

Macro Insight

Growth Weak but Macroeconomic Stability Safeguarded

The economy is set to slow further as headwinds remain intense. The energy crisis caused by Russia's terror attacks on civil infrastructure is interrupting production cycles in many sectors and damaging consumer sentiment. If safety risks don't subside dramatically in 2026 – which is our conservative baseline assumption – the economy will struggle to grow. Nonetheless, the continued inflows of foreign financial aid imply the economy will remain on a footing that is sufficiently strong and risks to a broad macroeconomic stability are reasonably low. The EU decision to grant a EUR90bn loan to Ukraine for 2026-27 came as a huge relief, yet further clarification that only EUR30bn is going to be earmarked for budget support is somewhat disappointing. We expect foreign grants and concessional loans will remain sufficient to alleviate fiscal concerns in 2026, but a question mark remains about the adequacy of the aid size in 2027. Rapid deceleration of inflation is one of the brightest spots of current economic realities, and we expect inflationary pressures will remain muted through 2026. NBU's recent guidance on the key policy rate path came as a big surprise to us as we expected more bold moves to ease monetary conditions. We interpret NBU key rate signals as a confirmation that it intends to further weaken the hryvnia in 2026 in an important deviation from last year's policy of, effectively, a fixed exchange rate. Slowing inflation, pressures to devalue from the MinFin and the IMF, and an expected reduction in foreign aid in the future will likely reduce NBU's determination to maintain a strong hryvnia policy. The record-high imbalances of external accounts will remain the key vulnerability of the economy, but, likely as in previous years, the C/A deficit will remain fully covered with foreign aid. Following last year's spike, NBU reserves are set to remain at historic highs, but are unlikely to grow further. The fiscal deficit widened last year, but we expect that will reverse in 2026. Over 98% of the gap will be covered with external financing. The IMF program will contain sensitive tax issues, as the fund will want to ensure that the country can mobilize more resources domestically should the expenses on defense increase vs the current plan.

Economy weakness amplified by energy shocks

The economy slowed close to below 2% in 2025 from 2.9% in 2024. Export was the main culprit behind the economic deceleration, as it likely fell by more than 15% in real terms. On the other side of the spectrum was private consumption of households that held up quite well and made the largest contribution to the GDP increase. Positive contributions also originated from investments (largely into the defence sector) and government consumption. On the production side, the biggest disappointment was agriculture, as the harvest failed to meet beginning-of-the-year expectations.

6 FEBRUARY 2026

Key macroeconomic data and projections

	2025E	2026F
Real GDP, YoY, %	1.8	0.8
Nominal GDP, US\$bn	214	225
Inflation, YoY, %, e.o.p.	8.0	6.3
Key policy rate, %, e.o.p.	15.5	14.0
UAH/USD, e.o.p.	42.4	45.0
C/A balance, % of GDP	(15)	(18)
NBU reserves, US\$bn	57.3	56.1
Budget gap, % of GDP*	(25)	(20)
Public debt, % of GDP	102	110

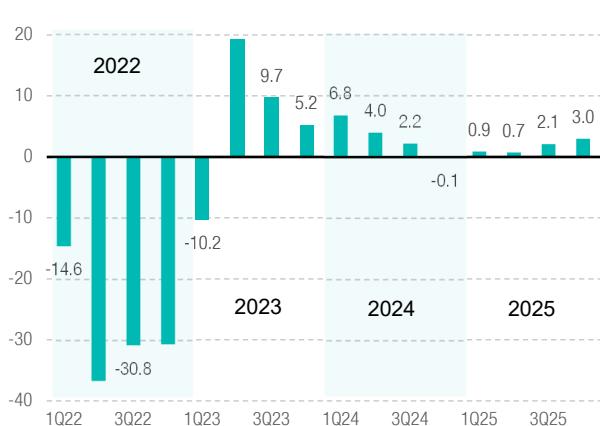
* budget balance before official grants to the government
 Source: UkrStat, NBU, ICU

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We expect a further slowdown in economic growth in 2026 against the backdrop of numerous headwinds. Household consumption will remain the most important economic engine even though it is set to lose some steam on deceleration in household incomes. The contribution of government consumption is likely to turn negative this year on expected compression of the fiscal deficit (we expect a decline of 4-5pp) after last year it exceeded the 2024 level, much to our surprise. Investment will remain dominated by military-sector outlays that are likely to slow. The prospects for exports are still bleak, but may improve if agricultural harvest grows and shelling of the port infrastructure subsides. Import of final goods will remain robust and continue to offset a part of domestic demand. The contribution of net export to GDP is likely to remain negative.

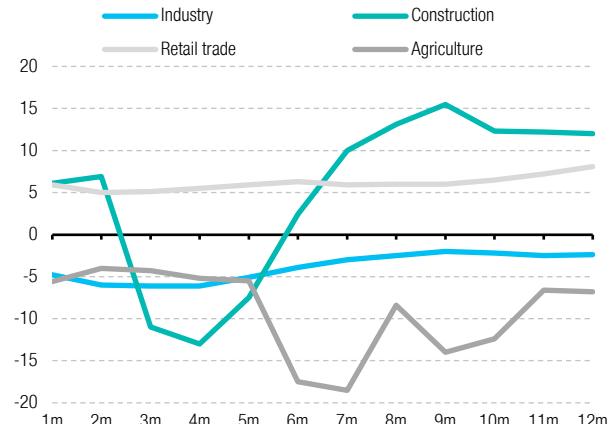
Extensive blackouts due to Russia's repeated strikes on Ukraine's energy infrastructure, although not a black swan, definitely add more troubles for numerous economy sectors. By our estimates the sectors / enterprises that have critical dependence on the smooth supply of electricity account for 20-25% of GDP. Many of those had to make extended production pauses in January, and the prospects for smooth power supply renewal remain unclear. At the same time, blackouts have another important negative side effect on private demand by souring household sentiment. The affected households tend to reduce consumption of non-essential goods and save more in the face of unprecedented challenges. In view of that, we downgrade our 2026 real GDP growth projection to 0.8% YoY from 1.2% previously. We think risks to this projection are symmetric and largely depend on the safety situation.

Chart 1. Real quarterly GDP, change YoY, %



Source: Ukrstat, ICU.

Chart 2. Real output of sectors in 2025, change YoY*, %



* cumulative from the start of the year

Source: Ukrstat, ICU.

Inflationary pressures weak despite energy supply shock

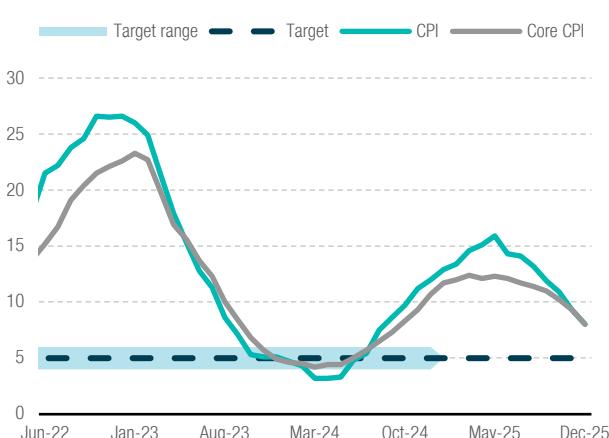
Annual CPI slowed to 8.0% at end-2025 vs 9.3% in November and a peak of 15.9% in May. Such a sharp deceleration came as a surprise – the NBU expected 9.2% while our expectation was 8.5% for end-2025 inflation. Monthly CPI of just 0.2% in December was atypically low for this month of the year. The deceleration in the annual price growth rate was wide-ranging, with the most significant declines seen for communication, food, and healthcare. Importantly, price growth in restaurants and hotels, a sector that is very sensitive to cost pressures, decelerated by 1pp to 13.5% – the lowest rate from December 2024. Transportation services were the only consumer basket component that saw an acceleration. We expect annual CPI will continue to decelerate robustly at least until June, and it may slip below 6% in March or April. Inflationary pressures will remain weak in the coming months due to slower growth in household incomes, the sufficiency of last year's harvest, export constraints for food products (due to Russia's attacks on the port infrastructure), stability of regulated utility tariffs, and a broadly stable exchange rate so far. The extensive blackouts and higher electricity tariffs for businesses add to cost pressure. Yet, producers will be struggling to pass them onto consumers in full at least in the coming months due to weak

consumer sentiment. Consumer inflation is set to pick up marginally in 2H26 on a low last year's base. We expect CPI to finish at 6.3% at end-2026.

NBU slashes rate cut forecast, likely due to plans to weaken the hryvnia

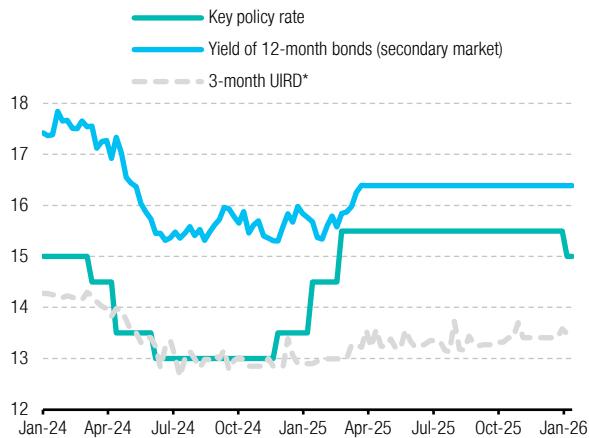
In late January, the NBU cut the key policy rate by 50bp to 15.0% and significantly revised its expected rate path. Instead of six cuts for a combined 300bp in 2026, the central bank now sees only two cuts for a combined 100bp, with the second one likely coming in April. In parallel, the NBU raised its end-2026 CPI forecast to 7.5% from 6.6% previously. The new CPI forecast and rate cut schedule come as a surprise given that the disinflationary trend remains robust. We think the new guidance reveals the change in NBU's stance towards the idea of a weaker hryvnia – the central bank likely became more inclined to pursue a gradual managed devaluation than it was last year (see our exchange rate projections below). Even so, we believe the current disinflation trend (even if slowed with a managed hryvnia depreciation) will be conducive to at least two more cuts during 2026. We, thus, see end-2026 key policy rate at 14.0%. New rates, although lower, should be sufficient to ensure that UAH-denominated assets remain attractive to prevent a rush to FX cash by households.

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



Source: UkrStat, NBU, ICU.

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



* Ukrainian index of retail deposit rates

Source: NBU, ICU.

MinFin shows fatigue of waiting for NBU rate cuts and moves first to lower yields

The MinFin moved in mid-January to lower bonds yields in the primary auction ahead of the NBU decision to cut the rate by 50bp. The cumulative cut in yields for longer-dated bonds has now exceeded 50bp while the rate of cuts for shorter papers was less ambitious. We expect the cut will reach or exceed 50bp for all maturities in the primary market in the coming weeks. The NBU's signal that at least one more cut of 50bp is highly probable will likely keep price competition for new bonds intense. MinFin will likely aim to ensure at least one-to-one transmission of cuts in the key policy rate to bond yields. This contrasts with its vision during the rate hiking cycle when only half of the increase in key rate was transmitted to bond yields.

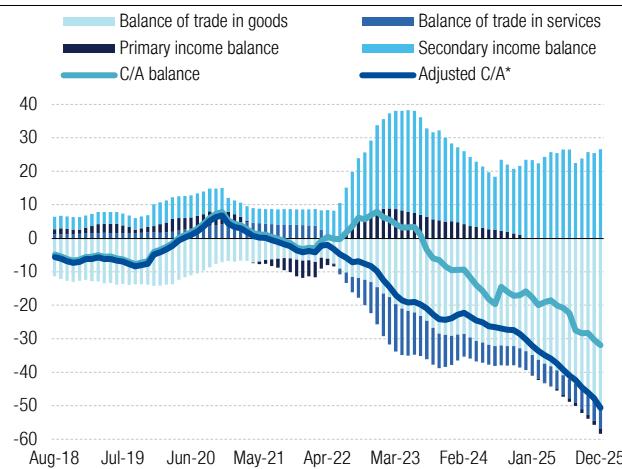
C/A deficit doubles in 2025, set to grow further in 2026

Ukraine's current account (C/A) deficit more than doubled to US\$31.9bn (14.9% of GDP) in 2025 on a historic high gap in trade-in-goods. The increase in the trade-in-goods shortfall was driven by an unprecedented upsurge in import, which rose 23% YoY and was two thirds above the pre-war level of 2021. The key driver was a boom in deliveries of machinery-industry products, split between energy saving/generating equipment, military equipment, and cars for household use. Another important component was "other goods" that to a significant extent shows flows of consumer goods delivered via postal services. Export declined 3% YoY in 2025, and was 16% below the level of 2021. Sales abroad were primarily hurt by lower agricultural harvest. The balance of trade in services was little changed in 2025 vs 2024. Primary income turned negative as labor income contracted while income of non-residents (in the form of dividends and interest) was slightly up. The surplus of secondary

income came on the back of massive official grants to the Ukrainian government and helped offset a huge part of the trade gap.

We expect the foreign trade deficit will remain close to its current level in 2026, while the C/A gap will increase to around 17-18% of GDP due to lower official grants (lower secondary income surplus). The scale of the problem is even better highlighted if official grants are excluded from the statistics – by that metric and C/A gap was at 23-24% of GDP and should remain close to this level in 2026.

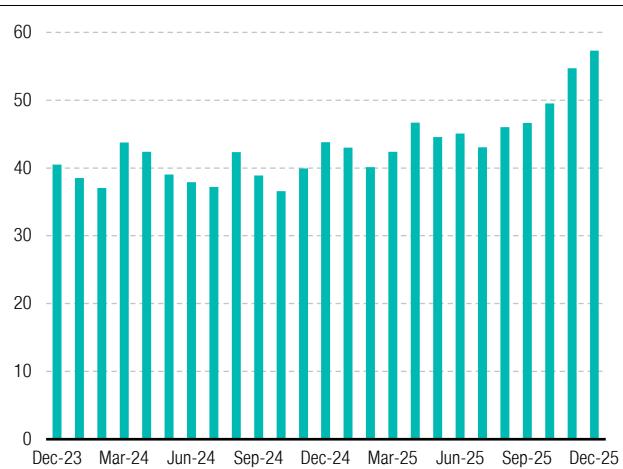
Chart 5. Current account, 12-month trailing, US\$bn



* net of official transfers to the government

Source: NBU, ICU.

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



Source: NBU, ICU.

The financial account (F/A) has seen some important improvements in 2025 and was close to zero in 2025, if official concessional loans are ignored. The most prominent positive trend was a significant reduction in FX cash outflows from banks (US\$8.1bn in 2025 vs US\$15.5bn in 2024) as household demand for FX cash moderated thanks to a stable hryvnia exchange rate. Official concessional loans were at a record high in 2025, and brought the financial account surplus to US\$44.4bn. We expect the F/A balance (net of official funding) to remain close to zero against the backdrop of tight capital controls and very limited FX liberalization steps by the NBU. The planned concessional loans will make the F/A balance highly positive.

Official funding for 2026-27 is lower than the government / NBU expected

The approval of the EUR90bn loan by the EU in December added confidence that Ukraine will have largely unlimited resources to cover the fiscal gap and build NBU reserves. Yet, the subsequent communication from the EU revealed Ukraine will only receive EUR30bn as direct budget support – that is definitely below the aspirations of the government and the NBU. Even so, the expected funding for 2026 should provide adequate firepower for the central bank to keep the FX market under control and for the government to cover the deficit that is planned currently. We expect about US\$42bn in concessional loans in 2026, and now see only about US\$29bn in funding for 2027. The numbers for 2026 imply that the financial account surplus in 2026 will be just enough to offset the C/A deficit. The NBU reserves are very unlikely to increase further in 2026. We expect NBU reserves will remain above US\$50bn throughout the year and finish broadly flat YoY at end-2026.

Table 1. Foreign financial assistance to Ukraine in 2025-27, US\$mn*

	2025	2026F	2027F
Ukraine Support Loan (EU)	-	15,000	20,000
Ukraine Facility (EU)	12,126	9,200	500
ERA	37,930	9,800	1,300
IMF	912	3,000	2,000
Other	1,719	5,000	5,000
Total	52,687	42,000	28,800

Source: IMF, European Commission, ICU. * assumed schedule of disbursements based on current ER.

The NBU now seems prepared to resume managed hryvnia weakening

The central bank had kept the UAH/US\$ exchange rate in a relatively narrow band over 2025, before letting it to cross UAH42/US\$ in December and then UAH43/US\$ in January. While the January 2026 spike is very similar to last year's pattern, we believe this time the move carries more significance. Many preconditions are now in place for the NBU to let the hryvnia gradually weaken further even though the central bank apparently has very little appetite for such moves:

- CPI has so far remained below the NBU forecast opening way for imported inflation;
- the growing external imbalances can hardly be ignored, even though the NBU insists they are fully related to the war and should not be tackled in the near future;
- higher US\$ rate would enable MinFin to exchange foreign grants/loans for more hryvnias – MinFin has been asking for this too long;
- so far, foreign aid expected in 2027 remains inadequately small in a scenario of a prolonged war and that may prompt the NBU to pay more attention to preservation of its reserves;
- the IMF seems to have stepped up pressure on the NBU to weaken the hryvnia in recent months, according to media reports.

In light of the above arguments, we slightly revise our end-2026 exchange rate to UAH45/US\$ from a previous UAH44.3/US\$.

External funding sufficient for 2026, question marks for 2027 remain

The state budget deficit before grants widened to 24.5% of GDP in 2025 from 23.9% in 2024. The deficit was nearly fully covered with external grants and borrowings, while net domestic borrowings covered only a tiny share of the total fiscal gap. Heightened expenses for the army continue to keep the budget deficit at a level that is shockingly high. We expect a decline in the 2026 fiscal gap by around 4-5% of GDP, largely in line with current government projections. The projected deficit should be safely covered with new external financial aid and cash leftovers from 2025. Should government review military expenditures up during the year, the increase in expenditures will likely need to be balanced with additional tax collections prompting the need for a broader tax base and/or higher tax rates. In view of this, legislative tax amendments will remain the focus of the upcoming IMF program.

The current Ukraine foreign funding commitments (still to be fully detailed in the IMF MEFP) likely leave a gap for 2027 in case the current intensity of the warfare continues. Thus, Ukraine's political leadership will be busy searching for additional funding options for 2027 and beyond.

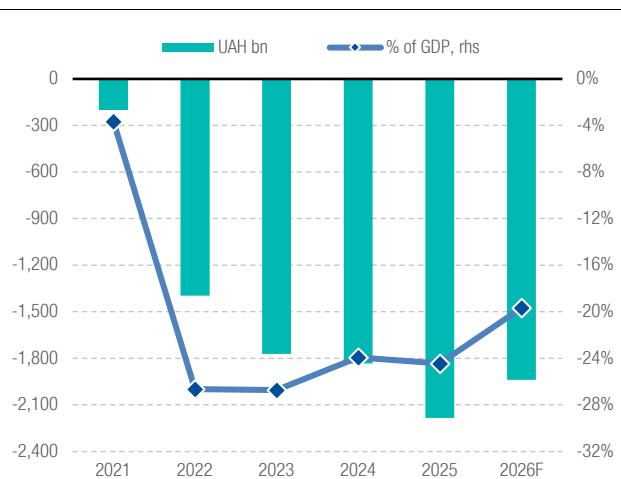
Table 2. Key parameters of state budget*, UAH bn

	2024	2025	2026
Total revenues (before grants)**	1,905	2,389	2,847
incl. tax revenues	1,647	2,016	2,468
Expenditures	3,744	4,577	4,752
incl. defence and security	2,252	2,992	2,806
Budget balance (before grants)	-1,833	-2,184	-1,939
 Total revenues / GDP	24.9%	26.8%	29.0%
incl. tax revenues / GDP	21.5%	22.6%	25.1%
Expenditures / GDP**	48.9%	51.4%	48.4%
Budget balance (before grants) / GDP	-23.9%	-24.5%	-19.7%
Total revenues / expenditures	50.9%	52.2%	59.9%
Tax revenues / expenditures	44.0%	44.0%	51.9%
Defence, security / total expenditures**	60.2%	65.4%	59.0%

* actual data for 2024 and 2025, budget law for 2026. ** excludes foreign military aid in kind

Source: MinFin, ICU.

Chart 7. State budget balance before grants



Source: MinFin, ICU.

Yearly forecast 2026

	Historical data for 2015–2025											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026F
Activity												
Real GDP (%, YoY)	(9.8)	2.4	2.5	3.4	3.2	(4.0)	3.4	(29.1)	5.5	2.9	1.8	0.8
Nominal GDP (UAHbn)	1,989	2,385	2,984	3,561	3,978	4,194	5,460	5,191	6,628	7,659	8,904	9,827
Nominal GDP (US\$bn)	90	93	112	131	155	155	200	161	181	191	214	225
Unemployment (%)	9.1	9.3	9.5	8.8	8.2	9.5	9.8	28.0	18.2	13.1	11.5	10.0
Inflation												
Headline inflation (%, YoY, e.o.p.)	43.3	12.4	13.7	9.8	4.1	5.0	10.0	26.6	5.1	12.0	8.0	6.3
Headline inflation (%, YoY, avg.)	48.7	13.9	14.4	10.9	7.9	2.7	9.4	20.2	12.9	6.5	12.7	6.2
GDP deflator (%, YoY)	38.9	17.1	22.1	15.4	8.3	9.8	25.1	34.3	19.9	12.3	14.2	9.5
Exchange rates												
UAH/USD (e.o.p.)	24.0	27.3	28.1	27.7	23.8	28.3	27.3	36.6	38.0	42.0	42.4	45.0
UAH/USD (avg.)	21.9	25.6	26.6	27.2	25.8	27.0	27.3	32.3	36.6	40.2	41.7	43.7
External balance												
Current account balance (US\$bn)	5.0	(1.9)	(3.5)	(6.4)	(4.1)	(3.9)	7.3	(9.3)	(9.6)	(15.1)	(31.9)	(39.4)
Current account balance (% of GDP)	5.6	(2.0)	(3.1)	(4.9)	(2.7)	(1.1)	4.5	(5.2)	(5.3)	(7.9)	(14.9)	(17.5)
Trade balance (US\$bn)	(2.4)	(6.5)	(8.7)	(11.4)	(12.5)	(2.7)	(26.4)	(37.7)	(37.9)	(39.4)	(56.8)	(55.8)
Trade balance (% of GDP)	(2.6)	(6.9)	(7.8)	(8.7)	(8.1)	(1.3)	(16.3)	(20.8)	(20.9)	(20.7)	(26.6)	(24.8)
Capital flows (F/A) (US\$bn)	(4.6)	3.1	6.0	9.3	10.1	3.4	(10.4)	18.6	18.9	10.0	44.4	38.3
FDI (US\$bn)	(0.4)	3.8	3.7	4.5	5.2	7.5	0.2	4.6	4.6	4.0	2.3	2.7
FDI (% of GDP)	(0.5)	4.1	3.3	3.4	3.4	3.8	0.1	2.5	2.5	2.1	1.1	1.2
NBU reserves (US\$bn)	13.3	15.5	18.8	20.8	25.3	30.9	28.5	40.5	40.5	43.8	57.3	56.1
Interest rates												
NBU's key policy rate (%, e.o.p.)	22.0	14.0	14.5	18.0	13.5	6.0	9.0	25.0	15.0	13.5	15.5	14.0
Fiscal balance												
Budget balance (% of GDP)	(2.3)	(2.9)	(1.5)	(2.4)	(2.1)	(5.1)	(3.7)	(26.6)*	(26.7)*	(23.9)*	(24.5)*	(19.7)*
Public debt (% of GDP)	79.0	80.9	71.8	60.9	50.6	60.8	49.7	78.5	83.3	91.2	101.6	109.5

* budget balance before official budgetary grants

Source: UkrStat, NBU, MoF, ICU.



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