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# **Political and Economic Development of Ukraine in 2014: scenario strategizing**

**KYIV 2014**

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## **Introduction**

The preparation for and holding of presidential elections in Ukraine on May 25, 2014 reflected a profound transformation in Ukrainian society, including public inquiry on the policy of reconciliation and renewal of the country. At the same time, elections were held in the context of the new challenges and threats Ukraine is facing in connection with the escalation of the crisis to the phase of an organized armed conflict.

With the aim of disrupting the revolutionary process of 2013-2014 Russia used the conflict between the oligarchic elites of the old regime and the new authorities to annex Crimea, is running an incentive support campaign of separatist unrest in the east and south of Ukraine. The questionable, from the legal perspective, separatist referendums proclaimed the creation of people's republics in Donbas in May 2014 and contributed to the deployment of the so-called "non-conventional" war on Ukrainian territory. The errors of the Ukrainian leadership against the backdrop of the institutional weakness of the Ukrainian statehood provoke quazi-legitimate attempts to increase pressure on Ukraine by Russia (and international players - with incitement from Russia) in matters of federalism, humanitarian and peacemaking campaigns, etc.

The adoption of new programs of cooperation with the Ukrainian authorities by international organizations (IMF, World Bank), the governments of partner-countries (in particular, USA, Japan) and the European Union in late March-April 2014 averted the threat of default and will provide macro-financial stability in the short term. However, long-term stabilization of the currency and foreign exchange markets, restoration of confidence in the sovereign debt of Ukraine by foreign investors will ultimately depend on the terms and conditions of resolving the crisis.

The weakening of the national currency, the rising cost of critical import goods (gas, oil, machinery and equipment) will have a negative impact on inflation in 2014 and GDP growth, which will require serious efforts to control the macroeconomic situation. Meanwhile, the escalation of the conflict in the east and south of the country in 2014 will provoke an acceleration in the decline of industry production with a simultaneous increase in social transfers, which will undermine the shaky balance in the system of public finances.

The need for implementing rapid and painful structural and institutional reforms will meet hard resistance. This circumstance will lead to growth of uncertainty and unpredictability in the mid-term, which, in turn, will exert negative influence on the implementation of the declared by the new government pressing program guidelines in the short term.

Based on the aforementioned factors, we believe that the scenario terms of the development of the socio-economic situation in Ukraine will be formed by four groups of factors (separately and in interaction with each other). Overall, the success or failure of the new government team in the current political cycle and ultimately - the prospect of averting the threat of the collapse of the Ukrainian state will depend on these factors.

***First of all, the dynamics (localization or escalation) of the armed conflict in the east of the country*** is now causing perhaps not quite yet obvious changes in the political, economic and social landscape of Ukraine. The processes activated by the conflict permeate all aspects of society and generate "tectonic shifts" that, along with the influence of other factors will determine the new outlines of the Ukrainian state. It is natural that different dynamic scenarios of conflict development — according to the scale of social, humanitarian and economic "split", time and space boundaries, etc. - will have a cross-impact on the manifestation of other factors.

***Secondly, the dynamics of political and economic processes characterize the level of subjectivity*** of the current Ukrainian authorities and will ultimately determine the result with which the Ukrainian government will go to the next stage - post-conflict renewal of sustainable economic development. The political and economic constituent of the scenario is conventionally divided into two components - the actual political dialogue and reforms. The government's capacity to respond adequately to the challenges and threats to the existence of the Ukrainian state depends on whether a political consolidation takes place in the national and regional dimension (political crisis / dialogue / cooperation), whether deep institutional and structural reforms are introduced (loss of control / economic collapse / reboot / stabilization). The implementation or imitation / boycott of reforms (as in the previous political cycle) will strengthen or weaken the cooperation of Ukraine - the West, intensify or neutralize efforts to resolve the armed conflict and will form a strong or a weak negotiating position in relations with Russia. At the same time, the transition of the political crisis to a new phase - from euphoria and consolidation to discord, intrigue

and opposition — will block reforms and strengthen the positions of the influence groups lacking interest in reform.

***Third of all, relationship with the Russian Federation*** is an essential condition for the stabilization of the situation and Ukraine's return to the path of development in the medium and long-term period. "The Russian Factor" creates a whole range of possible scenario solutions - from fixation of the conflict in the current positions with the gradual reintegration of conflict territories to provoking an escalation of the state system crisis and the collapse of the state into several parts.

***Fourth of all, cooperation along the lines of "Ukraine — the West" is the determining factor of macroeconomic stability and a prerequisite for the post-crisis recovery of the country in the mid-term perspective.*** However, cooperation programs and macro-financial support from international financial institutions and governments of the EU and the USA, which were developed mainly prior to the conflicts in the South and East, on the one hand, did not take into account the existence of annexed territories and those witnessing armed rebellion, and on the other - were based on the ability of the legislative and executive branches of government to carry out deep structural and institutional reforms. It is natural that the dramatic changes in the basic terms of cooperation create dangerous risks of cessation of financial aid with the perspective of a violation of the fragile stability in Ukraine.

## I. Scenarios of political and economic development of Ukraine

### 1.1. Basic scenario (autocratic): conservative stabilization

*The driver of the scenario* is the assumption about *the ability of Ukraine's political elites to reach an unsteady (conservative) political compromise based on consensus regarding the territorial integrity of Ukraine*. Political compromise is possible on conditions of "freezing" the current level of political and economic consolidation of the elites ("oligarchs' agreement"). The question of pre-term re-elections to the Parliament and implementing constitutional reform is also solved by consensus, the conditions of which take into account the positions and interests of the participants. The resolution of the armed conflict is gradually transferred into the political realm.

*"Conservative stabilization" allows in the mid-term period to:*

- stop the escalation of conflict, its regional expansion and development into full-scale civil war,
- prevent the transfer of conflict into the stage of "professionalization" of separatist groups,
- shift from confrontation of opposing sides towards a national dialogue and reconciliation.

*The risk of the scenario — a defeat in an armed confrontation* due to institutional weakness of power structures (lack of military equipment, unprofessional conduct, lack of coordination in carrying out anti-terrorist operations). The scenario conditions do not rule out the possibility that Russia will make perfect use of the weakness of Ukraine's "reactive" policy and overall, by abandoning the tactics of blitz operations, will shift to medium-term conflict management, in particular, apply the tactic of *breaking down inner political consensus*.

On condition that the basic scenario is implemented, one can expect the introduction of "short" reforms; namely, relatively simple and fast solutions in areas with wide political and economic consensus: the deregulation of business activities, the introduction of some elements of administrative and fiscal reforms. The contents of the consensus program of reforms will also depend on the capacity of the authorities to "pack the reform package", bounding in a single unit national benefits

and corresponding actions of political elites. We expect USA and EU partners to support the political consensus even if radical economic reforms are postponed.

*The principles of conservative stabilization* - wide support, availability of financial compensators (international aid), minimum negative influence on the centers of formation of the "conservative consensus" participants' profits.

*The risk of the scenario is the replacement of national interests by corporate ones* (modern authoritarianism), a collapse of the parliamentary coalition, a new political crisis.

The economic situation will remain under control. However, the strategizing of an economic breakthrough, that will depend on systemic reforms and political competition, will be postponed until 2015, which will be transitional. Restoring economic growth may be postponed until 2017. This can cause negative attitudes of the public, which has excessive expectations regarding a full reboot of the political and economic system in Ukraine. The risk of this scenario is a new socio-political crisis - a new Maidan.

The probability of implementing the "conservative stabilization" scenario in 2014 — are 65%, in 2015-2016 - 70% (see Appendix 1).

## **1.2. Optimistic scenario: practically utopian**

*The driver of the scenario is a radical narrowing of views and needs of Ukraine and its Western partners*, especially the European Union and USA. The basic assumption of the scenario is the introduction of a broad program of western aid targeted at the future integration of Ukraine into the EU common economic space. The European civilizational choice of Ukraine is filled with specific proposals in the area of sectoral cooperation (space industry, aircraft construction and engineering, energy, etc.) and the implementation of large investment projects. The "Plan for Ukraine" becomes one of the key components of internal political consolidation. For all participants showing interest in political consensus there is perspective (and motivation) to take part in resolving the conflict by political means. Parliamentary elections are postponed until after the adoption of the new edition of the Constitution.

In partnership with the USA and NATO member countries Ukraine succeeds in localizing the armed confrontation in Donbas.

***The risk of the scenario: escalation (undisguised or hybrid) of the armed conflict, initiated by Russia***, which will result in the loss of control over the situation by Ukrainian authorities.

***The scenario is based on a clear public demand for radical change and the political will of the new government*** with respect to the implementation of the program of reforms, especially the introduction of constitutional reform, anti-corruption policies and decentralization. The reform program will have a systemic and comprehensive nature; namely, the authorities will exhibit capacity in parallel and coordinated implementation of a development strategy in the areas of politics, economy and regional development.

The economic situation will improve on the wave of economic reforms and positive investment expectations. We can predict an increase in the level of efficiency of state management of economic processes as a result of the implementation of the "package of institutional reforms" coordinated with western partners, that will ensure the interests of the western partners in the field of protection of property rights and investments. At the same time there can be an increase in the risk of "Western consensus" rejection and provocation for its collapse.

The armed conflict in the East transfers into a peaceful post-conflict reconstruction phase. In the conflict-affected areas a special economic regime is introduced. Holding local elections will allow for legitimate governments to be formed, as well as pave the way for a broad national dialogue on all issues of further national and regional agenda.

On the basis of political consolidation the prospects are improved for a political solution to the conflict in the East, putting a stop to the deindustrialization of Donbas and economic reintegration of these areas in the mid-term. We can not rule out the prospects of Ukraine's territory loss in parts of Donbas in the long run. However, the successful implementation of the peacekeeping policy will help to resolve the conflict by consensus and dialogue.

The probability of implementing the optimistic scenario in 2014 — 5%, in 2015-2016 — 10% (see Appendix 2).

### **1.3. Pessimistic scenario: the crisis continues . . .**

*The driver of the scenario is conservation (with the risk of escalation) of the civil conflict in the East.* Script assumptions suggest that the failure of Ukrainian power units to localize the conflict leads to the "preservation" of conflict. This means that the zone of conflict is transformed into a zone of constant armed clashes without notable advantages of opposing parties; confrontation of civilian participants occurs, with reinforcement of the ranks of fighters at their expense, following further professionalization in confrontation. For active participants the conflict becomes a source of income and / or survival (robbery, human trafficking, weapons, drug dealing, contraband, not controlled by the central and local government economic activity, primitive, as a rule, and related to the extraction of natural resources, etc.). The area outside the control of the center quickly degrades and loses its industrial potential. There is a high risk of a humanitarian disaster and the introduction of external control over the conflict zone.

*The main risks of the scenario:*

- *Ukraine's loss of independent statehood,*
- *a permanent political and economic crisis.*

Along with the conservation of conflict we will witness the institutionalization of social, economic and political "split" along the front lines with the formation of parallel economies on the territory under the control of the central government, as well as outside the control of the center.

It is impossible to establish a political dialogue, there is an escalation in the political crisis. Polarization of public sentiment in the country leads to increased separatist sentiments in all regions of Ukraine; there is a dramatic increase in the risk of loss of independence as a result of a chaotic disintegration of the state. The opportunity to resolve the conflict by political means is lost, the "war to victory" or the exhaustion of the forces of the parties in conflict will continue.

The armed confrontation will "require" all available resources - organizational, administrative and financial. The economic system of the state will gradually militarize; we can predict increased risks of a mobilization regime of the functioning of the country being introduced. The limitation of financial resources, even in case of preserving foreign donors' support to Ukraine, will determine the need for reorientation of basic government spendings on social expenditures and maintaining the capability of the Ukrainian army.

There is a high probability of refusal to implement reforms on the agenda. The risk of fragmentation of the economy of the East due to the "stratification" of regional enterprises will increase: large enterprises (owned by "oligarchs") will maintain their production performance and power, while others will suffer from a severe negative impact and will be forced to significantly reduce production / stop activity. A withdraw of business and capital from the region, relocating the industrial capacity to other regions and countries will take place.

The probability of implementing the pessimistic scenario in 2014 – 30%, in 2015-2016 – 20% (see Appendix 3).

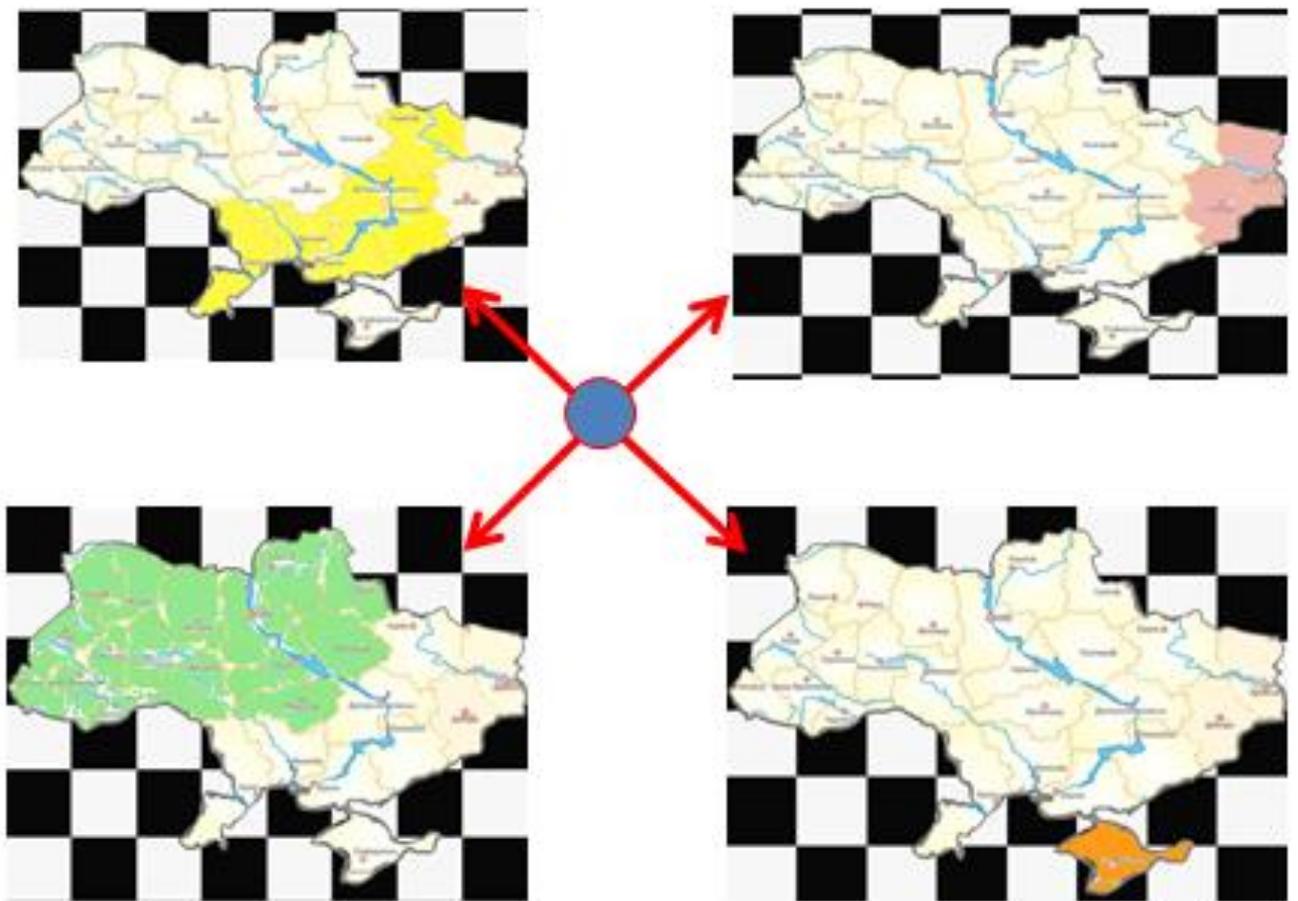
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Further functioning and development of the country will largely depend on the actions of the Ukrainian President and the Government, with separatism in the East remaining a critical factor. The factor of implementing reform is defining in terms of the capacity for subjectivity in the actions of Ukrainian authorities, as well as the gradual formation of a strong economically and politically sovereign state (even according to the script of partial loss of territories). The effect factor of reforms now depends largely on cooperation between Ukraine and the EU, as well as USA and international organizations. In addition, one should take into account that the factors affecting the functioning and development of the country can be largely of exogenous or endogenous nature, and mixed - those that can change their character depending on the configuration of other interacting factors.

The presented forecast assumptions of the scripts enable one to isolate and analyze the key framework conditions and opportunities, challenges and threats in the

context of determining the optimal path of strategizing the development of Ukraine. The analysis of scenario assumptions included the most important factors of economic, social and political character in terms of their impact on the functioning and development of the country. In addition, an attempt was made to assess the likelihood of the realization of each scenario block taking into account the contribution of individual factors. This probability was estimated in percentage by agreeing to adopt a set of scenario conditions as 100%.

## II. Four dimensions of the integral policy of reforms



*Management crisis and the incapacity of public institutions — are the basic challenges for Ukraine.* The key defect of the state system inherited from the regime

of Yanukovich — is the tough but passive vertical, which works according to the principle "what is not allowed, is forbidden," "initiative is punishable". At the disposal of the reformers is a **system of public management, which is unable to multitask and adequately respond to the challenges in at least three areas:** security and the ensuring of territorial integrity, public consolidation and civil peace, access to the path of economic growth and development.

The reform strategy and the recommendations of international consultants have one major drawback. The anti-crisis measures are based on the standard and linear logic: *"first let's settle the conflict in the eastern regions of Ukraine, and then implement system reforms."* This formula has become an axiom not only for Ukrainian reformers, but also for our western partners that support the course of reforms in Ukraine. German Chancellor Angela Merkel believes that for the implementation of the planned reforms in Ukraine a complete ceasefire is required: "We all want the shooting to stop. Only then will the new President of Ukraine be able to focus on the necessary reforms"<sup>1</sup>.

However, can Ukraine afford to postpone the implementation of reforms until full settlement of the situation in Donbas? The development of a system crisis, which Ukraine is going through, formulates another statement of the problem – *until we step onto the path of reforms and restructuring of the public management system, we can not localize the conflict in the east, end ATO, overcome the split in society or achieve stability and civil peace.*

**The fall of the Yanukovich regime and aggression by Russia in the Crimea and Donbas imposes new restrictions on the implementation of a unified model of reforms across Ukraine. De facto, the government has to deal with corrosion and erosion of the common economic and socio-cultural environment of Ukraine. In particular:**

- 1) *Even if Russia abandons its policy of destabilizing Ukraine, there is no guarantee of a rapid overcoming of the split in society and stabilization in the Donetsk and Luhansk regions. Ukraine will need more than a month for the cessation of armed confrontations, restoring government institutions and*

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<sup>1</sup>"Merkel names the most important condition for the implementation of reforms in Ukraine", German Wave, 06.11.2014, <http://www.dw.de/>

*implementing policies of reintegration and reconciliation in the Donetsk and Luhansk regions.*

2) *The Kharkiv and Odessa regions stopped one step away from an armed conflict. Creating a stable framework that will ensure social dialogue, social balance and civil peace - remain the key objectives in the medium-term perspective.*

3) *Residents of the central and western regions of Ukraine, who gave unconditional support to the "revolution of dignity" expect real steps, aimed at rebooting the system of state and local governments (anti-corruption, local government reform, support for the real sector of economy).*

Accordingly, the anti-crisis strategy of the President and the government depends on the willingness and ability **to introduce an integral development strategy, which is implemented through the "session of a simultaneous game" formula:**

1) In Donbas – providing security and putting into effect the reconciliation policy, that implies cessation of armed confrontation and activities of illegal armed groups. **Formation of a rehabilitation plan for the transition period,** that implies a revival in the functioning of power structures and law enforcement agencies, the search for solutions and formulas for reconciliation at the regional level and individual communities.

2) For the "buffer" and the neighboring regions of the Donetsk region (Kharkiv, Odessa, Dnipropetrovsk, Zaporizhia and Kherson) — conducting an intensive public dialogue aimed at **upgrading regional development strategies,** as well as the formation of regional programs of socio-cultural integration into the unified cultural and information space of Ukraine.

3) For the central and western region of Ukraine. **An action plan for the comprehensive economic and humanitarian development of macro-regions,** the development and use of inter-regional cooperation potential, accumulation of the agroindustrial and export potential, a dialogue between the government and representatives of local governments on attracting investment and creating new growth centers.

*Thus, the government should implement an integral policy aimed at overcoming the differentiation of regions and ensuring the reintegration process and the development of common economic and socio-cultural space.*

**The integral policy formula — is a "session of a simultaneous game" at the level of three or four micro-zones:**

1) Accelerating reforms and support initiatives of local communities and regions (primarily in the central and western regions), without waiting for the stabilization in Donbas;

2) Trust in government and recovery of economic growth in the "buffer" areas;

3) "Safety and renewal of power in Donbas";

4) An action plan for international and legal non-recognition of annexation of the Crimea to Russia, protection of property rights and interests of Ukraine in connection with the temporary occupation of the territory of the Autonomous Republic of the Crimea and the Sevastopol city as a result of military aggression by Russia, the protection of rights of Ukrainian citizens and the Crimean Tatar people on the occupied territories.

## Appendix 1. Basic scenario (autocratic): conservative stabilization

Political and economic context	Window of opportunity	Scenario assumptions			Probability of scenario implementation
		Macro-environment	Internal market	Social and humanitarian aspects	2014 p.
Localization of the conflict within the Donetsk and Luhansk regions	Beginning of the reform of the armed forces and law enforcement agencies	Continued decline in industrial production, unstable situation in public finances, the need for support programs for adaptation measures of the monetary system to work under the conditions of significant loss (of industrial and financial assets)	The beginning of the internal market adaptation to the new conditions of the economy (rising energy costs, utilities, transportation, etc.), the search and compensation for lost assets, markets and suppliers, probable disruptions in export / import of goods, an increase in bankruptcies, reduction of business activity; the emergence of new enterprises, a rapid development of the service sector and businesses oriented at the markets of western countries	Continued tense situation in the social sphere, a reduction in real social transfers, rising unemployment, rising cost of living (energy factor)	<b>55%</b>
The "cooling down" of revolutionary euphoria and subsiding of political consolidation in government; search for new forms of political compromise; holding parliamentary elections and the formation of a new pro-presidential majority	The beginning of gradual and slow institutional reforms (political system, the judiciary, customs, etc.); the field of government monopolies (Derzhzaliznytsya (state railways), utilities, Naftogaz); partial realization of sector reforms (energy, agriculture, etc.).	Failure to conduct rapid and painful reforms will complicate the budgetary situation and the stabilization of public finances; there is a likelihood of: higher inflation, increased tax burden on businesses, borrowing costs, stagnation of investment activities	The situation in the internal market will remain unstable, typical for transit stages of development, when processes in different markets take place at different speeds and depths; the threat of a standstill in reforms in certain sectors because of conflicts of political and business interests (corruption, lobbying, etc.) will remain; after reaching a critical mass of reforms in key sectors - energy, agriculture, and addressing institutional issues regarding the protection of private property rights the situation in the domestic market will gradually stabilize.	Rising unemployment as a result of the deepening of structural reforms and adapting of business entities to the loss of territories; the risk of problem intensification in the social services sector — health care, education, etc.	
The beginning of difficult and slow negotiations with the Russian Federation, preserving the status quo on the issue of the annexation of the Crimea and the occupied territories of the Donetsk and Luhansk regions	Neutralization of Russian influence on the territories of armed confrontations, putting a stop to deliveries of weapons and militants from Russia	Continued intense trade and economic relations with Russia; negative impact of the Russian factor on the Ukraine's investment climate, which will create risks to macro-financial stability in the country	Continued tendencies to stop cooperative relations with Russian companies, including low probability of resuming full cooperation in the military-industrial complex, the relevance of the reorientation of Ukrainian machine-building to other countries will be strengthened; there is a threat of withdrawal from the market of Russian banks	Continued tension in the occupied regions; citizens oriented at finding accommodation in Russia (or, visa versa, in Ukraine) having lost faith in quick normalization of life resulting from the criminalization of occupied settlements will strive to leave their places of residence	
Strengthening economic and	Adoption of the Program	Adequate response to macro-	Increased capacity for strategizing sustainable	Continued limited	

financial cooperation with international financial institutions and donor countries	for the implementation of the Association Agreement between the EU and Ukraine, providing financial support for institutional and structural reforms	financial risks and threats of destabilization, enhancing the solvency of the Ukrainian state, return to world capital markets	economic development, the formation of mid-term programs of development and the availability of financial basis for their implementation	opportunities to improve social welfare through budgetary transfers	
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## Appendix 2. Optimistic scenario: practically utopian

Political and economic context	Window of opportunity	Scenario assumptions		
		Macro-environment	Internal market	Social and humanitarian aspects
De-escalation of conflict (through dialogue with separatist leaders open to negotiations) and / or release of occupied territories from militants and terrorists in the course of a successful anti-terrorist operations	Initiation of negotiations with leaders of eastern and southern regions open to dialogue about the conditions of peaceful conflict resolution; accelerated reform of the armed forces and a significant increase combat readiness of troops; institutionalization of status of the areas caught up in armed conflict	The release of financial resources involved in military operations, restoration of macro-financial stability in the long run	Normalization of the market situation in conflict areas; revival of industrial production and other forms of business activities, repair of damaged infrastructure, etc. implementation of special programs for the development of depressed regions; spread of reforms to conflict areas; continued high risks of deep decline and marginalization of the most affected (through destruction and looting) areas	Restoration of social programs for the population in the post-conflict period, continued high unemployment and migration of people from depressed areas
Political consolidation of all pro-Ukrainian forces; strengthening of the subjectivity of Ukrainian policy, intensification of the political process and holding elections to the Verkhovna Rada and the adoption of a new edition of the Constitution	Efficient functioning of Parliament; rapid adoption of legislation aimed at maintaining macroeconomic stability, ensuring state territorial integrity, sovereignty of energy, dismantling the old corrupt system of governance, liberalization of the business environment in order to encourage the establishment of new businesses, etc.	Consistent implementation of institutional and structural reforms; stabilization of the macroeconomic situation	The need for business entities to adapt to operating under severe constraints - financial, budgetary, energy. Increased competition in the internal market (due to de-monopolization of business activities and easier access of foreign producers to domestic market)	The need for special support programs for vulnerable segments of the population due to a sharp increase in energy prices, the shutting down / conversion of bankrupt enterprises, evacuation of people from destroyed settlements in the course of conflict, etc.
Gradual recovery and normalization of interstate relations with the Russian Federation	A "reboot" of political and economic relations with Russia; maintaining a considerable degree of mistrust in the bilateral relations; pragmatism and economization of sectoral cooperation	Neutralization of the Russian factor in the macro-financial sector, the gradual release from debt-dependency and settlement of debt in the bilateral relations	Reaching an agreement on market (suitable for Ukraine) energy prices; shutting down or conversion of excess production capacity, which is oriented exclusively at the markets of Russia and is non-competitive in third country markets	The need to minimize the effects of reformatting relations with Russia
Implementation of policy for	The adoption of the program	Recovery of GDP growth, stable	A surge in business activity in the service sector and	Presence of social tensions in

deeper integration with the EU, strategizing joining the EU in the mid-term	of economic, social and political reforms aimed at joining the EU (and possibly NATO)	macro-financial stability, lower interest rates and easier access to credit, increase in direct foreign investments, improved stability of the banking sector (against the background of a decline in the number of banks)	those based on the competitive advantage of the state (e.g. in agriculture); establishing new businesses using the resources of foreign investors, transfer to Ukraine production capacities from third countries, the spread of market institutions of functioning to the infrastructure sectors	the regions inhabited by citizens who were unable to adapt to market conditions; the need to introduce targeted social (humanitarian, cultural, educational, etc.) programs that promote the adaptation of such people to the new conditions
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### Appendix 3. Pessimistic scenario: the crisis continues ...

Political and economic context	Window of opportunity	Scenario assumptions		
		Macro-environment	Internal market	Social and humanitarian aspects
Expansion of the conflict area in breadth (Kharkiv, Zaporizhia, Kherson, Mykolaiv, Odessa regions) and in depth (to the level of small settlements); paralysis in the functioning of organs of Ukrainian state power on the occupied territories, a decrease in the efficiency of local government in areas not witnessing military confrontations	Suspension of fundamental structural and institutional reforms; gradual transformation of the peaceful economy into an economy of mobilization; suspension of reforms in the armed forces, law enforcement and judicial systems	An increase in the amount of damages stemming from the loss of territories (industrial assets, financial, human, and natural resources), loss of solvency of public authorities and businesses, a break in networks (transport, finance, energy) with separate areas, disruption of the economic environment	Destabilization of the internal market, a sharp increase in the volume of smuggled goods on the black market, criminals gaining control of the occupied territories and the risk of "exporting" crime to "peaceful area", the emergence of deficit (as a result of import decrease, the destruction of communications and transportation networks, etc.)	The growing threat of a humanitarian catastrophe on the territories occupied by militants, rising unemployment, the intensification of migration processes (emigration of the population to Europe and Russia)
Deepening of political opposition, a parliamentary and government crisis	Blocking of the constitutional process, the threat of loss of control over the economy, the inability to pass laws that promote economic recovery, etc.	Destabilization of the financial market, the loss of control over inflation processes, a sharp deterioration of the situation in the banking sector	Loss of control over market processes, strengthening of spontaneous market responses to new challenges, increased volatility in the markets	Disappointment of the population in the authority's acting ability, the threat of a new Maidan
Reconciliation with Russia at the price of giving up economic sovereignty of Ukraine	Implementing policy for the benefit of Russia: federalization, restoring corrupt practices in the occupied regions and specific sectors (energy, coal mining, etc.)	Simultaneous operation of economies on occupied and "peaceful" territories, escalation in financial, budgetary and debt risks	Continued decline in trade with Russia, accelerated integration of territories occupied by militants into the domestic market of the Russian Federation	Polarization of public sentiment in the country, a rise in separatist sentiment in all regions of Ukraine, a sharp increase in the risk of state division
Complications of relations	Failure of the cooperation	Deep devaluation of the Hryvnia,	A sharp drop in investments, shortage of currency,	Falling incomes, disruptions in

with international financial institutions and partner countries	program between Ukraine and the IMF, cessation of funding from donor countries	destabilization of the money market, the threat of default on government obligations, increased capital outflow, debt crisis in the banking and financial sectors	reduction of critical imports supply, energy crisis	social assistance payments, the threat of mass unemployment
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