Six years after Ukraine’s Euromaidan: reforms and challenges ahead

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Executive summary

SINCE THE EUROMAIDAN protests (2013-2014), Ukraine has had two presidents and four governments. They have initiated various reforms in the economic, institutional and political spheres, with the aim of bringing the country closer to the European Union, boosting economic growth and international competitiveness, and building a liberal democracy.

REFORMS HAVE BEEN implemented in a difficult environment of external aggression, which has led to human and material losses and has caused loss of control over part of the country’s territory. However, resistance to aggression and fresh memories of the kleptocratic regime of the former president Viktor Yanukovych (2010-2014) have helped to unite society and Ukraine’s political forces in favour of the reform programme.

ALTHOUGH MANY IMPORTANT policy and systemic changes have been implemented, the reform agenda remains unfinished. It must be continued despite the dramatic new challenges related to the COVID-19 pandemic.

INTERNATIONAL FINANCIAL SUPPORT and especially International Monetary Fund conditionality have been instrumental in pushing the Ukrainian authorities to carry out major reforms (including of banking law, the gas sector and land ownership). This was done despite these reforms being opposed by old elites, or running counter to populist instincts (such as gas price reform and pension reform). The dominant role of old elites still holds back homegrown reform, leading to reformers having an unhealthy reliance on outside pressure.

Recommended citation

1 Introduction

The Euromaidan protest movement in Ukraine and the fall of the government of former President Viktor Yanukovych in February 2014 marked a turning point in contemporary Ukrainian history. It signified a shift towards a clear west-facing orientation of politics and the economy. Although it provoked Russian intervention, the annexation of Crimea and war in Donbas (which is ongoing despite numerous ceasefires), it also opened a new window of political opportunity for reforming the Ukrainian state and economy. Given the heavy price Ukraine has paid for the Euromaidan, in terms of loss of control over part of its territory, human and material losses, and continued security threats, one might legitimately ask whether Ukraine has made fundamental progress in building an internationally competitive market economy and liberal democracy.

We answer this question by assessing economic and institutional developments in Ukraine between November 2013 (the beginning of Euromaidan) and early 2020. Our analysis does not cover the COVID-19 pandemic, which will likely become a main determinant of the economic and social situation in Ukraine in 2020 and beyond.

Our analysis starts from an overview of the major external and internal political developments (section 2), followed by an analysis of the macroeconomic and fiscal situation (section 3), the situation of the financial sector (section 4), and changes in the geographic origin and destination of Ukrainian trade (section 5). Section 6 discusses reforms in the energy sector. Section 7 deals with privatisation of state-owned enterprises (SOEs), the agricultural land market, business climate and anti-corruption measures. As many aspects of economic reform depend on political governance, we also analyse changes in this sphere (section 8). Section 9 discusses the role of external aid. Section 10 lists outstanding reform challenges to be addressed.

2 Major political and geopolitical developments since the end of 2013

Mass protests against the corrupt, kleptocratic regime of President Viktor Yanukovych began on 21 November 2013 on the Maidan Nezalezhnosti (Independence Square), the central square in the Ukrainian capital Kyiv. The protest was triggered by Yanukovych’s last-minute refusal, under Russian pressure, to sign the Association Agreement with the European Union. ‘Euromaidan’ became the name of the protest movement, alternatively called the Revolution of Dignity. In February 2014, the Yanukovych administration’s use of force against the protest movement led to violence and deaths, and eventually to regime collapse. Yanukovych fled Ukraine and received asylum in Russia.

In March 2014, Russia annexed Crimea, without meaningful resistance from the Ukrainian army. In April 2014, Russian support for a separatist movement in Donbas quickly escalated into a full-scale military confrontation. The most dramatic phase of the conflict was stopped by the Minsk II agreement on 12 February 2015 (with the mediating role of France and Germany). Since then, the conflict has entered state of partial suspension, with ongoing exchanges of fire across the ceasefire lines. There is no perspective of resolution soon.

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1 Nine years earlier, in the autumn 2004, a similar mass protest against the falsification of the presidential election (which gave victory to Viktor Yanukovych) took place in the same square. The protest was known as ‘Maidan’ and led to the so-called Orange Revolution (see Karatnycky, 2005) and a re-run of the second round of the presidential election, which eventually saw Viktor Yushchenko elected.
As a result, Ukraine has lost control of approximately half of two highly industrialised and export-oriented regions – Donetsk and Luhansk oblasts.

The conflict with Russia has destabilised the Ukrainian state and caused substantial economic burdens: loss of the productive capacity of the occupied territories, war damages, human suffering, large numbers of displaced people, higher military and security spending, Russian trade sanctions (see section 4) and a sharp decline in business confidence, especially on the part of foreign investors. On the other hand, the external threat to the country’s territorial integrity and independence has helped to unite Ukrainian society and build support for the reform process, especially in the years 2014 to 2016.

Meanwhile, on the domestic political front, the May 2014 presidential election gave victory to Petro Poroshenko, and October 2014 parliamentary elections brought to the fore a coalition of reform-minded political parties. There were two prime ministers during Poroshenko’s presidential term: Arseniy Yatsenyuk (2014-2016) and Volodymyr Groysman (2016-2019).

Volodymyr Zelensky succeeded Poroshenko as president in May 2019. His party Servant of the People won an absolute majority in the July 2019 parliamentary election and formed the Cabinet of Ministers headed by Prime Minister Oleksiy Honcharuk. On the initiative of President Zelensky this government was replaced by another headed by Denys Shmyhal in early March 2020 (see section 8).

3 Macroeconomic situation and public finances

The political events of early 2014 and the conflict with Russia had a strong negative impact on the Ukrainian economy. The pre-Euromaidan stagnation of 2012-2013 was followed by a deep output decline: -6.6 percent in 2014 and -9.8 percent in 2015 (Table 1). This was accompanied by a balance-of-payments, banking and fiscal crisis. The gross international reserves of the National Bank of Ukraine plummeted to a level below $5 billion in February 2015 (Figure 1). The hryvna (UAH) depreciated from 8 UAH/$ in January 2014 to 30 UAH/$ on 26 February 2015 (Figure 2). As result, end-of-year inflation jumped to 24.9 percent in 2014 and 43.3 percent in 2015 (Table 1). The collapse in the hryvna’s exchange rate, high inflation and output decline also meant a negative shock to commercial banks, many of which were already in a fragile position well before the 2014-2015 crisis.

Fiscal accounts deteriorated and general government (GG) gross public debt to GDP more than doubled between 2012 and 2015, reaching around 80 percent of GDP in 2015-2016 (Figure 3), despite partial debt reduction negotiated with private creditors. Ukraine lost access to financial markets and became totally dependent on the International Monetary Fund and other external assistance.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>GDP, constant prices, annual % change</td>
<td>0.2</td>
<td>0.0</td>
<td>-6.6</td>
<td>-9.8</td>
<td>2.4</td>
<td>2.5</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Inflation, end-of-period consumer prices, annual % change</td>
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<td>0.5</td>
<td>24.9</td>
<td>43.3</td>
<td>12.4</td>
<td>13.7</td>
<td>9.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Unemployment rate, % of total labour force</td>
<td>7.5</td>
<td>7.2</td>
<td>9.3</td>
<td>9.1</td>
<td>9.5</td>
<td>9.7</td>
<td>9.0</td>
<td>8.5</td>
</tr>
<tr>
<td>General government net lending/borrowing, % of GDP</td>
<td>-4.3</td>
<td>-4.8</td>
<td>-4.5</td>
<td>-1.2</td>
<td>-2.2</td>
<td>-2.2</td>
<td>-2.2</td>
<td>-2.0</td>
</tr>
<tr>
<td>Current account balance, % of GDP</td>
<td>-8.1</td>
<td>-9.2</td>
<td>-3.9</td>
<td>1.7</td>
<td>-1.5</td>
<td>-2.2</td>
<td>-3.3</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook database, April 2020. Note: Except for inflation other figures for 2019 are IMF staff estimates.
The lowest point of the macroeconomic and financial crisis was reached in February 2015. This helps to explain why President Poroshenko decided to accept the terms of Minsk II agreement (see section 2), even though it was clear from the beginning that they would not be easy to implement in Ukraine\(^2\) (see Gressel, 2015; Pifer, 2016).

Since that critical point (February 2015) Ukraine has improved gradually its macroeconomic performance, thanks to both economic reforms and external assistance (see section 9). Growth has been positive since 2016. However, the pace of output recovery has not been impressive: 2.4 percent in 2016, 2.5 percent in 2017, and 3.2 percent in both 2018 and 2019 (Table 1).

The hryvna recovered to the level of 21-22 UAH/$ in the summer of 2015, then depreciated to 25-28 UAH/$, fluctuating within this range from 2016 to 2019 (Figure 2). In the second half of 2019 and January 2020 it appreciated to below 24 UAH/$, though this gain has been reversed since February 2020 as result of COVID-19 shock, which has caused widespread depreciation of emerging-market currencies. Relative stabilisation of the hryvna against the dollar was achieved despite partial removal of restrictions that had existed for several years on current-account convertibility. One result if this was an increase in dividend repatriations\(^3\), which rose by over 50 percent in 2018 (IMF, 2019a, p. 36). It should be noted, however, that some current account restrictions remain in force, including maximum limits on available foreign currency for international transactions other than those related to trade.

Figure 1: Reserve assets, $ millions, 2013-2020

Stopping UAH depreciation together with strengthening National Bank of Ukraine independence (although this has been continuously challenged by various political forces and business interest groups), adopting an inflation-targeting monetary policy strategy and greater transparency of National Bank of Ukraine measures and communication, allowed for gradual disinflation to 4 percent at the end of 2019. The National Bank of Ukraine discount rate has become a key monetary policy instrument.

At the peak of the devaluation and inflation shock in March 2015, the key policy rate was raised to 30 percent. Between the end of August 2015 and summer 2017, it was gradually cut to 12.5 percent. It was then increased in six steps by a total of 550 basis points, reaching 18 percent in the last quarter of 2018 and first quarter of 2019, to counteract the continuous infla-

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\(^2\) This concerned, for example, amendments to the Constitution of Ukraine on the special status on Donbas (see Section 7). They were seen by many in Ukraine as compromising the country's sovereignty.

\(^3\) On the other hand, remittances sent by Ukrainian labour migrants working abroad improved the current account balance.
tionary pressure and emerging-market financial turbulence. Since March 2019, the key policy rate has been gradually reduced, a process accelerated in March and April 2020 in response to the COVID-19 macroeconomic shock4.

**Figure 2: Exchange rate, in UAH for $1, 2013-2020 (reverse vertical scale)**

![Exchange rate chart](image)

Source: Bloomberg.

**Figure 3: General government gross debt, % of GDP, 2012-2019**

![Debt chart](image)

Source: IMF World Economic Outlook database, October 2019.

Reduction of the current account deficit (Table 1) and some capital inflow, including official financial aid, allowed for gradual rebuilding of the National Bank of Ukraine’s gross international reserves.

Fiscal adjustment, which was of crucial importance for macroeconomic stability, was only partial. The general government deficit was halved but not eliminated entirely (Table 1). Perhaps more important was elimination of the quasi-fiscal deficit of Naftogas, which amounted to 5.5 percent of GDP in 2014 (see section 6).

The gross general government debt-to-GDP ratio was reduced by more than 20 percent-

4 Since 24 April 2020 the key policy rate has been 8 percent; see [https://bank.gov.ua/monetary/stages/archive-rish](https://bank.gov.ua/monetary/stages/archive-rish).
age points to below 60 percent in 2019 (Figure 3), partly thanks to stabilisation and modest appreciation of the hryvna (more than two thirds of public debt is denominated in foreign currency – see IMF 2019a, Figure 4, p. 14), partly because of debt reduction and restructuring negotiated with private foreign investors in 2015-2016, as part of the IMF Extended Fund Facility (EFF) programme5.

However, the 2019 level was still relatively high by emerging-market economy standards, particularly in a country that has suffered from repeated debt and currency crises in the not-so-distant past. Furthermore, Ukraine faces a peak of foreign debt repayment in 2019-2021. The adverse shock that started in March 2020 (related to COVID-19) may deteriorate debt statistics again through three channels: (i) GDP contraction; (ii) higher fiscal deficit; (iii) UAH depreciation.

Although the government of Ukraine managed to return in 2017 to commercial debt markets (Prentice, 2017), this was possible only because of the parallel IMF support. As seen in Figure 4, the spread between Ukrainian sovereign debt denominated in dollars and 10-year US Treasury bonds decreased by approximately 400 basis points during 2019. However, it remained still high at the beginning of 2020 (ca. 400 basic points) and grew rapidly again once the COVID-19 related financial shock hit emerging markets in March 2020.

Figure 4: Spread between Ukrainian sovereign dollar-denominated debt and US Treasuries (10Y), basis points, 2018-2020

Source: Bloomberg.

The high level of general government total expenditure in relation to GDP (higher than most countries with similar levels of GDP per capita) has been the main source of continuous fiscal tension, although Ukraine managed to bring down this level from 49 percent to less than 42 percent between 2016 and 2018.

In addition to high military spending related to the war (3.8 percent of GDP6), Ukraine’s social expenditures remain sizeable. They amounted to 22.8 percent of GDP in 2013 and to 20.5 percent of GDP in 2014, of which some three-quarters related to public pension spending. Because of the strong political resistance, changes to the public pension system have been only gradual and partial. First, from 2015 to 2016, several special pension regimes (for individual sectors and professional groups) were either eliminated or restricted. Second,

5 The newly-issued bonds to investors who accepted write-downs of 20 percent of the original value of old bonds are linked to future GDP performance; see Reuters (2017).
6 World Bank’s World Development Indicators, data obtained on 18 March 2020.
the long-debated pension reform approved in October 2017 introduced a longer minimum period for paying social security contributions (from 15 to 25 years and further to 35 years in 2028), provided a less generous formula for calculating new pension benefits, offered financial bonuses for delayed retirement, and further eliminated some professional privileges. The fiscal benefits of these measures will only be seen gradually in the next few years (Rybak, 2017; IMF, 2019a, Box 2, p. 15). On the other hand, the 2017 reform involved substantial up-front fiscal costs of a one-off revaluation of pension benefits.

As result of these pension reforms, public pension expenditure decreased to about 10 percent of GDP in 2018-2019 (Figure 6). However, this level may prove unsustainable in the longer term because of adverse demographic trends (decline in working-age population and high dependency ratio, which is already around 1), and a low replacement rate of about 35 percent (IMF 2019a, Box 2, p. 15). This may make it necessary to further increase the statutory retirement age, which is to reach 60 for both men and women in 2021 and 62 for male civil servants, as a result of the earlier reform carried out in 2011.
The reform of public finance management, including medium-term budgeting, which was started in 2019 (IMF, 2019b) but then postponed to 2022 because of COVID-19, should help to rationalise public spending and revenue planning.

### 4 Financial sector restructuring

After the Euromaidan, the financial sector was one of the first areas to be restructured and reformed. Banking crisis was a result not only of the devaluation of the hryvna in 2014-2015, deep recession (see section 3) and the conflict with Russia, but also of the years of weak banking supervision, imprudent practices such as lack of adequate risk assessment, lending for political reasons (Repko, 2019) and siphoning of assets offshore.

Since summer 2014, the government of Ukraine and the National Bank of Ukraine, with the support of the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD), have engaged in the wholesale restructuring, rehabilitation and, in many cases, revocation of the licenses of those commercial banks that did not have sufficient capital adequacy ratios or did not conform with other prudential norms.

Nationalisation of the largest Ukrainian bank – Privatbank, owned by the politically influential businessmen Ihor Kolomoysky and Gennady Bogolyubov – in December 2016 was the most spectacular step in this process. This decision was challenged by the former owners through legal and political channels. For example, they organised public rallies against the decision and conducted a smear campaign against the National Bank of Ukraine (Reuters, 2019). The law on banking resolution adopted on 13 May 2020 (one of the IMF conditions) will stop these pressures by outlawing the return to their previous owners of banks that have been nationalised as result of compulsory restructuring (Sorokin, 2020b).

#### Table 2: Ukraine, financial soundness indicators, in % (unless otherwise defined), 2015-2019 (4Q of each year)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory capital to risk-weighted assets</td>
<td>12</td>
<td>13</td>
<td>16</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Regulatory Tier 1 capital to risk-weighted assets</td>
<td>8</td>
<td>9</td>
<td>12</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Nonperforming loans net of provisions to capital</td>
<td>129</td>
<td>89</td>
<td>70</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td>Nonperforming loans to total gross loans</td>
<td>28</td>
<td>30</td>
<td>55</td>
<td>53</td>
<td>48</td>
</tr>
<tr>
<td>Return on assets</td>
<td>-6</td>
<td>-12</td>
<td>-2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Return on equity</td>
<td>-66</td>
<td>-122</td>
<td>-15</td>
<td>15</td>
<td>38</td>
</tr>
<tr>
<td>Liquid assets to total assets</td>
<td>33</td>
<td>49</td>
<td>54</td>
<td>51</td>
<td>72</td>
</tr>
<tr>
<td>Liquid assets to short-term liabilities</td>
<td>93</td>
<td>92</td>
<td>98</td>
<td>94</td>
<td>94</td>
</tr>
<tr>
<td>Net open position in foreign exchange to capital</td>
<td>36</td>
<td>57</td>
<td>43</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Capital to assets</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Spread between reference lending and deposit rates (basis points)</td>
<td>772</td>
<td>600</td>
<td>681</td>
<td>525</td>
<td>622</td>
</tr>
<tr>
<td>Foreign-currency-denominated loans to total loans</td>
<td>58</td>
<td>51</td>
<td>47</td>
<td>47</td>
<td>41</td>
</tr>
<tr>
<td>Foreign-currency-denominated liabilities to total liabilities</td>
<td>53</td>
<td>56</td>
<td>53</td>
<td>47</td>
<td>43</td>
</tr>
</tbody>
</table>


7 The corporate investigation firm Kroll (employed by the National Bank of Ukraine) found a capital shortfall of $5.5 billion, which was result of connected lending over a period of ten years or more (Olearchyk, 2018).
The results of banking sector restructuring have been mixed so far. A total collapse of the sector was avoided and the financial position of banks has improved in many respects (Table 2). In particular, capital adequacy and liquidity ratios have increased, banks have become profitable again, and spreads between deposits and lending rates have diminished somewhat. But the ratio of non-performing loans to total loans remains high, close to 50 percent; the net open position in foreign exchange to capital, and dollarisation of both loans and banks’ liabilities are also high. The total fiscal costs of bank restructuring in 2015-2017 amounted to at least 12 percent of GDP.

5 Trade reorientation

Loss of political control over Crimea and part of the Donbas region, combined with Russian trade sanctions, were heavy blows to Ukrainian trade. Historically Russia was Ukraine’s main trading partner and both economies were deeply interlinked from Soviet times. The conflict, especially in Donbas, meant disruption of supply chains and transportation routes. However, the EU-Ukraine Association Agreement (AA), including provisions for a Deep and Comprehensive Free Trade Area (DCFTA), which entered into force on 1 January 2016, opened up new trade and investment opportunities. It also initiated gradual regulatory and institutional alignment with the EU that should help Ukraine in accessing international markets beyond the EU, while improving economic and political governance in the medium to long term.

Figure 7: Ukraine, exports of goods by destination, % of total goods exports, 2012-2018


The impact of the conflict with Russia and better access to the large European market is well reflected in trade statistics. Figure 7 shows that Ukrainian exports to Russia have fallen heavily since the Euromaidan, but exports to the EU have increased substantially. In 2012, Russia represented a slightly larger share of Ukrainian exports than the EU: 25.7 percent of the total compared to the EU’s 24.9 percent. Only six years later, in 2018, Russia’s share of Ukrainian exports stood at only 7.7 percent, while the EU’s share had increased to 42.6 percent. Perhaps most interestingly, these two destinations jointly accounted for slightly more than half of

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8 They have been concentrated in state-owned banks and Privatbank. See Repko (2019, Figure 7).
Ukrainian exports, as they did in 2012 (this remained constant throughout the period). Figure 7 also shows data for Ukraine’s four other largest export partners. Trade shares with them have remained fairly constant. The combined share of these other four destinations grew from 15.5 percent in 2012 to a peak of 23 percent in 2015 (but in 2018 was back to 17.5 percent).

Figure 8: Ukraine, imports of goods by destination, % total goods imports, 2012-2018

A similar pattern can be seen in Ukrainian imports (Figure 8). As was the case with exports, Russia was the source of a slightly greater share of imports than the EU in 2012: 32.4 percent compared to 31 percent from the EU. However, Russia’s share has fallen, while the EU’s has increased. By 2018, Russia was the source of under 15 percent of imports, while 41 percent came from the EU. A large part of this change originated from the reorientation of natural gas imports: deliveries from Russia were replaced by reverse deliveries from Slovakia.

Table 3: Ukraine: top 10 categories of goods exports (2012, 2018)

<table>
<thead>
<tr>
<th>Exports</th>
<th>2012</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron &amp; steel</td>
<td>15,328 $mns</td>
<td>9,937 $mns</td>
</tr>
<tr>
<td>Cereals</td>
<td>6,971 $mns</td>
<td>7,241 $mns</td>
</tr>
<tr>
<td>(Animal or vegetable) fats &amp; oils</td>
<td>4,171 $mns</td>
<td>4,497 $mns</td>
</tr>
<tr>
<td>Railway &amp; tramway locomotives</td>
<td>4,107 $mns</td>
<td>253 $mns</td>
</tr>
<tr>
<td>Nuclear reactors, boilers &amp; machinery</td>
<td>3,787 $mns</td>
<td>1,724 $mns</td>
</tr>
<tr>
<td>Mineral fuels &amp; oils</td>
<td>3,640 $mns</td>
<td>861 $mns</td>
</tr>
<tr>
<td>Ores, slag &amp; ash</td>
<td>3,306 $mns</td>
<td>3,035 $mns</td>
</tr>
<tr>
<td>Electrical machinery &amp; equipment</td>
<td>3,231 $mns</td>
<td>2,930 $mns</td>
</tr>
<tr>
<td>Articles of iron &amp; steel</td>
<td>2,837 $mns</td>
<td>1,110 $mns</td>
</tr>
<tr>
<td>Fertilisers</td>
<td>1,786 $mns</td>
<td>70 $mns</td>
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That said, differently to exports, the relative importance of both Russia and the EU in Ukraine’s imports has fallen since 2012. While at that time almost 65 percent of imports came...
from either the EU or Russia, this had fallen to 55 percent by 2018. The slack has been partially picked up by countries in the broader Eurasian neighbourhood, chiefly Belarus and Turkey, as well as China, the United States and Switzerland. While the latter is still a small trading partner, its share of imports tripled in the seven years up to 2018. Meanwhile, China has become almost as important as a source of imports as Russia (Figure 8). The relative importance of these next five largest destinations has grown from 22 percent to 31 percent of the total.

Given this pronounced geographical shift, it would be interesting to see if it has also resulted in a sectoral shift. However, this does not seem to be the case. To examine this, goods trade has been broken down according to the World Bank’s World Integrated Trade Solution (WITS) database H2 classification, which divides products up into 99 categories.

As Table 3 shows, the top three categories of exports have remained the same (and in the same order) from 2012 to 2018. These were iron and steel; cereals and animal and vegetable fats and oils. Together they make up 46 percent of total exports (from 39 percent in 2012). However, there has been a substantial shift from metals to agro-products. Other categories have seen more fluctuation. Locomotives (railway or tramway) used to be Ukraine’s fourth main export and now they have dropped all the way to twenty-third place. Meanwhile, electrical machinery is becoming an increasingly important category. The situation has changed less for imports. The top seven categories of imports under the same classifications have remained the same and in the same order (Table 4). However, imports of mineral fuels and oils almost halved over the short time period. While this remains Ukraine’s biggest import category, a clear evolution is evident, and is largely explained by plummeting purchases of natural gas (see section 6 on the energy sector).

| Table 4: Ukraine, top 10 categories of goods imports (2012, 2018) |
|---------------------|---------------------|---------------------|---------------------|
| **Imports**         | **2012**            | **2018**            |
| Trade value $mns    | Ranking             | Trade value $mns    | Ranking             |
| Mineral fuels & oils| 26,193              | 1                   | 13,399              | 1                   |
| Nuclear reactors, boilers & machinery | 7,227              | 2                   | 6,476              | 2                   |
| Electrical machinery & equipment | 5,952              | 3                   | 5,479              | 3                   |
| Vehicles (excluding railway or trams) | 5,949              | 4                   | 4,223              | 4                   |
| Plastics & articles thereof | 3,414              | 5                   | 2,701              | 5                   |
| Pharmaceutical products | 3,308              | 6                   | 1,947              | 6                   |
| Iron & steel        | 2,299              | 7                   | 1,367              | 7                   |
| Paper & paperboard  | 1,575              | 8                   | 1,085              | 9                   |
| Miscellaneous chemical | 1,299              | 9                   | 1,350              | 8                   |
| Articles of iron & steel | 1,283              | 10                  | 968                | 11                  |


Beyond the structural breakdown, it is important to note the overall dynamics of Ukrainian trade. As seen in Figure 9, imports more than halved between 2012 and 2015 while exports almost halved between 2012 and 2016. Both partly recovered between 2016 and 2018. Trade dynamics reflect changes in GDP: a deep recession in 2014-2015 and moderate recovery thereafter, and the military and trade conflict with Russia.

Finally, trade in services should also be explored, although data on this is scarcer. However, Figure 10 shows services exports: the total and the five mayor sectors. As with goods exports, an overall decline over the time period is evident, with a slight recent recovery. Furthermore, transport clearly dominates Ukraine’s service exports and appears to explain the majority of the overall decline. In contrast, computer and information services exports more
than doubled over the time period in dollar terms (and their share of total exports has almost tripled). They have become Ukraine’s second largest service export.

**Figure 9: Ukraine, goods imports and exports, $ millions**

The situation for service imports is more balanced: while transportation remains the most prominent, this has not been the case throughout the entire time period (government services briefly took over in 2016), and the dominance of transportation is clearly far less pronounced. Government services imports have seen a 75 percent increase during the time period. In contrast, imports of financial services appear to have more than halved, shedding some additional light on our discussion of the financial system (section 4).

**Figure 10: Ukraine, services exports, top categories, 2012-2017**
6 Energy sector reform

Since the Euromaidan, Ukraine has carried out significant reforms to its energy sector. But these reforms have not yet led to material improvements in most parts of the energy system.

The reform of Ukraine’s natural gas sector is the poster-child of the post-Maidan era. In 2014, the state-owned gas production, wholesale and transmission company Naftogas incurred a deficit equivalent to 5.5 percent of GDP. Thanks to increasing gas prices for consumers, managerial reforms, decreasing gas import prices and successful court cases against Gazprom, Naftogas in 2019 contributed up to 1 percent of GDP to the state budget.9

Regulated gas prices increased twofold in euro terms between 2014 and 2019, reducing inefficient usage and Naftogas’ losses from below-price sells. This previously unthinkable

9 Total dividends paid to the state budget in 2019 exceeded UAH 20 billion, and tax payments by Naftogaz amounted to UAH 100 billion in 2019.
move went through relatively calmly as it was a continuous condition for IMF assistance. It accompanied a new housing and utilities subsidies system for poorer households, which was introduced in 2014. Overall, total gas demand dropped from 42 billion cubic metres in 2014 to below 30 bcm in 2019.

Starting in 2014, Ukraine began to import gas from the EU at prices below the excessive prices for Russian gas agreed during the 2008/2009 winter negotiations. This bold move, which was enabled by certain EU companies and governments, defused the threat of a Russian gas supply cut during the escalating aggression in Eastern Ukraine and Crimea.

Another success was the winter 2019-2020 unbundling of the gas transit system from other activities of Naftogas. This paved the way for a new gas transit contract with Russia, which ensures that substantial volumes (40 bcm per year) of Russian gas can be transited via Ukraine until at least 2024 (with a minimum total revenue of €7.2 billion\(^\text{10}\)), and the payment of $2.9 billion owed by Gazprom to Naftogas.

However, Ukraine has not managed to invest in its gas sector in the past decade. Consequently, gas production has not substantially increased\(^\text{11}\) and the gas distribution infrastructure is in a dismal state. Substantial regulatory changes are still needed to unlock investment in this area.

Ukraine also started a major reform of its electricity market. The stated purpose was to move from a single buyer that purchases electricity at regulated prices from individual power plants to a market where consumers can choose their supplier. The new market was opened in a rush in July 2019 and is still not working properly. A number of technical and administrative issues persist, such as lack of certification for ancillary service providers. But the core problem is that there is a structural lack of competition in the sector. Nuclear, hydropower and a few coal plants are state-owned. The majority of coal plants – that typically set the price in Ukraine – are owned by one business group. To limit the exercise of market power, price caps were immediately introduced in the market.

Meanwhile, protected consumers still obtain electricity at regulated (low) prices. This is engineered through an overly complicated system. In simple terms, power plants must sell a share of their production at low prices to the so-called ‘guaranteed buyer’, which passes this electricity on to protected consumers\(^\text{12}\). This system has substantial implications for liquidity in different market segments and the financial viability of state-owned generators. It also distorts market prices. Unless increasing competition allows price caps to be abolished and subsidies to protected consumers are monetised (ie not distributed through subsidised electricity) the new market design will not result in more efficient investment or operational decisions.

Perhaps the most material change to Ukraine’s energy system has been the rapid rise in the share of renewable electricity generation. This has been driven by a generous support system\(^\text{13}\). In 2019, 4.5 gigawatts of wind and solar were installed and another 11 GW have secured agreements with the guaranteed buyer to feed-in at fixed tariffs (Figure 13).

Given the declining cost of electricity from renewables and the need to replace the aging coal and nuclear fleet, this transition goes in the right direction. But the current support structure is not financially sustainable. The cost of supporting renewable energy sources (RES) in 2020 might be around €1.8 billion and around €2 billion in 2021\(^\text{14}\). This cost is currently covered by transmission tariffs and the profits the guaranteed buyer makes from selling electricity bought at low prices from state-owned power plants at market prices. But the more

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10 The contract contains a ship-or-pay clause which implies that Gazprom will also have to pay for unused volumes it booked.

11 Despite investments in exploration, state company Ukrgazvydobuvannia was unable to realise its strategy to increase gas production to 20 bcm in 2020.

12 The rules around this Public Service Obligation (PSO) have been subject to regular change.

13 In 2017-2019, feed-in tariffs for installations connected were €150/megawatt hour for utility-scale photovoltaic ground-mounted, and €102/megawatt hour for onshore wind.

RES that are brought onto the market, the lower market prices will be and the lower the profit of the guaranteed buyer. A deep reform, preferably linked to the reform of the household subsidy system, will be needed. It is foreseen that RES support will be transferred from a system with fixed feed-in tariffs to an auction system in which the bidder that requires the lowest price obtains the contract. This should reduce the support-cost of new RES installations, which are needed to replace outdated coal and nuclear units.

**Figure 13: Utility-scale RES development in Ukraine, annual new capacity**

![Utility-scale RES development in Ukraine](source: www.lowcarbonukraine.com).

The flip-side of the development of RES is Ukraine’s coal sector. Many coal mines are still state-owned and loss-making, but governments in the past three decades have feared the social consequences of closing them, and coal-related financial flows were appropriated by powerful groups. Given the negative fiscal, human and environmental footprint of this industry, Ukraine should quickly find a way to repurpose existing coal subsidies to finance the closure of mines and an alternative approach to regional development. A revised carbon tax (Stiewe et al., 2019) – as proposed by the government – could help fund such activities.

A final structural issue in the energy sector is that major public institutions, notably the ministry in charge of energy policy, the energy regulator and the antimonopoly committee, remain underfunded, understaffed and politicised.

### 7 Privatisation, the business climate and fighting corruption

Since Euromaidan, the privatisation of some 3,500 state-owned enterprises (SOEs) has not progressed, despite several legislative changes to support the process. Subsequent annual privatisation plans have been unambitious and in any case not delivered. The best-known project – the attempt to privatisethe Odessa Portside Plant in 2016 – failed twice because of the large debt burden accumulated by this enterprise and too-high starting prices in the privatisation tender (Prokhorov and Yablonovskyy, 2020). Meanwhile, the share of state ownership in the Ukrainian economy has actually increased as a result of banking-sector restructuring and recapitalisation between 2014 and 2017, including the nationalisation of Privatbank in December 2016 (see section 4).

In reality, companies that are fully or partly state-owned have become a convenient object
for rent-seeking and profit-stripping in favour of Ukrainian oligarchs, who either co-own them or exercise management control via political and administrative organs that depend on them. This is perhaps the best explanation of why privatisation plans have been blocked in practice.

The situation started to improve in the second half of 2019. The government of Oleksiy Honcharuk launched a mass-scale small privatisation via the electronic public procurement platform Prozorro. The new parliament also cancelled the old long list of companies for which privatisation was prohibited. The new list will be much shorter. Preparations for privatising a number of big companies, including some state-owned banks, have been started. Furthermore, partial privatisation of Naftogas and Ukrzaliznytsya (Ukrainian Railways) is also under consideration (Prokhorov and Yablonovskyy, 2020). The big question is whether the COVID-19 related shock and sudden change of government in March 2020 (see sections 2 and 8) will postpone again these plans.

The Honcharuk government also took significant steps to improve management of state property. Most SOEs have been moved under the control of the State Property Fund, and a new law on lease of state and municipal property (exclusively via the Prozorro procurement platform) entered into force in February 2020 (Prokhorov and Yablonovskyy, 2020).

Launching a large-scale and transparent privatisation process with unrestricted participation of foreign investors (similar to many Central and Eastern European countries in the 1990s, Western Balkan countries and Georgia in the 2000s) could help increase the investment rate and total factor productivity, modernise the economy, enhance competitiveness, reduce the large public debt (section 3) and undermine dominance by oligarchs.

Improvements have also been made in relation to land ownership and the market for land. The moratorium on the sale of agricultural land, which had been in place since 2001 and was regularly extended each year by overwhelming parliamentary majorities, was finally lifted by a law adopted on 31 March 2020 (Sorokin, 2020a). It will enter into force on 1 July 2021. However, lifting the moratorium will be only partial and gradual. Non-resident buyers are excluded. In the first stage, the maximum area that can be bought will be 100 hectares, increasing to 10,000 hectares by 2024.

There has also been modest progress in perceptions of the business climate. The World Bank Doing Business Survey 2020 placed Ukraine sixty-fourth among 190 countries, with a total score of 70.2 out of 100.\(^\text{15}\) In Doing Business 2014, Ukraine ranked 112 out of 189.\(^\text{16}\)

A less favourable assessment comes from the Heritage Foundation Index of Economic Freedom 2020, in which Ukraine is ranked a distant 134 out of 180 countries evaluated, in the category of ‘mostly unfree’ economies. However, there has been a systematic improvement in Ukraine’s position in this ranking over the last five years.

Finally, the Transparency International Corruption Perception Index 2019 placed Ukraine 126 out of the 180 countries assessed, with no major changes over the last five years.

Fighting corruption has not only been a priority in the domestic political agenda, including election campaigns, but is also matter of concern for the international community. Institutional steps in this area have become an important part of the conditionality attached to the assistance offered by the IMF, World Bank, EU, EBRD, USAID and other donors. As a result of this external pressure, four anti-corruption institutions were established between 2014 and 2018: the National Anti-Corruption Bureau (NABU), the National Agency for Prevention of Corruption, the Special Anti-Corruption Prosecutor’s Office (SAPO) and the High Anti-Corruption Court (HACC). However, their establishment has so far not diminished corruption in a meaningful way (Repko, 2019).

It seems that too much of the focus of both the Ukrainian authorities and the donor community has been devoted to fighting the symptoms of corruption and too little to eradicating the deep systemic roots of corruption, including continued subsidies to enterprises, admin-

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\(^{16}\) See [https://www.doingbusiness.org/content/dam/doingbusiness/media/Annual-Reports/English/DB14-Chapters/DB14-Country-tables.pdf](https://www.doingbusiness.org/content/dam/doingbusiness/media/Annual-Reports/English/DB14-Chapters/DB14-Country-tables.pdf).
administrative overregulation, excessive state ownership, limited domestic competition, predatory behaviour of security and law-enforcement agencies, and lack of effective limits on financing political parties and election campaigns from private sources (Dabrowski, 2017a).

Some other innovations such as introduction of asset declarations by politicians and civil servants, and the electronic procurement platform Prozorro, have brought more positive results.

8 Political reform

During the Yanukovych presidency (2010-2014), Ukrainian political freedom scores deteriorated (according to the Freedom House Freedom in the World survey17). Ukraine was downgraded from the ‘free’ to the ‘partly free’ category. Sadly, since the Euromaidan, Ukraine’s political freedom ranking has not improved. It corresponds with perceptions of the fragmentary and sometimes chaotic character of political and institutional reforms undertaken by the post-Maidan governments and parliaments.

Immediately after the collapse of the Yanukovych regime in February 2014, Ukraine revisited the 2004 constitutional amendments that reduced the power of the president in favour of the parliament, mainly by granting the latter the authority to appoint and control the government, which was previously subordinated to the president18. While such constitutional changes can be considered positive from the point of view of reducing the risk of authoritarianism, the concrete amendments adopted hastily during the 2004 Orange Revolution were not necessarily well designed and, therefore, proved dysfunctional in practice.

Forming a parliamentary majority and a government, appointed by this majority, has become a lengthy and politically fragile process. Furthermore, the sharing of constitutional prerogatives between the president and cabinet of ministers remains unclear, leading to frequent tensions. The collision of competences intensified in the situation of armed conflict, which naturally increased the power of the president as the supreme commander of the armed forces.

The results of the July 2019 parliamentary election (section 2) gave President Volodymyr Zelensky the dominant role in the executive branch of government and simplified the process of forming the cabinet of ministers. The relatively smooth replacement of the Honcharuk cabinet with one led by Denys Shmyhal in early March 202019 confirmed Zelensky’s dominant position. However, this situation will continue only as long as he retains political control over the Servant of the People party, which has an absolute majority in the parliament20.

Ukraine’s mixed electoral system, in which half of the seats in parliament are distributed via proportional representation (and party lists), and half of MPs are elected in single-seat constituencies based on first-past-the-post voting, was rightly criticised for weakening political parties, helping oligarchs and other interest groups to elect their representatives, and encouraging political corruption. After years of political fighting, the new parliament adopted a new election code on 19 December 2019, reintroducing the proportional system (which existed before 2012) based on partly open lists and multi-seat constituencies. However, there

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18 In 2010, this amendment was nullified by the Constitutional Court of Ukraine in a controversial ruling, which allowed Viktor Yanukovych to return to the pre-2004 presidential prerogatives.
19 Even though the political motives behind this change were unclear (probably under the pressure from oligarchic lobbies unhappy with reforms initiated by the Honcharuk government) and its timing was wrongly chosen (because it coincided with the COVID-19 related global financial shock); see Aslund (2020a), Sasse (2020), Havrylyshyn and Kalymon (2020).
20 The results of the voting on the law on banking resolution (section 4) on 13 May 2020 may raise doubts about whether the ruling party is still politically united (Aslund, 2020b).
The long-awaited decentralisation of the Ukrainian state has been also accomplished only partly. The draft constitutional changes of 2015 that were intended to open the way for genuine local and regional self-government were blocked by parliament, largely because of opposition to the special status of Eastern Donbas (currently outside the control of the Ukrainian authorities), which was part of the same legislative package. In the unchanged constitutional and legal environment, only some partial and incremental changes have been introduced, such as voluntary amalgamation of the lowest territorial units hromadas (most of them being too weak to benefit from serious devolution of power) and some degree of fiscal decentralisation, mainly related to education and healthcare (Jarabik and Yesmukhanova, 2017; Hanushchak et al, 2017). Although this partial decentralisation has been considered successful, its sustainability will remain questionable as long as it is not backed by comprehensive constitutional and legislative changes.

In 2016, a package of constitutional and legislative changes initiated the reform of the judicial branch of government (Carnegie, 2017), with the ultimate goal of strengthening the rule of law and radically improving contract enforcement and the protection of property rights. The structure of the Ukrainian court system was simplified (moving from four to three tiers) and merit-based recruitment of supreme-court judges was initiated (Bilak et al, 2016). However, this reform is progressing slowly and Ukraine is still only at the beginning of building an independent judiciary (Budz, 2019).

The various law-enforcement agencies inherited from the Soviet era have been a source of harassment of both the business community and ordinary citizens. Again, reforms in this sphere have been only partial (Gherasimov and Solonenko, 2020). The focuses have been formation of the new patrol police and reform of tax enforcement (which is still unfinished) and the tax and customs administration. Reform of other police formations is less advanced, even if previous militia staff members have had to pass through verification processes and many have been replaced by new functionaries. The Security Service of Ukraine (Sluzhba Bezpeki Ukrainy, SBU) remains unreformed and uses its broad national security and investigation prerogatives to harass business. Reform of the General Prosecutor’s Office has been tried a few times but never completed. The last attempt was undertaken by the General Prosecutor Ruslan Ryaboshapka, who was nominated in 2019 but dismissed in March 2020 by the parliament.

As yet, institutional reforms have not reached a sufficient critical mass to limit the influence of powerful oligarchic groups over economic and political governance via the unstable system of political parties, media, parliamentary lobbying, imperfect rules on financing election campaigns, and the corrupt, unprofessional judiciary and law enforcement agencies (Dabrowski, 2017b).

9 The role of external aid

Since 2014, Ukraine has received substantial international support. The economic and political sanctions applied by the US, EU and other developed economies against Russia has helped protect Ukraine against its neighbour’s aggressive moves, while not stopping them completely or eliminating their negative consequences (such as the partial loss of territory). Several members of the North Atlantic Treaty Organisation helped modernise Ukraine’s army and security forces. Ukraine also received $6.8 billion in net official development assistance...
between 2014 and 2018, for a yearly average of 1.3 percent of GNI and 3.5 percent of central government expenditure, according to the World Bank’s World Development Indicators.

Unfortunately, some micro-targeted aid programmes lack a broader sectoral or macroeconomic perspective and conditionality. There is also limited coordination among donors in terms of aid effort and conditionality.

9.1 Bretton Woods institutions
The IMF has offered meaningful financial and technical assistance. Since 2014, the IMF has provided Ukraine with three lending programmes: two Stand-By Arrangements (SBAs) (2014-2015 and 2019-2020) and an Extended Fund Facility (EFF) (2015-2018). None of these was fully disbursed because of the problems with meeting conditionality, including lack of progress in fighting corruption22. Table 5 summarises actual disbursements and repayments. As of 31 March 2020, the IMF has 6.5 billion of special drawing rights in outstanding purchases and loans to Ukraine23.

Table 5: Ukraine, transactions with the IMF in SDR (up to 30 May 2020)

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements</th>
<th>Repurchases</th>
<th>Charges paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2,972,670,000</td>
<td>2,390,625,000</td>
<td>38,583,660</td>
</tr>
<tr>
<td>2015</td>
<td>4,728,100,000</td>
<td>968,750,000</td>
<td>106,297,866</td>
</tr>
<tr>
<td>2016</td>
<td>716,110,000</td>
<td>0</td>
<td>155,497,913</td>
</tr>
<tr>
<td>2017</td>
<td>734,050,000</td>
<td>628,833,750</td>
<td>220,393,516</td>
</tr>
<tr>
<td>2018</td>
<td>1,000,000,000</td>
<td>1,486,335,000</td>
<td>232,638,588</td>
</tr>
<tr>
<td>2019</td>
<td>0</td>
<td>1,153,001,250</td>
<td>241,445,345</td>
</tr>
<tr>
<td>2020</td>
<td>0</td>
<td>394,008,333</td>
<td>97,025,179</td>
</tr>
</tbody>
</table>

Another EFF was negotiated in the last quarter of 201924. However, after Ukraine was hit by the COVID-19 pandemic and related macroeconomic uncertainty, the negotiation strategy changed and Ukraine received in June 2020 another SBA worth $5 billion for an 18-month period instead of the EFF, and immediate disbursement of $2.1 billion25.

Overall, IMF conditionality went far beyond traditional macroeconomic performance criteria and included requirements for reforms in the natural gas sector, opening up the land market, banking sector rehabilitation, fighting corruption and reform of the public administration and judiciary. Even though the strength and prioritisation of IMF conditionality occasionally raised questions (see Dabrowski, 2015; 2017a), it has helped accelerate reforms and improve macroeconomic equilibria.

Between 2014 and 2019, the World Bank’s International Finance Corporation committed around $634 million in loans and equity investment to Ukraine26. During the same period, the World Bank itself committed an additional $5.9 billion in loans27, though less than half appeared to have been disbursed by late 2019 (Anhel, 2019).

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9.2 European donors

The EU has also played a prominent role providing economic assistance to Ukraine, often conditional on reform. Since 2014, €15 billion in loans and grants has been mobilised by the EU and European financial institutions, including the EBRD.

The EU has cooperated closely with the IMF by financially backing its programmes and adding its own conditions, especially in the institutional sphere. This has been carried out through the four Macro-Financial Assistance (MFA) tool, which is designed to support the EU’s neighbouring countries in balance-of-payments crises. Since 2014, the EU has granted Ukraine €3.8 billion in MFA loans (the largest amount of aid for any non-EU country). Similarly to IMF loans, part of the approved aid has not been disbursed because of failure to meet some policy commitments (including those related to combating corruption)\(^{28}\).

The European Investment Bank (EIB) has provided €4.3 billion in loans for infrastructure and development of small and medium-size enterprises (SMEs), among other goals. An additional €1.37 billion arose from the many programmes of the European Neighbourhood Instrument, including for anti-corruption, macroeconomic stability, democratic reforms and energy efficiency. Meanwhile, the EU External Investment Plan (EIP), which looks to mobilise public and private investment, has channelled more than €200 million to Ukraine through the Neighbourhood Investment Platform (NIP). Finally, €110 million was mobilised under instruments contributing to Stability and Peace (IcSP), by the Foreign Policy Instruments (FPI) (EEAS, 2020).

The EBRD has provided €4.3 billion in loans and equity investment since 2014 to reform Ukraine’s banking, agricultural and transport sectors, and to aid SMEs.

To add to this, total EU humanitarian assistance to Ukraine, in the context of the conflict in the Eastern Ukraine, has amounted to €154.8 million. The EU has also provided €190 million for Ukraine’s coronavirus response (EEAS, 2020).

EU countries have also individually made large contributions, with commitments of about €1.7 billion between 2014 and 2017, of which about €1.3 billion was grants, €367 million was loans and €5 million was equity investment. Germany contributed a major share of these commitments, accounting for around €1 billion (of which €786 million has been disbursed). The second largest donor was Sweden with €122 million in disbursements, followed by Poland and the United Kingdom at €118 and €106 million respectively (Anhel, 2019).

The EU and Ukraine have also started implementing the Association Agreement, including the DCFTA, which helped to reorient a substantial part of the Ukrainian trade away from Russia and to the EU (section 5), and facilitated several important regulatory and institutional reforms. The EU has also offered Ukrainian citizens visa-free travel opportunities.

The big question is whether the EU has further meaningful incentives at its disposal without offering Ukraine membership, even in a very distant future (Dabrowski and Zachmann, 2019). The EU should also further open its market for agricultural imports from Ukraine.

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country-ukraine_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/interna
tional-economic-relations/enlargement-and-neighbouring-countries/neighbourhood-countries-ue/neighbour
country-ukraine_en).
9.3 Non-European donors

Non-European countries have also offered generous aid programmes. The US provided Ukraine with $2.2 billion in grants between 2014 and 2018\(^{29}\) (including military aid) and $3 billion in loan guarantees (through three programmes)\(^{30}\). Canada has provided a total of CA$785 million (around $550 million) since 2014 for development, humanitarian and financial assistance, and has employed their Peace and Stabilisation Operations Programme and the Canadian Police Arrangement\(^{31}\). Japan provided Ukraine with a $1.5 billion loan in 2014-2015 (Anhel, 2019).

10 Looking ahead: the remaining reform agenda

Despite some accomplishments and the political engagement of two presidents and four governments, the reform process in Ukraine remains unfinished and, therefore, its results are not sustainable. The political window of opportunity created by Euromaidan and the conflict with Russia in 2014-2016 has been used only partly. The reform process has been too slow and not comprehensive enough, particularly in the institutional and political spheres. Results of presidential and parliamentary elections in 2019 opened a new window of opportunity, which again has been used only partly so far. Efforts have stopped prematurely partly because of the COVID-19 pandemic and partly because of the unexpected change of government at a badly chosen time. At the current juncture, nobody knows how big the damage to the economy of Ukraine and the reform process caused by the COVID-19 pandemic will be, and whether after its end the political window for reform will be opened again and for how long.

Leaving aside speculation, one can present a list of actions and decisions that should be taken to: (i) avoid reversal of reforms implemented so far; (ii) complete reforms in both the economic and institutional/political spheres.

In terms of avoiding reversal, it is important to defend National Bank of Ukraine independence (in monetary policy and banking supervision), the reform of the natural gas sector, and the integrity and professional standards of the newly established anti-corruption institutions and procedures. Unfortunately, they continue to be subject of populist attacks and frequent pressure from various oligarchic lobbies.

In terms of completing reforms, more measures should be taken to enhance the long-term growth potential of the Ukrainian economy and its international competitiveness, and to modernise the Ukrainian state and make it truly democratic and rule-of-law based.

After the COVID-19 shock, Ukraine will need a new round of macroeconomic and fiscal adjustment. In turn, it will require the continuation of the reforms to public sector management, the tax system and tax administration and social policy expenditures (in particular, further reform of the public pension system). In addition, subsidies to ineffective SOEs should be cut (for example, loss-making coal mines should be closed). Partial public-debt relief could be provided by privatisation of SOEs, including state-owned banks and infrastructure enterprises. The privatisation process should be transparent, competitive and opened to foreign investors. Faster liberalisation of agricultural land markets than that determined by the law adopted on 13 May 2020 (section 7) is also recommended.

In terms of sectoral reform, most important is continuation of the reforms to the energy, transportation and other infrastructure sectors. For example, in the electricity sector, there is

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\(^{30}\) See [https://ua.usembassy.gov/u-s-signs-loan-guarantee-agreement-ukraine/](https://ua.usembassy.gov/u-s-signs-loan-guarantee-agreement-ukraine/).
a need to continue privatisation (together with unbundling), to open the system for international trade in electricity, and to abolish household subsidies. Climate policy and budget revenues would benefit from the introduction of a meaningful carbon tax.

Institutionally and politically, five reforms are of crucial importance:

- Continuation of judicial reform;
- Reform of law-enforcement agencies;
- Completion of decentralisation reform, including respective constitutional changes;
- Further reform of election process and rules on financing political parties (from private sources) to reduce pressure from oligarchs on both the legislative and executive branches of government;
- Limit oligarchs’ influence over the mass media (see CEDEM, 2019).

In the context of the unresolved conflict with Russia and the COVID-19 economic shock, Ukraine will need continuous large-scale external assistance associated with strong but well-targeted and measurable conditions. Apart from better aid coordination, one can suggest a clearer division of tasks between the two largest donors – the IMF and the EU. The IMF should continue to play its key role in supporting macroeconomic and fiscal adjustment, public finance management and financial sector reform, while the EU should take the lead in supporting energy sector reform, judicial reform (including anti-corruption measures), reform of law enforcement agencies and public administration, decentralisation and other institutional and political reforms.

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