

Macro Insight

Macro risks up; more foreign financial aid unlocked

The Ukrainian economy showed unparalleled resilience to massive electricity blackouts at the start of the year, but its growth potential for the coming years remains constrained. Private household demand, once again, proved to be a solid growth pillar complemented with government investments into military projects. Yet, their strength is likely to fade, and we expect GDP growth will be at just below 1% in 2026. The Middle East crisis took center stage on the global arena since March and had a quick impact on consumer prices via primary and secondary effects. The firm disinflationary trend sharply reversed, and we now expect CPI in the range of 9-10% at the end of the year. This is significant deterioration compared with our previous forecast of below 7%. We think the current NBU monetary policy stance is tight enough to counter a temporary increase in inflationary pressures and the chances of a key policy rate increase in 2026 are still below 50%. The Ministry of Finance continues to reap the benefits of lower cost of domestic borrowings after it aggressively cut rates before the outbreak of the Iran war. The story of external accounts remains unchanged – we continue to see the ample current account deficit as a significant mid-term risk but that is fully manageable in 2026 and 2027 thanks to sufficient external funding. The approval of the Ukraine Support Loan by the EU came as a huge relief, as it fully enables the MinFin to cover the fiscal deficit and the NBU to maintain its reserves at a safe level of US\$50-60bn. We have little doubt the authorities will do their best to take the reform actions envisaged by the IMF program and the EU loan conditionalities. A substantial increase in FX market deficit YTD is very worrisome, and it makes the NBU much more inclined to switch to a somewhat faster pace of hryvnia depreciation. In light of this, we revise our end-2026 exchange rate forecast to UAH45.8/US\$. The 2026 fiscal gap is now fully covered with external funding, and the MinFin is likely to reduce the stock of domestic debt for the first time since the start of the full-scale invasion. Like in previous reports, we assume no major change in the safety risks in the mid-term – no peace deal and no major territory gains by the enemy.

Economy loses steam; growth set to be marginal this year

Ukraine's GDP was down 0.5% YoY in 1Q26 – the first YoY decline since 1Q23. The breakdown of GDP components is not available until end-June. Yet, at this stage, it is clear that massive power blackouts in January and February due to Russia's attacks on energy infrastructure were the main culprit of the contraction. The 1Q decline was more contained than feared it might be – a clear sign the economy has adjusted to dealing with permanent energy shocks. Despite high resiliency, its growth engines lack power to generate any meaningful acceleration in the current environment.

5 JUNE 2026

Key macroeconomic data and projections

	2025	2026F
Real GDP, YoY, %	1.8	0.8
Nominal GDP, US\$bn	214	229
Inflation, YoY, %, e.o.p.	8.0	9.4
Key policy rate, %, e.o.p.	15.5	15.0
UAH/USD, e.o.p.	42.4	45.8
C/A balance, % of GDP	(16)	(18)
NBU reserves, US\$bn	57	60
Budget gap, % of GDP*	(25)	(21)
Public debt, % of GDP	101	107

* budget balance before official grants to the government
Source: UkrStat, NBU, ICU

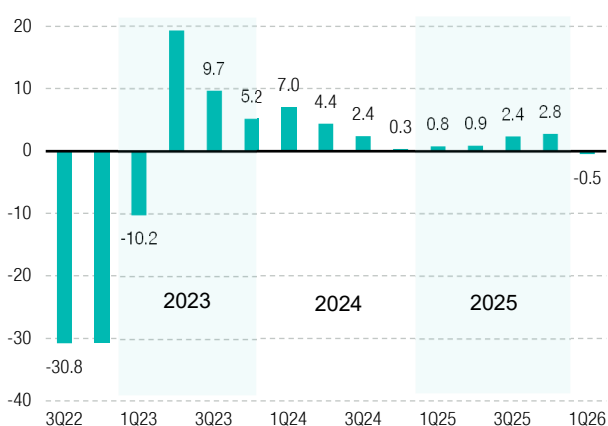
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

A look at the elements of statistical information that are available today leaves mixed impressions. Monthly data are extremely volatile across many economic sectors and any robust trend is hard to spot. Construction started on an upbeat note in January, but then contracted in subsequent months, while the industry showed the opposite pattern and recovered rapidly by March. The brightest spot is retail trade that grew at a double-digit rate in 1Q, but slipped into high single-digits from April.

We estimate the overall economic situation started to improve, and the economy likely returned to moderate growth in 2Q26. Private household consumption clearly remains the key growth driver – after a 7.5% increase (in real terms) in 2025, the pace likely remained comparable in 1Q26. Yet, we expect that to moderate somewhat through end-2026 on a slowdown in real household incomes and still weak consumer sentiment. Investments likely remain the second most important growth factor. While private investments stagnate due to safety risks, public investments into fortifications along the frontline and military facilities remain high and likely will keep growing. Export is unlikely to stage a meaningful recovery this year – the rollout of the EU CBAM will be a major drag on steel sales to foreign customers.

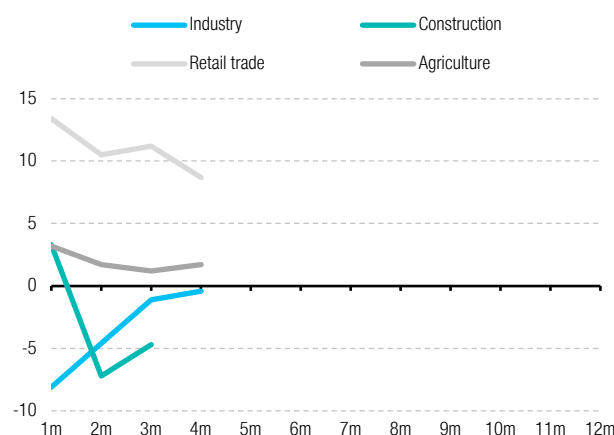
All in, we think the existing constraints, including the shaky safety situation and weak business/consumer sentiment will keep the full-year growth at just below 1%. As we argued in previous reports, a sluggishness of economic growth is going to be a new normal for the coming years as long as the war persists with the current intensity.

Chart 1. Real quarterly GDP, change YoY, %



Source: Ukrstat, ICU.

Chart 2. Real output of sectors in 2026, change YoY*, %



* cumulative change from the start of the year

Source: Ukrstat, ICU.

Inflationary pressures re-emerge on Middle East crisis

The inflation slowdown trend reversed sharply as the Middle East and global energy crises started to unfold. Disruptions in the global oil market and a related spike in the price of motor fuels had a quick impact on consumer prices. The annual CPI accelerated to 8.6% in April from 7.4%, the lowest tally reached in January. It took only a couple of weeks for the second-round price effect to ripple through the economy, as passenger transportation and postal service companies started to hike their tariffs already in March. In April, annual price growth picked up (vs. March) for majority of consumer basket components, indicating pressures continued to build up. Yet, core inflation strengthened to a much lesser extent than headline CPI – it reached 7.6% in April vs. 7.0% in January.

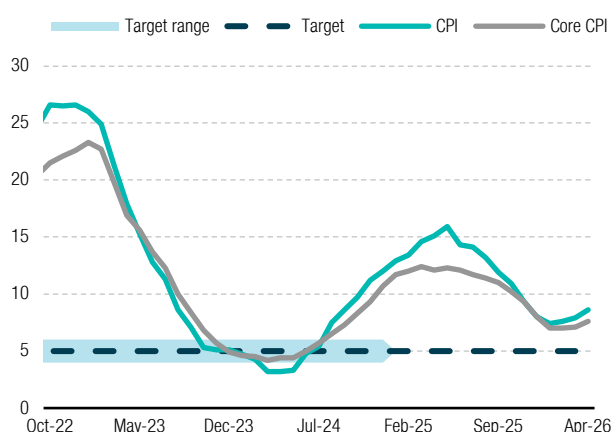
We expect that some of the secondary effects will continue to transpire in the coming months. Moreover, much of the recent and upcoming price increases will not be reversed even if the global energy market normalizes and hydrocarbon prices subside. This will delay the return of the CPI to the NBU target of 5% by at least a year. Yet, at this point, we believe that inflation is unlikely to spin out of control and reach double-digit territory. The consumer basket remains dominated by food items with a weight of 38%, and prospects are fairly good for agricultural

harvest this year. Robust local supplies of fruits, vegetables, meat, and dairy should moderate the overall price growth, and we expect end-2026 CPI in the range of 9-10%.

NBU adopts hawkish rhetoric, keeps rate unchanged

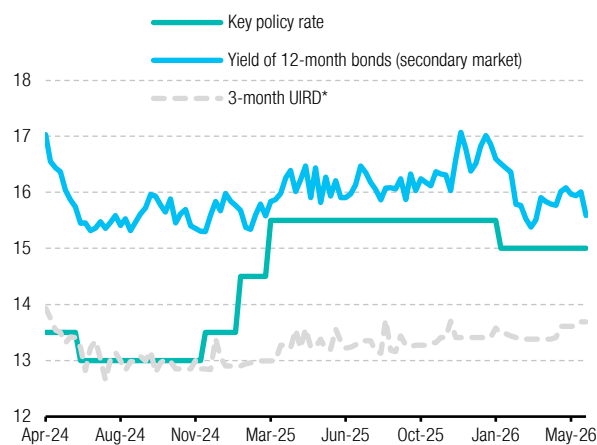
In April, the central bank revised its end-2026 CPI forecast to 9.4%, up from 7.5% previously. Against this backdrop, the decision to keep the key policy rate unchanged at 15.0% was fully expected. The NBU remains wary of heightened inflation risks and signaled the rate is unlikely to go down any time before 2027. Hawkish rhetoric also implies a rate hike is becoming a real possibility should the inflation outlook worsen even further. At this point, we think chances for an upward rate revision this year are still below 50%. Annual inflation likely stayed flat or marginally decelerated in May vs April, and the prospects for a relatively good agricultural harvest this season imply no need for the NBU to rush. A wait-and-see approach seems to be reasonable given the current balance of risks. The current monetary policy stance, with an ex-ante real rate of about 5%, is sufficiently tight to counter a temporary acceleration in consumer prices. Yet, should the Middle East conflict extend into 2H26 with oil prices spiking back to above \$100/b for months, this will warrant a major reassessment of inflationary risks and the central bank monetary policy stance.

Chart 3. CPI, core CPI and inflation target, YoY, %



Source: UkrStat, NBU, ICU.

Chart 4. NBU key policy rate and commercial rates, %



* Ukrainian index of retail deposit rates

Source: NBU, ICU.

Rates on local government debt to stay steady

Until mid-March, the MinFin made several bold moves to lower its domestic borrowing costs by slashing rates on hryvnia T-bills at primary auctions by 120-165bp (depending on maturity). The yield on the 12-month paper most recently offered at the primary auction was 15.15%, just above the NBU overnight rate of 15.0%. With the overnight rate unlikely to go down over the next 3-4 quarters, the banks are now likely indifferent between using the NBU overnight CDs or buying government bonds (but CDs offer a huge advantage of liquidity). Yet, non-financial companies and individuals that don't have the luxury of access to an overnight facility, find the rates super attractive and keep increasing their investments. YTD, individuals and non-financial businesses were the largest buyers of T-bills while banks reduced their holdings of local government debt. We expect the MinFin will keep rates broadly flat in 2H, as it is fully comfortable with the current rate of borrowings, and it will aim to maintain the rollover for hryvnia debt at close to 100%.

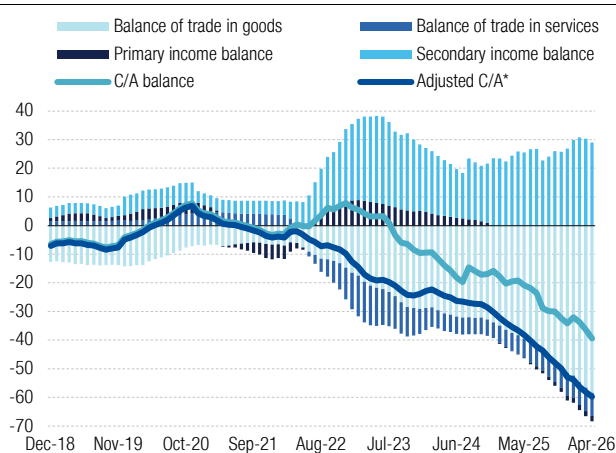
Ample foreign trade deficit remains a key risk

Ukraine's current account (C/A) deficit reached US\$14.4bn 4M26 (vs US\$9.3bn in 4M25) as the foreign trade gap remains ample. The trade-in-goods deficit at US\$20.8bn in 4M26 far exceeds last year's numbers as import surged 29% while export was only up by 4%. Key import drivers include machinery and equipment (partly military and dual use goods) and, recently, fuels that surged due to high global energy prices. Meanwhile, the deficit of trade in services is little changed from 4M25 with the gap largely shaped by expenditures of Ukrainian refugees abroad that are classified as import of tourism. Migrant incomes (a component of

the primary income) continues to decline and was down by a fifth in yearly terms. The secondary income surplus is helped by the inflows of the ERA that are classified as a grant.

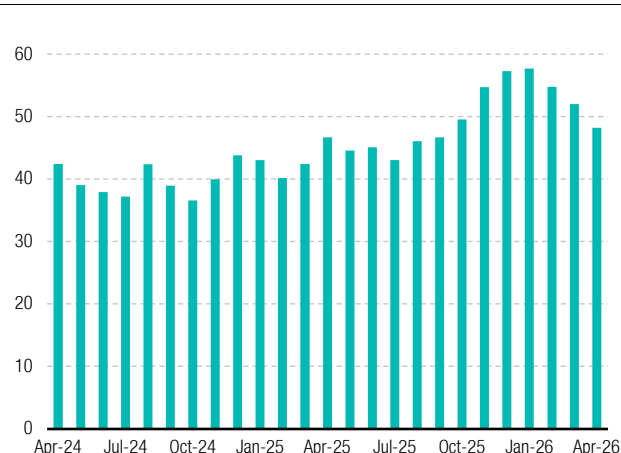
We continue to view the growing foreign trade and C/A deficits as a huge macro risk in the medium term. Excluding grants, the C/A gap is going to reach nearly a quarter of GDP in 2026 with trade shortfall hitting a third of GDP. While the IMF program assumes the C/A deficit (before grants) will halve by 2028 (albeit from 19% of GDP as per IMF forecast), we think this is highly unlikely. The official trade statistics includes only a fraction of the military equipment imported to Ukraine and the end to the war will not bring much relief to the C/A position. The substantial reconstruction needs will keep the C/A gap not too far from the current levels. Huge imbalances warrant a more active exchange rate adjustment, but that is still not happening at a sufficient pace.

Chart 5. Current account, 12-month trailing, US\$bn



* net of official transfers to the government
Source: NBU, ICU.

Chart 6. NBU gross international reserves, US\$bn



Source: NBU, ICU.

The financial account balance remains in a relatively good shape due to extensive capital controls imposed by the NBU. It was positive in 4M26, even though the inflows of concessional loans to the government were symbolic at less than US\$0.7bn. The reduction in trade credits remains the major source of FX inflows via the financial account. The outflow of FX cash out of the banking system, the largest channel for capital outflows, was down by a fifth YoY. We expect much of the same pattern through end-2026. The discouraging news here is that any significant softening of capital controls is very unlikely. The NBU has fully switched into a waiting mode, is only fine-tuning the existing restrictions, and doesn't seem to have any plans for significant relaxation of capital controls.

External funding set to be slashed substantially from 2028

Ukraine managed to secure substantial external funding for the period of the IMF program, with the Ukraine Support Loan (USL) of EUR90bn from the EU being by far the most significant component of the aid package. The funding is frontloaded as the IMF program assumes a significant decline in funding needs beyond 2027. By our estimates, the approved schedule implies Ukraine's needs (to finance the fiscal deficit and offset the external imbalances) should be fully covered in 2026 and mostly covered in 2027. We have little doubt Ukraine will manage to adopt the critical reforms required by the IMF and the EU – the stakes are high enough for the authorities.

Table 1. Foreign financial aid (direct budget support) to Ukraine in 2026-29, US\$bn

	2026	2027	2028	2029
EU	26.8	37.9	20.7	15.7
Bilateral, WB	10.1	1.8	0	0
ERA	10.6	1.3	0	0
IMF	3.8	1.8	0.9	1.6
Total	51.3	42.8	21.6	17.3

Source: IMF, ICU.

With this in mind, we expect inflows of concessional loans and grants will resume quickly following a very relaxed pace YTD – inflows stood at below US\$9bn for 5M26. The NBU reserves are thus set to recover and stay in the range of US\$50-60 throughout 2026 and 2027. Yet, Ukraine is likely to see a cliff effect in terms of external funding beyond 2027.

Managed hryvnia weakening continues, but at an insufficient pace

The NBU's determination to pursue a gradual adjustment of the hryvnia rate seems to have strengthened. The key NBU concern is likely the continued growth of external imbalances propelling wider FX market deficit. In 5M26, the NBU spent US\$18.1bn on FX interventions, up from US\$14.3bn in 5M25. The full-year increment in interventions may reach US\$6-7bn over 2025, implying the NBU will need to spend US\$42-43bn over 2026 to keep the FX market under the control. Despite such significant imbalances, the US dollar crawled up by a mere 4.4% vs the hryvnia in 5M26 while the euro rate was up by 3.2%. The real nominal effective exchange rate of the hryvnia was down by just 7.8% and REER by 4.8% over 12 months to April. That said, we don't think the NBU is prepared for a much more meaningful depreciation pace and will only chose to weaken the hryvnia substantially when the inflows of foreign aid subside substantially in 2028. Yet, given the pattern of the FX market YTD, we downgrade our end-2026 exchange rate projection to UAH45.8/US\$ from a previous projection of UAH45.0/US\$.

MinFin in a comfortable position following approval of the EU loan

The budgetary needs for 2026 are fully covered following the approval of the Ukraine Support Loan from the EU. The reform agenda linked to the facility is very ambitious, but Ukraine is not in a position to walk away from it. The authorities are unlikely to take a proactive reform stance, but a muddle-through scenario is fully realistic. The recently proposed amendments to the state budget are mostly technical – the government plans to include the EU funds into the revenue and expenditure components of the 2026 fiscal plan. Of the EUR45bn USL facility, EUR16.7bn will be channeled to the budget as cash revenues that will technically reduce the fiscal gap to around 12.3% of GDP. Before grants, the fiscal deficit is going to be close to 21% of GDP, still below 24.5% in 2025. But a larger amount of the USL – EUR28.3bn will be spent on the purchase of weaponry, with a fraction of that likely earmarked for contracts with Ukrainian producers. The EUR28.7bn part of the USL is going to be included into the budget as revenues and expenditures with a neutral impact on the fiscal balance.

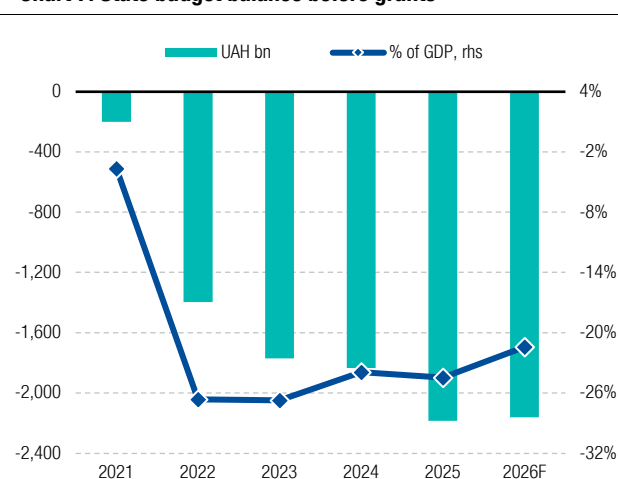
The draft amendments to the budget imply that Ukraine maintains its plans to reach a domestic debt rollover rate of below 100%. In 5m26, net borrowings were immaterial at just UAH13bn, with banks reducing their portfolios. Net borrowings are now driven by the demand from individual investors and non-financial legal entities. Yet, the domestic market still offers considerable potential for the government should a temporary liquidity shortage emerge.

Table 2. Key parameters of state budget, UAH bn

	2025	2026 current	2026 revision
Total revenues	3,841	2,905	5,196
Total revenues, ex EU funding of weaponry	3,286	2,905	3,799
Total revenues, ex EU weaponry, ex grants	2,731	2,943	2,889
incl. tax revenues	2,016	2,487	2,510
Expenditures	5,480	4,767	6,407
Expenditures, ex weaponry from EU	4,926	4,767	5,010
Budget balance (before grants)	-2,194	-1,940	-2,161
Total revenues / GDP	43.0%	28.8%	51.4%
incl. tax revenues / GDP	22.6%	24.6%	24.8%
Expenditures / GDP	61.4%	47.2%	63.4%
Budget balance / GDP	-24.6%	-19.2%	-21.4%
Total revenues / expenditures (ex EU expenditures on weaponry)	55.5%	61.7%	57.7%
Tax revenues / expenditures (ex EU expenditures on weaponry)	40.9%	52.2%	50.1%

Source: MFU, ICU.

Chart 7. State budget balance before grants



Source: MFU, ICU.

Yearly forecast 2026

	Historical data for 2015–2025											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026F
Activity												
Real GDP (% YoY)	(9.8)	2.4	2.5	3.4	3.2	(4.0)	3.4	(29.1)	5.5	3.2	1.8	0.8
Nominal GDP (UAHbn)	1,989	2,385	2,984	3,561	3,978	4,194	5,460	5,191	6,628	7,662	8,931	10,101
Nominal GDP (US\$bn)	90	93	112	131	155	155	200	161	181	191	214	229
Unemployment (%)	9.1	9.3	9.5	8.8	8.2	9.5	9.8	28.0	18.2	13.1	11.3	10.0
Inflation												
Headline inflation (% YoY, e.o.p.)	43.3	12.4	13.7	9.8	4.1	5.0	10.0	26.6	5.1	12.0	8.0	9.4
Headline inflation (% YoY, avg.)	48.7	13.9	14.4	10.9	7.9	2.7	9.4	20.2	12.9	6.5	12.7	8.4
GDP deflator (% YoY)	38.9	17.1	22.1	15.4	8.3	9.8	25.1	34.3	19.9	12.0	14.5	12.2
Exchange rates												
UAH/USD (e.o.p.)	24.0	27.3	28.1	27.7	23.8	28.3	27.3	36.6	38.0	42.0	42.4	45.8
UAH/USD (avg.)	21.9	25.6	26.6	27.2	25.8	27.0	27.3	32.3	36.6	40.2	41.7	44.2
External balance												
Current account balance (US\$bn)	5.0	(1.9)	(3.5)	(6.4)	(4.1)	(3.9)	7.3	(9.3)	(9.6)	(16.9)	(34.2)	(41.2)
Current account balance (% of GDP)	5.6	(2.0)	(3.1)	(4.9)	(2.7)	(1.1)	4.5	(5.2)	(5.3)	(8.9)	(16.0)	(18.0)
Trade balance (US\$bn)	(2.4)	(6.5)	(8.7)	(11.4)	(12.5)	(2.7)	(26.4)	(37.7)	(37.9)	(40.5)	(59.2)	(67.4)
Trade balance (% of GDP)	(2.6)	(6.9)	(7.8)	(8.7)	(8.1)	(1.3)	(16.3)	(20.8)	(20.9)	(21.2)	(27.7)	(29.5)
Capital flows (F/A) (US\$bn)	(4.6)	3.1	6.0	9.3	10.1	3.4	(10.4)	18.6	18.9	11.8	46.8	43.6
FDI (US\$bn)	(0.4)	3.8	3.7	4.5	5.2	7.5	0.2	4.6	4.6	4.0	2.4	2.2
FDI (% of GDP)	(0.5)	4.1	3.3	3.4	3.4	3.8	0.1	2.5	2.5	2.1	1.1	1.0
NBU reserves (US\$bn)	13.3	15.5	18.8	20.8	25.3	30.9	28.5	40.5	40.5	43.8	57.3	59.7
Interest rates												
NBU's key policy rate (% e.o.p.)	22.0	14.0	14.5	18.0	13.5	6.0	9.0	25.0	15.0	13.5	15.5	15.0
Fiscal balance												
Budget balance (% of GDP)	(2.3)	(2.9)	(1.5)	(2.4)	(2.1)	(5.1)	(3.7)	(26.6)*	(26.7)*	(23.9)*	(24.5)*	(21.2)*
Public debt (% of GDP)	79.0	80.9	71.8	60.9	50.6	60.8	49.7	78.5	83.3	91.1	101.2	106.6

* budget balance before official budgetary grants

Source: UkrStat, NBU, MFU, ICU.




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