Russia cost savings

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In this report, RAND researchers present estimates of what costs Russia is incurring as a result of its invasion of Ukraine. As of September 2022, researchers estimated military costs reached $40 billion. Full-year 2022 gross domestic product losses amounted to between $81 billion and $104 billion and full-year financial capital destruction reached $322 billion. Direct military spending may amount to almost $132 billion through 2024. Over the long term, even with a stalemated war, Russia"s economy and the standard of living of its people are likely to decline. The main factor sustaining Russia"s economy is the export revenue it earns from oil and gas sales. Despite these significant economic losses, RAND researchers judged these costs to be sustainable for the next several years.

RAND researchers estimated the costs Russia is incurring as a result of its invasion of Ukraine: As of September 2022, military costs reached $40 billion, full-year 2022 gross domestic product losses amounted to between $81 billion and $104 billion, and direct military spending may amount to $132 billion through 2024. However, researchers also found that Russia can afford to sustain these costs for the next several years.

Some are finding ways to make money in wartime Russia, but no one views the country as a safe place to keep savings. Ultimately, it is only high savings rates and a lack of alternatives that are keeping the last remaining investors in the Russian financial market.

Carnegie Politika is a digital publication that features unmatched analysis and insight on Russia, Ukraine and the wider region. For nearly a decade, Carnegie Politika has published contributions from members of Carnegie"s global network of scholars and well-known outside contributors and has helped drive important strategic conversations and policy debates.

Back in the spring of 2022, Russia"s financial system seemed certain to collapse under the weight of the war in Ukraine and Western sanctions. Many feared a banking panic and shortages of basic goods, but the steps taken by the central bank and government economists sufficed to avoid disaster.

Today, there is relative calm on the Russian financial market, but the threat of overheating is increasingly tangible. Inflation remains far in excess of the target rate of 4 percent, and GDP is growing rapidly. Salaries have soared in banking, oil and gas, and IT; unemployment is low; and interest rates are high. So will this feverish growth be followed by a recession, and what might the next crisis look like, given the militarization of the economy?

Economic crises occur for various reasons, including financial bubbles that grow until they burst, growth funded through volatile foreign investment, and inefficient distribution of capital by financial institutions and mounting losses among their borrowers. All these can bring about a cycle of growth, overheating, crisis, recovery, and ultimately renewed growth.

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A crisis is more likely when growth is not accompanied by a commensurate increase in labor productivity. If consumer savings grow but the technological potential of manufacturing does not, eventually a crisis comes along to resolve this tension through the depreciation of savings.

During periods of growth, no one pays attention to mounting losses or inefficiencies. But over time, the economy becomes increasingly fragile, enough that even a minor concern might suffice to make the average investor start worrying about their savings, which then triggers a crisis.

At the heart of virtually any crisis that befalls a market economy is short-term consumer and corporate debt. The main source of any bank''s problems is the fact that depositors may at any time withdraw money from their accounts. When many attempt to do so all at once, banks may struggle to come up with the funds to pay customers.

Runs on banks are often sparked by bad news about the economy, public finances, or the banking sector. When many banks suffer runs at the same time, in a banking panic, the measures they take only deepen the crisis. As banks liquidate positions to generate funds with which to pay depositors, selling securities or currency, those assets depreciate and the downward spiral continues.

The origins of the crisis lie in the depositor or investor''s decision to withdraw their money. They opt to do so because they feel they have safer options, from keeping their savings in cash to converting them into a foreign currency.

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