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Ukraine: another difficult wartime budget

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On 19 November, the Ukrainian parliament (Verkhovna Rada) adopted (by a majority of 257 votes) the 2025 budget law, specifying that the country's spending will amount to 3.94 trillion hryvnias (approximately $95.5 billion) and its revenues to 2.34 trillion hryvnias (approximately $56.7 billion). The vast majority of expenditures –2.2 trillion hryvnias (approximately $53.3 billion, more than 55% of the total budget) –will be spent on defence. The largest sum (1 trillion hryvnias) will fund the operations of the armed forces, while another 488 billion hryvnias have been earmarked for the purchase, modernisation, and repair of armaments, and a further 160 billion hryvnias for the operations of the National Guard of Ukraine. According to the document, Ukraine's GDP growth will be 2.7%, its inflation rate 9.5%, and the average annual exchange rate of the Ukrainian currency against the US dollar will be 45 hryvnias to one dollar.

The continuation of high defence spending in 2025 indicates that the authorities in Kyiv do not anticipate a reduction in the intensity of military action in the coming year. As in previous years following the outbreak of the full-scale war, the budget is projected to run a significant deficit of 1.6 trillion hryvnias ($38.8 billion). However, unlike in 2023, Ukraine now has stable sources of foreign funding.

Commentary

- **The budget's focus on military spending reduces the country's ability to address the needs of the civilian population, resulting in cuts to funds allocated for social welfare.** The minimum wage and the minimum subsistence level, which are key indicators determining state-sector salaries, have not been increased. Assuming an inflation rate of 10% and depreciation of the hryvnia, this indicates that real salaries for a large portion of the population will decrease in 2025. A similar situation applies to the budget for public administration institutions, as for most of them it has been maintained at this year's level. This also applies to the secret services, with only a slight increase planned for the Security Service of Ukraine (from 40 to 41.4 billion hryvnias). As in previous years, it cannot be ruled out that the budget will need to be adjusted to increase spending.
- **There are certain doubts regarding revenue projections, which have been increased by more than 20% compared to the revised budget for 2024.** Personal income tax revenues are expected to rise by 110 billion hryvnias ($2.7 billion); however, this depends on the implementation of tax code amendments (see '*Ukraine increases taxes amid mounting budgetary pressures*'), which include, for example, an increase in the military tax from 1.5 to 5%. For unclear reasons, the president has yet to sign the relevant law (he was formally expected to do so within 15 days). Kyiv has secured international aid amounting to $15.2

billion from the EU's Ukraine Facility and the International Monetary Fund. It expects to receive the remaining portion of the $50 billion ERA loan, secured by frozen Russian assets and guaranteed by the EU and the US ($20 billion each), as well as the UK, Japan, and Canada.

- **In the defence spending category, funds allocated for the purchase, modernisation, and repair of armaments are of key importance.** When the bill was referred for a second reading, an amendment was introduced in this spending category, setting a precedent: some armaments will be purchased using foreign rather than domestic funds. This applies to a sum of 90 billion hryvnias (£2.26 billion), representing the UK's contribution to ERA funding. For now, it is unclear whether the remaining funds under this loan will be available for defence spending, as previous forms of foreign assistance to Ukraine's budget did not include such an option. Considering that forecasted domestic revenues are only slightly larger than security-related expenditures (more than a third of which is allocated to salaries for soldiers of the Armed Forces of Ukraine and the National Guard), approval for using foreign funds for this purpose would provide significant support to Ukraine's war effort.