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# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments  
July 2024



# I.

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

July 2024 marked the third consecutive month of the fiercest fighting in the Russia-Ukraine war, given the reports of [enemy losses](#) in manpower and equipment. The Russian military leadership, driven by favourable weather conditions and political factors, launched offensive operations without considering the proportion of resources expended and results achieved. The Ukrainian defence forces were able to prevent the worst-case scenario – a breakthrough of the front – but did not stop the enemy’s continuous progress.

With russia’s continuous «victorious advance» and the lack of realistic and reasonable plans ([strategies](#)) to turn the tide of the war in Ukraine’s favour, there is an increasing interest in negotiating a ceasefire. However, russian ultimatum demands remain unchanged and incompatible with Ukraine’s Peace Plan and proposals of other potential mediators, which focus on the restoration of Ukraine’s territorial integrity in line with the UN Charter.

### COMBAT ACTION

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As of the end of July – the third month of the spring-summer campaign – russian offensive has not yet reached its culmination, but its results are clearly far from what was planned. The russian military tried to make the most of the window of opportunity or additional advantages due to delays in US aid and critical problems with mobilisation in Ukraine. The [main task](#) facing the Ukrainian defence forces in July was to contain the enemy’s offensive and inflict maximum losses in [manpower and equipment](#).

The russians concentrated their main offensive efforts on the eastern section of the frontline to complete the task of capturing the entire territory of Donetsk and Luhansk regions. Accordingly, the most intense fighting

occurred in this area, from Kupiansk to the border of Donetsk and Zaporizhzhia oblasts. Capturing [Pokrovsk](#) is currently a priority goal for the russians, and this area is where they made the largest advances. In the Kharkiv sector, the enemy unsuccessfully tried to create a buffer zone along the russia’s Belgorod region and to approach Kharkiv within the range of cannon artillery. In the south, the russians achieved tactical successes around the village of Robotyne, which was symbolic for them negating the results of the Ukrainian counter-offensive of 2023. The northern border is not shown on maps as a frontline, but there is constant shelling and [sabotage and recon - naissance activities](#) there.

As of the end of July, russia [holds the advantage](#) on the battlefield in [terms of manpower](#), major weapons, and artillery ammunition. However, it is difficult to gauge their ability to conduct operations of the operational and strategic level in the near future. On the other hand, the Ukrainian government’s mistakes in planning and implementing mobilisation activities have hindered their ability to slow down the enemy’s advances in certain areas. The most critical issue is the enemy’s superiority in the air and long-range strike capabilities, which allows for massive air strikes not only against Ukrainian defenders’ positions in the tactical and operational zone but also against military and civilian targets throughout the country. The Russia-Ukraine war is often referred to as a «[drone war](#)», and while Ukraine launched more long-range drones (520) in July than Russia (426), the overall advantage in long-range air power still lies with russia. This, combined with their superior manpower and willingness to accept casualties, enables the tactics of creeping occupation.

[According to](#) the Ukrainian Commander-in-Chief, General Oleksandr Syrskyi, the total

number of Russian troops deployed in the combat zone was 520,000, with plans to increase forces to 690,000 by the end of 2024. To achieve this, Russia needs not only to mobilise an additional 170,000 people, but also to compensate for combat losses, estimated at 30,000 killed and wounded every month.

At this stage of the conflict, which began about a year ago and is characterised as a «war of attrition», the party with the most human and material resources usually has the best chance of winning. However, [recent estimates](#) have cast doubts on Russia's ability to sustain a prolonged war and build up its human resources without another wave of mobilisation (see below). This challenges the conclusions about the predetermined outcome of the war and, accordingly, raises questions about the position of those who advocate for a compromise to appease the aggressor.

In mid-July, the command of the Russian Black Sea Fleet (BSF) [withdrew its last warship from Sevastopol](#), thus acknowledging not only the loss of the BSF's functional capability in the western part of the Black Sea, but also its inability to protect its main base. [Western observers](#) view this as a possible landmark event in the gradual loss of Russian control over the peninsula and personal defeat for Putin, given the exaggerated importance of Crimea for Russia.

Russian intelligence services have been quite skilful in using unconventional methods to conduct subversive activities in Ukraine. In recent months, there have been almost daily [deliberate arson attacks](#) on military vehicles in Ukraine's rear cities. Videos of such attacks are then actively used by Russian propagandists as «evidence of internal resistance». In most cases, the perpetrators are recruited through social media and their main motivation is to make easy money to repay significant microcredit debts. A recent journalistic [investigation by Skhemy](#) revealed a network of microcredit organisations owned by Russian citizens, who have access to personal data of thousands of debtors.

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

The [public scandal](#) involving General Yuriy Sodomol, one of the highest-ranking Ukrainian officers, set a precedent and sparked a [broad discussion](#) about personnel issues and their resolution through public disclosure. After that, other cases of «unsuccessful personnel decisions» were made public, such as the appointment of professionally unfit commanders or the unjustified removal of «[really good commanders](#)» as described by subordinates.

Neighbouring countries have also joined in solving Ukraine's mobilisation problem. A bilateral Ukrainian-Polish [security agreement](#) signed on 8 July will see the creation of a volunteer Ukrainian Legion in Poland, with possible participation of foreigners. Recruitment will be done through Ukraine's consular offices, with the Polish side and other partners providing equipment and training for the Legion on its territory. The Polish Ministry of Defence [stated that](#) «such soldiers will have the right to return to Poland after completing their service at the front». The [Czech Republic](#) has also taken up Poland's initiative.

## FOREIGN EVENTS (EXTERNAL FACTORS)

NATO summit in Washington was the key international event in July. Unlike the previous summit, Kyiv's expectations were more realistic, and the results were mostly expectable. Once again, the participants directly established Ukraine's sovereign right to become a full member of the Alliance, and indirectly confirmed the unpreparedness of both sides to make such a decision. Also, such a «routine» phrase in the text of the [Washington Summit Declaration](#) as «Ukraine's future is in NATO» as might not have been of great importance under other circumstances, but in this case, it was a clear response to Putin's [ultimatums](#).

In practical terms, member states and partners announced [new aid packages](#), and

NATO as an organisation committed to long-term support for Ukraine. The Allies agreed on a new plan to coordinate military assistance to Ukraine, establishing a command in Wiesbaden, Germany. It will be tasked with coordinating security assistance to Ukraine, including training and repair of military equipment. The new initiative will focus on short-term goals and operate in parallel with the Ramstein format (Ukraine Defence Contact Group), which will focus on long-term modernisation and strengthening of Ukraine's defence capabilities. One of the political goals associated with this new structure under NATO's auspices is to redistribute the burden among Allies and to hedge the risks in case of changes in US policy following the presidential election, or in the event of populist, right-wing or far-left forces or Putin-friendly leaders coming to power in other member states.

German *Rheinmetall* has announced receiving an order to build an ammunition plant in Ukraine. Its construction is set to begin in Q3 2024, and production will start within the next 24 months. Establishing joint defence enterprises in Ukraine is one of the elements of reducing dependence on foreign aid and strengthening defence capabilities in the long term. It should be added that international companies' cooperation with Ukraine is associated not only with economic interests (financial profits and risks), but also with security threats from Russian subversive activities. CNN reports that the US and German intelligence services prevented an assassination attempt on Rheinmetall CEO Armin Papperger, noting that it was organised by the Kremlin. German Foreign Minister Anna Baerbock named this case as another evidence of Russia's hybrid war against the West.

Speaking at the US Senate Committee on Armed Services, the Commission on the National Defence Strategy stated that the United States is behind China in «many military sectors or areas that can be used for military purposes» and that the military capabilities of the geopolitical alliance of Russia, China, North Korea and Iran exceed the joint capabilities of the United States and European partners. The participants also recognised the failure of the US strategy to prevent a partnership between Moscow and Beijing and stated the need for a new defence strategy to address this fait accompli.

In response to repeated criticism of its support for Russian aggression against Ukraine, China imposed severe restrictions on the export of drones, their components and other goods that could be used for military and terrorist purposes. Such restrictions effective from 1 September 2024 may affect the combat capabilities of Russia, which is critically dependent on Chinese from China, and Ukraine's direct access to Chinese drones and components.

## RUSSIA

Constant increases in cash bonuses for «volunteers» in the so-called SVO confirm the growing problems in building up human resources without another wave of mobilisation. Trying to fulfil the Kremlin's orders, the leaders of Russian regions are forced to raise one-time payments, the average amount of which has increased 80 times since July 2022, reaching more than \$22,000. In addition, some regions have introduced cash rewards for those who persuade a candidate to sign a contract. For many Russians, becoming a contract soldier is a way out of credit issues and an exemption from or mitigation of liability for administrative violations and even serious crimes. According to estimates, the war in Ukraine cost the Russian budget 10 trillion rubles in 2022-23 and could reach the same amount by 2024, given the ever-increasing costs.

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

- ✓ the Ukrainian defence forces have prevented the worst-case scenario by averting a breakthrough of the frontline, but are currently unable to stop the Russian «creeping» offensive;
- ✓ Russia's ultimatum-like demands remain unchanged and incompatible with Ukraine's Peace Plan or the proposals of other potential mediators, the principal point of which is the implementation of the UN Charter, in particular, the restoration of Ukraine's territorial integrity;
- ✓ against the backdrop of Russia's «victorious advance», the prospects of a prolonged war or forced peace talks, Ukraine urgently needs a realistic and well-founded strategy to reverse the course of the war.



# FOREIGN POLICY

The foreign policy in July was dominated by multidirectional events and trends, which increased instability both globally and regionally. Against the backdrop of complex processes in the United States related to the presidential election and growing conflict around the world, the dangerous polarisation of the international community continued. As noted in previous monitoring reviews, the confrontation between the alliance of democratic countries and the camp of authoritarian states is currently one of the main global trends.

## INTERNATIONAL PROCESSES AND EVENTS

***The US election process has become complex and difficult to predict.*** On 21 July, Joe Biden announced his withdrawal from the presidential race, supporting the candidacy of his Vice President, Kamala Harris. At present, Ms Harris is actually the only presidential candidate from the Democratic Party.

This raises questions about the new US leadership's foreign policy course in general and position on NATO in particular. US policy towards Ukraine is another key issue. In this regard, it is noteworthy that Joe Biden has [delegated his authority](#) over the Rebuilding Economic Prosperity and Opportunity for Ukrainians Act to the heads of the US Departments of Treasury and State on 22 July.

This turn of events changes the nature and dynamics of the election campaign, makes the position of the current US president somewhat vulnerable, and affects his influence on the global stage. In any case, the «transitory state» of the current dweller of the White House a) revitalises the ideas of Europe's strategic autonomy and security self-sufficiency. [Media reports](#) that Brussels is working on a comprehensive strategy to overcome trade and economic conflicts with the United States in the event of Donald Trump's victory; b) provokes the aggressor's activity both on the frontline and in creating a Eurasian alternative to the EU and NATO; c) encourages the emergence of new «peace initiatives» outside the Ukrainian Peace Formula.

***After a series of elections, Europe managed to prevent a «right-wing revenge» and maintain solidarity and support for Ukraine.*** First, centrist pro-European forces in the European Parliament could [retain control](#) of key positions and isolate far-right groups (Europe of Sovereign Nations, Patriots for Europe). At the first plenary session on 16 July, MEPs re-elected Roberta Metsola as President of the European Parliament, and on 18 July, they approved Ursula von der Leyen as President of the European Commission for a second five-year term.

Second, despite pessimistic forecasts, the early parliamentary elections in France did not lead to the revenge of Marine Le Pen's National Rally party. The right-wing did not win key positions in the National Assembly, headed by Emmanuel Macron's ally, Yaël Braun-Pivet, and will not control the government.

Third, the victory of the Labour Party in the UK and Keir Starmer becoming the head of the new government proved the immutability and continuation of [London's course](#) of comprehensive assistance to Ukraine in the fight against Russian aggression. In July, the leaderships of the two countries had active contacts. The new Dutch government led by Dick Schoof also demonstrated solidarity and political support for Kyiv.

***The threat of a conflict escalation in the Middle East is growing.*** At the end of July, Hezbollah terrorists launched a missile attack on the Golan Heights, causing civilian casualties. In response, Israel attacked a number of Hezbollah facilities in Lebanon and [threatened](#) Beirut with a devastating war. In turn, Turkey's Recep Tayyip Erdoğan made an anti-Israeli bellicose [statement](#). Against the background of the ongoing military operation in Gaza and the armed conflict with the Yemeni Houthis, the clash between Tel Aviv and Beirut threatens a new round of confrontation and expansion of hostilities in the region.

***International community's polarisation continues.*** A number of July events demonstrated the deepening confrontation along

the «democracy-authoritarianism» line. On 3-4 July, Kazakhstan hosted the SCO Summit, which admitted Belarus to the organisation and adopted more than 20 agreements, including the [Astana Declaration](#). The document is aimed at strengthening and institutionalising the SCO as a counterbalance to the EU and NATO, creating a so-called «Eurasian security system» or «Greater Eurasian Partnership» (lobbied by Russia) with the participation of the SCO, EAEU, ASEAN, Gulf countries and others. BRICS summit in Kazan in October 2024 is expected to be the next step in the formation of an anti-Western bloc. All in all, the Beijing-Moscow alliance is considered to be the initiator and moderator of these processes. At the same time, [international observers](#) note that Russia continues to build up its political, military-technical, and economic partnership with North Korea and Iran. In particular, in late July, Russia and Iran held joint naval exercises in the Caspian Sea. Also quite indicative is the [list of foreign guests](#) at the celebration of the Russian Navy Day in St. Petersburg on 28 July. The aggressor's naval parade was attended by representatives of about 30 non-Western countries, including China, India, Algeria, Vietnam, Venezuela, Cuba, Azerbaijan, Libya, Syria, the UAE, and South Africa.

In turn, the collective West held an important consolidating event of its own – the NATO Summit in Washington, DC on 11-12 July, which set medium-term priorities and directions for strengthening the Alliance and adopted military and political measures to support Ukraine in its fight against Russian aggression. On 28 July, the defence ministers of the United States, Japan and South Korea signed a [trilateral security cooperation agreement](#) in response to North Korea's threats and its military integration with Russia.

## FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

As in previous months, Kyiv's war diplomacy continued to focus on security issues (including the conclusion of relevant agreements with allies), promoting its own interests and initiatives globally, and accelerating European and Euro-Atlantic integration.

### *Political dialogue with foreign partners*

At the bilateral level and on the sidelines of international events, Ukraine tried to address various practical issues mostly related to securing external military and financial support, promoting own interests, and expanding the geography of international partnership. On 2 July, Hungarian Prime Minister Viktor Orbán arrived in Kyiv, but this did not lead to any progress either in bilateral relations or on Ukraine's path to European integration. The effect of the Hungarian leader's visit was levelled out by his subsequent pseudo-peacekeeping trips to Moscow and Beijing, which caused irritation and sharp criticism in the EU.

Instead, important and productive contacts for Ukraine included the talks with Dennis Francis, the President of the 78<sup>th</sup> session of the UN General Assembly. On 7 July, Odesa welcomed the newly appointed Foreign and Defence Ministers of the UK and the Netherlands. The next day, high-level talks with the President and Prime Minister of Poland took place in Warsaw, resulting in the announcement of a new military aid package for Ukraine.

Also effective was the visit of the Ukrainian delegation to the United States for the NATO summit. In addition to the summit events, the Ukrainian president met his American counterpart, and the Ukrainian side held meetings with Democratic and Republican leaders in Congress, as well as with US politicians and businessmen. Consultations were also held with the Chancellor of Germany, the Presidents of Slovakia and the Czech Republic, and the Prime Ministers of Italy, Canada, and Luxembourg. For the first time, the President of Ukraine met in a five-party format with the leaders of the Indo-Pacific NATO partners: the President of the Republic of Korea, the Prime Ministers of New Zealand and Japan, and the Deputy Prime Minister of Australia.

Contacts with foreign counterparts were productive on the sidelines of the 4<sup>th</sup> European Political Community Summit in the UK (18 July). President Zelenskyy met with the President of Serbia, the Prime Ministers of



the UK, Denmark, Spain, Slovenia, and spoke at a meeting of the British government. During the visit, an agreement was signed between the UK and Ukraine's ministries of defence on loan support for Ukraine's defence sector.

Other important international contacts included Volodymyr Zelenskyy's talks with Donald Trump and the visit of Ukrainian Foreign Minister Dmytro Kuleba to Beijing. Meanwhile, July saw contacts and consultations with government officials from India, Moldova, a number of EU countries, high-ranking representatives of the UN, the Vatican, etc.

#### *Promotion of Ukrainian interests and initiatives globally*

The main activities of Ukrainian diplomacy include the following.

*First.* Securing arms supplies and strengthening air defences remain the top priority. In this regard, the aforementioned [NATO summit](#) was quite productive. Allies announced the transfer of five air defence systems to Ukraine, agreed on a €40 billion military assistance budget for Ukraine for 2025, introduced new mechanisms for coordinating the supply of military equipment and training for the Ukrainian military (NSATU), etc. Moreover, a number of countries announced the next tranches of military and technical assistance. In particular, the US package amounted

to \$225 million. Ukraine received a Patriot system from Germany, Mistral surface-to-air missile systems from Estonia, and 2,500 drones from Latvia. Canada, the Netherlands, Norway, Australia, and others have provided military assistance to our country.

However, Ukraine's defence capabilities are still significantly weakened by persistent problems related to irregularity of arms supplies and restrictions on their use against the aggressor.

*Second.* The process of preparing and concluding security agreements with allied countries continues. In July, bilateral security cooperation agreements were signed with [Poland](#), Luxembourg, Romania, the Czech Republic, and Slovenia. In total, as of July 2024, agreements have already been concluded with 24 countries, and similar documents are currently being prepared for signature with other partner states. On 12 July, as part of the NATO summit, the leaders of 23 countries and the EU leadership signed a multilateral document, the [Ukraine Compact](#), committing to support Ukraine in the field of security and defence, supply of military equipment, training of the Armed Forces, promotion of the defence industry, etc.

*Third.* Kyiv has launched a new stage in promoting its peace plan. The country's leadership [intends](#) to start working in consultative groups (tentatively in Qatar and

Turkey) in August following the first Peace Summit, to work on all 10 points of the Peace Formula, and to hold a second summit in late 2024 in one of the Global South countries. According to President Zelenskyy, «patience, support and diplomatic pressure are three factors for a fair end to the war... if the US and European countries remain united, it will increase pressure and show Moscow that there is no chance». The intention to hold the summit before the US presidential election is clear, but the experience of the first summit reveals many risks of preparing an important large-scale event in a rushed manner amidst complex geopolitical situation.

*Fourth.* Political and legal condemnation of Russian intervention against Ukraine and the international isolation of the aggressor continues. a) In July, Russia was not elected to one of the main UN bodies – the UN Economic and Social Council (ECOSOC); b) as a result of active pro-Ukrainian position of many OSCE national delegations and the adoption of resolutions condemning Russia's policy of genocide against Ukraine, the aggressor was forced to **stop participating** in the OSCE Parliamentary Assembly; c) on 11 July, the UN General Assembly adopted the **resolution «Safety and security of nuclear facilities of Ukraine, including the Zaporizhzhia nuclear power plant»**, which emphasises the need for demilitarisation and de-occupation of the Zaporizhzhia NPP due to Russia's failure to comply with the resolutions of the IAEA governing bodies.

## UKRAINE'S STEPS TOWARDS THE EU

In July, there were both encouraging and challenging trends on the European direction. On the one hand, politicians who support Ukraine and its European movement were appointed to senior positions in EU institutions. In particular, on 17 July the new European Parliament adopted a resolution in support of Ukraine. Already on 24 July, EU ambassadors approved the allocation of €4.2 billion in macro-financial assistance to Ukraine under the Ukraine Facility programme, while Brussels announced the first tranche of €1.5 bn to Ukraine from the proceeds of frozen Russian assets.

On the other hand, during its EU presidency Hungary is expected to slow down Ukraine's European integration. For example, **seven priorities** of the Hungarian semi-annual plan do not mention the Ukrainian topic at all. At the same time, Budapest has long been blocking the disbursement of €6.5 billion from the European Peace Facility to Ukraine. Also in July, Kyiv had a conflict with Budapest and Bratislava over Ukraine's blocking of the transit of Russian Lukoil's oil to Eastern Europe.

In general, Hungary's current EU presidency is likely to provoke conflict and tension in the EU, given the destructive statements and actions of its leadership, such as the decision to simplify the visa regime for Russians and Belarusians.

On the other hand, a «pause» in the European integration process has several objective reasons, such as the formation of a new European Commission. It is planned to create new positions, including the European Commissioner for Defence. Further dialogue on Ukraine's accession to the EU is expected to resume this autumn.

**Overall, the July 2024 events produced the following observations and conclusions. There was some increase in geopolitical turbulence due to the US elections, the escalation of the Middle East conflict, etc. At the same time, the aggressor and its partners stepped up efforts to form an alternative to the collective West, a Eurasian alliance of authoritarian countries.**

**In these circumstances, Ukraine's efforts to a) secure long-term commitments from allied countries on political, military, financial and economic assistance in the medium term; b) further establish the Peace Formula among the international community as the only way to stop Russian aggression; c) intensify productive dialogue with the current US leadership and presidential candidates to ensure a stable bipartisan support; and d) strengthen the solidarity and unity of the coalition of countries supporting Ukraine in its fight against Russian aggression look logical and strategically justified.**

# III. ECONOMY

## DECISIONS

In mid-July, Ukraine presented the [budget declaration](#) for the next three years, which would serve as the basis for medium-term budget planning and the budgets for 2025-2027. Although the feasibility of this document may seem questionable due to the high uncertainty caused by Ukraine's war against the Russian aggressor, it provides the government with a roadmap for social and economic policy.

The budget declaration includes the [government's forecasts](#) for GDP growth, budget revenues and expenditures, minimum wages and pensions, price dynamics, the exchange rate, and some others.

Let's take a look at some basic macro indicators. For example, real GDP is expected to grow by only 2.7% in 2025 due to the destruction of the energy infrastructure (for 2024 estimates, see section «Developments, processes, trends» below). Inflation will not be tamed and is expected to average 8.6% over the next three years. The likely price increase is due to the difficult security and migration situation, devaluation pressure, and high levels of uncertainty about international assistance.

In terms of budget revenues, the government has left the rates of the main taxes (VAT, personal and corporate income taxes) unchanged in the budget declaration. However, the document announced «the development of an additional package of measures that would provide public finances with a resource of about UAH 340 billion annually», which will likely require an increase in the actual level of the main rates.

As for state budget expenditures, they are expected to average UAH 4 trillion in 2025-2027, compared to UAH 3.3 trillion in 2024. The security and defence sector is expected to receive about 50% of the budget, followed by general government functions at 23.9%, and the social sector at 12.2%. However, the

fixed subsistence minimum and the minimum pension at UAH 2,361 [will restrain](#) the increase in budget expenditures on pensions and social benefits. In other words, social expenditures will decrease significantly in real terms, leading to a decline in the welfare of low-income citizens.

The presentation of the budget declaration is also due to the [renewed negotiations](#) of the IMF Mission with Ukraine starting 16 July. The discussion will focus on the government's fiscal plans for the second half of 2024 and the medium term. Complications may arise from the IMF [updating its baseline](#) scenario for Ukraine's development in 2024 following the fourth review of the Extended Fund Facility (EFF) programme. If previously the IMF forecasted GDP growth of 3-4%, now this figure has been reduced to 2.5-3.5%. In addition to slowing down the recovery, this carries the risk of lower budget revenues.

To mitigate these risks, the Ukrainian government has approved a draft law that proposes adjustments to the state budget for 2024. The proposed amendments suggest [adjusting the expenditure](#) side of the general fund of the state budget by UAH 434.6 billion, with UAH 256.1 billion specifically allocated for military equipment.

To cover these additional expenditures, the Cabinet of Ministers plans to increase revenues, primarily through [raising the excise tax](#). It is expected that regulatory decisions regarding these revenue-boosting measures will be made in the coming months.

In such circumstances, it is clear that the government is aiming for a more significant tax increase. For example, it has previously considered [raising the value added tax](#) (by 3 pp to 23%) and military duty rates (by 3.5 pp to 5%). [According to some estimates](#), such an increase in the VAT rate could potentially bring an additional UAH 93 billion to the state budget on an annualised basis. However, this would depress consumer demand, create direct

inflationary pressures, and generate more «export» schemes with tax credits – having zero VAT liabilities, some exporters will overstate the volume of purchased goods subject to VAT in order to receive a refund.

These options are still under discussion, as business and the expert community oppose an increase in tax pressure, because it would negatively affect the prospects of socio-economic recovery. In the meantime, the government is focused on passing a draft law to [increase military duty rates](#). In this context, this will include an increase to 5% of income for individuals and 5% for mobile services (for more details, see the Social Sphere section).

At a time when the government's outlooks for strengthening the resilience of the country's economic environment hold significant contradictions, Ukraine's partners continue to take steps to strengthen investor confidence and help attract capital to Ukraine's private sector. Thus, the Ministry of Economy [reports](#) that the updated Canada-Ukraine Free Trade Agreement (CUFTA), which comes into effect on 1 July, will help increase efficiency for workers, businesses and consumers in both countries, strengthening trade and economic cooperation. The agreement will [replace the previous](#) one, which was in force since 2017.

The updated agreement has a much broader scope, including the liberalisation of the services market based on a negative list, which allows all types of services not restricted by the agreement, and bolsters investment protection with new comprehensive and modern instruments, contributing to the maximum trade in services between Ukrainian and Canadian companies.

The updated CUFTA also promotes the development of digital technologies and the construction of a free and open digital ecosystem of the economy. It allows for the duty-free use of components from the EU, the UK, and Israel in goods exported to Canada, and incorporates high environmental standards.

## **DEVELOPMENTS, PROCESSES, TRENDS**

As noted earlier, the NBU's estimates and forecasts in its April Inflation Report suggest that the economic [recovery will continue](#),

albeit at a moderate pace. These estimates are confirmed in practice.

In particular, the Ministry of Economy [estimated](#) GDP growth in June at 1.1% ( $\pm 1\%$ ) compared to June last year. It is important, because despite many negative factors, including power outages due to electricity shortages, the economic [recovery continues](#). This may be due to the national economy's high level of adaptability to difficult conditions and the accumulated experience of responding to crises.

Another positive factor in the current economic dynamics is the high rate of exports of mining and metals products, which is somewhat unexpected given the large-scale destruction and energy problems.

Overall, **GDP growth in the first half of the year is estimated at 4.1% [ $\pm 1\%$ ]** compared to the same period last year, and the economic growth dynamics is currently in line with the updated government forecast, according to which real GDP growth is expected to reach 3.5% in 2024.

As noted, there are some unexpected positive signals, particularly in the steel industry. In January–June 2024, [Ukrainian metallurgical enterprises](#) produced 3,140 kt of rolled steel, which is 132.3% of the volume of the first six months in 2023. According to the State Customs Service, about 1,996 kt, or 63.6%, of this volume was exported. This means that the industry is not only increasing production volumes but is also gradually returning to global markets, which is extremely important for overall economic recovery.

However, the real GDP figures in the second half of 2024 may be affected by rising inflation. Thus, the Consumer Price Index in June 2024 [accelerated](#) from 3.3% to 4.8% in annual terms. The sharp rise in June was driven by a 63.6% increase in electricity tariffs. Rising electricity prices in the coming months will increase inflationary pressures in almost all sectors of the economy.

Nonetheless, the domestic economy continues to receive significant partner support. As noted, Ukraine [received another €1.9 billion tranche](#) from the European Union under

the Ukraine Facility programme. This brings the [total EU budget support](#) to almost €8 billion since the beginning of 2024. For reference, the European Commission disbursed the first tranche of the Ukraine Facility to Ukraine in the amount of €4.5 billion on 20 March.

Moreover, a truly **landmark event** took place in July, when the President of the European Commission Ursula von der Leyen [announced](#) the transfer of [€1.5 billion](#) from the proceeds of frozen Russian assets to Ukraine. The funds are intended to support Ukraine's defence and reconstruction. This step by the EU demonstrates its consistency and steadfastness in its strategic support for Ukraine.

Tranches from international financial institutions are currently playing a crucial role in supporting the hryvnia. After the exchange rate exceeded the «psychological» level of UAH 41/USD, it became clear that the [following factors](#) would increase the depreciation pressures on the hryvnia throughout the summer:

- ✓ unresolved issue of external debt restructuring and speculation around default provoking attempts to shake the exchange rate;
- ✓ further increase in the budget deficit amid rising war costs;
- ✓ increased buying of foreign currency both by businesses and individuals on fears of a further exchange rate jump and

inflation (as noted, inflation rose markedly in June).

In addition to currency problems, Ukraine is facing growing debt risks. [According to the Ministry of Finance](#), Ukraine's total public debt sharply increased by UAH 104.7 billion in May 2024, reaching UAH 6.12 trillion. At the same time, it decreased by \$0.53 billion in dollar terms.

The external debt amounted to UAH 4,161.5 billion (\$100.8 billion), or 68.1% of the total. Domestic debt totalled UAH 1,636.3 billion (\$44.4 billion), or 26.8%.

Earlier this year, Ukraine [signed an agreement with the US](#) and a number of other countries to defer payments on its national debt. The agreement was part of the Memorandum of Understanding on official debt payment suspension with a group of Ukraine's creditors from the G7 and Paris Club.

At the same time, Ukraine continues to seek ways to agree on debt restructuring with private creditors. To prevent an immediate default, the Verkhovna Rada [passed a draft law](#) allowing the government to suspend payments on external public debt until 1 October 2024 or until the restructuring negotiations are completed.

Given the support for Ukraine by international financial institutions and leading developed nations, there are good reasons to believe that the debt issue in general and the restructuring in particular will be successfully resolved.

# IV.

## ENERGY SECTOR

In July, Ukraine's integrated power system experienced significant electricity shortages caused by massive Russian attacks and increased consumption due to the heatwave. Stabilisation blackouts lasted for 94% hours of the month. An average of 505 settlements were cut off due to hostilities and technical reasons (+45 compared to the previous month), with an additional 374 settlements cut off due to weather (on 18 July). About two hundred of them were without power for more than one day.

The IPS was finally balanced only on 29 July thanks to the [early completion](#) of scheduled maintenance at two NPP units, seasonally high generation at SPPs, and reduced consumption as the daytime temperature dropped from 35-37°C to 25-27°C.

During the reporting period, Ukraine generated only 8.3-9.3 GW of electricity every hour (in 2021 the generation was up to 18 GW). NPPs accounted for most generation (55%), followed by renewables (15%), TPPs (13%), HPPs (9%), and CHPPs (8%). Renewables retained their second place in the generation structure. There were no commercial exports of electricity during the period. Instead, imports of 1.2-1.7 GW came from Moldova, Poland, Slovakia, Romania, and Hungary. On 5 July, Ukraine received a record 35.9 GWh of energy. Starting in the second decade of the month, it became impossible to increase imports due to higher consumption in Europe.

The last days of July, when no stabilisation shutdowns were applied in most regions of Ukraine, could have created a false impression that all problems in the energy sector had been resolved and that consumption restrictions would be lifted. However, even with all nine NPP units in operation, partial restoration of damaged units and installation of new power plants with a total capacity of up to 4 GW, the energy shortage during the winter period of 2024-2025 will be between 3 and 5 GW.

To reduce this imbalance, the authorities [have focused](#) on five priority areas of preparation

for the 2024-2025 heating season: missile and air defence for infrastructure facilities; restoration of generation, transmission and distribution; decentralisation of the energy system; increasing the capacity of cross-border crossings; and raising funds from foreign partners.

Following the [decision](#) of the Supreme Commander-in-Chief's Staff, the General Staff of the Armed Forces of Ukraine [took measures](#) to defend energy facilities, including those undergoing repair and restoration. It is planned to [restart all nine NPP units](#) by October and [restore 60-70%](#) of the thermal generation destroyed by Russian attacks. [It is planned](#) to install 370 modular boiler houses and 380 cogeneration units, to increase the capacity of interstate crossings from 1.7 to 2.0 GW, and to remove most restrictions on the use of existing capacity.

Laws were adopted that temporarily:

- ✓ [allow](#) economic activity during martial law without obtaining permits, only on the basis of submitting a declaration of such activity to the relevant authorities;
- ✓ [exempt](#) from value added tax and import duties turbines, generators, inverters, photovoltaic panels, transformers, and other goods imported into Ukraine under agreements financed by the Energy Community Secretariat.

The government's [interest-free lending programmes](#) for citizens, as well as the [5-7-9% Affordable Loans](#) for the purchase of equipment for generating energy from alternative sources and energy storage devices by condominiums and housing cooperatives, have been launched. A government hotline, [STRUM 15-49](#), was launched to provide information on support programmes. Open bidding has [been cancelled](#) for public procurement of goods, works and services required to protect energy sector facilities. The procedure for connecting generating facilities to power grids has [been simplified](#). An agreement [was developed](#) for the participation

of electricity producers and active consumers in special auctions for the provision of ancillary services, and [test sessions](#) were held in the [MMS \(market management system\)](#) environment.

The government has [reportedly approved](#) the Strategy for the Development of Distributed Generation until 2035 and the Action Plan for its implementation for 2024-2026 but given the absence of these documents in open sources, it was impossible to analyse them.

Ukraine has signed a financial agreement with the EU regulating the receipt of €5.27 billion in grant assistance over four years under the Ukraine Facility plan. A [guarantee agreement has been signed](#) with the European Bank for Reconstruction and Development, under which Naftogaz Ukraine will receive €200 million to create strategic reserves of gas. Ukrenergo [has received](#) €100 million from the EU's Ukraine Investment Facility to modernise substations in the western regions of the country and build interconnectors; purchase and supply new equipment and repair damaged equipment; and fortify the physical protection of substations. An agreement on technical and financial cooperation [has been signed](#) with Belgium, under which €150 million will be allocated to restore energy and social infrastructure in Kyiv and Chernihiv regions.

Despite these measures, the situation in the energy sector remains difficult. A significant shortage of electricity is evidenced by the rapid growth of its [price indices](#) (by 65-95% since April), their abnormal distribution and high volatility (up to 90%).

Meanwhile, until the country restores thermal power generation damaged by russian attacks, energy companies cannot use their existing reserves. As a result, coal reserves in the TPP and CHPP warehouses have increased to the maximum possible 2.7 Mt, and [gas reserves](#) in underground storage facilities have exceeded 10.1bcm (including long-term storage resources). At the same time, Naftogaz Ukraine [assured](#) that it would meet all the generation sector's needs, even if 1GW of new gas piston and gas turbine units were connected to the power system. [According to the company's management](#), «the rate of gas

accumulation allows us to optimistically predict the realisation of the plan, namely 13.2 bcm by 1 November».

Thanks to the May decisions by the Cabinet and NEURC and restrictions on energy consumption, energy [arrears](#) to producers and universal service providers decreased in July. However, solving the problem requires the solvency of all market participants, from producers and suppliers to end consumers.

Unfortunately, the matter usually does not move beyond the [NSDC's instructions](#) to the Cabinet of Ministers, although «financial balancing» is «the [biggest challenge of today](#)». The speedy adoption of a [draft law](#) aimed at improving payment discipline in the market by requiring its participants to open current accounts with a special regime of use, developing an algorithm for distributing funds from them, and increasing responsibility for unauthorised electricity withdrawals will help to change the status quo.

In July, in line with the requirements of the [EU-Ukraine Association Agreement](#), the Gas Transmission System Operator of Ukraine LLC ensured the transit of 43 MCM of russian gas per day. However, Ukraine [does not intend](#) to extend its contract with Gazprom after 31 December 2024, while [statements](#) about the possible replacement of russian gas with Azerbaijani gas are purely political.

In the meantime, pursuant to the [NSDC's decision](#) to «completely halt the transit of resources» belonging to russian LUKOIL company (part 3, paragraph 264 of Annex 2), a conflict arose over the implementation of a contract between Ukrainian Ukrtransnafta and russian Transneft, under which 30-35 kt of russian oil per day are sent to refineries in Slovakia, Czechia and Hungary (operated by the private Hungarian company MOL).

Although transit volumes [remained unchanged](#) in July, as [confirmed](#) by Transpetrol, the Slovak oil transportation system operator, Slovakia and Hungary [accused](#) Ukraine of violating Article 276 (2) of the [EU-Ukraine Association Agreement](#), which prohibits one of the parties to «interrupt or reduce the existing transport or transit of energy goods. If Ukraine does not lift the [sanctions](#), Slovakia promises

to [ban](#) the diesel fuel exports, and Hungary promises [to block](#) the payment of €6.5 billion in compensation to EU member states for military assistance provided to Ukraine.

Despite [the statement](#) of the European Commission's representative that there are «no immediate problems for the two states concerned», it is worrying that the Ukrainian side [first commented](#) on the situation only 12 days after the outbreak of the conflict.

Meanwhile, Slovakia's [threats to stop](#) exports of diesel fuel could exacerbate the situation on the domestic oil products market, which will be complicated by the [increase in excise taxes](#) on petrol and diesel fuel by 14% and 27%, respectively, starting 1 September 2024. Given the seasonally high demand and limited supply, this will result in a UAH 2.00-2.50 per litre rise in prices for these fuels at Ukrainian petrol stations.

The LPG market will face the biggest challenges. Unlike other oil products, LPG supply will be reduced as early as August, which, given the 185% (!) increase in excise duty, could push up retail prices for this resource by much more than the expected UAH 5.20-5.30 per litre.

It is possible that in September the ratio of LPG to high-octane petrol at most petrol stations will increase from 46% to 60%. This will undermine the financial situation of businesses that use propane-butane as fuel for small commercial vehicles, reduce effective demand and make it economically unfeasible to install LPG equipment on vehicles.

Unfortunately, when adopting [the law](#) on the excise tax «harmonisation», its authors provided no financial and economic justification (including relevant calculations) and disregarded only [partial compliance](#) with the EU acquis, the warnings of [farmers](#) and the scientific and [expert department](#).

There are also concerns about:

- ✓ poor informing of citizens about the risks of the heating season and misleading

them about the high efficiency of photovoltaic panels in the autumn and winter period;

- ✓ replacement of small power plants with a capacity of 1-10 MW, operating on local fuel and connected to distribution networks, with the purchase of generators with a capacity of 5-10 kW or plants with unguaranteed capacity;
- ✓ concealment of the content of regulatory acts from specialists, as well as muting the problems in the energy sector, along with [accusation](#) of concerned experts of «promoting Russian narratives»;
- ✓ dispersal of energy companies' scarce resources to implement long-term projects of dubious efficiency (e.g., the [development](#) of a cottage town, [preparation](#) for the installation of equipment, and the [supply](#) of equipment for construction work at Khmelnytskyi NPP Units 3 and 4 before the adoption of [draft law](#) No. 11146 of 3 April 2024).

Nevertheless, the growing density of air and missile defences and [increased protection](#) of infrastructure facilities, [compliance](#) with repair and restoration schedules, greater activity of private investors in developing decentralised generation, and a relatively stable ratio between supply and demand for goods and services in the domestic and foreign markets can lead to notable [improvements](#) in the energy sector in the coming month. First and foremost, this concerns a reduction in the duration of stabilisation blackouts from three or four to no more than one turn.

Further course of events will depend on the [speed](#) of change in the architecture of Ukraine's energy system, which «needs to be multiplied by 100, then we will have time to do something in all reconstruction processes», as well as the pace of [implementation](#) of «significant opportunities for creating new generation», which are available «in most of our regions».

The Cabinet of Ministers has approved amendments to the [state budget for 2024](#), which include an increase in military spending by almost UAH 500 billion. The draft law still needs to be voted on by the Verkhovna Rada. Almost three quarters of the amount is to be covered by domestic borrowing and overperformance of certain revenue items, and another quarter by [raising the military duty and some excise taxes](#). This should bring an additional UAH 140 billion to the budget.

The announced increase in business taxes should cover the current needs of the frontline. Although this is contrary to the government's intentions set out in the [National Revenue Strategy](#), according to Finance Minister [Serhiy Marchenko](#), there is a need to provide for the military at the expense of domestic resources, as the budget gap could exceed UAH 720 billion due to inflation and increased mobilisation costs.

At the end of 2023, tax increases were allowed only as part of a «[plan B](#)» – in the event of a reduction or delay in the state budget external financing from the US and EU. The Chairman of the Parliamentary Finance Committee has repeatedly assured that the authorities do not plan to introduce new taxes or increase the rates of existing taxes until the end of the war.

To date, the issue of budget financing from partners has been almost settled, as Ukraine and the EU have signed a framework agreement on the Ukraine Facility programme to allocate €50 billion to Ukraine for five years (until 2027). The US passed a law on financing Ukraine for almost \$61 billion, \$7.8 billion of which is to be used to support the state budget. However, there is still a need to increase budget revenues: the state budget deficit for 5 months was almost UAH 470 billion, so these funds will clearly not be enough for a year.

The government's initiative caused a significant public outcry. A number of Ukrainian [think tanks analysed the Draft Law No. 11416](#) «On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on Peculiarities of Taxation during the Period of Martial Law» and found that the document contained some negative provisions that could significantly damage the economy. In particular:

✓ Increasing the military duty rate from 1.5% to 5%: the Ministry of Finance's calculation is overstated and will lead to a reduction in

real wages, further shadowing of wages and suppression of economic activity.

✓ Imposing the military duty on legal entities in the amount of 1% of income from any activity: this step is the most negative for the economy, as it distorts competition, discriminates against Ukrainian producers, demotivates existing businesses from further investment, and will force new investors to reconsider their business plans, reducing foreign direct investment.

✓ Imposing a 5% military duty on individual entrepreneurs – payers of single tax of the first, second and fourth groups based on two minimum wages per month: this doubles the tax burden on tax payers of the first group.

The [American Chamber of Commerce](#) also commented on the government's idea to increase taxation. According to its conclusions, the tax policy changes proposed in the Draft Law No. 11416 do not respect the principles of tax fairness, and may lead to further discrimination against transparent businesses, further distort the competition between taxpayers and tax evaders, undermine trust and contribute to the growth of the shadow economy.

Both think tanks and businesses presented their views on sources of additional tax revenues, where the main approaches include fighting the shadow economy and tax evasion, increasing the efficiency of regulatory authorities, reducing secondary state budget expenditures, temporarily increasing the rates of existing taxes, «ensuring equal rules for all instead of raising taxes for honest taxpayers who already bear the greatest burden», etc. Other associations representing the business community have come to similar conclusions.

Under these circumstances, one can expect further discussions around the draft law and its difficult passage in the parliament. On the other hand, the «price of the issue» is very high, as it is about meeting the current needs of the front, and any delay will have serious consequences.

Another crucial issue for the country's defence capability and its economy is the question of reservation of persons liable for military

service. The main problem is about finding a balance between meeting the mobilisation needs and maintaining the normal functioning of the country's economy in general and its defence sector in particular.

The issue of reservations is currently regulated by [Cabinet of Ministers Resolution No. 76](#), which is used by the vast majority of enterprises. At the same time, there are many complaints about the way this reservation is carried out, primarily from representatives of private defence companies.

Employees of state bodies, local governments, enterprises and organisations [can now be reserved](#) in accordance with the procedure established by the Cabinet of Ministers.

A Cabinet of Ministers resolution now allows for the reservation of 50% of employees of enterprises critical to the functioning of the economy.

In April 2024, Prime Minister Denys Shmyhal [instructed ministries](#) to update regulations on the definition of critical enterprises for which persons liable for military service are reserved. He stated that the reservation should be fair and there should be clear criteria for determining such enterprises.

One way to address the problem is the so-called economic reservation, which means that the employer pays a certain amount of military duty on a monthly basis for each reserved employees who are strategically important for the business.

There are [three main models of economic reservation](#) currently under consideration:

*The parliamentary model* allows the company to reserve an employee if it pays a military duty of UAH 20,000 per month, in addition to the 1.5% military duty that is paid now. This reservation is provided in addition to the reservation of employees in critical areas, regulated by government directives.

*The governmental model* provides for the reservation of persons liable for military service whose salary exceeds UAH 35,000 per month, and the amount of taxes and fees paid on such income is about UAH 14.5 thousand.

*The mixed model* allows the reservation of employees whose salaries exceed UAH

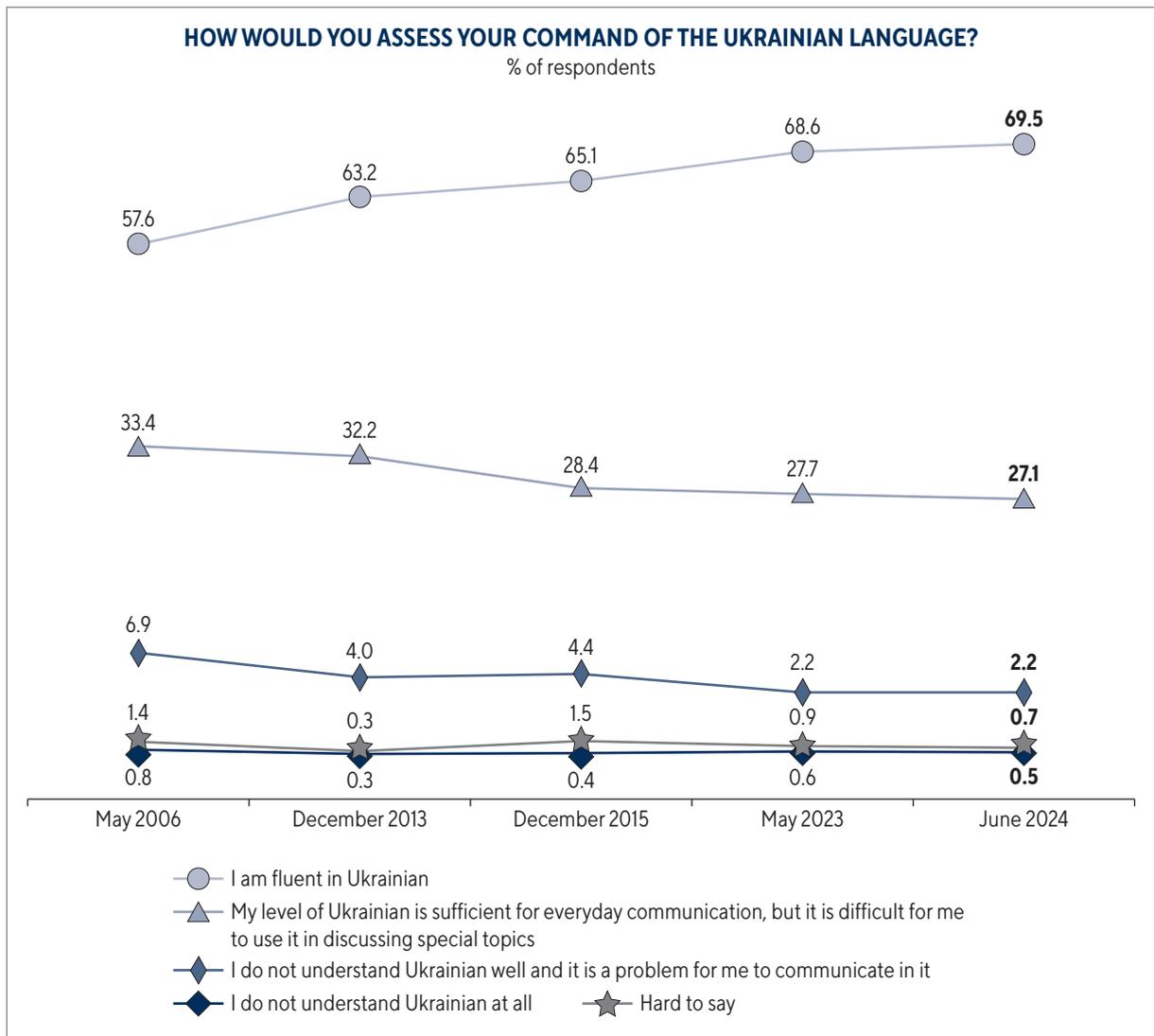
35,000 and individual entrepreneurs who will pay a duty of UAH 20,000.

The introduction of economic reservation is supported by various business associations, which maintain a dialogue with the Ministry of Defence, the Ministry of Economy and other government agencies on this issue. It is expected to be regulated by law in the near future. In particular, the [Draft Law](#) on amendments to the Tax Code of Ukraine concerning the specifics of paying the military duty for reservation of persons liable for military service was registered in the Verkhovna Rada. Its purpose is to introduce a special fee for reservations of persons liable for military service, including individual entrepreneurs and/or their employees, as well as employees of enterprises, institutions and organisations. It is intended to add predictability to business and production operations and processes, thus ensuring stable functioning of the economy under martial law.

At the same time, there are concerns that not all small businesses (such as car repair stations) will be able to pay duties for their employees, while much of their activities are also focused on helping the Ukrainian military. As a result, the concept of «economic mobilisation» was put forward to complement «economic reservation». It means the reservation of employees by enterprises via provision of free services to the military for certain legally defined amounts, «tied» to the cost of economic reservation. The [aforementioned draft law](#) also envisages the introduction of economic mobilisation in parallel with economic reservation.

It is likely that the parliament and the government will soon address the issues of legislative regulation of economic reservation and economic mobilisation. The specific parameters of the relevant legislative changes will depend on the dialogue between the authorities, members of business associations and the expert community. And current course of events gives hope that in this case, communication between stakeholders will be better than in the case of considering amendments to the mobilisation legislation.

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

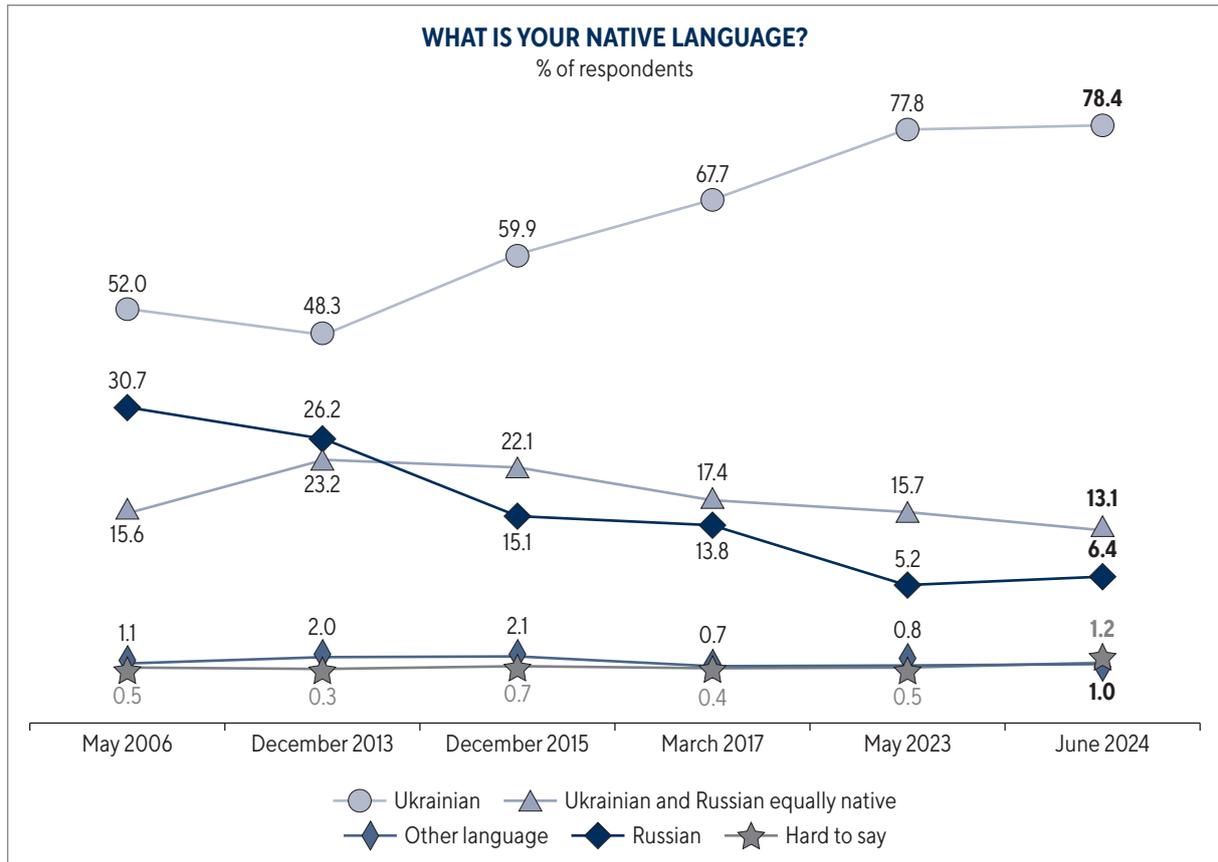


<sup>1</sup> Results of a sociological survey conducted by the Razumkov Centre's sociological service on 6-12 June 2024 as part of the Pact's ENGAGE (Enhance Non-Governmental Actions and Grassroots Engagement) programme in Ukraine funded by the United States Agency for International Development (USAID). The contents of the survey are the sole responsibility of Pact and its partners and do not necessarily reflect the views of USAID or the United States Government.

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 (the 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 based on gender and age quotas). The sample structure reflects the demographic structure of the adult population of the surveyed areas as of the beginning of 2022 (by age, gender, type of settlement).

A total of 2,016 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.3%. Additional systematic sampling deviations may be caused by the effects of Russian aggression, in particular, the forced evacuation of millions of citizens.



### WHAT LANGUAGE DO YOU MOSTLY SPEAK AT HOME?

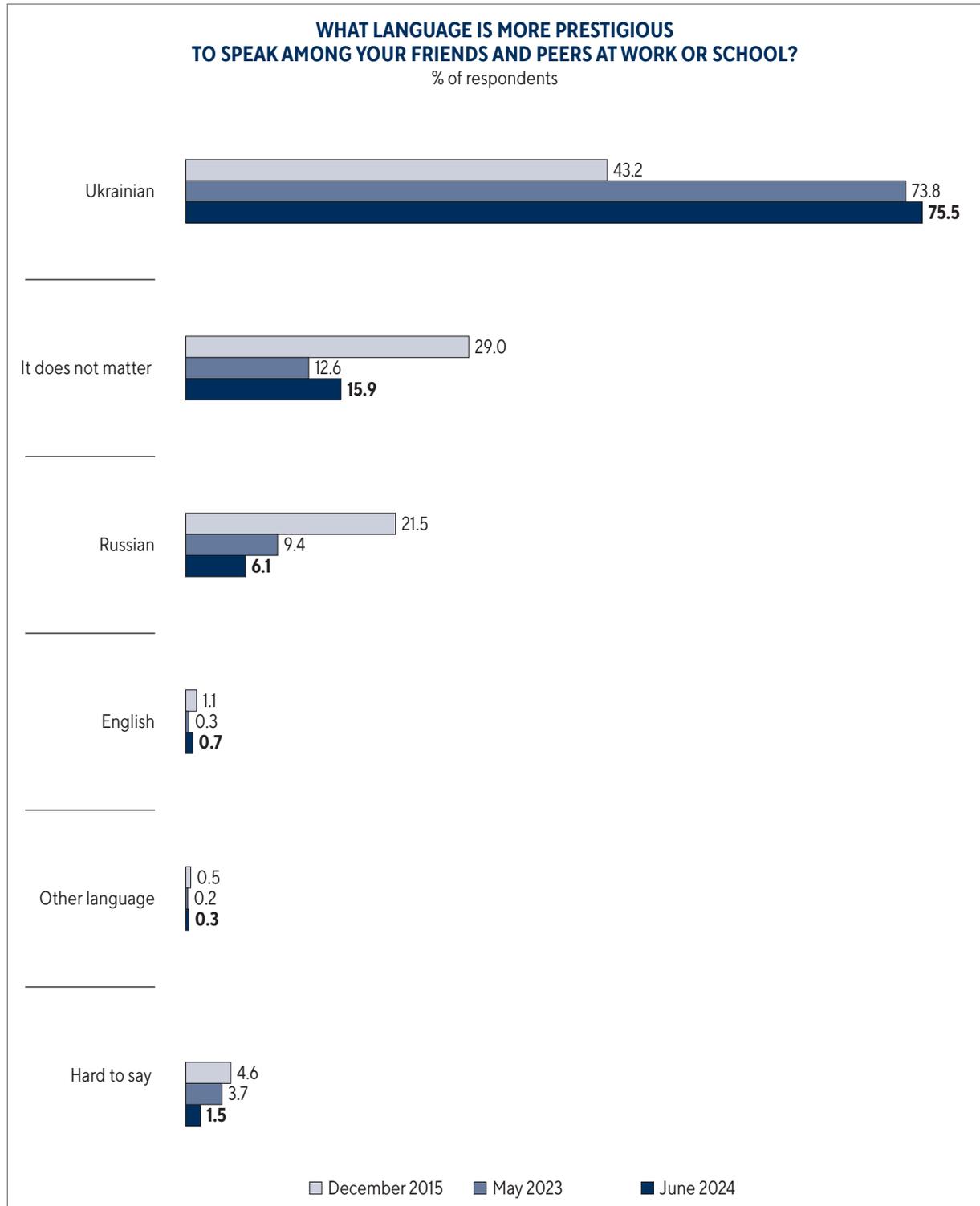
% of respondents

	May 2006	December 2015	May 2023	June 2024
Ukrainian	39.3	44.5	60.1	63.8
Mostly Ukrainian	6.7	5.3	7.7	6.7
Sometimes Ukrainian, sometimes Russian	14.7	24.7	22.4	17.8
Mostly Russian	9.5	11.1	4.1	5.4
Russian	28.1	12.6	5.2	5.6
Other language	1.0	1.4	0.3	0.5
Hard to say	0.8	0.5	0.3	0.4

### WHAT LANGUAGE DO YOU SPEAK OUTSIDE YOUR HOME AND FAMILY (at work, school, etc.)?

% of respondents

	December 2015	May 2023	June 2024
Ukrainian	40.3	54.8	63.3
Mostly Ukrainian	5.8	10.1	8.3
Sometimes Ukrainian, sometimes Russian	28.9	25.9	19.9
Mostly Russian	11.4	4.5	3.8
Russian	12.3	3.2	3.8
Other language	0.8	0.4	0.4
Hard to say	0.5	1.1	0.5



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