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Viewing the reconstruction of Ukraine as a strategic opportunity for Europe

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Abstract

Ukraine's post-war reconstruction represents one of the largest economic challenges in modern Europe, requiring financial resources that far exceed the country's domestic capacity. This paper argues that the European Union should not view the reconstruction as a burden but rather as a strategic investment in Europe's long-term security, competitiveness, and resilience. It assesses the scale of Ukraine's reconstruction needs, examines lessons from previous post-conflict recovery experiences, and analyses potential benefits for the EU from providing sustained financial support to Ukraine. The paper further evaluates policy instruments needed to mobilise private capital, a key driver of long-term recovery, including enhanced de-risking mechanisms, blended finance, and public-private partnerships. The paper concludes that a successful reconstruction strategy will require sustained grant-based international support, stronger investment risk mitigation, continued institutional reforms in Ukraine, and closer integration with the EU, enabling reconstruction to generate lasting economic and strategic benefits for both Ukraine and Europe.

Keywords: Ukraine, postwar reconstruction, the EU, Austria, the US; Marshall Plan, Croatia, South Korea, defence, economic security, renewable energy, critical minerals, economic integration, spillover effects, FDI, de-risking instruments, blended finance, public-private partnerships

JEL classification: F15, F21, F34, F35, F51, F59, G20, H56, N10, N40

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Viewing the reconstruction of Ukraine as a strategic opportunity for Europe

1. INTRODUCTION

Ukraine's reconstruction will be one of the largest and most consequential economic undertakings in Europe since the Second World War. More than four years of Russia's full-scale war against Ukraine have caused unprecedented destruction of housing, energy systems, transport infrastructure, productive assets, and public services while also imposing enormous social and economic costs. The extent of damages and reconstruction needs are unevenly distributed across the regions (oblasts) of Ukraine, which would be an important factor in determining the sequencing and distribution of the reconstruction funds.

The country's economy has shown remarkable resilience, quickly bouncing back after the sharp contraction in 2022, when Russia launched its full-scale invasion. The Ukrainian government has not only remained functional but managed to maintain macro-financial stability in the country and advance in the EU integration process, with the country receiving EU candidate status in 2023 and starting negotiations on two clusters in 2026. Although Ukraine has been receiving substantial financial and military aid from its allies, the long-lasting war has been inevitably depleting its resources. The country faces substantial fiscal constraints, high public debt, and extraordinary defence expenditures, making it impossible to finance reconstruction from domestic resources alone.

This paper assesses the scale of Ukraine's reconstruction needs and examines the economic case for sustained European engagement. It argues that the country's recovery should be viewed not as a humanitarian burden but as a strategic investment for Europe, which will allow it to strengthen its own competitiveness and security. Drawing on international experience and recent evidence, it examines the economic rationale for sustained European engagement as well as the policy instruments needed to mobilise public and private capital for a successful and inclusive recovery. Further, the paper analyses the financing instruments required to mobilise both public and private capital. Particular attention is devoted to the role of de-risking mechanisms, blended finance, and public-private partnerships in boosting foreign direct investment (FDI) inflows.

2. ASSESSMENT OF UKRAINE'S FUNDING NEEDS TO FINANCE THE RECONSTRUCTION OF ITS ECONOMY

As Russia's full-scale war against Ukraine has entered its fifth year, it is becoming increasingly clear that a major global financial effort is required to support Ukrainian authorities and businesses during and after the war, rebuild the country, and provide new opportunities for its people. With each year of the war, the cost of the ongoing emergency reconstruction and future full-scale reconstruction has been increasing. The fifth Rapid Damages and Needs Assessment (RDNA), which accounts for the period of February 2022 to December 2025 (World Bank, 2025), estimated the cost of the future reconstruction at about USD 588bn (EUR 512bn) to be financed over a 10-year period (Table 1). For comparison, Ukraine's GDP in 2025 was around EUR 190bn, which means that if the country were to finance its reconstruction with own means, it would need to spend about 15% of GDP each year over the next decade to finance reconstruction programmes (assuming 15% average annual growth of nominal GDP in EUR terms).

Although public funding is expected to account for about 55% of the total reconstruction needs, it would need to be front-loaded in the first several years after the war ends to restore critical infrastructure and services in addition to reviving the basic functions of the economy and the government (Becker et al., 2022). This would mean that more than 20% of GDP – or more than 40% of fiscal revenues – would need to be allocated to the reconstruction programmes in the first five post-war years (in addition to private capital).

Table 1 / Total damage, losses, and needs by sector as of 31 December 2025, USD bn

Sector	Damage	Loss	Needs	Share of required public funding, %
Social sectors				
Housing	61.1	25.0	89.8	50
Education and science	13.9	11.7	33.5	100
Health	1.8	23.1	23.6	100
Social protection	0.5	18.6	42.7	100
Culture and tourism	4.5	31.9	11.5	100
Infrastructure sectors				
Energy	24.8	88.2	90.6	50
Transport	40.3	58.9	96.3	50
Telecom, digital & media	2.5	2.7	7.1	
Water supply & sanitation	7.8	14.4	17.5	100
Municipal services	3.1	8.0	7.4	100
Productive sectors				
Agriculture	12.1	78.0	55.3	
Commerce & industry	19.2	232.9	63.3	
Irrigation & water resources	0.9	1.3	12.5	100
Finance & banking	0.0	5.2	2.1	
Cross-cutting sectors				
Environment & forestry	2.0	36.0	3.1	100
Emergency response & civil protection	0.4	0.8	2.7	100
Justice & public administration	0.5	3.3	1.0	100
Explosive hazards management	0.0	26.7	27.6	100
Total	**195.4**	**666.7**	**587.6**	**54.7**

Note: 'Damage' is defined as direct costs of destroyed or damaged physical assets and infrastructure, valued in monetary terms. 'Loss' accounts for changes in economic flows resulting from Russia's full-scale invasion of Ukraine, valued in monetary terms (e.g. disrupted services, increased operating costs, loss of revenue for authorities/private sector, and debris removal). 'Needs' indicate costs for repairs, restoration, and reconstruction, considering a build back better (BBB) premium (e.g. improvements for energy efficiency, modernisation, and sustainability standards) as well as other factors (e.g. inflation, surge pricing due to volume of construction, and higher insurance).
Sources: World Bank (2025); the shares of required public funding were taken from Boyarchuk and Dabrowski (2026) and IFC (2023).

With the fiscal deficit deep in double digits, public debt already exceeding 100% of GDP, and the war-ravaged economy having limited capacity to generate enough revenue to finance day-to-day budget expenditures, the country's fiscal resources will be clearly insufficient to cover the reconstruction bill. In addition to funds directed to the reconstruction programmes, Ukraine will need a continuous flow of macro-financial support, at least during a transitory period of three to five years after the end of the active war, until the government's revenue capacity is sufficiently rebuilt (Boyarchuk & Dabrowski, 2026). Thus, a major global financial effort is required to support Ukraine's reconstruction during and after the war as well as the country's macro-financial stability.

Frequent missile attacks by Russia have impacted practically the whole territory of Ukraine. However, the frontline regions (i.e. the Dnipropetrovsk, Donetsk, Kharkiv, Kherson, Luhansk, Mykolaiv, and Zaporizhzhia oblasts) have been impacted by the war to a much larger extent and will likely remain much less secure than other parts of Ukraine in the near future. This means that the costs of reconstruction will be much higher in these regions compared to the rest of the country and that they will face more difficulties in attracting human and private capital to invest in recovery and reconstruction projects than the 'backline' and 'support' regions.

As Table 2 shows, the six oblasts located close to the frontline have incurred the lion's share of the damage and are expected to account for about 56% of total recovery needs. The Donetsk and Kharkiv oblasts, the largest in terms of their economies in the sub-region, will require the most resources for their reconstruction (19% and 13% of the total needs, respectively). In this case, only the territory currently under the control of the Ukrainian government is included in the estimate, but not the occupied parts of the south-eastern Ukraine as well as Crimea, which was illegally annexed in 2022.

The second-biggest reconstruction needs have been estimated for the regions where the Ukrainian government regained control (13% of total needs: Kyiv, Sumy, and Chernihiv oblasts). Among the support regions, which are located next to the frontline regions, the Dnipropetrovsk and Odesa oblasts have been the most affected by war-caused destruction. At the same time, nine backline oblasts have been the least affected by the war and account for 7% of total reconstruction needs.

Russia's war of aggression against Ukraine may not end in 2026 or even 2027. If the war continues beyond 2027, Ukraine will need continuous military and budgetary support as well as funds for emergency reconstruction of damaged assets in energy, transport, and social infrastructure – on top of the amount estimated in RDNA5. Even if the war stops, the Russian threat may not disappear, and external military aid to Ukraine will have to be continued, although on a smaller scale than during the active war. In 2025, the country's fiscal spending on defence reached USD 93bn (KSE, 2026), or about 43% of GDP. Even if the war stops, Ukraine will still need to have a sizeable army of around 500,000 soldiers as well as build and maintain sizeable stockpiles of interceptor missiles, advanced radar systems, artillery, and ammunition. The country's defence expenditures are bound to remain several times higher than 2% of GDP, as was the case prior to the onset of Russia's full-scale invasion, and they will remain heavily prioritised – even at the expense of recovery efforts if funding is insufficient to cover both.

Moreover, public funds will need to be allocated to finance additional needs, such as the incentivisation of return migration and reintegration programmes of migrants (in labour markets, housing, education/training), support of demobilised military personnel, care for veterans, and mental health programmes.

Table 2 / Importance of regions (oblasts) for Ukraine's economy in 2021 and in RDNA5 regional needs assessment, shares in %

Oblast	Gross value added	Gross value added in agriculture	Gross value added in manufacturing	Merchandise exports value	RDNA5 total needs
Frontline regions	**19.7**	**23.6**	**27.9**	**25.9**	**56.8**
Donetsk	4.7	3.0	9.5	10.3	18.6
Zaporizhzhia	4.0	4.1	8.5	7.0	10.5
Luhansk	1.0	2.0	0.6	0.2	5.6
Mykolaiv	2.4	4.8	2.2	5.1	3.1
Kharkiv	5.9	5.4	5.8	2.6	12.5
Kherson	1.7	4.4	1.3	0.6	6.5
Support regions	**25.3**	**30.1**	**26.4**	**28.5**	**9.9**
Vinnytsia	3.2	7.2	3.6	1.9	1.3
Dnipropetrovsk	10.1	6.4	13.0	17.9	4.6
Kirovohrad	1.9	5.7	1.5	1.5	0.6
Odesa	5.2	4.8	3.3	2.5	2.0
Poltava	4.8	6.2	5.0	4.7	1.4
Backline regions	**43.6**	**27.6**	**33.1**	**37.2**	**7.4**
Volyn	1.7	2.2	2.1	1.2	0.3
Zakarpattia	1.4	1.5	1.0	2.5	0.3
Ivano-Frankivsk	2.2	2.3	2.7	1.7	0.8
Kyiv	23.5	0.0	12.7	22.5	2.6
Lviv	5.6	3.8	5.9	4.3	0.9
Rivne	1.7	2.4	1.7	1.0	0.3
Ternopil	1.6	3.3	1.2	1.0	0.3
Khmelnytskyi	2.3	5.3	1.7	1.3	0.6
Chernivtsi	1.1	1.7	0.5	0.3	0.4
Cherkasy	2.5	4.9	3.7	1.3	0.7
Regions where government regained control	**11.5**	**18.7**	**12.7**	**8.2**	**13.0**
Zhytomyr	2.1	4.2	1.7	1.1	0.9
Kyiv	5.4	5.8	6.7	3.7	6.6
Sumy	1.9	3.9	1.9	1.6	2.6
Chernihiv	2.1	4.9	2.4	1.7	2.9
Not specified – nationwide					**12.9**

Sources: World Bank (2025), State Statistics Service of Ukraine.

2.1. The role of the EU in providing funding to Ukraine

The EU has already effectively taken over the majority of the financial and military burdens of supporting Ukraine following the reduction in US assistance under the second Trump administration. Between 24 February 2022 (i.e. the onset of Russia's full-scale invasion) and the end of April 2025, EU member states and institutions allocated roughly EUR 180bn to Ukraine (Table 3), and around EUR 145bn have been committed (mostly as military aid) but not allocated yet. Unallocated financial aid amounts to some EUR 50bn, which is expected to be disbursed during the 2026-2027 period.

Table 3 / Total bilateral commitments (financial, humanitarian, and military) between 24 February 2022 and 30 April 2026, EUR bn

	Committed				Allocated			
Country (group)	**Financial**	**Humanitarian**	**Military**	**Total**	**Financial**	**Humanitarian**	**Military**	**Total**
EU members and institutions	**137.0**	**16.4**	**173.4**	**326.8**	**87.3**	**14.9**	**79.2**	**181.4**
EU members	9.5	13.2	113.4	136.0	6.1	11.6	79.2	96.9
EU institutions	127.5	3.2	60.0	190.7	81.2	3.2	0.0	84.4
European Investment Bank	3.2	0.0	0.0	3.2	3.2	0.0	0.0	3.2
EU (Commission and Council)	124.3	3.2	60.0	187.6	78.0	3.2	0.0	81.3
Non-EU	**89.6**	**16.0**	**115.6**	**221.2**	**72.3**	**10.9**	**93.8**	**177.0**
US	50.0	3.4	65.6	119.0	47.3	3.5	64.6	115.4

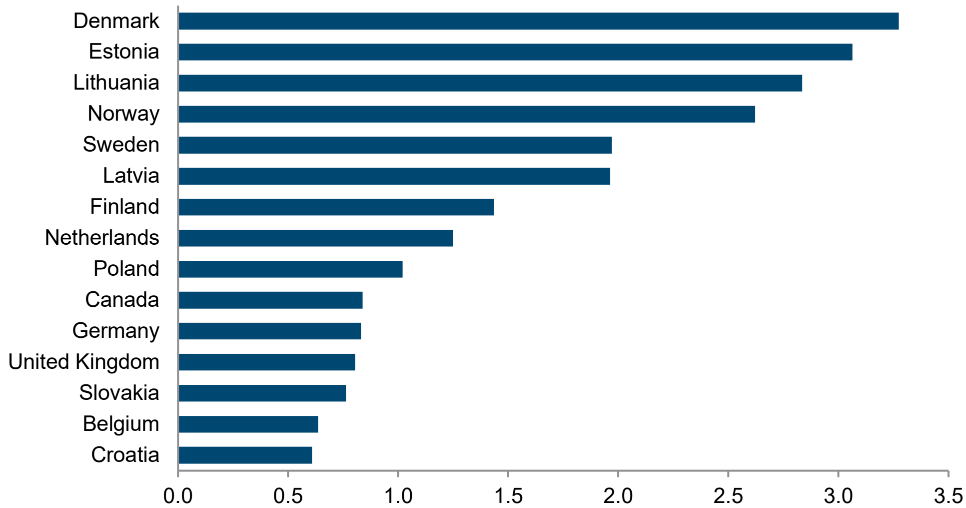
Source: Ukraine Support Tracker of the Kiel Institute for the World Economy (https://www.kielinstitut.de/topics/war-against-ukraine/ukraine-support-tracker/).

The European Commission’s proposal for the 2028-2034 Multiannual Financial Framework (MFF) consolidates all financial support for Ukraine in the Global Europe instrument and allocates EUR 88.9bn for the 2028-2034 period, or EUR 13.5bn annually (in 2025 prices). Given the need for at least EUR 32bn in public funds per year to fully finance reconstruction needs, the allocated MFF funds are clearly insufficient given the key role of EU aid in supporting Ukraine, especially as one cannot expect a substantial contribution from the US federal budget to financing the post-war recovery and reconstruction of Ukraine until the end of Donald Trump’s second term, in January 2029, at the earliest. This is also a conclusion of an interim report of the European Parliament’s Committee on Budgets (BUDG), adopted on 28 April 2026, which found that the European Commission’s proposed long-term budget for the 2028-2034 period is insufficient to address major geopolitical challenges, including support for Ukraine (European Parliament, 2026). It should also be noted that the proposed allocation is significantly smaller than the EU aid delivered in the 2022-2025 period and declared for the 2026-2027 period, when around EUR 22bn in financial aid and EUR 29bn in military aid were committed on average per year.

Beyond the EU budget, Ukraine can also expect some financial support from individual EU member states, other advanced economies, and international financial organisations. However, as the 2022-2025 experience demonstrates, apart from that from the International Monetary Fund (IMF), these are not large amounts of money as compared to those provided by the EU. Moreover, bilateral assistance has tended to be concentrated in the military and humanitarian spheres.

Thus, the EU needs to significantly scale up its future financial allocations into Ukraine’s reconstruction. As Figure 1 shows, with the exception of the Scandinavian countries and Baltic states, the amount of aid provided to Ukraine bilaterally has been relatively low compared to the size of the donor’s economy. For example, Germany has allocated less than 1% of its annual GDP. France, Italy, and Spain have each allocated less than 0.5% of their annual GDP, and Austria has allocated less than 0.1% of its GDP.

Figure 1 / Total bilateral aid allocations as a percentage of 2021 donor country GDP



Note: Total bilateral allocations to Ukraine between 24 January 2022 and 30 April 2026.
Source: Ukraine Support Tracker of the Kiel Institute for the World Economy (https://www.kielinstitut.de/topics/war-against-ukraine/ukraine-support-tracker/).

3. UKRAINE'S RECONSTRUCTION AS A STRATEGIC INVESTMENT FOR EUROPE

As discussed by Gorodnichenko (2026), treating Ukraine's reconstruction as a burden to be minimised would be a strategic error for Europe, as without a strong Ukraine, there is no strong Europe. Moreover, if the monumental task of Ukraine's reconstruction is approached strategically, it could present the EU with a unique, once-in-a-lifetime opportunity, as the reconstruction touches every dimension of Europe's competitiveness deficit as identified by the Draghi Report (Draghi, 2024): urban innovation, green energy, technological advances (currently especially in the military field), logistics modernisation, etc (Pindyuk, 2026). Ukraine offers significant potential for private investors thanks to its affordable and well-educated workforce, abundant natural resources, agrifood base, and dynamic tech and defence sectors (Kosmehl et al., 2024; Lausberg, 2025). The country is deeply integrated into European research and innovation systems, with a network anchored in Central and Eastern Europe (CEE) and increasingly extending into Western Europe (CEPS & UNIDO, 2026). For example, Poland, at 12.8% of all Ukraine's research links[1] against a global share of 1.1%, is the dominant scientific partner, reflecting not only geographic proximity but decades of institutional co-investment, shared research infrastructure, and developing of the bilateral scientific programmes.

Although a meaningful aid and reconstruction package for Ukraine will be expensive, it is entirely feasible (Qian, 2022). A historical comparison would be the US Marshall Plan for post-war Western Europe. In 1948, US GDP was 3.5 times greater than that of France, Germany and Italy combined. Today, the GDP of the EU is more than 85 times larger than that of Ukraine.

[1] Research links are defined as co-publications between Ukrainian research institutions and foreign counterparts, with scientific publications drawn from the OpenAlex database for the 2021-2025 period.

THE MARSHALL PLAN – LESSONS FOR EUROPE AND UKRAINE

The legacy of the period following the Second World War shows that investing in Ukraine's future will also serve Europe's long-term interests (Qian, 2022). Thus, external financing provided to Ukraine should not be seen as burden or purely a charity programme on the side of the EU.

The Marshall Plan (known officially as the European Recovery Program) is considered an example of successful development cooperation through which international aid assisted in the socioeconomic transformation of countries in line with their own development strategy in addition to widening the market for American products (United Nations, 2017).

Between 1950 and 1959, the GDP of Western Germany rose by nearly 8% per annum. The financial part of the Marshall plan was not the decisive factor in the country's recovery, however, as the sum that West Germany received only amounted to about 3% of GDP, which was then considerably below the pre-war period (Mueller, 2018). Although the direct impact of the plan through private and public investment was rather limited, inflow of US dollars did soften balance-of-payment imbalances and promote collaboration among former adversaries (Alvarez-Cuadrado, 2008). What also mattered was that the Marshall Plan promoted economic integration, which facilitated export-led growth and specialisation along lines of comparative advantage. This would similarly benefit Ukraine (Eichengreen, 2023). The Marshall Plan also allowed Europe to leapfrog a generation technologically through 'building back better'. In addition, it funded 'productivity missions', during which European officials and plant managers travelled to the US to learn about new technologies.

Another aspect of the Marshall Plan that is highly relevant for Ukraine is that the funding was made up of more than 90% grants and just 10% loans (Eichengreen, 2022). Ukraine is already heavily indebted, even though its reconstruction has not started yet. Providing new loans or guarantees for additional Ukrainian borrowing could push the size of the debt beyond the sustainability level.

From a macroeconomic standpoint, public capital spent on Ukraine functions as an investment in Europe's structural future:

- Market expansion: Ukraine is still one of the biggest countries in Europe in terms of population (around 32-33 million inhabitants), with potentially fast-growing demand for many consumer goods and services.
- Strategic near-shoring (Repko, 2025): Building manufacturing centres in western Ukraine shortens supply chains for European automotive, aerospace, and electronics sectors, mitigating reliance on Asia.
- Energy diversification: Ukraine could add over 400 GW of renewable energy generating capacity, especially when it comes to the biomass-based heat and power generation capacity owing to the extensive agricultural and forestry waste, and it could become a major contributor to wider European decarbonisation and electricity trade (IRENA, 2015). By integrating Ukraine's extensive gas storage facilities (the largest in Europe) and expanding its renewable biomethane and solar grids, Central Europe could secure a massive, stable clean-energy exporter (Kosmehl et al., 2024).
- Economic security and defence: Ukraine could potentially become key to the EU's goal of achieving strategic autonomy and reducing its dependence on imports from other nations, particularly China (Pindyuk, 2026), as outlined in the Critical Raw Materials Act (European Commission, n.d.-a), as it

holds deposits for 25 of the 34 critical raw materials identified by the EU (Lausberg & Taran, 2024). Ukraine can also strengthen Europe's cybersecurity and defence capabilities (Lindström, 2025).

› Industrial procurement multiplier: A significant portion of public reconstruction funds acts as a domestic stimulus. Contracts for heavy machinery, specialised engineering, and construction materials are largely awarded to European companies.

Ukraine's reconstruction could also be a major investment opportunity for economies traditionally active in the wider region of Central, Eastern and Southeastern Europe (CESEE), such as Austria. Austrian companies are heavily represented in sectors that benefit from large investment cycles (e.g. engineering, construction, energy systems, transport, consulting services, and industrial services).

The previous EU enlargement round of 2004, together with the enlargements 2007 (Bulgaria and Romania) and 2013 (Croatia), proved to be a significant economic opportunity for Austria. Austrian businesses seized the investment opportunities in the CEE countries earlier than their international competitors, with the result that Austrian FDI was already flowing into these countries during the closing phase of the EU accession negotiations (BMEIA, n.d.). As a result, inward FDI stock from Austria in the 11 most recent accession countries grew from EUR 2.5bn in 1997 to EUR 25.0bn in 2004 and to EUR 91.3bn in 2024. As a relatively small economy, Austria benefits strongly from access to a larger market without trade barriers. Its merchandise exports to the new EU member states increased more than fivefold during the 1996-2025 period and, consequently, the share of CEE in the country's exports expanded from 13% to 20% during that period.

In addition to the direct economic effects, Austria is well positioned to benefit from the indirect effects of EU investment in Ukraine's reconstruction. As the case of the EU Recovery and Resilience Facility (RRF; European Commission, n.d.-b) shows, almost 60% of the RRF's added value to Austria is generated by investments made in other member states via so-called spillover effects (Humpelstetter et al., 2026). This has been possible thanks to Austria's deep integration into the single market and its strong innovation performance, which allows the country's manufacturing and wholesale trade sectors to receive a significant boost from the increased spending of other member states.

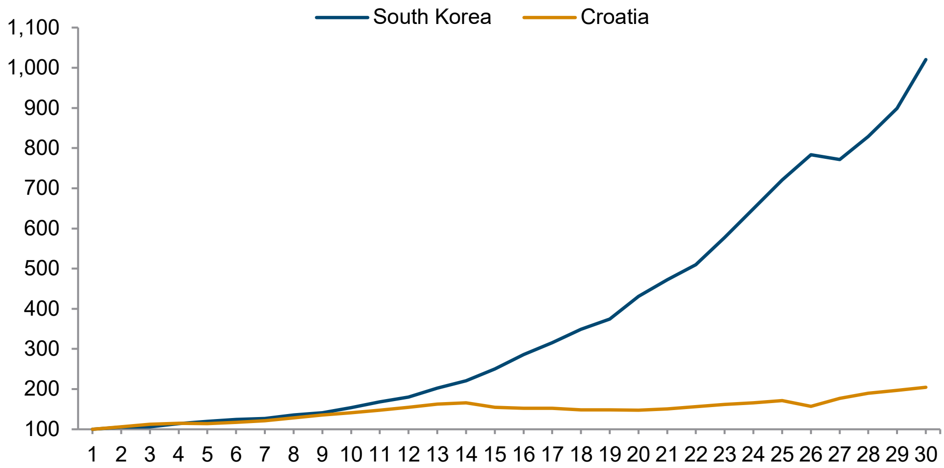
3.1. Post-war reconstruction of South Korea and Croatia: Lessons for Europe and Ukraine

In the decades after the Korean War (1950-1953), South Korea received one of the largest influxes of foreign funds that any country has ever received (Hirschel-Burns, 2025). At the peak of the economic aid, it amounted to 21% of the country's annual GDP. Although economic growth was disappointing in the first seven years after the Korea War (averaging only about 4% per annum), the country subsequently enjoyed remarkable economic growth, reaching on average around 9% per annum over the next three decades. In particular, two fundamental changes in South Korea contributed enormously to the country's eventual economic take-off: a land reform and the rapid transformation of education (Seth, 2013).

South Korea's example demonstrates how large-scale external financing can preserve fiscal and financial stability in addition to allowing investments in reconstruction and structural transformation. Significant amounts of American aid were used for productive economic investments even as FDI remained low. Rather than allowing the US to set the agenda, the Korean government maintained the ownership of the reconstruction and development strategy. As a result, US aid to South Korea contributed to both US geopolitical aims and South Korea's extraordinary economic development, which remains one of the most rapid increases in history.

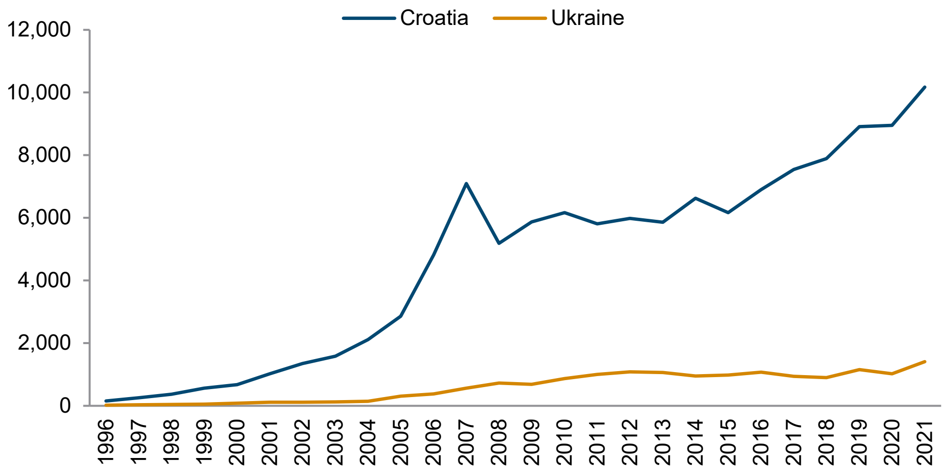
The Croatian War of Independence (1991-1995) severely affected the country's economy, with the officially estimated damages reaching USD 27bn, or 25% of GDP (KPMG, 2022). Croatia's post-war reconstruction aid cumulatively reached about USD 0.4bn and was widely considered insufficient. Moreover, the disbursement of international aid and government funds were often delayed. Ultimately, Croatia's economic recovery was far less impressive than South Korea's (Figure 2).

Figure 2 / Real GDP index during 30 years after the conflict, 1954=100 for South Korea and 1995=100 for Croatia



Sources: World Development Indicators; wiiw Annual Database; Frank et al. (1975).

Figure 3 / FDI inward stock prior to the onset of Russia's full-scale war in Ukraine, EUR per capita

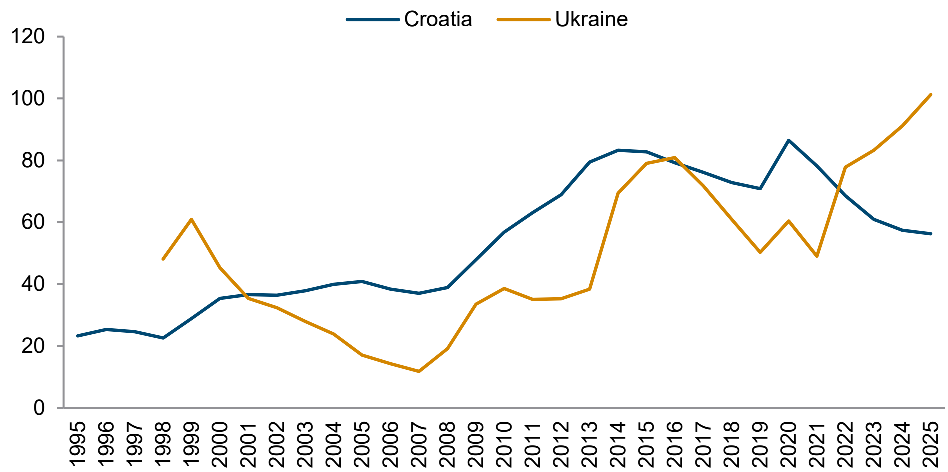


Source: wiiw FDI Database.

In contrast to South Korea, FDI inflows played a much bigger role in Croatia's economic recovery, reaching 8% of annual GDP at its peak. FDI attraction was boosted by EU accession prospects, which, among other things, provided legal certainty owing to the adoption of EU laws and regulations as well as access to the European single market. Admittedly, Ukraine significantly lags behind Croatia's inward FDI dynamics (Figure 3). However, once security risks are minimised and there is noticeable progress in judicial and anti-corruption reforms, Ukraine has all the prerequisites for attracting more sizeable FDI inflows as an EU candidate country (Grieveson et al., 2023).

Another crucial difference between Croatia and Ukraine is the level of their public debts at the beginning of the reconstruction period (Figure 4). At the end of the Croatian War of Independence, the country's public debt was at around a quarter of its annual GDP. In contrast, Ukraine's public debt had already exceeded 100% of its GDP even though the full-scale reconstruction has yet to start. Moreover, the scale of damages caused by the war is an order of magnitude higher in Ukraine than it was in Croatia, which means that borrowing more money would create an unsustainable cycle of debt payments. Thus, foreign grants and private investments should instead be the primary funding sources for reconstruction.

Figure 4 / General government gross debt, in % of GDP



Source: wiiw Annual Database.

An essential prerequisite for Ukraine's successful post-war recovery is overcoming the existing governance and public-management bottlenecks. Although the country's government has demonstrated remarkable resilience by continuing to function under extreme conditions, the pressures of wartime continue to place a heavy strain on institutional capacity, partly due to staff losses, the reallocation of budgetary resources to defence needs, and restrictions on transparency under martial law (OECD, 2026). Currently, multiple actors, such as ministries, the Ukraine Recovery Agency, regional/local authorities, and international donors, run multiple initiatives, which often overlap, planning documents lack a clear order of priority, and the links between strategy, budgeting, and performance are underdeveloped (Magomedov, 2026). To overcome the bottlenecks, the recovery process must be not only nationally owned but also strategically sequenced. Strategic planning across multiple phases of recovery can facilitate the institutional co-ordination by ensuring coherence across planning documents, linking plans with budgets and public investment pipelines, and integrating performance monitoring systems that focus on outcomes rather than processes in a war context (OECD, 2026).

4. WHAT NEEDS TO BE DONE TO MOBILISE FDI ATTRACTION

Private foreign investment will be indispensable for post-conflict economic reconstruction and recovery – not only as an additional source of funding, but also because external financial aid alone cannot transform damaged economies. FDI can have a substantial, positive impact on conflict-affected countries by laying foundations for a rapid, sustained growth trajectory (Becker et al., 2022); bringing much-needed technology, skills, and government revenue; and stimulating local industries and exports (USAID, 2009). It can also contribute to stability and infrastructure rehabilitation and serve as a catalyst to help war-torn countries escape the poverty-conflict trap. European companies setting up their branches in Ukraine will be essential for integrating the country into European value chains and supporting its long-term economic growth (Lausberg, 2025). The successful experience of many CEE countries illustrates the transformative potential of such investment.

Ukraine has been doing some groundwork to facilitate FDI inflows. As early as spring 2022, the country began updating its investment laws to provide greater incentives to potential investors. The changes came into effect in 2023, lowering the threshold of investment needed to access incentives, expanding the types of eligible projects, simplifying issues around land rights, and offering tax incentives (Perozo, 2025).

Several greenfield investment projects have been initiated in Ukraine during the war, with a primary focus on the energy sector (especially renewables), manufacturing, and agricultural logistics. These projects are often launched with financial support and war risk guarantees from international institutions, such as the European Bank for Reconstruction and Development (EBRD), the World Bank, and the EU. However, investment risks, especially those related to the war, continue to deter investors, and the size of FDI inflows remain far below the level required to become a viable source of reconstruction financing in the near future.

4.1. De-risking instruments

Existing risk-sharing instruments are not sufficient to deal with the issue. The EU's Ukraine Facility includes an investment framework with a EUR 9.3bn guarantee aimed at mobilising up to EUR 40bn in public and private investment. While some projects (e.g. renewable energy initiatives) have already been successfully supported, the framework's financial volume remains insufficient to de-risk investment at the scale required. Moreover, the framework lacks dedicated instruments (e.g. political risk insurance) and does not include support for defence technology and industry, a domain in which both the EU and Ukraine could benefit most from enhanced cooperation. Without credible risk-sharing mechanisms, it is highly likely that financing commitments will be disconnected from delivery.

The most important way to unlock the potential of private capital and thereby stimulate the flow of FDI into Ukraine would be the introduction of a 'war insurance' for certain private investments, backed by guarantees from international donors (Ganster et al., 2022). However, war risk insurance in Ukraine remains highly restricted due to massive exposure risks. While specialised policies exist – offered by the Multilateral Investment Guarantee Agency (MIGA), the World Bank's risk-mitigation arm, or through private insurers backed by international reinsurers like the EBRD – coverage limits remain relatively low and strict geographic exclusions apply (Cheplyk, 2026). Further obstacles to the expansion of export credit schemes include various EU legal requirements which limit the level of risk that public institutions may assume, as well as the areas to which guaranteed funds may be directed (for example, premium levels or down-payment requirements, gap ceilings, exclusions regarding companies ‘in financial difficulty’, and so on). Although Ukraine has been granted exemptions from a number of strict requirements under the InvestEU export credit initiative for Ukraine, as well as under several separate national initiatives, a significant proportion of European countries do not grant such waivers.

Export credit agencies can also provide export credit insurance and standalone political risk and investment insurance to protect exporters and investors as well as issue a broad range of guarantees to de-risk private finance. However, their use has been limited due to high premiums driven by numerous factors, including: risk ratings often exceeding 15% of transaction value; limited coverage and regional gaps (e.g. exclusion of the frontline regions); strict eligibility and compliance rules (e.g. 3+ years of audited accounts); credit ratings; and 15% upfront payments (Ukraine Donor Platform & Kyiv School of Economics, 2025).

A larger, specialised de-risking instrument could be an efficient tool to unlock the private investment that Ukraine needs (Lausberg, 2025). A strong international insurance programme could be a catalyst to promote private-sector infrastructure and industrial investment in Ukraine (Becker et al., 2025). Providing insurance and expediting private investment into Ukraine would ultimately reduce costs to supporting countries’ taxpayers by outsourcing reconstruction to market forces rather than having them be underwritten by the public sector.

4.2. Blended finance

Blended finance, which has emerged as a pivotal tool to facilitate FDI in emerging markets and developing economies (World Bank Group, 2025), could also be used in the case of Ukraine to crowd-in private capital. Blended finance combines concessional funding from donors and development finance institutions with commercial capital to develop private markets and attract private investment. Grants and grant-like instruments (e.g. interest rate buydowns, performance-based incentives, and capex buydowns), guarantees, and other risk-sharing instruments (e.g. partial credit guarantees, first loss guarantees, and liquidity support guarantees) are most suitable in the case of Ukraine, as they are not debt-creating.

Besides providing capital, blended finance – combined with de-risking, technical assistance, implementation support, and quality assurance – helps to ensure that capital flows where and when it is most critical (Lootsma, 2026). Without having a robust project delivery system, many recovery projects can get stalled at the conception stage, requiring feasibility studies, costing, structuring, and alignment with financing standards. The cooperation between the United Nations Development Programme (UNDP) and the European Investment Bank (EIB) can serve as a good example of successful blended financing. Under EIB-supported recovery programmes, the UNDP has helped the government of Ukraine to absorb roughly EUR 1bn in loans while providing continuous technical assistance and quality assurance. This has enabled municipalities to deliver over 120 rehabilitated public facilities across 19 regions.

4.3. Public-private partnerships

Public-private partnerships (PPPs) can support reconstruction by mobilising private expertise and capital. By sharing risks and responsibilities, PPPs help governments to restore essential services without relying solely on depleted public budgets. The challenge for policy makers and public managers is not to maximise private participation per se, but to ensure that PPPs contribute to sustainable, transparent, and inclusive post-conflict recovery (Bertodatto, 2026).

To date, the cumulative value of PPP projects in Ukraine during the war has been rather low (below USD 1bn in infrastructure investments). On 19 June 2025, Ukraine's unicameral parliament, the Verkhovna Rada, enacted Draft Law No. 7508, a major revision to the country's PPP framework aimed at accelerating private investment in post-conflict reconstruction and the development of strategic sectors of the economy. The main changes that are being introduced are the following (Svyrydenko, 2025; Koziakov & Partners, 2025):

› Launching a hybrid PPP model: a combination of private and donor financing (i.e. grants by international partners).

› Simplifying the procedure for preparing PPP projects in the reconstruction of war-damaged infrastructure in key sectors (e.g. health care, transport, energy, and education).

› Including the defence sector to support modernisation and innovation. It also expands PPP opportunities across reconstruction, infrastructure, and broader economic development.

› Fully digitalising PPP procedures to ensure transparency and alignment with EU practices.

› Strengthening guarantees for private partners and creditors, including protection of rights, contractual stability, and non-discriminatory treatment throughout the lifecycle of PPP projects.

› Expanding the list of possible public partners by including state-owned companies (e.g. the railway company Ukrzaliznytsia and the electricity transmission system operator Ukrenergo), which will be able to directly initiate PPP projects without excessive red tape.

› Making it mandatory for all PPP projects to comply with the country's sustainable development goals (SDG) strategy by embedding the UNECE PIERS methodology into it (UNECE, 2025).

While PPPs can support reconstruction by mobilising private expertise and capital, this is only possible when public authorities have a clear understanding of the fiscal risks involved and possess the institutional capacity to manage them (Bertodatto, 2026). Implementing successful PPP projects requires considerable administrative capability, which can only be ensured through suitable institutional and legal frameworks and long-lasting experience in the implementation of PPP projects (European Court of Auditors, 2018). If governments lack sufficient experience in or capacities for managing PPPs, they can encounter an array of problems. These include insufficient competition, delays during construction causing major cost increases, over-optimistic scenarios regarding future demand for and use of the planned infrastructure, and insufficient allocation of risk to private partners.

Thus, it would be advisable for the Ukrainian government to be cautious in promoting PPPs until there is sufficient administrative capacity to minimise possible risks of this instrument.

5. SUMMARY AND CONCLUSIONS

The reconstruction of Ukraine is not only a humanitarian and economic necessity, but also a strategic opportunity to strengthen Europe's long-term security, competitiveness, and resilience. The scale of reconstruction needs far exceeds Ukraine's domestic fiscal capacity, making sustained international financial support and large-scale private investment indispensable. About a half of the reconstruction needs will have to be financed using public funds – mostly from external sources – to facilitate private capital inflows into the reconstruction of productive sectors and part of the infrastructure. Rather than viewing reconstruction as a temporary aid effort, European policy makers should approach it as a long-term investment that will generate economic, technological, and geopolitical returns for both Ukraine and the EU.

The paper has shown that Ukraine offers significant opportunities for investment in manufacturing, energy, defence industries, logistics, critical raw materials, and digital technologies. It could also be a major investment opportunity for economies traditionally active in the wider CESEE region, such as Austria, whose companies are heavily represented in sectors that benefit from large investment cycles.

Drawing on lessons from the Marshall Plan, South Korea, and Croatia, it argues that successful reconstruction requires strong national ownership, front-loaded financial support, and a balanced combination of public funding and private capital. At the same time, Ukraine must continue with its institutional reforms to improve the business climate, strengthen the rule of law, and align with EU standards.

Mobilising private investment will require much stronger de-risking mechanisms than are currently available, including expanded war-risk insurance, blended finance instruments, and carefully designed public-private partnerships. These instruments should complement, rather than substitute for, continued grant-based international assistance during the immediate post-war period.

For the EU, investing in Ukraine's reconstruction is ultimately an investment in a larger, more integrated, and more competitive European economy. A comprehensive reconstruction strategy that combines sustained public support with effective mobilisation of private capital could accelerate Ukraine's economic recovery while reinforcing European supply chains, energy security, industrial capacity, and strategic autonomy. Although the costs of reconstruction are admittedly substantial, the long-term economic and strategic benefits for both Ukraine and Europe are likely to be considerably greater. Austria is especially well positioned to benefit from both the direct and indirect effects of investment in Ukraine's economic recovery.

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