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

Real Economy			Macro-Financial Stability			External Stability			Domestic Stability		
1.	Economic Activity	↻	4.	Fiscal Position & Budget Execution	⬇️	7.	External Financing & Donor Flows	⬇️	10.	Reform Momentum	↻
2.	Recovery & Investment	↻	5.	Inflation & Monetary Stability	↻	8.	Trade & External Dynamics	↻	11.	Social Stability	↻
3.	Critical Infrastructure	↻	6.	Banking & Financial Stability	↻	9.	Geopolitical Risks & War	⬇️	12.	Political Stability	↻

The **Q2 2026 assessment of Ukraine’s risk landscape reflects a gradual improvement** compared to the last quarter, with composite scores revised downward for multiple key risks. The unblocking of critical financial support under the €90 billion Ukraine Support Loan improves the budget and external financing situation, with the risk to **Fiscal Position and Budget Execution now rated as moderate** (vs. high) and the one to **External Financing & Donor Flows now rated as low** (vs. moderate). Furthermore, the rating of **Geopolitical Risks & War has been reduced to high** (vs. very high/critical), thanks to frontline stabilization, increasingly effective long-range strikes against Russian military logistics and oil infrastructure, a potential end to the Iran war and disruptions of global energy markets, and the outcome of the Hungarian elections in April. The remaining composite ratings remain unchanged, though improvements for some subrisks were observed in Q2.

These improvements are conditional on fundamentally fragile factors. The **Iran war** will contribute to higher energy prices for some time and renewed escalation is a distinct possibility, which would divert resources away from Ukraine. In addition, **political dynamics in partner countries** are constantly evolving, with elections in key countries approaching and a fragmentation of support for Ukraine possible. The continued **destruction of critical infrastructure** remains the single most important risk driver, constraining production, logistics, fiscal revenues, investment activity, and business confidence. **Human capital losses** are also compounding, while **private investment remains suppressed** by the absence of predictable security and legal conditions.

Score	Risk level	Interpretation	Composite risk score
1	Very low/negligible	Risk is either highly unlikely to materialize or, if it does, its impact would be negligible and easily absorbed/temporary/localized.	Each risk is assigned an ordinal expert assessment score from 1 to 5 reflecting overall materiality, defined as a combination of likelihood of occurrence and severity of potential impact . The score is not a probability measure or point forecast, but a comparative evaluation based on expert judgment and, where available and relevant, quantitative evidence on scale, persistence, transmission, and spillovers. Each subrisk in the sections below is given a Short-Term (ST) and Long-Term (LT) score, which are then combined into the total risk assessment for each of 12 key risks .
2	Low	Risk has limited likelihood and/or expected impact; any effects would likely remain contained and manageable with existing buffers/policies.	
3	Moderate	Risk is moderately likely and/or could produce notable adverse effects, but one that would not fundamentally alter the baseline outlook; spillovers may be present but will still be contained.	
4	High	Risk is relatively likely and/or could generate substantial adverse effects; shock could materially worsen sectoral or macroeconomic conditions, create broad spillovers, and require meaningful policy response.	
5	Very high/critical	Risk is highly likely and/or potentially highly disruptive, with severe and economy-wide consequences, limited room for mitigation, and strong spillovers across sectors.	

Real Economy	Macro-Financial Stability	External Stability	Domestic Stability
<p>Economic Activity ↷</p> <p>Supply-side pressures have weakened economic activity, which contracted in Q1; war-related factors, including a human capital shortage, higher energy and fuel costs, and weaker productivity have squeezed firms' margins; consumer spending remains resilient, but investment appetite is subdued; export performance has been hit by logistics costs from infrastructure damage and competitiveness costs from CBAM.</p>	<p>Fiscal Position & Budget Execution ↷</p> <p>The risk has declined in the short term as USL funds are now available; the budget is structurally dependent on external financing amid large war-time deficits, while defense, infrastructure recovery, and social needs lock in elevated spending beyond the war; debt is rising with service crowding out other priorities; war in 2027 would drive up financing needs, however, and render committed support insufficient.</p>	<p>External Financing & Donor Flows ↷</p> <p>External financing risk is now low due to the unblocking of the USL; as long as pledged aid arrives on schedule, Ukraine's external position is comfortable, allowing for the build up of reserves and supporting exchange rate stability; however, any delays in donor flows (whether due to political disagreements abroad or unmet reform benchmarks at home) could quickly expose underlying external imbalances.</p>	<p>Reform Momentum ↷</p> <p>Momentum is mixed; Ukraine has passed key legislation (under Ukraine Facility and EI streams), but declining parliamentary discipline means each vote now requires additional effort; critical IMF benchmarks on tax reform remain unresolved and are difficult to achieve; if parliamentary leadership can sustain ad hoc coalitions, reform-related risks will ease.</p>
<p>Recovery & Investment ↷</p> <p>Reconstruction will require large amounts of capital that official sources cannot supply and the capacity to efficiently channel it to the right projects; war risk keeps autonomous private investment frozen, but domestic absorption capacity is also not ready to scale up due to institutional coordination challenges; attracting the necessary private investment will require durable security, rule-of-law, and governance reforms.</p>	<p>Inflation & Monetary Stability ↷</p> <p>Renewed war in Iran and damage to critical infrastructure may intensify supply-side inflation pressures in the short term, threatening to de-anchor expectations; longer-term labor-market mismatches may reinforce cost-push pressures, while a post-war rebound could add demand-pull inflation; high dependence on external financing carries risks of fiscal dominance and exchange rate vulnerability.</p>	<p>Trade & External Dynamics ↷</p> <p>The trade deficit is increasingly structural as the war weighs on exports while imports are driven up by defense-related demand, unavailability of domestic supplies, and reconstruction needs; dependency on energy imports creates a channel for global market shocks to impact economic activity, inflation, and external balance; private capital flows remain weak, creating a fundamental dependence on official flows.</p>	<p>Social Stability ↷</p> <p>Unequal distribution of the war burden may deepen perceptions of social inequity, while the prospect of migrant labor to address labor shortages could threaten social cohesion; short-term pressures are limited, including by mobilization reforms; addressing Ukraine's post-war human capital shortage will entail political and social costs that must be managed carefully, regardless of the approach the government takes.</p>
<p>Critical Infrastructure ↷</p> <p>The short-term exposure spans electricity, gas, and heating shortages, export logistics disruptions, lack of air defense, and financing; but a maturing response (distributed generation, domestically-produced drone interceptors, diversified imports) partially offsets damages; long-term risk stems mainly from the scale of reconstruction needs against scarce financing.</p>	<p>Banking & Financial Stability ↷</p> <p>The banking sector remains sustainable with sufficient capital and liquidity, but war-related structural challenges weigh on the long-run profile; retroactive hikes of bank profit tax erode capital generation; state-bank dominance has structural distortions; a limited bankable base and crowding-out limit transfers of capital to reconstruction, but crediting under relaxed standards risks building NPLs.</p>	<p>Geopolitical Risks & War ↷</p> <p>Risks have moderated somewhat due to an improved frontline situation, strikes against Russian logistics and oil industry, a potential end to the Iran war, and the removal of political blockades in Europe; at the same time, an end to the war in 2026 is becoming increasingly unlikely; the war remains the single most important determinant for the risk landscape.</p>	<p>Political Stability ↷</p> <p>Ukraine's political system remains stable but under growing strain; wartime executive centralization is generating governance risks, illustrated by corruption cases that threaten domestic legitimacy and partner confidence; the electoral cycle is suspended due to active hostilities; while the system is stable, it is contingent on reform delivery and post-war institutional rebalancing.</p>

1. Economic Activity

Risk: 4/5 →

Economic activity weakened in early 2026 as supply-side pressures began to outweigh still-resilient household demand; thus, the overall risk score remains high. GDP and industrial output contracted in Q1, while labor shortages, rising wages, higher energy and fuel costs, and weaker productivity continued to squeeze firms' margins and constrain production. Consumer spending remained comparatively firm, with retail turnover and household lending still expanding, but investment appetite stayed subdued. Export performance and logistics were also under pressure from damage to the rail network, infrastructure strain, and tighter trade conditions, while CBAM is adding new competitiveness costs for metals producers.

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

Q1 2026 delivered the first real GDP contraction since early 2023—output fell 0.5% year-on-year, with industrial production down 1.1%, marking the sharpest quarterly industrial pullback in a year. Business activity broadly fell to a three-year low over the same period. The primary supply-side constraint remains labor: 75% of Ukrainian employers now identify staff availability as the main obstacle to business development, with private-sector wages rising 12–15% year-on-year in Q1 2026 as competition for a structurally reduced workforce intensifies. This wage growth translates directly into margin pressure across labor-intensive sectors. PPI rose to 40.2% by April 2026, led by energy supply, coke and petroleum, and electronics, reflecting input cost pass-through at the production level. Fuel costs are adding a parallel squeeze of markups—transport sector gross value added fell approximately 7% year-on-year in March 2026, partly driven by global oil price increases—while elevated energy input costs continue to weigh on production economics (addressed in the Critical Infrastructure section). If these trends continue, businesses may be forced to pass additional costs onto consumers or halt/decrease production.

On the demand side, consumer activity has shown more resilience than the GDP headline suggests. Retail trade turnover ran at 110–113% of the prior year on a cumulative basis through Q1 2026, with real gross value added in trade estimated at approximately 4% year-on-year—reflecting sustained consumer activity and positive retail sector sentiment. Household credit has also expanded consistently: total loans to households reached UAH 400 billion by April 2026, with consumer lending rising from UAH 304 billion in January to UAH 324 billion in April. Business activity expectations recovered from a January low of 41.3 to above the neutral 50 threshold by March (52.7), holding there through May (52.1). In contrast, consumer sentiment more broadly remains negative, and investment demand continues to be limited by war-risk pricing with no visible shift in new private capital commitments.

Most institutions revised their 2026 GDP forecast down on the basis of Q2 developments ([including KSE Institute's Q2 Ukraine Macroeconomic Handbook](#)), reflecting the weight of supply-side pressures on the broader growth outlook. Thus, the short-term risk assessment remains at a critical level. The long-term score accounts for the potential that a security settlement would unlock a strong recovery: a post-war reconstruction cycle would generate sustained demand across construction, materials, and services, while normalization of the investment climate could attract substantial new private capital.

- **Human capital constraints already weigh on activity and may slow the recovery | ST 4/5 LT 5/5**

The short-term assessment is raised from moderate to high, as labor scarcity has continued to worsen in the first half of 2026. Labor shortages are now the most frequently cited impediment to business: the IER's May 2026 enterprise survey records around 68% of industrial firms identifying staff availability as their primary obstacle, up from roughly 50% in late 2025. The deficit reflects institutional frictions in the mobilization regime more than weak supply—tighter enforcement of military registration and evolving “booking” (exemption) rules for critical workers have disrupted formal hiring and retention, most acutely at

large enterprises—around three-quarters of which report compliance-related shortages—while supply remains compressed by mobilization, outmigration, and skill and regional mismatches. Scarce labor exacerbates financial conditions for firms whose margins are already squeezed by energy and import costs, as nominal wages continue to rise (about 19% year-on-year, to roughly UAH 28,000 in Q1 2026,). Real wage growth is projected to decelerate to around 7% in 2026, however, as further increases are capped by cost-push inflation and compressed profitability.

Over the longer term, demographic erosion threatens to cap recovery potential. With ~6 million Ukrainians abroad and displacement now past the four-year mark, integration into host EU labor markets is turning structurally permanent, progressively lowering the propensity to return. The income gap reinforces this: at an average nominal wage of roughly UAH 28,000–30,500 in early 2026, domestic pay sits well below the statutory minimum in neighboring EU markets such as Poland, weakening the economic rationale for return. A smaller, mismatched workforce remains a first-order constraint on the recovery, underpinning the unchanged critical long-term score.

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

Informalization is best read as a defensive response to converging pressures. Prolonged supply-side cost shocks, thin cash buffers (around 2.5 months of operating activity), low incomes, limited enforcement capacity, and an administratively burdensome tax regime jointly raise the incentive to shift activity into informal channels in order to preserve liquidity and stay cost-competitive against non-compliant peers. Eroded institutional trust compounds the dynamic, with close to half of firms expressing a fundamental lack of confidence in state regulatory authorities.

As fiscal deficits continue to widen, policymakers are likely to move toward efforts to broaden the tax base and tighten revenue enforcement. These measures are warranted in principle but could end up widening the scope for regulatory arbitrage instead of broadening the tax base, particularly if poorly designed or accompanied by weak enforcement capacity. Tobacco is a recent example: the combination of increasing the minimum excise coefficient in April and the Ministry of Finance's May draft overhaul of transfer-pricing rules raised compliance costs for formal operators; meanwhile, large parts of the market remain untouched, including most of the electronic-cigarette segment (93%), by ESBU estimates. The informal norms that could be entrenched by implementing these policies during a period of acute supply-side stagnation may prove difficult to reverse—an unintended consequence of the governance reforms required for reconstruction financing and eurointegration. The long-term score remains below the short-term, though, as the principal risk is a reversal of de-shadowing progress rather than a structural break.

- **Economy could be weakened due to exports and logistics bottlenecks | ST 4/5 LT 3/5**

Short-term pressure on export capacity intensified during Q2. The mass Russian strike on May 13, 2026, which inflicted 23 hits on Ukrzaliznytsia facilities across several regions; this compounded chronic infrastructure degradation and, alongside grid instability, weighed on maritime throughput via the Odesa corridor. The carrier's position is increasingly fragile—Ukrzaliznytsia defaulted on its Eurobonds earlier in 2026, and a senior manager has warned that rail freight may become loss-making for the first time this year—so, the early-2026 UAH 16 billion passenger-transit subsidy, intended to scale back freight cross-subsidization, has not closed the liquidity gap kept open by depressed heavy-freight volumes. Overland relief is limited, as the pre-war tariff-rate quotas that the EU reinstated in mid-2025 continue to cap duty-free grain flows by rail and road. The near-term implication is a further compression of foreign-currency export earnings and strain on both the trade balance and the rail network's solvency.

With the EU's CBAM regime in force from January 2026 and the European Commission having declined an exemption or transition period for Ukraine despite the war, the cost has begun to bite: carbon charges of roughly \$60–90 per tonne triggered order cancellations at major producers—on the order of 300,000 tonnes at ArcelorMittal Kryvyi Rih in Q1 2026 alone—eroding competitiveness against scrap-based EU rivals and compounding an already weak metals picture (metal-ore mining contracted about 24% in early 2026, with iron-ore exports falling sharply). KSE Institute estimates that CBAM will reduce Ukraine's metal exports to the EU by ~9% over the medium term, with the burden concentrated in carbon-intensive ferrous metallurgy and long products most exposed. The long-term implication is that if war continues beyond 2026, entrenched logistics fragmentation and a durable loss of competitiveness in exports could lock in a structurally wider current-account deficit and a permanent erosion of export-oriented industrial capacity, though the logistics situation should improve and somewhat ease the pressure after the war's end.

2. Recovery & Investment

Risk: 3/5 ↻

At its core, the recovery and investment risk is not about the volume of pledged support from partners—external commitments are large and broadly secured—but about whether Ukraine can mobilize the capital that official sources cannot supply and channel it into the right projects. With the RDNA5 putting ten-year reconstruction and recovery needs at \$588 billion, nearly three times Ukraine's annual GDP, the decisive constraints are the near-absence of autonomous private investment, which war risk keeps frozen, and a domestic execution capacity not yet scaled to the task. The binding bottleneck is, accordingly, shifting from financing toward absorption and allocation. The overall score is unchanged and remains moderate.

- **Private investment is constrained by war-related risks, slowing the recovery | ST 4/5 LT 3/5**

No quarter-on-quarter improvement has been observed, as wartime Ukraine still cannot offer the security, legal certainty, and contract enforceability required for broad-based private capital. Inward FDI was only \$0.7 billion in January–April 2026, down 16% year-on-year, a third of which being reinvested earnings, leaving fresh foreign equity negligible. De-risking remains externally driven, centered around coordination with IFI and partners on platforms such as the upcoming Ukraine Recovery Conference in Gdańsk; war-risk insurance frameworks are useful for sustaining activity, but are used mostly for turnover activity in frontline regions, and are therefore no substitute for autonomous capital. State capital controls remain a structural deterrent: FX restrictions needed to prevent capital flight and protect reserves still cap dividend repatriation (around €1 mn per month for “new” dividends); the NBU eased restrictions further in January 2026, but the fuller FX liberalization that would most improve the business climate awaits a stronger macro-financial backdrop and, realistically, the end of the war. The long-term risk remains high: the required private contribution—on the order of a third of the total ~\$588 billion—is large relative to plausible inflows and depends on durable security and on rule-of-law, FX, and governance reforms whose delivery is uncertain. Thus, today's risk premia are likely to persist well into reconstruction.

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

The binding question here is execution—whether Ukraine can convert available resources into prioritized, well-managed projects— independent of how much financing arrives. The weak link is domestic: ministries, agencies, and local authorities operate with fragmented priorities and thin administrative bandwidth, while project-preparation and procurement pipelines remain shallow relative to need. In addition to questions surrounding capacity, allocation presents its own risks. With no single authority holding strategic and budgetary control over the reconstruction portfolio, partners and ministries plan against divergent priorities and accountability frameworks, raising the risk of duplication, weak sectoral sequencing, and capital flowing toward visible or politically salient projects rather than infrastructure critical for productivity. Given

the current scale of projects, the misallocation risk is relatively contained, but it will compound sharply in the post-war phase when larger, more capital-intensive programs will magnify the cost of every prioritization failure. This risks eroding partner confidence as financing needs peak. On a positive note, however, the 2026 State Budget marks the first full cycle utilizing the new Public Investment Management procedures and the DREAM digital platform, which should structurally improve project prioritization.¹

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

Governance weakness works through two channels relevant to investment: it slows fulfillment of the conditions attached to international assistance, and, more consequentially, the absence of firm rule-of-law and regulatory-stability guarantees keeps risk premia elevated for private capital. The wartime governance shocks behind this (e.g., the Energoatom corruption case, the executive-centralization episodes) are assessed under Political Stability and Reform Momentum and are not repeated here; their bearing on investment is the signal they send about enforceability and predictability. Two offsets explain the contained short-term score: the marginal deterrent on near-term flows is small because broad FDI is already extremely suppressed by the war, and the credible functioning of enforcement institutions—together with tangible reform progress, including the June 2026 IMF staff-level agreement that locked in an agreed tax package (parcel VAT, transfer-pricing and simplified-regime measures, paired with administrative simplification)—partly offsets the reputational damage. The long-term risk is higher because durable private investment ultimately requires institutional guarantees that remain unbuilt; unresolved judicial and rule-of-law reforms would keep risk premia structurally elevated through reconstruction.

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

Without a conditioned industrial policy, reconstruction risks locking Ukraine into an outdated, low-productivity economic model that is incompatible with future EU accession requirements. Progress on structural modernization remains stalled as businesses operate under short-term survival horizons, exacerbated by the ongoing extension of martial law (most recently prolonged in May 2026). Private actors continue to defer capital-intensive technological upgrades, choosing to rebuild to the lowest viable standard. The window for driving green and technological modernization through reconstruction continues to narrow with each quarter of deferred investment. Because re-equipping the capital base is largely a one-time event, the cost of under-specification is asymmetric—near-term effects are negligible, but each quarter of like-for-like rebuilding forecloses competitiveness gains that are hard to retrofit later.

- **Mine contamination restricts the economy's absorption capacity in frontline regions | ST 2/5 LT 3/5**

Explosive hazard contamination remains a hard physical barrier to agricultural restoration and private investment in Ukraine's most productive oblasts. However, practical and technological coordination has shown marginal progress over the last quarter. Under the state compensation program for agricultural demining, operators cleared 388 hectares in April 2026, with 125 contracts worth UAH 1.57 billion signed by May 1. Additionally, Ukraine introduced new AI-powered prioritization systems at the International Meeting of Mine Action National Directors in Geneva in April 2026. In January 2026, the Ministry of Defense announced a transition to fully digital planning for humanitarian demining to optimize the deployment of Ukraine's limited pool of roughly 4,500 trained deminers. Nevertheless, the sheer scale of contamination means productive land use in affected regions will be deferred for years.

¹ Ukraine's Property Fund unveiled a 2026 large-scale privatization roadmap (Odesa Port Plant, Mykolaiv Alumina, Ocean Plaza; a ~UAH 10 billion target, proceeds earmarked for the recovery fund), yet execution risk is high—the most recent OPP auction drew no bids and a major bidder withdrew after assessing the risks.

3. Critical Infrastructure

Risk: 4/5 ↻

Ukraine's critical infrastructure risk is no longer primarily about physical damage; rather, it is about the continued provision of essential services under repeated attack, and the question is whether the country can repair, protect, finance, and decentralize critical systems faster than they are degraded by the aggressor. Short-term pressure is high, with electricity, gas and heating, export logistics, air defense, and financing all exposed at once. But the trajectory is not declining, as it is compensated by a maturing response with distributed electricity generation, domestically-produced interceptor drones, diversified energy imports, and a deepening financing architecture that offsets the damage even where it cannot yet outpace it. The long-term risk is significant mainly due to the scale of reconstruction needs against scarce financing.

- **Electricity infrastructure damage constrains economic activity and grid stability | ST 5/5 LT 3/5**

Systematic Russian targeting of generation and distribution capacities continues to degrade the electricity system's ability to meet baseline demand. 217 attacks on energy infrastructure were reported only in January 2026, prompting a nationwide energy emergency, with strikes continuing into late spring as damage to Kyiv's grid left around 140,000 residents without power on June 1–2. The economic effects propagate beyond outages, as voltage fluctuations damage industrial equipment, generators raise dependence on diesel prices (elevated by the Iran war), and investor confidence erodes. Imports from European neighbors help but cannot fully substitute for domestic dispatchable capacity given interconnector limits and price exposure. These pressures are increasingly offset by a maturing rebuild, including: a domestic distributed-generation lending program launched in June, 162 MW of new capacity commissioned under the Resilience Plans by end-April, the EU's roughly €920 mn "Repair, Rebuild, Restart" Winter Energy Plan, and the €90 billion Ukraine Support Loan ratified on May 28, 2026, which names energy resilience among its spending priorities. On balance, these forces broadly offset one another; short-term risk remains at its ceiling because attacks outpace any near-term financing and, as the winter is approaching, the problem threatens to become critical already in November 2026. The decentralization, storage, grid hardening, and a deepening financing architecture hold the long-term grade lower but still material amid global growth in electricity demand, which Ukraine will ultimately need to keep up with to retain competitiveness.

- **Gas and heating infrastructure disruption threatens winter resilience | ST 4/5 LT 2/5**

Russian targeting of gas production has intensified sharply, building on a record 229 strikes on Naftogaz infrastructure in 2025 (more than 2022–24 combined) with over 100 large-scale attacks already in 2026, concentrated on extraction. The strikes have increasingly focused on the Poltava–Kharkiv–Sumy triangle, where most domestic output sits within drone range. The May 5 attack on a Poltava facility, followed by a deliberate second strike ("double-tap") on the responding rescue teams, illustrates both the targeting precision and the human cost. Unlike electricity, gas is substitutable through imports, and supply routes have been diversified, with 2026 import volumes running at roughly double the prior-year pace in January–April. The binding constraint is fiscal: the import bill has been inflated by the Iran war, which pushed European TTF prices to a three-year high in spring 2026, while Naftogaz's collapsing profitability and rising debt, combined with growing donor fatigue over financing gas purchases, raise pressure to lift household utility tariffs toward cost-recovery. This keeps short-term risk elevated through the upcoming heating season but materially below electricity, since damaged production can be offset (via imports) and repaired more easily than the energy system. The risk will ease further in the longer term, though it remains a recurring, cash-intensive vulnerability during war and recovery.

- **Port and rail logistics disruption threatens export capacity | ST 4/5 LT 3/5**

The binding logistics risk is now the targeted disruption of export channels, ports, and railway. Rail attacks have intensified sharply: since January 1, 2026, Ukrzaliznytsia recorded 472 strikes that damaged over 1,100 targets, with a deliberate shift from fixed infrastructure toward hunting moving trains, with the summer expected to be the hardest season yet. On the maritime side, despite an open Black Sea corridor, Russian port strikes periodically cut monthly agricultural exports by 20–30%, leaving up to 10 million tonnes of grain stranded in storage. These disruptions, while also influencing the sustainability of the FX market, raise logistics costs and erode earnings, propagating across sectors as a distributed cost on activity that falls hardest on agriculture, metallurgy, construction, and small producers with thin margins. The short-term risk remains high and worsening into the summer, while the long-term risk is still material amid sustained financing burden.

- **Housing, water, and municipal infrastructure gaps constrain local recovery | ST 1/5 LT 4/5**

Around 14% of Ukraine's housing stock has been damaged or destroyed, with direct housing losses of \$61.1 bn according to RDNA5 estimates. Water infrastructure has become the more salient recent concern. ISW assessments (later echoed by President Zelenskyy) in March 2026 found that Russia would likely turn the same tactics it has used on the electricity grid on water systems, which share the Soviet-era single-point design. This has forced Ukraine to increase budget allocations to make the water system more resilient across all regions. However, during the active war, individual return and migration decisions are driven primarily by security, income, and military risk, or by the energy and gas supply, not by housing availability or the quality of infrastructure. Thus, the short-term macro impact on local economies remains low. But the long-term risk is high: once security improves, damaged housing and other issues become binding constraints on return migration and local recovery, with consequences to the local labor supply and local recovery. Systematic (and rational, from a business perspective) underfunding of housing and water supply reconstruction remains a persistent allocation distortion.

- **Insufficient air-defense protection increases repeated-destruction risk | ST 4/5 LT 1/5**

Air-defense coverage has become the factor that determines the financial return on every repair. Russia launched 738 missiles, including ballistic, last winter alongside daily Shahed waves, leaving Ukraine's Patriot systems starving as stocks of American-made PAC-3 interceptor missiles deplete faster than allies resupply. The squeeze has been worsened by the Iran war, during which more than 800 of them were used in three days—more than Ukraine received in four years. Adapting to constrained flows of air-defense munitions, domestically-produced interceptor drones² now destroy over 70% of incoming Shaheds over Kyiv and the AI-based drone automatization development breakthroughs have increased the percentage, freeing up scarce missiles for ballistic threats. Fire Point's Freya anti-ballistic project, built with European partners, tested its “below \$1 mn” FP-7.X interceptor in early June 2026, with a view to becoming operational as early as the end of the year. Meanwhile, a state-backed experimental program has drawn 27 companies into building private mobile air-defense capability, with units in the Kharkiv and Odesa regions already operational. Regional energy resilience plans now also mandate physical protection for generation, gas extraction, and storage sites. Overall, the short-term risk remains elevated through 2026, as interceptor supply cannot yet match the strike tempo and ballistic defense is unproven at scale, but the trajectory is improving.

² The “Octopus” interceptor has entered serial production with 8,000 units ordered.

- **Financing and implementation gaps delay resilient reconstruction | ST 4/5 LT 4/5**

RDNA5, released on February 23, 2026, raised reconstruction and recovery needs to almost \$588 bn over the next decade, with needs concentrated in transport, energy, and housing. In this context, the government is advancing over \$15 bn in 2026 recovery priorities. While the EU's €90 bn Ukraine Support Loan for 2026–27 covers near-term budget gaps and military needs, it does not cover reconstruction. Therefore, the sources that could close the gap remain weak: the reparations loan (backed by immobilized Russian assets) stalled in December 2025 over legal concerns, while the US-Ukraine Reconstruction Investment Fund, though operational with \$150 mn in initial capital, depends on future resource revenues that are contingent on long-term peace, and is unlikely to deliver at scale soon. The risk remains high on both horizons, as the destruction-repair cycle deters private capital and commercial borrowing. In the short term, financing must be assembled faster than assets are destroyed. In the long term, the gap persists even after attacks decline, making dedicated financing, war-risk insurance, and resilient, decentralized reconstruction crucial.

- **Nuclear safety incidents remain low-probability but high-impact | ST 2/5 LT 1/5**

The Russian-occupied Zaporizhzhia Nuclear Power Plant (NPP), Europe's largest, has had its safety margins tested repeatedly by loss of off-site power. Supply was restored on June 6, 2026 after one of the war's longest blackouts (15 hours), days after a drone strike briefly cut its last external line on June 3. Drones and missiles were repeatedly reported near the Khmelnytskyi NPP through early 2026. The risk broadened when, on June 7, a drone struck Ukraine's centralized spent nuclear fuel storage facility near Chernobyl, igniting a fire; it was extinguished within an hour and radiation stayed normal, according to the IAEA. These events illustrate the vulnerability of nuclear-adjacent infrastructure and the reliance of safety systems on fragile external power. In each case, safety functions held and radiation remained normal. The framing is thus a low-probability, high-impact, high-salience tail risk. The risk of a major incident is slightly more likely in the short term due to recent events, and persists as a lever for Russia to pressure Ukraine or its foreign partners.

4. Fiscal Position & Budget Execution

Risk: 3/5 ⬇️

The overall score was lowered from high to moderate, as funding from the Ukraine Support Loan is now becoming available. The overall fiscal risk is high but currently mitigated. Ukraine depends on continued aid to meet significantly elevated financing needs, with the 2026 deficit projected near 18% of GDP and the budget structurally reliant on external support. Budget execution is under stress, but partners thus far have stepped in: the confirmed €90 bn USL meets 2026 needs, easing near-term liquidity pressure and reducing the risk of financing shortfalls. The relief is material, but it is conditional and front-loaded, which leaves the medium-term picture more fragile. A longer war, which is increasingly likely, would further increase defense and social spending, weigh on revenues, and seriously constrain access to market-based financing, altogether undermining the existing financial support architecture and creating a significant shortfall. Independent of this, the shift from grants to loans converts today's support into tomorrow's debt service.

- **Budget financing sources may be insufficient to cover funding needs | ST 2/5 LT 3/5**

In the current situation, financing of the budget deficit is heavily dependent on foreign support. Due to the impending start of disbursements under the Ukraine Support Loan and continued availability of funds from the EU's Ukraine Facility, the ERA mechanism, and the new IMF program, the risk is assessed to be low in the short term. The core short-term fragility stems from a lack of predictability, most recently illustrated by the delay of the USL due to the Hungarian veto. Even a fully pledged financing envelope undermines budget execution if the disbursement schedule is uncertain, as the absence of predictable receipts

prevents effective medium-term fiscal planning and debt management and forces the Treasury to hold precautionary buffers or pivot to expensive domestic issuance to bridge gaps. The budget financing risk rises in the long term, as a longer war (increasingly likely) fundamentally undermines the international support architecture. Budget expenditures related to defense, repairs of damages (e.g., energy infrastructure, logistics), and the social costs of the war would inevitably rise, while further hostilities would also weigh on economic activity and budget revenues. At the same time, market-based financing will be constrained by a longer war, as well: Ukraine will not be able to return to the Eurobond market during the war and foreign investors will not invest in domestically-issued sovereign bonds.

Addressing the shortfall will be a major challenge as the domestic market's capacity is limited. The Ministry of Finance plans to raise up to UAH 420 bn (~\$9.6 bn) in net financing from government bond issuance in 2026 (against a stock above UAH 2 tn already in circulation), but the market is thin and concentrated, with commercial banks holding 47% and the NBU 33%, leaving a narrow non-bank base despite record household participation. This concentration means domestic borrowing cannot quickly scale to absorb an external shortfall without crowding out private credit, lifting yields, or deepening the role of state banks as a wallet. In the short term, demand for government bonds remains strong at elevated yields, but constraints would quickly materialize if the financing gap rose due to higher needs and/or lower disbursements. Over the longer horizon—when needs will increasingly have to be met domestically—the absence of a deep, diversified investor base poses risks. For now, the long-term risk is assessed to be moderate due to the unclear likelihood of a longer war; should this scenario become a reality, the impact would be significant.

- **Security and infrastructure shocks could weaken budget revenues** | ST 4/5 LT 3/5

Headline budget revenue (general fund) execution remained above plan in January–May 2026, reaching \$31.1 bn (against planned \$30.5 bn). However, this aggregate outperformance masks substantial timing and composition volatility, where monthly deviations were large and driven not only by the underlying strength of the domestic revenue base but also by events like NBU profit transfers or ERA grant disbursements. This makes budget execution vulnerable to renewed security and infrastructure shocks. Further attacks on energy, gas production, ports, rail, and production infrastructure could weaken domestic receipts by disrupting output, imports, logistics, and payment discipline. External energy and logistics shocks would amplify these pressures by raising production and transport costs, compressing margins and suppressing real activity. In the short term, the central fiscal risk is therefore not only annual revenue underperformance, but monthly volatility, pressure on Treasury liquidity, and greater dependence on the timely receipt of official transfers and concentrated non-tax revenues. In the long term, persistent insecurity could narrow the domestic revenue base through weaker investment, business relocation, and firm closures. Decentralized energy infrastructure, logistics adaptation, reconstruction spending, and donor support reduce the long-term risk relative to short-term shock exposure. However, these mitigating factors cannot fully offset a structurally weaker, more volatile, and more externally dependent revenue base.

- **War-related disruption could weaken and destabilize key tax bases** | ST 4/5 LT 3/5

Tax collection for the general fund of the state budget was uneven at the beginning of 2026. Over January–May, net domestic VAT was \$0.6 bn below plan, at \$3.0 bn against \$3.6 bn, partly reflecting high VAT refunds and lower economic activity. Import VAT was \$0.2 bn below plan as a significant portion of imports is untaxed. At the same time, PIT and the military levy exceeded plan by \$0.2 bn, while CIT exceeded plan by \$0.6 bn. As a result, the main reported tax categories remained broadly on plan in aggregate, but with clear weaknesses in consumption- and import-linked revenue sources. Further war-related disruption would affect the tax system through specific tax-base channels. Strikes on electricity, gas production, ports, rail and productive assets would reduce output, consumption, taxable

imports and corporate profits. The first effects would likely be visible in domestic VAT, import VAT, customs receipts, rent payments, and corporate income tax. If disruptions persist, employment losses, slower formal wage growth or greater informality would also weaken PIT and the military levy. Higher global fuel prices have an ambiguous near-term effect: they can raise import VAT and fuel excise receipts mechanically, but they also compress business margins, reduce real consumption and increase incentives for informality. The short-term score is strongly affected by high exposure to war-related disruptions, key tax bases are sensitive to infrastructure disruption, and monthly tax misses continue to recur. In the long term, energy and logistics adaptation, reconstruction-driven activity, and conditional tax-base broadening from 2027 could partly offset losses. However, prolonged insecurity, firm relocation, weaker compliance, and a more informal labor and business environment keep the risk material.

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

Defense spending is projected to reach \$102.9 billion in 2026, further increasing fiscal pressures and Ukraine's reliance on external financing. At the same time, the government is considering a broader reform of military service, including higher remuneration, expanded contract-based recruitment, defined service terms, and incentives for frontline personnel (discussed in the Social Stability section). Recent reform proposals envisage tripling monthly compensation for infantry personnel serving on the front line, while also increasing pay for commanders, combat sergeants, and officers, as well as introducing new contract schemes and rotation mechanisms. These measures could substantially increase recurring defense expenditures and create additional financing needs in the short term.

Fiscal pressures are likely to persist well beyond the end of active hostilities, as Ukrainian authorities have indicated their intention to maintain a sizable standing military force in the post-war period, potentially ranging from 300,000 to 500,000 personnel. Retaining such a force will require not only continued funding for salaries, equipment, training, and social benefits, but also competitive financial incentives to attract and retain qualified personnel in peacetime. Combined with new spending obligations for local governments, potential deterioration in security or economic conditions, and persistent spending inefficiencies, these factors could keep defense spending structurally elevated for years after the war, limiting fiscal space for other priorities and prolonging Ukraine's dependence on external financial support.

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

The wartime expansion of Ukraine's armed forces has created significant long-term fiscal obligations that will extend well beyond the end of active hostilities. In addition to military salaries and equipment maintenance, the state is already assuming substantial future commitments related to casualties and veterans' support. Families of fallen service members are entitled to compensation of \$360k, of which \$60k is paid immediately and the remaining \$300k is disbursed over 80 months, creating multi-year expenditure obligations for the state. At the same time, the number of veterans continues to grow rapidly and is estimated at 1.8 million people as of early 2026, generating increasing demand for pensions, healthcare, rehabilitation, housing assistance, education programs, and other forms of social support. These obligations are likely to expand further as the war continues and veterans return to civilian life. As a result, even after active combat ends, defense- and war-related spending is likely to remain structurally elevated due to ongoing security challenges and mounting social commitments, limiting fiscal space for reconstruction, economic development, and other public policy priorities.

- **Government policy initiatives may increase pressure on fiscal balance | ST 4/5 LT 2/5**

Potential government initiatives pose additional risks to the expenditure side and the overall budget balance. These measures include direct financial support to households, such as cashback programs

(including fuel-related incentives), which cost approximately \$0.5 mn per day, as well as seasonal assistance schemes, including winter support programs totaling \$300 mn, providing one-off payments of UAH 1,000 per eligible recipient. Taken together, these initiatives increase pressure on already constrained fiscal space and raise the likelihood that actual expenditures could exceed the initially planned budget envelope, depending on their duration and scale. This, in turn, may intensify intra-budgetary reallocations across sectors, increase reliance on ad hoc financing measures, and heighten the need to identify additional funding sources in order to preserve overall fiscal stability.

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

Elevated financing needs and structurally high expenditures keep the deficit wide, financed primarily through external borrowing and, increasingly, domestic issuance, mechanically lifting the debt stock. State and state-guaranteed debt has more than doubled during the war, from \$98 bn at end-2021 to \$212 bn at end-April 2026, with the debt-to-GDP ratio climbing from 71.6% at end-2022 to roughly 92% in 2025 and projected to peak at ~110% in 2027, including the concessional loans under ERA and USL ([see the Q2 Ukraine Macroeconomic Handbook](#)). The composition of support compounds the problem: as partners shift from grants toward loans, including the €90 bn USL, money that once propped up revenues now finances the deficit, thereby accumulating future debt-service obligations. The IMF's sustainability path, anchored on continued disbursements and further debt relief, already stretches assumptions.

A majority of support is conditional on Russian reparations, softening the compounding pressure and serving as pseudo-grants in practice. However, this structure is not stable and will not last forever; otherwise, the actual reparations needed during the recovery period will be depleted even before becoming tangible to any extent in Ukraine's budget. Short-term risk is a financing-treadmill problem: servicing and rollover stay manageable while donor flows arrive in a timely manner, while any tranche delay drains liquidity and risks financial repression deepening the sovereign-bank nexus. Over the longer horizon, the binding risk is that the ratio peaks near or above 130% of GDP while grant inflows normalize, leaving Ukraine servicing a far larger stock from a war-damaged revenue base.

5. Inflation & Monetary Stability

Risk: 3/5 ↻

Renewed escalation in the Middle East and further Russian attacks on critical infrastructure could intensify supply-side pressures in the short term, with elevated risk of expectations de-anchoring. Over the long term, structural labor-market mismatches could reinforce cost-push pressures via the wage channel, while a post-war rebound in private consumption and investment could add to demand-pull inflation. The Ukraine Support Loan's implementation materially reduces near-term fiscal stress and softens external sustainability risks. However, the risks of fiscal dominance and exchange rate vulnerability remain elevated amid high dependence on external financing. A consistent interest rate policy and the gradual, careful sequencing of the easing of the NBU's extraordinary wartime measures are crucial for ensuring monetary stability while restoring economic adaptability and the efficiency of the monetary policy transmission mechanism.

- **Supply-side pressures may rise on Iran re-escalation and infrastructure attacks | ST 4/5 LT 3/5**

The Iran war threatens cost-push shocks through several channels simultaneously ([see Q2 Ukraine Macroeconomic Handbook, Special 1: Impact of the Iran War](#)). Despite diplomatic efforts and another attempt at a lasting peace deal, the risk of renewed hostilities remains. Higher-for-longer fuel prices, including as countries replenish oil stockpiles once the Strait of Hormuz opens, would pass through to inflation both directly (fuel inflation accelerated to 38.7% y-o-y in May) and via second-round effects. Further disruption of global logistics and production chains would reinforce global inflation, which, if combined with exchange-rate pressures, threatens to accelerate imported inflation.

Russian attacks on critical infrastructure compound these supply-side shocks. A renewed Iran war—or even the current ceasefire with oil prices sustained by Hormuz-related disruptions—would bolster Russia's fiscal capacity, reducing the chances of a swift end to its invasion of Ukraine. Over time, the development of Ukraine's deep-strike capabilities, together with business-funded air defense, could constrain both Russia's willingness and ability to target critical infrastructure. In the short term, however, the effects of war-related destruction continue to accumulate despite reconstruction efforts. This sustains the risk of an electricity deficit exceeding current assumptions, with the associated disruption to production processes, rising costs of alternative generation, and deterioration of inflation expectations. Large-scale damage in the energy sector, combined with the sharp rise in energy prices, also creates the conditions for a gradual adjustment of frozen electricity and gas tariffs toward market-justified levels over the longer horizon.

The difficult security situation, high uncertainty, and damage to critical infrastructure continue to sustain the risks of intensifying outward migration and worsening demographic conditions. This will preserve substantial structural labor-market mismatches and fuel pressure on production costs through the wage channel, both in the short run and, in particular, in the long run.

- **Demand-pull inflation risks remain limited near-term but may intensify in long term** | ST 2/5 LT 3/5

The confirmed USL materially reduces near-term budgetary stress and sustains the fiscal impulse; however, the risk of fiscal dominance remains elevated amid high dependence on external financing. Any slippage in reform conditionality could shrink available disbursements, constraining government spending and generating political pressure on the NBU to soften monetary conditions amid rising inflation—via the key policy rate, the exchange rate, or reserve requirements—and, in the worst case, through direct deficit monetization. Any erosion of the NBU's credibility would, in turn, jeopardize inflation expectations' anchoring, trust in the hryvnia, and the adequacy and regularity of external assistance.

In the short term, upward price pressure from private consumption will likely remain sustained. Despite the possibility of higher fiscal spending and wage growth amid labor-market mismatches, domestic demand potential would be constrained by demographic losses, precautionary savings, and subdued consumer sentiment. Nominal wage growth is held back by compressed firm margins, while real incomes remain under pressure from higher inflation. In the post-war period, however, the scope for private consumption and investment growth will likely expand on the back of improving security conditions, the recovery of labor supply, and the normalization of incomes.

- **Inflation above attention threshold could destabilize expectations and trigger spiral** | ST 4/5 LT 3/5

Inflation expectations remain elevated across most groups of respondents. Household 12-month-ahead expectations, in particular, are high and volatile, reflecting acute sensitivity to supply-side shocks and the exchange rate—they peaked at 14.4% in March, eased to 10.9% in April, then rose again to 13.7% in May. Further shocks—marked hryvnia depreciation, higher-for-longer fuel prices, and administered-tariff adjustments—could push inflation back above the 10% “attention threshold” toward Q4 (see Box 2 in the [NBU's October 2024 Inflation Report](#)). These risks are already partly materializing: underlying pressures stayed firm, with core inflation rising to 7.9% y-o-y, even as headline inflation eased to 8.2% y-o-y in May on seasonal factors. A sustained breach of the 10% threshold could disproportionately strengthen and prolong the pass-through of shocks into expectations, triggering their de-anchoring.

- **USL partially softens short-term FX risks, while long-term financing remains at risk** | ST 4/5 LT 2/5

The USL reduces near-term pressure on the hryvnia and on international reserve adequacy, though weaker-than-expected progress on reform delivery or renewed political friction in Europe could quickly bring these risks back (see the External Financing & Donor Flows section). Further damage to logistics

routes and energy infrastructure could constrain export receipts. At the same time, the effects of renewed escalation in the Middle East—higher energy prices and a stronger US dollar—would raise the import bill. A worsening trade balance, together with deteriorating expectations, amplifies risks for the FX market and, by extension, for inflation and broader monetary stability. The NBU will likely continue to absorb part of these risks through policy rate decisions and FX interventions. The design of the managed exchange rate flexibility regime, however, does not preclude a noticeable depreciation if FX market pressure intensifies materially—particularly in the case of accelerated depletion of international reserves. This was evident on June 8–10, when the relative range of the USD/UAH depreciation widened to 1.6% over three days.

- **Emergency measures weaken transmission; premature easing risks stability | ST 2/5 LT 2/5**

The NBU continues to pursue gradual, carefully sequenced easing of wartime FX restrictions without introducing systemic pressure on reserves or the exchange rate. Recent measures remain narrow and sector-targeted: the April 2026 package expanded FX rights for defense enterprises and eased transfer conditions for non-resident board members and servicepersons. The June 2026 adjustment extended export settlement deadlines from 180 to 270 days for pipes and railway components to reflect actual logistics cycles. However, premature FX liberalization or excessive haste in raising exchange rate flexibility could trigger a surge in FX demand and excessive capital flight. Currently, NBU measures aimed at ensuring FX market sustainability—alongside capital controls—help keep expectations in check while reducing pressure on the reserve buffer, the exchange rate, and inflation. In a consistent combination, they also allow the NBU to avoid excessive interest rate tightening while preserving credit availability.

The prolonged use of these extraordinary measures, however, coupled with persistently high risk premia, weakens investment activity and the effectiveness of the monetary policy transmission mechanism. This limits the NBU's ability to influence economic processes and maintain monetary stability, while constraining economic adaptability and amplifying the risk of accumulating FX imbalances over the longer horizon. A gradual easing of the extraordinary measures is therefore necessary but requires careful sequencing across both the short- and long-term horizons to contain risks to external sustainability.

6. Banking & Financial Stability

Risk: 3/5 ↻

Ukraine's banking sector remains stable, with capital and liquidity buffers significantly exceeding regulatory minima, profitability high, and lending keeping growth momentum. However, war-related, structural, and policy-driven challenges could weigh on the financial stability risk profile over the long run. Repeated retroactive hikes of the bank profit tax erode capital generation, while high risk premiums, a compressed bankable corporate base, and crowding-out effects limit the financial system's capacity to intermediate private capital into reconstruction. At the same time, policy pushing targeted credit into the economy under relaxed standards may worsen the risk environment by building a deferred second layer of potential wartime NPLs. State-bank dominance sustains structural distortions with long-term consequences.

- **War-related and policy-driven risks erode further capital generation | ST 2/5 LT 3/5**

Capital adequacy risk remains low in the short run but potentially faces a deteriorating long-term outlook. The sector's capital position strengthened modestly in April: the regulatory capital ratio stands at ~1.8x the required minimum, while Tier 1, CET1, and leverage ratios are more than double their respective requirements. The 2025 NBU resilience assessment confirmed that the existing buffer is sufficient to absorb risks under both baseline conditions and a 2022-scale adverse scenario. Banks have continued to replenish capital from profits, channeling it toward both regulatory buffers and lending growth. Profitability risk likewise remains relatively low, though it is expected to rise. Current profitability is strong, with sector ROE at ~21.7% and ROA at ~2.6%, supported by a high net interest margin, solid operating efficiency,

and moderate credit-loss provisioning. However, profitability is gradually declining at the sector level and is increasingly concentrated in state-owned banks, which now generate ~64% of system profit.

The key downside risks are war-related and policy-driven. Banks continue to invest in restoring and upgrading their own infrastructure and resilience, which raises operating costs. The third consecutive, quasi-retroactive hike of the bank profit tax—to 50% for 2026—compresses near-term capital accumulation and, over the longer horizon, could constrain credit expansion and decrease risk-weighted investment attractiveness of state banks.

- **Improving loan quality masks rising concentration risks | ST 2/5 LT 3/5**

Banks have thus far been able to expand credit without accumulating excessive risk, although some deterioration in portfolio quality is likely going forward. The strong quality of new loan vintages has continued to push the NPL share down to multi-decade lows of ~16% on corporate loans and ~10% on retail loans. Corporate default rates are below pre-war averages, and provisioning on the performing portfolio has eased as banks revise expected losses downward.

Several structural and policy-driven caveats temper the long-run picture. The share of state-enterprise loans—including those to monopolies—in the hryvnia corporate portfolio has roughly doubled from pre-invasion levels. Lending concentrated in critical infrastructure, while justified in wartime, exposes banks to risks from targeted shelling. Moreover, this exposure is further concentrated within state-owned banks, which can also be directed to lend on non-market terms. Policy interventions targeting lending growth may worsen the risk environment by pushing credit under relaxed standards, building a second layer of potential wartime NPLs. Continued rapid growth in consumer credit, combined with an expected slowdown in real income growth, could also weigh on retail portfolio quality.

- **Ample liquidity is gradually normalizing as banks shift toward more active lending | ST 1/5 LT 3/5**

Liquidity risk remains moderate, with a mild upward tilt possible going forward. Liquidity buffers are exceptionally strong; the probability of material deposit outflows in the short run is relatively low. However, the share of high-quality liquid assets in total assets has fallen below the pre-invasion benchmark as banks deploy reserves into their rapidly growing loan book. While state-owned banks benefit from non-competitive advantages in attracting cheap funding, increasingly concentrated and rather costly corporate deposits are amplifying liquidity exposures at some private banks, constraining their capacity to support steady lending going forward.

- **FX and interest-rate risks remain moderate but face an upside tilt over time | ST 2/5 LT 3/5**

The FX risk profile is currently moderate but faces an upside tilt over the longer horizon. Loan dollarization is broadly stable at ~30%: retail FX lending is effectively prohibited, while corporate FX lending is constrained by the natural-hedge requirement. Despite hryvnia depreciation, deposit dollarization has continued to ease—from 35% in early 2022 to 31% in April 2025—reducing translation pressure on bank balance sheets. The NBU is likely to continue smoothing exchange rate volatility via FX interventions, supported by international reserves of ~\$48 bn at end-April 2026 and ongoing external financing. Over the longer run, however, FX volatility may rise amid a more flexible exchange rate regime, a deteriorating trade balance, or any interruption in external financing—which would weigh on the sector's FX risk profile.

Interest-rate risk should remain moderate while the key policy rate is expected to stay broadly flat. Over a longer horizon, however, disinflation is likely to justify monetary easing, which would compress asset yields—particularly on NBU certificates of deposit and short OVDPs—faster than funding costs adjust. Banks that have leaned heavily on low-risk instruments rather than building more stable loan-driven income will face the sharpest margin compression.

- **State-bank dominance entrenches structural distortions** | **ST 2/5** **LT 4/5**

State-owned banks control ~50% of the sector's assets and generate two-thirds of systemwide profit. This concentration sustains politically influenced lending and OVDP holdings, alongside institutional resistance to loss recognition, amplifying risks and reducing the investment attractiveness of state-owned banks. The resulting financial pressure on state-owned banks is currently partly offset by non-competitive funding advantages. However, these advantages amplify long-term risks: they weaken the incentive to compete for depositors, allow business-model degradation at state-owned banks, undermine sector-wide competition, and erode monetary policy transmission. Perhaps most importantly, the concentration is structurally incompatible with the competitive, privately dominated banking market required for EU accession. Privatization remains the appropriate long-run solution, but the process is advancing extremely slowly.

- **Lending growth from a low base masks deeper barriers to reconstruction financing** | **ST 3/5** **LT 4/5**

Corporate lending continues to recover at a steady pace despite the war, expanding ~33% y-o-y in Q1 2026, with the bulk of new credit originating outside state subsidy programs. Growth has been led by private banks (+31% y-o-y) and foreign banks (+38%). Short-term credit remains the principal engine (+33%), but loans with maturities above three years rose even faster (+45%). These growth rates partly reflect a low statistical base, however. Net corporate loans as a share of GDP have been contracting since 2007 and, despite the rebound to 8.7% in 2025, remain very low and well below regional peers. The shortage of long-term financing compounds the constraint on most capex projects: over 40% of corporate hryvnia loans still mature within one year, while only 6% carry maturities of more than five years. This underdeveloped long-term lending capacity could weigh heavily on the economy during the recovery.

The key barriers to scaling up corporate lending are war-related and structural: high risk premiums, a compressed bankable corporate base, and crowding-out effects. Persistent instability in the legal, macroeconomic, and institutional environment—the legacy of past credit crises—compounds with war risks to raise risk aversion and drive risk premiums. These translate into corporate lending rates of ~16% and limited credit demand. Simultaneously, even a relatively high lending rate—augmented by ancillary income from cross-selling, payroll projects, acquiring, and FX operations—struggles to match the attractive, zero-risk-weighted return on OVDPs, which require no credit analysis or capital allocation and can be used to cover up to 60% of mandatory reserves. This creates a significant risk of self-reinforcing lending passivity amid heavy government borrowing driven by the large deficits: commercial incentives for banks to intensify lending may be lacking, while businesses with modest profitability and uncertain demand have limited appetite for credit at market rates. Moreover, many Ukrainian companies—particularly those with informal or mixed financial histories, weak governance, or limited reporting—cannot meet standard due diligence requirements, even when they are creditworthy and can tolerate market rates.

7. External Financing & Donor Flows

Risk: 2/5 ⬇️

The external financing risk is currently assessed to be low in the short term and moderate in the long term but could grow significantly if the full-scale war does not come to an end this year. Should a longer war keep Ukraine's trade deficit elevated, reduce foreign investment, and trigger higher capital outflows, committed financial support from partners could turn out to be insufficient to maintain macroeconomic stability. Specifically, budget financing would become a major challenge and reserve buffers would come under pressure with important implications for exchange rate stability, inflation, and monetary policy space. In addition to the level of existing and future support, any delays in disbursements, whether from political disagreement abroad or unmet benchmarks at home, would quickly expose Ukraine's external imbalances.

- **Committed support may be insufficient to ensure macroeconomic stability | ST 2/5 LT 3/5**

Financial support committed by Ukraine's partners will broadly be sufficient to ensure macroeconomic stability—e.g., reserve buffers, budget financing, exchange rate stability—in the short and long term if the full-scale war ends in 2026, which is the underlying assumption of the current support architecture (i.e., IMF program, USL). In the short term, the risk is assessed to be low. Even in such a scenario, however, there are risks in the long term, as some mechanisms have not been finally adopted, including macrofinancial support to Ukraine within the EU's Multiannual Financial Framework (MFF) for 2028–34.

More importantly, the increasing likelihood of a longer full-scale war will weigh on Ukraine's external accounts as it will constrain the recovery of exports, keep imports elevated for longer, reduce inflows of FDI and portfolio investments from abroad, and increase the risk of capital outflows. A continuation of the war after 2026 would therefore reduce the currently foreseen reserve accumulation—or even reduce reserve buffers—with important implications for exchange rate stability and imported inflation.

Most importantly, as discussed in Section 4 above, the longer war would fundamentally undermine budget financing. Higher external and fiscal financing needs will increase pressure on Ukraine's partners to create additional support mechanisms, which could be challenging as donor fatigue increasingly becomes an issue and other geopolitical developments take up time and financial resources. For now, as the future trajectory of the war is uncertain, we assess the long term risk as moderate.

- **External factors may lead to delayed or incomplete disbursements | ST 2/5 LT 2/5**

This risk depends on the credibility of partner commitments and unity within the coalition. The picture has improved markedly in recent months with the change of government in Hungary, which removed the standing veto that had blocked EU decisions, allowing for the approval of the Ukraine Support Loan and the start of EU accession negotiations. Thus, the risk is rated as low in the short term. The long-term risk is also assessed as low at this time; however, it would rise sharply if European unity fractured after a major election and veto points were reintroduced (e.g., French presidential elections in 2027).

- **Domestic failure to meet obligations may jeopardize disbursements | ST 4/5 LT 2/5**

This is the section's most binding short-term risk—and one entirely within Ukraine's own control. Disbursements increasingly hinge on domestic legislative throughput: in the first quarter of 2026, Ukraine received no funds under the Ukraine Facility as several 2025 reform indicators remained unmet. In addition, commitments regarding revenue-raising amendments tied to the IMF program have still not been adopted, and future IMF tranches are at risk of delay. Domestic implementation constraints have tightened as parliamentary discipline has weakened: the ruling faction relies on episodic, negotiated support to assemble majorities. As a result, each vote related to structural benchmarks is slower and less certain than the conditionality calendar assumes. Thus, the gap between pledged and disbursed financing is now primarily governed by Ukraine's capacity to draft and pass the necessary laws. Measures crucial to the unlocking of IMF and USL MFA tranches have been passed under strong political pressure, including measures regarding the taxation of e-platforms. Parcel imports taxation remains unaddressed.

The short-term score is high because missed benchmarks have already cost disbursements and the unresolved tax package keeps the next tranches in jeopardy. The long-term grade is significantly lower for a structural reason: the bulk of outstanding conditionality consists of front-loaded one-off legislation (e.g., tax measures, procurement law, staffing of anti-corruption institutions). The binding constraint is therefore the current parliament's throughput, which could ease as the backlog clears.

8. Trade & External Dynamics

Risk: 4/5 →

Ukraine's external position remains structurally fragile and heavily reliant on official sector disbursements to cover a ballooning current account gap. The widening is overwhelmingly war-driven on both sides of the trade balance: imports rose about 29% year-on-year in January–April 2026 (mostly due to inelastic demand for defense, energy, and reconstruction goods) while exports grew only ~4%, held back by production and logistics disruptions. Importantly, a meaningful narrowing of the trade deficit will not occur during the full-scale war and the post-war reconstruction period. With private inflows largely frozen during the war and official disbursements uneven, external stability stays tethered to donor timelines—but the more durable concern is that import intensity will likely persist into the recovery phase, while a commodity-heavy export base leaves earnings exposed to price and weather shocks. The risk score is unchanged and remains high.

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

The trade gap is best read as a war-driven shock, but could become a structural feature of the economy even post-war: the January–April 2026 goods deficit widened 51% year-on-year to \$20.8 billion, with imports of \$33.9 billion against only \$13.1 billion of exports. Three key factors shape the trajectory: (i) war imports (weapons, dual-use goods) are inelastic and will persist while the war continues; (ii) reconstruction imports will increasingly replace military ones but are themselves inelastic—machinery and materials Ukraine does not produce—meaning that the import bill will stay high even after fighting winds down; and (iii) consumption imports are rising as war-impaired domestic producers lose competitiveness, amplified by low-value e-commerce parcels. Around 56 million shipments arrived from Chinese platforms (e.g., Temu, AliExpress) with goods priced below the domestic market. Tightening this loophole is constrained: tariffs cannot be raised freely under DCFTA/EU-alignment commitments, and the parcel-VAT fix has met political resistance. There has been some progress, however: under the June 2026 staff-level agreement with the IMF, Ukrainian authorities committed to removing the VAT exemption on low-value imported parcels. This mirrors the EU's own 2026 decision to abolish its €150 duty-free threshold for parcels. As all three aforementioned factors will persist during the war and the recovery period—Ukraine's trade deficit will remain elevated for the foreseeable future.

- **Reliance on energy imports and commodity exports exposes economy to shocks | ST 4/5 LT 2/5**

Generation shortfalls have led Ukraine to remain a net electricity importer that is ultimately dependent on EU interconnectors (commercial import capacity to Ukraine-Moldova is capped near 2.1GW). Imports did ease seasonally in Q2, from 942 GWh in March to 398 GWh in May, on the back of warmer weather and stronger solar and hydro output. Emergency mandatory import requirements for SOEs were lifted by the Cabinet of Ministers in mid-March thanks to warming weather. After an extended period of Russian attacks on energy infrastructure, however, imports remain roughly double the level a year earlier. Electricity exports resumed in March (mostly to Moldova) but volumes were down more than 60%. The long-term risk remains low, as repaired generation capacity and deeper ENTSO-E integration is likely to reduce import dependence; but the path forward is still contingent, with the key threats coming from renewed strikes on generation and transmission or a prolonged global energy crisis related to a renewed Iran war.

The importance of commodities exports—particularly grains, oilseeds, iron ore, and metals—exposes earnings to global price cycles and weather shocks. A strong or “super” El Niño in 2026 (said to have a 60% chance of forming and expected to have a peak near year-end) raises risks for yields and could bring price volatility to Ukraine's key agricultural exports. Agricultural exports are further strained by fuel prices driven up by the closure of the Strait of Hormuz (the price for diesel is especially important for Ukraine's agricultural exports), as well as by rising fertilizer prices.

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

War-related uncertainty and high risk premia continue to weigh on foreign direct and portfolio investment, with external financing pressure contained by large official flows (i.e., loans from Ukraine's partners), as well as administrative measures (i.e., capital controls). Non-resident FDI fell by 16% year-over-year in January–April 2026 from an already suppressed base, illustrating the seriousness of challenges in attracting private foreign capital. This situation is unlikely to change until the full-scale war comes to an end. Nor will portfolio flows return to a significant degree until then, as Ukraine will not have access to the Eurobond market and foreign investors will not be ready to return to domestically-issued sovereign debt.

To address operational bottlenecks without risking capital flight, the NBU initiated a cautious, risk-based easing of wartime FX restrictions via Resolution No. 43. This targeted liberalization enables defense and dual-use manufacturers to bypass specific FX balance restrictions to expedite critical imports, and allows for easier cross-border salary repatriations to attract foreign talent. While this is a vital microeconomic adjustment for the defense-industrial base, it does not represent systemic macroeconomic liberalization. Broad-based private capital inflows remain deeply suppressed, preventing the technology transfer and long-term corporate investment necessary for eventual external normalization.

The risk is assessed as moderate in the short term, as the magnitude of the overall external financing gap and the amount of foreign support renders the impact of suppressed private inflows less relevant. In the long term, with support from partners gradually declining, private flows will have to play a bigger role and the impact of their absence would be more significant. However, we believe that both direct and portfolio investment will increase markedly after the war, leading to an overall rating of moderate risk. With a longer war becoming increasingly likely, though, this risk may rise in future assessments.

9. Geopolitical Risks & War

Risk: 4/5 

Geopolitical risks remain high, although favorable developments on the front line and in Europe have reduced short-term risks. A sharp deterioration of conditions in the war is unlikely, with Russian casualties at or above recruitment rates, Ukraine's technological advancements outpacing Russia's, and the success of Ukrainian deep- and middle-strike campaigns on Russian oil infrastructure and military logistics. Meanwhile, risks related to the Iran war have lingered, particularly related to Russian export windfalls and the diversion of Western munitions. However, with a fragile peace deal now in place, the worst-case scenario has not materialized. EU support has become more reliable thanks to a new government in Hungary and the subsequent unblocking of the Ukraine Support Loan, although coalition unity cannot be taken for granted as political dynamics in partner countries are constantly in flux. The war's trajectory remains the dominant risk variable; a continuation into 2027 would deepen macroeconomic challenges and strain the entire fiscal and military support framework.

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

The full-scale war remains the fundamental risk to the Ukrainian economy, state, and population. No ceasefire or peace agreement appears likely in the short term, as the Kremlin has repeatedly rebuffed invitations to the negotiating table. However, while risks remain omnipresent, there has been a general improvement in conditions across these domains since Q1. On the front line, Russian territorial gains have stalled—even declining in the first weeks of Q2—and casualties have accelerated, representing a noteworthy shift in momentum in Q1–Q2 2026, owing in part to Ukraine's innovative edge in unmanned systems. This has been complemented by improved results in the 'middle-strike' campaign, which targets logistics and military targets in occupied territories beyond the front line, and in the deep-strike campaign, which attracts wider media attention for its attacks on Russian oil infrastructure.

The combination of these factors seems to have punctured the veneer of slow but inevitable Russian victory even within Russia itself, creating the structural preconditions to eventually begin negotiations in earnest. However, so far, there are no clear signs that a change in behavior is imminent. In the meantime, the Russian military continues to target critical energy and economic infrastructure throughout Ukraine, launching many of the largest drone and missile attacks of the war in Q2 2026. The attacks pose significant macroeconomic risks through costly repairs, power outages, and business disruptions.

- **War in Iran weakens Ukraine, strengthens Russia, and diverts attention | ST 4/5 LT 2/5**

The Iran war—although it is likely coming to an end as a result of the June 15 peace deal—has worsened Ukraine’s macroeconomic stability and counteracted the progress that had been made in curtailing Russian energy earnings. The spillover effects of the war and closure of the Strait of Hormuz have been most directly seen in Ukraine’s inflation data, particularly in production costs and petroleum product prices. In Russia, the effects are reversed: oil exports, which slumped to their lowest post-Covid level in February (\$9.8 bn), have rebounded to their highest point since mid-2022 (around or above \$20 bn in March–May) on the back of surging global oil prices and sanctions waivers from the US. Nonetheless, the worst-case scenario has not been realized. Increased earnings have not kept Russia’s growing budget deficit in check, Russia’s oil industry has not managed to increase production to capitalize fully on high prices, and Ukraine’s strategic bombing campaign of Russian oil infrastructure has affected Russian exports.

In addition to its economic impact, the war has also caused the US and its Gulf allies to expend large shares of munitions stockpiles—most importantly, PAC-3 missiles for the Patriot systems that Ukraine uses to shoot down ballistic missiles—and thus reduced the resources available to Ukraine. NATO maintains that PURL deliveries will continue but the risk of delays will remain in the short-to-medium term. The peace agreement signed on June 15 is likely to alleviate this risk in some regards, but the agreement appears somewhat unstable with many key questions unresolved and renewed escalation a possibility. Moreover, the risk of diverted munitions produced by American firms will linger for the foreseeable future.

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

Both bilaterally and through the EU, European partners have increased their support for Ukraine considerably in the past two years; it has become even more reliable and predictable since the Hungarian elections in April, which removed a key roadblock. While the US still plays an important role, particularly in the provision of intelligence and air defense munitions (via PURL), Ukraine’s reliance on foreign partners has become concentrated in Europe. With the EU formally opening accession negotiations and implementing the €90 bn Ukraine Support Loan after Hungary withdrew its vetoes, EU-Ukraine integration is on a positive trajectory. However, political dynamics in a heterogeneous union of 27 member states—and beyond the EU—are constantly evolving; thus, future cohesion cannot be taken for granted. While the concentration of foreign support carries its own risks, Ukraine’s booming defense industrial base will mitigate disruptions to in-kind military assistance flows, provided it is sufficiently financed.

10. Reform Momentum

Risk: 3/5 ↻

Reform momentum is mixed. Ukraine has achieved full technical readiness to open all six EU accession clusters, and negotiations about the “fundamentals” cluster have formally begun. Ukraine also passed key Ukraine Facility legislation in April. However, each vote now requires protracted negotiations amid declining parliamentary discipline. Critical IMF benchmarks on tax reform remain outstanding and may jeopardize disbursement of the program’s next tranches. If Ukraine’s political leadership can sustain ad hoc coalitions and navigate these obstacles, reform-related risks will ease; otherwise, delays risk undermining the foreign financial support framework and Ukraine’s European integration path, which is critical for its economic future.

- **Slow rule-of-law reforms jeopardize EU accession | ST 2/5 LT 4/5**

Ukraine has achieved full technical readiness to open all six accession negotiation clusters, as confirmed by both the Commission and the Council. On June 15, 2026, the EU opened the first accession negotiation cluster—Fundamentals—with Ukraine (alongside Moldova). The remaining five clusters are now targeted for the rest of the year. The Hungarian veto was lifted once Ukraine’s Cabinet of Ministers approved amendments to the national-minorities action plan on June 12, meeting the Council’s deadline. In April, the Cabinet of Ministers adopted the National Program for Adaptation of Legislation to EU Law, and the Rada passed several reform bills unlocking over €2 billion under the Ukraine Facility, including legislation on technical regulation, a new Civil Code in first reading, and bills on civil service reform and renewable energy permits. The accession format is still contested, with Germany’s “associate membership” proposal rejected by Kyiv. The Fundamentals cluster—judicial staffing, anticorruption court vacancies, rule-of-law reforms—remains the subject of the Commission’s greatest concern. While short-term delays have limited consequences (apart from suspended EU disbursements), a prolonged failure to advance EU integration would significantly destabilize the country and undermine the legitimacy of its authorities.

- **Failure to meet structural benchmarks may weaken support framework | ST 4/5 LT 3/5**

Tax reform remains the most politically sensitive area of Ukraine’s IMF program. After parliament rejected the original digital platform tax bill in March, a revised version passed first reading in April and was adopted in June, while the military levy extension was adopted and signed into law. However, key benchmarks remain unresolved: the IMF acknowledged the political sensitivity of VAT for sole proprietors and is exploring alternatives, though the benchmark has not been formally dropped; the bill on VAT for international parcels under €150 has not been approved by the Parliament; and a public procurement law tied to a \$3.35 billion World Bank loan failed by three votes. Long-term, Ukraine will be less dependent on meeting structural benchmarks if its economic recovery accelerates and EU accession advances, but until then, failure to meet benchmarks will continue to pose serious risks to the economy.

- **Domestic political challenges could undermine Ukraine’s ability to deliver reforms | ST 3/5 LT 2/5**

Key reform votes in April required nearly a month of negotiations, reflecting the disruption in parliamentary management following Andrii Yermak’s dismissal as Head of the President’s Office amid an ongoing corruption prosecution, and the more restrained approach of his successor Kyrylo Budanov. Nevertheless, the system delivered: Ukraine Facility legislation was passed and several IMF benchmarks met, demonstrating that ad hoc coalitions can still be assembled under sufficient external pressure. However, the ability to pass important laws remains fragile—the ruling party relies heavily on episodic support from other political groups and opposition parties, making legislative outcomes increasingly unpredictable. Senior officials have publicly warned that dozens of deputies are considering resigning their mandates, and over one hundred sitting MPs are under anti-corruption investigation. Long-term, a reset of the political cycle will alleviate domestic political challenges and give new impetus to the political process.

11. Social Stability

Risk: 3/5 ↻

Unequal distribution of the war burden, as well as the prospect of inward flows of migrant labor amid an acute labor shortage, may deepen perceptions of social inequity and threaten cohesion. The government undertook efforts to rebalance the costs of military service in Q2 with reforms to compensation and mobilization. Meanwhile, backlash to rather limited inflows of migrant labor serve as a warning sign that post-war policies designed to address the labor shortage will carry political costs and threaten social cohesion, regardless of the approach taken. Short term pressures are likely to remain manageable, while longer-term risks will depend on how effectively the government can redistribute wartime costs and communicate migration and return policies.

- **Unequal war burden-sharing may deepen social inequity and labor shortages | ST 3/5 LT 3/5**

Reforms designed to improve the attractiveness and compensation of military service were announced in Q2. These include a tripling of monthly combat pay for infantrymen from ~\$2,230 to ~\$6,690 (UAH 100–300k) and a 50% increase in pay for non-combat roles from ~\$445 to ~\$670 (UAH 20–30k). The reforms also introduce, for the first time, a new path to partial discharge from military service in the form of fixed-term contracts that grant 6-month periods of exemption from mobilization upon completion. To reduce the number of AWOL soldiers, an overhaul of the system governing transfers between units has been announced in conjunction with a simpler process for AWOL soldiers to return to service.

The government is also reforming the mobilization process, including the essential-worker exemption rules. The Ministry of Economy is raising the salary threshold for workers exempted from mobilization from ~\$480 to ~\$580 (UAH 21,617 to 26,000, though maintained at 21,600 in frontline territories). A three-month audit will also review the current list of critical enterprises and other criteria. While these measures are designed to redistribute the war burden, they cannot fully ease the underlying social inequities brought about by the war. Military personnel still face extended service obligations, while businesses will be faced with even more acute labor shortages as their workers lose draft exemptions.

The civilian cost will continue to climb as long as the full-scale war continues, creating inequities according to which regions and populations are most directly affected. In January–April 2026, civilian casualties reached 815 killed and 4,174 injured, which was 21% higher than in the same period of 2025, when 682 civilians were killed and 3,453 injured; April saw the highest civilian casualty rate since July 2025.

- **Migration problems could jeopardize social cohesion | ST 2/5 LT 4/5**

The two primary means of reducing the demographic shortage in the near future are returning Ukrainians currently abroad, and/or attracting migrants. While the border-crossing balance turned positive for the first time since the full-scale invasion—entries exceeded exits by ~17,000 in January–April 2026—it pales in comparison to the net outflow of 1.36 million in 2025. This could be an early signal, and a result of the EU shifting its stance from providing protection to encouraging Ukrainians to return home. Despite the lack of any labor-migration reform announcements, a media backlash over attracting migrants has created social pressure; the mayors of two major cities, Kharkiv and Lviv, have both come out against imported labor as opposed to prioritizing the return of Ukrainians. In reality, the scale of imported labor is quite minimal: only 9,582 foreign work permits were issued in 2025, about 44% of the pre-war level (21,780 in 2021). Thus, while the debate is not particularly relevant at the moment, this episode could serve as a warning for the post-war recovery period's social cohesion against the backdrop of a labor shortage that will require migrant labor. The potential for nativist and right-wing political forces—much like in the EU—pushing the government to enact migration policies detrimental for the economy is therefore high risk in the long term.

The Ukrainian government could take three (not mutually exclusive) steps to alleviate the potential strain on social cohesion: (i) a communication campaign favoring inward migration of non-Ukrainians, (ii) policies that positively incentivize Ukrainians to return voluntarily, and (iii) working with European governments to return Ukrainians from abroad. The latter two options each entail their own risks, as incentivizing refugee repatriation could be perceived as favoring citizens who left over those who stayed, while inducing refugee repatriation could create resentment among those forced to return.

12. Political Stability

Risk: 2/5 ↻

Ukraine's political system remains stable but increasingly strained. Societal unity endures, but the “Operation Midas” corruption scandal has sharpened public sensitivity to governance failures at a critical moment for EU accession and long-term financial commitments. The application of NSDC sanctions against former Presidential Office Head Andrii Bohdan further illustrates the risks of wartime executive centralization outlasting its operational justification. Elections remain postponed under martial law, with the Verkhovna Rada working group confirming elections cannot happen before 2027 at the earliest. The system is largely stable, though developments are contingent on reform delivery and credible post-war institutional rebalancing.

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

Societal unity remains strong after more than four years of full-scale war, but public sensitivity to governance shortcomings has increased. The “Operation Midas” corruption scandal—involving alleged embezzlement from state nuclear company Energoatom—triggered a major government reshuffle and rare wartime protests. In May 2026, former Head of the President's Office Andrii Yermak was formally named a suspect in a \$10.5 mn money-laundering scheme and taken into pre-trial detention, released on bail. High-profile corruption cases risk eroding domestic public trust and providing grounds for reduced confidence among international partners at a moment when Ukraine is seeking to secure long-term financial commitments and advance its EU accession process.

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

The concentration of decision-making during wartime reflects operational necessity, but the gradual accumulation of executive functions creates governance risks requiring deliberate post-war rebalancing. The imposition of National Security and Defence Council sanctions against former Head of the President's Office Andrii Bohdan—whose legality observers have questioned, as legislation restricts such measures to non-citizens or terrorism cases—illustrates the risk of centralization.

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

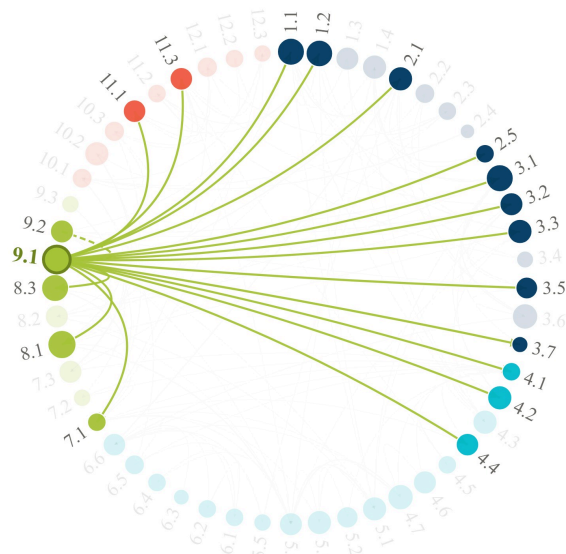
Elections remain postponed under martial law, with a decline in the issue's salience in recent months. On March 20, 2026 the Verkhovna Rada working group presented findings on post-war electoral legislation, concluding that elections should not be held in 2026, and agreed that Ukraine must wait at least six months after adopting election legislation and establishing a ceasefire before launching a campaign. Afterwards, public activity of the group significantly subsided. President Zelenskyy's approval has followed a downward trend since a March spike: a KIIS poll conducted April 20–27 found 58% of Ukrainians trust the president—down from 62% in March—leaving a net trust balance of +22, with primary drivers of distrust being the ongoing war (32%), unfulfilled campaign promises (28%), and corruption (20%).

Risk Connectivity Analysis

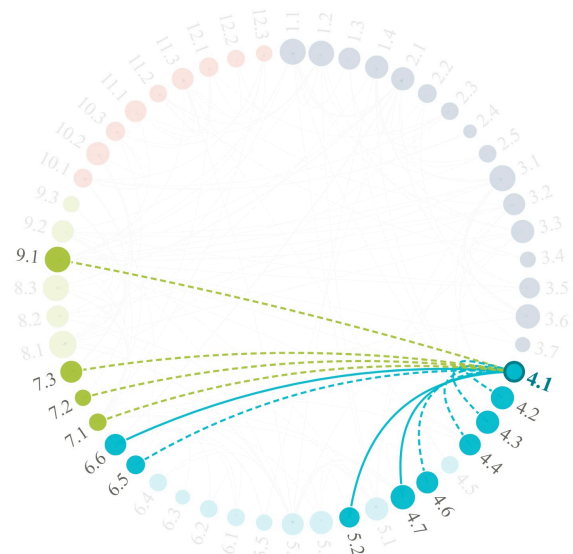
The sub-risks assessed in this report are not independent—they form a directed network in which the materialization of one sub-risk raises the likelihood or severity of others—and the composite scores do not capture the transmission channels that link them. Mapping cross-dependencies matters for policy analysis as it exposes transmission hubs through which short-term shocks trigger macro-fiscal-monetary spillovers, and highlights key points for intervention. It also makes the analysis more transparent and auditable, allowing the chain of causation behind scores to be traced and connected.

The continuation of the full-scale war (9.1) is the most connected node in the risk matrix, with 17 outgoing linkages propagating into all risk blocks. The strongest transmissions run into the real economy, illustrating the war as the key risk-causing factor. The war’s primary economic transmission channel is a supply-side shock—each wave of attacks degrades the productive base, raises input costs, and compresses the economy’s capacity ceiling faster than reconstruction can restore it—before other channels carry the damage onward into the fiscal, external, and social blocks. Because 9.1 sits upstream of nearly every other risk, measures that shorten the war or blunt its physical transmission—above all, air defense and grid resilience, which limit the damage before it reaches the real economy—deliver the widest systemic return of any available lever. No downstream intervention can fully neutralize a risk whose source remains active.

Continuation of the full-scale war (9.1)



Budget financing risk (4.1)



The budget financing risk (4.1)—currently low in the short term, thanks to the USL—is a heavily loaded destination node. It receives eight linkages: the war (9.1), revenue shocks (4.2), tax-base instability (4.3), defense-spending pressure (4.4), discretionary policy spending (4.6), and every external-financing channel (7.1, 7.2, 7.3) converge on it. The Ukraine Support Loan does not sever these dependencies, it makes the gap conditional on disbursement timing and reform delivery. When the gap widens, the government has to issue domestic bonds to cover it. With the market thin and concentrated on commercial-bank holdings, this transmits fiscal stress directly into the financial sector, serving as the trigger for four other risks. 4.1 feeds the debt burden (4.7) and, most importantly, deepens the barriers to financing reconstruction (6.6). State borrowing crowds out private credit, lifts yields, and entrenches state-owned banks as the government’s wallet—a dynamic that runs both ways, as state-bank dominance (6.5) feeds back into the budget channel. The banking sector, nominally stable and well-capitalized, thus risks being converted from a potential engine of recovery into a passive absorber of sovereign paper precisely when private investment (2.1) most needs intermediation.