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# HUMAN CAPITAL – CHALLENGES FOR UKRAINE'S RECOVERY

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# HUMAN CAPITAL – CHALLENGES FOR UKRAINE'S RECOVERY

Olha PYSHCHULINA,  
Leading Expert, Social and Gender Programmes of the Razumkov Centre

**Despite two years of full-scale war, Ukraine has managed to endure with dignity and is currently going through qualitative changes that reflect structural shifts, and quantitative changes that demonstrate businesses' adaptation to the conditions of war, population's unity, and the state's leadership in the face of significant international financial support. Ukraine's economy is gradually taking on the features of a wartime economy. 2023 saw the beginning of the country's economic recovery, with GDP growing by more than 5%.**

**This positive trend can largely be attributed to the systematic inflow of international financial assistance. In 2022 and 2023, Ukraine received \$74 billion in external financing<sup>1</sup> and assembled a «financial coalition» to support its budget. The systematic financial support from international partners has helped mitigate the effects of lost demand caused by migration and logistical problems by expanding budget financing.**

Despite undeniable achievements, such as gaining Europe's political consent to start the EU membership talks, increasing domestic production of weapons and military equipment, securing long-term security guarantees and concluding agreements with partners, restoring economic growth and ensuring macro-financial stability, Ukraine is still facing multiple challenges in the third year of full-scale war. One of them is the decline in human capital, particularly the reduction of the labour resource potential that is crucial for the country's post-war recovery and further economic development.

Even before the invasion, Ukraine already struggled with a labour shortage, which was seen as a major factor hindering economic growth. But now the economic situation has become even more difficult due to the challenges and threats that Ukraine faces from a demographic perspective. The security factor has prompted many people to leave, resulting in significant deindustrialisation in the eastern regions and a partial loss of agricultural

sector potential, particularly in the south of Ukraine.

According to expert estimates, in 2023, the number of working-age individuals in Ukraine decreased by 39.2% compared to 2021, from 17.4 million to 12.5 million. Furthermore, projections suggest that it may decline even further to 11.7 million between 2024 and 2032.<sup>2</sup> According to the Ukrainian Institute for the Future, 58.6% of Ukraine's population is currently professionally inactive.<sup>3</sup> Demographic losses and the enemy occupation, the decrease in economic activity due to likely difficulties in finding work for IDPs and the need to care for other family members, the increasing number of pensioners, and a lack of skills needed in the labour market have all contributed to this decline in labour force (about 40% in 2023 compared to 2021). This decline has strongly affected all regions of Ukraine, with the most significant impact seen in the areas with active hostilities.

According to the Confederation of Employers of Ukraine, in 2022-2023, companies

<sup>1</sup> The largest part of Ukraine's state debt is concessional financing from international partners – Ministry of Finance of Ukraine, [https://www.mof.gov.ua/en/news/the\\_largest\\_part\\_of\\_ukraines\\_state\\_debt\\_is\\_concessional\\_financing\\_from\\_international\\_partners-4451](https://www.mof.gov.ua/en/news/the_largest_part_of_ukraines_state_debt_is_concessional_financing_from_international_partners-4451).

<sup>2</sup> Ukraine's labour force fell from 17.4 million to 12.5 million during the war and will continue to decline – KSE, <https://interfax.com.ua/news/general/926831.html> (in Ukrainian).

<sup>3</sup> The war has exacerbated Ukraine's demographic problems - DW, <https://www.dw.com/uk/padinna-narodzuvanosti-starinna-naselenna-obezludnenna-vijna-zagostrila-demograficni-problemi-ukraini/a-67793277?maca=ukr-rss-ukrnet-ukr-all-3816-xml> (<https://t.me/uiufuture/1495>) (in Ukrainian).

lost more than 781,000 men – some resigned, some were mobilised, and others left the country or transferred to informal work. At the same time, almost twice as many women – up to 1.5 million – left the labour market as well. Most of them left together with children or lost their jobs after the outbreak of hostilities. Overall, the labour market in Ukraine has contracted by 2.23 million people.<sup>4</sup> There are currently just over 10 million official taxpayers, compared to 12.3 million before the war.

## MAIN FACTORS BEHIND THE DECLINE IN LABOUR SUPPLY

Labour supply is constrained by further external migration, mobilisation, slow adaptation of IDPs in new places of residence, and growing labour market imbalances.

### Demographic factors

The war-induced demographic processes are having a negative impact on Ukraine's economy. Continued hostilities and further mobilisation will only worsen these indicators.

*Falling birth rate.* Demographic ageing in Ukraine is associated with an extremely low birth rate – one of the lowest among European countries. The fertility rate in Ukraine is currently 0.7, which is far below the rate of 2.14 necessary to maintain a sustainable population level. Even if Ukraine manages to restore its pre-war birth rate, it will not be enough to reverse the population decline. This decline in the fertility rate is expected to continue after the war, which will have long-term effects on future generations as those who will be due to have babies in 19-20 years from now will never be born. The small number of young people will enter the working age, which is a significant problem for Ukraine.

The birth rate will be seriously affected by the **separation of families** due to mobilisation, as well as women going abroad and leaving their men behind in Ukraine.

Another factor is a *reduction in average life expectancy* by 10 years, from 66.4 years

to 57.3 years for men, and from 76.2 years to 70.9 years for women.<sup>5</sup>

Demographic challenges are exacerbating the progressive ageing of Ukraine's population, including ageing among wounded soldiers returning from the war and high premature mortality among men of working age. There is also a notable deterioration in the reproductive health as a result of physical and psychological trauma.

### Migration

The negative migration trends pose a major risk to the country's economic development.<sup>6</sup> Almost half of the reduction in the working-age population was due to the outflow of external migrants, with approximately 6-8 million able-bodied individuals going abroad. To make things worse, the countries that have granted asylum to Ukrainian citizens may not always facilitate their return, and some EU countries are rather interested in keeping Ukrainian forced migrants.

The successful socialisation of many Ukrainian refugees abroad with little likelihood of their return in the future will result in a continued outflow of people from Ukraine, as many men will leave after the war to unite with their families. Additionally, this issue depends on many other factors, such as the policies of host countries after the war ends. Therefore, the extent of the return of forced migrants remains uncertain.

For instance, the NBU has downgraded its forecast for the number of Ukrainians who will remain outside Ukraine until the end of 2026, with the figure now standing at around 5.5 million.<sup>7</sup>

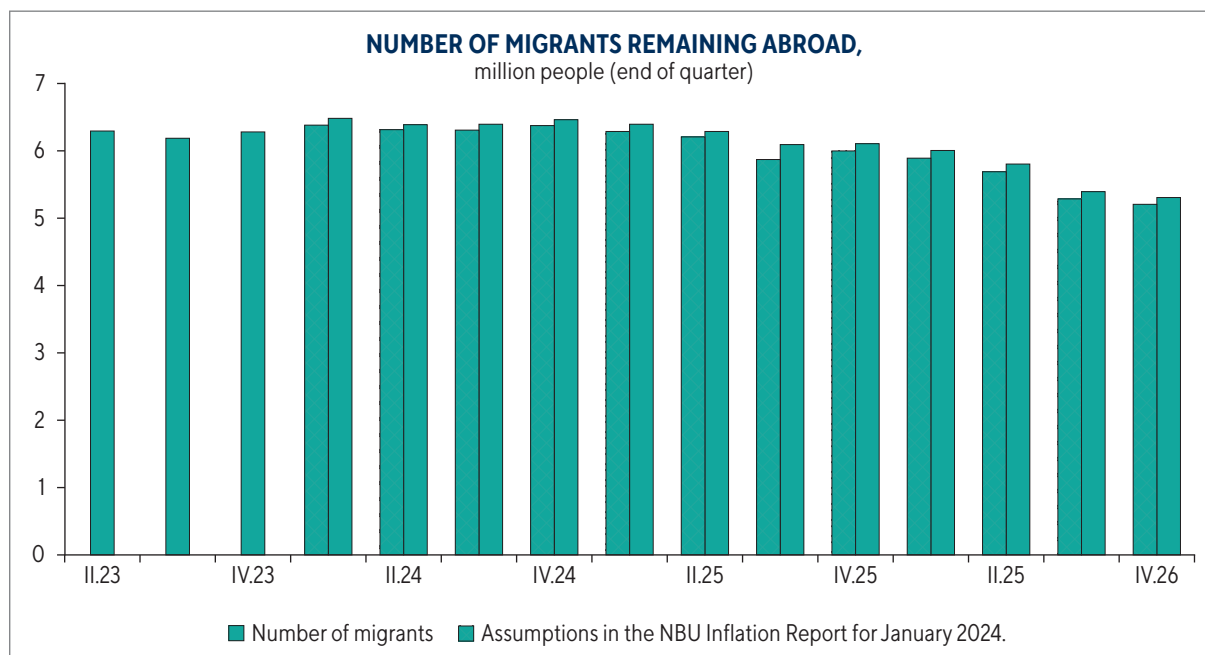
One of the incentives for the non-return of Ukrainians may have been the ongoing public debate over the new law on mobilisation. According to the latest survey by the Kyiv International Institute of Sociology (KIIS), 45% of Ukrainian refugees would like to get citizenship of another country; 19% have already obtained it or are in the process of getting it;

<sup>4</sup> The labour market lost more than 2 million people: which businesses suffered from their employees' mobilisation in the Ukrainian Armed Forces – Focus, <https://focus.ua/uk/eksklyuzivny/621976-rinok-praci-vtrativ-ponad-2-mln-osib-yakij-biznes-postrazhdav-vid-mobilizaciyi-pracivnikiv-u-zsu> (in Ukrainian).

<sup>5</sup> Demographic Development Strategy of Ukraine until 2040 – Ministry of Social Policy of Ukraine, <https://www.msp.gov.ua/projects/870/> (in Ukrainian).

<sup>6</sup> National Bank of Ukraine. Inflation Report, April 2024, [https://bank.gov.ua/admin\\_uploads/article/IR\\_2024-Q2\\_en.pdf?v=7](https://bank.gov.ua/admin_uploads/article/IR_2024-Q2_en.pdf?v=7).

<sup>7</sup> Ibid.



Source: UNHCR, NBU estimates

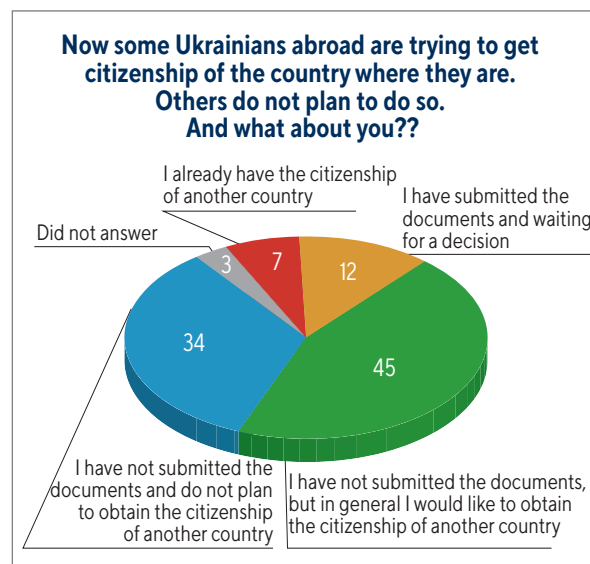
Poland's Ambassador to Ukraine Jaroslaw Guzy has stated that Poland will remain neutral on the issue of returning Ukrainian refugees to their home country – it will neither encourage nor prevent them from doing so.<sup>8</sup> But Ukrainians are very important for the Polish labour market.

The Polish government is currently deciding on how to regulate the long-term stay of Ukrainians in Poland. Special protection and the right to refugee benefits in this country are valid until the end of June 2024, while the Council of the European Union has extended them until March 2025.

Meanwhile, Germany's new citizenship legislation offers new opportunities for foreigners residing in the country.<sup>9</sup> Under a new law, foreigners would be able to apply for a German passport **after five years in Germany. In cases where applicants are «exceptionally well integrated», naturalization would be possible after three years.** At the same time, the rules for obtaining citizenship are being tightened for those who receive social assistance, and the requirements for German language proficiency for employment will be lowered. Most migrants come to Germany from Poland, Romania, Ukraine, Syria and Iraq. Thus, the new German citizenship law makes life easier for Ukrainian refugees and accelerates their integration into the labour market.

and 34% do not plan to change their Ukrainian citizenship.<sup>10</sup>

Available data suggests that the number of migrants continued to grow in Q1 2024 by about 150,000, reaching 6.5 million people according to the UN, which was slightly higher than the NBU's estimates in its January 2024 Inflation Report. This surge in migration not only limited the supply of labour, but also restricted the growth in consumer demand.



<sup>8</sup> Ambassador: Poland will not encourage Ukrainians to return home – DW, <https://www.dw.com/uk/polsa-ne-zaohocuvatime-ukrainciv-povertatisa-dodomu-posol/a-68511795> (in Ukrainian).

<sup>9</sup> Germany's parliament approves easing dual citizenship – DW, <https://www.dw.com/en/germanys-parliament-approves-easing-dual-citizenship/a-68030714>.

<sup>10</sup> Survey of Ukrainian refugees in Germany, Poland and the Czech Republic: satisfaction with life abroad, return to Ukraine, interest in the situation in Ukraine, 14 May 2024, KIIS, <https://www.kiis.com.ua/?lang=eng&cat=reports&id=1408&page=2>.



## Labour shortages

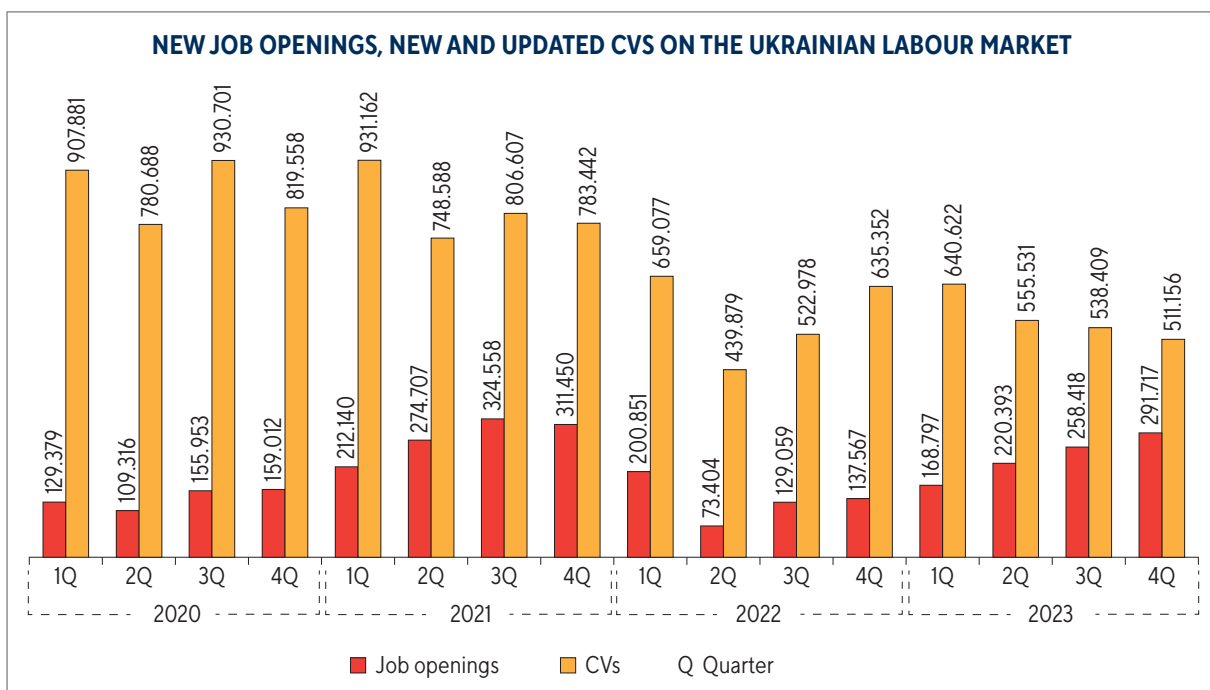
In 2023, the vast majority of employers faced staff shortages. This situation is exacerbated by uneven recovery of the labour market across regions and industries. Entrepreneurs complain about difficulties in finding employees, with three-quarters of them experiencing a shortage of staff, according to the European Business Association's study of the Ukrainian labour market. Figure-wise, this situation was reported by 74% of employers compared to 55% in autumn 2023.<sup>11</sup>

The NBU has highlighted the growing shortage of both skilled and unskilled workers in the country. As a result, businesses are trying to hire pensioners and persons with disabilities to fill these gaps. The Ukrainian government acknowledges that staff shortages are hindering the country's economic recovery. The Ministry of Economy states that «over the next decade, Ukraine will need to attract an additional 4.5 million employees to the labour market, and the need for labour

will only grow to meet the requirements of economic recovery».<sup>12</sup>

Furthermore, data from job search aggregators reveals a decline in the number of active job seekers at the same time that job openings are increasing. The ratio of candidates who are sending CVs is also decreasing rapidly, with the total number of CVs significantly lower compared to 2022 across all regions. Notably, even in regions like Lviv, which initially saw a surge in CV submissions after the start of invasion, there are now nearly 5,000 fewer candidates. The largest drop in CVs was observed in Kyiv region – a decrease by 26,434 resumes.<sup>13</sup>

Resources for online recruitment indicate that the number of job openings available now already surpasses pre-war levels. For example, the robota.ua portal<sup>14</sup> revealed that in January 2022, an average of 90,000 vacancies were published daily, but in March 2024, this number has increased to over 106,000 vacancies per day.



Source: RAU, robota.ua

<sup>11</sup> Three quarters of employers are experiencing staff shortages in Ukraine, <https://eba.com.ua/en/try-chverti-robotodavtsiv-vidchuvayut-defitsyt-kadriv-v-ukrayini/>.

<sup>12</sup> Restoring the labour market is the path towards our victory – Ministry of Economy of Ukraine, <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=3741cc27-dbe5-433e-a139-1d480735bc51&title=VidnovlenniaRinkuPratsiTseShliakhDoNashoiPeremogi-TetianaBerezhna> (in Ukrainian).

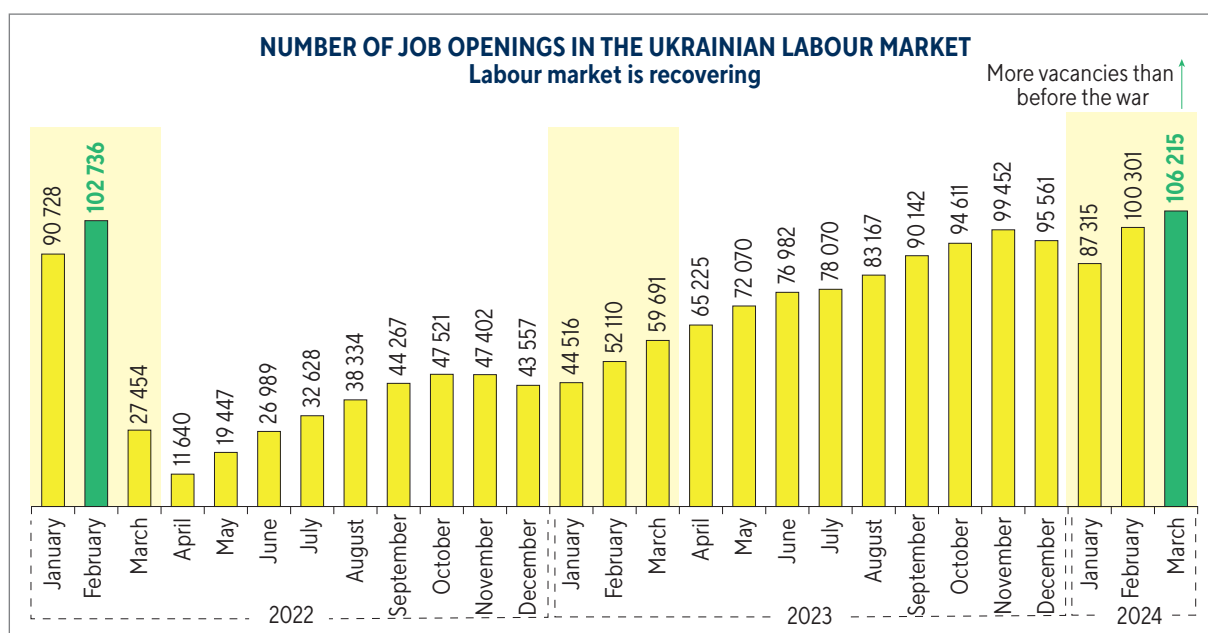
<sup>13</sup> RAU and robota.ua special project: How the labour market in retail changed from April 2022 to December 2023 - RAU, <https://rau.ua/novyni/specproekt-rau-i-robota-ua-2023-2> (in Ukrainian).

<sup>14</sup> What one needs to know about the Ukrainian labour market in 2024? Research and analytics by robota.ua - Budni, <https://budni.robota.ua/career/shho-treba-znati-pro-ukrayinskiy-rinok-pratsi-u-2024-rotsi-doslidzhennya-ta-analitika-vid-robota-ua> (in Ukrainian).

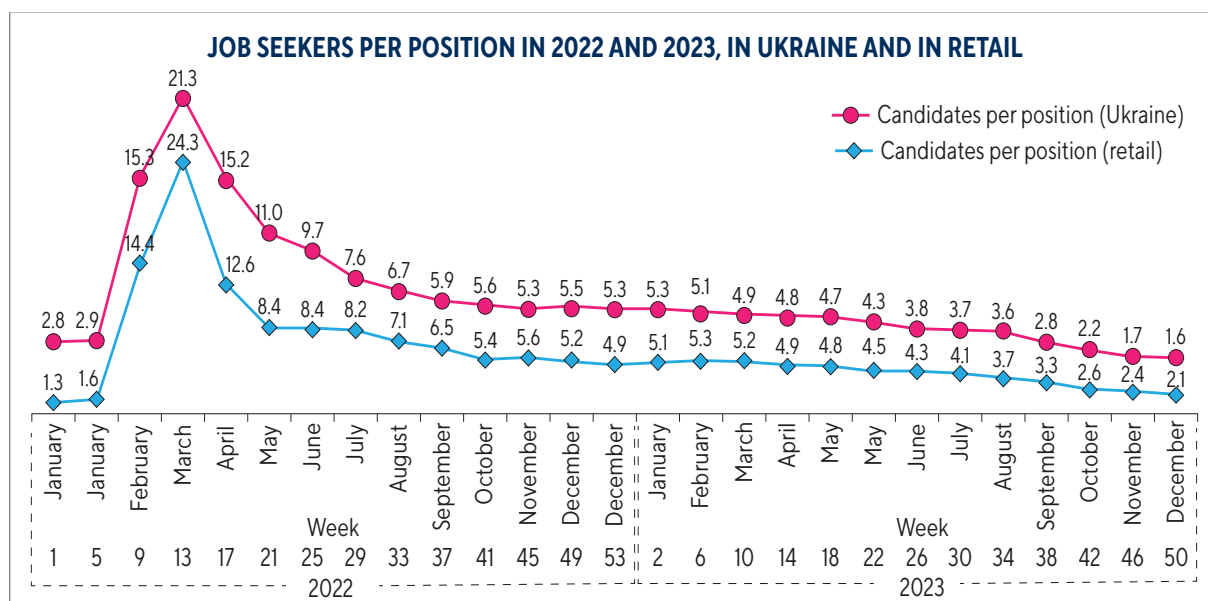
As a result, the number of job seekers per position in early April 2024 has dropped below the pre-war levels. In a number of professions like logistics, blue-collar jobs, retail, and hotels and restaurants, this figure is already less than one, indicating significant staff shortages. Even in sectors with lower demand, such as education, design, IT, and arts and culture, the figures are significantly lower than in April 2023. As labour supply remains tight, labour market imbalances are expected to persist

in the foreseeable future, thereby limiting economic activity.

Employers in both frontline regions and in western Ukraine are equally facing staff shortages. For the former, hiring challenges are related to the fact that many people were forced to relocate to safer regions or abroad. For the latter, hiring is complicated by intense competition with other employers. For example, in the Zakarpattia region, the labour market has recovered by 167%,<sup>15</sup> and



Source: robota.ua



Source: robota.ua

<sup>15</sup> The future of the labour market: 13 key trends in 2024 - Work.ua, <https://www.work.ua/articles/analytics/3217/> (in Ukrainian).

there are now much more employers than before the invasion. Therefore, available candidates are simply not enough to fill all the vacancies.

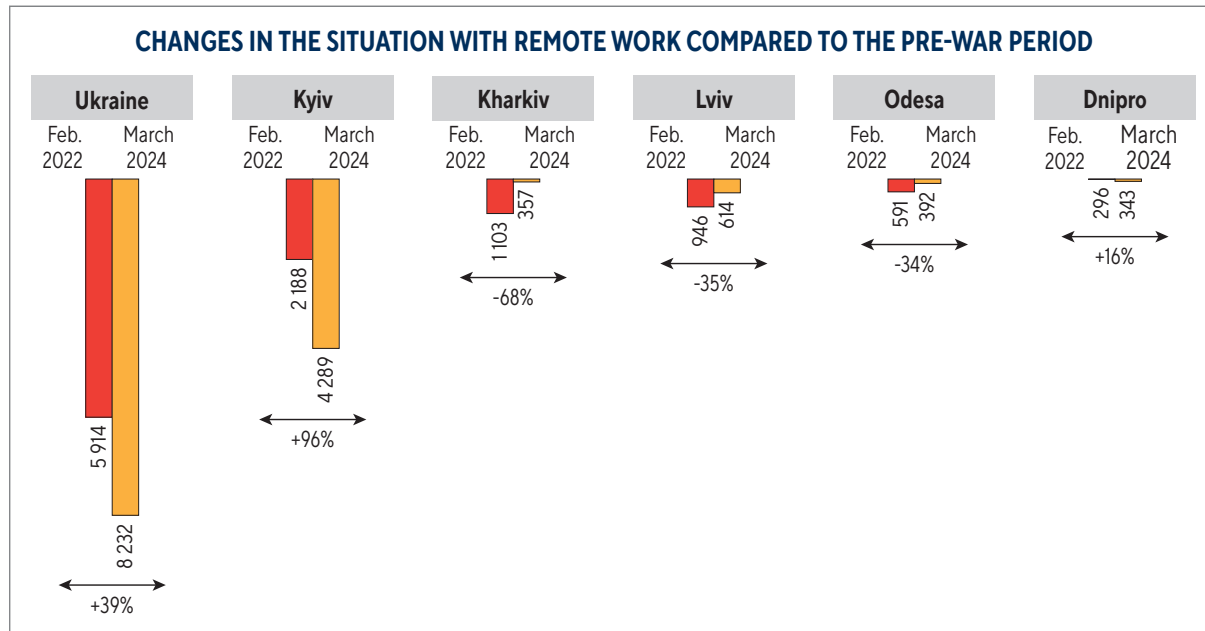
Furthermore, some business sectors are more affected by staff shortages than others. The most hard-to-find candidates are for vacancies in «Medicine, Pharmaceuticals» and «Working Professions, Production». The job openings that have the fewest responses from job seekers regularly include positions of health professionals (endoscopists, gastroenterologists, endocrinologists, ultrasound doctors, paediatricians, family doctors, dental technicians) and blue-collar jobs (miners, tinsmiths, cutters, sawyers, tinting specialists, roofers) – specialities, which were expected to have a positive outlook in early 2022.<sup>16</sup>

One of the key differences between the pre-war labour market and the current one is the *situation with remote work*. Recruitment portals report a 39% increase in remote work vacancies in Ukraine.<sup>17</sup> The capital city of Kyiv has been particularly affected, with a 96% increase in remote job offers in March 2024 compared to February 2022.

Other major cities in Ukraine have also experienced a significant increase in remote vacancies – by 68% in Kharkiv, 35% in Lviv, 34% in Odesa, and 16% in Dnipro.

There has been a shift in the gender distribution of the workforce, as the share of women increases. Additionally, more women are entering traditionally male-dominated professions. This change is attributed to the mobilisation of men for military service, resulting in difficulties in filling vacancies in professions like construction, loading, warehousing, welding, fitting, electrical work, forklift driving, and many others.

In addition to staff shortages, the Ukrainian labour market is also plagued by **high unemployment** with a wide range of fluctuations. The high unemployment rate is primarily due to the lack of information on the state of the labour market and unregulated issues of methodology for capturing certain categories of the population (military personnel, temporarily occupied territories and territories where military operations are (were) conducted).

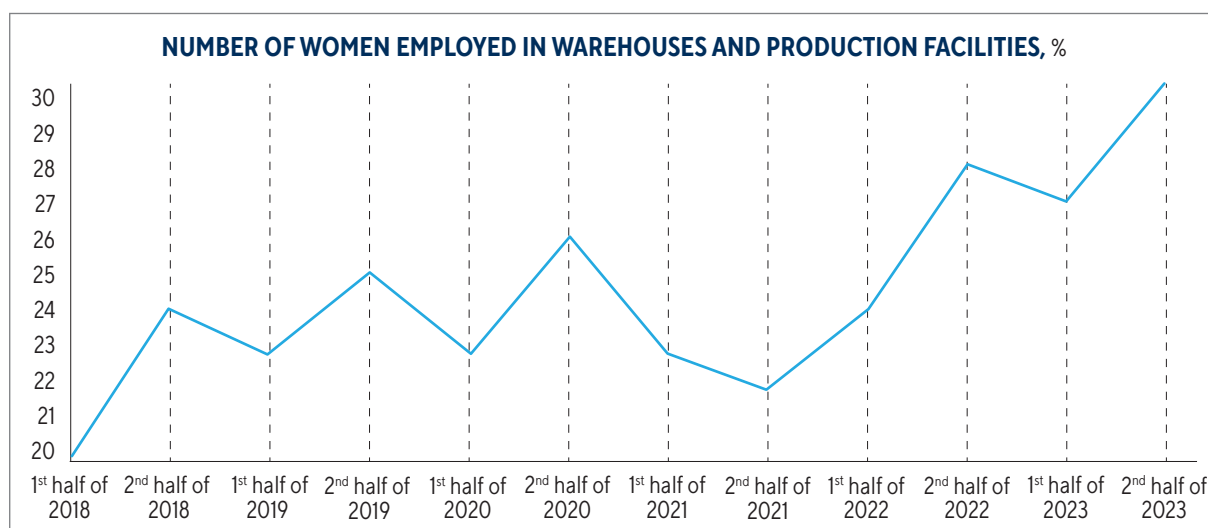


Data as of March 2024. Source: robota.ua

<sup>16</sup> K. Markevych, Labour market in Ukraine after the war: trends and forecasts. Razumkov Centre, <https://razumkov.org.ua/images/2022/07/31/2022-ANALIT-ZAPIS-MARKEVICH-FIN.pdf> (in Ukrainian).

<sup>17</sup> What one needs to know about the Ukrainian labour market in 2024? Research and analytics by robota.ua - Budni, <https://budni.robota.ua/career/shho-treba-znati-pro-ukrayinskiy-rinok-pratsi-u-2024-rotsi-doslidzhennya-ta-analitika-vid-robota-ua> (in Ukrainian).

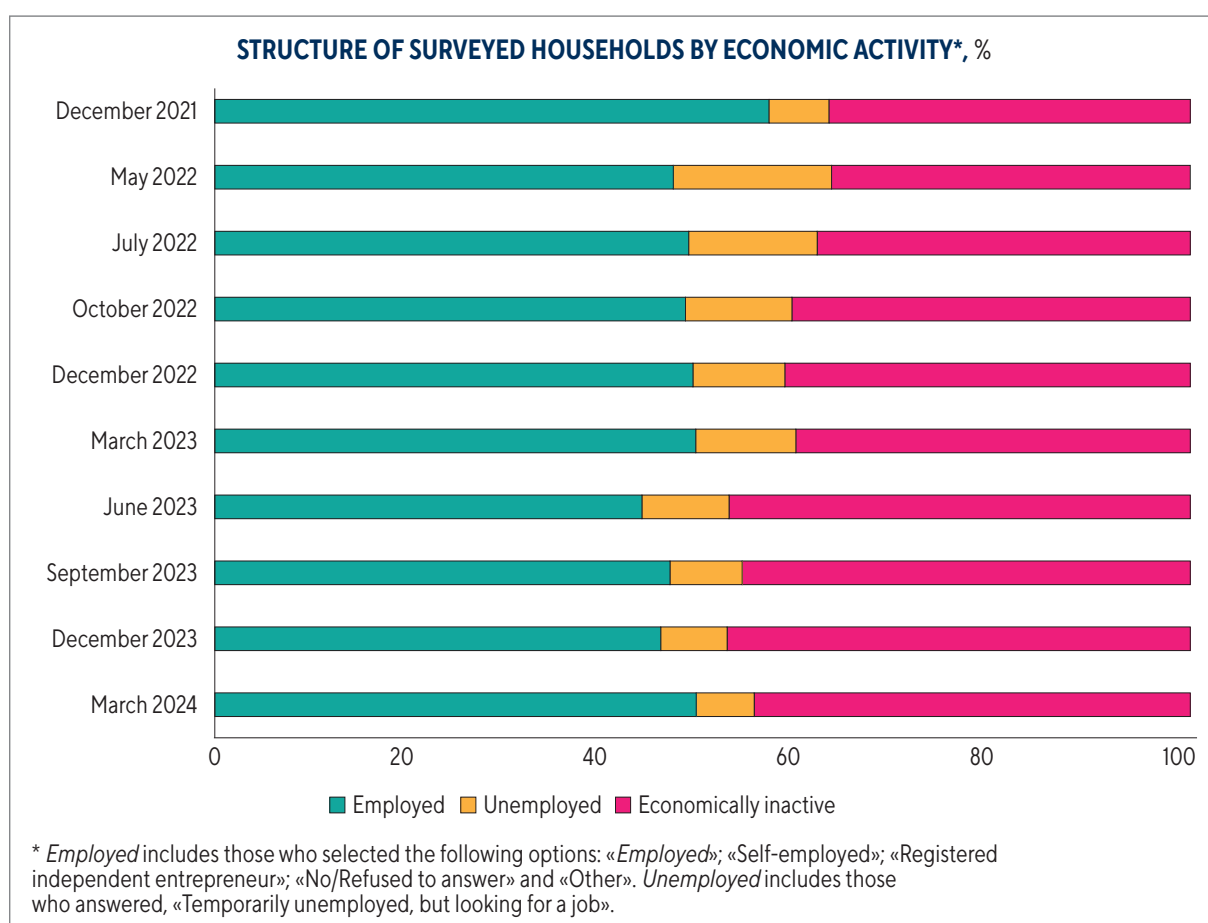




Source: haski.ua

Meanwhile, the rapid growth in demand for workers in the face of limited supply has led to a reduction in the unemployment rate. This trend has emerged since the second half of 2023, as evidenced by official statistics based on household surveys. The NBU has

revised its estimates and predicts that the unemployment rate will decline from 18.2% to 14.2% in 2024<sup>18</sup> and may reach 10-12% in 2025-2026. This figure is still higher than before the full-war levels due to changes in the structure of the economy, external and internal



Source: InfoSapiens, NBU estimates

<sup>18</sup> National Bank of Ukraine. Inflation Report, April 2024, [https://bank.gov.ua/admin\\_uploads/article/IR\\_2024-Q2\\_en.pdf?v=7](https://bank.gov.ua/admin_uploads/article/IR_2024-Q2_en.pdf?v=7).



migration, and uneven recovery across regions and industries. But despite a **large number of unemployed people**, it remains a challenge to find qualified specialists in certain industries.

Difficulties in finding skilled workers in the face of economic recovery will result in further *wage increases in the private sector*.<sup>19</sup> The mismatch between labour supply and demand has led to a tendency for wages to rise on the part of both job seekers and employers and is evidenced by both household income figures and higher wages in job postings and CVs on job search websites.<sup>20</sup>

### Mobilisation

Mobilisation is one of major contributors to staff shortages in the Ukrainian labour market. Thus, an increased shortage of male

labour is the most important consequence of recently adopted Law on Mobilisation<sup>21</sup> for the labour market and the upcoming mobilisation processes. In 2022, there was already a shortage of women in Ukraine due to a significant number of women with children becoming refugees. And now, the shortage of labour is felt by industries that heavily rely on male labour – retail, manufacturing, construction, logistics, transportation, and agriculture.<sup>22</sup> Furthermore, many employers are hesitant to hire men because of the possibility of their mobilisation, while some men are reluctant to seek formal employment in order to avoid applying to territorial recruitment centres (TRCs) for relevant certificates.

Meanwhile, the updated legislation regarding mobilisation poses potential risks such as increasing informal

<sup>19</sup> The future of the labour market: 13 key trends in 2024 - Work.ua, <https://www.work.ua/articles/analytics/3217/> (in Ukrainian).

<sup>20</sup> Average salary in Ukraine. May, 2024 – Work.ua, <https://www.work.ua/stat/>.

<sup>21</sup> Law of Ukraine «On Amendments to Some Legislative Acts of Ukraine on Certain Issues of Military Service, Mobilisation and Military Registration», 10449 of 30 January 2024 - VRU, <https://itd.rada.gov.ua/billInfo/Bills/Card/43604>.

<sup>22</sup> It has already started in ATB, Foxtrot and others. The largest Ukrainian retailers are facing a problem – NV <https://biz.nv.ua/ukr/consmarket/kriza-pracivnikiv-v-ukrajinskih-riteylerah-statistika-50395004.html> (in Ukrainian).

employment and «envelope salaries», deteriorating business environment, opening up new avenues for corruption in government agencies, and stimulating further emigration.

To mitigate these negative effects of mobilisation, which is absolutely necessary for the defence of the country, on the economy and the labour market, Ukraine needs a well-thought-out mobilisation policy based on a clear understanding of the human resources needed to defend the country and support its vital functions and aimed at striking an appropriate balance. Implementation of this policy should prioritise the strict observance of human rights and freedoms, the principle of social justice, and the strongest anti-corruption measures.

## CONCLUSIONS

It is widely known that jobs and innovative development are the backbones of any economic system. Due to the enormous loss of human potential and the destruction of millions of jobs in Ukraine, the basic institution of the economy that allowed citizens to transform their labour into new added value, has lost much of its efficiency. The question is how to compensate for the loss of human resources without relying on labour migrants from poorer countries in Asia or Africa to replenish labour force.<sup>23</sup>

To restore its human capital, Ukraine needs to develop policies that will help reverse the trends in all three components – fertility, premature mortality, and negative migration, also taking into account significant changes in the distribution of citizens among regions in Ukraine. Recognising the ever-growing importance of human capital in the modern world and its enormous potential for the country's economic development, Ukraine has to prioritise the issue of human capital recovery in the public discourse.

Ukraine does have certain reserves for restoring its human capital, and relevant measures should seek to create a favourable environment in two interconnected areas – bringing back Ukrainian citizens to their homeland and building an effective system for the human capital formation and development within the country. Restoring human capital is a complex task requiring interagency and multilayered approaches, as well as joint efforts of the authorities, communities and businesses, including to address the existing extensive approach to human capital, in which the state treats people as sustainable production resource.

But the most important prerequisite for this is to ensure Ukraine's victory in the war and the establishment of long and lasting peace.

<sup>23</sup> Although, in principle, this option cannot be ruled out.