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centre

UKRAINE: FROM WAR TO PEACE AND RECOVERY

Analytical Assessments
December 2024



I.

NATIONAL SECURITY AND DEFENCE: KEY DEVELOPMENTS, PROCESSES, TRENDS

In December 2024, the main trends in the conflict that had emerged in the previous months persisted. Political factors that fuelled the high intensity of hostilities clearly prevailed over seasonal factors and military expediency. On some days in December, up to **250 combat engagements** were recorded, most of which taking place at the Pokrovsk, Kupiansk and Kurakhove directions and in the Kursk operation area. Looking back on the last month and 2024 in general, it is clear that the changes along the contact line and the expansion of the theatre of operation haven't changed the current phase of the «war of attrition» and the overall situation of a strategic «deadlock».

COMBAT ACTION

In December 2024, Russian troops conducted active offensives along the entire contact line, mostly using proven tactics of infantry assaults with occasional use of limited armoured vehicles. However, the pace of Russia's «creeping occupation» has slowed down compared to previous months. In December, they seized about 510 sq.km of territory, which is 100 sq. km less than in November. Furthermore, the enemy could not develop its tactical successes into an operational breakthrough, also failing to achieve Putin's goals of reaching the administrative borders of Donetsk oblast and pushing Ukrainian forces out of Kursk region. December marked the sixth consecutive month of monthly growth in Russian losses, with the average daily loss of enemy manpower in December reaching 1,570 personnel. On 19 December, **2,200 occupants** were killed and wounded in one day – a record number since the start of the full-scale invasion. Even with reservations about the estimates, the losses of Russian army personnel are likely to exceed the rate of their monthly recruitment of about **30,000 contract soldiers**. This wasteful use

of human resources may be an attempt by Russia to maximise possible territorial gains and thus to strengthen its negotiations position at the start of possible peace talks.

Despite the disheartening December results for Ukraine, the enemy's arguable «successes» are primarily the merit of the Ukrainian defence forces (UDF), which have been able to provide organised resistance to an enemy that holds a significant manpower and weapons advantage.

Moreover, the Ukrainian defenders in two directions, namely Kharkiv and Kursk, have not only achieved military success but also dealt a powerful image blow to Russia's top military and political leadership. Back in May 2024, Putin personally initiated the offensive in the Kharkiv oblast, setting his generals the task to create a so-called «**sanitary zone**» along the border to a depth that would protect the adjacent Russian Belgorod region from shelling. However, as of the end of December, the UDF prevented Russian troops from expanding their bridgehead captured in May to a width of 10 km, thus thwarting the goals of the operation announced by Putin.

As of the end of December, the Ukrainian defence forces maintained control over nearly 460 sq. km of internationally recognised Russian territory, despite Putin's **repeated orders** to urgently resolve the «Kursk problem». Therefore, the Kursk operation not only revealed the Russian army's limited reserves, as evidenced by involvement of North Korean military contingent and the Kremlin regime's inability to protect its own citizens and territories but also showed the real weight of Putin's «red lines».

In this context, the liquidation of General Igor Kirillov, the chief of Russia's radiation,

chemical and biological defence forces, by the Ukrainian special services on 17 December in Moscow deserves special attention. Although this was not the first operation of this kind, the said general was the highest-ranking Russian officer killed during the Russia-Ukraine war. On 16 December, the SBU served him with a notice of suspicion in absentia, accusing him of [massive use of chemical weapons](#) in eastern and southern Ukraine. Despite the significant domestic and international outcry, the Kremlin's response was limited to statements [accusing Ukraine](#) of terrorism and [calling for the assassination](#) of the country's top leadership in Kyiv.

In December, Ukraine survived a powerful attack in another priority area for Russia – the destruction of Ukraine's critical infrastructure. After a long break, the enemy launched three massive drone and missile strikes against civilian infrastructure on 13, 25 and 31 December in addition to regular attacks using dozens of drones and a limited number of missiles. In just one month, Russians used about 1,800 drones (including decoys) and [290 missiles](#) to strike deep into Ukrainian territory, almost doubling the monthly average for 2024. Ballistic missiles remain the biggest problem, because they are the most difficult targets to intercept even for modern air defence systems, and because of the limited number of such systems in Ukraine. The Ukrainian Air Force Command [reported](#) that a Ukrainian F-16 shot down six cruise missiles in one flight during a massive attack on 13 December, once again demonstrating both the quality of Western-made weapons and the ability of Ukrainian pilots to use them effectively.

PEACE PROCESS

Discussions about [political and diplomatic settlement](#) of the Russian-Ukrainian conflict, which picked up after the US presidential election, did not yield any specifics on the format, terms or timeframe of future peace talks. As expected, Donald Trump's statements about his intention to end the war within 24 hours were no more than campaign promises. In his subsequent statements, the US President-elect only confirmed his readiness to end the war as soon as possible, not offering any concrete plan or realistic concept, including

after holding closed trilateral meeting with Emmanuel Macron and Volodymyr Zelenskyy on 10 December in Paris, during which [«no details of the vision of peace were discussed»](#).

Against this uncertainty about President Trump's plans, the key issue is Russia's involvement in the peace process. Putin's recent statements had no signs of willingness to compromise and the immutability of his ultimatum about Ukraine's de facto surrender: recognition of four Ukrainian oblasts, including the territories not controlled by Russian troops, and Crimea as Russian, rejection of NATO membership, and a radical reduction of the Ukrainian army.

At the same time, December saw a major change in President Zelenskyy's rhetoric, likely caused by the change of US administration and the ongoing deterioration of the frontline situation. If until recently, President Zelenskyy insisted on a complete withdrawal of Russian troops prior to any negotiations, then on 2 December he [publicly stated](#) that the Ukrainian army lacked the strength to liberate the Russian-occupied territories, stressing the need for long-term security guarantees and the return of the occupied territories through diplomatic means.

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

By the end of December, the [Resilience Plan for Ukraine](#) announced in November was still not published, although some of its points have already been implemented. On 3 December, the Cabinet of Ministers renamed the Ministry of Reintegration of the Temporarily Occupied Territories to the [Ministry of National Unity](#), and in late December, President Zelenskyy chose the [military ombudsman](#), appointing Olha Reshetylova as the Presidential Commissioner for the Protection of the Rights of Servicemen and their Families.

Meanwhile, one critical issue related to the protection of the rights of the military, mobilisation, defence capability and, by and large, national resilience remains unresolved. The draft law on the conditions of demobilisation of servicemen during martial law

was to be developed by 18 December 2024, but the Ministry of Defence asked the Parliamentary Committee on National Security, Defence and Intelligence to postpone its preparation until 18 March 2025. According to [media reports](#), the General Staff of the Armed Forces rejected the draft law, arguing that Ukrainian forces lacked «sufficient number of trained resources». Based on the General Staff's calculations, the estimated number of servicemen eligible for demobilisation will be 108,000, including 14,000 officers, which «in the event of their simultaneous dismissal will lead to a significant understaffing of combat units». Alternative versions of the draft law, prepared by the MoD, provide the following to military personnel who have served continuously for 36 months and participated in combat for at least 18 months:

- ✓ referral for rehabilitation for up to two months, and after rehabilitation – an additional one-off 30-day leave with the preservation of monthly payments;
- ✓ additional one-off 90-day leave with the preservation of monthly payments;
- ✓ mandatory rotation of military personnel after 90 days of direct participation in hostilities.

FOREIGN EVENTS (EXTERNAL FACTORS)

On 25 December, the [Estlink 2 submarine cable](#) connecting the Finnish and Estonian power systems was broken. Finland responded promptly by detaining the Eagle S tanker, which had made unusual manoeuvres shortly before the accident and, as it turned out, had «lost» its anchor at the site of the cable damage. This was the second incident in the last two months and the third one in 2024 involving the severance of submarine cables by civilian vessels travelling to or from Russian ports. Damage to submarine cables is one of Russia's subversive activities, in addition to arson, cyberattacks, and influence operations, and an element of its [ongoing «hybrid aggression»](#) below the threshold of declaring war. The primary purpose is to intimidate Europeans

and force them to reduce military assistance to Ukraine, including through the need to increase spending on their own security. One reason for Russia's [increased sabotage activities](#) is likely to be Western governments' attempts to avoid direct accusations against the Kremlin and to downplay the real level of the Russian threat after previous attacks, when the official reason for the damage to submarine cables was «an [unknown external factor](#)».

December 5 marked the 30th anniversary of the signing of the Budapest Memorandum by the leaders of the United States, the United Kingdom, Russia and Ukraine that granted the latter with security guarantees (or rather assurances) in exchange for giving up the world's third largest nuclear arsenal and joining the [Treaty on the Non-Proliferation of Nuclear Weapons](#). The signatories of the Memorandum, including Russia, reaffirmed their commitments to «respect the independence and sovereignty and the existing borders of Ukraine»; «refrain from the threat or use of force against Ukraine»; «seek immediate United Nations Security Council action to provide assistance, if Ukraine should become a victim of an act of aggression or an object of a threat of aggression, in which nuclear weapons are used»; and «consult in the event a situation arises which raises a question concerning these commitments». The description of the Budapest Memorandum as a «[monument to short-sightedness](#) in strategic decision-making in the security sector» equally applies to the actions of the then Ukrainian leadership and to the failure of the current leaders of the signatory states to fulfil their commitments in the early stages of the Russia-Ukraine conflict and after it evolved into a full-scale war.

On 8 December, after a two-week offensive, the Syrian opposition captured Damascus and announced the fall of the Assad regime. After the 2020 ceasefire agreement, government forces controlled about 70% of the Syrian territory with the support of Russia, Iran, and Lebanese Hezbollah. The main reason for the regime's collapse was the waning support from Assad's key allies involved in their own wars against Ukraine (Russia) and Israel (Iran and Hezbollah).

RUSSIA

The fall of the Assad regime has already dealt a painful blow to Russia's grand-power ambitions as a major geopolitical player capable of showing strength in the region. If the Kremlin fails to negotiate with the new Syrian government, Russia could lose its naval (Tartus) and air (Khmeimim) bases, losing its leverage in the region and the ability to project power to Africa. The Russian military contingent in Syria is small and will hardly strengthen Russia's combat capabilities after leaving the country.

Foreign media reports that North Korea is increasing the volume and range of military goods and expanding their production. In 2024, the number of railcars crossing the Russian-Korean border tripled. The total supply of artillery shells from North Korea to Russia is estimated at more than 5 million. There are also reports of the transfer of more than 100 Hwasong-11 ballistic missiles (analogous to the Tochka missile), 170 mm self-propelled howitzers and 240 mm long-range multiple launch rocket systems.

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

- ✓ the recent trends in the conflict remain unchanged, as is the nature of the current phase as a «war of attrition» and a situation of strategic «deadlock»;
- ✓ the Kremlin is trying to strengthen its negotiating position by making maximum territorial gains;
- ✓ a key prerequisite for the successful implementation of the new US administration's initiatives for a peaceful settlement will be the ability to engage Russia in the peace process by forcing it to compromise and abandon its ultimatum demands;
- ✓ official Kyiv's statements about its readiness to peace talks indicate a forced abandonment of the maximalist goals of liberating all territories by military means but have hardly reached the point of compromise (external security guarantees) that can be supported by Ukraine's partners.

II. FOREIGN POLICY

The foreign policy landscape in December generally reflected the dynamics of external trends and processes related to Ukraine, as well as the achievements and challenges of national diplomacy. Summing up the year, Kyiv's foreign policy achievements included consolidation of support from allied countries, the official launch of EU membership talks, the conclusion of long-term security cooperation agreements with a number of states, and the promotion of strategically important projects and high-profile initiatives, such as Peace Formula, Ukraine Facility, Victory Plan, Defence Industries Forum, etc.

On the other hand, amidst complicated geopolitical situation and ongoing Russian aggression, Ukraine faces many dangerous challenges and complex problems, including the escalating confrontation between the democratic world and the alliance of authoritarian countries, the transformation of US foreign policy, controversial processes in the EU, the intensification of a global debate on ways to end the Ukraine war, etc.

INTERNATIONAL PROCESSES AND EVENTS

December saw a significant increase in the foreign policy activity of the newly elected US President and his team. In particular, Donald Trump made a series of controversial [statements and comments](#) on the Panama Canal, Greenland, Canada, etc. Furthermore, the US leader demanded the EU to expand purchases of US energy, and NATO countries to increase defence spending to 5% of their GDP. This suggests that further dialogue between the new US leadership and the EU and NATO may be quite problematic. Also, despite Mr Trump's previous statements about ending the war in Ukraine as soon as possible, there has been no noticeable progress on the Ukrainian track, while the US continued to work on its plan to end the war. The visit of Keith Kellogg, US President's Special Envoy for Ukraine and Russia, scheduled for January 2025, should be rather seen as the start of a complex negotiation process with uncertain outcomes.

It should be added that Donald Trump's position to quickly end the war in Ukraine has boosted discussions of peacekeeping plans

in the European political space, including participation of the EU military contingent in the peace settlement process.

December was marked by a gradual shift from the initiation of peacekeeping ideas and initiatives in the political discourse to practical discussions of ways and means to end the war in Ukraine.

Some European countries continued to experience crises linked directly or indirectly to the Ukraine war and Russian hybrid aggression on the continent. **Romania.** The results of parliamentary elections revealed the growing influence of the right-wing AUR alliance led by George Simion. Given the externally organised elections manipulations, the country's constitutional court cancelled the results of the first round of the presidential election, in which pro-Russian candidate Calin Georgescu emerged as a winner. **France.** With the accumulation of socio-economic problems and strong disagreements between the leading political forces, including over the 2025 budget, the country faced a government crisis that it was able to address only in late December by forming a new government led by Prime Minister Francois Bayrou. **Germany.** On 16 December, the Bundestag [expressed no confidence](#) in Olaf Scholz's government, paving the way for early parliamentary elections in February 2025. Preliminary polls predict a victory for the CDU led by Friedrich Merz. At the same time, the far-right Alternative for Germany is currently second. One way or another, the election campaign is forcing Berlin to focus largely on domestic issues. **Georgia.** Massive anti-government protests continue in the country as a result of the ruling regime's refusal to negotiate Georgia's accession to the EU and the election of the puppet President Mikheil Kavelashvili, whose legitimacy is not recognised by the opposition. OSCE/ODIHR observers issued a report criticising the elections in Georgia, while the United States, Canada, and a number of EU countries imposed sanctions against the Georgian authorities and the entourage of shadowy oligarch Bidzina Ivanishvili. The violent dispersal of protests and police repression of the opposition deepen the internal political crisis in Georgia and increase the threat of a «Belarusian scenario» for this country.

The situation in the Middle East has changed dramatically. On 8 December, Syrian rebels liberated Damascus, which marked the fall of the Assad regime and changed the balance of power in the region, with the positions of Russia and Iran weakening significantly. After reaching the agreement on the cessation of hostilities on the Israeli-Lebanese front in November 2024, Israel has achieved a number of military objectives and strengthened its positions. However, for many political and religious reasons, the threat of another escalation of conflict has not been removed from the agenda. It is worth adding that the [visit of the Ukrainian delegation](#) led by Andriy Sybiha to Damascus in late December and the negotiations with the new Syrian leadership to restore diplomatic relations was a well-timed step.

FOREIGN POLICY ACTIVITIES OF UKRAINIAN GOVERNMENT

In December, Kyiv's foreign policy was generally focused on securing external support to counter Russian aggression, promoting Ukrainian interests and initiatives, including ending the war and achieving a just peace. During his meeting with Ukrainian diplomats on 22 December, President Zelenskyy outlined some [priorities of national diplomacy](#), such as a) strengthening relations with key partners – the United States, the EU, Japan, etc.; b) promoting Ukraine's interests in relations with China, India, Africa and Latin America; c) integrating into the EU and NATO; d) bringing the aggressor to justice and strengthening sanctions policy; e) ensuring the growth of foreign investment in the Ukrainian defence industry; f) increasing the effectiveness of public diplomacy in various foreign areas, etc.

December also saw the previously announced large-scale rotation of the diplomatic corps. More than 30 heads of Ukraine's diplomatic missions were replaced, including in some EU countries, as well as in Japan, Indonesia, China, Turkey, and Africa, and heads of missions to international organisations, including the UN and NATO. Unfortunately, this step will hardly fully address the problem of staff shortages in the MFA.

In turn, the Ministry of Reintegration of the Temporarily Occupied Territories was re-profiled

into the Ministry of National Unity with expanded functions and greater emphasis on developing contacts with Ukrainians abroad, in particular, the new Ukrainian diaspora around the world. The Ministry was headed by former Minister of Community and Territorial Development Oleksiy Chernyshov.

Political dialogue with foreign partners

Intensive political and diplomatic dialogue with foreign partners at various levels continued throughout the month. It is noteworthy that the [new EU leaders visited Kyiv](#) on 1 December – their first day in office. The delegation included the President of the European Council Antonio Costa, EU High Representative for Foreign Affairs and Security Policy Kaja Kallas, and EU Commissioner for Enlargement Marta Kos. Other important international contacts involved consultations and negotiations at the highest level, such as the [trilateral meeting](#) of the leaders of Ukraine, France and the United States in Paris on 7 December; talks with the Chancellor of Germany, the Presidents of Finland, Czechia, Argentina, and Angola, the Federal Chancellor of Austria, and the Prime Ministers of Italy, Spain, Estonia, and Latvia. Negotiations with the newly elected Prime Minister of Japan were also very productive. Given the internal situation in Germany, the meeting of the Ukrainian leadership with Friedrich Merz, the Chairman of the Christian Democratic Union and the leader of the CDU/CSU faction in the Bundestag, was of great importance.

Furthermore, Ukraine took part in the [European Council meeting](#) in Brussels on 19 December. On the sidelines of the event, talks were held with the leaders of Poland, Denmark, the Netherlands, the UK, France, the NATO Secretary General, the European Commission, and others. It is also symbolic that the next day, on 20 December, the newly appointed Lithuanian government headed by Prime Minister Gintautas Paluckas visited Kyiv in full force.

Other political and diplomatic contacts in December included a visit of the Ukrainian government delegation to the United States for talks with Donald Trump's team; talks with the Secretary General of the Council of Europe Alain Berset; a number of visits to Kyiv by MEPs from different groups; talks with the OECD leaders, etc.

Traditional diplomatic procedures continued with the President of Ukraine [accepting letters of credence](#) from the newly appointed ambassadors of China (Ma Shengkun), Saudi Arabia (Mohammed bin Abdulaziz bin Saleh Al-Barakah), and Serbia (Andon Sapundzi).

Promotion of Ukrainian interests and initiatives globally

In December, Ukraine continued to promote its projects and initiatives internationally, trying to influence the global community's agenda on the one hand, and to strengthen its own political, defence, and economic positions on the other hand, in view of the prospects for negotiations to end the war and force the aggressor to peace. *First.* Kyiv's efforts focused on accumulating external military and financial assistance and strengthening political solidarity among partners. At the bilateral level and on international platforms, Ukraine made efforts to accelerate and expand the supply of weapons and military equipment, especially air defence system, as well as to deepen economic cooperation and external financial assistance. [According to the Prime Minister](#), in December 2024, Ukraine attracted a record amount of foreign aid (\$9.2 billion), with the EU, the US, Japan, Canada, the UK, the IMF, and the World Bank being the largest donors. In particular, the United States allocated another aid package worth \$725 million and later announced \$2.5 billion in defence aid and \$3.4 billion in [budget support](#).

Significant tranches of military and financial assistance were also provided by Germany, Finland, Canada, the United Kingdom, Japan, and others. Ukraine's Foreign Minister and the US Secretary of State signed a memorandum of understanding to support Ukrainian energy sector, which provides for investments of \$825 million.

Second. Common international concept of achieving a just and stable peace for Ukraine was shaped in the last months of 2024. [According to the MFA](#), the Ukrainian side has held a series of thematic conferences to harmonise positions on all points of the Peace Formula and is working to ensure conditions

for an effective second Peace Summit. At the same time, Kyiv initiated a working group involving key European partners, which, [according to the Presidential Office](#), together with the United States, «are able to ensure maximum strengthening of our state» and promote a common position on ending the war.

Quite important in this context is the statement of 12 December 2024 by the Foreign Ministers of the United Kingdom, Italy, Spain, Germany, Poland, France and EU's chief diplomat Kaja Kallas on increasing assistance to Ukraine and achieving a just and lasting peace. Additionally, negotiations with the UK on a [new strategic agreement](#) on the transition to a stronger and deeper partnership have intensified.

UKRAINE'S STEPS TOWARDS THE EU

Preparations for the opening of practical negotiations on Ukraine's EU accession continued throughout the month. On 10 December, regular [screening sessions](#) on Chapter 7 «Intellectual Property Rights» (Internal Market Cluster) began in Brussels. In parallel, a series of constituent meetings of Ukrainian working groups were held to prepare the country's positions on various chapters and areas of the negotiation process, including economic criteria, monetary policy, transport, food security, digital transformation, etc.

In turn, Ukraine took a number of practical steps towards European integration: a) as part of the judicial reform, in December, the President [appointed](#) 137 judges of various jurisdictions, in addition to 248 judges appointed in July 2024; b) on 11 December, the EU-Ukraine Agreement on Ukraine's full participation in the Creative Europe programme until 2027 was signed in Brussels; c) the Cabinet approved the Strategy for the Development of Border Infrastructure with the EU and Moldova until 2030.

Speaking about the partnership between Brussels and Kyiv, it is also worth adding that in December, the European Commission transferred a €4.1 billion tranche to Ukraine under the Ukraine Facility programme. The EU Council adopted the [15th package](#) of

economic and individual restrictive measures against the aggressor. For the first time, the EU imposed full-scale sanctions against Chinese companies that supply dual-use products to Russia.

Meanwhile, some conflicts and problems in relations with certain EU countries also need to be mentioned in this section. In particular, in December, Slovak Prime Minister Robert Fico made a number of openly unfriendly statements and threats following Kyiv's decision to stop transit of Russian gas from 1 January 2025. Also, the Bulgarian parliament [refused to approve](#) the signing of a bilateral security agreement with Ukraine (6 EU members – Bulgaria, Hungary, Austria, Slovakia, Malta and Cyprus – are yet to sign such agreements with Ukraine).

Summing up the processes and events of December and 2024 in general, Ukrainian diplomacy tried its best to strengthen the country's position globally, accumulate and

increase foreign policy, military and financial support from allied countries to resist Russian intervention, accelerate European and Euro-Atlantic integration, promote important initiatives, expand the country's political and diplomatic presence around the world, etc. In general, the country's foreign policy saw obvious achievements and complex problems on the world stage, caused by external and internal factors.

Foreign policy priorities for 2025 include strengthening the coalition of countries that support Ukraine; establishing a productive dialogue with the new US President and maintaining Washington's support; launching practical negotiations on EU accession; and deepening partnership with NATO. Also on the agenda is the development of public and economic diplomacy aimed at attracting external resources for Ukraine's recovery. The effectiveness of these tasks will largely depend on Ukraine's internal unity, the success of reforms, etc.

DECISIONS

December 2024 was marked by increased legislative and regulatory activity involving documents that may have a significant impact on Ukraine's economic landscape. These include the [MP-initiated](#) draft laws No. [12359](#) and No. [12360](#) on the assessment of efficiency and performance of tax and customs authorities.

Such assessments are expected to increase transparency and accountability, optimise management decision-making, and eliminate performance deficiencies. The assessments will be based on the so-called «key performance indicators of tax authorities» (KPI) to be determined by the Ministry of Finance.

Although the direction of these documents is right, there are risks associated with the fact that instead of consolidating the methodology and key indicators in legislation, KPI will be determined by the Ministry of Finance, which may lead to manual management or «adaptation» to the needs of tax authorities for the purpose of filling budgets – this will be interpreted as high efficiency, but contrary to the needs of socio-economic development.

The Verkhovna Rada also adopted as a basis the draft law No. 12245, aimed at amending the Budget Code in terms of the procedure for [distributing investment projects](#). The draft law is important because the relevant changes are an institutional benchmark of the IMF.

The draft law essentially sets up a general Public Investment Fund to be distributed by the government's Strategic Investment Council. That is, the road fund, the radioactive waste management fund, the water sector development fund, the decarbonisation and energy efficiency transformation fund, the inland waterways fund and other similar funds will all be accumulated in this «fund of funds». Such pooling of resources on a long-term basis, as it is included in the Budget Code, would be appropriate, but it heightens the risk

of increasing the expenditures of one fund at the expense of another, as the allocation itself will be made by the Strategic Investment Council. Therefore, monitoring of financing the expenditures and their effectiveness will be crucial.

In December, the IMF Executive Board [completed the sixth review](#) of the Extended Fund Facility (EFF) and approved the disbursement of another \$1.1 billion tranche to Ukraine to finance the budget deficit. However, the IMF directors noted that inflation in Ukraine has [accelerated more than expected](#) in recent months, requiring tighter monetary policy.

This decision by the IMF is certainly appropriate. Moreover, the NBU Board has proactively decided to raise the key policy rate from 13% to 13.5%. In a [press release](#), the NBU said that this decision was aimed at maintaining the stability of the FX market, keeping inflation expectations under control, and gradually slowing inflation to 5%.

However, it seems that the IMF hardly takes into account the peculiarities of the warring country. In particular, it is again focusing on inflation rather than on the needs for an accelerated recovery of the real sector, where a key policy rate cut would be more rational. Increased attention to and stimulation of the agricultural sector will help ensure that this sector consistently maintains positive dynamics, thus ensuring the country's food security and generating [about 60% of its export earnings](#).

DEVELOPMENTS, PROCESSES, TRENDS

[According to the Ministry of Economy](#), the national economy grew by 4% [$\pm 0.5\%$] in 11 months of 2024. In November, GDP growth slowed slightly to 0.9% compared to November 2023.

The increase in purchases of Ukrainian defence products has been a positive trend of recent months, as it drives the growth of

machine building. This obviously contributes to the formation of the industrial base of the wartime and post-war country, also being an important stimulus for the economy as a whole, which continues to demonstrate resilience despite the protracted war. According to the [State Statistics Service](#), Ukraine's real GDP in Q3 2024 increased by 2% compared to the same period last year. And compared to Q2, GDP grew by 0.2% (seasonally adjusted).

Furthermore, GDP growth is also a factor in filling budgets. As [reported by the Ministry of Finance](#), in November 2024, the general fund of the state budget received about \$6.4 billion in concessional external financing, with the largest contribution — \$4.8 billion — being a loan from the World Bank under its Public Expenditure for Administrative Capacity Endurance (PEACE in Ukraine) project, which was made possible by a \$1.6 billion grant from the United States and funds from other development partners.

With these funds included, as of early December 2024, [direct budgetary assistance](#) to Ukraine has reached \$105.9 billion since the onset of the full-scale war.

On the positive side, financial support from partner countries continues unabated. In particular, Ukraine [received \\$1 billion](#) from Japan and the United Kingdom under the World Bank's DPL programme. It should be noted that the funds received from the World Bank are usually used to strengthen the Ukrainian economy and finance priority expenditures in the social and humanitarian spheres. Thus, there are reasons to believe that social expenditures in 2024 will be largely met.

External assistance also helps to replenish Ukraine's international reserves: [according to the NBU](#), they increased by 9.1% in November and amounted to \$39.9 billion as of 1 December 2024.

Although this figure is considered satisfactory covering 4.5 months of imports, the risks of reserve losses remain significant. For example, during the week from 23 to 27 December, the NBU sold \$1.625 billion on the interbank market to support the hryvnia exchange rate. [According to the NBU](#), this is the highest figure since the start of Russian invasion in February 2022. Overall, [since the](#)

[beginning of 2024](#), the NBU has bought only \$126 million and sold \$34.57 billion from its reserves — a significant increase from 2022 (\$26.38 billion) and 2023 (\$28.83 billion).

Nonetheless, international assistance to Ukraine in the autumn and winter of 2024 became more stable and predictable, which is an important factor in macroeconomic stability. Even in late December — a holiday season in most countries and international institutions — the planned tranches continued to be disbursed, such as [\\$1.1 billion from the IMF](#) under the Extended Fund Facility (EFF).

It should be noted that since the launch of the EFF, Ukraine has successfully passed six reviews, which allowed it to attract about \$9.8 billion out of the \$15.6 billion provided by this programme.

Another positive feature that emerged in 2024 is the situation with public debt, which, despite growing, remains well under control, primarily due to the friendly attitude of major creditors.

As of the beginning of December 2024, Ukraine's [public and publicly guaranteed debt](#) amounted to UAH 6.64 trillion, or \$159.74 billion. At the same time, the external debt amounted to UAH 4.77 trillion, or \$114.68 billion (71.79% of the total), and the domestic debt — UAH 1.87 trillion, or \$45.07 billion (28.21%). Within the structure of internal and external borrowings, public external debt reaches UAH 4.56 trillion, or \$109.57 billion (68.59% of the total), while public internal debt amounts to UAH 1.81 trillion, or \$43.47 billion (27.21%).

In November 2024, Ukraine's public and publicly guaranteed debt increased by UAH 231.12 billion in the hryvnia equivalent, or by \$4.37 billion due to an increase in long-term concessional financing from international partners, in particular from the EU under the Ukraine Facility.

Nevertheless, Ukraine's public and publicly guaranteed debt is becoming cheaper and longer. In September, Ukraine [announced the successful debt restructuring](#) and settlement of 13 series of sovereign and sovereign-guaranteed Eurobonds issued by Ukravtodor. As a result of this agreement, the country's public

and publicly guaranteed debt was reduced by almost \$ 9 billion.

At the same time, businesses cannot feel confident.

On the positive side, as stated in the [latest issue](#) of the NBU's Financial Stability Report, the Financial Stress Index (FSI) has declined markedly since September 2024, primarily due to a significant drop in the government debt sub-index. This was driven by the external public debt reprofiling in late summer and a corresponding decline in sovereign Eurobond yields. In addition, foreign exchange risks show no signs of abating.

Note that the FSI reflects only the [current condition](#) of the financial sector and does not signal future risks that may arise over the short or long term.

On the negative side, as shown in the [latest Opendatabot survey](#) involving 32 thousand entrepreneurs, 27% of Ukrainian FOPs (individual entrepreneurs) plan to shut down their businesses in the near future. 62% of those who plan to close businesses have decided to do so because of [tax increases](#). Another 19% of FOPs stop working due to business-related problems.

According to Opendatabot, since the signing of the law on the introduction of the war tax for small and medium-sized businesses, one new individual entrepreneurship accounts for two closed ones, while in the same period last year, four new FOPs accounted for only one that closed.

The situation with lending is also controversial. According to the same NBU report, the net hryvnia loan portfolio of businesses increased by more than 20% over the year, and that of households by more than 30%. However, these positive changes should be viewed with caution. For example, approximately 14% of corporate loans in Ukraine are to borrowers with other unsatisfactory systemic indicators, such as high debt burden, losses, and falling revenues. As for household lending, despite the nominal growth in the volume of loans, their level remains quite low relative to GDP and household income and deposits, which indicates the banks' reluctance to expand the lending market, and points to significant room for expansion of the bank portfolio.

As already noted, it is becoming increasingly important to find tools that will help stimulate the real sector in government-controlled areas despite the ongoing war.

IV.

ENERGY SECTOR

ENERGY BALANCE

In December, Ukrainian power system survived two combined attacks, during which the total number of weapons used against it increased to 1,300 missiles and almost 1,000 attack drones. While on 13 December, Russian air- and sea-launched cruise missiles targeted high-voltage substations that ensure the functioning of interstate crossings, on 25 December the enemy once again attacked power units and engine rooms of thermal and hydroelectric power plants, primarily in Left-Bank Ukraine.

The consequences of the first attack were minimised thanks to successful actions of Ukrainian defenders and the presence of second-level protection at the transmission and distribution facilities. However, during the second attack, the lack of Hawk, NASAMS, and IRIS-T systems led to the disruption of several TPP and HPP facilities, which, due to their large territory, cannot be protected by engineering structures. That is why the President stressed that without at least 19 additional air defence systems, Ukraine could lose an additional 4-5 GW of installed capacity.

The damage caused by the Russian strikes could have been much greater if measures had not been taken to secure the fuel and energy infrastructure, as well as to ensure second-level protection at electricity transmission and distribution facilities.

Due to significant damage to the energy infrastructure, Ukraine's integrated power system (IPS) experienced an imbalance of up to 2 GW of capacity for most of December. Hourly blackout schedules for households and power limitation schedules for industry were in effect on 1-16, 23, 25-28 December, mainly in the morning, afternoon and evening hours. Additionally, emergency shutdowns were introduced in some regions on 13, 17 and 18 December to overcome the effects of bad weather. Nonetheless, the power supply to critical infrastructure facilities and enterprises that import or generate at least 60% of their electricity consumption was not restricted, while the duration of blackouts for households

usually did not exceed 4 hours a day. The relatively rapid reduction in restrictions was partially due to the increase in air temperature, which reduced energy consumption, and thanks to the well-versed actions of dispatch and repair crews and the availability of stocks of the most vulnerable equipment.

In December, Ukraine's IPS received the baseload power from nine NPP units, which on some days generated up to 7.8 GW of power. Up to 10 power units of TPPs and CHPPs, as well as HPP and PSPs, which together generated about 5.2 GW of electricity, were the source of manoeuvrable power. Generation at Ukrhydroenergo facilities declined and did not exceed 0.6 GW after the 25 December attack. At the same time, better weather in December increased the efficiency of SPPs and wind farms, whose total generation capacity increased to 1.0-1.2 GW.

In total, generation volumes in Ukraine amounted to 12-14 GW per hour (19 GW in 2021). NPPs accounted for most generation (58-60%), followed by TPPs (13-17%), CHPPs (up to 14%), HPPs (7-9%), and renewables (up to 6%). However, after the 25 December attack that damaged equipment at TPPs and HPPs, their input in the overall balance dropped significantly. At the same time, the capacity of interstate crossings was used by less than half (21.2 GWh on 16 December).

There was no shortage of natural gas. Due to the increasing number of generating units and the activation of district heating systems, gas consumption in December was 5% higher compared to the same period last year, although 12% lower compared to December 2021.

Ukraine's gas transmission system has been operating smoothly. Despite the Russian attacks, the nominations of storage customers and capacity reservations have been fulfilled in full.

As no gas was injected into Ukrainian underground storage facilities in November-December, the current level of reserves is 26% lower than last year and a quarter lower than in 2015-2018. However, given the daily

withdrawal of 50–60 mcm of gas from the storages, the available 4.8 bcm (excluding 4.7 bcm of long-term storage and 0.1 bcm owned by non-residents) and daily production at 50 mcm is enough to pass the heating season with an average January temperature of at least -5°C and no massive Russian attacks on the gas infrastructure.

To hedge against possible problems, DTEK made a test purchase of 0.1 bcm of US-origin liquefied natural gas at the Revithoussa LNG terminal in Greece. At the same time, in order «to prevent negative consequences», the NEURC allowed Ukrtransgaz to use additional tariff funds in 2023 in the amount of UAH 2.4 billion (excluding VAT) for the purchase of gas to be imported to Ukraine.

Coal reserves at TPPs and CHPPs are sufficient (3.2 million tonnes) to last through the heating season, but power companies cannot use them to the fullest extent due to damage to coal-fired TPPs and CHPPs.

Domestic demand for petroleum products fell to a one-year low but remains at a fairly high level thanks to the active use of backup power sources and a large number of road transport. Nevertheless, no shortage of petroleum products is observed or expected.

PROBLEMS AND SOLUTIONS

The Cabinet of Ministers has named energy security as one of the government's top ten priorities for 2025. At the same time, «restoration and protection of energy facilities» have been identified as two key tasks.

The government will continue to «develop distributed generation and build infrastructure to enable more electricity imports from Europe». Particular attention will be on the implementation of a new model of the Ukrainian gas transmission system, which will operate without Russian gas transit from 1 January 2025, and on the development of the concept of «Ukraine as Europe's gas vault».

In December, several steps were taken to address the problems in the fuel and energy sector. In particular, the Cabinet, pursuant to the law on minimum stocks of oil and oil products, which entered into force on 24 December 2024, obliged market

participants to create stocks of 3% of the total amount of oil and oil products put into circulation in 2024. A quarter of their market value can be secured by bank guarantees. Up to half of these reserves are allowed to be stored in the EU member states bordering Ukraine. The fixed electricity price was extended to «household consumers living in apartment buildings that are not gasified and do not have or do not operate district heating systems or autonomous heating systems, as well as those using any type of energy other than electricity». Ukrhydroenergo has been granted the right to start the restoration of destroyed or damaged facilities before the approval of project documentation, without obtaining urban planning conditions, the right to carry out construction work, or approval from the State Agency of Water Resources and the State Service of Geology and Mineral Resources.

In turn, the Ministry of Energy has unified hourly blackout schedules for household consumers by region, day and time of day, dividing each of the six consumer groups into two sub-groups, setting the maximum duration of power outages and power supply to customers, and strengthening control over compliance with the power restriction schedules and emergency shutdown schedules, while giving transmission and distribution system operators the right to apply such schedules at their own if businesses ignore the relevant commands.

For 2025, the NEURC set tariffs for gas transmission services by LLC GTS Operator of Ukraine; «green» tariffs for electricity generated by businesses at electricity facilities using alternative energy sources; and tariffs for electricity transmission and dispatch (operational and technological) control services by Ukrenergo.

Summing up, the Ministry of Energy highlighted five «key» results for 2024:

1. «International support». The report mentions «more than €1 billion in partner contributions» to the Ukraine Energy Support Fund and the transfer of humanitarian aid by 36 countries. At the same time, the Ministry does not explain why only half of the 486 cogeneration units and 296 block-modular boiler houses provided to Ukraine free of charge had been launched by the beginning of 2025.

Moreover, it was decided to withdraw small power plants that had not been connected to the grid for a long time and transfer them to other communities.

The Ministry also added «monitoring of critical facilities» by IAEA experts to this category, but the expediency of doing so is questionable, since monitoring reports describing the actual state of Ukraine's energy facilities are open to Russia's representatives in this organisation.

2. «Development of distributed generation». In this paragraph, the Ministry mentions the Strategy for the Development of Distributed Generation until 2035 and the Action Plan for the Strategy Implementation for 2024-2026 approved in July. These documents set three priorities to ensure secure electricity supply to consumers in the short and medium term: restoring damaged generating capacities while strengthening air defences; providing critical infrastructure with backup power sources; and building and commissioning of new generating capacities of distributed generation in a short time.

The launch of «financial programmes to boost consumers' energy independence» is also identified as a product of the «development of distributed generation». It includes the Affordable Loans 5-7-9 programme, although, as the NBU stressed in its December report, the government's debt to banks to compensate interest for this and other «consumers' energy independence» measures reaches UAH 10 billion.

The Ministry also mentions the commissioning of 835 MW of «distributed gas generation facilities» in 2024, stressing that «by the end of the autumn-winter period of 2024-2025» it expects another «900 MW of facilities to be connected». However, out of the 835 MW of commissioned capacity, the government actually launched only 183 MW, while the remaining capacity is the result of private initiatives and foreign donor assistance. Moreover, the connection of 900 MW of additional capacity in January-March 2025 is doubtful, as Ukrzaliznytsia, Ukrnafta and other companies are only entering into loan agreements for the purchase of generating units.

3. «Development of nuclear energy». The Ministry believes that the essence of this result is to prepare NPP units for the winter season and to announce «projects to create small modular reactors» by Ukraine and the United States. However, more questions arise about the quality and completeness of off-season repairs, as all Ukrainian NPPs operated at full capacity for only a few days in December, and the only result of cooperation with Holtec in creating the SMR is a plan to build a decision-making centre. Instead, the Ministry of Energy has not expressed its opinion about the construction of Units 3 and 4 at KhNPP, which was started by Energoatom before the adoption of [draft law No. 11146](#) of 3 April 2024.

4. «Energy reform and European integration». First of all, the Ministry mentions the [approval](#) of the National Energy and Climate Plan until 2030, which aims at reducing greenhouse gas emissions by 65% compared to 1990; achieving a 27% share of renewable energy sources in total final energy consumption; meeting the requirement to supply no more than 30% of each energy resource via one route from one supplier; limiting primary and final energy consumption to 72.2 and 42.2 million toe.

The Ministry also reports an increase in «electricity import capacity from the EU to 2.1 GW» and «more than 1,000 days» of operation of Ukraine's IPS as part of ENTSO-E, although these results are the sole achievement of Ukrenergo. Moreover, due to artificial restrictions in the form of price caps on the day-ahead, intraday and balancing markets, the increase in the maximum capacity of interstate crossings to 2.1 GW had almost no impact on actual imports.

As for the success of the «energy reforms» and the Ministry of Energy's work in this area, the chairman of the relevant parliamentary committee [said the following](#): «We can pass a dozen laws claiming that we have a European market and European rules. But in reality, everyone sees that this is a profanation, not a European market».

5. «Energy independence». In this paragraph, the Ministry could only mention «increasing the volume of domestic natural gas

production», to which it has nothing to do. Indeed, according to preliminary estimates, gas production in Ukraine in 2024 will increase to 18.1 bcm (+3% compared to 2023). However, this increase will be provided only by Ukrgasvydobuvannya (+5%), while private companies will once again reduce their production. Moreover, domestic gas production is still lower than the volume of its consumption, which is expected to reach 20.5 bcm in 2024 (+2% compared to last year).

CONCLUSIONS AND RECOMMENDATIONS

The events of December 2024 confirmed the correctness of the scenario developed in October, according to which the successful passage of the cold season of 2024-2025 will be determined by four main factors:

- ✓ the ability of the Ukrainian defence forces and energy market participants to ensure active (air and missile defence) and passive (engineering) protection of particularly vulnerable facilities;
 - ✓ the ability of energy market participants (generating companies, importers, active consumers) to compensate for the imbalance between generation and consumption that will arise as a result of Russian attacks and/or at temperatures below -5°C;
 - ✓ the availability of reserves of the most vulnerable equipment, stocks of consumables, and the required number of professional repair teams with energy market participants (primarily transmission and distribution system operators) to quickly restore the operation of grids and systems after the next attacks and adverse weather events;
 - ✓ the level of depreciation of the energy infrastructure and the number of previous repairs, which will increase the time required to return grids and systems to their design modes.
1. The density of Ukraine's missile and air defences increased in 2024, but is still

insufficient to protect large energy facilities, such as TPPs and HPPs. To ensure their reliable protection, Ukraine must additionally receive at least 19 Hawk, NASAMS, or IRIS-T systems from partners.

2. The second-level engineering protection installed by transmission and distribution system operators can effectively protect the most vulnerable equipment from attack drones and cluster warheads of air- and sea-launched cruise missiles – and thus free up air and missile defence capabilities to cover other infrastructure facilities. However, the proven effectiveness of such protection does not encourage other market participants to install it and does not affect the pace of work organised by the Recovery Agency.

3. If the air temperature drops to -10°C, Ukraine's existing generation reserves, import and transmission capacities may not be sufficient to balance the system, resulting in a shortage of 2-3 GW of capacity and lead to consumption restriction schedules for industry and hourly blackouts for households in the morning, afternoon and evening hours.

4. Prolonged (2+ weeks) temperatures of -10°C and the resulting increases in gas withdrawals from storage facilities from 50-60 to 100 mcm/day may cause a situational shortage and a temporary shutdown of gas-fired power units at TPPs and CHPPs. Similar situation could also be caused by a massive Russian attack on the gas infrastructure, as a possible reaction to the termination of transit. Precautionary purchases of natural gas and reserve fuel (fuel oil) are therefore relevant.

5. The development of distributed generation in Ukraine is lagging behind the plans and is being implemented through foreign aid, private initiative and the actions of local communities rather than by the state. Funding for government programmes to increase household energy autonomy is insufficient. The government's failures in this area are concealed, so citizens and businesses receive increasingly less information from official sources, which raises their distrust of the authorities, also fuelled by Russian propaganda.

V.

CITIZENS' OPINIONS ABOUT CURRENT ISSUES¹

WHAT DO YOU FEEL WHEN YOU THINK ABOUT YOUR FUTURE?*			
	% of respondents		
	August 2022	December 2023	December 2024
Hope	55.7	55.1	54.6
Anxiety	36.2	39.6	45.2
Optimism	37.9	27.9	29.4
Fear	15.6	15.4	26.2
Confusion	19.1	19.0	25.6
Confidence	17.0	15.7	18.6
Hopelessness	8.9	8.3	14.5
Interest	10.7	9.6	14.3
Pessimism	4.5	4.7	10.1
Joy	4.6	3.6	3.7
Indifference	1.3	1.9	3.6
Satisfaction	2.1	2.0	2.9
Other	0.8	0.5	1.2
Hard to say	2.3	2.4	3.5

* Respondents could choose several options.

¹ Results of a sociological survey conducted by the by the Ilko Kucheriv Democratic Initiatives Foundation in cooperation with Razumkov Centre's sociological service from 29 November to 14 December 2024.

The face-to-face survey was conducted in Vinnytsia, Volyn, Dnipropetrovsk, Donetsk, 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, Donetsk, 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 1,518 respondents aged 18+ were interviewed. The theoretical sampling error does not exceed 2.6%. Additional systematic sampling deviations may be caused by the effects of russian aggression, in particular, the forced evacuation of millions of citizens.

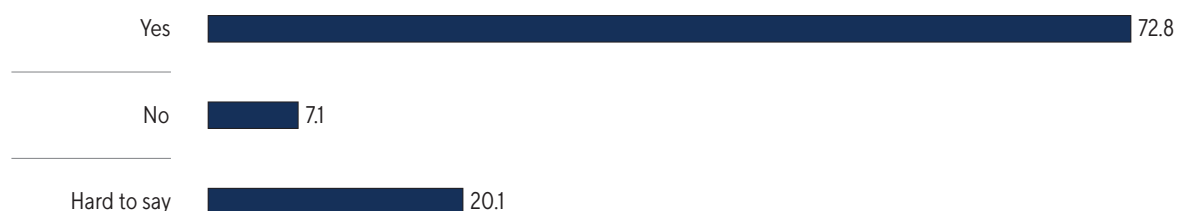
WHAT SECURITY GUARANTEE OPTION WOULD BE BEST FOR UKRAINE? % of respondents	
Joining NATO	55.1
Maintaining neutral status with international guarantees for Ukraine's sovereignty	11.8
Concluding strategic defence cooperation agreements with several NATO member states	9.0
Relying solely on own forces and defence industry, but without international guarantees	3.3
Officially proclaiming a «non-aligned status», limiting own defence capabilities	3.0
Other	3.2
Hard to say	14.6

WHICH OF THE FOLLOWING MEASURES WILL PREVENT REPEATED MILITARY AGGRESSION BY THE RUSSIAN FEDERATION?* % of respondents	
Ukraine joining NATO	60.0
Ukraine restoring its nuclear status	39.3
Supplying Ukraine with weapons and equipment from partner countries (the US, EU member states, the UK)	26.6
Deploying military personnel from partner countries (the US, EU member states, the UK) on the territory of Ukraine	26.3
Ukraine having the ability to strike military targets on the Russian territory	23.9
Granting Ukraine the status of a Major Non-NATO Ally of the United States	12.3
Establishing a demilitarised zone on the contact line with the involvement of the US troops	9.4
Establishing a demilitarised zone on the contact line with the involvement of the EU troops	8.3
Establishing a demilitarised zone on the contact line with the involvement of the UN contingent	7.0
None of the above	5.7
Hard to say	9.7

* Respondents could choose several options.

SHOULD RUSSIA FULFIL CERTAIN CONDITIONS FOR UKRAINE TO AGREE TO START PEACE TALKS?

% of respondents



PLEASE SELECT FROM THE FOLLOWING THE CONDITIONS UNDER WHICH IT IS ACCEPTABLE TO START PEACE TALKS WITH RUSSIA?*

% of respondents who think that Russia should fulfil certain conditions for Ukraine to agree to start peace talks

Russia to stop shelling Ukrainian territories that are not currently occupied and where no hostilities are taking place	53.8
Russia to withdraw its troops from the entire territory of Ukraine within its internationally recognised borders	46.5
Russia to withdraw its troops from the territories occupied after 24 February 2022 (certain areas of Donetsk and Luhansk oblasts, as well as Crimea remain occupied)	34.9
Russia to withdraw its troops from the territory of Zaporizhzhia NPP	30.8
Russian troops to temporary cease fire	27.1
Russia to withdraw its troops from the entire territory of Ukraine within its internationally recognised borders, excluding Crimea	15.9
None of the above	1.4
Hard to say	2.7

* Respondents could choose several options.

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