

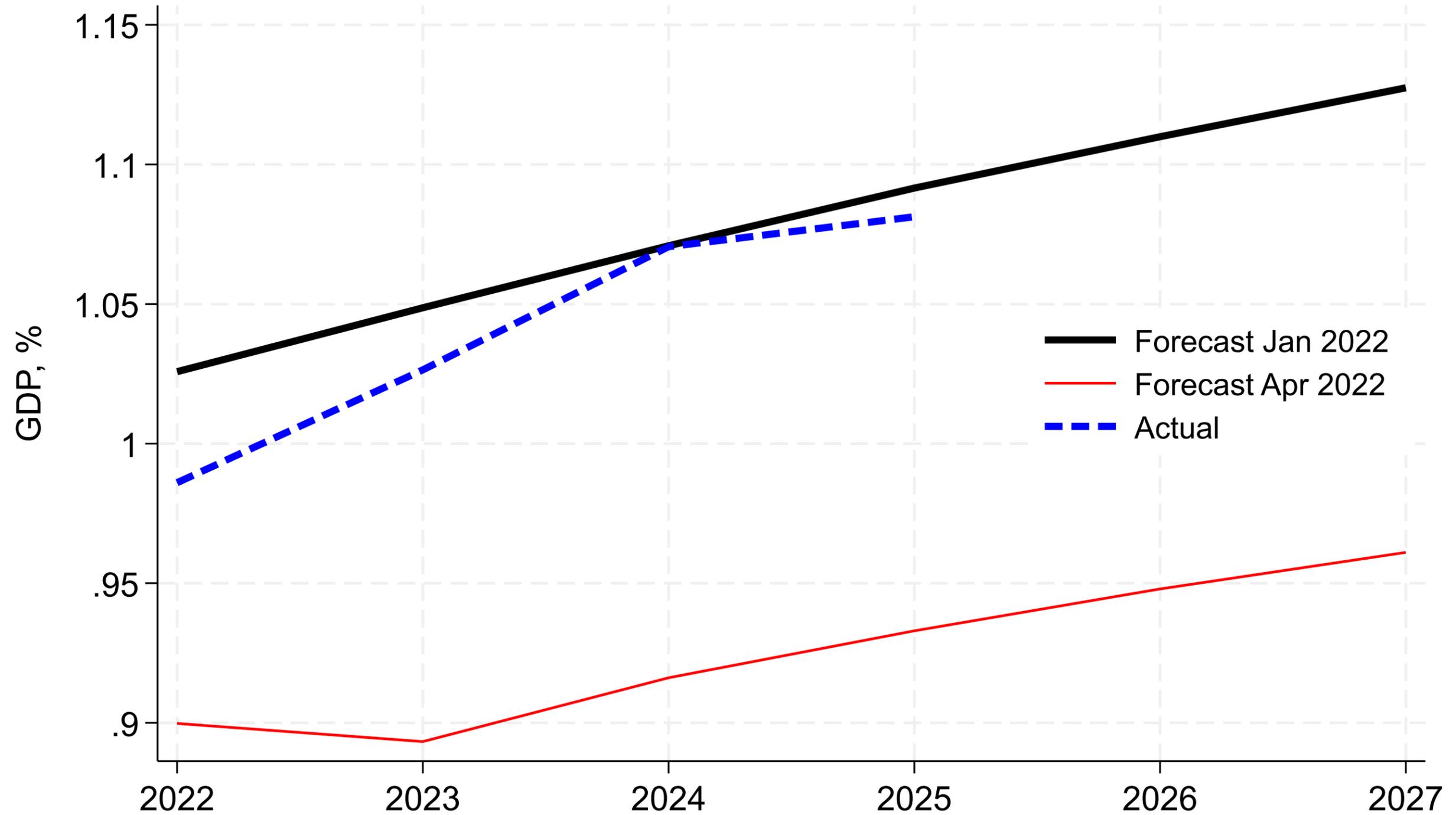
RUSSIAN REGIONS: WAR-INDUCED CONVERGENCE

Yuriy Gorodnichenko, University of California – Berkeley and 

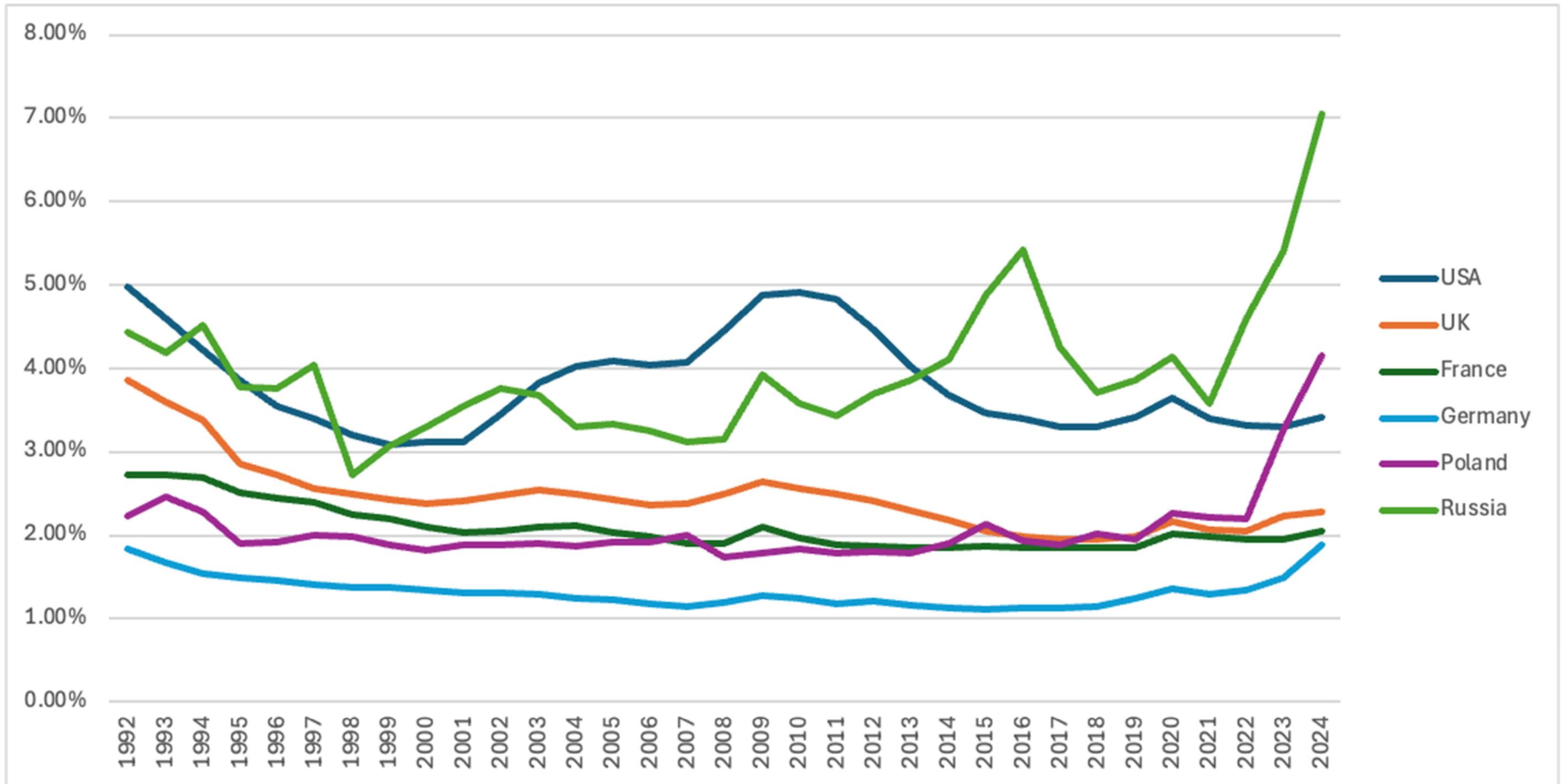
Iikka Korhonen, Bank of Finland Institute for Emerging Economies (BOFIT)

Elina Ribakova, Peterson Institute for International Economics

RUSSIA'S MACRO PERFORMANCE

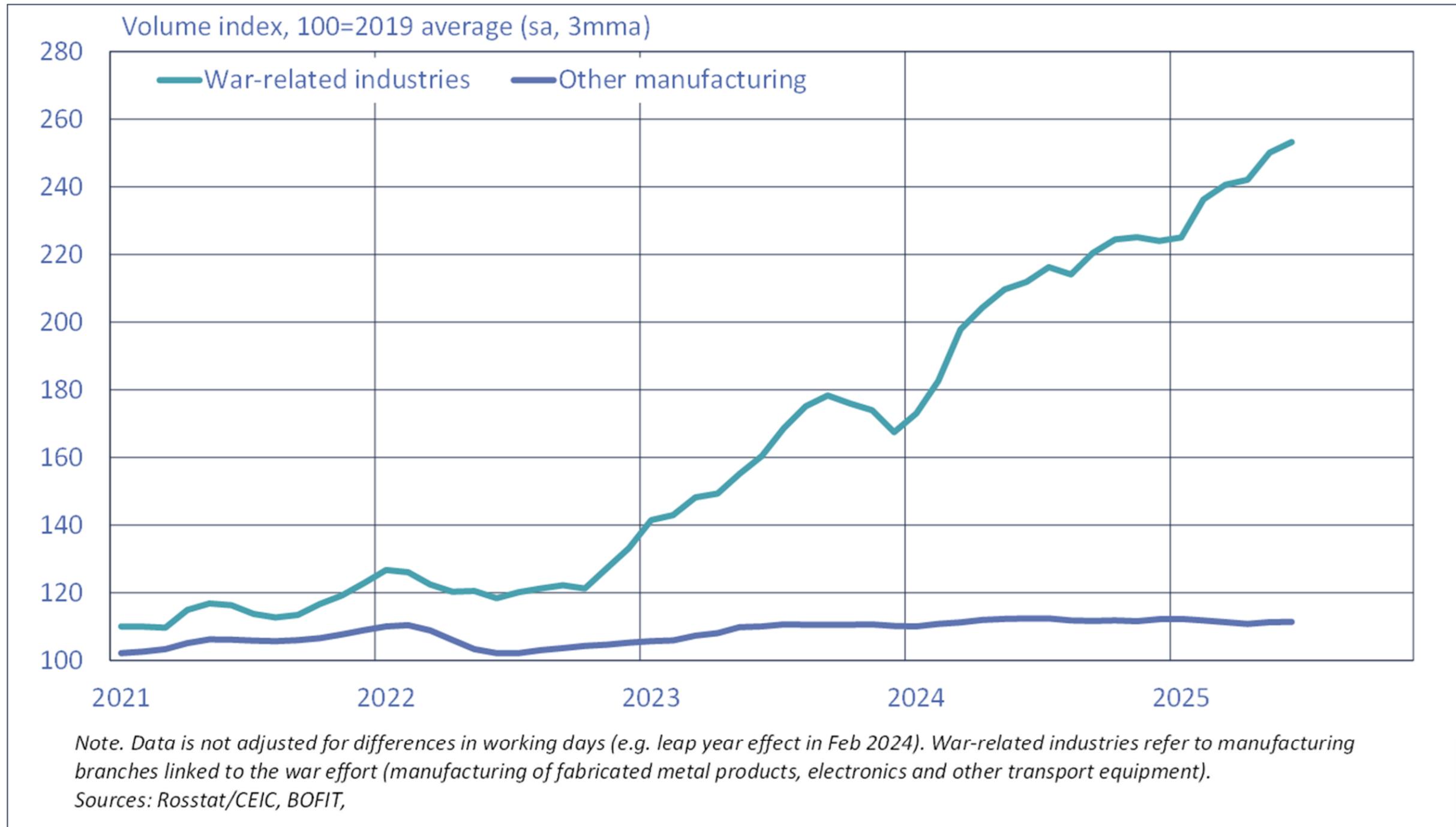


MILITARY SPENDING



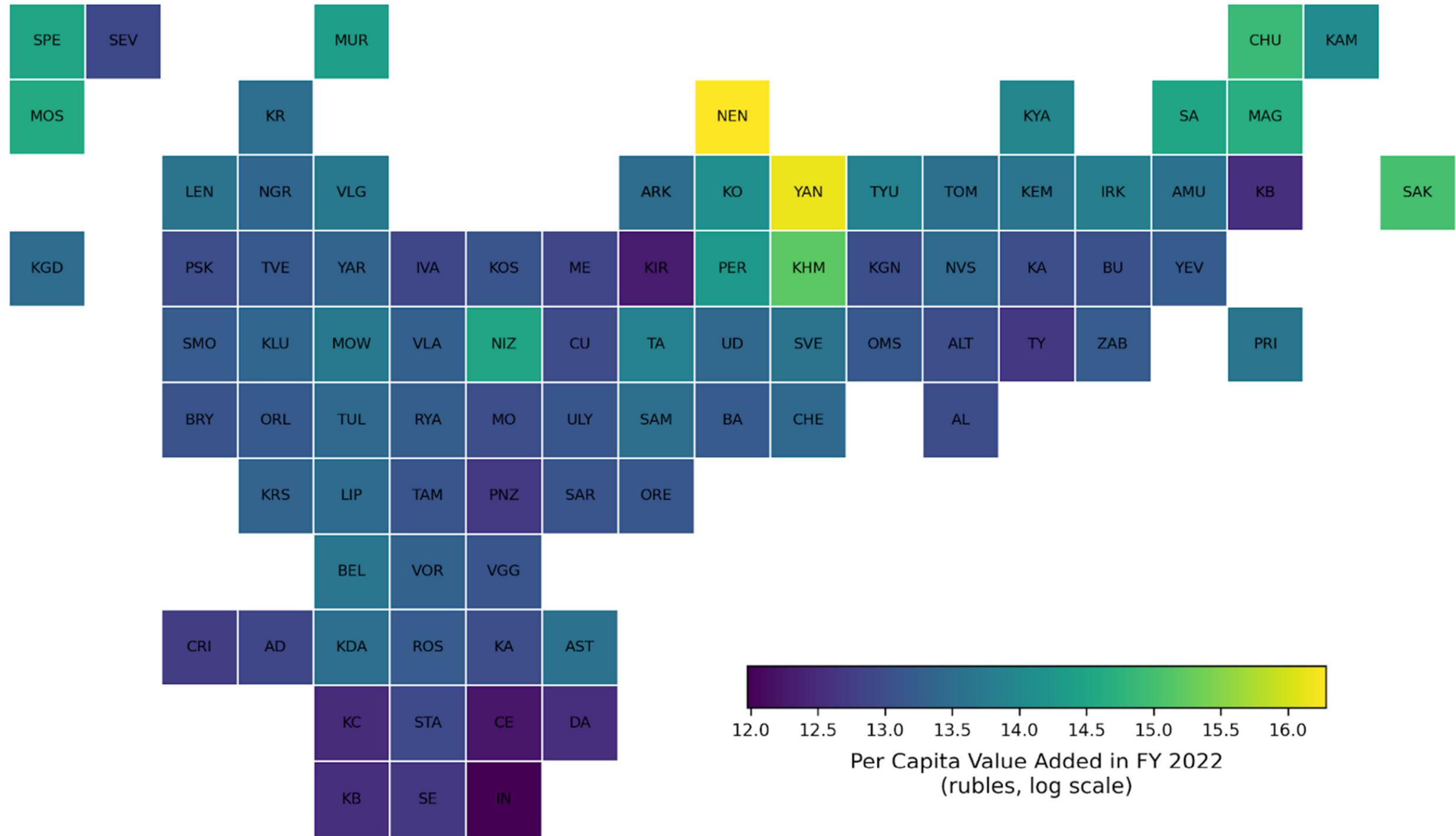
Huge fiscal stimulus

CONCENTRATED ECONOMIC PERFORMANCE



Civilian sector is stagnating

REGIONAL HETEROGENEITY

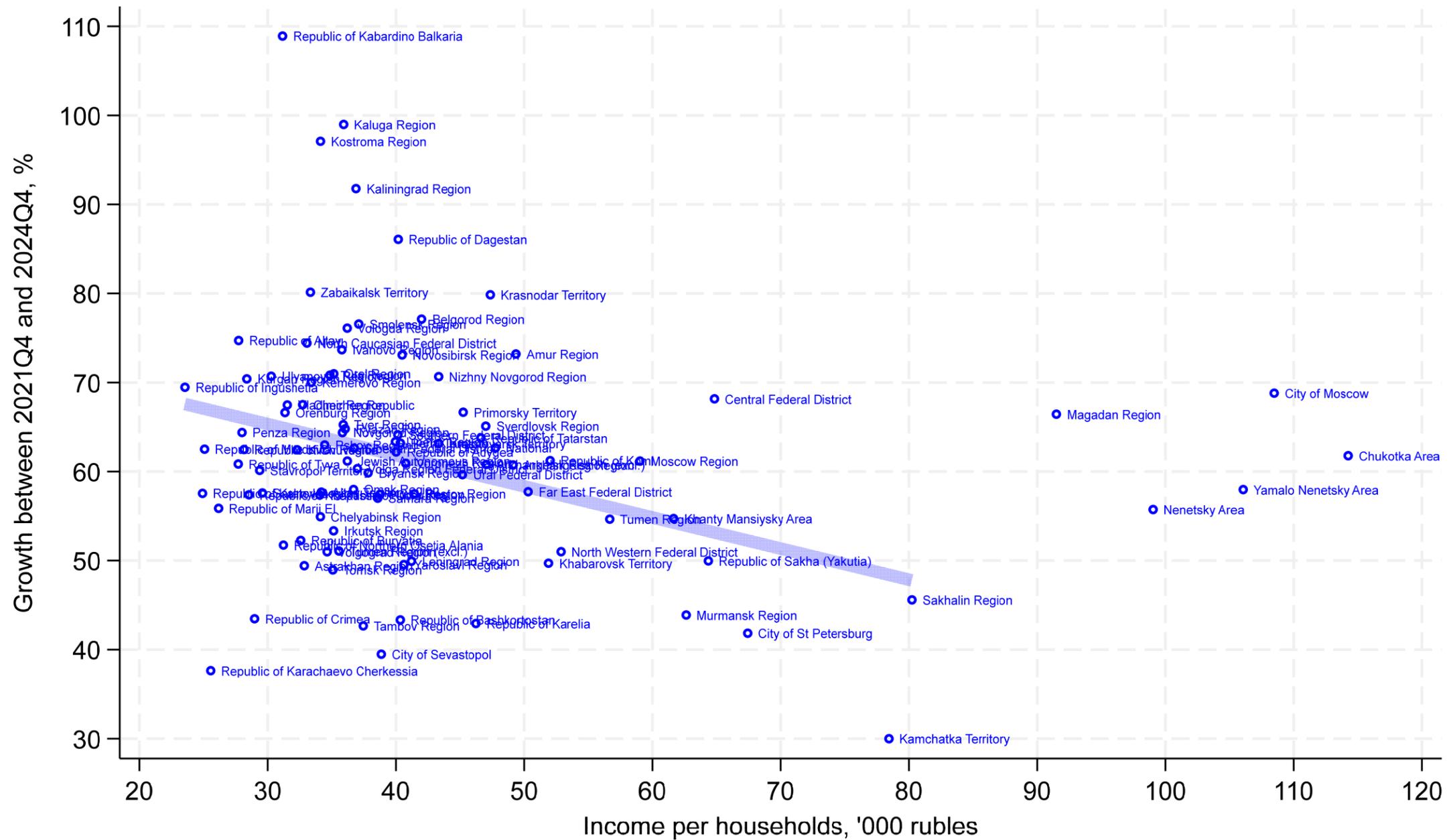


Huge disparities and huge variation in exposure to military spending

MILITARY INDUSTRIAL COMPLEX: GEOGRAPHY

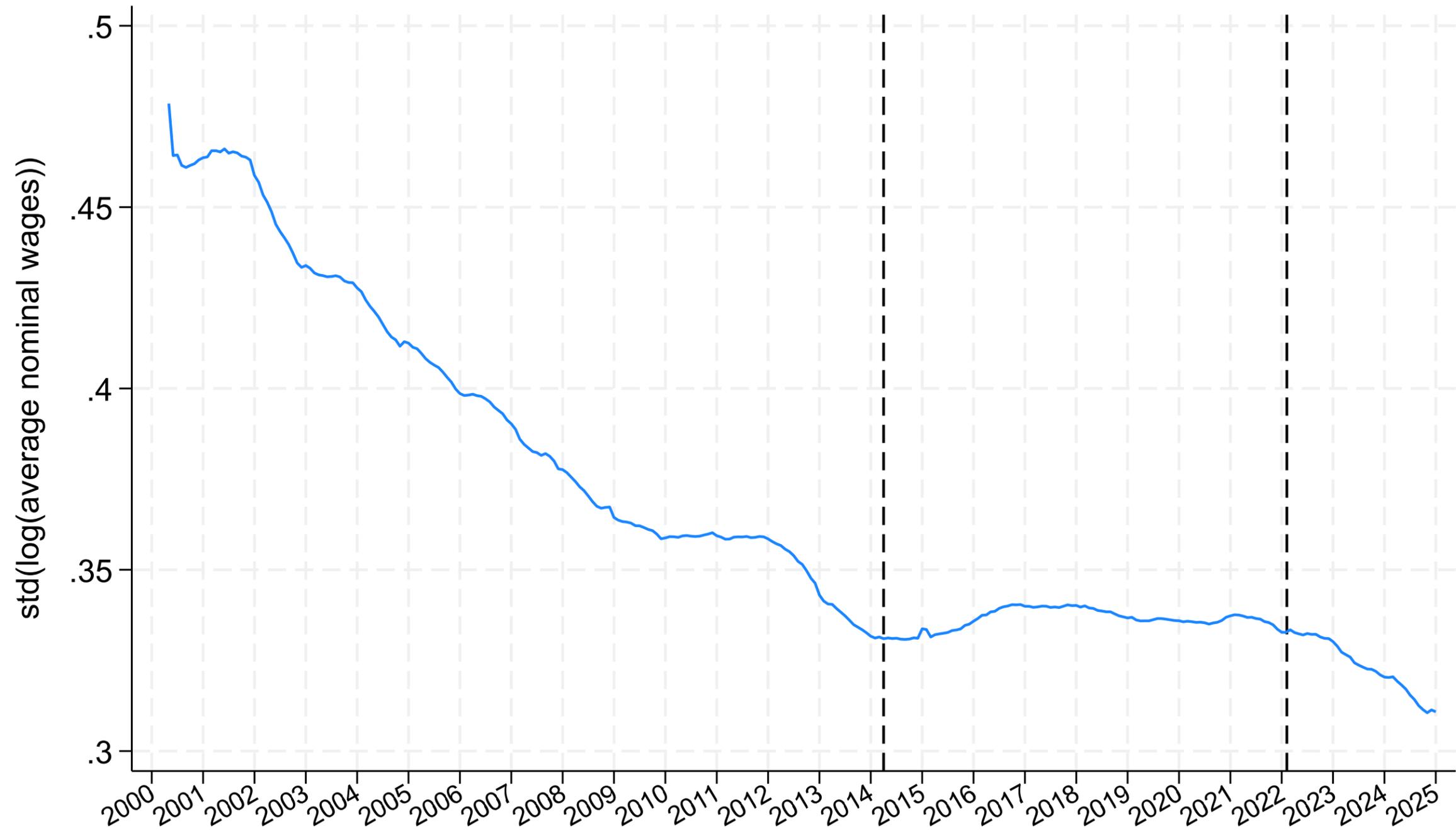
- The **Central Federal District**, particularly Moscow, serves as the headquarters for major conglomerates like Rostec, Almaz-Antey, and Roscosmos.
- The **Urals Federal District** is the backbone of Russia's heavy industry, producing tanks, armored vehicles, artillery, and missiles, with major facilities in Nizhny Tagil & Chelyabinsk.
- The **Volga Federal District** is critical for missile production, explosives, and aviation engines, with significant facilities in Kazan and Tatarstan.
- The **Northwestern Federal District** is concentrated on naval production, including nuclear submarines and icebreakers, with key locations in Severodvinsk and St. Petersburg.
- The **Siberian Federal District** supports aviation & missile manufacturing. The Siberian Federal District also supports explosives production, with facilities in Kemerovo & Biysk.
- The **Far Eastern Federal District** is vital for Arctic-capable vessels and naval production.

CONVERGENCE IN INCOMES



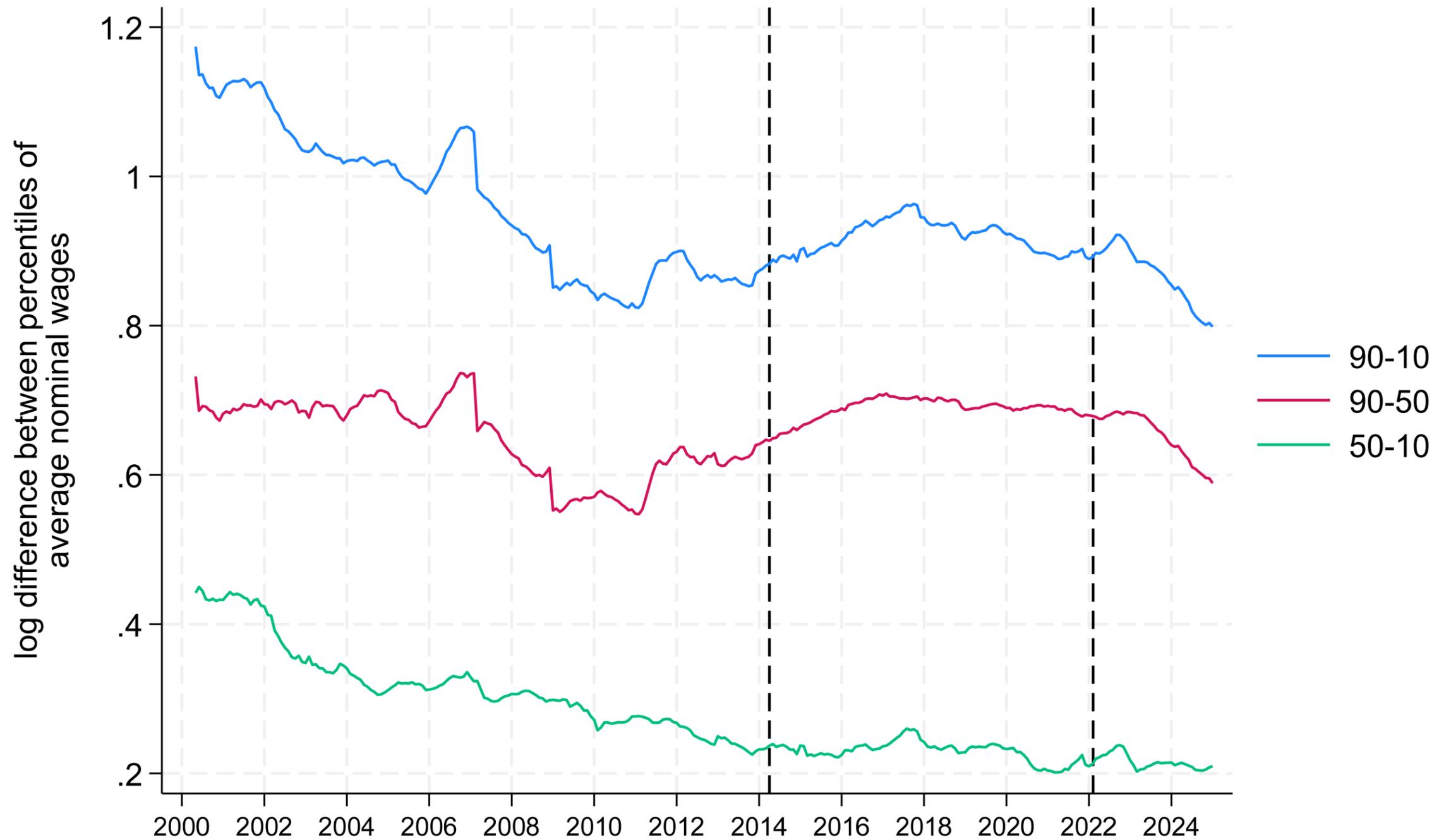
Convergence of income since the full-scale invasion

A LONG MARCH OF CONVERGENCE



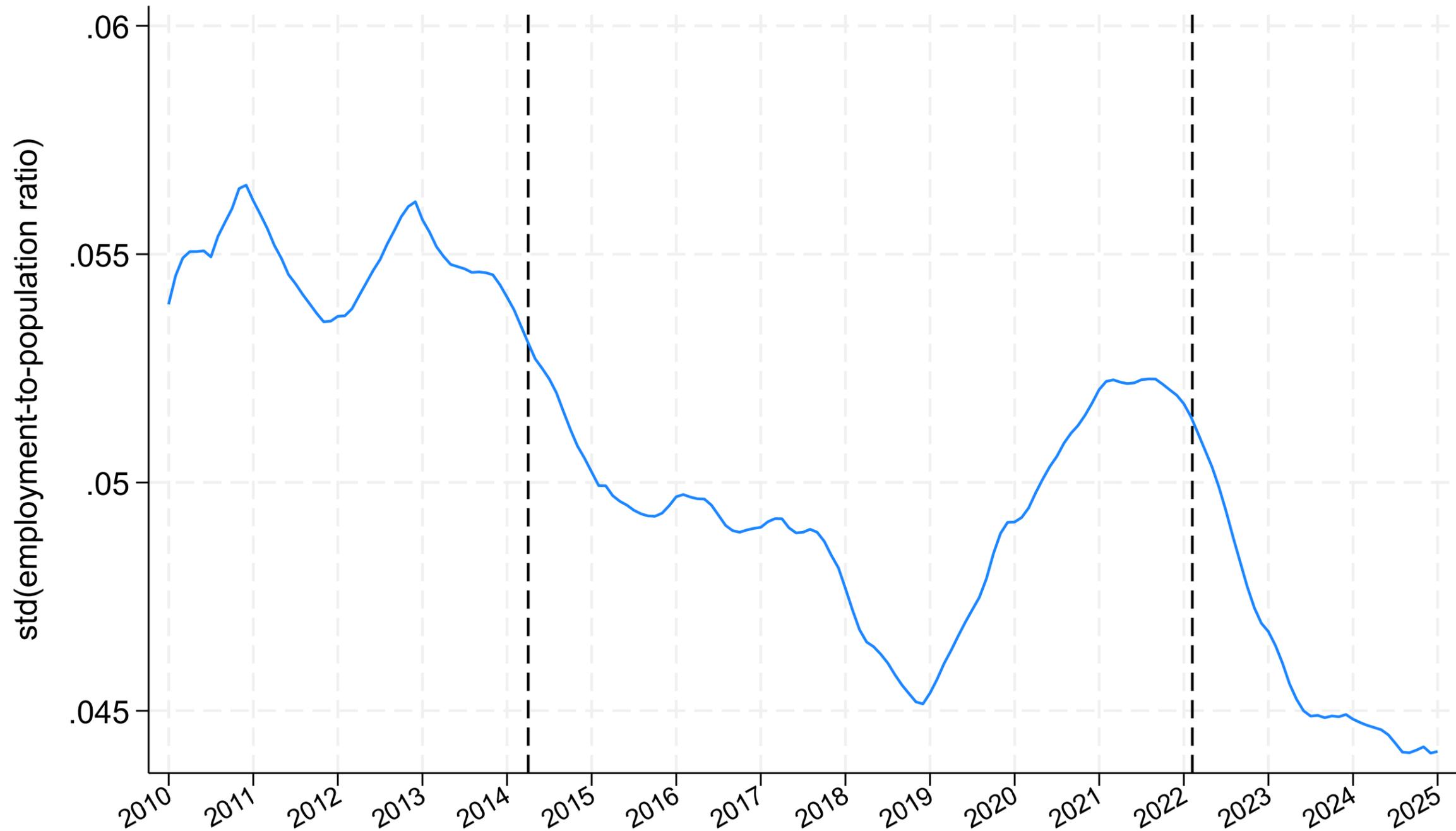
Round 1 of aggression: stall convergence; Round 2: resume convergence

HOW DOES CONVERGENCE HAPPEN?



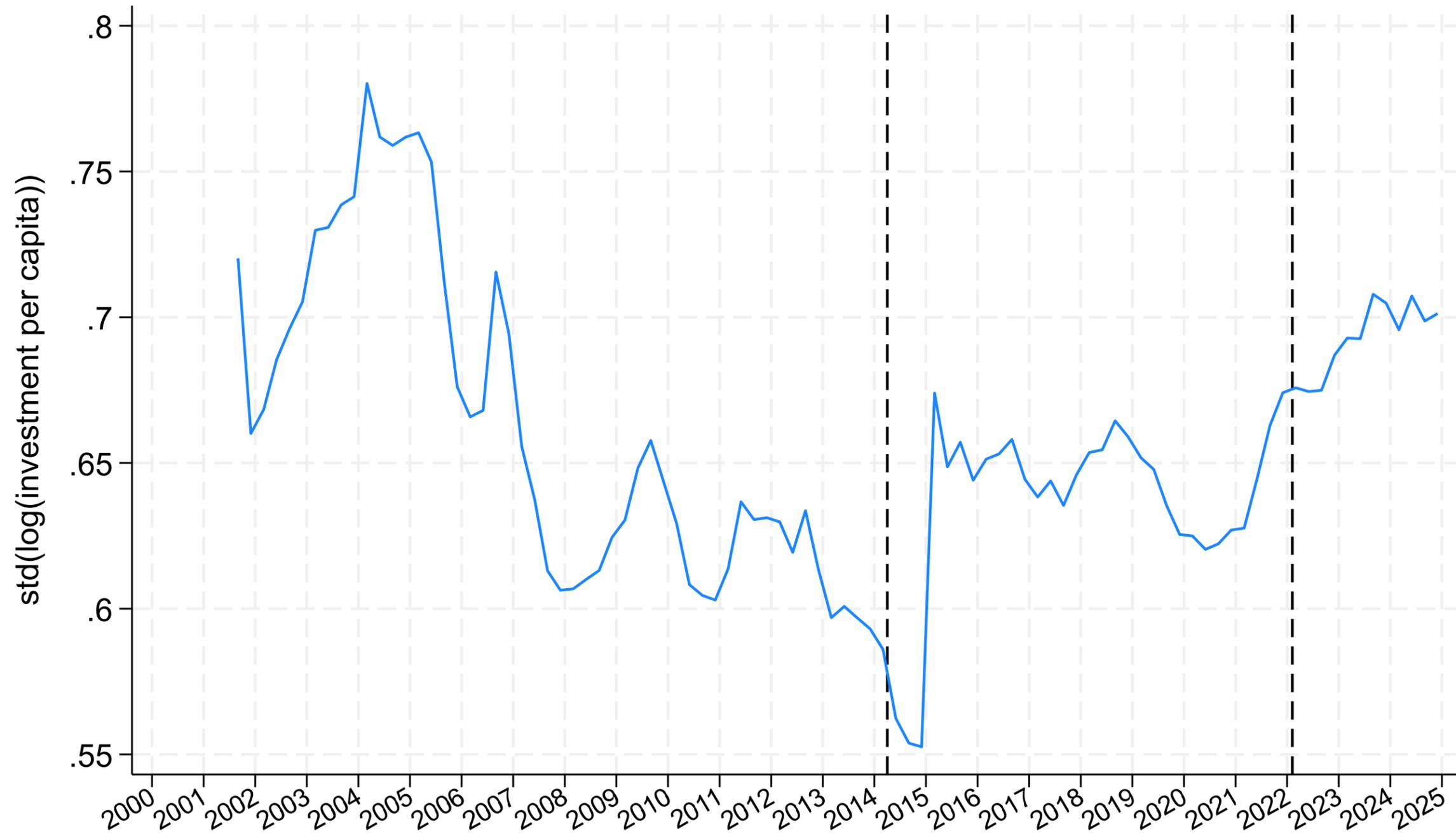
Poor regions are catching up

CONVERGENCE: EMPLOYMENT



The war makes the employment/population ratios more similar.

DIVERGENCE: INVESTMENT RATES



Most of the post-2014 increases come from the investment-rich regions — Moscow (capital) or Tyumen (energy rich) — moving further away from other regions.

WINNERS AND LOSERS

Russian proverb: “For some people war is war, for others - dear mother”

- A. Regions most negatively affected by sanctions, market disruptions & the war (“Kursk”)
- B. Regions benefiting from military-industrial expansion (“Chelyabinsk”)
- C. Regions with high levels of mobilization (Republic of Buryatia)
- D. Regions supported by domestic policy stimuli

CONCLUDING REMARKS

- Perhaps paradoxically, the war has led to increased regional convergence within Russia, with regions that have a strong military-industrial presence experiencing e.g. substantial relative income growth.

CONCLUDING REMARKS

- Perhaps paradoxically, the war has led to increased regional convergence within Russia, with regions that have a strong military-industrial presence experiencing e.g. substantial relative income growth.
- While military spending has provided short-term economic benefits to certain regions, it has also led to the misallocation of resources.

CONCLUDING REMARKS

- Perhaps paradoxically, the war has led to increased regional convergence within Russia, with regions that have a strong military-industrial presence experiencing e.g. substantial relative income growth.
- While military spending has provided short-term economic benefits to certain regions, it has also led to the misallocation of resources.
- This misallocation is likely to constrain Russia's long-term growth potential and economic efficiency.
 - Sole reliance on military spending is not a viable long-term strategy for regional development.
 - As this war of aggression continues, the economic challenges facing Russia are likely to intensify, further complicating the prospects for sustained regional convergence.

CONCLUDING REMARKS

- Perhaps paradoxically, the war has led to increased regional convergence within Russia, with regions that have a strong military-industrial presence experiencing e.g. substantial relative income growth.
- While military spending has provided short-term economic benefits to certain regions, it has also led to the misallocation of resources.
- This misallocation is likely to constrain Russia's long-term growth potential and economic efficiency.
 - Sole reliance on military spending is not a viable long-term strategy for regional development.
 - As this war of aggression continues, the economic challenges facing Russia are likely to intensify, further complicating the prospects for sustained regional convergence.
- It remains to be seen whether this stagnation returns when fighting in Ukraine stops.