



Reconstruction of Ukraine

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Bernd Weidensteiner ^{AC}

Should the US manage to negotiate a peace in Ukraine with Russia, the costs of rebuilding the war-torn country and securing the peace will come to the fore. We are trying to make a rough estimate of the funding requirements.

The US government is applying pressure to achieve peace or at least a ceasefire in Ukraine as soon as possible. To this end, direct negotiations with Russia are planned, apparently without the EU and with unclear participation of Ukraine itself. It is difficult to assess whether a rapid end to the fighting can be achieved under these conditions. Nevertheless, the costs of reconstruction in Ukraine are already becoming the focus of interest. We will attempt to provide some rough guidelines for the scope of the reconstruction effort.

War damage in Ukraine...

Estimating the funds needed for reconstruction begins with an appraisal of the damage caused. The most devastating aspect of war is, of course, the human cost: the dead, wounded and otherwise injured. We will focus here on the enormous material losses, based on the Rapid Damage and Need Assessment (RDNA) of the war damage presented by Ukraine together with the EU, the World Bank and the UN [1]. So far, three such estimates have been published, the last one a year ago:

- **Direct damage.** This refers to the destruction of housing, infrastructure or production facilities. At the end of 2023, around 10% of Ukraine's housing was damaged or destroyed, for example. All in all, direct damage is estimated at over \$150 billion (Chart 1). After another year of war, it is now likely to exceed \$200 billion.
- **Indirect losses.** Combat operations and displacements lead to production stoppages and harvest losses. By the end of 2023, 5.9 million refugees from Ukraine were registered in other European countries, in addition to 3.7 million internally displaced persons. Furthermore, up to one million persons are serving in the Ukrainian army. Millions of people have thus been removed from the labor market in Ukraine. These people have therefore not been able to contribute to value creation at all, or at least not to the usual extent, in the last three years. Lost teaching and training hours also have economic follow-up costs. The indirect damage is significantly higher than the direct damage and is estimated at around \$500 billion at the end of 2023.

Unlike direct damage, indirect damage ("losses" in the RDNA analyses) can only be partially compensated for later on – a failed harvest, for example, is irretrievably lost.

...and the country's needs for reconstruction and recovery

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In addition to assessing the damage, the reports by Ukraine and its partners also determine the country's needs for reconstruction. According to the RDNA, the amount determined in this way is an estimate of the value "associated with the resumption of prewar normality through activities such as repair and restoration, including a premium linked to build back better principles e.g., improved energy efficiency, modernization efforts, and sustainability standards as well as factors such as global inflation, surge pricing due to volume of construction, higher insurance, and so forth". The costs of ordnance disposal are also taken into account.

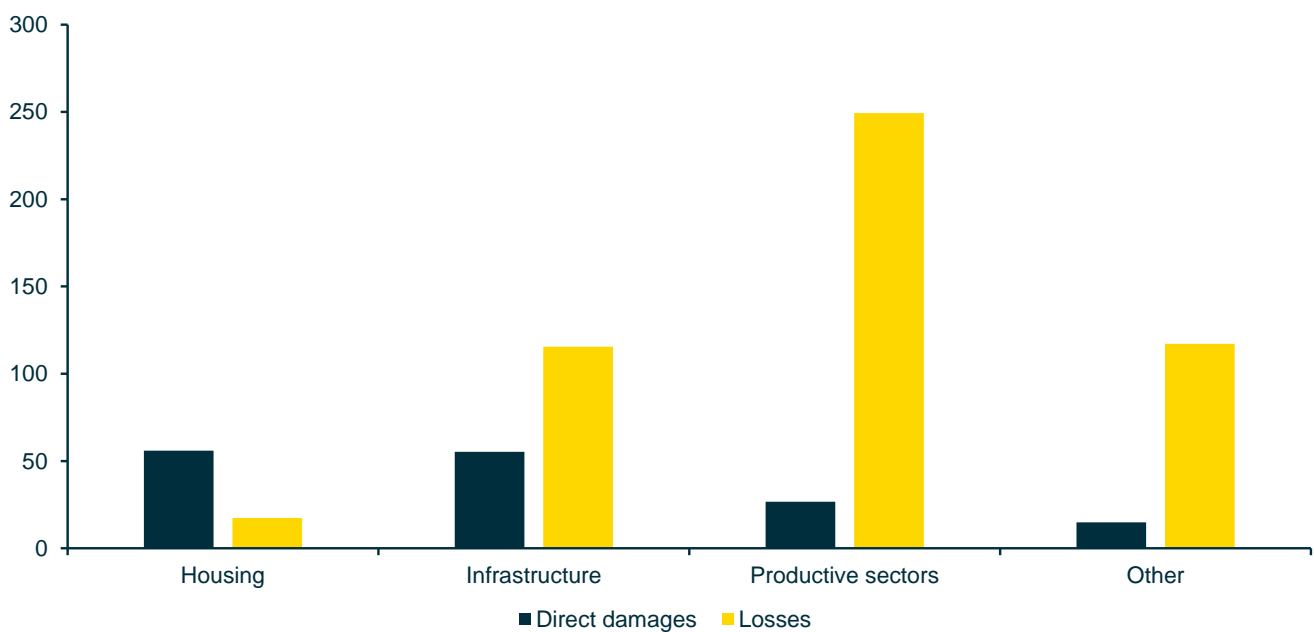
The RDNA-3 (the third corresponding report) estimated the funds needed for reconstruction by the end of 2023 at \$486 billion. Assuming a similar increase to 2023 to compensate for the additional damage caused in the meantime, the need is likely to have increased to \$550 billion.

Some clarifications are in order here:

- Firstly, these assumed needs extend over a period of ten years. On average, therefore, \$55 billion per year, with higher initial needs to address the most pressing damage.
- Secondly, the estimate of requirements does not yet say who will provide the necessary resources. It is likely that not all the funding needs will be covered from abroad, but that a significant portion will come from Ukraine itself.
- Thirdly, neither the (Western) foreign countries nor Ukraine will provide reconstruction aid for the areas that will presumably remain occupied by Russia. These areas, such as the Donbas, have been particularly affected, as they were the scene of heavy fighting.
- Fourthly and finally, economic limits should not be overlooked. The key question here is how much funding an economy the size of Ukraine can reasonably use in a year.

Chart 1 - War damages in Ukraine

Estimates of direct damages and losses from foregone production, disrupted services etc. in billion dollars. Data as of end-2023



Source: Third Rapid Damage and Needs Assessment (RDNA), Commerzbank Research



... against the background of the Ukrainian economy

From a real economic point of view, reconstruction aid from abroad would be equivalent to financing and providing the imports necessary for the reconstruction. These would include, for example, machines (including construction machines), generators, materials, vehicles, etc. These would then be integrated into the Ukrainian production apparatus or used in the reconstruction.

Currently, Ukraine suffers from a labor shortage. If a peace agreement were to be reached, many of the Ukrainian refugees living abroad could return to the country, and a certain amount of demobilization would also likely occur in the army. As a result, the labor force would increase again and the current labor shortages could be alleviated.

What level of foreign aid (imports) could Ukraine “handle” without major disruptions after the Ukrainian labor force had been largely reintegrated into the labor market? One point of reference is the economic output before the invasion: in 2021, Ukraine had a GDP of \$200 billion. If foreign countries were to provide the entire \$55 billion in resources needed for reconstruction in 2021, this would correspond to more than a quarter of Ukraine’s pre-war GDP.

Some of the funds would pay for goods supplied from abroad and would therefore not flow into the Ukrainian economy. In addition, some of the funds are likely to go to foreign construction companies that could operate in Ukraine with foreign workers. This could further mitigate the overheating effect. However, such companies would also employ support staff and suppliers in Ukraine, they would need accommodation, and the “guest workers” would spend money in Ukraine.

Thus, the risk remains that the expected significant inflow of funds will bring with it the risk of economic overheating and possibly make it difficult for the economy to achieve anything like an equilibrium.

By way of comparison: the Marshall Plan, which is repeatedly cited as an example of successful aid in rebuilding economies destroyed by war, rarely exceeded 2%-3% of the GDP of the recipient countries.

The bottom line

How much funding would the foreign partners have to provide for Ukraine in the longer term? We make a few assumptions:

- Military aid will continue unchanged for the time being. By the end of 2024, military aid from Ukraine’s partners totaled \$130 billion so far, or around **\$40 billion** per year [2].
- We estimate that reconstruction aid will amount to **\$20-25 billion** per year (so that roughly half of the reconstruction needs would be covered from abroad). This takes into account the “absorption capacity” of the Ukrainian economy mentioned above.
- The costs for the accommodation of refugees (so far about \$40 billion per year) would probably fall noticeably with a ceasefire/peace agreement (Poland and Germany are currently shouldering a particularly large share here). Either the Ukrainians would move back to their homeland, or they would remain in their host countries and would then gradually be integrated into the labor market and no longer receive permanent financial support as refugees [3]. For the time being, we estimate **\$25 billion** in refugee costs.

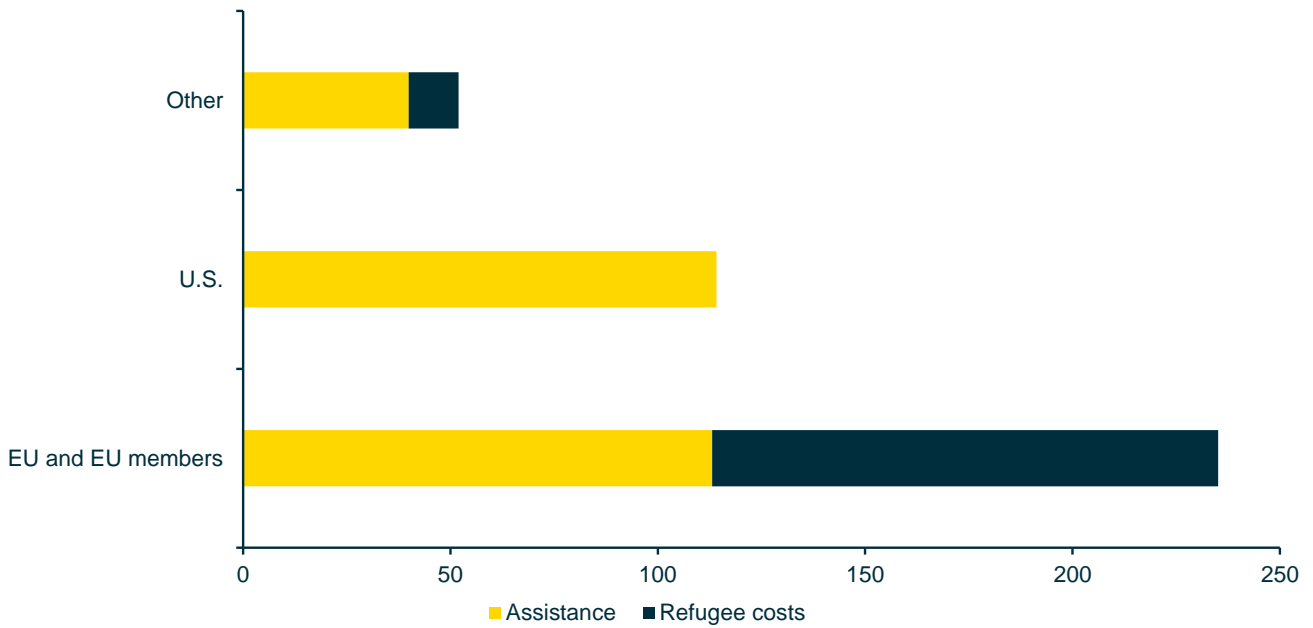
All in all, \$90 billion per year would have to be raised. Even if these costs were to be borne entirely by the EU, the EU would not have to provide much more than it has done



so far. So far, a total of \$240 billion has come from the EU (\$80 billion per year), \$115 billion from the US, and roughly \$50 billion from other countries (Chart 2).

Chart 2 - So far, 400 billion dollars support for Ukraine

Assistance for Ukraine (military and otherwise) and estimated costs for housing Ukrainian refugees in host countries



Source: IfW Support Tracker, Commerzbank Research

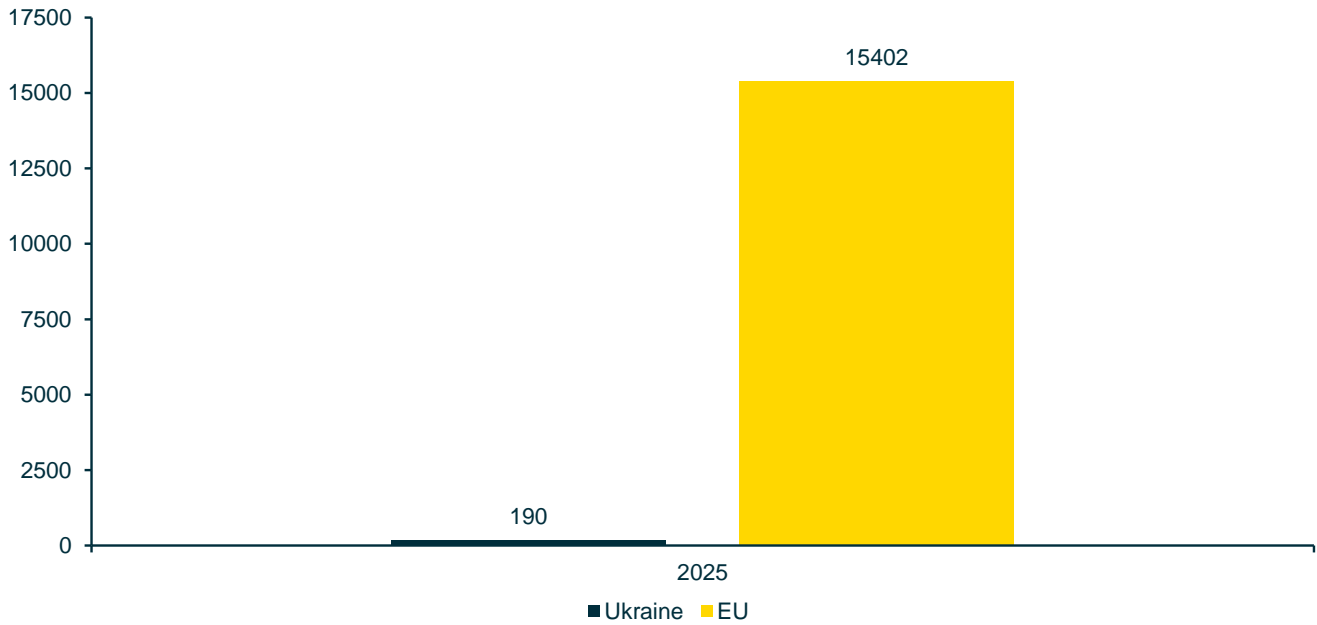
The EU can afford to provide aid to Ukraine.

Payments for the reconstruction of Ukraine would lead to increased production in the EU, for example of construction equipment and building materials. However, the economic effect should not be overestimated here. After all, the EU's GDP is currently around \$15,000 billion (Chart 3). Even if the entire \$90 billion were to lead to higher production in the EU - an unrealistic assumption - this would correspond to an economic effect of at most 0.6% of economic output. Conversely, this also means that the EU can certainly afford these subsidies without major problems.



Chart 3 - The EU is strong enough to carry the burden of Ukraine assistance

Nominal GDP in billion dollars, IMF projection for 2025



Source: IMF, Commerzbank Research

What will be much more expensive: deterrence

A far greater burden than aid for Ukraine would be the inevitable investment in the EU’s own defense capability. Last year, European NATO countries spent around 2% of their gross domestic product (GDP) on defense. Currently, figures of around 3.5% of GDP are being discussed. The increase of 1.5 percentage points of GDP would correspond to additional spending of around \$230 billion per year. However, the increase will presumably not be spread evenly. Countries that are geographically close to Ukraine – and thus close to the Russian threat – would probably spend more. For example, Poland’s defense spending reached 4.1% of GDP already in 2024.

In addition, any “protection force” to monitor a ceasefire or peace agreement in Ukraine would probably also have to come from the EU and the UK; the Americans have already rejected the idea of sending their own troops. A credible force for such a mission would likely be quite substantial. Defense spending, especially for the likely troop contributors (Germany, France, Poland and the United Kingdom), will therefore probably have to be even higher.

[1] Cf. [Third Rapid Damage and Needs Assessment](#) (RDNA3), February 2022 – December 2023, published February 2024 ([back to text](#))

[2] These figures are based on [IfW’s Ukraine Support Tracker](#). ([back to text](#))

[3] According to the IAB Immigration Monitor, around 296,000 Ukrainians were employed in Germany in November 2024, an increase of 83,000 compared to the previous year. The employment rate has risen to almost 32%. ([back to text](#))



Analysts

Bernd Weidensteiner ^{AC}

Senior Economist

+49 69 9353 45625

bernd.weidensteiner@commerzbank.com

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Commerzbank Offices

Frankfurt

Commerzbank AG
DLZ - Gebäude 2,
Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd
floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000