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UKRAINE MACROECONOMIC HANDBOOK

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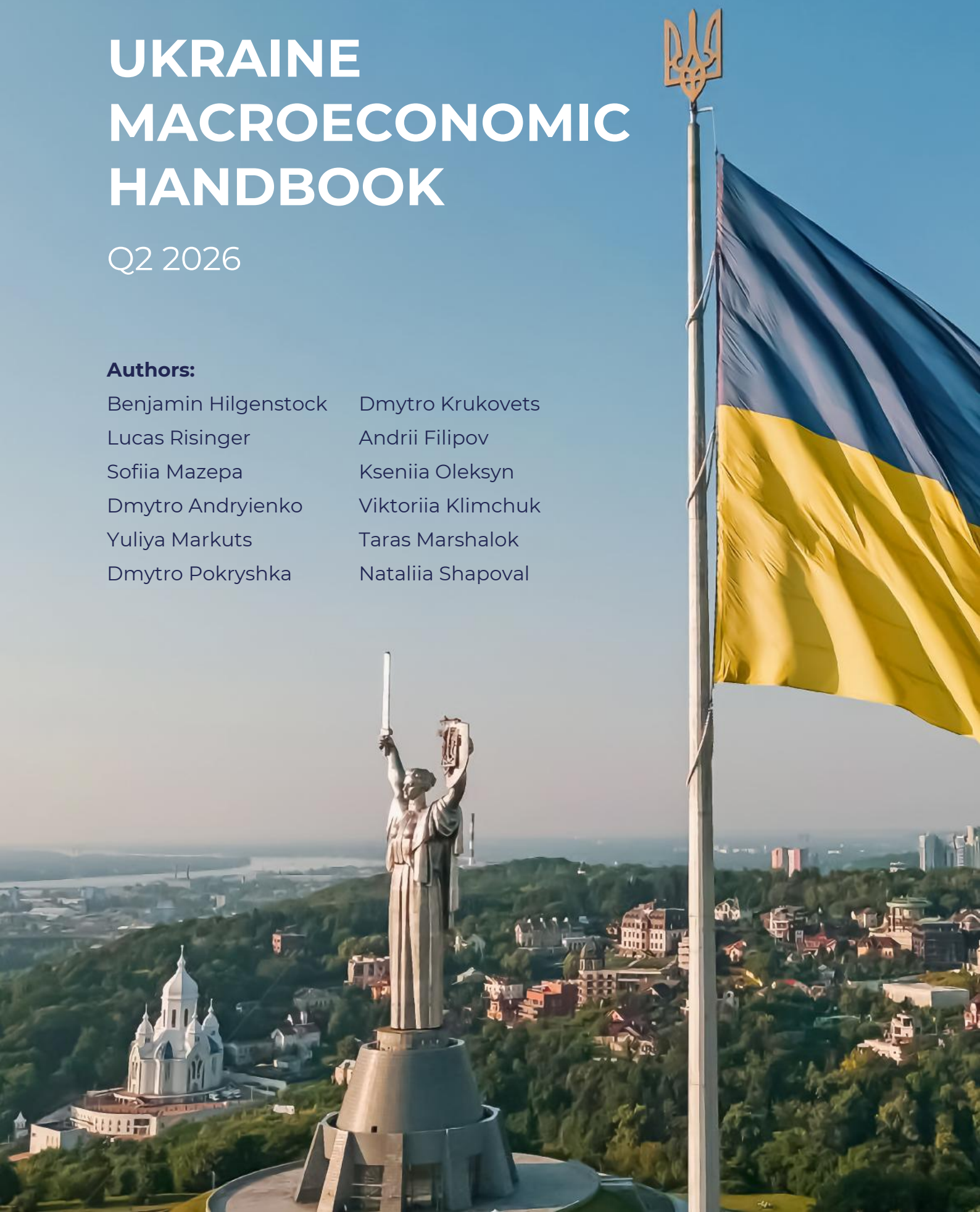

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Executive Summary

KSE Institute's *Ukraine Macroeconomic Handbook* covers the macroeconomic trajectory for 2026–29, analyzing the remainder of the full-scale war as well as the post-war reconstruction and recovery period. Forecasts in this publication rely on the Quarterly Projection Model (QPM) for the majority of macroeconomic indicators, with accounting-based modeling used for in-depth assessments of external, fiscal, and real sector dynamics. Expert evaluations of current and future policy issues are also incorporated in the analysis.

- **Ukraine's macroeconomic situation and risk landscape have been negatively affected by Russian attacks on critical civilian infrastructure, while soaring energy prices due to the Iran war simultaneously impose costs on Ukraine, alleviate pressure on Russia's economy and budget, and constrain military, financial, and diplomatic resources of Ukraine's partners. The likelihood of the war extending beyond 2026 is rising as a result. In addition, risk perceptions negatively affect future investments and, thus, the recovery—even if the risks ultimately do not materialize.**
- **Due to these challenges, we project that economic growth will be lower than previously expected (2.3% in 2026 instead of 3.2%), inflation higher (9.4% on average instead of 7.4%), monetary policy tighter (with the policy rate held at 15% instead of gradual easing), the trade deficit larger ($67.7 billion instead of $62.5 billion), and the exchange rate somewhat weaker (44.2 UAH/USD instead of 43.3). The winter energy crisis and Iran war have increased costs, narrowed profit margins, and led to serious supply-side disruptions. However, we do not see a deterioration of the fiscal picture, with budget deficits largely financed through 2029 despite high spending.**
- **Significant foreign financial support totaling $170 billion over 2026–29, including from the EU's Ukraine Support Loan, will ensure macroeconomic stability and fulfill Ukraine's defense needs over the forecast period. Risks from external imbalances as well as high spending on the war, social protection, and reconstruction are mitigated as long as foreign support is received without delays, whether from stalled reforms at home or political disagreement abroad.**

For this edition, we maintain our assumption that the full-scale war will come to an end in late 2026. However, we note that the risk of a longer war is rising as the conflict in the Middle East alleviates pressure on Russia—with wide-ranging implications for Ukraine's macroeconomic situation and the adequacy of existing financial support mechanisms. We will reassess the situation in Q3. Furthermore, **we assume that Ukraine will receive $170 billion in financial support from partners over 2026–29**, with the EU's Ukraine Support Loan (USL), G7 ERA mechanism, Ukraine Facility, IMF program, and EU Multiannual Financing Framework (MFF) for 2028–34 accounting for most of the funding. For details, see Assumptions.

The forecast for key indicators across various sectors of Ukraine's economy is shown in Table 1. The remainder of the executive summary discusses important developments related to economic activity, balance of payments, budget and financing, debt, inflation, monetary policy, exchange rate, and the labor market.

Table 1. Forecast for key indicators

	2021	2022	2023	2024	2025	2026f	2027f	2028f	2029f
Real GDP growth, %	3.4	-28.8	5.5	2.9	1.8	2.3	4.1	5.0	6.0
Nominal GDP, UAH bn	5,451	5,239	6,628	7,659	8,900	10,101	11,485	13,265	15,279
Nominal GDP, $ bn	200.6	160.5	181.2	190.2	213.4	228.3	249.4	285.3	334.5
Budget balance, $ bn	-7.1	-28.4	-36.7	-34.0	-39.3	-41.7	-33.3	-27.6	-18.8
Foreign grants, $ bn	0.9	17.4	14.1	14.0	14.5	9.3	1.4	0.0	0.0
Foreign loans, $ bn	2.3	16.6	30.7	28.3	37.5	67.4	61.6	17.5	17.1
Budget fin. gap, $ bn	…	…	…	…	…	-0.7	-6.5	5.4	2.2
Headline inflation, % avg	9.4	20.2	12.8	6.5	12.7	9.4	7.6	8.6	7.1
Exchange rate ($), avg	27.3	32.3	36.6	40.2	41.7	44.2	46.0	46.5	45.7
Policy rate, % avg	7.5	18.6	22.4	13.7	15.3	15.0	12.5	11.0	10.9
Current account, $ bn	-5.5	6.2	-10.8	-16.9	-34.2	-59.1	-61.1	-42.6	-31.2
External fin. gap, $ bn	0.2	2.3	-11.4	-2.9	-11.4	-13.1	-13.9	8.3	2.9
Total reserves, $ bn eop	30.9	28.5	40.5	43.8	57.3	70.4	84.3	76.0	73.2
Unempl. rate, % avg	9.9	20.6	18.2	13.1	11.0	10.1	10.6	8.6	9.4
Nominal wage, UAH avg	13,992	14,863	17,445	21,492	26,009	29.893	34,191	40,474	46,966

Economic Activity: External Support Partially Offsets Wartime Drag on Growth

Real GDP growth slowed to **1.8%** in 2025, weighed down by intensified Russian **strikes on energy infrastructure** that disrupted production, raised costs, and compressed private investment capacity. The new €90 billion **EU financing package partially offsets these pressures** through higher defense-related and reconstruction investment and sustained fiscal spending, limiting the growth slowdown to **2.3%** in 2026, in line with the realization of risks flagged in the previous edition. Private consumption—the main stabilizing force throughout the war—is expected to weaken temporarily in 2026 before rebounding strongly post-war, while net exports will remain a structural drag until import normalization begins in 2027–28. Over the medium term, growth is projected to accelerate toward **5–6%**, driven by a shift from consumption-led, fiscally supported activity toward an **investment-led model anchored in large-scale reconstruction**.

Balance of Payments: Foreign Support Ensures Adequate Reserves

Financial support from Ukraine's international partners totaling **$170 billion over 2026–29** will allow for foreign **reserves** to remain at comfortable levels—reaching **~$73 billion** (or 7.5 months of imports) by the end of 2029—despite **growing trade imbalances** and **subdued capital inflows** during the full-scale war. On the back of supply-side disruptions following Russian attacks on critical civilian infrastructure, soaring energy prices related to the conflict in the Middle East, and substantial investments in Ukraine's defense industry via the EU's Support Loan, goods imports are expected to continue rising sharply, while exports remain constrained by the war. As a result, Ukraine's trade and current account deficits will remain elevated and are becoming increasingly structural. This represents a serious **medium-term risk**, but the situation will be mitigated as long as foreign financial support is provided in line with existing commitments and plans.

Budget and Financing: Sufficient Funding over the Forecast Period

Ukraine's **budget deficit** will remain high during the war and in the immediate post-war period as **defense and security expenditures** are elevated, vulnerable populations require significant **social support**, and reconstruction efforts rely in part on **public investment**. The deficit is expected to reach **18.2% of GDP in 2026** before gradually narrowing in the post-war period to 5.6% of GDP in 2029. In our assessment, **budget financing needs over 2026–29** will reach **$132 billion** (excluding grants) and **are fully covered by committed or likely financing sources**, including the **€90 billion Ukraine Support Loan**, the **~$8.1 billion IMF program**, remaining funds under the **Ukraine Facility** and **ERA mechanism**, significant support under the EU's 2028–34 budget, as well as a return to the **Eurobond market** and **non-resident inflows** into domestically-issued sovereign debt after the war. **Budget underfunding risks** intensified in Q2 after a materially unaffected Q1; however, as long as USL disbursements begin in early June, the budget will remain manageable. **The war's continuation into 2027 would dramatically change the situation** as well, with additional spending needed and market financing largely unavailable.

Debt Dynamics: Wartime Financing Needs Drive Up Debt Burden

Ukraine's **state debt** has increased sharply since the full-scale invasion, reaching **$213 billion** (roughly **100% of GDP**) in February 2026—driven by extensive borrowing to meet **wartime financing needs** and a growing **reliance on external support**. The immediate debt service burden is limited by support mechanisms that make **repayments conditional** on the receipt of reparations from Russia and include **favorable terms** like zero interest (e.g., Ukraine Support Loan) or are serviced using proceeds from immobilized **Russian sovereign assets** (e.g., ERA). Nonetheless, the rising share of **foreign-currency debt** increases exposure to **exchange rate risks**. And despite these supportive arrangements, Ukraine will face **long-term repayment and refinancing pressures** that require careful debt management.

Inflation: Iran War Energy Price Shock Reverses Disinflation

High energy prices due to the Iran war **reversed the previous downward inflation trend**, with domestic fuel prices rising 23.4% in March, pushing **headline inflation** to **7.8%**. This comes on top of the impact of **Russian attacks on critical civilian infrastructure**, which had already triggered soaring energy producer prices (>70% in February). **Second-round effects** through logistics, agriculture, and manufacturing costs will therefore increase inflationary pressures going forward. **Administrative tariff adjustments**, which are increasingly likely amid the current situation, could also add 1–1.5 pp to headline inflation. **Inflation expectations** of households increased 3 pp in February and will be further negatively affected by the Iran war. **Inflation** is expected to remain in the **7–9% range over 2027–29** as cost-push pressures gradually give way to demand-pull dynamics driven by post-war reconstruction and economic recovery.

Monetary Policy: Easing on Hold as Inflation Risks Return

Pro-inflationary pressures are limiting the National Bank of Ukraine's space for monetary policy easing, and even some mild tightening is possible should inflation expectations deteriorate further. For now, we expect the **policy rate** to be held at **15% through 2026** before **cautious easing resumes in 2027**, bringing the rate to 11% by year end. Monetary **policy transmission** remains effective, with corporate lending rates holding at 15.9% in Q1 2026, while deposit growth continues to support banking sector liquidity. However, **elevated borrowing costs** are increasingly constraining private investment at a time when reconstruction financing, especially in the energy sector, is urgently needed before the next winter. After the war, the NBU will likely tolerate moderately elevated inflation to preserve credit availability.

Exchange Rate: Depreciation Pressures Contained by Foreign Support

The **hryvnia** is projected to depreciate towards **~45 UAH/USD** by the end of the year, after averaging 43.3 UAH/USD in Q1, as a widening trade deficit continues to generate **structural depreciation pressures**. The NBU is intervening to manage these pressures, with **interventions** peaking at **$4.8 billion** in March. This policy framework remains sustainable as long as disbursements of **foreign support** continue. However, the exchange rate and expectations regarding its future trajectory are highly sensitive to their delays. Over the medium term, structural factors are expected to drive a **gradual depreciation**, with a shift toward real appreciation only emerging in the post-war period when productivity gains and investment inflows materialize.

Labor Market: Tightness Persists while Iran War Weighs on Wage Growth

Ukraine's **labor market** remains **structurally tight** despite a modest rise in the unemployment rate, with **60%** of businesses reporting labor shortages in Q1 2026 and **recruitment difficulties** persisting due to skill, sectoral, and geographic mismatches that a surge in applications has not mitigated. **Average wages** rose above **UAH28,000** in Q1 2026, but wage dynamics are shifting. Nominal growth is constrained by **compressed firm margins** as the Iran war's energy price shock limits space for further increases, and real growth is under **pressure from higher inflation**. Nonetheless, **real wage growth** is expected to recover toward **~8%** annually in 2027–29 as demand intensifies after the war. **Scarcity of labor** will remain a persistent constraining factor for the economy's **capacity to absorb** recovery-related investments.

Special Features: Iran War, Risk Landscape, and Credit Challenges

This edition of the *Ukraine Macroeconomic Handbook* includes three special features: **Special 1** takes a closer look at the multifaceted **impact of the Iran war on Ukraine**—*first*, by weakening Ukraine's economy and undermining macro-financial stability; *second*, by providing significant windfall revenues to Russia; *third*, by binding Western military and diplomatic resources; and *fourth*, by weakening the economies of Ukraine's partners. **Special 2** comprehensively assesses the **key risks facing Ukraine** across four dimensions: real economy, macro-financial stability, external stability, and domestic stability. Finally, **Special 3** focuses on Ukraine's **structural credit gap**—with business lending small compared to bank holdings of government bonds and a credit-to-GDP ratio that lags well behind regional peers—and discusses possible solutions.

Assumptions

Assumptions are a major challenge given the extraordinary situation that Ukraine has been facing for more than four years. In particular, the future trajectory of the war is extremely difficult to predict—and it is the key factor influencing a wide variety of macroeconomic indicators and policy decisions in Ukraine and abroad. Assumptions underlying the analysis and forecast in the ***Ukraine Macroeconomic Handbook*** are based on expert judgments by the KSE Institute team and are summarized in Table 2 below.

Table 2. Key assumptions

	2021	2022	2023	2024	2025	2026	2027	2028	2029
War intensity	Low int.	Full-scale					None/low intensity		
Foreign fin. support, $ bn	7.5	31.3	42.4	41.4	50.3	75.2	60.2	17.5	17.1
o/w EU Support Loan*	…	…	…	…	…	54.3	50.4	…	…
o/w ERA	…	…	…	1.0	36.1	8.9	2.0	…	…
o/w EU Ukraine Facility	…	…	…	17.4	11.8	6.4	3.9	0.2	…
o/w IMF programs	0.7	2.7	4.5	5.3	0.9	2.9	1.9	1.3	1.1
o/w future EU support**	…	…	…	…	…	…	…	16.0	16.0

Disbursement schedule and specific distribution of the EU's Ukraine Support Loan are still to be determined. We assume that €30 billion will be provided in the form of macro-financial assistance and **€18.5 billion of the total €60 billion for defense-industrial capacity building will go through the budget. **€100 billion within 2028–34 EU multiannual financial framework (MFF)*

For the purposes of this forecast, we maintain our assumption that the full-scale war will come to an end in late 2026. However, we note that there are increasing risks that a revision to this assumption will be needed in the coming months. While the Russian economy and, importantly, the Russian budget were in an increasingly perilous state in early 2026 due to low global energy prices and increasing sanctions pressure from the coalition of Ukraine's allies—which could have forced it to negotiate an end to its war of aggression in earnest—this is no longer the case. Windfall energy exports and budget revenues from the Iran war will significantly reduce economic and fiscal pressures, even in an optimistic scenario of a relatively short active war and quick restoration of oil and gas flows from the Gulf (see Special 1). In a pessimistic scenario, Russia's ability to pay for the war could be strengthened for years to come by rebuilding critical macro buffers. For the moment, we maintain our assumption with regard to an end to the war in 2026 for two reasons: *First*, there is no hard evidence yet that would justify such a change. S*econd*, the foreign support architecture—including the EU's Ukraine Support Loan and the new IMF program—remain based on the same premise. We will reassess the situation and potential implications in the Q3 ***Ukraine Macroeconomic Handbook***.

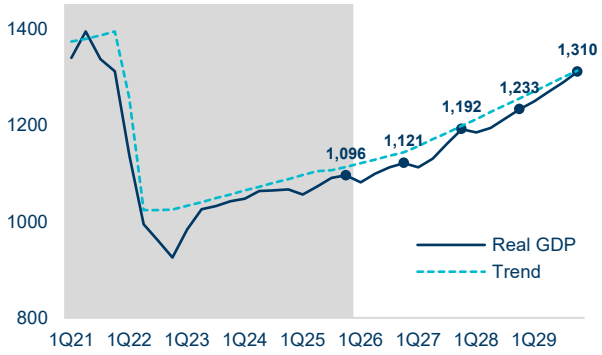
For Ukraine's macroeconomic stability, as well as budget and external financing, foreign assistance remains critically important. We assume that Ukraine will receive $170.0 billion in foreign grants and loans over the forecast period. The most important drivers are the EU's €90 billion Ukraine Support Loan (USL), a new four-year IMF Extended Fund Facility (EFF) program of ~$8.1 billion, and significant funding from the EU's Multiannual Financing Framework (MFF) for 2028–34. For the Ukraine Support Loan, we assume that in addition to €30 billion in macro-financial assistance, €18.5 billion of the €60 billion for defense-industrial capacity building will go through the budget. As the disbursement schedule and specific use of these funds is yet to be determined, our forecast is subject to considerable uncertainty. It appears that the USL will become operational in the coming weeks after Hungary's veto led to a significant delay. Total support numbers for 2026–28 are somewhat lower (-$5.2 billion) than assumed in the Q1 *Handbook* due to a likely reduction of total disbursements under the Ukraine Facility as a result of missed reform benchmarks, and lower IMF support as the new program will replace rather than complement previous arrangements.

The future trajectory of the war remains the key risk to the forecast, while the energy situation remains the most binding constraint on economic activity and overall macroeconomic stability, directly affecting production, fiscal revenues, as well as inflation and exchange rate dynamics. In addition, the **Iran war** has the potential to simultaneously weaken Ukraine's economy, strengthen Russia via windfall energy exports, bind key allies' military and diplomatic resources, and undermine their capacity to provide financing to Ukraine in the future. Ukraine's **heavy dependence on foreign assistance** is also a risk as political disagreements abroad or missed reform benchmarks at home could compromise timely disbursements. Other risks are structural and will persist beyond the war, including the loss of human capital, suppressed private investment, limited absorption capacity, persistently high budget deficits, external imbalances, and a growing debt burden. For more details, see Special 2 and KSE Institute's quarterly ***Ukraine Risk Matrix***.

Economic Activity

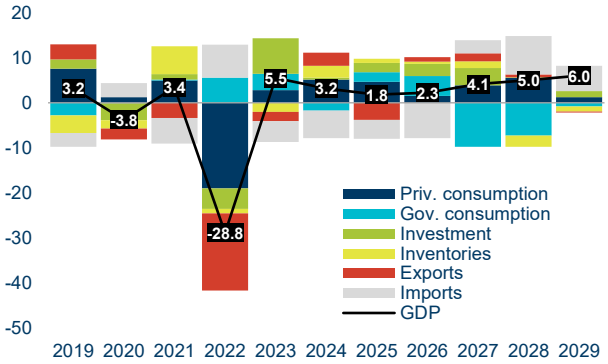
Ukraine's growth trajectory is shaped by two opposing forces: wartime disruptions and large-scale external support (see Figure 1). Intensified Russian strikes on energy infrastructure have constrained production capacity, raised costs, and amplified business uncertainty, forcing firms to operate intermittently, rely on autonomous power generation, or scale back activities altogether. This dragged real GDP growth to 1.8% in 2025, down from 3.2% in 2024. If firms continue adapting through decentralized energy solutions and logistical adjustments, the macroeconomic impact may remain relatively contained (at 0.1–0.2% of GDP); however, prolonged or widespread disruptions could generate losses of up to 2–3% of GDP as supply chains fragment and capacity utilization falls sharply. Partially offsetting these risks, the new €90 billion EU financing package supports higher investment, particularly in defense manufacturing and infrastructure reconstruction, and sustains private consumption through fiscal spending. This will limit the growth slowdown to 2.3% in 2026, in line with the realization of downside risks discussed in the Q1 *Ukraine Macroeconomic Handbook*. In the post-war period, a shift from elevated government consumption toward investment and normalized private demand is expected to lift growth to 5% or above (see Figure 2).

Figure 1: Real GDP and trend, 2021 UAH billion



Source: SSSU, KSE Institute

Figure 2: Real GDP growth and contributions, in %/pp



Source: SSSU, KSE Institute

Private consumption has remained the main stabilizing force throughout the full-scale war, cushioning the impact of supply-side disruptions. In 2025, household spending proved resilient despite high inflation, energy insecurity, and ongoing hostilities, contributing 4.6 pp to GDP growth, with consumption expanding by ~7.5%, supported by real wage growth, fiscal transfers, and military-related incomes. However, momentum weakened as security risks intensified and energy disruptions became more frequent during the winter: households shifted toward essential goods and energy-related items (including generators, batteries, and backup systems), increased precautionary savings, and in some cases relocated from high-risk regions. At the same time, consumption growth partially decoupled from domestic production capacity, reflecting strong import dependence and a demand shift toward imported goods and services. In 2026, private consumption is not expected to contribute as significantly to growth as it did previously amid renewed attacks on the energy system and elevated uncertainty, with the winter period representing a materialized key downside risk. In the post-war phase, consumption is projected to rebound strongly, supported by improving security conditions, returning labor supply, and income normalization, partially offsetting the gradual decline in government consumption as military spending recedes from its 2025–26 peak.

Government consumption contributed around 2.1 pp to GDP growth in 2025, with wartime fiscal expansion pushing public spending to ~40% of GDP, driven by elevated defense expenditures, large-scale social support programs, and the continued provision of critical public services (including education and healthcare), largely financed by foreign assistance. This underscores the central role of external support in sustaining domestic demand under wartime conditions. Military spending is expected to peak in 2025–26 before receding in the post-war period; however, public spending will remain structurally elevated relative to pre-war levels, reflecting persistent defense and security needs, as well as a strategic reorientation of external financing away from consumption support and toward public investment and large-scale reconstruction. Post-war social needs, namely for IDPs and veterans, will also contribute to elevated government spending.

Gross fixed capital formation recovered unevenly in 2025, growing 10.9% and contributing around 2 pp to GDP growth, driven by construction, infrastructure repair, and investment in industrial and defense capacity. However, this recovery remains fragile and is insufficient to sustain robust growth: investment dynamics have been volatile within the year, reflecting persistent war-related risks, destruction

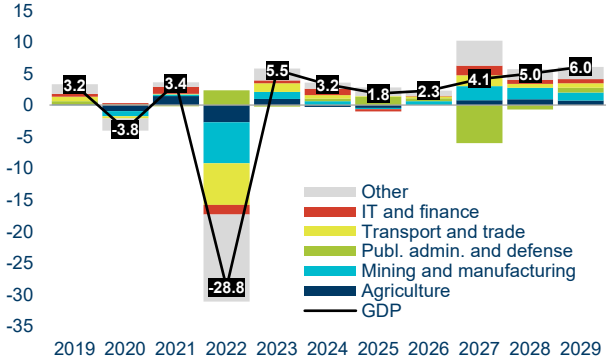
of productive assets, high cost of capital, and tight financial conditions, all of which constrained private sector participation and credit expansion. While public investment and donor-supported projects provided a partial offset, capital accumulation remained sectorally uneven, limiting its ability to act as a stable growth engine. From 2026 onward, investment growth is projected to accelerate as large-scale reconstruction intensifies, supported by concessional external financing, including the EU's €90 billion Ukraine Support Loan, public-private partnerships, institutional reforms in public investment management, war-risk insurance, and FDI policy (including through the recently announced "prosperity plan" to facilitate international companies' access to the Ukrainian market). By 2028, the investment share of GDP is expected to rise to ~24%, well above pre-war levels that averaged below 15%, anchoring a gradual transition toward an investment-led growth model but ultimately contingent on a continued improvement in the security environment.

Inventory changes played a secondary but volatile role, contributing 1 pp to GDP growth in 2025 through drawdowns, as firms minimized stock accumulation amid disrupted logistics, energy outages, physical destruction risks, and unpredictable demand conditions, reinforcing pro-cyclical output fluctuations.

Net exports remained the main drag on economic growth in 2025, reflecting structurally high import demand alongside constrained export capacity. Exports declined by 12.8%, driven by weaker agricultural output, tightening EU trade conditions, and ongoing industrial capacity losses (including in metallurgy), proving that the positive export impulse observed in 2024 was short-lived. Meanwhile, imports expanded by 8.3%, driven by strong demand for energy, military goods, machinery and equipment, and reconstruction-related inputs. This divergence widened the trade deficit sharply, with imports exceeding exports by more than a factor of two and net exports subtracting approximately 7.9 pp from GDP growth, reflecting not only robust domestic demand supported by fiscal expansion and external financing, but also persistent supply-side constraints, including energy shortages and the partial loss of export-oriented industries. In 2026, the export recovery will remain constrained by limited production capacity and logistics, while imports stay elevated due to sustained reconstruction demand, defense procurement supported by €60 billion in EU defense-industrial financing, and energy needs. Over 2027–28, the trade deficit is expected to narrow, primarily through the normalization of import demand rather than rapid export expansion, allowing net exports to turn from a structural drag to a modestly positive contributor for the first time since the full-scale invasion.

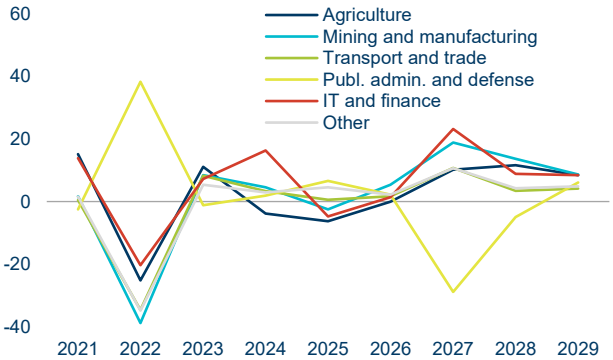
Sectoral developments in 2025–26 point to an economy constrained by wartime disruptions but gradually reorienting toward reconstruction-led growth model in the post-war period. Agriculture and extractive industries have acted as near-term drags due to weather shocks, labor shortages, war-related risks, and logistics constraints, but both retain significant rebound potential, contributing to growth in 2027–28. Manufacturing entered a moderate contraction in early 2026, reversing its H2 2025 recovery as energy shortages and rising costs disrupted production cycles. Its broader recovery will remain narrow until war termination brings greater energy reliability and investment acceleration, at which point the sector that includes an already strong defense segment will become the key post-war growth engine. Energy and transport remain the most critical enabling sectors: large-scale investment in power generation, grids, decentralized supply, and infrastructure is the primary precondition for unlocking capacity across all industries. Trade and consumption served as primary growth drivers in recent years but will assume a less prominent role during the investment-led recovery phase (see Figures 3 & 4).

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



Source: SSSU, KSE Institute

Figure 4: Real growth of key GDP sectors, % y-o-y



Source: SSSU, KSE Institute

Ukraine's industrial sector remained under contractionary pressure in early 2026, with output declining 4.6% in January–February, driven overwhelmingly by renewed Russian strikes on energy infrastructure. The utilities segment was the primary drag: electricity, gas, steam, and air-conditioning supply fell 16.5%, with electricity production, transmission, and distribution down 21%, reversing the

modest stabilization that rapid repairs and international support had achieved in 2025. Gas production partially offset this, rising 7.4%, but was insufficient to compensate for electricity shortfalls. Energy supply constraints became the primary transmission channel of shocks to the broader industrial base and amplified declines across mining and manufacturing, though the impact was uneven and depended on energy intensity and production structure. Energy sector recovery remains the critical bottleneck in 2026 and is contingent on infrastructure repair, decentralized generation, and external financing. Its gradual improvement is expected in 2027 (+10.6%), broadly in line with the projected acceleration of overall economic recovery to >4% annually as conditions normalize.

The mining sector showed signs of stabilization in February, with the pace of decline moderating in January–February to -1.7% representing an almost complete halt to recent negative dynamics. Output dynamics remained highly uneven: metal ore mining contracted sharply (-24.0%) amid declines in export demand and global prices, with iron ore exports dropping significantly in early 2026, while other mining and quarrying fell by 53.3% (the steepest decline in three years), reflecting weak construction-linked demand. Coal mining remained under pressure (-7.6%) due to security risks and structural decline. Oil and gas extraction was the key outlier, growing 8.4%, supported by domestic demand and strategic investment. Structural constraints continue to erode margins (mainly rising energy costs and weakening demand), while the EU Carbon Border Adjustment Mechanism (CBAM), which entered its implementation phase in 2026, adds further competitive pressure on carbon-intensive exports (e.g., iron and steel). Extractive sector output is expected to remain weak in the near term (+2.2%) before recovering in 2027–29, supported by investment in critical raw materials, reconstruction demand, and deeper EU value chain integration.

Manufacturing entered moderate contraction (-2.3%), reversing the strong growth observed in H2 2025 due to the impact of a difficult winter. Energy shortages and unstable electricity supply increasingly disrupted production cycles, particularly in energy-intensive industries. Rising energy and import costs, logistical bottlenecks, labor shortages, and heightened security risks further eroded momentum. Firms adapted via backup generation, load management, and production schedule adjustments, but production became increasingly intermittent: emergency outages and load-shedding forced facilities to halt operations for hours or days, while energy-intensive sectors such as metallurgy faced high restart costs and occasional full line shutdowns to prevent equipment damage. Output dynamics were highly heterogeneous across subsectors. A modest recovery is expected in 2026 (+6.6%), conditional on energy supply stabilization, with growth remaining concentrated in defense, construction materials, and selected high-value segments. Over 2027–28, the sector carries the strongest upside potential, driven by reconstruction demand, reindustrialization, supply-chain relocation, technological upgrades, and capital inflows.

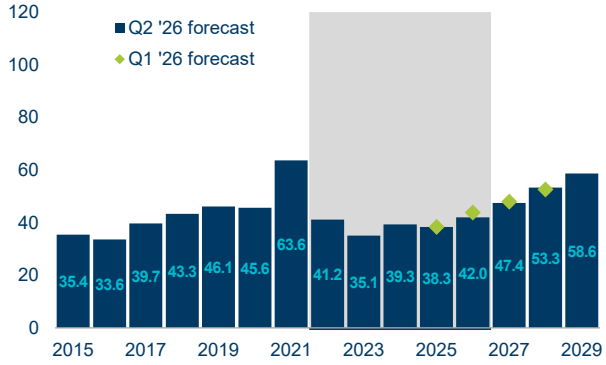
Construction is undergoing a structural shift from private to publicly funded activity, with civil engineering emerging as the sole growth driver, while building construction contracts sharply. In January–February 2026, overall output declined by 1.8%, driven by a contraction in residential (-11.5%) and non-residential (-9.5%) segments amid weak investment demand, limited financing access, energy constraints, and construction price inflation of around 6.5%. Civil engineering expanded by 8.5%, reflecting concentration of activity in donor-supported infrastructure, logistics, and energy reconstruction. Looking ahead, modest sector growth of 2.4% is projected for 2026, followed by a sharp rebound in 2027 (+54.2%) as reconstruction programs scale up, and solid growth in 2028 (+12.2%). The sector's normalization is expected in 2029 as emergency rebuilding gives way to a conventional investment cycle increasingly dependent on private demand and structural rather than reconstruction-driven activity.

The transport sector is undergoing a deeper structural transformation than cyclical output data alone suggest, with the fragmentation of traditional export corridors reshaping logistics patterns and limiting the sector's capacity to fully support economic recovery. The sharp divergence between freight volumes (-6.4%) and turnover (-19.0%) in early 2026 reflects shorter, less efficient routes replacing long-haul export flows; rail, structurally dominant but highly exposed to export fluctuations and infrastructure damage, was the primary drag. Passenger traffic dropped 11.7% amid subdued domestic demand, while road transport partially offset losses as logistics reconfigured toward EU-oriented land corridors. Infrastructure damage, energy constraints, and rising logistics costs continue to reduce system efficiency and increase volatility. Transport sector is projected to grow modestly at 2.2% in 2026 as logistics chains stabilize, followed by a sharper expansion in 2027 driven by reconstruction and base effects, and moderate and stable growth through 2028–29.

Balance of Payments

Imports continue to grow strongly and will be exacerbated by soaring energy prices related to the Iran war, while delayed Ukraine Support Loan disbursements will shift some imports into 2028. In 2025, goods imports reached $89.6 billion—a 23.9% increase compared to 2024 and even higher (by $2.3 billion) than forecast in the last *Ukraine Macroeconomic Handbook*. In December alone, imports reached nearly $10 billion and these dynamics continued in early 2026, with January–February numbers up 29% year-over-year. Exports, on the other hand, performed in line with expectations in 2025, reaching $38.3 billion (-2.7% vs. 2024). Data for the first two months of the year do not indicate a meaningful increase, and supply-side disruptions due to the energy crisis during the winter will weigh on exports for some time. Ukraine's trade deficit reached $51.3 billion in 2025—$18.3 billion (56%) higher than in 2024—and stands at $9.5 billion after just two months in 2026. With imports more than twice the size of exports, this structural imbalance is increasingly difficult to overcome. Importantly, these numbers do not yet account for a significant increase in imports likely to come due to soaring energy prices stemming from the Iran war.

Figure 5: Goods exports, USD billion



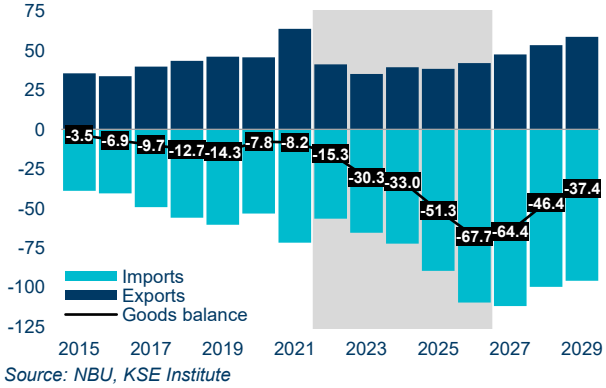
Source: NBU, KSE Institute

Figure 6: Goods imports, USD billion

Source: NBU, KSE Institute

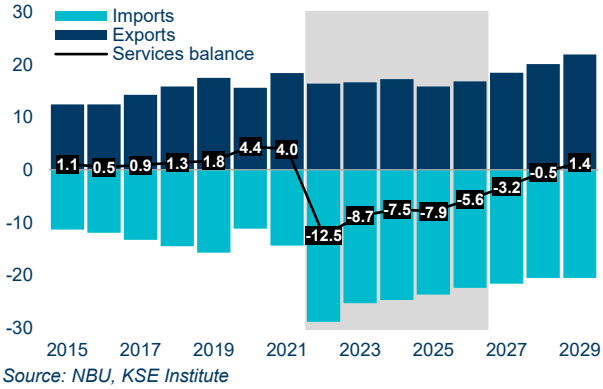
Three factors lead to revisions to our forecast for imports: *First*, recent dynamics show a strong increase even before any funds from the Ukraine Support Loan are provided—likely due to supply-side disruptions as a result of Russian strikes on critical infrastructure. *Second*, the Iran war will increase Ukraine's import bill via higher oil product and natural gas prices—by around $5.6 billion in 2026 (see Special 1). *Third*, delayed disbursement under the Support Loan will shift some of the corresponding additional imports from 2026 into 2027 (and from 2027 into 2028). On the export side, we expect energy and logistics challenges to dampen growth but not fundamentally alter the trajectory, resulting in an increase from $38.3 billion in 2025 to $42.0 billion this year and $47.4 billion in 2027 (see Figure 5). Total imports are projected to grow from $89.6 billion in 2025 to $110–112 billion in 2026–27, before declining to $100 billion in 2028 and $96 billion in 2029 (see Figure 6). This year, higher energy prices and domestic supply disruptions will more than offset the delay in EU defense funds, while the shift of the latter into 2028 will keep imports elevated for longer. Altogether, the trade deficit will be considerably larger than previously expected in 2026–28 (see Figure 7).

Figure 7: Trade balance and components, USD billion



Source: NBU, KSE Institute

Figure 8: Services balance and components, USD billion

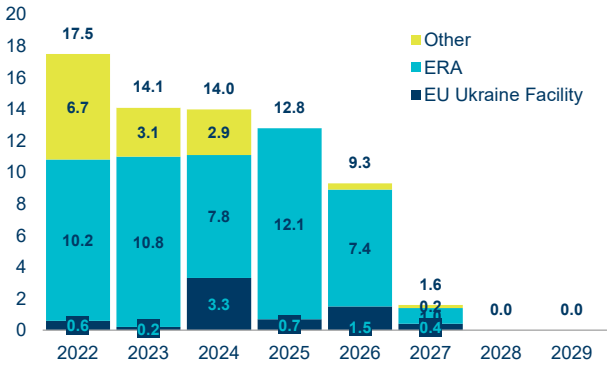


Source: NBU, KSE Institute

Ukraine's services deficit is expected to improve over the coming years, but less than previously forecast due to upward revisions of the official data for services debits in 2022–24. Significant improvements will not materialize until the end of the war. According to the latest numbers, the deficit grew from $7.5 billion in 2024 to $7.9 billion in 2025, and we project it will decline gradually in 2026 ($5.6 billion),

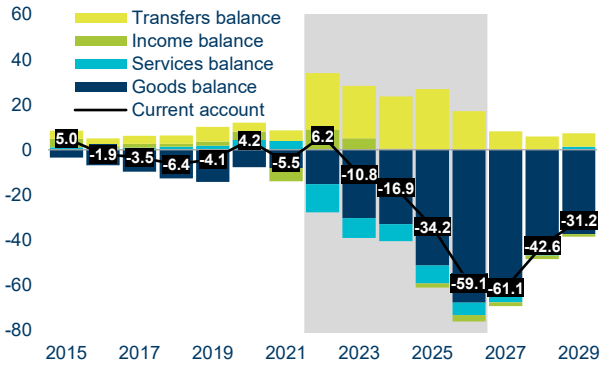
2027 ($3.2 billion), and 2028 ($0.5 billion), before turning into a small surplus (of ($1.4 billion) in 2029 (see Figure 8). Payments related to travel services have been a major driver of Ukraine's services balance since 2022 due to the large number of refugees abroad and are not expected to decline to pre-war levels until 2028–29, as the return of Ukrainians living abroad will take time and not start in earnest until the end of the war. Economic growth will partially offset these dynamics and limit the decrease in total services imports—from a peak of $28.9 billion in 2022 to $21–22 billion in 2027–29. Services exports are expected to grow robustly—by 38.5% in 2029 vs. 2025—and reach $21.9 billion by the end of the forecast period.

Figure 9: Foreign grants, USD billion



Source: KSE Institute

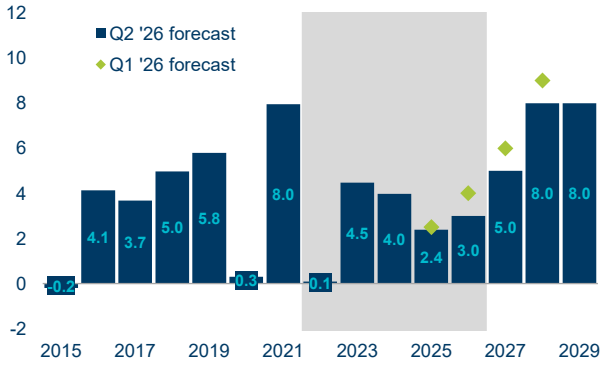
Figure 10: Current account and components, USD billion



Source: NBU, KSE Institute

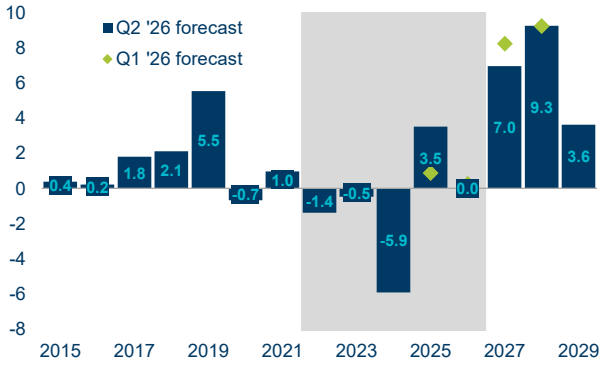
The current account surplus will widen considerably in the coming years due to soaring imports and lower foreign grants. In addition to the aforementioned dynamics in the goods and services trade, Ukraine's current account is heavily influenced by foreign grants. They increased from less than $1.0 billion in 2021 to $17.4 billion in 2022 and remained at $14–15 billion in 2023–25 (see Figure 9), limiting the war's impact on the current account. However, grants are expected to drop to $9.3 billion this year before effectively disappearing in 2027–29 (in line with our previous forecast) as financing needs stemming from the trade deficit soar. While the shift from grants to loans is immaterial for the overall external balance—it simply shifts money to the financial account—it does lead a dramatic decline of the secondary income balance and, in turn, a sharply wider current account deficit. We expect the latter to grow from $34.2 billion in 2025 to $59–61 billion in 2026–27, respectively, before narrowing to ~$31 billion by 2029 (see Figure 10). Altogether, Ukraine will remain heavily dependent on official flows to fulfil its external financing needs.

Figure 11: Non-resident direct investment, USD billion



Source: NBU, KSE Institute

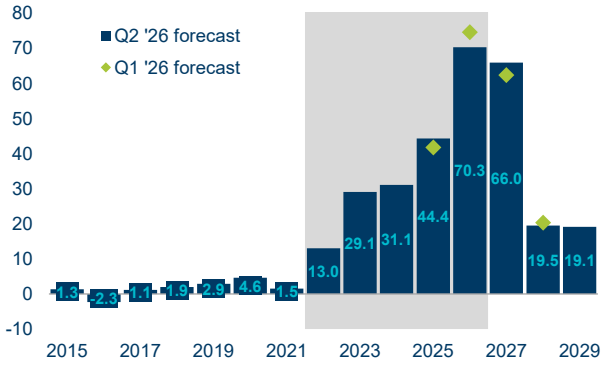
Figure 12: Non-resident portfolio investment, USD billion



Source: NBU, KSE Institute

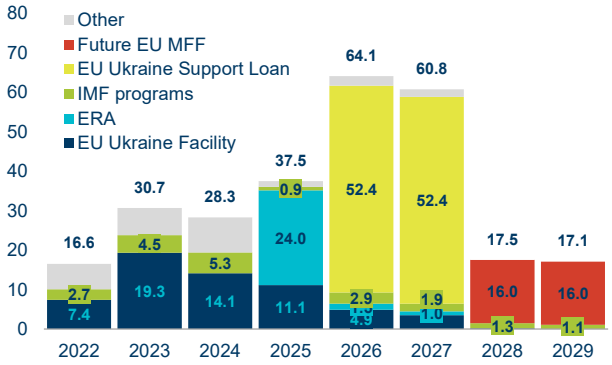
Capital flows are largely driven by official inflows, while direct and portfolio investment remain weak. FDI was significantly lower (-40%) in 2025 than in the previous year—reaching only $2.4 billion—with the trend continuing into January–February 2026. Thus, we revised our forecast for the coming years down, while still expecting a noticeable pickup after the end of the war (see Figure 11). Portfolio flows have largely been absent since 2022 (see Figure 12, and note that the numbers in 2024–25 reflect debt restructuring and are offset elsewhere in the balance of payments) but we assume a forceful return to the Eurobond market to finance the budget in 2027–29, with issuance of €3 billion each year. We also expect foreign investors to return to domestically issued sovereign debt with total inflows of around $6.5 billion in the post-war period. As for non-resident other investment, inflows are set to reach $70.3 billion in 2026 and $66.0 billion in 2027 on the back of the EU's €90 billion Ukraine Support Loan and the new IMF program (see Figures 13 & 14). For 2028–34, we assume support under the new EU MFF. Ukraine's financial account also benefits from a pronounced drop in resident outflows, which fell to $5.8 billion in 2025 (-65% vs. 2024) and are expected to remain moderate (see Figure 15), with some risk for larger outflows once capital controls are eased.

Figure 13: Non-resident other investment, USD billion



Source: NBU, KSE Institute

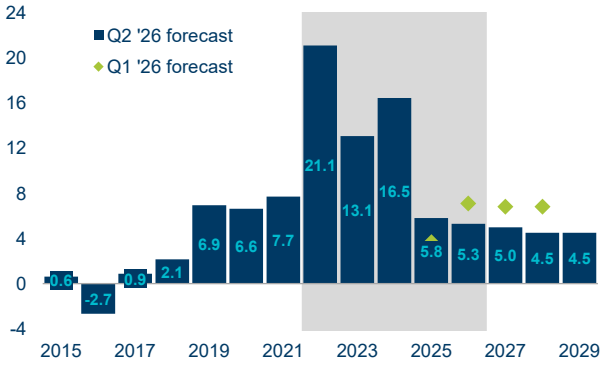
Figure 14: Foreign loans, USD billion



Source: KSE Institute

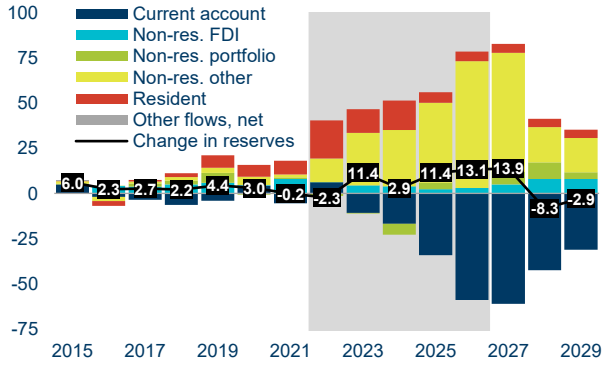
Considerable foreign financial support—including through the EU's Ukraine Support Loan and the newly adopted IMF program—will allow for substantial reserve accumulation over 2026–29. Official reserves declined by $2.5 billion over January–February as imports soared and disbursements of foreign support were delayed. Going forward, however, we expect reserves to rise to $84.3 billion by the end of 2027 before falling to $73.2 billion by the end of 2029—a cumulative increase of $15.9 billion (see Figure 16)—which would allow Ukraine to maintain a comfortable reserve adequacy ratio above 7.5 months of imports of goods and services for most of the forecast period. This represents a downward revision (of $8.0 billion) for 2026–28 compared to the Q1 forecast, largely due to the significant increase in imports as a result of war-related disruptions to domestic production, weapons procurement needs, and soaring energy prices due to the Iran war. This reserve outlook assumes that no further delays in foreign support disbursements occur, either from political disagreements in the European Union or missed reform benchmarks in Ukraine.

Figure 15: Resident capital outflows, USD billion



Source: NBU, KSE Institute

Figure 16: Drivers of change in reserves, USD billion



Source: NBU, KSE Institute

Table 3. External sector forecast

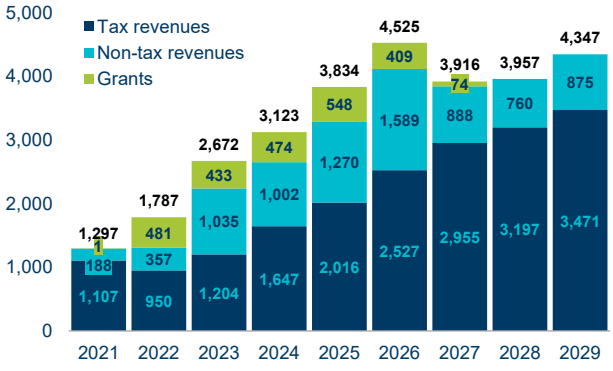
$ billion	2021	2022	2023	2024	2025	2026f	2027f	2028f	2029f
Current account balance	-5.5	6.2	-10.8	-16.9	-34.2	-59.1	-61.1	-42.6	-31.2
Goods balance	-8.2	-15.3	-30.3	-33.0	-51.3	-67.7	-64.4	-46.4	-37.4
Exports	63.6	41.2	35.1	39.3	38.3	42.0	47.4	53.3	58.6
Imports	71.8	56.5	65.5	72.3	89.6	109.8	111.8	99.7	96.0
Services balance	4.0	-12.5	-8.7	-7.5	-7.9	-5.6	-3.2	-0.5	1.4
Primary income balance	-5.8	8.8	5.1	0.5	-1.8	-2.8	-1.7	-1.7	-1.2
Secondary income bal.	4.6	25.1	23.2	23.1	26.9	17.1	8.2	5.9	6.0
Foreign grants	0.9	17.4	14.1	14.0	14.5	9.3	1.4	0.0	0.0
Non-resident capital flows	10.4	11.7	33.1	29.1	50.3	73.3	77.9	36.8	30.7
Direct investment	8.0	0.1	4.5	4.0	2.4	3.0	5.0	8.0	8.0
Portfolio investment	1.0	-1.4	-0.5	-5.9	3.5	0.0	7.0	9.3	3.6
o/w pub. Eurobonds.	0.8	-0.3	-0.1	-5.3	3.5	0.0	3.5	3.5	0.0
o/w dom. gov. debt	0.2	-1.1	-0.4	-0.6	-0.1	0.0	2.2	3.2	1.1
Other investment	1.5	13.0	29.1	31.1	44.4	70.3	66.0	19.5	19.1
o/w public loans	0.9	15.3	28.0	27.6	37.7	63.9	57.5	14.5	14.1
Resident flows (- = outfl.)	-7.7	-21.1	-13.1	-16.5	-5.8	-5.3	-5.0	-4.5	-4.5
Change in reserves	-0.2	-2.3	11.4	2.9	11.4	13.1	13.9	-8.3	-2.9
Total reserves	30.9	28.5	40.5	43.8	57.3	70.4	84.3	76.0	73.2
in months of imports	4.3	4.0	5.4	5.4	6.1	6.4	7.6	7.6	7.5

State Budget and Financing

Budget revenues are projected to drop sharply in 2027 before recovering over the remainder of the forecast period, while shifting from dependence on external grants towards a domestically driven fiscal base. The decline after the end of the war is primarily due to a reduction in foreign grants and international military assistance recorded in non-tax revenues, though steady growth in tax revenues will support a gradual recovery of total revenues in the medium term (see Figure 17). While economic growth and inflation will provide significant support to tax revenues, several other factors deserve attention as the composition of revenues shifts in the coming years. These include intensified attempts to reduce the shadow economy (especially in the area of customs, where a new Head of the State Customs Service of Ukraine was just appointed), and a 2026 increase of the corporate profit tax rate for banks (from 25% to 50%). Furthermore, 2027 will see the likely removal of customs exemptions for postal shipment worth less than €150, taxation of income earned through digital platforms, and broader structural reforms under the National Revenue Strategy. On the other hand, import-related taxes—i.e., import VAT and excise taxes—will shrink amid post-war import stabilization beginning in 2028. Finally, the transition will also be underpinned by a move towards progressive personal income taxation, the gradual elimination of inefficient tax exemptions, reform of the simplified tax regime, and large-scale tax administration digitalization.

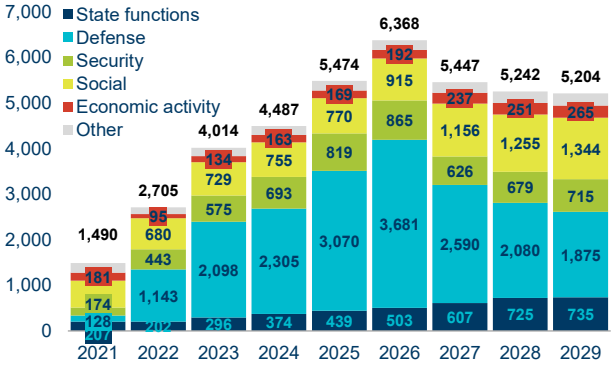
Budget expenditures are projected to reach UAH6.4 trillion in 2026 (+16.3% compared to 2025) before a gradual post-war decline brings them down to UAH5.2 trillion in 2028–29 (see Figure 18). The increase in 2026 is primarily driven by persistently high spending on defense and security, which is expected to amount to UAH4.5 trillion ($102.9 billion) compared to UAH3.9 trillion ($93.3 billion) in 2025 and UAH3.0 trillion ($74.6 billion) in 2024. Non-defense expenditures are also projected to increase by 15% in 2026, reflecting new government initiatives in education, healthcare, and social protection. Following the end of the full-scale war, total expenditures are expected to gradually decline to UAH5.4 trillion in 2027 and further to UAH5.2 trillion by 2028–29, mainly thanks to a reduction in defense and security spending, which is projected at UAH3.2 trillion ($69.9 billion) in 2027 before falling further to UAH2.6 trillion ($56.7 billion) in 2029. In our assessment, the decline will be most pronounced in 2027 during the first year after the full-scale war and more moderate in the following years as Ukraine will need to maintain deterrence against potential future Russian aggression and replenish military stockpiles, partly supported by international financial and in-kind military assistance. Altogether, defense and security expenditures will remain significantly above NATO averages, at around 28% of GDP in 2027 and 17–21% of GDP in 2028–29. Non-defense spending is expected to grow moderately in the post-war period, with a focus on supporting IDPs and veterans, as well as infrastructure reconstruction.

Figure 17: State budget revenues, UAH billion



Source: Ministry of Finance, KSE Institute

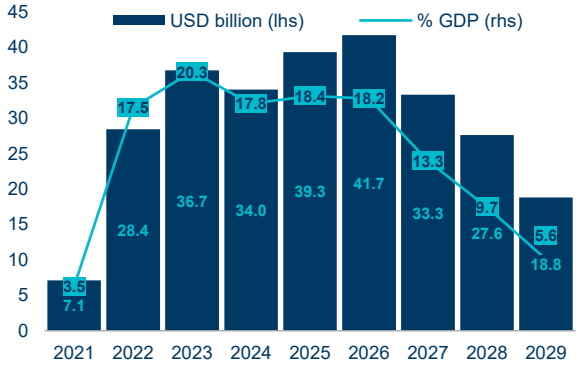
Figure 18: State budget expenditures, UAH billion



Source: Ministry of Finance, KSE Institute

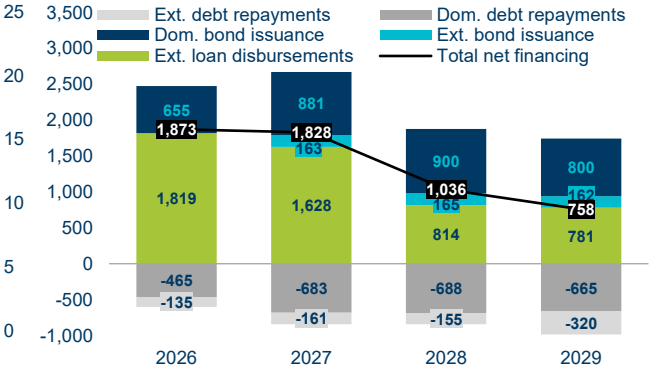
The combination of defense and social protection needs and reconstruction spending will keep Ukraine's state budget deficit at exceptionally high levels, although we expect a significant improvement by 2029. The deficit is forecast to reach a peak in nominal terms in 2026, increasing from UAH1.6 trillion ($39.3 billion, 18.4% of GDP) in 2025 to UAH1.8 trillion ($41.7 billion, or 18.2% of GDP). In the post-war period, the deficit is forecast to narrow gradually, declining to UAH1.5 trillion ($33.3 billion, 13.3% of GDP) in 2027, UAH1.3 trillion ($27.6 billion, 9.7% of GDP) in 2028, and UAH0.9 trillion ($18.8 billion, 5.6% of GDP) in 2029 (see Figure 19). Despite meaningful consolidation, pressure on public finances will persist well beyond the end of the war, as defense and security expenditures remain elevated, vulnerable populations continue to require significant social support, and reconstruction efforts rely in part on public investment. Under these conditions, sustained and predictable financial assistance from Ukraine's international partners, and Ukraine's fulfillment of necessary reforms, will remain critical.

Figure 19: State budget deficit



Source: Ministry of Finance, KSE Institute

Figure 20: State budget financing, UAH billion



Source: NBU, KSE Institute

Budget financing will continue to rely heavily on foreign support. In 2025, the main sources were loans under the Ukraine Facility ($11.1 billion) and the ERA mechanism ($24.0 billion). These instruments will remain important this year, while additional funding will come from the EU's €90 billion Ukraine Support Loan (USL) and the new ~$8.1 billion IMF Extended Fund Facility (see Figure 20). We expect €16.7 billion of the USL's €30 billion in macro-financial support and €28.3 billion (€9.7 billion via the budget) of the €60 billion aimed at strengthening Ukraine's defense-industrial base to be received this year. As for the IMF program, Ukraine has already received the first tranche of $1.5 billion, and we expect an additional $1.4 billion in H2. In 2027–29, budget financing will also be available through a return to the Eurobond market (~€9 billion) and substantial inflows (~$6.5 billion) of non-resident investment into domestically-issued sovereign debt.

Altogether, we assess that the Ukraine Support Loan, the new IMF program, and future funding within the EU's MFF will ensure that Ukraine's budgetary needs are met until 2029. Over 2026–29, we estimate budget financing needs of approximately UAH5.5 trillion or $121.4 billion ($132.3 billion without grants). For the same period, we identify committed or likely financing of UAH5.5 trillion or $121.0 billion—overwhelmingly (~87%) from external sources—resulting in only a minor financing gap of $0.4 billion (see Table 4).

Budget underfunding risks intensified in Q2 after a materially unaffected Q1. A $2.7 billion Ukraine Facility disbursement tied to reform indicators provided a critical buffer through April–May. With the Hungarian veto risk eliminated, early June USL disbursements now appear increasingly plausible and would keep the fiscal situation manageable; a further delay, however, would force difficult expenditure optimization under conditions of irreducible military need, underscoring the urgency of predictable disbursement timelines.

Table 4. State budget forecast

	2021	2022	2023	2024	2025	2026f	2027f	2028f	2029f
State budget, UAH bn									
Total revenues	1,297	1,787	2,672	3,123	3,834	4,525	3,916	3,957	4,347
in % of GDP	23.8	34.1	40.3	40.8	43.1	44.8	34.1	29.8	28.4
Tax revenues	1,107	950	1,204	1,647	2,016	2,527	2,955	3,197	3,471
Foreign grants	1	481	433	474	548	409	74	0	0
Total expenditures	1,490	2,705	4,014	4,487	5,474	6,368	5,447	5,242	5,204
in % of GDP	27.3	51.6	60.6	58.6	61.5	63.0	47.4	39.5	34.1
Defense & security	302	1,586	2,672	2,997	3,889	4,546	3,216	2,759	2,590
Overall balance	-193	-918	-1,342	-1,364	-1,639	-1,842	-1,531	-1,285	-858
in % of GDP	-3.5	-17.5	-20.3	-17.8	-18.4	-18.2	-13.3	-9.7	-5.6
Balance x/ grants	-195	-1,399	-1,776	-1,838	-2,187	-2,251	-1,605	-1,285	-858
Financing, UAH bn									
Domestic financing						190	198	212	135
Debt issuance						655	881	900	800
Repayments						-465	-683	-688	-665
External financing						1,683	1,630	824	623
Debt issuance						0	163	165	162
Loan disbursements						1,819	1,628	814	781
Repayments						-135	-161	-155	-320
Financing, $ bn									
Needs						41.7	33.3	27.6	18.8
Sources						42.4	39.7	22.3	16.6
Gap						-0.7	-6.5	5.4	2.2

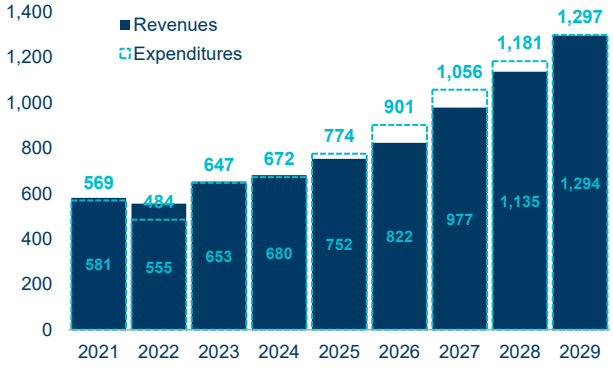
Local and Consolidated Budgets

Local budgets continue to face wartime constraints in 2026 but are projected to expand steadily through 2029, as economic normalization and higher transfers gradually offset fiscal pressures. A revision of the horizontal equalization approach[1] is expected in 2026 and is likely to involve updated formulas for measuring fiscal capacity and expenditure needs, as well as adjustments to the parameters of basic and reverse grants to better reflect disparities across municipalities. However, its impact will be primarily redistributive and not significantly change overall local budget revenues or expenditures (see Figure 21).

Local revenues are projected to increase from UAH822 billion in 2026 to UAH1,294 billion in 2029, driven mainly by personal income tax receipts—which will remain the core source of revenues—as well as gradual economic normalization and growing intergovernmental transfers. This assumes a broadly stable transfer policy and no major tax reforms affecting local budgets before 2029, along with a gradual expansion of the tax base during reconstruction. A rebalancing of revenues may occur due to reduced use of simplified taxation schemes to substitute formal employment, which could slightly decrease single tax revenues while increasing personal income tax proceeds; the effects may be uneven across municipalities but will not materially affect aggregate local budget revenues. Additional fiscal space may come from greater access to external financing, including EU integration instruments and expanded local borrowing. However, this will also increase local debt, requiring stronger fiscal risk management by municipalities.

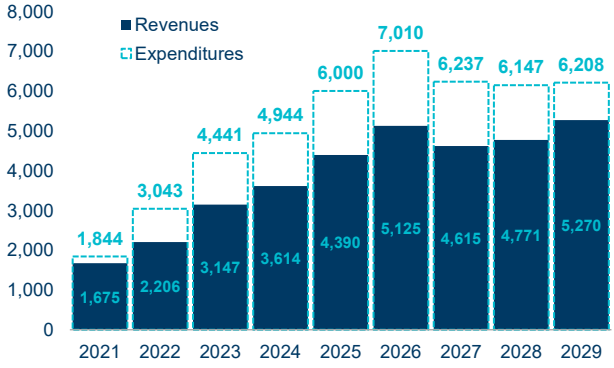
Local spending is set to grow steadily and with notable shifts in composition through 2029. Structurally, it will move away from a model focused mainly on current expenditures and circumscribed by wartime restrictions, and toward increased financing of reconstruction and expanded service provision that will support the return of residents. The volume of spending is projected to grow from UAH901 billion in 2026 to UAH1,297 billion in 2029, reflecting a shift from stabilization to recovery (see Figure 21). Post-war reconstruction will be the main driver, increasingly anchored at the local level through public investment management reform. Education and housing expenditures are projected to increase by 56.3% and 43.7%, respectively, while social spending is expected to rise by 56.1% over the forecast period following regulatory changes adopted in late 2025. Meanwhile, security-related expenditures are projected to decline by 49.5%, whereas spending on cultural and public services will gradually recover.

Figure 21: Local budget indicators, UAH billion



Source: Ministry of Finance, KSE Institute

Figure 22: Consolidated budget indicators, UAH billion



Source: Ministry of Finance, KSE Institute

Table 5. Local and consolidated budget forecast

UAH billion	2021	2022	2023	2024	2025	2026f	2027f	2028f	2029f
Local budgets									
Revenues	581	555	653	680	752	822	977	1,135	1,294
Expenditures	569	484	647	672	774	901	1,056	1,181	1,297
Balance	11	71	6	7	-22	-79	-78	-46	-2
Consolidated budget									
Revenues	1,675	2,206	3,147	3,614	4,390	5,125	4,615	4,771	5,270
Expenditures	1,844	3,043	4,441	4,944	6,000	7,010	6,237	6,147	6,208
Balance	-170	-838	-1,294	-1,330	-1,610	-1,885	-1,621	-1,376	-937

[1] Horizontal equalization refers to a fiscal mechanism that redistributes resources between municipalities based on their tax capacity, aiming to reduce disparities in revenue-raising ability and ensure a more balanced provision of public services across territories. At the municipal level, equalization is currently based on only on personal income taxes and population figures. However, the lack of reliable and up-to-date population data leads to a system relies on estimates that are often outdated. The government plans to revise the equalization approach, which may involve a broader set of parameters that better reflect the real fiscal capacity of municipalities.

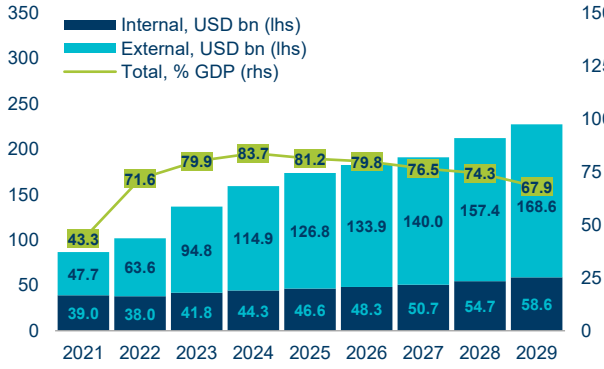
State Debt

Ukraine's state debt has risen considerably since the start of the full-scale invasion, reaching UAH9.2 trillion (or $213.1 billion) in February 2026. Due to substantial financing needs, Ukraine has borrowed extensively and relies heavily on external support, altering the composition of public debt. While most new external loans carry favorable concessional terms that impose minimal debt service burden, the rising share of external debt increases the exposure to exchange rate depreciation.

In the baseline scenario, debt as a share of GDP will begin declining in 2026—to 79.8% from 81.2% in 2025—and fall to 67.9% by 2029 (see Figure 23 & Table 6). Notably, these projections exclude obligations under the ERA mechanism, as repayments are guaranteed by windfalls profits from immobilized Russian assets. The EU's €90 billion Ukraine Support Loan, to be disbursed for macro-financial assistance and defense-industrial capacity building over 2026–27, will also be repaid only in the case of Russian reparations payments. Moreover, the loan is non-interest bearing, which reduces the potential debt service burden considerably, while profits from Russian assets are being used for ERA-related interest payments.

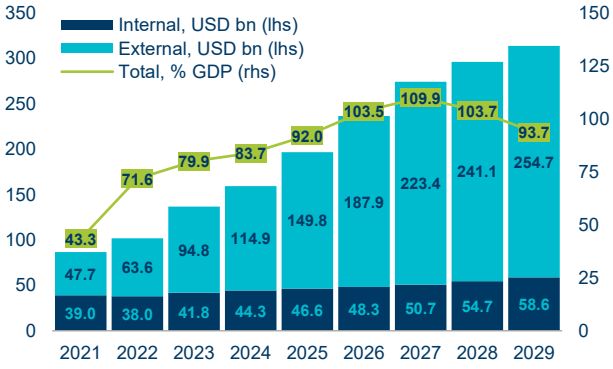
The nature of new funding mechanisms is the primary driver of the stabilization and subsequent decline of the debt-to-GDP ratio, enabling Ukraine to secure substantial foreign support without meaningfully increasing its debt burden. Including ERA and the new Ukraine Support Loan, debt will peak at close to 110% of GDP in 2027 before easing amid reduced external borrowing and post-war GDP growth acceleration (see Figure 24 & Table 6). Future funding mechanisms must prioritize debt sustainability. Despite the favorable structure of the ERA mechanism and the new Ukraine Support Loan, Ukraine faces a substantial repayment burden from war-era borrowing that will persist for years. Managing maturities and refinancing will demand significant post-war attention to safeguard long-term fiscal stability.

Figure 23: Debt dynamics, excluding conditional loans



Source: Ministry of Finance, KSE Institute

Figure 24: Debt dynamics, including conditional loans



Source: Ministry of Finance, KSE Institute

Table 6. Debt dynamics forecast

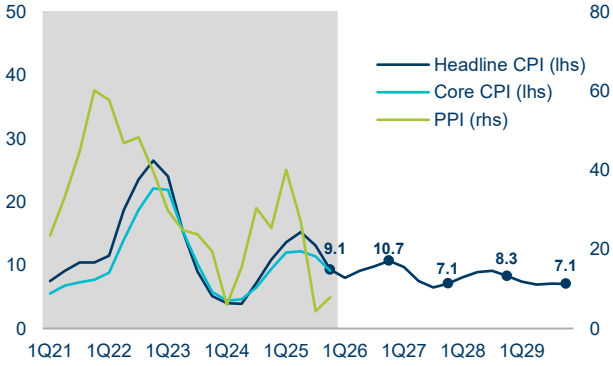
	2021	2022	2023	2024	2025	2026f	2027f	2028f	2029f
Total debt, UAH bn	2,363	3,715	5,188	6,692	7,229	8,049	8,769	9,865	10,380
o/w external	1,300	2,325	3,600	4,829	5,285	5,915	6,437	7,321	7,702
o/w domestic	1,063	1,390	1,588	1,863	1,944	2,134	2,332	2,544	2,679
Including ERA, EU loan	*2,363*	*3,715*	*5,188*	6,692	8,191	10,436	12,605	13,760	14,317
Total debt, $ bn	86.6	101.6	136.6	159.2	173.4	182.2	190.7	212.0	227.2
o/w external	47.7	63.6	94.8	114.9	126.8	133.9	140.0	157.4	168.6
o/w domestic	39.0	38.0	41.8	44.3	46.6	48.3	50.7	54.7	58.6
Including ERA, EU loan	*86.6*	*101.6*	*136.6*	159.2	196.5	236.2	274.1	295.8	313.3
Total debt, % GDP	43.3	71.6	79.9	83.7	81.2	79.8	76.5	74.3	67.9
o/w external	23.9	44.8	55.4	60.4	59.4	58.7	56.1	55.1	50.4
o/w domestic	19.5	26.8	24.4	23.3	21.8	21.2	20.3	19.2	17.5
Including ERA, EU loan	*43.3*	*71.6*	*79.9*	83.7	92.0	103.5	109.9	103.7	93.7

Inflation

Headline inflation increased to 7.6% year-over-year in February and March 2026 as the global energy crisis shaped short-term dynamics and has elevated medium-term inflationary pressures. The producer price index accelerated from 8.2% in December 2025 and 11.2% in January to 34.5% in February, driven by its energy component surging to 64.5%. These dynamics threaten to significantly narrow businesses' profit margins amid labor scarcity that requires higher wages and competitiveness pressure from imports, while a relatively stable exchange rate (with a y-o-y devaluation of ~2.6% in February 2026) narrows the room for price increases. This leads to a supply bottleneck and risks businesses' sustainability or survival, as higher costs affect bankability and overall willingness to extend credit amid relatively tight monetary policy.

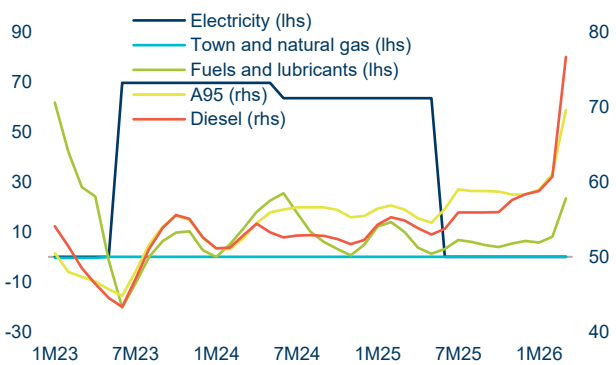
Post-war reconstruction will generate strong demand and sustained inflation pressures in 2027–29, but the NBU will likely tolerate a moderate overshoot of its inflation target in order to preserve credit conditions and support the recovery. Inflation will initially be suppressed (below 10%) by the high base from 2026 and the moderation of the Iran war's fuel price shock; however, core pressures will remain and even strengthen during the post-war period. CPI is forecast on average in the 7–8% range throughout 2027, rising late next year and into 2028, moderately shifting from cost-push to demand-pull inflation. With projected real GDP growth of 4–5% and the deployment of reconstruction financing expected to peak in 2028, domestic demand will strengthen significantly. A recovery of real wages will support household consumption; construction and infrastructure investment will lift demand for building materials, services, and skilled labor across the economy; and capex expansion by firms re-entering or scaling up operations will add to aggregate demand, prolonging the period of slightly elevated inflation further to 2029 (see Figure 25).

Figure 25: Headline CPI, core inflation, and PPI, % y-o-y



Source: NBU, KSE Institute

Figure 26: Inflation details (% y-o-y) and fuel prices (UAH)



Source: SSSU

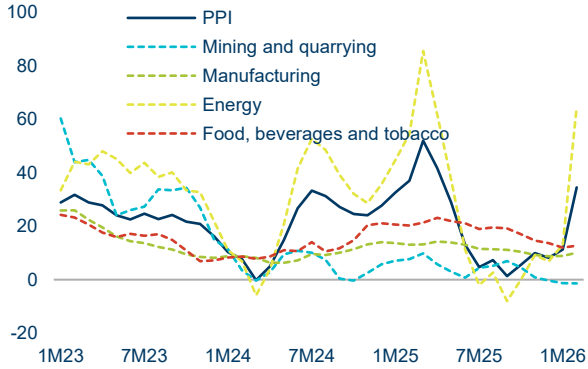
The pass-through of the energy price shock to Ukraine's fuel prices has been near-instantaneous and is now working its way through to production costs. Fuel CPI sharply reversed its downward trend, rising from 6.4% in December 2025 to 23.4% in March, as escalation of the Iran war caused global crude prices to surge (see Figure 26). Ukraine—a net importer of refined petroleum products ($5.5 billion in 2025, ~6–7% of total imports) with limited buffering capacity—had little ability to mediate the pass-through from global benchmarks to domestic retail fuel prices. The energy PPI component (see above) confirmed the same dynamic at the producer level. The implications for the next six months are significant: global oil markets are likely to remain tight and volatile as long as the Iran war persists and during the subsequent period of normalization of production in and flows from the Persian Gulf, meaning fuel CPI will continue to maintain its new steady-state, pushing inflation up by 2–3 pp from the baseline trajectory via both direct and secondary effects of higher production costs and imported inflation (see Special 1).

Second-round effects will become visible in the PPI breakdown in the nearest future, as higher fuel costs propagate through diesel-intensive industries, including manufacturing, logistics, and agriculture. Ukrainian manufacturing is heavily dependent on diesel across its most economically significant sectors: road freight runs mostly on diesel (exacerbated by the sector's continued reliance on older vehicles amid a steady decline in new purchases); agricultural field machinery, grain dryers, and cold-chain transport are similarly exposed (having consumed nearly one million tons of diesel in 2023); and construction equipment operates on diesel, now vulnerable precisely when reconstruction activity is beginning to build. These costs will move through already elevated production costs: food and beverage PPI held at 12.7% and manufacturing PPI decreased slightly to 10.0% in February, while several shock-responsive categories—fish

(+19.4%), fruit (+17.1%), and eggs (+20.4%)—have accelerated faster than the broader food basket (see Figure 27). Processed categories will follow, typically with a 1–2-month lag, once logistics costs are absorbed.

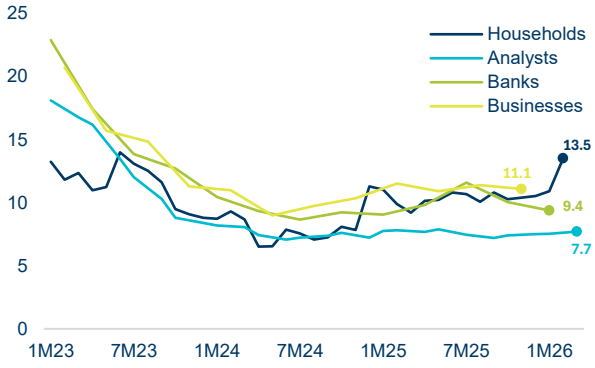
Beyond the direct fuel shock, a set of compounding second-order inflation risks is building across import prices, producer costs, and administered pricing. Ukraine's import structure exposes the consumer basket and production cost base to partner-country price pressures that operate independently of domestic energy dynamics. The same energy shock is feeding through European supply chains, with euro area HICP projected at 2.6% in 2026, making the import-price channel persistent, broadening, and resistant to monetary tightening given low substitution elasticity for pharmaceuticals, machinery components, and processed inputs. At the producer level, the Q1 2026 cost environment reflects a difficult winter requiring costly autonomous power generation, a structural electricity deficit, and now the surge in fuel prices compressing margins across Ukraine's most cost-sensitive export sectors. Grains, oilseeds, metals, and chemicals are all price takers on the global market, meaning the adjustment falls entirely on output, investment capacity, and credit quality rather than on prices. Layered on top of these market-driven pressures are administered price risks. Household electricity tariffs—frozen despite an energy PPI of 64.5% in February—face conditions that are more acute than those that prompted previous tariff adjustments in 2023 and 2024; if a third adjustment round is indeed implemented in H2 2026, which we consider probable, the direct CPI impact would be ~1 pp.

Figure 27: Producer price inflation, % y-o-y



Source: SSSU, KSE Institute

Figure 28: Inflation expectations (12M ahead), %



Source: NBU, KSE Institute

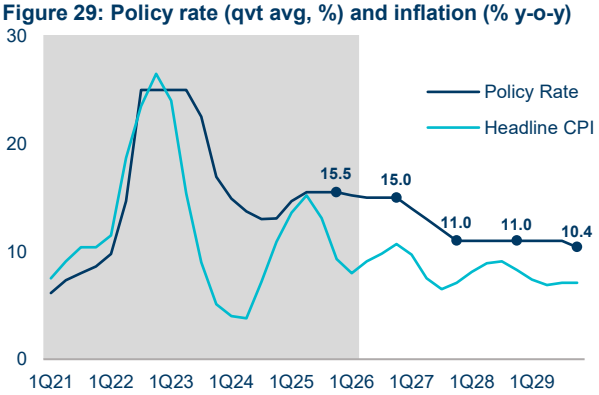
Regulated gas tariffs represent another—and underappreciated—inflation risk that is not yet reflected in the consumer price data. Town gas and natural gas CPI registered 0.0% y-o-y throughout 2023–26, reflecting the continuation of regulated household tariffs. European natural gas markets have tightened following the Iran war escalation, however, with TTF futures rising as market participants priced in broader Middle Eastern supply disruption risk and associated rerouting costs for LNG flows. For Ukraine's industrial gas consumers—namely chemical producers, fertilizer manufacturers, and food processors—gas is purchased at or near market-related prices, and the cost increase is already flowing into production costs. A growing discrepancy between household and business costs may lead to unsustainable pressure on the budget, meaning that regulation relief, despite the war-time moratorium, may be a possible solution and should be considered a pro-inflationary risk.

Inflation expectations have deteriorated sharply among households, signaling the impact of the tough winter and the rapid imbalance that requires attention. Twelve-month-ahead expectations stood at 13.5% for households in February 2026, a 3 pp jump from January and the highest reading since mid-2023, while financial analysts' expectations stood at 7.7% (see Figure 28). The sharp divergence is explained by the fact that analysts incorporate the Iran war and effects of the winter as transitory supply-side shocks, while households respond to visible fuel and food price acceleration and are repricing their forward expectations upward in a manner consistent with second-round wage and pricing behavior. For the NBU, a household expectations reading of 13.5% represents a material constraint on the pace of easing, as a rate reduction that outpaces expectations de-anchoring risks entrenching the upside inflation scenario precisely when administered price adjustments and fuel pass-through remain unresolved.

Monetary Policy

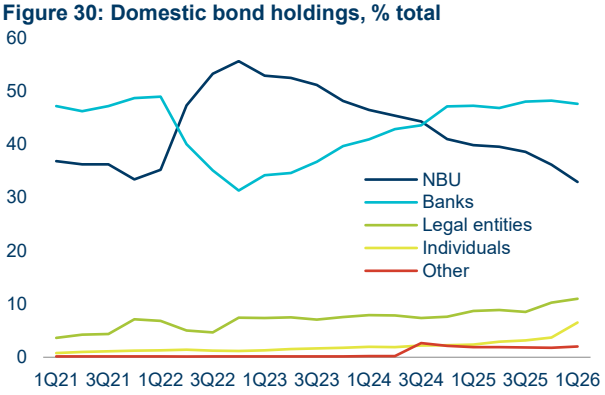
The intensification of pro-inflationary risks has shifted the NBU's monetary policy stance from gradual easing toward a pause, with communication indicating that tightening is on the table. Following the January 2026 cut to 15.0%, the NBU kept the policy rate unchanged on March 20, 2026, reflecting renewed inflationary pressures stemming from Russia's winter attacks and a fuel price surge linked to the Iran war. Given the growing upside risks to inflation and exchange-rate stability, further easing in 2026 is likely not feasible, while mild tightening remains possible should inflation expectations or FX pressures intensify (see Figure 29). We therefore expect the policy rate to remain broadly flat through 2026 before gradual easing resumes in 2027 as inflationary and FX pressures subside. Even then, we expect cautious easing, with a reduction toward 11% by end-2027 and a stable policy rate during the 2028–29 recovery period as the pro-inflationary demand surge must be curbed to keep expectations contained.

Figure 29: Policy rate (qvt avg, %) and inflation (% y-o-y)



Source: SSSU, NBU, KSE Institute

Figure 30: Domestic bond holdings, % total

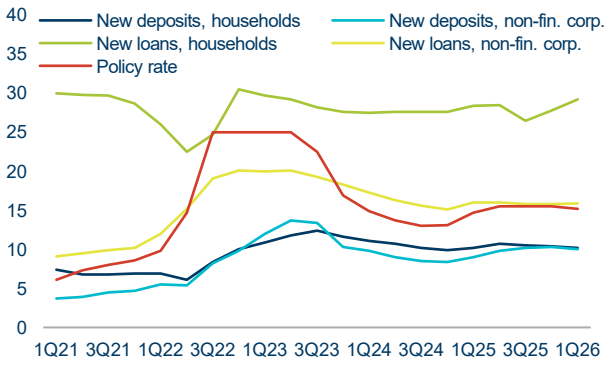


Source: NBU, KSE Institute

Domestic government bond holdings continue to rise, reinforcing the role of hryvnia-denominated sovereign instruments as a key savings vehicle and supporting fiscal financing. Total holdings reached UAH2.0 trillion in January-February 2026, up by 9.8% (see Figure 30). Banks remain the largest holders, accounting for 47.6% of outstanding domestic bonds, while maintaining stable demand for sovereign debt amid elevated uncertainty. Individual investors continued to record the fastest growth, with holdings rising to 6.5% of the market, confirming sustained household reallocation toward government securities. At the same time, the NBU's share declined further to 32.9%, signaling further normalization of the domestic bond market.

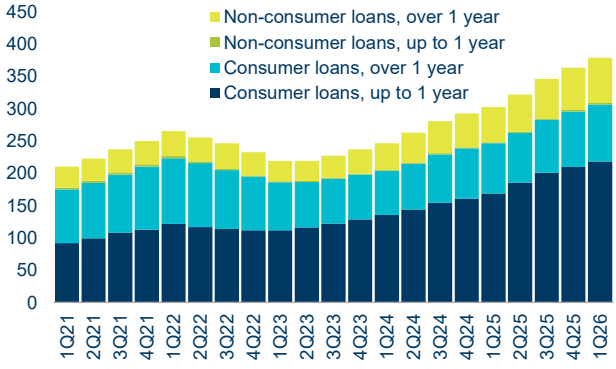
Persistently elevated interest rates indicate that monetary policy transmission remains effective, but financing conditions continue to constrain private-sector borrowing. In January-February 2026, interest rates on new household loans increased to 29.2%, while new corporate lending rates remained relatively unchanged at 15.9% (see Figure 31). Deposit rates for households and non-financial corporations stayed high at ~10%, preserving the attractiveness of hryvnia-denominated savings instruments. However, with monetary easing delayed and upside inflation risks persisting, borrowing costs are expected to be elevated for longer, limiting credit expansion and investment in the context of current energy and labor bottlenecks.

Figure 31: Interest rates, %



Source: NBU, KSE Institute

Figure 32: Loans to households, UAH billion



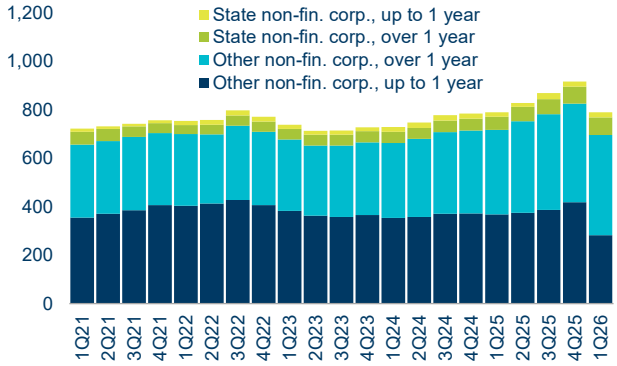
Source: NBU, KSE Institute

Household lending growth remains robust but is concentrated in consumption-oriented short-term segments, implying limited contributions to productive investment. Total household loans increased to UAH378 billion in January-February 2026, up from UAH364 billion in Q4 2025 (see Figure 32). Consumer lending continued to dominate, accounting for 84% of household credit, with short-term consumer loans

remaining the largest part. Growth remained strongest in short-term consumer and non-consumer lending, indicating that household borrowing is primarily supporting consumption smoothing, not capital formation.

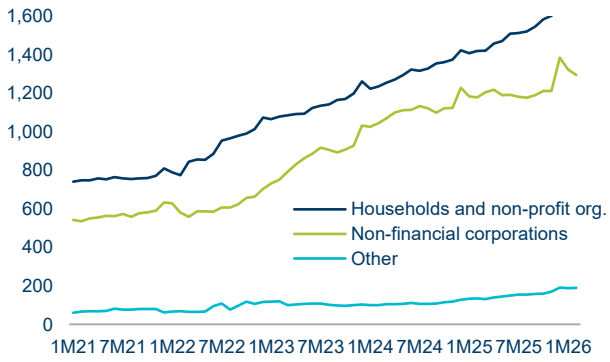
Corporate lending remained resilient in early 2026, though NPL write-off from PrivatBank accounts pushed the total amount of loans down. Total loans to non-financial corporations amounted to UAH789 billion in January–February 2026 (see Figure 33), a 14% (UAH127 billion) decrease compared to the end of last year, which is explained by the 51% drop in NPL volumes from UAH385 billion to UAH190 billion (now 24% of total loans). Loans outside of NPLs thus increased in January-February. The maturity structure remained tilted toward longer-term lending, with loans over one year exceeding short-term loans, however maturities of 5+ years—needed for long-term projects during the recovery—remains low at just 13% of the total. At the same time, the strongest growth was recorded in lending to state-owned non-financial corporations, especially in the long-term segment. Private non-financial corporations still accounted for the majority of corporate credit, confirming that lending remains predominantly market-based despite the increasing role of state-related borrowing. Elevated production costs enhance the risk of business inability to access and afford credit financing, as their revenue margin decreases (see Specials 2 & 3).

Figure 33: Loans to non-financial corporations, UAH billion



Source: NBU, KSE Institute

Figure 34: Resident deposits, UAH billion



Source: NBU, KSE Institute

Deposit dynamics continue to support banking sector liquidity and financial stability, with households remaining the main source of deposit growth despite increasing competition from government bonds. Resident deposits reached UAH3.2 trillion in February 2026, maintaining their double-digit annual growth amid attractive rates (see Figure 34). Household and non-profit deposits remained the fastest-growing segment, rising to UAH1.7 trillion, while non-financial corporate deposits slightly decreased in February 2026 and now stand at UAH1.3 trillion. As a result, household deposits continued to account for the majority of resident funding, reinforcing the domestic funding base of the banking sector and supporting liquidity conditions despite elevated sovereign bond issuance.

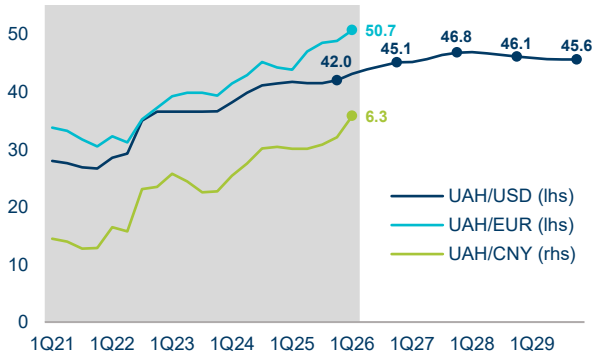
Ukraine's financial system enters 2026 with significant liquidity and a recovering capacity to transmit monetary policy, with preliminary data suggesting conditions remain broadly in line with 2025 trends. Financial assets grew by 13% to UAH7.8 trillion in Q3 2025, reflecting continued balance sheet expansion across financial corporations. Debt securities remained the largest asset category at 39% of total assets (UAH3.1 trillion), driven by sustained demand for low-risk instruments amid elevated uncertainty, which is a structural feature that continues to limit financing flows to the real sector, albeit with gradual improvement. Cash and deposits, serving as liquidity buffers, accounted for 27% of assets (UAH2.1 trillion) and grew by 34%, pointing to improved confidence and strong deposit inflows. Loans increased by 18% to UAH1.6 trillion, indicating that credit activity is expanding both nominally and in real terms despite tight monetary conditions.

The monetary policy trajectory over 2027–29 is expected to create progressively more favorable conditions for credit expansion, even as the pace of easing remains cautious. As the policy rate declines toward 11% by end-2027 and stabilizes through the reconstruction phase, borrowing costs for both households and corporates will gradually ease, unlocking investment demand that is currently suppressed by tight financing conditions. Credit growth is projected to accelerate meaningfully, with the credit-to-GDP ratio gradually converging toward levels more consistent with regional peers, though the process of closing the gap will extend well beyond the forecast horizon. Deposit growth may moderate as rates decline and the relative attractiveness of hryvnia savings instruments diminishes, but this does not represent a systemic risk: the banking sector will enter the reconstruction period with substantial liquidity buffers. Financial assets will provide an adequate foundation for credit expansion without requiring the current pace of deposit inflows. The primary constraint on credit growth in the recovery period will therefore not be liquidity, but the structural barriers to long-term investment lending discussed in Special 3.

Exchange Rate

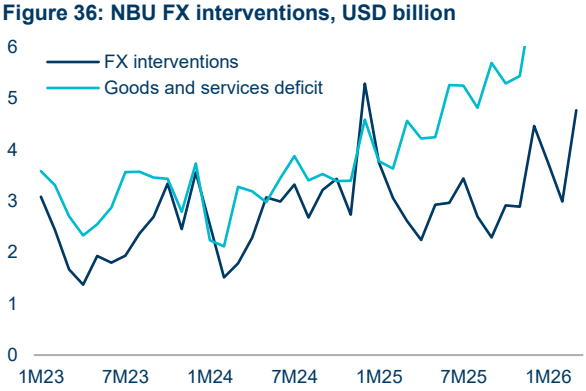
Gradual weakening of the hryvnia in Q1 was primarily driven by the growing trade deficit, though NBU interventions and foreign financing contained depreciation pressures; the sustainability of this framework is dependent on the timely provision of support. The hryvnia reached 43.3 UAH/USD on average in Q1 (see Figure 35), reflecting persistent structural pressures. The NBU maintained an elevated presence in the FX market, with interventions peaking at $4.8 billion in March (see Figure 36), aimed at offsetting a widening goods and services deficit that surpassed $6 billion in February. The growing imbalance, driven by strong demand for energy, defense, and reconstruction-related imports, remains the key source of depreciation pressure. This is expected to deepen in 2026–27 due to higher energy imports linked to rising global oil prices and increasing capital imports amid Ukraine Support Loan disbursement, implying continued depreciation to ~45 UAH/USD towards the end of 2026. At the same time, the stability of the hryvnia remains highly sensitive to external financing conditions: even temporary delays in partner support could significantly constrain the NBU's ability to smooth market imbalances and anchor expectations (see Special 1).

Figure 35: Exchange rates



Source: NBU, KSE Institute

Figure 36: NBU FX interventions, USD billion

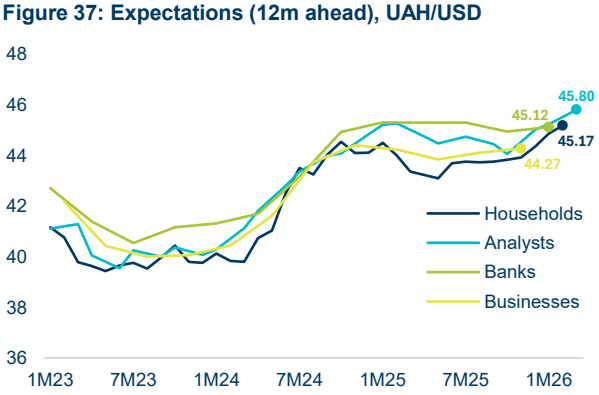


Source: NBU, KSE Institute

Exchange rate dynamics relative to other major currencies in Q1 2026 were increasingly shaped by global geopolitical developments and their impact on the U.S. dollar. Escalation of the Iran war initially strengthened the U.S. dollar as a global safe-haven asset, contributing to hryvnia depreciation. However, prolonged global stress and rising energy prices may, over time, weaken the dollar and partially offset bilateral UAH/USD depreciation. In Q1, the hryvnia depreciated further against the euro to around 50.7 UAH/EUR (see Figure 35). At the same time, energy and logistics disruptions affecting Europe could alter euro dynamics through higher import costs and inflation, which introduces additional volatility to the hryvnia against the euro.

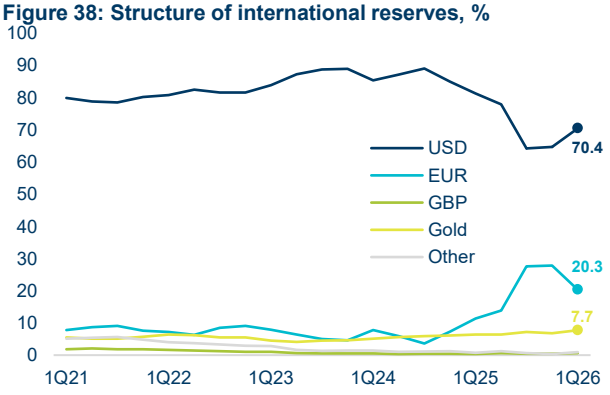
Exchange rate expectations have shifted upward in Q1 2026, reflecting increased sensitivity to external risks and financing conditions. One-year-ahead expectations converged in the range of 45.1–45.8 UAH/USD, with financial analysts revising forecasts upward more markedly than households (see Figure 37). This suggests that BoP pressures and external risks are increasingly internalized. At the same time, expectations remain highly contingent on the continuity of external support and the NBU's capacity to sustain interventions. The ongoing currency diversification of reserves supports closer alignment with Ukraine's main trading partner, the EU, and helps reduce cross-currency volatility (see Figure 38).

Figure 37: Expectations (12m ahead), UAH/USD



Source: NBU, KSE Institute

Figure 38: Structure of international reserves, %

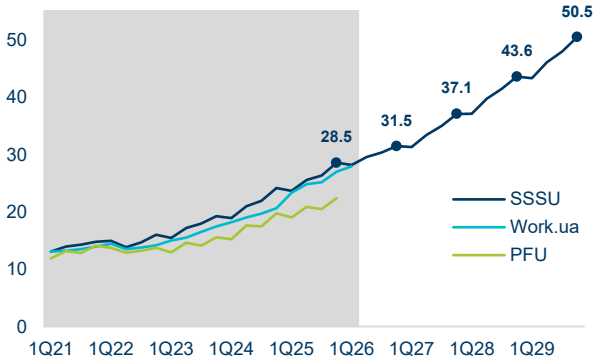


Source: NBU, KSE Institute

Labor Market

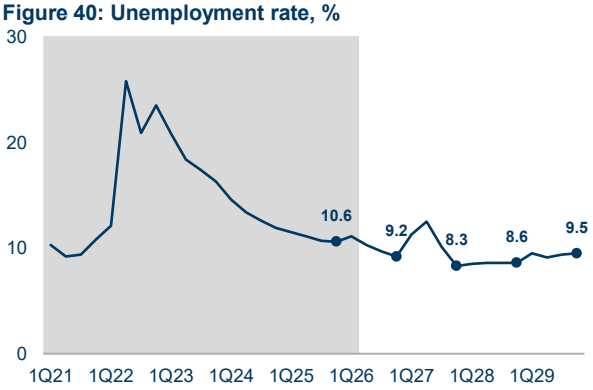
Real wage growth is set to drop sharply as tighter profit margins constrain businesses' ability to increase compensation, while inflation is increasing due to the energy crisis and the Iran war. Average wages reported by the SSSU reached UAH28,163 in Q1 2026, which reflects nominal growth of 19% and is consistent with other data sources (see Figure 39). Through 2025, this translated into meaningful real gains of ~7%, as competition among employers for a limited pool of workers supported purchasing power. The 2026 outlook is materially different: *First*, rising business costs due to cost-push shocks are tightening profit margins and, thus, the ability of employers to offer higher nominal wages. Simultaneous energy shocks as a result of Russian attacks on civilian infrastructure and the Iran war force firms to absorb higher logistics and productions costs, especially in competitive or import-exposed markets. *Second*, rising inflation, which is driven directly by energy prices and through second-round effects, reduces wage gains in real terms. Altogether, we project real wage growth to drop sharply to 7% for the year. In the recovery period, real wages are set to re-accelerate toward ~9% annually as demand for skilled labor intensifies during reconstruction, supporting private consumption but sustaining persistent cost pressures in labor-intensive sectors.

Figure 39: Nominal wage, UAH thousands



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

Figure 40: Unemployment rate, %

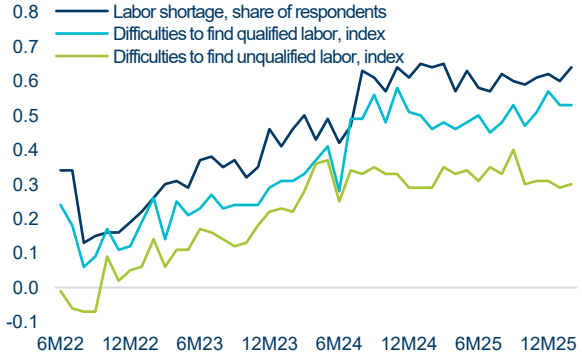


Source: SSSU, Info Sapiens, KSE Institute

Ukraine's labor market remained structurally tight in Q1 2026, with scarcity of (skilled) labor a binding constraint on economic activity. A small rise in the unemployment rate is consistent with early signs of challenges stemming from the energy crisis during the winter. However, it is expected to decline through the rest of 2026 as the economy gradually recovers. After the end of the full-scale war, demobilization will drive a temporary increase in the unemployment rate up to 12.5% in H1 2027, before declining to ~8% by year's end as the economy absorbs new labor market entrants. Reconstruction-driven demand will keep unemployment below 10% during the remainder of the forecast period (see Figure 40).

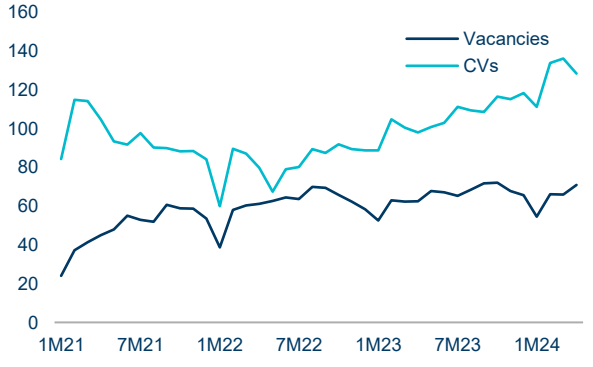
Labor shortages remain the most frequently cited constraint on business activity, with no meaningful easing in Q1 despite a surge in applications. In January–February, ~60% of businesses reported labor shortages, and the IER recruitment difficulty index for qualified workers remained elevated (see Figure 41). Vacancies recovered, confirming that demand has not softened; rather, it is labor supply that represents the binding constraint (see Figure 42). The composition of new market entrants is also changing, worsening structural mismatches: incoming cohorts disproportionately skew toward lower-skilled service roles, whereas demand is largely in skilled labor sectors necessary for reconstruction. Labor scarcity will be a key factor determining the pace of reconstruction financing absorption and its translation into economic activity.

Figure 41: Recruitment challenges



Source: IER, KSE Institute

Figure 42: New job vacancies and CVs, thousands



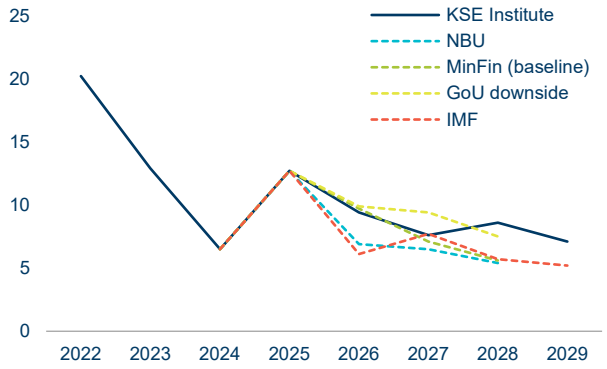
Source: Work.ua, KSE Institute

Forecast Comparison

The comparison includes key institutions that provide regular forecasts for Ukraine: National Bank of Ukraine[2] (NBU), Government of Ukraine[3] (GoU), and International Monetary Fund[4] (IMF). The primary bases for our forecast comparison are the February 2026 IMF's staff report for the Executive Board's consideration of Ukraine's new program (now adopted) and the Q1 NBU Inflation Report; the GoU medium-term forecast will be updated in the new Budget Declaration, which is expected in June 2026.

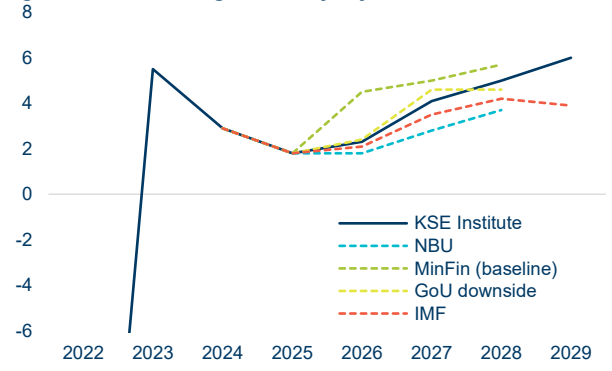
Inflation projections differ as KSE is more cautious regarding the current global oil price shock and pro-inflationary pressure of the post-war recovery. Moreover, both the NBU and IMF forecasts were published before the outbreak of the Iran war and resulting energy crisis. The NBU's baseline is anchored in a relatively benign supply-side disinflation story: stronger harvests, easing labor-market pressure, and continued monetary restraint should bring inflation back toward target by 2028, even if energy-related administered prices and second-round effects slow the adjustment (see Figure 43). The IMF forecast is similar, albeit with a slightly more cautious view of 2027 that allows for more persistence in price pressures during the economy's normalization period. KSE is the most cautious of the three: we assign greater weight to wartime distortions, labor scarcity, and the inflationary consequences of reconstruction and stronger domestic demand (particularly via labor costs when recovery will be in the hottest phase immediately after the war). The central issue is whether the post-shock economy re-anchors quickly enough for inflation to converge smoothly, or whether cost-push and demand-pull pressures keep it elevated for longer.

Figure 43: Inflation, % avg



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

Figure 44: Real GDP growth, % y-o-y



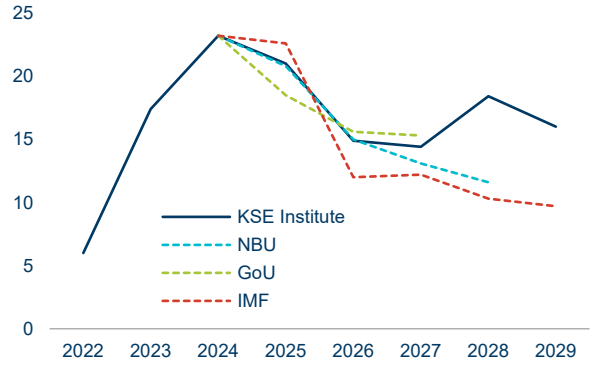
Source: iMF, Ministry of Economy, NBU, KSE Institute

Each institution envisions an accelerating growth trajectory thanks to the post-war recovery, but the speed and composition differ. The NBU's forecast is deliberately conservative: it assumes that energy shortages, war-related logistics friction, and labor mismatches continue to restrain business activity, leading growth to improve only gradually from 1.8% to 3.7% from 2026–28, even as reconstruction and defense-related spending provide support (see Figure 44). The IMF is more optimistic, assuming stronger normalization of economic conditions (including reforms under the program itself) and more visible support from external financing. KSE is the most optimistic—by ~0.5 pp each year—placing greater weight on reconstruction investment, defense-industrial expansion, and foreign support's domestic demand effects.

Wage forecasts are relatively close in the near term. All three institutions start from the same wartime labor-market reality: labor scarcity, sectoral mismatches, and fiscal support generate strong nominal wage pressure. The NBU expects wages to decelerate more steadily as imbalances ease and inflation moves towards the target; the IMF also assumes moderation in line with gradually normalizing macro conditions. The KSE Institute forecast, by contrast, begins to diverge in 2028 (18.4% growth against average of 10.9% across other institutions), as it embeds more wage pressure from reconstruction, consistent with a tighter labor market, stronger demand, and slower rebalancing between labor demand and supply (see Figure 45).

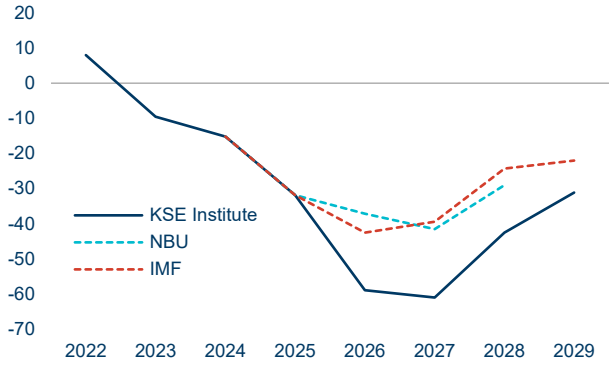
[2] The NBU forecast is prepared on a quarterly basis, with the last edition published on February 5, 2026. Its war assumption is undisclosed.
[3] The government forecast is partially outdated as it was prepared for the Budget Declaration and published on June 27, 2025. Consequently, only the downside scenario of the government forecast is retained in this comparison, as its baseline scenario has already proven to be unrealizable.
[4] The IMF forecast used in the charts is taken from staff report on new IMF program, published on February 13, 2026. We compare our forecast with the baseline trajectory numbers. The new program revised assumptions on the duration of hostilities, financing composition, and structural reforms. For available indicators, the WEO published on October 14, 2025, was used (especially for exchange rate dynamics, as it is not explicitly stated in report; thus, the exchange rate was calculated using IMF projections of nominal GDP and respective current USD GDP equivalents).

Figure 45: Nominal wage growth, % avg



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

Figure 46: Current account balance, USD billion

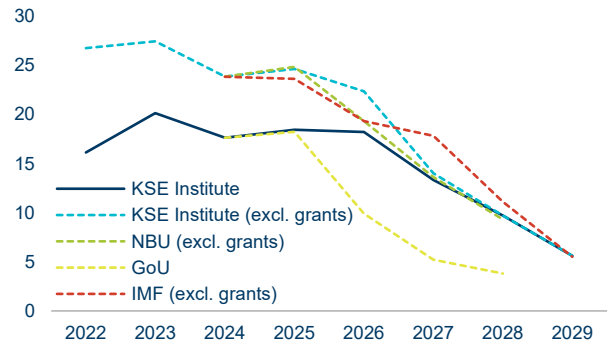


Source: IMF, NBU, KSE Institute

The external balance is where the forecasts diverge most sharply—and the reason is structural. KSE assumes a more pronounced and persistent widening of the current account deficit because it expects stronger imports in H2 2026–H1 2028 stemming from the disbursement of the USL, part of which will be used for defense capital investments and weapon purchases (see Figure 46). Also, as mentioned above, other institutions' forecasts were published before the Iran war, which will drive up energy imports considerably in 2026 (and to a lesser extent in 2027). Finally, early 2026 data indicate that imports were rising strongly before any of these effects materialized. The NBU is more sanguine, placing greater emphasis on the stabilizing role of external support, and the view that part of the import surge reflects investment-type rather than consumption-type demand. The IMF sits between the two in the near term, but its baseline appears to assume a somewhat quicker external adjustment once the temporary war-related import impulse fades.

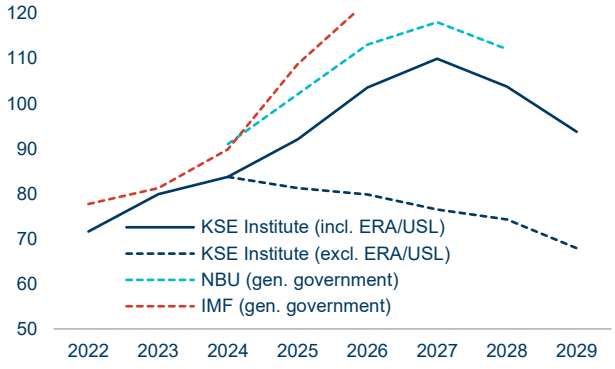
Reserve projections are closer than the current account, as all institutions agree that external financing remains sufficient to prevent a balance-of-payments crisis. Differences arise from the assumed timing and scale of foreign support disbursements, as well as how much reserve accumulation is eaten up by the trade gap. The NBU's baseline is consistent with a cautious but credible reserve-buffer strategy under continued assistance; the IMF also assumes adequate support, though with a somewhat stronger medium-term reserve build-up. Across institutions, the reserve outlook reflects assumptions regarding financing, current account dynamics, and how war-related imports are treated. In the end, all three institutions forecast reserve accumulation of $15–25 billion over 2026–29.

Figure 47: Budget deficit, % GDP



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

Figure 48: State debt, % of GDP



Source: IMF, NBU, KSE Institute

All institutions expect a gradual narrowing of the deficit, but differ on the pace (see Figure 47). Assumptions—regarding the duration of wartime spending, the composition of financing, and developments in fiscal policy—cause the variation between forecasts. The IMF's path remains the most conservative over the medium term, reflecting the scale of war-related fiscal needs and the need to preserve debt sustainability under prolonged uncertainty. The greatest consensus is around the later years, when the deficit is projected at 9–10% in 2028 and ~5.5% in 2029, with little-to-no effect of grants on the budget beginning in 2028.

Debt dynamics differ across forecasts primarily because institutions treat financing instruments in different ways, in addition to the IMF and NBU's use of general government debt. The KSE baseline shows a comparatively contained debt path when ERA and USL-related obligations are excluded, but a materially higher ratio once these contingent or quasi-contingent instruments are included (see Figure 48). The NBU's debt path is higher in the near term, while the IMF is the most pessimistic, with a great divergence owing to how it embeds a cautious view of nominal GDP recovery, the debt implications of prolonged financing needs, and the possibility of needing support to roll over future debt obligations.

Special 1: Impact of the Iran War

The Iran war impacts Ukraine through several distinct channels—*first*, by weakening Ukraine's own economy and undermining macro-financial stability; *second*, by providing significant windfall revenues to Russia and, thus, reprieve in an increasingly challenging economic and fiscal situation; *third*, by binding Western military and diplomatic resources elsewhere and taking the focus off of efforts to reach a lasting peace in Europe; and *fourth*, by weakening the economies of Ukraine's partners and, consequently, their political and economic ability to provide financial support in the future.

1. Impact on Ukraine's Economy and Macro-financial Stability

There are four simultaneous, mutually-reinforcing paths through which the Iran war affects Ukraine's economy: (i) a direct import cost shock via higher energy prices; (ii) a producer cost shock propagating through supply chains reliant on diesel; (iii) an administered utility price adjustment dilemma; and (iv) an exchange rate-pressure channel, specifically through expectations, which raises the cost of NBU interventions at a time of elevated trade imbalances. Unlike a single-channel external shock, the compounding nature of these effects narrows policy space, as challenges to businesses and the broader economy cannot effectively be addressed at a time of deteriorating macro-financial stability.

Higher energy prices will lead to an increase in Ukraine's import bill. For this analysis, we assume that prices for oil products and natural gas will be even higher in Q2 than in March, begin to moderate in Q3, and only reach early-2026 levels in Q2 2027. As fuel imports are critically important for electricity generation and the war effort—and as we do not expect a recession—the elasticity of oil demand is assumed to be close to zero. We expect natural gas imports to resume in Q4 for energy security reasons as Russia may intensify attacks on gas production, resulting in 4 bcm in total imports in 2026. Altogether, oil product and natural gas imports are expected to reach $12.1 billion this year—around $5.6 billion more than in a hypothetical no-Iran war scenario, with most of the change stemming from oil products. For 2027, energy imports will remain elevated as we project prices will take around one year to fully return to their early-2026 levels, resulting in total Ukrainian energy imports of $8.2 billion—a 32% decline vs. this year.

The energy price shock is passing through to domestic inflation rapidly and across multiple transmission channels, adding 2–5 pp to the baseline trajectory over the next six months. Fuel inflation reversed its disinflationary trend sharply, rising from 6.4% in December 2025 to 23.4% in March and with prospects of further increases in April before stabilizing. The energy PPI component surged to 73.4% in February, confirming that the shock is hitting consumer and producer levels simultaneously. The pass-through is structurally fast for Ukraine: as a net importer of refined petroleum products with limited buffering capacity, domestic retail prices track global benchmarks with minimal lag. Second-round effects are already visible in the PPI breakdown and business surveys. The NBU survey suggests that in March, respondents from manufacturing, services and trade sectors, despite the overall increase in expected activity, also expect increases in both prices for goods needed for production and their own goods, adding 5–15 pp to corresponding sub-indices. Beyond fuel, the import-price channel is adding a further layer of upside risk via administered pricing, particularly frozen electricity and gas tariffs, and represents a delayed but probable additional shock of 1.5–2.5 pp to headline inflation if adjusted in H2 2026 amid political counter-pressure and arguments about growing poverty without a strong targeted support system.

Household inflation expectations surged to 13.5% in February 2026, a 3 pp jump in a single month, confirming that the shock is already affecting forward pricing and wage-setting behavior. For the NBU, the Iran war has effectively closed the door to further easing in 2026: following the January cut to 15.0%, the March decision to hold rates steady reflected the renewed inflationary environment, and mild tightening cannot be excluded if expectations deteriorate further. We now project the policy rate to remain broadly flat through 2026 before cautious easing resumes in 2027, significantly delaying the improvement in credit conditions that reconstruction investment requires (see Special 3).

At the level of economic activity, the Iran war shock is compressing firm margins at precisely the moment when recovery investment needs are rising. Ukraine's production system is heavily dependent on diesel across its most economically significant sectors (road freight, agricultural machinery, construction equipment) and the fuel price surge is feeding directly into production costs that firms in cost-sensitive, globally priced export sectors cannot pass through to customers. Grains, oilseeds, metals, and chemical products compete at world market prices; as domestic costs rise, the margin between cost of production

and export price narrows, constraining output expansion and reducing bankability amid higher logistics costs than foreign counterparts due to the wartime transport limitations. The Q1 2026 producer cost environment reflects a damaging convergence: a difficult winter requiring costly autonomous diesel generation, a structural electricity deficit, and now the geopolitically driven fuel price surge, each of which would be manageable individually, but together create a uniquely adverse operating environment. Firms that raise prices risk losing market share to imports; those that absorb losses face deteriorating credit quality. This margin compression dynamic is beginning to affect the banking sector's willingness to extend credit at the very moment when reconstruction-linked investment demand is building, representing a systemic risk to productive capacity that extends well beyond the inflation headline. The new EU Support Loan provides a powerful macro-level offset, but its impact is concentrated in defense and infrastructure investment channels that do not directly relieve the pressure facing commercially oriented private firms.

The Iran war is also increasing the cost and complexity of maintaining exchange rate stability, reducing the buffer available for other shocks. The hryvnia reached 43.3 UAH/USD in Q1 2026, with NBU interventions peaking at $4.8 billion in March (the highest monthly level since December 2024) as the goods and services deficit exceeded $6 billion in February. The widening trade deficit, amplified by $5.6 billion in additional energy import costs from the Iran shock, requires commensurately higher intervention volumes to sustain the gradual and orderly depreciation path the NBU is targeting. Each additional dollar spent on FX interventions is a dollar not accumulating in reserves, and reserve adequacy, while sitting at a comfortable $57.3 billion entering 2026, provides a finite buffer in a scenario where the Iran conflict drags on, energy prices remain elevated, and EU Support Loan disbursements face further delays. We project reserves reaching $70.4 billion by end-2026 under the baseline, but this outlook is sensitive to the duration of the energy price shock and the timing of partner disbursements; a scenario in which both deteriorate simultaneously would compress the reserve trajectory significantly and constrain the NBU's intervention capacity heading into the 2026–27 winter, being one of the most significant risks (see Special 2).

2. Impact on Russia's Ability to Pay for Its War of Aggression

Before the start of the Iran war, Russia's energy outlook had deteriorated markedly, with oil and gas export earnings as well as budget revenues dropping sharply; in February, oil export and production *volumes* were also affected by sanctions for the first time in four years. However, the effective closure of the Strait of Hormuz and Iran's retaliatory attacks on energy infrastructure in the Persian Gulf have led to soaring energy prices and partial easing of sanctions on Russia by the US. In a recent publication, KSE Institute assessed the potential impact on Russia's oil and gas export earnings as well as budget revenues under different scenarios—ranging from a relatively short active war with a quick restoration of oil and gas production in the region to a long war with a slower subsequent normalization in energy markets—and compared results to a hypothetical no-war baseline, in which Russia would have struggled with low prices and suppressed volumes.

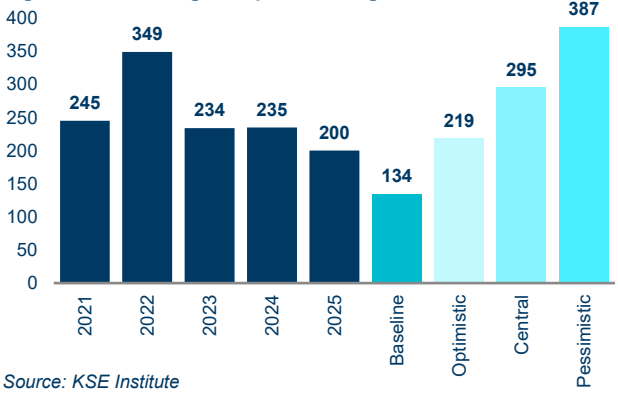
The scenarios and results are summarized in Table 7 and Figures 49 & 50. In the ***optimistic scenario***, Russian oil and gas export earnings would rise by $84 billion vs. the no-war baseline and budget revenues by $45 billion. Budget financing challenges would be less severe than in recent months and there would be less pressure to cut spending and raise taxes. In the ***central scenario***, export earnings would rise by $161 billion and budget revenues by $97 billion. As a result, Russia would not have any fiscal challenges this year and could even expand future policy space by rebuilding macroeconomic buffers in its sovereign wealth fund (NWF). In the ***pessimistic scenario***, export earnings would rise by $252 billion and budget revenues by $151 billion. Russia would almost certainly record a substantial budget surplus, enabling it to step up war spending further without creating pressure to cut other expenditures, while NWF assets would rise considerably, ensuring the capacity to finance budget deficits in the coming years. **Even in the optimistic scenario, it is unlikely that Russia will be forced to seek a peace agreement this year.**

If a settlement is reached in the coming weeks, the outcome will be a relatively short active war in line with the optimistic scenario, but with an extended period of normalization of production and logistics in its aftermath, as significant damage has been inflicted on important facilities in the Gulf region, including the Ras Laffan LNG plant in Qatar. Thus, Russia stands to benefit considerably. There is one wildcard: **Ukrainian drone strikes on Russian oil infrastructure**, which have the potential to seriously disrupt exports. A KSE Institute assessment found that Ukrainian strikes on the Primorsk and Ust-Luga ports in the Baltic Sea caused oil export losses totaling ~$1.8 billion from March 23–April 5.

Table 7. Iran war impact scenarios

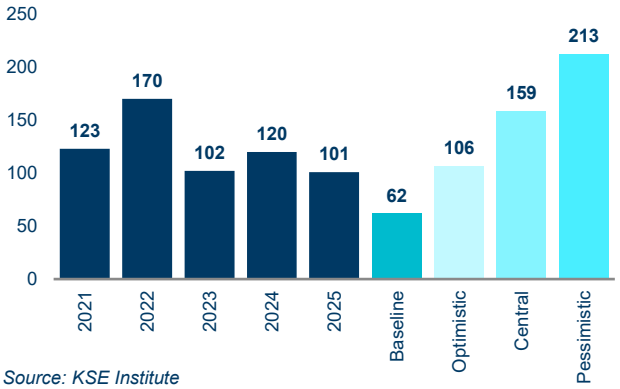
Scenario	Description	Impact vs. no-war scenario
Optimistic	**Active war lasts for six weeks** (until mid-April), followed by a **fast and orderly restoration of production** (over four weeks)	O&G exports (2026): **+$84 billion** O&G revenues (2026): **+$45 billion**
Central	**Active war lasts for three months** (until end of May), followed by a **fast and orderly restoration of production** (over four weeks)	O&G exports (2026): **+$161 billion** O&G revenues (2026): **+$97 billion**
Pessimistic	**Active war lasts for six months** (until end of September), followed by a **slower restoration of production** (over three months)	O&G exports (2026): **+$252 billion** O&G revenues (2026): **+$151 billion**

Figure 49: Oil and gas export earnings, USD billion



Source: KSE Institute

Figure 50: Oil and gas budget revenues, USD billion



Source: KSE Institute

3. Impact on Efforts to Reach a Lasting Peace in Europe

The Iran war binds military resources and political capital that could otherwise be employed to assist Ukraine in its defense against Russia and to achieve a lasting peace through negotiations. The US, Israel, and countries in the Gulf region now face the reality of asymmetric warfare that Ukraine has been dealing with for more than four years—and require military assets (e.g., air defense systems) that are not available in sufficient quantities. As a result, weapons needed in Ukraine are now being diverted elsewhere, constraining Ukraine's capabilities at a time of intensified Russian missile and drone strikes on critical civilian infrastructure. At the same time, the war in the Middle East and the resulting energy crisis absorbs diplomatic resources and takes attention away from efforts to bring the war against Ukraine to an end. In particular, the US, which facilitated negotiations in recent months, will be otherwise occupied for the foreseeable future.

4. Impact on Future Financial Support to Ukraine

The world is currently experiencing the largest supply disruption in the history of the global oil market as a result of the situation in the Strait of Hormuz, and significant quantities of LNG are unavailable as facilities in the region were affected by Iranian retaliatory attacks. Many countries already face shortages, and higher energy prices will weigh on economic activity and drive up inflation around the world, in turn triggering tighter monetary policy. Lower growth means reduced budget revenues, and rising energy costs may require support mechanisms, which increase government spending. This is also true for Europe, which provides the most financial support to Ukraine by far. A longer war in Ukraine due to Russia's strengthened position would result in significantly higher financing needs, and, thus, require an overhaul of the international support architecture.

Altogether, the Iran war reduces the likelihood of an end to Russian aggression in 2026, while compromising the ability of Ukraine to defend itself and of its partners to provide support.

Special 2: Ukraine Risk Landscape

In a new quarterly product—the *Ukraine Risk Matrix*—KSE Institute comprehensively assesses the key risks facing Ukraine across four dimensions: real economy, macro-financial stability, external stability, and domestic stability. Each risk within these dimensions is assessed separately over the short and long term and assigned a composite expert judgement score from 1 to 5, reflecting a combination of its likelihood of materialization and potential impact. The score is not a point forecast or probability measure, but a comparative framework highlighting where pressures are currently most acute and which risks are likely to shape Ukraine's trajectory. For the full Q1 2026 edition of the ***Ukraine Risk Matrix***, see here.

Real economy	Macro-fin. stability	External stability	Domestic stability
Economic activity	Fiscal position & budget execution	External financing & donor flows	Reform momentum
Recovery & investment	Inflation & monetary stability	Trade & external dynamics	Social stability
Critical infrastructure	Banking & financial stability	Geopolitical risks & war	Political stability

Ratings: ● Very low/negligible (1) ● Low (2) ● Moderate (3) ● High (4) ● Very high/critical (5)

Following intensified Russian strikes on critical civilian infrastructure over the winter, Ukraine's risk landscape has deteriorated. The **energy sector** remains the most binding constraint on economic activity and overall stability, directly affecting production, fiscal revenues, inflationary pressures, and exchange rate dynamics. In the near term, energy constraints will define the limits of economic growth. **At the same time, external risks are increasing.** Ukraine remains highly dependent on international financial support, and any delays in or uncertainty surrounding disbursements can quickly translate into macroeconomic pressure. Additional risks stem from the Iran war, including rising energy prices and the potential diversion of Western military and political resources (see Special 1). **Multiple risks are structural and will persist beyond the war.** These include the loss of human capital, suppressed private investment, limited absorption capacity, high budget spending on defense and social support, external imbalances, and a growing debt burden.

Detailed risk assessment for key dimensions:

- **Economic activity:** 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; the risk of shadowing is rising with potential long-term implications.
- **Recovery & investment:** 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 narrows with each year.
- **Critical infrastructure:** 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 to human capital attraction and economic activity.
- **Fiscal position & budget execution:** 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 buildup of military and social obligations lock in elevated spending well beyond the war; debt is rising with service crowding out other important priorities.
- **Inflation & monetary stability:** 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

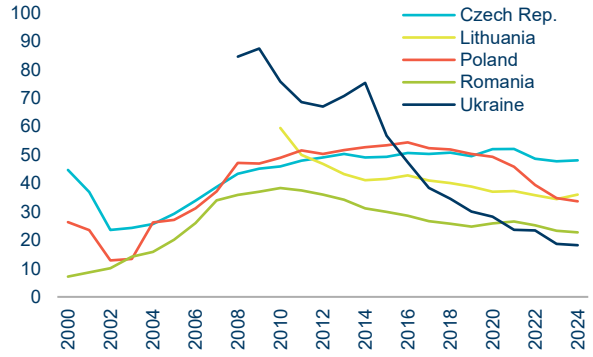
financing falters; a compromised monetary policy transmission mechanism limits the NBU's toolkit; post-war tightening may crowd out investment that the recovery critically depends on.

- **Banking & financial stability:** 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 that they should be financing, with state dominance entrenching distortions; the defense and energy sectors will face challenges when grants slow as market financing is largely unavailable.
- **External financing & donor flows:** Ukraine's 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, while contingent liabilities reduce exposure.
- **Trade & external dynamics:** The trade deficit is increasingly structural as the war weighs on exports while imports are driven up by reconstruction needs, 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 the external balance; private capital flows remain weak, while resident outflows are a risk if the war lasts longer and capital controls are relaxed prematurely.
- **Geopolitical risks & war:** 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, and the defeat of Hungarian Prime Minister Viktor Orban suggests that a Hungarian veto on key support measures will no longer be a persistent challenge to aid and EU accession.
- **Reform momentum:** 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 program, Ukraine Facility benchmarks) create a backlog and signal capacity constraints and political issues that may delay donor flows and Ukraine's Eurointegration process.
- **Social stability:** 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 ill-equipped to meet.
- **Political stability:** Executive control remains strong but parliamentary cohesion is fracturing, increasing reliance on ad hoc coalitions; 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.

Special 3: Structural Credit Gap

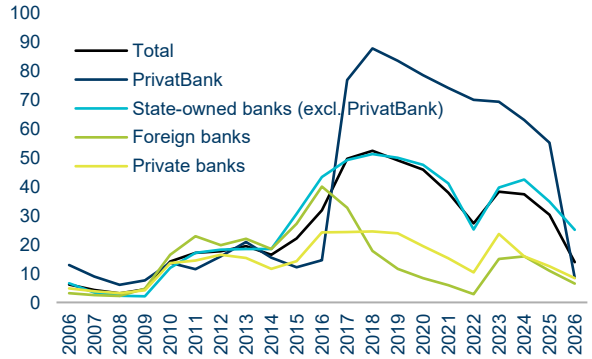
Credit penetration in Ukraine, though standing at 10.2% of GDP in 2025, remains low relative to the scale of reconstruction financing needed, reflecting a structural problem that monetary policy alone cannot resolve. Business lending stands at $18.3 billion, less than 9% of GDP, compared with nearly $22.2 billion held by banks in government securities—a pattern that is the inverse of comparable European markets, where commercial lending outweighs sovereign holdings by a factor of four to five. Ukraine's credit-to-GDP ratio compares unfavorably with regional peers: Poland at 34%, Romania at 23%, Lithuania at 36%, and the Czech Republic at 48% in 2024 (see Figure 51). The ratio also reflects a structural shift in the economy's composition: the destruction of private productive assets in 2022 compressed the bankable corporate base, while rapid expansion of defense and government-related sectors, who are not active on the credit market by the nature, has mechanically reduced credit penetration as a share of. Notably, this gap is driven not entirely by the wartime anomaly; it is also the result of a recovery and cleansing process after the NPL stockpiling in the 2000s to mid-2010s, specifically by PrivatBank (see Figure 52). Private credit as a share of GDP had contracted persistently since 2014, with stabilization only from 2021, but the full-scale invasion has entrenched and deepened structural barriers that now actively constrain the economy's ability to translate reconstruction financing into productivity gains.

Figure 51: Credit-to-GDP ratio, %



Source: World Bank, KSE Institute

Figure 52: NPL ratio of top 25 banks, % of loan portfolio



Source: NBU, KSE Institute

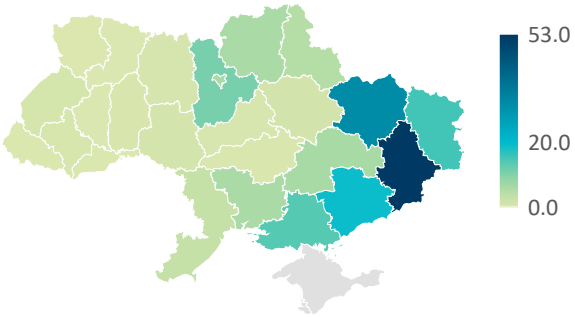
The portfolio structure of Ukrainian banks reflects a rational response to the current incentive architecture. Government domestic bonds currently offer a yield of ~16.2% with zero risk-weighting under current regulatory treatment, against a policy rate of 15.0% and inflation expectations that surged to 13.5% for households in February 2026. Sovereign paper offers near-equivalent real returns to business lending while consuming no regulatory capital and generating no NPL risk. The 5-7-9 interest subsidy program has partially bridged this gap for working-capital loans, but its evolution from a capex instrument into a broad anti-crisis tool during COVID and the early war period has diluted its effectiveness and shifted fiscal risk onto the budget, without materially improving the share of investment loans in portfolios.

War-risk pricing is the most structurally distorting feature of the current lending environment, and its correction requires a deliberate unbundling of distinct risk types. Ukrainian banks tend to apply war-risk premiums uniformly across the country, excluding the territories directly on the frontline, despite empirical loss data indicating that 91.1% of direct losses have been concentrated in 10 oblasts (see Figure 53). The systematic overpricing of risk in safer western and central regions compounds the crowding-out effect, rendering commercially viable projects unbankable in areas where reconstruction activity is already underway. The appropriate policy instrument is thus not generalized interest rate subsidies but a deliberate separation of wartime physical destruction risk from commercial credit risk. The former should be absorbed by the state and IFI partners through portfolio guarantees, while the latter should remain with banks and preserve their natural lending incentives. Several IFI instruments are already operational or being negotiated: EBRD, IFC, EIB, and DFC portfolio guarantee facilities can absorb war-related risk at a lower fiscal cost than direct budget support, enable domestic banks to expand lending without eroding capital buffers, and simultaneously support more accurate regional risk pricing as granular loss data becomes available.

Long-term funding (i.e., with maturities of five years or longer), is structurally low in the Ukrainian financial system, which represents one of the most binding constraints to investment lending. Maturities above five years account for less than 2.1% of GDP, indicating that large infrastructure, energy, and industrial projects simply cannot be financed domestically, regardless of the subsidy architecture or

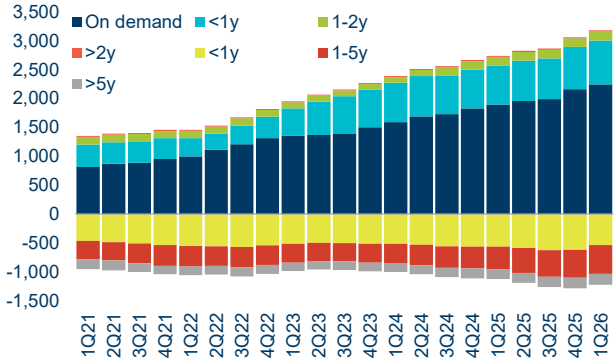
guarantee coverage applied to shorter-term facilities. The absence of long-term funding reflects the absence of matching liabilities: pension funds and insurance companies, the natural holders of long-term assets in developed financial systems, remain undersized and underinvested in long-dated instruments and the deposit base, while growing robustly as resident deposits reached UAH3.2 trillion in February 2026, is overwhelmingly short-duration. Addressing this requires regulatory changes enabling pension and insurance funds to access infrastructure instruments, and expanded IFI credit lines with five-to-ten-year maturities extended to domestic banks, under conditions that manage the exchange rate risk that caused significant distress during the 2008 crisis (see Figure 54).

Figure 53: Damages, USD billion



Source: World Bank (RDNA5), KSE Institute

Figure 54: Deposits (+) and loans (-) by maturity, UAH billion



Source: NBU, KSE Institute

The bankability deficit, namely the inability of firms to present credible financial records and meet due diligence standards, operates as an independent constraint that no guarantee scheme alone can resolve. A significant share of Ukrainian firms (particularly in the SME segment) hold assets and generate revenues that are partially or fully informal, which is a legacy of the shadow economy predating the war that has been reinforced by wartime disruption to accounting systems and revenue streams. Moreover, supply bottlenecks resulting from a difficult winter and the war in Iran may further worsen the situation with the business' bankability as profit margins narrow (see Special 1). For these firms, the binding constraint is not the cost of capital or the lack of guarantees, but the lack of a financial track record that lenders require before deploying any instrument. This is also where the 5-7-9 program has historically performed a secondary but important function: its eligibility requirements incentivize formalization by requiring clean books as a precondition for access, effectively linking the financing agenda to the agenda to reduce the shadow economy. Any redesign of state programs should preserve and strengthen this formalization function. Beyond program design, a dedicated bankability program, including government-supported financial advisory for SMEs, simplified wartime reporting standards, and IFI-backed technical assistance, is needed to build firm-level financial credibility that will ultimately determine access to both domestic and foreign capital during the reconstruction period.

The path to a functioning investment credit market requires coordinated action across monetary incentives, regulatory architecture, and program design, with a sequencing that stabilizes the macro environment before demanding risk appetite from banks. The NBU's current policy stance is the necessary macro foundation: pushing banks to lend more aggressively into a rising-inflation environment with deteriorating expectations would erode the capital and depositor confidence that credit expansion ultimately depends on. Within this framework, however, targeted regulatory changes can meaningfully shift the incentive calculus: full recognition of IFI and state guarantees in risk-weighted asset calculations would reduce the capital cost of guaranteed lending; KPI linkages between capex credit growth and the performance evaluation of state-owned banks would align the incentives of the institutions with the largest balance sheets; and a refocused 5-7-9 program dedicated exclusively to investment lending would redirect the most significant existing fiscal instrument toward medium-to-long-term capital formation necessary for the recovery. Taken together, these measures cannot manufacture credit demand where security risk, labor shortages, and energy constraints remain binding. Survey evidence consistently ranks credit access well below these factors as a business constraint. However, this set of actions can ensure that when reconstruction demand materializes at scale, the financial system will be prepared to enhance the capabilities of domestic enterprises to compete with foreign capital.