ISSUE 22 | OCTOBER 2025

German Economic Team

# ECONOMIC MONITOR
## UKRAINE

### Overview

- Growth is expected to slow to 2.0% yoy in 2025, followed by a moderate increase to 2.8% in 2026. As the war continues, the focus remains on repair measures rather than broad-based reconstruction (“Build Back Better”)
- Inflation peaked in mid-25 and is projected to move towards the target range (4-6%) in 2026.
- A controlled depreciation allows for a gradual reserve accumulation (USD 47 bn)
- (International) financing of the fiscal deficit (2025: 21% of GDP) remains the main policy challenge. A significant financing gap persists for the coming year
- Public debt continues to rise and is expected to reach 100% of GDP by 2026
- Export development is supported by the Black Sea corridor but restrained by a weak harvest
- Imports are expanding much faster, resulting in a widening trade deficit (2025: USD 42 bn)

### Special issues

- **“Reparation loan”:** a new concept for medium-term financial support
- **FDI:** Moderate inflows since the start of the war reflect risk perceptions
- **Investment climate:** 53% of the GET/AHK (2024) proposals fully or partly implemented
- **New EU TRQs:** The impact will remain limited due to possible export reorientation

# Basic indicators

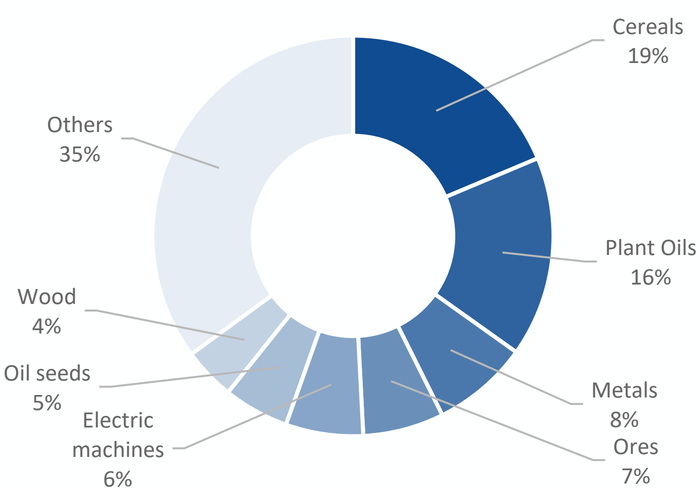
| | Ukraine | Moldova | Georgia | Romania | Poland |
|---|---|---|---|---|---|
| GDP, USD bn | 190 | 18 | 34 | 384 | 908 |
| GDP/capita, USD | 5,711 | 7,480 | 9,142 | 20,278 | 24,810 |
| Population, m | 33.3 | 2.4 | 3.7 | 18.9 | 36.6 |

*Source: Own representation based on data of the International Monetary Fund (IMF, 2025a), data for 2024*

## Trade structure

### Exports

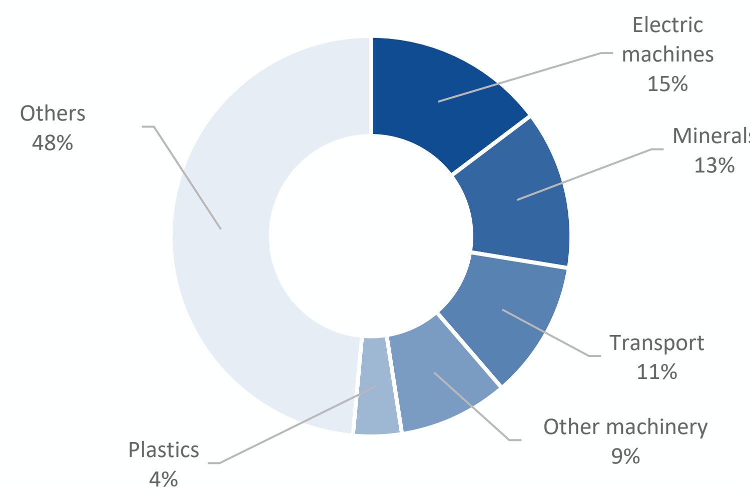
EU 58% | Türkiye 9% | China 4% | Others 29%




*Source: own representation based on data of the State Statistics Service of Ukraine (Ukrstat, 2025a), trade in goods for 7M2025*

### Imports

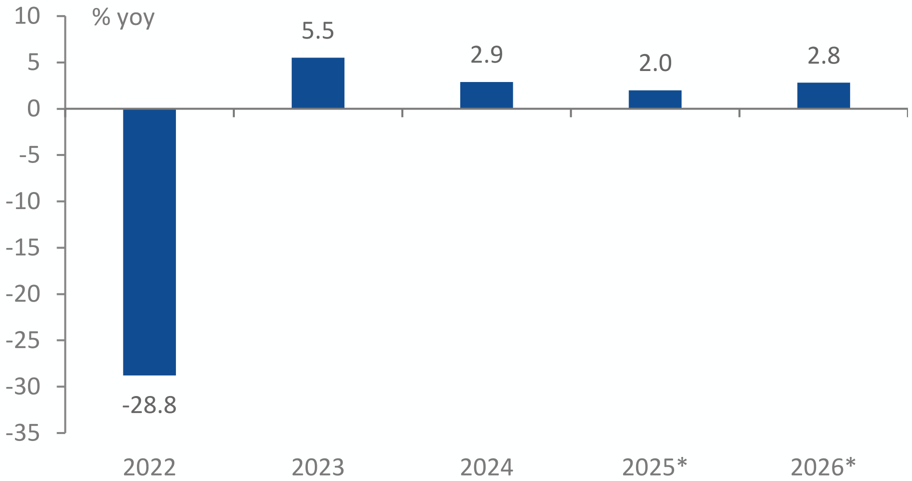
EU 47% | China 21% | Türkiye 7% | Other 25%




*Source: own representation based on data of the State Statistics Service of Ukraine (Ukrstat, 2025a), trade in goods for 7M2025*

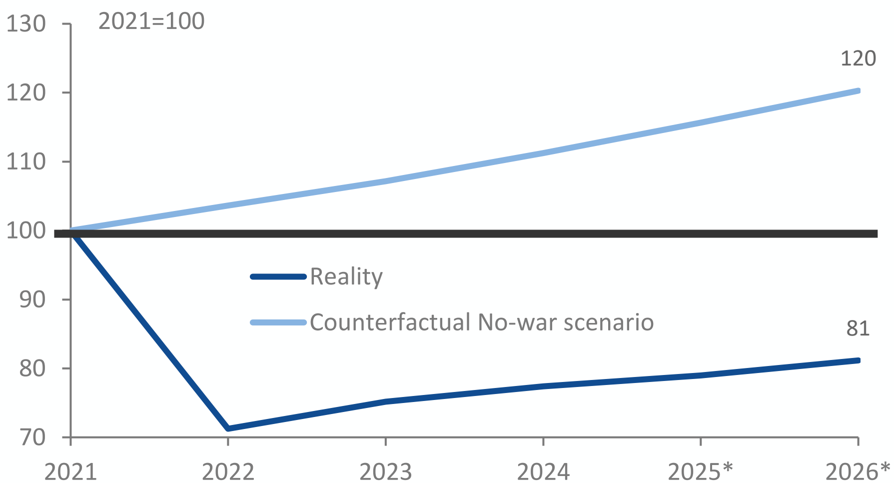
# Economic growth

**Real GDP growth**




*Sources: own representation based on data from Ukrstat (2025b), *Betliy et al. (2025) forecast*

**Outlook vs pre-war level**



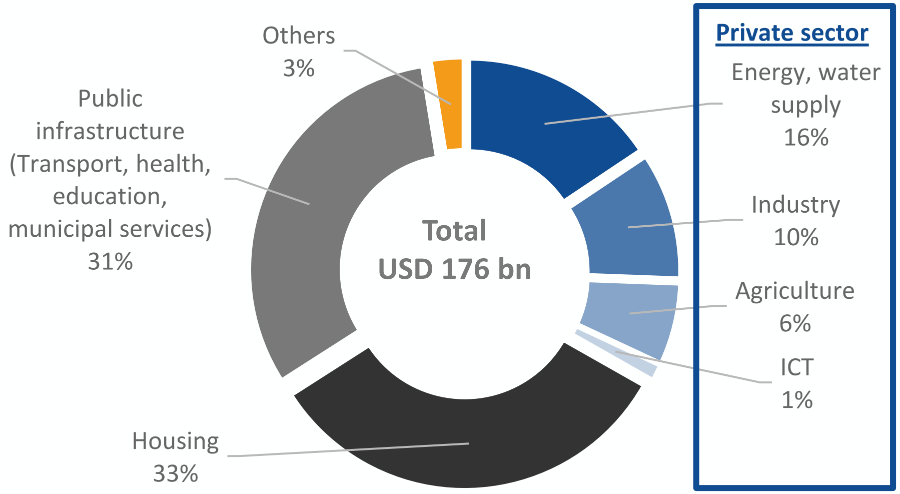

*Sources: own representation based on data from Ukrstat (2025b), * Betliy et al. (2025) forecast, counterfactual scenario based on IMF (2021)*

- » 2025: 2.0%, downward revision from the GET/IER winter forecast (2.9%)
  - Continued war
  - Weak performance in industry, agriculture
  - Labour shortages intensify
- » 2026: Focus on repair activities rather than reconstruction under continued war → Forecast: 2.8%
  - Economy at 19% below pre-war level
  - 39% below a hypothetical no-war scenario

➢ **Economic recovery remains constrained as long as the war continues**

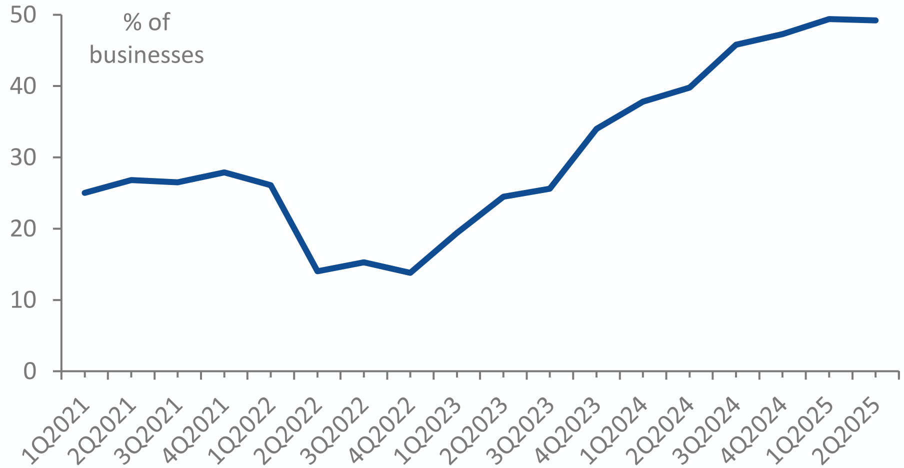
# GDP: supply side

War damages to the capital infrastructure




*Source: own representation based on data from EU et al.,2025*

Labour shortage: Main factor that impedes output growth




*Source: Own representation based on data from the National Bank of Ukraine (NBU, 2025a), survey: share of companies that consider „qualified staff shortage" as factor that impedes output growth*

## Capital stock

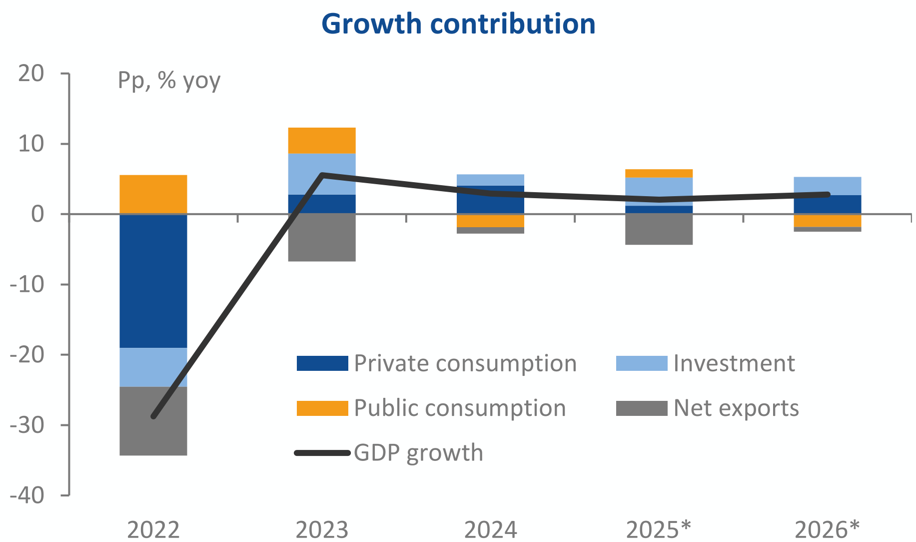
- Direct damages to the capital stock at USD 176 bn by Dec-24
  - Impact on private sector, housing, public infrastructure
  - 35% of civilian critical infrastructure repaired/rebuilt

## Labour supply

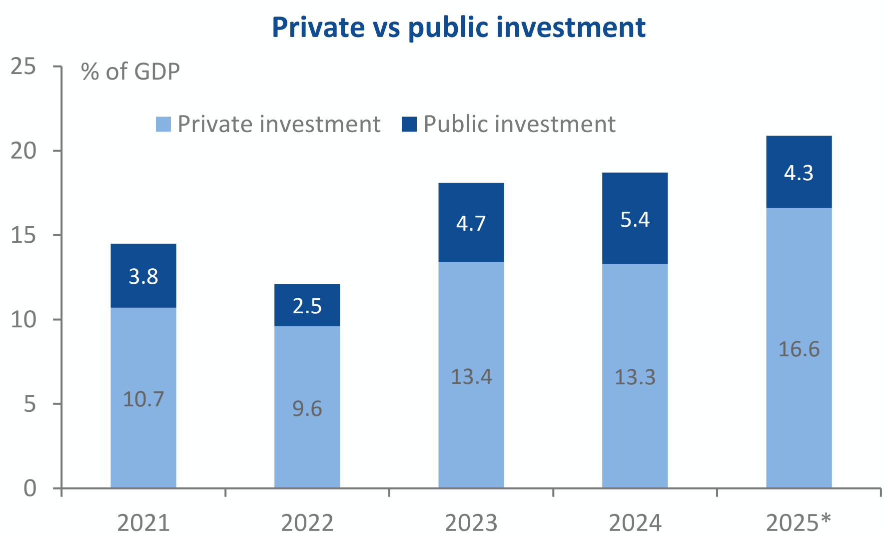
- Mobilisation and migration have led to shortages of (skilled) labour
  - 2021: 5.9 applicants for one job position
  - 2024: 1.8
- Share of firms citing labour shortages as the main constraint
  - 2021: 26.6%
  - 1H25: 49.3%

➢ **Production factors strongly affected by war**

# GDP: demand side




*Sources: own representation based on data from Ukrstat (2025b), * Betliy et al. (2025) forecast*




*Source: own representation based on data from the IMF, 2025b, *forecast*

## Growth contribution

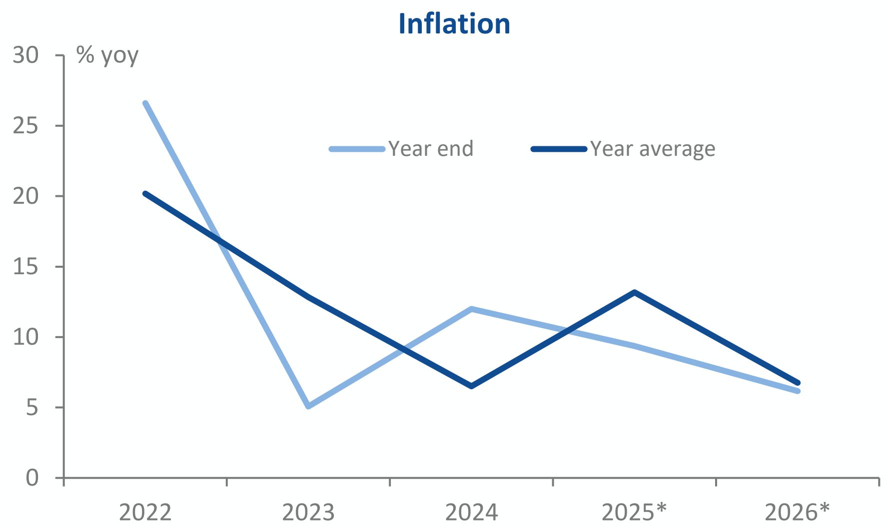
- Investment is main growth driver: repair needs, defence spending
- Private consumption: real wage growth
- Net exports: negative
- Public consumption: depending on the availability of financial aid

## Role of the private sector

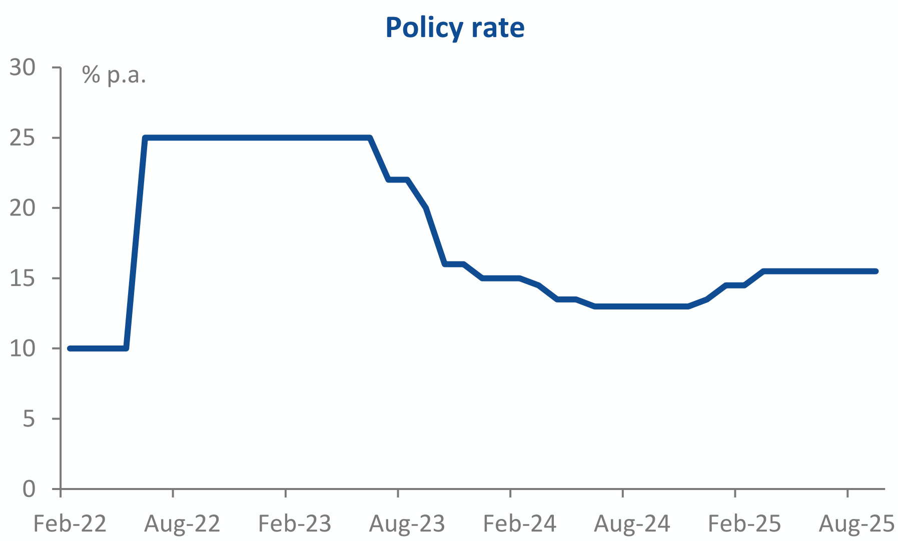
- Investment-to-GDP ratio continues to rise, 2024-share exceeds pre-war levels
- Private investment dominates, accounting for 80% of total investment
  - But constrained by limited access to finance, investment climate, security

**Private investment is key driver of the economic development**

# Inflation and monetary policy




*Source: own representation based on data from the NBU, 2025b, * Betliy et al. 2025 forecast*




*Source: own representation based on data from the NBU (2025b), end of month*

## Inflation

- » CPI rose from 3.2% in Apr-24 to 15.9% in May-25, before falling to 11.9% in Sep-25
  - Key drivers: food, energy, and services
- » Forecast for 2025: 9.4% for year end, 13.2% for year average
- » Forecast for 2026: convergence towards the upper bound of the target range (4–6% p.a.)

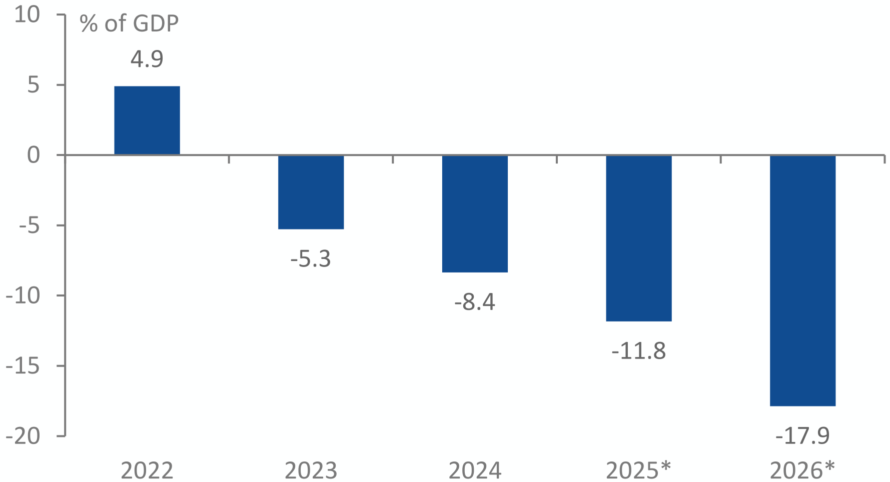
## Policy Rate

- » 3 rate hikes since Dec-24 of cumulative 250 bps to 15.5%, introduced since Mar-25
- » Tight monetary policy to remain in place; ex-post real interest rates will stay positive

- ➢ **Inflation has been declining since mid-25**
- ➢ **Restrictive monetary policy will be kept**

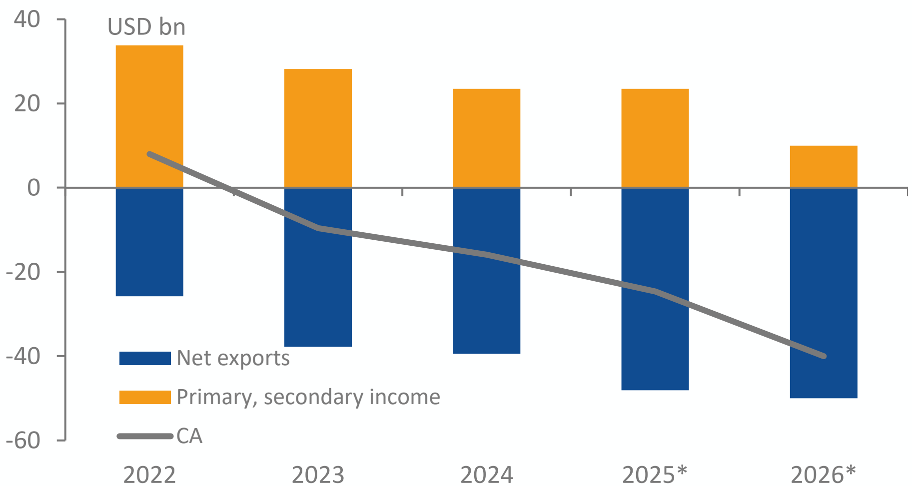
# Current account

## Current account balance




*Source: own representation based on data from NBU (2025c), * Betliy et al. 2025 forecast*

## Components of the current account




*Source: own representation based on data from NBU (2025c), * Betliy et al. 2025 forecast*

## Development

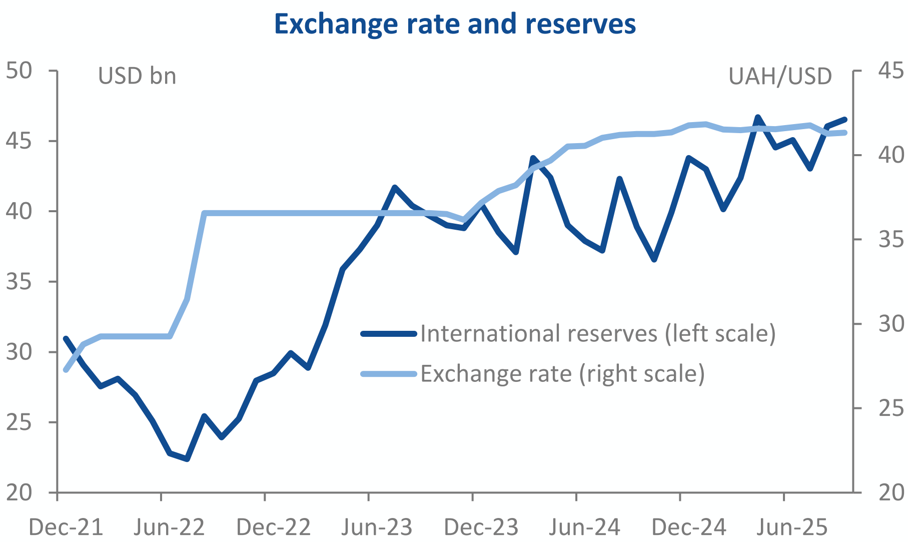
- » Current account deficit is widening, adding pressure on the exchange rate
- » External financial assistance remains crucial to ease pressure on reserves

## Components

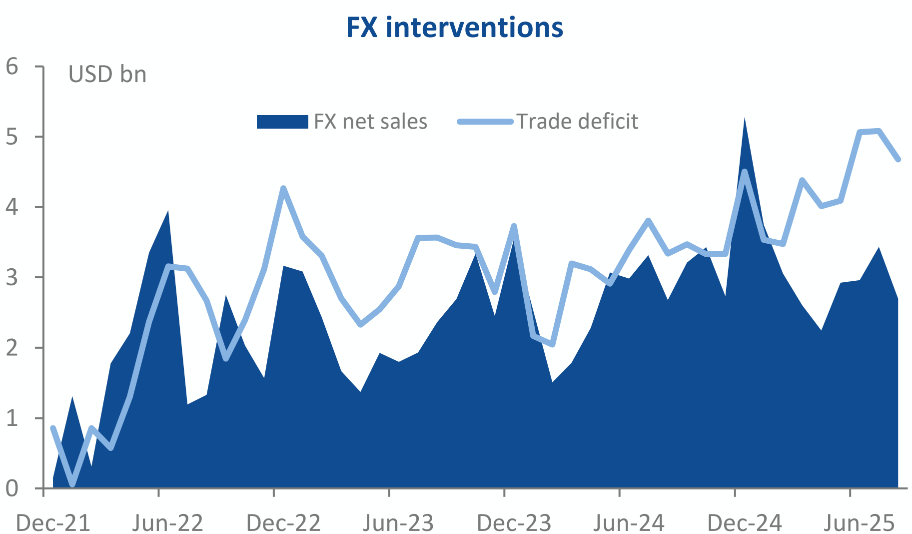
- » Trade deficit continues to widen, driven mainly by declining agricultural exports
- » Primary, secondary income (incl. remittances, grants) decline however
- » As a result, deficit is increasing

➢ **External financial support remains essential for exchange rate stability and for financing the current account deficit**

# Exchange rate and reserves




*Source: Own representation based on data from NBU (2025c)*




*Source: Own representation based on data from NBU (2025c)*

## Exchange rate and reserves

- Since end-2023: more flexible but managed exchange rate regime
- Since Jun-24: the exchange rate has stabilised at around 41 UAH/USD
- Reserves at USD 46.5 bn (Sep-25); their evolution depends on the distribution of external financial aid

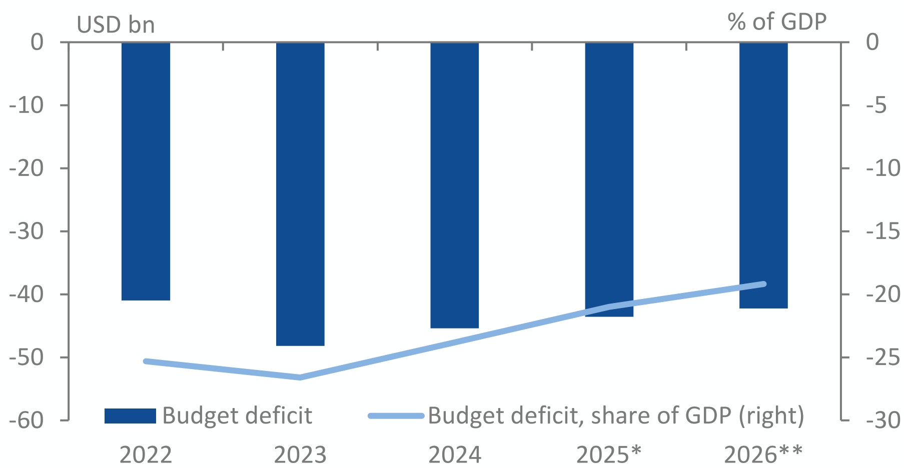
## FX interventions

- Jun-25: Monthly trade deficit of USD 5 bn – a historic peak.
- FX reserve sales continue to support exchange rate stability:
  - Reserves cover ~ 5 months of imports

- **Regular FX market interventions continue**
- **External financial aid ensures macro-financial stability, supports build-up of reserves**

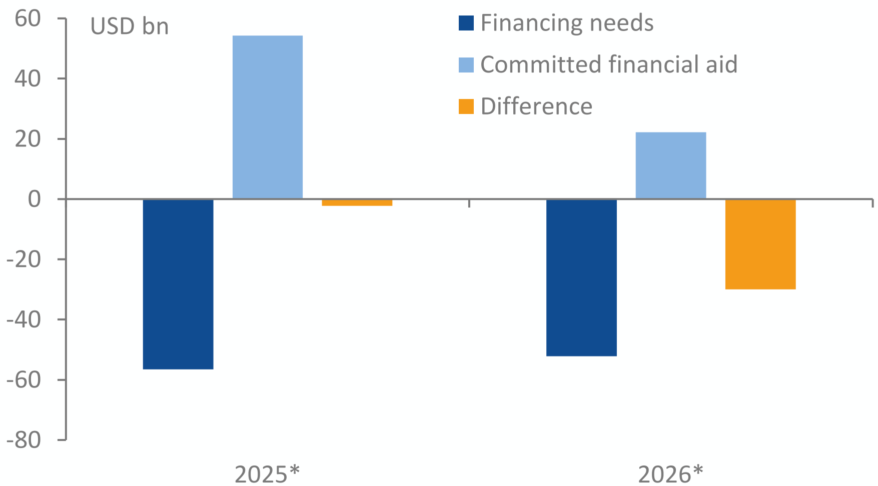
# Budget

### Budget deficit (excl. grants)




*Source: own representation based on data from the NBU (2025a), *Betliy et al. (2025) forecast, **budget draft of the Cabinet of Ministers, Ministry of Finance of Ukraine (2025a)*

### Financial needs and aid




*Sources: own representation, *Betliy et al. 2025 forecast, IMF (2025b) for financial aid*

## Budget deficit

» Expenditures continue to exceed revenues
  - Defence spending accounts for 27% of GDP in the 2026 draft budget

» Deficit: USD 44 bn in 2025 (before supplementary budget); USD 42 bn in the 2026 draft budget

## Coverage of the financial needs

» In 2025, committed international financial aid expected to (almost) fully cover needs

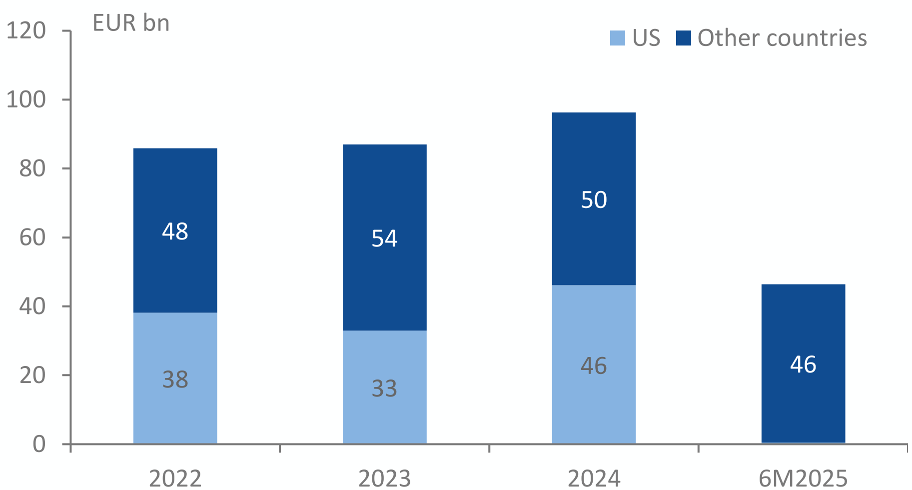
» Additional (limited) domestic borrowing complements external financing (no monetary budget financing)

» For 2026, a remaining funding gap of ca. USD 30 bn

➢ **Committed external assistance can close the 2025 gap but not in 2026**

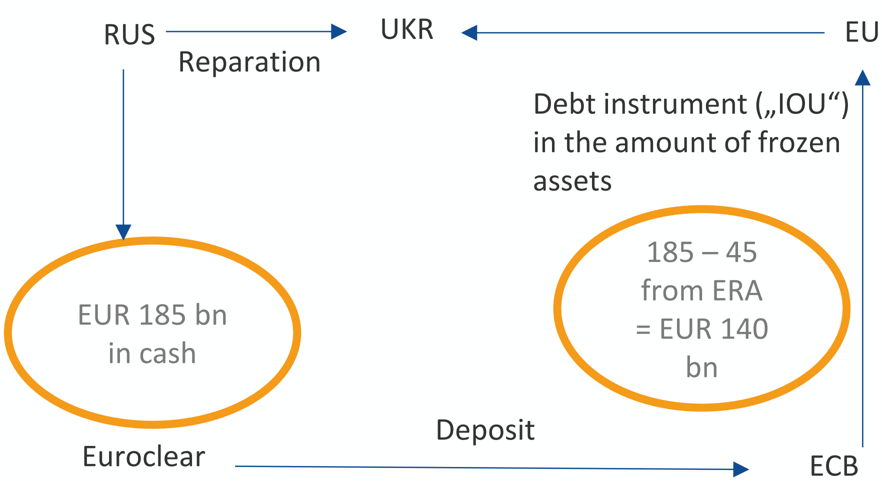
# Medium-term development of aid

### International aid




*Source: own representation based on data Trebesch et al. (2025), for 2022, year average since Feb-22*

### "Reparation Loan"




*Sources: own representation based on Dixon et al., 2024*

## Support Measures

- Average EUR 90 bn p.a in military, financial, humanitarian aid between 2022 and 2024
- Since 2025, the US scaled back its financing contribution of support measures
- 1H25: EU and other partners able to substitute

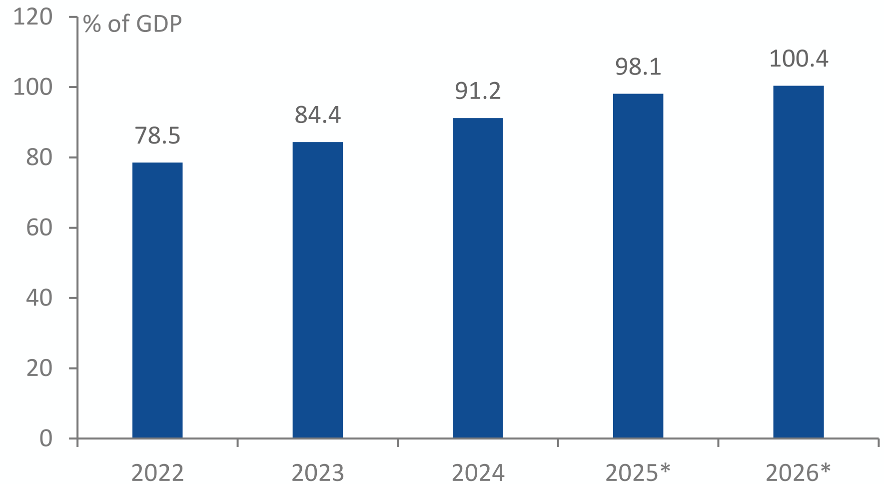
## Medium-term development

- EU proposed a so-called "reparation loan"
- The EU would lend frozen RUS assets of EUR 140 bn (net of ERA) to UKR
- UKR would repay if/when RUS pays reparations
- Other G7 countries may join the initiative
- Property rights remain intact – this does not constitute expropriation

➢ **A reparations loan is under consideration for medium-term sustainability of aid**

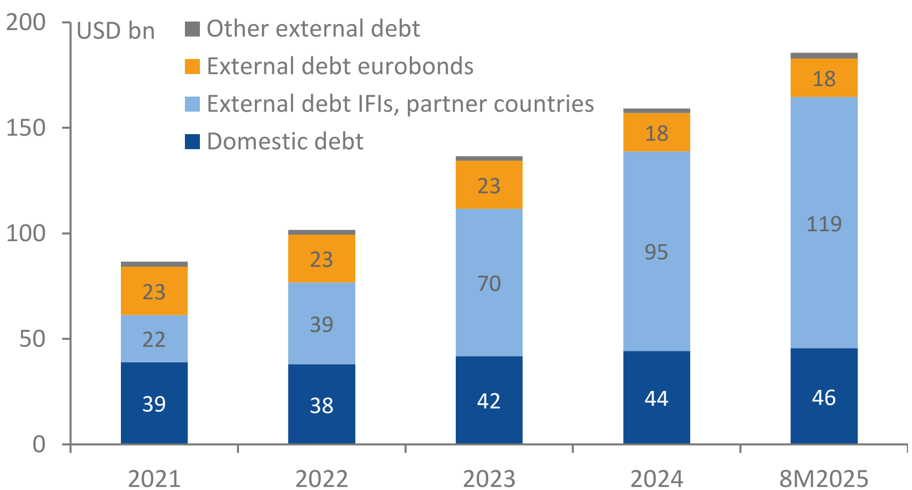
# Public debt

**Debt ratio: State and state-guaranteed debt**




*Source: own representation based on data from the Ministry of Finance of Ukraine (2025b) *Betliy et al. 2025 forecast*

**Domestic vs external debt**




*Source: own representation based on data from the Ministry of Finance of Ukraine (2025b)*

## Public debt

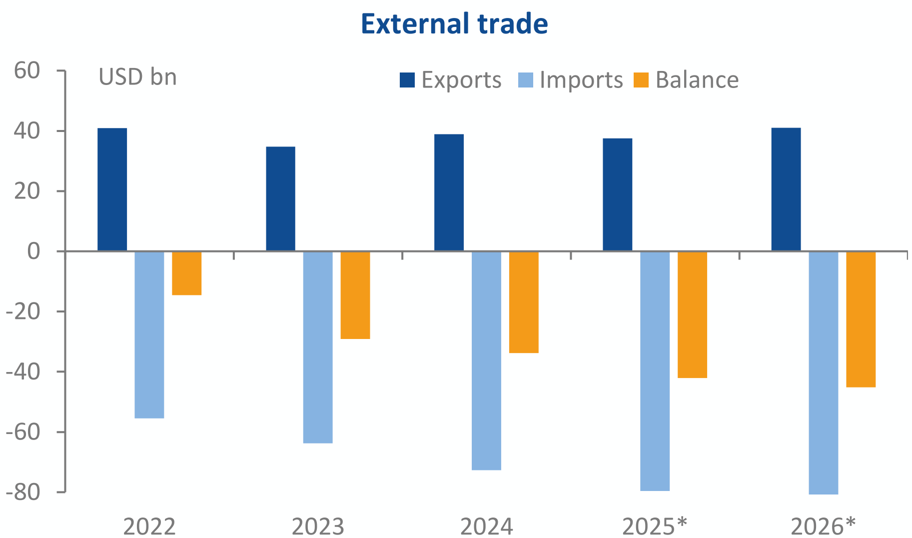
- » Debt-to-GDP ratio continues to rise, with 100% of GDP expected by 2026
- » IMF expects further steps towards debt restructuring vis-a-vis private investors, e.g. GDP-linked bonds, state-owned enterprises

## Domestic vs. external Debt

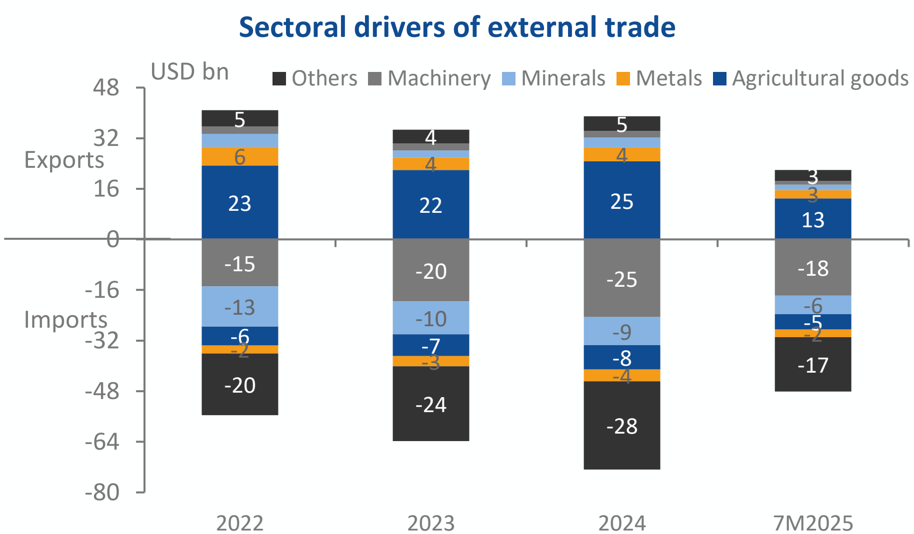
- » Debt has doubled in absolute terms from 2021 to Aug-25
- » Key Driver: Loans from IFIs, partner countries
  - Majority of financial aid comes in the form of loans

- ➢ Negotiations continue over restructuring with private investors
- ➢ However, IFIs and partner countries have become the main creditors

# External trade




*Source: own representation based on data from the NBU (2025c), *Betliy et al. (2025) forecast*




*Sources: Own representation based on NBU (2025c)*

## External trade

- » Exports stagnate, 1/3 below pre-war levels
- » Imports are growing and have already exceeded pre-war levels in 2024
- » The trade deficit is widening sharply

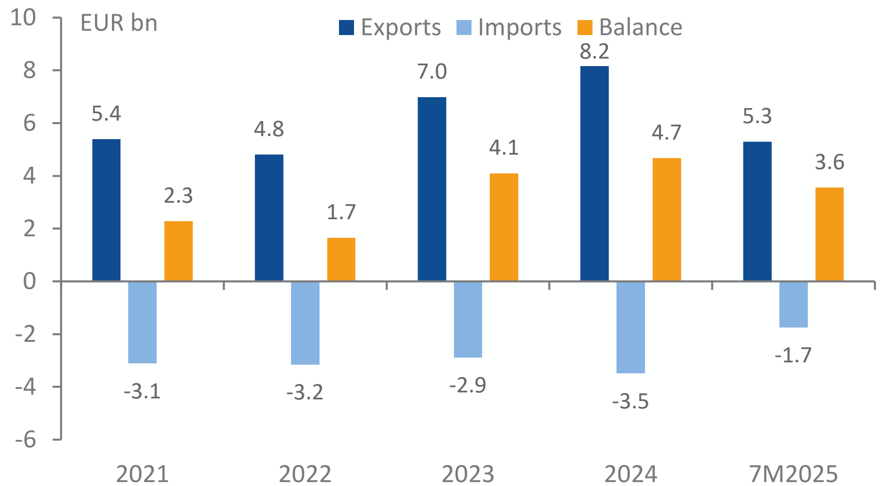
## Sectoral development

- » Since Oct-23, own Black Sea export corridor: agri-food and other goods (e.g. metals)
- » But agri-food exports stagnate due to weak harvests, price developments while being the largest export product sector
- » Imports, particularly of machinery, are increasing

- **Weak agricultural performance limits export growth**
- **Imports rising strongly**
- **The trade deficit is widening significantly**

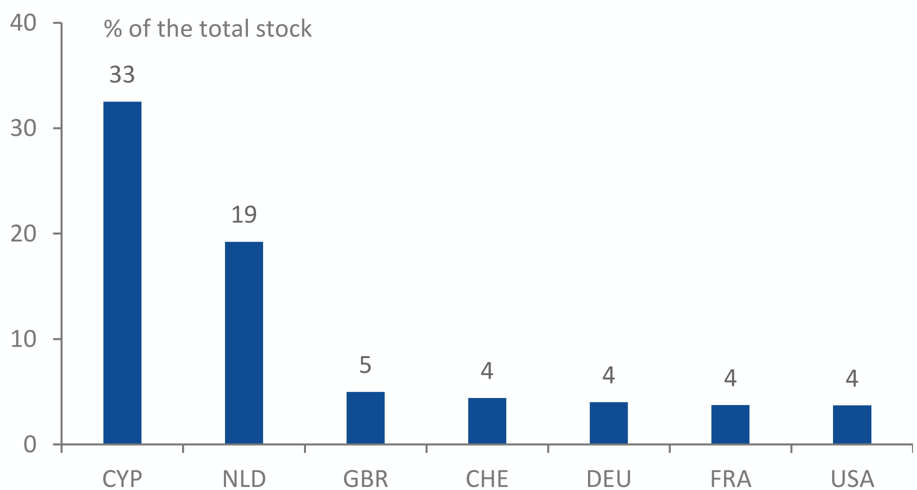
# German-Ukrainian trade and investment ties

German trade with Ukraine




*Sources: own representation based on data from the Statistisches Bundesamt (2025)*

FDI stock in Ukraine by source countries (2024)




*Source: own representation based on data from the NBU (2025c)*

## Trade

- 2024: Record level of EUR 11.7 bn, exceeding trade between DEU and RUS
- 7M25: Continued growth, up by 16% yoy
- Growth in DEU exports to UKR driven mainly by military equipment

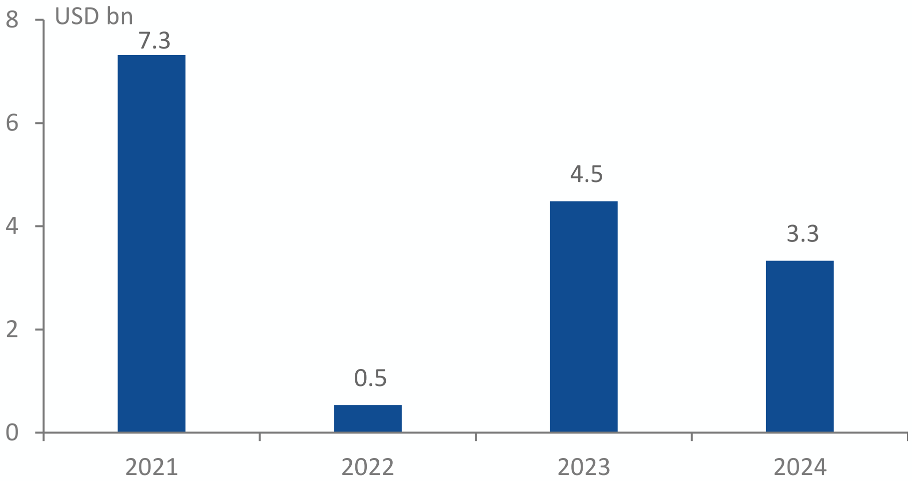
## German investment in Ukraine

- DEU is 5th most important source country of FDI stock with USD 2.2 bn (2024)
- Rising membership of the AHK Ukraine: 154 (2021) vs 223 (Nov-24)
- Federal guarantees for DEU FDI remain a key instrument for UKR
  - Since 2022: no. 1 by guarantees (46)
  - 1H2025: no. 1 by volume: EUR 248 m
- But overall volumes remain insufficient given the reconstruction needs

➢ **Economic ties are stronger than ever**

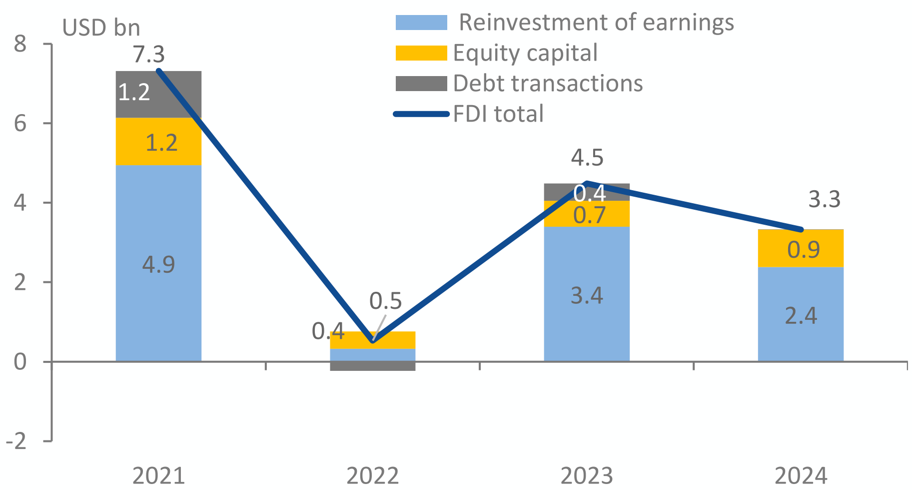
# FDI development

## Development of FDI inward flows




*Source: own representation based on data from the NBU (2025c), Poluschkin and Kirchner (2025)*

## Main drivers of FDI inward flows




*Source: own representation based on data from the NBU (2025c), Poluschkin and Kirchner (2025)*

» FDI inflows since 2022 at USD 8.3 bn

» From business perspective: confidence in future economic potential

» From macroeconomic perspective: 1.6% of GDP – below pre-war levels, insufficient for reconstruction needs

» Majority as reinvested earnings (61%)

- Companies profitable, FX controls
- New equity is low but increasing

➢ **FDI inflows moderate as businesses hesitate due to elevated risks**

➢ **Expansion of investment guarantee schemes remains crucial**

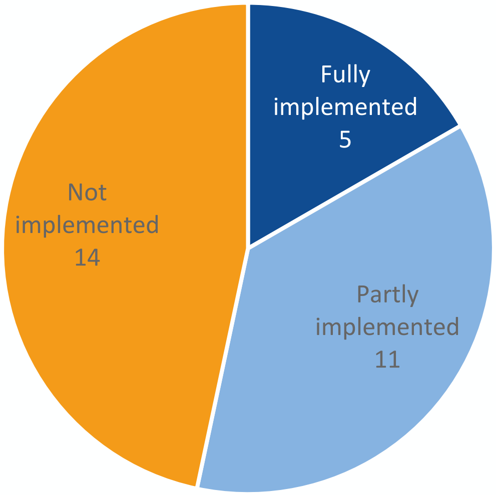
# Challenges and reforms of the investment climate

### Monitoring of the implementation process by areas

| | Law | Tax | Finance | Energy | Construction | Others |
|---|---|---|---|---|---|---|
| Fully implemented | 0 | 1 | 1 | 3 | 0 | 0 |
| Partly implemented | 2 | 2 | 1 | 4 | 1 | 1 |
| Not implemented | 4 | 1 | 3 | 0 | 4 | 2 |

*Source: own representation based on Kirchner et al. (2025, forthcoming) in cooperation with the AHK Ukraine*

### Monitoring of the implementation process: summary




*Source: own representation based on Kirchner et al. (2025, forthcoming) in cooperation with the AHK Ukraine*

- Survey among member companies in the sectoral committees of the AHK Ukraine in spring-24
- Identification of 30 proposals to improve the investment climate
- One year later: monitoring of implementation progress
- More than half of the proposals fully or partially implemented
- Most progress in the energy sector
- Greatest need for action in the construction sector
  - Harmonisation of definitions
  - Adoption of EU standards and approval procedures

➢ **Despite the war, reforms to improve the investment climate continue**

# New EU TRQs for UKR products (1/3)

- Until Jun-22: “old” tariff rate quotas (TRQs) in place
- Jun-22 – Jun-25: autonomous trade measures (ATMs); almost free trade
- Jun-25 – Oct 25: old TRQs again in place
- From Oct-25 onwards: “new” TRQs

**Question**: effect of new TRQs on UKR exports?

- Two comparisons needed: new vs old TRQs <u>and</u> new TRQs vs ATMs

**First comparison: new vs old TRQs**

- 4 TRQs abolished and several products withdrawn from 6 TRQs: yoghurts, buttermilk, whole milk powder, mushrooms, grape juice, and other products now fully duty-free
- 26 TRQs were enlarged; most substantial for honey, sugar, barley groats, and bran
- Potential expansion of duty-free exports: **USD 630 m** per year or 35% increase
- UKR exporters could save up to **USD 165 m** per year related to EU’s import duties
- **New TRQs imply a substantial trade liberalisation when compared to old TRQs**

**Second comparison: new TRQs vs ATMs**

- UKR exports to the EU to drop by **USD 1,144 m** per year when compared to ATMs (2024)
- Main reason: exports of wheat to the EU to drop by **USD 894 m** per year

# First vs second comparison: product-level (2/3)

| Description | Units | Old TRQ | New TRQ | First comparison | ATMs (2024) | Second comparison |
|---|---|---|---|---|---|---|
| Poultry | tt | 90 | 120 | **+30** | 137 | **-17** |
| | USD m | 269 | 358 | | 408 | |
| Eggs | tt | 6 | 18 | **+12** | 60 | **-42** |
| | USD m | 8 | 24 | | 78 | |
| Honey | tt | 6 | 35 | **+29** | 54 | **-19** |
| | USD m | 12 | 68 | | 104 | |
| Sugar | tt | 20 | 100 | **+80** | 320 | **-220** |
| | USD m | 13 | 62 | | 199 | |
| Wheat | tt | 1.000 | 1.300 | **+300** | 6.352 | **-5.052** |
| | USD m | 178 | 230 | | 1.124 | |
| Barley | tt | 350 | 450 | **+100** | 632 | **-182** |
| | USD m | 58 | 74 | | 103 | |
| Apple juice | tt | 20 | 30 | **+10** | 78 | **-48** |
| | USD m | 42 | 63 | | 164 | |

*Source: representation based on Movchan and Giucci, 2025*

# Reorientation of exports (3/3)

| No | Description | Reorientation volume, tt | Reduction in EU exports, USD m | Reoriented exports, USD m | Reduction in total exports, USD m | ...due to price wedge | ...due to transport costs |
|---|---|---|---|---|---|---|---|
| 4 | Poultry | 15 | 45 | 28 | -17 | -17 | 0 |
| 8 | Eggs | 6 | 8 | 8 | -1 | -1 | 0 |
| 9 | Honey | 3 | 6 | 4 | -2 | 0 | -2 |
| 11 | Sugars | 220 | 137 | 113 | -23 | -23 | 0 |
| 14 | Wheat | 5.052 | 894 | 690 | -203 | 0 | -203 |
| 15 | Barley | 182 | 30 | 27 | -3 | 0 | -3 |
| 25 | Apple juice | 11 | 24 | 20 | -4 | -3 | -1 |
| | **Total** | | **1.144** | **891** | **-253** | **-44** | **-209** |

*Source: representation based on Movchan and Giucci, 2025*

» The estimated yearly reduction of USD 1,144 m in exports to the EU will be partially offset by reoriented exports to other destinations

» Thus, the estimated yearly reduction in total exports amounts to **USD 253 m**, which is equivalent to 0.6% of the total exports in 2024

» Higher transport costs for shipping wheat outside the EU explain most of the reduction in total exports

» However, lower prices on alternative markets play the key role in the reduction of total exports for poultry, sugar, and apple juice

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# About the German Economic Team

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

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

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