

# FISCAL DIGEST – Q1 2026

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# EXECUTIVE SUMMARY

**In Q1 2026, Ukraine's fiscal position remained broadly stable in terms of revenue performance, but growing pressures on the expenditure side began to emerge toward the end of the quarter, particularly in financing defense needs.** Despite steady revenue collection, delays and uncertainty surrounding external financing lingered, with the resolution of the Ukraine Support Loan (USL) issues contingent upon the electoral cycle in Hungary. Meanwhile, progress in implementing the policy requirements under the Ukraine Facility has remained slower than initially anticipated, which constrained budget<sup>1</sup> execution and required the government to rely more heavily on domestic resources. In addition, a number of government initiatives aimed at providing direct financial support to households (including the national cashback program, winter support measures, and free railway transport) contributed to an accelerated use of fiscal buffers. As a result, the reserve fund was depleted by around 95% by the end of March, significantly limiting the government's ability to respond to urgent needs throughout the remainder of the year. As a consequence, financing delays, combined with unplanned expenditure pressures, forced the Ministry of Finance to reallocate a substantial portion of defense spending originally scheduled for the end of the year to cover immediate needs. This led to the emergence of an estimated financing gap of around \$5.1 bn for the fourth quarter, effectively making further amendments to the state budget highly likely, primarily aimed at increasing expenditure levels to cover the shortfall. External financing came solely from the new IMF program in Q1, but securing the USL materially improves medium-term financing prospects, providing the necessary fiscal space to address defense requirements and essential budget outlays. Timely international assistance continues to underpin the country's long-term fiscal stability.

**In Q1 2026, Ukraine's budget revenues increased by 6.1% y-o-y to \$23.5 bn, supported by grant inflows, import-related taxes, nominal wage growth, and strong profits in selected sectors, while the decline in domestic VAT signalled that revenue growth remained uneven and constrained by weaknesses in the real economy.** Taxes remained the anchor of budget revenues, though their dynamics differed across key components. Import VAT and excise revenues were supported by higher imports, particularly fuel and electricity, while PIT and the military levy benefited from rising nominal wages. CIT receipts were strengthened by strong profitability in select sectors, especially banking. At the same time, the decline in domestic VAT suggested weaker domestic demand and the negative impact of energy shortages and security risks on production, trade, and consumption. Higher grant inflows partially offset the decline in other non-tax revenues and helped reduce pressure on domestic financing sources. Overall, the fiscal position at the beginning of 2026 remained manageable, but its further sustainability will depend on continued external support, import stability, wage and corporate profit dynamics, and the scale of risks related to the war, strikes on energy infrastructure, and external price shocks.

**Budget expenditures were primarily driven by defense and security needs, which accounted for 69.9% of total spending (\$19.3 bn), against the backdrop of a 1.2% y-o-y decline in overall expenditures to \$27.5 bn.** Defense spending was the only category to record a decline compared to the previous year, falling by 11.2%. The decline was driven by a reduction in inflows of in-kind military assistance from international partners, particularly the US, which in the Q1 2025 had supplied military equipment directly under dedicated support programs. At the same time, all other sectors, including security, demonstrated growth in expenditures, in line with the 2026 budget's expansionary fiscal stance. Government support programs, such as increases in teachers' salaries and the rollout of a medical check-up initiative, led to planned rises in spending in their respective sectors, reflected in a 41.4% increase in intergovernmental transfers and a 9% increase in healthcare expenditures.

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<sup>1</sup> Here and after term "budget" is used for the central (state) level budget.

In 2026, Ukraine's fiscal stance continued to rely heavily on international assistance, as expenditure pressures from the war continued to outpace revenue growth and widened the budget deficit. Rapidly rising defense needs resulted in a higher fiscal gap, with the overall deficit (incl. grants) reaching \$3 bn.

Ukraine has signed a Memorandum with its official creditors to defer debt service and principal repayments on state and state-guaranteed debt until February 2030, aligning with the current IMF program. This agreement is a critical step for long-term debt sustainability, as it secures necessary fiscal space by easing near-term liquidity pressures and smoothing the country's sovereign debt maturity profile.

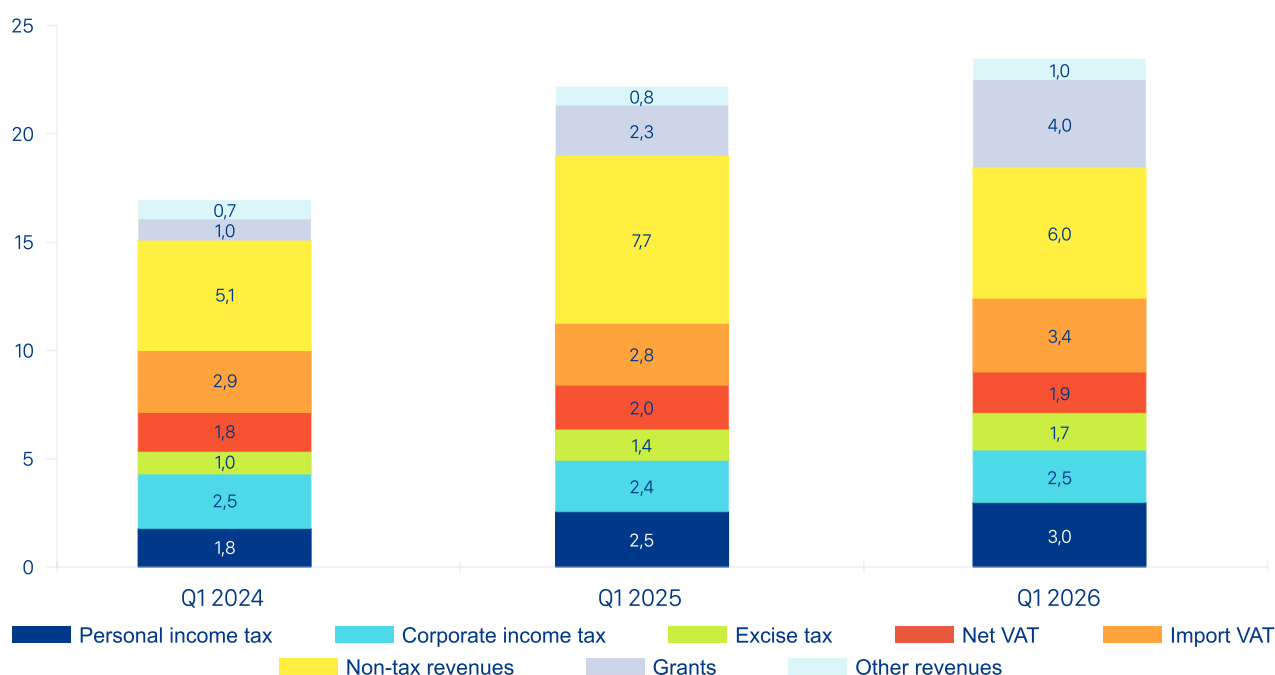
## BUDGET REVENUES

Budget revenues continued to grow in Q1 2026, with higher grant inflows playing a key stabilizing role by offsetting weaker other non-tax revenues and keeping overall revenue dynamics positive. Total budget revenues amounted to \$23.5 bn, up by 6.1% y-o-y, or \$1.3 bn higher than in Q1 2025. Grant inflows reached \$4.0 bn, increasing by 72.1% y-o-y, while other non-tax revenues declined to \$6.3 bn, or 21.0% lower y-o-y. As a result, external grant support became an important compensating factor for the revenue side of the budget at the beginning of the year.

Taxes continued to serve as the backbone of Ukraine's budget financing and the main domestic source for covering defence and security expenditures. In Q1 2026, tax revenues reached \$13.1 bn, increasing by \$1.3 bn (+11.3% y-o-y), and accounted for 55.9% of total budget revenues. This performance was driven primarily by higher receipts across almost all key tax categories, with the exception of domestic VAT. Tax revenues were mainly supported by factors such as growth in nominal wages, higher import volumes and values, and increased corporate profits, particularly in the banking sector. However, the energy supply crisis caused by Russia's continued attacks on Ukraine's energy infrastructure throughout Q1 2026 led to a contraction in domestic consumption, which was one of the main reasons for lower domestic VAT receipts.

FIGURE 1.

### Structure of budget revenues in 2024-2026, \$bn



Sources: Ministry of Finance of Ukraine, Openbudget

**The strong performance of import-driven VAT — supported by rising imports and higher fuel prices — offset weaker domestic VAT dynamics, underscoring Ukraine's growing reliance on external demand amid domestic economic constraints.** VAT remained the dominant source of tax revenues, accounting for 40.3% of the total. Import VAT receipts increased by 19.8% y-o-y to \$3.4 bn in Q1 2026, reflecting the expansion of imports, particularly fuel imports, as well as elevated fuel prices amid Ukraine's energy crisis and geopolitical risks in the Middle East. Overall imports **reached** \$23.4 bn, exceeding Q1 2025 levels by **\$4.9 bn**, while taxable imports increased by \$2.3 bn. By contrast, domestic VAT receipts declined by 7.3% y-o-y to \$1.9 bn, mainly due to higher VAT refunds, which rose to \$1.4 bn compared with \$1 bn a year earlier. The significant volume of VAT refunds in Q1 2026 was largely driven by high refund payments in January and March, supported by accumulated stocks of **claimed** but not yet refunded VAT — around \$847.9 mn at the beginning of January and \$718.7 mn at the beginning of March. Domestic VAT performance may also have been constrained by electricity shortages and security risks, which weighed on production, trade, and consumption.

**PIT and the military levy became the second-largest source of tax revenues (22.5%, or \$3 bn), with receipts rising by 16.4% y-o-y on the back of stronger labor-income taxation amid continued nominal wage growth.** The main driver was the increase in Ukraine's **average nominal wage**, which rose by \$71 between March 2025 and March 2026, reaching \$650. This expanded the taxable wage base and provided an additional nominal impulse for revenue mobilization from these two key budget payments.

**Other tax payments generated \$4.9 bn, or 37.2% of total tax revenues, with corporate income tax and excise tax forming the largest components, supported by strong bank profits and higher imports of excisable goods, respectively.** CIT accounted for 18.7% of total tax revenues, with its increase driven mainly by stronger-than-expected bank profits, which in 2025 were **\$0.9 bn** higher y-o-y (compared to 2024). Excise tax contributed another 13%, supported by higher imports of excisable goods in Q1 2026, particularly fuel and electricity. This likely reflected the need to build up fuel reserves amid the energy supply crisis and geopolitical tensions related to the war in the Middle East. By contrast, all other taxes combined — including resource rent payments, customs duties, environmental tax, and other minor payments — accounted for only 5.5% of total tax revenues.

**Grant financing from international partners remained an important source of Ukraine's budget revenues in Q1 2026, providing \$4 bn and accounting for 17.2% of total budget revenues.** These inflows increased by 72.1% y-o-y, helping cover early-year budgetary needs and partly easing pressure on domestic revenue mobilization. Most of the support came through the ERA mechanism, which provided \$3.8 bn, while an additional \$0.2 bn was provided by Norway through the World Bank's PEACE in Ukraine project. This concentration of grant financing in external partner support channels underscores the importance of predictable disbursements for maintaining budget stability.

## **BUDGET EXPENDITURES**

**Despite a slight contraction in overall budget expenditures, Ukraine's fiscal dynamics in Q1 2026 were primarily shaped by a notable decline in defense spending, driven by reduced inflows of in-kind international military assistance, highlighting the continued sensitivity of public finances to external support.** In total, expenditures amounted to \$27.5 bn, down 1.2% y-o-y, with defense spending falling more sharply by 11.2% (or \$1.9 bn). Despite this contraction, the expenditure structure remained broadly unchanged, with war-related spending, social expenditures, and debt servicing continuing to dominate. At the same time, budget execution in

Q1 2026 began to show the first signs of significant fiscal pressure. Delays in international financial assistance (€90 bn under the USL, of which €30 bn is macrofinancial assistance), combined with government initiatives providing unplanned direct financial support to households, generated two key adverse effects. First, fiscal buffers were rapidly depleted: as of end-March, \$1.1 bn had been utilized from the reserve fund, representing 95.5% of its total annual allocation. This substantially constrained available fiscal space and will weaken the government's capacity to respond to emerging needs over the remainder of the year. Second, already in March, the Ministry of Finance resorted to expenditure frontloading, reallocating \$5.1 bn of planned defense spending from the final months of the year to meet immediate financing needs, effectively creating a financing gap for the defense sector toward year-end. Against this backdrop, amendments to the 2026 state budget appear highly likely, primarily aimed at increasing expenditure levels to cover an estimated year-end shortfall of around \$5 bn. The scale of these revisions will depend on subsequent policy decisions. Continued reliance on expenditure frontloading would further widen the adjustment needs, while the persistence of household support measures without dedicated funding sources would amplify fiscal pressures and necessitate the identification of additional financing.

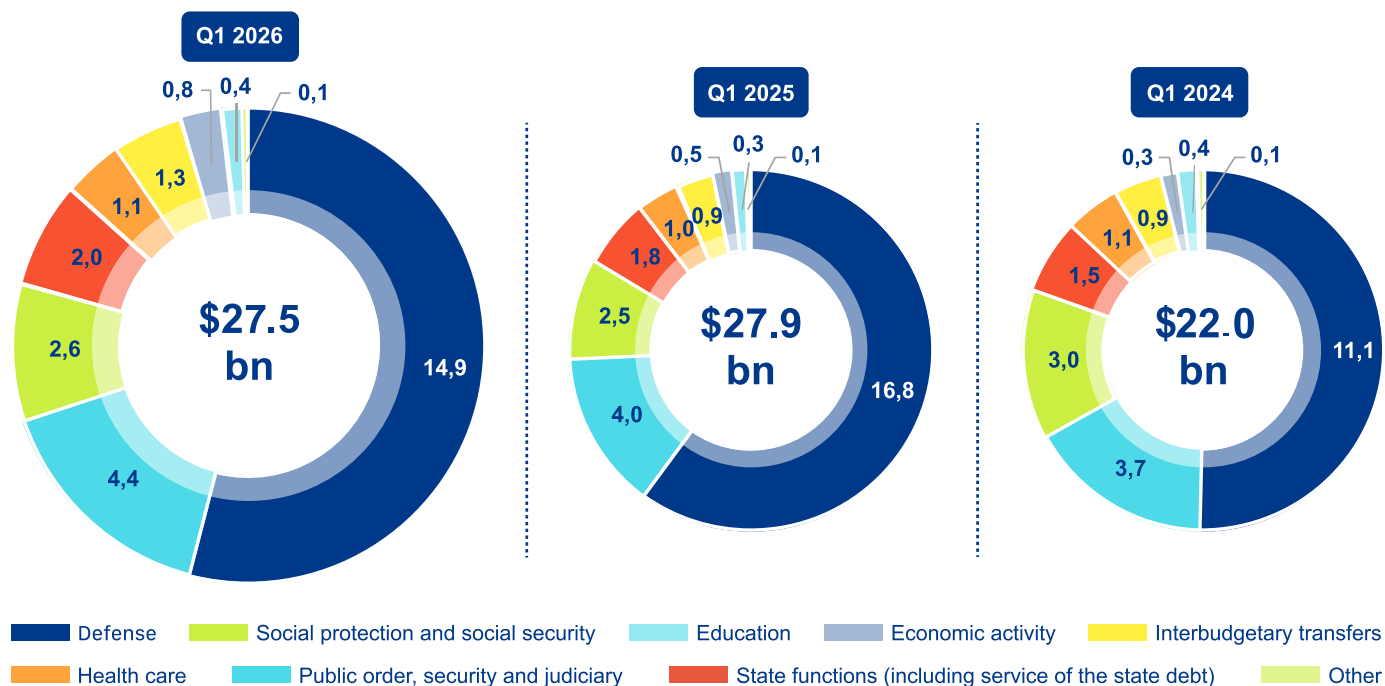
**War-related needs continued to anchor Ukraine's expenditure structure in Q1 2026, underscoring the budget's heavy reliance on external military support, the moderation of which has begun to weigh on defense financing.** These expenditures accounted for 69.9% of total spending (or \$19.3 bn), including \$14 bn allocated to the Ministry of Defense (50.8% of total), marking a 14.7% y-o-y decline. This decline was driven by a reduction in military aid inflows from international partners: through the special fund channeling such assistance, the Ministry of Defense received only \$3.7 bn in Q1 2026, compared to \$5.8 bn in Q1 2025. This dynamic indicates a decline in international military support, primarily from the United States. In early 2025, military assistance from the US was largely delivered through direct support programs, resulting in significantly higher inflows. Currently, however, the main instrument for US military support is the PURL mechanism, which may be more limited in scale due to uncertainty surrounding other geopolitical developments, including the Iran war, as well as broader constraints on US military resources and stockpiles.

**Security sector spending continued to expand in Q1 2026, reflecting sustained operational demands amid wartime conditions, though the pace of growth remained relatively moderate and broadly in line with previous trends.** Security sector expenditures reached approximately \$4.4 bn, marking a 10.4% y-o-y increase. Military institutions, such as the Security Service, National Guard, and border troops, played a central role in this increase.

**Ukraine's budget composition in Q1 2026 shows a growing allocation toward economic development and social expenditures, which together accounted for 30.1% of total spending (or \$8.3 bn), compared to 25.3% (\$7.1 bn) y-o-y.** Within this category, intergovernmental fiscal relations increased by \$0.4 bn (41.4%), mainly driven by higher education subventions aimed at increasing teachers' salaries. In parallel, spending on economic activity rose by \$0.3 bn (58.2%), largely reflecting higher expenditures in the railway transport sector, likely linked to the introduction of a public service obligation mechanism for domestic passenger rail transport, estimated at approximately \$0.4 bn.

FIGURE 2.

## Structure of budget expenditures in 2024-2026, \$bn<sup>2</sup>



Sources: Ministry of Finance of Ukraine, Openbudget

**Social protection expenditures increased in Q1 2026, but the growth was mostly driven by indexation rather than a broad expansion of benefits.** Total state budget expenditures on social [payments](#) reached \$2.4 bn, which is \$190 mn or 8.4% more than a year [earlier](#). This was mainly due to nominal increases in key social standards: the legislated subsistence minimum rose by 9.9% to \$63, while the minimum wage increased by 8.1% to \$171. Since a large share of pensions and social benefits are linked to these benchmarks, the adjustment automatically raised state social spending. As a result, budget transfers to the Pension Fund for pension payments and deficit financing rose to \$1.4 bn, which is \$111 mn or 8.7% more than in Q1 2025. This was further reinforced by the 12.1% pension indexation introduced on March 1, 2026 for 9.5 mn pensioners. Expenditures on social protection for citizens in difficult life circumstances increased to \$510 mn, which is \$39 mn or 8.1% more y-o-y, largely due to assistance for IDPs and low-income families. By contrast, expenditures on housing subsidies and utility benefits declined to \$320 mn, which is \$36 mn or 10.0% less than a year earlier, despite around 100k additional recipient households. This reflects a 13.2% decline in the average payment per household. The decline was partly driven by damage to and destruction of energy and public utility infrastructure, which limited heating service provision and reduced the actual volume of utility charges eligible for compensation. It was further reinforced by a January Government [Resolution №118](#) mandating automatic downward recalculation of utility bills in cases of service interruption or poor-quality provision, further reducing compensable household utility charges.

**The sharp increase in spending on families with children reflects a policy shift toward countering demographic decline (38.4% in births in 2025 compared to 2021) through expanded financial support and pro-natalist measures.** From January 1, 2026, the government introduced several new child-related benefits aimed at strengthening family incomes and supporting fertility. As a result, expenditures on children and families rose to \$200 mn, which is \$67 mn or 51.8% more than in Q1 2025. The increase was driven by a higher one-off childbirth grant of \$1k and the introduction of new monthly childcare payments, including the eYasla programme.

<sup>2</sup> The state functions sector includes the state's debt servicing.

TABLE 1.

## Budget expenditures on social payments in 2024-2026, \$bn

Indicator	Q1 2024	Q1 2025	Q1 2026	Change (% , q-o-q, 2026 vs 2025)
Pension Fund funding for pension payments & covering deficit	1.7	1.3	1.4	8.7
Support for vulnerable citizens (IDPs, low-income families)	0.7	0.5	0.51	8.1
Support for benefits and subsidies	0.4	0.36	0.32	(10.0)
Support for children & families	0.2	0.13	0.2	51.8
Support for persons with disabilities	0.02	0.01	0.02	60.7

Sources: Ministry of Finance of Ukraine, KSE Institute

## BUDGET FINANCING

Despite some narrowing, Ukraine's budget deficit remains structurally high due to the need for defense spending and heavily dependent on external grants, which play a critical role in reducing borrowing needs and easing pressure on domestic financing. The budget deficit (excl. grants) reached \$7 bn, reflecting a 14.8% decrease y-o-y, and the deficit including \$4 bn of grants amounted to \$3 bn. Receiving a larger volume of grants in 2026 compared to the previous year helped narrow the deficit by reducing reliance on costly borrowing and easing pressure on domestic financing resources. Budget deficit financing, as in previous periods, depends on a combination of domestic instruments, including government bonds and privatization income, and external financial aid.

On February 26, 2026, the IMF Executive Board approved a new 48-month Extended Fund Facility (EFF) arrangement for Ukraine totalling 5.9 bn SDRs (approx. \$8.1 bn), which provides crucial support for ensuring macroeconomic stability and implementing reforms. The program will be monitored through a series of structural benchmarks covering key objectives, with twelve such benchmarks scheduled for 2026 and quarterly reviews governing disbursements. Ukraine has already received the first tranche of \$1.5 bn upon fulfilling prior actions which was the only loan disbursement in Q1 2026.

Delays in external financing — driven by unmet reform commitments and EU political constraints — created a significant shortfall in expected inflows, underscoring Ukraine's vulnerability to both reform implementation and external political dynamics. In Q1 2026, Ukraine did not receive any payments under the Ukraine Facility, despite a planned amount of €2.9 billion, due to delays in implementing the required reforms. As of the end of April 2026, 11 indicators from 2025 and 6 indicators from the first quarter of 2026 remain unmet. Additionally, despite being approved in late 2025, disbursements under the new Ukraine Support Loan have not yet materialized. The process was hindered by political disagreements within the EU, following the Hungarian government's decision to block the EU-agreed €90 bn credit facility amidst intensified pre-election rhetoric. These internal political hurdles have resulted in delays in funding inflows under this program. Disbursements are now expected in Q2 2026 and remain critical for maintaining macro-fiscal stability.

TABLE 2.

## External loans to Ukraine in 2026

Foreign loans received in 2026	\$ bn
IMF	1.5

Sources: Ministry of Finance of Ukraine

**Domestic borrowing in Q1 2026 was primarily driven by debt servicing needs rather than deficit financing, reflecting both the temporary shortfall in external aid and the government's broader strategy to reduce reliance on domestic debt.** Gross domestic bond issuance amounted to \$3.5 bn, a 45.2% increase y-o-y, and net domestic financing (excl. debt repayments) came in at \$0.9 bn. The approved 2026 budget envisaged a reduction in domestic debt, with allocations for repayments exceeding planned domestic market borrowings. However, the absence of external aid in January and February necessitated domestic financing volumes sufficient for debt servicing and amortization. In contrast, March saw minimal new domestic borrowing \$0.5 bn for the budget through the placement of domestic government bonds. For comparison, inflows reached \$1.4 bn in January and \$1.5 bn in February.

**Proactive domestic debt reprofiling through government bonds exchanges reduced short-term refinancing pressures and strengthened financial stability by extending maturities and smoothing the repayment profile.** In Q1 2026, the Ministry of Finance conducted three domestic government bond exchange auctions totalling \$0.9 bn, effectively swapping near-term debt instruments for longer-dated securities. This proactive debt management significantly eased short-term budgetary pressure by reducing debt service and redemption costs throughout March and extending the average maturity of the debt portfolio. These measures successfully smoothed the repayment schedule, thereby supporting overall financial stability and domestic market liquidity. Such operations are fully consistent with the Medium-Term Debt Management Strategy for 2026–2028, approved last year.

TABLE 3.

## Budget funding sources (revenues and gross financing) in 2024-2026, \$bn

Resources	Q1 2024	Q1 2025	Q1 2026	Change (% , q-o-q, 2026 vs 2025)
<b>Internal budget resources</b>	<b>13.7</b>	<b>14.2</b>	<b>16.6</b>	<b>17.1</b>
Domestic government bonds	3.0	2.4	3.5	45.2
Own budget revenues (excl. grants)	10.6	11.8	13.1	11.3
Share of internal budget resources	56.5%	62.0%	75.0%	x
<b>External budget resources</b>	<b>10.5</b>	<b>8.7</b>	<b>5.5</b>	<b>(36.3)</b>
External loans	9.6	6.3	1.5	(76.4)
Grants	1.0	2.3	4.0	72.1
Share of external budget resources	43.5%	38.0%	25.0%	x

Sources: Ministry of Finance of Ukraine, KSE calculations

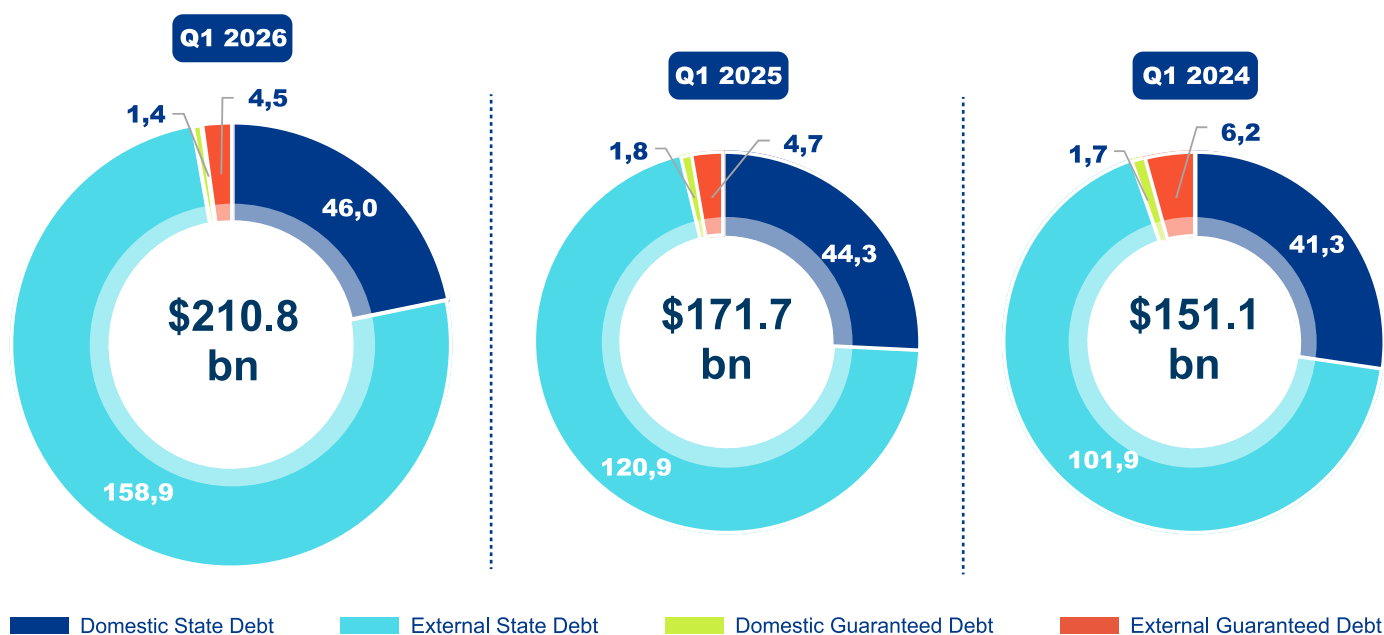
# STATE AND STATE-GUARANTEED DEBT

In Q1 2026, the growth of state and state-guaranteed debt moderated significantly due to constrained external disbursements, resulting in a marginal increase in total debt levels reaching **\$210.8 bn**. During 2026, total debt increased by 2.1% in hryvnia terms, whereas in U.S. dollar terms, it declined by 1.2% due to exchange rate fluctuations. However, the y-o-y growth rate stood at 22.8%.

Domestic financing in Q1 2026 was primarily used to repay internal debt, ensuring moderate growth of domestic debt. Ukraine's domestic state debt increased by 2.9% y-o-y, up to \$47.7 bn. According to the [NBU Depository](#), in 2025, the government of Ukraine raised \$3.7 bn from offering domestic government debt securities through auctions and allocated \$2.5 bn for redemption of domestic government debt securities. Ukraine's external state debt increased by 30% y-o-y to \$163.4 bn by the end of Q1 2026.

FIGURE 3.

## State Debt and State-Guaranteed Debt in 2024-2026, \$bn



Sources: Ministry of Finance of Ukraine, KSE calculations

The debt service suspension agreement provides critical fiscal space and supports debt sustainability by deferring near-term obligations and smoothing Ukraine's repayment profile in line with the IMF program. The [Ministry of Finance of Ukraine](#) and the Group of Creditors of Ukraine [signed a Memorandum](#) on the suspension of debt service due by Ukraine. It provides for the suspension of payments on State Debt and State-guaranteed Debt that were due from February 2026. Under the terms of the Memorandum, both debt service and principal repayments will be deferred until the end of February 2030, in line with the new program of the International Monetary Fund. Repayment of the suspended amounts will take place after this period through equal semi-annual installments over 2035–2039, with capitalization of deferred interest. The Memorandum builds on previous agreements reached in 2022 and 2023 and represents an important element of international financial support for Ukraine. This agreement is pivotal for maintaining long-term debt sustainability, as it provides critical fiscal space by alleviating near-term liquidity pressures and smoothing the maturity profile of Ukraine's sovereign obligations.

## KEY RISKS FOR 2026

- **Delayed or insufficient inflows of international financial support pose a critical risk to fiscal stability.** In Q1 2026, external financing inflows remained at a minimum, creating significant budgetary pressure. While this liquidity gap is expected to be addressed in Q2 2026, any further delays would exacerbate the funding shortfall to a critical level. Should these constraints persist, the government will be forced to urgently revisit the budget framework and implement rigorous expenditure prioritization, likely necessitating painful cuts to non-priority programs to ensure the sustainability of essential public services and defense funding.
- **Reduced budget flexibility in the event of new wartime or energy-related shocks.** 2026 remains highly uncertain, with possible new infrastructure destruction, additional waves of displacement, higher winter support needs, and rising expenditures related to veterans and persons with disabilities. Under these conditions, the social protection system may face additional unplanned spending pressures and the need for rapid expansion of emergency support programs. Strikes on energy infrastructure affect the economy through power-supply disruptions, additional business costs for autonomous generation, lower activity in trade and industry, and weaker domestic VAT receipts. Further escalation could narrow the tax bases for corporate income tax, PIT and domestic VAT, even if some fuel-import-related payments temporarily increase
- **Potential government initiatives represent an upside risk to the expenditure side of the budget.** These include, on the one hand, measures aimed at strengthening defense capabilities, such as a long-anticipated increase in military remuneration. On the other hand, they cover additional direct financial support to households, including cashback and winter assistance programs. Taken together, these initiatives may exert additional pressure on already constrained fiscal space and could lead to spending levels exceeding the originally planned fiscal envelopes, depending on their scale. This could lead to increased budget reallocation pressures across sectors, a higher reliance on ad hoc financing decisions, and a greater need to identify additional funding sources to preserve overall fiscal balance.

## FORECASTING FOR 2026

- **The medium-term dynamics of budget revenues will depend not only on macroeconomic conditions, but also on tax policy decisions linked to the new IMF programme and Ukraine's commitments under the EU integration process.** In April 2026, the draft law on the taxation of income earned by individuals through digital platforms, as well as on the automatic exchange of relevant information, passed its first reading. In addition, the 5% military levy was extended for three years after the lifting of martial law, with its proceeds earmarked for the needs of the Armed Forces of Ukraine. Parliament is also considering changes to the taxation of international parcels valued at up to €150. Taken together, these initiatives point to a gradual broadening of the tax base, a reduction of gaps in taxation, and the further alignment of Ukraine's tax system with EU practices. At the same time, their actual fiscal impact will depend on the final wording of the legislative amendments,

the timing of their implementation, and the capacity of tax administration. A potential increase in remuneration for Ukrainian military personnel could have an additional positive effect on tax revenues, particularly on taxes related to personal income.

- **Substantial external financing is projected<sup>3</sup> for the remainder of 2026, supported by commitments from international donors and multilateral institutions.** Political disagreements within Europe previously delayed disbursements under the USL. However, an agreement has now been reached, allowing Ukraine to receive €45 bn in 2026, comprising €16.7 bn for budgetary support and €28.3 bn for defense needs. The first tranches under this program are expected as early as Q2 2026. Furthermore, Ukraine is preparing to receive a €2.7 bn package under the Ukraine Facility. Ukraine has partially met its commitments to international partners. Recognizing the critical need for funding, the EU has shown flexibility by updating its disbursement rules. This change allows Ukraine to receive the tranche by counting four additional indicators that have already been fulfilled ahead of their 2026 schedule. Also, subject to satisfactory performance, Ukraine is projected to receive an additional \$1,371.4 mn in 2026 (\$685.5 mn in June following the first quarter review, and \$685.9 mn in September following the first half-year review) under the IMF EFF.
- **Forecasts of budget revenues remain vulnerable to a combination of external and domestic risks, meaning that the medium-term revenue outlook will depend not only on tax policy, the quality of tax administration, and macroeconomic assumptions, but also on the evolution of security risks, the stability of energy supply, and the impact of external price shocks.** On the external side, fluctuations in global oil prices driven by geopolitical tensions in the Middle East may affect the volume and value of imports of fuel and other goods and, consequently, influence revenues from import VAT, excise tax, and customs duties. On the domestic side, the key risk remains a further escalation of the war, particularly renewed or intensified Russian attacks on energy infrastructure. A deterioration in electricity supply could constrain production, trade, services, and domestic consumption, thereby narrowing the tax base for major revenue sources, including VAT, corporate income tax, personal income tax, and the military levy. Despite these risks, nominal tax revenues to the budget are expected to continue increasing: in 2026, they may rise by 25% y-o-y and amount to around \$57.2 bn.

**Expenditures in 2026 are expected to continue their upward trajectory, primarily driven by persistently rising war-related costs, as well as an increase in social spending commitments introduced by the government at the end of 2025.** Total annual expenditures are projected to reach a record high of \$144.2 bn (+16.3% y-o-y), of which \$102.9 bn will be allocated to the security and defense sector. The increase in defense spending is driven by military factors, including the expansion of procurement and domestic production of weapons and equipment (primarily military drones), as well as the ongoing mobilization process, which continues to generate additional fiscal pressure on a month-to-month basis.

**The government is considering new initiatives aimed at strengthening defense capabilities, including an increase in monetary allowances for infantry personnel.** Depending on the size of the infantry force and the scale of the adjustment, the additional fiscal cost could amount to several additional billions of dollars, requiring either partial reallocation within the defense budget or the identification of additional financing sources. Overall, based on current assumptions, Ukraine is expected to be able to sustain the projected expenditure

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<sup>3</sup> All forecast indicators for 2026 are based on the latest release of the [UKRAINE MACROECONOMIC HANDBOOK Q2 2026](#)

levels, supported by continued international financial and military assistance. However, new government initiatives both within the defense sector and in other areas may require either internal budget reallocations or the mobilization of additional financing sources, depending on their scale and implementation scope.

- **Social expenditures are expected to continue growing throughout 2026 in line with already approved government decisions.** According to the forecast, expenditures on social protection and social security are expected to reach \$11.7 bn (+11.4% y-o-y). Spending on the [IDP subsistence allowance](#) and social protection for citizens in difficult life circumstances will rise due to restored payments for IDP children, expanded support for vulnerable persons, longer benefit duration, and one-off targeted [cash top-ups](#). In the second half of the year, additional winter assistance and support for [frontline](#) communities are also expected. Budgetary pressure from new child-related benefits will intensify as programs launched on January 1 reach their full financial effect.

TABLE 4.

### Ukrainian budget, \$bn

Indicators	Q1 2024	Q1 2025	Q1 2026	Change (% , q-o-q, 2026 vs 2025)
<b>Total revenues</b>	<b>16.8</b>	<b>22.2</b>	<b>23.5</b>	<b>6.1</b>
Grants	1.0	2.3	4.0	72.1
<b>Non-tax and other revenues</b>	<b>6.2</b>	<b>10.4</b>	<b>10.4</b>	<b>0.1</b>
<b>Tax revenues</b>	<b>10.6</b>	<b>11.8</b>	<b>13.1</b>	<b>11.3</b>
PIT	1.8	2.5	3.0	16.4
Corporate income tax	2.5	2.4	2.5	3.0
Rent for the use of subsoil	0.2	0.2	0.3	51.6
Excise tax	1.0	1.4	1.7	19.2
Domestic VAT (net)	1.8	2.0	1.9	(7.3)
Import VAT	2.9	2.8	3.4	19.8
Import and export duty	0.3	0.3	0.4	20.6
<b>Total Expenditures</b>	<b>22.0</b>	<b>27.9</b>	<b>27.5</b>	<b>(1.2)</b>
Defence	11.1	16.8	14.9	(11.2)
<b>Deficit</b>	<b>(5.2)</b>	<b>(5.7)</b>	<b>(3.0)</b>	<b>(47.0)</b>
<b>Deficit (net of grants)</b>	<b>(6.2)</b>	<b>(8.0)</b>	<b>(7.0)</b>	<b>(12.1)</b>
Net borrowings	9.6	4.9	1.9	(62.2)
Loans	12.6	8.7	5.1	(41.9)
Repayments	(3.0)	(3.8)	(3.2)	(15.7)

Sources: Ministry of Finance of Ukraine, KSE calculations