

THE IMPACT OF THE WAR ON THE DEVELOPMENT OF UKRAINE'S ECONOMY AND WAYS TO RESTORE IT

Since the beginning of the war until today, Ukraine has experienced extensive destruction of productive capital and infrastructure, resulting in human sacrifices and social costs. This has led to a reduction in jobs and incomes, a decrease in purchasing power, and a decline in the accumulation of assets.

The war ravaged nearly a third of Ukraine's GDP, with a 30% decrease in real GDP in 2022 forcing many to become migrants. These skilled individuals are crucial for Ukraine's sustainable recovery. Energy disruptions hindered economic recovery by 5%, potentially costing \$3 billion in GDP and \$500 million in state income. Front-line regions, though only a third of enterprises, contributed over half of pre-war sales, making them crucial for Ukraine's economy. Large industrial enterprises lost over \$13 billion due to the war, surpassing annual foreign investments.

Relocation affected less than 2% of registered businesses in frontline areas, compared to 20% nationwide. It helped preserve production in cities like Lysychansk and Rubizhny. About one-fifth of the country's businesses relocated with 5 million IDPs, altering the economic landscape. Medium-sized enterprises, comprising 52% of affected businesses, face high risks in war zones. They require substantial grants, affordable loans, and insurance for sustainability, as government funds prioritize defense. International support is crucial for economic recovery and development. For the process of recovery and economic growth to become a more realistic goal, Ukraine must address key problems.

Human capital – it is necessary to implement a policy to encourage able-bodied Ukrainians to remain on the labor market, to encourage forced migrants to return home, and to attract foreigners to visit and live in Ukraine.

Ukrainian MSMEs (Micro, small and medium-sized enterprises) – to preserve the functioning and support of MSMEs, create a comfortable

business climate, review the spheres of state supervision and control, the work of the tax and customs authorities, complete the reform of the economic security bureau, and this is a task for both the authorities and for our allies.

Most of the key production sectors of the Ukrainian economy suffered significant material and technical problems caused by the war. Here, we propose a six-stage approach: support, rethinking, transformation, stimulation, strengthening, and direction.

As international experience shows, investments are critically sensitive to distances, logistics, and infrastructure. The future European integration will primarily affect the western and central regions, tentatively 300-350 km from the border, and a separate approach to development needs to be created for the east of the country (which will obviously remain a logistical dead end for a long time).

Climate change will further impact Ukraine, affecting it from northeast to southwest with risky farming zones and temperature extremes. Economic geography may drastically change in a few decades. Front-line regions experienced GDP losses of 30-40%, while central and western regions saw decreases of 10-30%. However, Zakarpattia, Ivano-Frankivsk, and Kirovohrad regions saw population growth, compensating for economic losses and facilitating partial recovery. This disparity allows for the differentiation of threat levels across regions, enabling targeted government incentives to support economic recovery.

It is hard not to agree with the recommendation of The Economist, according to which the Allies should do everything in their power to create a sustainable economy in Ukraine – create incentives for investment by their companies, risk insurance, nearshoring and friendshoring from Asia to Ukraine, provide cheap financial resources if not for Ukrainian companies, but at least for foreign investors.

On the other hand, Ukraine has a huge task ahead in creating appropriate conditions for doing business and ensuring the rule of law. These steps, coupled with a balanced approach to forming a recovery strategy that takes into account the impact of the war on the country's economy, will contribute to sustainable development, strengthen the stability of the state, and enable the successful completion of the post-war recovery process.

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