NEW STRATEGY CENTER

THE ROAD TO COLLAPSE:

STRUCTURAL VULNERABILITIES AND THE INEVITABILITY OF CRISIS IN THE RUSSIAN ECONOMY

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FROM APPARENT RESILIENCE UNDER SANCTIONS TO A WAR ECONOMY

The initial stages of the Western sanctions regime fostered the perception that the Russian economy possessed a greater capacity for adaptation than initially anticipated. High revenues from energy exports, strict controls on capital flows, the redirection of part of Russia's trade towards Asia, and extensive state intervention helped contain the initial shock. This stabilisation, however, did not demonstrate economic immunity; rather, it reflected the mobilisation of substantial financial, administrative, and commercial resources to mitigate the immediate effects of the sanctions.

The impact of international restrictions became increasingly apparent over time. Reduced access to Western financial markets, technologies, equipment, and services increased production and transaction costs, complicated logistics, and constrained investment. The loss of the European energy market, characterised by existing infrastructure, geographical proximity, and favourable commercial conditions, forced Russia to rely on longer transport routes, incur higher logistical costs, and accept steeper discounts in Asian markets. Periods of favourable international prices provided temporary relief but did not eliminate these structural disadvantages.

The Kremlin's response was to accelerate the transition towards a war economy. Public spending, state procurement, directed lending, and the use of reserves from the National Wealth Fund supported military production, employment, and GDP growth. At the same time, the concentration of capital, skilled labour, and industrial capacity around the military-industrial complex created an increasingly polarised economy. Civilian sectors remained exposed to high interest rates, mounting fiscal pressure, labour shortages, and deteriorating access to technology, while the state's capacity to finance the war, investment, and social obligations simultaneously continued to erode.

The gradual depletion of liquid reserves, the widening budget deficit, the contraction of investment, and the deterioration of companies' financial position mark the transition from adaptation to attrition. In this study, the concept of "economic collapse" does not refer to a sudden breakdown comparable to the dissolution of the Soviet Union, but rather to a prolonged process of systemic degradation: the erosion of the civilian productive base, the accumulation of banking-sector risks, the deterioration of infrastructure, technological dependence, and the declining capacity of the state to absorb new shocks. The analysis therefore traces the transition from apparent resilience to an irreversible structural vulnerability of the Russian economy.

GDP AS A MISLEADING INDICATOR

The evolution of Russia's GDP since 2022 may give the impression of effective adaptation to sanctions and strong economic resilience. The composition of economic growth, however, points to an economy increasingly sustained by public spending and the mobilisation of resources for military purposes. As Russia has rapidly transformed into a war economy, GDP has become progressively less representative of household welfare and the underlying strength of the civilian economy, serving instead primarily as an indicator of the scale of resource mobilisation by the state.

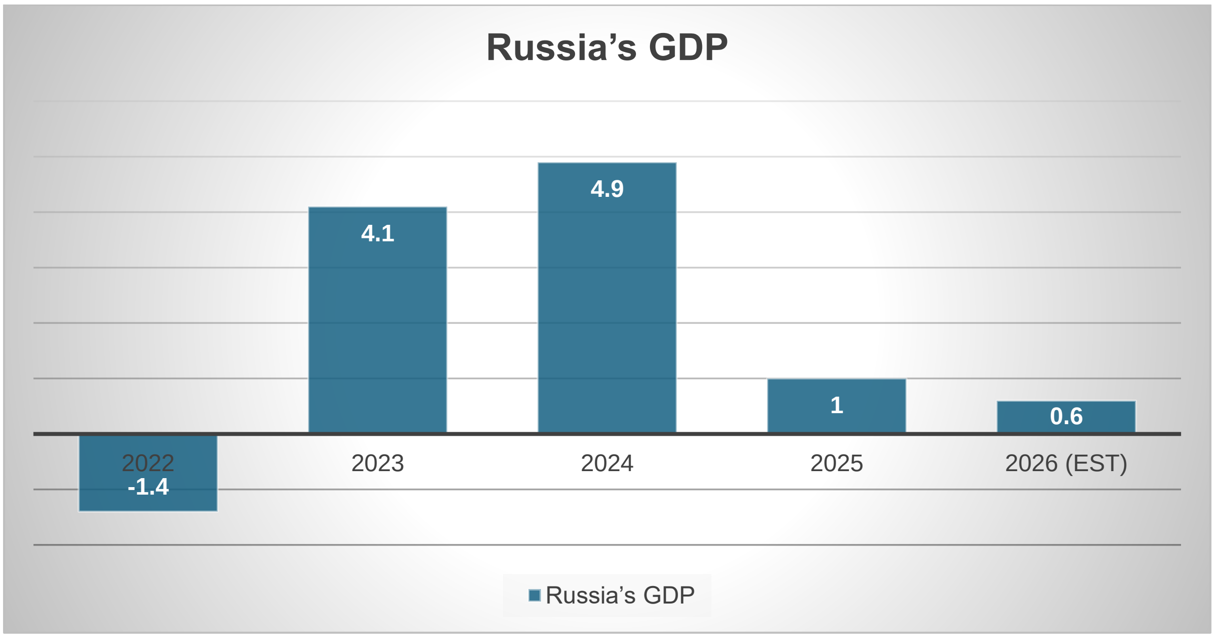

Figure 1: The chart shows the annual evolution of the Russian Federation's GDP, as reported by Rosstat, from 2022 to 2026, expressed as a percentage change from the previous year. The 2026 value is an estimate.

This distortion is reinforced by massive injections of public capital into the military-industrial complex, within a model described as "military Keynesianism".[1] Funding comes in part from the use of reserves held by the National Wealth Fund and supports the expansion of weapons, ammunition, and military equipment production. Although this activity contributes statistically to GDP growth, the resulting goods do not expand civilian productive capacity or generate lasting benefits for the population, as they are largely consumed or destroyed in the course of the war.

[1] The term "military Keynesianism" refers to an increase in military spending intended to stimulate economic activity and improve overall economic conditions. Štancl, Luboš & Hynková, Vendula. (2014). Origin and Development of the Thoughts on Military Keynesianism During 1936–2012. Academic and Applied Research in Military and Public Management Science. 13. 131-139. 10.32565/aarms.2014.1.12.

The uneven nature of this growth is reflected in the concentration of industrial expansion in sectors directly or indirectly linked to the military-industrial complex, as shown by the data in *Figure 2*.

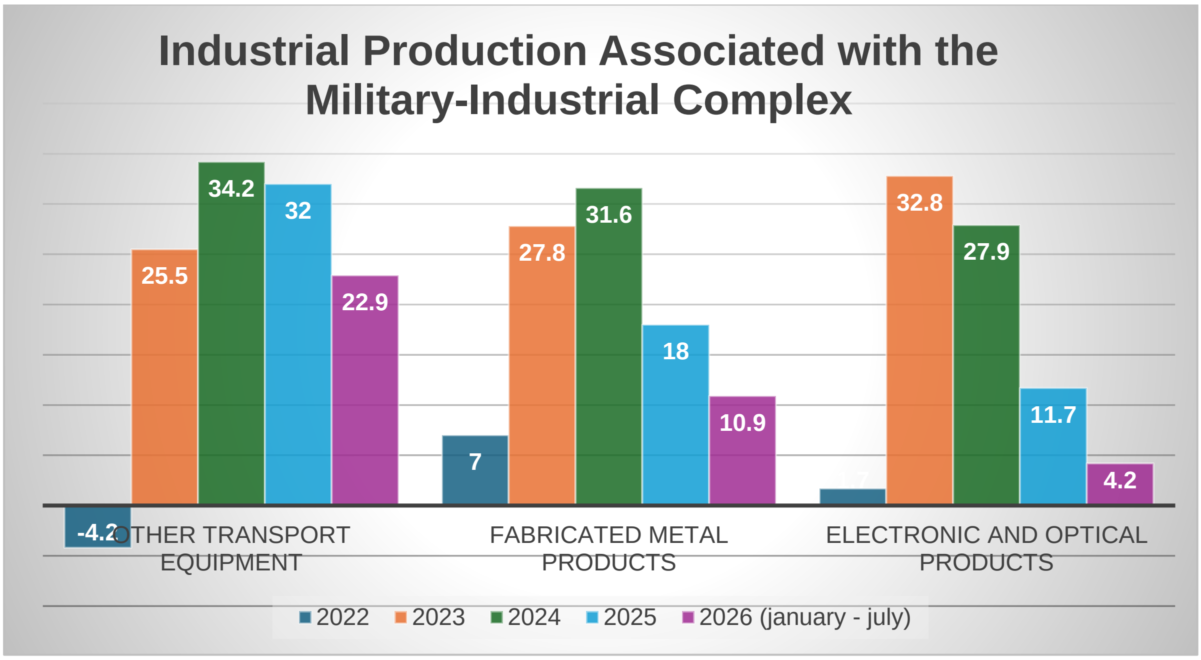

Figure 2: The chart shows the annual evolution of industrial production in the main sectors associated with Russia's military-industrial complex from 2022 to 2026, expressed as a percentage change compared with the corresponding period of the previous year. For 2026, the data refer to the January–July period.

At the same time, a significant share of the growth recorded in 2023 stemmed from precautionary inventory accumulation,[2] amid concerns over potential supply-chain disruptions and increasingly restricted access to Western equipment, components, and technologies.

The subsequent sharp slowdown suggests that this model is approaching its limits. Following modest growth in 2025, forecasts for 2026 point to near-stagnation, while developments in the first months of the year confirm the weakening of economic momentum (+0.2%).[3] Under these conditions, Russia's GDP increasingly measures the pace at which national resources are being consumed to sustain the war, rather than the foundations for sustainable economic development.

[2] Olga Ageeva, "Сработали на склад: почему экономика России в 2023 году выросла выше ожиданий" ("Production for Inventories: Why Russia's Economy Grew Above Expectations in 2023"), *Forbes Russia*, February 9, 2024, https://www.forbes.ru/finansy/505868-srabotali-na-sklad-pocemu-ekonomika-rossii-v-2023-godu-vyrosla-vyse-ozidanij.

[3] Anastasia Lutsenko, "Путин рассказал о росте ВВП за пять месяцев 2026 года" ("Putin Reported GDP Growth in the First Five Months of 2026"), *RBC*, July 22, 2026, https://www.rbc.ru/rbcfreenews/6a609cc99a7947481c9c3eee.

THE MILITARISATION SYNDROME: DRAINING RESOURCES FROM THE CIVILIAN ECONOMY

The accelerated militarisation of the Russian economy has created a dual structure: the military-industrial complex is sustained by unprecedented levels of state procurement and public financing, while many civilian sectors face stagnation, contraction, and diminishing access to financial and human resources.

In the first half of 2026, Russia's military expenditure reached approximately RUB 10.7 trillion (≈USD 123.6 billion), up 30% from the same period in 2025 and equivalent to 4.7% of estimated full-year GDP.[4] The pace of spending runs counter to the authorities' initial objective of reducing the military budget in 2026 and points to a renewed acceleration in the cost of the war. If this pace is sustained through the end of the year, military expenditure would exceed 9% of GDP, setting a new record for the post-Soviet period.

Although the federal budget initially allocated RUB 12.9 trillion (≈USD 165.3 billion) to defence in 2026, Bloomberg estimates suggest that this spending could rise to nearly RUB 18 trillion (≈USD 230.7 billion), equivalent to approximately 41% of total planned federal expenditure of around RUB 44 trillion (≈USD 552.7 billion).[5] Based on this estimate, The Moscow Times assesses that, when combined with funding for the internal security apparatus, expenditure associated with the military and security structures could reach RUB 21.8 trillion (≈USD 279.4 billion), or nearly half of total planned federal spending.[6]

The prioritisation of the war is directly compressing civilian expenditure. The Ministry of Finance has proposed freezing allocations worth RUB 2.9 trillion (≈USD 37.2 billion) in 2026, followed by RUB 5.4 trillion (≈USD 69.2 billion) in 2027 and RUB 7.1 trillion (≈USD 91 billion) in 2028.[7] At the same time, part of the burden is being shifted onto the broader economy through the increase in the corporate profit tax from 20% to 25% in 2025,[8] a two-percentage-point increase in the standard VAT rate from 2026,[9] and the scaling back of tax relief and other preferential measures for small and medium-sized enterprises.[10]

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[4] Janis Kluge, "Russian Military Spending Soars, Upending the Kremlin's Budget Plans," STIFTUNG WISSENSCHAFT UND POLITIK (SWP), September 4, 2026, https://www.swp-berlin.org/en/publication/russian-military-spending-soars-upending-the-kremlins-budget-plans.

[5] Bloomberg News, „Russia Piles Up Debt as Costs of War in Ukraine Outrun Budget", BLOOMBERG, June 18, 2026, https://www.bloomberg.com/news/articles/2026-06-18/russia-piles-up-debt-as-costs-of-war-in-ukraine-outrun-budget.

[6] „Кремль готовится на 40% увеличить расходы на войну, несмотря на «дыру» в бюджете" („The Kremlin Is Preparing to Increase War Spending by 40% Despite the Budget 'Hole'"), The Moscow Times, June 18, 2026, https://ru.themoscowtimes.com/2026/06/18/kreml-gotovitsya-na40-uvelichit-rashodi-navoinu-nesmotrya-nadiru-vbyudzhete-a198498.

[7] Max Seddon and Anastasia Stognei, „Russia Overspends on Putin's War in Ukraine by $28bn", Financial Times, May 29, 2026, https://www.ft.com/content/93674b5c-06ea-4e49-a005-dc08e1091574.

[8] Ekaterina Kopylova, „В России вступила в силу прогрессия НДФЛ с пятью ставками" („Russia Introduced a Five-Tier Progressive Personal Income Tax Scale"), RBC, January 1, 2025, https://www.rbc.ru/economics/01/01/2025/676c10ce9a79473ee564d535 .

[9] „Путин подписал закон о повышении НДС до 22% с 2026 года" („Putin Signed a Law Raising VAT to 22% from 2026"), Vedomosti, November 28, 2025, https://www.vedomosti.ru/economics/news/2025/11/28/1159169-putin-podpisal-nds.

[10] Maria Perevoshcikova, „Эксперты указали на риск роста серых зарплат у малого бизнеса из-за страховых взносов" („Experts Warned of the Risk of Rising 'Grey' Wages among Small Businesses Due to Higher Insurance Contributions"), Forbes Russia, November

The imbalance is also evident in the labour market. According to *Oxford Economics* estimates, employment in military production increased by approximately 510,000 compared with the end of 2021, reaching around 2.8 million workers in 2026.[11] The military-industrial complex attracts workers by offering wages 30–60% higher than those in many civilian sectors and, for certain categories of employees, exemptions from military mobilisation.[12] This reallocation of labour is exacerbating imbalances across the civilian economy. The Institute of Economics of the Russian Academy of Sciences estimated the nationwide labour shortage at approximately 4.8 million workers in 2023,[13] while in 2025 the Russian Ministry of Industry and Trade assessed the additional workforce required by the manufacturing sector at around 1.9 million people.[14]

The expansion of sectors associated with military production has contrasted sharply with developments in key areas of the civilian economy. In 2024, passenger car production stood at approximately 756,000 units, around 44% below the 1.36 million units recorded in 2021.[15] Over the same period, household appliance production declined by approximately 30%, while basic metals output fell by around 10% compared with pre-war levels in 2021.[16] The war economy is temporarily sustaining industrial activity, but at the cost of eroding investment, productivity, and the productive base of the civilian sector.

17, 2025, https://www.forbes.ru/finansy/550079-eksperty-ukazali-na-risk-rosta-seryh-zarplat-u-malogo-biznesa-iz-za-strahovyh-vznosov.

[11] Bloomberg News, „Russia's War Economy Is Fueling Pay Gains Companies Can't Afford", Bloomberg, August 6, 2026, https://www.bloomberg.com/news/articles/2026-08-06/russia-s-war-economy-is-fueling-pay-gains-companies-can-t-afford.

[12] „За бронь и высокие зарплаты: как в РФ ищут кадры для военпрома" („For Exemption from Mobilization and High Salaries: How Russia Recruits Workers for Its Defense Industry"), DW, October 17, 2024, https://www.dw.com/ru/za-bron-i-vysokie-zarplaty-kak-v-rf-isut-kadry-dla-voenproma/a-70598043.

[13] Maria Stroiteleva, „Как же без рук: дефицит работников в 2023 году составил 4,8 млн" („How Can We Manage Without Workers? Russia's Labor Shortage Reached 4.8 Million in 2023"), Izvestia, December 24, 2023, https://iz.ru/1624816/mariia-stroiteleva/kak-zhe-bez-ruk-defitcit-rabotnikov-v-2023-godu-sostavil-48-mln.

[14] Tatiana Rîbakova, „2025-й кадр. Военной экономике России остро не хватает рабочих рук" („The Workforce of 2025: Russia's War Economy Is Facing an Acute Labor Shortage"), The Insider, May 13, 2025, https://theins.ru/ekonomika/280964.

[15] „Russian Growth Overall Slows, in Some Branches and Regions Output Has Declined", BOFIT Weekly Review 23/2025, Bank of Finland Institute for Emerging Economies, June 6, 2025, https://www.bofit.fi/en/monitoring/weekly/2025/vw202523_1/.

[16] „Small and Toxic: Why Russians' Income Growth Is Not Translating into Wealth, and Why the Russian Automotive Industry Will Not Recover", RE:RUSSIA, February 3, 2026, https://re-russia.net/en/analytics/0385/

DEPLETION OF RESERVES AND THE PUBLIC FINANCE CRISIS

DEPLETION OF THE NATIONAL WEALTH FUND

Created to shield the Russian economy from volatility in hydrocarbon revenues, the National Wealth Fund (NWF) was transformed after 2022 from a strategic reserve into a mechanism for financing budget deficits and the war economy. At the end of 2021, the fund's total value was equivalent to approximately 10% of GDP,[17] while at the beginning of 2022 its liquid component amounted to RUB 8.8 trillion (≈USD 114 billion), representing 62% of total assets.

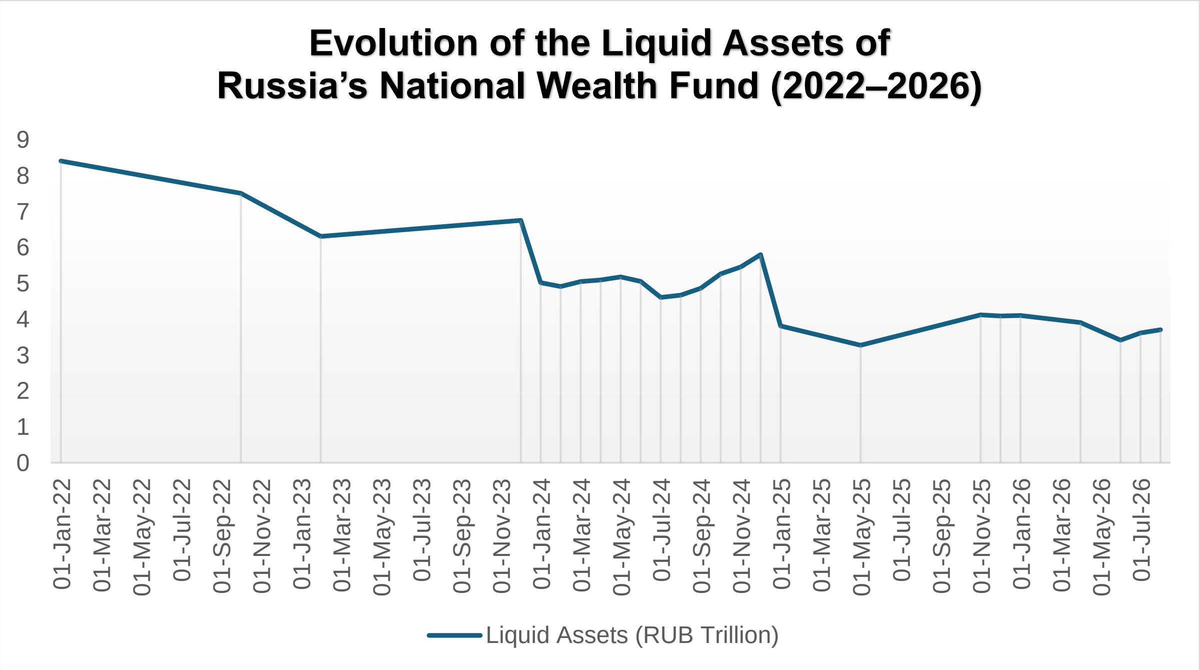

Figure 3: The chart shows the evolution of the liquid assets of the Russian Federation's National Wealth Fund from January 2022 to July 2026, expressed in trillions of rubles. The values reflect the level of liquid assets available at the indicated reference dates.

[17] Laura Solanko, „Rough Times for the Russian Economy", BANK OF FINLAND BULLETIN, January 22, 2026, https://www.bofbulletin.fi/blogs/2026/rough-times-for-the-russian-economy/.

Figure 4: The chart shows the evolution of the liquid assets of the Russian Federation’s National Wealth Fund from January 2022 to July 2026, expressed in billions of US dollars. The values reflect the USD equivalent of liquid assets at the indicated reference dates.

The intensive use of reserves to cover budget deficits in 2024 and 2025 significantly reduced the NWF’s financial capacity. By the spring of 2026, its liquid assets had fallen to approximately RUB 3.9 trillion (≈USD 48 billion), accounting for only 29% of the fund’s total value. At the same time, the federal budget deficit exceeded RUB 6 trillion (≈USD 75.4 billion) in the first seven months of 2026, further intensifying pressure on the remaining available reserves.

Western sanctions and the freezing of a significant share of Russia’s foreign reserves accelerated the restructuring of the NWF’s liquid assets, which became increasingly concentrated in yuan and gold. The NWF’s holdings of unallocated gold declined from approximately 554.9 tonnes as of 1 January 2023[18] to around 141.2 tonnes as of 1 August 2026[19], representing a decrease of nearly 75%.

[18] „ФНБ в декабре сократился почти на 1 трлн руб. — до 10,4 трлн руб.” („Russia’s National Wealth Fund Fell by Almost 1 Trillion Rubles in December, to 10.4 Trillion Rubles”), Interfax, January 18, 2023, https://www.interfax.ru/881283.

[19] „ФНБ в июле сократился на 383,3 млрд рублей, до 12,72 трлн рублей” („Russia’s National Wealth Fund Fell by 383.3 Billion Rubles in July, to 12.72 Trillion Rubles”), Interfax, August 10, 2026, https://www.interfax.ru/business/1108507.

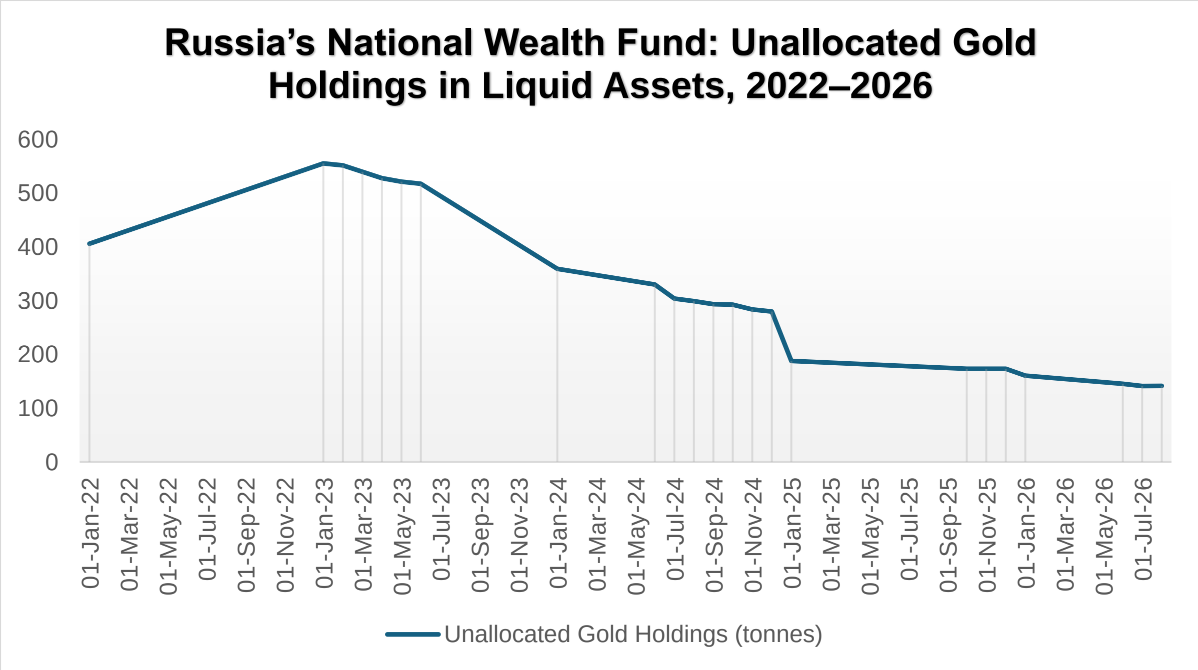

Figure 5: The chart shows the evolution of unallocated gold holdings included in the liquid assets of the Russian Federation's National Wealth Fund from January 2022 to August 2026, expressed in tonnes.

Separately, the Bank of Russia reduced its own international gold reserves by approximately 49.8 tonnes in the first seven months of 2026, to around 2,277 tonnes as of 1 August, the lowest level since January 2020.[20] These sales are conducted predominantly on the domestic market and largely reflect operations through which the Bank of Russia offsets the Ministry of Finance's transactions involving the NWF's liquid assets, including those carried out under the fiscal rule.

The Fund has not been exhausted in accounting terms, but its capacity to absorb further budgetary shocks has been substantially reduced. Sustained military spending is therefore pushing the state towards higher taxes, increased domestic borrowing, and the continued liquidation of reserve assets.

[20] Bloomberg News, „Russian Sales Bring Gold Reserves to Their Lowest Since 2020", BLOOMBERG, August 20, 2026, https://www.bloomberg.com/news/articles/2026-08-20/russian-sales-bring-gold-reserves-to-their-lowest-since-2020.

THE INTEREST RATE BOMB: RESTRICTIVE MONETARY POLICY AND THE SQUEEZING OF CIVILIAN INVESTMENT

The contradiction between expansionary fiscal policy, driven by military spending, and the Bank of Russia's restrictive monetary policy reflects the deepening of macroeconomic imbalances. While official inflation stands at around 5–6%,[21] households' inflation expectations have reached approximately 15%,[22] and economic analysts have identified substantial grounds for questioning the extent to which official statistics fully capture underlying price pressures.[23] To contain economic overheating and the depreciation of the ruble, the Central Bank previously raised its key policy rate to 21%, as shown in the chart below.

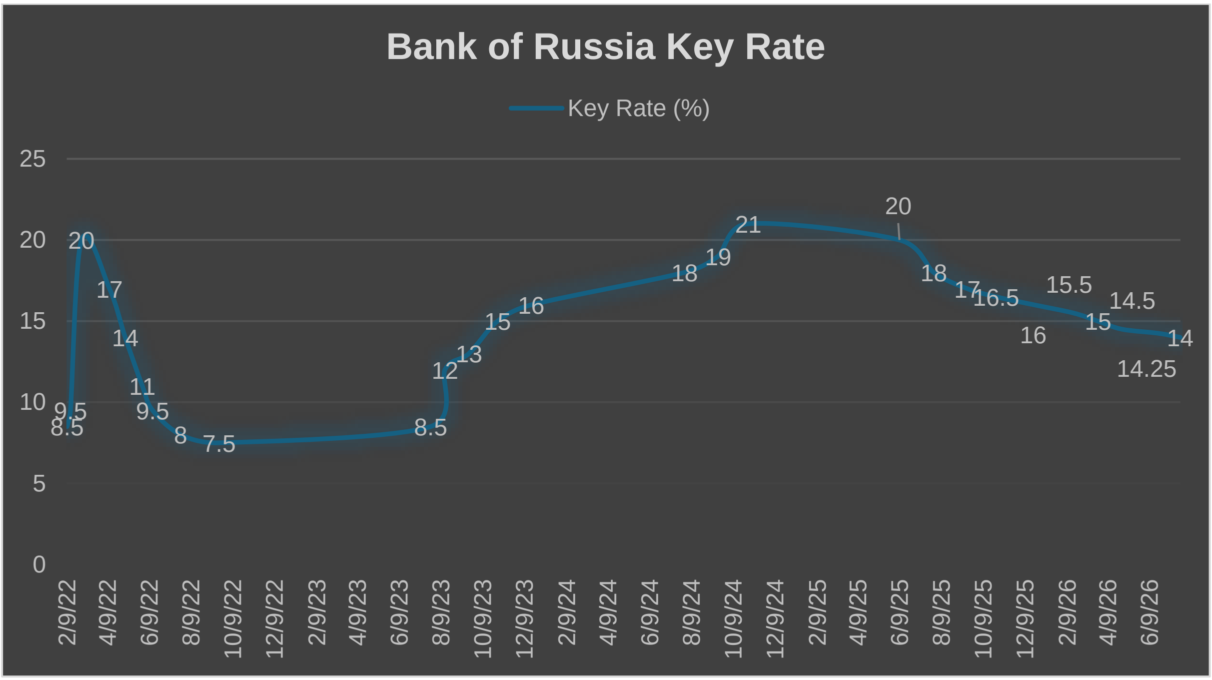

Figure 6: The chart shows the evolution of the Bank of Russia's key interest rate from February 2022 to July 2026, expressed as a percentage.

Beginning in June 2025, the Bank initiated a gradual easing cycle, lowering the key rate to 14% by July 2026.[24] The slow pace of rate cuts nevertheless reflects the limited room for manoeuvre amid a widening budget deficit, wage growth outpacing productivity, and mounting pressures stemming from the fuel crisis. Ukrainian strikes on refineries have increased the risk that higher fuel prices

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[21] „Инфляция в России на 3 августа составила 6,11% в годовом выражении" („Inflation in Russia Stood at 6.11% Year-on-Year as of August 3"), FINAM.RU, August 5, 2026, https://www.finam.ru/publications/item/inflyatsiya-v-rossii-na-3-avgusta-sostavila-611-v-godovom-vyrazhenii-20260805-1920/.

[22] Anastasia Başkatova, „Наблюдаемая населением инфляция превысила 15%" („Inflation Perceived by the Population Exceeded 15%"), Nezavisimaya Gazeta, May 20, 2026, https://www.ng.ru/economics/2026-05-20/4_9499_inflation.html.

[23] Dmitri Nekrasov, „Цена общественного наблюдения, или Что мы понимаем о дороговизне" („The Price of Public Perception, or What We Understand About High Prices"), The Moscow Times, January 12, 2026, https://ru.themoscowtimes.com/2026/01/12/tsena-obschestvennogo-nablyudeniya-ili-chto-mi-ponimaem-o-dorogovizne-a184300.

[24] Kommersant, „В ЦБ оценили вероятность дальнейшего снижения ключевой ставки" („The Bank of Russia Assessed the Likelihood of Further Key Rate Cuts"), August 5, 2026, https://www.kommersant.ru/doc/8863262.

will feed through into the prices of goods and services.[25] Pressure from the business community and senior officials, including Vladimir Putin,[26] Gherman Gref, CEO of Sberbank,[27] Alexander Shokhin, President of the Russian Union of Industrialists and Entrepreneurs (RSPP)[28] and Igor Sechin, Chief Executive of Rosneft,[29] has intensified tensions over the pace of monetary easing.

High interest rates, sanctions, and the concentration of financial resources around the state have constrained the civilian sector's access to capital. In the first quarter of 2026, companies' net profits declined by 26.5%,[30] while fixed capital investment fell by 14.3% year on year.[31] The impact of declining corporate profits on investment is particularly significant given the Russian economy's heavy reliance on self-financing. According to data from Rosstat and the Bank of Russia, in the first half of 2025, 61% of fixed capital investment was financed from companies' own resources, while bank lending accounted for only 14.3% of the total.[32]

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[25] Polina Tudacikova, „ЦБ оценил вклад роста цен на топливо в инфляцию в начале лета" („The Central Bank Assessed the Contribution of Rising Fuel Prices to Inflation at the Beginning of Summer"), ЭКСПЕРТ, August 5, 2026, https://expert.ru/news/tsb-otsenil-vklad-rosta-tsen-na-toplivo-v-inflyatsiyu-v-nachale-leta.

[26] RBC, „Путин назвал естественным процессом снижение ключевой ставки" („Putin Called the Reduction of the Key Interest Rate a Natural Process"), July 14, 2026, https://www.rbc.ru/finances/14/07/2026/6a56179a9a79470c56912450.

[27] Kommersant, „Греф заявил о «переохлаждении экономики» России из-за высокой ставки ЦБ" („Gref Said Russia's Economy Was 'Overcooled' Due to the Central Bank's High Interest Rate"), June 30, 2026, https://www.kommersant.ru/doc/8780135.

[28] Vitalii Gaidaev, „Бизнес ждет перемен" („Business Awaits Change"), KOMMERSANT, July 30, 2026, https://www.kommersant.ru/doc/8845538.

[29] Maria Koceva, „Сечин призвал принять разумные решения по ставке ЦБ и курсу рубля" („Sechin Called for Reasonable Decisions on the Central Bank's Key Rate and the Ruble Exchange Rate"), BANKI.RU, June 6, 2026, https://www.banki.ru/news/lenta/?id=11024813.

[30] RBC, Ilia Beketov, „Прибыль бизнеса упала на 26%: какие активы работают в кризис" („Business Profits Fell by 26%: Which Assets Perform in a Crisis"), July 23, 2026, https://companies.rbc.ru/news/7gBvdZu0OX/pribyil-biznesa-upala-na-26-kakie-aktivyi-rabotayut-v-krizis/.

[31] Vedomosti, „Инвестиции в основной капитал в России снизились на 14,3% в I квартале" („Fixed Capital Investment in Russia Fell by 14.3% in the First Quarter"), June 3, 2026, https://www.vedomosti.ru/economics/news/2026/06/03/1202760-investitsii-v-osnovnoi-kapital.

[32] Bank of Russia, *Regional Economy: Comments by the Bank of Russia's Main Branches*, No. 38, September 2025, pp. 32, 36–37, https://www.cbr.ru/Collection/Collection/File/57217/0925.pdf.

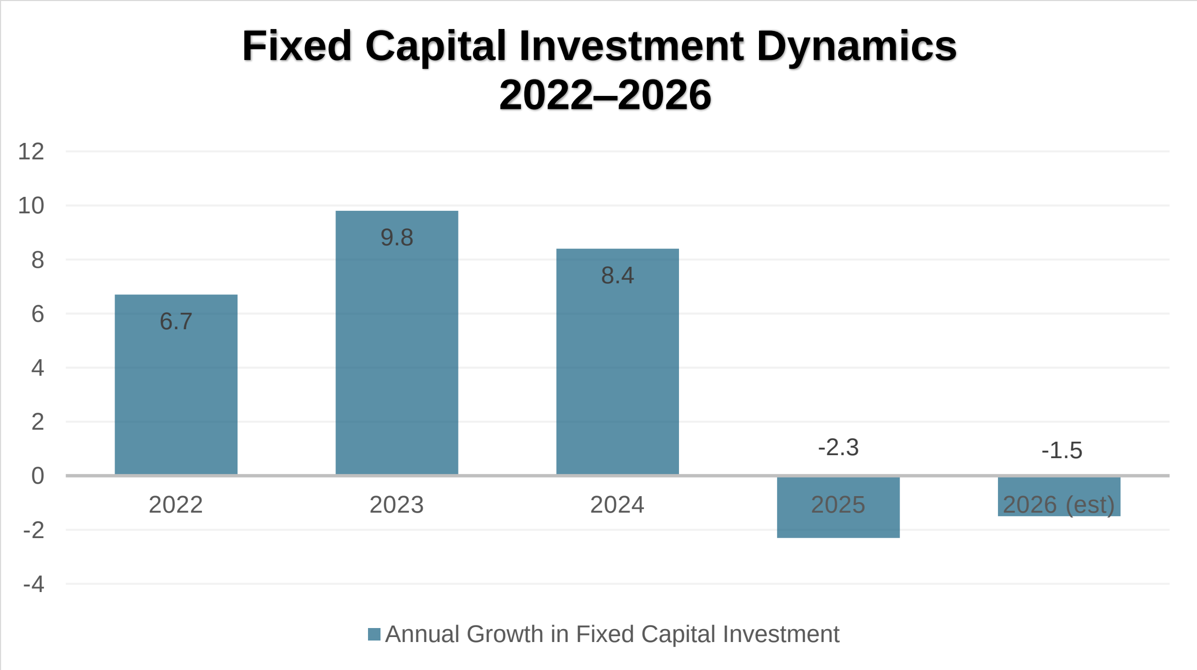

Figure 7: The chart shows the annual dynamics of fixed capital investment in the Russian Federation from 2022 to 2026, expressed as a percentage change from the previous year. The 2026 value is an estimate. Sources: Rosstat and the Ministry of Economic Development of the Russian Federation.

The contraction in investment does not appear to be merely cyclical. Following a 2.3% decline in 2025, the Ministry of Economic Development projects a further decrease of approximately 1.5% in 2026, marking a reversal of the investment expansion cycle observed between 2021 and 2024 and reflected in the chart above. According to Deputy Prime Minister Alexander Novak, the five largest state-owned companies account for more than 15% of total investment in the Russian economy, while cuts to the capital expenditure programmes of major groups such as Gazprom, Russian Railways, and Rosatom are contributing to the weakening of aggregate investment dynamics.[33]

At the same time, the outlook for the private sector remains weak. The Bank of Russia's August 2026 survey points to a slightly negative balance of expectations for investment activity in Q3, at –0.4 points, indicating that enterprises expecting investment to decline marginally outnumber those anticipating an increase.[34] Moreover, the issue concerns not only the volume of capital invested but also its efficiency: Bank of Russia Governor Elvira Nabiullina noted that, although investment had increased by approximately one-third over the previous three years, this expansion had not translated into a corresponding rise in labour productivity.[35]

[33] „Путину рассказали, что в России начался новый инвестиционный цикл" („Putin Was Told That a New Investment Cycle Has Begun in Russia"), The Moscow Times, August 20, 2026, https://ru.themoscowtimes.com/2026/08/20/putinu-rasskazali-chto-v-rossii-nachalsya-novii-investitsionnii-tsikl-a203913.

[34] Bank of Russia, *Monitoring of Businesses*, No. 7 (51), July 2026, p. 14, https://www.cbr.ru/Collection/Collection/File/62133/0726.pdf

[35] „Глава ЦБ отметила рост доли компаний с госучастием в кредитных портфелях до 35%" („Central Bank Governor Noted That the Share of State-Owned Companies in Loan Portfolios Rose to 35%"), Interfax, July 1, 2026, https://www.interfax.ru/business/1099523.

The deterioration in the investment outlook is part of a broader macroeconomic context of stagnation. In July 2026, the Bank of Russia lowered its full-year GDP growth forecast from 0.5–1.5% to 0–1% and raised its year-end inflation projection to 6–7%.[36] Persistently high interest rates are constraining investment and activity in civilian sectors, while the effectiveness of restrictive monetary policy is being undermined by the expansionary fiscal stance associated with the war economy, which continues to fuel demand-side and price pressures.

[36] Kommersant, „ЦБ рассчитывает на восстановление производственных мощностей в РФ до конца года" („The Central Bank Expects Russia's Production Capacity to Recover by the End of the Year"), July 24, 2026, https://www.kommersant.ru/doc/8844082.

THE HIDDEN COSTS OF WAR: RECRUITMENT, COMPENSATION, AND BUDGETARY PRESSURE

The system of financial incentives for military recruitment and compensation has become an increasingly costly component of the war economy. In 2026, the minimum monthly pay for a servicemember participating in the war stands at RUB 220,000 (≈USD 2,765), while remuneration for command positions can reach RUB 350,000 (≈USD 4,400). Upon signing a contract, recruits receive a one-off federal payment of either RUB 195,000 (≈USD 2,450) or RUB 400,000 (≈USD 5,025), depending on the terms of service, in addition to regional incentives that can reach RUB 4 million (≈USD 50,250).

Budgetary pressure, however, extends well beyond recruitment. For each servicemember killed, the family receives a one-off payment of RUB 5 million (≈USD 62,800), an insurance payment of more than RUB 3.68 million (≈USD 46,200), as well as pensions and monthly compensation. In cases of severe injury, the one-off payment amounts to RUB 3 million (≈USD 37,700), while if the injury results in disability, the total payment can reach RUB 4 million (≈USD 50,250). In addition, monthly compensation is provided according to the degree of disability, together with permanent benefits associated with veteran status. [37]

The scale of budgetary pressure is also illustrated by the rise in expenditure on Ministry of Defence personnel. In the approved 2026 budget, disclosed allocations for personnel remuneration amount to approximately RUB 1.84 trillion (≈USD 23.11 billion), around 2.5 times the levels recorded before the 2022 mobilisation.[38] These expenditures cover both mobilised servicemembers and contract personnel recruited for the war in Ukraine, highlighting the structural increase in payroll costs associated with sustaining military manpower.

These obligations generate costs that extend well beyond the period of active participation in the war. As recruitment becomes more difficult, the authorities are compelled to maintain or increase financial incentives, while the number of beneficiaries receiving allowances, pensions, and compensation continues to rise. These transfers temporarily support household incomes and consumption, but in an economy where civilian supply and productivity are being weakened by militarisation, they may further intensify inflationary pressures and increase the long-term fiscal burden.

[37] „СВО выплаты: какие суммы и виды поддержки в 2026” („SVO Payments: Amounts and Types of Support in 2026”), BUDGETNIK, July 17, 2026, https://www.budgetnik.ru/art/105243-vse-vyplaty-uchastnikam-svo-polnyy-perechen-summy-i-poryadok-polucheniya.

[38] Alex Stezhensky, „Putin's Mobilization Gamble Could Expand Army While Destabilizing His Regime — NV Analysis”, The New Voice of Ukraine, August 19, 2026, https://english.nv.ua/russian-war/putin-s-mobilization-dilemma-russia-needs-troops-but-fears-backlash-50634095.html.

TECHNOLOGICAL STRANGULATION AND THE DETERIORATION OF CRITICAL INFRASTRUCTURE

A burning storage tank at the Moscow Oil Refinery during the Ukrainian attack on 18 June 2026, with the tank roof projected into the air following an explosion.

Source: General Staff of the Armed Forces of Ukraine, 18 June 2026, CC BY 4.0.

International sanctions and the withdrawal of Western suppliers have restricted the Russian economy's access to advanced equipment, components, industrial software, and maintenance services. The effects have not taken the form of a generalised shutdown of production, but rather of higher costs, longer repair times, declining productivity, and growing dependence on indirect imports or technologically inferior substitutes. Russian producers have not found in China or other Asian economies a complete replacement for Western technologies.

Technological vulnerability is particularly evident in the refining sector. Between January and May 2026, Ukrainian strikes affected 16 refineries, twice as many as during the same period in 2025, temporarily taking approximately 700,000 barrels per day of refining capacity offline. Over the same period, 35 primary distillation units, with a combined capacity of 2.85 million barrels per day, were temporarily shut down at different points as a result of damage and associated operational disruptions.[39] The strike campaign continued in July and August, prompting temporary suspensions of operations at several major refineries, including Omsk, Syzran, Ryazan, and NORSI.[40] In July, crude oil throughput at Russian refineries fell to approximately 3.6 million barrels per day, the lowest monthly level since May 2002.[41]

Pressures intensified further in August, when *Bloomberg* identified at least 21 strikes on Russian refineries, the highest number recorded in a single month, including attacks on four of the country's ten largest refineries.[42] Under these conditions, average crude oil throughput stood at just over 3.8 million barrels per day, compared with a typical summer level of around 5.3–5.5 million barrels per day and nearly 20% below the level recorded in August 2025. Towards the end of the month, strikes took significant capacity offline at the Perm, NORSI, and Yaroslavl refineries. As a result, gasoline production fell to approximately 80,000 tonnes per day, equivalent to only 70% of seasonal domestic consumption of around 115,000 tonnes per day, creating a daily shortfall of approximately 35,000 tonnes. Across August as a whole, average gasoline output stood at around 90,000 tonnes per day, covering only 80% of estimated demand.[43] Although some capacity was restored following repairs, the recovery remained vulnerable to repeated strikes[44] and to difficulties in rapidly sourcing and replacing specialised equipment.

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[39] Reuters. "Ukraine Doubles Strikes on Russian Oil Refineries This Year", May 15, 2026, https://www.reuters.com/business/energy/ukraine-doubles-strikes-russian-oil-refineries-this-year-2026-05-15/.

[40] Reuters. "What Has Been Hit in Ukraine's Attacks on Russian Energy Sites?", August 11, 2026, https://www.reuters.com/business/energy/ukraine-attacks-russian-energy-sites-what-has-been-hit-2026-08-11/.

[41] Bloomberg News. "Ukraine's Shifting Strikes Deepen Uncertainty Around Russian Oil", August 3, 2026, https://www.bloomberg.com/news/articles/2026-08-03/ukraine-s-shifting-strikes-deepen-uncertainty-around-russian-oil.

[42] Bloomberg News. "Ukraine's Record Strikes Push Russians Back to Gasoline Lines", Bloomberg, August 28, 2026, https://www.bloomberg.com/news/articles/2026-08-28/ukraine-s-record-strikes-push-russians-back-to-gasoline-lines

[43] Reuters. "Russia's Gasoline Output Drops to 70% of Domestic Demand Late in August after Drone Attacks, Sources Say", August 28, 2026, https://www.reuters.com/business/energy/russias-gasoline-output-drops-70-domestic-demand-late-august-after-drone-attacks-2026-08-28/.

[44] International Energy Agency. OIL MARKET REPORT – AUGUST 2026. Paris: IEA, August 12, 2026, https://www.iea.org/reports/oil-market-report-august-2026.

The Arctic LNG 2 project illustrates the limits of technological substitution. Sanctions, the withdrawal of foreign shareholders, shortages of specialised vessels, and the exit of the Chinese company Wison from Russian projects have delayed both development and the commercialisation of production. The project is not completely "frozen", but it is operating below its planned capacity and remains dependent on costly logistical and commercial arrangements.[45]

Even the defence industry continues to rely on Western technology. The Oleum plant in Biysk acquired Siemens equipment required for production automation through Russian intermediaries and Chinese suppliers,[46] demonstrating that parallel imports can mitigate restrictions without eliminating technological dependence.

In civil aviation, shortages of original spare parts and access to authorised maintenance services have led to the cannibalisation of some aircraft in order to keep others operational.[47] This practice temporarily extends the service life of the fleet, but increases wear and long-term operational risks. In parallel, Russia has advanced its import-substitution programme in civil aviation through the development of the MC-21-310 passenger aircraft, equipped with Russian-made PD-14 engines and domestically produced systems.[48] The first aircraft built using serial-production technologies in the import-substituted configuration completed its maiden flight on 3 August 2026,[49] but the aircraft remains in the certification process and has not yet entered commercial service, following several delays to the delivery schedule.[50] Efforts to reduce dependence on Western technology also include the SJ-100, equipped with PD-8 engines and Russian-made systems,[51] as well as the Il-114-300 regional aircraft, which received type certification in June 2026.[52] Nevertheless, the main challenge remains the transition from certification and limited-volume production to large-scale commercial operation, a critical stage in assessing the Russian aviation industry's capacity to sustainably replace Western aircraft and technologies.

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[45] Malte Humpert, „Sanctioned Heavy-Lift Ships Deliver Key Arctic LNG 2 Modules to Russia, Pointing to Construction Restart", GCAPTAIN, July 20, 2026, https://gcaptain.com/sanctioned-heavy-lift-ships-deliver-key-arctic-lng-2-modules-to-russia-pointing-to-construction/.

[46] Gleb Stoliarov and James Pomfret, „Despite Western Sanctions, Russian Bomb Factory Bought Siemens Tech via Middleman", Reuters, August 7, 2025, https://www.reuters.com/business/aerospace-defense/despite-western-sanctions-russian-bomb-factory-bought-siemens-tech-via-middleman-2025-08-07/.

[47] Kateryna Shkarlat, „Russia Dismantles Aircraft to Keep Others in Service as Aviation Industry Declines – Intel", RBC-UKRAINE, July 23, 2026, https://newsukraine.rbc.ua/news/russia-dismantles-aircraft-to-keep-others-1784831161.html.

[48] Ministry of Transport of the Russian Federation. "Первый серийный МС-21 выполнил первый полет" ("The First Serial MC-21 Completed Its First Flight"), August 3, 2026, https://mintrans.gov.ru/press-center/branch-news/9308.

[49] Roma Nazarov, „МС-21 наконец выходит в серию. Дождались?" („The MS-21 Is Finally Entering Serial Production. Was It Worth the Wait?"), TECHINSIDER, August 2026, https://www.techinsider.ru/technologies/1742369-ms-21-nakonec-vyhodit-v-seriyu-dojdalis/.

[50] THE MOSCOW TIMES. "В России снова перенесли начало поставок самолета МС-21" ["Russia Again Postponed the Start of MC-21 Deliveries"]. January 5, 2026, https://ru.themoscowtimes.com/2026/01/05/vrossii-snova-perenesli-nachalo-postavok-samoleta-ms-21-a184101.

[51] Rostec. "Rostec Started Fabricating the First Commercial PD-8 Engines for the Superjet", July 6, 2026, https://rostec.ru/en/media/news/rostec-started-fabricating-the-first-commercial-pd-8-engines-for-the-superjet/.

[52] Rostec. "The Il-114-300 Regional Airliner and PD-8 Engine for the Superjet Received Their Type Certificates." June 25, 2026, https://elements.rostec.ru/en/media/news/the-il-114-300-regional-airliner-and-pd-8-engine-for-the-superjet-received-their-type-certificates/.

At the same time, the shift towards Chinese suppliers has not eliminated technological constraints. Electronic components acquired through grey-market channels have failure rates of up to 40%,[53] while Chinese equipment supplied to the oil sector performs less efficiently under the extreme conditions of the Arctic region.[54] In addition, Beijing has refrained from providing its own gas liquefaction technologies in order to protect its broader international commercial interests and access to Western markets.[55] Chinese companies therefore calibrate their exports to Russia according to the risk of exposure to secondary sanctions.

THE STRUCTURAL LABOUR CRISIS AND THE PRODUCTIVITY BOTTLENECK

Russia's labour market has entered a phase of structural shortage, which Bank of Russia Governor Elvira Nabiullina has described as unprecedented in the country's modern history.[56] The available labour reserve has declined by approximately 40% compared with 2021, to 4.4 million people,[57] against the backdrop of demographic decline, emigration, mobilisation, and the recruitment of around 1.5 million people for the war. Estimates point to a shortage of approximately 1.5 million workers across the economy[58] and as many as 2 million in industry alone,[59] while unemployment remained at a record low of around 2.2% in June 2026.[60]

In 2023–2024, companies responded through aggressive recruitment and wage increases, but wages grew faster than labour productivity, driving up costs and intensifying inflationary pressures. The capacity to sustain this "wage race" diminished in 2026 amid economic stagnation, high interest rates, and the deterioration of companies' financial position. Annual real wage growth slowed from 8.6% in January and February to 4.5% in May, while the official forecast for the full year was revised down to 2.2%.[61]

[53] Rob Thubron, „Russia Finds 40% of Its Chinese Chip Imports Are Defective", TECHSPOT, October 19, 2022, https://www.techspot.com/news/96373-russia-finds-40-chinese-chip-imports-defective.html.

[54] Isha Rao and Max Gruenig, „Sanction-Proof? Russia's Arctic Ambitions and the China Factor", THE ARCTIC INSTITUTE, November 21, 2024, https://www.thearcticinstitute.org/sanction-proof-russias-arctic-ambitions-china-factor/.

[55] Torbjörn Becker et al., ENDGAME: THE STATE OF THE RUSSIAN ECONOMY, Kiel Report nr. 9 (Kiel: Kiel Institute for the World Economy, June 2026), https://www.kielinstitut.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/3d87c36f-c2f7-46a6-aedb-8c03627a224a-Endgame_The-State-of-the-Russian-Economy-Kiel_Report_No_9-english-Version.pdf.

[56] Gheorghi Nedoghibcenko and Tatiana Zîkina, „Набиуллина заявила о нехватке в России рабочей силы впервые в ее истории" („Nabiullina Said Russia Is Experiencing a Labor Shortage for the First Time in Its History"), RBC, April 16, 2026, https://www.rbc.ru/economics/16/04/2026/69e092939a7947358980ddb8.

[57] „Кадровый резерв в России за пять лет сократился почти вдвое" („Russia's Labor Reserve Nearly Halved over Five Years"), Kommersant, April 27, 2026, https://www.kommersant.ru/doc/8623624.

[58] Iulia Ovcinnikova, „Дефицит квалифицированных кадров в России достиг 1,5 млн человек" („Russia's Shortage of Skilled Workers Reached 1.5 Million People"), RBC, December 11, 2024, https://www.rbc.ru/economics/11/12/2024/67596ef49a79474844647e79.

[59] Tatiana Rîbakova, „2025-й кадр. Военной экономике России остро не хватает рабочих рук" („The Workforce of 2025: Russia's War Economy Is Facing an Acute Labor Shortage"), The Insider, May 13, 2025, https://theins.ru/ekonomika/280964.

[60] „Решетников отметил, что рынок труда в РФ постепенно 'остывает'" („Reshetnikov Noted That Russia's Labor Market Is Gradually 'Cooling'"), Interfax, June 30, 2026, https://www.interfax.ru/business/1099258.

[61] „Рост реальных зарплат замедлился до 4,5% в мае" („Real Wage Growth Slowed to 4.5% in May"), Kommersant, July 30, 2026, https://www.kommersant.ru/doc/8847930.

The cooling of labour demand does not, however, mean that the structural shortage has been resolved. By the end of 2025, approximately 1.6 million employees were working reduced hours or had been placed on temporary furlough,[62] as companies preferred cutting working time to dismissing staff. This strategy temporarily preserves the workforce, but may reduce efficiency, incomes, and skills development.

At the same time, the authorities are encouraging students to pursue vocational education. The declining share of pupils continuing into Grade 10[63] reflects an effort to supply technical personnel more rapidly to an economy facing strong demand for skilled workers, including in the military-industrial sector, as illustrated by the Alabuga Polytechnic College.[64] Over the longer term, however, this approach risks deepening shortages of advanced human capital.

THE SQUEEZING OF PRIVATE CAPITAL AND THE DECLINE OF SMES

Russia's civilian private sector and small and medium-sized enterprises are facing a marked deterioration in operating conditions, simultaneously burdened by higher taxation, prohibitive borrowing costs, and the degradation of operational infrastructure. In June 2026, the Bank of Russia's Business Climate Indicator fell to –3.6 points, entering contractionary territory and reaching its lowest level since April 2022.[65]

This trend reflects the redirection of financial resources towards the military-industrial complex and the compression of civilian sectors. While funding for several technological development projects has been reduced, businesses have also been affected by the scaling back of tax incentives. In the first quarter of 2026, approximately 209,000 SMEs were liquidated, 9% more than in the same period of the previous year.[66] In sectors such as non-food retail and footwear manufacturing, the number of closures significantly exceeded new registrations.[67]

[62] Anastasia Manuilova, „Труд ставят на паузу" („Employment Is Put on Hold"), Kommersant, April 20, 2026, https://www.kommersant.ru/doc/8605689.
[63] Evgheni Diuk, „После колледжа — в армию: в РФ сокращают набор в 10-е классы" („After College, into the Army: Russia Is Reducing Enrollment in 10th Grade"), DW, July 21, 2026, https://www.dw.com/ru/posle-kolledza-v-armiu-v-rf-sokrasaut-nabor-v-10e-klassy/a-78046870.
[64] Andrew Osborn, „Russian TV Shows Teenagers at 'World's Biggest Drone Factory' Making Arms to Hit Ukraine", Reuters, July 21, 2025, https://www.reuters.com/business/media-telecom/russian-tv-shows-teenagers-worlds-biggest-drone-factory-making-arms-hit-ukraine-2025-07-21/.
[65] „Индикатор бизнес-климата Банка России рухнул в июле" („The Bank of Russia's Business Climate Indicator Plunged in July"), Monocle, July 2, 2026, https://monocle.ru/monocle/2026/33/indikator-biznes-klimata-banka-rossii-rukhnul-v-iyule/.
[66] „«Запаса прочности уже нет». После повышения налогов в России за три месяца закрылись более 200 тысяч малых компаний" („'There Is No Safety Margin Left': More Than 200,000 Small Companies Closed in Russia in Three Months After Tax Increases"), The Moscow Times, May 15, 2026, https://ru.themoscowtimes.com/2026/05/15/v-rossii-pochti-na-10-viroslo-chislo-zakritii-malogo-biznesa-a195383.
[67] Roman Soloviov, „Рынок одежды и обуви продолжает терять игроков: за пять месяцев 2026 года закрытия заметно опередили открытия" („The Clothing and Footwear Market Continues to Lose Players: Closures Significantly Outpaced Openings in the First Five Months of 2026"), Business News Agency (ABN), June 23, 2026, https://abn.agency/2026/06/23/rynok-odezhdy-i-obuvi-prodolzhaet-teryat-igrokov-za-pyat-mesyaczev-2026-goda-zakrytiya-zametno-operedili-otkrytiya/.

The deterioration is also confirmed by business surveys: 69% of entrepreneurs reported declining revenues, while 45% were operating at break-even or at a loss.[68] At the same time, companies' net financial results fell by 26.5% in the first quarter,[69] while the stock market lost approximately one-third of its value from the spring onwards,[70] signalling a decline in investor confidence.

These pressures have been compounded by logistical disruptions caused by the fuel crisis, recurring interruptions to internet and communications services, and attacks on logistics hubs operated by Wildberries, one of Russia's largest e-commerce companies. The effects extend beyond the retail sector: the loss of logistics capacity and inventories affects hundreds of thousands of sellers, some of which operate with bank financing, increasing the risk of default and the need for loan restructuring.[71] At the same time, Wildberries entered this period with estimated bank debt exceeding RUB 1.3 trillion (≈USD 16.33 billion), including approximately RUB 500 billion (≈USD 6.28 billion) owed to VTB, turning any deterioration in the company's financial position into a potential channel for transmitting losses to the banking sector.[72] In this context, civilian companies are increasingly forced to use credit to cover current liquidity needs rather than to finance investment, while the deterioration of the SME sector heightens the risk of a prolonged contraction in the civilian economy and the accumulation of additional distressed assets on banks' balance sheets.

CRACKS IN THE MILITARY-INDUSTRIAL COMPLEX

[68] Maria Perevoșcikova, „Три четверти предпринимателей заявили о значительном ухудшении ситуации в бизнесе" („Three Quarters of Entrepreneurs Reported a Significant Deterioration in Business Conditions"), Forbes Russia, March 23, 2026, https://www.forbes.ru/finansy/557760-tri-cetverti-predprinimatelej-zaavili-o-znacitel-nom-uhudsenii-situacii-v-biznese.

[69] „Сальдированная прибыль предприятий в I квартале упала на 26,5%, до 5,19 трлн рублей" („Enterprises' Aggregate Net Profit Fell by 26.5% in the First Quarter, to 5.19 Trillion Rubles"), Interfax, June 3, 2026, https://www.interfax.ru/business/1093669.

[70] Mihail Sergheev, „Фондовый рынок России становится токсичным для инвесторов" („Russia's Stock Market Is Becoming Toxic for Investors"), Nezavisimaya Gazeta, June 23, 2026, https://www.ng.ru/economics/2026-06-23/1_9522_russia.html.

[71] Reuters. "Ukrainian Attacks on Wildberries Strike at Heart of Russia Inc." REUTERS, August 7, 2026, https://www.reuters.com/world/ukrainian-attacks-wildberries-strike-heart-russia-inc-2026-08-07/

[72] The Bell. "Российские бигтехи влезают в долги. В лидерах — Wildberries" ("Russian Big Tech Is Going into Debt. Wildberries Leads"), June 2, 2026, https://thebell.io/rossiyskie-bigtekhi-vlezayut-v-dolgi-v-liderakh-wildberries.

Russian President Vladimir Putin during a visit to Uralvagonzavod, one of Russia's principal producers of armoured vehicles, February 2024.
Source: Presidential Press Service of Russia / Kremlin.ru, CC BY 4.0.

Despite its expansion driven by state procurement, Russia's military-industrial complex is showing increasingly pronounced financial, technological, and operational vulnerabilities. Following strong growth in 2023–2024, production momentum in defence-related industries began to slow in 2025, while some segments of weapons and ammunition production recorded monthly contractions in 2026[73] (*Figure 2*). This trend points to existing capacities approaching their limits rather than to an end to military production.

The financial model is structurally fragile. Defence contract prices are administratively set, while Rostec's average profitability is only 2–3%,[74] despite including more profitable civilian and financial activities such as Novikombank. As the state initially pays only around 25–30% of the value of procurement contracts, enterprises and subcontractors are forced to finance production through loans carrying interest rates above 20%, with some reportedly reaching around 35%. Payment delays have contributed to defaults, wage arrears, and financial difficulties at enterprises such as Poliot and Tesla.[75]

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[73] „Россия в апреле сократила производство компьютеров и электроники на 3,3% в годовом сравнении" („Russia Cut Computer and Electronics Production by 3.3% Year-on-Year in April"), Finmarket, May 28, 2026, https://www.finmarket.ru/news/6629932.
[74] Midene Ovezova, „Глава «Ростеха» заявил о дефиците средств для новых инвестпроектов" („Head of Rostec Reported a Shortage of Funds for New Investment Projects"), RBC, July 15, 2026, https://www.rbc.ru/economics/15/07/2026/6a573a9f9a794772a46d8f3b.
[75] Orlovsky Vzglyad, „Кризис в российском ВПК: долги по зарплатам, массовые увольнения и истощение ракетных запасов" („Crisis in Russia's Military-Industrial Complex: Wage Arrears, Mass Layoffs, and Depletion of Missile Stockpiles"), VC.ru, February 19, 2026, https://vc.ru/id5670597/2746221-krizis-v-vpk-rossii-dolgi-po-zarplatam-uvolneniya-i-nekhvatka-raket.

Another indicator of the deterioration in the financial position of the military-industrial complex is the performance of Promsvyazbank (PSB), the principal bank serving Russia's defence sector. In the first half of 2026, PSB recorded a loss of approximately RUB 50 billion (≈USD 577 million), compared with a profit of RUB 72 billion (≈USD 831 million) in the same period of 2025, while provisions for potential loan losses rose to RUB 195.7 billion (≈USD 2.26 billion), almost four times the level recorded a year earlier. At the same time, the state continued to recapitalise the bank, indicating that part of the financial risks associated with lending to the defence sector is being transferred onto the public balance sheet.[76]

Corruption further reduces the efficiency of resource allocation. The wave of arrests and convictions among senior officials in the Ministry of Defence[77] confirms the systemic nature of the problem. According to an estimate cited by State Duma deputy Mikhail Delyagin, during Sergei Shoigu's tenure, the amount of funds allegedly misappropriated from the Ministry of Defence budget may have reached approximately RUB 11 trillion (≈USD 138 billion).[78]

Modernisation capacity is constrained by ageing machinery, shortages of skilled personnel, and continued dependence on imports. For some passive electronic components, external dependence reaches as high as 99%,[79] while Russia continues to import computer numerical control (CNC) machine tools, magnets, bearings, and alloying metals, primarily through China[80] and intermediary countries.[81] By 2024, the defence industry was already reporting a shortage of approximately 400,000 workers.[82]

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[76] The Insider. "ПСБ — основной банк российского ВПК — ушел в убыток на 50 млрд рублей из-за неплатежей по кредитам" ["PSB, the Main Bank of Russia's Military-Industrial Complex, Posts a 50 Billion Ruble Loss amid Loan Payment Problems"]. August 17, 2026, https://theins.ru/news/296120.

[77] Mike Eckel, „Чистки в Минобороны РФ: как ФСБ ищет виновных в провалах в Украине среди соратников Шойгу" („Purges in Russia's Defense Ministry: How the FSB Is Seeking Those Responsible for Failures in Ukraine among Shoigu's Associates"), Krym.Realii, April 21, 2026, https://ru.krymr.com/a/chistki-v-minoborony-rf-kak-fsb-ishchet-vinovnykh-v-provalakh-v-ukraine-sredi-soratnikov-shoygu/33737116.html.

[78] Alina Kolupaeva, „Депутат Госдумы Делягин сообщил об 11 триллионах своровованных в Минобороны рублей" („State Duma Deputy Delyagin Reported That 11 Trillion Rubles Were Stolen from the Ministry of Defense"), Public News Service (OSN), July 12, 2024, https://www.osnmedia.ru/politika/deputat-gosdumy-delyagin-soobshhil-ob-11-trillionah-svorovannyh-v-minoborony-rublej/.

[79] Kristina Holupova, „Российская электроника оказалась зависимой от иностранных конденсаторов" („Russian Electronics Has Proven Dependent on Foreign Capacitors"), VEDOMOSTI, October 3, 2024, https://www.vedomosti.ru/technology/articles/2024/10/03/1066146-rossiiskaya-elektronika-okazalas-zavisimoi-ot-inostrannih-kondensatorov.

[80] Dmitri Lutovici, „РФ увеличила импорт станков из Китая для военного производства: как работает схема, — ГУР" („Russia Increased Imports of Machine Tools from China for Military Production: How the Scheme Works, According to Ukraine's Defense Intelligence"), FOCUS, March 26, 2025, https://focus.ua/voennye-novosti/699260-voennoe-proizvodstvo-rf-rossiyskie-predpriyatiya-uvelichili-import-stankov-iz-kitay.

[81] Andrei Zaiakin, „Взять за бутылочное горлышко: 9 уязвимых мест, где российская промышленность критически зависит от импорта" („Bottlenecked: Nine Choke Points Where Russian Industry Remains Critically Dependent on Imports"), THE INSIDER, August 11, 2025, https://theins.ru/inv/283618.

[82] Deutsche Welle, „Российскому ВПК не хватает рабочих рук" („Russia's Military-Industrial Complex Is Short of Workers"), DW, November 27, 2024, https://www.dw.com/ru/rossijskomu-vpk-ne-hvataet-rabocih-ruk/a-70902869.

These vulnerabilities also affect quality control: the supply of uncertified bearings grounded five Il-76MD-90A aircraft.[83] The military-industrial complex is therefore able to sustain production, but at the cost of rising financial, technological, and quality-related pressures.

THE DECLINE OF THE AGRI-FOOD SECTOR

Despite the officially reported 5% increase in agricultural output in 2025, financial and structural indicators point to a deterioration in the sector's sustainability. The increase in harvest volumes was driven largely by feed grains, which command lower prices and are more difficult to market abroad, while the agricultural sector's aggregate net profit declined by 18% in 2024.[84] According to State Duma Deputy Chairman Alexei Gordeev, the sector lost more than RUB 100 billion (≈USD 1.26 billion) in potential revenue in 2025 because of the widening gap between production costs and selling prices.[85]

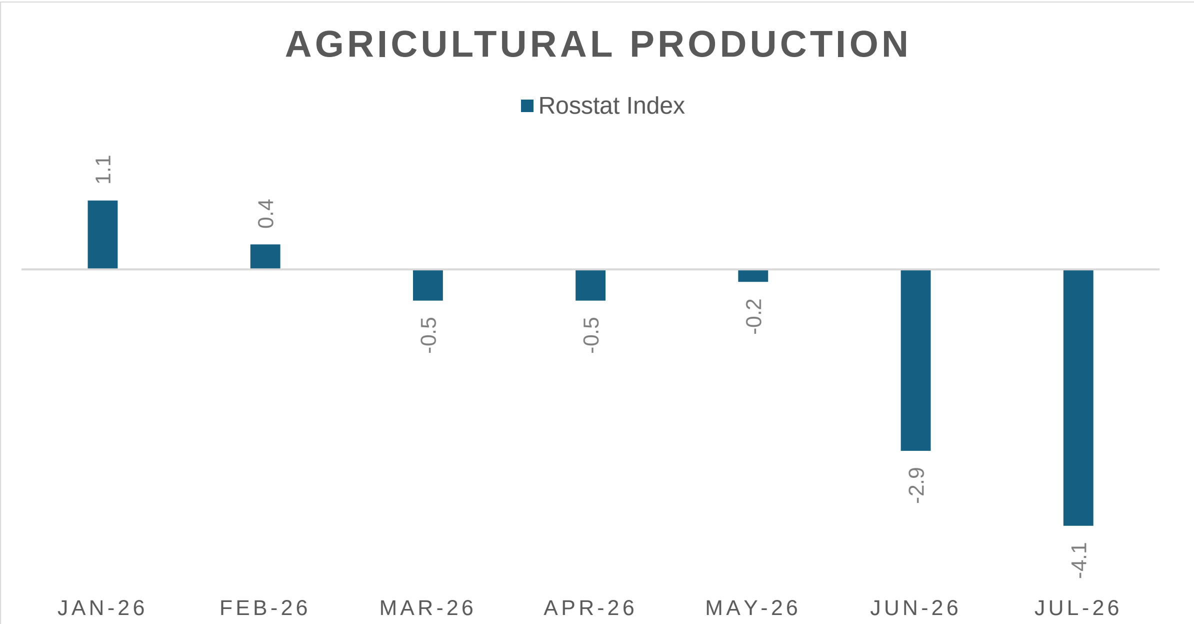

Figure 8: The chart shows the monthly evolution of agricultural production in the Russian Federation from January to July 2026, expressed as a year-on-year percentage change based on the index published by Rosstat.

Profitability has been undermined by 15–20% increases in the costs of fuel, fertilisers, seeds, machinery, and labour. At the same time, budgetary support for agriculture is expected to decline from RUB 665 billion (≈USD 8.35 billion) in 2025 to RUB 542 billion (≈USD 6.81 billion) in 2026.[86]

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[83] Nikolai Sergheev, „Левые подшипники навредили военно-транспортной авиации" („Counterfeit Bearings Damaged Military Transport Aviation"), KOMMERSANT, July 19, 2024, https://www.kommersant.ru/doc/6843843.

[84] „Рентабельность сельского хозяйства России в 2024 году снизилась до 18%" („Profitability of Russian Agriculture Fell to 18% in 2024"), OLEOSCOPE, February 14, 2025, https://oleoscope.com/news/rentabelnost-selskogo-hozjajstva-rossii-v-2024/.

[85] „Сельское хозяйство России в 2025 году потеряло более 100 млрд рублей прибыли" („Russian Agriculture Lost More Than 100 Billion Rubles in Profit in 2025"), INTERFAX, March 25, 2026, https://www.interfax.ru/business/1079979.

[86] „Деньги для фермеров: какие суммы и направления поддержки заложены в бюджете 2026 года" („Money for Farmers: What Amounts and Areas of Support Are Included in the 2026 Budget"), Svoio Media, May 25, 2026,

High costs and tighter financing conditions are prompting cuts in investment in technology, pesticides, and fertilisers, raising the risk of lower productivity and declining crop quality.

Grain exports fell by 16.3%, to 36.9 million tonnes, while wheat shipments declined by 12%, to 28.6 million tonnes, between July 2025 and January 2026.[87] The decline reflects the reduced competitiveness of Russian wheat, unpredictable export taxes and quotas, and high logistics costs. In the livestock sector, the downturn intensified in the first half of the year: cattle and dairy cow herds each fell by 4.1% compared with 2025, while sheep and goat numbers declined by more than 8%.[88] These developments confirm the continuation of the downward trend recorded in these sectors in recent years. In the dairy industry, cases were reported in which producers disposed of unsold milk amid high costs and weak demand.[89]

The new price-monitoring mechanism, due to take effect in 2027, will expand the state's access to commercial data,[90] but is unlikely to substantially reduce final consumer prices. Administrative intervention risks exacerbating existing imbalances and discouraging investment.

Moreover, pressures on the agri-food sector intensified in July–August 2026 as Ukrainian attacks expanded against port infrastructure and commercial shipping in the Azov–Black Sea basin. On 10 July, Russia temporarily suspended navigation through the Don–Azov Canal, a route associated with up to 25% of Russian wheat exports,[91] while the 12 August attack on Novorossiysk damaged infrastructure at one of the country's main grain terminals and led to the suspension of some port operations.[92] As a result, Russian exports of grain and pulses fell to just 1.7 million tonnes in August, 3.5 times lower than in August 2025, while wheat exports declined 3.8-fold to around 1.3 million tonnes.[93]

The scale of the logistical disruptions reduced exporters' ability to market production abroad and intensified the logistical and financial pressures on an agricultural sector already affected by declining profitability, rising production costs, and a deteriorating export outlook.

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https://svoefermerstvo.ru/svoemedia/articles/dengi-dlya-fermerov-kakie-summy-i-napravleniya-podderzhki-zalozheny-v-byudzhete-2026-goda.

[87] Ana Koroleva, „Зерно не спешит за море" („Grain Is in No Hurry to Go Overseas"), KOMMERSANT, February 24, 2026, https://www.kommersant.ru/doc/8460786.

[88] Aliona Belaia, „Меньше коров — больше молока: почему сокращается поголовье сельхозживотных" („Fewer Cows, More Milk: Why Livestock Numbers Are Declining"), Forbes Russia, August 4, 2026, https://www.forbes.ru/prodovolstvennaya-bezopasnost/565903-men-se-korov-bol-se-moloka-pocemu-sokrasaetsa-pogolov-e-sel-hozzivotnyh.

[89] „В России начали сливать молоко из-за кризиса перепроизводства" („Milk Is Being Dumped in Russia Due to an Overproduction Crisis"), DELOVOI PETERBURG, February 20, 2026, https://www.dp.ru/a/2026/02/20/v-rossii--nachali-slivat-moloko.

[90] Anastasia Lejepekova, „Путин подписал закон о мониторинге цен на продукты" („Putin Signed a Law on Monitoring Food Prices"), *RBC*, August 4, 2026, https://www.rbc.ru/economics/04/08/2026/6a71d3159a79472f94ee34ac.

[91] Reuters, „RPT Russia Halts Don-Azov Channel Shipping, Affecting Grain Trade, After Ukraine Attacks", REUTERS, July 10, 2026, https://www.reuters.com/business/rpt-russia-halts-don-azov-channel-shipping-affecting-grain-trade-after-ukraine-2026-07-10/.

[92] Olga Popova, „Two Grain Terminals at Russia's Novorossiysk Halt Work After Ukrainian Attack, Sources Say", REUTERS, August 12, 2026, https://www.reuters.com/world/russias-novorossiysk-grain-terminal-halts-operations-after-ukrainian-drone-2026-08-12/.

[93] Interfax. "РФ в августе снизила отгрузки зерна на экспорт в 3,5 раза, до 1,7 млн т" ["Russia Cut Grain Export Shipments 3.5-Fold in August, to 1.7 Million Tons"], September 1, 2026, https://www.interfax.ru/business/1112484.

THE EMERGING BANKING SECTOR CRISIS

The Russian banking sector is accumulating systemic vulnerabilities amid economic stagnation, high interest rates, and the use of credit institutions to finance the war economy. A report by European intelligence services describes the situation as potentially "explosive", assessing that banks have been pressured to extend subsidised loans to defence-industry companies, regional projects, and beneficiaries of state-backed mortgage programmes.[94] The Bank of Russia, however, rejects the existence of an imminent systemic crisis.

The Center for Macroeconomic Analysis and Short-Term Forecasting considers that crisis dynamics may unfold in a latent form, masked by loan restructuring and the dominance of state-owned banks. As of 1 April 2026, problematic corporate loans had reached RUB 11 trillion (≈USD 138.2 billion), equivalent to 11.6% of the portfolio,[95] of which approximately RUB 5.2 trillion were not covered by reserves or guarantees. By the end of the third quarter of 2025, around one-fifth of the loan portfolio extended to companies and SMEs had been restructured.[96]

The deterioration is also evident in household lending. The share of overdue unsecured consumer loans has risen to approximately 13.1%,[97] while mortgage arrears increased by 75% in 2025.[98] Between 2022 and 2025, around RUB 2.4 trillion (≈USD 30.15 billion) in retail loans were restructured,[99] while more than 500,000 individuals entered personal bankruptcy in 2025.[100]

Pressures on the banking sector are also being amplified by the deterioration in its liquidity position. In July 2026, cash in circulation increased by approximately RUB 0.6–0.7 trillion (≈USD 7.5–8.8 billion), with Sberbank linking this development in part to a shift by some companies towards cash transactions.[101] At the same time, The Washington Post reported a growing preference for cash among some households and businesses, driven in part by concerns over possible restrictions on access to deposits or the use of financial resources to support the war.[102] These concerns do not yet indicate a systemic withdrawal of deposits, but they represent a sign of

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[94] John Irish and John O'Donnell, „War Threatens Russian Banking Crisis, European Intelligence Report Says", REUTERS, July 6, 2026, https://www.reuters.com/business/finance/war-threatens-russian-banking-crisis-european-intelligence-report-says-2026-07-06/.

[95] „Банки РФ в апреле увеличили корпоративные кредиты на 1,9%" („Russian Banks Increased Corporate Lending by 1.9% in April"), INTERFAX, May 27, 2026, https://www.interfax.ru/business/1092198.

[96] Iana Jukova, „Долги не приходят одни" („Debts Never Come Alone"), EXPERT, June 1, 2026, https://expert.ru/ekonomika/dolgi-ne-prikhodyat-odni.

[97] „ЦБ: рост доли проблемных долгов по необеспеченным потребкредитам замедлился" („Central Bank: Growth in the Share of Problem Debt on Unsecured Consumer Loans Has Slowed"), TASS, June 1, 2026, https://tass.ru/ekonomika/27600601.

[98] Gheorghi Trushin, „Коллекторы оценили просроченную задолженность по ипотеке на вторичку" („Debt Collectors Assessed Overdue Mortgage Debt on the Secondary Housing Market"), RBC NEDVIZHIMOST, October 24, 2025, https://rbcrealty.ru/news/68fb5c9d9a7947eac1afdd25.

[99] Evgheni Graciov, „Одно дно: безнадежные долги россиян подскочили на треть" („Rock Bottom: Russians' Bad Debts Jumped by a Third"), IZVESTIA, Mart 11, 2026, https://iz.ru/2056702/evgenii-grachev/odno-dno-beznadezhnye-dolgi-rossiyan-podskochili-na-tret.

[100] VEDOMOSTI, „Количество банкротств выросло на 31,5% в 2025 году" („The Number of Bankruptcies Rose by 31.5% in 2025"), February 24, 2026, https://www.vedomosti.ru/economics/news/2026/02/24/1178507-kolichestvo-bankrotstv.

[101] „Сбер фиксирует дефицит ликвидности в секторе в условиях спроса бизнеса на наличность" („Sberbank Reports a Liquidity Shortage in the Banking Sector Amid Businesses' Demand for Cash"), INTERFAX, July 29, 2026, https://www.interfax.ru/business/1106288.

[102] Catherine Belton, „Russians Pull Billions from Banks, Fearing Kremlin Will Seize Deposits for War", THE WASHINGTON POST, August 18, 2026, https://www.washingtonpost.com/world/2026/08/18/russians-pull-cash-banks-fearing-kremlin-will-seize-deposits-war/.

deteriorating confidence in the financial system. By 13 August, the banking sector's structural liquidity deficit had reached RUB 2.7 trillion (≈USD 33.9 billion), up from RUB 587 billion (≈USD 7.4 billion) at the beginning of the year and the highest level since March 2022.[103] Although the Bank of Russia considers this level manageable and does not view it as evidence of a deposit crisis, persistent liquidity pressures could constrain banks' capacity to expand lending and absorb new government debt issuance. This vulnerability is particularly relevant in a context in which the Ministry of Finance was forced to temporarily suspend auctions of Russian federal government bonds (OFZs) amid market volatility and weak demand.[104]

The risks are further amplified by the European sanctions adopted in July 2026, which introduced asset freezes targeting 94 financial institutions and transaction bans, including disconnection from SWIFT, for 33 banks.[105] Nevertheless, state control over the largest lenders, the relative stability of deposits, and the banking system's capital buffers reduce the likelihood of an immediate wave of bank failures.

A more likely scenario is one of gradual deterioration: rising loan-loss provisions, public recapitalisations, tighter credit conditions, and the transfer of losses to the state budget and the broader economy, with additional adverse effects on inflation and investment.

THE EXHAUSTION OF RUSSIA'S ENERGY MODEL: CONSTRAINED EXPORTS AND INSUFFICIENT REVENUES

The recovery in Russia's energy revenues in the spring of 2026 was largely cyclical, driven primarily by the geopolitical shock in the Middle East. Although the price of Urals crude used for fiscal purposes temporarily rose from USD 41 per barrel in January to a peak of USD 94.9 per barrel in April, the positive impact on the budget was quickly eroded by the sector's broader imbalances.

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[103] Iulia Koshkina, „Структурный дефицит ликвидности в банках подскочил до ₽2,7 трлн" („Structural Liquidity Deficit in Russian Banks Jumped to 2.7 Trillion Rubles"), *RBC*, August 14, 2026, https://www.rbc.ru/finances/14/08/2026/6a7e99c49a794726137fad3b.

[104] „Минфин РФ приостановил аукционы ОФЗ для стабилизации рыночной ситуации" („Russia's Finance Ministry Suspended OFZ Auctions to Stabilize Market Conditions"), Interfax, July 20, 2026, https://www.interfax.ru/business/1104410.

[105] Deutsche Welle, „Что меняет 21-й пакет санкций Евросоюза в отношении России" („What Does the European Union's 21st Sanctions Package Against Russia Change?"), July 23, 2026, https://www.dw.com/ru/cto-menaet-21j-paket-sankcij-evrosouza-v-otnosenii-rossii/a-78090642.

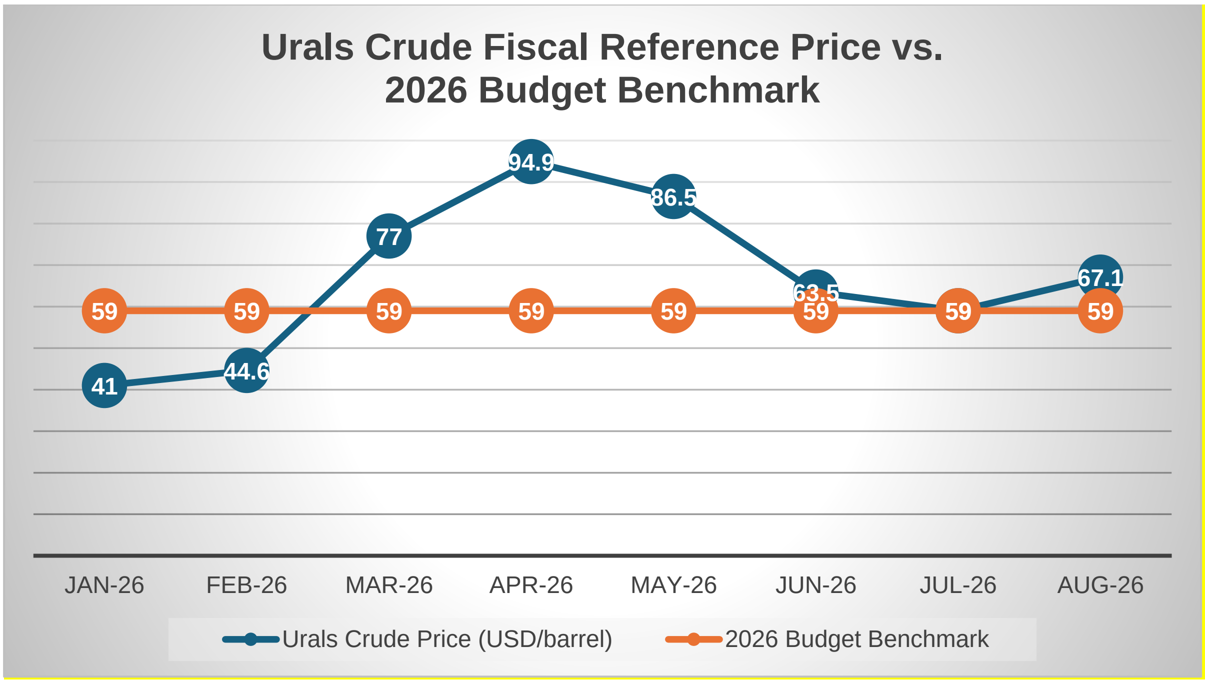

Figure 9: The chart compares the monthly evolution of the fiscal reference price for Urals crude oil used for tax calculations with the USD 59 per barrel benchmark assumed in the 2026 federal budget, covering the period from January to August 2026.

The budgetary benefit of the temporary increase in oil prices was also limited by the compensation mechanism provided to oil companies to maintain domestic fuel supplies and contain retail prices. Since the beginning of the year, payments under this mechanism have reached approximately RUB 916 billion (≈USD 10.6 billion).[106] At the same time, the appreciation of the ruble reduced the domestic-currency value of foreign-currency-denominated energy revenues: in the first seven months of the year, the average exchange rate stood at approximately RUB 76.5 per USD, compared with RUB 92.2 per USD used in the formulation of the 2026 budget.[107] In the first eight months of 2026, budget revenues from oil and gas totalled approximately RUB 5.02 trillion (≈USD 57.9 billion), 17% below the level recorded in the same period of 2025.[108]

[106] Bloomberg News, "Russia's Oil Revenue Sinks to Six-Month Low as Urals Price Drops." Bloomberg, September 3, 2026, https://www.bloomberg.com/news/articles/2026-09-03/russia-s-oil-revenue-sinks-to-six-month-low-as-urals-price-drops.
[107] Vadim Visloguzov, "Бюджет впитывает дорогую нефть" ["The Budget Absorbs Expensive Oil"]. Kommersant, August 5, 2026, https://www.kommersant.ru/doc/8863407.
[108] Vadim Visloguzov, „Нефтегазовые доходы в августе упали вдвое" [„Oil and Gas Revenues Halved in August"], Kommersant, September 3, 2026, https://www.kommersant.ru/doc/8925272.

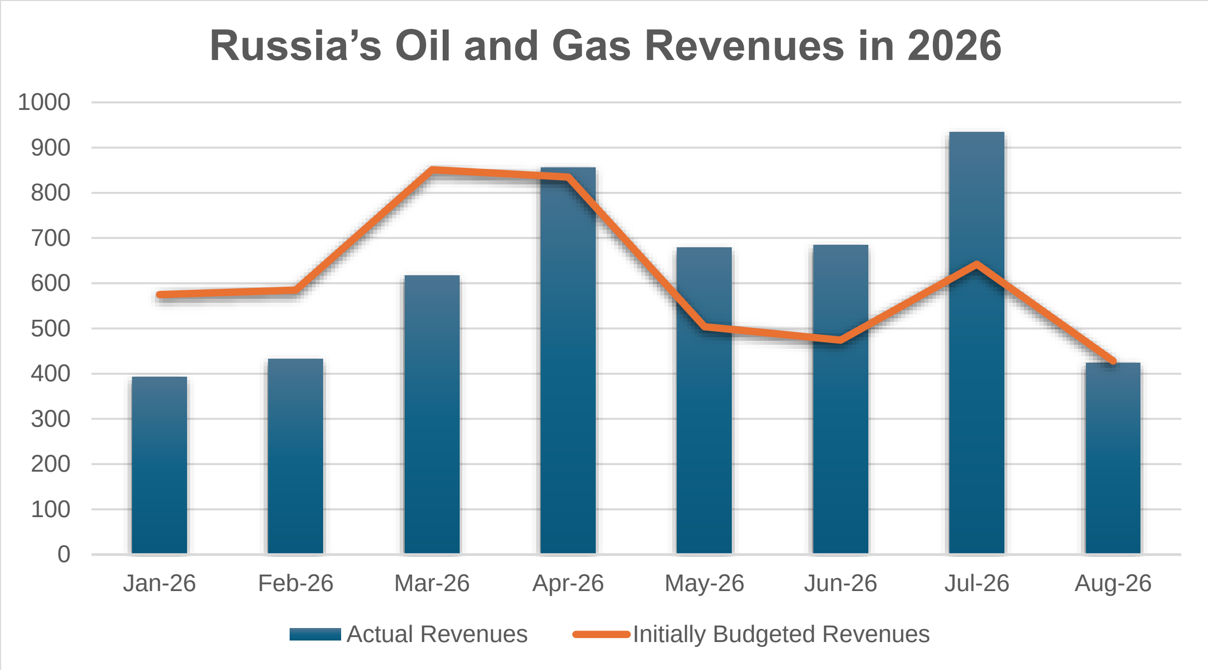

Figure 10: The chart compares the monthly oil and gas revenues actually collected by the federal budget of the Russian Federation with the monthly levels originally projected in the 2026 budget, covering the period from January to August 2026. Values are expressed in billions of rubles.

critical vulnerability. During periods of peak disruption, estimates indicate that between 11% and 30% of national refining capacity was taken offline.[109] In July 2026, crude oil throughput at Russian refineries fell to approximately 3.6 million barrels per day, the lowest monthly level since May 2002 and around one-third below the seasonal average.[110] The deterioration in refining activity had already become visible in the previous month: in June, the petroleum products output index fell by 21.8% compared with the same month in 2025,[111] while in July the year-on-year decline remained substantial at 19.3%.[112] In August, processing recovered only partially, to just over 3.8 million barrels per day, remaining nearly 20% below the August 2025 level and significantly below the usual summer volume of 5.3–5.5 million barrels per day. These developments generated regional fuel shortages and prompted the introduction of export restrictions aimed at protecting domestic supply.

At the same time, Russia was forced to rely on additional imports of petroleum products:

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[109] Max Seddon et al., „How Vladimir Putin's Refinery Dream Became Ukraine's Target", Financial Times, July 30, 2026, https://www.ft.com/content/3990cbf0-e783-4445-a32f-19a345c0cc6f.

[110] Bloomberg News, „Ukraine's Shifting Strikes Deepen Uncertainty Around Russian Oil", BLOOMBERG, August 3, 2026, https://www.bloomberg.com/news/articles/2026-08-03/ukraine-s-shifting-strikes-deepen-uncertainty-around-russian-oil.

[111] Ivan Tkaciov, „Росстат сообщил о снижении производства нефтепродуктов в июне" („Rosstat Reported a Decline in Petroleum Product Output in June"), RBC, July 23, 2026, https://www.rbc.ru/economics/23/07/2026/6a611e999a79472d0ca52b25.

[112] Valeria Dobrova and Ivan Tkaciov, „В России в июле снизились темпы падения производства нефтепродуктов" („The Decline in Petroleum Product Output in Russia Slowed in July"), RBC, August 25, 2026, https://www.rbc.ru/economics/26/08/2026/6a8f2df5338553817c59f1ab.

- In the first seven months of the year, rail deliveries from Belarus reached approximately 665,000 tonnes of gasoline, 25 times the volume recorded in the same period of 2025, and 418,000 tonnes of diesel, 6.5 times more;[113]
- From Kazakhstan, the Kondensat refinery supplied around 8,700 tonnes of gasoline in July,[114] amid negotiations for additional volumes;[115]
- A cargo of approximately 30,000 tonnes of AI-92 gasoline was imported from Morocco;[116]
- Maritime gasoline imports from India also began, with the first identified shipment amounting to approximately 42,000 tonnes,[117] within the framework of agreements covering volumes of around 100,000 tonnes.

By mid-August, some of the gasoline imported from India and Morocco was facing commercialisation difficulties because of high logistics costs and the gap relative to domestic prices. The imported volumes subsequently began to enter the market: on 19 August, the St. Petersburg International Mercantile Exchange sold 360 tonnes of imported AI-92 gasoline at RUB 105,000 per tonne,[118] around 39% above the price of domestically produced gasoline, highlighting the high cost of relying on imports to cover the shortfall.[119] At the same time, the authorities temporarily relaxed quality standards for fuel sold on the domestic market in an effort to offset supply shortages and stabilise the market.[120]

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[113] Reuters, „Gasoline, Diesel Exports from Belarus to Russia Hit New Record High in July, Sources Say", REUTERS, August 5, 2026, https://www.reuters.com/business/energy/gasoline-diesel-exports-belarus-russia-hit-new-record-high-july-sources-say-2026-08-05/.

[114] Nikita Drobnyi, „Казахстан всё-таки поделился топливом с Россией" („Kazakhstan Did, After All, Share Fuel with Russia"), NATIONAL BUSINESS, August 17, 2026, https://nationalbusiness.kz/news/kazahstan-vsyo-taki-podelilsya-toplivom-s-rossiey-aa9750/.

[115] Reuters, „Russia Asks Kazakhstan for Gasoline to Ease Shortages, Sources Say", Reuters, June 24, 2026, https://www.reuters.com/business/energy/russia-asks-kazakhstan-gasoline-ease-shortages-sources-say-2026-06-24/.

[116] Reuters, „Russia Imports Gasoline Cargo from Morocco, Market Sources Say", REUTERS, July 31, 2026, https://www.reuters.com/business/energy/russia-imports-gasoline-cargo-morocco-market-sources-say-2026-07-31/.

[117] Krishna N. Das and Nidhi Verma, „Russia Seeks More Gasoline from India After Ukraine Attacks Refineries, Sources Say", Reuters, July 15, 2026, https://www.reuters.com/business/energy/russia-seeks-more-gasoline-india-after-ukraine-attacks-refineries-sources-say-2026-07-15/.

[118] Interfax, "St. Petersburg International Mercantile Exchange Holds First Sales of Imported Gasoline.", August 20, 2026, https://interfax.com/newsroom/top-stories/118783/

[119] Reuters, "Russia Receives Indian Gasoline Cargo as Fuel Shortages Bite", August 17, 2026, https://www.reuters.com/business/energy/russia-receives-indian-gasoline-cargo-fuel-shortages-bite-2026-08-17/

[120] Elena Hudaeva, „Правительство до конца года разрешило оборот топлива по стандарту «Евро-3»" („The Government Allowed the Circulation of Euro 3 Standard Fuel Until the End of the Year"), FORBES RUSSIA, July 3, 2026, https://www.forbes.ru/biznes/564232-pravitel-stvo-do-konca-goda-razresilo-oborot-topliva-po-standartu-evro-3.

The image shows a queue at a Rosneft gas station in Moscow on 4 July 2026.
Source: Shutterstock

The reduction in domestic refining capacity redirected a larger share of crude oil towards exports. In the four weeks to 12 July 2026, seaborne exports averaged 4.21 million barrels per day, while approximately 135 million barrels were at sea,[121] including delayed cargoes and shipments without a clearly identified final destination. Under these conditions, higher export volumes did not translate into a proportional increase in revenues.

Russia's natural gas sector is also undergoing a severe decline, with exports falling in 2025 by approximately 55 billion cubic metres compared with 2022 levels.[122] The loss of the European market has not been offset by a pivot towards Asia, where Russia faces insufficient transport infrastructure and weaker bargaining power.

[121] Julian Lee, „Russia Struggles to Sell All the Oil It's Being Forced to Export", Bloomberg, July 14, 2026, https://www.bloomberg.com/news/articles/2026-07-14/russia-struggles-to-sell-all-the-oil-it-s-being-forced-to-export.
[122] Igor Vmnolobuev, „Russia's Gas Industry Is Dying a Slow But Occasionally Explosive Death", THE MOSCOW TIMES, July 15, 2026, https://www.themoscowtimes.com/2026/07/15/russias-gas-industry-is-dying-a-slow-but-occasionally-explosive-death-a93257.

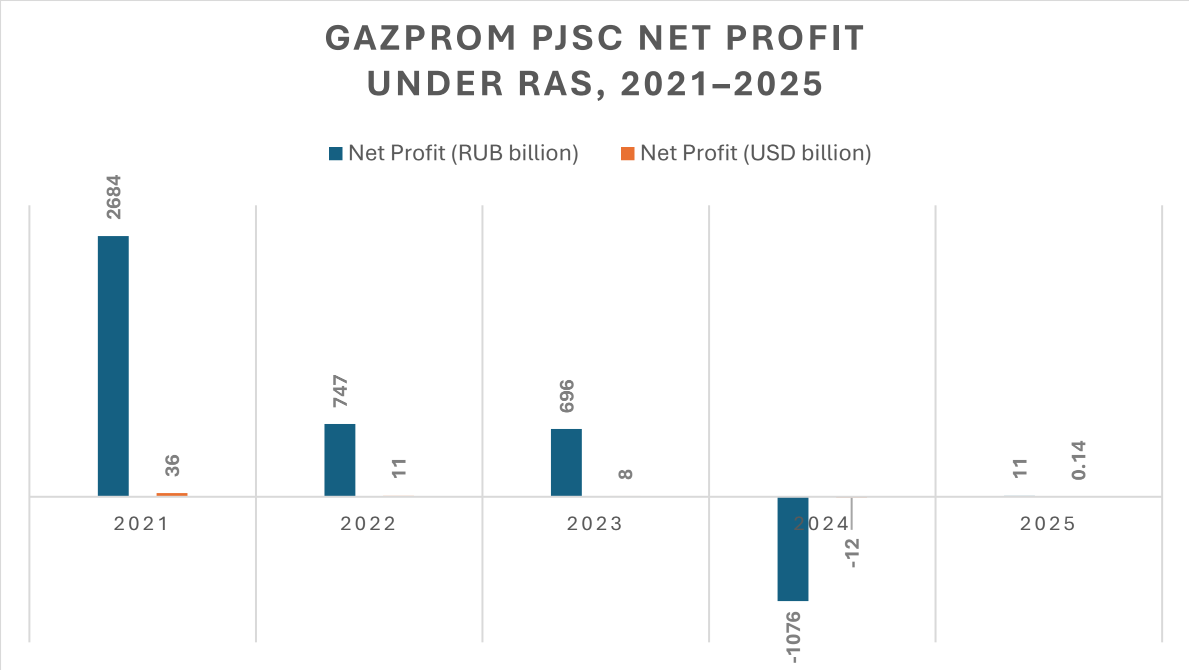


Figure 11: The chart illustrates the evolution of the annual net profit of Gazprom PJSC, the parent company of the Gazprom Group, from 2021 to 2025, expressed in billions of rubles and converted into billions of US dollars using the average annual RUB/USD exchange rate for each year.

Negotiations over the Power of Siberia 2 pipeline, designed to transport gas from the Yamal Peninsula to China via Mongolia, have stalled over disagreements on commercial terms. Beijing is seeking prices close to those prevailing on Russia's domestic market, which would shift a significant share of the cost of redirecting exports onto Gazprom.[123] In 2026, China is paying approximately USD 258.8 per 1,000 cubic metres for Russian gas, around 39% less than the average price paid by Gazprom's other foreign customers outside the former Soviet space, including Türkiye and European countries that continue to import Russian gas.

In the absence of sufficient alternative export routes and amid declining investment, the gas sector can no longer provide the budget with the revenues previously generated by the European market. The fiscal shortfall is therefore being covered primarily through higher non-oil revenues, including VAT increases and intensified tax pressure, and secondarily through additional cyclical revenues from oil exports.

[123] Lingling Wei and Thomas Grove, „Putin Was Xi's Role Model. Now He's the Junior Partner", THE WALL STREET JOURNAL, July 13, 2026, https://www.wsj.com/world/x-putin-junior-partner-df611b88.

BREAKDOWN SCENARIOS: POSSIBLE MECHANISMS OF A SYSTEMIC CRISIS

The collapse of the Russian economy is unlikely to take the form of a sudden and simultaneous breakdown of institutions, companies, and the financial system. A more plausible scenario is one of accelerated deterioration driven by the interaction of energy, fiscal, banking, and industrial shocks. Ukrainian drone strikes deep inside Russian territory represent a cross-cutting catalyst: they are unlikely to trigger systemic rupture on their own, but they can amplify existing vulnerabilities by increasing repair costs, disrupting production, and reducing the state's capacity to preserve economic and social stability.

THE ENERGY-FISCAL SHOCK

The first scenario begins with a sustained decline in oil and gas revenues, driven by lower international prices, wider discounts on Russian crude, more effective enforcement of sanctions, or weaker Asian demand. Strikes on refineries, storage facilities, terminals, and transport infrastructure could simultaneously deepen fuel shortages, production losses, and budgetary costs.

As the liquid assets of the National Wealth Fund continue to diminish, the state would be forced to rely increasingly on domestic borrowing, tax increases, cuts to civilian investment, and the transfer of a greater share of the burden onto regions and companies already affected by deteriorating economic conditions. The breaking point would be reached when the budget could no longer simultaneously finance the war, support the energy sector, meet social obligations, and maintain public infrastructure.

BANKING CRISIS AND CREDIT CONTRACTION

The second scenario stems from the deterioration of bank loan portfolios. High interest rates, declining corporate profits, and the expansion of loan restructuring could turn a latent crisis into an open one. Financial distress at a major borrower, a regional government, or a strategic enterprise would force banks to increase provisions and tighten lending.

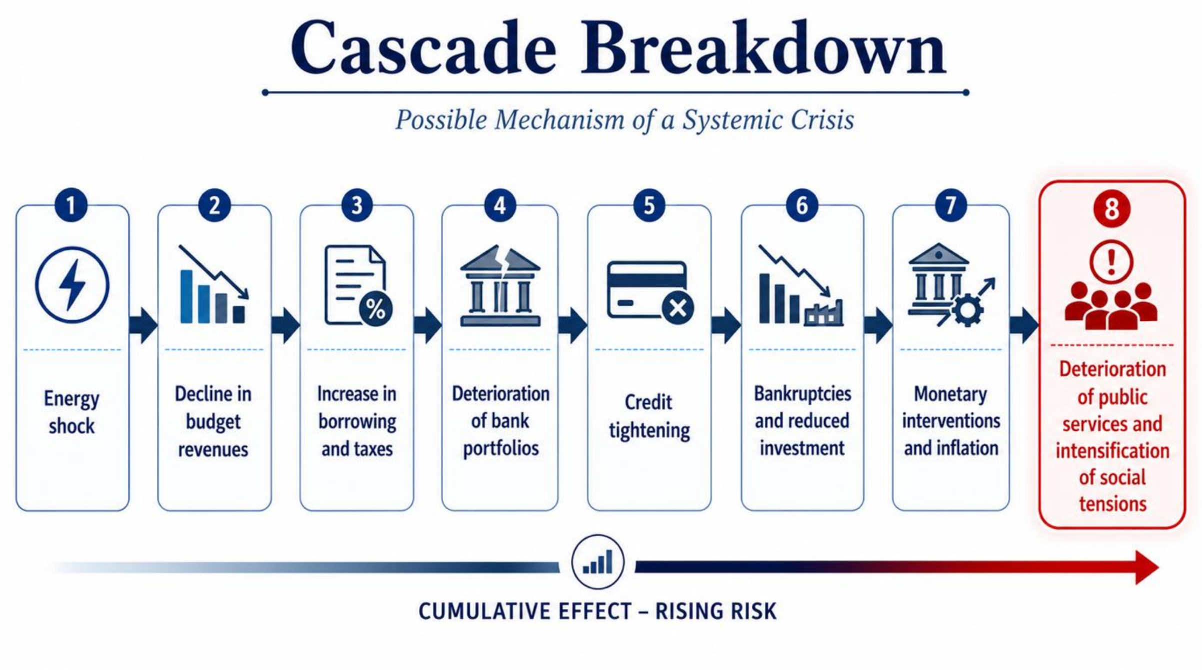
State control over the main financial institutions reduces the likelihood of an immediate wave of bank failures, but it does not eliminate the underlying losses. These would instead be transferred to the public budget through recapitalisations and liquidity injections. The main consequence would be a severe restriction of access to financing for SMEs and civilian companies, accelerating insolvencies, layoffs, and wage arrears.

DETERIORATION OF THE MILITARY-INDUSTRIAL COMPLEX

The third scenario concerns the weakening of the sector that has underpinned economic growth since 2022. Strikes on factories, storage facilities, and logistics hubs could generate disproportionate losses when destroyed equipment is difficult to replace because of sanctions and continued dependence on imported components.

Delays in public payments, high borrowing costs, labour shortages, and quality-control problems could disrupt subcontracting chains. Sustaining production would require further budgetary intervention, further reducing the resources available for the broader economy, infrastructure, and social services.

CASCADING BREAKDOWN



Note: Diagram developed by New Strategy Center and generated with the assistance of artificial intelligence.

The most dangerous scenario is the convergence of these vulnerabilities into a cascading transmission mechanism: strikes on energy and industrial infrastructure reduce production and budget revenues, prompting the state to raise taxes and borrowing, while companies accumulate debt and banks tighten credit. Bankruptcies, declining investment, and inflationary pressures would then spread to the regions and the population, transforming an economic crisis into a social one.

The ultimate outcome of this process would be an accelerated erosion of living standards through declining real incomes, the accumulation of wage arrears, the emergence of shortages, the spread of hidden unemployment, and the deterioration of public services and civilian infrastructure. Regional disparities would deepen, particularly in territories dependent on federal transfers, while restrictions on internet access and communications would intensify social isolation and information control.

The combination of falling living standards, deteriorating public services, and restricted access to information would erode the social contract based on material stability in exchange for political passivity. This trajectory would not automatically lead to large-scale protests, but it would intensify latent discontent, encourage migration and informal economic activity, weaken trust in institutions, and increase the repressive and fiscal costs required to preserve domestic stability. The state may be able to delay a broader rupture through centralisation, administrative control, and repression, but such measures would shift the burden onto the population and accelerate the deterioration of the civilian economy.

Image of Lev Shlosberg, Vice President of the Yabloko party, in court on 14 August, three days before his sentencing to 11 years and one month in prison for "discrediting" the armed forces and "spreading false information" about them.
Source: The official website of the Yabloko party, which was barred from participating in the September parliamentary elections due to its anti-war electoral platform.

The Russian economy has not demonstrated immunity to sanctions, but rather an ability to delay and redistribute their costs through administrative controls, energy revenues, the use of reserves, and the mobilisation of resources for military purposes. This capacity to absorb shocks has been facilitated by the authoritarian nature of the political system, which allows the Kremlin to control capital flows, direct credit and investment, compress civilian expenditure, and shift a disproportionate share of the adjustment burden onto companies, regions, and households. Authoritarianism does not eliminate the economic costs, but it does allow their political and social consequences to be deferred.

Beneath the appearance of a strategic transition towards a new economic model, Moscow is rapidly consuming the vital "tissue" of its own economy: private capital, infrastructure, labour, financial reserves, and technological capacity. GDP growth in 2023–2024 primarily reflected the expansion of public spending and sectors linked to the military-industrial complex. This model temporarily supported production and employment, but reduced the resources available for investment and civilian sectors. The slowdown observed in 2025–2026 indicates diminishing returns from military stimulus and suggests that existing capacities are approaching their limits.

At the same time, the state's room for intervention is narrowing. The liquid assets of the National Wealth Fund have declined, the budget deficit has widened, and the authorities are relying increasingly on tax increases, domestic borrowing, and cuts to civilian expenditure. High interest rates are constraining investment, companies are accumulating debt, and the banking system is carrying a growing volume of problematic and restructured loans. The energy sector no longer provides the degree of budgetary stability it once did. The temporary rise in oil prices amid tensions in the Middle East offered only short-term relief and was insufficient to offset deeper structural imbalances. At the same time, Ukrainian strikes on energy and industrial infrastructure are acting as a persistent catalyst, increasing repair costs, disrupting refining and logistics, and reducing the fiscal benefit of additional export revenues.

The historical precedents of February 1917 and 1991 show that the apparent resilience of a centralised political system can coexist for a prolonged period with deep structural deterioration. The collapse of the tsarist regime resulted from the cumulative effects of the costs of war, inflation, shortages, and the erosion of the state's capacity to sustain economic functioning and institutional loyalty. In the case of the Soviet Union, the lack of viability of the centrally planned economy, technological stagnation, the costs of military competition and the war in Afghanistan combined with the weakening of the political monopoly and the intensification of national movements across the Soviet republics. Contemporary Russia does not mechanically replicate these precedents and possesses far more sophisticated coercive, financial, and technological instruments of control. The relevant lesson, however, is that regime resilience should not be confused with the long-term viability of the economic model that sustains it.

Along this trajectory, the risk of systemic breakdown increases as the state loses its capacity to absorb fiscal, energy, banking, and social shocks simultaneously. The regime may delay such a rupture through capital controls, rationing, administrative centralisation, and intensified repression, but these measures shift the costs onto the population and gradually erode the social contract. Such a trajectory could lead to a prolonged recession, deeper technological isolation, and the accumulation of operational bottlenecks that, over time, may impair the functioning of the state.

At the same time, economic deterioration should not be assumed to lead Moscow automatically towards negotiations or concessions. A regime that regards the outcome of the war as essential to its own survival may respond to crisis by tightening domestic control, shifting costs onto the population, or using negotiations to secure a respite needed to rebuild its resources. From this perspective, sustained economic and technological pressure on Russia, combined with continued support for Ukraine, remains essential to limiting the Kremlin's ability to convert time and any potential pauses in the confrontation into resources for prolonging the war.

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