Center of Public Finance and Governance
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ANALYSIS OF THE DRAFT STATE BUDGET OF UKRAINE FOR 2026

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Key findings

1. **The Draft State Budget for 2026 is built around the same core priorities as the current budget – with a clear concentration of resources on defense, security, and social protection.** At the same time, it is based on a pessimistic macroeconomic scenario that assumes the continuation of the war into 2026, whereas the Budget Declaration had been developed under several scenarios with the baseline one being optimistic. This choice reflects the Government's continued cautious planning approach, which accounts for persistent economic risks and underscores the critical role of external financial support.

2. **Defense and security spending remains a priority throughout 2026. Expenditures planned under the Ministry of Defense programs, totaling $42.1 bn,** essentially mirror the 2025 funding levels, which are sufficient to maintain the sector's current capabilities during 2026. However, if by the end of the current year the need to increase defense and security funding is confirmed, the budget will once again have to be revised to sustain this level in 2026. The allocated financial resources do not provide for an expansion of defense capabilities, as available funds would be insufficient in the event of decisions to raise mobilization levels, increase military salaries, introduce new financial incentives for service or expand procurement of equipment and weapons.

3. **The main revenue sources of the 2026 State Budget are projected to be taxes – nearly $54.0 bn (+9.5% compared to the 2025 plan[1]) – and external borrowings of $46.5 bn (+12.9%).** Net of external public debt service, external revenue sources are expected to finance 42.3% of all state budget expenditures in 2026, with domestic sources covering 57.7%. Alongside tax revenues, external financial assistance remains crucial for safeguarding Ukraine's fiscal sustainability.

4. **Tax revenues in 2026 are projected to grow across nearly all** major categories (**personal income tax,** domestic and imported VAT, and import excises). Overall, the growth of state budget revenues in 2026 relative to the current 2025 plan is driven by expected macroeconomic dynamics, in particular inflation (10.4%) and nominal GDP growth to $225.6 bn (+6.7% compared to the 2025 forecast).

5. **An important additional revenue source is expected from measures to reduce the shadow economy –** particularly through improved efficiency of the State Customs Service ($1.3 bn) – as well as enhanced tax arrears collection mechanisms ($568.9 mln). Further revenue will also come from identifying and taxing income generated via digital platforms ($306.3 mln).

6. **Support from international partners continues to play a critical role in maintaining macroeconomic stability and covering essential needs.** Disbursements are contingent on Ukraine's compliance with agreed policy conditions. In 2026, the Government expects to receive $46.5 bn in loans and $942.6 mln in grants. Nevertheless, confirmed financing commitments remain insufficient to fully cover planned expenditures.

7. **The state budget deficit is expected at 18.4% of GDP ($41.5 bn).** Its financing through new borrowings will result in the accumulation of state and state-guaranteed debt, with the total amount reaching 106% of GDP by the end of 2026.

8. **In the draft budget for 2026, local budgets are projected to experience a notable increase in resources, yet the balance between their own revenues and intergovernmental transfers shifts in a way that reduces municipalities' flexibility.** The expected growth in PIT and local taxes is accompanied by the reduction of the PIT share (the non-extension of the temporary Budget Code provision on the additional 4%) and its replacement with a targeted subvention, which limits the autonomy of local authorities in resource allocation. The update of the horizontal equalization mechanism through current data from the Migration Service is a positive innovation, but the withdrawal of balances from temporarily occupied territories and the absence of several subventions weaken municipalities' resource stability. The persistence of a limited resource for investment projects further highlights the gap between declared strategic priorities and actual financial capacity.

[1] Law of Ukraine On the State Budget of Ukraine for 2025, Planned indicators of the state budget for 2025 with amendments as of September 2025

General provisions

(1) **The 2026 State Budget has been formulated based on a macroeconomic forecast with the baseline assumption that hostilities will continue throughout the entire planning period.** This scenario implies persistently high uncertainty, elevated risks of deviations between actual and planned indicators, and the absence of preconditions for a rapid economic recovery. Under these conditions, the need for large-scale expenditures is unavoidable, as the state must simultaneously finance defense, social commitments, and critical sectors of public services. Alongside tax revenues, external financing remains the key factor in maintaining macro-financial stability, without which resource gaps cannot be closed. This critical dependence on international assistance is combined with the imperative to maximize mobilization of domestic revenue sources, making 2026 a year of preserving fiscal resilience in the face of extraordinary challenges.

(2) **The key projected macroeconomic and social development indicators of Ukraine for 2024-2026 were formulated based on Scenario 2, approved by the Government**[2], which assumes a longer duration of hostilities and, accordingly, less favorable conditions for economic development. In 2026, nominal GDP is expected to reach $225.6 bn, which is 6.7% higher than the projected GDP for 2025 ($211.5 bn) (Table 1). Real GDP growth in 2026 is projected at only 2.4%. Inflation is expected to accelerate next year, averaging 10.4%. Despite some expectations of a slowdown in 2026, the inflation rate will remain relatively high and significantly above the 2024 level (6.5%). Inflationary pressures in 2026 will be driven by several factors, most importantly wage increases caused by labor market imbalances, rising costs of raw materials and inputs (in particular, the average monthly wage in 2026 is expected to increase to $657.2, while the unemployment rate will decline only marginally to 12.6%), currency depreciation (the average annual exchange rate of the hryvnia against the US dollar in 2026 is projected at 45.7 UAH/USD, compared with 42.4 UAH/$in 2025), and persistently high logistics costs.

Table 1. Main macroeconomic indicators

Indicators	2024	2025		2026
	Report	Resolution of the CMU from 28.06.2024 № 780	Expected by Ministry of Economy (as of 06.08.2025)	Resolution of the CMU from 06.08.2025 № 946 Scenario 2
Gross Domestic Product:				
nominal, $bn	190.7	188.1	211.5	225.6
real change, %, y-o-y	2.9	2.7	2.7	2.4
Consumer Price Index:				
avg., %, y-o-y	6.5	9.7	12.2	10.4
December to December of the previous year, %, y-o-y	12.0	9.5	9.5	9.9
Average monthly salary (gross, nominal, USD)	534.8	542.0	610.5	657.2
Unemployment rate, %	13.1*	17.7	12.7	12.6

** Assessment of the Ministry of Economy, Environment and Agriculture*

Source: State Statistics Service of Ukraine, National Bank of Ukraine, Government forecast

(3) **The draft budget for 2026 provides for measures aimed at reducing the shadow economy and improving the management of tax arrears.** In particular, by enhancing the efficiency of the State Customs Service in reducing tax evasion on customs payments, an additional $1.3 bn in revenues is expected. Should the planned amount of these revenues to the general fund be exceeded, the surplus will be redirected to the special fund and used to finance security and defense needs. Furthermore, improvements in tax arrears collection are expected to generate an additional $568.9 mln from personal income tax, corporate income tax, and domestic VAT. The introduction of information exchange with foreign partners regarding income earned through digital platforms is projected by the Government to yield an additional $306.3 mln in personal income tax revenues for the state budget.

[2] Resolution of the Cabinet of Ministers of Ukraine No. 946 of August 6, 2025 On Approval of the Forecast of Economic and Social Development of Ukraine for 2026–2028

(4) The Draft State Budget for 2026 envisages the continuation of the moratorium on certain provisions of the Budget Code, in order to account for the significant budget deficit and the need for rapid decision-making in wartime conditions. The following provisions remain suspended:

- the deficit may not exceed 3% of nominal GDP;
- the maximum level of the state budget deficit may not exceed the figure set by the Budget Declaration;
- the total volume of public and publicly guaranteed debt at the end of the budget period may not exceed 60% of annual nominal GDP;
- the ceiling on the provision of state guarantees may not exceed 3% of planned revenues of the general fund of the state budget;
- the main conditions of public debt transactions exceeding 5% of the total volume of public debt are determined by the Cabinet of Ministers without approval by the Budget Committee of Parliament (i.e. the Government will no longer seek approval from the Committee);
- allocation of no less than 1.5% of general fund revenues to the State Regional Development Fund.

Key fiscal risks identified by the Government that could reduce revenues or increase expenditures, thereby widening the deficit and debt:

- **Security threats** – continuation of the war, destruction of infrastructure and enterprises, and disruptions in logistics;
- **Demographic imbalances** – depopulation, labor market distortions, declining life expectancy, and mass emigration limiting labor potential;
- **Low investment levels** – recovery has occurred mainly through reinvestment, while new foreign capital inflows remain critically low;
- **Reduction in international assistance** – the risk of lower financing volumes from partners constrains stabilization and recovery efforts;
- **Global instability** – fluctuations in energy and food prices, as well as recessionary trends in the global economy.

Budget revenues

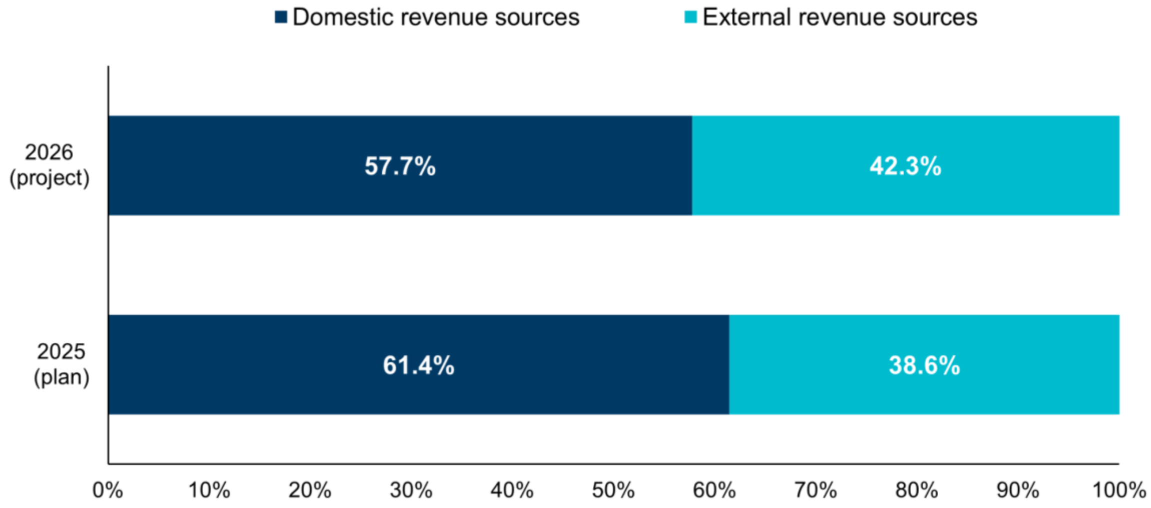
(1) **In the Draft Budget for 2026, revenues are projected at $63.2 bn, which is 8% or $4.7 bn higher than the 2025 plan.** The increase is primarily explained by macroeconomic factors such as inflation, depreciation of the hryvnia, and growth of nominal GDP. In addition, revenues will be boosted by the reinstatement of a 4% personal income tax (PIT) share to the state budget, which had temporarily been allocated to the general fund of local budgets; the continued alignment of excise tax rates on tobacco products and fuel with EU levels; and receipts from the export duty on soybeans, rapeseed, and colza introduced in 2025. The budget is also expected to benefit from the new excise tax on sugary beverages, projected to generate $186 mln. Establishing monitoring of transactions on digital platforms through automated information exchange with international partners will provide additional PIT and military levy revenues of $306.3 mln. Further revenues are projected from improved tax arrears management ($586.9 mln) and enhanced efficiency of the State Customs Service of Ukraine ($1.3 bn).

(2) **As in 2023–2025, the key sources of revenues in 2026 will be tax receipts – almost $54 bn (9.5% more than planned for 2025)**, which will cover 51.9% of all expenditures of the 2026 budget. At the same time, all domestic revenue sources combined are expected to finance 57.7% of state budget expenditures in 2026 (Figure 1).

(3) **Revenues collected by the State Tax Service are projected to amount to $33.9 bn, or 53.7% of total revenues of the 2026 budget (110.5% of the current 2025 budget plan).** Revenues administered by the customs authorities are expected to generate $20.1 bn, or 31.7% of total revenues of the 2026 budget (107.9% of the 2025 budget plan). The remainder will come from other non-tax revenues (grants, transfers from the National Bank of Ukraine, administrative fees and charges, and income from capital operations).

(4) **The structure of tax revenues is not expected to undergo significant changes compared to the 2025 plan.** As in previous years, indirect taxes will remain the largest component of budget revenues in 2026, accounting for more than 48.6%. Value-added tax (VAT – import and net domestic) is projected to provide 37.3% of total revenues, while excise taxes (import and domestic) will account for 11.4%. Among direct taxes, the largest contribution is expected from personal income tax and the military levy, which together are projected to generate 19.9% of all revenues.

Figure 1. Structure of Budget Revenue Sources, %



Source: State Budget for 2025, Draft State Budget for 2026

(5) **Planned revenues from major taxes to the state budget** (Figure 2):

- **VAT (net domestic and import) – $23.6 bn** (+9.6% compared to the 2025 plan), including $8.6 bn (+14.8%) from net domestic VAT and $15.0 bn (+6.8%) from import VAT. The main drivers of growth are projected inflation in 2025 (annual average at 10.4%), an expected 7.6% increase in import volumes, higher consumer spending, and depreciation of the national currency.
- **Personal income tax (PIT) and military levy** – **$12.6 bn** (+10.8% compared to the 2025 plan). The increase in these revenues in 2026 is driven, among other factors, by:
  - the reinstatement of a **4% PIT share** to the state budget, which had temporarily been allocated to the general fund of local budgets – **$332.6 mln**;
  - taxation of income earned through digital platforms – **$306.3 mln**.
- **Excise taxes (domestic and import) – $7.2 bn** (+3.3% compared to the 2025 plan). The expected increase in excise revenues relative to the 2025 plan is primarily due to the continued alignment of excise tax rates on fuel and tobacco products with EU levels. In addition, in 2026 an excise tax on sugary beverages will be introduced, projected to generate an additional $186 mln.
- **Corporate income tax (CIT)** – **$6.4 bn** (-3.3% compared to the 2025 plan). In UAH terms, however, CIT revenues in 2026 are expected to increase by 4.3% relative to the current 2025 plan, reflecting projected changes in macroeconomic indicators. At the same time, in 2026 the taxation of bank profits will revert to a 25% rate instead of 50% as applied in 2025. According to Government estimates, this adjustment will result in foregone revenues of approximately $1 bn in 2026. This measure is likely one of the factors behind the restrained expectations for CIT revenue growth next year.
- **Customs duties** – **$1.6 bn** (+11,9% compared to the 2025 plan), including **$1.4 bn** from import duties (in line with the 2025 plan) and **$209.7 mln** from export duties (30 times higher than in the 2025 plan). The increase in export duties is driven by tax changes introducing duties on exports of soybeans, rapeseed, and colza.
- **Rent payments – $1.2 bn** (-6.9% compared to the 2025 plan), although in UAH terms revenues from this tax are expected to show a marginal, nearly zero increase of +**0.3% relative to the 2025 plan**. The main factor behind this trend remains the difficult security situation across the country, particularly in regions where the state's key extraction capacities are concentrated.

(6) Grant revenues are projected at **$942.6 mln**, or **1.5%** of total state budget revenues planned for 2026. Of this amount, **$540.0 mln** will go to the general fund and **$402.6 mln** to the special fund of the state budget. By source, this includes:

- **$540.0 mln** – funds under the *Ukraine Facility* program;
- **$389.8 mln** – funds from the IBRD for the implementation of Ukraine support projects;
- **$12.8 mln** – grants from other donors.

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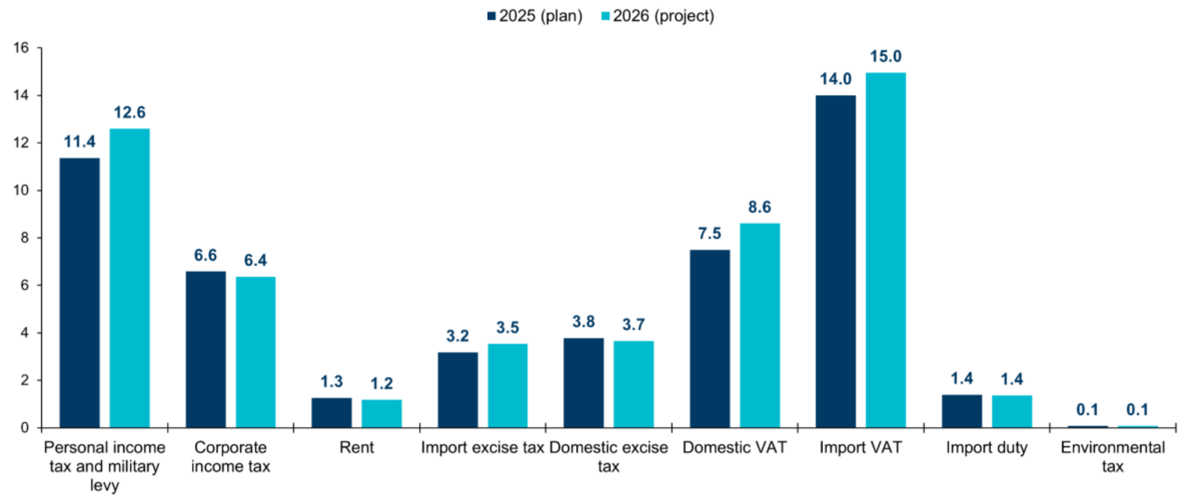
Figure 2. Tax Revenues, $bn



Source: State Budget for 2025, Draft State Budget for 2026

(7) In 2026, **foregone budget revenues due to tax exemptions are again expected to reach record levels. The value of lost revenues from tax benefits is estimated at $5.9 bn** (in line with expected losses in 2025). Overall, the majority of current exemptions (66%) are defense-related. Traditionally, the most "privileged" tax in Ukraine is VAT. Expected losses from VAT exemptions will amount to $5.0 bn, or 84.8% of all foregone revenues planned for 2026, equivalent to 21.3% of total VAT projected to be collected in 2026, including:

- defense-related supplies – **$3.4 bn**;
- healthcare – **$678.93 mln**;
- education – **$153.2 mln**;
- housing construction – **$77.8 mln**.

Other significant exemptions include:

- property tax – **$691.1 mln**, representing losses to local budgets;
- corporate income tax – **$114.9 mln**.

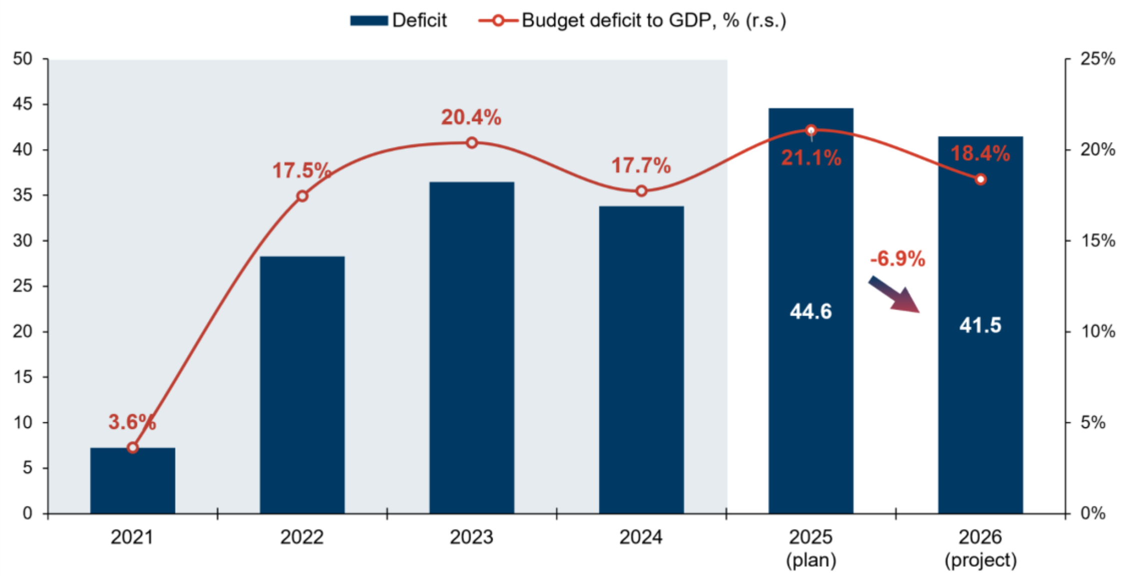
Budget deficit

(1) **Significant financing needs for defense and social expenditures sustain a high level of the budget deficit.** The state budget deficit in 2026 is projected at 18.4% of GDP ($41.5 bn), including the general fund at 17.2% of GDP and the special fund at 1.2% of GDP (Figure 3). The budget deficit exceeds the amount set in the Budget Declaration by 83.4%. This indicates that the forecasted deficit in the document is underestimated, given the military risks and the need for additional financing.

(2) **External financing will play a key role in maintaining macroeconomic and fiscal stability.** For financing the general fund budget deficit, $46.5 bn in loans will be received from foreign partners (Figure 4), including net external borrowings amounting to $43.6 bn. In particular, a loan of $10 bn is expected from the European Union under the Ukraine Facility program, $11.3 bn from the governments of the United States, Japan, and Canada under the ERA mechanism, guaranteed by revenues from frozen Russian assets, $2.3 bn from the IMF, $2.3 bn from the World Bank, and $18.1 bn from other creditors. Failure to secure the necessary financial support from partners remains a key risk to fiscal stability in 2026.

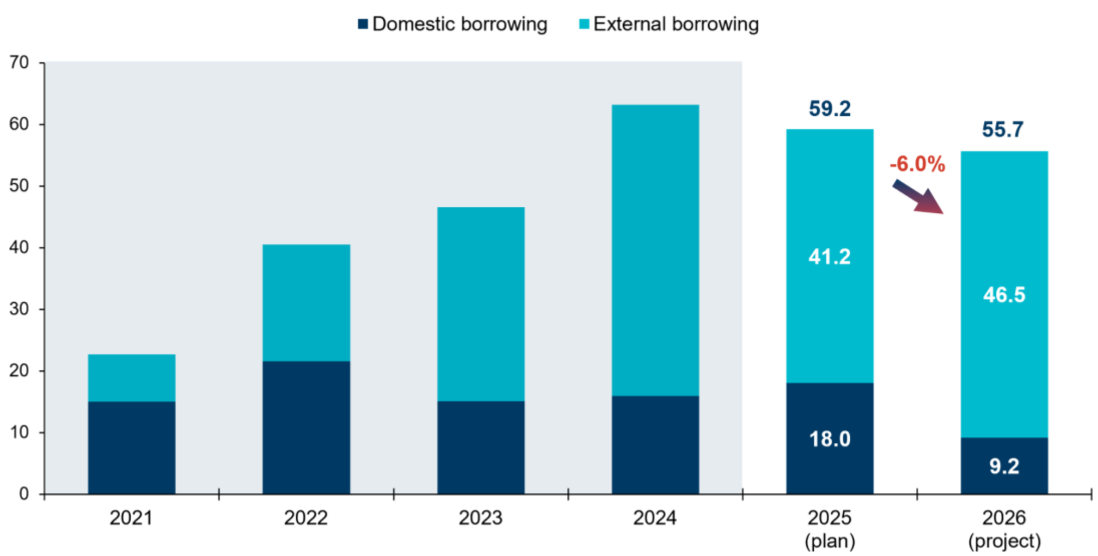
(3) **The state debt in 2026 is expected to increase solely due to the growth of external public debt, while the domestic debt will decrease.** In 2026, significantly lower volumes of financing are planned to be raised through domestic government bonds — $9.2 bn compared to the planned $18.0 bn for 2025. Additionally, $11.5 bn is planned to be allocated for the repayment of domestic public debt, which will even exceed the expected volume of domestic borrowings. However, the intentions during the approval of the 2025 budget were similar. Nevertheless, the further growth of financial needs increased the volume of domestic borrowing by 32%.

Figure 3. Deficit of the State Budget and its share in GDP, bn USD



Source: State Budget for 2025, Draft State Budget for 2026, Open Budget portal

Figure 4. Volume of Domestic and External Borrowings, bn USD



Source: State Budget for 2025, Draft State Budget for 2026, Open Budget portal

(4) The accumulation of public debt in recent years has deepened the burden and increased the total costs of its servicing. The mobilization of new borrowings will lead to an accumulation of state and state-guaranteed debt, the total size of which will reach 106% of GDP ($239.1 bn) by the end of 2026. Debt servicing expenditures in 2026 are projected to increase by 9.2% to $11.2 bn from $10.3 bn in 2025. Debt servicing expenses will include $7.1 bn for domestic debt and $4.2 bn for external debt. The share of these expenses in total expenditures will slightly increase — from 10.6% in 2025 to 10.8% in 2026. The share of external debt in the total public debt continues to gradually rise, making it more sensitive to currency fluctuations. Overall, the cost of new borrowings in 2026 is expected to remain relatively low, with the average cost of external debt projected at around 5% per annum. The share of domestic public debt will constitute 19.9% of the total public debt volume.

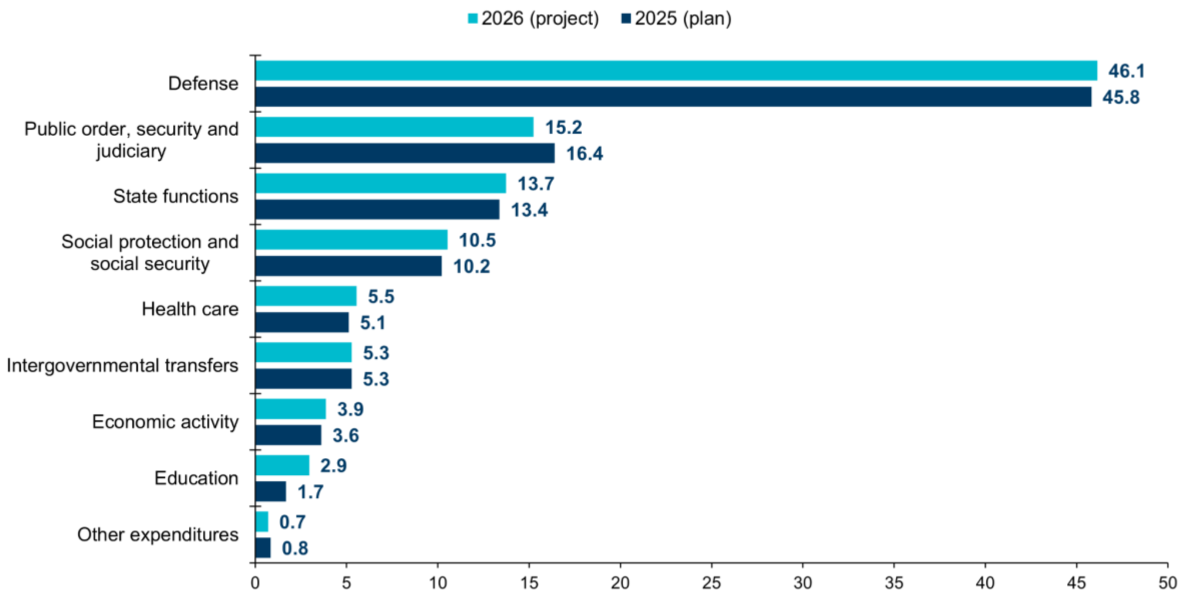
(5) The government continues to adhere to a policy of gradual reduction in the volume of state guarantees. For 2026, the maximum volume of state guarantees provided based on government decisions is set at 2.5% of the planned revenues of the general fund of the state budget ($1.4 bn). For comparison, in 2025 this indicator was approved at 3% of planned revenues. This reduction aims to lower fiscal risks and support financial stability but may negatively affect the mobilization of funds from international financial organizations, whose programs are often implemented through the guarantee instrument.

Budget expenditures

(1) **In the draft budget for 2026, expenditures are planned at nearly $104 bn**, which is $1.7 bn (+1.6%) more than the revised plan for 2025. For the fourth year in a row, the priorities remain security and defense, as well as the social sphere (Figure 5). Accordingly, over 66% of expenditures are concentrated in three ministries:

- **Ministry of Defense** – $42.1 bn (-6.7% or -$3 bn compared to the revised 2025 plan);
- **Ministry of Internal Affairs** – $11.4 bn (-7.3% or -$0.9 bn compared to the revised 2025 plan), including: National Guard – $4.1 bn, National Police – $2.6 bn, Border Guard Service – $3.1 bn;
- **Ministry of Social Policy, Family and Unity** – $10.2 bn (+2.6% or +$0.3 bn compared to the revised 2025 plan).

Figure 5. Budget Expenditures by Functional Classification (general and special funds), $bn



Source: State Budget for 2025, Draft State Budget for 2026

(2) **The key priority for 2026 remains financing defense and security expenditures,** but no additional funding is envisaged for this sector. In the draft budget for 2026, **total security and defense expenditures are set at $61.4 bn** (27.2% of GDP and 59% of total expenditures). Of this amount, $66 mln will be covered through state guarantees, while the rest comes from defense agencies' budget programs.

Funding for the Ministry of Defense is planned at $42.1 bn, which is $3 bn or 6.7% less than in the revised 2025 budget, mainly due to changes in exchange rates. Traditionally, almost 95% of these funds are allocated to two budget programs**:**

- **$25 bn** ($1.6 bn less than the revised 2025 plan) – salaries, medical services, and support for families of Armed Forces personnel;
- **$14.8 bn** ($1.3 bn less than the revised 2025 plan) – procurement and maintenance of weapons and military equipment.

In addition, two key programs of the Ministry of Strategic Industries, which is being dissolved, were transferred to the Ministry of Defense:

- $1 bn – development of the defense-industrial complex;
- $11 mln – financial support for enterprises in the defense-industrial sector.

The main change in the draft 2026 budget concerning defense and security is the allocation of $4.4 bn as a reserve in case of a critical situation in the sector. These funds will be managed by the Ministry of Finance and are not counted as part of sector financing; their purpose is to serve as a “safety cushion.” The Cabinet of Ministers will decide on their use if urgently needed, ensuring speed and flexibility in covering sector expenditures without having to amend the state budget. However, this also creates risks of misuse of funds.

Considering new programs and possible increases in expenditures at the end of the current year, the total volume of defense financing under functional classification will actually decrease in 2026. Still, considering the $4.4 bn reserve, the balance is maintained (provided the reserve is spent specifically on defense needs).

It is expected that **$27.7 bn from the general fund will be directed toward monetary allowances and salaries of Defense Forces personnel (including benefits)**. This corresponds to the 2025 level but does not account for a potential increase in expenditures under this item at the end of the year, which may indicate that neither an increase in servicemen’s pay nor an expansion of Defense Forces personnel is planned.

(3) **In the draft budget for 2026, significant changes are planned in the main budget administrators**. The key change is the merger of the Ministry of Economy, the Ministry of Environment, and the Ministry of Agrarian Policy into a single administrator – the “Ministry of Economy, Environment, and Agriculture of Ukraine.” Its funding for 2026 is projected at $1.1 bn, which is $48 mln (+4.7%) more than the combined revised 2025 budget of the three ministries. The main funding areas are defined as: Entrepreneurship Development Fund – $394 mln, Support for agricultural producers – $208 mln and Financing of the U.S.-Ukraine Reconstruction Investment Fund – $42 mln.

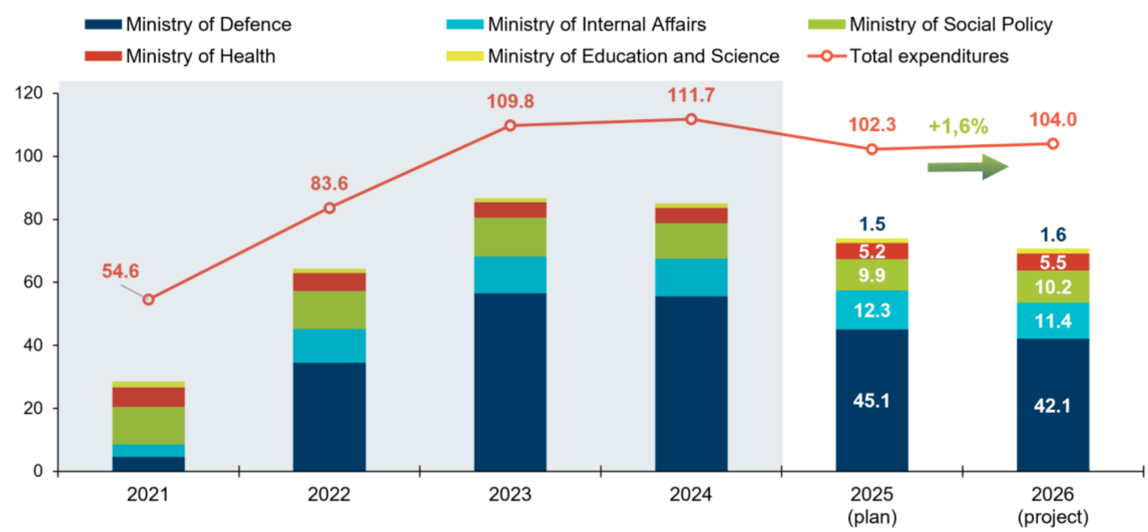
In addition, programs from the dissolved Ministry of Unity were redistributed: to the Ministry of Social Policy – support for Ukrainians abroad ($3.3 mln); and to the Ministry of Development – the program for the protection of persons deprived of liberty as a result of armed aggression against Ukraine ($27 mln), as well as the program for safeguarding the rights and freedoms of Ukrainian citizens residing in the temporarily occupied territories of Ukraine ($1.1 mln).

Overall, funding in USD terms increased for 11 out of 15 ministries, while in UAH terms, funding growth was foreseen for 13 ministries. The reason lies in significant exchange rate changes, which in some cases made the increase in funding nearly invisible, and in others even turned it into a decline. Among non-defense and non-security administrators, the largest increases in funding are planned for:

- **Ministry of Social Policy, Family and Unity** – **+$261 mln (+2.6%)**, mainly due to higher financing of pensions, supplements, and social protection for families with children.
- **Ministry of Health** – **+$299 mln (+5.8%)** because of increasing funding for healthcare guarantee programs by $0.4 bn and introducing a national medical check-up program ($0.2 bn).
- **Ministry for Development of Communities and Territories** – **+$315 mln (+75.4%)** due to higher financing of public investment projects and infrastructure recovery programs.
- **Ministry of Education and Science** – **+$92 mln (+6.1%)** thanks to higher funding for training by higher education institutions and support for priority research areas.
- **Ministry of Culture and Information Policy** – **+$83 mln (+31.7%)**, primarily due to the creation of a new program for strategic communications worth $0.09 bn.
- **Ministry of Energy** – **+$82 mln (+51%)** following the transfer of the Exclusion Zone Management Agency under its jurisdiction and increased financing for energy security recovery and development.
- **Ministry of Justice** – **+$40 mln (+8.4%)** due to higher financing of the program for enforcement of sentences by institutions and bodies of the State Criminal-Executive Service of Ukraine ($0.07 bn equivalent).
- **Ministry for Veterans Affairs** – **+53 mln (+42%)** owing to increased funding of the National Memorial Cemetery program and programs for veteran support and assistance.

Among non-defense ministries that saw funding cuts are the Ministry of Finance – down by $60 mln (-7.8%), mainly due to reduced administrative funding for the State Tax Service and Ministry of Foreign Affairs – down by $7 mln (-3.5%).

Figure 6. Expenditures of the largest ministries (general and special funds), $bn



Source: State Budget for 2025, Draft State Budget for 2026, Open Budget portal

(4) **General state expenditures and ministerial lending** (i.e., expenditures on the performance of nationwide functions rather than on policy implementation within specific ministries, which follow a separate functional budget classification) **are projected to grow significantly.** The largest increases are observed in:

- **Ministry of Finance** (+$5.8 bn), mainly due to the creation of a reserve fund for the defense and security sectors ($4.4 bn), higher debt servicing costs (+$942 mln).
- **Ministry of Education and Science** (+$1.1 bn), primarily owing to the introduction of a new program to enhance the prestige of work in the education sector ($1.2 bn). This program envisions a two-stage average increase in teachers' salaries: by 30% starting January 1, 2026, and by another 20% starting September 1, as well as an increase of nearly $0.2 bn in the school meals subsidy.
- **Ministry of Development** (+$0.2 bn), mainly due to a new program compensating for price differences in the production, transportation, and supply of heat energy, district heating services, and hot water supply – $333 mln.

(5) **In the draft 2026 budget, 38 budget programs included in the 2025 budget, with a total value of $1.6 bn, are canceled or restructured into new ones.** The largest programs not to be continued in 2026 are:

- The public investment project "Construction of trunk water pipelines in Mykolaiv region in connection with insufficient mitigation of negative consequences related to the destruction of the Kakhovka Hydroelectric Power Plant," initially planned at $189 mln, 66% funded as of July.
- Modernization of the social support system for the population of Ukraine ($27 mln), only 2% funded as of July.
- A subvention from the state budget to local budgets for the public investment project to modernize and upgrade the material and technical base of military (naval, military-sports) lyceums and educational institutions with advanced military-physical training ($35 mln).

It is worth noting changes in the program "Implementation of the state's housing policy by the Private Joint-Stock Company 'Ukrainian Financial Housing Company' (Ukrfinzhytlo) through providing housing for citizens of Ukraine", which funded the housing support program "eOselya." In 2025, this program was under the Ministry of Economy with funding of $30 mln, but starting from 2026 it no longer exists. It will likely be restructured or merged with another, yet unspecified, program. At the same time, the Ministry of Finance was authorized, subject to Ukrfinzhytlo fulfilling its strategic tasks, to issue additional domestic government bonds worth up to $328 mln to recapitalize it.

(6) **The government continues work on public investment projects** (reforming the public investment management system). **According to the approved consolidated list of the unified state public investment**

portfolio, the 2026 draft budget includes $2.4 bn** ($660 mln from the general fund, $1.2 bn from the special fund, and $483 mln in state guarantees). This is significantly lower than the 2025 plan ($4.6 bn). These funds will be allocated among 66 investment projects spanning 11 sectors. Financing sources will include loans and grants from international financial institutions, direct budget financing, and state-guaranteed loans. At the same time, the 2026 draft budget maintains 10 capital expenditure programs totaling $175 mln that formally fall outside the public investment project mechanism and are financed within the state budget and other support programs. Examples include “Construction, modernization and equipment of healthcare facilities” ($29 mln) and “Restoration and development of energy infrastructure” ($82 mln).

(7) **The government also plans to continue supporting businesses under martial law**. The 2026 draft budget allocates almost $30 mln (the same as in 2025) for a grant program to create and expand businesses. Funding for the *“Affordable Loans 5-7-9%”* program remains at the 2024–2025 level of $394 mln. Additional support for agricultural producers is envisaged, with $208 mln allocated (+$182 mln). Support for farming households will be funded at $54 mln. Compensation for agricultural sector expenses related to humanitarian demining of farmland remains at the 2025 level of $22 mln.

Human Capital

(1) **Expenditures of the Ministry of Veterans Affairs have increased by billion (+40.6%) compared to 2025 – reaching $0.39 bn.** More than half of this amount ($212 mln or 54%) is allocated as subventions to local budgets and covers: the provision of housing for war veterans with disabilities of groups I and II, as well as their families ($124 mln); the work of veteran support specialists ($64 mln); the implementation of a public investment project for the development of veteran spaces ($24 mln). Nearly half of the entire budget of the Ministry’s apparatus programs (44%) is planned to be directed to the creation and operation of the National Military Memorial Cemetery ($79 mln). This corresponds to the amount of funding allocated for measures to support war veterans, their families, and the families of fallen soldiers ($80 mln). These measures include psychological assistance, professional adaptation, primary medical care, and monetary aid.

(2) **Funding for the protection of servicemen’s rights is expected to grow, but it still remains insufficient to cover the planned needs.** This year, the Law on the Military Ombudsman, initiated by the President, was adopted. For 2026, the budget provides for a 38.1% increase in planned expenditures for its activities compared to 2025 – from $0.9 mln to $1.2 mln. However, this amount is significantly lower than the needs outlined in the financial and economic note of the draft law: $3.23 mln in 2026, $4.07 mln in 2027, and $4.34 mln in 2028. In addition, the adoption of the law this year already requires an increase in the 2025 budget by $0.9 mln.

(3) **Healthcare expenditures will increase mainly through the financing of the Medical Guarantees Program (+$54 mln).** Funding of the largest budget program, “Implementation of the Program of State Guarantees for Medical Care of the Population,” grew from $4.14 bn to $4.19 bn. These funds provide medical services in psychological and psychiatric care, surgical operations, treatment of tuberculosis, infertility, and others. Funding for the budget program “Restoration and Development of a Sustainable National Healthcare Model in Ukraine” has nearly doubled – from $81 mln to $154 mln. These funds will be used for purchasing medical equipment and reconstructing healthcare infrastructure. A separate program provides for measures to secure housing for healthcare workers to fill vacancies in rural areas. For $2.19 mln, it is planned to purchase 100 housing units for medical staff to use, which should encourage young doctors to take up employment in rural areas.

(4) **Nutrition, teachers’ salary increases, and scientific research have been identified as priority areas for increased expenditures in education and science**. In 2026, a separate budget program is foreseen for raising teachers’ salaries ($1.2 bn). The increase will take place in two stages and will ensure a 50% salary growth compared to 2025. For the school nutrition reform in 2026, a subvention of $315 mln is allocated. The reform will cover 4.4 mln students (from January 1, 2026 – all students in grades 1–4 and grades 5–11 in frontline areas, and from September 2026 – students in grades 5–11 in other territories). In addition to school nutrition funding, which will triple compared to 2025, expenditures on the program “Support of Priority Areas of Scientific Research and Scientific-Technical (Experimental) Developments, Scientific and Scientific-Technical Activities of Higher Education Institutions and Research Institutions” will nearly quadruple – from $39 mln to $138 mln.

(5) **In 2026, expenditures of the Ministry of Social Policy awill increase by $260.7 mln (+2.6%) compared to 2025 and will amount to $10.2 bn.** The largest share will be pension payments, which will decrease by $88.7 mln (-1.6%) to $5.5 bn. Financing for social protection of children and families will more than double, reaching

$1.2 bn. The increase in expenditures is explained by the Government's initiative to raise the one-time child birth grant from $226 to $1,094, as well as the launch of the "eYasla" (early childhood care program) and "Pakunok Shkolyara" (school starter kit) programs.

The program "Social Protection of Citizens in Difficult Life Circumstances" will be optimized by incorporating the program "Support for Low-Income Families," with total program financing amounting to $2.2 bn. The merger of the two programs is driven not only by the fact that they are both administered by the Pension Fund, but also by the need to avoid duplication of expenditures and parallel support mechanisms, to simplify budget planning and control, to reduce administrative costs, and at the same time to ensure more coherent and targeted assistance to different categories of citizens.

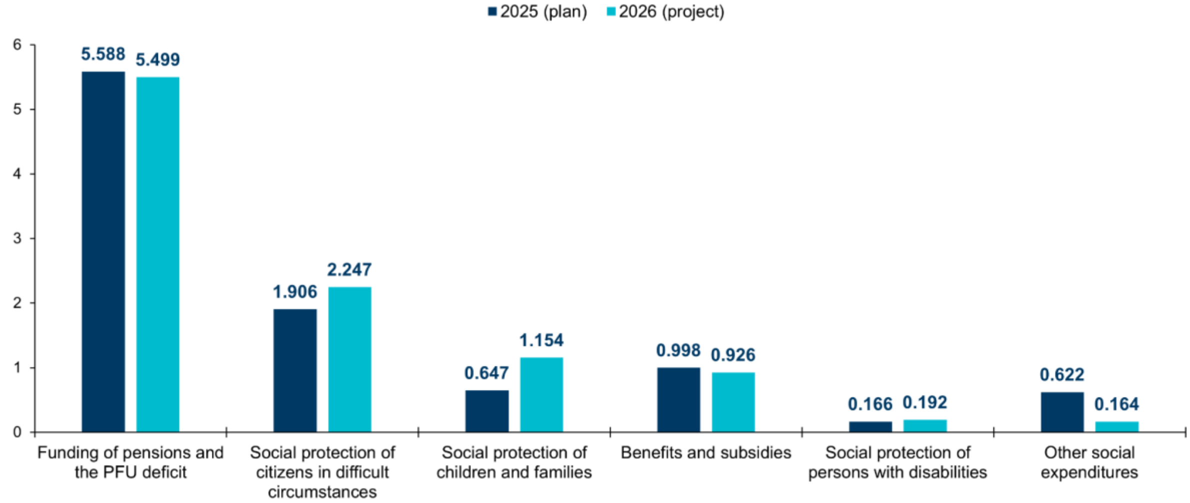
Expenditures for the payment of subsidies and privileges for housing and utility services will decrease by $72.1 mln (-7.2%) and amount to $926.1 mln. This reduction in expenditures is explained by the exchange rate difference, while in the hryvnia equivalent the expenditures for housing and utility subsidies and privileges will remain unchanged in 2026 compared to 2025.

Expenditures on social protection of persons with disabilities in the amount of **$192.3 mln (+16%) will be directed to the provision of modern prosthetics and rehabilitation services**. **For the development of the social services system, $46 mln (+23.3%)** is planned according to the list to be approved by the Government (for IDPs and persons in difficult life circumstances, including temporary accommodation, residential care and supported living, a comprehensive resilience-building service, support for servicemen and their families, as well as the development and care of children with disabilities).

The Government is establishing the State Fund for the Social Protection of Persons with Disabilities to finance employment and labor market programs for persons with disabilities ($23.9 mln) within the framework of the special fund of the state budget. The Fund will be financed through fines and penalties imposed on employers, as well as residual resources of the existing Fund for the Social Protection of Persons with Disabilities. At the same time, the Fund for the Social Protection of Persons with Disabilities will not be liquidated: it will continue to be financed from the general fund of the state budget, in particular for prosthetics, additional rehabilitation means, and institutional maintenance.

In addition, the budget allocates **$1.1 mln for the establishment of a funded pension system** (the creation of the institutional, technical, and legal framework). This is the first step toward introducing a mandatory second-pillar funded pension system, which will allow part of future pensions to be formed through individuals' own savings and make the pension system more sustainable in the long term.

Figure 7. Expenditures on budget programs of the Ministry of Social Policy, Family and Unity of Ukraine, $bn



Source: State Budget for 2025, Draft State Budget for 2026

(6) **The legislated subsistence minimum (SM) will increase by only 2% relative to 2025 for all socio-demographic groups, while the minimum wage (MW), starting from January 1, 2026, will in fact decrease by 0.3% in USD terms** (although it will grow by 8% in UAH). Since a share of social benefits and pensions are tied to the SM, its increase will automatically raise the level of state support. However, this growth remains below the inflation rate and will therefore be insufficient. Thus, the minimum pension will amount to $57 (1 SM), and the maximum pension will be $570 (10 SM). At the same time, for persons aged 65 and over with a full employment record, the minimum pension will amount to $76 (40% of the MW), but not lower than the legislated subsistence minimum. Meanwhile, the actual subsistence minimum calculated by the Ministry of Social Policy is already nearly four times higher than the legislated SM, meaning that even after the increase these indicators will remain well below the real needs of households. This will preserve high poverty risks and constrain opportunities for improving quality of life. At the same time, the growth of the MW in USD terms will contribute to higher revenues from the Social Security Contribution (SSC), which finance pensions, social insurance payments, and unemployment support programs.

Table 2. Legislated subsistence minimum and minimum wage, USD

Subsistence minimum	2025	2026
Per person	**69**	**70**
for children under 6 y.o.	60	62
for children aged 6-18 y.o.	75	77
for persons of working ability	71	73
for persons unable to work	56	57
Minimum wage	**189.7**	**189.2**

Source: State Budget for 2025, Draft State Budget for 2026

(7) **In 2026, the transfer from the state budget for the financing of pensions and related payments takes into account the indexation and the increase of the legislated subsistence minimum.** Its growth will amount to $88.7 mln (+1.6%) – reaching $5.5 bn. No deficit of the Pension Fund is projected; therefore, expenditures to cover it are not included in the transfer. The draft continues the provisions of 2025: pensions for servicemen are partly financed from the solidarity system – within three legislated subsistence minimums for persons unfit for work ($171 in 2026), while special pensions (for civil servants, prosecutors, judges, members of parliament, scientists, persons affected by the Chornobyl disaster, and other categories) are paid with adjustment coefficients applied to the portion of the benefit exceeding 10 legislated subsistence minimums ($570). The maximum base for the SSC in 2026 is set at the level of 20 MW for civilians and 15 MW for the military and law enforcement personnel (this provision has been in effect since August 2025 and is extended in 2026 to reduce the burden on the defense sector).

(8) **In 2026, the practice of transferring the balances of the Unemployment Insurance Fund to the special fund of the state budget will continue.** As of January 1, 2026, the balance will amount to $77.5 mln, generated from Social Security Contribution revenues. These resources will be kept in the accounts of the special state budget fund and allocated by the Government to other state programs, including industrial parks, large investment projects, humanitarian demining, and the national cashback program. Revenues of the Unemployment Insurance Fund (excluding balances) will increase by $75.1 mln (+18.9%) to $471.7 mln. This growth reflects the recovery of revenues due to the increase in the wage fund and from SSC revenues. However, the withdrawal of part of the resources to the special state budget fund limits the Fund's ability to channel additional resources directly into active labor market programs and support for the unemployed.

Gender approach in the 2026 draft budget: achievements and limitations

160 state budget programs contain gender-sensitive indicators that should reflect the link between public spending and the needs of different groups of women and men. This year, almost half (46%) of state budget programs contain a gender analysis, which is carried out by 91% of the main administrators of funds (5% more than in 2024). The reason for this progress is most likely the amendments to the Budget Code introduced in 2025, which made the gender approach not just a recommendation but a legal requirement, creating the conditions for its more systematic application. At the same time, the nature of these changes shows that progress is rather superficial and selective: the majority of gender indicators continue to be limited to the disaggregation by gender of civil servants and employees of institutions responsible for program implementation (over 70% of programs with gender indicators). In some programs, there has been an increase in the number of indicators on business trips in Ukraine and abroad, broken down by gender, which makes it possible to partially assess the professional and career development opportunities of women and men. At the same time, only the State Border Guard Service continues to report differences in expenditure on male and female employees. The disaggregation of different groups of service recipients appears even less systematic. Most often, such indicators are reflected in budget programs in the areas of education, health care, social protection and family support. Thus, despite significant progress in the collection and presentation of gender-disaggregated data, it is not yet apparent that this data has had a real impact on policy-making and the allocation of funds.

Examples of gender-sensitive performance indicators for budget programs:

- Level of satisfaction with the educational process among male and female cadets (budget program ‘Ensuring the fulfilment of tasks, functions and training of personnel by the State Border Guard Service of Ukraine’).
- Conducting an analysis of gender equality in the Ukrainian media and monitoring and analysing gender balance in the context of the Ukrainian media (budget program ‘Guidance and management of control in the media sphere’).
- Percentage of women who completed postgraduate studies and doctoral studies (budget program ‘Scientific and scientific-technical activities in the field of education, pedagogy and psychology’).
- The share of women involved in the implementation of digital transformation measures and IT system support in the field of public finance, out of the total number of employees (budget program ‘Information support for the public finance management system and electronic verification and monitoring’).
- The share of services of the mobile Portal Diia and the Unified State Web Portal of Electronic Services available to men and women (budget program ‘E-governance’).

Intergovernmental relations

(1) **The draft budget for 2026, as in previous years, envisages an increase in the financial resources of local budgets.** According to the Government’s assessment, the total will reach $19.1 bn, which is 11.8% higher compared to the 2025 plan. Of this amount, own-source revenues are projected at $13.8 bn (+16,5%), while intergovernmental transfers are estimated at $5.3 bn (+1.1%), including five grants totaling $1.6 bn and 27 subventions amounting to $3.7 bn. This structure illustrates the strengthening of the local revenue base, combined with a moderate expansion of state support, aimed at maintaining the balance between central government and municipalities under wartime conditions (Table 3).

(2) **In 2026, state taxes credited to the general fund of local budgets are projected at $9.3 bn.** The main source will be PIT, totaling $7.5 bn (+16.5%). Local taxes and fees are expected at $3.7 bn (+23.2%), underscoring the growing role of municipalities’ own revenues. At the same time, given that in the first seven months of the current year local taxes increased by only 8.1% compared to the same period last year, there is a risk that the Government has overestimated the actual volume of local budget revenues.

(3) **In the draft budget for 2026, the Government, as it did in September last year, proposes to reduce the share of PIT credited to local budgets from 64% to 60%.** The 64% rate was introduced as a temporary measure in 2022–2025 to offset rising utility costs caused by the sharp increase in gas prices. In subsequent years, the measure was maintained as a tool to support local self-government. Instead, in 2026 the draft foresees a subvention for compensating tariff differences in heating, heating supply, and hot water in the amount of $333 mln, which corresponds to the 4% of PIT that could have otherwise been credited directly to municipalities' budgets. Importantly, unlike PIT revenues, which local authorities could use at their discretion, the new subvention is earmarked and restricts flexibility in resource allocation.

Table 3. Top 10 State Budget Transfers to Local Budgets in 2026

Transfers	bn USD	Compared to 2025 plan (in UAH), %	Compared to 2025 plan (in USD), %
Educational Subvention	2.3	=	-7.2
Additional dotation for LSGs affected by the war	0.789	-1,3%	-8.4
Basic grant (dotation)	0.729	+30,5%	+21.1
Subvention to compensate the difference in tariffs for heating, hot water, and heating supply	0.333	New	
Subvention for school meals	0.315	threefold increase	+184.4
Subvention for monetary compensation for housing for veterans and persons with disabilities	0.124	+42,7%	+32.4
Subvention for creating safe conditions in schools (shelters, military lyceums, PIP)	0.109	-19,4%	-25.2
Subvention for the implementation of public investment projects in healthcare	0.077	twofold increase	+94.7
Subvention for ensuring quality secondary education "New Ukrainian School" (PIP)	0.066	+50,0%	+39.2
Grant for the maintenance of educational and healthcare institutions	0.065	=	-7.2

Source: State Budget for 2025, Draft State Budget for 2026

(4) **Another budget development is the decision to withdraw the balances of local budgets from territories that have been under temporary occupation since February 24, 2022, and centralize them in the special fund of the state budget.** These funds will no longer remain at the disposal of municipalities but will be automatically transferred by the Treasury to the state level. The Government will then use them exclusively to provide housing for internally displaced persons, effectively turning "dormant" balances into a resource for addressing one of the country's most pressing social challenges.

(5) **The Government has once again modified the mechanism of horizontal equalization of municipalities' tax capacity.** The key innovation in 2026 is the use of data from the State Migration Service on population figures. Previously, the process relied on State Statistics Service estimates, which were calculated and less reflective of the actual demographic situation. While last year the population figure was set at 32.2 mln people, this year it has been reduced to 28.6 mln (with the city of Kyiv, as before, excluded from equalization calculations).

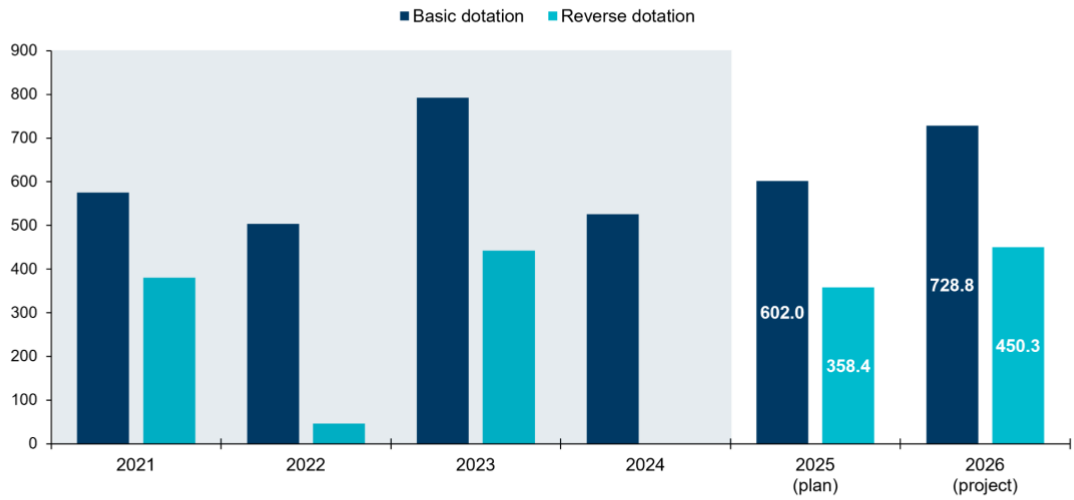
(6) **As a result, the average PIT revenue per capita used for equalization calculations rose significantly – to $132.4 compared to $95.6 last year.** This shift affected the outcomes of horizontal equalization: in 2026, 1,040 budgets will receive a basic grant (compared to 1,027 last year), including 18 regional budgets and the rest belonging to municipalities where the tax capacity index is below 0.9, i.e., PIT revenues per capita are less than $119.1 (in 2025 – $86.0). Meanwhile, 185 local budgets (compared to 194 last year) will transfer a reverse grant to the state budget, including four regional budgets – Dnipropetrovsk, Kyiv, Lviv, and Poltava (in 2025, Odesa was also in this group but has now become grant-independent). These are budgets where the tax capacity index exceeds 1.1, meaning PIT revenues per capita are above $145.6 (in 2025 – $105.1).

(7) **The draft budget for 2026 excludes several subventions that were provided in 2025, with a total value of about $346.1 mln**, namely:

- Subvention for additional payments to schoolteachers – $283.0 mln.
- Subvention for modernization and upgrading of military and military-sports lyceums – $35.4 mln.
- Subvention for the Kharkiv municipality for emergency recovery works in public utilities – $23.6 mln.
- Subvention for the restoration of critical infrastructure (in cooperation with the World Bank, project Urban Infrastructure Development – 2) – $3.0 mln.
- Subvention for the social project Active Parks – Healthy Ukraine Locations – $1.1 mln.

At the same time, in 2026 there are practically no new types of intergovernmental transfers: the only exception is the subvention for compensating differences in utility prices amounting to $333.1 mln, which is intended to offset part of the municipalities' losses from the reduction of the PIT share. However, based on previous experience, additional subventions may be introduced during the year through amendments to the budget.

Figure 8. Horizontal Fiscal Equalization of Territorial Fiscal Capacity, mln USD



Source: State Budget for 2025, Draft State Budget for 2026, Open Budget portal

(8) **The education subvention in the draft budget for 2026 remains the largest among intergovernmental transfers, amounting to $2.26 bn, which corresponds to the levels of 2024–2025.** Its distribution across municipalities has not yet been published, as in recent years it has traditionally appeared at the end of the year. At the same time, the budget provides for an increase in teachers' remuneration, which is not formally reflected in the volume of the education subvention: for this purpose, a separate budget program "Enhancing the Prestige of Work in Education" has been created in the amount of $1.18 bn. It is evident that these funds will be directed to local budgets as a resource for increasing teachers' salaries.

(9) **The additional grant for municipalities affected by the war will amount to $788.9 mln in 2026, roughly in line with the 2025 UAH level but actually showing a -8.4% decrease in USD terms.** It will be directed to covering priority expenditures of local budgets, primarily salaries for public sector employees, as well as supporting municipalities from frontline or temporarily occupied territories, or those that have experienced a sharp decline in tax revenues.

(10) **In 2026, the overall state budget resource for municipalities' investment projects remains negligible.** The State Regional Development Fund will only amount to $44 mln. This is twice as much as the plan for the current year, yet the Budget Declaration adopted last year envisaged annual allocations of $656 mln starting from 2026. This reflects a significant gap between declared intentions and actual funding.