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MOVING FORWARD TOGETHER

UKRAINIAN RECOVERY DIGEST BY KSE INSTITUTE

JULY 2023

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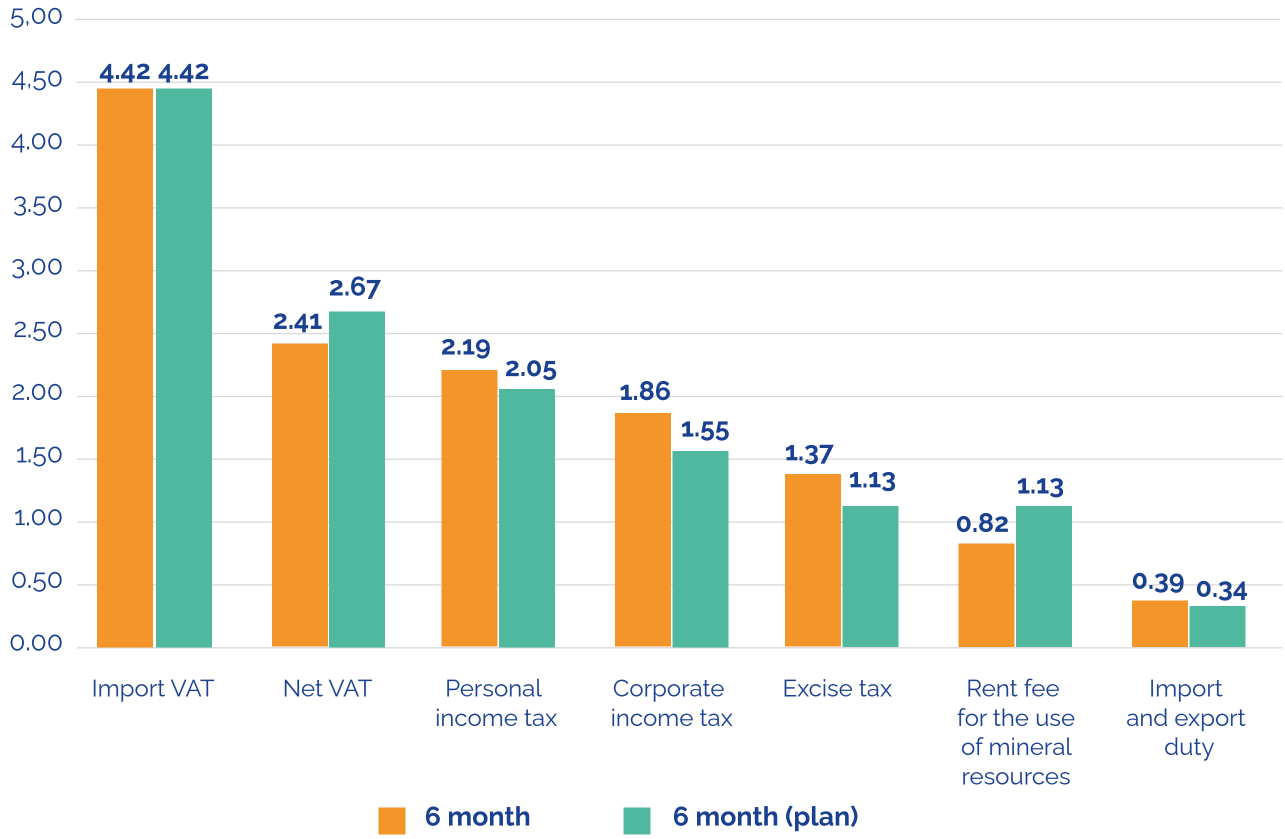
01 PUBLIC FINANCE

REVENUES

In the first half of 2023, the deficit of the state budget (general fund) stood at USD 14.6 bn. The numbers came better than projected USD 25.5 bn, mainly **due to attracting USD 7.2 bn grants (30% of the general fund's revenue)** from the United States, helping to increase the revenues to USD 23.8 bn.

Figure 1. Main tax revenues to the state budget general fund in January-June 2023, USD bn



Source: Ministry of Finance of Ukraine

The excise tax overperformed the planned target by 21.5% (reaching USD 1.37 bn), mainly due to growth of official production of tobacco products. The revenues from corporate income tax (CIT) reached USD 1.86 bn (+20%), showing the adaptation of businesses to new conditions. Growth in PIT to USD 2.2 bn (+6.9%), can be explained by the completion of the annual income declaration campaign, and the fact that 21% of businesses, according to the EBA survey, make advance and bonus payments to their employees. Additionally, in April, the budget received USD 980 m as part of the NBU's profit to be transferred to the state budget and in May, dividends in the amount of USD 660 m were received from PrivatBank (the largest state-owned bank).

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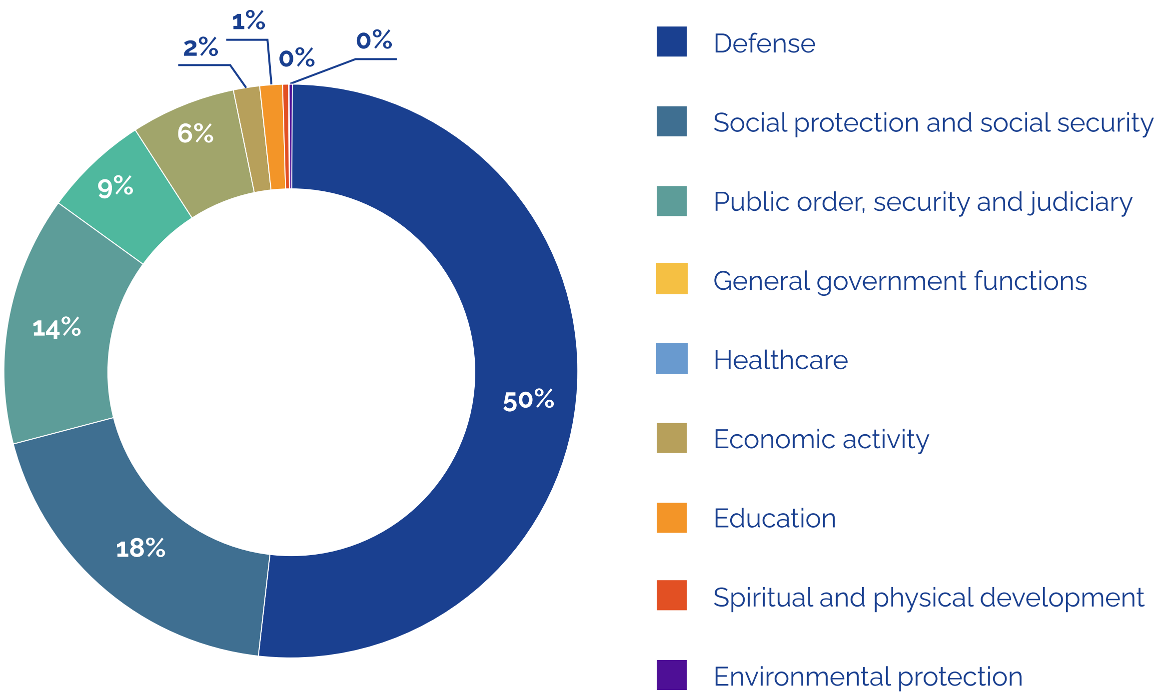
EXPENDITURES

During the period of January-June 2023, **the expenditures from the general fund amounted to USD 38.49 bn** (underperforming the planned number by 7%).

The largest budget spender was the **Ministry of Defense accounting for 46% of the total general fund spendings, or USD 17.34 bn**. The major areas of funding within the defense sector were ensuring the activities of the Armed Forces of Ukraine (USD 12.52 bn, incl. USD 10.5 bn on military salaries) and the program for modernization, repair, and procurement of military equipment (USD 4.62 bn).

Figure 2. Expenditures of the state budget (general fund) in January-June 2023



Source: Ministry of Finance of Ukraine

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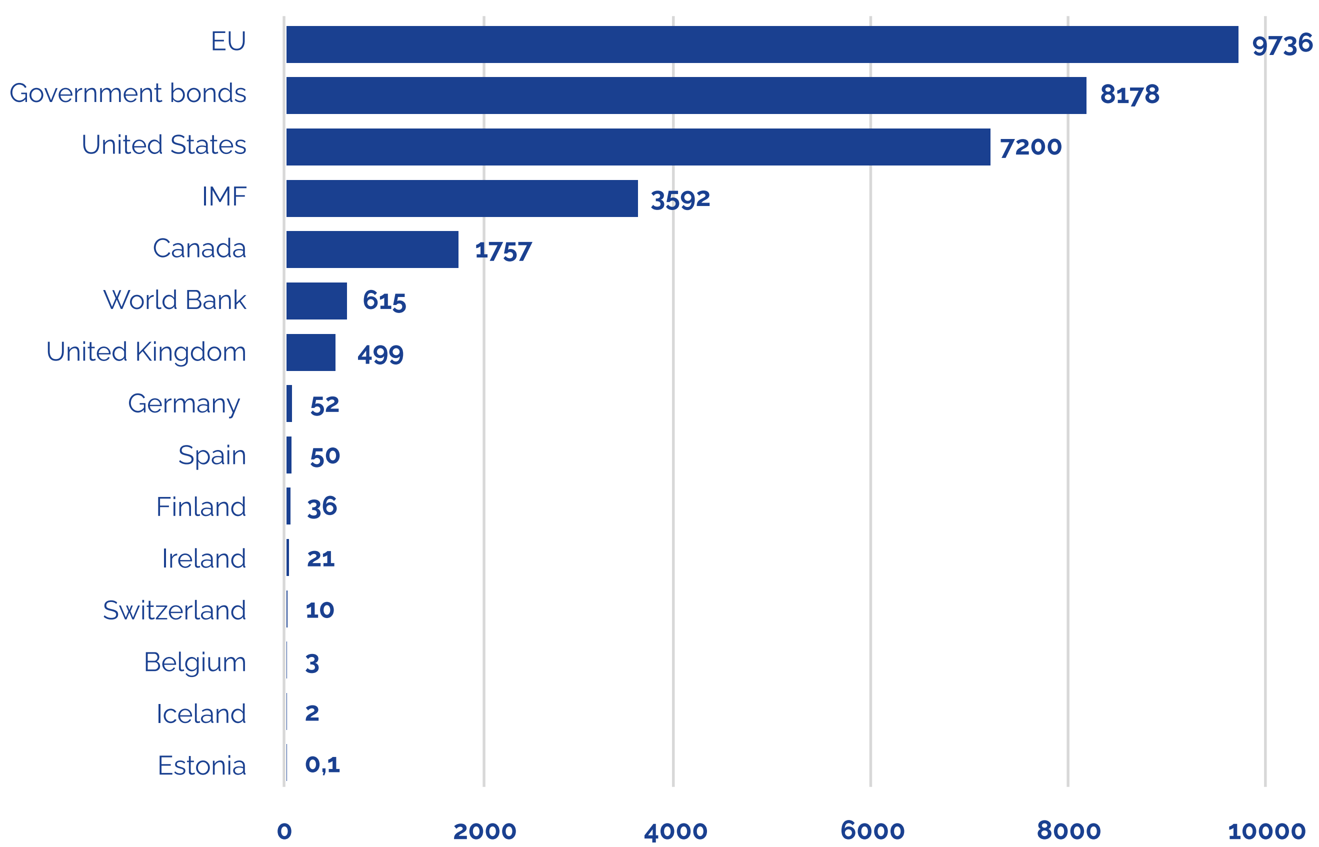
FINANCING

Since the beginning of the year, **expenditures have been financed by grants, domestic loans, and external credits amounting to USD 30.6 bn equivalent**. The breakdown of the receipts is as follows::

- Grants: USD 7.4 bn
- Domestic loans (government bonds): USD 7.8 bn
- External credits: USD 15.3 bn

In accordance with the Memorandum of Understanding between Ukraine and the EU dated 16.01.2023, Ukraine will receive EUR 18 bn (USD 19.5 bn) of macro-financial assistance in 2023, EUR 9.8 bn (USD 9 bn) was received in January-June. The United States is expected to provide USD 9.9 bn in budget support in 2023, of which Ukraine received USD 7.2 bn in January-May (Fig.3). Japan also promised to provide Ukraine with USD 3.5 bn in direct budget support in 2023. So far, Ukraine is still waiting to receive these funds.

Figure 3. Total funding in January-May 2023, USD m, as of 05 July 2023



Source: Ministry of Finance of Ukraine

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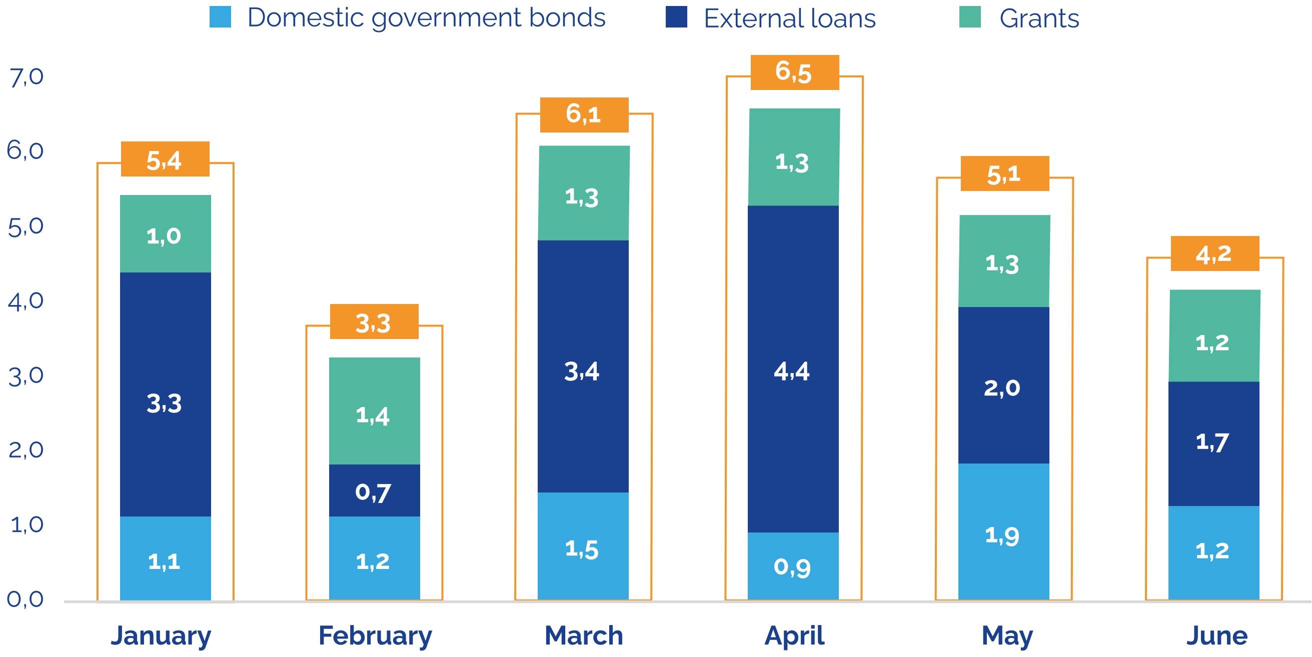
During this period, USD 9.92 bn was allocated for debt servicing and repayment, with USD 3.19 bn for servicing and USD 6.73 bn for repayment. A significant portion of the funds was directed towards domestic government debt, amounting to USD 8.71 bn. The funds raised from the placement of domestic government bonds in January-June 2023 allowed the NBU to fully cover the need for funds required to make repayments on domestic government bonds.

Figure 4. Sources of budget financing for the first five months of 2023, USD bn



Source: Ministry of Finance of Ukraine

WHAT'S NEXT AND KEY RISKS

The stability of Ukraine's budget system continues to depend critically on the support of international partners. To ensure the sustainability and reliability of the mutual implementation of agreements, Ukraine has signed a Memorandum with the IMF in March 2023 – new 48-month extended arrangement under the Extended Fund Facility (EFF) amounting to SDR 11.6 bn (approximately USD 15.6 bn, USD 3.6 bn has already been received.). This forms part of a comprehensive USD 115 bn support package for Ukraine.

The EFF-supported program for Ukraine aims to establish stable policies that sustain fiscal, external, price, and financial stability. It also seeks to support economic recovery while concurrently improving governance and strengthening institutions to foster long-term growth. This program is designed to facilitate post-war reconstruction and align with Ukraine's path towards EU accession.

Cooperation with the IMF is not just about the funds that will be received, but also serves as a signal to other partners about the possibility of supporting Ukraine during challenging times.

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The Memorandum contains a large number of requirements, including 19 structural benchmarks, 10 of which relate to the budget and taxation areas. Among them is the submission to the Parliament of a draft law amending Article 52 of the Budget Code of Ukraine to minimize ad hoc (one-time temporary, forced) changes to the budget. There is also a need to update a medium-term public debt management strategy, a three-year budget declaration, adoption of the National Revenue Strategy, including institutional strengthening of the State Tax Service, the State Customs Service, reorganization of the ESBU (Economic Security Bureau of Ukraine), review of the simplified taxation regime to eliminate the erosion of labour taxes, bringing VAT and excise taxes in line with European legislation, strengthening anti-corruption measures and procedures to eliminate integrity risks, taxation, and taxation reforms.

Ukraine's level of compliance with the benchmarks remains satisfactory – a draft law has been adopted as a basis by the Parliament to minimize ad hoc changes to the budget, set restrictions on the issuance of public guarantees, increase accountability and transparency of the budget process, and in 2024 to fully restore medium-term budget planning. However, some of them are unexpectedly postponed (in particular, the return of pre-war taxation is postponed until 1 August).

At the same time, there are several risks that may affect the further stability of the state budget execution, including:

- **Lower than planned revenues from exchange rate-related taxes**. Continued strengthening of the UAH due to stabilization of external support, improved logistics, and other reasons may keep the official exchange rate at the current level – below 42.2 UAH/USD (average), and 45.8 UAH/USD at the end of the year set in the budget. This will reduce budget revenues from imports **(high risk)**
- **Further postponement of the implementation of the structural beacons envisaged by the IMF agreements, in particular in terms of restoring pre-war taxation.** The draft law, which was supposed to come into effect on 1 July, was adopted with a delay (its entry into force was postponed until 1 August), but draft resolutions have been registered in the Parliament that do not allow it to be promptly submitted to the Speaker and the President for signature **(low risk)**
- **Non-compliance with conditions affecting the amount of other international assistance.** Funds from the EU will no longer be unconditional, but will be subject to the fulfillment of the commitments set out in the memorandum, including reforms in the areas of the rule of law, energy, good governance, and macro-financial stability. Failure to meet these conditions could lead to a loss of rhythm in the financial support of international partners **(low risk)**
- **Decrease in revenues (compared to planned) due to potentially lower inflation than originally budgeted** (the NBU revised its inflation forecast for 2023 from 18.7% to 14.8%) **(medium risk)**
- **Complications or termination of the grain corridor, as well as aggravation of problems related to restrictions on imports of Ukrainian food** by some European countries, which will mean lower taxes paid by exporters (but also a lower need for VAT refunds) **(medium risk)**

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- **Lower than expected employment**, which negatively affects household incomes, as well as a higher-than-expected level of integration of migrants abroad, pose a risk of a shortfall in non-military PIT revenues in the next tax periods **(medium risk)**.

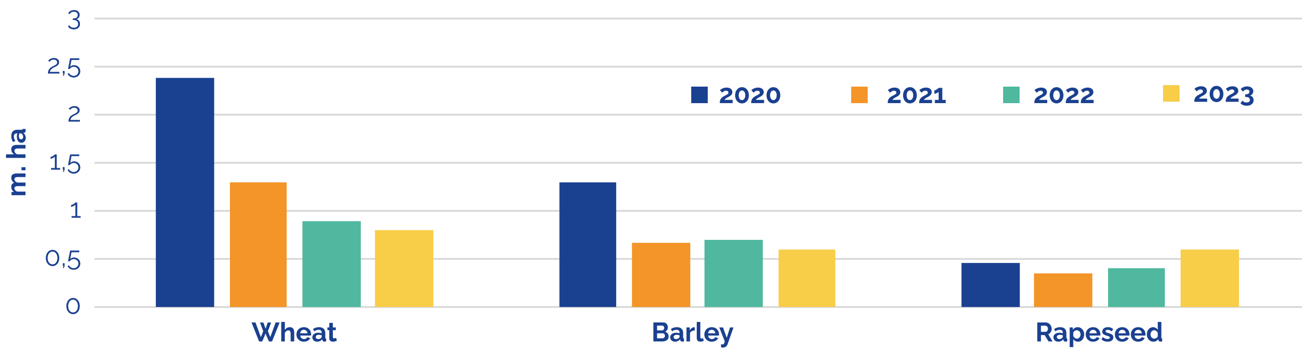
In general, the situation in the public finance system remains stable, and the budget management system is resilient even in the face of a full-scale war. The government manages to meet its tax revenue targets even in extreme conditions for business. At the same time, the budget needs continue to grow because of military and social needs (the latest changes in April included a 20% increase in the expenditure plan compared to the first version of the budget for 2023 to USD 84 bn). Therefore, it is crucial for the Government to maintain active cooperation with international partners and to avoid breaching commitments.

02
AGRO SECTOR

PRODUCTION

July was marked by the start of winter crops harvesting in Ukraine. As of July 20, farmers harvested around 5.9m tons of winter grains from 1.5m ha (14% from the planned area). In particular, farmers harvested 3.4m tons of wheat from 831K ha with an average yield of 4.1 tons/ha. Barley was threshed from 577K ha (40% from the planned area) with a yield of 3.9 tons/ha. Also, agricultural producers harvested 1.4m tons of winter rapeseed from 563K ha (41% from the plan) with an average yield of 2.5 tons/ha. The progress of harvesting this year is delayed compared to the previous years (Figure 1) amidst the rainfalls throughout the country.

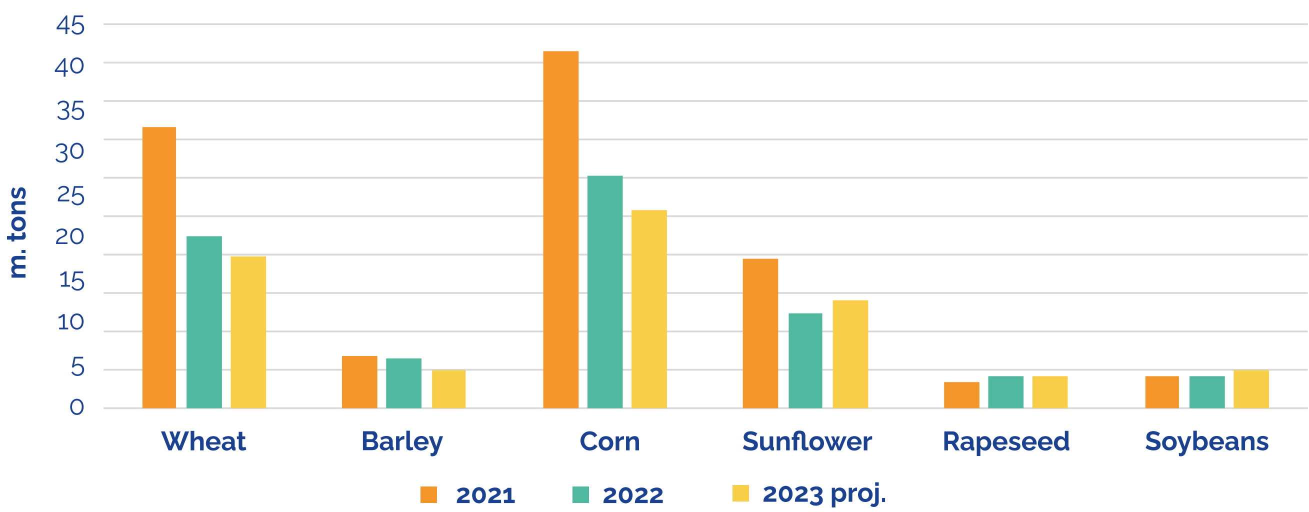
Figure 1. Progress of winter crops harvesting in Ukraine as of July 20th



Source: Ministry of Agrarian Policy and Food of Ukraine

Ukrainian Grain Association estimates the total harvest of grains and oilseeds in 2023 at around 68m tons, nearly 6m tons less than in 2022 and significantly below the record crop of 2021 (Figure 2).

Figure 2. Production of grains and oilseeds in Ukraine

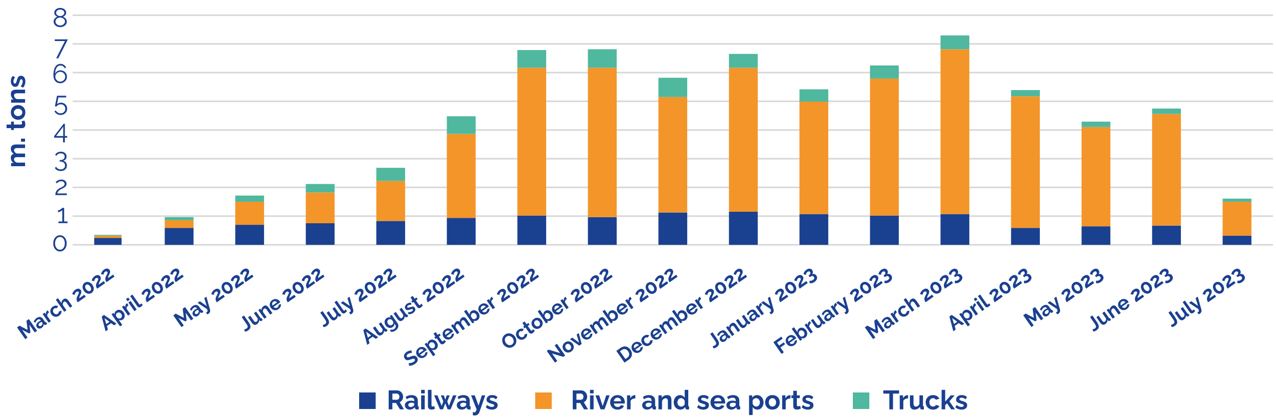


Source: Ministry of Agrarian Policy and Food of Ukraine, Ukrainian Grain Association

EXPORT CHALLENGES

Agricultural exports from Ukraine in June and July experienced a slowdown (Figure 3). June exports reached approximately 4.7m tons, a drop from the record 7.3m tons in March 2023. In July, exports further declined to just 1.6m tons. The decrease in shipments from seaports was linked to slow inspections by the Russian commission in the Joint Coordination Center on Bosphorus. These sluggish inspections led to increased demurrage costs for shipping companies and reduced demand for Ukrainian grain. Moreover, exports by railway also faced negative dynamics due to the import ban from neighboring EU countries in June.

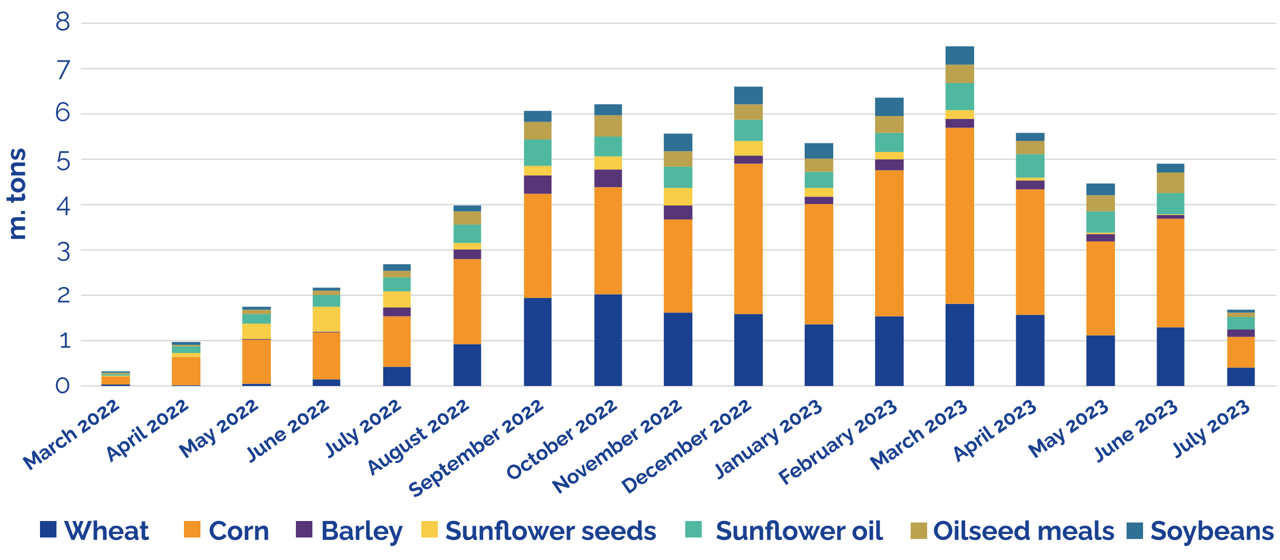
Figure 3. Ukraine's exports of grains and oilseeds by the mode of transportation



Source: Ukrainian Grain Association

The structure of Ukraine's grain and oilseeds exports remained relatively unchanged in June and July, with corn being the dominant crop exported through all types of transport (Figure 4).

Figure 4. Ukraine's exports of grains and oilseeds by commodity



Source: Ukrainian Grain Association

02 AGRO SECTOR

However, **Russia's exit from the Grain Deal** on July 17th **posed a significant threat to Ukraine's agri-food exports**. To navigate this challenge, Ukrainian grain can now be exported only through alternative routes, namely Danube River ports and railway stations on the western borders. These routes are expected to have monthly exporting capacities of approximately 3m tons and 1.5m tons, respectively. Nevertheless, high logistic costs pose a major concern. For instance, transportation from Danube port Izmail to Romanian sea port Constanţa costs around 35-37 EUR/ton, plus the costs of inland transportation to Izmail. Similarly, average transportation costs from the central region of Ukraine to sea ports of neighboring countries by railway are around 150-170 USD/ton. This is in stark contrast to the pre-war costs of just 30 USD/ton to transport from the central region to Odessa port. Consequently, grain export through alternative routes makes selling grain on the domestic market unprofitable for Ukrainian farmers.

To address this issue, the Ukrainian government is actively engaging in dialogue with international partners to explore alternative sea routes for Ukrainian grain that can replace traditional grain corridors. Among the most feasible alternatives, transportation through the territorial waters of other Black Sea countries such as Romania and Bulgaria is being considered. However, it is important to note that the existence of such routes remains under the threat of attack by the Russian fleet.

CATASTROPHE ON THE KAKHOVKA DAM

The destruction of the Kakhovka Dam on June 6 resulted in unprecedented damages for Ukrainian agriculture. Firstly, over 10,000 ha of farmlands were flooded, leading to direct damages to stored crops, including grains, oilseeds, and vegetables, amounting to several hundred thousand tons.

Secondly, 31 irrigation systems covering 584,000 ha, which produced around 4 m tons of crops in 2021, were left without water. Experts anticipate a 30-40% drop in yields for the next few years due to the absence of irrigation. Additionally, the structure of planting areas will change, with water-consuming crops like corn and soybeans disappearing from local fields.

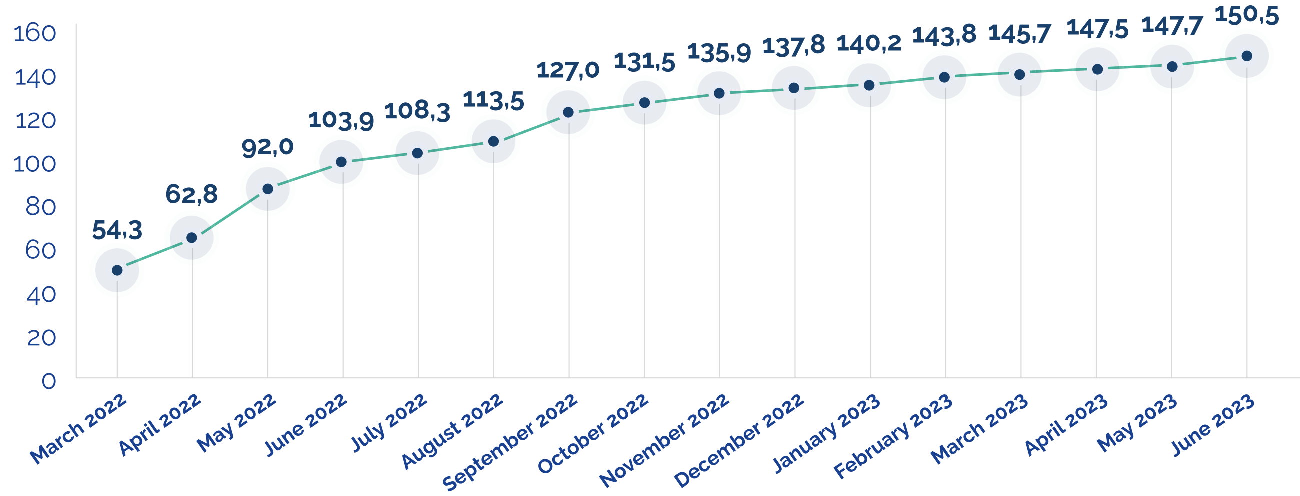
Thirdly, the drop in water level caused a massive death of fish, estimated at around 95,000 tons. The Ministry of Agrarian Policy and Food of Ukraine has assessed the total losses for the fishery sector at UAH 4 bn.

03 DAMAGES

«RUSSIA WILL PAY» PROJECT

As of June 2023, marking the 16th month of the full-scale war, **the documented direct damages** to Ukraine's infrastructure caused by Russia's invasion have reached USD 150.5 bn (at replacement cost). The monthly growth amounted to USD 2.8 bn, which is high compared to the previous month due to the Russian Federation's undermining of the Kakhovka hydroelectric power station in June 2023.

Figure 1. Direct damages growth dynamics as of June 2023, USD bn



Source: KSE Institute

Residential buildings account for the largest share of damages, totalling 37.1% or USD 55.9 bn, followed by infrastructure at 24.3% or USD 36.6 bn. The damages to **business assets** currently amount to a minimum of **USD 11.4 bn** and are still increasing. Additionally, **the education sector** has incurred direct damages of **USD 9.7, the energy sector** has incurred direct damages of **USD 8.8 bn** and **the agricultural sector** has incurred direct damages of **USD 8.7 bn** due to the war.
The cumulative damages to public sector facilities, including social objects, educational and scientific institutions, healthcare facilities, cultural structures, sports facilities, and administrative buildings, **approximately USD 15.5 bn.**

Figure 2. Direct damages breakdown by sectors as of June 2023, USD bn

Source: KSE Institute

03 DAMAGES

During the initial weeks of the war, spanning from late February to early March, combat operations occurred in 10 regions. As of June 2023, active fighting persists in the following regions: Kharkiv, Luhansk, Donetsk, Kherson, and Zaporizhzhia.

The data on damage to the housing stock provided is accurate as of June 2023 and includes the destruction caused by the explosion of the Kakhovka hydroelectric power plant.

Comprehensive and up-to-date reports, along with interim releases, of the damage assessments are always available on the KSE website. You can access them through the following link: https://kse.ua/ua/russia-will-pay/

04 RECOVERY

UKRAINE FACILITY

The latest estimates by the World Bank in collaboration with the Ukrainian Government reveal that the overall reconstruction needs of Ukraine from 2023 to 2027 amount to USD 152 bn, and the projection for the next decade reaches USD 411 bn. These figures encompass a range of vital initiatives, such as the restoration and repair of energy and other critical infrastructure, housing projects, humanitarian demining efforts, and support to the private sector.

In addition to the reconstruction needs estimated by the World Bank and the Ukrainian Government, the Kyiv School of Economics (KSE) predicts that fulfilling the goals of Ukraine's development strategy over the next 25 years will require an additional investment of USD 500-900 bn.

Addressing Ukraine's financial gap, the European Union (EU) has projected it to be approximately EUR 110 bn until 2027. **To support Ukraine, the EU proposed the Ukraine Facility, totaling EUR 50 bn, covering around 45% of the gap**. The Facility aims to provide constant financial support until 2027, catering to short-term state and recovery needs, as well as medium-term reconstruction and modernization efforts, fostering social, economic, and environmental progress, and enhancing Ukraine's integration into the EU and global economy.

The EU plans to finance the Facility through a combination of grants, loans, and budgetary guarantees, with a goal to make it operational from the beginning of 2024.

Ukraine Facility will have three main pillars:
1. **Pillar I (78% of financing) –** providing stable and predictable financial support through grants and loans to the state, ensuring the sustainability of Ukraine's finances.
2. **Pillar II (16% of financing) –** implementing a specific Ukraine Investment Framework to attract and mobilize public and private investments for the country's recovery and reconstruction.
3. **Pillar III (5% of financing) –** offering technical assistance and other supportive measures, including aid to municipalities, expertise mobilization for reforms, and bilateral support.

Figure 1. Ukraine Facility proposed financing allocation, EUR bn

Type of support	2024	2025	2026	2027	Total
Non repayable (grants)	**4.25**	**4.25**	**4.25**	**4.25**	**17.0**
of which Pillar I	1.5	1.5	1.5	1.5	6.0
of which Pillar II	2.0	2.0	2.0	2.0	8.0
of which Pillar III	0.625	0.625	0.625	0.625	2.5
Loans for Pillar I only	**8.25**	**8.25**	**8.25**	**8.25**	**33.0**
Total	**12.5**	**12.5**	**12.5**	**12.5**	**50.0**

04 RECOVERY

To access the support, **the Government of Ukraine must develop a "Ukraine Plan" in close consultation with the European Commission**. This comprehensive document will outline the country's vision for recovery, reconstruction, modernization, and EU accession-related reforms. The plan will encompass structural reforms and strategic investments aimed at boosting Ukraine's economic growth potential. **The target is to submit the Ukraine Plan to the European Commission for approval by October 2023.**

The significant emphasis of the Plan will be placed on rebuilding of infrastructure damaged by the war and fostering modern, improved and resilient infrastructure, strengthening strategic economic sectors, including transition towards the decarbonization of the economy and compliance with EU Green Deal, integration of Ukraine into Single Market and subsequent restructuring of its financial market, fight against fraud, corruption, organized crime and money laundering, tax evasion and tax fraud, fostering the rule of law, democracy, the respect of human rights and fundamental freedoms, strengthening economic and social development with focus on most vulnerable group of population, etc.

The main idea of the Plan is to make lasting changes in the country's economic structure to achieve sustainable growth. This will be achieved by implementing structural reforms that aim to increase the overall revenue generated by the economy. As a result, the government's reliance on external financing will gradually decrease. However, the funds provided by the Facility Plan alone will not be sufficient to cover the projected fiscal deficit of EUR 60 bn by 2027. Therefore, a portion of the funding will be used to reform the public sector, making it more efficient. This increased efficiency will create savings that can then be redirected towards implementing reforms in other sectors of the economy.
The choice of the key - economic sectors under Ukraine Plan will totally correspond to the presented by the Government at the Ukraine Recovery Conference in London strategic directions and include sector-specific reforms in energy, infrastructure, agriculture, transport, IT and digitalization, as well as industries like green metallurgy, machinery, and critical materials.

The Plan will include an indicative timetable for reforms and investments, detailing qualitative and quantitative steps to be completed by 31 December 2027. Preparation and implementation of the Ukraine Plan will involve consultation with regional, local, urban, and other public authorities, adhering to the multi-level governance principle and adopting a bottom-up approach.

As a result, **the Cabinet of Ministers of Ukraine has established an interdepartmental working group responsible for preparing the Ukraine Plan**, along with approving its composition and related regulations. KSE Institute has joined this working group and will actively contribute to the preparation of the Ukraine Plan.

After completion, the European Commission will assess the relevance and comprehensiveness of the Ukraine Plan and make any necessary amendments.

The Government of Ukraine may also request modifications to the Plan. Additionally, Ukraine can provide reasoned requests for amendments, including relevant addenda, to consider additional funding from other donors or sources like **revenue from frozen and immobilized Russian assets**. Ukraine bears full responsibility for implementing the Plan, with EU guidance and audit ensuring budgeting transparency and adherence to declared principles.

The KSE Team acknowledges that the proposed EU programme will significantly aid Ukraine's recovery and development, enhancing the national economy. However, it anticipates that the total needs will likely surpass the declared EUR 50 bn. To meet the additional funding requirements, other potential sources include additional financing from other donors, attracting private investments, utilizing frozen assets from Russia, or establishing mechanisms to receive post-war reparations.

STUDY “POST-WAR MACROECONOMIC ARCHITECTURE FOR UKRAINE”

Supporting the comprehensive work process led by the Ukrainian Government on developing the Ukraine Plan that will form the basis of the recovery process, the international scientific community, presented by the Centre for Economic Policy Research presented a comprehensive **study “Post-War Macroeconomic Architecture for Ukraine”**, where they propose a macroeconomic framework designed for Ukraine's post-war recovery period.

The study focuses on four key areas: fiscal policy, monetary policy, labour market, and regulatory environment.

Challenges in tax revenues and increased spending require major debt relief, closing tax loopholes, and privatizing state-owned enterprises. On the spending side, experts urge to prioritize targeted aid, consolidate public services, reform the pension system, and minimize credit intervention and tax spending.

Addressing non-performing loans in a state-owned bank, as well as introducing capital controls, and macroprudential instruments will help to manage credit growth, dollarization risks, and vulnerabilities in the banking sector. The report also recommends to shift labour market focus to worker insurance, education, and introduce flexible employment forms.

Fostering a fair business environment with deep regulatory reforms, particularly in antimonopoly legislation, and strengthening internal institutions are pivotal for the regulatory environment in Ukraine.

Please see the full study on the link bellow:
https://cepr.org/publications/books-and-reports/post-war-macroeconomic-framework-ukraine

05 SANCTIONS

FROZEN RUSSIAN ASSETS

Throughout the full-scale invasion, KSE Institute has actively supported the Office of the President, the Ukrainian Government, and collaborated with international bodies and groups involved in implementing sanctions against the Russian Federation.

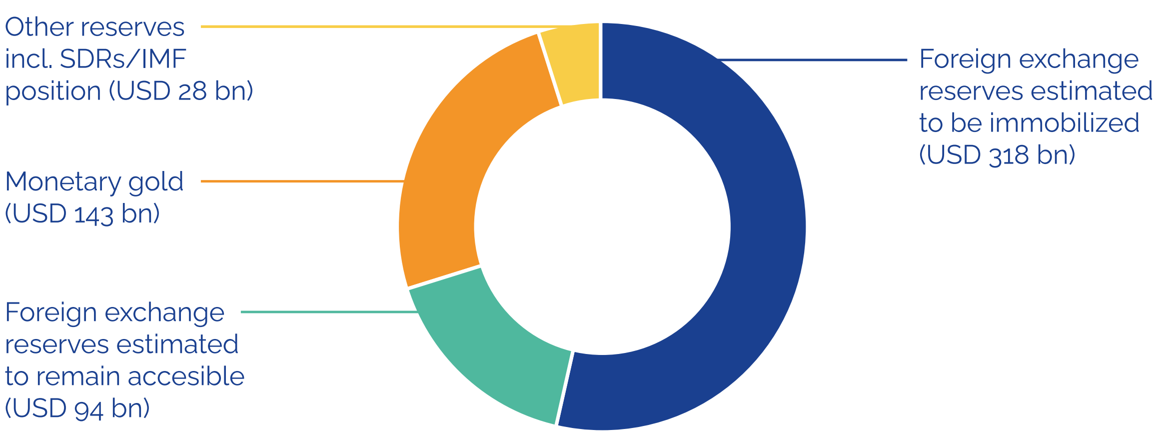
KSE Institute Sanctions Team plays an active role in developing and publishing roadmaps and strategic documents on sanctions policy. They are members of Yermak-McFaul International Working Group on Russian Sanctions and the Interagency Working Group on sanctions in Ukraine. For more information on the products of the KSE Institute Sanctions Team, please visit the website https://kse.ua/kse-institute-during-the-war/.

From a recovery perspective, **the freezing and seizure of Russian assets have played a central role in the sanctions policy**. Ukraine's allies consistently emphasize the importance of holding Russia accountable and providing compensation for the damage inflicted upon Ukraine. However, the establishment of a suitable legal framework for the confiscation of both sovereign and private Russian assets for the benefit of Ukraine remains unresolved to this day.

How much is frozen now?

Sovereign assets: Prior to the invasion, Russia held USD634 bn in international reserves, known as "Fortress Russia." **As of June 2023, we estimate that approximately USD 318 bn of these assets are currently immobilized due to international sanctions**. This leaves Russia with access to USD 143 bn in monetary gold and approximately USD 94 bn in accessible foreign exchange (largely in yuan).

Figure 1. Estimated composition of CBR's reserves, in USD bn as of 31 June 2023



Source: Bank of Russia, KSE Institute

05 SANCTIONS

The European Union holds the largest share of frozen Russian sovereign assets. As of May 25, 2023, the European Commission confirmed the immobilization of Russian assets **worth EUR 200 bn (USD 214.6 bn)**, with sovereign assets accounting for EUR 180 bn. The EU has introduced comprehensive reporting requirements to enhance transparency regarding immobilized reserves and assets of the Russian Central Bank, as well as funds and economic resources of listed individuals and entities covered by all ten sanction packages.

Based on our assessments, **the United States is the second-largest holder of frozen Russian sovereign assets**, with holdings of up to approximately **USD 40 bn, followed by Canada with around USD 16 bn.**

Private assets: The exact volume of frozen private Russian assets remains somewhat unclear. In March 2023, the Russian Elites, Proxies, and Oligarchs (REPO) Task Force announced their latest assessment, confirming the successful blocking or freezing of **over USD 58 bn worth** of assets belonging to sanctioned Russians.

Countries progressing in developing legal framework

USA

On December 29, 2022, President Biden signed **the Consolidated Appropriations Act of 2023 into law**. This act **authorizes the Attorney General to transfer proceeds from the sale of forfeited assets** belonging to individuals sanctioned for Russia's invasion of Ukraine and related crimes to the State Department. The purpose of this transfer is **to provide foreign assistance to Ukraine**, subject to oversight and reporting requirements to Congress. One example of such a transfer occurred with the case of Russian oligarch Malofeev, who was charged with sanctions evasion. Approximately USD 5.4 m from his assets are set to be transferred to Ukraine after receiving the Attorney General's authorization on February 3, 2023.

On June 15, 2023, a bipartisan bill titled **Rebuilding Economic Prosperity and Opportunity for Ukrainians Act ("the Bill")** was registered with the US Congress. The Bill proposes the confiscation of blocked funds from the Central Bank of Russia, the Russian Direct Investment Fund, the Ministry of Finance of the Russian Federation, sovereign funds of the Russian Federation held in financial institutions wholly owned or controlled by the Russian government, and other funds or properties wholly owned or controlled by the Russian government or its subdivisions, agencies, or instrumentalities. These confiscated assets would be used to provide additional assistance to Ukraine.

Furthermore, the Bill instructs the US President to coordinate with aligned states to implement asset confiscation in their respective jurisdictions. Additionally, the Bill establishes an international fund known as the "Common Ukraine Fund" to support Ukraine's reconstruction efforts.

[1]In March 2022 the Russian Elites, Proxies, and Oligarchs Task Force was set up between the EU, G7 countries, and Australia.

05 SANCTIONS

Canada

In June 2022, Canada introduced amendments to the Special Economic Measures Act (SEMA) that empower Canadian authorities to issue forfeiture orders for frozen property owned by foreign states and nationals. This process includes a special procedure that involves judicial review of the forfeiture order. The amended legislation specifies that such assets can be utilized for the following purposes: "(a) the reconstruction of a foreign state adversely affected by a grave breach of international peace and security; (b) the restoration of international peace and security; and (c) the compensation of victims of a grave breach of international peace and security, gross and systematic human rights violations, or acts of significant corruption."

On December 19, 2022, **Canada announced its intention to seize and pursue the forfeiture of USD 26 m from Granite Capital Holdings**, a company owned by Russian oligarch Roman Abramovich, who has been sanctioned under the Special Economic Measures (Russia) Regulations. This represents the first utilization of Canada's newly acquired authority to pursue the seizure of assets belonging to sanctioned individuals. If the asset forfeiture is successful, the proceeds will be allocated towards the reconstruction of Ukraine and the compensation of victims affected by Russia's invasion.

On 10 July Canadian government ordered seizure of a Russian aircraft, an Antonov 124, which is believed to be owned by a subsidiary of Volga-Dnepr Airlines LLC and Volga-Dnepr Group. Canada holds the distinction of being the first G7 country to implement such measures.

EU

The EU is engaged in ongoing tough discussions concerning the seizure of Russian assets on behalf of Ukraine, and the first agreements have been recently achieved. As reported, on June 29, 2023, **EU leaders agreed to introduce a windfall tax on the income generated by frozen CBR's assets**. The revenue from this tax will be subsequently allocated to finance Ukraine's recovery needs. According to primary assessments, **immobilized assets will generate up to USD 3 bn yearly**. Euroclear reported that in Q1 2023 sanctioned Russian assets generated interest amounting to EUR 734 m.

It is worth mentioning, in May 2023, Belgium approved a new aid package for Ukraine amounting to €92 m, fully coming from additional tax revenue generated from frozen Russian assets in Belgium.

KSE Institute emphasizes the importance of taking a proactive stance regarding the adoption of a robust legal framework for the seizure of sanctioned sovereign and private Russian assets. While we highly appreciate the progress being made by Coalition Countries in this regard thus far, we acknowledge the risk of slowing down the Recovery efforts if hesitation in solving this issue further takes place.

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