

MONTHLY MUNICIPAL REPORT – JANUARY 2026

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KEY FINDINGS

The main issue facing municipalities in January is that local councils are forced to find ways to comply with new legislative requirements without undermining other priorities. The rules are changing faster than their financial capacity is growing. The Government decided to increase salaries in the public sector only after local budgets had already been approved, and part of the financial burden of implementing this decision now falls on municipalities. As a result, some municipalities are forced to reduce teacher bonuses or use funds that had originally been planned for development. At the same time, the Government is updating approaches to strategic planning and promoting a formal division of responsibilities, but there is still no clear answer as to who should perform these new functions and how they should be financed. For municipalities, this means that in 2026 they will continue to operate under conditions of uncertainty, balancing rising expectations with limited financial resources.

Financially, municipalities started 2026 relatively confidently, but the risk of local budget underperformance remains. Revenues of the general fund in January grew faster than inflation, mainly due to personal income tax and excise revenues. This suggests that economic activity remains relatively stable and that the labor market has partly adapted to wartime conditions. At the same time, municipalities are becoming increasingly dependent on intergovernmental transfers, while the volume of the additional grant for affected municipalities has been reduced. This creates a risk that if the security situation worsens or business activity declines, the financial buffer could be quickly exhausted. Therefore, throughout 2026 municipalities will have to manage their resources very carefully and prioritize spending strictly, even if nominal revenues continue to grow.

The security situation remains a major risk for municipalities and directly affects both their economies and people's daily lives. In January, the number of cases of damage to civilian infrastructure increased, particularly housing and energy facilities. Each incident means additional reconstruction costs, service disruptions, lower business activity, and new social risks. Even large cities, including the capital, experienced significant consequences from massive Russian attacks, such as power outages and disruptions to public transport. For municipalities, this creates additional pressure on budgets and management teams, as they are forced to respond constantly to crises instead of focusing on long-term development.

Intermunicipal cooperation is gradually becoming the norm rather than the exception, and this is one of the few systemic positive trends. Despite the war, the number of new cooperation agreements in 2025 increased by 57% compared to the previous year (210 agreements versus 134 in 2024), and by the beginning of 2026 the national register recorded more than 1.4 thousand active agreements. Most often, municipalities cooperate around basic services such as education, social support, and primary healthcare. In many cases, stronger urban municipalities act as hubs for neighboring municipalities. This reflects a pragmatic approach where cooperation replaces competition and municipalities jointly finance services to benefit from economies of scale. At the same time, such cooperation rarely extends to large infrastructure or development projects, which means that the full potential of this instrument is still far from being realized.

REGIONAL POLICY AND MUNICIPALITY DEVELOPMENT: WHAT'S NEW?

The decision to increase salaries in the public sector partially shifted additional costs to local budgets. The government adopted Resolutions No. 1749 and 1750 in the last week of 2025. They came into force on 1 January 2026, after most local budgets had already been approved (by 25 December, in accordance with the Budget Code). As a result, municipalities were left with additional obligations without the possibility of incorporating them into their financial plans. The reaction was a reduction by some municipalities of the additional payment for the prestige of work in education, which local authorities can set within the range of 5-30%: in 2025, its average level in Ukraine was 18.5% – from 13.94% in the Sumy region to 23.23% in the Odesa region, which de facto negates part of the effect of raising teachers' salaries. Another source of funding for the allowance was the free balances of local budgets, which, as of 1 January 2026, according to preliminary estimates, exceeded \$1,2 bn (excluding Kyiv). However, these funds were earmarked for other priorities, so in many municipalities they will not cover the increase in the wage fund throughout the year. Another problem remains the ambiguous interpretation of the circle of persons covered by the increase in wages for social service providers – the relevant ministry, in its letter, refers to all employees of institutions, which contradicts the text of the Resolution (for example, with regard to specialists who provide support to war veterans and demobilised persons).

The bill submitted by the Government in January this year on the delimitation of powers between central and local authorities is intended to formally fulfil international and governmental obligations, but it does not resolve key practical issues for municipalities. The bill was developed at the request of the Government's Priority Action Plan, implementing the European Commission's recommendation under Cluster 1 and Indicator 9.3 of Ukraine's Plan, on which access to €440 mn in budget support depends. The document is of a framework nature and does not answer the key question for municipalities – who is responsible for what and at what cost. The actual delimitation of powers is postponed until the adoption of a separate sectoral law and large-scale changes to the legislation: according to the authors' estimates, this involves more than 150 regulatory acts, including codes. Under such conditions, municipalities remain at risk of transferring powers without adequate financial support and the need to work under uncertain and unstable rules of the game.

Strategic planning for regions is gradually ceasing to be a formality. The rules updated by the Government directly link regional development strategies to public investment management and define the strategy as the basic document for forming a medium-term plan of priority investments in the region. For municipalities, this means that strategic documents have a real impact on access to financial resources and do not play a purely formal role. An important element of the changes is a differentiated approach to frontline regions: if more than 30% of municipalities in a region are located in areas of combat operations or temporary occupation, an environmental assessment (EA) may be waived, which significantly simplifies planning in wartime conditions. Overall, the transition to a results-oriented model should improve the alignment of strategies with the real needs of the territories and focus public investment on a limited number of strategic priorities.

The parliamentary committee has drawn up an agenda for legislative work on local self-government issues for 2026. Approved for February-July 2026, the plan confirms the parliament's continued focus on issues of local self-government, regional development and urban planning, in particular on the development of local government services, human resources capacity, remuneration conditions and the quality of public services at the local level. At the same time, the document is of an organisational nature and does not guarantee the adoption of relevant decisions: most of the draft laws included in the plan are not new and

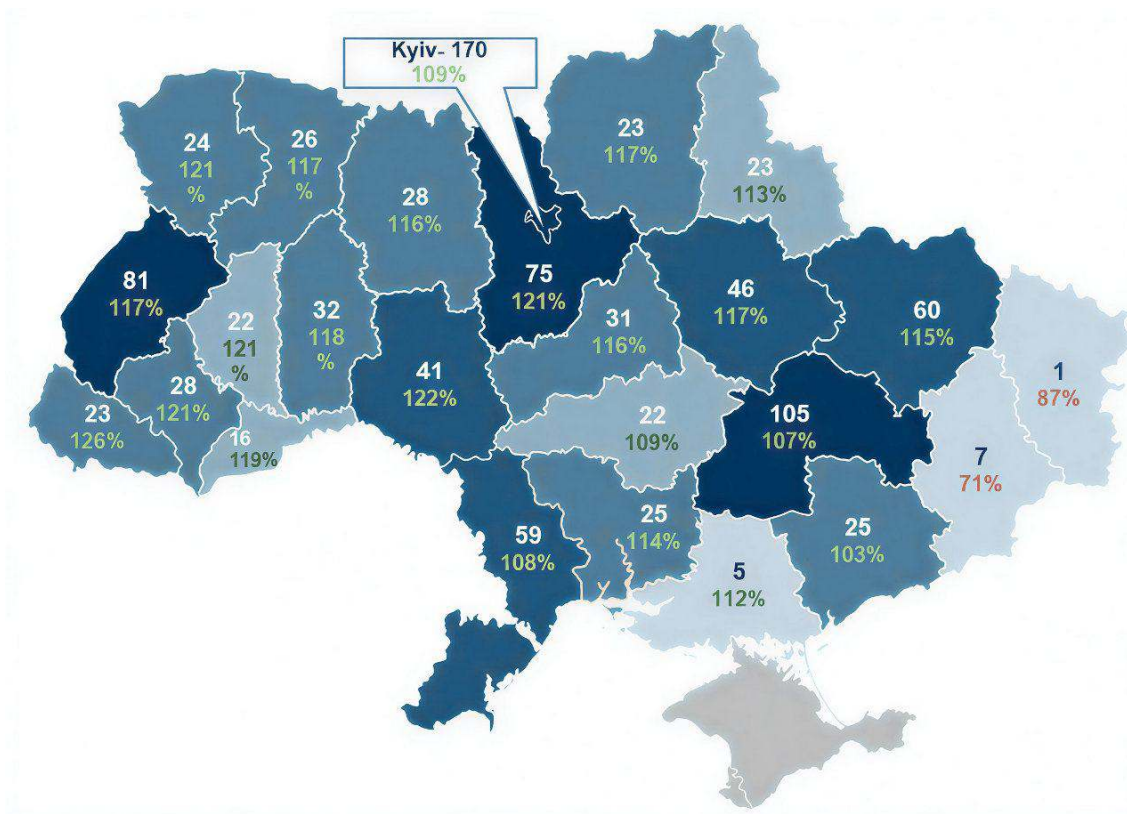
have been in the process of finalisation or preparation for a second reading for a long time. Individual sections of the plan cover local democracy, spatial planning, territorial restoration and public investment management, forming a medium-term agenda for municipalities. For local government bodies, this is more of a signal about areas of potential change in 2026, while their actual effect will depend on whether these initiatives are adopted.

FINANCIAL SITUATION IN THE REGIONS: TRENDS IN LOCAL BUDGETS

In January 2026, compared to January 2025, the revenues of the general fund of local budgets (excluding interbudgetary transfers) increased by 13.5%, which is almost twice the inflation rate of 8.7% (January 2026 to January 2025). As of 1 February, revenues amounted to \$996 mn. In 16 regions, local budget revenues (excluding transfers) exceeded the average for Ukraine.

FIGURE 1.

General Fund Revenues (excluding transfers) and Growth Rate,¹ \$mn, %



Sources: Ministry of Finance, OpenBudget.

PIT traditionally accounts for the largest share in the structure of local budget revenues (excluding transfers) – 54.2%. Revenues from this tax in January 2026 amounted to \$540.0 mn (+15.0% compared to January 2025). This is primarily due to the increase in average wages. According to data from work.ua, wages rose by 19.9% between January 2025 and January 2026 (from \$534.32 to \$640.58). In addition, from 1 January 2026, the minimum wage increased by 6.0% (from \$189.98 to \$201.42). According to information from the National Bank of Ukraine, at the end of 2025, the supply of jobs was growing faster than the demand for them. Surveys of enterprises recorded a decrease in the share of companies that reduced their workforce and an improvement in expectations regarding the hiring of new employees. However, the labour shortage persisted, primarily due to mobilisation and migration processes. The deterioration of the security situation at the end of the year and the easing of exit rules for young people led to a slightly larger than expected outflow of migrants. All these factors contributed to an increase in the tax base for personal income tax compared to the same period last year.

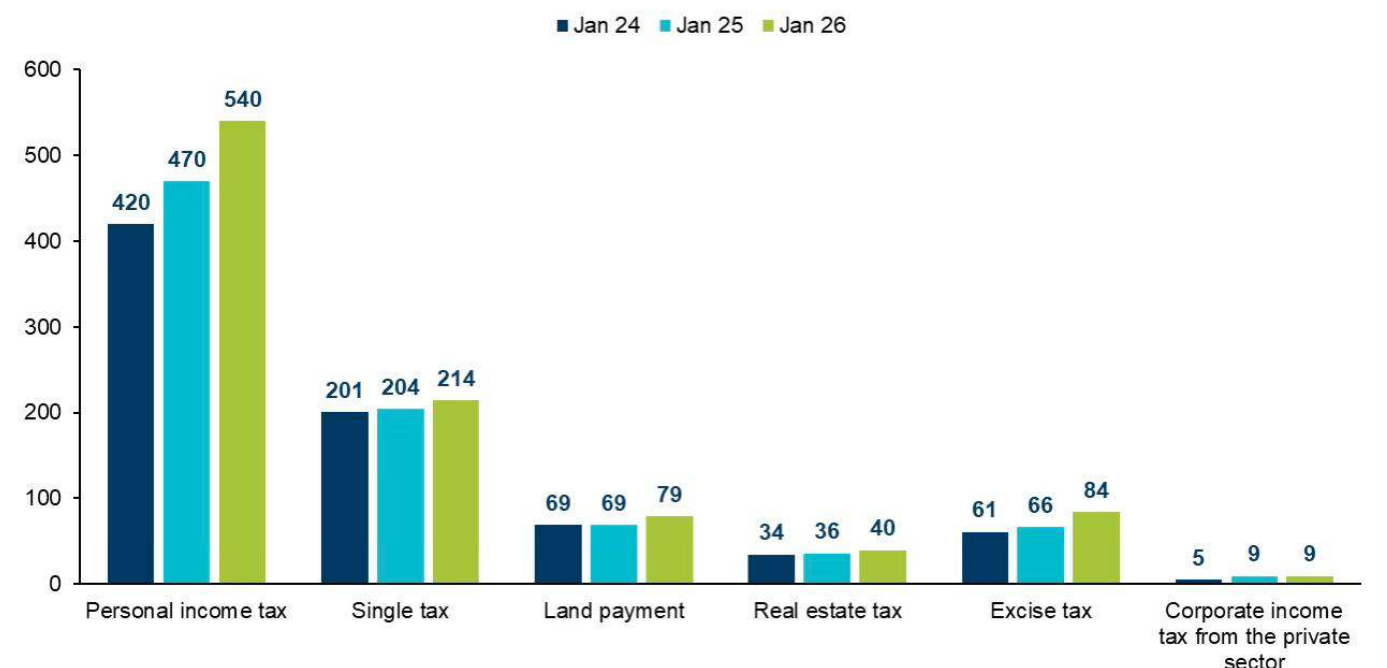
¹ For January 2026 compared to January 2025.

The second largest source of revenue in the general fund (excluding transfers) is the single tax, which accounts for 21.5%. Its revenue amounted to \$214 mn (+5.3%). The growth is associated with an 6.0% increase in the minimum wage (the single tax for individual entrepreneurs in Group II is 20% of the minimum wage – \$128.12) and a 7.8% increase in the subsistence minimum for able-bodied persons (the single tax for sole proprietors in Group I is 10% of the subsistence minimum or \$7.75). In January, only sole proprietors in Groups I and II are required to pay the single tax. According to [YouControl.Market](#), 17,709 sole proprietors ceased operations in January 2026, and in January 2025, 57,699 sole proprietorships ceased operations (due to delayed registration actions caused by the suspension of the Unified State Register at the end of 2024, which prevented many entrepreneurs from terminating their businesses on time). According to [OpenDataBot](#), the total number of sole proprietorships increased by 6,055 (in January 2026 – 2,181,217, in 2025 – 2,175,162).

Land payment revenues amounted to \$79 mn (+13.3%).³ The increase in revenues was due to an increase in the indexation coefficient of the normative monetary valuation of land from the beginning of 2025 from 5.1% to 12% and [the revival](#) of auctions for the lease of state⁴ and municipal land.

Actual real estate tax revenues increased by 13.7% compared to January 2025, reaching \$40 mn.⁵ This growth is associated with an increase in the minimum wage, which as of 1 January 2025 was 1.3% higher than a year earlier (the minimum wage is used to calculate tax for legal entities).⁶

FIGURE 2.
Revenues from major taxes to the general fund of local budgets for January 2024-2026, mn USD



Sources: Ministry of Finance, OpenBudget.

² As of 01.01.2025 – \$77.5.

³ Land payments are a mandatory component of the property tax and include land tax as well as rent for state- and communally-owned land plots. In January, land payments from legal entities are made for December 2025.

⁴ In May 2024, amendments were introduced to the Budget Code of Ukraine, which stipulate that 90% of the starting price of state land lease (the starting price is 12% of the normative monetary valuation of land) is directed to the state budget, while 10% goes to local budgets as an additional source of revenue.

⁵ Legal entities pay real estate tax in advance quarterly by the 30th day of the month following the reporting quarter. Accordingly, the tax for the fourth quarter of 2025 is paid in January 2026.

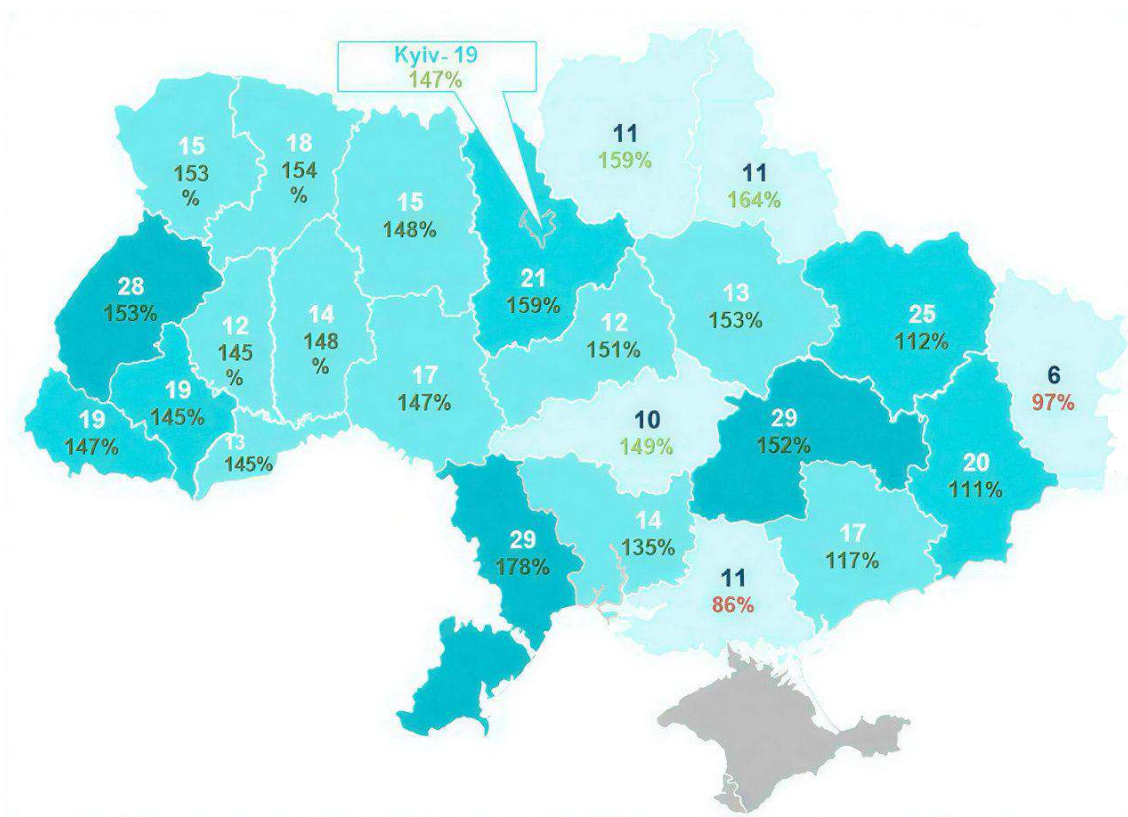
⁶ Individuals are required to pay property tax for 2025 within 60 days of receiving their tax assessment notice, which will be sent by 1 July 2026.

Excise tax revenues amounted to \$85 mn (+28.1% or \$19 mn compared to January 2025), which is associated with general inflation and an increase in excise rates.⁷ In addition, the government [improved](#) the mechanism for administering excise tax – electronic excise stamps were introduced in March 2025 on a trial basis⁸ became mandatory in 2026.

Corporate income tax from the private sector of the economy amounted to \$9 mn, which is approximately the same as in January 2025. These revenues are directed to regional budgets.

In January 2026, the Government ensured that interbudgetary transfers to local budgets were 41.1% higher than in January 2025, including a 18.2% increase in the basic grant and a 32.0% increase in the education subvention. The increase in the educational subvention is linked to a 30% increase in teachers' salaries from 1 January 2026. Additional grant for local governments that have been negatively affected by the full-scale armed aggression of the Russian Federation in January 2026 were 28.0% less than in January 2025. This grant is intended to even out financial imbalances in local budgets, ensure stable salary payments in the budgetary sphere, and compensate for the loss of municipality income caused by Russian aggression. The grant is distributed quarterly based on actual revenue losses (personal income tax, property tax, single tax).

FIGURE 3.
Interbudgetary transfers and their growth rate, mn UAH, %



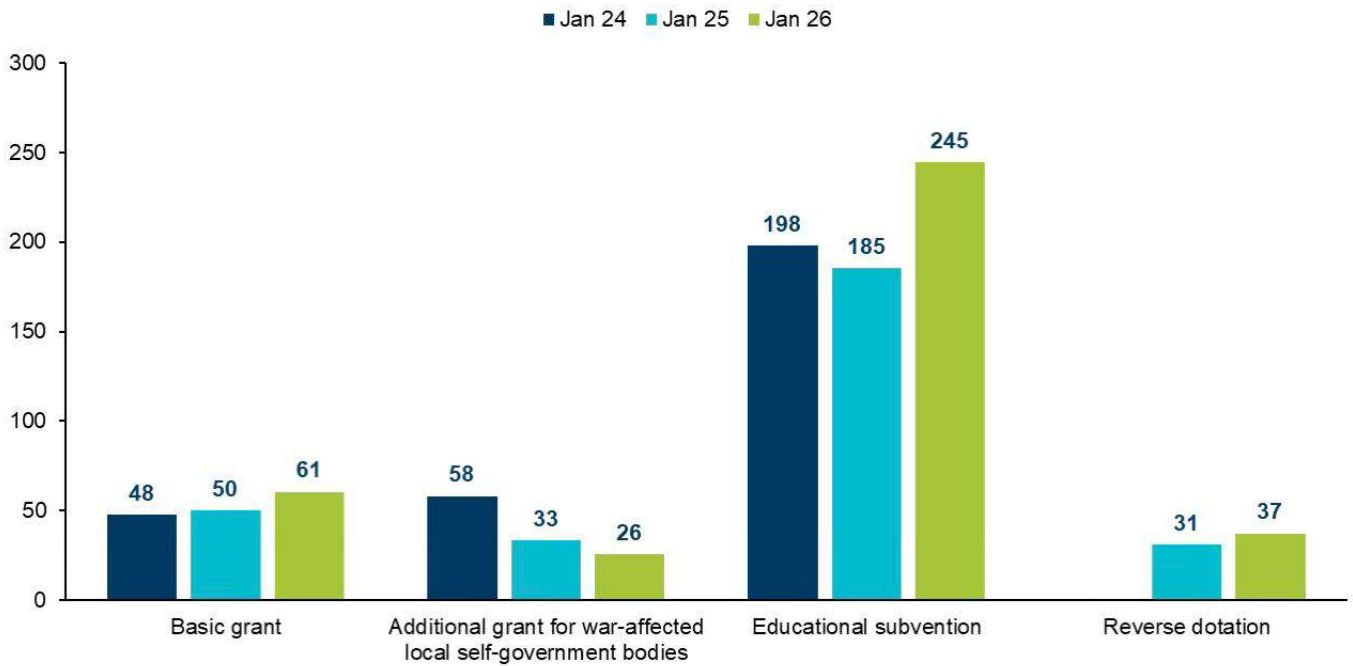
Sources: Ministry of Finance, OpenBudget.

⁷ In January, excise tax was paid for December 2025.

⁸ Alcoholic beverages, tobacco products and liquids used in electronic cigarettes.

FIGURE 4.

Revenues from major interbudgetary transfers to local budgets and withdrawals to the state budget for January 2024-2026, mn USD



Sources: Ministry of Finance, OpenBudget.

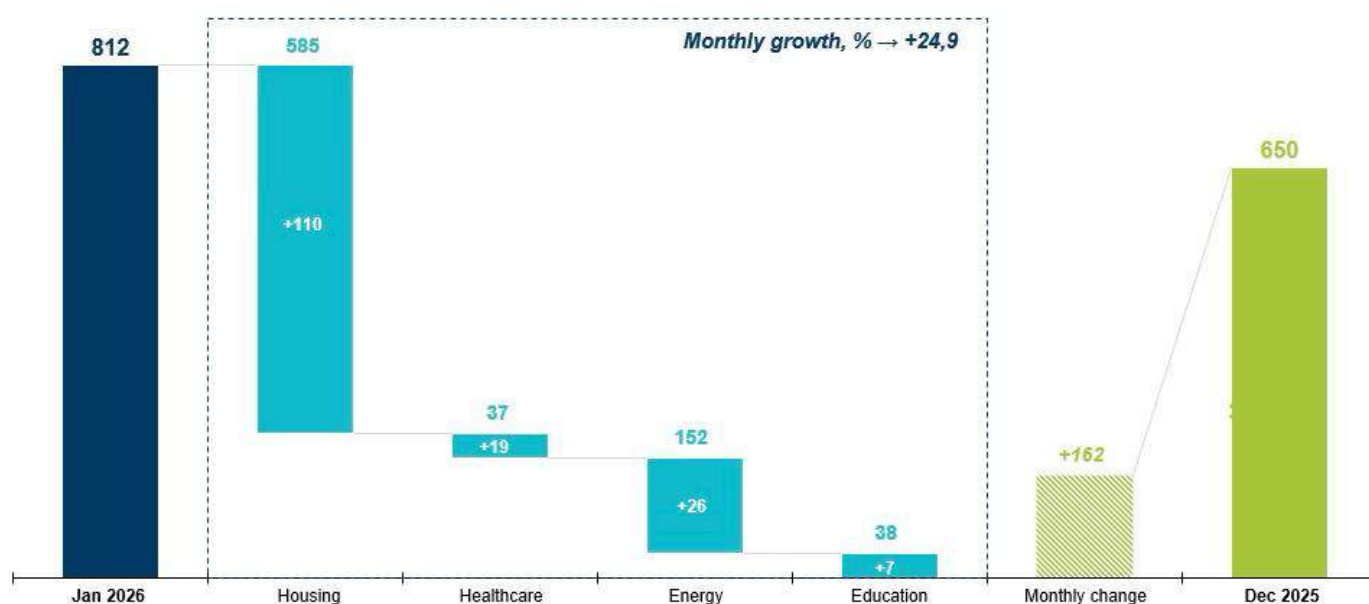
In January 2026, reverse grants were transferred from local budgets to the state budget in the amount of \$9 mn, which is 28.4% more than in January 2025. Its growth is primarily due to the overall increase in the volume of grants in the horizontal interbudgetary equalisation system.

SECURITY SITUATION IN MUNICIPALITIES: STATUS AND TRENDS

Damage to civilian infrastructure in municipalities increased significantly in January 2026, indicating that high risks remain for the local economy and the population's access to basic services. During the month, 812 cases of damage were recorded in 167 municipalities, which is 25% more than in December 2025. Residential infrastructure was the most affected, with 585 cases (72.1%), while damage to energy infrastructure accounted for 152 cases (18.7%), education infrastructure for 38 cases (4.7%), and medical infrastructure for 37 cases (4.6%).

FIGURE 5.

Revenues from major interbudgetary transfers to local budgets and withdrawals to the state budget for January 2024-2026, mn USD

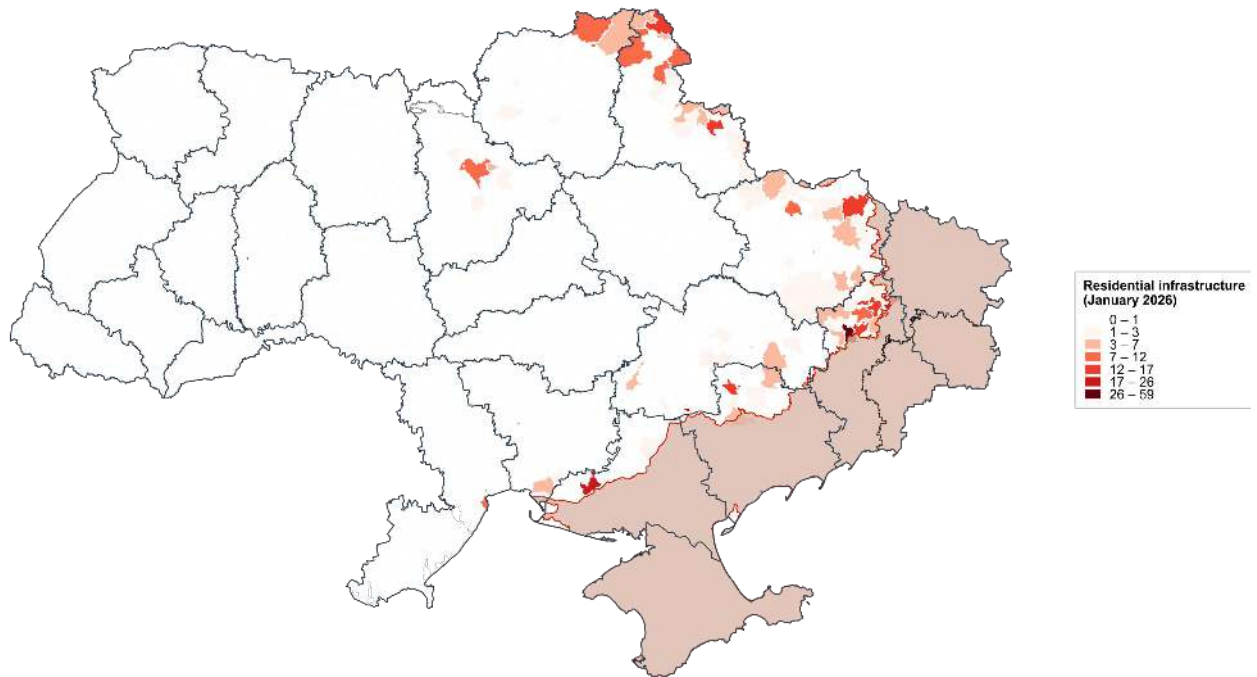


Sources: ACLED, KSE

Damage to residential infrastructure remains the most extensive type of loss among civilian infrastructure facilities. A total of 585 cases of damage to residential buildings in 146 municipalities have been recorded. The highest concentration is in the frontline areas, namely Donetsk (171 cases), Sumy (110) and Kharkiv (89) regions, which together account for 63% of all damage to the housing stock. The Shakhove municipality in Donetsk region was the most affected, with 59 cases of damage; significant losses were also recorded in the Nikopol (26), Kherson (25) and Siversk (23) municipalities. In Sumy region, the vast majority of damage – 89.4% – was to residential buildings.

FIGURE 6.

Damage to residential infrastructure, January 2026

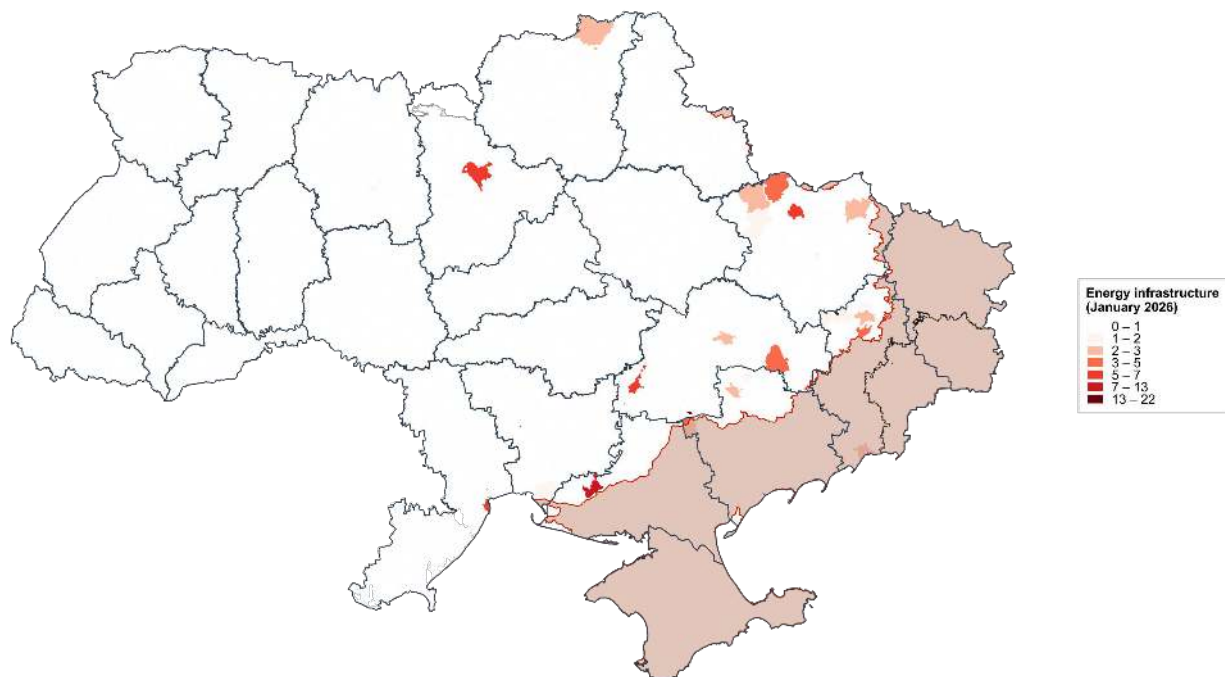


Sources: ACLED, KSE

Damage to energy infrastructure in January 2026 was concentrated in a limited number of municipalities and had a significant regional concentration. In total, such damage was recorded in 62 municipalities, with the highest number in Dnipropetrovsk (41 cases), Kharkiv (24) and Donetsk (20) regions. In the Dnipropetrovsk region, energy facilities accounted for 36% of all infrastructure damage, which is the highest figure among the regions. The Nikopol municipality was the most affected, with 22 cases, or almost half of all damage to energy facilities in the region. Significant losses were recorded in the Kherson municipality (13 cases), Kyiv (7), and the Kryvyi Rih and Odesa municipalities, with 6 cases each.

FIGURE 7.

Damage to energy infrastructure, January 2026



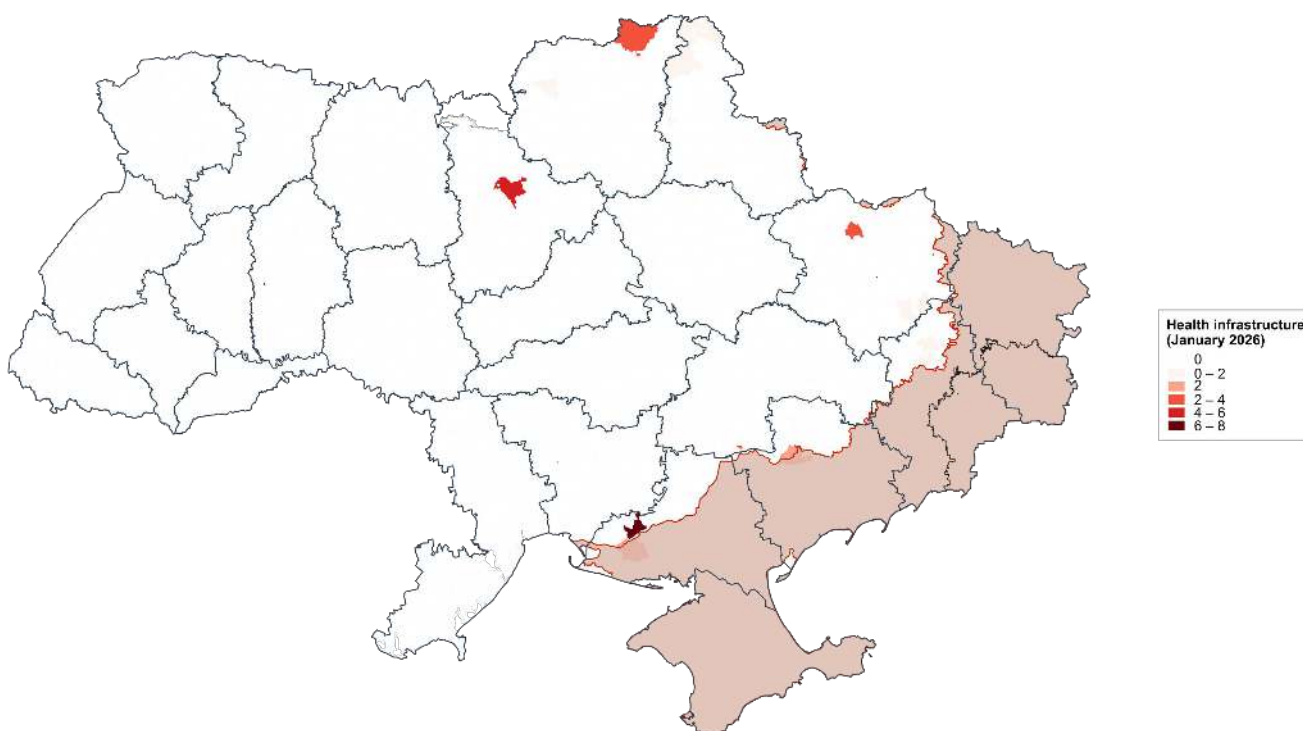
Sources: ACLED, KSE

January 2026 was one of the most stressful periods for Kyiv's power system, which significantly affected the functioning of the city's infrastructure and business activity. During the month, 25 cases of infrastructure damage were recorded in the capital, of which 7 involved energy facilities, 4 involved medical facilities, 3 involved educational facilities, and 11 involved residential facilities. The city experienced a series of massive missile and drone attacks on critical infrastructure facilities, which led to emergency power outages and interruptions in heat and water supply. A large-scale night-time attack on 20 January caused significant damage to power grids and temporary outages in some areas, and at the end of the month, a cascade failure in the power system led to widespread power outages across the country and, in particular, the shutdown of the metro in Kyiv. Power outages had a negative impact on small and medium-sized businesses, especially in the service sector, where some companies were forced to reduce their working hours or switch to generators. The NBU's business activity expectations index fell in January 2026 compared to December 2025, in particular due to increased attacks on critical infrastructure. Despite this, the city remained functional thanks to the prompt work of energy and utility services: urgent repairs were carried out, backup power sources were deployed, and cooperation with international partners on equipment supply and power system support was strengthened.

Damage to medical infrastructure in January remained significant and unevenly distributed among municipalities. During the month, 37 cases of shelling of medical facilities in 20 municipalities were recorded. The Kherson region was the most affected, with 10 cases or 27% of the total, which is the highest figure among regions and types of infrastructure. The Kherson municipality suffered 7 strikes, which is the highest figure among all municipalities in the country, Kyiv - 4, and the Nikopol, Kharkiv and Semenivka municipalities - 3 each. At the same time, in the Kherson region, the share of damage to medical infrastructure was 16.7%, which significantly exceeds the national average of 4.6% and distinguishes the region from other regions.

FIGURE 8.

Damage to health infrastructure, January 2026



Sources: ACLED, KSE

COOPERATION BETWEEN MUNICIPALITIES

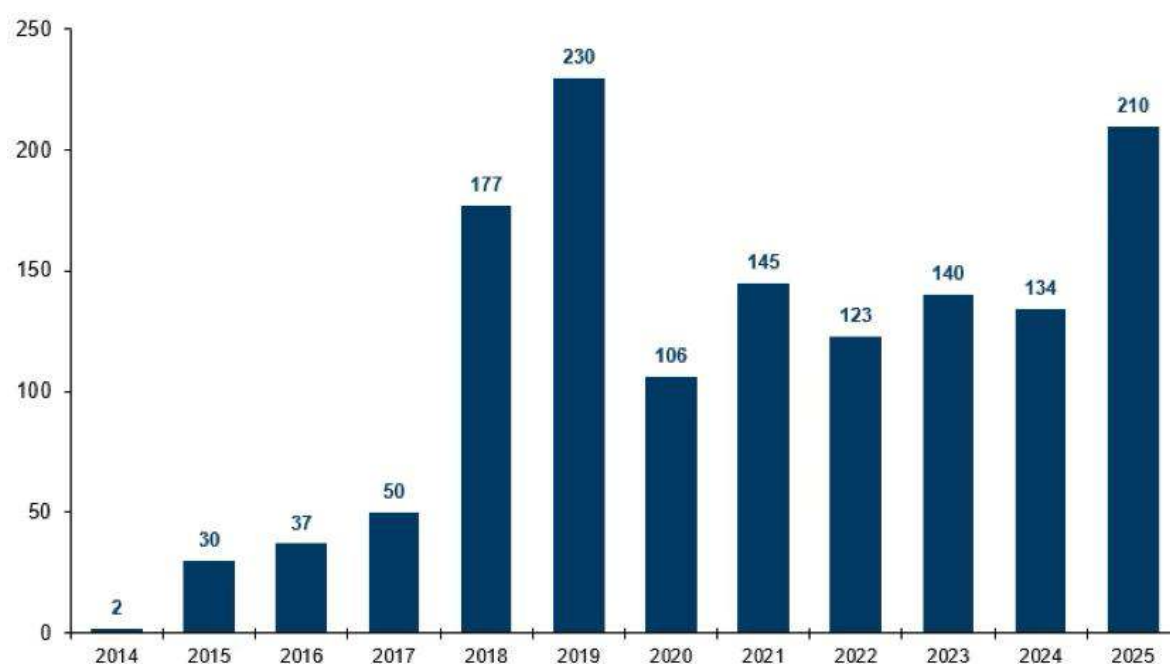
INTERMUNICIPAL COOPERATION

Intermunicipal cooperation in Ukraine is developing unevenly, maintaining steady positive momentum even under wartime conditions and gradually strengthening as a tool for organising public services at the local level. After the peak period of 2018–2019, when the maximum number of new cooperation agreements was recorded, the pace of concluding cooperation agreements slowed significantly during the full-scale war: in 2022–2024, only 120–145 agreements were concluded annually. Against this backdrop, 2025 was a turning point – during the year, around 210 new agreements were signed, which is the highest figure for the entire period since the start of the full-scale invasion. This growth occurred despite martial law and occupation of some municipalities and was likely supported by regulatory [changes](#) that simplified cooperation procedures: municipalities were allowed to continue negotiations even if one of the participants withdrew, to combine several forms of cooperation in a single agreement, mandatory annual reporting was abolished, and limit monitoring of agreement implementation to clear statistical indicators, which reduced the administrative burden on local authorities.

As of the end of January 2026, the State Register of Cooperation of Territorial Communities of Ukraine recorded 1,417 valid agreements (in January 2025, there were 1,207). These agreements cover a wide range of sectors, from education and healthcare to administrative and social services, which indicates the ongoing institutionalisation of inter-municipal cooperation.

FIGURE 9.

Dynamics of concluding cooperation agreements between municipalities by year



Sources: Ministry for Communities and Territorial Development, KSE

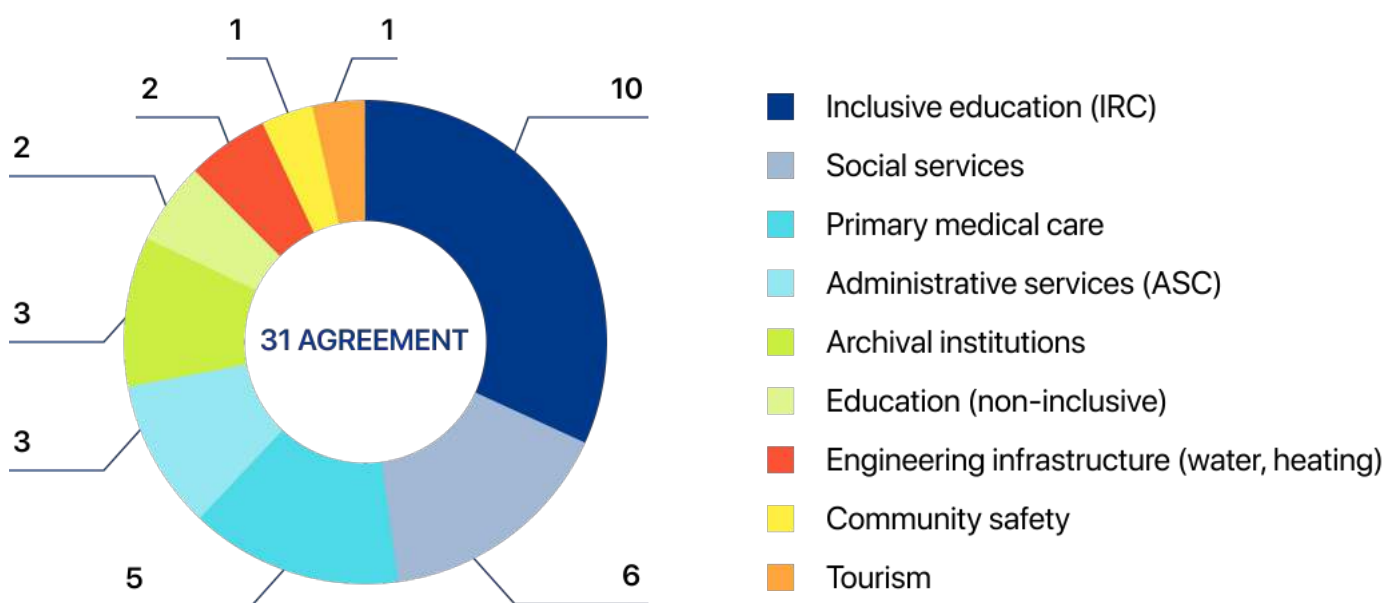
Inter-municipal cooperation agreements registered in January 2026 indicate that cooperation is predominantly local in nature. During the month, 31 agreements were registered, all of which were concluded at the end of 2025 or in early January 2026 and came into force at the beginning of the new fiscal year. Geographically, these agreements did not involve interregional cooperation: all agreements were concluded between municipalities within the same region, mainly within the same district, most often between neighbouring municipalities.

The structure of the agreement participants and the distribution of responsibilities indicate the leading role of urban municipalities in organising cooperation. Among the municipalities involved, more than half are rural (21 out of 40), while urban municipalities account for 25% (10 municipalities) and townships account for 22% (9 municipalities). Despite this, urban municipalities are responsible for reporting in 17 out of 31 agreements (about 55%), while rural municipalities are responsible in only 4 cases (about 13%). This indicates that inter-municipal cooperation often functions on a "hub" principle, where more capable municipalities assume managerial and organizational functions and ensure the provision of services for neighboring, less capable ones.

The subject matter of the agreements registered in January indicates that intermunicipal cooperation is focused primarily on providing basic social services, while agreements on infrastructure and development projects are rarely concluded. Of the 31 agreements, the largest share – 10 agreements (32%) – concerns inclusive education and the functioning of inclusive resource centres. Another 6 agreements (19%) are aimed at social services, in particular the joint maintenance of social service centres, and 5 agreements (16%) are aimed at primary health care. Thus, 21 of the 31 agreements (68%) are concentrated on social, educational and medical functions. Other areas of cooperation play a much smaller role. Administrative and back-office functions, including administrative service centres and archives, are covered by six agreements (19%), while infrastructure, security and development areas together account for only four agreements (13%), remaining auxiliary and limited in scope.

FIGURE 10.

Thematic distribution of new municipality cooperation agreements, January 2026



Sources: Ministry for Communities and Territorial Development, KSE

Individual agreements concluded in January demonstrate the use of inter-municipal cooperation to ensure the security and functioning of critical infrastructure. Although such cases are not dominant in terms of quantity, they are indicative in view of the security situation. In particular, the Lutsk urban municipality signed an agreement with the Pidhaitsi rural municipality on the joint management of centralised water supply and sanitation networks, as well as a separate agreement with the Liuboml urban municipality on ensuring a stable heat supply to a healthcare facility. In the Cherkasy region, the Buky and Vynohrad municipalities signed a cooperation agreement in the field of security. These examples show that cooperation is used not only to provide basic services, but also to increase the resilience of critical infrastructure.

New inter-municipal cooperation agreements are predominantly long-term in nature. In January, most agreements were concluded for 3–5 years, and in some cases – **up to 10 years**, which indicates the use of this instrument not as a temporary anti-crisis mechanism but as a sustainable solution for ensuring the provision of public services and increase the predictability of local governance. At the same time, January saw the activity of individual initiating municipalities. In particular, the Haisyn city municipality concluded eight cooperation agreements with several neighbouring municipalities, becoming the most active initiator during this period. All these agreements were signed at the end of 2025, entered into force on 1 January 2026 and are in fact renewals of similar agreements that expired in December 2025.

INTERNATIONAL COOPERATION

In January 2026, only three new international cooperation agreements were recorded in the Register of the Ministry for Communities and Territories Development of Ukraine. This does not necessarily mean that no other partnerships were signed. In accordance with the Law of Ukraine “On International Territorial Cooperation of Ukraine” (No. 3668-IX) and the Order of the Ministry of Development approving the Procedure for Reviewing Draft Agreements on International Territorial Cooperation, the procedure involves several stages: first, the draft agreement is approved by the Ministry, then it is signed, and only after that is it officially registered. The Ministry conducts a legal assessment and may return the draft for revision or refuse to approve it on grounds clearly defined by law (non-compliance with legislation, exceeding the scope of authority, etc.). Therefore, in practice, some agreements may already have been signed by the parties but are still at the stage of approval or submission of documents to the register. Consequently, the registry data reflects only those partnerships that have completed the full formal cycle, rather than the entire scope of international activity of municipalities or regional military administrations for the month.

One of the agreements was signed between the Podilsk City Council and the municipality of Borken (Germany). At the same time, **two others** were signed **not by local authorities**, but by **the regional military administration**. These are the 2026 agreements with Gloucestershire County (United Kingdom) and the Trøndelag region (Norway). This format of signing reflects the realities of wartime: in frontline and vulnerable regions, the function of international representation may increasingly be transferred to military administrations at the regional level due to a lack of local government personnel and the concentration of local resources on urgent security and service-delivery priorities.

This trend can have **ambivalent implications** for municipalities. On the one hand, it is a pragmatic solution – regional military administrations have broader coordination resources, faster access to state and donor mechanisms, and can therefore launch partnerships more quickly. On the other hand, it changes the architecture of international cooperation: partnerships become more regional, large-scale and strategic, but less “targeted” at the level of individual municipalities.

For example, both agreements of the Zaporizhzhia Regional Military Administration formally cover similar areas – education, healthcare, economy, and energy – but in terms of content, these are two different models of recovery. While the British partnership is more about economic foundations and technological breakthroughs, the Norwegian one is about people and the long-term social sustainability of the region. The partnership with Gloucestershire is a story of modernisation and structural renewal: digital transformation and cybersecurity, agro-industrial development and food security, infrastructure and reconstruction, strengthening local self-government – in other words, an emphasis on technology, economic capacity and administrative sustainability. In contrast, the agreement with **Trøndelag** is more about **people and social capital**: a separate focus on veterans' policy, alongside culture, education and health care, emphasises attention to reintegration, support for people and social cohesion.