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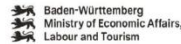
Interreg Programme  
**Danube Region**



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# 2025

## Executive Summary Study on the Current Economic Situation of Ukraine



**Radiating Innovation Potential  
through Pioneer Leadership  
Empowerment (RIPPLE-d2) –  
Towards Flagship Project  
Development in the EUSDR PA 8**

Silke Schmidt, Rostyslav Tomehchuk,  
Galyna Vasylenko, and Anastasiia  
Volianska  
VDI/VDE-IT & Ukrainian Institute for  
International Politics (UIIP)  
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## Project Summary

*RIPPLE-d2 —Radiating Innovation Potential through Pioneer Leadership Empowerment—aims to accelerate the integration of Ukrainian stakeholders, particularly women-led and high-tech SMEs, into European innovation ecosystems and value chains. This will be achieved based on conducting a focused analysis of the current economic situation, the identification of high-potential actor networks and the development of project concepts based on two hybrid workshops. On behalf of EUSDR PA 8 VDI/VDE-IT and the Ukrainian Institute for International Politics (UIIP) are responding to the ongoing underrepresentation of Ukrainian actors in EU funding programmes such as Horizon Europe and Interreg. By applying a set of guiding principles focused on needs-based peer partnerships, digital tools, and innovation-driven collaboration, the initiative seeks to identify and develop flagship projects with significant social and economic impact across the Danube Region. RIPPLE-d2 aligns with the EUSDR goals by emphasizing macro-regional cooperation, multi-level governance, and enhance competitiveness, thereby fostering sustainable development and resilience in Ukraine amid ongoing geopolitical challenges. The initiative is possible through funding of the Interreg Danube Region Programme and the Ministry of Economic Affairs, Labour and Tourism Baden-Württemberg, embedded in the encompassing activities of Priority Area 8 of the Danube Region Strategy to support competitiveness of enterprises. The contract period runs from July to Nov 2025.*

## Key Objectives and Methodology



Priority Area 8 (PA8) of the EU Strategy for the Danube Region, which is dedicated to strengthening the competitiveness of enterprises, has a direct interest in a comprehensive analysis of Ukraine's current economic situation. As a Danube Region country, Ukraine's economic development not only shapes its own prospects but also has significant implications for regional competitiveness, trade, and cooperation. For PA8, a clearer understanding of Ukraine's strengths, challenges, and structural transformations provides an essential knowledge base for shaping initiatives that foster business collaboration across borders.

Beyond Ukraine itself, the country's economic trajectory also affects neighboring states in the Danube Region, influencing trade flows, labor migration, and regional economic stability. A structured analysis can therefore help PA8 anticipate these wider effects and adapt its strategies accordingly. Finally, an up-to-date overview of Ukraine's economy provides an evidence base for decision-making,

ensuring that policies, funding initiatives, and support measures are well-aligned with actual needs and opportunities.

For these reasons, PA8 has a clear interest in examining Ukraine's current economic situation, as such a study can directly inform its efforts to enhance competitiveness, foster cross-border cooperation, and support sustainable economic recovery in the Danube Region. The detailed objectives of the study and the respective methodology are as follows:

### 1. Assessing the Economic Situation & SWOT Analysis:

- Quantitative and Qualitative Data Collection & Analysis: Utilizing available economic data (despite its limitations due to the war), conducting surveys, and analyzing regional trends.
- Stakeholder Engagement: Consulting with businesses, government officials, and experts to gather insights and validate findings.



### 2. Evaluating Support Programs:

- Program Mapping: Identifying and cataloging existing support programs (national, regional, EU-funded).
- Impact Assessment: Evaluating the effectiveness of these programs based on metrics like job creation, investment attracted, and business survival rates.
- Best Practice Identification: Highlighting successful program models that can be replicated or scaled up.

### 3. Analyzing Clusters & Business Associations:

- Cluster Mapping: Creating a comprehensive map of existing clusters and their activities.
- Cluster Performance Evaluation: Assessing the economic impact of clusters, including innovation, productivity, and export performance.
- Strengthening Cluster Governance: Improving coordination and collaboration among cluster members and with government agencies.

### 4. Assessing Innovation & R&D Capacity:

- R&D Expenditure Analysis: Tracking and analyzing R&D spending by sector and region.
- Horizon Europe Participation Tracking: Monitoring Ukrainian participation in EU research programs.
- University-Industry Collaboration: Promoting partnerships between universities, research institutions, and businesses.

## 5. Identifying Cooperation Areas & Smart Specialization:

- Regional Asset Mapping: Identifying strengths and competitive advantages in each region.
- Entrepreneurial Discovery Process (EDP): Engaging stakeholders to identify priority sectors and technologies.
- Developing Regional S3 Strategies: Creating regional Smart Specialization Strategies aligned with national priorities.

## 6. Reaching all Objectives - Cross-Cutting Means:

- Investment Promotion: Attracting both domestic and foreign investment in priority sectors.
- Capacity Building: Providing training and technical assistance to businesses and government agencies.
- Digitalization: Leveraging digital technologies to improve efficiency, transparency, and access to information.
- International Cooperation: Strengthening partnerships with international organizations and donor countries.
- Improved Coordination: Enhancing coordination among different government agencies and stakeholders.

In essence, the study provides a comprehensive overview of Ukraine's economic and innovation ecosystem to facilitate effective project-based cooperation and support its recovery and development. Crucially, it emphasizes the need for a place-based approach, recognizing that solutions must be tailored to the specific needs and strengths of each region. It also stresses the importance of a holistic approach, addressing challenges across multiple sectors and levels of government.

## Major Findings

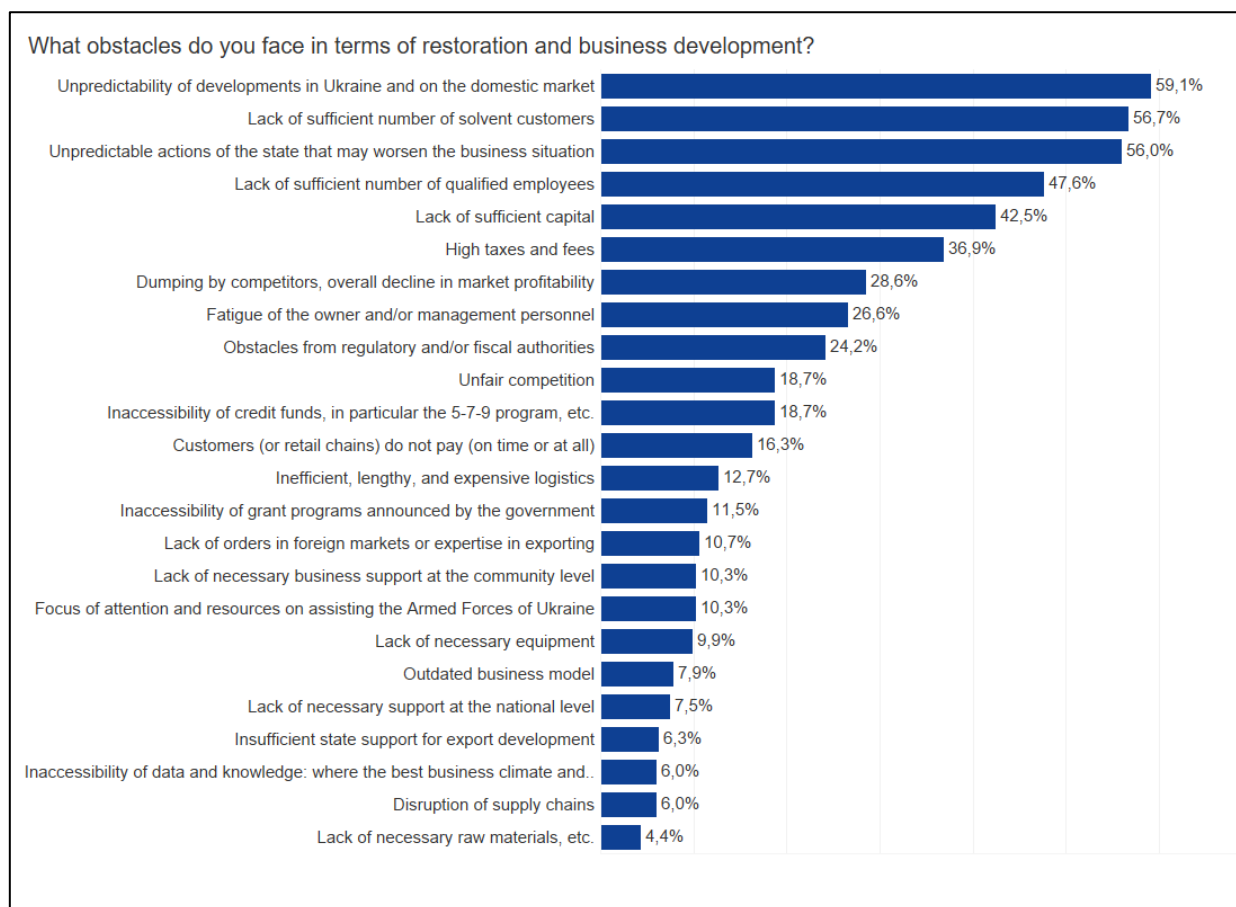
- **Current economic situation in Ukraine:** Ukraine's economy has suffered a significant contraction due to the war, with GDP declining by approximately 30%. While showing signs of stabilization and even growth in 2023/2024, pre-war GDP levels haven't been restored. The economy is increasingly reliant on external financial support and is facing challenges related to infrastructure damage, labor shortages, and disrupted supply chains. Despite these challenges, the banking system has remained resilient, and inflation has been managed effectively.
- **SWOT analysis:** Ukraine's strengths lie in its resilient population, growing IT sector, and potential for agricultural production. Weaknesses include the ongoing war, corruption, limited access to finance, and a lack of strong institutional capacity. Opportunities exist in EU



integration, digitalization, and the development of new industries. Threats include continued military aggression, political instability, and brain drain.

- **Support programs for SMEs and businesses:** While a range of support programs exist (national programs like “Affordable Loans 5-7-9%”, “eRobota”, and EU-funded initiatives), they are often fragmented, bureaucratic, and lack sufficient funding. Access to finance remains a major challenge for SMEs, and many programs require significant administrative effort. The “Diia.Business” platform is a positive step towards streamlining support services.
- **Cluster landscape:** Ukraine has a growing number of clusters, but they are often loosely organized, lack sufficient funding, and are not fully integrated into the national economy. The cluster movement is largely driven by bottom-up initiatives and lacks strong government support. There’s a need for a national cluster policy and a legal framework to support their development.
- **Innovation and R&D in regional economic development:** Ukraine has a strong scientific base, but R&D expenditures are low, and there’s a disconnect between research institutions and the private sector. Universities and research institutes play a role in regional development, but their impact is limited by a lack of funding, infrastructure, and incentives for commercialization. Participation in Horizon Europe is increasing, but more effort is needed to integrate Ukrainian researchers into international collaborations.
- **Potential areas for cooperation:** Priority sectors for cooperation include agriculture, IT, renewable energy, and defense, as well as selected areas in which high matching potential exists among EUSDR stakeholders (e.g., healthcare, construction). Regional specialization should be leveraged, with a focus on areas where Ukraine has a comparative advantage. Smart Specialization strategies are crucial for identifying and prioritizing these sectors.
- **Future collaboration projects.** Future projects should focus on rebuilding infrastructure, supporting SMEs, promoting innovation, and strengthening regional cooperation. Collaboration with international partners is essential for providing financial assistance, technical expertise, and market access. A coordinated approach to project implementation is needed to avoid duplication and maximize impact.

**Figure 1: Obstacles to Business Recovery and Development**



Own representation based on <https://business.diaa.gov.ua/analytics/research/rezultaty-doslidzhennia-stanu-biznesu-v-ukraini-v-berezni-2025-roku>

## Key Economic Figures at a Glance

### I. Economic Impact & Situation

- **Significant GDP Decline:** Ukraine experienced a roughly 30% decline in real GDP following the full-scale invasion.
- **GDP Recovery, but Slowing:** GDP growth occurred in 2023 (5.3%) and 2024 (2.9%), but the rate is slowing, and pre-war levels haven't been reached.
- **Hryvnia Devaluation:** The Ukrainian currency significantly devalued after the invasion, losing 70-80% of its value. While stabilized, it remains impacted.
- **High Inflation:** Inflation spiked in 2022 (26.6%) but was brought under control in 2023 (4%) before beginning to rise again in 2024.

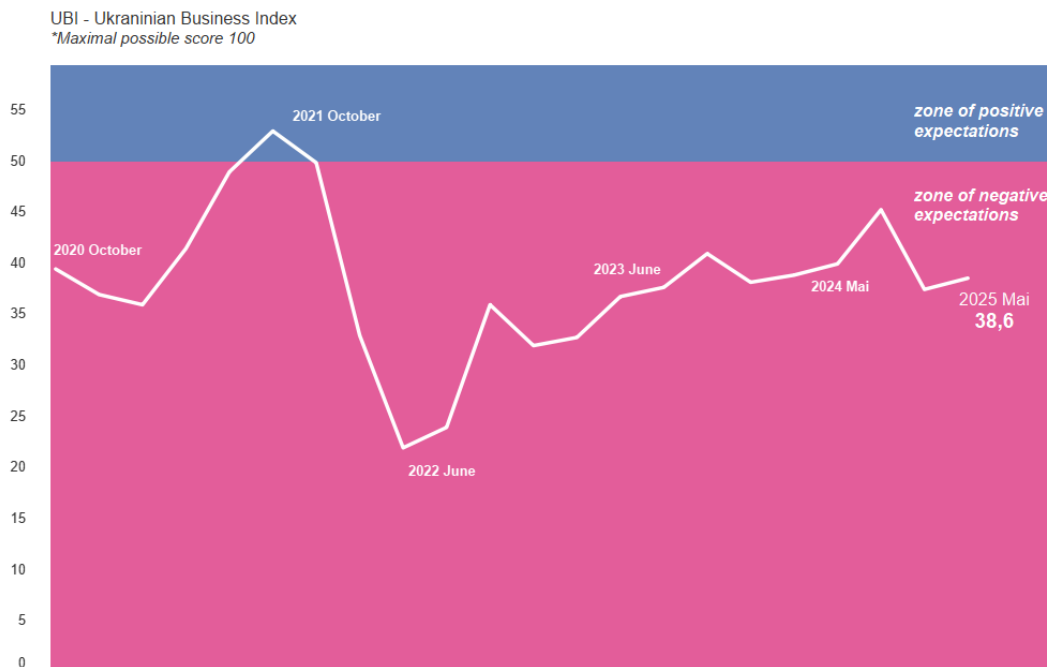
- **Disrupted Labor Market:** The war caused substantial job losses (around 4.8 million initially) and a reduction in the labor force (approximately 40%) due to mobilization and emigration.

## II. Business & Industry

- **Business Resilience:** Despite challenges, a majority of businesses (91%) have resumed operations.
- **Capacity Underutilization:** Businesses are operating below full capacity (50-70%), indicating potential for growth with increased demand.
- **Challenges for Businesses:** Key challenges include unpredictability, logistical issues, financing difficulties, and labor shortages.
- **Growth of IT Sector:** The IT sector remains a relative bright spot, with continued growth and adaptation.
- **Importance of SMEs:** Micro, small, and medium-sized enterprises (SMEs) are crucial to the Ukrainian economy (99% of businesses, 70% of jobs).

### Figure 2: Ukrainian Business Index (UBI)

The UBI is a composite indicator designed to capture the current state and expectations of business activity for micro, small, and medium-sized enterprises (MSMEs) in Ukraine.

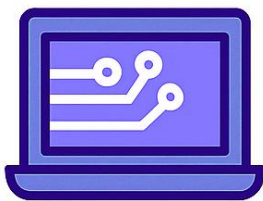


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### III. Regional Disparities & Clusters

- **Regional Imbalance:** The war has exacerbated regional economic disparities, with eastern and southern regions heavily impacted.
- **Cluster Development:** Approximately 65 active clusters exist in Ukraine, but their impact is limited by a lack of legal framework and funding.
- **Regional Specialization:** Regions are beginning to focus on specific sectors based on their strengths (e.g., IT in Lviv, agriculture in Vinnytsia).

### IV. Innovation & R&D



- **Strong Scientific Base:** Ukraine has a strong foundation in education and science, particularly in IT and engineering.
- **Limited R&D Funding:** Insufficient funding and infrastructure hinder research and development activities.
- **Horizon Europe Participation:** Ukrainian universities are actively involved in EU research programs like Horizon Europe.

### V. Governance & Political Stability

- **Political Stability:** Ukraine has demonstrated relative political stability despite the war.
- **Need for Institutional Reform:** Strengthening institutions and improving governance are crucial for long-term recovery.
- **Digitalization Efforts:** The government is actively pursuing digitalization initiatives to improve public services and transparency.

### Conclusion

- ❖ *Ukraine possesses significant economic potential, but its development is severely hampered by the ongoing war and related challenges (destruction of infrastructure, displacement of population, loss of markets).*
- ❖ *Despite the war, Ukraine demonstrates remarkable resilience and adaptability, particularly in the IT sector and through the rapid relocation and adaptation of businesses.*
- ❖ *The country's innovation ecosystem is underdeveloped but has potential, particularly in sectors aligned with regional strengths and European priorities.*
- ❖ *Clusters exist but are fragmented and lack strong institutional support, hindering their ability to drive economic growth.*



- ❖ *Ukraine's R&D capacity is significant but underfunded and disconnected from the real economy, limiting its impact on innovation and competitiveness.*
- ❖ *Significant gaps exist in funding, infrastructure, and regulatory frameworks hindering innovation and business development.*
- ❖ *Marked regional disparities are evident: Western regions show higher resilience and closer economic ties with the EU, while eastern and southern regions face greater challenges due to the war.*
- ❖ *Digitalization is a key enabler for recovery and development, offering opportunities to improve efficiency, transparency, and access to services.*
- ❖ *Strong international support is crucial for Ukraine's economic recovery, including financial assistance, technical expertise, and market access.*

The study finds that Ukraine possesses considerable economic potential, yet its development remains severely constrained by the ongoing war and its consequences, including the destruction of infrastructure, the displacement of people, and the loss of key markets. At the same time, the country demonstrates remarkable resilience and adaptability, most visibly in the IT sector and in the rapid relocation and adjustment of many businesses under extraordinary circumstances.

Ukraine's innovation ecosystem, while underdeveloped, holds promise, particularly in areas that align with regional strengths and European priorities. However, existing clusters are fragmented and lack robust institutional support, which limits their ability to act as effective drivers of growth. Similarly, the country's research and development capacity, though significant, is chronically underfunded and insufficiently connected to the real economy, reducing its impact on competitiveness and innovation. These shortcomings are further compounded by persistent gaps in funding, infrastructure, and regulatory frameworks.

Regional disparities also shape the picture, with western regions displaying stronger resilience and closer integration with European markets. Digitalization emerges as a key enabler for recovery and modernization, offering opportunities to improve efficiency, transparency, and access to services. The study underlines that Ukraine's economic recovery will rely heavily on continued and coordinated international support in the form of financial assistance, technical expertise, and access to markets. Overall, a strategic and well-coordinated approach to innovation and economic development is essential. This requires leveraging Ukraine's existing strengths, addressing its weaknesses, and fostering closer collaboration between government, business, and research institutions. In this regard, the effective implementation of Smart Specialization strategies and deeper integration with the European Union represent critical pathways for sustainable future growth.

Overall, the study concludes that Ukraine needs a coordinated and strategic approach to innovation and economic development, leveraging its strengths, addressing its weaknesses, and fostering collaboration between government, businesses, and research institutions. The successful implementation of Smart Specialization strategies and increased integration with the EU are seen as critical pathways for future growth.

### Next Milestones in the Project

The study is a building block towards initiating flagship projects among PA 8 partners across the Danube Region in addition to fostering innovation and collaboration across different regions in Ukraine. Further activities will include:

- 📄 *Publication of an interactive actor map to initiate matchmaking activities*
- 📄 *Two workshops (hybrid) with stakeholders from Ukraine and other interested EUSDR countries*
- 📄 *Project drafting and consulting to arrive at flagship projects*

Overall, the study concludes that Ukraine needs a coordinated and strategic approach to innovation and economic development, leveraging its strengths, addressing its weaknesses, and fostering collaboration between government, businesses and research.

### Contacts



**Dr. Silke Schmidt**

*Project Lead, VDI/VDE-IT*

*[silke.schmidt@vdivde-it.de](mailto:silke.schmidt@vdivde-it.de)*



**Nadija Afanasieva**

*Director, Ukrainian Institute for International Politics*

*[n.afanasieva@uiip.org.ua](mailto:n.afanasieva@uiip.org.ua)*