

# Ukraine's path to European Union membership and its long-term implications

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## Executive summary

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**WHETHER AND WHEN** Ukraine accedes to the European Union will depend greatly on how and when its war with Russia ends and post-war reconstruction starts, and how the EU handles issues of governance, security, migration, trade, investment, the energy transition, decarbonisation and the EU budget.

**THE ENLARGEMENT PROCESS** is likely to overlap with post-war reconstruction, increasing the EU's influence in fostering Ukraine's institutional development. Ukrainian leaders will have strong incentives to comply with the accession criteria, which the EU should use astutely to create a better-functioning economy and public institutions, especially by reducing opportunities for corruption. This will require clearer standards for rule-of-law and fundamental values, including effective tools to ensure continued compliance after accession. That is also the most effective way to ensure a positive impact of future enlargements on EU governance.

**THE EU WILL** also need to develop assistance programmes to help Ukraine manage post-war security challenges and to encourage Ukrainian refugees to return to the country when possible, as they will be needed for the reconstruction effort.

**IF THE CURRENT EU** budget rules were applied and there were no transitional arrangements – which is unlikely – we calculate the total annual cost of Ukraine's integration into the EU budget at 0.13 percent of EU GDP, which would hardly change net recipient/payer positions of current EU members. Ukraine's entry into the EU would benefit EU GDP via trade, migration and foreign direct investment, boosting employment, production and tax revenues in the EU.

**THE HISTORY OF EU** enlargement shows that the strongest motivation for difficult reforms is a credible and predictable accession process based on rewarding reforms. Both Ukraine and the EU would benefit from progressive integration of the country into EU policies, alongside the formal accession negotiations. That would show the Ukrainian public the tangible benefits of moving towards EU standards, while also bringing Ukraine into areas such as energy cooperation and decarbonisation.

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# 1 Introduction

## Meeting EU membership criteria will be tough for Ukraine

The process of Ukraine’s accession to the European Union started in the unprecedented circumstances of a full-scale war and associated damages and human losses. The EU indicated its determination to integrate the war-hit country by rapidly approving Ukraine’s membership application and granting candidate status in June 2022. Subsequently, in December 2023, the European Council decided to open accession negotiations with Ukraine, but only once Ukraine completes further reforms to improve the rule of law and good governance<sup>1</sup>. The war complicates the accession process, but Ukraine can work progressively towards meeting the entry conditions.

Before the war, Ukraine deepened its economic ties with the EU through an Association Agreement, including the Deep and Comprehensive Free Trade Area (DCFTA), which entered into force in 2017. Integration has gone furthest in terms of trade in goods, which is now mostly free, though some differences between rules and procedures persist. Remaining EU tariffs were suspended temporarily following Russia’s invasion of Ukraine.

Immigration from Ukraine was subject to bilateral agreements before the war, while the activation of the EU’s Temporary Protection Directive (2001/55/EC) in March 2022 gave Ukrainian citizens EU residence, work, free movement and other rights. Out of 6.5 million registered Ukrainian refugees, 4.3 million have obtained such protection in the EU. Their reception was a relatively smooth process, broadly supported by the EU population<sup>2</sup>.

However, meeting EU membership criteria will be tough for Ukraine. Even before the war, Ukraine’s governance performance looked worse than that of other post-communist Central and Eastern European countries when they started their EU accession processes. In 2023, Ukraine ranked very poorly on governance, scoring lower than all but one of the current ten EU candidate and potential candidate countries. Ukraine also scored much worse than any EU country, and even worse than Russia and Belarus (Figure 1).

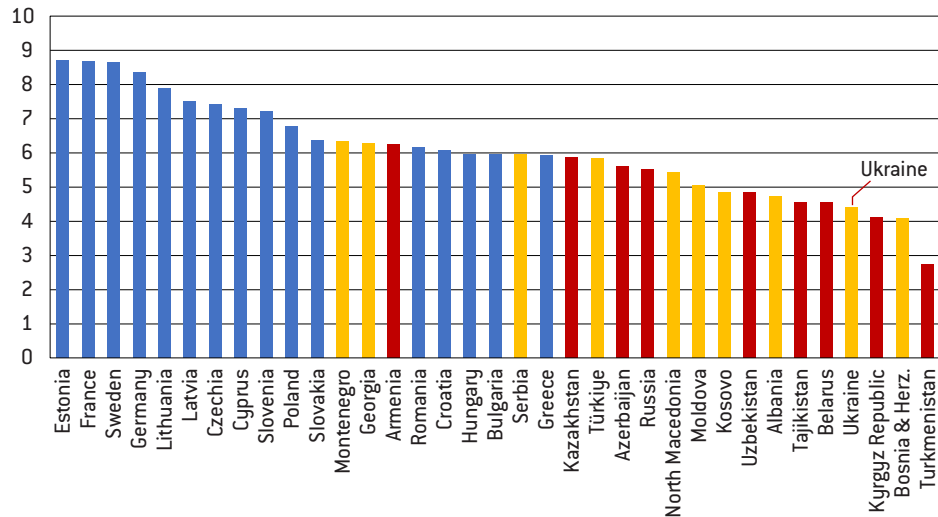
Ukraine thus faces the challenge of achieving at a time of war deep institutional changes, particularly in political governance, the constitutional balance of power, the judiciary, rule of law, decentralisation, reducing the influence of oligarchs and fighting corruption. Enlargement is a powerful and successful tool to foster such changes, benefitting both the applicant country and the EU. Ukraine’s accession process will likely overlap with reconstruction after the war, increasing the EU’s influence in fostering Ukraine’s institutional development and providing strong incentives to comply with the accession criteria.

This policy brief evaluates how Ukraine’s accession process can be made smoother and analyses the possible long-term impacts on current members of EU membership for Ukraine.

1 See European Council conclusions of 15 December 2015 (<https://www.consilium.europa.eu/en/press/press-releases/2023/12/15/european-council-conclusions-14-and-15-december-2023>), which endorsed the European Commission’s 8 November 2023 recommendation (see European Commission press release, ‘Commission adopts 2023 Enlargement package, recommends to open negotiations with Ukraine and Moldova, to grant candidate status to Georgia and to open accession negotiations with BiH, once the necessary degree of compliance is achieved’, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_23\\_5633](https://ec.europa.eu/commission/presscorner/detail/en/ip_23_5633)).

2 According to the Flash Eurobarometer survey conducted in August 2023, 76 percent of Europeans agree that the EU should continue welcoming people fleeing the war in Ukraine, with 19 percent disagree and 5 percent do not know (European Commission, 2023c).

Figure 1: Governance scores, 2023



Source: European Bank for Reconstruction and Development (EBRD, 2023). Note: the governance score shown is the EDRB 'well-governed' indicator, which is a composite of 30 indicators from different institutions related to the quality of public governance, integrity and control of corruption, rule of law, and corporate governance frameworks and practices. Scores range from 1 (worst) to 10 (corresponding to the standards of a sustainable market economy).

## 2 Preparing Ukraine for accession

Previous enlargements offer lessons that will help Ukraine's accession and should be reflected in adaptation of the EU's enlargement strategy. This is also necessary to avoid disadvantaging the Western Balkan countries, which were promised eventual EU membership two decades ago, though only one of them has joined.

### 2.1 Lessons from previous enlargements

EU accession has the potential to transform would-be members by triggering reforms in those countries and reinforcing their democratic governance, economic prosperity and rule of law. However, the history of enlargement shows mixed results in achieving this potential, both before and after accession (Grabbe and Sedelmeier, 2010). In Central and Eastern Europe, a virtuous circle developed of domestic reforms, progress towards accession and foreign direct investment. Such a virtuous circle has not developed in the Western Balkans (apart from Croatia), partly because the EU's commitment to accession of those countries has been ambivalent and the process has moved too slowly, while in the region, the commitment to reform and boosting administrative capacity has been too weak.

Fundamental for success in using the promise of EU membership to motivate domestic reforms are a credible accession process, coherent conditions and consistent application of those conditions (Grabbe, 2006). For Ukraine, credibility has been boosted by the rapid approval of its candidate status, the EU's support during the war and the December 2023 decision to start accession talks.

Ukraine's government seems highly motivated to move ahead with various reforms, and the EU must support this momentum. Coherence means that reforms done for reasons of EU accession are also perceived by the population as necessary for the country's development. Political leaders must explain the benefits of these measures to Ukrainians, not just say that they need to happen because the EU wants them. Consistency from the EU side is also crucial: criteria must be assessed objectively without favouritism or

arbitrary changes unrelated to meeting the set conditions for accession. Vetoes by EU countries unrelated to merit can derail reform momentum.

Interim incentives offered by the EU can unlock difficult reforms, especially when the reward is politically important to a government or citizens. For example, politically contentious police reform in Bosnia and Herzegovina was achieved only when it was set as a condition for visa liberalisation, a benefit that citizens received directly from the EU (Grabbe *et al*, 2010).

Allowing EU accession with some gaps in meeting accession criteria while imposing requirements after accession had mixed outcomes in the cases of Bulgaria and Romania. A Cooperation and Verification Mechanism was created for the two countries to monitor progress on various rule-of-law and governance issues. Compliance in Romania was significantly better than in Bulgaria. Romania's better compliance record resulted mainly from successful domestic institution-building, particularly of strong anti-corruption institutions, while the EU's monitoring created a social constraint in the country on attempts by the government to curb the power of institutions. Bulgaria's fight against corruption lacked this powerful institutional base and was less effective (Lacatus and Sedelmeier, 2020). Given how vulnerable the rule-of-law institutions are to governmental interference, this is an important lesson for future accessions: consistent attention is needed to ensure the continued independence of state institutions, particularly those concerned with the rule of law, even many years after accession.

Another related problem is that, although a country might meet the rule-of-law and governance *acquis* on the date of accession, it may backslide later, as has happened in Hungary and Poland. We return to this issue in section 2.2.7.

## 2.2 How to adapt the accession process for Ukraine

The EU in 2020 finalised a revised enlargement methodology (REM; European Commission, 2020), or approach to accession negotiations. This included useful changes compared to the previous approach, but these have not accelerated reform in the Western Balkan countries. Many of the new elements are useful also for Ukraine, but further adaptation to the enlargement methodology will be needed to take account of Ukraine's circumstances. This section sets out the changes that should be implemented.

### 2.2.1 Fundamentals

The REM organised the negotiating chapters (sets of issues for which the candidate country needs to take on the EU's body of law and other requirements of membership) into six thematic clusters, with the cluster on 'fundamentals' now being opened first and closed last<sup>3</sup>. Fundamentals are defined as chapters 23 (judiciary and fundamental rights), 24 (justice, freedom and security), 5 (public procurement), 18 (statistics) and 32 (financial control), as well as economic criteria, functioning of democratic institutions and public administration reform. Candidates must meet benchmarks in order to open each cluster of chapters. Meeting the interim benchmarks for chapters 23 and 24 is a precondition for advancing in all other clusters of chapters.

This change was important to ensure the focus of governments on the rule of law, the functioning of democratic institutions and economic reform programmes. It was also intended to address problems with one-party control of state institutions and to push for improvements in the independence and functioning of the judiciary. We recommend maintaining this approach. In particular, the current circumstances of war and the history of poor governance in Ukraine (Figure 1) warrant a particular focus on implementing reforms and maintaining sufficient administrative capacity to enforce EU norms.

3 The EU organises accession negotiations into 35 'chapters' that cover all the different parts of its policies and legal *acquis communautaire*, as well as the broader membership requirements. The Commission conducts the negotiations on behalf of the EU, but the Council has to agree unanimously to the formal opening and closing of each chapter, and other parts of the negotiations, giving each EU member many veto opportunities in the process.

### 2.2.2 Rule of law

Given the problems of corruption in Ukraine and attacks on the rule of law in some current EU countries, the EU cannot afford to compromise on the quality and resilience of the rule of law in further enlargement. It is right therefore to prioritise the ‘fundamentals’ cluster during the negotiations. A practical approach to foster rule-of-law improvements would be to include Ukraine in the EU’s recently developed ‘rule-of-law toolbox’ in advance of accession. This toolbox includes an annual cycle of reports, Commission assessments and recommendations to EU countries on their justice systems, anti-corruption frameworks, media pluralism and media freedom, and other institutional issues related to checks and balances (European Commission, 2023a). Ukraine should be included in this annual reporting cycle to establish clear and enduring standards for the public administration that will last after accession.

### 2.2.3 Reversibility

Another novel and useful element of the REM is the reversibility principle. For the first time, candidates can, in theory, also move backwards in the process of negotiations, and the Commission has introduced a decision-making model for initiating corrective measures, which can relate to issues not in the *acquis*. The application of this principle should be used to ensure a merit-based process. However, some Western Balkan countries have become less democratic, with one party concentrating its power over state institutions (European Commission, 2023b). The reversibility principle has not been applied to backsliding in such cases. This should change, and objective criteria should apply consistently to all enlargement countries.

### 2.2.4 Greater specificity

The EU should set more specific conditions for accession countries to meet, with more detailed guidance on what is required to meet them, in order to achieve greater objectivity and make the conditions more credible. For Ukraine, such specificity should apply particularly to the removal of martial law after the war and the restoration of full independence to state institutions, which should not remain under executive control in peace time. Vagueness and generality in conditions leave room for interpretation and hence potential political interference. EU pre-accession assistance and conditionality will also need to focus on increasing Ukraine’s limited implementation capacity, so the *acquis* can be applied in practice.

### 2.2.5 Progressive integration

Phased or progressive integration could be a valuable way of bringing Ukraine into EU policies through small or large steps, some of which would be visible to the population. The EU’s November 2023 Growth Plan for the Western Balkans<sup>4</sup> listed several possible steps, including access to the single euro payments area, abolishing roaming fees and geoblocking, facilitation of road transport, and integration and de-carbonisation of energy markets. Progressive integration into EU policies would show Ukrainians the benefits of taking on EU standards and norms during the period of greatest motivation and mobilisation of resources. In addition, it would take Ukraine’s relationship with the EU beyond the Association Agreement and DCF-TA, which would help to increase trade and investment links with the EU, further increasing economic ties.

Mihajlović *et al*(2023) set out a detailed proposal for creating four distinct stages<sup>5</sup> in the

4 See European Commission news article of 8 November 2023, ‘Commission presents a new Growth Plan for the Western Balkans including €6 billion in grants and loans to accelerate economic convergence with the EU’, [https://neighbourhood-enlargement.ec.europa.eu/news/commission-presents-new-growth-plan-western-balkans-including-eu6-billion-grants-and-loans-2023-11-08\\_en](https://neighbourhood-enlargement.ec.europa.eu/news/commission-presents-new-growth-plan-western-balkans-including-eu6-billion-grants-and-loans-2023-11-08_en)

5 The four stages proposed by Mihajlović *et al*(2023) are: 1) intermediate pre-accession (average moderate membership preparedness assessment in each cluster), 2) advanced pre-accession (average good preparedness assessment in each cluster), 3) new member state (advanced level of preparedness in each chapter, with exceptions for agreed transitional measures), and 4) conventional membership.

accession process for the Western Balkans. Although the four stages may not be appropriate for Ukraine, given the DCFTA already in place and the geopolitical imperatives, the principle that more reforms should be rewarded with more benefits should apply to all candidates. Equally, the EU should be prepared to use reversibility more actively if there is stagnation and backsliding on reforms.

However, to achieve these benefits, progressive integration would have to allow Ukraine to move forward into closer economic and social integration with the EU as part of the accession process. The Ukrainian side would become disillusioned and reluctant to engage in this kind of phased process if it became a form of gatekeeping that introduced further hurdles before accession, or if it means that some parts of EU membership remain out of reach<sup>6</sup>. The EU side would need to state clearly how the formal accession negotiations would run alongside phased integration to make it work as a motivating and integrating dynamic.

### 2.2.6 Target date

European Council President Charles Michel and a group of French and German experts (Costa *et al*, 2023) have both proposed a target date of 2030 for the next enlargement. The goal is for the EU to be ready for enlargement in that year, and for it to be the first possible date for the candidates to be able to accede if they are ready.

Setting a target date has pros and cons. The main benefits include the creation of political momentum for the process of getting ready on both sides. A date can also generate positive competition between the candidate countries because governments want to avoid falling behind their peers and failing to join on the same date<sup>7</sup>. The disadvantage of setting a target date is that it can encourage candidate country governments to put more effort into lobbying EU countries rather than making difficult reforms, arguing that their country cannot be left behind on that date for historical reasons or because of special relationships. Another potential disadvantage would arise if candidates meet the conditions and successfully conclude negotiations by the target date, but the EU is not ready to admit them. This might be because of an impasse in its own institutional reform or reform of the EU budget. That would cause huge disillusionment and could cause negative political repercussions for pro-EU governments in candidate countries.

### 2.2.7 Post-accession compliance

In view of the attacks on the rule of law by some current EU members, and the very poor current quality of governance of Ukraine and Western Balkan countries (Figure 1), it is crucial to have more effective tools to address such situations in an enlarged EU. For example, new conditions could be inserted into accession treaties, which have the force of primary law in the EU. A useful new instrument would be setting of benchmarks with indicators of rule of law and separation of powers. If these are not met after accession, it could trigger a Council decision on suspension of voting rights and access to EU budget funds. We return to this issue in section 3.1.

### 2.2.8 Equal treatment of EU candidates

A merit-based accession process for Ukraine would not disadvantage Western Balkan countries and could incentivise the reform processes there. In fact, the geopolitical push for Ukraine's integration has already energised the accession process on the EU side, and has forced political leaders in the Western Balkans to consider how they can keep up with Ukraine. The objective now should be to maintain a credible accession process for all candidate countries with consistent application of conditionality that rewards progress in reforms

<sup>6</sup> For example, Bulgaria and Romania were excluded from the Schengen area of passport-free travel for 16 years after accession because of the objections of a small number of other members.

<sup>7</sup> This incentive was important in speeding up the reforms and preparations in Central Europe in the years before the 2004 enlargement and could give the motivation to Balkan governments that has hitherto been lacking.

and alignment with EU standards with interim incentives, and that confronts backsliding by not moving a country to the next stage.

### 2.2.9 Interplay of accession and reconstruction

Reconstruction should entail not only the physical reconstruction of Ukraine, but also the building of a new social-political compact, with better governance, as occurred in Western Europe after the Second World War, with the help of the Marshall Plan. Mylovanov and Roland (2022) proposed the creation of a Ukraine Reconstruction and European Integration Agency (see also Boyarchuk, 2023), the task of which would be to coordinate the rebuilding of Ukraine and help it reform its institutions in alignment with the EU regulatory and legal framework, in preparation for EU entry. This agency could build on the Multi-Agency Donor Coordination Platform for Ukraine<sup>8</sup>. Alternatively, the scope of the EU's Technical Support Instrument<sup>9</sup>, which is managed by the European Commission, should be extended to cover Ukraine and other candidate countries.

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## 3 The long-term effects on the EU of Ukraine's accession

Ukraine's possible EU accession would influence the EU in various ways. Here, we discuss issues related to EU governance, security, migration, trade and energy.

### 3.1 EU governance

The EU institutional framework should be able to absorb one or a few additional members<sup>10</sup>, especially if accession treaties include the post-accession compliance tool proposed in the previous section: suspension of voting rights and EU funds in case of non-compliance with EU fundamental values and rule of law.

Two main legal options exist for improving the enlarged EU's capacity to address violations of the rule of law and values. First, if it proves to be possible to reform the EU's treaties over the medium term, changes could include reform of Article 7 TEU and extension of rule-of-law conditionality to all EU funds, including the EU common budget. The EU could also, according to Costa *et al*(2023), create new institutions such as a joint chamber of the higher courts and tribunals of EU countries to address threats to the independence of national judiciaries, and a new office for transparency and probity to tackle corruption. However, treaty change may prove to be impossible to agree, either among the 27 governments or in national ratification processes, as happened when the constitutional treaty was rejected in referendums in 2005.

An alternative route to achieve institutional reforms for protection of the rule of law and prevention of misuse of EU funds would be to include them in the accession treaty that the EU

<sup>8</sup> See <https://coordinationplatformukraine.com/about/>.

<sup>9</sup> See [https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/technical-support-instrument\\_en](https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/technical-support-instrument_en).

<sup>10</sup> Seats in the European Parliament: the potentially available 31 free seats in the 2024-2029 legislative term would not be enough for Ukraine, because a country with a population of 35 million would obtain about 40 seats. Either seats could be reallocated between member states, as happened when Croatia joined the EU, or the upper limit of seats in Article 14.2 of the TEU could be increased via the accession treaty. European Commission: a previous attempt to reduce the number of commissioners failed due to an Irish referendum, yet organising 28 or more commissioners in a two- or three-tier management level could ensure an effective committee. Other EU governing bodies and institutions, such as the Court of Justice of the European Union, are sufficiently regulated by the current treaties and do not require changes because of the accession of new member states.



signs with Ukraine. Accession treaties are intergovernmental agreements that have the force of primary law in the EU<sup>11</sup>, so they can be used to institutionalise important changes. This would be a faster and less politically complicated method than re-opening the EU treaty if the EU wants to create powerful sanctions, particularly the suspension of a member state's voting rights, or its funds from the EU budget and other financing mechanisms. Moreover, the power to suspend the rights of the new members could also be applied to existing members through the accession treaty.

However, all accession treaties must be agreed unanimously by all current members, and then ratified by all national parliaments and the European Parliament. This means that some parties who might be contesting the use of the rule-of-law conditionality mechanism by the time accession negotiations are concluded would have to agree. The political viability of this method will therefore depend on which parties are in power in EU countries when the EU concludes accession negotiations with Ukraine, and whether governments and their parliaments can agree unanimously to such sanctions at that point.

While reform of the EU's institutional framework would be desirable, lack of progress on it should not block enlargement if an adequate solution can be found for at least the new members to observe the EU's fundamental principles after their entry.

## 3.2 Internal and external security

### Internal security

In Ukraine, the war has necessitated the mobilisation of much of the population and put many weapons into the hands of citizens as well as the military. Major efforts will be needed to take the small arms and light weapons (SALW) in the country back into safe custody, and to prevent them from being used for domestic criminal activity or sold onto international markets in the surrounding region. Expert studies on the illegal arms trade find that currently there is no substantial outflow of weapons from the Ukrainian conflict, although data is poor (Galeotti and Arutunyan, 2023). The illegal arms trade in Europe remains dominated by supplies from former Yugoslavia, despite the growing internal market for SALW in Ukraine since 2014<sup>12</sup>.

However, the greatest risk of weapons proliferation will come when the fighting stops. The wars in the Balkans in the 1990s led to some six million small arms in circulation, providing weapons used in terrorist attacks in Europe (German Federal Foreign Office, 2020). Proliferation increases dramatically when military stockpiles fall into the hands of traffickers (Wisotzki, 2021). The EU will need to provide significant support during the eventual process of demobilisation, to ensure that the Ukrainian authorities maintain control of weapons stockpiles and provide effective amnesty and buy-back programmes for arms.

Experience from the Western Balkans, where the control of weapons proliferation is generally seen as a failure (Galeotti and Arutunyan, 2023), suggests that only a comprehensive approach can work that tackles the root causes of supply and demand. Physical security and stockpile management are important, as are border cooperation and enhancing law enforcement (Wisotzki, 2021). Already while the conflict is still ongoing, Ukraine could start addressing fundamentals: the country lacks a legal statute to regulate the possession, sale or manufacture of firearms, and it needs to improve accounting and inventory, and to tackle corruption (Galeotti and Arutunyan, 2023).

### External security

The interaction between NATO's evolution and the development of the EU's security and defence capabilities and policies will be crucial. If Ukraine joins NATO prior to joining the EU, which was the sequencing in previous accessions, then political debates about hard defence against future Russian aggression are likely to move to the North Atlantic Council, although the EU will remain

**Major efforts will be needed to take small arms in Ukraine back into safe custody**

<sup>11</sup> See <https://eur-lex.europa.eu/summary/EN/legisum:l14530>.

<sup>12</sup> Alessandra Prentice and Anton Zverev, 'Ukraine, after war, becomes a trove for black market arms trade', *Reuters*, 25 July 2016, <https://www.reuters.com/article/us-ukraine-crisis-armsinsight-idUSKCN1050ZE>



## Ukraine's membership would significantly increase EU military and security capabilities

focused on hybrid threats, disinformation and hidden channels of influence, and defence procurement cooperation.

Ukraine's EU membership would significantly increase the EU's military and security capabilities. Upon accession, Ukraine will have one of the largest armies in the EU, with fresh experience of resisting external aggression, fighting terrorism, cyberattacks, disinformation campaigns and other forms of modern warfare. It will also have a large defence industry. Before the war, Ukraine already participated in several international military interventions, including Iraq, Afghanistan and UN peacekeeping missions.

For the period after accession, the overall security priorities of the EU will be largely determined by the conduct of the war and the terms under which it ends. The circumstances will be very different depending on how secure Ukraine's borders and sovereignty are, and what kind of regime is in power in Russia. Attitudes towards Russia in both Ukraine and current EU members will also be influenced by whether the war crimes and aftermath of the conflict can be managed appropriately through some kind of process of justice and reconciliation.

If Ukraine remains under military threat, for example with Russian troops remaining on its territory, it is bound to be the most hawkish member state on Russia. However, if the conflict finishes decisively, thanks to a settlement under which a new Russian regime agrees to cease future aggression and recognises Ukraine's sovereignty and territorial integrity, then Ukraine and the other EU members bordering Russia would be less preoccupied with defensive security – and more likely to seek ties that encourage democratic and pro-European forces in Russian politics.

Even in the best of circumstances, the enlarged EU will have to manage a considerably longer external border with Russia and Belarus. Before Russia annexed parts of Ukraine in 2014, the Ukrainian-Russian border was 1974 kilometres, while the border with Belarus is 1084 km. Ukraine also has a long sea border with the Black Sea of 1300 km. The EU will have to reinforce its capabilities to help Ukraine manage what will become EU external borders, for example by expanding the mandate of its FRONTEX border agency. The period of accession preparations will offer multiple opportunities for the EU to work with the Ukrainian authorities on implementing an integrated border management strategy, as it is already doing through the EU Advisory Mission (EUAM) in several Ukrainian regions and Kyiv<sup>13</sup>.

### 3.3 Migration<sup>14</sup>

About 15 percent of the Ukrainian population fled the country after Russia's full-scale invasion started in February 2024; three-quarters of these people are registered for temporary protection in the EU. A key question is whether refugees will stay in the EU or return to Ukraine after the war ends, and for those staying, whether family members currently in Ukraine will join them. The second main question we consider in this section is the expected immigration from Ukraine into the current EU once the free movement of labour applies to Ukrainian workers, and how expected immigration compares to EU demographic projections.

#### 3.3.1 Ukrainian refugees

The EU's Temporary Protection Directive, which was activated for the first time ever in March 2022, offers extensive rights for refugees for at most three years. It needs to be seen whether the conflict will end before its current expiry date of March 2025. When protections under the directive end, it will be up to individual EU countries to deal with the refugees afterwards: allow them to stay or encourage them to leave.

Refugees' intentions to return depend on various factors, including the situation of conflict in Ukraine and the duration of the war. Security, access to education, property, adequate

<sup>13</sup> See Yehor Braillian, 'Rolf Holmboe: "Ukraine Holds the Key to Accelerating Integration with the EU - Establishing the Rule of Law in All Spheres"', EUAM Ukraine, 30 October 2023, <https://www.euam-ukraine.eu/news/opinion/rolf-holmboe-ukraine-holds-the-key-to-accelerating-integration-with-the-eu-establishing-the-rule-of-law-in-all-spheres/>. Rolf Holmboe is head of the European Union Advisory Mission (EUAM) Ukraine.

<sup>14</sup> We thank Rainer Münz for discussions which inspired some of the key analyses in this section.

services, time spent and social networks established, and integration in the host country are common factors identified in the literature (Harild *et al.*, 2015; Joireman, 2022). Based in part on evidence that few refugees return voluntarily to relatively poor countries once they settle in rich countries, even after security is re-established at home, Dadush and Weil (2022) noted that large numbers of Ukrainian refugees are likely to remain in EU host countries, and will likely be joined by others, including many men who are currently required to stay in Ukraine to fight.

Because of the many factors that could influence refugee returns, it is not possible to make a solid assumption on the share of refugees who will return to Ukraine. By using the International Monetary Fund’s October 2023 World Economic Outlook population projections, we calculate that the IMF implicitly assumed a 61 percent return rate, which we find high in light of the literature. In our own scenarios, we assume that either 40 percent (what we call a high-return scenario) or 20 percent (low-return scenario) of refugees will return by 2028.

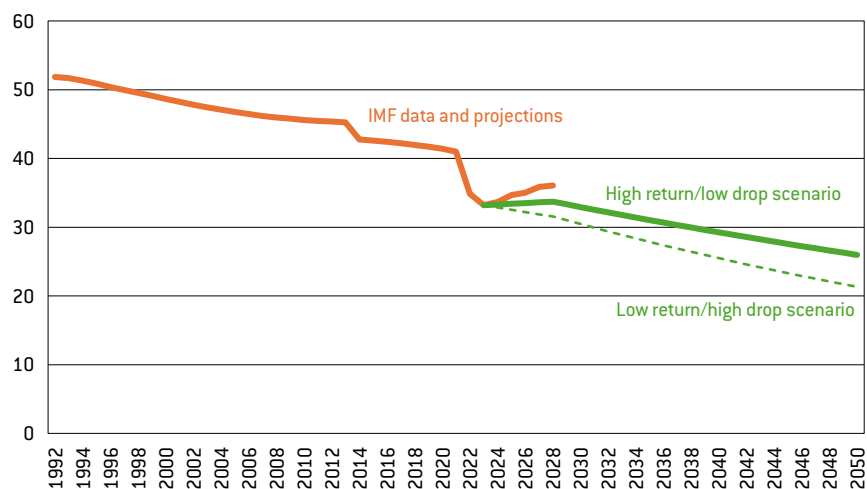
### 3.3.2 Possible long-term immigration from Ukraine

Some Central and Eastern European countries experienced major reductions in population after joining the EU: the decline from 1992-2021 was between 20-30 percent in Bulgaria, Latvia, Lithuania and Romania. Beyond natural decline, net migration played a major role and reduced the population by about 20 percent between 1988-2021 in Latvia and Lithuania, and by 10-12 percent in Bulgaria and Romania. The desire to obtain higher incomes has likely played a major role in emigration from these countries. Mass emigration from these four countries occurred when they had significantly higher levels of GDP *per capita* than Ukraine, suggesting that there will be an even greater financial incentive for Ukrainians to move to higher-income EU countries once free labour mobility applies.

Based on these experiences, a further large decline in Ukraine’s population resulting from emigration is possible. Compared to 1992, Ukraine’s population in 2021 had already declined by 21 percent, from 51.9 million to 41 million. Because of war-induced refugee outflows and continued natural decline, Ukraine’s population fell further to 33.2 million by 2023, or a fall of 19 percent of the 2021 population. In light of these major population declines and the expected limited return of refugees, we assume that from 2023, apart from return migration discussed in the previous section, either the resident population will decline at twice the percent rate of decline on average from 2014-2021, ie by 1.18 percent per year (low-drop scenario), or three-times that rate, ie by 1.77 percent per year (high-drop scenario).

Figure 2 shows the results of our two scenarios (high return/low drop, and low return/high drop), and the IMF’s projection. Ukraine’s population would halve from 1992 to 2050 in the high return/low drop scenario and would decline by almost 60 percent in the low return/high drop scenario.

**Figure 2: Illustrative population scenarios for Ukraine, million people, 1992-2050**



Source: Bruegel based on IMF World Economic Outlook dataset, October 2023, and own calculations for the scenarios.

To separate the impact of natural change and emigration, we use the United Nations's medium fertility variant projection<sup>15</sup> for the percentage rate of natural change for 2023-2050 and apply this percentage rate to the population in our scenarios. This allows us to calculate the natural change measured in terms of the number of people, which is then subtracted from total population change to show implied emigration. In the high return/low drop scenario, net immigration into Ukraine in 2024-2028 would amount to 1.8 million (largely from the partial return of refugees), while net emigration from Ukraine would amount to 2.7 million people in 2029-2050. In the low return/high drop scenario, there would be even a net emigration of 0.4 million people during the refugee return period of 2024-2028 (more people leaving than refugees returning), while net emigration in 2029-2050 would amount to 5.8 million.

### EU demographic outlook

How does our hypothetical scenario of 3-6 million additional Ukrainian people moving abroad between 2029 and 2050 compare with the EU demographic outlook? Not all emigration from Ukraine would come to the EU, though with increased EU integration, and especially if free movement of Ukrainian workers is established, most likely a very large share of emigrating Ukrainians would head to the EU.

According to Eurostat population projections<sup>16</sup>, the population of the EU's current 27 members is set to shrink significantly in the absence of immigration, from 451 million in 2022 to 406 million in 2050 (Table 1). The number of elderly people would increase by 32 million over this period, while the number of working-age people (aged 20-64) is set to decline by 57 million, and the number of children (under 20) by 21 million. Such population changes would increase significantly the old-age dependency ratio and pose a major challenge to the sustainability of European welfare systems.

**Table 1: EU population change, Eurostat no-immigration scenario, 2022-2050, million people**

	Population in 2022	Change from 2022 to 2030	Change from 2030 to 2040	Change from 2040 to 2050	Population in 2050
<b>0-19</b>	91.5	-7.7	-8.6	-4.3	70.9
<b>20-64</b>	264.0	-14.6	-20.6	-21.6	207.3
<b>65+</b>	95.9	13.0	13.5	5.7	128.1
<b>Total</b>	<b>451.4</b>	<b>-9.4</b>	<b>-15.6</b>	<b>-20.2</b>	<b>406.2</b>

Source: Bruegel using Eurostat's 'Population on 1st January by age, sex and type of projection [proj\_23np\_custom\_8622694]' dataset.

Note: The forecast refers to the EU's current 27 members. Eurostat publishes population stock data for 1 January each year. We shift the 1 January population stock data to 31 December of the previous year and report accordingly.

According to Eurostat baseline assumptions (Table 2), 41 million people are expected to migrate into the EU's current 27 members (in net terms, the difference between immigration and emigration). Thus, the additional 3 million to 6 million Ukrainian immigrants included in our scenarios would account for a small share of total expected immigration into the EU and would make the EU's chronic labour shortages only slightly less pressing.

15 See <https://population.un.org/wpp/Download/Standard/MostUsed/>.

16 See [https://ec.europa.eu/eurostat/cache/metadata/en/proj\\_23n\\_esms.htm](https://ec.europa.eu/eurostat/cache/metadata/en/proj_23n_esms.htm).

**Table 2: Eurostat baseline net immigration assumptions, EU, 2023-2050, million people**

	2023-2030	2031-2040	2041-2050	Total 2023-2050
<b>0-19</b>	3.1	4.5	3.4	11.1
<b>20-64</b>	7.3	9.4	11.1	27.9
<b>65+</b>	0.0	0.6	1.5	2.1
<b>Total</b>	<b>10.5</b>	<b>14.5</b>	<b>16.0</b>	<b>41.0</b>

Source: Bruegel using Eurostat's 'Population on 1st January by age, sex and type of projection [proj\_23np\_custom\_8622694]' dataset.  
 Note: The forecast refers to the EU's current 27 members.

### 3.4 Trade, FDI and GDP *per capita*

A large body of literature has concluded that past EU enlargements boosted economic growth and employment, both in the incoming and incumbent countries<sup>17</sup>. Central and Eastern European EU members have achieved remarkable economic convergence with advanced Western and Northern European countries<sup>18</sup>. Western Balkan countries outside the EU have been less successful, and Ukraine has performed even worse (Figure 3).

Trade and foreign direct investment (FDI) have played major roles in Central and Eastern Europe's economic convergence. Yet EU membership alone does not necessarily bring about spectacular trade integration; geographical proximity, local markets and the quality of governance likely matter too.

Ukraine received a considerable amount of FDI between 2005-2012, but such inflows have been volatile since then, at least partly for reasons related to conflict, falling to practically zero in 2014-2015 (Russia's 2014 annexation of Crimea and related geopolitical risks), in 2020 (COVID-19 pandemic) and in 2022 (Russia's full-scale invasion of Ukraine). As a result, the FDI liability stock/GDP ratio of Ukraine (35 percent in 2021, the last year before the war) was well below the average value of the eight Central and Eastern European countries (CEE8) that joined the EU in 2004 (89 percent in 2021). Partly because FDI is a main driver of foreign trade, Ukraine's trade intensity was also lower than that of the CEE8 (export/GDP was 65 percent in CEE8 and 33 percent in Ukraine in 2021).

The low FDI and trade intensities of the Ukrainian economy imply huge potential for further financial and trade integration between Ukraine and the EU. However, to exploit this potential, a stable peace agreement, a successful reconstruction process and major governance and institutional reforms in Ukraine are needed. EU accession would require governance and institutional reforms in Ukraine, contributing to deeper economic integration between the EU and Ukraine.

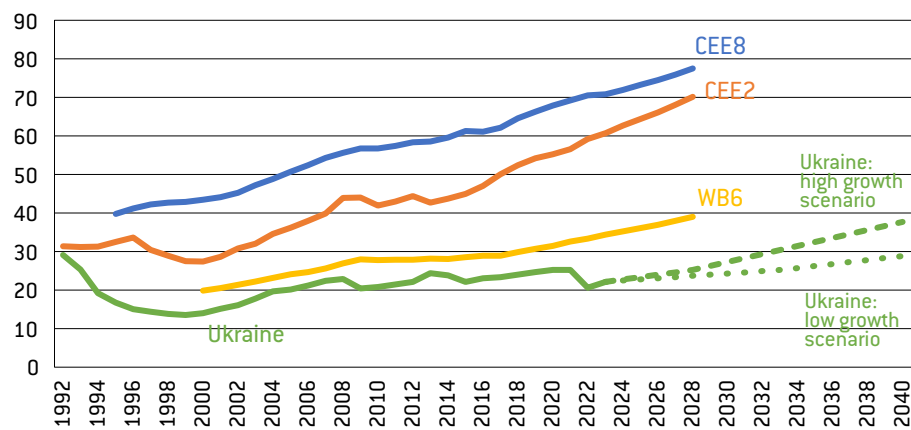
We set up two illustrative scenarios for GDP *per capita* and trade, to estimate the possible increase in trade between the EU and Ukraine (see the annex for scenario assumptions). The results suggest that Ukraine's per-capita income in the next decades will remain well below the values not only of advanced EU countries, but also of the eight Central and Eastern European countries that joined the EU 2004 (CEE8) and Bulgaria and Romania, which joined the EU in 2007 (CEE2) (Figure 3). This will continue to incentivise Ukrainian citizens to move to higher-income EU countries.

<sup>17</sup> See, for example, European Commission (2009), Baas and Brücker (2010), Oberhofer and Winner (2017) and Caliendo *et al* (2021).

<sup>18</sup> We compare economic performance relative to eight advanced EU countries (Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, and Sweden) and not to the EU average, for three reasons. First, the most developed EU countries constitute a palpable group against which convergence should be measured. Second, the EU average includes the converging Central and Eastern European countries themselves, while a good comparator group should not include the countries that are analysed. Third, the EU average also includes the southern EU, a region falling behind, and convergence with a falling-behind group is not a great success. Luxembourg and Ireland could be included in the group of advanced EU countries, but we do not include them because of their unique structures relating to the large roles of foreign multinationals.

Nevertheless, there is major potential to increase EU-Ukraine trade. Our illustrative calculations suggest a potential 40 percent increase (in constant prices) in trade on average in 2030-2040 compared to the average of 2010-2019 in a low-growth scenario, while our high-growth scenario suggests a 140 percent increase. We did not factor in EU enlargement specifically into our scenarios, because of the difficulties of isolating the impact of EU enlargement from other factors, most notably the resolution of the war and domestic reforms. Nevertheless, it is fair to say that EU enlargement would likely imply an outcome closer to the high-growth than the low-growth scenario, since Ukraine's entry into the EU is inconceivable without a durable peace treaty (or at least a ceasefire) and major institutional reforms, including rule-of-law improvements.

**Figure 3: GDP per capita at purchasing power parity compared to the average of eight advanced EU countries, percent, 1992-2040**



Source: Bruegel based on IMF World Economic Outlook dataset, October 2023. Note: for scenario assumptions, see the annex. 2023-2028 values are IMF forecasts for CEE8, CEE2 and WB6, while 2024-2040 values for Ukraine are our scenarios, using the IMF's 2023 projection as the starting point. The eight advanced EU countries = Austria, Belgium, Denmark, Finland, France, Germany, Netherlands and Sweden. We do not include Luxembourg and Ireland because of their unique economic structures. CEE8: Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. CEE2 = Bulgaria and Romania. WB6 = Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia.

Translating the growth of EU trade with Ukraine into EU GDP impact involves making various speculative assumptions we prefer to avoid making. However, it is useful to recall the main channels through which existing EU members can benefit from the entry of new members:

- The admission of new members increases the size of the EU's single market, which facilitates trade;
- Trade with new members boosts domestic production and employment in existing members, generating more corporate profits and wages in existing members;
- FDI in new members creates corporate profits for parent companies in existing members<sup>19</sup>;
- Immigration from new members boosts the labour supply in existing members, which already suffer from labour shortages and demographic outlooks that suggest dramatic reductions in their labour forces in the years ahead.

<sup>19</sup> Darvas and Hüttl (2017) showed that the return on FDI investment in central European countries was relatively high.

**EU membership can unleash a wave of investment into Ukraine's underutilised energy production potential**

### 3.5 Energy security and decarbonisation

The accession of Ukraine to the EU will have a noticeable impact on the EU's energy sector, including through greater energy security and lower energy costs.

#### 3.5.1 Ukraine's energy potential

Ukraine has substantial potential as a producer of natural gas, renewable energy and nuclear power. It could export to the EU large volumes of low-carbon electricity, blue and green hydrogen, natural gas and energy-intensive products, such as 'green' steel.

Ukraine will be a major market for energy technology as destroyed and/or long-outdated networks and plants need to be refurbished or replaced. Therefore, there is a huge potential for investments to reduce energy consumption in Ukraine, while maintaining or improving the energy services. Financial services for energy supply and energy efficiency investments will be in high demand.

EU membership for Ukraine can unleash a wave of investment into the underutilised energy production potential of Ukraine, because EU membership would reduce the cost of capital, lead to improved regulatory frameworks and provide network access to an attractive export market that can justify investment. This is underpinned by still very strong electricity and gas interconnection capacity towards its western neighbours.

Ukraine's energy sector remains either largely monopolised and/or under state control, resulting in a lack of competition and underinvestment, and inefficient signals for production and consumption. The EU accession process is the best opportunity to push through structural solutions that create competition and a reliable regulatory framework.

#### 3.5.2 Adjusting the emissions targets of EU members

Ukraine's 2030 emission reduction target compared to 1990 (minus 65 percent) is more ambitious than the EU's target (minus 55 percent). Ukraine's target has been made possible by the massive drop in emissions after the end of the Soviet Union. Even before the war, a reference scenario implied that Ukraine was on course to overachieve its 2030 reduction target (EBRD, 2021). This is almost certain now because of the terrible loss of population and economic activity, which has cut emissions in a disastrous way.

However, to achieve net-zero emissions, Ukraine needs additional efforts. The accession of Ukraine to the EU would also require a recalibration of European energy and climate targets (renewables, energy efficiency, climate). Either Ukraine's mid-century targets would be upgraded to be in line with ambitious EU overall targets (which would look rather unfair as Ukraine's targets would then be more challenging than those of some current member states with low GDP; for example Czechia contributes only a 22 percent renewables share by 2030 to the European target of 42.5 percent), or the targets of all EU members would be adjusted to ensure the EU can still meet its targets when Ukraine joins with targets that are in line with its stage of development.

#### 3.5.3 Joining the EU emissions trading system

In joining the EU, Ukraine would also join the EU emissions trading system (ETS), which from 2024 will be extended beyond the energy sector, energy-intensive industry and aviation to also cover maritime shipping. Even prior to EU accession, it would be advantageous for Ukraine to join the ETS (or put in place an equivalent system) to avoid the EU's carbon border adjustment mechanism (CBAM) - which seeks to equalise the carbon price paid by imported and EU-produced goods - and to facilitate integration into EU clean-tech sectors.

The process for joining the ETS could be organised in stages: (1) ramping up the existing very low carbon tax in Ukraine and making it more efficient, (2) creating a Ukrainian pilot ETS modelled on the EU system, and (3) joining the EU system. Important questions include the level of the emission cap for Ukraine, the amount of allowances Ukraine would be allowed to allocate, and how many of those it can hand out for free, and to which industries.

During the transition, as long as differences between the stringency and level of Ukrainian

carbon pricing are deemed insufficient, Ukrainian exporters of covered products to the EU might have to buy CBAM compliance units.

#### 3.5.4 Integrating Ukraine into EU energy policies

Even before membership, Ukraine can be much more closely integrated into the EU internal electricity and gas market. Ukraine's electricity system was already synchronised with that of continental Europe in the first days after Russia's full-scale attack, and substantial transmission capacities exist or can be restored. Ukraine can therefore become a major electricity player in the region. But this requires profound reforms of the governance of wholesale and cross-border trade in Ukraine, potentially including ways to deal with carbon emissions.

As a member of the Vienna-based Energy Community<sup>20</sup>, Ukraine is already committed to gradually implement the energy and climate *acquis*. However, formal approximation might not lead to the efficient integration of Ukraine into the European energy system. To reduce risks, EU attention and conditions imposed should focus on outcomes (eg whether new players enter the market), be based on strategic prioritisation of action (cross-border trade rules may be more important than oil stocks), be constantly monitored, and be followed up with agreed consequences if not properly implemented.

In preparation for Ukraine's membership, the EU can already increasingly involve Ukraine in the governance of its internal energy market, eg through making the Ukrainian regulator an observer in the working groups of the European Agency for the Coordination of Energy Regulators (ACER).

### 3.6 Impact on the EU budget

After Ukraine's EU accession, the country would have a fifth of EU agricultural land – assuming Ukraine's territorial integrity is fully restored and polluted/mined agricultural land is cleaned up for production. This would imply that Ukraine will become the largest beneficiary of the EU's Common Agricultural Policy (CAP). Ukraine's low level of GDP *per capita* (Figure 3) would also imply sizeable transfers from cohesion policy.

To estimate the impact of Ukrainian EU membership on the EU budget, we apply current budgetary allocation rules, with the exception of the overall upper limit. We assume that Ukraine is added to the 2021-2027 Multiannual Financial Framework (MFF) and current EU members obtain the same funding as in the approved MFF, except for cohesion policy, which is the only main budget item for which a clear cross-country allocation method has been specified. We use population and GDP data and projections from 2020, the year when the 2021-2027 MFF was finalised. Our calculations show that the overall size of the 2021-2027 MFF would increase from 1.12 percent of GDP to 1.20 percent<sup>21</sup> in the baseline scenario, which assumes Ukraine regaining its territorial integrity and that the war has no long-run impact on Ukraine's population or GDP.

We find that Ukraine would obtain €32 billion in cohesion policy payments, €85 billion in CAP payments and €7 billion in payments from other EU programmes (all numbers are at current prices and refer to the whole 2021-2027 MFF). Spending on European public administration could increase by €4 billion, while the EU would save about €2 billion in funds allocated currently to its neighbourhood.

For cohesion policy allocations, the 2.3 percent of GDP maximum cap for most payments is the crucial parameter, since in the absence of the cap, Ukraine would have obtained about €190 billion, six times more.

<sup>20</sup> The Energy Community, established in 2006, aims at establishing a Pan-European energy market by extending the energy *acquis* of the European Union to nine countries in the Eastern neighbourhood, including Ukraine and Moldova. With its secretariat and local offices, it has significant capacities to monitor and guide the approximation process, which it has been doing quite actively.

<sup>21</sup> These shares refer to 'commitment appropriations' in the EU jargon, which are slightly larger than 'payment appropriations'.

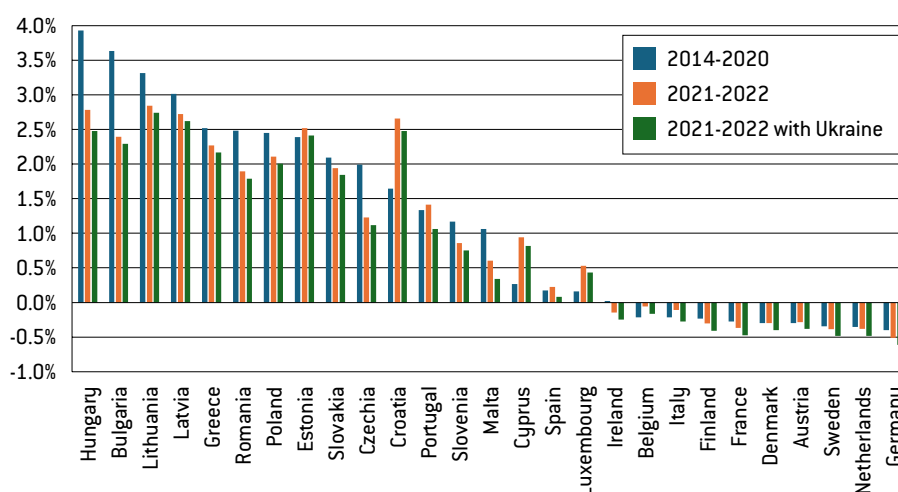


Current EU members would receive €24 billion less in cohesion funding than without Ukraine, because its membership of the EU would reduce EU average GNI *per capita*, which is an indicator of fund allocation. Some EU regions currently classified as ‘less developed’ would graduate to ‘transition regions’, and some current ‘transition regions’ would graduate to ‘more developed regions’, implying lower cohesion funding.

Ukraine’s contribution to the EU budget would be €14 billion if the country pays the same percent of its GDP as the overall size of the MFF in EU GDP.

Altogether, in our baseline scenario, the net cost to current EU countries of Ukraine’s EU membership would amount to €136 billion at current prices in the period from 2021 to 2027, ie €19 billion per year, which is 0.13 percent of EU GDP over the same period. This cost would hardly change the net beneficiary/payer status of current members. Several net beneficiaries (Hungary, Bulgaria, Latvia, Lithuania, Greece, Romania, Poland, Czechia, Slovenia and Malta) already faced a sizeable reduction in net payments in 2021-2022 compared to the 2014-2020 MFF period (Figure 4). For these countries, the additional reductions in net payments would be small compared to the decrease they faced already. Most net payers would need to contribute about 0.1 percent more of their GDP to the EU budget in our baseline scenario.

**Figure 4: Net balances with the EU budget (% GNI)**



Source: Bruegel based on EU budget execution data from the European Commission. Note: EU budget expenditures considered are composed of total expenditure allocated to each country, except European public administration. Non-EU, other, earmarked and European public administration expenditures, as well as NGEU expenditures, are not included. Revenues considered are composed of ‘total national contributions’, which include contributions based on GNI, VAT, plastic packaging waste levy and various cross-country adjustments. Revenues considered do not include customs duties, sugar levies and other revenues, such as fines and EU borrowing to finance NGEU.

Since these calculations are based on 2020 population and GDP projections (as is the 2021-2027 MFF), lower population and GDP because of the war, and future emigration, would result in lower costs to the EU’s current members. In case Ukraine’s territory, population and GDP is permanently reduced by 20 percent, the net cost (in terms of the EU budget) of Ukraine’s EU membership to current EU countries would amount €110 billion at current prices in total in 2021-2027, ie €16 billion per year, which is 0.10 percent of EU GDP.

It is important to emphasise that the net cost in terms of the EU budget is not the same as the net fiscal cost to EU governments. These EU-budget related costs do not include the tax and social security revenue increases for EU countries as a result of Ukraine’s entry into the EU (EU companies will benefit from EU-funded projects in Ukraine, from greater Ukrainian imports from the EU and from greater FDI investments in Ukraine, thereby creating jobs and tax revenues in the EU). EU spending in Ukraine would generate other benefits for the EU too, like more qualified Ukrainian workers moving to the EU and reduced Ukrainian greenhouse-gas emissions. Moreover, transitional arrangements after Ukraine’s EU entry could be

put in place, as was the case with other Central and Eastern European entrants, which would limit EU budget allocations to Ukraine for several years.

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## 4 Concluding remarks

The prospect of EU membership has given a crucial boost to Ukraine's complicated economic and institutional post-Soviet transition. It may raise the country from being one of the poorest governance performers among former socialist countries to a well-governed one. There is major scope to increase trade and investment relations with the EU, benefitting both sides. The integration of Ukrainian workers into EU labour markets would reduce the EU's dramatic labour shortages. Accession would improve the EU's energy security and could reduce energy costs. It could stabilise the EU's eastern neighbourhood and increase the EU's military and security capabilities.

The EU's greatest challenge is its internal decision-making in the areas requiring unanimity, and the greatest risk would be deterioration in the rule of law – and therefore the application of EU laws and standards – after accession. This risk could be mitigated by including post-accession compliance tools in new accession treaties, such as effective methods for suspending voting rights and EU funds in case of non-compliance with EU fundamental values and rule of law. Other often-mentioned challenges, such as the functioning of EU institutions and the effects on the EU budget, could be manageable through transition periods and reforms to the EU during the accession negotiations.

There is clearly momentum for advancing with the accession process on both sides. The Ukrainian government is working hard to fulfil the criteria for starting accession talks, even under the difficult circumstances of the war. Ukrainians are hugely in favour of EU entry: 78 percent of Ukrainians are for it and only 5 percent against<sup>22</sup>. A majority of EU citizens – 66 percent – agreed in August 2023 that the EU should continue supporting Ukraine on its path towards European integration, with only 26 percent disagreeing (European Commission, 2023c).

This momentum should be reinforced. The European Council's December 2023 decision to open accession talks, but adopt the negotiating framework and start actual talks only when further reforms are completed, was a fair decision. The symbolic meaning of this decision will further the efforts to improve governance in Ukraine, while the history of EU enlargement demonstrates that the strongest motivation for difficult reforms is a credible and predictable accession process based on merit.

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## Annex: assumptions underlying the illustrative scenarios for GDP *per capita*, population and trade

High-growth scenario: the war will end and a stable peace agreement will be reached a few years from now, possibly with a friendly Russia after a change in Russian leadership. The reconstruction process, along with governance and institutional reforms, encourage FDI inflows into Ukraine. Numerical assumptions:

- Reconstruction restores the 2021 level of Ukrainian GDP *per capita* at PPP relative to EU8 by 2028, ie 25.2 percent. This is a more optimistic assumption than the October 2023 IMF WEO projection.
- From 2028-2040, Ukrainian GDP *per capita* at PPP relative to EU8 will increase, in percentage points, as the average of the 16 countries studied in section 3.3 from 2010-2019, ie the aggregate of CEE8, CEE2 and WB8. We calculate the average from 2010-2019 to exclude the period of the global financial and the preceding years, which were characterised by unsustainable bubbles in many of these countries, and also to exclude the period of the COVID-19 pandemic. This implies that in 2040, Ukrainian GDP *per capita* at PPP will be 38 percent of EU8 (Figure 3).
- Ukrainian price level: we make assumptions analogous to GDP *per capita*.
- Ukrainian population: 40 percent of refugees will return by 2028, while from 2023, apart from return migration, the resident population will decline twice as fast (in percent terms) as on average from 2014-2021.
- EU8 GDP *per capita* at current prices: IMF projection up to 2028, 3 percent annual growth (corresponding to 1 percent real growth and 2 percent inflation) from 2029.
- Ukrainian trade with the EU: the same growth, as percentage of GDP, as for the average of the 16 CEE countries in 2010-2019.

Low-growth scenario: the war will drag on for several years; no stable peace agreement is reached; the reconstruction process progresses slowly; war insecurity and weak governance and institutional reforms do not encourage FDI inflows into Ukraine. The main

difference in numerical assumptions compared to the high-growth scenarios is that post-war recovery is assumed to last for five more years (ending in 2033 instead of 2028), half of growth and price level convergence and half of refugee returns are assumed compared to the high-growth scenario. Thus, the numerical assumptions are:

- Reconstruction restores the 2021 level of Ukrainian GDP *per capita* at PPP relative to EU8 by 2033.
- From 2033-2040, Ukrainian GDP *per capita* at PPP relative to EU8 will increase, in percentage points, as one-half of the average of the 16 CEE countries from 2010-2019. This implies that in 2040, Ukrainian GDP *per capita* at PPP will be 29 percent of EU8 (Figure 3).
- Ukrainian price level: we make assumptions analogous to GDP *per capita*.
- Ukrainian population: 20 percent of the refugees will return by 2028, while from 2023, apart from return migration, the resident population declines three times as fast (in percent terms) as on average from 2014-2021.
- EU8 GDP *per capita* at current prices: IMF projection up to 2028, 3 percent annual growth (corresponding to 1 percent real growth and 2 percent inflation) from 2029.
- Ukrainian trade with the EU: one-half of the growth, as percentage of GDP, as for the average of the 16 CEE countries in 2010-2019.