ECONOMIC RECOVERY

Years of mismanagement and policy inconsistency turned Ukraine into a regional outlier in terms of economic development. The war exacerbated Ukraine’s economic situation. After an effective economic wartime response, Ukraine urgently needs innovative solutions for economic recovery and modernization. Ukraine’s thirst for freedom and self-organization coupled with unprecedented global partnership provides a once-in-a-lifetime opportunity to become a global leader in innovation and sustainable economic prosperity. This policy brief is aligned with the National Recovery Council and Lugano Declaration. It outlines six key priority areas for Ukraine’s economic recovery:

**#1. MACRO-FINANCIAL STABILITY** | According to the World Bank, Ukrainian GDP is expected to fall by more than 45%. Budget expenditures almost doubled due to increased defense spending as well as business/humanitarian support. Budget revenues are projected to decrease due to a reduction in income tax revenues and the temporary abolition of customs duties and VAT for imports. The budget deficit could reach more than USD 45 billion by the end of the year. This prompts the following initiatives.

- Ensure the stability of war-time state budget financing (grants and loans negotiations; revisit of tax/duty exemptions);
- Increase the efficiency of public finances (tax system efficiency, decrease in government spending, and sovereign debt risk);
- Develop the finance and banking sector (sector clean-up, effective management of state-owned banks, promotion of bank financing).

*Macro-financial stability as well as an efficient finance and banking sector will contribute to the adequate functioning of the state, restoring business activity, increasing investors’ confidence, and ensuring sustainable economic growth.*

**#2. ECONOMIC FREEDOM** | According to the government, more than a third of enterprises have suspended their operations, about 20% of SMEs have significantly reduced their activities, and others are facing limited export opportunities due to sea port blockades. In the meantime, approval of Ukraine’s EU candidate status establishes a clear framework for the gradual alignment of Ukraine’s legislation, thereby allowing free movement of goods, services, capital, and people. Given this, the following initiatives are suggested:

- Decrease the regulatory burden on businesses during the war-time;
- Implement the obligatory conditions for EU candidate status (rule of law, anti-corruption, and institutional reforms);
- Roll out a full-scale approximation of the EU Internal Market while reducing the size of the government (tax administration, privatization; digitalization of public services), improving regulatory efficiency (deregulation), and opening markets (liberalization of capital markets; investment freedom).

*Immediate actions will keep men and women-owned businesses afloat during the war whereas EU legislative alignment will translate into a better and more familiar investment climate for EU and global direct investment, modernized infrastructure, and improved governance.*
#3. EU INTEGRATION AND ACCESS TO MARKETS | Since 2014, Ukraine improved its trade policy by pioneering export promotion and financing programs, as well as signing free trade agreements. Export volumes over 2016-19 have increased at an annual average of 11% followed by a sharp pandemic-related increase in 2021 by 34%. A consistent trade policy includes the following initiatives:

- Improve trade conditions with strategic partners (updated Export Strategy of Ukraine; audit, renegotiation, or conclusion of new ITAs covering all continents; extension of tariff-free trade with selected countries);
- Implement the EU economic integration (removal of tariffs and non-tariff non-technical barriers for all Ukrainian goods; harmonization of the legislation to “eliminate” all non-tariff technical barriers);
- Reactivate trade routes (increased throughput capacity on the border with the EU and increased interconnectivity of Ukraine; participation in regional projects such as TEN-T, Lublin Triangle, Three Seas Initiative, Belt and Road Initiative; modernize customs);
- Build a strong export support ecosystem (long-term institutional capacity of key institutions; a full-scale export consulting program for Ukrainian exporters; expanded export financing; a powerful representation of Ukraine and Ukraine’s business abroad).

Successful EU economic integration, as well as advanced access to international markets, will allow Ukraine to advance its economic development and substantially increase the overall quality of life.

#4. ACCESS TO KNOW-HOW | Forced skilled emigration (“brain drain”) accelerates the demographic collapse threatening Ukraine’s economic future. According to the government, more than 14 million Ukrainians (~25% of the population) fled their homes, including over 6 million who went abroad during the first period of the war. Ukraine should mobilize a critical mass of talents, thus “populating” the economy with know-how and fostering knowledge transfer. A systemic approach to realizing this goal covers the following initiatives:

- Encourage the return of refugees (nationwide upskilling/reskilling programs for returned migrants, IDPs, and unemployed; housing and childcare services; programs for Ukrainian young professionals to work at the best international companies and return to Ukraine);
- Attract international talents to Ukraine (international grant programs for Ukrainian companies to hire remote or on-site international skilled workers and volunteers; “digital nomads visa” for foreigners; study programs for international students);
- Reconnect Ukraine with Ukraine’s diaspora (a network platform matching Ukraine’s diaspora and Ukrainians; dual citizenship);
- Prepare the young generation (grant programs for Ukrainians to study at the best global universities and return to Ukraine; a focus of Ukraine’s education system on STEM and entrepreneurship; the establishment of branches of international universities in Ukraine).

Increasing access to know-how will result in accelerating economic development and making Ukraine more competitive in the global arena.

#5. ACCESS TO FINANCE | According to a wartime survey of Ukrainian businesses, total losses during the first 6 weeks of the war amounted to USD 83 billion whereas expected sales volumes are expected to drop by 48%. As a result, businesses require greater financial support; 41% of businesses are already in the active phase of finance search. The following initiatives are suggested:

- Provide access to emergency funding (wartime government grants, loan guarantees, and interest rate reductions);
- Expand post-war access to funding (covered financing for mortgage lending, de-risk lending to SMEs, supply chain financing);
- Support Ukrainian innovators (world-class regulations of venture capital and alternative financing; a fund of funds and a program for matching grants for Ukrainian startups and innovative companies; business angels training);
- Relaunch the capital market (capital amnesty and the exit capital tax; pension accounts and healthcare insurance system).

Better access to finance will help businesses recover from the consequences of war and start delivering economic impact in Ukraine and beyond.

#6. PRIORITY SECTORS TRANSFORMATION | Ukraine underperforms amongst European countries in terms of economic complexity and diversification. Meanwhile, Ukraine’s agriculture feeds more than 400 million people worldwide, with key grain and oilseeds accounting for more than 10% of world exports, and in some cases almost half of world exports. The disruption of the Ukrainian agricultural sector could lead to a food crisis in countries of the MENA region. Therefore, the following initiatives are suggested:

- Address immediate sectoral challenges (coordinated relocation of businesses and organization of domestic and international logistics);
- Launch sectoral catalytic projects focusing on improving Ukraine’s product complexity and engagement in EU/global value chains, as well as addressing key global trends (sustainable development, green transition, digitalization);
- Build a powerful innovation ecosystem (favorable preconditions; sufficient support in development, commercialization, and scale-up);
- Facilitate FDI attraction to bring the largest international companies to Ukraine (war insurance for investment projects as well as special investment incentives; targeted investment promotion and facilitation programs).

Successful transformation of Ukraine’s priority sectors by producing a greater diversity of highly complex goods and services will strengthen not only domestic production but will also positively impact global markets, in particular in the realm of food security.
**POSSIBILITIES TO SUPPORT** | International partners are welcome to support Ukraine on the way to a full economic recovery by leveraging the following instruments: (1) *Macro-financial assistance* to foster stability; (2) *Technical assistance* focusing on the EU legislative alignment; (3) *Dedicated financial instruments of EU and IFIs* to ensure EU-compatible sectoral transformation; (4) *MIGA military risk insurance* for the destroyed assets reconstruction and new investments; (5) *EU institutional innovations* to enable Ukraine’s participation in EU institutions during the accession process; (6) *Joint partnership projects to facilitate knowledge transfer and people-to-people contacts* (volunteering scheme for young EU citizens, school and university exchanges, professional training programs for young Ukrainian professionals and entrepreneurs).

*At the request of the URC2022 Organizational Committee, this brief was prepared by the Centre of Economic Recovery (CER) based on extensive multi-stakeholder consultations, which included representatives of the government, civil society, business, local self-government, and academia. The views expressed are those of the authors and contributors and should not be reported as the position of the Ukrainian or Swiss Governments.*