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UKRAINE MACROECONOMIC HANDBOOK

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Introduction and Assumptions

This forecast covers Ukraine's macroeconomic trajectory for 2024-27 in the context of ongoing Russian aggression, taking into account current and future opportunities for the country once the war comes to an end. Projections rely on the Quarterly Projection Model (QPM) for the majority of the macroeconomic indicators, with accounting-based modeling used for external and fiscal dynamics—accompanied by expert assessments of issues related to current and future policy implementation. The transparent discussion of assumptions allows readers to adjust key forecast indicators based on their own beliefs. Assumptions are a challenge given the extraordinary situation that Ukraine's economy—and, in fact, the country as a whole—has been facing for more than three years. The assumptions used here are based on expert judgments by the KSE Institute team and are summarized in Table 1 below.

Table 1. Key assumptions

	2021	2022	2023	2024	2025	2026	2027
War intensity	Low int.		Full-scale			None/low int.	
Financial assistance, $ billion	7.5	32.6	42.4	41.4	58.4	18.4	14.9
o/w ERA	…	…	…	1.0	39.6	3.0	6.4
o/w EU Ukraine Facility	…	…	…	17.4	13.5	8.0	1.4
o/w IMF program	0.7	2.7	4.5	5.3	2.2	2.4	1.1

The core assumption is an end of the full-scale war by late-2025, followed by a low-intensity conflict or a full cessation of hostilities. We believe that the current situation on the battlefield, as well as diplomatic efforts by Ukraine undertaken with support from its allies, will lead to a negotiated settlement by the end of 2025, which will effectively freeze the conflict while providing Ukraine with important security guarantees. Whether such an outcome will prove to be durable remains an open question given Russia's determination to halt Ukraine's Euro-Atlantic integration through force, but it will allow for a recovery of the Ukrainian economy.

For the future course of Ukraine, the $50 billion in additional support from the G7, which is backed by the so-called *Extraordinary Revenue Acceleration Loans for Ukraine (ERA)* initiative and relies on proceeds from the frozen assets of Russia's central bank, is of critical importance. Altogether, we assume that Ukraine will receive close to $92 billion in foreign grants and loans over 2025-27 with more than $58 billion expected in 2025. This will ensure macroeconomic stability, provide sufficient funding for the budget, and allow for reserve accumulation. Another key issue for Ukraine's macroeconomic outlook is the situation regarding electricity generation and distribution. For our forecast, we assume that net imports of electricity will gradually decline over 2025-27 as capacity is restored and shortages subside.

Key risks to the forecast include the future trajectory of the war and a potential global trade conflict. First and foremost, the full-scale war could extend beyond 2025; additional destruction, especially to the energy infrastructure, this year and/or beyond would have a noticeable impact on the recovery of Ukraine's economy. Less favorable external conditions and higher defense spending would also create additional financing challenges. Though uncertainty regarding foreign financing was resolved through the ERA, some questions remain, especially regarding future military assistance in light of how the US's strategy may change. Important new downside risks have emerged in recent months. First, an escalation of the trade war between the US and the rest of the world could impact Ukraine through several channels, including demand for and prices of key exports, exchange rate volatility and/or depreciation pressure on the Hryvnia, as well as a drop in critically-important direct and portfolio investments and higher resident capital outflows. Importantly, Ukraine's policy space is seriously constrained due to the war, limiting options to respond to a crisis through fiscal or monetary measures. Second, risks stem from the possible expiration of EU trade measures with regard to Ukraine, which could weigh on trade and economic activity.

Summary of Forecast

The key takeaways from KSE Institute's April 2025 Ukraine Macroeconomic Handbook are:

(1) Ukraine's overall macroeconomic situation is stable due to continued and sizable financial support from international partners. As a result, fiscal financing is likely ensured over 2025-27 and favorable balance of payments dynamics will allow it to increase reserves to around $60 billion (or 6.5 months of imports). While the economy is expected to grow at ~3% during the war (in 2025), it looks set for a robust post-war recovery with ~6% growth on average in 2026-27 should sufficient investment be attracted. At the same time, the NBU will likely manage to reduce inflation towards its 5% target by the end of the forecast period after a double-digit peak in 2025 (see Table 2).

(2) The disbursement schedule of foreign grants and loans under the G7's ERA mechanism poses challenges as macroeconomic buffers and budgetary resources need to be carried over into next year. Close to $40 billion of the program's $50 billion total amount are expected to be transferred before the end of 2025, while only around $9 billion are projected in 2026-27. Altogether, more than $58 billion in foreign assistance are expected in 2025, compared to $33 billion in 2026-27. However, a large share of the 2025 disbursements will likely occur in the final months of the year.

(3) Short-term risks are rising due to the looming trade war between the United States and the rest of the world. While Ukraine's direct exposure is limited, a global economic downturn would reduce the demand for Ukrainian non-agricultural exports, while foreign investments, which are urgently needed for a strong recovery and estimated at ~$40 billion over 2025-27, could be in question. Reduced fiscal and monetary policy space due to the war could also become a problem as options to respond to global turbulence would be limited. Separately, the expiration of EU trade measures with regard to Ukraine could weigh on trade and economic activity.

Ukraine's economy is forecast to grow by 2.8% in 2025, followed by an average 6% annual growth after the end of the war. While recent data confirmed stronger-than-expected 2023 growth (5.5%, +0.2pp), 2024 was much weaker than previously forecast (2.9%) due to a sluggish Q4 and a sharp contraction in agricultural output. Nonetheless, the economy continued its remarkable resilience amid Russian attacks on infrastructure and a distorted labor market, as well as new instability resulting from adverse geopolitical developments. Post-war prospects brighten significantly, with growth driven by anticipated recovery-focused investments and productivity gains rather than by government consumption.

Table 2. Forecast for key indicators

	2021	2022	2023	2024	2025f	2026f	2027f
Real GDP growth, %	3.4	-28.8	5.5	2.9	2.8	5.6	7.4
Nominal GDP, UAH billion	5,451	5,239	6,538	7,659	8,923	10,187	11,589
Nominal GDP, $ billion	202.3	171.4	181.2	190.7	209.3	222.1	251.2
Budget balance, $ billion	-7.1	-28.4	-36.7	-34.0	-33.5	-22.7	-16.0
Foreign grants, $ billion	0.9	17.5	14.1	12.4	16.7	0.6	1.7
Foreign loans, $ billion	2.3	17.4	30.7	28.3	41.7	17.8	16.4
Headline inflation, % avg	9.4	20.2	12.8	6.5	11.8	7.5	5.5
Exchange rate (USD), avg	27.3	32.3	36.6	40.2	42.6	45.9	46.1
Policy rate, % avg	7.5	18.6	22.4	13.7	14.9	13.7	11.9
Current account, $ billion	-3.9	8.0	-9.6	-13.7	-14.0	-29.5	-30.5
Change in reserves, $ billion	2.5	-2.3	11.4	2.9	15.9	-1.8	3.2
Unemployment rate, % avg	9.9	20.6	18.2	13.1	11.5	11.2	10.4
Nominal wage, UAH avg	13,992	14,863	17,445	21,491	26,364	29,017	32,146

Sector-specific productivity growth is critical for reaching GDP levels on par with Ukraine's neighbors. To enable strong growth in key sectors, including Critical Raw Materials (CRM), KSE Institute estimates that $300 billion in investments are needed over the next decade, for which an extensive list of concrete projects has been developed. While agriculture experienced a significant decline at the end of 2024 and remained suppressed in early 2025 due to a decrease in livestock, the post-war recovery and critical demining efforts should improve the situation significantly. The military industry has played an important role in driving up output in several sectors, including manufacturing and IT, and has enormous potential during the post-war period due to the unique experience of domestic producers, the successful scaling up of production capacities, and potential demand from abroad in light of growing geopolitical instability and European rearmament efforts. The transport and energy sectors are critical enablers for growth in all other sectors.

Ukraine's trade deficit has widened considerably during the full-scale war, as the growth of imports outpaced that of exports. This has coincided with a major realignment of trading partners, particularly away from Russia and towards the EU, which now accounts for 55% of exports and 48% of imports. Exports have grown increasingly reliant on the agricultural sector—thanks to a combination of strong agricultural growth and weak non-agricultural exports during the war—and are likely to remain so, while increasing by cumulative 33% in 2027 vs. 2024. Imports, on the other hand, are forecast to grow broadly across categories (29% cumulative growth by 2027), fueled by post-war recovery demand outpacing domestic production capacity. Altogether, Ukraine's trade deficit will widen gradually from $30.4 billion in 2024 to $37.8 billion in 2027.

External conditions will be supportive due to significant foreign assistance and strong capital inflows. Ukraine is expected to receive more than $90 billion in grants and loans from its partners over 2025-27. However, there will be a meaningful shift from grants to loans after 2025—resulting in a sharp widening of the current account deficit—and the disbursement schedule is heavily frontloaded with more than $58 billion in 2025 and $33 billion in 2026-27. After the end of the war, Ukraine is projected to benefit from substantial inflows of foreign capital—direct investment as well as portfolio flows into sovereign and private debt—and much smaller resident outflows. At the same time, financing needs will grow as the economy's robust recovery leads to imports growing stronger than exports. Altogether, we expect that Ukraine will be able to grow reserves by more than $17 billion over 2025-27. Downside risks have risen amid worries of a global trade war; however, exports should be somewhat shielded by less elastic demand for agricultural products.

The budget is largely financed over 2025-27 due to financial assistance from international partners. Budget revenues are expected to increase in the coming years, despite grants set to decline considerably after 2025, as non-grant revenues are forecast to be 20% higher in 2027 than 2025. Budget expenditures, on the other hand, will see a post-war decline of approximately 15% after the end of the full-scale war, and then remain stable after 2026. While defense and security expenditures can be reduced significantly—by 25% and 5% in 2026 and 2027, respectively—they will remain well above NATO levels (16% of GDP in 2026 and 13% in 2027). Despite lower expenditures, Ukraine's cumulative budget deficit is projected to reach UAH3.1 trillion ($72 billion) over 2025-27. Support from partners will allow Ukraine to finance the budget throughout the forecast period as foreign loans totaling more than $72 billion will be disbursed, including $33 billion under the ERA mechanism and $20 billion from the EU's Ukraine Facility. The forceful return of foreign investors to the domestic debt market after the end of the war (i.e., in 2026-27), which will offset a likely decline in banks' holdings as requirements regarding the share of reserves held in benchmark bonds are loosened, and Ukraine's ability to issue Eurobonds again in 2027 (or even earlier) will also be important.

Total debt will increase moderately by 2027, while robust economic growth will cause Ukraine's debt-to-GDP ratio to decline from 86.4% to 77.4%. External debt has risen significantly since the start of Russia's full-scale invasion due to heavy borrowing—by 141% in dollar terms and 271% in Hryvnia terms as a result of a weaker exchange rate—but is likely to increase at a considerably slower rate in the forecast period (+28% in Hryvnia terms). Domestic debt grew by 75% in local currency terms and will increase moderately by 18% over 2024-27 as the return of foreign investors to the domestic debt market should allow for a rollover rate above 100%. Smaller budget deficits after the end of the war will reduce financing needs and, in particular, the dependence on foreign funding sources. Robust economic growth will also contribute to a lower, albeit still elevated, debt-to-GDP ratio. The nature of the G7's ERA mechanism contributes to the sustainability of Ukraine's debt burden. By collateralizing its funds with frozen Russian sovereign assets, the ERA mechanism improves Ukraine's fiscal position without leading to higher debt service and repayment needs.

Inflation is expected to begin moderating by mid-2025 after an acceleration to 14.6% y-o-y in March. Upward pressure from electricity costs, wage growth, and producer prices have been the main drivers of inflation dynamics, but all are forecast to subside. Inflation expectations spiked in response to rising inflation in 2024 but have begun to stabilize, which should help contain inflationary pressures in the short term. Inflation is expected to hover around 14% in 2025Q2 before subsiding to 8.6% in 2025Q4. A major trade war and global economic slowdown could reduce inflationary pressures, including via lower energy prices and depressed demand. On the other hand, Hryvnia depreciation would lead to higher prices for imports.

Ukraine's central bank will continue its tight monetary policy—and keep interest rates unchanged—until inflation falls below 10%, likely in fall 2025. The NBU raised rates by a cumulative 250 bps since December 2024, with a policy rate of 15.5% since March. Hryvnia dynamics have stabilized, in part due to interventions in the foreign exchange market, but the currency's future trajectory is subject to uncertainty caused by a global trade war. Exchange rate expectations have also improved after peaking in early 2025.

A gradual labor market recovery is underway, but fundamental and persistent imbalances remain. The unemployment rate is projected to continue along its downward trajectory, approaching 10% by the end of 2027. However, skills mismatches and companies' difficulties finding qualified labor persist due to significant outmigration and mobilization. Labor scarcity has contributed to rising wages, which outpace inflation, and will likely do so throughout the forecast period. Labor market frictions will remain for the foreseeable future and could dampen economic growth prospects after the end of the full-scale war.

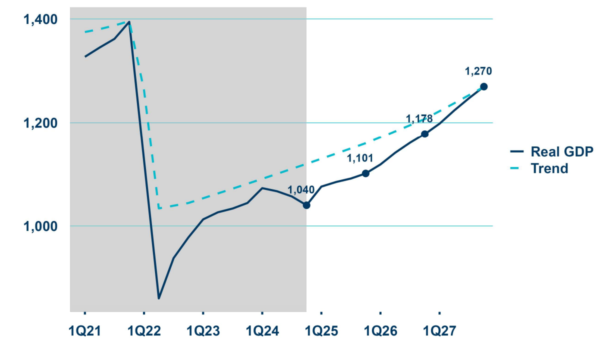
An escalation of the trade war could impact Ukraine through several channels. While the direct exposure to US tariffs is limited as only 1.2% of Ukraine's exports go to the US, risks stem from the trade war's impact on Ukraine's key trade partners and second-round effects for demand for and prices of key Ukrainian exports. Global market volatility also has implications for exchange rates and the Hryvnia's ties to the US dollar could result in depreciation pressure. Furthermore, a global economic slowdown would almost certainly reduce the amount of money flowing into Ukraine, leaving reconstruction and recovery underfunded, while increasing resident capital outflows and thereby undermining macroeconomic buffers. Finally, Ukraine's policy space is seriously constrained due to the war, limiting options to respond to a crisis through fiscal or monetary measures. Aside from a trade war, risks also stem from the possible expiration of EU trade measures with regard to Ukraine, which could weigh on trade and economic activity.

Economic Activity

Ukraine's GDP growth is expected to reach 2.8% in 2025—broadly in line with last year. After the end of the war, i.e., in 2026-27, stronger investment and productivity growth will allow for around 6% annual growth (see Figure 1). Recent data from the SSSU provide greater clarity on economic dynamics, revealing that real GDP growth in 2023 was higher than previously estimated (5.5%, +0.2pp). 2024, however, ended up being much lower than forecast—2.9% vs. 3.9%—largely due to a weak Q4. Importantly, agricultural production dropped by 30% vs. 2023. Despite this deceleration, the economy continues to demonstrate remarkable resilience in the face of persistent attacks on critical infrastructure, including energy facilities.

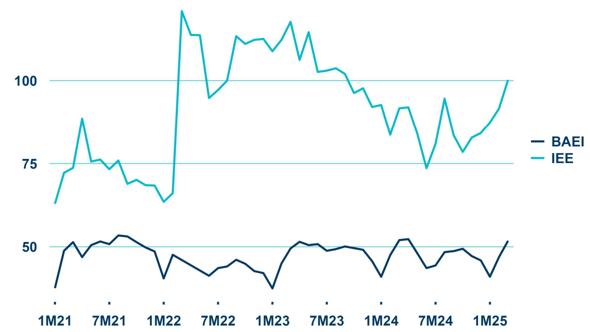
Productivity improvements from recovery-focused investments will support a robust pace of growth. However, to achieve growth rates around 6%, substantial investments will need to be attracted through a combination of reforms, which incentivize domestic companies to invest, and higher inflows from foreign investors. For the state, this also means shifting spending from social-oriented government consumption to investments in and support for productive sectors. Despite a robust recovery, Ukraine's real GDP is projected to remain below its 2021 level in 2027 (by ~10%), underscoring the urgent need for additional investments.

Figure 1: Real GDP and trend, UAH billion



Source: Ukrstat, KSE Institute

Figure 2: Economic expectations, index

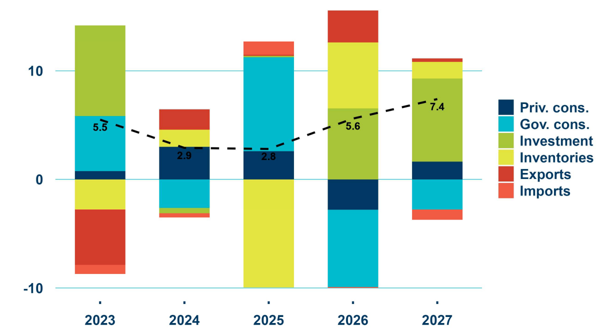


Source: NBU, Info Sapiens, KSE Institute

Intensifying economic challenges in the second half of 2024 have dampened expectations. While the finalization of the ERA mechanism ensured a supportive macroeconomic environment for the medium run, multiple factors have adversely affected the economic outlook (see Figure 2): sustained Russian aerial assaults on civilian and energy infrastructure, persistent labor market distortions with no clear remedies on the horizon, and uncertainty stemming from political changes in partners countries, particularly the US. Short-term downside risks are rising due to a potential global trade war and the expiration of EU trade measures.

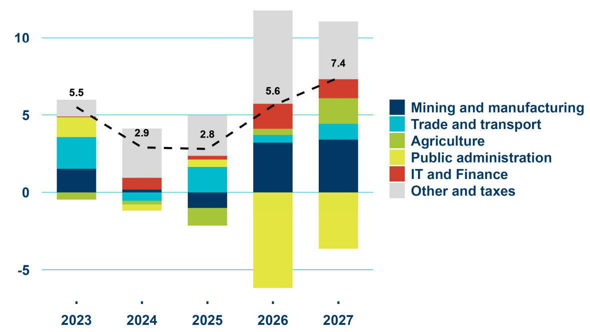
The composition of growth drivers is expected to shift as the full-scale war concludes. Government consumption, which will sustain economic activity through 2025, will become a negative contributor as war-related spending declines (see Figure 3). Concurrently, private consumption, estimated to have added 3.1 pp to growth in 2024, will have a smaller impact. Current consumption patterns are heavily influenced by robust real wage growth, and are evident in the recovery of retail spending (despite a decline in 2024). Investment will emerge as the primary engine of growth after the end of the war, strengthened by domestic capital spending and increasing FDI, which will set the trend for capital spending by the domestic private sector. The breakdown of growth by sector is shown in Figure 4 and discussed in more detail in the following section.

Figure 3: Real GDP growth and contributions, in %/pp



Source: Ukrstat, KSE Institute

Figure 4: Real GDP growth and contributions, in %/pp



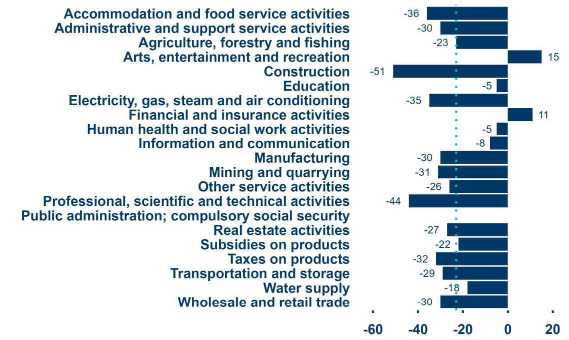
Source: Ukrstat, KSE Institute

Sectoral Dynamics

Sectoral productivity will be a key driver of Ukraine's economic recovery in the medium term. Against the backdrop of a steep war-induced contraction, Ukraine's economy has recovered by 8.5% in two years but sectoral developments vary considerably (see Figure 5). The cumulative damage of the war is immense: direct losses are estimated at $176 billion while reconstruction needs amount to $524 billion (or ~2.6 times Ukraine's 2021 GDP). Approximately $300 billion in investments, allocated across projects with focuses on energy, manufacturing, and transportation would enable robust productivity growth over the next decade. Increased labor productivity and quality of physical capital are critical, as the post-war return of migrants is unlikely to compensate for emigration since 2022. The parallel processes of euro-integration and cross-border skills and technology spillovers will further support convergence with Ukraine's European neighbors.

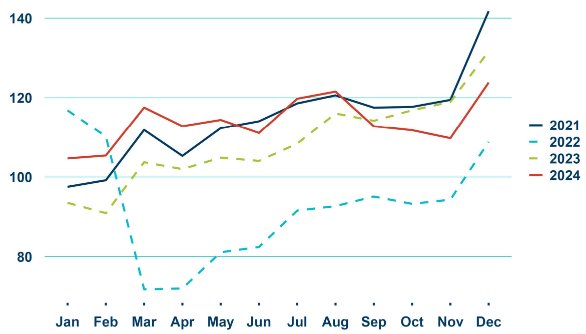
Agriculture is the cornerstone of Ukraine's economy and exports but labor productivity is limited. The agricultural sector's recovery is closely tied to the assumption of an end to the full-scale war in 2025. Following a 7.3% contraction of agricultural gross value added in 2024 and continued weakness in early 2025, reduced household livestock and logistical issues are key factors weighing on productivity. Several developments will be key for the sector's recovery: *First*, the demining of arable land—and possible return of territory from the front line and occupied areas—will be crucial. *Second*, the elimination of military risks to Ukrainian seaports and the transport of agricultural products will drive down freight costs (including insurance). Maritime transport remains the most cost-effective method for exporting agricultural products, which makes stability and security in the Black Sea an important precondition for the sector's recovery. *Third*, productivity must be improved, particularly through better use of technology to boost crop yields—including precision agricultural technology and superior seed varieties—in tandem with better storage to reduce harvest losses. The aforementioned factors, along with further alignment with EU agricultural regulations, will help close the technological gap between EU countries and Ukraine and achieve higher productivity (up to 2x) in the coming decade.

Figure 5: Real GDP change in 3 years by sector, %



Source: Ukrstat, KSE Institute

Figure 6: Retail trade, in 2021 UAH billion



Source: Ukrstat, KSE Institute

A structural shift in Ukraine's crop and other foodstuff production is underway and will intensify in 2025. Maize has overtaken soft wheat due to a combination of climate change and profitability. Oilseed crops, particularly sunflower and rapeseed, are expected to see substantial growth thanks to strong global demand, according to FAO projections. In contrast, barley and oats will grow only modestly, as they are constrained by competition for cultivated land. Beef and pork production will continue to decline but poultry and egg production is rising and will surpass pre-war levels by 2027, meeting domestic demand and allowing for export growth.

The defense sector is a key driver of the current economy and will remain so in the post-war period; operating in an environment of geopolitical instability, the sector will be a major driver of exports. Ukraine's military industrial complex has undergone a rapid wartime transformation and achieved multifold growth since 2021, reaching an estimated output of around UAH0.4 trillion in 2024. It has become a key driver of productivity growth thanks to strong margins and reduced costs of R&D and field-testing under war conditions. Since the full-scale invasion, significant resources have been devoted to military production, and massive domestic procurement orders have created a boom for private and state-owned firms. By 2024, about 500 active defense producers were employing nearly 300,000 people. Ukraine, previously reliant on imports, now produces new weapons domestically—drone and missile systems are merely the most visible areas of innovation that have been enabled by emergency R&D funding. The "Brave1" initiative, for example, supports startups and has backed over 1,500 defense-tech projects in under two years. The nature of the military industrial complex is cross-sectoral, but it is led by metallurgy, manufacturing, machinery, and IT.

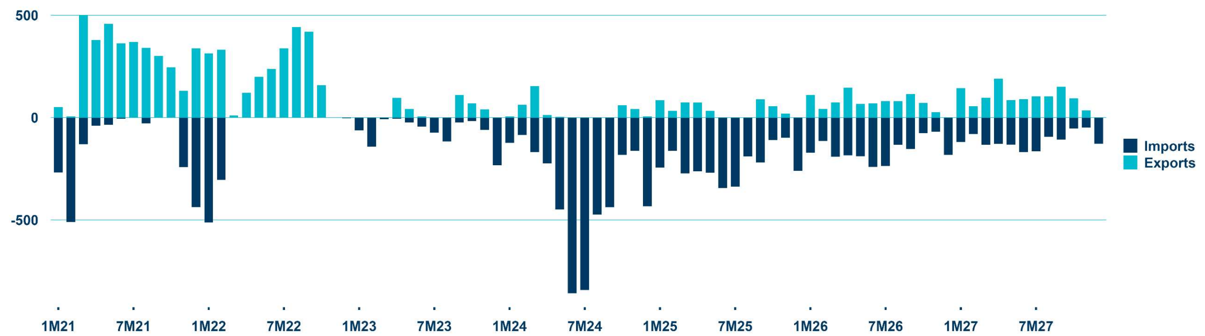
Manufacturing and mining are and will remain among the most important sectors. Manufacturing growth has been supported by demand for inputs used in military and export-oriented production. The vulnerabilities present in the extractive industry remain acute, however, largely due to the occupation of coal mines in the Donetsk region and attacks on gas production facilities. Fighting near the Pokrovsk coal mine could cut the coke supply for steelmaking by up to 50%. Yet the metallurgical sector has shown surprising resilience, marked by an 11.4% increase in export volumes in 2024. Long-run growth in the manufacturing and mining sectors will be led by efficiency improvements: outdated Soviet-era equipment and energy inefficiency plague Ukraine's factories, which make production costly but allow for rapid productivity growth when capital and labor force skills are improved. Frequent power outages and fuel shortages also raise costs for manufacturers, making investments in logistics and energy sectors important factors in unleashing the sectors' potential. Critical Raw Materials (CRM) are also crucial for long-term growth—they are high value-added products and represent a comparative advantage for Ukraine in the euro-integration process—and geopolitical influence.

Ukraine's transport networks—ports, railways, roads, etc.—have suffered massive wartime damage. Russia's attempts to blockade and/or destroy Ukraine's Black Sea ports have raised costs for, and at times halted, seaborne trade. As a result, Ukraine has rapidly adapted its trade corridors, now using railroad and river ports extensively. EU-sponsored "Solidarity Lanes" (launched May 2022) have created alternative inland corridors via rail, river, and roads; they now account for around 85% of imports and 50% of non-agricultural exports. Similarly, the Black Sea Grain Initiative (mid-2022), and later the "Western corridor" via the Romanian and Bulgarian Black Sea, allowed for a recovery of Ukraine's export capabilities. Further development is critical to support the growth of other sectors, including agriculture and CRM. Ukraine also aims to integrate fully with the EU transport market, having already synchronized its electricity grid and begun preparations for TEN-T membership. Once the security situation improves, restoring international air links and scaling up efficient Eurasian trade corridors (connecting Asia to Europe via Ukraine) would diversify its transportation system.

Following a 2023 recovery of 8.4%, retail trade fell by 4.1% in 2024. Recent developments in 2025Q1 are positive, however, reflecting structural changes in the sector (see Figure 6). An increased share of direct sales has led to decreased wholesale turnover despite overall retail trade growth. Automation is likely to reduce the sector's labor force, which will coincide with rapid productivity growth and low investment needs.

The IT sector continues to be a comparative advantage for Ukraine, especially with the rise of military tech and AI startups. The sector has almost recovered to its pre-war level, with 23.7% growth in 2023-24. Even amidst a full-scale war, Ukraine remains a major global IT outsourcing hub. However, ongoing hostilities create their own cybersecurity risks, and occasional disruptions to power grids and internet availability create additional costs for businesses, leading some companies to relocate staff or data centers abroad. But these challenges have also birthed government and industry initiatives in military and deep tech, including in drones, cybersecurity, and communications. The environment has made the industry more competitive, and the ongoing euro-integration process will create new opportunities for Ukrainian startups in defense and AI.

Figure 7: Electricity trade, MWh



Source: Ukrenergo, KSE Institute

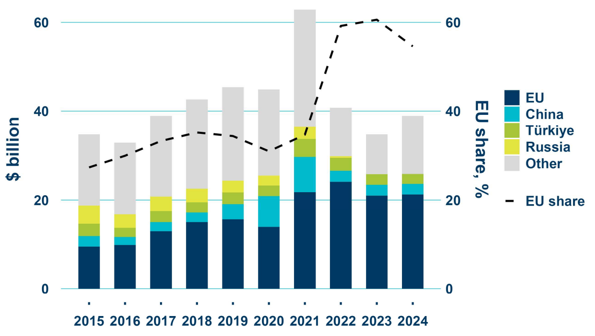
Due to Russia's destruction of the Ukrainian energy system, Ukraine had to rely heavily on imported electricity in 2024, though the situation has improved in 2025. The country imported a record-high 4.1 TWh of electricity in 2024—five times the amount in 2023 (see Figure 7). Imports in late 2024 fell largely due to high prices in neighboring countries and price caps on the domestic spot market, thereby worsening power shortages. Russian attacks on critical infrastructure are a persistent challenge for the country's energy system. Naftogaz has recovered approximately half of the gas production capacity that it lost in Russia's February attacks, but storage levels nonetheless remain concerningly low.

Trade Dynamics

Export and import dynamics differ fundamentally—with important implications for the trade balance. Compared to the pre-Covid baseline (2019), Ukraine's goods exports were only 11.3% lower in the first year of the war, but continued to decline in 2023 (-24.8% vs. 2019) before recovering somewhat in 2024 (-15.6% vs. 2019). In value terms, 2024 exports were $7.2 billion lower than in 2019 (see Figure 8). At the same time, imports declined to a similar degree in 2022 (-8.0% vs. 2019) but surpassed their pre-Covid level already in 2023 (+5.7%) and were 14.8% (or $8.9 billion) higher in 2024 (see Figure 9). As a result, Ukraine's trade deficit has grown substantially, from $14.3 billion in 2019 to $29.1 billion in 2023 and $30.4 billion last year.

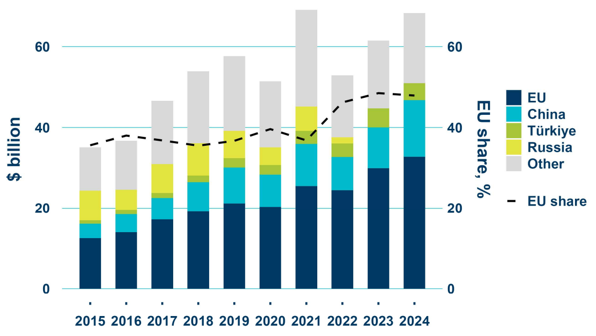
The composition of trading partners has changed since the start of the full-scale invasion. First and foremost, the EU's share of exports has grown significantly, from around one-third in 2015-21 to ~60% in 2022-23 and 55% in 2024. This means that exports to the EU increased by 36% in 2024 vs. 2019 (or $5.6 billion). At the same time, exports to some of Ukraine's most important pre-2022 trading partners declined markedly, including China (-$1.1 billion), India (-$1.0 billion), and Russia (-$2.6 billion). On the imports side, the EU's share has grown somewhat less—from 35-40% to close to 50%—but the change in absolute values is larger (+$11.6 billion in 2024 vs. 2019). This development, together with larger imports from China (+$5.1 billion), and Türkiye (+$1.9 billion), among others, has more than offset the drop from Russia (-$6.8 billion). Notably, the importance of the Euro in Ukraine's trade relationships is growing, which has implications for macroeconomic policies, including regarding the Hryvnia exchange rate and reserve management.

Figure 8: Export destinations



Source: IMF, KSE Institute

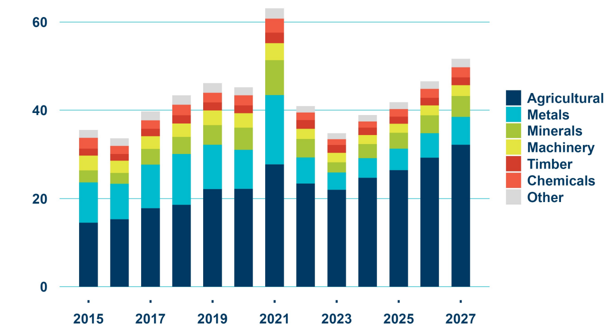
Figure 9: Import origins



Source: IMF, KSE Institute

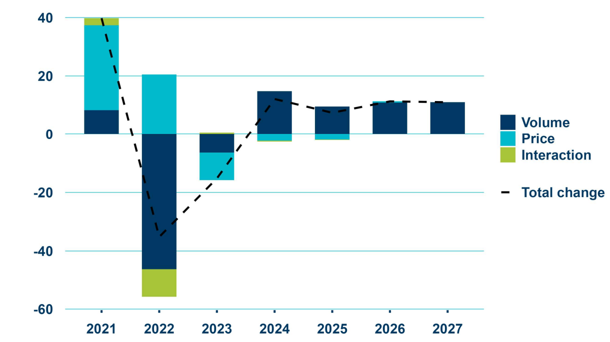
Ukrainian exports continue to be dominated by agricultural products. In 2024, they accounted for more than 63% of total exports in value terms—a marked increase compared to the pre-2022 period, when their share was below 50%. This is due to two developments. *First*, agricultural exports have performed strongly even during the war, reaching $24.7 billion in 2024, the second-highest in history (after 2021). Following declines of 15.6% in 2022 and a further 5.9% in 2023, they rebounded in 2024 (+12.1%). The recovery is also evident in volume terms: after falling by an estimated 6.8% in 2020, 10.1% in 2021, and 15.2% in 2022, export volumes grew by 24.1% in 2023 and 14.2% in 2024. As a result, they are now higher than in 2019. Successful adaptation of companies, the establishment of the grain corridor, and removal of other war-related export capacity constraints have made a difference. S*econd*, non-agricultural exports have been significantly impacted by the war, standing 59.9% below their 2021 levels last year (and 40.7% below 2019 levels).

Figure 10: Composition of goods exports, $ billion



Source: NBU, KSE Institute

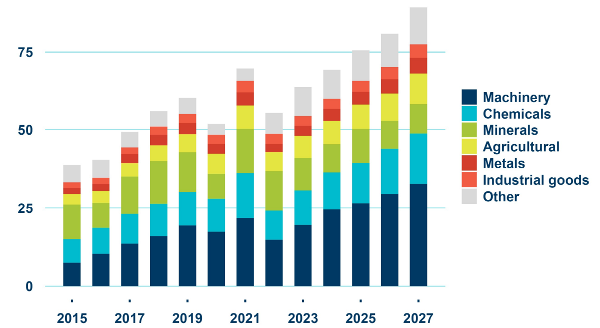
Figure 11: Contribution to change in exports, in pp



Source: KSE Institute

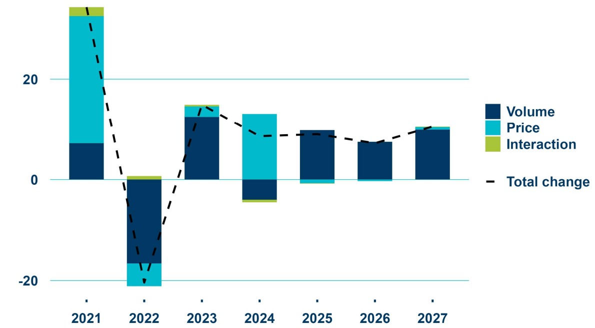
We forecast total exports to grow by a cumulative 32.7% in 2027 vs. 2024 on the back of strong agricultural exports (+30.0%) and a partial recovery of other exports (see Figure 10). Agricultural products' share is expected to decline somewhat but remain above 60%. In our view, the growth in Ukraine's exports will be largely driven by bigger volumes in 2025-27, with prices having a minor (negative) effect (see Figure 11). Specifically, we expect the volume of agricultural exports to grow at ~10% per year in 2025-27. Despite somewhat weaker prices, total agricultural exports will likely come in above $32 billion in 2027 (+30.0% vs. 2024). Significant increases are expected across categories, with seed oils (~21% of the total in 2024), maize/corn (~21%), wheat/meslin (~15%), rape seeds (~7%), and soybeans (~5%) playing the strongest roles (see Figure 14). The large share of exports made up by agricultural products insulates Ukraine somewhat from a potential trade-war related shock as food demand is generally less elastic.

Figure 12: Composition of goods imports, $ billion



Source: NBU, KSE Institute

Figure 13: Contribution to change in imports, in pp

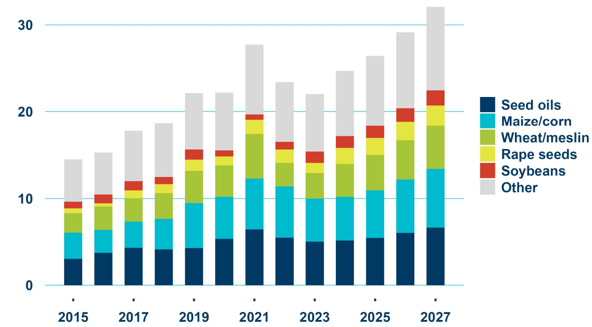


Source: KSE Institute

Imports will grow strongly across product categories as Ukraine's economy bounces back. In many areas, imports were already higher in 2024 than in the pre-Covid period (2019), including in key categories such as machinery (+27%), chemicals (+10%), agricultural products (+34%), metals (+8%), and industrial goods (+4%). The largest declines were registered for mineral products (-29%) and timber (-12%). We project imports to grow by a cumulative 29.1% in 2027 vs. 2024 as a strong recovery of Ukraine's economy after the end of the war will drive up demand for goods from abroad (see Figure 12). The growth of imports in volume terms will likely be bigger than that of domestic demand as Ukraine's domestic producers will not be able to provide everything that the rebounding economy requires (see Figure 13). Prices will overall play a minor role, aside from the energy sector, where lower oil and gas prices will reduce import values.

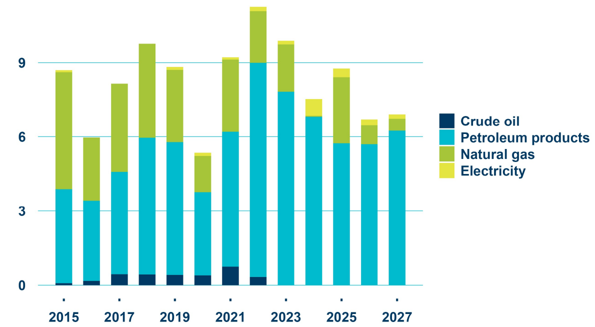
Energy imports are expected to increase in 2025 before moderating in the following years. There are several key developments that should be emphasized. *First*, crude oil imports have effectively ended following the destruction of the Kremenchug and Shebelynskyi refineries in 2022, and will not return for the foreseeable future (see Figure 15). *Second*, with petroleum products fully imported, higher demand due to Ukraine's recovering economy will lead to larger import volumes in 2025-27—which are, however, more than offset by lower prices. *Third*, natural gas import volumes will increase markedly this year. In 2024, Ukraine was almost fully self-reliant due to a sharp decline in consumption (~30%), but around 40% of domestic production capacity is currently damaged. Imports will drop sharply in 2026-27 as this capacity is restored. *Finally*, we expect elevated imports of electricity during the war, followed by a return to pre-2022 levels in 2026-27. For a closer look at the potential impact of a global trade war, see Special 1).

Figure 14: Agricultural exports, $ billion



Source: Ukrstat, KSE Institute

Figure 15: Energy imports, $ billion



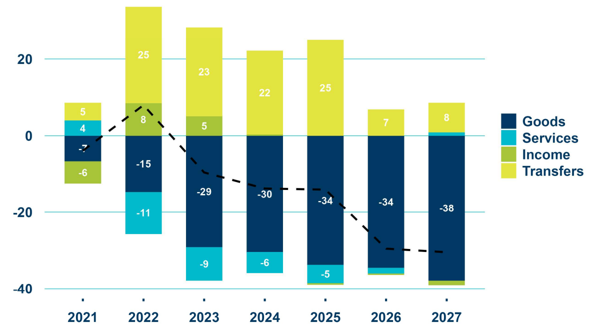
Source: Ukrstat, KSE Institute

Balance of Payments

The outlook for Ukraine's external accounts is quite positive, largely as a result of the $50 billion ERA-based macro-financial assistance package from G7 partners and the expected improvement of external dynamics after the end of the full-scale war. On the back of Ukraine's post-war economic recovery, reserve accumulation of more than $17 billion during 2025-27 will be made possible thanks to foreign assistance of $91.7 billion and foreign (direct and portfolio) investment of nearly $40 billion, despite robust import growth. In our forecast, Ukraine will possess a comfortable level of foreign reserves in 2027—more than $59 billion—that corresponds to 6.5 months of imports of goods and services (see Table 3). Key risks to the outlook stem from a potential full-blown trade war. It is also important to highlight that disbursements under the ERA are likely to be heavily front-loaded in 2025 (at $39.6 billion), which means that buffers built-up this year will need to be preserved for the period during which foreign grants and loans are set to drop sharply.

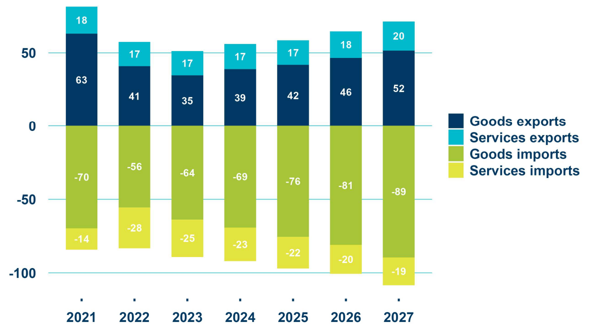
Ukraine's current account deficit is projected to widen considerably after 2025—from $13.7 billion in 2024 and (projected) $14.0 billion in 2025 to ~$30 billion in 2026 and 2027, respectively (see Figure 16). These developments are driven by several key factors. *First*, a robust recovery of the Ukrainian economy after the end of the war will lead to higher imports. *Second*, foreign grants, which have offset war-related pressure on Ukraine's external accounts during the war, are expected to drop sharply after this year as foreign assistance will decline and increasingly shift to loans. *Third*, dynamics related to the large number of Ukrainian refugees abroad—such as remittances and travel service imports—will take several years to return to pre-war levels. *Fourth*, a strong inflow of foreign investments will increase interest and dividend payments.

Figure 16: Current account and components, $ billion



Source: NBU, KSE Institute

Figure 17: Exports and imports, $ billion



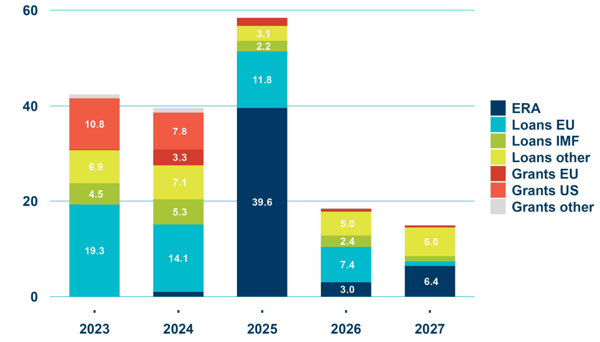
Source: NBU, KSE Institute

A noticeable recovery in the goods trade is expected, but short-term downside risks are increasing. After growing 12.1% in 2024 (to $38.9 billion) in line with expectations, Ukraine's goods exports are projected to increase by a cumulative 32.7% by 2027 (to $51.6 billion, see Figure 17). Key drivers of this growth are the continued adaptation of exporters during the war and the expected bounce back in production after the end of hostilities. Our forecast is broadly unchanged from January, but risks are clearly to the downside as a full-blown trade war would significantly reduce global growth—and, thus, could lead to a drop in demand for Ukrainian goods. However, agricultural products, which made up 63.4% of Ukraine's total exports in 2024, are less sensitive to demand fluctuations. The expiration of the EU's special trade measures with regard to Ukraine would also present a major challenge for Ukraine (see Special 1). Imports increased by 8.6% in 2024 (to $69.3 billion) and are projected to grow by a cumulative 29.1% by 2027 (to $89.5 billion). Lower energy prices resulting from a trade war-triggered global economic downturn could lower Ukraine's imports, but oil and gas make up a relatively small share. These exports and imports dynamics will lead to a gradual widening of the trade deficit—to $33.8 billion, $34.5 billion, and $37.9 billion in 2025-27, respectively.

Ukraine's services balance is set to improve in the coming years—but less than previously expected. After a deficit of $5.5 billion in 2024, in line with expectations, we project deficits of $4.8 billion and $1.5 billion in 2025-26, respectively, followed by a small surplus of $0.9 billion in 2027. Payments related to travel services have been a major driver of Ukraine's services balance since 2022 due to the large number of refugees abroad, and are expected to decline to pre-war levels only by 2027 as the return of Ukrainians living abroad will take time. Robust economic growth will partially offset these dynamics and limit the decrease in total services imports—from a peak of $27.7 billion in 2022 to $18.9 billion in 2027. Despite the loss of pipeline transport receipts after the end of the transit agreement with Gazprom, services exports are expected to grow strongly—by 14.9% in 2027 vs. 2024—resulting in an improving services balance.

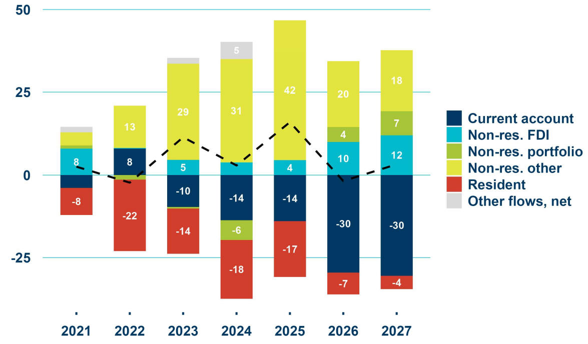
The primary income account is expected to be in a small deficit throughout the forecast period. After registering large surpluses in 2022-23 due to dramatically lower payments for foreigners' investment income, Ukraine's primary income account was balanced in 2024 (+$0.3 billion) on the back of significantly weaker remittances. Compensation paid to Ukrainians abroad declined by 30.2% last year to $7.8 billion—the lowest level since 2016. We expect a recovery in remittances to take until the end of the forecast period in 2027, while primary income debits will rise markedly in the coming years as a result of strong foreign investments after the end of the war. At the same time, **a noticeable decline in foreign grants will lead to a much smaller secondary income surplus after 2025.** Following a surplus of $21.8 billion in 2024 due to significant disbursements of foreign assistance (see Figure 18), we expect ERA-related payments to lead to an increase to $25.0 billion this year. Thereafter, the surplus is forecast to be $7-8 billion per year as no substantial grants are planned, once again making private transfers the key driver.

Figure 18: Grants and loans, $ billion



Source: KSE Institute

Figure 19: Drivers of change in reserves, $ billion



Source: NBU, KSE Institute

Non-resident capital flows are projected to perform very well over the forecast period. This is primarily due to ERA-based loans from foreign partners but is also supported by much stronger foreign direct investment after the end of the full-scale war and the return of foreign portfolio investors (see Figure 19). Foreign direct investment will increase somewhat in 2025 to $4.5 billion (vs. $3.9 billion in 2024) as the war continues, but improve meaningfully in 2026-27 to $10.0 billion and $12.0 billion, respectively. Foreign investors are likely to re-enter the Ukrainian domestic sovereign debt market in 2026-2027 at levels comparable to 2019, and Eurobond issuance is anticipated for 2027. In addition, Ukrainian companies are set to attract substantial investments. As a result, portfolio inflows will return in 2026-27 at $4.5 billion and $7.3 billion, respectively, after three years of continued outflows (2022-24) and net zero flows in 2025. The most important driver of capital flows are foreign loans, which have financed a large share of external and budget needs since the start of the full-scale invasion. They are projected to remain strong due to the ERA mechanism in 2025-26 with disbursements of $41.7 billion and $17.8 billion, respectively. Resident capital outflows will moderate as the intensity of the war subsides—from $21.6 billion in 2022 to $4.1 billion in 2027.

Table 3. External sector forecast

$ billion	2021	2022	2023	2024	2025f	2026f	2027f
Current account balance	-3.9	8.0	-9.6	-13.7	-14.0	-29.5	-30.5
Goods balance	-6.6	-14.7	-29.1	-30.4	-33.8	-34.5	-37.9
Exports	63.1	40.9	34.7	38.9	41.8	46.5	51.6
Imports	69.8	55.6	63.8	69.3	75.6	81.0	89.5
Services balance	4.0	-11.1	-8.7	-5.5	-4.8	-1.5	0.9
Primary income balance	-5.8	8.5	5.1	0.3	-0.4	-0.4	-1.2
Secondary income balance	4.6	25.2	23.2	21.8	25.0	6.9	7.7
Foreign grants	0.9	17.5	14.1	12.4	16.7	0.6	1.7
Non-resident capital flows	12.9	11.5	33.1	29.0	46.8	34.3	37.8
o/w direct investment	8.0	0.2	4.6	3.8	4.5	10.0	12.0
o/w portfolio investment	1.0	-1.4	-0.5	-5.9	0.0	4.5	7.3
o/w other investment	3.9	12.7	29.0	31.1	42.3	19.8	18.5
Resident capital flows	8.1	21.6	13.8	17.7	16.8	6.6	4.1
Change in reserves	2.5	-2.3	11.4	2.9	15.9	-1.8	3.2
Total reserves	30.6	28.0	38.8	41.7	57.6	55.9	59.1
in months of imports	4.4	4.0	5.2	5.4	7.1	6.7	6.5

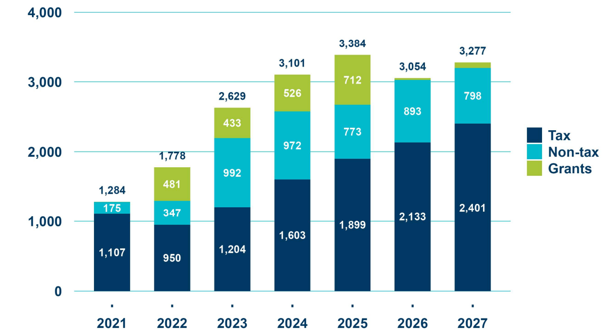
Budget and Financing

The budget is largely financed over 2025-27 due to additional financial assistance from partners. Ukraine is expected to receive a total of $73 billion in foreign loans over this period, which corresponds to roughly UAH3.2 trillion, while repayments amount to UAH410 billion. Such assistance will fulfill a significant share of Ukraine's overall fiscal financing needs, as the cumulative budget deficit over 2025-27 is estimated at UAH3.2 trillion (~$72 billion). The remainder will be secured through the issuance of domestic debt and a likely return to the Eurobond market toward the end of the forecast horizon, i.e., in 2027.

Revenues will rise at a moderate pace in the coming years on the back of stronger tax receipts. Total revenues are projected to reach UAH3.4 trillion in 2025—an increase of 9.1% vs. 2024—with UAH1.9 trillion stemming from taxes, UAH770 billion from non-tax revenues, and more than UAH710 billion from grants (see Figure 20). For taxes, this represents an 18.5% increase vs. 2024, driven by the economy's recovery, higher imports, changes to the tax code, and a growing tax base due to inflation. We project tax revenues to continue to grow at a robust pace over 2026-27 and reach UAH2.4 trillion in 2027 (+50% vs. 2024).

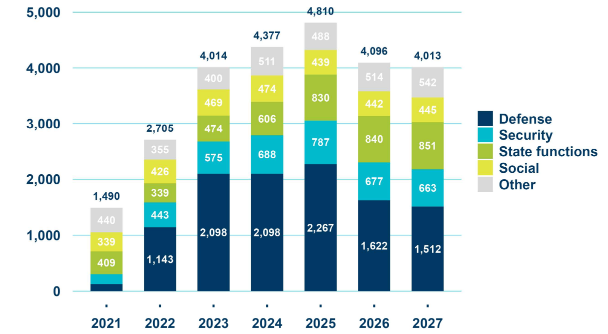
Ukraine will continue to rely heavily on grant support from international partners. The state budget is expected to receive a total of $16.7 billion (approximately UAH712 billion) in non-repayable financial aid in 2025. The majority of this funding—$15 billion—will come through the ERA mechanism, which channels proceeds from frozen Russian assets. An additional $1.7 billion is expected from the EU under the Ukraine Facility. However, grant inflows are projected to decline in the coming years. In 2026, Ukraine is expected to receive only $0.6 billion in grants, with the amount increasing slightly to $1.7 billion in 2027. Amid the anticipated drop in grant funding, total non-grant government revenues are forecast to grow steadily throughout the period. By 2027, these revenues are expected to be 19.7% higher than in 2025.

Figure 20: Budget revenues, UAH billion



Source: Ministry of Finance, KSE Institute

Figure 21: Budget expenditures, UAH billion



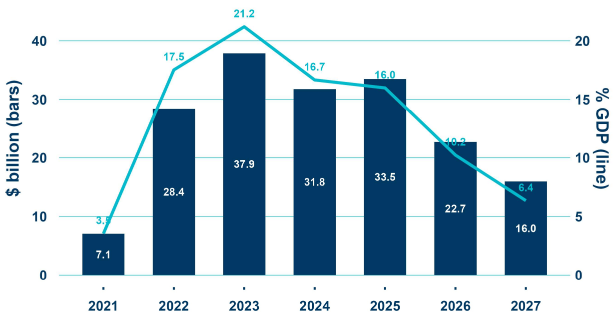
Source: Ministry of Finance, KSE Institute

Expenditures will rise significantly in 2025 before declining in the post-full scale war period. Spending is expected to grow by 9.9% to UAH4.8 trillion (or, roughly, $113 billion) in 2025 vs. 2024, before declining markedly in the period after the end of the full-scale war (see Figure 21). Defense and security spending is a key driver, with projected increases of 8.1% and 14.4%, respectively, as uncertainty regarding future military aid from Ukraine's allies necessitates the allocation of additional domestic resources. Overall, we forecast approximately $71.6 billion in such expenditures in 2025 (+9.6% vs. 2024). Interest payments are also projected to rise (+45%), while the social sector (incl. education, healthcare, housing) is facing cuts (-7.6%).

Total expenditures are expected to decrease by approximately 14.9% in 2026 (to UAH4.1 trillion) and remain at that level in 2027. After the end of the full-scale war, defense and security expenditures can be reduced—by 24.7% in 2026 and an additional 5.4% in 2027—due to demobilization and the corresponding reduction in payments to active military personnel. However, Ukraine's security needs will still require defense spending well above NATO's average levels—15.9% and 13.0% of GDP in 2026-27, respectively.

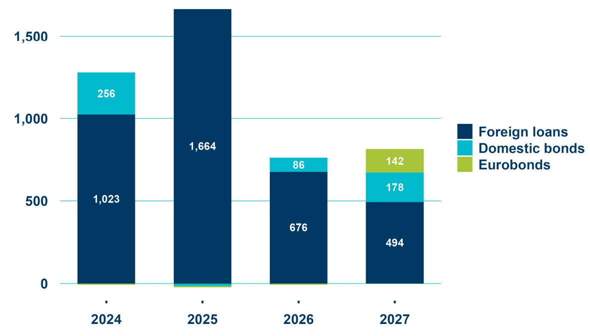
Ukraine's budget deficit will decline marginally as a share of GDP this year. The deficit is projected to reach 16.0% of GDP in 2025 (vs. 16.7% in 2024 and the 21.2% peak in 2023, see Figure 22). In absolute terms, it will reach a record UAH1.4 trillion (or $33.5 billion) before a gradual fiscal consolidation following the end of the war reduces the deficit to UAH1.0 trillion ($22.7 billion, 10.2% of GDP) in 2026 and UAH0.7 trillion ($16.0 billion, 6.4% of GDP) in 2027. Despite this positive trend, Ukraine's financing needs will remain substantial. Over 2025-27, the cumulative budget deficit is projected to be UAH3.2 trillion ($72.1 billion).

Figure 22: Budget defcit



Source: Ministry of Finance, KSE Institute

Figure 23: Financing, UAH billion



Source: Ministry of Finance, KSE Institute

External assistance and domestic borrowing ensured budget financing in 2024. Last year, Ukraine received $13.1 billion in grants and $28.3 billion in loans from international partners, a significant share of which ($17.4 billion) was provided under the EU's Ukraine Facility. While grants are recorded as revenues and directly reduce the fiscal deficit, loans contribute to budget financing. In local currency terms, foreign loans amounted to approximately UAH1.1 trillion in 2024. After accounting for repayments of around UAH100 billion, these loans financed around 75% of the state budget deficit (see Figure 23). The remainder was largely covered through domestic debt issuance, i.e., in Hryvnias. The Ministry of Finance issued UAH640 billion in domestic securities, against repayments of UAH380 billion—resulting in a rollover rate of 167%.

Budget financing is likely secured through 2027 due to substantial foreign assistance. Support from partners will allow Ukraine to finance its budget throughout the forecast period (see Table 4). In 2025, we expect disbursements of foreign loans totaling $41.7 billion (or UAH1.7 trillion), including $11.8 billion under the EU's Ukraine Facility and the full $19.9 billion of the EU's ERA contribution. The forceful return of foreign investors to the domestic debt market after the end of the war (i.e., in 2026-27) and Ukraine's ability to issue Eurobonds again in 2027 (or even earlier) will also be important. This is particularly important because banks' holdings of domestic debt will likely decrease in the coming years due to changes to reserve requirements, which allowed banks to hold a higher share of their reserves in benchmark bonds during the full-scale war. The heavily frontloaded disbursement schedule of grants and loans means that Ukraine will have around $5.2 billion more than is needed this year, while the financing gap for 2026 is $6.1 billion (and -$1.0 billion in 2027). However, a significant share will be disbursed in the final months of 2025 and carried over into 2026.

Table 4. Fiscal sector forecast

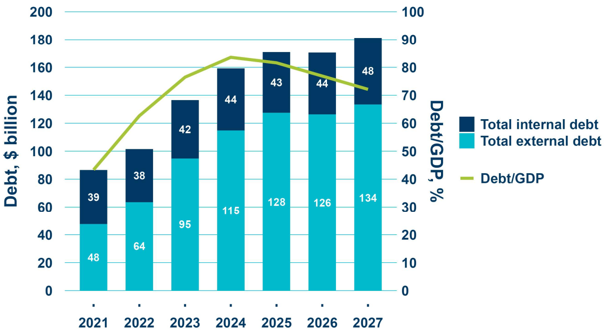
	2021	2022	2023	2024	2025f	2026f	2027f
Total revenues, UAH bn	1,297	1,788	2,629	3,101	3,384	3,054	3,277
in % of GDP	23.8	34.1	40.2	40.5	37.9	30.0	28.3
Tax revenues, UAH bn	1,107	950	1,204	1,603	1,899	2,133	2,401
Foreign grants, UAH bn	1	481	433	526	712	28	78
Total Expenditures, UAH bn	1,490	2,705	4,014	4,377	4,810	4,096	4,013
in % of GDP	27.3	51.6	61.4	57.2	53.9	40.2	34.6
Defense, UAH bn	128	1,143	2,098	2,098	2,267	1,622	1,512
Overall balance, UAH bn	-193	-918	-1,386	-1,276	-1,426	-1,042	-736
in % of GDP	-3.5	-17.5	-21.2	-16.7	-16.0	-10.2	-6.4
Balance excl. grants, UAH bn	-195	-1,399	-1,819	-1,802	-2,138	-1,070	-815
in % of GDP	-3.6	-26.7	-27.8	-23.5	-24.0	-10.5	-7.0
Financing, UAH bn							
Domestic bonds				256	-14	86	178
Issuance				638	545	660	757
Amortization				383	559	573	579
Eurobonds				-8	-9	-8	142
Issuance				606*	…	…	150
Amortization				614*	9	8	8
Foreign loans				1,023	1,664	676	494
Disbursement				1,136	1,778	816	609
Repayments				113	114	141	116
Financing gap, $ bn				0.0	-5.2	6.1	-1.0

**Numbers do not show actual repayments and issuance but rather reflect debt restructuring.*

Debt Dynamics

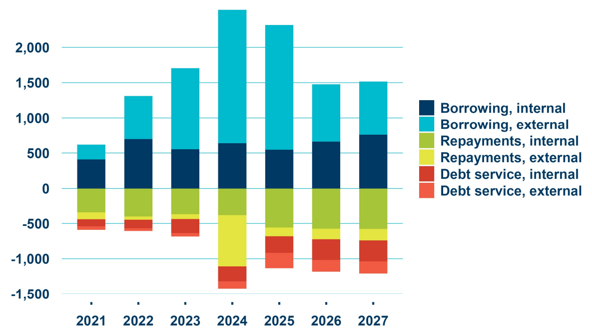
Ukraine's public debt increased significantly during 2021-24—from 43.3% to 86.4% of GDP. This was largely driven by substantial external borrowing, which led to a $67.2 billion (or 141.1%) rise in the stock of external debt over just three years and almost exclusively consisted of concessionary loans from foreign partners (see Figure 24). In local currency terms, the external debt burden increased by 271.5% (or UAH3.5 trillion) due to the Hryvnia's depreciation from 27.2 UAH/USD to 38.0 UAH/USD. As far as the domestic side is concerned, debt grew from UAH1.1 trillion to UAH1.9 trillion (+75.3%). The contraction of Ukraine's GDP in 2022 initially had a significant impact on the debt-to-GDP ratio, but was followed by significant growth of economic activity in nominal terms in 2023-24, which began to reverse the effect. At the end of 2024, Ukraine's public debt stood at $159.2 billion (or UAH6.7 trillion)—72.2% external and 27.8% domestic.

Figure 24: Debt dynamics



Source: Ministry of Finance, KSE Institute

Figure 25: Borrowing and debt service, UAH billion



Source: Ministry of Finance, KSE Institute

Despite total debt increasing to $181.3 billion by 2027, the debt-to-GDP ratio is set to decline to 77.4%. Robust economic growth will allow for Ukraine's debt to decline in GDP terms, while additional financial assistance from partners will increase the absolute number (see Table 5). We expect external borrowing to increase the stock of external debt from $114.9 billion in 2024 to $133.5 billion in 2027, even though a large share of partners' support is structured in a way to limit the impact. Domestic debt is also projected to grow, albeit more moderately, from UAH1.9 trillion ($44.3 billion) to UAH2.2 trillion ($47.8 billion). With foreign investors expected to return to the domestic debt market after the end of the full-scale war, Ukraine's Ministry of Finance should be able to realize a rollover rate above 100% even if the domestic absorption capacity for new issuance remains constrained (see Figure 25). Although the debt-to-GDP ratio will exceed the threshold defined by fiscal rules (60% of GDP), the declining trend indicates positive macroeconomic developments, including reduced budget deficits after the war and an overall lower dependence on external financing.

A distinctive feature of the financial assistance provided under the G7's Extraordinary Revenue Acceleration (ERA) mechanism—set to provide Ukraine with $49 billion over 2025-27 ($1.0 billion was paid out in late 2024)—is that it is collateralized with frozen Russian sovereign assets. This approach carries significant fiscal implications: the disbursed funds do not increase Ukraine's debt burden as the assistance is not classified as public debt. These resources therefore accomplish a number of goals—they support fiscal sustainability, finance social expenditures, restore critical infrastructure, and, to some extent, meet the needs of the defense sector—without leading to higher debt service and repayment needs. Thus, they support Ukraine's debt sustainability even amidst a full-scale war and/or in the early stages of the post-war recovery.

Table 5. Debt dynamics forecast

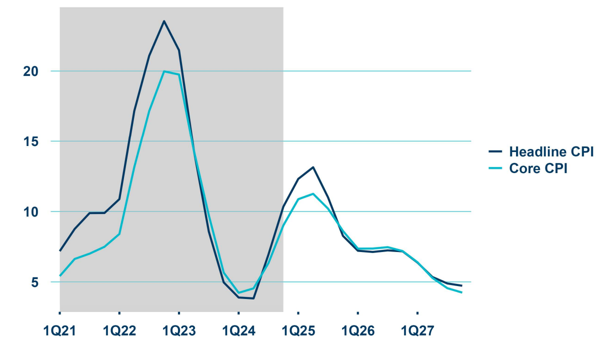
	2021	2022	2023	2024	2025f	2026f	2027f
Total debt, in UAH billion	2,363	3,715	5,188	6,692	7,285	7,825	8,365
o/w external	1,300	2,325	3,600	4,829	5,435	5,798	6,160
o/w domestic	1,063	1,390	1,588	1,863	1,849	2,027	2,205
Total debt, in $ billion	86.6	101.6	136.6	159.2	170.9	170.6	181.3
o/w external	47.7	63.6	94.8	114.9	127.5	126.4	133.5
o/w domestic	39.0	38.0	41.8	44.3	43.4	44.2	47.8
Total debt, in % GDP	43.3	71.6	79.9	86.4	82.2	79.5	77.5
o/w external	23.9	44.8	55.4	62.3	61.3	58.9	57.0
o/w domestic	19.5	26.8	24.4	24.0	20.9	20.6	20.4

Price Dynamics

Inflation accelerated to 14.6% y-o-y in March but is expected to start moderating by mid-year. Elevated electricity costs, strong wage growth, and quickly rising producer prices continue to be the primary drivers of overall inflation dynamics. However, we expect pressure for all three to subside. The risk of an inflation spiral has diminished due to the NBU's monetary tightening and the central bank's communication of its commitment to bring inflation down. We project that inflation will hover around 14% y-o-y in 2025Q2 as the deceleration begins, before declining significantly to 8.6% y-o-y in 2025Q4 (see Figure 26). Importantly, base effects due to the weak 2024 harvest will begin to fade as this year's harvest starts. In addition, electricity prices, which have surged by 170% over two years due to extensive damage to generation and distribution infrastructure, are expected to stabilize. The trade war and concerns over a global economic slowdown will decrease inflationary pressures, including by lowering energy prices.

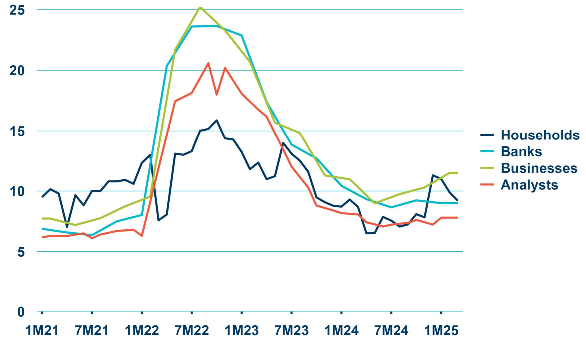
Inflation expectations rose sharply in early 2025 but have begun to stabilize. Household expectations jumped to double-digits in the first months of the year before gradually recovering to 9-10%. Enterprises' expectations remain the most elevated due to exceptionally high producer price inflation, while analysts have maintained a more optimistic outlook (see Figure 27). The gradual stabilization of inflation expectations should help contain inflationary pressures in the coming months, reflecting the NBU's credibility.

Figure 26: Headline and core inflation, % y-o-y



Source: NBU, KSE Institute

Figure 27: Inflation expectations, 12M ahead, % y-o-y



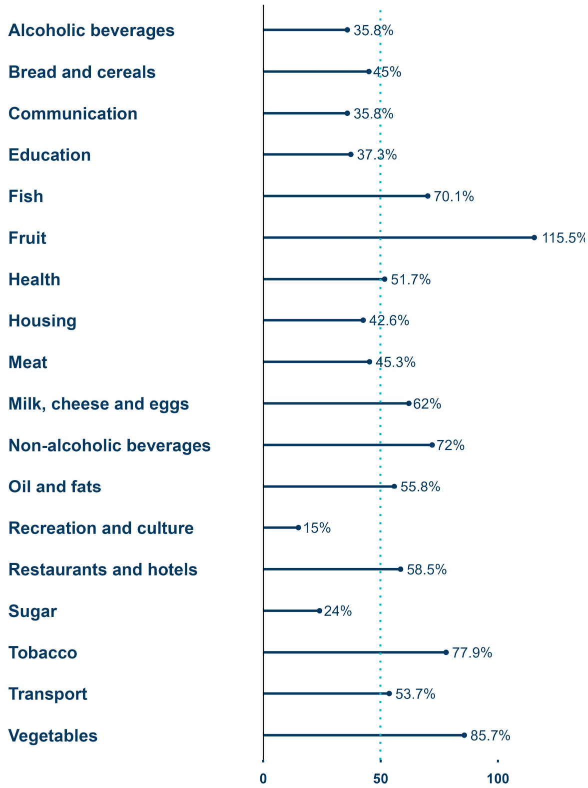
Source: NBU, KSE Institute

Food items comprise ~43% of the consumer basket and a majority of individual categories experience higher than average inflation over three years of war (see Figure 28). The volatility of grocery prices enables differing inflation narratives based on the selection of different sub-baskets. As these prices strongly influence inflation expectations by households, they present considerable challenges for monetary policy implementation.

Eggs showed surprisingly strong price growth in March (44%) and became a key source of forecast deviation. This substantial increase stems from elevated logistics costs, higher compound feed prices, and energy expenses. The outlook is improving as logistics and feed costs trend downward, while energy prices are stabilizing.

Tobacco will continue seeing steady price increases following the March 2025 excise tax legislation. This step was a part of Ukraine's European integration process. Key market players have announced that rather than implementing one-off hikes, they will gradually increase prices until higher taxes are fully reflected in consumer pricing.

Figure 28: Inflation for goods from Feb. 2022, %



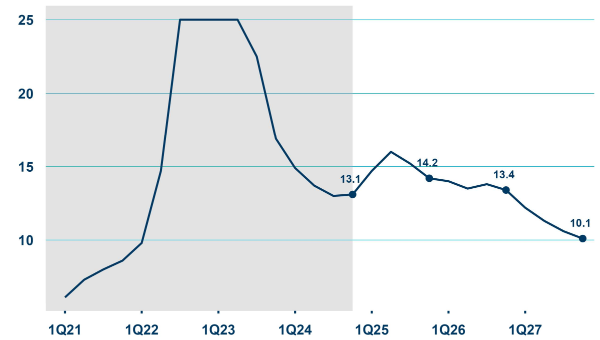
Source: Ukrstat, KSE Institute

Monetary Policy

Ukraine's central bank will continue to tighten monetary policy until inflation decreases. The NBU raised its policy rate to 15.5% in March and left it unchanged at the most-recent MPC in April. Since December 2024, when rates rose for the first time since the early months of the full-scale invasion, the central bank has tightened monetary conditions by a cumulative 250 bps. The recent decision to keep rates unchanged reflects the NBU's view that pro-inflationary factors are weakening. We expect that interest rates will remain at the current level until inflation drops below 10%, which we project to be the case in the fall of 2025. Subsequently, there will be room to gradually loosen monetary policy; however, the NBU will need to account for the economy's robust post-war recovery, which will create inflationary pressures again (see Figure 29).

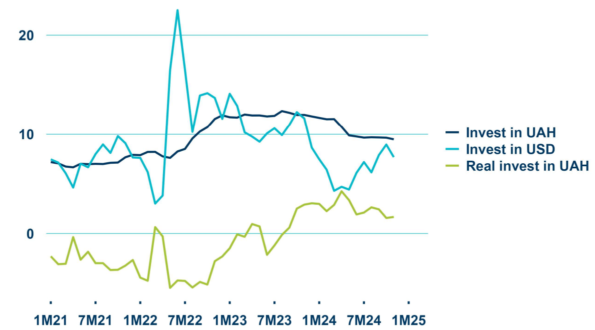
Banking rates and bond yields started to grow marginally in response to tighter monetary policy. They will remain at or even slightly above their respective current levels until the NBU begins its easing cycle later this year. Despite temporarily elevated inflation, real rates on Hryvnia-denominated deposits are still attractive compared to investments in US dollar due to high nominal interest rates (see Figure 30).

Figure 29: Policy rate, quarterly average %



Source: NBU, KSE Institute

Figure 30: Profitability of UAH vs USD deposits, %

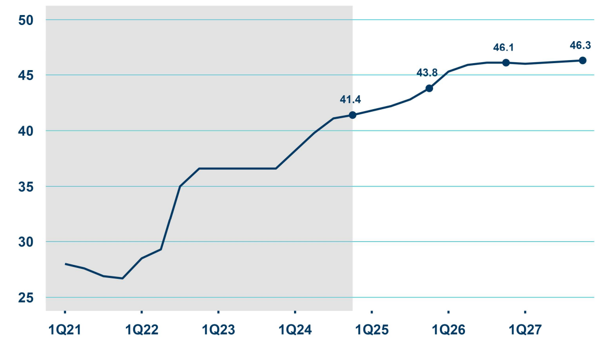


Source: Ukrstat, KSE Institute

The NBU has effectively managed Hryvnia dynamics through strategic interventions. After a brief spike in the exchange rate to 42 UAH/USD in January 2025, it stabilized around 41.5 and is expected to remain flat in the coming months (see Figure 31). This stabilization was possible due to higher inflows of foreign assistance and the NBU's significant interventions in the foreign exchange market, which reached $9.4 billion in 2025Q1 vs. $5.8 billion in 2024Q1. Such interventions will likely continue throughout 2025, enabled by large amounts of financial support from foreign partners, which will be disbursed before the end of the year. The future trajectory of the Hryvnia is subject to substantial uncertainty as the trade war weighs on global demand for Ukrainian goods while simultaneously driving down prices for energy imports (see Special 1).

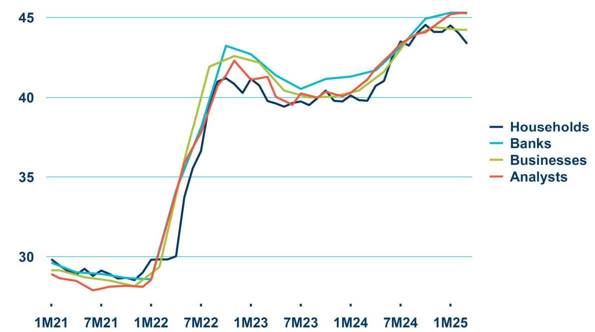
Exchange rate expectations have improved following initial concerns. After peaking in early 2025, expectations across respondent groups have moderated in response to the Hryvnia's stabilization (see Figure 32). As the US administration's policies also appear to weaken the dollar against various currencies—and Ukraine's economic ties with Europe are much more significant and will only strengthen further during the EU accession process—it may become important to refocus attention on the UAH/EUR exchange rate.

Figure 31: Exchange rate, UAH/USD



Source: Ukrstat, KSE Institute

Figure 32: Exchange rate expectations, 12M ahead



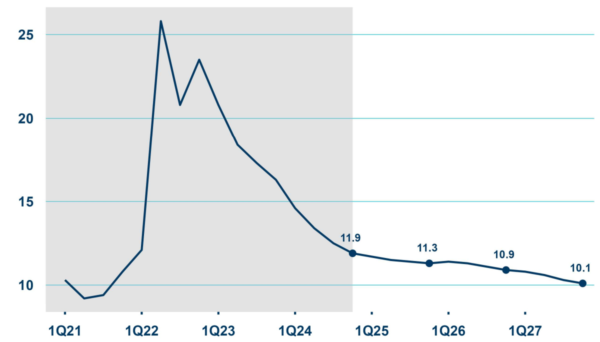
Source: NBU, KSE Institute

Labor Market

The unemployment rate in Ukraine is projected to continue on its downward trajectory, reflecting a gradual labor market recovery. In 2025Q1, the rate declined by 0.4 pp, and it is expected to reach ~10% by the end of 2027 (see Figure 33). However, structural labor market challenges persist, including skills mismatches and difficulties in sourcing qualified labor. Ukraine's labor market remains fundamentally imbalanced due to the prolonged impact of the full-scale war, which has led to mobilization and significant outmigration. These structural constraints will remain even as the post-war recovery gains momentum.

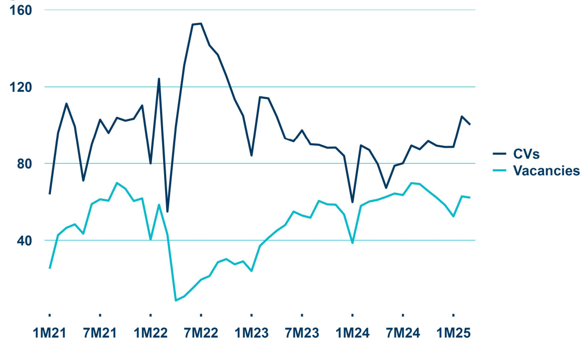
The persistent gap between job vacancies and available labor is evidence of labor market tightness. Data form work.ua indicate a slight recovery in job postings in early 2025, but, still, vacancy levels remain below pre-war levels, while the number of CVs has almost fully recovered, suggesting increased labor supply (see Figure 34). Nevertheless, firms continue to face significant hiring challenges, often leading to workforce restructuring or constrained business activity. These labor market frictions could weigh on economic growth prospects, underscoring the need for targeted policies to address the skill mismatch and enhance workforce participation in different categories, including veterans.

Figure 33: Unemployment rate, %



Source: Ukrstat, Info Sapiens, KSE Institute

Figure 34: Job vacancies and CVs, thousand

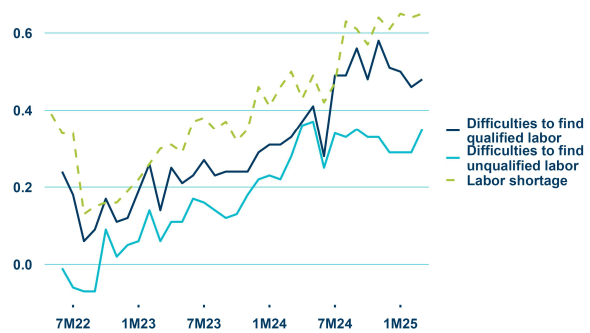


Source: Work.ua, KSE Institute

Labor market conditions continue to tighten, with firms facing persistent recruitment difficulties. The Institute of Economic Research's (IER) Worker Availability Index, which tracks hiring challenges across both skilled and unskilled labor segments, indicates that shortages of skilled workers remain significantly more pronounced (see Figure 35). These dynamics have remained largely unchanged in early 2025, reflecting structural labor supply constraints. The share of enterprises surveyed by IER citing labor shortages due to conscription and/or employee departures surged from 49% in May 2024, when new mobilization legislation was introduced, to 63% in August 2024, and stabilized at this elevated level thereafter.

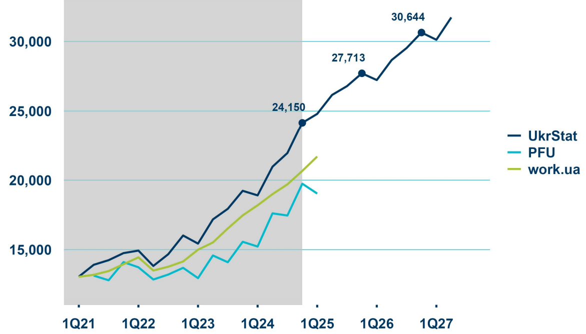
Wages continue to rise quickly and this is unlikely to change over the course of the forecast period. The average nominal wage reached UAH24,350 at the end of 2024 (see Figure 36), which represents a 22% increase y-o-y and is significantly higher than inflation (7%). Higher wages create inflationary pressures as they increase demand. The scarcity of skilled workers forces companies to increase salaries, as does the UAH20,000 threshold allowing critical enterprises to protect workers from mobilization. Shifts from the shadow economy to the formal sector are also driving up average wage statistics, however.

Figure 35: Recruitment challenges indices



Source: IER, KSE Institute

Figure 36: Nominal wage, UAH

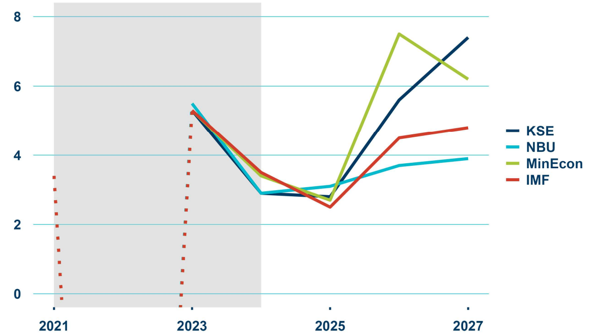


Source: Ukrstat, work.ua, PFU, KSE Institute

Forecast Comparison

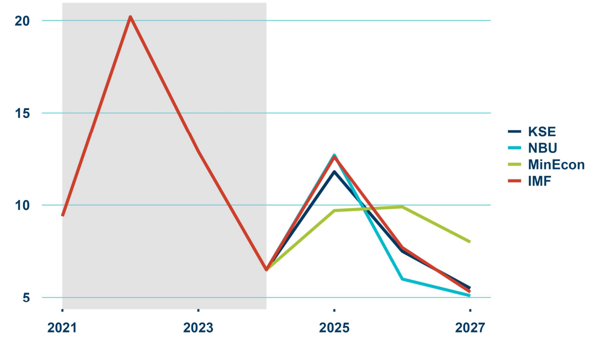
Most institutions broadly agree on GDP growth in 2025, but see the pace of the ensuing recovery differently. KSE's forecast of 2.8% growth this year is consistent with the IMF's and MinEcon's projections, while the NBU expects somewhat higher growth of 3.1% in 2025 (see Figure 37). Thereafter, the IMF and NBU foresee a moderate pickup to around 3.5-5% in 2026-27, while KSE and MinEcon are more optimistic. It should be emphasized that the forecast presented in this Ukraine Macroeconomic Handbook is based on the assumption that the full-scale war will come to an end in 2025 and that Ukraine's economy will benefit from substantial investments and be able to adjust fiscal and monetary policies to a post-war stance.

Figure 37: Real GDP, % y-o-y



Source: NBU, Ministry of Economy, IMF, KSE Institute

Figure 38: Inflation, % avg

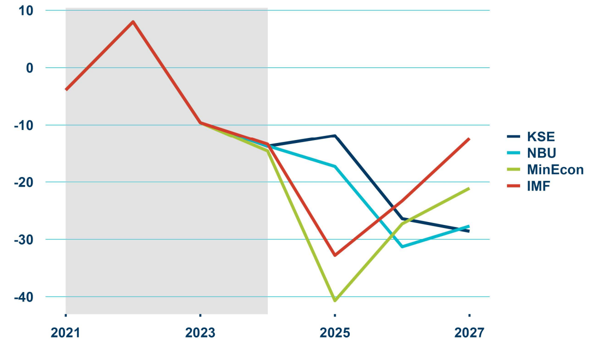


Source: NBU, Ministry of Economy, IMF, KSE Institute

Views on inflation are broadly consistent among forecasters, with a return to ~5% expected by 2027. KSE, the IMF, and the NBU project inflation to rise markedly this year to around 12% before falling to around 6-7.5% in 2026, and approaching the central bank's inflation target of 5% in 2027 (see Figure 38). The NBU expects a somewhat quicker decline in 2026, but our forecast is broadly consistent with the central bank's views—and its current policy of monetary tightening in order to reduce inflationary pressures and anchor inflation expectations. Ukraine's MinEcon differs from other forecasts as it expects inflation to remain around 10% in 2025-26 and assumes a noticeably smaller decline to ~8% in 2027.

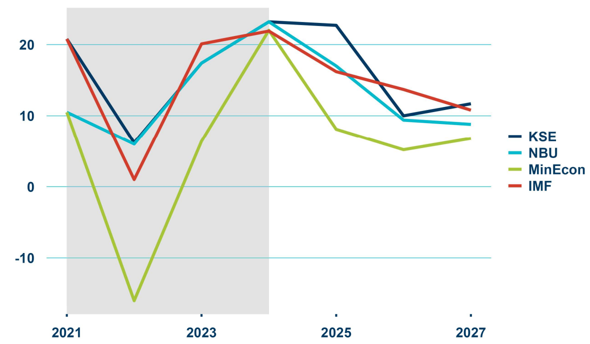
Forecasts for Ukraine's current account differ significantly due to the classification of ERA funds. While KSE projects the deficit to remain broadly stable in 2024 ($14.0 billion vs. $13.7 billion in 2023) before widening sharply in 2026-27 to around $30 billion, the IMF and MinEcon expect a much higher deficit in 2025, with the NBU in between (see Figure 39). The reason is that we consider $15 billion of ERA funds as grants and not loans. Thus, they are registered in the secondary income balance, i.e., the current account, and not as non-resident investment in the financial account. As no similar disbursements are expected in 2026, the forecast discrepancies largely disappear. We expect a wider deficit in 2027 for several reasons, among them larger imports due to robust GDP growth and differences in the adjustment of Ukraine's services account.

Figure 39: Current account, USD billion



Source: NBU, Ministry of Economy, IMF, KSE Institute

Figure 40: Nominal wage, % avg



Source: NBU, Ministry of Economy, IMF, KSE Institute

Estimates of nominal wage growth differ somewhat, with KSE expecting higher growth in 2025. We project wage growth to remain broadly stable this year at 23% before declining to around 10% in 2026-27 (see Figure 40). Both the IMF and NBU see a quicker (and more linear) drop but essentially agree on post-war dynamics. We believe that labor market constraints will remain substantial this year and, in turn, upward pressure on wages will persist, resulting in wage growth in line with 2024 numbers. Ukraine's MinEcon has different numbers for the 2021-23 period, and projects a decline to single-digit growth rates in 2025-27.

Special 1: Trade War

An escalation of the trade war due to US tariffs is a likely negative scenario that will weigh on global growth in 2025—and possibly beyond. Announcements by the Trump administration have already unbalanced markets due to fears over protectionist policies by the US and countermeasures by other countries. Ukraine's heavily trade-dependent economy is not immune to the potential implications. While the direct exposure to US tariffs is limited due to the overall trade volume—only 1.2% of Ukraine's exports go to the US—the risk stems from the trade war's impact on other economies and second-round effects for demand for and prices of key Ukrainian exports. In its most recent World Economic Outlook, the IMF reduced global growth by 0.5pp for 2025 due to the looming trade war. With ~80% of Ukraine's export revenues tied to grains, other agricultural products, metals, and iron ore, even a synchronized 10% fall in prices could widen the trade deficit by ~1% of GDP. Importantly, this deterioration would occur from an already challenging baseline as the deficit has grown significantly during the war—from only $6.6 billion in 2021 to $30.4 billion in 2024 —on the back of suppressed exports and recovering imports.

Agricultural exports should demonstrate relative resilience, while metals and minerals could be more heavily impacted. Global food demand is generally less elastic than demand for other commodities during economic downturns. With a growing global population and climate change-related shifts in agricultural sectors in many countries, Ukraine will be in a position to strengthen its position as one of the key players in numerous agricultural markets. Iron ore and steel exports, on the other hand, remain highly exposed to global demand (and price) fluctuations, as well as rising domestic production costs. These industries are already in a vulnerable position due to the war, which will make adjustment more difficult.

Beyond commodity shocks, global volatility may affect Ukraine through several channels. *First*, global market volatility has implications for exchange rates. The Hryvnia is closely tied to the US dollar due to the composition of reserves and the NBU's foreign intervention strategy, although the most important trade partner and provider of financial support is the EU. The trade war and threat to the Fed's independence raise questions about the dollar's future role, thereby strengthening other currencies and gold. In the short term, a weaker Hryvnia in line with a weaker dollar means that Euro-denominated support has a higher local currency value. In trade, Hryvnia deprecation will make Ukrainian exports more competitive and imports more expensive, with the latter creating upward pressure on inflation.

***Second*, economic crises often lead to lower foreign investment and resident capital outflows.** In our forecast, we assume robust foreign capital inflows—$40 billion in direct and portfolio investment—over 2025-27, which are critical for Ukraine's economic recovery, balance of payments dynamics, and fiscal financing. A global downturn would almost certainly reduce the amount of money flowing into Ukraine. While it is unlikely that fiscal concerns in partner countries endanger current commitments under the EU's Ukraine Facility or the ERA mechanism, additional bilateral or multilateral financial assistance would be affected, leaving reconstruction and recovery underfunded. An economic crisis would also impact resident capital flows. In our current forecast, we project outflows to decrease sharply after the end of the war—from an average of $17.7 billion in 2022-24 to $6.6 billion in 2026 and $4.1 billion in 2027. However, during a full-blown global economic crisis with serious concerns over the stability of the Hryvnia, outflows would be significantly larger and undermine macroeconomic buffers, i.e., reserves.

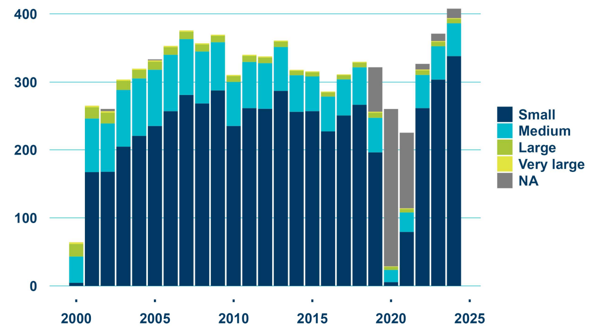
Ukraine's policy space is seriously constrained due to the war, limiting options to respond to a crisis. Looking back at past global downturns, advanced economies responded with aggressive monetary easing and broad fiscal stimulus. Both strategies are mostly unavailable to Ukraine under the circumstances of the war. The imperative is to maintain a tight monetary stance to preserve credibility and anchor inflation and exchange rate expectations, avoid new fiscal slippages, and limit public support to targeted and temporary interventions. Any assistance to exposed sectors must include strong conditionality—private actors absorbing initial losses, with the public sector demanding collateral or equity stakes—to avoid moral hazard.

Diplomatic and trade policy efforts must occur in parallel with macro-stabilization. Ukraine should move immediately to negotiate an extension of EU trade preferences beyond mid-2025 and pursue similar agreements with the United Kingdom, Canada, and key Asian partners. At the same time, a concerted push for an exemption from broad US tariffs could help shield critical exports. Over the medium term, Ukraine has a chance to capitalize on near-shoring trends, integrate its defense sector into European supply chains amid rearmament, and leverage rising food-security concerns to reinforce its strategic food security role.

Special 2: Business Landscape

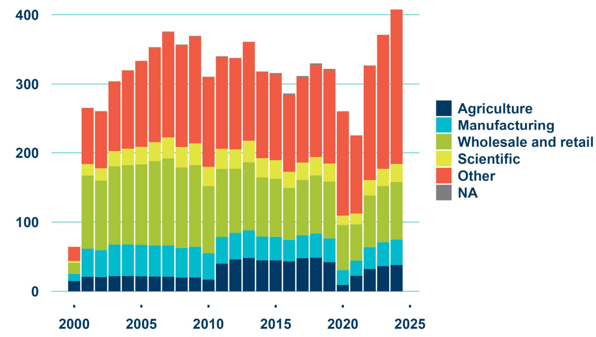
Ukraine's business landscape has undergone a significant transformation over the past two plus decades, driven by economic liberalization, geopolitical challenges, and war. This analysis is based on a granular dataset based on firms' financial reports and provided by Ukrstat. The number of firms was overall quite stable in the pre-Covid period with a gradual decline since the mid-2000s (see Figure 41). By 2024, the number of firms increased to a record-high 407,600. Importantly, the share of small firms has increased sharply—from an average 77% in 2010-19 to 83% in 2024. At the same time, not only did the share of medium/large/very large entities decline over the past two decades, but so did their absolute number. From a peak 99,200 in 2004, it fell to 55,600 in 2024 (-44%). A company's size is determined by the number of personnel, with "very large" firms having more than 500, "large" firms between 100 and 500, "medium" firms between 10 and 100, and "small" firms with fewer than 10 workers. Remarkably, there has not been any collapse of firm activity during the full-scale war. The sharp drop in 2020-21 and subsequent rebound, while certainly a result of the Covid pandemic, may also be a result of improved data collection since 2020.

Figure 41: Firms in Ukraine by size, thousand



Source: Ukrstat, KSE Institute

Figure 42: Firms in Ukraine by sector, thousand

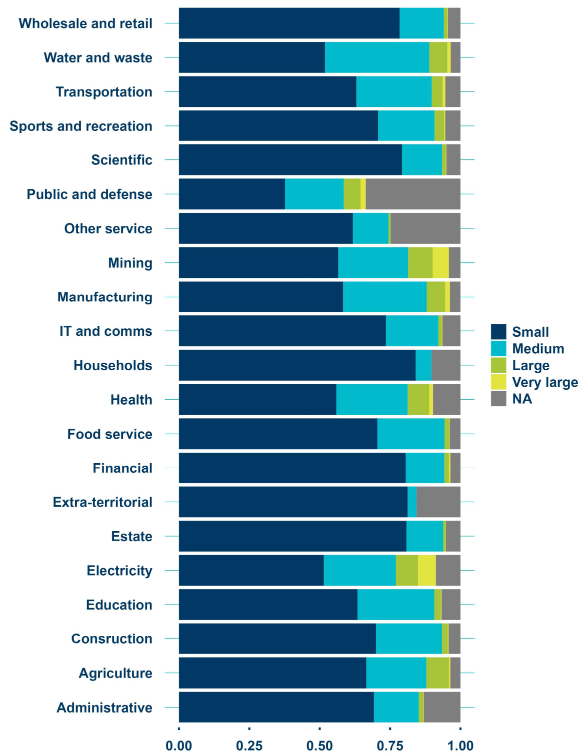


Source: Ukrstat, KSE Institute

Wholesale and retail trade no longer dominates the business landscape. In the 2000s, firms from this sector made up around one-third of the total, but by 2024, the share fell to 20%—due to a smaller number of wholesale and retail trade entities as well as significant growth in other sectors of the economy, including IT and mining (see Figure 42).

Service sectors (e.g., wholesale and retail trade, scientific activities, food services, IT) are largely driven by small firms, which often exceed 80% of the total, while infrastructure and productive sectors (e.g., electricity production, manufacturing, mining, transportation) maintain a more balanced structure with a significant share of medium and large enterprises (see Figure 43). Strategically-important sectors such as mining, electricity, and public administration have the highest shares of very large entities, often reflecting state ownership or oligarchic control.

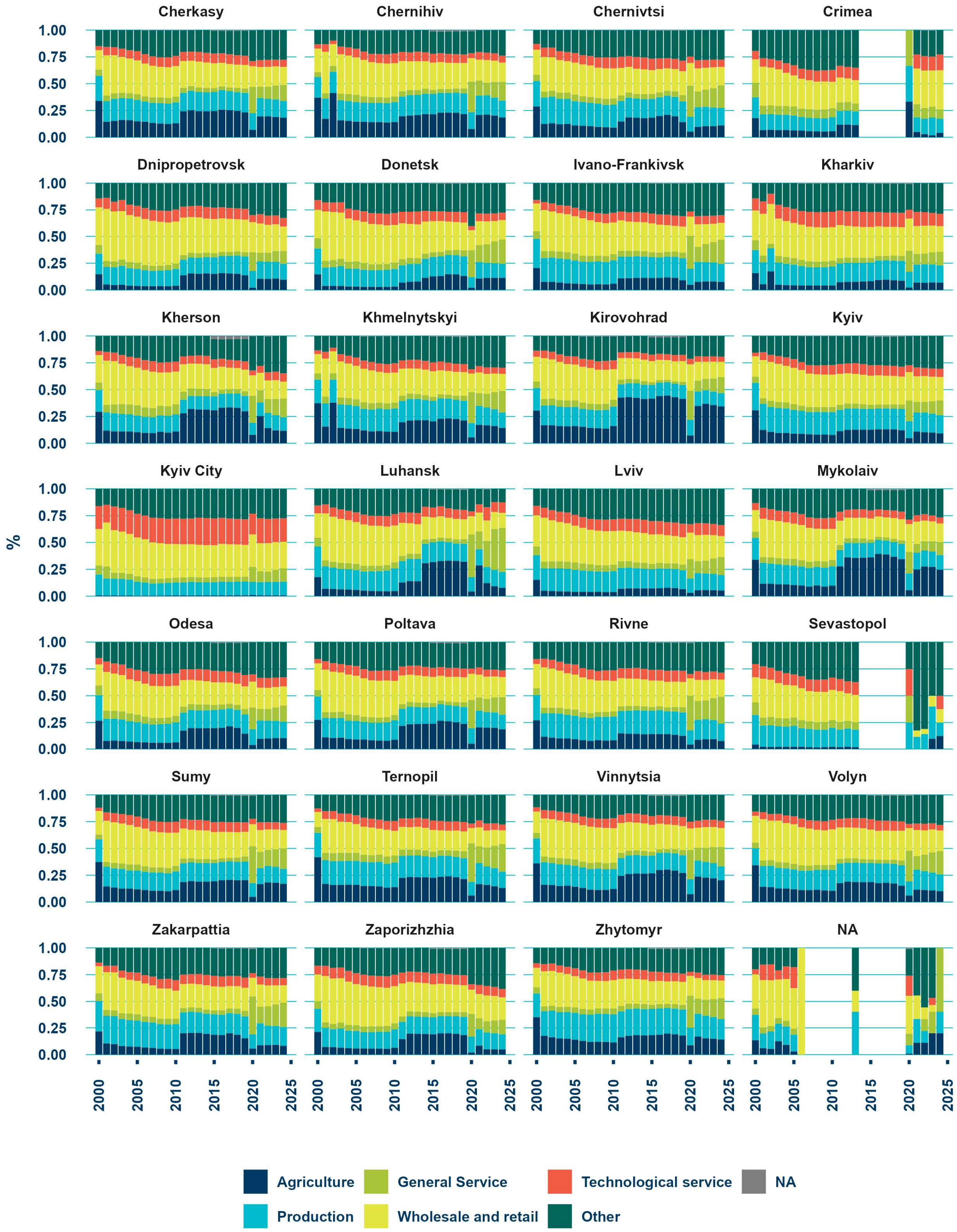
Figure 43: Firms in Ukraine by sector and size, %



Source: Ukrstat, KSE Institute

Regional analysis reveals important differences between oblasts. Kyiv City is the country's economic hub with the highest concentration of firms across all size categories. But it also fundamentally differs from other regions in terms of the structure of enterprises. It has the largest share of firms in technological services such as IT, science, and finance (followed by Lviv and Kharkiv), but a negligible number of agricultural firms (see Figure 44). Western and Central regions of Ukraine (e.g., Lviv, Rivne, Volyn, Ivano-Frankivsk, Ternopil) show robust growth in small entrepreneurship, while, not surprisingly, occupied territories (e.g., Donetsk, Luhansk, Crimea, Sevastopol) display sharp drops in business activity after 2014.

Figure 44: Firms in Ukraine by region and size, %



Source: Ukrstat, KSE Institute