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# UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments  
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# I.

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

In May 2024, the Russia-Ukraine military confrontation saw an escalation with the expansion of the conflict. Delays in receiving Western military aid and a lack of human resources due to mobilisation issues resulted in the enemy maintaining strategic initiative throughout the theatre and expanding the frontline on the northern border. Although the Russian offensive had limited tactical success in the Kharkiv sector, it caused a powerful [resonance within Ukraine and internationally](#).

Despite the generally unfavourable developments for Ukraine, the frontline escalation prompted a number of public statements, political decisions and relevant practical measures aimed at strengthening support for Ukraine, which could at least reverse the negative trend of recent months, if not change the balance of power in Ukraine's favour.

Meanwhile, Russia's military and political leadership has taken a number of dangerous actions

on the borders and inside Ukraine's partner countries, confirming the steadfastness of the Kremlin's aggressive policy. Russia is demonstrating its readiness to escalate and expand the conflict through nuclear blackmail, acts of sabotage in European countries, border provocations using illegal migrants and even attempts to alter state borders.

### COMBAT ACTION

The key event of May 2024 was the Russian offensive in the Kharkiv sector. Having amassed forces on own border territory, on May 10 Russian troops attacked Ukrainian defensive positions along the 70-km section of the border, advancing 4-10 km into Ukrainian

territory over a week. They captured 10 villages and seized the outskirts of the town of Vovchansk. Although the Ukrainian military and political leadership was [informed in advance](#) of Russian intentions and reported on the [strong fortifications](#), further events [raised questions](#) about the proper and timely preparation to neutralise the predictable threat. Towards the end of the month, the offensive slowed down significantly, and the fighting continued in a predominantly positional manner.

The goals pursued by the Russian command and the extent to which they have been achieved are not yet clear, but this operation has worsened the already difficult situation for the Ukrainian defence forces. Despite the increased attention to the Kharkiv sector, hostilities remained intense along the entire frontline, with Russians having local successes in many areas using their proven tactics of massive fire and «meat assaults».

Meanwhile, Russia's «successes» on the northern front and increased shelling of Kharkiv have obviously [influenced](#) Western partners' stance on [restrictions](#) regarding the use of their weapons supplied to Ukraine against military targets in Russia. These restrictions have allowed Russians to concentrate the strike force and resources with minimal risk of damage, and to unreservedly shell Ukrainian border areas from combat positions near the border line.

This tactic of using forces and means has become part of Russian strategic plans, and it is anticipated that the Russian command's next moves will involve identifying weaknesses in the Ukrainian defence forces (due to problems with mobilisation, training, technical equipment, and fortifications), creating strike forces in these areas (with rapid re-deployment

of operational and strategic reserves), and attempting to break through the Ukrainian defences to operational depth. In these settings, the Ukrainian forces' capabilities in long-range reconnaissance, long-range weapons, air and ground air defence play a crucial role.

If Ukraine is given consent and public recognition to use Western weapons against military targets on the Russian territory, it could force the Russian command to adjust its plans for the summer offensive campaign, as well as to review its tactics of destructive missile and air strikes on troops, settlements and infrastructure. Removing restrictions on Ukraine's use of long-range weapons would make it much harder for Russia to accumulate, deploy and engage reserves, weaken its aircraft at [home airfields](#), and reduce the intensity of Russian frontline aviation, particularly by limiting the use of glide bombs (so-called KABs). Highly effective and less vulnerable to Russian air defence, Western-made missiles would significantly enhance Ukraine's arsenal, which currently relies mainly on domestic UAVs.

The Ukrainian defence forces continued strikes against targets deep in Russian territory using domestically produced UAVs, achieving a new record range of approximately 2,000 km in May. On 27 May, Ukraine targeted the Voronezh-M over-the-horizon radar station, designed to detect space and aerodynamic objects, including ballistic and cruise missiles. It is notable that this was the second May attack on radars that are part of Russia's missile early warning system and, therefore, their damage is of strategic importance. These actions, along with previous attacks on Russian [oil refining infrastructure](#), have raised concerns in official Washington for fear of the Kremlin's disproportionate response. However, as it turned out, these perceived «red lines» are rather self-imposed restrictions on American partners, which inadvertently encourage Putin's aggressive behaviour rather than containing it.

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

As noted above, a series of adverse events, primarily the advancement of Russian troops

on Ukraine's northern border, has finally pushed the partners to a long-awaited and logical decision to recognise Ukraine's right to [use Western weapons](#) against military targets in Russia.

On 14 May 2024, the Parliament approved the presidential decrees on the extension of martial law and mobilisation for the next 90 days. Being the 11<sup>th</sup> vote of this kind, but this time it has also concerned the next presidential election, which is impossible under martial law. The election does not seem to be a major concern for Ukrainian society, and Western partners appear to understand the current situation. Meanwhile, Russian propaganda and Putin himself are actively exploiting the issue of Ukrainian elections and the (in)legitimacy of the current Ukrainian president's power, particularly in the context of manipulating peace talks.

The first 100 days of General Oleksandr Syrskyi's tenure as Commander-in-Chief of the Armed Forces of Ukraine have passed. [Military experts](#) have noted some positive results, also emphasising that the successes and especially the failures of this period were due mainly to objective factors rather than personal ones.

On 18 May, changes to the registration and mobilisation procedures came into force. Obviously, it is too early to objectively assess [their impact](#) on solving a range of problems, but according to [official reports](#), as of 30 May, 1.3 million people liable for military service had updated their records, with 30% having temporary reservations or deferred conscription.

Furthermore, on 8 May, the Verkhovna Rada adopted a draft law No. 11079-1 permitting the mobilisation of [certain categories of prisoners](#). Importantly, this option will not be available to those serving sentences or convicted of serious crimes. It is estimated that around 15–20 thousand prisoners can potentially be mobilised.

### **FOREIGN EVENTS (EXTERNAL FACTORS)**

As of the end of May, Ukraine concluded bilateral security agreements with 15 countries,

pursuant to the provisions of the Joint Declaration of Ukraine and the G7 of 12 July 2023.

As noted above, the recent escalation in the theatre of operations, coupled with the increased intensity of russian strikes on Ukrainian cities and critical infrastructure, have prompted Western partners to reconsider their previous positions on the use of Western weapons, although only partial easing of restrictions is being considered at present. The Biden administration, which initially displayed a too inert and cautious position, was eventually pressured by the informal «coalition of the resolute» – the US establishment and some European allies – to take a more proactive approach.

In the meantime, Polish officials [announced](#) the assessment of technical and legal aspects of the possible use of its air defence systems to shoot down russian missiles over Ukraine, following [relevant requests](#) from official Kyiv. In case of a positive decision, there are no plans to redeploy Polish air defence systems to the territory of Ukraine.

Western intelligence agencies note an increased activity of russian covert services in carrying out [sabotage operations in Europe](#) to undermine military support for Ukraine and intimidate Western citizens and politicians. In particular, [The New York Times](#) reports on arsons in England, [Poland](#), Latvia, [Lithuania](#), and Germany, which may seem random and unrelated to russia's subversive activities, including through the use of locals and non-russian nationals. Also, russia attempted to

[unilaterally change the borders](#) with Estonia, Lithuania, Poland and Finland in the Baltic Sea – relevant draft resolution appeared on 21 May on the russian government's website but disappeared the next day.

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

- ✓ contrary to the russia-promoted belief in some Western political circles that Western assistance to Ukraine contributes to the conflict, the escalation in early 2024 occurred exactly during a «pause» in the provision of such assistance;
- ✓ as of the end of May 2024, the trend towards escalation and expansion of the Russia-Ukraine armed remains in place;
- ✓ the escalation in the conflict zone and the growing number of russian attacks on civilian objects have prompted Western partners to make important statements and practical decisions that could significantly change the balance of power over time;
- ✓ russia's military and political leadership demonstrates the steadfastness of its aggressive policy and resorts to provocations that pose the risk of expanding the conflict;
- ✓ provision of long-range weapons to Ukraine and permission to use them against military targets in russia has become decisive.

# II.

## FOREIGN POLICY

The intensification of hybrid intervention globally by the Kremlin and its allies on the eve of key election campaigns and international forums, including the European Parliament elections (6-9 June), the G7 Summit (13-15 June), the Peace Summit (15-16 June), the NATO Summit (9-11 July), and the upcoming elections in different countries, primarily the United States, is the main foreign policy trend of May 2024. Against the growing dangerous polarisation of the international community, there is an escalation of regional and global confrontation between the democratic world and the camp of authoritarian countries. In this context, the solidarity among states that support Ukraine becomes particularly important, as is the growth of international support for Kyiv.

### INTERNATIONAL PROCESSES AND EVENTS

**Escalation of the Kremlin's hybrid expansion ahead of the European Parliament elections.** European leaders and EU institutions have noted the danger of massive interference in the electoral process. European intelligence services [have warned](#) of Russia deploying sabotage and subversive activities on the continent, including explosions, arsons, damages to infrastructure, various terrorist acts, information operations, etc. In a [special statement](#) of 2 May, NATO has also noted a surge in hostile activity on the territory of the Alliance, particularly in Czechia, Estonia, Germany, Latvia, Poland, the United Kingdom, etc.

Furthermore, Juhan Lepasaar of the European Union Agency for Cybersecurity (ENISA) [has reported](#) a doubling of hacker attacks on EU infrastructure doubled in the first quarter of 2024 compared to the last quarter of 2023. It is no coincidence that the US State Department and the European External Action Service (EEAS) have introduced a joint mechanism for the Balkan region to

counter external influence and information manipulation.

In general, the goal of Russia's hybrid aggression in Europe is to destabilise the situation in individual countries, disorient the European community, support far-right destructive forces, and create a powerful pro-Russian lobby. In strategic terms, it is disintegration and the collapse of the European Union.

**Intensification of geopolitical confrontation around the Peace Summit.** The global struggle between democracy and authoritarianism is the background and cause of the sharp confrontation between the collective West and Russia and its allies, particularly over the Global South's participation in the summit. In his recent statements, President Zelenskyy [has raised concerns](#) that Russia aims to disrupt the Ukrainian peace initiative. The May events confirm that the aggressor is employing the entire hybrid arsenal to block the summit. This includes a) destabilising in Ukraine's allied countries, especially in Europe; b) conducting massive information operations to discredit Ukraine, prove the worthlessness of its peace initiative, and launch a campaign about President Zelenskyy's «illegitimacy»; c) imitating readiness for peace talks; d) pressuring the leadership of the Global South to abstain from participating in the summit through political and diplomatic means, economic blackmail, special services operations, and propaganda manipulation; and e) initiating alternative «peace» conferences with partner countries. In particular, on 24 May 2024, China's top diplomat Wang Yi and Brazil's Chief Advisor to the President for foreign policy Celso Amorim signed a [joint communiqué](#) supporting a separate peace conference to resolve the «crisis in Ukraine» involving Ukraine and Russia. Eventually, on 31 May 2024, the Chinese Foreign Ministry [announced](#) that China would not participate in the Peace



Summit, saying that it «does not satisfy China's requests».

**Increased russian hybrid intervention in certain countries.** Previous analytical assessments discussed Moscow's preparations for pro-Russian revenge, including in Moldova and Georgia. In particular, in May 2024, Georgia became a battleground between pro-Russian and pro-European forces. The continuing mass public protests were triggered by a controversial «foreign agents» law, which the ruling Georgian Dream party passed over President Zurabishvili's veto. The [latter said](#) that this essentially 'russian' law was not the only problem; the problem was the 'russian' government that was leading the country into russia. Tbilisi's pro-russian drift, coupled with attacks on the rights and freedoms of citizens, has provoked a sharply negative reaction from the EU and the US, and has called into question Georgia's European and Euro-Atlantic prospects. The country's foreign policy will be determined by the parliamentary elections in October 2024.

In parallel, the aggressor is «force-testing» the EU's borders. In May, Russia unveiled provocative plans to unilaterally «change» the maritime borders with Lithuania and Finland, while its border guards destroyed navigation signs on the Narva River on the Estonian border. Furthermore, official Minsk, apparently at the instigation of russia, triggered another «migration crisis» on the Polish-Belarusian border, with massive attempts by illegal immigrants to cross into Poland.

[Putin's visit](#) to China on 16-17 May 2024 was an illustration of the growing geopolitical confrontation between the Western world and authoritarian states. A joint statement on strategic partnership was adopted and a number of interagency agreements were signed during this visit. Its main purpose for the Kremlin was to legitimise the Russian dictator internationally after his so-called «elections», which were not recognised as free or democratic by European institutions.

## FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

As in previous months, official Kyiv's actions focused on security issues (supplying weapons to the Armed Forces), important initiatives (promoting the Ukrainian Peace

Summit), European and Euro-Atlantic integration (opening of EU membership talks), security cooperation agreements with allied countries, etc.

## POLITICAL DIALOGUE WITH FOREIGN PARTNERS

May saw Ukraine's increased political and diplomatic dialogue at various levels, primarily in preparation for the Peace Summit. Talks were held with the leaders of Germany, Denmark, the Netherlands, Greece, Norway, Austria, Albania, Chile, France, South Korea, Moldova, etc. The President of Ukraine held consultations with the heads of government of Canada, Sweden, Luxembourg, and Ireland. Talks were also held with the EU, NATO, and the Council of Europe. The visits by the UK Foreign Secretary David Cameron (3 May), President of the European Parliament Roberta Metsola (9 May), US Secretary of State Antony Blinken (14 May), and German ministers of Foreign Affairs (Annalena Baerbock, 21 May) and Defence (Boris Pistorius, 30 May) were quite productive.

Parallel negotiations were held with government officials and parliamentarians from the United States, Lithuania, Hungary, Poland, and the United Kingdom. The Ukrainian side actively promoted its positions and initiatives at international events, such as the UNITED24 Summit, the Second International Summit of Cities and Regions, the Copenhagen Democracy Summit, and the conference «The Washington NATO Summit: Ukraine and transatlantic security», etc. In May, Ukraine was also visited by politicians, business representatives, and delegations from several international religious organisations.

The Ukrainian leadership's foreign visits in late May were of strategic significance. In particular, during high-level visits to Spain, Belgium and Portugal on 27-28 May, bilateral agreements on security cooperation were signed with these countries. On 31 May, in the framework of the [Third Ukraine-Nordic Summit](#), official Kyiv signed similar agreements with Norway, Iceland and Sweden.

## PROMOTION OF UKRAINIAN INTERESTS AND INITIATIVES GLOBALLY

The Ukrainian government sought to effectively use contacts and meetings with



partner countries and international platforms to pursue national interests and initiatives.

**First.** Ensuring the supply of weapons for the frontline and the country's air defences is and will be the main priority. On 20 May, the Ramstein Contact Group gathered for its [22nd meeting](#), putting forward some new initiatives to support Ukraine. In May, various countries announced new batches of military aid to Ukraine. Thus, Sweden announced the 16th, largest military aid package worth \$1.16 billion. The United States allocated \$400 million for the Ukrainian Armed Forces, while Denmark announced a tranche of military aid worth €750 million. Germany, Spain, the United Kingdom and the Netherlands sent new batches of military equipment, ammunition and other supplies to Ukraine. Additionally, in May partner countries provided significant financial support to Ukraine's energy sector. The Swedish government allocated \$61.6 million; the UK also contributed €23 million to the Ukraine Energy Support Fund; Germany offered a €45 million grant, followed by Belgium (€9 million), and Austria (€5 million).

Given the escalation at the frontline, external military assistance is vital. However, its

effectiveness is limited by delays and lengthy deliveries on the one hand, and by disagreements among allied states over the use of the weapons on the aggressor's territory, on the other hand.

**Second.** Official Kyiv is working with partners to prepare for the Peace Summit in Switzerland. Invitations were sent to more than 160 countries; by the end of May, [90 states](#) had agreed to participate. Summit's strategic goal is to create a sufficiently broad and consolidated coalition of countries for promoting and implementing a single negotiation platform based on the Ukrainian peace initiative. At the same time, this summit should be seen as the beginning of a complicated and lengthy political and diplomatic process to end the war.

**Third.** The process of preparing and concluding security agreements with allied countries is underway. As noted above, at the end of May, such agreements were signed with Spain, Belgium, [Portugal](#), as well as with Norway, Iceland and [Sweden](#), while agreements with Estonia, Poland, Luxembourg, and Slovenia were at the finalisation stage. In turn, EU ambassadors have agreed on a draft security agreement with Ukraine, which is scheduled

to be signed in June. There are also plans for a security agreement with the United States to be signed in June. These agreements are undoubtedly important in terms of ensuring long-term, well-defined military and financial support and establishing legal frameworks for interstate security cooperation. However, the signed agreements are still largely frameworks and specific details will need to be added through interagency agreements.

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

The Brussels-Kyiv cooperation has resulted in a number of important decisions and measures that bring Ukraine closer to the EU.

The EU defence ministers [approved conclusions](#) on EU security and defence, which identified five priorities. The first was «EU's unwavering support to Ukraine», in particular in the context of using the European Peace Facility to provide military assistance and training through the EUMAM mission. In parallel, the EU has begun work to open its Defence Innovation Office in Kyiv.

The EU Council also [approved](#) the reform strategy called Ukraine Plan proposed by the Ukrainian government under the Ukraine Facility mechanism, which sets out the conditions for receiving €50 billion in macro-financial assistance over 2024-2027. In 2024, Ukraine expects to raise €16 billion.

Furthermore, official Brussels extended the duty-free trade regime with Ukraine for another year, adding some mechanisms to protect the EU market, such as the possibility of introducing quotas for certain types of Ukrainian agricultural products.

The EU Council has also decided to transfer the proceeds from the taxable profits of frozen Russian assets to Ukraine, with an estimated annual amount of €3 billion. The European

Commission announced the first payment in July 2024.

In turn, Ukraine has taken a number of European integration steps of its own. In particular, 116 judges were appointed by [presidential decrees](#) to staff the judiciary. However, there is still a shortage of judges, with estimates suggesting that between 22% to 66% of positions are currently vacant, depending on the specialisation. On 22 May, the Verkhovna Rada adopted a draft law on the introduction of EU roaming norms in the national legislation.

In May, Kyiv and Brussels continued active dialogue on the opening of official EU accession negotiations in June 2024. The talks are about finalising the negotiation framework and holding an intergovernmental conference. In particular, Belgian Foreign Minister Hadja Lahbib, confirmed the intention to launch the negotiation process at the end of June. According to Ukrainian Deputy Prime Minister for European and Euro-Atlantic Integration Olha Stefanishyna, «only organisational issues remain... Ukraine has fulfilled all the requirements and recommendations». Despite having grounds for optimistic expectations, Ukraine still faces a threat of Hungary delaying/blocking its European integration progression.

**May 2024 can be considered a preparatory period ahead of strategic events for Ukraine related to the country's European and Euro-Atlantic integration prospects and the advancement of Kyiv's peace plan. In this context, geopolitical circumstances, preconditioned by the polarisation of the international community and the growing confrontation between the democratic world and the authoritarian countries, gain significance. Under these circumstances, the consolidation and determination of Kyiv's allies, as well as effective military and financial assistance to Ukraine in countering Russian aggression, are crucial.**



# III.

## CONSTITUTIONAL AND LEGAL FIELD

### DEFENCE OF UKRAINE, ITS SOVEREIGNTY AND TERRITORIAL INTEGRITY

1.1. Legal regulation of the defence, sovereignty and territorial integrity issues is in the permanent focus of the Verkhovna Rada's legislative activity. In May, the parliament passed laws approving presidential decrees No. 271/2024 «On extension of the martial law in Ukraine» and No. 272/2024 «On extension of the general mobilisation period», issued on 6 May 2024. These acts extended the term of martial law and general mobilisation in Ukraine for another 90 days starting from 14 May 2024. It should be noted that the procedure for general mobilisation (starting from 18 May 2024) will be carried out in line with the changes provided for by the Law of Ukraine «On Amendments to Some Legislative Acts of Ukraine on Certain Issues of Military Service, Mobilisation and Military Registration» (No. 3633-IX of 11 April 2024).

Pursuant to this law, all men aged 18 to 60 liable for military service must update their information at the territorial recruitment centres (TRCs, former military enlistment offices) by 16 July 2024. In doing so, persons liable for military service must provide information on their residential address, contacts and all other personal data requested by the TRC. After the information has been updated, TRC officers must issue a special barcode with an individual number of a person liable for military service. By scanning it, the police or TRC officers will be able to verify the person of interest through «Oberih» (an electronic register of persons liable for military service available to police and TRC online). The law further stipulates that men aged 18 to 60 must always carry military registration documents, which can be checked by both TRC and police officers. The latter requirement also applies to those who have been removed from the military register or have a deferment from

service — they must carry documents confirming the latter as well. Other important novelties of the above law also include the abolition of conscript service in Ukraine as such. Instead, the law introduces the so-called «basic military training / service», which is set to last for up to 5 months in peacetime and a special period, and up to 3 months during martial law. All men aged 18 to 25 will have to undergo it. The deferment of basic military training/service is possible if a conscript is temporarily unfit for military service for health reasons; has chosen the appropriate year in which he wishes to undergo basic military training/service; is entitled to an exemption from military service for family reasons or other valid reasons, the list of which is defined by law separately; is suspected of committing a criminal offence, or his criminal case is being considered by a court. Students of general secondary, vocational, professional pre-university, higher, and higher religious education (full-time or dual form of education, internship or doctoral studies) can also receive a deferment, which is valid until the young person turns 24. After 18 May 2024, call-up papers to persons liable for military service may be served by TRC officers; staff of the Security Service of Ukraine or the Foreign Intelligence Service of Ukraine; representatives of the executive committees of local councils; heads of enterprises and educational institutions; representatives of utility services and homeowners' associations. In all cases, when serving a call-up paper, authorised persons must introduce themselves, state their position, and display their service ID if required by the citizen.

At the same time, the Law No. 3633-IX of 11 April 2024 contains many provisions of legally uncertain nature and of dubious expediency in terms of suggested forms and methods of exercising the constitutional duty to defend the Motherland, the independence and territorial integrity of Ukraine (Para 1,

Article 65 of the Constitution of Ukraine), as well as the observance of the constitutional principle of «equality in dignity and rights» of every citizen of Ukraine (Article 21 of the Constitution of Ukraine), etc. At the same time, the practice of implementing «mobilisation law» innovations on the procedure for conducting mobilisation activities also revealed many ill-considered and poorly prepared actions of TRC personnel, as well as the inadequate communication between public authorities and local communities, their explanation of the content of legislative innovations, etc.

1.2. In May, parliamentarians also adopted two separate laws directly related to mobilisation procedures, namely «On Amendments to the Criminal Code, the Criminal Procedure Code and Other Legislative Acts of Ukraine on the Introduction of Early Release of Persons from Serving Sentences for Their Direct Participation in the Defence of the Country, Protection of its Independence and Territorial Integrity» ([Law No. 3687-IX of 8 May 2024](#)) and «On Amendments to the Code of Administrative Offences to Improve Liability for Violation of the Rules of Military Registration and Legislation on Defence, Mobilisation Training and Mobilisation» ([Law No. 3696-IX of 9 May 2024](#)).

As stipulated by the latter act (Law No. 3696-IX of 9 May 2024), violation of the rules of military registration by conscripts, persons liable for military service, and reservists entails a fine of 200 to 300 tax-free minimum incomes; the repeated commission of the same violation within a year (for which the person has already been subjected to an administrative penalty) entails a fine of 300 to 500 tax-free minimum incomes; the commission of such actions during a special period entails a fine of 1,000 to 1,500 tax-free minimum incomes.

In turn, Law No. 3687-IX of 8 May 2024 provides for the possibility of mobilising certain categories of convicts (persons serving sentences in prisons). The law provides that during mobilisation and/or martial law, persons serving a sentence of restriction of liberty or imprisonment for a fixed term may be granted conditional early release by a court to perform military service under a contract. Such

conditional early release will not be applied to persons convicted of crimes against the foundations of national security of Ukraine; convicted of intentional murder of two or more persons, or committed with particular cruelty, or combined with rape or sexual violence; convicted of particularly serious corruption crimes; or to convicted officials who held a particularly responsible position, etc. Persons mobilised under this law will not have annual basic leave, family leave and other valid reasons in terms of social guarantees. They may receive leave based on the MMC (military medical commission) conclusion for treatment due to illness or injury (blast injury, trauma or mutilation) with the preservation of financial and material support, and such leave should be granted exclusively at the place of person's stay in health facilities. If a person who has been released from serving a sentence evades military service, he or she should be punished by 5 to 8 years of imprisonment. Given these and other «problematic» aspects of this law, it is necessary to ensure that all this does not occur «at the expense of violating the fundamental rights and freedoms of citizens», proper provision of the right to defence, transparency of procedures, refusal to create [discriminatory structures](#), etc.

1.3. The Resolution «On the establishment of the Temporary Special Commission of the Verkhovna Rada of Ukraine on the use of the state budget of Ukraine aimed at the construction of fortifications and engineering barriers on the contact line, as well as the manufacture and purchase of unmanned aerial vehicles and electronic warfare equipment for military units of the Armed Forces of Ukraine and other formations established in accordance with the laws of Ukraine» ([No. 3726-IX of 22 May 2024](#)) can be seen as a manifestation of parliamentary control over Ukraine's defence. The emergence of this document is reasonably linked to war zone developments that led to the occupation of several new Ukrainian settlements and territories by the Russian aggressor. The resolution instructs MPs to explore «the circumstances and prepare questions on: 1) the needs of the security and defence sector for unmanned aerial vehicles and the formation of a state order for the production and purchase of UAVs and electronic warfare equipment; 2) the practice of distribution, transfer, delivery and entry of



UAVs and electronic warfare equipment in the books of units of the Armed Forces of Ukraine and other formations established in accordance with the laws of Ukraine; 3) the arrangement of fortifications, engineering barriers on the contact line, and the targeted use of budget funds allocated for these purposes». Despite the rather «small / insignificant productivity» of such temporary commissions in the past, the inclusion of Ukrainian MPs who were or are currently involved in the fighting against the Russian aggressor looks very promising.

### **ENSURING THE IRREVERSIBILITY OF UKRAINE'S EUROPEAN AND EURO-ATLANTIC COURSE**

In May, the Verkhovna Rada adopted a number of laws aimed at ensuring the irreversibility of the country's European and Euro-Atlantic course and at reaching its strategic objective to become a full member

of the European Union and the North Atlantic Treaty Organisation. These include the Law of Ukraine «On Ratification of the Agreement between Ukraine and the European Union on Ukraine's Participation in the EU Justice Programme» (No. 3713-IX of 9 May 2024); the Law of Ukraine «On Ratification of the Agreement between Ukraine and the European Union on Ukraine's Participation in the EU Citizens, Equality, Rights and Values Programme» (No. 3714-IX of 9 May 2024); the Law of Ukraine «On Ratification of the Agreement on Financing of the NEXT Black Sea Basin Programme (Interreg VI-B)» (No. 3715-IX of 9 May 2024); the Law of Ukraine «On Ratification of the Agreement on Financing of the Danube Regional Programme (Interreg VI-B)» (No. 3718-IX of 9 May 2024), and others. Such parliament's actions seem more than appropriate, given Ukraine's expectations to start EU membership talks.

# IV. ECONOMY

## DECISIONS

In early May 2024, the National Bank of Ukraine made a very unusual and bold decision by introducing the [largest package](#) of currency easing for businesses since the beginning of the full-scale war. The purpose was to improve the business environment in Ukraine and to allow domestic businesses to enter new markets, while supporting economic recovery and facilitating the inflow of new investments into the country. Given its scale, this measure deserves special attention.

First, all currency restrictions on imports of works and services are cancelled, which will benefit Ukrainian producers and allow domestic businesses to enter new markets, including those where the aggressor country's producers are being forced out by sanctions. This will contribute to a gradual increase in export revenues to Ukraine.

Second, businesses are now allowed to repatriate «new» dividends earned by companies during the war. Allowing this repatriation of new dividends will attract new investments into Ukraine, minimise the risks of foreign-owned enterprises curtailing their activities, and support the economy.

Third, the possibility of transferring funds abroad under leasing/rental arrangements has been granted.

Fourth, restrictions on the repayment of «new» external loans are being eased, allowing Ukrainian businesses to more actively attract new loans not only from official partners but also from private investors.

Fifth, the possibility of repaying interest on «old» (pre-invasion) external loans has been granted, allowing resident borrowers to transfer funds abroad for interest payments that, according to the terms of the loan agreement, were due to be paid from 24 February 2022 on.

These changes will help minimise the likelihood of defaults by Ukrainian borrowers and offer more favourable conditions for restructuring external loans, as well as improve the conditions for attracting new capital to Ukraine.

Sixth, restrictions on the transfer of foreign currency from representative offices to their parent companies are being eased.

Such measures obviously carry a number of risks. The NBU estimates that the introduction of currency liberalisation measures could cost the foreign exchange reserves around \$5.5 billion in 2024. In other words, the FX market may face [additional demand for the US currency](#), which could affect the hryvnia exchange rate. It is worth noting that in April, the dollar rose by 1.2-1.7% in Ukraine, and by about 8% since early October 2023, when the NBU switched to flexible floating of the exchange rate.

However, currency liberalisation does not necessarily mean the hryvnia losing its value. The NBU has improved its forecast for reserves in 2024 from \$40.7 billion to \$42.3 billion, which is primarily due to the resumption of rhythmic inflows of international aid. In particular, Ukraine is already confident of receiving \$7.8 billion from the United States, as well as funds under the European [Ukraine Facility programme](#). The NBU believes that such «bilateral» changes should not pose additional threats to macro-financial stability and FX market resilience.

Democratic nations continue their comprehensive support for Ukraine. Thus, on 8 May, the permanent representatives of the European Union member states approved the transfer of proceeds from the taxed excess profits of frozen russian assets to Ukraine. This is expected to generate [annual revenues](#) of approximately €2.5-3 billion, with 90% of these funds allocated to support Ukraine's defence, including the purchase of weapons. The



remaining 10%, will be used for the restoration and reconstruction of Ukraine.

Meanwhile, the EU has [extended](#) the «trade visa-free regime» for Ukraine for another year. This means that import duties and export quotas on Ukrainian agricultural products will continue to be temporarily suspended until 5 June 2025. However, the European Commission has the authority to [take swift action](#) and introduce any necessary measures if there are significant disruptions in the EU market or in the markets of one or more EU countries due to Ukrainian imports.

## DEVELOPMENTS, PROCESSES, TRENDS

According to the NBU's estimates and forecasts presented in the April Inflation Report, Ukraine's economic [recovery will continue](#), although it will be limited due to significant damage to energy facilities. Real GDP growth in Q1 2024 was lower than expected, primarily because of restrained budget spending amid uncertainty about external financing. The blockade of the western border was an additional factor that affected the activity of certain types of business.

Despite these challenges, the stable operation of the maritime corridor, favourable weather conditions and increased domestic demand have supported economic growth. The NBU expects further recovery of economic activity, especially with recent progress in securing international assistance. This will enable the NBU to maintain a loose fiscal policy and lead to the expected recovery in both domestic and external demand.

However, the forecast for real GDP growth has been downgraded due to the effects of Russia's massive attacks on Ukraine's energy infrastructure. The economy is expected to grow by 3% in 2024 and by 4.5-5% in 2025-2026. Compared to the previous forecast, the risk of a shortage of international financing this year has significantly eased, but the rhythmicity of financial inflows remains questionable.

It should be emphasised that continued international financial support and measures to strengthen public finances are necessary for macro-financial stability and thus sustainable economic recovery.

International support is also expanding in terms of real business. For example, the export of Ukrainian grain via the Black Sea has become easier due to the [growing presence of insurance companies](#) operating in this market, while the volume of containerised shipping by sea will increase.

In addition, the unblocking of Odesa ports has allowed for a wider range of export cargoes, including of iron ore from Pivdennyi port and steel products from Odesa port, although agricultural products still dominate.

As of 1 May 2024, Ukraine's international reserves amounted to 42.4 billion after [decreasing](#) by 3.1% in April. This was driven by the NBU's foreign exchange interventions to ensure exchange rate stability and foreign currency debt payments, which were partially offset by inflows from international partners. At the same time, significant reserves are being spent to meet the domestic households' demand for foreign currency amid the continuing gradual weakening of the hryvnia, which has already entered a steady (albeit still weak) depreciation trend.

**The current level of international reserves covers 5.5 months of future imports, which is considered sufficient to support macro-economic balances in the short term.**

According to the Ministry of Finance, as of 31 March 2024, Ukraine's public and publicly guaranteed debt amounted to UAH 5,924 billion or \$151.05 billion, including

- ✓ (public and publicly guaranteed) external debt — UAH 4,239.5 billion (71.56% of the total debt) or \$108.1 billion;
- ✓ domestic debt — UAH 1,684.7 billion (28.44% of the total debt) or \$43.0 billion.

As reported earlier, Ukraine signed an agreement with the United States to postpone payments on its public debt, as part of a Memorandum of Understanding on official debt payments suspension with a group of Ukraine's official creditors in the G7 and Paris Club.

International assistance is not the only source of Ukraine's financial support. Since

the onset of the full-scale invasion, Ukrainian citizens and businesses, including banks, [have purchased](#) more than UAH 1 trillion worth of domestic government bonds (so-called OVDPs) on market terms. Investments in bonds have become the second largest source of financing for Ukraine's state budget after international aid. The funds raised from OVDPs have allowed the Ministry of Finance to finance more than 200 days of our defence and protection, equivalent to 15% of Ukraine's GDP in 2023.

As for the international events with global impact (including on Ukraine), [Reuters reports](#) that on 14 April the US President announced a significant increase in duties on several types of products imported from China, including electric vehicles, computer chips and medical products. On the same day, Biden signed a law banning the import of russian uranium, but companies will be allowed to continue importing it until 2028.

President Biden will maintain the tariffs on China imports introduced by his predecessor, Donald Trump, but will also raise others: according to the White House, duties on EVs are set to increase by 100%. The [new measures affect](#) \$18 billion worth of goods imported from China, including steel and

aluminium, semiconductors, batteries, critical minerals, solar panels, etc.

This may indicate a new round of trade wars between the US and China that could [impact global trade flows](#). For example, exporters from other countries will now have less competition in the US market. For those countries that import Chinese cheap goods and do not plan for own production bases, US tariffs may be a boon, as China will be able to step up its commodity expansion to such countries, including for stronger economic and political influence.

China's reaction was not long in coming. [Bloomberg reports](#) that Beijing is ready to impose tariffs of up to 25% on imported cars from the EU and the US amid rising trade tensions. [These duties will affect](#) European and American automakers, having a «significant» impact not only on relations between this trio, but also on other (partner) countries.

For Ukraine, the risks to its partnership are growing, as there are probably many supporters of «friendly» Chinese supplies in the country. However, Ukraine's leadership should strictly adhere to the rules and obligations of its strategic partnership with the world's leading democracies.

# V.

## ENERGY SECTOR

### PREPARATION FOR THE COLD SEASON

On 8 May, Ukraine's critical energy infrastructure sustained another combined attack, while individual energy facilities in seven regions were hit on 4, 5, 6, 17, 18, and 22 May. As a result, the [total losses](#) of Ukraine's integrated power system (IPS) reached 8 GW of installed capacity. In May, only five days went by without power restrictions. Emergency and/or hourly blackout schedules were introduced between 15 and 27 May for both industrial and household consumers (from 18 to 24 hours; around the clock on 23 and 24 May). Emergency assistance, mainly from Romania, Slovakia and Poland, was called in 15 times, and the maximum capacity of cross-border interconnectors (1.7 GW) was used on 17, 27, 28, 29 and 30 May.

Due to the serious damage to all large thermal power plants, the energy sector is unable to fully use off-season reserves. Therefore, total coal stocks at TPPs and CHPPs increased to 2.2 million tonnes (+0.6 million tonnes compared to the last day of April), and [gas reserves](#) in underground storage facilities increased to 4.5 bcm (excluding 4.7 bcm of long-term storage and 0.6 bcm of gas owned by non-residents).

An analysis of Russian strikes shows that the focus has been on destroying Ukrainian IPS's shunting capacity, which ensures that morning and evening consumption peaks are met. While the morning imbalance can be partially compensated for by solar generation, the evening energy deficit is greater than the combined capacity of imports, hydroelectric power plants, thermal power plants and wind farms. Seasonal maintenance of NPP units adds to the problem: for example, maintenance campaigns at two units in May resulted in energy shortages even late at night.

It is already clear that full restoration of energy facilities damaged during the spring attacks is unlikely, and only 2-3 GW of installed capacity can be expected to come back online. In addition, despite efforts to create two-level protection for various power plants (which, in fact, [halved the damage](#) caused by the

attacks), the size of these energy facilities makes it difficult to provide third-level protection. Therefore, the lack of multi-level air and missile defence systems remains a problem, not allowing the restored facilities to be properly protected from new attacks.

To reduce the likelihood of destabilisation of grids and systems and to mitigate the cumulative negative consequences in the event of continued Russian attacks in the off-season and during the winter of 2024-2025, Ukraine must quickly rebuild the architecture of its energy system. Large TPPs and CHPPs should be replaced by 200-300 smaller power plants with a capacity of 5-30 MW scattered across the country using local fuel sources, as well as 1-2 GW of energy storage systems. Both [market participants](#) and the [Ministry of Energy](#) suggest focusing the available resources on this task. Since local governments and communities have neither money nor authority to build such facilities, it is necessary to actively attract resources from private investors. The interest of the latter is evidenced, in particular, by Ukrenergo issuing technical conditions for connection of 1.2 GW of storage facilities to the grid in 2022-2023.

### ENERGY BALANCE

At the end of May 2024, 7 NPP units provided the baseload capacity of Ukraine's integrated power system, although one of them [resumed operation](#) after repairs only on 28 May. There was an imbalance in the system, even at night, due to the damage of most TPPs

Six power units at TPPs and CHPPs, as well as HPPs and PSPs were essentially the only source of shunting capacity.

As a result of [damage](#) to two Ukrhydroenergo facilities, the company's hydropower generation decreased despite the spring melt and rain floods. However, the disruption to the operation of the [Dnipro Cascade](#) and [Dniester HPP](#) did not significantly affect the water level in the reservoirs, which since 15 May has been in line with the decision of the Interagency Commission with the State Agency of Water Resources of Ukraine establishing their operating modes.

In May 2024, electricity generation at SPPs and WPPs was higher than the seasonal average, allowing to partially offset the daytime shortage of electricity.

During the reporting period, Ukraine generated 9.0–9.3 GW of electricity every hour, compared to 20 GW in 2021. NPPs accounted for most generation (48%), followed by HPPs (15%), TPPs (10%), CHPPs (8%), and renewables (18%).

In May, electricity shortages were predicted 26 times, primarily in the evening, and there was surplus on 4 occasions during the day. To balance the system, the load of renewable energy facilities was limited, and emergency assistance was provided by Polish, Romanian and Slovakian operators. The Polish operator received similar assistance from Ukrenergo.

An average of 420 settlements in Ukraine were without power due to the hostilities (+20 compared to the previous month); additionally, up to 53 settlements were cut off due to bad weather (on 7 and 31 May). About two hundred of them remained without power supply for more than one day.

There were no commercial electricity exports in May 2024. Instead, electricity (1.0–1.7 GW) was imported mainly from Poland, Slovakia and Romania.

There was no shortage of gas for cooking and other needs. Its consumption in May was down 6% year-on-year and 37% compared to May 2021. For the first time in 2024, production was 2% lower than last May, although Naftogaz Ukraine **promised** to increase the annual figure to 15 bcm.

Since no more than 24 mcm were pumped into underground storage facilities out of 45–48 mcm produced natural gas, the current level of reserves is 5% lower than in 2015–2018 (including gas owned by non-residents). However, the Naftogaz Group is **thought to be accumulating** fuel in its USF faster than last year, and the current injection rate is 0.33 bcm higher than in the of the same period in 2023.

Daily commercial exports of gas stored by non-residents in Ukrainian underground storage facilities in the customs warehouse regime did not exceed 2.5 mcm (Drozdovychi USF).

Despite the damage to the surface infrastructure of several underground storage

facilities, the GTS has been operating normally. Nominations of storage customers and capacity reservations were fulfilled in full. However, the increased intensity of Russian attacks may well limit the availability of Ukrainian underground storage, changing the UAVTP pricing model from HUB- to HUB+ and reducing gas purchases for industrial needs.

In May, the domestic supply of petroleum products was sufficient to meet the growing demand. There was a small surplus in diesel and LPG car fuel.

## SECTOR'S FINANCIAL SITUATION

In May, after two months of growth, electricity **payments owned** by producers decreased to UAH 26.5 billion, and payments owned to universal service providers – to UAH 24.3 billion (-UAH 5.6 billion and – UAH 5.7 billion, respectively, compared to April 2024). The debts of district heating companies for gas consistently exceed UAH 100 billion.

Ukrenergo's debt to renewables continues to reduce, dropping to UAH 25.9 billion by the end of May, although the company still **does not agree** with the amount of «green» generation. The reduction is faultily done by transferring hryvnia overdue short-term liabilities to renewable energy generation into foreign currency long-term Ukrenergo's liabilities to international credit institutions.

At the same time, market participants' debts to Ukrenergo reach UAH 30 billion for electricity transmission and 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.

Mutual debts continue to accumulate on the balancing market, **increasing** by UAH 1 billion over the past three months. The debt 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**.

The National Security and Defence Council (NSDC) has **instructed** the Cabinet of Ministers to pass decisions on regulating these and other debts, but the nature of these decisions



is unclear. The only information available is about the government-backed «draft law that will significantly improve the situation in the electricity market and address debts in the balancing market» and the ability granted to the NEURC to offset homogeneous counter-claims of market participants.

## TRANSIT

In the reporting period, Gas Transmission System Operator of Ukraine LLC transited 41-43 mcm of russian gas per day (39% of volume under the contract with Gazprom). About 88% was sent to Slovakia, and 12% – to Cuciurgan (Moldavian) power station in Transnistria. Transportation was carried out through the Sudzha gas metering station. Additionally, Ukraine ensured the daily transit of 1-3 mcm of gas from Hungary to Moldova.

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

## PRICE SITUATION

In May 2024, the [price index](#) for base-load electricity (BASE) on the day-ahead market (DAM) was UAH 3,941/MWh, and at the peak (PEAK) it was UAH 3,691/MWh (+26.5 and +23.5% compared to April). This change in rates indicates a shortage of supply in the market caused by damage to energy infrastructure following russian attacks.

The [weighted average price](#) on the intraday market (IDM) amounted to UAH 4,976/MWh, and on the Ukraine IPS DAM – UAH 4,222/MWh (+46.1 and +26.6 compared to April, respectively).

The [weighted average price](#) of June natural gas in Ukraine based on electronic trading on the UEEX in May decreased to UAH 12,267/tcm (€280/tcm; -4.1% compared to April). This reduction in demand was mainly due to the end of the heating season. However, the trend is expected to reverse in early summer due to the rise in gas price on the European TTF hub, to which Ukraine prices are artificially pegged.

Increasing the liquidity of the exchange market through the development of standardised trading products and introducing

mandatory sale of at least 15% of gas produced in Ukraine on the exchange would help establish a more acceptable price for domestic consumers. However, the government is yet to approve these proposals.

The start of repair campaigns at European terminals and the ensuing reduction in supply pushed the [cost](#) of natural gas on the TTF hub brought to the domestic border up to UAH 22,846/tcm (including VAT), although in the second decade of May it was around UAH 19,700. As a result, the [Naftogaz Ukraine gas tariffs](#) for non-household consumers dropped to UAH 15,400/tcm from 1 June 2024, while in May they were UAH 16,200 (including VAT).

Meanwhile, 17 of the 18 EU member states owing underground storage facilities have already started replenishing their gas reserves. In contrast to Ukraine, however, our European colleagues are doing this much more actively, extending their already record [reserves](#) (+28% of the last 5-year average) to 74.5 bcm in May (+12.2% for the month). This increase in demand is probably the reason for [the rise in prices](#) at the TTF hub to \$389/tcm.

In May, Coal (API2) CIF ARA (ARGUS-McCloskey) steam coal [futures](#) quotes ranged from \$105 to 108/t, losing \$10/t in price over the month. One year ago, quotes were \$116/t. Coal stocks at ARA (Amsterdam-Rotterdam-Antwerp) terminals amount to 5.2 million tonnes (-2% compared to the annual average).

In May, Brent crude oil [futures](#) quotes retreated from a six-months high (\$91/bbl on 5 April 2024), ranging from \$81 to 84/bbl (\$81/bbl on 31 May 2024), still failing to reach last year's levels (\$95/bbl on 24 September 2023). The main reason for the decline was bidders' [disappointment](#) with the actual results of additional voluntary production cuts by OPEC+ member states and a downward revision of 2024 consumption. Nonetheless, it is still believed that if current trends continue, oil supply in 2024 will reach 102.9 million barrels per day, while demand will increase to 103.2 million barrels. As a result, prices for futures with near-term delivery dates are again lower than those for longer-dated positions.

Motor petrol prices in Ukraine have risen slightly by 0.2% compared to April, primarily due to the [weakening of the hryvnia](#) by 1.0% against the US dollar, while diesel fuel fell by 2.7%. As

expected, the difference in trends was driven by discounters associated with the Privat Group seeking to increase fuel sales in agricultural regions on the back of increased supply from growing rail traffic and the unblocking of checkpoints on the Ukrainian-Polish border, which hampered the logistics of road deliveries of petroleum products from Poland and Lithuania.

As of 1 June 2024, the [indicative prices](#) for Euro5 A-95 petrol and Euro5 diesel fuel were UAH 59.63 and 52.73 per litre, respectively.

In turn, LPG [fell again](#) in May to UAH 26.67 per litre (-3.1% compared to the previous month). This was due to the traders' desire to stimulate demand for LPG, which was realised through the emergence of additional volumes of propane-butane (used in Europe as a boiler fuel) on the market. The current ratio of retail prices of LPG to high-octane petrol (45%) will continue to drive demand for propane-butane and discourage consumers from buying much more expensive petrol.

## CHANGES IN THE REGULATORY FRAMEWORK

The President of Ukraine has signed a law amending the Customs Code of Ukraine on customs clearance of biomethane, which will be carried out in the manner prescribed for natural gas. In order to export biogas by pipeline, it will be enough to submit a certificate of compliance and a Proof of Sustainability.

### *The Cabinet of Ministers:*

✓ [extended](#) special obligations on electricity market participants until 30 April 2025 to ensure the public interest in the course of its operation, setting a fixed price for household consumers and state-financed institutions at UAH 4.32/kWh (UAH 2.64 for households equipped with electric heating units from 1 October to 30 April; UAH 2.16 for households equipped with two-zone metering devices from 23:00 to 07:00). This increase in electricity prices and tariffs for households to a level near the cost of generation, transmission and distribution is aimed at financing current repairs, purchasing consumables, equipment and fuel, paying for emergency crews — it is not to reduce the deficit of shunting capacity caused by Russian attacks on critical energy infrastructure;

✓ [increased](#) the volume of purchased imported electricity in the total consumption in each billing hour from 30% to 80%, which is a condition for not applying compulsorily electricity supply restrictions for non-household consumers;

✓ approved the [procedure](#) for determining and applying electricity consumption limits, which will enter into force on 28 June 2024 and «will [help ensure](#) fair and even distribution of electricity within the limits between consumers not included in the list of critical facilities with priority supply»;

✓ [simplified](#) the construction and/or placement of gas piston and gas turbine plants by business entities, including cogeneration, block-modular boilers, diesel/petrol and gas generators with a capacity of 1 MW or more, as well as related electricity, heat, gas, water supply networks, metering units, and other equipment necessary to provide consumers with heat and/or electricity;

✓ allocated UAH 725.6 million from the State Budget's [reserve fund](#), and UAH 826.2 million from [fund for the liquidation of consequences](#) of armed aggression to restore and rebuild infrastructure facilities of Zmiivska and Trypil'ska TPPs;

✓ [decided](#) to allocate UAH 7.168 billion to rebuild the power grid;

✓ [established](#) a staff to prepare housing and utility services and the fuel and energy sector for the next cold season of 2024-2025.

The Ministry of Energy has approved a Roadmap for Smart Grids Development. According to this document, its implementation will reduce the SAIDI index by 100 minutes and annual electricity losses in the grid by 6 billion kWh. However, the approved document has not been made public, which makes its assessment impossible.

### *The NEURC:*

✓ [set](#) fixed maximum and minimum [price caps](#) on the day-ahead, intraday and balancing market from 31 May 2024, which will allow for a doubling of electricity imports at night;

✓ [extended](#) exclusive trading conditions for aggregators in certain segments of the electricity market;

✓ **provided for** the possibility of offsetting, by mutual agreement, the homogeneous counterclaims of the transmission system operator, parties responsible for the balance and balancing service providers, in case of mutual debts under an imbalance settlement agreement or an agreement on participation in the balancing market;

✓ **obliged** to connect gas turbine, gas piston, cogeneration units to the electricity grid without paying the connection fee, and **clarified** the relevant procedure for business entities that intend to install such units by 1 June 2026 upon a certificate of the military administration on the need for their connection;

✓ **updated** the rates for standard connection of electrical installations to the grid (up to 50 kW inclusive) for 2024 for urban and rural areas of I, II, III categories of electricity supply reliability from 10 May 2024;

✓ **obliged** electricity and natural gas market licensees to implement and maintain effective measures for ensuring integrity and transparency in the wholesale markets and to provide the NEURC with information on business and trading operations in these markets relating to wholesale products, including offers (bids) and basic (fundamental) data.

## PROJECTS AND INTENTIONS

The government failed to fulfil some obligations set out in 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 Verkhovna Rada of Ukraine registered:

✓ the **draft law** No. 11256 of 13 May 2024 on the gradual adjustment of excise tax rates in 2024-2028, including on fuel, to the levels set by **Directive 2003/96/EC** (Annex XXVIII, Article 353 of the **EU-Ukraine Association Agreement**) (for unleaded petrol, diesel fuel and liquefied petroleum gas – €359 and €330 per 1,000 litres and €125 per 1,000 kg).

The content of this document suggests that, under the guise of «European integration» and by using the lack of professionalism of civil servants, certain interest groups are trying to make super profits at the expense of Ukrainian citizens. The draft law contradicts the purpose of Directive 2003/96/EC, which is being

implemented, as it introduces higher taxes on less environmentally harmful fuels. In particular, the authors propose to set the ratio between the excise tax rates on petrol and LPG at 359/277 per 1,000 litres, while it is 359/69 in Europe. If the document is adopted as it is, it will destroy the propane-butane market as early as 2024 and deprive consumers of the opportunity to use «social» fuel as an alternative to expensive petrol, the qualities of which are rarely tested in Ukraine;

✓ the **draft law** No. 11273 of 20 May 2024 on settling accounts payable of heat, water and wastewater companies, primarily through restructuring.

The Cabinet approved a draft law seeking to improve payment discipline in the electricity market, according to which suppliers will open special use accounts to which payments for services rendered will be made. The NEURC will be tasked to develop an algorithm for distributing funds from these accounts. Consumers classified as critical infrastructure will have to open special use accounts in accordance with the government-approved procedure to avoid interruptions in energy supply. Suppliers will have the right not to resume energy supply to consumers if the latter have debts to the supplier of last resort and/or no debt restructuring agreement.

The status of the **draft resolution** (published by the Ministry of Energy back on 18 January) restoring 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», remains unknown. The relevant decision seems to have been **made**, but there is no confirmation of this yet.

The NEURC published drafts:

✓ a **resolution** to increase the tariffs for electricity transmission to UAH 628.65/MWh and UAH 464.78/MWh (+19 and +27%; excluding VAT), respectively, for system users and green electrometallurgy enterprises, starting from 1 July 2024;

✓ a **resolution** to increase by 11% the tariff for dispatch control services to UAH 115.91/MWh (excluding VAT), starting from 1 July 2024;

✓ a **resolution** to increase the tariffs for electricity distribution services to UAH

348.48/MWh and UAH 2,062.69/MWh (+1.6 and +2.3%; excluding VAT), respectively, for consumers and operators of energy storage facilities of the first and second voltage classes, starting from 1 July 2024;

✓ a [resolution](#) to introduce the following requirements to the licence conditions: for GTS and GDS operators – on the installation of smart metering systems, assessment of the energy efficiency potential of networks and energy audits in cases provided for by the Law of Ukraine «On Energy Efficiency»; for gas suppliers – on annual consumption reduction, fulfilment of the state targeted energy efficiency programmes and energy audit in cases stipulated by the Law of Ukraine «On Energy Efficiency»;

✓ a [resolution](#) to expand the list of documented grounds on which the NEURC may change the size of the fine. It may be reduced by up to 80% in case of a violation for reasons beyond the licensee's control and due to the fault of a third party, in particular due to the failure of other parties to fulfil their obligations to the licensee;

✓ a [resolution](#) to conduct unscheduled on-site inspections of natural gas market licensees located in the regions of Ukraine with active hostilities and temporarily occupied territories.

Ukrnafta and the ARMA applied to the Antimonopoly Committee of Ukraine for a merger clearance to fully manage the Tatneft Group's assets located in Poltava and Kharkiv oblasts (110 petrol stations, 15 of which are still operating).

## INTERNATIONAL COOPERATION

The [Agreement on Security Cooperation and Long-Term Support between Ukraine and the Kingdom of Norway](#) provides for assistance in the restoration of critical infrastructure, energy security, energy sector reforms and measures to further the green transition.

The [Agreement on Security Cooperation and Long-Term Support between Ukraine and Iceland](#) provides for special attention to strengthening social and civil infrastructure, in particular in the field of energy security and energy transition.

The [Agreement on Security Cooperation between Ukraine and Sweden](#) provides for support for recovery and reconstruction in priority sectors where Sweden has expertise and a unique offer, including green transition and energy.

The [Agreement on Security Cooperation and Long-Term Support between the Kingdom of Belgium and Ukraine](#) focuses on issues such as energy supply and energy security, nuclear safety and critical infrastructure protection.

The [Agreement on Security Cooperation between Spain and Ukraine](#) provides for support to Ukraine in rebuilding and improving its energy system, with a particular focus on sustainability and green initiatives. This includes working together on projects to enhance energy efficiency, among other things.

The partnership will create opportunities for re-training and study programs to establish new job opportunities in the energy sector for Ukraine. Spain will maintain its support to the reconstruction of Ukraine with an emphasis on «building back better», specifically aiming at reducing the energy dependence and vulnerability and advancing in the green transition of the country, through the engagement in development projects focused on energy efficiency and resilience and specifically, in accordance with the 2021 Memorandum of Understanding between the Spanish and Ukrainian hydrogen associations, steps will be taken towards decarbonisation. The Participants will explore possibilities for collaboration for Ukraine to produce renewable hydrogen and export it to Europe, and for Spain to supply technology, equipment and hydrogen production plants to Ukraine.

## GENERAL CONCLUSIONS AND RECOMMENDATIONS

After Russia's massive attacks on critical energy infrastructure in March-May 2024, [Ukraine lost](#) 8 GW of generation capacity, eight large TPPs and CHPPs, two HPPs, more than 800 heat supply facilities and multiple distribution facilities.

Although the government has raised electricity prices and tariffs for household consumers and state-financed institutions,



allocated UAH 8.7 billion to rebuild the power system and accumulated another UAH 18 billion in the Ukraine Energy Support Fund, these funds and, more importantly, time are not enough to ensure the normal passage of the cold season of 2024-2025.

Russian strikes will obviously continue, and nothing can guarantee protection of the newly restored facilities from attacks that may occur both in summer and during the heating season. This is due to the lack of multi-level air and missile defence systems, especially automated ones.

In view of this, it is highly unlikely that the summer peak consumption and the winter period of 2024-2025 will be free from electricity consumption restrictions.

In the off-season, provided that energy demand in August increases by no more than 5% compared to May, a shortage of capacity may be as follows: from 00:00 to 07:00 – up to 1 GW, from 07:00 to 11:00 and from 18:00 to 24:00 – up to 4 GW, and at other times, in sunny weather – 0. The imbalance will be due to repair and maintenance campaigns at NPPs (at 2-3 units simultaneously), as well as limited opportunities for importing and transmitting energy from the west to the east and south.

In the autumn-winter period, provided that all nine NPP units operate simultaneously, the cross-border transmission capacity is increased to 2.2 GW, and at least 2 GW out of 8 GW of installed capacity of large TPPs is restored, a shortage may be up to 3 GW from 23:00 to 07:00 and from 11:00 to 16:00, and up to 5 GW from 07:00 to 11:00 and from 16:00 to 23:00. The imbalance will be caused by the impossibility to rapidly change the system's architecture, in particular, to construct 200+ power plants with a capacity of 5-30 MW and 1 GW of energy storage systems in the regions.

To improve the reliability of Ukraine's integrated power system, it is necessary to:

- ✓ abandon management by issuing protocol orders following the meetings of the staff to prepare housing and utility services and

the fuel and energy sector for the cold season of 2024-2025 in favour of systematic identification, analysis and assessment of security threats to inform and select measures to neutralise them, as provided for in the [Energy Security Strategy](#);

- ✓ focus available and accessible resources on rebuilding infrastructure facilities, the restoration of which will not last more than nine months; on ensuring energy autonomy of local communities, settlements, and city districts; on equipping all critical facilities with emergency power sources and a fuel supply for at least three days (and therefore cancel the requirement of licencing the storage of up to 6,000 litres of petroleum products);

- ✓ explain the benefits, including financial, of public-private partnerships in the construction of gas piston and gas turbine installations, including cogeneration, block-modular boilers, diesel/petrol and gas generators (with a capacity of more than 1 MW) in local communities and their operation by business entities, as well as related energy storage systems and small distribution networks;

- ✓ audit energy facilities, including TPPs and low-capacity CHPPs owned by various business entities, that are currently not operating due to low efficiency, lack of fuel, court orders, etc., and, if possible, restore their operation by ensuring connection to the grid under a procedure that requires a certificate of the military administration on the need for their connection;

- ✓ appeal to businesses, as was done in 2021 by the governments of EU member states, with a call to rationalise the use of gas, electricity and heat, reduce their losses, explaining how this can be done best;

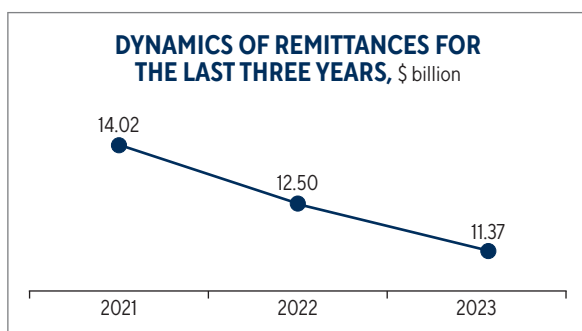
- ✓ initiate a campaign to raise public awareness of rational energy consumption, especially during peak hours, aimed at changing behaviours; explain that the authorities' functions and powers are limited and that it is impossible to ensure the sustainability of the of the country's energy sector without the participation of every Ukrainian.

# VI.

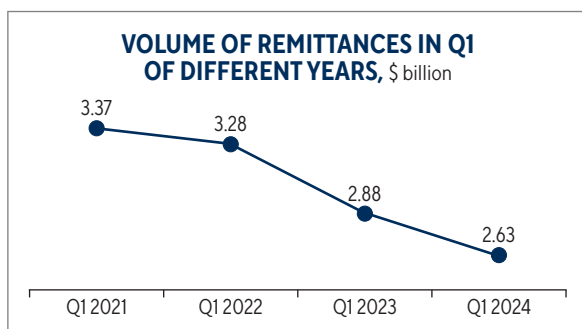
## SOCIAL SPHERE

### REMITTANCES TO UKRAINE

Ukrainians who have moved abroad are sending increasingly less money to Ukraine. The NBU reported that the total volume of remittances from abroad in January-March 2024 decreased by 8.7% to \$2.63 billion. This trend has been observed since the beginning of the full-scale war, and amounts transferred from abroad are falling for the third year in a row.



Source: [https://bank.gov.ua/files/ES/Perekaz\\_m.pdf](https://bank.gov.ua/files/ES/Perekaz_m.pdf).



The decline in remittances from Ukrainians living abroad occurs at the same time, when every tenth new business in Poland is started by Ukrainians. In 2023, **more than 30,000 new companies** were registered in Poland. Prior to the full-scale invasion, Ukrainians living in this country registered no **more than 200 new businesses** every month. In the spring of 2022, this figure soared to 1,700. According to the Diia.Business consulting centre, in 2023, Ukrainians opened 3,000 new businesses every month in Warsaw alone. That being said, in 2023 Ukrainians paid more than PLN 5 billion or UAH 48.5 billion to the Polish budget. This is most likely due to the fact that those who worked abroad and provided

for their families at home have now reunited with their families outside Ukraine.

In 2022, the decline in remittances could be explained by the return of several hundred thousand Ukrainians home to defend their Motherland. Since the beginning of 2023, however, the main reason for the decline in remittances has been the departure of Ukrainian migrants' families abroad, so many migrant workers no longer have anyone to send money to, thus increasingly separating them from their homeland.

Given these dynamics, the situation with remittances to Ukraine is likely to further deteriorate. It is also worth noting that the massive departure of forced migrants abroad has intensified the process of people taking money out of the country. Whereas previously such outflow was limited to tourists, millions of Ukrainians who continue to receive salaries and pensions on their Ukrainian bank cards now spend them abroad. According to the NBU, the outflow amounts to \$35 million every day.

### SHORTAGE OF LABOUR RESOURCES

The full-scale war has had a significant impact on Ukraine's labour market. Businesses are having difficulties in hiring and are facing an acute shortage of staff. This total deficit of workforce is attributed to two key factors – mobilisation and mass migration of the working-age population. Many able-bodied men and women have left the country; some of them are still working remotely for Ukrainian companies, but most prefer local employment. The mobilisation process is ongoing and intensifying, further affecting the labour market.

Experts estimate that the labour force in Ukraine has shrunk by 27% **compared to pre-war levels**. This shortage of staff has already affected all sectors of the economy. As labour is in short supply, «protection» (that is, reservation) has become an important competitive advantage. Formally, enterprises that are recognised as strategic have the right to protect up to 50% of their employees, but in reality,

even they cannot always get a deferral for their employees.

HR platforms show that the ratio of vacancies to CVs is [reaching a critical point](#). Prior to the invasion, there were approximately twice as many CVs as there were job openings in Ukraine. For example, if in April 2021, job portals had 99.3 thousand CVs for 48.2 thousand vacancies, then now there are only 67 thousand CVs for 62 thousand vacancies. That is, the ratio is almost one to one. [According to Bloomberg](#), it took Metinvest Group three months to fill 89 out of 4,000 vacancies.

The shortage of able-bodied workers is affecting both large and small businesses, which are the backbone of the wartime economy. Apart from weakening the Ukrainian armed forces, the shortage of people is leading to reduced productivity across all sectors of the country's economy. As a result, employers

now have to compete for employees, adjust workplaces and train staff in their efforts to adapt to a new reality.

One of quick fixes for labour shortages is to maximise the use of resources available in Ukraine. Businesses can invest in employee training, develop and expand adaptation programmes for veterans, and create jobs for persons with disabilities. In addition, a transparent reservation process must be put in place. Businesses should be able to «protect» their key employees. For example, the Work.ua platform has already introduced a special label [for vacancies with the possibility of reservation](#). Business development should be encouraged and obstacles to it should be removed, including by offering low-interest loans and grants for job creation, and by developing retraining programmes and training courses for those who have difficulty finding a job.



# VII.

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



<sup>1</sup> Results of a sociological survey conducted by the Razumkov Centre's sociological service on 21-27 March 2024 as part of the Pact's ENGAGE (Enhance Non-Governmental Actions and Grassroots Engagement) programme in Ukraine funded by the United States Agency for International Development (USAID). The contents of the survey are the sole responsibility of Pact and its partners and do not necessarily reflect the views of USAID or the United States Government.

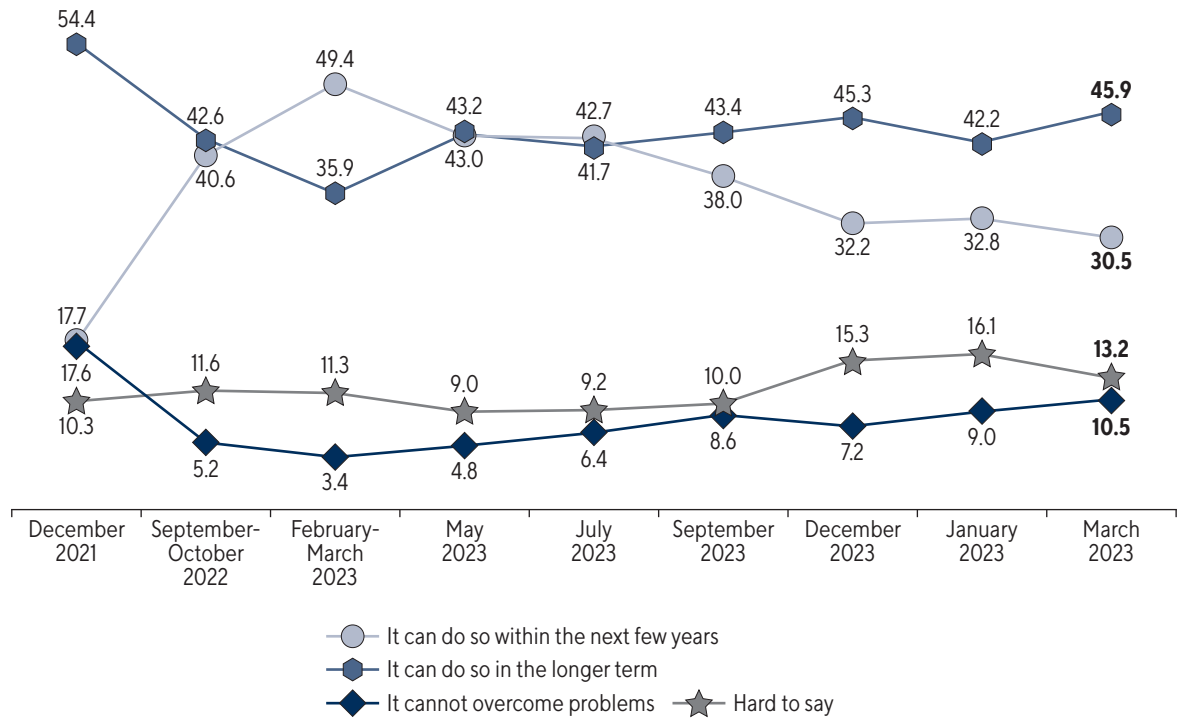
The face-to-face survey was conducted in Vinnytsia, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Mykolaiv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Kherson, Khmelnytskyi, Cherkasy, Chernihiv, Chernivtsi oblasts and the city of Kyiv (the survey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

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

A total of 2,020 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.3%. Additional systematic sampling deviations may be caused by the effects of russian aggression, in particular, the forced evacuation of millions of citizens.

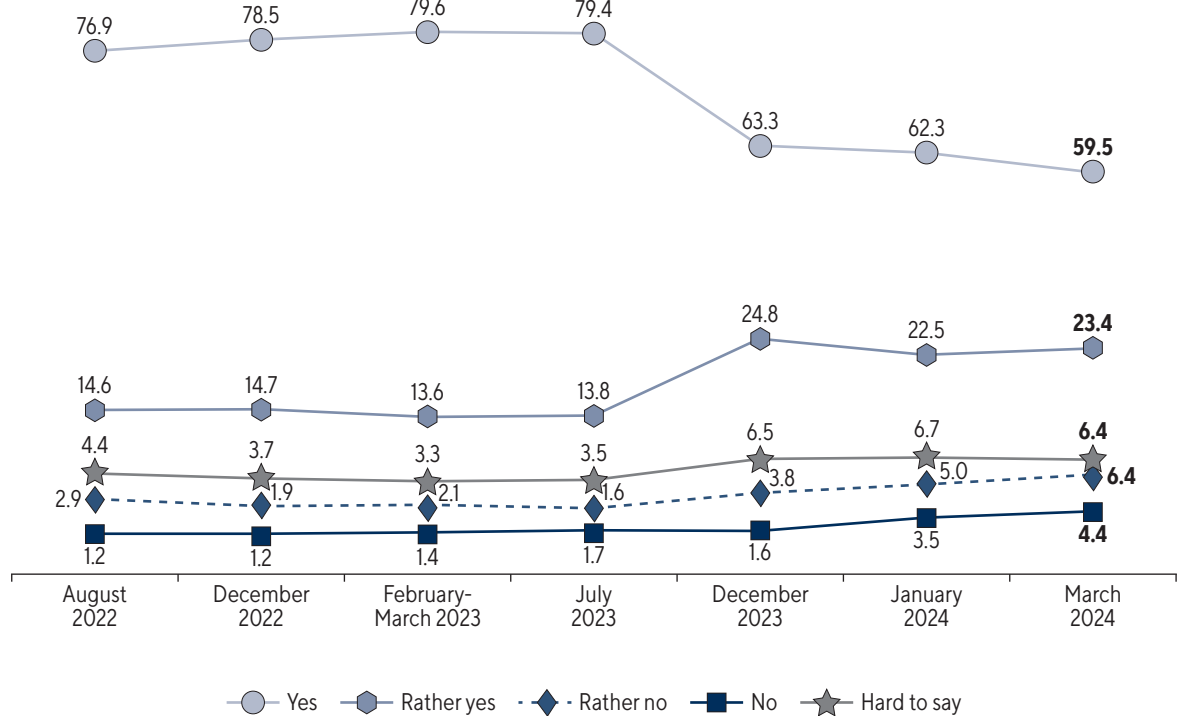
### CAN UKRAINE OVERCOME THE EXISTING PROBLEMS AND DIFFICULTIES?

% of respondents



### DO YOU BELIEVE IN UKRAINE'S VICTORY IN ITS WAR AGAINST RUSSIA?

% of respondents





<b>WHEN DO YOU THINK VICTORY WILL COME?</b> % of respondents who believe in Ukraine's victory					
	Augus 2022	February-March 2023	July 2023	January 2024	March 2024
By the end of this year	31.2	49.9	35.4	19.7	21.9
In 1-2 years	34.3	25.9	37.8	39.8	34.5
In 3-5 years	7.1	7.4	8.9	14.0	16.7
Not earlier than in 5 years	2.1	1.1	1.2	3.2	4.2
Probably not in my lifetime	1.7	0.4	0.3	1.1	0.8
Other	0.5	0.2	0.5	0.3	0.6
Hard to say	23.1	15.0	15.9	21.8	21.3

<b>WHAT SITUATION WOULD YOU PERSONALLY CONSIDER A VICTORY IN THE WAR?</b> % of respondents who believe in Ukraine's victory							
	August 2022	September- October 2022	December 2022	February-March 2023	July 2023	January 2024	March 2024
Driving russian troops from the entire territory of Ukraine and restoring borders as of January 2014	54.7	43.9	54.1	46.9	52.6	38.1	45.5
Destroying the russian army and promoting insurgency / disintegration within Russia	20.4	26.6	22.4	30.8	20.8	27.3	23.1
Driving russian troops behind the 23 February 2022 line (ORDLO and Crimea remain occupied)	7.4	8.1	6.2	4.6	9.0	13.0	10.7
Driving russian troops from the entire territory of Ukraine except for the occupied Crimea	8.7	4.2	8.0	4.4	5.7	7.4	8.6
Stopping the war even if the russian army holds on to the territories occupied after 24 February 2022 (Kherson, Zaporizhzhia, Donbas)	3.1	6.0	3.3	4.6	5.2	3.6	6.2
Other	0.4	0.9	0.3	1.0	1.3	1.5	1.6
Hard to say	5.3	10.4	5.6	7.6	5.5	9.1	4.3

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