

## PRESS RELEASE

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### Study: Priorities and financing of Ukraine's reconstruction

- *Focus on social spending, housing, employment, education, health, infrastructure and the private sector*
- *Higher grants from donors, debt relief and reform of the tax system needed*

How can Ukraine be rebuilt and where will the money come from? This question has been discussed by the international community for quite some time. At the Ukraine Recovery Conference on 21 and 22 June, it will once again be the centre of attention. In a new study, the Vienna Institute for International Economic Studies (wiiw), in collaboration with the [Growford Institute in Kyiv](#), has looked at what the Ukrainian government should focus on in reconstruction and how its financing can be guaranteed in the longer term.

#### Higher grants, debt relief and broader financing base

Around 80% of the money for reconstruction must initially come from public funds. These will be crucial in the first phase of reconstruction and will provide the necessary incentives to attract private investment, which will play an increasingly important role in Ukraine's economic recovery over time. Both the Ukrainian government and international donors are enormously challenged here. To finance this, the study proposes, among other things, an expansion of foreign grants that do not have to be repaid, from 20% to 40%, initially, and then to 50% of international financial aid. In addition, a restructuring of Ukraine's foreign debt and a substantial debt relief, amounting to a write-off of 60% of total debt, are recommended. To co-ordinate financial flows to Ukraine, the creation of a national financing agency is proposed. To promote fairness and generate higher public revenues, Ukraine should also introduce a tax reform. An increase in the social security contribution rate and a progressive income tax with one or two additional rates between 25% and 40% are recommended. *'In this way, additional revenues amounting to 3% to 3.5% of GDP could be generated,'* calculates wiiw Economist and co-author Branimir Jovanović.

In a further step, the study defines priorities and timetables for reconstruction, as well as the budget funds to be spent on this for the years 2023 to 2025. Absolute priority is given to housing, as well as the creation of jobs. *'Only when people have again a roof over their heads and find a job will some of the approximately 8m refugees return to the country. The return of as many people as possible is essential for reconstruction, as otherwise there is a threat of a massive labour shortage that could undermine the country's economic recovery severely,'* explains Tetiana Bogdan, Scientific Director of the Growford Institute and visiting researcher at wiiw, who co-authored the study. But social welfare for war victims, the reconstruction of a welfare state, the restoration of education and health facilities, transport and energy infrastructure, and the industrial and agricultural base, the promotion of small and medium-sized enterprises (SMEs), de-mining, and the expansion of the defence industry must also be addressed.

## **Social spending, employment, housing, infrastructure, education, health, private sector**

Specifically, the study recommends the following priorities for the Ukrainian government and also makes a rough cost estimate of the individual budget items (as far as possible) for the years 2023 to 2025. This is based on an assumption of continuing budgetary constraints, and also assumes that foreign donors will provide some of the financing.

Social programmes for war victims, such as the impoverished, war veterans, people with disabilities and households that have lost a relative in combat, as well as welfare state services, must be massively increased. Funds amounting to around 8.5% of GDP per year are likely to be required for this purpose. In view of budgetary constraints, existing programmes should be carefully adapted to help those most in need.

Job creation is a particular priority and should be vigorously pursued. The costs of the necessary programmes are difficult to estimate at present. *'In the end, the most important thing is to strengthen private enterprises so that they can employ as many people as possible and become the backbone of the Ukrainian economy in the medium term,'* explains Bogdan.

Reconstruction and rehabilitation of housing and provision of emergency shelter for internally displaced people and those who have lost their homes is also a priority, and will cost around 2% to 2.7% of GDP per year. Targeting support to the most affected populations should be the focus here.

In transport infrastructure, the focus should be on reconstruction of roads and ports, restoring rail and air transport, and improving road and rail links to the EU. This is expected to account for expenditure of around 3% of GDP in each of the coming years. Given the enormous destruction of transport infrastructure, amounting to some USD 92bn by February 2023, more foreign aid in the form of grants, loans and guarantees is needed for reconstruction.

Reconstruction of the education and health sectors must take into account the huge outflow caused by the war. Reforms in both sectors should be pursued to achieve efficiency gains and higher quality of public services. Financing the health sector is expected to cost around 3.5% of GDP in 2023 to 2025, and the education sector slightly more than 5% of GDP.

To boost the development of Ukrainian industry, international donors should provide technical and financial assistance for the restructuring of large manufacturing and related enterprises. Credit lines for modernisation of production capacities are also essential.

The Ukrainian government should focus on establishing trade finance instruments to facilitate companies' access to foreign markets. A further priority should be the provision of financial support (loans, grants, guarantees) to SMEs to enable them to repair and modernise their facilities.

The government must also pay special attention to de-mining and recultivating Ukraine's vast agricultural land in order to regain its full potential as a leading agricultural producer.

Expanding military production, strengthening Ukraine's defence industry and adequately equipping Ukraine's armed forces to improve the country's defence capability will cost about 6% to 10% of GDP per year, even after the war ends. Currently, defence spending stands at over 20% of GDP.

### **Agency to co-ordinate reconstruction**

To co-ordinate Ukraine's reconstruction efforts and international aid, the study proposes the creation of a separate agency. *'Its core task should be to work with foreign donors to co-ordinate the timing and disbursement of aid and to ensure that it is used for its intended purpose – under the leadership of the Ukrainian government,'* explains Bogdan. *'In Iraq,'* she adds, *'it has been shown that reconstruction led by external actors does not work, because ultimately only the people and authorities on the ground can ensure its successful implementation.'*

[The full study is available for download here.](#)

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### **About the Vienna Institute for International Economic Studies (wiiw)**

For 50 years, wiiw has been an economic think tank that produces economic analyses and forecasts for currently 23 countries in Central, Eastern and South-Eastern Europe. In addition, wiiw conducts research in the areas of macroeconomics, trade, competitiveness, investment, the European integration process, regional development, labour markets, migration and income distribution.  
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