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# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments  
August 2023



# I.

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

As of the end of August 2023, intense fighting continued along almost the entire front line of about 1,000 km. Ukrainian forces' tactical advances – relatively small against the scale of the combat zone – still created the preconditions for the operational success of the offensive on the Berdiansk and Melitopol directions, and possibly in the east – in the Bakhmut sector. As a result of its counter-offensive operations on the Lyman and Kupyansk directions, as well as around Avdiivka and Maryinka, the enemy had minor territorial gains, but did not achieve the desired result – seizing the strategic initiative and disrupting the Ukrainian offensive plan in the south.

The high intensity fighting during the summer significantly depleted the combat potential of both sides, so the course of events in the coming autumn months will obviously depend not so much on weather as on the availability of reserves of each side.

In the last days of summer, the information space was crammed with attempts to summarise the summer campaign, despite the absence of any significant signs of its culmination. Therefore, any review and assessment should be taken only as preliminary, given the unabated intensity of hostilities.

### COMBAT ACTION

In August, Russia made every effort to contain the Ukrainian offensive on the southern and south-eastern segments of the frontline. It is likely that counter-offensive actions on the Lyman-Kupyansk direction, where the Russian command deployed some 110,000 troops and the most capable formations, pursued the same goal. Owing to the Soviet barrage tactic (40,000 artillery shells to take a company stronghold) combined with the use of the so-called «Storm-Z» units manned by prisoners, followed by regular units, the enemy had tactical

successes, but was unable to convert them into strategic or operational results. After a rather unsuccessful autumn-winter offensive attempt, this was yet another indication of the Russian army's inability to conduct large-scale offensive operations at this stage.

At the same time, the enemy demonstrated the ability to organise an extremely effective strategic defence in the south. The layered system of fortifications combined with incredibly dense minefields made it virtually impossible to use armoured vehicles and forced the Ukrainian command to urgently change tactics, which reduced the level of losses of personnel and equipment, but significantly slowed the pace of the offensive.

The absence of visible progress on the front line (read territorial gains) for almost three summer months and, probably, massive Russian propaganda fibs about the failure of the Ukrainian counter-offensive raised a dangerous wave of pessimistic publications in the Western media. Apart from doubts about Ukraine's ability to turn the tide of the war and achieve the «maximalist» goals of liberating the occupied territories, these reports also accused Ukrainians of ineffective use of Western military assistance and even of unwillingness to use advanced Western tactics. By the end of August, however, their tone had somewhat changed with the new information and grounds for a more objective assessment of the expediency and timeliness of adjustments to the Ukrainian tactics and operational plans. Leading Western analysts had to acknowledge the correctness of actions of the Ukrainian military, which was forced to fight in completely unique conditions unforeseen by modern Western military doctrines.

Breaking through the first line of Russian defences was made possible not only by these changes in tactics, but also by a set of actions

to create constant tension, stretch Russian troops along the entire frontline, disrupt logistics routes and communication lines, destroy warehouses with ammunition, fuel and other supplies, headquarters, and places of deployment of reserves both in the enemy's near and deep rear.

The enemy's numerical superiority in major weapons is one of the key deterrents to achieving the goals of the current offensive. At the same time, the technological advantages of Western-made weapons have significantly reduced the gap in military capabilities in favour of Ukraine. Also, in addition to purely combat characteristics, Western military equipment has demonstrated another significant advantage over Soviet and Russian models, namely a much higher chance of crew survival in case of being hit.

During August, the war kept on expanding to the aggressor's territory, as strikes on its land and sea targets in the deep rear continued. Although Ukraine's policy is to not officially recognise its responsibility for such attacks, they are clearly a demonstration of Ukraine's growing capacity to launch asymmetric strikes over long distances. More importantly, these attacks never led to civilian casualties, which otherwise could have significantly damaged Ukraine's international image with likely negative consequences for the level of external support.

The mysterious crash of the plane carrying PMC Wagner Group leaders Evgeniy Prigozhin and Dmitry Utkin was the logical conclusion of the failed anti-Putin mutiny, which in turn demonstrated the risks of creating private armies. At the same time, Russia continues to involve a number of PMCs in the war in Ukraine, and also practices Prigozhin's methods of mobilising prisoners in exchange for exemption from criminal liability.

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

By the end of August, the inevitability of a change of the Defence Minister became

apparent. Setbacks on the frontline could be among the reasons that may have prompted President Zelenskyy to make this decision. Although the Minister of Defence is not directly responsible for the Armed Forces' operational activities, but he should at least bear political responsibility for gross violations and miscalculations in defence procurement, which have been reported publicly, and their consequences for combat readiness.

In addition to procurement scandals, abuses by the officers involved in mobilisation was another August topic. After a large-scale inspection of the Territorial Recruitment and Social Support Centres (TRSSCs), the President decided to replace the heads of all oblast TRSSCs. The story of these draft officers is clearly only an episode of a more serious recruitment problem, and their replacement will hardly lead to a proper solution. Despite the optimistic official reports regarding mobilisation measures, a number of legislative and departmental initiatives aimed at expanding the categories of the mobilisation reserve indicate the opposite. In particular, this includes the lowering of health requirements for persons liable for military service, introduced by amendments to the Regulation on Military Medical Examination in the Armed Forces of Ukraine by the order of the Minister of Defence of 18 August 2023.

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

The most important international August event, which could have a real impact on the conflict resolution, was the meeting in Saudi Arabia involving representatives of more than 40 states, including key global and regional leaders. Although no breakthrough decisions on peace formula were made at the end of the two-day consultations, the results of the meeting were generally positive for Ukraine, according to domestic and foreign officials and the media. This was the second round of negotiations, which brought together three times more participants compared to the first meeting in Copenhagen in June 2023 and had a much wider geographical representation. Importantly, the meeting was not attended by the Russian delegation.

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

- ✓ as of the end of August 2023, after three months of large-scale fighting, the Ukrainian forces achieved tactical success in the southern direction, which creates conditions for further development of the offensive to the operational depth of the enemy's defences;
- ✓ demonstration of the 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, as well as competition between supporters of different positions on the preconditions for resolving the Russia-Ukraine conflict;
- ✓ military, economic and political risks associated with the warring parties' ability to wage a prolonged war of attrition are growing significantly, thus increasing the relevance of sustainable support for Ukraine from its international partners.



# II.

## FOREIGN POLICY

August 2023 can be described as a period of active preparation for the new political and diplomatic season. While holding an intensive dialogue with partners, Ukrainian diplomacy, in addition to current tasks, focused efforts on promoting the Ukrainian Peace Formula, negotiating security guarantees, and preparing for the next Crimea Platform summit. These areas are part of Kyiv's overall foreign policy course to ensure external conditions for defeating the aggressor.

### FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

Ukraine's foreign policy in August 2023 should obviously be assessed in the context of results of the emergency meeting of Ukrainian ambassadors held at the beginning of the month. At this meeting, the President outlined five foreign policy benchmarks: «The Peace Formula is one. Weapons and sanctions are two. Ukraine's integration into the European Union and NATO, security guarantees and neighbourhood policy are three. Four is the economy, recovery and transformation. And five is our people, both in Ukraine and abroad...». In general, these tasks determined the nature and focus of official Kyiv's dialogue with partners.

***Holding political dialogue with foreign partners.*** The month saw a fairly high intensity of negotiations. President Zelenskyy's European tour to Sweden, the Netherlands and Denmark on 19-21 August can be considered productive, as it helped advance the issues of military assistance to Ukraine, including the provision of F-16 fighter jets, support for the Ukrainian Peace Formula, etc. The Ukrainian diplomacy can be credited with meetings and talks within the Ukraine-Balkans Summit in Athens on 21 August, including meetings with the leaders of Balkan countries, the Presidents of Moldova and Bulgaria, as well as the signing of the Joint Declaration of Ukraine and the Hellenic Republic on the Euro-Atlantic Integration of Ukraine with the President of Greece.

Other important contacts for Ukraine included meetings and negotiations in Kyiv (including within the Crimea Platform summit) with President of Portugal Marcelo Rebelo de Sousa, President of Hungary Katalin Novak, Prime Minister of Norway Jonas Gahr Støre, President of Lithuania Gitanas Nausėda, and Prime Minister of Finland Petteri Orpo. Telephone conversations with US President Joe Biden, Prime Minister of Japan Fumio Kishida, and President of Zambia Hakainde Hichilema were also important parts of the international dialogue.

Working meetings and consultations were held at the level of the Presidential Office, the Cabinet, the MFA and other relevant ministries with foreign partners, including Turkish officials, US and Canadian parliamentarians, and the leadership of leading arms companies, such as BAE Systems.

As part of traditional diplomatic procedures, the President of Ukraine accepted credentials from the new ambassadors of Germany, Sweden, Indonesia, Chile, Colombia, and Peru, who are starting their diplomatic missions in Ukraine.

***Promoting Ukrainian interests and initiatives globally.*** In August 2023, Ukrainian diplomacy actively lobbied for several priority topics at various levels, using bilateral relations, international platforms, public events, and other formats.

One of Kyiv's key tasks is organising and holding a global summit for the international approval of its Peace Formula. This plan, on the one hand, is universal in nature and may serve as a basis for integrating various peace initiatives, and on the other hand, it is an incentive for further consolidation of countries from around the world in solidarity with Ukraine. Ukrainian diplomacy is now focusing its efforts on securing support for the Peace Formula from the countries of the Global South. To this end, another round of talks was held in August

with political advisers to national leaders from different regions. To promote its Peace Formula, Ukraine: a) organised a thematic interview of the Head of State with representatives of the Latin American media; b) held a series of targeted international events on the occasion of the 32<sup>nd</sup> anniversary of Ukraine's independence; c) organised a series of meetings with foreign diplomats on the Peace Formula. To date, more than 60 countries have joined the Ukrainian peace plan. According to the EU High Representative for Foreign Affairs and Security Policy, Josep Borrell, the next meeting to discuss the Peace Formula may take place in late September during the UN General Assembly.

Another task is concluding a package of agreements with the G7 states and other countries that join the Joint Declaration of Support for Ukraine. On 3 August, Ukraine began negotiations with the United States to conclude a bilateral agreement on security guarantees under the G7 Declaration. Subsequently, similar negotiations were launched with the United Kingdom (11 August) and Canada (26 August).

In August 2023, more than 25 partner countries, including the G7, joined this document. It should be noted that the conclusion of said agreements is in no way a substitute or alternative to Ukraine's membership in NATO. Instead, such a contractual system of security commitments should approximate the country's accession to the Alliance.

## INTERNATIONAL PROCESSES AND EVENTS

**On 5 August**, Jeddah, Saudi Arabia, hosted the second round of talks on the key principles for restoring sustainable and just peace for Ukraine (the Peace Formula), which was attended by diplomats from more than 40 countries of Europe, the Middle East and Asia, Africa, North and South Americas, and others. The number of participating states has notably increased and now included representatives of China, India, South Africa, Brazil, etc. According to media reports, the participants decided to form working groups on the key topics of the 10 Peace Formula points.

**On 21 August**, the Athens Summit, attended by the EU leadership, leaders of the Balkan countries, Ukraine and Moldova,

adopted a Declaration in support of Ukraine, which condemned Russian aggression and expressed «unwavering support for Ukraine's independence, sovereignty and territorial integrity within its internationally recognised borders...». The document emphasises the inevitability of punishment for war crimes during the Russian aggression.

**On 23 August**, the 3<sup>rd</sup> summit of the Crimea Platform was held in Kyiv in a hybrid format, focusing on the ways and prospects of de-occupation of the peninsula, its subsequent revival and reintegration. The summit was attended by 63 countries and a number of international organisations, including newcomers Bahrain, Serbia, East Timor, the UAE, the Danube Commission, UNESCO and the World Tourism Organisation. The summit participants adopted an open Memorandum on the restoration and entrepreneurship development in Crimea following its de-occupation. This document has already been signed by some international, national and local businesses, including SkyUp/JoinUp, Vodafone, Nokia, Hyatt Ukraine, Polski Holding Hotelowy, Fozzy Group, and others.

**On 22-24 August**, the BRICS summit was held in the South African capital with the participation of the leaders of China, Brazil, India, South Africa, along with Russian Foreign Minister Sergey Lavrov. The absence of President Putin, who is subject to arrest under the ICC warrant, was the evidence of his international isolation. The BRICS decided to invite Argentina, Egypt, Iran, Ethiopia, the UAE and Saudi Arabia to join the grouping. In general, the summit's outcomes show that its participants, primarily China and Russia, are trying to form an alternative and a counterweight to the G7 and the collective West. This confirms the trend of deepening global polarisation – consolidation of the democratic world and unification of authoritarian states, as noted in the Razumkov Centre's previous monitoring reports (March 2023).

**In August**, the Baltic states took a number of preventive measures to get rid of the fifth column representing the notorious «Russian world» – citizens of Russia and Belarus. In particular: a) The Latvian Office of Citizenship and Migration Affairs demanded that about 6 thousand Russian nationals who failed to pass the relevant exam, did not receive a temporary residence permit to leave the

country; b) the Lithuanian Migration Department recognised 1,164 Belarusians and Russians as a threat to national security, cancelled their temporary residence permits and refused to issue permanent residence permits; c) the Estonian Ministry of Justice prepared a draft law that would temporarily ban citizens of the aggressor country from voting in local elections.

**In August**, Ukraine's allies continued providing military assistance to counter Russian aggression. In particular, the Swedish parliament approved a new aid package worth €270 million; the German government reported on the next tranche of military aid to Ukraine, which included weapons, air defence systems and military equipment; Finland announced its 18<sup>th</sup> military aid package worth €94 million; the United States announced the provision of another batch of ammunition, equipment, and spare parts worth \$250 million.

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

In August, Ukraine took a number of important steps towards implementing the European Commission's recommendations. To this end, a) the Verkhovna Rada adopted the Law «On Improving the Activities of the Antimonopoly Committee of Ukraine», providing additional tools to fight corruption; b) an important European integration law «On Amendments to Certain Legislative Acts of Ukraine on Clarifying the Provisions on Competitive Selection of Candidates for the Position of a Judge of the Constitutional

Court of Ukraine» entered into force; c) the Verkhovna Rada adopted the Law «On Amendments to Certain Legislative Acts of Ukraine on Minimising Potential Oligarchic Influence on Political Parties, Improving Mechanisms of State Financing and State Control over the Activities of Political Parties». The final adoption of the draft Law «On Amendments to Certain Laws of Ukraine on Determining the Procedure for Submitting Declarations of Persons Authorised to Perform State or Local Government Functions under Martial Law» is scheduled for September.

At the meeting with EU foreign ministers in late August, Ukrainian Foreign Minister Dmytro Kuleba outlined a set of joint tasks for Kyiv and Brussels, namely increasing exports of Ukrainian grain, expanding the number of participants in the Peace Formula; returning home Ukrainian children abducted by Russia; stepping up joint arms production; and launching talks on Ukraine's EU membership by the end of 2023.

**Summarising the August results, the Ukrainian side has been actively preparing for the new political season by initiating talks with leading countries on the conclusion of agreements on bilateral security commitments and arrangements. At the same time, national diplomacy should also be credited with growing international support for the Peace Formula and progress in organising a summit in 2023. Also, Ukraine made a noticeable progress on the European integration path, which holds the promise of the start of EU membership talks at the end of this year.**



# CONSTITUTIONAL AND LEGAL FIELD

## LEGISLATION

1. On 20 August 2023, the Law of Ukraine «On Amendments to Certain Legislative Acts of Ukraine on Clarifying the Provisions on Competitive Selection of Candidates for the Position of a Judge of the Constitutional Court of Ukraine» entered into force. In fact, this was the second attempt to put into practice one of the European Commission's requirements when granting Ukraine with the status of an EU candidate in June 2022, namely, «enact and implement legislation on a selection procedure for judges of the Constitutional Court of Ukraine, including a pre-selection process based on evaluation of their integrity and professional skills, in line with Venice Commission recommendations». The first attempt was made by the parliament in late 2022, but, according to domestic and foreign experts, it was not quite successful. Instead, the draft law adopted on 27 July 2023 was elaborated precisely pursuant to the recommendations of the Venice Commission, expressed in the updated Opinion CDL-AD(2022)054 of 16-17 December 2022, which was made public after the Verkhovna Rada of Ukraine adopted the Law «On Amendments to Certain Legislative Acts of Ukraine on Improving the Procedure for Selecting Candidates for the Position of a Judge of the Constitutional Court of Ukraine on a Competitive Basis» No. 2846-IX of 13 December 2022, and the letter of 25 January 2023, in which the Venice Commission provided additional recommendations on the procedure for selecting candidate judges of the Constitutional Court of Ukraine. As a result, certain provisions on the competitive selection of candidate judges of the Constitutional Court were clarified by amending the Code of Administrative Procedure of Ukraine, the Rules of Procedure of the Verkhovna Rada of Ukraine, the Laws of Ukraine «On the Constitutional Court of Ukraine» and «On the Legal Regime of Martial Law».

«Strengthening» of the role of international representatives in the selection of candidates for the Constitutional Court judges is the main novelty of the law. In addition, amendments provide that during the period of martial law, persons applying for the position of a judge, a judge of the Constitutional Court, a member of the High Council of Justice, a member of the High Qualification Commission of Judges will not only be subject to a special vetting, but also the vetting provided for by the Law «On Purification of Power». It is also envisaged that candidates will receive only two results – «pass» or «fail» based on the criteria of high moral qualities and recognised level of competence in the field of law. The Advisory Group of Experts makes its decision by at least four votes of its members, of which at least two are nominated by international organisations or the Venice Commission.

2. The peculiarities of the martial law regime were partially reflected in the Law of Ukraine «On Amendments to the Criminal Procedure Code of Ukraine on Peculiarities of Calculating the Terms for Pre-trial Investigation under Martial Law» adopted on 23 August 2023. The law introduced new approaches to calculating the pre-trial investigation timeframes, consolidating criminal proceedings, and entering information about a criminal offence into the Unified Register of Pre-trial Investigations in respect of certain categories of cases in view of martial law. In particular, from now on, in criminal proceedings in which information about a criminal offence, except for crimes under Articles 437-439 or Part 1 of Article 442 of the Criminal Code of Ukraine, is entered into the Unified Register of Pre-trial Investigations or a decision is made to initiate a pre-trial investigation in line with the procedure established by this Article, from the date of introduction of martial law and until the date of its termination or cancellation, the pre-trial investigation period until the date of notification of suspicion to the person is thirty months.

## CONSTITUTION-RELATED POLITICAL AND LEGAL ACTS

1. On 9 August 2023, the Verkhovna Rada adopted an Appeal to the parliaments and governments of foreign countries, international organisations and their parliamentary assemblies regarding Russia's intention to hold illegal elections in the temporarily occupied territories of Donetsk, Luhansk, Zaporizhzhia and Kherson oblasts of Ukraine. Ukrainian MPs stress that by continuing its war of aggression against Ukraine, which began in February 2014 and evolved into a full-scale invasion on 24 February 2022, the Russian Federation constantly and demonstratively disregards the universally recognised principles and norms of international law. Thus, Russia has been holding illegal referendums and elections in the temporarily occupied parts of Ukraine – the Autonomous Republic of Crimea and the city of Sevastopol, parts of Donetsk and Luhansk oblasts – since 2014, and also prepares to hold illegal elections in the Kherson and Zaporizhzhia oblasts of Ukraine in 2023. Meanwhile, the occupation administration, by using force, intimidation and blackmail, through illegal passportisation and replacement of Ukrainian ID documents with their Russian analogues, engages Ukrainian citizens living on these territories in these activities. In this regard, the Ukrainian Parliament calls on the parliaments and governments of foreign countries, international organisations and their parliamentary assemblies to expand and accelerate their support for Ukraine in its efforts to repel Russian armed aggression and restore Ukraine's sovereignty and territorial integrity within its internationally recognised borders, and not to recognise the legitimacy of any «elections» if held in the temporarily occupied parts of Ukraine, the legitimacy of structures that organise them, and the legitimacy of any elected body of the Russian Federation, elections to which will be held in the temporarily occupied parts of Ukraine or which, as a result of such «elections», will include representatives of Russian occupation administrations in the temporarily occupied parts of Ukraine.

2. On the eve of Ukraine's Independence Day, Ukrainian MPs approved the Statement on the priority areas of Ukraine's state policy for de-occupation, reintegration and restoration of the Autonomous Republic of Crimea and the city of Sevastopol. MPs once again recalled that it was the UN General Assembly in its resolution No. 68/262 of 27 March 2014 «Territorial integrity of Ukraine» that called upon all states to desist and refrain from actions aimed at the partial or total disruption of the national unity and territorial integrity of Ukraine, including any attempt to modify Ukraine's borders through the threat or use of force or other unlawful means; and also called upon all states, international organisations and specialised not to recognise any alteration in the status of the Autonomous Republic of Crimea and the city of Sevastopol on the basis of the referendum held on 16 March 2014, and to refrain from any action or dealing that might be interpreted as recognising any such altered state. In this regard, the Verkhovna Rada declares that the state policy of Ukraine on de-occupation and reintegration of the temporarily occupied territories is based on prioritizing person's security guarantees and taking all necessary measures to ensure human rights and fundamental freedoms, while in order to protect human and civil rights and freedoms and regain control over the territories temporarily occupied by the Russian Federation, Ukraine is implementing a set of military, diplomatic, economic, informational, humanitarian and other measures. At the same time, restoring Ukraine's territorial integrity within its internationally recognised state border, including the de-occupation of Crimea and the city of Sevastopol, along with ensuring Ukraine's state sovereignty, is a key condition for ending the Russia-Ukraine war, while ending it through any territorial concessions to the aggressor is unacceptable. According to Ukrainian MPs, all the aggressor's regular and irregular armed formations must be completely withdrawn from the entire territory of Ukraine, and the Russian Black Sea Fleet cannot be deployed on the territory of the Crimean peninsula, given the need to ensure national, regional and global security.

# IV.

## ECONOMY

### DECISIONS

The President of Ukraine signed the bill No. 9346-1 into law, introducing restrictions on changes to the state budget, which is one of the IMF's requirements to ensure predictability of budget policy and strengthen debt sustainability. The main provisions of the law are those focusing on budgetary changes. In particular, the law allows to review defence expenditures only and lets the Parliament to consider only those budgetary changes that earned the Ministry of Finance's positive opinion of. In addition, the law sets limits on state guarantees, which cannot exceed 3% of total state budget revenues.

In general, these are reasonable requirements directed towards budget consolidation and proper predictability of budget policy. However, the question is whether budget consolidation is appropriate in wartime.

At the request of the IMF, Ukraine is working to develop and implement an alternative to the 5-7-9 loan programme for large businesses. The expanded programme will allow businesses to get cheaper loans despite the NBU's high key rate. This programme will be available, in particular, to companies in the energy sector, and also focus on rebuilding critical infrastructure, such as port infrastructure, that was destroyed by the war. However, it is not yet clear what compensation mechanisms (reduced revenues due to the introduction of preferential lending rates) will be involved and how controls will be implemented to prevent misuse of cheap loans.

Overall, the problems around interest rates are still global. On 4 August, one of the world's leading central banks, the Bank of England, raised its key policy rate by 25 percentage points to 5.25%, the 14<sup>th</sup> rise in a row, as the bank continues to fight high inflation. It expects inflation to decline significantly to 5% by the end of the year and return to the 2% target

in Q2 2025. This decision is global in nature and may have an impact on the post-crisis recovery in many countries, but its impact on Ukraine is minor, as the country receives financial resources from partners as grants or under special preferential terms.

In late July, the NBU decided to cut its key policy rate from 25% to 22% – a consequence of the slowdown in inflation and the stable situation on the FX market. This is an important element of ensuring exchange rate stability as currency restrictions are eased and the exchange rate moves towards greater flexibility, indicating the NBU's course towards supporting economic recovery.

One can also expect further strengthening of the domestic economy. In particular, the Crimea Platform summit held in August resulted in a number of important partnership and financial statements. First, the European Union announced that it was preparing a long-term financial support plan for Ukraine. Second, the Prime Minister of Japan promised to provide up to \$7 billion in aid to Ukraine and to engage in the country's post-war recovery.

Moreover, on 22 August, Ukraine received another €1.5 billion tranche of macro-finance from the EU. This brings the EU's support for Ukraine in 2023 to €12 billion. It is worth explaining that although the EU's macro-financial support is a loan, it has a 35-year maturity, and the EU will pay interest and other loan servicing fees instead of Ukraine. In other words, the EU's conditions are quite favourable.

In its turn, the government of Ukraine has started elaborating a four-year Action Plan to implement the European Commission's proposal for a regulation of the European Parliament and of the Council on establishing the Ukraine Facility, which should become the basis for the EU's macro-financial assistance totalling €50 billion.

First of all, it is about determining the conditions for support based on a quarterly assessment of the conditions met. Therefore, Ukraine's plan should be realistic and include reforms that will help the country achieve macro-financial stability and economic growth. Meanwhile, the EU itself is yet to adopt the necessary legislation for new instruments to support Ukraine.

Ukraine continues to transform its institutions to meet international requirements. Among these, the automatic exchange of information deserves special attention. The Ministry of Finance reported that the State Tax Service is fully prepared to launch the system.

Back in March, the Verkhovna Rada passed the Law No. 2970-IX – the main legal document for launching the system, which will ensure the international automatic exchange of information with more than 100 tax administrations around the world. This should significantly facilitate the collection of evidence against Ukrainian residents who avoid taxation by using the services of financial institutions abroad, and thus strengthen the financial stability of the state.

## **DEVELOPMENTS, PROCESSES, TRENDS**

Macroeconomic strengthening can be considered the main feature of July-August 2023 in the economic sphere. For the first time since August 2021, monthly inflation was negative, while consumer prices in July fell by 0.6%, according to the State Statistics Service. On an annualised basis, it has fallen from 12.8% in June to 11.3% in July and is expected to further decrease in August. The hryvnia's exchange rate dynamics is quite stable, supported by record high international reserves.

According to the NBU, as of 1 August 2023, Ukraine's international reserves exceeded \$41.7 billion (up 6.9% month-on-month), renewing a record for the second time in a row since Ukraine's independence, mainly due to inflows from international partners. In total, the current volume of international reserves

covers 5.6 months of future imports, which is rather high by international standards.

These are extremely important resources, as Ukraine's foreign trade deficit (trade in goods) increased by more than 2.5 times in the first half of 2023 compared to the corresponding figure in 2022, reaching \$12.03 billion (a year ago, the deficit was \$4.49 billion). At the same time, exports of goods amounted to \$18.37 billion (or 88.7% of the same period in 2022), and imports – \$30.45 billion (120.6%). Ukraine's export-import coverage ratio was 0.6 (0.9 in 2022). Foreign trade operations were conducted with partners from 224 countries.

It is clear that Ukraine is only able to finance such deficits with the partner support, which is confirmed by the indicators of primary and secondary income in the balance of payments. In the first half of 2023, Ukraine received \$15.7 billion in these items (\$11.1 billion last year), which reduced the current account deficit to just \$1.3 billion.

In terms of partner assistance, the United States has provided more than \$66 billion in total aid to Kyiv since the onset of Russia's full-scale invasion of Ukraine. This is more than any American aid to any other country. More than \$43 billion has been allocated as military aid; \$20.5 billion to support Ukraine's budget; and more than \$2.6 billion to support displaced persons, refugees and other vulnerable populations both inside the country and abroad.

As per another NBU report, Ukraine's solvent banks earned UAH 67.6 billion in net profit in the first half of 2023 (UAH 34 billion in Q2, 41% of which was PrivatBank's profit), compared to UAH 4.6 billion in losses in the same period of 2022, with only 8 out of 65 solvent banks being unprofitable, with a total loss of UAH 112 million.

The growth in interest income, primarily from highly liquid assets (domestic government bonds) was the main driver of the sector's profitability. More specifically, net interest income has been consistently high for

the third quarter in a row, at over 40% year-on-year.

Such high bank profits amidst war and economic crisis obviously require rational adjustments. The Verkhovna Rada has registered the Draft Law No. 9656 on the temporary (for 2024-2025) taxation of excess profits of banks, proposing to tax banks' net interest income at a 5% rate in addition to corporate income tax, and to allocate these «surplus» funds to the needs of the Armed Forces. This approach seems appropriate if the mechanisms are designed properly and disallow abuse by fiscal authorities.

Meanwhile, the banking system's structure is changing. In Q2 2023, the share of state-owned banks decreased by 0.7 percentage points to 50.2%, however, given the transition of the systemically important Sense Bank to the group of state-owned banks, the share of this group in the sector exceeded 53% in July. This trend increases risks in the banking system, as a large government share in the sector is usually associated with a loss of system efficiency.

Another positive development in the banking system is that the volume of banks' net retail hryvnia loan portfolios in Q2 2023 increased for the first time since the start of the full-scale invasion – by 4.5% – primarily thanks to the resumption of card lending. Mortgage lending also grew by 2.7%, driven by loans under the eOselia programme.

Gradual expansion of lending to SMEs, which are the most dynamic economic agents, should be the next step in structural changes.

Therefore, the banking system is accumulating significant resources, which, however, are not sufficiently working for the real sector, hampering the recovery processes. The government should urgently find and implement instruments that will channel at least part of the banking resources to real economic acceleration.

This is particularly relevant for supporting structural changes initiated in the real sector and related to property transformations. According to the State Property Fund, the economic effect of privatisation in 2023 will amount to UAH 3.4 billion, but only UAH 2.4 billion is expected directly from the sale of objects. This is an extremely low figure, even in times of war, as it means the absence of real interest from large investors. As an illustration, the second auction for the privatisation of the Bilhorod-Dnistrovskyi Commercial Sea Port scheduled on 15 August was called off due to the lack of bidders. Such a situation slows down structural economic transformations.

Thus, the systemic economic task is to accelerate the renewal and strengthening of the real economy and to attract financial sector resources for this purpose.

# V.

## ENERGY SECTOR

In August, Ukraine continued to prepare for the heating season, with large-scale repairs at many thermal power plants underway, and 4 out of 9 nuclear power units undergoing scheduled maintenance for most of the month, which limited the power system's ability to meet the growing electricity consumption.

A power unit at one TPP with a capacity of 190 MW was overhauled and connected to the grid. In total, 24 thermal generation units with a capacity of over 4.3 thousand MW have been repaired and are under repair, which is over 60% of the total capacity.

A unit of one of Energoatom's NPPs was connected to the grid 5 days ahead of schedule, adding 1,000 MW capacity to the grid.

### **ELECTRICITY MARKET**

Following trading on the SOE Market Operator platform, the average price of electricity on the day-ahead market (DAM) in August 2023 increased by 13.42% compared to July 2023 – to UAH 4,162.23/MWh.

The highest weighted average price in August was observed on 28 August (UAH 4,712/MWh, while the lowest price was recorded on 12 August (UAH 3,359 UAH/MWh).

The average daily sales volume on the DAM in August amounted to 53,379 MWh, the average supply volume was 61,991 MWh, and the demand volume was 57,444 MWh.

According to SOE Market Operator, the price index for the day (8 am – 11 pm) in August increased by 13.56% to UAH 4,553.12/MWh; for the night (1 am – 7am, 12am) by 13.55% to UAH 2,912.54/MWh; for the

peak hours (8 pm – 11 pm) by 7.28% to UAH 7,196.23/MWh; for the semi-peak (8 am – 7 pm) by 17.66% to UAH 3,672.09/MWh.

On some days, consumption exceeded electricity generation, so to cover the demand, Ukrenergo had to resort to emergency assistance from the Romanian and Polish power systems, and imported electricity from Slovakia and Moldova. There was a short-term shutdown of a high-voltage line in Lviv oblast due to protection, and new damage from the Russian missile attacks on 22 August in the grids in Dnipropetrovsk, Kharkiv, Zaporizhzhia, and Kherson regions.

According to the ENTSO-E Transparency Platform, Ukraine exported electricity on 27 August to Slovakia (200 MWh) for the first time since the resumption of auctions for cross-border transmission in this direction, and to Moldova (4 MWh). Exports took place only during the surplus hours (8 – 11 am), driven by the activity of solar generation during this period of the day. Imports were much higher – 2,668 MWh from Slovakia and 631 MWh from Moldova.

### **RENEWABLES SECTOR**

Ukrenergo's debt to SOE Guaranteed Buyer amounted to UAH 25 billion. One of the reasons for the late payments to renewable energy producers is the inability to calculate imbalances since September 2022.

According to the SOE Guaranteed Buyer, the total share of payments by Ukrenergo for the service of increasing electricity production from renewables, provided to SOE in 2023 is 11%. In order to settle the debt, the process was initiated to amend the

NEURC Resolution No. 641 of 26 April 2019, as well as other steps taken to repay the debt for the service provided since September 2022.

## NATURAL GAS MARKET

Gas continues to be pumped into Ukraine's underground gas storage (UGS) facilities, with 14 bcm of gas already accumulated at the end of August, including the buffer resource (last year, Ukraine only reached this figure in early October). It should be borne in mind, however, that 1.8 bcm of this volume belongs to non-residents who pumped it into the customs warehouse in the «short haul» mode.

According to the Naftogaz Group, the company purchased up to 800 mcm of gas from private Ukrainian producers during the summer of 2023.

Natural gas prices for households will remain unchanged. On 22 August 2023, the Cabinet of Ministers issued the Resolution No. 812 extending special obligations (PSO) in the natural gas market until 15 April 2024 (inclusive), which will allow keeping heat tariffs for households unchanged.

Naftogaz Trading, which has the PSO to supply gas, will sell it at the following prices:

- ✓ UAH 7,420 / tcm for heat producers for households;
- ✓ UAH 16,390 / tcm for heat producers for state-funded organisations;

Gas price for other consumers will be reduced compared to the previous season and will be determined by a formula based on market prices in Ukraine.

The government also decided to suspend the contractual write-off of funds from the accounts of district heating providers (TKE) for late payments for gas. As a result, they will retain 35% of the funds received from heat consumers for the services provided and allocate money to cover their priority needs. This norm will be in force from 1 September 2023 through 31 December 2023.

## FUEL MARKET

August statistics show a 4-5 UAH/l rise in fuel prices at petrol stations. In August, the national average price of A-95 petrol increased by UAH 4.41/l to UAH 55.02/l; A-95+ petrol went up by UAH 4.39/l to UAH 47.81/l; and diesel fuel increased by UAH 4.84/l to UAH 52.62/l. The average price of LPG in August increased by 0.51 UAH/l to 23.96 UAH/l.

Overall, petrol and diesel fuel prices rose by 10% as of the end of August, primarily driven by higher taxes. Gas is rising more slowly, as it was not subject to an excise duty increase, unlike petrol and diesel fuel.

In addition, oil prices on the global market reached \$83-85/barrel, which resulted in higher prices for oil products in the EU and led to the rise in fuel prices at Ukrainian petrol stations, as Ukraine buys only fuel supplied to the EU.

# VI.

## SOCIAL COMPONENTS OF THE STATE BUDGET-2024

At its September meeting, the government approved the budget for 2024 and submitted the draft budget to the Verkhovna Rada for consideration. The war has changed traditional forms and approaches to analysing and forecasting the country's economic and social development. The absence of comprehensive current statistics and additional sources of uncertainty, such as the duration and consequences of hostilities, have made it virtually impossible to forecast in the traditional pre-war form and by indicators. Therefore, forecasting is carried out in real time, amidst high uncertainty and unpredictability.

The budgeting difficulties stem from the fact that since the onset of the full-scale war, Ukraine's economy has been operating under unprecedented security challenges, which has led not only to the economy's decline, but also to a radical change in its structure. An additional challenge is the difficulty of assessing the current situation, as statistical information is significantly limited and published with a delay. The companies' adaptation to the new conditions under martial law has contributed to a certain recovery in economic activity, but this process is uneven, as it requires a significant amount of financing and investment, which in turn is limited by security risks.

The budget for 2024 has the largest expenditures in the history of Ukraine.

Revenues:	UAH 1.732 trillion (own revenues, total UAH 1.56 trillion)
Expenditures:	UAH 3.308 trillion (total UAH 3.1 trillion)
Deficit:	UAH 1.531 trillion (state budget deficit is projected at 20.4% of GDP, including the general fund at 19.6% of GDP and the special fund at 0.8% of GDP)

**All state budget revenues will be used for defence.** The draft budget envisages no expenditures for the State Regional Development Fund or the Road Fund, nor does it provide for any investment projects that have been used to repair state-owned facilities this year. This leaves only the Fund

for Elimination of Consequences of Armed Aggression, which is to be filled only at the expense of confiscated and sold Russian property. All unforeseen capital expenditures in 2024 will be financed from the reserve fund (UAH 44.8 billion) by the Cabinet's decision.

The idea of redirecting part of the personal income tax from the salaries of military personnel (estimated at UAH 96.3 billion) from local budgets to the special fund, as well as reducing the rate of ordinary personal income tax to 60% for communities, is called revolutionary. This proposal is based on the fact that defence expenditures can only be covered from domestic resources. However, the experience of 2023 suggests that domestic resources are not enough.

Defence expenditures are envisaged to be UAH 113 billion higher than in 2023, which is more than social sphere, education and healthcare expenditures combined. Moreover, it is highly likely that defence expenditures will be revised upwards several times during the year, as it was in 2023.

Tax revenues to the state budget	UAH 1.538 trillion
State budget expenditures on security and defence	UAH 1.686 trillion

In 2024, it is planned to finance the general fund of the state budget entirely by external government borrowings in the amount of UAH 1.527 trillion. Therefore, external borrowings will account for 100% of total revenues in 2024.

WHO COVERS UKRAINE'S EXTERNAL FINANCING NEEDS?	
European Union	45%
United States	30%
International Monetary Fund	13%
Other	12%

The draft state budget of Ukraine for 2024 provides for more spending on social sphere, education and healthcare compared to 2023.

Expenditure items	Planned expenditures (UAH million)	Increase compared to 2023 (UAH million)
Social protection of citizens in difficult life circumstances	88,708.3	<b>by 2,610.5 (3%)</b>
Payment of housing subsidies and privileges to pay for utilities, purchase of solid and liquid stove fuel and liquefied gas (state support to 3.2 million households).	49,908.3	<b>by 12,038.1 (32%)</b>
Social protection of children and families (payments of various types of benefits to over 1.6 million recipients)	27,640.8	<b>by 786.4 (3%)</b>
Support for low-income families (over 250 thousand)	20,167.5	<b>by 4,586.8 (30%)</b>
Social protection of adults and children with disabilities.	5,853.9	<b>by 2,412.1 (70%)</b>
Rehabilitation and recreation of children in need of special attention and support	316.5	<b>6.7%</b>
Veteran support policy programmes and measures	13,554.2	<b>doubled</b>
Healthcare expenditures (state budget with transfers)	201,902.1	<b>by 24,364.7 (13.7%)</b>
<i>Educational expenditures (state budget with transfers)</i>	178,800	<b>by 22,881 (15%)</b>

One should remember that the money from the EU, the IMF and the US (88% of the total money) will be provided in 2024 under specific conditions, that is, «money in exchange for reforms».

Ukrainians who have moved from the areas included in the list of territories where combat operations have been or are conducted now, will continue receiving support, including in the form of housing allowances – these will be paid to more than 2 million IDPs under an improved mechanism.

For the first time, the budget provides for the **development of social services**. Relevant projects will be funded from the new Ministry of Social Policy's programme «Development of the Social Services System» with a budget allocation of **UAH 1,028.7 million**.

Meanwhile, the transfer to the Pension Fund in 2024 is expected to be at the level of 2023, amounting to **UAH 271,859.4 million**. The revenue side of the Pension Fund's budget is projected to increase due to the expected receipt of a single social contribution of UAH 582.7 billion, although such expectation looks doubtful. True, businesses have adapted to the new environment, coupled with the recovery of domestic demand – a traditional driver of economic growth in

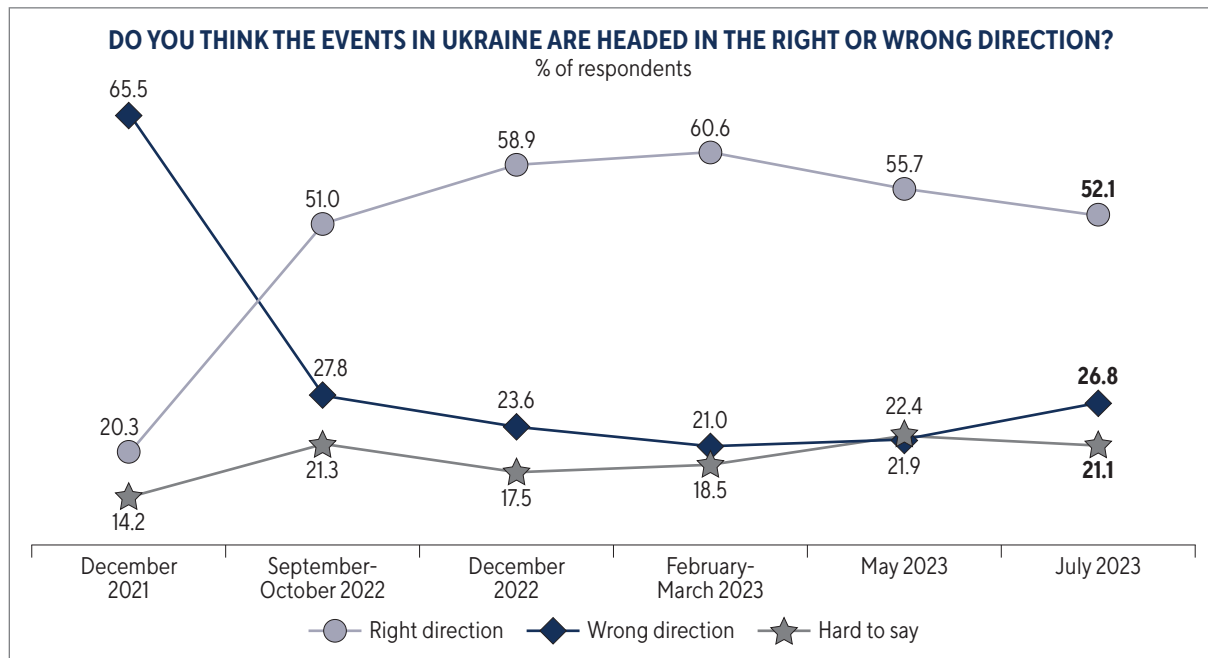
Ukraine in previous years. However, this process is uneven and requires a significant amount of financing and investment, which in turn is limited by security risks.

The budget also envisages an increase in minimum social standards – **the minimum wage is set to increase to UAH 7,100 from 1 January 2024, and to UAH 8,000 from 1 April 2024. Also, the official salary of an employee of the first tariff range of the Unified Tariff Scale is set at UAH 3,195 from 1 January 2024, and at UAH 3,600 from 1 April 2024**. At the same time, the heads of state-funded institutions and state bodies must make sure that the number of employees and salaries are maintained within the expenditures provided for in the draft law on the state budget for 2024.

So, financing of the social sphere is the second budget priority, as it was in the budget for 2023. However, Ukraine's external financing causes concern, given that new credit lines are now rather irregular. The United States has not passed a decision to allocate \$20+ billion to Ukraine, and the EU has not voted on the €50 billion aid plan (the Ukraine Facility) until 2027 (€12.5 billion per year), which is due by the end of October. However, even these funds will hardly address the issue of lack of material resources.

# VII.

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



**CAN UKRAINE OVERCOME THE EXISTING PROBLEMS AND DIFFICULTIES?**  
% of respondents

	December 2021	September-October 2022	December 2022	February-March 2023	May 2023	July 2023
It can do so within the next few years	17.7	40.6	49.9	49.4	43.0	<b>42.7</b>
It can do so in the longer term	54.4	42.6	37.0	35.9	43.2	<b>41.7</b>
It cannot overcome problems	17.6	5.2	5.1	3.4	4.8	<b>6.4</b>
Hard to say	10.3	11.6	8.0	11.3	9.0	<b>9.2</b>

<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.

HOW DO YOU TRUST THE FOLLOWING SOCIAL INSTITUTIONS?												
% of respondents												
	July-August 2021				May 2023				July 2023			
	Trust*	Distrust**	Hard to say	Trust-distrust balance***	Trust*	Distrust**	Hard to say	Trust-distrust balance***	Trust*	Distrust**	Hard to say	Trust-distrust balance***
Armed Forces of Ukraine	68.3	24.8	6.7	43.5	93.0	3.5	3.4	89.5	92.6	5.3	2.3	87.3
Volunteer units	53.5	33.4	13.1	20.1	85.9	7.7	6.4	78.2	86.8	8.6	4.6	78.2
Volunteer organisations	63.6	25.1	11.3	38.5	81.7	9.7	8.6	72.0	82.9	11.2	5.9	71.7
State Emergency Service	61.4	28.7	9.9	32.7	80.0	13.1	7.0	66.9	81.3	13.4	5.4	67.9
National Guard of Ukraine	53.6	36.0	10.4	17.6	82.9	9.8	7.4	73.1	81.0	13.8	5.3	67.2
President of Ukraine	36.2	57.6	6.2	-21.4	83.3	11.3	5.4	72.0	79.9	15	5.2	64.9
State Border Guard Service	55.0	34.3	10.7	20.7	79.1	13.0	7.9	66.1	77.9	16.4	5.6	61.5
Ministry of Defence of Ukraine	—	—	—	—	75.3	16.6	8.2	58.7	74.9	19.1	6.1	55.8
Security Service of Ukraine (SBU)	37.5	49.7	12.7	-12.2	65.6	22.3	12.0	43.3	66.9	25.1	7.9	41.8
NGOs	47.0	37.4	15.5	9.6	61.1	24.6	14.3	36.5	60.4	25.8	13.8	34.6
National Police of Ukraine	38.5	52.9	8.5	-14.4	59.2	30.4	10.4	28.8	61.3	30.7	8.0	30.6
Church	63.5	26.3	10.3	37.2	60.8	24.7	14.6	36.1	58.2	28.2	13.7	30.0
Mayor of your city/town/village	57.1	33.6	9.3	23.5	58.2	32.3	9.5	25.9	60.5	31.8	7.7	28.7
Local council of your city/town/village	51.4	37.8	10.7	13.6	55.2	33.3	11.6	21.9	55.1	33.8	11.1	21.3
Ukrainian media	45.4	45.8	8.9	-0.4	48.9	37.5	13.6	11.4	55.7	36	8.3	19.7
National Bank of Ukraine	29.1	60.1	10.9	-31.0	45.8	37.2	17.1	8.6	48.4	40.1	11.5	8.3
Ukrainian Parliament Commissioner for Human Rights (Ombudsperson)	31.7	40.1	28.1	-8.4	46.3	28.0	25.7	18.3	41.8	34.2	24.0	7.6
Cabinet of Ministers of Ukraine	21.5	72.0	6.6	-50.5	39.4	48.8	11.9	-9.4	39.1	52.2	8.7	-13.1
Trade Unions	21.2	54.8	24.0	-33.6	26.4	42.0	31.6	-15.6	25.3	44.8	29.9	-19.5
Verkhovna Rada of Ukraine	18.7	75.1	6.1	-56.4	34.9	55.2	10.0	-20.3	36.2	56.3	7.6	-20.1
Commercial banks	18.2	70.7	11.1	-52.5	25.6	55.7	18.6	-30.1	30.7	54.1	15.3	-23.4
National Anti-Corruption Bureau of Ukraine (NABU)	15.2	69.6	15.3	-54.4	29.8	48.7	21.5	-18.9	28.8	54.5	16.8	-25.7
Specialised Anti-Corruption Prosecutor's Office	13.6	69.3	17.2	-55.7	27.2	49.5	23.3	-22.3	27.7	54.4	17.9	-26.7
National Agency on Corruption Prevention (NAZK)	13.2	69.6	17.2	-56.4	26.5	49.1	24.4	-22.6	26.1	55.2	18.7	-29.1
Prosecutor's Office of Ukraine	17.8	71.1	11.1	-53.3	26.3	58.3	15.4	-32.0	27.8	60.3	11.8	-32.5
State apparatus (officials)	14.9	75.7	9.4	-60.8	20.7	66.4	12.9	-45.7	23.0	67.4	9.7	-44.4
Courts (judicial system as a whole)	15.5	74.2	10.4	-58.7	16.8	69.6	13.7	-52.8	19.0	69.7	11.4	-50.7
Political parties	16.1	71.7	12.2	-55.6	14.8	68.8	16.5	-54.0	17.0	68.2	14.9	-51.2

\* 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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