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NO 02|AUG 2025

FORECAST SERIES UKRAINE

Macroeconomic forecast for Ukraine 2025 – 2026: update

Oleksandra Betliy, Vitaliy Kravchuk, Garry Poluschkin, Robert Kirchner

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Executive Summary

- RUS full-scale war continues having a devasting impact on Ukraine's economy
- Real GDP is on a growth path since 2023, but will not reach its pre-war level in the medium-term
- **We forecast GDP growth at 2.0% in 2025 and 2.8% in 2026**
  - Demand side: Private consumption and rebuilding investment activities will remain the main drivers in 2025 and 2026, but without large-scale reconstruction
  - Supply side: Among the key sectors, only trade grows in 2025: labour supply shortages, logistical disruptions remain key challenges
- Trade deficit expands and is not offset by primary and secondary incomes: **current account deficit forecast** of 11.8% of GDP in 2025 and 17.9% in 2026.
- Average inflation is forecast to **remain in double digits in 2025 with 13.2%, but decelerates to 6.7% in 2026**
- Budget financing will remain scarce despite ERA. The government debt ratio is estimated to increase further, reaching 100% in 2026
- Forecast remains subject to large uncertainty related to further development of the war

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Structure

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

Annex

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1. Introduction

Background:

- Russia's full-scale war has been ongoing for 3.5 years
- War-caused challenges continue to negatively affect the economic development:
  - **Displacement of millions of people, further fighting, temporary occupation of Ukraine's territories, mines, extensive damage to the energy infrastructure, limited logistic routes**
- At the same time, Ukraine is continuously adapting to these adverse conditions and reached a certain degree of growth and stability
- However, Ukraine is **relying on international support and remains highly vulnerable to any disruptions**
- Any forecast of the future economic development is thereby subject to very high war-related uncertainty of the continuation of the war, of aid flows, and the set of economic data released

Purposes of this analysis:

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

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2. Review of economic developments in 1H2025

Economic development:

- Ukrstat, real GDP grew by 0.9% yoy in 1Q, IER estimate: real GDP grew by 1.6% yoy in 2Q

Demand side:

- Main drivers: real gross fixed capital accumulation grew by 37.7% due to increased defence procurement in 1Q2025, real private consumption +1.6%, public one +6.6%
- Real exports dropped by 17.8% yoy in 1Q due to lower grain exports, imports grew by 8.7% → strong negative contribution of net exports
- IER survey: labour shortage is a key obstacle to business → Real wages grew strongly

Supply side:

- Real gross value added (GVA) declined in agriculture in 1Q. Further declined expected in 2Q due to later than usual grain harvesting in June
- Extraction sector: -15.1% in 1Q yoy due to loss of several coal mines, RUS attacks on gas extraction. Similar drop expected in 2Q
- Manufacturing sector: -1.5% yoy in 1Q and is estimated to grow by 1.5% yoy in 2Q
- Trade: +3% yoy in 1Q
- Transport: -10% yoy in 1Q

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Review of inflation and current account in 1H2025

Inflation:

» Acceleration in 2025 until peak at 15.9% yoy in May but slowed down in June to 14.3% yoy and is expected to be lower in the next months

- Push factors: Bad harvest, growing labour shortages, domestic prices for agricultural goods catching up with global markets
- Pull factors: growth in consumer demand and expectations still anchored, high competition due to growing online sales, gov postponing price increases for electricity, gas, and heating

Current account:

» Exports fell driven by challenges in the agricultural and steel sectors

» Imports grew driven by energy equipment, defence purchases, gradual recovery in consumer demand, coverage of insufficient domestic supply

» Private remittances on downward trend reflecting integration of Ukrainians abroad. Most of assistance under ERA is legally structured as loans and thus recorded under financial account

» Loosening of FX restrictions increased payments of investment income abroad but payments of reinvested FDI income reduced sharply

→ CA deficit increased significantly in 1H2025

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Review of economic policies in 1H2025

Government:

- Slowed reform implementation
  - IMF programme: several structural benchmarks postponed
  - Ukraine Plan: two indicators were not fulfilled and report submitted with delay→ lower loan tranche than expected but can be made up over 12 months
- Ukraine continues receiving financing under ERA
- Excise rates for tobacco increased, PIT revenues grew due to increase in military levy
- Fixed prices for utilities for households kept in place, to be lifted in 4Q2025

NBU:

- Policy rate hiked twice in 1Q, inflation indicators slowed but headline CPI remains high.
- Managed floating exchange rate regime still in place
  - Exchange rate remained within UAH/USD 41-42 range to date but dollar weakness against euro led to record UAH 49 per EUR exchange rate
  - Current account deficit remains large especially excluding donor grants
  - Few more small steps towards FX liberalization
  - Interbank market liquidity improved with interbank operations exceeding NBU interventions, but NBU retained key role in balancing demand and supply

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3. Assumptions underlying the forecast (1/2)

Assumptions on the war:

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

Fiscal policy assumptions:

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

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3. Assumptions underlying the forecast (2/2)

Trade policy assumptions:

- Sea Corridor will remain effective: extended possibilities for exports, imports
- Western border will operate unobstructed for trade in 2025 and 2026
- Ukrainian exporters will not suffer significant losses due to the EU TRQs due to redirection of exports to other markets

Financial and monetary policy assumptions:

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

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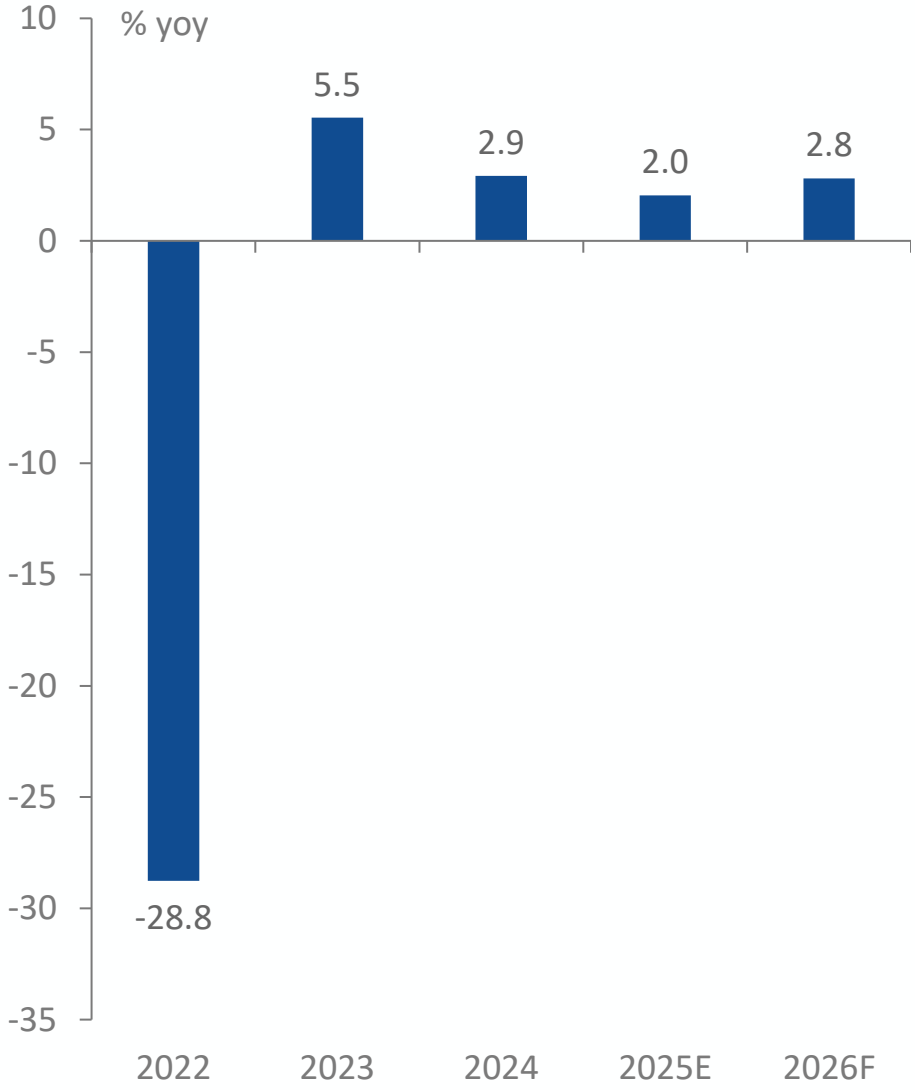
4. Key forecast indicators for 2025 and 2026

Ukraine's real GDP change



Source: Own illustration and own estimate for 2025 and 2026 based on Ukrstat

Key GDP parameters:

- Real GDP in 2024 grew by 2.9% yoy
- 2025: downward revised forecast compared to winter to 2.0% (instead of 2.9% worse than expected GVA in agriculture, transport, industry
- Some acceleration of growth in 2H2025 with faster growth in industry and trade as some one-off factors will not apply
- 2026: Assumed reduced war intensity to in 2H2026 – growth of 2.8%
- → 18.8% below pre-war level in real terms
- Nominal GDP:
  - 2025: UAH 8,768 bn (USD 207 bn) higher than pre-war GDP in USD
  - 2026: UAH 10,035 bn (USD 224 bn)

➢ **Recovery is limited due to continuation of full-scale war intensity**

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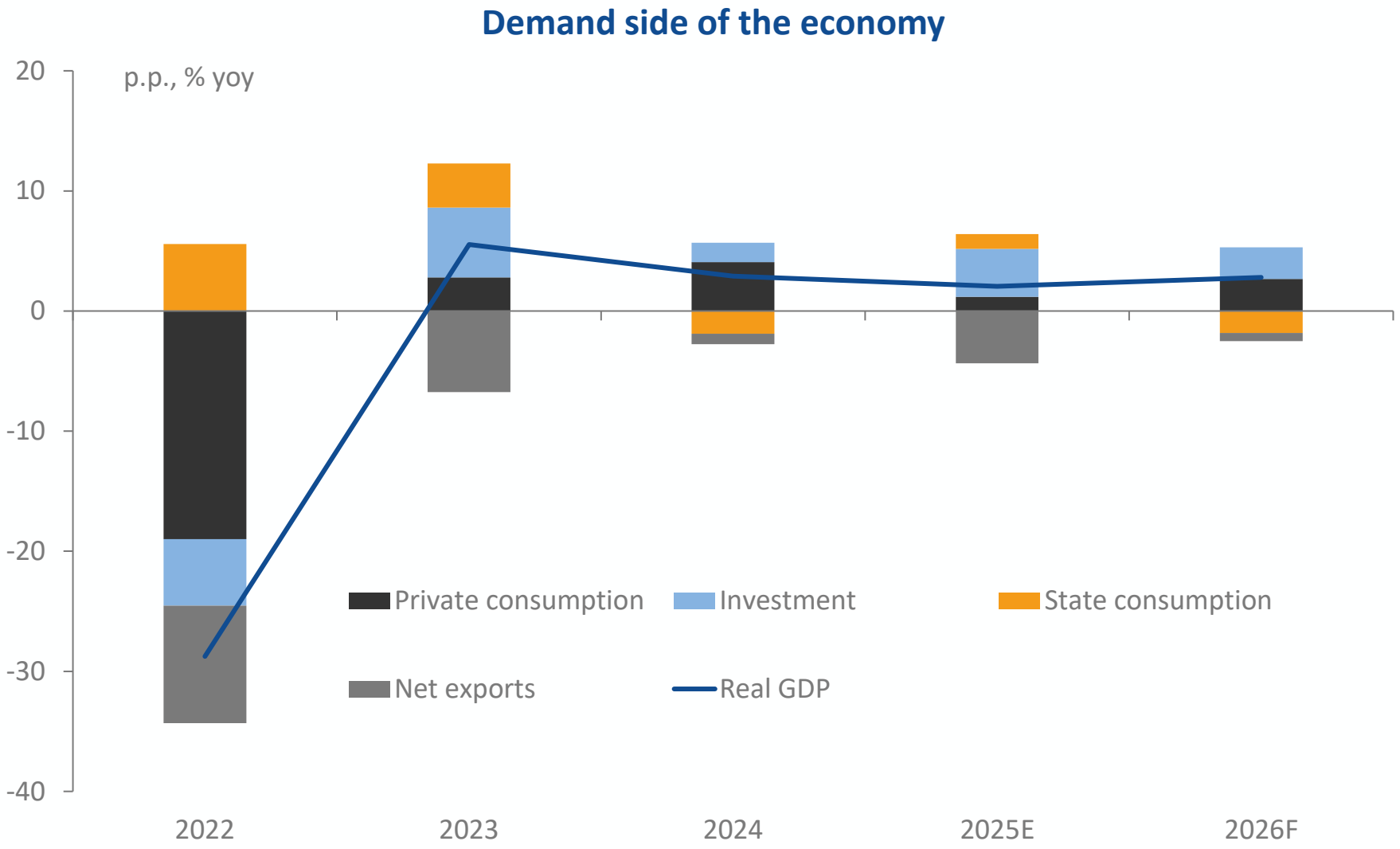
Contributions to real GDP growth: demand side



Source: Own illustration, own estimate for 2025 and 2026, based on Ukrstat

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GDP forecast: demand side

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

	2022	2023	2024	2025E	2026F
GDP	-28.8	5.5	2.9	2.0	2.8
Including:					
Private consumption	-28.7	4.3	6.8	1.9	4.3
Government consumption	31.4	9.2	-4.5	3.2	-4.9
Fixed capital accumulation	-33.9	65.9	3.5	19.8	11.5
Exports	-42.0	-5.9	10.3	-8.8	3.8
Imports	-17.4	8.9	7.3	3.6	3.4

Source: Own illustration and own estimate for 2025 and 2026 based on Ukrstat.

- Private consumption: Growth due to real wage increase (lack of employees pushes wages up), lower unemployment, positive but small net balance migration, indexation of pensions, but likely constrained by need to save due to high uncertainty
- Investments: Growth is likely attributed to investments into defence as it is also reflected in the special fund of the budget
- Real exports: Ukrainian Sea Corridor drives logistic improvement, but lower grain stocks explains strong decline in 2025, some recovery in 2026. Negative contribution from suspension of gas transit
- Real imports: Increase in imports of goods in response to higher demand and investment but gradual decline in services imports as recorded spending of Ukrainians abroad declines
- Net exports: Strong negative contribution of 4.4. p.p. in 2025 and 0.7 p.p. in 2026

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GDP forecast: supply side

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

	2022	2023	2024	2025E	2026F
GDP	-28.8	5.5	2.9	2.0	2.8
Including:					
Agriculture	-25.2	11.1	-7.3	-4.7	3.4
Industry	-37.7	6.5	3.1	-1.1	4.2
Trade	-32.2	8.4	-4.1	3.8	5.4
Transport	-40.5	7.7	11.4	-8.4	6.1

Source: illustration and own estimate for 2025 and 2026 based on Ukrstat.

- Agriculture: We expect slight decline in livestock farming and lower crop harvest in 2025 with reversion to moving average crop harvest returning the agriculture to growth in 2026
- Industry: Recovery of domestic demand, improved logistics and sustained defence contracts are projected not sufficient to offset damages by RUS. Global steel also expected to limit industrial output. Domestic demand, gradual increase in exports and continued defence contracts are expected support moderate growth in 2026.
- Trade: Gradual recovery in consumer demand supports domestic trade in 2025 and 2026 and higher exports prices support external trade in 2025 despite lower volumes
- Transport: Negatively impacted by stop of Russian gas transit, lower agricultural, iron ore export volumes but supported by growing passenger flows (incl. temporary returns of displaced population), rising e-commerce orders.

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Current account forecast

Current account		2022	2023	2024	2025E	2026F
Current account balance	USD bn	8.0	-9.6	-15.9	-24.6	-40.0
Current account balance	% of GDP	4.9	-5.3	-8.4	-11.8	-17.9
Exports of goods	USD bn	40.9	34.7	38.9	37.5	41.0
Imports of goods	USD bn	-55.6	-63.8	-72.7	-79.6	-86.2
Balance of services	USD bn	-11.1	-8.7	-5.6	-6.0	-4.8
Transfers and remittances*	USD bn	38.1	34.6	31.4	31.3	18.3

Source: Own illustration and own estimate for 2025 and 2026 based on NBU, Note: Current account also covers investment income which is not shown in the table.

- Goods exports: We expect lower agricultural exports in 2025 due to lower stocks, exports in dollar terms will be supported by improvement in export prices
- Goods imports: Gradual recovery in domestic demand, imports of energy equipment, weapons and material will likely remain important elements. There is also need to replace insufficient supply of some goods by imports in 2025 including some agricultural goods, natural gas and coal, lower prices for oil products limit import growth in 2025
- Service trade: Deficit is driven by the spending by displaced Ukrainians abroad. Recorded spending gradually decreases (ie on cards issued by Ukrainian banks) as they integrate in their new residence. Stop of gas transit does have only a minor negative impact
- (*)Transfers and remittances: refers to sum of net wage income and secondary transfers and include grants to the state budget at USD 17 bn in 2025 and USD 5 bn in 2026

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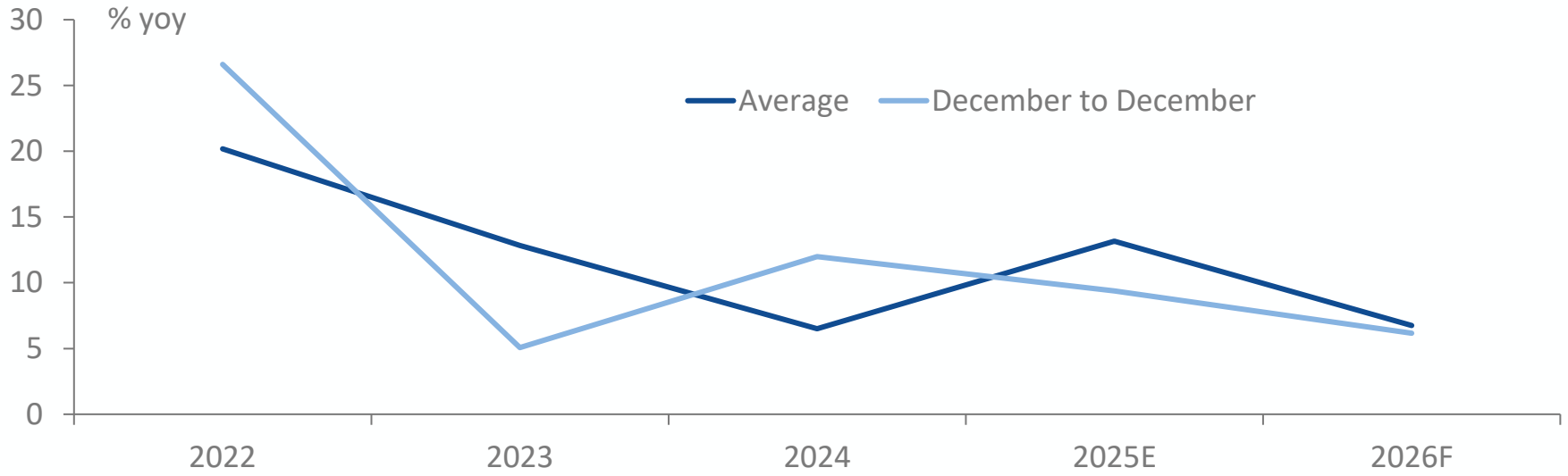
Inflation forecast

Development of inflation



Source: own illustration and estimate for 2025 and 2026 based on Ukrstat

- 2025: Inflation forecast at **13.2% aop and 9.4% eop**: inflation in annual terms reached its expected peak in May
  - Disruptions pushing up prices for some food products in the first half of 2025 are expected to recede in the second half of 2025 to a degree
  - Cost pressures pushing up inflation are also expected to weaken by the end of the year while price convergence that occurred for some goods is close to complete
- 2026: Inflation projection at **6.7% aop and 6.2% eop**:
  - We expect less cost pressure on inflation while recovery in demand is expected to be moderate
  - We assume that increases in heating and gas prices will add to inflation

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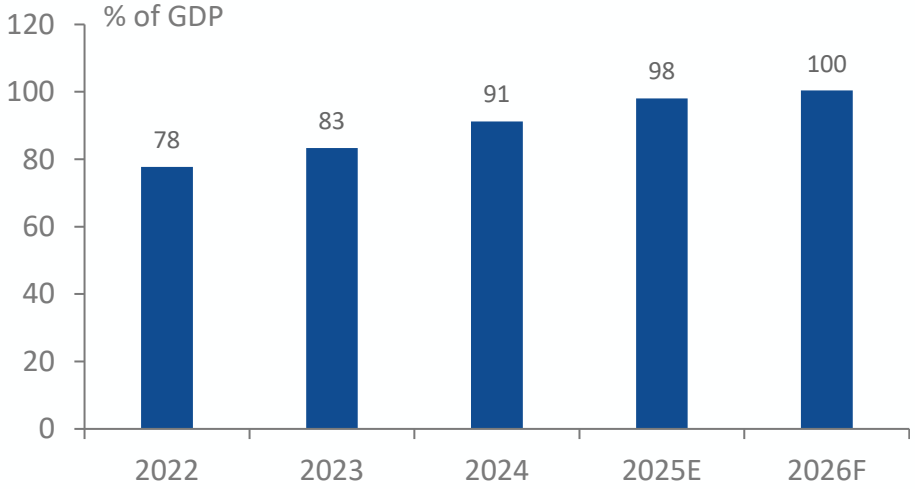
Fiscal forecast

Summary of fiscal indicators

	2025E	2026F
Consolidated fiscal deficit (grants not accounted as revenues). USD bn	43.6	42.5
Consolidated fiscal deficit (grants not accounted as revenues). % GDP	21.0	19.0
Financing needs incl. domestic debt refinancing. USD bn	56.5	52.2
Assumed international aid (grants and loans). USD bn	62.0	36.0

Source: Own forecast for 2025 and 2026 based on Ministry of Finance

State and state-guaranteed debt



Source: Own forecast for 2025 and 2026 based on Ministry of Finance

- Expected financing needs in 2025 are covered by ERA mechanism, but needs in 2026 are higher than estimated international aid
- 2025: sufficient financing
  - IMF and EU under Ukraine Plan
  - ERA is to be received, but part should be secured for financing expenditures in 2026
  - The challenge is to keep a buffer for 2026
- 2026: committed financing lower than needs
  - Remaining ERA funds from 2025 is to be spent in 2026
  - Ukraine Plan: EUR 7.2 bn, IMF USD 1.9 bn
  - More financing is needed for budget deficit financing
  - Ukraine may receive military aid under SAFE, so would spend domestic resources on civilian budget
- Public debt (incl. guarantees) expected at 98% of GDP in 2025, 100% in 2026 (if EU's ERA contribution is included into state debt)

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5. Key forecast risks

Downside risks:

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

Upside risks:

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

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Annex: Technical note on modelling

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

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Annex: Forecast indicators

		2022	2023	2024	2025E	2026F
Real Economy						
Nominal GDP	UAH bn	5,239	6,628	7,659	8,768	10,035
Nominal GDP	USD bn	162.0	181.2	190.8	207.4	223.6
Real GDP	% yoy	-28.8	5.5	2.9	2.0	2.8
Consumer price index	aop. % yoy	20.2	12.8	6.5	13.2	6.7
Consumer price index	eop. % yoy	26.6	5.1	12.0	9.4	6.2
Balance of Payments						
Current account balance	USD bn	7.9	-9.2	-15.9	-24.6	-40.0
Current account balance	% of GDP	4.9	-5.1	-8.4	-11.8	-17.9
Exports of goods	USD bn	40.9	34.7	38.9	37.5	41.0
Imports of goods	USD bn	55.6	-63.5	-72.7	-79.6	-86.2
Balance of services	USD bn	-11.0	-8.6	-5.6	-6.0	-4.8
Exchange rate (official)	aop. UAH/USD	32.34	36.57	40.15	42.27	44.89

Source: own forecast, based on Ukrstat, Ministry of Finance, NBU

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About the German Economic Team

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

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

CONTACT

Garry Poluschkin, Project Manager Ukraine
poluschkin@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59 | 10627 Berlin
Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com

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