ECONOMIST IMPACT

Ukraine Reform Tracker: Economic Reforms



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About the report

Maintaining momentum in Ukraine's ambitious reform programme will be essential to the nation's recovery after the war. With the aim of stimulating and supporting discussion on this matter at the 2022 Ukraine Recovery Conference (URC), Economist Impact presents the *Ukraine Reform Tracker*.

The *Ukraine Reform Tracker* analyses the state of reforms across four key areas: **economic reforms, environmental** and **energy reforms, social reforms and governance reforms** (mirroring the key themes of the 2022 URC). Economist Impact has produced a policy brief for each reform area, with an assessment of: 1) reform progress since 2014; 2) the resilience of reforms in 2022, in particular given the stresses of the ongoing war with Russia; and 3) the outlook for reform, with a focus on the role that reforms will play in facilitating Ukraine's recovery. These policy briefs are accompanied by an interactive data story that visualises the key trends in Ukraine's reform progress since 2014.

Importantly, the *Ukraine Reform Tracker* does not attempt to provide a wholly comprehensive account of every reform that has been implemented in Ukraine since 2014. Instead, the tracker focuses on the most salient components of Ukraine's reform programme, which will best support an understanding of the contribution of reform to Ukraine's past, present and future development.

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Progress since 2014

Ukraine's economic indicators have been trending upwards since the economic crisis in 2014-2015 (with the exception of the pandemic-driven disruption in 2020). Real GDP growth averaged 2.9% over 2016-2019, and returned to growth of 3.4% in 2021 after contracting during the pandemic. Average wages have also been rising steadily since 2014, although employment has been trending downwards. Ukraine has had varied success in reforming its economy in recent years. Business environment reforms have centred on improving competition, rationalising the taxation system, stimulating domestic innovation and attracting greater flows of foreign direct investment. The restructuring and development of Ukraine's financial sector has also been a key reform focus since 2014, in an effort to improve the accessibility and adequacy of the financial system and support increasing integration into global financial markets. Similarly, successive administrations have made an effort to redirect Ukraine's trade operations, bolstering export volumes and diversifying trade partners.



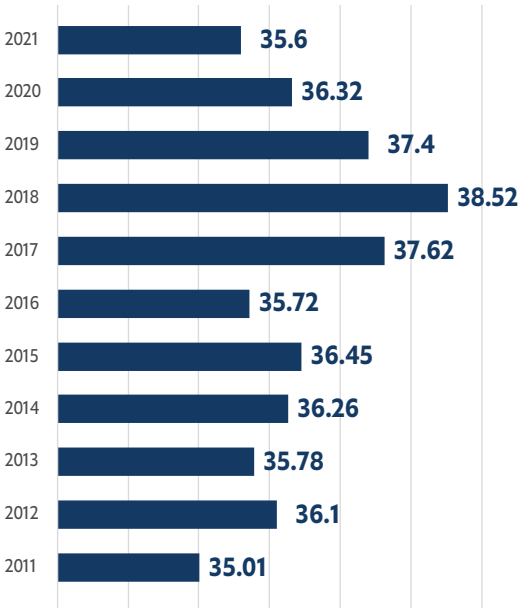
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Business Environment

Competition has been a perennial issue in Ukraine's business environment. Since 2014, successive administrations have set out to tackle the issue by bolstering the powers of the Anti-Monopoly Committee of Ukraine, rationalising loss-making state-owned enterprises (SOEs) and facilitating properly-regulated privatisation when appropriate.[1] The improvements for private enterprises have been reflected in BTI's private enterprises scoring for Ukraine (an indicator in its wider Transformation Index that measures whether private companies are permitted and protected), which improved steadily, from 6/10 in 2014 to 8/10 in 2021 (slightly higher than regional peers, such as Moldova and Georgia, and in line with Armenia).[2] Despite the progress made, however, a small number of powerful and politically-connected enterprises continue to dominate many of Ukraine's.[3] Ukraine's score in the Economist Intelligence Unit's (EIU)'s indicator that measures Policy Towards Private Enterprise and Competition (part of its Business Environment rankings) is held down by this factor. Ukraine scored 3.3/10 from 2014-2019, before falling to 3/10 by 2021.[4] Specifically, the EIU cites issues in deregulation and competition that still need to be addressed, such as ongoing state intervention and lingering instances of oligarchism.

The government has also carried out limited reforms on Ukraine's tax administration, in an effort to make it more stable and equitable. Limited progress has been made in improving taxpayer compliance by promoting e-governance (allowing payments via the Diia app) and decentralising taxation processes where possible. This progress was reflected in the EIU's Tax Regime Rating, which climbed from 3.3/10 in 2014 to 4/10 in 2021.[5] The muted nature of the gains are representative of the lack of progress in other areas of tax reform, in particular transparency in corporate taxation.

Global Innovation Index (0 to 100, 100 = good)



Improvements to the tax administration fit within Ukraine's broader strategy to make its policy environment more attractive to foreign businesses. The government has attempted to increase foreign direct investments to support domestic capital formation and stimulate economic activity within the private sector. Progress has been made in improving the regulatory environment for investors, in particular enhancing transparency and assurances. Consequently, Ukraine's FDI inflows have been steadily trending upwards,[6] but investor trust continues to be undermined by the lingering

1 https://www.oecd.org/corporate/SOE-Review-Ukraine.pdf
2 https://bti-project.org/en/?&cb=00000
3 https://documents1.worldbank.org/curated/en/368301553112891891/pdf/135463-WP-P169603-PUBLIC.pdf
4 EIU Business Environment Rankings
5 EIU Business Environment Rankings
6 State Committee of Statistics

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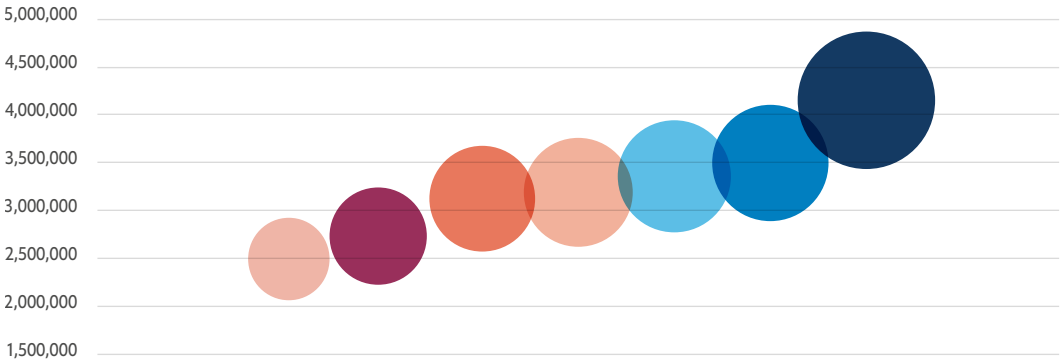
unpredictability of the policy environment. The decision to reduce green tariff rates in 2020 is a prime example in which confidence in the policy environment was damaged, as the government lowered rates that were previously fixed as an incentive to foreign investors.[7] The enactment of the National Economic Strategy in March 2021 provides an important foundation for development,[8] although this is likely to be reworked once economic viability returns in the aftermath of the war.

Financial Sector Development

The development of the financial sector has been a clear success story in Ukraine's economic reform programme. After the financial crisis in 2014-2016, the Ukrainian government (supported by bilateral and multilateral development partners) restructured the beleaguered sector, strengthening the ability of regulators and financial market participants to withstand future crises. A core focus was the overhaul of the National Bank of Ukraine (NBU; the central bank). The government strengthened the NBU's institutional standing, empowering it to drive financial sector development. From 2015-2019 the central bank carried out the *Comprehensive Programme of Ukrainian Financial Sector Development Until 2020* which involved successfully liberalising the currency, floating the exchange rate, rationalising the banking sector and redirecting monetary policy to target inflation.[9] The NBU was also tasked with the supervision of broader financial institutions.[10] The improved regulation of the banking system brought gains in the sector's non-performing loan (NPL) ratio, which has been in steady decline since 2017. Progress has also been made in the regulation of non-banking financial services. The government is working with multiple local and international partners to regulate and develop Ukraine's non-bank financial sector, and in 2019 Ukraine's Verkhovna Rada (parliament) adopted 'law No. 1069-2' which amended and improved the regulatory capacity of the system.[11]

Beyond stabilising and fortifying the system, Ukraine also focused on growing the breadth

Financial corporations: financial assets (UAH, million)

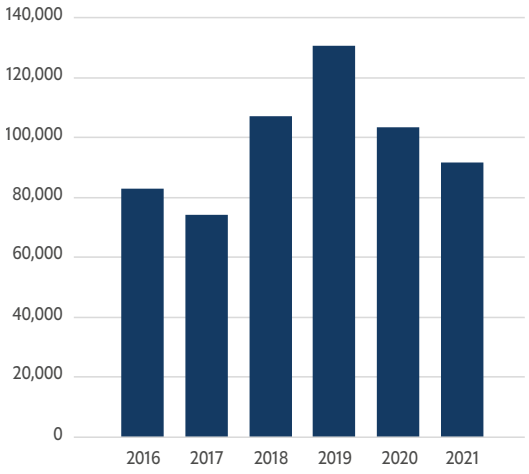


[7] https://www.reuters.com/article/us-ukraine-energy-renewables-idUSKCN24M1DS
[8] https://www.kmu.gov.ua/en/news/denis-shmigal-uryad-zatverdiv-nacionalnu-ekonomichnu-strategiyu-do-2030-roku
[9] https://bank.gov.ua/en/files/wFebBRAYYAAIkgV
[10] https://bank.gov.ua/en/news/all/golovni-pidsumki-roku-regulyuvannya-ta-naglyadu-za-nebankivskimi-finansovimi-ustanovami
[11] https://bank.gov.ua/en/files/DbTumkPIsHRCuzG

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and depth of the financial sector. Loss-making state-owned banks (SOBs) have been reformed by improving corporate governance structures (in line with the *Principles of Strategic Reform of the Public Banking Sector),*[12] while Privatbank, the largest commercial bank in Ukraine, was successfully nationalised, averting the disruption of a potential collapse.[13] Financial assets under management increased steadily over 2014-2021, with a particular acceleration in 2020.[14] As the sector grew and adequacy ratios were brought in line, lenders slowly increased the quantity of domestic credit on offer over 2016-2021.[15] As the sector grew in size, so too did financial services exports, which rose sharply over 2017-2019.[16]

Financial services exports (US$, million)



Trade

Ukraine has had success in reforming its trade activities, in part owing to the successful design and implementation of the Export Strategy of Ukraine 2017-2021.[17] The government supported the development of a growing export sector by removing excessive regulations, simplifying import tariffs, and improving systemic harmonisation with trade partners. Ukraine successfully executed reforms to its customs processes, with the passing of the amendments to the Law On Customs Tariff of Ukraine in June 2020,[18] as well as continued progress in reforming the State Customs Service in 2021.[19] Progress in trade reforms resulted in rapid growth in export volumes over 2016-2019, at an annual average of 11.2%, as well as a sharp increase of 34% in 2021, after a pandemic-related dip in 2020.[20]

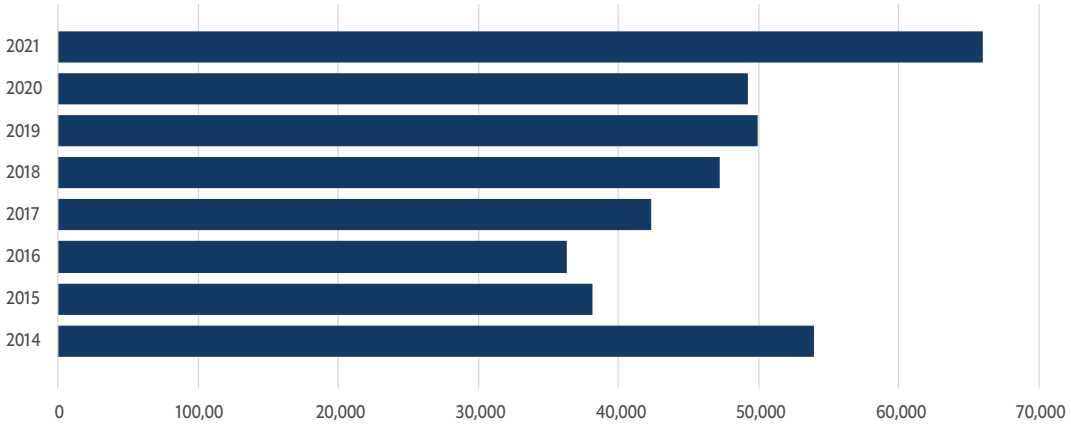
Ukraine's trade reforms centre on efforts to diversify its trade operations and enhance its integration into the EU market. In both areas, Ukraine has seen steady progress. Russia was Ukraine's main trading partner in 2014, capturing 18.2% of its exports and providing 22% of its imports.[21]

Since then, however, Russia's share of Ukraine's exports and imports has decreased consistently, reaching 4.9% and 8.4% in 2021, respectively.[22] China picked up much of the slack, purchasing 11.7% of Ukraine's exports and providing 15.3% of imports in 2021.[23] Ukraine made particular progress

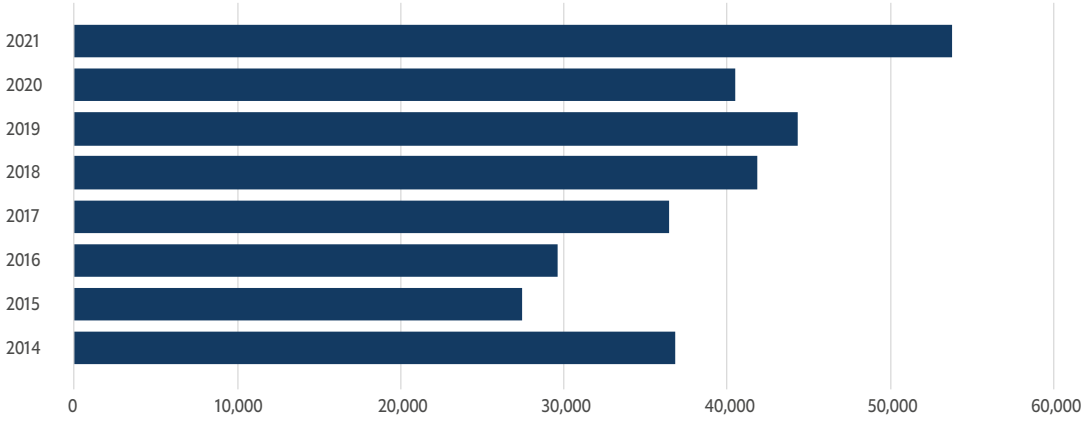
[12] https://www.mof.gov.ua/en/news/uriad_zatverdiv_printsipi_strategichnogo_reformuvannia_bankiv_derzhavnogo_sektoru_-2392
[13] https://pb.bank.gov.ua/en.html
[14] State Statistics Service of Ukraine
[15] https://data.worldbank.org/indicator/FM.AST.DOMS.CN?locations=UA
[16] State Statistics Service of Ukraine
[17] https://www.me.gov.ua/Documents/Detail?lang=en-GB&isSpecial=True&id=5a3190f8-2e59-411c-830c-cae3306000d4&title=ExportStrategyOfUkraine
[18] https://chamber.ua/wp-content/uploads/2020/07/New-Edition-of-the-Customs-Tariff-of-Ukraine.pdf
[19] https://www.kmu.gov.ua/en/news/ukrayina-vprovadzhuye-sistemu-obminu-mitnoyu-informaciyeyu-z-yes-yaka-dozvolit-minimizuvati-zlovzhivannya-na-mitnici-denis-shmigal
[20] International Monetary Fund
[21] International Monetary Fund
[22] International Monetary Fund
[23] International Monetary Fund

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Volume of exports of goods and services (US$, million)



Volume of trade with the EU (exports + imports) (US$, million)



in diversifying its trade portfolio within the EU, raising its trade volumes with member states by 46.2% from 2015 to 2019.[24] Increasing trade with the EU was facilitated by the signing of the Deep and Comprehensive Free Trade Agreement (DCFTA), which reduced tariffs for European firms exporting to Ukraine.[25] The Ukrainian government also made efforts to harmonise with EU trade standards, including the introduction of a New Computerised Transit System (NCTS),[26] which minimises customs abuses and underlies the *European Convention on the Common Transit Procedure*.

[24] International Monetary Fund
[25] https://trade.ec.europa.eu/access-to-markets/en/content/eu-ukraine-deep-and-comprehensive-free-trade-area
[26] https://eu4pfm.com.ua/news/ukraine-is-already-implementing-a-new-computerized-transit-system-ncts-at-the-national-level-and-reached-a-significant-progress/#:~:text=%E2%80%9CUkraine%20is%20already%20implementing%20a,international%20NCTS%20operations%20in%202022.

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Resilience in 2022

Similar to its development since 2014, the current economic reform landscape shows a picture of lopsided progress. In the business environment sphere, deregulation and tax simplification has been further deepened and adjusted to the war conditions as the administrative burden on enterprises was eased, allowing them to continue operation. The government has also been proficient in helping relocate enterprises to economically viable areas, where possible, to limit closures and help temporarily closed businesses resume activity. Competition, however, has been restricted, with tender requirements for public procurement temporarily lifted. Privatisation—which already progressed slowly before the war—stalled, with a draft law aiming to simplify the process rejected. In the trade sphere, although customs reform has been adjusted to ensure uninterrupted imports of strategically important goods, the state budget experienced significant shortfalls, while the blockade of maritime shipping routes undermined Ukraine's export capacity. Reforms in the financial sector, building on upgraded prudential requirements and improved supervision, proved successful and helped to buttress the war-related shock to the economy.

Business Environment

With more than a third of Ukraine's businesses suspending operations upon the invasion, and the majority of export activities disrupted by the subsequent port blockade, the government launched an ambitious programme to relocate enterprises to economically viable areas in the west of Ukraine and to create alternate logistics options for exports. The relocation plan appears to have been a success, with vital businesses relocating and beginning to scale operations once again. However, exports remain hamstrung by the lack of maritime logistics, which previously handled about 90% of Ukraine's commodity exports.[27]

Steps towards deregulation and the simplification of the tax system are examples of measures which not only withstood the blow of the war but have been accelerated by it. The government also began a faster movement towards deregulation to make doing business in conditions of war possible. Licensing regulations have been eased to help businesses resume operations or to start a new business. Indicative results can be seen in a recent survey carried out by the European

[27] https://www.fao.org/3/cb9013en/cb9013en.pdf

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Business Association (EBA), in which only 3% of the 134 surveyed companies were not working at the start of May (down from 4% in April and 29% in early March).[28] Licences and permits that would previously take a long time to receive have been replaced with the simple submission of declarations by the entrepreneur to relevant authorities.[29] According to the Cabinet of Ministers of Ukraine, this change is likely to remain in place after the end of the war, as it contributes significantly to a favourable business environment.[30] The registration process for individual entrepreneurs has also been simplified further, with individuals now allowed to apply for the status entirely online, regardless of their location.[31] The simplified registration of individual entrepreneurship also yielded strong results. Since the start of the war, more than 10,000 individual entrepreneurs and 1,200 companies have been registered.[32]

Tax simplification was also accelerated: for the period of martial law, the government provided the opportunity to switch to 2% of turnover tax, replacing income tax and VAT.[33] For small businesses (in tax Groups I-II), the payment of the simplified tax is voluntary.[34] Although temporary, this measure is designed to help businesses to survive and continue operations in conditions of war. Easing the tax burden on individual enterprises lessened the financial pressure driving Ukrainian business towards bankruptcy or closure.

However, steps towards fair competition have been held back. The transparency of public procurement has been restricted as the requirement to conduct tenders was suspended for the period of war.[35] Although this measure was vital to ensure speed in the procurement necessary for the state's defence and to keep the economy afloat, it led to a significant decrease in competition. As of May 2022, 228,000 contracts have been concluded in the period of war, without a procurement announcement, meaning that businesses were not informed in advance and could not offer a better price.[36] The removal of the tender requirement in ProZorro (an electronic system that enables open access to public procurement opportunities in Ukraine) was necessary for the state's prompt response to the changed conditions and helped to ensure that shortages of food, medicine and fuel could be addressed. However, necessary supplies came at inflated prices. According to ProZorro, the state saved some UAH7.47bn (approx. US$255m) in 2021, which is 40-times more than the amount saved once the tender requirement was suspended (tenders are currently voluntary).[37] This increased public expenditure put additional pressure on Ukraine's already strained budget and thus adversely affected its resilience during the war, including its ability to finance the defence effort. Privatisation efforts also stalled as the war broke out, although this is understandable as the government prioritised other pressing reforms to defend the economy from the war-related shock. The Verkhovna Rada rejected a draft law aimed at simplifying the privatisation of state property under martial law.

[28] https://eba.com.ua/en/majzhe-polovyna-kompanij-eva-vidnovyly-povnotsinnu-robotu/
[29] https://finclub.net/ua/news/minekonomiky-planuie-zberehty-derehuliatsiiu-biznesu-pislia-viiny.html
[30] https://www.kmu.gov.ua/news/uryad-pidtrimav-zakonoproekt-pro-deregulyaciyu-vedennya-biznesu-v-ukrayini
[31] https://yur-gazeta.com/dumka-eksperta/yak-stati-fop-pid-chas-viyni-poradi-yurista.html
[32] https://opendatabot.ua/war
[33] https://tax.gov.ua/en/mass-media/news/579024.html
[34] https://tax.gov.ua/en/mass-media/news/577089.html
[35] https://zakon.rada.gov.ua/laws/show/169-2022-%D0%BF#Text
[36] https://www.epravda.com.ua/columns/2022/05/9/686797/
[37] https://www.epravda.com.ua/columns/2022/05/9/686797/

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Financial Sector Development

Having faced the unprecedented challenge of a full-fledged war, Ukraine's financial system proved to be institutionally resilient, ensuring money circulation and avoiding panic in the financial markets. Given force majeure circumstances, the banking system had enough liquidity to withstand the blow. Timely temporary measures introduced included fixing the exchange rate, restricting the foreign exchange market, control over the movement of capital, and the financing of the budget deficit through the purchase of "military bonds" by state-owned banks and the NBU.

In response to Russia's invasion, the banking sector saw the liquidation of International Reserve Bank JSC and Prominvestbank PJSC, subsidiaries of Russian financial institutions. Given their relative insignificance in the market (as of January 2022, they owned 2% of net assets in the banking sector), a decline in the sector's overall assets was primarily due to divestment by foreign and private financial institutions. State-owned banks proved the most resilient to shock, with their share of net assets and funds of individuals increasing to 47.8% and 55.9%, respectively.[38]

Even though consumer demand for credit decreased after the outbreak of the war, moderate demand from corporations remained. In response, the government moved to facilitate corporate lending by improving the conditions of government-subsidised loan schemes. The programme—"Available loans 5-7-9%"—was expanded by lifting all requirements pre-war applicants were subject to.[39] Now, any Ukrainian business that needs support can get a loan on

[38] https://finbalance.com.ua/news/bankivska-sistema-ukrani-popri-viynu-zumila-zbilshiti-depozitniy-i-kreditniy-portfel
[39] https://www.epravda.com.ua/publications/2020/03/6/657777/

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favourable terms, and the maximum loan amount has been increased to UAH60m (approx. US$2m). For the period of martial law and for one month thereafter, these loans are interest-free.[40]

Reforms undertaken in the banking and financial sector ensured the sector's resilience during the war. Redirecting the NBU's monetary policy and strengthening its institutional capacity and regulatory oversight proved important factors in ensuring macro-financial stability during the war, by increasing the financial stability and transparency of banks and ensuring adequate cash reserves. The Ukrainian government and the NBU were proactive in introducing temporary measures to further improve the resilience of the sector. Early in the conflict the NBU held its policy rate at 10% and pegged its exchange rate to offer some form of stability.[41] Fixing the exchange rate and policy rate as well as facilitating state-issued loans ensured the relatively smooth operation of financial institutions, with the banking sector suffering only moderate losses in the first months of the war.[42] As a result, the sector was able to ensure continuity of services across the board, with pension and social payment obligations fulfilled by Ukrainian banks' clients freely making card transactions abroad, and the Accounting Chamber uninterruptedly serving interbank money transfers.[43] In early June 2022, the NBU took the bold step of raising its policy rate from 10% to 25%,[44] in an effort to curb rocketing inflation and protect the hryvnia (local currency). The move is designed to slow the decline of Ukraine's purchasing power and ease the burden on foreign-currency reserves (which are being drained by efforts to defend the value of the fixed currency).

Trade

Progress made to facilitate Ukraine's export and transit capacity stalled as sea ports were either captured (Mariupol, Berdiansk, Skadovsk, Kherson) or blocked (Odessa, Mykolaiv). Railway infrastructure, which is unable to fully replace maritime export routes, is also frequently disrupted by missile attacks. The customs reform has been adjusted to the conditions of war, with zero customs clearance introduced for cars and import restrictions for certain goods (humanitarian aid, food, fuel, etc.) lifted.

The lack of infrastructure upgrades in the past, in particular the modernisation of the railway system, significantly limited Ukraine's resilience to the blockade of its maritime routes, with large railway bottlenecks currently observed at Ukraine's western border and 20m tons of grain currently stranded in the country.[45] Export volumes of Ukrainian grain and flour in May were 2.6 times lower compared with the same period last year, according to the Ministry of Agrarian Policy of Ukraine.[46] Disrupted maritime shipping led to soaring transportation costs, forcing Ukrainian farmers struggling to free up silos to sell their harvest below global market prices.[47] The blockade of Black Sea shipping routes not only impaired Ukraine's economic performance,

[40] https://www.ukrinform.ua/rubric-economy/3433695-urad-znimae-vsi-obmezenna-po-programi-579-smigal.html
[41] https://bank.gov.ua/en/news/all/natsionalniy-bank-ukrayini-vidkladaye-uhvalennya-rishennya-schodo-oblikovoyi-stavki
[42] https://bank.gov.ua/ua/news/all/bankivskiy-sektor-u-i-kvartali-zberig-visoku-likvidnist-ta-operatsiynu-pributkovist-po-pri-voyenni-diyi--oglyad-bankivskogo-sektoru
[43] https://mind.ua/openmind/20239949-yak-pracyue-bankivska-sistema-ukrayini-v-umovah-vijni
[44] https://bank.gov.ua/en/news/all/natsionalniy-bank-ukrayini-pidvischiv-oblikovu-stavku-do-25
[45] https://www.world-grain.com/articles/16901-eu-to-create-solidarity-lanes-for-moving-grain-out-of-ukraine#:~:text=BRUSSELS%2C%20BELGIUM%20%E2%80%94%20The%20European%20Commission,to%20animal%20feed%20and%20fertilizers
[46] https://ukranews.com/en/news/860299-grain-exports-down-2-6-times-in-may-agrarian-policy-ministry
[47] https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/russias-war-on-global-food-security/

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but also undermined the global food supply, thus increasing the risk of a global food crisis, since Ukraine is one of the largest global suppliers of wheat, corn, barley, and rapeseed.[48]

In other sectors, however, the successful diversification of Ukraine's trade networks since 2014—in particular the divergence away from Russia—somewhat limited the direct impact that the outbreak of war had on Ukraine's ability to buy and sell vital commodities and goods. Adjusting customs reform to war conditions also helped to ensure the uninterrupted flow of goods required for military and humanitarian purposes. This prevented massive shortages among the population and within the army. However, not all changes contributed to the state's resilience. Zero clearance on cars, aimed at easing the import of cars necessary for the army and the population, led to significant budgetary shortfalls. According to the tax committee of the Verkhovna Rada, Ukraine has been losing around UAH100m (approx. US$3.4m) daily due to the zero-clearance rule.[49] The increased volume of car imports also put additional pressure on Ukraine's customs service, creating long queues and delaying humanitarian aid cargo.

[48] https://www.reuters.com/markets/us/ukraines-rising-role-grain-exports-complicates-impact-crisis-2022-01-26/
[49] https://itd.rada.gov.ua/billInfo/Bills/pubFile/1280143

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Outlook

The post-war moment will be an opportunity for Ukraine. With both domestic and international audiences committed to Ukraine's recovery and development, there is likely to be significant pressure to continue and speed up the implementation of the reform agenda. Continued business reforms could allow Ukraine to further deregulate, privatise loss-making SOEs, where appropriate, and clarify its procurement processes. Meanwhile, liberalising agriculture and boosting trade infrastructure, while ensuring the financial sector's continued stability, will attract foreign investment and encourage domestic entrepreneurship, driving faster growth and bolstering budgetary revenues while reducing expenditures.

Business Environment

Although significant progress has been made to improve the business environment in Ukraine, particularly with regard to deregulation, creating conditions for businesses to thrive will remain key to improving Ukraine's business environment, supporting the continuity of existing businesses and the creation of new ones once peace is achieved. Further pursuing the privatisation of large and loss-making state-owned enterprises and returning to a cleaner procurement process by reinstating the tender requirement and expanding it to most government deals will drive an uptick in competition across the board and depress government expenditure. Such steps will also allow more Ukrainian entrepreneurs to enter the market and thrive there in the post-war context. Procedural simplifications regarding auditing, inventories, auctions and property evaluation will make it easier for small and medium enterprises to relocate their facilities or expand by purchasing and investing in state-owned assets. They will also enhance Ukraine's investment climate, making it easier for foreign investors to enter the market post-conflict, further driving productivity and competitiveness.

The post-war moment may present an opportunity to complete the difficult land reform by extending the right to purchase agricultural land to legal entities, including foreign ones (although the passing of such a law would only be possible after a referendum). Opening the path for international capital to flow into Ukrainian agriculture will likely boost productivity across the sector, increasing its competitiveness in the EU market. Turning once again into Europe's breadbasket also presents an unparalleled opportunity for the recovery of Ukraine's economy more broadly and the creation of new domestic revenue streams to finance the post-war reconstruction effort. At the same time, the potential destruction or loss of many metallurgical and machine-building plants and mines in the east of Ukraine will, in the short term, deal a blow to overall economic output and, through the loss of metallurgical exports, the trade balance, as well as budgetary revenues. In the longer term, however, it presents an opportunity to refocus policy efforts and investment in Ukraine's underdeveloped, but more competitive and less capital-intensive light industry, especially pharmaceutical and electrical production, plastic

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and rubber manufacturing, furniture, textiles, and food and agricultural products. Such a new focus would drive competitiveness across the board and boost overall output. With time it would also likely be reflected in Ukraine's trade balance and, more immediately, tax revenues.

Financial Sector Development

Progress achieved in the financial sector in the 2014-2021 period allowed it to remain stable when the conflict broke out. Thanks to the NBU's increased institutional capacity, prompt measures were taken when the war broke out to further bolster the financial sector's resilience and ensure its continued operation in conditions of unprecedented stress, with only moderate losses. Ensuring the financial sector's continued stability and transparency is a must for Ukraine's economic recovery, as it serves as the bedrock to the smooth operation of public and private enterprises, trade flows, social payments, and more, in and out of war. Though much-needed in the current extreme conditions, the swiftest possible elimination of currency controls will reinstate competitiveness within the financial sector and the economy more broadly.[50] Continuing the crackdown on corruption in the sector once the conflict is over will ensure the efficient use of international support for the reconstruction effort. Once the war is over, the government will also need to consider substantially lowering the share of state-owned banks, with the privatisation of Privatbank, the country's largest lender, and Oshchadbank, a large processor of pensions and social payments. This will drive fair competition and encourage new entrants. Increased competition will help boost access to credit for local enterprises that were forced to relocate, reorient their businesses, reduce their staff, or that lost their source of income. Further improvements to the protection of creditors at legislative and institutional levels and the creation of a fully-fledged secondary market for troubled debt would further bolster stability and predictability in the financial sector, encouraging foreign investors to renew their engagement with Ukraine. Managing Ukraine's non-performing loan ratio will be an important challenge for the government, as the severe disruption from the war led to a spike in borrowers unable to meet payments.

Trade

Following the expiration of Ukraine's former export strategy in 2021, the government will need to evaluate the strengths and weaknesses of the initiative, which should inform the design and implementation of a new strategy for the years ahead. Increasing the funding and institutional standing of the Entrepreneurship and Export Promotion Office will empower the body to build on its successes over 2018-2021. Similarly, further strengthening the capacity of the Export Credit Agency and developing business representations abroad will help nurture sustained growth in Ukraine's export market. Harmonising trade conditions, meanwhile, and removing non-tariff trade barriers will support the growth in Ukraine's export sector.

Building on achievements to date in the customs area by further increasing transparency and oversight will further bolster budgetary revenues. By contrast, retaining zero customs clearance for some goods would hold revenues back, but this may be a price worth paying for increased competition and innovation in a number of Ukrainian industries. Given the massive disruption to Ukraine's exports due to the blockade of its maritime shipping routes, upgrading the country's transport infrastructure will be key to Ukraine's

[50] https://www.epravda.com.ua/rus/news/2022/05/20/687260/

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ability to recover from the unprecedented export disruptions and increase its overall export and transit capacity. Ensuring trade continuity even if sea ports are not immediately unblocked following the end of the war or if they experience renewed stress later will be critical. First, the modernisation of Ukrainian railways, in particular aligning the rail gauges with EU standards, is essential to make the railway a viable alternative to currently blocked sea trade routes. Next, investment into road and rail infrastructure in the western, northern and south-western directions will allow for larger flows of Ukrainian exports to reach Baltic Sea ports and the Black Sea ports in Romania. Finally, the modernisation of Danube ports would help diversify shipping routes and at least partially ease the burden on sea ports, while guaranteeing continuity of trade in the event of renewed pressure on Black Sea shipping. Diversifying trade partners supplying critical commodities such as potash and diesel will ensure that shortages are avoided and domestic production in crucial sectors, such as agriculture, is uninterrupted.



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