Assad collapse implications for Ukraine; Desertion rates under scrutiny; Ukrainian stocks soar on Trump peace plan bets

Your inside partner in Ukraine

KI INSIGHTS WEEKLY REPORT

Tuesday, December 10

Welcome to Insights – your glimpse into the undercurrents of Ukraine's political and business scene! In this week's report:

- **Desertion rates in Ukraine are coming under increased scrutiny as the manpower crisis intensifies**
- **Demographics situation deep-dive and expert analysis**
- **Ukrainian stocks and bonds rally as the "Trump trade money" bets on a coming ceasefire.** But is this just market exuberance?
- **The Verkhovna Rada has passed a bill to combat gambling addiction,** pressure to deal with soldier gambling epidemic reached parliament.
- **Preparations for a Russia-Ukraine ceasefire move forward; Assad regime collapse reduces risk of a grand bargain.** Kellogg plan likely to push for armed neutrality for Ukraine, a de-escalation in late-Jan but with significant aid

WHAT'S THE BUZZ

Desertion rates in Ukraine are coming under increased scrutiny as manpower crisis intensifies. In Ukraine desertion complicates mobilization metrics, shrinking the availability of trained personnel and creating further challenges for long-term planning. Whilst the term desertion covers a broad range of abscondment (I.E. from the trenches of the frontline to refusing to return to duty after medical leave).

Approximately 100,000 Ukrainian soldiers have been charged with desertion since February 2022—around 4.55% of the estimated 2.2 million personnel active as of 2024. This rate has grown sharply recently, and nearly 60% of total desertion charges were leveled so far this year. 20l. Furthermore, estimates on the 'true' number of desertions vary greatly however, there is a consensus that it is much larger than the number of charges reflect. (Note: for context, it was assessed that there were only 300,000 troops involved in active combat before the current round of mobilization.)

Desertion from the front (and the associated manpower crisis) was largely blamed for the loss of Vuhledar though it is assessed that the problem is most acute on foreign soil training bases. Desertion rates from continental European training camps are estimated to be much higher (especially in Poland) as Ukrainian men are eligible to claim asylum and escape prosecution after going AWOL, unlike in domestic camps.

Since the full-scale invasion many Ukrainian men have illegally fled the country to avoid mobilization. It is difficult to estimate how many military-age men have fled since the martial law was announced. Widespread corruption on the border and amongst medical professionals as well as people making dangerous journeys to Russia, Moldova, and the EU states means that tens of thousands of mobilization-age men have left Ukraine.

OUR VIEW:

Desertion does not affect both countries equally. The Russian army's problems with desertion are likely also significant. However, we assess that desertion is less impactful on combat ability for a number of factors. The Russian Armed Forces are able to draw from a much larger population, offer extremely high (and rising) contract sign-on bonuses (especially in economically deprived areas), and use violent and coercive recruitment measures. We assess that currently, the Russian Army is still able to recruit around 30,000 troops monthly allowing them to suffer staggering casualty rates (~46000 just in November) without risk of imminent collapse.

Furthermore, Russia is also able to draw upon foreign fighters, notably North Koreans (as many as 12,000) and Yemeni fighters to help swell its ranks. Note: even though Yemeni recruits (lured under false promises of civilian jobs) have arrived in recent weeks, we don't assess that they will be a decisive factor as they are too few in number.

Desertion rates compound the manpower crisis crippling Ukrainian defenses. Recent losses around Kurakhova and Pokrovsk largely stem from personnel shortages. The Russian army seized more land in the last month than at any point since the beginning of the full-scale invasion.

Unlike Russia, Ukraine cannot afford to adopt coercive or exploitative mobilization tactics which would undermine its political legitimacy. Addressing these challenges requires better targeted reforms, such as improving rotation schedules, addressing grievances over conscription policies, and providing better support for returning soldiers. Though we assess that many of these reforms are complicated by the critical shortage of manpower and pace of Russian advances in recent months.

THE LONG GAME

This week's piece for the long game is an abridged excerpt of the upcoming report on demographics in Ukraine.

Demographics Situation

Since its independence, Ukraine has experienced a long-term demographic crisis. Before the war, Ukraine had low birth rates, high mortality, and high net emigration. Ukraine's only census (2001) recorded approximately 48 million people. Since then, the population has fallen sharply. Whilst the exact current population is hard to assess, estimates range from just over thirty million to more than thirty-seven million.

Poor documentation of the population complicates measuring Ukrainian demographics. The United Nations estimates that there are more than 6.7 million refugees globally (with 6.2 million of living in Europe alone) while millions of Ukrainians are also living in Russia and in occupied territory since the invasion.

The demographic crisis acutely affects both the military and the labor market. Unemployment was estimated to be in the mid to high 200 thousands in December 2021 and has since fallen precipitously to close to 100,000. The unemployment rate, however, has shot up from a five-year high of 10.5% at the end of December 2021 to 15.1% as of November 2024. The current unemployment rate is nearly 5% higher than the previous peaks over the last twenty years.

To help reverse this crisis, Ukraine's Ministry of Social Policy has adopted an ambitious 2040 demographic plan that sets forth key long-term goals and aims to stave off Ukraine's demographic decline. The key elements of the plan include increasing the country's birth rate, reducing premature deaths, increasing immigration to Ukraine, creating a resettlement system, adapting to an ageing society, and creating an environment capable of sustaining demographic growth.

OUR VIEW:

The war has dramatically exacerbated Ukraine's pre-existing demographic crisis, reducing births and increasing mortality and emigration rates. The crisis will have long-term consequences for Ukrainian societal and economic stability, likely hindering reconstruction efforts post-war.

Ukraine's martial law has given it an incredible short-term capability to slow the demographic crisis by preventing men of fighting age from leaving the country and incentivizing births through draft deferments for fathers with three or more children. (Note: this still hasn't countered a falling overall birth rate.)

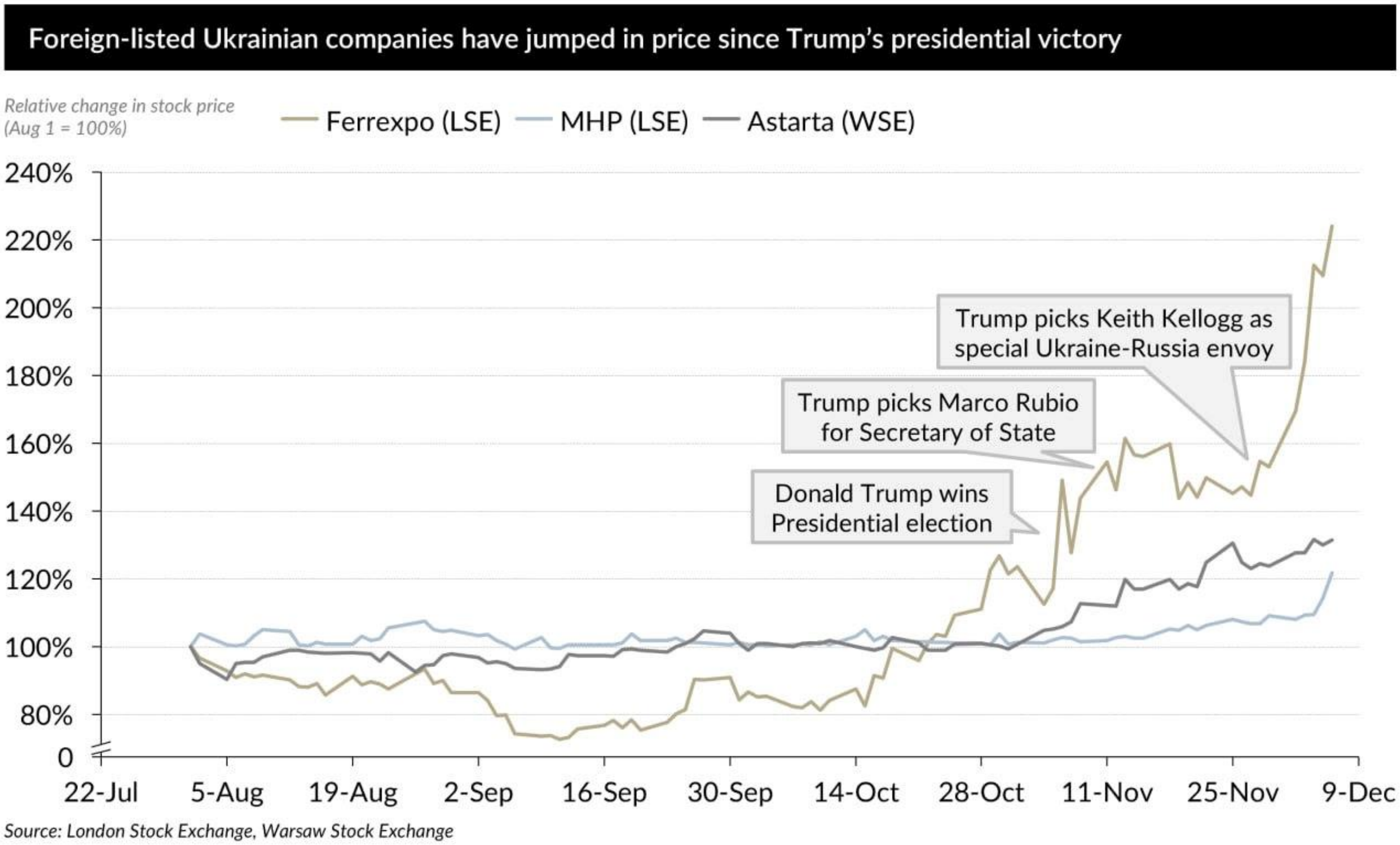
The post-war long-term outlook is more challenging. While most of Europe is currently facing challenging demographic headwinds, Ukraine's situation is particularly acute as it is unable (though possibly willing) to attract external migration to ease pressures. Attracting emigrants and refugees back to Ukraine post-war will be essential for rebuilding though this will be unfeasible without economic opportunities and security guarantees.

We assess the success or otherwise of Zelensky's 2040 plan will largely depend on the future security architecture of Ukraine following a ceasefire with Russia. Whilst a majority of Ukrainians living abroad express their desire (when polled) to return home to Ukraine post-war, we assess that it is improbable that large numbers will return unless there are significant security guarantees accompanying the peace agreement (Note: The newly appointed Minster of Unity - see last week's newsletter - has been tasked with solving this very problem). Furthermore, visa liberalization programs for Ukrainians entering Europe and the sudden removal on travel restrictions for fighting-age males might create "demographic shocks" which could buffet and destabilize the postbellum government.

WHERE'S THE MONEY

After betting on a Trump victory, US investors are putting their money on a peace deal – but likely overlooking the impact of specific ceasefire terms. The inflow of investment in London-listed Ukrainian stocks (likely mostly US capital) suggests a belief that the US president's pledge to bring about a quick peace may be on track.

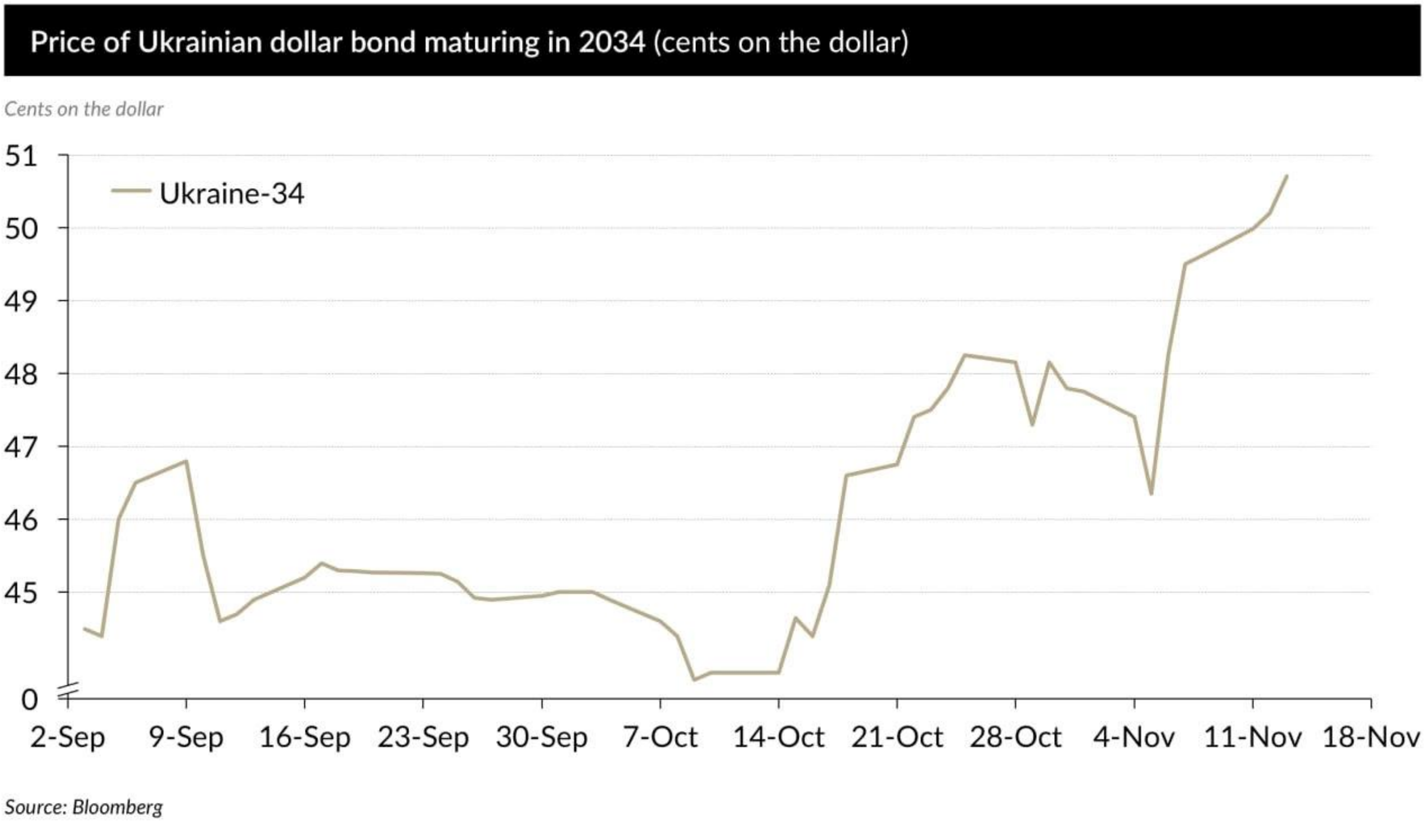
London-listed poultry producer MHP and iron ore pellet exporter Ferrexpo saw stock prices spike in recent weeks, particularly after Trump named Keith Kellogg Special Envoy for Ukraine and Russia. Kellogg is seen as an anti-Russian "cold warrior", whose previous policy paper on settling the war indicates a relatively pro-Ukrainian position and readiness to use force to bring Russia to the negotiating table.



Bonds have also jumped in value. One fixed-income fund manager at the Dec. 6 Ukraine Investment Roadshow in London explained bullish expectations, stating, "As soon as there's a deal, all the bonds go to par" (i.e., not trading at a significant discount, as presently).

Additionally, Ukraine has seen a recent run of positive economic developments. Last week the EBRD inked €1.3 bn in loans and grants, covering 8 projects (incl. an €80 mn loan to help Ukrnafta buy and install gas-fired distributed power plants and cogeneration capacities).

Ukraine is also set to receive €1.5 bn in monthly macro assistance from the EU through 2025 – the funds come from proceeds from frozen Russian assets and can be used for military purposes. The Dec. 2024 package will be even greater, at €4.2 bn.



OUR VIEW:

Although the inflow of investment is encouraging, several factors lead us to be more cautious. Firstly, investors may have missed that assessing the Russia-Ukraine peace negotiations is significantly more complex than the US election. Unlike the election, there is no actual deadline for a decision, and the process depends on multiple stakeholders.

Furthermore, we assess that investors may fail to appreciate that the terms of the ceasefire will heavily affect the stability and prosperity of postbellum Ukraine (see more in our Long Game piece on Ukrainian demographics.)

We further note the optimism appears to be limited to US and UK capital. Ukrainian firms listed in Warsaw have seen far more modest moves (they are mostly agribusinesses, sensitive to both territorial losses and restricted export routes). Meanwhile, global markets have been driven by irrational exuberance (see crypto prices) and 'pricing-in' of geopolitical risk (see the gold price throughout much of 2022-2024.)

There is a risk that the price bump may spur targeted Russian retaliation. We assess that this could include direct strikes against the companies benefitting from the investment to damage Ukrainian economic capacity directly or as a way to harm US capital (much of which may come from Trump's support base) in hopes this would reduce positive sentiment towards Ukraine.

The outperformance of Ferrexpo vs. peers also suggests that political factors may be at play. The company's former CEO and major beneficiary Konstantyn Zhevago has been in the Zelensky administration's crosshairs for a while now (affecting both Ferrexpo and other Zhevago-linked assets, incl. the media outlet Espresso, which was excluded from the national Telemarathon broadcast). Zhevago, who was arrested in France in 2022, but whose extradition to Ukraine was rejected, has gradually reduced his role at Ferrexpo.

Thus, it may be that buyers of the stock predict the next administration will be more favorable towards Zhevago or unable to continue broad prosecution (alternatively, they may assume that his legal battles have run their course.)

The Verkhovna Rada has passed a bill to combat gambling addiction and improve state oversight of the industry. The legislation dissolves the Gambling and Lotteries Regulatory Commission (known in Ukraine as KRAIL) and imposes strict limits on casino and lottery advertising.

The new law tightens controls on media and outdoor advertising, bans the use of patriotic and military themes in ads, and restricts advertising techniques that make gambling more appealing. It also prohibits most forms of sponsorship (with sports being the sole exception) and bars celebrities, volunteers, and military personnel from promoting gambling.

The law also strengthens licensing controls by preventing individuals with Russian ties from obtaining licenses. It sets limits on gaming time and player spending, including a prohibition on gambling with credit. These measures aim to improve industry transparency and reduce illegal operations.

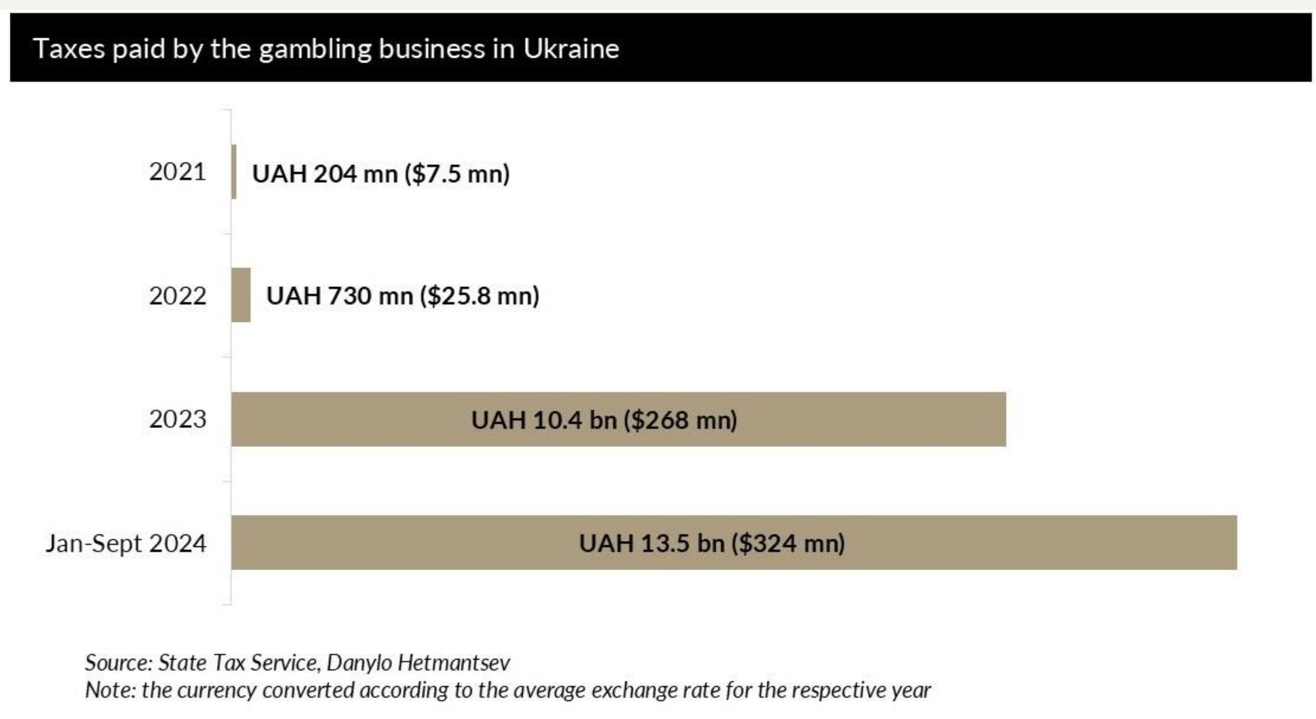
Concerns about gambling addiction emerged in April after a soldier petitioned the President to limit gambling. The widespread popularity of online casinos among soldiers posed risks to the army. The National Security and Defense Council responded by prohibiting military personnel from gambling during martial law (although it can't be properly enforced).

OUR VIEW:

The new law addresses widespread gambling abuse and aims to modernize industry oversight. While KRAIL was established in 2021, it faced criticism for ineffective market regulation, though some argue it lacked the necessary regulatory tools. The Ministry of Digital Transformation is expected to take over gambling industry oversight, though the law does not specify this. The new regulatory body must be established by April 1, 2025.

Boris Baum, a Latvian businessman with Russian connections, was a key behind-the-scenes figure in Ukraine's 2020 gambling legalization. However, he and his Russian associates in the gambling industry have since lost their influence. The Ministry of Digital Transformation is expected to provide stricter oversight of license issuance to individuals with Russian ties than KRAIL did—an agency that Baum helped establish.

While gambling companies initially kept tax payments low after legalization, they paid UAH 10.4 bn ($268 mn) in taxes in 2023, 51 times more than in 2021, driven by state efforts to fill the war-depleted budget. However, tax avoidance through "miscoding" remains an issue, with the Bureau of Economic Security estimating monthly losses at ₴2 bn ($51 mn) in early 2023.



OVERHEARD IN KYIV

Preparations for a Russia-Ukraine ceasefire move forward; Assad regime collapse reduces risk of a grand bargain. Head of the Office of the President (OP) Andriy Yermak's visit to DC last week helped shape an indicative timeline for the coming months, per sources, albeit one where Ukraine plays less of a driver's role.

Yermak met a series of US dignitaries, incl. Vice-President elect J.D. Vance, presumptive nominee National Security Adviser Mike Waltz, incoming chief of staff Susan Wiles, hedge fund billionaire and Trump endorser Bill Ackman and various Congressmen.

Arguably more important is **the lack of meeting with the designated Special Envoy for Ukraine and Russia, Keith Kellogg**. As previously noted, Kellogg is currently preparing the Trump administration's "peace plan". Per sources, we believe Trump and his team firstly rejected Zelensky's initial public Victory Plan and later the amended version he developed (following negative feedback voiced during the Zelensky-Trump-Musk phone call on Nov. 6.)

The most contentious elements, in our view, involve Ukraine abandoning plans to recapture lost territory (though Zelensky has now publicly acquiesced to such a position), and forcing Ukraine into a geopolitical position of "armed neutrality". This would involve renouncing NATO membership aspirations (which some in Trump circles argue will be abandoned anyway.)

We believe Zelensky's statements directly led to the positive assessment by Trump in the wake of the Paris meeting on Dec. 8 that Zelensky "wants to make peace".

We view the recent statements by Zelensky, as well as Foreign Minister Andrii Sybiha's request that NATO offer Ukraine an invitation as a result of the Dec. 3-4 meeting, as a way to emphasize that security guarantees are the red line for Ukraine. However, we believe that the OP would accept a deal that synthetically recreates elements of NATO, including Western boots on the ground, large stocks in and around Ukraine and a US-Ukraine deal resembling those with Israel, Taiwan or South Korea.

In exchange for such a position, sources indicate the Trump administration is ready to ensure long-term military and financial support (likely formulated as loans or lendlease-like scheme), as well as moving some defense production to Ukraine (creating an alternative low-cost supplier in the US defense-industrial value chain).

It is also worth noting that Trump has remained quiet on the Biden administration's accelerated delivery of arms to Ukraine, as well as the authorization of long-range strikes – something that is both out of character (his base, however, has been critical).

We believe the next push will be a de-escalation or suspension in armed operations around the time of the Trump inauguration on Jan. 20 (note: this seems hardly realistic if Russia continues to attack; however, we believe the Trump team will push for symbolic gestures – e.g., no drone attacks, public statements).

What does Syria mean for Ukraine?

It is worth noting that Russia has been pushing for a new grand bargain and European security architecture, most recently in an FT interview with oligarch Konstantin Malofeyev. Such a grand bargain would be a major risk, in our view, as Russia would likely seek to offer concessions in other areas (e.g., Middle East, Red Sea) in exchange for better terms in Ukraine.

In this context, the collapse of the Assad regime in Syria is a (significant) positive development. It weakens Russia's position directly in the Middle East (the potential loss of air and naval bases could also impact power projection in Africa), and reduces its international stature, including among allies such as Iran.

However, we remain skeptical of sensationalist assessments of losses for Russia. Indeed, the Kremlin is reportedly actively seeking contacts with armed groups in Syria to ensure the continued operations of its strategically important Khmeimim and Tartus bases.

KII NEWS AND EVENTS

New format at KI Insights — Q&A with experts! The first one is this Thursday.

Join our exclusive subscribers-only Q&A session with Dr. Edward Howell to gain unique insights into the Koreas' growing role in the Russo-Ukrainian War. This closed-door event is tailored for subscribers seeking an in-depth understanding of the implications of Korean involvement in the war. We will also examine how recent upheavals in South Korean domestic politics could affect foreign policy toward Ukraine and the North.

Event details:

- Topic: **The Koreas' Growing Role in the Russo-Ukrainian War**
- Speaker: **Dr. Edward Howell, Lecturer in Politics at Christ Church, University of Oxford.**
- Date: December 12, Thursday
- Time: 16:00 Kyiv time (30 minutes)
- Location: Online

Why Attend?

- **Exclusive Insights:** Gain firsthand knowledge from Dr. Edward Howell, a leading expert on North Korea.
- **Strategic Perspectives:** Understand how Korean involvement could reshape regional and global dynamics.

- **Interactive Discussion:** Participate in a closed-door Q&A session, offering you the opportunity to ask questions and engage directly with the expert.

How to Register:

To secure your spot, please register by completing the form linked below:

Register Here

Once registered, you will receive the access link via email.

As always, if you have any questions please reach out to insights@kyivindependent.com

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The Premiere of The Kyiv Independent's new documentary, "Can You Hear Me?" will take place Thursday, Dec. 12

The film's authors Francis Farrell and Olena Zashko followed a group of Ukrainian military medics as they journeyed from the heat of battle in war-torn Ukraine to the serene forests of Sweden for a short mental health retreat.

Witnessing an endless conveyor belt of severe injuries and deaths since the beginning of Russia's full-scale invasion of Ukraine in 2022 has taken a heavy toll on the medics' mental health. Although crucial to address, the issue of their psychological well-being is rarely talked about and often overlooked, leaving them alone in this invisible battle.

The film's premiere will take place in Kyiv on Dec. 12. It will be screened in Ukrainian with English subtitles, followed by a discussion with the co-authors of the film in Ukrainian. **As a subscriber, you are invited to attend the premiere.** Register to attend for free here.

The film's trailer is available to watch here.

THE WEEK AHEAD

Romania's newly elected Parliament will set a new date for presidential elections after the Constitutional Court nullifies the first-round results. The Court's decision came after determining that Georgescu's winning campaign was coordinated from abroad. Recent exit polls had suggested Georgescu was favored to win with 57.8% of votes compared to Lasconi's 42.2%.

Electoral authorities found that Georgescu's support was artificially inflated from 1% to 22% through coordinated TikTok manipulation involving 25,000 accounts. Georgescu, who has taken an anti-Ukraine stance by promising to ban Ukrainian grain imports and halt military aid, represents a growing trend of Ukraine-skeptical leaders within NATO and the EU.

Georgian lawmakers will elect a new president on Dec. 14. The electoral college, controlled by the anti-Western Georgian Dream party, will choose a successor to pro-European Salome Zourabichvili – a move likely to spark new protests. This marks the first time Georgia will use this election procedure since constitutional changes were made in 2017.

Protests have swept across Georgia since Nov. 28, when Georgian Dream announced it would suspend EU integration talks until 2028 while pushing for closer ties with Russia. Thousands have gathered for demonstrations in major cities, where police have reportedly used excessive force during arrests.

The G7 summit will be held online, likely on Dec. 13. Leaders are expected to discuss Russia's aggression against Ukraine and the Middle East situation, among other issues. They will also aim to reaffirm their solidarity in maintaining the international order as they prepare for U.S. President-elect Donald Trump to take office.

Other events and milestones:

- Dec. 10: **"Demographic Forecasting: Refugee Flows in Winter and Post-War Population" online briefing** by KI Insights on Tuesday. Register here. Add to your calendar here. Read more event details here.

- Dec. 12: **“From Pyongyang to Kyiv: The Koreas’ Growing Role in the Russo-Ukrainian War” Q&A session** with a renowned North Korea expert Dr. Edward Howell of Christ Church, University of Oxford, on Thursday. Register here. Add to your calendar here. Read more event details here.
- Dec. 11-12: **Ukrainian "Own Elevator" Grain Storage Forum**, Lviv. The forum brings together farmers interested in developing grain storage and processing capabilities. The event is organized by The Ukrainian Farmer magazine. Register here.
- Dec. 11: **7th German-Ukrainian Economic Forum,** Berlin. The forum hosts key leaders from business, politics, and civil society to focus on the economic opportunities for German-Ukrainian economic cooperation. Register here.

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