

# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments



# I.

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

Two months into extensive hostilities resulted in some tactical changes to the conditional «front line», with no operational success to either side, at least for now. The Ukrainian defence forces conducted active offensive operations mainly on the Berdiansk and Melitopol directions and around Bakhmut. The enemy, along with active defensive actions, tried to regain the initiative and launch its own offensive towards Lyman and Kupiansk, as well as near Avdiivka and Maryinka.

The absence of visible progress on the battlefield fuelled a wave of pessimistic forecasts in the world media about the prospects of Ukraine's offensive, including official statements and calls to shift to political and diplomatic measures of conflict resolution. In order to force Kyiv to negotiate on its terms, the Kremlin has noticeably intensified its own propaganda campaign targeting external audiences and increased the intensity of terrorist attacks on civilian targets in Ukraine.

### COMBAT ACTION

In July, Russia's main efforts were aimed at deterring the Ukrainian offensive in the southern and south-eastern segments of the frontline and conducting own offensive in the Lyman-Kupiansk direction. Its military efforts to contain Ukrainian forces' advancement were accompanied by active internal and external information campaign spreading propaganda messages of «the complete failure of the Ukrainian offensive», «Ukraine suffering huge losses in manpower and equipment», «the supply of Western weapons does not change the situation on the battlefield but only prolongs the conflict».

The Ukrainian defence forces continued active offensive operations on three frontline areas and defended in the north-east, repelling Russian attacks. Faced with the expected problem of breaking through the echeloned Russian defences, they were forced to make

adjustments to both the overall plan of the operation and the tactics of offensive actions, focusing on exhausting Russian forces with artillery and long-range missiles instead of attacking through enemy minefields.

Measures aimed at consistent weakening of the enemy's combat potential, including strikes on supply routes, command posts, places of concentration of manpower and equipment, are gradually offsetting Russia's advantages and even lead to a relative parity in some types of major weapons. It is worth noting that quantitative comparisons are rather conditional, as are premature conclusions about the impossibility of a successful offensive that appeal to the classic offensive planning, which requires a multiple advantage of the attacking party.

Forced abandonment of the use of large mechanised units to break through enemy defences in favour of small assault groups helped reduce the loss of personnel and equipment. This tactic obviously does not allow rapid penetrations into the depths of enemy defence, but the «slow» advancement of Ukrainian forces is probably the maximum possible given its limited capabilities, primarily in air support and engineering equipment. On the other hand, any judgments of whether the situation on the battlefield is in line with the plans of the Ukrainian military command by observers who have no access to such plans are rather conditional and hypothetical.

Despite Russia's public bravado about its military invincibility, the aggressor's military and political leadership continues to take measures that may suggest its deep concern about the Ukrainian offensive and, presumably, uncertainty about the ability to effectively counter it. Quite indicative in this regard were statements by the Russian dictator's henchman Dmitry Medvedev that Russia would have to use nuclear weapons if

Ukraine's counteroffensive proved successful. During July, the Russian authorities took other steps that could also be seen as a response to the threat of military defeat. In particular, they expanded the mobilisation resource by raising the conscription age by 3 years (18-27 to 18-30) and the age limit for serving in the reserve by 5 years. In addition, harsher repressive measures were introduced against those trying to evade mobilisation, including 10-fold increase in fines, restrictions on the right to receive services, drive a car, travel abroad, etc. According to Ukrainian intelligence, since the beginning of 2022, Russia has forcibly mobilised about 60,000 men in the occupied territories of Ukraine.

Apart from using all possible military means to regain the initiative on the battlefield, the Russian leadership continued to try to engage Kyiv into «peace talks», involving various intermediaries and blackmailing Ukraine, its Western partners and others with nuclear threats, withdrawal from the so-called grain initiative, destruction of Ukrainian port infrastructure and grain storage facilities, announcement of a naval blockade of Ukrainian ports, and creation of additional tension on the western borders of Belarus.

Regrettably, the lack of a timely and effective response from the international community to Russia's aggressive rhetoric and actions remains a pressing issue. In this context, attention should once again be drawn to the Russia-created threat of a deliberate nuclear incident at the Zaporizhya NPP. Despite the IAEA's demonstration of its active involvement, there are currently no results of such intervention, except for the Russia-controlled reporting on the situation on the ground through the eyes of official observers.

Redeployment of the remnants of the Russian PMC Wagner Group to Belarus did not change the assessments of the threat of a ground invasion, given their number (approximately 5,000 people). At the same time, one should not underestimate the risks of their use in sabotage operations (raids) in neighbouring countries. Lukashenka has already made several provocative statements about such intentions of the Wagnerites, while provocations involving migrants, under the guise of which PMC members could hypothetically operate, have become more frequent on the Belarusian-Polish border.

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

The Verkhovna Rada extended martial law and general mobilisation for another 90 days. At the end of June, the list of categories of citizens granted a deferral from mobilisation was also amended.

As the conflict continues, the issue of human resources necessary to replenish losses and create reserves is becoming increasingly urgent. There is nothing new in the problem of «evaders» — persons liable for military service who try to avoid performing their military duty, but it caused a significant public outcry after the disclosure of corruption schemes related to it. This primarily concerns the activities of the Territorial Recruitment and Social Support Centres (TRSSCs). After the high-profile scandal with Odesa military commissar Yevhen Borysov, the National Agency on Corruption Prevention (NAZK) launched 102 inspections of the heads of the TRSSCs.

## FOREIGN EVENTS (EXTERNAL FACTORS)

The NATO Summit in Vilnius on 11-12 July was obviously the most important July event in the field of international security. Although the expectations (probably too optimistic) of Ukraine receiving the invitation to join the Alliance did not come true, other important decisions were made at the summit that will help strengthen Ukraine's national security in the short and medium term:

- ✓ NATO's position remained unchanged both in terms of (not) setting a timeframe for Ukraine's accession to the Alliance and recognising Ukraine's membership of the Euro-Atlantic community and its right to become a NATO member in the future.
- ✓ A higher form of relations with the Alliance was introduced, with the NATO-Ukraine Council replacing the relevant Commission.
- ✓ The requirement to implement the NATO Membership Action Plan (MAP) has been cancelled, thus significantly reducing the timeframe for Ukraine to become a member, provided the war is over and the membership criteria are met.



- ✓ A specialised NATO-EU coordination headquarters for support to Ukraine was established.

On the margins of the summit, the Ukrainian President held a series of bilateral meetings with the leaders of partner countries and signed a memorandum with 11 states on training Ukrainian pilots on F-16 fighter jets.

During the summit, the G7 leaders announced a joint declaration of support for Ukraine, which, despite not being a full-fledged security guarantee, formalises a framework of long-term security commitments.

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

- ✓ as of the end of July 2023, two months into the large-scale escalation, there were some tactical changes to the conditional «front line», with no operational success to either side, at least for now;
- ✓ [Ukraine's] forced change of tactics and, accordingly, a slowdown in the pace of the offensive allows minimising losses, on the one hand, but creates additional military and political risks, on the other;
- ✓ the next few months are likely to have a decisive impact on the future course of the conflict. If Ukraine fails to demonstrate at least partial but convincing success on the battlefield, the military, economic and political risks associated with a war of attrition will increase significantly.



# II.

## FOREIGN POLICY

In July 2023, security issues remained the priority of Ukraine's foreign policy. In this context, the NATO Summit in Vilnius (11-12 July) was undoubtedly the central event that spurred Ukraine's Euro-Atlantic integration and increased the level of partnership and cooperation with the Alliance. At the same time, Ukrainian diplomacy, while maintaining a high intensity of bilateral contacts and activity on international platforms, tried to strengthen its position on the world stage and expand the circle of countries in solidarity with Ukraine.

### FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

Looking at the specifics of Ukraine's foreign policy in July 2023, one could observe the accelerated regime of international contacts, negotiations, and consultations on the eve of the NATO summit. Ukraine actively lobbied at various levels for accelerated integration into the Alliance. There was no slowdown in the pace and intensity of the negotiation process in the second half of the month either. When describing the July events, it is worth focusing on the following areas and spheres of Ukraine's actions on the world stage.

***Holding political dialogue with foreign partners.*** The July stage of the «diplomatic marathon» began with a visit of Spanish Prime Minister Pedro Sanchez to Kyiv. This event was important for two reasons, namely signing a joint declaration in support of Ukraine's membership in NATO during the visit, and Spain's presidency of the EU Council that began on 1 July, which is important for Kyiv's European integration plans. The tour of the Ukrainian delegation to Bulgaria, the Czech Republic, and Turkey at the beginning of the month, as well as the high-level talks with the leaders of these countries, including the signing of a Ukrainian-Bulgarian declaration on 6 July on the support of Ukraine's membership in

NATO by the official Sofia, can be considered quite productive. On 8 July, President Zelenskyy and the Prime Minister of Portugal Antonio Costa signed a similar declaration, which became the 23<sup>rd</sup> document signed by the Ukrainian side with the leadership of NATO countries to facilitate Ukraine's progress towards the Alliance.

Other important contacts included a series of meetings and talks on the margins of the NATO Summit with the leaders of the United States, the United Kingdom, France, Germany, the Netherlands, Canada, and NATO and EU leaders. In turn, consultations were held with the leadership and government officials of Poland, Slovakia, Australia, New Zealand, Croatia, etc.

Kyiv's diplomacy in July should be credited with visits to Ukraine by the President of Korea Yoon Suk Yeol (15 July), Irish Prime Minister Leo Varadkar (19 July) and Qatari Prime Minister Sheikh Mohammed bin Abdulrahman Al Thani (28 July), which were productive in terms of political, diplomatic, financial and economic support for Ukraine.

Other important bilateral and multilateral negotiations were held in July involving diplomats, government officials, politicians and businessmen. These included a visit to Ukraine by CIA Director William J. Burns, meetings with the head of USAID, the leadership of the Japanese agency JICA, the President of the Association of European Chambers of Commerce and Industry, and others.

***Expanding the geography of diplomatic contacts.*** In July, Ukraine tried to maintain an intensive political and diplomatic dialogue with various countries all around the world. In particular, on 5 July, President Zelenskyy held a videoconference with the student community of Argentina and held talks with the foreign ministers of Guatemala and Benin. A government delegation from India visited Kyiv. In turn, on 20 July, the Ukrainian Foreign Minister travelled to Pakistan with a first ever visit in

the history of bilateral relations and met the country's Prime Minister Shehbaz Sharif.

Quite noticeable was the activity of Ukrainian diplomacy on the African direction. This was explained by the disruption of the «grain deal» by Russia, on the one hand, and by the Russia-Africa Summit scheduled on 27-28 July, on the other hand. In this regard, Ukraine undertook the following steps and initiatives: a) a series of high-level talks with the leaders of Ethiopia, South Africa, and Guinea-Bissau; b) the President of Ukraine's press conference in Kyiv on 18 July for media representatives of South Africa, Nigeria, Kenya, Uganda, Ghana, Côte d'Ivoire, and Benin; c) the Ukrainian Foreign Minister's meeting with the permanent representatives of a group of African countries to the UN on the «grain deal» on 19 July; d) the start of the third African tour by the Ukrainian Foreign Minister on 23 July, during which he met with the leadership of Equatorial Guinea and Liberia for the first time in the history of Ukrainian diplomacy.

**Promoting Ukrainian interests and initiatives globally.** In July 2023, the Ukrainian authorities persistently lobbied for several key issues, using bilateral relations, platforms of international organisations, public international events, etc. for these purposes.

*First.* As in previous months, Kyiv has actively promoted the idea of Ukraine's accession to NATO, as it is vital for this activity not to subside after the NATO summit. Another key topic for the Ukrainian authorities is to ensure the conditions for launching EU accession talks.

*Second.* The initiative of holding a global summit to internationally endorse the Ukrainian peace formula was one of the central topics in the above-mentioned numerous talks and consultations with the leadership of the EU and NATO countries, as well as leaders of different countries.

*Third.* The current agenda includes the 3<sup>rd</sup> Crimea Platform Summit, which is to be held in Kyiv on 23 August 2023 in a hybrid format. An important task for Ukraine is to ensure a high level of participation and to expand the geography of the Crimea Platform, in particular, by involving countries of the Global South.

## INTERNATIONAL PROCESSES AND EVENTS

**On 3 July 2023**, the International Centre for the Prosecution of the Crime of Aggression against Ukraine (ICPA) was launched in The Hague on the basis of the EU Agency for Criminal Justice Cooperation (Eurojust) to support investigations into the crimes of the aggressor and facilitate the collection and analysis of relevant evidence. July also saw a number of events directly or indirectly related to the political and legal aspects of Russian aggression. In particular, a) the OSCE PA adopted a resolution on 3 July recognising Russia as a state sponsor of the Wagner Group terrorists; b) the European Court of Human Rights rejected in full all claims of the Russian Federation in the interstate complaint against Ukraine (2021), in which Russia accused Ukraine of «crimes», including the MH-17 downing; c) the process of expelling Russian diplomats from the EU continues. In July, Moldova announced the reduction of the number of accredited diplomats and staff of the Russian Embassy from 84 to 25. Meanwhile, 40 Russian diplomats were expelled from Romania; d) The House of Representatives of the Netherlands (7 July) and the Senate of Italy (26 July) recognised the Holodomor of 1932-1933 as genocide of the Ukrainian people.

The NATO Summit took place in Vilnius **on 11-12 July**. By and large, it was less ambitious than official Kyiv had expected. However, the summit's outcome was important for further political, military and technical support of Ukraine, expanding its cooperation with the Alliance and raising the institutional level of partnership. See below for more detail. On 11 July, a coalition of 11 countries signed a memorandum with Ukraine setting out the conditions for training Ukrainian pilots on F-16 fighter jets. Meanwhile, the G7 countries adopted a Joint Declaration of Support for Ukraine.

**On 13 July**, the 3<sup>rd</sup> US-Nordic Leaders' Summit (the United States, Denmark, Iceland, Norway, Sweden, and Finland) adopted a joint statement condemning Russia's war of aggression against Ukraine, pledging to continue support for Ukraine through sustained security, economic, legal, and humanitarian assistance, and committing to continue

diplomatic outreach to build the widest possible international support for our country.

The situation with the impossibility of the Russian president's participation in the BRICS summit on 22-24 August 2023 due to the ICC arrest warrant gained wide international attention **on 19 July**. The South African authorities asked the prosecutor's office about the warrant and confirmed their commitment to arrest Putin. This situation demonstrated the global nature of the Putin regime's international isolation and the inevitability of bringing the aggressor country to justice for its crimes in Ukraine.

An important precedent for the introduction of a new partnership mechanism between Ukraine and NATO was the meeting of the NATO-Ukraine Council **on 26 July** initiated by Kyiv. It focused on security in the Black Sea region, Russia's withdrawal from the grain deal, and the shelling of Ukrainian port infrastructure.

Other important foreign policy events in July included further deterioration of political and diplomatic relations between Kyiv and Tbilisi as a result of Ukraine imposing sanctions against *Georgian Airways* that provides air services to the aggressor. This, as well as the situation around Mikheil Saakashvili's health, led to mutual diplomatic demarches and critical statements at the high and highest levels.

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

Events and processes on the European integration track were multidirectional. On the one hand, Ukraine continued to implement the European Commission's recommendations. At the NATO summit, the EU leadership largely appreciated the pace of Ukraine's European integration. In parallel, Brussels took a number of steps to strengthen military support and military-technical cooperation with Ukraine, by initiating, among other things, a separate «Ukrainian section» within the European Peace Facility to finance Ukraine's defence needs at €5 billion annually.

At the same time, the Act in Support of Ammunition Production (ASAP) regulation developed by the EU as part of the overall plan to provide Ukraine with ammunition entered into force on 23 July.

The next round of EU-Ukraine political consultations, held on 27 July in Kyiv, was dedicated to strengthening cooperation in the security sector. The agreement between EU and Ukrainian mobile phone operators to extend free roaming for Ukrainians for a year was another positive development.

On the other hand, against the backdrop of Russia's withdrawal from the «grain deal» and the destruction of Ukrainian port infrastructure by the aggressor, the need to resolve the problem of blocking Ukrainian grain imports by five EU countries at the European Commission level has become particularly urgent.

As noted, the Vilnius NATO Summit was a key event in the area of Euro-Atlantic integration. The following summit outcomes are strategically important for Ukraine: a) raising the level and institutionalisation of political, diplomatic, military, financial and economic support, including within the framework of the G7's Joint Declaration of Support for Ukraine, which has already been joined by some other NATO countries; b) creating a new partnership format (NATO-Ukraine Council) aimed at both further integration of Ukraine into the Alliance and prompt response to new challenges and threats; c) introducing new model of NATO accession replacing the MAP; and d) initiating new comprehensive military and technical support packages, as well as launching the process of rearmament of Ukraine's aviation.

**July was full of diplomatic contacts and talks at various levels. Ukraine's diplomacy should be credited with progress on the way towards the EU and NATO integration. In particular, the Vilnius Summit added new quality and dynamism to Ukraine's partnership with the Alliance. Meanwhile, the effective actions to strengthen Ukraine's foreign policy positions, develop cooperation with the Global South, promote its own initiatives on the world stage are also worthy of attention.**





# CONSTITUTIONAL AND LEGAL FIELD

## LEGISLATION

Endorsement of several so-called «peaceful» laws was a characteristic feature of the legislative activity in July. This, along with a series of recent public events, which discussed, in particular, the issues of post-war economic recovery, further reform of legal and judicial systems and even the possibility of holding national elections, was the evidence of Ukrainian society's unwavering belief in the inevitable victorious end to the Russia-Ukraine war and the onset of peace. Thus, the subjects of legal regulation in July included «clarification» of the dates of certain public holidays (the Day of Ukrainian Statehood on 15 July, the Day of Defenders of Ukraine on 1 October, and Christmas on 25 December); the use of property of state-owned institutions of higher education; the use of UAVs by law enforcement agencies and countering illegal drone use; elimination of contradictions in the punishment of criminal offences; strengthening of administrative responsibility in training and admission of drivers; the use of customs declarations and the electronic transit system provided for by the Convention on Common Transit; as well as improvement of the environmental impact assessment and the specifics of using maternity leave. The «peaceful» nature of new legislation is particularly evident in the latter two documents, as the issues of safe environment and maternal and child protection are among the fundamental principles of Ukraine's future peaceful development. That is why, even in times of war, the legislators' attention is focused on improving environmental safety and ensuring proper maternal rights. From now on, at the woman's request and in the absence of medical contraindications, part of the 70 calendar days of maternity leave granted before childbirth can be transferred and used

by a new mother partially or fully postnatally, starting from the day of childbirth. The total duration of the leave may not exceed 126 calendar days, or 140 days in case of the birth of two or more children and in case of complicated childbirth.

In July, the legislators also focused on the peculiarities of the martial law regime. By amending the Code of Ukraine on Bankruptcy Procedures, as well as the Laws «On Banks and Banking» and «On Capital Markets and Organised Commodity Markets», they tried to regulate a number of issues related to the application of bankruptcy procedures during the martial law period.

By amending the Laws «On Sanctions», «On the National Security and Defence Council of Ukraine» and the Code of Administrative Procedure of Ukraine, the Verkhovna Rada made significant clarifications and adjustments to procedural issues in the application of sanctions as such. In particular, the State Register of Sanctions is defined as an information and communication system for collecting, accumulating, protecting, accounting, displaying, processing and sharing information on all entities subject to sanctions. It is created to provide free public access to up-to-date and reliable information on all sanctioned entities, and its data should be open and publicly available. The procedure for maintaining and accessing this document is determined by the Regulation on the State Register of Sanctions approved by the National Security and Defence Council of Ukraine; the Register itself is maintained in Ukrainian and English using software developed in accordance with national standards, which ensures its compatibility and interaction with other information systems and networks in the state's information resource.



## CONSTITUTION-RELATED POLITICAL AND LEGAL ACTS

On 28 June 2023, the Verkhovna Rada adopted an Appeal to the United Nations, the parliaments and governments of the G7 states, the EU and NATO members, the European Parliament, the Parliamentary Assembly of the Council of Europe, the OSCE Parliamentary Assembly, the NATO Parliamentary Assembly, the Inter-Parliamentary Union, the International Committee of the Red Cross, and to «Médecins Sans Frontières» to ensure the exchange and return of all Ukrainian prisoners of war and illegally detained persons to Ukraine. By issuing this document, Ukrainian MPs called on the international community to increase political, diplomatic and sanctions pressure on the Russian Federation in order to prevent a global crisis instigated by the aggressor, and to restore the international legal order based on the principles of the UN Charter, mutual respect and cooperation. The Ukrainian parliament also called on the International Committee of the Red Cross, the UN Committees against Torture and Human Rights to step up their efforts in ensuring better conditions for Ukrainian POWs held by Russia, to prevent torture, humiliation, and violations of human rights, and to establish

the whereabouts of all detained Ukrainian citizens.

As Russian missile attacks on Kyiv, Odesa and Lviv pose a direct threat to the World Heritage Sites of St. Sophia Cathedral and adjacent monastic buildings, Kyiv-Pechersk Lavra, Lviv Historic Centre Ensemble, and Historic Centre of Odesa, the Verkhovna Rada on 28 June 2023 appealed to the United Nations Educational, Scientific and Cultural Organisation (UNESCO), parliaments and governments of UNESCO member states with a proposal to revoke Russia's membership in this organisation. According to Ukrainian MPs, the missile attacks on said cities are the evidence of Russia's planned action to destroy Ukrainian identity by demolishing cultural heritage sites. The Ukrainian MPs were particularly concerned about the fact that the massive air attacks were carried out on cities whose historical areas are included in the UNESCO World Heritage List, while destroyed structures are located in the buffer zone around World Heritage Sites – a territory that protects the integrity and authenticity of such sites. That is why, due to Russian aggression, Ukraine's historical and cultural heritage is in danger, including sites on the UNESCO World Heritage List.



# IV.

## ECONOMY

### DECISIONS

---

As reported earlier, the government of Ukraine and the IMF reached the staff-level agreement in late May to review the IMF Programme. According to the IMF press release, Ukraine has been consistently meeting its targets and structural benchmarks. Thus, on 29 June 2023, the IMF Executive Board approved the first review under the Extended Fund Facility (EFF) programme and enabled the allocation of the second tranche of about \$886 million to Ukraine.

In view of exceptionally high uncertainty over the war Russia is waging on Ukraine, the EFF programme envisions a two-phased approach. In the first phase, the efforts will be centred around maintaining macroeconomic and financial stability in wartime to strengthen Ukraine's capacity as the country makes its way towards Victory. The second, post-war, phase of the programme will shift focus to more ambitious structural reforms to entrench macroeconomic and financial stability, support the post-war reconstruction, promote sustainable long-term growth, and support reforms to accelerate Ukraine's EU accession.

An important feature of the current stage of Ukraine's cooperation with the IMF also deserves attention. Following the first review of the EFF programme, the IMF published an updated Memorandum, adding 4 structural benchmarks. While being a demonstration of confidence in Ukraine's ability to implement difficult reforms, it imposes additional requirements and restrictions on a country that is at war and must spend all available resources on defence.

The Ukrainian authorities should be more persistent in drawing the international institutions' attention to the possibility of reforms, especially in the fiscal sphere, in the face of military aggression.

As a reminder, the return of pre-war taxes is one of Ukraine's obligations under the Memorandum – one of the so-called structural benchmarks that must be achieved in order to receive the next IMF tranche.

At the end of July, the President signed the bill No. 8401 into the law, abolishing the 2% single tax from 1 August and cancelling partial moratorium on inspections for excisable goods (alcohol, tobacco, fuel), gambling and financial services. And starting from 1 October, liability for violations in the use of cash registers will be reintroduced.

Although businesses are mostly unhappy with the tax increase, passing of this law is an important condition under the IMF agreement and therefore must be fulfilled. It is acknowledged, however, that fiscal simplification was one of key factors that helped domestic businesses survive the aggression. Therefore, the overall focus of the law on increasing fiscal pressure may have an overall negative effect on the accelerated recovery of domestic business.

In the meantime, the NBU decided to cut its key policy rate from 25% to 22% starting 28 July 2023. The rapid deceleration in inflation and the stable situation in the FX market make it possible to initiate a cycle of key policy rate cuts. It is important for ensuring exchange rate stability as the NBU eases currency restrictions and moves towards greater exchange rate flexibility. Although the key policy rate cut is rather symbolic, it points at the direction of NBU's efforts to support economic recovery against the backdrop of macro-financial stability.

Ukraine continues to cooperate successfully with other international financial institutions. In particular, the country will receive a \$1.5 billion loan from the World Bank under the guarantees of the Japanese

government. The relevant agreement was signed on 20 July by the World Bank and Ukraine's Ministry of Finance. According to the government, the funds are intended to strengthen social protection and provide assistance to people during the war and to restore the economy.

The European Commission has published on its website a strategy for integrating the railway systems of Ukraine and Moldova into the European one, including the transition to the 1,435 mm gauge. The strategy, jointly developed by the Commission and the European Investment Bank, envisages the construction of a new 1,435 mm gauge mainline network in Ukraine and Moldova, which will run in parallel with the current 1,520 mm gauge network.

At the same time, the construction of new railway corridors with a European gauge is not sufficient to ensure full integration of these countries' railway systems into the EU. In particular, the problems include the extremely poor and outdated condition of rolling stock in Ukraine. This project worth €12 billion is to be implemented in three stages; if it is approved, it will contribute significantly to Ukraine's European integration.

Ukraine continues to clean up its banking system, as the NBU has decided to remove Sense Bank from the market. In line with this decision, the interim administration will be introduced on 21 July 2023. One of key reasons for removing this influential bank is indirect connection of its owners – citizens of Russia with the Russian regime, as well as their support for actions and policies that threaten the territorial integrity, sovereignty and independence of Ukraine. All this brings a significant reputational risk and has serious negative impact on the activities of the entire domestic banking system.

## **DEVELOPMENTS, PROCESSES, TRENDS**

Speaking of the state and trends of Ukrainian economy, the IMF acknowledged that it is demonstrating greater resilience than predicted. Inflation is decreasing at a fast pace, and international reserves are growing. As of 1 July 2023, Ukraine's international reserves reached almost \$39 billion – the highest figure in the period of the country's independence (on 1 June, international reserves

stood at \$37.3 billion). Current volume of international reserves is sufficient for 5.2 months of future imports, which also increases the domestic economy's macroeconomic resilience. In view of this, the IMF has improved its growth forecast of the Ukrainian economy this year to the range of 1-3% (previously less than 1%).

In the meantime, Ukrainians continue to enjoy significant support in Europe. According to Ukraine's Ministry for Reintegration of the Temporarily Occupied Territories, European countries have allocated more than €43 billion to shelter Ukrainians since the onset of Russia's full-scale aggression. These expenditures included cash payments, housing, health care, educational services, as well as food and basic necessities. The leaders are Poland (more than €12 billion) and Germany (about €11 billion).

For reference, as many as 7.915 million people were registered for temporary protection in Europe from 24 February 2022 through 3 January 2023; according to the UNHCR, as of June 2023, the number of refugees from Ukraine registered in the world was 6.341 million.

In general, the problem of displaced Ukrainians (primarily forced migrants) continues to deteriorate. According to a study conducted by EasyBusines and the Centre for Economic Recovery, forced migrants' non-return to their homeland will cost Ukraine \$113 billion in lost GDP over 10 years. The problem is that increasingly more Ukrainians who have fled the war are settling abroad, sending their children to local schools and kindergartens, undergoing vocational training, and finding jobs there. As a result, the incentives to return to Ukraine are fading, and Ukraine will lose both labour resources and human capital.

Despite the war, Ukraine is gradually implementing structural changes that should strengthen the economy and facilitate the country's integration into global economic structures.

In particular, Ukraine has applied to join the Trans-Pacific Partnership, one of the largest free-trade-based alliances in the world. This will allow the country to engage in free trade with 11 countries in the Asia-Pacific – the most dynamic region in the global economy.

One of regional leaders, South Korea, has announced its plans to offer comprehensive support from both the public and private sectors for Ukraine's \$52 billion reconstruction projects.

The Korean government will soon begin assessing construction sites for modular homes to quickly provide people with housing, as well as schools and hospitals. It is also planning to provide technical assistance to restore water infrastructure, thus adding to the humanitarian aid that has already been provided after the destruction of the Kakhovka Dam. Overall, the projects cover a variety of sectors, including nuclear power plants with small modular reactors, airport reconstruction, construction equipment, rail transport, and information technology.

Meanwhile, in the first half of 2023, the State Property Fund attracted a record amount of privatisation proceeds, bringing UAH 1.82 billion to the state budget. This is a good result, as this amount is roughly equal the privatisation proceeds for the same period of the previous three years.

The sale of the first seaport in the history of Ukraine – Ust-Danube Seaport for UAH 201 million – is one of privatisation landmarks. The importance of the port is likely to grow, given the need for alternative routes for the delivery of goods to foreign markets.

In Q2, expert surveys revealed conflicting assessments of domestic economic developments by businesses. In early July, the

NBU released the results of its own Business Outlook Survey and expectations of domestic companies in Q2 2023. The overall conclusion was quite positive. In particular, the NBU said that despite active hostilities, companies expect business activity to grow in the next 12 months for the first time since the start of a full-scale war. At the same time, business activity has improved significantly, with Business Outlook Index (BOI) reaching 104.5% (91.2% in the previous quarter). These and other results indicate that businesses are doing much better in Q2 than they were in Q1 2023.

However, not all survey results are positive. For example, at the end of Q2 2023, all components of the Consumer Confidence Index of Ukrainians – from personal financial situation to the state of the country's economy – have dropped. In particular, the generalised Consumer Confidence Index decreased by 9.5 points to 82.5. This is largely due to the continuation of hostilities and delays in the implementation of large-scale projects aimed at restoring the country.

In other words, Ukrainians are more pessimistic about the situation in consumer markets both now and in the near future.

The resulting multidirectional dynamics in assessments of the country's economy points to the need to increase government efforts aimed at economy's structural strengthening and better social orientation, which is a prerequisite for expanding labour resources, including by encouraging Ukrainians to return from abroad.



# V.

## ENERGY SECTOR

### ANALYSIS OF PRICE DYNAMICS IN THE ELECTRICITY MARKET IN JULY (AFTER THE INCREASE IN PRICE CAPS)

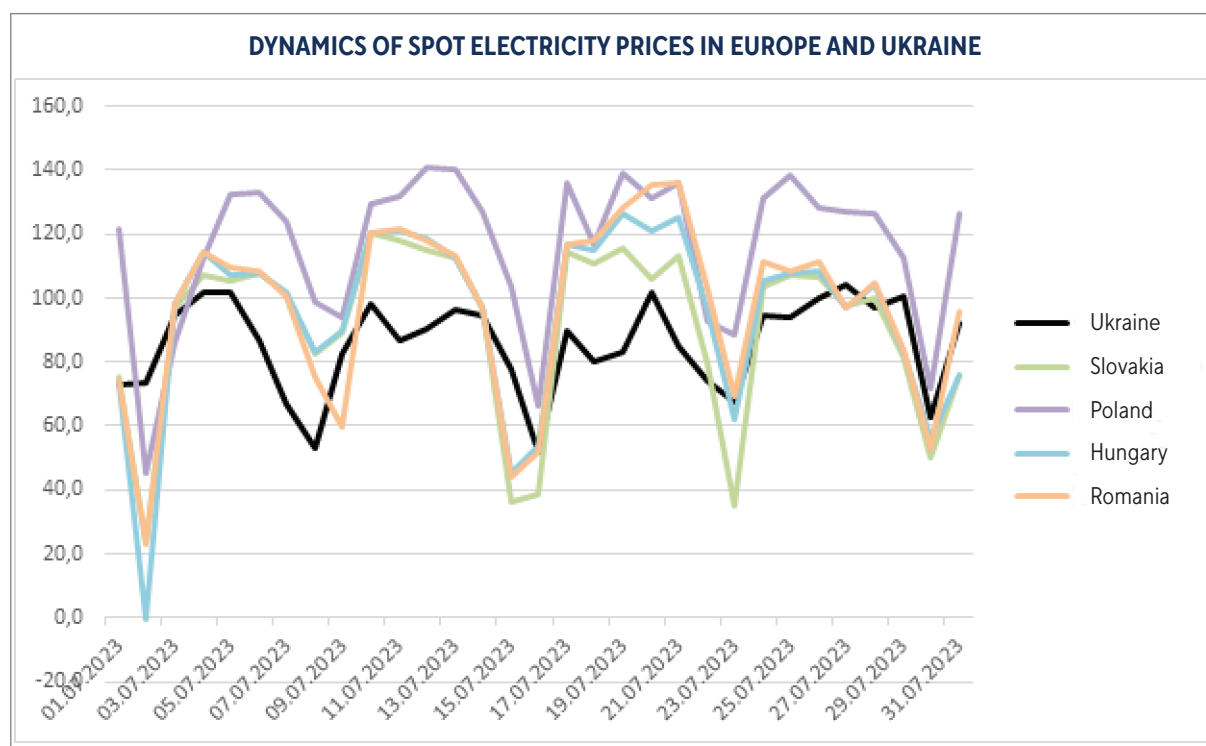
1. DAM prices in Ukraine increased as expected, and it would be very surprising if this had not happened against the backdrop of generation shortages (occupied, damaged and destroyed generating companies) and seasonal consumption increases (summer heat). However, a somewhat smaller increase was expected due to the low purchasing power of the commercial sector in the war.

2. July DAM prices were adjusted by 20% compared to June 2023 – from 73 €/MWh to 86 €/MWh. In general, Ukrainian prices have become much closer to prices in neighbouring European countries, but another qualitative sign of change is that the price curve has also become similar to European trends, meaning that the market has made a confident step towards price synchronisation and real

market capping. The figure below clearly shows that the price trends in Ukraine and Europe are moving almost synchronously, driven by the market, rather than manual control.

3. Another important conclusion is that prices have become more volatile, reflecting the current market conditions in Ukraine. However, the question is whether the industrial sector will be able to pay market prices without significantly reducing output.

4. An interesting indicator of a healthy market is the price differentiation between weekdays and weekends. Thus, weekend prices have become significantly lower than prices on working days. Before the change in price caps, DAM prices on weekends were only about 2% lower than on weekdays. In July, the difference between a weekend and weekday already reached about 25%. Such changes are in line with the normal price dynamics in European electricity markets.



5. In July, DAM prices in Ukraine began to reflect the real current situation with the overall electricity balance in the country. Thus, when one NPP unit returned to operation after repairs and generated electricity for 3 July weeks (and there was more NPP electricity in the system), DAM prices in Ukraine dropped to less than UAH 3,800/MWh. The following week, when another NPP unit went into repair and consumption increased due to the summer heat, DAM prices rose to around 4,000 UAH/MWh.

6. During the month of operation, the new price caps allowed electricity imports to cover the deficit, especially in the evening. In July, 60 million kWh were imported from Slovakia, Poland and Moldova. This is the approximate equivalent of the operation of 1 coal-fired unit.

7. Imports help Ukraine's power system to cope with peak loads more easily, but in addition to the limited physical volume of interstate cross-border transmission, the main

constraint to increasing electricity imports is artificial price restrictions on the market, as the price in neighbouring European countries is usually higher than price caps and this blocks the import of scarce and much-needed electricity.

8. Forecast for August-September. DAM prices will be formed depending on how the costs of the most expensive thermal generation will be covered and the deficit in certain hours and will average up to UAH 4,000 per MWh.

In general, one can state that the weakening of the caps pressure on price formation has improved market mechanisms, and the price is increasingly formed based on the real supply/demand balance.

However, the level of price restrictions still artificially limits the formation of the real price environment, which is clearly evident from how often prices on the market hit the ceiling of price caps.



# VI.

## ON THE IMPLEMENTATION OF STEPS TOWARDS A NATIONAL REVENUE STRATEGY

On 30 June 2023, the Verkhovna Rada adopted the Draft Law «On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on Peculiarities of Taxation during the Period of Martial Law», abolishing wartime tax exemptions and amending tax regulation. The law enters into force on 1 August 2023.

The explanatory note states that the purpose of the draft law is to fulfil Ukraine's obligations under the Memorandum on Economic and Financial Policy of 8 December 2022, according to which Ukraine has committed to restore the pre-war tax policy as soon as possible, which, among other things, provides for amendments to the legislation in terms of limiting the moratorium on tax audits from 1 July 2023, the specifics of the application of the simplified taxation system in the form of a 2% single tax, the rules of non-application of liability for violation of the provisions of the Law of Ukraine «On the Use of Cash Registers in the Field of Trade, Catering and Services», etc.

At the same time, there will be no scheduled tax audits until the termination or cancellation of martial law in Ukraine, and no documentary checks of the correctness of the accrual, calculation and payment of the unified social contribution. Companies are relieved of liability for violations related to the use of cash registers committed between 1 January 2022 and 1 October 2023, while fines these violations of for payers of the single tax of the 2<sup>nd</sup> and 3<sup>rd</sup> groups have been reduced from 100% to 25% and from 150% to 50% of the value of goods.

However, businesses in Ukraine have been heavily criticising this initiative. The business community expected that the President would not sign the bill that would increase the tax burden on businesses. The petition to veto the new law collected the required

25,000 votes, but the President still signed the bill into the law.

Business representatives predict that the introduced legislative changes may even lead to a curtailment of production and construction processes. As a result, retail prices will rise and jobs will be cut, leading to a drop in incomes and purchasing power. Most of all, entrepreneurs are afraid of inspections, even though only a limited number of businesses will be subject to such inspections. It is stressed that tax authorities should work exclusively with risky businesses that use various tax evasion schemes, leaving «white» businesses alone.

The abolition of the 2% single tax caused the least controversy in Ukrainian business circles. Since its introduction, it was clear that this was a temporary measure. Moreover, it did not gain much popularity among businesses, as only about 40,000 LLCs and 300,000 FOPs (individual entrepreneurs) switched to this tax. Most of them had been operating under the single tax before and actually took advantage of the opportunity to pay 2% instead of 5%. Therefore, the cancellation of this rule is a logical step, but in the extremely difficult conditions of the war, it will be tough for FOPs to pay more.

In general, the implementation of the draft law is intended to increase revenues to the state and local budgets. Legislative initiatives of this kind are in line with the logic of the National Revenue Strategy, which is necessary due to Ukraine's high dependence on foreign aid and the need to reduce it in the future. The National Revenue Strategy aims to create conditions for a domestic revenue base in order to reduce Ukraine's external dependence on financial aid. The strategy should define the key principles and goals of tax policy and tax administration both in the short term and for



the period of post-war recovery. In particular, the development of the National Revenue Strategy is mentioned in the statement on the new cooperation programme between Ukraine and the International Monetary Fund, under which Ukraine will have access to \$15.6 billion in loan financing over the next 48 months. One of the most important tasks of the strategy is to establish fairness in terms of taxation.

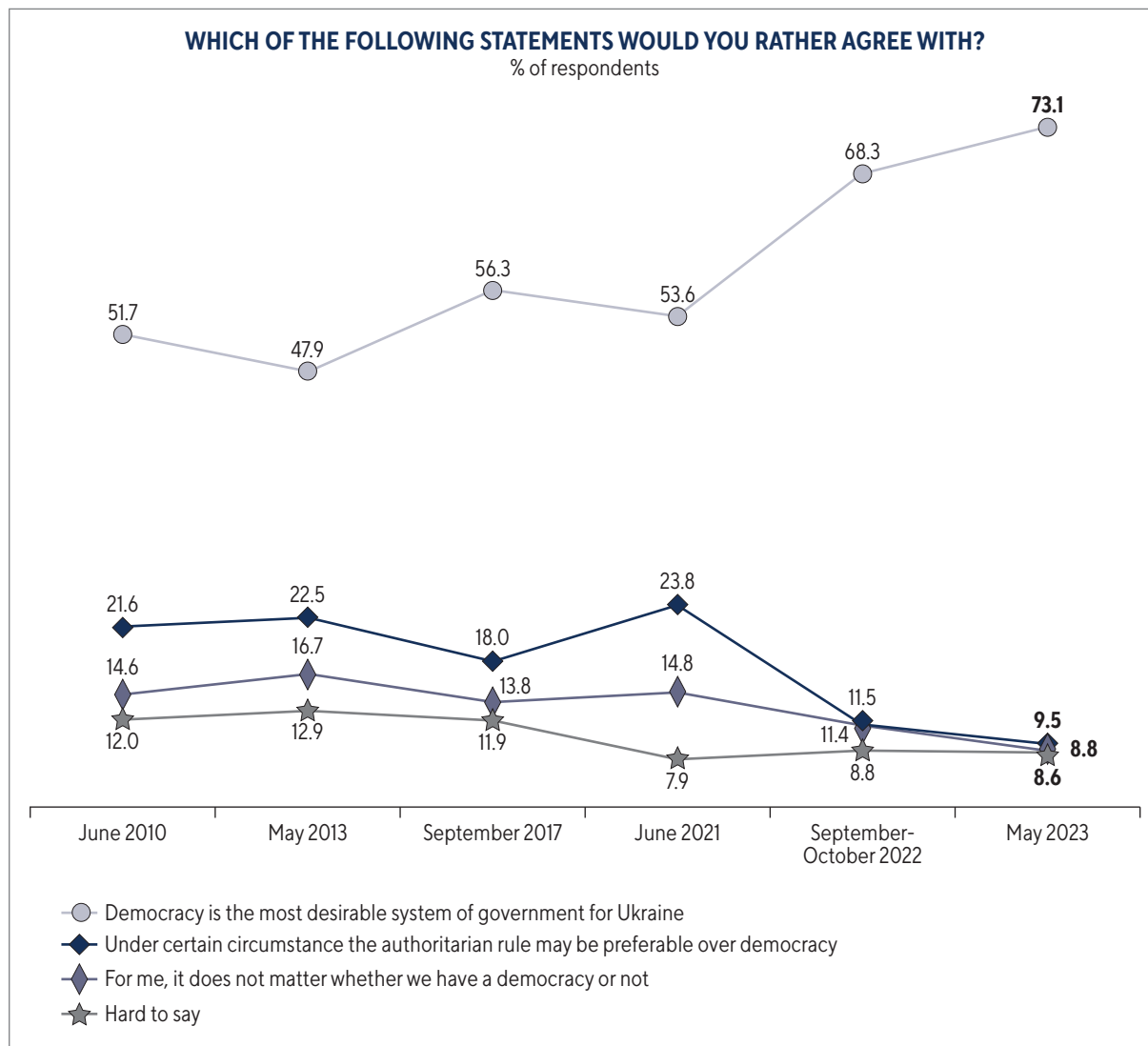
IMF's four-year EFF programme envisages that in the second phase, which is tentatively scheduled in 2025, fiscal policy will focus on critical structural reforms to anchor medium-term revenues through the implementation of the National Revenue Strategy, together with improved public finance and public management reforms to support post-war recovery.





# 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, 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 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.

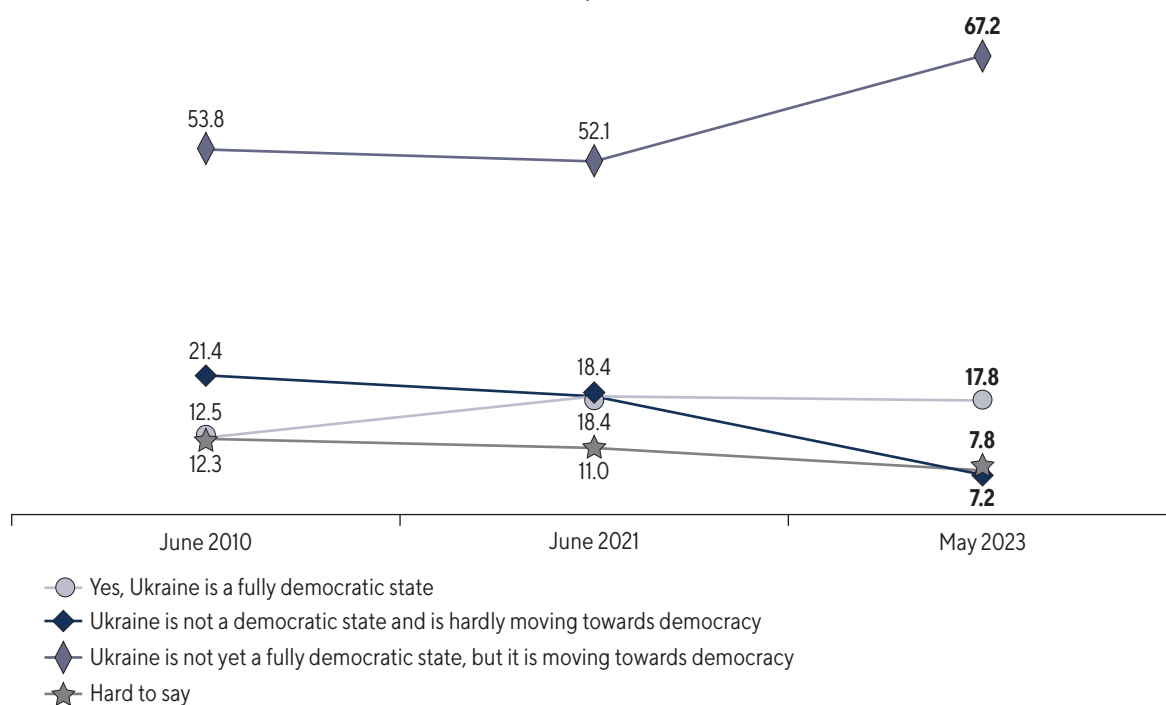
### HOW GOOD FOR OUR COUNTRY ARE THESE TYPES OF POLITICAL SYSTEMS?

% of respondents

	March 2017	September-October 2022	May 2023
<b>Democratic political system</b>			
Very good	35.8	53.9	<b>56.7</b>
Rather good	50.7	36	<b>36.1</b>
Rather Bad	10.3	8.7	<b>5.3</b>
Very bad	3.0	1.2	<b>1.2</b>
No answer	0.2	0.2	<b>0.8</b>
<b>A strong leader, independent of parliaments and elections</b>			
Very good	35.0	30.3	<b>26.2</b>
Rather good	44.9	37.4	<b>36.0</b>
Rather Bad	14.3	21.1	<b>26.4</b>
Very bad	5.7	10.9	<b>10.6</b>
No answer	0.2	0.3	<b>0.8</b>
<b>Experts, not the government, make decisions that they consider best for the country</b>			
Very good	20.6	18.2	<b>20.3</b>
Rather good	48.1	42.2	<b>40.4</b>
Rather Bad	23.2	29.2	<b>30.6</b>
Very bad	8.0	9.9	<b>7.7</b>
No answer	0.2	0.5	<b>1.0</b>
<b>Country ruled by the military or a military regime</b>			
Very good	1.7	8.6	<b>8.5</b>
Rather good	10.7	21.8	<b>19.8</b>
Rather Bad	46.7	39.9	<b>40.5</b>
Very bad	40.7	29.1	<b>30.4</b>
No answer	0.3	0.5	<b>0.9</b>

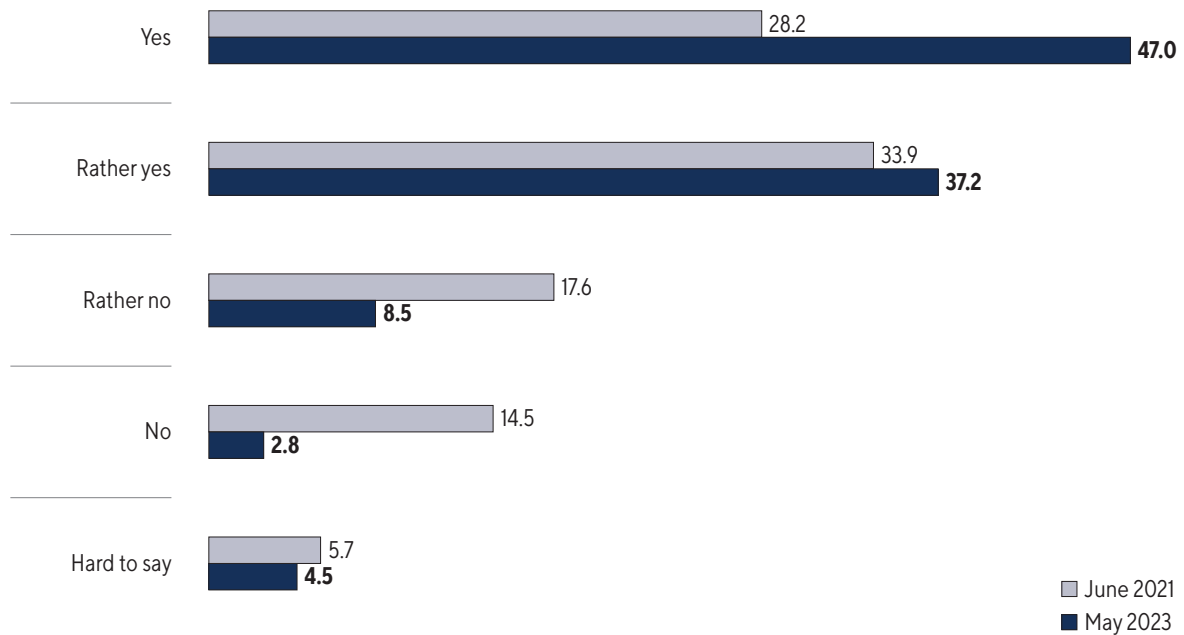
### IS UKRAINE A DEMOCRATIC STATE?

% of respondents



**DO YOU FEEL LIKE A FREE PERSON?**

% of respondents

**WHICH OF THE FOLLOWING STATEMENTS IS MORE APPEALING TO YOU?**

% of respondents

	June 2010	December 2017	June 2021	May 2023
Obviously, both freedom and prosperity are important, but I am ready to endure some material difficulties for the sake of personal freedom and guarantees of all civil rights	32.4	38.0	43.1	<b>50.9</b>
Obviously, both freedom and prosperity are important, but I am ready to give up some of my rights and civil freedoms to the state in exchange for better well-being	30.1	25.0	30.8	<b>23.0</b>
Hard to say	37.6	37.0	26.1	<b>26.1</b>

**HOW DO YOU SEE THE FUTURE OF UKRAINE?**

% of respondents

	April 2003	March 2010	March 2019	June 2021	September-October 2022	May 2023
Ukraine will be a highly developed, democratic and influential European state	31,1	37,7	41,5	40,0	64,7	<b>64,0</b>
Ukraine will be a country that follows its special course of development (like China)	8,0	16,3	19,9	13,3	13,6	<b>16,2</b>
Ukraine will be an underdeveloped appendage to the West	10,4	4,5	7,2	10,0	3,9	<b>3,4</b>
Ukraine will forever remain a «Third World» country – underdeveloped and uninfluential	10,8	5,3	6,8	10,8	1,7	<b>2,4</b>
Ukraine will disappear as an independent state	4,9	2,7	3,1	5,2	1,5	<b>0,7</b>
Ukraine will be an underdeveloped appendage to Russia	4,7	8,5	2,0	2,0	0,8	<b>0,3</b>
I don't care about the country's future	2,2	0,8	2,0	1,1	0,5	<b>0,0</b>
Other	2,9	3,6	2,8	1,9	1,4	<b>0,8</b>
Hard to say	25,0	20,6	14,8	15,8	11,9	<b>12,2</b>

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, 7<sup>th</sup> floor

Telephone: (38 044) 201-11-98

Fax: (38 044) 201-11-99

e-mail: [info@razumkov.org.ua](mailto:info@razumkov.org.ua)

Website: [www.razumkov.org.ua](http://www.razumkov.org.ua)

