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UKRAINE RISK MATRIX

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EXECUTIVE SUMMARY

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. This report covers all major events through **August 30, 2026**, and incorporates the latest available data releases.

- **Ukraine's near-term risk landscape has deteriorated as the war increasingly affects the productive economy.** Intensified Russian attacks on energy, gas production, ports, railways, businesses, and other infrastructure are simultaneously constraining output, exports, investment, and logistics while adding to inflationary and fiscal pressures. The disruption of maritime exports and growing pressure on alternative routes have become particularly acute, while renewed attacks on energy infrastructure increase vulnerabilities ahead of winter. As a result, critical infrastructure and geopolitical risks remain among the most severe, with wartime shocks increasingly propagating across multiple parts of the economy rather than remaining confined to directly targeted sectors. Social stability remains resilient, although strains from mobilization, labor shortages, rising living costs, and infrastructure damage continue to accumulate.
- **Substantial external support and strong domestic buffers continue to prevent these shocks from translating into broader macro-financial instability.** USL disbursements have strengthened the near-term fiscal and external financing position, while large reserve buffers and a well-capitalized and liquid banking system provide additional protection. However, this resilience remains heavily dependent on continued partner support and the ability to close growing fiscal and external gaps. Financing needs increasingly exceed already committed resources beyond 2026, requiring new financing instruments, while persistent delays in meeting reform commitments create a risk to timely disbursements. Pressure from the large trade deficit is increasing amid attacks on key export channels, adding to exchange-rate pressures. Fiscal pressures are still substantial as wartime spending needs remain high and the domestic financing base is limited.
- **Over the longer term, the risk landscape shifts from immediate wartime disruption toward structural constraints on recovery and growth.** Infrastructure and logistics risks should decline substantially once security conditions improve, while reconstruction and stronger investment can gradually rebuild productive capacity. However, labor shortages are likely to remain a major binding constraint as reconstruction itself sustains strong demand for workers, and large financing needs will persist even after active hostilities end. Sustained growth will increasingly depend on mobilizing private and external capital, raising productivity through technology diffusion and capital deepening, and improving institutional and implementation capacity. The challenge therefore shifts from maintaining economic resilience during the war toward creating the conditions for a sustained, investment-driven economic recovery in the post-war period.

Real Economy			Macro-Financial Stability			External Stability			Domestic Stability		
Economic Activity	3.6	increased	**Fiscal Position & Budget Execution**	2.4	broadly unchanged	**External Financing & Donor Flows**	2.3	broadly unchanged	**Reform Momentum**	2.8	broadly unchanged
Recovery & Investment	3.0	broadly unchanged	**Inflation & Monetary Stability**	3.4	increased	**Trade & External Dynamics**	3.4	broadly unchanged	**Social Stability**	2.8	broadly unchanged
Critical Infrastructure	3.6	increased	**Banking & Financial Stability**	2.6	broadly unchanged	**Geopolitical Risks & War**	4.0	broadly unchanged	**Political Stability**	2.8	increased

0 – no material risk   1 – very low   2 – low to moderate   3 – moderate to high   4 – high   5 – critical

Arrows show our assessment of the change in each key risk: ↑ – increased   ↻ – broadly unchanged   ↓ – decreased

METHODOLOGY

KSE Institute's *Ukraine Risk Matrix* assesses **12 key risks through the transparent aggregation of assessments for 47 individual subrisks**, providing a concise overview of the macroeconomic risk landscape.

Risk Assessments

The risk matrix assesses **47 subrisks across 12 key risks**, with each subrisk evaluated separately over the short and long term. The **short-term (ST) assessment covers the next 12 months**, while the **long-term (LT) assessment looks beyond the 12-month horizon**. For each horizon, we assess both the **likelihood of the subrisk materializing** and its **potential impact if it materializes**. Likelihood is expressed as a probability on a scale from 0 to 1, in increments of 0.2, while potential impact is assessed on a scale from 0 to 5, in increments of 1. Both dimensions reflect expert assessments based on available quantitative and qualitative evidence and are intended to provide a consistent basis for comparison across subrisks. The definition of each subrisk (see Appendix 2) specifies the domain, with materialization referring to adverse developments within it.

Likelihood Scores	
0.0	Near-zero probability
0.2	Very unlikely
0.4	Unlikely
0.6	Likely
0.8	Very likely
1.0	Effectively certain

Probability that the defined subrisk materializes

Likelihood Scores	
0	No impact
1	Very limited
2	Limited
3	Significant
4	Severe
5	Very severe

Severity of impact if the subrisk materializes

Overall Risk Ratings	
0	No material risk
1	Very low
2	Low to moderate
3	Moderate to high
4	High
5	Critical

Qualitative interpretation of the final aggregate risk scores

Each key risk has an overall rating that summarizes the weighted combination of the underlying subrisk assessments and is intended primarily as a comparative communication tool. It should not be interpreted as a probability or as the expected impact of a single event**. Ratings range from no material risk (0) to critical (5), with higher ratings reflecting an increasingly adverse combination of likelihood and potential impact**.

Calculations and Aggregation

The individual assessments are aggregated in three steps. *First*, for each subrisk, **likelihood is multiplied by potential impact** to derive separate short-term and long-term scores. *Second*, these are **aggregated into scores for each of the 12 key risks**, using weights that sum to one and **reflect the relative importance of individual subrisks within each key risk**; weights may differ between horizons. Finally, the **overall score combines the short- and long-term scores**, assigning a two-thirds weight to the short term and a one-third weight to the long term, **reflecting the Risk Matrix's greater emphasis on risks over the next 12 months**.

[1] Subrisk Scores

$$R_{i,ST} = L_{i,ST} \times I_{i,ST}$$

$$R_{i,LT} = L_{i,LT} \times I_{i,LT}$$

[2] Key Risk Scores

$$R_{j,ST} = \sum_{i=1}^{n} \propto_{i,ST} R_{i,ST}$$

$$R_{j,LT} = \sum_{i=1}^{n} \propto_{i,LT} R_{i,LT}$$

[3] Overall Risk Ratings

$$R_j = \frac{2}{3} R_{j,ST} + \frac{1}{3} R_{j,LT}$$

i = subrisk; j = key risk; L = likelihood; I = pot. impact; $\propto_{i/j}$ = weight; $R_{i,ST/LT}$ = subrisk score; $R_{j,ST/LT}$ = key risk score; R_j = overall score

Appendix 1 provides the underlying short/long-term assessments, aggregation weights, and resulting scores.

Real Economy	Macro-Financial Stability	External Stability	Domestic Stability
Economic Activity Economic activity remains constrained by shortages of labor and productive capital and by continued risks to export market access and logistics. These pressures should ease as security improves and reconstruction advances, but labor shortages are likely to persist. Over the longer term, stronger productivity growth, technology diffusion, and institutional improvements will become increasingly important for sustaining growth.	**Fiscal Position & Budget Execution** Near-term fiscal risks have eased as USL disbursements strengthened the financing outlook, but wartime pressures on revenues and expenditures remain substantial. A prolonged war would widen future financing gaps while maintaining high defense-, veteran-, and recovery-related spending. Over the longer term, limited domestic financing capacity and continued debt accumulation increase reliance on sustained external support.	**External Financing & Donor Flows** External financing is sufficient to support macroeconomic stability in 2026, with USL disbursements strengthening the near-term position. Risks increase thereafter as financing needs exceed committed resources and future support becomes more dependent on new partner aid and debt instruments. Persistent delays in meeting domestic reform commitments add to the risk of delayed or incomplete disbursements.	**Reform Momentum** Reform momentum has weakened as the gap between commitments and implementation has widened, with missed benchmarks and limited progress on key rule-of-law reforms increasingly affecting external conditionality. The cabinet transition preserved institutional continuity, but the new government faces near-term tests of its ability to deliver reforms, while sustained implementation and institutional capacity remain key longer-term challenges.
Recovery & Investment Recovery and investment remain constrained despite substantial external support and a stronger reconstruction framework. Foreign financing does not yet fully match reconstruction needs, while domestic savings remain difficult to mobilize for long-term investment. Project delivery capacity is gradually improving, but persistent security risks, demining, and environmental damage continue to constrain productive investment.	**Inflation & Monetary Stability** The near-term balance of risks has deteriorated, driven by intensified attacks on businesses, energy, and logistics, elevated fuel prices, and a larger expected fiscal impulse. Disinflationary offsets are likely to be short-lived, while FX pressures and inflation expectations remain elevated. Longer-term risks have worsened only marginally, reflecting pressures on production costs, the FX market, and labor supply, alongside uncertainty over external financing.	**Trade & External Dynamics** Ukraine's external position remains stable but highly dependent on official financing. The loss of the maritime export corridor has sharply weakened export capacity, while defense and energy needs continue to drive imports and higher energy prices further worsen the terms of trade. Large reserve buffers provide substantial near-term protection, but external stability remains sensitive to continued partner inflows.	**Social Stability** Social stability remains resilient, but pressures from the prolonged war continue to accumulate. Mobilization and labor shortages are creating sensitive questions around burden-sharing, return migration, and the potential use of foreign workers. Targeted welfare measures provide some relief, but rising living costs and continued damage to healthcare infrastructure leave households and frontline communities exposed.
Critical Infrastructure Critical infrastructure risks have intensified sharply as Russian attacks increasingly target energy, transport, and other productive infrastructure. Energy and port-rail logistics face particularly severe near-term pressures, while attacks on heat, water, and housing add to winter vulnerabilities. Risks decline substantially over the longer term once the war ends, but large reconstruction and protection needs leave financing a persistent constraint.	**Banking & Financial Stability** Banking-sector risks remain contained in the short-term, supported by substantial capital and liquidity buffers, strong headline portfolio quality, and continued credit growth. However, higher taxation is weakening capital generation, while funding and credit risks are gradually increasing. Over the longer term, shallow financial intermediation, high state ownership, and substantial sovereign exposure remain important structural constraints.	**Geopolitical Risks & War** Geopolitical and war-related risks remain high as Russia increasingly targets Ukraine's productive infrastructure, raising economic costs and deterring investment. Coalition support remains strong but more uncertain amid competing demands and political shifts. Renewed Middle East tensions are also raising Ukraine's costs while temporarily cushioning Russia's revenues, although these pressures are expected to moderate over the longer term.	**Political Stability** Civil society's role as an active accountability mechanism strengthened during the quarter, while several ongoing corruption cases test institutional credibility and enforcement consistency. Despite shifting public trust, political institutions remain functional and the government retains sufficient legitimacy. An active civil society and the eventual normalization of the political process provide a foundation for democratic consolidation.

0 – no material risk · 1 – very low · 2 – low to moderate · 3 – moderate to high · 4 – high · 5 – critical

ECONOMIC ACTIVITY

Overall: 3.6 Short term: **3.8** Long term: **3.2**

Economic activity remains constrained by shortages of labor and productive capital and by continued risks to export market access and logistics. These pressures should ease as security improves and reconstruction advances, but labor shortages are likely to persist. Over the longer term, stronger productivity growth, technology diffusion, and institutional improvements will become increasingly important for sustaining growth.

Capital availability: Investment remains constrained by wartime losses | ST 4.0 LT 3.0

The constraint on productive capital remains pronounced. Continued damage to energy and industrial infrastructure, asset losses, and incomplete replacement weigh on Ukraine's effective productive capacity. Wartime losses have also compounded pre-existing needs for technological renewal, higher energy efficiency, and replacement of aging assets, increasing the scale of investment required for recovery and modernization. **These constraints were already contributing to weak growth in H1 2026, before the latest shocks reached the economy.** Real GDP rose 0.6% y-o-y in Q2 2026 after contracting 0.6% in Q1. Full-year growth forecasts range from 1.0% to 1.9%: the IMF's July review projects 1.0–1.6%, the NBU 1.8%, and KSE Institute's Q3 2026 *Ukraine Macroeconomic Handbook* 1.9%. These forecasts largely predate the recent intensification of attacks and associated deterioration in capital availability, pointing to substantial additional downside pressure on growth. **The impact is therefore expected to be severe, with the risk materializing with near-certain likelihood.**

Recent investment indicators point to weak real investment momentum despite continued nominal growth. Investment remains concentrated in industry and productive assets, while financing still relies heavily on enterprises' own resources, limiting the scalability of long-term and capital-intensive projects. The central issue is increasingly whether new investment can outpace depreciation, residual wartime losses, and accumulated modernization needs. International financing is providing a growing offset. Concessional loans, grants, guarantees, and blended-finance instruments support capital replacement in energy, transport, and public infrastructure; they are also gradually expanding support for private productive investment. Their effect on productive capacity remains gradual because financing must first translate into implemented projects and operational assets. **A major downside risk is continued Russian attacks on infrastructure capital.** Further damage to electricity, transport, and other critical infrastructure would increase replacement needs and reduce the productive services generated by surviving private capital. Disruptions to complementary infrastructure also lower capacity utilization, raise operating costs, and weaken returns on existing and newly installed assets. Over the longer term, reconstruction financing, technological upgrading, and stronger private investment could progressively rebuild productive capacity under improved security conditions. However, insufficient productive capital would continue to constrain potential output, labor productivity, and the pace of modernization if capital formation fails to outpace depreciation and potential new wartime losses.

Labor availability: Acute labor shortages ease only gradually over time | ST 5.0 LT 4.0

Labor availability is expected to remain a binding constraint in the short term, before only gradually easing over the longer term. Labor supply is likely to recover slowly, as continued migration, mobilization, and limited labor-market participation offset employment gains. Net return migration from 2027 should provide some additional supply, although its scale is unlikely to materially loosen labor-market conditions in the short term. **Demand for labor is also expected to remain strong.** Businesses continue to report widespread shortages of qualified workers, particularly in technical, engineering, and blue-collar occupations, while reconstruction, infrastructure investment, and the recovery of private activity are likely to increase demand for these skills. Labor-market tightness may therefore persist in the long term even as the overall supply of workers gradually improves.

Occupational and regional mismatches can leave vacancies unfilled even when additional workers enter the labor market, while limited geographic mobility and shortages of specialized workers may become more important than aggregate labor availability alone.

Persistent labor scarcity also affects investment outcomes. Shortages of workers with the skills required to install, operate, and maintain new equipment can delay project implementation, constrain capacity utilization, and reduce the productive services generated by newly installed capital. Wage pressures associated with persistent labor tightness may also raise production costs where productivity improvements fail to keep pace. **Over the longer term, return migration, higher participation, retraining, greater labor mobility, and wider use of automation should gradually expand effective labor supply.** However, stronger reconstruction activity will also raise labor demand, while demographic pressures and persistent skills mismatches are likely to keep the constraint elevated. The challenge is therefore likely to shift increasingly toward the availability of workers with the skills and mobility required to support a larger, more technologically advanced productive base.

- **Market access and logistics: High exposure persists despite alternative trade routes** | ST **5.0** LT **3.2**

Market access and logistics are expected to remain a major source of downside risk in the short term. Intensified Russian attacks on ports, civilian shipping, and transport infrastructure heighten the risk of temporary disruptions, higher insurance and freight costs, and greater uncertainty over shipping availability and delivery times. Effective maritime access can deteriorate even without a formal blockade, as higher security risks raise war-risk premiums and reduce shipowners' willingness to call at Ukrainian ports. Ukraine's transport system has demonstrated substantial capacity to reroute trade, although alternative corridors often entail higher costs and lower efficiency. **Logistics shocks can propagate across transport modes.** Disruption to maritime routes shifts additional volumes toward rail, road, Danube ports (which are already disrupted by severe drought), and EU Solidarity Lanes, increasing congestion, transshipment requirements, and transport costs. Substitution capacity varies substantially across sectors: bulk agricultural exports remain particularly dependent on Black Sea access, while many non-agricultural flows can be rerouted more readily. Higher rail freight tariffs further increase substitution costs. These pressures are especially significant for agriculture, ores, metals, and other high-volume, relatively low-value exports, with material effects on producer margins and export viability.

The same constraints affect the import side of the economy. Higher transport costs, longer delivery times, and route uncertainty can raise production costs, increase working-capital needs, and delay the delivery and installation of imported machinery, equipment, and intermediate inputs. Logistics disruptions can therefore constrain both current production and the pace of capital renewal and modernization.

Market-access conditions—particularly for exports—are also becoming more differentiated across products and destination markets. The revised DCFTA provides broader and more predictable long-term access than the pre-war trade regime, although access for sensitive groups of products, including dual use, will be more constrained than under temporary wartime liberalization. Some neighboring EU member states continue to maintain restrictions or authorization requirements for selected agricultural products. Tariff quotas remain relevant for sensitive agricultural goods, while the new steel regime introduces tighter quantitative limits and substantially higher out-of-quota duties. CBAM is also likely to become an increasingly important competitiveness constraint for carbon-intensive producers.

Over the longer term, route diversification, infrastructure investment, and deeper integration with EU transport networks should strengthen resilience. The nature of the risk is likely to shift from security-driven disruption toward the cost and competitiveness of market access, with transport efficiency, sector-specific quotas, carbon costs, and regulatory compliance becoming increasingly important determinants of export performance.

■ Productivity and technology: Technology diffusion becomes increasingly critical | ST **1.8** LT **4.0**

Ukraine continues to demonstrate strong capabilities in rapid defense innovation, unmanned systems, software, and battlefield-driven product development. Business interest in AI, automation, and other labor-saving technologies is also increasing as firms respond to labor shortages and seek efficiency gains. These developments create important pockets of technological dynamism and support short-term adaptation, although their diffusion beyond defense, digital services, and selected advanced manufacturing segments remains limited. **The main constraint lies in the transmission from innovation to broad-based technology adoption and from adoption to measurable productivity gains.** Firms need access to capital and skills, but productivity improvements also depend on management quality, organizational capacity, competitive pressure, and the ability to integrate new technologies into production processes. Labor scarcity reinforces this tension: shortages of specialized workers can weaken firms' capacity to adopt advanced technologies while also increasing incentives for automation, capital deepening, and labor-saving investment.

Over the longer term, the productivity challenge extends beyond the commercialization of wartime technologies. Reconstruction will generate a large new investment cycle, but its productivity will depend on the technological content and allocation of that investment. Stronger integration into EU value chains, foreign investment, and international technology partnerships could accelerate diffusion, while weak competition, limited absorptive capacity, or investment concentrated in the replacement with outdated technologies would reduce the gains. The core risk is that Ukraine may develop or import advanced technologies without diffusing them widely enough to generate sustained economy-wide productivity growth. **Productivity is less likely to constrain output in the near term than shortages of labor, productive capital, and logistics capacity, but becomes increasingly important over time.** With labor supply structurally constrained, sustained growth will depend increasingly on higher output per worker through capital deepening, technology diffusion, better management, and more efficient allocation of labor and capital. Weak diffusion and productivity growth would reduce returns on reconstruction investment, constrain potential output, and slow convergence with more advanced European economies.

■ Domestic demand conditions: Resilient demand faces demographic constraints | ST **1.8** LT **1.2**

Private domestic demand is likely to remain a stabilizing component of economic activity in the short term, although its momentum is beginning to moderate. Household spending continues to benefit from rising real incomes, strong labor demand, improving consumer sentiment, and recovering consumer credit. These factors have kept consumption comparatively resilient despite weak overall economic growth and persistent supply-side constraints. The relevant risk is therefore a gradual weakening in household demand rather than a broad contraction. **The resilience of consumption remains conditional on household purchasing power and expectations.** Slower wage growth, renewed inflationary pressure, or deteriorating security conditions could weaken real disposable incomes and increase precautionary saving, reducing discretionary expenditure. Expanding consumer credit provides an additional buffer, although its relatively shallow penetration limits its ability to offset a significant deterioration in income or confidence. Domestic demand therefore remains fundamentally anchored in income dynamics and labor-market conditions.

A deterioration in household demand would remove an important stabilizing factor at a time when output remains constrained by labor, capital, and logistics. The aggregate impact would be moderate because the effects would be concentrated in retail, consumer services, and other domestically oriented activities, with little risk for spillovers into other key sources of demand, such as reconstruction investment, exports, and public expenditure. **Over the longer term, the risk becomes increasingly structural.** Improved security, reconstruction activity, and stronger employment should support incomes and confidence, but population losses and only partial return migration will constrain the size of the domestic consumer base. The longer-term challenge is less an economy-wide demand shortfall than the limited capacity of household consumption to support rapid growth in consumer-oriented sectors.

■ Informality and business environment: Institutional weaknesses constrain growth | ST **3.2** LT **2.4**

Informality and weaknesses in the business environment remain a significant constraint on private-sector expansion. The latest government assessment indicates that undeclared employment accounts for about 23% of total employment. High compliance costs and institutional or regulatory uncertainty (confirmed by dissatisfaction expressed in business surveys) can discourage firms from expanding, formalizing employment, and committing to longer-term investment. **Some policy developments in 2026 point toward broader formalization and a more targeted approach to administration.** Measures addressing undeclared employment, digital-platform income, and tax-base erosion expand the reach of formal taxation, while reforms to labor inspection, tax administration, and business procedures aim to make supervision more risk-based and reduce administrative frictions. This transition creates near-term tension: stronger enforcement can improve competitive neutrality, but its effect on formal business growth depends on it being paired with simpler compliance and more predictable enforcement.

The economic impact extends through investment, firm expansion, and productivity. Persistent informality distorts competition among firms facing different effective compliance burdens, while smaller and less transparent businesses generally have weaker access to bank finance, external investors, and larger supply chains. This slows capital formation and the reallocation of labor and capital toward more productive firms, weakening potential output growth and fiscal capacity. **Over the longer term, EU-driven institutional reforms should gradually reduce some forms of informality, leaving the quality of the formal business environment as the more important constraint.** More predictable enforcement, lower transaction costs, digital administration, and stronger legal protection would strengthen incentives for firms to operate transparently, expand, and invest. The key issue is therefore whether de jure regulatory convergence to EU standards translates into de facto improvements in implementation and the operating environment.

RECOVERY & INVESTMENT

Overall: 3.0 ● Short term: **3.0** ● Long term: **3.0** ●

Recovery and investment remain constrained despite substantial external support and a stronger reconstruction framework. Foreign financing does not yet fully match reconstruction needs, while domestic savings remain difficult to mobilize for long-term investment. Project delivery capacity is gradually improving, but persistent security risks, demining, and environmental damage continue to constrain productive investment.

■ Availability of foreign financing: Near-term support secured, but gaps persist | ST **3.0** LT **4.0**

Ukraine has secured substantial external financing for the near term, materially reducing the risk of an abrupt funding shortfall. The IMF-supported program remains fully financed under both the baseline and downside scenarios, with firm assurances of about $52.3 billion in external financing for Q3 2026–Q2 2027, excluding IMF resources. EU support has also become more predictable following the launch of the €90 billion Ukraine Support Loan for 2026–27, although a large share of this package is earmarked for budget support and defense rather than civilian reconstruction. However, committed support does not fully cover identified recovery and reconstruction needs, and only a portion of external assistance can be directed toward investment. The main short-term risk is therefore not a collapse in external support, but a mismatch between the scale, timing, composition, conditionality, and eligible uses of available financing and Ukraine's immediate recovery needs. Disbursements may also depend on reform implementation, project readiness, and partners' budgetary or political decisions. Delivered financing may therefore be sufficient to preserve macroeconomic stability while still falling short of what is required to accelerate infrastructure restoration and productive investment.

Post-war, the risk becomes more structural as current financing packages cover only a fraction of the resources required for reconstruction. Official assistance alone is unlikely to finance investment on the scale implied by RDNA5, requiring a progressive shift toward guarantees, blended finance, foreign direct investment, and other forms of private capital. The availability of these flows will depend on security conditions, credible war-risk insurance and guarantees, the supply of bankable projects, institutional capacity, and the broader investment environment. The principal of immobilized Russian sovereign assets represents a potentially significant additional source of financing, but its large-scale use remains subject to legal and political constraints, even though revenues generated by those assets are already being channeled to Ukraine. As existing support packages mature, the challenge will increasingly shift from securing emergency official assistance to establishing a predictable and scalable financing model for reconstruction.

The potential impact remains very high across both horizons. A significant financing shortfall or delay would force greater prioritization among competing expenditure needs, constrain public investment, postpone infrastructure restoration, and weaken the ability of public resources to crowd in private capital. The effects would also be cumulative: delayed reconstruction would prolong infrastructure bottlenecks and losses of productive capital, slow productivity and potential growth, and ultimately reduce Ukraine's capacity to attract the private investment required to close the financing gap.

- **Domestic capital mobilization: Long-term investment financing remains constrained | ST 4.0 LT 3.0**

Domestic capital mobilization in Ukraine is constrained not primarily by an aggregate shortage of liquidity, but by the financial system's limited capacity to transform predominantly short-term, risk-averse savings into long-term, risk-bearing productive investment. The banking system remains liquid, well capitalized, and profitable, while business lending continues to expand. However, stronger credit growth does not necessarily translate into a comparable increase in long-term investment finance. Private-sector credit remains relatively shallow compared with the size of the economy, while capital markets, institutional investors, and other non-bank financing channels remain underdeveloped. The large role of state-owned banks and significant holdings of government securities may also bias portfolio allocation toward sovereign assets when risk-adjusted returns on long-term private projects remain unattractive.

The constraint extends beyond financial intermediation. Corporate retained earnings and other internal funds remain an important source of investment, but their capacity to finance modernization is weakened by war-related losses, elevated operating costs, and working-capital needs. At the household level, part of domestic savings remains concentrated in short-term deposits, cash, and foreign-currency assets rather than being channeled into long-term productive investment. Reconstruction and modernization, by contrast, require long-maturity financing, equity capital, and greater capacity to absorb project risk. This maturity and risk mismatch limits the conversion of domestic savings into productive fixed-capital formation.

High security risks amplify these structural constraints by raising required rates of return, shortening acceptable investment horizons, and increasing expected losses from physical damage. War-risk insurance and guarantees can reduce this premium and improve project bankability, but coverage remains costly and uneven, particularly for assets in high-risk locations and for exposed infrastructure. Tight monetary conditions add to financing costs, although for long-term investment the more fundamental constraint is the combination of security, credit, and term premia. These factors affect not only the price of capital but also its maturity, collateral requirements, and, in some cases, availability. **The recovery of bank lending therefore does not eliminate the underlying risk.** The binding constraint is increasingly concentrated in long-term, capital-intensive, and riskier projects. This will become more important as reconstruction shifts from emergency repair to modernization, capacity expansion, and productivity-enhancing investment.

■ Reconstruction strategy and absorption capacity: Delivery capacity gradually improves | ST **1.8** LT **1.6**

Ukraine has substantially strengthened the upstream governance framework for reconstruction, but implementation capacity remains uneven. Strategic prioritization, public investment management, fiscal screening, and the DREAM-based project pipeline provide a stronger institutional basis for allocating reconstruction resources. However, OECD assessments indicate that progress in these upstream functions has not yet been matched by comparable capacity in project preparation, procurement strategy, permitting, contract management, and implementation.

Project readiness and delivery capacity are the main short-term constraints affecting absorption. Issues such as uneven project maturity, inadequate feasibility and technical preparation, coordination gaps between different levels of government, and a shortage of specialized administrative and engineering expertise can delay the transformation of committed financing into completed investments. Absorption challenges also extend beyond government institutions to construction capacity, skilled labor, contractors, and supply chains. However, effective public institutions, donor coordination, and ongoing public investment management reforms help mitigate the risk of a system-wide breakdown.

As institutions and project pipelines mature, persistent constraints should gradually ease. EU accession conditionality, ongoing Public Investment Management (PIM) reform, enhanced procurement and project preparation systems, and accumulated implementation experience should gradually strengthen absorption capacity. Nonetheless, as reconstruction financing grows, weak absorption could become a significant barrier to capital formation, delaying infrastructure recovery, increasing costs, and reducing the productivity of limited public and external resources.

■ Demining and environmental damage: Persistent constraints on reconstruction | ST **1.8** LT **2.4**

Explosive-ordnance contamination remains a significant constraint on the productive use, redevelopment, and investment value of affected land and infrastructure. Around 132,000 km^2 remains classified as at risk of contamination, although this does not mean that the entire area requires physical clearance. To date, almost 42,000 km^2 has been returned to use, predominantly through survey and evidence-based land release, demonstrating that economically important land can be restored faster than the headline contamination figure alone would suggest. Ukraine has also substantially expanded its demining capacity and is increasingly prioritizing areas according to their economic and social importance.

Nevertheless, explosive hazards continue to restrict agricultural production, infrastructure development, construction, mobility, and private investment in heavily affected regions. Continued hostilities may also generate new contamination, offsetting part of the progress achieved through clearance and land release. RDNA5 still estimates explosive-hazards-management needs at $27.6 billion over 2026–35, despite a 7.5% decline from the previous assessment due to improved surveys and land-release methodologies.

Environmental damage adds a more persistent layer of risk. Soil and water contamination, damaged industrial sites, ecosystem degradation, and war-related waste can raise remediation costs and constrain redevelopment even after explosive hazards have been removed. Expanding demining capacity and better prioritization are at least partially offset by the large residual footprint, continued hostilities, and persistent environmental damage. As reconstruction scales up, land remediation and clearance will increasingly become prerequisites for infrastructure investment, productive capital formation, and the recovery of heavily affected regions.

CRITICAL INFRASTRUCTURE

Overall: 3.6 Short term: **4.4** Long term: **2.0**

Critical infrastructure risks have intensified sharply as Russian attacks increasingly target energy, transport, and other productive infrastructure. Energy and port-rail logistics face particularly severe near-term pressures, while attacks on heat, water, and housing add to winter vulnerabilities. Risks decline substantially over the longer term once the war ends, but large reconstruction and protection needs leave financing a persistent constraint.

- **Energy: Gas, electricity, and fuel create acute winter vulnerability** | ST **5.0** LT **2.0**

The near-term risk is exceptionally high as attacks on gas infrastructure intensify. In the week of August 10–17 alone, Naftogaz facilities were struck 13 times, forcing some producing wells offline, after a major strike on August 8 knocked out seven Ukrnafta production facilities in one night. The stress case assumes a loss of half of gas production, bringing it down to about 28 million cubic meters per day, which would add roughly 2.3 billion cubic meters to import needs during the heating season and about USD 0.8 billion in extra costs if the volumes are bought at spot prices rather than contracted forward. This makes early futures contracting with cancellation options particularly important. The buffer is stronger than the headlines suggest: storage reached 14.2 billion cubic meters on August 19 against the government's pre-winter target of 14.6 billion cubic meters, meaning the baseline injection goal is nearly met and storage remains well above the critical minimum, although winter supply still depends on continued domestic production.

The electricity vulnerability is concentrated in the winter peak. With the nuclear fleet expected to run all controlled units at 7.8 GW through the winter, 3.8 GW of restored thermal generation planned by year-end, 2.45 GW of import capacity, and about 0.5 GW of new distributed gas-fired generation. This would meet needs in ten months of the year but falls short in January–February, when the pessimistic peak deficit reaches 3.1–3.3 GW (compared to 5–6 GW in the previous winter), or 17–18% of an expected 18 GW peak. If 12-hour rolling outages run for two months, undelivered electricity of about 2.2 billion kWh would cost energy companies roughly USD 0.56 billion in revenue, with the wider GDP effect estimated at about USD 0.3 billion. The system entered 2026 already degraded after 217 recorded attacks on energy infrastructure in January alone; recently, the summer campaign has been rebuilding pressure on a thinner asset base.

Fuel is the third part of the same vulnerability and is closely linked to logistics. Diesel stocks of about 131 thousand tonnes cover roughly five days of winter consumption, after falling about 60% in ten weeks from the late-April peak. Eight strikes hit storage facilities in twenty days of July alone, culminating in the attack on Odesa's largest fuel depot on July 20. The wartime "warehouse on wheels" model—thousands of tanker trucks substituting for destroyed fuel depots and storage facilities—keeps the country supplied but provides little buffer, meaning import disruptions can pass into prices within days. Over the summer, attacks also extended to the retail network, with more than 200 fuel stations hit or destroyed across the country in June–July. In eastern regions, this also weakens the backup infrastructure on which hospitals, water utilities, and businesses rely during grid outages. Increasing dispersed storage capacity would therefore strengthen resilience to further disruptions.

Longer-term risks decline substantially with the assumed end of the full-scale war, but the infrastructure that emerges will be very capital-intensive. Decentralized generation, hardened substations, and pre-positioned equipment reserves will be required in an environment where lead times for large transformers exceed a year. Ultimately, this will seek to address what is now the short-term binding constraint—the protection and redundancy of critical nodes—to make the energy sector more resilient, in addition to increasing aggregate generation capacity.

■ Ports and rails: The blockade has moved from risk to base scenario | ST **5.0** LT **2.0**

The disruption of maritime exports became an acute constraint in late July. Vessel calls at the Greater Odesa ports stopped on July 22 after strikes on merchant shipping and port infrastructure repriced war risk, with daily calls collapsing to near-zero; more than 70 strikes on port infrastructure and 62 on vessels were recorded through July and early August. The consequences followed within days: grain exports of about 590 thousand tonnes over August 1–12 ran at roughly 30% of seasonal needs. The Ministry of Agriculture estimated that 2026–27 agricultural exports could fall from 64.4 to 29.6 million tonnes under a severe scenario, while a less adverse scenario (assuming a near-term easing of the blockade) puts grain exports at 38–40 million tonnes, down from 43 million tonnes. The Ministry also warned that the storage shortfall may reach 11 million tonnes after the harvest. Farm-level pressures are mounting as domestic prices fall below production costs, with food wheat trading near USD 130 per tonne, about USD 40 below average cost.

The alternative routes are themselves under strain, with Danube ports and railways under pressure. Danube throughput has fallen from about 35 million tonnes per year at the 2022–23 peak to 8.9 million tonnes in 2025, while barge freight to Constanța has risen from about USD 10 to as much as USD 40 per tonne and low water constrains loading. Exacerbating matters, rail is being degraded in parallel: 472 strikes hit Ukrzaliznytsia (UZ) targets in H1 2026, damaging more than 1,100 facilities, on top of the more than 340 locomotives damaged since the start of the full-scale invasion. The working freight locomotive fleet is losing about 18 units per month, a trajectory that may cut freight volumes by about 10–20% by year-end. Freight already fell 6.2% y-o-y to 74.7 million tonnes in H1, while the 30% freight tariff increase effective August 1 adds to substitution costs precisely when rail is being asked to replace maritime capacity.

The ultimate economic loss is considerably smaller than the gross exposure as long as storage, liquidity, and alternative routes remain available. A twelve-month blockade puts about USD 3.9 billion of export revenue at risk, of which roughly USD 0.8 billion is irreversibly lost and about USD 3.1 billion deferred in inventories, straining working capital rather than reducing output. Longer-term risks decline substantially because blocked logistics capacity is largely idled rather than destroyed: reopened deep-sea calls could restore volumes within weeks. The main residual risk lies in rolling stock, where replacing lost locomotives would cost about USD 1.5 billion and the 55 contracted Alstom electric locomotives will arrive only in 2027–29.

■ Housing and non-energy utilities: Heat and water become deliberate targets | ST **3.2** LT **0.8**

Over the summer, the strike campaign visibly widened from electricity generation to the systems that deliver heat and water, increasing risks ahead of the 2026/27 winter. The threat remains concentrated in frontline regions and large eastern cities, though preparations have been substantial: the government reports about 100 thousand residential buildings and 12.4 thousand boiler houses prepared for the season, and donor-financed programs, including World Bank-supported cogeneration deliveries to Kharkiv, are hardening the most exposed district-heating systems. The Prime Minister's public dissatisfaction with the pace of the energy resilience plan (see Reform Momentum) indicates that the main constraint is execution speed. Utility outages remain locally devastating but nationally manageable, with damage concentrated in municipalities least able to finance repairs.

Longer-term risks decline substantially with the assumed end of the full-scale war. Reconstruction of housing and municipal utilities then shifts primarily into a financing challenge. The structural residue is fiscal rather than physical: tariffs for water and wastewater, already raised in several cities, still do not cover costs (see Inflation & Monetary Stability), while municipal balance sheets carry the repair burden.

■ Nuclear power generation: Low likelihood, extreme impact | ST **1.0** LT **0.0**

The operating nuclear fleet is the quiet load-bearing structure of the winter balance, with all nine controlled units expected to run through the season at 7.8 GW. The main tail risk regards the safety of the occupied Zaporizhzhia Nuclear Power Plant (ZNPP), which in August again lost off-site power and ran on emergency diesel generators, the latest in a series of such episodes documented by the International Atomic Energy Agency over the summer. A severe event at ZNPP, or a strike-driven disconnection of a plant operating under Ukrainian control from the grid during the January–February peak, would remove baseload capacity that nothing in the system can replace at scale. The likelihood remains low, but the potential impact is extreme.

Longer-term risk falls sharply with the assumed end of the full-scale war. Decommissioning, deferred maintenance, and the eventual reintegration of ZNPP remain long-horizon challenges but sit outside the matrix's post-war risk horizon.

- **Financing for critical infrastructure: Financing remains a persistent constraint** | ST **4.0** LT **4.0**

In the short term, repair and protection needs are rising faster than dedicated financing. The Prime Minister has put additional winter-preparation needs at about EUR 650 million beyond what the Energy Support Fund currently holds. Existing instruments remain small relative to the exposure: the expansion of insurance program 1541 to fuel tanks and stocks carries a budget of UAH 1 billion, with potential scaling to UAH 5 billion, while payments for above-limit fuel storage are estimated at UAH 50–310 million per year for an additional 80–110 thousand tonnes. Meanwhile, roughly USD 9.6 billion of inventories are held in professional warehouses, more than 500 thousand square meters of which were damaged over the last year. Cumulative damage to infrastructure stood at USD 197.5 billion as of February 2026 and has grown through two further strike campaigns since then. Protection and repair compete for the same limited resources, making financing, rather than technology, the practical constraint on hardening critical nodes.

Financing pressures remain high over the longer term as the end of the full-scale war converts continuing damage into a large stock of reconstruction needs without creating the resources to fund it. External financing already shows an estimated USD 19.5 billion gap for 2027 before any acceleration in reconstruction, while infrastructure competes with other claims. Underfunded protection also raises potential losses across the other critical-infrastructure risks, making financing both a risk in itself and a constraint on mitigating the others.

FISCAL POSITION & BUDGET EXECUTION

Overall: 2.4 Short term: **2.1** Long term: **3.0**

Near-term fiscal risks have eased as USL disbursements strengthened the financing outlook, but wartime pressures on revenues and expenditures remain substantial. A prolonged war would widen future financing gaps while maintaining high defense, veteran, and recovery-related spending. Over the longer term, limited domestic financing capacity and continued debt accumulation increase reliance on sustained external support.

- **Availability of financing: Near-term financing secured, but future gaps remain** | ST **1.0** LT **4.0**

The start of disbursements under the Ukraine Support Loan (USL) has significantly reduced the risk of a budget financing shortfall in the short term. With USL financing now being disbursed, alongside continued support under the Ukraine Facility, the ERA mechanism, and the IMF program, the immediate risk to budget financing has eased. However, the revised outlook for a prolonged full-scale war has materially increased the risk of funding shortfalls in the coming years. According to KSE Institute estimates, external financial support is projected to reach $76 billion in 2026 and $61.4 billion in 2027. Despite this substantial inflow, a financing gap of $19.5 billion is estimated for 2027, even after accounting for $4 billion of overfinancing carried over from 2026. A further $47.9 billion gap could emerge in 2028–29.

The key driver of the medium- and long-term deterioration is the assumption that the full-scale war will continue into H2 2027. A prolonged war would increase defense- and reconstruction-related expenditure needs, while weaker economic activity and continued damage to businesses and infrastructure would weigh on tax revenues. At the same time, prolonged hostilities would further constrain market-based financing, limiting Ukraine's ability to compensate for external financing shortfalls through domestic or international capital markets. As a result, even a substantial and largely secured external financing envelope may prove insufficient to fully cover budget needs if the war persists beyond the current planning horizon.

Addressing the emerging financing gaps will be challenging given the limited capacity of domestic borrowing. While demand for government bonds remains relatively strong at elevated yields, the domestic market is concentrated among banks and other domestic institutions and cannot readily scale up to compensate for a financing shortfall of the projected magnitude without increasing borrowing costs, crowding out private credit, or placing additional pressure on the banking sector. Additional international support would therefore become increasingly critical if the prolonged-war scenario materializes.

- **Revenue generation: Revenue base remains exposed to wartime shocks** | ST **2.4** LT **0.8**

Revenue performance improved in H1 2026, but the composition of that improvement is the central risk. Headline revenues were heavily supported by grants, special-fund inflows, non-tax revenues, and partner military-technical assistance, while domestic revenue mobilization was more moderate. This makes budget stability dependent on several fragile conditions holding simultaneously: predictable partner financing, functioning export logistics, resilient energy and gas supply, and continued domestic payment discipline.

Since June–July, downside risks have become more systemic. Attacks on energy and gas infrastructure can cause outages, raise backup-generation costs, disrupt gas supply, weaken production, trade, and household activity, and require additional budget resources for emergency repairs and recovery measures. Strikes on companies and economic infrastructure—including railways, warehouses, sorting centers, retail facilities, ports, and maritime infrastructure—can disrupt supply chains, raise costs, and reduce production and trade. Attacks on Odesa's port infrastructure threaten exports and foreign-exchange earnings, while difficulties on the Danube route and potential disruptions at the Polish border limit alternative export channels. Middle East instability adds fuel-price and import-logistics risks. **The key fiscal risk is that these shocks interact, weakening tax and non-tax receipts while simultaneously increasing expenditure needs and reliance on external financing**.

Tax revenue growth in H1 2026 was real, but not uniformly resilient. The strongest support came from import-linked taxes, excises, nominal wages, and profits in selected sectors, while net domestic VAT remained under pressure from weaker domestic demand and elevated refunds. Several tax bases remain simultaneously exposed to wartime disruption, including imports and fuel logistics, export production, energy and gas supply, corporate profitability, payrolls, rent payments, customs flows, excise receipts, and compliance. Port and maritime disruptions would be transmitted through VAT, CIT, rent, duties, import-related payments, and labor income taxes via lower production, delayed shipments, weaker margins, and lower foreign-exchange earnings. Energy and gas shocks would deepen these pressures through outages, backup-generation costs, supply disruptions, and potentially more expensive energy imports. Middle East-related fuel-price shocks may raise nominal import receipts but would not represent a sustainable expansion of the tax base, and could end up weakening real consumption and increase informality. Over the longer term, adaptation, reconstruction, and tax-base broadening can mitigate these pressures, but prolonged insecurity and firm relocation keep the risk material.

- **Spending needs and execution: War-related spending pressures remain elevated** | ST **3.2** LT **3.2**

Ukraine's expenditure side faces substantial pressures in both the short and long term, driven by the continued high cost of the war, growing military-related obligations, and support for economic activity affected by wartime disruptions. Defense spending is projected to reach USD 101.5 billion in 2026, estimated in the Ukraine Macroeconomic Handbook Q3 2026, placing significant pressure on the fiscal balance and maintaining Ukraine's reliance on external financing. The government is also considering further reforms of military service, including higher remuneration, expanded contract-based recruitment, defined service terms, and additional incentives for frontline personnel. If implemented, such measures could significantly increase recurring personnel expenditures and create additional financing needs in the short term.

Expenditure pressures generated by the war will persist beyond the end of active hostilities. Ukrainian authorities have indicated their intention to maintain a sizable standing military force, potentially ranging from 300,000 to 500,000 personnel, requiring continued spending on salaries, equipment, training, social benefits, and recruitment incentives. The state is also accumulating substantial long-term obligations related to military casualties and veterans. Families of fallen service members are entitled to compensation of USD 360,000 per case, while the number of veterans is estimated at 1.8 million as of early 2026, creating persistent expenditure needs for pensions, healthcare, rehabilitation, housing, education, and other forms of support. When the war ends and more service members return to civilian life, these obligations are likely to increase further.

Additional pressure may arise from support for businesses and productive capacity affected by the war. Destruction of production facilities and infrastructure, disrupted logistics, restricted access to ports, and other wartime constraints can weaken companies' ability to operate and recover independently. The government may therefore face pressure to expand compensation schemes, grants, subsidized financing, guarantees, and other recovery instruments. While such measures could help preserve productive capacity, employment, and the future tax base, they would create additional expenditure demands when fiscal resources remain constrained.

Taken together, these factors could keep defense-, war-, and recovery-related expenditures structurally elevated for years after active combat ends. A large standing military, multi-year compensation and veterans' obligations, and support for businesses and economic recovery could limit fiscal space for reconstruction, public investment, and other priorities, while prolonging Ukraine's reliance on external financial support. The longer-term risk therefore extends beyond high defense spending to the broader accumulation of expenditure commitments generated by the war.

- **Debt sustainability: Grant financing provides relief, but debt risks persist** | ST **2.0** LT **4.0**

The fiscal deficit remains wide amid structurally high expenditures, with financing relying heavily on external support and, increasingly, domestic borrowing. 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 billion in macro-financial assistance will not generate any debt-service burden. However, USL support is still technically only quasi-grant in nature: Ukraine is obligated to repay the loan in the unlikely scenario in which Russia makes reparations payments, meaning that the funds could ultimately materialize as sovereign debt obligations.

While the grant form of USL financing has reduced immediate pressure on debt accumulation, a significant share of Ukraine's external financing continues to be provided as loans. Over the longer term, persistently high borrowing needs, a prolonged war, and a weakened domestic revenue base could leave Ukraine servicing a substantially larger debt stock from a constrained fiscal base. The key risk is therefore not an immediate deterioration in debt sustainability, but the persistence of elevated borrowing needs once current grant-based support and exceptional financing arrangements diminish.

INFLATION & MONETARY STABILITY

Overall: 3.4 Short term: **3.7** Long term: **2.7**

The near-term balance of risks has deteriorated, driven by intensified attacks on businesses, energy, and logistics, elevated fuel prices, and a larger expected fiscal impulse. Disinflationary offsets are likely to be short-lived, while FX pressures and inflation expectations remain elevated. Longer-term risks have worsened only marginally, reflecting pressures on production costs, the FX market, and labor supply, alongside uncertainty over external financing.

- **Supply-side shocks: Risks rising from energy, logistics, wages, and tariffs** | ST **4.0** LT **4.0**

Near-term supply risks are broad-based and skewed upward. Headline inflation re-accelerated to 7.7% y-o-y in July from 7.2% in June, with core inflation at 8.1%; KSE Institute projects inflation at ~11% by year-end and in double digits into early 2027, with underlying price pressures amplified by the current risk environment. A renewed escalation of the conflict in the Middle East could reprice fuel within weeks and prolong an energy shock that is already inflicting damage both globally and domestically. A second fuel impulse would feed broadly into production and logistics costs rather than stay confined to the fuel component of the consumer basket, while any subsequent normalization would be gradual. The pattern of Russian attacks has recently shifted—probably temporarily—from energy and extraction toward production facilities and logistics, and the available alternative export routes would offset only part of the resulting losses. Renewed strikes on the energy sector and a cold winter would strengthen incentives to emigrate and deepen the labor market imbalance. Costly logistics, expensive fuel and autonomous electricity generation, together with mounting wages, would sustain producer-price pressures.

Working in the other direction, the port closure adds to domestic supply, as grain and oilseeds that cannot be exported are diverted to the domestic market, and is therefore disinflationary for raw food over the coming months, and later for processed food and livestock products through feed costs. However, that disinflationary relief is likely to be short-lived and does not offset other major risk drivers: the same port closure drains producers' working capital ahead of the autumn sowing campaign and constrains fertilizer purchases, while a very strong El Niño from Q4 2026 into spring 2027 could compound these pressures.

Administered-price risk is two-sided. With water, wastewater, and transport tariffs already raised in several cities, rail freight indexed by 30%, and the electricity transmission tariff by 25%, the live question is second-round effects. At the same time, the freeze on household electricity tariffs is more likely to be extended beyond October 31, 2026, than lifted, which would hold down measured administered inflation for a while but also accumulate quasi-fiscal imbalances.

A longer war and a deteriorating international security environment darken the longer-term outlook. Large-scale destruction of production, energy, and logistics capacity, together with a slower return of displaced Ukrainians, could keep shortages and underlying price pressures elevated long after fuel prices gradually normalize. The increasing integration of displaced Ukrainians abroad turns labor shortages and structural mismatches in the domestic labor market into the most persistent channel of supply-side pressure. Several factors work in the opposite direction. A weakening of OPEC+ production discipline, with stronger competition among producers, could plausibly increase supply and lower the steady-state oil price. The development of Ukraine's deep-strike capabilities, together with business-funded air defense, could constrain Russia's willingness and ability to target production and critical infrastructure (though this could also work in the opposite direction), while the build-out of distributed generation and faster restoration of grid infrastructure and gas-production facilities would soften the damage to the energy sector. The harvest remains a swing factor, driven by weather conditions and by the war, and the risk attached to it could rise rather than fall with distance, given unfavorable climate trends and slow progress in irrigation and demining. Administered inflation is likely to stay in the double digits through 2027–28 on gradual electricity increases, the eventual repricing of utilities still under moratorium, and annual tobacco excise increases under European Union integration commitments. Faster adjustment would lift inflation and subsidy needs; slower adjustment would deepen the energy sector's financial gap and enlarge the eventual step.

- **Demand-side shocks: Limited near term, rising with the post-war rebound | ST 2.4 LT 2.4**

Among demand-pull risks, the fiscal impulse is the main channel of pressure via both the FX market and domestic demand, including for imports, as defense and reconstruction needs could exceed the budgeted envelope. Consumption risk is contained while accelerating inflation erodes nominal wage gains and households continue to accumulate savings. Monetary-expansion risk is low, given the hawkish stance the NBU has signaled. The residual near-term risk is not that policy is too loose nominally, but that it is looser than it appears in effective and real terms, owing to accelerating inflation and changes in the operational design of interest rate policy.

The configuration inverts after the war, as the source of inflation could shift from cost-push to demand-pull. Reconstruction spending, recovering real wages, returning migrants, and corporate capital expenditure could lift demand against a supply side that recovers more slowly, with genuine disinflation unlikely before 2029. The risk is a rebound that arrives faster or larger than expected, while productive capacity, damaged generation, and the labor force lag behind, such that the same nominal demand meets a smaller supply.

- **Inflation expectations: Breaching the attention threshold could trigger de-anchoring | ST 4.0 LT 3.0**

In July, twelve-month-ahead household expectations fell to 10.0% from 12.7%, and banks' expectations to 8.7%. But these improvements lower the level without lowering the risk. Dispersion remains wide, with analysts at 7.9% against businesses at 11.6%. The stability of expectations among professional groups indicates that confidence in the framework itself is intact, but the household series has swung 4.4 pp between its peak and trough in six months, which is hard to read as anchored. Households usually respond sharply to exchange rate movements and to the prices of everyday goods and services, such as fuel, transport fares, and utility tariffs. A sustained breach of the 10% attention threshold amid rising inflationary pressures would disproportionately amplify the pass-through of any subsequent shock. The wage channel is where de-anchoring would bite: in a tight labor market, elevated expectations translate into wage demands more quickly, allowing a one-off cost shock to persist.

The long-term risk is lower but conditional. Base effects and the assumed end of the full-scale war in H2 2027 mechanically pull inflation down, which is not the same as disinflation achieved through anchoring. If the mechanical decline is read as success and easing follows quickly, expectations will remain as sensitive to the next shock as they are now. A sequence of events represents the tail risk: two consecutive years of elevated inflation of the kind that a longer war and deferred tariff normalization could produce would embed a higher expected-inflation norm that monetary policy could unwind only at a real cost to output.

- **Exchange rate pressures: Port disruptions raise near-term risks | ST 4.0 LT 3.0**

Amid seasonal relief, the hryvnia could stay range-bound over the coming months, but underlying pressure is likely to intensify, creating a depreciation bias over a twelve-month horizon. The FX market is squeezed from both sides. Receipts lost to a sustained closure of the Odesa seaports, disruptions of the Danube or land corridors, or the withdrawal of war-risk insurance would further cut FX supply; costlier logistics, higher insurance premiums, and heightened uncertainty would raise demand for it. Receipts would face additional pressure from tightened European Union steel safeguard measures, while escalation in the Middle East and intensified shelling of energy infrastructure could further inflate the import bill. Combined with deteriorating expectations, this would fuel pressure on the FX market through H2 2026 and beyond.

Underlying pressure is unlikely to ease structurally before 2029, as recovery-related imports keep the current account wide in 2028 while grants phase out. With reserve buffers restored and depreciation filtering into prices and expectations, a firmer NBU stance against steep depreciation is both likely and justified to limit pass-through effects. The NBU is nonetheless unlikely to defend particular exchange rate levels or remove the exchange rate's capacity to adjust to underlying market pressure. Managed flexibility does not preclude a steeper depreciation path under an accelerated drawdown of international reserves; long-term FX risk therefore hinges on the external financing needed to replenish them.

- **Policy measures: Tightening continues, but transmission remains uncertain** | ST **3.2** LT **1.6**

Transmission, not the stance, is the near-term risk. A deep structural liquidity surplus, with average correspondent account balances of UAH 278 billion and certificates of deposit (CDs) of UAH 642 billion in Q2, means that any modest move in the key policy rate (KPR) will serve mainly as a signal. The overhaul of the interest rate operating framework announced on July 30 sends contradictory signals over this horizon: if the supply deficit in three-month CDs is maintained or widened, the rate on such CDs could drift lower at subsequent tenders and erode the effect of KPR increases, while rationing longer placements raises rather than absorbs free liquidity. With the Ministry of Finance still reluctant to step up domestic borrowing, banks would face little competitive pressure to reprice term deposits upward. We also read the August FX-easing package as a bet on a financing schedule that remains conditional on reform benchmarks that have repeatedly slipped. In effect, the NBU is converting part of its reserve buffer into normalization capital: a defensible trade while inflows arrive on schedule, but a risky one if they do not. Gradual and careful sequencing of the unwinding of the NBU's extraordinary wartime measures is critical to preserving monetary stability.

The dominant long-term tail risk is fiscal dominance. A longer war requires larger partner support. If that financing is not secured, extraordinary budget financing is the stated fallback, and the resulting political pressure on the NBU's independence amid rising inflation would undermine the anchoring of expectations, trust in the hryvnia, and the regularity of external support itself.

BANKING & FINANCIAL STABILITY

Overall: 2.6 ● Short term: **2.3** ● Long term: **3.1** ●

Banking-sector risks remain contained in the short-term, supported by substantial capital and liquidity buffers, strong headline portfolio quality, and continued credit growth. However, higher taxation is weakening capital generation, while funding and credit risks are gradually increasing. Over the longer term, shallow financial intermediation, high state ownership, and substantial sovereign exposure remain important structural constraints.

- **Capital adequacy and profitability: Strong buffers, weaker capital generation** | ST **1.6** LT **2.4**

Capital buffers remain strong, but the capacity to generate and retain new capital is becoming more constrained. Bank capital remains sufficient to absorb sizable losses, but the margin above future requirements is gradually becoming more relevant. As of August 1, the system-wide regulatory capital adequacy ratio stood at 17.2%, with Tier 1/CET1 both at 17.0% and the leverage ratio at 7.9%. Relative to current minima, this leaves cushions of 7.2 pp, 9.5 pp, 11.3 pp, and 4.9 pp, respectively. These buffers remain substantial, but upcoming Pillar II requirements and capital buffers will absorb part of the excess: a simple system-wide comparison with the NBU's prospective regulatory capital requirement of nearly 14% leaves only a little over 3 pp of headroom, although actual requirements will differ across banks.

The more material deterioration is in capital generation. Latest NBU data available through July show ROE at 22.1% and ROA at 2.7%. In January–July, pre-tax profit was about UAH 125.4 billion (+5.8% y-o-y) but net profit fell 32.6% to UAH 62.5 billion. Income-tax expense absorbed 50% of pre-tax profit, compared with about 22% a year earlier, while administrative expenses rose 19.5% and provisioning more than doubled. Operational costs could face further pressure over the coming winter, as electricity shortages and growing labor scarcity are likely to raise expenses for alternative (back-up) power generation, business continuity, and staff retention. The latest completed resilience assessment still points to a large aggregate shock buffer, although vulnerabilities are uneven across banks. The medium-term risk is a weakening of the retained-earnings channel through which banks replenish buffers while expanding their balance sheets.

- **Credit risk: Strong portfolio quality masks emerging pressures** | ST **2.4** LT **3.2**

Portfolio quality remains strong but falling NPL ratios increasingly reflect balance-sheet growth. Credit quality remains strong despite rapid portfolio expansion, although the composition of the improvement warrants closer attention. NBU supervisory data put the system-wide NPL ratio at 12.5% at end-June, down from 13.9% at the start of 2026; the corporate ratio declined from 17.0% to 15.0%, while the retail ratio edged down from 10.8% to 10.1%. However, most of the headline improvement has come from expansion of the performing loan book rather than resolution of problem debt. Total credit grew 11.3% in H1, while the stock of NPLs was almost unchanged (-0.4%); around 1.42 pp of the 1.47 pp decline in the aggregate NPL ratio can be attributed to growth in total exposures rather than a reduction in the NPL stock.

Underlying developments differ across portfolios. The corporate portfolio shows a more substantive improvement, with NPL volumes falling 3.1% alongside 10.1% growth in total exposures. By contrast, retail NPL volumes increased 9.2% but were outpaced by 16.1% growth in the overall retail portfolio. This does not yet indicate broad deterioration: corporate borrower defaults remain below pre-war levels, while provisioning practices remain broadly conservative. Nevertheless, risk is becoming more concentrated in exposures to state-owned enterprises and sectors linked to infrastructure reconstruction, energy, and defense—sectors that are increasingly the object of Russian attacks. Meanwhile, some of the most reliable enterprises are financed with their own funds or from external sources. Thus, continued rapid portfolio growth means that the eventual performance of newer loan vintages will become increasingly important.

The higher long-term assessment reflects the fact that the current expansion itself bears risks. Defaults on newly originated loans typically occur with a lag of one to three years, making this inherently a longer-term risk, so the vintages now driving the ratio down have not yet been through a stress cycle. Their concentration in state-owned enterprises and war-exposed sectors also ties eventual performance to the course of the war and the post-war demand transition. At the same time, the legacy NPL stock is being diluted, with only part of it ultimately resolved, as with PrivatBank's NPL write-off in December 2025, leaving the remaining workout burden for later.

- **Liquidity position: Abundant liquidity, but growing funding pressures emerge** | ST **1.2** LT **3.0**

Liquidity remains abundant, with gradual normalization of liquidity buffers so far producing no material deterioration in their distribution across banks. The banking system retains a substantial liquidity cushion despite continued normalization from the exceptional wartime surplus. The median all-currency LCR grew from 273% at end-2025 to 275% in July, standing 175 pp above the regulatory minimum of 100%; the FX LCR remained at 338% (-22 pp from end-2025), while the median NSFR was 193% at end-July, up 8 pp YTD. High-quality liquid assets have also been gradually absorbed: their share in net assets fell from 38% at end-2025 to 33% by June, primarily as overnight NBU certificates declined. This has not been accompanied by worsening of the liquidity concentration across the ownership groups: in June, private banks' share of total liquidity has grown by 1 pp to 27%, while state-owned banks' share declined by 2 pp to 39%; the distribution of the NBU deposit certificates was more balanced, at 29% and 33% for private and state banks, respectively.

A growing mismatch between concentrated stable deposit funding and expanding lending across bank groups is emerging as a source of bank-specific liquidity risk. KSE Institute calculations from NBU data put household and corporate deposits together at 92% of bank liabilities at end-June, limiting reliance on potentially unstable wholesale or central-bank funding. However, the aggregate position masks growing bank-level asymmetries. Relatively stable retail term deposits remain heavily concentrated at state-owned banks, which hold approximately 56% of this funding base, compared with 33% at privately-owned banks and 11% across banks owned by foreign bank groups. This concentration partly reflects state banks' structural advantages, such as servicing government-related payment flows and public sector salaries. Meanwhile, foreign-owned banks account for around 30% of the hryvnia corporate loan portfolio and expanded this lending by 5.2% m-o-m in June. As lending accelerates, loan proceeds may migrate to accounts at other institutions, weakening the originating bank's liquidity position even while system-wide liquidity remains unchanged. In addition, lending that finances imports can additionally generate FX demand and contribute to the absorption of hryvnia liquidity through NBU interventions. Overall, this creates a channel through which funding pressures could become more bank-specific as credit expands. In the short term, the data shows that this is a potential but not immediate vulnerability: at end-June, business deposits grew by 30% y-o-y at private Ukrainian banks, compared with significantly slower growth of 7.4% at state-owned banks. The latest funding survey remains broadly reassuring on volumes—banks reported further household and business deposit growth in Q2 and expect it to continue—but points to some deterioration in funding quality: average funding costs rose, driven by rising rates on corporate deposits, while funding maturity shortened for the first time since Q1 2025. The main vulnerability is therefore not an immediate liquidity shortage but the growing cost and concentration sensitivity of funding at individual banks over the medium- to long-term.

■ Market risks: FX exposure contained, interest-rate risks persist | ST **1.8** LT **3.2**

Banks' direct exposure to FX risk remains contained, as direct FX exposure is long and moderate system-wide. KSE Institute calculations based on NBU prudential data as of August 1 imply a net open long FX position of around UAH 80.9 billion, equivalent to 23.6% of aggregate regulatory capital. However, around 95% of this position is concentrated at PrivatBank and Oschadbank, where total long open FX position stood at 96.6% and 36.2%, respectively. These large positions are mainly structural rather than reflecting active FX risk, as they were driven by FX-indexed government bonds received in past recapitalizations, and, in the case of PrivatBank, the treatment of fully provisioned legacy FX loan book. Excluding these banks, the net long FX position drops to 1.7% of the aggregate regulatory capital. For the remainder of the sector, direct exposure is considerably smaller: the median long open position was 2.2% of regulatory capital and the median short position only 0.2%, with all other banks remaining below the prudential 5% long-position limit. Overall, this makes hryvnia appreciation, not depreciation, the relevant balance sheet risk, which has a limited possibility of materializing in the short term. Balance-sheet dollarization continues to decline: the share of FX liabilities fell by 1.2 pp over the Q2, to 30.4% as of end-June, despite hryvnia depreciation. FX lending is concentrated in the corporate segment and largely directed to borrowers with FX-linked revenues, limiting the risk that hryvnia depreciation materially weakens their repayment capacity.

Interest-rate risk remains limited at the system level, but exposure to future repricing is uneven across banks. KSE Institute calculations based on NBU data put the sector's three-month trailing Net Interest Margin at 7.9% in July, up from 7.5% in April, leaving a substantial aggregate earnings cushion. However, the data show significant heterogeneity: smaller corporate-oriented banks operate with materially lower margins and are more exposed to changes in market rates, particularly where income remains concentrated in risk-free instruments. The NBU's July rate increase to 15.5% had limited pass-through to the deposit interest rates, which have largely held flat in August, while corporate lending rates have slightly increased in July, even before the key policy rate (KPR) hike. Such asymmetry in transmission would help to preserve bank margins and soften the interest rate risk from tighter monetary conditions. In addition, the KPR hike has also postponed the easing-driven margin compression anticipated earlier this year, although the latest NBU Bank Funding Survey still points to some increase in the funding costs. When monetary easing resumes, mismatched repricing speeds between assets and liabilities could therefore compress margins unevenly rather than create a system-wide shock.

■ Structural risks: State ownership and sovereign exposure remain high | ST **2.4** LT **4.0**

State ownership and the sovereign-bank nexus remain the sector's main structural distortions. More than half of banking-sector assets are controlled by state-owned banks, preserving a large role for the state in financial intermediation. This is reinforced by a deep sovereign-bank nexus: direct sovereign and quasi-sovereign exposures account for 28% of banking assets, rising to 33% once indirect dependence through state lending and mortgage-support programs is included. In June, around 73% of banks' domestic government bonds are held by state-owned banks. Wartime financing needs partly justify this concentration, but its persistence embeds preferential access to state-linked business and funding, increases the sensitivity of bank balance sheets to fiscal policy, and weakens competitive neutrality, which is turning state-bank dominance from a domestic distortion into EU accession constraint.

Progress toward reducing the state-bank dominance remains limited. Privatization has moved beyond general commitments: preparations are underway to sell Sense Bank and Ukrgasbank, although the process remains at the financial-advisor stage rather than actual divestment. Meanwhile, the infrastructure for genuinely long-term market funding remains incomplete: covered bonds and securitization are still subject to legislative development work scheduled through 2026 rather than established sources of funding at scale. Structural risk therefore remains that a sovereign-dependent and short-tenor financial architecture persists into the reconstruction period.

■ Functional capacity: Credit expands, but intermediation remains shallow | ST **3.2** LT **3.2**

Rapid credit growth is strengthening banks' intermediation role. Banks are performing their intermediation role more actively, with the prolonged credit expansion increasingly difficult to characterize as a temporary rebound. Net hryvnia loans to businesses grew by about 32.5% y-o-y in July and by 21.1% since the start of 2026, extending the period of corporate credit growth. The latest NBU Bank Lending Survey is also positive looking forward, with banks expecting demand for all categories of corporate credit to rise in Q3, particularly for long-term loans.

Nevertheless, the depth of bank intermediation remains low. Net corporate lending reached 9% of GDP in Q1 2026, up from 7.8% in Q1 2025. Companies currently using bank loans account for only around one-third of the assets of non-financial private corporations, despite the number of active corporate borrowers having doubled over the past decade to more than 17,000. But state support remains material: loans under the 5-7-9% program amounted to 29.8% of the hryvnia corporate portfolio by July. Government securities also still account for roughly one-quarter of bank assets, providing a low-risk alternative to private lending. The functional risk is therefore no longer that banks are failing to expand credit, but that even rapid growth may be insufficient to transform a still-shallow and partly state-supported credit market into a source of financing commensurate with private-sector and reconstruction needs.

EXTERNAL FINANCING & DONOR FLOWS

Overall: 2.3 ● Short term: **1.9** ● Long term: **3.0** ●

External financing is sufficient to support macroeconomic stability in 2026, with USL disbursements strengthening the near-term position. Risks increase thereafter as financing needs exceed committed resources and future support becomes more dependent on new partner aid and debt instruments. Persistent delays in meeting domestic reform commitments add to the risk of delayed or incomplete disbursements.

■ Level of committed financing: Near-term needs covered, but future gaps remain | ST **1.0** LT **3.0**

Committed external financing is sufficient to support macroeconomic stability in 2026, but significant gaps emerge thereafter. The start of USL disbursements has significantly strengthened Ukraine's external financing position. In the short term, the risk is therefore assessed to be minimal: committed support should help maintain adequate reserve buffers, finance the external deficit, and limit pressure on the exchange rate. The risk emerges beyond 2026, as financing needs associated with a prolonged war increasingly exceed currently committed resources.

Significant financing gaps remain beyond the current year. According to KSE Institute estimates, external financial support is projected to reach USD 76 billion in 2026 and USD 61.4 billion in 2027. Nevertheless, a USD 19.5 billion financing gap is estimated for 2027, with a further USD 47.9 billion gap emerging in 2028–29. These gaps are currently expected to be covered through additional external support. The availability and timing of such support will therefore be critical for maintaining reserve accumulation and external-sector stability. If additional financing is delayed or the government is unable to mobilize sufficient external support, reserve buffers could come under pressure, increasing risks to exchange rate stability, imported inflation, and the capacity to finance essential imports. The medium- and long-term outlook therefore depends critically on Ukraine's ability to secure additional external financing and preserve adequate external buffers.

- **External roadblocks to disbursements: Reliance on future partner decisions increases | ST 2.0 LT 3.0**

Ukraine's dependence on future partner decisions is increasing as existing financing mechanisms are gradually exhausted and a growing share of support remains subject to additional approvals. The ERA mechanism is nearing its end, while part of the USL financing will require further approval following Ukraine's submission of its financial strategy. Similarly, a portion of support channeled through the Ukraine Facility will require agreement on financing arrangements and conditions for 2027. As a result, an increasing share of expected financing is no longer covered by already agreed upon and operational mechanisms.

This increases the risk that future disbursements could be delayed or fall short of expectations. A significant share of financing needs beyond currently committed support will require the design and launch of new instruments, increasing dependence on partners' willingness to maintain support and their ability to coordinate decisions. The short-term risk remains relatively low, as the main financing mechanisms for 2026 are in place and USL disbursements have started. Over the longer term, however, weakening political commitment, donor fatigue, or fragmentation among partners could delay new support instruments and translate into delayed or incomplete disbursements.

- **Domestic roadblocks to disbursements: Reform delays threaten disbursements | ST 3.0 LT 3.0**

Failure to meet domestic obligations remains a significant risk to disbursements and is largely within Ukraine's own control. The Ukrainian government has continued to delay or fall short of meeting reform indicators and other commitments under its external financing programs, while the stock of outstanding obligations continues to grow. The previous Ukraine Facility review already required methodological adjustments to allow additional indicators to be considered fulfilled, while the IMF flagged slower reform implementation in its latest program review. This suggests that the risk is no longer limited to individual delayed measures but increasingly reflects broader capacity constraints in delivering the commitments required to unlock financing on schedule.

At the same time, the conditionality burden is becoming more demanding. Since part of the USL financing is channeled through the Ukraine Facility, the number of reform indicators and other commitments linked to future disbursements has increased, adding to the implementation burden. As a result, the financing calendar remains sensitive to Ukraine's legislative and institutional capacity, with implementation delays potentially affecting multiple financing streams simultaneously.

TRADE & EXTERNAL DYNAMICS

Overall: 3.4 Short term: **3.5** Long term: **3.2**

Ukraine's external position remains stable but highly dependent on official financing. The loss of the maritime export corridor has sharply weakened export capacity, while defense and energy needs continue to drive imports and higher energy prices further worsen the terms of trade. Large reserve buffers provide substantial near-term protection, but external stability remains sensitive to continued partner inflows.

- **Goods trade dynamics: Export disruption compounds the trade deficit** | ST **5.0** LT **4.0**

The goods deficit reached USD 31.5 billion in the first half of 2026, 44% wider than a year earlier, on exports of USD 19.8 billion and imports of USD 51.3 billion. The level is not entirely new or surprising but the composition is. The entire increase in exports came from agriculture (+11.3% y-o-y), which now makes up 63.1% of the export basket (+3.8 pp y-o-y), whereas non-agricultural exports dropped below their 2025 level in absolute terms. Import growth of 25.7% was generally broad-based but most concentrated in machinery and equipment—which alone accounted for USD 5.9 billion of the USD 10.5 billion increase and now represents 40.3% of the bill—and in mineral products (+45.1% y-o-y). Machinery imports are overwhelmingly the manifestation of external assistance in procurement and the defense industry: the imports are converted into foreign purchases by design. And while they do widen the trade gap, they do so without creating an unfunded claim on the FX market, and ultimately build domestic productive capacity that will substitute for imported finished weapons in the future. Energy imports, on the other hand, are a pure resource loss, rising precisely when domestic production is struck. Goods exports covered only 41.5% of imports in January–July on customs data, against 50.5% a year earlier.

The main change since Q2 is the loss of the maritime corridor, which has turned a slow structural erosion of export capacity into an acute shock. Twenty-eight civilian vessels were hit between June 20 and July 20, and more than 70 strikes on port infrastructure and 62 on vessels followed in July and the first half of August, cutting daily calls at Greater Odesa from roughly fifteen to one or two; traffic effectively stopped in August as shipowners suspended calls even though the ports remain formally open. Agricultural exports ran at 794 thousand tonnes in the first half of August, about 30% of capacity, and the government cut its 2026–27 grain export forecast to 38–40 million tonnes under a softer scenario assuming blockade relief, while a harsher blockade scenario implies a roughly 50% decline in agricultural exports over the season. The emergency measures adopted in early August—lower minimum allowable export prices and subsidized working-capital lending for farmers—restore the ability to contract at market-clearing levels and access liquidity, but they do not physically move any tonnage. Land, rail, and Danube routes can carry roughly 21 million tonnes (well short of the requirement of nearly 30 million) at an additional cost of about USD 50 per tonne, and the 30% rail freight tariff increase effective August 1 raises the cost of substitution at the moment it is most needed. Overland access to the EU is separately capped: DCFTA wheat quotas were exhausted by June, and the steel safeguard in force since July 1 cut Ukraine's duty-free quota to 1.05 million tonnes for 2026–27, well under half of actual 2025 supplies. The adjustment will therefore run through storage accumulation—a shortfall of 8–11 million tonnes is plausible by November—depressed domestic prices, compressed farm working capital, and reduced input purchases for the 2027 sowing campaign, pushing part of the loss beyond the current export season and into 2027 output and fiscal revenues.

The near-term risk is exceptionally high because the deterioration is already visible in the external accounts. The goods deficit is projected at roughly USD 71 billion for 2026, approaching one-third of GDP, and must be financed in full via official sources (see the Q3 2026 Ukraine Macroeconomic Handbook). The long-term assessment is only marginally lower: the import mix will rotate from defense toward reconstruction, but both are import-intensive in categories Ukraine does not produce, and the export base must rebuild logistics, market access, and industrial capacity simultaneously. Restoration of port calls—which requires air-defense coverage of the ports and a functioning war-risk insurance market, not trade policy—would do more for the balance of payments this year than any other plausible development.

■ Terms of trade and commodity exposure: Import prices drive the deterioration | ST **2.4** LT **1.8**

Ukraine's export basket is concentrated in price-taking commodities, but what is distinctive about 2026 is that the terms-of-trade deterioration originates almost entirely on the import side. Export benchmarks are flat to modestly firmer—wheat, corn, iron ore, and steel billet prices are all expected to rise by roughly 2–6% on average this year—while energy import prices have risen by an order of magnitude more, with Brent up about 27% and European gas about 31%. The near-term risk is a further energy price increase into the heating season. Title Transfer Facility prices returned above USD 800 per thousand cubic meters on August 21, the first time since March, with EU storage at 62%, the lowest seasonal level since 2009. Meanwhile, renewed strikes on gas extraction—thirteen on Naftogaz assets in the week to August 17 and close to 300 this year—convert lost domestic output directly into import demand at elevated prices. The two sides of the gap are therefore correlated: the same interceptor scarcity that leaves the ports exposed also leaves gas production exposed, so weaker export receipts and a higher energy bill are likely to arrive together.

A second, less visible channel has become more consequential than world prices themselves. With the sea route closed, the price Ukrainian producers realize has fallen well below the quoted benchmark, because roughly USD 50 per tonne of additional logistics costs is subtracted from the netback. The effective terms of trade for agriculture have thus deteriorated sharply even where world prices have not, which is why the shock is visible first in farmgate prices and working capital rather than in export price indices. The energy shock reverses in the baseline scenario, so the long-term risk assessment is lower: oil prices are expected to fall while export prices stay broadly flat, mechanically improving the terms of trade; restored generation and deeper ENTSO-E integration reduce imported energy volumes; and the export mix should shift slowly toward processed goods and defense-industrial output priced less directly off commodity benchmarks. The likelihood of adverse commodity movements is unchanged across horizons, since commodity dependence is structural and weather risk irreducible.

■ Non-goods current account: Remittances erode as displacement persists | ST **1.8** LT **1.8**

The non-goods current account neither offsets nor materially aggravates the goods deficit. Services ran a deficit of USD 4.1 billion in the first half of 2026, on exports of USD 8.1 billion against imports of USD 12.2 billion, with the primary income balance at USD -0.9 billion. The monthly services deficit has held remarkably stable between USD 0.6 billion and USD 0.8 billion in almost every month of the past two years because its two drivers are tied to slow-moving variables—transport debits scale with goods imports, and travel payments with the displaced population. Neither is an independent source of volatility, which is why the risk profile is identical across horizons. Against a goods deficit projected near USD 71 billion this year, roughly USD 9 billion of combined services and income deficits is second-order in magnitude, and the quarter produced no development in these lines that changes that assessment.

Remittances are the only sizable private, non-debt-creating, and unconditional FX inflow Ukraine still receives, and they are eroding structurally rather than cyclically: from USD 11.3 billion in 2023 to USD 9.4 billion in 2024 and USD 7.9 billion in 2025, with roughly USD 7.6 billion expected this year. The mechanism is displacement maturing into settlement. With about 5.6 million Ukrainians abroad, two-thirds of working age, and temporary protection in the EU proposed through March 2028, family reunification abroad progressively displaces the remittance motive; each additional year of protected status deepens attachment to host labor markets and lowers the propensity to transfer income home. A partial normalization is plausible after the war as travel and transport flows recover and the services balance moves toward surplus by the end of the decade, but the remittance base will be permanently smaller than the pre-war one because part of the diaspora has become resident abroad. This is a slow and largely predictable erosion of the least conditional line of the external accounts—meaningful, but not a candidate for abrupt deterioration—which keeps both likelihood and impact moderate across horizons.

■ Capital flows and financial account: Longer war increases external financing needs | ST **3.0** LT **3.2**

The relevant distinction is between the size of Ukraine's external financing requirement, which is very large and fully anticipated, and the risk that the requirement is not met, which is uncertain. For 2026, the envelope is essentially closed: direct budget support from partners could reach some USD 54 billion, and total official financing including the defense component of the Ukraine Support Loan is considerably larger. Most consequentially, the reclassification of USL funds from loans to grants has moved roughly USD 105 billion from the financial to the current account over 2026–27, with the result that headline balance-of-payments indicators no longer mean what they appear to mean. June recorded a current account surplus of USD 6.3 billion—the first since December 2024—on USD 11.8 billion of official transfers; the half-year current account deficit narrowed to USD 11.8 billion from USD 16.3 billion, even as the underlying gap excluding grants widened toward a projected USD 72.2 billion for the year. Simultaneously, nonresident inflows through the financial account fell 48% to USD 10.0 billion, with loans to the public sector down to USD 5.4 billion from USD 15.1 billion. Neither the improvement above the line nor the deterioration below it reflects a change in Ukraine's external position; both are accounting effects.

At the same time, conditionality has become more demanding. The first review of the IMF's Extended Fund Facility, completed on July 20, disbursed USD 0.69 billion but added seven new structural benchmarks, six of them fiscal, on top of one missed and two delayed first-quarter benchmarks. The USL was partially folded into the Ukraine Plan on July 30 with close to thirty further conditionalities. This coincided with a change of government, a parliamentary recess that passed without submission of the parcel-tax bill, and two Hungarian blocks on cluster screening.

The risk of a macroeconomically significant financing shortfall remains moderate in the near term but increases over the longer horizon. A material shortfall this year would require concerted political action amid no ready substitute for external financing: the domestic market is thin and concentrated, Eurobond access is closed, and the adjustment would fall first on reserves and then on imports, including defense-related imports. Over the longer term, the financing challenge increases for structural reasons that are already visible. The longer-war baseline adds USD 67.4 billion of requirements over 2027–29 that are not yet committed; most of the committed architecture, including ERA and the Ukraine Facility, is exhausted by end-2027, while its intended successor, the EU's 2028–34 multiannual financial framework, has not been adopted. Private capital cannot plausibly fill the difference. USL repayment is contingent on reparations from Russia, and whether the residual gap is closed with grants or loans moves the 2029 debt ratio by more than twenty percentage points of GDP (see the Q3 2026 Ukraine Macroeconomic Handbook). The impact of a shortfall is nevertheless lower over the longer horizon, as post-war import normalization and a larger reserve stock would provide more room to absorb it without compromising the war effort.

■ Reserve buffers: Reserves rest on flows, not stocks | ST **2.0** LT **2.4**

Reserves stood at USD 51.2 billion at the start of August, essentially unchanged over the month and well above the May trough of USD 45.7 billion. Import coverage nonetheless fell to 4.2 months from 5.2 as the projected import bill grew, while the IMF composite adequacy metric stood near 111% at end-June, the lowest reading in the recent series though still above the adequacy floor. Interventions of USD 5.1 billion in June and USD 4.8 billion in July were among the largest monthly volumes on record. The client-market deficit reached USD 3.8 billion and USD 3.5 billion, respectively, close to double the 2025 monthly average; and the NBU supplied 57–59% of interbank turnover against 48% a year earlier. Reserves are flat because partner inflows are being recycled into the market at record volumes, not because underlying demand has moderated. The buffer is adequate today because of continued inflows, and the intra-year path—a five-month drawdown reversed in a single month when more than USD 15 billion arrived in June—shows that the reserve level is now largely the residual of a disbursement schedule rather than a market-stress signal, particularly since earmarked tranches sit outside reserves until converted.

A reserve-driven crisis is therefore not the most likely outcome over the coming year, but the consequences of a material deterioration would be severe and arrive quickly. The managed-flexibility regime rests on a behavioral premise as much as a mechanical one: market participants price the central bank's capacity and willingness to intervene, not only its actual interventions. A reserve shortfall would thus not merely constrain smoothing; it would have immediate pass-through effects on expectations, the exchange rate, and inflation. Over the longer horizon, the risk of a shortfall rises, but its potential impact falls. The reserve path peaks in 2027 and then declines as grants stop and repayments resume, toward roughly USD 65 billion in 2028, with the adequacy ratio easing. By then, however, a falling post-war import bill, restored export capacity, and the first private inflows would make the same reserve level materially less binding.

GEOPOLITICAL RISKS & WAR

Overall: 4.0 ● Short term: **4.3** ● Long term: **3.5** ●

Geopolitical and war-related risks remain high as Russia increasingly targets Ukraine's productive infrastructure, raising economic costs and deterring investment. Coalition support remains strong but more uncertain amid competing demands and political shifts. Renewed Middle East tensions are also raising Ukraine's costs while temporarily cushioning Russia's revenues, although these pressures are expected to moderate over the longer term.

- **Russia's war against Ukraine: Economic infrastructure faces intensifying attack** | ST **5.0** LT **4.0**

Russia's spring–summer offensive failed to produce operationally significant territorial gains, but the strategic focus shifted decisively toward systematic attacks on productive economic infrastructure. Russian troops partially entered Pokrovsk but did not capture it, while ISW assessed July as the highest-casualty month of 2026 for Russian forces. Across May–August, strikes hit energy generation, fuel storage, gas extraction and transmission, and export logistics, increasingly making the commercial economy a primary rather than incidental target. Attacks on e-commerce and grocery logistics hubs, shopping malls, and construction materials suppliers in various regions have also recently spiked. To maintain strike tempo, Russia has complemented its growing production of missiles and Shahed one-way attack drones (now upgraded with jet engines to make interception more difficult) with North Korean-supplied ballistic missiles. To make up for underperformance on the front line, Russia's has focused its efforts on making Ukraine's major cities as unlivable as possible for Ukrainian civilians.

The consequences for Ukraine's export capacity have been particularly severe. Following the effective closure of Greater Odesa's ports in late July, Ukraine's Agriculture Ministry cut its 2026–27 agricultural products export forecast significantly (discussed in various previous subrisks), while the USDA cut its wheat and corn projections by 26% and 39%, respectively. Russian officials have signaled an intention to intensify strikes on energy and infrastructure ahead of the fall–winter heating season, while Ukraine's Unmanned Systems Forces Commander Robert Brovdi warned on August 10 that Russia can already launch 77-missile salvos of mixed types and is working toward 200, against a backdrop of depleted Patriot interceptor stocks. The government has activated support measures for affected enterprises and agricultural producers, and distributed generation continues to expand. These measures should gradually strengthen resilience, but residual risk remains significant, particularly in frontline regions where repeated destruction and repair actively deter the private capital formation that recovery requires.

- **Partner coalition cohesion: Support remains strong but more uncertain** | ST **3.0** LT **3.0**

Coalition support remains the load-bearing structure of Ukraine's macroeconomic stability, but competing priorities among key partners have made its reliability less certain. Two US episodes defined the period: President Donald Trump's announcement at the NATO Ankara summit on July 8 of a Patriot production license for Ukraine, which he publicly retracted on 31 July, and the Pentagon's earlier diversion of approximately $750 million in PURL funding to restock US inventories, reflecting direct competition from the Iran war for the same munitions stocks. European partners have absorbed some of the slack, and the PURL framework continues to deliver a majority of interceptor flows, but Ukraine's dependence is increasingly concentrated on European partners as their own political cycles introduce uncertainty.

Upcoming elections could materially affect the longer-term cohesion of the coalition. The November 2026 US midterm elections could constrain Trump's foreign policy discretion if Democrats gain control of the House, though Congress would still have limited ability to compel the administration to provide aid. France's 2027 presidential election adds another source of uncertainty for European cohesion. Bilaterally, Polish President Karol Nawrocki stripped Zelenskyy of Poland's highest state honor in June, highlighting a diplomatic crisis that overshadowed the Ukraine Recovery Conference in Gdansk and threatened Polish companies' reconstruction positioning. Both sides have since signaled détente, though underlying historical disputes remain unresolved. Disbursement timelines, air-defense coverage, and logistics access therefore remain exposed to coalition dynamics, directly affecting operating costs and investment planning.

- **Global environment: External conditions have become increasingly unfavorable | ST 4.0 LT 3.0**

The renewed closure of the Strait of Hormuz has significantly worsened the external environment for Ukraine. Following the collapse of the US-Iran ceasefire in early July, global oil supply remained 6.3 million barrels per day below year-ago levels and Brent stood near $90 at the time of writing. For Ukraine, the impact is doubly adverse: elevated fuel prices feed directly into production costs and inflation while providing Russia with a partial fiscal cushion. Russian oil and gas tax revenue reached a 15-month high in July. However, the cumulative federal budget deficit reached RUB 6.5 trillion (2.8% of GDP) in January–July, already exceeding the annual target by about RUB 1.7 trillion, or roughly 40%, as accelerating war expenditures continued to absorb the windfall.

Weak European growth and additional global shocks compound these pressures. The European Commission's Spring 2026 forecast revised EU GDP growth down to 1.1% for the year, with euro-area growth at 0.9%, inflation at 3.1%, and consumer confidence at a 40-month low, constraining both donor fiscal capacity and the import demand on which Ukraine's recovery depends. The WMO's June El Niño alert, projecting a strong event peaking toward year-end with above-normal typhoon intensity in the Northwest Pacific, adds a tail risk for East Asian manufacturing and reconstruction supply chains. Overall, the global environment has become less supportive, with higher energy and logistics costs, weaker European demand, and elevated oil prices simultaneously raising Ukraine's costs and cushioning Russia's deteriorating fiscal position.

REFORM MOMENTUM

Overall: 2.8 Short term: **3.0** Long term: **2.4**

Reform momentum has weakened as the gap between commitments and implementation has widened, with missed benchmarks and limited progress on key rule-of-law reforms increasingly affecting external conditionality. The cabinet transition preserved institutional continuity, but the new government faces near-term tests of its ability to deliver reforms, while sustained implementation and institutional capacity remain key longer-term challenges.

- **Political leadership: Reform delivery remains uneven ahead of key tests | ST 3.2 LT 2.4**

Reform implementation has slowed, leaving the new government facing important near-term tests of its ability to deliver on external conditionality. The July reshuffle retained continuity on the EU integration portfolio, with Deputy Prime Minister Taras Kachka and Ukraine's permanent representative to the EU Vsevolod Chentsov swapping roles, thereby maintaining experienced leadership on the dossier during the transition. The

IMF's July EFF review released $690 million while noting slower structural reform implementation, several missed benchmarks, and a missed end-June reserves target; corrective actions and revised timelines were agreed. The digital platforms tax law passed parliament in June but remained unsigned by the president, while a previous parcel VAT proposal failed in parliament in May and was resubmitted as a standalone bill in August.

Progress on rule-of-law reforms has also been limited. A June expert assessment found only 15% of the Kachka-Kos rule-of-law roadmap implemented. A judicial integrity declarations law passed in June was assessed by watchdog DEJURE as weakening rather than strengthening accountability; the mandate of international experts on the High Qualification Commission remains unrenewed since June 2025, and in August the Commission proposed reinstating six OASK judges. Q4 will provide the first major test of the Koretskyi government's ability to deliver on conditionality under its own mandate, with the September Ukraine Facility disbursement, the second IMF EFF review in late autumn, and further EU accession cluster openings all hinging on reform progress. Continued delays would tighten the fiscal position and prolong the rule-of-law uncertainty that keeps private investment risk premiums elevated, while successful delivery would strengthen confidence in the new government's capacity.

- **Implementation capacity: Administrative resilience persists despite transition pressures | ST 2.4 LT 2.4**

Ukraine's civil service has remained notably resilient despite the scale of concurrent obligations and the July cabinet transition. Budget execution continued, external financing relationships were maintained, and business-facing services—including licensing, customs, tax administration, and the Diia digital platform—operated without systemic disruption. The dissolution of two super-ministries into four separate portfolios has created inevitable transition costs at the working level, but institutional continuity in key economic and EU-facing units has largely held.

The new government has emphasized implementation performance, although concrete results remain to be seen. Prime Minister Koretskyi publicly expressed dissatisfaction with the pace of energy resilience plan execution in July, ordering accelerated accountability across ministries ahead of the heating season. Over the longer term, civil service capacity remains a structural determinant of both the investment climate and EU accession progress: sustained improvements in administrative depth, continuity, and accountability are prerequisites for the regulatory predictability investors require and the legislative throughput accession demands. If the government follows through on its focus on delivery efficiency, it could meaningfully reduce the administrative friction that currently adds cost and uncertainty to doing business in Ukraine.

SOCIAL STABILITY

Overall: 2.8 Short term: **2.7** Long term: **2.9**

Social stability remains resilient, but pressures from the prolonged war continue to accumulate. Mobilization and labor shortages are creating sensitive questions around burden-sharing, return migration, and the potential use of foreign workers. Targeted welfare measures provide some relief, but rising living costs and continued damage to healthcare infrastructure leave households and frontline communities exposed.

- **Values and identities: Civic resilience persists amid growing social strains | ST 2.4 LT 3.2**

The government continues to explore new approaches to military recruitment and mobilization, as current mechanisms have not fully addressed the personnel needs of the military. The Ministry of Defence introduced new fixed-term military contracts in June, with clearly defined terms of service and increased remuneration. However, by mid-August, the number of signed contracts amounted to less than 1% of the approximately one million personnel serving in the military. This suggests that the contractual approach has not yet generated recruitment at sufficient scale or ensured the retention of existing personnel. At the same time, further changes to mobilization policy are being considered. The General Staff is reportedly discussing age-related adjustments to mobilization rules, indicating an ongoing search for a more sustainable and socially acceptable distribution of the military-service burden. The potential mobilization of women has also re-emerged in public and media discussions. In response, the Verkhovna Rada Committee on National Security, Defence and Intelligence clarified that compulsory mobilization of women is neither being prepared nor considered. The emergence of such discussions nevertheless highlights the continuing sensitivity around how the burden of military service is distributed across different groups of the population.

The government has introduced new measures to encourage the return of Ukrainians from abroad while also considering controlled labor migration as a potential response to growing labor shortages. The government expanded practical instruments to facilitate voluntary returns with the launch of the “Dodomu” digital platform. By July, the platform had attracted more than 10,000 users from over 10 countries. It is intended to provide Ukrainians abroad with information on return opportunities, available services and support, and personalized return planning. At the same time, attracting foreign workers has become more prominent in the policy debate. Parliamentary hearings in July considered mechanisms for recruiting foreign labor, migration controls, protection of Ukrainian workers, and implications for the domestic labor market and social integration. However, the actual scale of foreign labor migration remains quite limited; authorities continue to prioritize the return of Ukrainians and better use of the existing domestic labor force, including veterans, IDPs, women, and older workers. The parallel discussion of attracting foreign workers while encouraging Ukrainians to return highlights a potentially sensitive policy trade-off that could affect perceptions of fairness, labor-market competition, and social cohesion.

■ Welfare and public services: Wartime pressures strain services and household welfare | ST **3.2** LT **2.4**

Household welfare remains under pressure as rising living costs continue to erode the adequacy of social support, prompting the authorities to expand and redesign targeted assistance. In August, the Verkhovna Rada adopted Bill No. 14191, which increases support for children with disabilities, persons with disabilities since childhood, and their families. The law provides for a transition from fragmented assistance to a more systematic approach and guarantees comprehensive state support through a combination of cash benefits and social services, including an integrated early intervention service. The government also launched the “School Starter Pack” program, providing a one-time UAH 5,000 payment to families of children entering first grade. By early August, more than UAH 308 million had been allocated to almost 61,000 families. These measures help mitigate immediate welfare pressures, although their effectiveness will depend on whether benefit levels and service coverage keep pace with rising household needs.

Healthcare services remain resilient, but wartime damage and unequal access threaten continuity, especially near the front line. As of August 1, 2,671 healthcare facilities had been damaged or destroyed, including 338 completely destroyed facilities. Although reconstruction continues, repeated attacks remain a significant risk to the continuity and accessibility of healthcare services. In August, strikes also destroyed a WHO warehouse in Dnipro containing emergency medical supplies intended for frontline facilities, with only part of the stored supplies evacuated beforehand. At the same time, access to healthcare remains particularly constrained in communities close to active hostilities. WHO-supported mobile primary healthcare teams are operating in areas where pharmacies and healthcare facilities are unavailable or nonfunctional, covering 121 locations within 60 km of active hostilities and serving around 30,000 people. These measures help mitigate immediate access risks, but continued insecurity and infrastructure damage leave frontline communities particularly exposed to disruptions in essential healthcare services.

POLITICAL STABILITY

Overall: 2.8 Short term: **3.2** Long term: **1.9**

Civil society's role as an active accountability mechanism strengthened during the quarter, while several ongoing corruption cases test institutional credibility and enforcement consistency. Despite shifting public trust, political institutions remain functional and the government retains sufficient legitimacy. An active civil society and the eventual normalization of the political process provide a foundation for democratic consolidation.

■ Political institutions: Institutional resilience persists amid governance uncertainty | ST 3.2 LT 2.4

Political institutions remained functional through another government reshuffle, although institutional integrity and enforcement predictability remain concerns. On July 16, the Verkhovna Rada confirmed Serhii Koretskyi, former Naftogaz CEO, as prime minister with 289 votes, while the government reversed the merger of two super-ministries and restored separate portfolios for the economy, agriculture, reconstruction, and communities. Two sitting MPs—Vitalii Bezhin and Denys Maslov—gave up their Rada mandates to join the government as ministers of communities and justice, respectively. The security architecture was simultaneously reorganized, with Yevhenii Khmara moving to the Defence Ministry, Ihor Klymenko to the NSDC, and Oleksandr Poklad appointed acting SBU head, consolidating the security and law-enforcement nexus more closely around the presidential administration.

Recent integrity cases highlight continuing uncertainty around institutional safeguards and enforcement. Former Deputy Prime Minister Olha Stefanishyna received a corruption notice in connection with alleged interference in the 2023–24 NACP selection competition, raising questions about political influence over anti-corruption institution-building at a time when partner confidence in Ukraine's oversight architecture directly affects financing. Separately, the State Bureau of Investigation conducted searches at Vyriy Industries, one of Ukraine's largest FPV drone manufacturers, on suspicion of contract overpricing. The broader concern is whether enforcement in the defense procurement space is applied consistently and transparently, given the sector's importance to both battlefield performance and future industrial policy. The new government's technocratic profile and Koretskyi's track record are positive factors, but enforcement predictability and institutional integrity remain to be demonstrated; greater institutional continuity and normalization of governance should reduce these risks over time.

■ Political legitimacy and civil society: Public trust shifts, but resilience persists | ST 3.2 LT 1.2

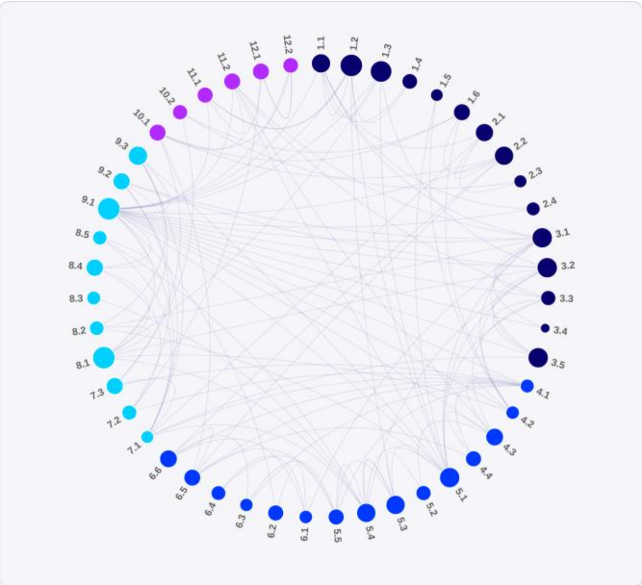
Political legitimacy remains resilient despite declining trust in President Volodymyr Zelenskyy and the continued suspension of elections. Elections remain suspended under martial law, with any vote requiring a ceasefire plus a minimum six-month preparation period, making 2027 the earliest plausible scenario. Nonetheless, electoral politics is present in Ukraine. After President Zelenskyy's removal of Minister of Defence Mykhailo Fedorov sparked nationwide protests (and the subsequent removal of Commander-in-Chief Oleksandr Syrskyi), the topic of elections returned to the public domain. Fedorov later conditionally called for elections during the war, but demand for elections among the broader population and political leadership seems to remain low. The polling picture through July–August points to shifting political capital rather than eroding societal cohesion. KIIS's July 16–21 survey round found Zelenskyy trusted by 56% of respondents, ranking fourth behind Valerii Zaluzhnyi (66%), Mykhailo Fedorov (63%), and Kyrylo Budanov (61%), with KIIS noting a "demand for new leaders." A subsequent survey recorded trust in Zelenskyy at 55%, down from 61% in May, with net trust at +15%.

Civil society and independent media continue to provide an important accountability mechanism in the absence of elections. The July–August protests demonstrated how watchdog organizations, bloggers, and investigative outlets can amplify contested executive decisions, translate complex institutional arguments for mass audiences, and sustain public pressure for accountability. The relationship between government, civil society, and media is increasingly one of active negotiation rather than managed consensus—a healthier baseline for post-war democratic consolidation than passive wartime deference would be. Critically, the government retains the public legitimacy necessary for effective management of the economy, mobilization, tax compliance, and social policy. Combined with an engaged civil society capable of holding institutions accountable, this remains a positive signal for longer-term governance quality and the rule of law, particularly once elections resume and regular democratic accountability is restored.

RISK CONNECTIVITY ANALYSIS

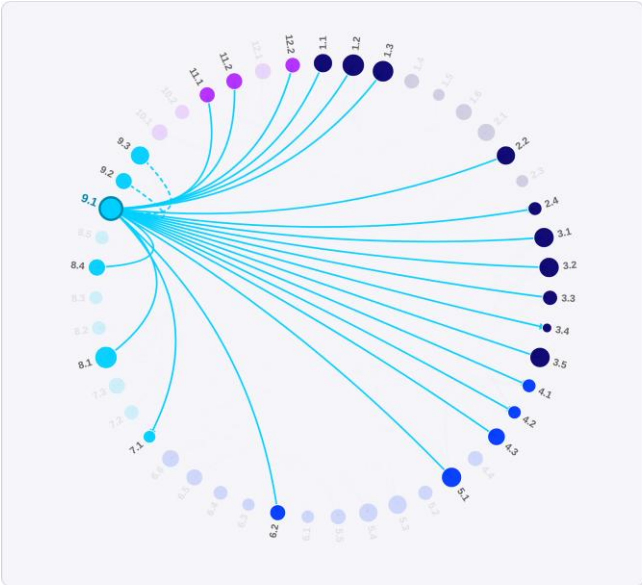
The 47 subrisks assessed in this report are not independent: they form a directed network in which the materialization of one subrisk may impact others. This section maps those channels with 127 directed "drives" relationships (see Figure 1). Node size reflects the subrisk's overall score, and identifiers follow Appendix 1, so every link can be traced back to a scored input. Mapping cross-dependencies exposes the hubs through which short-term shocks trigger macro-fiscal-monetary spillovers, identifies the points where intervention buys the most risk reduction, and makes the chain of causation behind the scores auditable.

Figure 1: The Q3 2026 subrisk network. Node size reflects the score; colors mark risk blocks.



Source: KSE Institute

Figure 2: Russia's war against Ukraine (9.1) transmits into 21 subrisks, half of them in the real economy.

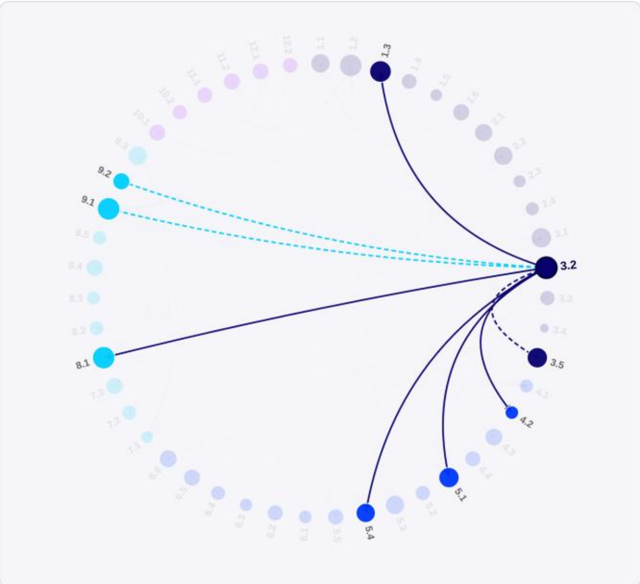


Source: KSE Institute

The war (9.1) remains the network's dominant source, and this quarter its transmission changed in character. With 21 outgoing linkages (see Figure 2), ten of them into the real-economy block, the war reaches 36 of the other 46 subrisks within two steps. In Q3 the strongest first-order edges no longer run through the front line but through the productive economy: strikes on gas extraction, power generation, fuel storage, ports, railways, and warehouses hit energy infrastructure (3.1), ports and rails (3.2), and market access (1.3) first, and only then carry the damage onward into the fiscal, external, and social blocks. The policy reading is unchanged from the previous edition but sharper: because 9.1 sits upstream of nearly everything, air defense and the physical protection of logistics and energy nodes limit the damage before it reaches the economy and therefore deliver the widest systemic return of any available lever; no downstream intervention can fully neutralize a risk whose source remains active.

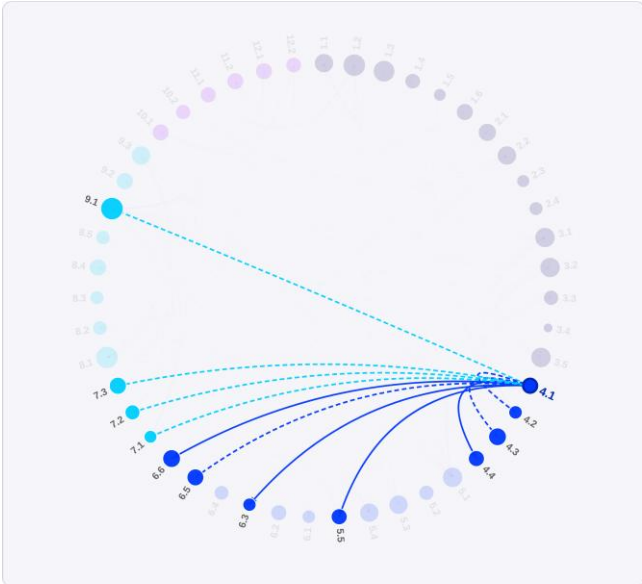
The maritime corridor is the quarter's defining transmission chain: a shock that entered through one node (3.2) was visible in five others within weeks (see Figure 3). Ports and rails are downstream of the war and coalition cohesion (9.2), since the same interceptor scarcity that exposes the ports also exposes gas production. Downstream it drives five subrisks directly and reaches eleven within two steps. The sequence is documented across this report's sections: vessel calls at Greater Odesa stopped on July 22 and agricultural exports fell to roughly 30% of capacity (8.1, forecast cut from 43 to 38–40 million tonnes); the Danube fallback is running at a fraction of its 2022–23 peak with barge freight up roughly fourfold, while rail enters the substitution role losing about 18 locomotives per month and carrying a 30% tariff increase, which puts the rerouting cost near USD 50 per tonne (1.3); lost export receipts squeeze FX supply (5.4); and the trade, customs, and profit bases transmit into revenues (4.2). The map also records why the one disinflationary leg of this chain is temporary: diverted grain lowers domestic food prices now (3.2 into 5.1), but the same blockade drains farm working capital ahead of the sowing campaign, so roughly USD 3.1 billion of the USD 3.9 billion annual exposure is deferral rather than loss, pushed into 2027 output and fiscal revenues (8.1 into 4.2).

Figure 3: Ports and rails (3.2): two upstream drivers, five downstream channels.



Source: KSE Institute
Solid lines show what the node drives, dashed lines show what drives it.

Figure 4: Budget financing (4.1) is the network's most loaded destination, with seven inbound links.



Source: KSE Institute

Where the shocks converge: supply-side inflation and budget financing are the network's two destination hubs, and both should be read as early indicators that the strike campaign is propagating. Supply-side shocks (5.1) receive nine inbound linkages, more than any other subrisk: energy damage, port closure, utility tariffs, labor scarcity, exchange-rate pass-through, terms of trade, and the global environment all surface in the same consumer prices, which is where the attack campaign becomes visible to households. Budget financing (4.1) receives seven (see **Error! Reference source not found.**), from the war, revenues, spending, the state-bank nexus (6.5), and all t hree external-financing channels (7.1–7.3), and forwards the pressure into debt sustainability (4.4), intermediation depth (6.6), bank liquidity (6.3), and monetary policy capacity (5.5). That last edge carries the network's longest chain from the port shock: closed ports weaken revenues, wider gaps raise financing needs, and unfunded needs are the stated fallback into extraordinary budget financing, the fiscal-dominance tail risk. The chain from a vessel that does not call at Odesa to the independence of monetary policy runs through four nodes.

APPENDIX 1: SCORES & AGGREGATION

		Short term				Long term				Agg.
No.	**Risk/subrisk**	L_{ST}	I_{ST}	$\propto_{ST}$	R_{ST}	L_{LT}	I_{LT}	$\propto_{LT}$	R_{LT}	R
1.	**Economic Activity**				**3.8**				**3.2**	**3.6**
1.1.	Capital availability	0.8	5	0.25	4.0	0.6	5	0.20	3.0	
1.2.	Labor availability	1.0	5	0.25	5.0	0.8	5	0.20	4.0	
1.3.	Market access and logistics	1.0	5	0.15	5.0	0.8	4	0.20	3.2	
1.4.	Productivity and technology	0.6	3	0.15	1.8	0.8	5	0.20	4.0	
1.5.	Domestic demand conditions	0.6	3	0.10	1.8	0.4	3	0.10	1.2	
1.6.	Informality and business environm.	0.8	4	0.10	3.2	0.6	4	0.10	2.4	
2.	**Recovery & Investment**				**3.0**				**3.0**	**3.0**
2.1.	Availability of foreign financing	0.6	5	0.35	3.0	0.8	5	0.35	4.0	
2.2.	Domestic capital mobilization	0.8	5	0.35	4.0	0.6	5	0.35	3.0	
2.3.	Reconstr. strategy and absorption	0.6	3	0.20	1.8	0.4	4	0.20	1.6	
2.4.	Demining and environm. damage	0.6	3	0.10	1.8	0.6	4	0.10	2.4	
3.	**Critical Infrastructure**				**4.4**				**2.0**	**3.6**
3.1.	Energy infrastructure	1.0	5	0.35	5.0	0.4	5	0.35	2.0	
3.2.	Ports and rails	1.0	5	0.30	5.0	0.4	5	0.30	2.0	
3.3.	Housing and non-energy utilities	0.8	4	0.15	3.2	0.2	4	0.15	0.8	
3.4.	Nuclear power generation	0.2	5	0.05	1.0	0.0	5	0.05	0.0	
3.5.	Financing for critical infrastructure	0.8	5	0.15	4.0	0.8	5	0.15	4.0	
4.	**Fiscal Position & Budget Execution**				**2.1**				**3.0**	**2.4**
4.1.	Availability of financing	0.2	5	0.35	1.0	0.8	5	0.35	4.0	
4.2.	Revenue generation	0.8	3	0.25	2.4	0.4	2	0.25	0.8	
4.3.	Spending needs and execution	0.8	4	0.25	3.2	0.8	4	0.25	3.2	
4.4.	Debt sustainability	0.4	5	0.15	2.0	0.8	5	0.15	4.0	
5.	**Inflation & Monetary Stability**				**3.7**				**2.7**	**3.4**
5.1.	Supply-side shocks	0.8	5	0.20	4.0	0.8	5	0.20	4.0	
5.2.	Demand-side shocks	0.8	3	0.10	2.4	0.6	4	0.30	2.4	
5.3.	Inflation expectations	0.8	5	0.20	4.0	0.6	5	0.10	3.0	
5.4.	Exchange rate pressures	0.8	5	0.30	4.0	0.6	5	0.20	3.0	
5.5.	Policy measures	0.8	4	0.20	3.2	0.4	4	0.20	1.6	
6.	**Banking & Financial Stability**				**2.3**				**3.1**	**2.6**
6.1.	Capital adequacy and profitability	0.4	4	0.20	1.6	0.6	4	0.20	2.4	
6.2.	Credit risk	0.6	4	0.20	2.4	0.8	4	0.20	3.2	
6.3.	Liquidity position	0.4	3	0.10	1.2	0.6	5	0.10	3.0	
6.4.	Market risks	0.6	3	0.10	1.8	0.8	4	0.10	3.2	
6.5.	Structural risks	0.8	3	0.10	2.4	0.8	5	0.10	4.0	
6.6.	Functional capacity	0.8	4	0.30	3.2	0.8	4	0.30	3.2	

			Short term				Long term			Agg.
No.	Risk/subrisk	L_{ST}	I_{ST}	$\propto_{ST}$	R_{ST}	L_{LT}	I_{LT}	$\propto_{LT}$	R_{LT}	R
7.	**External Financing & Donor Flows**				**1.9**				**3.0**	**2.3**
7.1.	Level of committed financing	0.2	5	0.40	1.0	0.6	5	0.40	3.0	
7.2.	External roadblocks to disbursem.	0.4	5	0.30	2.0	0.6	5	0.30	3.0	
7.3.	Domestic roadblocks to disbursem.	0.6	5	0.30	3.0	0.6	5	0.30	3.0	
8.	**Trade & External Dynamics**				**3.5**				**3.2**	**3.4**
8.1.	Goods trade dynamics	1.0	5	0.40	5.0	0.8	5	0.40	4.0	
8.2	Terms of trade and commodity exp.	0.6	4	0.10	2.4	0.6	3	0.10	1.8	
8.3	Non-goods current account	0.6	3	0.10	1.8	0.8	3	0.10	2.4	
8.4	Capital flows and financial account	0.6	5	0.30	3.0	0.8	4	0.30	3.2	
8.5	Reserve buffers	0.4	5	0.10	2.0	0.6	4	0.10	2.4	
9.	**Geopolitical Risks & War**				**4.3**				**3.5**	**4.0**
9.1	Russia's war against Ukraine	1.0	5	0.50	5.0	0.8	5	0.50	4.0	
9.2.	Partner coalition cohesion	0.6	5	0.25	3.0	0.6	5	0.25	3.0	
9.3.	Global environment	0.8	5	0.25	4.0	0.6	5	0.25	3.0	
10.	**Reform Momentum**				**3.0**				**2.4**	**2.8**
10.1.	Political leadership	0.8	4	0.70	3.2	0.6	4	0.70	2.4	
10.2	Implementation capacity	0.6	4	0.30	2.4	0.6	4	0.30	2.4	
11.	**Social Stability**				**2.7**				**2.9**	**2.8**
11.1.	Values and identities	0.6	4	0.60	2.4	0.8	4	0.60	3.2	
11.2.	Welfare and public services	0.8	4	0.40	3.2	0.6	4	0.40	2.4	
12.	**Political Stability**				**3.2**				**1.9**	**2.8**
12.1.	Political Institutions	0.8	4	0.60	3.2	0.6	4	0.60	2.4	
12.2.	Political legitimacy and civil society	0.8	4	0.40	3.2	0.4	3	0.40	1.2	

Note: Likelihood is assessed on a 0–1 scale in increments of 0.2, reflecting the probability of a subrisk materializing, and **potential impact** on a 0–5 scale in increments of 1, reflecting its severity. **Subrisk scores** are calculated by multiplying likelihood and potential impact, separately for the short and long term. These are aggregated into **key risk scores** using weights that sum to one within each key risk and may differ by horizon. **Overall scores** combine short- and long-term key risk scores with weights of two thirds and one third, respectively. Overall risk ratings range from 0 (no material risk) to 5 (critical), with higher ratings reflecting a more adverse combination of likelihood and potential impact.

APPENDIX 2: SUBRISK DOMAINS AND SCOPE

No.	Subrisk name	Description
1.1	Capital availability	**Availability and utilization of productive physical capital**, including industrial and agricultural assets and equipment, and losses from war-related destruction and depreciation.
1.2	Labor availability	**Availability of labor to meet the economy's needs**, including workforce size, skills and regional/sectoral distribution, and constraints arising from mobilization and labor shortages.
1.3	Market access and logistics	**Ability of producers to reach domestic and external markets**, including the availability and cost of transport and logistics and conditions affecting access to export markets.
1.4	Productivity and technology	**Efficiency and technological capacity of the economy**, including productivity, technological obsolescence, resource efficiency, digitalization and innovation capacity.
1.5	Domestic demand conditions	**Strength of private domestic demand as a driver of economic activity**, including household consumption, consumer sentiment, real incomes and household credit.
1.6	Informality and business environment	**Quality of the environment in which firms operate and incentives to remain formal**, including informality, regulatory burdens, contract and property-rights enforcement, and institutional trust.
2.1.	Availability of foreign financing	**Availability and adequacy of external financing for reconstruction and recovery**, including official and IFI/DFI financing and foreign direct and equity investment; short-term risk assessment includes wartime dynamics.
2.2.	Domestic capital mobilization	**Ability to mobilize domestic private capital for reconstruction and long-term investment**, including private investment, reinvested earnings, domestic savings, and mechanisms to de-risk investment.
2.3.	Reconstr. strategy and absorption	**Ability to prioritize, prepare, coordinate and implement reconstruction effectively**, including project pipelines, procurement, public investment management, absorption capacity, and safeguards against misallocation.
2.4.	Demining and environm. damage	**Extent to which mines, unexploded ordnance and war-related environmental damage constrain** the productive use and reconstruction of affected territory.
3.1.	Energy infrastructure	**Resilience and capacity of the non-nuclear electricity and gas system**, including generation, transmission and distribution, war-related damage, repairs, supply adequacy and grid stability.
3.2.	Ports and rails	**Capacity and resilience of critical transport infrastructure**, including railways, ports and key road infrastructure, as well as the operational and financial viability of infrastructure operators.
3.3.	Housing and non-energy utilities	**Condition and resilience of housing and essential municipal utilities**, including water, sanitation, district heating and gas distribution, and their implications for habitability and local recovery.

3.4.	Nuclear power generation	**Safety, reliability and availability of nuclear generation and related facilities**, including operational and occupied plants, spent-fuel storage, off-site power reliability and nuclear incident risks.
3.5.	Financing for critical infrastructure	**Adequacy and structure of financing to repair, protect and rebuild critical infrastructure**, including dedicated financing mechanisms, war-risk insurance, tariff frameworks and financing gaps.
4.1.	Availability of financing	**Availability and reliability of financing for the budget deficit**, including the timing and predictability of external disbursements and the domestic government-bond market's capacity to absorb issuance.
4.2.	Revenue generation	**Capacity to generate domestic budget revenue**, including the resilience of the tax base, collection performance, revenue composition and volatility, tax-policy measures, and non-tax revenues.
4.3.	Spending needs and execution	**Scale and persistence of public spending needs and the ability to execute expenditures effectively**, including defense and security spending, war-related social obligations, policy initiatives and central-local execution.
4.4.	Debt sustainability	**Sustainability of public and publicly guaranteed debt**, including its trajectory, debt-servicing and rollover burden, and the implications of changes in the composition of external support.
5.1.	Supply-side shocks	**Cost and supply pressures affecting inflation**, including energy and utility costs, food and agricultural supply, labor costs, logistics disruptions, administrative price shocks, and other war-related supply shocks.
5.2.	Demand-side shocks	**Demand pressures affecting inflation**, including household consumption, fiscal spending, credit conditions, investment demand, business sentiment, and the balance between aggregate demand and productive capacity.
5.3.	Inflation expectations	**Degree to which inflation expectations remain anchored**, including expectations of households and businesses and their potential transmission into wage- and price-setting behavior.
5.4.	Exchange rate pressures	**Pressures on the exchange rate and foreign exchange market**, including FX supply and demand, external financing flows, reserve adequacy, the NBU's capacity to manage exchange rate volatility, and exchange rate pass-through.
5.5.	Policy measures	**NBU capacity to maintain price and monetary stability**, including the threat of fiscal dominance, the effectiveness and credibility of interest-rate, exchange-rate and liquidity policies, capital controls and their transmission to the economy.
6.1.	Capital adequacy and profitability	**Adequacy of bank capital and earnings to absorb losses and sustain lending**, including capital buffers, profitability, recapitalization needs and resilience under adverse macroeconomic and war-related scenarios.
6.2.	Credit risk	**Quality of bank assets and exposure to borrower defaults**, including non-performing loans, loss recognition, provisioning, new lending quality and concentrated exposures.
6.3.	Liquidity position	**Adequacy and resilience of bank liquidity and funding under normal and stressed conditions**, including liquidity buffers, deposit stability and outflow risks, funding costs and concentration, and access to emergency liquidity.

6.4.	Market risks	**Banks' exposure to market risks**, particularly foreign-exchange and interest-rate risks arising from dollarization, open positions, repricing, and changes in monetary conditions.
6.5.	Structural risks	**Structural vulnerabilities of the banking sector**, including state-bank dominance, the sovereign-bank nexus, weak competition, and limited availability of capital-market instruments.
6.6.	Functional capacity	**Risks to capacity of the banking sector to perform its core intermediation function**, particularly supplying credit to the private sector and reconstruction rather than allocating resources to government securities.
7.1.	Level of committed financing	**Adequacy of committed financing relative to Ukraine's external and fiscal financing needs**, including support under existing multilateral, EU and bilateral mechanisms and financing gaps under a prolonged-war scenario.
7.2.	External roadblocks to disbursements	**Risk that external political or institutional factors delay or prevent disbursement of committed financial support**, including partner-coalition unity, veto points, elections in partner countries and donor fatigue.
7.3.	Domestic roadblocks to disbursements	**Risk that domestic factors delay or prevent disbursement of committed financial support**, particularly failure to meet reform conditionality, structural benchmarks or legislative requirements linked to external support.
8.1.	Goods trade dynamics	**Dynamics and composition of merchandise trade and the goods trade balance**, including export capacity, import intensity and the increasingly structural, war-related nature of the trade deficit.
8.2.	Terms of trade and commodity exposure	**Exposure of the external accounts to commodity prices and terms-of-trade shifts**, including energy-import dependence and price and weather shocks affecting major commodity exports.
8.3	Non-goods current account	**Dynamics of the non-goods components of the current account**, including services trade, primary income, compensation of employees abroad, private secondary income and remittances.
8.4	Capital flows and financial account	**Scale and composition of capital flows and their contribution to external financing**, including foreign direct and portfolio investment, official inflows, resident capital outflows and the effects of capital controls.
8.5	Reserve buffers	**Adequacy and trajectory of international reserves as a buffer against external shocks**, including reserve accumulation and drawdown, import cover and their sufficiency to support external stability.
9.1	Russia's war against Ukraine	**Military trajectory and duration of Russia's war against Ukraine**, including front-line dynamics, Russia's and Ukraine's capabilities, defense-industrial developments, air-defense adequacy, mobilization and ceasefire prospects.
9.2.	Partner coalition cohesion	**Cohesion and reliability of the Western and broader partner coalition in providing military and political support**, including bilateral and NATO assistance, transatlantic divergence and the durability of support for Ukraine.
9.3.	Global environment	**Geopolitical developments beyond the war and core partner coalition that affect Ukraine**, including third-theater conflicts, global energy markets, great-power dynamics and diversion of Western resources.

10.1.	Political leadership	**Political and legislative capacity to advance reforms**, including decisions by the executive, government–parliament–President's Office coordination, parliamentary discipline and the ability to deliver commitments.
10.2	Implementation capacity	**Administrative and institutional capacity to implement adopted reforms**, including secondary legislation, staffing and resources of reform-critical bodies, and the extent of gaps between adoption and implementation.
11.1.	Values and identities	**Strength of social cohesion and potential societal cleavages**, including perceptions of fairness in war burden-sharing, war fatigue, migration-related tensions, and identity and values-based divisions.
11.2.	Welfare and public services	**Adequacy and resilience of the social contract**, including pensions and social benefits, veterans' support and reintegration, health and education services, poverty dynamics, and demographic pressures on social protection.
12.1.	Political Institutions	**Strength, effectiveness and resilience of Ukraine's political institutions**, including checks and balances, institutional independence, governance capacity, electoral processes and the transition from wartime governance.
12.2.	Political legitimacy and civil society	**Public legitimacy of political institutions and resilience of civil society**, including trust in government, political representation and accountability, civic participation, media freedom and effective civil society oversight.