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In its quarterly **Ukraine Risk Matrix**, KSE Institute undertakes a **regular and comprehensive assessment of twelve key risks facing Ukraine across four categories**—real economy, macro-financial stability, external stability, and domestic stability—focusing on the likelihood of materialization as well as the potential impact.

Real economy	Macro-financial stability	External stability	Domestic stability
1. Economic activity	4. Fiscal position & budget execution	7. External financing & donor flows	10. Reform momentum
2. Recovery & investment	5. Inflation & monetary stability	8. Trade & external dynamics	11. Social stability
3. Critical infrastructure	6. Banking & financial stability	9. Geopolitical risks & war	12. Political stability

The energy situation after a period of intensified Russian strikes on critical civilian infrastructure over the winter has significantly escalated Ukraine’s risk landscape. Actions to ensure the economy’s resilience now and mitigate energy sector risks before next winter are of utmost importance. Infrastructure destruction remains the biggest driver of macro, fiscal, and monetary challenges—including a slowdown in economic activity, budget revenue underperformance, inflationary pressures, and exchange rate vulnerability. **Uncertainty over foreign financial support and the potential impact from the Iran war**—soaring energy prices and a diversion of Western military and political resources—constitute further significant risk factors. Potentially immediate effects stemming from these risks leave **little margin for simultaneous shocks**.

Longer-term risks are structural and will outlast the war: Ukraine is **losing the human capital needed for its recovery**, while **private investment**, which must cover a significant portion of the large reconstruction needs, **remains structurally suppressed** amid the war and institutional uncertainties. Merely reconstructing the industrial base to its pre-war state, rather than updating it to match modern European standards, poses its own risk of locking in long-term uncompetitiveness. Meanwhile, mine contamination due to the war, poor coordination between authorities hindering the management of complex and simultaneous challenges, and a social contract under growing strain from pension dynamics, veteran reintegration, and working-age outmigration converge into a trajectory whose cost will materialize in the decade after fighting stops, making these risks systematically **underweighted in current policy frameworks that target immediate problems**.

Score	Risk level	Interpretation	Composite risk score
1	Very low/negligible	Risk is either highly unlikely to materialize or, if it does, its impact would be negligible and easily absorbed/temporary/localized.	Each risk is assigned an ordinal expert assessment score from 1 to 5 reflecting overall materiality, defined as a combination of likelihood of occurrence and severity of potential impact . The score is not a probability measure or point forecast, but a comparative evaluation based on expert judgment and, where available and relevant, quantitative evidence on scale, persistence, transmission, and spillovers. Each risk in the sections below is given a Short-Term (ST) and Long-Term (LT) impact score that are combined into the total risk assessment.
2	Low	Risk has limited likelihood and/or expected impact; any effects would likely remain contained and manageable with existing buffers/policies.	
3	Moderate	Risk is moderately likely and/or could produce notable adverse effects, but one that would not fundamentally alter the baseline outlook; spillovers may be present but will still be contained.	
4	High	Risk is relatively likely and/or could generate substantial adverse effects; shock could materially worsen sectoral or macroeconomic conditions, create broad spillovers, and require meaningful policy response.	
5	Very high/critical	Risk is highly likely and/or potentially highly disruptive, with severe and economy-wide consequences, limited room for mitigation, and strong spillovers across sectors.	

Real economy	Macro-financial stability	External stability	Domestic stability
<p>Economic activity</p> <p>Russian attacks on energy infrastructure have exacerbated existing supply-side bottlenecks due to the war; businesses have depressed growth expectations and suffer from long-standing scarcity of (skilled) labor, with logistics limitations and price increases challenging current business models; risk of shadowing is rising with potential long-term implications.</p>	<p>Fiscal position & budget execution</p> <p>Ukraine's fiscal position is unique, with significantly elevated deficits amid the war; the budget is structurally dependent on external financing while rising defense expenditures, infrastructure recovery costs, and build up of military and social obligations lock in elevated spending well beyond the war; debt is rising with service crowding out other priorities.</p>	<p>External financing & donor flows</p> <p>External balance is heavily dependent on official flows; delays or incomplete disbursements of planned assistance could arise from political disagreements in the EU or missed reform benchmarks on the side of Ukraine; transition from grants to loans creates serious challenges for debt sustainability.</p>	<p>Reform momentum</p> <p>Reform implementation is uneven and risks are growing due to parliamentary fragmentation; despite some progress on benchmarks, repeated challenges meeting key commitments (e.g., IMF, Ukraine Facility) create a backlog and signal capacity constraints and political issues that may delay donor flows and Ukraine's Eurointegration process.</p>
<p>Recovery & investment</p> <p>Post-war financing commitments remain insufficient given the magnitude of needs; private capital is suppressed by security and governance uncertainty; funds risk being misallocated due to coordination challenges in Ukraine and among international partners, limiting absorption capacity; the window to rebuild industry to modern EU standards is narrowing with each year of deferred action.</p>	<p>Inflation & monetary stability</p> <p>Monetary stability is maintained by NBU credibility and reserve adequacy but under threat from supply-shock inflation due to rising energy prices, exchange rate pressure, and dollarization; fiscal dominance risks eroding central bank independence if external financing falters; compromised monetary policy transmission limits the NBU's toolkit; post-war tightening may crowd out investment that the recovery depends on.</p>	<p>Trade & external dynamics</p> <p>The trade deficit is increasingly structural as the war weighs on exports while imports are driven up by reconstruction, defense-related demand, and unavailability of domestic supplies; dependency on energy imports creates a channel for global market shocks to impact economic activity, inflation, and external balance; private capital flows remain weak, while resident outflows are a risk if the war lasts longer.</p>	<p>Social stability</p> <p>Social cohesion remains intact but is under compounding strain; war fatigue and mobilization resistance are tangible; outmigration is concentrated in the most economically active cohorts; the combination of pension levels far below the subsistence minimum and millions of veterans requiring reintegration creates a social support burden that the state is structurally and financially ill-equipped to meet.</p>
<p>Critical infrastructure</p> <p>Energy infrastructure destruction is the single most binding constraint on Ukraine's economic activity right now, with rebuilding costs exceeding committed financing and private sector participation structurally limited; long-term housing and transport projects risk being unattractive for investment, creating a significant bottleneck.</p>	<p>Banking & financial stability</p> <p>The banking sector's stability masks two compounding issues: hidden NPL recognition and war risk suppressing credit supply; government bond accumulation and the lack of long-term funding instruments could make banks bystanders to the recovery, with state dominance entrenching distortions; the defense and energy sectors will face challenges when grants slow as market financing is largely unavailable.</p>	<p>Geopolitical risks & war</p> <p>The war continues with no ceasefire or peace agreement in sight; the Iran war simultaneously strengthens Russia's finances through energy windfalls, diverts Western military and political resources, and worsens Ukraine's own economic position; support from allies remains strong, especially in Europe, but Hungary's veto on key support measures signals a potentially fragile coalition and growing challenges.</p>	<p>Political stability</p> <p>Executive control remains strong but parliamentary cohesion is fracturing; ruling party is increasingly reliant on ad hoc coalitions for important votes; public scrutiny over governance issues and postponed elections, which are hardly feasible under martial law, gradually reduce political capital, thereby increasing risks to reform delivery and Eurointegration; centralization of power could be difficult to dislodge after the war.</p>

1. Economic Activity

Risk: 4/5

Ukraine's war economy is shaped by large-scale foreign financing, significant reconstruction needs, compounding supply-side destruction, deteriorating demographics, and institutional challenges. Growth remains structurally capped as labor shortages, infrastructure attacks, and limited investment constrain the economy's potential. Each quarter of unresolved war deepens the supply-side damage—as well as the difficulty of overcoming it—thereby raising the risk of failure of existing business models.

- **Supply-side disruptions risk creating structural economic limitations | ST 5/5 LT 3/5**

Systemic Russian strikes are progressively dismantling Ukraine's physical productive base, reducing the economy's capacity ceiling. Each attack wave imposes repair costs that divert reconstruction resources from capital formation to emergency restoration, creating a dynamic where rebuilding cannot outpace destruction. Disrupted energy supply elevates production costs across all sectors, further fueled by the Iran war, which is pushing oil prices above \$100 per barrel; this erodes the competitiveness of Ukrainian goods on both domestic and export markets and threatens the viability of business models dependent on stable input costs. The cumulative effect enhances the risk of an industrial base and business contraction that cannot be reversed by demand-side government support programs or monetary policy shifts, as current business models become strained due to surging production costs. Infrastructure damage thus acts as a permanent negative supply shock with accelerating sectoral spillovers. The resulting narrowing of revenues may create a spiral effect of low reinvestment capacity and deteriorating investment attractiveness, leading to further deterioration of the business environment amid low productivity growth.

- **Human capital constraints could weaken the recovery | ST 3/5 LT 5/5**

Around six million Ukrainians currently reside abroad, while wartime mobilization further compresses the domestic workforce—creating acute shortages unevenly across sectors, which will be particularly challenging when reconstruction demand is growing. Moreover, the accelerated integration of high-skill professionals into EU labor markets (e.g., engineers, IT specialists, medical personnel, financial sector workers) represents a structural loss for Ukraine, as they carry institutional knowledge and innovation capacity that reconstruction and EU accession require. Their integration abroad grows with time, making return progressively less likely and raising the risk of a significant labor shortage, which will be particularly challenging when demand rises sharply in the post-war recovery period. Rising wages—driven by labor scarcity—outpace productivity gains, which compresses firm-level margins and deters private investment. The damage is compounded by a skill and regional mismatch within the remaining workforce: available labor is concentrated in demographics, geographies, and competencies misaligned with demand, requiring active reallocation and reskilling mechanisms. Correcting this requires deliberate and sustained policy interventions: targeted return incentives, vocational retraining, and labor-business matchmaking platforms.

- **Incentives for shadowing may grow due to business environment | ST 4/5 LT 2/5**

The combination of wartime disruption to regulatory oversight and acute pressure on household and firm finances has accelerated the risk of migration of economic activity into informal channels, with the shadow economy currently estimated at 20–30% of GDP, depending on the methodology, a downward-to-flat trend from the 2010s that is at risk of being reversed. The surge in production costs due to the war and, especially, energy supply disruptions increases risks of businesses either optimizing their business model in ways that compromise de-shadowing achievements or exiting the market entirely. Among others, the largest channels for the shadow economy are envelope wages (i.e., cash-in-hand), gray imports and smuggling, and illicit excise goods. Corruption in state contracting under wartime conditions has also emerged as a structurally damaging issue, funneling funds outside of formal fiscal channels. Recent policy

initiatives, especially those focused on broadening the tax base, risk being counterproductive if they further shrink profits margins at a time of exacerbated stress. The longer these informal norms persist, the harder it becomes to restore the transparency architecture that reconstruction governance requires.

- **Economy could be weakened due to exports and logistics bottlenecks | ST 4/5 LT 2/5**

Ukraine's export corridors face simultaneous physical, financial, and operational stress, presenting a significant risk of compressing foreign currency earnings and inflows amid a current account deficit exceeding 15% of GDP. The Black Sea corridor operates under constant military threat and is sustained only through naval escorts and war risk insurance premiums that erode net export revenues. Ukrzaliznytsia has lost nearly half of its freight traffic since 2021 and faces a severe liquidity gap. Proposed freight tariff increases of up to 41% would impose another cost shock on industrial shippers already operating at compressed margins. Ukraine's two primary export sectors face competitiveness headwinds: agriculture is squeezed by storage losses, insurance premium escalation, and the EU's partial reintroduction of pre-2022 trade restrictions, while metallurgy is further constrained by damaged production facilities, elevated energy input costs, and the full application of the CBAM, with no exemption for Ukraine. This could trigger sectoral changes that may be hard to reverse even in the long term.

2. Recovery & Investment

Risk: 4/5

Reconstruction has strong external backing but issues with coordination and governance in its execution risk turning pledged financing into misallocated spending. With needs estimated at \$600–\$800 billion, deployment and absorption capacities due to bureaucratic hurdles and miscommunication could ultimately be more binding constraints than funding availability, although the latter remains a serious challenge. Especially the lack of private capital represents a serious roadblock.

- **Insufficient private investment slows economic recovery | ST 4/5 LT 4/5**

Private capital requires a minimum of predictable security conditions, legal certainty, and enforceability of contracts that wartime Ukraine cannot reliably provide, creating a significant risk of both domestic and foreign investors deferring or permanently redirecting capital. FDI fell from \$3.3 billion in 2024 to \$2.3 billion in 2025, with the dominant share representing reinvestment. Reduced risk appetite from businesses, especially in developed countries, would limit FDI further. State support programs designed to de-risk investment have, in practice, been absorbed by operative liquidity needs, and IFI disbursements cannot substitute for the broad-based private capex that drives sustained growth. The RDNA5 estimates that the private sector could cover up to 40% of reconstruction needs over the next decade—a \$235 billion contribution that risks not materializing without credible improvements in the security environment and structural governance constraints that deterred investment even before the full-scale war.

- **Weak reconstruction coordination reduces absorption capacity | ST 2/5 LT 4/5**

Many international partners and Ukrainian ministries operate under different accountability frameworks and with diverging strategic priorities, with no single authority holding overall strategy or budgetary authority over the entire reconstruction portfolio. This results in a high risk of inefficiency through duplication, gaps in strategic views on sectoral growth and investment strategy, potential legal issues, and funds being diverted to non-priority or politically visible projects at the expense of productivity-critical infrastructure. Moreover, the structural set up of partner institutions (e.g., EU, IFIs, DFIs) with regard to financing procedures also adds bureaucratic hurdles. The absorption problem is already evident, albeit on a lesser scale than could be the case in the post-war period of much larger-scale projects, which could harm sustained financing precisely as the most capital-intensive reconstruction challenges emerge.

- **Institutional challenges may deter investment | ST 2/5 LT 3/5**

Reconstruction spending at scale creates concentrated financial opportunities that Ukraine's governance architecture may not be fully equipped to contain, unless anti-corruption reforms continue. The Operation Midas case exposed procurement networks embedded in defense and energy contracting, and the July 2025 legislative pressure on NABU and SAPO—reversed only after interventions from foreign partners (e.g., EU and IMF) and public protests—demonstrated that the anti-corruption framework is under political pressure. Streamlined procurement accelerates delivery, which is critical during wartime, but widens room for corruption. The RDNA5 identifies governance and rule-of-law reform as a structural condition for private-sector mobilization; thus, failures in anti-corruption efforts contribute to the reconstruction financing gap. The IMF and other international institutions reach similar conclusions, emblematic of the significant risk to the availability of external support posed by a potential weakening of anticorruption institutions.

- **Slow industrial modernization constrains growth potential | ST 1/5 LT 2/5**

Commerce and industry have accumulated \$232.9 billion in losses and face \$63.3 billion in reconstruction needs, per the RDNA5. During reconstruction, sectors risk being rebuilt to pre-war specifications, which would lock Ukraine into an outdated industrial model incompatible with its EU accession pathway across productivity, technology, environmental regulation, and labor skill requirements. The penalization of Ukrainian steel and iron exports by the EU's CBAM is the most immediate illustration of a development that hurts trade revenues. Private actors, without consistent industrial policy and conditioned financing, may rebuild to the lowest viable standard or exit entirely, and the window for driving modernization through reconstruction is narrowing with each year of deferred investment.

- **Mine contamination compromises recovery in frontline regions | ST 2/5 LT 3/5**

As of mid-2025, 139,000 km² of Ukrainian territory requires survey and clearance before safe agricultural activity, construction, or transport can resume. The RDNA5 estimates explosive hazard management and debris clearance needs at nearly \$28 billion, while the UNDP places the full demining cost at \$34–35 billion. Personnel constraints compound financial ones: Ukraine currently has approximately 4,500 trained deminers vs. a documented need of at least 10,000, and the National Mine Action Strategy until 2033 faces systemic challenges including dispersed institutional responsibility and inconsistent funding. Contamination is concentrated precisely in the oblasts of greatest priority for the restoration of agriculture and reconstruction, creating a permanent physical barrier to private investment in the most-affected regions. The need for demining is growing—and failure to address it risks compounding delays in economic recovery, as productive use of affected territories cannot begin until clearance is complete.

3. Critical Infrastructure

Risk: 4/5

Ukraine's critical infrastructure remains under systematic attack, with each wave of strikes removing capacity faster than repairs can restore it. Partial mitigation through generators and off-grid systems cannot substitute for structural rebuilding, whose cost already exceeds committed donor financing. The central risk is the compounding interaction between energy, connectivity, and urban infrastructure failures that collectively cap Ukraine's economic prospects.

- **Insufficient energy supply erodes economic activity | ST 5/5 LT 3/5**

Systematic Russian targeting of thermal generation, hydropower stations, and high-voltage transmission infrastructure has progressively degraded the electricity system's ability to meet baseline national demand, with each wave of strikes removing capacity faster than emergency repairs can restore it. The electricity supply deficit widened, with direct consequences for industrial output and business activity. Importantly,

the risk of Russia continuing its attacks is very high. Grid instability creates cascading effects beyond immediate outages: industrial equipment is damaged by voltage fluctuations, generators work beyond capacity and raise dependency on diesel prices, and investor confidence in energy-intensive activity collapses. Ukraine's growing dependence on imported electricity from European neighbors creates both financial costs and political vulnerabilities, as cross-border transmission capacity is limited, European system operators carry their own reliability obligations, and foreign governments may use their role as leverage, increasing the risks to Ukraine's geopolitical position.

- **Financing gap impedes needed energy reconstruction | ST 4/5 LT 4/5**

Resources required to rebuild Ukraine's generation and transmission infrastructure exceed financing committed through current donor programs and the Ukraine Energy Support Fund, as well as the capabilities of the banking system. The destruction cycle compounds the financing problem: assets repaired in exposed locations may face re-targeting, requiring either accelerated depreciation assumptions that make standard financing instruments unviable or costly hardening measures that would escalate unit costs. Private sector participation is at risk of effectively being precluded by the combination of physical security risks and an uncertain tariff framework that cannot support commercial returns, thereby raising the need for a dedicated, sustained financing vehicle that accounts for the destruction-repair cycle and war-risk insurance. The effective implementation of such a vehicle would curb the risk significantly.

- **Degraded transport and connectivity undermines economy | ST 4/5 LT 3/5**

The risk of systematic and continuous destruction of bridges, highways, railway lines, and rail hubs—that has already fragmented Ukraine's internal economic geography, severing connections between producers, processors, and markets—would strain logistics chains to their breaking points. This reverts regional economies toward localized circuits that forfeit the gains from national market integration. Elevated logistics costs—as repair costs are priced in—propagate across all sectors as a distributed tax on economic activity; this disproportionately damages small agricultural producers, the industrial sector, and construction, whose supply chains operate with margins that cannot absorb transport cost volatility, especially under the existing risk of cost surges stemming from further Russian attacks.

- **Housing and infrastructure risk being underfunded, constraining labor return | ST 1/5 LT 4/5**

Millions of residential units have been damaged or destroyed, with population return postponed until habitable housing exists. Yet the bottleneck is simultaneously financial, logistical, and legal: financing is unattractive, construction supply chains are constrained, skilled labor has emigrated, and land titling records remain incomplete or destroyed. Without functional water and sanitation systems, population return cannot safely proceed, rendering completed housing economically inert and causing production shutdowns where municipal water cannot meet industrial process requirements. The resulting workforce morbidity costs compound the labor shortage documented in Section 1. While water infrastructure rehabilitation is cost-effective relative to energy or transport, its systematic underfunding relative to its economic multiplier represents a persistent resource allocation distortion.

- **Nuclear incidents may create significant costs | ST 1/5 LT 2/5**

The Zaporizhzhia NPP remains under Russian occupation and operates outside the frameworks that international nuclear standards require, with degraded safety systems, reduced technical staffing, and compromised external power supply. Ukraine's remaining operational nuclear capacity, which provides half of national electricity generation, is also exposed to the risk of being targeted by Russia amid the current strategic pursuit of energy system collapse. Even attacks on substations that power the NPP would lead to a cascade of unfavorable events. The economic cost of even a contained incident would be dramatic.

4. Fiscal Position & Budget Execution

Risk: 3/5

The overall fiscal risk is high but currently mitigated. Ukraine depends on continued grant-like aid and borrowing to meet significantly elevated financing needs. Budget execution is under stress, so far, donors have stepped in. Vigilance is needed to avoid wasteful spending.

- **Persistently high deficits preserve reliance on external support | ST 5/5 LT 5/5**

The budget burden remains exceptional. War spending has pushed Ukraine's fiscal deficit toward 18–20% of GDP while tax revenues are strained by economic disruption. According to the approved Law on the State Budget for 2026, the state budget deficit in 2026 is projected at 18.4% of GDP (\$41.5 bn). Even after the end of active hostilities, fiscal normalization will take time as the threat of future Russian aggression requires elevated defense spending for the foreseeable future, while reconstruction and social support to vulnerable populations impacted by the war (e.g., veterans, IDPs, children) will require significant financial resources. Ukraine's state budget remains critically dependent on international financial assistance, which covers a substantial portion of the deficit. However, timely disbursements in adequate volumes could be constrained by intra-European political disagreements or by domestic challenges in fulfilling the conditions required to unlock program funding.

- **Security risks caused by the war could weaken budget revenues | ST 3/5 LT 1/5**

Renewed attacks on energy infrastructure or any other escalation of hostilities—with their resulting disruptions to production, logistics, and energy supply—may weaken economic activity, narrow the tax base, and adversely affect both the size and timeliness of tax revenue collection. This is likely to be reflected primarily in lower VAT, corporate income tax, excise tax, and, to some extent, personal income tax receipts, particularly in regions facing heightened security risks. Overall, this would increase the risk of underperformance in budget revenues, intensify pressure on budget liquidity, and necessitate fiscal policy adjustments during the budget year.

- **Security situation prevents normalization of defense spending, even post-war | ST 3/5 LT 4/5**

Implementing a large budget during wartime remains highly challenging, particularly given persistently rising defense expenditures. The steady expansion of military spending, projected to reach approximately \$102.9 billion in 2026, places significant pressure on the overall fiscal system and deepens dependence on external support. Moreover, potential structural reforms in the defense sector, such as higher military remuneration, the introduction of a contract-based service system, and the development of the domestic defense industry, would require substantial additional resources, potentially increasing the need for stable external financing by \$20–40 billion per year in the medium term. At the same time, this strain is not limited to the central government: while local governments entered 2026 with relatively strong revenues, new spending mandates (e.g., higher wages for teachers) have already forced some to cut other allowances. If the security situation deteriorates or economic activity weakens, central and local budgets could come under increasing pressure. Combined with ongoing risks of inefficiency in public spending, this creates a complex fiscal environment in which simultaneously sustaining defense capacity and broader budget stability will remain a key challenge.

- **Military-related social obligations crowd out public investments | ST 2/5 LT 3/5**

The rapid expansion of the armed forces during the war has significantly increased permanent expenditure commitments, including military salaries, benefits for injured or killed soldiers and their families, pensions and rehabilitation for servicemen and veterans, maintenance of a larger standing force, and the repair and replacement of military equipment. Even if the intensity of hostilities subsides, these obligations will

persist, as downsizing the defense sector or reversing social commitments would be politically and socially infeasible given the likely permanent threat stemming from Russia and the need to maintain social cohesion. As a result, defense expenditures will remain elevated for years after the end of active combat operations, limiting fiscal space for reconstruction, social policy, and economic development priorities.

- **Loan-heavy foreign financial support drives up debt burden | ST 4/5 LT 4/5**

The elevated fiscal deficit amid wartime challenges drives additional borrowing needs, expanding public debt. Since the onset of war, the debt-to-GDP ratio has risen from 49% in 2021 to nearly 100% in 2026. This has also created substantial debt servicing pressures—Ukraine spent \$23 billion (10.9% of GDP) on interest and principal repayments in 2025. Financing needs in the coming years will increase the burden if funding is provided through loans or borrowing on the market.

5. Inflation & Monetary Stability

Risk: 3/5

The stability of Ukraine's monetary framework rests on continued external financing and successful inflation control, both of which are under active threat. Further escalation in the Middle East, exchange rate vulnerability, and fragile inflation expectations create multiple vectors for instability, while damaged monetary policy transmission and dollarization progressively narrow the NBU's effective toolkit.

- **Supply-shock inflation and de-anchoring of expectations | ST 5/5 LT 2/5**

Cost-push inflation from energy and logistics disruptions cannot be suppressed through interest rate policy without deepening the output drop and limiting access to financing. War in the Middle East compounds this by driving up oil prices for an uncertain duration, feeding into import costs, transport, and agricultural inputs. At the same time, exchange rate vulnerability risks further reducing the chances of disinflation. Inflation expectations may become fragile, and persistent de-anchoring would force a severe tightening cycle at a destructive moment; restoring credibility thereafter would require extended stability that post-war conditions may not provide.

- **External conditions may undermine exchange rate stability | ST 5/5 LT 2/5**

Maintaining the managed float of the hryvnia requires continuous reserve drawdown whenever import demand, capital outflows, or aid timing create excess foreign exchange demand. War in the Middle East worsens the import bill directly, while a stronger US dollar adds further pressure on the hryvnia. A disorderly adjustment would increase imported inflation and amplify debt service on foreign-currency obligations. Meanwhile, the parallel dollarization process, quite common under high exchange rate volatility, compounds: as households and firms shift to foreign currencies, the hryvnia sphere shrinks, weakening transmission and making each subsequent stabilization episode harder to achieve.

- **War creates risk of fiscal dominance and erosion of NBU independence | ST 3/5 LT 2/5**

Shortfalls in external financing may force a shift to direct deficit emission, as was the case in 2022 when support was insufficient, which threatens monetary policy credibility. Nondiscretionary expenditure categories (e.g., military and some social spending) create a hard floor for the budget that cannot be compressed even in case of aid shortfalls. An erosion of the NBU's independence may also occur through gradual accommodation of fiscal pressures via rate decisions or regulatory forbearance, effectively producing the same outcome as direct capture. Any perceived erosion will trigger a broad signalling effect across donor constituencies, and the loss of the NBU's credibility would directly elevate financing costs and the probability of further financial support as the NBU is a key source of institutional trust.

- **Prolongation of extraordinary conditions weakens monetary policy transmission | ST 3/5 LT 1/5**

The transmission channel from policy rate to credit conditions is impaired, which limits the NBU's ability to manage the business cycle, and there is a risk of further weakening of the transmission mechanism. Banks' strong preference for government bonds means that rate signals do not translate into meaningful credit availability for firms and households, eroding competition. Capital controls have further fragmented financial markets. The longer this persists, the more entrenched the no-credit-to-the-private-sector norm becomes, constraining the NBU's role to managing exchange rate and inflation expectations on its own.

- **Post-war adjustment could create challenging monetary policy conditions | ST N/A LT 4/5**

A peacetime transition may require significant tightening to absorb the (potentially inflationary) surge from reconstruction demand, but this could risk suppressing the recovery. Aggressive disinflationary measures impose disproportionate costs through weaker economic activity and make Ukraine's private sector particularly vulnerable, given its limited access to credit, high leverage, and short equity buffers. A persistently tight policy rate would crowd out private investment precisely when it will be needed most, reinforcing public financing dependency and disadvantaging domestic companies. Sequencing disinflation without a collapse in confidence requires advanced coordination between monetary and fiscal policy to mitigate corresponding risks.

- **Premature post-war liberalization of restrictions may increase risk of capital flight | ST N/A LT 2/5**

Premature capital account liberalization risks triggering rapid and disorderly outflows, as wartime restrictions have built substantial delayed demand for foreign assets, requiring careful sequencing against reserve adequacy milestones. Mismanaged liberalization could compress Ukraine's reserve buffer quickly forcing a disorderly exchange-rate adjustment.

6. Banking & Financial Stability

Risk: 3/5

The banking sector remains stable overall. However, there are two distinct challenges: systemic risks around NPL recognition, and structural distortions that impede the economic recovery. The sector's nominal stability masks a growing divergence between headline capital ratios and true portfolio quality, while its decoupling from private credit markets makes it a bystander to the recovery it should be financing.

- **Insufficient provision of credit to the private sector jeopardizes investment | ST 4/5 LT 4/5**

Banks have accumulated large portfolios of government bonds and NBU deposit certificates, driven by risk aversion and attractive risk-free returns that require no credit analysis or capital allocation effort. This creates a significant risk of self-reinforcing passivity: banks may have no commercial incentive to build private lending capacity, while businesses with very high borrowing costs and uncertain demand have limited appetite for credit at market rates. The credit market may, thus, be squeezed from both sides simultaneously. The result could be near-zero private-sector credit growth, meaning firms cannot access domestic financing for reconstruction, equipment, or working capital at commercially viable rates. The 5-7-9% state-subsidized lending program partially compensates for this market failure, but its fiscal cost is rising, its coverage is partial, and an abrupt curtailment driven by fiscal pressure would remove the principal SME financing lifeline without any real market substitute. SMEs could be structurally excluded by a combination of banks' risk aversion and collateral destruction, with a direct effect on the pace and sectoral distribution of the economic recovery. Breaking this pattern requires either a deliberate policy shift that makes lending to the private sector commercially attractive relative to bonds, or sustained direct support programs for business crediting; both entail their own implementation risks.

- **State banks' dominance incompatible with financial market needed in the future | ST 2/5 LT 3/5**

State-owned banks controlling ~60% of banking assets distorts credit allocation through politically-influenced lending decisions, implicit state guarantees that crowd out private competitors, and institutional resistance to loss recognition. This concentration is structurally incompatible with the competitive, privately-dominated banking market that EU accession requires. Privatization is the correct long-run solution, but sequencing must account for valuation complexity, litigation risk, and market absorption capacity. There may be either an absence of significant investors as the banking sector is directly tied with the overall economy's prospects and risks, or insufficient willingness on the part of the government to move away from the status-quo—or both.

- **Lack of long-term funding mechanisms endangers economic recovery | ST 1/5 LT 3/5**

Ukraine has virtually no funding instruments with maturities of 5–10 years and lacks the legal framework for covered bonds, securitization, or pension and insurance funds. This is a structural gap in the capital market architecture: banks cannot offer investment credit at scale, regardless of willingness or liquidity, because the long-term funding base to match it does not exist. The consequences may compound severely in the post-war period if left unresolved: even under optimal policy execution, building a functional investment credit market takes time, meaning the reconstruction surge—driven by donor disbursement cycles on a compressed timeline—will arrive before the credit infrastructure capable of intermediating private capital into reconstruction projects is in place. Public reconstruction money therefore cannot leverage private capital precisely when it is most required, reinforcing the public financing dependency documented in Section 2 and preventing the private-sector-led recovery that both the government and international partners target. Without legislative action on long-term funding instruments aligned with the reconstruction planning process, this sequencing gap risks becoming structurally locked in.

- **War's prolongation exacerbates issues with pricing of risks and collateral | ST 5/5 LT 1/5**

Banks currently price war risk into credit rates as an undifferentiated premium, not separating war risk from commercial credit risk. The result is that viable projects carry a significant premium, a market failure that prices out legitimate investment independently of actual risk that may be unbundled and treated separately within the actual credit instruments. Collateral requirements, combined with the non-recognition of long-term contracts (e.g., offtake agreements, ESCO contracts) as quasi-collateral, structurally exclude energy, infrastructure, and housing projects regardless of their cash flow quality. This is mechanically distinct from the NPL and passivity issues and represents a pricing and infrastructure failure, which could worsen unless policy measures are taken

- **Defense and energy sectors' extraordinary financing difficult to unwind after the war | ST 1/5 LT 3/5**

Ukraine's defense and dual-use manufacturing sector has a unique advantage—predictable medium-term demand of 2+ years as the war continues and global military uncertainty increases, pushing countries to increase military spending. This makes defense companies very bankable, but the sector is currently financed mostly through grants rather than commercial credit. Energy sector projects are similar, bearing very significant risk and lower profitability margins. The transition from grants, donor support, and venture capital financing to traditional financing in the defense and energy sectors is both an opportunity and a risk: if grant financing is curtailed before credit mechanisms are established, the defense and energy sectors face a financing cliff and inability to expand.

- **War-time regulatory reprieve leads to underlying financial vulnerabilities | ST 3/5 LT 1/5**

Policy interventions targeting lending growth may worsen the risk environment by pushing credit under relaxed standards, building a second layer of potential NPLs alongside the deferred wartime stock. War risk insurance and compensation mechanisms reduce bank exposure, but doing so solely via government programs would shift the cost to the fiscal budget if claims materialize at scale. When forbearance is unwound, simultaneous loss recognition across the sector could create a confidence shock whose systemic impact exceeds any individual institution's balance sheet. State-owned banks face the largest exposure, as they were directed to conduct lending under non-market conditions, and their borrowers' repayment capacity may depend directly on the trajectory of the war. The resulting capital shortfall could exceed the combined available fiscal space, private investor appetite, and existing donor frameworks.

7. External Financing & Donor Flows

Risk: 3/5

The external financing risk is moderate overall. As long as pledged aid arrives according to schedule, Ukraine's external position is secure and risks of default are low. However, any delays in donor flows—either due to political disagreements abroad or unfulfilled structural reform benchmarks at home—would quickly expose Ukraine's underlying external imbalances.

- **Political disagreements abroad create risks to continued and timely foreign support, | ST 4/5 LT 2/5**

Delays or incomplete disbursement of Ukraine's planned international support could arise from political disagreements within the EU. Ahead of April's parliamentary elections in Hungary, Prime Minister Viktor Orbán's government has intensified its anti-Ukraine rhetoric and is blocking the €90 billion EU Support Loan for Ukraine, linking its position to demands for the resumption of Russian oil transit via the Druzhba pipeline. Slovakia has signaled readiness to support Hungary. While the European Commission and several EU leaders have made public assurances that Ukraine will receive approved support regardless, funding decisions under current rules require unanimity among all 27 EU member states; such political frictions could thus delay external inflows and place additional pressure on Ukraine's fiscal stability.

- **Failure to meet requirements jeopardizes disbursements under key programs | ST 4/5 LT 2/5**

The incomplete receipt of assistance under the Ukraine Facility program could stem from Ukraine's failure to meet required conditions. While some delays are foreseen, structural underperformance in the fulfillment of requirements carries the risk of a drop in financing. According to the RRR4U report, 14 indicators, corresponding to over €3.9 billion in disbursements, remained unfulfilled by end-2025, with the bulk (10 indicators valued at €2.5 billion) missed in Q4 2025. Ukraine must complete 8 more indicators by end-Q1 2026; 5 are at risk of slippage, potentially exacerbating the negative trend. Mitigating this risk requires intensified efforts to restore the momentum of reform implementation and program compliance.

- **Transition from grant to loan financing increases debt burden | ST 3/5 LT 4/5**

International grants have been vital for Ukraine's fiscal stability, comprising 14.3% of total budget revenues in 2025. Transitioning to loans accelerates public debt accumulation beyond current levels, raises servicing costs, heightens refinancing risks, and erodes fiscal space for essential spending.

8. Trade & External Dynamics

Risk: 4/5

Ukraine's external trade is turning into a serious vulnerability as the trade deficit becomes increasingly structural and difficult to overcome—and is essentially entirely sustained by financial support from international partners. Capital flows have also been suppressed during the war and will not meaningfully contribute to external stability until the war ends.

- **Structural trade challenges create persistently high external financing pressure | ST 5/5 LT 4/5**

In 2025, Ukraine's trade deficit reached \$51.0 billion, with exports decreasing 3% and imports soaring 24% in value terms. While exports remain constrained by damaged productive capacity, high transport frictions, and weak competitiveness, imports are driven up by reconstruction, defense-related demand, and the need to replace destroyed or unavailable domestic output. This means that the external gap widens even when domestic demand is not especially strong. In other words, the deficit is increasingly structural, and growing each year: Ukraine is not merely importing more because the economy is recovering, but because the war has made the economy more import-dependent than export-capable. Over time, the risk falls only if production capacity, logistics, and market access recover together. With a trade deficit larger than total exports, the latter need to grow at twice the rate of imports just to prevent a further widening of the gap.

- **Dependence on energy imports exposes economy to external shocks | ST 4/5 LT 2/5**

Energy shocks, including from the Iran war, create a direct external drain because they force higher imports of fuel, equipment, and other energy-related inputs just when domestic generation and grid stability are under pressure. The current diesel deficit could also have a significant impact on the economy amid the spring planting season. At the same time, electricity shortages and infrastructure damages suppress output in energy-intensive sectors, which weakens export earnings and pushes firms to rely on imported substitutes. This makes the trade balance more vulnerable than in a normal wartime recession, because energy damage hits both sides of the external account: it raises import demand and lowers the economy's ability to earn foreign currency. The long-run risk can ease if power assets and transmission capacity are rebuilt, but as long as strikes continue, it remains highly elevated.

- **Weak private capital flows limit financing and increase dependence on official flows | ST 1/5 LT 3/5**

Capital flows are still dominated by official inflows, while direct and portfolio investment from abroad remain weak. FDI was only \$2.3 billion in 2025, down 30% year on year, marking the second consecutive year of a decrease in direct investments after an initial recovery in 2023. Official financing can smooth immediate pressure, but it does not generate the same productive effects as FDI, portfolio inflows, or long-term corporate investment. The result is a fragile external balance: reserves can be supported for now, yet exchange-rate stability and import coverage still depend on continued donor confidence and timely disbursements. Even if official support covers near-term needs, weak private inflows limit technology transfer, productivity growth, and the long-term normalization of the external account. Ukraine's balance of payments is also at risk due to the magnitude of resident capital flight during the war. Capital controls imposed by the NBU have stabilized the situation with outflows dropping markedly in 2025, but the fundamental risk remains, especially in the case of a longer war.

9. Geopolitical Risks & War

Risk: 5/5

Geopolitical risk is at its maximum with multiple simultaneous crises undermining the health of the global economy, driving up energy prices, and weakening the capacity of Ukraine's international partners to continue supporting the country. Most importantly, however, the trajectory and duration of Russia's war of aggression are highly uncertain, with major implications for all other risk categories. A continuation of the full-scale war into 2027 would undermine the foundations of the entire foreign support framework, while increasing damages and reconstruction needs.

- **Continuation of full-scale war undermines growth and macroeconomic stability | ST 5/5 LT 4/5**

The key risk is the continuation of the war. On the front line, Russian forces are still conducting offensive operations and appear to be gearing up for a spring-summer campaign. Nonetheless, Ukraine's recent

successes on the battlefield—recapturing more territory in February than it lost, the first month it has done so since 2023—belies narratives of inevitable Russian advances. Meanwhile, Russia continues to launch massive missile and drone attacks, particularly against critical infrastructure and other civilian targets. These attacks generate considerable fiscal costs in repairs, as well as economic losses (e.g., power outages, expensive alternative power sources for businesses). Finally, diplomatic progress has stalled, with Russia continuing to stake out a maximalist position and the United States drawn into a war in the Middle East. Thus, no ceasefire or peace agreement seems likely in the near-term and there is an increasing risk that the war may extend into 2027.

- **War in Iran weakens Ukraine, strengthens Russia, and diverts attention | ST 4/5 LT 3/5**

Two key challenges have been introduced by war in the Middle East. First, the war has been accompanied by a shock in global energy markets, driving up oil and natural gas prices and serving as a financial lifeline for Russia. Before the Iran war, Russia's macroeconomic stability was more uncertain than at any point since the days immediately following its full-scale invasion of Ukraine in 2022; broad sequestration (10% cuts to non-essential categories) had been planned but may now be postponed. Russia's fortunes have also improved on the back of efforts by the US to relax oil-related sanctions in light of surging global prices. Ukraine has, of course, also been adversely affected by higher oil import costs. Second, war in the Middle East threatens to divert scarce resources—e.g., ballistic missile interceptors, air defense ammunition—from Ukraine to the region. While most one-way attack drones are now intercepted with Ukrainian-made interceptor drones, Ukraine is still highly reliant on Western weaponry to defend its cities and critical infrastructure from Russian missiles. The Iran war has thus made Russia better financed to pursue its maximalist war aims while potentially weakening Ukraine's defense against Russian attacks.

- **International support could become increasingly fragmented | ST 3/5 LT 2/5**

On the positive side, Ukraine enjoys broad Western backing. An emblematic indicator is the success of NATO's Prioritised Ukraine Requirements List (PURL) initiative, through which NATO allies and partners have committed over \$4 billion to purchasing necessary equipment from the United States. On the one hand, the broad base of support is encouraging (24 participating countries); on the other hand, such a program would hardly have been necessary under a US administration more supportive of Ukraine. A similar transatlantic divide has arisen regarding peace negotiations, with the United States placing considerable pressure on Ukraine to make concessions, while European partners have kept their focus on pressuring Russia to negotiate in good faith. EU support measures, including a new two-year €90 billion loan and a maritime services ban on Russia, are currently stalled due to internal disagreement, notably Hungary's veto, as well as the Iran war.

10. Reform Momentum

Risk: 3/5

Reform momentum is mixed. Ukraine remains committed to reform efforts, but serious risks from stalled or reversed rule-of-law measures have emerged and delays in implementation are building. If the leadership can navigate political obstacles, reform-related risks will ease; otherwise they could grow and undermine foreign financial support as well as Ukraine's Eurointegration path, which is critical for its economic future.

- **Delays in EU accession process could jeopardize economic recovery | ST 2/5 LT 4/5**

Ukraine has advanced key EU-alignment reforms, notably in housing and labor policy, with the Law on the Fundamentals of Housing Policy in force and the draft Labour Code pending parliamentary consideration. Progress continues on electricity market integration, state aid control, energy regulation, renewable energy, and railway safety, though delays in the Verkhovna Rada hinder timely adoption of several

benchmarks. The Fundamentals cluster, particularly justice and public administration reforms, faces significant risks, with gaps in judicial staffing, anticorruption court vacancies, and legislative follow-through threatening EU accession timelines. Reform implementation is uneven, with technical progress evident but political and institutional constraints slowing overall momentum.

- **Failure to meet IMF structural benchmarks may weaken support framework | ST 4/5 LT 2/5**

The government struggled to meet the IMF benchmark on increasing tax revenues, particularly regarding the taxation of online platforms and the introduction of VAT for sole entrepreneurs. These measures were widely seen as politically sensitive, making the government hesitate before submitting them to Parliament, and it ultimately lost the vote on platform taxation in March. The government managed to relax IMF requirements for VAT on sole entrepreneurs by significantly raising the threshold—exempting roughly two-thirds from the planned changes—and will soon introduce an updated draft law to Parliament.

- **Domestic political challenges could undermine Ukraine's ability to deliver reforms | ST 4/5 LT 2/5**

Wartime pressures, an extended legislative period well beyond original mandates, and the political difficulty of being associated with unpopular decisions have weakened parliamentary cohesion within the ruling Servant of the People party. Recent IMF-linked tax votes—where the ruling party only delivered just over 100 votes—illustrate the growing reliance on ad hoc coalitions that cannot be assumed to hold across sensitive legislative undertakings in the future. The July 2025 anti-corruption protests deepened this dynamic, as responsibility for unpopular decisions was shifted onto MPs, further eroding majority discipline. This creates structural unpredictability at a moment when consistent legislative delivery is required across EU accession clusters, Ukraine Facility benchmarks, and IMF program conditions—increasing the risk that reform commitments are met through executive action rather than durable legislative consensus, which weakens their institutional anchoring.

11. Social Stability

Risk: 3/5

Social risk is moderately high. Ukraine's population is enduring extreme hardship, but national solidarity and a shared sense of purpose are keeping social tensions from boiling over. The risk level may slowly fall if the war ends or living conditions improve, but for now it is elevated.

- **War burden on the population could undermine resilience | ST 3/5 LT 4/5**

State institutions retain broad legitimacy in the eyes of Ukrainian society. Despite external political pressure, there is no significant national demand for holding elections during wartime, reflecting sustained public trust in the current governance framework. One of the most prominent social challenges remains mobilization. Violations during the mobilization process are systematically documented by the Ukrainian Parliament Commissioner for Human Rights. The need to mobilize more than 30,000 people per month creates resistance among the civilian population, and has led to increased violations of the law by both civilians and military mobilization units. Separately, the extension of martial law has contributed to increased outward migration among young men aged 18–22. Since September 2025, an estimated nearly 100,000 men in this age group have left Ukraine.

- **Emigration and internal displacement jeopardize social cohesion | ST 2/5 LT 3/5**

Demographic and displacement pressures pose compounding long-term risks. Younger and middle-aged cohorts show the highest willingness to leave—21% of those aged 35–44 intend to go (vs. 15% overall), and 34% of those aged 25–34 are seriously considering it (vs. 25% overall)—threatening sustained outmigration from the most economically active segments of the population and narrowing the contribution base for social protection mechanisms. Continued shelling and the expansion of frontline and occupied

territory (up from 18.1% to 19.2%) sustain pressure on internal displacement, with 4.6 million registered IDPs, and the risk of new movements to safer regions or abroad. Broader demographic stress is mounting: roughly 25% of the population is either displaced or abroad, and the NBU projects a net outflow of ~0.2 million people in 2026. Continued hostilities and the potential occupation of new territories will push growing numbers of residents from frontline areas to relocate, and in the absence of adequate national support programs, increasingly to leave Ukraine altogether.

- **Prolonged war puts social contract under strain | ST 3/5 LT 4/5**

Inflation may further erode the real value of social payments, especially pensions, increasing the risk of poverty. The median pension remained unchanged at \$104, while the minimum pension stayed at \$57—far below the actual subsistence minimum (\$228)—widening the gap between pension incomes and basic living needs. The near one-to-one ratio of pensioners to employed persons undermines the state's ability to maintain pension payments at a level sufficient to reduce the risk of poverty in old age. The number of veterans returning from the war is steadily increasing and has now reached ~1.7 million, with further growth expected. In the absence of adequate support mechanisms, there is a risk of partial marginalization of veterans, which could undermine their well-being and negatively affect broader social stability. In Ukraine, 35% of young women aged 15–34 are in NEET (Not in Education, Employment or Training) status, while among men the number is only 11.8%. Almost every second woman aged 25–29 has NEET status. Despite 70% of women in NEET status having higher or professional education, the vast majority are engaged in caring for children or relatives with no accessible alternative. Weakening of the economy will undermine the state's capacity to maintain adequate social standards, raising the risk of poverty, social tension, and, ultimately, political instability, especially in the post war period.

12. Political Stability

Risk: 2/5

Ukraine's political system remains stable but increasingly strained. Executive control and leadership unity continue to support continuity; however, weakening parliamentary discipline—particularly the inability of the Verkhovna Rada to consistently pass key legislation, including measures tied to the Ukraine Facility—poses a fundamental governance risk. This growing legislative dysfunction, combined with public frustration over decision-making, may gradually erode political legitimacy. The risk is therefore assessed as moderately elevated, with potential improvement contingent upon the restoration of parliamentary cohesion and the delivery of reforms.

- **Governance issues could undermine unity | ST 3/5 LT 2/5**

While Ukraine continues to demonstrate strong societal unity after more than four years of full-scale war, public sensitivity to governance shortcomings has increased. The July 2025 anti-corruption law—widely criticized by civil society and independent media—sparked rare wartime street protests. This was followed by a major corruption scandal in energy procurement, which led to a major turnover in top government posts. Overall, governance missteps could prompt strong public reactions and place additional pressure on Ukraine's political system, even as the country's unity largely endures.

- **War-time centralization may become permanent feature of the political system | ST 2/5 LT 3/5**

The concentration of decision-making during wartime reflects operational necessity—rapid response to security developments, coordination of defense and foreign policy, and management of donor relationships all require centralized authority. However, the gradual accumulation of executive functions, combined with delays in judicial reform, pressure on anti-corruption institutions, and the increasing use of executive action to bypass parliamentary process on sensitive policy measures, creates a governance architecture whose

post-war adjustment will require deliberate and politically costly institutional rebalancing. Building parliamentary capacity, judicial independence, and subnational governance capability in parallel with the war effort—rather than deferring institutional development entirely to the post-war period—is a precondition for a smooth political transition, strong economic recovery, and Eurointegration.

- **Prolonged war risks undermining political legitimacy | ST 2/5 LT 2/5**

Elections remain postponed under martial law, which is legally justified, broadly accepted domestically, and practically unavoidable given active hostilities—organizing a credible vote under current security conditions is not feasible. However, with President Zelenskyy's approval ratings declining domestically and public frustration over aspects of governance growing, the extended absence of electoral renewal gradually narrows the political capital available for difficult and politically costly reforms. Institutional work is ongoing—a Verkhovna Rada working group is preparing draft legislation on post-war elections, with preliminary conclusions suggesting at least six months of preparation would be required following a ceasefire—but the legitimacy restoration process in the post-war transition will require careful sequencing to maintain institutional continuity and public trust.