

DRAFT STATE BUDGET FOR 2027: PARAMETERS, CHALLENGES, AND POLICY GUIDELINES

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KEY FINDINGS

1. **The Draft State Budget for 2027 is built around the same priorities as the current one, with resources concentrated on defense, security, and social protection.** The draft is based on the second scenario of the Government's forecast, which assumes that full-scale hostilities will continue throughout 2027 (Scenario 1 assumed that the war would end in 2026). Scenario 2 envisages modest real economic growth (1.3% in 2027), moderate inflation (8.6% on average for the year) and depreciation (UAH 47.1 per US dollar on average), while its key assumption remains the timely receipt of \$91.6 bn in external financing – on which consumption, imports, the exchange rate and the volume of revenues themselves depend. The Government acknowledges, however, that the forecast approved on June 4 does not fully account for the consequences of the destruction inflicted over the summer and may be revised during the second reading of the draft law. Part of the planned revenues—the increases in VAT and excise duties, and the renewed taxation of banks at a 50% rate—will require separate decisions by Parliament.
2. **Defense and security sector expenditures remain a priority throughout 2027.** Expenditures of the Ministry of Defense under budget programs are planned at **\$79.9 bn**, which is \$2.3 bn (+3%) higher than the latest amended 2026 plan. The increase in available resources has been made possible primarily by incorporating the second half of the €45 bn Ukraine Support Loan (USL) mechanism into the state budget. However, the financial resources provided may not be sufficient to cover all defense sector needs throughout the year. In particular, further expansion of the Defense Forces' capabilities—including increases in service members' pay, the introduction of additional financial incentives for military service, or increased procurement of equipment and weapons—would require additional resources if the relevant decisions are adopted, and the amount required could significantly exceed the resources currently provided.
3. **It is projected that the state budget deficit will increase to \$35.4 bn (15% of GDP) in 2027.** For comparison, the 2026 deficit is expected to amount to **\$28.2 bn** (12.4% of GDP). Financing the deficit will depend heavily on external support. The need for additional borrowing will lead to a further accumulation of state debt and higher debt servicing and repayment costs. By end-2027, state and state-guaranteed debt is expected to increase by 16% to 113.9% of GDP (+10.9 pp y-o-y).
4. **Support from international partners continues to play a key role in maintaining macroeconomic stability and covering critical financing needs.** Importantly, the receipt of these funds remains conditional on the Government meeting the commitments agreed with its partners. The Government expects to receive \$52.9 bn in grants and \$38.7 bn in loans in 2027. However, \$32.6 bn of the required loan financing currently has no confirmed funding sources or corresponding commitments from partners. Failure to secure the required amount of financing remains the key risk to fiscal stability.
5. **Despite the increase in total revenues, the general fund's own-source revenues will decline in 2027.** Excluding international assistance and intergovernmental transfers, its revenues will amount to \$52.2 bn, down by \$3.3 bn, or 6.0%, compared with the amended 2026 plan. Total revenues will rise to \$119.9 bn, primarily driven by international assistance and the expansion of the special fund.
6. **Meeting the revenue targets will depend significantly on decisions that have yet to be adopted and on improvements in customs administration.** The budget incorporates \$2.8 bn in additional revenues from tax measures. Of this amount, only \$297.2 mln from the taxation of income earned through digital platforms is underpinned by

legislation already adopted. Securing the remaining \$2.5 bn will require amendments to tax legislation, including changes to the VAT rate, the taxation of international parcels and bank profits, and further increases in fuel excise duties. A further \$1.4 bn is expected from reducing customs payment evasion. These funds will accrue to the special fund only if customs revenues actually exceed the target.

7. **The main sources of state budget revenues in 2027 will be tax revenues of \$60.8 bn and international partner assistance of \$52.9 bn.** Tax revenues will increase by \$4.3 bn (7.6%) compared with the amended 2026 plan. The largest increases are expected from import VAT (\$2.8 bn), personal income tax (PIT) and the military levy (\$1.5 bn), and excise taxes (\$609.2 mln). Corporate income tax revenues, however, are expected to decline by \$140.8 mln. Domestic VAT revenues net of refunds will decrease by \$688.4 mln to \$8.2 bn. International partner assistance will increase by \$975.4 mln and account for around 44% of budget revenues excluding intergovernmental transfers.
8. **Revenues of the state budget's special fund are projected to increase by \$10.6 bn (+26.0%) to \$51.6 bn in 2027, primarily driven by increases of \$5.4 bn in international assistance and \$5.0 bn in tax revenues, including through the reallocation of certain taxes between the budget funds.** International assistance will account for around 72.1% of special fund revenues. The entire military levy will also be credited to this fund. As a result, combined PIT and military levy revenues in the special fund will exceed those in the general fund by \$2.0 bn. The State Road Fund is to be reinstated in 2027, receiving a share of revenues from excise duties on fuel and vehicles, import duties, and specified road-related charges and fines.
9. **The 2027 draft budget increases the nominal resources of local budgets, while at the same time making them more dependent on earmarked transfers, with the share of transfers in local budget revenues rising by 5.5 percentage points to 33%.** The total volume of resources is expected to increase to \$22.4 bn, primarily due to intergovernmental transfers, which are growing significantly faster than own-source revenues. The return of 4% of PIT to the state budget and its replacement with an earmarked subvention to compensate for tariff differences will reduce municipalities' flexibility in using their resources. At the same time, the withdrawal of budget balances from temporarily occupied territories and Kyiv's new obligations to make transfers to the state budget reflect the Government's need to centralize additional financial resources. Updating the data used for horizontal fiscal equalization could make the allocation of grants more accurate and significantly alter the position of individual local budgets. The draft budget provides for substantial expenditure on regional resilience, but implementation challenges remain at the local level. Therefore, the key challenge will not only be the amount of available funding, but also the capacity of the Government and municipalities to translate these resources into tangible projects and public services.

GENERAL PROVISIONS AND THE MACROECONOMIC FRAMEWORK

1. **The key assumption underpinning the 2027 budget is that the full-scale war will continue throughout 2027.** The Government adopts a fairly cautious scenario of real GDP growth of 1.3%, following the logic that domestic demand is largely financed by partner funds and grows faster than domestic supply. The resulting gap is covered by rising imports, while the depreciation of the hryvnia partly smooths the imbalance and levels the playing field between domestic production and imports (see Table 1). The budget's main vulnerability is therefore the timely receipt of the \$91.6 bn in expected external financing, on which the volumes of consumption and imports, as well as the exchange rate and inflation paths, depend. Yet even this cautious scenario does not fully account for the consequences of the destruction inflicted over the summer of 2026: the forecast was approved on June 4, before vessel calls at the ports of Greater Odesa halted on July 23 and before the intensification of strikes on energy and logistics infrastructure. The Government acknowledges that the projections may be revised during consideration of the draft law in Parliament.

TABLE 1.

Main Macroeconomic Indicators

	2025	2026		2027
	Report	Resolution of the CMU from 06.08.2025 № 946 Scenario 2	Expected by Ministry of Economy (as of 04.06.2026)	Resolution of the CMU from 04.06.2026 № 695 Scenario 2
Gross Domestic Product				
nominal, \$bn	214.2	225.6	227.6	236.6
real change, %, y-o-y	1,8	2,4	1,6	1,3
Consumer Price Index				
avg., %, y-o-y	12,7	10,4	8,0	8,6
December to December of the previous year, %, y-o-y	8,0	9,9	9,2	8,0
Average monthly salary (gross, nominal, \$)	622.4	657.2	677.7	730.6
Unemployment rate, %	12,7*	12,6	12,6	12,4

* Assessment of the Ministry of Economy, Environment and Agriculture of Ukraine

Source: State Statistics Service of Ukraine, National Bank of Ukraine, Government forecast

2. **GDP growth of 1.3% is demand-driven. Consumption and investment grow considerably faster than real GDP, but rising imports absorb the difference.** The Government sees household consumption (almost 70% of GDP, +5% in real terms) and gross fixed capital formation (+14.6%) as the drivers of GDP, the latter being underpinned mainly by state and partner-funded projects in the defense industry, energy and infrastructure reconstruction. Inflows of foreign direct investment are

expected to reach only \$2–3 bn. Imports will increase by 10% and the trade deficit will reach 33.7% of GDP, leaving GDP growth at just 1.3%. Economic growth will therefore depend on international assistance and on the share of it spent on foreign goods and services. The [KSE Institute's Ukraine Macroeconomic Handbook Q3 2026](#) takes a similar view on the build-up of capital investment and a somewhat more cautious one on private consumption, expecting higher prices to absorb part of households' purchasing power. In the Ministry of Finance's calculations, the base for domestic VAT is household final consumption expenditure (\$165.0 bn or UAH 7.77 tn, +10.7% in US dollar nominal terms), meaning that it is consumption, rather than real GDP, that determines the revenue plan for this tax.

3. **For the budget, what matters is not so much the pace of real growth as nominal GDP (\$236.6 bn or UAH 11.14 tn, +10.3%), against which tax bases are calculated.** A deviation in the real growth forecast will therefore cost the budget considerably less than a deviation in prices or the exchange rate. According to the Government's own stress test, each percentage point of real GDP not delivered in 2027 would reduce tax revenues by approximately \$0.7 bn (UAH 34 bn), or 0.6% of state budget revenues. This matters because the GDP forecast may prove too optimistic. Following the rebound of 2023 (+5.5%), the economy has lost momentum every year, while Government forecasts have consistently been too optimistic. In 2024, real GDP grew by 2.9% against a forecast of 4.6%; in 2025, the corresponding figures were 1.8% and 2.7%; and the 2026 forecast has been revised from 2.4% to 1.6%. Real growth in 2027 may likewise turn out 1–2 pp below the forecast, all the more so because the sectoral projections (industry +3.3%, including machine building +11% and metallurgy +3.5%; construction +13.4%; agriculture +1.2%) were prepared on June 4, before the strikes on ports, infrastructure and businesses. For budget revenues, this would mean a loss of \$0.7–1.5 bn (UAH 35–70 bn), which is less than the impact of a deviation in inflation or the exchange rate discussed below.
4. **The inflation forecast for 2027 (8.6% on average and 8% at year-end) may be understated, but for the budget this is more of a buffer: higher-than-planned inflation increases revenues, while the main expenditure items do not respond to it.** It looks understated because inflation is already accelerating, and both the NBU and KSE Institute expect 10–11% at end-2026, without accounting for the additional inflationary pressure following the summer destruction and higher logistics costs. For 2027, KSE Institute forecasts average inflation of 10.5%, that is 1.9 pp above the Government's forecast, while the NBU forecast 8.3%, but conditional on tight monetary policy and without fully accounting for the halt of port operations and the strikes on infrastructure and production. For the budget, such a deviation is favorable: higher inflation raises domestic VAT, PIT and corporate income tax receipts, while the subsistence minimum, the minimum wage and public sector pay are fixed (the indexation of pensions in March is determined by 2026 indicators). The downside will materialize outside the budget and later on: higher inflation will reduce real consumption, on which growth rests, and will force the NBU into tighter policy, raising the cost of domestic borrowing in 2028. As the documents accompanying the 2027 draft budget show, inflation is being contained by the freeze on tariffs. The forecast also does not account for the 1 pp increase in the VAT rate that is already incorporated into revenues; if fully passed through to prices, it would add around 0.5 pp to inflation.
5. **The exchange rate has become one of the main determinants of budget revenues, as more than 60% of 2027 revenues depend on it directly or indirectly:** the EU loan (\$52.2 bn or UAH 2.46 tn, equal to 44% of revenues) is recorded in revenues at the forecast exchange rate, while import VAT, excise duties and customs duties have a base of \$24.8 bn (UAH 1.17 tn) denominated in dollars and euros. Accordingly, a stronger-than-forecasted hryvnia reduces the hryvnia equivalent of the loan by

roughly \$1.1 bn (UAH 50 bn) and import taxes by a further \$0.5 bn (UAH 25 bn) for each hryvnia per dollar difference, while a weaker one increases them, but at the same time raises the cost of defense imports and of external debt servicing and creates a risk of de-anchoring inflation expectations. The revenue forecast assumes a continuation of managed depreciation, from the expected UAH 44-45 per dollar (the average rate for January–July was 43.9) to 47.1 in 2027 and 48.3 at year-end, which is a weakening of 6.1% on average. This falls within the 4–10% annual range observed in 2023–2026 and is almost identical to the KSE Institute's forecast in Q3 2026 (47.2 on average, 47.5 at the end of the year). With an inflation differential of 5–6 pp against partner countries, the real exchange rate remains broadly unchanged. Experience from previous years shows that the Government forecasts a weaker hryvnia than materializes: the 2025 budget was based on a rate of around 45 UAH/USD against an actual 41.7, and the 2026 budget on 45.7 against an expected 44-45, so import taxes and the hryvnia value of foreign currency assistance came in below plan. A repeat of this in 2027 would cost the budget several tens of billions of hryvnias in revenue. In the explanatory note to the budget, the Government acknowledges that, given the sizable current account deficit, "sufficient and timely inflows of international financing will remain necessary to cover the economy's external foreign currency needs and maintain external equilibrium". Should financing be delayed, depreciation would be faster – partly offset by higher hryvnia receipts from assistance – and macroeconomic instability would increase.

6. **The wage forecast is rather conservative from the budget's perspective: the nominal base it starts from is already below the actual level, so actual PIT and military levy receipts are most likely to exceed the plan by several tens of billions of hryvnias.** There is, however, a risk that real household incomes may grow by less than is needed to deliver the projected increase in consumption, which ultimately affects the tax base. The average wage in 2027 is projected at \$730.6 (UAH 34,409), up 7.8% in US dollar nominal terms. For comparison: in 2024, real wages rose by around 17% amid disinflation and labor shortages caused by mobilization and migration; in 2025, by 7% with inflation at 12.7%; and in the first half of 2026, by 13–16%. Slower wage growth is fairly predictable: the base is high, destruction continues, and businesses cannot pass rising costs through to prices (producer prices will increase by 16%, against 8% for consumer prices). Labor productivity, meanwhile, will grow by only 1.4%. The Ministry of Finance calculates PIT on the basis of the planned 2026 average wage (\$677.6, UAH 30,032), whereas State Statistics Service data for January–July put the average wage at \$689.1 (UAH 30,461, +16.3% p-o-p in US dollar terms), and at \$715-740 (UAH 32,000–33,000) in June–July, while KSE Institute expects \$698.3 (UAH 31,284) for 2026 as a whole. Thus, if the average wage reaches the forecast level of \$730.6 (UAH 34,409) in 2027 from the one, expected by KSE, this would imply US dollar nominal growth of 4.6% (in UAH it will be 8–9%) and real growth close to zero. Given labor shortages (cited as the main obstacle to business by 66% of enterprises), the new reservation rule (a wage of no less than three minimum wages), the 10.4% increase in the minimum wage to \$203 (UAH 9,546), and higher pay for teachers and cultural sector employees, the Ministry of Finance's wage forecast looks understated. Actual PIT and military levy receipts are therefore likely to exceed the plan. At the same time, if real wages do indeed stop growing, household consumption (+5% in real terms) – which the Government sees as one of the key drivers of GDP growth and as the base for domestic VAT – would be called into question. The Government projects that the number of full-time employees will increase by 1.3% (to 5.97 mln) and the wage bill by 16%. In its stress test, however, the Government considers a further deepening of the labor shortage (a loss of 350,000–450,000 workers) to be highly likely. The unemployment rate (12.4%, against 12.6% in 2026) changes little and is not a decisive factor for the budget.

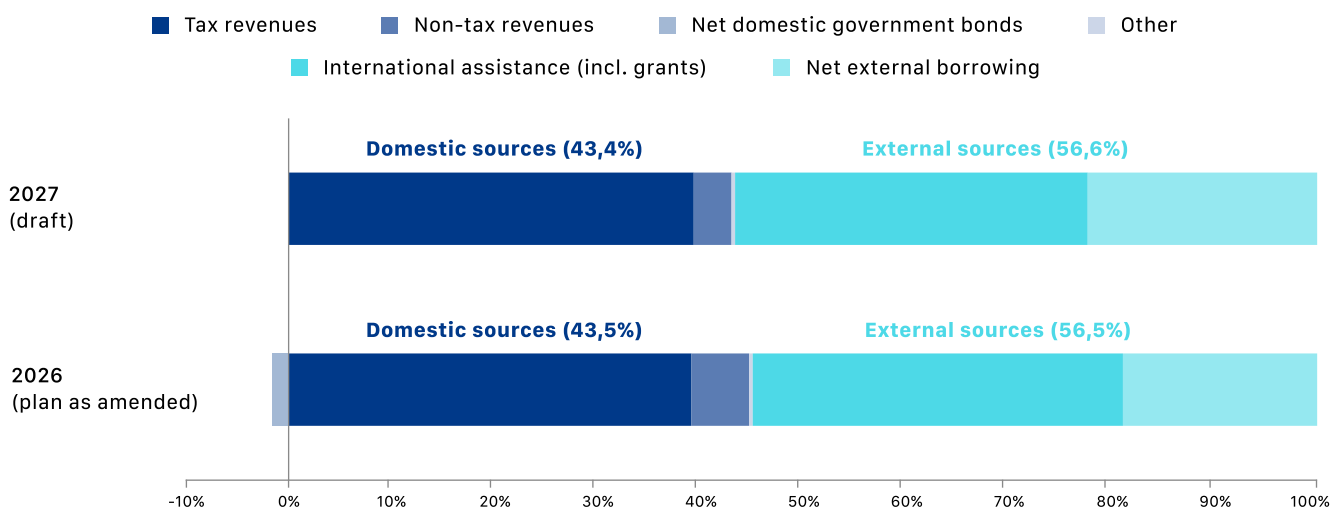
7. **The external sector will significantly affect budget revenues. The main uncertainty here is the need for additional imports driven by higher defense and reconstruction requirements, particularly after the summer of 2026.** Higher imports mean higher-than-planned import taxes and greater demand for foreign currency, which only external financing can meet. The Government projects exports of goods and services at \$57.9 bn (+3.7%) and imports at \$137.5 bn (+10%), so the trade deficit will reach \$79.7 bn, or a third of GDP (33.7%, after 30.4% in 2026); this dynamic is well founded. The economy consumes and invests considerably more than it produces, and partners cover the difference. The export assumption looks cautious, as goods exports have remained within the \$35–41 bn range for three years now, with agricultural products accounting for more than 60% of the total. Disruptions to maritime routes could therefore weigh on exports. The import forecast, by contrast, looks understated: in January–July 2026, goods imports grew by 23–26% (according to customs and NBU data), primarily on account of energy resources and equipment, whereas the Ministry of Finance's calculations for 2027 assume growth of only 12.7% (from \$101.5 bn to \$114.3 bn). KSE Institute expects goods imports of \$130.1 bn, although part of the difference may be explained by purchases of weapons from the EU financed through the Ukraine Support Loan, which will be recorded as imports. The implications for the budget depend on the composition of the additional imports. Each additional billion dollars of taxable imports generates around UAH 7 bn in VAT and a further UAH 1 bn in customs duties, but requires a corresponding inflow of foreign currency from partners, exports, foreign direct investment or other sources to offset the impact on the exchange rate. Importantly, this applies to taxable (in particular, consumer) imports: if the difference arises from imports of weapons, which are not taxed, the effect will be fiscally neutral.
8. **The delivery of the baseline macroeconomic scenario depends on the security situation, logistics, energy supply, external financing, and domestic price stability.** The scenario assumes a constant intensity of strikes, partial operation of the Black Sea ports (with their full restoration not expected before 2028) and exports via alternative routes. It further assumes stable energy supply to industry and the timely receipt of partner funds, including the €45 bn EU loan. The scenario also assumes fixed tariffs and a gradual expansion of agro-industrial output, even taking into account the strong base of 2026. Should these conditions not hold, the Government may revise its projections.
9. **The Government has quantified the key fiscal risks: under a combined adverse scenario, the losses for the economy and the budget would be substantial.** A scenario combining an energy supply shortfall of 30–50%, a 20–40% decline in goods exports and the loss of 350,000–450,000 jobs would lower real GDP growth by 4.1–6.8 pp. Tax revenues of the consolidated budget would be \$3.0–4.9 bn (UAH 140–230 bn) lower than under the baseline scenario described above. The Government classifies non-compliance with the conditions of EU programs — with a possible shortfall of up to €6 bn per year under the Ukraine Facility and the USL — as a risk with a potential impact exceeding 0.5% of GDP. Additional fiscal pressure may also come from the expenditure side: higher defense spending, losses of state-owned enterprises, court rulings against the state and so on. Under the adverse scenario, the aggregate loss of the seven largest state-owned enterprises is estimated at around \$1.4 bn (UAH 64 bn), expected payments under state guarantees at \$1.0 bn (UAH 47.2 bn) against the \$0.4 bn (UAH 21.0 bn) provided for in the 2027 draft budget, the volume of claims against the state exceeds \$12.7 bn (UAH 600 bn), and pension arrears under court rulings amount to around \$2.1 bn (UAH 100 bn).

BUDGET REVENUES

1. **The draft budget for 2027 projects revenues of \$119.9 bn, an increase of \$2.9 bn, or 2.5%, over the amended 2026 plan.** Excluding intergovernmental transfers, revenues will amount to \$119.4 bn. Revenue growth will be supported primarily by the nominal expansion of the tax base, including nominal GDP growth of 4.0% in US dollar terms to \$236.6 bn, an increase in the average wage of 7.8% to \$730.6, and growth in imports of goods and services of 10% to \$137.5 bn. International assistance is also projected to increase by \$975.4 mln to \$52.9 bn. At the same time, the distribution of revenues between the funds will change substantially: general fund revenues excluding intergovernmental transfers will decline by \$7.8 bn to \$67.9 bn, while special fund revenues will increase by \$10.6 bn to \$51.6 bn. This shift is primarily driven by the reallocation of international assistance: receipts in the special fund will increase by \$5.4 bn, while those in the general fund will decrease by \$4.5 bn (primarily reflecting defense assistance under the USL). In addition, the special fund will receive an increase of \$2.6 bn in PIT and military levy revenues, as well as \$1.1 bn under the reinstated State Road Fund. Meanwhile, general fund revenues will be constrained by a reduction in the NBU profit transfer from \$3.3 bn in 2026 to \$1.0 bn in 2027. As a result, the special fund's share of state budget revenues will increase from 35% to 43%.
2. **Taxes remain the key domestic source of revenue, at \$60.8 bn, an increase of \$4.3 bn, or 7.6%, over the amended 2026 plan.** Tax revenues will account for 50.7% of total state budget revenues and cover approximately 39.4% of planned expenditures (Figure 1).

FIGURE 1.

Structure of Budget Revenue Sources, %



Source: State Budget for 2026 as amended, Draft State Budget for 2027

3. **In 2027, a substantial share of budget revenue growth will depend on new tax and customs measures, many of which require legislative amendments or improvements in tax administration.** Taxes administered by the State Tax Service are projected to generate \$35.9 bn, or 30% of total budget revenues, an increase of \$210.3 mln, or 0.6%, over the amended 2026 plan. Payments administered by customs authorities will amount to \$24.9 bn, or 20.7% of budget revenues, increasing by \$4.1 bn, or 19.6%. Overall, the budget incorporates \$4.2 bn in additional revenues from tax and customs

measures. Of this amount, only \$297.2 mln in PIT on income earned through digital platforms is underpinned by legislation already adopted, while a further \$2.5 bn requires legislative amendments: extending the 50% corporate income tax rate for banks is expected to yield \$817.4 mln; taxation of international parcels, \$250.5 mln; an increase in the VAT rate, \$1.2 bn; and a further increase in fuel excise duties, \$176.2 mln. The remaining \$1.4 bn (5.6% of all customs payments) depends on reducing evasion of customs payments and will accrue to the special fund only if customs revenues exceed the target. Thus, a substantial share of the additional resources already incorporated into the budget remains conditional, creating a risk of revenue shortfalls.

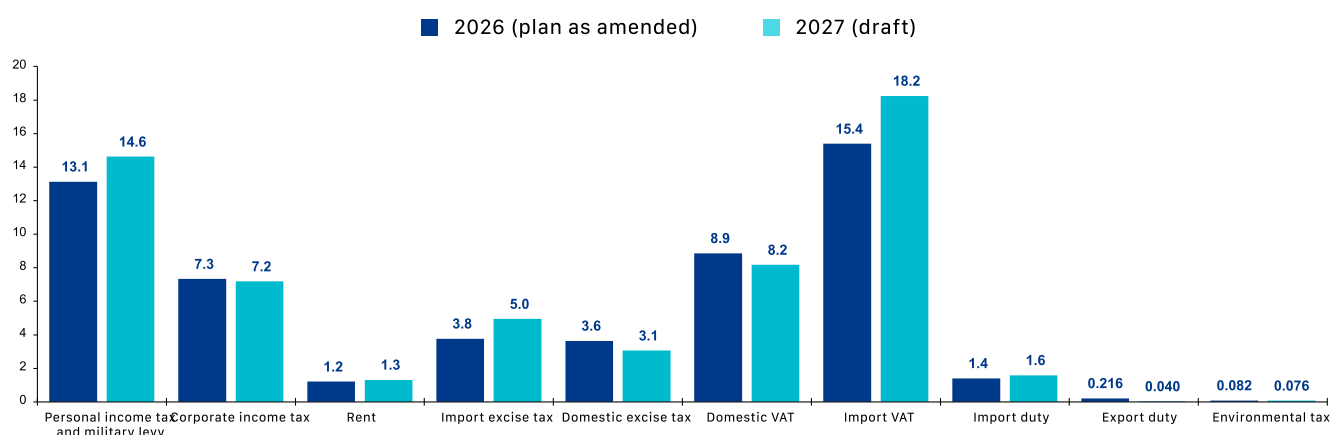
4. **Indirect taxes will continue to dominate the composition of tax revenues, as is typical of emerging market economies, including Ukraine.** VAT and excise taxes will generate \$34.4 bn, or 56.6% of total tax revenues, while taxes on income and profits will generate \$21.8 bn (35.9%). In US dollar terms, the increase in special fund tax revenues of \$5.0 bn will exceed the total increase of \$4.3 bn, as general fund tax revenues will decline by \$754.2 mln.
5. **Aggregate revenues from the main taxes will increase compared with the amended 2026 plan,** primarily driven by import VAT, PIT and the military levy, and excise taxes, while domestic VAT revenues net of refunds and corporate income tax revenues will decline in US dollar terms:
 - **VAT revenues will increase to \$26.4 bn in 2027 (+\$2.2 bn, or 8.9%), with the entire increase generated by import VAT.** Domestic VAT net of refunds will amount to \$8.2 bn, while import VAT will reach \$18.2 bn. Import VAT revenues will increase by \$2.8 bn, supported by higher goods imports, hryvnia depreciation, and planned tax changes. Meanwhile, domestic VAT revenues will be \$688.4 mln (7.8%) below the amended 2026 plan. A key factor will be an increase in VAT refunds to \$5.5 bn, up by approximately \$436.3 mln compared with the expected 2026 level.
 - **PIT and military levy revenues will increase to \$14.6 bn in 2027 (+\$1.5 bn, or 11.4%), with the larger share accruing to the state budget's special fund.** The special fund is expected to receive \$8.3 bn, or 56.7% of the total, while the general fund will receive \$6.3 bn. Additional revenues will come not only from the taxation of income earned through digital platforms but also from the reallocation of 4% of PIT from local budgets to the state budget, which is expected to generate around \$386.4 mln. A similar mechanism was envisaged in the draft state budget for 2026 submitted for the first reading, but was dropped during its revision, leaving the additional 4% of PIT in municipal budgets. In 2027, the entire military levy will be credited to the special fund and used to finance the remuneration of Armed Forces personnel. This mechanism has been in place since July 1, 2026 under [Law No. 4908-IX](#).
 - **Excise tax revenues will increase to \$8.0 bn in 2027 (+\$609.2 mln, or 8.2%), primarily driven by excise duties on imported fuel.** Revenues from this source will increase by \$1.2 bn to \$3.7 bn. The forecast incorporates the scheduled increases in excise rates under legislation already adopted, as well as an additional 4% increase in fuel excise rates, expected to generate a further \$176.2 mln. This will require amendments to the Tax Code. Meanwhile, domestic excise revenues will decrease by \$578.8 mln to \$3.1 bn, including declines in projected revenues from tobacco products of \$264.8 mln and from fuel of \$141.8 mln.
 - **Corporate income tax revenues will decline to \$7.2 bn in 2027 (-\$140.8 mln, or 1.9%) in US dollar terms, despite support from higher corporate profits and the retention of the elevated tax rate for banks.** Corporate profits are projected at approximately \$38.0 bn, around 1.4% higher in US dollar terms than a year earlier.

Maintaining the corporate income tax rate for banks at 50% is expected to generate an additional \$817.4 mln, but extending it to 2027 will require amendments to the Tax Code. Of total revenues, \$7.1 bn is to be credited to the general fund and \$107.9 mln to the special fund.

- **Customs duty revenues will amount to \$1.7 bn in 2027, an increase of \$30.2 mln, or 1.9%, over the amended 2026 plan.** Import duties will account for the largest share, at \$1.6 bn (an increase of \$182.4 mln, or 13.0%, compared with the current 2026 plan). A further \$40.5 mln will come from export duties and \$31.9 mln from special and seasonal duties. Export duty revenues will decline by \$175.3 mln, primarily due to lower payments on soybean and rapeseed exports, from \$208.5 mln to \$34.0 mln. This reflects the exemption for verified agricultural producers and cooperatives exporting their own produce.
- **Revenue from rent and fees for the use of natural resources in 2027 will total \$1.4 bn,** with the main source of such revenue being royalties for subsoil use, which are projected to increase by \$103 mln. Achieving this target will continue to depend on the security situation in the production regions and actual production volumes.

FIGURE 2.

Tax Revenues, \$bn



Source: State Budget for 2026 as amended, Draft State Budget for 2027

6. **The NBU profit transfer to the state budget will decrease by 68.6% (\$2.3 bn) to \$1.0 bn in 2027.** The transfer will accrue to the general fund and will be determined in line with the NBU's forecast. Its actual amount will depend on the central bank's distributable profit after the formation of general reserves.
7. **International assistance will remain one of the key sources of state budget revenues in 2027, amounting to \$52.9 bn, an increase of \$975.4 mln, or 1.9%, over the amended 2026 plan.** The general fund is expected to receive \$15.7 bn and the special fund \$37.2 bn:
 - **\$52.2 bn** in receipts under the EU enhanced cooperation mechanism (Ukraine Support Loan), of which \$15.4 bn will be credited to the general fund and \$36.8 bn to the special fund for defense needs;
 - **\$313.2 mln** in other European Union assistance, to be credited to the general fund;
 - **\$417.0 mln** in grants, almost entirely to be credited to the special fund.

Overall, international assistance will account for 44.1% of total state budget revenues and 72.1% of special fund revenues. Macro-financial budget support will be directed to the general fund, while the defense component will accrue to the special fund, as in 2026, increasing the dependence of specific earmarked programs, particularly defense programs, on the timely receipt of partner funding.

8. **The State Road Fund is to be reinstated in 2027, with resources of \$1.1 bn.** Of this amount, \$214.4 mln will be allocated to road-related debt repayment and servicing, \$724.0 mln to roads of national significance, and \$180.5 mln to local roads. The Road Fund will receive 25% of revenues from excise duties on fuel and vehicles, import duties on petroleum products, vehicles and tires, and charges for the passage of heavy and oversized vehicles. It will also receive 12.5% of revenues from the fines specified by law for violations in road transport and road traffic safety.
9. **Revenue forgone due to tax relief in 2027 will increase to approximately \$4.7 bn, up by \$47.2 mln, or 1.0%, compared with the expected 2026 level.** Of this amount, \$4.2 bn will relate to relief on national taxes and \$431.0 mln to relief on local taxes (almost entirely property tax relief). Around 65% of the total cost of tax relief will be associated with meeting defense and security needs. VAT will account for the largest amount of tax relief. Revenue forgone due to VAT relief is expected to amount to \$4.1 bn, or 87.5% of all revenue forgone and around 15.5% of planned VAT revenues in 2027, including:
 - supplies of defense products – \$1.8 bn;
 - supplies of specified goods for the security and defense sector – \$1.2 bn;
 - healthcare services – \$758.0 mln;
 - education services – \$165.6 mln;
 - housing supplies – \$76.4 mln.

The two largest VAT relief measures, covering supplies of products and goods for the security and defense sector, will together cost the budget \$2.9 bn, or 62.4% of all revenue forgone.

Significant tax relief will also apply to:

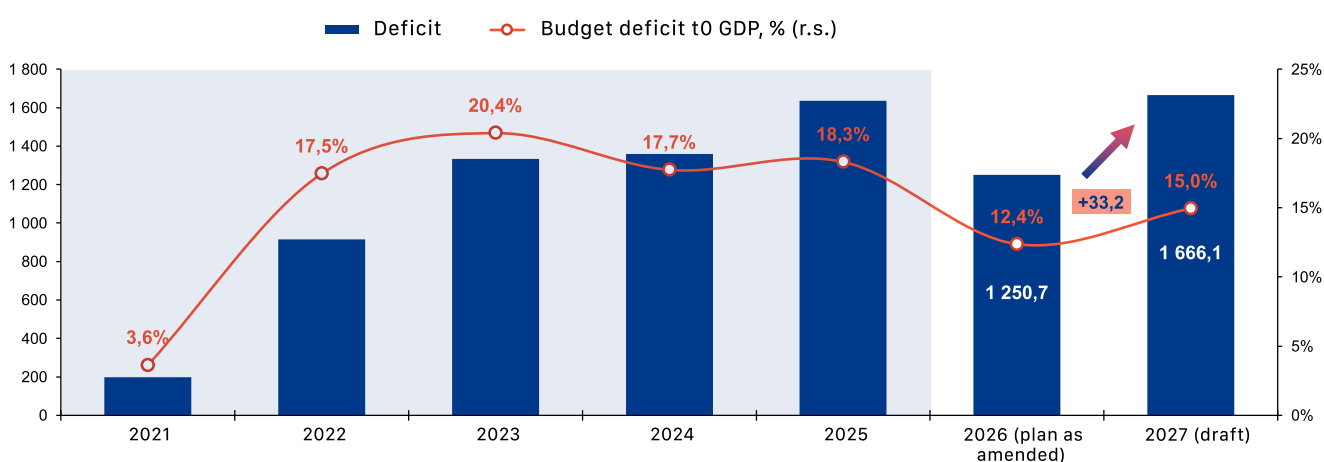
- property tax – \$431.0 mln, lower in US dollar terms than the broadly unchanged nominal amount expected in 2026 (this represents revenue forgone by local budgets);
- corporate income tax – \$78.6 mln, approximately 0.1% higher in US dollar terms than in 2026;
- excise tax on domestically produced goods – \$72.2 mln, approximately 1.8% higher in US dollar terms than in 2026.

BUDGET DEFICIT

1. **The war is driving higher defense and social protection expenditures, resulting in a substantial budget deficit.** The state budget deficit is projected at 15% of GDP (\$35.4 bn) in 2027, including 14.1% of GDP (\$33.4 bn) in the general fund and 0.9% of GDP (\$2.0 bn) in the special fund (Figure 3). The deficit is planned to be financed through loans and borrowing from international partners, domestic government bond issuance, and proceeds from the privatization of state-owned assets.

FIGURE 3.

Deficit of the State Budget and its Share in GDP, \$bn

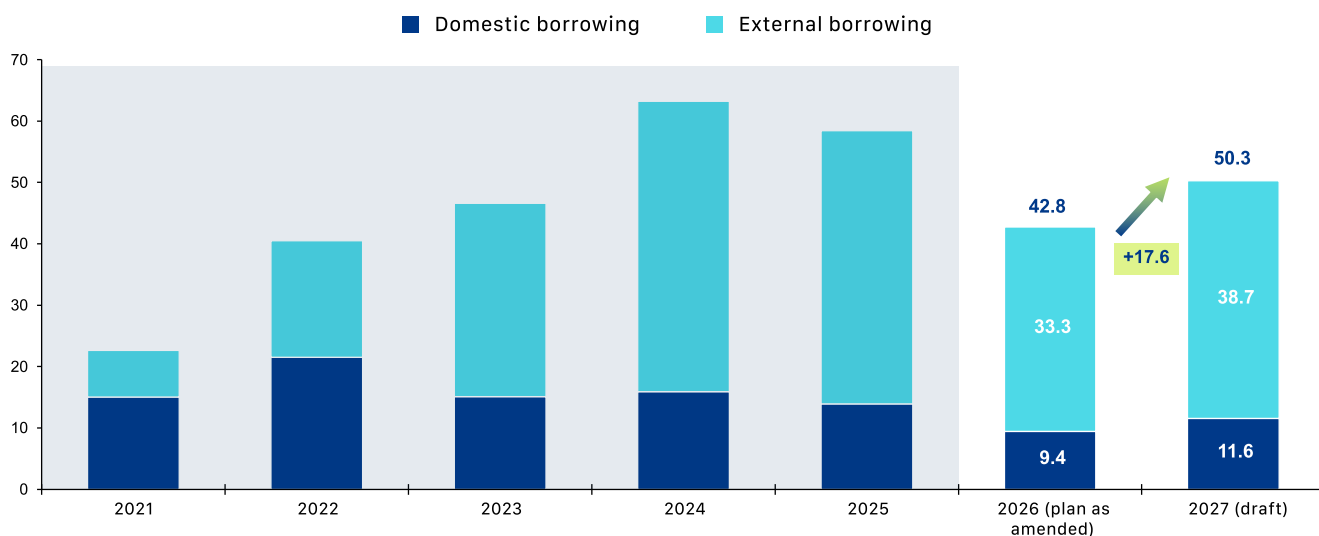


Source: State Budget for 2026 as amended, Draft State Budget for 2027, Open Budget portal

2. **External financing will remain a key source of budget deficit financing and support for macroeconomic and fiscal stability.** To finance the deficit, the state budget is expected to receive \$38.7 bn in loans from foreign partners (Figure 4). The main sources include \$1.7 bn under the IMF's Extended Fund Facility (EFF) program; \$1.3 bn in financing from the Government of Japan, backed by frozen Russian assets, representing the final tranche under the ERA mechanism; \$1.1 bn from the European Union under the Ukraine Facility; and a \$40.6 mln loan from the World Bank guaranteed by the Government of the United Kingdom. An additional \$32.6 bn is expected to be raised from other creditors. Thus, 84.3% of the required and expected financing currently has no confirmed sources or corresponding commitments from partners. External financing is expected to be provided on a long-term basis and on concessional terms. The weighted average interest rate on external debt instruments is projected at around 5.4% per year. Failure to secure the required amount of financial support from partners remains the key fiscal sustainability risk for 2027.
3. **In 2027, the increase in state debt will be driven exclusively by higher external debt, while domestic borrowing will be used to service and repay domestic debt.** Financing of the general fund of the state budget through domestic borrowing is planned at \$11.6 bn in 2027. The same amount will be allocated to repay domestic state debt. The budget plans are fully aligned with the [Medium-Term Debt Management Strategy for 2027-2029](#), approved on September 9. Under the Strategy, concessional long-term borrowing from international partners remains the priority source of financing to ensure debt and fiscal sustainability. The weighted average interest rate on domestic debt instruments is projected at around 14.8% per year in 2027. Should political, economic, or geopolitical conditions deteriorate, the terms and volumes of government borrowing may change.

FIGURE 4.

Volume of Domestic and External Borrowings, \$bn



Source: State Budget for 2026 as amended, Draft State Budget for 2027, Open Budget portal

4. **Five years of full-scale war and critically high financing needs have resulted in a substantial accumulation of public debt, leading to a significant increase in debt servicing and repayment expenditures.** New borrowing in 2027 will drive a further increase in state debt. By end-2027, state and state-guaranteed debt is expected to reach 113.9% of GDP (\$269.4 bn), with external debt accounting for 84% of the total. For comparison, as of end-July 2026, external debt accounted for 78.3% of state and state-guaranteed debt. Despite the lower cost and more favorable terms of external borrowing, the rising share of external debt increases the exposure of the debt burden to exchange rate fluctuations. Planned debt repayment expenditures in 2027 will increase by 1.4% y-o-y to \$15 bn, of which 77% (\$11.6 bn) will be allocated to domestic debt repayment. Debt servicing expenditures are planned at \$10.1 bn in 2027, including \$5.7 bn for domestic debt and \$4.4 bn for external debt.
5. **In line with its commitments under the new four-year IMF Extended Fund Facility (EFF) program, the Government is maintaining a cautious approach to the provision of state guarantees.** For 2027, the ceiling for state guarantees issued based on government decisions is set at \$1.4 bn, unchanged from the previous year. At the same time, the total amount may not exceed 3% of general fund state budget revenues. For comparison, this ceiling was reduced to 2.5% of planned budget revenues last year. Although the indicative ceiling has been restored, the amount set for 2027 is equivalent to around 2% of planned general fund revenues.

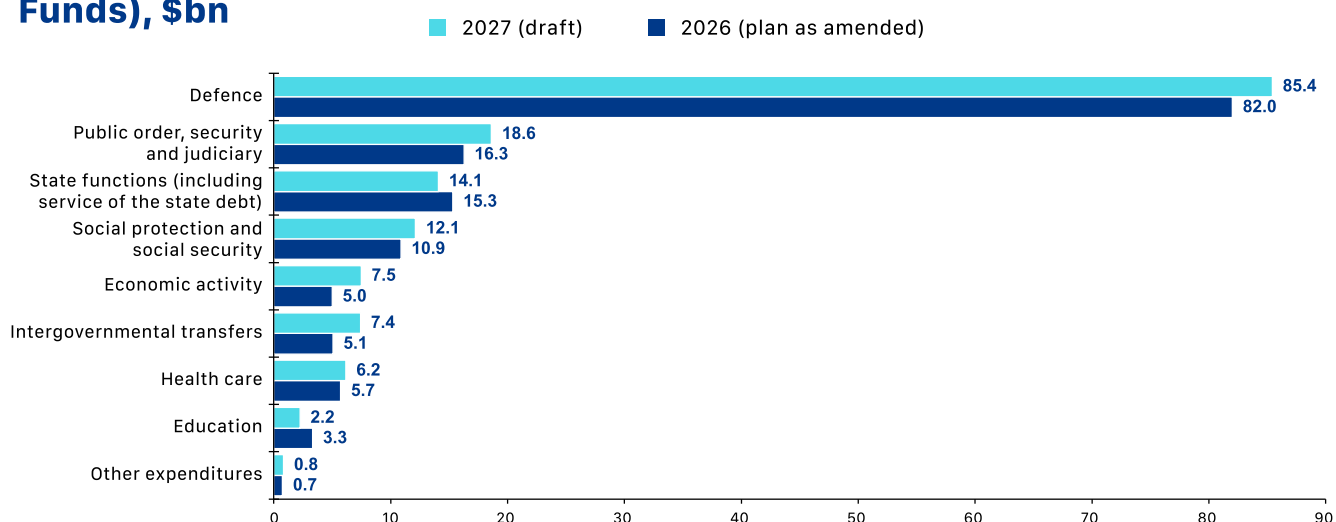
BUDGET EXPENDITURES

DEFENSE AND SECURITY EXPENDITURES

1. **State budget expenditures in 2027 will increase to almost \$154.4 bn (+\$10.1 bn, or 7%), with the bulk of resources continuing to be allocated to security, defense, and the social sector** (Figure 5). Accordingly, more than 68% of total expenditures will be concentrated in three ministries:
 - **Ministry of Defense – \$79.9 bn** (+3%, or +\$2.3 bn compared with the amended 2026 plan);
 - **Ministry of Internal Affairs – \$13.9 bn** (+14.6%, or +\$1.8 bn compared with the amended 2026 plan), including: National Guard – \$5.2 bn, National Police – \$3.4 bn, State Border Guard Service – \$3.4 bn;
 - **Ministry of Social Policy – \$11.4 bn** (+9%, or +\$0.9 bn compared with the amended 2026 plan).

FIGURE 5.

Budget Expenditures by Functional Classification (General and Special Funds), \$bn



Source: State Budget for 2026 as amended, Draft State Budget for 2027

2. **Security and defense remain the main priority of the 2027 budget, while the increase in available resources is largely enabled by international partners' funding.** Total expenditures on the security and defense sector are planned at \$104.1 bn, equivalent to 44% of GDP and 67.4% of total budget expenditures. Of this amount, \$0.6 bn represents state guarantees, \$5.6 bn is a reserve of funds for the respective sectors, while the remainder is allocated through budget programs of defense and security agencies.
3. **Ministry of Defense funding will increase to \$79.9 bn in 2027 (+3% compared with the amended 2026 plan).** \$36.8 bn is allocated to strengthening the country's defense capabilities and security, primarily for the procurement of military equipment and weapons financed through the USL mechanism. \$33.8 bn is planned for ensuring the operations of the Armed Forces of Ukraine, \$4.6 bn more than under the amended 2026 plan; these funds will be used, among other things, for service members' pay, medical

support, and assistance to service members' families. A further \$7.2 bn is allocated for the development, procurement, modernization, and repair of weapons using domestic resources – \$7.3 bn less than under the amended 2026 plan.

4. **The key change in security and defense sector financing in 2027 is the integration of the second half of USL funding, €45 bn, into the state budget, which has increased the predictability of defense financing while also increasing dependence on the timing of external resource disbursements.** A similar procedure was carried out in mid-2026, when the first €45 bn of USL funding was incorporated into the budget. Partner financing for military equipment procurement made it possible to significantly reallocate resources within the Ministry of Defense: funding for procurement from domestic resources was reduced, while the program supporting the operations of the Armed Forces of Ukraine, which is critical for financing service members' pay, was increased by almost \$4.6 bn. However, this additional resource likely does not imply a direct increase in service members' pay, but rather primarily reduces the risk of insufficient funding for these payments during the year.
5. **\$38 bn from the general fund is allocated in 2027 for service members' pay and salaries, including associated payroll costs, for the Defense Forces—almost \$9.6 bn more than the current revised 2026 plan.** At the same time, even this increase is unlikely to provide sufficient resources for a comprehensive reform of the service members' pay system and primarily strengthens the budget's capacity to sustainably finance existing obligations.

STRUCTURAL CHANGES IN BUDGET EXPENDITURES

6. **Under the 2027 budget draft, funding for four ministries will be fully separated in line with the Government changes introduced in July.** Currently, in the Ministry of Finance's budget reporting, the Ministry of Economy and Environment and the Ministry of Agrarian Policy and Food are recorded as a single chief spending unit. Similarly, the Ministry for Recovery, Infrastructure and Transport and the Ministry for Communities, Territories and Internally Displaced Persons are currently reported jointly. In the 2027 budget, expenditures will be allocated among four separate ministries in accordance with their respective budget programs.

Among spending units outside the defense and security sector, funding has increased for 11 of the 13 existing ministries. Two additional ministries established as a result of the process described above will also receive separate funding:

- **Ministry of Social Policy, Family and Unity** – an increase of **\$0.9 bn (+9%)**, primarily due to increased funding for the Pension Fund and social protection programs for certain categories of citizens affected by the aggression.
- **Ministry of Health** – an increase of **\$0.5 bn (+8.4%)**, driven by a \$0.7 bn increase in funding for the medical guarantees program for the population and a \$0.1 bn increase in funding for medical measures.
- **Ministry of Education and Science** – an increase of **\$0.4 bn (+22.1%)**, due to increased funding for two workforce training programs by a combined \$0.3 bn and for the academic scholarship program by \$0.1 bn.
- **Ministry of Economy and Environment** – an increase of **\$1.2 bn (+109%)**, primarily due to a new program supporting business entities through war-risk insurance, with funding of \$1.2 bn.

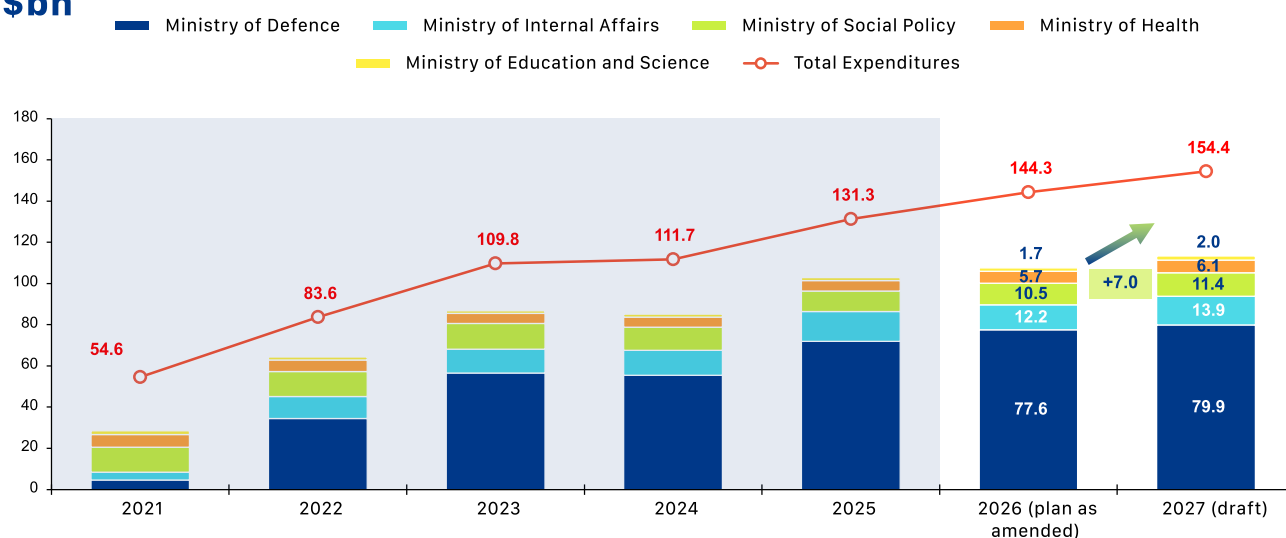
- **Ministry for Recovery, Infrastructure and Transport** – an increase of **\$0.1 bn (+13.9%)**, driven by increased funding for programs aimed at developing the road network.
- **Ministry of Justice** – an increase of **\$32 mln (+6%)**, primarily due to a \$36 mln increase in funding for the ministry's core activities.
- **Ministry of Finance** – an increase of **\$62 mln (+8.5%)**, reflecting higher funding for almost all subordinate spending units, including the State Tax Service (+\$18 mln) and the State Customs Service (+\$25 mln).

Among non-defense ministries, funding is reduced for the Ministry of Culture and the Ministry of Energy. Funding for the Ministry of Culture is reduced by \$45 mln (-12.3%), primarily due to a change in the spending unit responsible for the program for the production and broadcasting of programs for state needs, amounting to \$34 mln. Funding for the Ministry of Energy is reduced by \$24 mln (-8.5%), mainly due to lower funding for the program on the restoration and development of energy infrastructure.

The Ministry for Communities, Territories and Internally Displaced Persons and the Ministry of Agrarian Policy and Food receive separate funding of \$0.6 bn and \$0.3 bn, respectively. In the former case, the funds will be directed toward programs supporting internally displaced persons and housing support, while the Ministry of Agrarian Policy and Food will finance agricultural programs, including support for agricultural producers.

FIGURE 6.

Expenditures of the Largest Ministries (General and Special Funds), \$bn



Source: State Budget for 2026 as amended, Draft State Budget for 2027, Open Budget portal

7. **Central government expenditures and lending administered by ministries will change only marginally overall in 2027, with the largest increases allocated to the Ministry of Education and Science and the Ministry of Finance.** Funding for the Ministry of Education and Science will increase by \$0.3 bn, primarily due to an increase in the education subvention of \$1.8 bn. For the Ministry of Finance, expenditures will decrease by \$0.9 bn, mainly due to a decline of public debt servicing expenditures by \$1.5 bn. Funding for the Ministry of Veterans Affairs will increase by \$6 mln. The main reason is a \$19 mln increase in the subvention to local budgets to compensate certain categories of veterans and families of fallen and missing defenders for housing purchases.

8. **The 2027 budget draft provides for 31 new or restructured budget programs totaling \$4.6 bn, with the largest resources allocated to business support and social programs.** The Ministry of Economy's new "Support for Business Entities" program provides \$1.2 bn for war-risk insurance for businesses, financed through revenues generated by an increase in the VAT rate. Another \$2.1 bn is allocated to four Ministry of Social Policy, Family and Unity programs created by restructuring existing programs and aimed at supporting families with children, low-income families, children with disabilities, and family-based forms of care. In addition, \$0.4 bn is allocated as a subvention to local budgets to compensate for tariff-related debts owed to heat supply and heat generation companies, as well as centralized water supply and wastewater treatment companies, under a new Ministry of Restoration program supporting the energy sector.
9. **The 2027 budget draft discontinues funding for 14 programs totaling \$5 bn. A significant portion of these resources is reallocated among other budget programs.** The largest of these is the "Increasing the Attractiveness of Work in Education" program, amounting to \$1.5 bn, which was used in 2026 to increase teachers' salaries; the corresponding funding is now incorporated into the education subvention. Another \$3.5 bn was allocated to two Ministry of Social Policy, Family and Unity programs aimed at supporting children and families and citizens facing difficult life circumstances. In the 2027 budget, these programs are restructured into four separate programs (described below), which is expected to improve the targeting of payments and the expenditure structure of the ministry.

| INVESTMENT AND BUSINESS SUPPORT EXPENDITURES

10. **The Government continues to work on public investment projects as part of the reform of the public investment management system.** According to the [approved consolidated list](#) of the state's unified public investment project portfolio, the 2027 budget draft includes \$2.4 bn in funding (including \$0.5 bn from the general fund, \$1.7 bn from the special fund, and \$0.1 bn in state guarantees), broadly in line with the 2026 funding level for the respective projects (\$2.5 bn). These funds will be allocated among 79 investment projects covering 12 sectors. Financing sources will include loans and grants from international financial institutions, direct budget financing, and state guarantees for loans. At the same time, the 2027 budget draft retains 24 capital expenditure programs totaling \$0.4 bn that formally fall outside the public investment project mechanism and are financed through the state budget and other support programs. These include "Restoration of Critical Logistics Infrastructure and Network Connectivity (RELINC)" (\$0.1 bn) and "Restoration and Development of Energy Infrastructure" (\$60 mln).
11. **The Government plans to continue supporting businesses under martial law.** In addition to the new \$1.2 bn war-risk insurance program, the program supporting the operation of the National Development Institution (the "5-7-9" program) will continue, with \$0.4 bn in funding (+\$2 mln compared with the 2026 allocation). State support for the development of production and entrepreneurship will also continue, with \$0.2 bn allocated. Agriculture is another area of support: financial assistance to agricultural producers is planned at \$46 mln (-\$168 mln), support for farms and other agricultural producers at \$55 mln (-\$0.4 mln), while funding for the humanitarian demining of agricultural land program will increase to \$36 mln (+\$13 mln).

HUMAN CAPITAL

12. **Spending on veteran services is increasing, including higher funding for the housing compensation program for war veterans with disabilities.** In 2027, \$442.8 mln is allocated to the Ministry for Veterans Affairs' own budget programs and the subventions it administers, 11.1% more in US dollar terms than under the amended 2026 plan. The largest allocation goes to the program "Support and Assistance to War Veterans, Their Families and Families of the Fallen", whose funding will almost double from \$81.9 mln to \$159.5 mln (+94.9%). The program covers cash payments, psychological assistance, professional adaptation and other support measures. The subvention to local budgets for housing compensation for certain categories of war veterans with Group I–II disabilities and families of the fallen will increase from \$127.7 mln in 2026 to \$146.4 mln in 2027 (+14.7%). Compensation for the purchase of housing is planned for 1,286 people in 2027, with the average payment amounting to UAH 3.2 mln (approximately \$67,900). In 2027, \$54.9 mln is allocated for a subvention supporting specialists who assist war veterans and demobilized persons and selected assistance measures, including compensation for rental housing for veterans and persons discharged from military service. This is 16.7% less in US dollar terms than in 2026. As of August 2026, almost 3,000 specialists assisting war veterans and demobilized persons were working in communities across Ukraine, compared with 1,800 in October 2025. Given the projected population of 5–6 million veterans and their family members, this number of specialists may be insufficient. Funding for the National Military Memorial Cemetery is cut substantially, from \$76.8 mln in 2026 to \$23.4 mln in 2027 (-69.6%). This may be related to the completion of the first phase of the cemetery, which was officially opened for the first burials in August 2025, although construction of the complex is continuing.
13. **The increase in education spending is driven by higher teachers' salaries, scholarships and school meal provision.** Spending under the Ministry of Education and Science programs rises from \$6.08 bn in 2026 to \$6.78 bn in 2027 (+11.5%). Teacher remuneration remains the largest area of expenditure. The education subvention increases from \$2.32 bn to \$4.09 bn (+76.1%), reflecting the increase in official salaries for teaching and academic staff by 30% from January 2026 and a further 20% from September 2026. Spending on academic scholarships increases from \$148.9 mln to \$200.1 mln (+34.4%), following the doubling of the main academic scholarships from September 1, 2026. The minimum academic scholarship for university students increased from UAH 2,000 to UAH 4,000 per month (approximately \$45 to \$90), while for students in professional pre-higher education it increased from UAH 1,510 to UAH 3,020 (approximately \$34 to \$68). A similar expansion applies to school meals: the relevant subvention rises from \$324.1 mln to \$411.0 mln (+26.8%). From September 1, 2026, the state extended free hot meals to all pupils in grades 1–11 (12) in municipal schools studying in person or in a blended format, covering around 3 million children. Other education investments are being reduced. The subvention for shelters declines from \$135.1 mln to \$78.6 mln (-41.9%). At this stage, however, this does not indicate an abandonment of the safe-education policy, as part of the 2026 funding was used to complete projects launched in previous years. The Ministry's largest research program—supporting priority areas of research, development and scientific activity at higher education and research institutions—increases from \$139.5 mln in 2026 to \$168.1 mln in 2027 (+20.4%). This increase comes amid the introduction, from 2026, of a new performance-based model of baseline research funding, under which additional resources are allocated based on state assessment results and research performance. Institutions and units with stronger research outcomes receive more funding, including for staff remuneration and research infrastructure.

14. **Healthcare funding is increasing primarily due to higher spending on medical services and medicines.** Total funding rises from \$5.78 bn in 2026 to \$6.22 bn in 2027 (+7.5% in US dollar terms). Most of the increase is concentrated in the Program of Medical Guarantees (PMG), whose funding grows from \$4.31 bn to \$4.78 bn (+10.7%). As a result, the PMG's share of total healthcare expenditure increases from approximately 75% to 77%. In 2026, the PMG financed 46 packages of medical services, including primary care, emergency care and reimbursement of medicines and medical devices. Cardiac surgery and transplantation care is separated into a new budget program in 2027, with funding of approximately \$8.0 mln. Spending on centralized procurement of medicines and medical devices increases from \$342.0 mln in 2026 to \$441.7 mln in 2027 (+29.2%). The screening program's allocation remains unchanged in nominal hryvnia terms; because of the different annual exchange rates, its value declines from \$225.2 mln in 2026 to \$212.3 mln in 2027. The "Health Screening 40+" program was launched in 2026 with the same UAH allocation, based on a cost of UAH 2,000 (approximately \$45) per examination and potential coverage of up to 5 million people. As of September 9, 2026, more than 663,000 people had undergone screening, over 1.8 million applications had been submitted, and approximately \$49.5 mln had been transferred to participants' cards. Against the backdrop of higher recurrent spending, public investment in healthcare infrastructure is being substantially reduced, from approximately \$91.4 mln in 2026 to \$52.3 mln in 2027 (-42.7%). The decline may reflect constraints on capital resources or the completion of individual large projects, including the modernization of the infrastructure and equipment of forensic medical institutions, development of the network of facilities providing cancer care, and reconstruction of the building of the Ukrainian Scientific and Practical Centre for Endocrine Surgery and Transplantation of Endocrine Organs and Tissues.
15. **In 2027, expenditures of the Ministry of Social Policy, Family and Unity of Ukraine are projected to reach \$11.4 bn, an increase of \$942 mln, or 9.0%, compared with the 2026 plan of \$10.5 bn.** The main increase is driven by the transfer to the Pension Fund of Ukraine (PFU) for pension programs and by spending on the social protection of persons with disabilities.

In 2027 funding for pension payments from the state budget will increase by \$557 mln, or 9.8%, reaching \$6.2 bn. The increase in expenditures is primarily related to the indexation of pensions in 2027 and the recalculation of pensions following a 4.5% increase in the subsistence minimum. At the same time, no PFU deficit is projected, so no expenditures to cover the deficit are included in the state budget transfer.

Expenditures on housing subsidies and benefits for housing and utility services will decrease by \$55 mln, or 5.7%, to \$899 mln. This reduction is due to the stronger US dollar against the Ukrainian hryvnia, which reduces the value of these expenditures in US dollar terms. In 2027, \$1.1 mln is allocated to establish the institutional components required to introduce the funded pension system. This may include expenditures on IT systems, registers, contribution accounting mechanisms, and the management of pension savings. Funding for this area was also allocated in the 2026 budget, but has not yet been used, as the system's model requires further development. The Ministry of Social Policy, Family and Unity of Ukraine is preparing a draft law that would provide for the automatic enrolment of all employees in the system, with the option to opt out.

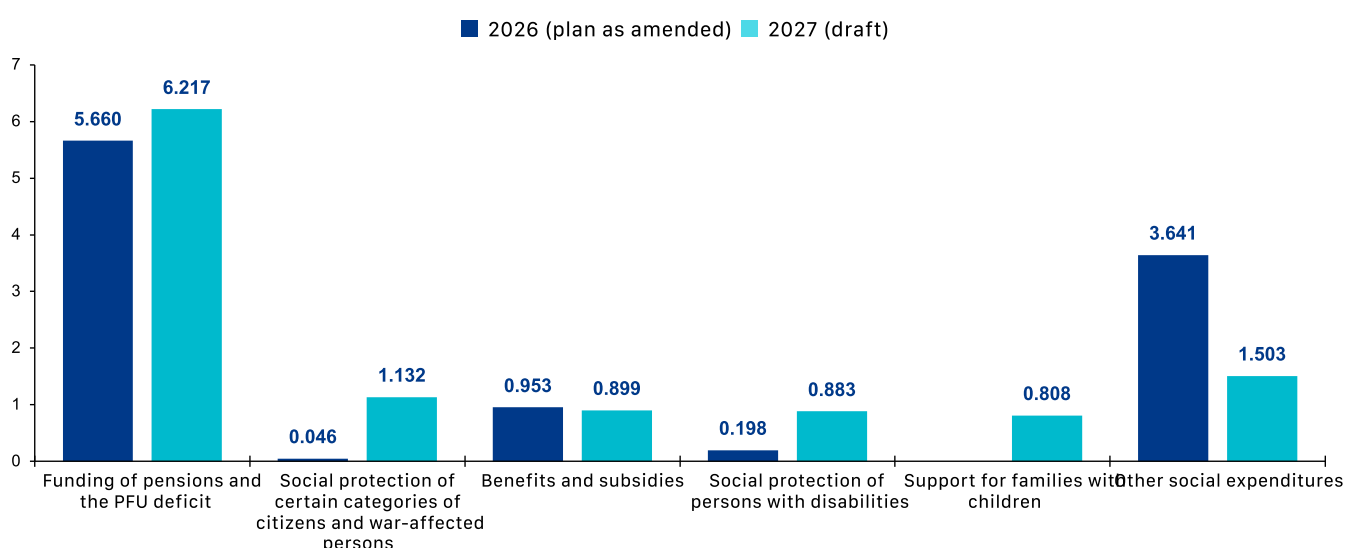
Expenditures on the social protection of persons with disabilities will increase nearly 4.5 times in 2027, reaching \$883 mln. The main reason for the increase is the transfer of state social assistance payments to persons with disabilities to this program. These payments were previously financed under the program for the social protection of citizens in difficult life circumstances. In addition, the amount of

assistance for persons with disabilities since childhood and children with disabilities will increase. For calculating these payments in 2027, the State Budget Law provides for a base amount of \$85. This change was introduced by [Law No. 4955-IX](#), which removed the link between these payments and the subsistence minimum. Expenditures on providing persons with higher-functionality prosthetic and orthopedic products and assistive rehabilitation devices will also increase. At the same time, expenditures on employment and job placement measures for persons with disabilities will decrease by \$4 mln, or 16.2%, to \$21 mln.

Funding for children's health recovery and recreation will increase from \$11 mln to \$35 mln, or 3.2 times. In 2027, the program will also include psychosocial recovery measures for children. Expenditures on developing the social services system will increase slightly by \$2 mln, or 2.9%, to \$56 mln. At the same time, funding to support Ukrainians abroad will decrease to \$3 mln, or by 9.2%.

FIGURE 7.

Expenditures on Budget Programs of the Ministry of Social Policy, Family and Unity of Ukraine, \$bn



Source: State Budget for 2026 as amended, Draft State Budget for 2027

16. **In 2027, the subsistence minimum will increase by 4.5% for all social and demographic groups, while the minimum wage will increase by 4.1%, from \$195 to \$203 (+\$7.9).** The increase in the subsistence minimum will raise some social benefits and pensions: the minimum pension will be \$61, the maximum pension \$610, while pensioners aged 65 and over with a full contribution record will be guaranteed a minimum pension of \$81, equivalent to 40% of the minimum wage. At the same time, the statutory subsistence minimum will remain significantly below the [actual subsistence minimum](#): according to the Ministry of Social Policy, on average, the actual subsistence minimum is 2.9 times higher than the statutory one. Thus, an increase in nominal social standards does not eliminate the gap between state-guaranteed incomes and the actual cost of living. The increase in the minimum wage will raise the base for social security contributions and could potentially support revenues for pension and social insurance.
17. **In 2027, the revenues of the PFU, including the balance, and its expenditures will each amount to \$31.9 bn, which is \$3.5 bn, or 10.9%, higher than planned in the PFU budget for 2026.** The main source of revenue will remain social security contributions (SSC): SSC revenues will increase to \$19.1 bn, or by \$2.7 bn (+14.2%). In 2027, the

maximum SSC base is set at 20 minimum wages for civilians (\$4.1 thsd per month) and 15 minimum wages for military and security personnel (\$3.0 thsd per month). The transfer to the PFU from the state budget will amount to \$11.0 bn, which is \$901 mln, or 8.2%, more than in 2026. Of this amount, \$6.2 bn is allocated to finance pension payments. In 2027, the restrictions on special pension payments introduced in 2026 will remain in place: for military pensions under the contributory pension system, the amount covered by the system is limited to three subsistence minimums (\$183), while the difference between this amount and the actual pension is financed from the state budget. For the portion of special pensions exceeding 10 subsistence minimums (\$610), adjustment coefficients apply. These provisions are intended to contain the growth of state budget expenditures on special pensions.

TABLE 2.

Legislated Subsistence Minimum and Minimum Wage, \$

Subsistence minimum	2025	2026	2027
Per person	70	72	76
for children under 6 y.o.	61	63	66
for children aged 6-18 y.o.	77	79	83
for persons of working ability	73	75	78
for persons unable to work	57	58	61
Minimum wage	192	195	203

Source: State Budget for 2026 as amended, Draft State Budget for 2027

18. **In 2027, the state will continue to redistribute unused social insurance funds through the special fund of the state budget.** The \$116.8 mln balance of the Fund for Mandatory State Social Unemployment Insurance of Ukraine, accumulated from SSC, will be used to finance pension programs. The Fund's revenues, including the balance, and expenditures will each amount to \$670.6 mln in 2027, which is \$78.5 mln, or 11.7%, more than planned for 2026. At the same time, unused SSC funds held by the PFU under insurance programs covering temporary incapacity for work and accidents at work will be transferred to the special fund of the state budget. These funds, as well as unused balances of the Unemployment Fund from 2024–2026, may be allocated by the Government to social and pension payments. The expansion of this mechanism indicates that the state is seeking additional domestic resources to finance pension and social expenditures.

GENDER-ORIENTED APPROACH IN THE DRAFT 2027 BUDGET: MORE PROGRAMMES, MORE SPECIFIC TASKS

Nearly 43% of all expenditure programmes in the draft 2027 State Budget take gender considerations into account. The share was 34.8% in 2026 and 32% in 2025. Seventy-eight of the 85 main spending units (92%) have at least one budget programme with a gender component. A substantive change this year is that gender-related objectives in some budget programmes have become more specific. In vocational education, for example, they explicitly address gender stereotypes in career choices. In out-of-school education, they seek to increase the participation of girls and boys in fields where each has traditionally been under-represented. More specific objectives are not always reflected in the planned targets, however. The share of girls studying in the science and technology strand of out-of-school education remains at 36.4% for 2027–2029, unchanged from 2026. Overall, 187 programmes now include gender-sensitive performance indicators, but the substance of these indicators is changing more slowly. In 58% of these programmes, all such indicators concern staff and internal operations, including staff numbers by sex and grade, professional development and official travel. Some main spending units also report expenditure on female and male staff separately. Sex-disaggregated indicators for recipients of services or support remain uncommon: only 49 of the 187 programmes with gender indicators (26%) include them. Just seven programmes (4%) combine sex with membership of a vulnerable or other target group. Programmes supporting internally displaced people do not yet disaggregate recipients by sex, and most programmes for people with disabilities do not do so either. During the war, this makes it harder to identify the needs of these large groups and target assistance accordingly. The wider use of gender indicators has improved the availability of data, but still provides limited insight into how budget funds are distributed between women and men.

Examples of well-designed gender-sensitive performance indicators in budget programmes:

- Expenditure on medical services for the collection, cryopreservation and storage of reproductive cells: \$1.90 mln for women and \$2.13 mln for men. The programme plans to provide these services to 1,755 women and 25,105 men. (Budget programme 'Provision of certain medical services to specified groups of citizens,' Ministry of Health of Ukraine).
- Expenditure on clothing and equipment for rank-and-file staff and officers of the State Emergency Service of Ukraine: \$1.62 mln for women and \$18.29 mln for men. The programme plans to provide clothing and equipment to 2,414 women and 19,755 men. (Budget programme 'Support for the operation of civil protection bodies and units and the training of State Emergency Service personnel,' Ministry of Internal Affairs of Ukraine).
- Number of women and men expected to receive treatment in inpatient facilities and rehabilitation centres of the Ministry of Internal Affairs: 16,602 women and 60,724 men. Compared with the 2026 plan, the number of women treated is projected to rise by 20%, and the number of men by around 1%. (Budget programme 'Support for the operation of Ministry of Internal Affairs bodies, institutions and facilities and for training by specialised higher education institutions,' Ministry of Internal Affairs of Ukraine).
- Number of convicted women expected to gain qualifications in skilled trades at training centres in penal institutions: 355, compared with a planned 210 in 2026. (Budget programme 'Vocational training at centres in penal institutions,' Ministry of Justice of Ukraine).
- Number of contemporary authors whose works are to be translated into other languages under the Ukrainian literature translation programme: 36 women and 30 men. (Budget programme 'Support for the Ukrainian Book Institute, publishing and the international promotion of Ukrainian literature,' Ministry of Culture of Ukraine).

INTERGOVERNMENTAL RELATIONS

1. **The draft budget for 2027, as in previous years, envisages an increase in the financial resources of local budgets to \$22.4 bn, which is 14.0% higher than the 2026 plan.** Of this amount, own-source revenues are projected at \$15.0 bn (+5.4%), while intergovernmental transfers are estimated at \$7.4 bn (+36.6%), including four grants totaling \$1.3 bn and 30 subventions amounting to \$6.1 bn. This structure illustrates a moderate expansion of municipalities' own revenues alongside stronger state support, aimed at maintaining the balance between central government and regions under wartime conditions (Table 3).

TABLE 3.

Top 10 State Budget Transfers to Local Budgets in 2027

Transfers	\$bn	Compared to 2026 plan (in UAH), %	Compared to 2026 plan (in USD), %
Educational subvention	4.1	+86,9	+76,1
Basic grants	0.682	+4,4	-1,6
Additional grants for LSGs affected by the war	0.645	=	-5,7
Subvention for school meals	0.411	+34,5	+26,8
Subvention to compensate the difference in tariffs for heating, hot water and heating supply	0.386	New	New
Subvention for construction, reconstruction, repair and maintenance of local roads and streets	0.181	New	New
Subvention for housing compensation for veterans and persons with disabilities	0.146	+21,6	+14,7
Subvention for projects under the Ukraine Recovery Programme	0.145	7-fold increase	6.5-fold increase
Subvention for projects under the Ukraine Recovery Programme III	0.122	8-fold increase	7.3-fold increase
Subvention for safe conditions in schools (shelters, military lyceums, PIP)	0.079	-38,3	-41,9

Source: State Budget for 2026 as amended, Draft State Budget for 2027

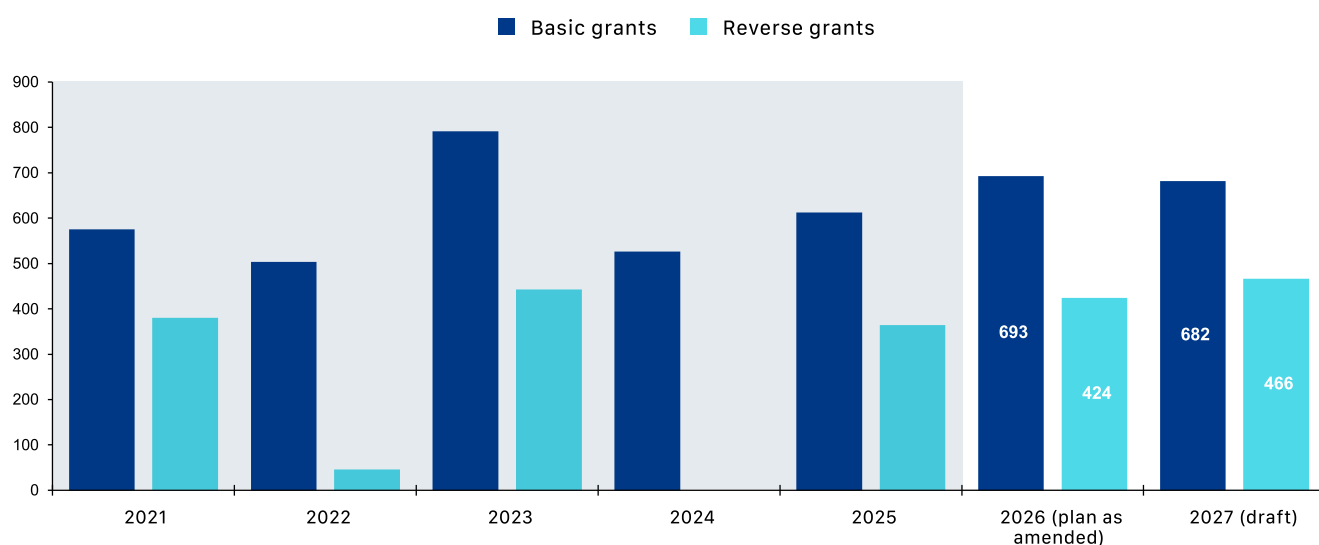
2. **In 2027, state taxes credited to the general fund of local budgets are projected at \$10.5 bn (+10.0%). The main source will remain PIT, totaling \$8.6 bn (+11.6%).** Local taxes and fees are expected to come in slightly below last year's target, at \$3.6 bn (-5.5%), indicating a more realistic revenue forecast than the one used for 2026, which proved overly optimistic.

3. **In the draft budget for 2027, the Government, as it did last September, proposes to reduce the share of PIT credited to local budgets from 64% to 60%.** The 64% rate was introduced as a temporary measure in 2022–2026 to compensate for rising utility costs caused by the sharp increase in gas prices. In subsequent years, the measure was maintained as a tool to support local self-government. Instead, in 2027 the draft once again provides for a subvention to compensate for tariff differences in heat supply, heating and hot water, amounting to \$386.0 mln, which corresponds to the 4% of PIT that could otherwise have been credited directly to municipalities' budgets. Unlike PIT revenues, which local authorities could use at their discretion, the new subvention is earmarked and therefore restricts flexibility in allocating resources.
4. **The decision to withdraw the remaining balances of local budgets from municipalities located in territories that have been under temporary occupation since February 24, 2022, and centralize these funds in the special fund of the state budget has been extended.** These funds will no longer remain at the disposal of municipalities but will be automatically transferred by the Treasury to the state level. The Government will then use them exclusively to provide housing for internally displaced persons.
5. **In 2027, the mechanism for horizontal equalization of municipalities' fiscal capacity may change due to the transition to more up-to-date population data, which will increase the calculated level of PIT per capita and change the number of recipients of the basic grant and contributors to the reverse grant.** A key innovation may be the use of data from the State Migration Service—consolidated data on the number of people with a declared or registered place of residence in each municipality, compiled by the Service through data exchange with territorial community registers and cross-checking against state information systems. In 2026, the calculations used the population figure as of January 1, 2022—32.2 mln people—while the draft 2027 budget uses data as of September 1, 2026—28.5 mln people. The City of Kyiv and municipalities whose territories are temporarily occupied are excluded from the calculations. A similar approach was proposed last year during consideration of the draft state budget for 2026, but the decision was postponed due to significant data inaccuracies and pressure from local government associations. To improve data quality going forward, the draft state budget provides that, by April 1, 2027, local self-government bodies, together with regional state administrations, should update municipalities' demographic registers for their subsequent use in calculating equalization grants for 2028.
6. **The average calculated level of PIT revenues per capita will increase to \$148.64, compared with \$136.26 in 2026, directly affecting the equalization results.** In 2027, **976 local budgets** will receive a basic grant, compared with 1,040 last year, including 15 regional budgets where PIT per capita is below \$133.78. A reverse grant will be transferred by **224 local budgets**, compared with 185 in 2026, where PIT per capita exceeds \$163.50. Among regional budgets, this group includes Dnipropetrovsk, Kyiv, Lviv and Poltava regions, as well as Volyn and Luhansk regions in 2027. Horizontal equalization will not be applied to **118 local budgets** in temporarily occupied territories.
7. **In 2027, the structure of intergovernmental transfers will change: some grants and subventions provided for in 2026, totaling \$194.0 mln, will be discontinued, while new transfers totaling \$603.0 mln will be introduced.** The draft budget removes the additional grant for the functioning of territories affected by hostilities, amounting to \$116.0 mln; the grant for maintaining education and healthcare institutions, amounting to \$66.0 mln; and the subvention for fire safety measures in general

secondary education institutions, amounting to \$11.0 mln. Among the new transfers, the largest are the subvention for compensating tariff-difference arrears—\$386.0 mln (which will remain if the 4% PIT provision described above is retained) and the subvention for the construction, reconstruction, repair and maintenance of local roads — \$181.0 mln. In addition, \$16.0 mln is allocated to improve the accessibility and resilience of preschool education; \$10.0 mln to address electricity balancing-market arrears; \$6 mln for projects under the RES programme aimed at developing decentralized “green” energy for Ukrainian municipalities; and \$4.0 mln for restoring water supply and wastewater services.

FIGURE 8.

Horizontal Fiscal Equalization of Territorial Fiscal Capacity, \$mln



Source: State Budget for 2026 as amended, Draft State Budget for 2027, Open Budget portal

8. **The education subvention remains the largest intergovernmental transfer in the draft 2027 budget, amounting to \$4.1 bn.** The substantial increase in this allocation is linked to the increase in teachers' salaries, which was approved last year only after the adoption of the state budget and most local budgets and therefore had to be implemented through an additional transfer. The allocation of the education subvention among municipalities for 2027 will be determined after student enrolment figures are established as of October 1, 2026.
9. **The additional grant to support frontline and temporarily occupied territories will be planned at \$645.0 mln in 2027, which is slightly less than in 2026 due to exchange rate differences.** Of this amount, \$168.0 mln is allocated to the budgets of municipalities in areas where hostilities are possible or ongoing, as well as to the respective regional budgets, to compensate for revenue losses caused by population outflows, business relocation, declining tax revenues and other consequences of the war. A further \$91.3 mln will be directed to the budgets of municipalities in temporarily occupied territories to cover the priority expenditures of relocated local self-government bodies, primarily wages for public-sector employees, utilities and energy costs. The amount of this component of the grant is determined based on local budget execution in 2025, taking into account the increase in the minimum wage and the consumer price index.
10. **In 2027, only limited development expenditure is planned for territorial communities.** The State Regional Development Fund will again amount to only \$42.5 mln. The main significant change is the restoration of a subvention for financing the construction,

11. **Another feature of this year's draft state budget is yet another attempt by the Government to redirect funds from certain local budgets to the state budget in response to the significant need for centralized financial resources. Kyiv will be required to compensate the state budget for more than \$6.4 mln in costs related to servicing Eurobonds issued by the state in 2025 in exchange for GDP warrants.** These obligations originate from the 2015 restructuring, when part of the capital's external debt was transferred to the state debt. The terms and schedule for compensation will be determined by the Cabinet of Ministers, creating a new expenditure obligation for the city budget. This is already the second instance of funds being withdrawn from the capital's budget in favor of the state budget: in 2025, Kyiv transferred \$192 mln following the redistribution of corporate income tax.
12. **The search for additional financial resources in the draft budget is also reflected in the Government's intention to optimize expenditures on maintaining military administrations in temporarily occupied territories.** By April 1, 2027, the Cabinet of Ministers and regional military administrations are expected to assess the effectiveness of the exercise of their powers and prepare proposals concerning the structure of the administrations, the network of spending units and the activities of municipal enterprises. Such a review may help eliminate inefficient expenditures. At the same time, it is important to recognize that the issue has not only a fiscal but also a political dimension: maintaining governance structures, even where their practical functionality is limited, reinforces the state's position that these territories remain part of Ukraine.