Center of Public Finance and Governance
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Executive Summary

Ukraine's public finances showed measured resilience over 9M 2025, despite rising security needs and a less favorable external financing environment. Strong tax inflows and higher non-tax revenues helped cushion the impact of accelerated defense spending, while continued – though declining – donor support allowed the government to maintain fiscal stability during another year of wartime pressures. However, growing dependence on concessional borrowing, faster accumulation of public debt, and intensifying risks linked to security dynamics and energy-system vulnerabilities highlight the need for stable external financing and sustained macroeconomic discipline.

Revenue growth during 9M 2025 was driven primarily by strong tax performance and higher non-tax inflows. Total tax revenues increased by 18.1% y-o-y to $35.7 bn, supported by legislative changes at the end of 2024 that raised the military levy rate and extended its scope to micro and small businesses under the simplified taxation system, as well as by higher excise rates. Stronger-than-expected wage and inflation growth further boosted collections and became the main drivers of overall revenue performance.

Non-tax revenues continued to expand, increasing by 23% y-o-y to $20.9 bn, mainly due to sustained military assistance. Grant inflows reached $7.6 bn, once again confirming the critical role of external support in maintaining Ukraine's fiscal stability and defense capacity during wartime.

Defense and security spending continued to exceed plans, creating a persistent funding gap despite two mid-year budget amendments. Actual expenditures outpaced allocations by an estimated $20 bn for core programs, including military salaries and equipment procurement. The government partially addressed the shortfall in July with an additional $9.6 bn and $7.6 bn in October, yet high spending by key agencies kept pressure on the budget[1].

Non-military sectors showed mixed dynamics, with moderate increases in government functions and essential services but a decline in social protection. General government functions grew by 9.6% (up $0.6 bn), driven mainly by higher debt servicing. Economic activity and healthcare each posted modest y-o-y growth of 2.9%, reaching $2.5 bn and $3.6 bn, respectively.

Social expenditures fell by 14.4% in 9M 2025 as recent reforms narrowed eligibility for key programs and shifted pension-related obligations to the contributory system. Total spending declined to $6.3 bn, with the sharpest reduction in transfers to the Pension Fund, which dropped by 16.8% (from $5.1 bn to $4.3 bn) after the January 2025 reform reassigned several pension obligations from the state budget to the solidarity pension system. Support for vulnerable groups, including internally displaced persons (IDPs), decreased by 16% to $1.2 bn due to stricter eligibility rules, while assistance for low-income families fell by 12.2% to $250 mn following the introduction of tighter financial and property-based criteria.

Ukraine's fiscal deficit in 9M 2025 was financed through a mix of external concessional borrowing and limited domestic resources, with increased pressure on the budget from shrinking international assistance. The deficit reached $22.1 bn including $7.6 bn in grants (up 9.6% y-o-y), and $29.8 bn excluding grants (up 10% y-o-y), as defense-driven spending growth outpaced revenues. Domestic financing remained constrained: gross domestic bond issuance totaled $9.2 bn (3.3% lower y-o-y), yet net domestic financing amounted to only $0.4 bn because most borrowings were directed toward refinancing existing debt. External financing therefore continued to play the central role, although its volume decreased sharply. Gross external loans fell to $24.9 bn (down 27.2% from 9M 2024), with $11.8 bn provided via the ERA Initiative

[1] *"Budget" refers to the central (state) level budget*

(including $7.4 bn from the EU, $3.4 bn from Canada, and $1 bn from the UK), $3.4 bn from the EU under the Ukraine Facility, and $400 mn from the IMF under the EFF.

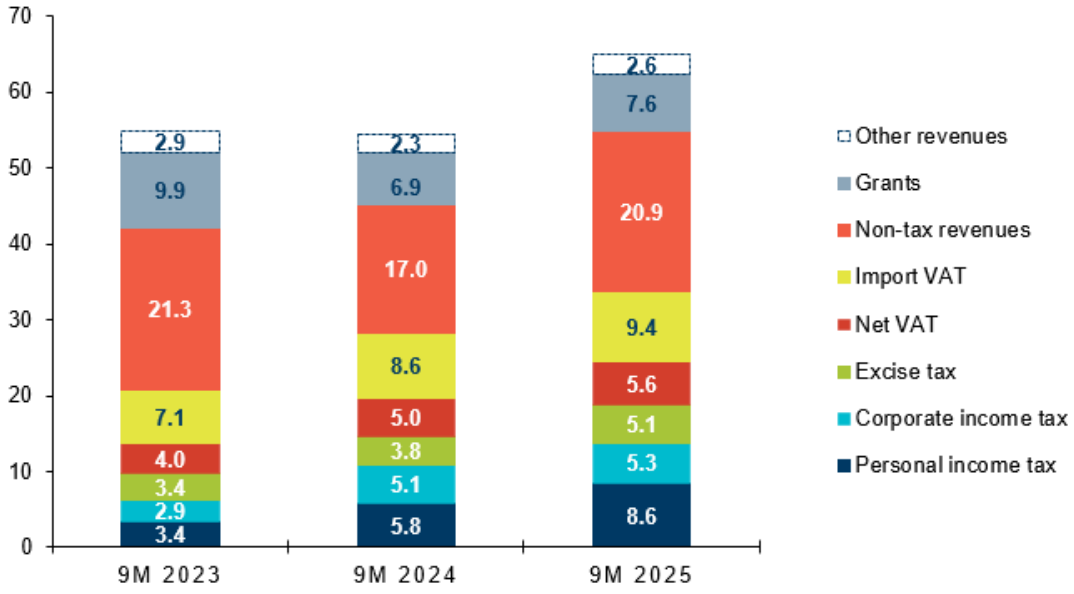
Ukraine's state debt increased by 24.7% in 9M 2025, driven primarily by a sharp rise in external borrowing amid elevated fiscal pressures. Total state and state-guaranteed debt reached $194.2 bn by end-September, with external debt growing by 32.7% to $141.6 bn and accounting for 72.9% of the total. Domestic debt rose more moderately, up 8.3% to $45.5 bn, as most domestic borrowing was used to refinance existing obligations rather than finance new expenditures.

Ukraine's fiscal outlook remains exposed to three interlinked risks: escalating security pressures that may require higher defense spending, continued threats to the energy system that could weaken economic activity and tax revenues, and potential delays in external financing tied to unmet policy commitments. Intensification of hostilities could significantly expand defense needs, while persistent attacks on energy infrastructure risk increasing import requirements, raising budgetary costs, and dampening revenue performance. At the same time, postponed disbursements from international partners – already observed in 2025 – could strain liquidity and limit the government's capacity to finance priority programs.

Budget Revenues

Taxes remained the backbone of Ukraine's budget, accounting for 54.8% of total revenues in 9M 2025, and since the onset of Russia's full-scale invasion they have been the primary source of financing for defense and security. Despite wartime risks, infrastructure destruction, and ongoing disruptions in the energy sector, Ukrainian taxpayers continued fulfilling their obligations. Tax revenues increased by 18.2% y-o-y, from $30.2 bn to $35.8 bn, underscoring the persistence of fiscal discipline.

Figure 1. Structure of budget revenues in 2023-2025, $bn



Source: Ministry of Finance of Ukraine, Openbudget

VAT remained the single largest revenue source, generating $15.0 bn in 9M 2025, up by 10.0% y-o-y, and accounting for 22.9% of total budget revenues. This stable performance reflects both post-pandemic consumption recovery and gradual adaptation of the domestic economy to wartime conditions.

Personal income tax (PIT) and the military levy demonstrated the strongest dynamics among all major tax categories, together providing 13.1% of total revenues. Collections increased by 47.2% y-o-y – from $5.8 bn in 9M 2024 to $8.6 bn in 9M 2025 – largely due to the higher military levy rate (raised from 1.5% to 5%) and its extension to entrepreneurs under the simplified tax regime. Additionally, the tax base expanded: the average monthly wage rose from $536 in September 2024 to $613 in September 2025, amplifying PIT and levy proceeds.

Excise tax revenues increased sharply as Ukraine continued aligning tax rates on tobacco and fuel products with EU standards. Collections grew by 33.2% y-o-y, from $3.8 bn in 9M 2024 to $5.1 bn in 9M 2025, demonstrating the effectiveness of gradual harmonization and improved compliance.

Rental payments, by contrast, continued to decline due to persistent security challenges that constrain production and logistics in extraction regions. Budget receipts from rent fell by 17.2% y-o-y, from $0.9 bn to $0.8 bn, a trend likely to persist until the war's end.

Non-tax revenues excluding grants increased by 23.1% y-o-y, from $17.0 bn to $20.9 bn, accounting for 32.1% of total budget income. As in previous years, the main source was military assistance amounting to $14.2 bn (67.6% of all non-tax revenues). In 2025, Ukraine also received nearly $2 bn (£1.5 bn) financial aid for military purposes from the United Kingdom under the ERA program – funds backed by expected future proceeds from frozen Russian assets.

Grants remained a cornerstone of fiscal stability, totaling $7.6 bn in 9M 2025 (+11.2% y-o-y), of which $7.1 bn came via the World Bank's *PEACE in Ukraine* program and $0.5 bn through the *Ukraine Facility*. Grants accounted for 11.7% of total revenues, reinforcing their critical importance in financing humanitarian and social expenditures without increasing the debt burden. Nearly four years into the full-scale war, they continue to serve as an indispensable stabilizing instrument of Ukraine's fiscal architecture.

Budget Expenditures

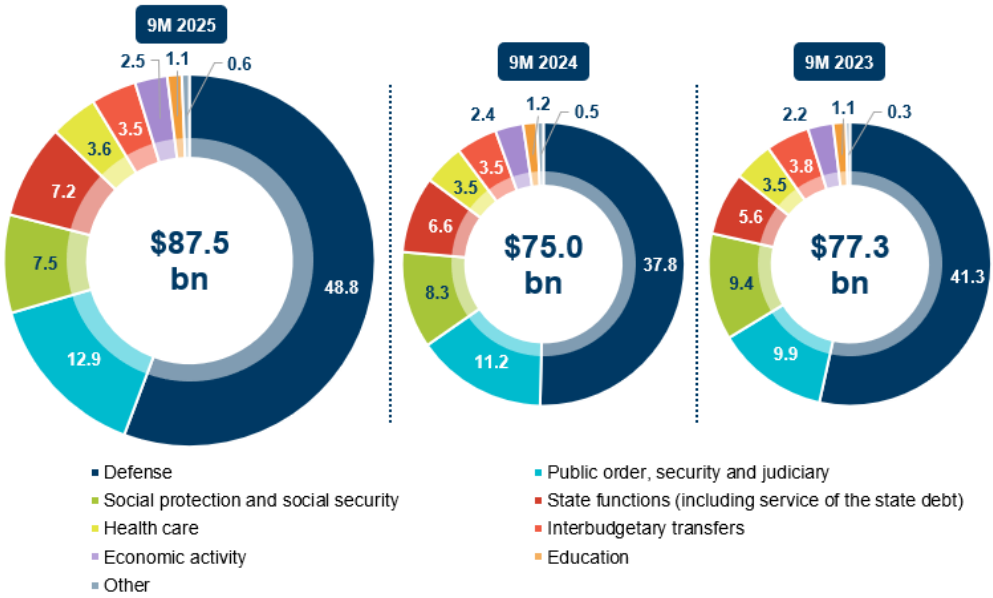
In 9M 2025, defense and security expenditures continued to dominate the budget, accounting for 70.5% ($61.7 bn) of total spending, while socio-economic expenditures received 29.5%. Total budget expenditures increased by 16.7% y-o-y, reaching $87.5 bn. The main drivers of this growth remained the defense and security sectors, whose financing rose by 29.1% and 15.2%, respectively.

The Ministry of Defense received $47.5 bn, or 54.3% of total spending – an increase of 30.9% compared to 9M 2024. The key factor behind this increase was the higher funding levels for the activities of the Armed Forces of Ukraine, which grew by 25.4% (to $25.8 bn), and development, procurement, modernization and repair of weapons, which expanded by 34.3% (to $20.6 bn) y-o-y. As a result, the average monthly level of funding rose from $4 bn to $5.3 bn in 9M 2025.

Funding for the defense and security sectors remained relatively stable throughout this period, while the overall increase in spending across these areas led to actual expenditures significantly exceeding planned levels, creating a potential underfunding risk of around $20 bn for key programs (such as military salaries and equipment procurement) by the end of the year. This issue was partially addressed in July, when the government amended the budget to allocate an additional $9.6 bn for defense and security to cover the existing shortfall at that time. However, by October the funding gap persisted, as spending by key agencies remained high. Consequently, another budget amendment was approved in October, providing up to $7.6 bn for core defense and security programs. The source of this additional funding was external borrowing, specifically EUR 6 bn under the ERA mechanism.

In non-military sectors, a notable increase was observed in general government functions (including debt servicing), which rose by 9.6%, or $0.6 bn, mainly due to higher debt servicing costs. The economic activity and healthcare sectors also recorded modest y-o-y growth of 2.9% each, with funding levels of $2.5 bn and $3.6 bn, respectively. Meanwhile, social protection spending declined by 10%, dropping from $8.3 bn to $7.5 bn, although a significant share of these expenditures continues to go toward pensions and social benefits.

Figure 2. Structure of budget expenditures in 2023-2025, $bn[2]



Source: Ministry of Finance of Ukraine, Openbudget

Reductions in social expenditures across key sectors reflect the impact of recent legislative reforms and the reallocation of pension-related responsibilities. During 9M 2025, total social expenditures amounted to $6.3 bn, marking a 14.4% y-o-y decline. The main expenditures included pension payments, social protection for people in difficult life circumstances (incl. IDPs), support for low-income families, and programs for children, families, and persons with disabilities. The most significant reduction occurred in transfers to the Pension Fund, which fell by 16.8% – from $5.1 bn in 9M 2024 to $4.3 bn in 9M 2025 – following a reform introduced in January 2025. Under the new policy, certain pension obligations previously financed directly from the budget were reassigned to the solidary pension system funded by social security contributions. Expenditures on vulnerable groups, including IDPs, decreased by 16% to $1.2 bn, mainly due to amendments that narrowed eligibility criteria and reduced the number of beneficiaries. A similar reduction occurred in support for low-income families, where spending declined by 12.2% to $250 mn, reflecting the introduction of stricter financial and property-based eligibility rules.

Since July 1, 2025, the Pension Fund of Ukraine has taken over the administration and payment of 39 types of social assistance and social scholarships from local social protection offices. In 2025, the Fund's budget expenditures increased by 14.5% compared to 2024, reaching $24.5 bn, of which 84.3% goes to pensions, 4.2% to social insurance, and 11.5% to social assistance. Among the programs transferred to the Fund are the IDP subsistence allowance, benefits for persons and children with disabilities, support for low-income families, families with children, elderly persons without pension rights, social scholarships, as well as payments to Chornobyl victims and discharged conscripts. The reform aims to centralize social payment management and improve transparency and efficiency in budget spending.

[2] *The state functions sector includes the state's debt servicing*

Table 1. Actual expenditures on social payments in 9M 2023-2025, $bn

Indicator	9M 2023	9M 2024	9M 2025	Change (%, 2025 vs 2024)
Pension Fund funding for pension payments & covering deficit	5.6	5.1	4.3	(16.8)
Support for vulnerable citizens	2.1	1.4	1.2	(16.0)
Support for low-income families (incl. housing and utility subsidies)	0.94	0.28	0.25	(12.2)
Support for children & families	0.50	0.44	0.40	(8.3)
Support for persons with disabilities	0.05	0.08	0.10	27.3

Source: Ministry of Finance of Ukraine, KSE Institute

Budget Financing

In January–September 2025, a sharp rise in defense expenditures significantly accelerated Ukraine's budget spending, outpacing revenue growth and leading to a wider fiscal deficit. However, the proactive approach of securing substantial international grant support has played a key role in keeping the budget situation under control. The overall deficit, including $7.6 bn in grants, amounted to $22.1 bn, which is 9.6% higher compared to the deficit incl. grants y-o-y. Excluding grants, the deficit reached $29.8 bn, reflecting an 10% increase y-o-y (compared to the deficit excl. grants).

Budget deficit financing in Ukraine for 2025 continues to depend on a combination of domestic and external sources. Domestically, government bonds and revenues from privatization remain key. However, due to the elevated costs and limited efficiency associated with domestic borrowing, most of such borrowings in the period from January to September 2025 were directed towards servicing internal debt obligations, with only a minor portion utilized to finance the budget deficit. Gross domestic bond issuance in 9M amounted to $9.2 bn which is 3.3% lower y-o-y. However, net domestic financing (excl. debt repayments) amounted to $0.4 bn.

Table 2. Budget funding sources (revenues and gross financing) in 2023-2025, $bn

Resources	9M 2023	9M 2024	9M 2025	Change (%, 2025 vs 2024)
Internal budget resources	**33.7**	**39.7**	**44.9**	**13.1**
Domestic government bonds	10.6	9.5	9.2	(3.3)
Own budget revenues (without grant)	23.1	30.2	35.8	18.2
Share of internal budget resources	50.7%	49.2%	58.0%	x
External budget resources	**32.8**	**41.0**	**32.5**	**(20.8)**
External loans	22.9	34.1	24.9	(27.2)
Grants	9.9	6.9	7.6	11.2
Share of external budget resources	49.3%	50.8%	42.0%	x

Source: Ministry of Finance of Ukraine, KSE calculations

External financing remains a critical component of Ukraine's fiscal framework. The government continues to secure external loans and borrowings to finance the budget deficit, with the majority of these funds provided on concessional terms. However, the volume of international assistance has significantly declined compared to the previous year. For 9M 2025, gross external loans amounted to $24.9 bn which is 27.2% lower compared to $34.1 bn for the 9M 2024.

Most external loans for the budget – $15.3 bn (incl. $10.9 bn from EU and $3.4 bn from Canada and $1 bn from UK) – were received through the ERA Initiative, which is backed by future revenues from frozen Russian assets. Another significant portion ($6.6 bn) was received from the European Union under the Ukraine Facility program. The IMF provided an additional $900 mn in the eighth tranche of its four-year Extended Fund Facility (EFF) program.

Table 3. Sources and amounts of external loans to Ukraine in 2025

Foreign loans received in 2025	$ bn
ERA	15.3
European Union	*10.9*
Canada	*3.4*
United Kingdom	*1.0*
EU (Ukraine Facility)	6.6
IMF	0.9

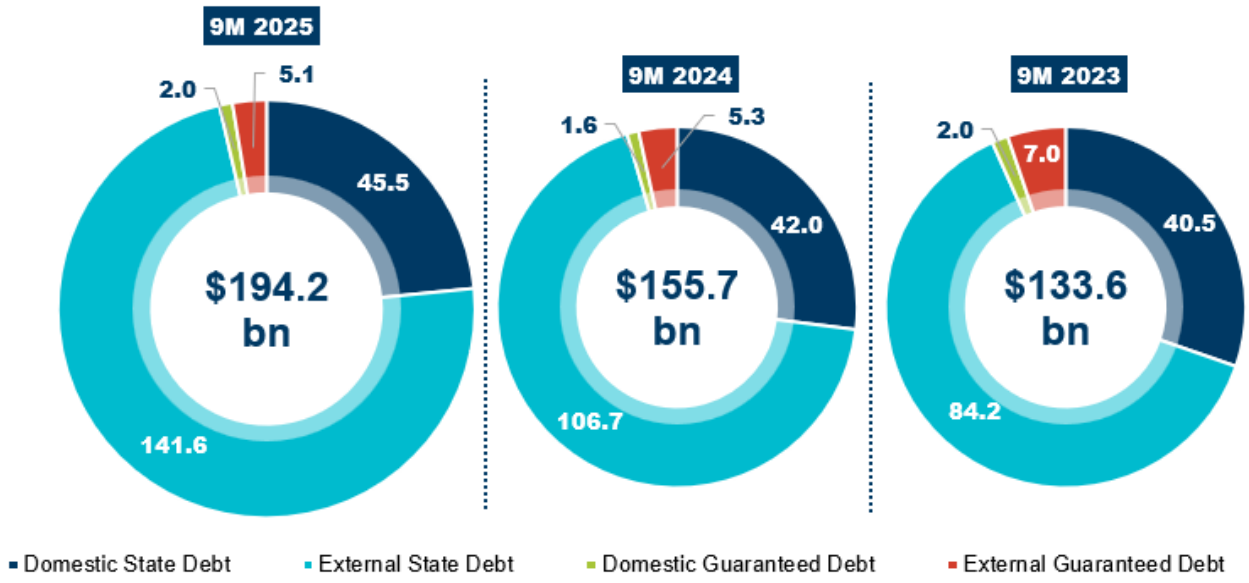
Source: Ministry of Finance of Ukraine

State and State-Guaranteed Debt

During the 9M of 2025, Ukraine's state debt expanded notably, reflecting increased fiscal pressures and the need for sustained external support. By the end of September 2025, total state and state-guaranteed debt reached $194.2 bn, marking a 24.7% rise compared to the end of 9M 2024.

The expansion of state debt was primarily driven by an increase in external government obligations. Active engagement in borrowing from international partners has spurred a rapid increase of the external state debt. Ukraine's external state debt increased by 32.7% compared to the end of 9M 2024, reaching $141.6 bn, which accounts for 72.9% of total state debt. Domestic financing was primarily used to repay internal debt, which explains the restrained growth of the domestic state debt. Ukraine's domestic state debt increased by 8.3% compared to the end of 9M 2024 to $45.5 bn, accounting for 23.4% of total state debt.

Figure 3. State Debt and State-Guaranteed Debt in 2023-2025, $bn



Source: Ministry of Finance of Ukraine, KSE calculations

Key Risks for 2025

- **Security risks remain the dominant threat to fiscal stability.** The uncertain trajectory toward potential peace negotiations and the possibility of intensified hostilities imply higher defense financing needs, including additional measures to sustain adequate personnel levels in the Armed Forces. These pressures could substantially expand expenditure requirements and widen the fiscal gap.
- **Escalating threats to the energy system represent significant fiscal and macroeconomic vulnerabilities.** Persistent high-intensity attacks on energy infrastructure

could increase the need for imported energy resources, raise budgetary costs, and trigger electricity shortages that dampen business activity and limit tax revenue growth.

- **Delays in external financing continue to pose a material liquidity risk, particularly when tied to unmet policy commitments.** Several cases in 2025 have shown that non-compliance with structural or political conditions can postpone planned disbursements, constraining the government's ability to finance priority programs and increasing short-term fiscal stress.

Table 4. Ukrainian budget, $bn

Indicators	9M 2023	9M 2024	9M 2025	Change (%, 2025 vs 2024)
Total revenues	**55.1**	**54.6**	**65.2**	**19.4**
Grants	9.9	6.9	7.6	**11.2**
Non-tax and other revenues	**32.0**	**24.4**	**29.5**	**21.0**
Tax revenues	**23.1**	**30.2**	**35.8**	**18.2**
PIT	3.4	5.8	8.6	**47.2**
Corporate income tax	2.9	5.1	5.3	**4.4**
Rent for the use of subsoil	1.3	0.9	0.8	**(17.2)**
Excise tax	3.4	3.8	5.1	**33.2**
Domestic VAT (net)	4.0	5.0	5.6	**11.9**
Import VAT	7.1	8.6	9.4	**8.9**
Import and export duty	0.8	0.9	1.0	**7.0**
Total Expenditures	**77.3**	**75.0**	**87.5**	**16.7**
Defence	41.3	37.8	48.8	**29.1**
Deficit	**(21.9)**	**(20.2)**	**(22.1)**	**9.6**
Deficit (net of grants)	**(31.9)**	**(27.1)**	**(29.8)**	**10.0**
Net borrowings	23.9	19.7	23.2	**18.0**
Loans	33.5	43.6	34.0	**(22.0)**
Repayments	(9.6)	(24.0)	(10.8)	**(54.8)**

Source: Ministry of Finance of Ukraine, KSE calculations

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