

# Ukraine's Resilience at Risk: How the EU Can Bridge the 2026 Financing Gap

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After almost 12 years from the start of Russia's invasion to Ukraine and with almost four years of full-scale war, Ukraine demonstrates a remarkable resilience ensured by a fully functional Government, active business and population, and backed by international donors' support. Against the backdrop of the war of attrition and millions of destroyed lives, Ukraine's financing needs are persistently greater than available support from the international partners. The speed and the amount of financial support are key to meeting the competing demands at the front line and as a functioning state. The new fiscal year is around the corner and there is still no clarity on how to finance the budgetary gap Ukraine faces for 2026 at about EUR 20-25 bn. The role of the EU in providing predictable and timely support will be greater in the coming years, considering the new security doctrine of the U.S. Decisions that the EU will take in the coming months on military and macro-economic support and the use of immobilised Central Bank of Russia (CBR) assets will determine whether Ukraine can close its 2026 financing gap without a macro-financial crisis.

1. Real GDP is expected to grow at about 2.0% in 2025, which is a somewhat lower growth pace than previously expected. **The growth was undermined by heavy damages and destruction of energy networks and other critical infrastructure facilities in all regions of Ukraine by Russian drones and missiles.** As a result, since October 2025 the electricity outages (both emergency and planned ones) are a part of real life in Ukraine. The business copes with the use of fuel generators, accumulators, and installed cogeneration facilities. The households purchase autonomous appliances, which help to survive for hours without electricity.
2. Real GDP growth is likely to remain close to **2% in 2026 under the assumption that Ukraine receives timely military and financial support from international partners.** External financial needs of Ukraine for next year are estimated at about EUR 43 bn, which account for about 48% of planned central fiscal expenditures. As in 2023-2025, international support will be crucial for financing the 'civilian' part of the budget, including wages in public sectors, social welfare, emergency recovery and reconstruction. However, so far, less than half of the necessary international financing is secured. Close to EUR 20 bn of assistance is expected from the EU under the Ukraine Facility and ERA in 2026 subject to the implementation of approved reform indicators.
3. Unfortunately, Ukraine does not have domestic buffers to raise adequate financing to cover the fiscal gap. Moreover, the new International Monetary Fund (IMF) programme, expected at the beginning of 2026, envisages only USD 8.1 bn for four years as **the Programme is considered as an anchor for international assistance** than actual financing. This is justified as the interest rate of IMF loan for Ukraine is close to 6%, which makes it far from concessional. At the same time, structural benchmarks in the Programme are aimed to make Ukraine stronger economically. Overall, the IMF stipulates that the total financial gap for 2026-2027 is around USD 63 bn, which we consider understatement given the numbers for 2026. According to the Ukrainian government, total estimated remaining needs (including military needs) is EUR 136 bn.
4. As a result of renewed wave of attacks on energy facilities, **there is an urgent need for critical equipment and spare parts to repair and reconstruct damaged and destroyed energy infrastructure.** Additionally, specialized shielding segments must be installed on energy infrastructure, upgrading the level of protection to defend against drone and missile attacks. The EU countries could help Ukraine with such segments.
5. **This makes Ukraine Reparation Loan (URL) an urgent issue for Ukraine to provide it with the predictable short-term financing in 2026-2027.** It is urgent that Ukraine starts receiving the tranches already at the end of March 2026. Currently suggested by the EU, allocation of money for financing the budget and financing military aid is a welcomed

approach. URL financing for defence purposes should have no *policy* conditionality, while maintaining robust transparency and accountability standards. At the same time, there is a recognition of the need to have indicators for the URL contribution to Ukraine's budget financing. Overall, we support the idea that the URL in fact should strengthen already defined indicators in the Ukraine Plan, the IMF programme and the EU accession agenda: otherwise, there is a high risk that Ukraine will not be able to implement these reforms, which are difficult during the war. Some percentage of funding under URL shall be reserved for the financing compensation for victims and survivors of international war crimes under the Register of Damage Caused by the Aggression of the Russian Federation Against Ukraine (Register of Damage for Ukraine - RD4U), which will be integrated onto the newly established International Claims Commission for Ukraine.

**6. The financing gap figures assume that in addition Ukraine will receive in-kind military assistance at near EUR 50 bn in 2026.** Therefore, there is an urgent need for the EU to increase the military support to Ukraine, which includes ammunition as well as weapons. Partly this is about purchase of U.S. and EU defence items, but this also includes purchases of produced in Ukraine Mil-Tec products by the EU and member states. The latter is often referred to as the "Danish Model", which helps to create jobs in Ukraine, increase tax payment in Ukraine, reduce logistic costs, and make production more sustainable. The economy now is largely shaped by the situation at the front-line and air defence systems all over Ukraine. Therefore, there is an urgent need to increase financing of the Prioritised Ukraine Requirements List (PURL). Moreover, the SAFE instrument should also aim at prioritising the investments in the defence industry of Ukraine and procurements of defence equipment for Ukraine.

**7. Overall, Ukraine's economic recovery depends on continued international defence and macro-financial assistance, particularly from the EU, and G7 countries.** Unfortunately, in 2025, the U.S. de facto converted military support to Ukraine to purchases through the PURL and other initiatives. That is why the URL remains the most realistic option for predictable and short-term financing to Ukraine. Cognisant that Belgium, which holds the majority of CBR assets, is disproportionately exposed to the legal and economic vulnerabilities. The Commission proposal of 3 December 2025 envisages legally sound safeguards with the participation of EU member states to share the burden of potential risks. Alternatively, the EU will need to find another source of funding for Ukraine. The cost and consequences of not supporting Ukraine financially and militarily will be grave for the EU and the European continent, for its security and the EU as a peace project.

8. While the U.S. provided Ukraine with the financial assistance in the form of grants, the EU provides financing mix of grants and concessional loans. Even though the loans come with long term maturity and subsidised interest rate, **the state and guaranteed by state debt of Ukraine will exceed 100% of GDP already in 2026** (it was at 50% of GDP in 2021). Therefore, debt sustainability risks are becoming a serious concern.

9. Considering demanding defence and macro-financial needs Ukraine has in the short and medium term, there is also a long-term financing, post war recovery and reconstruction needs that remain unattended. This **might include the transfer of Covid-19 related SDRs to Ukraine** through an IMF account, specifically designed for this purpose. Overall, the EU member states received in 2021 SDRs at equivalent of about EUR 150 bn. The decision on the transfer of SDRs to Ukraine (to best knowledge) should be taken separately by each EU member state.

For Ukraine to remain resilient and continue to fight for the victory it is essential that Ukraine's international partners continue to provide military, economic, and technical support to ensure that the country remains resilient. In its turn, Ukraine has remained committed to its reform agenda even during the full-scale war. Reforms in the energy sector, particularly in energy efficiency and renewable energy, will be crucial for long-term economic sustainability. Additionally, efforts to increase the efficiency of public finance, streamline corporate governance, improve labor market conditions, and enhance public administration will support Ukraine's path toward the EU accession. The IMF-supported program and the EU enlargement agenda will anchor critical guidance in these reform areas.

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*RRR4U Consortium (Resilience, Reconstruction and Relief for Ukraine) comprises four Ukraine's CSOs – Institute for Economic Research and Policy Consulting, DiXi Group, Center for Economic Strategy, Institute for Analysis and Advocacy. The activities of RRR4U are supported by the International Renaissance Foundation. RRR4U materials are available at <https://rrr4u.org/>*