



Policy Brief

based on the discussion that took place during the round table on:

“Building resilient business sector in Ukraine: challenges and solutions”

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Overall costs of the war in Ukraine

- Ukraine's GDP to fall by 35-45% in 2022 (World Bank, 2022; IMF, 2022).
- Inflation to rise to 15% in 2022 (World Bank, 2022).
- Share of the population living below the poverty line to increase from 1.8% to 19.8% (World Bank, 2022).
- More than 5 mn Ukrainians had to flee to neighboring countries.
- Another 6 mn Ukrainians are now internally displaced.
- More than 950,000 Ukrainians were illegally deported to Russia⁶, including more than 181,000 children⁷ (according to Russia).
- Physical damage exceeds \$88 bn as of April 26 (according to damaged.in.ua) → this is more than 1/3 of Ukraine's GDP last year.
- Total damage to the economy is estimated at around \$600 bn (according to damaged.in.ua)

Costs to businesses

- According to estimates of Vyshlinsky et al. (2022):
 - More than 50% of businesses stopped working due to the war. Half of that is now partially operational.
 - Exports are currently at 50% of pre-war volumes, imports - at 30%.
 - Maritime logistics (62% of exports in 2021) were effectively blocked by Russia, severely impacting agriculture and metallurgy.
- According to the Ministry of Agrarian Policy and Food of Ukraine,⁸ around 400 thousand tons of grain from occupied territories have been illegally moved to Russia. This is around 30% of all stored grain in the Kherson, Luhansk, Donetsk, and Zaporizhzhia regions currently occupied by Russia.
- In agriculture, possible supply shock in July in Ukraine due to the increase in shipping costs and limited export opportunities as a result of blocked ports. Many farmers may go bankrupt.
- A major decrease in consumer demand due to 5 mn people leaving Ukraine and 6 mn internally displaced, many of whom lost their sources of income and cut spending to a bare minimum.
- Consumer electronics retail companies suffer losses due to looting of the warehouses by the Russian army (e.g. turnover of Rozetka has dropped from UAH 4 bn to UAH 23 mn per month⁹).
- Metallurgical plants mostly located in the Donbas region are now being destroyed as well. Damages of only two plants in Mariupol (MMK Ilicha, Azovstal) amount to more than \$3 bn.

⁶ <https://www.interfax.ru/russia/837576>

⁷ <https://ua.interfax.com.ua/news/general/828882.html>

⁸ <https://www.unian.ua/economics/agro/zagroza-golodu-rosiyani-vivezli-z-okupovanoji-teritoriji-ukrajini-chvert-zapasisv-zerna-novini-11812212.html>

⁹ <https://forbes.ua/inside/rozetka-litak-u-pike-chomu-u-e-commerce-gigantiv-vse-nabagato-girshe-nizh-u-traditsiyukh-riteyleriv-01042022-5248>

Policy responses that may help business activities in Ukraine

- Move business activities to safer regions (e.g. West of Ukraine).
- Continue programs of state loans and guarantees for SMEs.
- Extend the simplified taxation system even after the war (e.g. introduction of a 2% sales tax option for businesses).
- Continue liberalization and simplified regulation for business (e.g. the number of permits necessary for the business to operate has been reduced from 500 to 50 since the full-scale invasion¹⁰).
- Lobby for the removal of import quotas and customs duties for Ukrainian products in the European Union but also in other countries and regions.
- Advocate favorable restructuring of Ukrainian debts by private holders.
- Support new logistic solutions, especially for agricultural products, such as railways and river ports.
- If maritime ports are still blocked by July and excess agricultural products cannot be exported abroad, new processing and storage facilities should be open in Ukraine with the help of the EU, international organizations, and NGOs.
- Around 150-210 thousand IT sector employees are now located in the Lviv and Zakarpattia regions of Ukraine and the sector itself is 80% operational. This creates unique opportunities for this industry to develop into something similar to Silicon Valley. Possible support solutions:
 - investment programs with loan schemes and grants to innovation-driven SMEs and IT firms financed by international organizations.
 - European Commission Holding Fund for SMEs sector similar to or under an existing program financed by EIB - JEREMIE (Joint European Resources for Micro to Medium Enterprises) aimed at countries of Eastern Partnership.

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World Bank (2022) The war in the region: Europe and Central Asia Economic Update. Spring 2022.

¹⁰ https://finbalance.com.ua/news/minekonomiki-khoche-zberehti-povnu-derehulyatsiyu-biznesu-i-pislyv-viyini?fbclid=IwAR3biCwanJRS-VDgRHvsjhPiPW_CoRqi6FbMYs8zIP8tjPz4lnSNe25N31c