Macro Dev

Macroeconomics & Development
JUNE 2026 I N° 77

Ukraine: Macroeconomics of War

Author
Christophe Barat

ÉDITIONS AFD AGENCE FRANÇAISE DE DÉVELOPPEMENT

Ukraine – Macroeconomics of war

Christophe Barat – baratc@afd.fr

Completion date of drafting: 18/05/2026

Abstract: The economic transition policies that followed the dismantling of the USSR led, due to a lack of gradualism, to a deep deterioration in Ukraine's institutional balances, which weighed heavily, and continues to weigh, on the country's economic performance over the three decades following independence. The country has experienced almost as many years of recession, sometimes severe, as of growth, which was modest except during the 2000s. Since the Maidan Revolution, the country's institutional renewal has been hit by Russian aggression, with very deep recessions in 2014, 2015 and especially 2022, despite the economy's remarkable resilience. As a result, per capita income in 2024 was 30% lower than in 1990, in constant dollars and at purchasing power parity.

The full-scale invasion led the country to develop a war economy involving a sharp increase in public expenditure, which accounted for 70% of GDP over the last four years, 2022-2025, two-thirds of which was allocated to the "defense, public order, security" triptych. Despite significant efforts to mobilize domestic resources, the financing need is of such magnitude that it requires considerable financial and military support from the international community. In this context, the framework of the IMF program, renewed in February 2026 for a period of 4 years, plays a decisive role as a catalyst for external partners. Public external financing represents considerable volumes, ranging from 20 to 25% of GDP per year between 2022 and 2026. Despite the emergence of financing mechanisms aimed at linking debt repayments to the implementation of Russian reparations for war damages, the sustainability of Ukrainian debt is under very strong pressure, potentially constituting a real financial constraint with a view to post-war reconstruction.

Starting from a very deteriorated governance situation according to international indicators, Ukraine embarked, after the Maidan Revolution, on a lasting reform process that was strengthened by the support of the international community as part of the response to the full-scale invasion. The prospect of accession to the European Union and the commitments made alongside financial support — the European Union's Ukraine Facility, International Monetary Fund programs, and World Bank financing — are decisive vectors of institutional transformation despite the context of war. These processes are not linear, and the war may, at times, affect performance in the implementation of reforms. In this regard, pressure from civil society is an essential element of the reform dynamic needed to continue the process of convergence towards the European acquis and international standards, given the still significant scope for catching up.

Theme: Macroeconomics
Geography: Ukraine

1. An "impeded" economy with disappointing long-term performance.

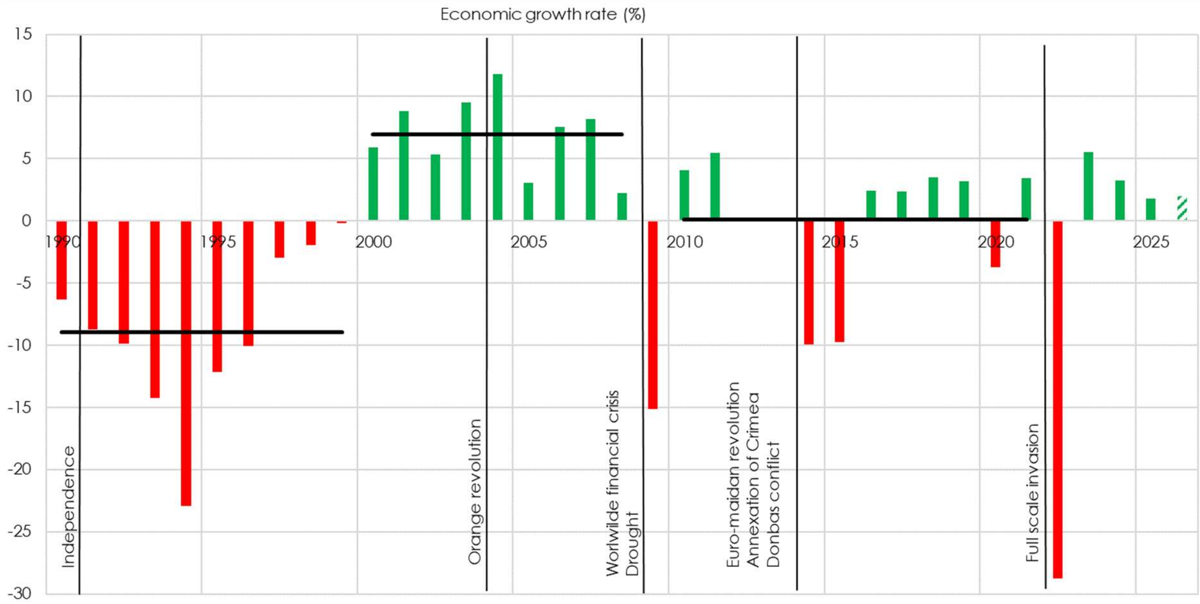
Ukraine's post-independence economic growth trajectory has historically been chaotic, marked by relations of subjection to, or conflict with, Russia and strongly linked to international shocks. The few periods of positive growth were wiped out by brutal recessions, such that, ultimately, per capita income before the full-scale invasion in February 2022 remained significantly lower than the level observed at the time of independence.

The Maidan Revolution in 2014 nevertheless marked a major shift in the economic model, with improved governance and the emergence of new digital-related activities. In this regard, the path toward accession to the European Union constitutes a decisive vector for strengthening governance.

The intensification of the war has severely affected the economy, which has nevertheless demonstrated its resilience by maintaining positive growth rates since 2023, in the context of a war economy. The availability of human resources and the destruction of infrastructure, particularly energy infrastructure, constitute major constraints, both for the continuation of the conflict and with a view to reconstruction.

Over the long term, a highly deteriorated growth trajectory.

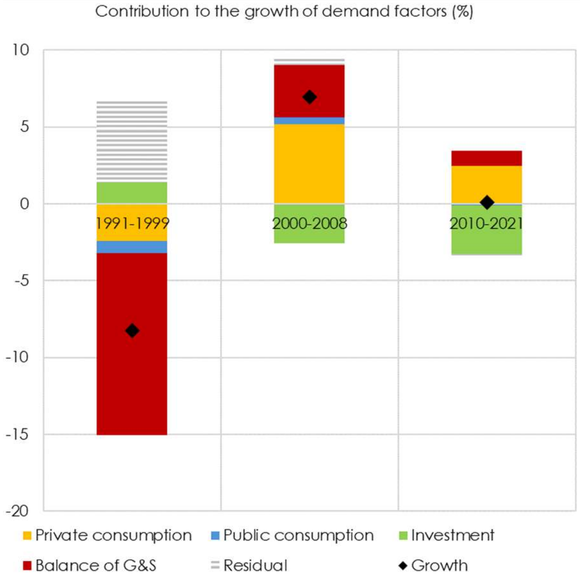
Figure 1 - Since independence, almost as many years of recession as of growth



Source: IMF, calculations AFD.

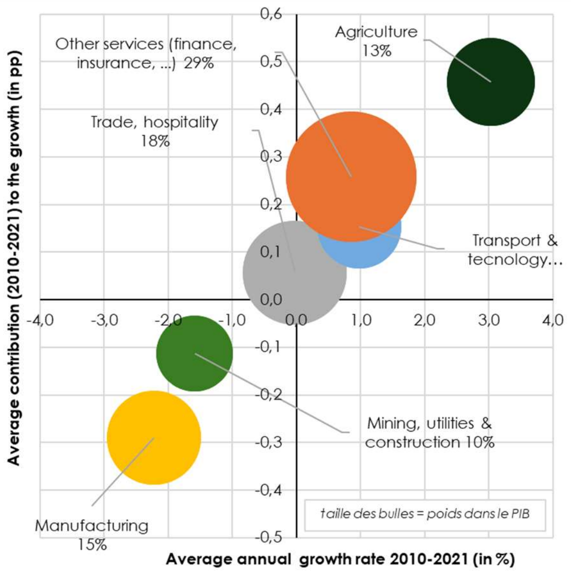
Since independence in 1991, the Ukrainian economy has experienced almost as many years of recession (14) as years of growth (18). The transition to a market economy that followed the dismantling of the planned economy proved particularly painful, with an entire decade of recessions (cumulative recession of -60%) and deleterious effects on the country's institutional arrangements. Despite the low quality of the statistics (see the high level of the "residual" component in growth between 1991 and 1999), the drivers of the recession were primarily a collapse in foreign trade and a sharp decline in private consumption, while investment remained the only component showing positive momentum.

Figure 2 - A structural weakness in investment over the long term



Source: WB, calculations AFD.

Figure 3 - An industrial sector in crisis, even before the expansion of the war



Source: UNCTAD, calculations AFD.

The 2000s were a decade of recovery (7% average annual growth between 2000 and 2008), but the global financial crisis had a very negative impact on the Ukrainian economy, with a recession of 15% in 2009. Once the financial crisis had passed, unlike in most other countries of the former Soviet bloc, the Ukrainian economy failed to return to a dynamic growth trajectory during the 2010s.

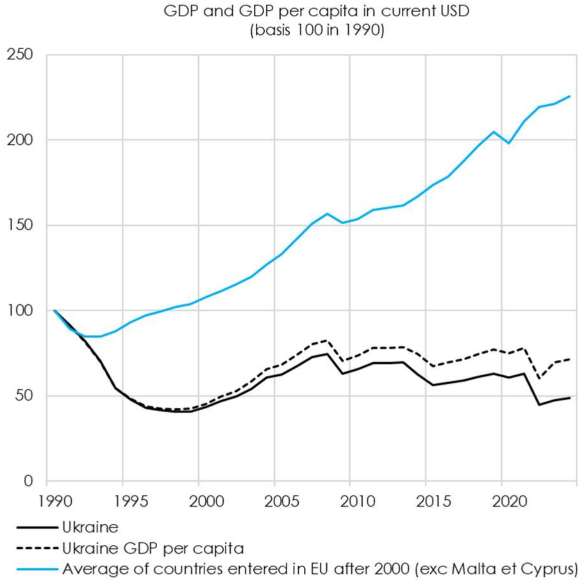
The war with Russia contributed significantly to this disappointing performance. After the Maidan Revolution, the country thus experienced two years of recession (2014 and 2015), the scale of which should nevertheless be put into perspective due to a “scope” effect, as part of the territory (Crimea and conflict zones in Donbas) was excluded from economic statistics. From 2016 onward, Ukrainian growth returned to positive momentum (+3% per year between 2016 and 2021 excluding the COVID year), which appeared to be sustainable and based on structural and institutional reforms enabling the country to open up its market and limit the abrupt reversal effects that had previously characterized its economy.

Over the 2010s as a whole, domestic consumption (69% of GDP) was the main driver of growth, while investment (14% of GDP), by contrast, was rather in a phase of decline. Public consumption (14.5% of GDP) accounts for a significant share of GDP, but its momentum is sluggish. Finally, the near balance in goods and services (-1.5% of GDP) was the corollary of the lack of investment.

The positive contribution of foreign trade to growth was driven by agricultural exports and the emergence of new services. The agricultural sector (13% of GDP) was the main contributor to growth on the supply side. Conversely, industrial sectors, whether manufacturing (15% of GDP) or extractive industries (nearly 10% of GDP), remained broadly in decline, notably in connection with the conflict situation in the eastern part of the country. The services sector, which accounts for 60% of GDP, constitutes an important vector of growth, especially over the 2016-2021 period (+2% per year), with a genuine momentum in digital innovations in particular (IT services, digital applications, etc.), foreshadowing the essential developments that took place in the drone industry with the intensification of the war.

Ukraine's poor long-term economic performance weighs on its relative position[1] in terms of socioeconomic conditions.

Figure 4 - The long-term growth decoupling



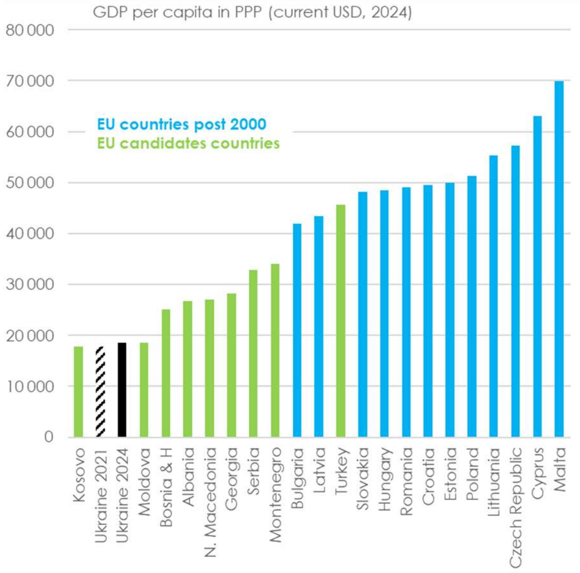
Source: WB, calculations AFD.

The years following the dismantling of the Soviet Union were particularly difficult for Ukraine. Not only was the economic adjustment very severe, with GDP reduced by nearly 60% in constant USD, compared with "only" 15% on average for the countries of the former Soviet bloc that joined the European Union, but this adjustment also lasted much longer, as Ukraine's low point was reached only in 1999 (9 years of crisis), whereas the rebound in the countries of the former Soviet bloc that joined the European Union began as early as 1994 (3 years of crisis). Subsequently, Ukraine's growth trajectory was halted in 2009 following the global financial crisis, while it continued for the other countries. Not only did the financial crisis have a massive impact in Ukraine, with a 15% recession in 2009, but conflictual relations with Russia also prevented Ukraine from returning to its growth path, until the full-scale invasion, which resulted in a further 30% recession. This led to a massive and growing divergence from the trajectory of the countries of the Soviet bloc that joined the European Union.

Subject to all reservations regarding the actual comparability of the two periods, particularly given the evolution of the "Ukraine perimeter" (with/without Crimea; with/without occupied oblasts), GDP in constant USD in 2024 represents barely half of what it was in 1990. Over the same period, average GDP in Europe and Central Asia excluding high-income countries was multiplied by almost 3; in Poland, it was multiplied by 3.5. The decline in GDP per capita was "only" 25% over the same period, given the decline in the population (52 million in 1990; 33 million in 2024).

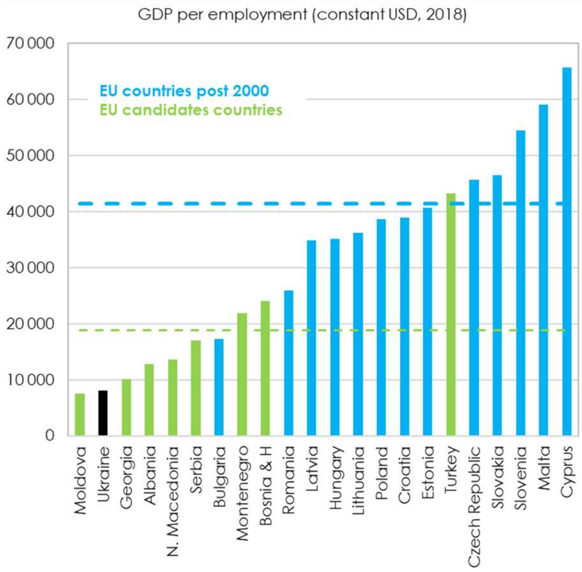
[1] Comparator countries: For the purposes of this analysis, the choice was made to compare Ukraine with the countries that joined the European Union during the latest waves of accession and the countries that are official candidates for European Union membership: Albania (candidate); Bulgaria (2007); Bosnia and Herzegovina (candidate); Cyprus (2004); Croatia (2013); Estonia (2004); Georgia (candidate); Hungary (2004); Kosovo (candidate); Latvia (2004); Lithuania (2004); North Macedonia (candidate); Malta (2004); Moldova (candidate); Montenegro (candidate); Poland (2004); Czech Republic (2004); Romania (2007); Serbia (candidate); Slovakia (2004); Turkey (candidate).

Figure 5 - A level of wealth lagging behind comparator countries…



Source: WB.

Figure 6 - … consistent with very low labor productivity.



Source: WB.

Expressed in purchasing power parity, Ukraine's per capita income is the lowest among all comparator countries. While it is at a level equivalent to that of Moldova or Kosovo, it represents less than 40% of the bloc of countries that joined the European Union (Slovakia, Hungary, Croatia, Romania, Estonia, Poland, Lithuania, and the Czech Republic).

This gap is also reflected in labor productivity, which is comparatively very low relative to that of the other candidate countries, with the exception of Moldova, and especially relative to countries that have recently joined the European Union. The productivity differential exists across all sectors of activity, but is particularly significant in the industrial sector.

Table 1 - Sociodemographic indicators for Ukraine and peer countries

	HDI 2023	Poverty at USD6,85	Poverty at national rate	Inequality (GINI)	Unenployment rate total	female	young
Ukraine	0,779	11,3$_{2020}$	23,2$_{2020}$	25,6$_{2020}$	9,8$_{2021}$	10,2$_{2021}$	19,1$_{2021}$
Bulgaria	0,845	4,4	21,7	39,5	4,1	4,0	12,3
Poland	0,906	1,1	13,3	28,5	2,5	2,6	10,7
Romania	0,845	5,1	19,0	29,8	5,4	4,9	23,9
EU post 2000	*0,893*	*2,3*	*18,6*	*30,4*	*4,9*	*4,9*	*14,5*
Albania	0,810	19,9$_{2020}$	19,7$_{2020}$	29,4$_{2020}$	10,3	10,5	25,4
Moldova	0,785	20,4	31,6	26,8	1,4	1,2	4,6
Serbia	0,833	10,3$_{2022}$	19,7	32,8	7,4	7,9	21,4

Source: WB, UNPD.

Ukraine's relative position is slightly less deteriorated in terms of socioeconomic indicators. With a 2023 HDI (latest year available) of 0.779, Ukraine falls into the category of countries with "high human development" and ranks 87th (out of 193 countries), at the same level as Moldova (86th). All the other comparator countries are classified in the "very high human development" category, the last on the list among European Union countries being Romania (55th).

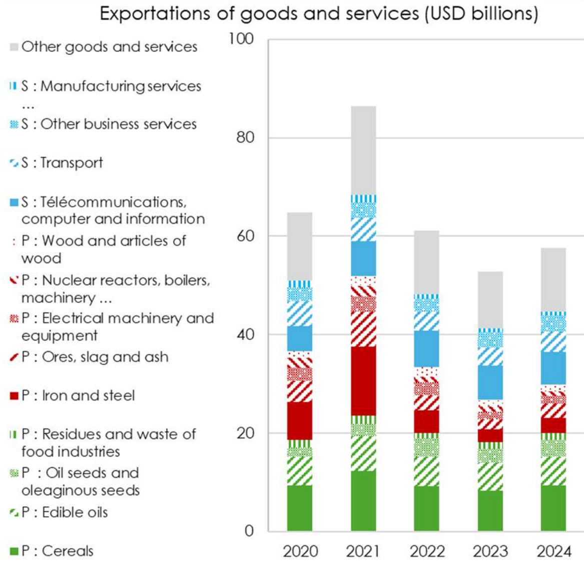
Russian aggression has led to an undeniable deterioration in living conditions nationwide. The latest "Rapid Damage and Needs Assessment" (RDNA5), covering the period from February 2022 to December 2025, estimates direct damage at USD 195 billion (90% of 2025 GDP) and reconstruction and recovery needs at USD 588 billion over 10 years. Even though the metrics are subject to debate among the stakeholders involved in the assessment[2], the scale of the needs is considerable.

The United Nations also estimates that the war has wiped out the development gains achieved after the Maidan Revolution. The poverty rate at the national threshold rose from 20% in 2021 to 37% in 2025. Ukraine has more than 3 million internally displaced persons who are struggling to integrate economically into their new places of residence. The integration of demobilized personnel and wounded soldiers is also a burning issue, and pensioners (more than 10 million people) have also seen their purchasing power decline in an inflationary context.

After the shock of the full-scale invasion, the return of economic growth driven by the war effort.

The trajectory of foreign trade.

Figure 7 - Exports of goods and services heavily constrained by the conflict



Source: ITC, calculations AFD.

The Russian aggression of February 2022 was brutal, and Russian troops advanced to within a few dozen kilometers of Kyiv. At the height of the conflict, economic activity was severely disrupted but did not collapse. Banks continued to provide financial services; logistics and transport services adapted; public services and businesses continued to operate. Ultimately, 2022 ended with a recession slightly below 30%. Traditional industries were the most affected, given their location in the eastern part of the country.

Distribution channels were particularly disrupted, leading to a 29% decline in exports of goods and services between 2021 and 2022 (from USD 86.5 billion to USD 61.1 billion). Exports of steel products, the leading export item in 2021 at USD 14 billion, collapsed to USD 4.6 billion (-67%) in 2022, while ore exports (USD 7.1 billion in 2021) also fell by more than half (USD 3.1

[2] Le RND4, couvrant la période de février 2022 à décembre 2024, a fait l'objet de discussions entre les différentes parties prenantes, notamment entre « institutionnels » et « académiques », sur les métriques utilisées pour évaluer les dommages et besoins de reconstruction.

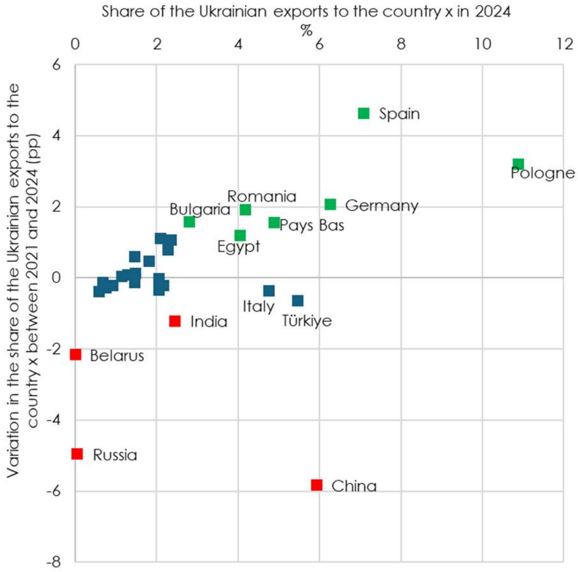
billion). Exports of agricultural products were also affected, particularly cereals (-26%) and edible oils (-15%), but the decline was partially offset by strong growth (+55%) in exports of oilseeds and oleaginous fruits. The temporary blockage of distribution channels contributed to the significant rise in international food commodity prices observed in 2022.

Within the general downward trend, one services item — telecommunications, computer and information services — was on an upward trajectory, rising from USD 7.1 billion to USD 7.5 billion and becoming the country's second-largest export item.

The decline in exports observed in 2022 continued in 2023, though to a lesser extent (-14%), particularly for "iron and steel" (-42%), "ores" (-39%), and "electrical machinery and equipment" (-35%). The export trajectory reversed in 2024, with a 9% increase (to USD 57.6 billion), but the level of exports in 2024 still represented only two-thirds of the 2021 level.

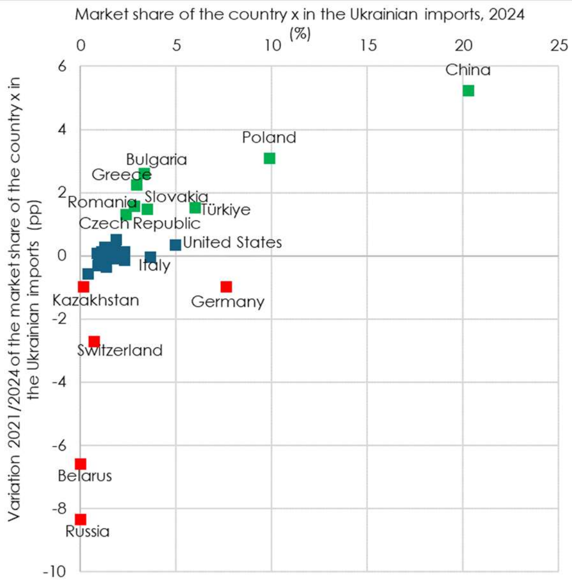
The conflict changed the hierarchy of Ukraine's trading partners. Ukrainian exports in 2024 (USD 40 billion) represented only 60% of exports in 2021. The collapse in exports of steel products and ores led to a decline in the shares of China (-6 pp) and India (-1.7 pp). The share of exports to Russia and Belarus, which still accounted for 7% of exports in 2021, fell to 0%. Conversely, the share of exports to the European Union rose from 38% in 2021 to 52% in 2024, with Poland, Spain, and Germany as the main destination countries. Cereal exports also found a growing outlet in Egypt.

Figure 8 - The European market is key for Ukraine's exports



Source: ITC, calculations AFD.

Figure 9 - The growing weight of China in imports (non-military)



Source: ITC, calculations AFD.

The value of imports in 2024[3] returned to its 2021 level (USD 70 billion). While imports from Russia and Belarus, which still accounted for 15% of imports in 2021, fell to 0%, China, by contrast, strengthened its position as the leading exporter to Ukraine, with its market share increasing from 15% to 20%. The share originating from the European Union also increased, rising from 37% in 2021 to nearly 50% in 2024, with the main beneficiary countries being those located in the East (Poland, Bulgaria, Greece, Slovakia, Romania).

The limited rebound in growth.

The year 2023 saw a rebound in growth to 5.5%, with a catch-up effect following the 2022 recession and the establishment of alternative distribution channels, followed by the restoration, at the end of 2023, of maritime transport in the Black Sea. The economic recovery was driven above all by services, benefiting both from a rebound in private consumption and from genuine momentum in IT services linked to drone production as part of the war effort. "Telecommunications, computer and information" services are also one of the few export items showing growth.

In terms of demand, in addition to private consumption, growth was driven by investment linked to the war effort, offset by a largely negative contribution related to the widening deficit in the goods and services balance.

Once the catch-up effect had passed (2023), the destruction of physical capital, particularly energy infrastructure, and human resource constraints, between mobilization for the front, difficulties in integrating refugees, displaced persons, and demobilized personnel, have now become a drag on the development of activity. Growth thus decelerated to 3.2% in 2024 and 1.8% in 2025.

Subject to the very high uncertainties related to the evolution of the conflict, the IMF updated its activity outlook under the new four-year program (2026-2029), forecasting growth in a range of 1.8-2.5% for 2026 and a rebound to 3.5% in 2027 under the central assumption of an end to the conflict in late 2026. The downside scenario of the conflict continuing beyond 2026 incorporates a revision of growth to 0.5% in 2027 (-3 pp) and a more limited rebound in 2028 (+3.4%, compared with +4.2% in the baseline scenario).

Constraints on robust growth during the reconstruction phase.

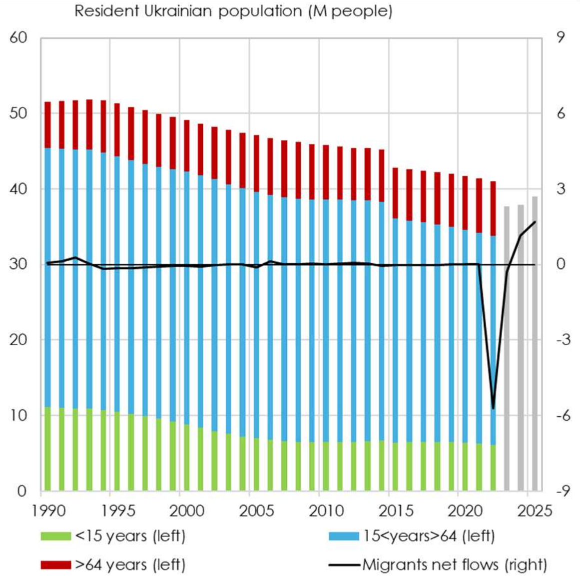
The post-conflict reconstruction trajectory will depend to a large extent on Ukraine's ability to overcome a triple constraint resulting from the war: a demographic constraint; a constraint on available capital; and a financial constraint.

Demographic constraint.

Constraints on the labor factor largely predate Russia's war of aggression, even though the latter has exacerbated them. Like many countries of the former Soviet bloc, Ukraine recorded a sharp decline in the fertility rate during the 1990s: the number of children per woman fell from 2.1 in 1986 to 1.1 in 2001.

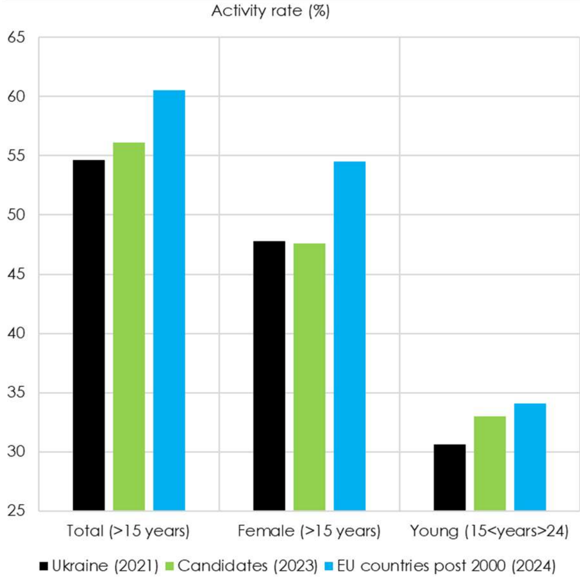
[3] NB: It is important to specify that these data do not include in-kind imports of military equipment from the United States and European NATO countries.

Figure 10 - Decline in the resident population, particularly among 15-64 years old.



Source: WB, calculations AFD.

Figure 11 – The insufficient integration of young people into the labor market



Source: WB, calculations AFD.

After having risen again during the 2000s, it began to decline once more from 2013 onward and has been below 1 since 2022, a level far below the rate required to stabilize the population. This has resulted in a downward population trend, accentuated by the conflict with Russia, from 52 million in 1990 to 33 million in 2024. This decline includes both a "scope" effect (Crimea and the eastern oblasts) and a refugee effect (outside Ukraine, as opposed to internally displaced persons).

This volume effect is compounded by an age-structure effect. The share of the "working-age" population (15-64 years) has been declining since the beginning of the 2010s: it fell from 70.5% in 2011 to 67.4% in 2022. In addition, the labor force participation rate of the population aged over 15 is lower than in comparator countries, particularly among young people (between 15 and 24 years).

Within this set of structural constraints, the intensification of the conflict has translated very concretely into increased pressure on wages, with this pressure varying across sectors: particularly strong in the ICT sectors (x2: "doubling of wages"), transport (x2.4), and retail trade (x2.3); more limited in education (+40%) and agriculture (+60%).

Between the 6 million refugees outside the country, whose likelihood of return decreases as the conflict continues, the 3 million internally displaced persons who are struggling to integrate economically at the local level, the hundreds of thousands of people mobilized on the front, demobilized persons suffering from physical and mental disabilities who need to be reintegrated, and the mismatch between firms' labor demand and the available labor supply, the capacity to mobilize human resources through multifaceted programs — reintegration, mobilization of the diaspora, adapted training, etc. — will be a key challenge for the country's reconstruction.

Capital constraint.

As regards the capital factor, infrastructure destruction limits the country's productive capacity. The damage, estimated at USD 195 billion from February 2022 to December 2025, concerns all sectors, with three main blocks: housing (USD 61 billion), transport infrastructure (USD 40 billion), and energy infrastructure (USD 25 billion).

Since the full-scale invasion and Russia's systematic targeting of energy infrastructure, Ukraine's electricity production system has been under severe strain. Installed energy capacity fell from 48 GW in 2021 to 20 GW in 2024 (IEA source). On an annualized average basis, electricity consumption fell by nearly 30% between 2021 and 2022, from 416 to 297 GWh/month. This average consumption continued to decline in 2023 (282 GWh/month) and 2024 (264 GWh/month).

Despite agility in repairs, the deployment of decentralized generation capacity, and access to energy imports from Europe, the constraint on access to energy is significant, affects the country's productive capacity, and leads to high price volatility. While Ukraine was a net exporter of electricity before the intensification of the conflict, imports now play an essential role, particularly in winter. In the particularly uncertain international geopolitical context, the intensification of Russian attacks on energy infrastructure (generation capacity and distribution networks) since October 2025 has placed particularly strong pressure on the population, whose access to electricity and heating has been severely disrupted.

In mid-January 2026, President Zelensky declared a state of emergency in the electricity sector. Estimated at 14 GW in October 2025, generation capacity is reported to have fallen to 11 GW by mid-January, for demand of 18 GW in the context of a particularly harsh winter, corresponding to a production deficit very significantly higher than that experienced during the peak of the crisis in summer 2024.

Financial constraint.

The financial constraint must be put into perspective with the scale of reconstruction needs, the considerable financial cost of the conflict itself, and the impact of the war's financing arrangements on Ukraine's capacity to finance reconstruction.

The private sector's ability to cover the bulk of reconstruction will be decisive given the limited availability of public funds and will depend on the post-conflict governance framework. The ratio of private investment to public investment could thus be close to 5 to 1 in a favorable context (IMF). For public investment, the conditions for resolving the conflict regarding the ability to make Russia pay for war damages will be decisive.

In an increasingly transactional global context, negotiations around the valuation of Ukraine's natural resources could also play a central role, as foreshadowed by the binding agreement concluded with the Trump administration in April 2025 with a view to establishing the "United States-Ukraine Reconstruction Investment Fund."

The path toward accession to the European Union as a decisive vector for strengthening governance.

The weight of the oligarchy.

The shock therapies following the collapse of the Soviet Union resulted in several years of economic chaos in Ukraine, leading to widespread and deep-rooted corruption that durably affected the country's institutional development and its reputation in terms of governance.

As in Russia, this period led to the formation of an oligarchy whose weight in the economy remains significant. But unlike in Russia, where oligarchs are under the regime's tight control, Ukrainian oligarchs have greater room for maneuver and independence vis-à-vis the authorities.

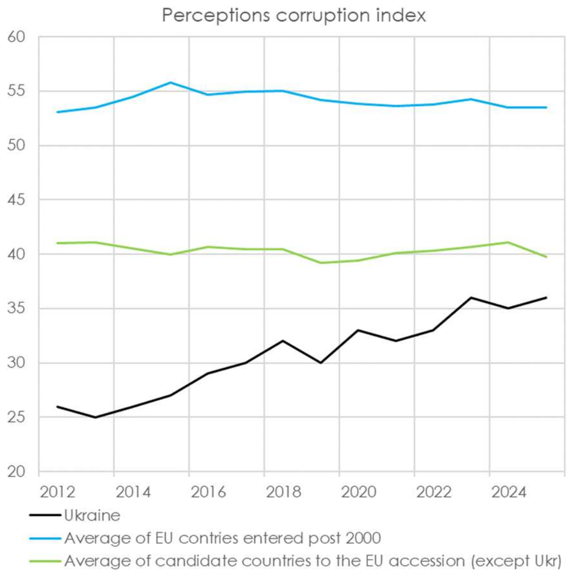
In 2021, *Novoe Vremia* (*New Times*) magazine estimated the wealth of Ukraine's fifty richest individuals at USD 40.4 billion, equivalent to 20% of GDP. With the war, the country's top twenty fortunes are reported to have lost a combined capital of some USD 20 billion, notably following the destruction of irreplaceable factories and properties (Forbes/*Novoe Vremia* analysis).

In 2023, the newspaper *El Mundo* (article dated June 21) ran a headline on the "Monaco Battalion," referring to 80 millionaires, businesspeople, company executives, and politicians living on the French Riviera in violation of martial law prohibiting men aged 18 to 60 from leaving the country.

The turning point of the Maidan Revolution.

The Maidan Revolution marked an undeniable turning point in terms of institutional strengthening, with digital innovations in particular serving as a vector for reforms. The implementation of digital platforms, such as ProZorro for public procurement or Diia for access to public services, provides significant examples of these developments.

Figure 12 - Perceptions of corruption have greatly improved



Source: TI, calculations AFD.

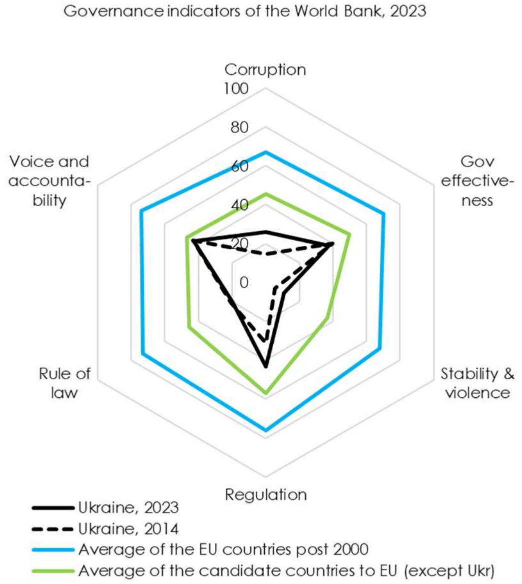
The decline in corruption has translated into everyday life through a significant reduction in widespread petty corruption, even though this improvement is not necessarily fully perceived by the population.

Thus, the OECD's 2025 review of Ukraine on integrity and anticorruption reports a very marked decline in corruption experiences reported by citizens, from 70% in 2015 to less than 20% since 2021, while the rate of perceived corruption among citizens remains very high, stable at around 90%.

The same review indicates that Ukraine's public integrity framework has a level of compliance with OECD standards above the OECD country average, both in terms of "regulation" and "implementation," with the exception of the "lobbying" dimension.

The improvement in the situation is also perceptible in the evolution of Ukraine's relative position on Transparency International's Corruption Perceptions Index (TI). Until 2014, Ukraine was ranked in the lowest quintile of countries in terms of perceived corruption, but it recorded very significant progress, moving from 152nd place in 2011 to 104th in 2023 (out of 176 countries according to TI in 2023), and has moved significantly closer to the average of candidate countries for accession to the European Union.

Figure 13 - Still significant scope for catching up



Source: WB, calculations AFD.

World Bank governance indicators have also improved, particularly on the corruption and regulatory dimensions. Ukraine's ranking on the average of the 6 indicators rose from 164th place in 2015 to 138th place in 2023. However, the scope for further improvement remains significant, particularly on certain aspects directly affected by the war ("stability and violence" on the one hand; "rule of law" on the other, notably in connection with martial law).

European Union accession as a vector for transformation.

Following the full-scale invasion, support from the international community defined a highly demanding reform framework for Ukraine through the adoption of EU candidate status (June 2022) and the IMF Extended Fund Facility (March 2023).

The prospect of accession, the prerequisite reforms it entails, and the IMF program have thus had an accelerating effect on the implementation of reforms aimed at improving governance and combating corruption.

These reforms cover highly diverse dimensions and are subject to close monitoring. The initial IMF program thus included nearly sixty structural benchmarks across a wide range of themes: governance/anticorruption; corporate governance; energy; budget management; monetary and exchange-rate policy; and the financial sector. Budget financing from the European Union (Ukraine Facility) and the World Bank (Development Policy Operations (DPOs) and Programs for Results (PforR)) is also backed by institutional and governance reforms.

The performance observed through 2024 in the implementation of reforms was remarkable given the context of war. The measures were implemented, in a large majority of cases, on time or with some delay.

The momentum of reforms slowed somewhat in 2025, in a context of a profound reversal in the U.S. position and a certain reform fatigue in the face of the conflict's stalemate. It is likely that the disappearance of USAID, which mobilized considerable expertise, particularly Ukrainian expertise, on governance issues, may also have had a significant impact on the technical capacities of the administration, until other cooperation agencies organized themselves to partially make human resources available to the authorities again. This slowdown in the reform trajectory resulted in non-disbursements or postponements of budget support disbursements due to unmet conditionalities.

In addition to these delays in the implementation of reforms, there was the controversial decision, in July 2025, to pass a law calling into question the independence of two institutions (NABU and

SAPO) responsible for combating corruption. The massive and peaceful mobilization of civil society forced the authorities, within a few days, to backtrack. The NABU/SAPO episode had deleterious effects on perceptions of the authorities' commitment. The revelation, in mid-November 2025, of a system for embezzling nearly USD 100 million in public funds linked to the energy sector ("Operation Midas," *Courrier International*, November 14, 2025), involving a person close to the president and leading to the resignation of Andriy Yermak, head of the Office of the President, in late November 2025, gave a particular dimension to this attempt to regain control over the anticorruption agencies.

This episode demonstrates, if needed, that these reform processes are not linear and involve shifts in the balance of power that generate resistance.

Table 2 - Level of progress in implementing the acquis communautaire.

Cluster	Chapter	Level of préparation	Progress
1. The fundamentals of the accession process	23. Judiciary and fundamental rights	some level	some
	24. Justice, freedom and security	some level	some
	5. Public procurement	some level	limited
	18. Statistics	some level	some
	32. Financial control	some level	good
2. Internal market	1. Free movement of goods	moderate	some
	2. Freedom of movement for workers	early stage	limited
	3. Right of establishment and freedom to provide services	some level	limited
	4. Free movement of capital	some/moderate	some
	6. Company law	some level	limited
	7. Intellectual property law	some level	some
	8. Competition policy	some level	limited
	9. Financial services	some level	some
	28. Consumer and health protection	some/moderate	good
3. Competitiveness and inclusive growth	10. Digital transformation and media	moderate/good	some
	16. Taxation	some level	good
	17. Economic and monetary policy	moderate	some
	19. Social policy and employment	early stage	some
	20. Entreprise and industrial policy	some/moderate	some
	25. Science and research	moderate	good
	26. Education and culture	some/moderate	good
	29. Customs union	good level	good
4. The green agenda and sustainable connectivity	14. Transport policy	some level	some
	15. Energy	good level	some
	21. Trans-European networks	some level	some
	27. Environment and climate change	some level	good
5. Ressources, agriculture and cohesion	11. Agriculture and rural development	early/some	good
	12. Food safety, veterinary and phytosanitary policy	moderate	some
	13. Fisheries and aquaculture	some level	some
	22. Regional policy and coordination of structural instruments	some level	some
	33. Financial and budgetary provisions	early stage	some
6. External relations	30. External relations	good level	limited
	31. Foreign, security and defense policy	good level	good

Source : European Commission.

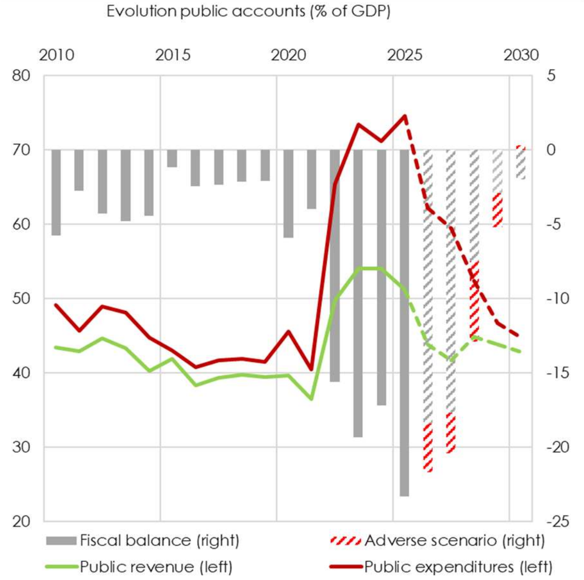
Assessments taken from the November 2025 evaluation report. Assessment levels: in level terms ("early," "some," "moderate," "good"); in variation terms ("limited," "some," "good").

However, this episode does not call into question the authorities' commitment and Ukrainian society's willingness to continue on the path of institutional strengthening and alignment with European Union standards. The authorities remain committed to the reform path, particularly in connection with the negotiations for accession to the European Union and the resulting integration of the acquis communautaire. It is essential to maintain a duty of vigilance regarding the reform trajectory, which Ukrainian civil society ensures on a daily basis, without, however, falling into "systematic" criticism that undermines credibility and contributes to the ongoing communication war. As a general rule, and more than ever in the present case, when it comes to governance, measure and restraint are called for.

2. The central role of the IMF as a catalyst for external financial support.

Deterioration of public and external accounts linked to the war.

Figure 14 - The conflict leads to a sharp deterioration in public accounts…



Source: IMF.

Starting from a relatively balanced fiscal and external position before the full-scale invasion, the war effort has weighed heavily on Ukraine's public finances, leading to budget deficits of around 20% of GDP for the past four years, despite efforts to increase domestic revenues.

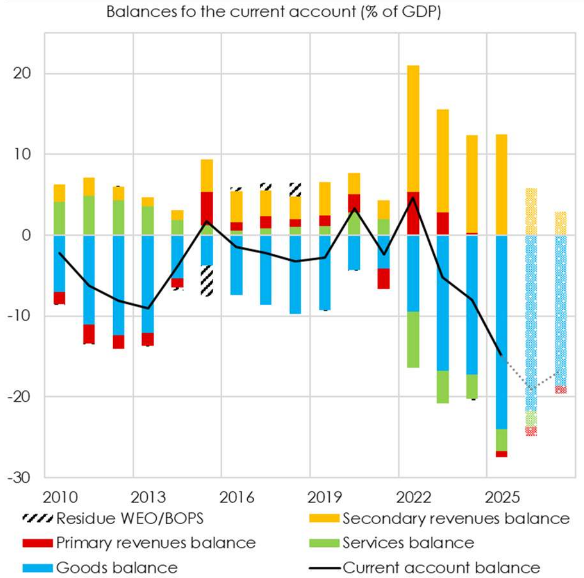
The potential mobilization of domestic revenues, whether tax or non-tax revenues, was not of a nature to finance the entirety of the increase in public expenditure linked to the war effort.

Faced with the needs and the urgency, external budget grants were particularly significant at the beginning of the conflict (9% of GDP in 2022), then were reduced in the following years (6% of GDP in 2023 and 2024), before becoming marginal from 2025 onward (1% of GDP in 2025).

Consequently, the overall budget deficit (after external grants) widened in two stages: from 4% of GDP in 2021 to 15.5% of GDP in 2022; then from 15.5% of GDP in 2022 to 19.3% of GDP in 2023 with the relative decline in grants. After a slight decrease in 2024, the budget deficit widened in 2025 (beyond 20% of GDP) with the intensification of the conflict and is expected to remain at a comparable level in 2026 and 2027. The public financing need (PFN) is thus estimated at 33% of GDP in 2025.

With the decline in external grants, the financing gap was mainly covered through loans, with evolving terms and ad hoc mechanisms to limit the impact of loans on public debt sustainability. Net external loans accounted for the bulk of financing, between 15 and 20% of GDP between 2022 and 2025.

Figure 15 - … with the deterioration of external accounts as a corollary.



Source: IMF.

At the level of the trade balance, exports and imports of goods are characterized by strong historical volatility in response to climate crises (drought), international crises (financial crisis, COVID), and relations with Russia, with, until the intensification of the conflict, a rather strong correlation between the two items (simultaneous increases and decreases in exports and imports). After reaching a low point in 2015 and 2016, imports and exports grew vigorously until 2019 (+18% and +13% per year, respectively), leading to a widening of the goods balance deficit. The COVID year resulted in stable exports but a temporary decline in imports (-11%), followed by a strong rebound in 2021 (+38% for exports and +34% for imports). On the eve of the full-scale invasion, the goods deficit was at its lowest level in more than a decade (below 5% of GDP).

The intensification of the war severely constrained Ukraine's export capacity, which fell from 32% of GDP in 2021 to around 20% of GDP over the 2023-2025 period. Conversely, imports continued to increase once the 2022 decline had passed, notably in connection with imports linked to the war effort recorded as "unspecified" in foreign trade statistics (amounting to USD 6 billion in 2024, compared with USD 0.3 billion in 2021). This resulted in a sharp deterioration in the goods trade balance, from -3% of GDP in 2021 to -16% of GDP in 2025.

At the level of the services balance, Ukraine posted a moderate surplus from 2015 to 2019, with slight growth in 2020 and 2021, driven in particular by exports of "telecommunications, computer and information" services, which have increased very steadily over the past fifteen years, from USD 150 million in 2005 to USD 7.1 billion in 2021 (at the same level as exports of edible oils and ores).

With the intensification of the war, the services balance shifted from a surplus to a deficit, further widening the trade deficit (around -20% of GDP in 2024 and 2025).

Structurally in surplus from 2015 to 2020, the primary income balance moved into deficit in 2021 as a result of the combined effect of lower repatriation of income from expatriate workers and higher outflows of income from foreign investment in Ukraine. In 2022, the decline in FDI sharply reduced the corresponding income outflows, leading to a significant primary income surplus. The continued decline in workers' income repatriation in 2023 and 2024 significantly reduced this surplus.

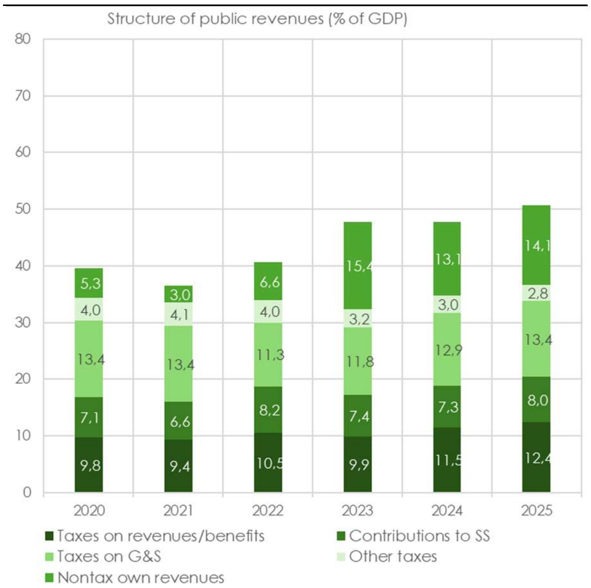
As a result of these cross-cutting factors, the deterioration in the current account of the balance of payments was more gradual than the deterioration in the fiscal accounts. Financial support in 2022 ultimately made it possible to generate a current account surplus, with the deterioration and deficit occurring only in a second phase. In 2025, the current account deficit is expected to reach -16.5% of GDP and remain at a high level in 2026 and 2027 in the context of the continuation of the war.

The budgetary needs linked to the war are considerable.

Before the intensification of the conflict, Ukraine was characterized by a relatively high level of tax mobilization, at around 35% of GDP. This apparent tax-to-GDP ratio should nevertheless be put into perspective, insofar as Ukrainian GDP, after integrating the "classic" informal sector, is still considered to be undervalued by 20 to 25%. The breakdown of tax revenues by type of taxation is relatively traditional, between taxes on household and corporate income (9 to 10% of GDP), taxes on goods and services (13 to 14% of GDP), and social security contributions (6 to 7% of GDP).

The country nevertheless faces tax reform challenges, both in terms of policy and administration. The issue is not so much to increase the level of revenues as to make the system more transparent and efficient, and less distortionary. Two important reform points have not been completed and are now hampered by the context of war: first, the allocation of tax revenues due to local governments on the basis of residence rather than place of work, for a more equitable distribution of revenues to local governments; second, the in-depth revision of the simplified taxation system, which creates a significant revenue shortfall, generates distortions between firms, and limits firms' incentives to grow.

Figure 16 - A significant effort in non-tax revenues…



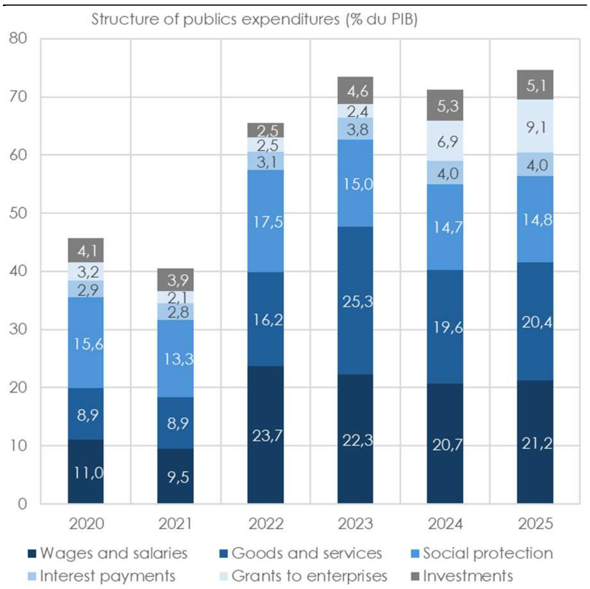
Source: IMF.

Faced with the budgetary needs linked to the war, Ukrainian society mobilized internally through various channels, which made it possible to increase the State's own revenues by 4 percentage points of GDP in 2022 and 7 percentage points of GDP in 2023.

The first item of increase is symptomatic of the mobilization of the population and is reflected in the category of non-tax revenues. These rose from 3% of GDP in 2021 to 6.6% in 2022, 15.4% in 2023, 13.2% in 2024, and 14.1% in 2025. They notably include donations made by the population, particularly in 2022 and 2023, to address the urgency of the crisis and contribute to the war effort. They also include transfers of profits made by the Central Bank (NBU).

The second channel, more limited but more sustainable, concerns the increase in taxation by a few percentage points of GDP, from 33.5% of GDP in 2021 to 36.6% of GDP in 2025. This includes, in particular, increases in excise duties and exceptional taxes on the banking sector, as well as the growing taxation of the wages of people mobilized on the front. A significant additional effort is expected under the new IMF program, with an increase in the tax-to-GDP ratio to 39% of GDP as early as 2026 (+2.4 percentage points of GDP), partially offsetting the expected decline in non-tax revenues.

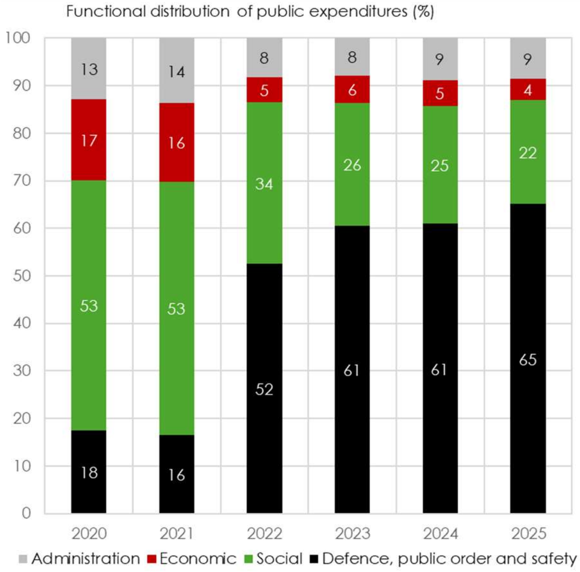
Figure 17 - … but insufficient to address the very sharp increase in expenditures



Source: IMF.

The intensification of the war led to a massive increase in public expenditure. It rose from 40% of GDP in 2021 to 65% of GDP in 2022 and continued to increase in 2023 (73% of GDP), remaining at very high levels in 2024 and 2025.

Figure 18 - The rise in security expenditures



Source: MinFin.

The evolution of the functional breakdown of State expenditure clearly shows the priority given to the war effort. The share of defense, public order, and security expenditure thus rose from 16% in 2021 to more than half in 2022 and nearly two-thirds in 2025. From an economic standpoint, the increase in military expenditure was mainly driven by wages (+10 to 15 percentage points of GDP), given the mobilization effort on the front, and spending on goods and services (+10 to 15 percentage points of GDP) for the acquisition of military equipment. Subsidies to firms also increased sharply in 2024 and 2025.

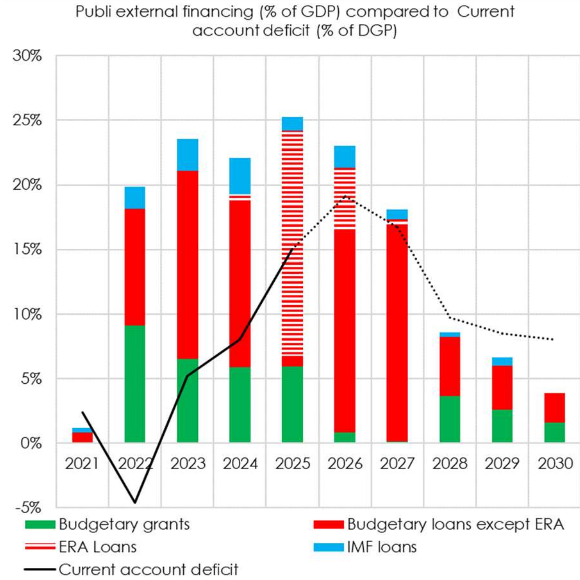
External financing is essential.

Given the scale of public expenditure and the resulting budget deficits, external financing accounts, by far, for the bulk of coverage of the financing need linked to the war.

This is all the more pronounced as, alongside budgeted external financing, there is a more or less equivalent amount of in-kind support in the form of military equipment, initially provided mainly by the United States and increasingly by European countries.

This in-kind military support makes it possible to focus budgeted external financing on civilian activities, enabling the State to free up fiscal space to carry out military activities.

Figure 19 – Massive external financing flows



Source: IMF, calculations AFD.

Over the first four years of the war (2022-2025), external public financing represented USD 170 billion in disbursement flows (more than USD 40 billion per year for GDP below USD 200 billion).

External financing that does not generate direct State debt consists of grants (USD 50 billion in disbursements over the period) and the ERA (Extraordinary Revenue Acceleration) mechanism decided by the G7, whose repayments are "backed" by the interest generated by seized Russian assets (USD 38 billion in disbursements over the period, for a total envelope of USD 50 billion). Financing that generates additional State debt represented USD 82 billion in disbursements, including USD 15 billion from the IMF.

The World Bank is the main vehicle for financing implemented by States in support of Ukraine, excluding the European

Union, through the "PEACE" budget operations and DPOs. The European Union mainly intervenes through the Ukraine Facility (EUR 50 billion envelope), combining loans, grants, and guarantees.

Given the very high level of uncertainty and the financial stakes, the role of the IMF is essential in the macro-financial framework and in the capacity to mobilize external partners. After two emergency financing operations (RFI) during 2022, the Ukrainian authorities and the IMF concluded a four-year EFF program for an amount of USD 15.6 billion, approved in March 2023. Developed within an "exceptionally high uncertainty" framework (EHU), its implementation was made possible on the basis of financing assurances built year by year rather than over the full duration of the program. Alongside traditional quantitative criteria, the IMF program embedded a significant number, around sixty, of structural benchmarks covering a broad range of reforms. The quarterly reviews made it possible to ensure constant monitoring of the program and to provide essential information on the macroeconomic impact of the war. Ukraine delivered strong implementation, with a very high proportion of quantitative performance criteria met, with only one waiver requested over the 8 reviews, as well as indicative targets and structural benchmarks.

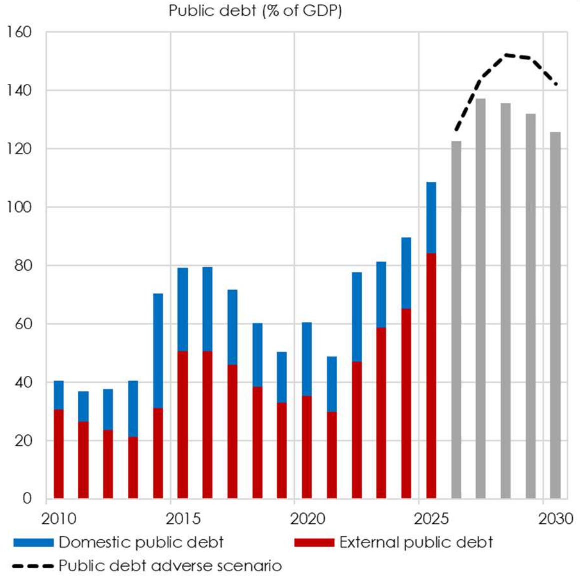
The initial program assumed a return to security at the end of 2025, in line with the assumption of the Ukraine Plan. Given the protracted nature of the conflict, the ongoing program was suspended in the second half of 2025 with a view to developing a new EFF program covering a new four-year period. The EFF was approved in February 2026 for an amount of USD 8.1 billion, of which USD 4.8 billion corresponds to the remainder of the previous program. The program's financial framework is based on an external financing need of USD 136.5 billion over 2026-2029, excluding in-kind military contributions, including USD 63 billion over 2026-2027, for which the IMF sought sufficiently credible financing assurances.

The announcement by the EU, in mid-December 2025, of a EUR 90 billion zero-interest loan over two years was an essential contribution to the financing assurances expected by the IMF. EUR 60 billion of the EUR 90 billion is allocated to the acquisition of military equipment and therefore does not constitute budget financing or contribute to closing the residual financing gap estimated by the IMF. Since the EU's contributive portion amounts to only EUR 30 billion, other sources were mobilized, including in particular the extension until 2029 of the debt-service moratorium vis-à-vis the Group of Creditors of Ukraine (GCU) on the margins of the Paris Club.

Public debt sustainability at stake.

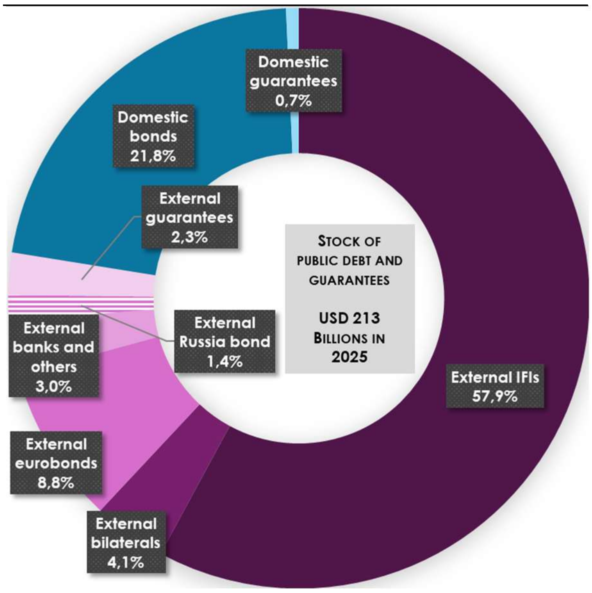
In 2021, Ukraine's public debt was under control, with an outstanding amount of 49% of GDP. Public financing needs linked to the four years of war resulted in a 60-percentage-point increase in public debt, which reached 109% of GDP in 2025. Since part of the public financing need was covered by the local financial sector (NBU and banks), domestic public debt accounts for one quarter of total public debt.

Figure 20 - The sharp rise in debt raises questions about its sustainability



Source: IMF, calculations AFD.

Figure 21 - The decisive weight of multilateral creditors, despite diversity



Source: MinFin, calculations AFD.

Ukrainian public debt is composed three-quarters of external debt, and three-quarters of this external debt is owed to multilateral creditors (European Union, World Bank, IMF). However, the majority of the claims held by the World Bank are guaranteed by States (United States, Canada, Japan, United Kingdom), particularly under the ERA mechanism. In the event that additional efforts are required at the end of the IMF program to ensure debt sustainability over the medium term (2035), the question of the status of these multilateral claims guaranteed by States could arise.

Loans related to the ERA mechanism, whose repayment is to be covered by the interest generated by seized Russian assets, are considered by the IMF as "grant-like loans" and are not included in the Debt Sustainability Analysis (DSA). Similarly, the European Union's new USD 90 billion loan should receive similar treatment by the IMF. Indeed, although EU Member States were unable to agree on a "reparations loan" whose repayment would be directly backed by seized Russian assets, the loan is, by contrast, accompanied by a guarantee from Member States exempting Ukrainians from repayment in the absence of the implementation of Russian reparations.

Under the IMF programs and faced with the inability to service the debt given the war effort, the Ukrainian authorities negotiated debt restructurings with their main non-preferred creditors, i.e., excluding multilateral creditors.

In September 2022, the GCU granted a debt-service moratorium until May 2027, the initial end date of the IMF program. This moratorium was amended for the first time in December 2023, then extended until 2029, with the participation of new creditors, in April 2026 under the new IMF program. The GCU also committed to taking the necessary measures, at the end of the IMF program and if needed, to contribute to the sustainability of Ukrainian public debt by 2035. Under the comparability of treatment principle, the GCU also requests that other official bilateral creditors, particularly China through China Eximbank, grant a comparable restructuring, which was obtained under the first moratorium.

The Ukrainian authorities also obtained, in September 2024, a restructuring agreement with eurobonds holders (8% of public debt), allowing for a 37% haircut and a reduction in debt service until 2033.

In December 2025, the Ukrainian authorities concluded a restructuring agreement with holders of options on GDP-linked eurobonds (GDP warrants). This financial innovation, stemming from the 2015 debt restructuring, triggered debt service subject to economic growth exceeding 3%. The growth rebound in 2023 (+5.3%) following the 30% recession in 2022 had triggered debt-service obligations that the Ukrainian authorities chose not to honor, notably with regard to the principle of comparability of treatment vis-à-vis conventional eurobonds. This mechanism also posed a significant financial risk for the Ukrainian State in the prospect of post-war reconstruction, with a potential cost of USD 20 billion through 2041. After lengthy negotiations, an agreement was reached to transform the USD 2.6 billion in GDP warrants into USD 3.5 billion in conventional eurobonds, with a conversion rate of 1.34. The conclusion of this agreement led Fitch and then S&P to upgrade Ukraine's foreign-currency sovereign rating from RD (restricted default) / SD (selective default) to CCC (substantial credit risk), considering that the debts still in default — the State-guaranteed Ukrenergo eurobond and the loan from Cargill Financial Services, for which negotiations are ongoing — were not sufficiently significant.

Moreover, debts vis-à-vis Russia (USD 4 billion) have been considered in dispute since 2014, and therefore not payable.

Despite the significant share of loans not included in the DSA given the ad hoc repayment mechanisms planned, the medium- to long-term viability of Ukrainian public debt remains subject to strong assumptions. Under the new program, the IMF defines medium-term debt sustainability through compliance with a public debt ratio, excluding grant-like loans, below 68% of GDP in 2035 and compliance with a PFN ratio below 7% of GDP on average over the 2030-2035 period.

The IMF defines 2 scenarios: a baseline scenario assuming an end to the conflict in late 2026; and a "downside" scenario involving a prolongation of the war until mid-2028.

Starting from a debt ratio within the DSA perimeter of 88% of GDP and a PFN of 33% of GDP in 2025, the IMF projects: 1/ under the baseline scenario: a debt ratio of 92.5% of GDP in 2029, at the end of the program, and 67% of GDP in 2035, and a PFN reduced from 14% of GDP in 2029 to 6.2% of GDP on average over 2025-2030; 2/ under the downside scenario: a debt ratio of 113% of GDP in 2029, at the end of the program, and 80% of GDP in 2035, and a PFN reduced from 20% of GDP in 2029 to 8% of GDP on average over 2025-2030.

The baseline scenario is consistent with maintaining debt sustainability by 2035, while the downside scenario would imply further restructuring over the horizon of the IMF program.

Given the context, the 2 scenarios are extremely fragile, and the baseline scenario cannot be considered more likely than the downside scenario. In addition, moving from one scenario to the other profoundly changes debt viability and the need for, and scale of, subsequent restructurings.

As a result, in the IMF's assessment, "Ukraine's debt continues to be assessed as unsustainable pending the full implementation of the authorities' debt restructuring strategy ('unsustainable' in a pre-restructuring scenario). Debt sustainability on a forward-looking basis is contingent on the treatment of the remaining external commercial claims (the

Ukrenergo eurobond and the Cargill Financial Services loan) following the 2024-2025 commercial debt restructurings, strong policy commitments, and specific and credible financing assurances and debt-relief assurances … (debt as sustainable in a forward-looking sense). These debt targets are considered compatible with a manageable level of gross financing needs and strong prospects that debt will stabilize at a sustainable level."

The importance of maintaining financial stability.

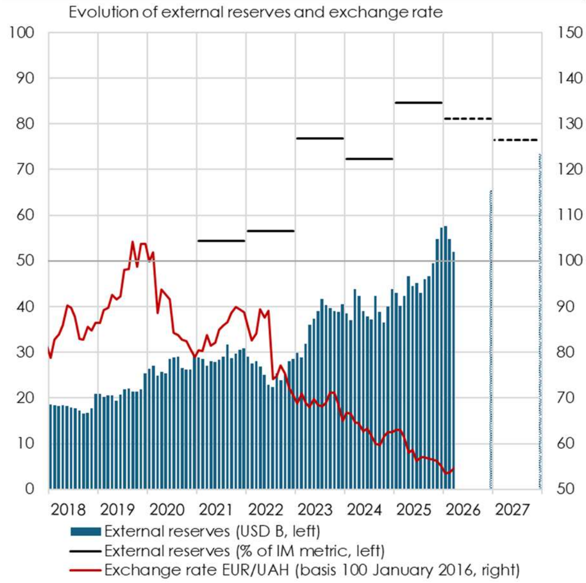
Given the scale of the financial imbalances, both fiscal and external, and the extreme uncertainty linked to the context of war, it is essential to guarantee elements of stability that enable the economy to function.

Guaranteeing access to foreign exchange.

Following the Russian aggression, the authorities introduced a fixed exchange-rate regime with strong restrictions to prevent capital flight (Resolution 18 of martial law). A highly gradual "strategy for easing foreign exchange restrictions, transitioning toward greater exchange-rate flexibility, and returning to inflation targeting," reversible depending on developments in the context, was approved in July 2023 to gradually exit this restrictive regime. The NBU thus deployed easing measures for: the repatriation abroad of dividends on new investments; loan repayments; increasing financing limits for foreign branches; and strengthening cross-border transfer capacity. At the same time, and given the structural importance of Ukrainian external assets held abroad, the NBU remains vigilant in limiting "unjustified" outflows and is strengthening its analytical capacity to identify and address cases of potential circumvention of controls.

The current account has deteriorated gradually, and the current account deficit has mainly been covered through the increase in public external debt, which rose from 13% of GDP in 2021 to 56% of GDP in 2025. The current account deficit has been and remains overfinanced by net disbursements of loans to the government. This overfinancing is explained by the time lag between the disbursement of budget support and its effective use in the budget.

Figure 22 - Budget financing guaranteed sound external liquidity



Source: NBU, calculations AFD.

Foreign-exchange inflows linked to international financing of the war effort have resulted in a very comfortable level of gross international reserves, which reached USD 57 billion at end-2025.

Since 2023, the level of reserves has been well above the adequacy threshold calculated by the IMF (ARA metric at 135% in 2025). The NBU has thus been able to intervene continuously since the start of the full-scale invasion to inject foreign exchange into the market, ensure its availability for economic operators, and also limit the depreciation of the hryvnia against the dollar. In 2025, the NBU's net foreign exchange sales thus amounted to USD 2.95 billion per month, a level almost similar to 2024 (USD 2.93 billion per month).

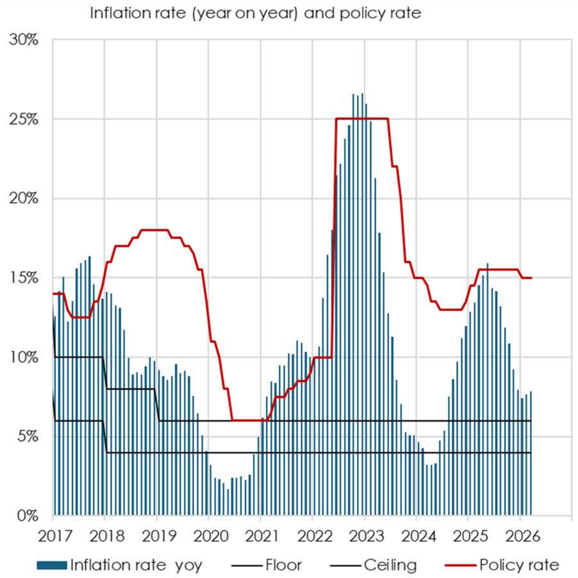
Foreign-exchange inflows made it possible to build a USD 6 billion "buffer" in 2025 for the 2026 budget, which proved essential at the beginning of the year pending the approval of the new IMF program and the formalization of the European Union's new support loan to Ukraine, which was approved in April 2026 after the lifting of the Hungarian veto, with the level of gross international reserves having fallen by more than USD 5 billion between January and March 2026.

Stabilizing prices.

During the transition to a market economy, Ukraine experienced a period of hyperinflation ("four-digit" inflation in 1993 and 1994), which ended in 1996. Price developments were then relatively stable, with inflation surges not exceeding 30% year-on-year in 2000 and 2008. Following the annexation of Crimea and the start of the armed secession in Donbas, the economy experienced a new period of high inflation amid tensions over gas prices, leading to a devaluation of the hryvnia in February 2015 (-36%) and an inflation peak of 60% year-on-year in April 2015.

From 2016 onward, the authorities succeeded in regulating inflation within a range of between 5 and 15% until the full-scale invasion.

Figure 23 - Restrictive monetary policy enables the decline in inflation



Source: NBU.

Tensions with Russia led, as early as 2021, to a significant increase in energy prices, followed by increases in food and transport prices with the intensification of the war. Inflation peaked at 26% year-on-year between October 2022 and January 2023, before beginning a rapid decline and falling below the inflation target (5%) in March 2024. In September 2024, amid a renewed rise in inflation, the NBU approved new monetary policy guidelines aimed at bringing inflation back to its target (5%) over a 3-year horizon, compared with 18 months before the full-scale invasion.

Under the combined pressure of energy constraints (infrastructure destruction putting pressure on supply and increasing costs) and human resource constraints (wage pressure), inflation rose gradually from 3.3% year-on-year in May 2024 to a peak of 15.9% in May 2025. The key policy rate, which had remained relatively high (13% in June 2024 for inflation below 5%), was raised relatively late, several times between December 2024 and March 2025 (+250 bps), to reach 15.5%. The monetary authorities also increased the reserve requirement ratio by 500 bps and sterilized the excess liquidity induced by external financing in order to limit monetary growth.

After the peak in May 2025, inflation entered a continuous downward trajectory, with inflation brought down to 7.4% year-on-year in January 2026 despite intensified attacks on energy infrastructure in the middle of the winter period, creating a risk of escalation in energy prices. The crisis in the Middle East amplifies the inflationary risk, so the NBU is maintaining its key policy rate at 15%, resulting in high real interest rates.

Support for the exchange rate has also been used as a tool to limit imported inflation. The exchange-rate regime was made more flexible in 2023 ("stabilized," or managed flexibility in IMF terminology), even though multiple exchange-rate practices remain. Since the full-scale invasion, apart from the sharp depreciation observed in July 2022 (-17%), the Ukrainian currency has been maintained on a remarkably stable trajectory, with an average monthly depreciation of -0.7% between August 2022 and December 2025, and a cumulative depreciation of 26% over 29 months (UAH 50 per USD in December 2025, compared with UAH 37 per USD in July 2022). Set against price developments, this exchange-rate trajectory made it possible to maintain the stability of the real exchange rate and therefore monetary competitiveness.

Despite this relative stability in monetary competitiveness, the notable widening of the current account deficit in 2025 may raise questions about the advisability of a stronger depreciation of the hryvnia in order to limit the growth of domestic consumption. The effectiveness of such an approach depends on the economy's capacity to respond in terms of exports (could the competitiveness gain be reflected in export dynamics, given the other existing constraints?) and imports (depending on the relative importance of "traditional" consumption in imports compared with imports linked to the conflict).

Moreover, depending on the financial mobilization of Ukraine's external partners, the possible decline in foreign-exchange inflows, given the continued needs linked to the continuation of the war, could in any case make a reduction in central bank interventions to supply foreign exchange to the market inevitable and also push toward a depreciation of the hryvnia.

Maintaining a sound banking sector.

Historically accustomed to being severely shaken during exogenous crises, the financial system is showing great resilience in these times of war, with a central bank that was deeply reformed after the Maidan Revolution and is conducting a prudent policy.

The banking sector, which has undergone major past restructurings, shows fairly remarkable financial soundness ratios and profitability in the current context. Asset quality, historically deteriorated, improved significantly in 2025.

The banking sector is mainly exposed to the State and households. Its repositioning toward firms will be a key factor in the country's reconstruction dynamic.

Table 3 - Banking sector soundness indicators

		2019	2020	2021	2022	2023	2024	2025
Capital adequacy	Capital adequacy ratio (CAR)	19,7	22,0	18,0	19,7	21,1	17,3	16,4
	NPL non provisioned/capital	33,8	25,3	13,8	34,4	26,8	22,1	17,2
Asset quality	Non performing loans (NPL)	50,5	43,5	31,7	38,1	37,4	30,3	13,9
	Provision rate of NPL	90,4	89,3	91,6	83,2	83,6	84,9	85,9
Profitability	Return of asset (ROA)	4,7	2,8	4,5	1,5	6,1	5,9	5,8
	Return of equity (ROE)	34,8	20,0	35,0	11,0	31,7	29,2	29,9
Liquidity	Liquid assets/short term liabilities	94,4	86,8	89,1				
	Liquidity coverage ratio (LCR)				298,8	306,2	259,5	239,8
Sensitivity to market risk	Net open position in foreign exchange/capital	47,4	32,8	30,7	45,6	44,7	4,3	3,5

Source: IMF.

The recent history of the Ukrainian banking sector has been turbulent, with two major crises in 2008-2009, at the time of the global financial crisis, and in 2014-2016, following the annexation of Crimea and the conflict in Donbas. This resulted in a sharp contraction in access to credit, particularly for the private sector, with outstanding loans falling from more than 80% of GDP in 2009 to less than 20% of GDP in 2024.

Ukrainian banks remain numerous, with around sixty active institutions, but they contribute only weakly to private-sector financing: bank credit to the private sector represents only 13% of GDP, a share that has been declining steadily since 2018.

The 7 public banks account for more than 50% of assets, including PrivatBank, the largest bank with 22% of banking assets, which was nationalized in 2016 to prevent its bankruptcy given its systemic nature. Local private banks, around forty institutions, account for barely more than 20% of assets; the vast majority are therefore very small in size, with only 9 local private banks having outstanding loans above UAH 10 billion, or USD 200 million. Foreign banks (14) account for 26% of banking assets: the two French banks, Crédit Agricole and BNP Paribas under the name UkrSibBank, rank 3rd and 5th among foreign banks in terms of outstanding loans.

The banking sector's contribution to corporate financing is very limited, with banks, particularly public banks, preferring to position themselves primarily in the household segment, but also in State financing. Banks' sovereign exposure thus represents 25% of banking assets in 2025, and since 2022 the public sector has accounted for more than half of the financial system's outstanding credit to the economy.

In the current context, the banking sector is showing strong resilience and generates high profitability linked to State financing and the remuneration of its liquidity by the NBU.

Given the sector's very high liquidity, with an LCR of 240% in December 2025, banks place their surpluses with the NBU at a comfortable remuneration rate of 13%. This results in a high level of profitability, with 30% RoE and 5.8% RoA in December 2025, which reduces appetite for "corporate" risk. Banks operating in the market also seek risk sharing from international development banks in order to position themselves in this "corporate" segment. The banking sector's high level of profitability is such that the State introduced an exceptional tax on the banking sector for its contribution to the war effort.

As the result of a heavy legacy, asset quality has remained historically deteriorated, with a non-performing loan (NPL) ratio of around 30% at the beginning of 2025, and a peak of 39% in the second quarter of 2023. The overall NPL ratio fell sharply in early 2026, to 14%, following the cleanup of PrivatBank's balance sheet with a view to its privatization. PrivatBank's NPL ratio was reduced from 45% to 8%, which is also the average rate observed among local private banks. The portfolio quality of public banks, excluding PrivatBank, remains more deteriorated than for other banking institutions, but continues to improve, with the NPL ratio falling from 42% in early 2024 to 24% in early 2026. Foreign banks have the best portfolio quality, with an NPL ratio of around 6% in early 2026.

In terms of capitalization, the solvency ratio is broadly satisfactory, slightly above 15% against a regulatory threshold of 10%, but has decreased compared with end-2023 (21%) due to the growth in risk-weighted assets. NPLs net of provisions represent 17% of equity, which constitutes a relative weakness in terms of capitalization; nevertheless, the situation is improving year after year (34% in 2022).

In 2025, the NBU carried out an assessment of the resilience of Ukrainian banks and of the banking system (AQR and stress tests). It found that 9 banks, representing 18% of banking assets, including two public banks and one private bank representing 13% of assets, must undertake a restructuring/recapitalization program to reduce their vulnerability to crisis scenarios.

Bibliography

ACAPS analysis hub (2025). Ukraine, Implications of the US foreign aid cut on humanitarian, development, and government-led programmes.

AIE (2024). Empowering Ukraine through a decentralised electricity system, A roadmap for Ukraine's increased use of distributed energy resources system towards 2030.

AIE (2024). Ukraine's energy security and the coming winter, An energy action plan for Ukraine and its partners.

Center for Sustainable Development at Brookings (2024). Ukraine, Digital resilience in a time of war (George Ingram & Priya Vora).

EBRD (2022). The reconstruction and development of Ukraine's financial sector after the war (Ralph De Haas, Alexander Pivovarsky).

European Commission (2024). Ukraine plan (2024 – 2027).

European Commission (2025). Communication on EU enlargement policy, Ukraine 2025 report.

European Union & World Bank (2018). Ukraine, Technical note: tax expenditures analysis.

European Union & World Bank (2019). Ukraine, Public expenditure and financial accountability (PEFA), Performance assessment report.

European Union & World Bank (2022). Ukraine, Public investment management diagnostic, Assessment report.

IMF (2014). Ukraine, Technical assessment report, Public financial management overview.

IMF (2016). Ukraine, Technical assessment report, Reforming management and oversight of state assets.

IMF (2016). Ukraine, Technical assessment report, Tax administration reforms and governance options.

IMF (2016). Ukraine, Public investment management assessment (PIMA).

IMF (2017). Ukraine, Fiscal decentralization and legal framework for fiscal risk management and medium-term budgeting.

IMF (2017). Ukraine, Selected issues (Corruption and growth).

IMF (2017). Ukraine, Selected issues (Reforming Ukraine's pension system).

IMF (2017). Ukraine, Technical assistance report, Strengthening public financial management.

IMF (2019). Ukraine, Technical assistance report, State-owned enterprises, Fiscal risk management.

IMF (2019). Ukraine, Technical assistance report, Strengthening budget formulation and fiscal risk management.

IMF (2021). Ukraine, Working paper: assessing the macroeconomic impact of structural reforms in Ukraine.

IMF (2023). Ukraine, Selected issues, Policies to address climate change.

IMF (2023 – 2025). Ukraine, Extended fund facility (request and reviews).

IMF (2026). Ukraine, Extended fund facility (request).

Fondation Jean Jaurès (2019). Corruption et réformes en Ukraine : le bilan des années Porochenko (Paul Niland).

Government of Ukraine (2023). National revenue strategy until 2030.

Government of Ukraine (2023). State anti-corruption program 2023 – 2025.

Government of Ukraine & European Union & World Bank & United Nations (2026). Fifth rapid damage and needs assessment (RDNA5).

IDDRI (2024). Le secteur Agricole ukrainien : présentation et enjeux à l'aune d'un éventuel élargissement à l'Union européenne (Elsa Régnier, Aurélie Catallo).

Institute for economic research and policy consulting (IER) (2025). Economic assessment: URC 2025, budget cycle analysis.

IER & Friedrich Naumann Foundation (2023). Medium-sized business in Ukraine: terra incognita or "hidden" mittelstand.

IOM (2023). The social reintegration of veterans in Ukraine.

IOM (2024). Ukraine housing brief: living conditions, rental costs and mobility factors.

IOM (2025). Human impact of the war in Ukraine: health, education, and physical assets.

IOM (2025). Ukraine internal displacement report, General population survey, Round 21 October 2025.

International Journal of Economics and Financial Issues (2025). The functionning of Ukraine's budgetary system in wartime conditions.

Kiel institute fort the world economy (2023). The Ukraine support tracker: which countries help Ukraine and how?

Kyiv School of Economic (KSE) Institute & BGK (2024). Local governments' legal, institutional, and financial landscape in Ukraine.

KSE (Center of public finance governance) & Swedish association of local authorities and regions & Sverige (2021). Personal income tax place of collection in Ukraine, Legal background and current practice (Daryna Marchak).

La vie des idées (2023). L'économie ukrainienne en temps de guerre (Ivan Savchuk).

MinesParisTech & PSL (2019). A rebirth of the banking system in Ukraine?

NBU (2024). Monetary policy guidelines for the medium term.

NBU (2024). Macroprudential policy, Strategy.

NBU (2024, 2025). Financial stability reports.

NBU (2024, 2025). Banking sector reviews.

NBU & MoF & NSSMC & DGF & MoE (2025). Strategy of Ukrainian financial sector development.

NSSMC (2025). Commission activity report 2024.

OECD (2021). OECD review of the corporate governance of state-owned enterprises in Ukraine.

OECD (2022). Rebuilding Ukraine by reinforcing regional and municipal governance.

OECD (2022). Working papers, Review of energy subsidies in the context of energy sector reforms in Ukraine.

OECD (2023). Working papers, Review of environmental taxation and environmental expenditure in Ukraine.

OECD (2023). Competition market studies of Ukraine's electricity sector.

OECD (2024). Enhancing resilience by boosting digital business transformation in Ukraine.

OECD (2024). Working papers, Safeguarding the sustainability of the Ukrainian pension system.

OECD (2025). Mapping Ukraine's financial markets and corporate governance framework for a sustainable recovery.

OECD (2025). OECD economic surveys: Ukraine 2025.

OECD (2025). OECD integrity and anti-corruption review in Ukraine.

Open space works Ukraine (2025). Civil society in Ukraine after USAID cuts.

SIGMA & OECD (2023). Public administration in Ukraine, Assessment against the principles of public administration.

World Bank, EBRD, EIB (2019). Enterprise survey, Ukraine 2019, country profile.

World Bank (2006). The development of non-bank financial institutions in Ukraine, Policy reform strategy and action plan.

World Bank (2023, 2024). Ukraine: firms through the war (1.0 & 2.0).

World Bank (2023). Private sector opportunities for a green and resilient reconstruction in Ukraine.

Work organisation, labour & globalisation (2022). Gender inequality in the labour market of Ukraine, Challenges for the future.

List of acronyms and abbreviations

AQR	Asset Quality Review(s)
ARA	Assessing Reserve Adequacy
bn	billion
Bps	basis points
BTP	Construction and civil engineering
CAR	Capital adequacy ratio
CCC	Substantial credit risk (Fitch and S&P)
CIT	Corporate income tax
CSIS	Center for Strategic and International Studies
db	database
DPO	Development Policy Operation(s)
DSA	Debt Sustainability Analysis
EFF	Extended Fund Facility (IMF)
EHU	Exceptionally High Uncertainty (IMF)
EM-DAT	The International Disaster Database
ERA	Extraordinary Revenue Acceleration
EU	European Union
EUR	Euro(s)
FDI	Foreign direct investment(s)
G&S	Goods and services
GCU	Group of Creditors of Ukraine
GDP	Gross domestic product
GHG	Greenhouse gas
GLORIA	Global Resource Input-Output Assessment
GW	Gigawatt
GWh	Gigawatt-hour
H&NFCs	Households and non-financial corporations
HDI	Human Development Index
ICT	Information and communication technologies
IFI(s)	International financial institution(s)
IMF	International Monetary Fund
ITC	International Trade Center
KBA	Key biodiversity area
LCR	Liquidity Coverage Ratio
M	million
NABU	National Anti-Corruption Bureau of Ukraine
NATO	North Atlantic Treaty Organization
NBFIs	Non-bank financial institutions
NBU	National Bank of Ukraine
NCSSM	National Commission for Securities and Stock Market
NDC	Nationally Determined Contribution
ND-GAIN	Notre Dame Global Adaptation Initiative
NIIP	Net International Investment Position
NPL(s)	Non-performing loan(s)
OECD	Organisation for Economic Co-operation and Development

PforR	Program(s) for Results
PEACE	Public Expenditures for Administrative Capacity Endurance
PFN	Public financing need
PI	Portfolio investment(s)
PIP	Public Investment Budget
PIT	Personal income tax
PPP	Purchasing power parity
RFI	Rapid Financing Instrument (IMF)
RD	Restricted Default (Fitch)
RoA	Return on assets
RoE	Return on equity
S&P	Standard & Poor’s
SAPO	Specialized Anti-Corruption Prosecutor’s Office
SD	Selective Default (S&P)
SDGs	Sustainable Development Goals
SFRD	State Fund for Regional Development
SPP	Single Project Pipeline
ST	Short term
tCO_2e	tonne of CO_2 equivalent
TI	Transparency International
UAH	Hryvnia(s)
UNDP	United Nations Development Programme
UNStats	United Nations Statistics Division
USAID	US Agency for International Development
USD	United States dollar(s)
USSR	Union of Soviet Socialist Republics
WB	World Bank

List of graphs and tables

Agence française
de développement
5, rue Roland Barthes
75012 Paris l France
www.afd.fr

Éditions Agence française de développement publishes analysis and research on sustainable development issues. Conducted with numerous partners in the Global North and South, these publications contribute to a better understanding of the challenges faced by our planet and to the implementation of concerted actions within the framework of the Sustainable Development Goals. With a catalogue of more than 1,000 titles and an average of 80 new publications published every year, Éditions Agence française de développement promotes the dissemination of knowledge and expertise, both in AFD's own publications and through key partnerships.
Towards a world in common.

Publishing director Christophe Lecourtier
Editor-in-chief Thomas Mélonio
Graphic design MeMo, Juliegilles, D. Cazeils
Layout PUB
Translation Author

Final date of writing: 18/05/2026

Legal deposit 2sd quarter 2026
ISSN 2266-8187
Printed by the AFD reprographics department

To consult other publications by Éditions Agence française de développement:
afd.fr/en/publications/