



Razumkov
centre



Kingdom of the Netherlands

MATRA Programme

May 2023

UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments



I.

NATIONAL SECURITY AND DEFENCE: KEY DEVELOPMENTS, PROCESSES, TRENDS

In May 2023, the Russian side gradually lost the initiative and was forced to respond to Ukraine's actions, not being able to achieve its own operational and strategic goals. May saw the culmination of one of the longest episodes of this war, the Battle of Bakhmut. As expected, Russian troops reaching the western outskirts of the city had no strategic or operational consequences for the overall situation, and the front line remained relatively stable despite the high intensity of hostilities throughout the month.

President Zelenskyy's statement on the timing of the offensive, while addressing primarily to Ukrainian society and foreign partners, also apparently sought to increase psychological pressure on the Russian military and political leadership. A number of symbolic actions aimed at undermining the Russian regime's authority inside the country (drone attacks in Moscow and «guerrilla» raids in Belgorod and Kursk regions) seem to have achieved the expected effect, at least partially.

In addition to local offensives, Russia's main efforts were aimed at countering the expected offensive of Ukrainian forces. Along with the unprecedentedly intensive missile and drone attacks across Ukraine and vigorous development of echeloned defences, the Russian leadership continued to spread statements about its «readiness» for negotiations, but only on Russia's terms.

COMBAT ACTION

Russia's main efforts in May were aimed at:

- ✓ capturing Bakhmut and undertaking tactical offences in certain areas;
- ✓ holding the captured territories;
- ✓ regrouping and building up forces and capabilities to deter the expected Ukrainian offensive;

- ✓ building a deeply echeloned defence in the occupied territories of the mainland Ukraine and on the Crimean Peninsular;
- ✓ undertaking massive missile and drone attacks on critical infrastructure and military facilities, also to terrorise the civilian population in the capital and other cities of Ukraine.

The Ukrainian defence forces carried out measures pursuing the following objectives:

- ✓ preparation of conditions for an offensive campaign («formation of the operation»);
- ✓ weakening the enemy's combat potential while preparing human reserves and accumulating material resources for an offensive;
- ✓ seizing the strategic initiative in the conflict and countering the enemy's efforts to seize the tactical initiative in the most threatening areas.

In May 2023, the entire contact line remained largely stabilised, except for areas around Kupyansk, Lyman, Bakhmut, Avdiivka and Shakhtarsk, where both sides undertook minor tactical advances. After reaching the outskirts of Bakhmut, Russian forces significantly reduced their assaults, which confirms previous doubts about the strategic feasibility of concentrating Russian offensive actions in this area. The rest of the front line mainly saw positional clashes, as well as artillery duels and reconnaissance and sabotage operations, including in the border regions.

According to British intelligence, in May, Ukraine gradually seized the initiative in the conflict, forcing the enemy to react and depriving it of Ukraine: from war to peace and recovery the opportunity to progress towards its own operational and strategic goals. After the unsuccessful winter-spring

campaign, the Russian military command is forced to focus on preparing to repel the Ukrainian offensive by generating operational reserve forces in the areas of the expected main attack.

At the end of May, President Zelenskyy made a statement about the decision of the Headquarters of the Supreme Commander-in-Chief on the timing of the offensive, naturally not mentioning specific dates. This long-awaited statement could be addressed both to Ukrainian society and partners, and also aimed at increasing psychological pressure on the Russian military and political leadership in the context of the so-called «formative operation».

One should view the drone attacks in Moscow on 3 and 30 May and the breakthrough of Russian volunteer fighters from the Ukraine-based Freedom of Russia Legion and Russian Volunteer Corps (RDK) into Russia's Bryansk and Belgorod regions in the same context. Their main purpose was probably the information and psychological influence on the enemy. Moreover, such actions obviously pursue purely military goals, forcing the Russian command to redeploy reserve forces and equipment to protect the border regions and additional air defence assets to protect the capital.

Russia, in turn, has launched an unprecedented number of attacks on the Ukrainian capital since the onset of the war. During May, Kyiv suffered 20 massive attacks involving about 400 kamikaze drones, more than 160 cruise and ballistic missiles. One of the unexpected consequences of these attacks, which certainly caused human casualties and destruction, was the debunking of another myth about Russia's superweapons. Thanks to modern Western-made air defence systems, it has become possible to intercept Russian ballistic missiles, including the «invulnerable» hypersonic Kinzhal (Dagger) missile. It should be added that one of Russia's priority targets was exactly the Patriot air defence system, which, although suffering non-critical damage, demonstrated its unique combat capabilities thanks to its tactical and technical characteristics and professionalism of Ukrainian operators.

Although missile and drone strikes on Russian territory were carried out before May, this month can be considered a turning point in the expansion of the theatre of operations.

The Kremlin's reaction to two drone attacks on the Russian capital and fighting in the border areas of the Belgorod region indicate that, despite constant threats of «appropriate retaliation», Russia has virtually exhausted its arsenal of escalation using conventional military instruments.

In May, assessments of the threat of a ground invasion from Belarus did not change. The defence ministers of Russia and Belarus signed documents on the procedure for the deployment of Russian non-strategic nuclear weapons in Belarus. By doing so, Russia has taken another step towards formalising its permanent military presence, which will have long-term consequences for the sovereignty of Belarus.

The deployment of tactical nuclear weapons on the territory of Belarus is another piece of the Kremlin's nuclear black-mail policy, added to the threats to intensify provisions of the Russian nuclear doctrine and militarisation of the Zaporizhyya NPP (ZNPP). The presence of Russian troops and weapons on the ZNPP territory, gross violation of safe operation rules and artificial creation of emergencies pose a serious threat of an unplanned incident with catastrophic consequences. Despite the absence of purely technical preconditions for such an accident, the risks may soar at the time of the forced retreat of Russian troops from the nuclear plant, if it is deliberately provoked by Putin and his entourage.

UKRAINIAN GOVERNMENT'S POLICY DECISIONS AND ACTIONS IN THE DEFENCE SECTOR

The Cabinet of Ministers has adopted a resolution establishing the Defence Procurement Agency as the MoD's state customer service. According to Defence Minister Oleksandr Reznikov, this procurement model will minimise corruption risks, contribute to more efficient use of budget funds and reduce the time needed to supply goods for defence purposes. This model is typical for NATO member states.

The Verkhovna Rada adopted a number of legislative changes to address the issue of military personnel's medical examination personnel. From now on, military medical commissions will be established at civilian state and municipal health facilities, reducing the burden on military hospitals.

Changes were also made to simplify the bureaucratic procedures for issuing certificates of injury, conclusions on the need for treatment or unfitness for military service. These decisions are expected to help eliminate queues and excessive bureaucracy and, by and large, the problem of system's unpreparedness for tens of thousands of wounded soldiers, which was discussed in detail in the previous review.

Other important draft laws on social protection of servicemen and their families, designed to address numerous problems that have emerged or been exacerbated during the large-scale war, are currently pending in the Parliament. For example, there is a need to regulate the status of servicemen who are temporarily unfit for service because of wounds, disability of groups 1-2 (Draft Law No. 8169). Currently, such servicemen are not eligible for dismissal and receive a meagre salary of UAH 500-1,000 per month.

Ukraine has reduced the age limit for registration of conscripts from 27 to 25. This will reduce the burden on territorial recruitment and social support centres associated with this category of persons liable for military service, who are not subject to conscription or mobilisation in wartime as the ones registered as conscripts.

President Zelenskyy's decision to approve a comprehensive strategic plan for reforming the law enforcement system until 2027 also deserves attention, as it demonstrates the government's understanding of the importance of proper functioning of non-military components of the security sector both in war and post-war reconstruction.

FOREIGN EVENTS (EXTERNAL FACTORS)

The issue of supplying Western-made aircraft has finally moved forward. On 19 May, US President Joe Biden supported an international fighter jet coalition. Eight European countries have already joined this coalition, and agreements have been reached on training Ukrainian pilots and ground staff, as well as on the creation of a special fund for the transfer of F-16s. Traditionally, this was made possible thanks to the UK's leadership, while the US Administration did not insist on observing the «red lines».

In addition to its applied military significance, the decision to transfer F-16s is a very important political step that symbolises the partners' readiness to step up their support for Ukraine and their growing determination to accept the risks of Russian threats to «punish» the West for supplying weapons to Ukraine. At the same time, the risk of escalation for President Biden remains one of the most difficult assessment factors affecting his decision-making.

The example of British Storm Shadow cruise missiles supplied to Ukraine with their critical capability to strike targets at operational depth demonstrates one of the alternative models of public communication of the arms transfer process, when official statements are made after the fact. Each of these models has its own advantages and disadvantages, pursuing the same goal of undermining the enemy's will and ability to continue aggression.

So, the analysis of the most important events, political statements and decisions leads to the following conclusions:

- ✓ May 2023 probably marked the end of yet another stage of the Russia-Ukraine conflict, with the key feature being the relative stabilisation of the contact line largely due to depletion of Russia's offensive potential;
- ✓ despite the Russian military and political leadership's realisation of its inability to conduct large-scale offensive operations and uncertainty about its ability to deter the expected Ukrainian offensive, there are currently no signs of Russia's readiness for compromise;
- ✓ The Kremlin's official statements about its readiness for negotiations and numerous initiatives and messages from mediators mainly serve the Russian narrative of «exchanging peace for territories»;
- ✓ despite the existing conceptual uncertainty of the image of Ukraine's victory as a factor in restraining the pace and volume of assistance, Western partners are increasingly interested in strengthening Ukraine's defensive and offensive potential.

II. FOREIGN POLICY

May 2023 was generally productive for Ukrainian diplomacy. Against certain progress in European and Euro-Atlantic integration, steps were taken to expand military support for Ukraine (formation of a fighter jet coalition), and contacts intensified in «problematic» foreign policy areas for Ukraine, including the global South and Africa. Official Kyiv's actions have generally contributed to strengthening the country's foreign policy position and promoting its interests and initiatives on the world stage.

FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

The Ukrainian government's war diplomacy has remained largely focused on ensuring external conditions for effective resistance to Russian aggression, expanding formalised support for EU and NATO integration, advancing international isolation of the Putin regime and political and legal condemnation of Russian aggression. In this context, the following areas of action for Ukraine should be highlighted.

Holding political dialogue with foreign partners. Intensive negotiations, consultations, and meetings with country leaders, heads of international institutions, politicians, public figures, and businesspeople continued throughout the month. The Ukrainian side set a fairly high pace of its «diplomatic marathon». In early May, Kyiv held talks with the Chairman of the Portuguese Parliament Augusto Santos Silva, followed by the meetings with the President of the European Commission Ursula von der Leyen, the President of the Venice Commission Claire Malaurie, as well as the US Congress delegation, top management of BlackRock, the world's largest asset management company, and others. Meanwhile, important working meetings and consultations were held at the level of the Presidential Office, the Cabinet, the MFA and other ministries with officials and politicians from Turkey, the Netherlands, Montenegro, Italy, Bulgaria, Switzerland, Brazil, Poland, etc. The most important and effective contacts of the Ukrainian side in May 2023 included the following.

On 3 May, the President of Ukraine paid an official visit to Finland, holding talks with the Finnish leadership, the prime ministers of Denmark, Iceland, Norway, and Sweden, and taking part in the Nordic-Ukrainian Summit. Following the event, a joint statement was adopted in which the Scandinavian countries condemned Russian aggression, emphasised their comprehensive assistance to Ukraine, and supported its European and Euro-Atlantic integration.

On 4 May, the President met the Dutch Prime Minister Mark Rutte in The Hague. A joint statement was adopted calling for the establishment of a special tribunal to investigate the crime of Russian aggression and the formation of an international mechanism to compensate for damage caused to Ukraine. In this regard, the Ukrainian leadership's meeting with the President of the International Criminal Court, Piotr Hofmanski, was particularly important. Mr Zelenskyy also met the Prime Minister of Belgium Alexander de Croo during the visit. The leaders of the Netherlands, Belgium and Ukraine adopted a joint declaration in support of Ukraine.

On 13-15 May, Ukraine's leadership travelled to Italy, Germany, France and the UK, adopting joint declarations as a result. These documents are important as they emphasise: (a) ensuring political solidarity and military and economic support for Ukraine; (b) bringing to justice those responsible for crimes against Ukraine; (c) continuing and strengthening of sanctions against Russia; (d) developing mechanisms to compensate Ukraine for losses and damages caused by Russian aggression; (e) facilitating Ukraine's accession to the EU and NATO. A number of important practical agreements on defence support for our country were reached during these negotiations.

The President of Ukraine's participation in the G7 Summit on 20 May was of great strategic importance. From a geopolitical viewpoint, significant were his meetings and consultations with both the G7 leaders and the leaders of the global South attending the Summit – the

presidents of Indonesia and Korea, the prime-ministers of India, Vietnam and Australia.

Expanding the geography of diplomatic contacts. Y In May, official Kyiv intensified political contacts in «challenging» geographical areas to promote its own interests in these regions, minimise Russian influence and gain support for Ukraine's position on international platforms. In early May, Bahraini Foreign Minister Abdullatif bin Rashid Al-Zayani visited Kyiv for the first time in the history of bilateral relations. On 19 May, the President of Ukraine paid a working visit to Saudi Arabia, where he held talks with the country's leadership, consultations with Iraqi Prime Minister Mohammed Shiaa al-Sudani, and spoke at the Arab League summit.

In his turn, Ukrainian Foreign Minister Dmytro Kuleba attended the summit of the Association of Caribbean States (25 countries) and held a series of talks with partners from Guatemala, Costa Rica, Bangladesh, Singapore, etc. At the end of May, Mr Kuleba made his second «African tour», visiting Morocco, Ethiopia, Rwanda, Mozambique and Nigeria, and holding a series of talks, including with the African Union's Azali Assoumani and Moussa Mahamat. In the meantime, the MFA Special Representative took part in the 9th Investment and Trade Forum «The African gateway to Industry, Agriculture and Trade» in Algeria.

Promoting Ukrainian interests and initiatives globally. Ukraine focuses its political and diplomatic efforts on promoting a number of international initiatives, some of which are worthy of particular attention.

In May, the Ukrainian side promoted the idea of convening an international summit in July 2023 (500 days after the start of the full-scale war) at various levels, on international platforms and within the framework of the aforementioned meetings to adopt the «Ukrainian peace formula», which is strategically important for the country.

Official Kyiv is actively working to create a special international legal mechanism to condemn the crimes of the aggressor country's leadership. In particular, on 9 May, the Summit of the leaders of states and governments of the Coalition (Core Group) on the establishment of a Special Tribunal for the Crime of Aggression against Ukraine was held. A joint statement was adopted and supported by 37 states.

The Verkhovna Rada appealed to international organisations, governments and parliaments of foreign countries calling to support the condemnation of the ideology, policies and practices of ruscism – a totalitarian regime that committed the crime of aggression, war crimes, crimes against humanity and genocide of the Ukrainian people. The Ukrainian parliament then called on the international community to take measures to bring Russia's military and political leadership to justice.

A top-level Ukraine-Japan conference on the reconstruction of Ukraine was initiated and private business was invited to participate in this process.

INTERNATIONAL PROCESSES AND EVENTS

G7 Finance Ministers announced financial and economic assistance to Ukraine. The meeting of finance ministers and central bank governors of G7 countries on 3 May in Japan adopted a statement on increasing the volume of international commitments for economic and budgetary support to Ukraine for 2023 – early 2024 to \$44 billion.

The Council of Europe expressed its solidarity and support for Ukraine. The Fourth Summit of the Council of Europe on 16-17 May in Iceland adopted a final resolution in which the heads of state and government of the Council of Europe expressed support for Ukraine in countering Russian aggression and supported the Ukrainian «peace formula». An important agreement was signed on the international register of damage to Ukraine since the beginning of the full-scale Russian invasion.

Political and legal condemnation of Russian aggression against Ukraine continued. During May, different states and international organisations adopted decisions at various levels to recognise the actions of Russian attackers on Ukrainian territory as a crime. In particular: (a) the NATO Parliamentary Assembly adopted a resolution on 22 May recognising Russia's crimes against Ukraine as genocide; (b) the US House of Representatives Foreign Affairs Committee adopted a resolution calling on the US President to support the establishment of a special tribunal to punish the crime of aggression against Ukraine; (c) the French National Assembly declared the Wagner Group a terrorist organisation; (d) the European Economic and Social

Committee called on the EU to criminalise crimes of ecocide during the Russian invasion of Ukraine; (e) the World Health Organisation adopted a resolution condemning Russia's aggression, including attacks on medical facilities.

Meanwhile, international processes of establishing historical justice – recognising the crimes of the Soviet regime against the Ukrainian nation – continued in parallel. In May, the French Senate, the Slovenian Parliament, and the British House of Commons adopted resolutions recognising the Holodomor of 1932-1933 as genocide.

The G7 Summit on 20 May in Japan demonstrated comprehensive support for Ukraine. In the final declaration, the leaders of the world's top seven countries declared their unwavering support and comprehensive assistance to Ukraine in countering Russian aggression. The G7 agreed to continue sanctions against the aggressor.

Numerous international events to support the Ukrainian Armed Forces continued throughout the month. The United States, Germany, the United Kingdom, Denmark and some other countries announced new military aid packages for Ukraine. An agreement was reached to establish an international coalition to provide Ukraine with air combat capabilities. At a regular meeting of the Ramstein contact group, the participants planned to provide Ukraine with military assistance worth \$65 billion.

UKRAINE'S STEPS TOWARDS THE EU AND NATO: EVENTS AND TRENDS

In May, Ukraine side tried to expand the «bridgehead» of formal support for the country's EU and NATO accession. As noted above, joint statements and declarations were signed with 11 countries of Western and Northern Europe to facilitate Ukraine's progress on the path of European and Euro-Atlantic integration. These official Kyiv's activities are understandable ahead of approaching important events – publication of the European Commission's interim assessments of Ukraine's progress towards the implementation its recommendations and the July NATO summit. In May, Ukraine took a number of steps towards European integration.

In May, the Comprehensive Strategic Plan for the Reform of Law Enforcement Agencies as a Part of the Security and Defence Sector of Ukraine for 2023-2027, approved by the President of Ukraine, entered into force.

At the end of May, two important European integration bills, «On Amendments to Certain Legislative Acts of Ukraine on Clarifying Provisions on Competitive Selection for the Position of a Judge of the Constitutional Court of Ukraine», and «On Amendments to Certain Laws of Ukraine on Restoration and Green Transformation of the Energy System of Ukraine» passed the first reading in the parliament.

Meanwhile, the EU extended the duty-free trade regime with Ukraine for another year: on 25 June, the EU Council adopted a regulation extending the suspension of all customs duties, quotas and trade remedies on Ukrainian exports to the EU until June 2024, thus ensuring the stability of trade relations with the EU and facilitating integration into the EU's internal market.

Ukraine's official accession to the NATO Cooperative Cyber Defence Centre of Excellence (CCDCOE), headquartered in Tallinn, became a landmark event in the field of Euro-Atlantic integration.

Summing up the May results, official Kyiv's foreign policy efforts continued to focus on accumulating resources to strengthen resistance to Russian intervention. In this regard, the formation of a «fighter jet coalition» for Ukraine by Western partners was a positive result. The overall picture of May events and trends shows that, along with consolidating its support for Ukraine, Europe and the world continue to isolate and condemn, both politically and legally, the crimes of the aggressor.

In turn, national diplomacy efforts to ensure support for Ukraine's European and Euro-Atlantic integration by leading European states can be considered productive. It is also noteworthy that amidst the large-scale war, Ukraine has been gradually improving its political and diplomatic presence in «challenging» regions of Africa and the global South.

III.

CONSTITUTIONAL AND LEGAL FIELD

CONSTITUTION-RELATED POLITICAL AND LEGAL ACTS

1.1. An important part of the parliamentary activity in May was condemning of the Russian invaders' crimes in Ukraine, bringing information about these crimes to the parliaments and governments of other countries, as well as efforts aimed at ensuring the irreversibility of Ukraine's European and Euro-Atlantic course. Thus, on 3 May 2023, the Verkhovna Rada decided to withdraw from the Agreement on the Interparliamentary Assembly of the Commonwealth of Independent States of 27 March 1992. The parliamentarians noted that this «Agreement has de facto lost its significance as a valid document of interparliamentary cooperation since 16 January 1996, when the Convention on the Interparliamentary Assembly of the Commonwealth of Independent States of 26 May 1995 came into force, which Ukraine has neither signed nor ratified, and the Verkhovna Rada has ceased interparliamentary cooperation within the Interparliamentary Assembly of the Commonwealth of Independent States since 19 February 2014».

The Law of Ukraine «On the Day of Remembrance and Victory over Nazism in World War II of 1939-1945», adopted by the Verkhovna Rada on 29 May 2023, is aimed at «debunking the myths and manipulations of Soviet-Russian propaganda», restoring historical truth and justice, as well as establishing Ukraine's European course. From now on, Ukraine, along with the rest of Europe and the entire civilised democratic world, will celebrate this Day on 8 May every year. Instead, 9 May will be the date for celebrating Europe Day.

1.2. In its Statement «On the use of the ideology of ruscism by the political regime of the Russian Federation, condemnation of the principles and practices of ruscism as

totalitarian and human-hating», the Verkhovna Rada condemned «the Russian Nazi totalitarian regime of President Putin, which uses the ideology of ruscism, as criminal» and called on the international community to join «the recognition of the current political regime of the Russian Federation as criminal, the Russian Federation itself as a terrorist state, and the acts committed by the bodies of the terrorist state and its political and military leadership during the large-scale armed aggression against Ukraine as genocide of the Ukrainian people». Ukrainian parliamentarians appealed to the UN, the European Parliament, the PACE, the OSCE Parliamentary Assembly, the NATO Parliamentary Assembly, and foreign governments and parliaments to support the condemnation of the ideology, policies and practices of ruscism. Perhaps for the first time, an attempt has been made at the official level to define the essence of «ruscism», the characteristic features and consequences of which are systematic violations of human rights and fundamental freedoms; cult of force and militarism; a cult of personality and sacralisation of state institutions; self-aggrandisement of Russia and Russians through violent oppression and/or denial of the existence of other peoples; the practice of spreading the Russian language and culture, the Russian Orthodox Church, media, political and public institutions, propaganda of the ideas of the «Russian world» among other peoples to implement an expansionist state policy; systematic violation of universally recognised principles and norms of international law, in particular respect for the sovereignty of other states, their territorial integrity and internationally recognised borders, non-compliance with the principle of non-use of force or threat of force; creation, financing and armed support of illegal armed groups and separatist movements in the territories of other sovereign states, creation and support of terrorist organisations; use of prohibited methods of warfare and systematic commission

of war crimes and crimes against humanity; systematic organisation and commitment of mass murders, executions, torture, deportations, creation of artificial conditions for famine, other types of mass physical terror, genocide, persecution on ethnic, national, religious, political and other grounds; regular use of economic and energy blackmail against other states; regular threats to use nuclear weapons against other states and creation of man-made disasters.

1.3. The Verkhovna Rada also appealed to the parliaments and governments of foreign states, international organisations and their interparliamentary assemblies to condemn the crimes of forced deportation of Ukrainian children committed by the Russian Federation and the Republic of Belarus. Ukrainian parliamentarians draw attention of their foreign colleagues to the fact that Russia's armed aggression against Ukraine has been going on for more than nine years, which since

24 February 2022 has become a full-scale invasion. Among all the crimes committed by the aggressor, crimes against Ukrainian children are particularly horrifying, which is a gross violation of the 1989 United Nations Convention on the Rights of the Child. During the invasion, 961 children have been injured, 401 children are missing and almost 20,000 children have been forcibly deported to Russia from the currently or formerly occupied territories of Ukraine, and more than 1,000 Ukrainian children are being held in Belarus under decisions of the self-proclaimed president of the Republic of Belarus, as well as individual decisions of the so-called Union State. Such actions of the Russian Federation and the Republic of Belarus against Ukrainian children clearly indicate a planned, pre-calculated process of forced deportation of children from Ukraine for the purpose of their ideological re-education, assimilation with the population of the Russian Federation and use in the interests of the aggressor state.



IV.

ECONOMY

DECISIONS

Financial assistance from partners is one of the most important components of Ukraine's resilience. At the end of May, Ukraine received €1.5 billion – the fourth tranche of macro-financial assistance (MFA+) from the EU.

This brings the total of macro-financial assistance disbursed to Ukraine since the beginning of 2023 to €7.5 billion. More specifically, Ukraine received the first tranche of €3 billion from the EU (out of a total of €18 billion) in January, and the second tranche of €1.5 billion in March. Kyiv received the first tranche unconditionally, but according to the agreement, the next €15 billion will be disbursed only if Ukraine fulfils its obligations. It is not yet known which of them have been fulfilled over the past two months.

Said arrival of funds may indicate that Ukraine is trying to effectively implement the reforms agreed with the EU.

However, various challenges emerge from time to time. For example, despite non-compliance of restrictions with the obligations under the EU-Ukraine Association Agreement, the principles of the EU internal market and WTO rules, on 2 May the European Commission imposed a temporary ban on the export of wheat, corn, rapeseed and sunflower from Ukraine to five EU countries. In their turn, Bulgaria, Hungary, Poland and Slovakia committed to cancel their unilateral measures banning imports of agricultural products from Ukraine. Although the ban is an «unpleasant» decision, it is probably the «best option of the worst» for Ukraine, as it still keeps access to the rest of the EU market, whereas in a «standard» situation, safeguard measures would have to apply to all member states.

In the meantime, the EU Council has extended the duty-free trade with Ukraine, also known as «economic visa-free regime», for

another year, while the European Parliament adopted the relevant decision on 9 May. This means that Ukrainian businesses will not pay any duties, quotas or tariffs when exporting goods to the EU until at least June 2024, which will help Ukrainian economy and businesses in the face of the extremely difficult military situation.

On 17 May, the day before the formal end of the so-called grain deal – the quadripartite arrangements for the export of Ukrainian grain from Black Sea ports – was extended for 60 days. Despite being important for the global food security, according to the UN Secretary-General, this decision was largely due to a political factor – the desire of the current Turkish president to be re-elected.

Recovery of the domestic economy will be more effective if supported by the development and implementation of rational strategic areas of action. The National Bank of Ukraine (NBU) was the first government agency to develop and present a new institutional Strategy. The document takes into account the factor of Russian invasion affecting the financial system functioning and focuses on protecting financial stability and rebuilding the country.

The strategy will be implemented in five areas – a stable hryvnia, financial stability, a financial system that works for the country's recovery, modern financial services, and an effective central bank.

It is noted that the first four goals are «looking outward» to meet the needs of participants of financial ecosystem. The fifth goal is intended to improve the implementation of the NBU's mission and vision through internal transformation.

The Strategy appears to be balanced, but like the previous one, it focuses on inflation targeting, while the tasks of promoting accelerated growth of the real sector are not

sufficiently presented, although it is ensuring support and proper dynamics of the real sector of the domestic economy that should be prioritised during the recovery period.

The government is also stepping up efforts to involve democratic countries and financial institutions in Ukraine's accelerated recovery. On 19 May, the Cabinet of Ministers adopted decisions on attracting additional funds from international financial institutions and partner countries, which include a \$500 million loan from the International Bank for Reconstruction and Development and a \$1.2 billion grant.

The government also approved an agreement to raise a \$1.5 billion loan guaranteed by the Japanese government as part of a project to support development and recovery policies. The funds will be used to strengthen social protection and restore Ukraine.

Ukraine has joined the Connecting Europe Facility, which gives access to the EU funding of the development of modern transport, energy and digital infrastructure. The total budget of the programme until 2027 is almost €21 billion.

Therefore, international partners continue to provide broad support to Ukraine.

Internal institutional transformations are also underway. On 4 May 2023, the Cabinet of Ministers published a resolution on the transformation of the state concern Ukroboronprom into a joint-stock company «Ukrainian Defence Industry» (UOP).

According to the charter, the main goal of the UOP is to strengthen Ukraine's defence capability, to perform effective management, investment and innovative development of the country's defence industry, to regulate, control and coordinate the activities of business entities in the defence industry. It is assumed that the new company will be able to respond more quickly and adequately to the needs and demands of Ukraine's defence industry.

DEVELOPMENTS, PROCESSES, TRENDS

A positive trend in Ukraine's reality is its active and open cooperation with international financial institutions. On 23 May, an IMF mission began its work on the first review of the four-

year Extended Fund Facility programme. The review will focus on Ukraine's performance against 19 so-called structural benchmarks that the country must consistently and successfully meet in order to receive the entire \$15.6 billion financing.

At the same time, Ukraine has joined the OECD's Global Revenue Statistics Database, becoming the 121st country to submit information to this organisation, which is considered the largest open source of income data. The Global Revenue Database provides comparable data on tax levels, tax structures and changes in revenues from individual taxes over time for the vast majority of countries. Hopes are that this will not only make the national statistical system more transparent and understandable, including for international experts, but will also contribute to Ukraine's business attractiveness, as information on revenues is an important component of investment decisions.

The NBU has revised and improved its medium-term forecasts for macroeconomic indicators, as presented in the quarterly Inflation Report for April 2023. More specifically, in 2023, real GDP is projected to grow by 2% (previously 0.3%), and inflation will slow to 14.8%. In the coming years, inflation will continue to decline, and economic recovery will accelerate, including due to lower security risks. In other words, the economy will return to a (weak) recovery.

These NBU forecasts look realistic, but their achievability will be determined by the results of Q2-Q3, which are expected to compensate for the relative losses of the previous quarter. While in Q1 2023, GDP fell by 13.5%, in Q2 it is projected to grow by 15.9% (which, however, is due to a low comparison base due to the Russian invasion).

The realism of NBU forecasts largely depends on the dynamics of the country's foreign exchange reserves.

As of 1 May 2023, Ukraine's international reserves stood at \$35.94 billion, up 13% from the beginning of April and a record high for the last 11 years. This amount of international reserves provides funding for 4.7 months of estimated future imports, which is an important macroeconomic indicator.

The increase in reserves was made possible by inflows from international partners amid a further decline in the NBU's net foreign currency sales and moderate foreign currency debt repayments. Such inflows help to offset the NBU's net sales of foreign currency to cover the gap between supply and demand in the Ukrainian foreign exchange market.

Meanwhile, in May, the NBU's interventions increased to \$1.7 billion, up about 20% from April, which may be due to business activity and its need for imported resources.

In mid-May, the World Bank's Technical Assistance Mission to support Ukraine's financial sector began operations in the country. Its main focus is on the state of Ukraine's financial sector after the full-scale Russian invasion, the NBU's measures to maintain financial stability in the country, better regulation in the banking and non-banking financial markets, and the World Bank's role in their implementation. The results of the Mission's work will obviously have a direct impact on the nature and level of the World Bank's assistance in Ukraine's recovery.

According to the IT Ukraine Association, exports of IT services from Ukraine in the first quarter of 2023 decreased by 16% compared

to the same period in 2022 and amounted to \$1.68 billion. At the same time, the share of IT in total exports of services in Q1 was 43%. This means that the dynamics of total exports of services will be determined by IT services. Meanwhile, one can hardly expect any significant increase in these services this year, as the relevant companies will be in no hurry to launch large projects in Ukraine.

The Pension Fund has approved the average salary for the first quarter of 2023. More specifically, the average March salary, which is used for calculating pensions, was UAH 13,423 (UAH 12,644 in January, and UAH 12,794 in February). It should be reminded that since the Russian invasion, the calculation of average wages (income) in Ukraine is based on information from the State Tax Service, while previously it was the responsibility of the State Statistics Service.

Given the set monetary indicators, there are grounds to believe that the actual average salary in March was UAH 14.6 thousand, which is slightly above the one estimated by the Pension Fund. Moreover, nominal wage growth correlates with inflation, so the real purchasing power of wages in 2023 is expected to be stable.

V.

ENERGY SECTOR

As of the end of May, the situation with electricity generation and consumption in Ukraine was stable and under control.

However, there was some shortage of electricity caused by a large-scale repair campaign at thermal power plants and some nuclear power units, which was also associated with the need to restore the power grid in preparation for the new heating season. According to NPC Ukrenergo, in May 2023, as a result of massive attacks on the Ukrainian power grid, the loss of installed capacity increased to 27 GW.

ELECTRICITY MARKET

The last export on 22 May was insignificant – 400 MWh each to Moldova and Poland. From 1 to 15 May, Ukraine exported 30.7 thousand MWh of electricity: 21.8 thousand MWh to Moldova and 8.9 thousand MWh to Poland.

On 27 May, Ukraine's power system received emergency assistance from Romania to cover the evening peak in consumption. This is a situational measure used when the capacity of its own power plants is insufficient for a certain period of time. The hydroelectric power plants continued to operate not only to cover the peaks in consumption in the morning and evening, but also throughout the day.

The 30 May decision of the Cabinet of Ministers to almost double the electricity tariff for households to UAH 2.64/kWh from 1 June was quite expected. The moratorium on raising heating and hot water tariffs during martial law and for six months after its termination, introduced by the Cabinet of Ministers Resolution No. 502 of 29 April 2022, does not apply to electricity tariffs.

Such changes will help improve the financial performance of Energoatom and

Ukrhydroenergo, which are assigned special obligations (SO) and cover the difference between the market price of electricity (about UAH 6/kWh) and tariffs for households. The government also justifies the increase in household tariffs by the need to invest in the restoration of energy infrastructure.

In addition, the National Energy and Utilities Regulatory Commission (NEURC) has increased electricity distribution tariffs for most distribution system operators (DSOs, Oblenergos) by an average of 25-50%.

It is planned to cancel the electricity price caps for businesses. Currently, the maximum price for electricity in Ukraine set by the NEURC is UAH 4,000 per MWh.

OIL AND GAS MARKET

The government announced that starting from 1 July it plans to reintroduce fuel taxes that were in place in Ukraine before the Russia's full-scale invasion. A petition has been signed proposing to cancel the planned increase in VAT on fuel from 7% to 20%, as well as excise taxes on fuel, for the period of martial law.

The business community believes that the government should keep the VAT rate at 7% and raise the necessary budget revenues by increasing the excise tax. The Ukrainian Oil & Gas Association (UOGA) proposes to level the excise tax rate at €180/1,000 litre for all motor fuels and to keep the VAT rate at 7%. Food prices could rise by 15-30%, and the share of illegal oil products market – by more than 20-30%.

According to ICE, gas exchange prices in the EU fell below \$300/tcm for the first time since 20 May 2021. The cost of the June futures on the Dutch TTF hub as of 10:25 a.m. Kyiv time fell to \$297.06/tcm, or €26.8 per MWh.

The reasons for the drop in prices include a large supply of LNG, storage stocks and falling demand, as well as the first joint tenders for gas purchases by EU countries, coupled with an increase in the share of wind power in electricity generation.

Ukraine's natural gas reserves amount to almost 9.5 bcm, and the government plans to accumulate at least 14 bcm of natural gas in underground storage facilities by the start of the next heating season in 2023-2024.

RENEWABLES SECTOR

The debt of the SOE Guaranteed Buyer to universal service providers that supply electricity to households increased to UAH 32.7 billion (up by UAH 13.3 billion in April). 18 suppliers asked the government to take appropriate measures to ensure full and timely payment for affordable electricity services.

Despite the hostilities, DTEK commissioned the first stage of the 114 MW Tylihul wind farm on 18 May. The plant consists of 19 turbines manufactured by Vestas (Denmark) with a unit capacity of 6 MW.

The company plans to raise financing for the construction of the second stage of the 384 MW Tylihul wind farm.

The bill 9011-d passed the first reading in the Verkhovna Rada. This legislative act introduces guarantees of origin for «green» electricity, as well as the right of renewable electricity producers to independently sell electricity (Feed-in-Premium mechanism), which will promote market development and improve competition. The document also provides an additional incentive for distributed generation by consumers – a self-production mechanism.

Ukraine and Germany are launching the Renewable Energy Sources for a Sustainable Ukraine – R2U, which is the first project within the green recovery partnership agreements. The project will select up to 20 communities to conduct energy audits of critical infrastructure buildings for further RES equipment. The project will last for 18 months and is worth about €2 million, seeking to strengthen the resilience of Ukraine's energy system by decentralising electricity generation and distribution.



VI.

EMPLOYMENT AND LABOUR MARKET

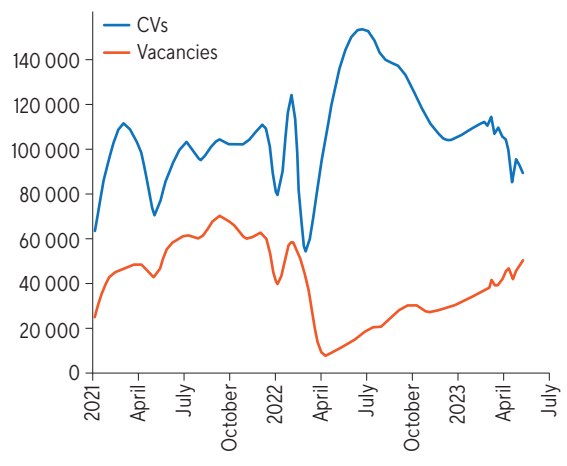
The labour market is currently undergoing changes. From being an unconditional employers' market during the entire 2022, the labour market is gradually turning into a job seekers' market. According to the work.ua portal, starting from April 2023, the rate of new vacancies has returned to almost 80% of the 2021 average, and the number of CVs exceeds the average level of 2021 by only 10%. The NBU's Inflation Report explains this trend as «a revival of economic activity thanks to improvements in the energy sector and seasonal activity».

On 11 May, 36,000 vacancies were registered in the State Employment Service database. The Unified Job Portal, established in 2022 by the State Employment Service and HR platforms work.ua, rabota.ua, grc.ua and others, had 184,000 vacancies. Most of them are for blue-collar occupations: 22% are for skilled workers with tools (seamstresses, electricians, repairmen, electric and gas welders, bakers, plumbers, etc.); 17% are for equipment and machinery maintenance workers (drivers, tractor drivers, turners, petrol station operators, excavator operators, milling operators, machine operators, etc.). For comparison, the share of vacancies for specialists with higher education is only 15% (pharmacists, engineers, doctors, teachers are in demand), while 13% are for service workers (mostly salespeople, waiters, security guards, hairdressers).

At the same time, the labour market is recovering unevenly, with increasing risks of regional imbalances. The positive employment trend is stabilising only due to the western regions. While the east, north, and south of Ukraine have not recovered to the level of early 2022, the west and partly the centre offer even more vacancies than before the hostilities.

For example, Ivano-Frankivsk is now ranked fifth by the number of vacancies replacing

RESUME AND JOB POSTING DYNAMICS, 2021-2023



Kharkiv, where the situation with jobs is very difficult because many businesses in the war-torn regions have been destroyed or shut down. Others have relocated to safer regions.

The unemployment rate in western regions, after rising to 30% in 2022, has now dropped back to 15%. However, the number of jobseekers in the western regions has not increased dramatically due to IDPs. These regional disparities have an explanation. Contrary to the conventional wisdom that IDPs move to the western regions, Dnipropetrovsk and Kharkiv oblasts are true leaders by the number of IDPs hosted. People move to Kharkiv and Dnipro from small settlements in the regions with active fighting. Whereas IDPs in the west cannot compete for jobs due to different regional specifics of employment. Therefore, the west sees the formation of predominantly structural unemployment, where there is a mismatch between what employers need and what employees can offer.

There is also an occupational and qualification imbalance and certain differences between labour supply and demand. According to the State Employment Service, most in

demand are for skilled blue-collar workers. Their shortage is now 20-25% higher than in 2021.

One of the reasons for this shortage is the mass mobilisation of men. Just like businesses, the Armed Forces of Ukraine also need qualified specialists. Employee reservations do not always work, especially when it comes to small and «non-strategic» companies. Another reason is the massive migration of women of blue-collar occupations, who, unlike office workers, can quickly find a well-paid job in the EU. Moreover, refugee status gives them the right to official employment.

The share of those seeking informal jobs has also increased. Unofficial employment is equally attractive for employers (who can save

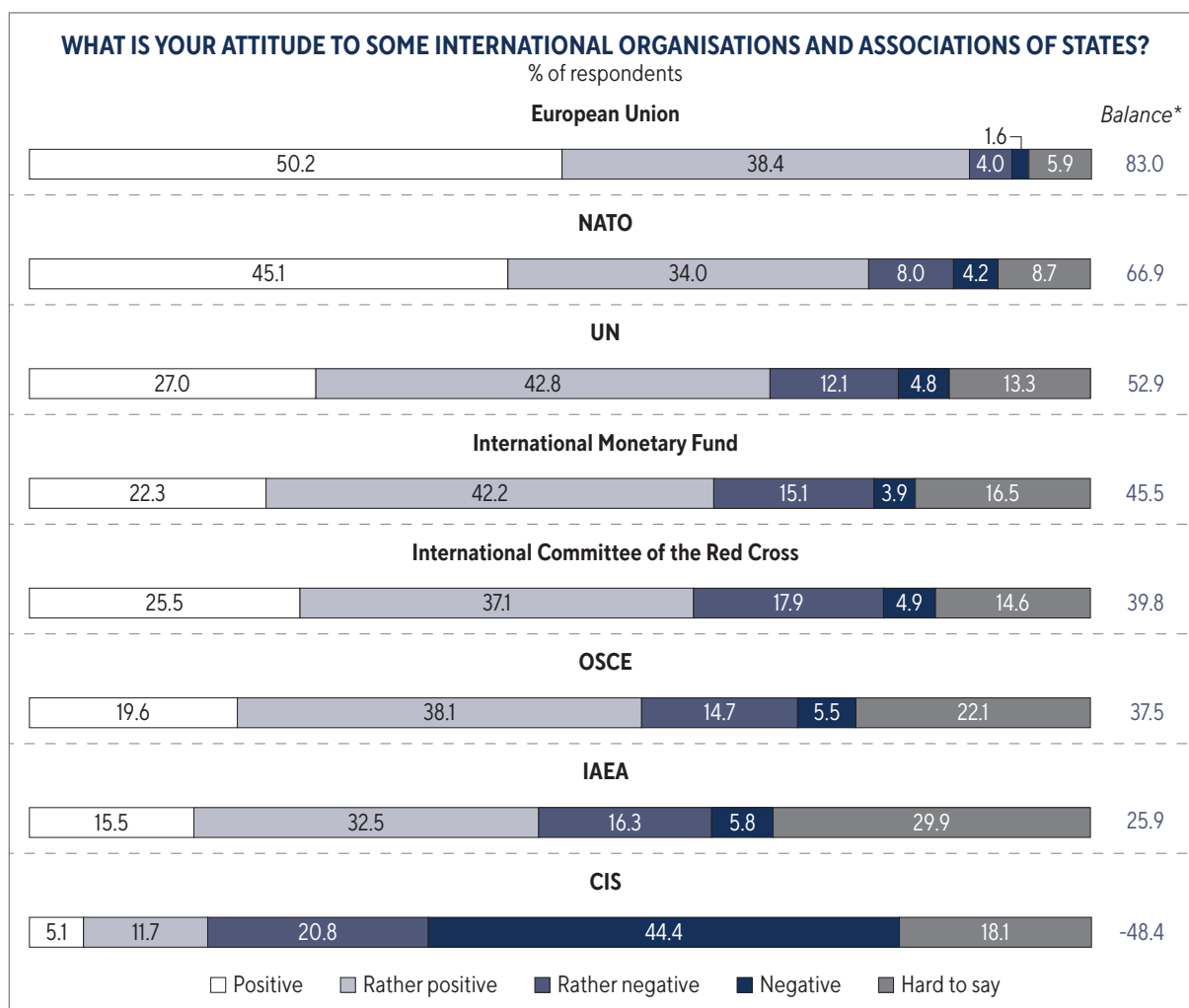
on taxes) and employees. As a result, despite the ongoing State Labour Service inspections, the market is going into the shadows. One of the disadvantages of informal employment is that workers are «not bound by anything». That is, a specialist works for one company today, and for another one tomorrow, leading to increased staff turnover has increased. Employers are forced to constantly look for workers.

In summary, regional and occupational disparities have deepened compared to before the full-scale invasion, which is holding back further employment revival and hence economic recovery. However, the situation with the shortage of workforce is currently «balanced» by the economic downturn, so there is no collapse yet.



VII.

CITIZENS' OPINIONS ABOUT CURRENT ISSUES¹



* Difference between the shares of those with a positive and negative attitude.

¹ Results of a sociological survey conducted by the Razumkov Centre's sociological service from 22 February to 1 March 2023 within the MATRA project supported by the Embassy of the Kingdom of the Netherlands in Ukraine.

The authors' assessments and conclusions should not be considered as the official position of the Embassy.

The face-to-face survey was conducted in Vinnytsia, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattia, Zaporizhzhya, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Mykolaiv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, Chernivtsi oblasts and the city of Kyiv (survey in Zaporizhzhya, Mykolaiv, Kharkiv and Kherson regions was only carried out in government-controlled areas not subject to hostilities).

The survey was based on a stratified multi-stage sampling method with random selection at the earlier stages of sampling and a quota method of selecting respondents at the final stage (when respondents were selected according to gender and age quotas). The sample structure reflects the demographic structure of the adult population of the surveyed areas as of the beginning of 2023 (by age, gender, type of settlement).

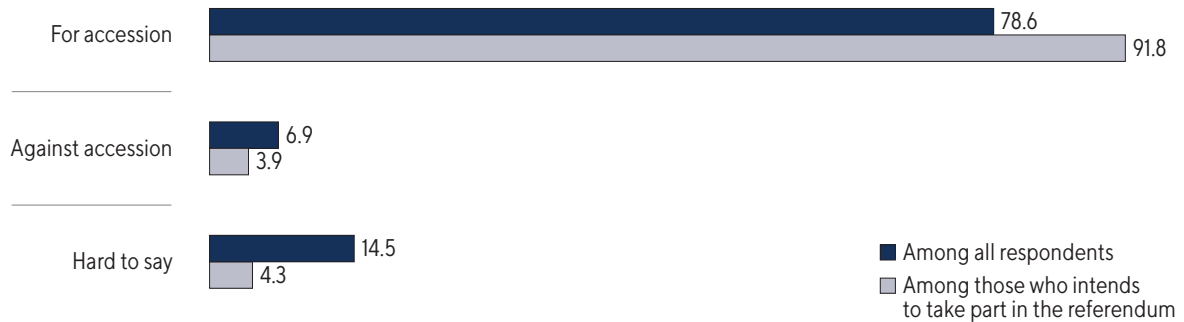
A total of 2,020 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.3%. At the same time, additional systematic sampling deviations may be caused by the consequences of Russian aggression, in particular, the forced evacuation of millions of citizens.

WHAT IS YOUR ATTITUDE TO THE FOLLOWING STATES? % of respondents						
	Positive	Rather positive	Rather negative	Negative	Hard to say	Balance of positive to negative*
Poland	73.6	20.6	1.5	0.9	3.4	91.8
United Kingdom	59.7	31.4	3.3	0.9	4.7	86.9
Lithuania	59.6	31.1	3.0	0.9	5.4	86.8
Estonia	55.0	35.1	3.1	0.6	6.2	86.4
Latvia	58.9	31.1	3.1	1.2	5.7	85.7
Canada	51.5	38.4	3.6	1.1	5.4	85.2
Czech Republic	43.2	44.6	5.2	0.3	6.8	82.3
The Netherlands	44.0	42.1	3.4	1.2	9.2	81.5
United States	52.3	35.5	6.3	1.4	4.5	80.1
France	34.9	51.2	6.8	0.6	6.5	78.7
Germany	39.8	45.3	7.3	1.4	6/0	76.4
Slovakia	34.2	48.3	5.4	1.7	10.4	75.4
Moldova	34.9	47.6	7.0	1.0	9.5	74.5
Japan	32.7	41.3	7.6	1.4	17.0	65.0
Israel	27.8	47.6	10.4	1.9	12.4	63.1
Turkey	23.6	48.9	13.1	2.3	12.0	57.1
Romania	23.6	45.4	10.6	4.5	15.9	53.9
Georgia	28.5	41.2	15.3	3.3	11.8	51.1
Azerbaijan	21.8	43.0	12.2	1.7	21.2	50.9
Armenia	20.8	44.9	12.5	3.2	18.6	50.0
India	12.7	33.6	24.7	7.8	21.3	13.8
Hungary	15.1	24.0	26.3	20.2	14.4	-7.4
China	7.7	17.3	37.3	22.5	15.1	-34.8
Iran	5.3	11.6	23.0	50.5	9.5	-56.6
Belarus	3.1	9.3	24.4	56.3	6.9	-68.3
russia	1.6	1.4	6.2	87.6	3.1	-90.8

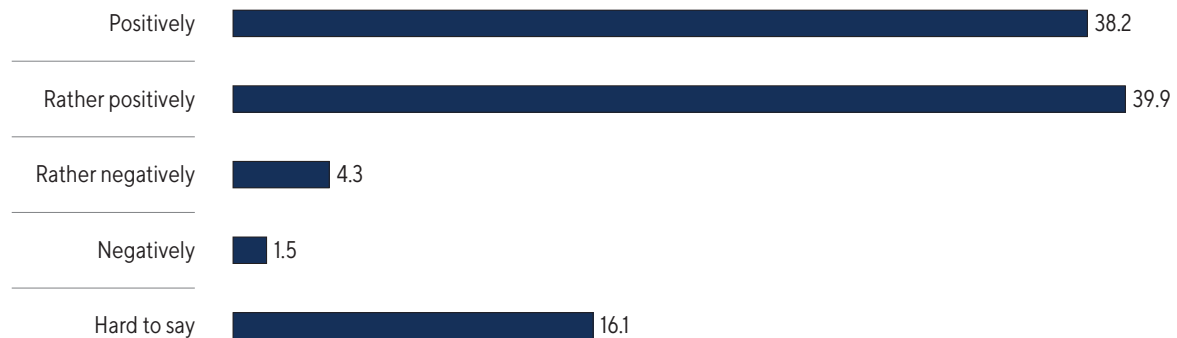
* Difference between the shares of those with a positive and negative attitude.

IF YOU WERE TO TAKE PART IN THE REFERENDUM ON EU ACCESSION, HOW WOULD YOU VOTE??

% of respondents


HOW WOULD YOU ASSESS THE UKRAINIAN GOVERNMENT'S FOREIGN POLICY DURING THE WAR?

% of respondents


IS UKRAINE'S FOREIGN POLICY EFFECTIVE IN THE FOLLOWING AREAS?

% of respondents

	Yes	Rather yes	Rather no	No	Hard to say
Winning external support to resist Russian aggression	45.8	40.2	4.5	1.3	8.3
Promoting Ukrainian initiatives on international platforms	47.9	37.7	5.1	0.7	8.6
Strengthening relations with countries and international organisations	50.3	37.2	4.4	1.0	7.1
Fostering EU integration	42.9	38.3	7.4	2.2	9.2
Fostering NATO integration	41.6	36.0	8.5	2.5	11.4
Expanding the group of allied countries that support Ukraine in countering Russian aggression	50.4	35.7	5.3	0.9	7.8
Disseminating objective information about the war in Ukraine in the world	50.0	35.5	4.7	1.5	8.3
Improving Ukraine's international image and its authority in the world	51.1	35.1	4.9	1.0	7.8
Promoting the interests of Ukrainian business in global markets	32.8	34.2	9.8	2.3	20.9
Protecting the rights of Ukrainians abroad	36.8	35.6	8.1	2.1	17.3

The team of contributors: Y. Yakymenko (project manager), A.Bychenko, M.Bielawski, O.Melnyk, M.Mischenko, M.Pashkov, O.Pyshchulina, V.Omelchenko, P.Stetsiuk, M.Sunhurovskyi, V.Yurchyshyn, V.Udaltsova (intern, reference materials)

Editorial and publishing department: Z.Mischenia, K.Mokliak, T.Ovsianyk

This publication has been made within the frameworks of the MATRA Programme supported by the Embassy of the Kingdom of the Netherlands in Ukraine. The opinions expressed are those of the authors only and should not be considered as representative of the Embassy's official position

Our address:

01032, Kyiv, 33b Taras Shevchenko Blvd, 7th floor

Telephone: (38 044) 201-11-98

Fax: (38 044) 201-11-99

e-mail: info@razumkov.org.ua

Website: www.razumkov.org.ua

