

Inequality and Human Capital in Ukraine during the War: Is it a Matter of Concern for Immediate Economic Policy Responses?

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1. Introduction

Ukraine has been at war for three consecutive years. It's disastrous for its economy and society, affecting human capital in many dimensions. The immediate need is to find a way to end this war based on Ukraine's peace formula. Continuing this conflict will lead to losses in many areas, including a declining quality of life and irrevocable setbacks for economic progress. My intellectual nod goes to Joseph Stiglitz¹, who described the role of freedom in its societal and political meaning for building a good society. War never brings freedom while it lasts. The question is not about what will happen after the war when Ukraine wins and Russia is defeated. There are President Delano Roosevelt's "Four Freedoms": first, the freedom of speech; second, the freedom of every person to worship God in their own way; third, freedom from want (to secure for every nation a healthy peacetime life for its inhabitants); and fourth, freedom from fear (a world reduction of armaments to such a point that no nation will be in a position to commit an act of physical aggression against any neighbor). Now everybody see the violation of all these freedoms, including human rights and economic freedom. The violations of freedom experienced by the Ukrainian people across various dimensions are indeed profound and deeply concerning. I also see the correlation between freedoms and inequality. The latter deteriorates people's freedoms. War always leads to increasing inequality and a lack of freedoms.

Economic, social, and the freedom to live a normal life matter greatly for human capital, which from another methodological perspective in macroeconomics is considered as households and the economically active population of the country. Economic activities are disrupted due to the ongoing conflict, leading to job losses, business closures, and economic instability. The destruction of civilian infrastructure, including residential areas, energy capacity, factories, and businesses, impedes economic development and prosperity. International sanctions imposed on the aggressor country work weakly, allowing circumventions and profits from fossil fuels to fund aggression. Ukraine faces further impacts on economic freedoms due to restricted trade caused by supply chain disruptions and limited investment opportunities.

The disruption of education due to consistent missile attacks prevents children and young people from accessing schooling and pursuing academic opportunities. Loss of human capital occurs as teachers, academics, and skilled professionals are either displaced, injured, or killed in the conflict. Restrictions on movement and daily activities due to martial law hinder social interactions and community cohesion.

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¹Stiglitz, J. E. (2024). *The Road to Freedom: Economics and the Good Society*. Allen Lane.

Daily routines and livelihoods are disrupted by the need to adapt to a war economy. Access to essential services and basic needs such as healthcare, education, food, electrical power, and clean water is compromised due to the damage to infrastructure and restricted access to resources in regions bordering the aggressor and areas where active military actions are taking place.

Therefore, Ukrainians have been deprived of many freedoms by the war imposed exogenously, leading to increased inequality and losses in many dimensions, including human capital. This policy brief aims to highlight these issues rather than provide definitive answers.

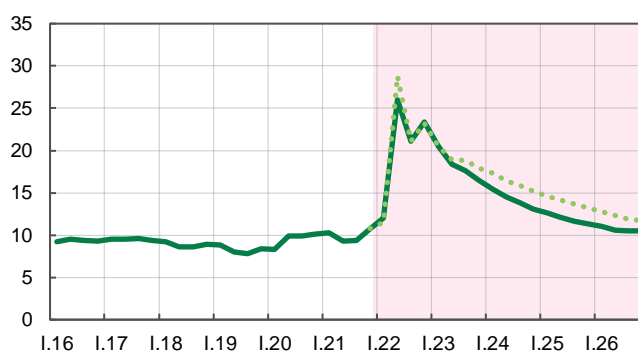
2. Inequality and the lack of economic freedom

With the onset of the full-scale armed aggression of the Russia against Ukraine, there has been a marked decline in economic activity, loss of national income, and a significant acceleration in consumer price inflation. These factors have led to a decline in the quality of life not only for vulnerable groups but also for a significant portion of the Ukrainian population as a whole. Economic inequality has never been a concern of the Ukrainian government. This issue is generally not addressed at all. Against the backdrop of the war, economic inequality is unequivocally increasing. There are no serious calculations of economic inequality. Internally displaced persons (IDPs) who have lost their homes, jobs, and businesses suffer the most.

A survey from October 2022 indicated that 78% of citizens experienced a decrease in income since the invasion began, with only 2% reporting an increase.¹

The labour market is experiencing a shortage of 4.5 million workers, despite the fact that the unemployment rate is still high at the level of more than 23% (figure 1).

Figure 1. International labour organisation unemployment rate, seasonally adjusted, %



Source: SSSU, NBU staff estimates.²

A Gradus survey in 2022 indicated that just 26% of businesses were operating at full capacity or above, while 52% were running at half capacity. Additionally, 24% of the surveyed companies reported a staff shortage.³ According to the European Business Association, the

¹ Gradus. (2022). Migration and socio-political attitudes during the full-scale war of Russia against Ukraine – twelfth wave of research. Retrieved from https://gradus.app/documents/317/Gradus_EU_wave_12_UA.pdf

² National Bank of Ukraine (2024). Inflation report. April 2024. <https://bank.gov.ua/en/news/all/inflyatsiyniy-zvit-kviten-2024-roku>

³ Gradus. (2022). Migration and socio-political attitudes during the full-scale war of Russia against Ukraine – twelfth wave of research. Retrieved from https://gradus.app/documents/317/Gradus_EU_wave_12_UA.pdf

majority (60%) of its member companies plan to either maintain their current number of employees or make slight reductions in 2024.¹

Surveys by the National Bank of Ukraine (NBU) during the two years of conflict, presented in its quarterly inflation reports, also reveal disparities in the labor market. They found that only retail businesses plan to slightly increase their workforce, whereas companies in the industrial and service sectors are looking to reduce their staff. The construction sector anticipates no change in employment levels.²

Extensive damage to infrastructure, particularly energy and port facilities, is anticipated, which will curtail economic transactions and generate supply-side strains on prices. NBU anticipates a reduction in security risks and a return to normal economic conditions over the period for the next two years. Consequently, this will facilitate the complete restoration of sea ports, enhance investment prospects and economic operations, and encourage the gradual repatriation of displaced individuals to Ukraine. Although, at the same time it is projected that approximately 0.2 million people will emigrate from Ukraine in 2024.³

Incomes of Ukrainians must be a matter of concern for policymakers and prudent economic policy during wartime. The incomes of Ukrainians must be a matter of concern for policymakers and prudent economic policy during wartime. The continuing emigration of Ukrainians abroad due to worsening security conditions is compounded by the deteriorating economic situation, increasing impoverishment, negative economic and inflation expectations, and fears about the future of their children. General poverty and economic freedoms always move in opposite directions.

There still exists a significant disparity in average wages when compared to the middle-income levels of EU countries. The officially established subsistence minimum fails to meet the actual needs of households, being less than half of the necessary amount for various social and demographic groups. As of December 2022, the actual subsistence minimum for working-age individuals was 7,539 UAH (~206.2 USD⁴), whereas the official figure was 2,684 UAH (~73.4 USD). It rose approximately to 8,962 UAH (~234.6 USD) in 2023, while the official figure remained unchanged.⁵ The inadequate official subsistence minimum significantly impacts the purchasing power of the least well-off⁶, exacerbating societal and economic inequality.

Income inequality is deepening across regions, particularly those most affected by military actions, creating new vulnerable groups. Due to the invasion, 67% of IDPs are from Eastern Ukraine.⁷ Among surveyed IDPs, 9% reported no income since the war's start, 47% do not receive a salary, and 35% have a family income below 5,000 UAH per month, which is 1,500 UAH less than the minimum wage⁸.

¹ Cited by Vinokurov, Y. (2023, October 16). How to overcome the workforce shortage in Ukraine? Economic Truth. Retrieved from <https://www.epravda.com.ua/publications/2023/10/16/705494/>

National Institute for Strategic Studies. (2023, May 23). Deepening income inequality in the context of armed aggression against Ukraine. Retrieved from <https://niss.gov.ua/news/komentari-ekspertiv/pohlyblennya-nerivnosti-v-dokhodakh-naselennya-v-umovakh-zbroynoyi>

² National Bank of Ukraine. Inflation report. <https://bank.gov.ua/en/monetary/report>

³ National Bank of Ukraine (2024). Inflation report. April 2024. <https://bank.gov.ua/en/news/all/inflyatsiyniy-zvit-kviten-2024-roku>

⁴ Estimations in US dollars at the average currency exchange rate of the hryvnia to the dollar at the end of the year.

⁵ State Statistical Service of Ukraine. Ministry of Finance of Ukraine.

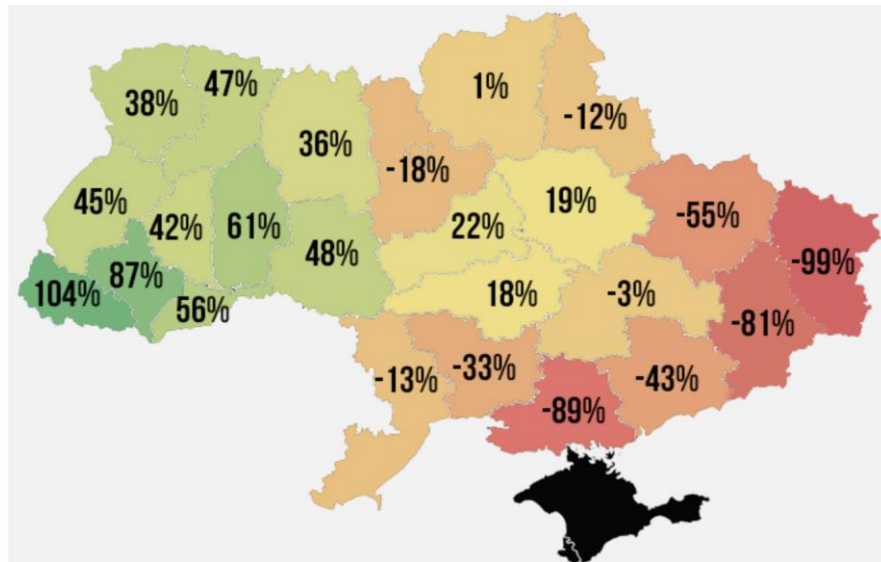
⁶ The term 'the least well-off' is used by the Government of Ukraine instead of 'poor' because the latter is politically unattractive.

⁷ International Organization for Migration (IOM). (2022). Report on internal displacement in Ukraine general population survey. Round 7, 23 July 2022. Retrieved from <http://nowar.nbu.gov.ua/post/0000269>

⁸ Ibid.

The war has brought significant distortions to the economic structure and has caused immense displacement of the population both domestically and externally. It is estimated that up to 3.4 million Ukrainians are currently displaced inside Ukraine.¹ This displacement has significantly impacted their economic freedoms². IDPs have lost their real estate, jobs, and stable income. If they had savings, these are quickly depleting, taking into account that 60% of Ukrainian households have savings for less than a month if they were to stop receiving income³. In their new locations, displaced households face numerous challenges. They incur adjustment costs, including additional living expenses for adapting to a new place, time spent searching for employment, and often, they are compelled to accept inferior job positions compared to their previous roles, thereby diminishing the overall quality of human capital as skilled workers find themselves in semi- or low-skilled positions. Additionally, they incur costs for rent that eliminate their consumption of necessities (food and cloth). Better assessments of current economic situations were reported among residents of Western Ukraine.⁴ It can be observed indirectly by the changes in vacancies between the regions of Ukraine where primarily Western oblasts of Ukraine demonstrates the significant increase in this economic parameter.⁵

Figure 2. Change in the number of vacancies in the regions of Ukraine compared to the pre-war period



¹ International Organization for Migration. (2024). Ukraine — Area Baseline Assessment (Raion Level) — Round 34 , March 2024. Retrieved from <https://dtm.iom.int/reports/ukraine-area-baseline-assessment-raion-level-round-34-march-2024#:~:text=The%20data%20collected%20for%20the,total%20of%203%2C387%2C291%20registered%20IDPs.>

² Economic freedoms encompass various rights and privileges, including the freedom to engage in entrepreneurship, the ability to choose one's type of economic activity, and access to essential services such as high-quality education and medical care, which are crucial for enhancing human capital.

³ More than half of Ukraine's citizens have almost no savings, and without work, their funds will last less than a month for living. This information comes from a survey conducted by the "Rating" group in March of 2020. Nearly 60% of respondents indicated that their savings would last less than a month if they were to stop receiving income. 16% of respondents stated that they would have savings to last for up to two months. 7% will have enough to live on for up to three months, 6% for up to six months, and 3% for a year or more. Source: Economic Truth. (2020, April 1). 60% of Ukrainians have savings for only a month — survey. <https://www.epravda.com.ua/news/2020/04/1/658835/>

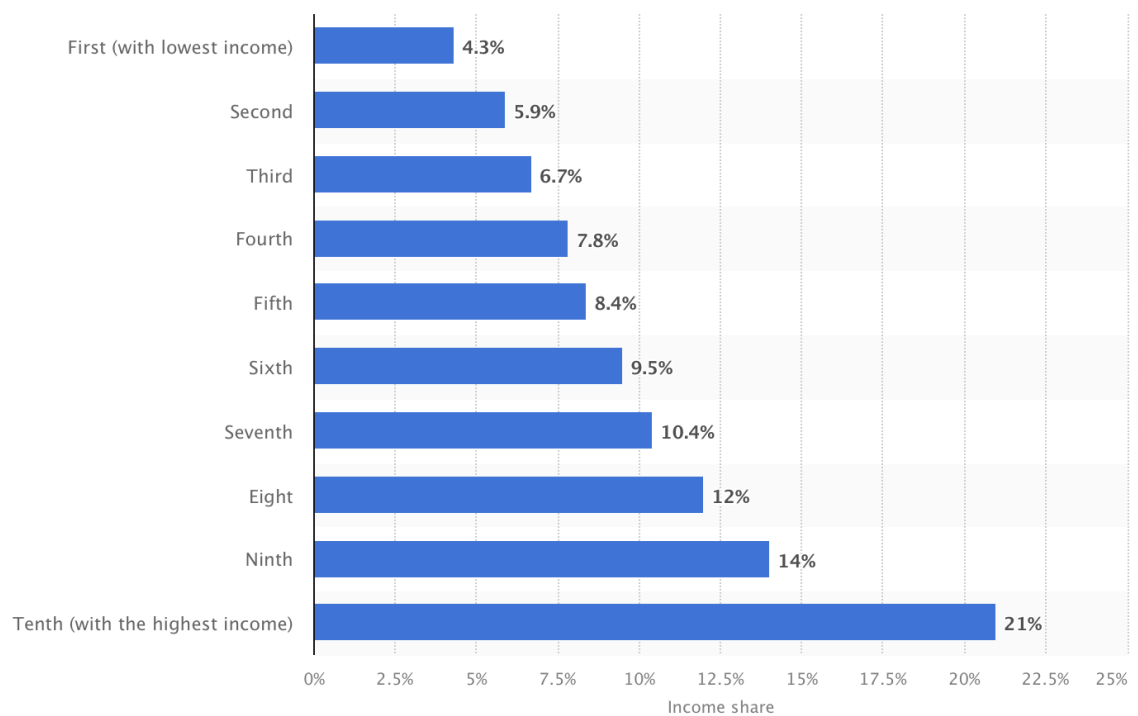
⁴ Rating Group. (2022). Comprehensive study “How the war changed me and the country. Results of the year.” Retrieved from https://ratinggroup.ua/files/ratinggroup/reg_files/rating_war_changed_me_and_country.pdf

⁵ Cited by Vinokurov, Y. (2023, October 16). How to overcome the workforce shortage in Ukraine? Economic Truth. Retrieved from <https://www.epravda.com.ua/publications/2023/10/16/705494/>

Source: cited from Vinokurov (2023); work.ua.

The situation with income distribution before the war was as follows. From 2017 to 2021, the income shares of the least well-off population decreased, while that of the wealthiest households in the last decile increased. In 2017, the total income of the first decile was 4.6% of all households' total income, dropping to 4.3% by 2021. Meanwhile, the tenth decile's share rose from 20.6% in 2017 to 21% in 2021, reaching 21.7% in 2020. Thus, the wealthiest 10% of households received over 20% of the total income, while the poorest 10% received only 4.3%¹ (see Figure 3). It's important to note that these official statistics do not account for the significant shadow economy in Ukraine, which primarily involves higher-income groups.

Figure 3. Total income distribution in Ukraine in 2021, categorized by population deciles



Source: Statista. (2022). Distribution of total income in Ukraine in 2021, by 10-percent population group. Retrieved from <https://www.statista.com/statistics/1264567/ukraine-income-distribution-by-decile-group/>

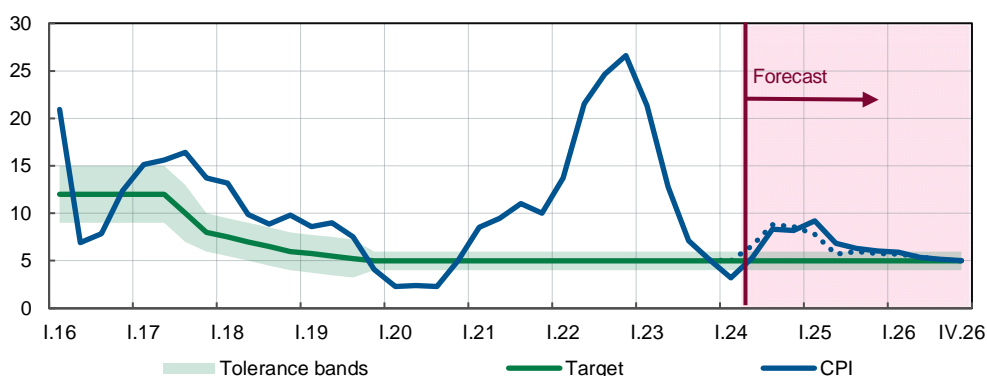
Regional disparities in disposable income per capita were significant in 2021. The Dnipropetrovsk region had an average annual disposable income per capita of 113,085 UAH (4,148.39 USD), and the Kyiv region had 98,771 UAH, compared to the national average of 90,036 UAH (3,623.29 USD). In contrast, the Donetsk and Luhansk regions had the lowest figures, with incomes 1.8–2.8 times below the national average, at 49,217 UAH (1,805.46 USD) and 32,223 UAH (1,182.06 USD) respectively².

¹ State Statistics Service of Ukraine (2022). Statistical yearbook “Expenditures and resources of households in Ukraine.” Retrieved from <https://ukrstat.gov.ua/>

² State Statistics Service of Ukraine. (2022). Household income by regions of Ukraine. Retrieved from <https://ukrstat.gov.ua/>

Income trends in Ukraine. The high inflation in 2022 of 26.6% led to a sharp decline in real incomes (Figure 4). According to official estimates from the State Statistics Service of Ukraine, incomes decreased by 14% in the first year of full-scale war. Moreover, real unemployment reached 30% among the working-age population. Average incomes would have fallen even further if it weren't for payments to military personnel.

Figure 4. Consumer Price Index (CPI) growth (end of period, percentage year-over-year)



Source: SSSU, NBU staff estimates.

To manage inflation through non-market methods and unconventional monetary policy during wartime,¹ the NBU recommended freezing nominal wages in the public sector, resulting in households effectively paying an inflation tax for two years.² In January 2024, the first indexation of up to 20% was implemented in the public sector since the beginning of the war, but not across all economic sectors, that impacted negatively the households' solvency. Household expenditures have historically driven economic growth. In 2021, household final consumption expenditure constituted around 70% of Ukraine's GDP.³ After the first year of war, the role of household consumption slightly diminished, with more funds redistributed through the state.⁴

In contrast, real incomes began to rise just one year from the beginning of the war. According to Work.ua, in 2023, the average nominal salary increased by 23%. Similar estimates are provided by the State Statistics Service of Ukraine (though based on third-quarter results). However, Ukraine Economic Outlook offers more conservative estimates, suggesting an approximate 17% increase in salaries over the year. Considering the inflation rates during the years of conflict, the real income growth of Ukrainian workers in 2024 is approaching pre-war levels but likely remains lower or only slightly higher, and not for all economic sectors.

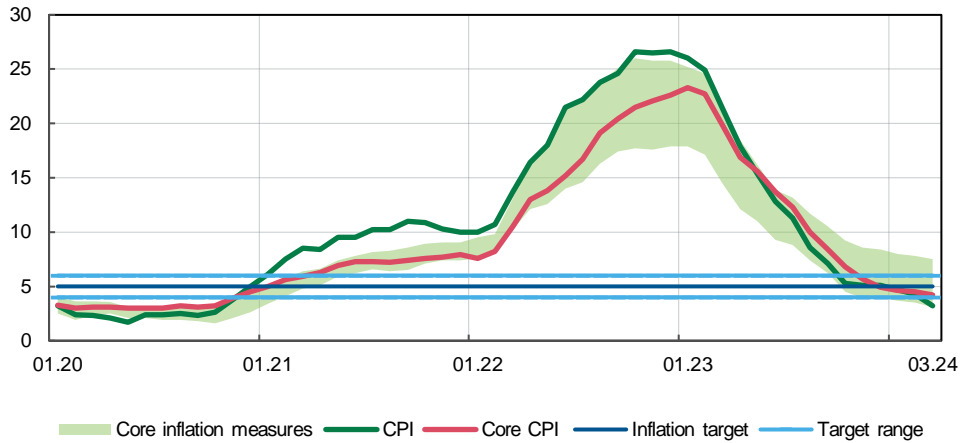
¹ OECD Economic Outlook: Paying the Price of War(2022, September). Interim Report. <https://www.oecd-ilibrary.org/sites/ae8c39ec-en/index.html?itemId=/content/publication/ae8c39ec-en#section-d1e624>

² Basic principles of monetary policy for the period of martial law. Council of the National Bank of Ukraine. Approved by the decision of the Council of the National Bank of Ukraine, dated April 15, 2022. <https://bank.gov.ua/ua/files/hJTwdlrBPNWeMzk>

³ State Statistics Service of Ukraine. (2021). Statistical Information.

⁴ Moskalenko, O., & Aiginher, K. (2023). *Reconstructing Ukraine: How to Support the Economy During Wartime?* The European Future of Ukraine, Working Paper 2/2023. Policy Crossover Centre, Vienna, Austria.

Figure 5. Consumer inflation and underlying inflation trends, % yoy



Source: NBU staff estimates.

Experts from Ukraine Economic Outlook attribute the salary increases primarily to labour shortages due to conscription and the departure of millions of refugees abroad. The NBU predicts in its sequent quarterly Inflation reports the constant rise of wages, but still the price level in Ukraine is comparable with many EU countries, and average wage is expected to be \$519 before tax (tax from a worker is 19.5%, including 1.5% of military duty) in 2024¹ (Figure 6).

Figure 6. The average nominal salary in Ukraine



Source: National Bank of Ukraine, Work.ua, calculations by Ukraine Economic Outlook. Cited from: Minfin (2024).

¹ Minfin (2024). "Two years of the Great War: how the economy has changed, the incomes of Ukrainians, and the state debt" February 23, 2024. <https://minfin.com.ua/ua/currency/articles/dva-roki-velikoyi-viyni-yak-zminilas-ekonomika-dohodi-ukrayinciv-ta-derzhavniy-borg/>

One cannot take it for granted that wages will grow in the short run. They remain rigid as firms are reluctant to raise them, and the government maintains a model of cheap labor year after year, increasing salaries in the public sector unevenly. For example, an ordinary policeman, who may not have higher education or experience but only the appropriate police training, has a salary of 30,000 UAH (750 USD) per month. In contrast, a physician in a public hospital has a guaranteed salary of 16,100 UAH (402.5 USD), and a professor at a national university with 10 years or more of experience earns 18,000 UAH (450 USD). A teacher at a secondary school earns around 15,000-20,000 UAH (375-500 USD). This indicates that in the public sector, the economy has risen and grown unevenly, without considering qualification levels, the social significance of work, etc., thereby generating significant economic inequality in wages.

Due to a significant number of forced migrants over the past two years, Ukraine's population has decreased substantially. While before the full-scale invasion, the population stood at 41 million, it is now estimated to be around 32-33 million. The economically active population forms the backbone of successful economies. Therefore, Ukraine's economic recovery will heavily depend on the return of its working-age labour. The demographic composition post-full-scale war remains uncertain, but optimistic projections by the Institute of Demography and Social Studies of the NAS of Ukraine indicate challenges, with 100 women projected to give birth to 130 children.¹ This suggests no baby boom can be expected, which, in part, reflects expectations of economic hardship in the near-term.

Income inequality in Ukraine, as indicated by a Gini coefficient of 25.6 in 2020, is relatively low compared to many EU countries. For instance, Germany has a Gini coefficient of 31.1, France 32.4, Poland 30.2, the Czech Republic 24.0, and the UK 34.3². This suggests that, at least in terms of income distribution, Ukraine is more equitable than many of these nations.

Before the war, Ukraine was characterized by an oligarchic economy. Consequently, the relatively low Gini coefficient does not accurately reflect the reality of wealth distribution in the country, which is quite unattractive. The level of inequality is high between regions and between the public and private sectors, which serve as sources of wealth and income for households and firms.

However, it's crucial to consider other dimensions of inequality, such as wealth distribution, access to education and healthcare, and regional disparities, to fully understand inequality within the country. While the Gini coefficient provides a snapshot of income distribution, these additional factors can significantly influence overall economic inequality and quality of life for the population.

With the goal of observing these additional factors of inequality, I am running the pilot sociological survey '*Economic Inequality in Ukraine during the War*,' which aims to analyse the level of economic inequality in Ukraine during the war.

The *methodology of the pilot survey* involved 23 questions aimed at ensuring the representativeness of the respondent sample across various regions of Ukraine, different age groups, professions, genders, forms, and sectors of employment. The questions addressed income, saving ability, presence of passive income, and household resilience considering the number of dependents per working individual in the household. This was a pilot study, and no robustness checks were conducted at this stage. The pilot survey allowed for the identification of major issues regarding economic inequality and the assessment of Ukrainians' subjective perception of inequality based on provided response options and an open-ended question about

¹ From the interviews of the Institute of Demography and Social Studies of the NAS of Ukraine staff.

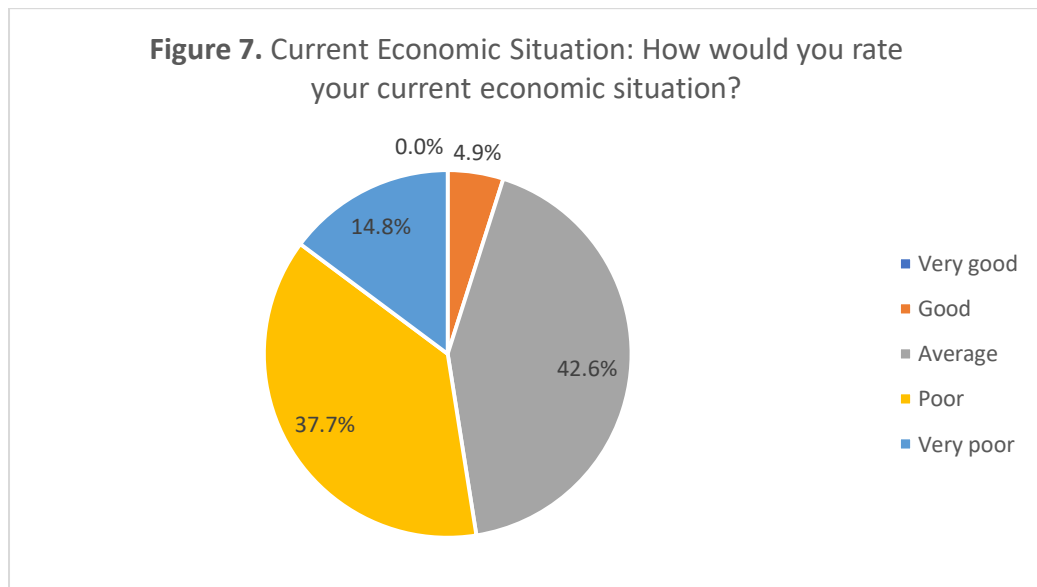
² World Bank. (n.d.). Gini index. Retrieved May 23, 2024, from <https://data.worldbank.org/indicator/SI.POV.GINI>

the reasons of economic inequality in Ukraine, both before and during the war, in a "mini-interview" format. These individual responses were then aggregated using a Large language model for analysis and synthesis. The motivation for this study is to gain a better understanding of how the population perceives inequality, whether it existed before the war, and how the war has exacerbated this issue. The survey is still in progress, with up to 170 respondents participating so far. And the preliminary findings of this survey are as follows.

The research covered all regions of Ukraine, except for the temporarily occupied territories (Donetsk and Luhansk regions) and areas where hostilities are ongoing. To date, the largest number of respondents are from Kyiv and Kyiv region (21.7% and 22.3% respectively), Dnipropetrovsk region (14.6%), Poltava region (8.9%), Kharkiv region (4.5%), with a corresponding even distribution among residents of other regions. Among the respondents, 8.9% are IDPs. The survey included respondents of various age groups from 18 to over 65 years, with the largest groups being 35-44 years (34.4%) and 45-54 years (29.3%). Women constituted 70.7% and men 29.3% of the respondents. Regarding educational attainment, 22.3% of respondents have 20 or more years of education, 10.8% have 17 years of education, and 1.3% have less than 9 years of education. 36.7% of respondents hold a master's degree, 7.6% have vocational and technical education, 40% hold a PhD or higher academic degree, 7% have postgraduate education, 3.8% have a complete secondary education, and 1% are students.

Respondents were distributed according to their employment status as follows: 90.9% are officially employed, 2.8% work unofficially, 2.8% work partially unofficially, 5.6% are self-employed, 2.1% have part-time employment, and 1.4% are temporarily employed. Seasonal employment accounts for 1.4%, while 5.6% work remotely. In terms of economic sector, 64.2% work in the public sector, 27.2% in the private sector, and the remaining 8.6% are unemployed, retired, on childcare leave, or studying.

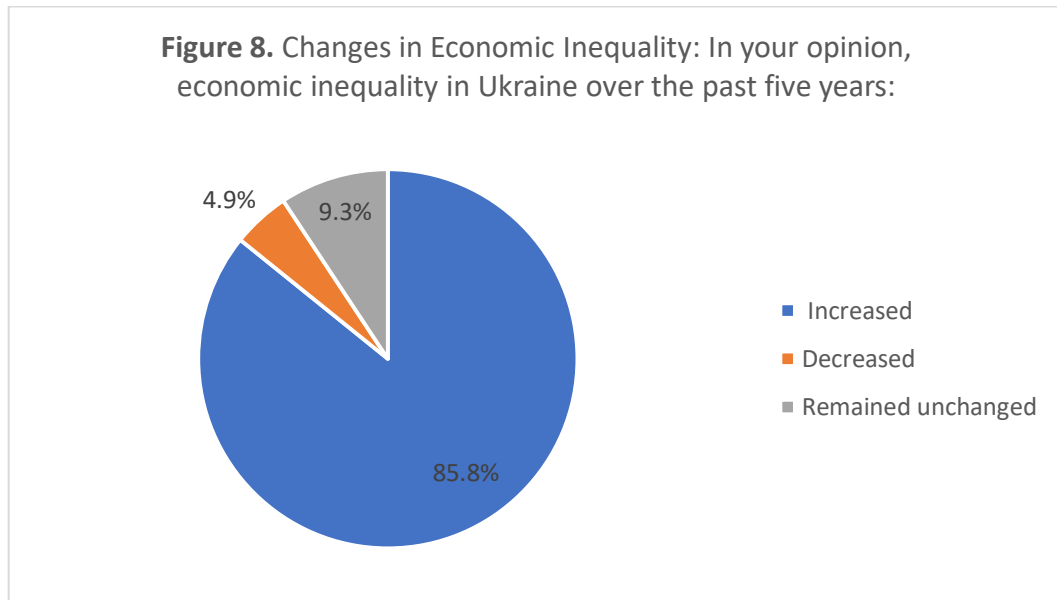
Regarding the current economic situation, 14.8% rate it as very poor, 37.7% as poor, 42.6% as average, and 4.9% as good. No respondent considers the economic situation as very good (Figure 7).



Among the respondents, 78.3% are employed, 4.5% are self-employed, 2.5% are unemployed, and 3.8% are students. In the public sector, 65% are employed, in the private sector 26.1%, retirees constitute 7%, those on maternity leave 1%, those in military service 0.6%, and

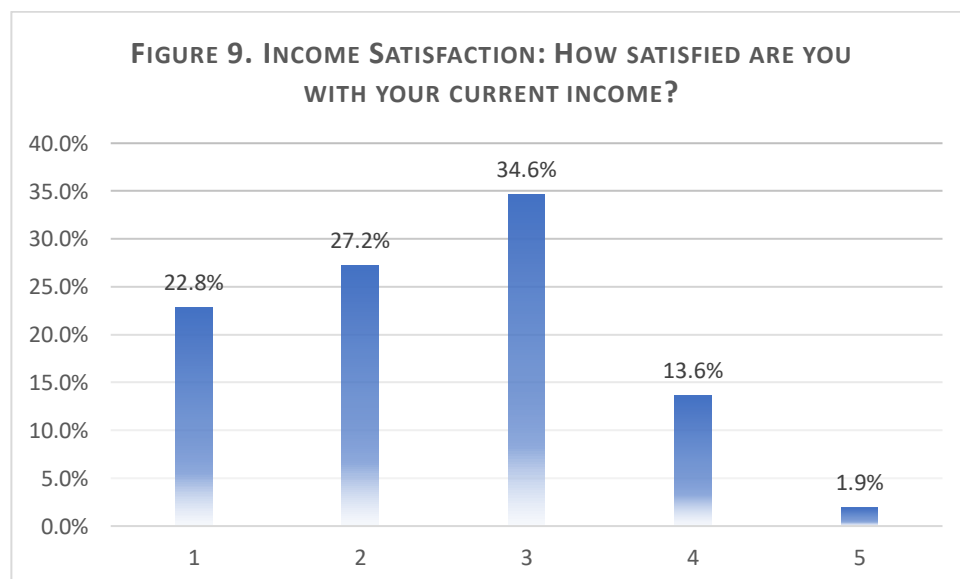
1% are not working. Officially employed are 90.6%, with 2.9% in unofficial employment and 2.9% partially unofficially employed.

Regarding the increase in economic inequality over the past five years, 85.8% of respondents noted an increase, 9.3% noted no change, and 4.9% noted a decrease.



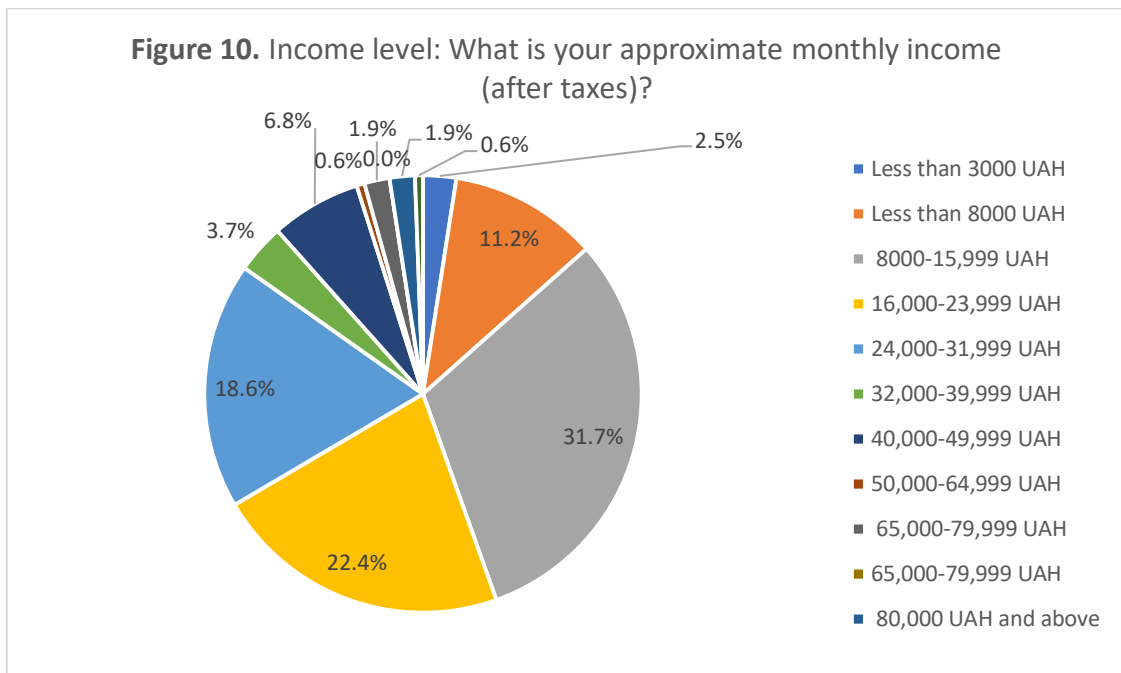
Very dissatisfied and dissatisfied with their income are 50.3% of respondents, 34.4% have a moderate level of satisfaction, 13.4% are satisfied, and 1.9% are fully satisfied.

On a scale from one to five, where 1 is very dissatisfied and 5 is very satisfied, 50% are very dissatisfied and dissatisfied with their income, 34.6% feel neutral about their income, satisfied - 13.6%, and very satisfied - 1.9%, which overall indicates, along with open comments about the level of inequality and its causes, that Ukrainians are more dissatisfied with their income and find it insufficient for living (Figure 9).

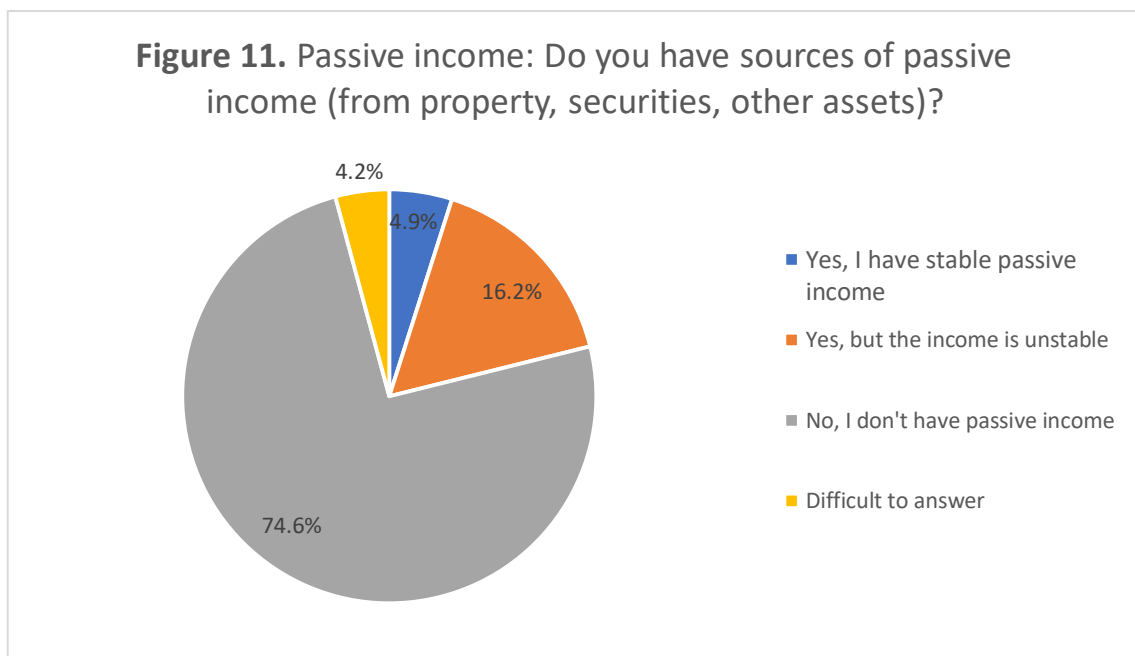


Post-tax income levels are distributed as follows. 11.2% of respondents have less than 8,000 UAH, 31.7% have 8,000-15,999 UAH, 22.4% have 16,000-23,999 UAH, 18.6% have 24,000-31,999

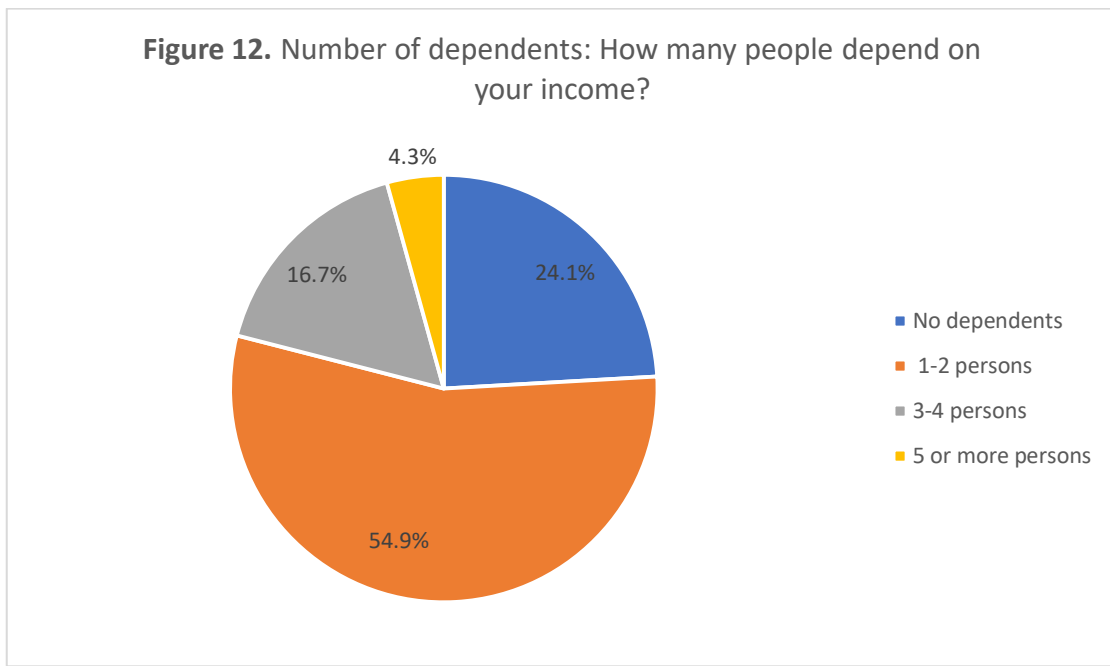
UAH, 3.7% have 32,000-39,999 UAH, 6.8% have 40,000-49,999 UAH, 0.6% have 50,000-64,999 UAH, 1.9% have 65,000-79,999 UAH, 1.3% have 80,000 UAH or more, and 2.5% have less than 3,000 UAH (Figure 10).



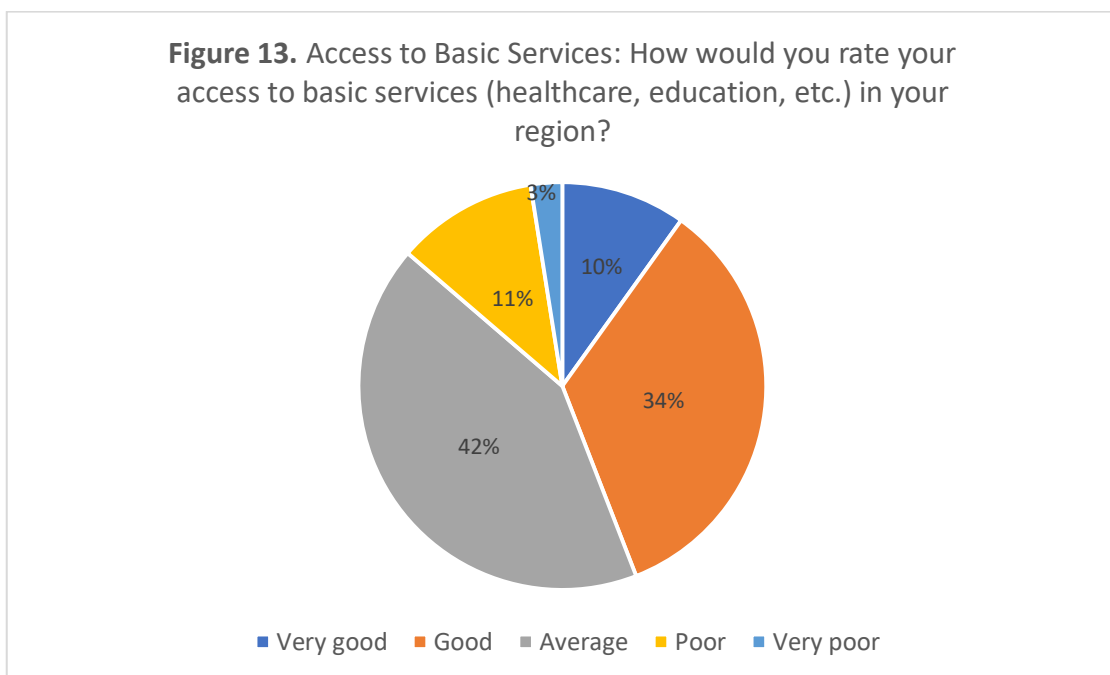
74.6% have no passive income, 4.9% have stable passive income from property, securities, and other assets, and 4.2% found it difficult to answer (Figure 11).



Those supporting 1-2 persons make up 54.95%, 3-4 persons 16.7%, those with no dependents 24.1%, and those supporting 5 or more persons 4.3%. This indicator is significant as it shows that income is distributed within households per person, depending on the number of individuals in the household. Therefore, a relatively high income for a specific respondent cannot necessarily imply that it is consumed on a per capita basis, thus necessitating further clarification of income per person within the household. (Figure 12).



91.7% reside in urban areas, 8.3% in rural areas. When asked about their access to basic services (healthcare, education, etc.) in their region, 10.0% rated it as very good, 34.0% as good, 42% as average, 11.0% as poor, and 3% as very poor (Figure 13).



The data suggests a widespread sentiment of skepticism regarding the accessibility of economic opportunities in Ukraine (Figure 14). Specifically, 46.0% of respondents disagree and 10.6% strongly disagree that economic opportunities such as employment and education are equally accessible to all people. Conversely, only 5.0% fully agree and 14.3% agree with the notion of equal accessibility. This distribution of responses indicates a prevailing perception among respondents that economic opportunities are not evenly available to all individuals in the country.

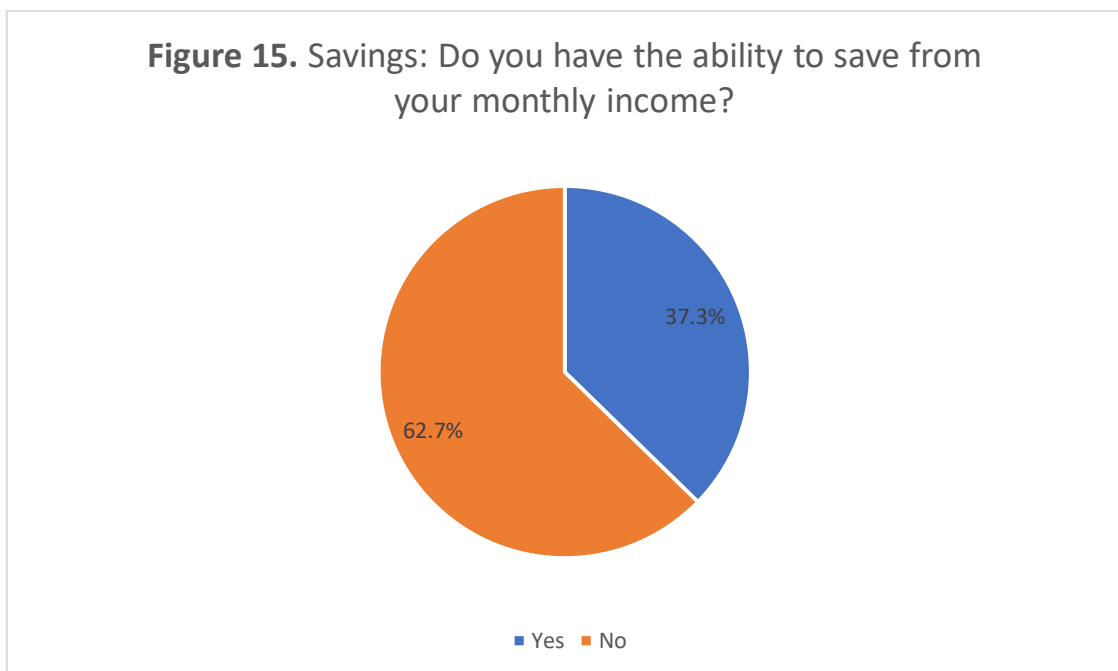
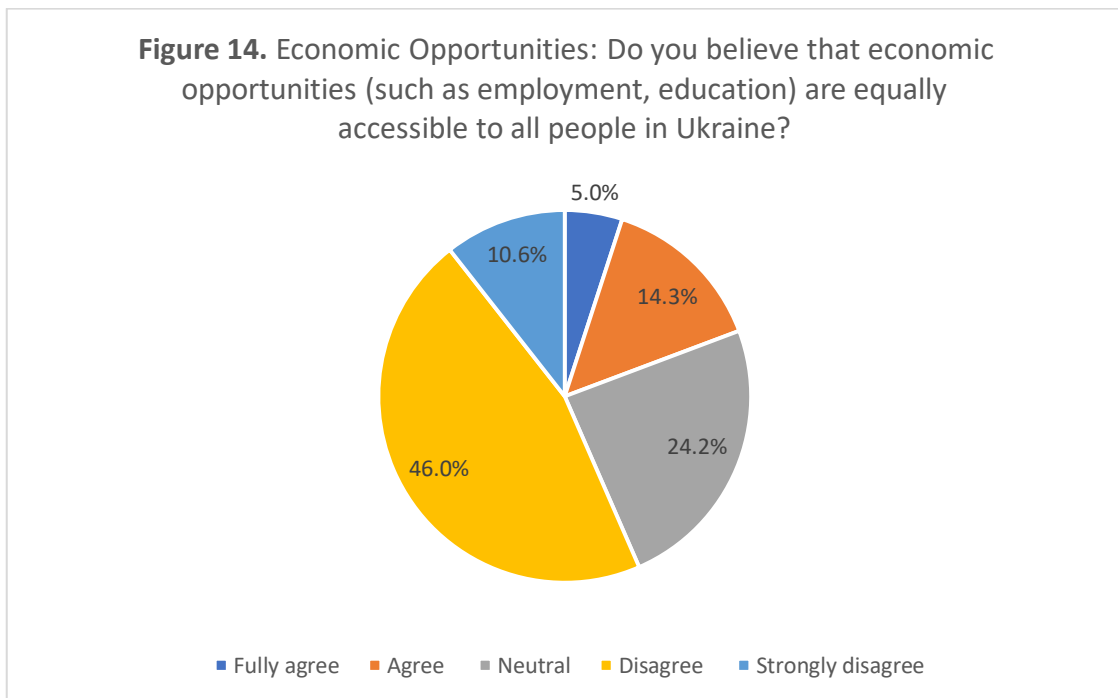
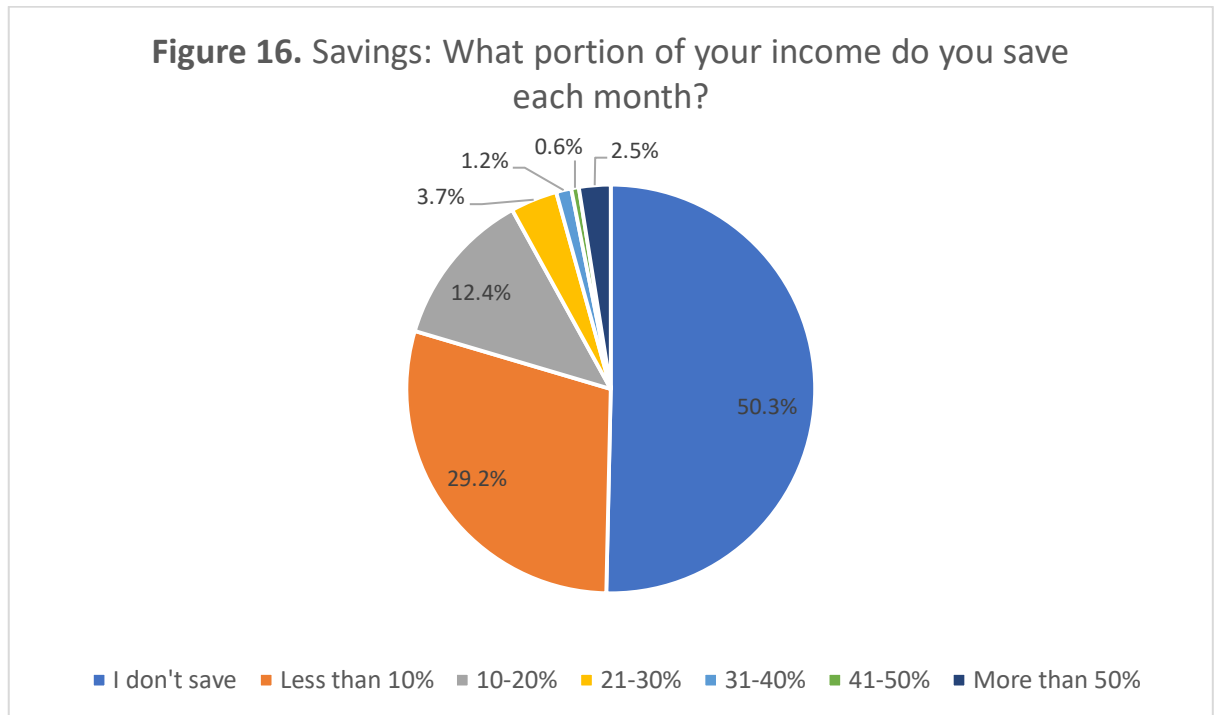


Figure 15 illustrates that only 37.3% of respondents have the ability to save from their monthly income, while the majority, 62.7%, do not. This disparity underscores a significant

portion of the population facing financial constraints that hinder their ability to accumulate savings.

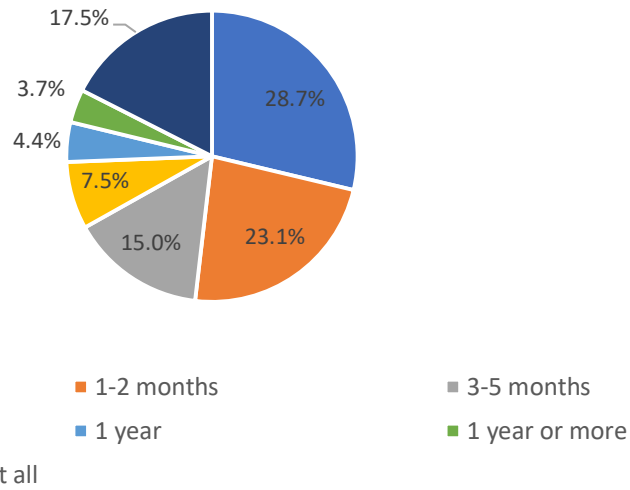
Moving to Figure 16, among those who do save, the distribution of savings is uneven, with 50.3% indicating that they do not save any portion of their income. This suggests a prevalent challenge in prioritizing savings amidst competing financial demands. Moreover, only a small percentage allocate substantial portions of their income towards savings, with just 2.5% saving more than 50%.



This suggests that for a significant portion of the population, their entire income is consumed by expenses as it is earned, leaving no surplus for savings. This finding underscores the prevalent financial strain faced by a large segment of society, where individuals and households are likely living paycheck to paycheck, with little to no capacity for saving. Such a scenario highlights broader economic challenges, including low wages, high living costs, and limited financial resilience, which may require targeted policy interventions to address effectively.

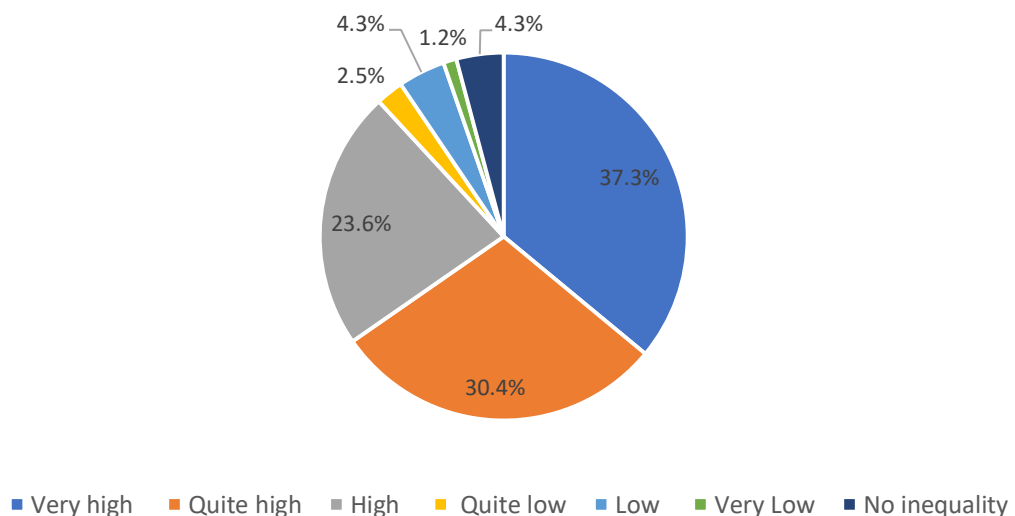
Figure 17 provides a detailed breakdown of respondents' financial stability levels in the event of job loss. Notably, 17.5% reported having no savings, indicating vulnerability to immediate financial strain. For those with savings, 28.7% indicated their funds would last less than a month, while 23.1% stated 1-2 months. A further 15.0% could sustain 3-5 months, and 7.5% had savings for 6-11 months. Only 3.7% had savings to cover expenses for a year or more, showcasing limited long-term financial resilience. This data underscores the importance of savings in navigating economic uncertainties and suggests a need for enhanced financial planning and stability measures.

Figure 17. Level of financial stability: If you were to lose your job (source of income), for how long would your savings be able to sustain your living expenses?



Respondents were asked to assess the level of economic inequality in Ukraine (Figure 18). The results indicate a widespread perception of significant inequality, with 37.3% describing it as "very high" and 30.4% as "quite high." Additionally, 23.6% characterized it as "high." Conversely, only a small percentage of respondents perceived the level of inequality as relatively low, with 2.5% stating "quite low," 4.3% "low," and 1.2% "very low." Intriguingly, 4.3% of respondents indicated "no inequality," suggesting either a perception that economic conditions are equitable or, potentially, a lack of awareness or understanding of the concept of economic inequality. This data underscores the widespread recognition of substantial economic disparities within Ukrainian society, indicating a pressing need for policies aimed at addressing and mitigating these inequalities.

Figure 18. Economic inequality level: How would you describe the level of economic inequality in Ukraine?



According to respondents' answers to the open-ended question "Do you see economic inequality in Ukraine? If so, what do you think are its causes?", economic inequality in Ukraine has a complex nature with many intertwined causes, among which the following stand out:

- *Corruption*: This is the most frequently mentioned cause of economic inequality. Corruption affects all levels of society and the economy, from government administration to private business. It manifests as bribery, cronyism, and abuse of power, leading to unequal access to resources and opportunities.
- *War and military actions*: The ongoing conflict with Russia has significantly worsened the economic situation in the country. The war has caused the destruction of infrastructure, reduced investment, mass migration, and job losses. This has deepened existing economic inequality and created new challenges for economic development.
- *Government economic policy and ineffective reforms*: Many respondents mention unsatisfactory reforms and ineffective economic management. The lack of transparent and consistent policies, particularly in taxation and social protection, contributes to deepening inequality.
- *Regional disparities*: Inequality between cities and rural areas, as well as between different regions of the country, remains significant. These disparities are related to unequal access to education, healthcare, jobs, and infrastructure.
- *Low wages in the public sector*: Wages in the public sector, particularly in education and healthcare, remain low. This leads many qualified professionals to seek employment abroad or transition to the private sector.
- *Tax system*: High taxes on workers' income, along with numerous ways for large companies to avoid taxation, are also mentioned as factors that worsen economic inequality.
- *Shadow economy*: A significant portion of the economy operates in the shadows, complicating labor market regulation and reducing state budget revenues. This contributes to income inequality and weakens social protection.
- *Social passivity of the population*: Some respondents note that the social passivity and complacency of the electorate allow the authorities to remain irresponsible and incompetent, leading to further deepening inequality.

Thus, a comprehensive approach to addressing economic inequality in Ukraine must include fighting corruption, implementing effective reforms, improving working conditions and wages, as well as developing infrastructure and investing in human capital.

3. Human capital reduction

According to a preliminary forecast published on March 16, 2022, by the United Nations Development Program (UNDP), if the protracted war in Ukraine continues, 18 years of socio-economic gains may be lost, while almost a third of the population will live below the poverty line. Moreover, 62% will face a high risk of impoverishment in the next twelve months.¹

¹ UNDP. (2022, March 16). Every day without the restoration of peace accelerates the impoverishment of Ukraine [Press release].

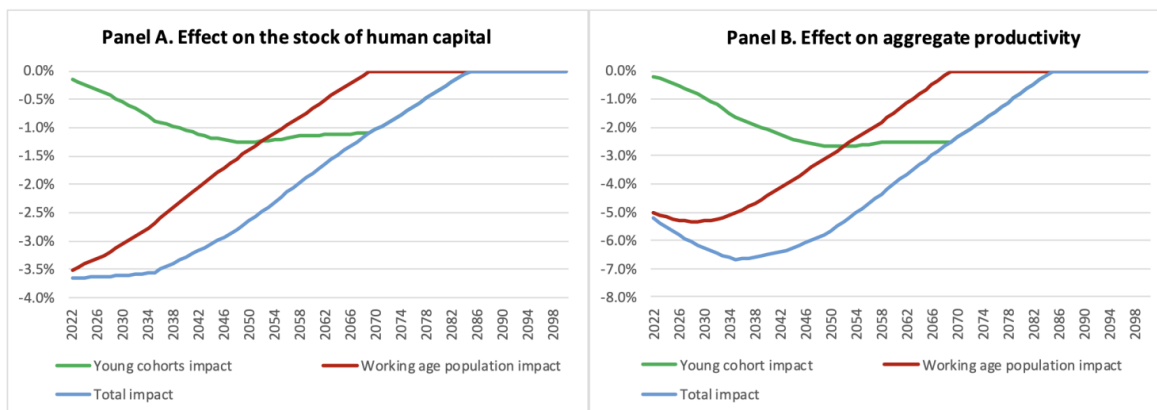
To highlight, Ukraine is grappling with a labour shortage of approximately 5 million people, compounded by the necessity of conscription, which primarily affects males aged between 18 and 60. This situation not only disrupts the labour market but also has adverse effects on the demographic landscape, leading to a negative long-term impact on the birth rate and contributing to a high mortality rate that means losses in human capital and total factor productivity (TFP).

According to Égert and de la Maisonneuve (2023)¹, Ukraine is projected to experience its peak losses in human capital by 2035, totalling around 3.6%. This includes a 0.9% decline due to learning setbacks and a 2.7% decrease attributed to skill erosion among workers. These adverse effects are expected to persist for approximately 35 years, gradually diminishing as the last affected cohort reaches retirement age at 65 in 2085 (Figure 19, panel A).

The impact of the war on productivity is assessed by analysing regressions linking human capital to TFP, while controlling for other factors. The study suggests that the declines in human capital could lead to a reduction of about 6.7% in productivity levels by 2035, with the decline reaching its peak at that time (Figure 19, panel B).

The economically active population forms the backbone of successful economies. Therefore, Ukraine's economic recovery will heavily depend on the return of its working-age citizens. The demographic composition post-full-scale war remains uncertain, but optimistic projections by the Institute of Demography and Social Studies of the NAS of Ukraine indicate challenges, with 100 women projected to give birth to 130 children.² This suggests no baby boom can be expected, which, in part, reflects expectations of economic hardship in the near-term.

Figure 19. Effects of human capital and aggregate productivity



Source: Égert and de la Maisonneuve (2023).

The war acts as a macro-shock to human capital as a macroeconomic parameter. The issue of maintaining its quality at both the aggregate and micro levels should also be a concern for economic policy. It can be stated that the issue of economic inequality in Ukrainian society, as

¹ Égert, B., & de La Maisonneuve, C. (2023, October 26). The impact of the war on human capital and productivity in Ukraine. CEPR, VoxEU. Retrieved from <https://cepr.org/voxeu/columns/impact-war-human-capital-and-productivity-ukraine>

² Institute of Demography and Social Studies named after M.V. Ptukha, National Academy of Sciences of Ukraine. (2024, January 22). On the demographic situation in Ukraine and prospects for the future. Oleksandr Gladun on UWN. <https://idss.org.ua/index>

well as the distribution of national wealth, remains under-researched. The multi-shocks of the war have undoubtedly exacerbated issues of economic inequality, the reduction of human capital, and the overall factor productivity of the economy. Economic inequality and low household incomes impair economic freedom regarding the choice of activities, reduce opportunities for individual human capital development, and overall diminish living standards. Economic inequality is not properly assessed, but it exists regardless of the objective assessments that officially present Ukraine in a better light concerning it.

4. Conclusion

The issue of economic inequality in Ukraine has been exacerbated by the ongoing war, which has had a detrimental impact on human capital. However, it is essential to acknowledge that inequality in Ukraine is not solely a product of wartime conditions but has deeper roots stemming from economic reforms implemented in the 1990s¹. Prior to the war, Ukraine was characterized by an oligarchic economy, leading to a skewed distribution of wealth that is not accurately captured by the relatively low Gini coefficient. Regional disparities and discrepancies between the public and private sectors further contribute to this inequality.

To fully grasp the extent of inequality within the country, it is crucial to consider various dimensions beyond income distribution, including wealth distribution, access to education and healthcare, and regional disparities. While the Gini coefficient offers a snapshot of income distribution, these additional factors significantly influence overall economic inequality and the quality of life for the population.

At the Second Ministerial Roundtable for Support to Ukraine in 2022,² critical needs and strategies for addressing them were discussed. The Ukrainian government³ projected a significant budget deficit for 2023 and 2024, which is currently being addressed through the Ukraine Facility Programme.⁴ However, this program primarily maintains existing levels of social spending and does not contribute to raising real income levels or adequately financing immediate social needs

¹ National wealth in Ukraine has been unevenly distributed since the country gained independence, primarily due to predatory privatization practices. This process resulted in the emergence of an oligarchy that acquired ownership of factories, plants, and a substantial portion of the country's material wealth. A similar scenario unfolded during land reform, wherein agricultural holdings acquired fragmented land from rural populations at nominal rates, as a fair land market was never established.

Since the 1990s, the issue of unequal distribution of national wealth between urban and rural populations has persisted. While rural residents gained ownership of land plots, the majority of urban dwellers did not receive an equitable share of ownership in industrial enterprises, largely due to the undervaluation of these assets and manipulative practices during privatization. Consequently, the disparity in capital and land ownership between regions with varying levels of economic development has become entrenched over the years of independence, often overlooked.

Despite over three decades of independence, Ukraine has not achieved a robust middle class. Instead, it has become characterized by stark social disparities, resembling an oligarchic economy focused on exploiting resources and wealth inherited from the Soviet era.

² World Bank. (2022, October 12). Second Ministerial Roundtable Discussion for Support to Ukraine. Retrieved from <https://www.imfconnect.org/content/imf/en/annual-meetings/calendar/open/2022/10/12/168495.html?calendarCategory=T2ZmaWNpYWwvQnkgSW52aXRhdGlvbG==.UHJlc3M=.V29ybGQgQmFuaw==.T3Blbg==>

³ Ministry of Finance of Ukraine.

⁴ Ukraine Facility. (2024-2027). Economic support Programme. Retrieved from <https://www.ukrainefacility.me.gov.ua/en/#:~:text=The%20Ukraine%20Facility%20is%20the,the%20implementation%20of%20the%20program.>

during wartime. Moreover, it perpetuates a model of low-cost labor inherited from the oligarchic economic structure, further exacerbating economic inequality.

The minimum wage in Ukraine has been increasing, but it remains insufficient to ensure a decent standard of living for households. In January 2024 it was 7,100 UAH (equivalent to 177.50 USD), and in April it increased to 8,000 UAH (200 USD), which translates to 48 UAH (1.20 USD) per hour. Payments for IDPs amount to 3,000 UAH (75 USD) per child under 18 and 2,000 UAH (50 USD) per adult which does not correspond to the real subsistence minimum based on purchasing power parity. Ukrainians cannot afford to buy quality food, clothing, footwear, durable goods, or save money.

Thus, from the perspective of income, economic policy should act as a stabilising and supportive factor for human capital. However, it often becomes a shock itself to the economy and the labour market, particularly through income policies that establish wage disparities within households. This is partly due to the outdated approach of using a tariff grid in the public sector, but not only.

The pilot survey, presented in this policy brief, identified several reasons for economic inequality in Ukraine, which can be categorized into internal and external factors.

Internal factors contributing to economic inequality in Ukraine are multifaceted and encompass various aspects of governance, socio-economic disparities, taxation, and historical legacies. They are:

- Corruption:
 - High levels of corruption in government institutions and businesses.
 - Corruption schemes in appointments to highly-paid government positions.
 - Lack of transparency and accountability in the use of public finances.
- Socio-economic disparities:
 - Unequal access to resources and opportunities.
 - Disparity in wage levels between the public and private sectors.
 - Low investment in human capital.
 - Insufficient development of sectors with high value-added.
 - High unemployment and wage instability.
 - Low wages for educators, healthcare workers, and public servants.
 - Inadequate support for socially vulnerable groups.
- Tax system:
 - High taxes on workers compared to large firms with numerous tax evasion methods.
 - A large percentage of citizens evading tax payments.
- Historical and mental factors:
 - Soviet mental heritage affecting socio-economic behavior.
 - Nepotism and favoritism in employment and public administration.

External factors are as follows:

- War:
 - Military conflict in eastern Ukraine leading to significant economic losses.
 - Destruction of infrastructure and production facilities.
 - Psychological instability among the population due to prolonged conflict.
- Global economic factors:
 - Influence of global economic instability on the domestic market.
 - High dependence on imports and fluctuations in exchange rates.

Therefore, there are new challenges to economic and societal policies during warfare, including:

- Considering other dimensions of inequality, such as wealth distribution within the new economic structure of the economy.
- Ensuring access to education and healthcare services.
- Addressing disruptions in the education of adults and children.
- Providing access to energy power.
- Maintaining the solvency of households.
- Ensuring adequate levels of social benefits that correlate with the price level within the market for household consumption and investment.

In conclusion, addressing economic inequality in Ukraine requires comprehensive reforms aimed at reducing corruption, enhancing transparency, and promoting equitable access to resources and opportunities. Furthermore, efforts should be made to raise real income levels, improve social welfare programs, and address disparities between the public and private sectors. Only through such measures can Ukraine work towards building a more equitable and prosperous society for all its citizens.