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# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments





# I.

## NATIONAL SECURITY AND DEFENCE: KEY DEVELOPMENTS, PROCESSES, TRENDS

After several months of relative stabilisation, the first days of June 2023 saw a significant escalation of action along almost the entire contact line. The Ukrainian Defence Forces launched an active phase of the offensive and achieved tactical successes in the Melitopol, Berdiansk and Bakhmut directions. As of the end of June, the Ukrainian side held the strategic initiative, while Russian troops were forced to mostly hold the line, also trying to counterattack to disrupt the Ukrainian offensive.

Given the inflated expectations, the slow progress on the battlefield produced a wave of pessimistic publications in the global media, citing official and «authoritative» sources of assessments and forecasts. International mediators also became more active with various initiatives for a compromise settlement of the Russia-Ukraine conflict.

During the month, at least two important events – the Kakhovka Dam blast and the PMC Wagner mutiny – in addition to their immediate consequences for the battlefield situation, are likely to have a significant impact on the course of the war in the medium term.

The blowing up of the Kakhovka Dam pursued not only a purely military goal of hindering the Ukrainian offensive, but also a political one – demonstrating the Kremlin's determination to use any means to avoid military defeat.

Prigozhin's armed rebellion vividly highlighted Russia's internal problems in general and the weaknesses of the Putin regime in particular. A clear demonstration of Russia's vulnerability has become a convincing argument for those supporting the idea that Russia could be defeated militarily, but, on the other hand, it has reinforced the fears in some Western politicians who see the main threat in the uncertainty of the «post-Putin» world.

### COMBAT ACTION

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In June, Russia's main efforts were aimed at restraining the Ukrainian forces' offensive by holding the captured territories and conducting local counterattacks in certain areas.

The Ukrainian Defence Forces worked to regain and retain the strategic initiative on the battlefield. Along with counterattacks on several potential areas of the main attack, Ukrainians have consistently undermined the enemy's combat potential by striking supply routes, command posts, and places of concentration of enemy forces and equipment.

Around 4 June, the Ukrainian forces launched the active phase of their offensive. The first days of June were marked by a significant escalation and certain tactical gains. But the initial attempts to break through the first line of the enemy's echeloned defence highlighted the difficulty of conducting a ground offensive in the absence of air dominance, enemy's numerical superiority in weapons and personnel, and virtually «blanket» mining of the territory.

Russia's military and political leadership took extraordinary measures to disrupt the Ukrainian offensive. On the night of 6 June, the Kakhovka Dam was blown up, leading to devastating humanitarian, environmental and technological consequences. Russia's military objective was to neutralise the threat of the Ukrainian forces crossing the Dnipro River and creating a bridgehead on the left bank. Also, this action was obviously to intimidate Western leaders by demonstrating Russia's readiness to use any methods for achieving its goals.

The absence of international community's immediate and effective reaction to Russia blowing up the Kakhovka Dam – despite its

obvious extraordinary and extraterritorial consequences – has become another serious problem with long-term concerns. The world's passivity and restraint in responding to war crimes increases the likelihood of their recurrence with no adequate punishment for their organisers and perpetrators.

In this context, the threat of a deliberate nuclear incident at the Russian-controlled Zaporizhyya NPP is becoming increasingly urgent, as there have been reports of mining and other actions that may indicate preconditions for a man-made accident. In the last days of June, there were reports of an urgent (by 5 July) evacuation of Russian personnel from the NPP. Meanwhile, Russian propaganda stepped up its campaign accusing Ukraine of preparing for a «nuclear terrorist attack», allegedly to discredit Russia. Such actions seem counterproductive, as the occupied territories and Russia's own troops would be exposed to radiation. However, the risks to the lives and health of its own citizens have never deterred the Russian military and political leadership, as shown, in particular, by the presence of Russian troops on the Chernobyl nuclear site in the spring of 2022 and the flooding of own positions following the Kakhovka Dam explosion. At the same time, such an incident may be used, among other things, as a justification of retreat for the domestic Russian audience.

Most likely, the Kremlin's use of the Zaporizhyya NPP as an element of nuclear blackmail is mainly aimed at an international audience and pursues three main goals:

- ✓ forcing official Kyiv to curtail its offensive operations and, in the long run, to negotiate on the Kremlin's terms;
- ✓ reducing (discontinuing) military assistance;
- ✓ influencing the NATO Summit decisions regarding Ukraine.

Paradoxically, the weakness of the Putin regime demonstrated by Prigozhin's rebellion may delay its military defeat in Ukraine and, as a result, its downfall. Fear of strategic uncertainty after one war criminal named Putin is replaced by another war criminal

named Prigozhin is an additional political constraint on the size and pace of military assistance to Ukraine in general and in the context of the current offensive in particular. According to media reports, Western partners asked Ukraine to refrain from strikes on the Russian territory during the Prigozhin's mutiny.

Although the assessed threat of a ground invasion remains minimal, new potential risks to regional security coming from Belarus have emerged. The first is the deployment of Russian non-strategic nuclear weapons on the territory of the republic and the training of Belarusian military to use these weapons. There is currently no reliable evidence of the movement of nuclear munitions, but Lukashenko has already made several loud statements about «restoring the status of a nuclear power». Moscow obviously has no intention of delegating control over nuclear weapons to Lukashenko regime, but it could theoretically use the «out of control Lukashenko» factor to step up its nuclear blackmail. The second risk factor is the relocation of the PMC Wagner remnant to Belarus. Details of their number, subordination and possible use remain unknown, but even several hundred professional mercenaries with combat experience could potentially be used for sabotage operations in the neighbouring countries.

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

On 28 June, the President of Ukraine signed the Law «On Amendments to Certain Laws of Ukraine on Certain Issues Related to Military Service during Martial Law», designed to settle a number of important issues that have been exacerbated by the ongoing and large-scale hostilities. First of all, it concerns the following issues:

- ✓ additional remuneration for military personnel;
- ✓ sick leave in connection with illness or injury with the preservation of financial and material support;
- ✓ annual basic leave and leave for family or other valid reasons;

- ✓ mandatory basic training for mobilised persons with no combat experience before engaging in combat operations;
- ✓ confirmation of the fact of participation in territorial defence tasks and in measures necessary to ensure the defence of Ukraine, protection of the security of the population and the interests of the state in connection with military aggression.

The government has approved an action plan to optimise the MMC (military medical commission) processes, including their automation, integration between military and civilian medical facilities, equipping premises to meet the requirements of people with disabilities, and an information campaign to explain the MMC procedures, treatment or rehabilitation, and the rights of military personnel.

#### **FOREIGN EVENTS (EXTERNAL FACTORS)**

Participants of the 13<sup>th</sup> Ramstein meeting on 15 June announced new packages of military assistance and reaffirmed their long-term intentions to support Ukraine's defence

capabilities. Denmark, Norway and Germany announced multi-year military assistance packages. The greatest attention was devoted to the most urgent needs in view of the offensive operation and the need to strengthen Ukraine's air defence.

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

- ✓ in June 2023, the Ukrainian Defence Forces launched an active offensive, seizing the strategic initiative in the theatre of operations. At the same time, the successes achieved during the month in certain areas were of a tactical nature;
- ✓ despite new peace initiatives by international mediators, there are still no minimum prerequisites for a political and diplomatic settlement of the conflict;
- ✓ the problem of conceptual uncertainty among key partners regarding the image of Ukraine's victory as a deterring/dosing factor for the pace and volume of assistance remains relevant.



# II. FOREIGN POLICY

In June 2023, Ukraine's foreign policy continued to focus on strengthening and expanding external military support to resist Russian intervention and ensuring the Ukrainian forces' effective counter-offensive. At the same time, multilevel contacts with foreign counterparts were aimed to promote national interests and initiatives on the world stage.

Also, Ukrainian diplomacy was forced to respond promptly and accumulate the necessary humanitarian aid from partner countries and international institutions to minimise the wide-ranging socio-economic and environmental consequences of Russia's terrorist act – the blowing up of the Kakhovka Dam.

## FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

Describing the specifics of the «political and diplomatic marathon» in June 2023, the Ukrainian authorities particularly focused on promoting security aspects, accelerating European and Euro-Atlantic integration, scaling up the geographical spheres of influence of Ukrainian diplomacy and strengthening the coalition of countries in solidarity with Ukraine. In this context, the following areas of Ukraine's actions around the world deserve attention.

***Holding political dialogue with foreign partners.*** Active negotiations and contacts with country leaders, heads of international institutions, foreign politicians and public figures continued during the month. On 1 June 2023, on the sidelines of the 2<sup>nd</sup> European Political Community Summit in Chisinau, the Ukrainian leadership held a series of consultations with the President of the European Commission, the leaders of Germany, France, Moldova, Azerbaijan, the United Kingdom, Albania, and North Macedonia. During a meeting with the President of Romania, the parties signed a joint declaration on Bucharest's support for Ukraine's Euro-Atlantic integration.

In June, President Zelenskyy also held talks with US President Joe Biden, Prime Minister of the Netherlands Mark Rutte, and Prime Minister of Japan Fumio Kishida. The visits of Estonia's Alar Karis (6 June) and Canada's Justin Trudeau (10 June) were also of strategic importance. During the Canadian leader's visit, the parties adopted a joint declaration emphasising political, financial, humanitarian and military assistance to Ukraine, and support for its NATO membership. On 28 June, Lithuania's Gitanas Nausėda and Poland's Andrzej Duda also visited Kyiv.

Other significant contacts included talks with the World Bank's Ajay Banga, IAEA Director General Rafael Grossi, Pope's special envoy Cardinal Matteo Zuppi, as well as with government officials and diplomats from the United States, the European Union, Brazil, Azerbaijan, ambassadors of the G7 countries, and national security advisers to the leaders of India, South Africa, Turkey, and Japan. Numerous working meetings and consultations with foreign partners were also held at the level of the Cabinet, relevant ministries and agencies.

The Ukrainian side also took an active part in international events and activities. Following the terrorist attack in Kakhovka, a large-scale conference was organised involving the President of Ukraine and representatives of the international community, public figures, and environmental experts. An online meeting with Jewish organisations and the Israeli media was held at the initiative of official Kyiv. Ukraine took part in the Atlantic Council's open discussion bringing together military officers, diplomats, economists, scientists and journalists from around the world.

In the framework of traditional diplomatic procedures, the President of Ukraine accepted credentials from the ambassadors of Norway, Switzerland, Azerbaijan, Pakistan and Iceland, who are starting their diplomatic missions in our country.

**The intensity of Kyiv's political and diplomatic dialogue at the high and highest levels in June 2023 confirms previous conclusions about the active nature of Ukraine's war diplomacy, significant trust and productivity of cooperation with the world's leading nations.**

**Expanding the geography of diplomatic contacts.** In June, Ukrainian diplomacy was active in «challenging» geographical areas seeking to limit the aggressor's influence in these regions and consolidate support for Ukraine. In this regard, the following events and actions are worth noting.

The most notable event was the visit of a large delegation of leaders of South Africa, Senegal, Zambia, Egypt, and the Union of the Comoros to Ukraine on a peacekeeping mission on 16 June. Although the «10 pillars» of the African Union's position on stopping the war in Ukraine are very general, the initiative itself deserves attention in the context of expanding and strengthening Kyiv's ties with leading African states.

In turn, the government of Ukraine supported the initiative to establish the Ukrainian-African Trade Mission tasked to pursue Ukraine's foreign economic interests in Africa and provide advisory services on humanitarian aid.

Active contacts with the governments of India and Brazil continued throughout the month. High-level talks were held with the leaders of Costa Rica and Belize. President Zelenskyy's address to the General Assembly of the Organisation of American States on 22 June calling for support for the Ukrainian peace formula had a positive response.

Ukraine took part in the Shangri-La Dialogue, the Asia-Pacific's premier security forum, on 2-4 June in Singapore. On 11 June, a UAE delegation led by Miriam Almheiri, the Head of the Office of International Affairs under the President of the UAE, visited Ukraine.

In addition, new Ukrainian ambassadors were appointed to Brazil, India, and Colombia in June.

**Promoting Ukrainian interests and initiatives globally.** Describing Kyiv's actions on the global stage in June 2023, one can distinguish several general themes that the Ukrainian

authorities lobbied for systematically and persistently at all levels, using bilateral relations, platforms of international organisations, public international events, etc. Apart from purely military topics, these included the following.

**First. Ensuring a new quality of relations with the EU and NATO.** Kyiv actively promoted the idea of Ukraine's accession to the Alliance and the provision of security guarantees, as well as creation of conditions for the launch of negotiations on EU membership. This topic was a priority in the abovementioned numerous talks and consultations with EU and NATO leaders, the European Commission, G7 countries, etc.

**Second. Holding a global summit to internationally endorse the Ukrainian peace formula.** This was one of the central themes of President Zelenskyy's addresses to the Organisation of American States and the Swiss Federal Assembly, as well as of his talks with the governments of Brazil, Peru, Guatemala, India, Jordan, Saudi Arabia, African nations, etc. In this context, Ukraine took part in a series of consultations on key principles of peace with national security advisers to the leaders of India, South Africa, Turkey, Japan and the EU (25 June, Copenhagen).

**Third. Ensuring further isolation of the Putin regime and international legal condemnation of the aggressor.** The Ukrainian side initiated the development of an UN General Assembly draft resolution on the need to establish a special international tribunal in coordination with partner countries to try the Russian military and political leadership for the crime of aggression against Ukraine. The issue of bringing Russia to justice has become an integral part of Ukraine's political and diplomatic contacts with the world.

**Fourth. Ensuring international condemnation of the crime of ecocide by Russia.** On 10 June, the Verkhovna Rada adopted an appeal to the UN, parliaments and governments of its member states, and international organisations, calling on the international community to condemn Russia's blowing up of the Kakhovka hydroelectric power plant and to recognise Russia as a state sponsor of terrorism and its actions as ecocide and genocide against the Ukrainian people. Ukraine initiated an international working group on the environmental consequences of the war; its first meeting took place in Kyiv on 30 June.



The above priorities are among the components of the future Ukrainian Doctrine, which the President presented for national discussion at the Verkhovna Rada plenary session on 28 June 2023 on the occasion of the 27<sup>th</sup> anniversary of the Constitution of Ukraine.

## INTERNATIONAL PROCESSES AND EVENTS

**On 6 June**, the International Court of Justice began hearings on Ukraine's claim against Russia for violation of the Convention for the Suppression of the Financing of Terrorism and the Convention on the Elimination of All Forms of Racial Discrimination. The court's decision, which is expected within 2023, will be of strategic international legal importance and binding on both parties.

In the meantime, processes of varying scale continued in June, strengthening the Putin regime's political isolation directly or indirectly and supporting the tendency to condemn the aggressor's crimes: (a) On 22 June, the PACE adopted a resolution «Political consequences of Russia's aggression against Ukraine», calling for the creation of an international mechanism for the use of Russia's frozen assets to compensate Ukraine for losses caused by the aggression. At the same time, the PACE members supported a resolution to ban Russian and Belarusian athletes from the Olympic and Paralympic Games; (b) the Parliament of Iceland adopted a resolution condemning the illegal deportation of Ukrainian children to Russia; (c) the final communiqué of an international conference involving the parliamentarians from 13 European countries (Warsaw, 27-28 June) condemned the mass abduction of Ukrainian children by the Russian occupiers; (d) UNDP published a report on the socio-economic consequences of Russian aggression for Ukraine; (e) the Parliament of Croatia adopted a declaration recognising the Holodomor as genocide of the Ukrainian people; (f) the Supreme Court of the Netherlands concluded a nine-year trial in June 2023, making a final decision to return the Scythian Gold museum exhibition to Ukraine.

**On 6 June**, the leaders of the Bucharest Nine at the summit in Bratislava adopted a statement condemning Russian aggression, stressing the provision of military, financial and humanitarian assistance to Ukraine, and supporting the creation of an appropriate legal

mechanism to ensure accountability for the crime of aggression against Ukraine.

**On 15 June**, the allies agreed on a new package of military and technical assistance to Ukraine at a regular Ramstein meeting. In June, the United States, Norway, the Netherlands, the United Kingdom, Germany, Poland and several other countries announced prompt deliveries of weapons to the Ukrainian Armed Forces. Also, long-term military aid packages were announced, such as Denmark's \$2.6 billion military aid package until 2024.

**On 21-22 June**, London hosted the URC23 (Ukraine Recovery Conference), a high-level international meeting dedicated to the comprehensive rebuilding of Ukraine and laying a foundation for its long-term development and economic growth. The Ukrainian delegation presented needs assessments and priority plans for post-war recovery and long-term reform strategies, specifically focusing on the DREAM system designed to ensure transparency and accountability of recovery projects.

**On June 23**, the EU Council approves the 11<sup>th</sup> package of economic and individual restrictive measures aimed at strengthening the EU sanctions against Russia and stopping their circumvention and preventing Russia from obtaining sanctioned goods.

**On 29 June**, the European Council at the level of EU leaders decided to provide strong financial, economic, humanitarian, military and diplomatic support to Ukraine and its people for as long as necessary.

These are just a few of the events and activities that give an idea of the specifics and direction of regional and global processes related to Ukrainian issues.

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

In June, Ukraine took a number of important steps towards European integration, bringing the start of the EU accession negotiations closer.

**First.** On 1 June, the High Council of Justice elected 16 members of the High Qualification Commission of Judges of Ukraine, thus appointing a full and competent composition

of one of the country's highest judicial bodies, as required by the European Commission.

**Second.** Ukraine joined the EU's transport network development programme by signing an agreement on 6 June on participation in the EU's Connecting Europe Facility, which opens up funding for Ukraine under this programme and offers opportunities for developing export logistics on Ukraine's western borders.

**Third.** On April 10, the Verkhovna Rada adopted the European integration law «On Amendments to Certain Laws of Ukraine on Prevention of Abuse in Wholesale Energy Markets», which provides for the implementation of the relevant EU regulation (REMIT).

**Fourth.** Ukraine was granted official observer status in the Sevilla Process launched by the European Commission to update environmental standards and reduce industrial emissions into the air, water and soil.

**Fifth.** On 22 June, the Cabinet appointed Oleksandr Ilkov as Director General of the Government Office for Coordination of European and Euro-Atlantic Integration.

At its plenary session on 9-10 June, the Venice Commission adopted three new opinions on Ukraine regarding clarification of the law on national minorities, optimisation of the de-oligarchisation process, and the procedure for selecting candidates for the position of a Constitutional Court judge. These expert opinions serve as a basis for improving the Ukrainian government's actions to implement EU recommendations and also encourage to find a compromise with the European Commission, taking into account Ukraine's national interests.

The publication on 22 June of the EU's interim, or the so-called «oral», update on the implementation of the European Commission's recommendations by Ukraine was another important event. On the one hand, the document positively assesses Ukraine's pro-European reforms, and on the other hand, it sets out the

steps that still need to be taken to complete all seven recommendations by October (according to the report, two recommendations have been fully implemented, one has made good progress, and the rest have been assessed as «some progress»). The very next day, the NSDC considered the status of implementation of the European Commission's recommendations and made appropriate decisions.

In June, there were several international events aimed at strengthening and promoting Ukraine's Euro-Atlantic integration: (a) the European Parliament and PACE adopted resolutions in support of Ukraine's accession to NATO; (b) the chairpersons of the parliamentary committees for foreign affairs of 19 NATO countries and Ukraine signed a joint statement of support for Ukraine's membership in the Alliance; (c) the Czech Senate and the Polish Sejm adopted resolutions to promote Ukraine's accession to NATO.

One can highly appreciate the synergy of actions of the Ukrainian government and society – an active and systematic political and diplomatic campaign to accelerate Ukraine's Euro-Atlantic integration, which was carried out in June by the Presidential Office, the Cabinet of Ministers, the Verkhovna Rada, political forces and civil society organisations.

**June 2023 was a challenging month for Ukrainian diplomacy. On the one hand, the priority is and will be to accumulate external military assistance to ensure a successful counter-offensive by the Armed Forces. On the other hand, the government, together with Ukraine's foreign partners, is forced to take urgent measures to minimise the consequences of the Kakhovka Dam destruction by the occupiers. During the month, the Ukrainian side was particularly active in accelerating European and Euro-Atlantic integration, which became even more important with the publication of the European Commission's interim report and the approach of the key NATO summit.**



# III.

## CONSTITUTIONAL AND LEGAL FIELD

### CONSTITUTION-RELATED POLITICAL AND LEGAL ACTS

On the eve of the NATO Summit in Vilnius on 11 July 2023, the Verkhovna Rada adopted an appeal to its participants. Stressing that Russia and its current neo-colonial terrorist regime, which seized parts of Moldova and Georgia, deployed controlled pseudo-regimes there, and, using the nuclear blackmail, unleashed an unprovoked, unjustified, aggressive war of aggression against Ukraine in 2014, remains the main threat not only to an independent and democratic Ukraine, but also to global peace and stability of the entire Euro-Atlantic region, Ukrainian parliamentarians call on the Summit participants to commit to granting Ukraine full membership in the North Atlantic Treaty Organisation and

to provide for a mechanism for inviting Ukraine to NATO. The Verkhovna Rada asks to recognise the inexpediency for Ukraine to complete the NATO Membership Action Plan and to make a strategic decision in Vilnius to invite Ukraine to NATO membership, as well as to develop effective mechanisms for ensuring peace and security in Europe and legally binding security guarantees for a non-nuclear Ukraine, which will not be an alternative to Ukraine's membership in the Alliance. The parliamentarians call on the NATO Summit to continue to assist Ukraine in strengthening its defence and military capabilities, including land, sea and air components, until Ukraine fully restores its territorial integrity and sovereignty within its internationally recognised state border as of 1991.



# IV. ECONOMY

## DECISIONS

In late May, the Government of Ukraine and the IMF reached an agreement at the expert level on the first review of the IMF Programme. According to the IMF press release, Ukraine has been consistently meeting the indicators and structural benchmarks, which allows expecting a steady stabilisation of the country's macroeconomic environment.

To support meeting of the programme terms and conditions, Draft Law No. 9346 was developed covering two of the benchmarks. It provides for better control over amendments to the law on the State Budget – they can only be introduced upon the Ministry of Finance's positive opinion. It also restores medium-term budgeting, and by the end of September, the Cabinet will have to submit a medium-term forecast of revenues and expenditures and prepare a report on fiscal risk assessment, as well as approve the Public Debt Management Strategy and the Budget Declaration for 2024.

Meanwhile, the Verkhovna Rada adopted Draft Law No. 8401 as a basis, with a potentially negative impact on the country's recovery process. The bill was to abolish the preferential taxation regime, which had been in place during martial law, already from 1 July. In particular, it was planned to cancel the 2% single tax, end «tax holidays» for business entities of groups 1 and 2, and resume inspections with imposition of penalties in case of violations.

However, it is already clear that this bill will not pass the second reading, and therefore, the business benefits will remain in place for some more time. As a reminder, one of the reasons for cancelling these benefits was the IMF's requirement under the approved programme. On the other hand, urgent adoption of tax changes violates the principle of stability of tax legislation, which requires that tax elements should not be changed later than six months before the start of a new budget period.

Moreover, adoption of the bill in the current version could lead to increased administrative and fiscal pressure on businesses and put negative pressure on the post-war recovery process. Therefore, cancelled adoption of this bill is a totally rational step.

Implementing the widest possible range of European integration measures is also crucial for Ukraine. For example, on 6 June, Ukraine's Vice Prime Minister and the EU's Commissioner for Transport, signed an agreement on Ukraine's participation in the EU's Connecting Europe Facility (CEF). The agreement will allow Ukrainian businesses to apply for EU funding for projects of common interest in the transport, energy and digital sectors that will improve Ukraine's connectivity with its EU neighbours. This should help Ukraine integrate into the EU's single market, promote job creation and competitiveness.

It should be borne in mind that CEF funding stipulates that half of the project cost is covered by the applicant country from its own sources or international financial institutions, and 50% of the funding is provided by the programme.

The world's leading countries continue to support Ukraine economically. For example, the United States has extended the duty-free regime for Ukrainian steel for another year. This important step will help support Ukrainian industrial exports, which is crucial not only for improving the country's economic potential but also for creating jobs with stable salaries and paying taxes to the budget.

However, there are also some warnings signs. In particular, the European Commission extended the moratorium on imports of wheat, corn, rapeseed and sunflower seeds from Ukraine to Bulgaria, Hungary, Poland, Romania and Slovakia until mid-September, while cancelling unilateral measures against these and all other goods originating in Ukraine.

As a reminder, on 2 May, the European Commission announced a temporary ban on imports of Ukrainian grain to 5 EU countries until 5 June. The transit of Ukrainian products through the EU was allowed. Although the moratorium will cause losses, the extension of the transit permit is much more important for Ukraine, as a significant part of its grain exports go not to the EU, but to the emerging economies of Asia and Africa.

## DEVELOPMENTS, PROCESSES, TRENDS

The good news is that Ukraine's economy is gradually adapting and recovering, and at a faster pace than previously projected. According to UkrStat, the year-on-year decline in GDP in Q1 2023 was 10.5%, which is much better than the previous Ministry of Economy estimates (-14.1%). Moreover, there was even a 2.4% increase in seasonally adjusted real GDP in Q1 2023 compared to Q4 2022.

Regrettably, new critical risks are emerging. Military aggression continues to pose shocks and challenges, the grain corridor is periodically delayed, and restrictive measures imposed by neighbours on the import and transit of Ukrainian agricultural goods have become more frequent.

Although preliminary estimates of GDP dynamics in the coming quarters are positive, but they may deteriorate abruptly as a result of the terrorist attack that destroyed the Kakhovka Dam and caused an environmental disaster.

Financial stability is key for in macro-economic stabilisation. In May, Ukraine's international reserves increased by 4% to an 11-year high and totalled \$37.3 billion as of 1 June. This was due to steady and rhythmic inflows from international partners (the government's foreign currency accounts received \$4.32 billion), which exceeded the NBU's net sale of foreign currency and the country's debt payments in foreign currency.

In May, Ukraine received a \$1.25 billion grant from the US and a €1.5 billion concessional loan from the EU. It is important to note that under the EU loan, Ukraine receives a subsidy for its servicing, meaning that the interest on EU borrowings for Ukraine is currently fully covered by EU member states.

At the same time, the NBU's net foreign currency sales increased to \$1.9 billion in May, largely due to difficulties with food exports to neighbouring countries and disruptions in the grain corridor.

The current level of international reserves covers 4.9 months of future imports, which is a high figure and a sign of the country's improving macroeconomic environment.

Meanwhile, budgetary problems are getting worse. The state budget expenditures for 4 months actually indicate the expenditure structure relevant for the entire 2023. Thus, defence expenditures amounted to UAH 561 billion (57% of total expenditures), public order and security – UAH 129 billion (13%), social protection – UAH 157 billion, and all other expenditures, including healthcare, general government functions and education, amounted to only UAH 146 billion or 15% of total expenditures, which generally corresponds to the structure of 2022.

It is worth recalling that in 2022, Ukraine's defence expenditures amounted to UAH 1,143 billion, social expenditures and public order – UAH 1,403 billion, and debt service and repayment – UAH 608 billion. The structure of funding sources was as follows: 41% (UAH 1,306 billion) were financed by tax and non-tax budget revenues, 35% (UAH 1,093 billion) by external loans and grants, 13% (UAH 400 billion) by monetary financing, and 9% (UAH 300 billion) by borrowing on the domestic market.

There are still hopes that, like last year, the budget needs will be covered by partner resources, but the only reliable mechanism to meet budgetary needs is economic acceleration.

Leading countries confirm their partnership with Ukraine. For example, the UK is making significant political and diplomatic efforts to encourage investment in Ukraine through the creation of the War Risk Insurance for Ukraine's reconstruction. Furthermore, the UK does its best to lobby countries that do not have direct ties to Ukraine to assist in its recovery.

This is vital for Ukraine, as the risk of further damage from the war, as well as long-term



political and economic instability, has led to a sharp increase in the cost of insuring investments in Ukraine, which is driving both investors and private insurers away from the Ukrainian market.

The World Bank estimates the cost of Ukraine's recovery at about \$411 billion, of which \$14 billion is needed for critical expenditures already in 2023.

However, thanks to our closest partners, the first steps have already been taken. In particular, the World Bank's Multilateral Investment Guarantee Agency (MIGA) has started providing guarantees to insure war risks in Ukraine from the Trust Fund for the Support of Ukraine Reconstruction and Economy (SURE). Japan was the first country to contribute \$23 million to cover such risks in Ukraine.

Such assistance is crucial and relevant. As a result of Russia destroying the Kakhovka Dam, Ukraine, in addition to a long-term environmental disaster, will suffer short-term serious losses. It is about the possible loss of millions of tonnes of crops, while the flooded regions will require a full agro-ecological soil assessment, including the search for new sources of water supply, because it will be impossible to grow vegetables, and the cultivation of grains and oilseeds will be based on an extensive model with low yields. In any case, there will be huge problems with sowing and harvesting the next years' crops.

The United Nations has stated that the destruction of the Kakhovka Dam will also have a huge impact on global food security, lead to a rise in food prices and could cause drinking water problems for hundreds of thousands. However, while expressing concern, the UN is in no hurry to take practical steps to protect the Ukrainian environment.

The State Property Fund (SPFU) has decided to liquidate 1,278 state-owned enterprises out of 2,364 under its management, which are so-called unproductive assets (mostly existing only on paper and with millions of debts). After 2025, only strategic and social enterprises should remain in the SPFU's management.

While this is a right and bold decision, a clear legal and practical procedure for repaying the debts of such liquidated enterprises is needed to ensure that the debt burden does not fall on the state and the state budget.

In Ukraine, given the limited official statistics, there is a fairly wide range of measures of business activity and business expectations. Thus, in May 2023, the Consumer Confidence Index increased by 7.4 points to 92. At the same time, time expectations still vary significantly. In particular, the Present Situation Index remains low at 58.3 points, and the Expectations Index is quite high at 114.5 points. This means that Ukrainians negatively assess their current economic situation but are quite optimistic about own prospects.

# V.

## ENERGY SECTOR

In June, Ukraine continued to deal with the aftermath of the floods caused by the destruction of the Kakhovka Dam. Power engineers continue to work to restore electricity supply.

Ukrainian intelligence received information about Russia considering a terrorist attack scenario at the Zaporizhya NPP with a radiation leak. The Ministry of Energy summed up the results of large-scale exercises of emergency services to overcome possible consequences of such an attack.

The electricity generated is sufficient to meet the consumer needs during off-peak hours. However, there has been an increase in the load on the power system as electricity consumption enters the summer period, especially during peak hours.

### ELECTRICITY MARKET

ENTSO-E, the European Network of Transmission System Operators for Electricity, has increased the capacity of interconnectors for electricity imports to Ukraine and Moldova from 1,050 MW to 1,200 MW. The technical capacity for exports from Ukraine/Moldova to Europe is 400 MW.

Between 1 and 20 June, Ukraine imported a total of 34.5 thousand MWh, of which 65% came from Slovakia. Exports for this period amounted to only 6.1 thousand MWh, of which 90% were to Poland.

Currently, electricity imports from the EU are an important source of covering possible deficits in the Ukrainian energy system.

The Energy Community Secretariat has assessed the draft law on amendments to the Law of Ukraine «On the Electricity Market» developed by Ukraine's Ministry of Energy and shared recommendations for its improvement. In particular, the Secretariat

mentions insufficient consideration of the CACM Regulation requirements. One of the main problems related to compliance with the CACM Regulation and reflected in the draft law is the appointment of the Market Operator as NEMO.

Adoption of the Law (No. 5322) on the prevention of abuse in wholesale energy markets (the so-called REMIT Law) in the second reading is one of major developments in the energy markets. The law includes provisions on the introduction of anti-abuse tools; prohibition of manipulation; disclosure of insider information; obligation to report suspicious transactions; and investigation of abuse. It also includes important amendments regarding joint auctions; extension of technical specifications and signing of pre-PPAs for renewable energy producers.

The National Energy and Utilities Regulatory Commission (NEURC) has set new price caps on the day-ahead market (DAM), intraday market (IDM) and balancing market.

On the DAM and IDM:

- ✓ the maximum price caps for the hours of minimum load (from 00:00 to 07:00 and from 23:00 to 24:00) are UAH 3,000/MWh, for the hours of maximum load (from 07:00 to 19:00) – UAH 5,600/MWh, for the hours of «evening peak» (from 19:00 to 23:00) – UAH 7,200/MWh;
- ✓ the minimum price cap is UAH 10/MWh.
- ✓ On the balancing market:
  - ✓ the maximum cap price – 125% of the DAM price determined by the market operator for each billing period of the relevant delivery day;
  - ✓ the minimum price cap is UAH 0.01/MWh.

Liberalising prices in the wholesale electricity market by cancelling or changing price caps will not lead to «price shocks», as prices will rise at certain hours of the day and fall at others. However, it should give businesses the opportunity to import the resources to meet their production needs.

## **PARTNERS' SUPPORT**

The UK launched the InnovateUkraine Green Energy Challenge Fund at the Ukraine Recovery Conference (London, 21 June 2023). The UK government has allocated £10 million in grants for innovative ideas for green energy in Ukraine. Businesses, research, charity and non-governmental organisations from Ukraine and other countries can apply for funding the projects worth between £50,000 and £2 million and use an innovative technology, idea or business model that is low-carbon, affordable and safe, and supports the energy resilience of Ukrainian communities suffering from a lack of energy capacity.

The event also featured the Energy Strategy of Ukraine until 2050, which envisages investment of \$383 billion in the construction of new energy generating capacities. Therefore, it is planned to increase wind generation by up to 140 GW, solar generation by up to 94 GW, energy storage capacity by up to 38 GW, nuclear generation by up to 30 GW, CHP and bioenergy generation by up to 18 GW, and hydro generation by up to 9 GW by 2050. In total, the event presented investment opportunities for new energy capacities amounting to \$383 billion (according to the Ministry of Energy).

## **RENEWABLES SECTOR**

The debt of NPC Ukrenergo to SOE Guaranteed Buyer for renewable energy services increased by 15% to UAH 21.5 billion over the month. The Guaranteed Buyer made

an advance payment to producers at the FIT for 20 days in June 2023. Currently, the percentage of payment is 42.3%. Since February 2023, NPC Ukrenergo's debt to the Guaranteed Buyer has increased by 70%.

The parliament adopted the Draft Law No. 9011-d amending a total of 18 laws on Ukraine the restoration and green transformation of the Ukrainian energy system. This is a comprehensive document that addresses many aspects of the functioning and development of Ukraine's energy markets and brings changes for both household and non-household consumers.

## **NATURAL GAS MARKET**

Gas distribution networks continue to return under the state control (Cabinet Resolution No. 429-p of 28 May 2022). In June, Gas Distribution Networks of Ukraine LLC (branded as «Gazmerezhi») was granted the relevant powers in Dnipro city and Dnipro rayon. Previously, private companies belonging to the RGC Group (Regional Gas Company) operated in these regions (Kharkiv region, Dnipro city and rayon). Three new regional gas companies (Kyivoblغاز, Zhytomyrgaz and Lvivgaz) joined the Naftogaz Group.

Gas Distribution Networks of Ukraine LLC is a managing company intended to become a national gas distribution operator.

In July 2023, gas prices for household consumers (from UAH 7.7 to UAH 15.5/1m<sup>3</sup>, including VAT), as well as the list of natural gas suppliers for households, remained virtually unchanged. Prices for non-household consumers (industrial enterprises) will increase slightly in July 2023. The cost of gas delivery approved by the NEURC should remain unchanged for the duration of martial law. Gas prices at the TTF gas hub (the Netherlands) per 1,000 tcm are \$424.6 or UAH 15,570.4.



# VI.

## ON ABANDONING CASH CIRCULATION

The idea to completely abandon cash «to fight corruption» was voiced at the Ukraine Recovery Conference in London by Ruslan Shurma, deputy head of the Presidential Office. According to him, this way, corruption could be overcome by 95-99%. This statement was almost sensational, as Ukraine could become the first *cashless* country in the world.

Non-cash payments have increased in Ukraine. Using cash during the war is considered unsafe. Therefore, in 2022, the share of non-cash payments in Ukraine increased from 60% to 69% compared to the same period in 2021, and only 41% of card transactions were cash withdrawals. In the second half of 2022, Ukrainians made 5.6 billion different card transactions totalling UAH 5.1 trillion.

Despite the fact that, according to the Deputy Governor of the National Bank, Ukraine's banking system is «ready for this in terms of technology, inclusion and continuity», few people believe in a total abandonment of cash. This is due to a number of factors, including:

- ✓ Lack of economic grounds and conditions for the reform, as Ukraine does not have sufficient resources, especially during the war. The country is not ready either mentally or infrastructurally (public distrust of the banking system; a significant share of people's savings is in cash, and the amount of cash hryvnia in the hands of Ukrainians is constantly growing, approaching UAH 600 billion); lack of high-quality Internet coverage for payments and the operation of terminals, etc.).
- ✓ Low level of financial inclusion (63%). As of 2021, 37% of Ukraine's population did not have bank accounts, and the number of depositors hardly increased during the war. This is primarily the case in rural areas, where people live far from banking institutions, or banking services

are too expensive, and people have limited funds to open and maintain accounts.

- ✓ Abolition of cash payments will be a certain violation of civil rights, as citizens have the right to use all forms of the national currency without restrictions. The laws of Ukraine do not provide for any grounds on which a person should be restricted in the right to use the money he or she has been saving entire life. After all, no one can guarantee stability, for example, in the event of a global computer failure. In the meantime, a referendum was initiated in Switzerland in early 2023 to declare that the country will never abandon cash and that it will not introduce a ban on cash. So far, more than 111,000 signatures have been collected in support of this measure, which exceeds the 100,000 signatures required for a national vote.
- ✓ The NBU did not stop issuing the national currency. In 2022, the amount of cash in circulation increased by 14% (by UAH 88.5 billion) to UAH 716 billion. In total, these are 2.9 billion banknotes of various denominations, with large ones dominating (26.5% – 500-hryvnia bills, and 23.8% – 200-hryvnia bills).

It should be added that banks have recently resorted to blocking bank accounts for violations of financial monitoring rules. Banks have also resumed blocking clients' card accounts at the request of state enforcement officers, which is due to the entry into force of the Law «On Amendments to Certain Laws of Ukraine on Some Peculiarities of the Organisation of the Enforcement of Court Decisions and Decisions of Other Bodies during Martial Law», which was adopted by the Verkhovna Rada in April 2023.

The idea to reduce cash circulation and move it to a regulated and controlled space is understandable from the state's point of view.

The country has long been in the process of tightening monitoring and control over non-cash payments (in particular, money transfer between individuals' cards), with the aim of finding citizens' untaxed incomes.

### ON THE EOSELIA AFFORDABLE HOUSING MORTGAGE PROGRAMME

Demand for housing is growing in Ukraine, although the situation varies from region to region. In the western and central regions, demand is higher than before the war. Almost no one is considering buying an apartment or house in the east, while the situation remains unstable in the south. Nevertheless, the average demand for housing in Ukraine is already at the pre-war level.

Hostilities in Ukraine have damaged or destroyed 87 million square metres of housing stock. The biggest destructions were in Donetsk, Kyiv, Luhansk, Kharkiv and Mykolaiv oblasts. As of the end of May 2023, the amount of direct damage to Ukraine's housing stock as a result of the full-scale war exceeded \$54 billion. This is more than one-third of the total direct damage to Ukraine's infrastructure and assets.

The President-initiated state programme of affordable mortgage lending «eOselia» (*e-Housing*) was launched on 1 October 2022 for privileged categories of Ukrainians (military personnel, IDPs, doctors and teachers). At the same time, the programme only covers certain types of housing, of a certain size and of a certain age. The programme's main advantage is the opportunity to purchase housing with a mortgage at 3% (banks' average rates are 15-25%). The difference in interest rates on loans to banks is to be compensated by the state.

#### eOselia means:

- ✓ preferential rate for the entire loan term at 3%
- ✓ maximum loan term – 20 years
- ✓ minimum down payment – 20%
- ✓ supported by banks participating in the programme: Oschadbank, PrivatBank, Globus Bank, Ukrgazbank, Sky Bank

In 2023, the government announced plans to restart the state mortgage programme significantly expanding the list of categories eligible for the programme, with a focus on the primary market.

At the programme's start, the planned volume of concessional mortgage lending for 2023 was to reach 12-15 thousand loans. However, the demand for such a lending programme significantly exceeded expectations. As of the end of June 2023, about 42,000 applicants submitted 136,159 applications (each applicant could apply to several banks at the same time). Banks approved about 46,000 applications, but, as of June, only a little over one thousand loans were disbursed, and the plan was fulfilled by less than 10%.

The accumulated loan demand since the start of the programme for apartments from developers will require at least UAH 20-25 billion to purchase housing in the primary market. However, all funds available to eOselia were fully distributed among the partner banks at the end of January 2023 with no new money inflows from the budget since then. Therefore, it can be concluded that eOselia is not working. The reason is the shortage of state budget funds.

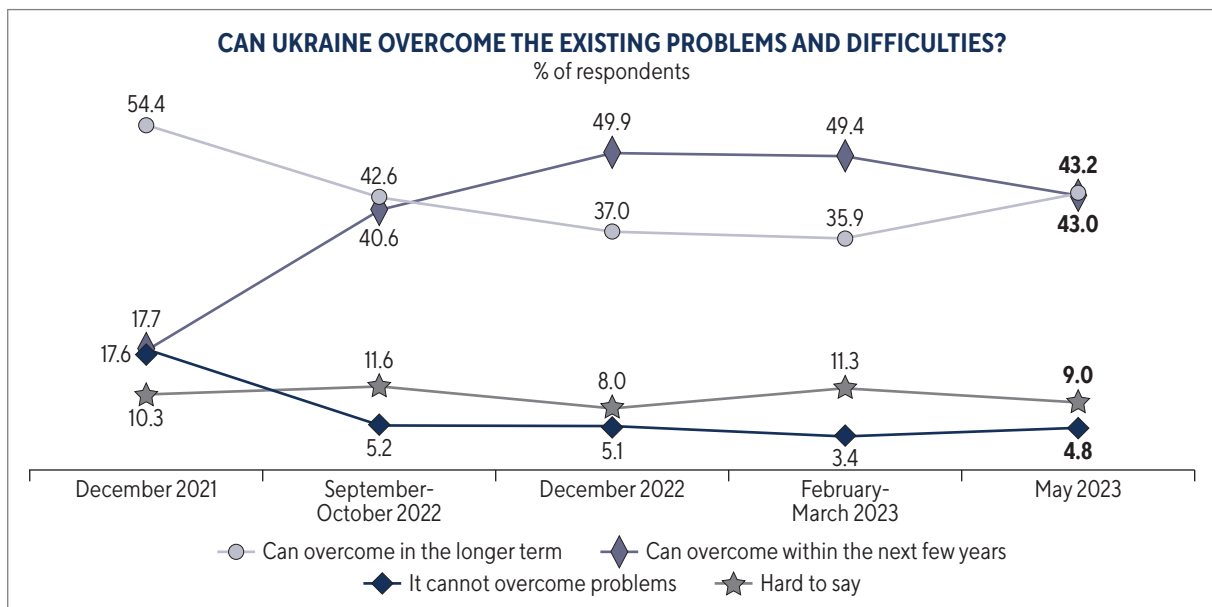
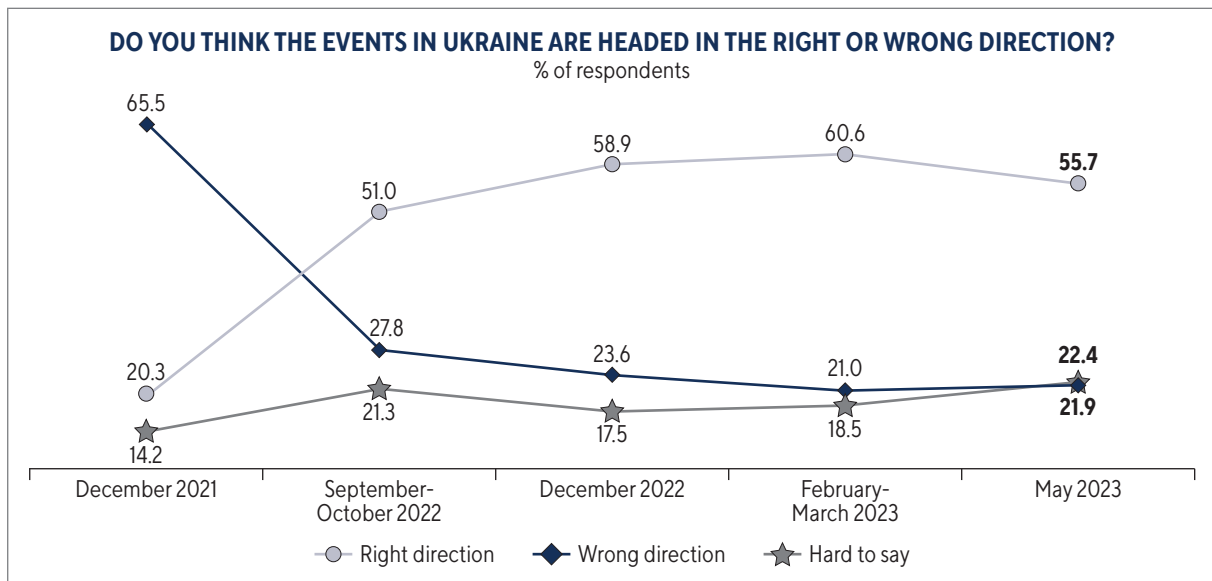
It is likely that finding sufficient funds to cover at least the accumulated demand under the eOselia programme in the near future will be quite a challenge. However, it is worth doing, because mortgage financing will allow building new homes during the war, so that our citizens can return to Ukraine and buy own housing. With continued funding, eOselia will play a strategically important role not only in meeting the need for housing, but also in driving the country's economic recovery and development. International assistance from partners could become a powerful source of funding for the programme, e.g., earmarked funds specifically for the restoration and development of housing construction, banking sector development, and the like.

#### THE AMOUNT OF CONCESSIONAL MORTGAGE LOANS TO HOUSEHOLDS

	Number of mortgage loans	Total cost, UAH million
January	357	449.5
February	126	169.8
March	36	38.8
April	41	50.1
<b>Total, as of 23 May 2023</b>	<b>1 134</b>	<b>1 500</b>

# VII.

## CITIZENS' OPINIONS ABOUT CURRENT ISSUES<sup>1</sup>



<sup>1</sup> Results of a sociological survey conducted by the Razumkov Centre's sociological service on 23-31 May 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, Zaporizhya, 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 Zaporizhya, 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.



<b>TRUST IN SOCIAL INSTITUTIONS,</b> % of respondents												
	July-August 2021				February-March 2023				May 2023			
	Trust*	Distrust*	Hard to say	Trust-distrust balance***	Trust*	Distrust*	Hard to say	Trust-distrust balance***	Trust*	Distrust*	Hard to say	Trust-distrust balance***
Armed Forces of Ukraine	68.3	24.8	6.7	43.5	95.8	2.7	1.5	93.1	93.0	3.5	3.4	89.5
Volunteer units	53.5	33.4	13.1	20.1	87.2	6.6	6.3	80.6	85.9	7.7	6.4	78.2
President of Ukraine	36.2	57.6	6.2	-21.4	82.9	11.5	5.6	71.4	83.3	11.3	5.4	72.0
National Guard of Ukraine	53.6	36.0	10.4	17.6	85.7	10.4	3.9	75.3	82.9	9.8	7.4	73.1
Volunteer organisations	63.6	25.1	11.3	38.5	87.9	6.5	5.6	81.4	81.7	9.7	8.6	72.0
State Emergency Service	61.4	28.7	9.9	32.7	85.4	8.8	5.8	76.6	80.0	13.1	7.0	66.9
State Border Guard Service	55.0	34.3	10.7	20.7	82.1	12.7	5.2	69.4	79.1	13.0	7.9	66.1
Ministry of Defence of Ukraine	—	—	—	—	78.1	15.0	6.9	63.1	75.3	16.6	8.2	58.7
Security Service of Ukraine (SBU)	37.5	49.7	12.7	-12.2	74.1	18.3	7.6	55.8	65.6	22.3	12.0	43.3
NGOs	47.0	37.4	15.5	9.6	65.8	20.1	14.1	45.7	61.1	24.6	14.3	36.5
Church	63.5	26.3	10.3	37.2	69.7	16.9	13.4	52.8	60.8	24.7	14.6	36.1
National Police of Ukraine	38.5	52.9	8.5	-14.4	71.5	22.2	6.4	49.3	59.2	30.4	10.4	28.8
Mayor of your city/town/village	57.1	33.6	9.3	23.5	62.1	29.6	8.3	32.5	58.2	32.3	9.5	25.9
Local council of your city/town/village	51.4	37.8	10.7	13.6	56.4	32.4	11.3	24.0	55.2	33.3	11.6	21.9
Ukrainian media	45.4	45.8	8.9	-0.4	65.1	26.2	8.8	38.9	48.9	37.5	13.6	11.4
Ukrainian Parliament Commissioner for Human Rights (Ombudsperson)	31.7	40.1	28.1	-8.4	52.3	22.7	25	29.6	46.3	28.0	25.7	18.3
National Bank of Ukraine	29.1	60.1	10.9	-31.0	57.7	29.2	13.2	28.5	45.8	37.2	17.1	8.6
Cabinet of Ministers of Ukraine	21.5	72	6.6	-50.5	50.0	41.4	8.5	8.6	39.4	48.8	11.9	-9.4
Verkhovna Rada of Ukraine	18.7	75.1	6.1	-56.4	41.0	51.0	7.9	-10.0	34.9	55.2	10.0	-20.3
National Anti-Corruption Bureau of Ukraine (NABU)	15.2	69.6	15.3	-54.4	35.1	41.5	23.4	-6.4	29.8	48.7	21.5	-18.9
Specialised Anti-Corruption Prosecutor's Office	13.6	69.3	17.2	-55.7	33.9	42.0	24.0	-8.1	27.2	49.5	23.3	-22.3
National Agency on Corruption Prevention (NAZK)	13.2	69.6	17.2	-56.4	31.7	42.6	25.8	-10.9	26.5	49.1	24.4	-22.6
Trade Unions	21.2	54.8	24	-33.6	30.9	38	31.2	-7.1	26.4	42.0	31.6	-15.6
Prosecutor's Office of Ukraine	17.8	71.1	11.1	-53.3	36.8	48.0	15.3	-11.2	26.3	58.3	15.4	-32.0
Commercial banks	18.2	70.7	11.1	-52.5	34.2	48.1	17.8	-13.9	25.6	55.7	18.6	-30.1
State apparatus (officials)	14.9	75.7	9.4	-60.8	25.3	63.7	10.9	-38.4	20.7	66.4	12.9	-45.7
Courts (judicial system as a whole)	15.5	74.2	10.4	-58.7	24.8	58.9	16.3	-34.1	16.8	69.6	13.7	-52.8
Political parties	16.1	71.7	12.2	-55.6	21.7	63.3	15.0	-41.6	14.8	68.8	16.5	-54.0

\* The total of answers «fully trust» and «rather trust».

\*\* The total of answers «fully distrust» and «rather distrust».

\*\*\* The difference between the shares of those who trust and those who distrust.

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