

Executive summary

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

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

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

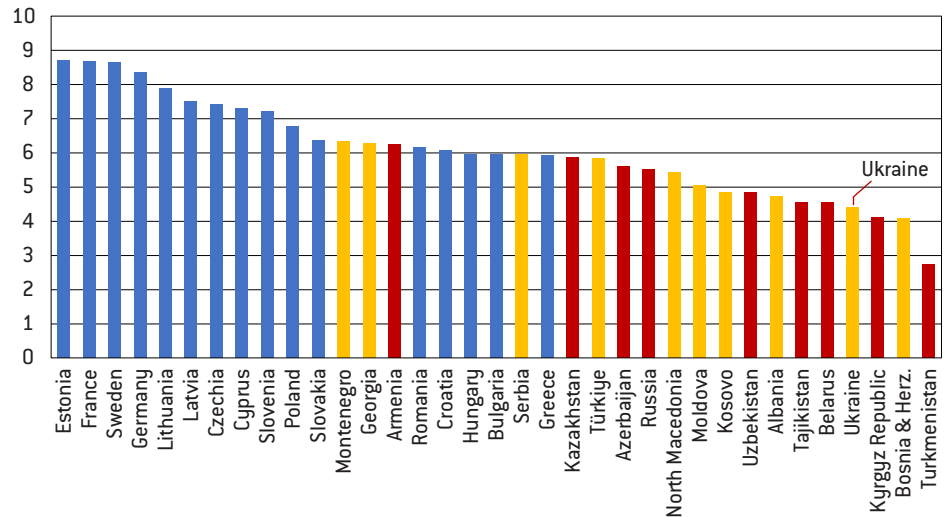
IF THE CURRENT EU budget rules were applied and there were no transitional arrangements – which is unlikely – we calculate the total annual cost of Ukraine's integration into the EU budget at 0.13 percent of EU GDP, which would hardly change net recipient/payer positions of current EU members. Ukraine's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

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

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Figure 1: Governance scores, 2023



Source: EBRD, 2023. Governance scores are calculated as the average of 10 indicators: Rule of Law, Regulatory Quality, Government Effectiveness, Political Rights, Civil Liberties, Property Rights, Business Freedom, Labor Freedom, Financial Freedom, and Market Freedom. The scores range from 0 to 10, with 10 being the highest. The chart shows that Ukraine's score is 5.7, which is lower than most other countries in the region.

2 Preparing Ukraine for accession

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

2.1 Lessons from previous enlargements

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

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

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

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

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

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

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

2.2 How to adapt the accession process for Ukraine

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

2.2.1 Framework

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2.2.2 Rule of law

Given the problems of corruption in Ukraine and attacks on the rule of law in some current EU countries, the EU cannot afford to compromise on the quality and resilience of the rule of law in further enlargement. It is right therefore to prioritise the ‘fundamentals’ cluster during the negotiations. A practical approach to foster rule-of-law improvements would be to include Ukraine in the EU’s recently developed ‘rule-of-law toolbox’ in advance of accession.

This toolbox includes an annual cycle of reports, Commission assessments and recommendations to EU countries on their justice systems, anti-corruption frameworks, media pluralism and media freedom, and other institutional issues related to checks and balances (European Commission, 2023a). Ukraine should be included in this annual reporting cycle to establish clear and enduring standards for the public administration that will last after accession.

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

However, to achieve these benefits, progressive integration would have to allow Ukraine to

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

2.2.9 | *Reconstruction and Governance*

Reconstruction should entail not only the physical reconstruction of Ukraine, but also the building of a new social-political compact, with better governance, as occurred in Western Europe after the Second World War, with the help of the Marshall Plan. Mylovanov and



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

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

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

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

Even in the best of circumstances, the enlarged EU will have to manage a considerably longer external border with Russia and Belarus. Before Russia annexed parts of Ukraine in 2014, the Ukrainian-Russian border was 1974 kilometres, while the border with Belarus is 1084 km. Ukraine also has a long sea border with the Black Sea of 1300 km. The EU will have to reinforce its capabilities to help Ukraine manage what will become EU external borders, for example by expanding the mandate of its FRONTEX border agency. The period of accession preparations will offer multiple opportunities for the EU to work with the Ukrainian authorities on implementing an integrated border management strategy, as it is already doing through the EU Advisory Mission (EUAM) in several Ukrainian regions and Kyiv¹³.

3.3 Migration¹⁴

About 15 percent of the Ukrainian population fled the country after Russia's full-scale invasion started in February 2022; three-quarters of these people are registered for temporary protection in the EU. A key question is whether refugees will stay in the EU.

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

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

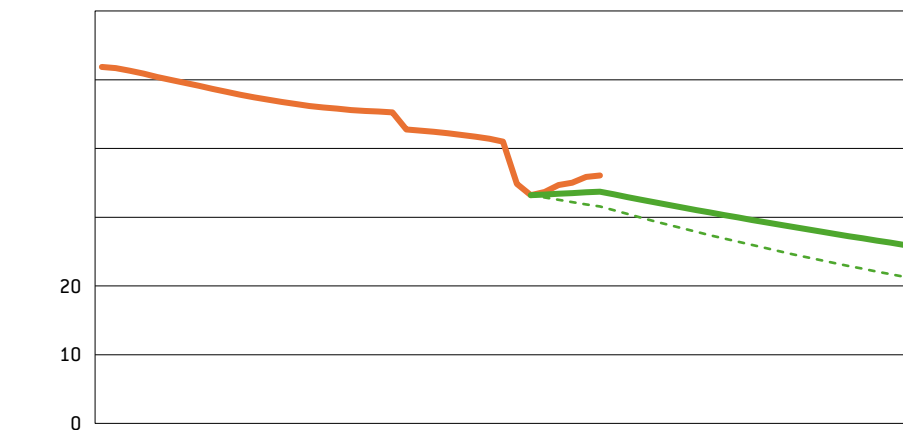
3.3.2 Population decline in Central and Eastern Europe

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

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

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

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



Source: IMF, World Economic Outlook, October 2023, and authors' calculations.

To separate the impact of natural change and emigration, we use the United Nations's medium fertility variant projection¹⁵ for the percentage rate of natural change for 2023-2050 and apply this percentage rate to the population in our scenarios. This allows us to calculate the natural change measured in terms of the number of people, which is then subtracted from total population change to show implied emigration. In the high return/low drop scenario, net immigration into Ukraine in 2024-2028 would amount to 1.8 million (largely from the partial return of refugees), while net emigration from Ukraine would amount to 2.7 million people in 2029-2050. In the low return/high drop scenario, there would be even a net emigration of 0.4 million people during the refugee return period of 2024-2028 (more people leaving than refugees returning), while net emigration in 2029-2050 would amount to 5.8 million.

EU

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

According to Eurostat population projections¹⁶, the population of the EU's current 27 members is set to shrink significantly in the absence of immigration, from 451 million in 2022 to 406 million in 2050 (Table 1). The number of elderly people would increase by 32 million over this period, while the number of working-age people (aged 20-64) is set to decline by 57 million, and the number of children (under 20) by 21 million. Such population changes would increase significantly the old-age dependency ratio and pose a major challenge to the sustainability of European welfare systems.

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

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

Source: Eurostat, 'Population projections for the EU-27 and EU-28, 2023-2050', 2023, p. 8622694. The population of the EU's current 27 members is set to shrink significantly in the absence of immigration, from 451 million in 2022 to 406 million in 2050 (Table 1). The number of elderly people would increase by 32 million over this period, while the number of working-age people (aged 20-64) is set to decline by 57 million, and the number of children (under 20) by 21 million. Such population changes would increase significantly the old-age dependency ratio and pose a major challenge to the sustainability of European welfare systems.

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

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

16 See https://ec.europa.eu/eurostat/cache/metadata/en/proj_23n_esms.htm.

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

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

Source: Eurostat, 'Population Statistics of the EU', 2023. Net immigration assumptions for 2023-2050, million people. EU, 2023-2050. 27.9 million people.

3.4 Trade, FDI and GDP *per capita*

A large body of literature has concluded that past EU enlargements boosted economic growth and employment, both in the incoming and incumbent countries¹⁷. Central and Eastern European EU members have achieved remarkable economic convergence with advanced Western and Northern European countries¹⁸. Western Balkan countries outside the EU have been less successful, and Ukraine has performed even worse (Figure 3).

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

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

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

We set up two illustrative scenarios for GDP *per capita* and trade, to estimate the possible increase in trade between the EU and Ukraine (see the annex for scenario assumptions). The results suggest that Ukraine's per-capita income in the next decade (2030) will be 10% higher (1.1 times) than in 2023. The results suggest that Ukraine's per-capita income in the next decade (2030) will be 10% higher (1.1 times) than in 2023.

Nevertheless, there is major potential to increase EU-Ukraine trade. Our illustrative

3.5 Energy security and decarbonisation

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

3.5.1 Ukraine's energy potential

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

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

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

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

3.5.2 Ambitious 2030 emission reduction target compared to 1990

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

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

3.5.3 Joining the EU emissions trading system (ETS)

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

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

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

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

3.5.4 | Ukraine's integration into the EU internal electricity and gas market

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

As a member of the Vienna-based Energy Community²⁰, Ukraine is already committed to gradually implement the energy and climate *acquis*. However, formal approximation might not lead to the efficient integration of Ukraine into the European energy system. To reduce risks, EU attention and conditions imposed should focus on outcomes (eg whether new players enter the market), be based on strategic prioritisation of action (cross-border trade rules may be more important than oil stocks), be constantly monitored, and be followed up with agreed consequences if not properly implemented.

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

3.6 Impact on the EU budget

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

To estimate the impact of Ukrainian EU membership on the EU budget, we apply current budgetary allocation rules, with the exception of the overall upper limit. We assume that Ukraine is added to the 2021-2027 Multiannual Financial Framework (MFF) and current EU members obtain the same funding as in the approved MFF, except for cohesion policy, which is the only main budget item for which a clear cross-country allocation method has been specified. We use population and GDP data and projections from 2020, the year when the 2021-2027 MFF was finalised. Our calculations show that the overall size of the 2021-2027 MFF would increase from 1.12 percent of GDP to 1.20 percent²¹ in the baseline scenario, which assumes Ukraine regaining its territorial integrity and that the war has no long-run impact on Ukraine's population or GDP.

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

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

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

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

Current EU members would receive €24 billion less in cohesion funding than without

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

4 Concluding remarks

The prospect of EU membership has given a crucial boost to Ukraine's complicated economic and institutional post-Soviet transition. It may raise the country from being one of the poorest governance performers among former socialist countries to a well-governed one. There is major scope to increase trade and investment relations with the EU, benefiting both sides.

The integration of Ukrainian workers into EU labour markets would reduce the EU's dramatic labour shortages. Accession would improve the EU's energy security and could reduce energy costs. It could stabilise the EU's eastern neighbourhood and increase the EU's military and security capabilities.

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

There is clearly momentum for advancing with the accession process on both sides. The Ukrainian government is working hard to fulfil the criteria for starting accession talks, even under the difficult circumstances of the war. Ukrainians are hugely in favour of EU entry: 78 percent of Ukrainians are for it and only 5 percent against²². A majority of EU citizens – 66 percent – agreed in August 2023 that the EU should continue supporting Ukraine on its path towards European integration, with only 26 percent disagreeing (European Commission, 2023c).

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

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

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

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

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

- Reconstruction restores the 2021 level of Ukrainian GDP *per capita* at PPP relative to EU8 by 2033.
- From 2033-2040, Ukrainian GDP