

TURNING POINT OR DEAD END?

Challenging the Kremlin's Narrative of Stability in Wartime

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About the Author

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Eurasia Program

The Eurasia Program at the Foreign Policy Research Institute was founded in 2015 with the aim of examining the political, security, economic, and social trends shaping Europe and Eurasia. Our research agenda covers the increasingly tense competition roiling the region from several angles. It has a multi-year focus on the Baltic Sea, the Black Sea, and Central Asia, emphasizing how geography, economics, ideology, and history continue to shape politics and security in these regions. The program also publishes analyses of Russian foreign policy, including Russia's role in Europe, Asia, Africa, and the Middle East. The Russia Political Economy Project, along with the Bear Market Brief, analyzes the linkages between Russia's economy, society, and its political system. The Eurasia Program's thematic initiatives also include the Democracy at Risk rubric, which examines the trends of democratization and authoritarian pushback in the region.

Key Takeaways

- ◆ The Russian government expects 2024 to be a turning point in the country's war against Ukraine. For this expectation to become reality, the Kremlin is using means of reflexive control: It projects an image of a country that has weathered Western sanctions, ramped up its performance, and united a society behind its leader and his goals. This strategy was confirmed by personnel changes executed after Vladimir Putin's inauguration for a fifth presidential term.
- ◆ The Kremlin's message masks the costly trade-offs that the Kremlin has created by choosing to pursue a long and costly war with an economic and political system that operates in increasingly tight corners.
- The past months have seen several destabilizing domestic events in Russia, highlighting the risks of the widespread securitization of public politics, diversion of resources from domestic policy targets to the war, and passiveness of Russian society's support for the Kremlin's current policies.
- ◆ The ongoing restructuring of Russia's domestic economy and economic elite, structural weaknesses created by a military-production based economic growth model, threat of the eventual need for social or military mobilization, and the authorities' relentless tightening of the limits of public politics and acceptable public behavior represent growing risks for a governance whose sole organizing principle is the ongoing war.

A Theater of Stability

In early 2024, the most important message that the Russian government communicated to the outside world was that Russia had solved the problems that arose in the first two years of the full-scale military invasion of Ukraine, stabilized its economy and domestic politics, and had the upper hand and the stronger determination in a protracted conflict.

This view is supported by surface-level data that Russian officials often highlight. These can be summarized as:

- In 2023, Russia's economy grew by 3.6 percent, after a 1.2 percent drop in 2022.1 This happened despite unprecedented sanctions, including import limitations and an oil price cap, both of which Russia has been successful at circumventing, even if they did raise costs for importers and exporters.² The growth was indeed supported by the domestic military-industrial complex, as even the Russian Central Bank will readily admit. But, to many, this only shows that Russia has the means to reallocate resources strategically to pursue a long war.³ In 2024, economic growth has continued and first quarter receipts of the federal budget were 53.5 percent higher than a year before.4
- ◆ Unemployment is at a historic low (2.7 percent in March 2024), due in part to the same economic conjuncture propelled by war spending.⁵ According to official numbers, war spending created more than half a million jobs, as Vladimir Putin himself pointed out several times.⁶ This, in turn, has also raised real wages by 7.6 percent in 2023,

- outpacing inflation, as Prime Minister Mikhail Mishustin highlighted.⁷ The number of winners in the current context is high even without factoring in growing social transfers to the poorer segments of the population under various programs, some of them also war-related. The state statistical agency Rosstat claimed that the number of poor people had dropped from 14.3 to 13.5 million people in 2023.8 While poverty statistics are questionable—due to the agency's frequent fiddling with its methodology—the direction is likely accurate. The (state-owned) VTsIOM institute's sociological surveys also underline that people's perception of fairness has grown during the same period.9
- Surveys also suggest that most Russians have grown accustomed to the prospect of a long war. Again, these survey results need to be handled with reservations due to the limitations of public opinion surveys in a hard dictatorship.¹⁰ However, research seems to confirm the acceptance of, if not the enthusiastic support for, the war as a circumstance and a growing aversion to a peace settlement that would see Russia cede control of occupied territories to Ukraine.11 Surveys of the Levada Center have suggested that the proportion of Russians saying that the war was a mistake dropped from 28 to 22 percent between September 2023 and January 2024, all while the proportion of people saying that they expect a long war (the continuation of the war for more than an additional year) remained stable at 45 to 46 percent.¹² While anti-war protest activity continues, its reach has been limited. As of May 2024, according to OVD-Info, at least 917 people faced court cases for their anti-war position,



Russian President Vladimir Putin attends a concert on the occasion of the 10th anniversary of the reunification of Crimea and Sevasto-pol with Russia. (Kirill Zykov, RIA Novosti, kremlin.ru)

and the authorities recently began to focus on online activity when starting these cases.¹³ Activatica, an online project monitoring protest activity in Russia, noted that throughout 2023 harsh repression caused the number of mass protests against the war to drop considerably, while the number of both "quiet" forms of protest (e.g., laying flowers) and violent protests (e.g., attacking military enlistment offices and derailing trains) increased.¹⁴ Putin eagerly interpreted the above as strong support for the war in his state-of-the-nation speech.¹⁵

♦ The Russian army has managed to hold its positions in occupied Ukrainian territories without a second wave of mobilization, even making incremental gains, such as capturing the ruins of Avdiivka by February 2024, albeit at great cost. Upscaled military production—various estimates now suggest that Russia can produce between 2.5 and 5 million shells, 1,500 tanks, and 3,000 armored vehicles per

year—is supplying the Russian army with ample ammunition to maintain its artillery superiority over Ukraine, especially as Western military aid to the country has flagged.¹⁶

Against a backdrop of economic recovery and a new narrative of the war, which the domestic security apparatus has enforced with growing repression, official results of the March 2024 presidential election gave Putin a victory of 87.2 percent at a turnout of 73.3 percent.17 The results were overshadowed by massive fraud and coerced voting, but one of the most important functions of elections in autocracies may be to showcase the lack of alternatives within administrative machinery engineered and controlled by the autocrat to make voters accept any result.

Indeed, the main purpose—from the point of view of the authorities—of the March 2024 presidential election was to showcase the stability of the system, both to its domestic

opponents and its international adversaries. This stability is ostensibly underpinned by near-uniform support for Vladimir Putin in general and for Russia's war effort in particular. The authorities presented the war as an inevitable and unquestionable necessity during the presidential campaign (including through the disqualification of two pro-peace candidates and the persecution of their associates), and on the day following the election, stressed this point by requiring all candidates to support the war performatively, both during an audience with Putin and at a grand public event.¹⁸

To a domestic audience, the essence of the message was that the Kremlin can define and enforce new limits of political and societal normalcy: Anti-war Russians were outside of these limits, had no allies, and thus were expected either to keep their preferences secret or to fall in line. To an international audience, this ostensible unity was to be contrasted with the faltering majority behind the pro-Ukraine policies of most European and North American governments. In an ideal case for Russia's rulers, elections in the West in 2024 should deliver a clear mandate to new governments to reduce or cease support to Ukraine, cementing Russian gains.

This stability is not entirely fictional. However, a series of destabilizing events that blindsided the authorities, as well as a collection of intractable policy dilemmas triggered by the prioritization of the war have suggested that it is much more delicate and fragile than the authorities would like the world to believe.

This report will enumerate and explain these dilemmas and events, as well as the policy responses that the Russian authorities have given to them and the limits of these responses. Official data and independent reporting will explain why these tight corners are risky for the Russian authorities, as long as the Western coalition supporting Ukraine remains stable.

Destabilizing Events

Several events carried the risk of destabilization this past year, either locally or across regions, beyond the failed mutiny of Yevgeny Prigozhin. These events were remarkable not because they shook the system, but because they were examples of spontaneous developments, which either questioned the authorities' domestic political narrative or revealed they were ill-equipped to react.

In both cases, the unrest took place in regions with a history of recent protests over other issues. Dagestan, a poorly governed region, has seen protest waves against the local government's handling of the COVID-19 pandemic, military mobilization, and the poor quality of public utilities that led to long service disruptions.²¹ Bashkortostan has seen several waves of protests against polluting industrial developments, most prominently against the industrial development of gold mining in the sacred Kushtau mountain.²² In both cases, the underlying disgruntlement and local social fabric that facilitates collective action arguably catalyzed the protests, though the connection is more immediately obvious in Bashkortostan than in Dagestan. In both situations, the local authorities reacted forcefully, relying on

the local security service chapters, albeit following an initial period of paralysis. Another circumstance linking these protests is that they emerged in regions with a strong non-Russian ethnic character: The Kremlin has traditionally pursued a different approach to the governance of these regions than to most Russian-majority regions, leaving more space for regional elites to deal with local issues as long as the regions' overall loyalty and peace was guaranteed.

Not all protests were violent or specific to regions. In the two months before the March presidential election, two events provided an unforeseen opportunity for Russian citizens to express their opposition to Putin and the war. In January, the authorities allowed Boris Nadezhdin, a moderately known opposition politician considered a liberal within the system, to collect signatures for his presidential bid on a pro-peace ticket supported by most of Russia's (mostly emigree) opposition. While Nadezhdin was ultimately disqualified from the election, his electoral headquarters saw a large influx of people for several weeks.²³ The February 16 murder of opposition leader and political prisoner Alexey Navalny in an Arctic prison colony triggered a flow of several tens of thousands of people paying their respects at Navalny's grave on the day of and following his funeral.24

In both cases, the relatively high turnout of citizens suggested that a significant number of (mostly urban) Russians will engage in protest in support of positions that are considered radical or extremist by the regime's official narrative if there is a legal way to do so. This does not necessarily mean that participating is without risks. Over the past five years, the authorities have tried using increasingly sophisticated social media monitoring, face-recognition technology (especially in Moscow), and data leaks to methodically intimidate citizens engaging in relatively passive, relatively low-cost ways of signaling dissent. The hundreds of thousands

of voters signing up for Nadezhdin and the several tens of thousands of Russians paying their respects to Navalny in person questioned the authorities' narrative of a nation standing enthusiastically—or reluctantly but obediently—behind the Kremlin. More importantly, both events took place in the run-up to the 2024 presidential campaign where the level of fraud displayed by statistical methods also underlines that the regime's mobilizing capacity falls shy of its expectations.

In the lead-up to the March presidential campaign, the authorities had reason to fear a different kind of mobilization, primarily in urban areas.

In fact, in the lead-up to the March presidential campaign, the authorities had reason to fear a different kind of mobilization, primarily in urban areas. Several regions experienced fuel price hikes, as well as gasoline and diesel shortages, in August and September 2023 that prompted the government to introduce a temporary export ban to stabilize the domestic market.²⁵ Growing inflation prompted the Central Bank to raise its key exchange rate to 16 percent in December 2023.26 In the case of certain basic foods, inflation was high and politically important enough for Vladimir Putin to mention it during his televised interview that same month.27 The year 2024 started with a series of disruptions of utility services often as a result of a general decay of utility infrastructure in more than half of Russia's regions and affecting, according to a survey, up to 60 percent of the country's population. This occurred less than a year after the rise of utility tariffs which led to protests in a series



Memorial for Alexei Navalny in Amsterdam. (Wikimedia Commons)

of regions.²⁸ Neither of these issues led to direct political challenges from the Kremlin's point of view. However, they did coincide with surveys showing declining consumer sentiment and life satisfaction, making them a potential political risk.²⁹

A far more direct threat—but one the Kremlin is trying to neutralize with money—is the emerging movement of soldiers' wives and mothers. The sizeable audience of the "Путь Домой" ("Way Home") Telegram channel, which coordinated protests in Moscow and several other regions in November 2023, is demanding a demobilization of soldiers currently in the war zone. Despite reports that the channel was fake, the number of subscribers has grown from around 4,000 to over 70,000 by March 2024 (albeit this then dropped to 61,000 in May).30 The Kremlin, unable and unwilling to use force against the growth, first resorted to theatrics allowing a handpicked group of women to meet and agree with Putin in November 2022.31 The authorities later moved on to threats, linking the movement with Alexey Navalny as well as the Ukrainian authorities

and trying to intimidate local organizers, and eventually declaring it a "foreign agent" in May 2024.32 Finally, authorities moved to financial largesse, reportedly advising regional governments to put out the fires with transfers to affected families. However, as of May 2024, these efforts do not appear productive. The movement is still active and has steadily become more political over the past six months, going from initially petitioning regional leaders to demanding changes from Putin, and, in March 2024, calling on citizens to vote against the president. While the issue was brought up several times on screens in the form of text messages behind Vladimir Putin during the president's end-of-the-year television interview, Putin did not address itsuggesting that the issue was too significant for the authorities to agree completely, though they lacked an adequate response to it. 33

In all the above cases, the authorities resorted to a frequently used toolbox to mitigate the risks stemming from the disruptions. These include blame-shifting, tightening existing rules and intimidation,

and financial incentives. The tools are often used in the above order—the best example of this would be the authorities' response to protests by soldiers' wives—and in a combination (e.g., the utility crisis was met both by a temporary increase of funds spent on housing and utilities in the federal and regional budgets in 2023, with regional expenditures on this heading growing by 29.8 percent over the year).³⁴

Repressive tools are typically used and communicated by lower-level authorities, while positive incentives are announced by federal officials.

In 2024, this was supplemented by the introduction of a state of emergency with restrictions on assembly (e.g., in Lipetsk and Novosibirsk) and, in some regions, by dismissals and arrests of officials, among them in the Novosibirsk and Moscow Regions and Dagestan.³⁵ Repressive tools are typically used and communicated by lower-level authorities, while positive incentives are announced by federal officials.

This toolbox, it appears, provides an adequate means for federal and regional authorities to handle unexpected disruptions symptomatically. However, the structural constraints placed on budgets, policymaking, and domestic politics by the prioritization of the war in Ukraine and the securitization of domestic governance are preventing the authorities from offering anything beyond this.

Tight Corners

The question that needs to be asked, then, is what kind of additional political risks exist in today's Russia due to constraints of policy planning and implementation, based on the earlier instances of destabilizing events described above? In the following chapters this report is going to analyze "tight corners," in which Russia's rulers currently operate. The author defines tight corners either as situations that the current system of policymaking and governance has not been trained or conditioned to deal with, or as policy dilemmas that can only be solved under the current circumstances by creating risks elsewhere in the system.

Narrative Supremacy: Mobilizing the Economy and the People

In April 2024, the BBC and Mediazona published a report in which they had identified 50,000 Russian soldiers killed in Ukraine.36 The actual number could be several times higher: A declassified US intelligence report in December 2023 estimated that as many as 315,000 people on the Russian side were either killed or injured. The BBC-Mediazona research also found that at least 43 percent of Russia's losses were drawn from the civilian population, but the authors estimate that this proportion could be as high as 70 percent, highlighting a significant rate of losses among contract soldiers, mobilized personnel, and namely volunteers.

Preventing the liberation of a significant amount of territory in Ukraine is key to maintaining the authorities' war narrative. This narrative frames the war as an unavoidable conflict between Russia and the collective West, in which Russia is permanently on the cusp of victory. Given high losses and a lack of substantial military training, the

126 125.1 124 121.5 121.2 122 119.6 120 118 116 115.2 114 112 110 Production of Production of other Production of Production of Average across industries finished metal means of transport & electric equipment computers products equipment

Figure 1: Salaries in select industries, % of same month of previous year,

November 2023

Source: Rosstat

war demands a constant influx of military personnel. This is necessary even beyond the current policy of not rotating men mobilized in the first wave of military mobilization out of the war zone before the end of the "Special Military Operation," which, as mentioned above, has created domestic political risks for the authorities. Given the political risks inherent in a second general mobilization, which the Kremlin has done its utmost to deny before the March 2024 presidential election, recruitment efforts by regional authorities—a kind of covert mobilization—remain key to providing a flow of men to the army.

According to official data from early April 2024, more than 100,000 people signed up as contract soldiers this year so far.³⁷ These numbers are impossible to verify, as they are reported by the Russian Ministry of Defense, which in turn compiles them from regional tallies. Since recruitment remains a key performance indicator for regional governors

because their promotion or demotion and political lobbying power depend on it, they will be interested in reporting high figures even if it does not necessarily reflect the truth.

Sharp increases to one-time bonuses paid out from regional budgets on top of a flat fee of 195,000 rubles (US \$2,100) paid out from the federal budget in spring 2024 suggest either that recruitment needs communicated to regions are increasing or that regions are increasingly having trouble recruiting suitable men as contract soldiers, especially as the military is now competing with steeply growing salaries in the military-industrial complex for able-bodied men.

While in mid-2022 payouts in most regions were around 100,000 rubles, this doubled by mid-2023 and many regions now pay 400,000–500,000 rubles (\$4,300–5,200) or even more.³⁸ As of April 2024, soldiers signing up in the Krasnodar Territory can

expect a one-time payout of one million rubles (\$10,800).³⁹ This comes on top of a monthly salary of 210,000–250,000 rubles (\$2,270–2,700) for contract soldiers in the war zone—about three times the average monthly salary across Russia (and at least four or five times the average salary in poorer regions).⁴⁰ Apart from the positive incentives, several regions have used or suggested using measures such as drafting people who are behind with their utility bills or handing out draft notices to migrant workers queuing up for Russian documents.⁴¹

"Recruitment competition" puts a further burden on regional budgets in a year when declining profit margins and federal transfers suggest that regional incomes may not outperform inflation.

This kind of "recruitment competition," while much more convenient from the point of view of the federal authorities than its alternatives—especially general mobilization—puts a further burden on regional budgets in a year when declining profit margins and federal transfers suggest that regional incomes may not outperform inflation. Prioritizing recruitment thusmeans that other regional functions receive less funds and attention. Many regions, for example, are plaqued by a shortage of police personnel, which is likely the consequence of the inability of police departments to compete with salaries in the army. As of October 2023, the Interior Ministry was reportedly short 100,000 employees (including but not limited to police officers), with several regions reporting shortages of several hundreds of officers in spring 2024.⁴²

Recent regional debates (e.g., in the Altai Territory and the Novosibirsk Region) indicate that the government expects regions to solve this problem with their own funds. Similarly, early 2024 has seen a series of synchronized protests by paramedics in several regions who demanded higher pay and bonuses. Given that these had previously been announced by Putin himself, but then not paid out, such protests carry both a reputational and a political risk for the Kremlin.

The risk in these cases is not that neglected public employees will pressure regional governments or the federal government into concessions, as this would require instruments and institutions to represent collective interests that do not exist in contemporary Russia. The effect is more indirect. The lack of fiscal and operational focus can accelerate the breakdown of public services, thus raising the risk of costly or cascading failures, akin to the terrorist attack on the Crocus City Hall mall in March 2024, which exposed intelligence failures despite record-high domestic security budgets. This has been adding to existing grievances and making unexpected instances of unrest more dangerous.45

Diversion of Resources

The growth produced by the state's focus on military production reached a limit in April or May 2023, based on industrial production indices published by the state statistical agency, Rosstat.

Since then, there has been no significant production growth in the country (albeit data from the first quarter of 2024 does show a slight uptick in manufacturing). But by running defense plants in three shifts and reopening (in some cases, nationalizing) dormant production capacities, Russia has been able to strengthen its artillery superiority in Ukraine and support an economic rebound and real income growth in 2023.⁴⁶ This policy is sure to be continued and potentially

Figure 2: Industrial Production Indices, % of previous month, seasonal factors removed

Source: Rosstat

rationalized under the direction of Andrei Belousov, who was appointed Defense Minister in May 2024 and who has been one of the main proponents of putting the economy on a war footing; and Alexei Dyumin, Putin's former bodyguard who was promoted, simultaneously, to presidential aide in charge of the military industrial complex, member of the supervisory board of the defense conglomerate Rostec and the secretary of the State Council, an important deliberative body chaired by the president.⁴⁷ However, the high labor requirements of the defense-industrial complex as well as its ability to offer higher wages have exacerbated existing labor shortages created by military mobilization, emigration, and a shrinking of the workforce due to a demographic slump. 48 According to the Russian Central Bank, in 2023 real wages grew by 7.8 percent, 2.7 percentage points above production, and in the first quarter of 2024 shortage-induced wage growth has only accelerated, especially in manufacturing and construction.49

Apart from further limiting production capacities and profit margins in other industries already negatively affected by pricier or lower-quality imports, labor shortages have, as mentioned above, also increased the cost of military recruitment and made a potential second round of military mobilization more difficult. Higher wages have also led to employees having a more conscious understanding of their labor's worth, which has reportedly made it more difficult for company managers to exert pressure on them to raise turnout in the March presidential election.⁵⁰

This is not the only political risk created or exacerbated by the situation in the labor market. The Crocus City Hall terrorist attack in March 2024 was followed by an uptick in anti-migrant sentiments, racist attacks, law enforcement targeting of migrants, and the introduction of restrictive migration and migrant labor legislation in the State Duma.⁵¹ These include bills limiting the maximum term of labor contracts with migrants to two years, increasing surveillance, and allowing

migrants' expulsion without a court order.52 Several regional governments have already limited migrants' labor rights.⁵³ Such steps represent a logical knee-jerk reaction to allow public anger to flow in a specific direction following the attack, diverting attention from the intelligence failures that allowed it to happen. However, under current labor market conditions, employers are relying more on migrant workers, especially in fields such as construction and transportation. Even conservative government estimates suggest that migrant workers will occupy 4.7 percent of jobs in Russia by 2030, up from 4.2 percent in 2022. Thus, limiting the rights or the number of migrant workers carries a significantly higher risk than in a situation where wartime labor market conditions do not represent an immutable structural limitation. ⁵⁴ As an example, two North Caucasian cities, Makhachkala and Vladikavkaz, had disruptions in waste collection shortly after raids targeting migrant workers occurred in April 2024.55

More than two years into the war, while Russia has successfully reoriented its energy exports to Asia, transit bottlenecks are limiting export-based growth. In 2023, demand for cargo capacity (353 million tons) in the eastern direction on the Far Eastern Railway outstripped available supply (173 million tons) by a factor of two, leading to frustration and lower profit margins among exporters who need to ship wares on longer routes.56 These problems are not going to be solved in the foreseeable future. The third phase of the railways' expansion plan—with a price tag of 1 trillion rubles above initial plans—will be carried out by 2032 and will likely require tariff hikes.⁵⁷ The existing railway network's expansion toward the Northern Sea Route is priced at 8 trillion rubles.58 Hydrocarbon exports to Asian markets along the Northern Sea Route have increased and plans to substantially expand shipping along the sea route are also facing obstacles due to Russia's limited access to icebreaker vessels.59 Limitations on importing transportation equipment and labor shortages in the transportation sector have also created a growing problem for exporters. Truck leasing costs were up by 24 percent year-onyear in March 2024, driving smaller providers out of business.60 The growing costs of transit can also be observed by a 21.1 percent increase on this heading in regional budgets, which finance public transportation.⁶¹ Several regions have experienced shortages of bus drivers.⁶² The volatility of domestic fuel prices, exacerbated by Ukraine's increasing drone strikes against Russian refineries, is making both road and railway transit more expensive and adding to the preexisting overload of Far Eastern Railway.63

> More than two years into the war, while Russia has successfully reoriented its energy exports to Asia, transit bottlenecks are limiting export-based growth.

A stable growth model based on domestic consumption is not likely either. Higher real incomes—a consequence of rising salaries due to military production and labor shortages, as well as of growing income redistribution under various social payments introduced for soldiers' families and socially vulnerable groups after the start of the fullscale invasion—should create the grounds for consumption growth. However, due to the aforementioned issues with production capacity, supply cannot meet growing demand without creating inflationary risks, as raising supply would require pricier imports.⁶⁴ Import substitution, which, if successful, could theoretically reduce these risks, has been

10000 9326 8719 7765 8000 5791 5679 6000 4044 4000 2000 0 Oil and gas Other income Expenditures income -2000 -2086 -4000 ■Q12023 ■Q12024

Figure 3: Execution of Russia's Federal Budget, 2023 vs. 2024 (billion rubles)

Source: Finance Ministry

hampered by the same equipment and labor shortage issues as transportation. ⁶⁵

These risks were highlighted by the Russian Central Bank in its March report and contributed to the bank's decision to keep interest rates high at 16 percent, since this is the institution's only instrument to control inflation.⁶⁶ Disruptive measures, such as export embargoes on fuel and regional price caps on products that rely on agreements between regional governments and retailers, can limit political risks from sudden price hikes in the short term. Such disruptive measures add to inflationary pressure in the longer term.⁶⁷

If the war remains an unquestionable priority for the state, creating the conditions for alternative growth models will require increasing budgetary spending (barring technological leaps or significantly more successful circumvention of import sanctions). The difficulty of creating alternative economic

growth paths due to structural limitations provides arguments for those advocating for a more direct mobilization of economic resources in favor of war efforts (named "revisionists" by political analyst Tatiana Stanovaya) instead of the current gradual, sliding economic mobilization.⁶⁸ This group notably includes Belousov.

In the first quarter of 2024, the income of Russia's federal budget was 53.5 percent higher than in the analogous period of 2023. This was more than enough to support a 20 percent rise in federal spending. The strong fiscal result is to a substantial degree (though not fully) due to increasing oil and gas revenues—some of this is seasonal and related to the collection of a quarterly tax on oil producers. But, as in every month of 2024, oil and gas revenues were higher than a year before, signaling the ineffectiveness of the G7 oil price cap.⁶⁹

However, although the Finance Ministry has stopped publishing a breakdown by tax type, the increased revenues are also due to increased tax collection. Oil prices can fluctuate and are (at least temporarily) vulnerable to additional sanctions.

To comfortably maintain war-related spending and additional domestic spending promised by Putin in his state-of-the-nation address, the government will have to increase taxes.

If the risk of inflation remains and the Central Bank is forced to keep its key rate high (16 percent as of May 15, 2024), printing money or increasing domestic borrowing are not appealing options and tentative plans to tap citizens' savings by selling bonds is a risky bet. The liquid part of the National Welfare Fund, which the government uses to finance both the federal deficit and capital expenditures, will be near exhaustion by the end of this year (barring consistently high oil prices).70 To comfortably maintain warrelated spending and additional domestic spending promised by Putin in his state-ofthe-nation address—which is estimated by the Finance Ministry at one trillion rubles a year—the government will have to increase taxes.⁷¹ This necessity was already obvious in 2023 when the government made several changes to tax legislation during the year to capture extra income where it was realized: the taxation of oil exporters was changed to offset losses from the G7 oil price cap, a tax on "extra profits" was introduced to reduce the federal budget's deficit, and sliding export duties were set up to capture gains from the

fluctuation of the ruble's exchange rate.72

The government has proposed further tax changes in May 2024, albeit as of this writing, these have not been adopted yet by the parliament. The corporate income tax rate will be raised from 20% to 25% providing 1.6 trillion of 2.6 trillion rubles (\$17.7 billion of \$28.8 billion) of planned extra revenues—while a progressive scale will be reintroduced for personal incomes over 2.4 million rubles per year, affecting, according to the government, a mere 3.2 percent of the working-age population. Mineral extraction taxes will rise for a number of sectors and IT companies will see their earlier tax breaks partially scaled back, but in both cases there are exceptions for companies investing above a fixed threshold.73

It is unclear whether the extra income that the government is hoping to realize from these changes will benefit regional and local budgets or the federal budget. However, based on earlier practice and current budgetary spending priorities, it appears likely that the federal budget will capture most, if not all, of the additional income. In 2021, when Russia introduced a 15 percent personal income tax rate for yearly incomes over 5 million rubles, the extra receipts went to the federal budget, even though personal income tax receipts are otherwise shared by regional and local budgets.⁷⁴ Similarly, while regional budgets currently keep most corporate income taxes, the distribution has shifted in favor of the federal government in recent years. Presently, the federal budget takes 3 of the 20 percent tax—before 2017, it only took 2 percent.⁷⁵ Furthermore, while defense expenditures are growing by 69 percent in the 2024 budget, federal transfers to regions are expected to decrease (after already shrinking by 11 percent in 2023), except for funds allocated to the occupied territories.76

The reform will essentially continue the higher tax burdens that emerged in 2023,

marking yet another timeline shift in economic policy due to the war. The first timeline shift occurred in late 2022 when it became clear that Russia's trade policy would not be able to revert to business as usual after what many initially expected to be a short war. Companies relying on exports and imports would have to assume higher costs and losses. The second timeline shift, triggered by the government shifting to an economic growth model and a political coalition-building model based on state orders from the military-industrial complex and domestic wealth redistribution, will see both citizens and companies having to accept higher tax burdens for the foreseeable future. Military production is expected to remain high for several years even after the end of the war as Russia will rebuild stockpiles, and reducing income redistribution is going to be politically risky: The growing redistribution in the past two years has led to a growth in the perception of social fairness, but keeping the coalition of the beneficiaries of the war together is contingent on continued asset and income redistribution.77

The Specter of a **Pro-war Majority**

A Sprawling but Brittle Security State

The main domestic beneficiaries of the full-scale war against Ukraine have been the security services. This might seem counterintuitive, considering the intelligence failures that led to the Kremlin grossly underestimating the challenge. However, more than two years after the invasion, there have been no major reshuffles and dismissals at the helm of any of Russia's security and intelligence services (and there is little reliable information about internal conflicts and changes).⁷⁸ Their budget has

vastly increased: The "national security and law enforcement" heading of the federal budget, which contains the budget of security services, went from 2.8 trillion rubles in 2022 to 3.2 trillion in 2023 and 3.4 trillion in 2024.⁷⁹

The government has increasingly relied on domestic security services to suppress protest activity. This is not only because of the shortage of police officers: Over the past decade, the scope of activities that the government has viewed through the lens of national security has steadily increased. The 2020 constitutional reform criminalized questioning Russia's territorial integrity, codifying an increasingly frequent practice that saw the security elite suspecting separatist motivations behind movements with overtly different profiles, primarily conservationist movements, which had been interwoven with indigenous nationalist movements in several regions.80 In 2024 the Ministry of Justice suggested labeling the "Anti-Russian Separatist Movement"—a seemingly non-existent organization—as an "extremist movement", which would in turn allow the authorities to freeze the accounts of people accused of links with it.81

The 2021 National Security Strategy expanded the definition of national security to encompass areas such as culture, laying the ground for an ever-expanding Kulturkampf against Western-inspired cultural imports.82 The gradual expansion of repressive legislation on "foreign agents" has allowed the government to label anyone a "foreign agent," with no financial relationship required for the designation and with the possibility of barring the designated individual or organization from a range of activities, including advertising, education, or election observation.83 As of May 2024, foreign agents were also banned from standing for office in elections on any level.84

The list of foreign agents and extremist organizations has swollen. In March 2024, the list of foreign agents contained 579 names



Russian conscripts called up for military service line up before their departure for garrisons as they gather at a recruitment centre in Simferopol, Crimea, April 25, 2023. (REUTERS/Alexey Pavlishak)

of people and organizations, more than three times as many in 2021.85 The government's list of "terrorists and extremists" includes more than 14,000 names as of May 2024, with a notable growth over the past two years as authorities identified extremists as critics of the war, including the writer Boris Akunin and the nonexistent organization "international LGBT movement."86 The authorities have launched and conducted at least fifty-three court cases into associates and sympathizers of the late Alexey Navalny and his organization, with a clear attempt to intimidate several thousand more.87 The semantic expansion of the concept of "fifth column" has reached such lengths that, in one of its latest incarnations mentioned by Sergey Naryshkin, the head of the Foreign Intelligence Service, it included former participants of cultural exchange programs.88

This has meant that domestic security services are facing an increasing array of activities that they must monitor and police,

which fall into the category of regime security instead of national security, and their performance is judged based on their political usefulness. It is unclear whether this will change in any meaningful way after the May 2024 removal of Nikolay Patrushev, a proponent of an extremely hawkish domestic and international security posture, from his position as the head of the Security Council's secretariat, as Patrushev is likely to preserve his informal influence, if not his erstwhile formal functions as Putin's aide. But any change will likely be gradual.⁸⁹

The above is not only true for the security elite. The aforementioned examples from Bashkortostan and other regions also suggest that the political authorities are increasingly intolerant in the face of public protest activity of any kind. 90 The legal strengthening of Russia's strong vertical system of power, in which regional leaders are increasingly only accountable to their superiors rather than the residents and local elite of the territories

that they administer, can result in situations in which leaders are inclined to come down hard on protesters early on, lest they appear soft to the point of negligence—especially at a time of reduced upward mobility. The same is true for local security departments, which suffer from the same issues. They are expected to reduce political risks and are judged by their ability to do so.

The desire to minimize domestic political risks during the war triggered the securitization of domestic politics and an attempt to isolate Russians from changing domestic realities.

These incentives put a strain on the resources of security services and political managers and impede work that requires a more subtle touch, such as intelligence-gathering or political bargaining with grassroots movements. Following the Crocus City Hall terrorist attack in March 2024, questions have arisen about potential intelligence and security failures that facilitated the attack, including the alleged dismissal of specific intelligence shared by the United States before the attack.⁹¹

Political risk spans beyond the strain of limited resources. While a harsher approach to various forms of political dissent has the short-term benefit of lowering the risk of visible disturbances in the public life of a region, it ultimately raises the risk of protests related to dormant social dissatisfaction where authorities do not allow peaceful outlets. The recent Dagestan and Bashkortostan protests and the anti-

mobilization protests in several regions in September 2022, which blindsided the authorities, suggest that the regime's tools for overt and covert monitoring of grievances—the former based on an increasingly digitized system of collection of complaints, the latter on surveillance and social media monitoring—are not adequate to prevent such risks across the country.⁹²

Furthermore, the desire to minimize domestic political risks during the war triggered the securitization of domestic politics and an attempt to isolate Russians from changing domestic realities. The necessity of simultaneously maintaining the aura of "business as usual" and enforcing rapidly changing national security orthodoxies is increasingly forcing a narrative straitjacket on the authorities.

In the case of the Baymak protests in Bashkortostan, for example, protesters arrested by law enforcement were accused of organizing mass riots and tried as rioters—although, Dmitry Peskov, the Kremlin's spokesperson, claimed that the events could not be called mass riots. ⁹³ In Novosibirsk, the city authorities simultaneously downplayed the severity of communal accidents and disruptions, talking instead about "lowered parameters" ("параметры занижены") and prompted a state of emergency, likely to restrict protests. ⁹⁴

It is unlikely that, as some seem to hope, there will be an epiphany where Russian citizens recognize these contradictions, in turn triggering a kind of collective reaction. Wealth redistribution and coping mechanisms, such as withdrawal from news consumption and public life, complicate the situation. However, the rapid spreading of the security state has stretched the resources of security services in the wrong directions and forced a retreat of citizens from public life that they can safely interact with. The gradual elimination of competitive public politics even at local levels where people



Law enforcement officers detain a demonstrator protesting the court verdict against a leading rights activist in the city of Ufa in the Republic of Bashkortostan, Russia in this still image from video, January 19, 2024. (REUTERS/Stringer)

have, so far, been able to influence their surroundings, could close a safety valve and lead to situations where public outrage over one issue (perhaps a tragic policy failure or a second wave of military mobilization) triggers larger resistance than the authorities calculate.

The security services have also gained further clout in the economy. Even before 2022, the Federal Security Service's (FSB) Economic Security Service and the agency's regional departments played an increasing role in career-ending, high-profile corruption cases: e.g., the arrest of the governor of the Penza Region in 2021.95 Since 2023, an ongoing government-led campaign to renationalize privately owned domestic enterprises has, to a large extent, been spearheaded by the FSB and the Prosecutor's Office. Since 2020, this campaign was led by Igor Krasnov who had, while working for the Investigative Committee, built a close working relationship with the FSB's counterterrorism service.96 According to a report by Novaya Gazeta in March 2024, the institutions had,

by that point, brought forty cases against the owners of various companies under various articles, while the total number of companies nationalized in the two years prior exceeded 180.97 Furthermore, in 2023, the authorities introduced external surveillance in 7,532 companies, a 50 percent growth over 2022, suggesting that many companies could be or could have been nationalized after bankruptcy.98 The renationalization campaign first focused on defense-industrial firms—likely with the purpose of placing the sector under closer state supervision and reactivating unutilized production capacities—and a handful of Western-owned companies whose owners threatened to leave the country. However, as of April 2024, it seems to have been extended to smaller companies: the nationalization of the assets of the Ariant Group, active in the food and wine industry, and pasta producer Makfa seem to be turning points in this regard.99 Belousov's appointment to head the Defense Ministry may give even more impetus to this policy, albeit with the so-called "economic bloc" of the government mostly unchanged

as of May 2024, there is still a counterweight to economic mobilization.

The renationalization of Russian-owned assets supports an earlier effort by the Kremlin to take control of the asset redistribution triggered by the exit of Western investors. A joint investigation by Transparency International and The Bell found that businesses with a combined income of 3 trillion rubles in 2021 were sold at a discount to forty-one businessmen with no major assets before the war. 100 Both the renationalization campaign and the controlled redistribution of Western assets are likely an attempt to raise a new business elite with an interest in the government's current policy. However, a considerable amount of assets, de facto or de jure, went to existing large business players, such as Yury Kovalchuk (Wintershall's assets) and overseers of the domestic economy, such as the state-owned energy companies Rosneft (e.g., Uniper's assets) and Gazprom (e.g., Shell's stake in the Sakhalin 2 LNG project). The increasing pace of the redistribution of assets can also indicate that the government does not expect a return to non-military-based growth any time soon.

The increased danger of nationalization will further depress business sentiment and increase the power of the security services vis-à-vis business owners and public officials linked to them. Similarly to the security services' increased repression against opposition activists and public politics in general, this may allow the government to exercise more control in the short term, but it will likely create political risks in the longer term in the form of corruption in the security services and a growing number of bitter losers among employers and public officials

The 87 Percent Myth

Perhaps the most ambitious domestic political project of the Kremlin in the past year was the construction of a new solid coalition behind Vladimir Putin and the war in Ukraine, the pinnacle of which was his supposed 87 percent support in the March 2024 presidential election.

It appears that on the whole Putin chose to tread carefully in the field of domestic politics to avoid causing unnecessary conflicts.

Personnel policy was remarkably stable during the first two years of the war. Until a somewhat more substantial reshuffle following Putin's inauguration for his fifth term, only one government minister had been dismissed: Former Deputy Prime Minister Yury Borisov was appointed to head Roscosmos, Russia's space agency, in July 2022. Only ten regional governors were dismissed over two years preceding the March 2024 election, significantly less than in previous years, and there were no changes in the upper management of major federal institutions (save for the Supreme Court, whose president, Vyacheslav Lebedev, died in February 2024).

Even the May 2024 government reshuffle cannot be called radical—albeit it was the most substantial personnel change since the beginning of the full-scale war—as the government's economic bloc remains largely untouched (except for the notable appointment of Belousov to head the Defense Ministry and the elevation of Dmitry Patrushev, until then Agriculture Minister,

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Russian Defense Minister Andrey Belousov with military district commanders. (kremlin.ru)

and son of Nikolay Patrushev, to Deputy Prime Minister).¹⁰¹ These appointments simply underlined the Kremlin's focus on ramping up military production and making it more efficient, which had already been a key element of the Kremlin's core strategy of outlasting the will of Ukraine and its backers.

The reshuffle and the appointment of six new governors in May 2024 notwithstanding, it appears that on the whole Putin chose to tread carefully in the field of domestic politics to avoid causing unnecessary conflicts.

The limits of this approach were shown by the June 2023 mutiny of Prigozhin. This revolt was born out of frustration that battlefield failures had not led to consequences in the government and the military leadership. Even before the mutiny, Prigozhin had consciously been trying to build connections in domestic politics with the full tolerance and even encouragement of the Kremlin.

Over 2023, especially since the Prigozhin

mutiny, the Kremlin has tried to find a compromise between its earlier position of stability and the pressure of fundamental political changes forced on Russia by the war, by taking control of the process and providing its own narrative to it. The goal is to strengthen the domestic support of Putin—both among the elite and the population—by creating coalitions of people who draw benefits from the war and Russia's international isolation.

Fundamental changes in Russia's domestic economy are the most substantial part of this policy. By highlighting the emergence of a "new elite," as Putin referred to it, the Kremlin is also sending a message to public officials and the population at large.

Similarly to the redistribution of economic assets, any reshuffle of high positions in public administration runs into existing structural limitations. In a personalistic autocracy, the loyalty of officials overseeing

the key levers of the state to the leader—and the leader's trust in them—is of paramount importance. This currently prevents major reshuffles in the security elite or among the large business conglomerates which oversee grand development projects or control industrial subdivisions (and which political scientist Nikolay Petrov calls "chaebols," referring to family-run conglomerates in South Korea). Blocking or slowing down promotions limits the possibilities of capability-based appointments further down the administrative hierarchy, creating a growing group of people passed over at the regional and federal levels.

The oft-repeated promise of elite renewal is an attempt to shore up support for Putin and define a new normal with new expectations of how loudly and openly—loyalty should be expressed to Putin and the war.

Therefore, the oft-repeated promise of elite renewal is an attempt to shore up support for Putin within existing elites and define a new normal with new expectations of how—and how loudly and openly—loyalty should be expressed to Putin himself, but also to the project of the war.

For the broader population, the Kremlin has been trying to fill the promise of a new elite with meaning as well. Many of these measures are primarily symbolic, such as a 2024 bill that would allocate land to war veterans, or another bill that would add veterans to the categories of people who can form subsidized building and land

cooperatives. Further examples with some degree of direct social or economic impact include preferential treatment at airlines, regional programs such as free public transportation for the family members of war participants, exemption from interest payments on consumer loans, as well as courts considering participation in the war as a mitigating circumstance in the overwhelming majority of cases involving former soldiers (who already have the right to free legal aid).103 In his first remarks after his appointment in May 2024, Belousov also indicated that improving the social security of war participants was going to be one of his priorities.¹⁰⁴ War participants are shielded from tax hikes to be adopted in 2024.105 These measures do play an important role in furthering the Kremlin's domestic narrative of a broad pro-war majority and new social norms, together with a multiple public events with soldier participation.

However, war veterans are not becoming a new administrative elite. Despite Putin's announcement that more than 30,000 current and former soldiers applied for a new program called "Time of Heroes" to become public officials, there is little to suggest that the Kremlin is actually planning to enable the influx of veterans into public administration.¹⁰⁶ The handful of former war participants who won appointments to positions in public administration after their return had already been officials before their service.¹⁰⁷ In the 2024 "primaries" of the ruling United Russia party for elections to regional legislatures later this year less than twenty war participants were successful in eleven regions, with existing party elites reportedly defending their positions.108

Some measures are more substantial, such as the cash bonuses to war participants and their families. A March 2024 analysis by Laura Solanko of the Bank of Finland found that several regions had seen anomalously large increases in bank deposits since mid-2022 because of various payments to war



An aerial view shows Red Square during the Victory Day Parade in Moscow, Russia, June 24, 2020. (Alexander Vilf via REUTERS)

participants and their families.¹⁰⁹ Social payments to war widows and orphans have also risen substantially, as can be tracked through the Unified State Information System of Social Security.¹¹⁰

This substantial transfer of wealth and status, however, does not easily translate to popular mobilization. The official result of the March 2024 presidential election was 87.3 percent for Vladimir Putin at a turnout of 77.4 percent. However, statistical analyses suggested that this result was achieved through substantial fraud, with at least a third of the vote falsified and added to the actual tally, most likely to drive up turnout, an important benchmark for the Kremlin.¹¹¹ The unrealistic result, which was also anomalously uniform across the country, may also partly have been the consequence of regional officials in the Far East who first announced final tallies, raising the bar for other regions. The fact that this was necessary beyond the authorities' other

well-documented means to drive up turnout and coerce voters (not to mention online voting, which itself produced an unverifiable turnout of 8 million votes out of a total of 87 million) suggests that the regime's domestic mobilization capacity is low.

From the Kremlin's point of view, the election and the talk of a new elite domestically serve the purpose of showcasing the contours of new societal norms where anti-war activists and voters are considered deviants and officials can always be replaced with someone more loyal. They also had to show that the regime can define and enforce the limits of acceptable social behavior. However, what it ended up showing is that the enforcement of these new norms will most likely not happen through a sort of grand social mobilization, but through maintaining or increasing of the state's repressive capacity as long as this is possible.

Conclusions and Recommendations

In 2024, the Kremlin's strategy vis-à-vis its foreign adversaries remains based on reflexive control. The crux of its narrative is that international sanctions have not caused any major structural damage to the Russian economy and did not affect Russia's ability to prosecute its war against Ukraine while the Russian population remains strongly united behind the Kremlin's war objectives—or at least stronger than the determination of the Western coalition to maintain support for Ukraine. The Kremlin has underlined this with frequent escalatory messages, an intended show of force in the March 2024 presidential election, and changes in the government following Putin's inauguration, that suggest the Kremlin lending more support to economic mobilization and ramped-up military production with which it aims to outproduce Ukraine and its backers. It hopes to contrast this with a strong shift of the vote against pro-Ukraine politicians in Western elections later this year.

Russia's narrative deliberately conceals that the war has created tight corners domestically, which means that the Kremlin's domestic political and economic machinery is operating with very little spare capacity and risky trade-offs. The securitization of domestic politics results in the distraction of security agencies and destroys the channels of normal political feedback, raising the risk of both security failures and sudden eruptions of discontent. The redistribution of assets and positions to shore up a pro-war coalition happens against the backdrop of a largely shrinking or stagnant economic pie and structural limitations on elite turnover. The economic recovery fueled by state defense orders has created structural weaknesses in other sectors of the economy making it

unlikely for the government to avoid raising taxes. Despite its ability to ensure new social norms and passive support for the war in most of the population, the Kremlin is consistently failing to mobilize a large part of the population in support of its policies. Pent-up frustrations over economic problems affecting the population outside of the orbit of the military-industrial complex indicate elevated risks for the authorities in the case of any unexpected eruption of discontent, even over issues unrelated to the war.

The response of the Western coalition to the Kremlin's challenge needs to be based on a sober evaluation of Russia's successes—whether diplomatic, military, economic, or political—and its underlying weaknesses, allowing decision-makers to avoid being swayed by the Kremlin's narrative.

The core beliefs of the Kremlin's domestic narrative are that the current war with the West is existential and inevitable, victory in Ukraine is around the corner, and domestic conditions will improve after the victory. A successful Western response should challenge the narrative. To do this, the United States and its allies should:

Tighten sanctions and sanctions enforcement: The United States and the European Union should continue evaluating the lessons learned from Russia's successful circumvention of the G7's oil price cap. Recent efforts to introduce and enforce sanctions against the fleet carrying Russian oil can be part of the solution.112 Investigating and sanctioning company chains transferring sanctioned goods to Russia can also be part of the solution.¹¹³ This will not necessarily lead to an immediate drop in Russian fiscal revenues. However, increasing the cost of existing operations will raise the political cost of the choices necessary to maintain the current level of spending.

- Commit clearly to further military and economic aid to Ukraine: The US Government should deploy a previously stalled military aid package as soon as possible, and the EU Council should sign off on providing Patriot air defense systems to Ukraine. Discussions of the cost of continued military and economic aid to Ukraine should be based on the understanding not only the cost of such aid, but also the cost of an emboldened and belligerent Kremlin for the stakeholders of the global economic and political order, in order to counter the narratives of the increasingly influential "peace party" arguments of illiberal political forces interested in selfish economic and political gains from a Ukrainian defeat. Ukraine should not be discouraged from conducting attacks against military and industrial targets inside Russia that provide direct support to Russia's ongoing war effort.
- **Support Russians who are interested** in change: Western governments should protect Russian dissidents who were granted asylum in their countries. This includes increasing efforts to identify, neutralize, and expel agents of the Russian security services threatening them. Beyond this, actively supporting Russians who have the will and means to challenge the Kremlin's control of information flows or societal organization inside Russia is sound (and cheap) foreign policy. This support should always be transparent, open, and not subject to the support of a particular policy. Similarly, Western governments should identify the losers of the ongoing rapid and fundamental reformulation of economic elites in Russia and attempt to maintain dialogue with them.

The objective for a Western policy based on the above pillars is to stress that Russia's "existential conflict" with the West is neither real nor inevitable and Russia's victory in Ukraine is not imminent, challenging both parts of the Kremlin's narrative.

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and Khabarovsk governor Mikhail Degtyaryov Minister of Sports. The elevation of Tsivilyov, an official with good relations with the powerful coal lobby and family relationship, through his wife, to Putin, but a not very popular governor, was expected. In the case of Degtvaryov, a representative of the Liberal Demoratic Party and associate of its late leader, Vladimir Zhirinovsky, the desire to appoint a new governor to Khabarovsk may have been an important driving force of the decision. For more details on these appointments, see e.g. Tatyana Zykina, Mariya Lisitsyna, Polina Khimshiashvili, "5 novichkov novogo praviteľ stva Mishustina. Chto o nikh izvestno? (5 newbies in Mishustin's new government. What do we know about them?)," RBK, May 11, 2024, https://www.rbc.ru/politics/11/05/2024/663f8d9a9a-7947991f2acf5e

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