

# The Ukrainian Week

International edition

#2 (144) February 2020

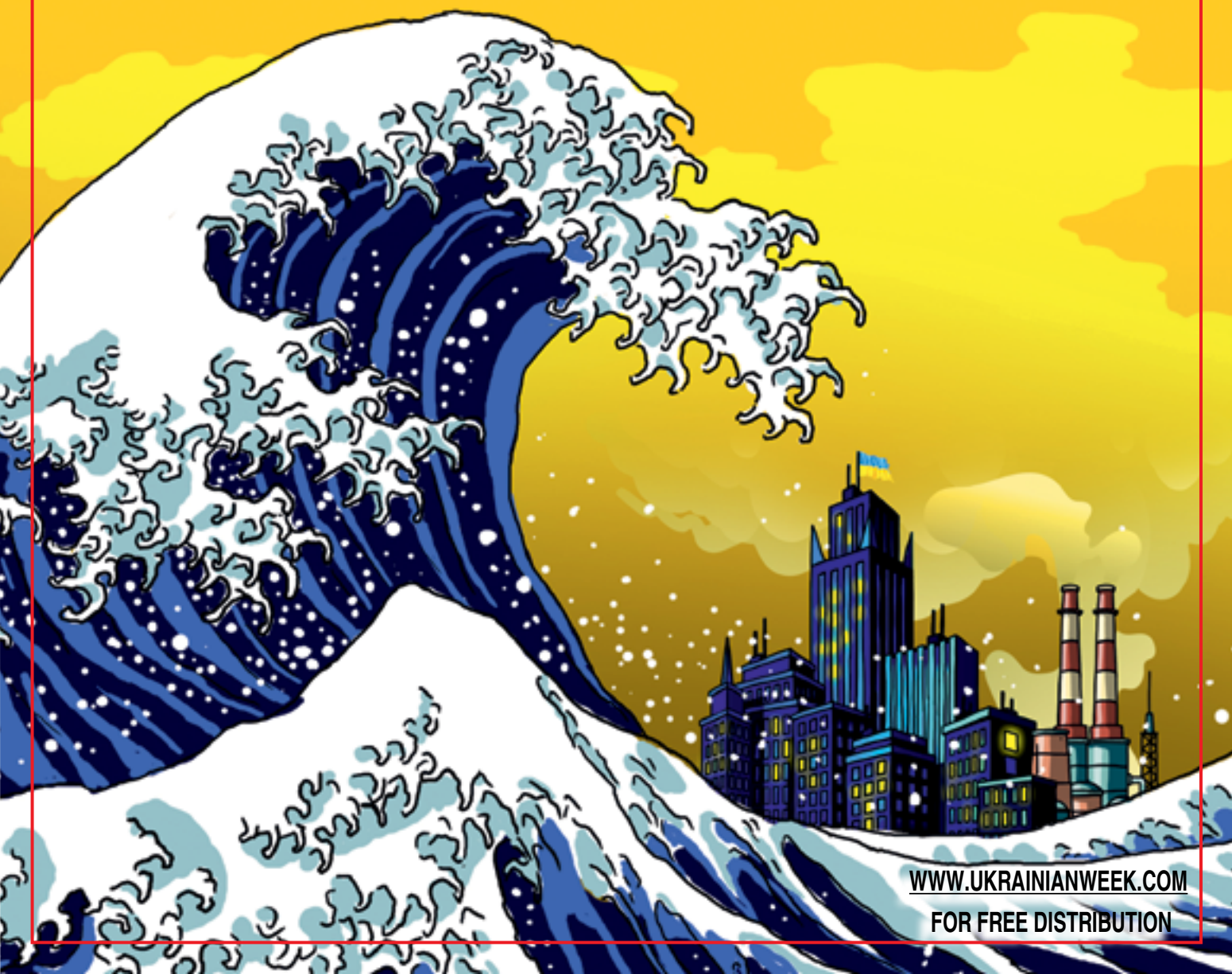
Ukraine's economic  
outlook for 2020

Russian hybrid warfare  
in Ukraine

New identity for national  
museums and art centers

Zelenskiy as a reflection  
of Ukrainian society

## RIDING THE WAVE OF GREAT EXPECTATIONS



[WWW.UKRAINIANWEEK.COM](http://WWW.UKRAINIANWEEK.COM)

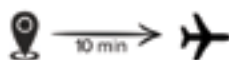
FOR FREE DISTRIBUTION



# ONOVO

• DENDRA • HOTEL •

BORYSPIL HIGHWAY 18 KM, 400 METERS FROM  
KHARKIVSKA PLOSHCHA, KYIV, UKRAINE  
+38 044 585 11 65 📍📞 WWW.ONOVO.UA





True restaurant

# SAM'S STEAK HOUSE

Since 1996



**Steaks. Wines. Whiskey.**  
Performed by professionals.

37, Zhylyanskaya str. Kiev, Ukraine  
Reservation: +380 (44) 287 2000  
f Sams.Steak.House @ sams\_steak\_house



## Midnight Romance package includes:



**60-minute couples massage**

60-хвилинний арома-масаж для двох



**Private pool and bath facilities**

Персональна зона басейна та банного комплексу



**Embroidered bathrobes**

Іменні банні халати у подарунок



**Bottle of champagne and treats from our Executive Chef**

Шампанське та комплімент від шеф-кухаря

**For bookings, please call:**

Для бронювань, будь ласка, телефонуйте:

**+38 044 393 54 10**



## BRIEFING

- 4 **Courtesy visits**  
Why high-ranking foreign officials' visits to Kyiv don't contribute to the strengthening of Ukrainian diplomacy

## POLITICS

- 7 **Vladimir Putin, master of lawfare**  
Mark Voyger on the Russian master of war and law
- 8 **The post-democratic president**  
What kind of image has Volodymyr Zelenskiy created for himself abroad?
- 10 **Somewhere in the middle**  
What is it that voters in free Donbas like about Zelenskiy?



## FOCUS

- 12 **Energy policy: Stupidity or crime**  
What dangerous consequences for the country may the new course in energy policy have?
- 16 **Old and new risks**  
What are the threats facing Ukraine's economy in 2020?
- 20 **The march of dis-integration**  
On the change of rhetoric about returning to Ukraine in the self-proclaimed republics in occupied Donbas
- 22 **New Moscowphiles at the door**  
How disappointment in Zelenskiy will help pro-Russian forces and how they are evolving
- 24 **The potential winter unfreezing of the Donbas**  
On the strategic winners and losers at Normandy



## ECONOMICS

- 27 **Down from the peaks**  
What risks does the banking system face today?



- 30 **The coming crisis**  
On the possible economic downturn in 2020

## SOCIETY

- 32 **Feeling good**  
When public expectations will turn against the President
- 34 **Portrait in dirty grey**  
On the New Year in occupied Donbas
- 36 **The battle of the narratives**  
Why western media often repeats propaganda from Russia
- 38 **Ze Nation**  
On Volodymyr Zelenskiy as a surprising reflection of Ukrainian society

## NEIGHBORS

- 40 **Kari Liuhio: "Half of all Russian foreign investments landed in offshores"**  
Professor and director of the Pan-European Institute at Turku School of Economics on Russian economic war against Europe, toxic investments, and nature of Russian oligarchs
- 42 **Stay away**  
Why Ukraine's economy performs better than the Russian economy after 2013 despite resistance to aggression
- 44 **Grace of the empire**  
What is Ukraine's place in the rhetoric of Russian media and how to decipher their hidden messages?

## CULTURE & ARTS

- 48 **From art space to cultural brand**  
On the new trends for Ukrainian museums and art centers
- 50 **The months of rock, Crystal and Kazka**  
*The Ukrainian Week* offers a selection of events to visit in February and March

## The Ukrainian Week

**The Ukrainian Week #2 (144) February 2020**  
**Founder** ECEM Media GmbH. **Publisher** ECEM Media GmbH  
**Address** Austria, Am Gestade, 1, 1010 Vienna  
 State registration certificate KB № 19823-9623ПП 19.03.2013  
**Chief Editor** Dmytro Kravchenko  
**Editors** Max Nestelieiev, Lidia Wolanskyj

E-mail office@tyzhden.ua  
 www.ukrainianweek.com  
 Tel. (044) 351-13-00  
**Office address** Kyiv, Ukraine, 36A, vul. Bohdana Khmelnytskoho, apt. 3  
**Print run** 15 000. **Free distribution**  
**Our partner**

ТИЖДЕНЬ

# Courtesy visits

**Khrystyna Vovchuk**

When high-ranking foreign officials visit Ukraine, it's often interpreted as the result of Kyiv's diplomatic efforts. Of course, it's not always that. Sometimes foreign guests show up to resolve internal issues back home and this can simply mean that Ukraine is losing its identity in the international community.

PHOTO: UNIAN







In the last while, Ukraine has been the focus of American attention over the scandal that arose around Donald Trump's July 25 phone call to President Volodymyr Zelenskiy. The impeachment of the US president ended with an acquittal, but Zelenskiy's repeated insistence that events in the US were not affecting the "warm and friendly relations between the two countries," suggests only that the Office of Ukraine's President seems not responding properly to serious challenges.

In fact, SecState Mike Pompeo's January 31 meeting with Zelenskiy in Kyiv demonstrated, yet again, that the White House was primarily interested in resolving domestic issues, as Pompeo's visit was preceded by another Ukraine-related scandal. Prior to coming to Ukraine, the US Secretary of State had made an unambiguous statement in an interview with National Public Radio, asking the journalist: "Do you really think Americans care about Ukraine?"

ZELENSKIY'S OFT-REPEATED READINESS TO FLY TO WASHINGTON TO MEET WITH TRUMP "EVEN TOMORROW" MAY BE A NICE GESTURE BUT IT'S UNLIKELY TO BE APPRECIATED IN WASHINGTON AND AN OFFICIAL INVITATION IS UNLIKELY TO BE FORTHCOMING

*The Washington Post* noted that Pompeo's main objective as head of the American diplomatic agency was to promote US interests and when statements in the press back home contradicted his statements abroad, Washington lost. Later on, at their joint press briefing in Kyiv, Pompeo exchanged standard phrases with Zelenskiy about bilateral cooperation, avoiding all controversial matters. Other than *pro forma* messages from the Trump Administration, Pompeo offered no news about a long-awaited White House visit by Ukraine's head of state. Nor was there any word about the appointment of a proper ambassador to Kyiv, where the US ambassadorship has been vacant since May 2019, when Marie Yovanovitch was recalled and the embassy is run by a *chargé d'affaires*, or about a replacement US Special Representative to Ukraine. Indeed, after Kurt Volker's resignation, there has not been any serious discussion about whether this position will even be kept.

Zelenskiy's oft-repeated readiness to fly to Washington to meet with Trump "even tomorrow" may be a nice gesture but it's unlikely to be appreciated in Washington and an official invitation is unlikely to be forthcoming. According to the *The Washington Post*, the White House was trying to take advantage of Pompeo's visit to Kyiv as a response to criticism from the Democratic Party that Trump was exploiting Ukraine for personal political gain, and to make it seem like relations between the two countries remain strong.

Pompeo did mention to Zelenskiy the importance of expanding the independent Orthodox Church of Ukraine, and indeed the US SecState has met twice with OCU Metropolitan Epiphanius. Back in October, Pompeo announced that the US would defend the right to freedom of confession, with reference to Russia's attempts to influence Ukraine. "Russia should never get in the way of the fundamental rights of Ukrainians," the Secretary of State said then. Obviously Pompeo's active role in helping establish the OCU as independent of the Russian Orthodox Church suggests that the State Department is concerned about the role of the ROC in Moscow's propaganda machine. The same cannot be said about Bankova: the Zelenskiy administration has distanced itself from the development of the national orthodox Church, while some of its officials, such as SBU Director Ivan Bakanov openly support the Moscow Patriarchate.

Mike Pompeo's visit to Kyiv was part of an Eastern European tour. After Kyiv, he went to Minsk, Nur-Sultan in Kazakh-

stan, and Tashkent. His visit to Belarus is especially significant as Pompeo arrived just as relations with Russia were growing tense: *anschluss* had failed and so Russia cut off oil deliveries to its neighbor. Aliaksandr Lukashenka was ramping up his pro-western rhetoric and during Pompeo's visit he even announced that the chill in relations between Minsk and Washington was over.

Pompeo's tour in Central Asia also had its reasons. There, the US Secretary brought up the threat of China. However, it was Russia that paid the most attention to Pompeo's visit: pro-Kremlin media followed the time-honored soviet tradition of dismissing the US official as a "geopolitical raider." But that means that at least one of the goals – to demonstrate to Russia that the post-soviet region was not solely Moscow's sphere of influence – was reached.

Meanwhile, President Recep Tayyip Erdogan began his visit to Kyiv by greeting the guard of honor with the cry, "Slava Ukraini!" More emotional observers saw this as a tectonic geopolitical shift. In fact, it's early to be overjoyed. The Turkish leader's compliment was primarily in response to Russia's recent attacks against the Syrian city of Idlib. As a result of intense artillery fire from government troops and Russian air support, Assad's forces killed six Turkish soldiers. In response, Turkey attacked Syrian forces and warned Russia against further interference.

That does not mean that anyone should expect the current confrontation in Syria to seriously damage relations between Moscow and Ankara in the long run. In the last few years, neither Russia's dropping of a visa-free regime after the shooting down of its SU-24 bomber, nor its blockade of sea traffic have spoiled cooperation between Turkey and Russia. On the contrary Ankara has managed to sign an agreement with Moscow to buy Zenit S-400 missile systems, despite warnings from the US, to launch the Turkstream pipeline, and to issue joint calls for a ceasefire in Libya.

Nevertheless, being the temporary third party between Ankara and Moscow could be a chance for Ukraine to strengthen its diplomatic position towards the aggressor. Zelenskiy expressed his condolences over the shooting of Turkish troops in Syria with an oblique reference to the war in the Donbas. On its part, Kyiv hopes for Ankara's assistance in the release of Ukrainian citizens being held illegally by the Russian Federation, especially Crimean Tatars. Turkey needs to be abreast of information about new lists for exchanges, which are now being put together by the Trilateral Contact Group. One positive outcome of the visit was an agreement that Turkey would provide financial assistance to the Ukrainian Armed Forces and housing for 500 families of Crimean Tatars.

Nor did President Erdogan forget to remind Zelenskiy of his own domestic needs, requesting that Kyiv join the battle against FETÖ, known as the Gülen Movement and as Hizmet by its followers, but deemed a terrorist organization by Ankara. The Turkish leader persists in accusing the members of this movement of attempting a military coup in 2016. It's hard to know just how familiar Zelenskiy might be or not be about the Gülen movement, but he immediately agreed to hand over the information about Gülen schools given to him by Erdogan to the SBU. Unfortunately, if the SBU begins to persecute gülenists, it could spoil relations with Ukraine's other international partners, as only Turkey, the Organization of Islamist Cooperation and Pakistan consider the group to be a terrorist organization. Ukraine should take note that relations between the EU and Turkey, and even more so between Turkey and the US, went noticeably sour after the Turkish leader began to increase persecutions of Gülen followers.

The dividends from the Pompeo tour remain fairly symbolic, while in the case of Erdogan, the visit seems to have opened a small window of opportunity – at least until Ankara and Moscow kiss and make up again. ■



# Vladimir Putin, master of lawfare

Mark Voyger, scholar at the Penn Biden Center for Diplomacy and Public Engagement, Washington, D.C.



On Wednesday, 15 January 2020, Vladimir Putin proved once again to his global and Russian audiences that he is the master of strategic surprises at least when it comes to the timing of his unexpected moves. During his annual speech to the Federal Assembly, he proposed changing the Russian Constitution in a fundamental way that would allow him to stay in power under a number of different forms past his current term of 2024. Such potential

changes had been long anticipated as a way of prolonging his political life, but announcing them so early in the game has taken even the keenest Russia watchers aback. While the world is focused on trying to figure out how those changes will affect the structure of power within Russia itself, the primary change that Putin has proposed – amending the Russian constitution to reflect its supremacy over international treaties – will impact not only what Russia post-2020 will look domestically, but even more importantly – how it will behave internationally. This is not an overnight whimsical decision of Putin's, but the latest stage in the evolution of a long process of Russia's selectively detaching itself from the international legal system and its established norms, that was first manifested openly with its hybrid aggression against Ukraine, and then continued with Russia's brutal involvement in Syria and elsewhere across the globe. Each step of the way the Kremlin has been able to justify and “make legal” its most heinous crimes against its neighbors and humanity, as a whole, by manipulating international law through a process known to the experts as “lawfare”. The leadership of Russia in its various imperial iterations – from the Tsars to the Soviets – has always been extremely skillful in leveraging the law to expand their interests internationally, and suppress dissent domestically. Still, there has rarely been a ruler in Russia's history who has taken the letter of the law so seriously, as Putin does, while completely disregarding its spirit. Under Putin the law has been twisted into its malicious twin – lawfare – to become one of the central domains of what we now call Russian hybrid warfare.

Russian lawfare has not been only manifested on the battlefield, but has also been elaborately underpinned theoretically by a host of Russian legislators and security officials, making it effectively a matter that transcends the framework of the law itself, and touches upon all aspects of Russia's activities. Putin's call for having Russia's constitution supersede international law, for example dates back to 2015, as the leading Russian practitioners in the field jumped onto the lawfare battlefield to provide scientific substantiation of Putin's policy initiative. For example, in a now obscure, but extremely detailed legal article dating back to December 2015, the Chairman of Russia's

Investigative Committee, Aleksander Bastrykin argued vehemently in favor of such a change, by calling the limiting by international law of Russia's sovereignty “a legal subversion”. Bastrykin, of course, blamed it on the “American and foreign experts” whom he accused of skillfully injecting the norm of the supremacy of international law over Russia's national legislation into the first RF constitution that was adopted in 1993. His, and other of his top-level colleagues' writings over the course of the last four years did not remain only at the level of legal theory, but found their practical implementation in the various steps that Russia has taken to push against international law when it goes against its own expansionist interests or authoritarian domestic agenda. For example, this allowed the Russian state to disregard multiple legal rulings against itself at various international courts – from those in favor of the Yukos shareholders, the company broken by Putin in 2004, to those won by Russian citizens at the European Court of Human Rights.

STILL, THERE HAS RARELY BEEN A RULER IN RUSSIA'S HISTORY WHO HAS TAKEN THE LETTER OF THE LAW SO SERIOUSLY, AS PUTIN DOES, WHILE COMPLETELY DISREGARDING ITS SPIRIT. UNDER PUTIN THE LAW HAS BEEN TWISTED INTO ITS MALICIOUS TWIN – LAWFARE – TO BECOME ONE OF THE CENTRAL DOMAINS OF WHAT WE NOW CALL RUSSIAN HYBRID WARFARE

Finally, on 17 October 2019 Putin decided to formally pull Russia out of Protocol 1 of the 1949 Geneva Convention that provides for the protection of the victims of international armed conflict. With the Russian army constantly committing atrocities against civilian populations in Ukraine and Syria, and active in more and more countries across the Global South, the world should expect more of those international crimes to be committed by the Kremlin in the coming years, with any attempts at an international investigation to be dismissed as “abuse of the commission's powers for political purposes on the part of unscrupulous states”, as Putin's letter put it.

The Kremlin's lawfare so far has remained largely uncontested, due to Russia's enjoying veto power at the UN SC, and the general fluidity of the international legal system that allows some of its norms and rules to be bent and twisted by powerful authoritarian regimes. With these new changes of the constitution, the Russian leadership will be able to further shield itself from international legal prosecution. Putin's victory by manipulating Russia's domestic law and his domestic re-shuffling is designed to prolong artificially his political life and allow him to exert even more control over the Russian domestic political system. There is little, if anything that the West can do to counter the effects of that domestic re-shuffling. The West can, and must do more, however, to prevent the Kremlin from becoming invulnerable to the norms of international law, or other states will follow suit and challenge those norms in their own perceived spheres of influence, with all the dramatic consequences for the rule of law and human rights globally. ■

# The post-democratic president

What kind of image has Volodymyr Zelenskiy created for himself abroad?

Alla Lazareva, Olha Vorozhbyt

It's hard to say how the international crises and scandals that swirl around Volodymyr Zelenskiy on a regular basis despite his best efforts affect Ukraine's image in the world, but there's no doubt that the constant stream of news fuels interest in him and, by extension, in Ukraine.

"Zelenskiy's story is unlike any other," says Renaud Rebarry, a French writer. "Some would like to follow suit and also take advantage of that successful mechanism. I've heard that people close to Macron fear that a similar candidate could pop up in the next presidential election with similar consequences. Zelenskiy is a symbol of politics as spectacle. The truth is that political ideas matter little to most voters. Ideological doctrines are dying. Many voters decide whom to vote for at the very last minute, ultimately choosing personality over ideas. Such voters also tend to change their minds quickly. In effect, Zelenskiy is what you might call a post-democratic politician."

The French press generally reports about Zelenskiy cautiously. "So far, Zelenskiy has not made any major mistakes," political reporter Gerard Bonnet comments. "He doesn't come across as a disaster, although he hasn't produced any im-

pressive results, either. His real intentions are still not clear. If he finally started working instead of taking so many vacations, we might learn more about him." Interestingly, during his campaign, Zelenskiy was dubbed a clown, but now he is now presented to readers as a comedian, producer, humorist, and a novice in politics. "It's hard to imagine that Volodymyr Zelenskiy could force Vladimir Putin to back down," *Le Parisien* wrote recently in its analysis of the Normandy summit in December.

Like other EU countries, Zelenskiy's victory caused a sensation in Germany. Yet, interest in his personality evaporated quickly, leaving behind dry analysis of his actions. After his visit to Germany last summer, Marieluise Beck, an expert on Ukrainian politics in Germany and director of the Eastern Europe section at Zentrum Liberale Moderne, a think-tank, wrote in her article for *Die Zeit Online*, "A democrat Zelenskiy would be a blessing for Ukraine." Yet, she went on, a president who covered up those in power and the shameless kleptocratic class would be "the worst thing that could happen to the long-suffering country." Beck carefully monitors the actions of



**The surprise president.** Zelenskiy's victory was a pleasant surprise for most western leaders, but a closer look at his actual steps has dampened the first impression



Ukraine's new president, including the fact that a friend of his and business partner was given the title of lieutenant and appointed chief of the Security Bureau of Ukraine overnight, and the controversial role of Ihor Kolomoisky. In fact, all German publications initially noted the positive aspects of the Zelenskiy phenomenon despite his similarity to populists in the EU, but they have not overlooked the controversial aspects or the skeletons in his closet.

The shooting down of a UIA plane in Teheran made German media reflect once again on the position that Ukraine's president takes. *Die Welt's* Pavel Lokshin compared the reaction of Petro Poroshenko to the shooting down of MH17 in 2014 and Zelenskiy's response to the attack on the Ukrainian plane in Iran: he found Zelenskiy's reaction feeble, noting that Zelenskiy was on vacation at a luxury hotel 230 kilometers from Iran when the incident took place. Overall, many German observers are positive and inspired by the youth of Zelenskiy and his team, yet their assessments change dramatically when they get down to the details of his team's work and practical moves.

In Poland, interest in Zelenskiy peaked in spring and summer 2019. Some Polish media compared Zelenskiy and his team to Robert Biedroń and his party *Wiosna* (Spring), which Ziemowit Szczerek wrote about in *Polityka*. Comparing the two politicians, he focused on their similar calls for a bright future without talking about how that might be accomplished. Simply put, they are both populists. "People who do not deal with Ukraine on a daily basis are now less excited about the new President," says Łukasz Jasina, an analyst with PISM, a Polish think-tank, in a comment for *The Ukrainian Week*. He says that there is nothing new in Zelenskiy's approach for Poland. Still, he notes that Zelenskiy's visit to Poland in September left a positive impression on both local politicians and the press.

On January 27, Volodymyr Zelenskiy was in Poland again, attending the anniversary of the liberation of the concentration camp at Auschwitz, called *Oświęcim* in Polish, and meeting with Polish President Andrzej Duda. According to Jasina, what mattered for the Poles and the Polish government was that Zelenskiy was coming to Poland shortly after his visit to Jerusalem for a commemoration on January 23 that Duda refused to attend because the organizers had invited Vladimir Putin to speak while not offering the same opportunity to representatives of any other country that fought against the Nazis. "Had he not come to Poland, commentators would immediately have jumped on it," Jasina says.

Some Polish papers now speculate on whether their country might have its own Zelenskiy. Journalist Szymon Hołownia is seen as one possible candidate for that role, even if he does not yet enjoy the kind of support in the polls that Zelenskiy does. According to the latest IBRS poll, just 5.7% of Poles would vote for Hołownia in the presidential election scheduled for this year. Jasina notes that media personalities have popped up in presidential elections in Poland since the 2000s.

While Zelenskiy's image in Western and Central Europe is shaped outside the Russian-speaking information environment, public opinion in countries like Belarus and Kazakhstan is influenced by his film career. FSU audiences have seen his *Servant of the People* series and *Kvartal 95* online. "Belarusians know Volodymyr Zelenskiy better as an actor," writes Valeriy Kalynovsky, a journalist with Belarusian Radio Liberty/Radio Free Europe, in a comment for *The Ukrainian Week*. "Belarusians were definitely paying attention to the last Ukrainian election and see him as a real politician now. It seems that Aliaksandr Lukashenka himself was not sure about Zelenskiy's victory at the beginning and *de facto* placed his

bets on Poroshenko, but he quickly established contacts with Zelenskiy after the election, meeting him at the Ukraine-Belarus Forum of Regions.

"Belarusian officials and MPs have taken the choice of Ukrainians in stride while the local press is careful, offering Zelenskiy neither much criticism nor much praise, and tending to report both the positive and the negative in his actions," adds Kalynovsky. "Belarusian society is probably still assessing Zelenskiy and the new administration in Ukraine. Belarusians watch Russian media, so there is some tendency to echo Moscow's positions. Ordinary Belarusians mostly seem to think that little has changed in Ukraine since the elections."

Belarus's small expert community is also drawing its first conclusions. In his interview with *Belgazeta.by*, Andrey Vardomatsky, head of the Warsaw-based Belarusian Analytical

WHILE ZELENSKIY'S IMAGE IN WESTERN AND CENTRAL EUROPE IS SHAPED OUTSIDE THE RUSSIAN-SPEAKING INFORMATION ENVIRONMENT, PUBLIC OPINION IN COUNTRIES LIKE BELARUS AND KAZAKHSTAN IS INFLUENCED BY HIS FILM CAREER

Workroom (BAW), projected the inevitable decline of Zelenskiy's rating despite his electoral success. "The series had an enormous impact on public opinion," he points out. "Poroshenko's vision of priorities among voters was completely out of tune with what people really wanted. The *Servant of the People* is a genius spin-doctor invention, but it can't be repeated. The point of spin is that it's a disposable tool. The *Servant of the People* serial had many effects, and the biggest one was transforming the virtual into the real. This was the primary reason why Zelenskiy won. The second reason was that his image was embedded in the mass mind and was able work its way into the public imagination through television. This produced a sleeper effect: the viewer doesn't necessarily accept the information being given, as it lingers in their minds it becomes real and truthful to them. Zelenskiy became everybody's homeboy. And not just any homeboy, but a nice one. Still, his ratings will inevitably go into a dive."

The press in Kazakhstan is cautious in its descriptions and assessments of Zelenskiy's politics. "Nazarbayev's proposal to use Astana as a platform for direct talks between Zelenskiy and Putin suggests that Kazakhstan, in the person of its new leader Kassym-Jomart Tokayev, hopes to see Ukraine and Zelenskiy actively engaged in the Eurasian space," writes Ramzan Islaimov, a Kazakh journalist, in his comments for *The Ukrainian Week*. "Our press publishes flattering reports from the home of Zelenskiy's parents in Kryvyi Rih, reports about 'Zelenskiy's brilliant gas victory,' at the same time as our diplomats and politicians talk about the 'common past and future of Kazakhstan and Ukraine.'" Even the Kazakh opposition sees Zelenskiy as a peace-loving politician compared to their new president. "Compare Zelenskiy and his actions with Tokayev and his arrests of young and old on the day of his 'election'," Yerzhan Dosmukhamedov, leader of one of the opposition parties in Kazakhstan, wrote on his Facebook page.

The world is watching Ukraine's new president closely, trying to understand whether his victory ushered in a new era in which technology dominates over humans. "Is he a harbinger of a new time when computers will run us, producing images of a perfect president?" a French colleague ponders. "I am your verdict!" Zelenskiy proclaimed at the stadium before the second round of the presidential election. He is indeed a verdict and a challenge. And not for Ukraine alone. ■

# Somewhere in the middle

What is it that voters in free Donbas like about Zelenskiy?

Denys Kazanskiy

The phenomenal success of Volodymyr Zelenskiy and his party *Sluha Narodu* party was probably the main event in Ukraine in 2019. The country's political system underwent a true revolution. Political dinosaurs who seemed to have become ensconced in government forever — indeed to virtually personify it — suffered a devastating loss. Some even found themselves dumped from the Verkhovna Rada altogether. While such processes weren't especially unique for central and western Ukraine, for southern and eastern oblasts, the collapse of the monopoly of local feudal clans and their overlords was nothing short of historical.

Of course, the 2014 election was hardly successful for the former Party of the Regions, but it took place under unusual circumstances. The election basically was going on while war loomed in the background, the PR electorate was terrified and demoralized, and a large share of Donbas voters never even came out to cast a bal-

lot. But by 2019, the situation had stabilized, the scare-mongering by Russian propaganda media about political persecution that frightened and restrained people in 2014 had passed, and the mood seemed to shift towards a comeback. Indeed, the Opposition Bloc and the Opposition Platform — *Za Zhyttia*, two spin-offs of the Party of the Regions, were expected pick up the traditionally loyal and substantial support of voters in the region... and failed.

*Sluha Narodu* basically massacred the former regionals. OPZZ managed to grab what was left of the core PR electorate, but it won seats only in Donetsk and Luhansk Oblasts. Back in 2014, PR's results had been better, when it came in first in five oblasts. But now, even in the Donbas, little was left of its political monopoly. Where in 2012, PR gained 65% of the vote in Donetsk and 57% in Luhansk, OPZZ came up with 43% and 49% in 2019. Faced with a strong competitor, the regionals



**Listening to the Donbas.** The Zelenskiy team is using Serhiy Syvokho as the person to express slogans that are popular among the mass of voters in eastern Ukraine but are simultaneously unacceptable in the rest of the country



were unable to do any better against Zelenskiy's party in the old PR heartland.

Meanwhile, *Sluha Narodu* achieved the seemingly impossible: they got nearly 30% of the vote in the Donbas — without substantial spending, with no administrative leverage, and basically without much preparation. SN did not have a single mayor in the region, not one factory owner, but it took nearly a third of the vote.

Faced with this kind of election result, it was no surprise that journalists and analysts immediately began to “read the entrails” to understand the Zelenskiy team's recipe for success. Some thought it was due to the new campaign technologies being used, others thought it was the endless reruns of 95 Kvartal on Channel 1+1, while yet others thought it was clearly because Ukrainians were tired of the same old faces. In fact, what played into Zelenskiy's hand was a combination of all three factors. Moreover, unlike other politicians, he almost completely avoided negative rhetoric. On the contrary, he kept talking about unity — and gained more votes as a result.

It's hard to call *Sluha Narodu* an ideologically-grounded party. It's even hard to really see it as a political party. It was a typical political project, slapped together in a hurry prior to an election, with a lot of random individuals who knew very little even about each other. And yet, looking at the Zelenskiy party's statements and actions, the most appropriate political label would be “centrist” — not just in the classical sense but also in the local Ukrainian context. After many years of those in power alternating between contrasting political attitudes and ideological camps, the majority was won by a party that the loyalists of the various camps call “neither fish, nor fowl” — something amorphous, spineless, prepared to adapt to whatever needed adapting to.

This kind of political party obviously does not suit people with strong ideological views, whether they are Ukrainian patriots or pro-Russian imperialists. But how many of those are there in Ukraine today? Clearly a minority. The majority of Ukrainians are folks without strongly developed political preferences — which is not intended to offend but is a statement of fact. Nor is Ukraine unique in this. It's a young, poor country, and things are rarely different in countries like this.

For the silent majority, the amorphousness of *Sluha Narodu* was a positive feature, not a negative one. The vague statements and undefined political positions of the Zelenskiy team avoided precision and thus became all things to all Ukrainians.

As long as there were two radically opposed political camps in Ukraine, they were easily able to play off on each other. Most voters were used to voting not so much in favor of someone as against someone else. “I don't like Tymoshenko, but better her than Yanukovich,” was a typical position... and its opposite was equally true. This established the deceptive image of Ukraine as an excessively politicized society with a major, insurmountable split among its regions. But in 2019, voters were finally offered a middle-of-the-road choice: a seemingly “nice guy” for whom they could cast their ballots to spite all the others: the Poroshenkos, the Boykos, and the Tymoshenkos. Moreover, this new guy was acceptable in both Halychyna and in the Donbas.

The appearance of a moderate option showed very clearly that the Donbas is not so totally pro-Russian as has often been assumed. Support for the obviously pro-

Moscow OPZZ in the region remains strong, but even here voters were obviously fed up with the old political elite and were glad to see new faces in the government. This was especially evident in the FPTP ridings where OPZZ candidates generally failed to gain seats.

In the past, whenever national democratic parties tried to challenge the Party of the Regions in the Donbas, they would immediately be faced with an aggressive propaganda campaign aimed at persuading locals that they were really fascists who hated the Donbas and wished the region ill. This time, the parties of Petro Poroshenko and Yulia Tymoshenko became the political lightning rods. And so all the negative PR generated with such determination by the regionals on local television channels was aimed at other politicians, missing Zelenskiy's party altogether. The result was that *Sluha Narodu*, which not only did not make any pro-Russian statements but openly called Russia the aggressor and affirmed Ukraine's European development course, got a miraculously high proportion of the Donbas vote.

Residents of eastern Ukraine turned out to be pretty much the same as residents of other regions of Ukraine: they aren't terribly interested in religious matters, they're tired of squabbling about “whose is Crimea,” they prefer not to think about the reasons for the war, and they mostly want to see stability and peace. And so *Sluha Narodu*, which tried to avoid complicated and painful issues, did not raise their hackles.

FOR THE SILENT MAJORITY, THE AMORPHOUSNESS  
OF SLUHA NARODU WAS A POSITIVE FEATURE, NOT A NEGATIVE ONE.  
THE VAGUE STATEMENTS AND UNDEFINED POLITICAL POSITIONS  
OF THE ZELENSKIY TEAM AVOIDED PRECISION AND THUS BECAME  
ALL THINGS TO ALL UKRAINIANS

Of course, the media savvy of Zelenskiy himself helped a lot. His constant presence on television made him very familiar to local voters and he is generally popular among viewers for the many entertaining products he and his company produce for a very broad audience. His image as a showman who pokes fun at politicians made him “one of us,” and someone who could play the role of a folk hero both in the Donbas and in Volyn. If the Zelenskiy team had run a more focused and large-scale campaign in the Donbas, they would probably have had an even bigger chunk of the vote there.

The question now is whether *Sluha Narodu* will be able to retain or even grow a high level of support for the upcoming local elections in Donetsk and Luhansk Oblasts. For now, it looks like this is entirely within reach. In early 2020, Zelenskiy's ratings have slipped slightly but remain high. The one thing that plays in favor of him and his party is the lack of strong competitors. The old politicians who have been in power for the last 15-20 years don't seem able to offer voters anything new and their ratings show it. So all SN needs to do to succeed is to simply not make any foolish mistakes and more-or-less maintain their current level until the elections. So far, this is working well.

As to public rhetoric, Donetsk and Luhansk voters seem satisfied enough with it. President Zelenskiy recently proposed, “Let's name local streets after people whose names don't generate controversy.” This should please Donbas residents just fine. ■

# Energy policy: Stupidity or crime

What threatening consequences for the country may the new course in energy policy have?

Oleksandr Kramar

Zelenskiy's energy policy has increasingly turned into explosive mixture of populism and imitation. At the same time, even those small gains in strengthening the country's energy independence that were achieved in previous periods are being lost. Unless it changes dramatically in the near future, it will soon become clear that the country's long-term energy security interests were sold for short-term benefits to individual players and lobbyists of increasing imports of most energy resources into the Ukrainian market. And the money earned by such players and their partners in Ukraine will turn into losses and long-term negative consequences for the whole country.

## NOT BY DEED, BUT BY WORD

Zelenskiy himself does not seem to understand what is really happening, but he pretends to be sincerely worried for the state's energy policy to be aimed at protecting the interests of the little Ukrainian. A prime example of this was a series of PR events in late 2019, such as networked and telecast videos from energy meetings featuring the guarantor.

"Communal utility bills cannot be a sentence for people, and they cannot give 50-60%, sometimes even 70% of their salaries," urged Zelenskiy at one of such events. Whereas the government officials who nodded to him during this meeting, by their own decree # 878, on the contrary, increased by one-third the share of the citizens' income paid for utility services before they could apply for a subsidy. "We know that the price of gas has fallen by 30% and tariffs unfortunately haven't," the president continued. Although in October Naftogaz set the price of gas for the needs of the population at 4.27 UAH per m<sup>3</sup> (excluding VAT and costs of supply and distribution), while in December it was 4.28 UAH per m<sup>3</sup>, and for the first quarter of 2020 the price has already been set at UAH 5.5 per m<sup>3</sup> (excluding VAT and costs of supply and distribution).

THE COUNTRY'S LONG-TERM ENERGY SECURITY INTERESTS WERE SOLD FOR SHORT-TERM BENEFITS TO INDIVIDUAL PLAYERS

AND LOBBYISTS OF INCREASING IMPORTS OF MOST ENERGY RESOURCES INTO THE UKRAINIAN MARKET

Likewise, generous promises of thermo-modernization from the president and government are just going to be a drop in the ocean. In 2020, the government plans to modernize only one thousand multi-storey buildings in 10 cities. Although in the country, there are 180 thousand in hundreds of cities and towns. According to Prime Minister Oleksiy Honcharuk, this is to show residents of other homes that payments in insulated homes can be 60% less. In other words, to make fun of 99% of Ukrainians who are offered to watch the next show. After all, none of them need to be convinced that thanks to the insulation of houses can be sig-

nificantly saved on payments. You just have to anticipate the funding mechanism and do it.

However, the government plans to spend only UAH 6.8 bn on the whole thermo-modernization program. Although only subsidies in 2020 compared to the budget of 2018 will save about UAH 15 bn. And if the cumulative share of subsidy and energy expenditure in GDP remains at least at the 2017-2018 level (2.3-2.5% of GDP), which The Ukrainian Week already drew attention to, it may be sufficient to provide additional funding for energy conservation measures. It amounts to UAH 55-65 bn, which is almost 10 times more than the government proposes. This would, in a few years, completely solve the problem of energy modernization of the country's housing stock and radically reduce the consumption and import of fuel, as well as their prices. Therefore, it would enable to create the only real conditions for the long-term reduction of energy costs in the country through the transition from its import to self-sufficiency, and even export.

## "IT'S NOT CUBIC METERS WE ARE INTERESTED IN"

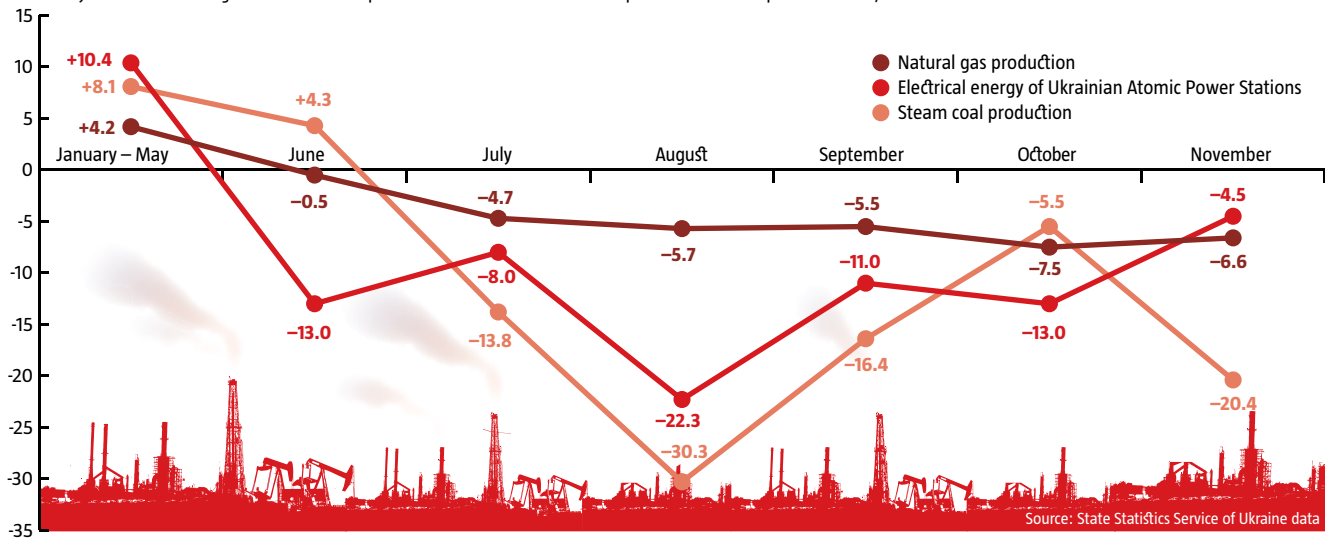
Meanwhile, the situation in real energy is rapidly deteriorating. If in January-May 2019 gas production increased by 4.2% compared to 2018, and then from June it began to decline. And these rates were gaining momentum (from -0.5% in June to -7.5% in October and -6.6% in November). Moreover, the decline is mainly caused by the enterprises of the state group Naftogaz. In this regard, you cannot but worry about the presence among the top managers of Naftogaz those who are associated with the structures, which are one of the largest importers of gas in Ukraine, while promoting the argument that it is inappropriate to increase its domestic production.

In particular, in July 2019, the newly appointed head of Naftogaz gas division, Andriy Favorov, at the presentation of the new Ukrzavdydobuvannya (Ukrasgasproduction) strategy, announced a change in company priorities: "It's not cubic meters we are interested in. We need to reduce the risks while drilling new fields and increase the likelihood of successful drilling. This way we will not increase production, but we will increase the profitability of the company." He added that Naftogaz's supervisory board had already approved the new strategy. This creates the conditions for increasing the import of natural gas to Ukraine and the profit of private traders. By the way, ERU Trading, which Favorov developed before occupying the position of a top manager at Naftogaz, became the largest private importer of natural gas to Ukraine in the first half of 2019, accounting for almost 25% of all its imports by private companies. After that it is of little wonder why just a few months after Favorov's appointment at Naftogaz, the production of natural gas in Ukrainian fields began to decline rapidly and a new strategy of the company was presented that "it's not cubic meters we are interested in". Meanwhile, ERU Trading is very interested in them for import.



**Cursed?**

The dynamics of natural gas and steam coal production in Ukraine in 2019 compared to the same period in 2018, %



Needless to say, Ukraine's dependence on gas imports and its share in consumption will only grow if this approach is maintained. According to operational data of Ukrtransgaz, already in 2019, the import of natural gas increased by 35%, and not only due to the pumping of larger volumes into storage facilities. After all, it is obvious that it would have been much smaller had it not been for the sharp fall in domestic production since July 2019.

The logic of making easy money on imports instead of developing domestic gas production could soon lead to the resumption of direct gas supplies to Ukrainian consumers by Russian Gazprom. When on New Year's Eve media shared the information that five companies had allegedly entered into such gas purchase agreements, the curator of the Russian gas talks hastened to refute those reports because of negative resonance in Ukraine. However, later on, Naftogaz and the newly established gas transmission system operator continued to prepare public opinion for the possibility of such deliveries and stated that there were no obstacles to concluding direct gas supplies by Gazprom to various companies in Ukraine from January 1, 2020.

This is a long-standing dream of the Russian monopolist, which for a long time was limited by the need to sell all gas to Ukrainian Naftogaz, even at the time when Ukraine was 100% dependent on imports of natural gas from Russia. After all, access to direct gas supplies to individual Ukrainian consumers will make it possible to take advantage of such opportunities as an instrument of conquering Ukraine's gas market from the inside, by dumping displacing other suppliers to gain dominant positions. And then successfully fulfill the Kremlin's political objectives within the framework of the hybrid war, giving price preferences loyal to the "Russian world" consumers in exchange for supporting the Kremlin's course on subordination of Ukraine.

Therefore, it is critically important to amend the legislation of Ukraine as soon as possible, which will prohibit any access of Gazprom to our gas market. Such restrictions are a prerequisite for guaranteeing Ukraine's energy security. Russia itself does not have a competitive natural gas export market: Gazprom has a monopoly right to export pipeline gas from the country.

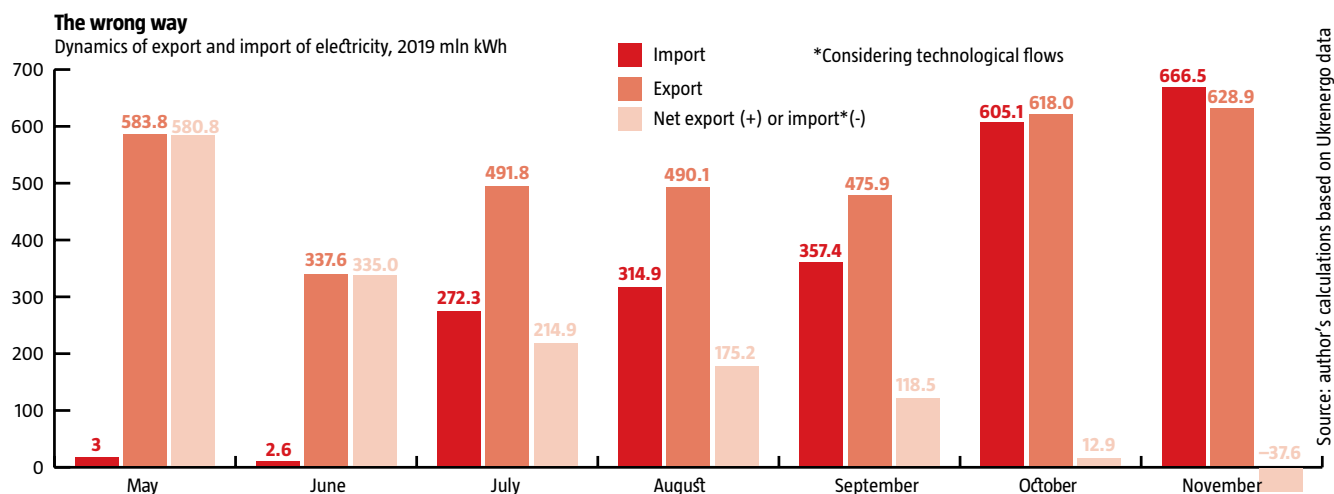
## RUSSIAN ELECTRICITY AND COAL INSTEAD OF UKRAINIAN ONES

The import rate for the simultaneous curtailment of domestic production is also observed in electricity and coal production for its needs. Imports of electricity have grown rapidly since July, when they reached 272 million kWh, reaching 666.5 bn kWh by November (see **The wrong way**). In view of this, according to the results of the extremely warm November 2019, for the first time in years Ukraine was the net importer of electricity: its imports exceeded its exports. Electricity imports declined somewhat in December. But the question remains: does it indicate a break in the tendency to increase the import dependence of the Ukrainian electricity market, or only a temporary backslide? What is meant by this will become clear in the near future.

In the Servant of the People, such a policy is explained by the desire to overcome monopoly and deprive Akhmetov and his DTEK of excessive profits. However, this is increasingly reminiscent of the use of dynamite to peel walnuts. Instead of using antimonopoly mechanisms or creating new ones, which cannot be a difficult task for the majority, the struggle is in fact to destroy Ukrainian energy in favor of increasing imports from other countries, including hostile Russia.

Due to the rapid increase in electricity imports and decrease in electricity consumption due to warmer than usual weather, Ukrainian TPPs have significantly reduced coal combustion. But this was mainly at the expense of Ukrainian coal. For example, without taking into account the energy loss of Luhansk TPP in December 2019 (as of December 28, for which data are available), coal gas consumption (produced in Ukraine) at all TPPs in the country was 1091 thousand tons, while imported anthracite was burned 251 thousand tons. For comparison, in November 2018, while consuming almost the same amount of imported anthracite (292 ths tons), gas-coal produced in Ukraine was burned one and a half times (1758 ths tons).

Under the right state policy, reducing the generation volumes at TPPs should contribute to the complete cessation of imports of energy coal; instead, we observe a dramatic decline in Ukrainian production (see **Cursed?**). According to the State Statistics Service, in some months the collapse reached tens of percent compared to the same period last year. In con-



trast, imports of Russian anthracite, on the contrary, grew dynamically: compared to the same period in 2018, in August 2019 they increased by 12.5% (from 0.24 to 0.27 million tons), and by 57% in October (from 0.28 to 0.44 million tons).

Therefore, the dramatic decline in coal production in Ukraine is a direct consequence of the dumped imports of Russian anthracite. If it were limited, the production of electricity on the TPP units operating on gas coal would have a much larger scale, and consequently the demand for domestic coal would be greater. Instead, we have under-utilization of TPP units operating on domestic coal while burning hundreds of thousands of tons of anthracite imported from Russia every month. All absurdity of the above is the most visually striking at the Sloviansk and Zmiiv TPPs in eastern Ukraine. In case of anthracite combustion of Russian anthracite being stopped or at least minimized, its import to Ukraine would generally decrease by at least 2.5-3 times.

Not surprisingly, that "green light" for Russian anthracite is accompanied by the complete curtailment of the process of converting anthracite blocks to burning gas-coal. In particular, the largest burner of Russian anthracite, the Sloviansk TPP, has not begun its converting. During the rather cold March of 2017, in the midst of the blockade of the OR-DiLO, this power plant stood idle for almost a month, having consumed only 3.7 thousand tons of anthracite coal. Its capacity was successfully offset by the capacities of neighboring TPPs on gas-coal and the Zaporizhzhya NPP. Instead, in November-December 2019, the same TPP burned 150-160 thousand tons a month, up to 60% of all anthracite used at TPPs of Ukraine.

Since there is no critical need for its work, under condition of the legislative introduction of a moratorium on the work of anthracite coal power plants in Ukraine, or at least an embargo on its import from Russia, all the necessary reconstruction at the Sloviansk TPP could be quickly carried out or its operation could be terminated.

And since in recent months, even cut from the railway connection with the rest of Ukraine, Luhansk TPP is still operating on natural gas and not forced to import coal from Russia, there are no obstacles to imposing a full embargo on the import of power plant coal from Russia. No obstacles but the lack of political will and diametrically opposed priorities demonstrated by the current government, working to restore and increase Ukraine's energy dependence on Russia. Nothing is being done to demonopolize the current electricity market in the so-called Burshtyn energoisland – it is a

conventional area separated from the rest of the Ukrainian electric energy system and united with the energy systems of neighboring EU countries in the Zakarpattia, Lviv and Ivano-Frankivsk regions. The situation, where this part of the country is energetically cut off from the rest of Ukraine's power grid and to be able to compete with Akhmetov's Burshtyn TPP there is only possible by increasing current imports from neighboring EU countries, seems to be quite satisfying for the current government. Such imports can be amazingly profitable while justifying them by combating Akhmetov's monopoly. Instead of creating technical opportunities for flowing of electricity to Burshtyn energoisland from the rest of the Ukrainian power grid, and thus increasing the production and sales of electricity to Western Ukrainian NPPs, which are chronically underutilized.

The approaches of the new leadership of the energy bloc, both in the parliament and in the government, significantly harm the Ukrainian nuclear generation, which is for a reason considered a pearl of Ukrainian energy. Despite its 100% dependence on fuel imports for it, it is already being purchased almost in half from Rosatom (57% over 10 months of 2019) and Westinghouse (43%). It should be noted that the share of fuel in the cost of electricity at the NPP is very small. In the first 10 months of 2019, \$300 million was spent on its imports, which is significantly less than it was spent in the same time on imports of power plant coal from Russia alone (\$351 million). Instead, the volumes of electricity produced by atomic fuel exceed by several times the amount of anthracite imported from Russia.

However, the initiatives of the chairman of the profile committee of the Verkhovna Rada, Andriy Herus, led to the displacement of Energoatom from the market due to the increase in imports of electricity from Russia and Belarus. Power generation at the NPP has been declining steadily since June. This is mainly because the power plants are forced to idle because of dispatch restrictions. Therefore, there is no significant saving on imported fuel assemblies. For example, the installed capacity utilization rate for Ukrainian NPPs in November 2019 was only 76.3%, which is 3.6% less than even a year ago.

In the future, the situation is likely to only get worse. Instead of changing approaches, Energy Minister Oleksiy Orzhel, during his recent consultations with his Belarusian counterparts did not hide his interest in increasing electricity imports from the neighboring country, whose supply would increase sharply after the planned launching of the Russian-built Belarus NPP in the near future. ■





# PREMIER

PALACE HOTEL

- KYIV -

## THE EXECUTIVE FLOOR

EXECUTIVE FLOOR — COMFORT AND MAXIMUM PRIVACY

Private butler • Meeting room and reception on the floor  
High-speed Internet • Royal and Presidential suites  
Separate dinner and afternoon tea

Kyiv, 5-7 / 29 T. Shevchenko Blvd / Pushkinskaya Str.

Premier Palace Hotel

+380 (44) 244 12 00    [premier-palace.phnr.com](http://premier-palace.phnr.com)

# Old and new risks

What are the threats facing Ukraine's economy in 2020?

Lyubomyr Shavalyuk

Last year, Ukraine got some significant pleasant surprises. They are the record harvest of crops, the largest ever inflow of non-resident funds into domestic government bonds (T-bills), peaked in many years, economic growth rate exceeding 4% in II-III quarters. The average wage, expressed in hard currency, reached a historic high, crowning all of these positive developments, and real wages reached new heights. Ukrainians began to live better.

But wasn't last year's result a fluke? 2020 will answer this question and at the same time statistically substantiate whether the country is moving in the right direction. At present, the Ukrainian economy has a good starting position stemming from the 2019 gains. But the risks are considerable.

AT PRESENT, SOFT MONETARY POLICY IS BAD FOR THE REAL SECTOR, BUT IT NOURISHES WELL THE STOCK MARKET. IN MANY COUNTRIES, INCLUDING THE UNITED STATES, STOCK INDICES ARE SETTING NEW RECORDS. **BUT IT CANNOT LAST FOREVER. THE HIGHER ASSET PRICES, THE GREATER THE FEAR OF COLLAPSE AMONG INVESTORS AND THE LESS IMPETUS REQUIRED TO START A COLLAPSE**

## ONCE AGAIN ABOUT THE CRISIS

Talking about the global economic crisis right now is a thankless task, since for the last few years; even those who are far from being experts in economy have been pestering it. The IMF also predicts that global GDP growth will accelerate from 3.0% in 2019 to 3.4% in 2020. That is, at first glance, there are no grounds for concern.

But trends are a stubborn thing. And many of them are negative today. Therefore, the question of deployment of crisis processes in the world has always been on the agenda. First of all, the growth of world trade has been steadily declining since the beginning of 2018. They have been negative since June 2019, -2.1% in October. This is the least since the 2008-2009 crisis. Along with world trade, industrial production is also slowing down (see **Staring into the abyss**). For a long time its dynamics was positive, but in October it dropped to zero and even below. The downward trend is very clear; no change for better is visible. This cannot be ignored, as industry accounts for a quarter of world GDP. So if the trend continues, the devastating effect will soon spread to other sectors.

How long will this trend last? It all depends on the factors that determine it. It is thought that the main reason is the uncertainty caused by the trade wars between the US and China, Brexit and geopolitical turmoil. Obviously, investments do not like uncertainty. Therefore, gross fixed capital formation (an indicator of macroeconomic investments) stagnates in the seven economies of the G20, and declines in Mexico, South Korea, Australia, Argentina and

Turkey. The prominent British economist J.M.Keynes once spoke about the decisive impact of investment on business activity. If they fall in the five big economies and do not increase in seven, will this not be the springboard for crisis unfolding? Can we then rely on the IMF's predicted economic growth acceleration in the world?

Some believe that as soon as Brexit settles and the US signs a trade agreement with China, the uncertainty will disappear. It would be nice if this happened as soon as possible. But there is another opinion: the current rise of protectionist and isolationist sentiments is the reaction to the change in the world order that the Fourth Industrial Revolution is carrying. Until the framework of the new system of international relations crystallizes, such phenomena will occur again and again.

At the same time, let's look at car sales statistics. Last year, primary car registrations dropped in half members of the G20. Production declined in the two largest car manufacturing countries – the US and China, as well as in a number of others. However, basic needs to move around in a car demonstrating your standard of living have not disappeared. So where did the dynamics come from? Is it the result of protectionism, declining incomes, or the appearance of hoverboards and Uber? In any case, the dynamics of car sales has little to do with investor sentiment. And car manufacturing combines the work of a huge number of related businesses and industries. The crisis in this industry is rapidly spreading throughout the economy. Therefore, it is very likely that the decline in world trade and industrial production has not yet reached its peak.

Another fact is alarming. These negative trends began to emerge between 2018 and 2019. The US Federal Reserve (FED) reacted last year in late July, launching a discount rate cycle which has already had three steps. Many other central banks have taken the initiative. But the problem is that it has not affected the annual growth rate of many economies. GDP growth in the US, China, India and four other G20 countries is slowing further, while inflation has accelerated markedly. At present, soft monetary policy is bad for the real sector, but it nourishes well the stock market. In many countries, including the United States, stock indices are setting new records. But it cannot last forever. The higher asset prices, the greater the fear of collapse among investors and the less impetus required to start a collapse. And when that moment comes, the investment sentiments will deteriorate for the long haul. Therefore, it is too early to talk about the recovery of the world economy. Rather, on the contrary. And this is a significant risk not only for Ukraine.

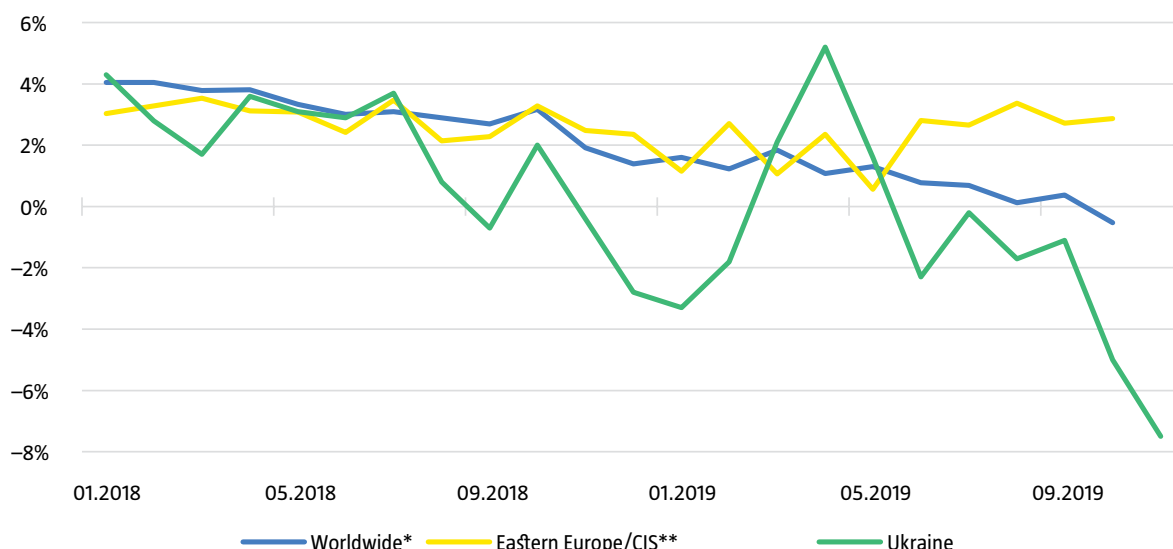
## WEAK UKRAINE

The worst part of it is that the Ukrainian industry is not ready for long-term bottom testing. It is weak, underinvested, so its dynamics is chronically worse than the



## Staring into the abyss

Dinamics of industrial production



\*85 countries accounted for 97% of the world's industrial production

\*\*Armenia, Belarus, Kazakhstan, Russia, Ukraine

Source: State Statistics Service of Ukraine data, cpb.nl

world's one and even regional (see **Staring into the abyss**). Because of this, at the end of 2019, our economy was reminiscent of a marathon runner who ran the distance well, but barely reached the finish line for exhaustion. During the year, the successes of other industries sidelined industrial production stagnation, but towards the end, the downturn in the industry became acute and other sectors' gains diminished. All in all a gloomy picture with undesirably fast dynamics began to form. And this is already a significant risk for 2020.

If the declining trend of world trade and industry is as unbroken as the chart shows, it will be a great challenge for the domestic industry. No matter how strong our agriculture is, its share in the gross value added of the economy is almost half that of industry. Therefore, it will not be able to counteract the marked decline in industrial production. And even if things are going well in other industries, industry-induced losses of employment, purchasing power and budgetary revenues may well chip away at aggregate demand over time and ultimately trigger the decline of the entire Ukrainian economy.

The last two crises have shown that when a downturn begins in the Ukrainian industry, its pace very quickly and smoothly develops to double digits, and sometimes exceeds 20%. Can this dynamics be avoided this time? It is difficult to answer unequivocally. But this risk needs to be given due attention, because much depends on how well it is assessed by the state and on appropriate economic policy put in place to counteract it.

## MIGRANTS' LIFE-LINE

The official salary received by Ukrainian workers abroad has increased from \$5.2 bn in 2014 to about \$12.8 bn in 2019. More than \$2.4 bn goes to us in the form of private money transmissions, which probably come from the income of illegal workers and Ukrainians who changed citizenship. There are two consequences. First, the export of

people and labor from Ukraine has become a significant component of the balance of payments, since it already provides foreign exchange earnings equal to almost a quarter of the income from exports of goods and services. Dynamics of indicators indicates that it is much easier for a country to export people than products of its economy. It's not just sad. No matter how successful the reforms are, the scale of migration is their most accurate assessment given by ordinary citizens. In the human dimension, no development is possible without resources. Therefore, no government with a strategic state vision should allow for a chronic loss of human resources.

Secondly, now the balance of payments and the whole economy of Ukraine depend very much on the economic dynamics of the countries in which our citizens work. And this is a significant risk. On the one hand, it has a long life. It may not be realized in 2020, because over the 11 months of 2019, the official salary of Ukrainian workers has increased by more than 12% compared to the same period last year, so there is seemingly no reason to worry. On the other hand, the Ukrainians work mainly in the EU countries, whose economic situations are very uncertain. According to the IMF, the euro area economy is expected to accelerate from 1.2% in 2019 to 1.4% in 2020, but this is highly unconvincing given the dynamics of a number of macroeconomic indicators in the countries concerned. The economy of Poland has started a slowdown, which is likely to continue in 2020. If crisis trends increase in the world, then EU countries are likely to be among those who will get the most.

Over the last 10 years, the quality of labor migration from Ukraine has changed dramatically. Previously, Ukrainians in Europe worked mostly illegally. They stayed in one country and tried to make money there, living in constant fear of being deported. At the first manifestation of the crisis, they immediately lost their jobs and often returned to Ukraine. Now our labor migration is civilized, and workers have employment contracts. They have become freer, do not cling

to one country and are ready to change, say, Poland to Germany if they receive a higher salary. As employment in Europe grows, demand for them is high. But, as before, in the event of a crisis, they will be massively deprived of jobs, because, choosing between a Pole and a Ukrainian, a Polish employer will probably dismiss our countryman.

Will this not affect Ukrainian labor migrants? Will their support for the Ukrainian economy remain as strong as before? It is difficult to say unambiguously, but it must be admitted that today the growth of the EU economy has become a matter of economic security for Ukraine. And this is long before any hint of our country's membership in the European Union.

## HEADWINDS OF CAPITAL

Last year, non-residents invested a record amount of nearly UAH 110bn in T-bills (see **One hundred billion chance**). This is a phenomenal result, which is well ahead of previous years. Oddly enough, it also carries a significant amount of risk for the current year.

Let's start with the reasons. The high interest rate, associated with it, the high yields on government bonds and the lack of macroeconomic prerequisites for a noticeable devaluation of the hryvnia were a favorable foundation in early 2019. None of its constituents are at present. Rather, on the contrary. On January 14, the Ministry of Finance placed four-year hryvnia bonds with a yield of 9.88%. At the current exchange rate, it is uncompetitive compared to other countries with similar risks. Subsequently, investors will realize this and at least refuse to buy more government bonds. This is the first risk factor.

The euphoria associated with the change in power has also contributed. Before the presidential election, investors were wary of Ukraine's prospects. After the parliamentary elections, they believed in an ambitious program of liberal reforms, ignoring the weaknesses of the current government. In either case in 2020 this euphoria will disappear, because there will be real results, which will be very difficult to meet the extremely high expectations. This is the second risk factor. But that's not the issue. The world

financial and economic system is developing in microcycles that are somewhat like breathing. As the level of fear among counterparties increases, capital flows into "safe havens" – advanced economies with the least risk, such as those of the US, Japan, and Switzerland. It's a breathing-in. When investors' fear decreases, capital flows in the opposite direction to developing countries. It's a breathing-out. Ukraine is one of the very risky developing countries, so we observe a hypertrophied reflection of these processes. During breathing-out, golden rivers can flow to us, as if they were taken from nowhere, and during the breathing-in, it seems like a seven-year Egyptian drought occurs during the time of the biblical Joseph.

Until the middle of last year, the world was paralyzed with protectionism, the decline of global trade, and the slowdown of the world economy. But when the FED, and after it, other central banks, began to act, that is, to ease monetary policy, counterparties heaved a sigh of relief. It was a breathing-out: capital flowed to developing countries. At the time, Ukraine was in good macroeconomic positions, so it received a full bag of money. The largest inflow of foreign money came just in July-August, when investors already realized that the FED would start operating and that relief would soon come.

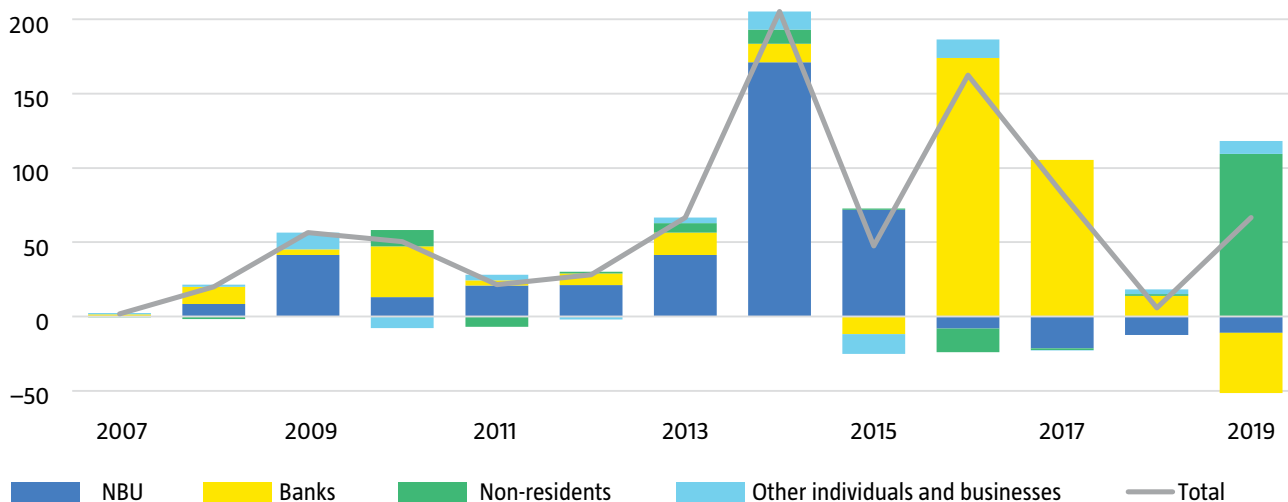
The consequences of this were very positive for the Ukraine's economy, so much so that many, including those in government, have become euphoric and believed that our economy has reached a new level. It is a false impression, a self-deception, which also happened in 2005-2008 and we all know how it ended. The reality is that in the near future, accelerating inflation in developed countries will raise the question of the need of hardline monetary policy. The breathing-out phase will end, the breathing-in will begin. Therefore, for Ukraine the rivers of gold can change to drought. And that's the main risk factor for 2020.

## QUESTIONABLE BUDGET

Sometimes the euphoria dazzles and prevents you from really looking at things. There is much talk about the luck that foreigners have invested hundreds of billions of hry-

### One hundred billion chance

Change in T-bills balances for the year with distribution by owner groups, UAH bn



Source: NBU data, author's calculations

vnias in government bonds. But no one is saying that in doing so, the NBU and commercial banks have reduced their investment by more than UAH 50bn (see **One hundred billion chance**). In 2020, the government's appetite for the domestic debt market will not diminish. And the demand of non-residents for government bonds is likely to fall, because now their yield is not too competitive, and the hryvnia exchange rate is not as attractive as a year ago. Then who will buy the government bonds? Will state-owned banks do this again under pressure from above? But the date of their withdrawal for privatization is approaching, which apparently implies an increase in their autonomy in decision-making. Will such plans have to be postponed? There is no clear answer to these questions, but there is a considerable risk of problems with the financing of the state budget. Of course, one can always return to cooperation with the IMF, but judging by the actions of the current government, it is in no hurry to do so.

The 2020 budget has somewhat a unique problem. A few years ago, too low dollar rate was included in the state budget. As it grew more than projected, the Treasury received higher revenues than planned. This money covered the current gaps and even financed road construction in border areas for some time. Last year, on the contrary, the dollar exchange rate turned out to be unexpectedly low, which caused the plan to fall short of revenue. Then nobody really expected it. But this year is absolutely amazing: at the beginning of November 2019, the Ministry of Economy generated a forecast average annual rate for 2020 of 27 UAH / \$, and the Ministry of Finance put it in the budget base. It happened when the dollar in the foreign exchange market was close to 24.5 UAH / \$ and was declining steadily. In addition the Minister of Economy is also discussing the possibility of a rate of 20 UAH / \$ in 2020.

The NBU does not publicly predict the exchange rate, as it intends to divert the economy from pegging to the dollar. The National Bank's motivation can be understood. But the dynamics of the exchange rate is a fundamental macroeconomic indicator, without which it is impossible to build a balanced economic policy of the state. How can the Ministry of Economy and the Ministry of Finance work without understanding the trends in the foreign exchange market? This whole story is another big risk for 2020. It is already manifesting itself. After all, either during the year, the dollar exchange rate will grow steadily from 24 to 30 UAH / \$ to reach the forecast average of 27 UAH / \$, or the budget revenue plan will not be fulfilled. The prime minister has already said in a handsome expression that the macro forecast will be revised in February. Where is the guarantee that the new forecast is adequate? And even if it is, you will have to look for extra income or cut costs. The economy will not be receptive to any of these operations.

## ELUSIVE EXCHANGE RATE

In the second half of 2019, there was much discussion about the reasons of hryvnia becoming stronger and how it affects the economy. Meanwhile, the economic situation worsened: non-residents began to buy less government bonds, agrarians experienced problems with profitability, and the decline of the industry deepened. There is increasing statistical evidence that in the current economic situation the hryvnia which is too expensive is a risk to macroeconomic stability. Therefore, the main question at this point is whether the hryvnia will remain expensive long enough for this risk to be fully realized.

It seems that the NBU has adjusted its strategy to work in the interbank foreign exchange market. On December 12, the regulator announced that it was raising the level of planned daily currency purchases from \$30 million to \$50 million, and since the beginning of the year its activity in the interbank foreign exchange market has confirmed the chosen behavior. This will keep the hryvnia from strengthening, it will destroy the counterparties' expectations of its further strengthening, and therefore, can fundamentally change the balance of supply and demand in the foreign exchange market. Then the dollar will go up. Can this process get out of hand? If there is such a risk, then it is one of the smallest. Obviously, within a year or two the dollar will try to fully play the lost position and even more. And it will succeed if the crisis processes gain momentum worldwide. But given the volume of the National Bank's foreign exchange reserves, a real upheaval is needed in order for the exchange rate to fluctuate sharply and jump beyond the highs of recent years. This is not expected yet.

## NEUTRALIZE THE THREATS

Ukraine must be well prepared to cope with these risks in view of their scale. It would be nice if the state had an ace up sleeve. Of course, the simplest option is the devaluation of the hryvnia, which can smooth out many minor problems. But it would be desirable for the economy not to slow down, to grow further and to acquire some immunity against internal and external threats. In this case, there will be little devaluation, especially in the worst case scenario.

At the beginning of November 2019, the Ministry of Economy generated a forecast average annual rate for 2020 of **27 UAH / \$**, and the Ministry of Finance put it in the budget base. It happened when the dollar in the foreign exchange market was close to **24.5 UAH / \$** and was declining steadily. In addition the Minister of Economy is also discussing the possibility of a rate of **20 UAH / \$ in 2020**

What can the state offer? The first is the activation of lending. No wonder it is said much about now. The NBU's discount rate should contribute to this. But is it enough to make the effect of an increase in lending significant for the economy? And will the state not leach out internal financial resources with its borrowings if non-residents stop buying government bonds? 2020 will answer these questions. For these questions to be constructive, the state must work hard.

The second is the launch of the land market. Even if this happens with draconian restrictions, the financial system and the economy as a whole will still receive a considerable sip of fresh liquidity. It will happen in all circumstances, because such events happen in the world every decade. The only question is whether it will have negative social consequences. The current year will answer this question as well.

The third is structural reforms. So far, it is a "latent anti-risk", that is, it has existed for a long time and can be implemented in a positive way, but it does not happen in any way. Will 2020 be the exception? Without proper government efforts, no.

So, Ukraine is not in a state of hopelessness. We have significant risks, but we also see directions that we need to move to avoid a full-blown economic crisis. ■



# The march of dis-integration

The self-proclaimed republics in occupied Donbas are changing their rhetoric about returning to Ukraine and are more actively imposing the attributes of a statelet...

Denys Kazanskiy



**New business.** Drivers who travel back and forth between occupied Donbas and the rest of the country now need a service that will hold their license plates

Despite the regular promises of Ukrainian officials about peace in the Donbas and the planned reintegration of ORDiLO, the beginning of the new year saw the occupied territories take the opposite tack. Not only are Russia's proxies not preparing to get closer to Ukraine, but they are actually doing everything possible to eradicate all things Ukrainian in the territories they control.

In the first few days of January, *Russki Mir*, which means both *Pax Russiana* and Russian World, ushered

in the New Year for residence of the occupied Donbas in a highly original manner. Already at the end of December, the militants had announced that curfew would be lifted between January 1 and 8, 2020, but the good news was swiftly followed by bad as a new form of terrorizing began against ordinary Ukrainians. Holders of Ukrainian passports and license plates faced a real round-up: anybody without a "DNR document," which means the vast majority of those living in ORDiLO, were suddenly

being picked up on the streets by patrols and taken to local police stations to be interrogated. Frightened residents found their cell phones being checked for content and their fingerprints were taken. The only answer they received to any questions was that a Ukrainian passport was no longer considered a valid identifying document in the pseudo-republics. Everybody had to get a DNR/LNR document instead.

For ORDiLO residents, this came as a complete shock. There had been absolutely no warning about this change, and most of them had never applied for a proxy passport, seeing no purpose to doing so. And, even those who had actually applied for one were waiting months to get it because the pseudo-republics' bureaucracies worked badly and were slow. This meant that even individuals who were actually loyal to the militants found themselves in an impossible situation and were also labeled "unreliable."

One member of the "public chamber of DNR," Oleksandr Bolotin, posted an audio recording with a woman from Donetsk who explained that she simply had not been able to get a "DNR passport" in time, yet she was stopped in the street and taken to the police station. "On January 5, a police patrol came up to me and asked for my passport. I showed it but they rudely grabbed it from my hands and shoved me and three other people into their car. They took us to vulutsia Shchorsa to the district police station, harangued us for three hours, took our fingerprints and photographed us. What's going on, anyway? What kind of crime is it that I have a Ukrainian passport but I don't have a DNR one? I showed them the text message saying that I was in the electronic queue [to receive a "DNR passport"] for July 14, but it made no difference. This just undermines trust in the 'republics,'" the woman complained.

ORDiLO social nets were abuzz with similar stories during the holiday period. The proxies themselves confirmed by phone that they planned to detain everybody in the streets who doesn't have a "DNR passport."

All this raised a huge wave of anger and negativity in the occupied territories. Even those Ukrainians who basically support the militants and would like to see ties with Ukraine severed once and for all were angry, not so much by the round-up but by the fact that it had started without any warning. "I don't disagree that residents of the republics should have a local passport, but why couldn't people be warned in advance, let them know a year before?" an angry resident of Makiyivka wrote in a local public forum. "Everybody knows how long the lines are to get documents, and lots of people haven't applied only because they don't want to deal with the red tape, and suddenly they've decided to declare us all illegitimate without any warning. What is this? Are they going out of their way to upset people?"

The Donetsk Aborigine telegram channel, which is linked to the one-time "speaker" of the "DNR parliament" Andriy Purgin, wrote that the round-up began because residents of ORDiLO were in no rush to get a "DNR passport" voluntarily. And so, the argument went, it was necessary to force them through outright terror.

A similar "surprise" awaited owners of cars with Ukrainian license plates rather than "DNR plates." The DNR highway patrol stopped such cars on the road, impounded the vehicles and issued the owners huge fines. Even a DNR inspection sticker didn't help. The situation was complicated further by the fact that many Ukrainians from the rest of Ukraine came to ORDiLO for the holi-

days to visit family, and they are obviously not residents of the "republics." But this fact made no difference to the militants. All drivers with Ukrainian plates were rolled, regardless.

And in a flash, the Russian proxies found themselves with a new source of revenue. Overnight, special paid lockers for "D/LNR plates" appeared at line of contact crossings. Of course, no one can drive on Ukraine's roads with such plates, and so those who regularly travel in and out of the occupied territory generally managed exclusively with Ukrainian plates until the last minute. Now all of these people have been put in an impossible situation by the militants and have had to immediately change their Ukrainian plates for "republican" ones whenever they drive into ORDiLO. Now, fortunately, these plates can be stored at the crossing point. According to locals, the price is RUB 50 a day, which is about UAH 19 or less than a dollar.

THE COMPLETE CEASEFIRE BY THE END OF 2019 THAT WAS AGREED AT THE NORMANDY SUMMIT, LIKE ITS MANY ANTECEDENTS, NEVER HAPPENED. AND RUSSIA'S PROXIES HAVE MANAGED, IN JUST HALF A YEAR, TO TURN THE NEW UKRAINIAN PRESIDENT INTO THE SAME "FASCIST SCOURGE" AS HIS PREDECESSOR

All these developments suggest that Russia will continue to turn the territories snatched from Ukraine into unrecognized statelets along the lines of Abkhazia or Transnistria. Chances are that these sudden steps at the beginning of 2020 were driven by the fact that Vladimir Putin was unable to get President Zelenskiy to agree about reintegrating ORDiLO. It's clear to everybody there won't be any "special status" in the Ukrainian Constitution and so they have decided to build the latest eternally unrecognized geopolitical misunderstanding.

What supports this interpretation is also the sudden change in rhetoric among the ORDiLO propaganda press. Where it once dedicated flash mobs to Zelenskiy and asked him to acknowledge the Donbas's choice, blaming any shelling of their territory on the "ambitions activities" of some "radicals" bent on "deliberately discrediting Zelenskiy," since the new year, a squall of negativity of a very personal nature has been unleashed on the Ukrainian leader. Now Russia's proxies are accusing him of "genocide" and "crimes against Donbas," and are preparing to organize something along the lines of a tribunal against him in absentia.

All these developments point to the fact that the much-promised "peace in the Donbas" of Zelenskiy's election campaign remains a long way off. To just stop shooting or "agree to meet halfway" is not happening. Halfway has proved too little for Putin and so the indefinite war continues and is likely to continue for a long time yet.

The complete ceasefire by the end of 2019 that was agreed at the Normandy summit, like its many antecedents, never happened. And Russia's proxies have managed, in just half a year, to turn the new Ukrainian president into the same "fascist scourge" as his predecessor.

For now, it looks like Plan B for occupied Donbas has kicked in, that is, Ukraine's already-announced building of a wall if Russia did not compromise on the reintegration of ORDiLO. And although Zelenskiy stated in December that this was the least of all possible options, Ukraine really is not being left with any other choice. ■

# New Moscowphiles at the door

How disappointment in Volodymyr Zelenskiy will help pro-Russian forces and how they are evolving

Maksym Vikhrov

It was obvious at the end of 2019 that Zelenskiy team's rating was falling despite situational fluctuations. This is perfectly natural in a democracy: history knows few cases where president or ruling party finished their term in office with a rating higher than what they had at the beginning. Most of the time, the opposite happens. Even re-elected leaders get back to their portfolios with ratings below what they had when they first entered office. This is not just because of their personal miscalculations: any elections fuel more or less inflated expectations that turn into bigger or smaller disappointments.

Mykhailo Dobkin, Vadym Rabinovych and Yuriy Boyko ended up with a total of nearly 5% in the 2014 presidential election. In 2019, Yuriy Boyko and Oleksandr Vilkul gained almost 16% between the two of them in the first round, according to data from the Central Election Commission

Zelenskiy's team is in a more complex position as its political capital comes from the protest vote in the 2019 presidential and parliamentary elections. Despite the enormous result of the current government, the long-standing political fragmentation between the nominal East and West has not vanished. It is not impossible to overcome, yet it is based on factors far deeper than the mercurial protest sentiments. As the current government's rating declines, this fragmentation will re-emerge. And the pro-Russian political camp seems ready to snatch new opportunities.

The 2019 election was painful for the pro-Russian forces as Zelenskiy's team ruined the ex-Party of Regions' political monopoly even in their core regions. Servant of the People won almost 30% in the Donbas, while its nominees beat local bosses in a number of constituencies. Yet, this is hardly ultimate and irreversible enlightenment of the local voters. It was pragmatic voting for many: they did not accept Petro Poroshenko's course and supported his most popular opponent.

Given its good understanding of the south-eastern specifics, Zelenskiy's team hinted at plans to change the "nationalistic" and "militaristic" policies. This was effective: similar shares of supporters of the nominally pro-Ukrainian Yulia Tymoshenko and the openly pro-Russian Oleksandr Vilkul (14-15%) were willing to vote for Zelenskiy before the presidential election, according to the Kyiv International Institute of Sociology survey. Whether the current government succeeds in transforming their 2019 spring and summer electorate into a loyal base for the long term is unclear. Frustration is already growing in Central, Western and South-Eastern Ukraine (see **Sentiments in South-Eastern Ukraine**). Among other things, this

trend strengthens the demand for openly pro-Russian politicians.

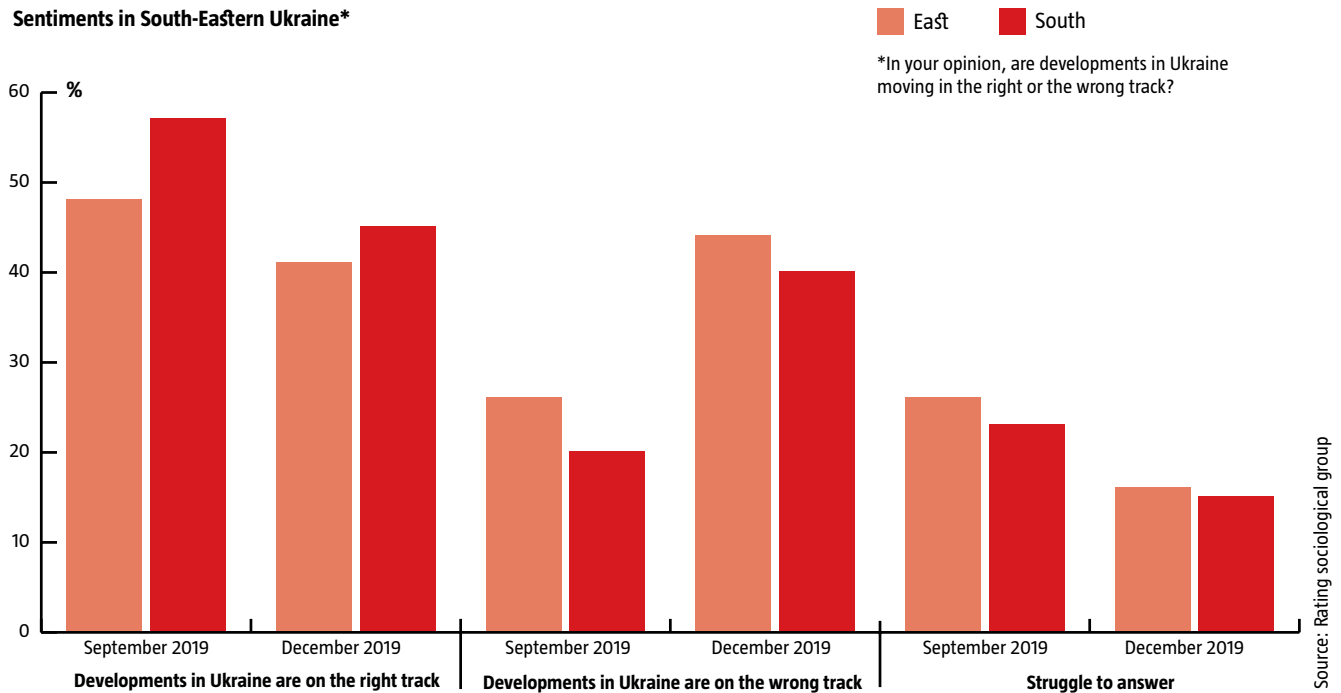
Ex-Party of Regions is preparing to respond to this demand first and foremost. Despite the miseries they have experienced since the fall of the Yanukovych regime, declaring them politically dead is premature. Clearly, their electoral field was seriously curbed with the annexation of Crimea and the Donbas, and the chance of restoring former power is small. Still, they feel better than one could have expected after their political catastrophe in 2014 in their new niche as opposition. Moreover, they have seriously improved their electoral results in the past five years. Mykhailo Dobkin, Vadym Rabinovych and Yuriy Boyko ended up with a total of nearly 5% in the 2014 presidential election. In 2019, Yuriy Boyko and Oleksandr Vilkul gained almost 16% between the two of them in the first round, according to data from the Central Election Commission. Their results improved in parliamentary races too. Compared to slightly over 9% in the 2014 parliamentary election for the Opposition Block, over 16% of Ukrainians voted for the Opposition Block and the Opposition Platform in 2019. If not for the total domination of Zelenskiy and Servant of the People, the ex-Party of Regions would have landed a much better result. Therefore, they are already preparing for the next elections, beefing up their media assets and honing their social and "peacemaking" populism.

From the perspective of history, however, ex-Party of Regions is at an evolutionary dead end. Their core electorate is comprised of ideologically frustrated urban population of Ukraine's southeastern Rust Belt, limited geographically and numerically. They are not capable of going beyond this frame. Nor are they ready to give up on their orthodox pro-Russian views. Their political narrative is Moscow-centric: it is for this reason that Boyko and Viktor Medvedchuk went to meet with Putin before the elections, despite potential electoral losses caused by this. In the late 2019, Medvedchuk announced a "broad assembly" of the Opposition Platform and Russia's State Duma MPs, even though the Russian leadership does not enjoy much sympathy even in South-Eastern Ukraine. Ex-Party of Regions politicians are one-role actors following a script written for them in Moscow. Therefore, the biggest political threat for them would be for Zelenskiy to lean towards an "understanding with Russia", stealing their core electorate and rolling into the narrow niche of south-eastern politicians. They have nothing to offer in response. In that regard, a strongly pro-Ukrainian Zelenskiy would work much better for the ex-Party of Regions.

Meanwhile, a new wing has emerged on Ukraine's political scene that could strengthen the pro-Russian flank in the future. Zelenskiy's victory has made it clear that the time of "authoritative politicians" with a long record in politics is coming to an end. Serious competition now



## Sentiments in South-Eastern Ukraine\*



comes from recognizable characters with charisma who are not even expected to have solid reputation as more voters are willing to vote “as a joke”. These are not the conventional populists playing on the sentiments of the miserable, promising them bread and circuses. It turns out that one can win elections without bread or promises. All it takes is to present yourself impressively. And it is no longer mandatory to buy thousands of billboards or hundreds of hours in prime time. Facebook, Instagram and YouTube perform these functions now.

Zelenskiy’s example has inspired many, including those hopeful with the pro-Russian electorate. Such figures are few in and around Ukrainian politics so far. Servant of the People’s Oleksandr Dubinsky is one example, known for his notorious statements and demonstrative friendship with Andriy Portnov, a representative of the Yanukovych regime, and Ihor Huzhva known for his prominent role in some pro-Russian media in Ukraine. Unlike Portnov who climbed a long ladder in the establishment, Dubinsky got into parliament as journalist and blogger, crushing his competitor Ihor Kononenko, formerly with the Poroshenko Administration, in a Kyiv constituency.

Anatoliy Shariy, another scandalous blogger and expat, hoped to walk the same path. He had some chances: Shariy’s YouTube channel has over 2.2 million subscribers compared to Dubinsky’s 339,000. While Dubinsky ran under the popular Servant of the People brand, Shariy managed to establish a party named after himself as the campaign was already ongoing. His party ended up with 2.2%, almost the same as Svoboda or Volodymyr Hroisman’s Ukrainian Strategy. Shariy’s Party was the most popular in Eastern and Northern Ukraine, and it crossed the threshold in Donetsk region. This localization is self-explanatory: Shariy built his name by criticizing the Maidan, ATO, “banderites”, Ukrainian government and more. Shariy himself failed to run in the elections: the Central Election Commission did not register him as he had not lived in Ukraine for

the past five years. Still, his efforts did not go unnoticed. According to the law, his party will receive public funding, and his vlogs are now broadcasted at channel 112 associated with Medvedchuk. Both Dubinsky and Shariy are likely to try and mobilize the electorate which the ex-Party of Regions failed to reach in the near future, targeting primarily urban youth and the electorate actively following the media.

These politicians will not advocate for “friendship with Russia” openly by contrast to the ex-Party of Regions politicians. The discourse they promote today and will promote tomorrow stands on a different foundation. Firstly, this is anti-Maidan rhetoric that openly condemns the “junta” and the “coup”, or what sounds like rationalistic and sceptical rhetoric claiming that “things are more complicated than they seem.” Secondly, this is resistance to decolonization in domestic humanitarian policies masked as pseudo democracy that will utilize rhetorics about protection of minorities, ideological pluralism, historical truth, freedom of choice etc. Thirdly, this is resistance to consistent movement towards the EU and NATO. Agitating for any unions with Russia is an anachronism, so anti-Western rhetorics will be based on the criticism of “the decaying Europe”, exposure of “Soros- and Washington-funded” actors, and agitation for referenda. Fourthly, this is animosity against the patriotic segment of society, including volunteers, veterans, activists and journalists – all those who make sure that Ukraine stays on the path chosen after the Maidan.

This framework allows them to build an image of critical and sceptical thinkers and reach broad audiences, including the superficially patriotic segments. In essence, though, these rhetorics play into Moscow’s hands just like the orthodox pro-Russian rhetorics did in the time of Yanukovych. In some aspects, this new trend is more dangerous than the dubious prospects of the ex-Party of Regions restoring itself: it may provide the pro-Russian camp with the prospects that could turn out more far-reaching than they seem. ■

# The potential winter unfreezing of the Donbas

The strategic winners and losers at Normandy

**Mark Voyager**, scholar at the Penn Biden Center for Diplomacy and Public Engagement, Washington, D.C.

The entire world was watching and holding its breath two weeks ago, while the leaders of Germany, France, Russia and Ukraine delivered their statements on the outcome of the long-anticipated Normandy talks. Behind the masks of diplomatic protocol no real breakthrough was actually reached, as was widely expected. Chancellor Merkel proved that at the end of her political career she is preoccupied mostly with prolonging for as long as possible the peace in Europe, or rather the illusion of it, while finalizing the coveted North Stream 2 project; while President Macron was eager to show to the world that France is a geopolitical player that can “handle” Russia – sadly, but not surprisingly, by appeasing Putin at the expense of Ukraine and its pro-Western future. Both Western leaders predictably proved incapable of standing up to Russia and taking a stronger stance in defense of Ukraine’s sovereignty. Still, from Russia’s point of view, they failed to deliver on what truly mat-

ters to Russia strategically – pressuring Ukraine to agree to change its constitution and federalize, thus allowing for a Russia-controlled Donbas to start pushing the country away from the EU and NATO. To be sure, the Ukrainian team yielded on many critical issues, for example, allowing Russia’s role to be put down on paper not as the aggressor in Ukraine and party to the conflict in the Donbas, but as a concerned neighbor; agreeing on the implementation of the “Steinmeier formula”, with all its deliberate vagueness, in the Ukrainian legislation; and accepting to meet in four months to report any progress at a new round of talks, in particular on organizing local elections in the Donbas. All those were strongly criticized within Ukraine as either the prelude for more concessions to Russia or an outright betrayal of Ukraine’s strategic interests. Still, President Zelenskiy remained defiant, at least before the cameras, by insisting that no federalization will ever occur, and that



**Déjà vu.** Like five years ago, Russia could use military aggression factor to pressure President of Ukraine and leaders of France and Germany

Ukraine will organize elections in the Donbas only after it regains its control over the border with Russia – exactly the opposite of how Russia sees the process of the hybrid takeover of Ukraine. Whether this was a strategic failure for Russia or merely a strategic delay, this outcome should have made it clear to the Russian leadership that they will not win the war against Ukraine only through political means, at least not as quickly as they had hoped after Zelenskiy was elected President in the summer.

The reason for this political “procrastination” that allowed Zelenskiy to “get off the hook” for now, is that a critical piece was missing from the spirit of these Normandy talks – that of imminent military defeat and the spreading of the armed conflict deeper into Ukraine. This had played so well in Russia’s favor 5 years ago, during the negotiations in mid-February that resulted in the Minsk 2 Agreement – the sense of urgency that Merkel, Hollande and Poroshenko felt at the time to reach a ceasefire at any cost in order to stop the advance of the Russian forces across the Donbas after they had just routed the Ukrainian troops at Debaltseve. That tactical objective had inevitably skewed the strategic geometry of the Minsk 2 talks in a way that left Ukraine as the weakest of the three sides in the diplomatic triangle of “Germany plus France – Russia – Ukraine”. With the Europeans pushing for peace at all cost, and Putin playing intransigent, the pressure fell exclusively on Ukraine to agree on an unfair deal that neither Poroshenko, nor any other self-respecting Ukrainian government could ever deliver on. Putin finally pretended to yield and skillfully applied the art of Russian lawfare by imposing an order of implementation of Minsk 2, whereby restoring the control over the Russian-Ukrainian border would come only after Ukraine delivered on an entire range of intractable political issues that fit the Kremlin’s hybrid aggression plan. At the Normandy talks in December, the Kremlin had to acquiesce with postponing the big political steps by several months, but instead it took small, but important ones forward that could enable it to justify, if it feels necessary, yet another cycle of aggression against Ukraine – either hybrid or conventional.

### FROM BIG STRATEGIC LEAPS TO SMALL TACTICAL STEPS – WHAT DID PUTIN ACTUALLY SAY?

While the world was busy worrying about the above strategic-level moves, Putin did what he always does best – surprising everyone by shifting the “gear” down to the tactical level by invoking those that the Kremlin always claims it comes to the aid of – the “common people” in the Donbas. While Putin read mechanically the “big picture” strategic items in his list of prepared talking points, the novel element of his statement was his personalized insistence on seemingly innocuous tactical issues, such as the de-mining and de-fortification of the line of contact in the Donbas, as well as the opening of new border control points, in order to relieve the situation of the “common people”, about whom according to Putin, no one talks nor cares about, as everyone is so obsessed with the high-level political projects. To add the sense of drama to his impassionate plea, Putin even signed theatrically before the cameras. The world did not take notice, not even laughed at his antics – and it is high time that Ukraine and all concerned Russia-watchers in the West heed the warning of this seemingly insignificant episode – for the consequences for Ukraine could be dramatic once more in the coming winter months.

The last two times the Russian leadership claimed that it had to step in to protect the “common people” in the Donbas – in August-September 2014, and in January-February 2015 – brought humiliating military defeats, followed by Minsk 1 and 2 – each

of them more unfair and tougher on Ukraine than the one before. During its summer of 2014 hybrid aggression, the Kremlin bombarded the world with a joint information warfare and lawfare campaign claiming that the Russian-speakers in the Donbas were in the midst of a humanitarian catastrophe triggered by the Ukrainian “fascists”, so Russia had the duty to step and protect those “common people”. We all know how it did that back then, and how many Ukrainian lives have been lost ever since. When the military violence subsided in the months following Minsk 1, however, Putin quickly realized that Poroshenko was unable and unwilling to deliver on what he had grudgingly agreed on in September 2014. Subsequently, a second military crisis was engineered by the Kremlin, supported again by simple but effective info-warfare and lawfare preparation of the battle space – this time by accusing the Ukrainian army of having shelled city bus stops and killing civilians in Donetsk, coupled with Putin’s personal missive to Poroshenko claiming that a secret protocol on the exact demarcation of the Donbas to include Donetsk airport had been signed during Minsk 1 that still remained unfulfilled by Ukraine. The theatrical “topping of the cake” in early February of 2015 came in the form of a “minute of silence” at the Russian Security Council, with Putin and his 12 top lieutenants paying homage in front of the media to the “common people” supposedly killed by the Ukrainian army. The Kremlin’s second conventional invasion in mid-February of 2015 that resulted in Donetsk airport’s being captured after the ceasefire by what Putin asserted were local “miners and tractor drivers” yielded Minsk 2 and its terms, as they are today – humiliating and constraining on Ukraine’s leadership, but also lacking the mechanism to force it

THE KREMLIN’S PLAYBOOK IS CLEAR AND WELL-REHEARSED – IT COULD TRIGGER AN ENGINEERED SECURITY CRISIS DURING WHICH THE DEATH AND SUFFERING OF CIVILIANS IS BLOWN OUT OF PROPORTION AND BLAMED SOLELY ON THE UKRAINIAN SIDE, WITH RUSSIA ASSUMING THE ROLE OF THE PROTECTOR OF THOSE CIVILIANS AS A CONCERNED NEIGHBOR AND NOT AS A PARTY TO THE CONFLICT

to act and deliver promptly, unless pressured by outside powers (Europe, as the Kremlin had erroneously assumed), or compelled by yet another military crisis.

Five years after those events, the Kremlin’s playbook is clear and well-rehearsed – it could trigger an engineered security crisis during which the death and suffering of civilians is blown out of proportion and blamed solely on the Ukrainian side, with Russia assuming the role of the protector of those civilians as a concerned neighbor and not as a party to the conflict – a position that was codified at Normandy. To top it all, nowadays the situation has changed dramatically in favor of the Kremlin compared to 2015, as Russia already has tens of thousands of “passport holders” in the Donbas that it legally regards as full-fledged Russian citizens whom the Russian army has the obligation to protect. In a potential re-inflaming of the conflict following the above scenario, Russia would not even have to hide its hand when using its troops and military assets, although it could still choose the hybrid method of deploying “integrated forces groupings” by recruiting larger number of local “separatists” (cannon fodder) in the Ukrainian-controlled portions of the Donbas that could then be organized around a core of Russian command-and-control and communication elements, and supported by the infiltration of special forces and “Cossacks”, presumably also through the new checkpoints about which Putin spoke so passionately at Normandy. In that regard, barely a day after the summit, when asked about restoring the control over the Ukrainian-Russian border, Putin asserted



that if Russia were to do that, what would follow would be another “Srebrenitza”. Why would then the Russian leadership, that is so concerned that the Ukrainian “right-wing extremists” could commit an act of genocide against the common Russian-speakers in the Donbas, be so insistent upon the de-mining and de-fortifying of the line of contact and making it even more porous by opening new checkpoints? This really makes sense only if the Kremlin’s thinly-veiled plan is to ultimately take over the entire territory of the Donbas by military means, and in support of that objective the so-called “separatists” have openly stated that the entire territories of the Donetsk and Luhansk regions constitute their legitimate sphere of interest, and not only their occupied portions. Had Putin’s theatrical statements at Normandy remained only on words, that would have been the lesser evil, but now Russia’s “concern for the common people” has also materialized on paper as Point 1 of the Normandy communiqué, whereby Ukraine has

ventional means in re-building its Eurasian empire, and not only gradual subversive ones. The success of Russia’s “hybrid interventionism” model requires having the will and capabilities to employ all tools at its disposal, not only the covert hybrid ones, but also the overt use of force or the threat of it, whenever necessary, as is the case of Syria, Venezuela, and now Libya.

At the level of global diplomacy, the month of December has also been an utter disappointment for the Kremlin – with all its indecisiveness and willingness to placate Putin, France and Germany failed to deliver fully on what Putin wanted, and on top of that, the week following Normandy, the EU voted to prolong the economic sanctions against Russia for six more months. Finally, the developments in the United States last week threaten to deal a strong blow on three of the Kremlin’s major geopolitical projects – the European energy one, the American political one, and the Ukrainian hybrid warfare one. First, the US Congress voted to impose strong sanctions on the North Stream 2 pipeline project which are already forcing many European companies to reconsider their participation, which opposes directly the Kremlin’s plan for energy domination of Europe. Second, the impeachment of President Trump that the US Congress voted for threatens to unravel any high-level political influence that Russia has, or thinks it has over the US executive branch; and third, the US Congress approved the largest defense budget in US history that also features a massive aid package for Ukraine to include direct military means that could help Ukraine halt any future Russian advances into its territory. At the backdrop of these highly negative developments for the Kremlin, it is only logical, that Putin might decide to implement a contingency plan to counter or reverse the effects of all three. A potential renewed Russian aggression in Ukraine can only stand to benefit from the US and the UK being majorly distracted in the coming months by their own complicated political issues - the impeachment of Donald Trump and the hard Brexit adopted by Boris Johnson. It would also serve as a proof to the European public opinion that Ukraine with its constant potential for military conflict (albeit stoked by Russia) is an unreliable gas transit state, which will be the strongest argument in favor of North Stream 2. Finally – as the clock is ticking on Ukraine’s leadership to deliver on its Normandy commitments while scheduled to receive more US military aid and IMF assistance, any Russian hesitance to act promptly and decisively now might prevent it from being able to act successfully later. By then, the Ukrainian leadership will undoubtedly feel emboldened by its improved military capabilities coupled with the feeling that it can “play Putin” indefinitely by not yielding to Russia’s pressure and by constantly postponing the implementation of Minsk 2.

### **POLITICAL VIGILANCE IS NEEDED ALONG WITH THE RELIGIOUS VIGILS AND POPULAR CELEBRATIONS**

The 30-days term for Ukraine to deliver on the tactical steps stipulated by the Normandy communiqué happens to expire around 8th January 2020, right after the Orthodox Christmas celebrations. Of course, no one can claim with a 100-percent degree of certainty that a new Russian aggression is imminent or irreversible, and any existing contingency plans can be altered or trashed by the Kremlin as the situation evolves and circumstances change. Still, it would be prudent for Ukraine, its government and its friends in the West to start preparing for the worst while still hoping for the best, namely that as the Russian winter moves in from the north it will bring only snow for the coming festivities in Ukraine, and not a new unfreezing of the Donbas during the 2020 winter fighting season. ■

THE SUCCESS OF RUSSIA’S “HYBRID INTERVENTIONISM” MODEL REQUIRES HAVING THE WILL AND CAPABILITIES TO EMPLOY ALL TOOLS AT ITS DISPOSAL, NOT ONLY THE COVERT HYBRID ONES, BUT ALSO THE OVERT USE OF FORCE OR THE THREAT OF IT, WHENEVER NECESSARY, AS IS THE CASE OF SYRIA, VENEZUELA, AND NOW LIBYA

four months to report on the strategic issues progress, but only 30 days to deliver on the tactical ones mentioned above. Herein lies the key to the potential for a renewed Russian aggression in the coming winter months, should the Kremlin decide the time has come to stop talking and start acting to “incentivize” the Ukrainian leadership to deliver on the big issues faster and under Russia’s terms.

### **STACKING THE INTERNATIONAL “DECK OF CARDS” AGAINST RUSSIA: NO POLITICAL INCENTIVES ON THE TABLE ANYMORE**

While Putin bemoaned everyone’s obsession with the big political issues, the analysis of how the “deck of cards” ended up being stacked against Russia at that level clearly reveals that the Kremlin no longer has a real incentive to “behave”, as it has nothing to gain from actually complying with the political process, at least over the coming year, although it will undoubtedly claim that it fully supports its provisions, at least on paper. Several important strategic developments that occurred around, or after Normandy, have made Russia’s acting as a spoiler again the only viable choice for achieving a quick and decisive breakthrough against Ukraine and for breaking free of the politically imposed stalemate of the last five years. Firstly, in Russia’s neighborhood, two of Russia’s top regional integration projects – that of the re-inclusion of Belarus in the Russia-dominated Union State, and of the hybrid takeover of Georgia’s political system – were challenged by massive popular anti-Russian protests that those countries’ governments could not, or did not want (in the case of Belarus) to prevent. In the Kremlin’s experience so far with popular movements in its “Near Abroad”, and given its paranoid political mentality, these would be clear indications of impending “Color Revolutions” that threaten to go our control and push those countries away from Russia yet again. While the Kremlin would likely not act militarily against Belarus or Georgia at this point in time, it could choose to do so against Ukraine to send a strong signal to the all defiant or reluctant governments and societies in the region that Russia will not take “No” for an answer in the process of re-establishing control over its perceived sphere of influence, and that it would be ready to resort to more con-

# Down from the peaks

Something's cutting down the profits of Ukrainian banks.  
What risks does the banking system face today?

**Yevhen Dubohryz**, financial analyst who was deputy director of the NBU's financial stability department over 2015-2019

2019 was the best year for Ukraine's banking system since the beginning of the crisis in 2014, and one of the most successful years in its history. The cumulative profits of domestic banks were UAH 59bn for 11 months of 2019, which is 2.6 times more than what they earned over all of 2018. Just two years ago, however, Ukraine's banks finished the year posting a loss of UAH 26.4bn. Cost-to-income ratio (CIR), the best indicator of operating margins, was 47.4% after QI-III of 2019, meaning that income from banking activities was almost double costs. In 2018, CIR was 58%. This is one of the best figures in the world, where globally banking tends to be a profitable but low-margin business.

The number of banks operating at a loss, i.e. banks whose income from their main activities does not cover their costs, has declined every year. There were 18 such banks in 2017, 14 in 2018 and only 10 by November 2019. For three years now, not a single bank has gone bankrupt, and those banks that have left the market since January 2017 have reorganized into financial companies. In other words, they handed back their licenses but stayed in the market.

The inflow of deposits from individual and business clients has increased steadily: hryvnia-denominated deposits from both categories have grown 30% or almost UAH 150bn. The money coming in from local depositors serves as the key resource for banks, accounting for over 80% of the funding they draw, compared to 50-60% before the crisis. This means that the banking system is far more resilient to potential external and internal shocks, and an outflow of non-resident money than it was before the crisis. At that time, interbank and foreign lending accounted for 40% of liabilities.

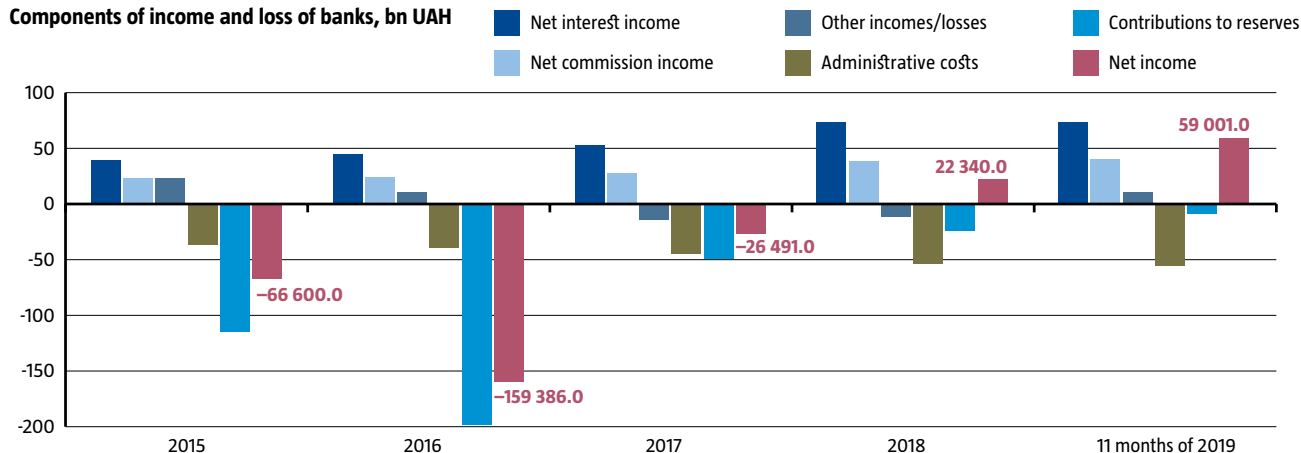
High revenues, operating profits, stable domestic deposits, favorable macroeconomic conditions, and low vulnerability to potential external problems show that, today, Ukrainian banks are no longer at threat from any serious systemic risks. The only potential risk is a default on the government bonds that account for 25% of net assets in the banking system. Yet, there are no reasons for this to happen, even if a serious global crisis emerges. In short, the resilience of the Ukrainian banking sector is real, and while the position of some individual banks is questionable, the overall system is healthy.

This does not, however, mean that Ukraine's banking system is completely problem- or risk-free. Trends in the banking sector suggest that the record-breaking profits of 2019 were an exception rather than a developing rule. Profitability is likely to decline this year and to keep falling further on as deposit and loan rates continue to slip and competition among banks grows. In fact, this cycle has already begun. Banks that failed to build up sufficient resilience, that is, to accumulate capital or to find a profitable business model, risk leaving the market in 2020 or the next few years. Moreover, the NBU will gradually increase capital requirements for banks in order to keep the sector from excessive risk and strengthen its resilience against potential crises, which means that banks will have to work harder and harder with every passing year to earn profits.

## INTEREST AND COMMISSIONS

The primary factor that generated record-high profits in 2019 was the spread between loan and deposit interest rates. Over 2018-2019, high rates on loans and securities were coupled with moderate rates on both commercial

Components of income and loss of banks, bn UAH



Source: NBU

and personal deposits. Net interest margin (NIM), the margin between return on assets and the cost of borrowing, was 5.8% in 2019, the highest since 2009. As a result, net interest income grew on average 17% year-on-year over the past three years.

A second factor was the rise in high-yield consumer lending, the only category of loans growing 30-40% yearly in the last three years. Interest rates on these loans are more than double the rates on corporate ones. The third factor contributing to profitability was an economic revival that guaranteed a spike in bank settlements and fees. Net commission income grew 20% annually over 2018-2019, partly due to consumer lending, as banks tend to charge fees when issuing such loans. Commissions in 2019 accounted for over 25% of all income in the banking system, up from 16% in 2016.

STARTING IN 2020, UKRAINE'S BANKS WILL INCREASINGLY FIND THEMSELVES CAUGHT BETWEEN THE SHRINKING MARGINS ON TRANSACTIONS WITH INTEREST, SUCH AS LENDING AND INVESTMENT IN SECURITIES, AND GROWING ADMINISTRATIVE COSTS

The final factor was a significant decline in funding set aside as reserves against expected losses on issued loans due to devaluation. Accounting rules require banks to report such losses as incurred and reflect them in their statements, decreasing the amount of net income accordingly. This sum shrank from UAH 49bn in 2017 to UAH 24bn in 2018, and barely UAH 9bn in 2019, the lowest in a decade. The shrinkage of these reserves essentially indicates that banks have cleaned unprofitable assets off their books, an endeavor they launched back in 2015 under the supervision of the NBU. After a series of stress tests, which turned into an annual exercise in 2018, and regular checks of lender solvency launched in 2017, banks were forced to report the real quality of their assets, which had proved far poorer than what they were showing in statements. In mid-2017 alone, banks recognized that over half of all the loans they had issued at that point were non-performing.

Over 2015-2017, contributions to reserves against these loans essentially ate up all the banks' operating income, making the sector unprofitable during those years. After banks acknowledged all the bad debt in their portfolios and accumulated reserves against them, they returned to profitability in 2018 and showed record-breaking financial performance in 2019, as contributions to reserves declined rapidly.

### LIQUID AND SOLVENT... FOR NOW

Liquidity and solvency are two main components that ensure resilience for individual banks and the banking system as a whole. The ability to meet liabilities to depositors and other lenders at any point in time is critical. Problems with deposit and loan servicing were the key reason for the closure of so many banks over 2014-2016. The ability to service liabilities over a long period, which determines solvency, is basically the capacity to generate sufficient income to cover interest on deposits. These two concepts are often mixed up. In reality, liquidity problems do not always reflect on a bank's insolvency, and sometimes the most profitable banks can struggle when faced with a sudden outflow of funds. Indeed, insufficient solvency most often causes liquidity problems.

Virtually all banks in Ukraine have enough liquidity, even an excess of it today. The share of highly liquid assets, including monetary assets and NBU certificates of deposit, was nearly 25% of net assets in early 2019. For an individual bank, its liquidity coverage ratio or LCR reflects its ability to pay out clients when a massive outflow of money happens during a month when it has had virtually no income. Nearly all Ukrainian banks have an LCR of over 100% of the NBU's requirement. For the biggest banks, it's 300-500%, which means that they essentially have enough funds to settle with depositors over three to five months, even if income from loans and commissions plummets.

The situation with solvency situation is less cheering. Formally, all Ukrainian banks meet the 10% capital adequacy norm (H2). But some, including big banks, meet it quite narrowly. What this means in practice is that the banks will face solvency difficulties if one or more major debtors stop servicing their loans for some reason. At the beginning of 2019, the capital adequacy ratio at eight mid-sized and large banks was barely above the minimum.

The first indicator of potential solvency problems is performance in the annual stress tests published by the NBU at the end of each year. According to the results published in December 2019, 11 of the 29 banks that did stress tests could potentially experience solvency issues. Most banks where stress tests revealed poor capital adequacy addressed that problem during the year, but their measures were often – neither their business models nor their lending practices changed. The next stress tests will likely reveal the need to recapitalize again.

### NOT THE RIGHT TIME FOR CORPORATE LENDING

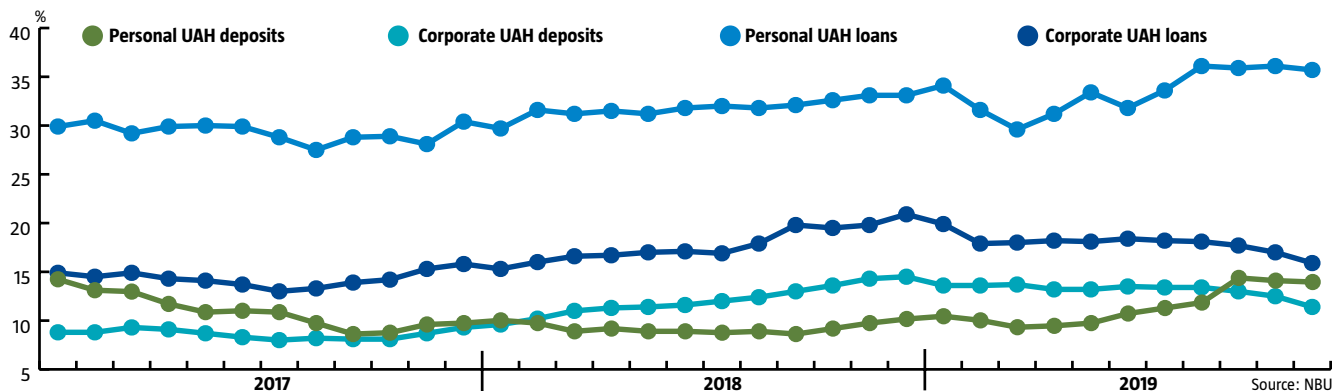
In terms of structural problems facing Ukraine's banking sector, the main issue is an imbalance in lending portfolios that favors consumer loans, which generate higher yields but are more short-term and riskier than corporate lending (see **Interest rates for new deposits and loans over 2018-2019**). Banks have shown their ability to effectively redistribute funds among individual clients, including wealthy depositors and low-income borrowers, but their new corporate lending is feeble. Statistics actually show a decline, although this took place after banks wrote off and sold non-performing loans at a discount, and reevaluated loans denominated in foreign currencies to match the hryvnia revaluation. NBU data shows that the amount of non-performing loans shrank almost 5.5% or UAH 33bn between early 2018 and mid-2019. Over 65% of those were non-performing corporate loans that banks either sold or wrote off. But new corporate loans have been growing at an average of 2-3% a year, which is too slow compared to the pace of lending to consumers.

Instead, banks have been investing their free money in securities – primarily public securities, government bonds and NBU CDs, which accounted for 25% of total assets by the end of 2019. Banks have kept investing in CDs even in H2 of 2019 when yields declined significantly, even though corporate loans offer much higher returns. Such a serious gap suggests that Ukraine's banks don't see enough large-scale, reliable borrowers. In a nutshell, corporate lending looks too high-risk to them.

The statistics on non-performing corporate loans offer the best explanation for this perception. The total share of such loans in the system was 48.9% at the end



Interest rates for new deposits and loans over 2018-2019



of 2019. So, almost half of all corporate loans issued by banks are not being paid off. This is the highest indicator in the world. By comparison, this share in Greece and Portugal is 45% and 12%. Obviously, many of these loans were issued to major business groups by state-owned banks and PrivatBank before the crisis. For example, the share of non-performing loans at PrivatBank is over 80%, and almost all of these loans were issued to the companies related to its former shareholders.

Yet, nearly 20% of corporate loans in the portfolios of private banks are also non-performing. As the market for selling non-performing corporate loans is not nearly as active as that for consumer loans, corporate lending is unlikely to pick up significantly, even if interest rates go down.

### STATE-OWNED OUTLIERS

Ukraine's state-owned banks, especially OshchadBank and UkrEximBank, are the weak links in the domestic banking system. Their profits are below the sector's overall average, and below the performance of the two other big state-owned banks, PrivatBank and UkrGazBank.

"OshchadBank's cost-to-income ratio is 94%," the NBU's Financial Stability Report noted in December 2019. "For UkrEximBank, the CIR was over 100% a year ago and should remain at the same level in 2020 provided that foreign currency-denominated items on the balance sheet are not revaluated." Indeed, both banks posted profits only thanks to the income from the interest on government bonds used to recapitalize the banks earlier. Their main activities – lending and payment transactions – are operating at a loss.

Despite the fact that their deposits are guaranteed by the government – directly for OshchadBank and indirectly for UkrEximBank – both banks offer some of the highest interest rates on deposits and current accounts on the market. Meanwhile, a good share of their loans is not generating any income at all. Over 50% of their loans are non-performing, which is among the top levels in the entire banking system. The NPL share of private banks with Ukrainian capital is only 18%.

PrivatBank had similar problems after nationalization, including a very high proportion of non-performing loans, high interest rates on deposits, and reliance on government bonds for income. But it managed to quickly improve efficiency, such as by cutting interest rates on deposits. It was already operating in the black in 2018,

even with no government bonds. Its income from loans, mostly retail, and commissions was enough to cover the cost of deposits, staff and branch overheads. Today, PrivatBank is the most profitable bank in the system, with UAH 32bn or 54% of all net profits earned by Ukraine's banks over 11M 2019.

### TIME FOR THE PRICE-CUTTERS

Three main challenges for Ukraine's banking system in the next two-three years are shrinking profit margins, the sluggish corporate lending market, and the two unprofitable state banks (see **Components of income and loss of banks**).

The inflow of deposits from individual and business clients has increased steadily: hryvnia-denominated deposits from both categories have grown **30%** or almost **UAH 150bn**

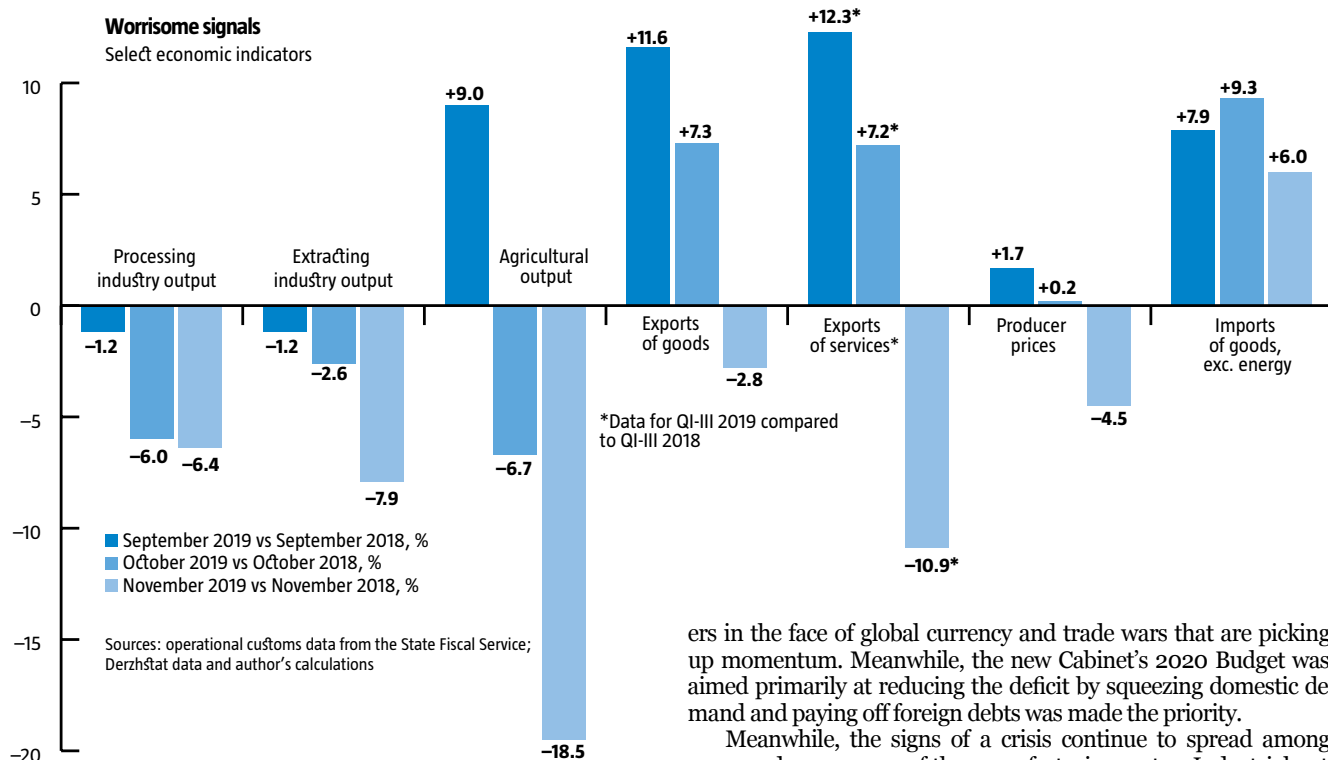
The factors driving strong profits are unlikely to remain in the future. The era of high interest rates is ending. Inflation was far below forecasts in 2019, so the NBU started cutting the prime rate in the second half of the year. Starting in July, it was trimmed from 17% to 13.5%, going down another 150-200 basis points in January 2020. The NBU has already indicated plans to continue cutting it until it is down at 8% over the next two years. This will allow banks to make corporate loans more attractive while offering lower rates on deposits. Given current trends in the banking sector, the NBU expects interest rates on loans to decline faster than interest on deposits. This will, of course, make deposits more expensive than loans and banking transactions will become less profitable.

Another factor putting downward pressure on profit margins will be rising overheads: payroll, office maintenance, new technology, marketing and advertising. These costs have grown over 20% annually in the past few years, but high interest rates and commissions offset the costs. Starting in 2020, Ukraine's banks will increasingly find themselves caught between the shrinking margins on transactions with interest, such as lending and investment in securities, and growing administrative costs. As a result, most banks, except maybe the state banks, will already see their profits go down this year. ■

# The coming crisis

More and more signals are indicating that, after four years of renewed growth, Ukraine could be facing an economic downturn in 2020

Oleksandr Kramar



On August 29, 2019, the single-party Sluha Narodu majority in the Verkhovna Rada established the leadership of the legislature and approved a new Government under Oleksiy Honcharuk. That day, *The Ukrainian Week* published an article stating that Ukraine's economy was close to the crest of economic growth and could very rapidly shift into a painful decline. This came at the peak of euphoria over news that Ukraine's GDP had picked up to 4.6% growth in QII 2019, exports were rapidly rising thanks to a record grain harvest, and the hryvnia was growing stronger by the day.

Unfortunately, this and QIII's 4.1% growth were effectively the final phase of economic growth for 2016-2019, almost completely renewing or even surpassing pre-war indicators. Since then, the signals appear to be indicating the approach of economic decline. Throughout the fall, the negative consequences of the new administration's economic and budget policies were only reducing the competitive advantages of domestic producers, tightening the spiral of import and credit dependence, and undermining long-term demand on the domestic market.

However, the direction taken by the "economic guru" as newly-elected President Volodymyr Zelenskiy called his PM, suggests that the economic challenges facing the country have not been properly assessed. Oleksiy Honcharuk announced that the economy would grow 40% during Zelenskiy's five-year term, from 3.7% to 4.8% depending on what happened already in 2020. Nothing was mentioned, however, about the growing signs of a crisis and the need to set counter-cyclical policies in motion to support domestic produc-

ers in the face of global currency and trade wars that are picking up momentum. Meanwhile, the new Cabinet's 2020 Budget was aimed primarily at reducing the deficit by squeezing domestic demand and paying off foreign debts was made the priority.

Meanwhile, the signs of a crisis continue to spread among more and more areas of the manufacturing sector. Industrial output has been falling steadily, down 1.1% in September compared to last year, down 5% in October compared to 2018, and had fallen by half again, 7.5%, in November.

The steepest decline has been in the steel industry, where it was down 14.3% in November compared to 2018, after slipping 11.9% in October and 5.4% in September. Closely tied to metallurgy, the coking industry was down 7.1% in November after slipping 3.4% in September. Ukrmetallurgprom, the industry business association, predicted that metal production would fall 36% this past December, compared to December 2018, with steel output expected to have dropped from 1.9 million t to 1.2mn t and cast iron to have fallen from 1.83mn t to 1.25mn t.

Despite the official positions of the Government and the central bank, the decline in Ukraine's metallurgical industry cannot be seen as simply the reflection of world trends in the industry. For instance, in neighboring Russia, steel production declined only 2.9% in November in 2019, compared to 2018. In India, the industry suffer a similar decline, 2.8%, while South Korea slipped a mere 0.5%. Meanwhile, China increased production by 4.0%, while Vietnam's output surged 24.0%. Ukraine lost more than 20% of its steel production in November, falling to 15th place among top world producers, behind not just Iran and Turkey, but also Vietnam and Mexico.

Worse, the metallurgical sector, whose problems the Government tried to place on world trends, was not the only declining sector. Light industry has also been losing pace rapidly, declining 10.1% over 11M 2019. Wood-processing was down 5.9% for 11M

but 8.6% for November alone, compared to 2018. More recently, a serious decline can be seen in machine-building, which lost 12.7% in November – the vehicle-making and car parts manufacturing sector was down 15.4%. The electronics and optics manufacturing sectors are doing even worse, down 25.7%. Just about the only predominantly export-oriented sector that continues to thrive is the furniture-making industry.

Over October-November, the decline spread to most other industrial sectors, including one oriented primarily on the domestic market – food processing. Where food processing posted growth in September, 1.6% compared to September 2018, in October it declined 4.3%, slipping further to -4.7% in November. What's more, production was cut across the board in this sector, from meat processing or canning to dairy, confectionery, baked goods, and beverages. Despite a growing trend that had lasted some time, the autumn saw another sector oriented almost exclusively on domestic consumers, pharmaceuticals, contract by 1.0% in November.

Signs of a looming industrial crisis grew worse with a decline in producer prices: in October, they inched up 0.2% only to fall 4.5% in November. In October, they were down in the processing industry by 4.6% from 2018 and 6.0% down in November from 2018. And although falling prices for industrial products and a decline in output were mainly inherent to metallurgy and coking, they affected machine-building, wood processing and the chemicals industries. Stagnation was also evident in food processing. In a situation where production costs remain steady or even rise, lower selling prices as a result of the stronger hryvnia cut into producer profits to the point that some even went into the red.

With growing volumes of power and coal being imported from Russia at dumping prices, a process that picked up in the fall of 2019, domestic coal extraction immediately went into a dive. The decline in November compared to 2018 was 10.4% and nearly four times what it was in October, 2.3% and seven times what it was in September, 1.5%. For the domestic market, this fall in extraction volumes has been even stronger than that of metal ores, which fell 8.9%, which is due to the deteriorating global market. These two factors have combined to accelerate the decline in the entire extraction industry almost three times, from 2.6% in October to 7.9% in November. Meanwhile, extraction in the third largest component of this industry in Ukraine has remained about at the same levels as in 2018, slipping only 0.9% in November.

The farm sector posted solid growth in the first three quarters of 2019 and helped to pull the entire economy to a large extend, but it also started to decline in QIV. For one thing, food processing contracted by 6.7% in October, falling 18.5% in November compared to the same period in 2018. This gives reason to fear that QIV will end up with a very poor performance overall. Most likely, this decline will continue into 2020, too. At least two factors support this pessimistic outlook. First of all, the sector has been posting steady growth for two years in a row now, and typically after this kind of growth, at least with crops, there tends to be a temporary recession as yields go down. Secondly, investment in the agricultural sector has been falling for several years now. Indeed, for the first three quarters of 2019, it was less even than in the same period of 2017. It looks, thus, like the ag sector will post a serious fall-off in 2020.

After the pace of growth slowed down from 11.6% in September to 7.3% in October, exports of goods actually declined in November, falling 2.8%, from \$4.46mn in 2018 to \$4.32mn in 2019. Meanwhile, non-energy imports of goods continued to grow fairly rapidly, ranging from 6% to 9% during the three fall months. But in 2020, Ukraine is likely to see a decline in exports of agricultural raw materials added to these factors.

With exports of services, which have traditionally compensated for a shortage of trade in goods in Ukraine, the situation is even worse. By QIII this year, exports of services had fallen off by 10.9% compared to 2018 and prospects for 2020 don't look much bet-

ter. The cutbacks in transit gas from Russia has only added to the general negative trend that has been taking shape since mid-2019. At least the basic agreement that Gazprom will supply 65bn cu m in 2020, about 30% less than in 2019 has already been made public. The thing is that transit gas has constituted about a quarter of Ukraine's exports of services in the past.

The growing hryvnia has made imports of consumer goods more attractive while reducing the competitiveness of Ukrainian-made goods. And so imports from global manufactories like China and other major Asian producers have been growing, effectively squeezing out made-in-Ukraine products – other than raw materials – on both the domestic and international markets. In the first half-year, imports averaged around \$653bn a month, but by August they were up to \$903bn and up to \$965bn in October. This is being stimulated by the rapid construction of a government bond pyramid, which the Honcharuk Government has been turning into a panacea at a time when budget revenues are not strong as intakes from customs duties and taxes have generally gone down. This pyramid of debt is driving down the cost of imports in hryvnia terms, worsening the problem with collections for the budget and requiring ever more borrowings, which drives the hryvnia up further and reduces collections even more.

The processing industry constitutes only 11% of Ukraine's economy, with the farm sector at 10%, the extraction industries at 6%, and the power industry at 3%. However, put together that adds up to nearly one third of the country's GDP. This means that a highly likely coordinated decline is liable to drag the rest of the economy down with them. For now, it's holding on thanks to retail sales, construction and, to a lesser extent transportation, which are being spurred by both a sharp improvement in household incomes in the last few years and the remittances sent home by migrant Ukrainian workers – and, of course, the transport and sale of imported goods. But for one thing, the share of these sectors in GDP barely amounts to 21%. For another, should the manufacturing crisis become full-blown, affecting the export of its goods, this trio will also feel the pain.

The growing hryvnia also means that the remittances from abroad are actually shrinking in local terms, while the belt-tightening budget passed for this year is likely to put pressure on the buying power of those Ukrainian consumers who remain in the country. This is because wages in key sectors are indexed at a level that is slightly above inflation and two-three times lower than was seen over 2017-2019. As the domestic market gets squeezed, the crisis will begin to affect the other sectors of the economy that serve it.

More than this, domestic problems are likely to be added to the external challenges in 2020: the world economy is also heading for its next cyclical crisis and could well be as bad as the one in 2007-2009. The signs of this are growing daily. In the US, industrial output is slowing down, having slipped 1.1% in October on an annual basis. It's also slowing down in the EU, losing 2.2% in October compared to 2018, and down from 1.7% in September. Major consumers of Ukrainian goods such as Italy and Germany have seen an even faster decline, Italy losing 2.4% in October and Germany losing 5.3%.

Even in the most liberal societies with historical traditions of limited government interference in their lives, dissatisfaction with the limited role of the state in regulating socio-economic processes has been on the rise. As a night watchman, it no longer pleases anyone as it eliminates the options for effectively responding to the challenges of the day. More and more, it's being recognized that the nation-state is a major component of success and security in the modern world. This is what should protect the national interest on foreign markets. How much longer must Ukraine's domestic economy continue spiralling into degradation and vulnerability before its leadership becomes aware that public policy regarding the economy needs to be overhauled? ■



# Feeling good

Andriy Holub

The government has managed to keep its approval rating high. For the first time in years, many Ukrainians believe that their life has not deteriorated

In July 2018, before the presidential campaign kicked off officially, the impression was that socio-economic indicators would play a serious role in the race. Ukrainian politicians were undergoing a serious crisis of ideas. Nobody could offer new solutions to the key issues of war and peace, so the only path to the hearts of the voters was through their wallets.

SOCIS, a pollster close to Petro Poroshenko, did a survey about the subsistence level, wages and pensions Ukrainians wanted. The numbers were UAH 6,659, UAH 11,951 and UAH 7,451 respectively. The real numbers, according to the State Statistics Bureau, were UAH 1,777, UAH 8,725 and UAH 2,479. **The Ukrainian Week** wrote that decreasing the gap between the income Ukrainians wanted and had in reality would help those in power stay.

That forecast was accurate only partly. Indeed, the elections never grew into a competition of ideas: the victorious Volodymyr Zelenskyy stood out for not saying anything throughout the campaign. His rate of recognition and no experience in politics guaranteed his leadership in polls. However, the previous government failed to improve social standards significantly. At the end of 2018, frustration with all spheres of social life dropped somewhat but remained very high, leaving the government with barely any chance of victory. According to the end-of-year survey by the Democratic Initiatives Foundation, the bal-

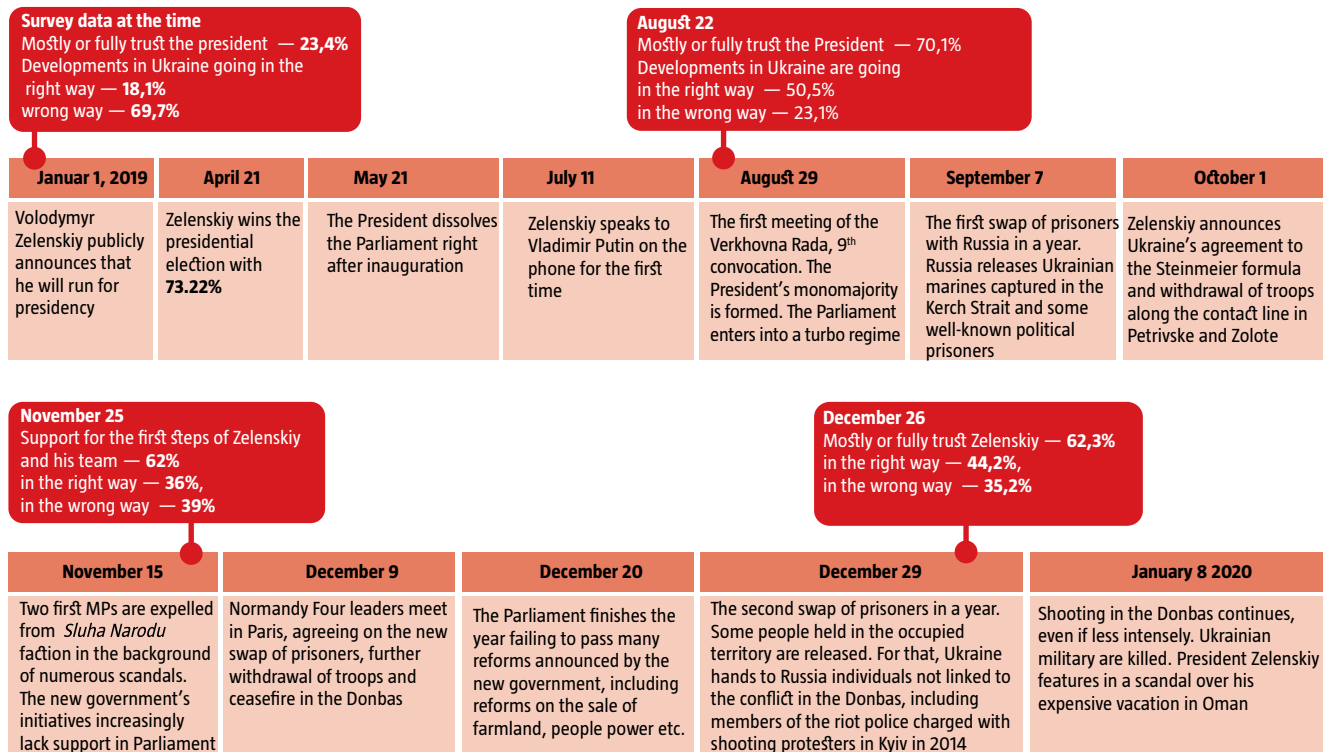
ance in the evaluation of changes in the pension system was at -48% and of salaries at -51% (the gap between those who saw changes for the better and worse). These indicators were self-explanatory: the gap between what people wanted and had was huge indeed.

We are now in January 2020. The average pension was UAH 3,016 in October 1, 2019, and salary – UAH 10,679, while subsistence level climbed to UAH 2,027 by January 1. These figures are far from what Ukrainians wanted in July 2018. Yet, the survey by the Democratic Initiatives and Razumkov Center showed a surprise – or a miracle. The assessment of pensions is still negative, but it improved twofold over 2019 rising to -24.5%. The assessment of salaries is at -20.9%, and the dynamics is similar for all other sectors covered by the survey (see **The years of Poroshenko and Zelenskyy**).

A closer look at the latest figures shows that the number of people convinced that their income has increased is not that high. Far more respondents think that the situation did not change throughout in 2019. Before, all these people said that the situation deteriorated, even if there were no objective reasons for that.

It is difficult to explain this psychological phenomenon at first sight. The pollsters claim that this reflects an advance of trust given to every new government. “This

## How political sentiments changed in 2019



Sources: surveys by Democratic Initiatives, KIIS and Razumkov Center in 2018-2019; Central Election Commission

reflects a trend whereby a change of government boosts the level of optimism at the very least. Still, positive assessments prevail over the negative ones in just three areas: defense capacity, Ukraine's international image and international relations," explains Andriy Bychenko, Director of Razumkov Center's sociology section.

Expectations about the future have always been positive rather than negative in Ukraine. Despite many problems and complaints about life voiced everywhere, Ukrainians are definitely not a pessimistic nation. When citizens think of Ukraine's future, optimism and hope prevail. This has been the trend for several years now. The sense of anxiety comes third in that list. The three top emotions did not change in 2019 survey, yet hope and optimism strengthened their positions by 4% and 8% compared to 2018, while the level of anxiety dropped to 7%.

According to annual surveys, Ukrainian citizens feel happy rather than anything despite any developments around them. The number of the happy citizen increased in 2019 too in all regions except for Central Ukraine where the figure dropped by several percentage points. Despite this improvement of assessments in different spheres, sociologists warn against far-reaching conclusions – they saw similar trends in 2005 and 2014. "The ball is now in the government's court. There is some social optimism and that can help those in power do changes in the country," Bychenko adds.

There is one thing in which the current government has beaten its predecessors. While Ukrainians used to lose their hope in the new leaders after half a year before, most still believe that Ukraine is on the right track now. Trust for the President remains high at over 60%. In terms of the approval rating, President Zelenskiy has almost caught up with the Armed Forces, the Church and volunteers, the three most trusted institutions in Ukraine.

This is where good news for the current government ends and the worrying ones start: inflated expectations come hand in hand with inflated responsibility. While Zelenskiy kept silence during the presidential campaign, some of his few promises are firmly in the minds of his voters. The top ones are about "putting people in jail in spring" and the new Government's declarations of 40% economic growth in five years. Another irritant is the end of war which President Zelenskiy pledged to accomplish, including through talks "with devil if need be." So far, prisons are not full of top corruptioners, economic growth has not sped up, prices are not falling and shooting in the Donbas continues.

The threat of frustration is far closer than it seems. Even though President Zelenskiy is still enjoying a sexy approval rate, his major allies are mostly in negative ratings by now. His Chief of Staff Andriy Bohdan has -32.7%, Servant of the People faction head David Arakhamia has -32.6% and Prime Minister Oleksiy Honcharuk is at -16.1%. Parliament Speaker Dmytro Razumkov stays at 10%, but that is seven points below what he had two months ago.

President Zelenskiy has managed to delay social frustration with his office with memorable events where he features as protagonist. One was the Normandy Four meeting in Paris in early December 2019 and the release of Ukrainian war hostages. Avoiding a new gas war with Russia helped too. These events were impressive enough to overshadow negative developments, such as the price Ukraine paid for the release of its hostages. According to the survey by the Democratic Initiatives and the Razum-



**The years of Poroshenko and Zelenskiy**  
Ukrainians give better assessments for specific spheres, although the approval ratio is still negative



2018		2019
-61.6	<b>Situation in the country</b>	-15.2
-63.2	<b>Stability</b>	-20.4
-61.2	<b>Economic situation</b>	-17.8
-52.2	<b>Welfare of households</b>	-22.6
-82.2	<b>Prices and utility rates</b>	-55.3
-52.8	<b>Social benefits</b>	-35.6
-48.4	<b>Pension provision</b>	-24.5
-51	<b>Wages</b>	-20.9
-45.5	<b>Criminality</b>	-21.6
-48.2	<b>Healthcare</b>	-34.5
-54.4	<b>Attitudes to those in power</b>	-6.1
16.4	<b>Defense capacity</b>	16.1
4.2	<b>International image</b>	9.9
-12.3	<b>International relations</b>	4.2

Balance (+/-) is the ratio of those who believe that the situation in Ukraine has improved to those who believe otherwise

Sources: surveys by Democratic Initiatives, KIIS and Razumkov Center in 2018-2019; Central Election Commission

kov Center, Ukrainians listed presidential and parliamentary elections, the release of hostages and the Normandy Four meeting in Paris as the top events of 2019. Almost 60% of those surveyed thought that the main development of the year was positive and 10% thought the opposite.

A closer look reveals that elections are the only developments of domestic policy. The rest are international affairs. In its first six months in power, Zelenskiy's team has not done a single noticeable step towards changing the system domestically. Even if the trends acceptable to Zelenskiy continue, foreign policy cannot patch up the gaps in domestic policies forever. People will return to their wallets sooner or later and start talking about their aspiration of fairness or justice. When that happens, Zelenskiy will have just two cards in his sleeve: a change of Government and possible snap parliamentary elections.

Petro Poroshenko used the first trick to temporarily channel popular frustration against the first premier under his presidency, Arseniy Yatseniuk. He left his office with the approval rating of below -80%. The second option is only possible if Zelenskiy himself retains a good rating in the next six months. A third option is to launch full-scale reforms and to accomplish fast economic growth as Zelenskiy promised. Yet, given Zelenskiy's attempts to act as a Ukrainian Lukashenka who gives personal orders to everyone instead of conducting systemic transformations, this seems increasingly unlikely.

Another question remains on the table among government watchers. "I'd like to assure you now: I'm going for one term to change the system for the future," is the quote from Zelenskiy's campaign platform. His first six months in power were obviously aimed at keeping his popularity high. Why does he need that if he does not plan to re-run for office? The goal could be to use social trust to make the implementation of reforms easier. 2020 will give the answer to that. ■

# Portrait in dirty grey

New Year in occupied Donbas

Denys Kazanskiy

Many expected 2019 to be the breakthrough year in terms of establishing some kind of peace in occupied Donbas and beginning the reintegration of ORDiLO, as the occupied rayons or counties of Donetsk and Luhansk Oblasts are called, into the rest of Ukraine. Such hopes failed to materialize. Now, with the beginning of 2020, it's obvious that the new administration has been unable to achieve any serious progress in this much-promised area. The war continues, and it doesn't look likely to stop any time soon. Despite agreements to exchange prisoners and withdraw troops from some areas of the front, the Ukrainian Armed Forces continue to report casualties every week.

THE DELIBERATE COLLAPSE OF THE ECONOMY AND SOCIAL SPHERE IN ORDiLO CONTINUES UNABATED. DRIVEN NOT ONLY BY THE UNCERTAIN STATUS OF THE GREY ONE OR THE LACK OF OPPORTUNITIES FOR THE ECONOMY TO PROPERLY DEVELOP, BUT ALSO BY THE OPEN MARAUDING OF THE CURRENT "OVERLORDS" OF THE TERRITORIES

The absence of serious progress in peace talks is no fault of the Zelenskiy administration. It's long been obvious that the war would continue until Russia decides to stop. And no Ukrainian leader, however persuasive, will be able to do anything about this unilaterally. After all, Ukraine was not the attacker in this conflict: it's the defender. Moreover, it will have to keep doing so until the aggressor removes its troops from Ukrainian territory.

Turns out that easy promises of peace were a mistake on the part of Volodymyr Zelenskiy. His predecessor, Petro Poroshenko, found himself in exactly the same unpleasant position, having promised to end the ATO in a few weeks, back in 2014. Later, he had to apologize for his words but the sour taste remained. Most likely, this will prove equally awkward for Zelenskiy down the line.

And so 2019 turned out to be another lost year for occupied Donbas, a time of continuing armed conflict, destruction, lawlessness, economic collapse, and curfews. Every such lost year separates the region more and more from normal life, and makes its economic revival in the near future less and less likely. Although many of those living in ORDiLO are aware that they are in a dead end, they are in no position to do much about it at this point. The only option for locals who want to change their lives is to simply leave the area and the rule of brigands who call themselves the leaders of the two pseudo-republics, DNR and LNR. This is about the only leverage they have over their own lives.

The deliberate collapse of the economy and social sphere in ORDiLO continues unabated. Driven not only by the uncertain status of the grey one or the lack of opportunities for the economy to properly develop, but also by the open marauding of the current "overlords" of the territories. Ukrain-

ian businesses have been seized and handed over to the one-time Yanukovich bagman and junior oligarch, Serhiy Kurchenko, who now lives in the Russian Federation, and runs these stolen assets through his Vneshtorgservis company. What's more, Kurchenko exploits all these assets in the most barbaric fashion, running them into the ground without investing in any necessary reconstruction or modernization of facilities. To this disaster, another has been added more recently: world prices for coal and steel are spiraling downwards, causing already-struggling firms to go into virtual collapse.

Both mining and metallurgy are undergoing serious financial troubles in both Ukraine and Russia, but the impoverished unrecognized territories have few options for shipping and selling any products they make. Mines have been closing down and are only draining water, while workers have been put on indefinite unpaid leave. For instance, as of December 6, the mines of the Toreznanratsyt Union are in downtime mode. The decree to this effect issued by DNR's "minister for the coal industry" Ruslan Dubovskiy said that this was necessary "in connection with the lack of organizational and technical conditions necessary to carry on operations in the core activities, as a result of the sharply worse financial situation at the company."

As a result, wage arrears have grown. Today, ORDiLO miners still don't even have all their wages for October. Nor are they in a position to organize a strike and demand their back pay: any calls for demonstrations are strictly punished those who dare to voice such calls are immediately called "agents of the SBU," Ukraine's security bureau.

Dubovskiy's letter to Denis Pushilin in summer 2019 reporting on the situation offers a good glimpse into the real state of affairs in the occupied territories. Although it was written half a year ago, the situation has not likely improved since then: "A state coal enterprises that are under the administration of the DNR ministry of coal and power, the situation is critical due to delayed payments for coal delivered to OAO Vneshtorgservis and its subsidiary Ugol Donbassa," Dubovskiy reported to his boss. "As of June 3, 2019, RUB 1,586.6 million was outstanding, of which RUB 962.1mn was overdue."

Such enormous debts have not disappeared. Moreover, it's obvious that they have accumulated with the approval of Kurchenko's Moscow handlers. Nor is there any power in ORDiLO that might force Kurchenko to settle these debts. In effect, the occupied territory has turned into a colony in the service of the one-time Ukrainian oligarch, something that a number of Russian sources that are supposedly sympathetic to the militants write about without any embarrassment whatsoever.

At this point, there are no statistics that might illustrate the real economic state of ORDiLO. That is, there are numbers, but they are not being published in open sources. And so the only way to understand what is going on is through in-





PHOTO: REUTERS

**New subjects.** Russia's Interior Ministry says it has issued 125,000 Russian passports to residents of occupied Donbas

direct indicators, such as the numbers in Dubovskiy's letter or decrees shutting down operations or closing businesses altogether. Just recently it became known that the Donetsk High Voltage Insulator Plant was permanently closed, and Horlivka's Stirol, one of the oldest makers of nitrogen fertilizers in Ukraine, owned most recently by oligarch Dmytro Firtash, was put on hold. All this testifies to the fact that the decline of the areas of Donetsk and Luhansk Oblasts that were taken over by Russia's proxies continues.

Under the circumstances, the militants have been trying to find other sources of revenue for their pathetic budgets and keep finding new ways to get money out of the wretched local population, which has effectively become their hostage. In the very first days of the new year, DNR decided to go after owners of cars with Ukrainian license plates. Drivers whose plates weren't "republican" were stopped and their cars impounded.

Given all these economic woes, the only good news for residents of ORDiLO, or rather those who favor the Russian Federation, was the issuing of Russian passports, which began in 2019. After five years of armed conflict, Russian President Vladimir Putin finally decided to simplify the process of getting citizenship for residents of the Donbas territory under his control. Except that this process has been deliberately organized in a way that it will drag on for years.

In fact, it turned out that there were few applicants. For the hundreds of thousands of those who are negative about

Ukraine, it might offer an opportunity to move away from the thoroughly robbed pseudo-republics, with their lawlessness and poverty, to a country with a relatively normal living standard, to avoid bureaucratic hassles in looking for employment and to settle into a new place relatively easily. For those who have no plans to leave ORDiLO, however, a Russian passport is a triviality that will do nothing to make their lives easier.

According to the Russian foreign ministry, as of April 2019, some 125,000 Ukrainians living in ORDiLO had taken out a Russian passport. The number seems impressive, but at this pace, it would take a good 15 years to issue such passports to the entire population of DNR and LNR.

Whatever happens, the issuing of Russian passports will simply lead to a faster shift of ORDiLO residents to Russia. It seems that Russia is determined not only to take all the region's natural, industrial and financial resources, but also its human ones. Of course, this can only make the situation that much worse in Donbas. The region is undergoing an accelerated pace of depopulation, which can only lead to a worse human resource crisis.

And so occupied Donbas is entering the new year with the same set of problems it started 2019. At this point, they look fairly insurmountable. The only thing that might break the situation would be for ORDiLO to return under Ukrainian law and for comprehensive restoration to begin. But right now it's not yet time to talk about this. ■

# The battle of the narratives

Western media often repeats propaganda from Russia. Why is this?

Nina Kuryata

“Ukraine is not a real country,” “There’s a civil war going on in eastern Ukraine,” “Rightwing radicals have taken over the government in Ukraine”... These are just a few of the memes that Russia has promoted for the last 6 years, and the narrative has made its way all over the world. Russian media products are being consumed not just in Russia, but also by Russian-speaking audiences in Europe, the Americas and elsewhere. Indeed, for some immigrants it’s their only source of information because they often know the language of their new homeland poorly. And so they don’t bother looking at local news or listening to serious analytical programs, preferring the comfort of long-familiar faces on the screen.

**ANOTHER REASON WHY WESTERN SOURCES MAKE SUCH FUNDAMENTAL MISTAKES IS BECAUSE MANY WERE USED TO HAVING ONLY A BUREAU BASED IN MOSCOW FROM SOVIET TIMES – AND MANY STILL DO – AND THEY ARE USED TO ALWAYS INTERPRETING EVENTS IN OTHER FORMER SOVIET REPUBLICS THROUGH RUSSIAN EYES**

The next level of disinformation, in addition to anti-Ukrainian narratives that echo from top officials and are repeated by news agencies are everyday fakes. These are stories under headlines such as “Starving Ukrainians take bread away from pigeons” and “Ukrainians are allowed to sell their organs for money.” This forms a much larger cross-section of the disinformation pyramid, it appeals to the emotions, and people spread this kind of story easily without stopping to think or to verify. Of course, if the viewer is sitting at the TV in Denmark or Germany, it’s not so easy to check on the veracity, either. The generation, support and spread of fakes by troll and bot farms has become an entire industry that is kept going on enormous budgets. Needless to say, it’s all, in the case of Ukraine, in the interests of Russia. Because the mass of viewers is not especially media-savvy, it swallows all of this, having been primed by messages such as “Ukraine is a fake state where banderites kill children wearing orange-and-black striped ribbons.”

Ukraine’s information opponents are very powerful and skilled in producing propaganda. Dozens of channels and sites keep pouring out information to serve Moscow’s purposes—not only in Russian but also in English and many other languages, just as soon as the opportunity arises. And so you have it that the Euromaidan was an “unconstitutional coup,” the Crimean pseudo-referendum somehow “took place spontaneously,” “the Russian army is not present in Donbas,” and the armed proxies are “rebels” or “local militias who are standing against the fascists in Kyiv.”

Such messages are not just one-time fakes like the story of the “crucified boy,” but thoroughly thought out, oft-repeated lines that can be heard from Russian presenters and high-level officials, including President Vladimir Putin himself. Who was it, after all, that once told George Bush that Ukraine was a failed state? Who constantly spoke about “the oppression of Russian speakers,” called the Maidan an “overthrow,” and said the war

in the Donbas – which started with the capture of Sloviansk by a Russian GRU operative called Igor Ghirkin and his armed thugs – “a domestic conflict, a civil war”? It’s clear that he continues to describe the processes going on in Ukraine the way he sees fit at closed meetings with world leaders. In the meantime, anything he states publicly as a head of state at international gatherings is reported on and broadcast on international news channels.

To be able to separate the truth from his lies, the listener has to know the history of the conflict and to have been paying attention to the situation. Meanwhile, editors and journalists make mistakes or fail to look into a statement deeply enough. For instance, a statement such as “After the unconstitutional overthrow and the annexation of Crimea, a civil war started in the Donbas” would have to be parsed in its entirety, with explanations and corrections provided, yet these are the kinds of messages Ukraine’s political opponents make use of constantly. And so there have been times when such phrases as “civil war” or reports about ISIS militants fighting on Ukraine’s side in the Donbas find their way into the pages of even very authoritative western publications.

Another reason why western sources make such fundamental mistakes is because many were used to having only a bureau based in Moscow from soviet times – and many still do – and they are used to always interpreting events in other former soviet republics through Russian eyes. Even correspondents who actually travel to Kyiv with completely good intentions to write an honest report or shoot a story on Ukrainian issues showing a variety of aspects are most likely going to prepare by reading Russian-language sources. Few foreign correspondents know Ukrainian and so Russian remains more “universal” for most expats living in the republics, including Ukraine.

Of course, good professionals know which are the propaganda sources that aren’t worth listening to, but fakes and the untrue “party line” on Ukraine continue to be disseminated by Russian news agencies. According to the StopFake anti-disinformation project, RIA Novosti was in third place for disseminating the most lies over 2014–2017, while TASS, the old soviet agency, was only 8th.

Of course, it’s easy enough for a publication to make a genuine factual mistake in the rush to publish quickly. Yet, not all material about Ukraine published in the western press that is distorted by Russian propaganda can be chalked up to ignorance or casual mistakes. Yevhen Fedchenko, director of the School of Journalism at Kyiv-Mohyla Academy, says that many western journalists are themselves engaged in establishing such an image of Ukraine.

“We talk about nationalism here as a positive phenomenon in our struggle for independence, while western journalists today don’t understand this paradigm at all,” Fedchenko explains. “In short, we have different connotations for this word. They don’t understand that the folks who are dying at the front are Ukrainian nationalists, freedom fighters who can and often are Russian-speaking Ukrainians, Russians, Jews, Armenians and so on. They often base their notion of nationalism on a post-colonial calculus that says that nationalism is bad because it is against empire, while they themselves are often representatives



PHOTO: RADIOSVOBODA.ORG (RFEAL)

**The Markiv story.** During the trial in Italy of a Ukrainian National Guardsman accused of having killed photographer Andrea Rocchelli outside Sloviansk, the local press often used information from Russian sources

or descendants of empires. Those western journalists who grew up on soviet studies also don't like decommunization. You can find a lot of articles in the western press about the destruction of monuments to soviet figures that refer to these statues as works of art."

Such journalists are very helpful to Russia in promoting its symbols in the global news environment, says Fedchenko. "Right now, Russia has weaponized the subject of World War I and it's clearly prepared to continue to promote its version for a long time until it 'sells' it to the world," he points out. "Once that happens, who's going to cast doubts on their 'one true' narrative?"

What's more this kind of information war at the global level has very local and concrete consequences. For instance, the 24-year sentence handed down to National Guardsman Vitaliy Markiv, who was accused of killing Italian photographer Andrea Rocchelli. According to Ukraine's interior ministry, Rocchelli was outside Sloviansk during military action without accreditation. But the trial took place in Italy, and the rhetoric around Markiv was anything but neutral and a video from the Russian propaganda channel Russia Today was included in the evidence.

"We can't confirm to what extent this influenced the decision of the court, but we know for sure that these materials were included in the evidence and the trial itself took place in that kind of atmosphere," says media lawyer Liudmyla Pankratova.

Yet another consequence of Russia's information campaign against Ukraine was the recent scandal when the British police including the country's coat of arms, the Tryzub or trident, in its anti-terrorist guidelines as a "radical right-wing" tattoo. "If someone keeps repeating long and loudly enough that fascism is in full flower in Ukraine, the rest of the world will, sooner or later, begin to believe it," says Fedchenko.

What can Ukraine do to fight this? Propaganda costs money and it's not an ethical form of communicating. For now, Ukraine has a handful of dedicated fighters against fakes, who set the re-

cord straight in several languages. However, this only works for those who care enough to try to get at the truth. What about the rest, the massive passive audience? How do you fight messages about a "failed state" and "civil war" coming from the mouths of top officials in Russia at the international level? How do you tell people the truth about your country? This is the work of journalists, both Ukrainian and international ones working in Ukraine. But Ukraine-fatigue is yet another obstacle: in the six years that the war in eastern Ukraine has dragged on, any number of videos have been made, about the fighters, about the people living along both sides of the frontline, about children whose digits have been blown off by mines, about those suffering from PTSD. Finding a new angle is not that easy.

There's only one way out of this dilemma: continue the work, persuade editors that, as long as there is a war, it's an important topic and it's also important to show the other side of life in Ukraine. For instance, about the fact that most Ukrainians consider themselves a united nation as recent polls have confirmed, or about the success of individual Ukrainians in technology and business, which few know about.

Ukraine will never be the kind of ongoing priority for any western press the way it is for its own media providing news in a variety of languages. Until recently, this was being done by UA/TV, but, says Culture Minister Volodymyr Borodianskiy, not very effectively. His answer is to reformulate the channel into one that will provide information and entertainment for the occupied territories.

Has Ukraine, then, won the information war on against Russia's anti-Ukrainian messages in the international arena? No. Will it beat them at their own game in occupied Donbas? The only answer is a meaningless one: time will tell. As Fedchenko points out, "Narratives are built around identity, and if we don't instill our own identity in our consciousness ourselves, someone else will write the story." ■



# Ze Nation

Volodymyr Zelenskiy is a surprising reflection of Ukrainian society

Maksym Vikhrov



**Unpresidential transport.** Volodymyr Zelenskiy decided not to totally imitate his TV personality Holoborodko and has not been riding to work on a bicycle, while plans to move Office of the President to Ukraine House were quickly shelved

The 19<sup>th</sup> century French philosopher Joseph de Maistre once wrote, “Every country has the government it deserves.” Some might have challenged that statement in 1811, when most countries were autocracies, but with a democratically elected government, whoever is elected does, indeed, say something about the people who voted them in – as well as about the country that made their victory possible.

That Volodymyr Zelenskiy’s victory was possible because of the protest mood among Ukrainian voters has been written about more than enough. But this mood has actually been there since before the country declared independence, so the result of last year’s elections seem like a delayed reaction to a very old problem. The high level, sometimes even record-high, of distrust among Ukrainians towards their governments that pollsters have reported on, year after year, was not just directed at whoever was the actual leader at any given time, but reflected a much deeper rejection of elites as such.

The belief that the political elite included only the richest and most powerful individuals took shape by the mid-1990s. Ukrainians began to see this elite as a closed club of the ultra-privileged. For instance, in a 1996 survey by the NAS Institute of Sociology, only 5% of Ukrainians believed that they had a chance to connect their children to the elite, while 83% thought that wealth and personal connections were the only way to get into the upper echelons of power. At the same time, this elite was not much respected by anyone: fewer than 2% of Ukrainians looked to their leadership to “understand where the truth lies and where the lies are in our society.” Indeed, more than 90% thought that those who gained positions of power stopped thinking about the public.

This estrangement between ordinary citizens and the country’s elite generated steady demand for anti-establishment populism. Over the three decades of independence, a slew of parties tried to fill this niche and nearly all top politicians

played the protest card in their election campaigns, taking potshots at the “old guard.” In this sense, the Zelenskiy phenomenon is not unique. What’s surprising is that the first successful electoral mutiny took place only in 2019, and not sooner. However, in playing “the people’s guy who is going to crush of the old establishment,” Zelenskiy was responding to the deepest expectations of Ukrainian voters.

The question is whether he will be able to maintain this image until the end of his term. For now, his mistakes and fumbles only confirm his essential difference from the country’s experienced but untrustworthy old guard. Indeed, this is far more convincing than the bicycle that he promised to ride to work... The procedural missteps that the president and his team occasionally make fall into the same category – and over the past 8-9 months, there have been quite a few of these. The most blatant example was how Zelenskiy baldly ignored the lustration law and appointed Andriy Bohdan his chief-of-staff. Journalists track these episodes closely and report on them, but they have raised far less public opprobrium than the opposition had hoped for.

The reason for this is not at all that voters are prepared to let their leader get away with whatever he wants. A November 2019 Democratic Initiatives Fund (DIF) poll reported that the land reform bill had only 24% support among Ukrainians, proving that Zelenskiy’s charisma has its limits. But Ukrainians are prepared to close their eyes to less serious – or less visible – violations, often simply because Zelenskiy himself is either unaware of how important these are or their real scale. When Zelenskiy “tasks” the Prosecutor General with something, that upsets the legal profession, but 36% of Ukrainians firmly believe that the president is the only source of power and the bearer of Ukraine’s sovereignty. Every 10th Ukrainian believes that the Head of State has the right to approve laws, and about the same number think that he appoints local government agencies. What’s more, 18.5% of Ukrainians say that the government can violate the Constitution if certain of its provisions are not in line with the public interest. Indeed, the number of Ukrainians who share this belief has nearly doubled in the last five years. This may partly be a reflection of the fact that only about 11% of Ukrainians have actually read the Constitution in its entirety, while 46% have never read any part of it, according to the 2019 DIF poll.

Zelenskiy’s humanitarian approach is also very symptomatic. Even during the election campaign, Dmytro Razumkov issued a statement from headquarters that linguistic, historical and religious issues would be put on the back burner until the war ended. Since then, the president has affirmed this policy on more than one occasion. The patriotism that he presented to Ukrainians in his New Year’s address was grounded only in citizenship, while his vision of a common future was expressed as a vague wish for a safe and comfortable life.

Unsurprisingly, the speech roused heated debate among politically active Ukrainians, because they saw all the basis of Ukrainian identity – language, culture, a common history and so on – as being put on the back burner. For some, this kind of paradigm is not appropriate for a country going through a period of active decolonization. Both patriotic and pro-Russian Ukrainians consider it important how streets are named and whose monuments will be erected or torn down. But the drivers of decolonization, as well as resistance to it, remain minorities. The average Ukrainian sees Zelenskiy’s formula for patriotism as completely acceptable. At least, it does not bring up any strong negative reaction.

Today, 80% of Ukrainians consider themselves patriotic, according to a 2019 Rating poll, but not all of them feel a strong need for decolonization. In a 2018 KIIS survey, half did

not want to see Russian television channels banned, and 57% didn’t want Russian films and actors to be banned. Another 46% weren’t happy about Russian social nets being blocked, while 40% said that language quotas for radio and TV served no purpose. And so, when the government returned Svaty [The In-laws] to the air or suddenly withdrew the ban on a Swedish singer who toured occupied Crimea – in order to make a guest appearance in *Vechirniy Kvartal*, incidentally – many Ukrainians took it in stride.

What’s more, such attitudes are not exclusive to the eastern parts of the country: even in central Ukraine, 52% of those surveyed were against banning Russian television, while 60% didn’t want Russian films and actors to be banned. Decommunization was also seen quite ambiguously. Back in 2016, 36% of Ukrainians were against banning communist ideology in a Rating poll, while nearly half were against taking down statues of Lenin and nearly 60% did not want cities to be renamed. And so when the president called Ukrainians to unify by excluding controversial issues from public debate, it looked like a naive attempt to engage in nation-building based on common sense. For many Ukrainians, however, even if it’s not based on state-building know-how, it’s a completely acceptable compromise in which patriotism doesn’t require any paradigmatic shifts.

**80% of Ukrainians consider themselves patriotic, according to a 2019 Rating poll, but not all of them feel a strong need for decolonization. In a 2018 KIIS survey, half did not want to see Russian television channels banned, and 57% didn’t want Russian films and actors to be banned**

The fact that Zelenskiy has not moved away from his campaign image in the first eight months of his presidency is working in his favor. In the past, candidates made a show of adapting themselves to the ordinary masses, but Zelenskiy has not had to adapt. Moreover, his party, *Sluha Narodu*, has quite easily fit this “ordinary folks” image, as most of its MPs entered major politics literally off the streets. All this may have helped the new government maintain the image of inexperienced but determined reformers, but it can’t guarantee them political immortality. Unpopular reforms, dips in the economy and corruption scandals – not to mention a worsening situation at the front – are likely to spoil the ratings of the most folksy of “regular guys.”

In the end, the Zelenskiy epoch will be just one more episode in the transition period of Ukrainian history. Still, he is the right person at the right time because he reflects the real state of Ukrainian society. It already has a real identity, but is still a little uncertain of the foundation and feels a bit scared of consistent domestic policies. Ukrainians are skeptical of their ruling elite, but in the emotional whirlwind of a protest mood, they are prepared to vote for people who are quite accidental. Afterwards, they’re prepared to forgive any incompetence, seeing it as a sign of decency and good intentions.

In the last five years, and really far longer, this part of Ukrainian society was viewed as entirely passive. In 2019, however, it took the bull by the horns. Most likely, this was happenstance, because the “unity of the east and west” that sometimes comes up during elections still lacks a solid foundation. Now, at least, it’s clear that, as Ukrainian society matures, it is becoming more complex. And that complexity will have to be mastered by those who claim the mantle of state leadership and national elite – not something for “kings for a day,” opportunists, or self-proclaimed authorities. ■



PHOTO: YURIY LAPAYEV

# Kari Liuheto:

## “Half of all Russian foreign investments landed in offshores”

Interviewed by Yuriy Lapayev

During the 3<sup>rd</sup> Lviv Security Forum *The Ukrainian Week* met with Kari Liuheto, professor and director of the Pan-European Institute at Turku School of Economics at the University of Turku (Finland) to discuss Russian economic war against Europe, toxic investments and nature of Russian oligarchs.

### Is it true that there is a Russian economic war against Europe and Ukraine in particular?

— If by war we mean some attempts by Russia to influence certain things, which are important for our strategic infrastructure — I think it has been there already for quite a while. If we are following the Russian investment approach so far there have been concentrated quite a lot with the energy infrastructure. The second sector is the telecommunication, but not in the Western part of Europe, mainly in the East, because the assets there are much cheaper and we have less control over them. The third sector is banks because by owning the banks you can do lots of various operations. So, it exists. Kremlin does its foreign policy in various means and it is not only the state-owned companies. State-owned companies, like Rosneft or Rosatom, they are in the direct chain of the command. And private companies are operating in certain fields and the Russian authorities can push them to act in their favor inside the Russian Federation, but also abroad. So the private ownership is not a guarantee to prevent this so-called out of state influence. If we take figures and num-

bers, in Finland we have 5 thousand Russian companies operating, only 5 or 10 of them are somehow important in different ways, even for our economy. So the big picture is that they are usually normal, but the cases with scam pop-up periodically in media and so on. But I need to be honest — not every Russian company is acting in the favor of Kremlin when they are trying to invest in something.

### It is a little bit similar to the behavior of Chinese businesses, which are private by nature but still have some connections with the government.

— I have been followed the Russian investment abroad for twenty years. And one trend that has happened after the Ukrainian war — they have started to retreat their investments from the United States and some Western Europe countries as well. And when we are speaking about the Chinese companies — they are much more organized and controlled, comparing to Russian. Next point, what matters here is the fact that around half of Russian investments in Western Europe, returns to Russia. So they are using their investments abroad as the banks for their operations back in the home. And it is very normal, common advice for all the businesses “don’t keep all the eggs in the same basket”. If I would be a Russian oligarch, I definitely wouldn’t keep all my money at home. Elections will come sooner or later, bringing a huge distribution of the economic power after Putin’s retirement. We know for sure, that the cake doesn’t grow any-



more, Russian GDP is growing only 1% annually. And if you have to distribute the cake, so you have to take it from somebody else. This will create turbulence.

China is investing in some fields, where the Russians are less active to some extent. Chinese companies are trying to invest more in hi-tech. Huawei is very famous, but not all of us know, that even the Swedish carmaker Volvo is already in Chinese hands. And because they are more organized, they are more scary for me. What might happen if the Chinese and Russians really find each other? In this case, there will be various games, like China will transfer its assets in Ukraine to Russian control, and for that get some actives in Central Asia. That kind of game we cannot exclude. And when we are speaking about the values, last year China was #1 investor abroad in the whole world. They invested more than \$130 bln last year, Russians — less than \$40 bln. So the scales are different, and the Chinese are coming very fast.

#### **Which sectors of European and Ukrainian economies are the most vulnerable to this kind of foreign threat?**

— If we start with the Russians, so far they used to invest a lot in energy-related sectors, like energy production, energy logistics. Also in telecommunications, I have mentioned that they are very interested in Post-Soviet republics. These assets are very cheap, Russians have certain knowledge, which is superior for local markets, for example in Central Asia and they are rather effective in doing this. And also the banks, they use them not only for financial operations but for money washing. The most notorious case is the Danske bank. Scales are huge, we can speak about \$200 bln have been washed by Danske bank from 1990-s. If you compare with your GDP you can imagine the scale (in 2018, Ukrainian GDP was \$130.9 bln. — **Ed.**).

China had started its initiative “One road, one belt” in 2013, somebody calls it “The New Silk Road”, quite a nice name for economic expansion. Why China is doing it? I think we need to understand, that they need to secure their logistical chains from raw materials. They have huge funds in their hands to do something proper with those plans. Nowadays everybody knows the big game between the United States and China. Donald Trump, I think, tries to slow down Beijing with economic means. And there is a slogan, that if China won’t be sopped by economic means, then they have other means, even military. Of course, economic means are better for ordinary people. Same time, China is the biggest trader in the world, the biggest investor in the world and the biggest consumer of touristic services. Travelers from China are spending twice as much more money abroad than Americans. So Chinese are coming in all ways. When I’m thinking of Ukraine, if I would be Chinese, I would be looking very much in this agriculture asset, which could be acquired at relatively cheap prices. I think they could buy all of this by their huge fund. So this is the question for your regulators to limit somehow and to control the situation, to what extent is appropriate that foreigners are coming here with investments and are there any means to do it somehow. You know that the Chinese are using a lot of middlemen, even more than Russians. Sometimes it is very difficult in practical terms to stop them because they could use Ukrainian businessmen, but in reality, they will have everything in their hands. You need to open the land market, but same time define the conditions very carefully. In the European Union, there is already in force regulation for the screening of foreign direct investments. I think Ukraine would benefit from close cooperation with the EU in the

**Kari Liuhio.** He has started his academic career at Turku School of Economics in 1991. He shifted to Lappeenranta University of Technology in 1997 where he was nominated as a professor. Since 2003 - Professor of Russian trade and the director of the Pan-European Institute at Turku School of Economics. Since 2011 – Director of the Centrum Balticum Foundation (Finland). He acted as a responsible leader for projects related to the Russian market economy, business in the Baltic Sea region, EU-Russian economic relations, and investments, investments in Central Eastern Europe. In 2007 named Knight First Class of Order White Rose Finland.

field of tracking the source of investments. How it works in Europe — this is an exchange of information between member states about those investors, exchange of best practices. We could learn a lot, especially concerning Russian operations, not only as warfare in a hybrid war. This would be one of the steps of Ukraine to make more closer cooperation with the European Union as well. What is the key point in the EU — the members still had the final word, so the EU is never going to stop any project, they only make some warnings for the governments.

#### **How to protect the country from toxic foreign investments?**

— If the investors are really clever, it needs lots of time to look who is behind the project, behind the money. On pragmatic reason, of course, when the money comes from these offshore countries you need to follow them very carefully and not allowing those. If you don’t have a proper owner you cannot even allow them to come in. There is an anecdote, which could be a kind of illustration for that — if you take the first three letters from Cyprus, you will find the real owner — Rus(sia). The money-flow between Russia and Cyprus is enormous. A couple of years ago I was in Cyprus, meeting local authorities. Because of that time, there was a huge statistical difference regarding the flow of the money between the Central Bank of Cyprus and Central Bank of the Russian Federation. According to Russian data that was more than \$150 bln had been moved from Russia to Cyprus, and the Cyprus authorities confirm only \$20 bln. So if you have some \$130 bln gap you can understand, that something is not correct. And Cyprus is only one of such countries. Half of all Russian foreign investments landed in offshores like Bermuda, Bahamas, Cyprus, British Virgin Islands, etc. But at the same time, if you look at the inward FDI stock to Russia — the same countries appear, so this is my reason to say, that more than half of investments turn back home, so Moscow uses them as the banks. The first reason is diversification, second — to get cheaper loans in western banks. Because in Russia you still have to pay higher interest rates. In that situation, we should decide on Russian oligarchs, who are behind this, how independent they could be from Kremlin. And this is not always easy — if you don’t play their rules. My way or highway. Many businessmen had been forced out to sell all their property. That is why many oligarchs could act like a normal businessman, but one day changes their behavior completely, not because of their own choice, but they have to if they want to survive in Russia. They are hostages of the regime. Sometimes we say, that there are no property rights in Russia, there are so-called consensus that you can use something for a certain period if the czar allows you that. A temporary right to manage the assets, but not to own. That is the reason for many Russians to diversify their assets because they know the risks. ■

# Stay away

Why Ukraine's economy performs better than the Russian economy after 2013 despite resistance to aggression

Oleksandr Kramar

Ukrainian media have recently reported that minimum wage in Ukraine has surpassed that in Russia and Belarus. This is mostly the result of a steep hryvnia revaluation in the late 2019, followed by some backslide. However, the mere fact has drawn attention to another important theme — the dynamics of socio-economic development in post-soviet states that have followed different paths in the past decades.

The advocates of Eurasian integration and all kinds of reunions in Ukraine are proactively working on a myth about much higher living standards in Russia. At the same time, they focus public attention on socio-economic decline in specific periods in Ukraine, especially after the Revolution of Dignity, without comparing the process in Russia during the same time. In reality, the effectiveness of Putin's socio-economic model is far lower even compared to what Ukraine has with all its flaws that hamper the fulfillment of its economic potential. By contrast, Moscow is earning huge revenues from minerals that are in demand on the global market.

It is extremely important for Ukrainians to recognize this fact, especially as the debate about the benefits of restoring economic cooperation with Russia intensifies after Volodymyr Zelenskiy came to power. This is presented as a tool for improving living standards or speeding up Ukraine's economic development, and as a change of approach towards a more "pragmatic" one despite the war and clashes in the political sphere. With its increasingly stagnating economy and social model, Russia

is not that instrument, nor can it be one — especially as the key socio-economic indicators in Ukraine are as good or better than in Russia despite the painful losses as a result of the war in the Donbas, and the ensuing destruction of production chains and the decline in living standards for Ukrainians.

## A RUSSIAN NESTING DOLL

Nominal GDP is used to compare the economies and living standards between countries. Russia's nominal GDP was 3.9 times higher than Ukraine's in 2013, but the gap has since shrunk to 3.1 times in 2019 (at \$11,200 and \$3,600 respectively) — the assessment for Ukraine includes a 10% depreciation to reflect the territory under Ukraine's control (total nominal GDP is divided by all residents of the country; for Ukraine, 10% of its population lives in the occupied parts of Donetsk and Luhansk oblasts). For the same reason, Ukraine's GDP appears far lower in the data from the State Statistics Bureau compared to 2013, even though it should obviously be adjusted to the change of the real population of the Kyiv-controlled territory from 43.1 million (without Crimea) in 2013 to 38.3 million, according to the latest data from the Regional Civil Registration Offices. This is the number of citizens within the Kyiv-controlled territory by which GDP should be divided. Without the 11.1% of the population in the territory Kyiv does not control, Ukraine's real GDP per capita was 4.3% higher in 2019 than in 2013. Russia's GDP grew 4% at best over the same period. This performance of Ukraine's economy mostly reflects a steep decline in 2014-2015 caused by active war in the Donbas and a shock from the destruction of production chains. Starting from 2016, Ukraine's economy has been growing at least twice as fast as the Russian economy.

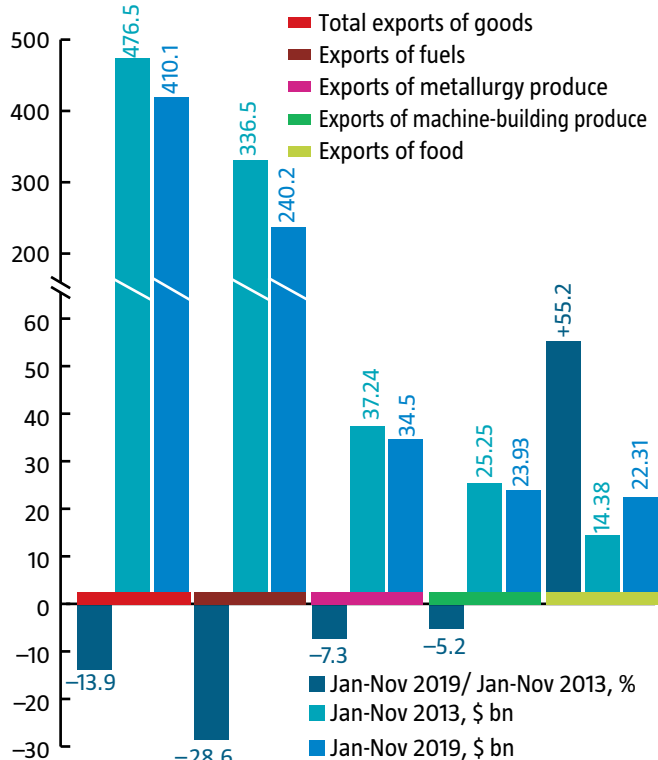
Going down from the general GDP figure, an abstract measure for many citizens, to the income of average people reveals minimal or no gap between Ukraine and Russia. According to the latest data available from October 2019, average wage in Russia was the equivalent of \$729, just 65% above average wage in Ukraine. By comparison, it was \$914 in October 2013, beating Ukraine's \$411 by 122% or 2.2 times. Minimum wage has grown in Russia from \$165 as of January 1, 2014, to \$196 as of January 1, 2020. Minimum wage in Ukraine has gone from \$150 to \$196.

Identical minimum wage and the 65% gap between average wage in Ukraine and Russia in the dollar equivalent with the threefold gap in GDP per capita between the two countries points to the fact that the redistribution of income from national economies to average citizens is far better in Ukraine than it is in Russia. The growth of income in Ukraine since 2013 at a far higher pace than in Russia (where average wage has actually declined since then) shows that average citizens benefit more from the Ukrainian economic model.

If these trends are to persist, the fact that average wage in Russia is higher seems temporary at first sight. Moreover, it is distorted by the high cost of living and greater regional inequality. For example, average wage in October 2019 was \$729 across Russia and \$1,400 in Moscow, and sometimes higher in the northern regions with the difficult climate focused on the mining of minerals — \$1,578 in Chukotka, \$1,409 in Yamalo-Nenets Autonomous Okrug, \$1,367 in Magadan Oblast, \$1,100-1,200 in Yakutia and Kamchatka, \$1,050 in Khanty-Mansi Autonomous Okrug, and \$966 in St. Petersburg.

## The boat is sinking

Exports of some goods from Russia over January-November 2019 and 2013



Source: author's calculations based on the Russian Federal Customs Service data

All these exceptions boost Russia-average figures. In reality, average wage in most of Russia's regions is around \$450-550, which is close to Ukraine's average of \$440 in October 2019. These regions include both the oblasts adjacent to Ukraine, such as Bryansk (\$455), Kursk (\$513), Voronezh (\$523), Rostov (\$526) and Belgorod (\$548) oblasts or the Russia-occupied Crimea (\$532), and the distant oblasts, such as Saratov (\$438), Kirov (\$467), Tambov (\$450) or Oryol (\$457).

Even compared to average wage in Ukrainian oblasts that are close to the Russian border, the numbers will not differ much: Donetsk Oblast has \$491, Zaporizhzhia — \$441, Kharkiv — \$376, Luhansk — \$374, and Sumy — \$365. In turn, the gap between these regions and places where average wage is much higher, such as Kyiv (\$651) or Kyiv Oblast (\$465), is noticeably lower than the fourfold gap in Russia.

When the difference in the pricing of goods and services is taken into account, the gap in purchasing power of the wages is minimum between most Russian and Ukrainian regions. According to RosStat, the Russian statistics bureau, a kilogram of beef cost an equivalent of UAH 175 (based on the official NBU exchange rate) in Rostov Oblast, UAH 183 in Kursk Oblast, UAH 187 in Bryansk Oblast, UAH 222 in Moscow, and more in the wealthier northern regions. A kilogram of pork cost UAH 122 in Voronezh Oblast, UAH 123 in Rostov Oblast, UAH 128 in Bryansk Oblast and UAH 157 in Moscow. Chicken leg quarters were priced at the equivalent of UAH 60 in Rostov Oblast, UAH 62 in Bryansk Oblast, UAH 63 in Kursk Oblast, and up to UAH 75 in Moscow. Apples ranged from UAH 24 in Rostov Oblast and UAH 28 in Bryansk Oblast to UAH 39 in Moscow. A standard haircut for men was UAH 138 in Rostov Oblast, UAH 158 in Kursk Oblast and UAH 240 in Moscow. The same service for women was 20% more expensive. Prices in Russia are far higher than in Ukrainian regions.

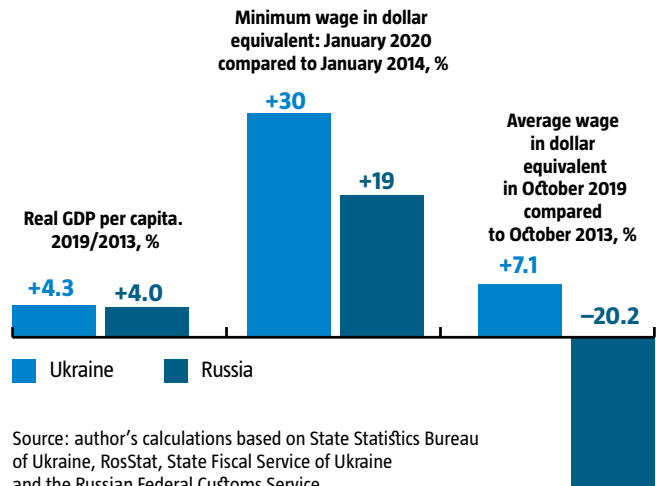
Below is the comparison by individual oblasts. For example, two neighboring regions adjacent on the two sides of OR-DiLO in Russia and Ukraine are Rostov Oblast with the average nominal wage at \$526 and the Kyiv-controlled part of Donetsk Oblast with \$491. Most consumer goods and services are more expensive in Rostov Oblast compared to Donetsk Oblast. Electricity is more expensive there too, even though Russia has lately been trying to take over the Ukrainian market by selling it at dumping prices via Belarus or directly. According to the official website of Rostov Oblast, the subsidized rate for electricity for households is 72% higher than the rate in Ukraine since January 1, 2020 at RUR 3.96 or UAH 1.55 per kWh, and the full rate is 29.2% higher at RUR 5.53 or UAH 2.17 per kWh. While gas is severalfold cheaper in Russia than in Ukraine, the tariff for heat in Rostov is the equivalent of UAH 1,060 per GCal, which is just over 30% below the rate in Mariupol, the biggest city in the adjacent Donetsk Oblast in Ukraine. Public transport is more expensive in Russia too. For example, a bus trip in Rostov is the equivalent of UAH 10.2 compared to UAH 8 in Mariupol. Average wage in Mariupol at UAH 17,000 with nearly 500,000 inhabitants hardly differs from average wage in Rostov-on-Don at the equivalent of UAH 18,000 with its million people. Public transport is more expensive elsewhere in Russia too. In Belgorod, across the border from Kharkiv, it costs almost UAH 10.

## BETWEEN STAGNATION AND CRISIS

Unlike Ukraine where periods of sharp declines in the economy alternate with vibrant renewal, Russia has been in a lasting stagnation. These socio-economic trends in Russia grow more pronounced with time, contrasting sharply with the rapid growth during Vladimir Putin's first two terms in office. Russia's GDP in 2008 was 67% above the rate of 2000. Ever since Putin returned to presidency in 2012, the Russian economy has grown slightly

## Oil dollars don't help

A shift in some socio-economic indicators for Russia and Ukraine since 2013



over 6%. The neighboring China has the same pace of growth annually. Poland, Hungary and Romania have been growing 4-5% every year, and wealthy EU countries, such as Germany and France, grow faster than Russia too.

In his recent address to the Federal Assembly, Putin declared an intention to accomplish higher GDP growth for Russia compared to the worldwide rates in 2021. For this, he plans to fund various programs from the budget more proactively. The money will come from the funds accumulated from exports of fuels. Yet, this looks more like a face-saving effort in the context of a pessimistic economic outlook.

Given the figures on Russia's exports in 2019 and 2013 (see Oil dollars don't help), it is not just exporters of fuels that are struggling. Other sectors of the economy, from metallurgy to machine-building, are in the same position. The agricultural sector is only one that has managed to improve over the past years, however Ukraine is its biggest competitor. Meanwhile, Russian imports have plummeted even lower than its exports over this time. As the economy stagnates, the capacity of the Russian market shrinks. This is a key reason for the downfall of Ukrainian exports to Russia, not the "breakdown of traditional economic ties" as propaganda puts it. Imports from other post-soviet countries, including Russia's closest partners, Belarus and Kazakhstan, are on the same path.

Even the most optimistic forecasts expect Russia's economy to grow under 1% annually despite the stimulating measures Putin has announced. Russia's Ministry of Economy projects GDP growth at 1.7% in 2020, and the Audit Chamber offers nearly 1.5%. Yet, even 2% — provided that Russia's economy does not tumble into a crisis scenario — is far below the average growth rates in the world or the dynamics of most neighbor-states. Therefore, stating that a return to the Russian orbit of influence or a rapprochement with Russia on a greater scale than in the pre-Maidan period would allow Ukraine to avoid or solve socio-economic problems faced in the past years has no ground. Economically, Russia is a bad and hopeless objective, while restoring ties with it will not ensure the promised positive effect for Ukraine. Moreover, better dynamics for some of Ukraine's indicators compared to those of Russia, as observed lately, is the result of weaker interdependence between the two economies. ■



# Grace of the empire

What is Ukraine's place in the rhetoric of Russian media and how to decipher their hidden messages?

Maksym Vikhrov

Since 2014, Ukraine has not been out of focus of Russian media. However, their rhetoric is not static: after the change of government in Kyiv, new, long forgotten tones appeared in it. Both the Kremlin and the leading Russian media have once again talked about the possibility of dialogue, which has alarmed many in Ukraine. For the last time, the Kremlin showed its sympathies to Viktor Yanukovich, who was almost a vassal of Vladimir Putin. It is no wonder, then, that praising Zelenskiy gave rise to a great deal of suspicion of him. But in reality, this praise means less than is generally believed. Because the Russian media rhetoric about Zelenskiy and Ukraine in general is intended to serve imperial politics. Therefore, it should not be interpreted literally.

In the context of Ukrainian topics, the main character of the Russian media is undoubtedly Volodymyr Zelenskiy. The tone of their materials changed as the idea of a new Ukrainian president was shaped by the Kremlin. If Zelenskiy-showman fits well into the landscape of pop culture there, then Zelenskiy-politician was taken with caution in Moscow.

Putin abstained from official greetings and launched issuing Russian passports before the second round. But as you know, over time Moscow still contacted Zelenskiy. Depending on the fluctuations of the "general line" their rhetoric also changed, formed by leading Russian media. The reason for this coordination is an open secret, since Russia's main media resources belong to Putin's entourage. For example, the First Channel, REN TV, *Izvestiya* newspaper, and a number of other media assets are members of the National Media Group Holding. The structure is owned by Yuriy Kovalchuk, a close friend of Putin and co-founder of the legendary cooperative "Ozero" ("Lake"), and the board of directors is headed by ex-athlete Alina Kabaeva, who is considered to be Putin's longtime favorite. Gazprom-Media Holding (a state-owned subsidiary of Gazprom) includes networks of popular NTV and TNT channels, including dozens of other assets (including, allegedly, opposition radio Echo of Moscow). By the way, the CEO of the holding Dmitry Chernyshenko has recently been appointed Vice Prime Minister of the Russian Federa-



**Favorite picture of Russian media.** "Nationalists intimidate and manipulate Volodymyr Zelenskiy". This is how the Kremlin mouthpieces interpret the political situation in Ukraine

tion. In short, the Russian mainstream media, at least in key issues, is a reliable repeater of the Kremlin's official position.

The results of the presidential (and then parliamentary) elections in Ukraine were reported by the Russian media as the collapse of the "Russophobic" and "militaristic" policies of Petro Poroshenko and the so-called party of war. "The citizens of Ukraine voted in favor of the changes," curtly outlined the Russian Foreign Ministry, and a real celebration began in the Russian media space. "The ideology of hatred and warlike Russophobia has flopped. The president, who built his entire campaign on anti-Russian hysteria, has gone down in flames," *Izvestia* promoted the official thesis. NTV, REN TV and other media covered the results of elections in the same way. But as for person of Zelenskiy media were cautious. The Kremlin, out of Dmitry Peskov's mouth, declared that they will judge the new president of Ukraine by his particular deeds. "Zelenskiy's victory has raised more questions than answers yet," the government's *Rossiyskaya Gazeta* stressed, referring to Konstantin Kosachov, chairman of the Committee on International Affairs in the Federation Council. According to Kosachev, during Poroshenko Ukraine ceased to be a sovereign state, and therefore Zelenskiy's ability to pursue an independent policy remains doubtful. "The main question is how ready he (Zelenskiy. – Ed.) is to get out of the influence of the West," *Izvestia* reasoned. "But is Zelenskiy ready to go this far? Or will a bright start turn into a blank talk?" NTV echoed. By the way, in May 2019, the NTV management promised to broadcast the entertaining show "Magic" with Zelenskiy as a host, recorded in 2011. However, it has never hit Russian screens.

### UKRAINIAN REPENTANT

Still, in early summer, Moscow was preparing to launch a campaign to demolish Zelenskiy. "Zelenskiy brought to Paris and Berlin the echo of Poroshenko's foreign policy doctrine," the *Rossiyskaya Gazeta* wrote in June. However, the main focus quickly shifted to Zelenskiy's alleged inability to rule the country: the fact that his orders were ignored by the army, he felt pressure on the side of "nationalists" (with, of course, the "old elite" behind them) and so on. "No one can say for sure whether Zelenskiy has any relation to the shelling of Donetsk and, in principle, to the Ukrainian Armed Forces," *Rossiyskaya Gazeta* reasoned. "The virtuality of Commander Zelenskiy, on the one hand, does not remove the blame for the shelling and new casualties and on the other, makes any negotiations for peace unpromising." Doubts about Zelenskiy's ability remain one of the leading leitmotifs of Kremlin propaganda. In general, this is a typical Russian approach to Ukrainian realities. In the minds of the Russians, the myth of the "common people" of Ukraine, which is not against renewing ties with the metropolis, sits deep. But this seems to be constantly hampered by marginalized local forces: aggressive nationalists, elites, bribed by the West, and so on. They also impose on the "common people" Ukrainization, an alternative version of history, "non-canonical" Orthodoxy, and other Russophobic projects. Therefore, in the Russian mass consciousness there are two Ukraine at the same time: the "fraternal" and the "Bandera-like". In October, this formula was voiced by Putin: "Mr Zelenskiy himself does not look like a Ukrainian nationalist, of course. But if he can handle them, it's hard for me to say now." Therefore, Zelenskiy's confrontation with the "nationalists" will become one of the main subjects of the Kremlin media.

In view of the troops' separation in the Donbass, the exchange of prisoners and the meeting of the "Normandy Four", the Russian officialdom became more supportive of

Zelenskiy, and the press shifted its focus from skepticism to approval. Our President was praised for his "constructive approach", for his determination and loyalty to the promises given to the Ukrainian people. The July exchange of prisoners in *Izvestia* will be called "a significant step towards each other, which has not been made for five years" (i.e. during Poroshenko's time. – Ed.) and "a step towards the transition from confrontation to dialogue." Moreover, the Russian press carefully emphasized that "constructive" initiatives came from Zelenskiy. But the accents are set so that the President of Ukraine is seen not as a peacemaker, but above all a seeker, who is graciously listened to by Moscow. "Putin has repeatedly said that he does not refuse dialogue, but he will not take the initiative himself. I think this is the position of the Russian leader that was heard in Ukraine," *Izvestia* told the words of an anonymous "source in Russian diplomatic circles". At the end of the year, this thesis was repeated almost literally by the Foreign Minister Sergei Lavrov: "Everything is not up to us. If the Ukrainian side is interested in restoring bilateral relations, I think, one good turn deserves another." In other words, in the Russian media Zelenskiy embodies Ukraine as repentant, to which Moscow graciously gives an opportunity to correct the fatal mistakes of the previous five years.

»





But the Kremlin cannot allow admiring the “rebooted” Ukraine. In addition to the history of “repentance” (and mostly made up by Russian media), it can also demonstrate a success story. Despite the war, Ukraine’s average salary this year has exceeded the average Russian salary, and in Ukraine there is variability of government and real democratic freedoms. Today, when the Kremlin continues to actively prepare for the so-called transit (that is, the preservation of Putin’s power after 2024), this example does not quite suit them. Not to mention that within the imperial paradigm, Ukrainian statehood cannot be considered as a successful project a priori. Therefore, along with the praises of Zelen-

## ANTIPOPULAR POWER

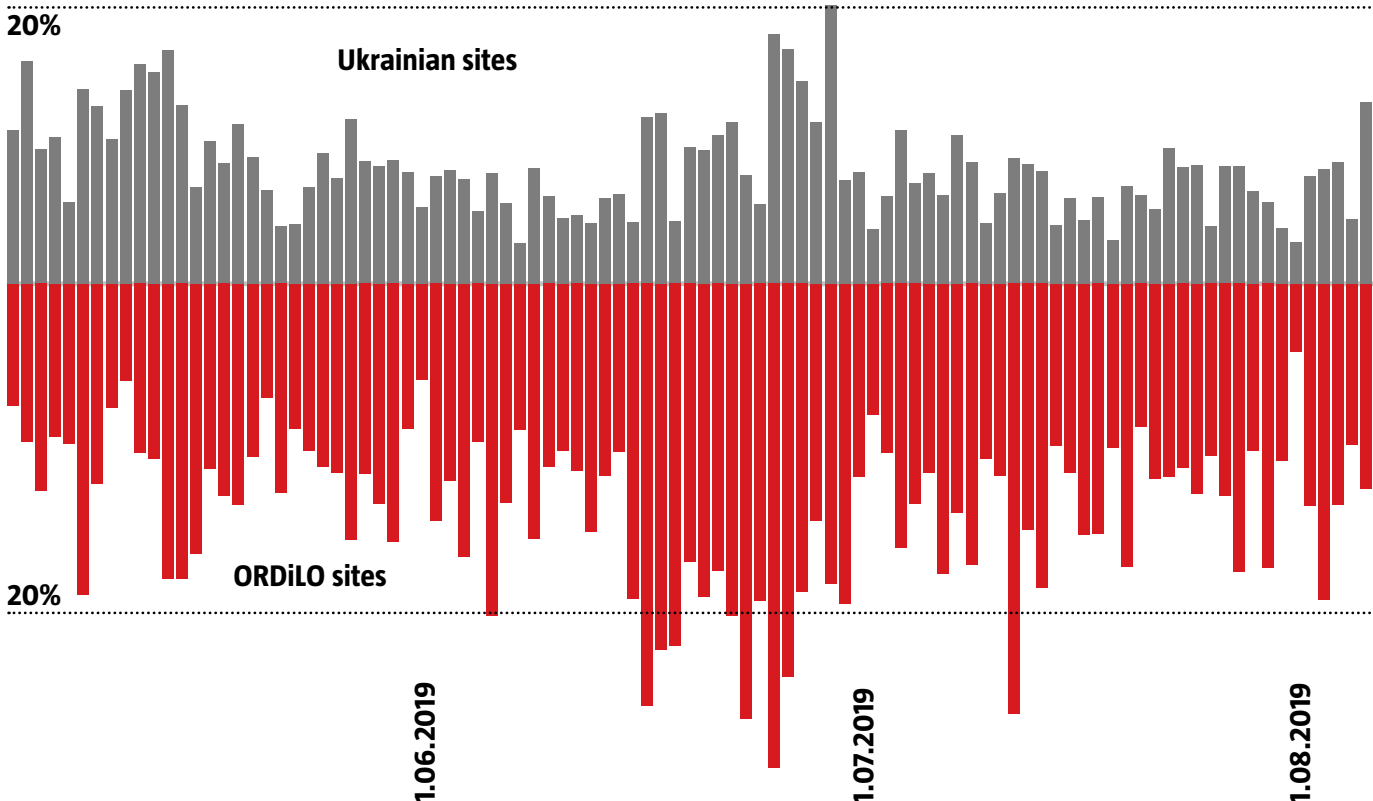
Similarly, the designers of the Russian rhetoric meticulously watch Zelenskiy inadvertently not to become popular with the Russians. Yes, the TV series *Servant of the People*, which was broadcast on TNT in December 2019, was taken off the air after the third episode without clear explanation. Obviously, the film aimed at the post-Soviet audience might be a too good advertisement for the Ukrainian president. In addition, Russian media have been promoting the topic of the “antipopular” nature of the new Ukrainian government, its dependence on the oligarchs. “The country will return to the state of the neo-oligarchy of the 21st century,” was predicted on the air of REN TV after the second round of the presidential elections. “After short recoil, the country will once again return to its usual self-replicating oligarchic system under the conventional name of CJSC Ukraine,” *Izvestia* wrote. This topic is special for the Russian audience, since the Russian Federation is officially considered the country of the conquered oligarchy. Moreover, the leading role in this belongs personally to Putin, who stopped the “lawlessness” of the Yeltsin era, clamping down rowdy “nouveau riches”. This is an important part of Russian internal mythology that influences Ukraine’s perception. That is why the local media from this spring began to pay increased attention to Ihor Kolomoisky. And if NTV referred to him as “bloody oligarch” in 2014, in April 2019, the channel’s employees already exclusively interviewed him. In September, *Rossiyskaya Gazeta* published an expressive leading article “Oligarch and His President.” “The President and the government with

MOREOVER, THE RUSSIAN PRESS CAREFULLY EMPHASIZED THAT “CONSTRUCTIVE” INITIATIVES CAME FROM ZELENSKIY. BUT THE ACCENTS ARE SET SO THAT THE PRESIDENT OF UKRAINE IS SEEN NOT AS A PEACEMAKER, BUT ABOVE ALL A SEEKER, WHO IS GRACIOUSLY LISTENED TO BY MOSCOW

skiy, Russian media also broadcast standard Ukrainian-phobic scary stories. “Despite the change of government, the process of fascistization of the country continues,” communist Petro Symonenko claims on NTV. “A sentimental lie, aimed at idiots,” Anatoliy Wasserman analyzes Zelenskiy’s New Year’s address to Ukrainians on REN TV. “Beauty, gloss and tears on the screen. And in real life, it’s a broken, divided country and Nazis with Bandera portraits and torches.”

## Pulse of misinformation

% of news about Ukraine as an understate among all manipulative news of the day



Selected period: 01/05/2019 - 10/11/2019

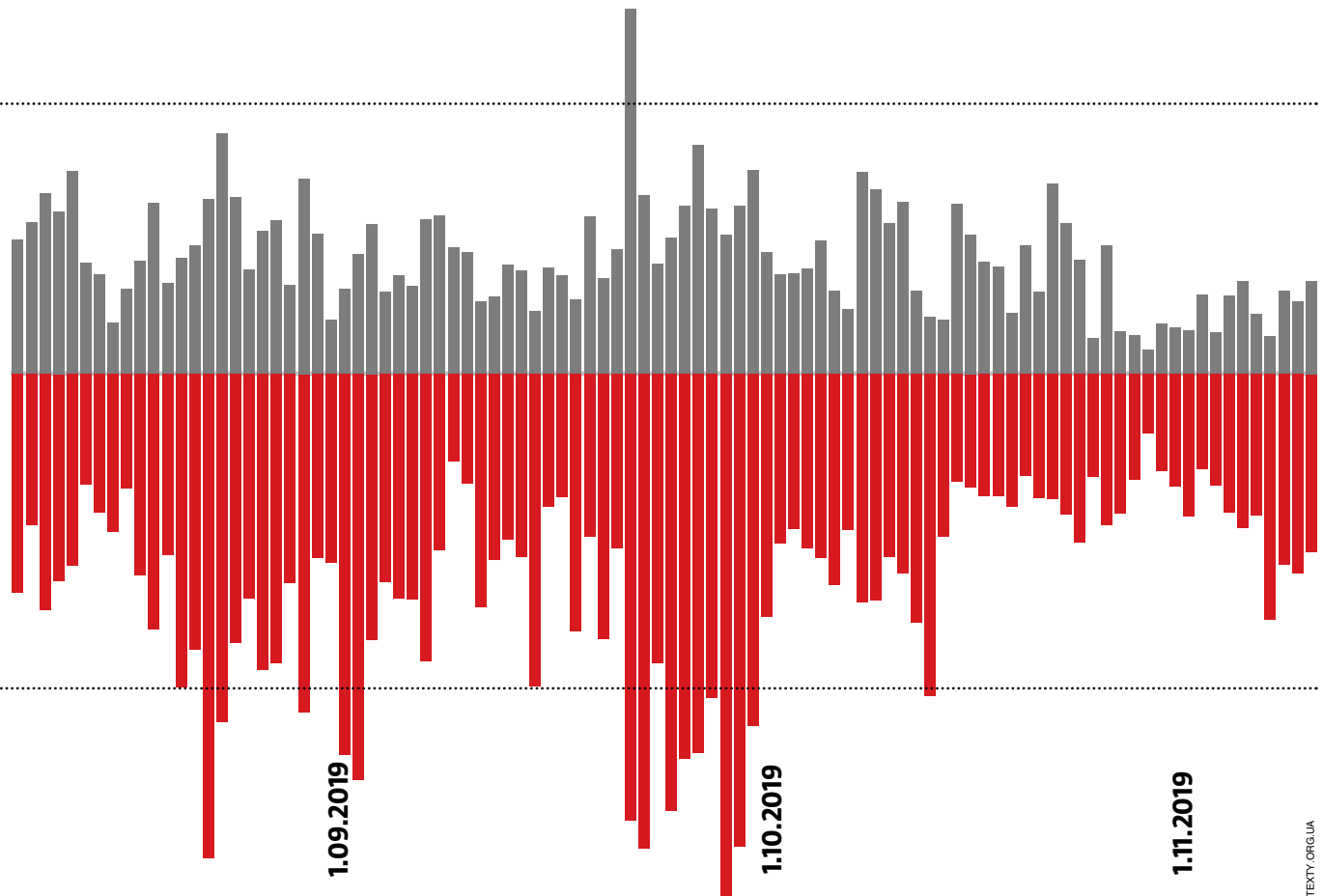


Kolomoyskiy intend to discuss the business dealing in Ukraine at shirt-sleeve meetings,” it wrote.

The Russian media paid no less attention to the Ukrainian land reform. If in Ukraine Zelenskiy’s initiative had caused at least some discussion, then the Kremlin media covered this topic exclusively in the style of apocalyptic prophecies. “To the last hectare,” “No land, no will,” “Savchenko predicted the disappearance of Ukraine in 2023,” wrote *Rossiyskaya Gazeta*. “Ukraine for sale,” “Tymoshenko predicted a famine in Ukraine,” *Izvestia* echoed it. And although in the Russian Federation the agricultural land market has long existed (though it is not fully operational), the Ukrainian reform was presented as evidence of Zelenskiy’s dependence on local oligarchs, as well as on the West, which eventually transforms Ukraine into a failed state. The result of “anti-popular” policy is the total poverty of the population. “Ukrainians lack money for lard,” NTV mocks. “The Ukrainian budget for 2020 will move the country from the era of poverty to the era of impoverishment,” *Izvestia* writes, referring to Viktor Medvedchuk. To describe the tragic situation of the Ukrainians Russian media do not spare the colors: at the risk of falling victim to the slave traders (!) at home, they are forced to go to work in Europe, becoming “second class people” there. In short, however constructive Zelenskiy is in the Donbas issue, the Russian media is stubbornly portraying Ukraine as being on the brink of political, economic and social collapse.

As we can see, the circumstances and names of the Ukrainian presidents are changing, but the Russian rhetoric

remains the same. The main message is easily read between the lines: the Ukrainian disasters are a consequence of the independence that pushed the once-blooming “South Russian region” to the suicide path. And the further the country goes out of Moscow’s orbit, the darker its prospects become. The history of Ukraine’s failure, reproduced by the Russian officialdom since the 1990s, is cementing the imperial discourse that cracked after the collapse of the USSR. Therefore, the stingy praise of Zelenskiy is not yet recognition. In this mise en scene, he acts as an object for Putin to demonstrate his greatness and generosity. Poroshenko was in the Russian rhetoric an odious, but also a minor character, designed to set off Putin’s power. In this sense, both Zelenskiy and Poroshenko in the Kremlin rhetoric, despite all the differences, have one role to play: to be proof of Ukraine’s state failure, its historical doom. If there is a “fascist” sitting on Bankova, then in the eyes of the Russians, he must be pathetic, and if a “friend”, then the Russian official narrative will portray him weak and unreliable. Therefore, their fate is the same: to be swept away by the wind of history together with Ukrainian statehood. The fraternal Ukrainian people, about which they have been claiming in the Kremlin for decades, is only possible as a population of a small Russian province. That is why the praises emanating from Moscow to Zelenskiy are, in fact, imperial superiority and the non-recognition of the Ukraine’s right to exist. The only question is whether the Ukrainian authorities and their electorate understand this, and whether they are not being lulled to sleep by soothing tone of Moscow. ■



# From art space to cultural brand

Ukraine enters a new decade with a new identity among its museums and art centers

Olena Myhashko

In the last few years, not just private foundations and projects by generous art lovers but also state agencies have actively worked to fix up those areas of the cultural environment that have proved troublesome for most developing countries. This means inclusiveness, digitalization, participation, horizontal systems – whether in business or the arts – innovativeness, and a re-thinking of gender roles. For Ukraine, it's a two-way street. On one hand, at the turn of this new decade, the country has grown a critical mass of independent institutions like never before, and moreover they are stronger and more autonomous than 5-10 years ago. On the other, the state has also taken on a number of those issues that, out of sheer habit, it was inclined to hand over to private "oases" in the past.

An interesting way to put it would be that the main accents, hot topics and directions taken today are moving towards polyphony. Moreover, the public/private debate is no longer so grotesque in terms of understanding the main purpose – even given all the never-ending problems with bureaucracy, funding, lack of taste, and officiousness – as it was for the last two decades. The 2018/2019 season proved to also be an extremely important segment of this pathway, where Ukraine not only saw a slew of fundamentally new projects and forms of cultural entertainment made themselves known, but also those whose survival was under question also showed clear results. It's worth taking a look at the chronology and noting the key points with which Ukraine 2020 is being launched.

Certain processes that seem to have already become routine for Ukrainians are actually relatively

recent. This includes the reconstruction and change of exposition optics among the most familiar museums that are the country's visiting cards, such as the National Art Museum of Ukraine (NAMU), the Odesa Museum of Art, the Taras Shevchenko National Museum, and the Bohdan and Varvara Khanenko National Museum of Art. How important this step is can be understood by anyone who has been to similarly important historical national museums abroad and knows that the National Gallery of London, the Carlsberg Glyptotek in Copenhagen or, to be fair, the Hermitage in St. Petersburg are not bor-

ing places with dusty corridors that lack the most basic navigation, up-to-date customer services, properly restored areas, and easy-to-use sites.

For possibly the first time in decades, Ukrainians can look in the face of tourists and breathe easily, knowing that they can show visitors a National Art Museum that has been completely renovated and restored in partnership with Banda, a creative agency. Instead of a dusty, ragged old sage, the museum's new identity is that of a wise but lively, open and interested guide. Being old, after all, is not necessarily boring and outdated. We're talking about a legendary museum that has preserved the heritage of the entire country, and these are always current, interesting and alive. What remains is to finish renovating its stairs, retaining walls and window blocks, which is planned to be done by 2021.

Other notable art developments are taking place with the M17 Contemporary Art Center, which is now in competition with the Arts Arsenal and Pinchuk Art Center, and the new building of the Taras Shevchenko Museum in Kyiv, together with its expositions of contemporary Ukrainian



**Becoming a brand.**  
The new motto of the National Art Museum of Ukraine is openness, interaction and mobility

artists or a curator's reassessment of the famed poem *Kateryna*. And this is only a very short list of the post-Euro-maidan achievements, as the need to reform was obvious in a slew of spaces and museums outside the capital as well. For instance, there are the Bukhanchuk Museum of Art in Kmytiv, the Korsakiv Museum of Contemporary Ukrainian Art in Lutsk, and the Jam Factory Art Center in Lviv, which really is located in an old jam-making factory.

The more intimate spaces and galleries that in some ways affect the cultural map even more have also played their role in these changes. In 2020, visitors can discover the new space for the independent art showcase Set, which is still TBA, or the new name of the Naked Room library, opened by Raymond Wilkins in late 2018. This is also the year it will be possible to state boldly, "Let's get going with art clusters," with, as a minimum, the completely refurbished brand-new Dovzhenko Center and the opening of the P13 Center for Contemporary Culture at the VDNH or Expo Center of Ukraine. But even bigger than these largely reorganized landscapes will be the work, internal and personnel shifts whose results visitors will eventually also feel.

It's not enough that NAMU renovations are supposed to be completed shortly or the latest center will launch its updated website. Far more important than even these are the changes that have taken place and continue taking place with the teams running these museums. For instance, in addition to its new identity from Banda, which offers openness, interaction and mobility to both local and out-of-town visitors, NAMU has updated its office, hired on a bunch of young specialists, and organized a program of intriguing master classes and lectures for kids.

The Odesa Museum of Art decided to make similar values – openness, lightness, ergonomics, contemporaneity – more than just words on a wall. A clever 2019 collection of t-shirts was designed to break stereotypes about women in the arts with the help of well-known faces and captions reading "Go ahead, ask me when I'm going to get married," "My body is not a space for your ad," or "I'm my own oligarch." Each t-shirt had the identity of one or more women from paintings that are in the museum collection, with the caption next to it. These works included a sketch from the panel "Woman with

Bird" by Zinayida Serebryakova, "The Revolutionary" by Yuliy Bershadskiy, "Portrait of T. Braikevych" by Kostiantyn Somov, "The swimmer" by Carl Timoleon von Neff, and "The swimmers" by Amshey Nurenberg.

The Khanenko Museum is also entering the new decade completely renovated: the efforts of a newly-hired PR manager, Olya Nosko, to expand the real and potential audience based on age and genre has given results. Not to be outdone by others, the Museum presented its new identity in the fall of 2019, which included a new visual style designed by graduates from the Visual Communications Profession course at the Projector School of Design, Danylo Nesterevych, Yevhen Chuhuyevets, Olha Bakan, and Anastasia Lutova, and was immediately followed up by activities: open discussions, concerts and even events like a Halloween party. The Khanenko's curators went even further to actualize not just the notions of openness or interaction, but also inclusiveness: the museum proudly announced the launch of an inclusive site that made its famed collection of art works a bit more accessible.

Indeed, in museums like the Pergamon Museum in Berlin, such innovations are taken for granted. In the New Museum of Berlin, visitors who are visually handicapped are allowed to touch the Nefertiti bust. Whatever might be said about it, but identity is the first step away from who and where these institutions are today to who and where they want to be tomorrow, what they want to tell the world, and what kind of interactions they can offer it.

Now that even such giants as NAMU, the Shevchenko Museum and the Khanenko Museum have placed their bets on the future, when these huge greybeards have even started selling their own march and understand that, "Hey, the Arsenal and M17 aren't the only contemporary art centers that are really contemporary," the old provincial state galleries and concert halls don't stand a chance. For instance, just recently the Chocolate House in Kyiv launched its new identity. Of course, without this event, it would probably just drown unnoticed among the many art spaces on the capital's map. Over the next few years, Ukraine is likely to see presentations, renewals, and design

changes across the entire spectrum, from provincial performing arts centers to one-room museums of history or medicine.

The obvious has become the inevitable at last: the kind of stereotypical cultural society, public library-type space or arts center that were engendered under the soviets with the purpose of covering the provinces and pushing conformity will simply not survive today. It's no longer enough to be a space: you have to be a brand.

There's an urge to more optimistically look around at what's going on and say that, more than establishing the past, Ukrainians want to not waste their future. Fear of remaining stylistically, temperamentally and ideationally lost in the forests of endless stability has overcome the fear of accepting the transgendered, of loosening "spiritual bonds," or riding to work at the Verkhovna Rada on a bike. Rigidity has been melted by the desire to show that they are hip. All of this is a very noticeable positive trend, but so far it looks just a little like the

OVER THE NEXT FEW YEARS, UKRAINE IS LIKELY TO SEE PRESENTATIONS, RENEWALS, AND DESIGN CHANGES ACROSS THE ENTIRE SPECTRUM, FROM PROVINCIAL PERFORMING ARTS CENTERS TO ONE-ROOM MUSEUMS OF HISTORY OR MEDICINE

mood of a young woman who, having just broken with her old flame, goes out and buys a new dress as a kind of easy form of therapy. No matter how nice the new dress looks – and we all know what this is about – no matter how much she claims that she has changed, how often she insists that it's over, how strongly she declares that it was her choice, there will 100% for sure still be upsetting phonecalls, problems, attempts to revive things, times of distress and encounters with herself. Real lightness of being, a truly new phase will begin some time in the not-so-near future, and not when she "changes her hairdo, starts a new job, or decides that things will be different in the morning."

The new phase will become possible when the entire set of changes at all levels, from the director to the ordinary museum-goer, is affirmed, not so much as an achievement but as completely normal as the standard that can no longer be imagined any differently. Clearly, only a few of the cosmetic changes are likely to bring long-term results. Which those might be will be evident very very soon. ■



Dec. 13 – Jan. 2

February 11, 20:00

**BRING ME THE HORIZON****Stereo Plaza****(prospekt Lobanovskoho 119, Kyiv)**

The capital is preparing for an explosive concert by the British rock group whose level of drive promises to exceed all expectations. As part of their world tour, the legendary rockers are presenting their new album *Amo*, which translates from the Portuguese as “I love” — a kind of symbolic message from the band to its fans. One more special element of this performance will be the exciting combination of rock with pop and electronic music a new combination that’s even tastier. Come on down and give your ears a real treat!



February 13, 19:00

**DakhaBrakha****Dniprospetsstal Performance Hall  
(bulvar Shevchenka 1, Zapor-  
izhzhia)**

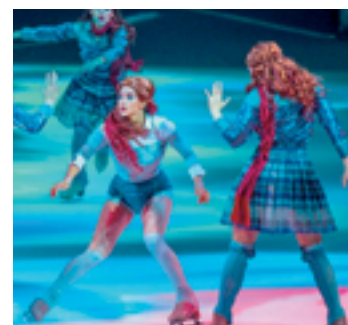
Mystical, colorful, different. The list of descriptors applied to Ukraine’s signature ethno-chaos band is endless. The group started as the musical component of a theater project called *Mystical Ukraine* under the direction of Vlad Troyitskiy that was happening at the DAKH Center for Contemporary Art. Today, DakhaBrakha has moved far beyond this first project, becoming a kind of cultural metamorphoses, a projection of Ukrainian life in its most varied forms and ideas. They aren’t like anybody else and perhaps this is precisely why their creativity is cherished both at home and far beyond Ukraine.



February 13, 19:00

**CIRQUE DU SOLEIL.  
CRYSTAL****Palats Sportu****(ploshcha Sportyvna 1, Kyiv)**

Are you ready for a magnificent world-class legend? It’s not every day that Kyiv sees guests of this stature. The Quebec-born circus is presenting its new program under the name *Crystal*, which will turn Palats Sportu into a fairytale of ice, with many gymnasts, acrobats, world-class figure-skaters, jugglers, and tightrope performers playing the main role. It’s hard to believe that Cirque du Soleil started as a street act. 35 years later, it enjoys full houses on five continents and is beloved of tens of millions around the globe.



February 16, 19:00

**MGZAVREBI****Atlas (vul. Sichovykh Striltsiv 37-  
41, Kyiv)**

This favorite Georgian band always brings its audiences a wonderful mix of emotions and sensations. Their SRO concerts and fans just can’t seem to get enough of these musical idols, who will be premiering their new album *GEO* this time, the group’s eighth. *GEO* is a different concept from previous albums, but its compositions have not lost any of the group’s hallmark sincerity and sensitivity. One of the novelties is an electric guitar. To find out more, get your ticket and join other fans at the concert!



March 3, 19:00

**Garou****Opera and Ballet Theater****(prospekt Dmytra Yavornytskoho  
72A, Dnipro)**

One of the world’s most famous baritones is coming to Ukraine. This time, Dnipro is the lucky venue, where the unsurpassed Garou will perform a celebratory concert in honor of the coming of spring. With his record number of prizes and awards, as well as gold and platinum albums, Garou is famous for his fantastic performance of *Quasimodo* in the musical, *Notre Dame de Paris*. It was this role that brought him world fame and an army of fans in various corners of the world. Tickets to Garou’s concerts tend to go very fast, so don’t take too long thinking about it... you will find yourself standing in ovation for a very long time, together with the rest of the concert-goers!



March 4, 19:00

**KAZKA****Palats Sportu****(ploshcha Sportyvna 1, Kyiv)**

There’s never too much good music, especially when you’re talking about the talented Ukrainian group KAZKA. Launched in 2017, the band has garnered an astonishing 90 million views on the YouTube audio version of its hit *Plakala* and over 230 million for the subsequent video of the song. Today, it has performed in such varied places as Latvia, Colombia, Armenia and Bulgaria, in addition to its native Ukraine. The unique vocals accompanied by a pan flute and musical mix bring the listener something more than just a pop music sound. The trio’s compositions seem to penetrate the soul. The presentation of Kazka’s new album, *Nirvana*, at the concert should confirm the band’s world-class quality.

