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Spotlight Russia/Ukraine

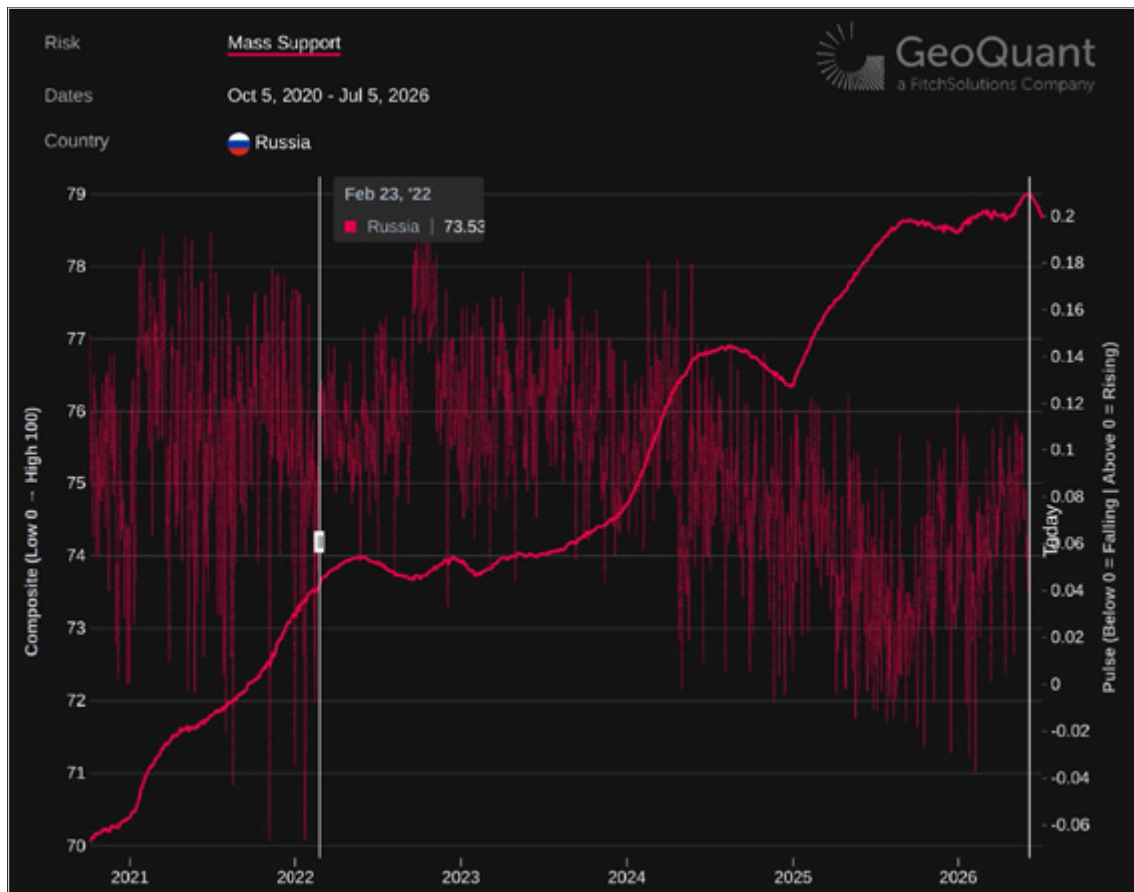
War Uncertainty Increases as Domestic Strains Deepen and Peace Prospects Remain Limited

Key Points:

- Mass Support Risk in Russia is rising sharply as worsening economic conditions, wartime disruptions, and elite dissatisfaction erode the regime's social contract, though Putin is likely to retain control in the near term through repression and stronger authoritarian measures.
 - Ukrainian President Zelensky faces growing domestic political challenges as corruption scandals, fiscal pressure, donor demands, and weakening parliamentary discipline erode the wartime political consensus, even as Ukraine remains heavily dependent on continued reform to acquire external funding.
 - The war remains one of attrition, with Russia still holding key conventional advantages, but Ukraine is increasingly slowing Russian advances and raising the costs of the war through more effective strikes on rear-area military and energy targets.
 - Momentum for Ukraine-Russia peace talks is growing but while both sides have reasons to consider a ceasefire or armistice-style deal, the core political and security disputes remain unresolved, making a durable settlement unlikely in the near to medium term.
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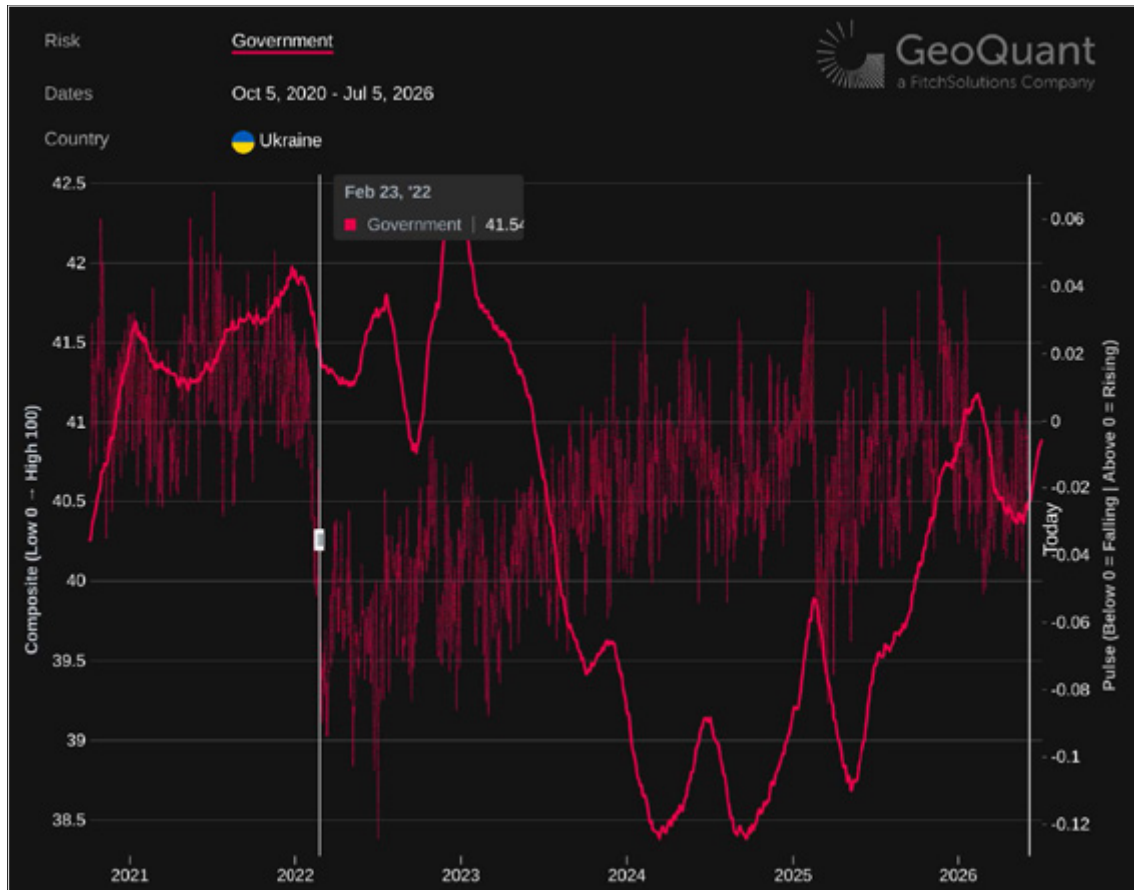
Putin regime increasingly defensive and coercive amid mounting domestic headwinds

Russian Mass Support Risk is reaching historic highs as President Vladimir Putin’s popularity has declined amid a slowing economy, Ukrainian air strikes deep inside Russia, and tighter information controls. Russia’s wartime social contract is weakening. Ordinary citizens are increasingly dissatisfied as economic conditions – especially **inflation** – worsen, while Ukrainian **drone strikes**, **internet shutdowns**, **Telegram** restrictions, and **military losses** increasingly disrupt daily life. **Business elites** are also becoming more openly critical, seeing no serious growth strategy without a settlement in Ukraine and some sanctions relief. The government faces a difficult economic policy trade-off: fiscal stimulus risks worsening inflation, while restraint could deepen economic stagnation. Both options fuel public dissatisfaction. Still, the regime is unlikely to face serious organized opposition in the near term because it continues to rely on a narrow cadre of loyalists and Putin retains sufficient **support from the security establishment** to suppress meaningful dissent. His rule is becoming more brittle, however, and any significant battlefield reversal could still trigger a destabilizing split among security elites. We therefore expect the regime to become even more authoritarian pre-emptively, with protests rarely tolerated, tighter control over media outlets, and growing restrictions on social media.



Zelensky's domestic woes require continuing efforts at damage control

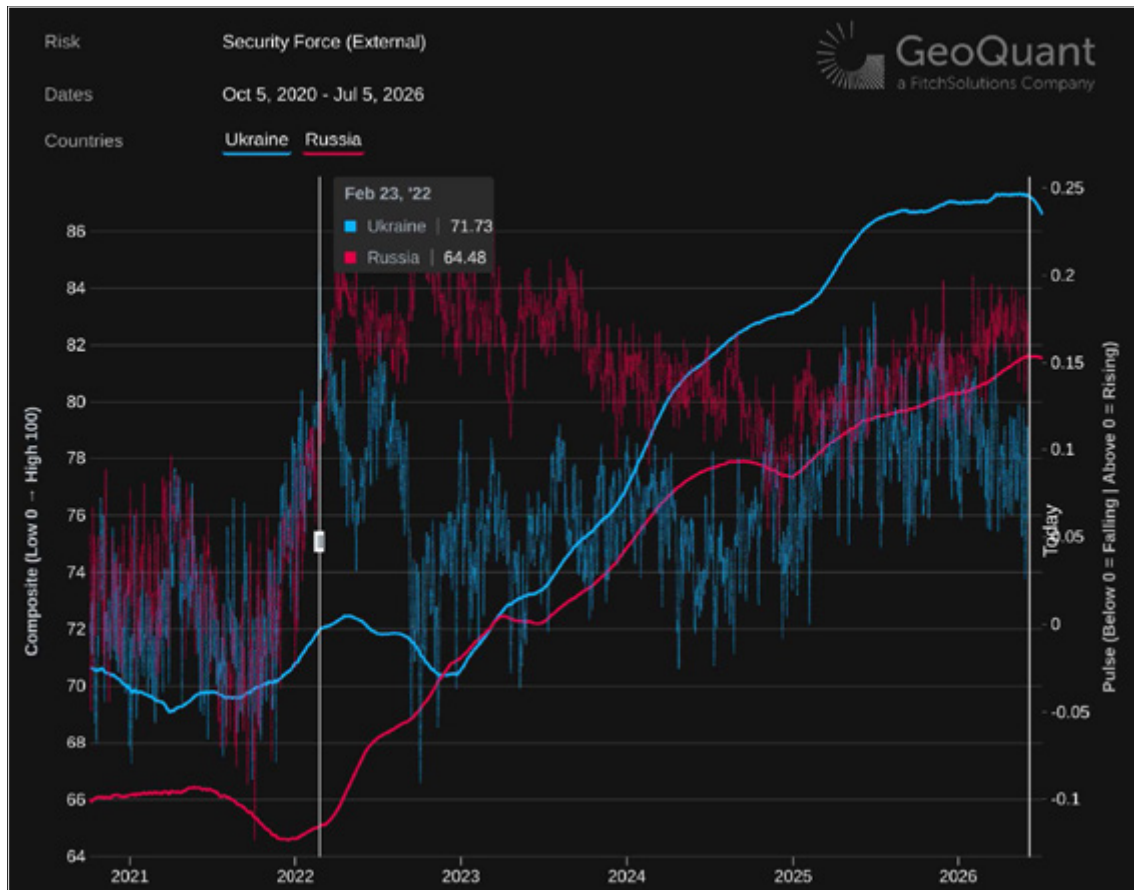
Ukrainian President Volodymyr Zelensky is also facing a serious domestic political test as Government Risk is much elevated since U.S. President Trump returned to the power and is rising again amid domestic scandals and the challenges of war; though it remains below levels before and after the war began. While the war still gives him strong reasons to centralize authority and postpone elections under martial law, the political bargain that has sustained that centralization is fraying under the weight of corruption scandals, fiscal stress, donor conditionality, and an increasingly unruly parliament.



Recent corruption allegations have moved closer to Zelensky's inner circle, alongside mounting concern over whether anti-corruption institutions are sufficiently protected from political interference. This has further weakened the president's claim to be the leader who cleaned up Ukrainian public life, and it comes as Zelensky's Servant of the People party is losing discipline. Although it still holds the largest bloc in the legislature, the Verkhovna Rada, its MPs typically pass funding and martial law legislation, while most bills face delay, bargaining, and internal dissent. The departure of Zelensky's former chief of staff, Andriy Yermak, who was implicated in corruption allegations, has also mattered because he helped enforce discipline across parliament and the state apparatus. The EUR 90 bn EU loan is therefore a lifeline, and its ratification gives Kyiv much-needed fiscal space for 2026–27, but it also highlights the central dilemma of Zelensky's rule: the government has strong incentives to pass reforms because even a temporary funding freeze could endanger basic state operations, yet it has less political control over parliament, less public patience for unpopular measures, and less room for error after scandals involving figures close to the presidency.

On the war front, Russia remains stronger, but Ukraine is adapting faster

The Russia-Ukraine war remains a grinding war of attrition, but the balance of power appears to have shifted recently. Russia still retains advantages in manpower depth, missile volume, artillery mass, and territorial occupation, observable in Russia's lower level of External Security Force Capacity (SFC) Risk. Yet Ukraine has improved its ability to **disrupt Russia's rear areas** and **slow the pace of Russian advances** through innovation, visible in the slowing increase in its External SFC Risk since mid-2025, causing relative Risk levels to converge. On the ground, Russia has continued to **press forward** in eastern Ukraine, especially around the Donetsk "fortress belt" and the Kostiantynivka axis.



At the same time, External SFC Pulse Risk, our high-frequency signal devoid of a structural baseline, has Russian Risk (red) higher than Ukraine (blue), though both are well above zero. This real-time difference shows up in the slowing pace of Russian territorial gains. There are reports that Russia may be losing troops at or **above its recruitment rate**. By contrast, Ukraine has expanded its drone and "middle strike" campaign against Russian logistics, troop concentrations, air defense systems, fuel infrastructure, and transport routes behind the front. Ukrainian strikes on Russian energy infrastructure have also contributed to fuel shortages and rationing in **Crimea** and have imposed real, if not crippling, **economic costs** by raising repair costs, disrupting logistics, and limiting Moscow's ability to benefit from high oil prices. Still, Ukraine has not regained the strategic initiative in the conventional sense, even if it is narrowing the operational gap.

Peace deal not imminent but fighting may settle

Given the shifting battlefield dynamics, there has been **real momentum** to incentivize moving forward peace negotiations. Ukraine has incentives to lock in support before another winter, and Russia has economic reasons to consider banking its current gains. Moreover, Europe's leaders, many of whom feel this is "**their war**" **now**, argue that Ukraine's improved long-range strike position lets it negotiate more equally and have begun discussing appointing a special European envoy for Ukraine-Russia talks.

The process, however, remains stuck on the **hard issues** – security guarantees, limits on Ukraine's military, NATO status, Russia's future leverage over Kyiv, and Russia's demand that Ukraine concede areas it still controls. Russia has reasons to end intensive fighting – a slowing economy, budget strain, banking stress, heavy military costs, and slow advances – but does not yet feel enough pressure to accept a peace deal that falls short of its maximalist demands.

The most optimistic outcome is likely a grudging armistice-style arrangement rather than a clean peace deal, with reduced fighting along roughly current lines, no Ukrainian recognition of Russian annexations, some prisoner exchanges and reconstruction commitments, and security guarantees that are politically useful but much weaker than NATO Article 5. Under such a scenario, Ukraine likely keeps its statehood and a path to economic recovery but is pressured to accept de facto or formal territorial losses, no NATO membership, and a capped or politically constrained military.

A frozen conflict remains the second most plausible outcome at the moment. The fighting could settle into a ceasefire along the line of contact, prisoner exchanges and reconstruction could proceed, albeit unevenly, but the hardest political questions would be deferred, leaving Ukraine outside NATO and vulnerable to renewed Russian pressure. A ceasefire could plausibly emerge in the medium term, especially if Washington sustains pressure on Kyiv and Moscow sees economic reasons to bank its gains, but a durable settlement seems less likely on any current time horizon.

About GeoQuant

GeoQuant is an innovative AI-driven data and technology company, acquired by Fitch and now part of BMI, that is transforming the way the world's leading organizations are quantifying, integrating, and navigating political risk.

By fusing PhD-level political and computer science, GeoQuant generates high-frequency, quantitative measures of risk that are systematic, back-testable, and predictive.

The result is real-time updates for over 30 political risk indicators in more than 140 countries, and analytics that enable you to foresee risk trends and make proactive moves.

GeoQuant data, modelling and advisory services have been used to successfully inform the asset, risk and sovereign ESG strategies of leading institutional partners.

About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries. For more than 40 years, we have provided impartial and transparent analytics, data and research

across themes, countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at fitchsolutions.com/bmi

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