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# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments  
February 2024



# I.

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

February 2024 was one of the hardest months of the war for Ukraine. A combination of unfavourable external and internal factors has dealt a «cumulative blow» to Ukraine's defence capabilities. Although it is currently difficult to objectively assess the potential of the enemy's offensive, but due to a shortage of ammunition and manpower in the Ukrainian Defence Forces, Russia has gained an upper hand in almost entire land theatre.

The [tenth anniversary](#) of the beginning of the Russia-Ukraine war and the [second anniversary](#) of the full-scale invasion have prompted various assessments, forecasts and recommendations. The loss of Avdiivka has sparked debates among followers of different views on how to resolve the Russia-Ukraine conflict, among [supporters](#) and opponents of international military assistance to Ukraine. Interestingly, individuals with opposing views on the conflict have expressed serious [concerns](#) not only about the prospects of liberating the occupied territories, but also about Ukraine's ability to deter further russian aggression in the current situation.

### COMBAT ACTION

February 2024 saw significant changes in the theatre of operations. As noted in the [previous review](#), the so-called «stalemate» could not last too long. The reduction of external support for Ukraine has significantly shifted the balance of power in favour of Russia, giving it the strategic initiative in most of the land theatre. In addition to the opportunities presented by Ukraine's «shell hunger», the upcoming presidential elections also motivated the russian side to intensify offensive actions, as military victories are important for Putin to demonstrate to the population, while russian generals are ready to make any losses not to lose their positions.

Without exaggeration, February 2024 was one of the most difficult months of the war for Ukraine, or rather, marked the beginning of

another critical phase. The situation of a «[perfect storm](#)», the first signs of which surfaced in the last quarter of 2023, and the gradual accumulation of unfavourable external factors and internal problems led to a dramatic change in the balance of power. Until early February, neither side had a strategic initiative, with tactical advantages only in certain areas of the contact line. [Russia's regaining strategic initiative](#), caused primarily by the shortage of ammunition and manpower in the Ukrainian Defence Forces, prompted the russian command to intensify offensive actions in several areas. However, it is premature to draw conclusions about the real capabilities and prospects of russian offensive potential.

The recent [forced withdrawal](#) of Ukrainian defenders from Avdiivka gave the Russians their first politically and psychologically significant victory in nine months. As of the end of February, no new contact line had been formed in the Avdiivka sector, and it remains to be seen if the enemy can build on this tactical success or its offensive potential has reached its culmination. Obviously, much will depend on the preparedness of the new Ukrainian defence line in terms of engineering, fortification equipment and resources.

In recent months, Ukraine has carried out a series of strikes that could have a significant impact on the russian army's combat capability and the Kremlin's ability to finance the war. Several effective attacks on russian oil storage, refining and transportation facilities contributed to a 2% [drop](#) in petrol production in January, forcing the russian government to limit exports by 1/3 to meet domestic needs, and to impose a near-total export ban in late February. However, these absolutely legitimate actions of Ukraine provoked [mixed reactions in the West](#) due to concerns that further attacks on russian oil and gas infrastructure could disrupt global oil markets.

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

On February 8 President Zelenskyy dismissed General Valeriy Zaluzhnyi from his role as Commander-in-Chief of the Ukrainian Armed Forces and appointed General Oleksandr Syrskiy as his replacement. The reports of possible resignation that emerged in late January had received a predominantly negative response from the public and the [military](#). However, [the public reaction](#) to the decision itself was rather restrained, with no mass protests.

President Zelenskyy's failure to publicly express dissatisfaction with General Zaluzhnyi's performance and provide a sufficiently convincing reason for the dismissal suggests that the move may be politically motivated. However, there could be [other motives](#) behind the decision, such as President Zelenskyy's dissatisfaction with the situation on the front and his attempts to resolve it through personnel changes. The replacement of the Commander-in-Chief was expectedly followed by other changes in the highest military command. All [«new» leaders](#) are experienced and well-known figures, but it remains to be seen how and when the new Commander-in-Chief will be able to [change the course of the war](#).

The Ukrainian Armed Forces are implementing organisational measures to enhance combat effectiveness, among which the initiative to [create unmanned systems](#) as a separate force deserves special attention.

In February, the issue of mobilisation remained unresolved. As General [Ben Hodges](#) rightly noted, «...this is not the problem for the commander. This is a civilian political authority topic that has to be agreed upon between the government and the Rada..., to make sure that every woman and every man who joins the military is properly trained, equipped and sent into battle only when their unit is ready. And was confident that their families would be taken care of...». Nonetheless, there have been positive outcomes from the introduction of alternative [recruitment](#) methods to forced mobilisation, both at the MoD level and individual brigades.

The Verkhovna Rada of Ukraine decided to [extend the martial law regime](#) for the next 90 days (from 19 February).

## FOREIGN EVENTS (EXTERNAL FACTORS)

The lack of US military assistance for 2024 remains the main factor influencing the conflict in Ukraine, leading to the loss of Avdiivka and further advancement of the Russian offensive due to a shortage of ammunition on the front line.

Discussions are taking place among participants of the Ramstein format on bringing it [under NATO's auspices](#) in anticipation of potential challenges posed by a possible return of Donald Trump to the US presidency. The plan, designed by US National Security Advisor Jake Sullivan and NATO Secretary General Jens Stoltenberg and backed by Eastern European states, the United Kingdom, and France, aims to protect the Ramstein format from potential unpredictable changes in US policy. However, German representatives oppose the plan, fearing that it would fuel the Kremlin's narrative of NATO's war with Russia. Despite the fundamental changes in international assistance and support for Ukraine, German authorities still remain cautious and refuse to supply long-range [Taurus](#) missiles due to [fears of a direct military clash with Russia](#).

In February, political and public discussions on the threat of Russian aggression and the need to strengthen European defence capabilities continued in partner countries. The positive evolution in the perception of Russian threat is likely to be reflected in future political decisions, which may have both [positive and negative consequences for Ukraine](#). If the goal is to neutralise the military threat from Russia through Ukraine's victory in a war, then Ukraine should be provided with all necessary support to win. If those politicians who have already accepted at least a partial but inevitable Russian victory prevail, this could result in a radical redistribution of resources to strengthen their own defence capabilities.

In addition to the [security cooperation agreement](#) with the UK signed in January, Ukraine also signed bilateral agreements with Germany, France, Denmark, Canada and Italy in February to implement the agreements

between Ukraine, the G7 members and their accession states. Although not «security guarantees», these agreements formalise current and future commitments to support Ukraine for the next 10 years. Their value lies both in increasing Ukraine's chances of victory in the current conflict and in providing long-term investments in strengthening defence capabilities and, consequently, deterring the aggressor in the future.

New reports have highlighted the limited effectiveness of international sanctions, as Western-made components were found in North Korean and Russian missiles (the latter were manufactured in late 2023), and the use of Starlink terminals by the Russian military in its positions. According to Bloomberg, Russia's purchases of critical components for the military industry from the EU in 2023 amounted to nearly €450 million, a quarter of which were direct purchases and the rest made through third countries.

The Kremlin's intentions to create preconditions for destabilising Moldova are becoming more apparent. On 28 February, on the eve of Putin's speech to the Russian Federal Assembly, a congress of «deputies of all levels» appealed to Russia, the OSCE, the CIS, the European Parliament, the International Committee of the Red Cross, and the UN to «protect them from Moldova» and stop

violations of the rights and freedoms of the residents of Transnistria. Despite the Kremlin's restrained reaction to this appeal, the risks of creating a new hot spot on Ukraine's borders are growing.

France's Emmanuel Macron's statement about the possible deployment of troops to Ukraine showcased significant differences in the policies of the EU and NATO countries regarding this currently hypothetical scenario. Macron's intention was likely to encourage partners to support Ukraine more actively.

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

- ✓ as of the end of February 2024, the consistently high intensity of fighting and the growing superiority in combat capabilities allowed Russia to seize the strategic initiative;
- ✓ stagnation of the front line and the subsequent seizure of the initiative by Russia raised concerns about the prospects for Ukraine's liberation of the occupied territories and its ability to deter Russian aggression and sparked debates among followers of different views on ways to resolve the Russia-Ukraine conflict, as well as supporters and opponents of international military assistance to Ukraine..

# II. FOREIGN POLICY

In February, the overall foreign policy picture consisted of multidirectional processes, both positive and negative. The national diplomacy's achievements include the EU's decision to provide macro-financial support to Ukraine and the conclusion of security cooperation agreements with Germany, France, Canada, Italy, and Denmark. Meanwhile, complex and dangerous trends continued in key external areas, with instability growing both regionally and globally. This expanded the list of Ukraine's problems and challenges.

## INTERNATIONAL PROCESSES AND EVENTS

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The Ukrainian government's key task in the international arena is to ensure prompt military and financial support, as the ongoing suspension of US aid has already affected the situation at the front. At the same time, Kyiv tried to promote its important initiatives (the Peace Formula), continue European integration and strengthen bilateral relations with partners.

### *International processes*

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In February, the Republican majority in the US House of Representatives continued to block the US military aid package to Ukraine. Despite the Senate passing the relevant legislation on 13 February and pressure from the White House, the House Speaker announced a recess until the end of February, leaving the «Ukrainian issue» in limbo. The situation on the US track has some dangerous factors: a) assistance to Ukraine is turning into an instrument of political struggle in the US as the elections approach. This is evidenced by [controversial populist statements](#) by Republican leader Donald Trump that caused a negative response worldwide; b) the process of concluding a US-Ukraine agreement on security cooperation is being hampered; and c) the suspension of Washington's support is sending a

negative signal to partner countries while also encouraging the aggressor. On the other hand, this has forced European nations to step up their partnership and assistance to Kyiv in countering Russian aggression.

The war in the Middle East region continues, with intensified fighting in Yemen, Iraq, and Syria, as well as Israel's ongoing military operation in the Gaza Strip. The EU decided to launch a large-scale [Aspides](#) operation in the Red Sea. As noted in previous reviews, this war is the Western Coalition's «second front» that diverts the attention, forces and resources of Ukraine's allies.

In late February, Polish farmers yet again blocked the border with Ukraine as part of their protests. These demonstrations turned politically charged and resulted in acts of vandalism and the destruction of agricultural goods in transit from Ukraine. Meanwhile, Poland ignored Ukraine's proposal for intergovernmental meeting at the border on 24 February and [announced](#) plans to impose restrictions on some Ukrainian products. These unfriendly / hostile actions somewhat strained bilateral relations and halted a high- and higher-level dialogue. However, with the start of the EU membership talks approaching, Kyiv refrained from retaliatory steps and sought a compromise solution.

On 28 February, a congress of deputies of unrecognised region of Transnistria [appealed](#) to Russia and several international organisations for «protection from Moldova's pressure». This provocative move, likely inspired by Moscow, can be seen as a prelude to Russia's larger hybrid aggression against Moldova, with the aim to ensure a pro-Russian outcome in the 2024 presidential elections.

### *Foreign policy events*

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The following February events related to Ukraine deserve special attention.

**On 1 February**, after overcoming Hungary's opposition, EU leaders agreed to provide Ukraine with a € 50 bn macro-financial assistance package, which was particularly important in view of the absence of US support.

**On 13 February**, the foreign ministers of the Weimar Triangle (France, Germany, and Poland) issued a joint statement reiterating their support for Ukraine in its fight against the aggressor and for its integration into the EU and NATO.

**On 14 February**, the 19<sup>th</sup> meeting of the Ramstein contact group took place, launching an air defence coalition, a drone coalition, and a coalition to build Ukraine's IT capabilities.

**On 16-18 February**, the Munich Security Conference became another step towards the international community's better awareness of the global consequences of Russian aggression, the importance of Ukraine war and the urgency of assistance to Kyiv. The Ukrainian side took an active part in this prestigious forum, holding a series of high-level talks and consultations.

**On 24 February**, the G7 held an online summit involving Ukraine, which resulted in a policy statement emphasising a) strengthening sanctions and blocking the aggressor's assets until the end of the war; b) meeting Ukraine's urgent financial and economic needs; c) not recognising elections in the occupied territories, etc.

**On 24 February**, mass actions in support of Ukraine were held in 69 countries and 746 cities all over the world, marking the anniversary of full-scale invasion. The largest number of pro-Ukrainian events took place in Germany, the United States, France, the United Kingdom, Canada, and others with many national leaders, public and political figures joining the rallies.

**On 26 February**, at the initiative of President Macron, a meeting of some 20 heads of state and government was held in Paris. A number of initiatives were put forward to provide military assistance to Ukraine, including an international coalition to supply medium- and long-range missiles. Mr Macron's thesis on the possibility of sending a military contingent to Ukraine at some point received a wide international response.

**On 28 February**, the Ukraine - South East Europe Summit was held in Albania featuring a series of meetings with the leaders of Albania, Moldova, Serbia, Croatia, Montenegro, Bosnia

and Herzegovina. The leaders of Ukraine and Albania signed a Treaty of Friendship and Cooperation, while a declaration on Ukraine's Euro-Atlantic integration was signed with the Republic of North Macedonia. Following the event, the leaders of participating nations adopted a joint declaration emphasising their support for Ukraine, expressing their readiness to participate in the implementation of the Ukrainian Peace Formula, promoting Ukraine's Euro-Atlantic integration, seeking the return of illegally deported Ukrainian children, fighting fake narratives about the war, participating in the post-war recovery of Ukraine.

**In February**, a number of countries announced military and financial aid packages for Ukraine. In particular, the Italian parliament approved the decision to provide military aid to Ukraine in 2024; Japan allocated \$106 million to rebuild destroyed facilities; the governments of Sweden and Denmark presented military aid packages of €630 million and \$247 million, respectively. Finland announced another batch of weapons worth €190 million. Very important is the UK's decision to supply Ukraine with additional Brimstone missiles. In February, Kyiv began receiving another military aid package from Germany worth \$100 million.

## FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

In February 2024, Ukraine engaged in intensive negotiations, both bilateral and on the sidelines of international events, to secure external support, promote its own initiatives, including the Peace Formula, and formalise partnerships. The country held consultations with the EU, OSCE, IAEA, OECD, and held negotiations with several countries including the US, France, Germany, Italy, Canada, Denmark, Czech Republic, Kazakhstan, and Bulgaria. The geography of contacts expanded at the Munich Conference, where Ukrainian officials met with the presidents of Azerbaijan and Guatemala, the Prime Minister of Bangladesh, and the Foreign Minister of China, among others.

Additionally, the President of Ukraine made working visits to Germany, France, Albania, and the Kingdom of Saudi Arabia. A Ukrainian-Japanese conference on economic development and reconstruction on 19 February resulted in the signing of 56 intergovernmental agreements, memoranda, and arrangements between business representatives of both countries.

In turn, the [visit](#) of prominent foreign leaders to Kyiv, including Canada's Justin Trudeau, Italy's Giorgia Meloni, European Commission President Ursula von der Leyen and Belgium's Alexander De Croo, was of strategic significance.

A dialogue continued with US congressmen, as well as with diplomats and government officials from the United Kingdom, Malta, the Netherlands, Estonia, South Africa. Other contacts included public and political figures, representatives of international financial and legal institutions, etc.

An important outcome of the February 2024 negotiations marathon was the signing of security cooperation agreements with [Germany](#) (16 February), [France](#) (16 February), [Denmark](#) (23 February), [Italy](#) (24 February) and [Canada](#) (24 February). These documents have a similar structure, defining partnerships in various security areas, covering topics such as arms supplies, response to armed attacks, and support for Ukraine's reforms and reconstruction. Each agreement has its own level of detail and peculiarities (for example, the agreement with Germany is more cautious about Ukraine's Euro-Atlantic integration).

While these agreements are strategically significant in terms of institutionalising and formalising long-term security partnerships with leading countries, they do not require ratification and are of a framework nature. In other words, they still need to be supplemented with specific intergovernmental and interagency agreements.

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

In February, Ukraine undertook comprehensive steps to fulfil the conditions

necessary for launching the EU membership talks. On 12 February, the government's European integration team held a coordination meeting with its European partners. On 23 February, the Verkhovna Rada approved the draft law on fair lobbying – one of the main recommendations of the European Commission. In this regard, the [statement](#) by European Commission President Ursula von der Leyen that «the European Commission will submit the negotiating framework by mid-March» is quite encouraging. Additionally, the screening of Ukrainian legislation is underway.

Meanwhile, the European Parliament passed a [resolution](#) on 29 February emphasising that enlargement was the EU's moral and historic commitment, and a strategic geopolitical priority. The resolution calls on the European Commission to a) revise the methodology of the enlargement process, making it more dynamic; b) grant candidate countries observer status in key EU institutions; c) expand the list of issues on which decisions will be made based on the qualified majority voting, including on the start of EU accession negotiations, opening and closing of individual negotiation clusters.

**The external events and processes described above generally confirm earlier assessments and observations. Against the backdrop of a deteriorating regional and global security situation, the issue of consolidated and consistent military and financial support to counter Russian aggression has become crucial. In this regard, the signing of a package of long-term security cooperation agreements with the world's leading nations is an important step. However, tactical and strategic trends prioritise the consolidation of domestic resources along with enhanced political, social and economic stability and a modernised national security system.**



# CONSTITUTIONAL AND LEGAL FIELD

## 1. PROTECTION OF THE SOVEREIGNTY AND TERRITORIAL INTEGRITY OF UKRAINE

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The legal regulation of defence and protection of Ukraine's sovereignty and territorial integrity is in the focus of the parliament's legislative efforts. On 5 February, the Verkhovna Rada adopted laws approving the «regular» presidential decrees – No. 49/2024 «[On Extension of the Martial Law in Ukraine](#)» and No. 50/2024 «[On Extension of the General Mobilisation Period](#)». Given the ongoing Russian aggression against Ukraine, these laws are necessary to ensure the defence of the state and to maintain the combat capability of the Armed Forces and other military formations of Ukraine. Therefore, the period of martial law and general mobilisation in Ukraine has been extended for 90 days from 14 February 2024.

On 23 February 2024, the Verkhovna Rada adopted the Law «On Amendments to Chapter XII «Final Provisions» of the Law of Ukraine «On Military Duty and Military Service» concerning the Terms of Military Service». This document stipulates that «during the general mobilisation announced by the [Decree of the President of Ukraine No. 65/2022 of 24 February 2022 «On general mobilisation](#)», approved by the [Law of Ukraine No. 2105-IX of 3 March 2022 «On Approval of the Decree of the President of Ukraine «On General Mobilisation»](#)», and the effect of martial law introduced by the [Decree of the President of Ukraine No. 64/2022 of 24 February 2022 «On the introduction of martial law in Ukraine](#)», approved by the [Law of Ukraine No. 2102-IX of 24 February 2022 «On Approval of the Decree of the President of Ukraine «On the introduction of Martial Law in Ukraine»](#)», servicemen in regular military service whose term of service, established by part 1 of Article 23 of this Law, expired during the martial law and whose military service was extended beyond the established terms in accordance with part 9 of Article 23 of this

Law, as an exception to the provisions of part 9 of Article 23 of this Law, shall be discharged from military service to the reserve within the terms determined by the Decree of the President of Ukraine. Such persons may not be called up for military service during mobilisation within twelve months from the date of discharge from military service in the reserve unless they have expressed a desire to [continue military service](#)». It is noteworthy that this act was adopted by the parliament on the proposal of the President. In this way the Ukrainian parliament and the head of state tried to regulate the situation with the ongoing (beyond the previously established legislative terms) conscript service of tens of thousands of young Ukrainians.

## 2. PROSPECTS FOR REBUILDING THE COUNTRY.

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On 26 February 2024, the President signed the [Law of Ukraine «On Amendments to Certain Legislative Acts of Ukraine on Simplifying the Procedure for Changing the Designated Purpose of Land Plots to Attract Investment for the Rapid Rebuilding of Ukraine»](#), most of which will enter into force three months after its publication. This act introduces a simplified procedure for changing the designated purpose of land plots with no approved urban planning documentation attached, and for attracting investments to rebuild Ukraine. Thus, during the martial law period and within 5 years from the date of its termination or cancellation, the law allows to plan and place industrial and warehouse buildings, non-residential agricultural buildings, pipelines, electronic communication networks and power transmission lines (except for main oil and gas pipelines), complex industrial structures (except for structures of enterprises engaged in the extraction, production and processing of nuclear materials, structures of enterprises and facilities for enrichment and processing of nuclear fuel, structures of enterprises intended for thermal treatment (incineration) of household waste) on land plots (except for land



classified as a nature reserve / environmental fund, land of historical and cultural significance, water fund, land for recreational, health and forestry purposes) outside settlements (with no approved local-level urban planning documentation). The establishment or change of the plots' designated purpose may be carried out without complying with the rules for correlation of their designated purpose and the types of functional purpose of territories, but on the basis of a reasoned conclusion of the relevant urban planning and architecture authority. The change of the designated purpose of such land plots will be carried out without land management documentation and only by the decision of the plot's owner by updating information on the changed designated purpose of the land plot into the State Land Cadastre via relevant application.

In addition, the law provides for the creation of a Register of territories contaminated / possibly contaminated by explosive ordnance and land unfit for use due to the potential threat of such contamination. The law designates the State Emergency Service of Ukraine as the holder of this Register. The law further provides for state inspectors for control over the use and protection of land of the State Geocadastre to inspect land plots in respect of which tax exemptions have been granted in connection with their recognition as unsuitable for use due to the potential threat of contamination by explosive objects. Information on such inspections will be entered into the Register. Further on, the Law provides for the possibility of locating energy facilities (the technological infrastructure of energy facilities); introduces

the possibility for creating and receiving extracts from urban planning documentation through the Unified State Electronic System; abolishes the need to obtain decisions on the feasibility of locating river ports (terminals) when taking measures to establish or change the designated purpose of land plots on which such location is planned; and specifies the procedure for free privatisation of the above-mentioned land plots by citizens of Ukraine.

The Law, which indeed aims to improve / simplify the procedure of changing the designated purpose of land for construction and reconstruction of industrial facilities, eliminate the consequences of the Russian invasion and possibly attract foreign investment, has received generally positive feedback. However, some of its provisions [cause justified scepticism](#) in the expert community. It remains uncertain whether these provisions will actually make the process easier or if obtaining a reasoned conclusion from the urban planning authority would be a faster and less corrupt solution. Additionally, the law overlooks important issues such as sanitary zones around industrial and energy facilities and the proper supervision of the uncontrolled industrial development of areas surrounding settlements. After all, it is difficult to predict how quickly inspectors will be able to inspect land plots contaminated with explosive ordnance. Nevertheless, the creation of a Register for these land plots may have an impact on tax benefits, as they will be recognized as unfit for use due to the potential threat of explosive contamination.

# IV. ECONOMY

## DECISIONS

In February, after several weeks of negotiations, the EU approved a €50 billion funding package for Ukraine, providing financial and psychological support to help counter the aggressor and rebuild the country. This decision is also significant as the corresponding US bill was still being debated in Congress.

Out of the EU's €50 billion multi-year assistance under the Ukraine Facility programme, Ukraine is set to receive the [first tranche](#) of €4.5 billion in March 2024. This support will be provided on a quarterly basis, subject to the fulfilment of set criteria set for the reform implementation. These include structural reforms in the public sector, economic reforms aimed at improving the business climate and entrepreneurship, and steps to develop priority sectors for rapid economic growth.

Additionally, the programme provides for a special investment instrument of €8 billion to cover risks in priority sectors.

At the same time, the European Commission and the International Finance Corporation (IFC) [have signed a guarantee agreement](#) to support investments that will help drive an inclusive and sustainable reconstruction in Ukraine. Through this agreement, the EU will provide up to €90 million in financial guarantees to IFC to support investments in Ukraine, as part of IFC's Better Futures Programme (BFP). Mobilised private sector investments under the programme are expected to reach more than €500 million across sectors, and will help [rebuild the country's infrastructure](#), support its business sector and strengthen the resilience of its economy, reaffirming the European Union's commitment to support Ukraine in times of crisis.

Additionally, the IFC launched a \$2 billion Economic Resilience Arrangement (ERA) in early 2022 to support Ukraine's private sector. Since then, IFC has provided over \$650 million in financing and mobilised over \$400 million to bolster various sectors, including technology, agribusiness, critical exports and imports, and SME financing.

European initiatives regarding Ukraine are gaining in importance. Meanwhile, despite the high risks of partner support this year, most leading countries have not yet reduced their aid. Japan, for instance, approved and provided nearly \$400 million in assistance to Ukraine in January (which went to the state budget of Ukraine), with expectations that it will reach \$2.2 billion in Q1. As a result, Japan will become the largest donor to Ukraine in 2024. Japan's total contribution already exceeded \$4.6 billion, [ranking](#) it as Ukraine's fourth largest partner in terms of budget support.

In turn, the United Kingdom [has extended its duty-free trade regime](#) with Ukraine until 2029, offering crucial long-term economic support for Ukraine, its businesses and people's recovery from the illegal invasion.

Of course, the countries' willingness to expand their support for Ukraine will largely depend on the IMF, which is why the Fund's activities in Ukraine deserve special attention.

On 12 February, IMF representatives met with the Ukrainian authorities and other partners [to discuss](#) the goals and challenges of Kyiv's economic policy, as well as priorities for strengthening Ukraine's capacities and IMF support for this important task.

The results of these discussions formed the basis of the IMF mission's work in Warsaw for the third review of IMF's Extended Fund Facility.

As a result, on 23 February, Ukraine and the IMF reached a Staff Level Agreement (SLA) on the third review of the \$15.6 billion Extended Fund Facility (EFF). This means that [the IMF acknowledges Ukraine's progress under the EFF programme](#), with all structural benchmarks achieved and most quantitative performance criteria met, except for a slight non-compliance due to the border blockade affecting tax revenue targets.

This also means that **Ukraine can count on another tranche from the IMF.**

The SLA is subject to approval by the IMF Executive Board in March, after which Ukraine will be able to receive the fourth tranche of about \$880 million. In total, Ukraine is expected to receive \$5.4 billion from the IMF in 2024.

## **DEVELOPMENTS, PROCESSES, TRENDS**

[According](#) to the Ministry of Finance, the State Budget's general fund received in January 2024 UAH 111.7 billion in taxes, fees and mandatory payments, a 7% increase compared to January last year. The revenue plan for the general fund for the month was also surpassed by 120.9% (+UAH 19.3 billion).

Additionally, according to the latest data, the general and special funds of the State Budget received UAH 147 billion in taxes, fees and other payments in January 2024, while the Pension Fund and social insurance funds received about UAH 31.3 billion in unified social tax.

In early February, the National Bank of Ukraine (NBU) released the Balance of Payments data for 2023, indicating that the 2023 figures look «worse» than those for 2022. Notably, the current account balance has a deficit of \$9.75 billion in 2023, compared to a positive balance of +\$8.0 billion in 2022. This deterioration was mostly driven by decline in merchandise exports (\$41 billion in 2022, \$34 billion in 2023), and growth in merchandise imports (\$56 billion in 2022, \$63 billion in 2023), meaning that the deficit in merchandise trade doubled, from \$14.7 billion in 2022 to \$28.4 billion. At the same time, revenues (primary and secondary

income) from partner assistance (grants) and salaries of Ukrainians working for foreign companies fell significantly, from \$34 billion in 2022 to \$28 billion.

So far, the negative balance has been financed by the NBU's reserves and concessional loans from partner countries and institutions. However, with a decrease in resources to support the country, it is necessary to implement economic policy measures that will help to significantly increase exports and at least partially reduce imports of both goods and services.

One potential solution is to focus on agricultural exports. The US Department of Agriculture (USDA) has raised its forecast for global wheat exports by 1.15 mln tonnes to 210.7 mln tonnes. Regarding Ukraine, although [the forecast of wheat harvest](#) in 2023/24 MY remained unchanged at 23.4 mln tonnes, the exports estimate increased to 15 mln tonnes (+1 mln tonnes). First, Ukraine currently accounts for about 11% of the global wheat exports, which is a high figure. Second, almost all growth in global exports is generated by Ukraine, even despite its ongoing armed conflict with the Russian aggressor.

In 2023, Ukrainian agricultural products [supplied](#) to the European Union reached a value of \$12.6 billion, which is almost a record high. The commodity structure of Ukraine's supplies to Europe essentially mirrors the overall export structure. In particular, 82% of exports are grains and oilseeds, oils and fats, and residues from the processing industry. Over the past few years, the EU has been the main market for these agri-food products from Ukraine.

However, there are indications that restrictions on Ukrainian agricultural products will continue in 2024, with the EU and some of its members, including Poland, Slovakia, and Hungary, imposing such limitations. Nonetheless, the European market remains crucial for Ukraine's agricultural exports due to lower risks and more accessible logistics links.

As of 23 February, Ukraine has exported 28.2 mln tonnes of grains and pulses so far in the current 2023/24 season, according to the State Customs Service. While this is lower than the previous year's exports of 30.8 mln

tonnes shipped by 22 February, the current month's exports [have exceeded](#) the corresponding period of the previous year (3.819 mln tonnes).

This increase in exports is likely due to 3 newly established routes proposed by the Ukrainian Danube Shipping Company, which allow Ukrainian farmers to bypass Poland and deliver grain to Romanian cities of Galati and Constanta, as well as to the German city of Regensburg by river.

In another development, the **Mind Agency** released its traditional [reliability rating of Ukrainian banks for the year of operation under martial law](#). It showed that the banking system has demonstrated its institutional capacity during the war and has earned the trust of the people.

According to a report, 43 in Ukraine experienced an increase in funds, while only 21 banking institutions, including those that lost their banking licences, saw outflows. Banks predominantly used the inflow of liquidity from clients to engage in risk-free

transactions such as purchasing domestic government bonds and NBU certificates of deposit. Despite the government's efforts to support lending to legal entities under the 5-7-9 programme, this segment of the banking business continues to shrink.

PrivatBank, Oschadbank, Universal bank (Monobank), PUMB, Uksibbank, and Ukreximbank are the leaders in attracting retail deposits. Despite the risks of the ongoing war, the total loan portfolio of banks by individuals increased by UAH 14.5 billion.

In summary, the Mind Agency notes that Ukraine's banking system has managed to withstand two years of unprecedented stress, ensuring the country's cash circulation and preserving household and corporate funds. However, the NBU was unable to provide long-term credit for economic stimulus in the current settings, and it is recommended for the NBU to increase lending programmes to individuals in 2024 while reducing the key policy rate.

# V.

## ENERGY SECTOR IN FEBRUARY 2024

### PASSING OF THE WINTER 2023-24

Massive drone attacks on critical energy infrastructure in Ukraine's frontline regions, primarily in Dnipropetrovsk oblast, one of the largest electricity consumers in the country, have caused serious damage to one thermal power plant and led to the introduction of the first rolling blackout schedule in [Kryvyi Rih](#) and surrounding areas this season. Although the power restrictions remained for up to two days, and the TPP that was shut down on 13 February resumed generation already on 16 February, the possibility of disabling energy facilities in the frontline regions by consecutive drone attacks put the effectiveness of their protection in question. To address this concern, a separate [meeting](#) was held involving the President of Ukraine. The meeting discussed accelerating the [programmes](#) to protect energy facilities; increasing the number of mobile fire groups, electronic warfare equipment, automated systems for detecting, identifying and engaging air targets; forming and maintaining ready-made power and distribution reserves; creating dispersed stocks of the most vulnerable energy equipment, etc.

Despite increased attacks on frontline energy infrastructure, Ukraine [has](#) sufficient resources to complete the heating season and no shortages of generation and distribution capacity have been reported in the period under review.

Due to higher temperatures and better weather conditions, coal stocks at TPPs and CHPPs increased to 0.97 mln tonnes (+0.23 mln tonnes compared to the last day of January). The favourable weather forecast allows reducing expectations of an imbalance of coal by the end of the heating season from 0.5-0.7 to 0.3 mln tonnes, which is insignificant given the possibility of replacing it with natural gas.

During the winter, the use of natural gas as the main fuel by 3 to 6 TPP units has

reduced its [volumes](#) in underground storage facilities from 15.5 to 8.8 bcm (including 4.7 bcm of long-term storage and 0.8 bcm of gas owned by non-residents). Ukraine has been withdrawing 40-60 mcm from facilities every day, producing 45-50 mcm and no gas imports.

As gas consumption in Ukraine decreased in February due to good weather, the current gas reserves (correspond to the average level of 2015-2018 but are 7% lower than last year) may be enough to pass [«the first winter exclusively thanks to own gas»](#). However, it is possible that Naftogaz Ukraine will still purchase up to 0.5 bcm of gas, given the signing of a €200 million [loan agreement](#) «for the purpose of forming strategic reserves». Part of this gas will probably be non-resident gas stored in Ukraine as a customs warehouse. Purchases may not begin until late April, following the scheduled [stress test](#) of the Ukrainian GTS and UGS to confirm their reliability after the cessation of russian gas transit.

An average of 370 settlements in Ukraine remained without power due to the hostilities; additionally, up to 200 settlements were cut off from power supply for more than one day.

### ENERGY BALANCE

At the end of February 2024, all 9 NPPs under Ukraine's control and 18 TPPs and CHPPs were operating in the country's integrated power system, including three TPPs that use natural gas as their main fuel. During the week, the capacity of three NPP units was reduced for routine maintenance. The vast majority of TPPs and NPPs were providing baseload power. HPPs and PSPPs are the only source of manoeuvrable power.

As of 29 February 2024, 21 units of thermal generation were in the system's [reserve](#).

Although Ukrhydroenergo's generation remains limited after the destruction of the Kakhovka Dam, it is now significantly higher (1.7 GW) than forecast (1.1 GW)

due to melt and rain floods. Reservoir levels are in line with the decision of the Interagency Commission for the operating mode of the Dnipro Cascade and Dniester HPPs. Electricity generation at SPPs and WPPs increased to 0.6 GW at the end of the month, exceeding the seasonal level (0.3–0.4 GW).

In total, Ukraine generated about 14.2 GW of electricity every hour, compared to 20 GW generated in the same period in 2021. NPPs accounted for most generation (56%), followed by TPPs (19%), HPPs (12%), CHPPs (9%), and renewables (4%). The decrease in the share of thermal generation and the increase in hydropower generation is due to higher average air temperature and a seasonal rise in river levels.

No shortage of energy was predicted for the month. There was a surplus on 5 occasions; to balance the system, the load of renewable facilities was limited (primarily in the western regions) and emergency assistance was provided by the Polish operator. On 6 February, it received similar assistance from Ukrenergo.

Commercial electricity exports were carried out mainly at night to Poland, Slovakia, Romania and Moldova with a maximum capacity of 0.4 GW. During peak hours, electricity was imported with a capacity of 0.2–1.1 GW from Slovakia, Romania, Poland, and after 22 February from Hungary – for the first time since 2022. From 19 February on, exports have exceeded imports, but the average capacity of imports is 2.6 times higher than that of exports, pointing at the lack of manoeuvring capacities in Ukraine. This issue can be partially addressed by completing off-season repairs of 0.6 GW of thermal power units damaged in 2022–2023 and by restarting the operation of TPPs and low-capacity CHPPs, primarily in the eastern and central regions of Ukraine, with the formation of a capacity reserve for the next heating season.

The problem of the industry's inadequate financial situation remains unresolved. The debts of district heating companies for gas exceed UAH 95 billion. Electricity payments **owned by producers amount** to UAH 22.3 billion, and payments owed to universal service providers reach UAH 20.0 billion (–1.4 and –0.5 billion, respectively, compared to January).

Ukrenergo's debt to renewable generation is UAH 26.0 billion (–5.5 billion compared to January), although the company still **does not agree** with the amount. The reduction of this debt is mainly due to the transfer of hryvnia overdue short-term liabilities into foreign currency long-term Ukrenergo's liabilities to international credit institutions.

At the same time, market participants' debts to Ukrenergo reach UAH 19.8 billion for transmission and UAH 8.5 billion for dispatching services. These debts emerged as a result of the **suspension** of the accrual and collection of penalties under the contracts concluded in line with the Law of Ukraine «On the Electricity Market», as well as due to postponement of repayment of debts of universal service providers following the NEURC inspections.

The debt to Ukrenergo on the balancing market reached UAH 31.8 billion in February. It can only be reduced by revising the current tariffs in the producer-supplier-protected consumer chain to ensure the solvency of each of them and reducing the list of **protected consumers** by tightening the criteria for obtaining this status.

The National Security and Defence Council has **instructed** the Cabinet of Ministers to pass decisions on repayment of these debts, but the nature of these decisions is unclear. So far, only a working group has been **set up** to «promptly develop an effective mechanism for balancing the financial position of electricity market participants, including the transmission system operator, producers of electricity from alternative sources that have been granted a feed-in tariff, and a guaranteed buyer».

Financial problems in the electricity market are expected to exacerbate in March–April due to early melt and rain floods that could bring Ukrhydroenergo's generation to 2.3–2.5 GW, the end of the heating season, and the imbalance between possible imports (up to 1.7 GW) and exports (up to 0.55 GW from 1 March). The expected generation surplus with limited export opportunities will significantly reduce market prices and market participants' incomes, thus complicating the allocation of funds for off-season repairs. The problem may be alleviated if repairs of Ukrainian NPPs and TPPs are postponed from July–September to March–May, but unpreparedness

of generating companies makes this step unlikely.

Due to better weather conditions, natural gas consumption decreased in the reporting period (-11% compared to February 2023). There is no shortage of gas for heating and cooking. Its production is also up year-on-year (+5%). Daily commercial exports of gas stored by non-residents in underground storage facilities in the customs warehouse regime amounted to 14-16 mcm (Drozdovychi USF).

Petroleum products are also sufficient to meet demand, which is starting to rise from the January seasonal low (primarily diesel fuel).

## TRANSIT

In the reporting period, Gas Transmission System Operator of Ukraine LLC transited 40-43 mcm of russian gas per day (38% of volume under the contract with Gazprom). About 87% was sent to Slovakia, and 13% – to Cuciurgan (Moldavian) power station. Transportation was carried out through the Sudzha gas metering station.

Ukrtransnafta transited 30–35 thousand tonnes of russian oil per day to refineries in Slovakia, the Czech Republic and Hungary (owned by the Hungarian MOL). Transportation was carried out via the southern branch of the Druzhba pipeline.

## PRICE SITUATION

In February 2024, the [price index](#) for base-load electricity (BASE) on the day-ahead market (DAM) was 3,100 UAH/MWh, and at the peak (PEAK) it was 3,434 UAH/MWh (-8.0 and -16.8% compared to January). This change in rates indicates a decrease in consumption due to rising temperatures and a lower need for manoeuvring generation.

The [weighted average price](#) on the intraday market (IDM) was UAH 3,285, and on the DAM—UAH 3,269/MWh (-6.3% and -15.3% compared to January, respectively).

As of 28 February 2024, the [price indices](#) for base load in Ukraine, Poland, Slovakia, Hungary and Romania have almost

aligned and were 1.0:1.1:1.0:1.0:1.0:1.0; peak load – 1.0:1.1:1.0:1.0:1.0:1.0. This ratio is explained by a decrease in electricity consumption in February and an increase in renewables generation. Due to the rapid growth in generation at domestic HPPs, in March we should expect a decrease in both BASE and PEAK price indices in Ukraine compared to Eastern Europe.

The [weighted average price](#) of March natural gas in Ukraine based on the results of electronic trading on the UEEX in February was UAH 11,210/tcm (€269/tcm; -7.4% compared to January 2024).

In February, the [gas tariffs](#) of Naftogaz Ukraine for non-household consumers amounted to UAH 14,502 (including VAT). Another decrease in price (-5.2% compared to January) is due to the declining cost of natural gas at the European TTF hub, brought to the Ukrainian border, to a minimum over the past eight months (UAH 15,321/tcm, including VAT, on 23 February 2024).

The record [gas reserves](#) in the EU's underground storage facilities (69.7 bcm; +39% to the 5-year average) has allayed all fears about the normal ending to the heating season in Europe. It is possible that in March, gas prices in Europe will decline even further, given the stable supply of natural gas and the establishment of air temperatures 4-6°C above normal.

In February, Coal (API2) CIF ARA (ARGUS-McCloskey) steam coal [futures](#) quotes ranged from \$94 to 99/t (\$99/t on 28 February 2024) and continued to reduce compared to October 2023, when they peaked at \$139/t on 13 October. Coal stocks at ARA terminals amount to 6.6 mln tonnes (+31% compared to the annual average; -7% compared to February 2023).

In February, Brent crude oil [futures](#) quotes ranged from \$76 to 84/bbl, with no changes since the beginning of 2024 (\$82/bbl on 28 February 2024), while reaching \$92/bbl in October 2023. The main reason for the relatively low prices was the excess of supply over demand due to the lower-than-expected growth of the latter. If current trends continue, [oil supply](#) in 2024 will reach 103.7 million barrels per day, while demand will not exceed 103.3 million barrels.

As a result, prices for futures with near-term delivery dates are higher than those for longer-dated positions.

Retail prices for petroleum products in Ukraine have gone up again by 1-2%, depending on the type, brand and grade, after the December and January declines. The upward trend is explained by the revival of demand after the end of the «dead season», the weakening of the hryvnia (+3% over the month) and the blocking of checkpoints on the Ukrainian-Polish border, which has complicated the logistics of road fuel supplies from Poland and Lithuania. As of 28 February 2024, the [indicative prices](#) for Euro5 A-95 petroleum and Euro5 diesel fuel were UAH 54.84 and 51.77 per litre, respectively, while LPG car fuel was UAH 27.99 per litre. If the current trends persist, retail prices for petroleum products will increase by 2-4% in March-April.

## CHANGES IN THE REGULATORY FRAMEWORK

The Cabinet of Ministers of Ukraine:

✓ approved the government [plan](#) of priority action for 2024, which, among other things, provides for: taking measures to restore the energy sector (314); creating regulatory prerequisites for the unification of the Ukrainian electricity market with the markets of European countries (315); strengthening state energy supervision (316, 317); providing support to producers of electricity from renewable sources (319-322); conducting an independent examination of the technical conditions for joining the GTS (323); signing additional agreements on the distribution of hydrocarbons (325); transposing of the Energy Community acts (326, 328, 332-336, 342); developing nuclear generation and the nuclear industrial complex (329, 330); establishing the National Commission for State Regulation of Safety in the Use of Nuclear Energy (337); developing and implementing targeted economic programmes for energy modernisation (338-341); introducing energy management (345); approving the Integrated National Energy and Climate Plan (348);

✓ issued an [instruction](#) on transforming the SOE Guaranteed Buyer into a joint-stock company with 100% of its shares owned by the state and not subject to privatisation. The

corporatisation procedure to be completed by August 2025;

✓ approved the [basic standards](#) for deducting a share of the profits of SOEs to be used to pay dividends based on the results of operations in 2023. For Ukrhydroenergo, this share is set at 50% (subject to the allocation of 30% of net profit to restore destroyed and damaged property as a result of missile strikes, construction of protective structures, anti-drone protection, and other engineering and technical measures to counter aggression);

✓ adopted the [procedure](#) for recalculating the cost of utilities for the period of their non-provision, incomplete provision or inadequate quality, which, in particular, defines the qualitative and quantitative characteristics of services to be taken into account during the recalculation, as well as the conditions and amounts of recalculation;

✓ adopted the [procedure](#) for the use (sale) of a part of the output that remains in the state's ownership in accordance with the production sharing agreement (natural gas). The investor has to transfer this gas to the off-balance sheet storage of the SOE Gas of Ukraine, which sells the resource «in the most economically advantageous way» on the short-term market and transfers the proceeds to the state and local budgets.

[Amendments](#) were introduced to the Gas Transmission System Code and the Methodology for calculating the tariff for natural gas transmission concerning obligations of the GTS operator to publish information on the parameters for calculating tariffs for transmission services and interconnection points, as well as a separate procedure for open discussions for setting the tariff (Regulation (EU) No. 2017/460).

The Transmission System Code was [amended](#) to define the procedure for developing, submitting for approval and implementing the operator's investment programme, as well as the form of its development and reporting.

On 2 February, the provisions of Article 77 of the Law of Ukraine «On the Electricity Market» and Article 59 of the [Law of Ukraine](#)



«On the Natural Gas Market» entered into force defining the liabilities of wholesale market participants for failure to disclose or disclosure of insider information in violation of the established requirements and restrictions on the use of such information. However, these liabilities will become applicable only after the NEURC Resolution «On Approval of the Requirements for ensuring integrity and transparency in the wholesale energy market» enters into force (its [draft](#) is currently under discussion).

On 20 February, the NEURC [approved](#) the Ukrenergo's Report on the assessment of the suitability (sufficiency) of generating capacities to cover the projected demand for electricity and ensure the necessary reserve in 2023. Although this document will be published only after the end of martial law, the recommendations contained therein are likely to be consistent with those set out in the 2021–2022 reports.

The Antimonopoly Committee of Ukraine [penalised](#) Naftogaz Oil Trading LLC for UAH 50,000 for violating the legislation on protection of economic competition in the form of concentration by obtaining shares in the authorised capital of Glusko Retail LLC, which ensures 50%+ of votes in the company's management body, without obtaining the appropriate permit of the Antimonopoly Committee of Ukraine, which was necessary. The relevant permit was granted.

## PROJECTS AND INTENTIONS

Despite the enactment of the [NSDC decision](#) «On additional measures to strengthen the resilience of the energy system and prepare the national economy for the autumn-winter period of 2023/24», the government is yet to fulfil some obligations under this act. In particular, no decisions were made on paying off the debts of critical infrastructure enterprises and public institutions to the supplier of last resort and universal service providers for electricity, as well as on reconstructing CHPP plants managed by Naftogaz Ukraine using gas piston and gas turbine units to create highly manoeuvrable capacities.

The only known steps in this direction include the signing of a [memorandum of](#)

[understanding](#) between the GTS Operator of Ukraine and Sumitomo Corporation on the introduction of mobile gas turbines and the company's [agreement](#) to conduct a feasibility study for the modernisation of heat supply systems in Ukraine with the support of the Japanese government.

Expectations that measures will be taken at the winter NEURC meetings to improve the financial mechanism for imposing special obligations on electricity market participants as determined by the [NSDC decision](#) were not met.

The [remarks](#) of electricity market participants regarding excessive administrative regulation and the impossibility of concluding contracts for more than one year in the ancillary services market have also been ignored.

A draft law introducing criminal liability for unauthorised withdrawals of natural gas from the Ukrainian gas transmission system has not yet been submitted to the Verkhovna Rada.

Instead, the Verkhovna Rada of Ukraine adopted:

✓ the [draft law](#) on improving corporate governance of legal entities in which the state is a shareholder (founder, participant) (No. 5593-d of 6 July 2021), which, in particular, establishes a mechanism for selecting members of supervisory boards and defines a procedure for independent evaluation of their work; gives supervisory boards the authority to approve company plans, appoint and dismiss board members; strengthens the accountability of supervisory boards and regulates the payment of dividends;

✓ the [draft law](#) amending the Customs Code of Ukraine concerning customs clearance of biomethane (No. 9456 of 3 July 2023), according to which it will be carried out in the manner prescribed for natural gas.

The NEURC has published a [draft resolution](#) amending the Gas Storage Code and the Model Natural Gas Storage Agreement. It provides for the extension of the periods for allocating storage capacity; the introduction of European practices of allocating their capacity; the use of an

information platform; the provision of gas storage services mainly on the basis of guaranteed and conditionally guaranteed capacity; and the establishment of deadlines for capacity allocation applications that agree with the deadlines for allocating capacity at interstate connections and internal entry/exit points of the GTS.

The [investigation](#) of «atypical behaviour of certain DAM and IDM participants, which led to significant price fluctuations in these segments of the electricity market in early January 2024» is underway. Guided by its preliminary results, the NEURC has developed a [draft resolution](#) clarifying the procedure for setting and reviewing price caps on the DAM, intraday and balancing markets.

The status of the [draft resolution](#) published by the Ministry of Energy on 18 January, remains unknown. This document is to restore the ban on the circulation of petroleum products that do not meet Euro 5 environmental standards, [allowed](#) from 17 March 2022 «to supply the Armed Forces and other military formations». The relevant decision seems to have been [made](#), but there is no confirmation of this yet.

## **INTERNATIONAL COOPERATION**

The [Ukraine Third Rapid Damage and Needs Assessment report](#) was released on 15 February identifying the country's recovery and reconstruction needs of \$486 billion over 10 years, including \$47 billion for the energy sector. These needs include critical rapid recovery measures, as well as medium-term recovery based on the Build Back Better principle. Priority measures for energy recovery in 2024 are [estimated](#) at \$2.7 billion, including \$1,024 million in the electricity sector, \$241 million in the gas sector, \$435 million in the oil sector, as well as \$540 million for gas purchases and \$200 million for electricity imports.

On 22 February, the pan-European [Joint Allocation Platform](#) hosted the [first joint daily auction](#) for the access to interconnector capacity between Ukraine and Hungary. The first joint auction with Slovak operators is scheduled for 4 March. Similar auctions with the [Polish operator](#) are held from 16 January 2024 on the JAO platform, and with the [Romanian operator](#)—from 2 November 2023 on the Ukrenergop platform. There has been no commercial exchange of electricity with Hungary since 2022, while [auctions](#) with Slovakia were unilateral, allowing for the allocation of capacity only on the Ukrainian side.

Meanwhile, starting from 1 March 2024, the European Network of Transmission System Operators for Continental Europe (ENTSO-E) [increased](#) the maximum available capacity of interconnectors for electricity exports from Ukraine and Moldova to EU member states from 400 MW to 550 MW.

The [Agreement](#) on Security Cooperation and Long-Term Support between Ukraine and Denmark provides for lasting support to Ukraine's energy sector, with a particular focus on the green energy transition and the development of strategic sectoral partnerships.

The [Agreement](#) on Security Cooperation between Ukraine and Italy provides for cooperation in the energy sector and the transition to renewable energy sources, protection and restoration of critical infrastructure, including through the G7+ Energy Coordination Group and access of Ukrainian specialists to relevant international programmes.

The [Agreement](#) on Security Cooperation between Ukraine and Canada provides for support to Ukraine's energy sector, with a particular focus on nuclear safety and security, renewable energy development, and resilience of critical infrastructure.

# VI. ECONOMIC AND SOCIAL CHALLENGES

Ukraine's economy is operating under unprecedented security challenges. The war has reversed the gains from the significant fiscal consolidation achieved before the war, when Ukraine's public debt fell from 81% of GDP in 2016 to 45.2% in 2021. The war has led to an increase in defence spending, putting additional pressure on the budget. In the face of both a budget deficit and reduced and delayed international aid, the Ukrainian government will be cutting the number and size of social programmes and services. Given the significant budgetary constraints, the Ministry of Finance carried out only priority expenditures in January-February.

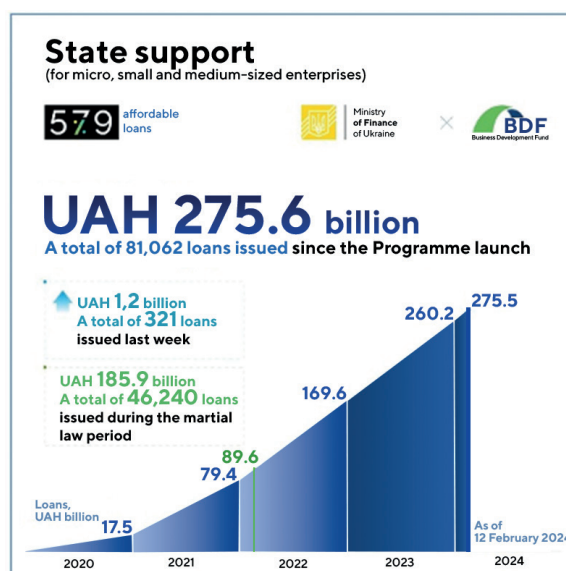
Starting from March 1, 2024, Ukraine will change its approach to providing state payments to internally displaced persons (IDPs) in order to optimise the budget and align with the demands of Western partners. The Vice Prime Minister for Reintegration of the Temporarily Occupied Territories stated: «We are directly linked to our partners' decisions. Our partners demand constant verification of payments in order to reduce or optimise them. By international standards, two years is enough to adapt».

Under the new conditions, only the most vulnerable populations will receive payments. Out of the 4.9 million IDPs in Ukraine, currently 2.5 million receive monthly payments, and this number will be reduced to 1.5 million. The amount of assistance will be based on the total income of all family members of an IDP and should not exceed four subsistence minimums (UAH 9,444). The payments will be automatically extended for six months for pensioners with pensions below UAH 9,444; people with disability groups I and II; children with disabilities and seriously ill children under 18; orphans and children left without parental care, foster and adoptive parents and some other categories.

The change in approach aims to motivate IDPs to seek employment, as the creation of jobs in Ukraine is slow, and some individuals are being incentivized to emigrate.

The state budget deficit in Ukraine has also affected the financing of the Affordable

Loans 5-7-9% programme. During the martial law period, banks issued 46,240 loans worth UAH 185.9 billion under this programme, while since its launch in February 2020, businesses have received 81,062 loans worth UAH 275.5 billion. In 2020, the programme accounted for 5% of all new loans; today this figure exceeds 26%, meaning that every fourth loan is subsidised by the state. The maximum loan amount is UAH 60 million. Based on the Ministry of Economy's data, the average cheque in the programme is UAH 3.5 million. The programme has proved to be highly effective and is recognised as one of the most efficient loan programmes in the country.



However, IMF representatives believe that the 5-7-9 programme is becoming «too big». Despite the small share of non-performing loans, the banks' total loan portfolio under the programme exceeds 2% of GDP. As a result, the issue of 5-7-9 loans has become one of the benchmarks for further revisions of the IMF lending programme. In order to minimise potential fiscal risks, the government has introduced a redesign of the programme, focusing exclusively on lending to micro, small and medium-sized enterprises.

The Ukrainian government is currently accumulating debts on concessional 5-7-9 loans due to a lack of funds in the state budget. Interest compensation to banks under this state programme has not been paid for about 5 months, resulting in debts of

UAH 7 billion as of early 2024. However, banks do not suffer from delays in funds from the Entrepreneurship Development Fund (EDF), which pays the difference in interest on loans, forcing borrowers to pay 20–25% interest.

Despite the debts, the government's preferential lending programme is unlikely to be cancelled, as it is vital for bank lending in Ukraine. At the moment, 80% to 90% of business loans are issued under 5–7–9%. Banks do not risk working under their own loan programmes and rely mainly on government concessional projects. Therefore, affordable state lending is likely to stay, but with reduced lending and more stringent conditions to curb government spending. An updated lending programme is expected by April–May 2024.

The revised [draft law on mobilisation](#), which just passed the first reading in the parliament, has raised concerns among both the general public and business community. It is facing criticism for its potential negative impact on the economy, as entrepreneurs are warning of dire consequences if the draft law goes ahead in its current form.

Without a finalised mobilisation mechanism, Ukraine may face an intensification of the economic and financial crisis. After all, those who try to avoid mobilisation and remain unenlisted may resort to working unofficially and sever all official ties with the state. This could result in these individuals moving into not just shadow, but the «black» part of the economy, evading all payments, avoiding participating in public events, and cutting of all legal connections with citizenship mechanisms.

This may also affect the stability of the banking system. The [NBU reports](#) a record withdrawal of savings since the introduction of martial law in Ukraine in February 2022. Thus, in January 2024, the total volume of household deposits in the banking system decreased by 2.5%, by UAH 27.4 billion, leaving UAH 1.05 trillion on the accounts. The last time the deposit portfolio decreased in May 2023, when it reduced by less than one billion (UAH 987 million). Today's reduction is almost 28 times greater, as entrepreneurs withdrew UAH 22 billion.

**However, Ukraine is taking steps to stabilise its economy. In order to improve Ukrainians' economic and social**

**expectations, the government has to support businesses so that they can create new jobs and invest in development.**

Accordingly, the [President of Ukraine announced the launch of a new economic policy](#) called «Made in Ukraine». The aim of this policy is to support Ukrainian enterprises and ensure they can maintain and expand their operations. The government was instructed to develop practical steps to achieve this, and the Made in Ukraine platform will facilitate dialogue between the state and Ukrainian entrepreneurs. The Made in Ukraine programme is set to be launched by the end of 2024.

As part of these efforts, a cashback programme called «Buy Ukrainian» will be introduced. This programme will allow both businesses and citizens to receive refunds on purchases of goods and services produced in Ukraine. Ukrainians will be able to receive cashback on a special card for specific types of products, while businesses can benefit from a renewal of the 25% compensation programme for agricultural machinery. Starting in the second half of 2024, the government will work to expand the cashback programme to other types of equipment, such as municipal and special transport.

According to the survey conducted by the [Ukrainian Veterans Foundation «Current needs and perceptions of career and professional development opportunities for veterans»](#) the unemployment rate among Ukrainian veterans has risen to 30.95%, which is more than 10% higher than Ukraine's official unemployment rate. Over the past year, the share of unemployed veterans increased by nearly 3%.

The study showed that veterans are trying to integrate into various sectors, with starting own business being the most popular choice (8.31%), followed by civil service (7.45%), services (5.44%), IT (4.3%), and the civic sector (4.3%). However, veterans face a number of challenges in finding a job, including employer stereotypes and limited retraining opportunities.

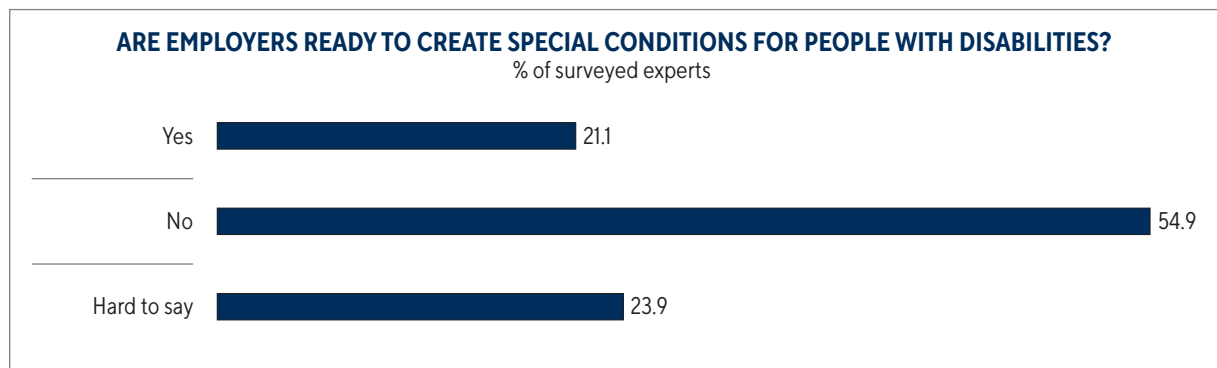
A separate expert survey conducted by the Razumkov Centre in autumn 2023 (see below) revealed that 55% of employers are not ready to accommodate (create special conditions) people with disabilities.

The biggest obstacles to veteran employment are the lack of real incentives for employers in the current legislation of Ukraine to hire people with disabilities (46.5%) and the reluctance of employers to hire veterans due to existing employment benefits for veterans (41%). The most effective forms of state support for businesses to promote job creation were found to be grants for entrepreneurship development to small and medium-sized businesses (61%) and compensation from the state for creating new jobs (46.5%).

The 2024 budget earmarked nearly UAH 14 billion to support veterans and their

families, more than double the previous year. Funds are also allocated on various grants for veterans under the eRobota programme, training and retraining courses. One of the government’s objectives for 2024 is to support employers through benefits, compensation for workplace arrangements, and changes to legislation. The government is now working on a single document clearly defining the statuses that a serviceman or servicewoman can have and the services available to them. At the same time, the Ministry of Economy prefers initiatives aimed at encouraging employers to hire veterans rather than introducing mandatory standards and quotas.

**RESULTS OF THE EXPERT SURVEY BY THE RAZUMKOV CENTRE**



**WHAT ARE THE BIGGEST PROBLEMS / OBSTACLES TO VETERAN EMPLOYMENT?**  
% of surveyed experts

Lack of real incentives for employers in the current legislation of Ukraine to hire people with disabilities	46,5
Reluctance of employers to hire veterans due to existing employment benefits for veterans	40,8
Changes in personal values that combat veterans go through (unwillingness to continue working as a hired worker or to stay in a job that has not been satisfying so far)	32,4
Insufficient incentives to encourage people with disabilities to be employed	25,4
Lack of opportunities for retraining due to ineffective work of employment centres and lack of relevant opportunities to learn a new profession after military service	23,9
Inefficiency of the Social Protection Fund for Persons with Disabilities	19,7
Inefficiency of the State Employment Service	11,3
There are no obstacles	2,8
Other (low salaries)	1,4
Hard to say	14,1

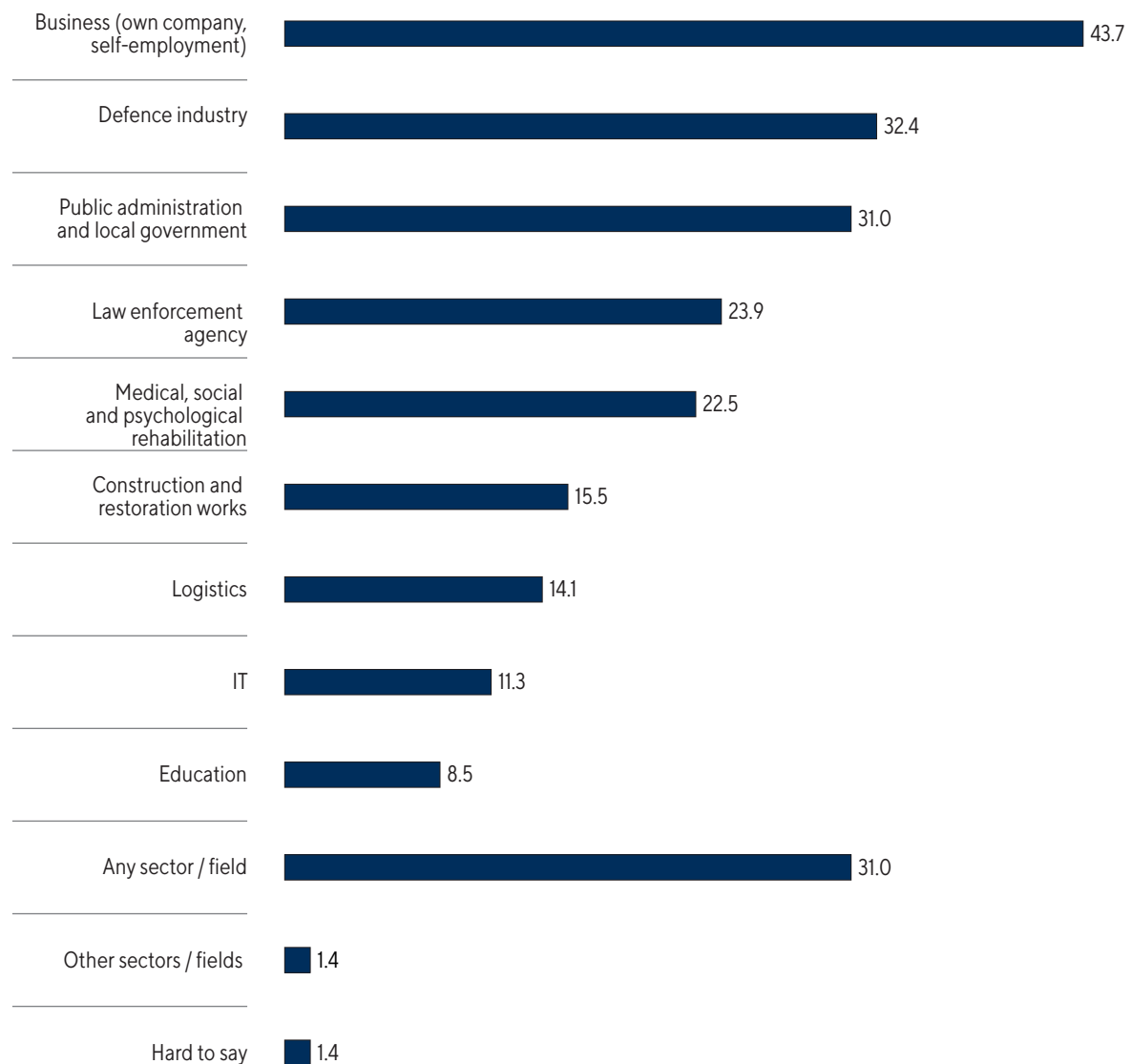
**WHAT ARE THE MOST EFFECTIVE FORMS OF STATE SUPPORT FOR BUSINESSES TO PROMOTE JOB CREATION?**

% of surveyed experts

Grants for entrepreneurship development to small and medium-sized businesses	60,6
Compensation from the state for creating new jobs	46,5
Compensation for the employment of people with disabilities and workplace arrangements for them	33,8
Special payments during the creation of new jobs	32,4
Subsidising job creation	28,2
Competitive basis for allocating state funds on investment projects initiated by entrepreneurs to create jobs	28,2
State guarantees on loans and compensation of loan interest rates	28,2
Hard to say	1,4

**WHICH OF THE FOLLOWING SECTORS COULD BE A PRIORITY FOR EMPLOYMENT OF DEMOBILISED SERVICEMEN AND AFTER THE END OF THE WAR AND THE LIFTING OF MARTIAL LAW?\***

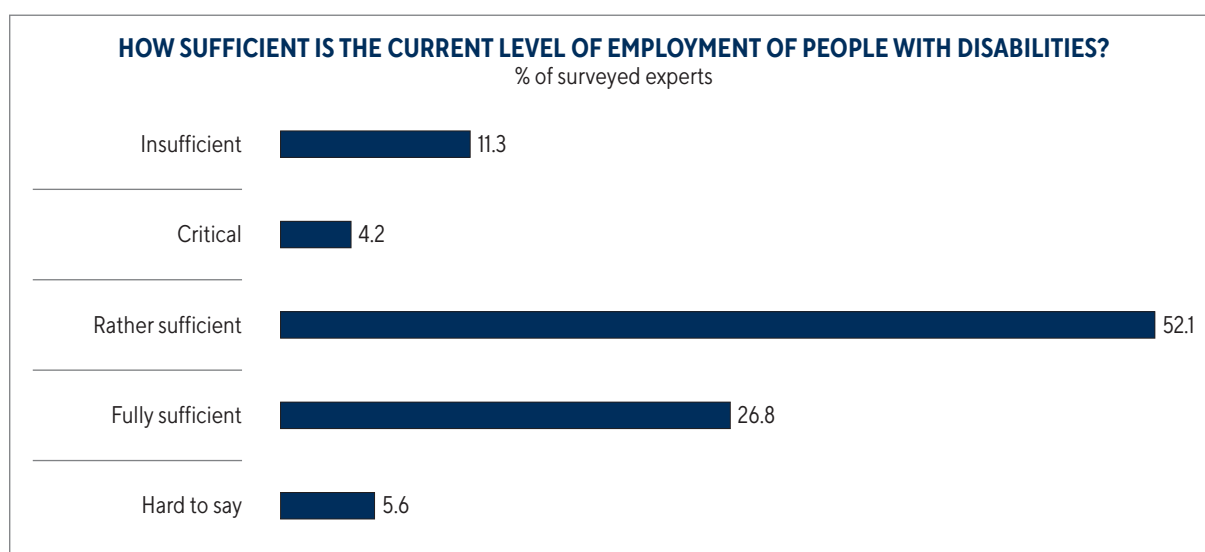
% of surveyed experts



\*Respondents could choose no more than three options.

<b>WHICH OF THE FOLLOWING ACTIVITIES AND PROGRAMMES ARE THE MOST EFFECTIVE FOR SPEEDING UP THE INTEGRATION OF VETERANS INTO CIVILIAN LIFE OR HELPING THEM FIND EMPLOYMENT?*</b>	
% of surveyed experts	
Providing preferential loans for veterans who want to start and develop their own businesses and create / give jobs to other veterans.	52.1
Establishing specialised one-stop shop centres for veterans where they could be assisted in applying for benefits and getting other services, including employment assistance	42.3
Providing state preferences, including through public procurement, for companies that employ veterans or expanding the compensation programme to employers for hiring veterans	40.8
Consolidating the obligation of employers to provide a certain number of reserve jobs for veterans (quotas)	35.2
Expanding the category of enterprises that can get financial support for the employment of persons with disabilities by establishing labour integration enterprises and protected employment enterprises	29.6
Paying for vocational training of employees	25.4
Compensating for the costs of arranging a workplace for a person with a disability	22.5
Providing psychological support	22.5
Establishing protected employment enterprises not aimed at making a profit, but at providing employment for people with severe disabilities	19.7
Increasing the number of targeted revenues for social protection of people with disabilities	15.5
Ensuring mandatory provision of social services to persons with disabilities (social follow-up in the workplace, personal assistants, sign language interpretation, etc.), which are part of the employment process	15.5
Ensuring equal legal obligation for private and public sector employers to employ persons with disabilities	14.1
Compensating of parts of the salary of employees with disabilities	11.3
Introducing a targeted contribution instead of administrative and economic sanctions for failure to comply with standards for the employment of people with disabilities for all categories of employers, both private and public sector (the size of the contribution is smaller than the administrative and economic sanction)	9.9
Setting up a special fund in the state budget by accumulating employers' contributions, to be used exclusively on measures to employ people with disabilities	9.9
Providing benefits for the payment of unified social tax	9.9
Compensating for the costs of arranging a workplace	5.6
Other	0.0
Hard to say	4.2

\* Respondents could choose no more than five options.



# VII.

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

IN YOUR OPINION, HOW DID THE SITUATION IN UKRAINE CHANGE IN THE FOLLOWING AREAS COMPARED TO EARLY 2023? % of respondents					
	Improved	Worsened	Did not change	Hard to say	Balance*
Economic situation	4.2	67.8	21.1	7.0	-63.6
My family's wellbeing	4.1	57.9	34.7	3.2	-53.8
Level of democracy	5.5	30.8	49.2	14.4	-25.3
Freedom of speech	6.8	30.0	50.7	12.5	-23.2
Crime	7.3	32.1	43.3	17.3	-24.8
National defence capability	51.0	17.5	20.3	11.2	33.5
Ukraine's international image	50.5	16.1	24.0	9.4	34.4
Interethnic relations	30.6	16.5	41.0	11.9	14.1
Situation with the observance of citizens' rights and freedoms	8.1	31.5	44.3	16.2	-23.4
Compliance with law by civil servants	5.3	41.5	38.8	14.5	-36.2
Health care	9.2	31.6	51.8	7.4	-22.4
Education	4.4	35.8	43.8	16.0	-31.4
Social security (social benefits, allowances, subsidies, etc.)	7.6	32.5	46.3	13.6	-24.9
Pensions	5.4	24.5	54.6	15.5	-19.1

\* Difference between the shares of those who believe that the situation has improved and those who believe that it has worsened.

<sup>1</sup> Results of a sociological survey conducted by the Razumkov Centre's sociological service on 19-25 January 2024 as part of the Pact's ENGAGE (Enhance Non-Governmental Actions and Grassroots Engagement) programme in Ukraine funded by the United States Agency for International Development (USAID). The contents of the survey are the sole responsibility of Pact and its partners and do not necessarily reflect the views of USAID or the United States Government.

The face-to-face survey was conducted in Vinnytsia, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Mykolaiv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, Chernivtsi oblasts and the city of Kyiv (survey in Zaporizhzhia, Mykolaiv, Kharkiv and Kherson regions was only carried out in government-controlled areas not subject to hostilities).

The survey was based on a stratified multi-stage sampling method with random selection at the earlier stages of sampling and a quota method of selecting respondents at the final stage (when respondents were selected according to gender and age quotas). The sample structure reflects the demographic structure of the adult population of the surveyed areas as of the beginning of 2022 (by age, gender, type of settlement).

A total of 2,000 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.3%. Additional systematic sampling deviations may be caused by the consequences of Russian aggression, in particular, the forced evacuation of millions of citizens.



<b>IN YOUR OPINION, HOW DID THE SITUATION IN UKRAINE CHANGE IN THE FOLLOWING AREAS COMPARED TO EARLY 2023?</b>					
% of respondents					
	Improved	Worsened	Did not change	Hard to say	<i>Balance*</i>
Remuneration of labour	6.3	43.4	38.4	12.0	-37.1
Prices and tariffs	1.8	85.9	9.6	2.7	-84.1
Situation of ethnic and religious minorities	4.4	19.0	47.5	29.0	-14.6
Citizens' confidence in the future	4.7	63.5	22.1	9.7	-58.8
Government's attitudes towards citizens	5.0	46.2	37.3	11.5	-41.2
Citizens' attitudes towards the government	4.7	53.2	32.3	9.9	-48.5
Stability	4.2	64.5	23.7	7.6	-60.3
Overall situation in the country	4.4	60.6	26.1	8.9	-56.2

\* Difference between the shares of those who believe that the situation has improved and those who believe that it has worsened.

<b>IN YOUR OPINION, HOW WELL DOES THE GOVERNMENT COPE WITH THE FOLLOWING TASKS?</b>						
% of respondents						
	Very well	Rather well	Rather not well	Not well at all	Hard to say	<i>Balance*</i>
Ensuring the country's defence capability	11.7	50.0	25.0	5.9	7.4	30.8
Eliminating the consequences of attacks on energy facilities	20.9	57.6	12.6	3.1	5.8	62.8
Helping refugees	13.3	49.8	15.3	4.1	17.5	43.7
Helping vulnerable populations	7.6	36.9	27.1	5.5	22.8	11.9
Ensuring the operation of the economy in wartime	6.1	35.4	36.9	8.8	12.8	-4.2
Fighting crime, ensuring law and order	6.7	38.3	24.9	8.9	21.2	11.2
Ensuring social justice	4.9	26.2	40.3	10.6	18.0	-19.8
Ensuring foreign policy support for Ukraine	17.1	50.6	17.5	4.1	10.6	46.1
Ensuring the functioning of infrastructure (utilities, transport, shops, food supply) during the war	17.2	60.5	13.7	2.9	5.7	61.1
Restoring the housing stock	4.8	26.1	29.6	10.4	29.1	-9.1

\* Difference between the shares of those who think that the government is doing well and not well.

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This publication was conducted by Razumkov Centre as part of its project implemented under the USAID/ENGAGE activity, which is funded by the United States Agency for International Development (USAID) and implemented by Pact. The contents of this publication are the sole responsibility of Pact and its implementing partners and do not necessarily reflect the views of USAID or the United States Government.

Cover photo «Defense Express».

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