

# Supporting Ukraine's economy beyond the EU candidate status:

possible timeframe and measures

**Policy proposal**



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In addition to sending an extremely powerful (geo)political message of hope and support from the European Union to Ukraine, that is bravely fighting against Russian invasion, the candidacy (if voted) would raise an important issue both for European and Ukrainian policy makers on **how and at what scale Ukraine will be supported by the EU as a candidate country**, given the ongoing war, which is likely to escalate into a protracted one until the complete attrition of one of the parties.

The factor of war makes this issue, to a large extent, new to the European Union as there has never been such a precedent before. Therefore, the usual path offered by the EU to the candidate countries – **significant volumes of structural support in exchange for comprehensive sectoral reforms** – may be spiraling for decades (as evidenced by the experience of Croatia). Ukraine's expectations from its low hanging EU candidacy look a bit different – the **EU appears to provide the substantial amount of structural assistance for the immediate support of the Ukrainian**

**economy and the rebuilding of destroyed cities and infrastructure**, while reform efforts will be concentrated mainly over the post-war recovery periods.

The ideal scenario, as always, lies somewhere in between – Ukraine desperately needs both the emergency back up by the EU to sustain sufficient resilience to the Russian war machine and access to long-term EU funds for post-war economic and infrastructure recovery. So far, the balance of the economic losses is not in Ukraine's favor: as the recent World Bank forecast suggests, Ukraine's GDP will shrink by 45.1 % this year due to the destruction of the most developed industrial and technological regions in the South-East of Ukraine and deep humanitarian crisis, with more than 4 millions of refugees having to flee abroad. At the same time, the Russian economy is projected to contract by 11.2% only, despite all the introduced sanctions. This provides for a greater possibility for Russia (at least in the short term) to maintain a massive warfare in Ukraine.

Below we will consider a possible set of such measures to support the Ukrainian military, the economy and citizens and identify their purpose and timeframe given the current situation in Ukraine.

# Short-term / emergency support

[open for immediate action]



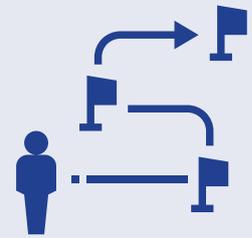
This is the simplest case to explain, as it can literally be described by the formula: “EU weapons to Ukraine + EU sanctions on Russia + (non-conditional) EU macrofinancial support to Ukraine + humanitarian support to Ukraine”. If this doesn’t bring the visible outcome, it has to be repeated and increased by a certain magnitude until Russia’s military capability and economic resources are critically depleted and Ukraine’s affairs are sustainable.

The EU has already been taking a lot of practical steps towards emergency support, despite being (often fairly) criticized for being too cautious in providing Ukraine with heavy weaponry (fighter jets, anti-aircraft missile systems, tanks, artillery etc.) as well as imposing the full oil and gas embargo on Russia (its main source of money to continue the war). Yet, the already introduced sanctions will hit the Russia’s GDP by up to 15%, exports by 70% and inflation by about 20%. At the same time, about €225 billions of Russian assets were frozen in the EU. The direct support in the amount of €1 billion has been allocated to Ukrainian Armed Forces under the European Peace Facility, the additional €500 million are to be received soon. €1 billion of direct financial support (in the form of grants) have been channeled via different support lines, €1 billion in direct contribution by the EC and another €1 billion in EBRD loans has been pledged in support of internally displaced persons and refugees under the “Stand Up for Ukraine” worldwide campaign.

In addition, the EU could concentrate its efforts on supporting the macroeconomic stability of Ukraine’s economy and public finance by provision of balancing non-conditional volumes of macrofinancial support coupled with the extended IMF lending. The military support line is crucial to be sustained at reasonable volumes, with limits off on the purchase of long-range and heavy lethal weapons. The provision of financial guarantees for the issuance of Ukrainian Eurobonds can be considered as an option for financial support.

# Mid-term / structural support

[requires 1+ year projects implementation]



These measures appear to be the most urgent ones to tackle the problems of the Ukrainian economy caused by the full-scale hostilities in (relatively) developed and densely populated areas in the North, East and South of Ukraine. As the intensity and nature of combat operation were reshuffled by the Russian command to maximize damage to civil population and infrastructure, the flows of businesses and people started fleeing to safer Western regions of Ukraine and abroad (mainly to CEE countries with Poland being a main destination). Such structural shifts – the relocation of industries, the loss of a large number of skilled labor force as refugees, damaged and blocked infrastructure, etc. – pose serious risks for both the national economy (1/3 of GDP loss) and public finance revenues that are the main source for military resistance to Russian aggression.

While a vast number of support measures can be considered here, we propose to focus on the following ones:

- ◆ Establish the Ukrainian Business Support Fund, in particular for SMEs (which suffered losses of about €75 billion in the first month of the war), that have been able or planning to relocate to Western regions of Ukraine and resume production.
- ◆ Accelerate ACAA agreements process with a purpose to eliminate or reasonably minimize the TBT barriers for Ukrainian industrial goods exported to European markets.
- ◆ Consider a temporary (during the war times) inter-EU-Member States tool for setting up the Ukrainian Budget Support Fund, financed by EU MS' contributions which would be collected as (full or partial) payroll tax paid by Ukrainian citizens who already work or will be employed in the EU MS during this and the next few years. This Fund would compensate for Ukrainian state and local budgets, which are losing these revenues due to the refugees' outflow to Europe.
- ◆ Establish the Recovery Fund for emergency rebuild, reconstruction or maintenance of damaged critical infrastructure (bridges, roads, hospitals, schools, utilities, etc.) that are crucial for the rapid return to normal life of local communities affected by hostilities (and now protected by the Ukrainian Armed Forces).
- ◆ Secure sufficient funds for the newly established Energy Support Fund for Ukraine to contribute to the re-build of damaged or destroyed Ukrainian energy infrastructure.
- ◆ Secure rapid investment into Ukrainian and bordering European logistical infrastructure (warehouses, roads, border terminals, railway hubs etc.) as the main sea ports of Ukraine on the Black and Azov seas are currently blocked by Russia, preventing huge volumes of imports in and exports from Ukraine being delivered. This situation is especially gloomy for agricultural exports from Ukraine, which poses a threat of hunger in the developing countries in Asia and Africa that are traditional consumers of Ukrainian grain. One of the possible beneficial projects for Ukraine in this regard may be the rapid construction of the river port on the Danube, to regain access to the Black Sea.

# Long-term / EU investments in exchange for structural reforms, as well as for post-war reconstruction and modernization of Ukraine

[requires 1+ year projects implementation]



These measures are to be fully unfold after Ukraine becomes an EU candidate with a purpose to support the investments in post-war rebuild and modernisation of Ukrainian economy. Technically, this can be done as Pre-Accession Assistance or immediate access to 5 European Structural and Investments Funds. Needless to say, these EU investments will be conditional to Ukraine's reform efforts, with a special focus on the judiciary, rule of law, public administration reform, the business climate, the environment and so on.

Another possible separate EU-led initiative could be an establishment of a special EU-guaranteed Venture Fund to attract private capital into development of industrial, technological and IT clusters with a purpose to integrate innovative Ukrainian businesses into European value chains and generating sufficient amount of modern industries and workplaces in the country.



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