



Ukraine Essential

Brief Nine

14 April 2022



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Key Recent Developments

- ▶ **Temporary decline in hostilities ahead of major combat to come:** there has been a temporary decline in hostilities amid [Russian re-organization](#) that is aimed at preparing for a potentially decisive confrontation in Donbas. Both sides are being re-organized and re-supplied: troop numbers are expected to reach parity. The Mariupol resistance has been split into [three small pockets](#) and could be nearing its last stand.
- ▶ **War crimes & impact:** evidence of grave atrocities committed against civilians has been uncovered in Northern Ukraine following Russia's retreat from the region. These discoveries have severely alarmed Europe and hardened Kyiv's resolve, with the diplomatic track now acutely complicated. Russia's underwhelming military performance has further left a major impression on the EU – the bloc has demonstrated greater willingness towards pursuing a more confrontational approach against Russia in Ukraine.
- ▶ **Impact of sanctions:** The default of [railways](#) in Russia is an indication that sanctions are beginning to take their toll. The global impact is palpable too: food and fuel prices are [rising; some countries](#) have already experienced upheaval and defaults. The West, that said, [appears](#) generally aloof with respect to the effects of sanctions on the rest of the world.

Key Developments to Watch

- ▶ **War of attrition in the East:** Ukraine is particularly focused on ensuring that its forces are not encircled to prevent Russia from gaining a [significant strategic advantage](#). A major offensive is expected towards the end of April or beginning of May. A return to diplomatic talks may only prove possible following the battle for Donbas.
- ▶ **Mind the gap:** there are increasing [concerns](#) that the Ukrainian economy will experience tremendous turmoil and the budget a significant financial gap. While the EU has mobilized [€17 billion](#) for Ukrainian refugee support (aid to its own Member States), it has provided only €1.2 billion in fresh credit and [€120 million in direct budgetary](#) support to Kyiv.
- ▶ **Regional impact:** Central and Eastern Europe countries have begun delivering heavy weapons to Ukraine. These countries, notably, are also hosting the greatest number of Ukrainian refugees. They are, however, on the financial frontline too, rendering them especially [vulnerable](#) to energy shocks and the economic impact of the conflict.

Eastern Boiler

Since its withdrawal from North Ukraine and changes in its [military leadership](#), the Russian armed forces (RAF) has prioritized the re-organization and redeployment of troops to the Eastern front in a bid to encircle the Ukrainian armed forces (UAF) in Donbas. The RAF is making headway towards taking Mariupol following a spirited defense of the city by Ukrainian defence units. The UAF has been dissected into three separate small pockets located primarily in the Azovstal steel plant. The capture of Mariupol would complete Russia's objective to secure a land bridge from Crimea to Donbas.

The Russian advance is moving only incrementally forward in Eastern Ukraine though, with Moscow seemingly awaiting success from its assault on Mariupol to free up more troops. Given that the RAF

has suffered substantial losses – some [reports](#) suggest that officers encompass more than 20% of [Russian troop casualties](#) - their regrouping is taking more time than initially expected.

Russia is suffering the consequences of insufficient planning - most battalions were under-staffed and reserves have proven to be lacking. A lack of coordination, the underestimation of Ukrainian resistance, and strategic and logistical mistakes (including [close-contact infantry](#) engagement without necessary [manpower](#)) have all plagued Russian operations. Moscow is attempting to [covertly mobilize](#) troops to address these shortcomings: at home it is encouraging soldiers to join the military and in “separatists republics” reports suggest the Kremlin is forcing people to mobilize. These moves are directed at [outmanning the UAF](#). The RAF, furthermore, continues to systematically destroy Eastern rail junctions, fuel depots, and other critical infrastructure across the country, maneuvers that have been labeled [de-industrialization](#).

Kyiv, for its part, has already organized two rounds of mobilization and sought to reinforce its forces in Eastern Ukraine to prevent the RAF from gaining [troop superiority](#). Kyiv has also moved towards establishing “[city fortresses](#)” in Slovyansk and Kramatorsk, a tactic deployed with tremendous success on the outskirts of Kyiv and in Mariupol. These steps should further slow the Russian advance, with the UAF’s current objective seemingly aimed at securing a “draw” or thwarting Russia from achieving [significant strategic gains](#). The Ukrainian authorities, importantly, have also organized the evacuation of citizens from Slovyansk, Kramatorsk, and Pokrovsk.

The UAF has further been attempting to attack Russian forces in Kherson and conduct attacks along the northeastern Ukrainian border with Russia to stretch the forces of the RAF.

While the UAF has been successful in providing area defense, its weaknesses lie in the lack of capacity to (counter)attack at the operational level. Kyiv, consequently, is using every atrocity to [make stronger and stronger requests](#) and obtain [heavy weaponry](#) from the West for such purposes. In Kyiv, there had been growing consternation with the US for “[denying](#)” it victory by providing merely defensive weapons. Washington, however, has now [upped its commitment](#) through an additional \$800 million military assistance package that includes heavy artillery systems, helicopters, ammunition, and armored personnel carriers. The [unprecedented](#) Western military assistance and [training](#), moreover, have played an integral role in bolstering UAF capabilities.

Depending on the outcome of the battle for Donbas, Russia may seek to achieve another land bridge stretching to Transnistria, thereby cutting off Odesa and crippling the Ukrainian economy. Any renewed assault against Kharkiv and Kyiv appears unlikely at current troop levels.

The War Must Go On

Following the withdrawal of Russian forces from the Kyiv region, emerging [evidence of war crimes](#) has outraged Western societies. [Dozens of cases](#) of summary executions and rape have been documented in Bucha alone (the Office of the Prosecutor General of Ukraine has [registered 5,800 cases](#) since the invasion started). The same office puts the number of child fatalities at 191. The latest verified UN data, meanwhile, [reports](#) 4,335 civilian casualties including 1,842 fatalities and 2,493 wounded.

The civilian deaths have hardened Ukrainian positions and Western sentiment. The news has also spurred additional sanctions against Russia including an EU embargo on coal imports from the country and an increase in military aid provided to Ukraine (this encompasses the first deliveries of heavy weaponry).

The reactions are also a testament to the [powerful](#) Ukrainian info war effort headed by President Zelensky. Some of the Ukrainian demands such as a full scale energy embargo have been, at least for the time being, ruled out (e.g. by Germany) creating an emotional rollercoaster. [Unprecedented Western](#) media coverage has also been integral to fostering sympathy for Ukraine’s cause.

Most civilian casualties have been [linked](#) to the use of explosive weaponry including heavy artillery shelling, multiple launch rocket systems, missile and air strikes, and combat in city suburbs. Given the

initial rapid Russian advance on the Ukrainian capital, many residents were unable to evacuate from Kyiv's northern suburbs and became the victims of war crimes [committed](#) by Russian troops [lacking \(moral\) direction](#) from senior command.

In addition to these atrocities, the protracted assault on Mariupol has taken the lives of an [estimated](#) ten thousand civilians. The missile attack on the [Kramatorsk rail station](#), crowded by residents seeking to evacuate the city, further killed 57 people and wounded 109. The depth of the humanitarian catastrophe is also unsettling: the number of refugees has reached 4.6 million and two-thirds (or 4.8 of 7.5 million) of Ukrainian children are displaced.

No wonder the diplomatic track has lost its luster. While there had been some cautious optimism last week amid the Istanbul talks centered around neutrality and non-membership in NATO (though territory [remained a red line](#)), Kyiv has focused its efforts now on preparing for an impending [major battle](#) over Donbas.

EU rebalancing

The EU was initially skeptical that Russia would invade Ukraine and then doubted Kyiv's ability to withstand the onslaught. But diplomacy towards Moscow is no longer listed on the bloc's to-do list, with EU foreign policy chief Josep Borrell acknowledging that the [war will be won on the battlefield](#).

EU leaders brought the membership application questionnaire to Kyiv on their recent trip, a similar act of rebalancing (i.e. attempting to gain time with symbolic steps demanded by calls for an [energy embargo](#)). That said, as recently [pointed out](#) by Borrell in remarks underlining the funding gap, the bloc is still spending more money on Russian energy than it is providing in aid to Ukraine.

The EU [shift](#), nonetheless, is undebatable, with Brussels united and sharing a consensus that the war is a [disaster with far reaching consequences](#). The EU economies will face much of the fallout (and will still yet be expected to [cover the cost](#) of rebuilding Ukraine).

The repercussions from the conflict will be dire indeed. Inflation in the EU came in at a record 7.5% in March (more than triple the ECB target) – the war has only exacerbated price pressures caused by pandemic related supply chain constraints. It will likely prove difficult to implement an energy embargo: even a ban on Russian coal has been postponed to August following a [compromise](#).

Due to a spike in gas spot prices – the markets are already pricing in a potential embargo even though the EU will be unable to enforce one soon - Russia has gained [more from](#) rising gas prices than it will lose from the coal import ban.

As an early indication of the situation to come, daily electricity prices in March soared to the [highest ever](#) recorded level. The EU already [spends 9.1%](#) of its GDP on energy, compared to 4.4% in the US, putting its competitiveness at risk. The bloc rather needs to enact a comprehensive energy security package [instead of depending on spot gas prices](#). Western societal support for the Ukrainian cause could be [put to the test](#) depending on the persistence of rising food and fuel prices, with stagflation a genuine concern if the war rages on. Yet Russia faces its own economic quagmire.

Russia's Options

Western sanctions have started to take a bite out of the Russian economy. The GDP loss is [estimated to reach 11%](#) even as inflation skyrockets (it has already hit 16%), underscoring the Kremlin's own stagflation crisis. The latest round of sanctions has rendered Russia unable to pay its debt obligations, with neither rubles payments or strategic reserves funds accepted. A technical [default looms](#) - the Russian railways [became](#) the first casualty.

The Russian Central Bank has managed, for now, to [stabilize the currency](#) but it is [concerned about](#) a deceleration in economic growth. Net capital outflows from Russia via the private sector surged [3.6](#)

times to [\\$64.2 billion](#) in the first quarter of 2022 compared to the same period in 2021. But this is a far cry from the \$320 billion figure reached in 2008.

Restrictions on [technology imports and other sanctions](#) will soon become a [significant challenge](#) to the economy though. If Russia feels it is at [war with the West](#), it should not be surprised that the EU acts accordingly. The Russian bureaucracy is struggling to adapt as demonstrated by developments in occupied territories. These occupations are [not going well](#) due to shortages and the violent dispersal of protests. Russian authorities are still enforcing full-fledged customs protocols at the Russian-Ukrainian border, hindering supplies to occupied territories. There is, furthermore, no system set up at border crossings to facilitate and manage refugee flows.

Yet there may be limits to the effects of Western measures including potential so-called “nuclear” sanctions. An energy embargo would [detrimentally impact](#) Russia but it may not cripple Putin. Russia still has around \$160 billion in reserves that are unhampered by sanctions (not including gold reserves) and [\\$53 billion in budgetary funds](#) that could buy it time until more exports can be redirected. There is further genuine support behind Putin and the war as the Russian populace rallies around the flag – developments that have not yet been vigorously challenged despite growing casualty counts and a prolonged war dynamic setting in. The seemingly firm support for the Kremlin could be dented, however, if the standard of living continues to decline and shortages become widespread.

While the West appears more unified than ever, the response in most Asian capitals to Russian aggression is not a [straightforward matter](#). The [view from the rest](#) is that the West is punishing not only Russia but the entire world, sentiment that is enabling Moscow to find ways to sidestep sanctions by selling crude to the [“willing world”](#) (albeit at a discount).

A New Ukraine

Life is reverting to a relative normal in Kyiv following the Russian withdrawal - some residents of the capital that fled the war have already returned. Roads are being cleared, infrastructure fixed, and the revival of the economy put front and center. De-mining efforts are also a pinnacle priority throughout the country: clearing the entire contested territory will cost [€29 billion](#) according to government estimates. [And 90% of the population face the risk of poverty if a protracted war occurs.](#) The proliferation of weapons further poses a dangerous threat to public safety.

Ukraine’s economic output indeed will likely contract by a staggering 45.1% according to a [World Bank forecast](#). A further downside scenario would see additional commodity price shocks and a loss of financial market confidence resulting in a [75% contraction in Ukraine’s GDP](#).

The Ukrainian government has cautiously begun to raise the alarm: its [spending exceeded revenues](#) by about \$2.7 billion in March and the gap could expand to \$5 billion to \$7 billion a month in April and May (and to [\\$10 billion if the war continues longer](#)). Local governments are already [cutting expenses and salaries](#). Kyiv, meanwhile, will face [UAH 167 billion in debt](#) repayments during the April-June period this year even as it seeks to avoid restructuring its debt undergirded by concerns about its [investor reputation](#). Ukraine also does not want to give a symbolic “victory” to Russia at precisely the moment that Moscow faces a technical default.

The war, in this way, will hinder Ukraine’s development for the foreseeable future; it may take [fifteen years](#) for the country to get back to its 2021 GDP. The US Congress, however, approved \$13.6 billion in military and humanitarian assistance that will be provided in the form of direct aid rather than cash. The EU further allocated €17 billion for Ukrainian refugee support (these funds are distributed to EU Member States), and an additional €9.1 billion was fundraised primarily [for this purpose](#). Only around €3 billion in direct support will reach Kyiv coffers in the form of credit (apart from €120 million in direct budgetary support from the EU). A fresh blueprint for [reconstruction highlights](#) the need to include grants rather than merely cash in future assistance packages.