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CENTRE FOR EASTERN STUDIES 14.10.2026 www.osw.waw.pl

# War of nerves: Ukraine needs funding, EU demands reforms

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For several weeks, the Ukrainian authorities have been highlighting acute liquidity problems. President Volodymyr Zelensky estimated that an additional $27 billion would be needed for defence by the end of this year, while Prime Minister Serhiy Koretskyi stressed that the government must secure $29.5 billion from international partners this year to finance civilian budget expenditure, of which more than $3 billion has already been received. Kyiv has therefore called on the EU to identify new support mechanisms and release some of the funding earmarked for 2027 before the end of this year.

The European Commission has indicated that Ukraine could receive a further €32.5 billion from the EU in 2026 – €17.1 billion in budget support conditional on reforms and €15.4 billion in guaranteed funding for military needs. This would cover part of the country's financing requirements.

The budget shortfall most likely stems from defence spending at a faster rate than planned in the spring and summer, as well as a decline in tax revenues caused by intensified Russian strikes. An equally important factor, however, is the authorities' lack of political will to implement key reforms concerning the rule of law and the fight against corruption, which has led to the suspension of further tranches of EU assistance.

**Commentary**

- **The growing budget shortfall is forcing the Ukrainian government to cut spending unrelated to defence, salaries and social welfare benefits.** This is hampering preparations for winter and placing additional pressure on local authorities and businesses. The government has already suspended spending of 46 billion hryvnias (approximately €900 million) on building repairs, work to prepare energy infrastructure for the heating season and the purchase of backup power sources. A further 39 billion hryvnias (approximately €770 million), earmarked for projects including the construction and repair of roads and shelters, has been deferred until December. The mayor of Konotop, a city of around 60,000 inhabitants, estimated that it faces a shortfall of 250 million hryvnias (approximately €5 million) in central government funding for municipal workers' salaries and fuel purchases, complicating efforts to deal with the aftermath of Russian strikes.
- **To unlock the allocated financial assistance, Ukraine should focus on implementing the reforms to which it has committed.** According to the RRR4U consortium, which monitors the implementation of Ukrainian reforms, 16 indicators under the Ukraine Plan remained unmet at the end of September, blocking approximately €5 billion in disbursements,

including €2.2 billion linked to commitments that were not fulfilled in the third quarter of this year. Kyiv could receive around €35 billion in foreign assistance by the end of the year, primarily from the EU. However, the disbursement of nearly €19 billion of this funding depends on the adoption of approximately 40 laws or draft laws, as well as a series of government and ministerial regulations.

- **The immediate cause of the delays in implementing reforms is a lack of political will.** Zelensky's inner circle views reforms concerning the rule of law as posing a risk to its control over developments in the country. These reforms primarily involve strengthening the independence of institutions capable of investigating members of the political and business elite, such as the State Bureau of Investigation, expanding the powers of the National Anti-Corruption Bureau of Ukraine, introducing transparent procedures for recruiting prosecutors and selecting the Prosecutor General through an open competition, and restricting the ability to discontinue corruption cases. Kyiv committed to implementing these changes under the so-called Ukraine Plan. The implementation of specific provisions (reforms) under the plan is a condition for disbursements from the EU's *Ukraine Facility* and *Ukraine Support Loan*.
- **The implementation of reforms is also hampered by Zelensky's lack of full control over his own parliamentary faction in the Verkhovna Rada.** The Servant of the People party has lost its outright majority, while some of its MPs are openly sabotaging the president's initiatives. Numerous corruption scandals involving members of the president's inner circle have also undermined his position within the political system.
- **Kyiv hopes that the EU and other partners will relent and disburse the funds despite Ukraine's failure to fulfil all its commitments.** However, this time Brussels appears unwilling to relax its insistence on conditionality, which remains one of the few effective tools for compelling reforms. The European Commission has indicated that Kyiv should first make use of the funding available under existing instruments and fulfil its commitments. It has also rejected a request to bring forward part of the funding earmarked for 2027 under the Ukraine Support Loan to 2026.