

PRESS RELEASE

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Early EU accession: The economic reforms that Ukraine and the other candidate countries would need to implement

- *For rapid EU enlargement to succeed, clear priorities for economic reform are needed to address the biggest problems facing the candidate countries.*
- *The case studies of Ukraine, Serbia and Montenegro illustrate this point.*

The EU enlargement process is picking up speed again: the European Commission (EC) announced in early November that negotiations with Montenegro and Albania, as well as with Moldova and Ukraine, could be concluded within two years. In a new study commissioned by the EC, the Vienna Institute for International Economic Studies (wiiw) has examined where the problems lie and which economic reforms the three candidate countries of Ukraine, Serbia and Montenegro should prioritise in order to join the EU more quickly.

To this end, the areas of competitiveness, labour markets and fiscal policy were subjected to a thorough analysis. In order to better assess the three countries' readiness for accession, the current situation in these areas was compared with the situation in Romania, Bulgaria and Croatia prior to their accession to the EU. Based on this, the study identifies the necessary priorities in terms of economic accession criteria (Copenhagen criteria) that Ukraine, Serbia and Montenegro would have to meet for rapid EU accession. Many experts consider a speedy EU enlargement to be necessary. *'Against the backdrop of increasing geopolitical competition between the major powers, the EU would be well advised to stabilise its immediate neighbourhood in the east and southeast through a rapid round of enlargement,'* says Michael Landesmann, Economist at wiiw and initiator and co-author of the study.

The study concludes that all three countries still have significant economic and institutional shortcomings that stand in the way of EU accession. In principle, however, it should be possible to resolve these problems – provided the necessary political will exists. In the context of an accelerated accession process, institutional reforms in the areas of freedom of expression, the judiciary and the fight against corruption would also play a major role and would have to be irreversibly anchored by the candidate countries. Compared to previous rounds of enlargement, the study calls for even stricter measures in this area, in order to avoid any unpleasant surprises after accession.

With regard to Ukraine, wiiw calls for the restoration of a civilian public procurement system and irreversible reforms in the judiciary and in the fight against corruption after the lifting of martial law. This is to prevent any resurgence of the oligarchs and the hijacking of the state by special interests. Similar recommendations are made for Serbia and Montenegro, where freedom of expression and the media, as well as political pluralism, are fundamental conditions for accession.

Ukraine: Structural problems and corruption as obstacles

Due to the ongoing Russian invasion, Ukraine faces particular challenges and will need considerable support in reconstruction and in restructuring its high national debt. *‘Despite its weak institutions and major shortcomings in terms of the rule of law and the fight against corruption, significant progress has been made. In these areas, Ukraine is comparable to Romania and Bulgaria at the beginning of their accession process and is therefore not a negative outlier. Ukraine’s EU accession should therefore be feasible,’* says Richard Grieveson, Deputy Director of wiiw and co-author of the study.

The biggest structural weakness of the Ukrainian economy is the level of foreign direct investment, which is far too low. This prevents the development of internationally competitive sectors with high added value. So far, Ukraine has been competitive mainly in agriculture and forestry, food, metal production and IT. Defence and aviation – drones being a key example – are other examples and offer great potential. Traditionally, however, Ukraine has the lowest level of foreign direct investment in the entire region. *‘In addition to the difficult security situation caused by the war, corruption and the lack of rule of law are important reasons for the low level of direct investment, which is why solving these problems is also essential from an economic point of view,’* says Olga Pindyuk, Ukraine expert at wiiw and co-author of the study.

Foreign direct investment is essential for the economic development of this war-torn country and its necessary integration into international value chains. An attractive investment climate is an important prerequisite for this. *‘Similar to the very successful example set by EU members in Eastern Central Europe, Ukraine should attract industrial production from Western corporations after the war. Given the well-educated workforce and technological innovation, there are great opportunities here,’* continues Pindyuk.

The lack of diversification in the Ukrainian economy poses a further challenge. The war has destroyed many production facilities that could have been useful in building a competitive export economy, thus further exacerbating the problem. Added to this is the low productivity in many sectors and a huge population decline due to war, displacement and low birth rates. Since 2022, 6.5 to 7 million people have left the country – very often young and highly qualified individuals. Fewer and fewer of them want to return. The resulting labour shortage will jeopardise reconstruction and development after the end of the war. *‘The Ukrainian government should work closely with EU countries to do everything possible to encourage as many people as possible to return and to offer them prospects,’* says Pindyuk.

The enormous expenditure on the war, with an annual budget deficit of more than 20% of GDP, and the high level of public debt make debt relief by international creditors a necessary condition for economic recovery. The macroeconomic imbalances caused by the high trade and current account deficits are also problematic. This makes it all the more important to have a competitive economic structure with higher exports, especially in more technologically advanced areas with higher added value.

Serbia: President Vučić’s authoritarian course is the main problem

Serbia is in a fairly good macroeconomic position as a candidate for accession: public debt and the budget deficit are stable; the trade deficit is low; and exports now account for around 55% of GDP. Economic growth rates have also been satisfactory in recent years, at around 3-

4%. *'However, China's strong economic presence could prove to be a stumbling block for the country on its path to EU membership, as Brussels increasingly sees Beijing as a geostrategic rival and could scrutinise China-backed projects in Serbia more closely,'* points out Serbia expert Branimir Jovanović. In recent years, China has become the largest foreign investor in Serbia, accounting for around a third of foreign direct investment flowing into the country. This is roughly equivalent to the combined total of all other EU countries.

The continuing lack of innovation (despite rising expenditure on research and development), unequal income distribution and the high poverty rate of around 20% of the population are also having an adverse impact on the economy. Another particular problem in Serbia is the sharp decline in population due to migration to the EU and lower birth rates. Between 2009 and 2023, the population of Serbia shrank by 700,000 people – from 7.3 million to 6.6 million. This could very soon lead to a full-blown labour shortage.

'However, the biggest problem for Serbia on its path to EU membership is undoubtedly the low motivation on the part of its authoritarian president, Aleksandar Vučić, to implement the reforms required for accession,' emphasises Jovanović. As a result, Serbia has slumped in all relevant World Bank rankings on the rule of law, governance and the fight against corruption. *'As the ongoing protests by the population against corruption and nepotism in the country show, these abuses must be addressed,'* says Jovanović.

Montenegro: Top performer with shortcomings

Although it is the smallest of the accession candidate countries, Montenegro has come closest to joining the EU. Nevertheless, the tiny Adriatic republic, with around 620,000 inhabitants, still faces major challenges. The economy is heavily dependent on tourism, public debt is the highest in the entire region at 124% of GDP, and during the COVID-19 pandemic the country narrowly avoided a full-blown debt crisis. In addition, there are still major shortcomings in the areas of the rule of law, corruption, governance and administration. The country must make progress in these areas if it is to reap the full benefits of EU membership, which can realistically be expected within the next five years.

[The full study is available for download here.](#)

About the Vienna Institute for International Economic Studies (wiiw)

Founded in 1972, the Vienna Institute for International Economic Studies (wiiw) is an economic think tank that produces economic analyses and forecasts on 23 countries in Central, East and Southeast Europe. In addition, wiiw conducts research in the areas of European integration, macroeconomics, international economics, industrial studies, labour markets and regional development. www.wiiw.ac.at

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