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Funding Victory

Scenarios for the funding of Ukraine's strategic victory

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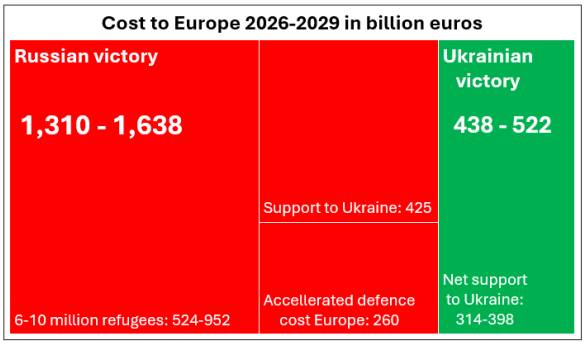
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Victory scenarios and their costs

Scenario 1: **Russia** continues gradual advance and eventually pushes towards **Dnipro River**. Forces a peace settlement on terms beneficial to Russia.

Scenario 2A: **Ukraine** pursues strategy of attrition to force **settlement on sustainable terms**, by depleting occupier's forces, materiel and economic base.

Scenario 2B: **Ukraine** advances, recaptures land, and forces a **settlement on sustainable terms**.

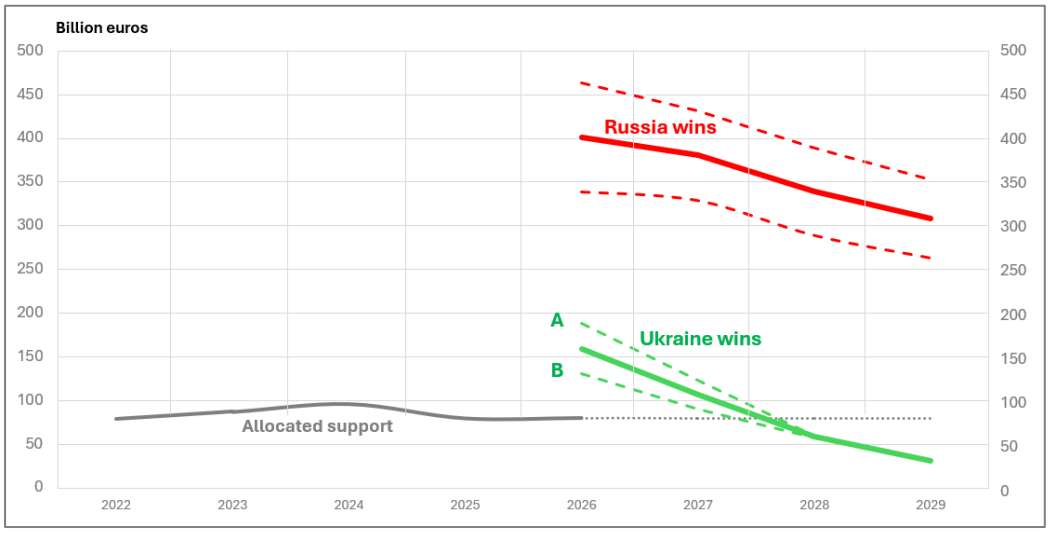


Ukraine's uncovered funding gaps 2026	
Central Govt state budget	Funded
Total defence requirements	€ 23 billion
Effective strategy of attrition	€ 46 billion
Effective strategy of annihilation	€ 103 billion

Equipment to enable a Ukrainian Victory

- Fully equip 95 brigades
- 8 million drones
- 300 – 1,500 MBTs / IFVs
- 1,500 artillery, ammo
- 3,000 – 10,000 APCs
- Deep strike missiles
- Multi-layer air defence
- Logistics, engineering
- Command and control systems, electronic warfare

Europe's annual costs under the scenarios:



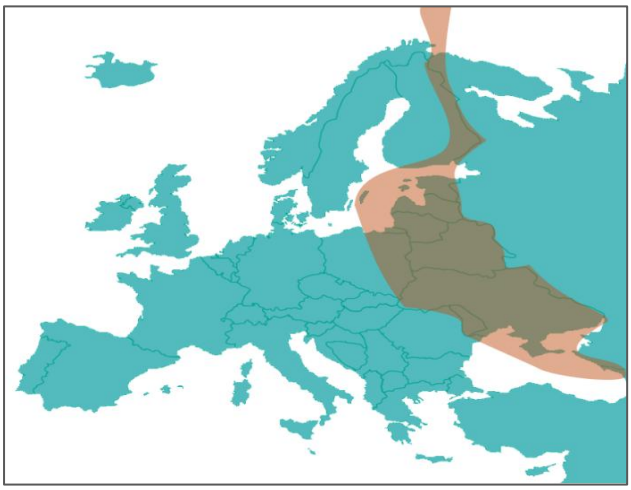
European costs in percent of GDP over the relevant periods:



1 Summary and conclusions

This report revises analysis and recommendations presented in November 2025 through Corisk Report No 12 (2025) *Europe's Choice*. The report explored the costs to Europe of a Russian victory, versus the cost of enabling a Ukrainian victory that brings sustainable peace with real security guarantees.

Europe needs a Strategy for Ukrainian victory and common deterrence of aggression. Russia now views Europe and Ukraine as one strategic whole, there is no trade-off between European and Ukrainian security. Russia challenges Europe along a belt of revisionist contest (right), with both hybrid and hard warfare. Europe and Ukraine must rapidly expand the defence industrial base and build common defence under strategic autonomy. The security of NATO and Ukraine are intrinsically intertwined.



Europe and Ukraine stand before the task of deterring a fundamental threat to democracy, and build credible security to replace US presence in Europe. Russian imperial ambitions must be expected to last, and Ukraine is not the only desired area of Russian dominance. Through history, Russian aggression or occupation of neighbours has been the normal situation, not the exception. Five European intelligence agencies now warn against a near-term Russian confrontation with NATO.[1] We doubt that Russia can re-integrate 7-800,000 brutalised and traumatised soldiers in society, and may wish to keep them deployed in conflict. Relying on Ukraine to "tie up Russia" without enough support is not a strategy, but aimless betting. Under-funding Ukraine risks to achieve the opposite - that Russian military superiority ties up Ukrainian forces while challenging Europe at the weakest link. A frozen war would leave Russia free to any time conclude ceasefire in Ukraine, and redeploy forces elsewhere. Ukrainian military superiority is therefore necessary to defeat Russian forces on the battlefield and support NATOs eastern flank.

Europe should stop supporting Ukraine as long as it takes, and start supporting as much as it takes.

Ukraine must direct its own war strategy, with the needed allied support. Ukraine proves capable of defending its territory, and pushing back the occupiers. The 2023 counter-offensive suffered from half-hearted allied support and restrictions. As a result, Russia tried to further undermine and exhaust Europe's engagement. Drones and loss of heavy weapons forced both parties into strategies of attrition. Russia also started a strategy of economic exhaustion against Ukraine, with superior arsenal of long-range firepower. Russia now aims to increase from 80,000 to above 100,000 drone operators in 2026.[2] This may allow Russia to operate drone forces at two separate war theatres.[3] Europe can fund the Ukrainian victory and inflict the sense of defeat on Russia that gives time to rebuild real defences.

Europe has the economic leverage, Ukraine builds the future-proof military power. It is time to unite them.

From the start, Ukraine compensated inferior heavy armament by developing drone warfare. Under the current **strategy of attrition**, Ukraine needs air defence, long-range fire-power, artillery, more air and land drones, and more battlefield management systems. Into 2026, Ukrainian forces are showing signs of superior combat power from innovative drone warfare, but this may not necessarily last. New anti-FPV capacities or integrated UGV development may bring back mechanised warfare. Innovation is rapid with short renewal cycles, but decentralised supply erodes scaling and standardisation. Ukraine develops first-class drones, interception, battlefield management systems, and command & control. It needs Europe to help scale production and boost battlefield infrastructure. The Ukrainian military-civilian ecosystem is extremely innovative, and with European industrial capital it can develop common strategic autonomy.

Since 2025, Ukraine's military strategi has been clarified, and forced a revision of our cost estimates.

Building on our analysis from 2025, we assess an immediate Russian victory (Scenario 1), where Ukraine loses independence and retreats to a remnant state under Russian influence. Total scenario costs to Europe are **€ 339 – 464 billion** in the first year, and up to **€ 1,310 – 1,638 billion** over a four-year period. This amounts upwards to **2.1 % of Europe's GDP** in the first year, and **1.8%** over the full period. Russian victory may inflict 6-11 million new refugees, at an estimated cost to Europe of € 150 – 275 billion in the first year, and € 524 – 952 over the period. The scenario will force an accelerated build-up of the eastern NATO flank in the Baltics and Nordics, needing 120,000 standing NATO forces in these regions, at a cost of €89 billion first year and €260 billion over four years. In addition, Europe will have to increase support to the remaining Ukraine in order to for it deter further Russian aggression, at a cost of €100 billion first year (€20 bn above current support) and € 425 billion over the four-year period. As apart from the United States, Europe needs time and is inclined to continue, and tighten, sanctions of Russia.[4]

We assess full or partial Ukrainian victory as Scenario 2, to be realised within two ears, where Ukraine forces Russia to change it calculus and concede to sustainable peace under allied security guarantees. Ukraine will not only survive as a successful state, but tie up Russian forces in the south and free up some Ukrainian forces to assist NATO's defence until credible deterrence is firmly established. New developments in Ukrainian strategy have induced us to present two alternative scenarios for victory. Total scenario costs to Europe of supporting superior Ukrainian combat power are **€ 161 – 218 billion** in the first year, and up to **€ 438 – 522 billion** over the full period, all including today's baseline defence. Of this, at least € 314 - 398 billion in military support must be funded by Europe over the full period. This does not include estimated annual European savings of c. €15 billion from returns of Ukrainian refugees. Total costs to Europe could be **0.8% of Europe's GDP** in the first year, and **0.5%** over the four-year period.

In the scenario, Ukraine may choose an effective **strategy of attrition** (Scenario 2A) with broad but smaller-scale advancement, relying on drone-based systems. We estimate the total scenario costs at €161 billion in the first year, where Europe and allies will have to cover €130 billion of that cost, and €438 billion over a four-year period (including current baseline defence costs), where €314 billion should be covered by allies. Alternatively, Ukraine may choose or combine with a **strategy of annihilation** (Scenario 2B) opting at selected breakthroughs under higher mobility and concentrated fire power. Drone-based warfare has partly made this strategy obsolete. But new technological developments, or new Russian tactics, may motivate Ukraine to apply it under a new technological paradigm. Such a strategy would

need smart armoured equipment and infrastructure engineering. We estimate the scenario cost at €218 billion in the first year, and a total of €522 billion over the full period (including baseline costs) - of which allies will have to cover €187 billion in the first year and up to €398 billion over the full four-year period.

Finally, we estimate the external funding needs of Ukraine. We explore the inherent funding gap of the 2026 military expenditure, of the wider Scenario 2 costs, and finally of all central government costs.

Planned donations under-fund Ukraine's defence costs by € 23 billion, while there will be a funding gap of up to € 46 billion to equip a strategy of attrition, and a gap of up to € 103 billion for a strategy of annihilation. Therefore, slightly stronger European engagement is needed to enable Ukraine's victory.

Military expenditure was €66.5 billion in 2025, of which c. €30 billion was funded by Ukraine itself, and c. €36.5 billion was funded by allies. In 2026, planned defence expenditure is €56,1 billion, but total defence costs including non-budgetary items are believed to reach € 88-135 billion, of which c. €33 billion to be funded by Ukraine. We estimate that a lasting exogenous price shock from the war in the Middle East, will increase defence budget expenses to €59 billion (total costs €138 billion) but believe that domestic funding can only cover €31 billion. Total costs may thus be under-funded by €23 billion in 2026, given that the EU Loan is allocated and bilateral donations materialise according to budget pledges and projections. This is rather close to the €19.6 billion under-funding estimated by the *Kyiv Independent* in April.[5]

We argue that Europe and Ukraine should optimise their combined defence spending, to achieve maximum battlefield effect and inflict military defeats on Russia, prolonging Russia's time to resume aggression, and freeing up Ukrainian forces to help supporting defence on NATOs eastern flank.

The extra equipment costs in Scenario 2 implies that Ukraine faces a funding gap of €46 billion in the first year to fully equip a strategy of attrition (Scenario 2A), and a gap of €103 billion to fully equip a strategy of annihilation (Scenario 2B). During 2026 these gaps may be further reduced through some possibilities for added funding by selected countries, which we estimate upwards to €7 billion.

For Europe as a whole, a Russian victory in the war would be devastatingly brutal and costly, while funding a Ukrainian victory over the next years would cost Europe only a third of that worst scenario.

We urge Europe to seize the opportunity to fund a strategic Ukrainian victory over Russia, and a trustworthy joint deterrence of Russia from further aggression. Given the increased geopolitical risks, and the perceived higher risks to investors in the US market, there may be a golden opportunity for Europe to attract long-term funding for Ukraine through market debt issues, combined with a program to boost defence industrial production via long-term contracts, guarantees, and industrial transformation.

We urge Nordic countries, and especially Norway, to closely consider the possibilities to remedy any funding gaps by either directly increasing bilateral support, or by issuing debt finance. Norway had un-utilised fiscal space under the fiscal rule and may easily support Ukraine by another € 4-8 billion per year.

We recommend that Europe confiscates frozen Russian assets and mobilise these to the advancement of Ukrainian defence and reconstruction. The European deposits number €190 billion, and will fully cover the funding gap to support Ukrainian victory and leave additional funds for reconstruction.

2 Background and assumptions

This report revises analysis and recommendations presented in Corisk Report No 12 (2025) *Europe's Choice*. It explored the costs to Europe of Russian victory, versus the cost of enabling Ukrainian victory on the battlefield with the supplement of sanctions and economic counter-measures against Russia.



We still believe the United States will maintain its obligations towards common security, while stressing the need to develop a European strategy for credible deterrence. Future funding of Ukraine's defensive fight will probably rest solely with Europe and other selected allies. If the current price level on oil and gas remains through 2026, Ukraine and allies will face increased costs of defence equipment and wages. Some countries may also face reduced fiscal scope.

Even more so than in 2025, there is a need for a coherent Strategy for the defence against Russian aggression - including long-term funding of industrial expansion under strategic autonomy. Europe must rapidly expand defence industrial production, and this critically relies on a systemic resolution of the energy challenge. A strategic plan must acknowledge that Europe's security and defence are totally and mutually intertwined with Ukraine. The aggressor tends to view Europe and Ukraine as one strategic unity, and has stepped up hybrid war against NATO countries.

On the way towards such a strategy, this study contributes two scenarios for the outcome of the war in Ukraine, and what they will mean for the wider European security and preparations for defence. The outcome depends on Europe standing united to outlast Russia's strategy of exhaustion.[6]

In November, we argued that in a Scenario 1, where Russia advances and occupies land westwards towards the Dnipro river, a peace settlement will tend towards terms favourable to Russia, leaving a residual Ukrainian state bereft of large shares of its citizens, territories, state revenues, facing further increased defence costs to deter renewed Russian aggression, and becoming once again dependent on Russia for energy and political development. The residual Ukraine may lose the option to join EU or NATO, faces reduced investment and recovery, will become fully dependent on allied economic support, and may even risk to become a failed state. Russia will achieve geopolitical progress, free up military resources, and be able to direct threats against Moldova, Belarus, Poland, the Baltic States, or the Nordics. NATO's defence must be accelerated along the entire eastern border area, especially in the Nordic and Baltic countries. Europe will experience constant Russian political influence operations and

hybrid threats. The scenario may force 6-11 million Ukrainians to flee the country, incurring massive costs on both Ukraine and Europe.

With Scenario 2, we devised the funding of a military toolbox that enables Ukraine to regain momentum, launch counter offensives and recapture land, changing Kremlin's calculus and forcing a sustainable settlement on acceptable terms, with security guarantees and monitoring of a settled solution. In the scenario, Ukraine has enough military resources to pose a threat to Russian forces and, for a shorter or longer period, keep Russian forces tied up in the region. At the same time, the international guarantees and monitoring with allied boots on the ground gives Ukraine opportunity to free up military resources. The military strength and experience of Ukraine will directly benefit Europe, as Ukraine will shield the Eastern Balkans and Central Europe from the threat of Russian aggression or subversion. Ukraine will also free up forces that may support strengthened defence of Baltic and Nordic states. There will be a gradual normalisation of political life, foreign investment will increase and stimulate economic growth. Exchange of technology and joint production will benefit common security, and grow Ukraine's economy.

Three events have necessitated a revised analysis and scenario conclusion through this report:

First, the Ukrainian military and political leadership have communicated the adoption of a **strategy of attrition** by "bleeding out" Russian forces, where the objective is to inflict manpower losses on the aggressor that exceed their rate of recruitment. We explore the needed resources to successfully enable and equip this strategy of attrition as a new Scenario 2A. A strategy of attrition may inflict lower Ukrainian losses in the short run, but may prolong the war compared to a successful strategy of annihilation with breakthroughs. In the worst case, attrition may require several years to obtain desired effects. Further, Russia may counter the strategy by partial mobilisation, or otherwise force Ukraine into elements of a **strategy of annihilation** with mechanised manoeuvre warfare. We explore this strategy as Scenario 2B.

Second, the **war in the Middle East** has destroyed oil installation and disrupted shipping, inflicting a price shock on crude oil, natural gas, fertilizer, and other industrial goods. This will impact on the economic balance between Ukraine, Europe, and Russia. In short, the development increases Russian revenues, while increasing European and Ukrainian costs, and straining their funding base. The price shock may in fact improve Russia's economic power base and somewhat reduce Ukraine's abilities to fund the war if European allies face tighter budget constraints and fail to uphold sufficient support. .

Third, the war in the Middle East has reduced the **availability of weaponry**, by depleting allied stocks of anti-ballistic missiles, ammunition, and other equipment. The United States has conducted heavy air-borne bombardment, which will require replenishment of stockpiles that may dictate American defence production and reduce its ability to supply Europe and Ukraine. The expansion of the European defence industry has not been as rapid as necessary. Through plans such as *ReArm Europe* and *Readiness 2030*, the European Union agreed to defy fiscal ceilings in order to boost military expenditure by € 150-200 billion annually, and launched a €150 billion loan instrument for member states (SAFE).[7] Regulatory and energy challenges somewhere slows expansion, production of missiles and artillery shells are far behind Russian capacities, and there is still not an anti-ballistic missile program ready for production. Further

gaps include artillery systems, drones and counter-drone systems, logistics and infrastructure for troop mobility, electronic warfare, situational awareness, and artificial intelligence applications.[8]

We still consider Russia's economy to be weaker than official figures suggest, and we estimate that there was a recession in 2022, stagnation in 2023 and 2024, and recession in 2025. However, an enduring price shock with Urals crude oil prices rising from the projected $59 to an average of $83 throughout 2026, would increase Russia's GDP by as much as 2.5%p (€51 billion) and yield a slight real economic growth in 2026, provided constant imports. An enduring price shock would cut Russia's state budget deficits in half and can increase the government's spending by €24 billion per year.[9]

Therefore, Europe must unite to tighten the sanctions, stop all imports of Russian oil and gas, and ardently enforce all violations against safety and compliance by the shadow fleet. Frozen Russian assets must be confiscated and mobilised to fund war reparations and reconstruction in Ukraine.

3 Security for Ukraine and Europe

Five European intelligence agencies regard war with Russia as feasible within few years.[10] President Putin has clearly stated his desire to re-establish Russia as a regional hegemon within the legacy sphere of influence of the Soviet Union.[11] Strategically, he views Ukraine, the Baltic states, Moldova, and other nearby neighbours as one whole – their existence as independent states are obstacles towards the natural and rightful re-establishment of a pan-national state unified by Russian language and culture.[12] Putin does not view Ukraine as a separate nation.[13] Russia must be expected to pursue imperialist ambitions in the foreseeable future. This coincides with a reduced US strategic role in Europe, in which mutually desired US enforcements of Europe in the case of war may not necessarily be available.[14]

There is no trade-off between the security interests of Ukraine and Europe. If political leaders in Europe believe they may avoid aggression by keeping Russian forces tied up in endless war in Ukraine, they would totally misread the situation. That would fully leave the strategic initiative to Russia. First, under-funding Ukraine risks to achieve the opposite - that Russian military superiority ties up Ukrainian forces while challenging Europe at the weakest link. Second, Russia may at any time find short-term interest in concluding a ceasefire with Ukraine, start deeper negotiations, while diverting forces and aggression westwards. Thereby, their ability to challenge NATO now depends on the outcome of the war in Ukraine. Only if Ukraine has superior military combat power and starts defeating Russia on the battlefield, can forces be unlocked to support NATOs eastern flank and give Europe time to re-establish deterrence.

There are unparalleled advantages to European security in a clear Ukrainian victory, because that alone will tie up Russian forces and unlock Ukrainian resources to support defence of NATO's eastern flank.

To sum up, the most viable strategy is to enable Ukrainian military superiority and victory , in order to:

A. Change the Russian calculus and force a sustainable settlement on Ukrainian term.

B. Thereby tie up Russian forces in the south, out of fear of losing further occupied areas.

C. Free up some Ukrainian forces to enforce and support the defence of NATOs eastern flank.

If Europe fails to support Ukraine, there is clear risk of a Russian victory on the battlefield. This will spark a wave of migration, incurring costs far in excess of the cost of securing Ukraine's victory. In addition, Russia would acquire Ukrainian military resources, thereby becoming clearly superior to Europe in military terms. It is even possible that many Ukrainians may feel resentment towards Europe, and voluntarily join in Russian aggression against NATO. Besides, Russia would likely free up military resources, because a peace with the remaining Ukraine would be semi-permanently settled and Ukraine unlikely to resume fighting in the foreseeable future. Russia could more rapidly shift to challenging NATO, and bolstering the eastern flank would have to be accelerated. However, the massive refugee costs inflicted on the European states closest to Russia, would reduce their fiscal abilities to fund the needed re-armament.

If, however, Europe supports and enables Ukrainian victory, we believe Russia would short-term change its calculus and fear further Ukrainian advancement, especially if a settlement would be concluded before all Ukrainian territory was recaptured. Russia would have to tie up substantial forces in and around Ukraine in the medium term. The more Ukraine is equipped for victory and deterrence, the more Russia will find itself incapable of challenging Europe now. Ukraine's deterrence of Russia would include the increasing capacity for deep strikes, threatening to hurt Russia's economic base in a way that further raises the risks of war with NATO.

If Ukraine is equipped for clearly superior combat power and manages to inflict military breakthroughs and visible losses on Russia, it would have a different effect than merely letting Ukraine survive. It would impose internal political tensions and pressure on Kremlin leaders, and tilt their strategic calculus beyond the short term.[15] We believe this may unlock Ukrainian resources and prolong the period in which it would be unviable for the regime to resume warfare against a joint alliance of NATO and Ukraine. This would most probably give Europe more time to re-arm and build deterrence.

Therefore, the defense of Ukraine and the defence of NATO are inseparably intertwined.

To Europe, funding Ukrainian victory will give more time to build up capabilities and bolster the defence of the eastern flank. It would also free up Ukrainian forces and capabilities that could be utilised for the common defence of Europe. With relatively low long-term European financial contributions, Ukraine would be equipped to contribute new security guarantees. Russia now aims to increase from 80,000 to above 100,000 drone operators in 2026.[16] This will surpass the Ukrainian drone force and allow Russia to operate drone forces at two separate war theatres.[17] If Ukraine's drone force is not expanded, the superior capacity would enable Russia to deploy a part of its drone force, for example 10-30,000 operators, in aggression against NATOs eastern flank. It is in Europe's intrinsic interest to further strengthen Ukraine's military capabilities across several domains.

Undoubtedly, defeating Russia on the battlefield would give Ukraine leverage and credibility as a security partner to the rest of Europe, and attract long-term strategic support along many dimensions. The road to EU and/or NATO membership would be shortened, with all the security guarantees that entails. To Ukrainian defence companies, the substantial war-time production would be partly transformed into exports to allies, earning substantial national export revenues. To experienced Ukrainian veterans, receiving the possibility to serve in the peace-time defence of Baltic or Nordic states would represent unprecedented economic and professional opportunities, and raise crucial national income from remittances. We believe the labour drain this represents would be clearly compensated by returns of current refugees in Europe who would find new employment possibilities in Ukraine's reconstruction.

4 The military situation

In November 2025, we analysed Ukrainian and Russian military resources through an analytical model (Dupuy). We indicated what it will take to tilt the military balance in Ukraine's favour. Combat power consists of *potential combat power* (volume and quantity of weapons systems), and *combat effectiveness* (leadership, competency, creativeness, and ability to conduct combined tactical operations).

Nations have three overall strategies at disposal during war against an adversary, where it normally regarded useful to combine theoretical strategies, or switching between them according to circumstance.

1. With inferior or comparable combat power, a strategy of exhaustion implies to gradually erode the enemy's economic base, production and logistics, reducing the enemy's ability or willingness to fight.[18] The enemy grows weary and regards victory unachievable.[19] This is typically the strategy behind sanctions, and behind targeting enemy infrastructure, energy supplies, and broader economic activity. Russia embarked upon this strategy in early 2023, but soon developed its own economic problems. Ukraine embarked upon the same kind of strategy in early 2024 with large attacks on Russia's oil and gas industry.[20] One downside of the strategy is that it requires time to have effect, and may extend the conflict and increase overall losses. Key weapons: Deep strike, air defence.
2. With comparable combat power, a strategy of attrition implies to inflict more losses on the enemy, than vice versa, and faster than the enemy can replace resources.[21] It seeks maximum destruction of enemy materiel and personnel, including attacks on rear logistics. The strategy is resource-savvy, but it may take long time to wear out the enemy's military resources. The strategy is characterised by little movement, low short-term own casualties, but with risk of drawn-out hostilities or even developing into a "frozen conflict" without conclusion. Both Russia and Ukraine pursue this strategy, in a combination with strategies of exhaustion. Key weapons: Artillery, drones, infantry.
3. With superior combat power, a strategy of annihilation implies to attack enemy forces to destroy them and make further military resistance impossible and breaking the enemy's will and ability to fight.[22] It normally requires breakthroughs through enemy lines and manoeuvres that envelope and isolate enemy forces for destruction. It benefits from surprise and requires total or local superior combat power, and highly trained forces. Such strategies dominated both Russian and Ukrainian operations in 2022 and 2023. Eventually, Ukraine developed an asymmetric response to the strategy through innovative drone defences. Today, both parties probably lack the resources to pursue larger offensive operations. The strategy is characterised by high short-term casualties, but possibilities of a conclusion with lower total losses in the long run. Key weapons: Artillery, tanks, IFV.

Europe and Ukraine stand in a current position where they lack sufficient long-range firepower, ballistic missiles, anti-ballistic air defence, artillery, and armoured mobility. With its vast strategic depth and rapid expansion of missile production, Russia still has superior long-range strike capacity for a strategy of exhaustion. If Russia prepares an attack on NATO in Europe (strategy of annihilation), this firepower can deny the deployment of overseas US forces for enforcement in Europe. The lack of ballistic missiles,

strategic air defence and protected infrastructure, leave European regions more strategically isolated, which is currently the most critical military deficiency for both Europe and Ukraine.

The evolution of **battlefield dynamics** has been rapid. Russia and Ukraine conducted rapid manoeuvre warfare in 2022 and 2023. The failure of Russia to succeed may be found in its lack of integrated battlefield management.[23] Extensive defensive fortifications and obstacles made mobile warfare difficult. It was also difficult to utilise airborne power, except glide bombs that have destructive effect on positions.[24] For some time, superior artillery and wired drones allowed Russians to push forward across the frontline. Ukraine gradually developed drone warfare, bottom-up. Drones overtook infantry, and defences evolved into a wider kill zone in 2024. Ukraine combined artillery with drone-based fire support, and developed offensive attack drones to replace artillery. Improved Ukrainian tactics against mechanised forces induced Russia to apply slow "grab-and-hold" tactics, with massive personnel losses. Both parties largely shifted to targeting logistics and supplies in the middle-rear battle area, 30-150 km behind the line of contact.

Since 2025, Russia has relied on a strategy to exhaust Ukraine's capacity to resist and the allies' willingness to support. It has succeeded only with the United States and a few more insignificant nations. Today, there are little signs that any of the parties are motivated to stop fighting.[25] Ukraine signals resolve to continue its defensive struggle under a **strategy of attrition**, opting to destroy more forces than Russia can recruit. It is our understanding that this strategy was chosen out of lack of alternatives. There had been some push-back against Ukrainian requests at reconstruction conferences, and the manoeuvre warfare toolbox had eroded on both sides. The saturation of the battlefield with drones complicated the use of mechanised armour. Ukraine pioneered integrated warfare with drones (UAV), ground robotics (UGV), and small-scale unmanned manoeuvre operations. This may be seen partly as defensive, partly as a version of the "grab-and-hold" tactics, with minimal own personnel losses. In 2026, Ukraine developed a slightly superior combat power, especially after Russian forces lost connection to *Starlink*. Advances succeeded near Kupiansk and in the south-east, but have not reached to heavily fortified Russian positions, and may not necessarily continue.[26] Forces are uneven in their adoption of the best tactics, and the strategy of attrition may have slow effects on Russia's overall calculus.

We observe that **combined arms operations** are still crucial at the tactical level in land warfare.[27] Key risks of a drone-based strategy of attrition are found in its slow progression, risk of protracted warfare, and its limited flexibility. Russian forces may again find new ways to counter the tactics, or better utilise a more complete tactical toolbox, Another key limitation of drones is that they do not bring personnel forwards. At some point, larger-scale armoured mobility is needed to recapture substantial territory. More critically, if one of the parties found sustainable ways to eliminate much of the FPV threat, the conditions for mechanised manoeuvre warfare would again appear, instantly enhancing the need for such capacities.

Europe needs strategic autonomy and tactical flexibility to counter different Russian strategies. Ukraine and NATO countries must jointly enhance flexible combined tactical capabilities, for deep strike, drone warfare, and combined arms operations that allow for unexpected technological shifts on the battlefield.

Analysts who study current Ukrainian tactics and battlefield development, point out the criticality of plentiful, layered air defence, and long-range strike capacities.[28] There is also need for more advanced drone-based systems with integrated fire support, detection and sensors, electronic warfare, and radio spectrum control. Another challenge is that the quality and materiel of the various brigades differ widely.

Drones play a key part in defensive operations, while offensives will require a more diverse operational toolbox. It will enable commanders to adapt to various conditions, terrain and weather, and enemy behaviours. Repeatedly, Russian forces demonstrate the destructive effect of combined operations with heavy use of glide bombs, artillery, armoured vehicles, and FPV drones that are difficult to counter.[29]

Ukraine has sparse reserves of battle tanks and IFVs, and use them mainly for rapid counter-attacks to stop Russian offensives.[30] Battle tanks are also used as mobile artillery with a range up to 5 km. Ukraine needs more artillery and ammunition in order to at least deliver heavy counter-battery fire.[31] Mechanised warfare would require better reactive armour and active protection systems (APS), and integration with drones and sensor chains via advanced command and control systems. Modern battle tanks are better protected, and IFVs like *Bradley* or *CV-90* have more advanced protection and firepower. There are also possibilities in enhanced artillery with longer-range ammunition, such as *Vulcano*.

It may make sense to deploy lighter mechanised forces that is better suited to terrain, and probably unmanned to enhance mobility.[32] Better anti-FPV systems, including unmanned ground vehicles (UGV) performing combat or protecting larger armoured weapons, may solve many of the financial, logistic, and operational challenges facing manoeuvre warfare today. Necessary equipment may be lighter, cheaper, and quicker to produce than conventional and manned systems. The Polish *Perun UGV* is an example of a light and flexible vehicle for logistic, reconnaissance or combat operations, it can be both manned and unmanned. Ukrainian forces increasingly apply UGVs for such diverse operational purposes, and integrated systems may support both mechanised fire-power and mobility. Such possibilities may bring back options for manoeuvre warfare (Scenario 2B), but manned mobility will be needed to retake land.

In order to uphold comparable or superior combat power, Ukraine must constantly innovate and resume technological leadership on the battlefield. The rapid innovation depends on civilians being strongly involved.[33] In Ukraine, private companies push the technological limit in close collaboration with brigades, and agile NGOs such as *Come Back Alive* or *Dignitas Fund*. The civilian sector is a critical force multiplier and a deep defence resilience layer, and must be an integral part of European military support programs. The flip-side of rapid innovation is a lack of scaling and standardisation, which also characterises allied armament supplies, and gives Russian scaling an advantage. Module- and platform-based systems may partly overcome this challenge.

Much innovation stems for the lack of sufficient amounts of conventional armaments.

As one commander told us, "we had to think outside of the box because we did not have a box".

The rapid innovation creates a new need for rolling modernisation of equipment, with continuous supplies or upgrades of the same weapon systems at more frequent intervals. This means that Ukraine's defence and deterrence capabilities will need continuous investment and European support, though at a considerably lower level after the conclusion of a settlement with security guarantees. In addition, Europe itself must adapt to the continues innovation and renewal cycle of equipment, by substantially improving supply and procurement procedures, and prepare for flexible war-time regulations with extensive use of direct supplies through military units, the civilian sector and volunteer organisations.

5 The scenario costs

Below, we construct an estimate of the costs to Europe in order to deter Russia after an immediate Russian victory in Ukraine, or alternatively to equip Ukraine so that its defence forces can repel Russian aggression, conduct successful counter-offences, reconquer land, and inflict military defeats on Russia.

In the event of a Russian victory as described in Scenario 1, Russia would have even greater freedom to shift military resources and aggression between Ukraine and other countries. A Russian victory could release up to 500,000 battle-hardened soldiers for other tasks, including aggression against NATO.

The Baltic states are most vulnerable, and most easy to invade. Below, we calculate the costs of deterring a Russian attack after a Russian (partial) victory in Ukraine. The current defence of the Baltic states counts 47,500 NATO soldiers including local reserves, perhaps able to stop a Russian force of 100,000 soldiers. But we believe Russia will be superior in drone warfare, denying NATO air superiority by use of air defence in Russia, Kaliningrad, and Belarus. Russia will have large quantities of long-range missiles, and Europe must build significant missile defences.[34] To be able to stop a Russian attack, we see a need for about half the number of land forces that Russia can deploy relatively quickly. We believe NATO must have 95,000 standing forces, and 200,000 deployable reserves with pre-stored equipment, in the Baltics by 2028, to deter the likely Russian build-up of 200,000 soldiers. Infrastructure must be massively improved, and private land will have to be expropriated for prepared defences along a 1,000 km frontline.

In The High North (the North Calotte, or Arctic Scandinavia) we believe that NATO must deploy at least 25,000 standing forces, or 5,000 more than today, plus 50,000 reserves with pre-stored equipment.

Below, we present the same cost estimate for Scenario 1 as in our previous reports, but merging cost elements including prepared defences, costs of refugees, and costs of supporting the defensive and deterrence capacities of the remaining Ukraine. Several investments will be funded under the 5% total defence and infrastructure spending target. The estimates are assessed as delivering sufficient combat power to deter Russian aggression, including after a Russian windfall revenue of €24 billion in 2026

We observe that the cost to Europe of scaling up eastern defences and supporting Ukraine and Ukrainian refugees after a Russian victory, will be € 339 – 464 in the first year, which is exactly three times more than the first-year cost of equipping Ukraine to win the war - € 132 – 189 billion. The total four-year period cost to Europe in case of a Russian victory will be € 1,310 – 1,638 billion, which is four times higher than the total period cost of € 349 – 433 billion of equipping Ukraine for military victory.

The total scenario cost over the period corresponds to an average of 1.8 percent of Europe's GDP.

The big cost to Europe in case of a Russian victory in the war, will derive from mass migration.

Europe, € billion Constant prices	2026	2027	2028	2029	SUM 4 years
Scenario 1 Russian victory	339 - 464	329 - 432	289 - 389	263 - 353	1310 - 1638
Refugee cost, added	150 – 275	137 - 250	125 - 225	112 – 202	524 – 952
Baseline aid Ukraine	100	105	110	110	425
Baltic defence	71	60	47	35	212
Corps, 5+5 Brig	16.05	15.00	12.40	11.59	
Tanks, IFV, APS [35]	1.00	1.00	1.00	1.00	
Storage, ammo	12.40	10.90	6.80	5.50	
Drone systems [36]	5.15	4.05	3.60	3.61	
Deep strike [37]	2.00	1.50	1.00	1.00	
Air defence, ammo [38]	3.00	3.00	2.60	2.65	
Comms, C&C [39]	1.00	1.00	0.50	0.30	
Infrastructure [40]	9.00	7.00	6.00	6.00	
Fortifications	5.00	3.00	2.00	0.50	
Compensations [41]	10.00	9.00	6.00	4.50	
Production loss [42]	4.50	4.50	4.50	4.50	
Finland, High North	18	17	7	6	48
1 Brig + 1 Btln	2.90	2.70	1.00	1.25	
Storage, ammo	2.90	2.90	1.31	1.31	
Drone systems	2.10	2.10	1.01	1.01	
Deep strike	1.00	1.00	0.25	0.0	
Air defence [43]	0.80	0.80	0.10	0.10	
Infrastructure [44]	2.30	3.20	2.00	2.00	
Fortifications	4.00	3.50	1.50	0.50	
Compensations	2.00	0.50	0.10	0.0	

To enable Ukrainian strategic victory as described in Scenario 2, the country's armed forces would have to acquire clearly superior combat power. The gradual reduction of Russian personnel and stockpiles of heavy armament contribute to this end, but the Russian military industry is currently expanding production of missiles, artillery ammunition, drone systems, and battlefield management systems.[45] Therefore, Ukraine will need a substantial and timely supply of existing and new armament to enforce the brigades and their abilities to conduct combined operations under shifting battlefield scenarios. By concentrating too much on a few weapons systems, Ukraine would lose flexibility and adaptability. Combined arms

must be scaled to deliver maximum fire power in varied contexts. The supply of balanced equipment poses great challenges to both the European and the Ukrainian defence industry.

Below, we present a new cost estimate for Scenario 2A, in which a strategy of attrition is pursued with broad frontline advancement catalysed by air and land drones, in combination with a limited tactical toolbox of artillery, tanks and armoured vehicles for offensive support and flexibility. Under this scenario, Ukraine's armed forces must lift many brigades to higher standards, invest heavily in innovation, and acquire advanced systems for situational awareness, command and control.

We revise cost for Scenario 2B to reflect deficient availability of heavy armament. We regard is feasible to supply 1,000 or more armoured fighting vehicles (battle tanks and IFVs). It may be relevant to seek smaller and possibly unmanned tanks and IFV variants in order to allow for rapid movement at low personnel loss. This scenario will also require armoured, heavy engineering vehicles for road construction and bridge-laying. Estimates are assessed to deliver sufficient combat power, including after a Russian windfall revenue of €24 billion in 2026. Elements may be funded under the NATO spending target.

Ukraine, € billion Constant prices	2026	2027	2028	2029	SUM 4 years
Scenario 2A Attrition	161,0	128.5	87.5	61.0	438,0
Scenario 2B Annihilation	218,0	153.0	89.0	62.0	522,0
Baseline defence	88.00	85.00	65.00	60.00	302.5
+ Scenario 2A	73.00	43.50	22.50	11.00	150.0
300 tanks / IFVs / APS	5.00	3.50	1.00	0.50	
3,000 APCs	20.00	10.00	1.00	0.50	
Command & control	1.00	1.00	0.50	0.25	
Advanced EW, etc [46]	2.00	2.00	0.50	0.25	
+ Scenario 2B	130.00	68.00	24.00	12.00	234.0
1,000 tanks / IFVs	13.00	10.00	4.00	1.00	
10,000 APCs	60.00	30.00	5.00	1.00	
Infrastructure [47]	2.00	1.00	1.00	0.50	
Both scenarios	45.00	27.00	14.00	9.50	95.5
1500 artillery, ammo	15.00	10.00	5.00	2.00	
Drone systems	5.00	3.00	2.00	1.00	
Deep strike	5.00	5.00	4.00	3.50	
Air defence	5.00	2.00	1.00	1.00	
Sky Shield for UA [48]	10.00	5.00	1.00	1.00	
Cars, C & C, EW	5.00	2.00	1.00	1.00	

Both scenarios require substantial supplies of air defence, deep-strike missiles and attack drones, long- and medium-range artillery, armoured personnel carriers and SUVs for rapid movement and logistics.

We estimate that equipping a clearly superior combat power will cost **€ 161 – 218 billion** in 2026, which includes the current planned military expenditure. We see that under the average of scenario 2A-B, adding combat power in the form of all critical equipment for all brigades, the total 2026 defence costs will be more than three times higher than the normal budget expenditure. The majority of these costs, or € 130-187 billion, will have to be covered by funding from Europe and allies. The total four-year period cost of the two scenarios of victory will be **€ 438 – 522 billion** including the current baseline defence, of which € 314-398 billion would have to be funded by Europe and allies, before refugee return savings.

The total scenario cost corresponds to an average of 0.5 percent of Europe's GDP.

By enabling Ukrainian victory, Europe avoids simultaneous costs of refugee migration and re-armament.

In our view, a strategy of attrition will require more military resources than anticipated. The strategy may prove unnecessarily long-drawn to have effect, it may become technically unviable if improved anti-FPV systems make Russian manoeuvre warfare once again more viable, or innovative UGV applications may allow Ukraine to resume new ways of mechanised warfare and mobility. Rapid innovation and adjustment on the battlefield may unexpectedly change the balance between attrition and mechanised advance. Successful Ukrainian advances would likely require less time to change Russian calculus and force the aggressor into real negotiations, possibly with lower overall Ukrainian losses in the long run.

During the War in the Middle East since early March 2026, stockpiles of key weaponry have been strongly depleted, including *Patriot* missile systems. Allies of Ukraine may struggle to find sufficient supplies of the needed equipment. This is connected with the challenge of expanding **Europe's defence industry.** It must be substantially and rapidly expanded, by the combination of industrial policy, long-term contracts, loans, and guarantees. EU initiatives in the area are promising, and must be given priority. In addition, Europe must further develop ways to standardise key weapon systems and equipment. As in the United States, Europe may consider shifting parts of the civilian automotive industry into production of military equipment, and redirect the €15 billion annual European arms exports to the Middle East.

There is also reserve capacity in the **Ukrainian defence industry**. The military production cluster develops rapidly. Companies produce several anti-tank and anti-ship missiles of shorter ranges, with more than 800 companies participating in missile programs.[49] Motor Sich together with Luch Design Bureau ant others, produce the *Neptune* land-to-sea missile and the 1,000 km range *Long Neptune*, Fire Point produces several per day of the 3,000 km range *Flamingo* missile, Pivdenne produces the 500 km *Hrim (Sapsan)* ballistic missile, while Pars produces the 140 km range *Trembita* cruise missile. Domestically produced *Lyutyi*, *Ruta*, *Peklo*, *Bars*, and *Palianytsia* long-range attack drones are used to strike Russia, while thousands of companies produce or modify smaller observation and field drones outside of traditional procurement.[50] On license, Ukraine produces German *Fuchs* personnel carriers and *Lynx* assault vehicles, and repairs these as well as battle tanks in Ukraine.[51] Production of *Panther* tanks is planned in collaboration with Rheinmetall, while Nammo and Kongsberg plan local production of

ammunition for artillery and air defence, respectively. Licensing and offshoring to partners in Europe are important sub-strategies to scale production and reduce risk.

Domestic industry supplies around 40 percent of Ukraine's military equipment needs, and a majority of new contracts, go to local industry.[52] Lack of funding may have forced the defence industry to produce at only half percent capacity, with great potential to scale up and advance new solutions to production.[53]

Ukraine's own defence industry may produce key parts of new equipment required by NATO and Ukraine, if European funding of the industry is increased.

As in most countries, Ukraine's traditional military procurement agencies are slow-working and require time to perform procurements under strict regulations, but have the budgets to source armaments at scale and standardisation. The rapid innovation cycle is better served by innovative brigades (Azov, Kharti, Svoboda, DaVinci Wolves), volunteer organisations (Come Back Alive, Dignitas Fund, Defence Robotics), as well as SMB aggregators (Brave1, Defence Innovation Highway) and equipment platforms (DOT).

Key tenets of the military-industrial cluster of Ukraine are decentralised innovation, production and procurement, the delegated authority of military units, the existence of semi-independent brigades, the independent procurement mandates of the National Guard and army brigades, and the vital role played by volunteer organisations and civilian developers.[54] Market-like distribution mechanisms are being pioneered, partly based on supply-by-success-rate, while the challenge of standardisation is being partly overcome by sharing software, APIs, specifications and reference models. Total investment into the small-scale military development cluster was around 35 million euros in 2024, and may reach perhaps 100 million in 2025, a funding still substantially below capacity needs.[55] Investors from the United States take an unproportionally high share of direct investment in start-ups and SMEs, and Europe must immediately step up to invest substantially, in order to benefit from development.

6 Funding victory

Below, we present an estimate of defence costs from 2025 to the 2026 Budget and according to a recent estimate by *Kyiv Independent*.[56] Thereafter, we present our own estimate of total defence costs, where we assess the effect of the exogenous price shock, increasing inflation by 5.1 %p and increasing the 2026 budget expenditure to €59 billion, and where we do not include extra price effects on military equipment. Including in-kind and other non-budgetary donations, KSE in January estimated total defence costs at $102.9 billion, while another and more recent estimate is €134.6 billion.[57] Our estimate including feasible in-kind deliveries is slightly above that. Finally, we add the costs of equipping Ukraine for victory under Scenario 2A and Scenario 2B, additional to the adjusted post-shock military expenditures.

Defence, € billion Revenue (+) Cost (-)	2025 Accounts	2026 Budget	2026 Kyiv Ind	2026 Corisk	2026 2A Attrition	2026 2B Annihilation
EUR exchange rate	46	50		50		
Inflation, CPI [58]	9.5 %	9.9%		15 %		
Scenario costs, EUR					73	130
Defence budget, UAH	3.070	2.807		3.055		
Defence budget, EUR	**66.4**	**56.1**		**59**		
of which equipment [59]		*-14.2*			*133*	*190*
of which personnel [60]		*-25.6*			*28*	*28*
Net bilateral + Loan				79		
Total defence costs [61]	**111.4**	**87.5**	**134.6**	**138**	**161**	**218**
Domestic funding		*33.0*	*?*	*31*	*31*	*31*
Domestic funding gap		54.5	*?*	*107*	130	187
Baseline allied mil aid	**36.5**	**60.5**	**115.0**	**84**	**84**	**84**
Total funding gap (-)		6	-19.6	- 23	- 46	- 103
Feasible short-term				7	7	7

According to anonymous EU documents, allies have pledged €86.7 billion in military aid plus €28.3 billion through the new EU Loan, altogether **€115 billion**.[62] However, this estimate misses the estimations of domestic defence funding, or the fact that several Ramstein pledges covered costs in 2005 or 2027.

With an EU Loan contribution of €28.3 billion and NATO countries having pledged €60 billion bilaterally[63] (of which probably €15 billion covers 2025 frontloading, stockpile replenishments, and future deliveries[64]), plus €1.2 billion under the CAP program. We also expect €10 billion in military support not yet being pledged via the Ramstein format, based on the nature of member states' budgeting cycles and procedures. Altogether, we can only identify a probable military support of about **€ 84 billion** in 2026. Thereby, defence costs in 2026 may be under-funded by up to €23 billion, there may be a funding gap of €46 billion to equip a strategy of attrition, and a gap of €103 billion for a strategy of annihilation.

It is difficult to identify exact funding of total defence costs, especially in light of the uncertainties over non-budgetary donations. Therefore, we present below **total funding of central government** expenditure from domestic and foreign sources, including estimates of non-budgetary in-kind donations (but not expenditure, the donations are a windfall and so is their use). We retrieve budget data from the Ministry of Finance and KSE Institute, and economic data from the State Statistics Service and IMF. External donations are assessed from the Kiel Institute of World Economy, and include funding via multi-governmental institutions. For Nordic countries we have validated total support, which is understated by the Kiel Institute. All-EU funding (ERA, EUF, etc) equal Kiel data for *EU Commission* funding. There was €8 billion left in the ERA at the start of 2026. We believe that there are potentials for increased bilateral support by countries with oil exports, or with industrial incentives to donate.[65] Lastly, we indicate some countries where we believe there may be potentials for additional funding during the 2026 budget year.

Total funding, € billion Revenue (+) Cost (-)	2025 Allocated	2025 Military	2026 Approved	2026 Corisk	2026 Potential
TOTAL	136.8		154.4	166.0	173.0
Domestic revenues	**54.6**		**58.1**	**60.1**	**60.1**
State revenues [66]	54.4		58.1	60.0	
Domestic donations [67]	0.2		0.2	0.1	
Foreign (Kiel data) [68] [69]	**82.2**	**36.5**	**96.1**	**105.9**	**112.9**
EU Total (Kiel), ERA	35.1	0.0	8.0	8.0	
EU new loan, civilian	0.0	0.0	16.7	16.7	
EU new loan, military	0.0	0.0	28.3	28.3	
EIB	0.9	0.0		1.0	
Germany [70]	9.4	9.0	12.0	11.5	
France	2.4	2.2		2.0	YES
Netherlands	2.7	2.5	3.3	3.3	
Italy [71]	0.5	0.3		0.6	
Spain [72]	0.8	0.6	1.0	1.0	
Poland [73]	0.3	0.3		0.3	
Sweden [74]	4.0	3.7	4.5	4.5	YES
Denmark [75]	3.1	2.6	1.9	1.9	YES
Finland [76]	1.0	0.9	1.0	1.0	
Other EU	2.8	2.3		6.0	
United Kingdom [77]	5.8	4.0	4.6	5.0	YES
Norway [78]	7.1	6.0	7.9	7.9	YES
Canada	5.4	2.0	1.3	1.3	YES
Japan, South Korea [79]	0.1	0.0	5.5	5.5	
Australia	0.1	0.1	0.1	0.1	

Below, we present current data and our estimate for GDP and central government operations based on budget documents, and macro-economic data from IMF and the Statistical Service of Ukraine. Data exclude local and regional governments, and in-kind or other non-budgetary donations, We estimate additional costs from an enduring price shock through 2026, with effects expenditure and revenues in Ukraine. The analysis rests on the current defence plan, not taking into account added costs of Ukrainian victory (Scenario 2). Lastly, we adjust Ukraine's 2026 budget to the price shock, and estimate that it gives a deteriorated GDP position versus Russia of €46.4 bn, and a deteriorated budget position of €28.5 bn.

GDP, Central Govt, € billion Revenue (+) Cost (-)	2025 Accounts	2026 Budget	2026 Corisk	Impact on Russian state budget 2026	UA position vs. Russia
	UKRAINE	UKRAINE	UKRAINE	RUSSIA	UKRAINE
Exchange rate EUR-UAH	46	50	50		
Inflation [80]	9.5 %	9.9%	15.0 %		
Real GDP growth [81]	1.8 %	1.8 %	1.0%		
GDP Nominal, UAH	8,840	10,035	10,270		
GDP Nominal, EUR	**192.0**	**200.7**	**205.4**	**+ 51.1**	**- 46.4**
Exports, UAH [82]	2.263	2,610	2,700		
Exports, EUR	49.3	52.2	54.0		
Imports, UAH	- 4,430	- 4,500	- 4,800		
Imports, EUR [83]	- 83.6	- 90.0	- 96.0		
Imports energy	- 8.9	- 10.5	14.0		
Oil, diesel, etc	- 5.6	- 6.0	- 8.4		
Natural gas, LPG	- 1.6	- 2.0	- 2.6		
Electricity, coal	- 1.7	- 2.5	- 3.0		
GVA, UAH [84]	8,929	10,500	10,800		
GVA, EUR	**194.1**	**210.0**	**216.0**		
Corporate Tax, UAH [85]	308.4	325.3	335,0		
Corporate Tax, EUR	**6.7**	**6.5**	**6.8**		
Tariffs+PIT+VAT, UAH		1,637	1,700		
Tariffs+PIT+VAT, EUR [86]		**32.7**	**34.0**		
State revenues, UAH [87]	2,503	2,905	2,965		
State revenues, EUR	**54.4**	**58.1**	**59.3**		
State expenditure, UAH [88]	- 4,703	- 4,767	- 5,050		
State expenditure, EUR	**- 102.2**	**-95.3**	**- 101.0**		
Budget balance effect, EUR [89]		**0**	**- 4.5**	**+ 24.0**	**- 28.5**
Net domestic funding, UAH	254.8	- 104.9	- 55.0		
Net domestic funding, EUR	**5.1**	**- 2.1**	**- 1.1**		
Net foreign funding, UAH	1,732.7	2,079	2,356		
Net foreign funding, EUR	**34.7**	**41.6**	**45.2**		

For the price shock effects, we assume that all inflation will be passed on to producers through higher revenues, input costs, and wages.[90] Exogenous price shocks work through the economy in various ways,

depending on economic and financial context. In 2025, trade balance challenges, labour shortages, and infrastructure destruction weighed on output, and the already substantial trade deficit is believed by several observers to widen.[91] Imports will receive a larger nominal price shock effect than exports. Still, there were signs of rising domestic production in late 2025.[92] In accordance with our view, it is being reported that the IMF is expected to downgrade their real GDP growth estimate below 2%.[93]

An IMF study of the effects on public finances, finds that state tax revenue should increase, and state expenditure increase less because many budgeted costs are legally set or will increase only gradually.[94] Both corporate profit taxes (CIT) and personal income taxes (PIT) will normally rise with inflation. There will hardly by instances of "bracket creep", since CIT and PIT follow flat rates in Ukraine. Several studies find that the debt-to-GDP ratio may decrease.[95] The budget balance may also improve, the IMF study finds 1%p inflation shock to induce 0.5%p improved fiscal balance. However, we believe that the high budget deficit in Ukraine may give a relatively higher nominal price shock effect on expenditure than revenues. Ukraine depends heavily on international aid transfers, which are budgeted by donors and may not easily change. Sticky expenditure may be countered by political pressures for more rapid upward adjustment of (social) expenditure. Salaries make up a substantial cost of the military budget (investments are often paid by external donors), and government may feel compelled to alleviate the added social burden on individuals who are under fixed social benefit programs.[96] The scope for citizens to accept lower real incomes under a tight labour market and risks of migration, may be limited.

Inflation shocks may require further monetary tightening and/or increased interest rates. Monetary policy is disciplined, and the price shock should be expected to induce further monetary tightening / higher interest rates.[97] Domestic borrowing is low, but interest rates may weigh on the private sector. The fiscal tightening in the first quarter will probably give way to fiscal stimulus once foreign funding fully resumes.

Altogether, we believe that the slight depressionary trend in real production and trade balance will not be fully neutralised, that the need to alleviate social burdens will increase public expenditures more than anticipated by general studies, and that the reliance on foreign donors and domestic borrowing may counteract some of the positive effects on overall balances. We further believe that the budget defence expenditure may be under-estimated, especially if the stimulus from oil prices fortifies a Russian summer offensive. However, we believe external contributions will increase. Nominal VAT and PIT will rise, but strained profits before tax may reduce the initial positive price effect on corporate income tax revenues. There is also scope for introducing VAT on self-employed, adding further domestic revenue potentials. Ukraine will have to prioritise social alleviation and attract more external funding for defence, but an inherent under-funding of defence costs may force increased domestic funding of defence expenditures. .

There is reason to believe that Ukraine's state budget has sufficient funding over the next years.[98]

Ukraine has accumulated reserves in order to alleviate the deterioration of the current account balance, and the new EU Loan, a €7 billion IMF four-year facility, and bilateral donations, provide good net funding. Unlike other observers, we do not believe military (in-kind) aid and donations will decline in 2026.[99]

Like other observers, we predict higher allied funding than anticipated during budgeting in 2025.[100]

For the budget year 2026, Russia planned a €42.6 billion deficit (at $59 Urals oil price), against €63 bn last year. But January alone brought a €19 bn deficit (at $55 Urals price), budget revenues fell 11.6% to €26,1 bn, and total government costs were cut by 1,4% to €45 bn.[101] The budget may balance at $70 per barrel.[102] For each extra $10 oil price, Russia's state budget improves by about €10 bn per year and GDP by €21.3 bn (crude plus refined exports equal 2.5 bn barrels per year). The IMF is expected to adjust up their previous real GDP growth estimates for Russia.[103]

To equip Ukrainian victory under Scenario 2, we indicate a potential funding gap of € 45 – 102 billion in 2026, depending on war strategy. Due to declining costs of Scenario 2, the gap will be € 12.5 - 37 billion in 2027, and disappear in the following years. This implies that the total added funding needs to close Ukraine's funding gap are € 57.5 – 139 billion over the full period. Given the increased geopolitical risks and the assessed higher risks associated with investing in the United States, there may be a golden opportunity for Europe to attract long-term funding for Ukraine through market debt issues, combined with a program to boost defence industrial production through contracts, guarantees, and transformation.

Throughout our studies and conversations with diplomats and government representatives in Europe, we observe that collective debt financing is a preferred and feasible way of funding Ukraine's survival and victory in the defence against aggression. The new, €90 billion EU Loan backed by most member states, is a good example of pragmatic financing that better shares the burden of support between European countries. Norway and the UK do not take part in that funding mechanism, and according to the Norwegian government, the EU did not ask for such participation from non-members.[104] Going forward, the European Union should consider broadening the alliance behind debt financing.

There are several ways of funding Ukraine, worth exploring:

- Countries may agree to fund more Ukrainian defence needs under the 3.5% military spending target.
- There is a historic precedent for "War Bonds" during wartime, by which bonds are issued at a lower interest rate, whereby part of the cost of capital is carried by private and institutional investors.
- Governments can issue their own, government-to-government loans to Ukraine, at favourable terms such a below-market interest rate, longer down payment, or conditions for debt relief.[105]
- Governments can direct loans to Ukraine by issuing separate government bonds, which would have the benefit of widening some local bond markets.
- Governments may always opt for private multiplication of funding via the EBRD.
- Export finance institutions may increase their guarantees.

Especially promising are signals that the Nordic and Baltic countries (BN8) may be ready to provide a loan in order to assist funding. This idea is reminiscent of the long-term loan that Nordic provided to Iceland in 2009, to remedy the country's fiscal stress under the financial crisis. We especially urge the Government of Norway to consider to over-guarantee such a loan, or consider a bilateral Norwegian loan

to Ukraine.[106] The latter may be done either as a direct state-to-state loan guaranteed over the state budget, or via a market bond issue. Norway has a deficient capital market of only about €50 billion, due to the country's positive external balance over years. There are many advantages of developing that market further, including a more efficient monetary risk management and exchange rate adjustment.

Alternatively, Norway may increase direct, bilateral support and in our previous report (November 2025) we proposed that Norway directly expand support to Ukraine via the state budget. Since around 2017, the Government of Norway has deviated from the country's agreed fiscal rule, introducing a 0.3% "buffer", thereby spending over time only 2.7% of the real returns on the Pension Fund ("The Oil Fund"), instead of the proscribed 3%. This comes in addition to the fact that spending for the past three decades has systematically been lower than the fiscal rule provides for, giving rise to tens of billions of Euros in "excess savings" compared to what the agreed fiscal rule proscribed.[107] Currently, the under-spending will typically be € 4 - 8 billion per year, depending on returns from oil, gas, and portfolio investments. This mandated fiscal space may be allocated to Ukraine until a sustainable settlement under international guarantees is concluded. In addition, we urge the Government of Norway to allocate a proportionate share of the windfall earnings from the current oil and gas price shock, to Ukraine's defence of Europe.

The total Ukrainian funding gap of € 42 – 107 billion over four years, may be fully absorbed by confiscating frozen Russian assets in Europe. Agreement was reached among G7 countries in October 2024 to apply the generated interest revenues of the assets as collateral for a €45 billion loan to Ukraine. According to analysts at the European Parliament, a growing number of experts have come to view confiscation as legally viable.[108] The assets count almost €300 billion, of which more than €190 billion in the EU, €27 billion in Japan, €25 billion in the United Kingdom, €14 billion in Canada, more than €5 billion in Switzerland, and almost €4 billion in the United States. *Euroclear* in Belgium holds the largest European deposit with €185 billion, other deposits held by private banks mainly in France (19 billion) and Luxembourg (10-20 billion).[109] The Parliamentary Assembly of the Council of Europe unanimously called for the seizure of Russian assets in April 2024.[110] The EU Parliament has adopted a similar stance.[111] The United States, the Nordic countries, and EU Commission President Ursula von der Leyen endorse the use of the principal as collateral for funding.[112] It is legally grounded in exceptions to the rules on state sovereignty and immunity, in cases of violations of international law and conventions, damages under international court decisions, or collective defence.[113] The reserves were built up to finance an illegal war of aggression with extensive use of torture and war crimes.

The economic impact of confiscating the assets was probably priced in by markets already when they were frozen in 2022.[114] The *KSE Institute* in Kyiv, in a study, found no evidence of structural shifts away from G7 currencies, or sovereign debt market effects, from the freezing of Russian assets.[115] They point out that Russia has already confiscated €45 billion worth of Western assets, and estimates a manageable interest rate risk from confiscation. Experts remind that confiscation would entail a reduced need to raise capital through other issues to the international sovereign debt market, with positive effects on interest rates.[116]

7 Footnotes

[1] This has been reported as a credible risk by the intelligence agencies of Denmark, Germany, Latvia, Poland, and the UK. Agencies of Czechia and Dutch foresee Russia directing long-term confrontation.

[2] UkrInform staff, "Syrskyi: Russia produces over 400 long-range drones daily", *UkrInform*, 26 Januar 2026. John Hardie, «Russian military launches recruitment drive for drone units», *Foundation for Defence of Democracies*, 28 January 2026. In April 2026, Ukrainian analysts in conversations with authors estimate at least 100,000 operators.

[3] Conversations with military analysts, Ukraine, April 2026.

[4] Jack Watling, *Russia's Aggression in Ukraine Will Persist Through 2026*, Commentary, Royal United Services Institute, 23 February 2026.

[5] Luca L Moffat and Chris Powers, «Exclusive: Ukraine still missing billions in defense funds for 2026», *Kyiv Independent*, 22 April 2026, based on anonymous EU documentation.

[6] Gen Ben Hodges, «Lecture – Russia's War Against Ukraine: How Does it End?», *Maastricth University*, October 2025.

[7] European Commission, *Future of European defence - European Commission*

[8] European Commission, *White Paper for European Defence Readiness 2030*. See especially Page 7.

[9] We have not been able to estimate the loss to Russian revenue from Ukraine's bombardment of oil and gas facilities.

[10] This has been reported as a credible risk by the intelligence agencies of Denmark, Germany, Latvia, Poland, and the UK. Agencies of Czechia and Dutch foresee Russia directing long-term confrontation.

[11] Kyiv Post staff: *After Russian invasion of Georgia, Putin's words stir fear about Ukraine*, 30 November 2010. On Putin's view of Russia as a naturally and rightfully pan-national state, see the chapter "Russia as a historic state" in: Vladimir Putin, *Russia: The national question*, RIA Novosti, 23 January 2023. On Putin's resentment over the dissolution of the Soviet Union, see: Vladimir Putin, *Address to the Federal Assembly*, 25 April 2005. On the desire to subdue Ukrainians under Russians, see: Serhii Plokhy, interview by Harvard University Ukrainian Research Institute, *Contextualizing Putin's «On the Historical Union of Russians and Ukrainians»*, 2 August 2021. On the economic-imperialist ambition, see: Timothy Snyder, *The origins of unfreedom*, from the Norwegian version *Veien til ufrihet*, Forlgaget Press, 2023, p 91. On the political-religious desire to reunite the «Russian World», see: Juri Saar, *The Russian Holy War and Military Statehood*, Trames, Vol 27 (No 77/72), 1, 2023, p 5.

[12] Vladimir Putin, *Russia: The national question*, chapter "Russia as a historic state", RIA Novosti, 23 January 2023.

[13] Vladimir Putin, *On the Historical Unity of Russians and Ukrainians*, 12 July 2021. For a conceptual interpretation, see: Serhii Plokhy, interview by Harvard University Ukrainian Research Institute, *Contextualizing Putin's «On the Historical Union of Russians and Ukrainians»*, 2 August 2021.

[14] Sidharth Kaushal and Juliana Suess, "The Impact of a Taiwan Strait Crisis on European Defence", Whitehall Reports, *Royal United Services Institute (RUSI)*, 20 November 2024.

[15] In the more extreme case, it may induce a coup or some kind of (ethnic) revolt inside Russia.

[16] UkrInform staff, "Syrskyi: Russia produces over 400 long-range drones daily", *UkrInform*, 26 Januar 2026. John Hardie, «Russian military launches recruitment drive for drone units», *Foundation for Defence of Democracies*, 28 January 2026. In April 2026, Ukrainian analysts in conversations with authors estimate at least 100,000 operators.

[17] Conversations with military analysts, Ukraine, April 2026.

[18] Randall Bowdish, *Military Strategy, Theory and Concepts*, *University of Nebraska*, 2013, p 206.

[19] Antulio J Echevarria II, *Military Strategy: A Very Short Introduction*, Oxford University Press, 2017, pp 30-31.

[20] Gen Ben Hodges, «Lecture – Russia's War Against Ukraine: How Does it End?», *Maastricth University*, October 2025.

[21] Antulio J Echevarria II, *Military Strategy: A Very Short Introduction*, Oxford University Press, 2017, pp 30.

[22] Randall Bowdish, *Military Strategy, Theory and Concepts*, *University of Nebraska*, 2013, p 212-213.

[23] Maj Gen Curtis A Buzzard, et al: «The Tank is Dead… Long Live the Tank», *Military Review*, Army University Press, August 2023.

[24] Sam Cranny-Evans, "Blood and Dust: The Rise of Russia's Glide Bombs," *European Security & Defence*. July 15, 2025.

[25] Jack Watling, *Russia's Aggression in Ukraine Will Persist Through 2026*, Commentary, Royal United Services Institute, 23 February 2026.

[26] Jack Watling, *Russia's Aggression in Ukraine Will Persist Through 2026*, Commentary, Royal United Services Institute, 23 February 2026.

[27] Jack Watling, *Emergent approaches to combined arms manoeuvre in Ukraine*. (London: Royal United Services Institute (RUSI), 2025).

[28] Jack Watling, *Russia's Aggression in Ukraine Will Persist Through 2026*, Commentary, Royal United Services Institute, 23 February 2026.

[29] Watling and Reynolds, *Tactical Developments in the Third Year of the Russo-Ukrainian War*, 20. February 2025, pp 8-9.

[30] Watling and Reynolds, *Tactical Developments in the Third Year of the Russo-Ukrainian War*, 20. February 2025.

[31] Watling and Reynolds, *Tactical Developments in the Third Year of the Russo-Ukrainian War*, 20. February 2025.

[32] Josiah Mosser, "Principles of Modern Tank Design», *RUSI Journal*, Vol 171, Issue 2, Royal United Services Institute, 9 March 2026.

[33] Karlsrud, Stormoen, and Svendsen, *Pace and effectiveness of Norway's support to Ukraine*, NUPI, 6 May 2025

[34] Mykola Bielieskov, "Putin's escalating air offensive is overwhelming Ukraine's defenses", *Atlantic Council,* July 1, 2025.

[35] Some additional main battle tanks (MBT) and infantry fighting vehicles (IFV) will be needed, but most demands may be served by redeployment of existing capacities. Unit costs of MBTs including support systems in recent contracts range between € 28 mio (Germany) and € 36 mio (Poland). Leopard active protection systems (APS) with connected equipment had a cost of € 330 million for four countries deploying the newest Leopard 2A8 battle tanks.

[36] The European *Milrem THeMIS* heavy UGV have been contracted at an assessed unit cost of at least € 4 million, but lighter Ukrainian developments are available at much lower costs, down to € 20.000. The two examples represent totally different combat power contributions, and scaling potentials.

[37] Recent contracts for the 300-500 km range (PrSM, Storm Shadow, SCALP) indicate unit costs of € 2 million per missile. Recent contracts in the 500-2,000 km range (Tomahawk, Taurus Neo) indicate unit costs of € 2 – 10 million, depending on type. Deep-strike attack drones developed in Ukraine have much lower unit cost of typically € 50-200,000. However, scaling such production in NATO countries will face increased cost levels. A deep-strike drone contract in Ukraine recently involved $ 481 million, with an undisclosed number of drones to be delivered.

[38] Recent total integrated system contracts include Danmark (€ 500 mio), Nederland (€ 1,000 mio), and Taiwan ($ 1.160 mio). These contracts usually include radar, Link-16, etc. Unit costs for the missiles range at € 3 – 6 million. Lower-cost NASAMS missiles are under development.

[39] Among recent contracts, the Netherlands signed a comprehensive integrated radio and control system at a cost of $ 1.42 billion. In the United States, a Link-16 tactical radio systems with command and control integration, had a contract cost of $ 248 million.

[40] Costs connected with ports, roads, railway, shelters, hospitals, etc.

[41] Compensations for expropriation of land (€ 5 bn in 2026) and contract buyouts (€ 5 bn in 2026).

[42] Losses of production from 70,000 soldiers, agricultural land, closing of airspace, etc.

[43] In 2024, Kongsberg Group signed a contract with the Netherlands over integrated network-based air defence systems (Citadel), based on NASAMS and NOMAD, worth c. € 1 billion. Additional integration of each new weapons system costs a double-digit number of million euros.

[44] Including barracks, cars, and logistics equipment for reinforcements and supplies.

[45] Assessment based on conversations with experts of the *Touchnyi.info* network.

[46] Recent contracts indicate system costs of € 50-120 million for the integration of EW systems in one platform, for example in armoured vehicles (Norway) or radio information systems (France).

[47] Includes the construction of redundant roads and bridges for supplies and mobility of offensive manoeuvre forces, in addition to further expansion of field medical and evacuation facilities. Recent contracts indicate unit costs of engineering vehicles (LEGUAN, Kodiak) indicate a unit cost of € 7-11 million. A complete amphibious bridging

(WWGC) system had a system cost og c. € 450 million. Laying new hard-cover roads in Afghanistan had a cost of € 50-200,000 per kilometre.

[48] NATO forces assuming responsibility to protect airspace in Western Ukraine.

[49] Dimitro Schwartz, Ukraine has produced the first 100 of its own missiles, *Deutsche Welle*, 10 November 2024.

[50] Tom Balmforth, Long-range weapons Ukraine has developed since Russia's 2022 invasion, *Reuters*, 17 November 2025. In 2025, fewer than 50 UAV producers signed contracts with the Defence Procurement Agency, while a much higher number of companies actually developed and produced such drones outside of this supply channel.

[51] Elisabeth Gosselin-Malo, «Rheinmetall opens repair facility for combat vehicles in Ukraine,» *Defense News,* 11 June 2024. Orysia Hrudka, «Rheinmetall to commence armored vehicle production in Ukraine in 2024», *Euromaidan Press,* 2 December 2023. Dylan Malyasov, «Rheinmetall begins Lynx fighting vehicle production in Ukraine,» *Defence-Blog,* October 26, 2024,

[52] Andrii Muravskyi, «Ukrainian defence industry covers 40% of armed forces' needs», Ukrainska Pravda, 30 May 2025. Economy Edition: "Ukrainian manufacturers cover 70 % of arms contracts value for country's military", Ukrainska Pravda, 7 August 2025.

[53] Information obtained during two independent trips to Ukraine in the summer of 2025.

[54] This and the following analysis base don information from Norwegian and Ukrainian industry players.

[55] Information from group of Norwegian investors in the Ukrainian tech cluster, November 2025.

[56] Luca L Moffat and Chris Powers, «Exclusive: Ukraine still missing billions in defense funds for 2026», *Kyiv Independent*, 22 April 2026.

[57] KSE Institute, *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026, p 4. Luca L Moffat and Chris Powers, «Exclusive: Ukraine still missing billions in defense funds for 2026», *Kyiv Independent*, 22 April 2026. We understand that most in-kind donations are accounted as non-tax revenues.

[58] We assume the same rate of inflation in consumer prices (CPI), producer prices (PPI), and import prices. In Ukraine, there has been convergence between CPI and PPI over the last years.

[59] State Budget 2026: 709,8 bn UAH. We estimate a 15% inflation in 2026. See previous footnote. We also add the € 28 billion military share of the new EU Loan (April 2026) which will only cover armament and equipment.

[60] State Budget 2026: 1279,2 bn UAH. Personnel costs in the armed forces will increase during offensive operations.

[61] Luca L Moffat and Chris Powers, «Exclusive: Ukraine still missing billions in defense funds for 2026», *Kyiv Independent*, 22 April 2026, based on anonymous EU documentation. For an earlier estimate, see: KSE Institute, *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026, p 4. See also: Ukraine's total budget expenses in 2025 reached a historic high of $131.4 billion, according to the Fiscal Digest from the KSE Institute. - Kyiv School of Economics

[62] Luca L Moffat and Chris Powers, «Exclusive: Ukraine still missing billions in defense funds for 2026», *Kyiv Independent*, 22 April 2026.

[63] Pledged bilateral funding by NATO member states under the «Ramstein Format» by 18 April 2026.

[64] For example, supplies of *Patriot* missiles under the PURL program are expected to be delivered into 2027-2029, and should therefore be subtracted from funding of the 2026 military expenditure.

[65] Especially, France has so far provided relatively small donations according to the Kiel Institute, but has some industrial motivations to donate in-kind equipment from the French defence industry. We suspect the Kiel Institute data to under-estimate total French donations.

[66] From "Consolidated budget figures" it seems that central government "Revenues" do not include *«Official transfers from the European Union, foreign governments, international organisations, donor institutions».* The latter are included in the total national budget revenues, which were 4.344.8 billion in 2025. Ministry of Finance of Ukraine.

[67] Donations to the Special Fund of the state budget from individuals and companies, administered via the National Bank of Ukraine.

[68] Kiel data includes all military and civilian bilateral disbursements and allocations to multilateral frameworks, such as IMF or World Bank budget support. We have additionally consulted budget documents for the Nordic countries to validate 2025 and 2026 totals.

[69] The *KSE Institute* estimates purely financial assistance at $ 50.3 billion (€ 45 billion) in 2025, and at €78.8 billion (€68 billion) in 2026. *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026.

[70] Germany has already pledged 11,5 bn EUR in military support, in addition to 100-300 million EUR in humanitarian funds and «additional and overlapping» posts stated by the Ministry of Foreign Affairs as bringing totals to 12 billion EUR. However, parts of the Ramstein pledges relate to spending in 2025 or 2027-2028.

[71] The government of Italy has a general mandate to uphold spending at current levels, in which civilian and military allocations have recently been of equal magnitude.

[72] Spain has pledged 1 billion EUR in military support for 2026, most via the EU SAFR program. In addition, civilian funding has been traditionally about half the military support in magnitude..

[73] Poland has allocated c. 21 billion EUR in total military and civilian funding since 2022. Military packages of 200-250 million EUR are regularly allocated.

[74] Sweden has a multiyear framework of 40 billion SEK in annual military support, including a 12,9 billion SEK military package announced on 16 February 2026, and a civilian and humanitarian program of roughly 10 billion SEK per year.

[75] Denmark has a 70,8 billion DKK total military support program for 2022-2028. For the budget year 2026, parliament has pledged 9.4 billion DKK in military support, 3,8 billion DKK in other funding programs, and c. 600 million DKK in F-16 related costs. Total disbursements are expected to reach 14 billion DKK.

[76] Finland allocated 0,71 billion EUR in official funding in 2025, of which 0,69 billion EUR military aid, but additional are non-disclosed in-kind contributions, and minor loans via the Finland-Ukraine Investment Facility (FUIF).

[77] For 2026, the UK allocates a multi-year funding of £ 3 billion per year, plus up to £ 283 million in humanitarian, governance and energy support. Total state budgeted funds identified for 2026 are 4,6 billion EUR, but we assess indirect and in-kind programs to bring the totals to 5 billion EUR. The domestic political debates on the total contribution profile are ongoing.

[78] Improved exchange rate in 2026 versus 2025. In this connection, we disregard the frontloading from 2026 Budget in late 2025. For 2026, the 85 billion NOK Nansen program spending is supplemented by a 340-400 million EUR energy support and gas purchase program.

[79] UNN staff: Japan to allocate $6 billion to support Ukraine in 2026, 21 January 2026. Korea has a 2.3 billion USD multi-year funding framework for 2024-2027.

[80] We assume the same rate of inflation in consumer prices (CPI), producer prices (PPI), and import prices. In Ukraine, there has been convergence between CPI and PPI over the last years.

[81] For 2026, Government estimates 2,4% real growth for budgeting, while the Central Bank estimates 1,8% real growth (applied here). We apply the higher Government estimate for GDP at 10.309 billion UAH. The *EBRD* predicted 2.5% real growth in 2026, and *KSE Institute* predicted 3.2 % real growth in 2026, though bote predictions were conducted before the onset of the war in the Middle East. More recently, the IMF reportedly expects to downgraded their 2.0% real growth prediction for 2026. Luca L Moffat, "Ukraine wins debt relief and IMF flexibility in DC but growth outlook dims", *Kyiv Independent*, 18 April 2026.

[82] Ukraine experienced substantial export challenges in 2025, and we believe these challenges to continue, exacerbated by the destruction of energy infrastructure and challenges in the agricultural sector.

[83] Under the 2026 scenario we estimate the total imports inflation at 15%, plus underlying economic growth effects, as we estimate energy costs to have knock-on effect on all input goods and wage costs.

[84] National Accounts (GDP), 2005 According to Ukrainian official data, GVA is higher than GDP, indicating that subsidies to producers are higher than taxes on products. We assess that Gross Value Added (GVA) is negatively impacted by reduced profitability via increasing import costs. Definitions: For the private sector, Gross Value Added (GVA) equals EBITDA incl wages but excluding net product taxes paid. Wages include payroll taxes and employer social costs. Product taxes include VAT and excise duties, but nor corporate income tax or other taxes on profits wealth, or land rents. Private sector contribution to GDP (Gross Product), equals = EBITDA incl wages + net product taxes paid (product taxes minus subsidies). See: Erlend Bjørtvedt et al, *Telenor in the National Economy – A Methodology*, Telenor R&I Report Series, No 5, 2016.

[85] We assume that corporate income taxes are reduced proportionately with Gross Value Added.

[86] We do not factor in here the potential of introducing VAT on self-employed.

[87] From the monthly "Consolidated budget figures" it seems that central government "Revenues" do not include *«Official transfers from the European Union, foreign governments, international organisations, donor institutions».* The latter are included in the total national budget revenues, which were 4.344.8 billion in 2025. Ministry of Finance of Ukraine.

[88] We assess that central government costs will increase proportionately with the estimated added inflation of 5% (15% - 9,9%)., due to pressures for social compensations and higher military expenditure than planned.

[89] The KSE institute predicted, before the war in the Middle East, a total budget funding gap of $4.6 billion (€4.0 billion). What we present here is not the funding gap, but the net effect of the price shock.

[90] For simplicity, we assume immediate adjustment of wages to inflation.

[91] Vanora Bennett, *Ukraine maintains macroeconomic stability despite war*, EBRD Report, 26 February 2026. *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026.

[92] Vanora Bennett, *Ukraine maintains macroeconomic stability despite war*, EBRD Report, 26 February 2026.

[93] Luca L Moffat, "Ukraine wins debt relief and IMF flexibility in DC but growth outlook dims", *Kyiv Independent*, 18 April 2026.

[94] Daniel Garcia-Macia, «The Effect of Inflation on Public Finances», *IMF Working Papers*, No 23/93, May 2023.

[95] See also: Huw Dixon, Urvish Patel, Hailey Low, «Box B: Inflation and Public Finances,», in: National Institute UK Economic Outlook Summer 2022, pp 14-22.

[96] Dubravko Mihaljek, «Inflation and public finances: an overview», *Public Sector Economics*, Vol 47, No 4, 2023.

[97] Daniel Garcia-Macia, «The Effect of Inflation on Public Finances», *IMF Working Papers*, No 23/93, May 2023.

[98] See for example, *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026, p 3.

[99] See for example, *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026, p 4.

[100] See for example: *KSE Institue Ukraine Macroeconomic Handbook Q1 2006*, January 2026, p 2.

[101] Russia's January Budget Deficit Hits Nearly Half of Annual Target - The Moscow Times

[102] Iran-fuelled oil price rally not enough to balance Russia's budget | Reuters

[103] Luca L Moffat, "Ukraine wins debt relief and IMF flexibility in DC but growth outlook dims", *Kyiv Independent*, 18 April 2026.

[104] Pål Vegard Hagesæther, «EU: Har ikke planer om å be Norge om lån til Ukraina», *Aftenposten*, 13 November 2025.

[105] Historic precedent includes, among others, bilateral Nordic loans to Iceland during the financial crisis.

[106] Olav Slettebø, forthcoming article, *Samfunnsøkonomen*, Oslo, April 2026.

[107] Olav Slettebø, "5200 milliarder opp i røyk», *Samfunnsøkonomen*, No 5, 2025.

[108] Anna Caprile and Tim Peters, «Confiscation of immobilised Russian state assets – State of play, arguments and scenarios», briefing, *European Parliament*, 8 September 2025.

[109] Anna Caprile and Tim Peters, «Confiscation of immobilised Russian state assets – State of play, arguments and scenarios», briefing, *European Parliament*, 8 September 2025.

[110] Council of Europe, Parliamentary Assembly, Resolution 2539 (2024).

[111] EU Parliament, Resolution of 19 September 2024, and Resolution of 12 March 2025.

[112] Jorge Liboreiro, Nordic leaders rule out joint debt, insist on Russian frozen assets to support Ukraine, *EuroNews*, 28 October 2025.

[113] Anders Olofsgård, *The Case for Seizing Russian State Assets*. (Stockholm: FREE Network, 2025).

[114] Olofsgård, *The Case for Seizing Russian State Assets*.

[115] Benjamin Hilgenstock, Lucas Risinger, Anna Vlasyuk and Elina Ribakova, «Implications of the Confiscation of Russian Sovereign Assets», *KSE Institute*, 13 April 2025.

[116] Anna Caprile and Tim Peters, «Confiscation of immobilised Russian state assets – State of play, arguments and scenarios», briefing, *European Parliament*, 8 September 2025, p 5.

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