Ukraine’s narrow path to debt sustainability

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Public debt is rising rapidly

While the economy has shown remarkable resilience, soaring defence expenditures of over 25% of GDP annually and weaker revenues have put the fiscal position under significant strain. Ukraine’s public debt is rising sharply, surging from less than 50% as a share of GDP in 2021 to almost 90% of GDP in 2024 and will most likely exceed 100% of GDP in 2025 and the coming years. As of end-2024, concessional financing constitutes nearly 60% of outstanding debt. Although these favourable terms have helped contain immediate risks, the debt trajectory remains precarious, requiring sustained and bold policy action.

Building stronger fiscal foundations

Achieving fiscal sustainability will require Ukraine to implement a mix of targeted revenue reforms, improve public investment management and better coordinate across levels of government, as discussed in the **2025 OECD Economic Survey of Ukraine**. Recent amendments to the Budget Code present an opportunity to embed medium-term planning and project prioritisation into the budget process, a vital step for aligning spending with strategic goals. On the revenue side, narrowing the scope of the presumptive tax regime and limiting VAT exemptions can strengthen the tax base, while simplifying compliance within the standard tax regime can reduce burdens for businesses.

At the same time, procurement reforms are needed to ensure that public contracts are awarded based on value for money rather than cost alone. Strengthening subnational governments' role in service delivery, supported by financing tools that encourage municipal cooperation, can further improve efficiency and accountability. If fully implemented, these fiscal measures would support Ukraine's medium-term objective of returning to a primary surplus and reducing reliance on debt-financed spending.

Concessional external financing has been and will remain critical. Following the full-scale invasion, international partners rapidly stepped in, providing grants, loans, and in-kind support that funded Ukraine's widening deficits. However, shifting geopolitical priorities could threaten this support. Ensuring transparency, demonstrating reform momentum, and maintaining strong governance will be vital to keep international supporters engaged.

Economic growth will underpin debt sustainability

Following the Global Financial Crisis, Ukraine's growth lagged behind that of peer countries, widening the per capita GDP gap by almost 20 percentage points between 2008 and 2021. The war has added another five percentage points to this gap.

Long-term growth will be a key determinant of Ukraine's debt sustainability. The **2025 OECD Economic Survey of Ukraine** presents alternative growth scenarios through 2050, showing that reform implementation, demographic trends, and investment patterns will critically shape Ukraine's output trajectory. In all scenarios, growth initially rebounds as displaced populations return and reconstruction accelerates. However, weak demographic dynamics, particularly an ageing and shrinking workforce, begin to weigh on growth in later years.

In the baseline reform scenario, GDP per capita grows by 2.6% annually, reducing the per capita gap to peer countries by six percentage points by 2050. With accelerated reforms, the growth rate increases to 3.6% per year over the next 25 years, comparable to the post-1995 growth in countries like Poland and Slovakia during EU accession. In this scenario, the per capita GDP gap to peer countries would shrink by 14 percentage points by 2050. In contrast, under a policy slippage scenario, growth settles at only 1.3% per year, not allowing any catch-up with peer countries.

These scenarios highlight the payoff of reforms outlined in the **2025 OECD Economic Survey of Ukraine**. A stronger rule of law, higher employment, and sustained investment would enable faster growth and support public finances. Without them, demographic headwinds and weak capital formation could limit Ukraine's long-term potential and complicate debt management.

High uncertainty surrounds the future path of public debt

Accordingly, Ukraine's ability to achieve public debt sustainability ultimately rests on three interdependent pillars: stronger economic recovery, credible fiscal discipline, and continued concessional external support. The **2025 OECD Economic Survey of Ukraine** outlines alternative public debt scenarios depending on the respective fiscal and growth assumptions. In the most favourable case, where Ukraine meets its primary surplus targets, reinforces the reform momentum, and continues to access concessional financing, debt could steadily decline to around 80% of GDP by 2050 (including G7-provided Extraordinary Revenue Acceleration loans, which carry no repayment obligations under current conditions).

In contrast, under the baseline reform scenario with continued implementation of current reform plans, debt stabilises in the medium term but remains above 100% of GDP and rises over the longer term as weak demographics weigh on growth and concessional financing declines. In the downside scenario, where reforms stall, concessional finance dries up, and the primary budget is broadly balanced, public debt surpasses 140% of GDP by 2035.

Conclusion

Ukraine’s path to sustainable public debt is narrow and conditional. It will require a combination of robust economic growth, accelerated reform implementation, strategic fiscal consolidation, and steady concessional external financing support. Getting on this path is critical to securing Ukraine’s recovery and safeguarding its economic future.

For more information, visit the **Ukraine snapshot page**.

References

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Time to deploy the fiscal levers actively and wisely

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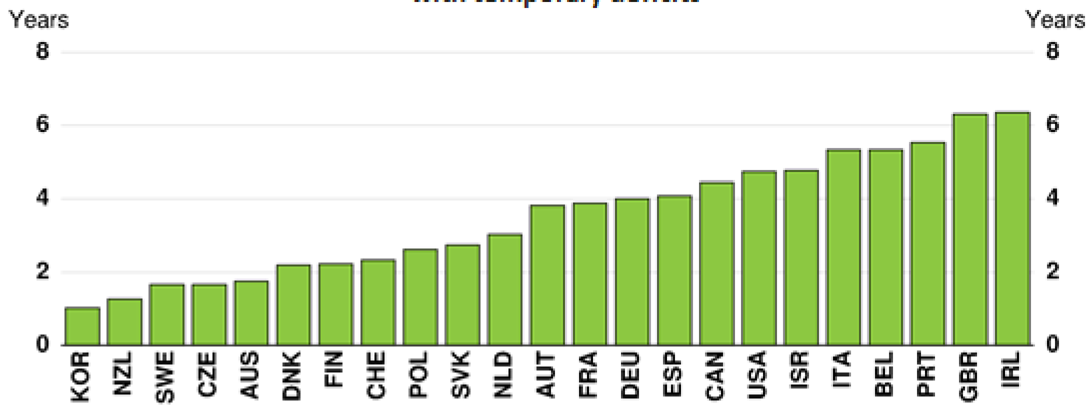
The role of fiscal policy has been at the heart of the policy debate since the financial crisis. With the global economy stuck in a low-growth trap and monetary policy overburdened, it is time to re-assess the use of fiscal policy levers.

Government interest payments have fallen sharply as interest rates have declined to very low levels, freeing up cash. In addition, new OECD estimates show that “fiscal space” – the gap between current government debt and levels at which market access would be compromised – have widened since 2014, as lower interest rates have more than offset headwinds from lower potential growth. This creates a window of opportunity.

Number of years during which a permanent investment increase can be funded with temporary deficits



Most OECD governments have space to pursue a ½ percent of GDP deficit-financed “fiscal initiative” to support productivity-enhancing measures for 3-4 years without increasing public debt in the medium term. The withdrawal of deficit financing after the initial fiscal initiative and the outcome of higher growth from the initiative are enough to ensure that debt sustainability does not deteriorate, while the low interest rate environment means that stimulus is not crowded out. The benefits are greater if boosting short-term activity helps to avoid high and persistent unemployment, if countries reduce regulatory burdens, and if countries undertake these efforts collectively.

		Contractionary	Mildly contractionary	Broadly neutral	Mildly expansionary	Expansionary
Projected fiscal stance	Contractionary					
	Mildly contractionary		ARG, BRA, COL, CRI, GRC, SVK	BEL	AUS, GBR, IDN, KOR	
	Broadly neutral			CHL, CZE, DNK, ESP, IND, IRL, ISR, JPN, LTU, MEX, NZL, PRT,TUR, SWE, ZAF	AUT, FIN, NLD,FRA, RUS	CHE
	Mildly expansionary	HUN		SVN	CAN, ITA, NOR, POL	DEU, EST, LVA
	Expansionary	ISL			CHN	LUX, USA

OECD recommends more expansionary than planned

OECD recommends less expansionary policy than planned

While it may be easy to relax the fiscal stance, the success of the fiscal initiative to promote growth, enhance long-run potential output, and improve debt sustainability depends on an effective strategy of additional spending or tax reductions to achieve more inclusive and higher growth.

Several major economies are now using the fiscal levers more *actively*, following the consolidation of the years following the crisis. But, some countries – notably in Europe – have yet to seize the opportunity.

However, are countries using the fiscal levers more *wisely?* The evidence of recent years is that many countries have cut the share of spending on investment and education, while increasing the share of taxes that are most harmful to growth and equality. A shift toward a more effective mix is needed.

The OECD is today releasing new research on the mix, size and quality of public investment, including a new dataset on the composition of public spending. Soft investment, such as skills and R&D, together with well-governed public investment in infrastructure, can yield large growth gains. Good institutions enhance the effectiveness of government spending and tax policy.

The policy debate will continue, but now is the time to deploy the fiscal levers actively and wisely !

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