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UKRAINE

Macroeconomic outlook 2025 - 2026

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Executive Summary

- » RUS full-scale war continues having a devastating impact on Ukraine's economy
- » Real GDP is on a growth path since 2023, but will not reach its pre-war level in the medium-term
- » We estimate **GDP growth at 3.5% in 2024**
- » **We forecast GDP growth at 2.9% in 2025 and 3.2% in 2026**
 - Demand side: Private consumption and rebuilding investment activities will remain the main drivers in 2025 and 2026, but without large-scale reconstructions
 - Supply side: Moderate growth across all main sector: energy sector destructions and other war-related factors impede the development
- » Trade deficit is not offset by primary and secondary incomes: **current account deficit of 7.1% of GDP in 2024**, G7 ERA grants will temporarily cause the CA to balance in 2025, but CA will return to a **deficit of 5.7% of GDP in 2026**
- » Average inflation is forecast to **remain in double digits in 2025 with 12.5% (aop) but will decelerate to 6.5% in 2026**
- » Budget financing will remain scarce despite ERA. Debt ratio is estimated to have peaked in 2024 (92% of GDP) but will remain large: 89% in 2025 and 85% in 2026.
- » Forecast remains subject to large uncertainty related to further development of the war

Structure

1. Introduction
2. Review of economic developments in 2024
3. Assumptions underlying the forecast
4. Key forecast indicators for 2025 and 2026
5. Key forecast risks

Annex

1. Introduction

Background:

- » Russia's full-scale war has been ongoing for almost 3 years
- » The **displacement of millions of people, further fighting, temporary occupation of Ukraine's territories, mines, extensive damage to the energy infrastructure, limited logistic routes** and further war-caused challenges continue to negatively affect the economic development with no end to the war in sight
- » At the same time, Ukraine is continuously adapting to these adverse conditions and reached a degree of stability. However, Ukraine is **relying on the international support and remains highly vulnerable to any disruptions**
- » Any forecast of the future economic development is however subject to very high war-related uncertainty of the continuation of the war, partner's support and limited set of economic data released

Purposes of this analysis:

- » Update the forecast for the main macroeconomic indicators for 2025 and 2026
- » Discuss main downside and upside risks for the forecast

2. Review of economic developments in 2024

Economic development:

- » According to the IER estimate, real GDP grew by 3.5% yoy in 2024
- » The economic situation was continuously driven by damages to the energy sector and gradual Russian advances in Eastern Ukraine

Demand side:

- » Real wages grew strongly due to lack of qualified labour (migration, mobilisation), minimum wage increase
- » Domestic demand growth remained strong, driven by gross fixed capital formation and private consumption
- » Real investment growth was supported by defence procurement and construction of fortifications
- » Government consumption somewhat declined in real terms
- » Real exports grew stronger than imports: Recovery driven by better logistics of the Ukrainian sea corridor ensuring exports of not only grain, but also iron ore

Supply side:

- » Lack of growth in livestock production, weak harvest drove lower GVA in agriculture in 2024
- » Business and population faced power outages since May 2024. Large industrial companies were able to import electricity, but faced higher prices

Review of inflation and current account

Inflation:

- » Inflation returned to double digits in Nov-24 and reached 12% yoy in Dec-24
 - Price growth due to: Bad harvest, growing labour shortages, higher cost for reliable energy supply (energy equipment, fuel for generators, cost of imported electricity)
 - The Government kept gas, water, heating costs mostly fixed, keeping inflation from accelerating further but pushing expected prices increases into 2025 and 2026

Current account:

- » Exports grew faster than imports (goods, services), but trade deficit remained very high
 - Exports improved thanks to improved logistics
 - Imports driven by energy equipment, defence purchases, gradual recovery in consumer demand, spending by Ukrainians abroad (travel services imports)
 - Energy imports went down: though electricity imports increased, stronger decline of imports of oil and gas driven (both volume (gas) and price (for gas and oil))
 - » Private remittances went down: likely reflected integration of Ukrainians in the new places of residence.
 - » A lower share of external aid was delivered as grants while loosening of FX restrictions increased payments of investment income abroad
- CA deficit increased significantly in 2024

Review of economic policies

Government:

- » The Government stayed on track with the implementation of the Ukraine Plan, the IMF programme
- » International financing (both grants and loans) totalled USD 41.7 bn
- » Tax increases: Military levy on personal income increased, increased corporate tax rate for the banking sector (50% instead of 25%) and for non-bank financial companies (25% instead of 18%)
- » Fixed Prices for heating, gas, water for households are kept in place
- ➔ Overall, financial support was sufficient, though there were some delays in disbursements.

NBU:

- » Key policy rate was lowered from 15% p.a. in Dec-23 to 13% p.a. in Jun-24 as inflation was lower than forecast. This was reversed, as inflation overshoot its forecast in the second half of the year. Policy rate returned to 14.5% in Dec-24.
- » Managed floating exchange rate regime still in place
 - Exchange rate exceeded UAH/USD 42 in Dec-24 with 10% depreciation in 2024
 - Current account deficit remains large
 - The NBU introduced several steps towards FX liberalization
 - Interbank market liquidity improved but NBU retained key role in balancing demand and supply
- ➔ FX liberalization steps depend on stable inflow of FX assistance from international partners

3. Assumptions underlying the forecast (1/2)

Assumptions on the war:

- » Ukraine will not lose economically significant territories in 2025 and 2026
- » War intensity will not reduce in 2025, but only from mid-2026 onwards
- » Migration flows will be balanced in 2025. More Ukrainians will return than leave in 2026: net inflow of people

Fiscal policy assumptions:

- » Recovery, reconstruction spending limited to emergency support in 2025 and 2026, financed by donor assistance.
- » The US, the EU, other international partners will deliver on commitments of financial, military support needs
- » ERA mechanism will remain key for financing support to Ukraine
- » Ukraine Plan and IMF programme will remain largely on track in 2025 and 2026
- » No substantial additional changes in tax policy in 2025 and 2026

3. Assumptions underlying the forecast (2/2)

Trade policy assumptions:

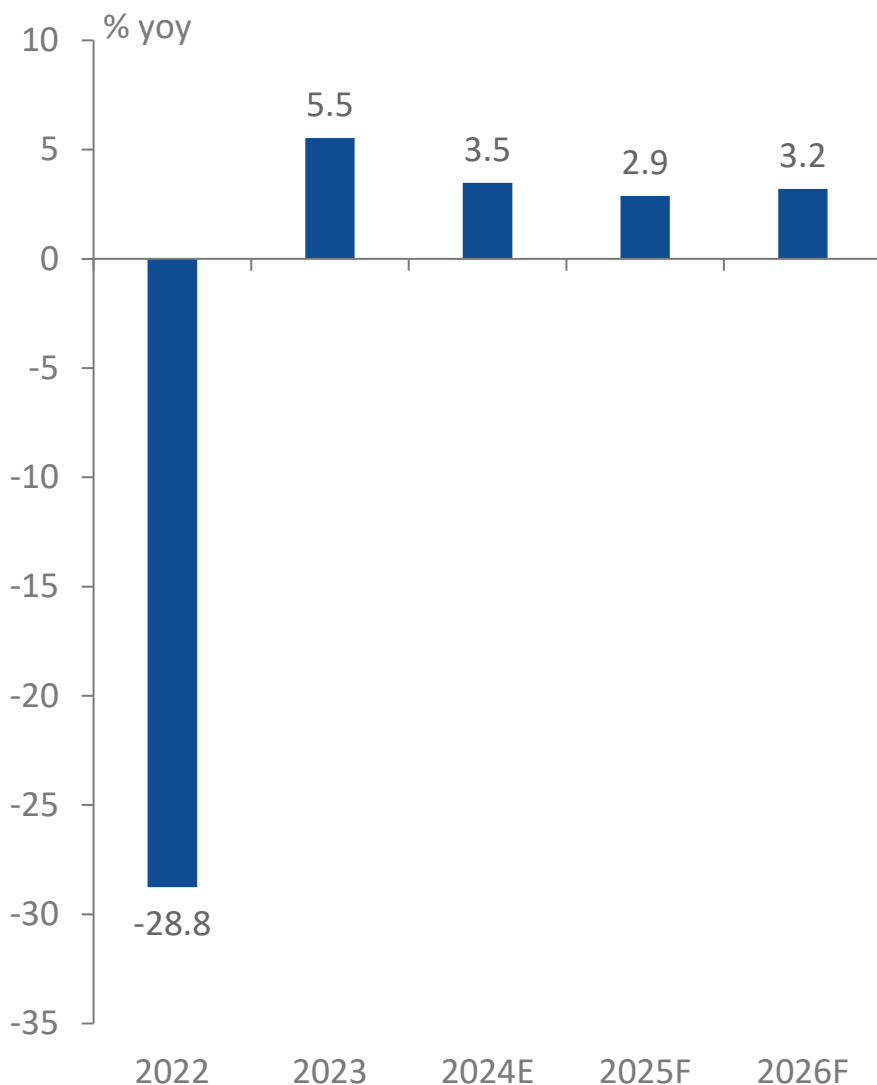
- » Sea Corridor will remain effective: extended possibilities for exports, imports
- » Western border will operate unobstructed for trade in 2025 and 2026

Financial and monetary policy assumptions:

- » Financial sector will remain stable, NBU maintain monetary policy approach
- » Capital controls will be gradually relaxed in line with the approved strategy
- » Ukraine will be able to install some electricity generating capacities, increase imports, but the electricity deficit will remain in 2025 and 2026
- » Utility tariffs will be gradually increased (e.g. heating, gas) in 2025, 2026

4. Key forecast indicators for 2025 and 2026

Ukraine's real GDP change



Source: Ukrstat, own estimate for 2024, 2025 and 2026

Key GDP parameters:

- » Ukrstat revised official figure for 2023 reveals a slight upward improvement
- » 2024: Estimate slightly downgraded compared to our summer forecast: now 3.5%
- » 2025: Stronger downgraded: changed assumption on war intensity, industry/agriculture output, now 2.9%
- » 2026: Assumed war intensity to continue until mid-26: focus on repairment rather than on reconstruction leading to growth of just 3.2%
- » → 17.4% below pre-war level in real terms
- » Nominal GDP:
 - 2025: UAH 8,814 bn (USD 199 bn)
 - 2026: UAH 10,153 bn (USD 217 bn) higher than pre-war GDP in USD
- » Recovery is limited due to continuation of full-scale war intensity

GDP forecast: demand side

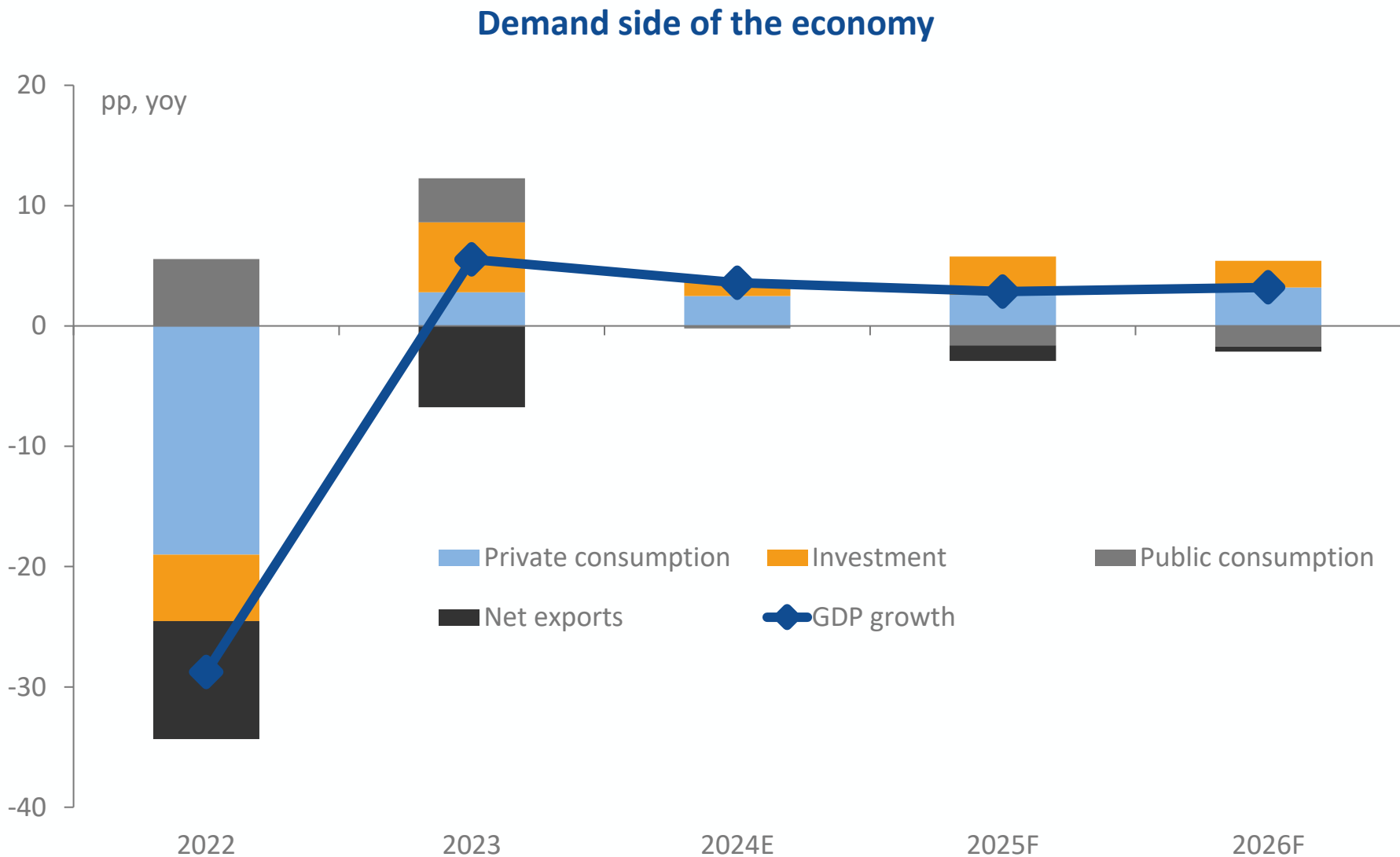
Real GDP forecast: demand side (change in % yoy)

	2022	2023	2024E	2025F	2026F
GDP	-28.8	5.5	3.5	2.9	3.2
<i>Including:</i>					
Private consumption	-28.7	4.3	4.2	4.4	5.3
Government consumption	31.4	9.2	-0.4	-4.1	-4.9
Fixed capital accumulation	-33.9	65.9	16.9	9.5	9.1
Exports	-42.0	-5.9	5.3	-0.6	3.8
Imports	-17.4	8.9	3.3	2.3	3.2

Source: Ukrstat, own estimate for 2024, 2025 and 2026

- » **Private consumption**: Growth due to real wage increase (lack of employees pushes wages up), indexation of pensions, and use of savings
- » **Investments**: Growth is attributed to investments into defence as well as emergency repair needs, i.e. in the energy sector, not large-scale reconstruction yet
- » **Real exports**: Ukrainian Sea Corridor drives logistic improvement. However, lower grain stocks at the end of 2024 explains decline in 2025, with some recovery in 2026
- » **Real imports**: Increase in imports of goods in response to higher demand, but gradual decline in services imports as recorded spending of Ukrainians abroad declines
- » **Net exports**: Low agriculture output leads to negative contribution in 2025. But recovery expected for 2026 which drives exports to grow stronger than imports

Contributions to real GDP growth: demand side



Source: Ukrstat, own estimate for 2024, 2025 and 2026

GDP forecast: supply side

Real GDP forecast: supply side (change in % yoy)

	2022	2023	2024E	2025F	2026F
GDP	-28.8	5.5	3.5	2.9	3.2
Including:					
Agriculture	-25.2	11.1	-0.4	1.6	3.4
Industry	-37.7	6.5	2.9	2.4	4.1
Trade	-32.2	8.4	7.6	4.7	5.4
Transport	-40.5	7.7	11.7	5.8	6.1

Source: Ukrstat, own estimate for 2024, 2025 and 2026

- » **Agriculture**: We expect slight growth in livestock farming and slightly higher crop harvest in 2025 with some further improvement in 2026
- » **Industry**: Gradual recovery of domestic demand, improved logistics and sustained defence contracts are projected to support moderate growth in 2025 and 2026 however limited by electricity supply constraints and continued impact of Russian aggression.
- » **Energy**: We expect continued toll from infrastructure damage but also a degree of resilience and repairs
- » **Trade and transport**:
 - Increase in external trade capacity thanks to reopening of Odesa ports and gradual recovery in consumer demand supporting domestic trade
 - Transport is additionally supported by growing passenger flows including temporary returns of displaced population as well as rising e-commerce orders.

Current account forecast

		Current account				
		2022	2023	2024E	2025F	2026F
Current account balance	USD bn	8.0	-9.6	-13.4	0.1	-12.5
Current account balance	% of GDP	4.9	-5.3	-7.1	0.0	-5.7
Exports of goods	USD bn	40.9	34.7	38.9	40.0	43.6
Imports of goods	USD bn	-55.6	-63.8	-69.0	-73.1	-79.2
Balance of services	USD bn	-11.1	-8.7	-5.6	-4.8	-3.4
Transfers and remittances*	USD bn	38.1	34.6	29.8	46.3	35.7

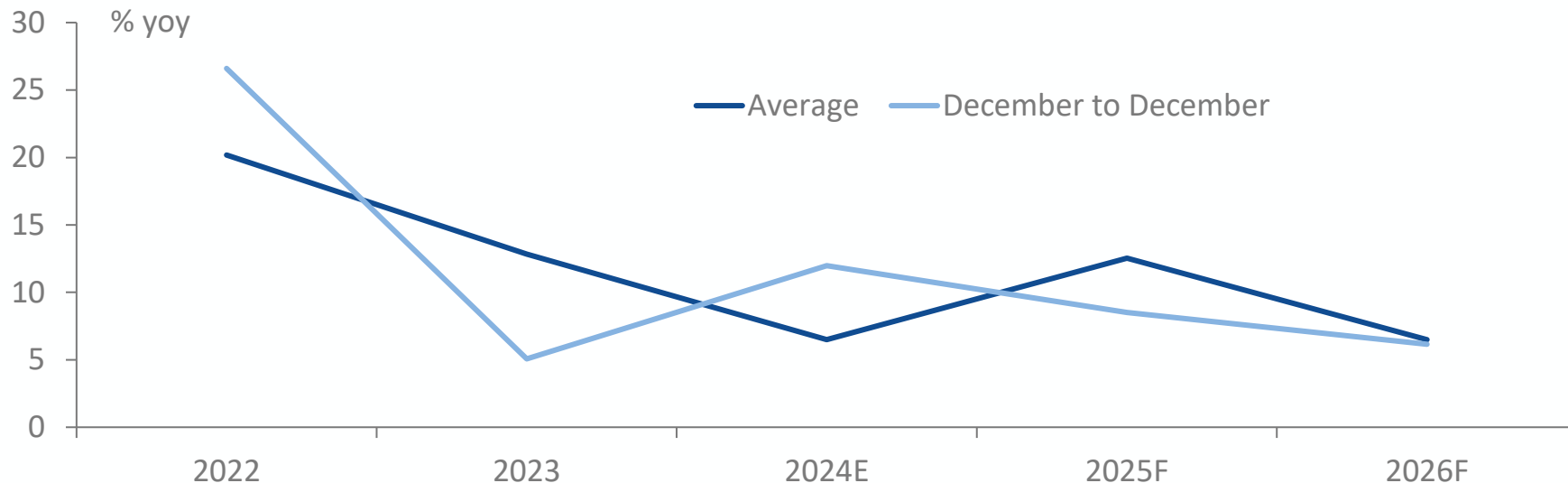
Source: Ukrstat, own estimate for 2024, 2025 and 2026

Note: Current account also covers investment income which is not shown in the table.

- » **Goods exports**: We expect lower agricultural exports in 2025 due to lower stocks. Exports in dollar terms will be supported by gradual improvement in export prices
- » **Goods imports**: Gradual recovery in domestic demand supports imports. Energy equipment purchases and large appropriations on military equipment will likely remain important elements
- » **Service trade**: Deficit is driven by the spending by displaced Ukrainians abroad but gradually decreases (i.e. on cards issued by Ukrainian banks) as they integrate in their new residence. Stop of gas transit has only a minor negative impact
- » **(*)Transfers and remittances**: sum of net wage income and secondary transfers and include grants to the state budget at USD 30 bn in 2025 and USD 20 bn in 2026 that include ERA funds to be recorded as transfers under current account. Without including ERA, a deficit of ca. USD 28.3 bn in 2025 and UAH 31.7 bn in 2026 would have been expected

Inflation forecast

Development of inflation



Source: Ukrstat, own estimate for 2024, 2025 and 2026

- » **2025:** Inflation forecast at **12.5% aop** and **8.5% eop**: inflation in annual terms is expected to peak in the first half of the year
 - Disruptions pushing up prices for some food products in late 2024 are expected to recede in the first half of 2025
 - Cost pressures pushing up inflation will likely persist longer, but they are also expected to weaken by the end of the year, in part reflecting tighter policy stance by the NBU
- » **2026:** Inflation projection at **6.5% aop** and **6.2% eop**:
 - We expect less cost pressure on inflation while recovery in demand is expected to be moderate
 - We assume that increases in heating and gas prices will add to inflation

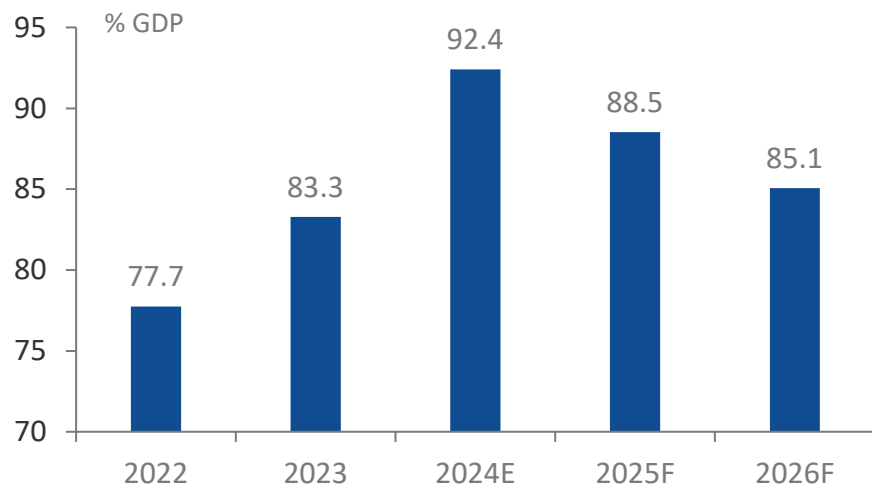
Fiscal forecast

Summary of fiscal indicators

	2025F	2026F
Consolidated fiscal deficit (grants not accounted as revenues), USD bn	41.0	42.2
Consolidated fiscal deficit (grants not accounted as revenues), % GDP	20.0	19.0
Financing needs, incl. domestic debt refinancing USD bn	52.5	55.2
Assumed international aid (grants and loans), USD bn	48.0	36.0

Source Ministry of Finance, own forecast for 2025 and 2026

State and guaranteed by state debt



Source Ministry of Finance, own forecast for 2025 and 2026

- » Expected financing needs in 2025 and 2026 are higher than estimated international aid
- » 2025: budget financing is likely to be scarce
 - IMF and the EU under Ukraine Plan
 - Major part of ERA (the US contribution is secured as transferred to the World Bank)
 - Part of ERA will finance defence spending: if military assistance is insufficient from other countries, budget financing will be scarce
- » 2026, committed financing lower than needs
 - The rest of ERA is to be received
 - Ukraine Plan: EUR 7.2 bn, IMF: USD 1.9 bn
 - More financing is needed for budget deficit financing
- » Public debt (incl. guarantees) is expected at 89% of GDP in 2025 and 85% of GDP in 2026
- » ERA financing is not envisaged as debt though creating a contingent liability

5. Key forecast risks

Downside risks:

- » Worsening of security situation and further occupation of territories
- » Increasing infrastructure and energy destruction all over Ukraine
- » Delays/change in financial assistance from IFIs and bilateral donors
- » Damage to grain export facilities as well as disruption of seaborne exports
- » High mobilisation and migration, which increases lack of labour

Upside risks:

- » De-occupation of Ukrainian territory, faster than assumed improved security situation and start of large-scale reconstruction effort
- » Faster than expected recovery of seaborne exports
- » Larger than expected donor inflows, i.e. for reconstruction or from frozen assets

Annex: Technical note on modelling

- » The forecast was produced using the IER short-term macroeconomic forecasting model. The model is based on iterative-analytical techniques. grounded in the system of national accounts.
- » The model looks at GDP and its components based on production and expenditures. The final result of the GDP forecast is based on forecasts for each component.
- » The forecast for each component is produced using scenario assumptions and historical relationships. The forecast is built on a system of built-in proportions. which are expected to stay fairly constant.
- » Components of the GDP by production and by expenditures are interconnected.
- » Real GDP growth is determined by the summation of the contributions of each component. If the two sides of the GDP accounting equation are not balanced. then another iteration begins. The iterations continue until the two methods of GDP produce balanced results.

Annex: Forecast indicators

		2022	2023	2024E	2025F	2026F
Real Economy						
Nominal GDP	UAH bn	5,239	6,628	7,551	8,814	10,153
Nominal GDP	USD bn	162.0	181.2	188.1	198.7	217.2
Real GDP	% yoy	-28.8	5.5	3.5	2.9	3.2
Consumer price index	aop, % yoy	20.2	12.8	6.5	12.5	6.5
Consumer price index	eop, % yoy	26.6	5.1	12.0	8.5	6.2
Balance of Payments						
Current account balance	USD bn	7.9	-9.2	-13,4	0.1	-12.5
Current account balance	% of GDP	4.9	-5.1	-7.1	0.0	-5.7
Exports of goods	USD bn	40.9	34.7	38.9	40.0	43.6
Imports of goods	USD bn	55.6	-63.5	-69.0	-73.1	-79.2
Balance of services	USD bn	-11.0	-8.6	-5.6	-4.8	-3.4
Exchange rate (official)	aop, UAH/USD	32.34	36.57	40.15	44.35	46.78
State and state-guaranteed debt	% of GDP	77.7	83.3	92.4	88.5	85.1

Source: Ukrstat, NBU, own forecast

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia* and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

** Within the framework of project activities in Georgia, we are in contact solely with reform-oriented partners for the time being; in Belarus advisory activities are suspended.*

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