-related economic instability.

At the end of November, the government approved the "Zymova Pidtrymka" program, initiated by the President of Ukraine, which provides a one-time payment of $25 to every Ukrainian residing in government-controlled territory. The funds can be used for utility payments, medicines, charitable donations to the Armed Forces of Ukraine, and train tickets. As of the end of 2024, 8.6 mn applications have been submitted, and 7.6 mn citizens received a total of $189.3 mn in payments. The remaining applicants are expected to receive their payments in 2025, amounting to over $85 mn. Considering that applications can be submitted until the end of February 2025, it is estimated that by the end of the program, more than 11 mn people will receive a total of over $274 mn in payments. The initiative supports the population during economic instability but also places an additional burden on the state budget.

Budget Financing

Financing the budget deficit remains heavily reliant on external assistance. In 2024, the deficit, including $11.8 bn in grants, amounted to $33.8 bn, which is 7.4% ($2.7 bn) lower than in the previous year. Excluding grants, the deficit stood at $45.6 bn, also lower than in 2023 ($48.3 bn). It was primarily financed through external assistance, with net external borrowings amounting to $28 bn, while net domestic borrowings contributed only $6.4 bn. Of the total expenditures, 59.1% were covered by domestic revenues (excl. grants), 5.7% by domestic government bonds, and 35.6% by external loans and grants.

Gross external borrowings in 2024 amounted to $31 bn (compared to $31.5 bn in 2023). In 2024, Ukraine received the most funds in the form of loans from:

- EU (Ukraine Facility) - $14.2 bn;
- IMF (EFF) - $5.3 bn;
- World Bank - $3.3 bn;
- Government of Canada - $1.8 bn.

Most of the loans were granted on favorable terms, with exceptionally low interest rates and extended repayment schedules. However, their disbursement is subject to Ukraine's fulfillment of certain conditions, including the implementation of reforms, adoption of necessary legislation, and ensuring the effective functioning of state institutions.

In 2024, the gross issuance of domestic government bonds reached $15.9 bn, increasing by $0.8 bn (+5.2%) y-o-y, reflecting Government of Ukraine and National Bank of Ukraine (NBU) efforts to attract additional domestic resources. In particular, the NBU lowered yields on certificates of deposit and adjusted the mandatory reserve requirement policy, reducing deposit rates from 16.5% to 15.5% and allowing banks to cover a larger share of reserves with benchmark government bonds (from 50% to 60%).

Table 2. Budget funding sources (revenues and gross financing) in 2023-2024, $bn

Resources	2023	2024	Change (%, y-o-y)
Internal budget resources	**76.3**	**81.9**	**7.3**
Domestic government bonds	15.1	15.9	5.3
Own budget revenues (without grant)	61.2	66.0	7.8
Share of internal budget resources	63.7%	65.7%	3.0
External budget resources	**43.4**	**42.8**	**(1.4)**
External loans	31.5	31.0	(1.6)
Grants	11.9	11.8	(0.8)
Share of external budget resources	36.3%	34.3%	(5.3)

Source: Ministry of Finance of Ukraine, KSE calculations

Debt repayments totaled $12.5 bn ($0.6 bn more than in 2023), with $9.5 bn allocated to repay for domestic debt and $3 bn for external debt. Notably, 76.1% of total state debt repayments were directed toward domestic debt, down from 84.7% in 2023. This highlights the limited efficiency of domestic borrowing as a budget financing tool - 40% of domestic borrowings in 2024 covered expenditures, while the rest was used for debt repayment.

Table 3. Sources and amounts of external loans to Ukraine in 2024

Foreign loans received in 2024	$mn
Ukraine Facility	**14196**
World Bank	**6934**
PEACE in Ukraine	*4800*
DPL	*1050*
SURGE	*400*
RISE	*250*
THRIVE	*220*
LEARN	*214*
IMF	**5280**
IBRD	**2565**
Support Development and Recovery Policy	*1400*
INSPIRE	*899*
ARISE	*229*
Modernization of the Social Support System of Ukraine	*20*
Strengthening the Health Care System and Saving Lives	*14*
Improving Health at the Service of People	*3*
Canada	**1760**

Source: Ministry of Finance of Ukraine

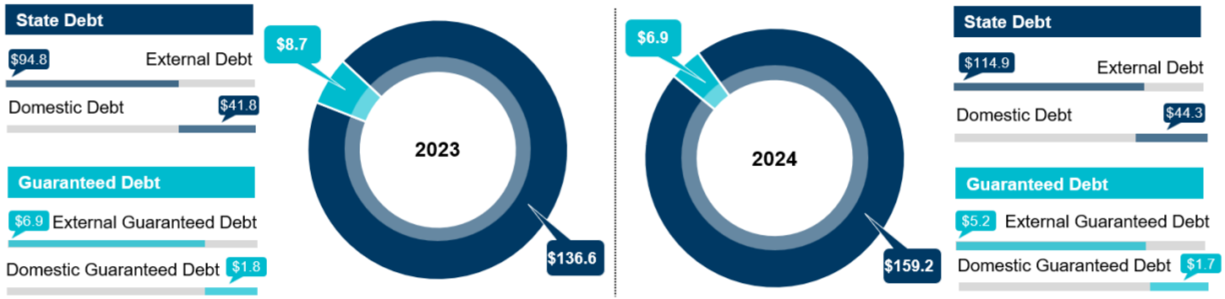
State Debt and State-Guaranteed Debt

The most significant development in Ukraine's debt policy in 2024 was the restructuring of a portion of its external debt. In September, Ukraine successfully restructured $20.5 bn of state and state-guaranteed debt. This included the re-issuance of $15.2 bn in domestic government bonds to repay $14.7 bn in external state debt and $0.5 bn in bonds from the State Agency for the Restoration and Development of Infrastructure. The restructuring is expected to save Ukraine $11.4 bn over the next three years and $22.8 bn by 2033, easing the country's debt burden.

By the end of 2024, Ukraine's state debt increased to $159.2 bn, up 16.5% from $136.6 bn at the end of 2023. The growth was primarily driven by external debt, which grew by $20.1 bn

(21.2%) to $114.9 bn. In total Ukraine attracted $31 bn in loans during 2024, while $3 bn was allocated to external debt repayment.

Figure 3. State Debt and State-Guaranteed Debt in 2023-2024, $bn



Source: Ministry of Finance of Ukraine, KSE calculations

Domestic debt rose by $2.5 bn in 2024, reaching $44.3 bn, with $15.9 bn raised and $9.5 bn spent on domestic debt repayment.

Conversely, state-guaranteed debt showed a clear downward trend, decreasing by 20.7% ($1.8 bn) over the year. By the end of 2024, state-guaranteed debt had declined from $8.7 bn to $6.9 bn, mainly due to restructuring efforts. Specifically, external guaranteed debt fell by 24.6% ($1.7 bn) in 2024.

A significant source of financial support in 2025 and 2027 will be the $50 bn Emergency Revenue Acceleration Loans for Ukraine (ERA) financing program initiated by the G7 countries. The mechanism provides for financing under guarantees from frozen assets of the Central Bank of Russia. KSE projections indicate that in 2025, Ukraine will receive $25.8 bn under this mechanism, including $22.8 bn in loans and $3 bn in grants—$19.9 bn from the EU (loans), $2.9 bn from the UK (loans), and $3 bn from the US (grants). These funds will cover 67.2% of the budget deficit (excluding grants). The remaining funds under the ERA mechanism are expected to be disbursed in 2026 and 2027.

Key Risks for 2025

- **Ongoing full-scale war.** The primary risk to fiscal stability remains the trajectory of the full-scale war. Uncertainty regarding the duration and intensity of hostilities continues to shape budgetary pressures and affect economic resilience. Ongoing hostilities pose direct threats to economic activity, infrastructure, and fiscal capacity, increasing the need for emergency spending and creating unpredictable budgetary pressures.
- **Defense funding shortfalls.** The Budget-2025 allocates $34.9 bn for the Ministry of Defense, which is insufficient for fully sustaining the Armed Forces if the intensity of hostilities remains at 2024 levels. Although additional material and technical assistance may supplement defense funding throughout the year, available resources may not fully meet operational needs.
- **External political risks.** The new U.S. administration may not only halt future assistance (both military and budgetary) but also cancel previously planned arms deliveries that were ordered for production and intended for transfer to Ukraine. To compensate for this, Ukraine may need to procure weaponry independently, leading to increased budgetary expenditure pressures.

- **Domestic political risks.** Uncertainty regarding the end of the war and potential elections may trigger additional spending pressures. The risk of populist fiscal measures, including politically motivated expenditures, could weaken budget discipline and further strain public finances.
- **Tax revenue volatility.** Despite strong revenue growth, economic uncertainty, potential declines in business activity, and changes in tax policy enforcement may lead to lower-than-expected receipts. This could disrupt budget execution and create additional fiscal pressures.
- **Taxpayer compliance and business environment.** The increased tax burden, including higher corporate and military taxes, could lead to reduced taxpayer compliance, discourage investment, and slow economic recovery. Businesses may adjust operations or seek tax optimization strategies, further affecting revenue collection.

Table 4. Ukrainian budget, $bn

Indicators	2023	2024	Change (%, y-o-y)	2025E
Total revenues	**73.1**	**77.8**	**6.5**	**51.7**
Grants	11.9	11.8	(0.4)	1.9
Non-tax and other revenues	**40.2**	**36.7**	**(8.5)**	**7.4**
Tax revenues	**32.9**	**41.0**	**24.7**	**44.3**
PIT	5.7	8.1	43.5	9.5
Corporate income tax	3.9	6.8	71.7	5.5
Rent for the use of subsoil	1.5	1.2	(22.6)	1.2
Excise tax	4.6	5.2	14.5	6.4
Domestic VAT (net)	5.9	6.7	13.9	7.1
Import VAT	10.0	11.6	16.0	13.2
Import and export duty	1.1	1.2	8.6	1.3
Total Expenditures	**109.8**	**111.7**	**1.8**	**87.3**
Defence	57.4	57.4	0.1	35.4
Deficit	**36.5**	**33.8**	**(7.4)**	**36.5**
Deficit (net of grants)	**48.3**	**45.6**	**(5.6)**	**38.4**
Net borrowings	34.7	34.4	(0.9)	67.1
Loans	46.6	46.9	0.6	51.7
Repayments	-11.9	-12.5	5.0	15.4

Source: Ministry of Finance of Ukraine, KSE calculations

Prepared by the Center of Public Finance and Governance at the Kyiv School of Economics

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