

UKRAINE

Economic disruptions and labor shortages related to the ongoing war are set to deepen. Growth projections have been revised down to 2 percent for 2025 and 2026. Inequality continues to rise due to uneven changes in labor income. Rising fiscal and external imbalances will require additional external financing and policy adjustments. Ukraine's pathway to EU membership remains a key anchor for reforms, with preparations underway to open the first negotiation chapters.

Key conditions and challenges

The past year has marked an inflection point for macroeconomic management. Early in 2025, authorities had worked under the assumption that a ceasefire would be in place by year-end. With fighting now likely to persist, external and fiscal needs are mounting and growth prospects are likely to remain depressed due to the war. Meeting these needs will require continued donor support, domestic policy adjustments, and a new IMF program, which the government formally requested in September.

The inflection occurs amid intensifying structural challenges. Labor shortages are the most binding production constraint. Inflation remains high, keeping monetary policy tight and private sector borrowing costs elevated. Public debt has reached record levels, crowding out private lending. Undertaking needed complex structural reforms during the war remains challenging, and civilian capital spending remains limited by Ukraine's resource envelope.

Ukraine's pursuit of EU membership has become a critical path for progress, even amid ongoing adversity. EU-supported programs provide vital financing and a strong reform anchor, helping to keep

Population million	Poverty
..	..
Life expectancy at birth ¹ years	School enrollment ² primary (% gross)
73.4	92.8
GDP ³ current US\$, billion	GDP per capita current US\$
190.8	..

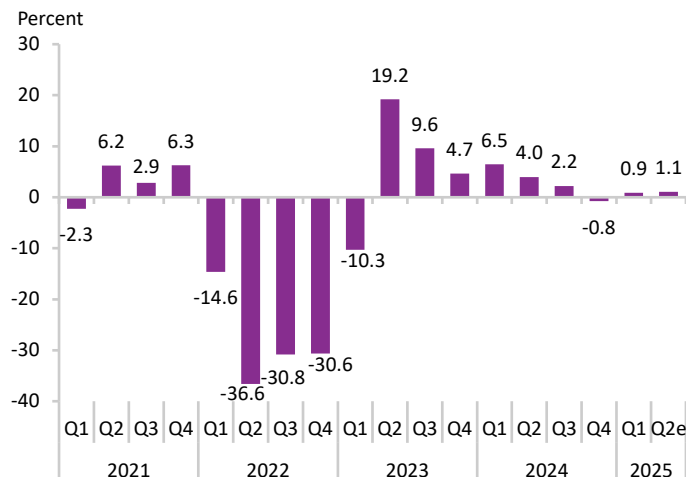
Sources: WDI, MFM, and official data. 1/ 2023. 2/ 2022. 3/ 2024.

the country's transformation on track. By September 2025, Ukraine had completed the screening of five out of six negotiation clusters and was preparing to launch negotiations, starting with its first chapter—a clear sign of steady, tangible progress toward accession.

Recent developments

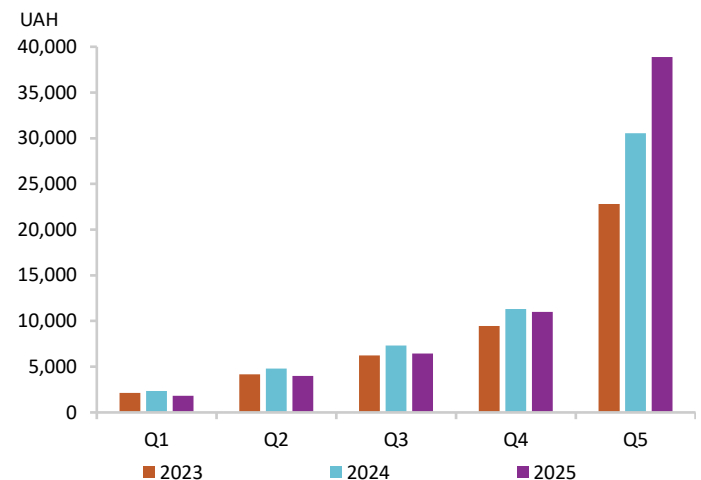
After growing by 2.9 percent in 2024, GDP expanded by a mere 0.9 percent year-on-year in the first quarter of 2025, and an estimated 1.1 percent in the second. Beyond structural constraints, direct impacts of the war dampened economic activity, including through intensified attacks, which damaged production capacities, particularly in coal and gas extraction and chemical production. Adverse weather disrupted early harvests and slowed the food processing and transport sectors; however, better late-crop yields in the second half of the year will improve the annual result. High-frequency data suggests a modest recovery began in the second half of the year, supported by the restoration of gas extraction facilities and increasing public sector demand for domestically-produced military goods. Rising real wages supported consumer demand overall, but rising inequality means that 20 percent of Ukrainians continue to perceive economic difficulties as a top challenge.

FIGURE 1 / Quarterly GDP growth, year-over-year



Sources: State Statistics Service and World Bank staff calculations.

FIGURE 2 / Real household income per adult equivalent in Ukrainian Hryvnia (UAH)



Source: 2023/24/25 L2UKR.

Note: Q1 refers to the poorest 20 percent of the income distribution and Q5 to the upper 20 percent.

Efforts to raise additional revenues, including an increase in the military tax rate on personal income at the end of 2024, boosted tax collections throughout 2025. By end-July, tax revenues were up 23 percent year-on-year, matched by expenditure growth, while a 40 percent rise in non-tax revenues suggests a moderately smaller fiscal deficit. External assistance has been disbursed reliably and is expected to fully cover financing needs and some frontloaded financing.

The current account deficit widened by over 50 percent year-on-year in the first half of 2025, reaching US\$19.1 billion, driven largely by a surge in trade deficit of US\$26 billion as imports of gas and military equipment rose. Suspension of EU trade preferences in June, reinstating pre-war tariffs and quotas for most goods, has started to weigh on exports. Official financing inflows cushioned the impact on reserves, which stood at US\$46.0 billion on September 1, equivalent to five months of imports.

Inflation accelerated in early 2025, peaking at 15.9 percent in May before easing to 14.1 percent, driven by food and labor costs. Households' cost-of-living concerns are persistent, with one third of households expecting a price spike in the next 30 days. The NBU kept monetary policy tight, raising the key policy rate to 15.5 percent in March and maintaining it steady since.

Economic changes have affected households unevenly, widening inequality, with poverty estimated to rise due to concentrated income losses among poorer households and in eastern regions. The Gini coefficient increased from 0.25 in 2021 to 0.42 in 2023 and 0.44 in 2024. Despite labor shortages, inefficiencies persist—causing job losses and barriers to labor-market activation

for vulnerable groups, with 13.9 percent of Ukrainians reporting job loss, mainly among the poor.

Outlook

Ukraine's economic outlook hinges on the duration of hostilities, and the country's ability to maintain macroeconomic stability and secure sufficient donor support. The baseline scenario assumes that the war continues through 2026, with Ukraine implementing reforms for EU accession and securing adequate fiscal financing under a new IMF program. This would allow continued high levels of military expenditures in 2026 while containing inflation and supporting private sector development. Growth is estimated at 2 percent in 2025 and expected to stay at this level in 2026, with defense-related spending sustaining manufacturing. If hostilities subside in 2027 and reconstruction begins, growth could accelerate to 5 percent. Risks to this outlook are high, as a failure to mobilize fiscal resources or address labor shortages could trigger a contraction in 2026. Rising reliance on government transfers among poorer households—86 percent of bottom-quintile households relied on pensions or social assistance in 2025—and a growing share of vulnerable groups pose social sustainability risks.

Inflationary pressures are expected to ease slightly under a tight monetary policy but will remain above the central bank's 5 percent target well into 2027, due to labor shortages and post-war consumption. A high trade deficit will persist, reflecting high defense expenditure needs and eventual reconstruction imports, keeping the current account in deficit.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	-28.8	5.5	2.9	2.0	2.0	5.0
Private consumption	-27.9	4.3	6.8	3.5	2.5	4.5
Government consumption	31.4	9.0	-4.3	0.4	3.1	-8.3
Gross fixed capital investment	-33.9	65.9	3.5	11.8	10.3	23.9
Exports, goods and services	-42.0	-5.9	10.3	5.0	5.0	7.0
Imports, goods and services	-17.4	8.9	7.7	8.9	8.0	8.5
Real GDP growth, at constant factor prices	-28.8	5.5	2.9	2.0	1.9	5.1
Agriculture	-25.2	11.1	-7.3	3.0	4.0	5.0
Industry	-42.7	32.8	3.9	2.5	2.0	8.0
Services	-24.7	-2.5	4.7	1.6	1.5	4.2
Employment rate (% of working-age population, 15 years+)	49.1	44.7	45.3	46.3	47.3	47.7
Inflation (consumer price index)	20.2	12.9	6.5	12.8	7.6	5.5
Current account balance (% of GDP)	5.1	-5.3	-7.2	-16.1	-13.0	-8.6
Net foreign direct investment inflow (% of GDP)	0.1	-2.6	-2.0	-1.0	-1.5	-3.9
Fiscal balance (% of GDP)¹	-15.6	-19.3	-17.2	-21.1	-18.0	-12.1
Revenues (% of GDP)	49.8	54.1	54.1	41.3	41.4	40.8
Debt (% of GDP)	77.8	78.3	87.4	108.6	111.4	106.2
Primary balance (% of GDP)¹	-12.5	-15.5	-13.2	-16.2	-14.2	-8.6
GHG emissions growth (mtCO2e)	-27.8	0.5	-3.0	-5.4	-1.6	-0.7

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

^{1/} Fiscal Balance and Primary Balance are excluding grants in 2022-2026.