

The key takeaways from KSE Institute’s October 2025 Ukraine Monthly Economic Update are:

Economic growth in Ukraine remained weak, as real GDP expanded by only 0.7% in the second quarter, with growth in consumption and investment being offset by weak net exports. The trade deficit widened to USD 30.4 billion over January-August as imports surged nearly 20%. Growing wartime spending intensified fiscal pressures, with the budget deficit reaching USD 22.1 billion from January to September. Inflation slowed to 11.9% in September, driven by cheaper vegetables, fixed utilities prices, and moderating producer prices. The NBU kept its policy rate unchanged at 15.5% to anchor expectations amid persistent underlying price pressures and pro-inflationary risks. The hryvnia remained broadly stable around 41.3 per USD despite stronger import demand, with international reserves rising to USD 46.7 billion. Escalating Russian strikes on energy infrastructure, as well as discussions on the EUR 140 billion reparations loan and IMF pressure to devalue the hryvnia, represent the key developments.

Real Sector

Real GDP growth in Q2 2025 reached **0.7% y-o-y**, reflecting both the negative impact of the ongoing war and structural issues. Growth was primarily driven by **private consumption**, which increased by **4.9%**, supported by real wage gains, as well as a notable rise in **gross fixed capital formation** of **16.7%**. However, the contribution from net exports remained sharply negative, as **real exports** declined by **15.7%**, while **real imports** increased by **4.5%**, further widening the trade gap. **Agricultural output** declined by **23.4%**, largely due to last year’s poor harvest, suggesting a likely rebound in H2 2025 with better yields. In contrast, **mining** contracted by **10.4%** amid continued Russian attacks, particularly in Pokrovsk and Selydove. The effect was partly offset by resilience in **manufacturing**, which saw **2.0%** growth, reflecting defense-industry orders and other equipment demand, as well as a **construction boom (+12.5%)**, supported by reconstruction projects despite acute sector-specific labor shortages.

External Sector

Ukraine’s **trade deficit** reached **USD 30.4 billion** over January-August—USD 4.1 billion higher than in the previous month and USD 10.2 billion higher than the corresponding period in 2024—on the back of subdued **exports (-4.0%)** and soaring **imports (19.8%)**. Lower **exports** primarily come from **food products (USD -1.5 billion, -9.2%)** and **mineral products (USD -0.3 billion, -15%)**. **Exports from other sectors** grew by **USD 0.8 billion (10.3%)**. **Imports** grew across all key sectors but especially in **machinery**, where they increased by **USD 5.2 billion (33.8%)** as defense, capital investment, and reconstruction—particularly of the gas and energy systems—gained steam. In January-August, the **services balance** reached **USD 3.9 billion**, the **primary income balance** was **USD -0.9 billion**, and the **secondary income balance** was **USD 12.8 billion**. With **non-resident inflows of USD 27.4 billion (77.1% more than last year, partially due to debt restructuring in 2024 that created ‘outflows’ of USD 5.3 billion)** and **resident outflows of USD 3.9 billion (61.8% less)**, there was a reserve gain of **USD 1.1 billion** over the eight months of 2025 (and a gain of USD 2.8 billion in August alone).

Fiscal Sector

From January to September, the **state budget deficit** reached **UAH 0.9 trillion (USD 22.1 billion)—42.2% of the full-year plan**. **Revenues** increased by **25.1%** vs. January-September 2024, reaching 80.0% of the full-year plan, largely due to **foreign grants of UAH 317.5 billion—3.6 times more than planned—and tax revenues** increased by **23.8%**. **Personal income and military tax revenues** missed targets for the first time this year in September (**-3.9%**); however, collection year-to-date still exceeded plans by **10.1%**. Import VAT grew by only **10.8%** due to taxable imports growing more slowly than total imports. **Expenditures** increased by **22.1%**, reaching 72.1% of the full-year plan, with significant **defense and security spending** growth of **31.8%**. The deficit was financed largely with **foreign loans**, which reached **USD 24.9 billion** over January-September. **State and state-guaranteed debt** increased to **UAH 8 trillion (USD 194.2 billion)** at the end of September, a 1% increase from August and **25.2%** from September 2024.

Inflation	Headline inflation declined to 11.9% y-o-y in September from 13.2% in August, continuing the gradual disinflation trend observed since June 2025. The fall was mainly driven by a 16% drop in vegetable prices, following the arrival of the new harvest, while meat, eggs, and dairy prices rose by more than 20% amid reduced livestock supply and higher producer prices in food production, which increased by 19.2%. Fruit prices increased by 30.4% due to unfavorable weather conditions earlier in the year, and tobacco product prices rose by 29.3%, following the excise tax hike introduced in March 2025. Education services costs grew by 14.4%, reflecting the usual seasonal adjustment, while inflation in the broader services sector remained around 15%, supported by wage growth and resilient demand. Utility tariffs increased by only 2.3%, as most utility prices remain fixed. The Producer Price Index increased by only 1.3%, indicating stabilization in production costs—a leading indicator of future inflation dynamics.
Monetary Policy	The National Bank of Ukraine kept the policy rate at 15.5% on October 24, 2025, while market expectations were of a 0.5pp reduction amid disinflationary trends. The cautious stance is explained by pro-inflationary risks that remain elevated due to heightened government expenditures and the expected destruction of energy infrastructure during the winter. New lending rates in August 2025 fell by 1pp vs August 2024, while the volume of loans expanded by 24%, primarily driven by household borrowing amid rising consumer confidence. Deposits declined by 27% despite an average rate increase of 2pp, largely reflecting a withdrawal of corporate funds. This suggests a shift toward active project implementation and investment, as enterprises deploy their available liquidity rather than hold idle balances. Government bond holdings remained stable vs. August 2025, yet increased by 9.1% from September 2024, with households increasing by 47.2% as their bond holdings overtook classic deposits.
Exchange Rate	The hryvnia depreciated by 0.17% y-o-y to 41.3 per USD in September 2025, but strengthened from 41.4 in August. With inflation significantly higher in Ukraine, the real exchange rate appreciated markedly y-o-y. The NBU's foreign exchange interventions totaled USD 2.3 billion in September, USD 1 billion less than in September of 2024 and USD 0.4 billion less than in August, marking one of the lowest monthly volumes of the year, despite higher demand for foreign currency. International reserves increased by USD 0.6 billion, reaching USD 46.7 billion, close to the record-high level observed in April 2025, supported by steady donor inflows. Households' expectations for one year ahead remained at 43.8 per USD (largely unchanged from August: 43.7), showing that economic actors believe devaluation will ultimately have to happen. During October, however, the currency weakened from 41.2 at the beginning of the month to nearly 42 by the end, reflecting a stronger USD and domestic demand for foreign currency.
Focus Areas	Key areas that warrant further attention are: • Russian strikes on Ukraine's energy system intensified, with recent reports stating that ~60% of gas production has been knocked out, the electrical grid heavily damaged, and prospects for the winter are grim, when blackouts weighing on exporting sectors and a need for gas and electricity imports will worsen the trade balance. • Parliament passed the 2026 draft budget on October 22, planning for revenues of UAH 2.8 trillion and expenditures of UAH 4.8 trillion, with UAH 2.8 trillion (27.2% of GDP) for defense. The budget deficit will, thus, reach UAH 2.0 trillion next year according to the government's plan. • The IMF is pressing the NBU to carry out a controlled devaluation of the UAH despite the NBU's concerns over inflation and public confidence risks. • Discussions on the EUR 140 billion reparations loan for Ukraine, utilizing Russian frozen assets, are intensifying and may become a game-changer for defense and macro financing needs.

	1M 24	2M 24	3M 24	4M 24	5M 24	6M 24	7M 24	8M 24	9M 24	10M 24	11M 24	12M 24	1M 25	2M 25	3M 25	4M 25	5M 25	6M 25	7M 25	8M 25	9M 25	10M 25	11M 25	12M 25
Economic activity																								
Retail trade turnover, USD bn	4.1	4.2	4.5	4.3	4.4	4.3	4.5	4.6	4.5	4.6	4.7	5.3	4.4	4.4	5.0	5.0	5.1	5.2	5.3	5.6	5.4			
Mining, production index	11.9	12.4	2.4	5.4	0.7	3.7	-3.7	0	0.6	4.6	3.5	2.5	-0.8	-24.5	-19.8	-17.5	-7.8	-5.6	-1.7	-4.1				
Manufacturing, prod. index	21.7	17.3	7.7	21	9.3	2	3.8	-1.8	7.3	3.2	0.1	-2.6	-4.8	-4.6	0.3	-4.5	0.8	5.7	3.8	1.9				
Construction, prod. index	20.8	27.4	76.0	59.7	46.4	20.4	17.7	-3.3	5.9	35.2	3.0	-6.7	6.1	6.0	-28.7	-20.6	5.3	44.5	44.5	24.4				
Cargo transported, % y-o-y	28.8	23.5	20.9	16.9	19.4	6.0	3.2	-3.4	0.6	0.8	-3.6	-6.6	-11.1	-13.4	-25.1	-23.7	-6.3	0.7	-7.5	-1.4	2.8			
External accounts, USD bn																								
Goods balance	-1.7	-1.7	-2.7	-2.7	-2.4	-3	-3.3	-2.8	-3	-2.8	-2.9	-4.1	-3	-3.1	-4	-3.6	-3.7	-4.4	-4.5	-4.1				
Goods exports	3.4	3.4	3.3	3.4	3.4	2.8	3.0	3.2	3.0	3.7	3.5	3.2	3.0	3.0	3.5	3.2	3.4	2.9	3.1	2.9				
Goods imports	5.1	5.1	6.0	6.1	5.8	5.8	6.3	6.0	6.0	6.5	6.4	7.3	6.0	6.1	7.5	6.8	7.1	7.3	7.6	7.0				
Services balance	-0.4	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.6	-0.3	-0.4	-0.4	-0.4	-0.6	-0.5	-0.6				
Primary income balance	0.3	-0.3	0.0	0.2	0.0	0.1	0.2	-0.2	0.1	0.0	-0.3	0.0	-0.2	-0.2	0.0	0.1	0.0	-0.2	-0.2	-0.2				
Secondary income balance	1.0	1.8	1.1	0.9	1.0	0.9	1.1	6.4	1.0	1.2	2.3	4.7	1.0	0.8	3.1	2.4	0.7	2.0	1.1	1.8				
Non-res. capital flows	1.5	0.5	9.3	0.6	-0.2	2.7	0.3	-2.0	0.2	0.9	6.3	5.5	3.9	-0.6	4.8	5.9	1.9	3.9	2.3	6.1				
o/w foreign direct invest.	0.6	0.6	0.8	0.5	0.3	0.4	0.2	0.2	-0.1	0.2	0.1	0.1	0.3	0.2	0.2	0.2	0.0	0.2	0.2	0.2				
o/w loans to public sector	0.3	-0.2	8.2	0.8	0.0	1.7	2.2	2.7	-0.8	1.3	5.2	6.2	3.0	-0.3	3.4	5.3	1.0	2.6	1.7	4.4				
Resident capital flows	2.5	1.3	1.0	1.0	1.5	1.2	0.8	1.1	0.8	2.1	1.5	2.0	2.4	-0.4	1.3	0.8	0.3	-0.4	0.2	-0.2				
Reserves (eop), USD bn	38.5	37.1	43.8	42.4	39.0	37.9	37.2	42.3	38.9	36.6	39.9	43.8	43.0	40.1	42.4	46.7	44.5	45.1	43.0	46.0	46.6			
Fiscal accounts, UAH billion																								
Budget revenues	155	243	244	204	229	242	170	449	234	179	303	472	283	253	390	340	275	327	227	315	302			
Budget expenditures	170	323	348	314	390	389	314	367	361	373	429	707	354	413	398	391	430	432	360	460	401			
o/w defense &																								

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