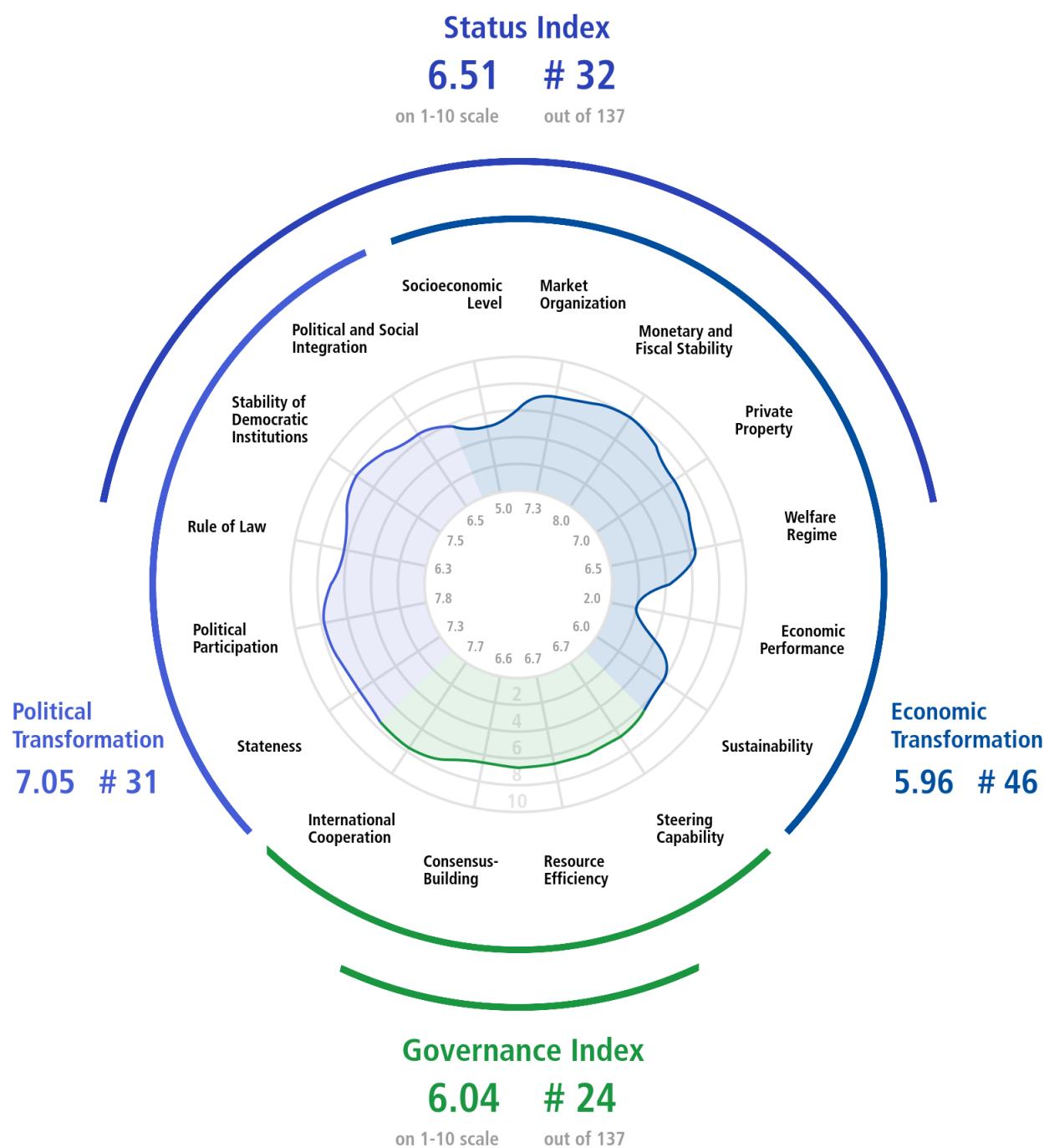


BTI 2024 Country Report

Ukraine



This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	38.0	HDI	0.773	GDP p.c., PPP \$	12671
Pop. growth ¹	% p.a.	-14.2	HDI rank of 189	77	Gini Index	25.6
Life expectancy	years	69.6	UN Education Index	0.787	Poverty ³ %	0.2
Urban population	%	69.9	Gender inequality ²	0.200	Aid per capita \$	50.5

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The full-scale Russian war of aggression has split Ukraine's story into the periods before and after February 24, 2022. Ukraine's resilience in fighting for its sovereignty and free democratic future triggered a tectonic shift in its relations with the EU, granting the country candidate status. An international coalition, comprising democratic states, has been formed to support Ukraine and provide it with humanitarian, fiscal and military assistance on an unprecedented scale. However, the needs have remained even higher.

At some point, Russia occupied up to one-fifth of Ukraine's territory, devastating entire areas with continuous artillery shelling. Russian missiles targeted civilian infrastructure, residential areas, medical facilities and educational facilities. By the end of 2022, one-fifth of the population lived in poverty (an increase from just 2% the previous year), one-third were unemployed (an increase from 9%), and 40% were in need of humanitarian assistance.

The war hit the economy hard. Real GDP dropped by more than 30% in 2022, just after economic growth began picking up following the COVID-19 pandemic. International assistance has become the key to the country's survival after its defense expenses grew tenfold, reaching nearly half of the overall fiscal spending. In 2022, Ukraine received approximately \$32 billion in international funds, not including military assistance.

Within Ukraine, societal support for EU and NATO membership has reached new highs, with over 80% of the population in favor. One major societal divide, attitudes toward Russia, has vanished as society has united against Russia's full-scale war. Since February 2022, about three-fourths of the people have repeatedly expressed their belief that the country is moving in the right direction, compared to just a quarter who felt that way in December 2021. Support for President Zelensky has returned to levels not seen since his resounding victory in 2019. The influence of anti-democratic actors has weakened, particularly those with strong ties to Russia. Concurrently, civil society and social capital have significantly gained strength.

The EU candidate status not only provides a clear and commonly shared anchor but also defines the reform path. The acceleration of judiciary reform, new laws on media and national minorities, and unblocked institutional changes in anti-corruption bodies can be attributed to Ukraine's ambition to join the EU. Sectoral integration with the European Union has also progressed. In March 2022, Ukraine joined the European Network of Transmission System Operators for Electricity (ENTSO-E), while in October, the country became part of the European common transit system.

The structural reforms carried out since 2014 have proven their worth. In 2022, the Ukrainian state has remained fully operational, with the authorities exercising full control over all territories. Thanks to a substantial overhaul of the banking sector, the banking system has remained stable amid the war. Consumer inflation, although accelerating, has stayed lower than during the previous crisis episode of 2014/2015. Pensions and social payments have been carried out without noticeable delays. E-government has helped people access public services despite widespread displacement.

History and Characteristics of Transformation

Since Ukraine gained independence in 1991, until 2014, its transformation was primarily determined by a small group of elites who shaped the institutional framework to serve their own narrow interests. This period saw the emergence of influential industrial-economic groups and oligarchs, accompanied by the development of patron-client relationships between the president and these groups. Additionally, nontransparent large-scale privatization further strengthened this dynamic. Flawed procedures and favoritism led to the sale of numerous large enterprises well below their market value, resulting in what can be described as a “captured state.”

From 1996 until 2005, Ukraine was formally a president-parliamentary system. The second term of Leonid Kuchma (1999 – 2004) was marked by a rise in authoritarian tendencies and informal power dynamics. Multiple demonstrations against his regime galvanized opposition movements, ultimately culminating in the Orange Revolution, which took place at the conclusion of 2004 in response to fraudulent presidential elections. The primary demand of the protesters, which sought free and fair elections, was satisfied. However, only a few expectations and promises relating to increased democracy, transparency and socioeconomic change were fulfilled, leading to public disillusionment.

During the Orange period – between the 2004 and 2010 presidential elections – most Ukrainian governments suffered from internal disunity and constant competition for power. This was facilitated by pervasive corruption and a lack of expertise and checks and balances in the constitution, which was amended in December 2004 and took effect on January 1, 2006. The amendment established a premier-presidential system, reallocating power and competencies between the president, government and parliament.

In February 2010, Viktor Yanukovych won the presidential election, initiating a period of authoritarian restoration. Yanukovych repealed the amendments to the constitution passed in 2004 and returned Ukraine to the president-parliamentary system. Human rights, as well as freedom of expression and assembly, deteriorated. The opposition, harassed by a subservient judiciary, proved weak and unable to resist. When Yanukovych declined to sign the Association Agreement with the European Union in November 2013, spontaneous mass protests broke out. Despite state violence that took the lives of over 100 people, it lasted until the end of February 2014, forcing Yanukovych to flee the country.

That paved the way for overhauling critical public institutions. Unprecedented civic engagement and Western pressure produced essential reforms, resulting in the restoration of the premier-presidential system. The Association Agreement with the European Union was launched, establishing a clear economic reform agenda based on harmonization with EU norms and practices. Yet, resistance to reforms persisted, and old legacies proved resistant to change, leading to a daily struggle to produce positive change.

Until 2014, when Ukraine signed the Association Agreement with the EU, its foreign policy was balanced between Russia and the West. Following the Orange Revolution in 2004, the Ukrainian government moved closer to NATO and the EU, resulting in deteriorating relations with Russia. However, Ukraine's aspirations of becoming an EU candidate and joining the NATO Membership Action Plan did not materialize. Instead, Ukraine became a participant in the European Neighbourhood Policy.

Meanwhile, relations with Russia became increasingly problematic. There were repeated trade conflicts and conflicts over gas deliveries, transit and payments. In 2013, Russia attempted to block the Association Agreement's signature and force Ukraine to join its Customs Union/Eurasian Economic Union. Russia's military aggression, including the occupation of Crimea and a portion of Donbas in the spring of 2014, put an end to the balancing act.

The post-Euromaidan authorities embarked on a clear pro-European course, backed by solid public support for the European Union and, to varying degrees, for NATO.

This course was sustained after the 2019 presidential and parliamentary elections, when Volodymyr Zelensky and his Servant of the People party won by a landslide. However, the political landscape remained challenging, with a growing concentration of power in the Presidential Office, a high turnover of top public officials, and a bumpy reform process.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Since Russia launched its full-scale military aggression on February 24, 2022, the Ukrainian state's monopoly on using force has been further stretched.

Russia forcefully occupied 7% of Ukraine in 2014 and an additional 17% in spring 2022. By the end of 2022, the Ukrainian armed forces had liberated the Chernihiv, Kyiv, Kharkiv and Sumy oblasts, as well as parts of other oblasts in the southeast of Ukraine. However, as of the end of March 2023, Russia still controls 17% of the territory.

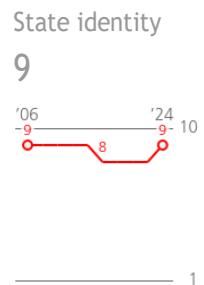
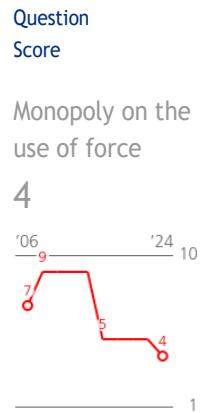
On September 30, 2022, Russia even unilaterally declared its annexation of four Ukrainian oblasts – Luhansk, Donetsk, Zaporizhzhia and Kherson – including large parts of these Ukrainian territories that had not been occupied by its military.

Russia has also adopted the practice of regular missile strikes throughout the territory of Ukraine – resulting in the destruction and damage of numerous civilian infrastructures and causing the loss of tens of thousands of lives or injuries to people.

Moreover, territories that have been de-occupied are heavily mined. In early December 2022, the U.S. State Department estimated that approximately 160,000 km² of Ukrainian land needed to be checked for explosive hazards. This represents nearly half the size of Germany's land area.

Before the Russian military intervention – which started in 2014 – there was no real challenge to the integrity of the Ukrainian state. Throughout Ukraine, identification with the Ukrainian state has been steadily growing, especially since 2014. Opinion polls showed that identification with the Ukrainian state was stronger than other identifications, such as with local or regional bodies.

The reaction of Ukrainian society to Russia's full-scale war of aggression in 2022 has vividly illustrated that even the Russian-speaking regions in the southeast of Ukraine were ready to defend their country. An opinion poll conducted in April 2022 by the Rating Group showed that 80% of society participated in the defense of Ukraine in various forms – joining the military, volunteering, donating – whereas 93% expressed their confidence that Ukraine "will win the war."



Opinion polls on identity have also shown an increasing number of individuals who identify themselves as citizens of the Ukrainian state. According to a poll conducted in December 2022 by the Kyiv International Institute of Sociology in partnership with Ukrainian scholar Volodymyr Kulyk, 95% of respondents stated that they consider themselves Ukrainian (compared to 88% in 2017). This figure surpasses the number of people who speak Ukrainian on a daily basis, suggesting the development of a distinct civic identity in Ukraine that encompasses both Russian speakers and individuals who speak other languages.

Ukraine is a secular state that also guarantees freedom of religion. There are four major churches in Ukraine, with the largest having the most parishes and stakeholders.

One of the largest religious groups in Ukraine, with the most adherents, is the Ukrainian Orthodox Church. It emerged in late 2018 and early 2019, originating from the Orthodox Church of the Kyiv Patriarchate and the Autocephalous Ukrainian Church. The Ukrainian Greek Catholic Church, the second-largest denomination that dominates in the western part of Ukraine, is slightly smaller. The Roman Catholic Church and the Russian Orthodox Church also have significant followings. Other churches account for less than 3% of the population. Additionally, there are Jewish and Muslim communities, as well as a growing number of Protestant and Evangelical groups.

Religious dogmas have no influence on the legal and political order of Ukraine or its legislation or decision-making. Additionally, religious groups do not fulfill any official purposes, and the government does not align with any religious group.

However, church life in Ukraine is affected by developments in Ukraine-Russia relations. A significant shift occurred between the Ukrainian and Russian Orthodox Churches: between August 2021 and August 2022, the number of those who identify with the Ukrainian Orthodox Church grew from 42% to 54%, whereas those who identify with the Russian Orthodox Church fell from 18% to 4%, according to a poll conducted by the Kyiv International Institute of Sociology. This shift is attributed to the perception of the Russian Orthodox Church as an agent of the Kremlin.

In December 2022, the Security Service of Ukraine conducted searches at 13 churches throughout Ukraine that belong to the Russian Orthodox Church. Russian passports, anti-Ukrainian propaganda and a stolen collection of icons were found during these searches. In response, the Ukrainian government and parliament began to debate a potential ban on the Russian Orthodox Church.

While the majority of Ukrainians used to celebrate Christmas on January 7, in 2022 many decided to celebrate on December 25 to distance themselves from Russia. According to a poll conducted by the Rating Group in November 2022, the number of those who support the transition to the new calendar grew from 26% to 44% in one year, whereas those who disagree fell from 58% to 31%. In response to this demand from the people, many churches in Ukraine conducted services on both days.

No interference of religious dogmas

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Despite the full-scale war, Ukraine's public administration has remained functional at all administrative levels on all territories under the control of the Ukrainian government thanks to substantial public administration reforms implemented since 2014. These reforms are aimed at improving public administration efficiency.

The decentralization reform was largely completed in the autumn of 2020, when local elections were conducted based on the new administrative structure. The local authorities received broader responsibilities and higher financial resources to match these responsibilities.

The development of online administrative services brought transparency and higher efficiency to the system, simultaneously narrowing possibilities for corruption. In 2022, the availability of online services simplified access for internally displaced persons and individuals who had left the country.

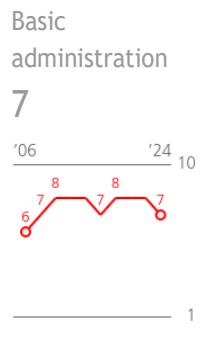
Before the Russian war, 98% of the population had access to running water, and 95% had access to improved sanitation facilities. The situation has deteriorated with the full-scale war, particularly along the frontlines, as Russia has been shelling Ukrainian cities, damaging infrastructure and houses. As of December 2022, housing damage amounted to \$54 billion or 40% of the total direct damage (source: KSE).

Moreover, since October 2022, Russia has targeted the energy infrastructure throughout the country. Prior to 2022, the population had 100% access to electricity. However, these attacks have led to a minimum 25% electricity deficit during the winter of 2022/23, resulting in electricity supply rationing. Nevertheless, the focus has been on restoring public infrastructure and essential utility services. The population and experts have viewed the extent and pace of infrastructure repairs in a highly positive light.

The COVID-19 pandemic and full-scale war have resulted in the widespread practice of distance learning via TV and internet-based formats. However, kindergartens and schools with properly equipped shelters offer face-to-face education, particularly for younger pupils.

The health care system remains operational, continuing to provide all usual services. The system reform launched several years ago has continued.

Public transport is operational, although its schedule and types of transportation available have been adjusted depending on the security and energy supply situation in each habitat. Notably, many cities stopped using electric transport to reduce electricity consumption.



2 | Political Participation

The distribution of political offices occurs through general elections, which are conducted regularly, ensuring universal suffrage and the use of a secret ballot. Multiple parties and candidates with different platforms can participate.

There were no major elections during the reporting period since presidential, parliamentary and local elections took place in 2019/2020. In March 2021 and October 2021, elections took place in four majoritarian districts (in Donetsk and Ivano-Frankivsk regions in March and Kherson and Cherkasy regions in October) to fill four vacant seats in the Verkhovna Rada, Ukraine's parliament. Additionally, elections in one majoritarian district in the Chernihiv region were scheduled for March 2022, as a member of parliament elected in 2019 had died. However, these elections could not take place due to the Russian invasion. According to the Ukrainian constitution, during the state of war declared by the president and confirmed by parliament in February, there will be no elections. The current parliament will serve until the war ends.

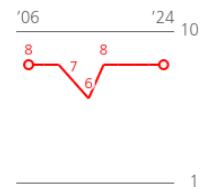
Democratically elected political representatives have the effective power to govern at the central and local levels. This has been particularly evident since the full-scale war of aggression began in February 2022, when, despite the war and massive destruction of critical infrastructure, including heavy cyberattacks, Ukrainian public institutions continued to work efficiently and coherently.

During the review period, President Zelensky and his office, following their decisive victory in the 2019 presidential and parliamentary elections, have consistently consolidated control over both the legislative and executive branches of power. There have been cracks in his Servant of the People party, and it often needed votes from other parliamentary groups (those representing oligarchic interests) to pass legislation. While Zelensky's popularity had diminished by early 2022, he continued to be the politician with the highest popular support. His office continued to control appointments to critical positions and the legislative process; since the invasion in February 2022, when Zelensky demonstrated his ability to lead the resistance of the Ukrainian people, his popularity skyrocketed (tripled), with 91% support.

The power of influential business people, so-called oligarchs, and their control over mass media have been weakened. Legal regulations have restricted their influence on decision-making. The immense popularity of President Zelensky, combined with the ongoing state of war, has limited their ability to maneuver politically. Furthermore, anti-corruption measures have added to the pressure. Additionally, the Centre for Economic Strategy in Kyiv reports that oligarchic groups have lost between 11% and 62% of their assets due to the war.

Free and fair elections

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Effective power to govern

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The Western partners, primarily the United States, the European Union and other countries that have supported Ukraine, wield some veto power in Ukrainian politics as the country relies on their military, financial and humanitarian support, as well as sanctions against Russia. Their conditions – particularly those pertaining to combating corruption and reforming the judiciary – combined with pressure from Ukrainian civil society, have resulted in several significant reforms.

The freedoms of association and assembly are guaranteed in the constitution and have been widely respected since the transition of power after the Revolution of Dignity in 2014, except for the periods of strict lockdowns intended to prevent the spread of COVID-19. However, peaceful gatherings held outdoors were not restricted, as confirmed by numerous protests carried out in 2021.

The presidential decree “On the introduction of martial law” from February 2022 permits restrictions on constitutional rights, including the right to peaceful assembly as guaranteed by Article 39 of the constitution of Ukraine. Consequently, peaceful assemblies are typically permitted, provided they are registered in accordance with the law. However, they can be prohibited in three circumstances: 1) by court order, 2) when there are violations of public order at the behest of the police (in accordance with the law “On the National Police”), and 3) when prohibited by military command or military administrations (in accordance with the law “On the Legal Regime of Martial Law”).¹

Thus, peaceful gatherings took place in different parts of Ukraine, often organized by relatives of Ukrainian prisoners of war in Russian captivity (for example, Azov fighters) or on other occasions, such as protests against the demolition of historic buildings (mostly before the invasion). There were no reports of major violations of the right to assembly by human rights organizations. However, curfews have become a regular practice in Ukraine, with restrictions on going out at night or occasionally during the day, when required by the security situation.

Freedom of expression and the prohibition of censorship in Ukraine are guaranteed by the constitution and a number of laws. Violations take place, but they are well reported by the media and recorded by civil society organizations.

Thus, the Institute of Mass Information (IMI – an independent Ukrainian media NGO) recorded 197 violations in 2021 (compared to 229 in 2020). In 2022, the IMI recorded 97 cases of violations of freedom of speech for which the Ukrainian side was responsible. This number is significantly lower than in 2021 and in previous years. The main categories of violations in 2022 were obstruction of legitimate journalistic activity (32 cases) and restriction of access to public information and cybercrime (21 cases each). One of the main violations in 2022 was the shutdown of the broadcasting of Pryamyy, Channel 5 and Espresso channels linked to the former president of Ukraine, Petro Poroshenko, or the T2 digital network.

Association / assembly rights

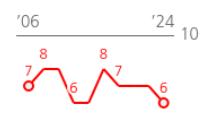
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Freedom of expression

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Additionally, 470 violations were recorded in 2022, for which Russia was responsible. During this year, 43 media workers lost their lives in various circumstances related to Russia's military aggression. At least 216 media outlets also terminated their work, either through military occupation by Russia or due to other factors such as destruction and economic factors.

At the end of February 2022, shortly after the war began, several media outlets agreed to collectively broadcast a single telethon, United News #Uarazom, under the auspices of public TV. On March 19, President Zelensky formalized this arrangement by enacting the corresponding decision of the National Security and Defense Council of Ukraine. During the telethon, each participating channel broadcasts for six hours in a rotating manner. The evaluation of this practice is mixed. On one hand, it has aided in consolidating reporting on the war and marginalizing disinformation. On the other hand, it has curtailed freedom of speech. Consequently, Poroshenko's TV channels were not permitted to join the telethon and were barred from broadcasting altogether, as previously mentioned.

In December 2022, parliament adopted – and the president signed – a new law on media. The adoption of this law was a requirement of the European Union, which also required Ukraine to be granted candidate status. While the law meets EU requirements and is praised by the European Union, the National Union of Journalists of Ukraine points out that the planned expansion of the powers of the National Council on Television and Radio Broadcasting as a regulator contradicts the principles of openness, information accessibility, freedom of dissemination and prohibition of censorship. Additionally, according to the Union, the National Council currently operates as a government body and is not an independent regulator, lacking any quotas for journalists, media industry representatives or consumers.

3 | Rule of Law

The Ukrainian constitution provides for the separation of powers. However, since Zelensky became president in April 2019 and his party won the majority in parliament in July 2019, the formal separation of powers has weakened. The Office of the President has become the almost singular authority for decision-making, with parliament supporting presidential initiatives and the government being practically wholly subordinated to the Office of the President.

The situation has been exacerbated since Russia's full-scale war of aggression and the introduction of martial law. However, in times of war, this unity and coherence of state institutions have become a matter of survival and proven to be efficient. Moreover, in a semi-presidential system like that of Ukraine, where the constitution requires the government to have the support of a majority in parliament, such cooperation is the logical outcome – fully in line with the constitution and democratic standards – of a situation where the president and the majority in parliament belong to the same political party.

Separation of powers
5
'06 ————— '24 10



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A larger challenge to the constitutional separation of powers arises from the conflict between the president and the Constitutional Court. In 2021, the constitutional court ruled a crucial portion of the anti-corruption legislation unconstitutional – on dubious grounds and with clear conflicts of interest, as the legislation also affected judges at the court. In response to this ruling, the president dismissed and appointed judges in violation of the constitution. A new law on reforming the Constitutional Court, enacted in December 2022, was intended to resolve the conflict. However, the law has faced criticism from the Venice Commission of the Council of Europe, the European Commission and Ukrainian experts for granting the president and the parliamentary majority excessive power and discretion over judge appointments.

The judiciary in Ukraine has been one of the country's most corrupt state institutions, governed by vested interests. It is accorded very low levels of trust by the population. Despite considerable pressure from civil society, foreign investors and Ukraine's Western partners, efforts to reform the judiciary have experienced significant setbacks. The sector is largely captured by the old-guard judges, who, in tandem with vested interests, have proactively sought to undermine reforms. Presidents Poroshenko and Zelensky initially attempted to reinvoke the judiciary reform but failed.

However, in the summer of 2021, a major breakthrough occurred. In mid-July 2021, parliament adopted legislation to relaunch the deeply compromised High Qualification Commission of Judges (HQCJ) and High Council of Justice (HCJ). The overhaul of these two bodies is key to the successful reform of the judiciary. The HCJ, as the main body in the system of judicial governance, has full control over the appointment, promotion and dismissal of judges. The HQCJ is responsible for the selection of future judges and vetting current judges who do not meet professionalism and integrity criteria. Once operational, these institutions can completely transform the corrupt judge corps. The task is enormous – they have to recruit at least 3,000 new judges and assess the qualifications of current ones.

The key element of success is the legal provision to engage independent international experts in the selection process. In both cases, the six-member selection commissions – the ethics commission in the case of the HCJ – will include three foreign experts each. The selection commissions will screen the candidates for integrity and shortlist them. Both selection commissions were established, and, despite having been interrupted by Russia's full-scale war of aggression, they resumed their work later in 2022. As of January 2023, 15 of the 21 members of the HCJ had already been recruited, making it fully operational, while for the 16 positions in the HQCJ, the selection process was ongoing, with a final decision expected in March 2023.

The only setback for judicial independence was the adoption of the law on the Constitutional Court of Ukraine (CCU). In December 2022, parliament passed and Zelensky signed the bill to reform the CCU. His signature came a day after the Venice Commission officially declared that the reform did not meet European standards. The



law is written in a way that allows the authorities to ignore the opinion of the Advisory Group of Experts, which will carry out a professional and integrity assessment of candidates for judges. Moreover, the opinion of independent international representatives of the advisory group can be ignored.

At the same time, the High Anti-Corruption Court of Ukraine, established in 2019 with judges selected through rigorous and transparent procedures, has remained the sole genuinely independent court in Ukraine, at least for the time being.

Due to the establishment of the High Anti-Corruption Court of Ukraine in 2019, the first high-level convictions have taken place. In 2020 and 2021, two members of parliament/members of the government, two members of local elected authorities, four judges, one prosecutor, seven representatives of state enterprises, four lawyers and 13 other individuals were convicted.

The number is low because the Specialized Anti-Corruption Prosecutor's Office was almost dysfunctional from August 2020 to July 2022, and it did not have its head during that period. This office is the only institution authorized to submit cases to the Special Anti-Corruption Court. The deliberate blocking of the appointment of a new head was aimed at preventing convictions.

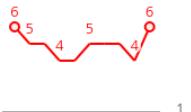
Since the appointment of the new head in July 2022, prosecution of high-level corruption has intensified. In several important high-level cases, reports of suspicion were submitted and detentions took place. The intensity of the work in the second half of 2022 suggests that a serious process of fighting high-level corruption is underway. The decisive factor has been the political will on the part of President Zelensky to give a free hand to anti-corruption institutions. This was stimulated by the high level of demand from society, as confirmed by opinion polls, and the pressure from Ukraine's Western partners, particularly in the context of EU recommendations regarding Ukraine's candidacy for membership.

The level of respect given to civil rights has generally remained high. Freedom of movement and freedom of religion are mostly guaranteed. Discrimination based on race, skin color, political and religious beliefs, gender, age, disability, ethnic and social origin, family and property status, place of residence and language is prohibited by law.

The Criminal Code of Ukraine imposes liability for importing, producing, or disseminating products that propagate violence and cruelty, including those that advocate racial, national, or religious intolerance or discrimination is a significant concern within political science. However, equality before the law is not consistently ensured due to the ongoing issue of corruption among the judiciary and law enforcement authorities.

As a consequence of the introduction of martial law since Russia's invasion, the authorities can legally introduce temporal limitations on civil liberties. Ukrainian human rights organizations did not report abuses in this regard but focused on documenting war crimes committed by the Russian military.

Prosecution of
office abuse
6
'06 _____ '24 10



Civil rights
7
'06 _____ '24 10



The president and parliament initiated a discussion regarding the banning of the Russian Orthodox Church, which is seen as an agent of the Kremlin. Moscow Patriarch Kirill aggressively supports the Russian political leadership and the war against Ukraine. In December 2022, the Security Service of Ukraine found a significant amount of compromising material during searches. This discovery may indicate that the Russian Orthodox Church is an instrument of Kremlin's hybrid warfare rather than an independent religious institution, despite officially separating from the Moscow Patriarchate in May 2022.

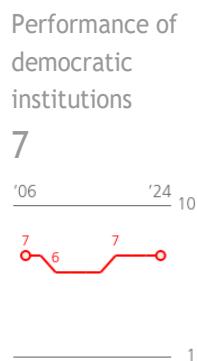
4 | Stability of Democratic Institutions

The democratic institutions re-established after the Revolution of Dignity in 2014 have performed their functions, although frictions remain. Despite significant efforts to construct proper checks and balances, vested interests have been interfering regularly.

For example, there were numerous attempts to undermine the work of the National Anti-Corruption Bureau and the Specialized Anti-Corruption Prosecution. In the latter case, the appointment of its new head was delayed for over half a year because the selection committee blocked the appointment of the winner of the transparent competition. The appointment of the new head succeeded only in July 2022 due to strong pressure from the European Union and after Zelensky called on the authorities to take action.

Similar problems have interfered with efforts to reform the judicial system. In all these cases, vested interests blocked progress and attempted to sideline strong civil society oversight. The pressure from Western partners and the conditionality of the European Union were primarily responsible for yielding some success. Consequently, the functioning of democratic institutions in national politics has become somewhat more effective by the end of 2022.

Moreover, local authorities are increasingly proactive and citizen-oriented in their policies as a result of the decentralization reform initiated in 2015. Regional governments also function well under the conditions of martial law. Some allegations of corruption at this level, related to humanitarian assistance, led to the replacement of heads of regional governments. The public administration, in general, has improved performance thanks to digitalization and online services.



All influential political actors formally and rhetorically accept democratic institutions. No political force claims that democracy is alien to Ukraine or that it has been imposed from outside.

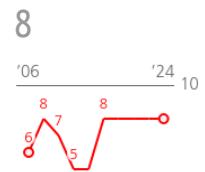
However, in practice – there is a temptation to misuse and abuse political power – and therefore undermine democratic principles. Many political actors seem unaware of basic ideas within a democratic system, such as respect for divergent views. Additionally, there are numerous examples of undemocratic behavior occurring within democratic institutions.

Moreover, some democratic institutions are not accepted as legitimate on the basis of accusations that they are prone to corruption and political bias. This includes a large part of the judiciary (including the Constitutional Court), law enforcement and the civil service.

Associations, civic organizations and the military work within democratic norms, while some interest groups – such as oligarchs or influential corrupt individuals – still prefer informal networks to advance their interests.

However, it must be noted that with the onset of the full-scale Russian war, the influence of vested interests and oligarchs has diminished in Ukraine. Support for democracy and EU membership among the population has significantly increased, effectively becoming unanimous.

Commitment to democratic institutions

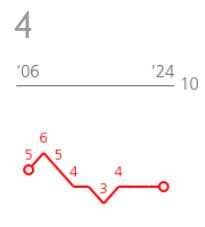


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5 | Political and Social Integration

The party system in Ukraine is highly unstable and volatile. There are numerous political projects – rather than parties – that appear and disappear depending on the prevailing circumstances. They have no obvious programmatic differences and continue to be primarily political vehicles for the particularistic interests of leading politicians or businesses, rather than aggregating and representing societal interests. Overall, the battle lines between parties are blurred and change frequently, driven by power interests rather than ideology or party programs. In the parliament of the current convocation, five parties are represented, three of them having been created shortly before the elections.

Party system



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It is telling that since the full-scale Russian war against Ukraine, the popularity of President Zelensky has risen strongly, while support for political parties has remained at a very low level. According to a representative poll conducted by the Democratic Initiatives Foundation and Razumkov Center in August 2022, trust in the president stood at 80%, whereas it was only 15% for political parties and 35% for parliament.

Russia's full-scale war of aggression has had implications for how parties operate in Ukraine. Since the invasion, pro-Russian parties – 16 in total – have been banned by the courts. The basis for this was the adoption of a law in May 2022 that bans pro-Russian parties. Earlier, in April 2022, the National Security and Defense Council of

Ukraine terminated the second-largest faction in parliament – the “Opposition Platform–For Life” – after which 43 members of parliament of the faction created two smaller parliamentary groups or became independent members of parliament. Several members of parliament of the group were deprived of Ukrainian citizenship and consequently lost their mandates. The very party was banned by a court decision in June 2022.

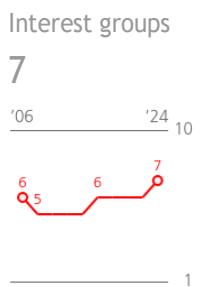
Ukrainian society is highly pluralistic, and a wide range of interests are represented in various ways. Until recently, representation capacity has largely relied on financial resources. However, this dynamic may potentially shift in light of the ongoing war.

Until recently, financial and industrial groups and oligarchs were well represented in decision-making processes, although this took place mostly through nontransparent channels. These groups used to own popular media outlets, finance political parties and influence government decision-making through informal channels. As outlined before, the political influence of oligarchs has been significantly reduced over the course of 2022.

Civil society and independent media have gained significance in Ukraine, representing the demand for a corruption-free state, justice and the rule of law. They have learned from various platforms and coalitions and have established good communication channels with Western partners of Ukraine. The latter ensure that civil society demands are included in the agendas of the Ukrainian authorities.

Volunteers, another group that became prominent in the aftermath of the Euromaidan in 2014, gained much greater significance in the wake of the full-scale military aggression. There is an array of such groups that do not necessarily coordinate their work but have each established their own demand-supply channels (identifying demand, for example, on the front lines, collecting donations and organizing deliveries). Due to the increased significance of internet social networks, they have developed a remarkable mobilization capacity.

Despite relatively high levels of formal membership in trade unions, these unions have played only a marginal role in promoting employees’ interests. Although consumers in Ukraine, potentially the largest interest group, have not been sufficiently organized to influence policy, they do play a watchdog role in terms of market oversight. Business associations have become more active in representing their interests to the government. However, other societal interests are less well represented. Interest groups representing ethnic, nationalist and religious interests have not played a policy role in Ukraine.



The people of Ukraine generally endorse democratic norms. However, if, before 2014, slightly less than half of the population – and after 2014, slightly over half – agreed that democracy is the best governance system for Ukraine, in 2022 this indicator reached its historical peak of 64% of support (according to a poll conducted regularly since 2004 by the Democratic Initiatives Foundation).

Moreover, in another poll (conducted by the Kyiv International Institute of Sociology in August 2022), an overwhelming majority of 95% declared that in the current situation, it is “important for Ukraine to become a fully functioning democracy” (though they may not necessarily believe that democracy is the best governance system per se). The figure was up from 76% just nine months earlier.

Also, since the beginning of the full-scale war of aggression, popular trust in state institutions has increased. According to a poll conducted by the Razumkov Centre in September 2022, Ukrainians have the greatest trust in the armed forces (96% fully or somewhat trust them; 71% in 2020), the president (82%), humanitarian and charitable organizations (78%), the church (70%), and the police (55%). The attitude toward the government of the country is controversial (51.5% express trust in it, but slightly less – 48% – express distrust; in 2020 only 19% trusted). Similarly divided opinions exist for television (51% trust and 49% distrust, respectively) and the press (49% trust and 50% distrust, respectively).

Distrust is most often expressed in political parties (77% do not trust them), courts (72%), banks (66%), trade unions (64%), and the Verkhovna Rada of Ukraine (60%).

According to the same poll, the share of people who believe they can have influence on developments in the country also grew – from 35% in 2020 to 44% in 2022.

The growth of social capital in Ukraine in recent years has been remarkable. The trend has its roots in the Euromaidan protests, during which civil society organizations, voluntary initiatives and ordinary people played a decisive role, as opposed to political parties. Immediately following the Euromaidan, in response to Russian aggression in 2014/2015, people were enthusiastic about donating to the army and providing support to battalions of volunteers and individuals displaced by the war.

The COVID-19 pandemic also served as a mobilizing factor for civil society, which substituted for the state in providing hospitals and medical institutions with equipment and protective gear.

Following the invasion of 2022, voluntary activism in Ukraine reached its peak. Opinion polls confirm that a majority of people are actively involved in voluntary or philanthropic activities. In 2022, 86% of Ukrainians engaged in philanthropy. This represents a 19% increase compared to 2021 and a 26% increase compared to 2016. Among those who participated, 86% provided assistance to the army, while 67% supported internally displaced persons and others in need. Financial support remains the most popular form of assistance, with 76% of donors contributing in this way. Donations of food, clothing and hygiene products rank second, with 69% of

Approval of democracy

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Social capital

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'06 _____ '24 10



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participants giving in this manner. Donations of services or labor are in third place, comprising 45% of contributions. Importantly, despite the economic hardships caused by the war, the average charitable contribution has increased more than ninefold since 2021, from UAH 1,046 to UAH 9,730 (according to a poll conducted by the Zagoriy Foundation and Socioinform agency).

Volunteers are the third-most trusted group in society, following the armed forces and the president. In December 2021, the level of trust in volunteers reached 68%. However, by December, that level had significantly increased to 84% (Kyiv International Institute of Sociology).

To acknowledge the invaluable role of volunteers, a special annual prize, known as the Golden Heart, was introduced in December 2022. This prize recognizes the dedication and commitment of volunteers. In 2022, a total of 50 voluntary teams/organizations were awarded the prize.

II. Economic Transformation

6 | Level of Socioeconomic Development

The real disposable income of households grew in 2020/2021 despite the COVID-19 pandemic, thanks to moderate inflation, an inflow of remittances and a continued growth of wages. Wage growth was boosted by the regular increase in the minimum wage and intensified competition for workers with EU neighbors. In 2021, households' real disposable income grew by 9.2% after experiencing a 4.5% growth in 2020.

In 2021, only about 4.5% of the population had a disposable income below UAH 3,000 (then approximately €100) per month, which is close to the national subsistence minimum. In 2020, this percentage was 8.3%. According to the World Bank, the poverty rate before the full-scale Russian war of aggression was 2%.

According to the latest World Bank estimate, the Gini coefficient for Ukraine is 25.6, indicating a relatively equal income distribution. Ukraine's position on the Human Development Index (HDI) slightly worsened. In HDI 2021, the country ranked 77th out of 191, with a score of 0.773. Nevertheless, the country's overall loss in HDI due to inequality is 6.1% – one of the world's lowest.

The Gender Inequality Index score remained relatively stable at 0.200 in 2021, compared to 0.198 in 2020 and 0.205 in 2019. Women have equal access to education, social protection, and the labor market, and they have recently gained stronger representation in both local and national parliaments. However, women still tend to receive lower wages, and the risk of poverty is considerably above-average for single mothers.



There are no specific social barriers associated with religion, but social exclusion is registered for some ethnic minorities, like Roma. In addition, disabled individuals and people living with HIV/AIDS continue to face social exclusion.

Russia's full-scale military aggression, which began in 2022, has had a devastating economic and social impact, jeopardizing lives, depriving people of their property and jobs, and forcing millions to move to other regions or leave Ukraine entirely. According to the World Bank, poverty could have risen tenfold in 2022. However, the state social safety nets continued to function, complemented by international humanitarian aid and support from volunteers.

Nevertheless, against the backdrop of rising social trust and civil society activism in reaction to the Russian war, this poverty cannot be treated as a factor of social exclusion. Moreover, as poverty is a consequence of the war, it is not structurally ingrained.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	153883.0	156617.7	199765.9	160502.7
GDP growth	%	3.2	-3.8	3.4	-29.1
Inflation (CPI)	%	7.9	2.7	9.4	20.2
Unemployment	%	8.2	9.5	9.8	-
Foreign direct investment	% of GDP	3.8	0.2	4.0	0.2
Export growth	%	7.3	-5.8	-8.6	-42.4
Import growth	%	5.7	-6.4	14.2	-18.5
Current account balance	\$ M	-4124.0	5267.0	-3882.0	7860.0
Public debt	% of GDP	50.4	60.5	48.9	78.5
External debt	\$ M	124878.9	132312.7	135643.3	-
Total debt service	\$ M	13953.1	17375.8	14488.2	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	-1.7	-5.2	-3.5	-
Tax revenue	% of GDP	19.2	19.2	19.1	-
Government consumption	% of GDP	18.8	19.3	17.7	38.2
Public education spending	% of GDP	5.4	5.4	5.7	-
Public health spending	% of GDP	3.2	3.8	-	-
R&D expenditure	% of GDP	0.4	0.4	0.3	-
Military expenditure	% of GDP	3.5	3.8	3.2	33.5

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Essential elements of a market economy are in place. Market entry is generally a quick and easy process. It is possible to register a new business online. The registration of private entrepreneurs in Dija, the e-governance application in Ukraine, takes about 10 minutes, mostly to fill out forms, and is free of charge.

The resolution of insolvency has remained more problematic, despite the enactment of the new Bankruptcy Code in April 2019.

Since 2015, Ukraine's government has taken essential steps toward deregulation with a sharp reduction in the number of licenses and permits. Most administrative services for businesses are available online. Russia's full-scale war of aggression has further fostered the use of e-governance services. According to the Index of Economic Freedom by the Heritage Foundation, Ukraine is moderately free in business regulation, scoring 61.1 out of 100 in 2022.

Most prices are liberalized. However, in response to the growing prices in 2021/2022, the government reintroduced a maximum retail margin for several socially sensitive products, namely bread, gasoline and diesel.

Designated regulatory bodies regulate utility, energy and telecommunication tariffs. The independence of the energy market regulator has been strengthened; however, establishing market gas prices for households has remained politically sensitive. With the war in 2022, household utility tariffs were again fixed to mitigate the economic shock.



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Ukraine adopted current account convertibility under the IMF's articles in 1997. The country's national currency, the hryvnia, is not fully convertible. Foreign currency regulation became very liberal from 2019 to 2021, but capital controls were reintroduced in February 2022 in response to the economic shock of the full-scale war.

Foreign companies receive necessary guarantees: (a) foreign investment cannot be nationalized or subjected to requisition, except in the event of an act of God, and in this case, investors have the right to restitution of losses; and (b) investors have the right to unimpeded repatriation of profits, dividends and investments after all dues are paid.

In 2021, the Ministry of Economy estimated the size of the shadow economy at 32%, a slight increase compared to 30% the previous year. The share of informal employment, estimated using the ILO methodology, was below 20% in 2021, just one notch lower than 21% in 2019. There are no shadow economy estimates available for 2022, though it is likely that it increased amid the war's economic hardships.

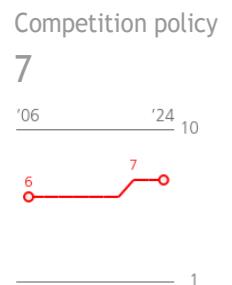
However, the economic power of oligarchs was curtailed in 2022. According to a recent study from the Centre of Economic Strategy in Ukraine, the peak of oligarchs' financial might occurred in between 2011 and 2012, specifically during Yanukovych's tenure. At that time, they possessed nearly 16% of the economic assets in the country. However, by 2022, their share had diminished to 11%.

Critical components of a competition policy framework are in place. The Anti-Monopoly Committee of Ukraine (AMCU) is responsible for preventing unfair competition and abuse of market power, as well as controlling concentration and collusion. It also oversees price-setting in natural monopolies and ensures competition protection in public procurement. Recently, the AMCU has become a prominent authority in monitoring and authorizing state aid, though it still needs to further develop its capacity in this area. The AMCU is a member of the International Competition Network (ICN).

Since 2005, a public (advisory) council has overseen the activities of the AMCU (Antimonopoly Committee of Ukraine). The council is made up of 38 members who represent Ukraine's prominent industry associations and NGOs (non-governmental organizations).

Ukraine has made progress in implementing the commitments of the EU Association Agreement in competition policy, specifically in the areas of transparency and accountability. The decisions of the Antimonopoly Committee of Ukraine (AMCU) are now openly published, and the methodology for imposing sanctions has been enhanced. Nevertheless, additional measures are anticipated to bolster the independence and authority of the AMCU. The corresponding draft legislation is currently under consideration in parliament.

Independent national commissions regulate price settings in energy, utilities and telecommunication; however, vested interests still have informal power, particularly in the oil, gas and electricity markets.



Ukraine's foreign trade activities are generally quite open, with a few exceptions. As of now, the ongoing war has had a limited impact on the country's trade openness.

The country has been a member of the World Trade Organization (WTO) since 2008. Ukraine has several free trade agreements (FTAs), including a multilateral Commonwealth of Independent States (CIS) FTA and bilateral FTAs with all CIS members (excluding Russia). Additionally, Ukraine has FTAs with the European Free Trade Association (EFTA), Canada, North Macedonia, Montenegro, Israel, and the United Kingdom (UK), as well as the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union (EU). In February 2022, an FTA with Türkiye was signed. Furthermore, Ukraine is currently in negotiations for additional FTAs, with the most recent talks – specifically with the United Arab Emirates (UAE) – being launched in late 2022.

The average MFN applied tariff rate is 9.2% for imports of agricultural products, while for non-agricultural goods it is 3.7%. Trade-weighted averages are lower, given extensive free trade agreements. The majority of import tariffs are ad valorem. Ukraine uses only one global tariff quota on raw cane sugar.

Export duties apply to only a few products, including oilseeds, live animals, hides, natural gas and metal scrap. The rates are moderate, in line with the WTO commitments. However, since mid-2016, Ukraine has temporarily increased export duties on metal scrap. The decision has raised concerns over its compatibility with WTO commitments, but so far, it has not been challenged in the WTO. In trade with the EU, export duties are applied in line with the DCFTA commitments.

Import and export licenses are required for a limited number of goods, and the number of these licenses is decreasing. At present, licensing is primarily applied to trade in ozone-depleting substances. The Cabinet of Ministers annually approves the list of goods that necessitate licenses for foreign economic transactions.

The number of quantitative export restrictions remained low. In 2015, Ukraine imposed a 10-year ban on exports of wood logs, including to the EU. In late 2020, the European Union won the arbitration regarding this measure, although the implementation of the arbitration decision is pending.

Ukraine has progressed in reforming trade-related measures that could constitute non-tariff barriers to trade. It harmonized technical barriers and sanitary and phytosanitary-related regulations and moved forward on customs reforms.

Since the Russian invasion, the country has introduced several new trade restrictions. However, these restrictions have been mostly short-lived or quite specific. Notably, the permission to transfer foreign currency to pay only for critical imports became obsolete quickly. Within a month since its launch on February 24, the list of essential imports increased from about one-third to over 90% of all imports. The regulation was canceled for goods in July while still in place for some service imports. At the same time, the government simplified imports of energy-generating and related equipment.

Liberalization of foreign trade

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In 2022, export bans were introduced for table salt, buckwheat, natural gas of Ukrainian origin and fuel oil. Additionally, exports of anthracite and coking coal were subject to quotas. Export licensing was introduced for several types of meat, cereals, sugar and fertilizers.

Ukraine has a two-tier banking system, with the National Bank of Ukraine (NBU) serving as a supervisory and regulatory body, and commercial banks serving economic actors and private households.

The NBU's independence has remained strong despite some political hurdles. Nevertheless, the commitment to upholding the NBU's independence and institutional effectiveness has remained among the critical components of IMF requirements for Ukraine.

At the end of 2022, there were 67 licensed banks, including 30 banks with foreign capital. The clean-up of the banking system, conducted from 2015 to 2016, resulted in a significant improvement in the stability, transparency and accountability of the banking system. This improvement enabled the system to navigate the COVID-19 pandemic without significant disruption and also withstand the devastating impact of the war on the economy.

The reforms included beneficiary disclosure, regular stress testing with the publication of results, and improved supervision. The new legislation increased creditors' rights and consumer protection in the financial sphere. The banking system applied international standards of accounting and management.

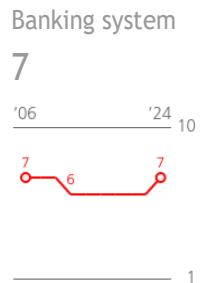
In July 2020, the NBU took over regulation of non-bank financial institutions from the dissolved Financial Securities Commission. This is expected to enhance oversight of insurance and non-bank credit institutions and expedite harmonization with EU norms in these sectors.

Ukraine has been implementing parts of MiFID/MiFID II regulations embedded in its law on securities – a new version adopted in 2019/20.

The leading indicators of the banking system remained sound in 2022 despite the war. The adequacy of regulatory capital (H2) was approximately 20% at the end of 2022, compared to 22% at the end of 2020 (minimum 10%); other adequacy criteria also stayed within the required limits. According to the World Bank, the bank capital-to-assets ratio was 6.9% in 2021 – unchanged from 2019.

The nonperforming loans (NPL) were a persistent problem prior to the war, though the situation saw significant improvement. According to the World Bank, the NPL share decreased to 32% in 2021, compared to 51% in 2019. However, the war has altered this trajectory, resulting in an increase in the NPL share to 37% by the end of 2022.

The stock market remained stagnant in 2021/2022.



8 | Monetary and fiscal stability

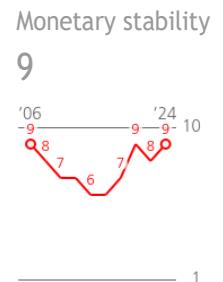
In 2015, legislative adjustments related to the Supervisory Council's functions, budget allocations, National Bank of Ukraine (NBU) audits and various other matters solidified the independence of the NBO. Additionally, decision-making processes within the NBU were solidified. Despite occasional political tensions, the NBU has maintained a consistent and professional policy approach.

However, when the head of the NBU, Kyrylo Shevchenko, submitted his resignation in October 2022, he claimed that he was pressured to "make decisions that I consider harmful to the financial stability of the state and a threat to the institutional independence of the NBU." Faced with criminal proceedings by the anti-corruption authorities, which were unrelated to his time at the NBU, Shevchenko left Ukraine soon after his resignation.

Before Russia's full-scale war of aggression, the NBU followed an inflation-targeting policy. In 2020, this target was reached for the first time since the policy was introduced in 2016. However, in 2021, annual consumer inflation accelerated and reached 10% in December amid growing global prices after the COVID-19 crisis. In response, the NBU increased the policy rate from 6% (maintained since June 2020) to 6.5% in March 2021 and gradually to 10% in January 2022. The prewar exchange rate was flexible, though relatively stable.

The war changed the NBU's policy as the central bank had to cope with the crisis. The NBU fixed the exchange rate and introduced capital controls to avoid panic. Initially, the rate was set at the prewar level. However, in June, the NBU devalued the Ukrainian hryvnia by 25% to UAH 36.57 per \$1, closing the gap between the official rate and a shadow market exchange that had emerged by then. Simultaneously, the policy rate was increased to 25% to align it with the projected inflation and has been maintained at this level so far. The CPI reached 27% in December 2022 compared to the previous year, showing a better performance than in the 2014/2015 crisis.

Ukraine maintained its cooperation with the IMF, albeit with some frictions. In June 2020, Ukraine signed a new standby agreement for 2020/21, receiving an immediate first tranche disbursement. However, the second tranche was not received until November 2021, after Ukraine had addressed and rectified the fundamental rule of law reforms. The full-scale war intensified the cooperation between Ukraine and the IMF, resulting in two tranches being disbursed within the rapid financing instrument in 2022. Additionally, in December 2022, the IMF approved the Monitoring with Board involvement (PMB) for Ukraine, with the objective of supporting Ukraine's macroeconomic stability and facilitating donor financing.



The extensive international support that Ukraine received in 2022 allowed it to finish the year with \$28.5 billion of international reserves, compared to \$30.9 billion at the beginning of 2022, despite significant spending within the year. These reserves are sufficient to cover approximately 3.4 months of imports.

Fiscal stability was a priority for the government before the war, but since February 24, 2022, it has been subordinated to security and defense considerations.

In 2021, the consolidated fiscal deficit was 3.8%, as the government had provided fiscal stimuli to counteract the coronavirus crisis. Nonetheless, public debt decreased from 60.5% of GDP in 2020 to 48.8% in 2021. The efficiency and transparency of most public expenditures remained high throughout 2021, despite some concerns over the COVID-19 budgetary fund expenditures. The online public procurement system ProZorro has been further developed to harmonize tender procedures with EU norms and practices. The automatic export VAT refunds via a transparent online system continued. Medium-term budgetary planning was launched.

Ukraine's fiscal situation deteriorated significantly in 2022 when the war broke out as the country had to finance its efforts to battle its neighboring aggressor while, at the same time, address growing social and humanitarian needs and encourage businesses to maintain or resume their operations. Notably, defense spending surged tenfold, from UAH 0.1 trillion in 2021 to over UAH 1 trillion in 2022. As a result, the consolidated fiscal deficit reached 17.5% of GDP – an unprecedented level for the country. The public debt surged to 74% of GDP, even though 44% of the pledged \$32 billion of international support was granted.

Given the scope of international support and the widespread perception of Ukraine's fiscal fragility, efforts to monitor international support have been strengthened, with new instruments under preparation to ensure that funds are spent efficiently and to eradicate corruption risks.

9 | Private Property

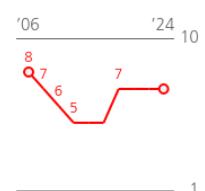
The Ukrainian constitution and the country's civil and commercial codes guarantee private property rights. However, deficiencies in the judicial system and ongoing corruption get in the way of enforcing property rights.

Reform efforts, including the creation of anti-corruption institutions, the ongoing judicial reform, multiple anti-raiding laws and laws strengthening intellectual property rights (IPRs), are gradually improving the general situation. IPR reforms have also proceeded. Ukraine has aligned its legislation with EU norms for patents, industrial sample and trademarks. A law on the state authority for IPR protection has been passed. In 2020, Ukrpatent was assigned these responsibilities. However, a specialized Supreme Court on Intellectual Property was not launched during the review period.

In line with martial law (which was declared at the end of February 2022), some strategic companies, which belonged to Ukrainian oligarchs, were nationalized in November 2022.

Fiscal stability

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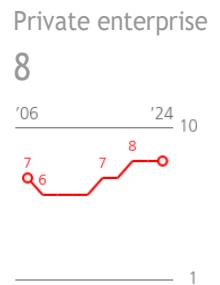


Property rights

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Private companies dominate the Ukrainian economy. A composite index that assesses the share of SOEs by considering factors like income, profit, employment, plus the number of enterprises and assets indicates that SOEs accounted for 10.3% of all enterprises in the first nine months of 2021. This is a decrease from the 11.9% share they held during the same period in 2020. The share of SOEs in sales is about 8%. The state has remained influential in several areas, like energy (Naftogaz) and transport (railways).



SOE corporate governance reform improved the efficiency of several state-owned giants, including Naftogaz and Ukrposhta. However, these achievements were weakened in 2021/2022. In late 2021, the Cabinet of Ministers dismissed the Supervisory Board of Naftogaz, while the new board was appointed only in January 2023.

Moreover, in April 2022, the Verkhovna Rada passed a law to monitor security concerns in the economy. The law, among other things, designates the exclusive site for the management and governance bodies of SOEs as the SOE location, including a supervisory board, where they are to carry out their duties. If supervisory board members fail to arrive at the designated site on time, they may be dismissed. This provision may potentially discriminate against foreign members of the supervisory boards.

Privatization accelerated in 2021 and continued in 2022, despite the war. The privatization receipts reached UAH 5.1 billion in 2021 and another UAH 1.7 billion in 2022.

The SME sector has played a vital role in the economy, although its share declined in 2021 compared to 2019, likely because SMEs were disproportionately negatively affected by the COVID-19 crisis. According to Ukrstat, in 2021 SMEs and individual entrepreneurs accounted for over 99% of Ukraine's enterprises, 55.6% of hired employees and 58.6% of total sales.

The war has adversely affected all economic entities in the country, including SMEs. The extent to which the war impacts differently sized companies remains uncertain. So far, the Kiev-based Institute for Economic Research and Policy Consulting monthly business tendency survey has shown that medium-size companies have been less affected than small and large enterprises.

10 | Welfare Regime

Social safety nets are well developed, although they do not cover all risks. Still, according to the World Bank, almost half of the population has been enrolled in some form of social protection program in Ukraine.

Ukraine's pension system is the linchpin of the country's social safety net. The pension system consists of three pillars, of which only two are operational: a solidarity system (first pillar) and a non-state pension system that relies on voluntary participation (third pillar). The third pillar has faced challenges, including a weak stock market, low income levels and a lack of trust in financial institutions. These challenges have been exacerbated by the economic crisis brought on by the war in 2022. As for the second pillar, which involves compulsory individually funded pension insurance, it has yet to be implemented.

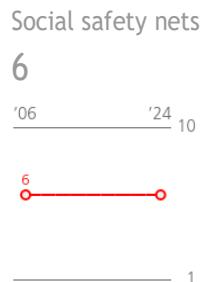
The solidarity pension system is funded by mandatory social security contributions paid by the employed population and transfers from the budget, which include financing special pensions for judges, among others, as well as funds covering the pension fund deficit. In 2021, fiscal transfers to cover the pension fund deficit amounted to \$0.9 billion, which is approximately 5% of the total fund's revenues.

According to the pension fund, there were 10.7 million pensioners registered in Ukraine as of January 2023, which amounts to about a quarter of the prewar population. Due to the war, many pensioners were forced to become internally displaced persons (IDPs) or leave the country temporarily. According to an IOM survey, 1.2 million pensioners, or 21% of all IDPs, became IDPs themselves. As of January 1, 2023, the average pension in Ukraine was UAH 4,623 (€166), which represents a 16% nominal increase compared to the previous year. Despite the war, the pension fund ensured the timely delivery of pensions in non-occupied territories.

Other components of the social safety net include a guaranteed minimum income targeting the poor, subsidies for housing and utilities, the payment of social allowances to single mothers or fathers, social assistance for disabled children and adults who have been disabled since childhood, childbirth grants, and support for internally displaced persons (IDPs). These programs are funded through the budget.

Social protection expenditures – excluding pensions – accounted for approximately 3% of GDP prior to 2022, primarily tied to household subsidies for housing and utilities, as well as the provision of the guaranteed minimum income. In 2022, Ukraine has the potential to sustain this level of expenditure, largely due to the support provided by international financial institutions.

The health care system formally covers the entire population, and essential medical services should be free of charge. However, in 2020, approximately 19% of households said they could not access medical assistance, primarily due to the high costs of drugs and treatment. In 2019, 24% of the population reported the same issue.



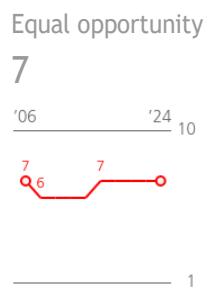
Since 2017, Ukraine has been implementing a comprehensive reform of its health care system in two stages. The first stage focused on primary health care and implemented the principle that money follows patients. This stage introduced a public program that provides essential drugs free of charge or at a significant discount. Additionally, telemedicine was introduced to improve access to medical services. The second stage, specialized health care reform, was launched in 2020 and is currently ongoing. Although some visible progress has been made, representative surveys of the population indicate that corruption remains a significant issue, with approximately half of all patients reporting having to make “additional payments.” The full-scale war worsened the humanitarian situation in the country drastically, placing a significant additional burden on the existing social safety net. The number of internally displaced persons (IDPs) increased from 1.5 million before 2022 to 5 to 6 million individuals by the end of 2022. The fighting and country-wide shelling resulted in extensive damage to private assets. As of the end of 2022, damages included 126,700 private houses, 16,800 residential buildings, and nearly 300 dormitories. At the same time, approximately 40% of the population were in need of humanitarian assistance, according to a United Nations estimate. The proportion of people living below the poverty line increased from 2% to about 20%.

Ukraine has established a legal framework for addressing discrimination. This framework is outlined by the constitution, specific laws – including the Law on Principles of Prevention and Countering Discrimination (2012) – and through participation in international anti-discrimination conventions. However, the implementation of the framework continues to be inadequate, leading to inequality and social exclusion for certain groups.

According to the Human Development Report 2021/2022, Ukraine ranked 59th out of 191 countries in the Inequality-Adjusted Human Development Index (HDI), which is 18 ranks better than its position in the standard HDI.

The United Nations has ranked Ukraine 49th out of 191 countries on the Gender Development Index, which bases rankings on a country’s absolute deviation from gender parity in HDI. Notably, women in Ukraine have a higher life expectancy and more years of schooling, resulting in a higher HDI value for women compared to men. Ukraine boasts a high gross enrollment ratio, with primary education at 99%, secondary education at 96%, and tertiary education at 83%. There is no gender gap in the country’s literacy ratio, and there is equal enrollment in primary and secondary education. However, there are more women than men enrolled in tertiary education. Despite nearly equal labor force participation, men in Ukraine have significantly higher estimated per capita incomes than women. In 2021, women made up 47.8% of the total labor force.

According to the Global Gender Gap Report 2022, Ukraine ranked 81st out of 146 countries, with a score of 0.707. This represented a decline from its 2020 score of 0.721, when it held the 59th rank. The country’s scores were specifically downgraded in the areas of economic participation and opportunity, educational attainment, and political empowerment.



The political empowerment of women in Ukraine is particularly low compared to other aspects of gender equality. According to the Global Gender Gap Report 2022, Ukraine ranks 100th among 146 countries, with a limited representation of women in parliament and ministerial positions.

After the most recent 2019 parliamentary elections, the share of women among members of parliament increased to 21%, nearly double the proportion in the previous legislature. The new Electoral Code establishes a 40% gender quota for party lists in future national elections, commencing in 2023. Gender balancing measures were also implemented with greater stringency for local elections.

The representation of women in government could be higher. There were five females, or 23% of the total number of ministers in the Cabinet of Ministers as of December 2022. However, three out of five deputy prime ministers were female.

In June 2022, parliament ratified the Istanbul Convention on Preventing and Combating Violence Against Women and Domestic Violence with only eight votes against. Previously, ratification had failed in 2016.

The war has a differentiated gender impact. Notably, females dominate among working-age refugees who left the country after February 24, 2022, as males aged 18 to 60 can leave the country only with permission. That puts pressure on the current and future demography.

The sentiment against sexual minorities has changed noticeably in society. In 2015, parliament initially resisted before yielding to an EU conditionality to prohibit workplace discrimination based on sexual orientation. According to polls, the proportion of people with a negative attitude toward LGBTQ+ decreased from 60% to 38%, while the percentage of those with a positive attitude increased from 3% to 13%, and those with a neutral stance rose from 31% to 45%. Responding to an online petition, President Zelensky declared his support for same-sex civil partnerships but noted that a constitutional amendment would not be feasible until the end of martial law (as the constitution prohibits changes during such times).

Social exclusion from education, the labor market and social services is still a concern for the Roma population.

Disabled people and people living with HIV/AIDS face unequal access in society, including limited access to education and employment. People with disabilities are often excluded due to inadequate urban and rural infrastructure, particularly the lack of barrier-free access. The exclusion of individuals living with HIV/AIDS is primarily a result of stigmatization.

11 | Economic Performance

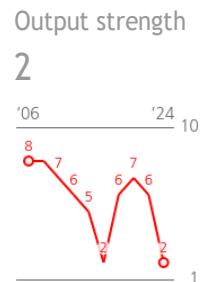
By the end of 2021, GDP per capita in PPP reached \$14,220 – a historical high. The nominal GDP was \$200 billion. However, the gradual post-Covid economic recovery was interrupted by the full-scale Russian war of aggression in February 2022. The war devastated the economy, although Ukraine remained more resilient than expected in spring.

Real GDP declined by over 30% in 2022 after a 3.4% growth the previous year, while the nominal GDP shrank to \$147 million. The CPI accelerated to 26.6% per annum in December 2022, though remaining only half the price surge experienced in 2015 during the previous crisis.

Extensive internal and external migration, involving over a quarter of the population, has put pressure on the labor market. Unemployment has reached 30% in 2022, surging threefold compared to the prewar period.

Thanks to international grants and the continued inflow of remittances, the current account balance turned positive in 2022, despite the significant trade deficit. While exports of goods and services declined, there was a boom in service imports, fueled by refugees' spending abroad. The current account surplus in 2022 was \$8.6 billion (approximately 5.8% of GDP). The net FDI inflow dropped from \$7.5 billion in 2021 to \$0.6 billion in 2022. As of January 1, 2023, international reserves remained at \$28.5 billion, providing coverage for 3.4 months of future imports.

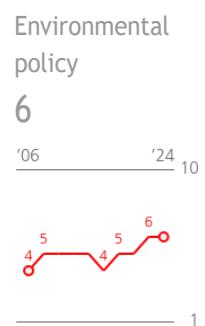
The state debt surged to approximately 74% of GDP in 2022, after having been at 48% of GDP in 2021. Nominally, the debt reached \$111 billion, with 56% of international support being received as long-term credits. Additionally, \$14 billion, mainly from the United States, was granted and was accounted for as fiscal revenues. Ukraine received two tranches of emergency financing from the International Monetary Fund (IMF) and concluded a new non-funded program in late 2022, with the objective of demonstrating cooperation and catalyzing other donors' financing. The new, fully funded IMF program is expected to be initiated in the first half of 2023.



12 | Sustainability

Ukraine's Association Agreement with the European Union and its interest in the EU Green Deal have provided an impetus for environmental policy reforms and increased environmental concerns within society.

Ukraine has adopted a legal framework for environmental policy. Implementation of the State Environmental Strategy 2030, laws on Environmental Impact Assessment (EIA), and the Strategic EIA has already started. The reforms to improve waste management, air quality and water quality have gradually progressed. The law on



monitoring, reporting and verifying greenhouse gas emissions entered into force in 2021. In the same year, Ukraine adopted an energy efficiency law, aligning the national legislation with the EU Energy Efficiency Directive.

In 2022, Ukraine ranked 52nd out of 180 countries in the Environmental Performance Index, demonstrating ongoing improvement compared to the previous assessment. According to the European Energy Community, Ukraine is making significant progress in implementing environmental and climate-related reforms.

However, in 2022, additional policy measures became imperative. On one hand, Ukraine's attainment of EU candidate status in 2022 elevated the importance of aligning its policies with long-term EU standards and practices, including those outlined in the EU Green Deal. On the other hand, the extensive war exacerbated environmental challenges. As of the beginning of 2023, approximately 40% of Ukraine's land, equivalent to around 250,000 square kilometers, requires demining efforts, while the environmental toll of the conflict has reached \$46 billion.

Revisions are also anticipated in the area of energy policy, particularly in the realm of energy efficiency. The occupation of the Zaporizhzhia nuclear power station, the largest in Ukraine and Europe, along with substantial damage done to traditional energy supply networks through the recurring Russian attacks, has generated a heightened demand for self-reliant energy alternatives. These alternatives encompass solar and wind energy sources. The new equipment slated to replace the damaged infrastructure will be state-of-the-art, resulting in enhanced energy efficiency. Moreover, the country is currently reevaluating its future energy strategy with a green transition in mind.

There is an established system of state and private education and training in Ukraine. Primary and secondary education is provided to everybody, including citizens, foreigners and stateless persons.

In 2021 and 2022, public spending on education accounted for approximately 6% of GDP, a figure that is consistent with spending in previous years. Total education expenditures, which included spending on private educational institutions and various professional training facilities not funded by the state, were higher.

In response to the pandemic, many Ukrainians relied on online education and homeschooling. Although this will likely prove to have had a negative impact on the long-term acquisition of knowledge and skills, the experience with online learning became helpful in 2022, when Russia's full-scale war of aggression disrupted education efforts in the country.

According to the Human Development Report 2021/2022, Ukraine has 15.0 expected years of schooling, with an average of 11.1 years of schooling. The years in education are slightly higher for females than for males. In 2021, Ukraine's score on the U.N. Education Index was 0.787, which has remained unchanged since 2019.

Education policy /
R&D

6

'06 '24 10



1

Ukraine has been reforming its educational system since 2014, aiming to integrate into the European Higher Education Area in line with the Bologna Process. The National Agency for Higher Education Quality Assurance has been operational. In 2020, the government revised the National Qualification Framework to align with the European Qualifications Framework classes.

An independent external evaluation of how diplomas for secondary-level schools are conferred has mitigated but not eradicated corruption in access to tertiary education. The security risks brought on by Russia's full-scale war of aggression disrupted efforts to conduct an independent external evaluation of students in 2022. Instead of taking tests dedicated to specific subjects, students could take only one test that evaluated their language, math and history competencies.

While the quality of education provided in Ukraine is good, it receives a middling rank in terms of innovation capacity. Public spending on R&D remains low (less than 1% of GDP). The quality of research varies significantly across different disciplines and institutions. However, recent reforms have forged stronger connections between publishing in internationally recognized refereed journals, citation indexes and compensation.

Additionally, Ukrainian research organizations have remained actively engaged in the EU Horizon 2020 program and its successor, Horizon Europe. Furthermore, many Ukrainian researchers have found internship opportunities abroad when leaving the country as refugees. Looking ahead, these newly established connections hold the potential to facilitate international collaboration and drive innovation.

Governance

I. Level of Difficulty

Ukraine faces many long-term structural constraints, though some have proved increasingly crucial during the review period.

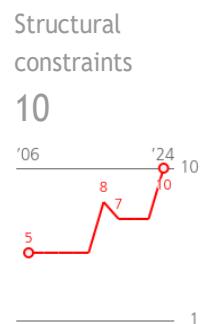
The primary structural constraint stems from Russia's military aggression that began in 2014 and escalated into a full-scale war of aggression in February 2022. In 2014, Russia occupied approximately 7% of Ukraine's territory, but by the spring of 2022, more than a quarter was under Russian control. Nevertheless, Ukraine managed to regain control over a portion of its territory, leaving about 17% still occupied as of January 2023.

As of January 2023 (the time of this writing), the war has resulted in tens of thousands of casualties, including among the civilian population, and triggered significant internal and external displacements, affecting at least a quarter of the population. Infrastructure, homes and production facilities have been destroyed or damaged, amounting to a staggering \$138 billion, which is equivalent to over 90% of Ukraine's nominal GDP in 2022. Some estimates even suggest total losses reaching \$1 trillion. Additionally, disrupted production networks, logistical challenges, including seaport blockades and extensive military pollution are expected to take years to address. Reconstruction funding is an immense burden that Ukraine cannot bear alone, and progress relies heavily on substantial international assistance, private donors and investor funding.

The war has exacerbated an existing demographic crisis in Ukraine, characterized by an aging and shrinking population. According to the UN, the country's population plummeted to around 36 million in 2022, compared to over 45 million in 2014, before the onset of Russian aggression. In 2022, approximately 8 million people left Ukraine, with 5 million obtaining temporary protection status in Europe and nearly 3 million being relocated or deported to Russia. In both cases, the majority consisted of women and children. Should these individuals not return to Ukraine, the country's development prospects will be significantly undermined.

In addition to its demographic impacts, the war has also disrupted the labor market, leading to job losses and a soaring unemployment rate, which reached 30% in 2022. At the same time, business surveys conducted by IER indicate that companies are struggling to find employees with the necessary qualifications and skills.

Ukraine is grappling with acute financial constraints, both in the short and long term. The country's military expenditure has surged, leaving minimal fiscal room to sustain social expenditures without substantial external financial assistance.



Civil society traditions date back to pre-Soviet times. During the Soviet era, the party state suppressed and controlled civil society. Some prominent human rights organizations, such as the Ukrainian Helsinki Human Rights Union or the Kharkiv Human Rights Protection Group, have their roots in the Soviet human rights movement. The same applies to certain charitable foundations.

In recent years, there has been an improved acceptance of and involvement in civil society activism. This can be attributed to the Revolution of Dignity in 2014 and its subsequent effects, which have led to an increase in the number of individuals willing to protest and volunteer. Furthermore, the COVID-19 pandemic in 2020/21 has once again mobilized civil society and volunteer organizations, as the state has been unable to adequately supply hospitals with the necessary equipment.

According to the World Giving Index 2021, which assesses volunteer activity on a global scale, Ukraine has risen in rank to 20th place out of more than 140 countries in 2021, marking a significant improvement from its near-last-place ranking in 2010. The ongoing war has also served as a motivating factor, elevating the role of activists and volunteers to new heights. As a result, Ukraine has achieved an impressive 10th place in the latest iteration of the World Giving Index, released in 2022.

Although only about 10% of officially registered Ukrainian NGOs work steadily and mainly depend on international donor support, their influence has increased. Civil society has become aware of its role in the reform process and has improved its advocacy activities by joining networks and NGO coalitions. It is working closely with international institutions that foster Ukraine's reforms and exercising increased pressure on public authorities. Additionally, due to devolution, civil society organizations have also become noticeable actors in community development at the local level.

Although Ukraine is ethnically, linguistically and religiously diverse, conflicts of ethnic, linguistic or religious origin remain insignificant. None of Ukraine's churches constitutes a state church. Ukraine has liberal laws regarding religion, which also guarantee freedom of spiritual practice. Ukrainian, Russian and other languages are freely spoken, and there are many examples of people from different ethnic backgrounds taking governmental posts or becoming members of the parliament and local councils.

While the conflict in Eastern Ukraine was clearly orchestrated by Russia, with the Russian army being present there since 2014, there was a related cleavage in Ukrainian society. However, the results of the national elections in 2019 clearly demonstrated this to no longer be salient or dominant.

The full-scale Russian military aggression has significantly reduced societal divisions regarding attitudes toward Russia, the Russian language and the possibility of reintegration into the "Russian space." The terrorist attacks on civilians and numerous

Civil society traditions

3

'06 _____ '24 10



Conflict intensity

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'06 _____ '24 10



war crimes have brought together Ukrainian society in its struggle against the aggressor. Opinion polls from 2022 indicate a cohesive society, united in its support for democracy, the Ukrainian state and membership in the European Union (all above 90%), with no longer any significant regional divisions.

II. Governance Performance

14 | Steering Capability

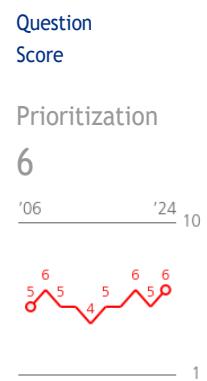
As stipulated in Ukraine's constitution, the country's strategic objective is to join the European Union and NATO. In 2022, the government took decisive steps in this direction. Using the window of opportunity opened up by the full-scale Russian war of aggression, Ukraine applied for EU membership within a week after the invasion and became an EU candidate on June 23, 2022. In September, Ukraine also applied for NATO membership.

Ukraine's EU candidate status is expected to strengthen the government's policy prioritization, especially considering the ambition for fast accession. The Association Agreement with the European Union has already played a similar role, particularly regarding the opening of the EU market upon implementing reforms (e.g., product safety, energy, digital market). Other international commitments also help prioritize policy goals. This includes, for example, Ukraine's carbon neutrality commitments as part of the Paris Agreement or its contribution to achieving the U.N. Sustainable Development Goals. Memorandums signed with the IMF and the European Union have also significantly influenced strategic planning in Ukraine through binding agreements and funding conditions.

Ukraine has a developed set of strategic documents, but their hierarchy and relationship to one another are not always clear and are not fully prescribed in the legal framework. Many strategy documents do not contain cost estimates for implementation, which undermines coherence between policies and fiscal plans. Although there are units within the government responsible for strategic planning, the development of strategies is often outsourced to experts and donors, leading to weak government ownership of the planning documents.

However, the government is working on resolving weaknesses in policy prioritization. Medium-term budget planning was launched in 2021; however, the war drastically altered fiscal priorities in 2022. The National Economic Strategy 2030 was adopted in 2021, offering a long-term development vision and establishing the framework for sectoral strategies, such as transport and energy.

With the new long-term agenda, which includes reconstruction as well as EU and NATO memberships, a new set of strategic documents is being prepared.



During the review period (2021 – 2022), progress made on reforms has remained mixed, with external factors like the EU accession conditionality playing an essential role in the speed and comprehensiveness of changes.

The Pulse of the Agreement, the monitoring system tracing the legal component of the Association Agreement implementation, shows that as of January 2023, Ukraine has implemented 72% of its commitments between 2014 and 2024, compared to 53% as of end-2020. The government has managed to close most implementation gaps of the period from 2014 to 2019, but at least half of the commitments for the period from 2020 to 2022 still need to be implemented.

The implementation delays are not unique to the Association Agreement. Delays and patchy implementation of adopted strategies have been a persistent problem for Ukraine. This is attributed to excessively ambitious planning, changes in policy priorities with the change of executive teams, and vested interests occasionally disrupting the reform process.

Still, in 2022, Ukraine achieved important sector integration milestones within the Association Agreement. The country joined the EU common transit system and the European Network of Transmission System Operators for Electricity (ENTSO-E), requiring systemic legal and institutional adjustments.

The political reforms accelerated in the second half of 2022 after the European Commission published its recommendations on the EU accession process. Ukraine enacted new laws concerning the appointment of judges to the Constitutional Court, although further amendments are required to fully implement the recommendations from the Venice Commission. There was increased activity in judicial reform, with the prompt appointment of the head of the Special Anti-Corruption Prosecution following a lengthy delay. Additionally, a long-anticipated competition for the position of Director of the National Anti-Corruption Bureau has commenced.

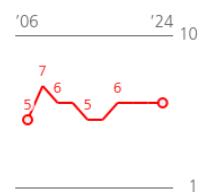
An anti-oligarch law was adopted in late 2021 and enacted in mid-2022. Some of its provisions have been criticized for their potential for political abuse, but the opinion of the Venice Commission aimed at streamlining this law is still pending.

Policy learning has been essential to Ukraine's policy process. The government has been actively working with international consultants through technical assistance projects. Western donors, in many ways, have supported the reform process with expertise, personnel and funding. The role of civil society has remained high. Training remains essential for developing policy learning capacities, presumably translating into a more efficient policy process.

The establishment of the Pulse of the Agreement – the online public system that monitors the progress in the Action Plan for the Association Agreement (AA) – is a positive example of policy learning through effective monitoring and evaluation. The Pulse provides detailed information about legal approximation and bottlenecks, facilitating learning from experience and contributing to the implementation of the AA.

Implementation

6



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Policy learning

8



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Publicly available annual reports of key state institutions have also contributed to improved monitoring and evaluation processes.

At the same time, policy learning remains rigid. International donors use conditionality pressures to enforce policies. Civil society activists often rely on public opinion pressure to motivate positive policy changes or prevent decisions motivated by vested interests.

However, it must be noted that the Russian war of aggression has created a sense of urgency, which appears to have significantly enhanced the genuine desire for knowledge by the state executive.

15 | Resource Efficiency

In 2021, the efficiency of government resource use somewhat improved compared to the previous period. Open competition for civil servants, which had been suspended in 2020 as a part of quarantine measures, resumed in March 2021. Moreover, the government pledged to terminate all contracts concluded under the previous procedure by December 2021.

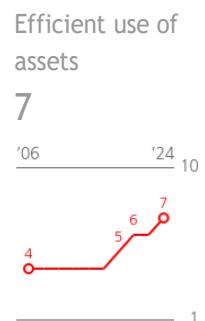
A new public administration reform strategy for the period from 2022 to 2025 aims to establish a digital service state, thereby improving the cost-to-quality ratio of public service.

Fiscal expenditures remained under control, although the government implemented a lenient fiscal policy to stimulate economic recovery. Consequently, the fiscal deficit increased to 3.8% of GDP. In 2021, the deviation of actual fiscal expenditures from the planned level was relatively low, with actual public expenditures surpassing the initial annual plan by 3.2%.

A medium-term budget expenditure framework was launched. Most public expenditures have remained transparent thanks to the open fiscal data policy and the efficient functioning of the online public procurement system, ProZorro. The Accounting Chamber, an audit body of parliament and the supreme audit institution of Ukraine, is responsible for controlling public spending.

In 2020, with the local elections in newly established hromadas, Ukraine largely completed decentralization reform – transferring many responsibilities and fiscal tools to the local level.

In February 2022, the parliament passed the long-awaited law on administrative procedures, ensuring the equality of all participants in administrative proceedings and uniform standards in the work of public officials.



The full-scale Russian war has put fiscal and personnel resources under tremendous stress. The financing needs for security and defense grew enormously while resource availability decreased dramatically. As a result, the budgetary deficit rose to 17.5% of GDP, covered mainly by special-term international credits. Despite the deterioration of fiscal indicators, the conduct of the war with a much larger aggressor suggests that the government demonstrated a substantial capacity to use available resources efficiently in the crisis.

The formal policy coordination framework has improved. Since December 2019, Directorates – structural units responsible for public policy formulation, coordination and monitoring – have been introduced for all central executive bodies. The Secretariat of the Cabinet of Ministers of Ukraine (SCMU) has strengthened its role in policy coordination, being responsible for preparing the annual government work and for routine coordination of cabinet decision-making, including the agenda of its meetings.

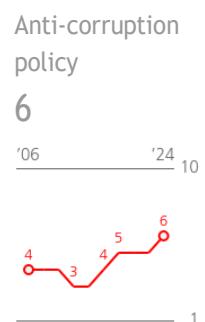
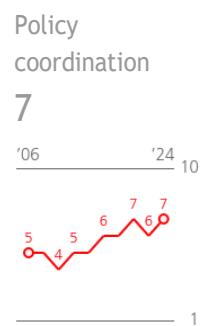
The coordination of European and Euro-Atlantic integration continued to receive special attention, with the Government Office for Coordination of European and Euro-Atlantic Integration serving as the coordinating authority. The office is responsible for planning, monitoring and coordinating the alignment of national legislation with the EU acquis. It works alongside deputy ministers responsible for European integration, who have been established in most ministries. Special efforts have been made to enhance the coordination of European integration policy between the government and the parliament.

The institutionalized advisory bodies for strategic policy development and coordination – the Reforms Delivery Office at the CMU and the National Reform Council under the president – have remained active in 2021, but their role halted with the war. Instead, the war has elevated the National Council of Security and Defense in policy decision-making and coordination. Yet, the de facto policy coordination has been weaker because the Office of the President has continued to play the role of the key decision-maker in the country.

Fighting corruption has remained a priority reform objective, although it has been subordinated to the more pressing goal of winning the war.

The anti-corruption policy of Ukraine has two distinct dimensions: 1) the establishment and successful functioning of institutions aimed at investigating and penalizing corrupt deeds; 2) the creation of a regulatory environment with limited opportunities for corruption.

Although the country made progress in both dimensions, the second dimension was more successful prior to the war. Ukraine established a highly transparent public procurement system and opened multiple public registers, including a register of asset declarations for public officials and politicians. However, public access to most registers ceased with the declaration of martial law. The same occurred with the obligation of public officials and politicians to submit e-declarations. This creates corruption risks, though these are certainly justified given security issues.



By 2021, the risks associated with multiple attempts to derail the institutionalization of anti-corruption bodies in Ukraine had been mitigated. However, frictions remained – until the European Union granted Ukraine candidate status, which requires political reforms, including the fight against corruption. An open competition for the Director of the National Anti-Corruption Bureau (NABU) was launched. Almost two years after the resignation of the previous head, the new head of the Specialized Anti-Corruption Prosecution Office (SAPO) was finally appointed. This decision revitalized the activity of both SAPO and NABU in many high-profile investigations.

16 | Consensus-Building

All actors are committed to the principles of democracy. The best-working democratic institution in the country is the ballot box, delivering continuous changes in political elites. The new election code and decentralization have strengthened this component of democracy further.

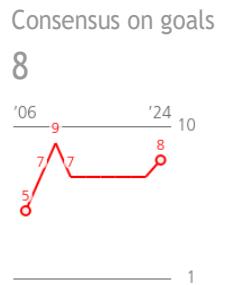
Traditionally, there have also been multiple challenges by actors who resist reforms, including oligarchs, political parties with a populist agenda, and potential losers in the reform process, such as judges with no chance of retaining their benefits in a reformed environment. These actors, although not explicitly challenging democracy in their public statements, often employ undemocratic means to advance their specific aims.

The war has added threats to democracy. It entails the inevitable limitation of civil rights, for example, men aged 18 to 60 must have permission to leave the country, and access to public information has been reduced. There are no elections under martial law. However, Ukraine's EU and NATO membership applications signal the ongoing firm commitment to democracy.

A formal consensus that Ukraine should have a market-based economy was established long ago. However, there were acute debates about the ways to achieve that goal.

The application for EU membership, filed immediately after Russia launched its full-scale war of aggression, and the EU's decision to grant candidate status to Ukraine in June 2022, have terminated this period of uncertainty. Now, the market economy has become part and parcel of a successful accession process. As of the end of 2022, approximately 85% of the population supports membership in the EU.

The war and the perspective of EU membership have not eradicated but weakened opposing vested interests. Instead, the voice of political actors promoting reforms in support of EU accession has strengthened. According to a recent opinion poll conducted by the New Europe think tank in Ukraine, three-quarters of the population support pro-European reforms.



Before the onset of a full-scale war, the situation in Ukraine was best described as a struggle between actors pushing for reforms and those interested in preserving the status quo and continuing to benefit from the old system. The line dividing both camps wasn't clear-cut. Authorities and actors who claimed to be democratic often acted as veto players for various reasons: unwillingness to cooperate with political opponents, preservation of power or privileged access to resources, and links to particularistic informal interests. As a result, the outcome of reform efforts has remained patchy.¹

After the Euromaidan of 2014, impressive reform achievements were made thanks to democratic political actors, civil society and international actors. However, by mid-2020, vested interests had regained strength, undermining previous progress. Eventually, the reforms were partially revived. The consequences of several highly controversial decisions by the Constitutional Court, such as those regarding the responsibilities of the National Anti-Corruption Bureau and electronic income declarations, were mitigated through the adoption of new legislation. Additional measures were taken to ensure the independence of the National Bank. The open competition for public servants was reinstated. However, other significant challenges persisted. For example, crucial appointments in anti-corruption institutions and judiciary reform remained at a standstill. The Naftogaz Supervisory Board was dismissed.

The full-scale war, the prospect of EU accession, and the increased reliance on international aid for the country's survival have once again altered the situation. The influence of "big money" has been diminished, as the Russian-backed political figures have lost their hold and the Ukrainian oligarchs have suffered losses of assets and, consequently, influence. One of the most well-known Ukrainian oligarchs, Valeriy Kolomoisky, has had his Ukrainian citizenship revoked due to holding multiple other citizenships. Additionally, the prospect of EU membership comes with political requirements, including the expediting of judicial reform, the fight against corruption and the reduction of oligarchic influence. While Ukraine has not smoothly met all of these requirements, it has made significant progress. Furthermore, further progress is almost certain due to internal societal pressure and external demands from donors.



For a long time now, there have been two palpably significant cleavages in Ukraine. One is related to the attitude toward Russia and thus Ukraine-Russia relations, while the other is connected to the social and economic situation in the country.

The full-scale Russian military aggression has noticeably narrowed the first cleavage. The unprovoked attack, multiple war crimes and continuous terror of the civil population united Ukraine in its attitude toward Russia. According to a public opinion poll conducted by Rating Group, the percentage of people perceiving Russia as friendly or rather friendly declined from 12% in December 2021 to zero in 2022. The percentage of people perceiving Russia as an enemy or rather an enemy increased from 72% to 97%, with the remainder taking a more neutral stance with regard to Russia. Support for Ukraine's membership in the European Union and NATO has stabilized at over 80%.

The war has also softened the second cleavage. Prior to February 24, 2022, approximately two-thirds of the population believed that the country had been moving in the wrong direction. However, since March 2022, this perception has completely transformed, with an approval rate of 86% as of October 2022. While public dissatisfaction with socioeconomic conditions still persists, the overarching focus on triumph despite adversity prevails.

It should be noted that President Zelensky, as well as many other political actors, explicitly and repeatedly use conciliatory rhetoric concerning domestic cleavages.

Civil society has continued to play an essential role in driving reform and exerting pressure on authorities. It has cooperated with all branches of power, including the parliament, the Cabinet of Ministers of Ukraine, and the Office of the President. The conditionality of international actors has played a crucial role in bolstering civil society's voice in the reform process, ensuring that it is being consulted by the authorities.

The full-scale Russian war of aggression has had a mixed effect on the mobilization of civil society and its exchanges with the authorities. On the one hand, regarding conditions of the rule of war, it curtailed communication channels. On the other hand, it mobilized Ukrainian civil society, activating and strengthening the networks that serviced the Ukrainian army and internally displaced persons (IDPs) during the first active phase of the Russian aggression in 2014/2015. Ukrainian volunteers have been involved in supplying the army, advocating for support of Ukraine globally, providing humanitarian assistance to IDPs and refugees abroad, and assisting the wounded. Regular private donations have continued to play a vital role in funding the fighting.

Moreover, a coalition of NGOs has been established to ensure efficient, transparent and accountable postwar reconstruction. Many experts have been involved in developing, advocating and monitoring ongoing reforms, including the EU accession process.

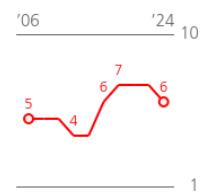
Cleavage / conflict management

5



Public consultation

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While the country has not yet achieved reconciliation and (moral) justice for past acts of injustice, the unjustified Russian full-scale military aggression in February 2022 brought the demand for justice to a new height.

The investigation of crimes related to the Euromaidan of 2014 still needs to be completed, although important steps forward have been taken. Since late 2019, the State Investigation Bureau (SIB) has become responsible for Euromaidan-related investigations. In November 2021, the SIB completed the pretrial investigation into the crimes of Viktor Yanukovych and nine other high-ranking officials, including the Minister of Defense, the Minister of Internal Affairs, and their deputies. Their cases are now being considered in court. Altogether, as of early 2022, there were 50 court verdicts and 248 charges still in court. According to the SIB's regular reports, there were still 75 Euromaidan-related criminal investigations as of December 2022, down from 84 cases at the beginning of the year.

Concerning historical injustices in Ukraine – mainly related to the Soviet Union and Nazi crimes – most of these have yet to be fully grasped. However, Russia's full-scale war of aggression has prompted a reconsideration of the past. The “decommunization” process, initiated in 2015, gained new momentum in 2022, and is now linked to efforts to disassociate from Russia. Russia's full-scale war of aggression has profoundly altered how Ukrainians see their history, encompassing the Holodomor and World War II.

Since 2014, Ukraine has faced ongoing Russian military aggression, which escalated in February 2022. Russia has engaged in warfare and terrorized the civilian population through frequent missile and drone attacks. Beginning in October 2022, Russia has deliberately targeted Ukraine's energy infrastructure with the aim of provoking a humanitarian catastrophe. As of the end of 2022, approximately 17% of Ukraine's territory has been occupied. The fighting and occupation have resulted in human rights violations and a significant number of casualties. It is crucial to address and find resolutions for these recent wounds.

17 | International Cooperation

In 2020, Ukraine resumed the coordination of international technical assistance (ITA) in order to align it more effectively with the country's development goals. To emphasize the enhanced level of partnership between Ukraine and its counterparts, they have now been referred to as “development partners” instead of “donors” in official documents. However, due to the current state of war in the country and the necessity to secure unprecedented levels of international assistance to address military, fiscal and humanitarian requirements, these efforts have been set aside, resulting in the creation of new structures instead.

Reconciliation
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Effective use of support
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Several high-level platforms have been established to coordinate international efforts to support Ukraine. Military assistance is agreed upon among defense ministers, usually gathering at Ramstein Air Base in Germany. The multi-donor coordination platform, established by the G7, covers short-term and long-term support for Ukraine, international financing, and coordination of reforms and private sector development. A specialized platform has recently been established to help Ukraine overcome the consequences of the Russian terrorist attacks on its energy infrastructure.

Reconstruction will be the most extensive development program in Ukraine ever. Several international donor conferences have already discussed Ukraine's postwar recovery and reconstruction. Ukraine has been proactive and offered its vision of reconstruction and the role of international assistance. In mid-2022, the government introduced its recovery plan, based on ideas of modernization, green transition and EU accession. The plan was developed in collaboration with civil society.

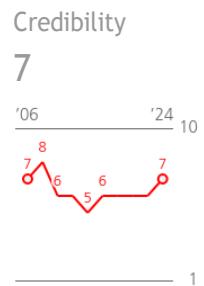
A Deputy Prime Minister for the Reconstruction of Ukraine and Minister for Development of Communities, Territories, and Infrastructure of Ukraine – a new position in the Cabinet of Ministers – is responsible for coordinating international assistance. At the same time, technical coordination will be placed on the Government State Agency for Reconstruction and Infrastructure Development of Ukraine, created in January 2023. Civil society has already established a coalition of Ukrainian and international organizations working for Ukraine's Reconstruction Integrity, Sustainability and Efficiency (RISE) and aiming to monitor reconstruction spending.

In 2022, Ukraine received \$32 billion of international support for its fiscal needs. The United States and the European Union were the major donors. The amount of military assistance is not fully disclosed, but it is significant. In 2023, international support will be even more extensive.

The United States has already conducted several audits of its military assistance and reported no misuse. Ukraine has introduced mechanisms for monitoring military assistance based on NATO standards to prevent misconduct. Tools to ensure the efficiency of reconstruction aid have been elaborated.

Ukraine actively cooperates with international monitoring institutions and adheres to most of its international commitments.

Ukraine's credibility with international donors has varied depending on its progress in implementing reforms. Cooperation with the IMF was tumultuous in 2021, as the second disbursement of the two-year stand-by program, arranged in June 2020, was delayed until late 2021. This delay occurred after Ukraine made efforts to resume anti-corruption and judicial reforms and provided additional guarantees for the independence of the National Bank.



The full-scale Russian war of aggression changed these relations. The IMF provided two tranches within the Rapid Financing Instrument to cover urgent needs. Moreover, in December 2022, the IMF approved the Monitoring with Board involvement (PMB) for Ukraine, aiming to support Ukraine's macroeconomic stability and catalyze donor financing.

The war has also invigorated Ukraine's relations with other international partners and donors. In 2022, Ukraine received over \$32 billion of international support, including \$14 billion in grants. Even higher assistance is expected in 2023, while the long-term recovery and reconstruction needs will be covered through special multi-donor coordinated arrangements.

Ukraine and its partners recognize the priority of efficiency, transparency and accountability in spending. Ukraine has been open to audits of donor support, including those on military spending.

Ukraine aims to have good relations with its neighboring countries, participates in multiple regional and international organizations, and develops solid bilateral links.

The only exception here is its relationship with Russia, a country that occupied about 7% of Ukraine's territory from 2014 to 2021 and launched a full-scale military aggression on February 24, 2022. At the end of 2022, approximately 17% of Ukraine's territory was still occupied, and active fighting has continued unabated since.

Russia's full-scale war has affected Ukraine's relations with other countries, intensifying some links and weakening others. The role of the European Union as Ukraine's partner has, for example, increased dramatically. On June 23, 2022, the European Union granted Ukraine candidate status, thereby confirming the country's long-aspired objective of European integration. At the same time, the EU-Ukraine Association Agreement helped achieve several crucial sectoral integration benchmarks. Ukraine became a member of the ENTSO-E in March 2022 and joined the European common transit system in October.

Relations with EU member states have also intensified, especially with Poland, which has welcomed most of Ukraine's refugees and continuously supported Ukraine in its conflict with Russia. The war with Russia has also triggered much closer links with the Baltic states. Interactions with other EU members, particularly Germany and France, have intensified given their role in meeting Ukraine's financial, military and humanitarian aid requests. At the same time, relations with Hungary have remained a challenge, as previous tensions were fueled by repeated Hungarian opposition to sanctions against Russia.

Türkiye's role as a strategic partner for Ukraine has significantly increased. In February 2022, Ukraine and Türkiye signed a free trade agreement (FTA). Relations intensified further as Türkiye started playing an essential role as a mediator between Ukraine and Russia. Notably, Türkiye, jointly with the United Nations, facilitated the so-called Grain Deal, which allowed the unblocking of Ukrainian Black Sea ports for grain exports.

Regional cooperation

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The war has also intensified Ukraine's relations with its other strategic partners, namely the United States, the UK and Japan. The United States became Ukraine's most prominent financial and military donor in 2022.

Despite the war, Ukraine has been developing trade links with other countries. In October 2022, Ukraine and North Macedonia updated the FTA, reducing trade barriers and agreeing on the new rules of origin within the framework of the Pan-European-Mediterranean Convention (PEM Convention). The PEM Convention's incorporation has also been decided upon for the Ukraine-Moldova FTA. In late 2022, Ukraine launched FTA talks with the United Arab Emirates. Feasibility assessments have been conducted for FTAs with Indonesia, Tunisia, Egypt and Jordan.

Over the years, Ukraine has joined multiple regional organizations, such as GUAM (Georgia, Ukraine, Azerbaijan, and Moldova), the Organization of the Black Sea Economic Cooperation (BSEC), the Central European Initiative (CEI) and the Lublin Triangle. In 2021, Ukraine has supported the establishment of the so-called Association Trio with Georgia and Moldova to promote integration with the European Union.

In addition to Russia, Ukraine's relations with Belarus have worsened, as the country has become a de facto co-aggressor, serving as a springboard for military attacks against Ukraine. The links with Iran have also become tense after Iran started supplying Russia with military drones and, allegedly, missiles.

Strategic Outlook

The full-scale Russian war of aggression has altered Ukraine's strategic priorities. The country faces four key strategic challenges that have to be addressed simultaneously.

First and foremost, ensuring security is paramount. Ukraine's primary objective is to secure victory in the ongoing conflict and obtain security guarantees against potential future Russian aggression. The prospect of a long-term cease-fire is not considered viable, as it carries the risk of renewed attacks by Russia at its discretion. Additionally, regaining full control over the Black Sea coast, including Crimea, is crucial not only for military reasons but also for the resumption of exports through Black Sea ports. However, Ukraine's ability to reclaim its territories hinges on substantial international support, particularly in the form of significant military assistance from its allies.

Second, Russia must be held accountable for its war crimes, especially the crime of aggression. Extensive efforts are underway both in Ukraine and internationally to document Russia's transgressions in Ukraine. Ukraine is also utilizing all available international legal mechanisms while advocating for the establishment of a special tribunal to prosecute Russian political and military leaders for the crime of aggression. The demand for justice is high within Ukrainian society, ranking as the top priority, followed by the fight against corruption and the economic recovery.

Ukraine's third strategic imperative revolves around rebuilding the country. The need for reconstruction became evident shortly after the full-scale war began due to the escalating economic damage. As of spring 2022, direct damages, including residential housing and infrastructure, amounted to \$92 billion, nearly half of Ukraine's 2021 GDP. By the end of 2022, direct damages had risen to \$138 billion. The estimated overall economic damage to Ukraine, encompassing indirect losses, ranges between \$600 billion and \$1 trillion.

It is widely agreed that Ukraine's reconstruction should adhere to the "Building Back Better" principle, allowing for economic modernization and advancement. As Ukraine aspires to EU membership, the reconstruction effort should align with EU standards and contribute to Ukraine's integration with other EU member states. However, implementing these principles and ensuring successful rebuilding will be challenging, given coordination and absorption capacity issues, even if sufficient funds are available, which is not guaranteed.

The fourth strategic priority is Ukraine's path to EU membership. Following Ukraine's attainment of EU candidate status in June 2022, the dream of membership has become a realistic medium-term prospect, contingent upon coherent, intensive and sustained reforms. In 2023, Ukraine's top reform priority will be the implementation of the European Commission's seven recommendations to strengthen Ukraine's political foundations, considered prerequisites for opening accession negotiations. However, initiating these negotiations will be a political decision for the EU, requiring consensus among member states, which has yet to be reached.

Simultaneously, while implementing the seven EC recommendations and avoiding regression in other critical political areas, Ukraine is expected to focus on deepening its economic integration with the European Union in accordance with the Association Agreement and other sector-specific arrangements.

In this context, it is essential to combat corruption consistently and comprehensively while drawing on the existing institutional framework. Decisions concerning key state bodies, such as the Constitutional Court or the media regulator, should not be subject to the discretion of the president and the parliamentary majority.

International actors will continue to play a crucial role in supporting Ukraine in achieving its strategic objectives. Initiatives aimed at coordinating support from numerous countries and international organizations should be reinforced. International supporters should ensure their conditions are aligned, and they should establish unified audit procedures.

While the full-scale Russian war of aggression has pushed political discussions lower on the agenda, political life is gradually reawakening. Once martial law is lifted, Ukraine will face both presidential and parliamentary elections. Promoting further changes in the composition of the political elite to include more professionals is imperative. Civil society representatives, young professionals and external experts should be given a greater role not only in specific reform projects but also in policymaking and political discourse in general. The consolidation of the political party system should be strengthened to promote sustainable, program-oriented parties rather than projects led by prominent individuals. In the long term, a new generation of politicians, civil society activists, experts and journalists must be trained and promoted to decision-making positions.