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## REBUILDING UKRAINE'S ECONOMY IN THE CONTEXT OF EU INTEGRATION PROSPECTS

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### Key words:

integration, restoration of the country's socio-economic potential, macroeconomic indicators, economic reforms, trade liberalisation

The article determines that Ukraine's integration into the EU is a crucial condition for the reconstruction of its economy, as Ukraine needs assistance in meeting its recovery needs. The scale of damage caused to the Ukrainian economy by the full-scale war is determined. The dynamics of the main macroeconomic indicators that characterise the state of the state socio-economic potential is analysed. The state of implementation of Ukraine's European integration course is considered. The degree of Ukraine's access to EU funds, programmes and instruments of assistance is studied. The volume of pre-accession assistance to Ukraine and the vector of economic reforms financed by these funds are determined. The potential impact of Ukraine's gradual integration into the EU on its investment climate is examined on the example of other EU member states. Measures aimed at liberalising EU-Ukraine trade relations are identified. The dynamics of Ukrainian export operations to the EU is studied. Measures aimed at rebuilding Ukraine's transport infrastructure and integrating it into the European transport system are analysed, as the restoration of transport infrastructure is the basis for the restoration of the economy as a whole, given the expansion of the country's transit capabilities.

## ВІДБУДОВА ЕКОНОМІКИ УКРАЇНИ У КОНТЕКСТІ ПЕРСПЕКТИВ ІНТЕГРАЦІЇ В ЄС

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### Ключові слова:

інтеграція, відновлення соціально-економічного потенціалу країни, макроекономічні показники, економічні реформи, лібералізація торгівлі

У статті встановлено, що інтеграція України в ЄС є визначальною умовою відбудови її економіки, адже Україна потребує допомоги у задоволенні потреб на відновлення. Визначено масштаби збитків, завданих українській економіці повномасштабною війною. Проаналізовано динаміку основних макроекономічних показників, що характеризують стан державного соціально-економічного потенціалу. Розглянуто стан реалізації Україною євроінтеграційного курсу. Досліджено ступінь доступу України до фондів, програм і інструментів допомоги ЄС. Визначено обсяг передвступної допомоги Україні й вектор реформ в економіці, здійснення яких профінансується цими коштами. На прикладі інших країн-членів ЄС розглянуто потенційний вплив поступової інтеграції України в ЄС на її інвестиційний клімат. Визначено заходи спрямовані на лібералізацію торговельних відносин Україна – ЄС. Досліджено динаміку українських експортних операцій до ЄС. Проаналізовано заходи спрямовані на відбудову транспортної інфраструктури України й на її інтеграції в європейську транспортну систему, адже відновлення транспортної інфраструктури є основою відбудови економіки в цілому, з огляду на розширення транзитних можливостей країни.

### Statement of the problem

Russian aggression has caused significant damage to the Ukrainian economy, leading to its degradation. As a result of the hostilities, a significant part of the infrastructure, industry and housing stock was destroyed or damaged. There has also been a significant decline in production, trade and investment.

In this context, Ukraine's integration into the EU is an important strategic goal of Ukraine, which will contribute to the country's economic development. Integration into the EU will open up access to the European market for Ukraine, which will help increase exports of Ukrainian goods and services. In addition, integration into the EU will help attract European investment to Ukraine's economy.

Thus, it is important to determine the vector of national economic recovery, which will accelerate the process of Ukraine's integration into the European economic space.

### Analysis of recent studies and publications

The relationship between Ukraine's economic recovery and its integration into the EU has been the subject of research by many scholars. Recently, a number of papers on this topic have been published by research centres such as: Centre for Economic and Policy Research (CEPR) [1], Razumkov Centre [2], Institute for Economic Research and Policy Consulting [3].

Thus, the paper “Rebuilding Ukraine: Principles and Policies” by the Centre for Economic and Policy Research (CEPR) examines the principles and policies of rebuilding Ukraine after the devastating blow of Russian aggression. The study “Ukraine's European Integration: Realities and Prospects” by the Razumkov Centre analyses the realities and prospects of Ukraine's European integration. The authors of the study note that Ukraine's integration into the EU is an important strategic goal of Ukraine, which will contribute to the country's economic development. The potential impact of Ukraine's integration into the EU

on its economy is analysed in the study “The Impact of Ukraine's Integration into the EU on its Economy” by the Institute for Economic Research and Policy Consulting. The authors note that Ukraine's integration into the EU will contribute to the growth of the country's economy, increase its competitiveness and improve the quality of life of the population.

Thus, the analysis of recent studies and publications shows that Ukraine's integration into the EU is an important factor for the country's economic recovery.

### Objectives of the article

The purpose of this study is to determine the extent of the damage caused to the Ukrainian economy as a result of Russian aggression, to analyse the impact of the war on the state of the Ukrainian economy in terms of key macroeconomic indicators, and to assess the state of implementation of Ukraine's European integration course and the measures already being taken to integrate Ukraine into the European economic space.

### The main material of the research

Having only just recovered from the challenges of the COVID-19 pandemic, Ukraine's economy has been hit by a full-scale war. According to World Bank analysts, direct losses have reached USD 135 billion as of 24 March. As of 24 February 2023, the amount of direct losses reached USD 135 billion, and the recovery needs amounted to USD 411 billion. [4]. The sectors that suffered the most, the cost of losses incurred by them, and the recovery needs are shown in Figure 1.

Thus, according to World Bank experts, the following sectors suffered the greatest losses: housing – USD 50 billion, or 38 % of the total losses incurred by the country during the study period; transport – USD 36 billion, or 26 %; energy – USD 11 billion or 8 %; and industry and trade – USD 11 billion or 8 % of the total losses incurred

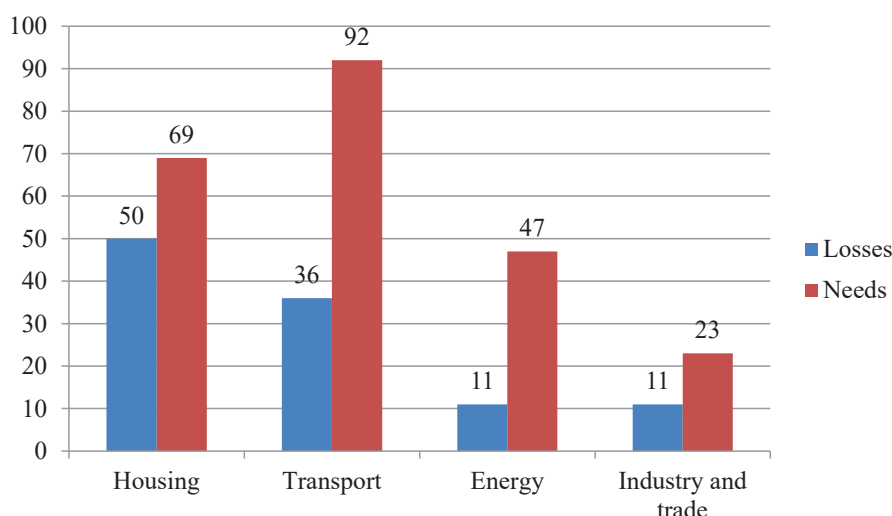


Figure 1 – Cost of losses and recovery needs by sector as of 24 February 2023, billion USD

Based on [4]

by the country. The transport sector accounts for the largest share of the cost of restoration needs – USD 92 billion, or 23 %. The restoration needs of the above mentioned sectors are as follows: housing sector – USD 69 billion, or 17 %; energy sector – USD 47 billion, or 12 %; and the industry and trade sector – USD 23 billion, or 6 %.

The devastating consequences of a full-scale war are characterised not only by the amount of damage to infrastructure facilities, but also by negative shifts in the dynamics of macroeconomic indicators. The most important indicators of the country's socio-economic situation include: GDP, inflation or consumer price index, unemployment rate, etc.

According to the classical definition, GDP is the aggregate market value of final goods and services produced by enterprises, organisations and institutions over a certain period of time on the economic territory of a country. Thus, according to the State Statistics Service of Ukraine, the real gross domestic product in 2022 decreased by 29.1 % to UAH 3865780 million, which is the deepest drop in GDP in the history of independent Ukraine [6]. In fact, the GDP level has returned to the level of the 2000s.

Another important indicator of the country's socio-economic situation is the inflation index or consumer price index. The consumer price index is an indicator that characterises changes in the general price level of products purchased by the population for non-productive consumption. It measures the change in the cost of a fixed set of consumer goods and services in the current period compared to the previous one. Thus, in 2022, the consumer price index was 26.6 % compared to the previous year [5]. That is, in 2022, prices for non-production goods and services increased by 26.6 % compared to 2021.

The last, but no less important, indicator of the country's socio-economic situation under study is the unemployment rate, which is defined as the ratio of the number of unemployed to the total number of economically active working-age population of the country (region, social group) and is expressed as a percentage. The unemployment rate of the working-age population is estimated at 25–26 % on average in 2022, which corresponds to a total of 3.2 million unemployed people, while the same indicator for 2021 was 10.3 %, which corresponds to a total of 1.7 million unemployed people [5].

Therefore, it can be concluded that the negative dynamics of the most important macroeconomic indicators characterising the country's socio-economic situation is an indicator of the destruction of established ties and the structure of the country's economy, which was caused by Ukraine's involvement in a full-scale war.

Ukraine needs help to meet its reconstruction needs. Since the beginning of the full-scale war, the country has been supported by the EU. Currently, Ukraine is receiving an unprecedented amount of assistance from the EU. Despite the fact that Ukraine chose the course of European integration after the declaration of its independence, its active implementation is taking place in the context of war, as evidenced by the fact that Ukraine has been granted the status of an EU candidate. After fulfilling certain

requirements, Ukraine will have the opportunity to join the special Instrument for Pre-Accession Assistance – IPA III, as well as other EU funds and programmes – European Peace Facility, External Action Guarantee, European Union Recovery Instrument (COVID-19), Erasmus+, Invest EU Fund, Creative Europe, European Fund for Sustainable Development, etc. [2]. This instrument of pre-accession assistance provides for the allocation of €14.2 billion by 2027 to implement reforms in various areas.

Priority reforms in the economy include:

- improving tax and economic governance, promoting macroeconomic stability, implementing sustainable development goals, and building a market economy that can withstand competitive pressure within the EU;
- ensuring compliance with *Acquis Communautaire* rules, standards, policies and practices, including in the areas of public procurement and state aid rules;
- promoting employment of the population;
- infrastructure development;
- improving the business climate;
- improving the accessibility of digital technologies and innovations.

In addition to financing the implementation of reforms, Ukraine's special status will potentially improve the investment climate in the country. For example, in Poland, the country's FDI per capita increased between 1994 and 2004 from USD 99 to USD 2,190 after it became a candidate country. This is due to the prospects of further European integration and the fact that Poland gained the status of an EU candidate [2].

Thus, acquiring the status of an EU candidate shapes the vector of the country's recovery, which will be aimed at implementing reforms aimed at converging the Ukrainian and European socio-economic systems, provides access to financing for reforms and facilitates investment.

The first year of the full-scale war was characterised by the liberalisation of trade contacts between Ukraine and the EU.

Regulation (EU) No. 2022/870 of the European Parliament and of the Council of 30 May 2022 on the temporary liberalisation of trade between Ukraine and the EU provides for:

- temporary suspension of all tariffs provided for in Annex I-A to the Association Agreement;
- temporary suspension of anti-dumping duties;
- temporary suspension of global safeguard measures.

This regulation will be in force until 5 June 2023. Trade with the EU has become the basis for the resilience of the Ukrainian economy in the face of a full-scale war. In the first half of 2022, the EU's share in the geographical structure of Ukraine's exports was 52.2 %. The leading exports were food products, industrial goods, and agricultural products [2]. In 2022, Ukraine became the leading supplier of butter and cheese to the EU. In January-September 2022, Ukraine exported 72.43 thousand tonnes of dairy products, which is 11 % more than in the same period in 2021 [2].

The upward trend in Ukraine's exports to the EU is explained by the implementation of trade liberalisation measures with the EU and demonstrates Ukraine's gradual

integration into the European economic space, which strengthens the national economy even in the face of a full-scale war.

As noted, the devastating impact of Russian aggression has been felt in Ukraine's infrastructure, in particular in the transport sector, whose restoration needs currently amount to USD 92 billion [4]. Rebuilding the infrastructure is a prerequisite for the further development of Ukraine's trade relations with the EU and economic recovery in general. Ukraine's transport and logistics infrastructure is currently being integrated into the European one.

In June 2022, Ukraine and the EU signed an agreement on road freight transport, which cancels the need for Ukrainian carriers to obtain relevant permits for bilateral and transit traffic to the EU. Ukraine continues to work on improving the system of road transport to the EU. At the end of April 2022, the State Service of Ukraine for Transport Safety launched the digital system "SHLYAH", which simplifies the procedure for submitting documents, managing licences, etc. to the maximum extent possible, thereby reducing the time for processing applications from 1–3 months to 1–5 days. This significantly speeds up trade operations.

Thus, restoring infrastructure, including transport infrastructure, is one of the most important priorities for rebuilding the national economy, and its integration into the European transport system will significantly expand

Ukraine's transit capabilities and improve the efficiency of related sectors of the economy.

### Conclusion

Thus, rebuilding the national economy is a long-term process that requires assistance to meet the recovery needs, as World Bank analysts estimate that the recovery needs as of 24 February 2023 amounted to USD 411 billion. This study identifies the role of the EU in meeting these needs. This study identifies the role of the EU in restoring Ukraine's socio-economic potential. Today's active implementation of the European integration course, as evidenced by Ukraine's acquisition of the EU candidate status, determines the vector of the country's recovery, which will be aimed at implementing reforms aimed at converging the Ukrainian and European socio-economic systems, providing access to financing for reforms and facilitating investment. The prospects for the recovery of the Ukrainian economy are also positively influenced by the gradual integration of Ukraine into the European economic space, as evidenced by the liberalisation of Ukraine-EU trade relations, the upward trend in Ukrainian exports to the EU and the expansion of Ukrainian transit opportunities.

Thus, it can be concluded that Ukraine's integration into the EU offers good prospects for rebuilding the state economy, but the process of its recovery is multifaceted and will require significant and persistent efforts of society.

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