Center of Public Finance and Governance at Kyiv School of Economics

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FISCAL DIGEST – H1 2026

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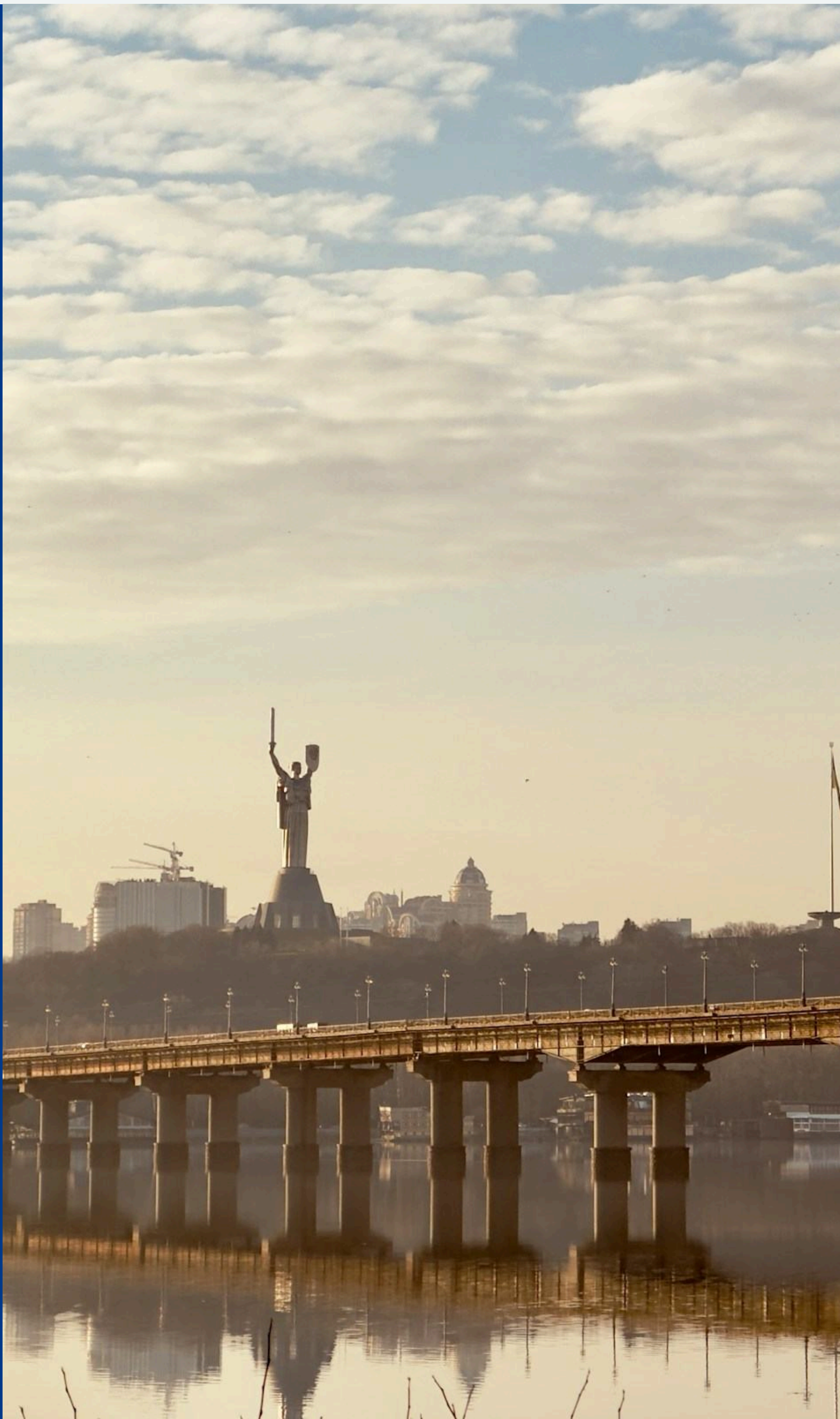

AUGUST 2026

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EXECUTIVE SUMMARY

In H1 2026, Ukraine's budget[1] revenues rose by 28.8% y-o-y to $57.8 bn, but the improvement increasingly reflected exceptional external support in the form of grants rather than stronger domestic revenue mobilization. Taxes remained the main domestic source of financing, although their share in total revenues declined to 45.8% as grants and non-tax revenues grew faster. Tax receipts were supported by higher imports, nominal wage growth, and stronger corporate profits, particularly in the banking sector, while import VAT and excise benefited from elevated demand for imported fuel and electricity. At the same time, net domestic VAT remained below last year's level due to uneven domestic demand, higher refunds, and the lagged effects of winter attacks on energy infrastructure, although Q2 data indicate some adaptation by businesses and households. Fiscal stability therefore remained closely tied to external support, wartime economic resilience, and continued implementation of the IMF and other partners' supported reform agenda.

A key fiscal development during H1 2026 was the substantial expansion of fiscal space following the incorporation of €45 bn under the Ukraine Support Loan (USL), enabling the government to significantly strengthen defence spending while simultaneously reducing the budget deficit. Following approval of the €90 bn USL, Ukrainian Parliament adopted budget amendments that increased projected revenues by $58.9 bn, including $57.2 bn under the USL, additional Ukraine Facility financing, and higher PIT revenues, while reducing the projected deficit from 18.5% to 12.1% of GDP. Of the USL resources, $40.4 bn was allocated to defence and $16.8 bn to general budget support. The Ministry of Defence received an additional $45.1 bn in appropriations, mainly for weapons and military equipment, while smaller allocations supported regional resilience plans and replenished the Reserve Fund.

Defence and security remained the dominant expenditure priority, accounting for 70.3% of total government spending, or $47.8 bn, and driving overall expenditure growth of 17.1% y-o-y to $68 bn. defence spending increased by 15.9%, while public order and security expenditure rose by 23.2%, reflecting the continued need to strengthen Ukraine's defence capabilities. Part of the resources originally planned for later in the year was brought forward to meet immediate Ministry of Defence needs. Non-military expenditures also increased, most notably in economic affairs (+44.5%) and intergovernmental transfers (+39.3%), driven by higher support for the fuel and energy sector, transport infrastructure, and education subventions linked to higher teacher salaries.

External financing remained critical to budget stability, but disbursements were weak for much of H1 before a major improvement in June. The Ukraine Facility and USL were finally unlocked as ERA resources approached exhaustion, with Ukraine receiving €3.2 bn in macro-financial assistance under the USL on June 25 and a further €3.9 bn for defence needs on June 30. Large-scale grant support substantially narrowed the fiscal deficit without adding materially to the debt burden: the deficit excluding grants reached $20 bn, compared with $6.9 bn after accounting for $13.1 bn in grants. Gross external borrowing fell sharply to $6.1 bn from $15.6 bn in H1 2025, reflecting both the limited disbursements from partners in January–May and the structural shift from loans to grants under the USL financing framework. Financing sources include $2.8 bn from the Ukraine Facility, $1.5 bn from the IMF, and $1.4 bn from the IBRD. The resulting fiscal position remained manageable, but continued to depend on the timely availability of external financing and fulfilment of reform commitments.

[1] Here and after, the term "budget" is used for the central (state) level budget

Domestic borrowing remained primarily a debt-management tool rather than a major source of deficit financing. Government borrowing focused on refinancing maturing obligations, supported by six bond exchange auctions totaling $1.5 bn in H1 2026. Household holdings of domestic government bonds reached a record $3.4 bn in June, increasing the retail share to 7.6% of outstanding bonds, 2.5 pp higher y-o-y. This growing retail participation, together with active maturity management, helped ease near-term refinancing pressures and remained consistent with the Medium-Term Debt Management Strategy for 2026–2028.

The Ukraine Recovery Conference 2026 reinforced near-term financing while expanding the institutional and financial base for reconstruction. Key outcomes included a $3.39 bn World Bank package under the First Ukraine Jobs and Private Sector Growth Development Policy Operation, combining a $1 bn policy loan backed by UK and Japanese guarantees with a $2.35 bn grant from the F.O.R.T.I.S. Ukraine FIF. Additional agreements included a €0.78 mln KfW grant to strengthen Ukraine's capacity to access EU funding and €100 mn in additional financing under the CEB HOME project for housing for war-affected Ukrainians. Together, these agreements provide near-term support while strengthening the framework for larger-scale reconstruction financing.

BUDGET REVENUES

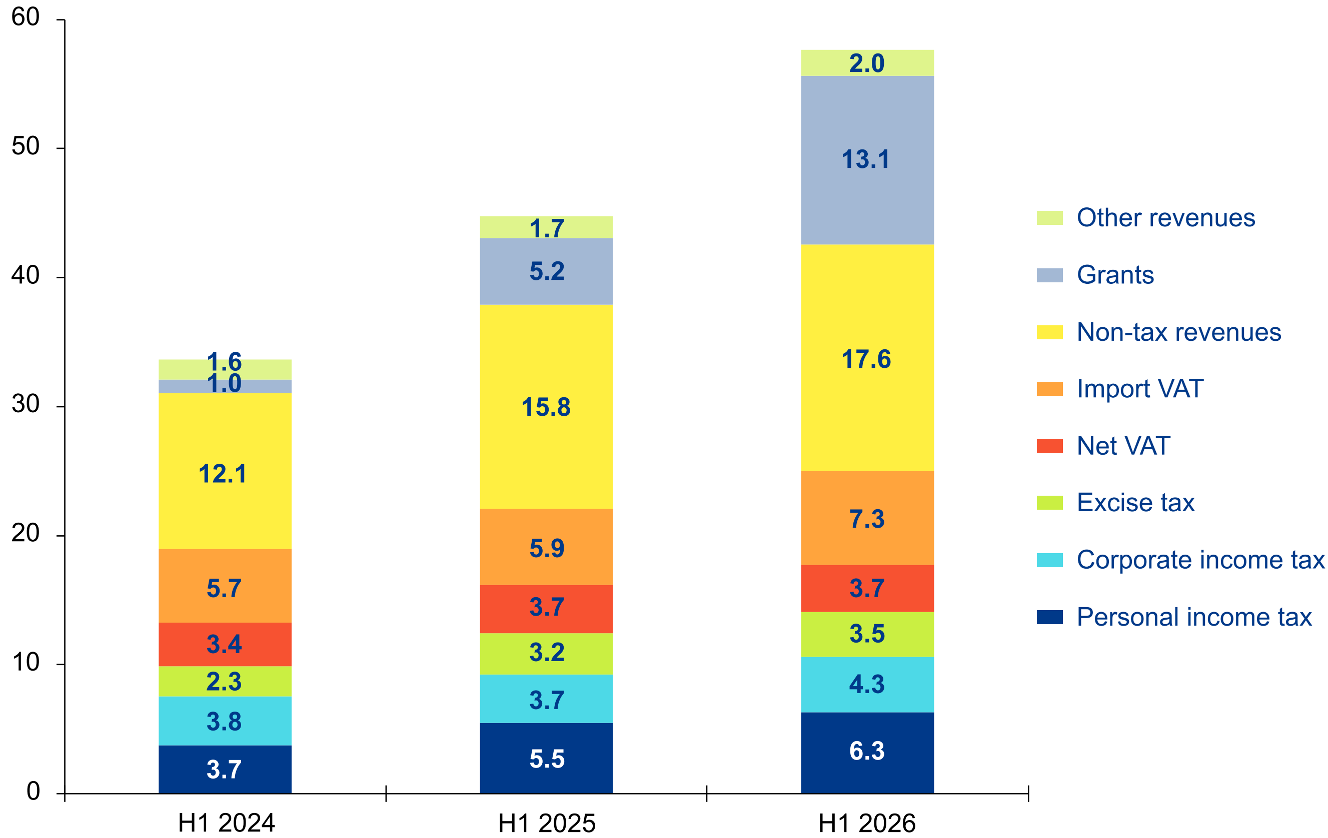
Budget revenues increased strongly in H1 2026, but the improvement was driven primarily by external support rather than by a comparable strengthening of the domestic revenue base. The main reason was the sharp increase in grant inflows and EU-related support, which lifted headline revenues, while revenues excluding grants grew at a much more moderate pace. As a result, total budget revenues reached $57.8 bn, up 28.8% or $12.9 bn y-o-y. Grants amounted to $13.1 bn, rising by 153.3% y-o-y and accounting for 22.6% of total budget revenues, while non-tax revenues increased to $17.6 bn (+11.2% y-o-y). The empirical confirmation of this externally driven dynamic is the gap between headline revenue growth and revenue excluding grants: without grants, revenue increased by 12.6% y-o-y to $44.7 bn, indicating that predictable partner disbursements remained critical for maintaining budget stability.

Grant funding and military-technical assistance became the key stabilizing sources of budget revenues in H1 2026, as the launch of the EU's Ukraine Support Loan (USL) led to large inflows through both budgetary and defence-related channels. The sharp increase in grants was directly linked to external support, with the June surge reflecting the first major USL-related inflows from the EU: €3.2 bn ($3.6 bn) was provided under the EU's Enhanced Cooperation Mechanism and recorded as part of grant financing. As a result, total grant receipts reached $13.1 bn in H1 2026, accounting for 22.6% of total budget revenues and standing 2.5 times above the level recorded in H1 2025. The concentration of inflows in June confirms the central role of the new EU framework: $7.1 bn in grants was received that month alone, with EU disbursements accounting for roughly half of the total. In parallel, the defence-related component of external support was reflected in the special fund, which received $11.8 bn in military aid during H1 2026, including $2.7 bn in June. Together, these budgetary grants and special-fund defence inflows significantly strengthened budget stability, but this stability remains contingent on timely external disbursements, continued fulfillment of commitments to partners, and uninterrupted functioning of Ukraine's logistics and maritime infrastructure amid ongoing security risks.

Tax revenues continued to increase in H1 2026, but their growth was more moderate than the headline revenue growth. This reflected a mixed tax base: import-related collections, nominal wage growth, and strong corporate profits supported revenues, while net domestic VAT remained constrained by weaker domestic demand, elevated VAT refunds, and the delayed effects of winter attacks on energy infrastructure. As a result, tax revenues reached $26.5 bn, up $3.2 bn (13.8% y-o-y), accounting for 45.8% of total budget revenues. Import VAT rose by 23.5% y-o-y to $7.3 bn, PIT and the military levy increased by 14.2% y-o-y to $6.3 bn, and CIT grew by 14.8% y-o-y to $4.3 bn, while net domestic VAT declined by 2.5% y-o-y to $3.7 bn. Together, these confirm that tax revenue growth was supported mainly by imports, wages, and select profitable sectors, rather than by a broad-based recovery in domestic consumption and production.

FIGURE 1.

Structure of budget revenues in 2024-2026, $bn



Sources: *Ministry of Finance of Ukraine, Openbudget*

VAT remained the dominant source of tax revenues in H1 2026, accounting for 41.3% of total tax revenues, and its growth became increasingly import-driven, while domestic VAT remained under pressure. Compared with H1 2025, the main positive impulse came from import VAT, as persistently high wartime import needs, particularly for fuel and electricity, expanded the tax base at customs, while elevated fuel-price risks linked to Ukraine's energy constraints and the war in the Middle East further supported the nominal value of imports. By contrast, domestic VAT collections were constrained by weaker domestic demand, continued security-related disruptions, and higher VAT refunds, which absorbed a larger share of gross domestic VAT receipts than a year earlier. As a result, VAT generated $10.9 bn in total. Import VAT receipts increased by 23.5% y-o-y to $7.3 bn, whereas net domestic VAT receipts declined by 2.5% y-o-y to $3.7 bn. VAT refunds reached $2.7 bn in H1 2026, up from $2.1 bn in H1 2025, confirming that refund dynamics were a significant drag on net domestic VAT performance. At the same time, stronger domestic VAT performance in April and June suggests that the economy partially adapted after the most acute phase of the winter energy shock.

PIT and military levy revenues continued to demonstrate resilient growth, remaining the second-largest source of tax revenues in H1 2026, primarily driven by continued nominal wage growth, which expanded the taxable wage base and generated a stable increase in labor income tax receipts. According to open salary data, the average monthly salary increased from $601 in June 2025 to $671 in June 2026 (+11.6% y-o-y), supporting tax collection despite persistent war-related risks. As a result, PIT and military levy receipts increased by 14.2% y-o-y to $6.3 bn, accounting for 23.8% of total tax revenues.

Other tax payments also contributed to tax revenue growth in H1 2026, mainly reflecting higher corporate income tax, excise receipts, import and export duties, and rent payments. Together, these revenues amounted to $9.2 bn, or 34.9% of total tax revenues, about $1.1 bn more than in H1 2025. CIT receipts rose by 14.8% y-o-y to $4.3 bn, accounting for 16.2% of total tax revenues, supported by strong profitability in select sectors, especially banking. Excise receipts increased by 9.3% y-o-y to $3.5 bn, or 13.2% of total tax revenues, due to higher rates on tobacco products and fuel as part of gradual alignment with EU levels, as well as continued imports of excise-taxable goods, particularly fuel. Import and export duties grew by 22.5% y-o-y to $0.7 bn, reflecting the continued role of import flows in revenue collection, while rent payments increased by 35.0% y-o-y to $0.6 bn. At the same time, risks to these revenue sources intensified in H1 2026, including price and logistics shocks linked to the war in the Middle East, Russia's attacks on Ukraine's fuel, port, and logistics infrastructure, and continued strikes on gas extraction infrastructure, affecting the dynamics and volumes of excise receipts, import-related payments, and rent revenues.

BUDGET EXPENDITURES

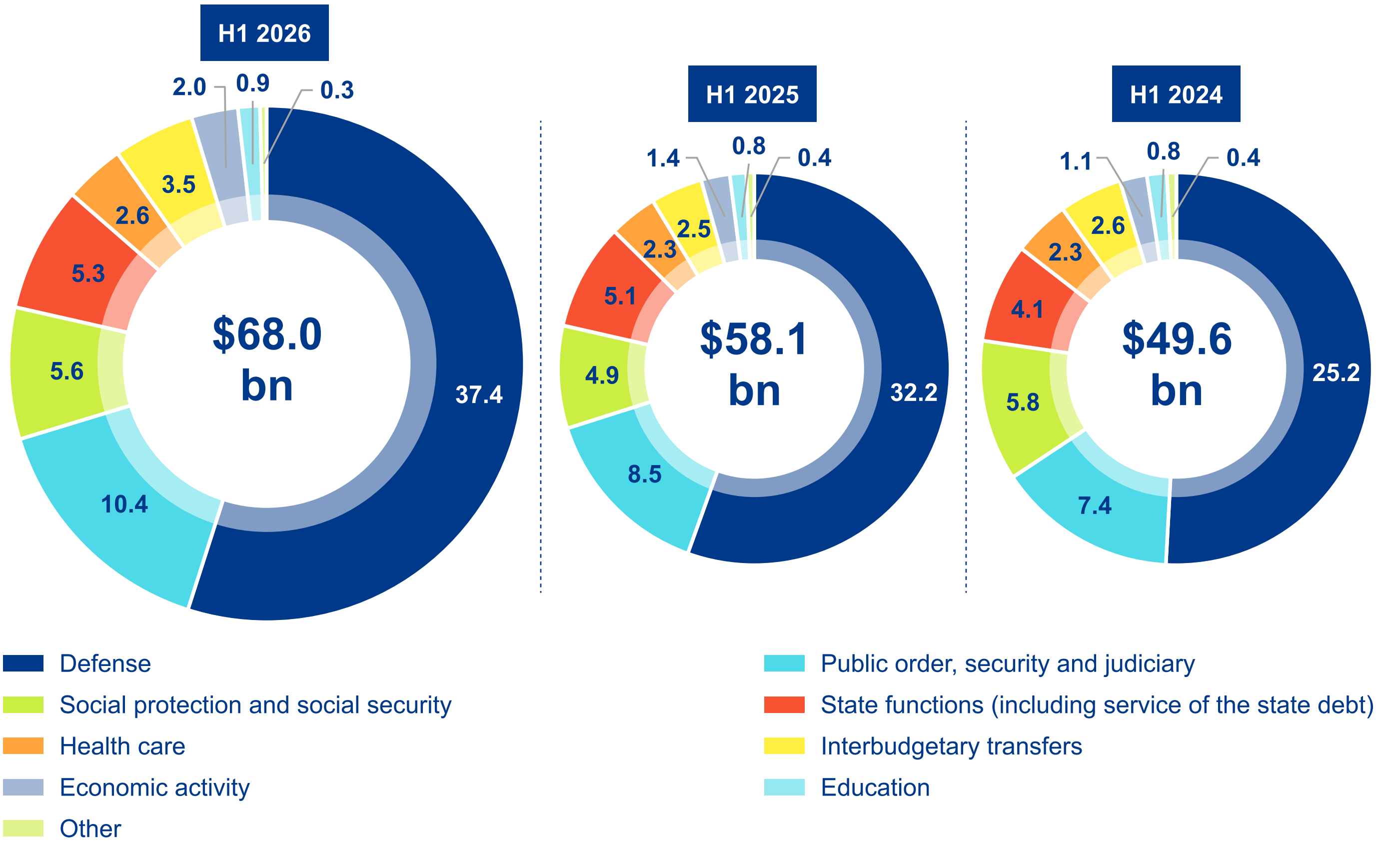
Fiscal developments in H1 2026 were primarily characterized by broad-based expenditure growth across almost all functional sectors, including defence and security. This expansion was made possible largely by the approval of the USL program, which provides €90 bn in financing over 2026–27. Total government expenditures reached $68 bn, an increase of 17.1% y-o-y, broadly matching the 17.4% growth recorded in combined defence and security spending. Despite the substantial increase in expenditure, the overall composition of the budget remained largely unchanged, with war-related spending, social expenditure, and debt servicing continuing to dominate public finances.

War-related expenditures remained the largest component of Ukraine's budget during H1 2026, reinforcing the country's dependence on timely external financing to sustain defence spending. Defence and security expenditures accounted for 70.3% of total government spending, equivalent to $47.8 bn. Of this amount, $34.7 bn was spent through the Ministry of Defence, representing 51% of total government expenditure and an increase of 10.4% y-o-y. This growth was supported by the Ministry of Finance's continued practice of reallocating monthly defence appropriations from later to earlier months of the fiscal year to meet urgent operational needs. Beginning in March, more than $7.7 bn originally scheduled for the final months of the year was shifted forward, with smaller reallocations continuing through June and reducing the financial resources available for the second half of 2026. The adoption of the USL and related budget amendments substantially narrowed this financing gap, while the possibility of using part of the macro-financial assistance under the mechanism for specific defence-related needs could provide additional support. Nevertheless, the risk of underfinancing in Q4 2026 remains present, and will depend on the pace of defense spending and the timely availability of external financing. Meanwhile, the volume of in-kind military assistance from international partners remained broadly unchanged compared with 2025.

Expenditures on the security sector also continued to increase, reflecting persistent operational requirements under wartime conditions. Spending reached approximately $10.4 bn, up 23.2% y-o-y, representing a faster rate of growth than observed in previous periods. This acceleration was likely supported by somewhat higher levels of international technical assistance compared with the previous year. The increase was concentrated in institutions directly involved in national security, including the Security Service of Ukraine, the National Guard, and the State Border Guard Service.

FIGURE 2.

Structure of budget expenditures in 2024-2026, $bn[2]



Sources: *Ministry of Finance of Ukraine, Openbudget*

The composition of non-military expenditure also shifted toward higher allocations for economic development and social priorities. Together, these sectors accounted for 29.7% of total government expenditure, or $20.2 bn, compared with $17.4 bn last year. Expenditure on economic affairs increased by 44.5% ($0.6 bn), primarily reflecting substantially higher funding for the fuel and energy sector as well as additional support for railway and transport infrastructure. The increase in railway expenditure was likely associated with the introduction of government compensation for domestic passenger rail services, estimated at approximately $0.4 bn. Meanwhile, intergovernmental transfers rose by 39.3% ($1 bn), largely driven by higher education subventions reflecting the government's policy of increasing teachers' salaries.

Indexation of pensions and social benefits, as well as expanded support for families with children, became the main drivers of higher social protection expenditures in H1 2026. Total budget expenditure on social benefits reached $5 bn (+8.5% y-o-y), primarily driven by higher subsistence minimum and minimum wage levels, to which a significant share of

[2] The state functions sector includes the state debt servicing

social benefits is linked. Budget transfers to the Pension Fund for pension payments and deficit financing increased to $2.8 bn (+3.9% y-o-y), mainly due to the 2026 pension indexation. Expenditure on social protection for people in difficult life circumstances increased to $1.1 bn (+12.6% y-o-y), mainly due to higher support for low-income households, expanded assistance for internally displaced persons (including housing programs), and the restoration of benefits for children of IDPs regardless of their parents' income. In contrast, spending on housing and utility subsidies declined to $0.53 bn (-10% y-o-y) due to a reduction of 328 thousand beneficiaries, as well as damage to energy and utility infrastructure, which limited heating services and reduced the amount of utility payments eligible for compensation. The fastest-growing expenditure category was support for families with children, which increased to $0.44 bn (+67.9% y-o-y). This growth reflected expanded financial support to address demographic decline, including higher lump-sum childbirth benefits and the introduction of new monthly childcare benefits.

TABLE 1.

Actual expenditures on social payments in H1 2024-2026, $bn

Indicator	H1 2024	H1 2025	H1 2026	Change (%, 2026 vs 2025)
Pension Fund funding for pension payments & covering deficit	3.5	2.7	2.8	3.9
Support for vulnerable citizens (IDPs, low-income families)	1.2	1.0	1.1	12.6
Support for benefits and subsidies	0.60	0.60	0.53	(10.6)
Support for children & families	0.30	0.26	0.44	67.9
Support for persons with disabilities	0.05	0.05	0.10	94.7

Sources: *Ministry of Finance of Ukraine, KSE Institute*

BUDGET FINANCING

Ukraine's budget deficit remains structurally elevated, driven by persistently high defence expenditure and substantial reconstruction needs during the war. However, the significant volume of grant inflows received has meaningfully reduced financing needs, with the first-half deficit tracking well below earlier levels. The budget deficit (excl. grants) reached $20 bn, reflecting a 9.5% y-o-y decrease, while the deficit including $13.1 bn of grants amounted to $6.9 bn. Budget deficit financing, as in previous periods, depends on a combination of domestic instruments, including government bonds and privatization income, and external financial support.

June marked a turning point for external financing in 2026, as several major support programs were finally unblocked after a weak start to the year. The most important inflows included the €2.8 bn seventh tranche under the Ukraine Facility, disbursed in early June after its approval by the European Commission in April following methodological revisions and certain concessions (allowing Ukraine to receive the tranche by counting four additional indicators that have already been fulfilled ahead of their 2026 schedule), and the first €3.2

bn tranche of macro-financial assistance under the new USL program later in the month. In addition, Ukraine received a further €3.9 bn from the EU for the budget's special fund to finance defense needs. Importantly, despite the loan-based structure and additional conditions of the USL mechanism, these inflows are recorded in Ukraine's budget as grant revenues under receipts from the European Union, foreign governments, international organizations, and donor institutions. As a result, the June inflows significantly strengthened budget revenues and eased financing pressures that had accumulated during the first half of the year.

External financing remained a key source of budget deficit coverage in H1 2026, with net external financing of $4.7 bn covering 68.1% of the actual deficit. For H1 2026, gross external loans amounted to $6.1 bn (compared to $15.6 bn for H1 2025). The majority of external loans for the budget — $2.8 bn — were received from the European Union under the Ukraine Facility program. Another significant portion ($1.5 bn) was received from the IMF in the first tranche of a new 48-month Extended Fund Facility (EFF) arrangement for Ukraine in Q1 2026. An additional $1.4 bn was received from the IBRD under various support projects.

TABLE 2.

Sources and amounts of external loans to Ukraine in 2026

Foreign loans received in 2026	$ bn
EU (Ukraine Facility)	2.8
IMF	1.5
IBRD	1.4

Sources: *Ministry of Finance of Ukraine*

Domestic market issuance in H1 2026 served primarily to refinance maturing obligations rather than cover the fiscal deficit. This behavior was mainly reflecting both the limited external disbursements and the government's broader commitment to reducing dependence on domestic borrowing. Gross domestic bond issuance amounted to $5.3 bn, a 5.7% decrease y-o-y, and net domestic financing (excl. debt repayments) came in at $77.8 mn. Overall, the restrained pace of domestic borrowing is consistent with the government's approved strategic objective of reducing the stock of domestic debt.

Active bond exchange operations helped ease near-term refinancing pressures by extending maturities and smoothing the debt repayment profile. In H1 2026, the Ministry of Finance conducted six domestic government bond exchange auctions totaling $1.5 bn, effectively swapping near-term debt instruments for longer-dated securities. This proactive debt management significantly eased short-term budgetary pressure by reducing debt service and redemption costs and extending the average maturity of the debt portfolio. Such operations are fully consistent with the Medium-Term Debt Management Strategy for 2026–2028, approved last year.

In H1 2026, privatization of state property contributed $24.7 mn to budget financing. This accounts for 54% of the annual budget financing plan from privatization proceeds. During 2026, the State Property Fund successfully conducted 168 privatization auctions. The largest lot was the sale of the unified property complex of the State Enterprise "Research Institute Orion" in Kyiv for $8.5 mn, with the auction price increasing by almost 897% during the bidding.

TABLE 3.

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

Resources	H1 2024	H1 2025	H1 2026	Change (%, 2026 vs 2025)
Internal budget resources	**26.5**	**28.8**	**31.7**	**10.0**
Domestic government bonds	6.2	5.6	5.3	**(5.7)**
Own budget revenues (without grants)	20.3	23.3	26.5	**13.8**
Share of internal budget resources	65.1%	58.1%	62.3%	**x**
External budget resources	**14.2**	**20.8**	**19.2**	**(7.5)**
External loans	13.2	15.6	6.1	**(60.6)**
Grants	1.0	5.2	13.1	**153.3**
Share of external budget resources	34.9%	41.9%	37.7%	**x**

Sources: *Ministry of Finance of Ukraine, KSE calculations*

STATE DEBT AND STATE-GUARANTEED DEBT

The pace of state and state-guaranteed debt accumulation slowed markedly in H1 2026, as limited external disbursements and a large share of grant support kept the overall debt stock broadly stable, edging up to $211.6 bn. During 2026, total debt increased by 5% in hryvnia terms, whereas in U.S. dollar terms, it declined by 0.8% due to exchange rate fluctuations. However, the y-o-y growth rate stood at 23.3%.

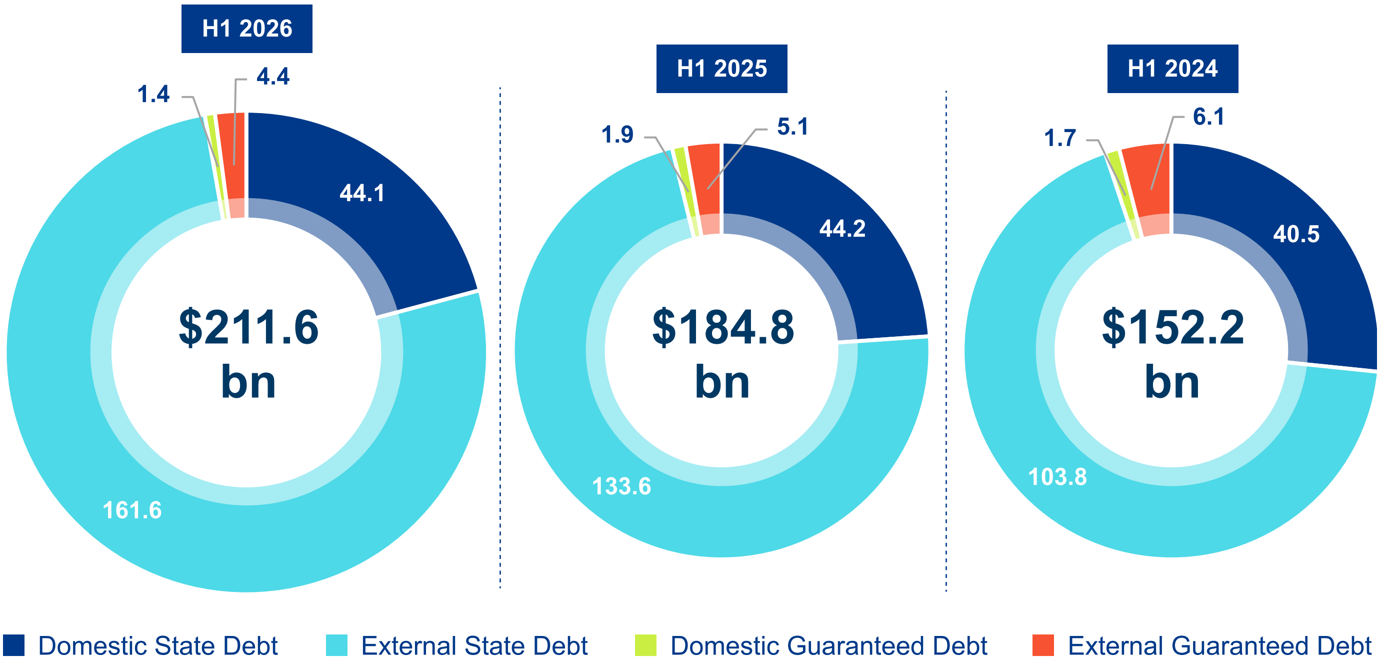
Over the past year, the growth in state debt has been driven primarily by an increase in external debt, while domestic debt expanded at a more moderate pace. Ukraine's external state debt increased by 21% y-o-y to $161.3 bn by the end of H1 2026. The bulk of new external borrowing was contracted on long-term concessional terms. At the same time, domestic state debt increased by 7.5% in hryvnia terms, while in dollar terms it edged down by 0.1% to $44.1 bn. According to the NBU Depository, in 2026, the government of Ukraine raised $5.5 bn from offering domestic government debt securities through auctions and allocated $5 bn for redemption of domestic government debt securities.

The receipt of USL financing in grant form, rather than the originally anticipated loan structure, has been critical to debt sustainability, as the program's €30 bn in macro-financial assistance will not generate any debt service burden. It should be noted, however, that USL support remains quasi-grant in nature: Ukraine is obligated to repay the loan should Russia make reparations payments, meaning funds received could ultimately materialize as sovereign debt obligations.

State-guaranteed debt continued to decline in H1 2026, falling by 17.1% y-o-y from $7 bn to $5.8 bn, reflecting tighter use of new guarantees and progress in managing existing obligations. This trend was supported by the government's policy of limiting new state guarantees, greater reliance on direct sovereign borrowing and budget support, as well as the repayment and restructuring of previously guaranteed debt. Effective debt management remains important for overall debt sustainability, including at the level of individual state-owned enterprises. In June 2026, the Naftogaz Group reached an agreement to restructure two Eurobond series with a combined nominal value of €1.2 bn, extending their maturities to 2032 for the euro-denominated series and 2033 for the dollar-denominated series.

FIGURE 3.

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



Sources: *Ministry of Finance of Ukraine, KSE calculations*

KEY RISKS FOR 2026

- **Russian attacks on energy and gas infrastructure could simultaneously reduce budget revenues and increase expenditure needs.** Power outages, higher backup-generation costs and disruptions to gas supply weaken production, trade and household activity, narrowing the tax bases for CIT, PIT and domestic VAT. A renewed wave of intense strikes in the autumn and winter could also require additional budget resources for emergency repairs, recovery measures and the mitigation of their social and economic consequences. Damage to domestic energy and gas production may further increase the need to procure additional – and potentially more expensive – energy resources abroad. The war in the Middle East adds to fuel-price and import-logistics risks, while any temporary increase in fuel-related tax revenues would reflect higher prices and risk premia rather than a sustainable expansion of the tax base.

- **Russian attacks on businesses and export logistics could weaken budget revenues and make them less predictable.** Strikes on companies and economic infrastructure – including railways, warehouses, sorting centers, retail facilities, ports and maritime infrastructure – disrupt supply chains, raise business costs and reduce production and trade. Attacks on Odesa's port infrastructure may constrain exports and foreign-exchange earnings, while difficulties on the Danube route and potential disruptions at the Polish border limit alternative export channels. Together, these factors may weigh on CIT, PIT, domestic VAT, import-related payments, excise receipts and rent revenues.

- **Insufficient progress in implementing reforms and failure to meet existing commitments could jeopardize the receipt of financing in future periods.** During the first program review covering Q1 2026 results, IMF staff already noted a slowdown in the pace of reform implementation. Additionally, on July 30, the EU Council approved amendments to the Ukraine Plan, paving the way for over €8 bn in additional financing in 2026. While the updated Ukraine Plan introduces a number of new indicators, the backlog of unmet commitments from previous periods continues to accumulate; continued EU financing ultimately depends on the timely fulfillment of these obligations.

- **Potential new government expenditure initiatives pose an additional fiscal risk.** In particular, the introduction or expansion of direct household support programs, including cashback, winter assistance, or other one-off social transfers, could place further pressure on an already constrained fiscal space if implemented without corresponding expenditure offsets or additional financing. Depending on their scale, such measures could increase spending beyond the approved fiscal envelope, requiring further budget reallocations, greater reliance on ad hoc financing decisions, or the identification of additional funding sources to preserve overall fiscal sustainability.

FORECASTING FOR 2026

- **Medium-term budget revenue growth is expected to remain constrained despite planned tax policy reforms.** Under the baseline macroeconomic scenario, the continuation of the full-scale war until the end of 2027 would keep real GDP growth subdued in 2026–2027 and limit the pace of domestic tax base expansion. This means that revenue growth will remain heavily dependent on nominal factors, import dynamics, external financing flows, and the resilience of tax administration under wartime conditions. Against this backdrop, tax policy initiatives – including the taxation of personal income earned through digital platforms, the automatic exchange of relevant information, the extension of the 5% military levy for three years after the termination of martial law, and potential changes to the taxation of international parcels valued at up to €150 – could gradually broaden the tax base, reduce administrative gaps, and further align Ukraine's tax system with EU practices. However, their actual fiscal impact will depend on the final design of the legislative amendments, the timing of their implementation, and the effectiveness of tax administration. At the same time, these measures are unlikely to fully offset wartime constraints on the revenue base. Subdued activity in manufacturing, trade, and export-oriented sectors, combined with recurring infrastructure and logistics shocks, will continue to limit taxable economic activity and restrain medium-term revenue growth.

- **Government expenditure is projected to continue expanding in 2026, driven primarily by persistently high war-related spending and the full-year fiscal impact of social policy commitments introduced at the end of 2025.** Total annual expenditure is forecast to reach a record $143.5 bn, representing a 9.3% y-o-y increase, with $101.5 bn allocated to the defence and security sectors. The projected increase in defense expenditure reflects both military and fiscal factors. On the military side, additional resources are expected to support expanded procurement and domestic production of military equipment and weapons, particularly unmanned aerial systems. At the same time, the ongoing mobilization effort continues to generate upward pressure on personnel-related expenditures, including military remuneration and associated operating costs, resulting in sustained increases in defence spending throughout the year.

- **External financing will continue to play a key role in covering the budget deficit.** The substantial volume of grant support will reduce the need for credit financing, so overall financing volumes, especially external financing, will be lower than in previous years. Financing under the Ukraine Facility could potentially become the largest source of inflows in the third and fourth quarters of 2026, but everything will depend on the successful achievement of indicators and implementation of reforms. Subject to satisfactory performance, Ukraine is expected to receive an additional $1.37 bn in 2026 (with $685.5 mn already received in July following the first-quarter review and $685.9 mn expected in Q4 following the first half-year review) under the IMF EFF.

TABLE 4.

Ukrainian budget, $bn

Indicators	H1 2024	H1 2025	H1 2026	Change (%, 2026 vs 2025)
Total revenues	**33.8**	**44.9**	**57.8**	**28.8**
Grants	1.0	5.2	13.1	**153.3**
Non-tax and other revenues	**13.4**	**21.6**	**31.3**	**44.9**
Tax revenues	**20.3**	**23.3**	**26.5**	**13.8**
PIT	3.7	5.5	6.3	**14.2**
Corporate income tax	3.8	3.7	4.3	**14.8**
Rent for the use of subsoil	0.6	0.5	0.6	**35.0**
Excise tax	2.3	3.2	3.5	**9.3**
Domestic VAT (net)	3.4	3.7	3.7	**(2.5)**
Import VAT	5.7	5.9	7.3	**23.5**
Import and export duty	0.6	0.6	0.7	**22.5**
Total Expenditures	**49.6**	**58.1**	**68.0**	**17.1**
Defence	25.2	32.2	37.4	**15.9**
Deficit	**(15.8)**	**(13.1)**	**(6.9)**	**(47.2)**
Deficit (net of grants)	**(16.8)**	**(18.3)**	**(20.0)**	**9.5**
Net borrowings	12.7	13.5	4.8	**(64.3)**
Loans	19.4	21.2	11.4	**(46.2)**
Repayments	(6.6)	(7.7)	(6.6)	**(14.7)**

Sources: *Ministry of Finance of Ukraine, KSE calculations*