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# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments  
September 2023



# I.

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

In September, the combat zone expanded, along with increased intensity of attacks on rear targets. Ukraine launched a series of effective strikes against military objectives in the enemy's deep rear, as well as against maritime targets. The resulting destruction of a large landing ship and a submarine, several air defence systems, the Russian Black Sea Fleet headquarters, as well as regaining of control over the so-called Boyko Rigs within one month significantly undermined not only the enemy's naval capabilities but also the security of the rear base of its southern group of troops. At the same time, Russia used record-breaking 503 Shahed strike drones in September, targeting, among others, ports on the Danube River in close proximity to the Romanian border, thus threatening the territory of a NATO member.

### COMBAT ACTION

As of the end of September 2023, the situation on the front line remained complex and dynamic, and the intensity of hostilities was consistently high. As expected, based on the analysis of the summer campaign's interim results, there was neither a decisive breakthrough nor a culmination of the confrontation in September. In the second half of the month, there were signs of Ukrainian forces breaking through the first line of Russian defences in the Mariupol direction, but this did not lead to an immediate acceleration of the offensive, as the enemy redeployed additional, most capable formations from other areas to strengthen its defences. The so-called Surovkin Line, which is compared to the historical analogues of Mannerheim, Maginot and Siegfried lines, combined with modern intelligence and weapons, as well as «elastic defence» tactics, demonstrated unexpectedly high efficiency.

At this point, the main characteristics of the theatre of operations and the warring parties'

intentions have become apparent after the spring-summer period of formative operations.

Ukraine's main offensive actions are focused on the Melitopol and Mariupol directions, aiming to reach the borders of Crimea (Tokmak, Melitopol) and the Azov Sea coast (Berdiansk, Mariupol). In parallel, counter-offensive actions are taking place in the Bakhmut sector, which are likely aimed at restraining and distracting the enemy forces, but also – which is not impossible – at surrounding and liberating the city, which would have not only military and tactical significance but also a powerful political effect.

Smaller-scale actions in other areas seem to be auxiliary measures to restrain enemy forces. Some experts and even Russian «war correspondents» actively discuss the threat of Ukrainian forces crossing the Dnipro River near Kherson, and they may be right. Successes of the Ukrainian forces in striking maritime targets and military objectives in the occupied Crimea and in mainland Russia, which play a critical supporting role in the overall strategy, deserve a particular attention. For example, successful attacks on ships, air defence positions, airfields and the headquarters of the Russian Black Sea Fleet critically undermined the aggressor's naval capabilities in the Black Sea and the ability to support the operations of its troops in southern Ukraine.

Russia's efforts were focused mainly on the active defence in the southern and south-eastern sections of the frontline, as well as on counter-offensive actions in the north-eastern and eastern directions (Kupyansk-Svatove-Kreminna, Avdiivka-Donetsk), and probably aimed not so much at capturing new territories as at diverting Ukrainian reserves. As noted earlier, the Russian army has lost its ability to conduct large-scale offensive operations, and there are currently no signs of restoring this

capability, despite the de facto introduction of mobilisation measures by Russia's military and political leadership.

30 September marked one year since the «accession to Russia» of Luhansk, Donetsk, Kherson and Zaporizhzhia oblasts. At last year's ceremony in the Kremlin, Putin called for negotiations on conditions that Ukraine immediately ceased fire (that is, stopped resisting aggression) and gave up the entire territory of these regions, not just the temporarily occupied parts. Accordingly, reaching the administrative borders of the «annexed regions» became a priority for the Russian military leadership. Instead, during the year, a significant part of these territories, including the city of Kherson, were de-occupied, while Russia's attempts to attack ended in either relatively minor territorial gains or disastrous failures, which is another evidence of the enemy's current inability to conduct large-scale offensive operations and its decision to focus on defence (keeping the already seized territories).

In September, the Russian defence ministry announced the planned start of the autumn conscription from 1 October to 31 December, prompting that another wave of mass mobilisation is unlikely in the near future. Last year, due to the need for «partial mobilisation» (about 300,000 people), the autumn conscription (130,000 people) was postponed for a month. This was due to the limitations of the Russian system of recruitment, equipment, and training of recruits and the lack of professional officer and non-commissioned officers, which apparently remains unresolved. According to unconfirmed reports, the total number of the mobilised has already reached 2 million, and in 2023, the Russian armed forces were replenished by 320,000 contract soldiers.

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

On 20 September, a draft law to increase security and defence spending by UAH 302.6 billion passed the first reading in parliament. As a result, the planned budget funding

of security and defence sector in 2023 will increase from UAH 1.64 trillion (26% of GDP and 53.4% of total expenditures) to UAH 1.943 trillion, a UAH 820 billion increase from the planned at the beginning of the year. The draft budget for 2024 envisages expenditures of UAH 1.542 trillion, which will obviously be revised upwards in the event of a very probable continuation of high-intensity hostilities.

The prompt appointment of Rustem Umerov on 6 September as the new Minister of Defence replacing the resigned Oleksiy Reznikov allowed to minimise the negative impact of the transitional period on the functioning of the defence ministry. However, the subsequent dismissal of all but one of the deputy ministers and the failure to appoint new ones for almost a month effectively blocked three key MOD activity areas – logistics, armaments and international cooperation.

The reason for Reznikov's dismissal was probably violations and miscalculations in defence procurement, which adversely affected the Ukrainian forces' combat readiness and, accordingly, led to tragic failures on the front line due to untimely and insufficient support for the offensive. Meanwhile, the attempt to radically solve one problem of the defence ministry's inefficiency by simultaneously replacing the entire senior leadership created another, probably larger problem and risks of even more tragic consequences during the most critical period of the war. Moreover, if the newly appointed MOD leadership resorts to the traditional practice of immediately replacing mid-tier managers, this could lead to an unacceptably long transitional period with all the ensuing negative consequences.

Recent intensification of public discussion about finding those responsible for the failures and miscalculations at the beginning of a large-scale invasion is probably not accidental, but obviously counterproductive.

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

The first group of Ukrainian pilots and technicians travelled abroad to begin their training for F-16 fighters, which will last 3 to



6 months before the first aircraft are delivered to Ukraine. No positive political decision on ATACMS and Taurus missiles to Ukraine has been reached, despite multiple encouraging statements from various sources and a personal meeting between President Zelenskyy and President Biden – the former seems to have failed to convince the latter of the feasibility of such a decision.

The issue of ensuring long-term external support for Ukraine is becoming critical. In this context, periodic political, diplomatic, and economic incidents between official Kyiv and its partners, in particular Poland, all but cause concern, as they may negatively affect bilateral cooperation and consolidated military support for Ukraine. Military assistance to Ukraine is increasingly becoming part of the internal political processes in partner countries. For example, the White House sent a letter to the Ukraine Donor Coordination Platform with a list of reforms that Ukraine must implement to continue receiving assistance. It should be noted that security reforms are not included in the list of the most urgent and priority requirements with 3–6-months deadlines. In terms of security and defence sector reforms, the document mentions public procurement; implementation of NATO standards of transparency, accountability, efficiency and competition; strengthening democratic civilian control; modernisation of the command-and-control system, management and defence planning processes, human resources management and military education; and investments in the Women, Peace and Security programmes.

UN Security Council Resolution 2231, which banned trade in certain types of weapons with Iran, expires in October. In the context of expanding military-technical cooperation between Russia and Iran, this removes international restrictions on the possible transfer of Iranian tactical missiles to Russia. Iranian deliveries of new batches of drones and missiles significantly increase the risk of destruction of Ukraine's energy infrastructure in the autumn and winter.

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

- ✓ as of the end of September 2023, there have been no signs of the decreasing intensity of hostilities in the near future;
- ✓ thanks to the Ukrainian forces' tactical success, the preconditions have been created for breaking through the enemy's defences and gaining operational space in the southern direction;
- ✓ demonstration of Ukraine's will and ability to continue the offensive has somewhat reduced the political risks associated with the dependence of the volume and pace of foreign military assistance on the results on the battlefield. At the same time, the relevance of sustainable international support remains significant, and new challenges are emerging that require a timely and adequate response from official Kyiv.

# II. FOREIGN POLICY

September 2023 marked the start of Ukrainian diplomacy's new political season, characterised by a notable intensification of political and diplomatic dialogue with foreign counterparts, activation of international events, and the take-off of new strategic processes. Overall, September was one of the record-breaking months in terms of the number and level of international contacts, which have gradually become official Kyiv's daily practice and a well-established foreign relations format.

## FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

Using the strong dynamics of dialogue with partners, Ukraine focused its efforts on ensuring weapons to the Armed Forces, institutionalising the Peace Formula, launching negotiations on security guarantees with new partners, promoting its own initiatives and expanding the geography of global solidarity and support. Another important foreign policy area is to accelerate the pace of European

and Euro-Atlantic integration, in particular, by creating conditions for the start of the EU membership talks.

**Holding political dialogue with foreign partners.** During the month, numerous talks, meetings, and consultations were held with foreign partners, including country leaders, heads of international institutions, parliamentarians, businesspeople, and public figures at the high and highest levels, as well as at the ministry level. The table below gives an idea of the intensity and scope of Ukraine's political and diplomatic dialogue.

Kyiv's activity on the global stage becomes particularly important in view of new external challenges, including certain problems with the supply of military and financial assistance from the United States, the ongoing conflict over the blocking of Ukrainian agricultural exports by neighbouring countries, post-election changes in the configuration of political forces in Slovakia, etc.

CONTACTS WITH FOREIGN PARTNERS IN SEPTEMBER 2023	
Online contacts at the highest level	Talks with the President of France, the Prime Minister of Israel, the President of the European Commission, the Prime Minister of Saudi Arabia, the Prime Minister of the United Kingdom, and others.
Visits of representatives of foreign states and organisations to Ukraine	In September, leaders and senior officials of partner countries and international organisations visited Ukraine, including NATO Secretary General Jens Stoltenberg, US Secretary of State Anthony Blinken, Prime Minister of Denmark Mette Frederiksen, Germany's Foreign Minister Annalena Baerbock, British Secretary of State for Defence Grant Shapps, French Minister of the Armed Forces Sebastien Lecornu, Korean Minister of Land, Infrastructure and Transport Won Hee-ryong, President of the National Council of Austria Wolfgang Sobotka, Minister of Foreign Affairs of the Republic of Korea Sobotka, Minister for Foreign Affairs of Japan Yoshimasa Hayashi, President of the EBRD Odile Renaud-Basso, and ICC Prosecutor Karim Ahmad Khan. These visits were of great political, security, financial and economic significance. In particular, negotiations on a bilateral security agreement were announced following the talks with the Japanese Foreign Minister. The visit of the French Minister of the Armed Forces resulted in a number of agreements in the defence industry.
Ongoing political dialogue	As part of the ongoing dialogue with partner countries to promote Ukrainian interests and initiatives, consultations and talks were held with diplomats and government officials from the United States, Brazil, South Africa, India, and Korea, as well as with the French parliamentary delegation, the delegation of the European network EQUINET, etc.
Negotiations and consultations during the Ukrainian delegation's visit to the United States	During the visit, meetings and talks were held with the President of the United States, the UN Secretary-General, the heads of the European Commission and the European Council, the Chancellor of Germany, the Presidents of Romania, South Africa, Chile and Kenya, the Prime Ministers of Israel and Albania, and the Vice Prime Minister of Bulgaria. Of strategic importance were meetings with: <ul style="list-style-type: none"> <li>• the leaders of the Democratic and Republican parties in the US Senate.</li> <li>• top management of leading US companies (Bloomberg LP, Pershing Square Capital, Starwood Capital, etc.);</li> <li>• the Pentagon leadership;</li> <li>• representatives of defence industry associations of individual US states.</li> </ul>

**CONTACTS WITH FOREIGN PARTNERS IN SEPTEMBER 2023**

(continued)

Negotiations and contacts during the Ukrainian delegation's visit to Canada	Talks with Prime Minister of Canada Justin Trudeau and the ensuing signing of an updated Free Trade Agreement between Ukraine and Canada. The President of Ukraine delivered a speech at a solemn session of the Parliament of Canada, met with representatives of Canadian businesses and the public.
Traditional diplomatic procedures	The Head of State accepted credentials of the new ambassadors of the EU, France, the United Kingdom, Canada, Estonia, Slovenia and Hungary.

***Participating in international events.***

In September, Ukraine was rather active on international platforms. First of all, this included President Zelenskyy's speeches at the UN General Assembly, the UN Security Council, the Sustainable Development Goals Summit, etc. At the same time, Ukraine tried to defend its interests, expand the circle of allies and neutralise the aggressor's narratives at various international events, including a) the 8<sup>th</sup> Summit of the Three Seas Initiative in Romania, where Ukraine became an associate member; b) the 18<sup>th</sup> Annual Meeting of the Yalta European Strategy (YES); c) the Ambrosetti Forum in Italy; d) the President of Ukraine's online meeting with the university community of the Netherlands; e) the Third Summit of First Ladies and Gentlemen, etc.

***Promoting Ukrainian interests and initiatives globally.*** In September, Kyiv continued efforts to secure international support for its projects and actions and to promote new initiatives. In this context, the President of Ukraine's speech at the UN Security Council meeting on 20 September 2023 outlined a reform concept that envisaged allowing the UN General Assembly to override the veto of a permanent member of the UN Security Council; expanding the representation of countries in the UN Security Council; and creating a system of preventive response to actions against the territorial integrity and sovereignty of states.

As in previous months, Ukraine side lobbied bilaterally and internationally for the convening of a Peace Formula summit. To this end, Ukrainian diplomacy carried out a number of actions at various levels. These included a series of meetings and briefings for the diplomatic corps, a conference with representatives of civil society and political communities in a number of Latin American countries, high and the highest-level meetings, etc.

In turn, Ukraine and its partners, Germany and the Netherlands to name a few, organised events as part of an international campaign

to bring home Ukrainian children abducted by Russia. These activities were carried out as part of the Ukrainian action plan Bring Kids Back UA, which was supported by a number of countries around the world.

Also, the second meeting of the Ukraine War Environmental Consequences Work Group took place in September, bringing together governments, politicians, public figures, and heads of international environmental institutions from around the world.

The First International Defence Industries Forum (DFNC1), which brought 252 companies from more than 30 countries to Kyiv on 29 September 2023, was strategically important for Ukraine. During the event, Ukrainian companies signed 20 agreements and memoranda with foreign partners on the manufacture, repair and co-production of military equipment and ammunition, technology exchange, supply of components, etc.

**INTERNATIONAL PROCESSES AND EVENTS**

**On 9-10 September 2023**, the 18<sup>th</sup> G20 Summit in New Delhi adopted a final declaration, which, due to differences in the positions of the collective West and individual states of the Global South, was too «compromising» in relation to the Ukraine war. In particular, the document states that «all states must refrain from the threat or use of force... and from the use of nuclear weapons». The G20 countries also called for the implementation of the grain deal, which was blocked by Russia.

**On 18 September**, the International Court of Justice in The Hague began hearings in Ukraine's lawsuit against Russia, where the Ukrainian side argues that the Kremlin has abused the Genocide Convention provisions to launch an unjustified military invasion. 32 states have joined the case to support Ukraine. This trial is of strategic legal significance for the international condemnation of the aggressor.

In this context, other September events are worth mentioning: a) the ministers of justice of the Council of Europe states have adopted a declaration outlining the principles (the «Riga Principles») to achieve comprehensive accountability for Russia's aggression against Ukraine and provide redress to all victims; b) the US State Department decided to transfer assets of Russian oligarchs under sanctions to Ukraine; c) the European Parliament in its resolution on relations with Belarus recognised Aliaksandr Lukashenka as an accomplice as an accomplice in the crimes committed by Russia in Ukraine; d) the International Criminal Court's field office was opened in Kyiv to step up cooperation with the ICC and improve the operational response to Russian crimes in Ukraine; e) The UK officially recognised the PMC Wagner Group as a terrorist organisation.

**On 19-23 September**, a number of events took place during the High-level Week of the 78<sup>th</sup> session of the UN General Assembly. The Ukrainian delegation held a series of important high-level talks and consultations, including a meeting between the Presidents of Ukraine and the United States.

**On 29 September**, the 67<sup>th</sup> IAEA General Conference adopted a resolution calling to immediately withdraw all military and other unauthorised personnel from the Zaporizhzhia NPP and return the ZNPP to the full control of the competent Ukrainian authorities. This resolution was supported by 69 IAEA member states.

Targeted military and financial assistance to Ukraine from partner countries continued throughout September. In particular, the United States, Lithuania, Germany, Canada, Denmark and other countries announced their military aid packages to Kyiv, while South Korea announced a long-term loan of \$2.3 billion.

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

Ukraine's European integration in September can be characterised by multidirectional events and processes. First, the country took steps towards the EU by adopting important integration legislation – a corrected law on the reintroduction of e-declarations with an open register, and a law restoring mandatory financial reporting by political parties. In general, the

recent measures and reforms give grounds to expect the opening of Ukraine's EU membership talks. According to unofficial sources, the European Commission is getting ready to start recommending negotiations with Ukraine. In turn, on 28 September, the EU Council decided to extend the temporary protection mechanism for refugees from Ukraine for another year, from 4 March 2024 to 4 March 2025.

Second, the aforementioned conflict over restrictions on Ukrainian agricultural exports imposed by five EU countries escalated in September. On 15 September, the European Commission lifted the temporary embargo on exports of 4 categories of Ukrainian agricultural products, but these countries, including Poland, Hungary and Slovakia, decided to extend the restrictions, forcing the Ukrainian side to file a complaint with the WTO. Regrettably, the conflict even took on a certain political colour. Later, the parties were able to mitigate it, as Ukraine proposed a compromise scenario on grain exports, and negotiations on the settlement of the situation began.

Third, the results of the European Commission's Eurobarometer survey conducted in all EU countries in late August 2023 show a high level of support for Ukraine and its fight against Russian aggression among EU citizens. In particular, 86% of respondents support the continuation of humanitarian support for Ukrainians affected by the war; 77% agree to accept Ukrainian refugees in the EU; 67% support Ukraine's integration into the EU; 65% support Ukraine's integration into the single market; and 57% believe that the EU should continue supporting the purchase of weapons and ammunition for Ukraine and help train its military.

In September, Ukrainian diplomacy began the new political season quite actively by holding a series of meetings and consultations with partner countries at various levels to ensure settings for effective resistance to Russian aggression. Important steps have been taken in the area of European integration, approximating the start of the EU membership talks. Ukrainian diplomacy can also be credited with making progress towards institutionalising the Peace Formula and gaining security guarantees. On the other hand, certain issues and difficulties have emerged in relations with partners, requiring joint efforts to address them.



# CONSTITUTIONAL AND LEGAL FIELD

## LEGISLATION

1. On 20 September 2023, the Law of Ukraine «On Lawmaking Activities» (No. 3354-IX of 24 August 2023) entered into force. By adopting this Law, MPs attempted to complete the almost quarter-century-long «parliamentary epic» of legislative regulation of the procedure for drafting and adopting legal acts in the country. This process was reflected in numerous draft laws – On Normative Acts, On Normative Legal Activity, On the Legislative Process, and the like. However, a comprehensive analysis of the adopted Law «On Lawmaking Activities» shows that its practical application in the future will hardly bring the expected positive results. After all, having set the ambitious goal of «streamlining lawmaking in Ukraine, strengthening interaction between lawmakers in the process of drafting legal acts, as well as control over their implementation, ensuring participation of civil society in lawmaking and ensuring quality of Ukrainian legislation», the MPs, among other things, resorted to legislative consolidation (definition) of a number of political and legal concepts of both general philosophical and worldview nature. In practice, such approaches to understanding the essence and content of legislative regulation of social relations make it difficult to avoid the dominance of subjective ideas / beliefs of the initiators of legislative changes regarding certain phenomena. On the other hand, it will also be difficult to ensure proper observance of the legal certainty as such. For example, the MPs present the constitutional principle of the «rule of law» (enshrined in part 1 of Article 8 of the Constitution of Ukraine) only as «... that includes, but not limited to, the principles of legality, legal certainty, prevention of abuse of power, equality before the law and non-discrimination, access to justice» (Article 3 of the Law «On Lawmaking Activities»). Instead, the concept of «lawmaking activity» is defined as something «...carried out by an entity

(defined by the present Law) for: 1) planning the development and adoption (publication) of regulatory and legal acts; 2) developing draft regulatory and legal acts; 3) adopting (publishing) of regulatory and legal acts; 4) keeping records of regulatory and legal acts; 5) conducting legal monitoring». At the same time, the legislators are trying to legislate/define such «conditional» concepts and phenomena as the white and green books (Article 21. Analytical documents of public policy), or to legislatively prohibit the possibility of the very presence of legal norms as such in the preamble of any regulatory act (Article 38. Preamble of a regulatory act). The law contains more than enough examples of subjective and ambiguous perception/understanding of well-established legal phenomena and categories of the national legal system, as well as cases of use of norms with signs of legal uncertainty in the Law «On Lawmaking Activity». Therefore, without belittling various positive points in certain provisions and regulations of this law, it still requires significant revision and, possibly, complete cancellation.

2. On 27 September 2023, the Law «On Amendments to the Criminal Code, the Criminal Procedure Code and Other Legislative Acts of Ukraine on Improving the Types of Criminal Punishment» (No. 3342-IX of 23 August 2023) was officially published in the parliament's «Holos Ukrayiny» newspaper. This act introduces a new type of punishment for committing a criminal offence in Ukraine – the probation supervision. This type of punishment consists in restricting the rights and freedoms of the convicted person, as defined by law and established by a court verdict, with the use of supervisory and socio-educational measures without isolation from society. Therefore, the court may obligate a convict sentenced to probation supervision to periodically report to the authorised probation body; notify the authorised probation body



of changes in his/her place of residence, work or study, and not to travel outside Ukraine without the consent of the authorised probation body. In addition, the Law allows the court to obligate a person sentenced to probation supervision to use an electronic tracking device and to reside at the address specified in the court decision; to comply with the requirements established by the court regarding certain actions, restrictions on communication, movement and leisure activities; to be employed either upon referral by the authorised probation body or to apply to the state employment service for registration as unemployed and to be employed if offered a job; to carry out measures

provided for by the probation programme; to undergo treatment for drug and alcohol addiction, mental and behavioural disorders due to the use of psychoactive substances or a disease that poses a danger to the health of other persons. At the same time, the obligation to use an electronic tracking device may be imposed by a court for a period of one month to one year, and probation supervision itself may be imposed for a period of one to five years. These legislative changes are aimed at humanising domestic criminal law and adapting it to European human rights standards. Logically, they were generally supported by the Ukrainian Parliament Commissioner for Human Rights.



# IV. ECONOMY

## DECISIONS

At its meeting on 15 September, the Cabinet of Ministers approved the draft state budget for 2024 and registered Draft Law No. 10000 «On the State Budget of Ukraine for 2024» in the Verkhovna Rada. The lion's share of the 2024 budget will logically be allocated to defence and military needs, as well as social payments. However, even in such circumstances, funds will be redistributed, including due to the fact that the estimates look rather optimistic.

According to the government's forecasts, real GDP will grow by 5% in 2024 (this year, the growth is expected at 2.8%); exports will increase by 7.5%, while imports will drop by 5.5%. These are very bold figures. Growth may truly accelerate in 2024, but only if the war ends, while imports will significantly exceed exports as industrial recovery is only just beginning.

The increase in the minimum wage (UAH 7,100 from 1 January 2024, and UAH 8,000 from 1 July 2024) seems rather controversial due to the fact that, in a constrained economy, raising minimum social standards implies inflation and increased fiscal pressure on private businesses, which will slow down economic dynamics in general. It seems that the main focus of Ukraine's economic policy in 2024 should be on further stabilisation that is already underway.

Signs of macroeconomic stabilisation allowed the NBU to cut its key policy rate from 22% to 20%, effective 15 September 2023. The NBU notes that the slowdown in inflation to 8.6% in August and the NBU's ability to ensure exchange rate stability make it possible to continue the cycle of rate cuts while maintaining sufficient attractiveness of hryvnia savings.

Although insignificant, this cut is the evidence of the NBU's intention to pursue a policy of gradual easing of monetary tightening

– one of the important factors in accelerating the economic recovery.

Ukraine introducing more liberal requirements for the sale of non-cash foreign currency to households starting from 29 August is another indication of the NBU's policy easing. The day before, the NBU approved Resolution No. 104 introducing regulatory changes that allowed banks to sell non-cash foreign currency to their individual clients without the need to confirm the grounds or obligations for such transactions. Every month, an individual will be able to purchase foreign currency in the amount of up to UAH 50,000 (equivalent) from one bank.

In addition, on 16 September, the NBU took another step towards liberalisation by lifting a number of currency restrictions to increase the opportunities for Ukrainian defenders, victims of hostilities and other categories of the population to receive modern types of rehabilitation abroad, by expanding the list of medical services for which individuals can transfer funds abroad, and by creating conditions for restructuring external loans by state-owned enterprises.

The NBU's movement towards liberalisation is a totally positive signal, as increased flexibility of FX operations will help remove the speculative component from the exchange rate. In addition, if the NBU achieves its goal of converging exchange rates, the limit on the free sale of foreign currency to individuals will be increased over time.

The signing of an updated Free Trade Agreement between Ukraine and Canada was an important international economic event in September capable of improving economic cooperation between the two countries. In particular, the updated agreement includes additional provisions on investment and trade liberalisation, including exports of services. Given Canada's authority in the world, there

are reasons to expect accelerated adoption and implementation of foreign economic liberalisation measures with other countries as well.

## DEVELOPMENTS, PROCESSES, TRENDS

Ukraine continues to cooperate with international financial institutions. On 25 September, the IMF Mission began technical discussions with Ukrainian officials in preparation for the second review of the Extended Fund Facility (EFF). The review will focus on recent economic developments, including the draft state budget for 2024, with a view to discussing fiscal, financial, and structural measures to strengthen reforms. In particular, primary attention will be paid to the 19 structural benchmarks that Ukraine has promised to implement as part of the approved \$15.6 billion cooperation programme. It should be noted that institutional transformations, including anti-corruption, are traditionally the most difficult for Ukraine. Instead, economic developments show cautious positive signs.

The State Statistics Service has released its operational estimate of GDP for Q2 2023. Real GDP increased by 0.8% (seasonally adjusted) compared to the previous quarter, and by 19.5% compared to Q2 2022. This means that the recovery dynamics are better than expected (previously projected at 18.1%).

However, this figure should not mislead anyone. One explanation is the extremely low comparison base, as in Q2 2022 GDP fell by almost 37% compared to the corresponding pre-war quarter, meaning that the economic gap with the pre-war period remains significant.

Meanwhile, the return to positive, albeit weak, dynamics is well illustrated by the industry development, where Industrial Production Index (IPI) reached 97% during the first two quarters of 2023, which is only slightly lower than the output in 2022 (the results of January–February 2023 are compared to the pre-war period). There are reasons to expect that IPI will outpace the corresponding indicator of the previous year based on the results of the three quarters.

After the historic high, Ukraine's international reserves dropped to \$40.4 billion as

of 1 September. This was mainly due to the NBU's interventions in the FX market, with net sales of foreign currency amounting to \$2.44 billion.

The high level of reserves is maintained thanks to international assistance. According to the Ministry of Finance updates, as of 5 September, international partners have provided \$29.7 billion in financing for Ukraine this year. Top 5 lenders / donors accounting for 96% of all external financing in 2023 include EU (\$13.1 billion, loan); US (\$8.5 billion, grant); IMF (\$3.6 billion, loan); Canada (\$1.8 billion, loan); and Japan (\$1.5 billion, guaranteed loan). Moreover, the share of grants in the total assistance is decreasing. The expected volume of external borrowings for 2023 is \$42.4 billion, or \$3.53 billion per month on average, which is almost in line with the country's planned financing needs.

Such support is vital for Ukraine, as the gap in financing the country's balance of payments in the first 7 months of 2023 amounted to \$14.9 billion, which is more than 16% of GDP. The entire gap was covered by the above-mentioned international assistance inflows (\$29.7 billion).

There is another peculiarity of financial flows reflected in the balance of payments. One of the key channels of foreign currency inflows into the country is the remuneration of Ukrainians working abroad or receiving contractual salaries from foreign companies (\$6.9 billion). At the same time, expenditures of Ukrainian nationals abroad, which are paid using Ukrainian payment instruments (usually plastic cards), are also significant. As of the end of August, as many as 6.2 million Ukrainian refugees were registered in other countries, and since the beginning of 2023, their expenses have totalled \$8.6 billion, a 13% rise compared to the previous year. This means that the revenues from «migrant workers», although significant, do not cover the «reverse» currency flow.

Gradual recovery of the lending sector is another positive development: since the beginning of the year, 10.7 thousand Ukrainian agricultural enterprises have received UAH 53.65 billion in bank loans for the development of their farms. Of these, 8.3 thousand

enterprises received UAH 31.9 billion in within the government's Affordable Loans 5-7-9 programme.

The conflict around the Ukrainian grain was probably one of the most important economic events in September. It should be reviewed in greater detail, as the situation has both geo-economic and geopolitical dimensions. So, in July 2023, Poland, Bulgaria, Hungary, Romania and Slovakia agreed on a common declaration that banned imports of Ukrainian grain into these countries but allowed third parties to transport it through their territories.

Further on, Poland called on the European Commission to extend the ban on imports of Ukrainian grain into the EU after 15 September, when the previous restrictions were set to expire, and warned that if the EU did not do so, the Polish authorities would introduce their own ban on imports of certain agricultural products from Ukraine. The ban would remain in force until Ukraine and Poland reach a bilateral agreement on resolving agricultural issues. The reason was «to protect Polish farmers».

Instead, Bulgaria and Romania supported the resumption of Ukrainian food exports, and the ban on imports was lifted.

In the meantime, the Ukrainian government warned that it would seek consultations with the WTO. This was a prudent step, as evidenced by the fact that the Ministers of Agriculture of Slovakia and Ukraine agreed to establish a grain trade licensing system, which would allow the ban on Ukrainian agricultural imports to Slovakia to be lifted as soon as the system was in place. Poland also eventually softened its position, as its government prepared and created transit corridors for the export of Ukrainian grain to countries that need it.

At the same time, on 21 September, the WTO published Ukraine's request for consultations on the dispute on its official website. It should be noted that the request for consultations formally initiates a dispute in the WTO, while consultations give the parties an opportunity to discuss the issue and find a satisfactory solution without further court proceedings, which is what Ukraine is most interested in.

Although the parties have taken steps towards each other, the conflict cannot be considered resolved as of the end of September, although its «temperature» has subsided significantly. However, a mutually acceptable solution cannot be delayed. Moreover, Ukraine cannot afford any misunderstandings with its neighbours.



# V.

## ENERGY SECTOR

### PREPARATION FOR THE WINTER 2023-24

In the reporting period, the energy infrastructure continued to prepare for winter season at an accelerated pace. As of the end of September, the total coal reserves were about 1.3 million tonnes – 0.5 million tonnes less than planned. Since the beginning of the month, the volume of coal in the warehouses of Ukrainian TPPs and CHPPs has decreased by about 40 thousand tonnes. The slow coal accumulation was primarily due to the difficult financial situation of the state-owned Centrenergo.

By 30 September, 15.3 bcm of gas had been accumulated in underground gas storage (UGS) facilities, which is already 0.7 bcm or 4% higher than the planned volume before the start of the winter season. It should be borne in mind, however, that more than 2 bcm of this volume is gas stored in the short haul mode. This means it can be supplied by its owners to EU consumers without any legal obstacles under Ukrainian law. Nevertheless, Ukraine has a real chance to pass this winter without gas imports for the first time since independence, due to a 44% decrease in gas consumption compared to 2021, a 7% increase in production by Naftogaz Ukraine, and significant gas reserves in UGS (over 9 bcm) at the end of the previous winter season.

As of the end of the reporting period, 8 out of 9 NPP units under Ukraine's control were operating in the IPS, one more was undergoing scheduled maintenance; and 15 TPP and CHP units were also in operation. Among them, one TPP unit continued to run on gas. DTEK, which holds a 75% share in electricity generation by thermal power plants, repaired 19 power units out of 20 planned before the start of the winter season. Ukrhydroenergo also operated in line with the planned targets, but it has to adjust given the destruction of the Kakhovka HPP by the Russian occupiers, which adversely affects the use of the potential capabilities

of Ukrainian hydropower. SPP electricity production was at a seasonally high level, but due to the surplus capacity, there were restrictions on electricity production from this type of generation.

In the last week of September, electricity generation in the IPS averaged 10.1 GW, down 11% year-on-year. The share of NPPs was 58%, TPPs – 22%, CHPs – 3%, HPP – 6%, and renewables – 11%. **Unlike in August, electricity exports in September were significantly higher than imports, averaging 4-5 GWh/day, while imports were at a minimum during peak hours, amounting to 0.3-0.6 GWh.** This change in interstate trade is attributed to favourable weather conditions for the renewables sector, a reduction in the use of air conditioners due to lower temperatures, and the recommissioning of two nuclear power units after scheduled maintenance.

Over the past six months, passive and active protection of Ukraine's energy infrastructure has been significantly enhanced by installing air defence systems supplied by international partners, building protective reinforced concrete structures, and mounting anti-drone nets.

**In general, the level of energy companies' preparedness for the winter season can be defined as satisfactory. However, the sector's financial condition remains very problematic due to ongoing growth of debts.** For example, Energoatom's debts on special obligations (PSO) alone exceed UAH 20 billion, and debts to renewable generation have increased to UAH 29.56 billion. Financial problems lead to delays in restoring critical infrastructure and negatively affect the dynamics of coal accumulation. In addition, urgent solution is needed for the issue of increasing electricity price caps for the commercial segment to cover the deficit with imports, which will inevitably arise in winter due to the shortage of capacity.

## PRICE SITUATION

According to the Market Operator, the weighted average price of the day-ahead market (DAM) in September 2023 dropped to UAH 3,906.93/MWh, or by 7% compared to August. The DAM base load index was UAH 3,710.14/MWh, which is 9-16% lower than prices in Romania, Hungary, Slovakia and Poland.

According to ICIS, the average exchange price for gas in Ukraine (UAVTP MA) in September-October 2023 was UAH 15.3 thousand per tcm excluding VAT, or €36.6/MWh, which is only 0.1% lower than the European trading platform TTF MA. This is due to lower demand in the EU market and high levels of gas storage in European UGS facilities, which have reached 95% of their real capacity. At the end of September, the price of coal on the European market (ARA) was \$132 per tonne.

## INTERNATIONAL COOPERATION

At the plenary session of the 67<sup>th</sup> IAEA General Conference, Ukraine was elected a member of the IAEA Board of Governors for two years. This structure is one of the two IAEA governing bodies, along with the annual General Conference of the IAEA Member States. In addition, the IAEA General Conference approved a resolution on the immediate return of the Zaporizhzhia NPP to full control of Ukraine.

**Participation in the IAEA Board of Governors will allow Ukraine to influence the organisation's decisions on international nuclear safety and to convey its position more easily on the situation at the occupied ZNPP to the world. At the same time, this will hardly influence Moscow and allow liberation of seized NPP exclusively by legal means, since the previous two IAEA resolutions on**

this issue did not yield any results due to the Russian political leadership's unwillingness to comply with international law.

Ukraine and the United States signed a memorandum on Washington's allocating \$522 million to strengthen Ukraine's energy system, including \$422 million to increase system's resilience, and another \$100 million is additional assistance subject to the implementation of a list of specific measures, such as reforming the energy sector, namely:

- ✓ approval of the new charter and establishment of the supervisory board of the Ukrainian GTS Operator LLC by 30 October 2023;
- ✓ progress in the implementation of the corporatisation plan of SOE Energoatom;
- ✓ start of the procedure for holding a competition for the election of members of the Supervisory Board of SOE Energoatom by 30 November 2023;
- ✓ establishment of JSC Energoatom by 31 December 2023;
- ✓ introduction of the NEURC procedure for submitting information on wholesale energy trade related to REMIT legislation by 1 April 2024.

The implementation of the above memorandum by the Ukrainian government will significantly strengthen the energy infrastructure's resilience in the face of Russian aggression and create important preconditions for attracting investment in the formation of a modern energy profile after the war based on the development of the renewable energy sector, energy efficiency and decentralisation of the energy system.

# VI.

## THE FUTURE OF SOCIAL BENEFITS

The draft Recovery Plan for Ukraine published on the Cabinet of Ministers website highlights the fact that military aggression has led to many consequences affecting all spheres of life in Ukraine. One of the most tragic consequences is the growing number of citizens in need of social support from the state. Ukraine's Minister of Social Policy Oksana Zholnovych informed that over the 1.5 years of hostilities, the number of people with disabilities has increased by 300,000, reaching 3 million. According to the WSJ, more than 50,000 Ukrainians have lost limbs and need prosthetics. The Minister also noted that Ukraine needs more rehabilitation specialists, more different centres and departments to help people restore their functionality, as the number those injured is growing.

The social sphere remains the second largest behind the defence sector in terms of state funding. The draft budget for 2024 envisages an increase in social spending to UAH 469 billion, a 25 billion rise from 2023. Against this background, during the International Sustainability Forum, the Minister of Social Policy said that it was necessary to «...break everything that is social today and simply reformat a new social contract on social policy in Ukraine from scratch».

Instead of social payments, the Ministry of Social Policy proposes to better adapt people to life by reducing the existing number of social benefits, to «encourage people to develop» and «build capacities instead of building dependence», because «unnecessary payments» create dependence instead of capacities.

In addition, the Ministry plans to globally revise the categories of social benefits, depriving some citizens of the right to receive them. «Each payment should be assessed for its adequacy. If it does not carry anything but has developed so historically, then, obviously, it should be reformatted into some kind of support that a person really needs».

The Ministry also called to specify the status of veterans, in particular, the scope of benefits to be provided and whether they should be provided at all. Meanwhile, Ukraine lacks specialists and services aimed at providing assistance. The study on veterans' issues shows that society's expectations for the future of war veterans and assessments of the state fulfilling its obligations to the military are deteriorating. There is also a lack of understanding of what the state is doing to protect them and how the government will help return veterans to civilian life.

The Ukrainian Veterans Foundation has been established under the Ministry of Veterans Affairs to address the problems of veterans, but it is not yet clear how it will be financed in the face of an acute budget deficit and what its priorities will be. There is also no clear «veterans' policy» yet, coupled with a catastrophic shortage of funds for social guarantees for veterans, their psychological rehabilitation, and support for their businesses.

Given the recent statements by some members of ruling team, one may wonder what Ukrainian citizens should expect from social policy. Such statements may highlight the fact that next year the country's budget will be in deficit and entirely dependent on Western aid. In 2024, Ukraine expects to receive from partners about the same amount as in 2023 – \$42.8 billion. However, unlike the 2023 budget, the Ukrainian government does not feel that these funds are guaranteed. The biggest question concerns financial assistance from the United States, from which the government expects to receive about \$13 billion.

In particular, the United States has already cut financial aid by three times, but it is yet to be approved by Congress; the situation in the EU is also unclear as to how much Ukraine should expect in 2024. Washington's «freeze» on funding for 45 days has reinforced negative expectations. Therefore, the possible need to

rely on own funds could lead to a significant reduction in social support. Attracting funds from the IMF may also be problematic, as the scenario assumed that active hostilities would last until mid-2024, and based on these parameters, defence spending was expected to decline next year.

So, Ukraine needs to be ready for certain risks in obtaining foreign financial assistance.

The most serious of them include lower or no funding, as well as non-systematic allocation of funds. In the worst-case scenario articulated by the Parliamentary Budget Committee, a budget sequestration and spending cuts of almost UAH 200 billion are likely (that is, cuts across all non-defence sectors). However, the complete absence of financial support from the United States in 2024 is unlikely.





# VII.

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

HOW MUCH DO YOU TRUST THE FOLLOWING POLITICIANS, OFFICIALS AND PUBLIC FIGURES? % of respondents					
	Trust*	Distrust**	Do not know this person	Hard to say	Trust-distrust balance***
Volodymyr Zelenskyy					
July-August 2021	32.6	61.0	0.4	6.1	-28.4
February-March 2023	84.9	9.9	0.5	4.7	75.0
May 2023	83.5	11.0	0.3	5.1	72.5
July 2023	80.8	13.6	0.6	4.9	67.2
Vitaliy Kim					
May 2023	62.7	14.7	10.6	12.1	48.0
July 2023	71.1	12.9	7.8	8.3	58.2
Mylhailo Podoliak					
February-March 2023	59.5	19.2	12.1	9.2	40.3
May 2023	50.7	24.1	11.0	14.1	26.6
July 2023	52.1	24.5	13.0	10.3	27.6
Oleksiy Danilov					
July-August 2021	11.9	43.3	36.5	8.3	-31.4
February-March 2023	54.9	19.6	15.0	10.4	35.3
May 2023	46.1	23.3	17.9	12.7	22.8
July 2023	51.9	24.5	13.3	10.3	27.4

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

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

\*\*\* The difference between those who trust and those who distrust.

<sup>1</sup> Results of a sociological survey conducted by the Razumkov Centre's sociological service on 5-11 July 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, Zaporizhzhia, 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 Zaporizhzhia, 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 2,017 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.3%. Additional systematic sampling deviations may be caused by the consequences of Russian aggression, in particular, the forced evacuation of millions of citizens.

<b>HOW MUCH DO YOU TRUST THE FOLLOWING POLITICIANS, OFFICIALS AND PUBLIC FIGURES?</b>					
% of respondents (continued)					
	Trust*	Distrust**	Do not know this person	Hard to say	Trust-distrust balance***
<b>Serhiy Prytula</b>					
July-August 2021	21.8	56.5	8.9	12.9	-34.7
February-March 2023	65.0	21.7	2.5	10.8	43.3
May 2023	55.8	29.3	2.9	12.0	26.5
July 2023	55.0	31.3	4.0	9.6	23.7
<b>Vasyl Maliuk</b>					
February-March 2023	24.7	14.7	49.2	11.3	10.0
May 2023	26.4	14.9	46.5	12.3	11.5
July 2023	33.1	15.5	39.9	11.6	17.6
<b>Ihor Klymenko</b>					
February-March 2023	27.2	16.9	42.5	13.3	10.3
May 2023	21.6	16.2	48.1	14.1	5.4
July 2023	32.0	17.2	38.2	12.6	14.8
<b>Vitaliy Klychko</b>					
July-August 2021	25.6	64.2	0.6	9.6	-38.6
February-March 2023	57.9	27.5	1.6	13.0	30.4
May 2023	48.4	34.8	1.3	15.5	13.6
July 2023	47.7	35.5	2.4	14.4	12.2
<b>Andriy Yermak</b>					
July-August 2021	10.3	58.5	22.6	8.6	-48.2
February-March 2023	40.6	36.0	8.1	15.3	4.6
May 2023	37.5	40.0	7.6	15.0	-2.5
July 2023	37.8	41.8	7.8	12.6	-4.0
<b>Oleksiy Reznikov</b>					
February-March 2023	51.3	26.0	12.1	10.5	25.3
May 2023	43.1	32.0	10.3	14.5	11.1
July 2023	43.3	35.4	9.4	11.9	7.9
<b>Serhiy Sternenko</b>					
March 2021	14.9	42.7	28.4	14.1	-27.8
February-March 2023	29.2	18.0	40.9	11.9	11.2
May 2023	28.2	21.7	37.3	12.9	6.5
July 2023	34.0	23.5	30.9	11.6	10.5

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

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

\*\*\* The difference between those who trust and those who distrust.

<b>HOW MUCH DO YOU TRUST THE FOLLOWING POLITICIANS, OFFICIALS AND PUBLIC FIGURES?</b>					
% of respondents (continued)					
	Trust*	Distrust**	Do not know this person	Hard to say	Trust-distrust balance***
<b>Denys Shmyhal</b>					
July-August 2021	10.6	69.1	7.7	12.5	-58.5
February-March 2023	51.6	30.2	3.7	14.5	21.4
May 2023	36.1	39.3	5.9	18.8	-3.2
July 2023	41.4	37.9	6.9	13.8	3.5
<b>Ruslan Stefanchuk</b>					
February-March 2023	34.7	27.4	22.6	15.3	7.3
May 2023	26.9	33.7	23.1	16.3	-6.8
July 2023	31.0	35.6	20.1	13.3	-4.6
<b>Davyd Arakhamia</b>					
February-March 2023	26.7	38.8	18.6	15.9	-12.1
May 2023	18.1	45.7	19.3	16.8	-27.6
July 2023	21.5	49.0	15.9	13.6	-27.5
<b>Oleksiy Arestovych</b>					
February-March 2023	25.9	58.6	3.7	11.9	-32.7
May 2023	20.3	65.3	3.6	10.8	-45.0
July 2023	19.4	65.4	5.1	10.1	-46.0
<b>Petro Poroshenko</b>					
July-August 2021	17.6	75.5	0.4	6.3	-57.9
February-March 2023	24.4	64.8	0.1	10.7	-40.4
May 2023	17.1	73.1	0.5	9.4	-56.0
July 2023	19.7	70.7	0.5	9.1	-51.0
<b>Yuriy Boyko</b>					
July-August 2021	17.8	73.0	3.0	6.3	-55.2
February-March 2023	6.0	81.6	6.5	5.9	-75.6
May 2023	6.1	77.0	8.6	8.4	-70.9
July 2023	9.8	76.0	6.6	7.6	-66.2
<b>Yulia Tymoshenko</b>					
July-August 2021	19.9	72.2	0.8	7.2	-52.3
February-March 2023	13.2	75.7	0.7	10.4	-62.5
May 2023	8.7	80.4	0.6	10.3	-71.7
July 2023	10.4	78.0	1.2	10.3	-67.6

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

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

\*\*\* The difference between those who trust and those who distrust.

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