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BETTER POLICIES FOR BETTER LIVES

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Foreword

This Economic Survey was prepared by Tim Bulman, Volker Ziemann and Andrew Keith under the supervision of Mame Fatou Diagne. Research assistance was provided by Michela Gamba, editorial support by Robin Houng Lee and communication assistance by Nathalie Bienvenu and Laura Fortin.

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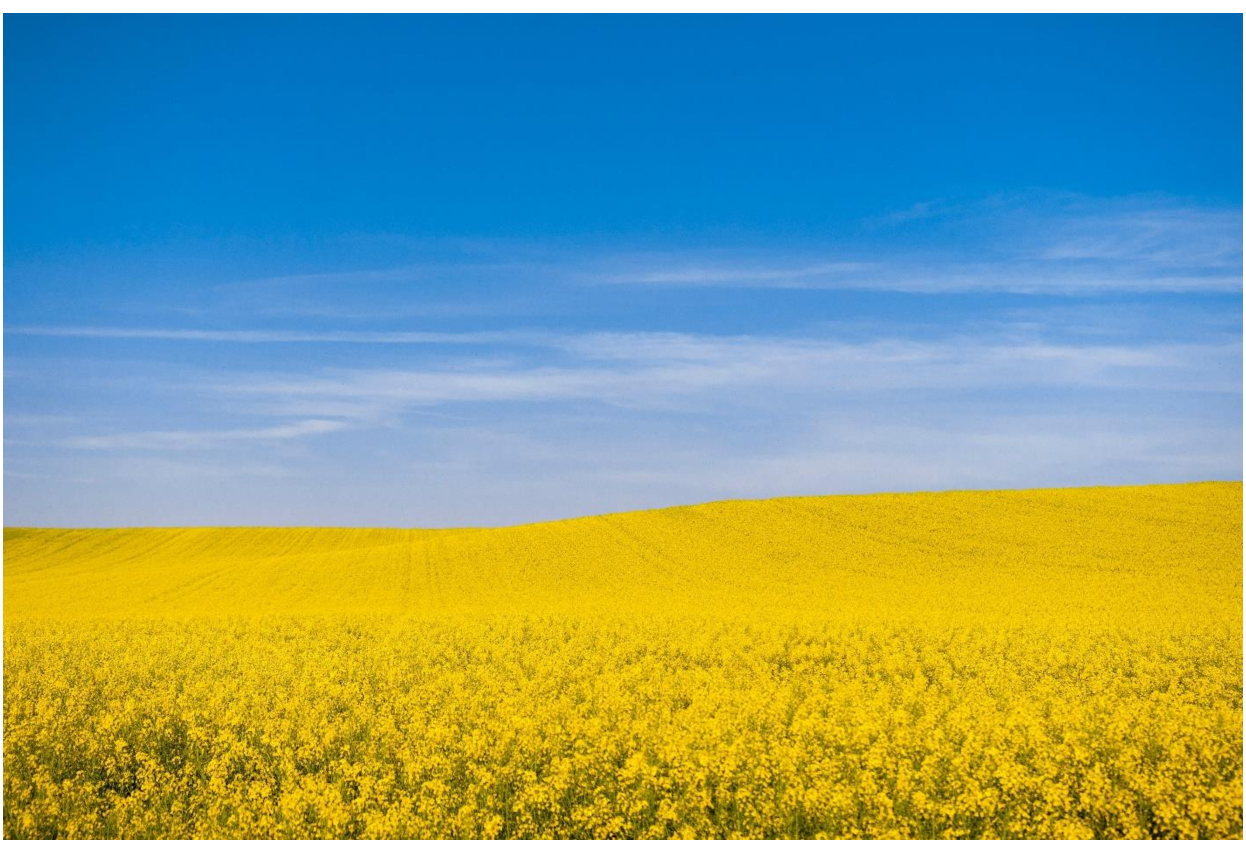
The previous Economic Survey of Ukraine was issued in September 2007. Information about the latest as well as previous Surveys and more details about how Surveys are prepared is available at www.oecd.org/eco/surveys



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Basic statistics of Ukraine, 2023

(Numbers in parentheses refer to the OECD average) **

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	37.7		Population density per km^2	65.1	(39.2)
Under 15 (%)	14.3	(16.9)	Life expectancy at birth (years, 2022)	68.6	(79.6)
Over 65 (%)	18.6	(18.2)	Men (2022)	63.5	(77.0)
International migrant stock (% of population, 2020)	11.4	(13.9)	Women (2022)	73.9	(82.4)
Latest 5-year average growth (%)	-3.6	(0.4)	Latest general election	July 2019	
ECONOMY					
Gross domestic product (GDP)			Headline inflation (y-o-y % change, March 2025, OECD: February- 2025)	14.6	(4.5)
In current prices (billion USD, 2023)	181.2		Monetary policy rate (%, March-2025)	15.5	
In current prices (billion UAH, 2023)	6628		Value added shares (%)		
Latest 5-year average real growth (%)	-5	(1.7)	Agriculture, forestry and fishing	8.5	(2.7)
Per capita (thousand USD PPP, 2023, OECD: 2023)[3]	16.2	(59.0)	Industry including construction	21.5	(27.1)
			Services	69.7	(70.2)
GENERAL GOVERNMENT (Per cent of GDP)					
Expenditure (OECD: 2022)	74.4	(42.4)	Gross financial debt (OECD: 2022)	82.3	(110.5)
Revenue (OECD: 2022)	54.8	(37.8)	Net financial debt (OECD: 2022)	79.4	(67.0)
EXTERNAL ACCOUNTS					
Exchange rate (UAH per USD, 2023)	40.15		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1, 2024)	11.5		Grains, Oil Plants and Seeds, Oil	48.4	
In per cent of GDP			Metals	11.2	
Exports of goods and services	28.3	(31.2)	Food Products	9.4	
Imports of goods and services	49.2	(31.2)	Main imports (% of total merchandise imports)		
Current account balance	-5.3	(-0.3)	Machinery and electronics	16.2	
Net international investment position (2024)	-6.3		Fuels	16.2	
			Transportation	10.9	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %, 2021, OECD: 2023)	49.3	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %, 2021, OECD: 2023)	9.8	(4.8)
Men (2021, OECD: 2023)	56.9	(65.5)	Youth (aged 15-24, %, 2021, OECD: 2023)	19.1	(10.6)
Women (2021, OECD: 2023)	42.9	(50.8)	Long-term unemployed (1 year and over, %, 2021, OECD: 2023)	2.4	(1.0)
Participation rate (aged 15 and over, %, 2021, OECD: 2023)	54.6	(60.9)	Tertiary educational attainment (aged 25-64, %, 2021, OECD: 2023) ***	51.4	(41.0)
Mean weekly hours worked (2021, OECD: 2023)	39	(37.3)	Gross domestic expenditure on R&D (% of GDP, 2022, OECD: 2021)	0.3	(2.9)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2022, OECD: 2023)	1.5	(3.7)	CO_2 emissions from fuel combustion per capita (tonnes, 2022, OECD: 2023)	2.7	(7.6)
Renewables (%, 2022, OECD: 2023)	7.3	(12.5)	Water abstractions per capita (1 000 m^3, 2021)	0.2	
Exposure to air pollution (more than 10 µg/m^3 of PM 2.5, % of population, 2020)	95.3	(56.5)	Municipal waste per capita (tonnes, 2019, OECD: 2022)	0.3	(0.5)
SOCIETY					
Income inequality (Gini coeff., 2021, OECD**)	0.244	(0.315)	Education outcomes (PISA 2022 score)		
Poverty rate ($6.85 in 2017 PPP)	24.1		Reading	428	(476)
Public and private spending (% of GDP)			Mathematics	441	(472)
Health care (2021, OECD: 2023)	8.0	(9.2)	Science	450	(485)
Pensions (2022, OECD: 2019)	4.7	(9.5)	Share of women in parliament (%)	20.4	(32.8)
Education (public spending, % of GNI, 2021)	5.0	(4.4)	Net ODA (% of GNI, 2022, OECD: 2022)	16.9	(0.4)

* The year is indicated in parenthesis if it deviates from the year in the main title of this table.

** Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

*** For Ukraine, data refers to aged 25 and over.

Sources: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Monetary Fund, IRENA, State Statistics Service of Ukraine (SSSU), National Bank of Ukraine, Ministry of Finance of Ukraine, United Nations, World Bank World Development Indicators, International Labour Organisation, CEIC.

Executive summary

Key messages:

Russia's war of aggression against Ukraine has inflicted massive human and economic damage. It has led to the displacement within and outside Ukraine of approximately one-quarter of the population, and destroyed or damaged housing, businesses and infrastructure estimated at 2.5 times GDP. After the initial shock, the economy has progressively adapted, supported by effective policy responses and substantial external support (Figure 1). However, the security situation, labour and energy shortages continue to hamper activity, while population displacement, unemployment and poverty are high. While various strategies and ongoing reforms are being pursued, a consistent policy framework is needed to establish stable institutions for a strong market economy.

- Macroeconomic stability will require that monetary policy contains inflation, and, once conditions permit, that fiscal deficits are contained to medium-term targets.
- A strong recovery and reconstruction will require sound and transparent fiscal management through improving expenditure efficiency and mobilising domestic revenues while maintaining significant external fiscal support.
- Once the situation allows, fostering the conditions for demobilised defence personnel and displaced persons to reintegrate into the labour force, emigrants to return, and women to raise their labour market participation will boost inclusive growth.
- Improving the framework conditions for business by strengthening the rule of law, lightening regulatory burdens, promoting competition and innovation, and improving access to finance will be key to the recovery and help boost investment, lift productivity and develop exports.

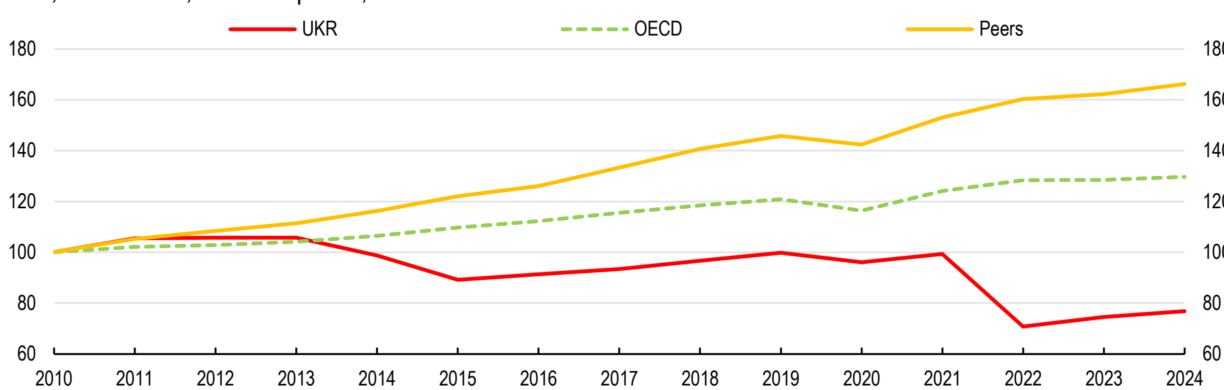
Preparing for a sustained reconstruction and recovery

Amidst the burden of defence from Russia's full-scale invasion, Ukraine is striving to reconstruct damaged infrastructure and businesses and is undertaking important reforms to improve the functioning of the state, the goods and services it provides its citizens, and the environment for businesses and investors. Stabilising the security situation, implementing reforms, achieving fiscal sustainability, and sustaining the provision of external support will determine the pace of recovery.

Ukraine is meeting the great damages and exceptional challenges of Russia's full-scale invasion with efforts to transform its economy and policy environment. With significant ambitions for its post-war economy and society, Ukraine aims to increase productivity, diversify exports and raise incomes and well-being through alignment with European and OECD standards. Since the full-scale invasion, Ukraine has acted to stabilise the macroeconomic environment. It is pursuing reforms to strengthen its education and social protection systems, improve public governance and make inroads into the significant challenges of corruption and public integrity, and to reduce regulatory burdens. Nevertheless, the restrictions of martial law and full-scale defence have frozen the implementation of many reforms. Ensuring, as soon as conditions permit, reforms are fully implemented will be vital.

Figure 1. After the initial shock of the full-scale invasion, Ukraine's economy has been resilient

GDP, 2010 = 100, constant prices, international USD at PPP



Note: Unless otherwise indicated, data for Ukraine relate to the geographical area under the control of the Government of Ukraine at the time the data are collected, references to 'Peers' refers to the unweighted average of Hungary, Lithuania, Poland, Romania, Slovak Republic, and Türkiye, and to 'OECD' to the unweighted average of OECD countries.
Source: IMF World Economic Outlook (database).

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Reconstruction and recovery will require a deeper change in Ukraine's approach to policymaking to drive productivity-supporting economic choices. The occupation, displacement and destruction of industries on the one hand, and the impetus to the defence sector on the other are transforming the economy's structure and geography. Creating an enabling environment that fosters diverse investments and activities, rather than relying on specific incentives or regulatory interventions, would help to foster growth and better support Ukraine's economic convergence with European and OECD countries.

The pace of recovery will be modest while the war continues (Table 1). Ongoing destruction of businesses and infrastructure, shortages of energy and workers, and fiscal pressures will limit the recovery. Once the security situation stabilises, the pace and quality of reform implementation, external support and population movements will determine the pace of investment and recovery. Extreme uncertainty surrounds the outlook, especially with respect to the security situation.

Table 1. The recovery in GDP will remain modest while the full-scale invasion continues

	2021	2022	2023	2024	2025	2026
	Percentage changes, volume					
GDP at market prices (volume)	3.4	-28.8	5.5	2.9	2.5	2.0
Consumer price index (period average)	9.4	20.2	12.9	6.5	13.2	7.1
General government financial balance (% of GDP)	-4.0	-17.5	-20.4	-17.5	-19.0	-20.0
Current account balance (% of GDP)	-1.9	5.0	-5.3	-7.2	-15.0	-15.0

Source: OECD Economic Outlook database.

Restoring public finance sustainability requires revenue and spending discipline

The costs of defence have led to wide budget deficits and rising public debt. After initially monetising part of these deficits, Ukraine is now largely financing deficits through external support and domestic debt issuance. Fiscal targets for the medium-term, once the security situation stabilises, are prudent but will require a large consolidation, even accounting for the potential cuts to high defence spending, highlighting the importance of revenue mobilisation, efficient spending and ongoing external support.

Very wide budget deficits are required to fund defence spending of 25% of GDP. The budget deficit is expected to be near 20% of GDP in 2025 and 2026, leading public and publicly guaranteed debt to rise towards 120% of GDP in 2026, from 50% of GDP in 2021.

Medium-term fiscal targets are prudent but will require a large fiscal contraction amidst high spending pressures and significant external financial assistance. Once the security situation allows, the government's fiscal strategy envisages achieving a primary budget surplus of 0.5% to 1.5% of GDP and placing public debt on a path towards 60% of GDP. Lower military spending, particularly for defence personnel, will contribute to this consolidation but will be a considerable loss to household incomes and private consumption. While many will move back to private sector jobs, they generally pay less than defence salaries and many jobs have been destroyed by the war. Spending pressures for reconstruction and social support for the demobilised personnel and returning migrants will also be high.

The path to debt sustainability will require achieving the fiscal target, strong reform implementation and growth, and continued access to concessional finance. Boosting revenues while limiting the tax system's burden on investment and employment will be necessary for fiscal sustainability. Tax revenues are high relative to countries near Ukraine's income levels, but are slightly below their level prior to the full-scale invasion relative to GDP. Some labour income and corporate profit tax rates have recently been increased, collection measures improved and important reforms introduced, notably for customs and excise. Still, many weaknesses in collections remain. Indirect tax receipts could be increased by narrowing the coverage of reduced VAT rates and addressing collection shortfalls. A revenue reform strategy is being implemented to strengthen administration, align the revenue system with EU standards, and address many collection gaps.

The reconstruction needs will demand more effective public investment and social spending. While the public investment management and procurement frameworks have been strengthened, they are often circumvented, projects are poorly specified, and competition is limited, inflating costs, creating corruption risks and reducing the value for money of spending. Ukraine's rapid progress in digitalising the public sector has accelerated with the full-scale invasion, and fully using these tools can help raise the effectiveness and transparency of spending.

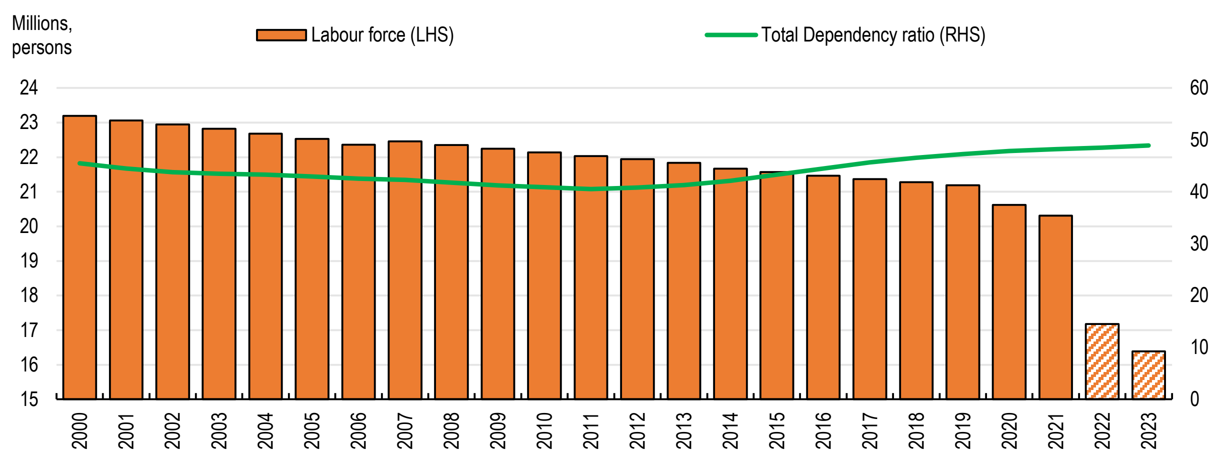
Subnational governments have been central to Ukraine's resilience and can further lift their capacity to support the reconstruction. Mergers and increased fiscal and operational autonomy in the late 2010s improved their capacity. Reinforcing subnational governments' capacities, including by encouraging greater cooperation between subnational governments and local resource mobilisation, can leverage their role in raising public investment and delivering higher quality goods and services through the reconstruction

Bolstering the labour force will help drive the recovery

War mobilisation and massive displacement of Ukrainians have made finding workers one of the main challenges to activity, at the same time as unemployment and poverty have risen, and amplified longer-term challenges of an ageing population and emigration. Effectively reintegrating veterans and internally displaced persons, motivating emigrants to return as conditions allow, and building on the war-induced increase in women's employment can bolster the labour force.

The full-scale war has amplified the challenges of Ukraine's labour force (Figure 2**).** The mobilisation of over one million defence personnel, the internal and external displacement of 30% of the working age population, and the demands of sectors key to defence such as IT and construction have created severe labour shortages and strong wage growth. This has drawn more women into the workforce, making inroads into Ukraine's relatively low female labour force participation. These developments, further reduction in the low fertility rate and deteriorating general health during the war are accelerating population ageing. When martial law ends, new labour force challenges will arise, through the demobilisation and removal of travel restrictions on conscription-age men. The capacity of employment services is being boosted. Connecting adults with new job and training opportunities, and improving access to housing can accelerate Ukraine's recovery.

Figure 2. The full-scale invasion has amplified labour force challenges



Note: Data for the labour force refer to the population of both sexes aged 15 years and over (before 2019 the reference age was 15–70 years), who during the reference week provided labour force on the labour market. Employed and unemployed is included in the labour force. 2022-2023 are OECD estimations.
Source: World Bank World Development Indicators (WDI), UN World Population Prospects 2024.

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Social policies can encourage participation in the labour force while protecting well-being. Physical and mental health challenges will continue with demobilisation, and well-designed and well-resourced social policies that support veterans' return to work and society will be key for the recovery. Support measures for veterans will need to balance recognising their contribution and needs with encouraging their participation in the economy. Linking social support for all Ukrainians to skill upgrading can help increase productivity and incomes. Pensioners' incomes have been largely protected through the full-scale invasion but are low and many workers leave employment early. Planned pension reforms and promoting financial literacy can help buttress retirement incomes and savings into the longer term, and encourage longer working lives.

Facilitating the return of approximately 6.9 million externally displaced entails improvements in labour markets, housing conditions and education services. Better regulating the largely informal rental market, and, once conditions stabilise, developing the mortgage market, can help rejuvenate and formalise the housing market and encourage new developments in areas suffering shortages. Improving access to quality childcare, and aligning facilities' work hours with the working day would support women's labour force participation.

Improving the business environment would raise investment and exports once the security situation stabilises

The private sector will be central to Ukraine's recovery, reconstruction and to raising incomes and well-being. Fully reaping the private sector's potential entails increasing private investment, raising productivity and developing exports. Achieving these will require addressing long-standing structural challenges, many of which have been amplified by Russia's full-scale invasion. Key priorities include strengthening regulatory frameworks, promoting competition and innovation, and improving access to finance to attract both domestic and international investment.

Several structural impediments have long undermined Ukraine's investment activity and export dynamism, including policy-induced distortions, a large informal sector, and the prominence of state-owned enterprises (SOEs). (Figure 3). Underdeclared activity distorts competition, and weakens public finances. The private sector is dominated by small and micro firms, which struggle to scale up and invest due to high administrative costs in complying with the tax system, a lack of access to finance and an uncertain business environment. Burdensome tax compliance discourages VAT registration and increases informality. SOEs control almost 15% of the business capital stock but operate inefficiently, crowding out private investment and undermining competition. Energy price caps and the effects of the war, weaken incentives to improve efficiency and to invest in energy infrastructure.

Establishing transparent, predictable, and efficient business conditions is critical to boost investment, activity and exports. Ukraine has made significant progress in its institutions supporting public sector integrity. Despite progress, corruption remains a major concern, distorting competition and undermining business dynamism. Strengthening the rule of law, improving public integrity, and ensuring an independent and transparent judicial system are key to restore investor confidence. Public consultation and better coordination in the design of regulatory policy would create a more predictable investment climate. Digitalising the tax administration by automating reporting and adopting risk-based auditing can help to ease compliance, costs.

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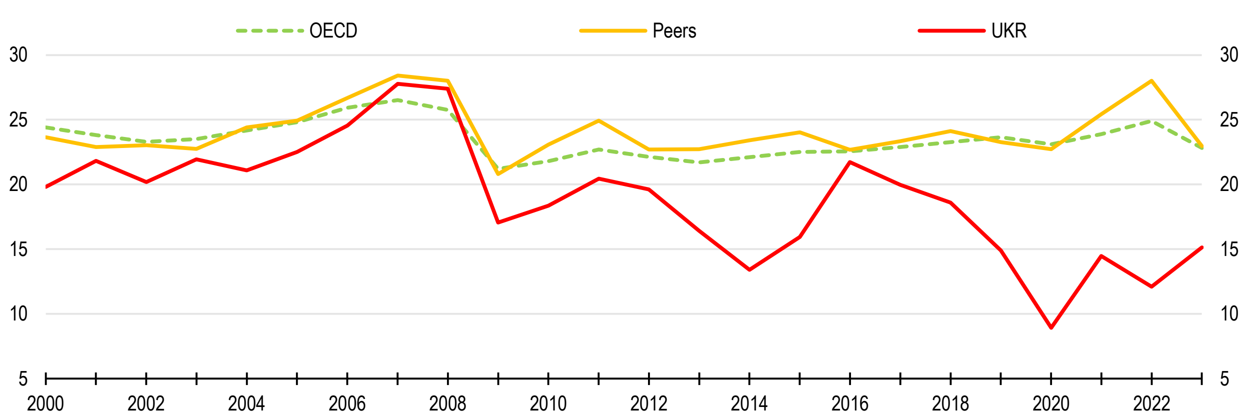
Figure 3. Stronger investment will be needed for a sustained recovery

Gross capital formation, annual, as a share of GDP (%)



Source: World Bank, World Development Indicators (WDI).

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Reforming state-owned enterprises (SOEs) and improving corporate governance is crucial for Ukraine's economic recovery and long-term growth. Privatisation, alongside effective mechanisms to ensure markets are competitive and to improve SOEs' governance, can attract private investment, improve assets' performance and boost fiscal revenues. Strengthening corporate governance for publicly traded companies, enforcing shareholder protection, and modernising insolvency frameworks will improve investor confidence.

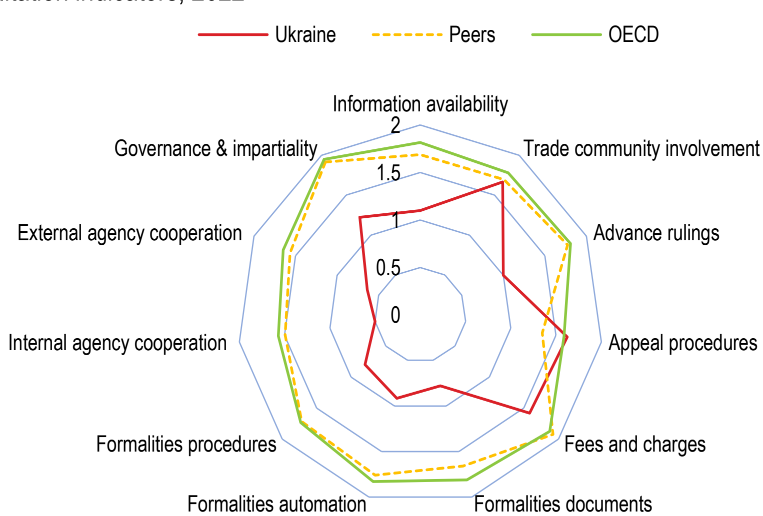
Reducing barriers to trade and investment and further developing the Anti-Monopoly Committee's capacity is necessary to ensure fair and contestable markets (Figure 4)**.** Streamlining investment promotion, improving trade facilitation, protecting intellectual property rights, and providing targeted support for SME digitalisation and innovation can help diversify Ukraine's production and exports, better integrate its economy into global value chains, and drive rising productivity.

Enhancing access to finance for businesses is critical for Ukraine's recovery. While the banking sector has shown resilience, lending to the private sector remains limited. Increasing competition between banks, for example, through privatisation, should be underpinned by reforms towards resolving non-performing loans and reducing judicial uncertainty. Developing capital markets and non-bank financial institutions, such as leasing and insurance, can provide alternative financing sources. Improving the regulatory framework, and promoting SME participation in equity markets will help mobilise domestic and foreign capital.

Laying out and implementing a system of emissions and pollution prices, accompanied by well-designed regulations, can encourage reconstruction investment leads to an economy that is less polluting and better adapted to a changing climate. Ukraine's businesses and households are exposed to significant climate risks, including flooding, fires, soil degradation and hotter and drier conditions, but preparation for the effects of climate change is at an early stage. The full-scale invasion has added to the legacy of pollution from economic activity. Greenhouse gas emissions are high relative to GDP. Strengthening carbon pricing, as planned by the government, and reviewing environmentally harmful subsidies and tax exemptions would provide incentives to lower emissions and improve sustainability.

Figure 4. Trade facilitation measures should better align with international standards

OECD trade facilitation indicators, 2022



Note: Data for Lithuania and Romania are missing from peers.
Source: OECD Trade Facilitation Indicators.

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Main findings and key recommendations

Main findings	Key recommendations
Maintaining macroeconomic stability	
Monetary authorities have taken appropriate action to contain inflation but supply shocks have raised inflation again since mid-2024, Authorities have partially reopened the capital account while the exchange rate and reserves have been broadly stable within a managed floating exchange rate regime.	Maintain a sound framework for monetary policy including the National Bank's independence and policy commitment to low and stable inflation. Continue adjusting monetary policy to maintain well-anchored inflation expectations and to return inflation to the 5% medium-term target.
Public finances are under extreme pressure, with the surge in defence spending leading to wide deficits and rising public debt.	When security conditions allow, return the fiscal deficit to the medium-term objective by bolstering revenues and improving spending efficiency.
Renegotiation of outstanding Eurobonds has reduced fiscal pressures and supported debt sustainability.	Pursue the renegotiation of outstanding external public and publicly guaranteed debts and contingent liabilities.
Supporting fiscal sustainability	
Revenue collection is weakened by high levels of informality, complex and burdensome tax compliance processes and a broadly applied and distortive presumptive tax regime. Some income tax rates have been raised and a broad revenue reform strategy was adopted, but reduced tax rates and special tax regimes undermine fiscal revenues and distort incentives.	While pursuing efforts to reduce the tax compliance burden, limit the presumptive tax regime's coverage by lowering income and eligibility thresholds and narrowing the eligible business activities. Raise revenues by narrowing the coverage of VAT rate exemptions and reduced rates, and simplify VAT compliance.
The public investment management framework is improving, but limited capacity and lack of integration with budget resources leave many projects unfunded. Enhancing procurement efficiency and public investment management capacity is essential for large-scale reconstruction.	Swiftly implement reforms stipulated by recent Budget Code amendments related to medium-term planning, project prioritisation, and integration of public investments in the medium-term budget process.
Martial law has simplified procurement processes, yet much occurs outside the standard system, with limited competition. Ukraine plans to align national procurement processes with EU procurement principles.	Further develop procurement processes and officials' capacity to award procurement based on broader value-for-money assessments.
Mergers and support have boosted municipalities' capacity, but they are now challenged by declining resources and growing spending and service delivery needs. Their role in public investment can grow if capacity challenges are addressed, especially those with smaller populations.	Further build the role of subnational governments in delivering public investment and services, providing funding and financing mechanisms that encourage mergers among smaller municipalities and pooling capacity among subnational governments.
Bolstering the labour force	
Conditions for many of the 4.6 million internally displaced are difficult, while 6.9 million remain abroad. Active labour market programme funding is low and has been focused on public employment services, with retraining support growing from a low level. Working conditions are often poor and employment is often under-declared.	Continue boosting the resources and coverage of active labour market programmes, especially retraining programmes, and those targeting veterans, women and that build the linkage between training and job market needs. Strengthen the ongoing engagement with emigrants, support for their return and access to information about employment opportunities in Ukraine.
Large numbers of defence personnel will be demobilised when the security situation permits.	Increase support and incentives for war veterans and disabled people moving into work.
Women's labour force participation has lagged and the wage gap is wide.	End the restrictions on women working in certain trades or at night.
Raising investment and exports	
Despite significant progress in establishing anti-corruption institutions, public perception of corruption remains high, and perceptions of judicial independence are low, undermining trust and deterring especially foreign investment that will be much needed for the reconstruction.	Strengthen the independence of anti-corruption bodies and complete the legal framework for judicial appointment standards with binding integrity assessments.
Gaps in the implementation and enforcement of public integrity strategies, such as in the independence of internal audit and the accountability of public officials, hinder overall effectiveness.	Empower oversight bodies to impose sanctions for breaches of public integrity regulations and advance the enforcement of lobbying regulations, including mandatory cooling-off periods, to reduce risks of conflicts of interest.
Regulatory inefficiencies, lack of transparency, and inconsistent enforcement weigh on the business climate. Bureaucratic obstacles, compounded by insufficient stakeholder engagement and alignment with EU standards, create a climate of uncertainty.	Modernise the regulatory framework by implementing the public consultations law, adopting data-driven risk assessments and strengthening policy coordination.
Distorted energy price signals deter new energy investments and weaken economic incentives to increase energy efficiency.	Once the security situation allows, gradually remove energy price caps such that prices reflect costs. Implement targeted support, not based on actual energy consumption, to vulnerable households.
Governance of state-owned enterprises is improving, but the privatisation process is hampered by a lack of a clear agenda, and legal uncertainties are holding private investors back.	Establish a centralised or coordinated ownership entity for state-owned enterprises to streamline oversight and management, reduce fragmentation and improve accountability.
The war has substantially damaged land, forest, and water ecosystems across Ukraine, adding to the damage of past industrial and agricultural practices, which in part reflect limited pricing of environmental costs.	Integrate environmental remediation into reconstruction planning and financing, prioritising projects by the risk that damages can cause further environmental harm.
Capital markets are underdeveloped and fragmented.	Simplify the listing process for public offerings, support the listing of financially significant SOEs and mobilise institutional investors, for instance, by promoting occupational pension schemes.

1 Fostering macroeconomic stability and a sustainable recovery

Tim Bulman, Andrew Keith, Volker Ziemann

Ukraine's economy has been resilient to the shock of Russia's full-scale invasion. Effective policy responses, alongside firms and workers adapting to the new conditions and substantial external support have enabled a gradual economic recovery. The outlook is exceptionally uncertain, due to uncertainty about when and how the security situation will stabilise, and the scale and length of external support. Ensuring macroeconomic stability will help ensure solid foundations for a sustained reconstruction and recovery. Alongside effectively implementing structural reforms to lift investment and support employment, gradually returning the primary budget balance to modest surpluses when the security situation allows will be essential for public debt sustainability. Bolstering public revenues, improving the quality and effectiveness of public spending, and ongoing international support will be necessary to underpin a sustained recovery. Adapting to climate change and implementing emission and pollution pricing can help lay the foundations for a greener reconstruction and more resilient economy.

The economy has been resilient to extraordinary challenges and uncertainty

Ukraine's economy has been resilient to Russia's full-scale invasion, owing to the agility of businesses, workers and society at large, policymakers' stabilising efforts, and the large scale of support from international partners. The resilience has also been enabled by households, firms and all levels of government reconstructing and reconfiguring their assets and activities. Still, the outlook remains exceptionally uncertain. While Ukraine's international partners have developed mechanisms to improve the predictability of financial and in-kind support, transfers remain subject to factors both within and beyond Ukraine's control.

After the initial shock, activity has gradually been recovering

In addition to the human toll of death, injury and displacements, the initial months of the full-scale invasion brought substantial disruption and losses to Ukraine's economy. The war started just as Ukraine's economy was recovering from the disruptions of the COVID-19 pandemic and follows military conflict and invasion in eastern Ukraine since 2014 (Box 1.1 discusses economic developments immediately prior to the full-scale invasion). Destruction and disruptions to businesses and infrastructure, temporary occupation of territory as well as the internal and external displacement of populations contributed to activity falling by 29% in the first half of 2022 (Figure 1.1; Box 1.3 discusses the statistics available to track Ukraine's economy). The greatest economic disruption occurred in the first months of the full-scale invasion. For example, up to 75% of small businesses stopped operating in March 2022 (NBU, 2022[1]). Industrial production and commerce, and the much of the mining, metallurgy and heavy industries in the southeast have been temporarily occupied or destroyed (World Bank, Government of Ukraine, European Union, United Nations, 2023[2]).

Since mid-2022, activity has gradually recovered, as firms adapted to the new situation and production reoriented to defence and reconstruction. Liberation of territory temporarily occupied by Russian military forces early in 2022, return of many of those who had left Ukraine at the onset of the invasion, firms relocating their operations, traders finding new routes to access supplies and markets, and businesses adapting to the new context enabled activity to gradually recover (Figure 1.1, Panel A). Favourable weather conditions in 2023 and the first half of 2024 enabled strong agricultural production and supported exports, despite destroyed storage and logistics (Figure 1.1, Panels B and D). The dramatic increase in defence spending spurred new manufacturing and related sectors, and provided incomes to the mobilised defence forces, supporting consumption, while reconstruction work increased construction activity. The pace of recovery slowed over 2024, as renewed Russian attacks on electricity infrastructure (Figure 1.2), businesses and civilians weighed on activity, despite efforts to rebuild (Box 1.2 discusses the evolution of electricity supply). Overall in 2024, activity was about 22% below 2021 levels.

The economic shock and recovery have been heterogenous across regions and types of firms, reflecting the different impacts of military action and attacks (Chapter 2 details the damages and losses). Many firms in the east, in or close to areas invaded by Russia, have ceased operations. Many of these firms have relocated to western areas, although they have faced challenges relocating and hiring workers. Some digital firms have moved to hybrid operations, with part of their workforce located outside of Ukraine. Trends across sectors have been divergent, for example as surging defence, logistical and reconstruction needs have created capacity shortages in these sectors, while displacement has cut demand in sectors such as social services.

Box 1.1. Economic developments and policy frameworks over the past decade

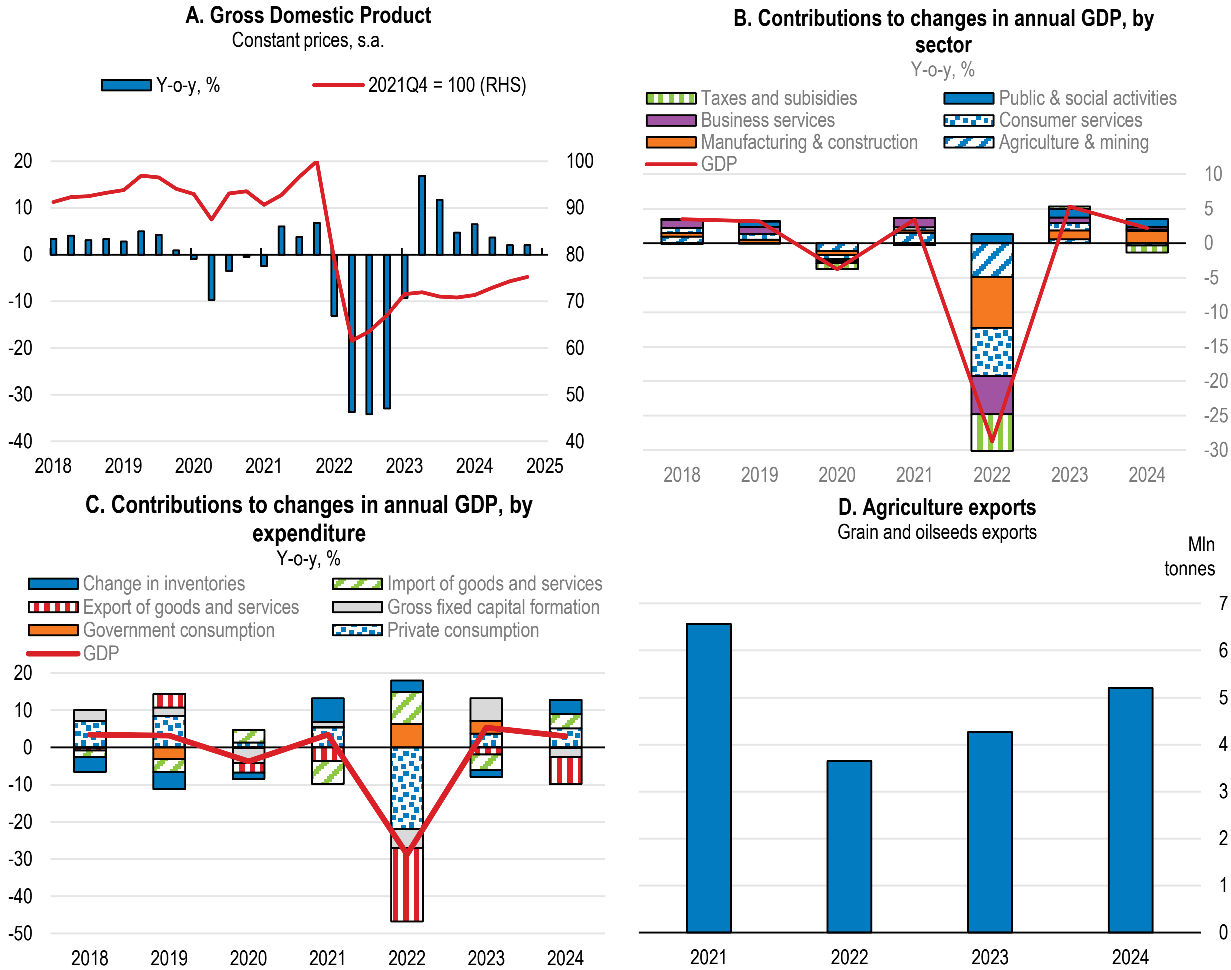
In the first half of the 2010s, the economy was heavily affected by a banking crisis that followed the Global Financial Crisis. Following the 2013-2014 ‘Revolution of Dignity’, Crimea and the Donbas area in eastern Ukraine were temporarily occupied by Russian forces. By 2015 inflation neared 50% while output had fallen by 16% compared with 2013 and 21% from 2008.

In the years following the Revolution, reforms to improve macroeconomic management accelerated, and modest output growth resumed, averaging 2.9% annually between 2015 and 2019. The budget deficit was reduced from an average of 4.0% of GDP between 2010 and 2014 to 2.0% of GDP between 2015 and 2019, allowing public debt to decline from a peak of 80% of GDP in 2015 to below 50% of GDP by 2021. The central bank’s independence and operational capacity were strengthened (see Box 1.4), supporting the containment of inflation, rebuilding of foreign exchange reserves and opening of external accounts.

Structural reforms also accelerated over the second half of the 2010s, improving the state’s capacity and developing the role of market signals in the economy, which laid the foundations for Ukraine’s resilience following the full-scale invasion. For example, energy pricing reforms and gas market liberalisation reduced fiscal costs and distortions in energy markets; land reforms contributed to improving agricultural production; and the digital public procurement platform Prozorro improved the integrity and efficiency of public spending. PrivatBank, a large bank with significant non-performing loans and solvency issues, was nationalised. Regulatory reforms, decentralisation and regional development were also central to the late-2010s reforms. Alongside the important measures to improve the business environment discussed throughout this *Survey* have been efforts to contain special interests and rent-seeking, including through legislative limits on media holdings and political interests.

The Ukraine-EU Association Agreement drove many structural reforms. The Ukraine Plan 2024-2027 has become central to Ukraine’s policy reform agenda, with reforms and investments to advance towards EU accession, supported through the EU-funded Ukraine facility.

Figure 1.1. Activity has been gradually recovering following the shock of the full-scale invasion



Note: Panel A: quarterly series are seasonally adjusted by the OECD (x-12 ARIMA). Panel B: economic activities are aggregated as follows: "consumer services" include wholesale & retail trade, transportation & accommodation, and food service activities; "business services" include information & communication, financial & insurance, real estate, and professional, scientific & technical activities; "public & social activities" include public administration, education, human health, and social work & arts. Panels B and C: total GDP may differ from the sum of the components due to rounding and statistical errors. Panel D: transport mode covers ports (Black Sea and Danube), railways and trucks. Data are yearly averages of monthly data, except for 2021 for which only Q4 (October-December) is available.

Source: State Statistics Service of Ukraine (SSSU), OECD calculations, National Bank of Ukraine (NBU), Ukraine Centre for Economic Strategy (CES).

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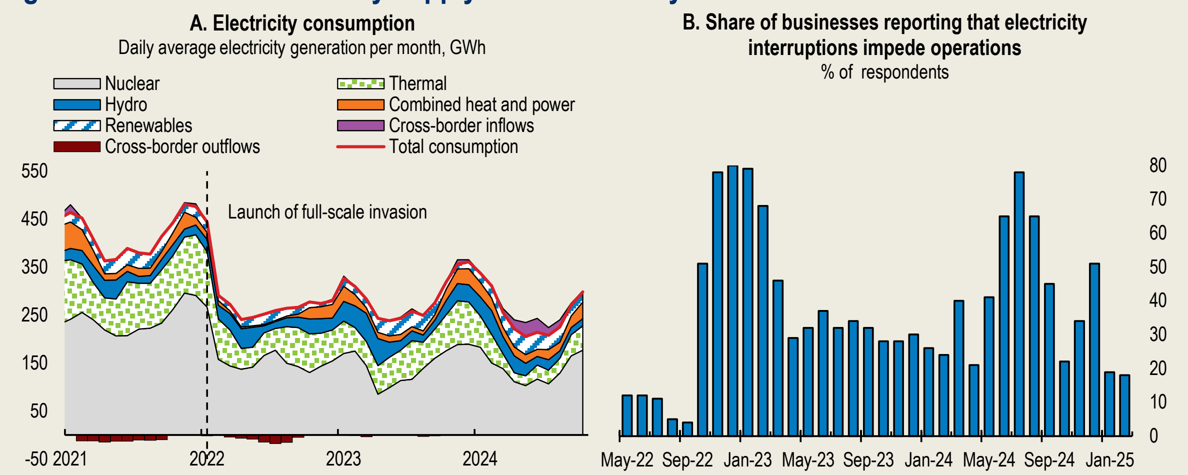
The current account deficit widened to -5.3% in 2023 and -7.2% of GDP in 2024 (Figure 1.3). This compares with an average deficit of -1.9% of GDP over the five years to 2021. At the outset of the full-scale invasion, goods exports weakened, notably through the drop in metallurgy, minerals and agricultural export values, largely due to the destruction of production facilities. Services exports, led by IT services, have been more robust, although the closure of Ukraine's airspace to air transport has curtailed related trade flows, and the loss of gas pipeline transit fees will lower export values in 2025. Imports remained robust with the rise in military and intermediate goods imports, electricity and energy equipment due to the destruction of Ukraine's facilities, and externally displaced people's spending. In addition to these developments were the large volumes of in-kind external military and humanitarian aid, financed by Ukraine's partners. Logistics became a leading impediment to exports in 2022 and 2023, as security concerns closed or severely limited Black Sea shipping and blockades restricted transport across Ukraine's land borders with the EU. These were progressively resolved by mid-2024, making logistics a relatively modest challenge for exporters.

Box 1.2. Electricity supply through the full-scale invasion

Developments in electricity supply illustrate the broader challenges faced by Ukraine since February 2022 (Figure 1.2). Generation capacity was approximately 31 GW at the outset of the war (equivalent to about half the capacity of Italy). By mid-2024, approximately half of this capacity had been temporarily occupied, damaged or destroyed, starting with the Zaporizhzhia Nuclear Power Plant (5.5 GW capacity) occupied in early 2022. Heightened attacks by Russia between March and May 2024 cut an additional 9 GW of supply from thermal and hydro generators, which had been important sources of generation during periods of peak demand and so was important for the grid's stability. Attacks also targeted the substation and transmission network, fragmenting the grid and endangering the safety of nuclear power plants. Over the summer of 2024, supply was between 0.8 GW and 2.3 GW short of demand, leading to loadshedding, which particularly affected microbusinesses and households.

Figure 1.2. Ukraine's electricity supply has been cut by Russian attacks



Note: Panel A: cross-border data are sourced via the Fraunhofer Institute for Solar Energy Systems (ISE); the remaining data are sourced via the UA energy map (up to 2021) and private source (2022 onwards). Panel B: data are sourced via the monthly enterprise survey using the Business Tendency Survey approach at enterprise level. The survey, which started in May 2022, takes place in the second half of each month and uses a sample panel that includes 500+ enterprises located in 21 of 27 regions of Ukraine, including all companies' sizes.
Source: Green Deal Ukraina, UA Energy map, Fraunhofer Institute for Solar Energy Systems (ISE), IER: New monthly enterprise survey round MEMU 242/ 2025.

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The share of supply from renewables has grown especially in the summer months, relieving some of the lost nuclear and thermal capacity. While early in the war, exports of low-carbon electricity were seen as a potential source of income, by 2024 imports from Romania, Moldova, Poland and Slovakia have become essential to maintain electricity supply. After connecting with the European grid in February 2022, import capacity was increased to 2.1 GW from 1 December 2024. Businesses have invested in small generators, and the government extended VAT and excise exemptions and the 5-7-9 subsidised loan scheme (discussed in Chapter 2) to these purchases. (The programme simplifies businesses' access to bank lending, with the state providing subsidises to reduce the interest rate to 5%, 7% or 9% depending on the type of borrower and borrowing purposes, up to prescribed borrowing limits).

Demand has fallen. Industrial consumption has fallen by half and household consumption by 20%, notably due to the 6.9 million people displaced outside of Ukraine. Energy-saving measures have also had some effect, such as an EU-funded programme to replace incandescent light bulbs with LED bulbs, which is expected to have reduced the demand for electricity by up to 1 GW (IEA, 2024[3]).

Further developing decentralised electricity generation, notably for renewable sources, will be central to ensuring reliable and sustained energy supply through the reconstruction and recovery. This will require addressing the financial pressure faced by utilities as they deal with reduced revenues and higher operating costs, reforming the regulations related to the electricity market and improving price signals for both producers and consumers (discussed in Chapter 2).

Grants and loans from Ukraine's foreign partners have funded the current account deficit. After a near-pause in 2022, reinvested earnings, in part due to capital account restrictions, lifted recorded foreign direct investment in 2023 to nearly USD 4.4 billion (2.5% of GDP) and USD 3.5 billion (1.8% of GDP) in 2024. The increased reinvested earnings and other foreign direct investment flows were largely into wholesale and retail trade and finance and insurance businesses (Figure 1.3, Panel B). EU countries provided approximately three-quarters of foreign direct investment. Overall, these flows have enabled Ukraine to build its foreign exchange reserves to above USD 40 billion, or over 5 months' worth of import (Figure 1.3 Panel D).

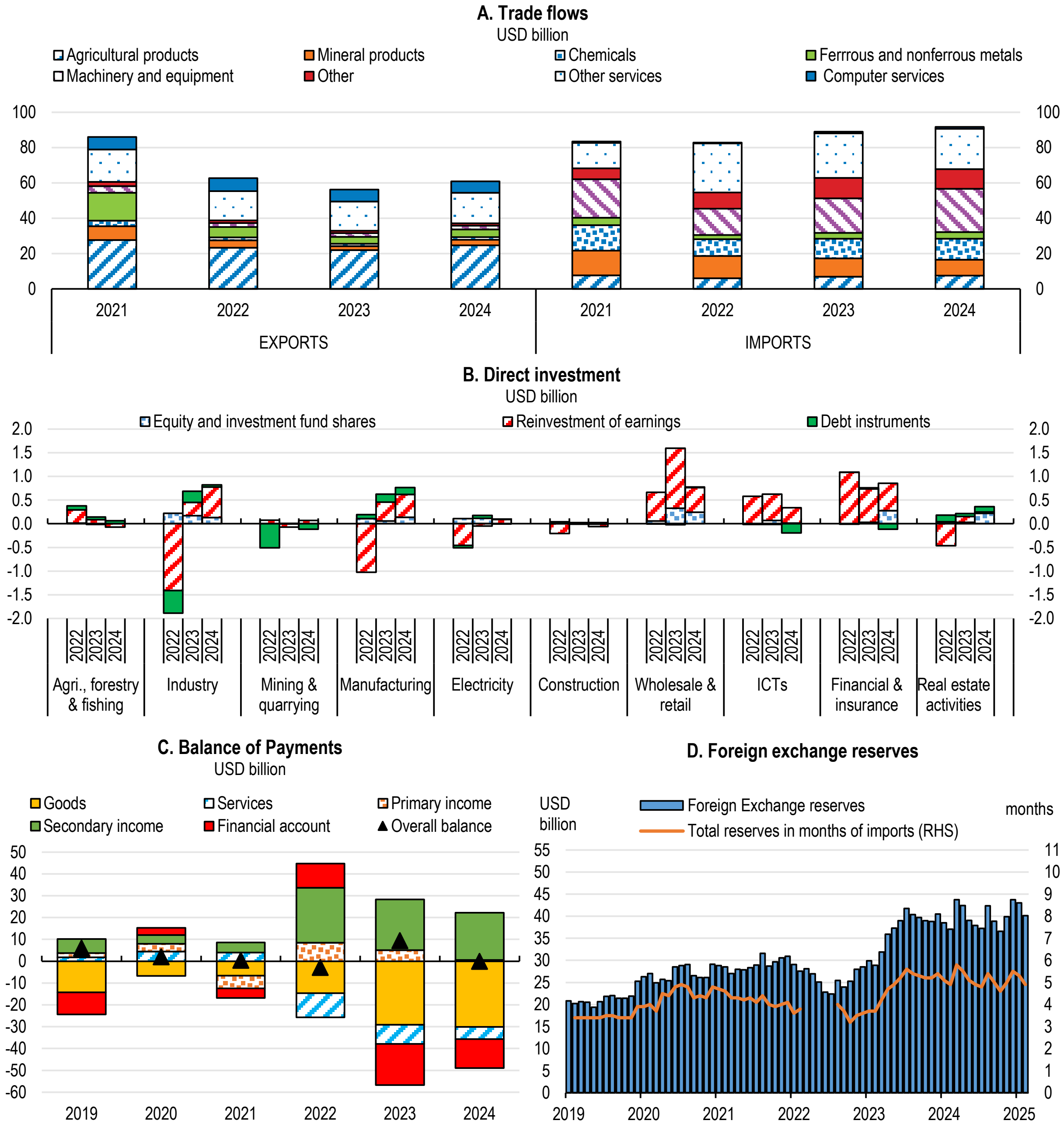
Box 1.3. Indicators to track Ukraine's economy through the full-scale invasion

Ukraine's statistical authorities have continued to publish many economic indicators since the start of the war. Others have been paused, but various private surveys allow for continued high frequency monitoring. Published official statistics are generally restricted to the areas within the control of the Government of Ukraine.

- National accounts: expenditure and production accounts continue to be published on an annual basis. Quarterly estimates are published by the Ministry of Economy. Sampling frames of firms have not been updated. Information is limited on important sectors subject to military security, such as defence production and their activity is unlikely to be fully included in GDP estimates. Substantial revisions are likely once fuller information can be integrated.
- External accounts, monetary and financial statistics, and prices continue to be published on a quarterly or monthly basis.
- The Labour Force Survey has been discontinued since the start of the war. Unemployment is tracked through various household surveys. Comparability with historical data is limited.
- Wage statistics continue to be published, at a quarterly frequency and with sector-level details. Data are based on tax and social security contributions and tracking of jobs ads and private employers.
- Well-being indicators are based on various ad hoc household surveys conducted by sociological research bodies. Comparability with historical data is limited.
- Surveys of business and consumer conditions and confidence are conducted and published at a monthly and quarterly frequency by various private bodies.
- Publication of indicators of environmental conditions and emissions have been suspended.

The last national population census was completed in 2001. A national population census was planned for 2020 but suspended because of the COVID-19 pandemic, followed by the declaration of martial law and lack of funding. Completing a national population census once conditions have stabilised and permit will be central to updating and revising many indicators.

Figure 1.3. External financial support has funded the current account deficit



Note: Panel A: category 'Other' includes 'Industrial goods' and 'Other (including informal trade)'. Panel B: data for Q42024 will be adjusted by source upon receiving data of the annual financial statements of enterprises. Direct investment statistics starting with data for Q12022 was made based on available information of enterprises that provided reports and will be updated after receiving complete information after the termination/liquidation of martial law in Ukraine. The equity and investment fund shares do not include reinvestment of earnings. Panel C: Balance of Payments are recalculated at average monthly exchange rates. Data on international financial aid received (IMF loans, loans and grants received by the government) are recalculated at the exchange rate as of the date the funds are received. BOP data are compiled according to the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). According to the Law of Ukraine on Protecting the Interests of Entities Submitting Reports and Other Documents Under Martial Law or in Wartime, part of information need for compiling balance of payments statistics are not collected. October-December 2024 data include only banking sector reinvested earnings. Estimation for 2022-2024 was made based on available information and will be revised after receiving additional information. Panel A & C: October to December 2024 data are preliminary estimates from source. Panel D: in March-June 2022, the NBU did not calculate the total reserves in months of imports due to the unstable situation.

Source: National Bank of Ukraine (NBU).

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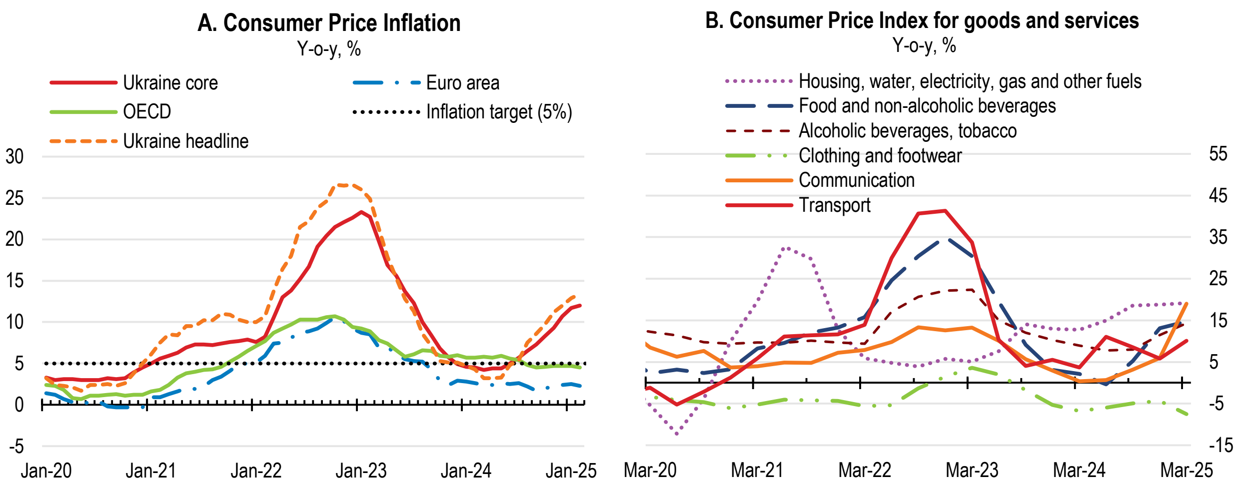
After returning to target, inflation has risen again

Inflation surged in the first months of the full-scale invasion, rising year-on-year to above 26% between October and December 2022, due to supply disruptions, higher operating costs, expanding money supply and the currency's devaluation. Inflation then gradually fell below the central bank's 5% target as the economy stabilised. Positive supply shocks from easing energy prices, good harvests, resuming trade and the diversion of food exports in particular to the domestic market slowed inflation to 3.2% year-on-year in Spring 2024. Monetary authorities reaffirmed their inflation objectives, helping to anchor expectations. Inflation then gradually rose again, as a hot and dry summer raised food prices, supply disruptions raised energy prices, labour shortages led to rising real wages and robust consumer demand, and the depreciated exchange rate passed into higher import prices (Figure 1.4). Headline inflation reached 14.6% in the year to March 2025, while core inflation rose to 12.4%.

Figure 1.4. After returning to target, inflation is rising again



Note: 'Euro area' corresponds to the fixed composition of 20 countries as of 2023, throughout the figures in this chapter. Panel A: The NBU has set the medium-term inflation target (as measured by year-on-year CPI growth) at 5%. Panel B: data are quarterly averages of monthly indices (December 2010=100).

Source: OECD Main Economic Indicators (Prices database), National Bank of Ukraine (NBU), State Statistics Service of Ukraine (SSSU).

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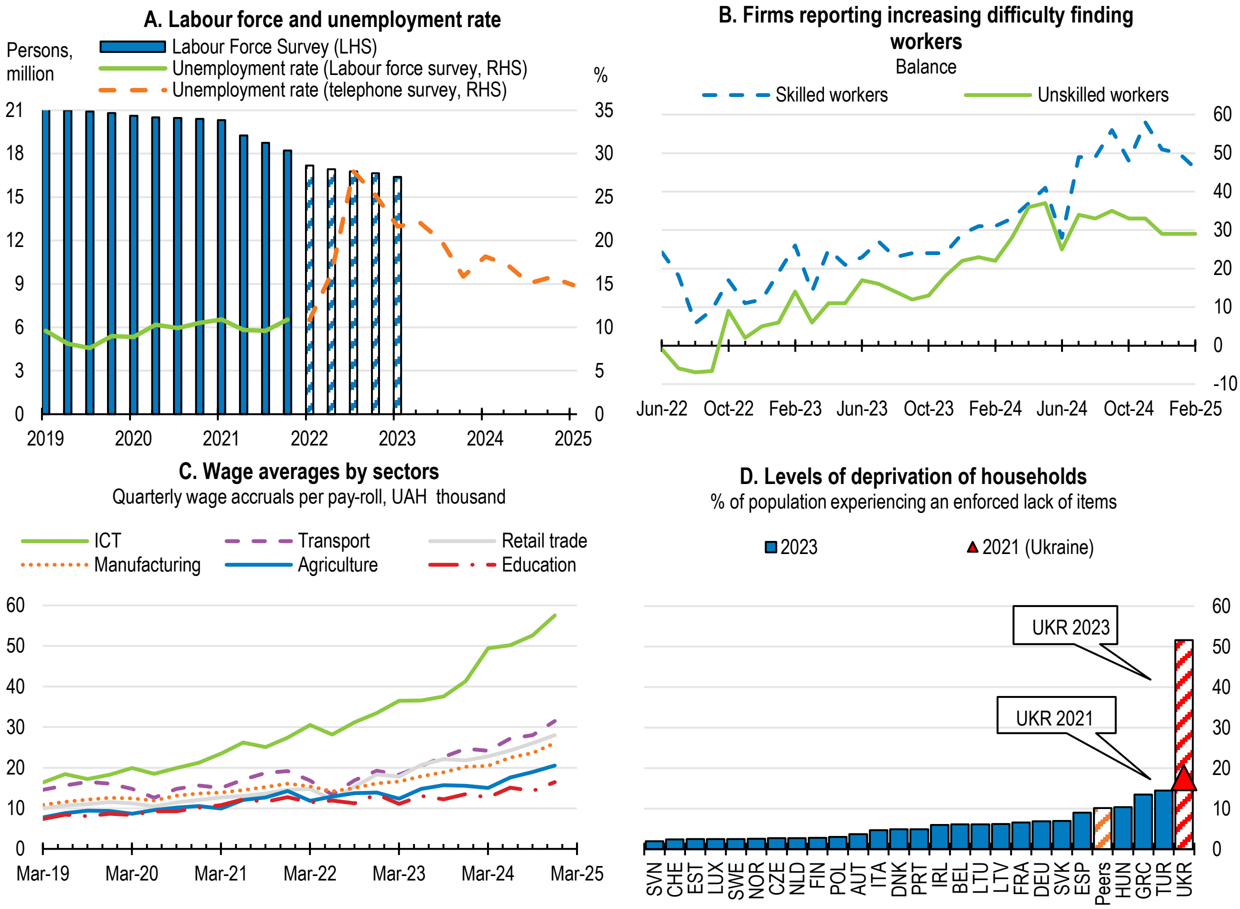
While many jobs have been lost, labour shortages have become a central challenge

The labour market has become a major challenge for Ukraine's economy. Many jobs were lost as businesses were damaged, closed or temporarily occupied, especially in the first months of the war, and the number of taxpayers registered in private businesses fell by 2.5 million (World Bank, 2023[4]). These figures do not incorporate mobilised personnel, with defence personnel estimated to have increased by about 3.5% of the 2020 labour force, from about 300 000 in 2021 to around 1.1 million in 2024 (World Bank, 2024[5]) (Global Fire Power, 2025[6]). The unemployment rate peaked near 26% in the second quarter of 2022 according to estimates by the National Bank of Ukraine (since the official labour force survey was suspended in early 2022, surveys by social research institutes track unemployment rates – see Box 1.3) (Figure 1.5, Panel A). Demand for workers started to rise from the third quarter of 2022, as activity started to recover, especially in the sectors most involved in defence and the regions farthest from the disruptions of the war. The unemployment rate is estimated to have declined modestly, to about 15% by March 2024, and to have remained near this rate through to early 2025.

The loss of adults available to work has constrained the growth in employment. Mobilisation and population displacement within and outside of Ukraine decreased the number of working age adults by 40% or about 5 million between 2021 and 2023, even after accounting for the return of 30% to 40% of the initial wave of externally displaced people (IOM, 2025[7]). By October 2023, finding workers, whether skilled or unskilled, was among the top three constraints to operating cited by businesses (Figure 1.5, Panel B). This partly reflected mismatches between employment demand and the location of potential workers. Many of the internally displaced persons relocated to areas where they could access housing or social support rather than areas with the best employment opportunities. Jobseeker activity, as measured by the number of resumes submitted to vacancies, fell to around 25% below the levels of 2021 from mid-2023 and remained at this level (work.ua, 2025[8]).

Figure 1.5. Labour shortages are a major constraint for businesses



Note: Panel A: up to 2021 the source of unemployment data is SSSU, after 2021 is OECD calculations based on Info Sapiens survey. The source of labour force data is taken from the World Development Indicators (WDI) up to 2021, and OECD estimates based on WDI data onwards. Methodological notes on the compilation of LF statistics can be found here (Ukrainian only). Panel B: time series are computed as the difference between the shares of answers 'finding employees has become more difficult' and 'finding employees has become easier'. Panel C: data correspond to quarterly averages and are compiled according to the results from the state statistical publication “Survey of enterprises on issues concerning labour statistics” which covers legal entities and detached units of legal entities with 10 and more employees. Information has been compiled from reports submitted by enterprises and additional estimates of indicators and may be revised by source. A methodological note on the salary compilation can be found here. Panel D: the graph shows a selection of OECD countries. The severe material and social deprivation rate (SMSD) is an EU-SILC indicator that shows an enforced lack of necessary and desirable items to lead an adequate life. The indicator, adopted by the Social Protection Committee, distinguishes between individuals who cannot afford a certain good, service or social activities. 2023 data is defined as the proportion of the population experiencing an enforced lack of at least 7 out of 13 deprivation items (6 related to the individual and 7 related to the household); data for 2021 (Ukraine only) are obtained by the results of the Household Living Conditions Survey (HLCS) of the State Statistics Service of Ukraine (SSSU), which includes at least 4 out of 9 deprivation items.
Source: State Statistics Service of Ukraine (SSSU), World Bank, World Development Indicators (WDI), Info Sapiens; Institute of Economic Research (IER); State Statistics Service of Ukraine (SSSU); HSESS, SSSU HLCS, and Eurostat EU-SILC.

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The shortage of workers has led to large wage increases in sectors such as construction and IT where defence activity has increased most or where the workforce is more affected by mobilisation. The average wage for jobs tracked on Ukraine's largest employment website (work.ua) rose by 20% in the year to March 2025. Real wages fell by around 11% on average in 2022, as nominal wage rates were broadly stable, and consumer prices surged. In 2023 and 2024, slower inflation and faster nominal wage growth led real wages to rise by nearly 4% and 14% respectively, according to estimates by the Kyiv School of Economics based on Pension Fund of Ukraine data (KSE Institute, 2024[9]). Anecdotal reports suggest that the shortage of workers is breaking long-standing barriers to female employment. Women's labour force participation in Ukraine lagged most OECD countries prior to the war, with legal and societal barriers to work in some professions (discussed below) now being overcome by the shortages of workers and loss of income sources.

Poverty indicators have improved little despite the strong real wage growth. At the peak in May 2022, 30% of the population reported having to save on food, compared with 15% in January 2022, according to a regular national survey (Centre for Economic Strategy, 2024[10]). (Consumer food prices rose by 40% between January 2022 and June 2023). This rate declined modestly in the second half of 2022 and ranged between 20% and 25% through 2023 and 2024. Other surveys suggest substantially higher rates of hardship. Assessed poverty rates increased more among households with more children, especially those headed by a single parent or those in smaller communities. Poverty rates are higher among the approximately 4.6 million internally displaced persons, reflecting their distance from employment opportunities their loss of assets such as their home or land, and that their home regions have generally suffered greater economic damages.

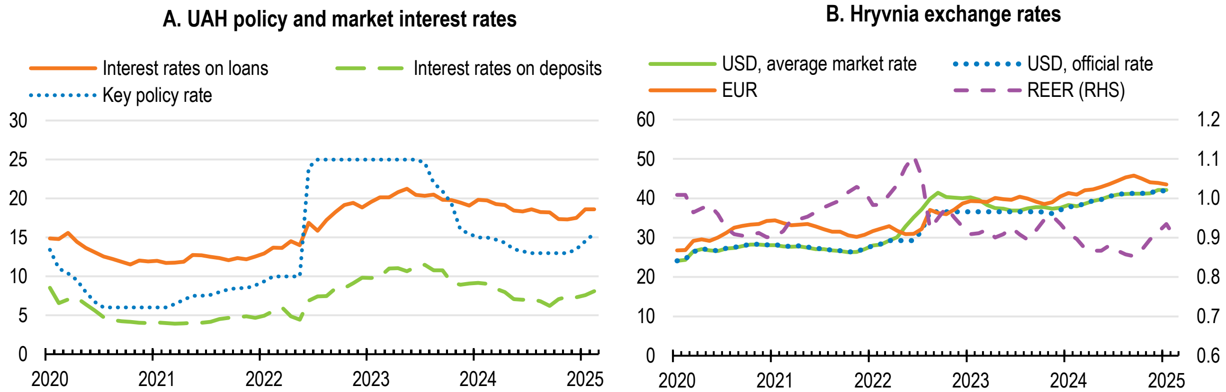
Social protection measures (such as income and housing support and access to basic goods) have reduced humanitarian pressures. However, central government social protection spending has declined in real terms since 2022, reflecting other spending priorities. Subnational governments' programmes have been strained by heightened needs, reduced revenues and other reconstruction and related spending. International humanitarian support peaked at over EUR 10.5 billion (5.4% of GDP) in 2022, declining to EUR 4.1 billion in 2024 (2.4% of GDP) (Trebesch et al., 2025[11]).

Monetary policy and financial supervision have contributed to Ukraine's resilience

During the first months of the full-scale invasion, the National Bank of Ukraine (NBU) undertook emergency measures to sustain public finances. the banking sector and the financial system while limiting risks to macro-financial stability. It fixed the exchange rate against the USD (Figure 1.6) and imposed capital controls. It financed up to half of the government deficit and supported the banking system through a refinancing facility. From July 2022, as the economic situation stabilised and external support become more systematised, the focus of policy shifted to returning inflation to the central bank's 5% target and to re-opening capital accounts while maintaining external stability. The exchange rate was devalued by 25% in July 2022, although capital controls remained. The NBU raised the main policy rate by 15 percentage points to 25% in June 2022, suspended refinancing operations for banks from November 2022, and started increasing minimum reserve requirements from December 2022. It ceased monetary financing of the budget deficit in January 2023.

The NBU eased monetary conditions as inflation returned towards target through 2023, cutting its key policy rate to 13.2% in June 2024. Then, as inflationary pressures grew again in 2024 and early 2025, it first increased banks' reserve requirements then, from its December 2024 meeting, started raising its key policy rate, by a total of 250 basis points to 15.5% by March 2025. Banks' high excess liquidity and the wide margins between deposit and lending rates (Figure 1.6) have blunted the transmission of changes in monetary policy, despite the introduction of policies to absorb some of that liquidity.

Figure 1.6. Monetary policy has tightened and the exchange rate stabilised



Note: Panel B: Official exchange rate of Hryvnia versus foreign currencies are computed as average of period. REER is Dec 1999=1. Data for the last month is preliminary and is the subject for further revision.
Source: National Bank of Ukraine (NBU).

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Following the foreign exchange restrictions imposed during the first months of the full-scale invasion, controls on import payments, dividend repatriation and foreign currency loans were progressively eased from 2023, and the NBU transitioned to managed exchange rate flexibility from October 2023, allowing the official rate to gradually converge with the market rate (Figure 1.6, Panel B). Financial support from Ukraine's international partners bolstered foreign exchange reserves and supported demand for the Ukrainian Hryvnia, countering demand for foreign exchange among Ukrainian households and firms. The exchange rate was broadly stable against the US dollar from mid 2024 to early 2025. Outflows following relaxation of foreign exchange restrictions were contained. The exchange rate regime remains managed, with regular interventions in the foreign exchange market including through reserves management. The central bank aims to move to a floating exchange rate as the economy normalises and other restrictions are eased. Allowing the exchange rate to depreciate during periods of higher demand for foreign exchange, while limiting volatility and remaining vigilant to the pass-through of higher import prices to domestic inflation, can support the economy. Market-driven exchange rate depreciation, while maintaining the primary goal of price stability, would support the Hryvnia purchasing power of foreign grants and contribute to exporters' competitiveness despite their domestic operating cost challenges.

In a September 2024 update to its Monetary Policy Guidelines, the NBU recommitted to its inflation target. The target is defined as returning inflation to 5% over its policy horizon of three years, and allows for the horizon to be adjusted for economic conditions and for inflation to diverge from this target. The Guidelines provide for continued 'managed flexibility' of the exchange rate, while moving towards a fully floating exchange rate and protecting foreign exchange reserves. The central bank formalised an agreement with the Ministry of Finance on the triggers and nature of future monetary financing. It includes commitments to first draw down government deposits before seeking monetary financing, to consult with the IMF in case of monetary financing and limit the amount of such financing, and to avoid indirect monetary financing such as directed provision of liquidity to banks that could be used to purchase government securities. Such agreements are against the background of the NBU's institutional strengthening since the mid-2010s (discussed in Box 1.4). Maintaining the NBU's independence so that it can implement the agreed monetary policy framework, avoid monetary financing of the budget beyond exceptional circumstances, and ensure monetary policy supports well-anchored inflation expectations will contribute to macroeconomic stability.

Box 1.4. Ukraine's monetary policy institutions and frameworks

The 2015 Law on the National Bank of Ukraine (NBU) granted the NBU institutional independence. In 2016, the NBU introduced inflation targeting with an initial target of inflation within two percentage points of 8% It also modernised payment systems. It supported the nationalisation of a large privately-held bank with a heavily impaired balance sheet, and the consolidation or closure of many small banks. Cross-country indices of central bank independence and transparency, such as those produced by Romelli (2024[12]) and Dincer, Eichengreen and Geraats (2022[13]), suggest that the independence and transparency of the NBU improved through the second half of the 2010s, although still lags those of many OECD central banks. The NBU's reforms supported Ukraine's resilience through the full-scale invasion. For example, the NBU's improved operational integrity helped it maintain payments systems through the full-scale invasion, and supported the pursue of its inflation target.

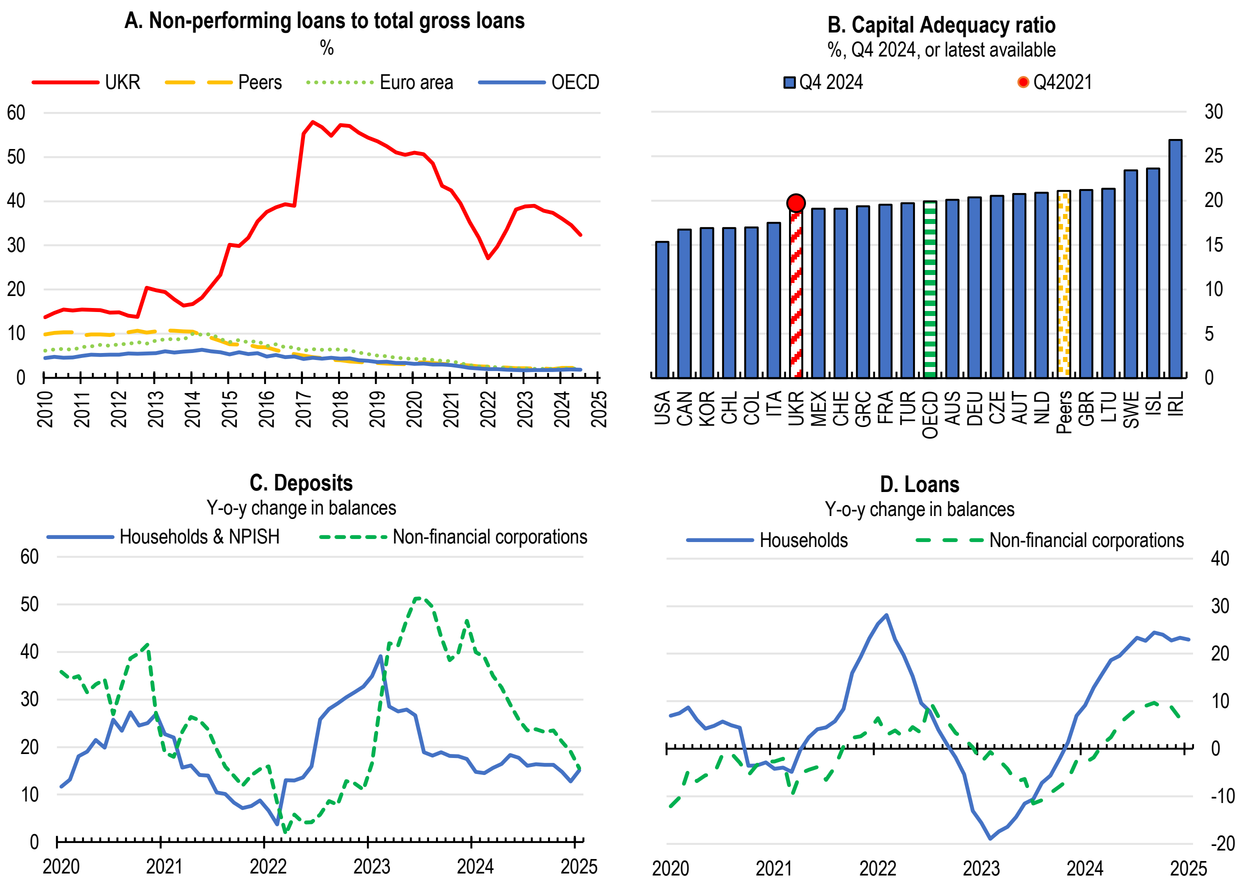
Source: (Zhang, 2019[14]) (Martinelli et al., 2019[15]) (Smolii, 2020[16]) (Swedish House of Finance, 2024[17])

The war has heightened pressures on the banking system, which, to date, have been managed with relative resilience. The non-performing loan ratio to outstanding loans rose by 12.6 percentage points, to peak at 39.3% in May 2023, before declining to 30.3% by January 2025 (Figure 1.7 Panel A). Loan performance fell as the war damaged borrowers' assets, collateral and cash flow to service their loans. The bulk of non-performing loans are a legacy of banking crises following the global financial crisis and Ukraine's economic crises of the early 2010s. In January 2025 over 55% of all outstanding NPLs were held by PrivatBank, which was fully nationalised in 2016 due to its balance sheet weaknesses. Other state-owned banks incurred the bulk of the increase in non-performing loans in 2022 and 2023, with their average ratio peaking at 39% in mid-2023 before declining to 31% in November 2024. Over 96% of NPLs were provisioned in late 2024. Martial law has paused some actions to recognise and address NPLs, and banks will be required to update their NPL assessments and resolution strategies once martial law ends. Ensuring the banking sectors' stability and ability to finance the reconstruction will require anticipating and maintaining sufficient provisioning for the new NPLs that will be recognised once the restrictions of martial law are lifted.

Wide interest margins and high returns on their holdings of government bonds have supported bank profitability and capital ratios since 2022. Provisioning, which reached 12% of loan portfolios at the start of the full-scale war, has limited the capital losses from new non-performing loans. An increased corporate income tax rate of 50% was imposed on banks' profits earned in 2023 and again in 2024, which reduced their average return on equity, although it remains high, near 30%. All but one of the 20 largest banks, representing 90% of banking assets, were assessed in 2024 to be adequately capitalised. Like other aspects of Ukraine's prudential supervision arrangements, the approach to capital risk assessment is being progressively aligned with European standards.

Bank liquidity is high. Deposits rose from the start of the war, as uncapped guarantees of retail deposits contributed to households maintaining their savings (Figure 1.7, Panel C). Deposits were also supported by the defence force mobilisation, as personnel are paid directly into bank accounts, whereas before the war many may have been receiving part of their income in cash or were in low-paid work or unemployed. Corporate savings rose less strongly, with capital controls providing some support during the first year of the war. NBU adjusted reserve requirements in late 2024 with the effect of directing liquidity toward the primary government bond market. Banks' exposure to the sovereign through government and municipal debt securities and NBU's certificates of deposit now represents around 38% of the banking sector's total assets. Credit has increased for businesses' working capital and for loans in the 5-7-9 subsidised lending programme (Figure 1.7 Panel D). (Chapter 2 discusses structural challenges for expanding bank lending and developing non-bank financing).

Figure 1.7. The banking sector has been resilient



Note: Panel A: OECD average is computed on latest available quarterly data apart from Japan and Italy for which frequency is biannual. Panel B: the graph shows a selection of OECD countries. Panel C: NPISH corresponds to non-profit institutions serving households (S.15) according to Institutional Sector Classification. Data correspond to deposits held with deposit-taking corporations (excluding National Bank of Ukraine). Panel D: data correspond to loans granted by deposit-taking corporations (excluding National Bank of Ukraine). Panel C & D: data are end of period balances.
Source: IMF, CEIC, National Bank of Ukraine (NBU).

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Restoring security and implementing reforms will determine the speed of the recovery

A gradual recovery is projected to continue amidst the ongoing war

Under the assumption that the security situation and external support change little before the end of 2024, moderate growth is expected to continue into 2025, as defence spending and the ongoing reconstruction efforts continue to support activity and consumer spending rises as labour shortages propel further strong wage growth. Energy supply disruptions especially over the winter, are likely to weigh on industrial output and discourage further returns of emigrants. Somewhat less favorable growing conditions from the second half of 2024 than in recent years are likely to limit further gains in agricultural output and exports. The security situation and external support are assumed to change little before the end of 2026. Under this scenario, the recovery is likely to moderate further through 2025 and 2026, as energy shortages and damage to infrastructure and businesses continue and few displaced people return. Under this scenario, external support is expected to continue to finance the ongoing wide budget deficits, although lower in-kind military support is likely to lead to higher on-budget defence spending. Spending to rebuild energy supply capacity, housing and transport infrastructure, especially in the west of Ukraine, are expected to expand activity in construction and construction material manufacturing. Defence-related manufacturing is likely to continue to grow as capacity develops and public spending remains elevated. Together, these developments are likely to maintain inflation above the central bank's 5% medium-term target (Table 1.1).

Once the security situation stabilises growth is projected to initially rebound, as displaced people return, and reconstruction accelerates. Growth is then expected to follow the potential rate, discussed below. This rate will depend on the security situation, external support and the pace and quality of reform implementation, which will help drive investment, the return and employment of displaced people, and improvements in productivity.

Table 1.1. The economy is projected to remain resilient

	2021	2022	2023	2024	2025	2026
	Percentage changes, volume					
GDP at market prices (volume)	3.4	-28.8	5.5	2.9	2.5	2.0
Consumer price index (period average)	9.4	20.2	12.9	6.5	13.2	7.1
General government financial balance (% of GDP)	-4.0	-17.5	-20.4	-17.5	-19.0	-20.0
Current account balance (% of GDP)	-1.9	5.0	-5.0	-7.2	-15.0	-15.0

Note: GDP is measured at 2021 constant prices
Source: OECD Economic Outlook database

Table 1.2. Events that could lead to major changes to the outlook

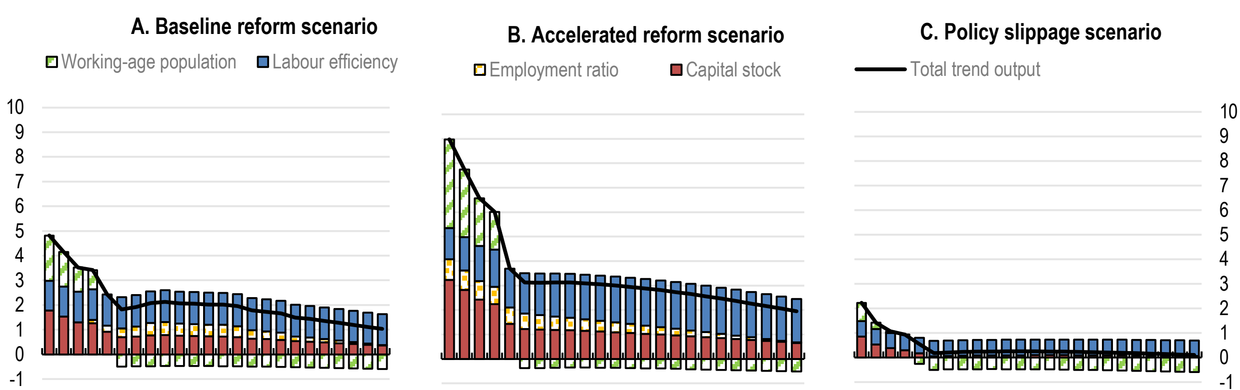
Shock	Possible impact
The security situation remains unstable beyond 2026, with ongoing attacks by Russia and damages, including to energy infrastructure.	Continued damage to economic and social infrastructure and minimal net return migration, damaging longer-term growth prospects. Budget deficits remain very wide increasing long-term debt sustainability challenges and limiting resources for reconstruction and recovery.
International concessional lending and grant support to Ukraine declines rapidly.	Lower external support leads to fiscal pressures to raise domestic revenues, cut social and other non-defence spending, and to increase domestic debt and monetary financing. Longer-term debt pressures are greater, with higher interest costs and risk of default, limiting the availability and raising the cost of financing for private investment. It also leads to a draw-down of international reserves, greater pressure for the exchange rate to depreciate, and risks of capital flights, potentially leading authorities to re-impose capital controls.
Russia's invasion of Ukraine is brought to a rapid end, enabling reconstruction and recovery efforts to accelerate alongside implementation of the domestic reform programme.	Reconstruction and recovery accelerate, enabling building back more productive infrastructure and economic capital, with continued international support. Stronger return of migrants and efforts to reintegrate veterans supports the workforce, incomes and well-being.
Reform implementation slows dramatically with some backsliding.	Reduced support from international partners limits fiscal sustainability and raises the cost of financing, increasing pressures on the exchange rate to depreciate and raising inflation, leading to higher interest rates. Longer-term growth potential reduced as slower improvements in the business environment and greater uncertainty drag investment lower, limit productivity growth, and reduce net migration, accentuating demographic pressures.

Exceptional uncertainty surrounds these projections. Maintaining external support will require maintaining effective macroeconomic management and the momentum in implementing structural reforms to improve the investment climate and public sector's integrity. If financial and in-kind support are cut sooner, the budget and external balance would deteriorate, and, in turn, imperil the macroeconomic stability that has been a foundation of the private sector's resilience. Reduced in-kind support risks substantially raising on-budget military spending, weakening public finances. Conversely, an improvement in the security situation sooner would limit further population loss and damage to the economy, and could lift growth strongly as reconstruction and recovery activities accelerate and as confidence improves and more displaced people return. Especially if accompanied by ongoing external support and increasing foreign investment, this could lead to strong demand pressures, particularly in the construction and the construction materials sectors. Significant adjustments in many sectors and fuller information on the economic situation are likely to follow the lifting of martial law restrictions, bringing new policy risks. For example, 15% of IT workers report they plan to go abroad when the borders are opened to conscription-aged men, which would create new challenges for that sector's dynamism and export performance (IER, 2024[18]). In the longer term, other risks emerge for the outlook, some of which are outlined in Table 1.2.

Long-term growth prospects hinge on effective reform implementation

The economy's evolution into the long-term is essential for assessing policy priorities and fiscal sustainability (discussed further below). Illustrative long-term growth scenarios through to 2050 are built using elements of the OECD long-term supply model described in Box 1.5. Table 1.3 summarises the scenarios' assumptions. In both the baseline reform and the accelerated reform scenarios, GDP growth is initially boosted by reconstruction and the return of externally displaced persons before gradually declining due to weak demographic dynamics. The accelerated reform scenario maintains growth roughly one percentage point higher compared to the baseline, while the policy slippage scenario sees near-zero growth as weak demographics offset modest productivity gains. Over the next 25 years, GDP per capita is projected to grow annually by 2.4% in the baseline reform scenario, 3.3% in the accelerated reform scenario, and 1.1% in the policy slippage scenario, to rise by 81%, 130% and 29% respectively in each of these scenarios. This initial boost is weaker in the policy slippage scenario (Figure 1.8). The per capita growth projected in the accelerated reform scenario is comparable to that experienced by Hungary, Poland, and the Slovak Republic between 1995 and 2020, spurred by the accession and integration process into the European Union (3.2% annually).

Figure 1.8. Stronger reforms would sustain higher growth by raising productivity and employment



Note: See Table 1.3. for assumptions underlying the simulations.
Source: Adapted from the OECD Long-term database.

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Box 1.5. The OECD's long-term growth model

The model projects potential output for countries up to 2060, using a Cobb-Douglas production function with physical capital (K), trend employment (N), and labour-augmenting technological progress (E):

$$Y = (N * E)^{\alpha} * K^{1-\alpha}$$

with *N* trend employment (a function of the trend working age population and the employment rate), *E* labour efficiency, *K* the capital stock and α is the wage share (set at 0.67). The model can generate various scenarios, as the supply-side determinants are estimated as a functional form of structural and policy parameters, allowing for the simulation of different outcomes based on changes in these parameters.

Trend labour efficiency is modelled to converge progressively towards the US level of labour efficiency, with the speed of convergence depending on a survey-based rule of law indicator. At the end of the scenarios presented here for Ukraine, in 2050, that convergence is still underway.

The evolution of trend employment is driven by the size of the working-age population (ages 15-74), its age composition, and employment trends across different age and sex groups.

The evolution of the productive capital stock is driven by projections of public and private investment, excluding housing. The model imposes a stable long-run capital-to-output ratio.

Source: (Guillemette and Turner, 2018[19]) (Guillemette and Château, 2023[20]).

Table 1.3. Drivers of long-run growth under alternative policy scenarios

	Baseline reform scenario	Accelerated reform scenario	Policy slippage scenario
Population:	Total population growth follows UN baseline projections (United Nations, 2024[21]). Return of externally displaced persons follows the Government of Ukraine's "change" scenario (cf. Demographic Strategy 2040), projecting a return of around 2.5 million people by 2030.	Total population growth follows UN high-variant projections (United Nations, 2024[21]). Return of externally displaced persons assumes a doubling of the returnees by 2030 (5 million) compared to the Government of Ukraine's "change" scenario.	Total population follows UN baseline projections (United Nations, 2024[21]). Return of externally displaced persons follows the Government of Ukraine's "inertial" scenario (cf. Demographic Strategy 2040), projecting a return of around 0.5 million people by 2030.
Employment rate:	The aggregate employment rate solely depends on cohort effects and gradually increases from 55.5% in 2024 to reach 60.8% by 2050, driven by a declining share of the 15- to 24-year-old cohorts.	In addition to cohort effects, aggregate employment rates converge towards OECD and peer countries, reaching 64% by 2050.	Increases in the population's overall employment rate due to the declining share of young people are fully offset by lower employment rates among veterans and weaker incentives to expand formal employment.
Capital stock:	Recovery allows the convergence of the capital-to-output ratio to a level below the one prior to the war but close to the OECD average level of around 3.42.	More vigorous reconstruction followed by sustainably higher investment intensity on the back of structural reforms outlined in Chapter 2 allows for the convergence of the capital ratio to the level of 3.56, that is, halfway between the one reached before the war (3.7) and the OECD average (3.42).	The capital-to-output ratio does not recover and remains at the current level of around 3.3
Rule of law (World Bank indicator):	The World Bank rule of law indicator gradually increases from -0.66 in 2021 to reach 0 by 2050. This slightly increases the speed of convergence of total factor productivity to the global frontier.	The World Bank rule of law indicator gradually increases from -0.66 in 2021 to reach a value of 1 by 2050 (peer average: 0.5; OECD average: 1.15). This accelerates the convergence of total factor productivity to the global frontier.	The World Bank rule of law indicator remains near 2021 levels (-0.66).

Source: OECD Long-Term Database; UN World Population Prospects; Government Demographic Strategy 2040; and World Bank.

Strengthening public finances to support the recovery

The budget deficit has widened sharply

The budget deficit widened sharply from the outset of the full-scale war with the sharp increase in defence spending and is expected to remain wide in 2025 (Figure 1.9, Panel A). Between 2015 and 2021, Ukraine's total expenditure was gradually declining relative to GDP, reaching 33.9% of GDP in 2021. The needs of defence have since doubled total expenditure relative to GDP. Domestic revenues dropped in 2022 due to the disruption to activity and tax collections and due to various temporary policy measures, and then stabilised relative to GDP. Non-tax revenues from external grants and increased dividends from state-owned enterprises have supported revenues.

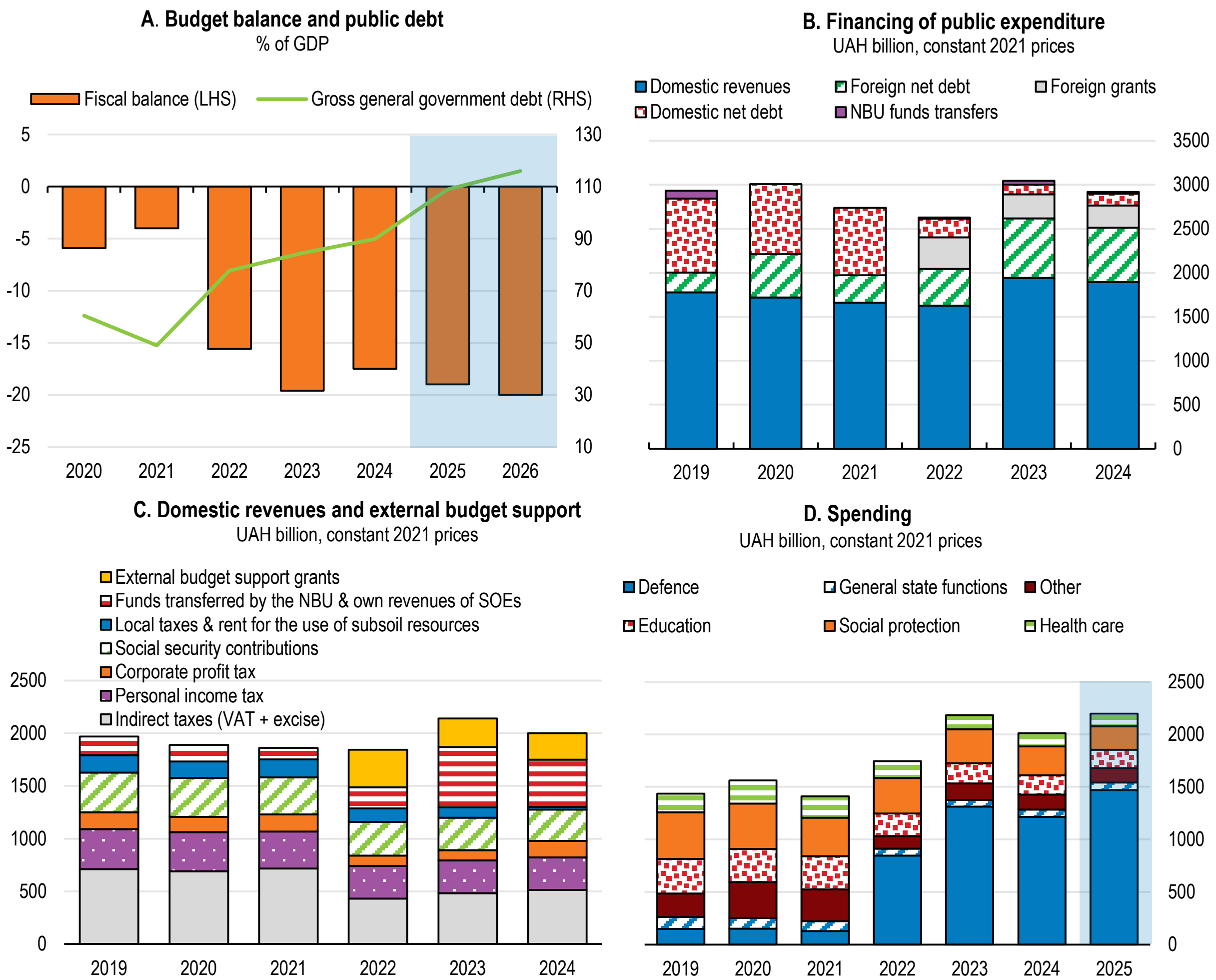
The full-scale war saw Ukraine's defence spending surge to over 20% of GDP in 2022, and it is budgeted to reach 26% of GDP in 2025, while spending on public order tripled to 9% of GDP (Figure 1.9, Panel D). Personnel spending absorbs the bulk of these costs reaching 18% of GDP. Various military observers suggest that between 1 million and 1.1 million defence personnel were active in 2024 (official data are confidential), compared with 300 000 in 2020. Salaries are higher than many private sector jobs (Figure 1.10), and allowances for front-line and higher risk activities can raise these up to fourfold. Releasing a large share of these personnel, when security needs permit, and limiting the additional allowances will greatly reduce spending and ease labour scarcity for employers. In addition to personnel, purchases of materials such as ammunition reached 9% of GDP in 2024, and support for rapidly expanding defence industry has been significant but is confidential. These figures do not include the value of in-kind defence and humanitarian support, estimated to approach 18% of GDP over 2023 and 2024 (Figure 1.10). Plans announced by external partners suggest that in-kind support will decline substantially in 2025, notably for humanitarian assistance. When in-kind support falls short of expectations, on-budget spending tends to increase, as occurred in 2024-Q2. Despite these pressures, Ukraine has managed to protect spending on health and social protection relative to GDP, while education and economic development spending has declined only modestly, in part reflecting fewer students. Social spending has been bolstered by support for the 4.6 million internally displaced people.

The 2025 budget substantially increases spending on reconstruction, including for the Ministry of Communities and Territories Development (also referred to as the Ministry of Restoration) to rebuild infrastructure. It aims to reduce social, health care and education spending to 8.4% of GDP, approximately 1% of GDP lower than in 2024. Transfers to the pension fund will be cut, while the unemployment fund, which is in surplus, will contribute to the budget balance. Funding for support for low-income households has risen by less than inflation since 2021. The 2025 budget includes an untargeted UAH 1000 (USD 24) per person allowance for a prescribed list of daily living costs. Interest costs are rising with the higher debt stock, from near 3% of GDP in 2021 to 4% in 2024, despite the pause on servicing payments on official credits and the rescheduling of Eurobonds.

Domestic tax revenues remain below pre-2022 levels in real terms and relative to GDP (Figure 1.12, Panel C). They fell during the first months of the full-scale invasion, reflecting the disruption to collection processes and activity, as well as temporary tax relief and deferred taxation. From 2023, some corporate income tax rates were raised, exemptions cancelled, and collection processes tightened. Higher prices and robust consumer demand supported value added and excise taxes and VAT coverage was extended. A temporarily increased tax rate of 50% was imposed on banks' 2023 corporate profits and extended to their 2024 profits. From 2025 the corporate profit tax rate is set at 25% for banks and other financial institutions (apart from insurers). Labour income tax and social contributions receipts have been lifted by the mobilised defence forces, whose declared incomes are often higher than their previous declared incomes. The increase in the military income tax surcharge from 1.5% to 5% from January 2025 will support revenues.

Concessional sources have become key for Ukraine's public financing amidst the increased financing needs and heighted credit risk (Figure 1.10, Panel B). In the months following the full-scale invasion, agencies downgraded Ukraine's sovereign credit rating sharply, for example with Moody's cutting its rating from B3 in February 2022 to Ca a year later. Prior to the invasion, Ukraine had increased the share of domestic marketable debt in its total debt issuance, to average over 45% of between 2019 and 2021. Since 2022, the share of domestic debt issuance has dropped, reaching 30% of the outstanding amount in 2024. The share of financing from external concessional sources surged to average 76% of Ukraine's borrowing between February 2022 and November 2024, raising these loans' share of total outstanding debt from 21% in 2021 to almost 60% at the end of 2024. The concessional terms reduce financing needs through lower interest costs and longer maturity. Still, the rise in the share of foreign currency-denominated debt exposes Ukraine to significant foreign exchange risk. Official creditors agreed to pause debt service payments until the end of March 2027, when claims are likely to be restructured (Group of Creditors of Ukraine, 2024[22]).

Figure 1.9. The surge in defence spending has led to wide budget deficits



Note: Panel A: shaded area indicates OECD projections. Panels B & C: "NBU funds transfers" category is in accordance with the Law on the National Bank of Ukraine. Panel C: "external budget support grants" category includes official transfers from the European Union, foreign governments, international organizations, donor institutions. Panel D: "other" category includes environmental protection and economic activity; projections (shaded area) are KSE calculations from the draft Budget 2025 available here. GDP deflator figures for 2024 and 2025 are OECD calculations.
Source: OECD Economic Outlook 116 database; OECD Tax Revenue (database), IMF, World Bank, World Development Indicators (WDI), Ministry of Finance of Ukraine, National Bank of Ukraine, and Kyiv School of Economics.

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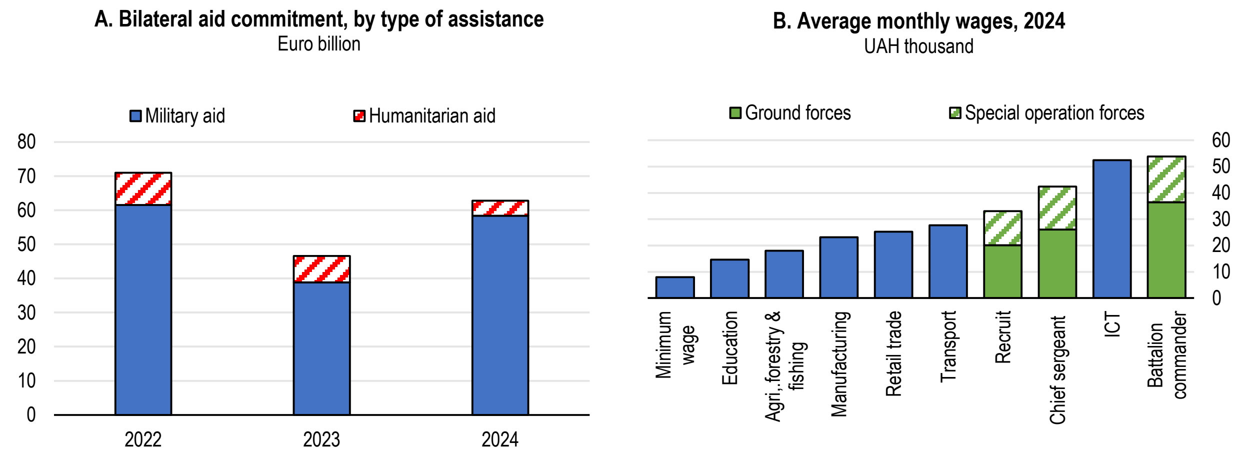
The share of international marketable debt has declined with no new issuance after February 2022 and with the restructuring of existing Eurobonds. In August 2024, creditors agreed to convert Eurobonds with USD 20.5 billion of outstanding principal into bonds worth USD 15.2 billion in principle, no principal payment until 2029 and reduced interest payments. Other restructuring negotiations are underway, notably, regarding outstanding GDP-linked warrants valued at USD 2.6 billion, but which potentially pay holders 15% of any increase in GDP above 3% annual growth in real terms up to the warrants' expiry in 2041. These were issued following debt restructuring in 2015. The goal of the negotiations is to ensure fair and equitable treatment of these warrants compared with other debt. This will also entail renegotiating commercial loans and government guaranteed debt. For example, the state railway operator Ukrzaliznytsia has USD 1.05 billion in outstanding Eurobonds which it is seeking to restructure after suspending interest payments. Ensuring equivalent restructuring of Ukraine's different external debts to substantially extend maturities and reduce interest costs is key to restoring debt and fiscal sustainability.

Figure 1.10. Significant external material support reduces on-budget defence spending, while high spending on salaries reflects high salary rates



Note: Panel A: total bilateral aid commitments to Ukraine in EUR billion with traceable commitment months over time between January 2022 and December 31, 2024. Military aid includes financial assistance tied to military purposes. Panel B: data are compiled according to the results from the state statistical observation "Survey of enterprises on issues concerning statistics" which covers legal persons and detached units of legal persons with 10 and more employees. Average monthly wages for selected sectors correspond to the arithmetic average over 2024 quarters. Transport category corresponds to the average of transportation and warehousing, postal and courier activities, land transport and via pipelines, water and air transport. Information has been compiled based on reports submitted by enterprises and additional estimates of indicators and may be revised by source. Financial support of militaries mobilised in the Ukrainian Armed Forces does not include additional allowances which can vary from 30,000UAH to 100,000UAH according to their participation in hostilities.
Source: Kiel Institute for the World Economy, State Statistics Service of Ukraine (SSSU), Ukraine Ministry of Defence, State Budget of Ukraine.

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Achieving the medium-term fiscal objective will require continued external support

The government aims to achieve a primary budget surplus between 0.5% and 1.5% of GDP in the medium-term after the end of martial law. Consolidating from primary deficits projected to continue near 15% of GDP through 2026 will be challenging, but will be essential for achieving sustainable public debt. Reducing government financing needs and the supply of government bonds will encourage banks to instead finance private investment and operations.

The consolidation will require cutting public spending. Returning defence spending from the 25% of GDP budgeted for 2025 to more typical levels will enable much of the consolidation. Across OECD countries defence spending averaged 1.5% of GDP in 2022, with Israel spending the highest share, at 4.7% of GDP, and these shares have since risen and are budgeted to rise further in coming years. At the same time, spending pressures will be heightened for reconstruction and to support demobilised personnel and internally and externally displaced populations to reskill, rehouse and reintegrate into the labour market and society. Physical reconstruction needs up to the end of 2023 were estimated at USD 486 billion (World Bank, Government of Ukraine and European Union and the United Nations, 2024[23]). The government aims to achieve this reconstruction over one decade, implying USD 32 billion of additional construction activity or near 15% of 2027 expected GDP annually. The pace of public spending is likely to rise as spending capacity develops. The private sector may provide as much as one-third of the public infrastructure reconstruction (World Bank Group, 2023[24]), and the recommendations discussed in this *Survey* would support the private sector's role.

Continued external grants will remain central to achieving the fiscal consolidation. This *Survey* includes recommendations to support the revenue base and raise the revenue share, such as improving VAT coverage and compliance, narrowing the coverage of presumptive taxes and improving tax administration collections, alongside several recommendations with a fiscal cost. Overall, these recommendations would improve the budget balance by about 3% of GDP (Table 1.4). Accounting for normalisation of defence spending, likely public reconstruction spending, and additional revenues leaves a gap of as much as 5% of GDP with the medium-term fiscal objective. Continued strong international support will be essential to closing this gap and achieving a sustainable reconstruction. Box 1.6 describes the funds provided to Ukraine in 2024-2027 through the Extraordinary Revenue Acceleration Loan Initiative and the role of the frozen Russian assets. Building on the lessons of the post-World War II Marshall Plan in western Europe and more recent experience, beyond the financial value of this support, it will be most effective at raising private investment, productivity and incomes if it helps drive the types of structural reforms discussed through this *Survey* (De Long and Eichengreen, 1991[25]).

Box 1.6. The frozen Russian assets and Extraordinary Revenue Acceleration Loan Initiative, and the EU's Ukraine Facility

One of the principal issues pertaining to Ukraine's financing needs since February 2022 has been the fate of the roughly USD 325 billion of Russian assets abroad that were frozen following the start of the full-scale invasion. Proposals for treatment of the assets ranged from calls for outright confiscation to plans to use tax and other income generated by the assets to support Ukraine. Initial steps to use the tax revenues from these assets to benefit Ukraine have shifted to using the income they generate.

In October 2024, the G7 agreed to use the interest generated by the assets (around USD 3 billion annually) to fund USD 50 billion (27% of Ukraine's 2024 GDP), which will be disbursed between 1 December 2024 and 31 December 2027. The EU has committed to providing EUR 18.1 billion (USD 19.5 billion) via 'Macro-Financial Assistance' loans, and the United Kingdom to contributing GBP 2.7 billion (USD 2.9 billion). The United States committed to providing USD 20 billion, Canada CAD 5 billion (USD 3.7 billion) and Japan JPY 471.9 billion (USD 3.1 billion) via the World Bank's Financial Intermediary Fund.

The funds are in the form of a loan to Ukraine, serviced and repaid by future flows of extraordinary revenues stemming from the immobilisation of Russian sovereign assets. The loan proceeds will be disbursed through multiple channels to support Ukraine's budgetary, military and reconstruction assistance. It will be conditional on Ukraine upholding effective democratic mechanisms, respecting human rights, and on meeting the policy conditions, transparency and accountability requirements laid out in the IMF programmes and the Ukraine Facility. A second recourse clause stipulates that if there is a peace agreement, Russia pays for the damages it has caused and outstanding balances of the facility cannot be covered by the immobilised Russian sovereign assets, Ukraine would repay the remaining amounts.The long-term future of the frozen Russian assets continues to be debated. While Ukraine and some of its international partners advocate outright confiscation, this view is contested.

These amounts are separate from the EU's Ukraine Facility, which runs from 1 March 2024 through 2027 (see also the mechanisms discussed in Box 2.5). It provides up to EUR 50 billion of direct and indirect financial support, including EUR 17 billion in grants and EUR 33 billion in loans. EUR 38.3 billion is allocated to support macro-fiscal stability, linked to reforms including for budget oversight and public financial management, and sectoral and structural reforms and investments that will support accession to the EU. The Facility also allocates EUR 9.3 billion to attract and mobilise public and private investment to support Ukraine's recovery and reconstruction.

Source: (Ministry of Foreign Affairs of Japan, 2024[26]) (European Commission, 2025[27]).

Table 1.4. This Survey's policy recommendations would modestly improve the budget balance

Recommendation with fiscal implications	Estimated fiscal impact (% of GDP, 2030)
Narrow the coverage of VAT exemptions and improve VAT compliance, and align excise tax rates with EU rates	-1.8%
Focus 'simplified' tax arrangements on businesses with high compliance costs or at high risk of not declaring	-0.5%
Review and rationalise tax expenditures	-0.5%
Raise greenhouse gas emission prices.	-1.5%
Resolve legacy debts in the electricity market	0.4%
Reform the labour income tax and social contribution wedge	0.0%
Raise active labour market policy spending to OECD average	0.5%
Expand access to childcare and care for elderly	0.5%
Pursue pension reform policy:	0.0%
Net effect of recommendations:	-2.9%

Note: Negative values indicate contributions to the budget balance, i.e., reduction (increase) in the budget deficit (surplus). The value of revenue policy measures is based on estimates in the National Revenue Strategy, with the exception of the estimated revenue generated through focusing the coverage of 'simplified' tax arrangements.
Source: (Ministry of Finance, 2023[28]); OECD estimates.

Better coordinating and managing external support

The current aid management system is fragmented and does not provide for integrated management of flows, or for them to be well integrated into the budget and policy process. This limits and complicates coordination, monitoring, reporting and accountability, and adds to the hurdles for disbursing support (OECD, 2024[29]). In 2023, net Official Development Assistance to Ukraine reached USD 39 billion, the largest amount received by a single country in a single year on record (OECD, 2024[29]). Among the management challenges, the government currently does not have a centralised body and data collection system to account for development and humanitarian aid flows. Donor platforms require the government to regularly report on the use of support, which can be cumbersome. These weaknesses also compromise donors' ability to coordinate with the government.

The urgent demands of responding to the full-scale invasion has slowed establishment of a full-fledged regulatory and information system for aid flows capable of managing the volumes of assistance Ukraine is now receiving. Effective aid management can strengthen broader public resource allocation and the efficiency and responsiveness of public policy. Donor coordination mechanisms such as the Ukraine Donor Platform and the Single Project Pipeline for public investment projects are being developed with the goal of aligning priority public investment projects with international project preparation standards. At the same time, external support should complement domestic resources. To improve coordination, Ukraine can consider formally designating a lead entity to coordinate aid data collection and management, integrating this information into improving financial management information systems, and integrating these into systems accessible across the government including subnational bodies. The Ministry of Finance could take this role given its central function in public finance management and existing financial management capacities.

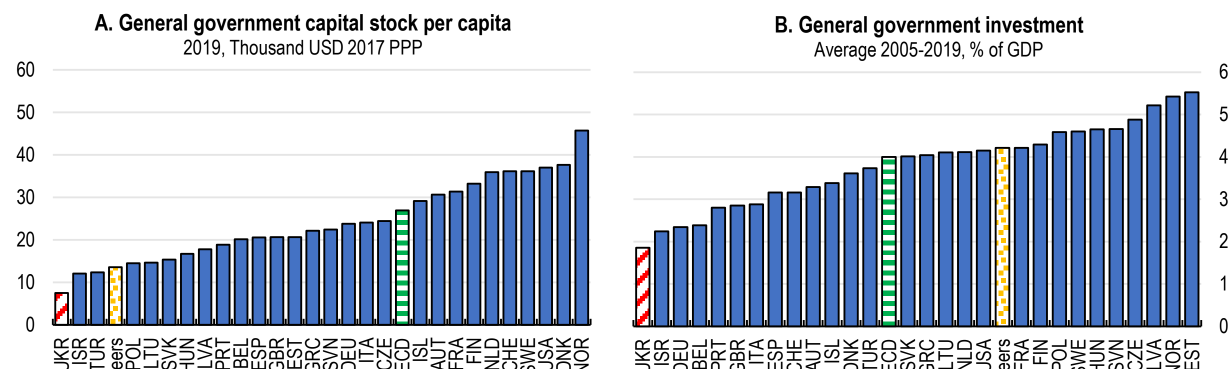
Improving spending effectiveness

The reconstruction and recovery and fiscal consolidation will entail large shifts in public expenditure. Detailed reviews of public expenditure can help identify areas where ineffective spending can be cut and areas that would benefit from increased spendings. Used well, spending reviews can help budget processes break from incremental reallocations to achieve larger shifts in public resources, as they have in OECD countries undergoing fiscal adjustment, such as Italy in the early 2010s, as well as Ireland and the United Kingdom (Schick, 2013[30]) (OECD, 2024[31]). The Ministry of Finance has developed requirements for conducting public expenditure reviews, and regular spending reviews are among the measures to improve public resource allocation envisaged in the Ukraine Plan. As a first step, integrating spending reviews into the regular budget process and documents would develop their role. Ukraine could follow the example of several OECD countries, such as Lithuania and the Netherlands, in developing a dedicated unit in a central agency such as the Ministry of Finance to coordinate the reviews and develop line ministries' capacity and collaboration in spending reviews. This can help improve the quality of analysis and improve ministries' willingness to implement savings (OECD, 2008[32]). Including pertinent performance information in spending reviews would improve the quality and transparency of decisions over line ministries' spending proposals and budget allocations. Tracking and reporting on the implementation of spending reviews' recommendations would improve their salience.

Preparing for the public investment needs of the reconstruction

Low public investment has reduced Ukraine's real public capital stock, with the stock falling gradually since 2009, and faster with the destruction of the full-scale invasion (Figure 1.11). Direct damage to public buildings and infrastructure had reached USD 152 billion by December 2023 (World Bank, Government of Ukraine, European Union, United Nations, 2023[2]) (discussed further in Chapter 2), and estimated total recovery and reconstruction needs reach USD 486 billion. Reconstruction will require mobilising financing, large gains in public and private expenditure and investment capacity, and substantial growth in the construction sector's capacity compared with the recent past.

Figure 1.11. Low investment left public capital lagging in Ukraine even before the full-scale war



Note: Panel A data are constructed based on general government investment flows. Panel A & B: graphs show a selection of OECD countries.
Source: IMF; OECD Economic Outlook: Statistics and Projections database.

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The challenges to realising the increased investment are considerable. Disbursement rates for public investment have been low in Ukraine for many years – for example in 2019, before the COVID-19 pandemic disrupted activities, public investment spending was 44% below budget and spending financed by international financial institutions was 66% below budget. This has continued despite the abrogation of many processes by martial law. In 2023 the government identified immediate recovery and reconstruction priorities totalling USD 14.1 billion, and funding for 84% of this amount was identified. However, only 61% of this amount (USD 7.2 billion) was disbursed (World Bank, Government of Ukraine, European Union, United Nations, 2023[2]). This performance changed little in 2024.

Improving public investment management (PIM) processes will be central to raising disbursement rates and improving the efficiency of public spending. PIM capacity and processes were strengthened in the late 2010s, and now include processes for developing projects, preliminary screening, appraisal, and competition with other investment projects. Still these processes could be improved in the majority of the 23 indicators included in the 2022 Public Investment Management Diagnostic Assessment (World Bank, 2022[33]). Most projects have circumvented these processes in recent years – 65% in 2021 – by avoiding the designation of "State Investment Projects". Further, many projects are funded despite being appraised negatively. Assessments of public investment also find that weak medium- and long-term planning and integration into the budget process contribute to project delays and cost overruns. Better integrating projects into medium-term budgeting would help ensure that funds are available to maintain projects once they are completed, improving their social returns.

In 2024 the government adopted a PIM roadmap and action plan to help scale up capacity. It aims to tighten the definition of State Investment Projects to limit the potential for agencies to avoid public investment management procedures. It more clearly defines the roles and responsibilities of the main stakeholders in PIM and takes a more comprehensive approach to public investment cycle management, beginning with the strategic and medium-term planning and budgeting of public investment, then the appraisal and selection of public investment projects, their implementation, and finally their audit and assessment. It applies to all levels of government, and addresses capacity building needs and digitalising the process. Under the roadmap, new legislation and regulations have been introduced, the Strategic Investment Council has been established, priority investment projects for 2025 identified, and the Budget Code amended to better integrate public investment projects into the budget process including for medium-term planning. The Ministry of Finance now has a gatekeeper role to verify and confirm that all projects financed from the budget have been appraised and selected in line with the established procedures. The roadmap foresees implementing and assessing the new system over 2026 to 2028. Sticking to these ambitions can help strengthen and deepen public investment capacity in Ukraine, ensuring that the reconstruction can accelerate as soon as conditions permit.

Weaknesses in public procurement are among the challenges for public investment. Again, Ukraine made important improvements in its public procurement processes prior to the war. The Prozorro ('transparency') procurement digital platform, established in 2016, is well regarded for its user-friendliness and integration into commercial markets (Yukins and Kelman, 2022[34]). Under martial law, it was rapidly adapted with simplified processes to enable faster procurement. Still, the share of procurement taking place outside of Prozorro has risen, while procurement taking place via Prozorro has also become less competitive with 35% of tenders receiving only one bid and the average number of bidders across the platform falling from 2.06 to 1.86 in 2022, before improving to 2.38 in 2024. The percentage of tenders with one bid remains high, near 40% in 2024.

Prozorro has been upgraded to be able to manage more complex procurements and to accommodate procurement funded directly by donors such as the World Bank. The system can be adapted to award a contract not only by price, but by other more qualitative criteria such as technical merit and value for money. The government launched a two-year Strategy for Reforming the Public Procurement System in February 2024, aimed to align public procurement with EU standards and strengthen the overall performance and transparency of procurement, by, for example, increasing the role of civil society in procurement development and by developing the capacity of procurement officials and organisations. Reinstating procurement controls and transparency requirements will be important for enhancing value-for-money and boosting the competitiveness of contract awards. Capacity building for procurement entities and their personnel is being developed and will enable contract awards to be based on broader value-for-money rather than simply the lowest price criterion. The government plans to introduce an ethical code for procurement bodies, and to develop procurement bodies' ability to analyse the effectiveness of their approach to procurement, which would be welcome developments. Ukraine approved in 2023 a specialised procurement profession. It may wish to follow the example of OECD countries such as Great Britain, New Zealand or Poland in ensuring that these professionals are subject to standards and arrangements to protect the integrity of their procurement decisions (OECD, 2023[35]).

The scale of the reconstruction needs adds to the importance of improving value-for-money in procuring construction materials. Materials typically represent around 65% of total construction costs but the process for estimating these costs lacks transparency or comparability, leading to wide variability in prices and scope for irregularities (Ivanova, 2024[36]). The lack of common material description standard impedes comparing costs. Aligning these with EU standards would allow for projects' design and costs to be compared with projects in the EU. A law passed in September 2024 requires cost estimates for construction materials to be disclosed in the Prozorro system is a welcome step if contract specification is aligned and consistent. Further steps need to be taken, including adopting international construction materials measurement methods and classification systems, and revising the national cost estimation methodology to bring it into line with, for example, EU standards.

Strengthening internal audit can also contribute to spending quality. Ukraine has internal audit processes, aligned with international standards, implemented across public institutions. But these processes' independence is limited, and they can lack resources and sufficiently well-trained personnel. Auditors' lack of direct and unrestricted access to senior management and political staff, and the coordination challenges with the State Audit Service can impede their function. Strengthening the professional cadre of internal auditors, for example by implementing certification programmes for internal auditors, can bolster their role in ensuring a culture of probity and effectiveness in the public sector.

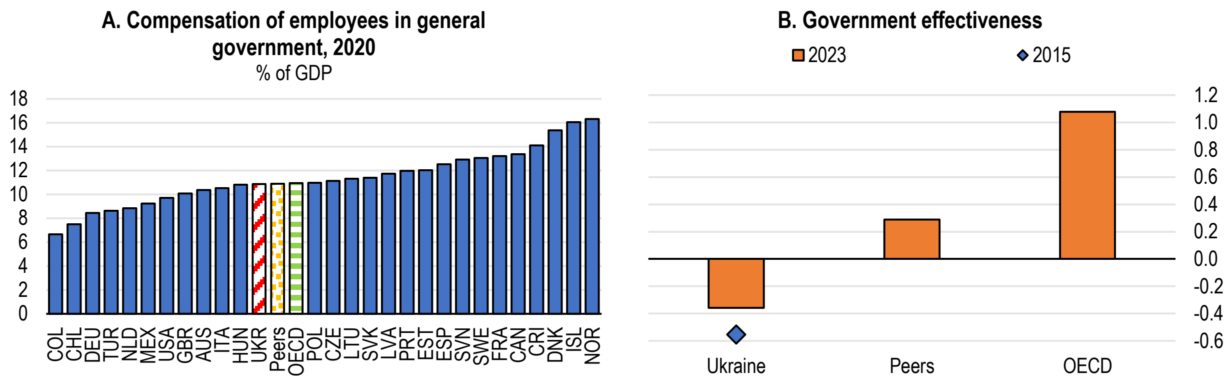
Supporting the effectiveness of the public sector workforce

The public sector has continued to deliver key functions and goods and services through the full-scale invasion. 89% of teachers and health workers have been paid on time, 91% of health centres across the country have remained open and at least 89% of 6-to-18-year-olds are enrolled in school. Most pensions and social payments have been paid (World Bank, 2024[37]) and critical functions of government continued to operate. The rapid digitalisation of the public sector since the mid-2010s has been central to this resilience (Box 1.7). Nonetheless, from a longer-term perspective, Ukraine's government effectiveness lags behind its peers (Figure 1.12, Panel B). Continuing to improve the public sector's effectiveness would raise the value and efficiency of public spending and support the reconstruction and recovery (OECD, 2023[38]).

Raising the capacity and performance of Ukraine's civil service would contribute to public service effectiveness. Overall spending on the public service relative to GDP was near the OECD average prior to the full-scale invasion (Figure 1.12, Panel A). It is likely to have since fallen given the loss of staff through spending cuts, mobilisation and emigration. A high-performing civil service needs to be able to attract and retain talented personnel which requires a competitive remuneration package, an appointment process that is transparent and merit-based, fair terms and conditions of employment, and a system that promotes continuous professional development. Some progress in these areas was made prior to the war including an overhaul of the professional development system and the establishment of the Centre for Evaluating Applicants for Public Service Positions. Continuing efforts to strengthen the performance and integrity of the public sector will be important.

Low and fragmented pay has contributed to difficulties in filling vacancies, as well as a consistently high turnover rate, especially in subnational governments. Pay freezes and training budget cuts since the full-scale invasion have added to challenges. Large differences in pay across some institutions for similar work can be explained partly by the absence of a uniform classification system for positions based on responsibility and complexity, and considerable managerial discretion in the payment of bonuses. Reforms are before parliament to classify a fixed salary for civil service positions and eliminate unjustified pay, limit the number of employees in state bodies, and introduce a grading system. Position classification started in October 2023 and a salary system based on the classification was introduced in 2024 for a transitional period. At the same time, there are still exceptions to the unified salary system, which creates differences in salary for similar work in different government agencies. Implementing the draft law would ensure these reforms become permanent, and lead to a comprehensive review of the salary structure, towards supporting the transparency and competitiveness of salaries while protecting budget stability.

Figure 1.12. While spending on public personnel is near the OECD average, public sector effectiveness still lags



Note: Panel A: the graph shows a selection of OECD countries. Panel B: Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The score is measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. More details can be found here.
Source: IMF Government Finance Statistics, World Bank, Worldwide Governance Indicators.

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Recruitment, promotion and dismissal processes have contributed to higher staff turnover. Political interference in appointments and dismissals of senior civil servants is a long-standing issue (OECD, 2024[39]). Wartime conditions further compounded these problems. The competitive and merit-based recruitment process set out in the Civil Service Law was suspended by martial law, preventing the competitive selection of candidates. Staff recruited on this basis cannot be transferred to other positions in the civil service and their contracts are terminated 12 months after martial law is lifted. This has the potential to result in widespread vacancies in the civil service once the war ends. Promotions under martial law have also been affected, as prior dismissal from the civil service is a condition for temporary appointment to a higher position. This acts as a major disincentive for civil servants appointed previously under the normal procedure and impedes career progression. Implementing as soon as conditions permit merit-based recruitment and promotions, and the Unified Civil Service Vacancies Portal would improve transparency. Dedicated processes that ensure the professionalism of senior civil service recruitment procedures, while allowing ministers to select among short-listed positions, would improve the integrity of these roles (Gerson, 2020[40]). Strengthening sub-national governments' role in the recovery.

Strengthening subnational governments' role and financial and organisational capacity can help accelerate the reconstruction, given the scale of the needs, the large demands on the central government's capacity, and subnational governments' scope to adapt to local conditions and to feedback and accountability pressures. Across regions and municipalities, needs vary greatly, underscoring the need for a 'place-based approach' to post-war recovery and reconstruction (OECD, 2022[41]). Half of all recovery and reconstruction needs are concentrated in the frontline regions (discussed further in Chapter 2) (Marsh Mclennan, 2023[42]), while priorities differ for municipalities away from the frontlines, for example to support internally displaced populations.

The decentralisation reforms which began in 2014 led to important gains in the role and capacity notably of local governments (Box 1.8). These reforms enabled local governments to play a key role in Ukraine's resilience since 2022, especially during the most challenging periods of 2022 when sub-national governments adapted essential social services and provided emergency support and resources to citizens (Arends et al., 2023[43]). Some measures taken under martial law have recentralised some decision making and limited local governments' resources, and approximately 15% of local governments in areas under the control of the Ukrainian government are controlled by military administrations (Darkovich and Savisko, 2024[44]). Once martial law restrictions can be lifted, further developing the role and capacity of local governments in delivering public goods and services can support the quality of Ukraine's recovery. For example, alongside decentralising further, Ukraine could encourage some amalgamations in larger conurbations where municipalities are fragmented by renewing the incentives that encouraged the wave of amalgamations between 2015 and 2020.

Box 1.7. Rapid digitalisation has lifted the public sector's performance and supported resilience

Ukraine has rapidly digitalised public services over the past decade. It was ranked 5th globally in the Online Services component of the 2024 UN E-governance development index, up from 102 in 2017. Patchy infrastructure and human capital have not held back this progress.

Public service digitalisation was accelerated first by strong political leadership then by the urgency of adapting to the war. It was operationalised initially by a community-driven and voluntary network, then by dedicated public agencies, first the independent Agency for E-government, later by the Ministry of Digital Transformation, which was given significant authority and resources.

The public digitalisation started as an effort to improve public sector integrity and reduce corruption risks. It began with the requirement that all public employees declare their assets online, and by the introduction of the Prozorro e-procurement platform. This expanded into digitalisation of public registries and then became an effort to digitally transform the broader public sector and society, prioritising other areas where corruption risks were particularly high, such as urban planning. Today, the Diia ('state and me') application is the central access point for over 21 million citizens and businesses to access e-government services. It is built on an interoperable data exchange system. Ukraine is now sharing aspects of the system with several OECD country governments.

Transformation of processes has accompanied public sector digitalisation across the public sector. Processes have been simplified, avoiding the intervention of administrators, or for users to seek the help of intermediaries such as lawyers. The role of paper documents has been curtailed, which reduces corruption risks and has been especially valuable amidst the destruction of physical records by Russian attacks. Estimates suggest significant efficiency and anti-corruption savings across the public sector, potentially as high as 0.8% of GDP in 2022.

Public digital capacities are supporting private digital industries. They have been spun into the defence digital cluster, Brave1. The government is now helping private businesses use and develop AI technologies. The public digitalisation agenda is also leading to more digital training activities throughout the education system.

The main challenges are cybersecurity, financing and inclusiveness. Ukraine's international partners have helped make up for scarce national financing since the full-scale invasion. To support all citizens in being able to access digital public services, especially those with low digital skills, interfaces have been tested and audited for usability, and training provided.

Source: (Ingram and Vora, 2024[45]) (United Nations, 2024[46]; OECD, 2024[39])

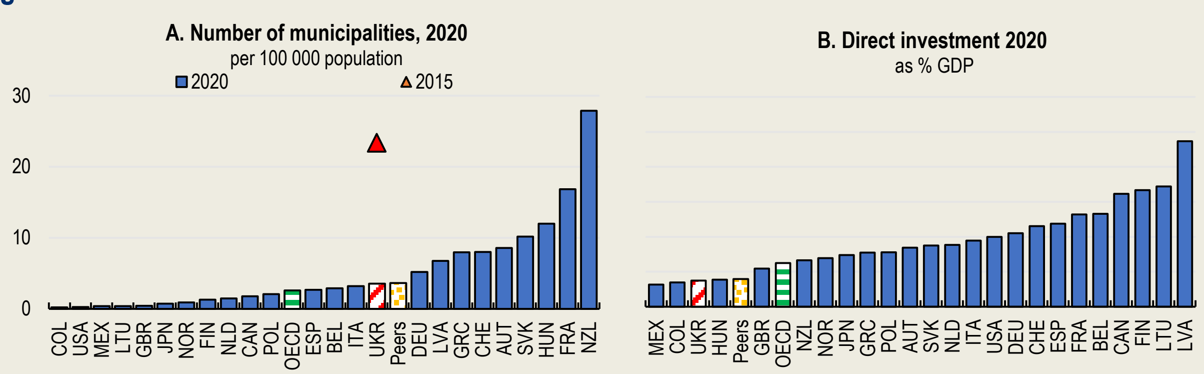
Box 1.8. Progress in consolidating municipalities is supporting their role in public investment

Between 2015 and 2020, Ukraine merged over 10 000 local councils into 1 469 municipalities. This consolidation was combined with and helped enable a devolution in powers, increased local government responsibility for public service delivery and fiscal autonomy.

Mergers of municipal governments were voluntary at first. They occurred through a phased approach from 2015 to 2020. Financial incentives were key to this success. Leading this was the Local Infrastructure Subvention, which was created in 2016, with only amalgamated municipalities eligible for funds. The fund created incentives to merge proactively, as less funds were available per municipality as more municipalities merged. (The State Fund for Regional Development was eliminated in 2020 as COVID-19 cut fiscal space). At the same time, municipalities gained greater autonomy. For example, many of the responsibilities for public services such as education, healthcare, and administrative services, were transferred from the rayon (district) level to newly amalgamated municipalities or were scaled up to the oblast (region). While the reforms led to many voluntary municipal mergers, a minority of municipalities did not elect to do so. This prompted a final round of mandatory mergers in 2020.

Following the mergers and with increased responsibilities, subnational expenditure rose in real terms and a larger proportion of capital expenditure took place at the subnational level. Capacity to carry out administrative, planning and investment tasks increased, and public service delivery and inter-governmental relations improved. These benefits were particularly evident in rural areas. Prior to the imposition of martial law following the full-scale invasion, benefits were also greater in areas which strengthened participatory approaches to local governance through civil society engagement in municipal planning.

Figure 1.13. Following their earlier consolidation, municipalities' role in public investment can grow



Note: Panel A: 'Peers' does not include Türkiye due to lack of data. Panel A & B: graphs show a selection of OECD countries.
Source: OECD Regions and Cities (database), IMF World Economic Outlook (database).

However, decentralisation has widened disparities in capacity between localities, particularly between some rural areas and higher-capacity urban municipalities. More populated municipalities tend to be more efficient at building and maintaining physical infrastructure. Municipalities that raise a higher share of their revenues through local taxes perform better. Meanwhile, a higher proportion of rural municipalities than urban municipalities reported insufficient capacity to identify investment needs and develop proposals, limiting their ability to access regional development funds and widening inequality between municipalities.

Source: (World Bank, 2022[33]) (OECD, 2022[41]) (OECD, 2024[39])

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Boosting investment by subnational governments will require further building their capacity to design, implement and evaluate investment projects. While substantial, capital expenditure by subnational governments before the full-scale invasion was generally spread over many small-scale projects funded through a wide array of different grant schemes, central government transfers and other sources. There were few incentives to promote inter-municipal cooperation to develop larger scale, more efficient, joint investment projects with higher development impact. Municipalities' capacity to carry out strategic planning, and manage public investment and expenditure was limited in many areas, with rural areas particularly suffering from weaknesses – for example, 80% of urban municipalities reported being able to design development strategies compared with 67% of rural municipalities (OECD, 2022[41]). The full-scale invasion has aggravated this. In March 2024, 40 000 civil service positions, one quarter of the total, were vacant and mayors reported acute problems recruiting staff. Further, the authority to raise finance has been extended from larger to mid-sized and smaller municipalities, which will require developing specialised financial and risk management skills.

To address these challenges, grouping or consolidating funding sources could help to reduce bureaucracy and the fragmentation of projects. The State Fund for Regional Development will be reactivated in 2025, after being frozen during the COVID-19 period. It will help fund local and regional governments' reconstruction and development projects, and the design of projects supported by the Fund could better support such cooperation. Incentivising inter-municipal cooperation – by, for example, providing additional resources to municipalities that develop joint projects – could lead to more effective use of resources, allowing municipalities to pool limited financial and human resources, reduce the overall number of projects, and achieve economies of scale. It could also help to promote peer-to-peer learning between municipalities. Building on the robust civil society engagement in Ukraine to identify local priorities, and support the design, implementation, and monitoring of recovery projects will help ensure the most urgent needs of local communities are being met while promoting accountability and transparency.

Establishing a robust municipal performance measurement framework could also help to identify where progress has been made, where gaps remain, and what sort of capacity building support municipalities need. It would also serve as an important accountability mechanism. Such a framework requires investing in the capacity of municipalities and higher levels of government to generate, collect and analyse territorially disaggregated data on a wide range of socio-economic, demographic, fiscal, public service delivery and governance indicators on a regular basis, and ensure this information is widely available. Public access to this information can also help to reduce corruption by allowing civil society to track recovery funds and projects. Supporting local government officials through training, technical assistance, and promoting cooperation and coordination among subnational governments can help fill performance gaps (Allain-Dupré, Chatry and Phung, 2020[47]).

Into the longer term, developing subnational governments' ability to raise and manage their own sources of funding will be part of deepening their financial and organisation capacity and responsiveness to local needs. A recurrent property tax based on properties' improved values can be part of this mix, once the property market has stabilised and robust value information is available (discussed below). This would complement other local taxes and user charges (Allain-Dupré et al., 2023[48]).

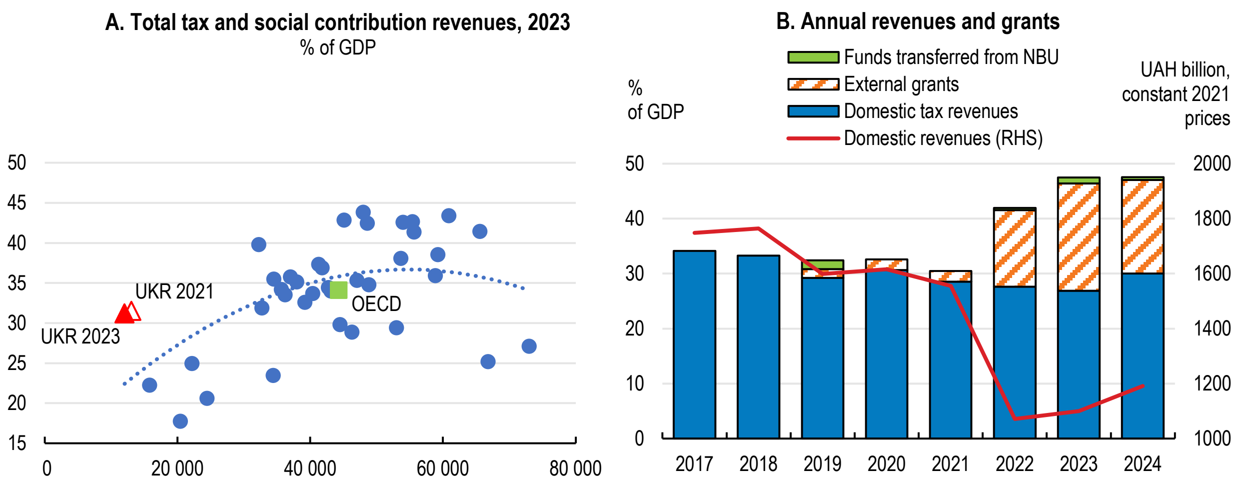
Supporting public revenues while limiting the tax burden on the economy

Buttressing public revenues is central to Ukraine's defence, recovery and reconstruction. Most of the general budget support provided by international partners cannot be used for military expenditure, implying that Ukraine must finance its high defence spending through domestic resources. Even when defence needs abate, significant revenues will be required to achieve the primary budget surpluses expected under the medium-term fiscal strategy and to fund the human and physical reconstruction and recovery needs.

The policy challenge will be to bolster domestic revenues while limiting their drag on investment, employment and activity, and minimising distortions or incentives for informal or undeclared activity.

Broadening the tax base, limiting distortions and improving the administration is central. Tax revenues are high as a share of GDP relative to other countries near Ukraine's income level and the current tax structure and payment processes detract from the business environment (discussed in Chapter 2). Still, tax revenue relative to GDP has declined slightly in recent years, including since 2022, in part reflecting the erosion of the tax base following the war (Figure 1.14). Ukraine has accelerated reforms of revenue policy and administration, led by the National Revenue Strategy and the Ukraine Plan (Ministry of Finance, 2023[28]; Government of Ukraine, 2024[49]). These aim to improve revenue-raising capacity, align the country's tax and customs policies and administrative processes with EU standards, raise tax compliance by reinforcing the tax and customs administrations and improve their integrity, within a horizon of 2030. In the longer term, once budget balances have reached the medium-term target and public finances are on a sustainable path, it will be possible to consider reducing the tax burden on the economy.

Figure 1.14. Tax revenues are high relative to income levels but have fallen since 2021



Note: Panel A: GDP per capita values are 2017 USD constant PPPs. Panel B: Domestic revenues do not include official financial transfers from the European Union, foreign governments, international organisations, and donor institutions.
Source: IMF World Economic Outlook (database), Ukraine Ministry of Finance, OECD Global Revenue Statistics (database), Ministry of Finance, Centre for Economic Strategy (CES), and State Statistics Service of Ukraine (SSSU).

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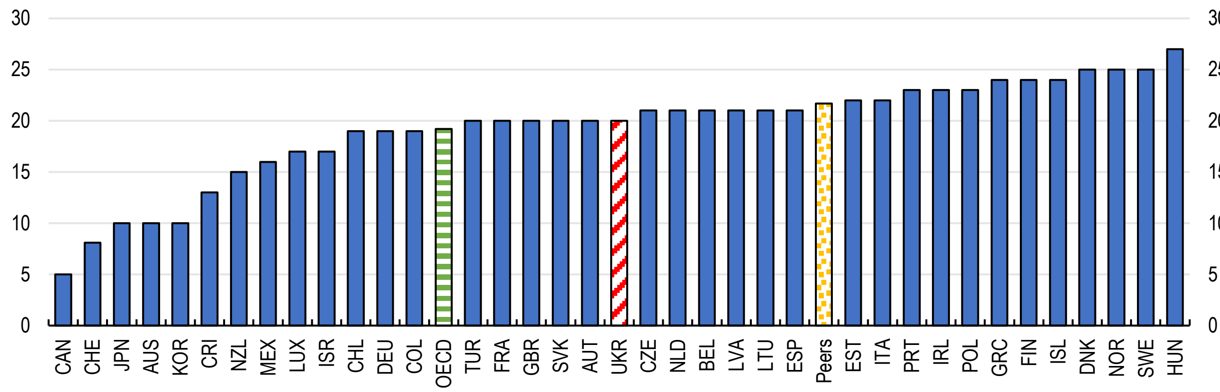
Strengthening indirect tax collection

Indirect taxes are an important source of revenue, but could be further expanded including in the near-term. Since the full-scale invasion higher nominal consumption due to increasing prices, the ending of certain temporary VAT exemptions on imports, stricter treatment of refunds of domestic VAT payments, and the increase in some excise rates have supported indirect tax revenues. Indirect taxes, VAT especially, have the advantages of collecting revenues from activity not declared for income tax purposes, and imposing a lower cost on activity than income taxes (Vlachaki, 2015[50]) (Akgun, Bartolini and Cournède, 2017[51]; Hanappi, Millot and Turban, 2023[52]). VAT collections before 2022 are estimated to have been half of what would be expected based on retail trade (Zablotskyy and Djankov, 2023[53]).

Significant revenues could be generated by increasing VAT collections through lower exemptions. There is scope to limit reduced rates and align these with the mandate. A 14% rate applies to the supply and importation of certain agricultural products, and a 7% rate to the supply and importation of medicines, medical devices and medical equipment, and supply of transport, culture and tourism services. The 0% rate applies to military and security-related items. The Ministry of Finance estimates that reduced rates cost UAH 76.5 billion (1.2% of GDP) in 2023 (Ministry of Finance, 2023[28]). Ukraine's National Revenue Strategy foresees reducing VAT exemptions to align them with European directives, and to reform the VAT registration processes, alongside the reforms to the 'simplified' tax regimes discussed below. Limiting the eligibility to the ‘simplified’ tax regime which exempts certain businesses from registering for VAT would improve coverage and reduce the incentive for businesses to register multiple, small entities. Advancing measures to bring a larger share of businesses into the standard VAT system can efficiently increase revenues. Finally, an increase in the standard VAT rate to, for example, at least that of Ukraine’s peers could increase VAT revenue, even if a higher rate increases avoidance incentives (Figure 1.15).

Figure 1.15. The standard VAT rate is below many of Ukraine’s peers

Standard VAT rate, %, 2024



Note: Standard VAT rates are rates applicable on 1 January 2024.
Source: OECD Tax (database).

StatLink https://stat.link/pox7ad

Excise taxes generate greater revenues relative to GDP or relative to other tax sources than in most OECD countries. Ukraine is progressively aligning these with EU directives, and pursuing this will support revenues as well as the health benefits of, for example, higher alcohol and cigarette prices. Higher excise rates will make effective supervision of the trade of excise goods even more important. In addition to weakening the rule of law and limiting public revenues, undeclared or illegal production or trade can generate risks to health or other damages, for example from counterfeit products (Shvabii et al., 2021[54]). The National Revenue Strategy envisages implementing electronic and automated systems to better control this trade, as part of broader reform plans to improve the integrity of public institutions. Significant efforts are underway by the government and its international partners to reform the State Customs Service, which has suffered deep and long-standing integrity and operational issues, and pursuing these complements the measures discussed in this *Survey* to support domestic tax revenues.

Better targeting ‘simplified’ tax arrangements

Ukraine’s multiple ‘simplified’ (presumptive) tax regime for businesses is intended to reduce compliance costs and support small businesses, but they have the unintended consequence of weakening the overall tax system and encouraging businesses to register multiple firms that operate within the simplified system’s eligibility thresholds and dependent employees to register as self-employed. To use the ‘simplified’ tax regime, individual entrepreneurs and businesses choose to be classified into one of four groups, based on their maximum income thresholds, types of economic activity, and number of employees (Bulman, 2025, forthcoming[55]; OECD CTPA, 2025, forthcoming[56]). This group determines whether they are taxed based either on the subsistence or the minimum wage rate, the business’s reported turnover or its land assets. They are exempted from the standard corporate income tax regime, transfer pricing rules, and land taxes. VAT arrangements and reporting requirements are simplified, reducing compliance costs relative to businesses in the conventional tax system. The exemption of most agricultural businesses from the standard corporate income tax is notable given the sector’s importance. Eligibility for ‘simplified’ tax arrangements is wider than in most OECD countries. For example, in 2022, the USD 207 000 maximum turnover to be eligible for Ukraine's simplified scheme was the fifth highest of the schemes in the 41 middle income and emerging economies discussed in Wen (2023[57]). The maximum turnover under which businesses are eligible for these schemes is many times greater than the minimum turnover before businesses are required to register for VAT collection. Almost 1.8 million taxpayers opted for the 'simplified' regimes in 2023, 14.6% more than in 2017 (Ministry of Finance, 2023[28]), with the effect of concentrating corporate and personal income taxpayers into larger enterprises and state-owned enterprises.

The National Revenue Strategy lays out a three-year path of comprehensive reforms to curtail the role of 'simplified' arrangements from 2025 (Ministry of Finance, 2023[28]). The range of activities eligible for the presumptive tax regime will be reduced and VAT registration thresholds will be enforced. Exemptions on record keeping will be abolished, while accounting rules will be simplified. Importantly, the reforms include agricultural businesses operating as legal entities, and to progress many businesses into the standard tax system. These reforms are welcome, and reflect the approach taken in many OECD countries (Mas-Montserrat et al., 2023[58]). They are urgent for broadening the tax base, improving the business climate and reducing distortions in the labour market. However, the Strategy makes their introduction contingent on completing improvements to tax collection systems and in taxpayers' confidence in tax authorities (discussed further in Chapter 2). Rather than waiting for taxpayers' confidence in authorities to improve, bringing more underdeclared businesses into the standard tax system may help accelerate improvements in how tax collection authorities operate, for example, by encouraging collection authorities to shift resources to supporting taxpayer compliance rather than to punitive enforcement. The likely benefits for the revenue base and the business environment of reforming the 'simplified' tax regime argue for pursuing and, as possible given compliance challenges, hastening these reforms, while accounting for the transition needs for both taxpayers and collection authorities.

Regarding the standard corporate income tax regime, the standard statutory corporate income tax rate of 18% is slightly below the average of OECD countries. Calculating forward-looking effective tax rates would allow Ukraine's corporate tax arrangements to be assessed and compared with OECD countries and allow for a deeper analysis of how the corporate tax burden varies across sectors and types of firms (Celani, Dressler and Hanappi, 2022[59]). Reduced or concessional rates are also in place for certain sectors, including several which represent significant shares of Ukraine's economic activity. Some presumptive and concessional tax measures have been reduced since 2014, such as for agricultural firms. Other measures have been introduced or expanded, such as a special taxation regime for IT sector firms ('Diia City') launched in 2022. In general, differential tax rates distort economic decisions and can engender inefficiencies. A comprehensive assessment of tax expenditures, including the revenue foregone, the nature of their beneficiaries and their effects, can inform reforms. Ukraine could follow many OECD countries by including updated estimates of the costs and benefits of these incentives in its annual budget documents.

Debt sustainability hinges on a stronger recovery, fiscal discipline and continued external support

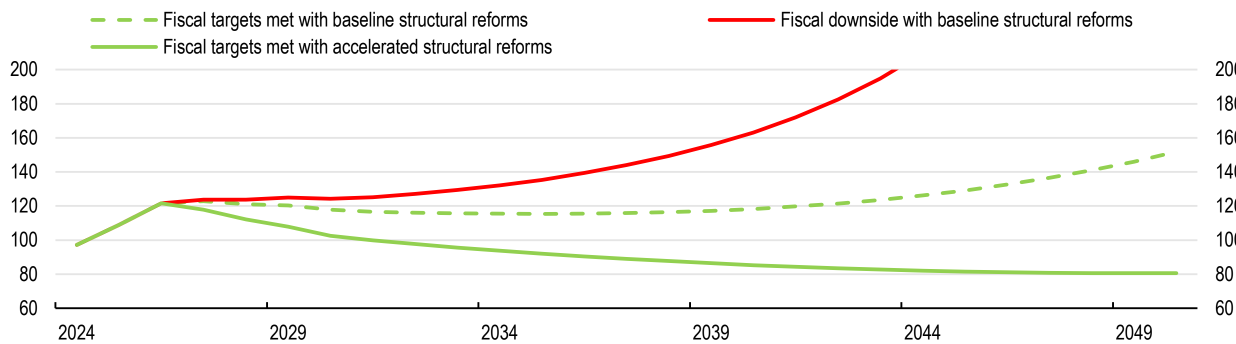
Achieving the medium-term fiscal targets will be central to debt sustainability

The authorities' primary budget surplus target is 0.5% to 1.5% of GDP and to public debt declining to 65% of GDP in the medium-term, once the security situation has stabilised and martial law is lifted. This target is intended to incorporate continued elevated security spending, and the infrastructure and social investment for recovery and reconstruction. Compared with the average primary budget balance between 2006 and 2021 -1% of GDP this would be a moderate consolidation. OECD countries provide a number of examples of countries achieving sustained primary surplus for extended periods. Eight of 34 OECD countries achieved an average primary surplus of at least 0.5% of GDP between 1990 and 2021. These generally occurred as debt declined relative to GDP.

To assess whether achieving the medium-term objective may be sufficient for Ukraine to reduce public debt towards its pre-2022 objective of 60% of GDP, two fiscal scenarios are considered: one in which current primary surplus target is successfully met from 2031, and an alternative downside scenario. Table 1.5 summarises the assumptions underpinning these alternative scenarios. The average interest rate is primarily determined by the share of finance that is provided concessionally, which is assumed to fall to near zero if fiscal targets are not met. The average interest rate ranges from between 8% and 9% in the case of fiscal targets being met, versus rising to above 16% by the early 2040s in the fiscal downside scenario with slower growth. These scenarios are considered in conjunction with the long-term growth scenarios discussed above (Table 1.3 and Figure 1.8). Three scenarios for public debt to GDP are presented based on two long-term growth scenarios (baseline policy and stronger reform) described above together with the two fiscal scenarios ("fiscal targets met" vs "fiscal downside").

Figure 1.16. Sustaining policy reforms and meeting fiscal targets can make public debt sustainable

Public and publicly guaranteed debt in percent of GDP, alternative policy scenarios



Note: The stock of public debt includes USD 50 billion (27% of 2024 GDP) of financing provided by the G7's Extraordinary Revenue Acceleration (ERA) Loans. These loans will not incur interest or repayment costs for Ukraine while it remains an independent state with effective democratic mechanisms, respecting human rights, and does not receive war reparations. Debt-to-GDP (d) dynamics in time *t* are calculated as $\Delta d_t = \frac{r_t - g_t}{1+g_t} d_{t-1} + \frac{\pi_t^d - \pi_t^f}{1+\pi_t^f} d_{t-1}^f - pb_t$ with *g* real growth, *r* the real effective interest rate, π_t^d domestic and π_t^f foreign inflation, d_{t-1}^f the last year's debt in foreign currency as share of last years' GDP and *pb* the primary balance as a share of GDP. GDP growth and fiscal assumptions are detailed in Table 1.3 and Table 1.5.

Source: OECD calculations.

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These scenarios suggest that the path to public debt declining towards 65% of GDP is narrow. Only in the case of sustained and strong reform implementation, and of meeting the medium-term fiscal targets does public debt decline relative to GDP. Achieving this will require Ukraine to outperform its peers' track records and to secure continued financing support from its partners to sustain low effective interest rates. This would set debt on a declining path to reach 80% by 2050 (including Extraordinary Revenue Acceleration (ERA) Loan Initiative funding, discussed in Box 1.6. Such a path is only achieved in the accelerated reform scenario, in which Ukraine attains rates of GDP and productivity growth near those its peers achieved between 1995 and 2020, and reaches and maintains its fiscal targets. In the baseline policy reform scenario, the debt ratio slightly declines up to 2035 without however, reaching the target of 60% (around 90% with ERA), and then rises slightly as GDP growth slows due to demographic pressures and as a rising share of market debt increases interest costs (Figure 1.12). The fiscal downside scenario would lead to explosive debt paths, with the debt ratio breaching 140% by 2035 in the baseline policy scenario and sooner if reform implementation stalls.

Table 1.5. Scenarios for fiscal policy and debt issuance

Scenario:	Fiscal targets met	Fiscal downside
Primary budget balance	Gradually improves from a primary deficit of -14% of GDP in 2026 to reach a 1% primary surplus from 2030 onwards (mid-range of the government's medium-term fiscal strategy of a primary budget surplus between 0.5% of GDP and 1.5% of GDP).	Gradually improves from a primary deficit of -14% of GDP in 2026 to reach a balanced primary budget from 2030 onwards (equal to the average deficit from 2006 to 2021).
Share of concessional loans in external financing	Declines by 10 percentage points per year to reach 20% by 2034.	Declines by 20 percentage points per year to reach 0% by 2031.
Share of domestic debt issuance	Gradually increases from 25% to 50% by 2030.	
Average maturity of domestic marketable debt	Increases from less than 3 years in 2024 to 5 years by 2030.	
Average maturity of foreign marketable debt	7 years. Restructured Eurobonds expire as scheduled. GDP-linked warrants restructured.	
Average maturity of concessional loans	Average maturity of 20 years for concessional loans. No repayment by Ukraine of ERA financing.	
Interest rates of domestic marketable debt	Determined endogenously with a fixed term premium and an elasticity of 0.7 to short-term interest rates (Guillemette, 2019[60]), with short-term rates equal to inflation (5% from 2027).	
Interest rates of foreign marketable debt	Assumed to be as domestic minus the inflation gap and a currency risk spread of 150 basis points (Du and Schreger, 2016[61]; Hofmann, Shim and Shin, 2020[62]).	
Interest rates of concessional loans	2% for standard concessional loans. Ukraine incurs no interest costs for ERA financing.	
Inflation	Domestic inflation declines to 5% from 2027 and remains at that rate. Foreign currency inflation averages 2%.	
Exchange rate	Constant real exchange rate (the nominal exchange rate adjusts with the differential between domestic and foreign inflation).	

These scenarios and projections are subject to high uncertainty. Major risks include uncertainties around the duration of the war and the nature of any settlement, territorial outcomes, the size of the population, and the return of displaced people. Another relates to the revaluation of GDP, which will be calculated and adjusted when the security situation allows fuller information to be collected and incorporated. Table.6 illustrates the sensitivity of the projected debt-to-GDP ratios to some of these scenarios. For instance, in the policy slippage scenario with hardly any net return of migrants and stalling reforms, the debt-to-GDP ratio would be almost 30 percentage points higher in 2035 relative to the baseline scenario. Conversely, if the war ends a year earlier than assumed, the debt-to-GDP ratio could be lower by almost 20 percentage points by 2035. Better accounting of under-declared activity (discussed in Chapter 2) would reduce the debt-to-GDP ratio. For example, if GDP was 25% higher, the debt-to-GDP ratio would be over 20 percentage points lower by 2035.

Table 1.6. Great uncertainty surrounds the public debt outlook

Public and publicly guaranteed debt, percent of GDP, under some alternative scenarios

Scenario	2035	2050
Scenario of fiscal targets met with baseline structural reforms (dashed line in Figure 1.16)	117.1	150.5
Alternative scenarios with shocks to specific parameters:		
Policy slippage scenario	145.7	330.6
War ends in 2025, a year earlier than assumed in the baseline scenario	98.1	106.3
Re-evaluation of GDP and better accounting for informal activity raises GDP by 25% by 2030	93.7	120.4

Note: The stock of public debt includes USD 50 billion of financing via the G7's Extraordinary Revenue Acceleration (ERA) Loan Initiative, which will not incur interest or repayment costs for Ukraine under broad conditions (Box 1.7). The potential size of the underdeclared economy is discussed in Chapter 2.
Source: OECD calculations.

Improving public debt management can help reduce financing costs

Public debt issuance terms in Ukraine are relatively short, driven by high market rates and constrained access to funding. This is largely due to ongoing uncertainties and the country's low credit rating. Since 2022, agencies have downgraded their rating of Ukraine to 'highly speculative' or poorer, although has Ukraine not been rated at investment grade since entering international bond markets. Minimising the cost of finance for the public sector will increase fiscal space for reconstruction and recovery, and reduce financing costs for the private sector. When market access improves, developing domestic capital markets and improving secondary market liquidity for government bonds will help attract a larger domestic and international investor base. Key steps include reducing credit risk, diversifying funding instruments, issuing at longer maturities, and fostering systematic institutional investor outreach (OECD, 2025, forthcoming[63]). By acting now to improve its debt management operations, Ukraine will be able to access lower-cost financing as market access improves.

Currently, the Ministry of Finance is responsible for debt management, within the framework of the government's Debt Management Strategy, (Ministry of Finance of Ukraine, 2019[64]). While this model has proven viable in the recent period in the context of martial law, it may face limits in the longer term. To enhance public debt management, Ukraine should establish a single Debt Management Office (DMO), operating outside the central bank and at arm's length from the Ministry of Finance to minimise political influence and ensure transparency. Organising the single DMO into front-, middle-, and back-office functions while avoiding overlaps in responsibilities would follow the model that most OECD countries find best supports operational efficiency. Clear mandates and guidelines should be established to delineate the roles of the Ministry of Finance and DMO in financing the public sectors, where the Ministry of Finance focuses on strategic targets and the DMO develops a roadmap to meet those goals.

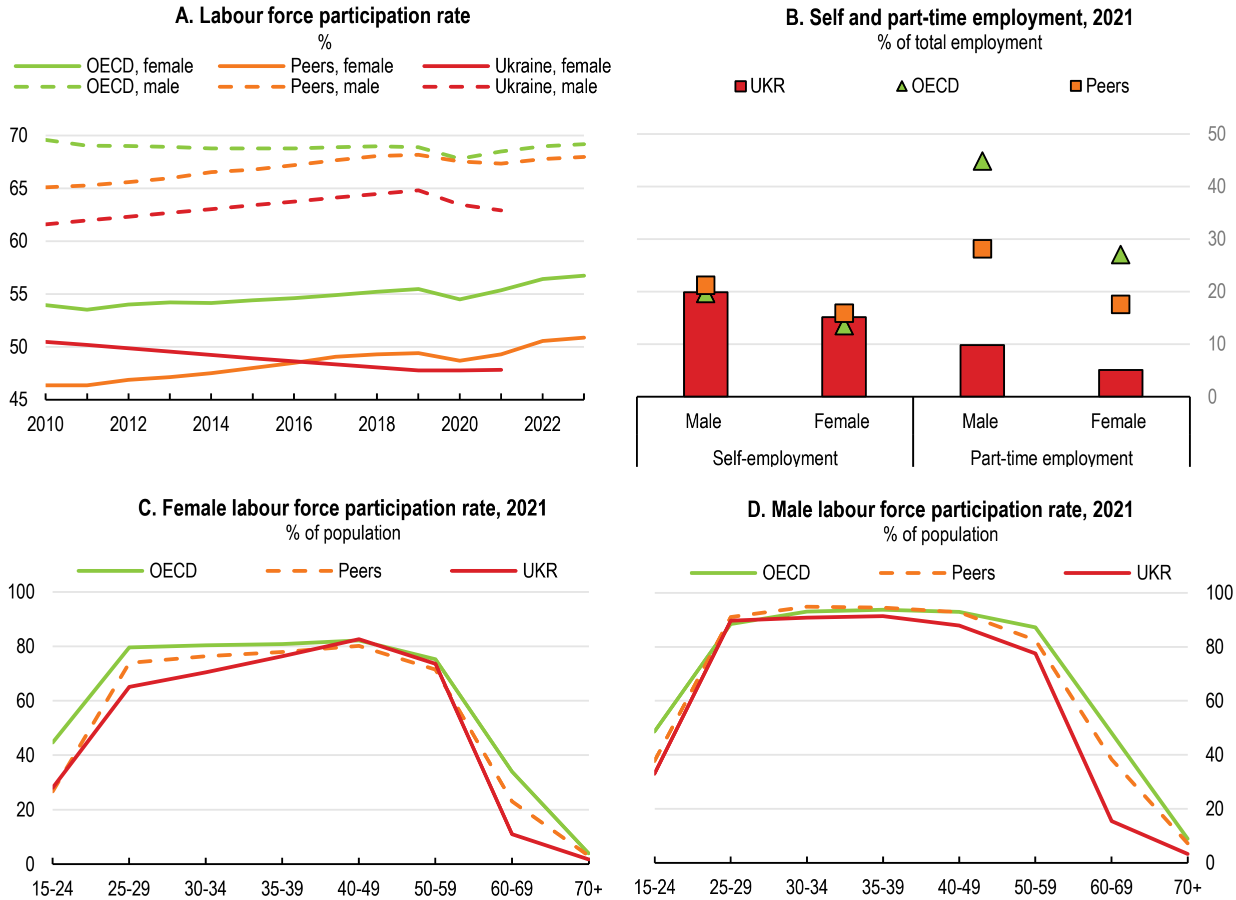
Ukraine does not actively manage its cash reserves. Implementing robust cash flow forecasting systems, including extending forecasting horizons to 6 or 12 months, and automating data reporting, would enhance cash flow management and reduce reliance on large cash buffers. Moreover, establishing a centralised system for revenue and expenditure forecasting across all government units and levels of government can improve cash management efficiency and avoid shortfalls.

Integrating contingent liability assessments into Ukraine's debt management would improve risk management. This requires developing a system to monitor the credit guarantee portfolio, with a particular focus on the financial health of state-owned banks and potential fiscal risks from the Deposit Guarantee Fund. Introducing a contingency reserve fund for credit guarantee-related obligations could mitigate their impact on debt and cash management.

Restoring the labour force to help drive the recovery

Expanding the labour force with the needed skills will be central to the pace, sustainability and inclusiveness of Ukraine's reconstruction and recovery. The labour force has been convulsed by the war (discussed above). Pressures will continue even once the security situation improves, as defence personnel are demobilised, reconstruction activity accelerates and displaced people return. Underlying these shocks are longer-standing labour market pressures. Labour force participation lagged behind most OECD countries before 2022, especially among older workers and among women (Figure 1.17).

Figure 1.17. Labour force participation has lagged, especially among women and older adults



Note: Panel B: Part-time employment data for Australia refer to 2020, for New Zealand to 2019; Japan data is missing. Panel C & D: age categories '40-49', '50-59', '60-69' and '70+' for OECD and peers are OECD calculations to match Ukrainian age categories. For Ukraine, age groups '60-69' corresponds to '60-70', and '70+' to '71+'.

Source: World Bank, OECD Labour Force Statistics (database), State Statistics Service of Ukraine (SSSU).

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Significant numbers of workers were undeclared (discussed further in Chapter 2) and anecdotal reports suggest the share has risen since 2022. Addressing these weaknesses in the labour market and the demographic headwinds will require a mix of policies that ensure incentives are strong for adults of all ages to participate in the formal workforce in greater numbers, that support their skills and that create the conditions for veterans and internally and externally displaced people to reintegrate. Such measures will be necessary to achieve the labour force projections in the draft national Demographic Development Strategy (Cabinet of Ministers of Ukraine, 2024[65]).

The population has been falling (Figure 1.19) reflecting low fertility and outmigration (Box 1.9). The fertility rate fell below the replacement of 2.1 in the mid-1970s, a decade earlier than the average of OECD countries, and below 1.5 in the mid-1990s, and was between 1.1 and 1.2 between 2000 and 2021 (Figure 1.19 Panel C). The war has introduced a new fertility shock, with the number of live births falling to 187 000 in 2023, down from 273 000 in 2021 and over 500 000 a decade earlier. Pre-war gains in life expectancies, coupled with war-time outflow of prime-age adults and children, has increased the relative number of older adults, accelerating the rise in the dependency ratio over coming decades (Figure 1.19, Panel B).

Box 1.9. Ukraine's population has fallen since the 1990s

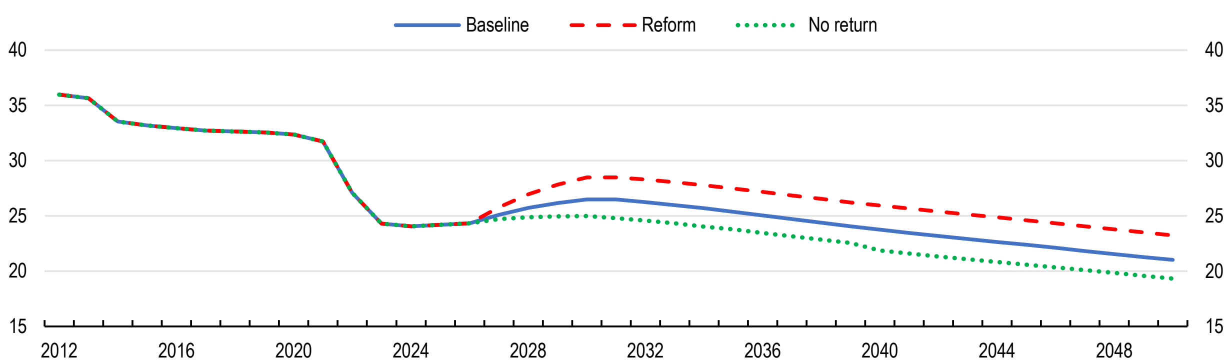
Ukraine's population has been declining and ageing since the 1990s due to low and falling fertility, pre-war increasing life expectancies and net emigration (Figure 1.19, Panel A). The overall population was estimated at 41.8 million in 2021, having fallen by 300 000 annually on average over the previous three decades. There is significant uncertainty over the population since the onset of the war in Ukraine. In 2024, the population was estimated by the UN to be 37.9 million for the full territory of Ukraine within its internationally recognised borders, and to be 33.4 million within the territory controlled by the Government of Ukraine.

Ukraine's last full national census was conducted in 2001 and subsequent population data are estimated by National Statistics Office, other national research instituted and by international bodies from surveys and modelling. Completing and publishing a full national population census once security conditions allow will be essential for informing and planning economic and social policies.

Source: (UNFPA, 2024[66]), (IMF, 2024[67])

Figure 1.18. Raising employment and attracting back the externally displaced would support the reconstruction

Working age population under alternative scenarios 15-74 years-old, millions of inhabitants



Note: The 'baseline' and 'reform' scenarios are described in Table 1.3. The "no return" scenario assumes no net migration.
Source: OECD Long-Term Database; UN World Population Prospects; Government Demographic Strategy 2040.

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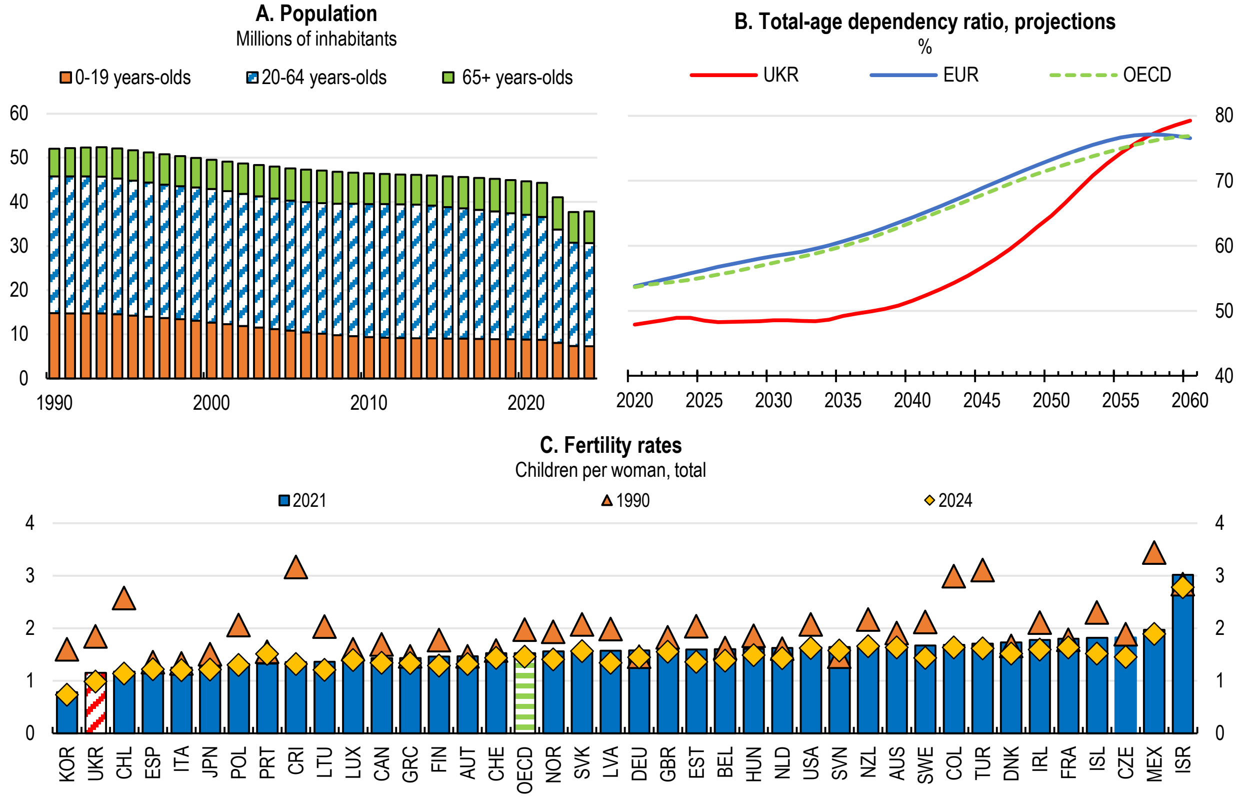
Figure 1.19. Ukraine's population is declining and ageing reflecting low fertility and population outflow



Note: Panel B: the total-age to working-age demographic ratio is defined as the number of individuals aged 0-19 and 65 and over per 100 people aged 20 to 64. In all countries, the evolution of total-age to working-age ratios depends on mortality rates, fertility rates and migration. Panel C: the total fertility rate in a specific year is defined as the total number of children that would be born to each woman if she were to live to the end of her child-bearing years and give birth to children in alignment with the prevailing age-specific fertility rates.
Source: UN World Population Prospects 2024.

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Supporting war veterans and persons with disabilities to reintegrate in the labour force

Supporting and encouraging war veterans to return to the labour force

Reintegrating war veterans will be a crucial part of the recovery. While the size and nature of the future defence forces remain unknown, a significant portion of the estimated 1.1 million currently mobilised will be demobilised after the termination of martial law. Upon receiving veteran status, they will join the 1.3 million already registered in the Unified State Register of Veterans (Bäckström and Hanes, 2024[68]). Box 1.10 discusses some of the challenges in reintegrating veterans. Unlike in many mobilisations in OECD countries, Ukraine's mobilisation up to early 2025 applied to men aged over 25 years, reducing the impact on their education and human capital compared with mobilisations that took soldiers out of school or higher education.

Ensuring that war veterans move into full-time employment will reduce poverty, support their well-being and will be essential for the sustainability of Ukraine's public finances and the broader investment climate. The Ministry of Veterans Affairs is reforming the system of support for war veterans and their families. The policy focuses on transitioning from a system of lifelong benefits for war veterans and their families to a framework that emphasises motivation and engagement in civilian life. Funding is small compared to needs. Overall, the 2025 budget reduces the allocation to the Ministry of Veterans Affairs by 28% compared with 2024, to USD 68 million. Spending by other central authorities complement this, such as Social Insurance fund payments to employers hiring categories of workers including war veterans and the disabled, and the provision of microgrants for these categories of workers to develop their own businesses.

Box 1.10 Croatia's experience with the challenges in supporting and reintegrating veterans

Croatia's War of Independence in the early 1990s entailed large-scale mobilisation, especially of young men, and disruption to the economy. In the aftermath of the war, disability and other income support policies contributed to relatively low labour force participation among veterans. Survey evidence suggested that they enjoyed an esteemed place in society, but they achieved lower levels of education on average. Even two decades after the war, their labour market outcomes were poorer, and they benefited less from the rise in employment rates especially through the 2010s following Croatia's accession to the EU.

More generous access to social protection for veterans, particularly disability pensions, partly contributed to these outcomes. Growing misuse of the disability system, including corruption, became a problem. To address this, Croatia tightened screening stringency along with requiring 3-yearly recertification of disability, ad hoc controls, and the introduction of a two-step assessment to be eligible for disability benefits, although the measures did little to reduce the overall number of enrolees.

The legacies of these policies were long lasting and difficult to correct. For example, by 2022, over 8.2% of the working age population received disability pensions, one-quarter of whom received a disability pension specifically for war veterans. These benefits led to relatively high spending on working-age income support in Croatia, largely for incapacity benefits, at over 3% of GDP in 2022 or nearly double the share spent in peer OECD countries. These benefits contributed to relatively low labour force participation among these age groups. They also crowded out targeted social support programmes such as the Guaranteed Minimum Benefit, reducing the social protection system's effectiveness at protecting the most vulnerable households, especially during periods of economic shocks. Meanwhile, a special pension regime for veterans has weighed on the sustainability of the overall pension system. Croatia is now undertaking major reforms to its social protection system so as to better target income support, and to recalibrate its disability support system to better identify needs.

Source: (OECD, 2023[69]); (Kecmanovic, 2012[70])

Tools for war veterans, those disabled due to the war and for their families to access public services and support are being developed. They are being built into the electronic platform for accessing government services, Diia. The government is placing a high priority on grants to veterans to develop new small businesses. The authorities recognise that support services will need to shift to be conditional on activation efforts while protecting those in need. The effectiveness and resources for interventions can be supported by a monitoring and assessment framework. As fiscal space allows, developing a form of voucher that gives war veterans access to services, along with a marketplace that provides transparent information about the services available, can help. Broader social communication measures are likely to be needed to counter discrimination against war veterans, especially women and those with disabilities (IOM, 2023[71]).

Responsibility for policies supporting war veterans has been fragmented and coordination across different ministries is limited. For example, the Ministry of Health of Ukraine, the Ministry of Education and Science of Ukraine, and the Ministry of Veterans Affairs of Ukraine have separate programs aimed at war veterans. Meanwhile, many non-governmental organisations and international partners provide small-scale programmes that support veterans and their families with specific needs, such as mental health, social reintegration, training or setting up small businesses. To strengthen the role of the Ministry of Veterans Affairs, particularly in coordinating support and directing veterans to these programs, the Coordination

Headquarters for the Implementation of Veteran Policy has been established under the Cabinet of Ministers. Authorities in late 2024 approved efforts to develop a strategy for veterans' return to civilian life with greater coordination across public and private entities. The strategy aims to 'restore veterans' and their families' human capital and wellbeing, respect and honour, and ensure national security and defence'. Ensuring this strategy swiftly develops into concrete and coordinated actions will help ease the challenges of the demobilisation.

Reforming disability policies to improve access and recovery

Reforming disability support will be important for veteran reintegration and broader social needs. Across Ukraine's population, 2.7 million were registered as having physical disabilities before 2022 (Government of Ukraine, 2024[49]), and this had risen to 3 million by mid-2024. OECD countries also have difficulties integrating veterans with disabilities. For example, US Iraq and Afghanistan war veterans who had suffered polytrauma or traumatic brain injury history and neurobehavioral symptoms had significantly higher unemployment rates than other veterans. They reported physical, emotional, cognitive, and interpersonal barriers to finding and maintaining work and to accessing support services (Wyse et al., 2020[72]). In Ukraine, access to disability pensions is hampered by substantial bureaucratic and time-consuming procedures (Overchuk, 2019[73]). Enrolment is granted by a medico-social expertise commission, then by re-examinations every 1 to 3 years. The admission system, however, is faced with problems, particularly for mental disorders, as such cases involve stricter procedures or have restricted access. For example, soldiers with Post Traumatic Stress Disorders cannot be granted disability pensions. Moreover, the regular re-examinations are cumbersome as there is no electronic register of documents. Rehabilitation is lacking. Only a third of all people with disabilities receive rehabilitation services, due to a lack of access to facilities – 42% of disabled have no access – and more than half are not informed about rehabilitation (The National Assembly of People with Disabilities, 2023[74]). Corruption is also an issue, with more than 30 corruption cases having been instigated in the five years before the war, typically concerning purchasing disability status, acceptance of forged medical documents, and creating obstacles to register disabilities (National Agency on Corruption Prevention, 2022[75]), and reports of corruption in disability certification have continued amidst the mobilisation and conscription.

The labour market inclusion of people with disabilities is weak, even if social partners are conscious of the importance of the employment of veterans and others with mental and physical health challenges. 16% of registered disabled persons were employed in 2021, while the State Employment Service has less than 30 000 persons with disabilities registered and few of these are helped into employment (State Employment Service, 2023[76]). Low employment reflects weak rehabilitation and inclusion in the education and training system. The State Employment Service provides retraining to only about 3 000 persons with disabilities annually. It also reflects low wage subsidies to support the integration of people with disabilities into the labour market. Employers that hire persons with disabilities are entitled to a lower social security contribution of 8.41% (for some NGOs, the rate is 5.5%) rather than the 22% standard rate, but the reduction is only weakly related to the degree of disability (Ministry of Justice, 2011[77]).

Pursuing plans to align Ukraine's disability support with international norms can improve outcomes and help Ukraine manage the large number of newly disabled persons that may follow demobilisation. The government plans to reform the system of medico-social expertise commissions in 2025 to reduce the reliance on subjective evaluations and to implement the international classification of functioning, which would increase the focus on the functionality of disabled people – a measure that could facilitate the labour integration of people with disabilities. The overall aim of the reform is to simplify access to disability pensions in Ukraine and make the system more transparent, while enhancing inclusion opportunities. The latter, however, requires investments in rehabilitation, retraining and the development of inclusive infrastructure. Income support policies can be designed in a way that encourages movement into employment, for example by limiting or delaying the withdrawal of benefits as labour income rises.

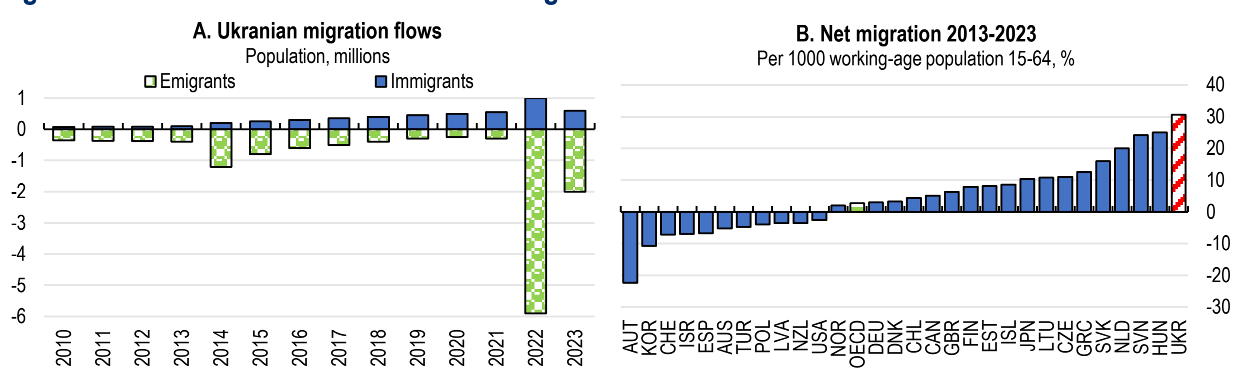
Supporting the internally displaced and attracting the externally displaced back into Ukraine's labour force

Internally and externally displaced populations have different characteristics and face different challenges. Approximately 4.6 million persons are displaced internally (Ministry of Social Policy of Ukraine, 2025[78]), often from areas under temporary Russian occupation or armed attack. They often need urgent support to re-integrate into the economy and reduce the risk that they emigrate. Many have lost their housing and places of work or education and have moved to where they can find accommodation rather than to where employment, education and other resources are available. Much of Ukraine's national and municipal social support policies has been reoriented to support them, but unemployment and poverty rates among displaced persons are high.

The large-scale external displacement since 2022 follows decades of net emigration (Figure 1.20). Of the 8.0 million who have been externally displaced since 2022, 6.9 million remained outside of Ukraine at the end of 2024. In the near-term, policy can ensure that barriers are not placed to their return, while supporting and encouraging returns as conditions allow. Very few of the 30% to 40% of the initial wave of departures who have returned report considering leaving again (IOM, 2024[79]). However, changes in conditions can lead plans to shift quickly and prompt renewed emigration or reduce returns. Further, even if improving conditions encourage migrants to return, there may be a new wave following the end of the war. About ninety percent of the externally displaced are women and children, as most men between the ages of 25 and 60 are not authorised to leave Ukraine under martial law (UN Women, 2022[80]). Once this restriction is lifted, many men may decide to depart, for example to join family members abroad.

Externally displaced Ukrainians represent an important resource, who can contribute to Ukraine's reconstruction and recovery, including through the labour force and, especially on their return and reintegration into the labour force, to public finances. Currently about 10% work remotely for Ukrainian enterprises (Mykhailyshyna, 2023[81]). Employment rates of displaced Ukrainians who benefit from temporary protection in Europe ranged from 8% and 66% in 2023, depending on a country, and has been rising (European Migration Network, 2024[82]). Recorded remittances to Ukraine are substantial, but fell from USD 18.1 billion in 2021 to USD 15.7 billion in 2023, with the fall attributable in part to capital controls introduced at the start of the full-scale invasion and to greater informal cash movements. Some displaced Ukrainians are gaining skills through both formal training and job experience, and plans for the proposed draft replacement Labour Code to better recognise experience and qualifications gained outside Ukraine would allow both workers and employers to benefit from these skills.

Figure 1.20. The war has accelerated out-migration



Note: Panel A & B: the definition of inflows includes asylum seekers and foreign population. Panel B: the graph shows a selection of OECD countries.

Source: International Organization for Migration (IOM), the United Nations High Commissioner for Refugees (UNHCR), and State Statistics Service of Ukraine (SSSU); UN World Population Prospects 2024.

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Engaging with Ukrainians abroad and facilitating their return could significantly bolster Ukraine's prospects for growth and the health of public finances into the long term. Most have maintained strong connections with Ukraine, including 3.0 million who made short visits to see friends and family, access healthcare or for administrative reasons. Two-thirds of the externally displaced still report wanting to eventually return when security conditions allow, although this share has somewhat fallen since the start of the full-scale invasion war conflict (UNHCR, 2024[83]). Single persons, those with property and jobs to return to, children to educate, or who had maintained connections and who had visited Ukraine after their emigration report being more likely to return or wish to return. Information from authorities about the situation and access to resources also encourages return.

Box 1.11. Policies to encourage emigrants to return

Several OECD countries have developed policies to maintain a global network of emigrants and to support and encourage those who wish to return, such as Ireland's 'Global Irish'. Some countries, such as Lithuania and Poland, have developed dedicated information services to communicate to emigrants who left for better economic opportunities elsewhere. To help returnees re-settle, some countries integrate support with that for immigrants. This can include dedicated one-stop shops providing access to social support services, or dedicated employment services (Lithuania or Spain's "Service Labour Mediation"). Programmes such as Ireland's "Back for Business" mentoring programme provide returning emigrants with business mentoring and support for creating a business plan, on financial management skills, navigating bureaucratic processes, and accessing finance.

These policies have succeeded in supporting limited numbers of returning emigrants relative to the outflows. Some OECD members and partners, including Mexico, Colombia and South Africa, have struggled to achieve significant return migration flows. For example, it is not clear whether programmes to enhance financial incentives to return, such as reduced tax rates or other financial incentives provided by Greece, Portugal and Lithuania, are cost-effective. Evaluating and adjusting policies supporting returning emigrants can contribute to more effective programmes.

Source: : (Boros and Hegedűs, 2016[84]) (OECD, 2016[85]) (Hajn-Schaur and Frelak, 2019[86])

Still, for many displaced, return is likely to follow an extended period abroad, including unemployment, inactivity, or work in jobs that do not match skills. Cooperation between Ukraine and host countries can support the dual goals of displaced people integrating into host countries' economy and building their human capital, while minimising barriers to their return to Ukraine once conditions permit (OECD, 2023[87]). Achieving this includes public employment services and training institutions collaborating to support employment and skill development in sectors that are essential for the recovery of Ukraine, such as construction, engineering, energy, health, IT and the green transition; streamlining mutual recognition of skills and qualifications; support of Ukrainian language training in host countries for children and young adults; retaining and facilitating Ukrainians' ties with Ukraine; and, building a legal framework for regular migration.

The newly created Ministry of National Unity aims to overcome the challenges Ukraine faces in retaining its externally displaced population, with a three-stream approach: i) strategic communications with people inside and outside of Ukraine, ii) facilitation of engagement with Ukrainians abroad supporting the returnees; and iii) redesigning national identity policies. Into the longer-term, the measures discussed throughout this *Survey* to support investment and growth, by improving the business environment, the rule of law and government integrity, are among the most effective means of ensuring residents stay and encouraging emigrants to return. The following discussion outlines actions being taken and priorities to encourage returns. Complementing these, sharing information about pathways prospects for returning, as well as helping to maintain emigrants' networks with residents can encourage returns (Carling and Talleraas, 2016[88]). Box 1.11 presents some examples of such measures in OECD countries with significant diaspora.

Strengthening active labour market policies and access to retraining

Effective active labour market policies, especially for job matching and skill retraining, can help address both current and prospective challenges for Ukraine's employers and labour force and encourage externally displaced people to return. Active labour market policies are under-resourced. Prior to the war, active labour market spending in Ukraine was low, below 0.4% of GDP (OECD countries spent on average 0.62% of GDP), about one-quarter of which was for the public employment service. Even amidst the constraints of the full-scale war, the public employment service provided services to 660 000 in 2023 and 295 000 found jobs as a result (ILO, 2024[89]). It is benefiting from reforms, including integration into the European Employment Services and the broader digitalisation of public services. Ensuring that public employment services are accessible outside of Ukraine can help emigrants identify job opportunities and encourage their return. The government is expanding support for training and business creation, but the scale remains small. It provided 40 500 training vouchers during 2023-2024, including 8 500 vouchers to internally displaced persons, mostly for retraining and upskilling, at an average value of USD 360. Such efforts are likely to need significant expansion. The government is preparing to develop information systems to monitor and evaluate the effectiveness of different active labour market interventions, drawing on the experience of OECD countries, which can help direct scarce resources to where they are most effective.

Improving the quality of labour relations

Unfavourable working conditions in Ukraine could discourage externally displaced persons from returning. For example, the low share of part-time work likely indicates inflexible work arrangements (Figure 1.21, panel B), while mortality risks from diseases related to occupational risks are higher than in other European countries (Pega et al., 2023[90]). These weaknesses are in part due to Ukraine's current labour law system, which is complex and does not reflect modern working arrangements. It is based on the Soviet-era 1971 Labour Code and includes a range of legislative acts covering labour law, social security, and related human rights. Martial law has abrogated much of these, for example by limiting constraints on employers changing work arrangements. Labour law reform can simplify hiring, develop alternative employment types including greater part-time or flexible time work arrangements, support social dialogue, and better balance employers' and workers' rights and obligations. In the process, and by simplifying the legal framework and administrative requirements, it can encourage employers and worker to formalise labour relations. In doing so, it can identify and require workers who are effectively employee's dependent on one employer are registered as self-employment to be registered as employees (OECD, 2019[91]). A draft replacement labour code was introduced to the parliament in January 2024, towards consolidating and simplifying labour law, and aiming to bring it into conformity with ratified International Labour Standards and EU acquis, which are welcome efforts. Consultation, including with social partners and international organisations can support the new law's quality and implementation.

Ukraine's resilience to the war has been supported by the solidarity between workers, employers and the government. However, social dialogue was weak before the war, and many standard channels of have been curtailed by martial law and security restrictions. As security conditions allow, a concerted effort to rebuild tripartite social dialogue can contribute to the reconstruction and recovery. Effective social dialogue at the workplace level can support the adjustments in work practices and labour relations that the recovery is likely to bring. At the level of national policy, effective social dialogue can improve the quality and communication of reforms and reduce the risk of unintended effects. This is particularly the case for reforms central to social partners' concerns, such as reforms to the labour code, social protection and education. Drawing on lessons from OECD countries, the new labour code can support a stronger social dialogue (OECD, 2018[92]).

Supporting access to quality housing

Addressing housing access is important for encouraging people to locate where there are employment opportunities and encouraging externally displaced people to return. The destruction and population movements since the war have shifted housing from a surplus in many areas to acute shortages. Over 10% of the housing stock was damaged or destroyed by the end of 2023 (World Bank, Government of Ukraine and European Union and the United Nations, 2024[23]). Nine percent of the population (equivalent to three million people) lived in damaged housing in mid-2024. The investment over the next decade to rebuild housing was estimated at the end of 2023 to be the equivalent of 50% of annual GDP (World Bank et al., 2024[93]).

Housing poverty has become significant. Damage and displacement have led to rapidly rising rents and overcrowding, especially among the internally displaced, 59% of whom now rent their accommodation. Among the internally displaced who are renting, over half spend more than 70% of their household income on rent and utilities, compromising their ability to afford other necessities. Across the full population, 54% of renters spend more than half their household income on housing. Access to affordable housing is a significant influence on displaced people's decisions on where they relocate within Ukraine or whether to return. This can lead to relocate to areas where housing is available rather than where there are the greatest labour market and education opportunities. Returnees often face dire housing conditions, citing the unaffordability of housing during displacement as a reason for moving back to their own, often heavily damaged, homes (IOM, 2024[94]).

The Ukrainian government, supported by various international organisations, is providing short-term housing support. It has established temporary shelters in schools, public buildings, modular housing units, and other converted spaces, which are housing approximately 2% of the population. The government also provides financial support through rental subsidies for people who choose to stay in private accommodations rather than government-run shelters. For homeowners, the eRecovery program offers modest financial support to repair properties that have been damaged or to purchase a new house if the existing house was destroyed. Support is capped at UAH 350 000 (USD 8 600) and UAH 500 000 (USD 11 900) respectively for appartements and houses. The government is extending access to the displaced populations outside of Ukraine owning affected housing if they give authority to someone in Ukraine to access the support.

Long-standing institutional weaknesses have curtailed the development of formal rental and mortgage markets. Home ownership rates have historically been very high, following the mass privatisation in the early 1990s. Ukraine's housing laws are fragmented, combining elements from the Soviet period with transitional and market-oriented policies. This combination of old and new provisions has led to an inconsistent and sometimes contradictory legal framework, undermining the formal market. The Ministry for Communities, Territories and Infrastructure Development plays a central role in implementing housing policies, but coordination across different government bodies remains patchy, affecting the comprehensive and effective application of housing regulations. Overhauling the housing policy framework to provide a coordinated national housing policy framework could help address these challenges (Fedoriv and Lomonosova, 2019[95]). Ukraine could draw from the OECD Housing Policy Agenda, which offers a comprehensive framework and recommendations to reform the housing system and ensure that housing plays its role in promoting resilience, inclusion, and sustainability (OECD, 2024[96]).

The private rental market in Ukraine remains largely unregulated, creating significant risks for both landlords and tenants. The absence of clear legal guidelines often leads to informal rental agreements, depriving tenants of basic protections against arbitrary rent increases or evictions. For example, among the internally displaced people living in rental accommodation, 37% lack legal documents formalising their current tenure. Twenty percent of internally displaced people and 16% of renters in general report being evicted from their dwelling since 2022 (IOM, 2024[97]). Formalising rental markets by enforcing written contracts, providing a framework for rent increases, and guaranteeing tenant and owner rights would particularly help vulnerable groups such as internally displaced people and low-income families.

Developing mortgage markets can help mobilise finance for Ukraine's reconstruction. While government lending programmes such as eOselia provide relief, with more than 15 000 mortgages at reduced rates with large shares issued to military and law enforcement personnel by 2025, private mortgage products struggle to compete with these subsidised offerings. Even before the war, mortgage markets had remained underdeveloped. An effective credit register would improve transparency and allow for better borrower risk assessment, encouraging the extension of loans and reducing lending rates.

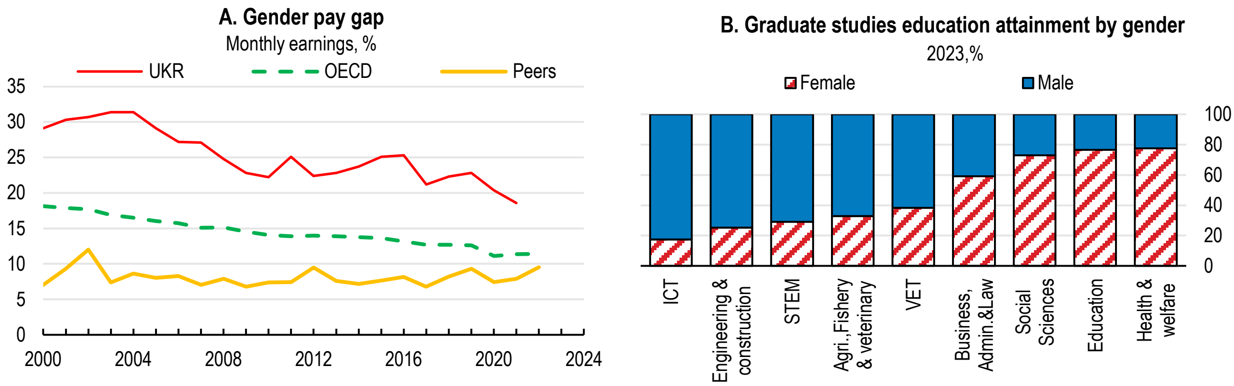
Land policy plays a critical role in housing development. Decentralisation reforms have increased the responsibilities of local municipalities regarding land management, yet their financial and organisational capacity and resources are still being developed and have, in many cases, been set back by policy measures introduced following the full-scale invasion (discussed above) (Shnaider, Anisimov and Lawson, 2024[98]). Better integrating land use planning and housing policy can improve the quality of urban development.

Once the security and population situation has stabilised, and market and institutional conditions allow, shifting to a recurrent property tax system based on up-to-date market values can encourage more effective use of existing properties and generate a relatively efficient source of public funding. Well-designed property taxation can deter speculation, reduce the incentive for owners to not make vacant properties available for rent or sale, and encourage productive development (OECD, 2024[96]). Ukraine has in place a recurrent property tax, but it generates a small share of revenues, despite relatively high administrative costs (Ministry of Finance, 2023[28]). Businesses are the main payers, unlike in most OECD countries. Currently the tax's design does not relate the amount due to property values, as, for example, similarly sized houses in low and high property value areas are subject to the same taxation. In contrast, most OECD countries base property tax on the property's value.

Furthering progress in women's labour force participation

Improving gender equality in the workplace would strengthen the labour force and contribute to an inclusive recovery. At less than 48% in 2021, women's participation in Ukraine's labour force prior to the war lagged the OECD countries average of 55% (Figure 1.17, Panels A, C and D). The gender wage gap has also been higher than on average in the OECD (Figure 1.21, Panel A). This appears to largely relate to occupation segregation, with women occupying lower-paid and more junior jobs (Klemparskyi et al., 2022[99])., and to the lack of a legal requirement of equal pay for equal work (World Bank Group, 2024[100]). Current labour laws restrict women's employment (Klemparskyi et al., 2022[99]). For example, they prohibit employing women for night or overtime work, work that is classified as dangerous, or sending pregnant women and women raising children under the age of three on business trips. The share of major firms managed by females is low, at 15% in 2023 (World Economic Forum, 2023[101]), as is the share of political and business leaders who are female, despite some progress in recent years. The war may have exacerbated the gender wage gap, since the sectors in which women are more represented, such as services, have been particularly affected by it. On the other hand, the war may have helped to break some gender stereotypes, as women entered higher-paid, traditionally male-dominated professions. The government adopted in 2023 a National Strategy on Reducing the Gender Pay Gap. Addressing legal restrictions to women's work would help to expand women's contribution to Ukraine's recovery.

Figure 1.21. The large gender wage gap in part reflects educational choices



Note: Panel A: monthly earnings correspond to median wages of men in the same decile. Panel B: STEM data refers to 2020; VET data to 2022.
Source: World Economic Forum, World Bank, UNDP, GoVet, OECD gender wage Gap (database).

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Access to childcare is another barrier to female employment (Centre for Economic Strategy, 2019[102]). The war has necessarily worsened the situation, as kindergartens and schools are increasingly scarce due to damage and staff shortages. For externally and internally displaced women, childcare can be even less accessible due to costs, over-crowding, lack of family support or long commute times, creating additional barriers to accessing work and integrating into their new locations. The government has a programme funding unemployed women to provide small-scale childcare. The Ukraine Plan includes funding to develop elder care, which can also act as a barrier to primary caregivers working. These are welcome, especially in areas with population inflows. Developing fathers' care role, including through stronger access to parental leave, can help reduce employment discrimination against women.

Women are less likely to pursue studies in STEM subjects that are associated with higher earnings than care-centred occupations (Figure 1.21, Panel B). Yet girls perform better in science and reading subjects, and the gap in mathematics has declined according to the 2022 OECD PISA results (OECD, 2023[103]). Indeed, women in Ukraine have traditionally participated strongly in higher education. Measures to bridge the gender gap in educational choices at young ages can help reduce the gap in later studies. For example, mentoring and exposure to women engaged in STEM research can help improve positive attitudes to STEM disciplines amongst female students (OECD, 2021[104]).

Improving pension policies to encourage participation and support incomes

Early exits from the labour force reduce employment, pension contributions and retirement incomes (Figure 1.17, Panels A and B), and add to fiscal pressures (2024[105]) (Høj and Klimchuk, 2024[105]). The Pay-As-You-Go (PAYG) pension system has been in deficit for some years, which will be aggravated under existing rules by the effects of the war and population ageing, dragging scarce fiscal resources from other priorities. The deficit mostly reflects a low effective retirement age, and a low number of contributors. This more than offsets the lower expenditure due to relatively low benefits and short time in retirement, which contributes to relatively high rates of old-age poverty. While Ukraine has maintained pension payments through the war, inflation has reduced their real value, contributing to hardship among the elderly. The deficit has fallen from 4.3% of GDP in 2022 to 2.8% of GDP budgeted for 2025, as contributions from mobilised personnel have outpaced benefit payments. Under existing policy rules, the deficit is likely to widen again when defence personnel are demobilised, reducing their contributions and increasing the number of beneficiaries.

Retirement ages have been rising, following recent reforms. While the statutory retirement age is 60, the share of those older than 60 in work has increased from 0.5% to 14%, although still few retire at or after age 65. Workers retire at a younger age than on average in OECD countries, but time spent in retirement is shorter, as life expectancy at 60 is low. In 2021, before the war, it was 74.4 years for women and almost a decade less for men. The rise in typical retirement ages mainly reflects the increase in 2017 in women's mandatory retirement age by 5 years, to align with the male retirement age, and tax initiatives to encourage workers to remain on the labour market. The war may also have induced older workers to remain in the labour force. Sustaining these increases will be central to supporting the labour force and retirement incomes.

Better alignment of pension benefits with contributions would improve incentives to contribute, encourage longer working lives, and help to achieve appropriate levels of declared income, as well as contribute to the collection of labour income tax. Contribution rates are 22%, 85% of which is allocated to the pension system. Self-employed workers in the 'simplified' tax regime may make social security contributions based on the minimum wage rate. The ceiling on contributions was increased from 15 to 20 times the minimum wage from 2025, which is high relative to average or minimum wages, although many of Ukraine's neighbours do not have any ceiling limiting contributions (ILO, 2019[106]). High contribution rates combined with weakness in revenue collection, particularly in monitoring labour income, create incentives to under-declare employment income.

Pension payments are calculated based on an accrual rate of 1 percentage point per year, so a 40-year contribution period entails benefits of 40% of a calculated wage that accounts for career income and the average wage in Ukraine over the preceding three years, leading to a lower replacement rate than in most OECD countries (ILO, 2019[106]). Pension payments are not subject to personal income tax, in contrast to most OECD countries. Continued work is encouraged with an accrual rate of 6% per year after the official pension age, increasing to 0.75% for each additional month after 5 years (ILO, 2019[106]). These rates are higher than in most OECD countries. The calculation of future payments could be made more transparent. The government plans to improve the user-friendliness of its online calculator, which would help motivate contributions (OECD, 2020[107]). The government is reforming the large number of more generous special pension regimes, which mostly apply to judicial and defence workers. These reforms bring their pension calculations and eligibility rules closer to the standard pension regime, although they will remain significantly more generous. The reforms are a welcome step towards greater equality and transparency across the workforce and towards improving fiscal sustainability. Pursuing the alignment of payments and contribution rules, curtailing new entries into the special regimes and ensuring that payments and contribution policies for demobilised personnel create incentives for full working lives and discourage early retirement would improve the sustainability and integrity of the pension regime.

Taxing pension benefits, after shifting to a progressive personal income tax system so as to protect small pensions, would support tax revenues and help manage the fiscal pressures of an ageing population. Ukraine had such a policy in place from 2014 until it was overturned by the Constitutional Court in 2017. Planned pension reforms (discussed below) may investigate the possibility of incorporating certain pension benefits within the personal income taxation system.

While indexation rules have reduced the number of very low pensions in recent years, in practice the average pension is well below the minimum wage, and nearly half of all pensioners receive a pension that is near or lower than the subsistence level, contributing to high rates of poverty among the elderly. This is despite various benefit floors, although these weaken the connection between a worker's pension contributions and benefits. Encouraging longer contribution periods and reducing the share of wages that are undeclared, would bring more retirees above the pension floors.

From 2027 or following the end of martial law, the government plans to implement reforms to the funded pension system and will introduce an accumulation account. The new system will be made of a mandatory savings system funded from the 22% compulsory social security contribution, a voluntary savings system funded through contributions by the employer and employee into an investment account, and a solidarity system to ensure a basic pension set at 30% of the minimum wage (the equivalent of USD 56 per month in 2025). The goal is to provide individuals with the opportunity to receive a pension of at least 60% of their previous earnings. The transition to this system can be challenging, as it will entail greater contributions from declared salaries, reducing take-home incomes in the near-term. In the longer-term it can support lifetime incomes and help develop a pool of savings that can finance investment in the economy (investment needs are discussed in Chapter 2). Strong communication on these benefits can help motivate employees to contribute. Introducing this measure promptly, when many enlisted personnel have accumulated substantial savings in overnight deposit accounts, can help support lifetime incomes and transform savings into a pool of funds for Ukraine's longer-term development.

Reforming labour taxation to encourage employment

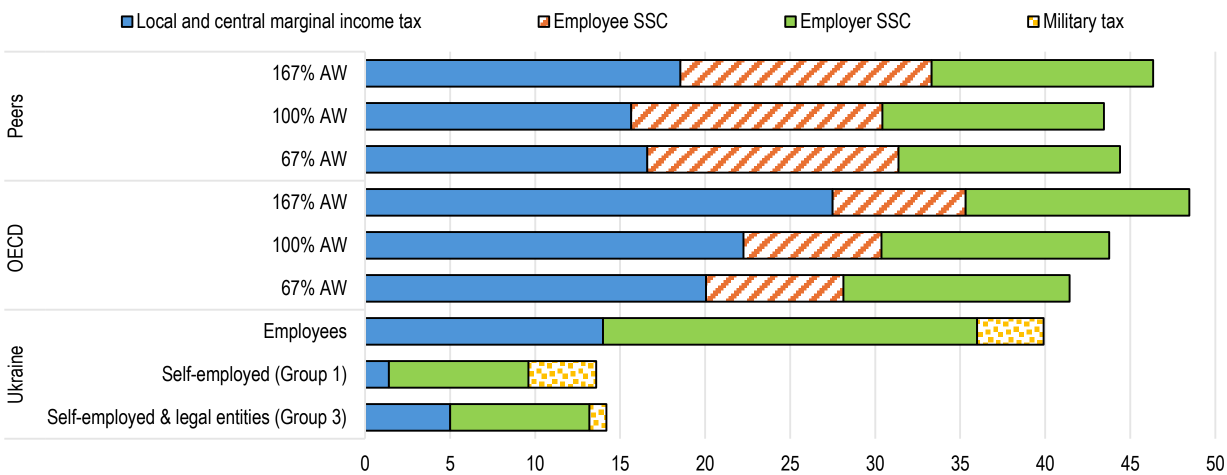
The high personal income tax and social contribution rates relative to the 'simplified' taxation system, combined with weaknesses in revenue collection, can create disincentives to declare employment. Marginal effective tax and social contribution rates at the average wage relative to labour costs are lower in Ukraine than most OECD countries and Ukraine's peers (Figure 1.22). Among OECD countries with relatively high labour income tax wedges, these countries tend to have very high-quality institutions and high tax morale, and effective and efficient tax administrations that reduce compliance costs. When these are not in place, high tax wedges add to the challenges for supporting employment and investment and add to pressures in the social security system. In Ukraine, a smaller share of labour income taxpayers are private sector workers than may be expected given the economy's structure (Zablotskyy and Djankov, 2023[53]). Public administration and defence workers made up the largest single group of income tax revenues in 2020, and this share has risen further since the start of the war with the mobilisation. Reports suggest undeclared wages have become more common. The focus of the State Labour Service since 2022 has been to support businesses and workers to adapt to the war, rather than conducting inspections. Mobilisation of eligible men from lists of registered employees is also likely to have encouraged greater undeclared work. Undeclared workers may experience poorer working conditions, less investment by their employer in their skills and lower productivity compared with declared workers (OECD, 2018[92]). Bringing more private sector workers into the labour income tax system would support revenues and, once public finances allow, permit lower rates.

The National Revenue Strategy proposes to move to two or three personal income tax rates. It does not propose reducing the rate at low incomes. It makes these reforms conditional on completing reforms to improve the management, digitisation and integrity of tax administration data. The design of this reform would benefit from considering the total effect of personal income tax and social contribution rates, tax deductions and social benefits. Calculating an average effective tax rate for different employment types, income levels and household structures can enable fuller comparisons with other countries. Combining the analysis of social transfers, personal income tax and the unified social contribution allows a comprehensive analysis of work incentives and redistribution at different income levels and for different types of households.

In the medium-term, going beyond the reforms proposed in the National Revenue Strategy, personal income tax and the unified social contribution rates can be shifted to a progressive schedule with lower rates at very low incomes, financed by higher rates at higher incomes. This would improve incentives for employers and their workers to declare labour income as a dependent employees, broadening the tax base and improving financing for social security. This can be achieved by reforming personal income tax rates schedule, while social security contributions are being reformed with the changes to the pension system (discussed above). Indeed, reforming personal income tax rates may be more effective at induing higher declared incomes (Lehmann, Marical and Rioux, 2013[108]). Designed well, these reforms can be revenue neutral or supportive, including by bringing more workers into the standard income tax system, which will support the sustainability of public finances and the social protection system. To be effective, such measures should complement broader taxation and labour policy reforms, notably narrowing of eligibility for the 'simplified' tax regime, improvements in tax administration, and reforms in labour law to support registration of employees, discussed elsewhere in this *Survey* and in (Bulman, 2025, forthcoming[55]) (Calligaro and Centrangolo, 2023[109]).

Figure 1.22. While the marginal labour income tax wedge is modest in Ukraine, there are strong incentives to register as self-employed

Marginal personal income tax and social security contribution rates



Note: Marginal tax rates relate to a single person without dependents. The OECD average is shown at 67%, 100% and 167% of average wage (AW) earnings. OECD data refer to 2023, for Ukraine data refer to the policy rules in place in January 2025. For OECD and peers, personal income tax rates refer to combined (central and sub-central government) rates, and employer social security contributions include payroll taxes. For Ukraine, Group 1 and Group 3 marginal rates are calculated at 100% of the average wage in 2024, of UAH 21473 per month. For Group 1 (self-employed), the marginal rates shown reflect a personal income tax rate of 10% of the subsistence wage (UAH 2920 monthly), a military tax of 10% of the minimum wage (of UAH 8000 monthly) and a social security contribution rate of 22% of the minimum wage. For Group 3 (self-employed), the rates shown are based on gross income being equal the average wage rate, with a personal income tax rate of 5% and a military tax rate of 1% of this income, and a social security contribution rate of 22% of the minimum wage.
Source: OECD Tax database, Orbitax, VoxUkraine.

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Ensuring the reconstruction is environmentally sustainable

Greater preparation and investment will be required to improve environmental quality and adapt to climate change

The war has caused significant environmental damage, which also harms the country's productive potential, and will require extensive interventions to remedy. Explosions, munitions, mines and fire have degraded 30% of forests, extensive areas of soil and polluted water bodies. The destruction of the Kakhovka Dam by Russia caused extensive water and land pollution downstream and damaged protected ecosystems, in addition to the humanitarian impact. Oil leakage from damaged tankers near the Kerch Strait has damaged Black Sea ecosystems. The ongoing war inhibits collecting information on environmental damage in many areas. Some of the environmental damage can be addressed through large-scale interventions, such as the demining and cleaning. Nonetheless, the time and scale of the interventions to restore the environment is likely to be considerable.

Much environmental damage is longer standing, largely reflecting the legacy of weak incentives to protect environmental quality. Despite the richness of the agricultural land (discussed in Chapter 2), intensive farming practices including the approach to tilling, fertilising and managing soils have been degrading soil quality for decades (Drobitko et al., 2022[110]). Other problems include poor liquid and physical waste management, reflecting delimited use of price incentives alongside gaps in physical infrastructure and the legal framework.

Many OECD countries have found environmental clean-up to be challenging, even when damages are of a much smaller scale than in Ukraine (OECD, 2019[111]). Enforcing the polluter-pays principle (OECD Council, 1989[112]) is difficult in the context of damages caused by the war. Public funds generally lead clean-up efforts. OECD countries have used financing from multiple levels of government and EU grants to clean up sites, although inadequate financing has often slowed efforts. Given scarce financial and remediation resources, building a register of environmental damages, as countries such as Poland are doing, and assessing the risk that damaged sites could cause greater harm, as Norway does, can guide and prioritise clean-up efforts.

Ukraine achieved one of the largest reductions in greenhouse gas (GHG) emissions globally, of 76% between 1990 and 2022 and was approaching its 2030 emissions reduction target prior to 2022 (United Nations Climate Change, 2024[113]) This reduction in part reflects the drop and change in economic activity. Relative to GDP, Ukraine's emissions are among the highest globally (Climate Action Tracker, 2021[114]), reflecting very low emission prices, alongside subsidised energy costs that reduced incentives to improve energy efficiency (discussed in Chapter 2). Greenhouse gas emission tax rates are the equivalent of less than one USD per tonne of CO2e, and about 50% of emissions are priced, mostly via fuel excise and carbon taxes (illustrated as the lighter blue areas in Figure 1.23). While military activity has generated significant emissions, the war has damaged or destroyed many of the largest sources of Ukraine's emissions, such as coal-fuelled steel plants and electricity generators.

Ukraine is highly vulnerable to the impacts of climate change through increased temperatures and higher variability in precipitation (Met Office, 2021[115]). Warming is projected to be greatest in central and northern Ukraine, while coastal regions fare better due to the moderating effect of the Black Sea and Sea of Azov. Warming is also forecast to reduce the number of frost days with some areas becoming frost free. Precipitation is forecast to decrease most in the south and south-eastern regions and increase in the north of the country. Extreme heat and rainfall events are forecast to become more frequent and intense, potentially increasing soil erosion (Svetlitchnyi, 2020[116]). Already climate change has led to significant changes in land use and high rates of tree deaths in some regions (IPCC, 2022[117]) (Senf et al., 2020[118]). Floods in recent decades, particularly in the more mountainous western regions, have caused scores of fatalities and damaged thousands of homes and infrastructure.

Adaptation will help mitigate the main socio-economic risks posed by climate change. Agriculture and food security are likely to be affected (World Bank, 2021[119]). Adopting more efficient water management systems, irrigation technology and drought resistant crop varieties can help mitigate against these impacts. To help mitigate flood damage, strong urban planning can avoid development in flood-prone areas. Flood defences, including green areas, and developing early warning systems can help in areas already developed. Property insurance markets are little developed. To reduce insurance costs in areas prone to flood risks, Ukraine can draw on the model of several OECD countries such as the UK in obliging house insurers to pay a level on all policies into a reinsurance fund for flooding risks. The insurers can then opt pay a modest charge and to pass the flood-related risks to that fund (OECD, 2024[120]).

The reconstruction of urban areas will need to account for the expected increase in flood events and extreme temperatures. The energy sector and infrastructure more broadly are also vulnerable to flooding and heatwaves. Increased water stress arising from higher temperatures and reduced rainfall places pressure on energy production through reduced efficiency of thermoelectric generation and the large volume of water the sector needs for cooling thermal and nuclear power generation. Much of Ukraine's older infrastructure and housing stock were not designed for energy efficiency, for example due to low effective energy prices, or to withstand the impacts of climate change.

Stronger tax and price signals can encourage more environmentally sustainable reconstruction investments

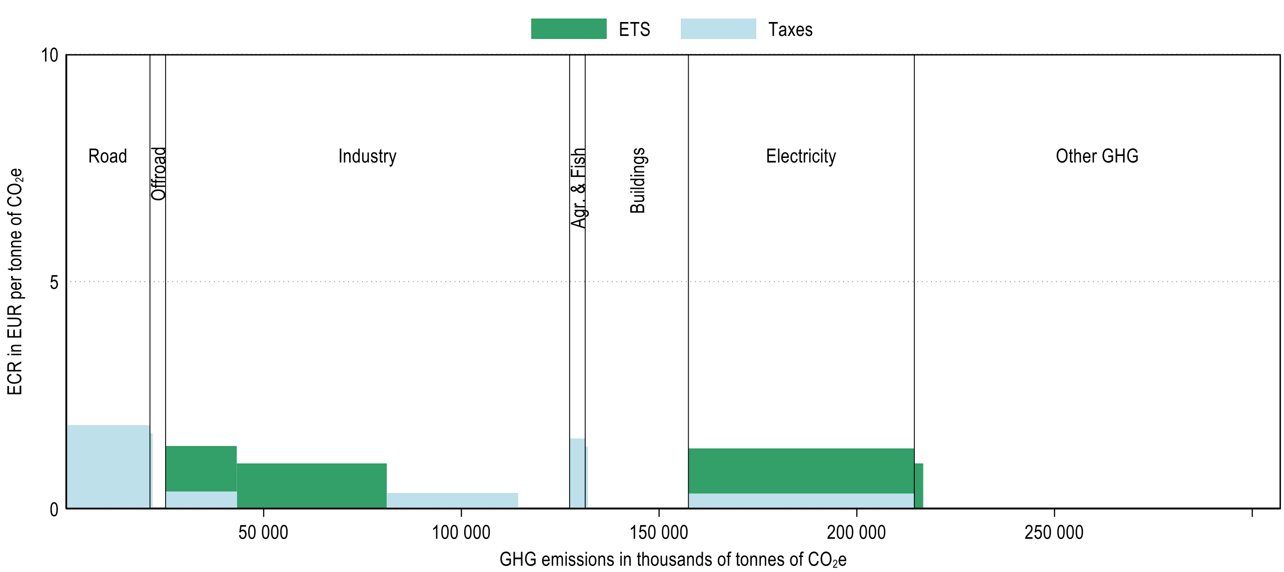
The recovery and reconstruction give a renewed impetus to modernise Ukraine's industry and infrastructure, ensuring that it is adapted to the projected effects of climate change and achieves the emissions reductions objectives. Ukraine is committed to ensuring that the reconstruction and recovery lead to more sustainable investments and activity, both through regulatory reform and developing taxes and incentives. For example, its estimates of the costs of reconstruction (discussed above and in Chapter 2) account for adaptation and reducing emissions.

Ukraine has lagged in preparing detailed climate adaptation strategies. It presented its first strategy in September 2024, developed for three pilot regions. National development plans outline polices directed to ensuring that future business investment adapts to climate and change and is more environmentally sustainable. The government has adopted a National Waste Management Plan through to 2033 and has a roadmap for creating a National Environmental Fund over 2025-2027 with the goal of building a new system of environmental taxes. Ensuring that these many plans turn into concrete actions implemented early in the reconstruction, informed by international experience, can provide greater certainty to investors and ensure investments improve the economy's environmental sustainability.

Ukraine plans to align emission prices with the European Union through an emission trading scheme (ETS), combined with higher taxes for emission sources not included in the ETS. Ukraine has adopted an action plan for developing its national ETS, with the first operational phase to be start in 2028 (Cabinet of Ministers, 2025[121]). It will raise coverage of industry emissions to 87% and the price towards international targets (the green areas in Figure 1.23 illustrate the simulated likely coverage of the planned emission trading scheme). Not implementing this price could subject exports to the European carbon border adjustment mechanism. To limit the welfare costs for vulnerable households, the scheme could use some of the revenue generated to provide well-targeted income transfers that offset some of the increase in costs, building on policies that Ukraine implemented for the energy price adjustments in the late 2010s. Ukraine has phased out a large share of its universal fossil-fuel subsidies and strengthened targeted support programmes. Still, public service obligation schemes and energy pricing arrangements effectively subsidise consumers, and do not encourage energy savings (Petkova, Michalak and Oharenko, 2023[122]). To ensure that energy infrastructure is rebuilt in a way that provides energy security and reduces emissions, regulatory and electricity market reforms will be required. These are discussed in Chapter 2.

Figure 1.23. Ukraine plans to expand its emission trading scheme and to raise its low carbon price

Simulation of the Ukraine effective carbon rate (ECR) profile if its emission trading scheme were in place in 2021



Note: This ECR profile presents the coverage that Ukraine's planned ETS would have resulted in had it been in place in 2021. The permit price is set at a symbolic EUR 1/tCO_2 to highlight ETS coverage. Coverage was estimated using information from the Cabinet of Ministers of Ukraine (2020[123]). Other GHG emissions data are from CAIT (Climate Watch, 2022[124]) while the data on CO_2 emissions from energy use are based on the IEA World Energy Balances (IEA, 2023[125]).

Similarly, implementing well-designed prices on pollution and other environmentally damaging activity can limit damages while encouraging polluters to adapt their operations in the most cost-effective manner. Existing environmental taxes are significant, but they could more coherently support environmental policy objectives (Neuweg et al., 2023[126]). Eliminating subsidies or reduced tax rates for environmentally damaging items, is a first step. In addition, Ukraine could consider imposing excise taxes on fertilisers or manure that would damage the soil quality or groundwater, as in the Flemish region of Belgium (OECD, 2020[127]). Complying with environmental tax requirements would be easier for businesses if the different administering bodies aligned their approaches. Building cooperation and information exchanges between the tax authorities and the State Environmental Inspection would help improve consistency (Neuweg et al., 2021[128]).

Findings and recommendations

FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Achieving macroeconomic stability	
Monetary authorities have taken appropriate action to contain inflation rates and stabilise expectations, although supply shocks have raised inflation again since mid-2024, Authorities have partially reopened the capital account while the exchange rate and reserves have been broadly stable within a managed floating exchange rate regime.	**Maintain a sound framework for monetary policy including the National Bank's independence and policy commitment to low and stable inflation.** **Continue adjusting monetary policy to maintain well-anchored inflation expectations and return inflation to the 5% medium-term target.** As confidence in the macroeconomic framework builds, continue to ease capital controls and strengthen exchange rate flexibility to help absorb economic shocks.
Risks to the financial sector remain significant but profitability has been high due to wide interest margins. High excess liquidity curbs monetary policy pass-through.	Maintain vigilant prudential supervision, including with respect to the potential impact of the end of remaining martial law restrictions on NPLs. Continue measures to absorb and reduce excess liquidity and improve the transmission of monetary policy, in particular by adjusting reserve requirements.
Restoring debt sustainability	
Public finances are under extreme pressure, with the surge in defence spending leading to wide deficits and rising public debt.	**When security conditions allow, return the fiscal deficit to the medium-term objective by bolstering revenues and improving the efficiency of spending.**
Renegotiation of outstanding Eurobonds has reduced fiscal pressures and supported debt sustainability.	**Pursue the renegotiation of outstanding external public and publicly guaranteed debts and contingent liabilities.**
Improving public spending effectiveness	
Fiscal consolidation and the reconstruction and recovery will require large cuts and reallocations in public spending. Ukraine has started developing spending reviews however these are at an early stage.	Integrate broad-based spending reviews into the budget process, led by a dedicated unit in a central agency such as the Ministry of Finance.
The public investment management framework is improving, but limited capacity and lack of integration with budget resources leave many projects unfunded. Enhancing procurement efficiency and investment management capacity is essential for large-scale reconstruction.	**Swiftly implement reforms stipulated by recent Budget Code amendments related to medium-term planning, project prioritisation, and integration of public investments in the medium-term budget process.**
Martial law provisions have abrogated the existing procurement law, simplifying processes, yet some procurement is occurring outside the standard procurement system, with limited competition and with cost being the sole selection criterion. Tender calls and contract documentation requirements can lack transparency or consistency in specification, weakening cost comparability. Ukraine plans to align national procurement processes with EU procurement principles.	Strengthen procurement arrangements as soon as conditions allow. **Further develop procurement processes and officials' capacity to award procurement based on broad value-for-money assessments.** Enforce and publish consistent contract specification requirements, particularly regarding construction material costs.
While municipal governments' capacity and effectiveness has been boosted by mergers, they are now challenged by declining resources and growing spending and service delivery needs. They can play a larger role in public investment but municipalities, particularly those with smaller populations, still face capacity challenges, amplified by the full-scale invasion.	**Further build the role of subnational governments in delivering public investment and services, providing funding and financing mechanisms that encourage mergers among smaller municipalities and pooling capacity among subnational governments.** In the longer-term, develop municipalities' capacity to raise revenues, for example by implementing value-based recurrent property taxes and through user charges and fees
Public staffing is moderate compared with OECD countries, with mobilisation and emigration adding to resourcing pressures. Large shares of many public servants' pay can be provided in a discretionary and non-transparent way. Performance management systems are weak.	Conduct a comprehensive pay review to better match standard pay rates with the skills of specific positions and remove ad hoc pay top-ups or additional allowances. Reinstate competitive recruitment to public positions. Revise the recruitment process for senior officials for greater transparency and to protect from political pressures.
Bolstering revenues	
Revenue collection is weakened by high levels of informality, complex and burdensome tax compliance processes and a broadly applied and distortive presumptive tax regime.	**While pursuing efforts to reduce the tax compliance burden, limit the presumptive tax regime's coverage by lowering income and eligibility thresholds and narrowing the eligible business activities.**
Some measures have been introduced to raise income tax rates and a broad revenue reform strategy was adopted.	**Raise revenues by narrowing the coverage of VAT rate exemptions and reduced rates and simplify VAT compliance.** Align excise tax rates with EU norms.

	Accelerate the digitalisation of the tax administration to improve revenue collection, reduce compliance burdens and ensure more activity is declared.
Reduced tax rates and special regimes reduce fiscal revenues and distort incentives, although they may also help develop activity, such as in the dynamic IT sector.	Undertake and regularly update a comprehensive assessment of tax expenditures, including their fiscal costs, the nature of their beneficiaries and their effects, with a view to ending ineffective tax expenditures.
Concessional foreign support will be needed for many years to support Ukraine's reconstruction. Management of external support has adapted to rapidly growing volumes but lacks coordination and integration into public financial management and policy.	Strengthen aid management capacity to align international assistance with national financial management and policy objectives.
Boosting the labour force	
Conditions for many of the 4.6 million internally displaced are difficult, while 6.9 million emigrants remain abroad following the full-scale invasion. Active labour market programme funding is low and focused on the public employment service. The simplified tax system encourages workers who are effectively dependent employees to register as self-employed. Working conditions are often poor and employment is often under-declared.	**Continue boosting the resources and coverage of active labour market programmes, especially retraining programmes, programmes targeting veterans, women and that build the linkage between training and job market needs.** Continue cooperation with countries hosting externally displaced Ukrainians on policies that enhance their human capital, while preparing and facilitating their return as conditions allow. **Strengthen the ongoing engagement with emigrants, support for their return and access to information about employment opportunities in Ukraine.** Pursue labour law reforms to encourage more flexible work arrangements, treat dependent self-employed as employees, improve social dialogue and reduce administrative burdens to employing workers formally. Reduce the effective labour income tax wedge at low incomes, funded by increasing rates at higher incomes.
The war has accelerated the population's ageing. Workers have tended to leave the workforce before the statutory retirement age. Poverty rates among pensioners is high.	Pursue the development of accumulation retirement accounts and the alignment of special pension regimes with the general regime.
Large numbers of defence personnel will be demobilised when the security situation permits.	**Increase support and incentives for war veterans and disabled people moving into work.** Introduce a double-certification process and a regular recertification process for disability pension eligibility. Provide a screening system to identify and respond to physical and mental health problems among demobilised personnel.
Destruction and displacement have created housing stress for many households and limited possibilities to relocate to where employment opportunities are greatest.	Reform housing law to foster a formal rental market, protecting both tenants and landlords. Develop financing for subnational governments including by, once the property market stabilises, introducing a value-based recurrent property tax.
Female labour force participation has lagged and the gap in wages with men is wide.	Expand the number of places in high-quality childcare. Develop mentoring and other exposure programmes targeting girls to encourage pursuing STEM subjects. **End the restrictions on women working in certain trades or at night.**
Improving environmental sustainability	
The war has substantially damaged land, forest, and water ecosystems across Ukraine, adding to the damage of past industrial and agricultural practices, which in part reflect limited pricing of environmental costs. Reforms have greatly reduced and improved targeting of energy and other environmentally harmful subsidies, but some implicit consumer support remains in place, which can the effectiveness of environmental policy instruments during reconstruction. Plans are being formed to develop emission-trading-based greenhouse gas prices and to reform environmental taxes. Ukraine is exposed to the effects of climate change including through increased risks of urban flooding, droughts and heat.	**Integrate environmental remediation into reconstruction planning and financing, prioritising projects by the risk that damages can cause further environmental harm.** In anticipation of reconstruction investments, provide a clear path for strengthening carbon pricing and aligning rates across sectors. Review and remove environmentally harmful subsidies and tax exemptions to make pricing and incentives coherent with environmental objectives. When conditions permit, introduce mandatory insurance requirements in high-climate risk areas and support their cost by developing reinsurance markets.

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2 Raising investment and exports

Volker Ziemann, Andrew Keith

Long-standing structural challenges have contributed to a high level of informal activity, low integration into global value chains, low investment and stagnant productivity. Russia's full-scale invasion of Ukraine has amplified these challenges and created new ones. While the economy has shown remarkable resilience, largely driven by a "defence economy" and substantial foreign support, this resilience is not a sustainable foundation for long-term recovery and growth. A sustained recovery and reconstruction will require improving the framework conditions for entrepreneurship, investment and innovation. This entails improving the public sector's integrity, designing and implementing a better governance framework for state-owned enterprises, and adopting business regulations conducive to rebuilding investor confidence, as well as expanding access to finance. In addition, reducing the burden of tax compliance and upgrading energy and transport infrastructure are key for a sustainably growing economy.

The war is resetting the economic structure, against a backdrop of longstanding challenges

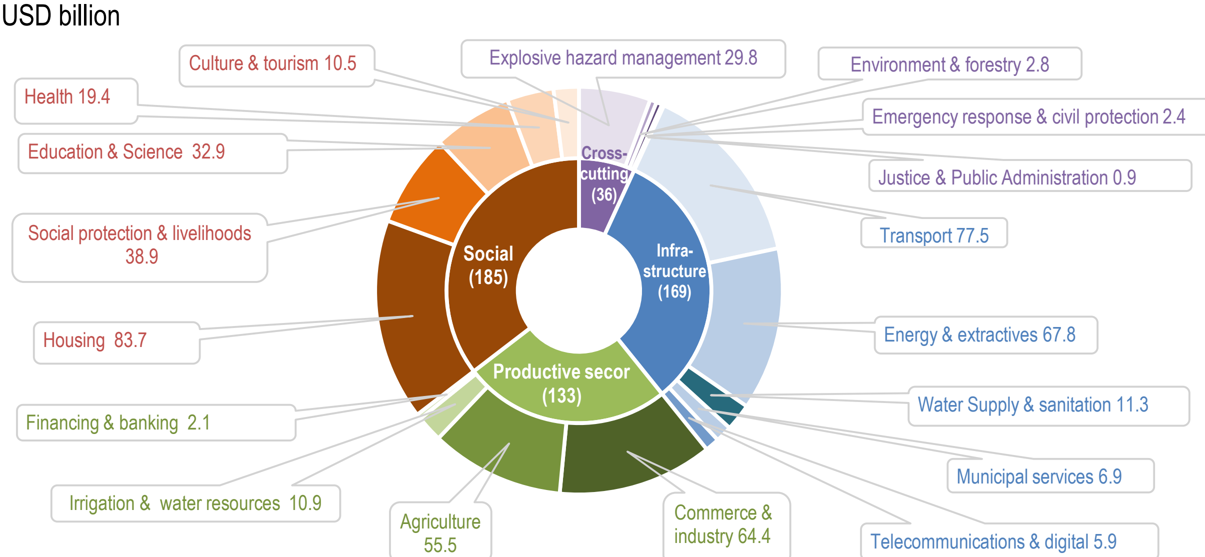
The war creates new challenges

Russia's war of aggression against Ukraine has inflicted severe social damage and economic losses, straining the country's resilience and economic stability. By January 2024, the accumulated direct damages to infrastructure were estimated at USD 155 billion, or roughly 87% of 2023 GDP (Nivievskyi, Goriunov and Nagurney, 2024[1]). These damages span multiple sectors, including housing (USD 58.9 billion), infrastructure (USD 36.8 billion), industry (USD 13.1 billion) and energy production (discussed in Chapter 1), and agriculture (USD 8.7 billion). The full-scale invasion has damaged or destroyed over 167 200 housing units, at least 350 bridges, 25 000 kilometres of roads and 30% of the pre-war agricultural capital.

Economic losses, encompassing foregone income and disruptions in production and trade, are even more important, amounting to an estimated USD 500 billion by the end of 2023 (Nivievskyi, Goriunov and Nagurney, 2024[1]). The war has left Ukraine with over 139 000 square kilometres of mined land, further restricting agricultural production and posing long-term economic, security and environmental risks. As of early 2025, 11.5 million people have been internally (4.6 million) and externally displaced (6.9 million). The damage has been geographically uneven, with eastern regions bearing the bulk of the impact. Almost half of the firms in Donetsk, Kharkiv, and Luhansk have experienced war-related damage, compared to just 18% nationally (World Bank, 2023[2]). Along with Kherson and Zaporizhzhia, these regions account for 72% of the reported destruction (World Bank et al., 2025[3]). Prior to the war, these regions, strongly oriented toward heavy industries, contributed around 27% of Ukraine's manufacturing output.

Figure 2.1. Recovery and reconstruction needs by sector, 2025-2035

USD billion



Note: Amounts relate to total estimated needs for 2025–2035.
Source: "Ukraine - Fourth Rapid Damage and Needs Assessment (RDNA4), February 2022 – December 2024", World Bank, 2025.
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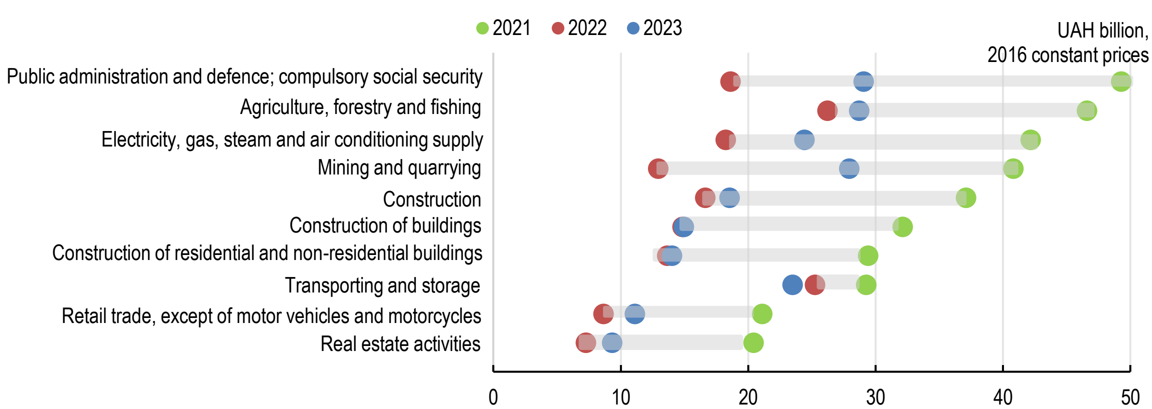
Recovery and reconstruction needs are estimated at USD 486 billion over the next ten years (World Bank et al., 2025[3]), implying an additional annual investment effort of more than 20% of GDP. Infrastructure, the social and the productive sectors each require roughly a third of the investments (Figure 2.1), with the largest shares for housing (USD 80.3 billion), transport (USD 73.7 billion), and commerce and industry (USD 67.5 billion). While Ukraine's transport infrastructure has adapted in the short term (with EU Solidarity

Lanes and the Black Sea corridor), a strategic framework supported by international collaboration through platforms like the Common Interest Group for Transport in Ukraine (CIG4U) and the International Transport Forum (ITF), is needed to modernise transport links and develop a long-term recovery plan. Building the institutional and operation capacity to rebuild and adapt the infrastructure network will be critical as Ukraine's economy evolves, taking advantage of new opportunities in industries such as renewable energy, technology, and manufacturing. This transition also demands investments in infrastructure that enhance competitiveness, lower transaction costs, and reduce delays at border crossings.

Reconstruction has already begun. Over 8 700 planned or proposed projects were registered in the Digital Restoration EcoSystem for Accountable Management (DREAM) by the end of 2024. Despite the ongoing destruction of rebuilt assets, efforts adhere to the "build back better" principle, integrating green technologies and EU accession goals to ensure resilience and sustainability. In September 2024, the government launched a Single Project Pipeline for public infrastructure projects. Supported by DREAM, this system enables transparent submission, prioritisation, and evaluation of projects across national, regional, and community levels. By the end of 2024, 787 public investment projects worth more than USD 60 billion were registered in DREAM, with much of the funding provided by international organisations, including the International Bank for Reconstruction and Development (IBRD), the European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD).

The full-scale invasion has profoundly impacted the country's industrial structure, causing damage and loss of capital stock and businesses (Figure 2.1), forcing a relocation of activity, and necessitating a reorientation towards new markets. Investment activity has declined significantly relative to the pre-2022 period, with the exception of the transport and storage sector and human health and social activities (Figure 2.2). In addition to long-standing structural impediments to doing business, specific wartime obstacles have surfaced as primary concerns for entrepreneurs, including the lack of personnel due to conscription and displacement, security and danger at work, electricity outages and decreases in demand (IER, 2024[4]).

Figure 2.2. Capital investments plummeted at the onset of the full-scale invasion



Note: Gross capital formation deflator from World Bank, World Development Indicators (WDI).
Source: State Statistics Service of Ukraine (SSSU); World Bank, World Development Indicators (WDI).

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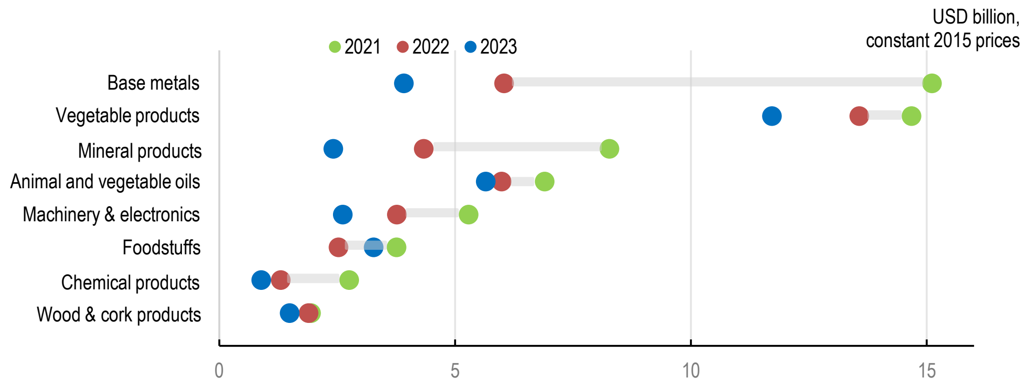
The loss of productive capacity in the wake of the full-scale invasion, including due to destruction and loss of control over territories, has led to a substantial drop in the volume of goods exports, notably for mining, metals and machinery equipment, while agricultural products proved more resilient thanks in part to the Black Sea Grain initiative and improved maritime security (Figure 2.3). Compared to goods exports, services exports decreased considerably less in the aftermath of the full-scale invasion but also fell in volume in 2022 and 2023. Poland and Romania have become the main overland export routes as Western Europe has become the main export destination. The shares of exported goods that crossed into Poland almost doubled (from 7% in 2021 to 13% in 2023), and into Romania quintupled (from 2% in 2021 to 10%), to a large extent reflecting shipments passing through these countries to other markets. Conversely, export shares of China (from 12% to 6.9%), Russia (from 4.3% in 2021 to 0% in 2023), Belarus (from 2.3% to 0%) and India (from 4.5% to 3%) dropped sharply.

Figure 2.3. Metals, minerals and industrial exports fell particularly following the full-scale invasion



Note: Goods are categorized based on the 21 sections outlined in the 2022 edition of the Harmonized System Nomenclature, established by the World Customs Organization. Export deflator from World Bank, World Development Indicators (WDI).
Source: UN Comtrade, World Customs Organization, World Bank, World Development Indicators (WDI).

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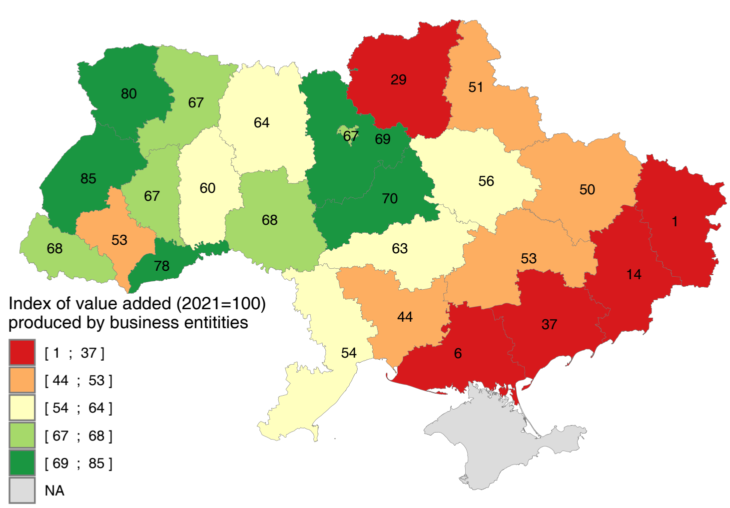
Before 2014, industrial activity was concentrated in the east, with the highest turnover (apart from Kyiv) in Dnipropetrovsk, Donetsk, Kharkiv, and Zaporizhzhia. These regions still accounted for over 25% of economic activity in 2021. However, the war has severely impacted them, destroying much of their heavy industry and forcing many businesses to relocate westward (Figure 2.4). The restructuring and reallocation of activity represent substantial policy challenges to ensure that the framework conditions are in place that enable businesses to establish new activities and supply chains.

Figure 2.4. The full-scale military invasion affected economic activity very unevenly across regions



Note: Throughout this chapter, statistical data for Ukraine relate to the geographical area under the control of the government of Ukraine at the time the data were collected, unless otherwise indicated. From 2014, data exclude the occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and a part of occupied territories in the Donetsk and Luhansk regions; from March 2022, data exclude other territories which are occupied by the Russian Federation and part of territories where military actions are or were conducted.
Source: State Statistics Service of Ukraine (SSSU).

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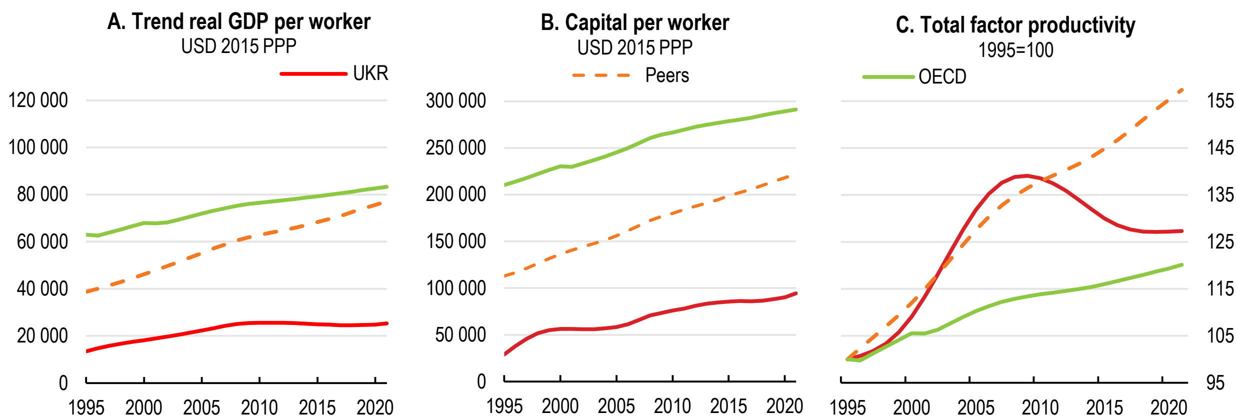
Low productivity and investment activity compound the recovery challenge

Labour productivity has been low and has lagged that of OECD and peer countries over the past decades (Figure 2.5, Panel A). Investment intensity in Ukraine has been insufficient to catch up with the capital accumulation in OECD countries, and the capital per worker gap with respect to peer countries has even widened (Figure 2.5, Panel B). Total factor productivity has shown little sign of convergence over the past two decades, underscoring continuous structural challenges, external shocks and human capital constraints (Figure 2.5, Panel C). The productivity gap can be partly attributed to structural features of the private sector, characterised by a large number of small firms and self-employed workers, informal activity and the legacy of old industries. The share in total production attributable to sole entrepreneurs rose from 4.6% in 2013 to 10.8% in 2021, partly driven by the tax system, notably the simplified tax regime provisions (this share dropped to 0.9% in 2022 and 1% in 2023 according to SSSU). Across OECD countries, large firms in the business sector tend to have higher labour productivity than smaller ones (OECD, 2024[5]).

Figure 2.5. Labour productivity has been low and diverging



Note: Panel A: Trend GDP refers to potential GDP obtained by aggregating trend participation, the non-accelerating rate of unemployment and cyclical-adjusted capital accumulation. Panel A & B: GDP is expressed as constant 2015 using PPP. Lithuania and Romania are missing from peers. Luxembourg and Ireland are excluded from the OECD average.
Source: OECD Economic Outlook 116 database.

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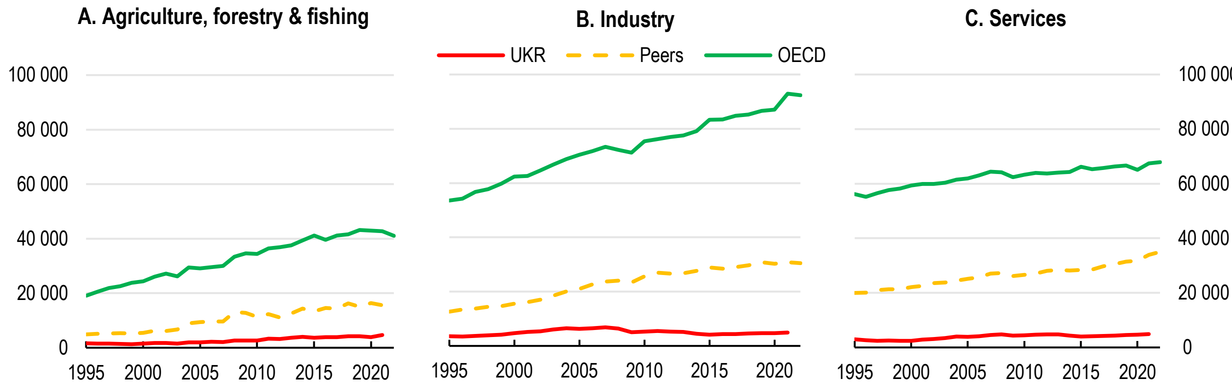
Relatively high shares of workers are in sectors with lower productivity. Agriculture, forestry and fishing accounted for more than 17% of employment before 2022 and 8% of GDP in 2023. The productivity gap between agriculture and other sectors in Ukraine is narrower than in other countries (Figure 2.6), underscoring a broad issue of weak productivity. While productivity in industry and service sectors has been increasing in OECD and peer countries, progress has stalled in Ukraine, especially in the manufacturing sector. The relocation and restructuring of business activity in the wake of the full-scale invasion by Russia could improve the allocation of human and physical capital and, thus, productivity prospects if accompanied by the right structural reforms. As productivity improves in industry and services, a natural shift of labour away from agriculture can be expected. However, Ukraine's high agricultural employment share also reflects its natural endowments, whose economic potential is shaped not just by the quality of soil but also by legislative and regulatory factors, physical infrastructure, and technological capacities.

There is considerable scope to improve productivity in agriculture as well if modern technologies, finances and practices were used to supplement Ukraine's fertile land. A moratorium on the sale of private land for commercial agricultural production led to the development of an unofficial market in such land, reflecting governance weaknesses and denying state and local budgets a potential source of revenue. Moreover, the lease market for agricultural land has been distorted by a 7-year minimum lease length, resulting in the emergence of an informal short-term lease market. This resulted in sub-optimal land use and denied small farmers a critical source of collateral to be able to access finance for investment. Against this backdrop, the ongoing land reform could play a critical role in driving productivity growth and investment.

Figure 2.6. Productivity has been weak across all sectors

Value added per worker, constant USD 2015



Note: Lithuania and Romania are missing from peers.
Source: World Bank, World Development Indicators (WDI).

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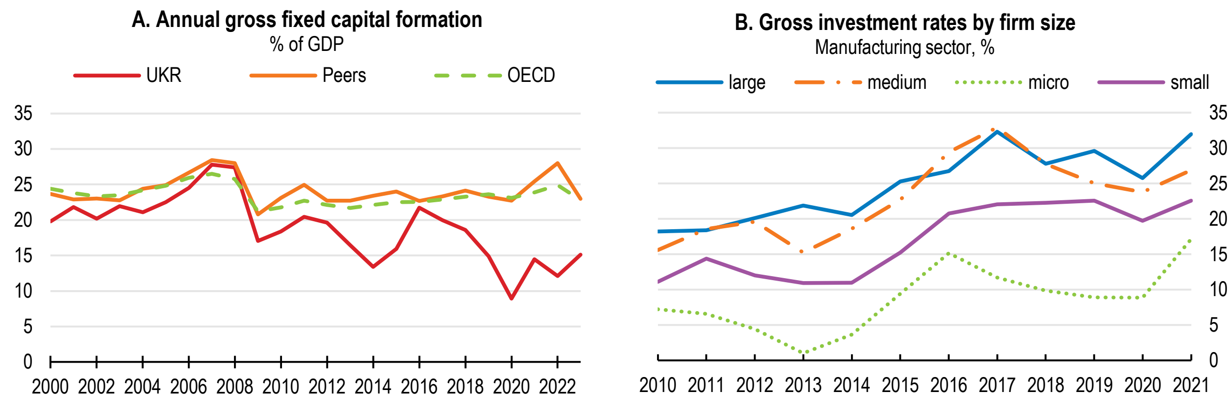
The full-scale invasion has negatively affected the agricultural sector through multiple channels. First, large areas of agricultural land have been temporarily occupied or are unavailable due to the proximity to the frontline, mining and contamination. Second, the productivity of farmland in some areas has fallen through damage to soil cover caused by shelling and the movement of military equipment across farmland, damage to agricultural infrastructure such as drainage, irrigation and storage, the contamination or loss of water supplies previously abstracted for agriculture, and the destruction of agricultural machinery. Third, the ability to export agricultural products was compromised, particularly in 2022 and 2023, due to the Russian attacks on shipments of goods through the Black Sea, and on grain storage and port facilities. Other logistical challenges have also hindered exports directly into Europe by land.

A primary factor behind broad-based sluggish labour productivity has been the weak investment rate, lingering around ten percentage points of GDP below the OECD and peer country averages (Figure 2.7). Political and security instability and weak institutions have been eroding investors' confidence. Even before the full-scale invasion in 2022, the temporary occupation by Russia of the Autonomous Republic of Crimea and the city of Sevastopol in 2014 created significant uncertainty, deterring both domestic and foreign investors. Despite recent improvements, concerns about corruption and a lack of transparent legal and regulatory frameworks continue to weigh on the investment climate and the cost of doing business (IER, 2024[4]).

Public investment rates in Ukraine, at around 4% of GDP, are comparable to those of OECD and peer countries; the primary cause of the investment gap lies in the relatively low levels of private investment. One contributing factor is the rising share of small firms. By 2021, micro and small enterprises accounted for almost 50% of total employment in Ukraine, a higher proportion than the average of 34% among OECD countries. This composition effect weighs on aggregate investment. Smaller firms are less likely to invest in modern production capacities, are less likely to be exporters, are less likely to innovate, and are less likely to provide training opportunities to their employees (OECD, 2023[6]). Empirical evidence further suggests that smaller firms in Ukraine tend to invest less than larger ones and that this gap has increased over the past decade (Figure 2.7, Panel B).

Figure 2.7. Investment has been weakening, partly driven by the increasing share of micro firms



Note: Panel B: Gross investment rates are defined as the change in fixed assets plus depreciation and amortisation divided by lagged fixed assets. Firm sizes are defined as follows: “Micro” firms employ fewer than 10 employees, “Small’ firms employ between 10 and 49 employees, 'Medium' between 50 and 249 and 'Large' with 250 and more. Missing depreciation and amortisation values are imputed by year/ firm size strata.
Source: World Bank, World Development Indicators (WDI), Orbis, and OECD calculations.

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Unleashing the potential of small firms and helping them scale up is a policy challenge Ukraine shares with OECD countries (OECD, 2022[7]; OECD, 2021[8]). However, numerous bottlenecks to firm growth in Ukraine are tied to its business environment, including cumbersome tax administration, the simplified tax regime, concerns about market contestability and competition, and limited access to finance. In this context, addressing policy biases that disincentivise firms to grow and understanding the widening investment gap between small and large firms can help inform policies aimed at boosting aggregate investment. Another feature holding back investment is the pervasive presence of poorly managed state-owned enterprises (SOEs). As of February 2024, the government managed a portfolio of more than 3100 SOEs, which consists largely of State Unitary Enterprises (~82%), majority-held Joint Stock Companies (JSC) and Limited Liability Companies (LLC) (~9%) and minority-held JSCs and LLCs (~4%), with ownership fragmented across 83 ministries, central executive bodies, and state agencies.

While over half of these SOEs are inactive or in the process of being liquidated, SOEs still retain a high share of assets in many sectors of the economy (Figure 2.8). Combined, in 2022, SOEs, including state-owned banks, accounted for 568 000 full-time employees (around 4% of total employment), 14% of national business assets) and generated a net income equivalent to 15% of GDP. These numbers do not include the over 14 000 municipally-owned enterprises (MOEs) (OECD, 2021[9]). While smaller, MOEs often operate less transparently than centrally-owned SOEs because their governance structures are often informal, and financial disclosure requirements are not consistently enforced. Conflicts of interest are common, as local council members frequently influence decision-making, appoint executives, and even serve on supervisory boards, sometimes without clear independence.

While some SOEs are profitable, their pre-2022 financial performance was significantly below that of companies operating in the private sector. Lower returns on equity and assets, smaller profit margins, and lower revenue generation per employee all point to operational inefficiencies. SOEs also tend to be more highly indebted than their counterparts in the private sector. The root causes of these inefficiencies vary but historically include a combination of excessive government and political interference in SOE operations, poor management, burdensome public service obligations and corruption (OECD, 2021[9]). Empirical evidence for Ukraine suggests that private firms in industries with a high SOE concentration invest less than those in industries without direct SOE competition (Cevik, 2020[10]).

Box 2.1. Assessing the relationship between firms' investment and SOEs' presence

The analysis uses the ORBIS panel dataset with individual firm balance sheet data, focusing on unconsolidated accounts to avoid biases from international subsidiaries. Following Hanappi, Millot and Turban (2023[11]), the analysis excludes extreme values of fixed assets (below the 1st or above the 99th percentile), adjusts for currency and inflation, and restricts observations to those available since 2002. Firm-level net investment rates (IR) are defined as follows:

$$\mathrm{IR_{it}} = \frac{\mathrm{FA_{i,t}} - \mathrm{FA_{i,t-1}}}{\mathrm{FA}_{i,t-1}},$$

where i indicates individual firms and t refers to the change in fixed assets (FA) for the current year divided by the previous year's level of fixed assets. To investigate whether a higher presence of state-owned enterprises (SOEs) is correlated with lower private investment, a panel regression analysis is performed:

$$IR_{it} = \alpha + \beta_1 \mathrm{SOE_{cs}} + \beta_2 \log(\mathrm{sales})_{\mathrm{it}} + \beta_3 \Delta\mathrm{GDP_{ct}} + \beta_4 \Delta\mathrm{Empl_{it}} + \mathrm{age\_cat_{it}} + \mu_s + \mu_c + \mu_t + \epsilon_{it}$$

where *i* refers to an individual firm, *c* to the country and *s* to the sector. Years are indicated by *t*. $\mathrm{SOE_{cs}}$ represents the share of fixed assets held by SOEs among the total fixed assets held by all firms within a sector in a country, averaged over time.

Table 2.1. A higher share of SOEs in a sector is associated with a lower investment rate

Regression results for full the sample

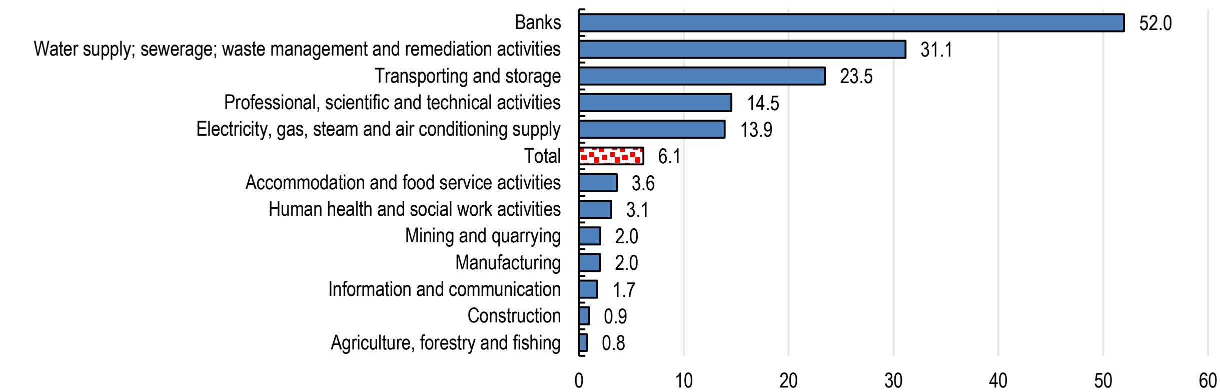
	(1)	(2)	(3)	(4)	(5)	(6)
SOE share	-0.579***	- 0.503***	- 1.483***	- 1.440***	- 1.091***	- 1.043***
	(0.139)	(0.142)	(0.247)	(0.250)	(0.266)	(0.268)
Log(sales)	0.041***	0.041***	0.047***	0.047***	0.051***	0.051***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)
∆GDP	0.043***	0.043***	0.042***	0.042***	0.042***	0.042***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
∆Employment	0.226***	0.226***	0.221	0.221***	0.197***	0.197***
	(0.028)	(0.028)	(0.029)	(0.029)	(0.030)	(0.030)
Mature (5<= firm age <10)	-1.212***	- 1.212***	-1.207	- 1.207***	- 1.174***	- 1.174***
	(0.091)	(0.091)	(0.090)	(0.090)	(0.092)	(0.092)
Old (firm age >=10)	-1.598***	- 1.597***	-1.603	- 1.603***	- 1.567***	- 1.567***
	(0.098)	(0.098)	(0.098)	(0.098)	(0.100)	(0.100)
SOE dummy		- 0.153***		- 0.172***		- 0.175***
		(0.038)		(0.046)		(0.044)
Adj. R^2	0.01	0.01	0.01	0.01	0.01	0.01
N	31 361 696	31 361 696	29 261 565	29 261 565	20 443 561	20 443 561

Note: Column (1) and (2) display results for the full sample of the business economy (except agriculture and public services), column (3) and (4) show results when natural monopoly sectors are dropped (these are the following: D - Electricity, gas, steam and air conditioning supply; E – Water supply, sewerage, waste management and remediation activities; H – Transportation and storages). Column (5) and (6) show results for services sectors only (hence, the following sectors are dropped: B – Mining and quarrying; C – Manufacturing; D – Electricity, gas, steam and air conditioning supply; E – Water supply, sewerage, waste management and remediation activities; F – Construction).
Source: Orbis (dataset) & OECD calculations.

New empirical evidence based on cross-country firm-level data confirms that a high concentration of sector assets in SOEs, compared to the average for that sector across countries, reduces firm-level investment rates (see Box 2.1). The results suggest that outside natural monopolies such as energy and transport, a one percentage point increase in the share of assets held by SOEs reduces investment rates by almost one percentage point. This effect is partly due to SOEs investing less and partly because private firms tend to invest less when the proportion of assets controlled by SOEs is relatively high, suggesting that SOE dominance crowds out private investment.

Figure 2.8. State-owned entities account for a sizeable share of fixed assets in many sectors

Fixed assets held by SOEs - Share of the sector's total fixed assets, 2019-2021 average



Note: For total assets, fixed assets are inferred from the indicator "Initial (revalued) value of non-current assets at the end of the year" in the corresponding SSSU database. For SOE assets, fixed assets are obtained as "Initial cost of fixed assets" minus "Depreciation of fixed assets" from the corresponding database provided by the Ministry of Economy. The financial sector does not include data about state-owned banks.
Source: Ministry of Economy and State Statistics Service of Ukraine (SSSU).

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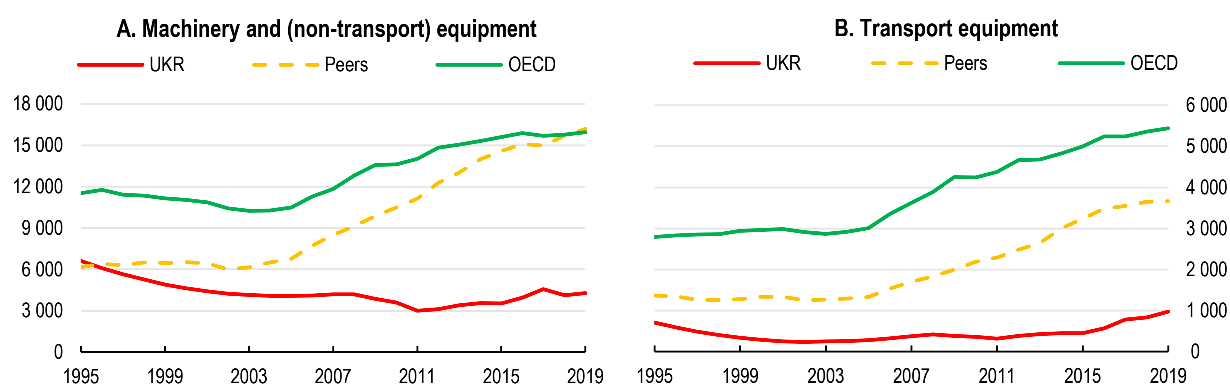
Combined, low productivity and weak investment rates have undermined capital accumulation for several decades. While many peer countries have embarked on a convergence process, Ukraine's stock of productive capital has continued to diverge over the past 30 years (Figure 2.9). Gaps are particularly large for the most productive sectors of investment, such as machinery and equipment.

Figure 2.9. Ukraine's productive capital stock lags behind OECD and peer countries

Capital stock per capita, USD 2017 PPP



Note: Lithuania and Romania are missing from peers.
Source: Penn World Tables.

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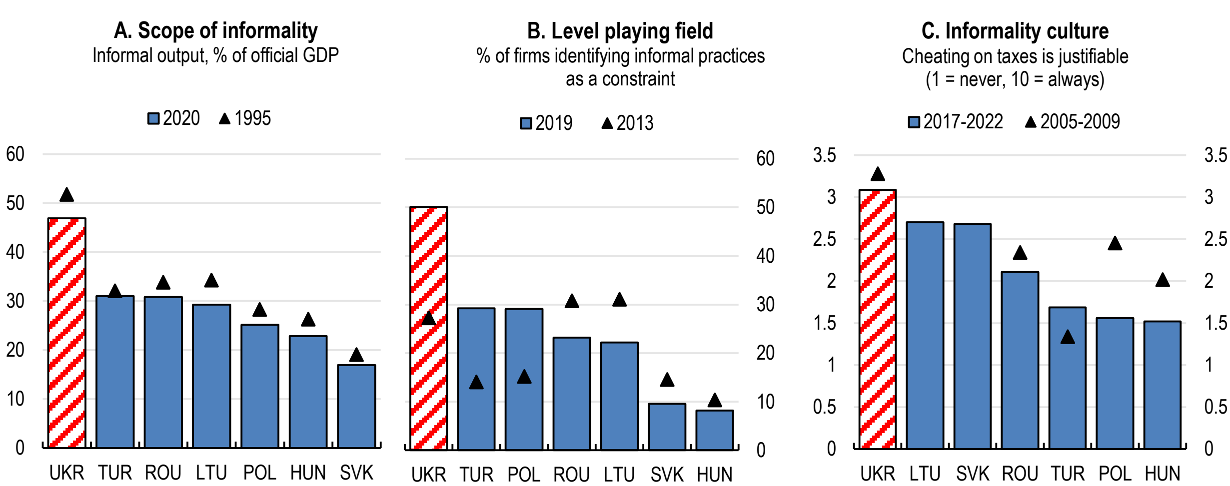
The large informal sector weighs on aggregate investment and productivity

A significant part of economic activity is undeclared. Informality results from weaknesses in institutions, inefficient public administration, high fiscal burdens and inconsistent regulatory enforcement. Estimates for the share of the shadow economy range from 25% (National Bank of Ukraine) to more than 45% (World Bank, Figure 2.10), and it is unclear to what extent official GDP might be underestimated. However, household consumption, electricity consumption, internet use, and poverty indicators suggest a higher GDP per capita than officially reported before the war. While the informal economy provides employment opportunities to many, particularly during times of crisis, it presents serious challenges for sustainable growth and development. Informal firms generally operate with lower productivity due to limited access to finance, markets, and necessary infrastructure, which restricts their capacity to grow and innovate (Ohnsorge and Yu, 2022[12]). Across countries, informal or undeclared workers tend to have few opportunities to upgrade their skills or move to higher productivity work (OECD, 2024[13]).

In Ukraine, under-declared workers are more at risk of poverty later in life due to lower pension accumulations (Chapter 1). Some businesses pay a portion of their employees' salaries in cash to circumvent social security contributions or request them to register as 'private entrepreneurs' to reduce the tax burden. Others simply underreport the number of employees altogether. The relatively high volume of transactions conducted in dollars might also indicate a large shadow economy. Since the start of the war, mobilisation laws and limits on labour inspections have created further incentives for informal employment arrangements. This, in turn, reduces overall labour productivity and slows the accumulation of both physical and human capital.

Additionally, firms that fully declare their activity and comply with the standard regulatory and taxation systems are at a competitive disadvantage vis a vis those that do not. According to the latest World Bank Enterprise Survey (2019), roughly 50% of Ukrainian firms identify practices of competitors in the informal sector as a considerable constraint, one of the highest share anywhere in the world and significantly higher than in peer countries. Even among the pressures of the full-scale invasion, firms report informal employment to be a barrier to hiring workers (Institute for Economic Research, 2024[14]). At the same time, survey results suggest a culture of tolerance toward the informal sector (Figure 2.10).

Figure 2.10. Informality is widespread



Note: Panel A and B refer to the World Bank Enterprise Survey. Panel C is from the World Values Survey.
Source: World Bank Informal Economy Database (2021); World Value Survey (2022).

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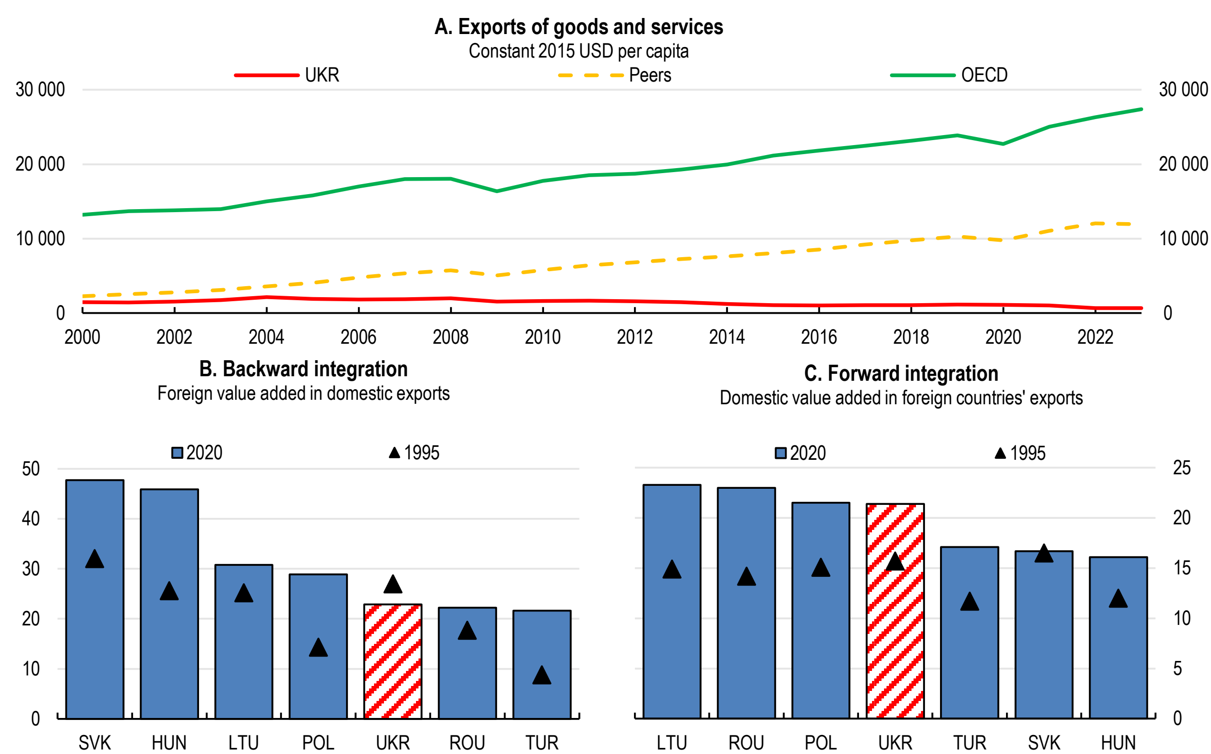
Across countries, higher shares of informal activity are associated with lower levels of income and productivity. This relationship is likely to reflect the weaknesses in the business environment discussed through this Chapter, such as the rule of law, product market regulations and tax policy and administration (Andrews, Caldera Sánchez and Johansson, 2011[15]). Addressing the factors that contribute to the shadow economy in Ukraine will be crucial to unlocking Ukraine's investment potential and enhancing productivity. Measures aimed at improving the rule of law, reducing the cost of formalisation, and increasing access to finance and education could encourage businesses to transition from the informal to the formal economy. By doing so, Ukraine could enhance labour productivity, increase fiscal revenues, and create a more conducive environment for both domestic and foreign investment, driving long-term economic growth.

Export activity and integration in global value chains are still nascent

Ukraine's per capita exports are weak compared to neighbouring EU countries (Figure 2.11, Panel A). While the increase in per capita exports between 1995 and 2020 was tenfold in Romania and Poland, it was less than fourfold in Ukraine. Integration in regional and global value chains (GVC) is weak. The share of foreign value added in Poland's gross exports almost doubled from 14% in 1995 to 29% in 2020 (Figure 2.11, Panel B), while in Ukraine it declined. Relatedly, the share of medium- and high-tech exports in total manufacturing exports fell from around 40% in 2014 to 32% in 2021 in Ukraine (against 60% in peer countries and 55% in the OECD on average in 2021). Integrating into global value chains allows for broadening the market, increasing openness, and benefiting from knowledge spillovers and efficiency gains (Verhoogen, 2023[16]).

Figure 2.11. Per capita exports and integration in global value chains lag behind



Note: Panel A: Romania is missing from peers. Panel : Backward integration is measured by foreign value added in domestic exports. Panel C: Forward integration is measured by domestic value added in foreign countries' exports.
Source: World Bank, World Development Indicators, OECD TiVa (database).

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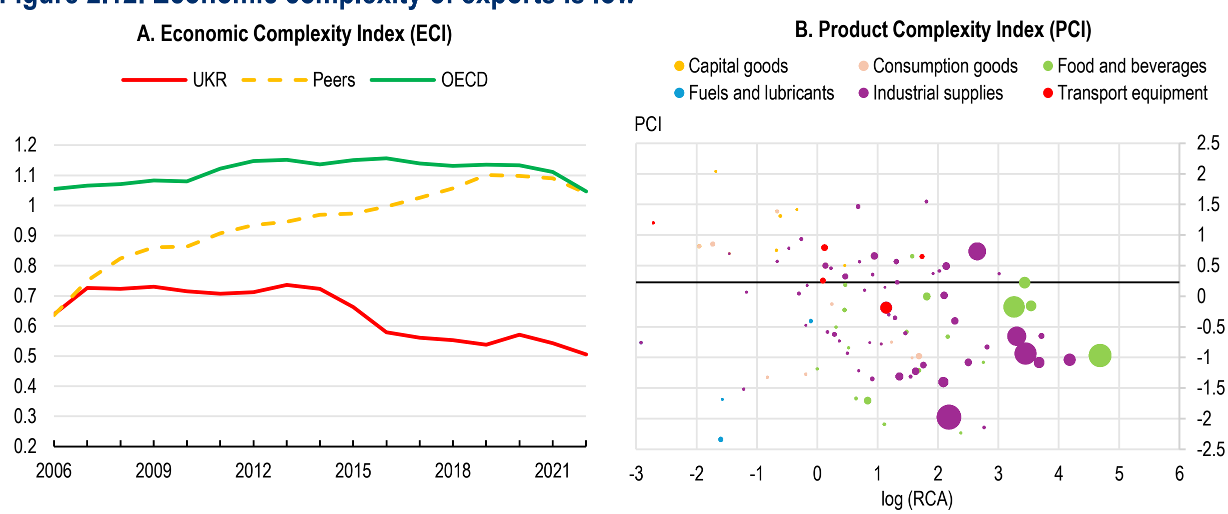
A relatively high share of Ukraine's domestic value added in its exports is subsequently re-exported by other countries (Figure 2.11, Panel C). While a strong forward integration indicates Ukraine's contribution to further processing and value creation in other countries, it positions the country rather upstream in global value chains, often related to supplying raw materials and primary materials. This reflects the country's resource endowment and production capacities relative to its trading partners. In many cases, these exports capture lower shares of the overall final value generated. There are a number of notable exceptions. One example is ICT exports, whose share in total services exports rose from around 14.5% in 2014 to over 40% in 2022 and 2023 in Ukraine (against 13% in peer and OECD countries).

Items with low product complexity dominate Ukraine's goods exports (Figure 2.12, Panel A). Goods exports' economic complexity declined over the past two decades, in contrast to most peer countries. Ukraine is specialised in products that are less well related to more complex products such as chemicals or machinery (Figure 2.12, Panel B). Overall, the complexity of products has been shown to be strongly correlated to firms' productivity growth (Dieppe, 2020[17]; Verhoogen, 2023[16]; Basile and Cicerone, 2022[18]). At the level of the overall economy, higher levels of economic complexity are associated with stronger economic growth (Hidalgo and Hausmann, 2009[19]; Udeogu, Roy-Mukherjee and Amakom, 2021[20]; Çokgezer and Sadiku, 2023[21]). Much of the industry that produced more complex products was concentrated in some areas of the Donetsk and Luhansk regions, and thus has been significantly disrupted since 2014 due to the Russian invasion. This may help explain the further decline in economic complexity over the past decade. Cross-country analysis suggests that improving the framework conditions, such as improving the rule of law, reducing regulatory burdens, ensuring adequate physical infrastructure and supporting innovation, fosters increasing economic complexity (Sakiru, Gil-Alana and Gonzalez-Blanch, 2022[22]).

Figure 2.12. Economic complexity of exports is low



Note: Panel A: the Economic Complexity Index (ECI) is a metric that quantifies the diversity of a country's exports and the ubiquity of the products it exports, aiming to assess the knowledge intensity and capabilities underlying a nation's productive economy. The 6-digit HS product category granularity is used to derive the ECI. Panel B: Product Complexity Index (PCI) measures the diversity and sophistication of capabilities required to produce and export a product. Revealed Comparative Advantage (RCA) is the ratio of the product in the country's total exports compared to the ratio of the product in world exports. The size of the dots reflects the export value in 2021.
Source: Observatory of Economic Complexity (OEC).

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Improving business framework conditions

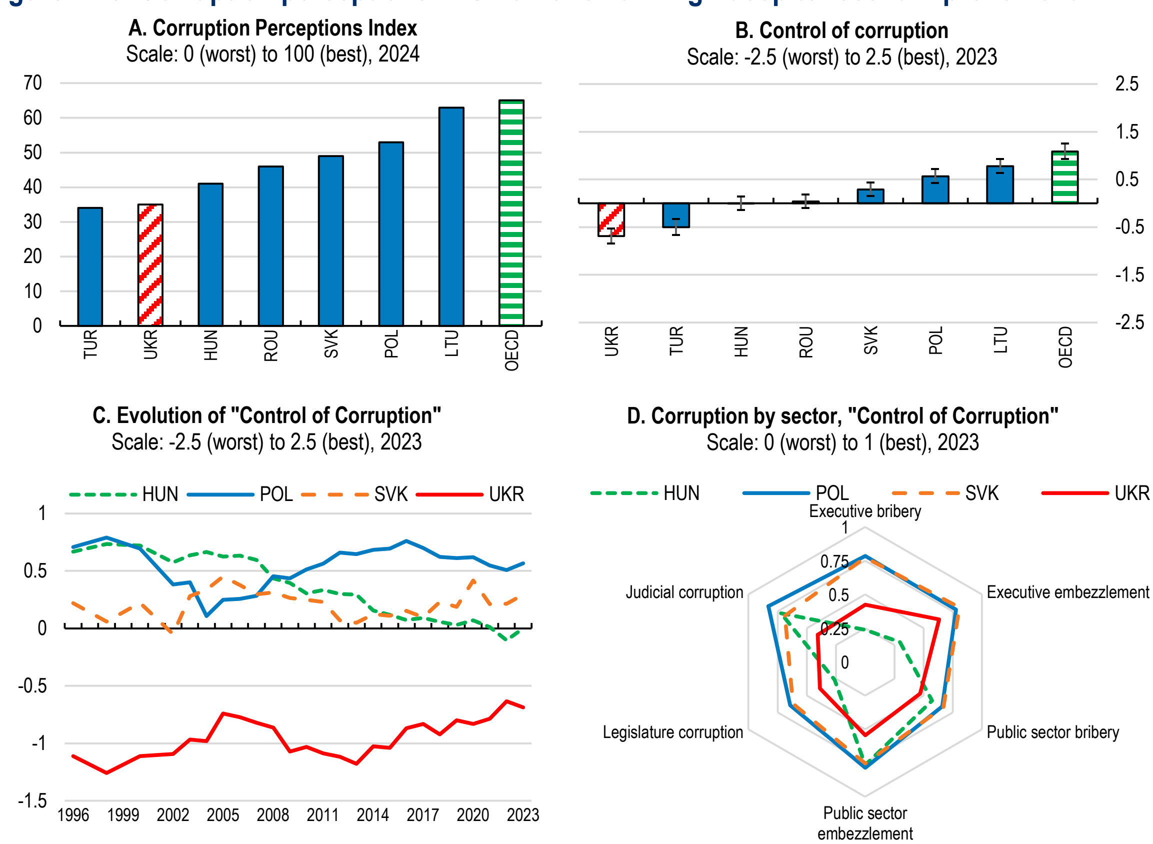
Since the start of the full-scale invasion, surveys of businesses indicate that major concerns regarding the business climate have shifted towards issues like logistics for accessing supply chains and markets, energy supply reliability, staffing operations, and raising working capital (Kuziakiv, forthcoming[23]). While these pressing challenges are directly related to the ongoing war, many are compounded by pre-existing structural weaknesses. Ensuring transparent and reliable rule of law, regulation to address market failures while minimising the cost to businesses, and a business tax system that minimises distortions while generating the revenues required to provide public goods and services can help mobilise private domestic investment and foreign investment. Promoting contestable markets and strengthening SOE governance to enhance efficiency and accountability can further improve the business climate.

Reducing corruption and strengthening the rule of law

Anti-corruption institutions and judicial integrity are improving from low levels

Despite improvements over the last decade, high perceptions of corruption and the weak rule of law, arbitrary law enforcement and the non-enforcement of court decisions, as well as compromised judicial independence continue to undermine investors' confidence and a level playing field for businesses (Figure 2.13; (World Justice Project, 2024[24]); (Ministry of Justice, 2024[25]). Public intolerance of corruption remains high. Over 92% of respondents in a 2023 survey identified corruption as a serious or very serious problem, an increase of almost five percentage points compared to 2022 (InfoSapiens, 2023[26]). Among entrepreneurs, this share even increased by more than ten percentage points, from 77% in 2022 to 88% in 2023. Top-level political corruption is now perceived to be even higher than before the full-scale invasion, while the perception of business corruption returned in 2023 to its 2021 level after a decrease in 2022. According to another survey, perceived corruption in 2024 is most pervasive in customs, the parliament and the national government (National Democratic Institute, 2024[27]). The National Agency on Corruption Prevention (NACP) identified law enforcement, customs, control of economic activities and border control as the domains with the highest corruption risks.

Figure 2.13. Corruption perceptions in Ukraine remain high despite recent improvement



Note: Panel B shows the point estimate and the margin of error; panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

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Ukraine's new anti-corruption institutions (see Box 2.2) have been effective in investigating and prosecuting high-level corruption cases, although there remain concerns about their independence and resources. The NACP oversees, coordinates and enforces anti-corruption policies (OECD, 2024[28]). The National Anti-Corruption Bureau of Ukraine (NABU) is a stand-alone body with a clearly defined mandate to investigate high-level corruption cases. The external audit of the NABU was ongoing in April 2025. Its subsequent report can inform and prioritise the implementation of concrete actions to strengthen the institution and build more capacity.

Box 2.2. Ukraine's anti-corruption infrastructure

Ukraine's anti-corruption infrastructure, established after the 2013-2014 Revolution of Dignity, is a complex network of institutions designed to combat corruption at various levels. The National Agency on Corruption Prevention (NACP) develops and implements anti-corruption policies, monitors the asset and interest declarations of public officials, oversees political parties' finances and is developing the lobby register to implement the Law on Lobbying from 2024. The National Anti-Corruption Bureau of Ukraine (NABU) is the primary investigative body responsible for detecting and investigating high-level corruption cases.

The Specialized Anti-Corruption Prosecutor's Office (SAPO) is responsible for prosecuting criminal and corruption cases investigated by NABU in court. The High Anti-Corruption Court (HACC), a specialised court started operating in 2019, is a cornerstone of this framework. It has exclusive jurisdiction over high-profile corruption cases investigated by the NABU and prosecuted by the SAPO, as well as civil confiscation lawsuits against unjustified assets.

The High Qualification Commission of Judges (HQCJ) is responsible for selecting and evaluating candidates for judicial positions. The High Council of Justice (HCJ) has a role in appointing candidates for judicial positions and is mainly responsible for disciplinary cases and the dismissal of judges. The HCJ can reject the HQCJ's nominations for a limited number of reasons. The Public Council of International Experts (PCIE), composed of professionals from various legal backgrounds, recommended by the OECD, the EU Delegation to Ukraine, and the European Anti-Fraud Office (OLAF), plays a crucial advisory role in the selection of judges for the HACC, ensuring that the candidates meet the highest standards of integrity and professional competence. The PCIE can block candidates from serving on the court based on integrity concerns.

In addition to these anti-corruption bodies, the ESBU was established in 2021 to detect and combat economic crimes such as tax evasion, smuggling, and illegal financial activities. Although not a dedicated anti-corruption agency, the ESBU has limited mandates in corruption and civic confiscation cases, which carry significant implications for the fight against corruption.

Source: "Review of Anti-Corruption Reforms in Ukraine under the Fifth Round of Monitoring: The Istanbul Anti-Corruption Action Plan" (OECD, 2024[28])

In the judicial sector, the selection of new members of the High Council of Justice (HCJ, see Box 2.2), underpinned by thorough reviews in the Ethics Council, also represents significant progress towards best practices (OECD, 2024[28]). Unified integrity indicators were adopted in December 2024, although there are concerns that some of these indicators, such as the so-called perpetual integrity provision, which provides that current HCJ members are automatically deemed to have integrity when participating in future selection processes (DEJURE, 2025[29]). Removing the perpetual integrity provision would better align Ukraine's arrangements wihth most OECD practices. So far, the role of the Public Integrity Council (PIC) in integrity assessments has remained limited, raising concerns about the thoroughness and transparency of the integrity evaluations. The PIC is composed of key civil society organisations advocating for anti-corruption and integrity-strengthening reforms, and better integrating its recommendations and advice would contribute to improving perceptions of institutional integrity (OECD, 2024[28]). Further progress will be required to address long-standing challenges, such as enhancing transparency in court adjudications, implementing various action plans to address non-enforcement of court decisions, and combating corruption within the judiciary. Developing alternative dispute-resolution mechanisms can help alleviate some of these problems.

The workload of the High Anti-Corruption Court (HACC) has been compounded by the influx of cases related to the confiscation of assets belonging to Russian and Ukrainian collaborators following the Russian invasion. The mounting workload poses a risk of delays in case processing, potentially allowing some individuals accused of corruption to evade justice due to the expiration of statutes of limitations. In September 2023, the HCJ increased the number of HACC judges, prompting a competition for vacancies, which faced significant delays but was expected to be concluded in 2025. Going forward, the role of the Public Council of International Experts in the selection process of judges for the HACC should be sustained beyond its current mandate, which was extended to May 2026. Ukraine should continue its efforts to combat money laundering and foreign bribery and enhance asset recovery by fully implementing a functional corporate liability framework and aligning legislation with the OECD Anti-Bribery Convention and OECD standards, such as the recommendation on Further Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 2021[30]). The ambitious state anti-corruption programme, managed and overseen by the NACP, covers many of these recommendations. The parliament adopted laws on amendments to the Criminal Code of Ukraine, the Criminal Procedure Code of Ukraine, and the Tax Code of Ukraine to introduce international tax standards in combating bribery of foreign officials. Overall, as of February 2025, 402 of the 1146 identified measures of the state anti-corruption programme were partially or fully implemented, and a further 286 measures were in progress. Ensuring this programme is completed and reforms are implemented would contribute to reducing corruption risks.

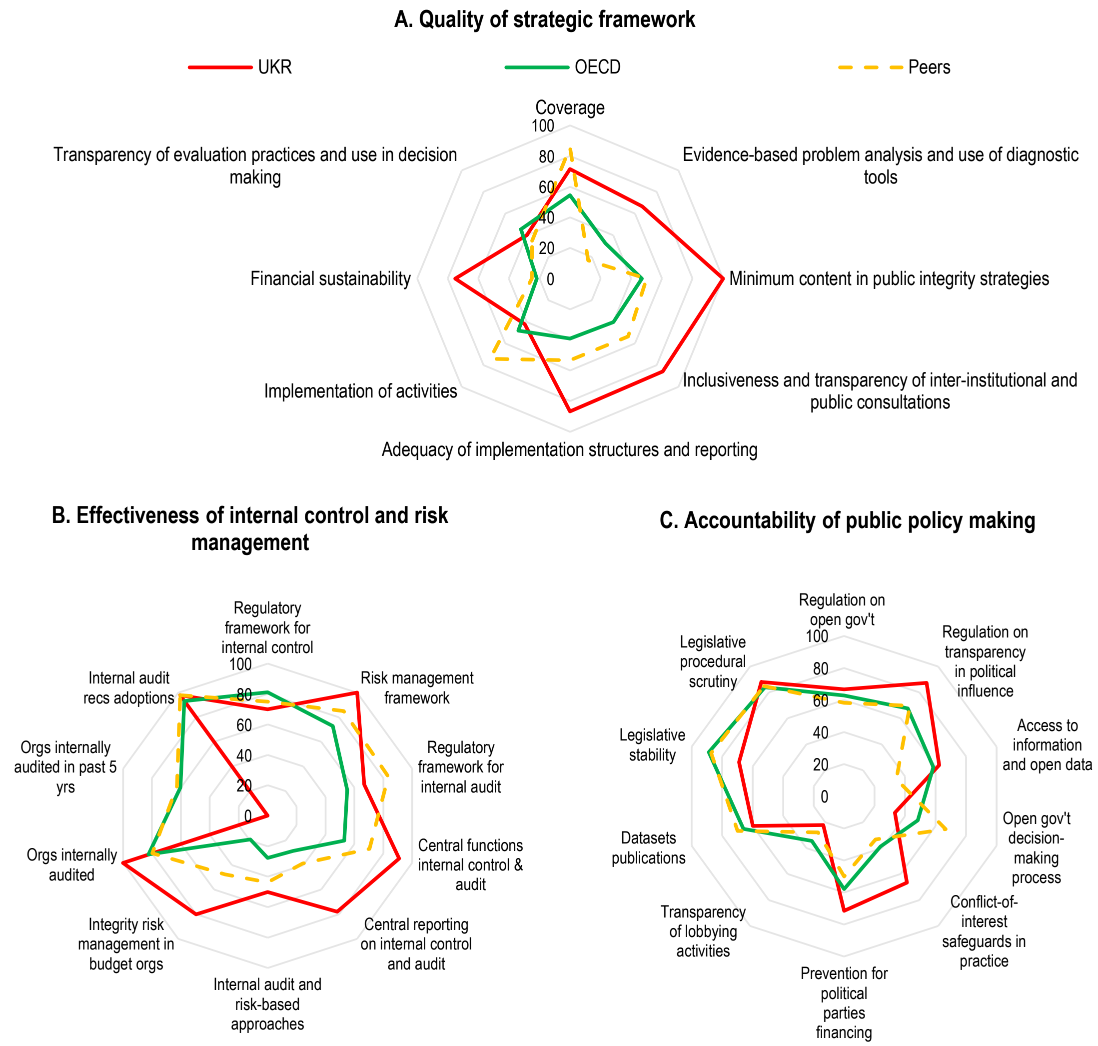
The Economic Security Bureau (ESBU) was established in 2021 and is responsible for detecting and combating economic crimes, such as tax evasion, smuggling, and illegal financial activities. However, concerns over corruption and collusion have constantly challenged its effectiveness. In June 2024, parliament passed a new law to foster the ESBU's independence and rebuild public trust. Notably, the reform includes a more transparent and competitive process for selecting the ESBU's leadership by creating a special commission, with significant involvement of international experts. This process of shortlisting two candidates to be submitted to the Cabinet of Ministers for final selection was ongoing in April 2025 This reform could significantly strengthen Ukraine's anti-corruption efforts and tax compliance and should be implemented swiftly.

Public integrity frameworks are improving

The government aims to adhere to the OECD Recommendation on Public Integrity (OECD, 2017[31]) by 2026. Fulfilling the criteria will require sustained efforts to demonstrate a strong political commitment to enforcing integrity by establishing legal and institutional frameworks and setting high ethical standards for public officials. The principles notably advocate ensuring a clear mandate and capacity for government bodies that define, support and enforce public integrity.

Ukraine has made considerable progress in developing strategies aimed at enhancing public integrity, particularly through the Anti-Corruption Strategy for 2021-2025 and the State Anti-Corruption Programme for 2023-2025 (see above). Some critical gaps remain in the strategic framework, undermining its overall effectiveness. Key areas, such as public financial management (PFM), internal control, and risk management, lack comprehensive strategic objectives focused on mitigating public integrity risks. Despite addressing some elements of financial mismanagement and fraud, the absence of targeted measures in these domains hampers the broader fight against corruption.

Figure 2.14. While public integrity plans and processes are stronger than in many OECD countries, evaluation lags



Note: Panel A: data refer to 2023, Hungary and Poland are missing from peers; Panel B: Ukraine data refer to 2024; OECD and peers data refer to 2023; Hungary and Romania are missing from peers; Panel C: Ukraine data refer to 2024; OECD and peers data refer to 2022; Hungary and Romania are missing from peers.
Source: OECD Public Integrity Indicators.

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Despite rapid progress, implementation rates of the various anti-corruption measures are slightly lagging behind OECD and peer averages (Figure 2.14, Panel A). Furthermore, while monitoring reports for the Anti-Corruption Programme are available, they fail to include management recommendations for relevant public bodies and agencies. To ensure effectiveness, the 2026-2030 public integrity strategy should be designed based on an evaluation of the current one and adopted promptly with broader governmental engagement.

While Ukraine has established internal audit units across public institutions, challenges remain in ensuring their full independence and capacity (Figure 2.14, Panel B). The lack of direct and unrestricted access for auditors to senior management and political staff, as well as insufficient staffing and professional certification among auditors, weakens audit effectiveness. The Ministry of Finance now has a certification scheme in place, which could help to gradually increase the number of certified auditors. Introducing mandatory cooling-off periods to prevent conflicts of interest and strengthening the audit workforce through certification programs are necessary steps to bolster audit independence and professionalism (OECD, 2025[32]).

Ukraine's audit framework is complicated by the overlapping mandates of the Accounting Chamber and the State Audit Service. The differing approaches, rooted in the Accounting Chamber's recent creation and the State Audit Service's Soviet-era compliance tradition, lead to inefficiencies and gaps in performance auditing. Recent extensions to the mandate of Ukraine's Accounting Chamber are welcome and reflect the institution's recognised expertise in assessing corruption risks. Establishing clearer management accountability for responding to internal control weaknesses and ensuring comprehensive documentation of risk assessments, including fraud risk profiles, would significantly improve Ukraine's capacity to manage risks effectively.

Ukraine's accountability framework in public administration shows notable efforts to enhance transparency, access to information, and conflict-of-interest management. However, significant gaps remain, such as the lack in oversight of municipal decision-making, the weak enforcement of sanctions for non-compliance with access to public information laws and conflict-of-interest provisions (Figure 2.14, Panel C). Although protocols exist, sanctions are inconsistently applied. It is vital to ensure that monitoring of access to information is effective and sanctions are applied. Improved coordination between supervisory bodies and the judiciary would contribute to applying penalties swiftly and transparently.

Clear and robust standards of conduct for key political figures, including ministers, members of parliament, and political appointees, are not in place. A draft of the Code of Ethics for members of parliament was registered as a draft law on 30 December 2022 but has yet to be adopted. Additionally, the framework regulating lobbying and political finance is not yet fully aligned with the OECD recommendation on Transparency and Integrity in Lobbying and Influence (OECD, 2024[33]). While Ukraine has made progress with the adoption of the Law on Lobbying, its enactment was postponed to September 2025. Accelerating the implementation of this law, along with introducing clear cooling-off periods for public officials transitioning into lobbying roles, would help reduce conflicts of interest. Establishing the intended transparency register and ensuring the effective enforcement of lobbying regulations through robust sanctioning mechanisms will be required for the standards to be effective.

Improving regulatory governance

An efficient and transparent regulatory system for the business sector is crucial for improving Ukraine's investment and business climate. While demonstrating progress in recent years, the business regulatory environment still presents significant hurdles to investment, export activities and productivity growth. Cumbersome bureaucratic procedures, inconsistent enforcement, and a lack of transparency create uncertainties for businesses and provide a fertile ground for corruption. Addressing this will require reviewing and reforming existing regulations and their enforcement. An interministerial working group reviewed 1323 regulatory instruments, recommending the abolition of 456, amendment or digitalisation of 584, and retention of 283. By September 2024, 122 instruments had been abolished. The group also initiated an analysis of business inspections to reduce administrative burdens and implement risk-based inspections.

Important improvements have been made in some areas, offering a model for other areas of regulation. The government has adopted a comprehensive regulation establishing the ePermit platform, which aims to simplify the work of entrepreneurs, reduce corruption risks and ultimately have a positive impact on economic development by digitising six initial permits and licenses, as well as procedures for businesses to appeal against the actions of the authorities in terms of licensing. Additionally, a new law effective from September 2024 allows economic activities based on free declaration, bypassing permits and licences, except for high-risk areas during martial law. A law effective from November 2024 aligned regulations on permitting and licensing with broader administrative procedures, ensuring greater consistency and predictability in regulatory processes. These changes bring national legislation closer to European standards.

Regarding new regulations, the State Regulatory Service (SRS) is a central executive body responsible for preventing the adoption of ineffective regulations and minimising state interference in business activities. While the SRS has made progress in regulatory policy development, the lack of mandatory oversight, weak external controls, and the absence of legal consequences for non-compliance have created a fragmented and inconsistent regulatory environment (Durman and Drozhyn, 2020[34]). A law on public consultations was approved in October 2024 and will take effect 12 months after martial law is lifted. The law establishes a legal mechanism for public consultations in the formation of state policy and addressing local issues, aiming to foster more coordinated, efficient, and effective political decision-making. Bringing forward its application would support regulatory quality. More stakeholder involvement can improve the quality of regulations, for example, by helping design regulations in a way that reduces compliance costs and avoids unintended burdens, while substantive stakeholder engagement can build understanding and trust in the regulations and their enforcement (OECD, 2012[35]).

Strengthening regulators' accountability mechanisms and promoting data-driven decision-making while safeguarding regulatory independence would help create a stable, efficient framework that supports economic growth and innovation. Improving access to and interaction among the different registers would enhance the monitoring of the costs and benefits of regulations (BRDO, 2023[36]). A harmonised evidence base would also enable innovative forms of data analysis, including AI-based solutions. A central gateway could give rise to mainstreaming some guiding principles to new regulations, such as economic efficiency, social inclusiveness or environmental sustainability. To this extent, the planned regulatory portal to be set up by the State Regulatory Service (SRS) could promote transparency, accountability, and independence in the design and implementation of regulations.

Raising the efficiency of the tax system

Corporate taxation affects business investment, although the elasticities are very heterogeneous across countries, firm sizes and types of tax instruments (Hanappi, Millot and Turban, 2023[11]). Prior to 2022, Ukraine's corporate income tax collections were near the average for OECD countries as a share of GDP (3%) and slightly below the OECD average as a share of total revenues (10%). Ukraine's simplified tax regime is designed to reduce compliance costs and support small businesses, but it also creates some challenges for the broader tax system. Eligibility is wider than in most OECD countries (Bulman, 2025, forthcoming[37]), and its design is not aligned with good practice (Mas-Montserrat et al., 2023[38]). The system encourages businesses to stay small or split operations to remain eligible, reducing overall fiscal revenues and concentrating corporate tax collection on larger enterprises (Bulman, 2025, forthcoming[37]; Anhel, Baskov and Kuziakiv, 2023[39]). Additionally, the simplified tax regime is subject to widespread abuse, as it allows self-employed individuals to pay a significantly lower tax rate than the standard personal income tax rate.

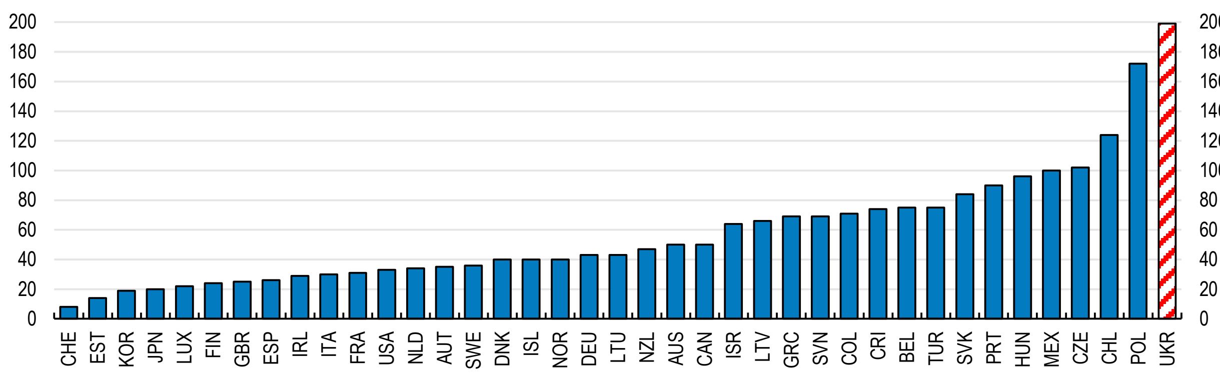
The number of taxpayers opting for the simplified regimes approached 1.8 million in 2023, 14.6% more than in 2017 (Ministry of Finance, 2023[40]). Reports suggest that this increase reflects the simplified regimes' attractiveness and may reflect, in part, businesses splitting or closing and reopening as new businesses to remain eligible and employees declaring themselves as self-employed and benefit from the lower tax rates of the simplified regimes. This has concentrated corporate income tax collections onto larger enterprises and state-owned enterprises. In addition, Ukraine's transfer pricing rules do not apply to transactions between resident companies, meaning that profits of an entity subject to CIT (at 18%) can be shifted to a related company with turnover taxed at 3% (or 5% depending on VAT taxes), providing tax relief in some cases. Companies are also able to switch from one system (profits subject to CIT) to the other (tax on turnover). Therefore, in loss-making years and in years where profits are low, a firm may elect to be subject to CIT and pay no or low tax rather than a positive (higher) amount under the turnover tax.

Ukraine's National Revenue Strategy aims to reduce the scope of these tax regimes and shift businesses to the standard tax system, including by enforcing VAT registrations, using electronic cash registers, and abolishing exemptions from record-keeping. The reforms seek to improve the overall tax system's integrity and transparency, fostering greater confidence among taxpayers and encouraging more businesses to formalise their operations. Adopting a risk-based approach to tax audits that prioritises audits and enforcement actions based on the likelihood of non-compliance or tax evasion, would make better use of the tax administration resources, encourage voluntary compliance and reduce unnecessary burdens on compliant taxpayers. The establishment of clear guidance on tax policies and transparent dispute-resolution mechanisms could further improve the business environment.

Heavy paperwork and reporting requirements make complying with VAT more burdensome in Ukraine than in most OECD countries (Figure 2.15) and discourage registering in the VAT system. 48% of entrepreneurs report that VAT invoices are not being processed swiftly (Samaieva, 2023[41]). Broader tax administration inefficiencies, such as extensive documentation requirements and delays in processing tax-related paperwork, further exacerbate compliance burdens. Businesses frequently struggle with rigid accounting rules, such as the requirement for printed and signed ‘Statements of Acceptance’ for service contracts, increasing administrative overhead and legal risks (CASE Ukraine, 2022[42]; Gvozdiy and Bublichenko, 2022[43]). These issues contribute to a high volume of tax-related disputes, with tax administration complaints making up 50% of cases at the Business Ombudsman Council as of mid-2024, 90% of which are won by the claimants (Business Ombudsman Council, 2021[44]; Dligach, 2022[45]). Reforming tax administration processes, aligning reporting standards with OECD practices, and developing effective dispute-resolution mechanisms could significantly ease compliance costs and reduce legal uncertainty.

Figure 2.15. Complying with VAT is highly burdensome

Time taken to prepare, file and pay the main consumption tax, hours per year, 2019



Note: Data collected prior to 1 May 2019 are based on 2018 tax year. Consumption tax includes value added tax, sales tax or goods and service tax. Time required covers collecting information and computing the tax payable; completing tax return forms, filing with proper agencies; arranging payment or withholding; and preparing separate mandatory tax accounting books, if required.
Source: World Bank and PwC Paying Taxes, 2020.

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Accelerating tax digitalisation can reduce the administrative burden of tax compliance and support public revenues, aligning with broader public sector digitalisation. However, infrastructure limitations have hindered progress, and implementation has fallen short of expectations (Marchenko, 2022[46]). Efforts to strengthen the use of digital cash registers have supported VAT revenues in several OECD countries with a legacy of large VAT collection gaps, such as Greece and Italy. Some innovative solutions exist. For instance, the tax administration in the Netherlands has built software that selects refund requests for manual inspection, allowing others to be electronically processed automatically. The software implements business rules and relatively simple statistical procedures and helps auditors undertake the manual inspections. The administration regularly interacts with end-users to continuously improve the system (OECD, 2023[47]).

Developing competitive and supportive network sectors

Eliminate distortions to build more efficient energy markets

The ongoing war has severely damaged Ukraine's energy infrastructure, reducing the dispatchable capacity (excluding wind and solar PV) of its electricity system from 37 GW to, during some periods, below 10 GW, including 5 GW returned to the system thanks to a repair campaign ahead of the 2024/25 winter (discussed in Box 1.2 in Chapter 1). It has also highlighted deep-rooted structural issues within the energy market. Total damages to Ukraine's energy sector up to to the end of 2024 were estimated at USD 20.5 billion, while revenue lost due to reduced capacity and demand at over USD 72 billion (World Bank et al., 2025[3]). The Fourth Rapid Damage and Needs Assessment valued a complete restoration of the energy sector to contemporary standards at USD 68 billion, of which the private sector could be expected to fund over USD 40 billion.

The challenge of rebuilding Ukraine's energy infrastructure is exacerbated by a lack of accurate price signals, primarily caused by government-mandated price subsidies, hampering incentives to modernise infrastructure, integrate renewable energy, and encourage energy efficiencies. While many universal fossil-fuel subsidies were largely eliminated and replaced by better-targeted support programmes, challenges remain. A key price-distorting factor is the Public Service Obligation (PSO) mechanism, which subsidises electricity tariffs for households to ensure affordability (IEA, 2024[48]) (Petkova, Michalak and Oharenko, 2023[49]). Subsidised household tariffs disconnect consumer prices from actual production costs, preventing the development of a competitive electricity market. This misalignment weakens incentives for energy conservation and efficient consumption. Price caps also obstruct deeper integration with the EU market by hindering market coupling (OECD, 2023[50]).

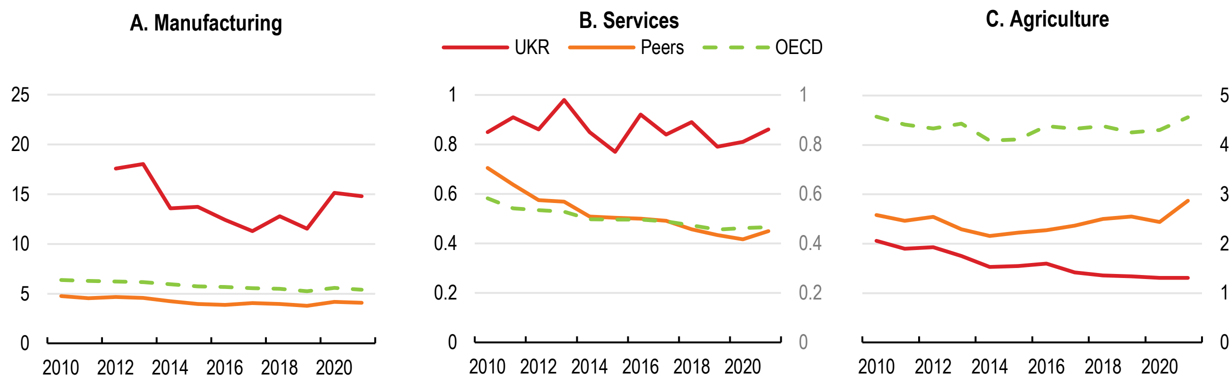
The PSO are financed by state-owned nuclear power producer Energoatom and hydropower producer UkrHydroEnergo (UHE). Both companies sell all electricity generated on the market but must compensate universal service supplier companies financially for the difference between the wholesale purchase price and the regulated PSO price for residential consumers. They transfer the determined compensation to the market operator, the Guaranteed Buyer (GB), which, in turn, distributes compensations to regional universal services suppliers. As a result, Energoatom and UrkHydroEnergo had to report lower profits, and the government suffered fiscal losses from lower VAT collection. Neither company obtains any compensation from the budget. In 2023 alone, Energoatom paid UAH 128 billion (EUR 3.2 billion) to the GB while UHE paid UAH 23.7 bn (EUR 0.6 bn). Thus, total electricity price subsidies are estimated at EUR 3.8 bn or 2.3% of the GDP in 2023.

Although the electricity price for households was increased from UAH 2.64/kWh to UAH 4.32/kWh (USD 0.10/kWh) in 2024, it covers only around half of the costs of electricity supply to residential customers. By comparison, the corresponding price for small business customers in Kyiv is UAH 8.96/kWh (USD 0.22/kWh). Similarly, gas price subsidies for residential consumers and district heating are estimated at EUR 2.9 billion (1.7% of GDP) and EUR 1.7 billion (1.0% of GDP), respectively, in 2023. The government recognises the scale of the price subsidises and negative economic and fiscal implications. The government plans to adopt a roadmap for the gradual liberalisation of gas and electricity markets within six months after the end of martial law while allocating adequate and well-targeted resources to protect vulnerable households (International Monetary Fund, 2024[51]). The existing Housing Utility Subsidy (HUS) scheme, developed to support tariff adjustments in the late 2010s, can be leveraged to insulate vulnerable households from tariff increases. Although the HUS has seen notable improvements since 2018, it could be further refined by enhancing the targeting of poorer households and decoupling transfers from actual energy consumption (Alberini and Umapathi, 2024[52]).

Strengthening price signals can help improve energy efficiency and better match demand and supply. Manufacturing and services businesses consume considerably more energy per unit of value added than OECD and peer countries (Figure 2.16). Complementing stronger price signals with measures to help users reduce their demand can support the adjustment. Many tools are available to provide energy savings, including i) meters and smart technologies for consumers and businesses, ii) new energy-saving technologies (batteries, accumulators), iii) increasing environmental awareness of the population, and iv) heightening standards of energy efficiency for new buildings and renovation of older ones (Hoeller et al., 2023[53]). For instance, varying tariffs can incentivise reducing consumption and greater production at peak times through batteries and changing consumption patterns, which can help the power system operate more efficiently and reliably, and lower requirements for new capacity (IEA, 2024[48]).

Figure 2.16. Energy efficiency lags behind peers

Energy consumption per value added by sector, MJ/USD, 2015 PPP



Note: "Manufacturing" excludes the manufacture of coke and refined petroleum products. "Services" includes commercial activities and public services. "Agriculture" includes forestry and fishing.
Source: IEA Energy Efficiency Indicators, November 2023 edition.

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Legal reforms, implemented in 2023 and 2024, intended to help develop distributed energy resources (decentralised generation capacity). These allow electricity consumers to self-generate and sell excess electricity to the grid (IEA, 2024[48]). The amendments encourage biomethane and renewable energy production by establishing guarantees of origin issued by the National Energy and Utilities Regulatory Commission. Additionally, in 2024, the parliament approved two laws that exempted the imports of equipment for electric generators, wind and solar generation, and powerful accumulators from customs duties and value-added tax. These measures provided incentives to install distributed energy resources. The total capacity of distributed gas generation plants connected on 31 December 2024 reached 967 MW, or approximately one-tenth of generating capacity, of which 835 MW was installed in 2024.

Ukraine's renewable energy potential is significant but largely untapped. The government aims to double the share of renewables in total electricity generation to around 30% by 2030, as outlined in its National Renewable Energy Action Plan (NREAP 2030) and National Energy and Climate Plan (NECP 2030). The accumulated debt that the Ukrainian state-owned transmission system operator (Ukrenergo) owes to renewable energy companies deters new entries. The debt originates from the government's historical underfunding of support payments promised to renewable energy producers under the Green Tariff scheme. These support payments were meant to be financed through a transmission tariff but were inadequately funded due to government-imposed limitations on energy price increases, combined with market disruptions caused by the ongoing conflict. Consequently, Ukrenergo has accumulated significant unpaid obligations (as of October 2024, totalling UAH 32.2 billion or EUR 0.74 billion) owed to renewable energy companies that have already built and operate renewable installations under guaranteed contracts. This debt is reported to undermine investor confidence in Ukraine's renewable energy market (Mykhailenko and Piddubnyi, 2024[54]).

A first step in addressing the legacy debt was made in early 2025 when amendments to the electricity law entered into force, stipulating that Ukrenergo uses excess income from 2023 and 2024 to settle UAH 10 billion of the accumulated debt to renewable energy producers. Going forward, establishing transparent, predictable transmission tariff forecasts and providing robust payment guarantees is essential to attract new investment. Renewable energy auctions must be expanded and conducted regularly, aligning procurement schedules with clearly communicated annual capacity targets. Introducing supportive mechanisms such as capacity payments at competitive rates would further mitigate investor risk, ensuring efficient, timely deployment of renewable projects and flexible energy infrastructure (Mykhailenko and Piddubnyi, 2024[54]).

To improve incentives to invest in renewable energies while containing fiscal risks, Ukraine could implement a regulatory framework for contracts-for-difference where a generator receives a fixed strike price, and a typically government-backed entity or a market operator pays or receives the difference based on market price fluctuations. These arrangements work best when investors can access finance at reasonable interest rates, which may make these mechanisms more appropriate in the medium term. Several OECD countries, including the UK, have found these to be effective, for example, in developing investments into wind energy (Department for Business, Energy and Industrial Strategy, 2022[55]).

Accumulated debts have also severely undermined the financial stability of district heating companies (DHCs) and Combined Heat and Power (CHP). As of February 2022, the total overdue debt of DHCs and CHP plants to Naftogaz stood at UAH 49.1 billion, rising to UAH 101.22 billion by September 2024 due to a combination of insufficient tariff compensation, unsettled payments in the balancing market, and the financial strain imposed by the war (RRR4U, 2025[56]). While the completion of an audit of DHC financials under the Extended Fund Facility (EFF) program was confirmed in December 2024 (International Monetary Fund, 2024[51]), transparency remains an issue. Addressing these structural debt issues will be crucial to restoring investor confidence, ensuring the sustainability of district heating services, and integrating them into a broader, more resilient, and low-carbon energy system.

GTSOU, Ukraine's Gas Transmission System Operator, has undergone significant reforms to strengthen its corporate governance, enhance transparency, and align the operational framework with European Union standards. This unbundling from the state-owned Naftogaz supports independent operation and promotes fair competition in the gas market. The reforms are vital for attracting investment, modernising infrastructure, and bolstering Ukraine's energy security. An independent evaluation of the supervisory boards of Naftogaz and Ukrenergo was set to be launched in January 2025 and concluded by March 2025. In the long run, the gas transportation and distribution network requires modernisation to accommodate renewable and synthetic gases (biomethane and hydrogen).

Promoting competition and innovation

Buttressing corporate governance

Managing state-owned enterprises

Ukraine has done much to improve the efficiency of state-owned enterprises (SOEs) in recent years. The National Anti-Corruption Bureau of Ukraine (NABU) frequently conducts criminal investigations of SOEs and, with the Specialised Anti-Corruption Prosecutor's Office (SAPO), combating misappropriation of SOE funds and assets. To help reduce the state's share in economic activity and improve the efficiency of SOEs more broadly, the government has implemented new laws and policies to accelerate privatisation and improve corporate governance. The State Property Fund of Ukraine (SPFU) has been given new powers, including the ability to liquidate assets under its control, which should help expedite the process of removing inactive SOEs from the state's property portfolio. Their liquidation is likely to enable some assets to be sold, with the proceeds returning to government revenues. Eligibility criteria for entities seeking to purchase state assets have been tightened, and exclude persons included in the register of persons who have significant economic and political weight in public life according to the related law on such persons.

Further legislation adopted has paved the way for the privatisation of state-owned banks to enhance efficiency and competitiveness within the banking sector (discussed below).

Considerable effort has been put into reconciling the various conflicting registers of state property, providing a clearer understanding of the businesses' assets and real estate under state control. This help has facilitated the triage exercise completed in December 2024 as part of the state ownership policy to determine whether SOEs a) remain under state control, b) are prepared for privatisation, and c) are liquidated. It also informs the privatisation strategy currently under development. As a result, 74% of SOEs are scheduled for privatisation or liquidation, 16% will remain under state ownership, and 9% will temporarily remain state-owned during martial law, with potential divestment once conditions permit. Additionally, 2% of SOEs will undergo reorganisation to separate activities justifying continued state ownership from those that should be privatised or wound down.

In 2024, the State Property Fund of Ukraine (SPFU) announced a large-scale privatisation agenda encompassing the sale of public assets in a wide range of sectors, including hotels, shopping malls, manufacturing and mining companies. The greatest obstacle to privatisation is the legal form taken by the vast majority of SOEs as State Unitary Enterprises (SUEs). Receivables, payables, inventories and equipment are not regulated appropriately, and mechanisms for the buyer to pay off the obligations of former SOEs are not always satisfactory. This can draw SPFU and buyers into disputes post-privatisation. Without dispute resolution, SOEs cannot be liquidated or merged with the buyer’s legal entity. Protracted disputes are a reputational risk to the government that may discourage investors from participating in auctions (in particular foreign investors) and jeopardise the overall privatisation agenda. Such issues can be resolved by corporatising SUEs.

The government is also committed to improving the corporate governance framework of SOEs to further economic efficiency and mitigate fiscal risks. Experience across OECD countries suggests that establishing a strong, independent ownership entity staffed by business and financial management experts to coordinate and supervise the government’s business assets can help improve the performance of SOEs (OECD, 2024[57]). Such an entity would provide ownership oversight of economically important SOEs, and coordinate the management and oversight of the rest of the SOE portfolio (OECD, 2021[9]). In practice, this entails having the powers, capacity and competency to exercise ownership rights, alone or in concert, with other parts of government involved in state-ownership. The ownership entity should be assigned to a part of the public administration that does not have concurrent responsibility for policy planning, regulation, or public policy objectives. It should be overseen by a senior government minister and be accountable to relevant legislative bodies. The ownership entity should enjoy a degree of budgetary autonomy and be adequately resourced to allow the flexibility to recruit, remunerate and retain necessary expertise. Finally, the ownership entity should be shielded from undue political interference and corruption.

In February 2024, the law “on amendments to certain legislative acts of Ukraine on improving corporate governance”, aiming to align the corporate governance of SOEs with OECD SOE Guidelines (OECD, 2024[58]), entered into force. The law strengthens the supervisory boards’ power, including the exclusive right to appoint and dismiss CEOs, and to approve strategic and financial plans. It also introduces new criteria for the independence of board members and establishes more rigorous evaluation procedures and internal control systems. While the draft law does not explicitly address competition with private sector firms or establish specific dispute-resolution mechanisms, it emphasises the importance of transparent and competitive processes in certain areas, such as the disposal of state-owned assets and the selection of managers for state-owned enterprises, and it mandates that state-owned enterprises operate in a manner consistent with market principles. On 29 November 2024, the Cabinet of Ministers approved the new state ownership policy, and fully implementiong its reforms to governance can support SOE performance. The policy also requires dividend payment of at least 75% of the net profit of a state-controlled enterprises, except where Cabinet specifically approves, in which case the minimum dividend is 30%.

Box 2.3. Ownership policies for effective management of state-owned enterprises

Sweden

Under a mandate from Parliament, the Swedish government has implemented a comprehensive ownership policy for the active and professional management of State-Owned Enterprises (SOEs), with long-term value creation as its primary objective. The policy outlines the legal frameworks governing SOE ownership and defines the roles of the government offices responsible for oversight, including the designation of the Ministry of Enterprise and Innovation as the principal agency for SOE management. It establishes detailed guidelines for the roles, nominations, and composition of SOE boards of directors, along with financial targets, public policy assignments (where relevant), and other policy objectives. Additionally, the policy emphasises principles of sustainable value creation and strategic business targets, incorporating requirements for responsible labour practices and adherence to international principles and guidelines on responsible business conduct, including the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

Norway

Norway's state ownership policy can be characterised by four key features. First, SOEs are divided into two groups: those focused on achieving the highest possible return over time, primarily competing with other enterprises, and those serving various public policy objectives which do not engage in competitive markets. Second, the state takes an active role by setting clear expectations for SOEs, appointing board members, and engaging with relevant stakeholders. Third, Norway's SOEs adhere to a robust framework based on recognised principles and standards for corporate governance, ensuring transparency and accountability. Lastly, SOEs have well-defined social, environmental, and financial performance goals, reflecting the state's commitment to sustainability and responsible management.

Source: "Ownership and Governance of State-Owned Enterprises 2024", (OECD, 2024[57])

Additional secondary legislation to implement the new SOE law is foreseen, for example, in the area of board nomination procedures. Capacity building and support for complying with the new law and aligning SOEs with principles and standards of responsible business conduct will be critical for improving the performance of SOEs (OECD, 2023[59]). This should involve providing training and resources to SOE management and staff on responsible business conduct principles and standards and due diligence processes and establishing mechanisms for stakeholders to raise concerns and seek remedies in cases of non-compliance with responsible business conduct principles and standards by SOEs. Sweden and Norway have successfully implemented such policies for the effective management of SOEs (Box 2.3).

Improve the corporate governance framework

Corporate governance is crucial for the business climate. For example, banks and other financial institutions are more likely to lend to companies with transparent and accountable governance structures, as this improves information about their credit risks. Customers are more likely to do business with companies they trust, and good governance practices signal ethical and responsible business conduct. To support market confidence and integrity, the G20/OECD Principles of Corporate Governance help policymakers evaluate and improve the legal, regulatory and institutional framework for corporate governance (OECD, 2023[60]).

Ukraine's corporate governance framework for joint-stock companies has progressively improved over the past few years, although certain regulatory requirements have been lifted under martial law. Recent reforms have aimed to strengthen the independence of regulatory bodies like the National Securities and Stock Market Commission (NSSMC), signalling a commitment to enhancing supervision. However, the effectiveness of the Corporate Governance Code remains hampered by a lack of robust monitoring and enforcement mechanisms exacerbated by the war. Companies can choose to adopt the National Corporate Governance Code or the corporate governance code of a regulated capital market operator, an association of legal entities, or another corporate governance code. This choice can weaken the role of the NSSC's Corporate Governance Code.

Ukraine has made notable progress regarding financial disclosure practices. The Amended Law of Ukraine on Capital Markets and Organised Commodity Markets (2021) and NSSMC regulation No. 608 (2023) have enhanced corporate governance requirements, including mandatory public disclosure of financial activities and formalised procedures for timely disclosure of regulated information. However, under martial law, reporting has become voluntary, resulting in a significant drop in disclosures, particularly for publicly listed companies. The Law on Audit mandates financial statement preparation under IFRS, and the Joint Stock Company (JSC) Law requires external audits for listed companies, but exemptions during martial law have diminished transparency. The authorities should strengthen enforcement of disclosure obligations after martial law ends, improve oversight of the regulation of related party transactions through external reviews, and enhance transparency by introducing safeguards to ensure the independence of external auditors (OECD, 2025[61]).

The 2023 Joint-Stock Company Law introduced significant reforms to the governance of boards in Ukraine, including the election process, roles of independent directors, and mandatory committees for publicly listed companies (audit, remuneration, and nomination). The flexibility between a one-tier or two-tier corporate governance model offers companies adaptability, although martial law has hindered the effective monitoring of these structures. Also, under the new JSC Law, beyond criteria that exclude persons from qualifying as independent directors, there are still no specific legal requirements regarding board members' qualifications, experience and diversity. The 2020 Corporate Governance Code recommends a 40% gender diversity target, though compliance remains low and is difficult to monitor as no national integrated reporting system exists. Authorities should ensure better monitoring of board practices and compliance with independence requirements (OECD, 2025[61]).

The NSSMC plays an important role in supervising and regulating Ukraine's capital markets. The full-scale invasion has led to a substantial reduction and increased turnover of personnel. Progress has been made to enhance the political and operational independence of the NSSMC, particularly with the introduction of Amendment Law No. 3585 in 2024, which grants the NSSMC the authority to collect fees and contributions from the entities it regulates. Continuing to strengthen the NSSMC's capacity is crucial to ensure a transparent and efficient stock market (OECD, 2025[61]).

Ukraine has also made notable progress regarding shareholder empowerment and transparency. Key reforms include reducing the threshold for shareholders to call a general shareholders' meeting from 10% to 5%, allowing electronic and remote voting, and improving access to general shareholders' meeting materials online. The introduction of derivative lawsuits, with the ownership threshold for claims reduced from 10% to 5%, allows shareholders to seek compensation for management-induced losses. The ten largest publicly traded companies comply with IFRS reporting standards.

Until 2024, Ukrainian legislation on insider trading lacked key provisions, such as the requirement to publish a list of insiders with access to confidential, price-sensitive information. A new law, introduced in 2024, addressed these gaps by mandating companies to maintain and update such lists, bringing Ukraine's legislation closer with international and EU standards. However, the NSSMC's powers will only begin in 2026, and its capacity to monitor insider trading has been limited due to previous legislative gaps. No insider trading cases have been initiated since 2019. Moreover, fines might still be too low. Further progress is essential to enhance active monitoring and ensure robust enforcement of insider trading regulations (OECD, 2025[61]).

While audits are currently under the board's discretion, Ukraine should make the internal audit functions mandatory for all publicly traded companies and strengthen qualification requirements for audit committee members. The law does not consider an ex-ante review process to ensure the transaction's fairness or the consequences for failing to comply. Further, while companies may develop Codes of Conduct or ethical standards of their board members, key executives, and controlling shareholders, these are not obligatory. Adopting Codes of Ethics, recommended by Ukraine's Corporate Governance Code, should be encouraged across more companies. Additionally, enhancing shareholder redress mechanisms and enforcing disclosure regulations on related party transactions are key to improving transparency and accountability (OECD, 2025[61]).

Improving the insolvency framework

Insolvency frameworks play a critical role in relocating capital. The new Code of Ukraine on Bankruptcy Proceedings has brought significant updates, including personal bankruptcy for individuals and more transparent asset sales via electronic platforms. However, it notably lacks provisions for out-of-court agreements, which are instead covered under the Commercial and Procedural Code, lengthening insolvency procedures. Enhancing measures to support entrepreneurial rehabilitation would reduce the stigma associated with business failure.

Additionally, even before the full-scale war, bankruptcy moratoria rooted in systemic non-enforcement of court decisions, especially regarding state-owned enterprises (SOEs), undermined creditor rights and the broader business environment. The Government has committed to ending these moratoria as part of broader reform efforts to align with EU standards and improve the rule of law. These should include the creditors' ability to initiate restructuring and the possibility for courts to approve a restructuring plan despite objections from dissenting creditors, which are essential ingredients to insolvency regimes that efficiently balance debtor and creditor rights (André and Demmou, 2022[62]). Amendments to the bankruptcy code entered into force in 2025 and promise progress in this direction by introducing a preventive restructuring procedure in accordance with the main principles of EU Directive 2019/1023, which provides additional opportunities for restoring the solvency of companies, promotes early crisis detection and the adoption of measures to prevent bankruptcy.

Ensuring competitive neutrality and contestable markets

The OECD Competitive Neutrality Toolkit lays out the principles for promoting a level playing field (OECD, 2024[63]). It provides a checklist that allows governments to identify gaps in areas like competition law and enforcement, the regulatory framework, public procurement, state support and public service obligations. Ukraine has made notable progress in strengthening its competition framework and aligning its practices with OECD recommendations. In 2023, the government implemented the first stage of a competition law reform. The reform included provisions that bolster the Anti-Monopoly Committee of Ukraine's (AMCU) resources, expand its investigative powers, and refine the leniency program to enhance the AMCU's capacity to tackle anti-competitive practices effectively.

The AMCU's proactive stance against anti-competitive behaviour is evident in the 290 decisions against cartels and 80 decisions against abuse of dominance in 2023, according to Ukraine's annual report to the OECD Competition Committee. However, total fines amounted to USD 46 million or roughly USD 120 000 per decision, substantially below the average fine across OECD of more than USD 10 million per case (OECD, 2024[64]). The AMCU also demonstrated its focus on improving merger review efficiency with 564 merger notifications in 2023 and a relatively swift clearance of most cases. The committee's dedication to competition advocacy is further underscored by its recommendations to the National Energy and Utilities Regulatory Commission concerning bank guarantees. The AMCU's relatively limited staff size (7 per 1 million inhabitants against a ratio of 10 for the average OECD country) may constrain its ability to address all competition concerns comprehensively (OECD, 2024[64]). Given these circumstances, the reduction of approximately 15% in AMCU's 2023 budget compared to the previous year raises concerns that budgetary constraints might hamper the AMCU's capacity to enforce competition laws effectively.

Despite these advancements, challenges persist. The prevalence of anti-competitive concerted practices, particularly bid-rigging in public procurement, which accounted for a majority of the decisions against anti-competitive practices, highlights the ongoing need for vigilance and reform. Pro-competitive regulatory reforms could help improve the business environment and address regulatory barriers in network sectors. The authorities could learn from other countries' experiences in implementing national competition policy frameworks (Box 2.4). To this end, plans by the Ministry of Economy to assess the consistency of how national legislation with the OECD Council Recommendation on combating bid rigging in public procurement are welcome.

A major structural bottleneck was the non-competitive land market, which weighed on productivity and investment in the agricultural sector. Following the privatisation of state-owned land in the 1990s, a moratorium on land sales was introduced, ostensibly over concerns that a free land market would result in the accumulation of landholdings by large private interests to the detriment of Ukraine's smallholder farming community. In practice, though, agribusinesses still managed to obtain control over land through long-term leasing contracts with smallholders, many of whom were willing to lease at rates far below those seen in other European countries. From 2013, some measures to promote transparency and efficiency were introduced, including the digitalisation of the cadastre and Registry of Rights, the empowerment of legal professionals to register land rights in the State Registry of Rights. From 2012, legislative conditions have been created for holding auctions for the competitive lease and sale of state-owned and communal-owned land, and greater public access to, and awareness of, information on property rights and the land market.

Box 2.4. Australia's National Competition Policy programme

Australia's implementation of the National Competition Policy (NCP) in the mid-1990s is widely regarded as a landmark example of successful pro-competitive reform. This decade-long initiative, undertaken at the federal, state, and municipal levels, systematically reviewed and reformed regulations that restricted competition, replacing them with frameworks designed to promote competitive markets and strengthen regulatory institutions. Key measures included structural reforms to make government businesses more commercially focused and expose them to competitive pressures, regulatory arrangements to ensure third-party access to essential infrastructure services and prevent overcharging by monopoly providers, and the review and amendment of legislation that restricted competition. The NCP delivered substantial benefits to Australia, including stronger economic growth, higher household incomes, reduced prices for goods and services, and enhanced business innovation, consumer choice, and responsiveness, showcasing the enduring advantages of fostering competitive markets.

Source: "Competitive Neutrality Toolkit: Promoting a Level Playing Field ", (OECD, 2024[63])

These and other actions helped farmers to take advantage of the partial re-opening of the land market when the moratorium on sales was lifted in 2021 and individuals were allowed to purchase up to 100 hectares of land. Between July 2021 and the end of 2023, just over 1% of Ukraine's agricultural land was traded. Since then, the Law on the Partial Credit Guarantee Fund in Agriculture has been passed, which helps promote affordable access to finance for farmers in the short to medium term by reducing credit risk. As the land market develops, land prices adjust to better reflect market values, and land market liquidity improves, land will become a more attractive form of collateral. Under the law, the state partially guarantees the loan obligations of farmers to banks, and the Fund is supported by donor partners.

From 1 January 2024, the land market was further opened by granting access to domestic legal entities. The limit on the maximum area of land legal entities and individuals are allowed to purchase also increased from 100 hectares to 10 000 hectares. Legal entities accounted for 18% of land purchases in the six months of 2024. Closely monitoring land sales would help enable authorities to take action to prevent holdings from being concentrated disproportionately among large landholders.

The “Land Bank” project, a joint initiative of the Ministry of Agriculture, the Cabinet of Ministers, the State Property Fund of Ukraine (SPFU), and private incubators, is central to Ukraine's efforts to reform and modernise its agricultural land market. The initiative aims to lease agricultural land held by SOEs to the private sector through a landholding company, the *Land Bank*, which SPFU manages. Under the scheme, agricultural land plots are taken from state unitary enterprises (SUEs) and transferred to the *Land Bank*. The *Land Bank* then auctions the lease rights to individual land plots through the Prozorro.Sale platform while retaining overall ownership. Lease agreements span periods of 14 to 25 years, depending on the agricultural zoning of the given plot.

Of the 800 000 hectares of agricultural land owned by SUEs, around 450 000 hectares have already been designated for sublease through the Land Bank. This initiative has the potential to generate as much as UAH 8 billion in revenue each year for government bodies split 90:10 between state and local budgets, with the first wave of auctions expected to lease around 90 000 hectares of land. To support the reallocation of land to higher productivity users, the government can accelerate the transfer of land plots while ensuring equitable access to agricultural land by regulating land leases and sales, preventing excessive concentration among large agribusinesses, while supporting small farmers.

The government could explore opportunities to repurpose certain state-owned land plots for more productive uses. By developing comprehensive plans for the spatial development of the territory of the territorial community, these efforts can better align with national reconstruction priorities and drive economic growth. More generally, effective land use planning in Ukraine requires a governance structure that balances local autonomy and centralised oversight. While decentralisation has empowered local governments, key land use decisions should not be overly decentralized, as this risks inconsistent policy application and weaker strategic planning. A clear, coordinated framework is necessary to avoid overlaps between different levels of government, ensuring that responsibilities are well-defined and decision-making processes are streamlined. This will promote cohesive, efficient planning and help attract investment while safeguarding national and regional priorities.

Harnessing investment promotion and innovation

Tailor industrial policy measures to well-identified objectives

In recent years, industrial policies have regained prominence in advanced economies, driven by a series of economic crises, escalating geopolitical risks, and a heightened awareness of environmental challenges (Millot and Rawdanowicz, 2024[65]). However, industrial policies can have wide-ranging pitfalls and be costly for economic dynamism and public finances, especially when the quality and integrity of public governance are weak. Political and vested interests could influence policy decisions, leading to the misallocation of resources or the protection of inefficient firms (Juhász, Lane and Rodrik, 2024[66]; Millot and Rawdanowicz, 2024[65]). Across the OECD, firms in which governments hold more than 25% of the shares tend to receive relatively more support in grants and below-market borrowings, undermining the level-playing field (OECD, 2023[67]). There is a genuine risk that poorly designed industrial policies could entrench existing economic and power structures rather than promote economic dynamism and broad-based growth. Finally, policy interventions to promote investment and innovation in advanced economies presuppose a sound business environment; they are by no means a substitute for it.

Juhász, Lane and Rodrik (2024[66]) identify three key rationales for industrial policy: i) externalities, ii) coordination failures, and iii) activity-specific public inputs. It might be argued that these could be relevant in Ukraine. For instance, facilitating investments in green energy and upstream parts of technological value chains can generate benefits, such as reducing reliance on energy imports, improving energy security, and creating high-quality jobs that stabilise regions affected by unemployment. For example, reconstructed and new industrial plants will require lower carbon emissions technologies compared with legacy industries, when the steel sector accounted for 75% of industrial emissions before 2022 (OECD, 2024[68]). The EU Carbon Border Adjustment Mechanism will necessitate significant industrial emission reductions.

The Ukrainian Government introduced preferential and special tax regimes to stimulate investment in 2021 and 2022. Strengthening governance, reducing discretion in incentives, and advancing monitoring and evaluation efforts, as outlined in the National Revenue Strategy 2024–2030, are crucial steps to ensure cost-effectiveness and alignment with national economic priorities. Over the long term, Ukraine may benefit from transitioning to more targeted, expenditure-based incentives to support innovation and sustainable investment.

Indeed, any fiscal incentives for investors should focus on fostering new, self-sustaining activities. For example, direct tax incentives can be linked to capital formation through accelerated depreciation, investment tax credits or temporary exemptions from duties on capital goods. These can directly reduce the cost of capital for new investment projects, thereby encouraging investment that might not otherwise occur. By contrast, income-based incentives, such as CIT holidays and exemptions, are generally undesirable. They may offer little to start-ups, innovative firms or established firms engaged in large new projects that, in the early stages of development, may not generate a profit and thus have no tax to pay. However, they can offer windfall benefits to existing profitable activities and often encourage tax planning and transfer pricing to shift activity from non-exempt to exempt enterprises. To the extent that they generate new investment at all, they tend to benefit projects with relatively short payback times (i.e., within the holiday period) at the expense of longer-term ventures.

Second, coordination failures and the massive destruction of physical capital present barriers to growth, as complementary investments in infrastructure, logistics, and supply chains may require public intervention to enable reconstruction. A historical parallel can be drawn with the Marshall Plan, which not only included long-term investments in education and training but prioritised capital inputs to SMEs, driving broad-based private-sector growth across Europe. Similarly, Ukraine could benefit from targeted policies that nurture SMEs as the backbone of the economy, fostering a competitive economic environment. Initiatives like the development of industrial parks could stimulate investment across interconnected sectors while providing network inputs such as digital infrastructure and public goods like specialised education could bolster emerging industries like AI and green technology.

Against this backdrop, industrial policy should focus less on subsidies and protectionist measures and more on framework conditions, such as addressing coordination failures and providing public inputs that enhance productivity and competitiveness, including investments in education and training, research and development, and infrastructure (Juhász, Lane and Rodrik, 2024[66]). Consultations with businesses can ensure that policies are well-informed, responsive to the needs of industries, and effectively implemented. Clear performance benchmarks and monitoring mechanisms should be established to reassess the impact of targeted policies regularly. For instance, the number of industrial parks, spurred by ample government support programmes, has more than doubled since the beginning of the full-scale invasion of Ukraine. Yet, there is no impact assessment on whether the government funds are spent efficiently and on whether the industrial parks meet their undertakings in terms of increased productivity, attractiveness for foreign direct investments as well as enhancing and diversifying exports.

Strengthen investment promotion capacities

While Ukraine’s Investment Promotion Agency, UkraineInvest, created in 2016, has provided valuable services to domestic and foreign investors, it has failed to fully act as a one-stop-shop for investors to alleviate bureaucratic obstacles (USAID, 2023[69]). Indeed, key services for investors, such as licensing, tax registration, and regulatory compliance, are handled by other ministries or local authorities, requiring UkraineInvest to coordinate with a wide range of stakeholders.

To enhance UkraineInvest's effectiveness as a one-stop shop, three key reforms are crucial. One involves streamlining the investment process by bringing together authority over permits, approvals, and regulations, which would reduce delays resulting from inter-agency coordination. Another important reform is to build the agency's capacity by granting it greater independence, a larger budget, and increased decision-making authority, enabling it to operate autonomously and respond more swiftly to investor needs, especially for large, complex projects. Additionally, implementing robust monitoring and evaluation systems would help track investment outcomes, using tools like customer relationship management systems to measure impact and improve accountability. The development of stronger regional offices could improve UkraineInvest's effectiveness (Crescenzi, Di Cataldo and Giua, 2021[70]; Crescenzi and Harman, 2023[71]). This is already happening to some extent, with regional offices like those in Vinnytsia and Ivano-Frankivsk aimed at attracting investment to these regions. Expanding these efforts could strengthen the agency's presence at a regional level, ensuring a more tailored and responsive approach for foreign investors.

International support, such as the Ukraine Donor Platform or the Ukraine Investment Framework (UIF), can help mutualise war-related risks (Box 2.5). The programmes' effectiveness hinges on the collaborative efforts of the Ukrainian government and International Financial Institutions (IFIs). The government needs to play a proactive role in channelling the UIF support effectively to increase the availability of grants, enable effective transmission of guarantees to provide financing at reduced interest rates, implement specialised initiatives for SMEs in high-risk areas, and develop project financing to fund industrial projects at initial stages.

Under certain conditions and strict control mechanisms, public-private partnership (PPP) can be a mechanism to diversify funding for regional and local development projects, particularly when a government is faced with budgetary and funding constraints (OECD, 2022[72]). However, PPPs involve significant risk, including capture of their regulators, conflict of interest and corruption, and long-term constraints on government fiscal capacity. Ukraine is aligning its PPP framework with EU law, and is developing the IT architecture for an electronic trading system for concession projects. Establishing a clear strategy that defines priorities across sectors, develops standardised methodologies for screening and appraisal, and strengthens capacity within the Ministry of Finance and Ministry of Economy to assess and manage fiscal risks would improve the environment for PPPs (World Bank, 2022[73]). Blended and concessional financing models can mitigate risks and improve projects' prospective returns for investors. Despite some recent improvements that clarified the processes of initiating and budgeting PPPs, Ukraine still faces significant capacity gaps in managing PPPs, with limited expertise in project appraisal, procurement, and cost-benefit analysis (USAID, 2023[69]). Better staffing the understaffed PPP Agency, and hastening and streamlining approval process would help develop the role of PPPs to the reconstruction.

The implementation of a law adopted in early 2025 integrating public investment management, including PPPs, into the budget process is promising and should be implemented swiftly. The law stipulates that all public investment projects are selected according to pre-approved prioritisation criteria, consolidating the budgeting process by guaranteeing that only projects that have been properly scored and evaluated are included. It also clearly defines the roles of participants in the Public Investment Management process, introduces medium-term planning for public investment with a focus on ongoing projects, and mandates the use of a unified IT platform, such as DREAM and the IT systems of the Ministry of Finance and the Ministry of Economy, to enhance efficiency and transparency. The Ministry of Finance will oversee project financing, ensuring compliance with fiscal responsibility and strategic priorities.

Mobilising private sector financing for Ukraine's infrastructure reconstruction is essential and should focus on creating an enabling environment that aligns with market-based incentives while safeguarding public interests. Establishing clear regulatory frameworks and institutional capacities, including through transparent procurement processes and public-private partnerships (PPPs) can help to attract investment. Establishing a clear strategy that defines PPP priorities across sectors, develop standardised methodologies for screening and appraisal, and strengthen capacity within the Ministry of Finance (MoF) and Ministry of Economy (MoE) to assess and manage fiscal risks would improve the environment for PPPs . Blended and concessional financing models can mitigate risks and improve projects' prospective returns for investors.

Attracting foreign investment is another critical factor for Ukraine's recovery. Addressing war-related risks will be key to fostering this investment. Reforms to expand the Export Credit Agency's capacity to provide war risk insurance and reinsurance of loans to foreign investors in processing and export sectors are already in place. To support these efforts, the Financial Stability Council approved the National Lending Development Strategy in June 2024. This strategy aims to finance the reconstruction of energy infrastructure, boost defence, manufacturing, and agriculture sectors, and stimulate business growth in de-occupied territories. The plan focuses on expanding lending to priority areas under martial law and enhancing the legal framework to promote broader market lending. Mobilising private sector capital, both foreign and domestic, will be crucial to ensuring the long-term sustainability of Ukraine's recovery and reconstruction efforts.

Box 2.5. International support frameworks for Ukraine

Ukraine Donor Platform

The Ukraine Donor Platform was established by G7 leaders and brings together permanent representatives of the governments of Ukraine and G7 countries, of the European Union, and temporary members and observers from EU and non-EU countries and international financial institutions (IFIs).

The Platform aims to direct resources in a coherent, transparent, and inclusive manner. It is mandated to coordinate the support for Ukraine's immediate financing needs and future economic recovery and reconstruction across different sources and instruments. This complements existing mechanisms, such as the the G7 Finance Track, the G7 Coordination Group on energy infrastructure, and the IFI coordination group.

The Platform works with Ukraine's authorities to define, prioritise, and sequence strategic needs in line with Ukraine's reform ambitions, the conditions for financing and structural support of the major donors, and Ukraine's European Union accession process.

Ukraine Investment Framework

The Ukraine Investment Framework (UIF) is the second pillar of the EU's EUR 50 billion Ukraine Facility (discussed in Chapter 1). It aims to mobilise public and private investment for Ukraine's recovery and reconstruction. The framework, which brings EUR 9.3 billion in guarantees and grants, aims to leverage up to EUR 40 billion in investments. The initial programmes, launched at the Berlin Ukraine Recovery Conference in June 2024, are backed by EUR 1 billion in guarantees and EUR 400 million in grants. Investments under these first UIF operations will be directed towards key areas such as infrastructure development, energy sector support, and access to finance for small and medium-sized enterprises. The UIF collaborates with the Ukrainian Government, EU Member States, and International Financial Institutions to implement these programs.

Source: https://ukrainedonorplatform.com/

Leverage digitalisation

Ukraine has demonstrated notable progress in reinforcing the institutional framework to support digitalisation of small and medium-sized enterprises (SMEs) (OECD/EBRD, 2023[74]). Despite the full-scale invasion, Ukraine has accelerated its digitalisation efforts to enhance resilience during wartime. This includes ensuring continued internet access through national roaming and agreements with EU mobile operators. High-speed fixed and wireless internet access has remained among the cheapest globally (cable.co.uk, 2024[75]). The government continues expanding the Diia e-government platform, streamlining administrative services, such as applying for state benefits and recording housing damage. Diia.Business supports SMEs by offering consulting services and simplifying business permits. The platform also expanded significantly to offer wartime-specific services, including consultations through the virtual Diia Business centre, advice on remote work and business relocation, and tools to facilitate humanitarian aid, refugee support, and housing compensation. Ukraine developed digital platforms like DREAM to coordinate reconstruction transparently and GIS tools to prioritize regional development needs, ensuring efficient rebuilding efforts.

However, SMEs have yet to fully embrace digital tools, with adoption rates lagging behind those of larger firms. While nearly 70% of large businesses have an online presence, fewer than half of medium-sized businesses and just 30% of small enterprises do (OECD, 2024[76]). This hinders their competitiveness and role in a sustained reconstruction and recovery. The Ukrainian Government's commitment to enhancing SME digitalisation, including through the SME Strategy 2024-27 released in September 2024, and the "Digital Innovation Development Strategy until 2030" (WINWIN strategy), released in January 2025, present opportunities to address these challenges.

Addressing war-related challenges through digital tools, such as promoting e-commerce to mitigate trade disruptions and enhancing cyber resilience, is crucial. Ukraine's e-commerce market has grown, but the uptake by SMEs remains limited. Efforts to reduce shipping costs and foster consumer protection can boost SME participation (OECD/EBRD, 2023[74]). The new law "On Consumer Rights Protection" is welcome in this respect but will only enter into force after the end of martial law. Digital security remains a pressing concern, with SMEs particularly vulnerable to cyberattacks. The government supports efforts to foster cybersecurity through specific solutions such as cyber diagnostics for SMEs and the Tallinn Mechanism. Additionally, it advances digital transformation and resilience through initiatives like eVorog, Diia.TV, Diia.Radio, IDP assistance, war bonds, eVidnovlenie, and United24, as well as ongoing projects like Diia.Education, and CDTO Campus. Continuing to strengthen cyber resilience through stakeholder collaboration, bringing together government agencies, industry associations and NGOs, and reducing reliance on Russian software will remain critical to safeguarding businesses against digital threats.

ICT skills also matter, and the bias towards small firms does not help. Indeed, across OECD countries, large firms provide considerably more training opportunities to their personnel to develop and upgrade their ICT skills (OECD, 2023[6]). Ukraine's digital literacy initiative, centred on the Diia.Education platform and "IT Studios", has rapidly expanded interactive learning, job-focused skill development, and EU-aligned assessments to millions of citizens, students, and educators. Simultaneously, the newly launched Mriia ecosystem supports schools by enhancing academic planning and engagement, further accelerating the nation's digital transformation. Efforts to retain, attract and invest in highly skilled labour are key during the war but also when emigration restrictions for adult males will be lifted.

Several countries have implemented targeted measures to allow SMEs to support data cultures and build ICT-relevant skills. Financial assistance, such as grants for digital technology investments (e.g., Digital Now in Germany) and consulting services (e.g., SME Digital in Denmark), helps alleviate upfront costs. Capacity-building initiatives, ranging from intensive bootcamps (e.g., Digital Pro Bootcamps in Austria) to specialised workshops (e.g., Accelerating digitalisation of SMEs in the Netherlands), equip SMEs with the necessary digital skills. Expert advice and guidance, offered through innovation hubs (e.g., Commit2Data in the Netherlands) and specialised centres (e.g., Competence Center Digital Crafts in Germany), bridge the knowledge gap. Additionally, collaborative research initiatives (e.g., Commit2Data) foster innovation and explore new possibilities in the digital realm. This diverse array of support measures ensures that SMEs have access to the resources and expertise required to thrive in an increasingly digital economy.

Unlocking the country's export potential

Several structural features have hindered the full realisation of Ukraine's export potential. Underpriced energy has delayed industrial restructuring and diversification of the product space, including for export markets. The country's reliance on road transport and inefficiencies in river transport and management of public assets contribute to costs significantly higher than those of competitors. Additionally, Ukraine's railway sector faces major challenges. Most railcars are old, increasing maintenance costs and reducing service quality. Ukraine's 1520 mm gauge is incompatible with Europe's 1435 mm standard gauge, requiring freight transfers or bogie changes at borders, complicating rail connections. To address this, Ukraine is building standard-gauge railways on key routes, such as to Lviv. Expanding 1435 mm infrastructure will improve transport efficiency, boost trade, and strengthen economic ties with the EU.

The government is updating its export strategy and expanding support for SME integration into global value chains and e-commerce platforms. The restructuring of state bodies in recent years led to the creation of the Entrepreneurship and Export Promotion Office (EEPO), which now manages the Diia.Business platform, providing support for entrepreneurship and export promotion. The EEPO, bolstered by international aid, has proved to be highly functional. In collaboration with European partners, it secured significant funding to support Ukrainian enterprises affected by the war. The ongoing war has also accelerated the digitalisation of society and the adoption of e-government platforms, with EEPO promoting online courses for SMEs and digital transformation programmes. Additionally, the Diia.Business portal launched the Ukrainian Exporters Catalog, a free online platform that connects foreign companies with Ukrainian manufacturers, offering benefits such as participation in international events, global promotion, and networking tools, ultimately bolstering Ukraine’s visibility and growth in global trade.

Fostering intellectual property rights

Internationalisation and scientific collaboration can support innovation and help diversify export markets, although Ukraine currently lags far behind most comparable countries. It is critical to prioritise sustained investment in research to support Ukraine’s reconstruction and economic upgrading efforts. This will lay the foundations for attracting and retaining highly skilled researchers and innovators, bolstering productive capabilities, and diversifying Ukraine’s business sector.

Intellectual property (IP) rights protect innovations and attract investment. Ukraine has adopted standard intellectual property protection that abides by WTO provisions. Still, challenges remained prior to the full-scale war, including the continued use of unlicensed software by Ukrainian government agencies and the ongoing failure to implement an effective means to combat online copyright infringement (USTR, 2024[77]). The Ukrainian National Office for Intellectual Property and Innovations (UANIPIO) assumed responsibility for all IP matters in Ukraine in November 2022, replacing the previous Ukraine Intellectual Property Institute. UANIPIO is the central body for processing and granting patents, trademarks, designs, and other IP rights; overseeing the enforcement of IP rights and combating infringement; formulating and implementing national IP policies; and collaborating with international organisations like WIPO and the EUIPO on IP matters. Despite facing disruptions and an unstable operating environment, UANIPIO has made significant progress in launching online filing services and processing IP applications.

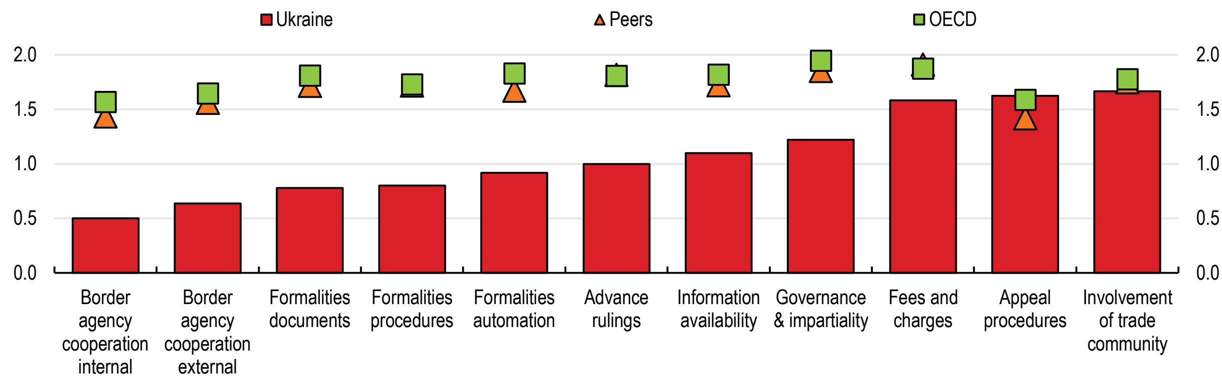
While these developments are part of Ukraine’s broader strategy to align with EU standards, as mandated by the EU-Ukraine Association Agreement, challenges remain. Improvements in key areas, including aligning laws on copyright, industrial property rights, and trade secrets and enhancing the functioning of collective management organisations to strengthen IPR enforcement, particularly in combating piracy and counterfeit goods (European Commission, 2023[78]) are underway. Establishing a specialised intellectual property court and leveraging collaboration with the European Union Intellectual Property Office will help to close the gap further with the EU acquis.

Removing obstacles to international trade and investment

Aligning trade facilitation with OECD practices can support integration into global value chains, bolster exports, and reduce import costs. The OECD Trade Facilitation Indicators suggest considerable potential for improvement in several areas (Figure 2.17), including the cooperation between internal and external border agencies, the accessibility of customs-related information, and the easing of administrative burdens associated with customs procedures and formalities (Sorescu and Bollig, 2022[79]). These policies can support access to global markets, reduce trade costs, and ensure the timely delivery and expedition of goods. A major reform enacted in late 2024 introduces mechanisms for the objective selection of leadership, strengthens human resources, ensures independent oversight through audits, and improves the certification process for customs officers. This reform is crucial for enhancing transparency, fostering a more favourable business climate, and speeding up the process of aligning with EU customs practices, notably regarding the automated exchange of information and the harmonisation of formalities.

Figure 2.17. There is ample room to enhance trade facilitation measures

Trade facilitation indicators, 2022



Source: OECD Trade Facilitation Indicators (database).

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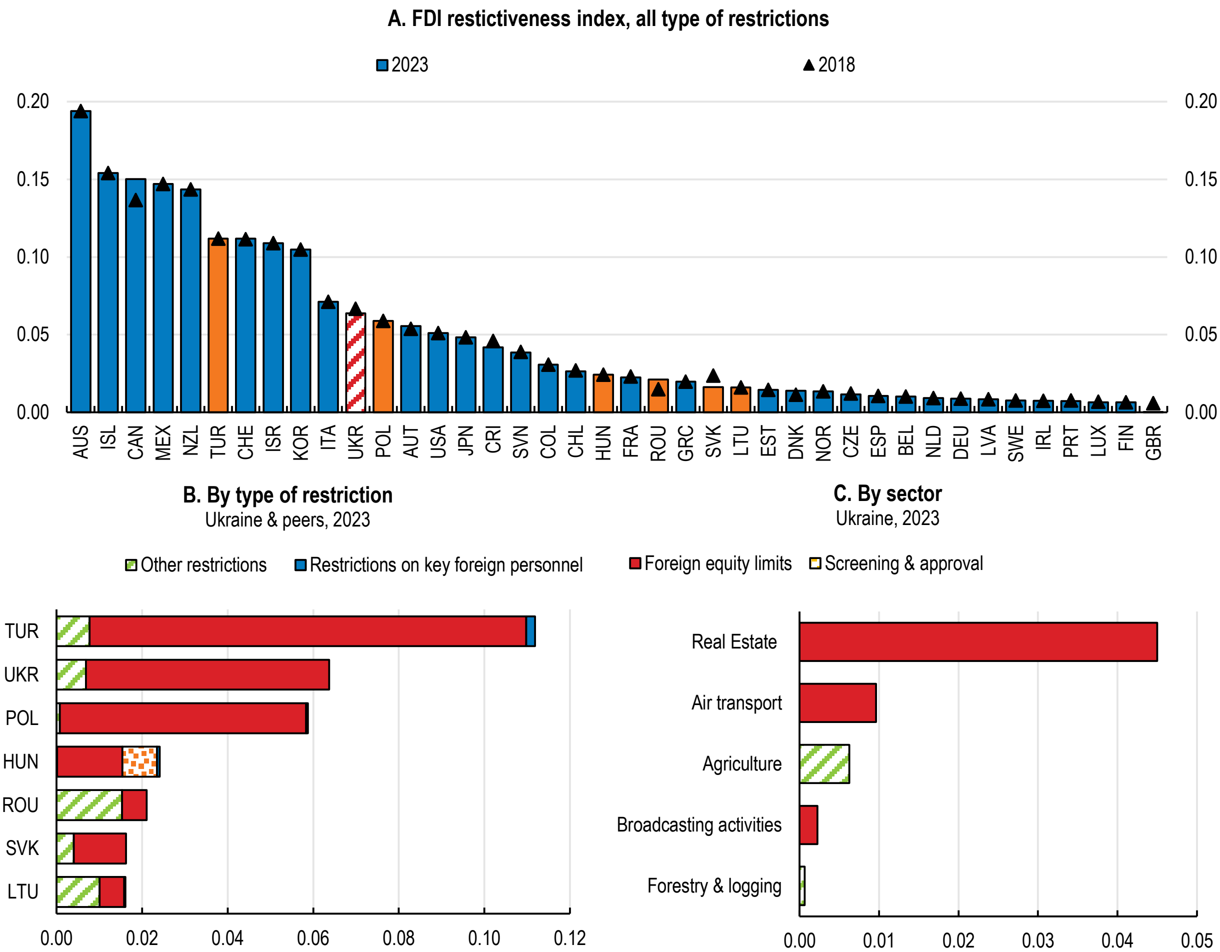
The recently released OECD FDI Regulatory Restrictiveness Index (OECD, 2024[80]) identifies several restrictions in Ukraine affecting foreign investors (Figure 2.18). Empirical evidence suggests that a ten-percentage point reduction in the OECD FDI restrictiveness index can boost inward FDI stocks by 2.1% on average (Mistura and Roulet, 2019[81]). Despite Ukraine's legislation endorsing the non-discrimination of foreign investments, the country still enforces several restrictive measures that qualify as exceptions under the OECD Declaration on International Investment and Multinational Enterprises (OECD, 2024[82]). Specifically, foreign-owned enterprises' access to forests and equity participation in broadcasting activities and air transport are limited. Additionally, the acquisition of real estate is closed to foreign equity participation. Removing these restrictions would lift barriers to foreign investment in these areas. The gradual withdrawal of temporary measures taken after the full-scale invasion to stabilise the currency, such as bans on the repatriation of dividends, will remove further obstacles to foreign investments.

War-related risks heighten difficulties in attracting foreign direct investment (FDI) and trade. Ukraine is working to address this barrier by providing war risk insurance products and partnering with international financial networks. Legislative reforms are underway to expand the Export Credit Agency's capacity to provide war-related insurance and reinsurance of loans to foreign investors to stimulate the development of the processing industry and export goods. The authorities can build on OECD countries' experiences to build an effective export credit agency (Box 2.6).

Figure 2.18. Foreign equity restrictions hold back foreign direct investment



Source: OECD FDI (database).

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Enhancing businesses' access to finance

Access to finance is critical to support stronger private investment, productivity growth and develop export industries. The war has significantly increased the financing needs of the private sector. At the beginning of 2025, recovery and reconstruction needs for the private sector alone were estimated to amount to USD 133 billion for the next ten years (Figure 2.1), representing roughly 75% of the annual GDP (World Bank et al., 2025[3]). Financing the recovery will require bolstering the banking system, developing capital markets and other non-bank sources of investment, and ensuring the regulatory framework is attractive for foreign investment (OECD, 2025[61]).

Mobilising bank lending

Financial intermediation remains small compared to peer countries. Total bank assets represented 46% of GDP in 2022 compared to ratios exceeding 80% in most peer countries (Figure 2.19, Panel A). Similarly, lending activity remains well below peer countries, with bank domestic credit to the private sector totalling 18% of GDP in 2023, compared, for example, to over 60% in Slovakia (Figure 2.19, Panel B). While bank deposits have expanded rapidly, lending growth has remained subdued, exposing many credit-constrained businesses to liquidity risks. Government-subsidised loan programmes are in place to help bridge the funding gap (Box 2.7).

Box 2.6. Designing effective Export Credit Agencies (ECA)

Governments support national exporters through ECAs, which can be government entities or private firms operating on behalf of the government. ECAs provide official financing support (e.g., direct credits, refinancing, interest-rate support) or pure cover support (e.g., export credit insurance, guarantees for private lenders). As such, ECAs can fill the funding gap that private-sector lenders create with their inability or unwillingness to provide financing for export and investment projects. The OECD has developed several instruments to support the functioning of ECAs.

The OECD Arrangement on Officially Supported Export Credits provides a framework for the orderly use of officially supported export credits by fostering a level playing field to encourage competition among exporters based on the quality and prices of goods and services exported rather than on the most favourable export credits. Participants in the Arrangement are Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Türkiye, the United Kingdom, and the United States while non-member countries are regularly invited to observe meetings of the Export Credit Committees.

The OECD also provides a forum for discussing and coordinating national export credit-related policies, including anti-bribery measures, environmental and social due diligence, and sustainable lending practices. These discussions take place under the auspices of the Working Party on Export Credits and Credit Guarantees (the “Export Credits Group”, or ECG).

Source: https://www.oecd.org/en/topics/export-credits.html

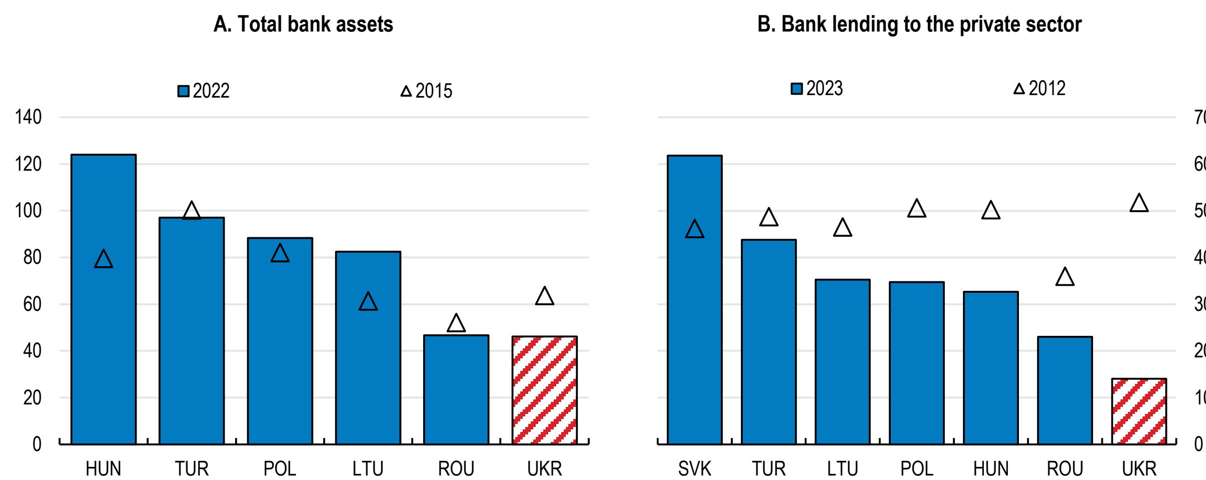
The banking sector has become increasingly dominated by state-owned banks, which control 56% of total assets, including over 60% of retail deposits. PrivatBank, the largest state-owned bank, holds 26% of total banking assets and 36% of retail deposits. Foreign-owned banks account for 25% of assets, while domestic private banks hold 20%. The sector has undergone significant restructuring since 2014, following a financial crisis that reduced the number of banks from nearly 180 to fewer than 80 by 2019. PrivatBank’s 2016 nationalisation marked a turning point, raising state ownership to the majority of banking assets. As of January 2025, 61 solvent banks operated in Ukraine, with a sginficiant concentration of assets among the top three banks, all of which are state-owned, holding 46% of the total loan portfolio. Liquidity ratios remain high, with banks expanding cash reserves and reducing the share of loans in their portfolios. Banks’ profitability has been boosted by increasing holdings of high-yielding government bonds.

An important challenge for the financial sector has been the elevated level of the non-performing loan (NPLs) ratio, which peaked at over 56% in 2017 following the 2014 banking crisis, driven by heavy losses at the then privately owned PrivatBank. While the NPL ratio declined to 27% before Russia's full-scale invasion, it spiked to 39.3% in May 2023 before easing to 30.3% by January 2025. State-owned banks have higher NPL ratios (43%) compared to Ukrainian private banks (12.6%) or foreign-owned banks (10.9%). Corporate loans face greater NPL challenges, particularly in sectors like real estate and construction. In response, Ukraine has introduced restructuring mechanisms, including the "Kyiv Approach" and created a specialised committee to tackle NPLs at state-owned banks, with further reforms planned under the National Lending Development Strategy.

Building on early strategy documents for the financial system (National Bank of Ukraine, 2023[83]) (National Bank of Ukraine; Ministry of Finance of Ukraine; National Securities and Stock Market Commission of Ukraine; Deposit Guarantee Fund of Ukraine, 2023[84]), the 2024 “National Lending Development Strategy” prioritises efficient, fair, and timely NPL resolution, ensuring equal treatment for all lenders and borrowers while balancing creditors’ rights and debtors’ continued economic activity. Legal barriers, such as court requirements and restrictions on loan write-offs, should be reviewed to accelerate NPL clean-up. The NBU has committed to full asset quality reviews (AQRs) to enable accurate NPL pricing and resolution. Additionally, authorities are exploring strategies such as establishing Asset Resolution Companies or allowing banks to handle NPLs independently or collectively. Policy priorities should be to enhance legislation on insolvency and restructuring, improve data transparency, and incentivise NPL market infrastructure development to boost the financial sector's capacity to support Ukraine's recovery and growth.

Figure 2.19. Financial intermediation is low

% of GDP



Source: World Bank, World Development Indicators (WDI), LSEG.

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The NBU has implemented a series of measures to enhance the banking sector's ability to extend credit for rebuilding the economy. These initiatives align with the Lending Development Strategy, developed in cooperation with the Ministry of Finance and the Ministry of Economy, to boost credit support for key sectors during martial law. The measures include revising capital adequacy requirements, introducing transitional provisions to assist banks in meeting new EU-aligned regulatory standards while preserving their lending capacity, and allowing the inclusion of interim profits and certain funds in capital calculations. Special rules have also been introduced for assessing credit risk from specialised loans to encourage financing for priority sectors, such as energy and agriculture, and projects focused on rebuilding economic infrastructure. These actions are designed to balance the need for financial stability with the need to expand lending, ultimately enhancing the banking sector's role in supporting Ukraine's economic recovery.

Bank lending in Ukraine is constrained by the scarcity of acceptable collateral, as banks require high collateral coverage while having a preference for real estate over movable assets as the underlying security. This limits SMEs' ability to secure financing using a broader range of assets. Movable assets remain underutilised as collateral, highlighting the need to streamline the loan agreements and collateral registration process. Legislative reforms are also needed to strengthen creditor rights and simplify foreclosure procedures on collateral. The current restrictive currency control regime complicates cross-border lending and the use of collateral in international financing arrangements. Additionally, Ukraine's separate registers for immovable and movable property create inefficiencies, while the absence of a comprehensive credit information system further restricts lending. The United Register of Debtors primarily records legal non-compliance rather than offering a full picture, including positive track records, of credit histories.

Risk pooling initiatives and the expansion of war insurance schemes are essential for mitigating financial risks in Ukraine. However, the reinsurance market has effectively closed for Ukraine, and coverage of war-related risks remains limited, with private insurers unable to provide coverage at scale. As a result, additional sources are necessary to bridge this gap. For example, the European Bank for Reconstruction and Development's initiative to develop a reinsurance facility by leveraging existing market infrastructure and implementing risk transfer mechanisms to reduce the risks for private investors from war-related damages or expropriation. Enhancing access to commercial war risk insurance is expected to foster business activity, unlock financing, and contribute to Ukraine's economic recovery and reconstruction (Box 2.7).

Box 2.7. Initiatives to develop credit to businesses

The "5-7-9 programme"

The government provides an interest subsidy on loans to businesses under the "Affordable Loans at 5-7-9%" programme to facilitate businesses' access to bank lending. As of January 2025, since the start of the programme in 2020 more than 100 000 business loans have been granted under the programme, totalling UAH 389 billion (BDF, 2025[85]). UAH 300 billion of these loans were issued since the beginning of the Russia's war of aggression against Ukraine, accounting for around 77% of new business loans. The sectors that most used this programme are agriculture (46%), trade and production (23%), and industry (21%). Accordingly, this programme is playing a critical role in supporting access to credit for companies. The German Government has provided EUR 200 million in grant funding to cover the fiscal cost of the programme in 2022 and 2023 (Deutsche Botschaft Kyjiw, 2023[86]). The Ukrainian Government has envisaged approximately UAH 72 billion of lending over 2024-2027 for the programme, along with similar subsidies for leasing and factoring. Of this, UAH 18 billion was allocated for 2024.

State guarantees

In addition, the government introduced in June 2023 a State Portfolio Guarantee programme, whereby up to 80% of the portfolio of banks' loans to MSMEs can be guaranteed by the state, up to a total value of UAH 7.8 billion (Ministry of Finance of Ukraine, 2023[87]). Nine banks are participating in the programme. A similar programme for the agricultural sector, the Partial Credit Guarantee Fund in Agriculture (PCGF), was launched in January 2024. The PCGF provides guarantees of up to 50% of loans for small farmers, up to a maximum loan of USD 800 000 per borrower for land purchases. The programme is currently funded by the World Bank and the EU (World Bank Group, 2024[88]).

War risk insurance

In December 2024, the European Bank for Reconstruction and Development (EBRD) and global professional services firm Aon launched a EUR 110 million Ukraine Recovery and Reconstruction Guarantee Facility. This facility is designed to support global reinsurance companies with a guarantee covering certain war-related risks underwritten by local Ukrainian insurers.

Bolstering non-bank financial services

Non-bank financial institutions (NBFIs) can potentially be critical drivers in financing recovery and reconstruction efforts. Finance companies, in particular, have shown resilience by expanding into retail lending, leasing, and factoring. This diversification beyond bank loans is crucial for providing businesses and households with alternative financing solutions, especially for smaller enterprises and when bank lending is constrained. As of mid-2024, the share of NBFIs in Ukraine's financial sector remains relatively modest. The total share of NBFIs in the country's financial sector assets stood at 10% as of June 2024 (National Bank of Ukraine, 2024[89]) while this share amounted to more than 50% in advanced countries and more than 25% in emerging countries globally at the end of 2022 (Financial Stability Board, 2023[90]).

The relative underdevelopment of Ukraine's NBFI market can be explained by a combination of factors, including weaker regulatory frameworks, limited public trust, and the dominant position of the banking sector, notably state-owned banks. The modest penetration of NBFIs in Ukraine suggests there is significant potential for growth, particularly in insurance, leasing, and factoring services, which could play a larger role in meeting the country’s reconstruction and recovery financing needs. In addition, they can play an important role in supporting SMEs by providing specialised products such as leasing contracts and microfinance that are better suited to such businesses. However, the sector will require strategic support and regulatory improvements to reach levels seen in more advanced or comparable economies.

In 2020, the NBU became the market regulator for non-bank financial services, including insurance companies, leasing companies, factoring companies, credit unions, pawnshops, and other financial institutions (OECD, 2021[9]). The NBU and other regulatory bodies have focused on tightening regulations to build a more resilient NBFI market. This includes enhancing corporate governance and solvency requirements for insurance companies, simplifying entry into the credit union market, and increasing transparency and risk management for financial leasing companies. Additionally, new laws have been introduced to streamline licensing procedures and strengthen investor protections, particularly in the insurance and leasing sectors. One of the objectives was to consolidate the market and strengthen its resilience. Indeed, the number of finance companies, for instance, decreased from 960 in 2020 to 548 in June 2024. At the same time, their financial assets increased by 40%.

The new reporting requirements in the non-bank financial institutions (NBFI) market of Ukraine are part of a broader effort to enhance regulatory oversight and transparency. Since January 2024, participants in the NBFI market, such as insurers, finance companies, credit unions, and pawnshops, have been required to submit updated reports in line with new standards issued by the National Bank of Ukraine (National Bank of Ukraine, 2024[89]). The changes involve more detailed financial disclosures, including regulatory balance sheets, off-balance sheet liabilities, and refined performance metrics. Importantly, the frequency of reporting has also increased for some institutions: starting January 2025, certain entities will be required to submit monthly rather than quarterly reports. These adjustments aim to align the Ukrainian financial sector more closely with international practices, allowing for more effective monitoring of financial health and compliance among NBFIs, particularly following the challenges faced in recent years.

Institutional investors such as pension funds and insurance companies could play a vital role in deepening Ukraine's capital market. Revising the investment limitations currently imposed on pension funds to allow for greater flexibility in asset allocation could improve returns and increase market depth. Asset-backed pensions in Ukraine are very small, and efforts to develop the legal and regulatory framework are at a very early stage (OECD, 2025[61]). Encouraging the use of long-term investment products and enabling pension funds to lend securities could also foster liquidity in the secondary market. Promoting occupational pension schemes and enhancing incentives for voluntary savings will help build a sustainable flow of capital into market investments (Høj and Klimchuk, 2024[91]). The regulatory framework should be expanded to allow the inclusion of investment funds and loan assets within occupational pension funds. (OECD, 2024[92]).

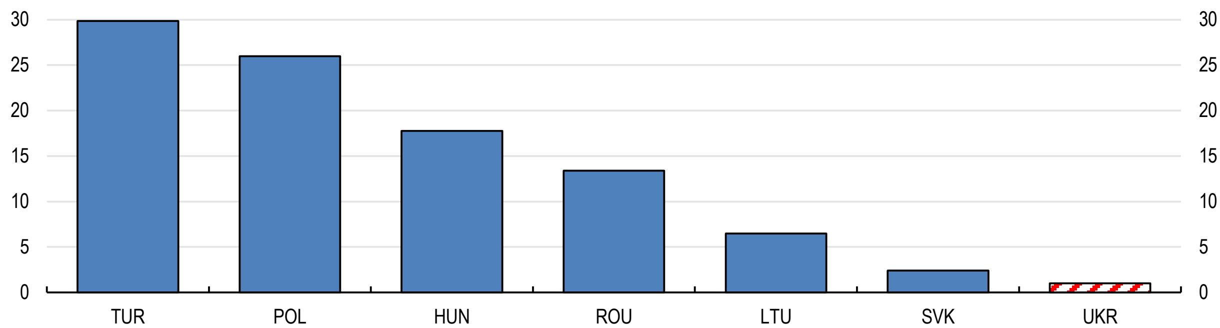
Fostering capital market development

Private capital will be essential for Ukraine’s recovery and reconstruction, especially in the medium term as the economy and financial sectors deepen. Ukraine’s capital markets remain underdeveloped and fragmented. Ukraine had seen a declining market capitalisation relative to GDP, from almost 30% in 2010 to just under 3% in 2018 (World Bank WDI), with only one initial public offering in the five years before the full-scale invasion (De Haas and Pivovarsky, 2022[93]). Between February and August 2022, trading activities were halted for all products, except for government bonds, which can be accessed either cross-border by foreign investors via the link between the International Central Securities Depository Clearstream Banking Luxembourg and the National Bank of Ukraine or via foreign investors’ on-shore accounts opened with Ukrainian banks, or via foreign nominee account (National Securities and Stock Market Commission of Ukraine, 2024[94]). Total market capitalisation shrank to around 2% of GDP in 2023 (Figure 2.20).

Ukraine has two operating stock exchanges, with 22 companies trading. The state holds more than 50% of the shares of two of these companies (OECD, 2025[61]). To encourage growth in Ukraine's stock market, it is essential to streamline regulatory reforms and align the capital markets framework with EU standards. This includes introducing a financial collateral law to enhance market efficiency, reviving the NBU roadmap for integrating financial market infrastructure with European directives and reforming the derivatives market to secure legal certainty on netting agreements (De Haas and Pivovarsky, 2023[95]; NBU, 2023[96]). Listing of financially significant SOEs, such as energy, transport or financial companies, can also help broaden the market and further incentivise these companies to adhere to the highest standards of corporate governance to inspire investor confidence.

Figure 2.20. Market capitalisation is low

Market capitalisation of listed firms, % of GDP, 2023



Note: The market cap figure for Ukraine is based on the estimated market capitalisation of the 22 companies trading shares in the Ukrainian stock markets. The market capitalisation figures for other countries are from the OECD Capital Market Series Dataset.
Sources: National Securities and Stock Market Commission (NSSMC), OECD Capital Market Series Dataset.

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Enhancing liquidity in Ukraine's secondary stock market is crucial to providing confidence for both local and international investors. Encouraging inactive shareholders, including those linked to the privatisation programme of the 1990s, to participate actively in stock exchanges and trading platforms could also help stimulate activity and increase liquidity (OECD, 2022[97]). Additionally, reducing trading fees and simplifying tax processes, such as adopting a withholding tax system for capital gains, can make the market more appealing to retail investors.

SMEs typically face particular barriers to accessing capital. A vibrant SME growth market could be nurtured by providing tailored support to encourage SMEs to list on an alternative market, akin to Romania's AeRO Market. Cooperation between the Ukrainian Stock Exchange and regional business chambers can help promote market-based financing, while training programs could enhance SME knowledge of financing options. Increasing the threshold for exempting public offerings from the prospectus requirement would also ease the process for SMEs to access public funding, making the equity market a more attractive option for growth.

The development of a corporate bond market in Ukraine can diversify sources of capital, particularly for larger infrastructure projects. Streamlining the regulatory process for issuing corporate bonds and establishing domestic credit rating agencies could make debt markets more accessible for Ukrainian firms.

Findings and recommendations

FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Enhancing public integrity	
Despite significant progress in establishing anti-corruption institutions, public perception of corruption remains high, and perceptions of judicial independence are low, undermining trust and deterring especially foreign investment that will be much needed for the reconstruction.	**Strengthen the independence of anti-corruption bodies and complete the legal framework for judicial appointment standards with binding integrity assessments.** Remove the perpetual integrity provision to ensure that all High Council of Justice candidates undergo thorough integrity assessments and strengthen the role of regulations of the Public Integrity Council.
Gaps in the implementation and enforcement of public integrity strategies, such as in the independence of internal audit and the accountability of public officials, hinder overall effectiveness.	**Empower oversight bodies to impose sanctions for breaches of public integrity regulations and advance the enforcement of lobbying regulations, including mandatory cooling-off periods, to reduce risks of conflicts of interest.**
Improve the regulatory framework and its implementation	
Regulatory inefficiencies, lack of transparency, and inconsistent enforcement weigh on the business climate. Bureaucratic obstacles, compounded by insufficient stakeholder engagement and alignment with EU standards, create a climate of uncertainty.	**Modernise the regulatory framework by implementing the public consultations law, adopting data-driven risk assessments and strengthening policy coordination.**
The State Regulatory Service (SRS) and related entities and registers are fragmented, challenging evidence-based and stakeholder-driven regulatory decision-making and affecting their overall efficiency and effectiveness.	Swiftly implement plans to launch a central regulatory portal run by the State Regulatory Service to discuss and monitor regulatory reform processes, enhance stakeholder engagement and serve as a basis for harmonised Regulatory Impact Assessments.
Inefficient customs services and regulatory burdens increase costs and create uncertainties for domestic and foreign firms.	Align trade facilitation measures with WTO standards, including by implementing digital tools to automate processing and streamline compliance with procedures for trade formalities.
Tax compliance is costly for taxpayers, the tax administration is perceived as cumbersome and unfair, undermining the business climate, and contributing to firms' operating costs and widespread informality.	Reduce the administrative burden of paying taxes by developing digital tools to support reporting and shifting to risk-based auditing.
Develop competitive and supportive transportation and energy network sectors	
Russia's attacks have extensively damaged infrastructure, and reconstruction needs are immense. Public-private partnerships can crowd in private investments, but limited capacity to plan, assess, and oversee projects poses risks to efficient and transparent use of resources.	Implement recent Budget Code reforms on medium-term planning, prioritisation, and integration in the budget process of public-private partnership projects.
Distorted energy price signals deter new energy investments and weaken economic incentives to increase energy efficiency. Structural debt issues undermine investor confidence and weaken the financial stability of district heating companies and green energy producers.	**Once the security situation allows, gradually remove energy price caps such that prices reflect costs. Implement targeted support, not based on actual energy consumption, to vulnerable households.** Resolve legacy issues of unpaid debts to energy producers, including district heating companies and combined heat and power plants.
Demand and supply uncertainty for renewable energy sources increases the risk for new entrants and holds back new generation capacity.	Consider developing contracts for difference to encourage private investment into low-emissions energy generation.
Buttress corporate governance	
SOE governance is improving, but the privatisation process is hampered by a lack of a clear agenda, and legal uncertainties are holding private investors back.	**Establish a centralised or coordinated ownership entity for state-owned enterprises to streamline oversight and management, reduce fragmentation and improve accountability**. Corporatise state unitary enterprises and eliminate legal ambiguities to reduce post-privatisation disputes.
Alignment with G20/OECD Principles of Corporate Governance is underway, but effective implementation is lagging behind.	Further improve transparency and functioning of boards, including full disclosure of qualifications of board members and mandatory auditing.
Bankruptcy moratoria and systemic non-enforcement of court decisions regarding distressed assets, particularly for state-owned enterprises, has long undermined creditor rights.	End bankruptcy moratoria and ensure that creditors are able to initiate restructuring and courts to approve a restructuring plan despite objections from dissenting creditors.
Ensure competitive neutrality and contestable markets	
The high number of decisions against anti-competitive practices demonstrates Ukraine's commitment but also calls for enhancing the resources and enforcement capabilities of Ukraine's Antimonopoly Committee.	Ensure adequate resources for the Anti-Monopoly Committee of Ukraine to enforce competition law effectively.

Foreign direct investment is low in international comparison, in part due to restrictions on foreign investment.	Remove restrictions on real estate access for foreign-owned companies and relax rules limiting foreign direct investment in some sectors.
Cumbersome inter-agency coordination creates delays in investment and adds to cost for doing business.	Strengthen the effectiveness of the central investment promotion agency (UkraineInvest) by transforming it into a one-stop-shop for potential investors and strengthening the capacity of regional offices.
Ukraine’s land use and planning system is undergoing significant transformation, driven by decentralisation, the opening of the land market, and efforts to align with European standards.	Ensure flexible land-use planning that allows agricultural land to be repurposed for housing, infrastructure, and renewable energy.
Enhance access to finance	
A large stock of non-performing loans (NPLs) continues to weigh on the banking sector, undermining domestic and international confidence. The legacy of past related-party lending and bank failures weighs on confidence in the banking sector. The market dominance by state-owned banks has increased since the start of the full-scale invasion.	Remove legal barriers to NPL resolution, continue to conduct asset quality reviews and develop an NPL market infrastructure while ensuring fair treatment of creditors and protecting debtors’ economic activity. Pursue the privatisation of state-owned banks while ensuring robust safeguard assessments of investors and the competitiveness and stability of the banking sector. Improve the regulatory infrastructure for credit to the private sector by strengthening credit information.
Capital markets are underdeveloped and fragmented.	**Simplify the listing process for public offerings, support the listing of financially significant SOEs and mobilise institutional investors, for instance, by promoting occupational pension schemes.**

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Russia's full-scale military invasion of Ukraine has inflicted massive human and economic damage. Ukraine's economy has been resilient, supported by effective policy responses and considerable external support. The outlook remains exceptionally uncertain. Labour shortages and attacks on energy supply, logistics and businesses are slowing economic activity and elevating inflation. Achieving fiscal sustainability requires mobilising domestic revenues, improving spending efficiency and securing sustained external support. Reducing tax compliance burdens and narrowing the scope of simplified tax regimes would raise revenues and reduce tax distortions. Improving public investment management, strengthening procurement practices and enhancing subnational governments' capacity will help ensure efficient use of scarce public resources. Stronger growth of investment, productivity, and exports will be central to the recovery, entailing improvements in framework conditions for business through stronger rule of law, lighter regulatory burdens, more competitive markets and deeper access to finance. Laying out a clear path for environmental and emissions taxes and prices will encourage reconstruction of a greener, more efficient economy. Supporting demobilised defence personnel and displaced persons to reintegrate into the labour force, emigrants to return, and women to raise their labour market participation will lift growth, bolster public finances and improve well-being.

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