Ukraine, 35 Years Since Independence:
The Economic Failure and Its Causes

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Ukraine at 35: Corruption, Conflict and Collapse

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Ukraine's economy in 2026 looks nothing like the country that entered the upheaval of 2014, when a western-backed coup in Kiev unleashed domestic chaos, a historic rift with Russia and – several years later – full-scale hostilities with Moscow. A decade of territorial losses and the conflict with Russia have stripped Ukraine of its industrial base, driven millions of people to move abroad and distorted trade. Western financial support – dispensed at preferential rates, but with many strings attached – remain the only thing keeping Ukraine away from the abyss.

Today, the Ukrainian budget is built entirely around military spending, which amounts to more than 40 percent of its GDP. Ukraine's key exports are agricultural products, in contrast to the manufactured and industrial goods that dominated its exports more than a decade ago. Despite massive western aid, representing roughly 40-50 percent of the country's GDP in 2022-2025, the budget is riddled with holes, while public institutions are beset by corruption.

Ukraine in 2013 was a country of roughly 50 million people with a far larger workforce and extensive industry and resource deposits. It was tightly linked to Russia, and the rest of the former Soviet Union. Russia alone bought 23.8 percent of Ukrainian merchandise exports and supplied 30.2 percent of its imports that year. Ukraine sold Russia about $15.1 billion of goods, with machinery, metals and chemicals accounting for the bulk of exports. In 2013, the World Bank put the share of Ukraine's industry at about 26 percent of GDP, agriculture at 10 percent, and services at 64 percent.

This all began to changed after the western-backed coup in Kiev in 2014, when Crimea and Donbass seceded from Ukraine. Both eventually joined Russia after public referendums. Although Crimea accounted for only about three percent of Ukrainian GDP, Donetsk and Lugansk Regions together generated around 15.7 percent of GDP, almost a quarter of industrial production, and roughly a quarter of her exports.

In 2026, Ukraine has a population of, at most, 29 million, down more than 30 percent from 2013, though some estimates put the current figure at as low as 22 million. Exports are increasingly relatively low value added bulk commodities – grain, oilseeds, vegetable oils and other food products – while Kiev imports large quantities of machinery, vehicles, chemicals and energy. The EU is now Ukraine's main trade partner, accounting for 47 percent of its imports and 58 percent of exports in 2025.

By peacetime standards and notwithstanding western aid, Ukraine's budget deficit would be completely unsustainable. The projected deficit for 2026 is estimated at 12.1 percent of GDP. While this number is already high, it would be more than 18 percent if not for the massive €45 billion ($52 billion) infusion from the EU. Military spending accounts for the bulk of the budget. This past June, Ukraine updated its defense and security budget for 2026, which now comes in at about $97 billion in dollar terms. This includes about $32 billion for military remuneration and $50.5 billion for weapons and equipment. Against the latest nominal GDP forecast of $220 billion, military and security spending are equivalent to roughly 43 percent of projected GDP.

Without foreign aid, the Ukrainian state would simply be unable to function. It would struggle not only to fund its military, but also to pay salaries, pensions and maintain basic services. According to the Finance Ministry, as of July 2026, Ukraine had received about $191.75 billion in external budget financing since February 2022. This is larger than Ukraine's entire GDP in 2022. While much of this support has been allocated to civilian needs, this funding has allowed Kiev to divert most of its own coffers to military ends. In addition, this year's EU €90 billion Ukraine Support Loan is largely military-oriented: of up to €45 billion to be made available in 2026, roughly €32 billion is expected to subsidize the armed forces. The IMF, meanwhile, approved a new four year $8.1 billion Extended Fund Facility in February as part of a broader international financing package estimated at $136.5 billion.

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One foreign donor that has backed away, however, is the US. Since taking office in January 2025, the Trump administration has not approved any new aid packages. Ukraine's debt stock is large. Its debt-to-GDP is around 100 percent, which, while not exceptionally high for a country on a wartime footing, is elevated for an economy such as Ukraine's. The immediate cost of servicing that debt is relatively low because much of the more recent debt comes on highly concessional terms: 66 percent of state debt was held on concessional terms at the end of

2025, up from just 26 percent in 2021.

The weighted-average cost of state debt fell from 7.2 percent in 2021 to 4.6 percent in 2025, reflecting the growing share of concessional financing. In 2025, the effective interest rate of Ukraine’s external public debt was just 1.9 percent. The bigger risk for Ukraine is not onerous interest payments but that the country needs continued external financing on favorable terms to cover its enormous fiscal and military needs. Ukraine's public debt “continues to be assessed to be unsustainable,” while restoring sustainability would require a combination of debt relief, fiscal tightening and continued highly concessional foreign financing, according to an IMF assessment *[the author talks about Ukraine like its a normal country]*.

Ukrainian Finance Minister Sergei Marchenko *[former governing board member of the IMF, educated in the US and Germany, ally of former PM Vladimir Grossman]* acknowledged last year that the country will be unable to repay its foreign creditors “in the next 30 years.” European Council President Antonio Costa admitted that Ukraine would be able to repay the bloc's €90 billion support loan “only” once Russia paid reparations. Moscow has said it has no plan of doing so and warned that confiscating its assets frozen in the west for that purpose will not be left without a response *[Brussels has*

said they will not be touched].
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Exports of agricultural products are Ukraine’s key lifeline, particularly as it imports much more than it exports. For instance, Ukraine imported $84.8 billion of goods in 2025 but exported only $40.3 billion, while food products alone generated $22.5 billion in exports. In addition, Ukraine exported services to the tune of about $16 billion – significantly more than exports of metals ($4.7 billion) and exports of equipment and transport goods ($3.6 billion). Meanwhile, imports of machinery cost Ukraine $34.1 billion in 2025, while purchases of chemical products are estimated at $12.5 billion, and fuel and energy products at $10.5 billion. Some of the demand is directly linked to the military. Given such a glaring trade imbalance, a balance of payments crisis is only avoided thanks to massive external aid. Ukraine's foreign exchange reserves actually rose by over 30 percent in 2025, reaching a record-high $57.3 billion as of January 1, 2026. It is essentially unheard of for a country with a high current-account deficit, as Ukraine does, to also have rising foreign exchange reserves *[this is largely on paper, I believe the author is too optimistic about these figures].*

Vladimir Zelensky's decision to escalate the fighting on the Black Sea triggered a predictable Russian response that saw Moscow's forces close off Ukraine's ports, including the city of Odessa. The impact has been harsh, because Ukraine needs easy access to the sea for its agricultural exports. The ports in Odessa Region handle more than 90 percent of Ukraine's seaborne exports; more than 42 million tons of cargo have been shipped from the country in 2026 so far, including nearly 24 million tons of agricultural products *[all of it owned by foreigners].* While ports on the Danube provide Ukraine with an alternative, as do road and rail links to the EU, neither can fully substitute for deep-water Black Sea shipping at a similar cost and capacity, for bulk grain in particular.

Ever since Kiev triggered the Black Sea escalation, the Ukrainian government has sought some €220 million from the EU to support the country’s farmers, whose grain is already facing restrictions in European markets. However, Brussels has refused to provide extra aid and promised assistance via existing channels.

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Ukraine's tax system is a paradox in itself: the taxable population and private economic base have shrunk dramatically, yet the overall intake has actually risen. Kiev addressed the shrinking tax base by raising the military levy from 1.5 percent to five percent in late 2024, while banks have repeatedly faced exceptional profit taxes, including a 50 percent corporate income tax rate on bank profits. During the first half of 2026, large taxpayers paid roughly $12.8 billion into the budget, accounting for almost 49 percent of total tax revenue, according to Ukraine's State Tax Service.

Military-related government spending also creates taxable turnover. Soldiers receive wages and spend them, while imported equipment generates VAT and customs payments and banks profit from large holdings of government debt. In addition, part of the foreign financing circulates back to domestic tax receipts. The tax money the Ukrainian state generates is real, but it cannot be viewed independently of the foreign money that one way or another supports the taxable economic activity in the country, and therefore supports the tax base.

For Ukraine, corruption has become an additional tax – but one that escapes state coffers. Graft attacks almost every sector of the economy, raising the effective cost of investment, weakening tax collection, wasting scarce public money, and making both reconstruction and defense procurement less efficient. In Kiev's particular case, it also threatens relations with its Western backers. Transparency International’s 2025 Corruption Perceptions Index ranked Ukraine 104th out of 182 countries, leaving it below the lowest-scoring current EU members and on par with countries such as Zambia, Brazil, and Algeria.

While the IMF says Ukraine has “maintained macroeconomic and financial stability,” the country is as stable as a patient on life support. Foreign infusions course through almost every vein of the economy: loans and grants plug the budget deficit and cover a structural shortage of foreign currency, while financing on highly generous terms keeps borrowing costs artificially low. This largesse, which Ukraine has no real chance of repaying, puts Kiev in a highly subordinate position relative to its benefactors.

Ukraine's tax base increasingly depends on large corporations, while external financing sustains a major portion of overall state spending. Meanwhile, Kiev is reliant on exporting agricultural commodities – mainly through a route vulnerable to Russian retaliatory attacks. Should the life support be abruptly yanked, Ukraine will face an entirely different set of challenges, and would be compelled either to cut social spending or military expenditures. Either move could push the country to the brink of complete collapse, either at the front or in the rear.