

THE KREMLIN'S BALANCING ACT The war's impact on regional power dynamics

ANDRÁS TÓTH-CZIFRA



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EXECUTIVE SUMMARY

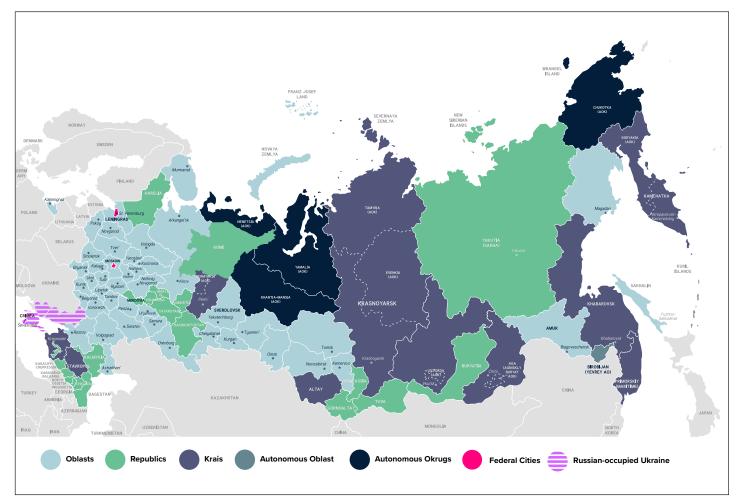
Following Russia's full-scale invasion of Ukraine, the Russian government accelerated the preexisting trend of centralizing control over regional power and economic assets. This centralization drive has manifested in several ways including tightening control over regional and municipal political institutions, expanding financial control over regional budgets and policy priorities, nationalizing and indirectly mobilizing business assets, and introducing new priorities in personnel policy.

While they did not lead to open rebellion, **the changes nonetheless created winners and losers, resulting in friction and resistance from regional elites who perceive their interests and autonomy as threatened**. Key areas of contention have included the ongoing asset redistribution, which has been challenged by legal and other means; attempts to curtail the political leverage of regional elites; and even certain policies related to the war or its domestic portrayal.

The sustainability of the Kremlin's centralization strategy is uncertain. While the conflicts between the Kremlin and regional elites primarily revolve around bargaining and power dynamics within the existing system, rather than a challenge to Russia's domestic political arrangement as a whole, the current approach risks intensifying tensions with regional elites and undercutting the federal government's efforts to make policy implementation more efficient, potentially leading to worse quality governance and instability.

Policymakers should seek to understand these dynamics in the context of the prolonged political and economic conflict between Russia and the West and the eventual transition of power following Putin's rule.

Russian Federation



<u>**Oblast:**</u> The most common type of federal subject with a governor and locally elected legislature. Commonly named after their administrative centres.

<u>Republic:</u> Often home to a titular ethnic minority, has its own consitution and legislature.

<u>Krai:</u> For all intents and purposes, krais are legally identical to oblasts. The title "krai" ("frontier" or "territory") is historic, related to geographic (frontier) position in a certain period of history. The current krais are not related to frontiers.

Autonomous Oblast: The only autonomous oblast is the Jewish Autonomous Oblast.

<u>Autonomous Okrugs:</u> Occasionally referred to as "autonomous district", "autonomous area", and "autonomous region", each with a substantial or predominant ethnic minority.

Federal Cities: Cities of special significance (Moscow and Saint Petersburg, as well as Sevastopol in Russian-occupied Ukraine).

Russian-occupied Ukraine: Russia currently controls Sevastopol and Crimea in entirety, and parts of Luhansk oblast, Donetsk oblast, and Kherson oblast.

Post-Presidential Election Shifts, 2024



Anton Alikhanov

Minister of Industry and Trade Former Governor of Kaliningrad Region (2017-2024)



Mikhail Degtyaryov

Minister of Sport Former Governor of Khabarovsk Territory (2021-2024)



Roman Starovoit

Minister of Energy Former Governor of Kursk Region (2019-2024)



Alexey Dyumin

Secretary of the State Council Former Governor of Tula Region (2016-2024)



Sergey Shoigu

Secretary of the Security Council Former Minister of Defense (2012-2024)



Sergey Tsivilyov

Minister of Energy Former Governor of Kemerovo Region (2018-2024)

THE KREMLIN AND Regional elites – Before 2022

Russia's political and fiscal centralization during the Putin years was initially a response to the shock of post-Soviet liberalization and devolution. Centralization aimed to eliminate regional players who could challenge the Kremlin's monopoly on power and control of economic assets. The policy accelerated in the mid-2010s in response to a brief period of tentative liberalization in 2008–12.1 A near-miss debt crisis in the regions allowed the federal government to take regional finances under stronger supervision, change the tax code to transfer more tax receipts away to the federal level, and replace riskier regional debt with low-interest budgetary loans. This policy reached its limits in 2022 as most regional debt held by banks had been replaced by budgetary loans at that point, and eventually gave way to the federal government forgiving debt.² In parallel, the Kremlin rolled back local self-governance in a way that ensured that regional elites would not have access to important positions in public administration without the federal government's seal of approval. Direct mayoral elections were abolished in most major cities-all but four regional seats, as of November 2024-and electoral systems were gradually changed to become less proportional and benefit the ruling United Russia party. Direct gubernatorial elections

remained, but the Kremlin established tighter control over these with tools such as the "municipal filter," building on the ruling party's stronger local dominance.³ United Russia's position was strengthened in regional assemblies that serve as areas of conflict resolution and interest representation for regional elites and as regional governors were asked increasingly to spearhead the party's federal campaigns in their region. The Kremlin also set out to renew and uniformize the gubernatorial corpus by appointing a cohort of relatively young, technocratic outsiders with no personal link to the regions they were entrusted to lead, many of whom received specialized training in the "School of Governors" of the Presidential Academy of National Economy and Public Administration (RANEPA), and were often colloquially referred to as "Varangians.".⁴ Often, these governors also brought in their team from their previous posting and were promised a position higher up in the federal government provided they did their job well.

> Centralization aimed to eliminate regional players who could challenge the Kremlin's monopoly on power and control of economic assets.

Governors have been increasingly assessed based on key performance indicators (KPI) set by the Kremlin, which, especially for "Varangian"



Russian President Vladimir Putin attends a meeting with graduates of the Russian Presidential Academy of National Economy and Public Administration (RANEPA) at the Kremlin in Moscow, Russia July 4, 2023. Sputnik/Pavel Bednyakov/Kremlin/REUTERS

governors, resulted in strong top-down accountability.⁵ Importantly, key decisions related to the regional implementation of the "National Projects"—state-assisted development projects formulated after the 2018 presidential election—were entrusted to governors.⁶ A notable sideeffect in some regions was that business groups with federal connections entered the local market, serving as a further check on the influence of local elites.⁷

As outsider governors were increasingly entrusted to deliver political stability and keep local elites in check, the federal government took over a part of the responsibilities normally associated with regional and local governments. Digital surveillance and digitalized monitoring of complaints were expanded, aided by the alignment of the goals of a technocratic federal government trying to find efficiency gains under conditions of limited reformability and an increasingly powerful and paranoid security elite, which was looking to expand the surveillance of the population as much as possible.⁸ The federal government also determined an increasing number of policies that regions had to execute. This can be seen from the growth of the relative weight of subsidies-federal fiscal transfers that come with strings attached—as opposed to budgetary grants.⁹ Over time, a sort of crisis management system solidified, in which regional governments nominally received additional powers, but only to be able to execute the directives and policy signals defined by the federal government (or the City of Moscow, which de facto functions as a federal ministry)

flexibly enough not to cause unwanted backlash, while also assuming political responsibility for unpopular policies. Local "operational headquarters," set up as crisis management bodies to execute certain priorities, with the participation of security officials, added further control over political decision-making.¹⁰ But this did not mean that the Kremlin stopped relying on the cooperation of regional elites. As the first stress test of the system showed in 2020-21 during the COVID crisis, regional governments often had to pass the bucket to municipalities and employers to execute policies such as lockdowns and vaccination.¹¹

> Many republics, where elite structures consolidated in the 1990s, preserved some of their special relationships with the Kremlin and control over key assets, even after the treaties regulating these relationships ran out and were not renewed.

This system, of course, was never allencompassing. Many republics, where elite structures consolidated in the 1990s, preserved some of their special relationships with the Kremlin and control over key assets, even after the treaties regulating these relationships ran out and were not renewed. Other regions include those producing key commodities, such as the Tyumen Region and its attached autonomous districts that negotiated a separate fiscal settlement between themselves, or the coal-producing Kemerovo Region, whose business elites have preserved their influence over the regional government. The authorities have also experienced backlash against centralization in some regions and cities, often with the tacit or overt support of local elite groups.

The latest phase of political centralization started in 2021 with the adoption of the first part of a two-part public administration reform.¹² This further changed the relationship between regional governments and the Kremlin by making it easier for the president to dismiss governors and giving him a say in the appointment of key ministries in regional governments, among others. The second part of this reform, affecting municipal self-governance, was put on the agenda of the State Duma immediately afterward, adopted in the first reading in 2022, and then frozen.¹³ This reform, which proposed to scrap roughly 18,000 free-standing municipal self-governance units by folding them into municipal districts and expanding the powers of governors over municipal finances and the dismissal of mayors, would create further checks for the vertical of power controlled by the federal level against regional elites.

The following parts of this report will analyze how the Kremlin's expectations from—and its approach to—regional elites seem to have changed during more than three years of full-scale warfare, and how regional elites have reacted to these changes.

THE WAR AS AN External shock

Russia's full-scale invasion of Ukraine starting in February 2022 delivered a series of external shocks, which impacted the relationship between the Kremlin and Russia's regions on several levels.

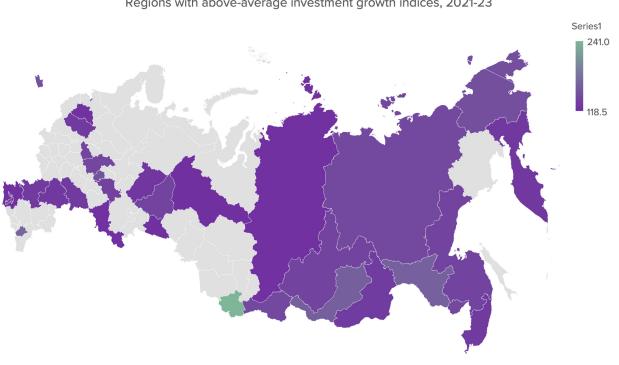
A Changing Regional Landscape

The rapid and forced restructuring of the Russian economy over the past three years resulted in four major changes: an economic boom based on state orders from the military-industrial complex; a trade shock related to sanctions and Russia's own decisions impacting commodities exports and the import of tools and technologies, and a newfound urgency to expand trade capacities toward Asian markets; a labor market crunch triggered by the combined effects of military mobilization, war production, and demographic processes, affecting both the private sector and the public sector; and a creeping economic mobilization of unused productive capacities that has led to the deterioration of property rights.¹⁴ These four changes impacted regional economies very differently, as statistics on tax receipts and industrial production (see Figures 1 and 2) indicate.

The positive and negative effects of the full-scale war on regional economies and government can be sorted into four broad categories, albeit there are overlaps between these. A growing number of regions are directly affected by war. These include border regions where Vladimir Putin's October 19, 2022 decree introduced a "medium level of readiness"-allowing mandatory resettlement of residents, as well as restrictions on movements, many of which experienced a high number of drone attacks and armed incursions.¹⁵ Apart from Russian regions, they also include the occupied Crimea, but do not include the four partially occupied Ukrainian regions, which Russia illegally annexed in September 2022, which have fallen under a separate legal regime and political and fiscal governance. Areas experiencing the war firsthand also include, albeit to a lesser extent, the growing list of regions that have sporadically experienced Ukrainian drone attacks and sabotage actions with increasing frequency over the past two years.¹⁶

Regions with economies based on the military-industrial complex benefited from the wartime economic boom. These include regions with a strong industrial base that either directly or indirectly supports war production. The growing demand from the state has led to higher economic activity and fiscal incomes in these regions but has also made the owners of certain industrial establishments targets of nationalization. Most of these regions are situated in the Central and the Urals Federal Districts, with some large defense plants in Siberia and the Far East.¹⁷ The exact weight of the defense industry in a region's economic output is difficult to determine, due to the effect of defense orders on adjacent industries and because civil and military production are not clearly separated in

Figure 1: Industrial production indices and investment growth by region, 2021-23



Regions with above-average investment growth indices, 2021-23

Regions with more than 125% combined manufacturing production index in 2021-24



Source: Rosstat, 2024.

official statistics.

Newly depressed regions include regions relying on industries that suffered a major trade shock as a consequence of the war and had to rebuild their value chains, often exposing the industries in question to the demands of specific markets or to takeovers by foreign investors. These regions include previously Westernoriented exporters of commodities such as coal and timber, as well as ferrous metals¹⁸ They also include regions with manufacturing industries with a significant presence of foreign investors prior to the full-scale war, such as Kaluga and Kaliningrad with significant carmaking clusters.19

Previously underdeveloped regions with increasing importance in the new reality created by the war primarily include regions, the development of which the Kremlin started to prioritize to support its trade pivot to non-European markets and import substitution. These regions have faced increasing trade flows and stress on their infrastructure, as well as a rise in investment. They include most of the Far Eastern Federal District, certain Siberian and Southern Russian regions important for transcontinental trade, and regions along Russia's Arctic coastline near the Northern Sea Route.²⁰

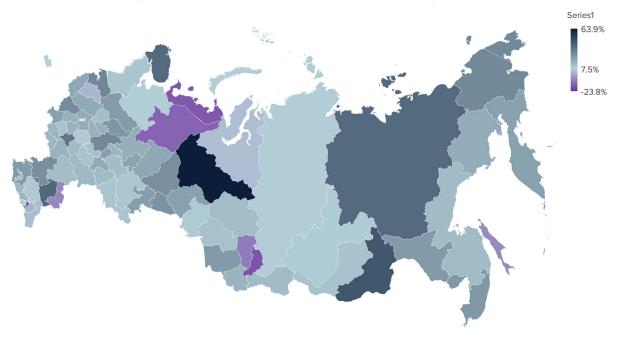
The above changes intersect with preexisting political characteristics of the regions. From the perspective of political control, regions vary on a spectrum due to their unique characteristics and history of development. For this analysis, we can establish some broad categories: problematic regions, with a recent history of notable local protest movements or elite opposition to the federal government; "electoral sultanates" where protest potential is low but federal control hinges on the Kremlin maintaining special relationships with the consolidated ruling elites of the regions; and in-between regions with varying degrees of political control but little overt potential for public protests or elite opposition.

Tighter Budgets

Following the full-scale invasion, the Kremlin has expected regional governments to observe a growing list of policy priorities. It now includes priorities such as cofinancing the recruitment of contract soldiers, providing social benefits to soldiers' families, sponsoring the reconstruction of occupied territories in Ukraine, stabilizing prices of essential products, paying more attention to decaying utilities networks, and increasing the cofinancing of key infrastructure projects. ²¹ Many of these are reflected in the latest iteration of "key performance indicators" issued by the Kremlin in December 2024, which however also includes policy priorities such as increasing fertility rates.²²

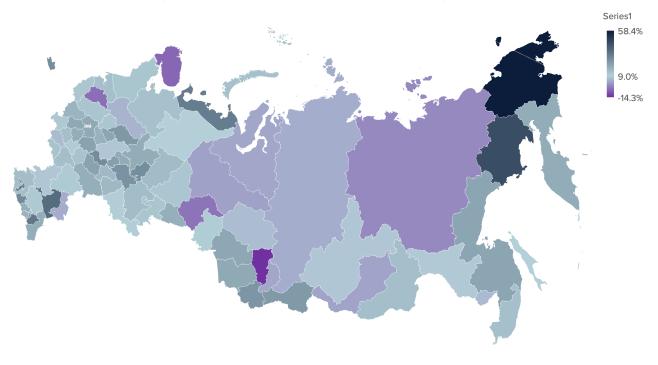
After benefiting from the economic growth related to war production in 2023, 2024 has highlighted problems with regional financing (see Figure 2). Regions, on the whole, struggled to raise expenditures to match the level of inflation, and, as of late 2024, several municipalities and regions were struggling to raise funds on the market due to growing interest rates, which also affect corporate income tax revenues.²³ Both circumstances are likely

Figure 2: Regional Incomes without federal transfers by region, 2022-2023 and 2023-2024



Regional fiscal receipts without federal transfers, 2023, change from 2022

Regional incomes without federal transfers 2024, change from 2023



Source: FinExpertiza, 2024, Finance Ministry 2025) – the scale midpoint indicates the approximate inflation rate for the year.

Figure 3: "Other" budgetary transfers to regions, 2022-23



Regions with growing budgetary transfers in both 2022 and 2023 under the "other transfers" section

to continue throughout 2025. Several regions adopted budgets with high deficits for 2025. At the federal level, the prioritization of the war has meant that an increasing amount of federal spending is related to the war directly (e.g., defense orders, soldiers' salaries, and social spending) or indirectly (e.g., salaries paid out in the occupied territories, reconstruction, etc.). This is likely to remain the case in the foreseeable future. even in the case of a ceasefire agreement in Ukraine: fiscal projections adopted in 2023 (for 2025–26) and in 2024 (for 2026–27) reflect that the Kremlin has shifted fiscal planning to support a long conflict with the West.²⁴

Budgetary transfers to most regions (and on the whole) have stagnated or declined in real terms and will continue to do so.²⁵ The federal government initially used a lighter touch on North Caucasian regions due to their political significance and risk potential (see Figure 3 showing continuously high fiscal transfers to these regions classified under "other budgetary transfers," discretionary spending by the government). Even in their case, warnings were issued as early as late 2023 as the Finance Ministry suggested forcing the heads of highly subsidized regions to take direct responsibility for reducing their regions' deficit.²⁶

Tax hikes adopted in 2024 will benefit the federal budget, not regions, and it is unlikely that the additional fiscal receipts will be redistributed to regional budgets. Instead, the Kremlin has used alternative fiscal tools, such as writing off two-thirds of regions' debt held by the federal government, a logical conclusion of the debt replacement policy of the previous years. This is expected to free up 200 billion rubles yearly over 2025– 27 in regional budgets.²⁷ Otherwise, the federal government has warned regions in several ways that they would have to be cautious with their fiscal planning in the foreseeable future.²⁸ A law adopted in July 2024 limits the amount of funds that regions and municipalities can spend on public-private partnership projects at 10 percent of their income, as long as their budgets receive federal grants.²⁹ The purpose of this change is to limit overspending and corruption at the regional and local levels, and the law has predictably triggered criticism from business elites.³⁰ When federal financing cannot be increased but regional governments still have to find ways to implement the policy priorities set by the Kremlin, this creates tension between officials and elites whose cooperation or contributions governments rely on to meet these priorities.

> As the war has created immovable—and constantly growing—budgetary priorities at the federal level, the government has increasingly relied on private business to contribute to war efforts.

As the war has created immovable—and constantly growing—budgetary priorities at the federal level, the government has increasingly relied on private business to contribute to war efforts (e.g., by actively participating in recruitment and procuring equipment) and to domestic development priorities that neither the federal budget nor regional budgets are in the position to finance. A 2024 conflict between Alexey Mordashov, the owner of Severstal, Russia's second largest steel producer, the largest employer of the Vologda Region, and Georgy Filimonov, the region's governor appointed in 2023, is a case study of this kind of pressure. Mordashov, who was sanctioned by the US and the EU, publicly criticized the war shortly after the full-scale invasion began. He has not supported war efforts with the enthusiasm expected by the Kremlin from a major company.

Since his appointment, Filimonov—who, unlike his predecessor, is not linked to Severstal, and de facto represents the federal government-has promoted the government's brand of aggressive conservative nationalism to an almost cartoonish extent, including erecting a Stalin statue in the regional capital, severely curbing alcohol sales, pushing for a complete ban on abortions and supporting the introduction of "important conversations", essentially war-related propaganda previously launched in schools, to kindergartens.³¹ At the same time, he dismissed or forced to resign a series of regional officials and mayors linked to Severstal, ultimately directly accusing Mordashov of neglecting his investment obligations agreed with the regional government, of planning to resettle thousands of migrants into the region and even challenging him to a duel - the kind of threat that had earlier been the style only of deliberately disruptive officials such as Chechnya head Ramzan Kadyrov.32

The purpose of the open conflict seems to be to assert the federal government's



Governor of Vologda Oblast Georgy Filimonov at the recently erected Joseph Stalin statue. (https://t.me/filimonov_official)

power over a business group seen as a potential liability. A similar, earlier example concerns the personnel changes and corruption cases pursued in the Belgorod Region since 2020 by Governor Vyacheslav Gladkov, in lockstep with the Federal Security Service, to dislodge elites linked to former Governor Yevgeny Savchenko. The war directly affecting the region has helped this endeavor, opening up further opportunities for the authorities to criticize and prosecute business elites.³³

The appointment of Artyom Zhoga, a rebel commander from the occupied Donetsk Region to presidential plenipotentiary of the Urals Federal District, encompassing many of Russia's most important defense industrial and energy-producing regions, may also serve a similar purpose, albeit due to the vague powers associated with the office of plenipotentiary and the strong federal positions of the region's administrative and business elite, this is far from guaranteed (other aspects of Zhoga's appointment are discussed below).³⁴ Whether or not there are any changes in the gubernatorial corpus in the Urals Federal District in 2025 may serve as an indication.

Not all pressure has been so direct. The federal government has also raised taxes and tariffs on business—haphazardly in 2023, and more formally and long-term in 2024 when the corporate income tax rate was raised from 20 to 25 percent (along with a series of other changes), for an expected yield of 1.6 trillion rubles per year.³⁵

Centralization and Securitization

The full-scale invasion also increased the pace of the centralization of government and the securitization of domestic politics. Both processes had started prior to the war. Following the invasion, the Kremlin eschewed power-sharing agreements at the regional and local level in problematic regions. Direct mayoral elections were scrapped in Tomsk, Novosibirsk and Ulan-Ude.³⁶ Soon Yakutsk—which also elected an opposition mayor in 2018— adopted a decision to this effect in February 2025 (at the time of this writing it has not been confirmed by the regional parliament).³⁷ All of these cities and their regions saw opposition breakthroughs or elite opposition to the federal government in recent years. The appointment of "outsider" mayors or direct allies of the governor to manage major citiesrecently Tomsk and Samara-became increasingly common.³⁸ The official results of the 2023 and 2024 regional elections saw a degradation of the positions of "dominant" systemic opposition parties in regional legislatures, which are important forums for regional elites to discuss and influence local decisions. United Russia established a dominant majority in all legislatures elected in this period, including in previously opposition-dominated chambers, such as the Khabarovsk Territory's and Khakassia's, as well as in the Moscow City Duma, whose single-mandate districts had been made competitive in 2019 by Alexey Navalny's "Smart Voting" platform (see Figure 4). This mostly affected the Communist Party, which, in the years before the full-scale

invasion, established itself as a "catch-all" choice for voters unhappy with United Russia in most (though not all) regions.³⁹ The degradation of regional pluralism thus also compels regional elites to associate themselves more strongly with the ruling party.

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Changes have been afoot at the level of municipalities as well. Even though, as of February 2025, the State Duma still has not adopted the proposed federal law, the second half of the public administration reform, affecting municipalities, has de facto been launched over the past few years. Regions have started folding municipalities into municipal districts, anticipating a federal reform of municipal self-governance, which is on the agenda of the State Duma (see below for details). The federal government launched the "School of Mayors,", based on the example of the School of Governors, to uniformize the cohort of municipal officials, and discussed introducing KPIs to monitor and evaluate the work of mayors, providing governors appointed by the Kremlin additional means to monitor and control local officials.⁴⁰



A protest in the Khabarovsk region in August, 2020. (Wikipedia | Incredible Terence)

The federal authorities have used the continuously expanding "foreign agents" legislation to expel independent local legislators from municipal and regional assemblies and to prevent new challengers from running. A law adopted in May 2024 prohibits people labeled as "foreign agents" from standing for or holding elected office.⁴¹ Since the list of "foreign agents" is maintained by the Justice Ministry, this essentially gives the federal government the right to disqualify or deprive of office any elected official or candidate for office in the country. So far, this has mostly affected the so-called nonsystemic opposition, as well as some of the more outspoken local representatives of the "systemic" opposition. 42 However, there is nothing keeping the federal government from using this tool against representatives of regional and local elites that challenge the Kremlin or its representatives in the future.

Over the past two decades, the regional directories of the Federal Security Service have been turned into a tool to keep regional elites in check. Arrests of regional and local officials made by the agency in the late 2010s helped the transition to the appointment of outsider officials.⁴³ After the 2022 invasion of Ukraine, major corruption cases—similarly to personnel reshuffles—seemed to be put on hold. Following the March 2024 presidential election, a series of arrests of regional officials on corruption charges suggested that the FSB is once again allowed a freer rein to act against regional elites.44 In the Khabarovsk Territory considered an especially protest-prone region since 2020 with the Kremlin's control weakened over local elites, but also a key region in Russia's Eastern pivot—Dmitry Demeshin, a former deputy prosecutor general who was appointed governor in 2024, brought in a team

comprising several former Prosecution officials and has presented an anticorruption agenda to rein in local elites.⁴⁵

Asset Redistribution

The securitization of domestic politics extends to political institutions and also to economic assets. The wartime production boom also obviously created beneficiaries in the military-industrial complex and adjacent industries. However, some factors offset these gains, including growing uncertainties regarding ownership, rapidly growing salaries at military production plants, and an increasing emphasis on efficiencyespecially after the appointment of Andrei Belousov to head the Defense Ministry in 2024. The nationalization of previously privatized economic assets has taken place with the active participation of the Prosecution, which has challenged the validity of privatization agreements signed in the 1990s in cases where the assets could not be seized based on charges more directly related to the owner's real or inferred political activities and preferences (e.g., supporting Ukraine or extremism).46

In 2024 alone, at least 67 companies with combined assets of 544 billion rubles were nationalized.

Companies nationalized using the legal firepower of the Prosecution and the Anti-Monopoly Service have included ones linked to the military-industrial complex (e.g., Etalon, Russia's largest producer of ferroalloys) and also food industry firms (e.g., Makfa, the country's largest pasta manufacturer and fishing companies in Russia's Far East).⁴⁷

Such nationalizations are by no means an isolated phenomenon: as of March 2024, according to Novaya Gazeta, more than 180 companies collectively worth more than one trillion rubles were taken under the stewardship of the state, with key assets ending up with major state-owned enterprises, such as Rostec.⁴⁸ Just in the course of 2024 at least 67 companies with combined assets of 544 billion rubles were nationalized.⁴⁹ In the second half of 2024, further and more ambitious targets were reportedly considered: at a meeting in early October, Putin and Energy Minister Sergey Tsivilyov reportedly discussed the nationalization of the country's fuel and energy complex, which would turn Russia's biggest oil companies into a state-owned corporation.⁵⁰ The Kremlin did not confirm this, but weeks later new information emerged suggesting that the plan was indeed on the agenda.⁵¹ In January 2025 the Moscow Court of Arbitration seized the property of the company operating Moscow's Domodedovo Airport, a major asset that had faced nationalization threats before.⁵² Raven Russia, the country's largest operator of warehouses was also taken into state ownership in the same month.53

In the case of military production and the nationalization of Russian and formerly foreign-owned enterprises, the Kremlin has emphasized maintaining the fullest



A State Council Meeting on December 20, 2024, focused on supporting Russian families. (https://t.me/sovfedofficial/8024)

possible control over the process and the resulting reallocation of assets. Foreign divestments are tied to regulatory approval and the payment of a 15 percent exit tax, soon to be raised to 35 percent.54 A 2023 presidential decree created legal instruments to take foreign assets under "temporary management,", which the authorities did in several cases.55 Meanwhile, by providing subsidized loans to select industries at a time of high interest rates, the Kremlin has also extended control over the investment decisions of business elites-as long as the federal government has the financial means to support this policy. This affected a relatively small, but not negligible, number of loans: according to Central Bank data, 6.5 percent of loans to large and 14.6 percent of loans to small- and medium-sized companies fell

under preferential loan programs at the beginning of 2024.⁵⁶ Corporate lending slowed only at the end of 2024, likely a consequence of the phasing out of subsidized mortgage programs and the Central Bank's tightening of monetary policy.⁵⁷ However, the tension between needs to subsidize war production and reining in inflation will likely remain in 2025 Apart from the preferential loans, the government has also tweaked regulatory regimes to benefit important infrastructure development projects that are privately financed, e.g., it expanded the borders of the Khabarovsk Special Economic Zone to include a private railway built by Elgaugol, a coal production company, to the Pacific coast.58

Elite Rotation and the Lack of it

Following the full-scale invasion of Ukraine, the Kremlin's personnel policy became even more conservative than before. No large-scale reshuffle took place in the federal government, federal political and security institutions, or regional governments between February 2022 and May 2024. Only one member of the federal government was dismissed in this period and ten governors were replaced, half the number of the previous two years. Notably, two governors who had served as officials in the occupied territories of Ukraine were appointed in this period to head to the Omsk Region and the Chukotka Autonomous District, and to showcase that serving in the occupation government can be a career elevator.59

Following the 2024 presidential election, a small reshuffle took place: five governors-Roman Starovoit of the Kursk Region, Anton Alikhanov of the Kaliningrad Region, Sergey Tsivilyov of the Kemerovo Region, Mikhail Degtyaryov of the Khabarovsk Territory, and Alexey Dyumin of the Tula Regionwere promoted to various federal-level positions, while defense minister Sergey Shoigu was appointed head of the Security Council instead of the longserving Nikolay Patrushev, and was himself replaced by Andrey Belousov at the helm of the Defense Ministry. Three further governors were dismissed, and a series of Defense Ministry and Energy Ministry officials were arrested on charges of corruption after the new ministers took over.60

Following the 2024 presidential election, a small reshuffle took place: five governors were promoted to various federallevel positions, and three governors were dismissed.

The scope of the appointments was very limited. Of the five governors elevated, only Starovoit and Alikhanov counted as members of the technocratic cohort of "outsider" regional leaders appointed over the 7-8 years. Dyumin, who was elevated to head the State Council. a deliberative body incorporating mostly heads of regions, is Putin's former bodyguard; Tsivilyov, the new energy minister, is the husband of Anna Tsivilyova, Putin's first cousin once removed, who was appointed deputy defense minister; and Degtyaryov's elevation to federal minister for sports was necessary to make way for the appointment Dmitry Demeshin, the former prosecutor, to "pacify" the protest-prone Khabarovsk Territory, as mentioned above. This is notable because the elevation of only two technocratic governors called into guestion the central promise of the cadre rotation system pursued by the Kremlin for most of the past decade: that capable officials can land federal positions after a brief period of service in the provinces. Several other governors whose promotion had been rumored earlier—e.g., Chelyabinsk

Governor Alexei Teksler, Stavropol Governor Vladimir Vladimirov, and Belgorod Governor Vyacheslav Gladkov were left in their positions. Even the two governors who were elevated will have to work under their predecessors who remain in the federal government as deputy prime ministers overseeing their past portfolios. Similarly, Tsivilyov, Starovoit, and Dyumin were replaced by their deputies, and Alikhanov with a deputy minister of industry linked, like him, to the Rostec conglomerate.⁶¹

At the same time, the Kremlin has somewhat restricted the positions in public administration traditionally available for regional elites. As of early 2025, these restrictions have been relatively small, but, as we will see, they have already prompted backlash. Since mid-2023, the presidential administration has argued that former war participants should be integrated into Russia's public administration. Since Vladimir Putin's speech in February 2024 where the president talked about a "new elite,", this has been official policy.62 The promise that war veterans would be elevated to positions of power is part of the "package" that the Kremlin has offered to soldiers—apart from a range of other material benefits and symbolic awards for themselves and their families-to maintain the pace of recruitment and to prevent veterans from forming an independent political power base.

The governing United Russia—and, to a lesser extent, other parliamentary parties—promoted war participants as candidates for various local and regional positions in elections held in 2023 and 2024.

The governing United Russia—and, to a lesser extent, other parliamentary parties—promoted war participants as candidates for various local and regional positions in elections held in 2023 and 2024. United Russia awarded a 25 percent bonus to candidates in its primaries who registered as war participants.⁶³ Pushing regional party organizations and governors to promote veterans to such positions is notable because city and regional assemblies have traditionally been dominated by representatives of the local elite.

The numbers have remained low—329 such candidates were elected in 2024, mostly to powerless local assemblies, with war participants taking only around five percent of mandates awarded in regional legislatures and one percent of mandates awarded in the elections overall.⁶⁴ Even this number represents a threefold increase over 2023. Following the elections, several war participants received promotions to parliamentary or executive positions.



Former Governor of Kursk Oblast Roman Starovoit inspecting anti-tank structures referred to as "dragon's teeth" during border fortification efforts in December 2022. (https://t.me/gubernator_46/2151)

Following Putin's speech, the RANEPA, which functions as an incubator for the administrative elite, launched the Time of Heroes program to train war participants for positions in public administration. The first track included more than 80 handpicked candidates, dozens of whom were appointed to various local and regional positions.⁶⁵ These included, most prominently, the rebel commander Artyom Zhoga; Yevgeny Pervyshov, another war (and Time of Heroes) participant appointed governor of the Tambov Region; and Roman Balashov, appointed deputy governor of the Lipetsk Region.⁶⁶ The program's head, Maria Kostyuk, also received a gubernatorial appointment in the Far Eastern Jewish Autonomous Region.67

It should be stressed that Pervyshov is also a former mayor of Krasnodar, while Kostyuk worked in the region's

public administration-that is, they are both part of the existing administrative elite. (Balashov, however, had not had experience in public administration before.) It is also questionable if Zhoga will be able to accrue actual power as plenipotentiary, a rather malleable role, given that the district's regions are mostly led by allies of Moscow's mayor, Sergey Sobyanin. The appointments nevertheless signaled the Kremlin's expectation that more such people receive positions in regional and local administrations, and in late 2024, upon the Kremlin's urging, several regions launched their own tracks of the program to offer training and positions in lower-level administrative structures and non-political organizations to war participants.68

In general, the performative signaling of loyalty to Russia's war effort has been an expectation of the Kremlin from regional elites and officials and a way for regional leaders to attract the attention of the presidential administration, especially in the case of regions with a high degree of financial dependence on the federal budget.⁶⁹ Governors added the "Z" symbol of the invasion to their public appearances, traveled to the war zone in Ukraine, and organized public events in their region extolling war participants, while also participating in recruitment efforts by setting steeply growing recruitment bonuses and pressuring employers to cooperate. In 2022-23, prior to Yevgeny Prigozhin's mutiny, several regional leaders flaunted their good relationship with the Wagner Group.

The risks of purely or mostly performative support were evident in August 2024 when the Ukrainian army managed to occupy more than one thousand square kilometers of the Kursk Region, including the city of Sudzha, the site of an important energy transit facility. In the year prior, the Kursk Region authorities had spent several billions of rubles on defensive structures that benefited business structures associated with Roman Starovoit, then governor, now federal minister of transit, but were only partly built and failed to slow down the Ukrainian advance.⁷⁰ Federal investigators opened a probe into defense structures while, in the neighboring Bryansk Region, a former deputy governor who oversaw defense affairs was arrested, along with the former head of the Kursk Development Corporation.⁷¹ With direct warfare now regularly affecting defense plans, fuel depots, and other infrastructural projects in some regions-besides the occupied

Crimea, the Kursk, and Belgorod Regions—the federal government will likely demand closer scrutiny of such projects in regions at risk. This would be a logical consequence of past issues; however, it also questions the right of governors and their allies to engage in forms of *kormlenie*, or extracting material benefits from local business actors.

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Pending changes regarding the composition of the Federation Council may also impact the opportunities of regional elites to gain or maintain influence over decision-making or to obtain a comfortable sinecure. These changes have to do with both the war and the increased personalization of the Russian political system, which has led to promotion bottlenecks at the helm of top security and regulatory institutions. The upper chamber of the Russian parliament, whose members are chosen by regional legislatures and governors, has been an important forum for regional elites and a way for many to maintain formal influence over the federal decision-making process. Between the fall of 2019 and 2024, seven governors (of 43 dismissed in total in these five years) ended up as

Federation Council members—almost all of them officials with personal roots in their regions-along with several mayors, government officials, and influential business leaders (e.g., Suleyman Kerimov from Dagestan). However, in July 2024 the State Duma relaxed the residency requirement for Federation Council appointments, meaning that regions can-and will probably be expected to-draw on a significantly larger pool of people, including the heads of key federal institutions and the security elite.⁷² This, in turn, will limit the number of seats available for regional elites. At the same time, as of 2024, regions are also expected to promote war participants this way. Two regions, Kursk and the Republic of Altai, as well as the occupied Crimea appointed war participants to the Federation Council in fall 2024.73

> Regional governments have been pressed to cede control to the federal government over data collection and aggregation.

Meanwhile, another new legal norm, adopted in 2024, prohibits Federation Council members from traveling outside of Russia without notifying the local FSB directorate, and—due to their classification as persons having access to state secrets—their potential ownership of foreign bank accounts also comes under closer scrutiny.⁷⁴ Since 2023, several regions have also introduced restrictions on officials and, since 2024, regional deputies, leaving the territory of Russia.⁷⁵ This complicates engaging in private business and public activities at the same time, and these novel restrictions will likely increase the FSB's oversight of regional elites who engage in politics.

Removing Middlemen

Regional governments have been pressed to cede control to the federal government over data collection and aggregation, likely in an attempt to gather more reliable information on local economies and politics while preventing regional officials from doctoring data to improve their positions. The federal government's Coordination Center, a body set up to define government strategy and handle incident response, relies on integrated data management.⁷⁶ Centers of Regional Management (TsUR), used since 2020 to collect and analyze citizen complaints, are not operationally subordinated to regional authorities and share data with the federal government. Digital surveillance complementing this, including the monitoring of the social media space, is also spearheaded by a federal agency, Roskomnadzor.⁷⁷ There are also efforts to automate statistical data collection. Prime Minister Mikhail Mishustin has repeatedly extolled real-time monitoring of statistical data and promoted specific digital data integrators for systematically important companies and industries.⁷⁸ The "Digital Economy" national project has allocated federal budgetary funds for building the necessary systems.⁷⁹ Bypassing regional choke points removes agency from regional officials and elites, all while the political responsibility of defining the modalities and implementing the decisions of the federal government remains with them.

> While the infrastructure for electronic voting is not equally developed across Russia, it can be developed faster in cities where engineering the desired electoral outcomes has been increasingly complicated.

Another field in which the federal government has been systematically reducing reliance on regional officials and elites is voting. Electronic and online voting (DEG) infrastructure was used in 25 regions (and the occupied Sevastopol) in both the 2024 presidential and regional elections.⁸⁰ While Moscow maintains its separate system, connected to the city's public services portal, the residents of other regions are connected to a federal voting platform. Based on evidence accumulated from the past three years when DEG was increasingly extensively used, the system allows the authorities to implement the same election manipulation techniquesprimarily coerced voting and ballot stuffing-that were previously observed in "offline" voting more efficiently and with less need to rely on the active cooperation of regional and local officials and employers to administer and turn

out the vote.⁸¹ Further amendments to electoral legislation discussed in the State Duma at the time of writing would allow the authorities to replace paper ballots with electronic voting completely.⁸² While the infrastructure for electronic voting is not equally developed across Russia, thus it is unlikely that the authorities would completely scrap paper ballots, it can, crucially, developed faster in cities where engineering the desired electoral outcomes has been increasingly complicated.

CONFLICTS AND PUSHBACKS

Pushbacks Against Power Realignment

Successive elections and the evolution of political communication in the Republic of Khakassia provided an example of elite pushback and subsequent negotiations with the federal center. In the 2023 gubernatorial election the Kremlin-backed Sergey Sokol, a Duma deputy with a record of participation in the war (as member of a so-called battalion of deputies) unsuccessfully tried to unseat the Communist Party's Valentin Konovalov who was elected in 2018 in a wave of protest voting across the country that benefited "systemic" opposition candidates. While Konovalov did not openly criticize the Kremlin or the war, he did build a coalition of convenience with regional elites, drawing on increased tax revenues from the

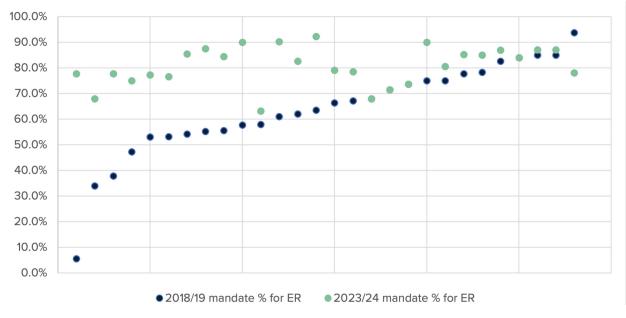


Figure 4: Percentage of United Russia (ER) seats in regional assemblies after elections held in the 2018–19 and the 2023–24 election cycles.

Source: Central Electoral Committee

region's coal and aluminum industries and a hands-off management style.83 While, in the end, the gubernatorial election was deemed too risky for Sokol to contest, the authorities did manage to place the deputy in a position of power by engineering a United Russia supermajority for the party in the region's legislative election and forcing Konovalov to negotiate a new modus vivendi with the Kremlin's representatives.⁸⁴ In 2024, Sokol and Konovalov jointly supported former energy minister Nikolay Shulginov in the region's by-election to the State Duma.⁸⁵ Regardless of the cooperation, Sokol has been increasingly critical toward Konovalov as the region's fiscal situation worsened, and in January 2025, relying on United Russia's majority in the legislative assembly, attempted to rally the region's municipal officials in support of legislation that would deprive Konovalov of powers to withhold

financing from municipalities.⁸⁶ Notably, this goes counter to the objectives of the Kremlin's ongoing municipal administration reform, highlighting the diverse tactics that the authorities rely on to foster compliance.

Apart from Khakassia, similar pushbacks could still be observed in other regions as well. In the Republic of Altai, Governor Oleg Khorokhordin, an outsider technocrat, faced constant opposition from regional elites represented in the region's legislative assemblyincluding in the United Russia party-and municipalities.⁸⁷ In 2023, Khorokhordin tried to introduce amendments to the region's basic law, removing references to the republic's "integrity." He failed, and a subsequent vote on transposing a federal law on the regulation of taxis confirmed a broader conflict between local elites and the governor. Less than a

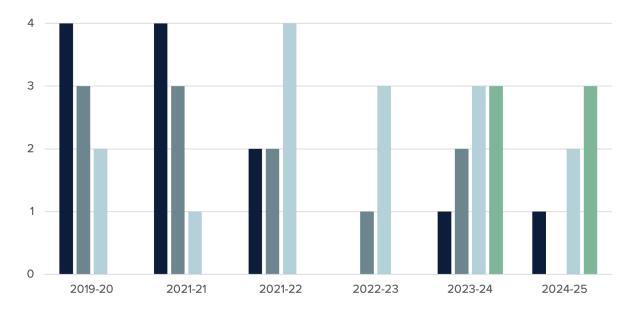


Figure 5: Gubernatorial appointments in Russia's regions, by electoral season.

Author's classification and calculations. Note: 2024-25 electoral season is ongoing at the time of publication.

year later, Khorokhordin was dismissed and replaced by Andrey Turchak, the former general secretary of United Russia, for whom this appointment amounted to a demotion but who also brought additional political muscle to the region.⁸⁸

Both in the case of Khakassia—and in a similar conflict in the Republic of Dagestan in 2022—the core of the conflict seemed to be fear within local elites that the Kremlin would seek to redraw the region's administrative boundaries either by ceding territory to a neighboring region (as it happened successfully with Ingushetia in 2019) or merging two regions (as the Kremlin attempted unsuccessfully in 2020 with the Nenets Autonomous District).⁸⁹ On a smaller scale, a similar story played out in the Irkutsk Region in 2024 where plans to administratively merge the city of Bratsk and the district adjacent to it contributed to a split within the local United Russia chapter and saw an incumbent mayor unseated.⁹⁰

In general, the municipal reform, which was going to be discussed by the State Duma in the second reading in its 2024 fall session, but then further postponed, has elicited opposition both from local citizens and elites.⁹¹ As discussed earlier, the reform would follow the same top-down logic as the 2021 reform of regional governance did, firmly incorporating Russian self-governments into the "unified system of public power" envisaged by a 2020 constitutional reform.⁹² The discussion of the bill was stalled for more than two years between early 2022 and late 2024. It appears that, following input from the representatives of municipal governments, its

implementation will be postponed by more than a decade for the period between 2026 and 2035. One of its main elements—the elimination of legally freestanding lower-level municipalities—will be optional, showing strong opposition to the reform.⁹³ This is in no small part due to heavy opposition from a handful of regions, most prominently the municipal leaders and the regional legislature of Tatarstan, showcasing a relatively, but wholly uncommon example of regional elites successfully pushing back against new regulation in the legislative period.⁹⁴

However, the de facto implementation of the reform had started in several regions even as the discussion of the bill was frozen. As of 2024, such reforms have taken place in 17 (of 83) regions.⁹⁵ Some examples: the Pskov Region restructured 13 districts and will continue merging others; the Yaroslavl Region will scrap all but 19 of its current 96 municipalities; the Chelyabinsk, Novosibirsk, Omsk, Ryazan, and Vladimir Regions all adopted their own version of the reform, usually with the express purpose of "reducing operational costs."96 The dismissal of a series of city mayors following the 2024 presidential election confirmed the trend of regional governments seeking a larger say over mayoral appointments (see e.g., major cities such as Sochi and Samara where associates of the regions' governors were or are set to be appointed mayors, echoing earlier appointments in Tomsk and Novosibirsk).⁹⁷ One of the arguments often used in support of indirect mayoral appointments is that such appointments can help to ensure professionalism and help a city attract or spend resourcessuch as urban development funds that the federal government will provide on "city master plans"—more effectively.⁹⁸

> An area where we can see established elites pushing back against the Kremlin's attempts to shift leverage away from them is electronic voting.

In several regions, there was local backlash against the merging of municipalities.99 Similarly, in 2024 in Voronezh three deputies requested bringing back direct mayoral elections, one of them sitting with United Russia.¹⁰⁰ In the same year in the far eastern region of Magadan, the city's mayor himself spoke in favor of direct elections following a conflict with local deputies.¹⁰¹ In both Novosibirsk and Tomsk, the local "systemic" opposition supported the case for direct mayoral elections. In 2023-24, systemic opposition parties twice proposed bringing back the norm.¹⁰² In Yakutsk, the resistance of local deputies, especially in the New People party, one of whose leaders, Sardana Avksentieva, is a former mayor of the city, has considerably slowed down the scrapping of direct mayoral elections, with the question remaining in limbo as of February 2025.

An adjacent area where we can see established elites pushing back against the Kremlin's attempts to shift leverage away from them is electronic voting. While electronic voting has been continuously expanded across the country since 2019, none of the so-called electoral sultanates—regions usually registering high turnout and high pro-regime votes-introduced it. Most, albeit not all, of these regions are republics "with an ethnic character" where local elites had accumulated and stabilized power before the Kremlin's recentralization attempts in the first decade of the twentyfirst century and have thus maintained a special relationship with the authorities. Given that the main purpose of electronic voting from the authorities' point of view seems to be bringing efficiency gains for electoral engineering and manipulation, as long as these regions continue delivering the numbers, there is no immediate conflict between their regional elites and the federal government. Its possibility is nonetheless present.

Pushbacks Against War-Related Policies

The ramping up of political centralization and some of the tools used by the authorities to achieve these goals are consequences of the increased securitization and domestic repression triggered by the war. This report has also mentioned that performatively and vociferously aligning rhetoric and policies with the Kremlin's war effort and the associated ideological garnish has been a behavior both expected from regional officials and elites and a way for them to secure additional attention and financing from the federal government. Therefore, direct criticism of the war is exceedingly rare or accidental (e.g., former Khanty-Mansi Autonomous District governor Natalya Komarova speaking about her region "not having needed" the war in 2023).¹⁰³ However, in certain cases, elites have been pushing back against specific policies that were the direct or indirect consequences of the federal government's prioritization of the war.

> The most obvious pushback against performative war-related policies has been observed related to promoting former war participants to positions in public administration.

The most obvious pushback against performative war-related policies has been observed related to promoting former war participants to positions in public administration. As outlined above, despite the federal leadership of United Russia granting war participants a 25 percent bonus in the party's "primaries" before the 2024 September regional and local elections, only a small number of them were nominated for elected office in the end, partly as a result of active pushback observed in several regions mostly at the regional level (with only 19 war participants nominated to several hundreds of positions in regional legislatures), but sometimes in municipalities too.¹⁰⁴ In the Republic of Tuva, incumbent party elites reportedly used intimidation tactics to discourage war participants from running.¹⁰⁵ This

conflict is likely to continue, since, as journalist Andrei Pertsev pointed out, the Kremlin is increasingly pushing United Russia towards becoming a top-down administrative structure rather than a mechanism for conflict resolution and interest representation for elites.¹⁰⁶

> Regions directly experiencing the effects of the war are more exposed to situations where the requests of the federal government are either unrealistic or represent a potential conflict of interest between local elites and the Kremlin.

More than twenty alumni of the "Time of Heroes" program were appointed to unelected positions as of February 2025 and the governing United Russia party also integrated former war participants into its governing bodies at the party's December congress.¹⁰⁷ However, candidates without prior experience as elected officials-typically mayors, regional officials, or State Duma deputies serving in special battalions with little or no actual battlefield activity-received positions either in towns or cities or as aides or deputies to established elites. Yevgeny Pervyshov, who as the governor of the Tambov Region will wield actual power, was the mayor of Krasnodar, a

major city, and a State Duma deputy. Sergey Sokol, who as speaker of the Khakassia regional legislature leads the governing party's charge there against the region's communist governor, had worked in the administration of the Krasnoyarsk Territory and as a Duma deputy before his stint in Ukraine. Those integrated into the governing party's managing councils are also typically officials who previously held positions in public administration.¹⁰⁸

Artyom Zhoga, the presidential plenipotentiary of the Urals Federal District is a unique case in this regard because he is an absolute outsider as a former entrepreneur in Ukraine's Donetsk Region and has no administrative experience preceding the war. The actual powers associated with his position are vague and poorly defined by law. Accordingly, Zhoga's appointment likely created elite backlash. Before his official nomination, a Yekaterinburg-based news site cited unnamed insiders who warned that the appointment might trigger a wave of resignations and dismissals in the district's regions and that Zhoga might specifically seek to "kneecap" elites in Yekaterinburg, the district's largest city, which has enjoyed relatively pluralistic politics.¹⁰⁹ This and the slight delay between the first rumors about Zhoga's appointment and his eventual nomination to occupy the position suggest that regional elites were trying to send a message underlining that they were not fully on board with the decision.

Regions directly experiencing the effects of the war are more exposed to situations where the requests of the

federal government are either unrealistic or represent a potential conflict of interest between local elites and the Kremlin. Governors of three regions bordering Ukraine-Kursk, Belgorod, and Bryanskhave repeatedly indicated to the federal government that they needed extra fiscal transfers to pay for territorial defense forces, which they were obliged to set up. This was a reasonable request from the governors as regional budgets have also been forced to rapidly increase hiring bonuses to meet recruitment targets for the regular army; however, their requests were reportedly repeatedly rejected by the federal government.¹¹⁰

Both the Belgorod and the Kursk regional governments requested additional transfers from the federal government for reconstruction needs and to keep local economies alive. In February 2025 Alexander Khinshtein, the then recently appointed governor of Kursk said that the regional budget had a financing gap of 17 billion rubles (or more than 20 percent), which prevented the government to execute its financial obligations.¹¹¹ The speaker of the region's legislature had previously asked for 25 billion rubles to be provided beyond previous allocations in 2025.¹¹²

The total damage from the incursion, estimated by the region's government has amounted to 700 billion rubles. Given that this is several times the region's budget and roughly equal to its GDP, most of the funds will have to come either from private sources or from the federal budget, which however so far prioritized reconstruction projects in the occupied territories of Ukraine, and cannot easily reallocate such a large amount of money for the needs of a single region.¹¹³ The speaker of the region's legislature has only asked for 25 billion rubles to be provided beyond previous allocations in 2025.¹¹⁴

> Political and business actors in resource-rich regions that suffered a loss of markets or value chain difficulties due to the war are keen on defending their existing privileges and financial status quo.

Finally, political and business actors in resource-rich regions that suffered a loss of markets or value chain difficulties due to the war are keen on defending their existing privileges and financial status quo against policies that may otherwise be preferable from the point of view of economic policymaking. The slowly escalating conflict between coal producers and the Russian Railways over the prioritization of coal transit illustrates this type of conflict. Coal producers enjoyed windfall profits due to high global coal prices in 2022, but margins gradually declined in 2023 and 2024. The loss of European markets and ballooning transportation costs due to a growing demand for the finite capacities of Far Eastern railways zeroed out industry profits.115



Far right: Then Governor of the Kemerovo region (now energy minister) Sergei Tsivilyov leaves the territory of the Listvyazhnaya coal mine, in the Kemerovo region, Russia, November 27, 2021. REUTERS/Maxim Shemetov

At the same time, as early as 2022, the Kremlin-adjacent think tank Center for Strategic Development found that container transfers generated eight times as much income as coal, and metallurgical goods were also more profitable.¹¹⁶ However, the coal lobby includes political heavyweights such as energy minister Sergey Tsivilyov who himself has business interests in the sector, or the owners of Kuzbassrazrezugol, Iskander Makhmudov and Andrey Bokharev, and the coal industry's significant role in the economies of a handful of Siberian regions, primarily Kemerovo, make deprioritizing coal transits a difficult and politically risky choice.¹¹⁷ Coal producers could thus resist plans to cut their guaranteed transit quotas and protest against Russian Railways' plans to raise tariffs to balance the company's books-

and ultimately reduce its need to rely on federal transfers.¹¹⁸ Such conflicts may become increasingly common as questions concerning the financing of infrastructure investments associated with Russia's pivot to Asian markets come to the fore.¹¹⁹

Another source of conflict could arise around access to government support measures to industries impacted by the domestic economy's focus on war production and cash flow problems due to the forced reorientation of exports. As of early 2025, the government is reportedly considering targeted crisis plans not only for the coal industry, but also for metallurgical and timber producers that have both faced a loss of export markets and were affected by the phasing out of subsidized mortgages. Measures requested and discussed for the three industries include tax breaks, mandatory federal and regional purchases, and freeing up transportation capacities.¹²⁰

Pushbacks Against Asset Redistribution

Business owners whose properties have been seized by the state have not only indicated their concerns to the Kremlin at events such as the St. Petersburg Economic Forum and through their representatives in the Russian Union of Industrialists and Entrepreneurs (RSPP), but also fought back against these decisions by the courts.¹²¹ In July 2024, in a case involving Malik Gaisin, the owner of the "Iset" electrical equipment plant, the Supreme Court questioned the Prosecution's practice of seizing assets from owners due to privatization-related irregularities, referencing legal norms that were not in place when the alleged crime was committed – questioning a range of other such cases too. Indeed, the lawyers of the former owners of the nationalized Mafka pasta company used the legal precedent in their cassation request.¹²² Similarly, a Krasnodar court found legal inconsistencies in a case involving the shares of Andrei Korovaiko, a former official, in the Pokrovsk agricultural holding.¹²³ In September 2024, an appellate court in the Ivanovo Region overturned the nationalization of the Ivanovo Heavy Machine Tool Plant, which was going to be transferred to the ownership of Rostec.¹²⁴

As of February 2025, with the Kremlin's nationalization campaign continuing unabated, it appears that what we see is not a successful pushback against nationalization efforts, only an attempt of specific business owners to negotiate a new deal over their businesses with the authorities. It is however also important to note that while nationalization has created winners, such as the circle of Chechen leader Ramzan Kadyrov that was able to take over several key assets, there is a not only a growing number of losers but also of owners facing a dangerous degradation of property rights.125

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In case the Kremlin gives the green light to the nationalization of more major business assets—as mentioned above, the nationalization of fuel-producing companies reportedly remains on the agenda, and, in the context of the federal government's conflict with Mordashov's Severstal, the company's potential nationalization was part of rumors business owners will likely use all legal and extralegal means at their disposal (e.g. the threat of labor unrest), especially as long as avenues to transfer assets abroad remain blocked.



People walk past an advertising screen with promotion for the Wildberries online store in Moscow, Russia November 17, 2023. REUTERS/Evgenia Novozhenina

If legal means are not available to them, business owners may also seek the protection of willing power brokers who are ready to exchange their political clout or coercive capacity into assets. This is what seemed to happen in the highprofile conflict around the ownership of Wildberries, Russia's biggest online marketplace. Businessman Vladislav Bakalchuk sought protection from Ramzan Kadyrov, the head of Chechnya, after his estranged wife, Tatyana Kim, the owner of Wildberries had merged the company with the Russ Group, an outdoor advertiser. Suleyman Kerimov, a businessman and senator from Dagestan, mediated the merger, essentially depriving Bakalchuk of any control over the company. Kerimov reportedly secured the Kremlin's approval by presenting the deal as an attempt

to create a Russian online champion to compete with Western tech giants and contribute to ongoing efforts to set up a payment system rivaling SWIFT. In September, the escalating conflict led to a deadly shootout at Wildberries' offices in Moscow.¹²⁶ Despite this, the Kremlin has not openly intervened in the conflict.

This matters because it highlights the possibility of highly influential actors leveraging contacts or violence, offering their services to business owners who cannot defend their real or alleged property rights in the courts. Russia's ongoing property redistribution has created visible rifts between the authorities and business owners, raising the risk of such open confrontations in the future.

CONCLUSIONS

Changing Approach to Supervisors

Perhaps realizing the growing risk of center-periphery tensions, Kremlin seemed to make small but notable changes to its personnel policy regarding regional governments in 2023-24. The authorities ramped up efforts to appoint outsiders or locals with strong links to the federal government to key governance institutions in cities and regions that were not sufficiently loyal or too pluralistic. Multiple appointments fit this description including the appointments of the governors of the Khabarovsk Territory and the Altai Republic in 2024, the governor of the Vologda Region, and the legislature majority leader as a "designated challenger" in Khakassia in 2023, as well as new mayors and city officials in Novosibirsk, Tomsk, and several other cities in 2022–24. In another increasingly problematic region, Kursk, the Kremlin brought in Alexander Khinshtein, a deputy with links to the National Guard, to take over from Alexey Smirnov, a local official appointed just months before, in December 2024.¹²⁷

At the same time, two waves of gubernatorial appointments in 2024 suggested that the Kremlin is moving away from the aforementioned practice of replacing locals with outsider technocrats or, to use the words of political analyst Alexander Kynev, "federalized locals" (officials with ties to the regions they were entrusted to lead but whose professional socialization took place in federal institutions). Six officials with local roots and a history of work in local public administration structures were appointed to replace "outsider" locals, albeit one of them has since been removed (see Figure 5). Importantly, however, these officials are all considered either close colleagues of their "Varangian" predecessors who continue supervising the regions from their new position (as was the case of the Kursk Region originally), linked to the same federal group (as in the case of the Kaliningrad Region), or are "federalized" (as in the case of the Rostov Region). Thus, the levers in these regions appear to stay the same, while the approach changes.

The impact of the other noticeable change in personnel policy-the appointment of war participants and occupation officials to positions in public administration—is also limited as of late 2024.¹²⁸ There is a clear difference between officials or war participants with prior experience in public administration who can count on relatively more powerful appointments and war participants without such experience who cannot. Their appointment can nonetheless be a signal of loyalty toward the Kremlin. As mentioned, Artyom Zhoga's appointment to Urals plenipotentiary represents a possible exception, but this appointment may have also been driven by power rebalancing efforts.¹²⁹ The risk of these appointments, nonetheless, is that war participants will regard even the occasional appointment as a license to challenge the positions of established elites.

Limits of Asset Redistribution

As outlined above, while the Russian economy has shown a remarkable degree of adaptability to wartime pressures over the past years, its continued growth has been a success story only if it is viewed through the lens of Russia's ability to wage war. The steady continuation of this growth is increasingly about maintaining the wartime conjuncture. The fact that the Russian economy did not collapse and can support the federal government's war effort does not imply that there are no losers of its rapid and forced restructuring of the Russian economy and reorientation of trade. The lack of alternatives and a credible promise that the war would end with a Russian victory in the foreseeable future have likely had a dampening effect on these conflicts.

> Elites have quietly pushed back against nationalization attempts as well as attempts to deprive them of political leverage in regional and local settings.

However, as of 2024 perspectives have shifted again and while the chances of a ceasefire on Russia's terms now look stronger than before, it has also become clearer that a ceasefire will likely not lead to a rapid improvement of Russia's relationship with the EU and possibly not even the US and the domestic policies dictated by a long-term opposition to the West – a focus on (re)armament, asset redistribution and an ultraconservative turn in social policies – are unlikely to change in the foreseeable future.

As this report points out, elites have quietly pushed back against nationalization attempts as well as attempts to deprive them of political leverage in regional and local settings. Going ahead, the fate of rumored discussions about the potential nationalization and merger of major oil companies, and the outcome of the Kremlin's conflict with Severstal's owner could be indicative of the extent of the risks the authorities face. From the Kremlin's point of view, these cases seem to be driven not only by ideological motivations but also practical considerations, e.g., tighter control over a radically changing oil trade.

Furthermore, as the conflict around Wildberries highlighted, if the Kremlin's capacity or willingness to arbitrate in domestic disputes over economic assets weakens, regional elites may also look more openly for allies and patrons unsanctioned by the federal government, creating security risks.

Capacity Issues

There are also broader questions concerning the Kremlin's domestic governance capacity. As this report noted, changes in the Kremlin's personnel policy are limiting both the number of promotion pipelines available for the administrative and security elite and forcing regional elites to cede positions in local and federal institutions. On the one hand, this creates incentives for regional elites to seek allies to preserve their positions; on the other hand, regional officials and the federal actors backing them are forced to find a longer-term modus vivendi with local elites. Officials, on their end, may also use the threat of local disturbances-e.g., riots in Dagestan or local pushbacks in Khabarovsk-to attract more funding and support from the federal government at times of scarcity. Major episodes of open opposition against federal policies and appointees in recent years have happened in smaller, peripheric regions that receive little attention from the Kremlin's domestic overseers due to their size or relative strategic insignificance. But this does not mean that the patterns seen in these regions-local elites aligning themselves with popular local causes to mount a challenge to a decision-will not be replicated elsewhere.

> The Kremlin's novel approach to the upcoming municipal reform serves as a potential harbinger of how changes affecting center-regions and intraelite relationships will be executed in the future.

Andrey Pertsev, a special correspondent of *Meduza*, noted the situation risks creating local "fiefdoms."¹³⁰ These would effectively diminish the Kremlin's

ability to execute policies and punish elites along the vertical of power, undercutting the federal government's efforts to strengthen the hand of regional governors vis-à-vis local elites, a predictor of the successful execution of federal policies.¹³¹ However, it is important to stress that these conflicts are about bargaining with-not about open and radical opposition to-the Kremlin or Russia as a federal state. Consequently, the conflicts may further degrade domestic governance, but-with the possible exception of North Caucasian republics-the chances of them evolving into separatism in the foreseeable future are minimal. Conflicts are more likely to be driven by disputes over assets and the implementation of federally defined policies.

The Kremlin's novel approach to the upcoming municipal reform serves as a potential harbinger of how changes affecting center-regions and intra-elite relationships will be executed in the future. Instead of sweeping changes over a short period by the federal government, the reform, with its extended timelines, will instead serve as a directive for regional governments to observe and implement changes on their territory and, crucially, to discourage proposals running counter to the principles defined by the Kremlin. In this instance, as it likely will in other future cases, the Kremlin is relying on its norm-setting power while the lowerlevel officialdom is entrusted to carry out the reforms with their own tools and in their own time and take full responsibility for them.

Policy Recommendations

- 1. Policymakers should keep a tab on the effects of economic sanctions and the prospects of a prolonged confrontation between Russia and the Transatlantic coalition on center-regions relations. Factors that will continue impacting these dynamics even in the event of the end of active warfare include an increased militarization and state-directed mobilization of the economy; scarce capacities for Russia to execute an Eastern trade pivot and, as a consequence, a relative loss of control over the pace and the modalities of its Far Eastern development; and an increasingly personalistic political system with clogged avenues of upward mobility.
- 2. Policymakers should also monitor where local or regional conflicts align with popular grievances and where they are supported by emerging or seemingly apolitical popular movements that can be copied by other similar movements and increase domestic political risks for the federal authorities. Almost three years into Russia's full-scale invasion of Ukraine, the Kremlin's initial narrative of domestic political processes reverting to business as usual in case of a Russian victory, which had kept the coalition of war supporters and silent acquiescence together, rings increasingly hollow. Even in case of a settlement favorable to the Kremlin, the radical changes triggered by the war in domestic politics and the economy are likely to be difficult or impossible to reverse and thus the conflict between proponents of continued militarization of the economy public politics and those whose interests this process harms, will continue.
- 3. When designing sanctions and offering sanctions relief, policymakers should consider whether, and how exactly, the measures will affect the strategy and actions of the federal government, as well as what reactions these measures might trigger at the level of regions and municipalities. They should seek to gain a deep understanding of how Russia's federal governance structure will be strained and where it could fail during the following years approaching Vladimir Putin's succession. Policymakers must further avoid the fallacy of assuming that central power in Russia is more stable and potent than it is and the fallacy of assuming that the country will fall apart in a way similar to the collapse of the USSR.

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